

IVC High-Tech Survey Q2/H1 2004

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The following are the findings of the Quarterly Survey conducted by the IVC Research Center, which for more than seven 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 117 venture investors of which 62 are Israeli management companies and 55 are other – mostly foreign – investment entities.

In the second quarter of 2004, 91 Israeli high-tech companies raised \$338 million from venture investors – both local and foreign (Chart 1). The amount was up 5 percent from the \$323 million raised by 111 companies in the previous quarter and was 25 percent higher than the \$271 million raised by 86 companies in the second quarter of 2003.

The average company financing round increased by 27 percent from the previous quarter and 17 percent from the second quarter of 2003 to \$3.7 million. Sixty-four companies attracted more than \$1 million. Of these, eight companies raised between \$5 million and \$10 million each, and eight companies raised more than \$10 million each. In the first half of 2004, capital raising was up 37 percent from H1 2003 levels.

Israeli VC investments

In the second quarter, Israeli VCs invested \$156 million in Israeli companies compared with \$158 million in the previous quarter and \$94 million in Q2 2003. The Israeli VC share of the total amount invested in Israeli high-tech companies was 46 percent, slightly below the 49 percent share of the previous quarter.

First investments by Israeli VCs were 38 percent of total VC investments, compared with 44 percent in the previous quarter and 40 percent in the second quarter of 2003 (Chart 2).

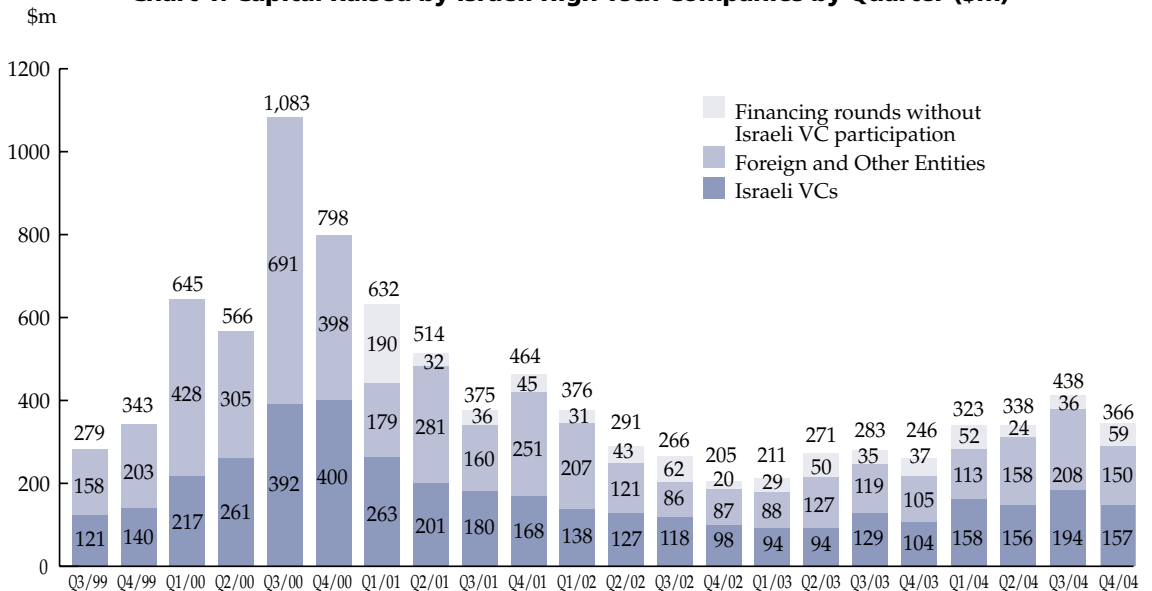
The average First investment by Israeli VCs in Q2 2004 was \$2.5 million, and the average Follow-on investment was \$1.1 million.

In the first half of 2004, the Israeli VC share of the total amount invested in Israeli high-tech companies was 48 percent, substantially above the 39 percent share in the same period in 2003. First investments by Israeli VCs were 40 percent of total VC investments, compared with 37 percent in the first half of 2003.

Israeli VCs continue to invest in foreign companies

Israeli VCs invested \$32 million in 17 foreign companies in Q2. This compares to \$22 million invested in foreign companies in the previous quarter and \$34 million in the second quarter of 2003. Five of the 17 investments were First investments.

