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# Israel's Economic Resilience During Military Conflicts

## Operation Iron Swords



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March 2024

Jefferies LLC  
Member SIPC

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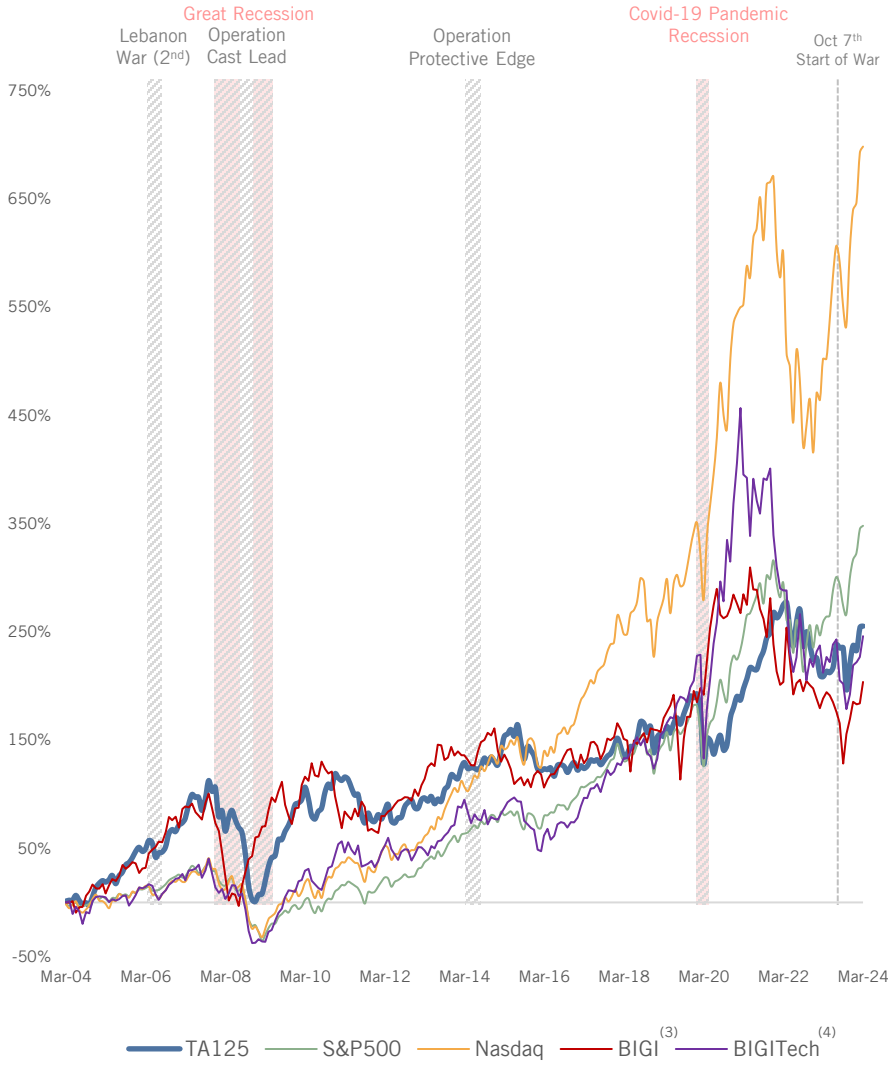
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# Situation Overview – Economic Resilience During Operation Iron Swords

## 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<sup>(1)</sup>
- It is estimated that 15%-20% of high-tech sector employees were mobilized for reserves at peak war efforts<sup>(2)</sup>. 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 9<sup>th</sup> 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, they’ve announced only needing to utilize a small portion of that and the ILS/USD rate is already higher than its pre-October 7<sup>th</sup> level

## Public Market Performance Over Time



Source: CapIQ, MarketVector, and IVC Data, OECD Economic Outlook and Israel Central Bureau of statistics (as of March 21, 2024).

(1) Source: Israel Innovation Authority 2023 Annual Report.

(2) Source: Time of Israel.

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

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

# 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 7<sup>th</sup>. 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<sup>(1)(2)</sup>
- The Debt to GDP ratio has been revised upwards to 63% for FY2023 (from 62%) and 66% in FY2024 (from 65%)<sup>(1)</sup>
- 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<sup>(1)(3)</sup>

## 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
- Additional 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
- Providing guidelines for conservative policy on dividend distribution and LLP



(1) Source: Bank of Israel Research Department Staff Forecast (November 2023).

(2) Source: OECD Global Economic Outlook, (November 2023).

