THE LAWYER

Law in Israel: moving beyond tech

Automotive and energy developments are joining technology as drivers of the Israeli economy.

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The tech sector has been important to Israel for years and it still is, but the country's economy is thriving in other ways. A panel of experts talked to The Lawyer about the latest developments in the market.

What has M&A activity been like in Israel so far this year and how do you see it shaping up for 2018?

Eli Greenbaum, partner, Yigal Arnon & Co: This past year was another strong year for M&A activity in Israel. Although Israel did not see a definite increase in transaction number or value, certain transactions proved to be exceptional. Intel's 2017 acquisition of the Jerusalem-based Mobileye for $15.3bn was the largest technology transaction in Israel's history. Mexichem also purchased control of the Israeli drip irrigation company Netafim, at a company value that media reports put at approximately $1.9bn.

Yair Geva, head of hi-tech, Herzog Fox & Neeman: Although it is still early in the year, we have seen an increase in M&A activity during the first two months of 2018. We also involved in several significant public and private M&A transactions that are close to signing in the finance, tech and biotech space. If these deals are indicative of what to expect during the rest of the year, then 2018 will be an extremely busy year from an M&A perspective.

Greenbaum: As the biggest players on the M&A scene in Israel have traditionally been United States companies, there is some speculation as to how recent United States tax reforms will affect American overseas investments. That being said, a number of recent regulatory reforms in Israel have been aimed at making Israel more attractive to foreign businesses. The Israel Tax Authority has significantly lowered corporate income tax rates on royalties from, and certain sales of, intellectual property. The Israel Antitrust Authority has also recently proposed to raise the threshold required for merger approval, easing the regulatory burden for smaller transactions. The authorities continue to make efforts to attract foreign investment, especially in the technology sector which has been a driving force of the Israeli economy over the past two decades.

A big story of recent years has been increased Chinese investment in Israel. What makes Israel so attractive to China and do you believe it is a trend that is set to continue?

Ezra Gross, partner, Yigal Arnon & Co: In recent years, Israel has seen a growing wave of Chinese companies interested in investment opportunities in Israel. This interest seems to have been focused on acquiring strategic intellectual property. For example, ChemChina recently acquired 100 per cent control in Adama, an Israeli global agriculture chemical company. Even so, investment from China has slowed since the Chinese government tightened currency controls. However, the recent liberalisation of such regulations for investment in industries that promote technological development seems to have reinvigorated Chinese interest in Israeli companies.

Geva: We have also seen increasing interest from Chinese companies in infrastructure transactions in the last few years and we expect this to continue, with a number of large projects being offered for tender in Israel in 2018 and 2019 – including a number of light-rail projects in which Chinese rail manufacturing and operating companies are expected to be involved. This seems to reflect a global (or at least regional trend) of Chinese involvement in infrastructure projects outside of China.

Another big story has been the country's success in the hi-tech sector. What have been the key developments in this sector in the last year, and what is coming up in the near future?

Geva: The hi-tech sector is definitely one of the key drivers of the Israeli economy. 2017 was a record year for M&A and investments in this sector, and not only due to the acquisition of Mobileye by Intel. While the cyber sector has cooled down to a certain extent, several local companies are emerging as global cyber security leaders – for instance, Checkmarx Ltd. the Tel Aviv-based source-code analytics company.

Other sectors, such as the automotive space, AI and machine learning, and digital health, are all performing extremely well. I believe that these sectors, together with blockchain technologies and specifically fintech applications of such technology will attract investments and potentially mature to M&A.

Gross: There is real appreciation in Israeli culture for innovation, and the government is committed to encouraging technological entrepreneurship. As a result, the Israeli technology ecosystem seems to quickly adapt to, and often lead, in cutting edge fields. Although in the past Israel has had precious little experience in the automotive industry, the Mobileye transaction has made Israel a world leader in the field of autonomous vehicles. Israel is also a world leader in cybersecurity, receiving 20 per cent of global investments in that field.

Aside from tech, are there any other trends emerging in the market? What are the new opportunities on the horizon?

Gross: Another fascinating development in recent years has been in the energy sector. Although historically Israel has only been an importer of gas, recent major development of Israel's natural gas resources has revitalised the industry. Following the Petroleum Commission's approval in 2016, the partners in the Leviathan natural gas field approved a development plan that aims to reach first gas by the end of 2019. This was the largest energy project in Israel's history with a US $3.75bn investment in its first phase. A tender for oil and gas exploration in Israel's offshore exclusive economic zone was published in November 2016.

This and the sale of existing gas fields may spur new development and potential exploration, significantly expanding the Israeli natural gas sector.

Geva: The biotech and pharma spaces continue to grow exponentially in Israel. The IPO and subsequent $12bn acquisition of Kite Pharmaceutical by Gilead in 2017 have contributed to the confidence and appetite of investors in these fields.

Another trend to consider is the disruption that new technologies will bring to traditional sectors such as banking and commerce. Blockchain and other distributed ledger technologies will continue to push evolution and even revolution in these and other sectors, and we will see ongoing efforts by players, regulators and courts to keep up with these developments.

What are the main challenges facing Israeli firms and the Israeli legal market this year?

Greenbaum: The main challenges facing Israeli law firms are similar to those facing law firms worldwide. Law firms in Israel face increasing competition but at the same time there is the consistent development of exciting new fields, such as cybersecurity and block-chain, which require firms to be fully conversant, and remain ahead of the game, with all proposed legal, regulatory and technological developments.

Geva: I think that Israeli firms will need to start adapting to take into account new technologies and tools that will allow them to provide the same level of service in a more time and cost-effective manner. Whether this is by adopting new legal-tech tools or moving away from the pure ‘hourly rate’ basis for fee arrangements with clients, the fact is that increased competition and other changes in the market will force firms to evolve.

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