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Summary of Israeli High-Tech Company Capital Raising - 2009

IVC Reports: Israeli high-tech capital raising in 2009 reached \$1.12 billion, 46 percent below 2008 level

First Investments by Israeli VCs continue to decline

Tel Aviv, Israel, January 18, 2010. The following are the findings of the IVC Quarterly Survey conducted by the **IVC Research Center**, which for more than 13 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 and other investors. The Survey is based on reports from 93 investors of which 52 are Israeli management companies and 41 are other – including foreign – investment entities. The complete Annual Survey results will be published in the **IVC 2010 Yearbook**, due April 2010.

In 2009, 447 Israeli high-tech companies raised **\$1.12 billion** from local and foreign venture investors, 46 percent below \$2.08 billion raised in 2008 and 36 percent below 2007 levels. (Chart 1)

In the fourth quarter, 124 Israeli high-tech companies raised \$275 million from venture investors – both local and foreign. The amount was 30 percent below the \$394 million raised in the fourth quarter of 2008, and down 9 percent from the \$303 million raised in the third quarter of 2009.

In Q4 2009, the average company financing round was also lower at \$2.22 million, compared to \$3.61 million in the fourth quarter of 2008 and \$2.8 million in the previous quarter.

Sixty-seven companies attracted more than \$1 million each. Of these, 17 raised \$5 million to \$10 million each and four companies raised more than \$10 million.

“Even though 2009 capital raising was sharply lower than previous year’s – consistent with our projections – a further decrease to about \$800 million is foreseen for 2010,” said Koby Simana, CEO of IVC Research Center. “The decline in capital raising in 2009 reflected the impact of the economic crisis on Israel’s high-tech industry, but despite talk of recovery, the effect of the economic situation continues to linger. Israeli companies are likely to have an even harder time raising capital in 2010,” Simana concluded.

Israeli VC Funds - Investment Activity

In 2009, Israeli VC funds invested \$410 million in Israeli high-tech companies. The Israeli VC fund share of the total amount invested in Israeli high-tech companies was



just under 37 percent, which compares to 38 percent (\$780 million) in 2008 and 39 percent (\$678 million) in 2007.

In the fourth quarter, Israeli VC funds invested \$102 million or 37 percent of the total capital invested in Israeli high-tech companies, compared to \$151 million invested in Q4 of 2008 and \$89 million invested in the previous quarter. The remainder came from foreign investors as well as non-VC Israeli investors.

In 2009, First investments made by Israeli VCs were 29 percent of the total amount invested by Israeli VC funds, compared to 31 percent in 2008. The average First and Follow-on investments were \$2.07 million and \$0.86 million, respectively.

In the fourth quarter, First investments made by Israeli VC funds accounted for 27 percent of their investments, compared to 23 percent in the fourth quarter of 2008 and 20 percent in the third quarter. The average First investment by Israeli VC funds was \$1.55 million, while the average Follow-on investment was \$0.73 million.

Israeli VC Fund Activity in Foreign Companies

Israeli VC funds invested \$80 million in foreign companies during 2009 (in addition to their investments in Israeli high-tech companies), compared to \$57 million in 2008 and \$50 million in 2007. Nine of the 37 investments were First investments, with Follow-ons accounting for the remainder.

Capital Raised by Sector

In 2009, the **Life Sciences** sector led capital raising with \$272 million or 24 percent of total capital raised, followed by **Software** with \$258 million or 23 percent and the **Communications** sector with \$219 million or 20 percent. **Internet** firms continued to attract investor attention with 13 percent of capital raised in 2009 and 14 percent and 15 percent in 2008 and 2007, respectively. (Chart 2)

The **Software** sector led capital raising in Q4 2009 with \$74 million or 27 percent of capital raised, followed by the **Life Sciences** sector with \$62 million or 22.5 percent.

“Investors are allocating to the life sciences a significantly larger share of the capital invested than in previous years,” observed Marianna Shapira, Research Manager at IVC. With 24 percent of capital invested in 2009, the sector allocation well outpaced the 15 percent of 2008, and also exceeded the six-year average of 21 percent.”

“Interestingly, said Shapira, “the life sciences attracted even more investment than the communications sector, which slipped from first place for the first time since 2000.”

Capital Raised by Stage

In 2009, 77 **Seed** companies attracted \$63 million, the lowest amount raised since 2004. At 5.5 percent, the Seed share of total capital raised was in line with the 5 percent of the previous year, which was lower than the previous four-year average of 8 percent.

