

IVC High Tech Survey – Q1-Q3 2006, Q3

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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 82 venture investors of which 48 are Israeli management companies and 34 are other – mostly foreign – investment entities.

In the third quarter of 2006, 87 Israeli high-tech companies raised \$381 million from venture investors – both local and foreign (Chart 1). The amount was down 6 percent from the \$404 million raised in the previous quarter, but was 13 percent above the \$336 million raised in the third quarter of 2005.

The average company financing round was \$4.37 million in Q3, compared with \$3.70 million in the previous quarter and \$3.73 million in the third quarter of 2005. Sixty companies attracted more than \$1 million. Of these, 17 companies raised between \$5 million and \$10 million each, 12 companies raised between \$10 million and \$20 million each, and one company raised \$20 million.

The first nine months of 2006 showed a 7 percent increase in capital raised to \$1.145 billion from \$1.073 billion in the corresponding period in 2005.

Israeli VC investment activity

In Q3, Israeli VCs invested \$142 million in Israeli companies, compared with \$154 million invested in the previous quarter and \$188 million in Q3 2005. 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 44 percent of total dollar investments by Israeli VCs in the third quarter, compared with 35 percent in the previous quarter and 41 percent in the third quarter of 2005. The average First investment by Israeli VCs was \$2.25 million, while the average Follow-on investment was \$0.85 million.

In the first three quarters of 2006, the Israeli VC fund share of investments in Israeli high-tech companies was 41 percent, compared to 49 percent in the corresponding period in 2005. The share of foreign investors as well as non-VC Israeli investors increased, therefore, to 59 percent from 51 percent.

First investments by Israeli VC funds were 37 percent of their total investments, versus 44 percent in the corresponding period in 2005.

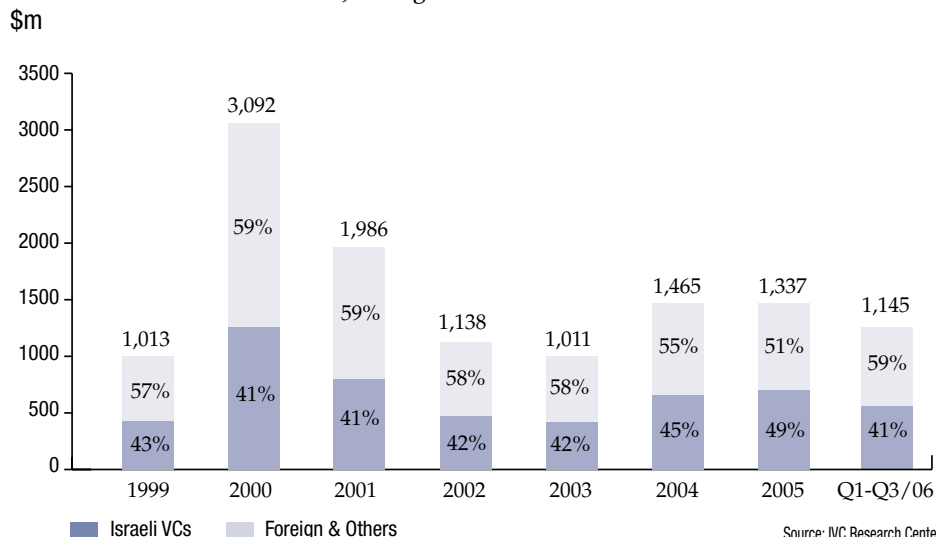
Israeli VC investments in foreign companies

Israeli VCs invested \$12 million in six foreign companies during Q3 2006, compared to \$8 million invested in foreign companies in the previous quarter and \$30 million invested in the third quarter of 2005. One of the six investments (\$5 million) was a First investment, and the remainder were Follow-ons.



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Chart 1: Capital Invested in Israeli High-Tech Companies by Israeli VC, Foreign and Other Investors



Source: IVC Research Center

Capital Raised by Sector (Charts 2, 3)

The **Life Sciences** sector stood out in the third quarter, raising \$115 million or 30 percent of the capital raised. This compared to \$68 million raised by Life Science companies in the previous quarter and \$53 million raised in Q3/05. Of the 22 Life Science companies that raised capital in the third quarter, six raised over \$10 million each. The Life Sciences share in the first three quarters was 22 percent, similar to the sector's share in the first three quarters of 2005.

