

IVC High-Tech Survey

Q3 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 114 venture investors of which 61 are Israeli management companies and 53 are other – mostly foreign – investment entities.

The positive trend in the Israeli venture market continued in 2004's third quarter. 113 Israeli high-tech companies raised \$438 million from venture investors – both local and foreign (Chart 1). The amount was up 30 percent from the \$338 million raised by 91 companies in the previous quarter and was 55 percent higher than the \$283 million raised by 103 companies in the third quarter of 2003.

\$438 million raised by Israeli high-tech companies - highest level in three years

Third quarter capital raising was at its highest level in three years. In Q3 Israeli high-tech companies raised more than twice the amount raised in Q4/2002, the lowest quarter recorded in the past three years.

The average company financing round was \$3.87 million, compared with \$3.71 million in the previous quarter and \$2.74 million in the third

quarter of 2003. Seventy companies attracted more than \$1 million. Of these, seventeen companies raised between \$5 million and \$10 million each, ten companies raised between \$10 million and \$20 million each and three companies raised more than \$20 million each.

The amount raised in the first three quarters of 2004, \$1.10 billion, reflects an increase of 43 percent

Interest in seed companies picks up \$36 million raised

from the same period in 2003. Capital was raised by 315 companies, compared with 275 in the first nine months of 2003.

Israeli VC investments

In the third quarter, Israeli VCs invested \$194 million in Israeli companies, compared with \$156 million in the previous quarter and \$129 million in Q3 2003. The Israeli VC share of the total amount invested in Israeli high-tech companies was 44 percent, slightly below the 46 percent share of the previous quarter.

First investments made by Israeli VCs were 54 percent of total VC investments, compared with 38 percent in the previous quarter and 53 percent in the third quarter of 2003. The average First investment made by Israeli VCs in Q3 2004 was \$2.28 million and the average Follow-on investment was \$0.8 million.

In the first three quarters of 2004, Israeli VCs invested \$508 million in Israeli companies, compared to \$317 million invested in the first nine months of 2003. The Israeli VC share of the total amount invested in Israeli high-tech companies was 46 percent, slightly above the 41 percent share of the same period in 2003.

Chart 1: Domestic and Foreign Investments in Israeli Ventures (%)

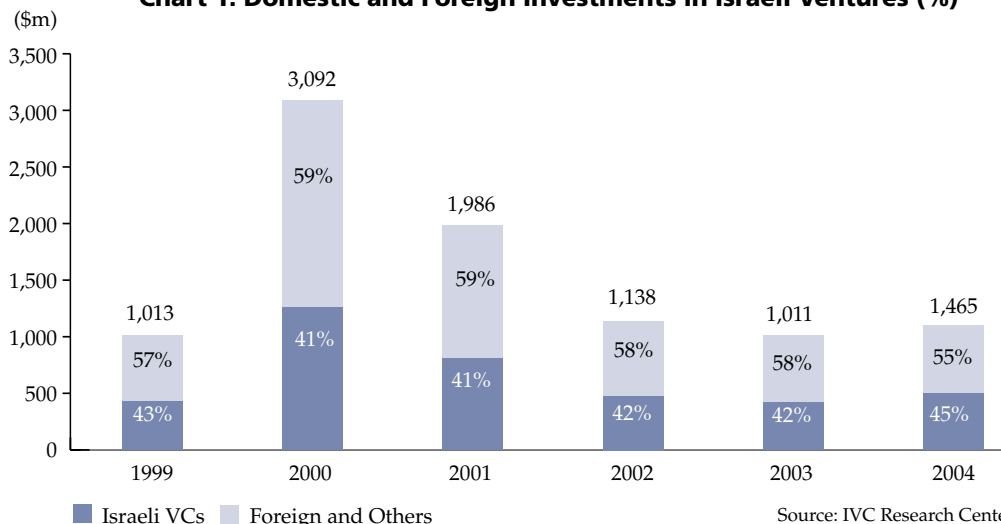
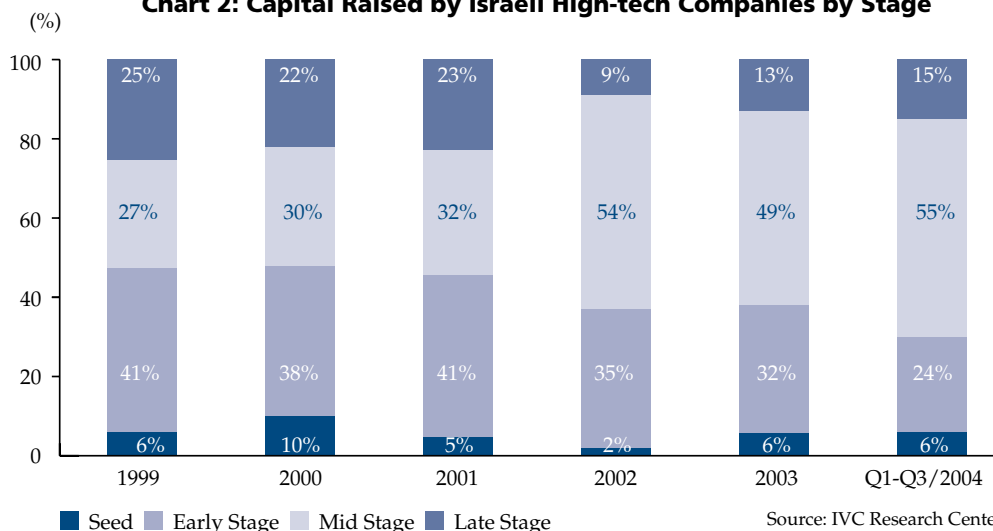


