

IVC High-Tech Survey Q3 2005

Efrat Zakai, Director of Research, IVC

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 92 venture investors of which 57 are Israeli management companies and 35 are other – mostly foreign – investment entities.

In Q3 2005, 90 Israeli high-tech companies raised \$336 million from venture investors – both local and foreign (Chart 1). The amount was down 13 percent from the \$387 million raised by 98 companies in the previous quarter and was 23 percent lower than the \$438 million raised by 113 companies in the third quarter of 2004. In the first nine months of 2005, capital raised slipped only slightly to \$1.07 billion from \$1.10 billion in the same period of 2004.

IVC: Israeli high-tech capital raising – stable over 2005's first nine months despite 13% drop in Q3 figures

The average company financing round was \$3.73 million in Q3, compared with \$3.94 million in the previous quarter and \$3.87 million in the third quarter of 2004.

Sixty-six companies attracted more than \$1

million. Of these, 15 companies raised between \$5 million and \$10 million each, four companies raised between \$10 million and \$20 million each and one company raised more than \$20 million.

10% of capital invested is directed to Seed companies

Israeli VC investments

In Q3, Israeli VCs invested \$188 million in Israeli companies, compared with \$163 million invested in the previous quarter and \$194 million in Q3 2004. The Israeli VC share of the total amount invested in Israeli high-tech companies rose to 56 percent, from an average of 42 percent over the past five years.

First investments made by Israeli VCs were 41 percent of total VC investments, as compared to 40 percent in the previous quarter and 54 percent in the third quarter of 2004. The average First investment made by Israeli VCs in Q3 2005 was \$2.75 million, and the average Follow-on investment was \$0.92 million.

Israeli VC investments in foreign companies

Israeli VCs invested \$20 million in eight foreign companies during Q3 2005, down sharply from the \$30 million invested in foreign companies in the previous quarter and \$23 million invested in the third quarter of 2004. Two of the 8 investments were First investments.

Capital raised by sector (Chart 2)

The **Communications** sector led capital raising in both the third quarter and the first three

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

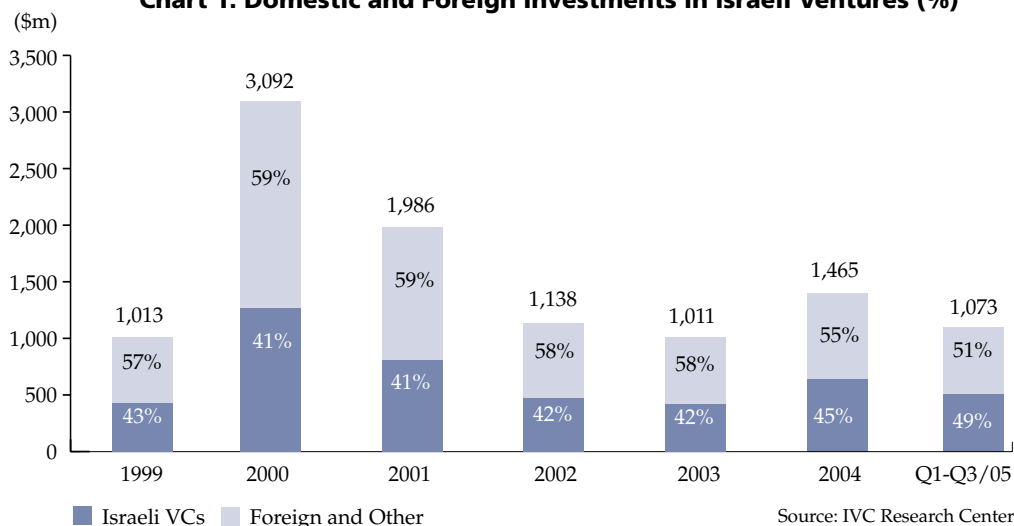
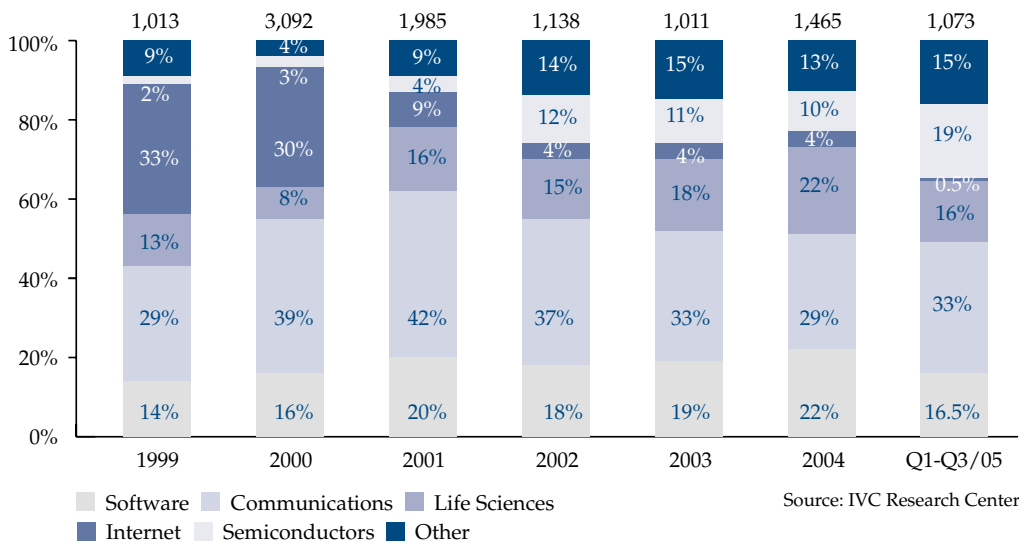


