

IVC High-Tech survey Q4 2005 and Full Year 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 89 venture investors of which 56 are Israeli management companies and 33 are other – mostly foreign – investment entities.

In 2005, 378 high-tech Israeli companies raised \$1.34 billion from local and foreign venture investors, an eight percent decrease from the \$1.46 billion raised in 2004, but 32 percent above 2003 levels. (Chart 1) The average company financing round was \$3.54 million in 2005, compared to \$3.52 million in 2004 and \$2.7 million in 2003.

The eight percent decline in 2005 reflected a slow fourth quarter. In Q4, 88 Israeli high-tech companies raised \$264 million, a 21 percent decline from the \$336 million raised by 90 companies in the third quarter and a 28 percent drop from the \$366 million raised by 113 companies in the fourth quarter of 2004.

Fifty-eight companies attracted more than \$1 million each in Q4. Of these, six companies raised between \$5 million and \$10 million each, and eight companies raised more than \$10 million each. The average company financing round was \$3.0

million, compared with \$3.7 million in the previous quarter and \$3.2 million in the fourth quarter of 2004.

Israeli VC investment activity

In 2005, Israeli VCs invested \$655 million in Israeli high-tech companies, about equal to investments made in 2004 (\$665 million). The Israeli VC share of the total amount invested in Israeli high-tech companies was 49 percent, up sharply from the 42 percent average of the previous six years.

During 2005, 117 First investments were made by 31 Israeli VCs, accounting for 43 percent of total dollars invested by Israeli VCs. The percentage was slightly below the 46 percent of 2004, but equal to 2003 levels. The average First and Follow-on investments were \$2.42 million and \$0.78 million, respectively, compared to \$2.16 million and \$1.07 million in 2004.

In the fourth quarter, Israeli VCs invested \$131 million, 50 percent of the total amount invested in Israeli high-tech companies. This amount was 30 percent below capital invested by local VCs in the third quarter and 17 percent less than in Q4 2004.

Israeli VC First investments accounted for 40 percent of total Israeli VC investments in Q4, compared with 41 percent in Q3 2005, and 46 percent in the fourth quarter of 2004.

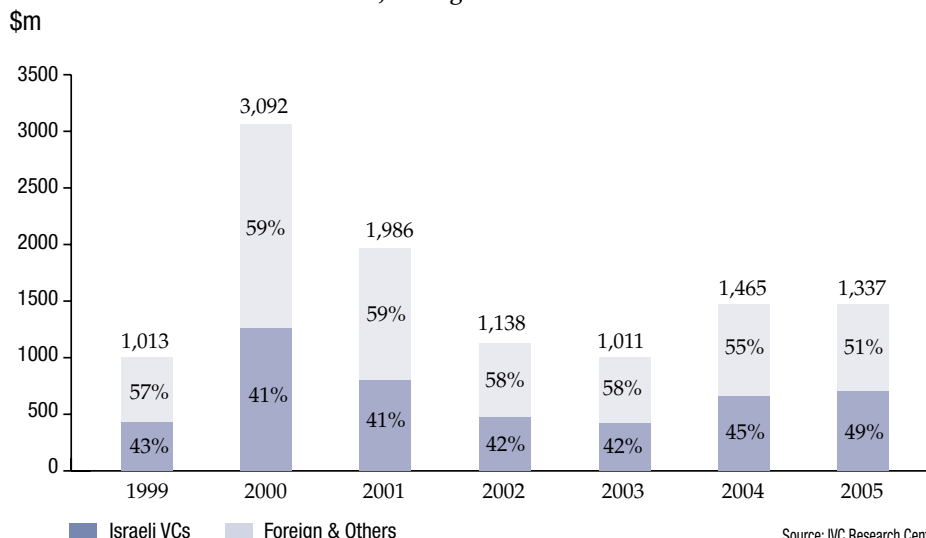
Israeli VC activity in foreign companies

Eleven Israeli VCs made 42 transactions in foreign companies during 2005, investing \$95 million (in addition to their investments in Israeli high-tech companies). The amount invested in



