



Business Leader and Investor Survey

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Introduction

It gives us great pleasure to share the results of our 2023 Deloitte Israel business leader and investor survey.

Our ambitious aim from the outset of the survey was to try and understand the perspective of Israeli business leaders, investors and other sponsors in respect of:

- Market confidence and the outlook for Israeli businesses;
- Sentiments towards M&A in 2023; and
- Current restructuring and divestiture attitudes.

Ongoing market uncertainty caused by a perfect storm of economic and geopolitical factors, has in turn adversely impacted the volume of M&A deals. IPOs both in Israel, the US and the UK have declined as valuations are not reaching previous highs and SPACs that have failed to acquire assets are beginning to feel deadline pressures to refund investors.

In addition, based on the rising interest rates coupled with increasing costs, inflationary pressures and supply chain concerns, we would anticipate that there will be increased numbers of financial restructurings, both in Israel and globally as we enter 2023.

Against this backdrop, many of the findings in the survey broadly mirror common consensus and wider global trends.

However, we believe that the survey also highlights several nuanced findings and fresh insights, some unique to the local market, which are worthy of further consideration.

We hope that the survey is of interest to business leaders, investors and all those with an economic interest in Israel and we thank everyone who took the time to complete the survey.



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Business Leader Outlook

Market outlook: Increased market uncertainty driven by inflation and political factors

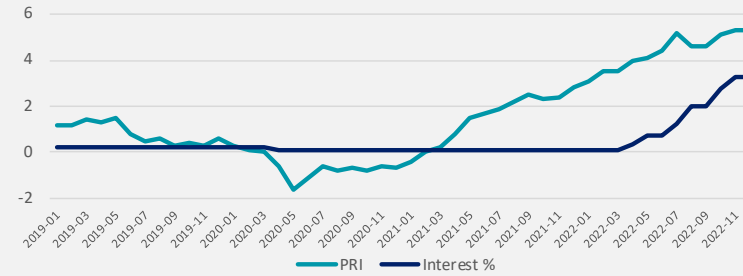
This survey was conducted in early 2023 against a backdrop of rising global inflation, the highest interest rates experienced in Israel in over a decade (**figure 1a**) and continuing geopolitical instability.

Despite Israel successfully exiting the COVID-19 pandemic in 2021, uncertainty underlies the present economic outlook. Over two thirds of all respondents believe that inflation will only slowdown from the second half of 2023 onwards (**figure 1b**). In the meantime, the government remains likely to continue the tightening of monetary policy (evidenced through interest rate rises in early 2023) which could likely induce further market uncertainty.

Other global factors also contribute to the current lack of certainty. Nearly 60% of cohort surveyed displayed some level of exposure to the ongoing global energy crisis and nearly 23% of respondents indicated a high level of exposure to the ongoing Russia / Ukraine conflict (**figure 1c**).

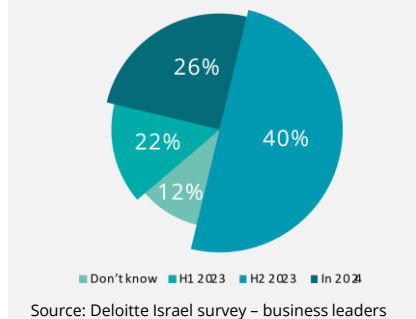
Furthermore, over 84% of respondents indicated that stable government is important to Israeli economic growth (**figure 1d**), and it is therefore possible that the present social unrest driven by the legislative agenda regarding the powers of the Court, could exacerbate market turbulence.

Figure 1a: Bank of Israel inflation rates and interest rates 2019-2022



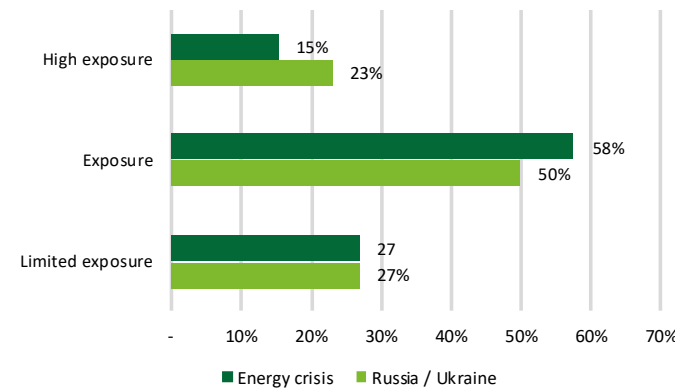
Source: Bank of Israel website

Figure 1b: When do you believe we will observe a slowdown of the inflation rate?



