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Israel's Economic Resilience During Military Conflicts

Operation Iron Swords

SEPTEMBER 2024



Situation Overview – Economic Resilience During Operation Iron Swords

Key Economic Highlights

- Israel entered the war with strong economic fundamentals – low unemployment rate, high GDP growth, prominent labor productivity indicators, and a fast-growing young population
- The tech industry is the growth engine of the Israeli economy and accounts for almost 20% of the country's GDP, over 25% of the government's income tax, and 48% of total exports⁽¹⁾
- It is estimated that 15%-20% of high-tech sector employees were mobilized for reserves at peak war efforts⁽²⁾. However, the Israeli tech ecosystem has been largely unaffected by similar conflicts in the past and continues to thrive during challenging times
- During the first two weeks of Operation Iron Swords, the shekel and TA125 declined by 5% and 7% respectively. While the declines are more significant than during previous conflicts, the shekel and TA125 are above pre-conflict levels
- The Bank of Israel has a track record of stabilizing the shekel during crises. On October 9th the BoI announced a program to sell up to \$30B of foreign exchange reserves and to provide liquidity facilities via swap of up to \$15B. Since then, they've announced only needing to utilize a small portion of that and the ILS/USD rate is already higher than its pre-October 7th level
- In March 2024, Israel raised a record \$8B in its first international bond sale since the October 7th attacks. Demand for the dollar-denominated bond offering reached a record \$38B, with ~400 investors from 36 countries participating in the sale⁽³⁾

Source: CapIQ, MarketVector, and IVC Data, OECD Economic Outlook and Israel Central Bureau of Statistics (as of September 13, 2024).

1) Source: Israel Innovation Authority 2023 Annual Report.

2) Source: Time of Israel.

3) Source: Calcalist.

4) The BlueStar Israel Global Index (BLS - 'BIGI') tracks all global Israeli companies, across all sectors of the economy.

5) The BlueStar Israel Global Technology Index tracks the performance of the largest and most liquid global Israeli technology companies.

Public Market Performance Over Time



Strong Economic Forecasts Amid War Uncertainties

Bank of Israel Economic Forecast

- On November 27, 2023, the Bank of Israel updated forecasts for the Israeli economy following the outbreak of the war on October 7th. The Bank of Israel now estimates 2023 and 2024 GDP growth to be 2% (revised lower from 2.3% in 2023 and 2.8% in 2024) but the OECD projects a strong comeback in 2025 with 4.5% GDP growth expectations⁽¹⁾⁽²⁾
- The Debt to GDP ratio has been revised upwards to 63% for FY2023 (from 62%) and 66% in FY2024 (from 65%)⁽¹⁾
- The total cost for the Iron Swords war is estimated to total USD 53 billion, split between USD 44 billion in direct expenses and USD 9 billion in loss of tax revenues⁽¹⁾⁽³⁾

Bank of Israel Acts Swiftly During Operation Iron Swords



Economic Advice to the Government

- Updates and publications on macroeconomic forecasts for the Israeli economy
- Micro-level economic analysis of various industry activities
- Estimates of fiscal damage to the economy
- Ongoing work vis-à-vis relevant government entities
- Holds an advisory role for fiscal plans and framework



Monetary Policy and Financial Stability

- Active policy in the FX market
- Up to \$30 billion FX sales
- Up to \$15 billion SWAP transactions
- Programs for government bond repo transactions with institutional entities
- Corporate bond repo transactions with institutional investors
- Low-interest loans to banks on the condition of providing credit to small businesses at low rates



Banking, Credit, and Payments

- Interest-free loan deferral program for reservist soldiers and victims of terror
- Loan deferral program for general population
- Enhanced remote banking services
- Mitigating credit account abuse of victims' accounts
- Regulatory and accounting relief
- Easing of financial restrictions due to credit distress

(1) Source: Bank of Israel Research Department Staff Forecast (November 2023).
(2) Source: OECD Global Economic Outlook, (November 2023).

(3) From NIS 198 billion, FX rate as of 12/5/23 (3.71 USD to NIS).

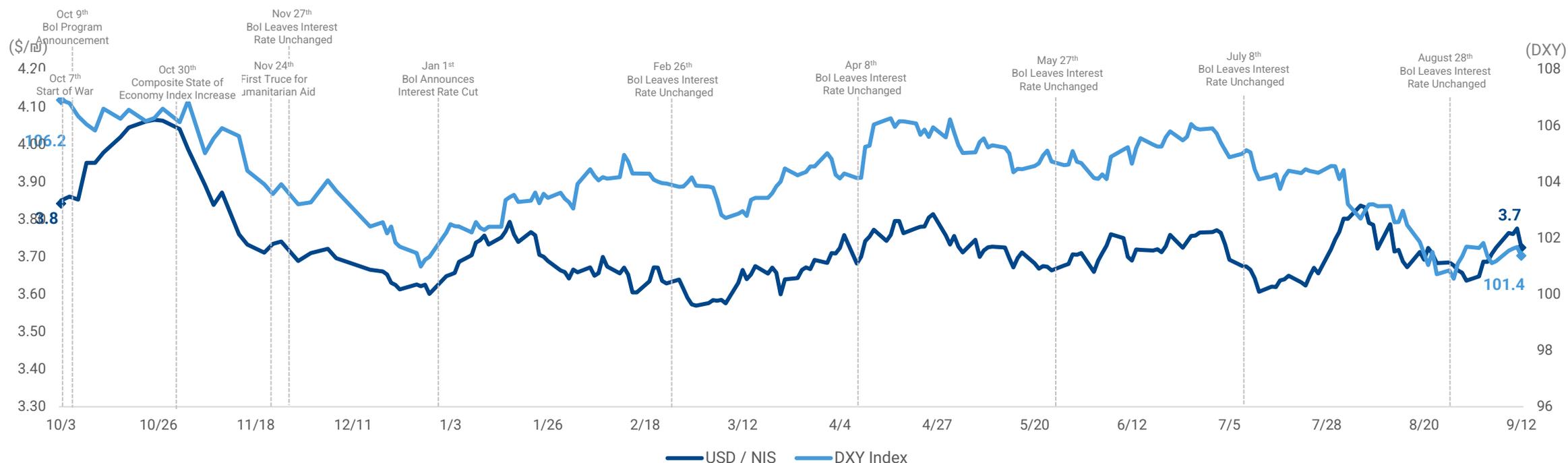
The Shekel Rebounds With Momentum Following An Initial Hit