Chart 2: Capital Raised by Israeli High-tech Companies by Stage



First investments were \$233 million or 46 percent of the nine month 2004 amount and \$139 million or 44 percent in the year-earlier period.

Israeli VCs continue to invest in foreign companies

Israeli VCs invested \$23 million in 17 foreign companies in Q3 2004. This compares to \$32 million invested in foreign companies in the previous quarter and \$16 million in the third quarter of 2003. Six of the 17 investments were First investments.

In the first three quarters of 2004, Israeli VCs invested \$83 million in foreign companies, compared to \$68 million invested in the first three quarters of 2003.

Capital Raised by Stage (Charts 2-3)

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

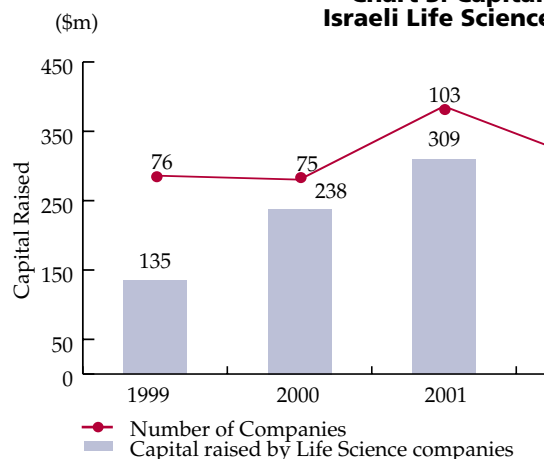
Eighteen **Seed** companies raised \$36 million, eight percent of the total amount raised. The amount was more than double that raised in the previous quarter and higher than any other quarter in the past three years. Communications firms attracted 58 percent of the Seed investments, while companies in the Life Sciences captured 22 percent.

In the first three quarters of 2004, 39 Seed companies raised \$66 million, which compares with \$48 million raised by 23 companies in the corresponding year-earlier period.

Thirty-six **Early Stage** (R&D) companies attracted \$105 million or 24 percent of the total raised in the third quarter, compared with \$77 million or 23 percent in Q2 and \$80 million or 28 percent in 2003's third quarter. In the nine months through September, 110 Early Stage companies raised \$259 million, an increase of 8 percent from the \$240 million raised by 111 companies in the year-earlier period.

