



"Israel has more unicorns than all of Europe"



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Investment banker Edouard Cukierman: If you're a SPAC that needs an acquisition target, you look in Israel.

The SPAC trend has made many people much busier, and one of them is Edouard Cukierman, chairman of **Cukierman & Co. Investment House Ltd.** and managing partner of venture capital firm **Catalyst Investments**. Cukierman is involved in the phenomenon wearing both his hats, as an investor and as a banker.

Two Catalyst portfolio companies have already announced mergers into SPAC companies: **Taboola**, the content recommendations company founded and run by Adam Singolda, is merging with ION Acquisition Corp. 1 Ltd. at a valuation of \$2.6 billion; and **Arbe Robotics**, an autotech company founded and run by Kobi Marenko, is merging with Industrial Tech Acquisitions at a valuation of \$600 million.

Talking to "Globes", Cukierman says that there are more Catalyst portfolio companies in the sights of SPACs.

"There are many companies in our portfolio, and customers of our investment bank who are interested, and we are active in this matter."

SPACs (special purpose acquisition companies) are companies with no activity that raise money on a stock exchange with the aim of acquiring an existing company within a certain period of time. In the past year, offerings by SPACs on Wall Street have reached a peak, which means that there are many companies with large amounts of cash looking for acquisition targets, including in Israel. Several Israeli technology companies have announced take-overs by SPACs. Their aggregate value is over \$40 billion.

"There's an interesting phenomenon here, since at the moment there are sixty companies in Israel that have become unicorns (privately-held companies valued at over \$1 billion - Sh. H.-V.) If we make a comparison with Europe, in the UK there are twenty-seven, in Germany nine, in France seven, and in the Netherlands four. The number of unicorns in the whole of Europe is not close to the number in Israel.," says Cukierman.

This, he says, is the draw for so many SPACs looking for local companies here. "To attract leading investment bankers, you need a valuation of over \$1 billion. If you're a SPAC and need to identify an acquisition target, and have to choose between any country in Europe and Israel, you'll look in Israel. There's a very large response on the part of international companies. Some of them send representatives physically. Israel has a reputation for investment by funds in technology, the number of unicorns rises every year, and that makes Israel a target for all the SPACs."

Cash rich Israeli startups risk the 'foie gras' effect

The foreign SPACs have been joined in recent months by several SPACs headed by Israelis that define the Israeli technology market as their target. How much effect does that have?

"We have done one deal with an Israeli sponsor, ION (which, as mentioned, is merging with Taboola, Sh. H.-V.). I know very many foreign entities that very explicitly define Israel as their target. For example, we are currently advising a SPAC that raised \$300 million and that defined Europe and Israel as target markets, and we presume with a high degree of probability that they will buy an Israeli company."

Cukierman serves as chairman of Cukierman & Co. Investment House, which provides investment banking services, among other things for mergers and acquisition and for flotations on foreign stock exchanges. He also leads private equity firm Catalyst, which he founded together with Yair Shamir and Boaz Harel in 1999, and which has over \$300 million under management.

"Catalyst invests in mature companies, unlike venture capital funds that mostly invest in fairly young companies, and that gives us exposure to many companies about to be floated or merged into a SPAC," Cukierman says. According to him, other firms, that invest at earlier stages, are liable to encounter a problem in the current situation, since the exit is delayed. "The fact that there are so many unicorns is because of the fact that there is a great deal of money at the growth stages, which was not the case twenty years ago. Today, there are sufficient resources for companies to reach the critical mass of a \$1 billion valuation.

"In the past, companies would be floated under age ten on average. Today, it takes sixteen years from initial funding to exit. The problem with this phenomenon is that funds that invest in early rounds, even if they have good portfolio companies, do not manage to realize their exit before the fund closes and do not manage to raise continuation funds.

"If, in the past," Cukierman adds, "the IPO process was the highway for Israeli companies that wanted to be traded in the US, since the beginning of this year the vast majority of companies that have announced a stock market listing did it via a SPAC. This has become standard. The indication to know whether the deal will succeed is the fundraising in advance of the merger. That way, the startup company being merged knows that it has enough cash even if some of the shareholders in the SPAC decide that they're 'not buying the gods' and don't participate in the merger. That's a very great advantage."

The valuation for companies merging with SPACs are constantly growing. Is this a bubble?

"The market sets the price, not us. There's high volatility in company share prices on Nasdaq. The valuation for Arbe in the deal is very reasonable. We received higher offers, but I liked the approach of the CEO, Kobi, that what matters is not the price or the valuation at the time of the flotation, but in the long term; especially when the holdings of all the existing shareholders are vested for at least a year, so you don't sell in a hurry. The future price is what matters, and it depends on the company's economic foundations. The approach is that the investors should make money in the future."

If there are several SPACs courting a company, how do you choose the right one?

"The background of whoever set up the SPAC is important, their knowledge and experience, the chemistry. Not every US entity is prepared to do international deals, because it's harder to go there physically. In this context, I very much hope that there will be a change in Israel's entry policy: technology is the Israeli economy's growth engine, and if we don't allow international investors to come here, we are cutting the branch we're sitting on, and that will harm the entire Israeli economy. I don't think that this consideration has been taken into account in the decision making. All in all, I'm very optimistic about the economy's direction, but there has to be a response to the problem of how people from overseas can come to Israel for business purposes."

Is the closed skies policy undermining deals?

"Certainly. The basis of a deal is the relationship of trust built between investor and entrepreneur, so what happens if we don't let an investor come here to build trust? It's true that it's possible to meet on Zoom as well, but there's nothing like a visit to the territory and seeing the dynamic."

How do you see the future of SPACs in Israel?

"I can't assess how the capital market will develop, but there are sixty unicorns in Israel, and the number grows by the week. In practice, we'll see very many companies preferring to go to SPACs rather than make an IPO."

"In the past, it was easy to float a company at a valuation of \$100-200 million. Today, in order to attract leading investment bankers, you need to be approaching \$1 billion. At the beginning of the 2000s, there were many banks dealing in IPOs. Almost all the players have disappeared, and it's mainly big players like JP Morgan, Goldman Sachs, Citi, and Jefferies that remain active in the Israeli market. They look for billion dollar deals, so the unicorns are a focus of attraction not just for SPACs but also for the banks. In addition, the market trend is very favorable to the world of technology, and although there has been a degree of correction, it still grew exceptionally in the pandemic period."

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