Key Highlights

- The Bank of Israel has a track record of stabilizing the shekel during crises. On October 9th the Bol announced a program to sell up to \$30B of foreign exchange reserves and to provide liquidity facilities via swap of up to \$15B
- Since then, the Bank of Israel announced only needing to utilize a small portion of said program and the shekel has returned to its pre-October 7th level
- This rebound is reflective of investors remaining assured that Israel's economy will be contained during the war and global confidence in the Bank of Israel's ability to defend the currency

Shekel Performance

Compared to the DXY Index



Source: Bloomberg, Refinitiv, and CapIQ (as of September 13, 2024).

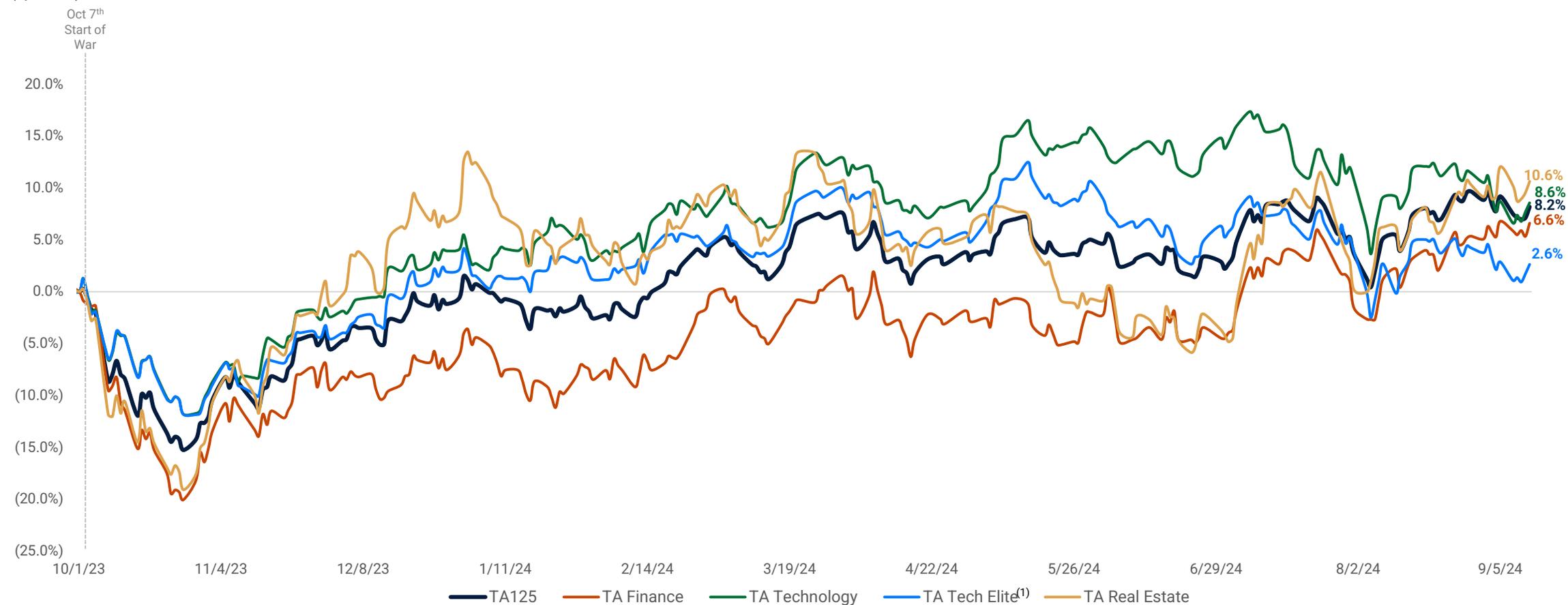
DXY Index Composition: Euro (EUR), 57.6%; Japanese yen (JPY), 13.6%; Pound sterling (GBP), 11.9%; Canadian dollar (CAD), 9.1%; Swedish krona (SEK), 4.2%; Swiss franc (CHF), 3.6%

Israeli Capital Markets Rebound

The TA125 and its sector-indices, led by the High-Tech and Real Estate sectors, have already rebounded since October 7th

TASE Performance

(By Sector)



Source: CapIQ, Tel Aviv Stock Exchange (as of September 13, 2024).

