

# IVC High-Tech Survey

## Q1 2004

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The IVC Research Center's quarterly survey, conducted with the cooperation of the Israel Venture Capital Association (IVA), reviews capital raised by private Israeli high-tech companies from Israeli venture capital funds and from other investors. The Survey is based on reports from 117 venture investors, of which 61 are Israeli management companies and 56 are other – mostly foreign – investment entities.

In the first quarter of 2004, 111 Israeli high-tech companies raised \$323 million from venture investors – both local and foreign (Chart 1). The amount was up 31 percent from the \$246 million raised by 96 companies in the previous quarter and 53 percent higher than the \$211 million raised by 86 companies in the first quarter of 2003. The average company financing round increased by 13 percent from the previous quarter and 18 percent from the first quarter of 2003 to \$2.9 million. Sixty-seven companies attracted more than \$1 million. Of these, 11 companies each raised between \$5 million and \$10 million, and ten companies each raised more than \$10 million.

### Israeli VCs boost investments

In the first quarter, Israeli VCs invested \$158 million in Israeli companies, an increase of 52 percent from the previous quarter and 68 percent above Q1 2003 levels. The Israeli VC share of the total amount invested in Israeli high-tech companies rose to 49 percent, compared with 42

percent in the previous quarter.

First investments in Israeli companies accounted for 44 percent of total Israeli VC investments, compared with 42 percent in the previous quarter (Chart 2). The average First investment by Israeli VCs was \$2.0 million, and the average Follow-on investment was \$0.8 million.

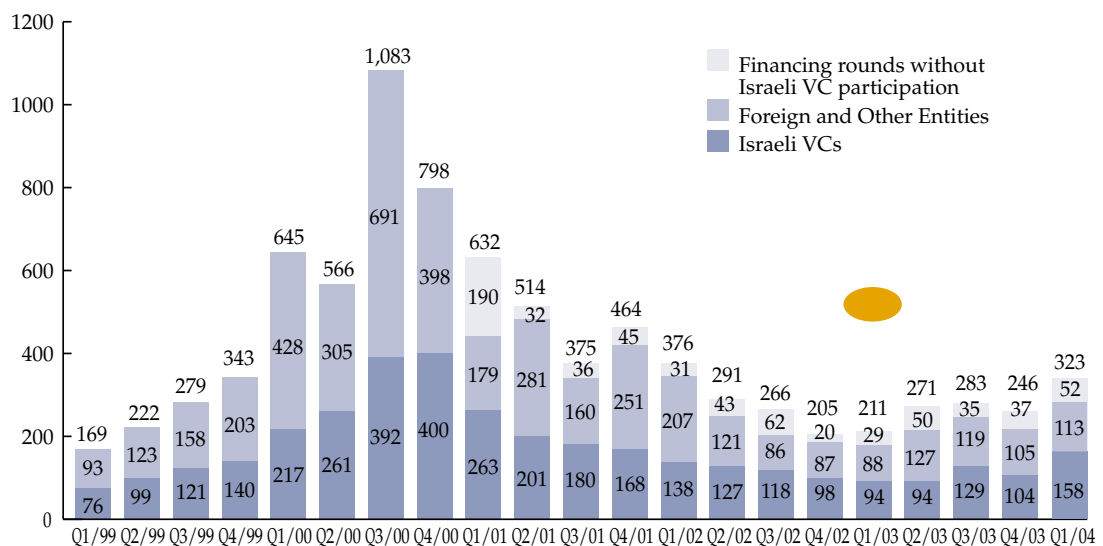
Israeli VCs continue to invest in foreign companies with \$22 million invested in 10 foreign companies in the first quarter. This compares to \$33 million invested in foreign companies in the previous quarter and \$18 million in the first quarter of 2003. Five of the 10 investments were First investments.

### Capital raised by stage

High-tech companies in this Survey were divided into four categories: Seed, Early Stage, Mid Stage, and Late Stage.

Thirteen Seed companies raised \$13 million in Q1, compared to 14 Seed firms that raised \$10 million in the previous quarter. In both periods, Seed firms accounted for four percent of the total raised. In the first quarter of 2003, two Seed companies raised \$7 million, only two percent of the total. Forty-five Early Stage companies attracted \$77 million (24 percent of the total raised), compared to \$86 million (35 percent) raised by 28 Early Stage companies in Q4 and \$66 million (31 percent) raised by 42 Early Stage companies in 2003's first quarter. Mid Stage companies continued to dominate capital raising as they had for the previous six quarters. Forty-