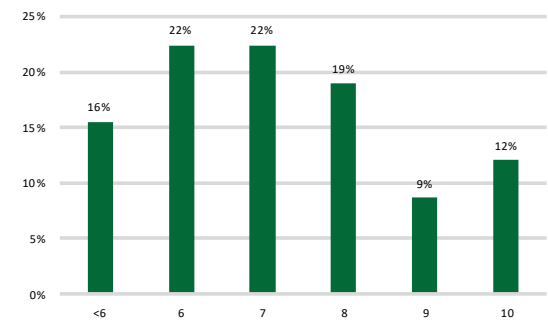
Source: Deloitte Israel survey – business leaders

Figure 1c: How much is your business impacted by the energy crisis and the Russia/Ukraine conflict?



Source: Deloitte Israel survey – business leaders

Figure 1d: How much is a stable government critical to Israel economic growth?



Source: Deloitte Israel survey – business leaders and investors / lenders
Scale: 1 indicates low importance, 10 indicates high importance

Business Leader Outlook

Business leader confidence: Reduced optimism and a focus on cash and organic expansion rather than prioritizing M&A and cost cutting

Market uncertainty has adversely impacted business leader confidence. When asked how they felt about their company's situation compared to a year ago, almost 46% of respondents were less optimistic with a further 31% believing the situation to be unchanged (figure 2b).

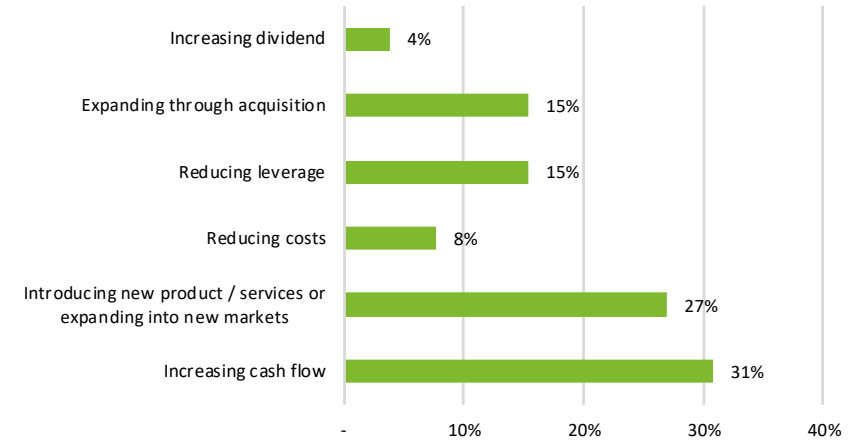
This sentiment appears to be reinforced by the fact that less than 40% of those surveyed believe that their company's revenue would grow in the next year (figure 2d).

Surprisingly however, despite the pessimism around business growth, it appears that a significant proportion of business leaders surveyed would look to prioritize the

introduction of new products / services and/or consider expansion into new markets (figure 2a). This is likely to be driven by a need to preserve market share rather than drive significant growth.

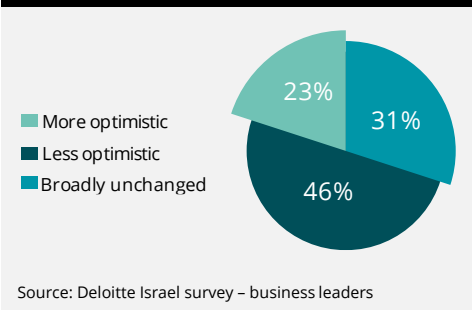
Increasing cash flow was also a business leader priority, which demonstrates a shift away from profit maximization towards a more cash focused attitude. To further demonstrate the mindset transition away from profits to cash, only 35% of all respondents said that they would seriously consider widespread layoffs and cost reductions in the upcoming year (figure 2c).