(1) Tech Elite Index is a subset of the Tech Index and includes only technology companies with a market cap of over NIS 400 million.

TA125 Index Composition:

- Real Estate, 38.6%
- Technology, 34.8%
- Finance, 26.7%

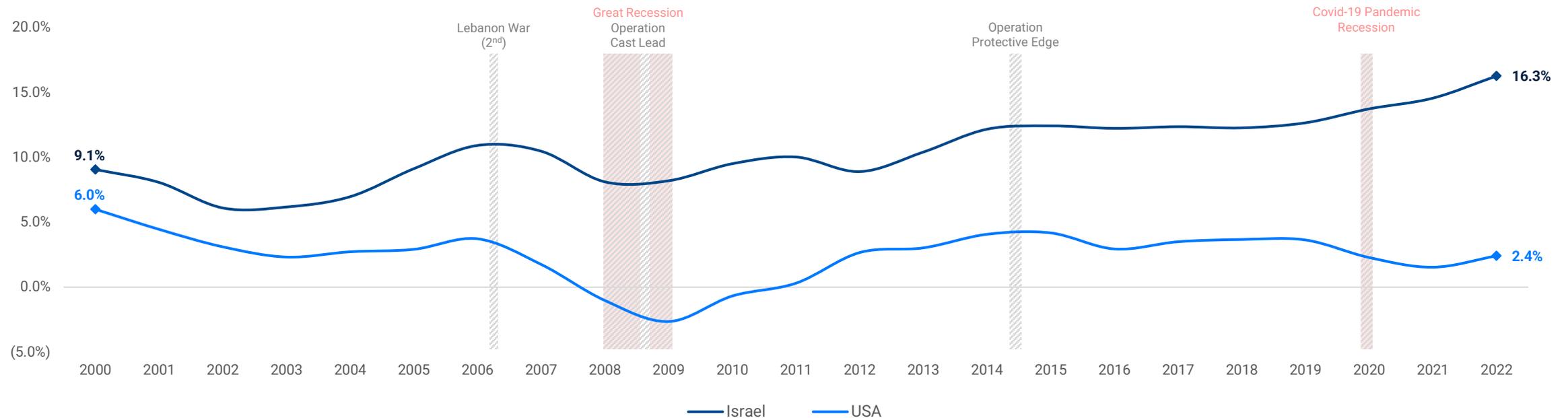
Israeli Households Are Rapidly Amassing Wealth

Unlike In Prior Wars, Israel's Financial Power Exceeds Its Needs

- Net savings as a percentage of GDP is strong at 16.3% in Israel compared to only 2.4% in the United States, with the gap only widening further
- This high percentage of savings is a result of government mandated contribution requirements, therefore most of these savings sit in private pension funds
- Even if the Israeli economy suffers a recession similar in depth to the Second Intifada, Israelis should still comfortably save \$3 billion to \$4 billion each month
- A comfortable savings level reflects Israel's ability to invest in infrastructure and private sectors beyond its need for defense-related expenditures

Israel and USA Savings Rate

(as a % of GDP)



Previous Israeli Military Conflicts And Their Impacts

Israeli equity indicators have shown robustness during previous military conflicts and have trended more in line with global macro trends

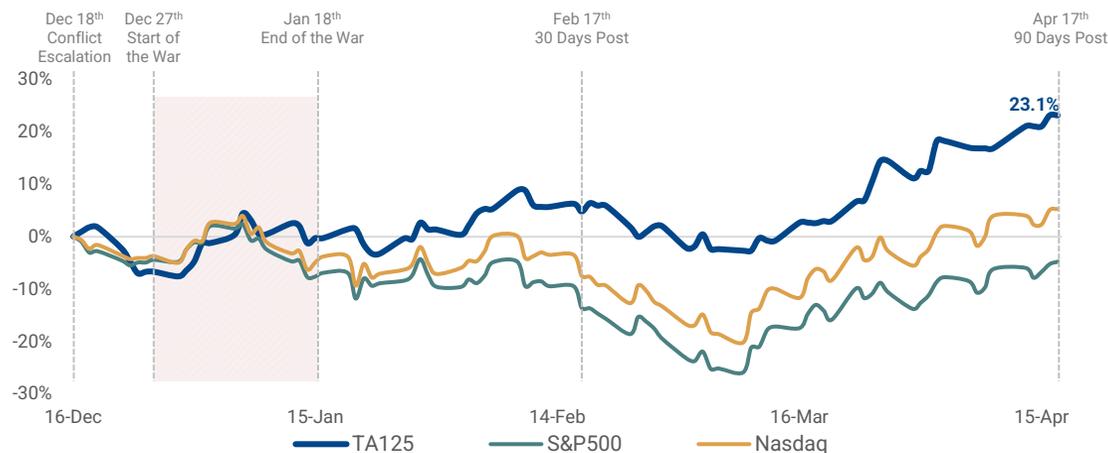
Benchmark Performance Summary

Conflict	TA125 Index Performance ⁽¹⁾		
	End of War	30 Days Post	90 Days Post
Operation Protective Edge (2014)	(1.3%)	3.1%	1.4%
Operation Cast Lead (2008)	(0.3%)	4.8%	23.1%
2nd Lebanon War (2006)	(0.8%)	(0.6%)	11.7%

- Previous similar conflicts had minimal impact on the Israeli stock market's performance during the conflict
- Typically, the market saw a quick recovery in the months following the conflict

Historically, global economic trends have had a greater impact on the capital markets than regional Israeli military conflicts

Operation Cast Lead (2008)⁽²⁾



Source: CapIQ.

