

The background of the slide features a faint, light blue musical score on a grid of five-line staves. The notation includes a treble clef, a key signature of two sharps (F# and C#), and several notes and rests. The overall aesthetic is clean and professional, with the music theme subtly integrated into the design.

Special Considerations in Private Equity Acquisitions

Shmoulik Barashi, Fortissimo Capital Fund

FORTISSIMO CAPITAL

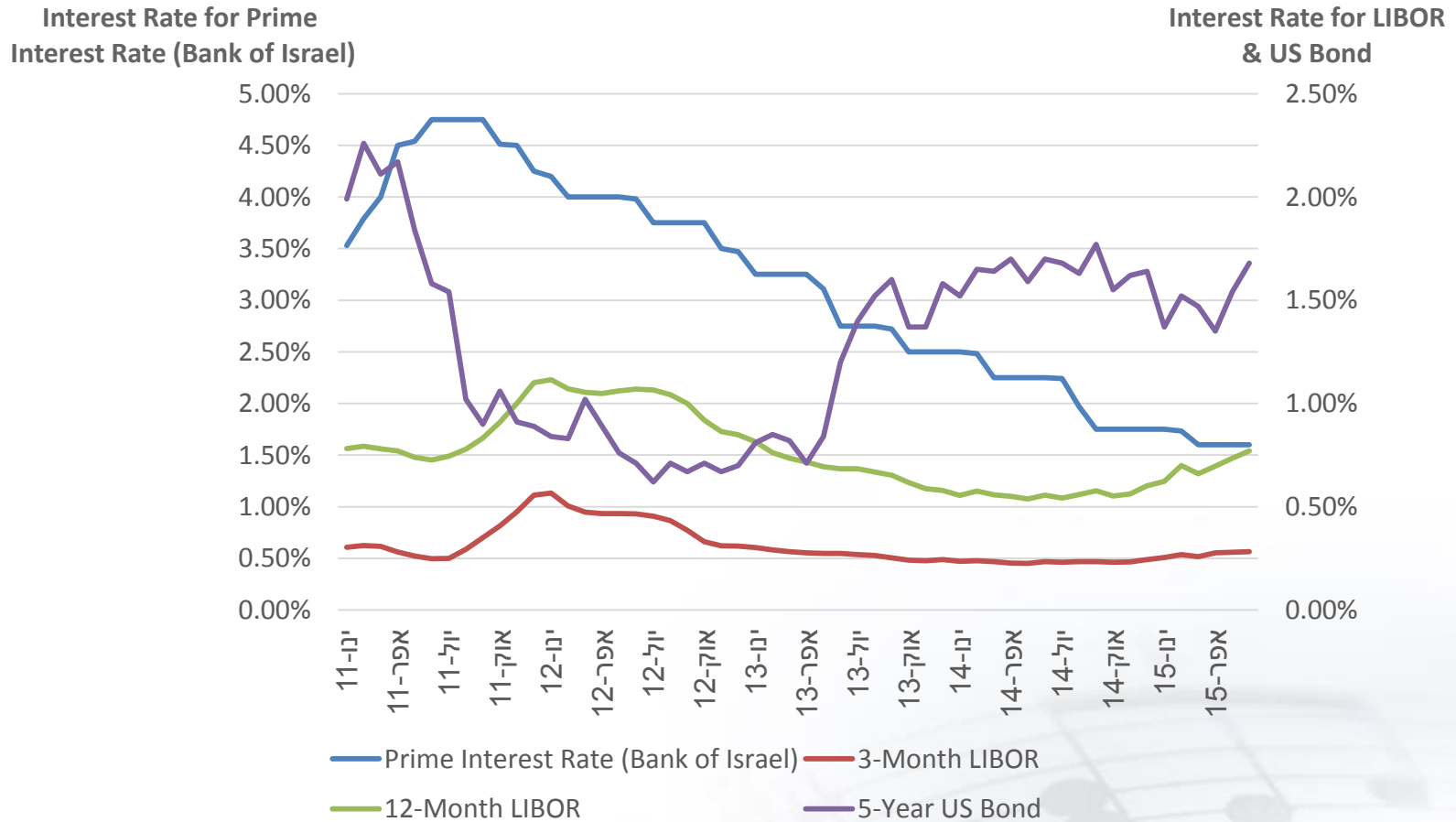
- Israel-based private equity fund, founded in 2004
- ~\$1 Billion under management in four funds (fourth with \$470 million)
- Returns: 6x on fund I & 42% IRR over 10 years. Expected to be similar with fund II
- Invest in mature technology and industrial companies
- Focus on special situations and growth capital
- Creating value through changes which lead primarily to fast growth
- Investor base includes leading institutions from US, Europe and Israel

ACQUISITION MARKET TRENDS

- Today's acquisition environment is affected by supply and demand
- Interest rates are at a "new low"
- Available money is at a "new high"
- Risk-return was not yet judged (failures, frauds, etc.)

