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2006 Summary of Israeli High-Tech Company Capital Raising

Israeli High-Tech Capital Raising in 2006 Reaches \$1.62 Billion - Highest in Five Years

Q4/06: 80% higher than Q4/05 - with \$477 million raised

Tel Aviv, Israel, January 22, 2007. 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 80 venture investors of which 45 are Israeli management companies and 35 are other – mostly foreign – investment entities. The complete survey will be published in the IVC 2007 Yearbook

In 2006, 402 Israeli high-tech companies raised **\$1.62 billion** from local and foreign venture investors, 21 percent above the **\$1.34 billion** raised in 2005 and 11 percent above 2004 levels.

In the fourth quarter, 105 Israeli high-tech companies raised **\$477 million**, a 25 percent increase from the \$381 million raised by 87 companies in the third quarter and an 80 percent jump from the \$264 million raised in Q4 2005.

Seventy-three companies attracted more than \$1 million each in Q4. Of these, 11 companies raised between \$5 million and \$10 million each, 8 companies raised between \$10 million and \$20 million each, and 5 companies raised more than \$20 million each. The average company financing round was \$4.5 million, compared with \$4.4 million in the previous quarter and \$3.0 million in the fourth quarter of 2005.

Israeli VC Investment Activity

In 2006, Israeli VCs invested \$651 million in Israeli high-tech companies, about equal to investments made in 2005 (\$655 million) and 2004 (\$665 million). The Israeli VC share of the total amount invested in Israeli high-tech companies was 40 percent, compared to an average of 43 percent in the previous seven years and 49 percent in 2005. The remainder came from other investment entities, mostly foreign.

“Capital raised by Israeli high-tech companies in 2006 was the highest in five years,” said Zeev Holtzman, Chairman of IVC Research Center and Giza Venture Capital. “Foreign participation in investments in Israeli companies increased in 2006, since Israeli high-tech is regarded as a material part of the global technology sector, prominent even against the growing activity in China and India. We therefore expect foreign investment in 2007 to remain similarly high.”

First investments made by Israeli VCs were 43 percent of the total amount invested by Israeli VCs in 2006, equal to 2005 levels. The average First and Follow-on investments were \$2.32 million and \$0.87 million, respectively.

In the fourth quarter, Israeli VCs invested \$178 million, 37 percent of the total amount invested in Israeli high-tech companies. This was 25 percent above the capital invested by local VCs in the third quarter and 36 percent above the capital invested in Q4 2005. First investments by Israeli VC funds were 55 percent of their total investments in Q4, versus 44 percent in the corresponding period in 2005.

Israeli VC Activity in Foreign Companies

Israeli VCs invested \$60 million in foreign companies during 2006 (in addition to their investments in Israeli high-tech companies), compared to \$95 million in 2005 and \$107 million in 2004. Two (totaling \$10 million) of the 33 investments were First investments, and the remainder were Follow-ons.

Capital Raised by Sector

In the three major sectors, capital raising was nearly even in 2006 as 24 percent was raised by the Communications sector, 23 percent by the Life Sciences and 22 percent by Software companies. Semiconductor firms accounted for 10 percent of capital raised, the Internet for 5 percent and other sectors for 16 percent.

One hundred and seven **Communications** companies attracted \$393 million, compared to \$469 million (35 percent of the total) raised in 2005 and \$430 million (29 percent) raised in 2004. While the Communications sector attracted the highest sums, as in the past seven years, its 24 percent share of total capital raised was at its lowest level, well below its seven-year average of 35 percent. In Q4, 25 Communications companies attracted \$106 million (22 percent) with 4 companies attracting over \$10 million.

Life Science companies, with \$369 million raised, accounted for 23 percent of the total raised in 2006. This compared to 21 percent in 2005 and 22 percent in 2004. "The Life Sciences sector played a key role in helping Israeli high-tech to reach new highs in capital raising post-2000/2001 bubble period," said Efrat Zakai, Director of Research at IVC. "In 2006, Life Science companies raised the largest amount recorded since the IVC Survey started publishing in 1999, partly reflecting two especially large financing deals of approximately \$40 million each."

In the fourth quarter, 24 Life Sciences companies attracted \$117 million, 25 percent of the total capital raised.

