



***Israeli Military Conflicts and  
their Impact on Investment Markets***

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## Introduction - Israeli Military Conflicts and their Impact on Investment Markets

- We have analyzed the impact of 4 previous Israeli conflicts with a range of both duration and gravity including:
  - 2014 Gaza War - Operation Protective Edge
  - 2008 Gaza War - Operation Cast Lead
  - 2006 Lebanon War
  - The 2nd Intifada (2000)
  
- Our analysis examines the impact on the Tel Aviv Stock Exchange (TASE) as well as strategic transactional activity during and following the respective conflicts
  
- The analysis reveals very strong resilience in the face of such Israeli market shocks, and with the exception of the 2nd Intifada (2000) - which was highly correlated to the dot-com bubble - the impact of historical conflicts on TASE have been minimal with the TASE experiencing single digit or negligible conflict related impacts, and an almost immediate rebound and strong short and long term performance post conflict

### TASE Performance During Selected Previous Israeli Military Conflicts

| Israeli Conflict                | Start Date | Duration in Days | TASE - 125 Index Performance |                            |               | Comment  |
|---------------------------------|------------|------------------|------------------------------|----------------------------|---------------|--|
|                                 |            |                  | Conflict Low % Change        | % Change From Pre-Conflict |               |  |
|                                 |            |                  |                              | 3-Months Post              | 6-Months Post |  |
| 2014 Gaza War - Protective Edge | 7/8/14     | 50               | -1.3%                        | 5.3%                       | 3.7%          |  |
| 2008 Gaza War - Cast Lead       | 12/27/08   | 22               | -0.9%                        | 22.6%                      | 41.8%         | High Correlation to 2008 global financial crisis |
| 2006 Lebanon War                | 7/12/06    | 34               | -8.2%                        | 11.9%                      | 20.4%         |  |
| 2nd Intifada (2000)             | 9/28/00    | 1,594            | -46.2%                       | 22.9%                      | 26.0%         | High Correlation to 2000 dot-com bubble          |

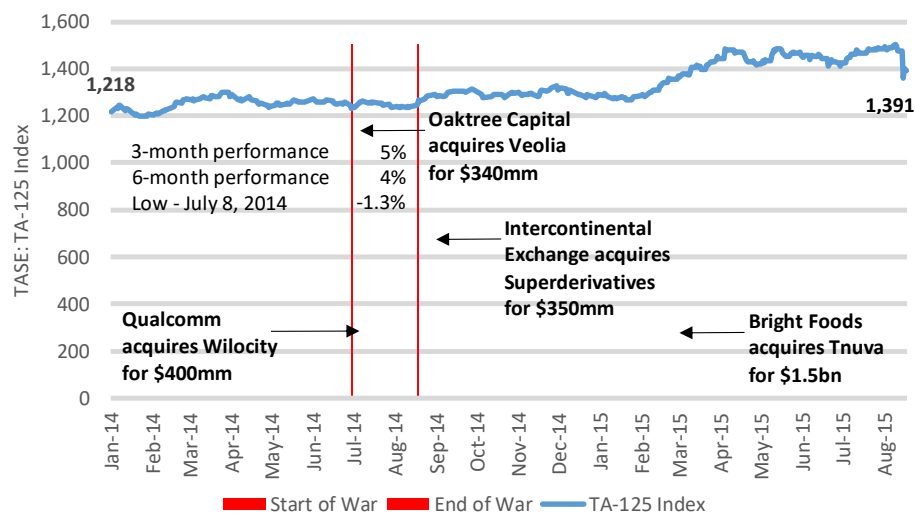
Source: Capital IQ, [www.UNRWA.org](http://www.UNRWA.org)

- It is also noteworthy that throughout historical periods of conflict, there continued to be strategic M&A activity with multinational strategic companies making material acquisitions in Israel during and immediately post conflict