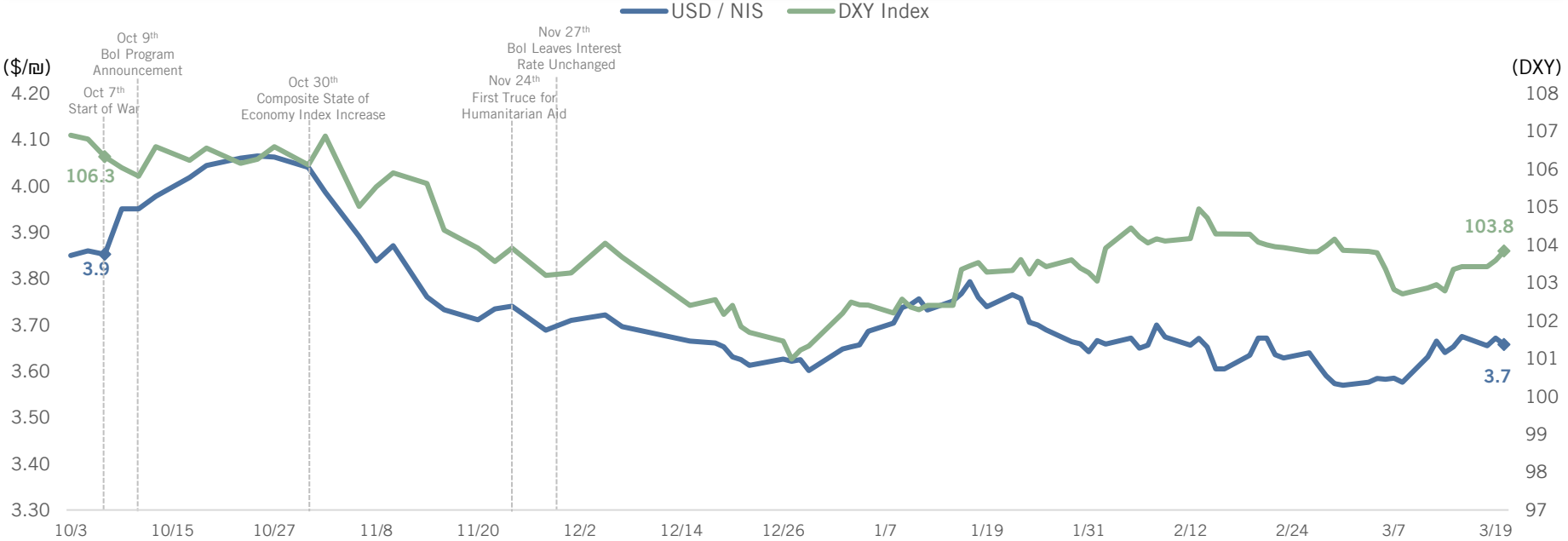
(3) From NIS 198 billion, FX rate as of 12/5/23 (3.71 USD to NIS).

# 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 9<sup>th</sup> 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 is already stronger than its pre-October 7<sup>th</sup> 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



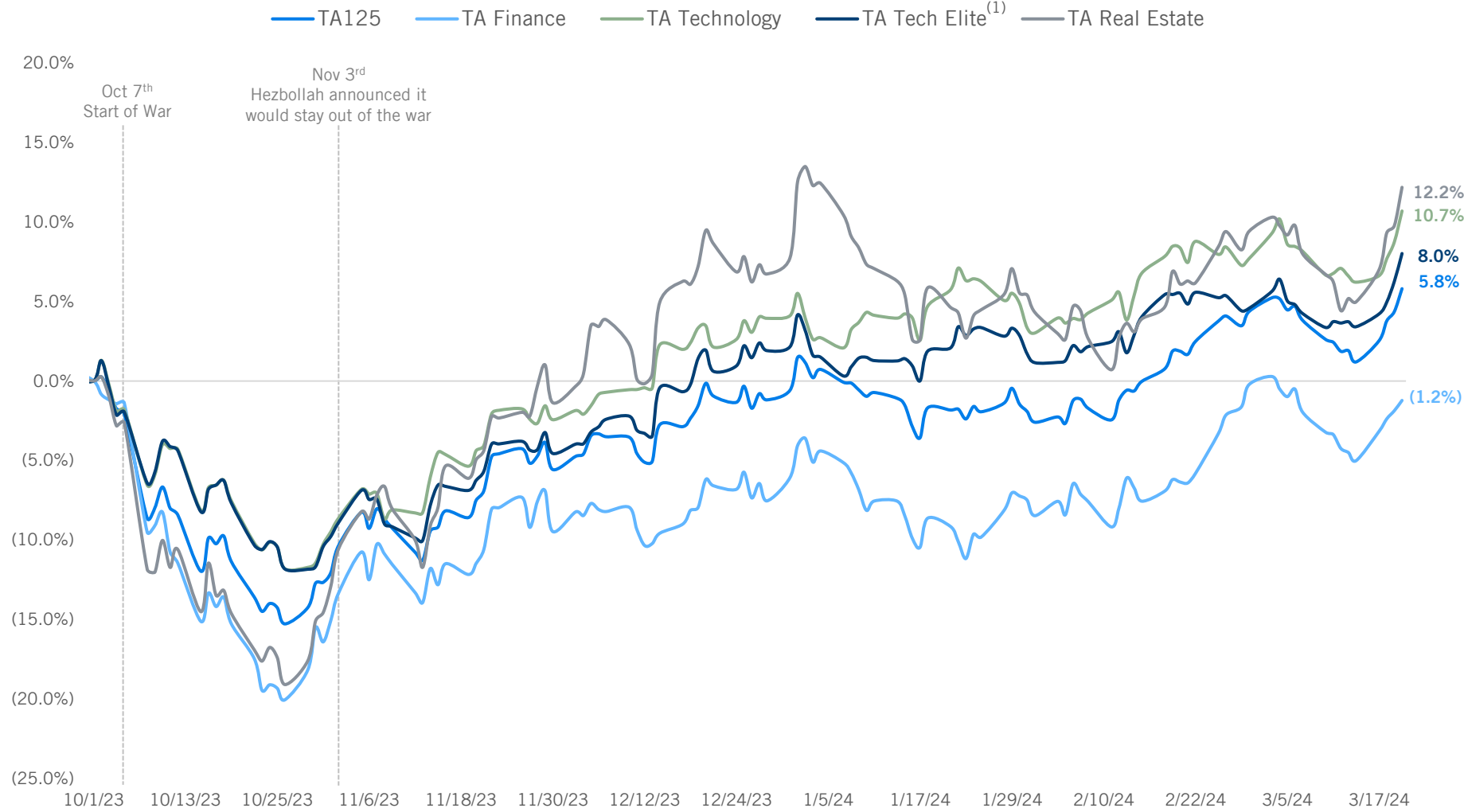
Source: Bloomberg, Refinitiv, and CapIQ (as of March 21, 2024).