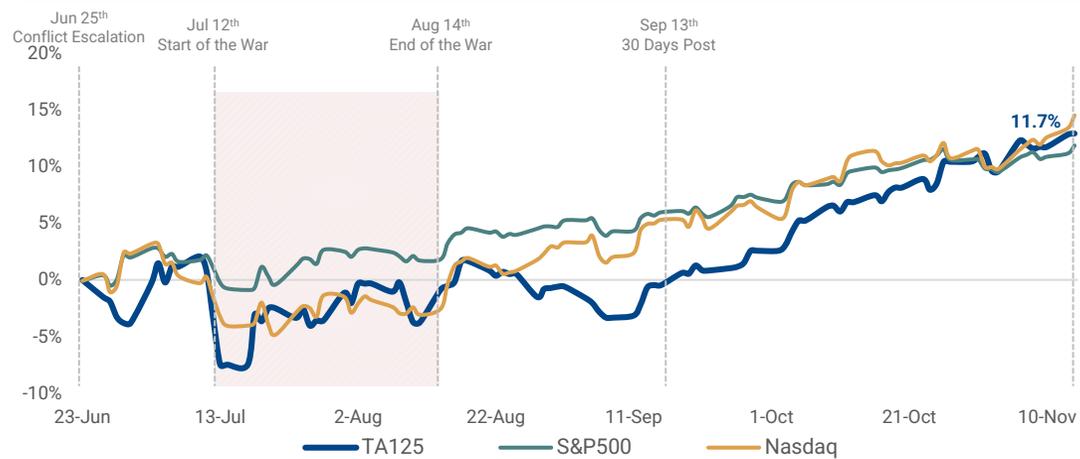
(1) Since conflict escalation.

(2) Economic performance was largely affected by the global financial crisis.

Operation Protective Edge (2014)



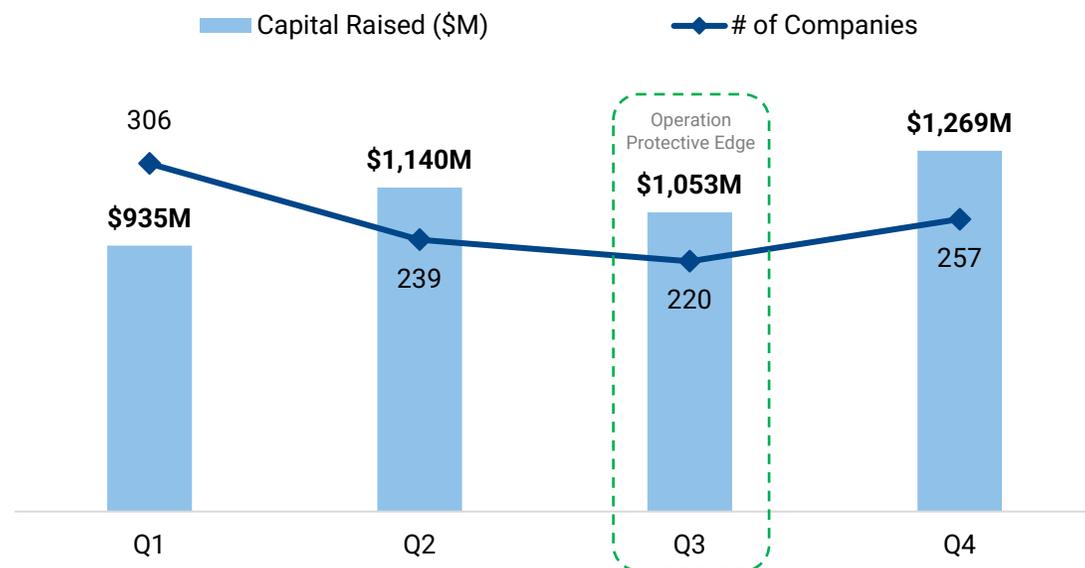
2nd Lebanon War (2006)



Case Study – 2014 Gaza War Protective Edge

Companies that raised funds during the quarter of the conflict demonstrated a higher success rate of exits

Israeli Capital Raising Activity In 2014



- The Israeli tech ecosystem not only persevered throughout the war but also grew immensely afterwards
- Nearly 30% of the companies that raised capital during Q3, the quarter in which the war took place, have already had a successful exit through M&A or IPO compared to an average 25% in the other quarters of 2014
- During the quarter of Operation Protective Edge, 177 new startups were established, an increase of 15% compared to 154 new startups in the previous quarter. This mirrors the 2nd Lebanon war, in which leading Israeli companies such as Wix and SolarEdge were founded immediately following the war
- Investors that supported the tech ecosystem during this volatile period, in many cases ended up achieving outsized returns

