



THE ASIAN BUYOUTS

What are the pros and cons of selling Israeli companies to Asian investors?

DURING THE last 10 days of May, two venerable Israeli companies were sold to Asian companies.

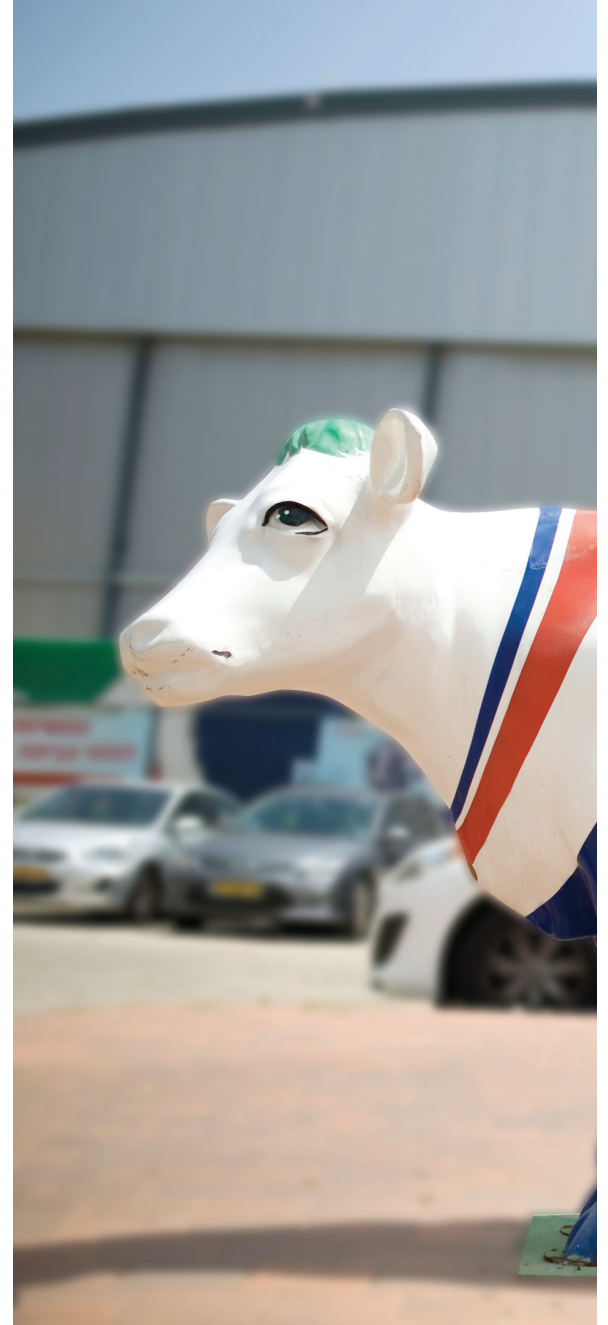
On May 21, a controlling interest in Tnuva, the country's largest dairy-products company founded in 1926, was bought by Bright Food (a state-owned Chinese firm) from Apax (a British private-equity fund) while, on May 27, Tambour, a paint company founded in 1936, was sold to Kusto, a Singapore-based investment company, by Granite Hacarmel Investments, which is owned by Canadian-Israeli real-estate magnate David Azrieli.

Earlier, in October 2011, Makhteshim Agan, a crop-protection chemicals company founded in 1944, was sold to Chem-

China. Meanwhile, Pitango, Israel's biggest venture-capital fund raised the money for its latest fund in China, rather than America.

According to the Central Bureau of Statistics, in 2013 Israeli imports from China (\$7.8 billion) exceeded imports from the US (\$7.5 billion) for the first time. Only 3 percent of Israel's imports came from China a decade ago; today, the figure is 12 percent.

Does this mark a major shift in Israel's business mindset, toward the fast-growing capital-rich Asian market? Is it good or bad that Asian cash is snapping up ownership of flagship Israeli companies? Should Israel welcome Asian investments, as it does those from America and Europe?



Here are a few of the key issues surrounding Asian money flowing into Israel.

What is Bright Food and why did it buy Tnuva?

Bright Food is China's second-largest food company, based in Shanghai. It is wholly owned by the state and was formed in 2006 through the merger of several smaller companies. It has been dipping into China's deep pockets – \$4 trillion in foreign-exchange reserves – to buy food companies all over the world. Bright Food paid \$2.5 billion for a 56 percent controlling interest in Tnuva. In the past seven years, China has spent \$780 billion to buy foreign companies.

In recent years, China has had numerous



AMIR COHEN / REUTERS

scandals over impure foods. For instance, six years ago, infant formula and other milk products were found to be contaminated with melamine, a chemical used to make fertilizer and plastic pipes. Some Chinese dairies added melamine in order to artificially boost the protein content of their milk and increase their profits. Six Chinese children died and some 300,000 fell sick.