The **Software** sector followed the Life Sciences sector with 27 companies raising \$111 million in the third quarter, 29 percent of total capital raised. The amount was up 85 percent from \$60 million (15 percent) raised in the previous quarter and doubled the \$55 million (16.5 percent) raised in Q3 2005.

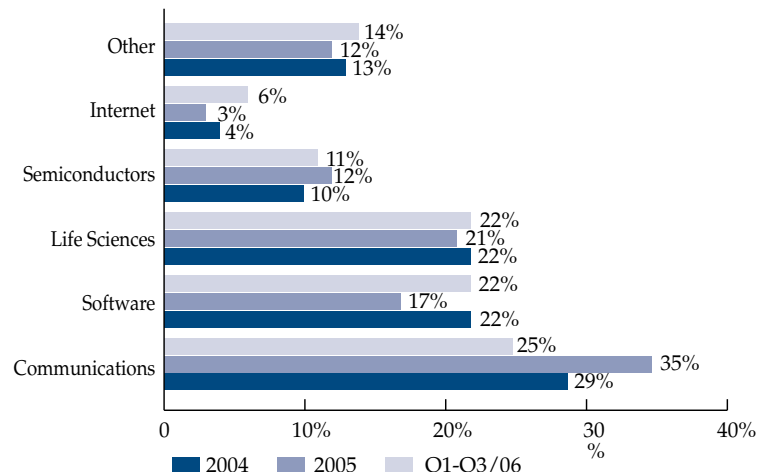
In the first nine months of 2006, Software companies raised \$253 million, 22 percent of the total capital raised in the period and 32 percent more than the capital raised by Software companies in the first nine months of 2005.

Twenty **Communications** companies attracted \$70 million – only 18 percent of the total amount raised in the quarter, compared with \$131 million or 32 percent in the previous quarter and \$112 million or 33 percent in the third quarter of 2005. Although the third quarter was slow, the Communications sector still led capital raising in the first nine months of 2006, attracting \$287 million – 25 percent of the total capital raised.

Three **Internet** companies succeeded in raising capital in the third quarter of 2006, receiving \$7 million or 2 percent of capital raised. The amount compares with \$36 million (9 percent) in Q2 and only \$1 million, (0.5 percent) in Q3 2005. Although the third quarter wasn't as good as the first half of the year, Internet sector capital raising increased to \$65 million, 6 percent of the total in the first nine months. That compared to \$21 million or 2 percent raised in the same period in 2005

Six **Semiconductor** companies raised \$36

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



Source: IVC Research Center

million, 10 percent of the total capital raised, in the third quarter of 2006, compared with \$33 million (8 percent) and \$63 million (19 percent) in Q2/06 and Q3/05, respectively. In the first nine months of 2006, the sector attracted \$124 million, 11 percent of the total capital raised. That compared to \$128 million or 12 percent raised in the same period in 2005.

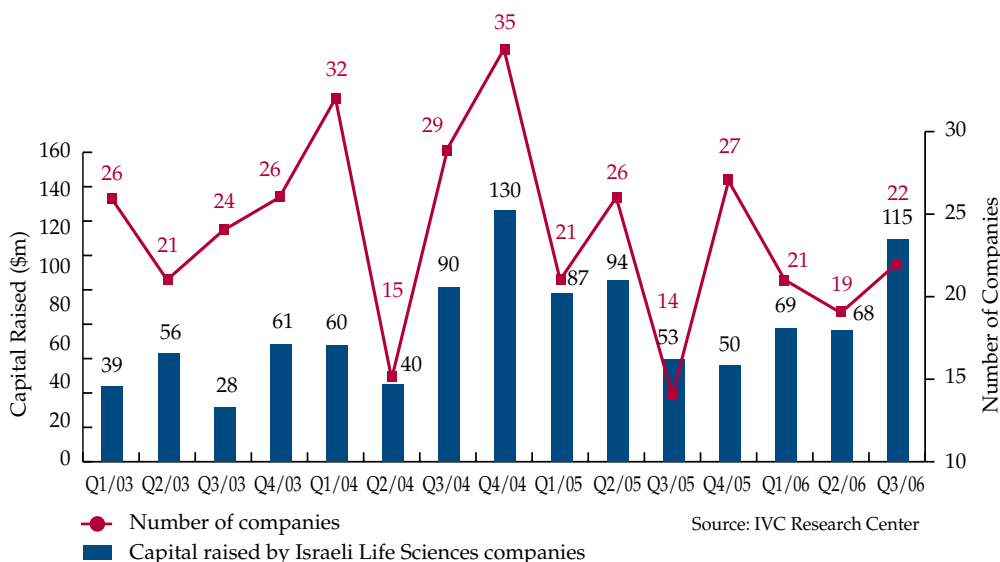
Capital Raised by Stage (Charts 4, 5)

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.