GLOBAL INTEREST RATES

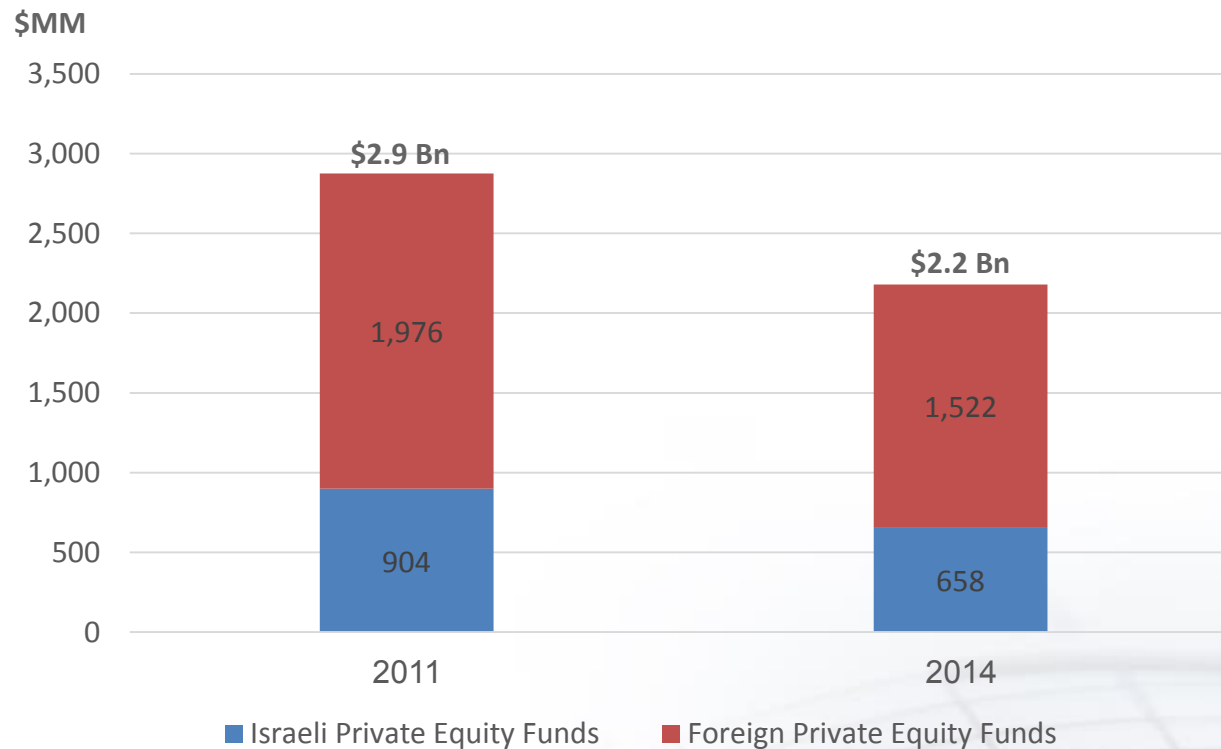
Global Interest Rates



Source: Bank of Israel, St. Louis Federal Reserve

MORE MONEY SEEKS ACQUISITIONS

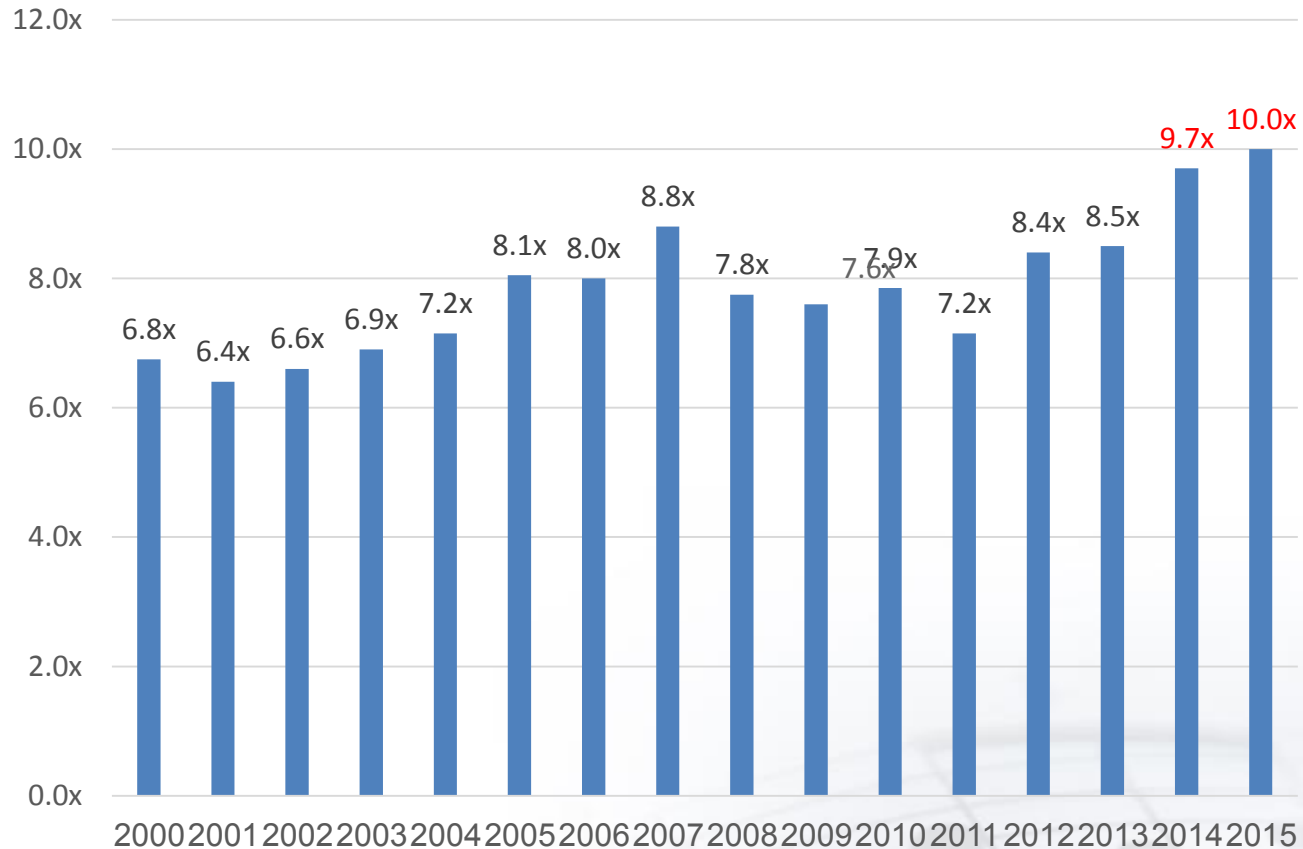
Private Equity Investments in Israel: 2011 vs. 2014



ENVIRONMENT: RISING DEAL PRICES

Development of Purchase Price Multiples

Median EBITDA Multiple



- The median EBITDA multiple for transactions in the US is 8.0-10.0, while it is 7.0-9.0 in Israel

Source: Standard & Poor's

METHODOLOGIES OF VALUATION ASSESSMENT: ISSUES

- **Multiple (EBITDA or Net profit)**
- **DCF Valuation**
- **Net Asset Value or Replacement Cost Value**
- **Other Considerations, such as:**
 - Removing a competitor
 - Operational synergies
 - A consolidated business plan

VALUATION ASSESSMENT: MULTIPLE

- **Multiple (EBITDA or Net Profit)**
 - **Multiple Size:**
 - Industry
 - Growth rate
 - Business model
 - Predictability
 - **Profit Amount:**
 - Adjustments
 - Time frame (LTM or NTM)
 - **Financial Debt:**
 - Classification
 - Cut-off date influence
 - Normative working capital

VALUATION ASSESSMENT: DCF VALUATION

- **DCF Valuation**
 - **Cash flow:**
 - Gap between profit and cash
 - Adjustments:
 - Working capital
 - Investment
 - Taxes
 - Others
 - Cost of capitalization:
 - Industry
 - Growth rate
 - Business model
 - Predictability

COST OF GROWTH

- **The cost of growth depends on:**
 - **The company's business model**
 - One-time sale
 - Recurring sale
 - **The characteristics of the industry**
 - Collection credit terms and actual behavior
 - Purchasing credit terms and inventory turnover
 - Ability to finance the growth of the working capital
 - Strength of players in the industry (vendors, customers)

INSTRUMENTS YOU MAY USE

○ Downside Protection

- Debt type, such as loan, convertible
- Indemnification, escrow
- Performance-based component
- Preference
- Minority protection (decision rights, veto rights, forced IPO)

○ Upside Enhancement

- Warrants
- Holdback
- Built-in leverage (bank push-down, seller loan)
- Redeemable shares
- Tax planning—For both the company and the shareholders