



Houlihan Lokey

Portfolio Valuation and Fund Advisory Services

# Growth Equity Valuation Israel Snapshot

MARKET UPDATE **FALL 2022**



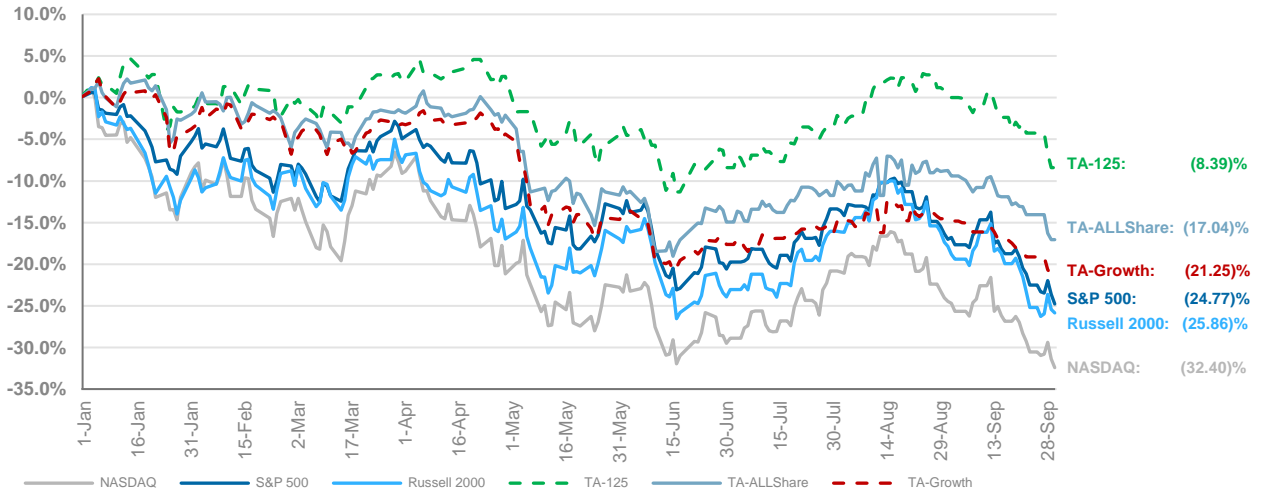
# Houlihan Lokey's Growth Equity Valuation Snapshot

## Fall 2022

Houlihan Lokey is pleased to present a summary of Israeli growth equity observations from its valuation professionals based on real-time market and valuation insights.

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### Benchmark Performance Since Beginning of 2022

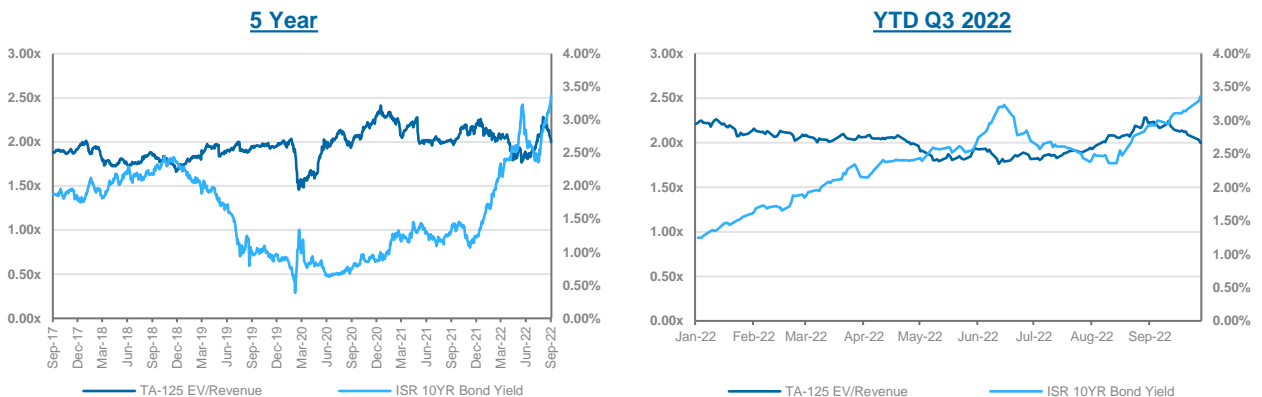


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### Multiple Compression

- Since 2020, Israel's money supply has increased ~45%, with the Bank of Israel's balance sheet growing from ILS ~440 billion to ILS ~800 billion. On October 3, 2022, the Monetary Committee increased the interest rate by 75 bps to 2.75%.
- The EV/Revenue Multiple of the TA-125 Composite Index spiked at ~2.41x in January 2021, ending the year at ~2.20x before falling ~10% to ~2.00x by the end of September 2022.
- Investments in growth-oriented businesses or those with long-term cash flow potential run the risk of increasing interest rates, as profitability may be years away. Generally speaking, discounting a longer-dated stream of cash flows at a higher discount rate can materially impact valuation multiples.

