

Bank of America GTS Global FI Checking in Call May 12, 2021

Coordinator Good day everyone and welcome to the Bank Of America GTS Global FI Checking in Call hosted by Paul Taylor. My name is Sue and I'm your event manager. During the presentation your lines will remain on listen only. [Operator instructions]. I would like to advise all parties this conference is being recorded for transcription purposes.

And now, I'd like to hand the call over to Paul. Please go ahead.

Paul Thank you, Sue. And good morning, good afternoon, and good evening. My name is Paul Taylor. I am Global Head of Financial Institutions within Global Transaction Services here at Bank of America. And I'm delighted to be your host on today's checking in call.

Now wherever you are, I really, really hope that you're staying safe and you're staying well. On today's call I'm delighted to be joined by Yoram Inbar. Yoram is Bank of America's Country Executive for Israel. He's also Head of Investment Banking in the country.

Now that sounds like an important role to me. But all the more so when you see that despite having a relatively small population—I think the population of Israel is around 9 million people, which would rank it about 100th in the world by population—Israel is top 30 by GDP [ph], top 25 by GDP per capita, I think it's actual 22nd, and was ranked recently in the Bloomberg Innovation Index as 7th in terms of most innovative countries in the world for 2021.

The country of course, back in that [indiscernible - 37:51], the country is of course also a world leader in developing new technologies, having I believe with the exception of China, the most companies listed on the Nasdaq Exchange outside of the United States, which is incredible as I say given the population.

So Yoram is based in Tel Aviv. He is responsible for originating and executing debt, M&A, [indiscernible - 38:16] transactions. He joined the bank in 2001. He joined Merrill Lynch in 2001, having spent six years before that at Lehman. So Yoram, really thrilled to have you on the call today. Thank you so much for making time for me. With your permission, sir, I'm going to pass it straight over to you.

Yoram Thank you. Thank you, Paul. And hi everyone. As Paul suggested, hi there good morning, afternoon, or evening, depending where you are. And I hope also that you're staying safe.

So Paul invited me to this call and obviously gave me a few ideas of what to talk about. And I'll dive into it with just two minutes on my personal background.

So I was raised in Israel. And at the age of 18, like most of the youth in Israel, I was drafted to the military service and I served in a combat unit for just over three years. And then I embarked on an 18-months world tour I guess to shrug off the military experience, including fishing in Alaska, South America, backpacking in North America, Europe.

And then I went back to my homeland to study at The Hebrew University. During my studies, I worked as a student at the research department at the Bank of Israel in Jerusalem when Jacob Frenkel was the Governor of the Central Bank. And in 1994, I received a scholarship to study at graduate school in the UK and that's when I moved to England.

Like most students, I didn't at the time—coming from a small country, pre-internet—I didn't know much about Wall Street or investment banking. But I did notice that the most competitive and smart students did come to the pitch meetings that the bulge-bracket firms held at the campus. And I was quite excited to see, provincial as I was, that the only bank that had an office in Israel at the time was Lehman Brothers. And I aggressively pursued the opportunity to enrol there in their graduate program.

The years in the 90s were exciting. Investment banking was a completely different place to where it is now. And the learning curve was steep and fast. In 2001, I had an opportunity to jump ship to Merrill Lynch, which at the time I felt is a bigger bank, better brand. And also a year before they opened as well an office in Tel Aviv, the Israeli team at the time was quite small. So I thought it's a great opportunity and a good career move. In hindsight, I believe I was correct.

Since 2003, I've been responsible for the business in Israel, initially for Merrill Lynch. And then since 2009, for Bank of America. And in 2007, prior to Bank of America buying Merrill Lynch, I moved back with my kids and wife to live in Israel.

So that's my background. Just 25 years of experience in banking. And how were the last 12 months? How were they in terms of my experience? Well very different to the previous 24 years, as you can imagine.

