

**Summary of Israeli High-Tech Company Capital Raising 2011
IVC and KPMG Report:**

**\$2.14billion raised in 2011, up70 percent from 2010
Israeli VC fund share at 25%**

Tel Aviv, Israel, January 24, 2012. The following are the findings of the *IVC-KPMG Quarterly Survey* conducted by IVC Research Center in cooperation with KPMG SomekhChaikin Israel. This Survey reviews capital raised by private Israeli high-tech companies from Israeli venture capital funds, and foreign and other investors. The Survey is based on reports from 120 investors, of which 49 were Israeli management companies and 71 were other – including foreign – investment entities.

In 2011, 546 Israeli high-tech companies attracted \$2.14billion from local and foreign venture investors, the highest amount in 11 years. This is almost 70 percent above the \$1.26 billion raised by 391 companies in 2010 and 91 percent above the \$1.12 billion raised in 2009. (Chart 1)

The average company financing round was \$3.92 million in 2011, above the \$3.23 million of 2010, and the \$2.51 million of 2009.

“As predicted, 2011 numbers were impressive, but our forecast for 2012 is not as optimistic,” said Koby Simana, CEO of IVC Research Center. “As local venture capital funds have found it increasingly difficult to raise new capital and maintain a satisfactory level of *first* investments in early stage companies, foreign investors have been upping their investments, which more than doubled in the past year,” he explained. “However, with Israeli VCs continuing to downsize their investments and with the world economy still very much unsettled, foreign investors can no longer be counted on to fill in the gap. We believe annual investment can fall to as low as \$1.5 billion if there is no dramatic recovery in the next few months.”

One hundred and twenty-four Israeli high-tech companies raised \$569 million from venture investors – both local and foreign in the fourth quarter of 2011. This is an increase of 9 percent from \$522 million raised by 137 companies in the previous quarter, and a 65 percent jump from \$344 million raised by 100 companies in Q4 2010.

The average company financing round was \$4.59 million in Q4 2011, compared with \$3.81 million in the previous quarter, and \$3.44 million in the year-earlier 2010 period.

In Q4/2011, 77 companies attracted more than \$1 million each. Of these, five raised more than \$20 million, 13 raised between \$10 million and \$20 million, and 17 raised from \$5 million to \$10 million each.

Israeli VC Fund Investment Activity

In 2011, Israeli venture capital funds invested \$525 million in Israeli companies, an increase of 42 percent from 2010, and a rise of 28 percent from 2009 levels. The Israeli VC fund share of total investment was 25 percent, the lowest in the last decade when the Israeli VC share averaged 40 percent.

First investments by Israeli VC funds accounted for 31 percent of their total investments, compared to 29 percent in 2010 and 2009. The average first investment in 2011 was \$2.21 million, while the average follow-on investment was \$1.06 million.

In the fourth quarter, first investments by Israeli VC funds accounted for 44 percent of their total investments, the highest percentage of any quarter in the last four years. This compares to 30 percent and 25 percent in Q3/2011 and Q4/2010, respectively. The average first investment by

Israeli VC funds in the fourth quarter was \$2.9 million, while the average follow-on investment was \$0.95 million.

Investment Rounds Excluding Israeli VC Fund Participation

In 2011, investment transactions in Israeli high-tech companies that excluded Israeli VC fund investment reached \$785 million or 37 percent, the highest percentage in the last decade. This compares with \$269 million (21 percent) and \$205 million (18 percent) invested in 2010 and 2009, respectively.

In the fourth quarter of 2011, investments reached \$218 million, 8 percent below the \$236 million of the previous quarter, which was the highest quarterly amount in 10 years.

Capital Raised by Sector

In 2011, the **Internet** sector attracted the largest share of investments for the first time in the last decade. One hundred and fifteen Internet companies raised \$482 million or 23 percent of total capital raised by high-tech companies, compared to \$222 million or 18 percent raised in 2010, and \$147 million or 13 percent raised in 2009. Eighty-eight **communications** companies followed with \$432 million or 20 percent, an increase of 82 percent from 2010, and 97 percent from 2009. The **Software** sector attracted \$415 million or 19 percent, compared to just \$150 million or 12 percent in 2010.

In the fourth quarter, the communications sector led capital raising with \$142 million or 25 percent of total capital raised, an increase of 25 percent from the previous quarter and 190 percent from the year-earlier period. Internet followed with \$134 million or 24 percent, while the software sector raised \$127 million or 22 percent and the **life sciences** raised \$75 million or 13 percent.

Ofer Sela, partner in KPMG SomekhChaikin's Technology group, observed, "Mobile solutions and applications are the primary factor behind the significant increase in communication company investments in the past two years. Israeli companies have traditionally excelled in the communications sector, and the high quality of such companies is expected to attract foreign investors in the future."

Capital Raised by Stage

In 2011, **mid stage** companies led capital raising - as in the last decade - with \$903 million or 42 percent of total capital raised. **Seed** companies attracted 5 percent, slightly above the 3 percent of 2010 and just below the 5.5 percent of 2009. **Early stage** companies accounted for 26 percent, down from 35 percent in 2010 and 29.5 percent in 2009. Mid and **late stage** companies together raised 1.48 billion, an increase of 90 percent from 2010 period, when mid and late stage companies attracted \$781 million.

