



IVC High Tech Survey - Half Year 2006, Q2

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 84 venture investors of which 55 are Israeli management companies and 29 are other – mostly foreign – investment entities.

In the second quarter of 2006, 109 Israeli high-tech companies raised \$404 million from venture investors – both local and foreign (Chart 1). The amount was up 12 percent from \$360 million raised by 101 companies in the previous quarter, and four percent ahead of the \$387 million raised by 98 companies in the second quarter of 2005. In the first half of 2006, capital raised was \$764 million, up four percent from H1/2005 levels.

In Q2, the average high-tech financing round was \$3.7 million, up four percent from the previous quarter and down six percent from the second quarter of 2005. Sixty-nine companies attracted more than \$1 million. Of these, 21 companies raised \$5 million to \$10 million each, and 13 companies raised more than \$10 million each.

Israeli VC Investment Activity

In the second quarter of 2006, Israeli VCs invested \$154 million in Israeli companies, a decrease of 13 percent from the previous quarter and six percent below Q2/2005's \$163 million.

The Israeli VC share of the total amount invested in Israeli high-tech was 38 percent, with the remainder of capital coming from foreign investors as well as non-VC Israeli investors.

First investments accounted for 35 percent of total dollar investments by Israeli VCs in the second quarter, compared with 37 percent in the previous quarter and 40 percent in the second quarter of 2005. The average First investment by Israeli VCs was \$2.35 million, while the average Follow-on investment was \$0.85 million.

In H1/2006, the Israeli VC fund share of investments in Israeli high-tech companies was 43 percent, compared to 46 percent in the corresponding period in 2005. First investments by Israeli VC funds were 36 percent of their total investments, versus 46 percent in H1/2005.

Israeli VC investments in foreign companies

In the second quarter of 2006, Israeli VC investments in foreign companies amounted to \$8 million. First half foreign investments totaled \$32 million – a 48 percent drop from the corresponding H1/2005 period. All H1/2006 foreign investments were Follow-ons.

Capital Raised by Sector (Charts 2-3)

The **Communications** sector led the second quarter and the first half of 2006 in fund raising. Thirty-four Communications companies attracted \$131 million - 32 percent of the total amount raised in the quarter, compared with \$86 million or 24 percent in the previous quarter and \$136 million or 35 percent in the second quarter of 2005.

Within Communications, Data companies attracted 6 percent of capital raised in Q2, Optical companies 24 percent, Wireless companies 50 percent, Telecommunications firms 12 percent and Other communications companies 8 percent. In H1/06, Communications companies raised \$217 million, 28 percent of the total capital raised in the period.

Life Science companies followed the Communications sector in Q2 with 19 Life Science companies attracted \$68 million or 17 percent of total capital raised. This compares with \$69 million or 19 percent in the previous quarter and \$94 million or 24 percent in Q2 2005. In H1/06, Life Sciences companies raised \$137 million or 18 percent of the total capital raised in the period.

Software

Twenty-four Software companies raised \$60 million, 15 percent of the total capital raised in the second quarter of 2006, compared with \$82 million or 23 percent in the first quarter of 2006 and \$32 million or just 8 percent in the second quarter of 2005. In H1/2006, Software was the second most attractive Israeli sector raising \$142 million, 19 percent of total capital raised in the period.

Internet

The Internet sector stood out in the second quarter of 2006, raising \$36 million, 9 percent of the capital raised. This figure was high compared to the quarterly average of \$11 million - 3.6 percent of total capital raised - over the past four years, though still a long way from the 48 percent peak of Q1/2000. In H1/2006, the Internet sector attracted 8 percent of capital raised.

Semiconductors

Eight Semiconductor companies raised \$33 million, 8 percent of the total capital raised in the second quarter of 2006, compared with \$55 million (15 percent) and \$57 million (15 percent) in Q1/2006 and Q2/2005, respectively. In H1/05, the Semiconductors sector attracted \$88 million, 11 percent of the total capital raised in the period.

Capital Raised by Stage (chart 4)

High-tech companies in this survey were divided into four categories: Seed, Early Stage-R&D, Mid-Stage- Revenues up to \$10 million), and Late Stage.

In the second quarter of 2006, 10 **Seed** companies attracted \$14 million, only 3 percent of capital raised. This compares with \$50 million or 14 percent in the previous quarter and \$22 million or 6 percent in the second quarter of 2005. Half year figures for Seed firms, encompassing both the exceptionally high first quarter and slow second quarter, were \$64 million or 8 percent total capital raised, up from \$57 million or 7 percent in H1/2005.