First of all, I used to travel probably two to three times a month on average for 24 years. I'm actually quite amazed that the last time I was on a business trip was in March 2020, just before the lockdown. And I don't miss travel that much. I feel that that may change very soon and we'll be back in planes quite soon, but that sort of enabled me obviously to stay home, work from home, because our office has been shut since March 2020.

I'll say the first thing that probably happened during this timeframe is that my kids actually believe that I do work. I think that before that they probably felt that I'm just going to the office to play. And so it was good to set up an office in the house. And obviously immediately upgraded our Wi-Fi to the biggest sort of broadband and capabilities that the local incumbent can provide. And with two iPads and a desktop, and two mobile phones, I think I'm quite well equipped in my home office.

As a country executive, although the population in my office is not that big, very soon after the strict lockdown in March/April, I started having a bi-weekly call which moved to every two weeks thereafter, making sure that everyone is safe, everyone is happy. You can imagine; I can bet most of you on this call are executives as well, having people beneath you. And so it was challenging from that perspective but very soon we all sort of started a healthy routine, if you like.

And so after March/April, which was a bit of a mess everywhere with limited ability, the capital markets were shut, there wasn't much work and the corporates themselves didn't really know what's going on. So clients were not too open for discussion.

I think when markets started recovering in May, and we very soon realized that there are several COVID winners which are listed in the US but they're based in Israel, and obviously started pursuing business opportunities with them, raising capital. The first one was Fiverr, which is an internet company, and an exchange between consumers and service providers.

That company we IPO'd in 2019 at about \$600 million valuation. We did the follow-on for them in May 2020, just when their stock started rallying [ph]. And that was around a billion dollars, believe it or not. But two months ago they peaked at around \$8 billion because again they had massive momentum where people sort of looked on the internet for service providers, and their business model just exploded.

Another COVID winner, giving software to Microsoft Teams. We did a follow-on for them. Wix, which is the largest tech company in Israel, a web service provider, we did a large convertible for them.

All in all, between May to November, we worked on five convertible bonds, one IPO, and two follow-ons. So it was on average every three weeks we were an active book runner on an equity transaction. And working very closely with our team members in the US, primarily in the west coast, but also in New York.

And that was an example how actually we don't need to be on the road, taking private jets, to see institutional accounts with the issuer. You can do the meetings via Zoom, although we did start early afternoon in Israel and we went on usually until midnight because of the time difference. But it was quite efficient, management were at home, they pitched the business and it worked quite well.

The first time we did it, it was all very new. And after the second and third you just start getting used to it and you think to yourself, why didn't we do this pre-COVID? It's more efficient, definitely healthier, and less pollution, right, because you don't have to travel and take airplanes around the world.

I would say that one more phenomena that took place in my business—but obviously it's a global sort of US domestic phenomena—where the SPACs, special purpose acquisition companies, which became very popular as we all know by now—last summer for me it was just a four-letter word, but since then I've become an expert—and out of the 100 de-SPACs that took place globally in the last 10 months, 10%, so 10 companies, were Israeli. Including two \$10 billion de-SPACs: one for IronSource, a mobile software gaming company, and the other one is eToro, which is a fintech company.

The three verticals which were quite popular, not only in the US but also domestically, were the electric vehicle auto truck. The second vertical was fintech. And the third one was software. And that sort of enabled these 10 companies to—some of them are already public because the de-SPAC completed. Some were computer [ph] de-SPACs. But another 10 publically listed companies allowing a wealth of them for hundreds of people because these employees obviously have option cams [ph], management have shares, and the spill over effect to the economy is yet to be seen but likely to be in real estate and in other sort of consumption areas.

So in a nutshell, from an Israeli perspective, the last 12 months have been a massive opportunity for tech, companies raised capital in an accelerated way. We now have 45 unicorns, which are private companies with an

equity valuation of a billion-plus. There's been, as mentioned, over 10 de-SPACs, several IPOs, and the momentum continues.