- 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 most of sector-indices have rebounded or are on an upward trend, led by Tech and Real Estate

## TASE Performance by Sector



Source: CapIQ, Tel Aviv Stock Exchange (as of March 21, 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%

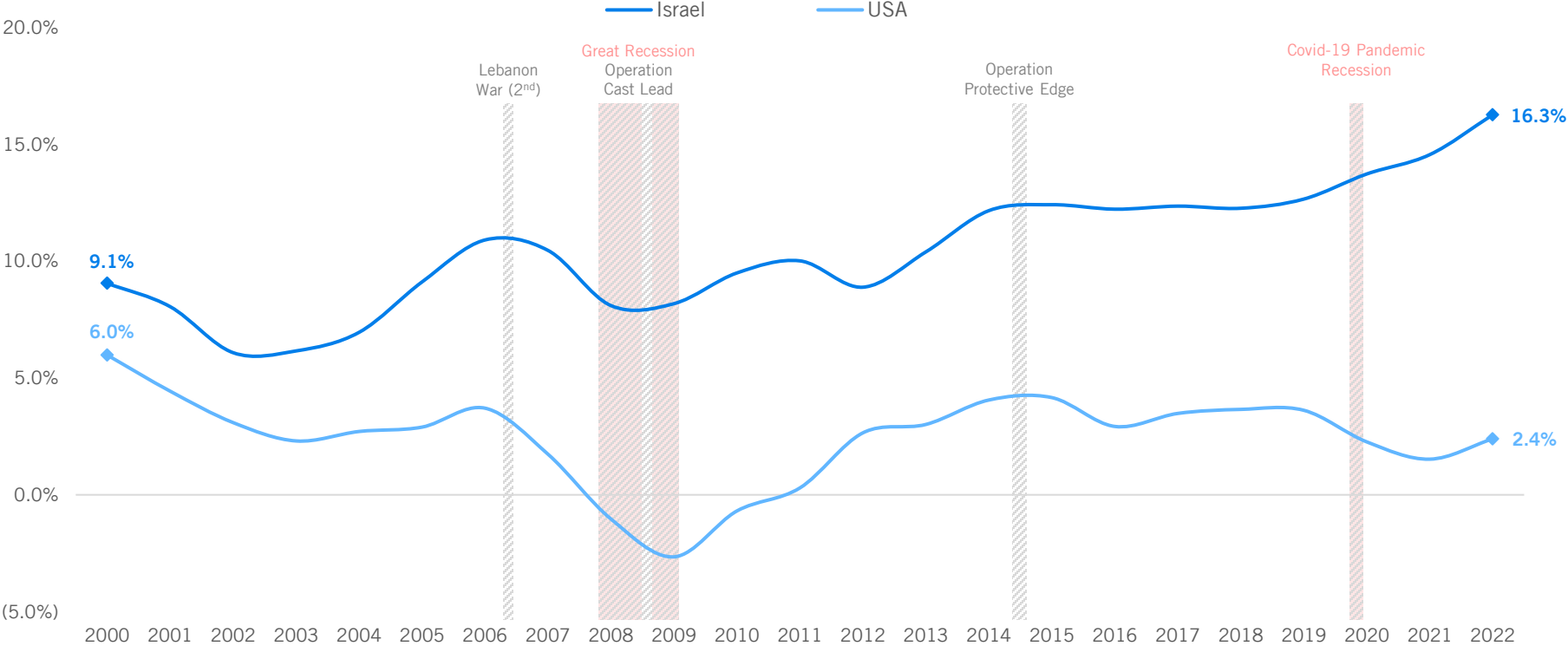
# Israeli Households are Rapidly Amassing Wealth

Unlike in prior wars, Israel's financial power exceeds its needs

## Key Highlights

- 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



Source: Israel Investment Advisors, OECD Savings Rate Indicator (2023).  
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# 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 <sup>(1)</sup>		
	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%