In the fourth quarter of 2011, 24 seed companies attracted \$21 million or 4 percent of total capital raised, compared to \$48 million or 9 percent in the previous quarter and \$9 million or 2 percent in the fourth quarter of 2010. **Mid stage** companies led capital raising with \$201 million or 35 percent of total capital raised, the lowest percentage for the mid stage in the last three years.(Chart 2)

According to KPMG SomekhChaikin's Sela, "The significant increase in late stage investments indicates the strength of Israel's technology industry, as well as its attractiveness to foreign investors. An impressive number of mature Israeli companies have reached substantial sales. A decade ago, such companies would most likely have gone the IPO route, raising funds publicly. Today, due to changed conditions in IPO markets, these companies are relying principally on both existing and late-stage investors. As a result, we expect a large portion of these companies to be sold over the coming 24-month period."

Chart 1: Capital Raised by Israeli High-Tech Companies 2007-2011 (\$M)

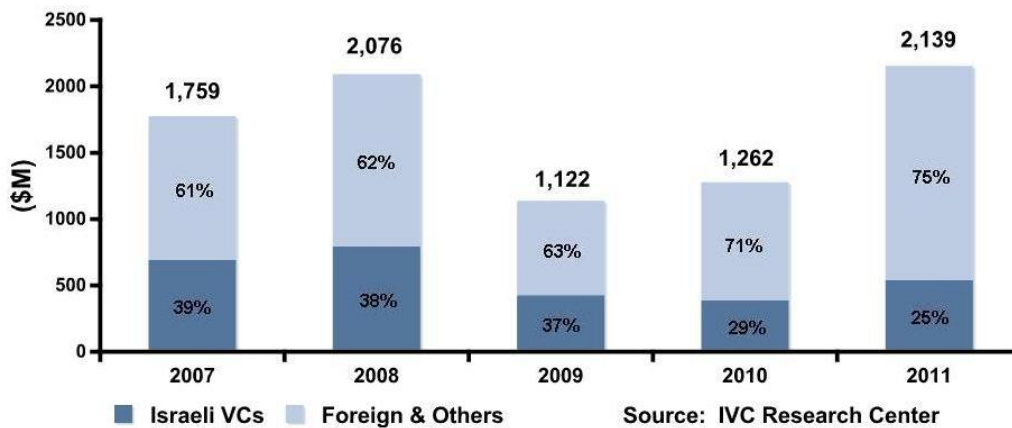
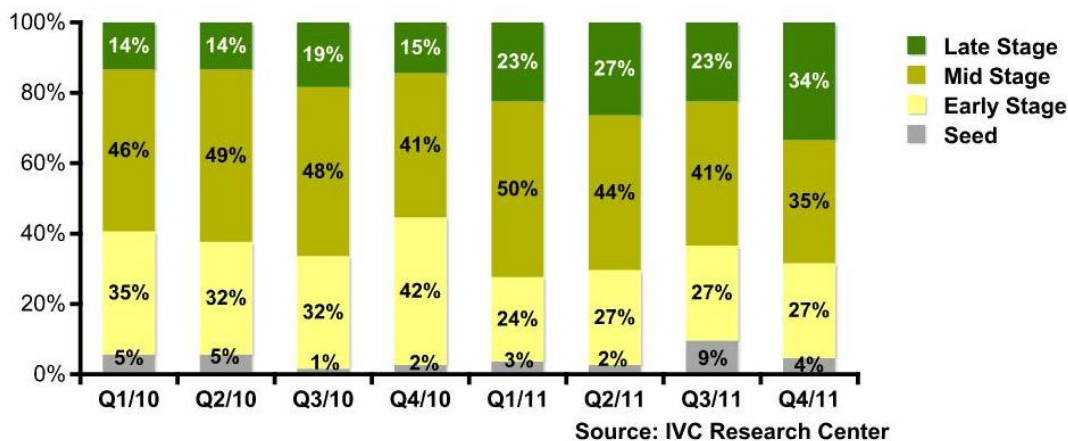


Chart 2: Capital Raised by Israeli High-Tech Companies by Stage by Quarter (%)



For additional information, please visit: www.ivc-online.com

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About the authors of this survey:

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 8,500 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 for over 15 years has been analyzing capital raising trends by Israeli high-tech companies, as well as the most comprehensive guide to Israeli high technology and venture capital – the *IVC 2012 Yearbook*, due to be published April 2012.

KPMG SomekhChaikin's technology professionals offer insights and experience accumulated from a long history of work with technology and life science companies. Through a global network of highly qualified professionals in Israel, the Americas, Europe, the Middle East, Africa and Asia-Pacific, KPMG helps clients address the opportunities and challenges driven by new business models such as cloud computing mobile services and others. KPMG is a global network of professional firms providing Audit, Tax and Advisory services. KPMG operates in 146 countries and has 140,000 people working in member firms throughout the world.