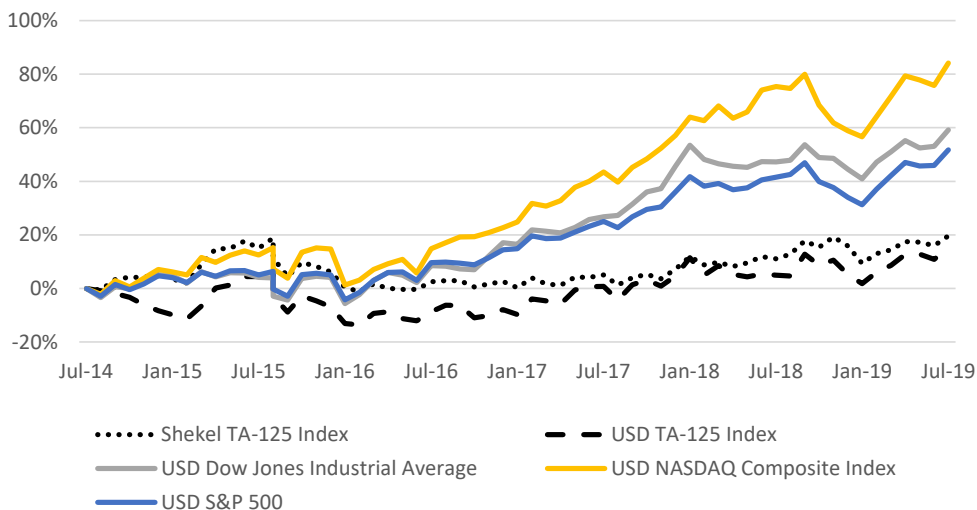
Source: Capital IQ, [www.UNRWA.org](http://www.UNRWA.org)

# 2014 Gaza War – Operation Protective Edge

## TASE Performance - 2014 Gaza War



## TASE Relative Performance - 2014 Gaza War



Source: Capital IQ, www.UNRWA.org

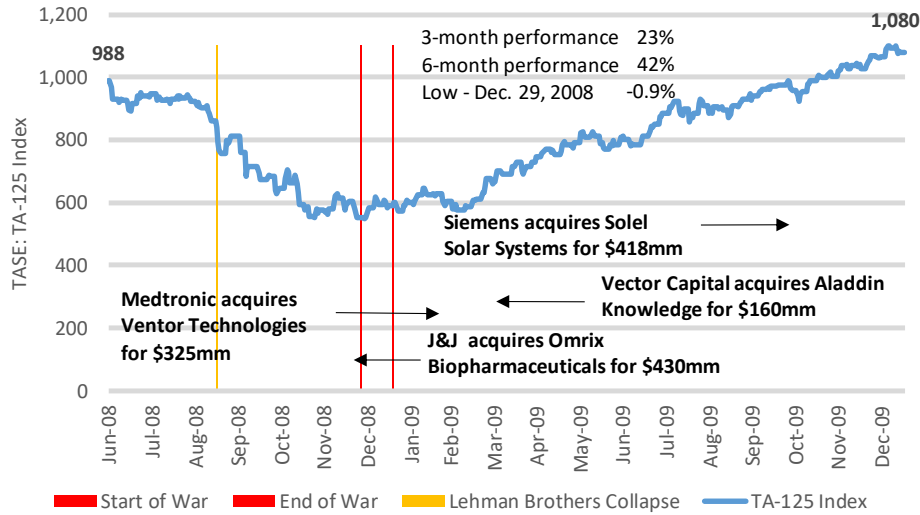
Note: Top exhibit reflects the performance of the TASE from 6 months prior to the breakout of the conflict to 12 months after the end of the conflict; bottom exhibit reflects the 5 year performance from the day prior to the outbreak of the conflict 2014 Gaza War (7/8/2014 – 8/26/2014)