In the third quarter of 2004, **Mid-Stage** companies (up to \$10 million in revenues) continued to dominate capital raising as they had for the previous eight quarters. Fifty-three Mid-

Chart 3: Capital Israeli Life Science



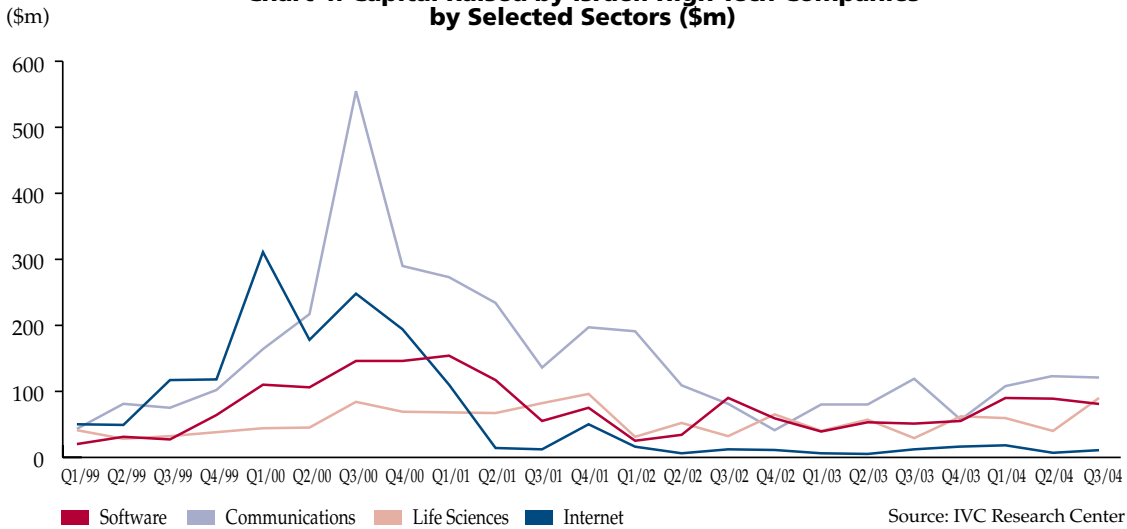
Stage companies raised \$266 million – 60 percent of total capital raised. The amount was 53 percent higher than the amount raised by Mid-Stage companies in the previous quarter, and double what had been raised in the third quarter of 2003.

In the first three quarters of 2004, 143 Mid-Stage companies raised \$609 million, 70 percent above the \$359 million raised by 126 companies in the year-earlier period.

Six **Late Stage** (more than \$10 million in revenue) companies raised \$31 million or 8 percent of the total. This amount is \$39 million lower than capital raised by eight Late Stage companies in Q2 and \$16 million below that raised by six Late Stage companies in Q3 2003.

In the three quarters through September 2004, 23 Late Stage companies raised \$165 million, 40 percent more than 15 Late Stage companies raised in the corresponding period of 2002.

Chart 4: Capital Raised by Israeli High-Tech Companies by Selected Sectors (\$m)



Capital Raised by Sector (Chart 4)

The **Communications** sector led the third quarter in fund raising. Thirty-one Communications companies attracted \$121 million, 28 percent of the total amount raised, compared with \$123 million or 36 percent in the previous quarter and \$118 million or 42 percent in the third quarter of 2003.

In the nine months through September, 90 Communications companies attracted \$352 million, compared with \$276 million raised by 72 Communications companies in the year-earlier period.

The **Life Sciences** sector followed with 29 companies raising \$90 million, 21 percent of total capital raised. The amount was 125 percent higher than that raised in the previous quarter (\$40 million, 12 percent of the total) and more than three times Q3 2003 figures (\$28 million, 10 percent of the total). Within the sector, 21 **Medical Device** companies accounted for 59 percent of the amount raised in the Life Sciences sector.

In the first three quarters of 2004, 76 Life Science companies raised \$190 million, up 54 percent from the \$123 million of the year-earlier

period. Within the sector, 45 **Medical Device** companies attracted \$106 million, an increase of 29 percent from the first nine months of 2003.

