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Q&A- Israel's geopolitical instabilities and economic performance uncorrelated; fintech, cybersecurity are hot areas of investment: Efraim Chalamish, Kroll

Israel's varied geopolitical uncertainties and risks have had little impact on the local economy and the investor class eyeing the market, **Efraim Chalamish, head of Kroll's Israel practice and Kroll Institute Fellow,** told the Reuters Global Markets Forum on Tuesday, July 6.

He added record inflows into Israel's markets have been driven by liquidity in local and global private markets with areas like cybersecurity, fintech, enterprise software and biotech/medical devices having drawn investors' appeal in the first half of 2021, evidence of what he says is Israel's competitive advantage "in a decentralized world, driven by remote solutions".

Chalamish also said that U.S. President Joe Biden's infrastructure bill will boost the market for renewable energy and many investors have been seeking Kroll's advice in capitalizing on this opportunity.

Following are edited excerpts from the conversation:

Q: What's the outlook for Israel's business sector with the new government taking power?

A: The business sector has been growing strong over the last couple of months due to record local and foreign private investments in technology and other sectors regardless of the political transition. The fact that the new government is expected to finally approve a new budget and work on the fiscal deficit will improve the macro environment for the business sector even more. Most market players predict that the market will grow above most OECD (Organisation for Economic Co-operation and Development) members this year, which is very significant, taking into account the uncertainties around COVID-19 moving forward.

Q: What's leading to these record inflows into Israel, especially considering recent months' geopolitical risks?

A: Historically, and also now, there is a distinction between local/regional geopolitical escalations and economic performance. The record inflows are driven by the unique technologies, liquidity in local and international private markets, and the fact that the Israeli market is moving quickly from a start-up mode to a major global player in building larger companies, and many investors would like to be part of this unique story. The recent fights in the region have (had) very little impact on investors' perceptions.

Q: Which are the hottest areas and start-ups in Israel right now?

A: The leading sectors are cyber (Israel's is still one of the world leaders in this area), fintech, enterprise software and biotech/medical devices. This past year showed the competitive advantage of the Israeli market in a decentralized world, driven by remote solutions. Of course, COVID-19 crisis led to record investments in life sciences, where Israel has been leading for many years. On the more traditional industries, food security and water solutions are always part of the local and regional growth.

Q: Special purpose acquisition companies (SPACs) have been one of the ways Israeli companies listed on Wall Street. The SPAC wave has wobbled in recent months. What's the outlook for this path of going public and could Israeli companies in future prefer direct listings or IPOs?

A: Many Israeli companies have been an ideal target for SPACs, as the SPACs space liked disruptive and innovative technologies. Several Israeli companies used the SPAC model to go public. Yet, the recent slowdown in the market made many Israeli companies think twice and explore more traditional IPO model and M&A (mergers and acquisitions). In fact, the Israeli government recently approved a SPAC-like model in the Israeli market, which means that several Israeli companies may eventually decide to go public in the local market – TASE (Tel Aviv Stock Exchange) -- in order to take advantage of this unique structure.

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Q: Is that a similar listing model as Teva Pharmaceutical Industries i.e. multiple listings? Also, what're the key differences between the TASE's SPAC framework and that of U.S. markets?

A: These are two separate but connected issues. Traditionally, Israeli companies, especially technology companies, were dual listed in both the Israeli and U.S. markets. It allowed them to stay connected to the Israeli economy/HQ (headquarters), while being part of global capital markets. This trend may continue, especially since the Tel Aviv exchange is becoming more liquid and sophisticated. On the SPAC issue, this is a new format for Israeli companies to go public locally in addition to the traditional IPO path.

In general, regarding the new local reform, Israeli regulations require a minimum of 70% participation by institutional investors and require SPAC sponsors to put in at least $12 million of their own money. Additionally, investors who later vote against acquiring the target company will be able to get their money back.

Q: What're your views on the energy issues in the region (given high oil prices) and how are they likely to evolve over time?

A: The energy story in the region is indeed a fascinating one as thing(s) change very quickly. While many local and regional energy firms are working hard to diversify and pursue green energy investments, there are still only a few firms that provide energy for basic needs in the region. The blackouts in Jordan and Egypt, and the crisis in Lebanon, always remind us the importance of energy security in the region. The Abraham Accords provide us with new opportunities, and a UAE firm, backed by the government, recently invested in Israel's major gas project. It has strategic and financial goals, taking into account the current market conditions you described. Also, major international companies, like Chevron Corp, recently penetrated the market by acquiring local and regional firms.

Q: There's been reported interest by Israeli energy and infrastructure companies in the U.S. energy market. Could you please tell us about this and the outlook for this sector considering the Biden administration's energy policy?

A: Israeli companies, including public holding groups in energy and infrastructure, started to invest extensively in the U.S. in recent years as they saw the growth in renewable energy and infrastructure. Many of them buy assets directly, preferably in development as they are looking for higher returns, or they look for a platform solution, where acquiring a local firm will allow them to use that platform to buy several assets and manage the U.S. market in a more centralized way.

Firms like OPC Energy announced such transactions recently. The Biden infrastructure plan will give a huge boost to this strategy and we already see at Kroll and other institutions inquiries from companies about ways for them to collaborate with projects that are driven by this plan.

Q: What's led to some Gulf nations' geopolitical outlook toward Israel changing and is this set to continue?

A: Many Gulf states realized that the Arab world and Israel have much more in common, from religion to commerce to culture. They, like Israel, wanted to focus on common ground and advance the region's economies and regional security. The process has been supported by the U.S. administration. This trend will continue and as we saw last week with the official Israeli visit to UAE the new Israeli government will continue and support it.

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