Figure 2a: What is the main priority for your business in the next 12 months?



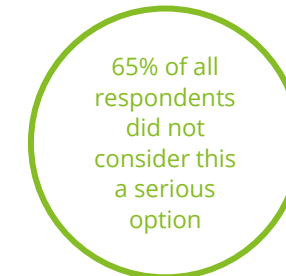
Source: Deloitte Israel survey – business leaders

Figure 2b: Compared to one year ago, how do you feel about your company's situation and its growth options?



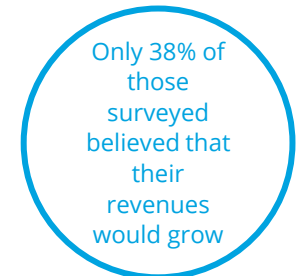
Source: Deloitte Israel survey – business leaders

Figure 2c: Do you seriously consider widespread layoffs and cost reductions for your company this year?



Source: Deloitte Israel survey – business leaders

Figure 2d: How are revenues for your company expected to change over the next year?



Business Leader Outlook

Business risks: Business leaders believe that global recession and political uncertainty are the most likely risks to businesses in 2023

From a macro perspective, business leaders assume that the most likely risks to Israel businesses over the next year include global recession and geopolitical tension (figure 3a).

Whilst some steps have been taken by responders to try and mitigate these risks, most business leaders are not confident that they are fully immune to the impact.

Risks such as climate change are deemed less of a priority and business leaders do not appear to be taking this longer-term threat as seriously as more immediately pressing issues.

In respect of more localized risks, issues such as talent migration, which was particularly prominent in 2021 appear to have receded, with business leaders believing this to be less of an issue than the cost-of-living crisis, low consumer confidence and corruption (figure 3.b).

Most responders were of the opinion that political uncertainty remained the single most likely risk to their business. This has recently been illustrated through highly publicized instances of investors threatening to withdraw funding in Israeli businesses in response to the current political environment.

