ISRAEL

Legal Business

April 2014

approach to building a business, rather than selling out at an early stage.

NO EXIT

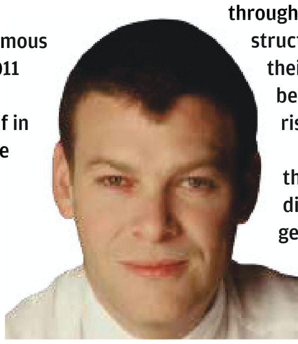
Lawyers close to the Israeli market now point to the increasing number of high-value public offerings on overseas exchanges, such as Nasdaq, and later-stage acquisitions by foreign acquirers as an illustration of greater belief and risk-taking within the Israeli economy.

Daniel Chinn, a corporate partner at domestic practice Tulchinsky Stern Marciano Cohen Levitski & Co and formerly a partner at Israeli venture capital fund Israel Seed Partners, says there is a fundamental shift in the psyche of Israeli tech and start-up companies and that this is having a profound effect on demand for legal services. 'Now people are saying "let's build companies",' he explains. 'These companies are all deciding not to sell out at the first opportunity and build real large-scale companies in Israel. There is additional risk along the way, but if they are able to reach that goal then all of a sudden they are playing with the big boys rather than being eaten by them.'

One of Tel Aviv's pre-eminent technology incubators, The Time, published a report in 2012 entitled *No Exit*. The report suggested sentiment was changing within the Israeli tech community – its sole intent was no longer to sell out to the advances of wealthy overseas acquirers. There was a belief that Israel's time had come and its horde of entrepreneurs was focused on building major global brands.

THE BIG BREAK-UP: CONGLOMERATES FACE SPLIT

After several years of public discontent, including the infamous cottage cheese protests of 2011 – where resentment over the cost of living manifested itself in demonstrations over the price of Israeli diet staple, cottage cheese – Israel's parliament (the Knesset) passed a law in December that is expected to profoundly alter the structure of the economy. The law will require the break-up of monopolies and oligopolies, which are widespread in Israel. A 2010 Bank of Israel study indicated that ten Israel business groups controlled 41% of the market value of all public companies in the jurisdiction.



'There is so much disillusionment with how the economy functions, politicians have no choice but to listen to the people.'

Simon Jaffa, Barnea & Co

Barnea & Co's Simon Jaffa says: 'Potentially this is the most far-reaching reform of the Israeli economy in the last 50 years. The groundswell of public opinion is so strong and there is so much disillusionment with how the economy functions, politicians have no choice but to listen to the people.'

A handful of Israeli tycoons control a substantial proportion of the economy through 'pyramid' holding structures. These tycoons and their business empires have been consistently blamed for rising consumer prices.

Asset sales are inevitable, though time limits on disposals are understood to be generous. Parliament has been careful not to create a fire sale situation.

Tycoons will no longer be permitted to hold financial assets alongside non-financial assets, but the ramifications for the wider economy are equally profound.

As Israel's large conglomerates are forced to dispose of certain businesses and assets, lawyers expect many bidders to be foreign investors, including private equity houses. Clifford Davis, a partner at S. Horowitz & Co, sees this as a 'huge fillip to private equity'. He says that as Israel has a small banking market and there are restrictions on leveraged lending, offshore private equity funds such as Permira and CVC Capital Partners will be the most likely acquirers.