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Summary of Israeli High-Tech Company Capital Raising Q1-Q3/2008 Survey

IVC Reports: \$600 million raised in Q3, 45% above Q3/07 levels

2008 capital raising expected to reach an 8-year record high

Tel Aviv, Israel, November 10, 2008. The following are the findings of the Quarterly Survey conducted by the **IVC Research Center**, which for more than ten years has been at the forefront of venture capital and private equity research in Israel. This Survey 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 72 venture investors of which 46 are Israeli management companies and 26 are other – mostly foreign – investment entities.

One hundred and twenty-four Israeli high-tech companies raised \$600 million in the third quarter of 2008 from venture investors – both local and foreign. The quarterly amount was the highest reported in the last eight years - 45 percent above the \$414 million raised in the third quarter of 2007, and up 29 percent from the \$465 million raised in the previous quarter.

“Q3 capital raising reached a record eight-year high, exceeding all projections for the quarter,” said Efrat Zakai, Director of Research at IVC. “We don’t expect the same rate of investment in the coming quarters. However, 2008 will be logged as a record year, even if the fourth quarter comes in considerably below average”, Zakai concluded.

The average financing round was \$4.84 million, compared to \$3.83 million in the third quarter of 2007 and \$4.04 million in the second quarter of 2008. Eighty companies attracted more than \$1 million each. Of these, 14 companies raised \$5 million to \$10 million each, 12 companies raised \$10 million to \$20 million, four companies raised \$20 million to \$40 million and two companies raised more than \$40 million each.

In the three first quarters of 2008, Israeli high-tech companies raised \$1.68 billion, 34 percent above the \$1.25 billion raised in the corresponding period of 2007.

Israeli VC Investment Activity

In Q3, Israeli VCs invested \$206 million in Israeli companies, compared with \$172 million invested in Q3/2007 and \$161 million invested in the previous quarter. The Israeli VC share of the total amount invested in Israeli high-tech was 34 percent, with the remainder of capital coming from foreign investors as well as non-VC Israeli investors.

First investments by Israeli VC funds were 28 percent of their total investments in the third quarter, compared to 51 percent and 22 percent in Q3/07 and Q2/08, respectively. The average First investment by Israeli VCs was \$2.76 million, while the average Follow-on investment was \$1.22 million.

Zeev Holtzman, Chairman of IVC Research Center and Giza Venture Capital said: “Israeli high-tech companies, responding to early signs of market changes and the falling dollar-shekel rate, have been raising follow-on capital to help them navigate

through the long-anticipated global crisis. Now that the crisis is here, a similar rate of investment won't be maintained."

In the first three quarters of 2008, the Israeli VC fund share of investments in Israeli high-tech companies was 37 percent, compared to 43 percent in the corresponding period in 2007.

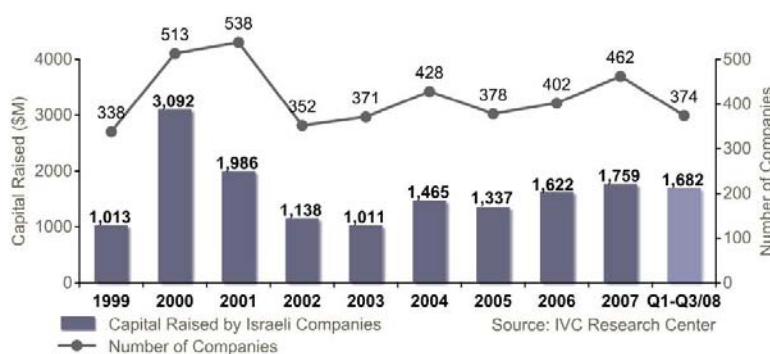
Capital Raised by Sector

The **Communications** sector led capital raising in Q3/2008 with \$134 million or 22 percent of capital raised, followed by the **Internet** sector with \$126 million or 21 percent – the highest Internet share since the fourth quarter of 2000. In the first three quarters of 2008, Internet companies attracted \$247 million or 15 percent of total capital raised, which compares with \$181 million or 14 percent in the first three quarters of 2007, \$65 million or 6 percent in Q1-Q3/2006 and only \$21 million or 2 percent in Q1-Q3/2005.

Capital Raised by Stage

Fifteen **Seed** companies attracted \$16 million, 3 percent of the total amount raised in Q3. During the first three quarters of the year, Seed companies attracted \$73 million, just 4 percent of the total funds, which compares with \$133 million or 11 percent in Q1-Q3/2007. These figures clearly indicate that seed activity has markedly slowed from the previous year period.

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



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