Figure 3a: Macro risks by likelihood and preparedness

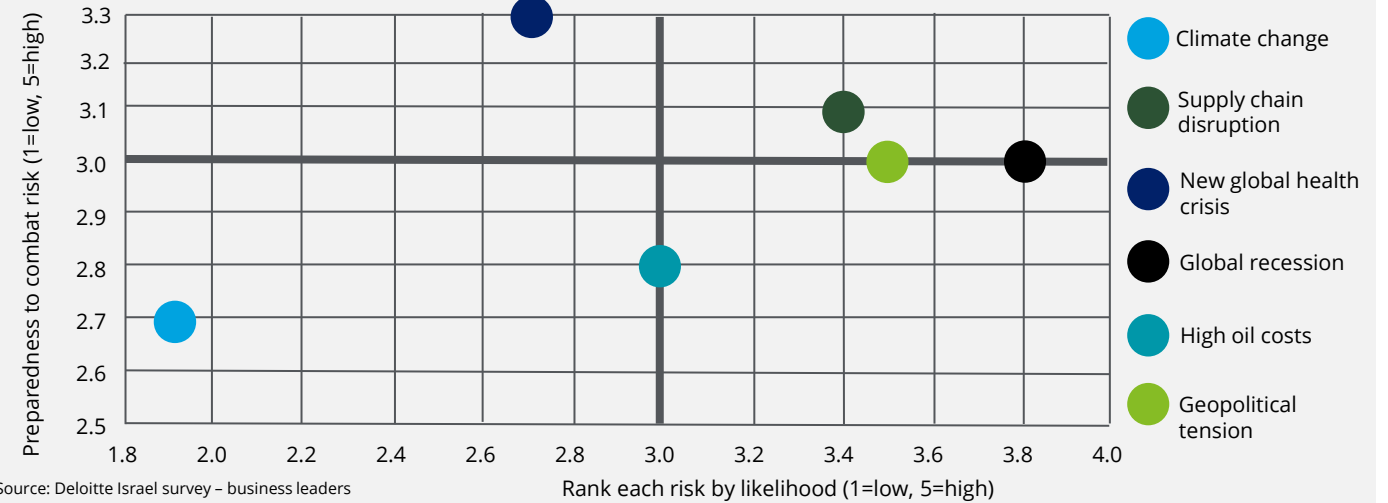
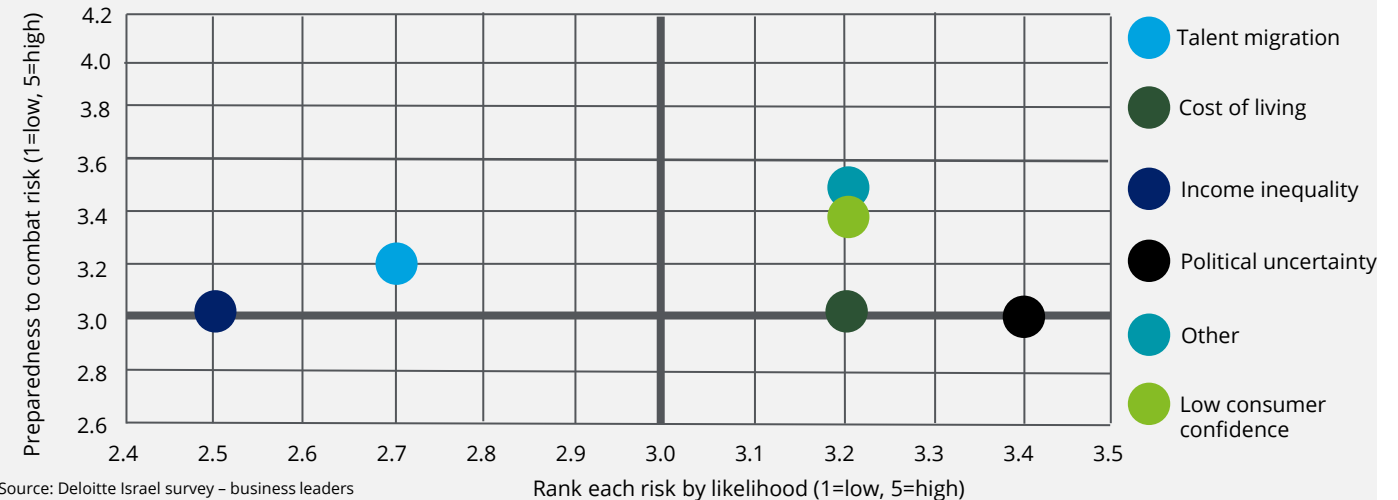


Figure 3b: Localized risks by likelihood and preparedness



M&A Outlook

M&A outlook: Whilst corporates are primarily focusing on defensive M&A strategies, investors appear committed to more offensive plays

Nearly half of all business leaders expressed some inclination to pursue M&A activity during 2023 (figure 4a). This is hardly surprising considering that defensive M&A strategies (including divestitures / synergy deals) are becoming an increasingly important weapon in a company's arsenal to build resilience, safeguard market positioning and/or ensure agility to ward off marketplace threats.

By contrast with previous years, only 4% of business leaders expressed an interest in some form of disruptive M&A (an offensive M&A strategy to disrupt the market) with over

half of respondents preferring to focus on acquisition of similar activities (figure 4c). Around 70% of investors responded that they would participate in M&A activity during 2023 (figure 4b) and 20% of those polled were interested in diversifying their portfolio (figure 4c).

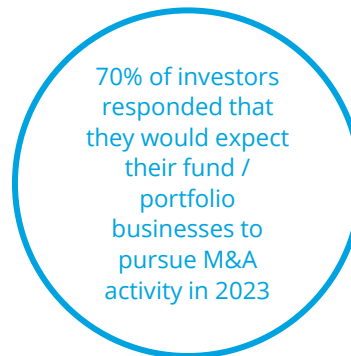
Based on the business leaders and investors surveyed, a significant proportion of deals would likely be funded directly through cash reserves (figure 4d), suggesting that both corporates and investors have significant levels of dry powder and await the right opportunity to present itself.

Figure 4a: Will you actively pursue M&A in the next year?



Source: Deloitte Israel survey – business leaders

Figure 4b: Will you actively pursue M&A in the next year?