## Commentary

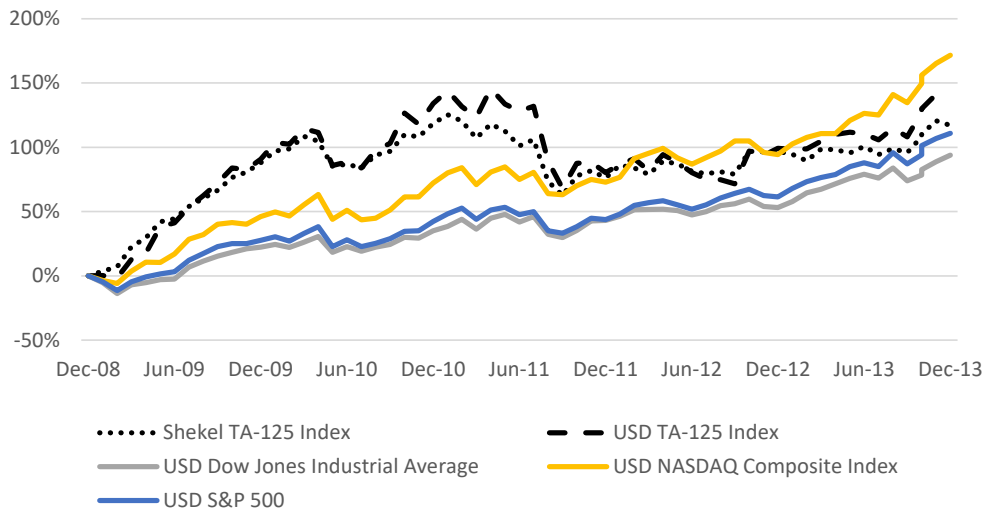
- In response to unceasing missile, rocket and mortar fire on civilian centers in Israel, on July 7, 2014, Israel launched a military operation, codenamed “Operation Protective Edge” (Tzuk Eitan)
- Israel Defense Forces (IDF) targeted strategic Hamas facilities, tunnels, weapons and leadership. The conflict lasted 50 days, with a series of short-lived ceasefires breached by Hamas
- Israel initially attacked Hamas targets by air, however, on July 17, Israel sent ground forces into Gaza for a period of just over two weeks in order to destroy Hamas’s infrastructure, including rocket storage sites and infiltration tunnels which Israel was unable to destroy by aerial attacks. An open-ended cease-fire was reached on August 26
- During the 50-day conflict, 4,700 missiles, rockets and mortars were fired by Hamas and other affiliated terrorist organizations from Gaza into Israeli cities and towns
- The TASE 125 Index dipped only -1.3% on the first day of hostilities its low point during the conflict
- Within 3 months and 6 months from the end of the conflict, the TASE rebounded and was up 5% and 4% respectively from the day prior to the conflict
- With regards to strategic M&A activity, a number acquisitions of Israeli companies by multinational acquirers were announced during the actual war itself, including Oaktree Capital’s \$340 mn acquisition of Veolia Environment Israel, Intercontinental Exchange’s \$350 mn acquisition of SuperDerivatives, Qualcomm’s \$400 mn acquisition of Wilocity and not long afterwards the closing of Bright Food’s \$1.5 bn acquisition of Tnuva

# 2008 Gaza War – Operation Cast Lead

## TASE Performance - 2008 Gaza War



## TASE Relative Performance - 2008 Gaza War



Source: Capital IQ, [www.imeu.org](http://www.imeu.org)

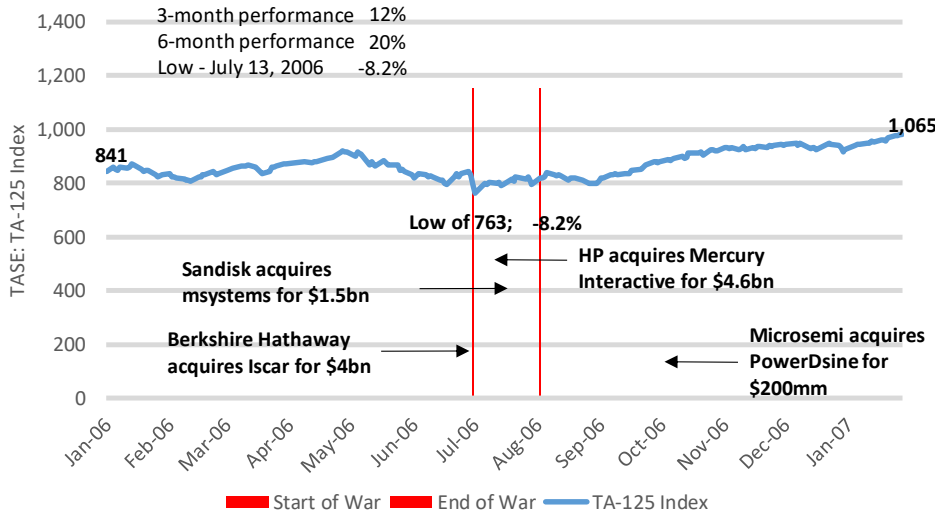
Note: Top exhibit reflects the performance of the TASE from 6 months prior to the breakout of the conflict to 12 months after the end of the conflict; bottom exhibit reflects the 5 year performance from the day prior to the outbreak of the conflict 2008 Gaza War (12/17/2008 – 1/18/2009)