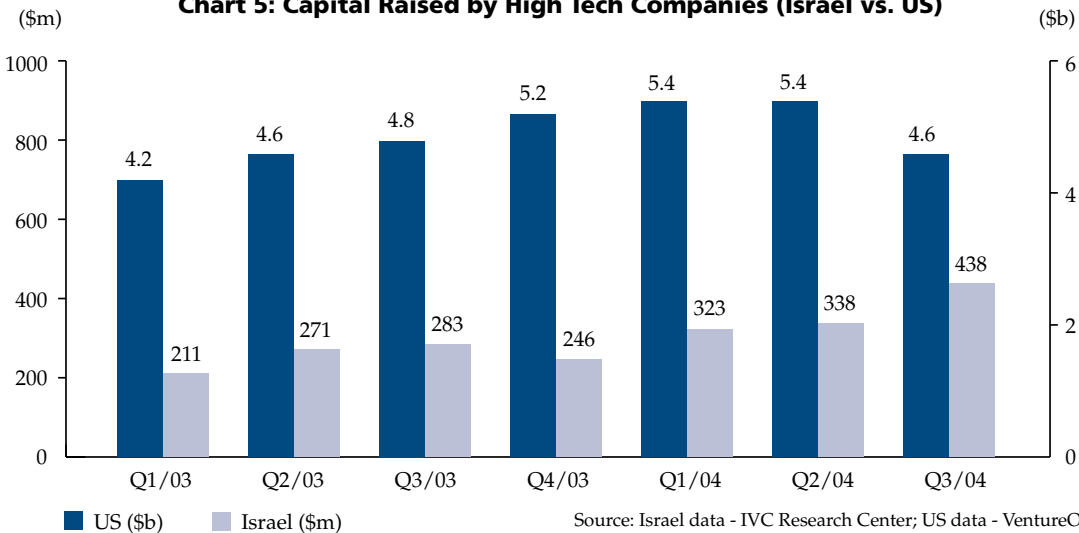
In the third quarter of 2004, 20 **Software** companies raised \$81 million. Software companies accounted for 18 percent of capital raised in Q3, compared to 26 percent in the previous quarter (\$89 million) and 18 percent (\$50 million) in Q3/2003.

In the nine months through September, 67 Software companies attracted \$259 million, an increase of 85 percent from the \$140 million raised in the corresponding year-earlier period by 61 companies.

Two **Internet** companies raised \$11 million. The Internet sector share of the total amount raised in Q3/2004 was only two percent, which compares with 2 percent in the previous quarter and 4 percent in the third quarter of 2003.

In the first three quarters of 2004, nine Internet companies attracted \$37 million, an increase of 85 percent from the \$20 million raised by 10 Internet companies in the 2003 nine-month period, but still only five percent of the \$734 million raised in the first nine months of 2000.