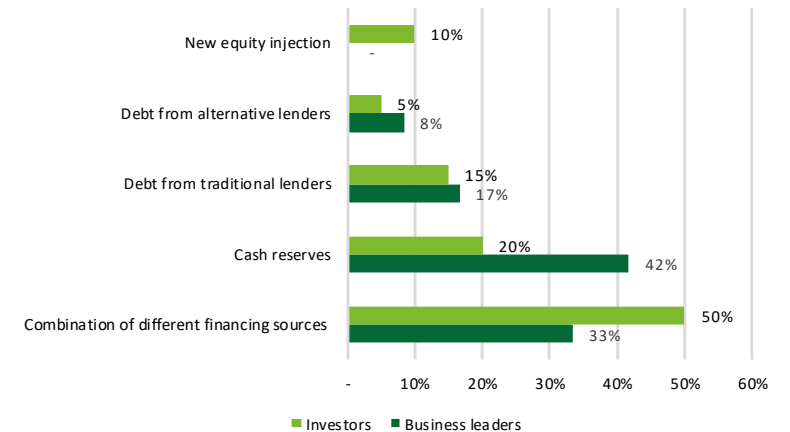
Source: Deloitte Israel survey – investors

Figure 4c: To the extent you will pursue a deal, what type of deal are you most interested in?



Source: Deloitte Israel survey – business leaders and investors

Figure 4d: How do you anticipate financing any potential acquisition?



Source: Deloitte Israel survey – business leaders and investors

M&A Outlook

Successful M&A: Business leaders believe that due diligence and strong execution are key to implementing a successful M&A deal

Based on a Deloitte survey conducted in 2022, corporates and investors place higher emphasis on processes at the start of the M&A journey (e.g., strategy, board involvement and deal valuation) than those at the end of the of the journey such as post merger integration and close planning (see Deloitte M&A survey report 2022).

However, our findings demonstrate that in Israel, business leaders value the later stages of the deal journey (primarily the diligence phases) above the planning phases (**figure 5a**).

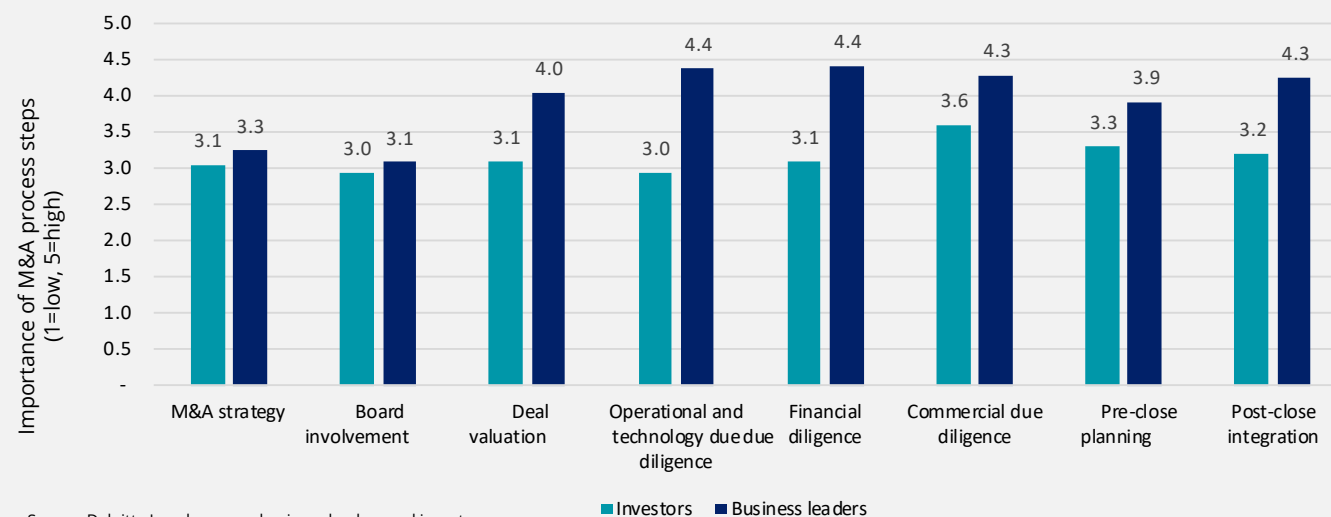
This aligns with the local deal dynamics, as a significant proportion of buyers of Israel companies are cross-border and for such transactions where there may be cultural barriers between parties, the execution and diligence ('getting-to-know-you') phase is likely to be critical in order to ensure a successful deal outcome.