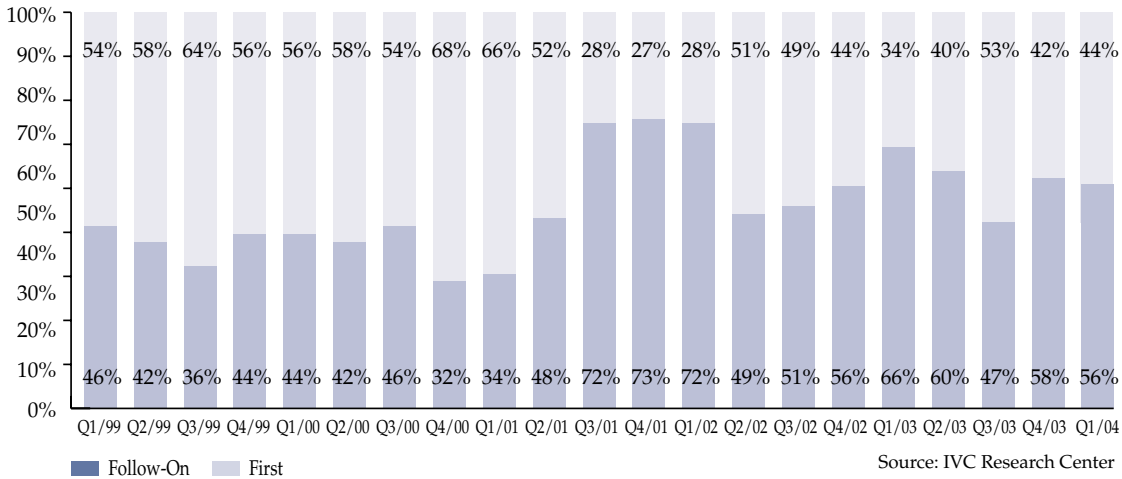
**Chart 1: Capital Raised by Israeli High-Tech Companies by Quarter (\$m)**



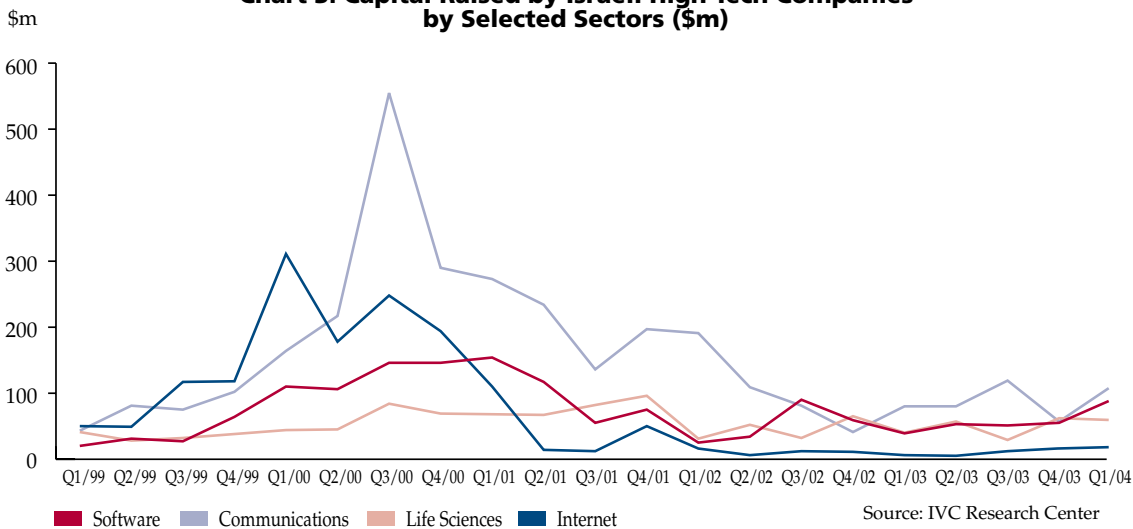
Note: From Q1/2001 data include financing rounds without Israeli VC participation.

Source: IVC Research Center

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



**Chart 3: Capital Raised by Israeli High-Tech Companies by Selected Sectors (\$m)**



four Mid Stage companies raised \$169 million (52 percent of the total), while 51 companies raised \$134 million (55 percent) in the prior quarter. In the Q1 2003 period, 39 companies attracted \$94 million (45 percent). Late Stage companies experienced a large jump in capital raised in Q1. Nine firms attracted \$64 million, compared with only \$16 million raised by three companies in Q4 2003 and \$44 million raised by three companies in Q1 2003.

### Capital Raised by Sector

#### Communications

The Communications sector (Chart 4) led the first quarter in fund raising. Twenty-seven communications companies attracted \$108 million (33 percent of the total amount raised), compared with 25 companies that raised \$56 million (23 percent) in the previous quarter and 19 companies that raised \$79 million (37 percent) in the first quarter of 2003. The average amount raised by communications companies rebounded to \$4.0 million from \$2.2 million in Q4 2003. In the year-earlier quarter, the average raised was \$4.1 million.