Capital Raised by Stage

In 2006, 68 **Seed** companies attracted \$138 million. Seed companies raised the highest amount since 2001. The Seed sector captured 8.5 percent of the total capital raised in 2006 – near the 8 percent attracted by seed companies both in 2005 and 2004. **Early Stage** companies attracted 30.5 percent, **Mid-Stage** companies attracted 42 percent and **Late Stage** companies captured 19 percent of the capital raised in 2006.

In the fourth quarter, 22 Seed companies attracted \$54 million, accounting for 11 percent of Q4 capital raising, compared to \$20 million (5 percent) in Q3 and \$22 million (9 percent) in Q4 2005.

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

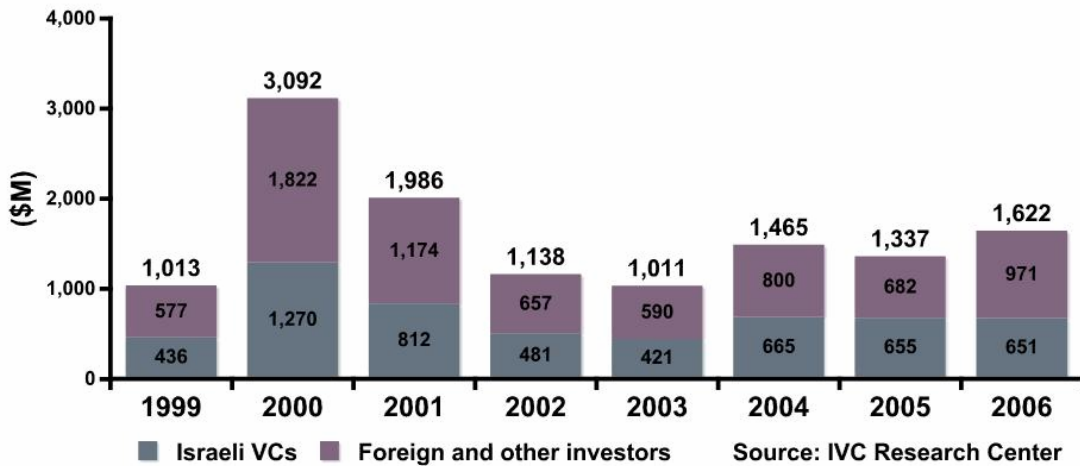
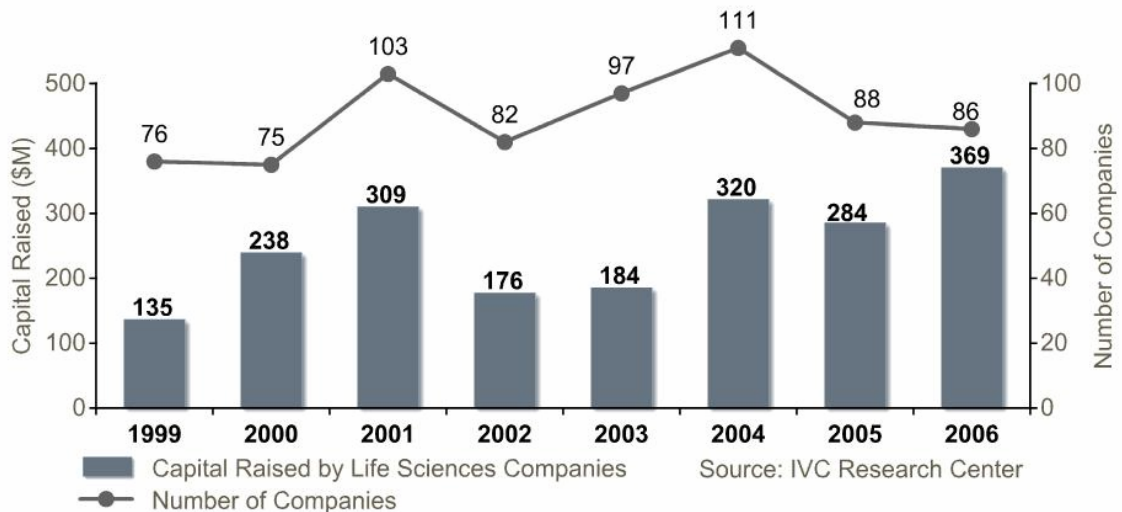


Chart 2: Capital Raised by Israeli Life Science Companies (\$m)



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