Additionally, for localized deals (whereby an Israeli company is acquiring another Israeli entity), ensuring a robust diligence and execution approach is likely more important than undertaking a wider strategic assessment, as the local market mapping will largely be familiar owing to the limited size of the marketplace.

Based on the survey results, it also appears that investors value all elements of the M&A journey on a broadly equal basis, without giving specific credence to the identification, diligence or execution phases.

However, based on our experience, whereas investors in Israel typically utilise due diligence specialists to provide additional deal value, a significant proportion of the strategic assessment and deal valuation together with post close workstreams are performed in-house.

Figure 5a: Assign a value to each of the following by its importance in implementing a successful M&A deal



Source: Deloitte Israel survey - business leaders and investors

Divestiture and Restructuring

Divestitures: Increasing interest in divestitures but execution remains challenging and dependent on strong preparation

The Deloitte 2022 Global Divestiture Survey suggests that divestitures are being increasingly deployed, not only as an efficient method to divest non-core operations but also to respond to changes in the market landscape. In Israel, this trend was also reflected, with over 50% of business leaders considering a divestiture over the last year (figure 6b).

Based on the global survey, few companies (18% of those surveyed) have been able to get the best outcomes across the board, completing divestitures not just at the highest valuation but also quickly and with less disruption. By contrast, nearly a third of the survey cohort reported broadly poor outcomes,

receiving lower values, higher disruption and a longer timeframe than anticipated (figure 6a).

More frequent reviews of the business mix, part of being a prepared seller, correlated with higher deal values. Among the small group (10%) that do reviews most often, 71% also report that they achieved a higher value than expected on their last divestiture (figure 6c). This could indicate active reviewers are more attuned to the current market dynamics and may be able to move more quickly to take advantage of conditions most ideal for their specific divestiture.