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



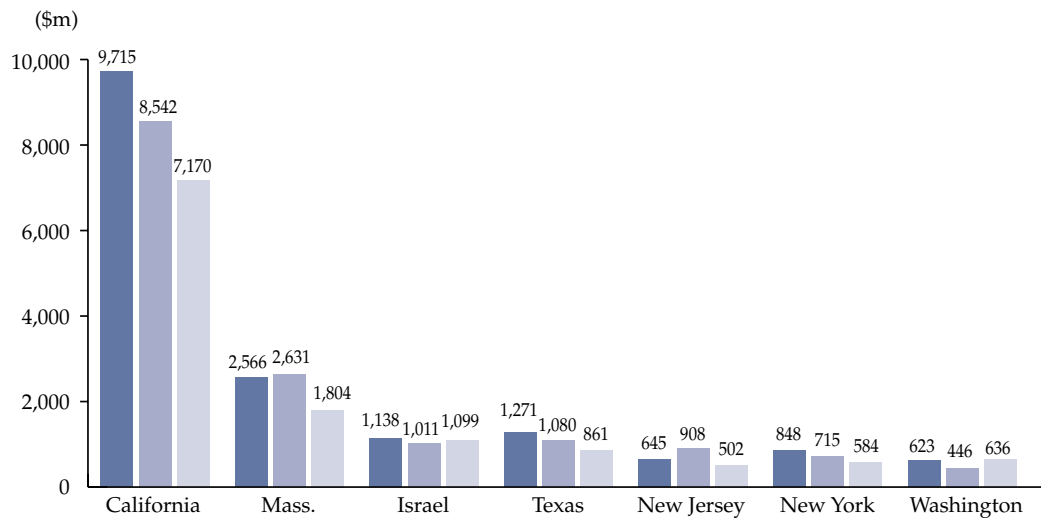
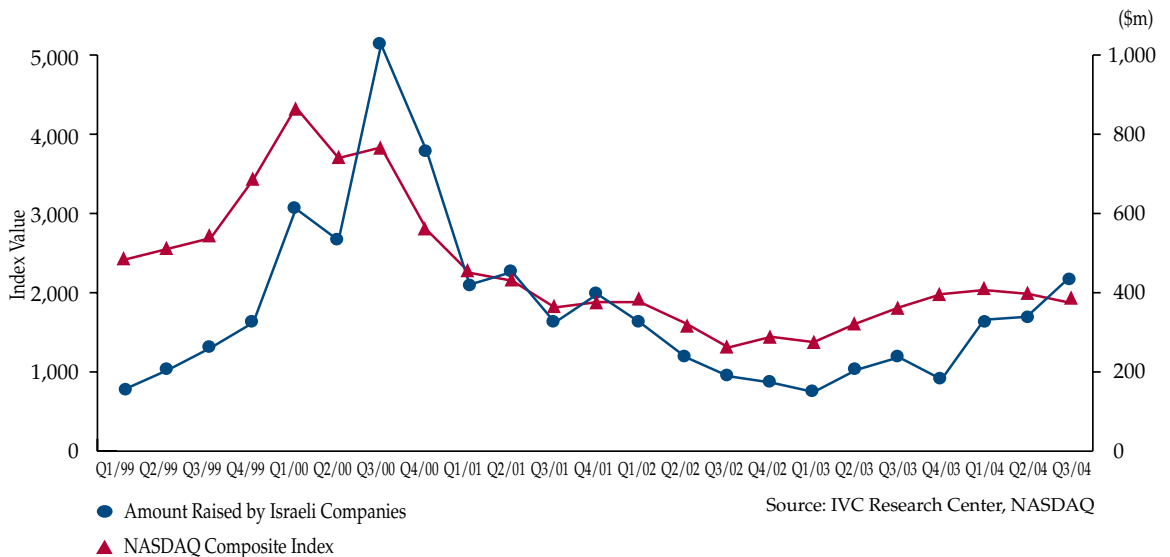


Chart 7: Capital Raised by Israeli High-Tech Companies vs. NASDAQ Composite Index



In the third quarter of 2004, 13 **Semiconductor** companies raised \$58 million, 13 percent of the total raised, compared with eight companies that raised \$18 million in Q2 and seven companies that raised \$37 million in Q3/2003.

In the nine months through September, 31 Semiconductor companies attracted \$109 million, 18 percent above the \$92 million raised by 17 companies in the corresponding 2003 period.

Capital Raised by High-Tech Companies - Israel vs. US and Europe (Charts 5-7)

Israel and US capital raising patterns in the period 2003 through Q2/04 were generally similar, but substantially diverged in Q3/2004 according to a comparison of data developed by IVC and VentureOne. In Q3/04, capital raised by both US and European high-tech companies was well below Q2/04 levels with declines of 15 percent and 27 percent, respectively. In contrast, Israeli high-

tech company capital raising surged 30 percent. A comparison of Q3 data shows capital raised by Israeli high-tech companies was about 10 percent of the amount raised by US companies and about 50 percent of the amount raised by European companies.

In the first three quarters of 2004, capital raising by Israeli companies amounted to seven percent of US capital raising and 35 percent of European capital raising.

Compared to US states, Israeli high-tech companies placed third in capital raising after California and Massachusetts, but ahead of Texas, New Jersey, New York and other states. Israeli companies placed second in capital raising among European countries, after the United Kingdom, and ahead of Germany, France, Sweden, Switzerland, Denmark and Ireland. ■