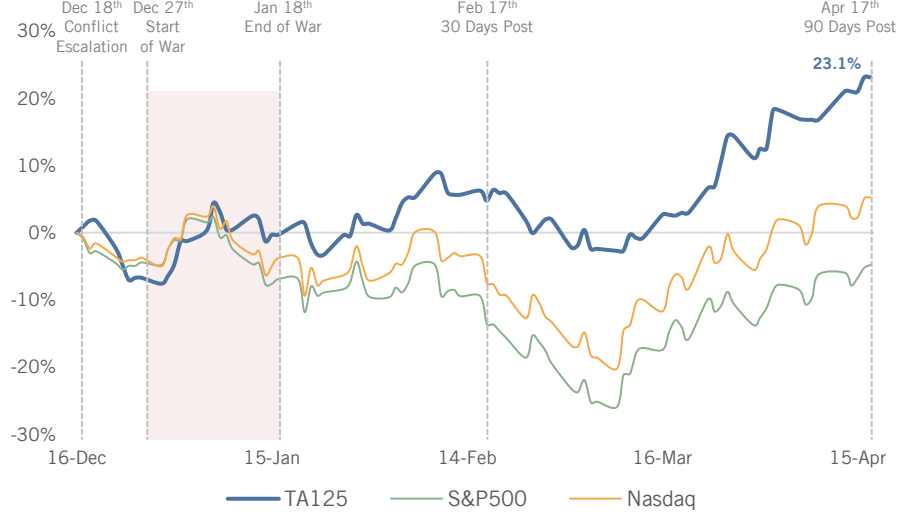
- Previous similar conflicts had minimal impact on the Israeli stock market's performance during the conflict
- Typically, the market saw a quick recovery in the months following the conflict

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

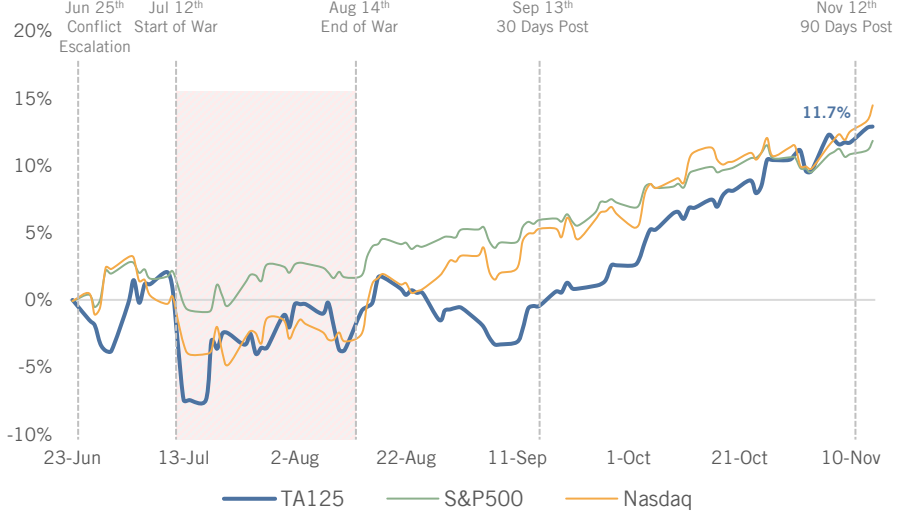
## Operation Protective Edge (2014)



## Operation Cast Lead (2008)



## 2nd Lebanon War (2006)

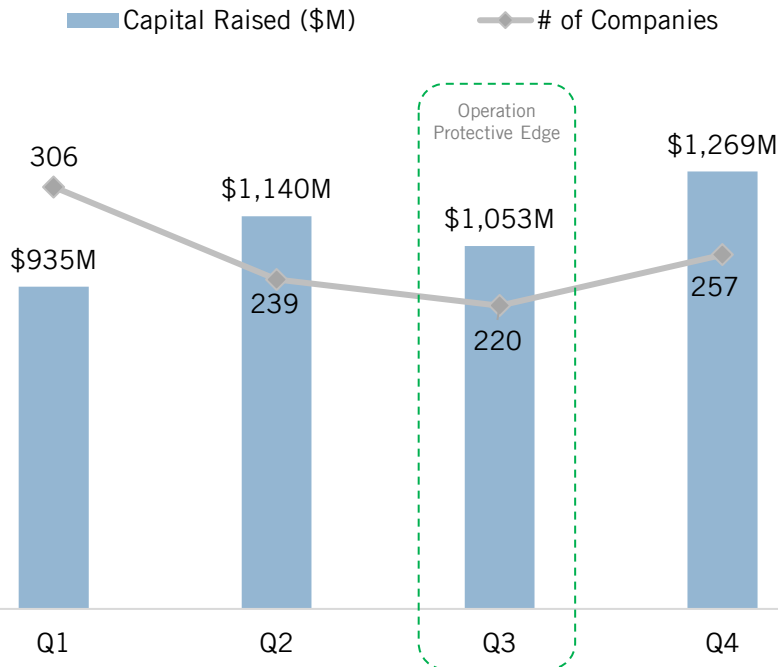


Source: CapIQ.  
 (1) Since conflict escalation.  
 (2) Economic performance was largely affected by the global financial crisis.  
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# Case Study – 2014 Gaza War Protective Edge

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 2<sup>nd</sup> 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