## Commentary

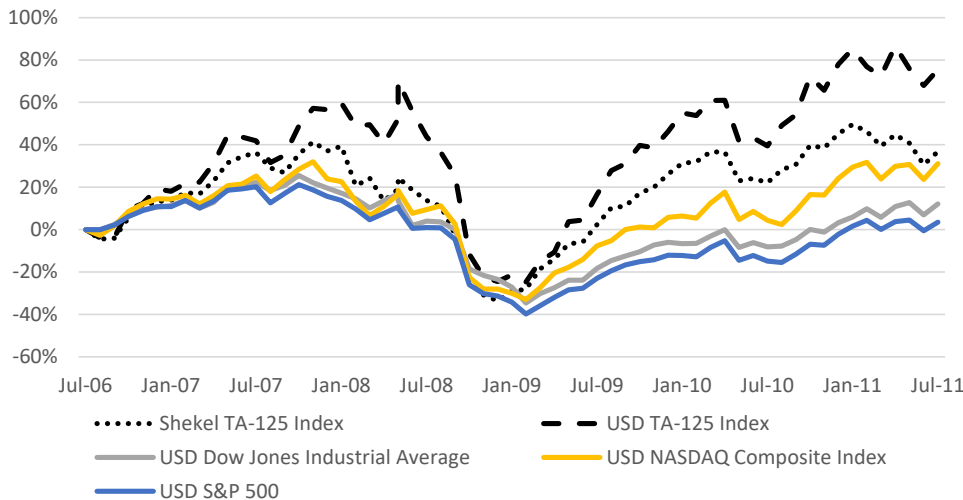
- On December 27, 2008, in response to years of barrages of rockets and missiles launched by Hamas and other terrorist organizations in Gaza, Israel began a ground military operation to act against Hamas and weaken its operational capabilities
- During the three-week operation, Israel's military action targeted the Hamas terrorist infrastructure, including Hamas operational centers, storage depots, workshops, production facilities, smuggling tunnels, rocket launching sites and Hamas gunmen
- During the 22-day conflict and also during 2008 preceding the conflict, more than 3,500 missiles, rockets and mortars were fired by Hamas and other affiliated terrorist organizations from Gaza into Israeli cities and towns
- The TASE 125 Index dipped only -0.9% at its low point during the initial days of the hostilities
- Within 3 months and 6 months from the end of the conflict, the TASE rebounded and was up 23% and 42% respectively from the day prior to the conflict
- Key M&A transactions occurring in and around the conflict include Johnson & Johnson's \$430 mn acquisition of Omrix Biopharmaceuticals, Seimens' \$420mn acquisition of Solar Systems, Vector Capital's \$160 mn acquisition of Aladdin Knowledge Systems, Medtronic's \$325 mn acquisition of Vantor Technologies