Chart 2: Capital Raised by Israeli High-Tech Companies by Sector



quarters of 2005. Thirty-one Communications companies attracted \$112 million, 33 percent of the total capital raised, compared with \$136 million (35 percent) in the previous quarter and \$121 million (28 percent) in Q3 2004. In the first nine months of 2005, Communications companies raised \$368 million, 33 percent of the total capital raised in the period, compared with 32 percent in Q1-Q3 2004.

The **Software** sector followed with 16 companies raising \$55 million, 16.5 percent of total capital raised. The amount was up 72 percent from a low point of \$32 million (eight percent) raised in the previous quarter, but 32 percent below the \$81 million (18 percent) of Q3 2004. In the first nine months of 2005, Software companies raised \$192 million, 18 percent of the total capital raised in the period and 26 percent less than the capital raised by Software companies in the nine-month period of 2004.

Life Science capital raising slowed in the third quarter to \$53 million, accounting for 16 percent of total capital raised, compared to 24 percent in the second quarter and 21 percent in Q3 2004. The Life Sciences succeeded, though, in keeping its position as the second most appealing Israeli sector in the Q1-Q3 2005 period, attracting 22 percent of the capital raised.

Within the Life Sciences, the Medical Devices

sub-sector attracted 58 percent of the amount raised in the third quarter and 63 percent in the first nine months of the year.

Only one **Internet** company succeeded in raising capital in the third quarter of 2005, with a \$1 million round. The amount compares with \$13 million (four percent) in Q2 and \$11 million, (two percent) in Q3 2004. Through the first nine months of 2005, Internet companies raised \$21 million (two percent of capital raised), compared with \$37 million (three percent) in Q1-Q3 2004.

Capital raised by stage (Chart 3)

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

Thirteen **Seed** companies attracted \$34 million, 10 percent of the total amount raised in Q3. The amount was a significant jump from the \$22 million or six percent raised in Q2, and a slight drop from \$36 million (8 percent) in Q3 04. Within Seed companies, three Communications firms attracted 30 percent of the investments, and two life science firms captured 27 percent. During the first three quarters of the year, Seed companies attracted eight percent of the total funds, compared with six percent in Q1-Q3 2004.