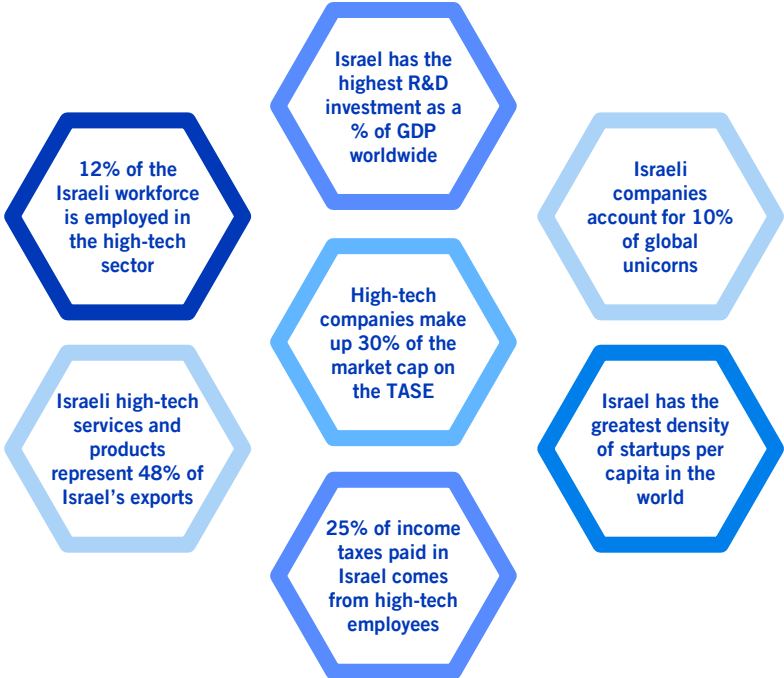
Some of Israel's most successful exits were companies that raised capital during the quarter of the conflict

	Total Raised Prior to Exit	Enterprise Value at Exit
<b>IPO / SPAC</b>		
ironSource	\$520M	\$10.3B
Jfrog	\$228M	\$4.0B
Payoneer	\$305M	\$3.3B
fiverr.	\$167M	\$0.6B
<b>Acquired</b>		
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
REDKIX	\$17M	\$100M
ZOOZ	\$41M	\$80M
CONTENT IQ	\$6M	\$73M
CYACTIVE	\$2M	\$65M
CLOUDNYN	\$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"*



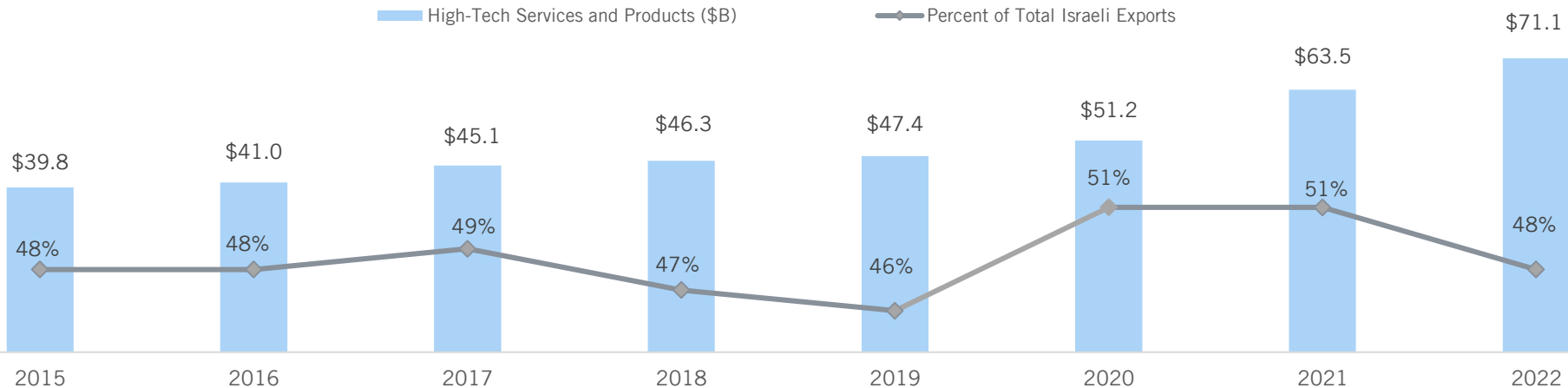
**Jensen Huang, Co-Founder, President & CEO of Nvidia**  
 Employs ~3,300 in Israel  
 March 21, 2024

*"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**  
 Israel's largest tech employer with ~12,000 employees  
 December 13, 2023

