

IVC High-Tech Survey Q1 2005

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The following are the findings of the Quarterly Survey conducted by the IVC Research Center, which for more than eight years has been at the forefront of venture capital and private equity research in Israel. This Survey, conducted with the cooperation of the Israel Venture 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 105 venture investors of which 58 are Israeli management companies and 47 are other – mostly foreign – investment entities.

In the first quarter of 2005, 102 Israeli high-tech companies raised \$350 million from venture investors – both local and foreign (Chart 1). The amount was down four percent from the \$366 million raised by 113 companies in the previous quarter and was eight percent higher than the \$323 million raised by 111 companies in the first quarter of 2004.

The average company financing round increased by six percent from the previous quarter and 18 percent from the first quarter of 2004 to \$3.4 million. Sixty-eight companies attracted more than \$1 million. Of these, 16 companies raised between \$5 million and \$10 million each and five companies raised more than \$10 million each.

Israeli VC investment activity

In the first quarter, Israeli VCs invested \$173 million in Israeli companies, an increase of 10 percent from both the previous quarter and from Q1 2004 levels. The Israeli VC share of the total amount invested in Israeli high-tech was 49 percent. The remainder of capital invested was from foreign sources and also from other Israeli investors.

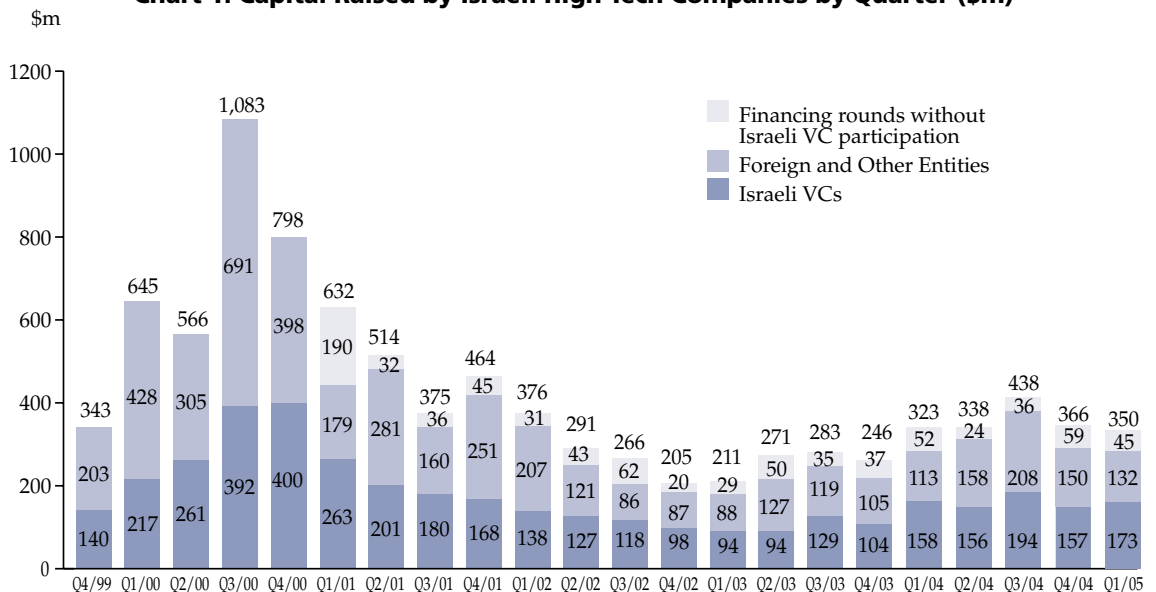
First investments accounted for 50 percent of total dollar investments by Israeli VCs in Q1, compared with 46 percent in Q4 2004, and 44 percent in Q1 2004. The average First investment by Israeli VCs was \$2.7 million, while the average Follow-on investment was \$0.7 million.