Within the Communications sector, the Wireless subsector attracted \$49 million via 10

Wireless companies (45 percent of the amount raised by the communications sector). The Telecommunications subsector followed with seven companies that raised \$21 million (19 percent), while three Data Communications and six Optical firms raised \$18 million (17 percent) and \$17 million (16 percent), respectively.

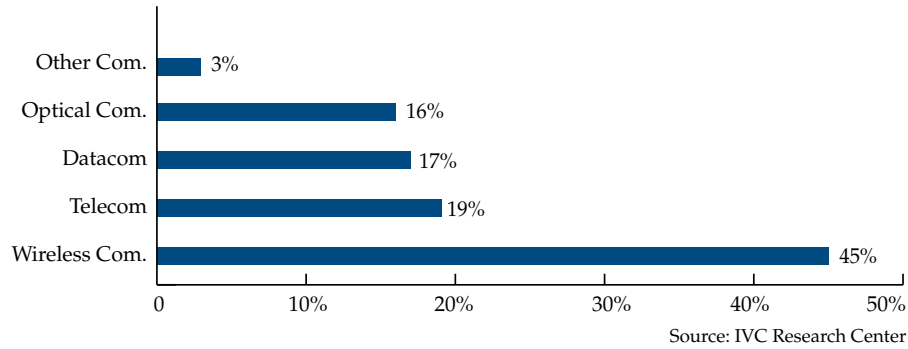
#### Software

Twenty-seven Software firms attracted \$89 million, versus \$54 million raised by 24 software companies in the previous quarter and \$38 million by 21 companies in Q1 2003. Software companies accounted for 27 percent of capital raised, compared with 22 percent in Q4 2003 and 18 percent in Q1 2003 (chart 3).

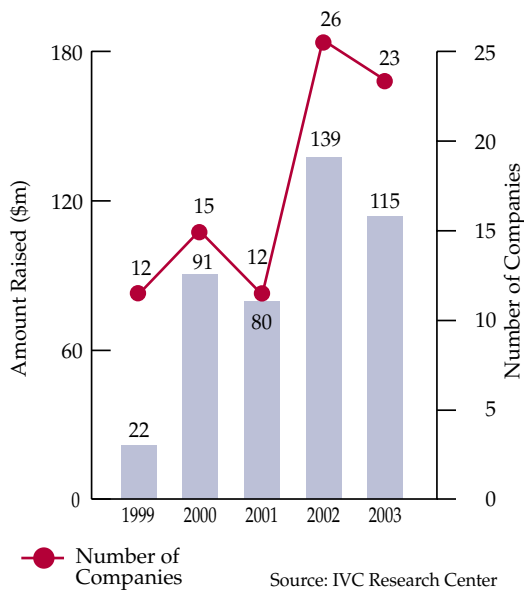
#### Internet

In the past two quarters, the amounts raised by the Internet sector have shown a slight recovery from previous depressed levels. In Q1 2004, four Internet companies raised \$19 million, and in Q4 2003, four companies raised \$21 million. In Q1 2003, however, two companies raised only \$5 million. The Internet sector share of the total amount raised was six percent in Q1 2004, eight percent in Q4 2003 and two percent in Q4 2003.

**Chart 4: Capital Raised by Israeli Communications Companies Q1/04 (%)**



**Chart 5: Capital Raised by Israeli Semiconductor Companies**



**Semiconductors**

In Q1, ten semiconductor firms attracted \$33 million, compared with six companies that raised \$23 million in the previous quarter. Comparing 2003 to 1999 (Chart 5), capital raising (by 23 firms) jumped-five fold to \$115 million in 2003 from \$22 million (12) in 1999.

**Life Sciences**

Q1 fund raising in the Life Sciences was little changed from the previous quarter. Thirty-two Life Science companies raised \$60 million (19 percent of the total amount raised), compared with 26 companies that raised \$61 million (25 percent) in Q4 2003 and 26 companies that attracted \$39 million (18 percent) in Q1 2003. Within the sector, Medical Devices accounted for \$31 million or just over half the capital raised.

**Capital Raised - Israel vs. Asia-Pacific**

Capital raising patterns differed slightly between Israel and the Asia-Pacific region (Chart 6) in the period 1999-2003. Based on data developed by the IVC Research Center and the Asian Venture Capital Journal, capital raised by Israeli high-tech companies peaked in 2000, then declined to a plateau of just above \$1 billion in 2002 and 2003. Asia-Pacific high-tech capital raising topped out in 2001. While falling sharply in 2002, Asia-Pacific capital raising rebounded significantly in 2003. ■

**Chart 6: Capital Raised by High Tech Companies Israel vs. Asia-Pacific**