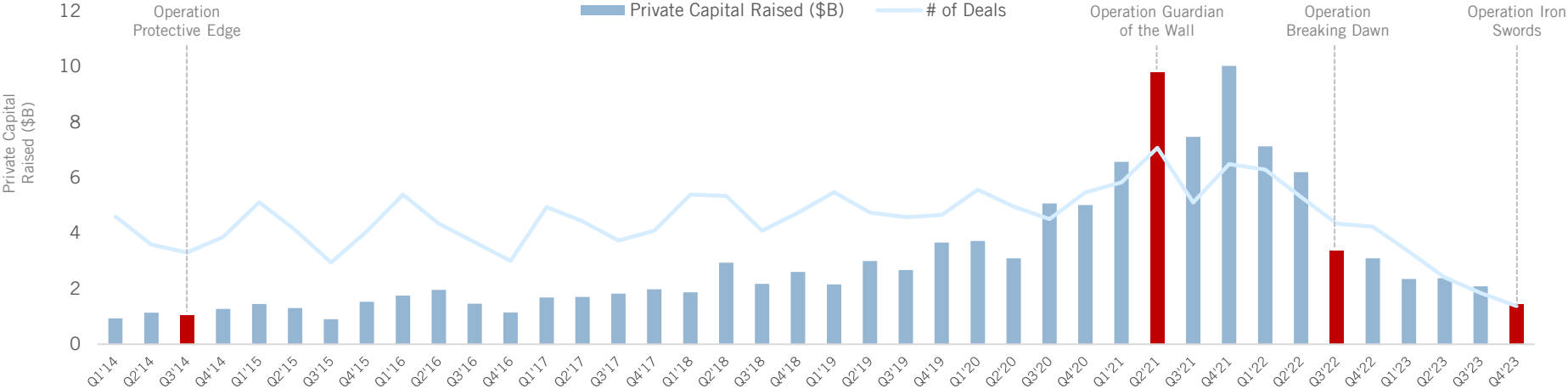
Israeli High-Tech Production and its Share of Total Israeli Exports



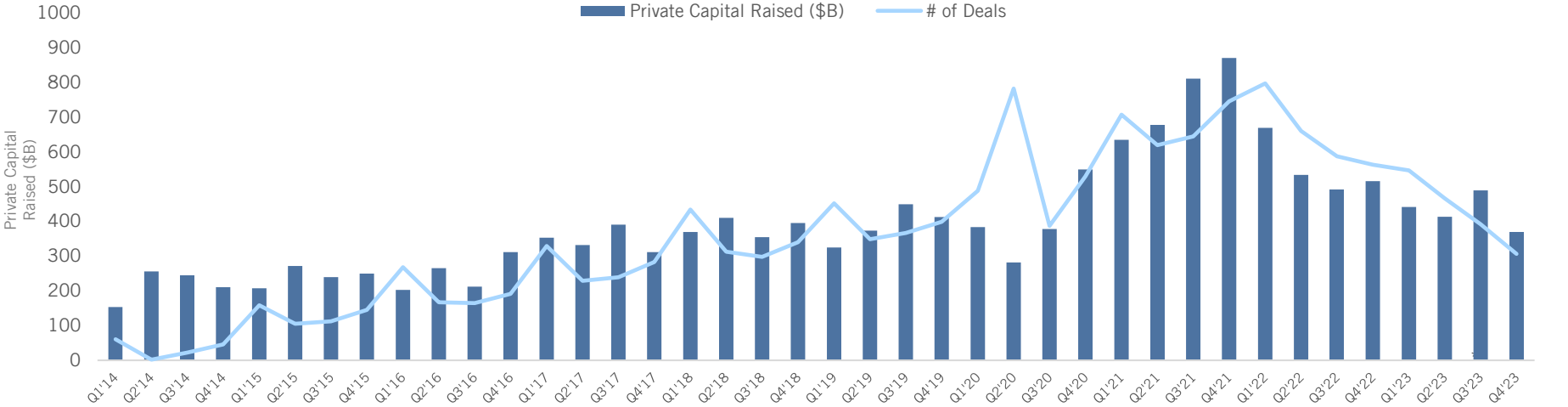
Source: Fox Business, Israel Innovation Authority 2023 Annual Report, and Bank of Israel. Jefferies LLC / March 2024

# Israel's Private Capital Markets Mirror Global Trends

## Private Capital Raised in Israel



## Private Capital Raised Globally












Source: Pitchbook and IVC Data.  
Jefferies LLC / March 2024

# Robust Capital Raising and M&A Activity Amid the Conflict

## Notable M&A Transactions

Dec '23	 <b>Cellcom</b>	acquired by		\$700m
Nov '23	 <b>TALON</b>	acquired by	 <b>paloalto</b> NETWORKS	\$550m
Mar '24	 <b>Avalor</b>	acquired by	 <b>zscaler</b>	\$350m
Mar '24	 <b>WIZ</b>	acquired	 <b>Gem</b>	\$350m
Nov '23	 <b>Smith+Nephew</b>	acquired by	 <b>CartiHeal</b>	\$330m
Oct '23	 <b>Dig</b> Security	acquired by	 <b>paloalto</b> NETWORKS	\$295m
Jan '24	 <b>minute</b> media	acquired	 <b>STN</b> VIDEO	\$150m
Nov '23	 <b>Perion</b>	acquired	 <b>Hivestack</b>	\$125m
Mar '24	 <b>FLOW.</b>	acquired by	 <b>CROWDSTRIKE</b>	\$115m

## Notable Capital Raises

Nov '23	 <b>NEXT</b>	raised	\$265m	\$4,000m Valuation
Nov '23	 <b>AI21labs</b>	raised	\$208m	\$1,400m Valuation
Mar '24	 <b>AXONIUS</b>	raised	\$200m	\$2,600m Valuation
Feb '24	 <b>IMPULSE</b> DYNAMICS	raised	\$136m	NA <sup>(1)</sup> Valuation
Dec '23	 <b>VAST</b>	raised	\$118m	\$9,000m Valuation
Jan '24	 <b>SILVERFORT</b>	raised	\$116m	\$700m Valuation
Feb '24	 <b>exodigo</b>	raised	\$105m	NA <sup>(1)</sup> Valuation
Mar '24	 <b>CLAROTY</b>	raised	\$100m	\$2,500m Valuation
Oct '23	 <b>Island</b>	raised	\$100m	\$1,500m Valuation

Source: Company filings, Pitchbook, IVC Data, Calcalist, and Globes (as of March 21, 2024).