As a result of this scandal and dozens of others, Chinese consumers are wary of local brands. Bright Food appears to want a foreign-brand name that Chinese food buyers can trust.

Moreover, Israel's hot, dry climate matches that of China's dairies, while Israeli cows produce three or four times more milk, on

average, than their Chinese counterparts. Bright Food would like Chinese udders to match those of Israel.

What exactly is a private-equity fund, like Apax?

The story of Apax is that of a genius Sephardi Jew, Sir Ronald Cohen, born in 1945 in Egypt to a family originally from Aleppo, Syria. Cohen's family was booted out of Egypt in 1957 by Nasser, abandoning all its assets there, and moved to Britain. Cohen went to Oxford on scholarship, then to Harvard Business School. Upon graduating in 1972, he formed Apax Partners, which took money from institutional investors (e.g. pension funds, insurance companies) and invest-

Chinese purchase: A statue of a cow, painted in Tnuva colours, graces the dairy firm's logistic centre in Kiryat Malachi

ed it in equity (shares).

Cohen's brilliant insight was simple. Pension funds would like to earn 10 percent on their money through stocks rather than three percent on bonds, but legally and practically find it difficult to do so. They are not able to manage a large portfolio of common stocks. Apax, a middleman, made it possible. It was one of the world's first venture-capital firms. Private-equity funds often acquire public companies' shares, then take them private

and avoid disclosing financial data, a source of strategic advantage.

Cohen was knighted in 2000. He left Apax in 2005 and since then has innovated “social impact bonds,” a system for funneling capital to worthy social projects. He also helped initiate the Portland Trust, which invests in Palestinian ventures.

How did Apax make so much money by ‘flipping’ (buying and then selling) Tnuva?

On November 20, 2006, Apax Partners Worldwide LLP won a tender competition to buy control of Tnuva. At the time, Tnuva was valued at \$1.025 billion. The sale of Tnuva to Bright Food valued Tnuva at \$2.5 billion. Apax’s shares, therefore, rose by 2.5 times in just over seven years, despite the global economic crisis that deepened during this period. A recent class-action suit against Tnuva helps us understand why.

Ben-Gurion University Prof. Avia Spivak, Bank of Israel Deputy Governor until 2006, and Dr. Meir Amir, a former Finance Ministry official, allege in a report commissioned by those bringing the lawsuit that Tnuva made monopoly profits by raising prices even though its costs fell.

“The price of cottage cheese rose 12 percent,” they allege, “in 2009 and 2010, while its production cost decreased 4 percent... Tnuva raised its profitability in a market it controlled completely... raising its gross profit margin from 24 percent in 2006 to 29 percent in 2010.” Did Apex push Tnuva to put its profit margins on steroids so Apax could cash in and pay its investors a handsome profit?

Why did Apax sell Tnuva?

One reason may be the recent Competitiveness Act passed by the Knesset, which bans multi-level holding companies. Apax fears the law may require it to divest assets and chooses to do so now before being forced to sell at fire-sale prices.

Should the purchase and sale of Israeli companies by investment funds, owned mainly by the super-rich, trouble working people struggling to make ends meet? Specifically, why did Tnuva workers protest the sale?

If the capitalists made 150 percent profit on the deal, it is because the workers have been productive and hard-working. They too should share some of the gravy. After a short protest, Tnuva workers were given NIS 137



IT WILL TAKE A MASSIVE CHANGE IN ISRAEL'S MINDSET TO NAVIGATE THE NEEDED, TRICKY PIVOT TO ASIA

million (\$39 million) to split up among 8,000 workers, about NIS 17,000 per worker, or just over one percent of the sale price. They managed to bargain for a three percent bonus, after the 2006 sale.

How will the kibbutzim (collective farms) and moshavim (private farms) profit?

Tnuva was originally a kibbutz-owned cooperative. The kibbutz and moshav partners of Tnuva still hold 23.3 percent of its shares. (The remaining 20 percent is owned by an Israeli investor, Mivtach Shamir). But the moshav and kibbutz dairy farmers protested the sale of Tnuva to Bright Food, fearing the price they get for milk will be renegotiated downward. The kibbutz shareholders apparently will not agree to sell their minority interest.

“Tnuva can’t exist without the kibbutzim and moshavim. We will keep our stakes in the company,” Eitan Broshi, secretary general of the Kibbutz Movement, said. If Bright

Food does manage to grow Tnuva’s top and bottom lines globally, despite their reluctance, both the kibbutzim and moshavim stand to profit.

Has Tambour been bought and sold repeatedly, like Tnuva?

It has indeed. Tambour was a privately held company until 1993. It then went public on the Tel Aviv Stock Exchange. In 2001 it was delisted (i.e. became a private company) when Granite Hacarmel acquired its shares, then became a public company again in 2005, then was delisted again in 2012.

