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Summary of Israeli High-Tech Company Capital Raising Q1-Q3/2009 Survey

IVC Reports:

\$303 million raised in Q3: 9% above second quarter levels

First Investments by Israeli VCs continue to decline

Tel Aviv, Israel, October 21, 2009. The following are the findings of the IVC Quarterly Survey conducted by the IVC Research Center, which for more than 12 years has been at the forefront of high-tech, venture capital and private equity research in Israel. This Survey reviews capital raised by private Israeli high-tech companies from Israeli venture capital funds, foreign investors and other investors. The Survey is based on reports from 81 investors of which 44 are Israeli management companies and 37 are other – mostly foreign – investment entities.

One hundred and eight Israeli high-tech companies raised \$303 million from venture investors – both local and foreign – in the third quarter of 2009. The amount raised was 9 percent above the \$279 million raised by 122 companies in the second quarter of this year, but 50 percent below the eight-year record high of \$600 million raised by 124 companies in the third quarter of 2008.

In the first three quarters of 2009, Israeli high-tech companies raised \$847 million, 50 percent below the \$1.68 billion raised in the corresponding period of 2008.

“Q3 capital raising came in consistent with our full-year projections,” said Marianna Shapira, Research Manager at IVC. “We expect a similar rate of investment in the year’s final quarter. Capital raising in 2009 reflects the impact of the economic crisis on the Israeli high-tech industry. We expect the year-to-year rate of decline experienced thus far in 2009 to continue throughout 2010,” Shapira concluded.

In Q3, the average financing round was \$2.8 million, compared to \$2.29 million in the second quarter of 2009 and \$4.84 million in the third quarter of 2008.

Israeli VC Investment Activity

In Q3, Israeli VCs invested \$89 million in Israeli companies, compared with \$113 million invested in the previous quarter and \$206 million invested in Q3 of 2008. The Israeli VC share of the total amount invested in Israeli high-tech was 30 percent, with the remainder of capital coming from foreign investors as well as non-VC Israeli investors.

In the first three quarters of 2009, the Israeli VC fund share of investments in Israeli high-tech companies was 36 percent, compared to 37 percent in the corresponding period in 2008. (Chart 1)

First investments by Israeli VC funds (Chart 2) were 20 percent of total investments in the third quarter, compared to 38 percent and 28 percent in Q2/09 and Q3/08 respectively. The average First investment by Israeli VCs was \$1.2 million, while the average Follow-on investment was \$0.9 million.

“While investments in start-ups present a gloomy picture, the future is expected to be even worse,” said Zeev Holtzman, Chairman of IVC. “We’re in the midst of the VC industry’s toughest crisis since 2000,” explained Holtzman. “There is a major shortage of capital for new investments by Israeli VCs, and as foreign VC funds fail to find Israeli co-investors, they will further reduce their exposure to Israel. The result is that the high-tech sector – the growth engine for Israel’s economy – will experience a major setback from which it will not be able to recover. It is clear that the future for start-ups, VCs and the entire high-tech industry is at risk.”

Capital Raised by Sector

The **Life Sciences** sector led capital raising in Q3 2009 with \$83.5 million or 27 percent of capital raised, followed by the **Software** sector with \$64 million or 21 percent.

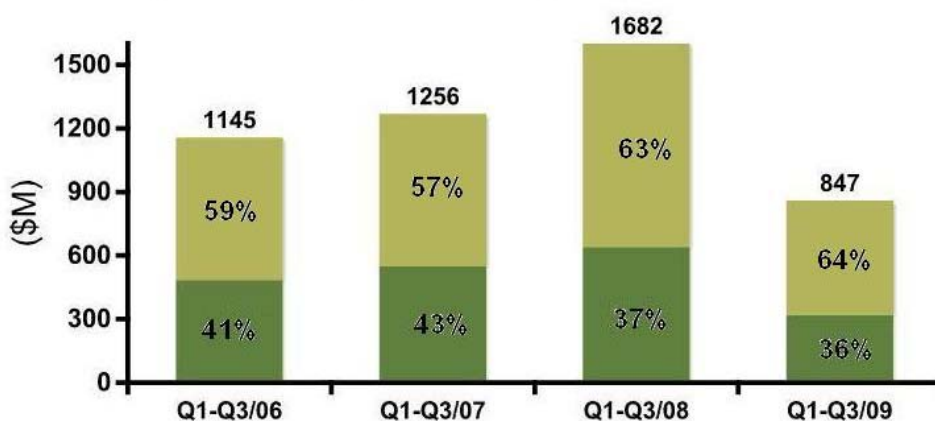
In the first three quarters of 2009, **Life Science** companies attracted \$210 million or 25 percent of total capital raised, which compares with \$253 million or 15 percent in the first three quarters of 2008.