(1) Valuation not publicly disclosed.

# The Israeli Tech Ecosystem Remains Robust



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**



Since the start of the conflict, **261 Israeli companies have raised an aggregate of over \$2.9 billion in private funding** from local and global VCs, including Next Insurance’s \$265 million, AI21 Labs’ \$208 million, and Axonius’s \$200 million funding rounds<sup>(1)</sup>



In the midst of the conflict, Israeli cyber companies remain very attractive targets for global acquirers for example Palo Alto announced the **intent to acquire two Israeli companies**, Talon and Dig Security, **for a combined ~\$900 million**. 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<sup>(2)</sup>



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 the last three years<sup>(3)</sup>



Despite the global macroeconomics and political uncertainty during the first 3 quarters of 2023, **\$6.8 billion of capital was deployed into Israeli companies**<sup>(3)</sup>. 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



The Israeli Innovation Authority (IIA) has announced a **fast-track grant fund with an allocation of \$100 million**, with additional expected \$50 million of private sector matching, for Israeli startup companies with significant technological assets<sup>(4)</sup>



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<sup>(5)</sup>

(1) Source: IVC Data and Calcalist (as of March 21, 2024).  
(2) Source: Companies’ press releases.  
(3) Source: IVC Data and Insights.  
Jefferies LLC / March 2024

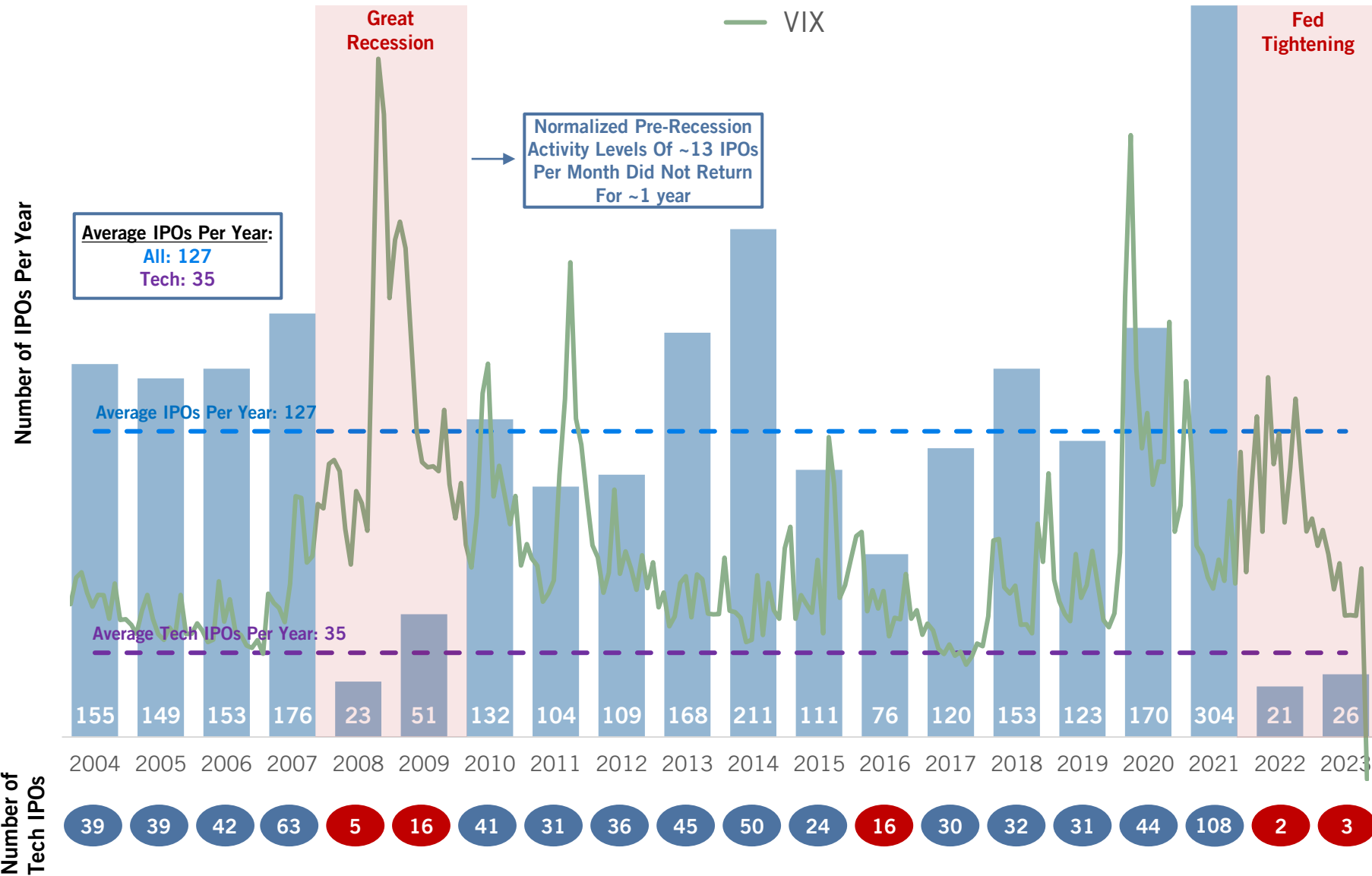
(4) Source: IIA’s press releases.  
(5) Source: Calcalist and Globes Israel.

