

The Israeli Bond Market

THE OPPORTUNITY

July 2014



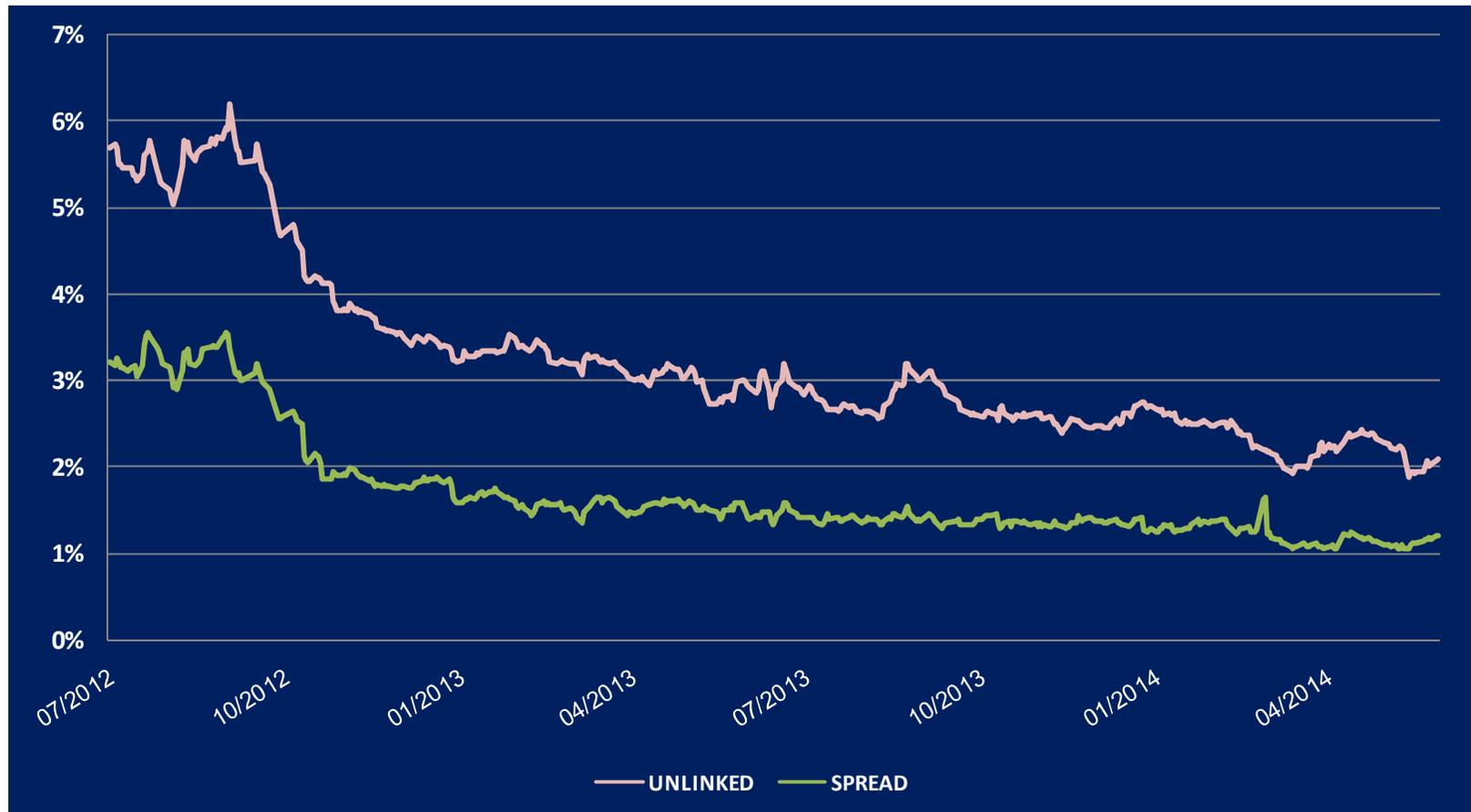
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To Raise Capital at Very Low Costs

- Overview: The lowest interest environment rates in the last 20 years along with prosperity in the market led to a unique opportunity for foreign real estate companies, to raise debt capital in the Israeli market with low interest costs.
- High Demand for NIS Nominated Bonds: The debt capital sector in the Israeli capital market continues to grow. In 2013 the total amount of debt capital raised was NIS 40B compared to NIS 32B in 2012.
- Limited Supply for NIS Nominated Bonds: Most of the mutual funds are restricted to buy NIS nominated bonds only. However, the Israeli capital market simply does not produce enough of these bonds.

