

Client Bulletin

The Israeli Bond Market Opportunity for Foreign Companies

The Tel Aviv Stock Exchange has become a choice vehicle for foreign real estate companies (to date, mostly U.S.-based) seeking to raise unsecured debt. Since January 2014, over U.S. \$1 billion of debt was raised by such companies in 10 public offerings of investment grade bonds. Israeli institutional investors have demonstrated robust support which has been fueled by their appetite to diversify their portfolio and gain access to otherwise untapped investment opportunities.

Issuers are mostly income-producing asset companies and/or companies with development assets and have diverse economic profiles.

The advantages for Issuers are significant and include:

- Favorable interest rates – Generally ranging from 4.6%-7.7% p.a. (depending on the credit rating);
- Unsecured debt is market norm and therefore may be raised on top of existing secured bank loans;
- Flexible offering sizes – Amounts raised ranged from U.S. \$30 million to over U.S. \$260 million;
- Bonds normally obtain higher credit ratings than they would in Issuers' home countries (due to differences in home country scoring levels);
- Friendly covenant structures;
- Non-restrictive use of proceeds;
- Process takes approximately 20 weeks; and
- Lower transaction costs relative to public offerings in Issuers' home countries.

The typical Issuer profile includes:

- A conservative and experienced management team;
- Strong, stable and diversified cash flow;
- Growth potential;
- Israeli rating of BBB+ and above;
- Equity of \$100 million and above (has been lower, when security was provided);
- LTV of less than 75% (post-money);
- IFRS financials (a must); and
- Asset valuation by a recognized valuation firm (a must).

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