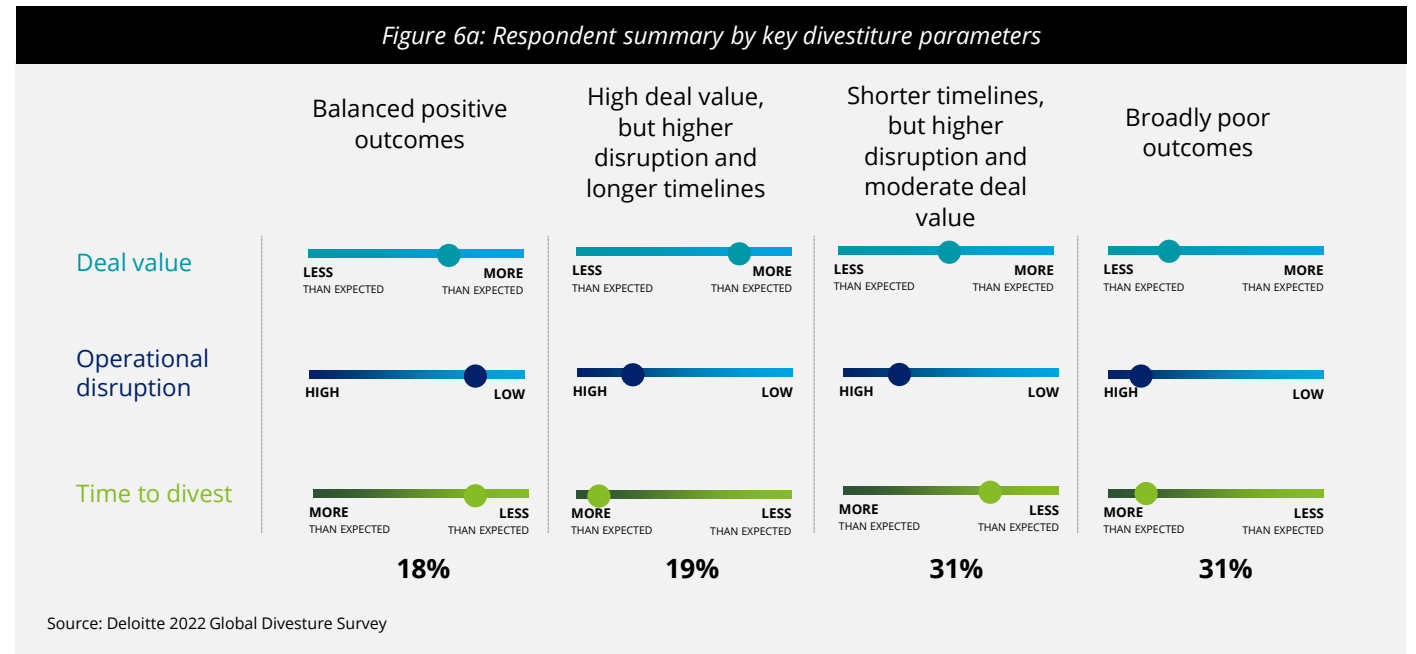
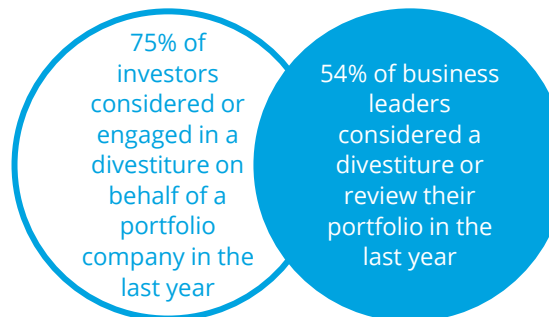
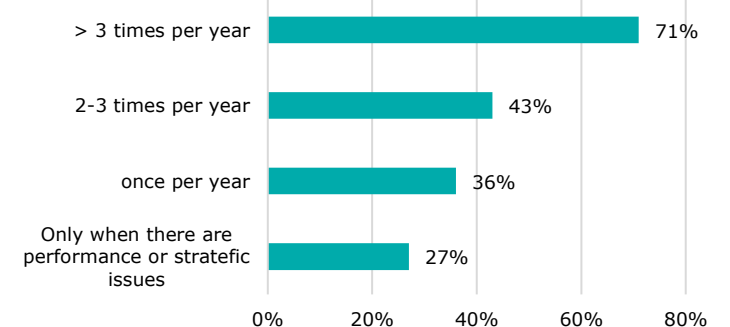


Figure 6b: Did you engage in or consider a divestiture in the last year?



Source: Deloitte Israel survey – business leaders and investors

Figure 6c: Correlation between frequency of portfolio evaluation and value achieved



Source: Deloitte 2022 Global Divestiture Survey

Divestiture and Restructuring

Restructuring: Stress indicators are valued differently by business leaders and sponsors, potentially resulting in priority misalignment

Against the current backdrop of market volatility, increased interest rates and commodity price rises, it seems inevitable that certain companies will face increased levels of financial stress and liquidity pressure.

When asked to rank the top indicators of exposure to financial stress, there was a clear divergence of priorities between business leaders and their sponsors/lenders (**figure 7a**). Whilst negative closing cash was a high indicator for all groups, business leaders also placed a strong emphasis on P&L trends, such as changes to revenue and net profit margin erosion. By contrast, investors and lenders were more focused on cash flow metrics.

We also surveyed the main tools a CEO should consider using when his company enters financial distress (**figure 7b**). There appeared to be a broad consensus across participants that experience and reliance on the management team would be the key levers for such a CEO. The value of consulting with the board or advisors was underplayed by almost all respondents, but noting the changes in local legislation that can hold directors / management liable for company failings should encourage the engagement of independent expert advisors to support a turnaround.