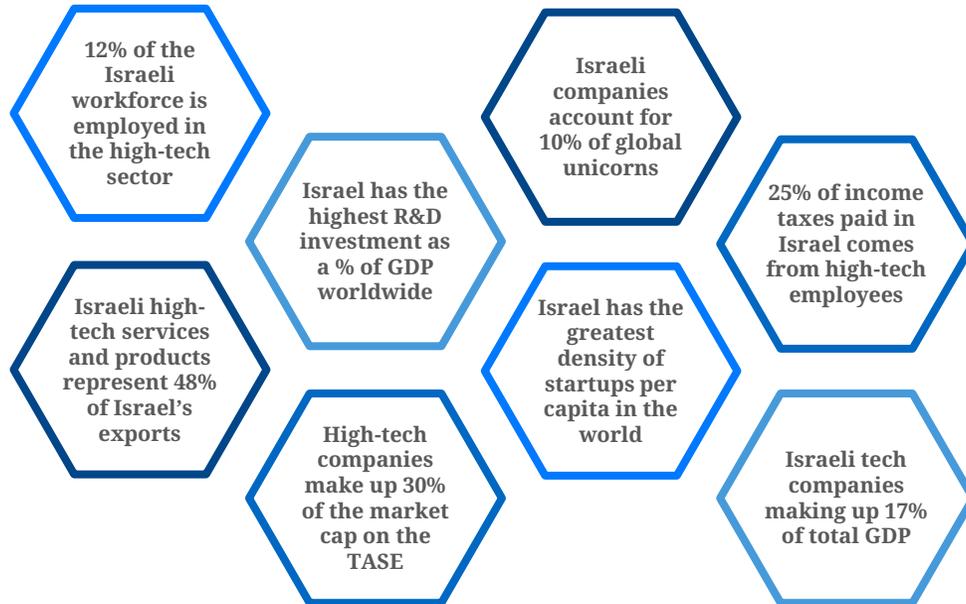
Select Successful Startup Exits

Some of Israel's most successful exits were companies that raised capital during the quarter of the conflict

	Total Raised Prior to Exit	Enterprise Value at Exit
IPO / SPAC		
ironSource	\$520M	\$10.3B
JFrog	\$228M	\$4.0B
Payoneer	\$305M	\$3.3B
fiverr.	\$167M	\$0.6B
Acquired		
NeuroDerm	\$79M	\$1,100M
datorama	\$51M	\$850M
Guardicore	\$106M	\$610M
tufin	\$150M	\$570M
applitools	\$46M	\$250M
fireglass	\$30M	\$250M
SUPER SONIC	\$23M	\$150M
secure islands	\$11M	\$125M
LIGHTCYBER	\$36M	\$103M
HEXADITE	\$11M	\$100M
REDIX	\$17M	\$100M
ZOOZ	\$41M	\$80M
CONTENT IQ	\$6M	\$73M
CYACTIVE	\$2M	\$65M
CLOUDYIN	\$21M	\$60M

Strength Of The Israeli High-Tech Sector

40% of Israel's business GDP growth is attributed to the high-tech sector, with Israeli tech companies making up 17% of total GDP



"Israel is one of Nvidia's largest hubs in terms of population ratio. It's also home to some of our most talented engineers. We will continue to invest heavily in Israel; this region is crucial to us"



Jensen Huang, Co-Founder, President & CEO of Nvidia
 ~3,300 employees in Israel
 March 21, 2024

"The Israelis are the most resilient people in the world. They have not missed a single wafer commitment or product commitment despite the war."



Pat Gelsinger, CEO of Intel
 ~12,000 employees in Israel, the country's largest tech employer
 December 13, 2023

Israeli High-Tech Production And Its Share Of Total Israeli Exports

(In USD billions and as a % of total Israeli exports)

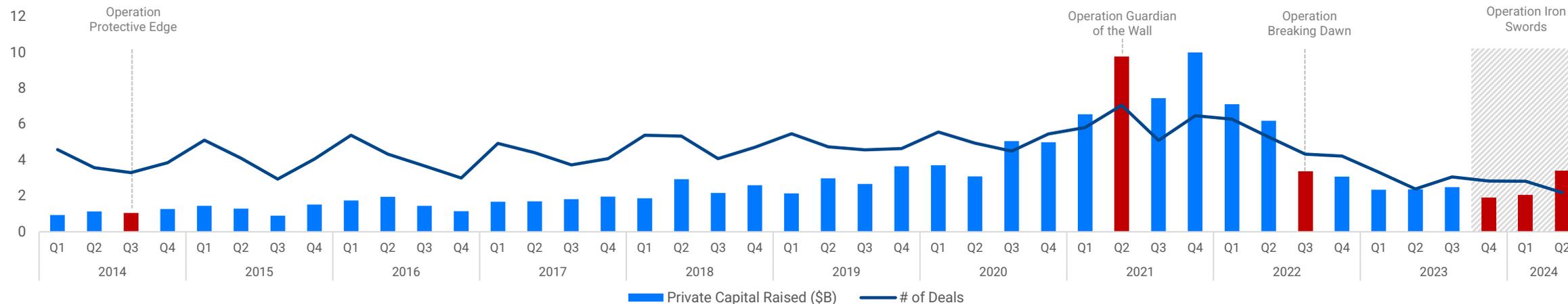


Source: Fox Business, Israel Innovation Authority 2023 Annual Report, and Bank of Israel.