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 (%)

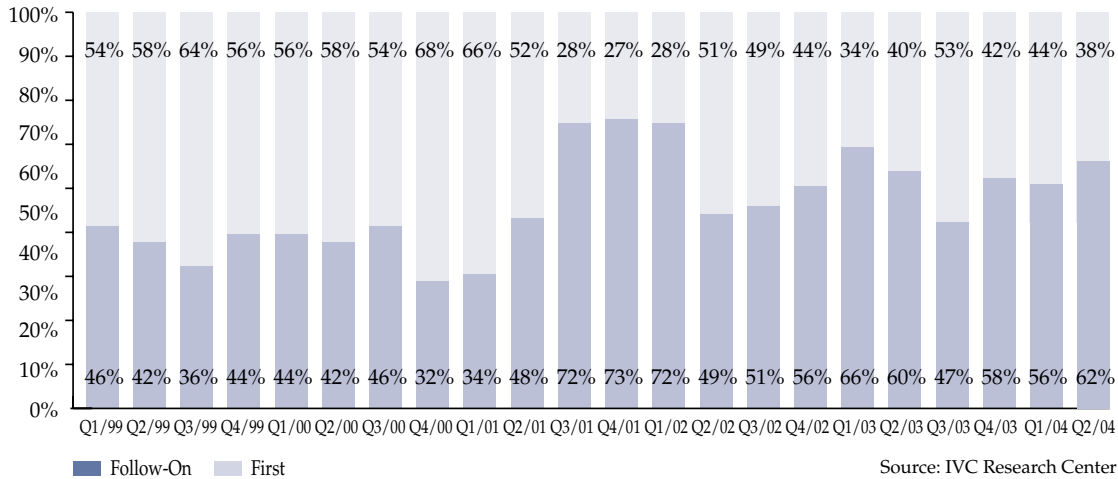
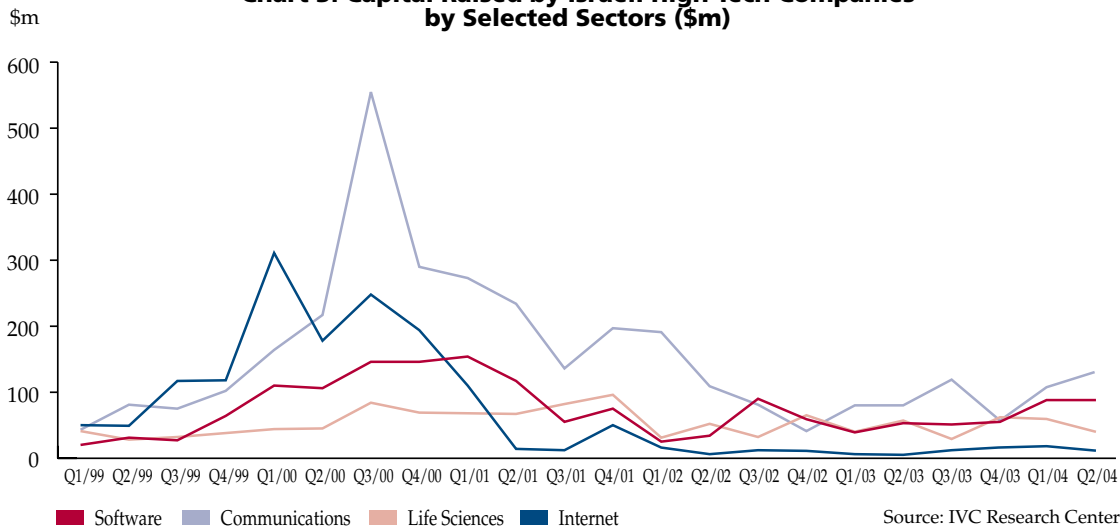


Chart 3: Capital Raised by Israeli High-Tech Companies by Selected Sectors (\$m)



Capital Raised by Sector

The **Communications** sector led the second quarter in fund raising (Chart 3). Thirty-two Communications companies attracted \$123 million, 36 percent of the total amount raised, compared with 33 percent in the previous quarter and 29 percent in the second quarter of 2003. Three of the Communications companies attracted more than \$15 million each during the quarter. The Communications sector led the first half of 2004 as well, attracting 35 percent of the total, compared with 33 percent in H1 2003 (Chart 4).

Twenty **Software** firms attracted \$89 million, the same amount raised by 27 companies in the previous quarter, which compared with \$52 million raised by 17 companies in the second quarter of 2003. Software companies accounted for 26 percent of capital raised in the second quarter of 2004, compared with 27 percent in Q1 and 19 percent in Q2 2003. Four Software companies raised more than \$10 million each in the quarter. During the first half of 2004, Software companies attracted \$178 million, 27 percent of the total and almost double \$90 million (19 percent) raised in H1 2003.

The **Life Sciences** sector showed a decrease in fund raising in the second quarter with 15 companies raising only \$40 million or 12 percent of total capital raised. The amount was 33 percent lower than the amount raised by Life Science companies in the previous quarter (\$60 million, 19 percent of the total) and 29 percent lower than Q2 2003 figures (\$56 million, 21 percent of the total). Within the sector, **Medical Devices** attracted \$21 million, 53 percent of the amount raised and six percent of total capital raised. During the first half of 2004, Life Science companies attracted \$100 million, 15 percent of the total, compared to \$95 million or 20 percent of the total in H1 2003.