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## Appendix

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# IPO Droughts Don't Last Forever...



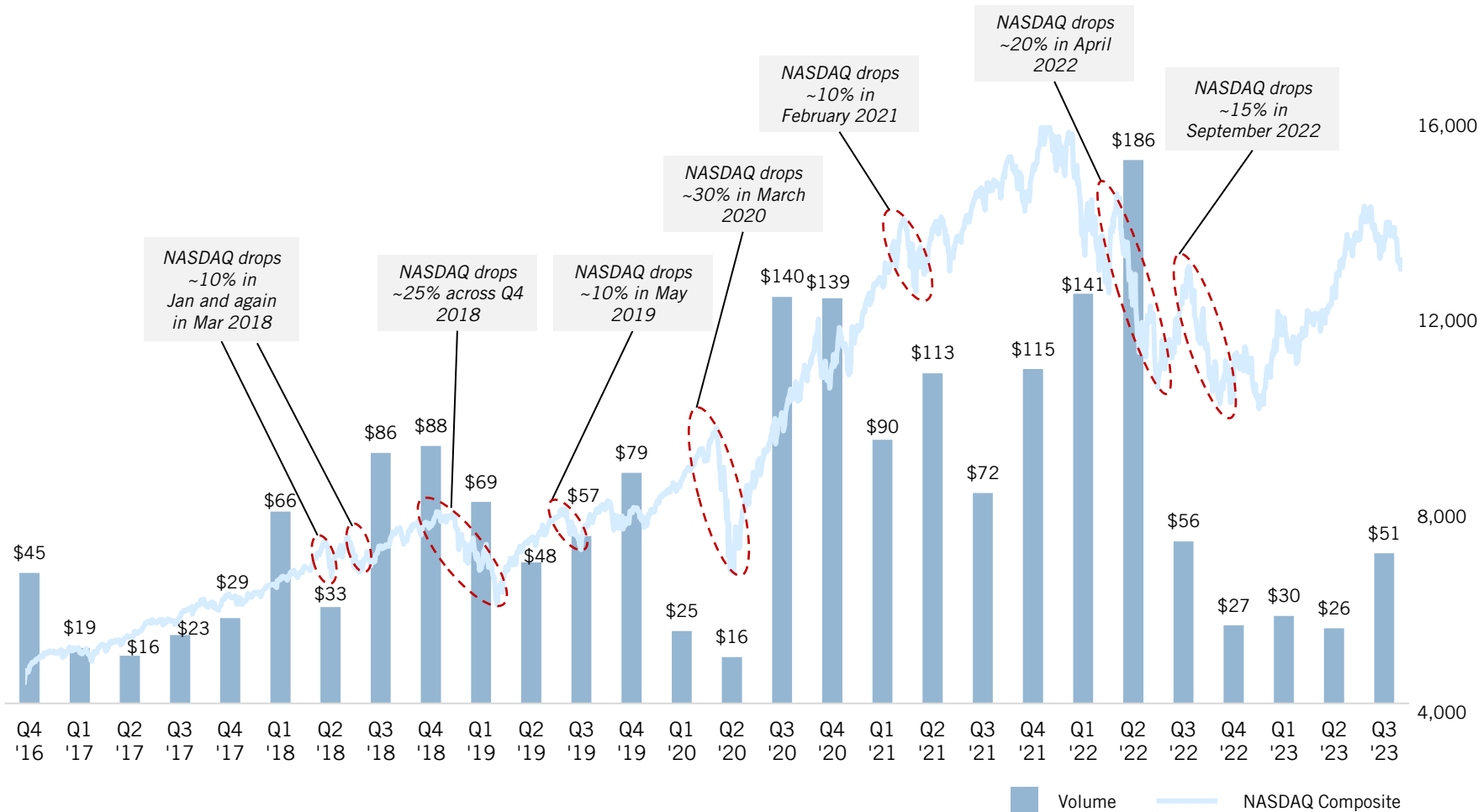
Source: Capital IQ, Dealogic.  
 Note: Excludes REITs, MLPs, BCC/SPACs, Chinese ADRs. Excludes offerings with base deal values less than \$50 million.  
 Note: A red circle indicates annual Tech IPO count less than 20.  
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# M&A Spikes When Public Valuations “Correct”

Stock Market Performance and M&A Deal Volume

## Announced Technology M&A (US)<sup>(1)</sup>

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 – 2023.

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