In the second quarter, 36 **Early Stage** companies attracted \$103 million or 25 percent of the total raised, compared with \$148 million or 41 percent in the previous quarter and \$96 million or 25 percent in 2005's second quarter. During the first half of 2006, early stage companies attracted \$251 million, 33 percent of the total.

In Q2/06, **Mid-Stage** companies dominated capital raising as they have for the past four years. Forty-seven Mid-Stage firms raised \$172 million, 43 percent of total capital raised. During the first half of 2006, Mid-stage companies attracted \$321 million, 42 percent of the total.

In the second quarter of 2006, 16 **Late Stage** companies attracted \$115 million or 29 percent of the total, compared with only \$13 million or 4 percent in the previous quarter and \$72 million or 18 percent in the second quarter of 2005. During the first half of 2006, late stage companies attracted \$128 million, 17 percent of the total.

Capital raised: Israel vs. US (Chart 5)

A comparison of data developed by IVC and VentureOne indicates that capital raised by high-tech companies in Israel equalled 6 percent of capital raised in the US in Q2/2006 and 5.9 percent in H1/2006.

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

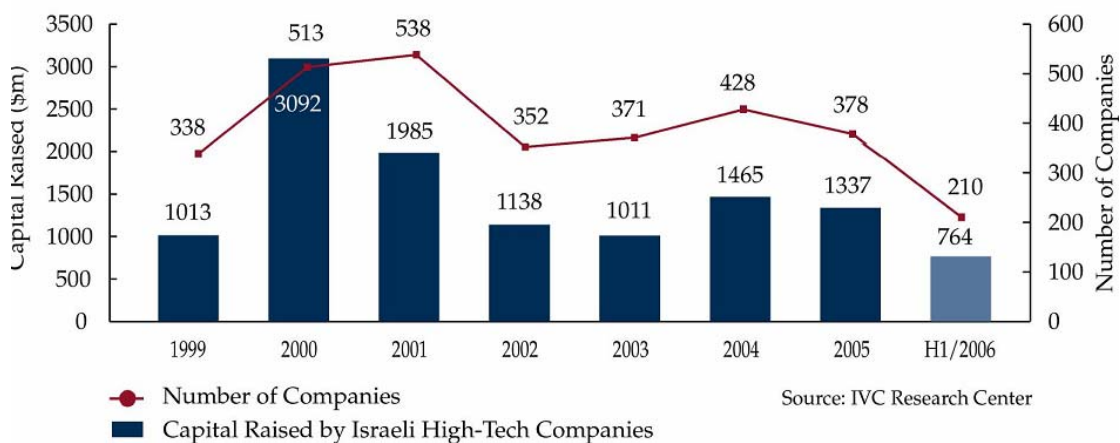


Chart 2: Capital Raised by Israeli High-Tech Companies by Sector

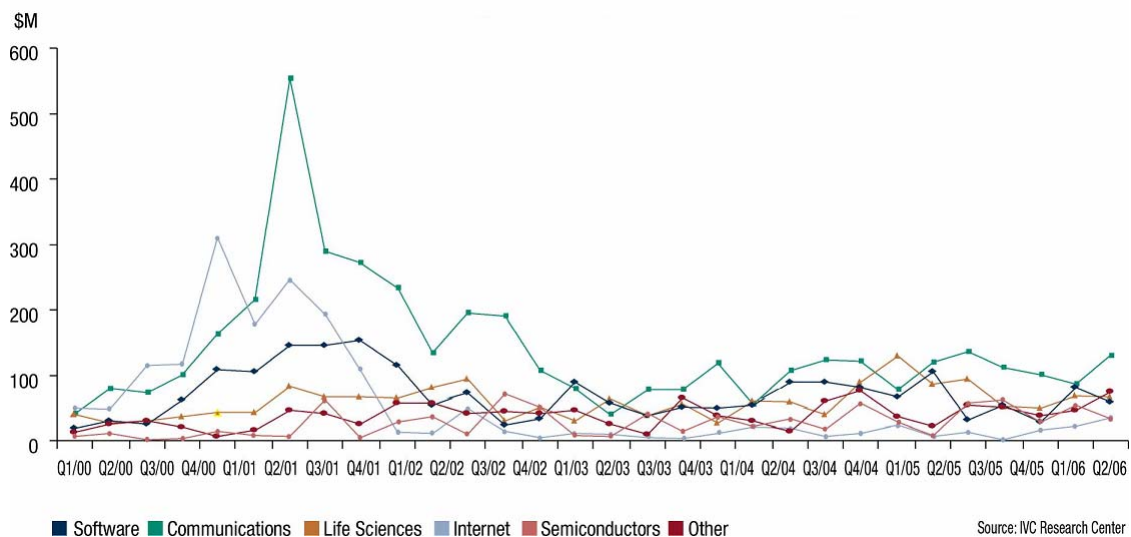


Chart 3: Capital Raised by Israeli Communication Companies

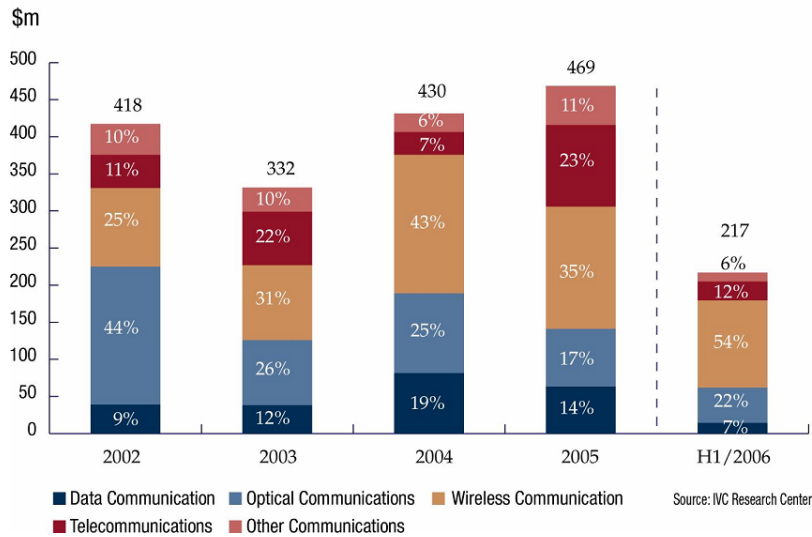


Chart 4: Capital Raised by Israeli High-Tech Companies by Stage

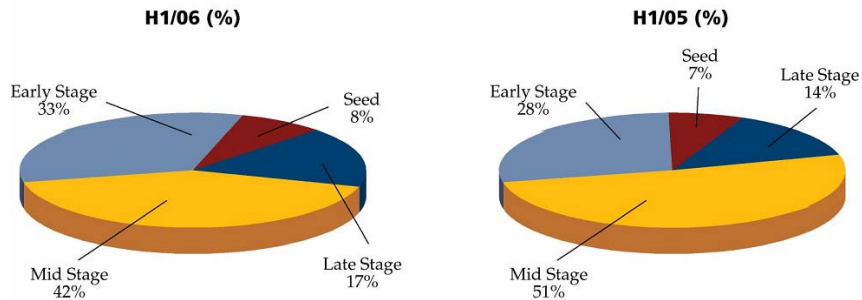
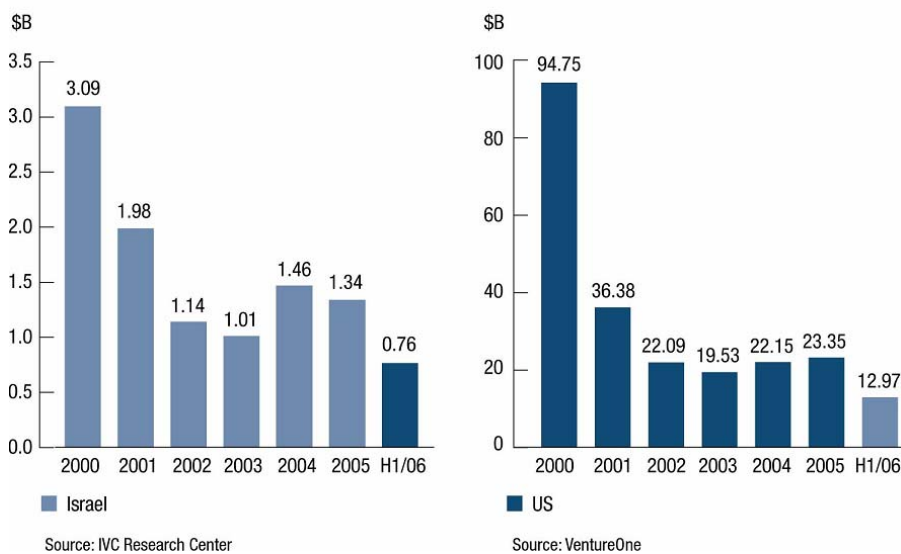


Chart 5: Capital Raised by High-Tech Companies - Israel vs. US



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