In Q2 2004, three **Internet** companies raised \$7 million, an amount 63 percent below the \$19 million raised in the previous quarter and 75 percent above the minimal \$4 million raised in the year earlier quarter. The Internet sector share of the total amount raised in Q2 2004 was only two percent compared with six percent in the previous quarter and two percent in the corresponding year-earlier quarter. In the first half of 2004, the Internet sector accounted for four percent of total capital raised, an improvement from two percent in H1 2003.

Chart 4: Share of Capital Raised by Israeli High-Tech Companies by Sector H1 2004 vs. H1 2003

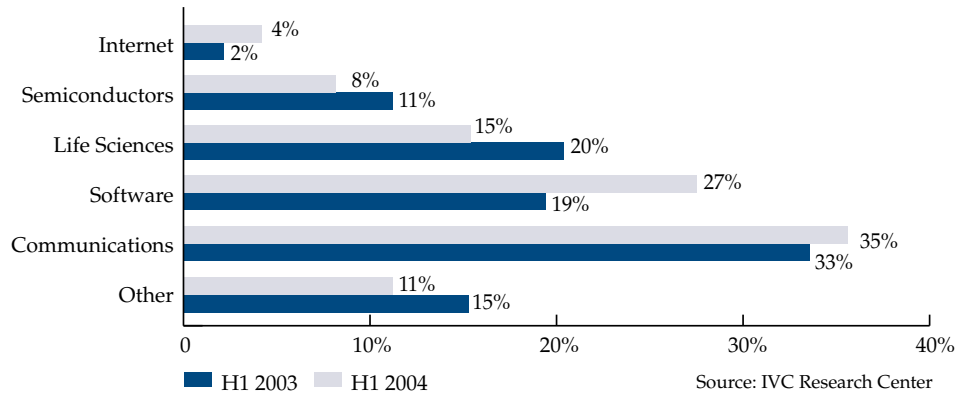
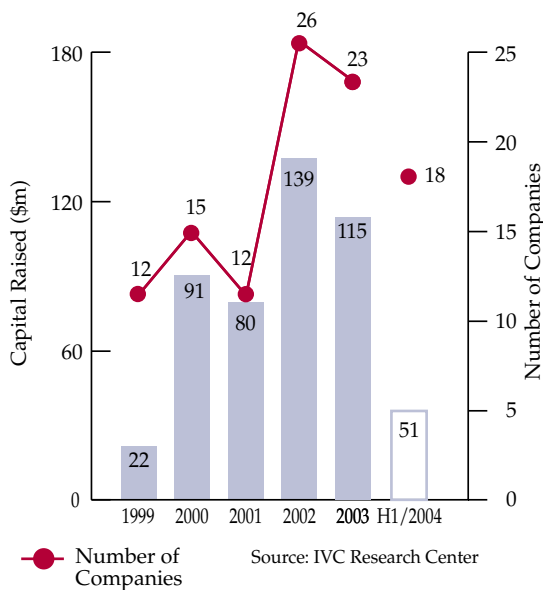


Chart 5: Capital Raised by Israeli Semiconductor Companies



Semiconductors (Chart 5-6)

Eight semiconductor firms attracted \$18 million (6 percent of the total amount raised), compared with ten companies that raised \$33 million (10 percent) in the previous quarter and four firms that raised \$14 million (5 percent) in Q2 2003. In the first half of 2004 the sector attracted \$51 million, about eight percent of the total, compared with \$55 million or 11 percent in H1 2003.

Capital Raised by Stage

High-tech companies in this Survey were divided into 4 categories: Seed, Early Stage, Mid Stage, and Late Stage.

There were no major changes in investments by stage in the first two quarters.

Eight **Seed** companies raised \$17 million, five percent of the total raised, compared with \$13 million, or four percent of the total, in the previous quarter and \$20 million, or seven percent in Q2 2003. During the first half of 2004, Seed companies attracted 4.5 percent of the total, compared with 5.6 percent in H1 2003.

Twenty-nine **Early Stage** companies attracted \$77 million (23 percent of the total raised), compared to \$77 million (24 percent) raised by 45 Early Stage companies in Q1 and \$94 million (35 percent) raised by 34 Early Stage companies in 2003's second quarter. During the first half of 2004, Early Stage companies attracted 23 percent of the total, compared with 33 percent in H1 2003.

In the second quarter **Mid-Stage** companies continued to dominate capital raising as they have for the past two and a half years. Forty-six Mid-Stage companies raised \$174 million, 51 percent of total capital raised.

Eight **Late Stage** companies attracted \$70 million, compared with \$64 million raised by nine companies in Q1 and \$27 million raised by six companies in Q2 2003. During the first half of 2004, Late Stage companies attracted 20 percent of the total, compared with 15 percent in H1 2003. ■

Chart 6: Semiconductor Capital Raising as % of Total Capital Raised Israel / Europe / US

