
IVC and ZAG report:

Israeli High-Tech Capital Raising Hits a Record High in 2016: $4.8 billion

Key 2016 facts:
- Capital raising was 11% above 2015’s previous record
- Average deal at all time high with $7.2 million per round
- The number of deals, 7% below 2015’s record, mostly due to decrease in B round and up
- Israeli VC’s placed $634 million in Israeli high-tech, only a 13% share

Tel Aviv, Israel, January 10, 2017. Israeli high-tech companies raised an all-time annual high of $4.8 billion in 2016, 11 percent above the $4.3 billion raised in 2015. The average financing round, which has been constantly growing over the past five years, reached $7.2 million in 2016, 19 percent above the $5.1 million five-year average. (Chart 1)

The fourth quarter of 2016 ended with $1.02 billion in 151 transactions, compared with the $1.11 billion garnered in 202 deals in Q4/2015, an 8 percent year-on-year decrease, and 9 percent above the $933 million raised in 140 deals in Q3/2016. The average financing round stood at $6.7 million in Q4/2016, similar to the past two-year quarterly average of $6.6 million.

"As expected, 2016 ended as a record year in Israeli high-tech capital raising," says Koby Simana, CEO of IVC Research Center. "However, despite the higher total amount, it was characterized by a smaller number of financing rounds, along with a higher average capital raising per round. When we looked into the numbers to try and explain the trend, we found what I would call a ‘B Crunch’ - a 30 percent drop in the number of second rounds closed in 2016 compared to 2015, while the number of earlier rounds slightly increased. This is a troubling trend for the Israeli VC funnel, since the majority of capital goes into later rounds – if there are no companies lined up for later investments, there could be a more serious issue later on," Simana noted.

The IVC-ZAG Survey reveals that, while capital-raising reached new heights in 2016, the number of financing rounds were fewer than expected, with 659 deals closed in 2016, marginally above the five-year average of 657 deals, and 7 percent below 2015’s record 706 deals. While the number of early rounds (seed and A rounds) increased slightly (5 percent), the number of B rounds dropped 30 percent and the number of later rounds - C or higher - was responsible for more than 60 percent of the capital, down 11 percent from 2015. B rounds' share of capital raising also decreased, falling from 25 percent in 2015 ($1.07 billion) to a mere 16 percent in 2016 ($743 million), while early rounds and later rounds generated more capital and took up larger shares than the year before (Chart 2).

The IVC-ZAG Survey further reveals an upsurge in large deals (above $20 million) in 2016, both in terms of deal number and capital raised - with 76 deals and $2.68 billion, respectively - a 22 percent increase from the $2.19 billion raised in 68 deals in 2015.

Adv. Oded Har-Even, ZAG-S&W (Zysman Aharoni Gayer & Co. ) partner responsible for its US office, offers a possible explanation: "The increase in capital raising in mid- to late stages could imply a growing use of mezzanine funding in mature companies, gearing towards a possible M&A or IPO (preferably on NASDAQ). If this is indeed the case, then it's a very welcome trend, revealing a mature
market considered to be on the ‘quick exit route’ following early stage investments." Adv. Shmulik Zysman, founding partner of ZAG-S&W (Zysman, Aharoni, Gayer & Co.) agrees, adding: "We expect the uptrend in capital raising activity to continue in 2017, though possibly at slower rates."

Fifteen deals above $20 million reached a total of $573 million, or 56 percent, of all capital raised in Q4/2016. This compares with $430 million (38 percent of total), raised in 14 deals in Q4/2015, and $517 million (55 percent) raised in 18 transactions in Q3/2016.

**Israeli VC fund investment activity**

Israeli VC funds invested a total of $634 million in Israeli high-tech companies in 2016, marginally more than the $627 million invested in 2015. In the past five years, Israeli VC fund investments steadily increased, from $482 million in 2012 to the current level. At the same time, their share of total capital invested has been decreasing gradually, from 26 percent in 2012 down to a 13 percent share in 2016, the lowest yet.

In Q4/2016, $111 million were invested by Israeli VC funds in local high-tech companies, 44 percent below the $198 million invested in Q4/2015 and 20 percent below the $139 million invested in Q3/2016. Israeli VC funds' share was down to 11 percent in Q4/2016, from 18 percent and 15 percent in Q4/2015 and Q3/2016, respectively.

**Capital raised by sector**

Software companies led capital-raising in 2016 with $1.7 billion, up from 2015 when the sector attracted $1.4 billion (32 percent share of total), also placing first. Internet capital raising has noticeably decreased in 2016, when the sector attracted only $744 million or a mere 16 percent of total capital, compared to $1.12 billion raised in 2015, when Internet placed second with a 26 percent share.

ZAG-S&W’s Shmulik Zysman reflected on another finding, a 14 percent decrease in life science capital raising in 2016, saying: "despite the decrease in life science capital raising in 2016, we remain optimistic with regards to the industry’s potential in Israel, due to three major reasons: the continuous interest shown by Chinese investors, good chances for the return of European and US investors to Israeli life science investments, and Donald Trump's imminent presidency. According to his campaign, Trump is expected to ease price control on drugs and medical services, bringing an optimistic note to the industry, which may increase the appetite for investments, Israel included."
Chart 1: Israeli High-Tech Capital Raising, 2012-2016 ($m)

Chart 2: Israeli High-Tech Deals by Round Type, 2016 vs. 2015 (%)
Methodology

This Survey reviews capital raised by Israeli high-tech companies from Israeli and foreign venture capital funds as well as other investors, such as investment companies, corporate investors, incubators and angels. The Survey is based on reports from 193 investors of which 42 were Israeli VC management companies and 151 were other entities.

The survey covered total investment in the Israeli venture capital sector, including both VC-backed rounds where at least one investor participating in the round was a VC fund, as well as deals not backed by venture capital funds. The survey includes amounts received by each company directly, and doesn't count direct transactions performed between companies' shareholders. For more on our methodology, please click here.

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About the authors of this report:
IVC Research Center is the leading online provider of data and analyses on Israel’s high-tech, venture capital and private equity industries. Its information is used by all key decision-makers, strategic and financial investors, government agencies and academic and research institutions in Israel.

- IVC-Online Database (www.ivc-online.com) showcases over 15,000 Israeli technology startups, and includes information on private companies, investors, venture capital and private equity funds, angel groups, incubators, accelerators, investment firms, professional service providers, investments, financings, exits, acquisitions, founders, key executives and R&D centers.
- Publications include newsletters; Daily Alerts; the IVC High-Tech Yearbook – The Israel High-Tech, Venture Capital, Startup and Private Equity Directory; surveys; research papers and reports.
- IVC Industry Analytics – analysis, research and insights into the status, main trends and opportunities related to exits, investments, investors, sectors and stages

ZAG-S&W (Zysman, Aharoni, Gayer & Co.) is an international law firm operating out of offices in Israel, the United States, China and the United Kingdom. The firm’s attorneys specialize in all disciplines of commercial law for both publicly held and private companies, with particular expertise in hi-tech, life science, international transactions and capital markets. ZAG-S&W provides result-driven legal and business advice to its clients, addressing all aspects of the clients’ business activities, including penetration into new markets in strategic locations. In recent years the firm has acted on a majority of the equity and debt financing transactions by Israeli technology companies on the NASDAQ. It has been the firm's experience that the best results, those that give our clients the competitive advantage they need, are attained by coupling professional experience, global presence, and connections with the investor communities in Israel and abroad.