Israel's Private Capital Markets Mirror Global Trends

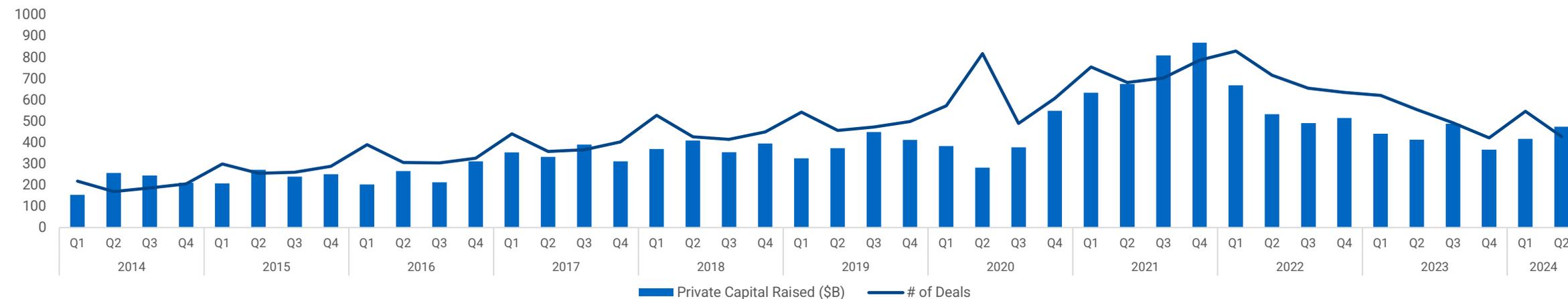
Private Capital Raised In Israel

(In USD \$ billions)



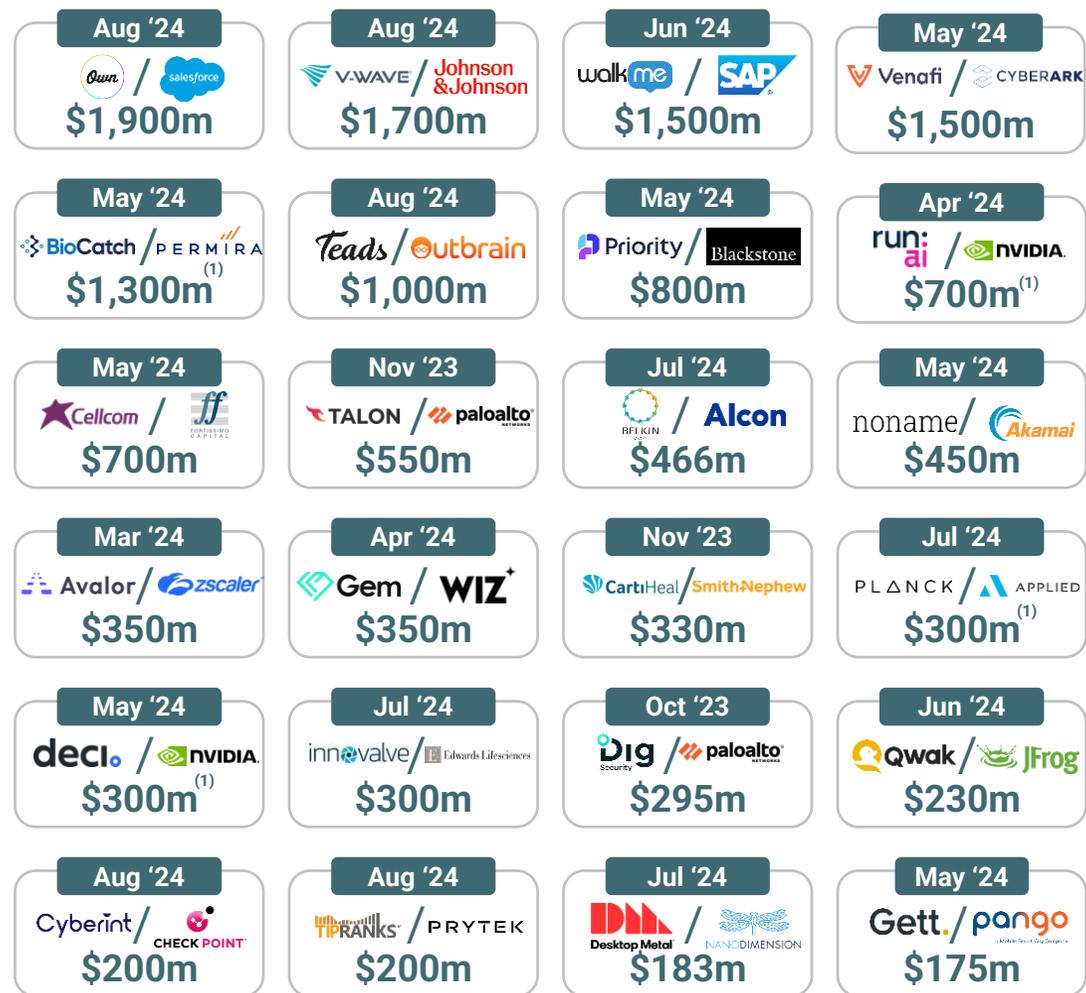
Private Capital Raised Globally

(In USD \$ billions)