Chart 3: Capital Raised by Israeli High-Tech Companies by Stage

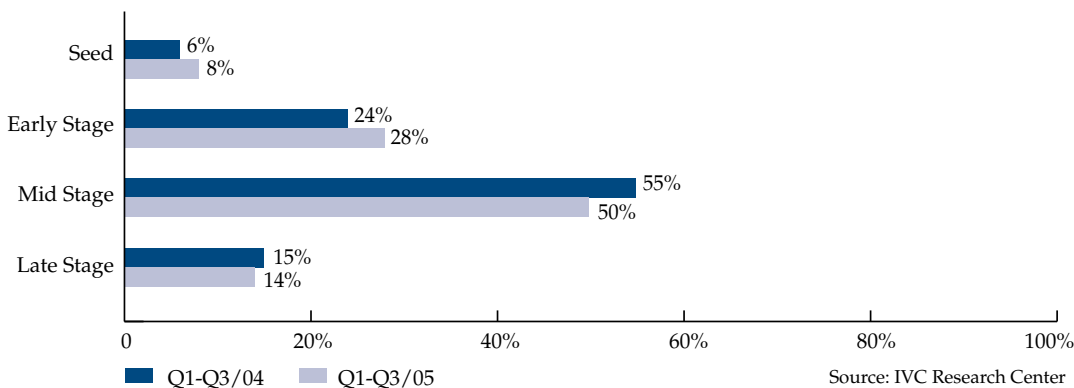
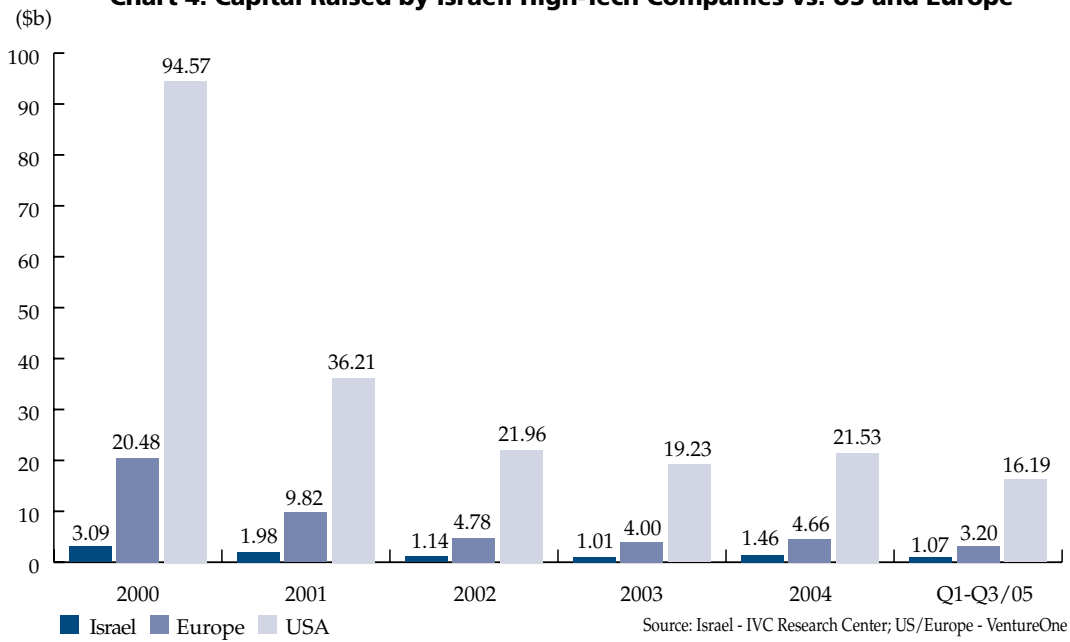


Chart 4: Capital Raised by Israeli High-Tech Companies vs. US and Europe



In the third quarter, 33 **Early Stage** companies attracted \$91 million or 27 percent of the total raised, which compares with \$96 million or 25 percent in the previous quarter and \$105 million or 24 percent in 2004's third quarter. During the first three months of 2005, early stage companies attracted \$295 million, 28 percent of the total, compared with \$259 million or 24 percent Q1-Q3 2004.

Mid-Stage companies dominated capital raising both in the third quarter and the first three quarters of 2005 as they have for the past three years. Thirty-eight Mid-Stage companies raised \$163 million, 49 percent of total capital raised.

During the first three quarters of 2005, Mid Stage companies attracted \$538 million, 50 percent of the total, compared with \$609 million or 55 percent in Q1-Q3 2004.

In the third quarter of 2005, six **Late Stage** companies attracted \$48 million or 13 percent of

the total, compared with \$72 million or 18 percent in the previous quarter and \$31 million or 8 percent in the third quarter of 2004. During the first three months of 2005, Late Stage companies attracted \$152 million, 14 percent of the total, compared with \$ million or 15 percent in Q1-Q3 2004.

Capital raised by high-tech firms - Israel vs. US and Europe (Chart 4)

Capital raised by high-tech companies has tended to be stable worldwide, according to a comparison of data developed by IVC and VentureOne. Israeli high-tech company figures for the first nine months of 2005 decreased a mild two percent from Q1-Q3 2004, while US and Europe capital raising declined by just one and seven percent, respectively. ■

Chart 5: Capital Raised by Israeli High-Tech Companies vs. NASDAQ Composite Index