#### TA-125 EV/Revenue vs. Israel 10-Year Bond Yield



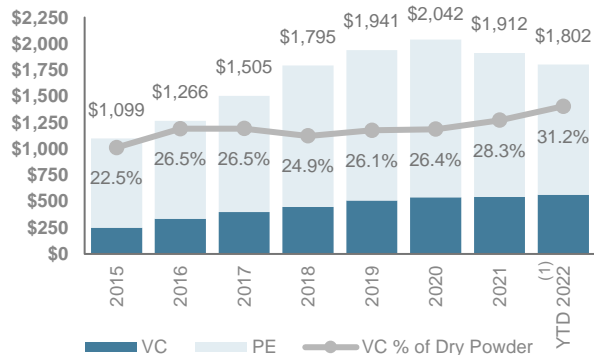
Note: EV refers to Enterprise Value.  
Sources: S&P Capital IQ, Bank of Israel.

# Houlihan Lokey's Growth Equity Valuation Snapshot

## Fall 2022 (cont.)

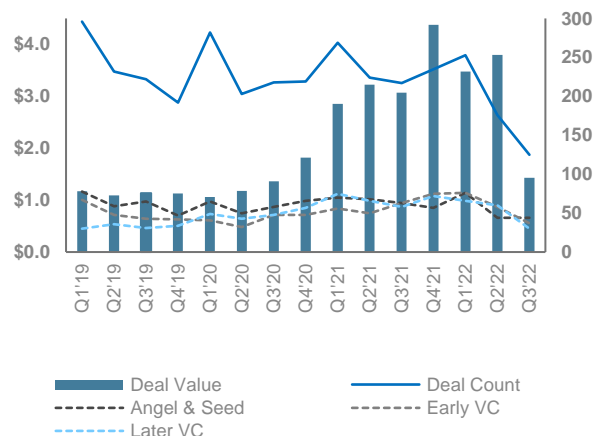
### 3 Funding Reports

#### Global Dry Powder (\$B)



Source: PitchBook.  
(1) As of 6/30/2022.

#### Venture Financing in Israel (\$B)



### 4 NAV Support and Valuation Considerations

#### Downside Protection

- Understanding the various terms and features attached to each security class in a company's capital structure is essential to security valuation. Seniority, liquidation preferences, dividends, ratchets, conversion ratios, and other variables are highly impactful economic features that provide downside protection.
- Common best-practice private valuation methods include valuing stock on a common stock equivalent, or an as-converted basis (the typical post-money valuation method observed in public press releases) and a waterfall basis (which can also apply option pricing methodology). The two methods often produce materially different results, which is why it is important to understand the various downside protections and equity distribution waterfall. If an asset is materially impaired or has underperformed since last-round valuation (LRV), the waterfall approach will often reflect higher security values for senior classes vs. junior classes due to the downside protections. For instance, current per share valuations of prior secondary purchases of junior shares at primary round prices (a common occurrence in 2021) will often diverge from that of senior primary classes due to the seniority and waterfall features.
- Additionally, expectations around IPO vs. M&A may have shifted due to current macro environment concerns, so common stock equivalent approaches may not be as appropriate as they were at LRV.

#### Performance: Portfolio Company vs. Market

- Calibrating against representative metrics at LRV can be helpful for valuation support: What is the portfolio company's over/underperformance vs. underwriting forecasts? Did the portfolio company beat its budget? How have the unit economics changed since LRV? How does the portfolio company's YTD YoY growth benchmark against public comparable companies?
- Public comparable companies can be highly informative in making market-based valuation adjustments. However, there may not be a 1:1 correlation with private company valuations. Have public comparable companies' enterprise or market values deteriorated since LRV? Are certain public companies more comparable than others due to end customers, end markets, or country of operations? How does the portfolio company benchmark against growth, margin, and size to the overall public comparable set?
- It is critical to assess cash runway and burn in bear markets. Will the portfolio company need to raise additional capital at unfavorable terms in the near term?

#### Income Approach


- Utilizing a discounted cash flow analysis with updated forecasts (reflective of current macro and inflationary expectations) and revised weighted average cost of capital (WACC) assumptions can be considered to corroborate portfolio company value.


#### Secondary Transactions

- Recent secondary transactions may also be weighed in valuation, with particular consideration to price, size, security class, recency, and circumstances pertaining to the buyer(s) and/or seller(s).


# Houlihan Lokey's Growth Equity Expertise

Houlihan Lokey has a successful track record and robust experience in assisting its clients—including private equity, venture capital, hedge fund, sovereign wealth fund, and family office—with ongoing portfolio valuation work and fund-related transactions.


 We have deep **valuation expertise** in investment, NAV reporting, and fund-related transaction matters.


 We advise **boards of directors and valuation committees** as they navigate audit review, regulatory challenges, and new fund formations, including valuation policy and procedures.

 We value large portfolios of **highly structured, venture-backed “unicorn”** investments for various investors across the globe.

 Our industry-leading Fund Opinions practice provides valuation and fairness opinions to many **financial sponsors** annually in connection with cross-fund, spin-out, and other conflict-of-interest transactions.

 Our Capital Markets team has **substantive private placement experience in structuring and raising capital** with leading industry participants in growth and structured equity.

 Our valuation practice has deep technical expertise and market presence across various industries and asset classes. This is further enhanced with access to **the firm's dedicated industry groups in the investment banking practice**, which provides an unmatched level of expertise and transaction experience to inform the valuation process.

 Please reach out to the team below for more information.



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