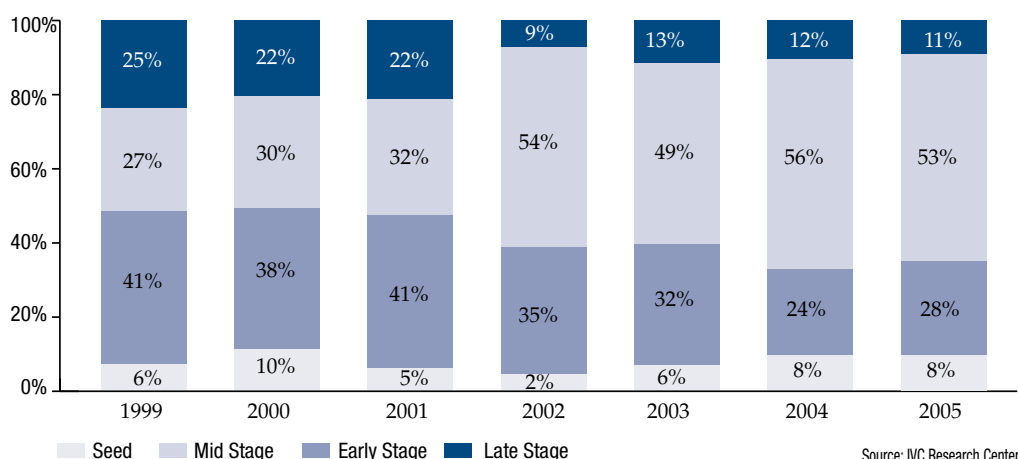
Efrat Zakai

Chart 1.1.1b: Capital Invested in Israeli High-Tech Companies by Israeli VC, Foreign and Other Investors



Source: IVC Research Center

Chart 1.2.3: Capital Raised by Stage



Source: IVC Research Center

foreign companies decreased 11 percent from \$107 million in 2004 and six percent from \$101 million in 2003.

Capital raised by sector

The distribution in capital raised among sectors has been fairly consistent over the last four years. During this four-year period, thirty-three percent was raised by the Communications sector, 20 percent by the Life Sciences, 19 percent by Software, 11 percent by Semiconductors, four percent by the Internet and 13 percent by other sectors.

The **Communications** sector attracted the highest sums in 2005 as in the past six years. One hundred and twelve Communications companies attracted \$469 million, 35 percent of the total amount raised. The amount and share of Communications investment increased from \$430 million and 29 percent, respectively, in 2004 and \$332 million and 33 percent in 2003. In Q4, 26 Communications companies attracted \$101 million (38 percent) with four companies attracting over \$10 million.

In 2005, 88 **Life Science** companies attracted \$284 million, accounting for 21 percent of total capital raised, which compared to 22 percent in 2004 and 18 percent in 2003. Within the Life Sciences, Medical Device companies attracted 65 percent of the capital raised in 2005, versus 57 percent in 2004.

In the fourth quarter, 27 Life Sciences companies attracted \$50 million, 19 percent of the total capital raised. Within the Life Sciences, Medical Device companies attracted 65 percent of the capital raised in 2005, versus 73 percent in Q4 2005.

In 2005, 77 **Software** companies attracted \$221 million, a 32 percent decrease from the \$327 million raised in 2004. Software companies accounted for 17 percent of capital raised, compared to 22 percent, in 2004 and 19 percent (\$194 million) in 2003. In the fourth quarter, 14 Software companies raised \$29 million, eleven percent of the total capital raised compared with \$55 million (16.5 percent) in the third quarter and \$68 million (19 percent) in the fourth quarter of 2004.

Thirty-five **Semiconductor** companies attracted \$157 million during 2005, 12 percent of the total raised, compared with \$138 million or 10 percent of the total raised in 2004 and \$115 million or 11 percent in 2003. In the fourth quarter, nine Semiconductor firms raised \$29 million (11 percent of the total), compared with \$63 million raised by 12 companies in the previous quarter and \$29 million that was raised by 11 companies in Q4 2004.

In 2005, 10 **Internet** companies attracted \$37 million. The Internet industry attracted three percent of the total capital raised by all sectors, close to the Internet company share in the last four years. Internet firms attracted \$61 million or four percent of the total raised in 2004 and \$41 million or four percent in 2003. In the fourth quarter, Four Internet companies managed to raise \$16 million, compared with only \$1 million raised by one Internet company in the previous quarter and \$24 million raised by six companies in the fourth quarter of 2004.