During the first quarter of 2005, nine Israeli VCs invested \$24 million in 13 Seed companies. Five Software companies accounted for \$11 million or 46 percent of total seed investments, three Communications companies accounted for \$7 million or 29 percent, one Internet company for \$3 million or 13 percent, and five Life Science companies accounted for \$3 million or 13 percent, as well.

Israeli VC activity in foreign companies

In Q1, Israeli VCs invested \$31 million in 11 foreign companies in addition to their investments in Israeli high-tech companies. This compares to \$24 million invested in foreign companies in the

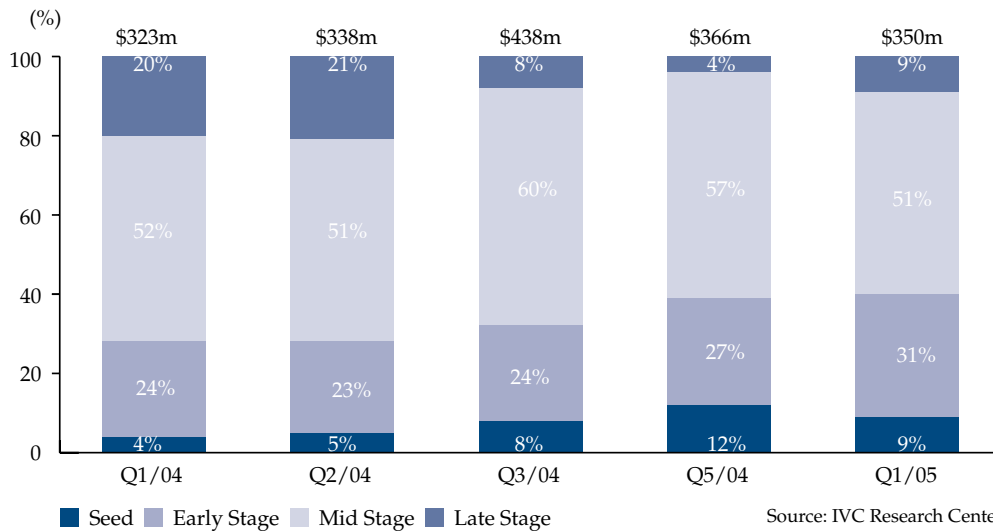
Chart 1: Capital Raised by Israeli High-Tech Companies by Quarter (\$m)



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

Source: IVC Research Center

Chart 2: Capital Raised by Israeli High Tech Companies by Stage



previous quarter and \$28 million in the first quarter of 2004. Five of the 11 investments were First investments.

Capital raised by sector (Chart 2)

Communications attracted more capital than any other sector in Q1 as capital raised by 31 Communications companies reached \$120 million or 34 percent of the total amount raised. This compares with 21 percent in Q4 2004 and 33 percent in Q1 2004.

In the first quarter of 2005, 32 **Software** companies raised \$105 million, thirty percent of the total capital raised compared with \$68 million (19 percent) in the fourth quarter of 2004 and \$89 million (27 percent) in the first quarter of 2004.

Twenty-one **Life Science** companies attracted \$87 million in the first quarter of 2005, compared with \$130 million or 35 percent in the previous quarter and \$60 million or 19 percent in Q1 2004. Although capital raised in Q1 declined 33 percent from Q4 2004 levels, the Life Sciences still attracted an impressive 25 percent of total capital raised, aided by a standout round of more than \$30 million.

In the first quarter, two **Internet** companies raised \$7 million, attracting only two percent of the amount raised by all sectors. This compares with \$24 million or seven percent in Q4 2004 and \$19 million or six percent in Q1 2004.

Capital Raised by Stage (Charts 3-4)

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

In Q1 2005, 14 **Seed** companies accounted for \$32 million or nine percent of capital raised, compared to \$42 million (12 percent) raised in Q4 2004 and just \$13 million (four percent) in Q1 2004. Fifty-three percent of capital raised by seed companies was directed to five software companies. Three seed communications companies attracted 21 percent, four seed Life Sciences companies attracted 17 percent and one Internet company attracted eight percent.