Capital Raised by Stage

Sixteen **Seed** companies attracted \$14 million, 5 percent of the total amount raised in Q3, compared to \$25 million raised by 24 companies in the previous quarter, and \$16 million raised by 15 companies in Q3 2008.

During the first three quarters of the year, Seed companies attracted \$52 million, 6 percent of the total funds, compared to \$73 million or 4 percent in Q1-Q3 2008.

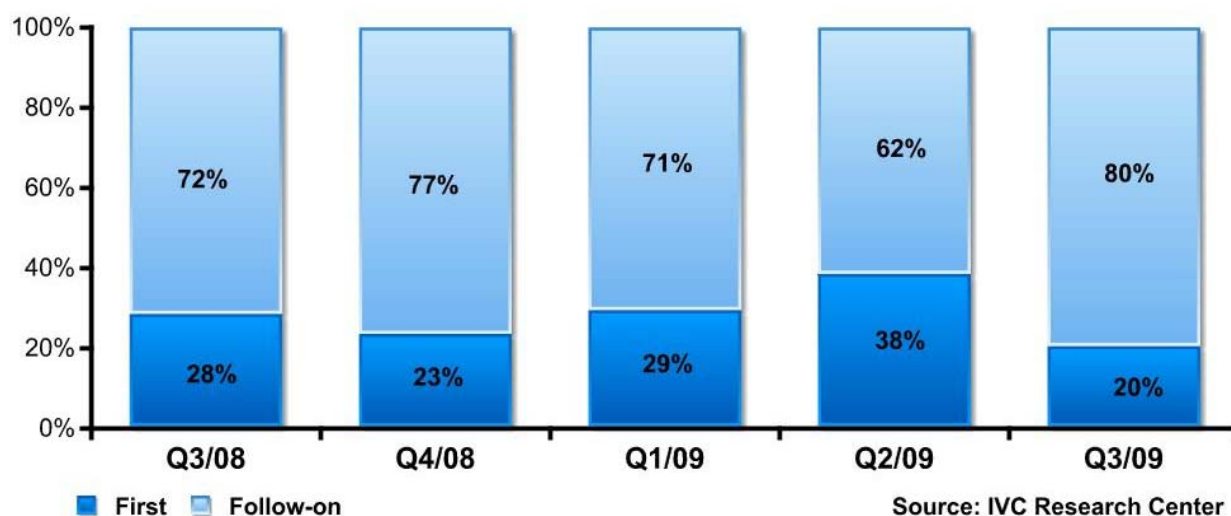
Chart 1: Capital Raised by Israeli High-Tech Companies (\$m)



Source: IVC Research Center

■ Foreign & Other investors share
 ■ Israeli VCs share

Chart 2: Distribution of First and Follow-on Investments by Israeli VCs (%)



For more information: www.ivc-online.com

IVC Research Center is Israel's leading research center providing business leaders with an unmatched wealth of data on Israeli high-tech, venture capital and private equity industries. IVC products and services are used regularly by high-tech companies, venture capital funds, private investors, financial investors and institutions, as well as public entities such as the Office of the Prime Minister, the Central Bureau of Statistics, the Bank of Israel and the Office of the Chief Scientist.

IVC owns and operates the *IVC-Online Database* (www.ivc-online.com) containing over 8,000 Israeli high-tech companies, venture capital funds, investment companies, angels and technology incubators, as well as news updates and lots more. Among IVC products and publications are the *IVC Quarterly Survey*, which examines capital raising trends by Israeli high-tech companies and the most comprehensive guide to Israeli high technology and venture capital – the *IVC 2009 Yearbook*.

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