# 2006 Lebanon War

## TASE Performance - 2006 Lebanon War



## TASE Relative Performance - 2006 Lebanon War



Source: Capital IQ, www.britannica.com

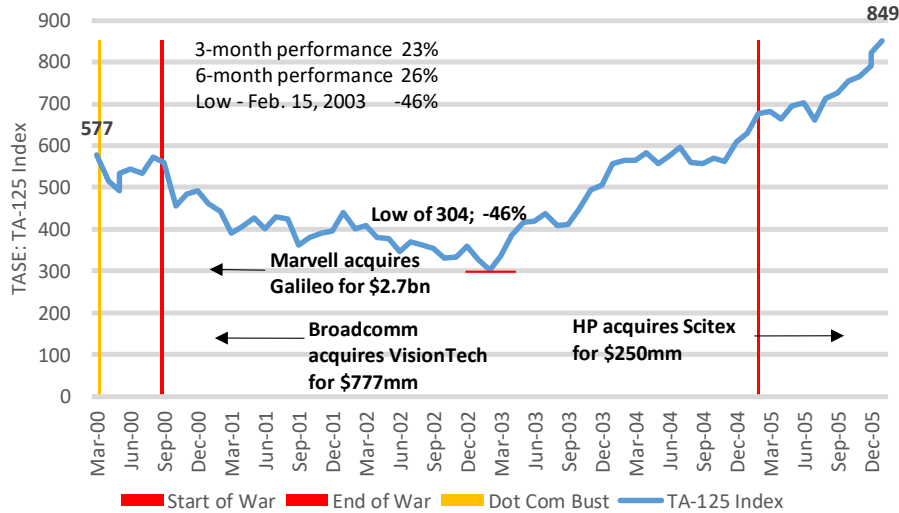
Note: Top exhibit reflects the performance of the TASE from 6 months prior to the breakout of the conflict to 12 months after the end of the conflict; bottom exhibit reflects the 5 year performance from the day prior to the conflict outbreak 2006 Lebanon War (7/12/2006 – 8/14/2006)

## Commentary

- The 2006 Lebanon war was a 34-day military conflict with Hezbollah in Lebanon and northern Israel. The conflict was precipitated by a Hezbollah cross-border raid on July 12, 2006
- Israel Police reported Hezbollah fired 4,228 rockets with impacts inside Israel (at a rate of more than 100 per day). Israel experienced losses and damage from Hezbollah rocket attacks including 53 civilian fatalities, 250 severely wounded, and 2,000 lightly wounded (not including military casualties). Considering this conflict was prior to the Iron Dome missile defense system becoming operational (2011), there was extensive damage to hundreds of dwellings, several public utilities, and dozens of industrial plants. One million Israelis lived near or in shelters or security rooms, with some c. 500,000 civilians evacuated from the north and relocated to other areas of Israel
- Analyzing the performance of TASE, the initial impact of the conflict precipitated an immaterial decline of -8.2% from the day prior to the war, to its low point on July 13, 2006, 1 day following the breakout of the conflict
- The TASE also demonstrated a very strong and immediate rebound with the TASE 125 index rising 11.9% 3 months post crisis and 20.4% 6 months post crisis from the day prior to the commencement of hostilities. This also represents a rebound of 20.1% 3 months post crisis and 28.6% 6 months post crisis from the low point during the conflict
- With regards to strategic M&A activity, considering the far greater threat of missiles prior to the Iron Dome missile defense system, it is interesting to note a number of large high profile acquisitions of Israeli companies by multinational acquirers were announced during the actual war itself, including SanDisk's \$1.5 billion acquisition of msystems (July 31, 2006) and Hewlett-Packard's \$4.6 billion acquisition of Mercury Interactive (July 25, 2006), with others during and post the conflict