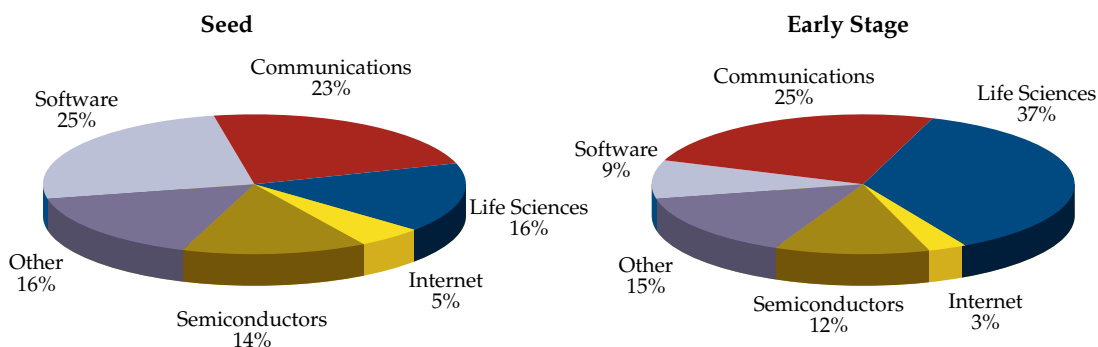
Capital Raised by Stage (Charts 2-3)

High-tech companies in this section were divided into 4 categories: Seed, Early Stage/R&D, Mid Stage/Initial Revenue, and Late Stage/Revenue Growth.

In 2005, 52 Seed companies attracted \$110 million and captured eight percent of the total capital raised. The seed share remained steady at the eight percent of 2004 (\$108 million), but higher than the six percent in 2003 (\$58 million) and only two percent in 2002 (\$23 million). Software companies attracted the largest share – 25 percent – of Seed capital, followed by Communications with 23 percent and Life Science companies with 16 percent. In the fourth quarter, 12 Seed companies attracted \$22 million, accounting for nine percent of Q4 capital raising, compared to \$34 million (10 percent) in Q3 and \$42 million (12 percent) in Q4 2004.

In 2005, 151 Early Stage companies raised \$372 million, compared to \$358 million raised in the previous year. Early Stage companies had a 24 percent share of capital raised, compared with 28 percent in 2004. Life Science companies attracted the largest share among early stage companies

Chart 1.2.3b: Capital Raised by Seed and Early Stage Companies by Sector



Source: IVC Research Center

with 37 percent, followed by communications companies with 25 percent. In the fourth quarter, 31 Early Stage companies attracted \$77 million, accounting for 29 percent of Q4 capital raising, compared to \$91 million (27 percent) in Q3 and \$99 million (27 percent) in Q4 2004.

Mid Stage companies (up to \$10 million in revenues) attracted the most funding in 2005, as 177 companies raised \$702 million, 53 percent of total capital raised. This compares with 196 companies that raised \$819 million (56 percent) in 2004 and 177 companies that raised \$493 million (49 percent) in 2003. Communications companies attracted the largest share among Mid Stage companies with 40 percent followed by software companies with 20 percent.

Twenty-one **Late Stage** companies raised \$153 million or 11 percent of the total raised in 2005. This compares with 27 companies that raised \$180 million (12 percent) in 2004 and 18 companies that raised \$134 million (13 percent) in 2003. Communications companies attracted the largest share among late stage companies with 66 percent. In the fourth quarter of 2004, only one Late Stage company raised money, attracting \$1 million, compared with 6 companies that raised \$48 million in the previous quarter and 4 companies that

raised \$15 million or 4 percent in the fourth quarter of 2004.

Capital raised by high-tech companies - Israel vs. US and Europe (Charts 4-5)

According to a comparison of data developed by IVC and VentureOne, Israeli high-tech companies showed a decrease of eight percent in capital raised in 2005 from that of 2004, while capital raised in Europe declined by 2 percent and capital raised in the US increased by 2 percent. The amount raised in Israel during 2005 was equal to 6 percent of the amount raised in the US (3.3 percent in 2000) and 29.8 percent (15.0 percent in 2000) of the amount raised in Europe. A comparison of capital raised by Israel and individual European countries indicates that Israel ranked first in the amount of capital raised by high-tech companies, ahead of the United Kingdom, Germany, France, Sweden, Switzerland, Sweden, Denmark and Ireland. ■

Chart 1.2.4a: Capital Raised by High-Tech Companies (Israel vs. Europe)