In the fourth quarter, 34 **Early Stage (R&D)** companies attracted \$108 million or 31 percent of the total raised, which compares with \$99 million or 27 percent in 2004's fourth quarter and \$77 million or 24 percent in 2004's first quarter.

Mid Stage companies (up to \$10 million in revenues) continued to dominate capital raising as they have for the past 11 quarters. Fifty Mid Stage companies raised \$178 million, 51 percent of total capital raised in Q1 compared to \$210 million (57 percent) in Q4 2004 and \$169 million (52 percent) in Q1 2004.

In the first quarter of 2004, four **Late Stage** companies attracted \$32 million or nine percent of the total, compared with \$15 million or 4 percent in the previous quarter and \$64 million or 20 percent in the first quarter of 2004.

Chart 3: Capital Raised by Israeli Seed Companies (\$m)

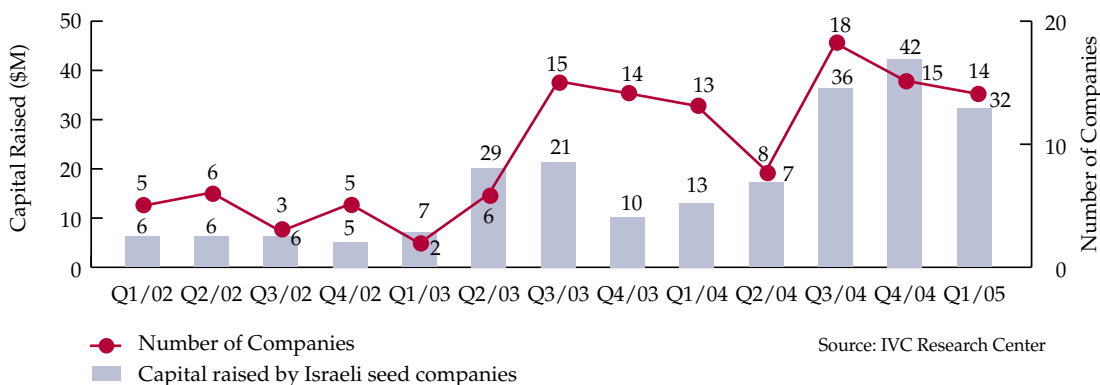
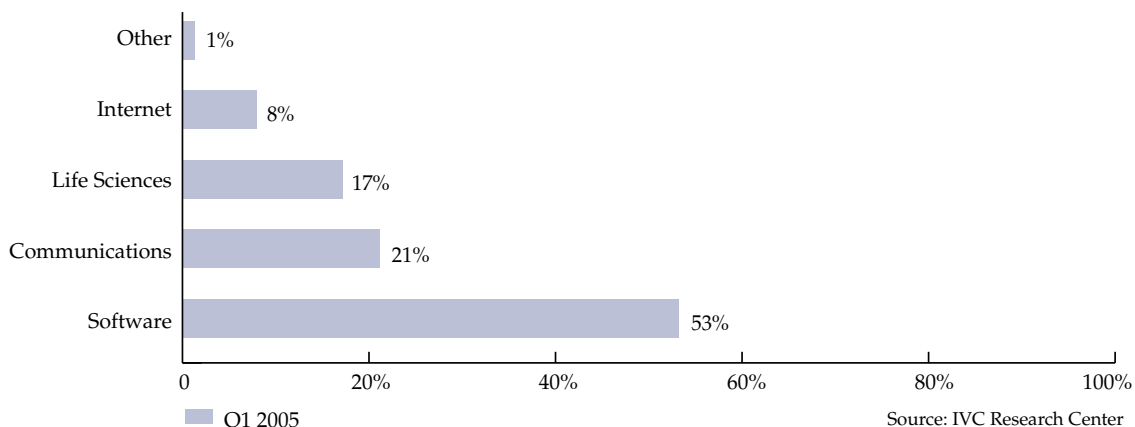
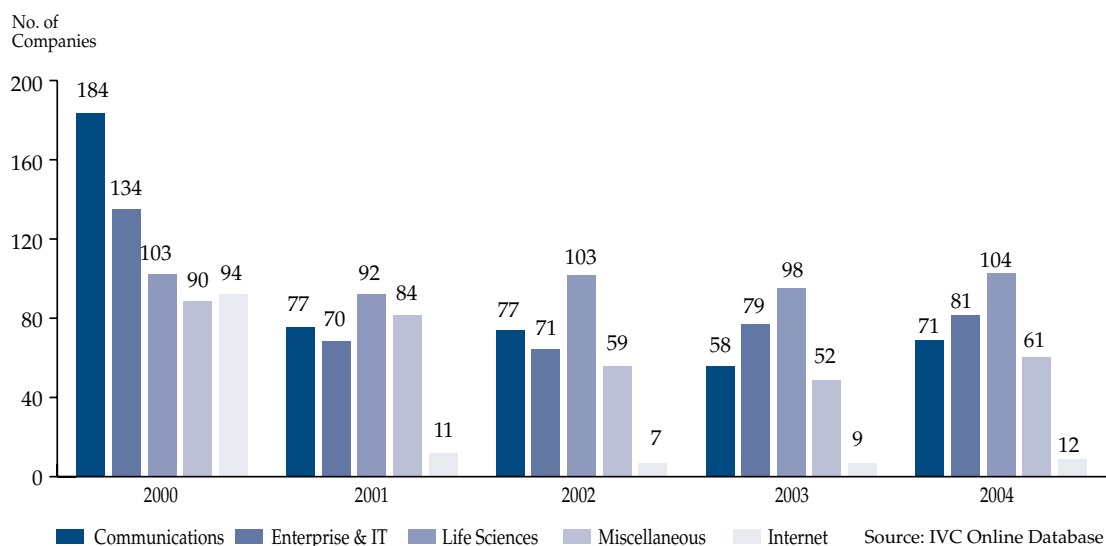