# 2<sup>nd</sup> Intifada (2000-)

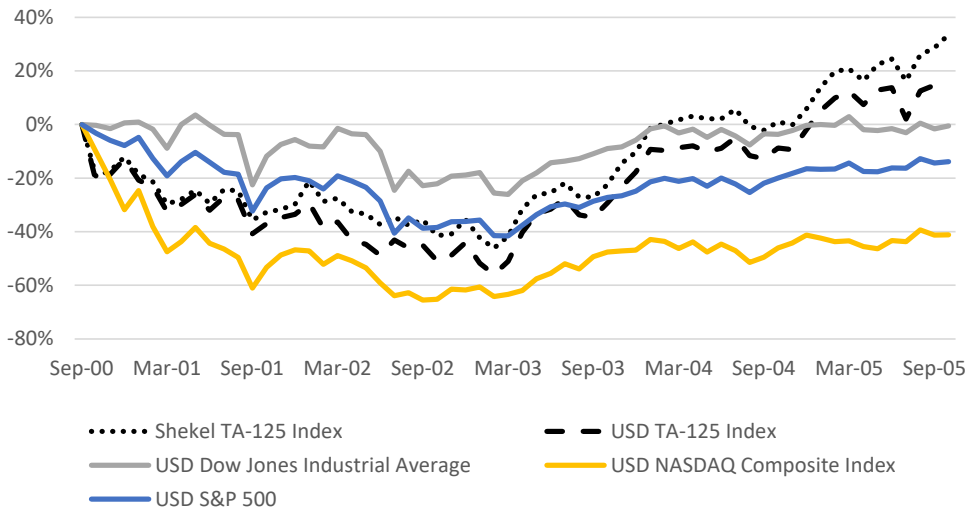
## TASE Performance - 2<sup>nd</sup> Intifada (2000)



## Commentary

- The 2<sup>nd</sup> Intifada (2000) started when widespread Palestinian violence erupted on Friday, September 29, 2000 in the Old City of Jerusalem, in the West Bank and the Gaza Strip. The grassroots protests and violence soon turned to a campaign of deadly terrorism targeting Israeli civilians on buses, restaurants and on city streets. Over 1,000 Israelis were killed, and thousands severely injured in these attacks
- Analyzing the performance of TASE, we believe the steady decline from the beginning of the Intifada for the next 2+ years was largely correlated to the dot-com bubble. In fact, the TASE strongly outperformed the Nasdaq Composite during this period and rebounded much earlier and with far greater performance
- With regards to strategic M&A activity, there continued to be strong levels of strategic M&A activity at the outset of the Intifada and throughout. Some notable transactions include Marvell's \$2.7 bn acquisition of Galileo and Broadcomm's \$777 mn acquisition of VisionTech

## TASE Relative Performance - 2<sup>nd</sup> Intifada (2000)



Source: Capital IQ, [www.makan.org.uk](http://www.makan.org.uk)

Note: Top exhibit reflects the performance of the TASE from 6 months prior to the breakout of the conflict to 12 months after the end of the conflict; bottom exhibit reflects the 5 year performance from the day prior to the conflict outbreak 2<sup>nd</sup> Intifada (9/28/2000 – 2/8/2005)

## Israeli Market Resilience

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We believe there are a number of key factors supporting the resilience of the Israeli market in the face of conflict and the confidence of large multinational companies making large acquisitions in Israel, including during wars. Some of those key factors include:

- By far the strongest military in the region (a) by annual budgets that dwarf adversaries and neighbors (b) most advanced air force capabilities (c) missile defense and other global military technologies (d) cyber capabilities and others
- Key strategic assets in Israel held by leading U.S. and other global “Blue Chip” corporates with billions of dollars of investment respectively, thousands of employees, source of key cutting edge developments and technologies from Israel
  - Intel Corp. with 12 thousand employees, fabrication facilities; R&D, Mobileye stake etc.
  - Others with major presence include HP, IBM; Google; Cisco; Microsoft; Apple, etc. etc.
  - Chevron with billions of dollars in Israeli offshore gas interests, also now a strategic alternative source of gas to the European Union particularly considering issues with Russia
- 75-year partnership with the United States built on mutual interests and shared democratic values united by commitment to democracy, economic prosperity, and regional security and military cooperation
  - Involved in the joint development of military technology and regularly engages in joint military exercises involving the U.S. military
  - A major purchaser and user of U.S. military equipment
  - Manufacturer of key military equipment for the U.S. military for example, Israel Aerospace Industries' (IAI) manufactures key aerostructures for U.S. air force jets including F-16, F-35 fighter aircraft and others
- Israel has a history of numerous brilliant military victories throughout its history when it had a far weaker military and far worse odds
- Israeli companies, management teams and people have demonstrated strong operational flexibility, adaptation and resilience in times of conflict and experience in dealing with reserve duty absenteeism and remote working

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