Average Corporate Bond Yield



Commercial Requirements

Light Covenants, Subordinated & Unsecured

- **Rating:** Issuers can obtain better local rating due to the difference in countries credit scoring level. A BB rated company in AA+ rated country would most likely receive an A rating in Israel.
- **Coupon:** Bonds that are locally rated A with 5 years term are currently trading with a fixed coupon of 4%-4.5% (Unlinked to CPI)
- **Term:** Term should range around five years in accordance with the company's cash flow or the cash flow from the underlying portfolio.
- **Covenants:** The bonds can be issued without collateral and with light covenants (i.e. equity to CAP ratio, dividend policy, coverage ratios, etc.). However, the company must maintain a rating and other certain financial criteria. If the bonds are issued with a collateral, rating is not needed.
- **Subordinated and Unsecured:** Since the bonds may be subordinated and unsecured, the funds raised may be used for future development, acquisition or dividend payments
- **Amount Raised:** Starting NIS100M up to NIS2B.



Legal Requirements

Compliance With Local Rulings

- **Rating Report:** Should be generated by one of the local rating companies: S&P or Moody's.
- **Prospectus:** Should be prepared by An Israeli law firm in accordance with the Israeli Securities Authority's requirements.
- **Financial:** The financial statements must be prepared in accordance with International Financial Reporting Standards.
- **Asset Valuation:** Should rely on Israeli Securities Authority's requirements and should be done by a top tier valuation firm, located at the underlying assets market.
- **Quarterly Reports & Essential Events:** Should be reported on an ongoing basis after the debt raise.

General Timetable

Overall Transaction Timetable is 3 – 4 Months

Filling the prospectus with the lawyers and the accountants	8-12 weeks
Working session with the rating companies	1-3 weeks
ISA approval for fundraising through the prospectus	4 weeks
Tender for institutional investors and cash clearance	1 week
Overall transaction timetable is 3- 4 months	

Profile of a Candidate Company

Common Key Factors

- Conservative and experienced management team
- Strong, stable and diversified cash flow
- Growth potential (revenue, profitability, cash flow)
- Israeli Rating - BBB+ group and above (recommended)

Balance Sheet Highlights:

- Equity on balance sheet needs to be tangible and higher than \$100M (Security could be a remedy for a lower equity)
- LTV under 75% (After the money)

Case Study: EXTELL

New York Real Estate Development Company

- Founded in 1989 by Gary Barnett and Recognized as one of New York City's most active real estate developers
- Focus on residential, office, retail, hospitality and mixed-use properties
- New York Observer's "Most Powerful" real estate person in New York City in 2013
- Portfolio exceeds 20 million square feet and Over 4 million square feet currently in development, One 57 will be completed this year, potentially yielding over \$435M in pre-tax cash flow
- Rating - A2/stable by Moody's (Midroog)
- **Balance Sheet Highlights (YE 2013):**

Equity	\$654 M
Net debt to capital ratio	Approx. 49%
Net profit	\$ 203 M



Case Study: EXTELL

New York Real Estate Development Company

Securities	Extell Limited new Bond Series
Amount of issuance	NIS1,050M (\$300M)
Total Demand at the Tender Offering	NIS1,700M (\$485M)
Yield	4.65% (equivalent to 4.55% in \$ terms)
Coupon Payments	Twice a year as of December 2014 and until 2019
Principle Payments	2 equal payments in December 2018 and December 2019
Duration	4.6 Years
Rating	A2 / Stable (Midroog)
Security	None
Covenants	Light & un-interrupting

About Simodan

- Simodan Underwriting & Issues (1993) Ltd. was established in 1993.
- From 1993 – 2007 Simodan was one of the top 10 underwriters in Israel and participated more than 300 issues.
- Since 2007 Simodan advises companies in the Israel capital market in securities offerings with specialization in complex bond issues and comprehensive financial guidance.
- Simodan developed a financial instrument (patent pending in Israel and Washington D.C.) allowing a company to issue long term bonds and pay an overnight interest. Simodan and Meitav Dash presented this instrument to the biggest companies in Israel.
- In addition, Simodan manages a Hedge Fund and is an investment advisor to mutual funds.

Why Simodan

- Experience of more than 300 issues as underwriter.
- Negotiate best deal with lead underwriter.
- Navigate the debt rating process.
- Sell the deal to investors.
- Speaks the language of the local capital market – but represents the issuer.

About Meitav Dash

- Apex Issuances is a subsidiary of Meitav Dash and a leading company engaged in initiating and accompanying public and private offerings and providing underwriting services.
Apex Issuances also specializes in raising capital from institutional investors in the capital market and managing public and private equity/debt offerings.
Since its inception, Apex Issuances has been a partner and has served as an underwriter in hundreds of offerings.
- Meitav Dash is one of the leading and the second largest Investment Houses in Israel.
It manages over \$30B through Mutual and Provident Fund Management; in addition it offers Institutional and Retail Brokerage and Investment Banking.
The unparalleled commitment to servicing its clients together with its cutting edge market research tools have earned Meitav a reputation as being one of Israel's finest and most respected investment houses.
Our professionalism and proven track record in Israel and abroad has made Meitav a true industry leader.