Fourteen **Seed** companies attracted \$20 million, 5 percent of the total amount raised in Q3, compared to \$14 million (3 percent) in the previous quarter and \$34 million (10 percent) in the third quarter of 2005. Within Seed companies, three Communications companies attracted 58 percent of the investments and six Software companies captured 22 percent.

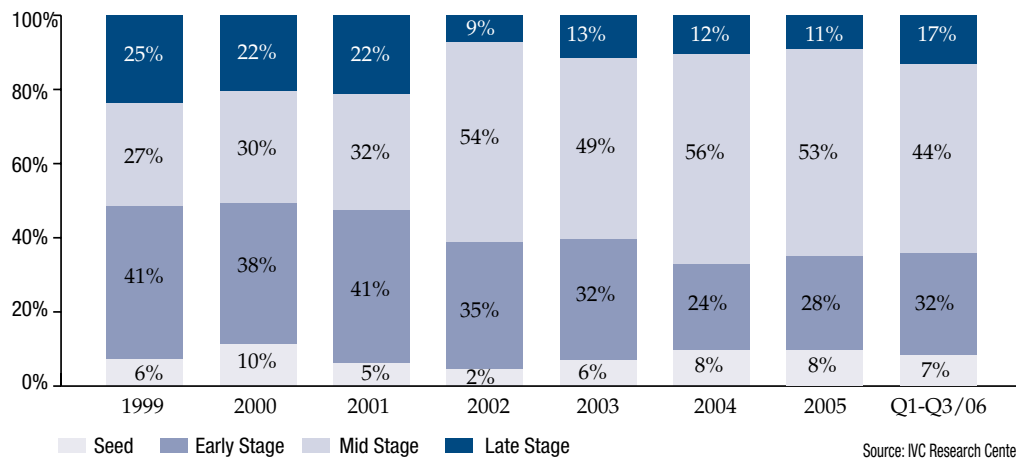
During the first three quarters of the year, Seed

Chart 3: Capital Raised by Israeli Life Sciences Companies



Source: IVC Research Center

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



companies attracted \$84 million, 7 percent of the total funds, compared with \$88 million or 8 percent in Q1-Q3 2005. Six Seed companies raised over \$5 million.

In the first nine months of 2006, within the Seed stage group, 15 Communications companies attracted 41 percent of investments, 14 Software companies attracted 36 percent, nine Life Science companies and six Other Technologies companies attracted 10 percent each, and two Internet companies accounted for 4 percent.

In the third quarter, 27 **Early Stage** companies attracted \$108 million or 28 percent of the total raised, which compares with \$103 million or 25 percent in the previous quarter and \$91 million or 27 percent in 2005's third quarter.

During the first nine months of 2006, early stage companies attracted \$359 million, 32 percent of the total, compared with 28 percent in the Q1-Q3 2005 period.

Mid-Stage companies dominated capital raising in both the third quarter and in the first three quarters of 2006 as they have for the past five years. Thirty-eight Mid-Stage companies raised \$183 million, 48 percent of total capital raised in the third quarter.

During the first nine months of 2006, Mid-Stage companies attracted \$504 million, 44 percent of the total, compared with 50 percent from Q1 to Q3 2005.

In the third quarter of 2006, eight **Late Stage** companies attracted \$70 million or 19 percent of the total, compared with \$115 million or 29 percent in the previous quarter and \$48 million or 13 percent in the third quarter of 2005.

During the first nine months of 2006, Late Stage companies attracted \$198 million, 17 percent of the total, compared with 14 percent in the Q1-Q3 2005 period.

Chart 5: Capital Raised by Israeli Seed Companies - by sector -