Chart 4: Capital Raised by Israeli Seed Companies - by Sector -

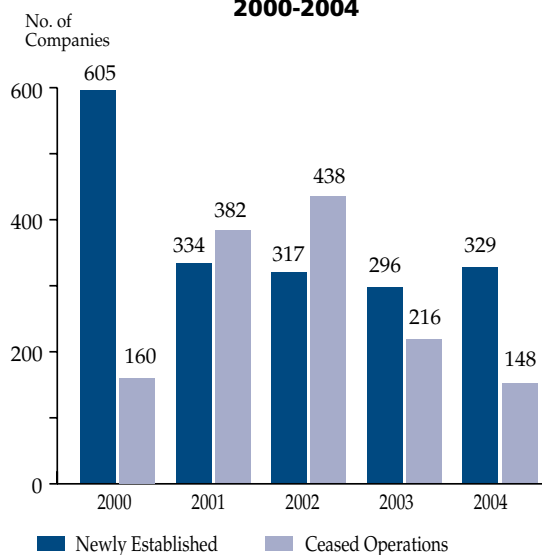


Statistics from the IVC-Online Database

Israeli High-tech Companies – Newly Established – by Sector 2000-2004



Israeli High-tech Companies Newly Established vs. Ceased Operation 2000-2004



Newly Established Israeli High-Tech Companies – by Sector 2000-2004

The number of newly established Israeli high-tech companies in the last four years approximates 300. Newly established companies have only partially offset closings, which reached 438 in 2002, declining to 216 and 148 in 2003 and 2004, respectively. In 2004, more companies were established in the Life Sciences than in any other industry for the fourth year running. This trend continued in early 2005 with 13 of the 29 newly established firms in the Life Sciences. ■