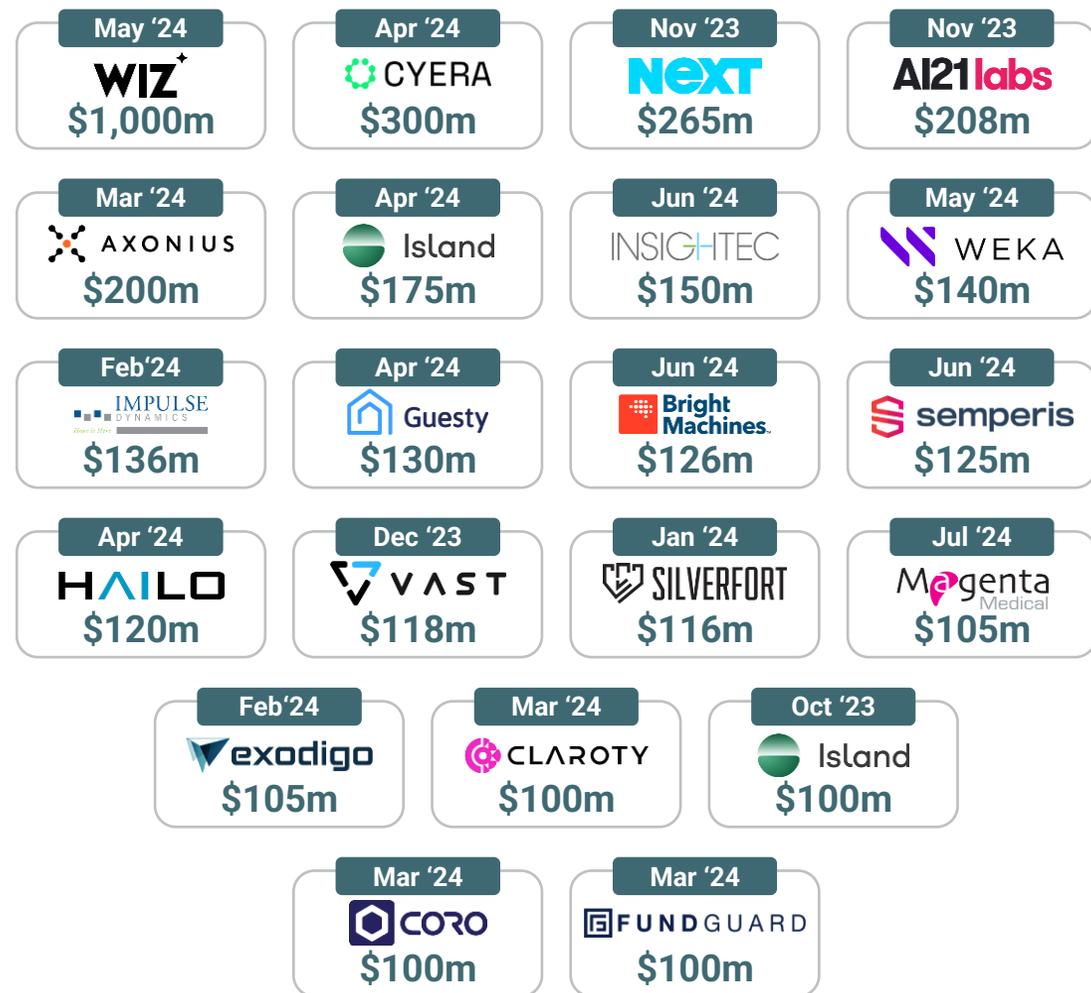


Robust Capital Raising And M&A Activity Amid The Conflict

Notable M&A Transactions



Notable Capital Raises



Source: Company filings, Pitchbook, IVC Data, Calcalist, and Globes (as of September 13, 2024).

1) Valuation according to news outlets, companies did not disclose transaction value.

The Israeli Tech Ecosystem Remains Robust



Since the start of the conflict, **619 Israeli companies have raised an aggregate of over \$9.1 billion, with over \$1.6 billion raised in the first quarter of 2024 alone**, reflecting an increase of 34% in the number of funding rounds and 10% on an absolute dollar basis since the previous quarter⁽¹⁾



Amidst the conflict, Israeli companies remain very attractive targets for global acquirers. Notable examples include **Nvidia and Palo Altos' acquisitions of two Israeli companies each for a combined ~\$2 billion, Permira's majority acquisition of BioCatch at a \$1.3 billion valuation and Blackstone's \$800 million acquisition of Priority Software**, whose revenues are 70%+ domestic. Additionally, Israeli companies remain acquisitive, as demonstrated by Wiz's \$350 million acquisition of Gem Security and Minute Media's \$150 million acquisition of STN Video⁽²⁾



Over 40 of the **world's top private equity and growth equity firms** have opened offices in Israel or have dedicated a partner to cover Israel



In August 2024, the Israeli Innovation Authority (IIA) and Ministry of Finance have announced the **\$155 million Yozma Fund 2.0, incentivizing Israeli institutional investors to back tech companies through investing in Israeli venture capital funds**. This is in addition to the fast-track grant fund announced by the IIA earlier in January 2024, allocating \$100 million with \$50 million of private sector matching for Israeli startups with significant tech assets ⁽⁴⁾



Israeli venture capital firms raised new funds amidst the conflict, including Team8 raising \$500 million, Red Dot Capital Partners' \$250 million and Vintage Investment Partners' \$200 million, **reinforcing a strong vote of confidence in the local tech-investing ecosystem**⁽¹⁾