Figure 7a: Rank in order the top 3 indicators of exposure to financial stress

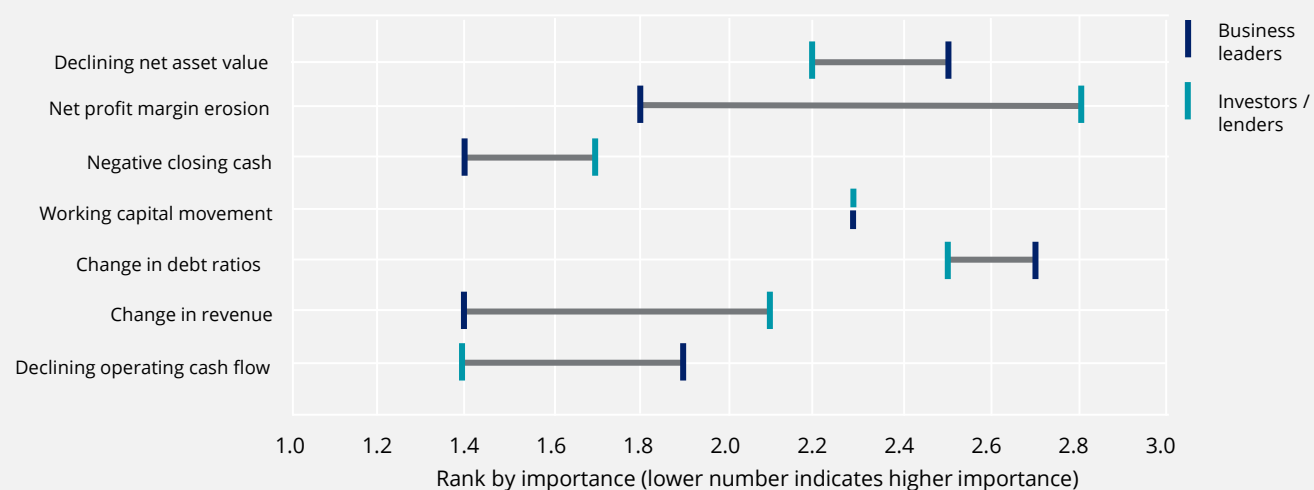
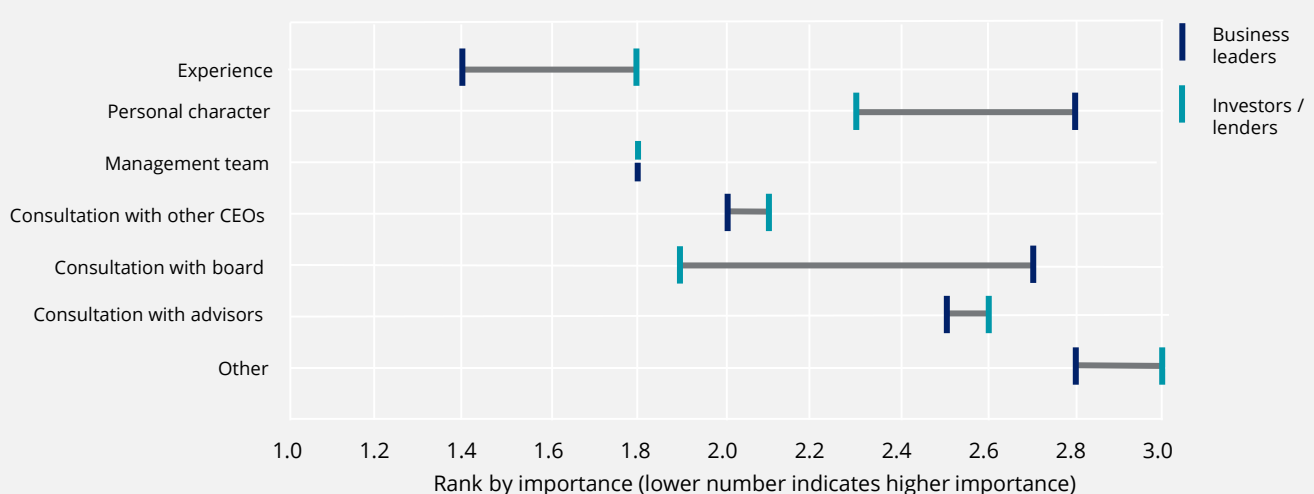


Figure 7b: Rank in order the main tools a CEO should use when his company enters financial distress



Survey methodology

The business leader and investor survey is an annual survey of C-suite / management, investors and lenders conducted across Israel.

Survey responses were collected between 10 January 2023 and 7 February 2023.

The survey questions were tailored to stakeholder groups. As a result, sample size varies by question, but we ensured that the response rate per question was sufficient before including it in the findings.





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