Perhaps we can just lay the ground of this tech phenomena, which Paul at the outset gave a small window to. Why is Israel so successful in tech? I would say that probably the pillar, or the first reason—and I think I've listed to myself at least 10 [ph]—the first one is our military.

The people think that the Israel Defensive Forces, obviously they're very strong army. But in the last 30 years, the Israeli Defence Forces—and even before, from the 80s—invested heavily in knowledge, in technology, in missile technology, in cybersecurity, in various sort of areas of technology communication, etc. And that sort of enabled 18-year-olds to be drafted, and get well educated, and well equipped to the time where they leave the army and can either join start-up companies or multinationals, or start their own business.

The other reason, and the big boost that happened in the early 90s were the Russian immigrants. We had about a million Russian immigrants, many of them scientists, engineers, computer scientists. That gave a huge boost to the labour force, the well-educated labour force.

We had very strong universities. Among them the Weizmann Institute, the Technion, The Hebrew University, and the Tel Aviv University with great professors; some of them Nobel Prize winners.

That, together with a government support that started in the early 90s, the first venture capital funds in Israel were actually [indiscernible - 52:03] they were called; they were government-owned. And that sort of kick start the venture capital community. Some of them are Israeli VCs [ph], some were US, some European. Following the venture capital came the growth equity funds, which provided the capital to those start-up and entrepreneurs.

To wrap up, the ecosystem is obviously the Israeli chutzpah, which basically Israelis when they're told that something is impossible they will tell you that they are here to make the impossible possible. So whether it's a Coke machine that can sing, to the best communication equipment, to the best internet company, semiconductors, etc., the proven [ph] exits obviously fuelled this ecosystem, which triggered multinationals to open their R&D centres here.

So from Amazon, to Google, to Facebook, Oracle, Microsoft, you name it, they're all here. Apple. The biggest private employer now in Israel is Intel with tens of thousands of employees and I think that their biggest operations outside the US is in Israel.

Just in a glance, as mentioned before, Israel is quite a small country. It's an OECD country. It has a unique combination of high GDP per capita and population growth. The investment ratings by S&P is AA-. Rating Fitch has us at A+, and Moody's is A-1.

There are about 9 million people. The area is only 22,000 square kilometres. So quite small. The GDP per capita in 2020 was 40,100. And the investment in R&D is the highest in the world, which is 4.9% of GDP.

Just in a glance, since 2010, more than 11,000 start-up companies were created. About \$65 billion of investments were made in Israeli tech companies. About \$20 billion were raised by Israeli venture capital funds. There are obviously accelerators and incubators [ph] as well.

And as mentioned before, we're the second country outside the US with Israeli companies with companies on the US exchanges. Total exits were about \$120 billion, of which M&As were 116 [ph] and \$6 billion in total IPOs.

The leading clusters in tech are artificial intelligence, food tech, fintech, cyber—which, by the way one-third of all investments in cyber in the world were in Israel in the last 12 months, so massive embedded entrepreneurship in cyber, which is not surprising because again a lot of this knowledge comes from the military—robotics, internet, and semiconductors, enterprise software are the remaining leading clusters.

As mentioned, first in the world in R&D spending. And venture capital investments per capita is the highest in the world, almost twice as much as in the US and four times the UK, France, Germany, etc.

Just in a nutshell on the COVID, I believe that by now most people in the western world definitely are aware of the success of Israel coming out of the pandemic. By the way, Israel is completely open. There is no requirement of wearing masks in the outdoors. Only indoors, public transportation, schools; everything is open. And over 90% of the population is now vaccinated or has been recovered from COVID-19 so has natural immunity.

So if you think of the math, 9 million people, there were about 1 million people that recovered from COVID, 5.5 million who were vaccinated, and there are about 2 million under the age of 16. Which means that there's about 600,000 people left not vaccinated above the age of 16, and most of them are people who just may not been willing to be vaccinated for various reasons.