Prior to the conflict, despite the global macroeconomics and political uncertainty, **during the first 3 quarters of 2023, \$6.8 billion of capital was deployed into Israeli companies**. Additionally, in September, **300+ global investors from 25 countries, representing over US\$19 trillion in AUM** attended Jefferies' Tech Trek, Israel's largest institutional tech investor conference⁽³⁾



Since almost all Israeli tech companies have the vast majority of their revenues from outside of Israel, they are **significantly less impacted by domestic volatility**



Global tech giants, including **Microsoft, Amazon, Intel, Google, and IBM, continue to build strategic assets in Israel through R&D centers** and persist in hiring and investing in Israel as a source of cutting-edge innovation⁽⁵⁾

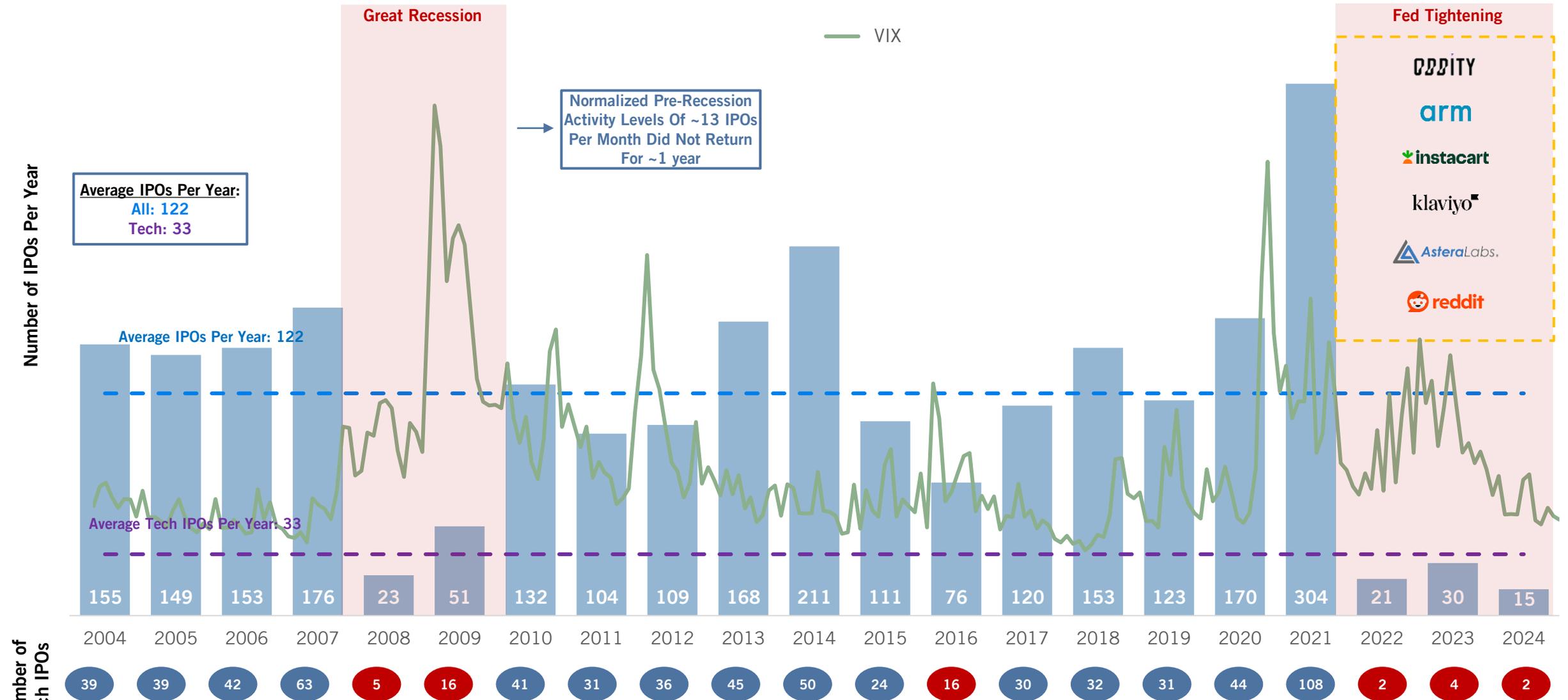
1) Source: IVC Data and Calcalist (as of September 13, 2024).
2) Source: Companies' press releases.
3) Source: IVC Data and Insights.

4) Source: IIA press releases and Globes Israel.
5) Source: Calcalist and Globes Israel.

Appendix



IPO Market Marching Back!



Source: Capital IQ, Dealogic. Data as of 04/05/2024.
 Note: Excludes REITs, MLPs, BCC/SPACs, Chinese ADRs. Excludes offerings with base deal values less than \$50 million.
 Note: A red circle indicates annual Tech IPO count less than 20.

Tech M&A Remains Constrained To Start 2024

Historical Technology M&A Volume and Deal Count

Announced Technology M&A (US)⁽¹⁾

Dollar Volume (\$B) / NASDAQ Composite



Source: Thomson Reuters and Capital IQ.

1) Includes announced transactions, each with an aggregate value of \$100M or more. Excludes terminated transactions. Excludes SPAC transactions in 2020 – 2024.

2) YTD as of 3/31/24.

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