In each of these financial transactions, a wide spectrum of middlemen, banks and investors took a slice of profit. As Mark Carney, Governor of the Bank of England, recently observed in a widely reported speech, money has become its own rationale, not the paint or cottage cheese or milk that money finances. The massive industry that plays games with money has become inflated all over the world and it is high time to shrink it to its normal, reasonable proportions. But this is not a task Israel can do alone.

What role did Apax play in the Tambour sale to Kusto?

In the investment equivalent of musical chairs, Apax was rumored to want to buy Tambour from Granite Hacarmel. Azrieli group holds 60.6 percent of Granite Hacarmel’s shares. In the end, Kusto outbid Apax, paying NIS 500 million (\$145 million).



Tubs of Tnuva cottage (far left) will probably feature in the future in the Shanghai supermarket (left) shown displaying products from Bright Food, the company that bought a controlling interest in Tnuva

Why do some Israelis, including the Finance Ministry, treat Chinese investments differently from those of, say, America or Europe?

In the same week that Tambour and Tnuva were sold to Asian investors, the Finance Ministry killed a deal in which IDB, the embattled holding company once controlled by Nochi Dankner, would sell Clal Insurance, one of Israel's largest insurers, to a group of Chinese investors led by Li Haifeng and the Hong Kong-based JT Capital Management. The Finance Ministry went so far as to ask Interpol for further information on the Chinese group.

Haaretz journalist David Rosenberg believes "there is an element of racism at work" with regard to Chinese investments in Israel. "No one objected when Apax bought control of Tnuva," he notes. Two huge Israeli food companies, Osem and Telma, are owned by foreign multinationals – Nestlé and Unilever, respectively, both European firms. No one protested those deals.

What are the pros and cons of selling Israeli companies to Asian investors?

The pros are clear. China is a huge market in what will soon be the world's biggest economy and what has been for decades one of the fastest growing. China offers opportunities for Israel's traditional industries – food, plastic, chemicals – whose export potential has been neglected.

The cons are also clear. Israel cannot en-

danger its vast trade with America by exporting sensitive technology with possible military applications. As America confronts China in several explosive conflicts in Southeast Asia, Israel, a mouse, must dance nimbly to avoid being trampled by the two contesting elephants.

While Israel struggles to sell itself, its policies and its moral high ground to Europe, and to some extent to America and American Jewry, it has little need to do so in Asia. China and other Asian emerging markets seek Israeli innovation and creativity and when Israel sells its businesses to Asia, the goal for the buyer is generally to build global businesses on a long-term basis rather than 'flip' the company for quick profit.

According to the management consulting firm McKinsey, China's middle class grows 10 percent annually and will total 357 million persons by 2022, larger than America's total population. As an export-driven economy, it is vital for Israel to find ways to access this rich fast-growing market.

Worldwide, American assistance to, and investment in, other nations often comes packaged with a preachy sermon about democracy and human rights. But when China does business with the most degenerate regimes in Africa, the Mideast and elsewhere, there are no sermons and the Chinese do not hold their noses, because for them it's all pure business.

China is no paragon of virtue itself and can

be very brutal in quelling every kind of internal opposition. So, it does not preach to others. China has strong economic links with Iran and Arab nations, mainly in energy. It is important for Israel to counterbalance those links with ties of its own.

What Israel must learn, when doing business with China, is patience – building long-term trust. In Israel, where the short run is this morning and the long run is this afternoon, this is difficult. When Israelis bargain hard and hammer out deals with China that seem to give them the edge, they must understand that contract or no contract, no deal with the Chinese will be honored if they do not feel it is fair to all and they will gain from it as much as their counterparts.

How does the sale of Tnuva and Tambour typify the new age of globalization?

A company founded by an Egyptian Jew, who emigrated to the UK and studied in the US buys, then sells, an Israeli firm to a Chinese company in the same week as a Singapore-based fund with principals from Kazakhstan buys an Israeli firm owned by a Canadian entrepreneur and real-estate magnate. These two deals precisely capture the complex, often fragile, interwoven global system driven by great wealth, a system that Israel must navigate, for the well-being and prosperity of all its citizens.

The great Chinese teacher Confucius lived and taught around the time Ezra and Nehemia led the return of the Jews from exile to Jerusalem. He wrote, "Government obtains when those who are near are made happy and those who are far are attracted."

Frankly, I (who am near) cannot say I am personally happy with our current government. But, I must admit, those who are far, in Asia, are definitely attracted – though not necessarily by anything the government itself has done directly.

It will take a massive change in Israel's mindset to navigate the needed, tricky pivot to Asia. If Israel succeeds, the gains for all Israelis will be enormous. ■

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