I'll say another interesting statistic is the GDP growth in 2020 was a negative growth. So some of the European countries, like Spain and the UK, were around 11% and 10%. Italy at 9%. France at 8%. Germany at 5%. The US at 3.5% negative. Israel stands at only 2.5% negative real growth. And we expect the growth to jump significantly in 2021. And it's already seen by consumer spending in overall unemployment and economic activity.

If you look at the last 20 years, the government debt to GDP came down from around 90% in 2003 to as low as 57% in 2019. That obviously jumped because of the COVID in 2020 to around 69% [ph] and should be around 74% in '21/'22 for the obvious reason until that would start coming down again.

Foreign exchange. The shekel has been appreciating against the major currencies. That is because of the foreign direct investments, the success of the tech sector. And the shekel now trades at around 3.2 [ph] versus 5 shekels to the dollar only 20 years ago.

So the fundamentals are very strong, and with a conservative banking system. Very strong export base. Strong external accounts. This momentum should continue. One more point to make is the offshore gas findings in the [indiscernible - 59:44], which basically effectively made Israel energy independent.

So I know that I have only a few minutes left. So how do I see 2021 and beyond? Obviously very difficult to foresee. I do hope that we will use Zoom often in the future to avoid unnecessary travel, be more effective, more efficient, environmental friendly. There's no doubt that ESG is becoming ever more important.

Tech is ever more important. Fintech is disruptive [ph] and is here to stay, that also is affecting the banking system around the world. I'm quite optimistic because we're out of the COVID, touch wood, in Israel. And because of the importance of the tech, I'm quite optimistic of the future of the state of Israel and our business.

So with that, Paul, I hand it over back to you.

Paul

Oh, super inspirational, Yoram, as always. I love that you credit some of Israel's success to chutzpah, which of course I completely agree with. Yoram, would you mind if I ask you one question?

Yoram

Sure.

Paul One question that we get a lot from clients who do business in the region is about the advance really in the last couple of years in terms of the diplomatic and of course the commercial ties between Israel and some of its neighbours, including the UAE. And we have a lot of questions about this.

And so I was just wondering, from your perspective, how has that played out from your perspective? Have you seen a major change in terms of flows, in terms of commerce? And where do you see that going?

Yoram So the answer is yes, we have seen so far the largest ever across border investments only a week ago by Mubadala, which invested \$1.1 billion in the offshore gas field, buying 22% of the Tamar gas field from Delek. You can imagine that that's a big deal because not only of the size of the deal but because of the importance of the natural gas to Israel. And that just shows the confidence that the state of Israel has in its ties with the gulf state.

There's no doubt that more to come. We do see inbound questions about technology, about water just for the nation, cybersecurity, food tech which are quite important for that region. Obviously we have strong ties and peace with Jordan and Egypt. And that only can fuel the growth of Israel going forward. And so that's a [indiscernible - 62:58] to a tailwind to the economy and the region.

Paul Very good. And more power to your elbow [ph], I'm sure. Yoram, I can't thank you enough. Incredibly comprehensive overview of the market, the opportunity, the background, and also the future. I really cannot thank you enough for your time today.

To all of our friends, colleagues, partners on the line, a huge thank you to you as well. I really always appreciate in ways that you can't imagine the fact that you've made time for these calls that you turn up for these calls every week. I hope you continue to find them useful.

We're back next week. We're back actually on Wednesday of next week, which hard to believe as it is, is the 12th of May. I'm going to be joined by Adam Howard. Adam is Country Executive at Bank of America for Canada, which is the bank's second largest market globally after the US for reasons I'm sure you understand.

So very much looking forward to welcoming Adam next week. I hope that you'll be able to join too. But until then, please stay safe, stay well, and we will speak very soon. Thank you.



Coordinator

Thank you, Paul. Thank you everyone. That concludes your conference call for today. You may now disconnect. But thank you for joining.

[END OF CALL]