In the fourth quarter of 2009, **Seed** companies attracted just 4 percent of total capital raised, compared with 8 percent in the fourth quarter of 2008 and 5 percent in the previous quarter. **Mid Stage** companies captured \$153 million or 56 percent of the total capital raised.

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

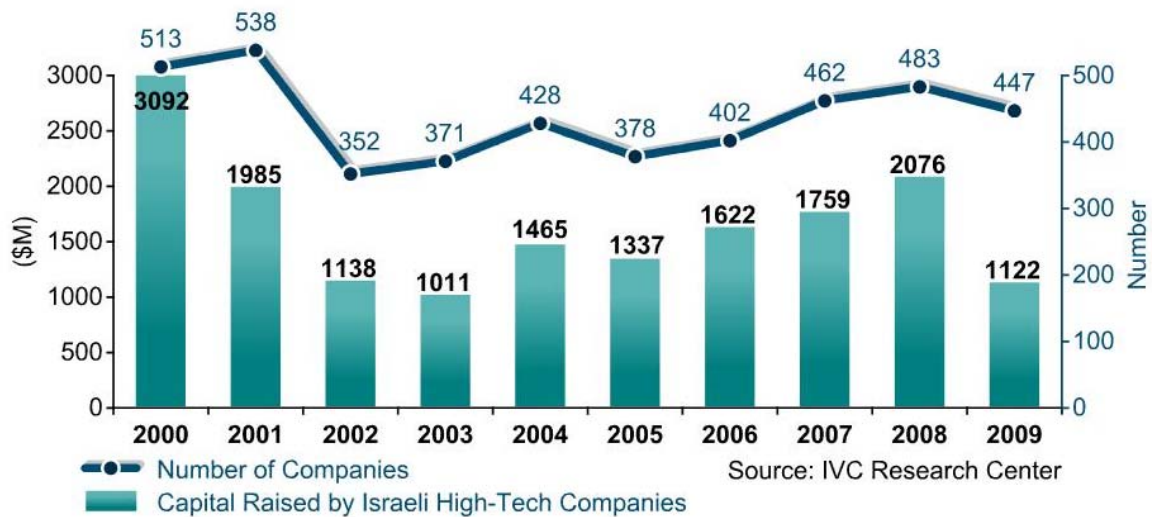
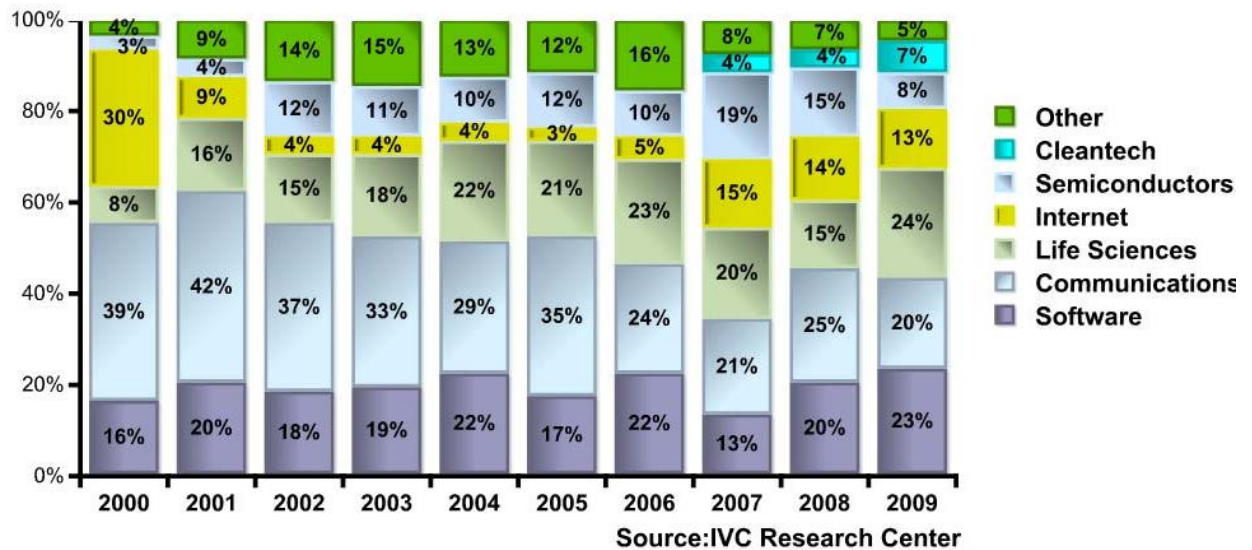


Chart 2: Capital Raised by Israeli High-Tech Companies by Sectors by Year (%)



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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 2010 Yearbook**, due April.

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