

IVC High Tech Survey - 2008, Q1

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The following are the findings of the Quarterly Survey conducted by the **IVC Research Center**, which for more than nine 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 86 venture investors of which 47 are Israeli management companies and 39 are other – mostly foreign – investment entities.

In the first quarter of 2008, 135 Israeli high-tech companies raised \$617 million from venture investors – both local and foreign. The amount raised was the highest in seven years, 52 percent above the amount raised by 121 companies in the first quarter of 2007, and 23 percent above the previous quarter's amount raised by 115 companies (chart 1).

Ninety-six companies attracted more than \$1 million each. Of these, 29 companies raised between \$5 million and \$10 million each, 14 companies raised between \$10 million and \$20 million each, two companies raised between \$20 million and \$30 million each, and two companies raised more than \$30 million.

In Q1 2008, the average company financing round was \$4.57 million, compared with \$3.35 million in the first quarter of 2007 and \$4.37 million in the previous quarter.

Israeli VC Investment Activity

In the first quarter of 2008, Israeli VCs invested \$262 million in Israeli companies, 53 percent more than in the first quarter of 2007 and 84 percent above investments made in the previous quarter (Q4 2007). Six funds had invested more than \$15 million each.

The Israeli VC investment share of total capital invested was 43 percent, very close to previous year's average of 42 percent. First investments accounted for 42 percent of total dollar investments by Israeli VCs in Q1, compared with 51 percent in the first quarter of 2007 and 33 percent in Q4 2007. The average First investment by Israeli VCs was \$2.6 million, while the average Follow-on investment was \$1.2 million.

Israeli VC Activity in Foreign Companies

In Q1, Israeli VCs invested \$20 million in 11 foreign companies in addition to their investments in Israeli high-tech companies. This compares to \$9 million invested in foreign companies in the first quarter of 2007 and \$14 million invested in the previous quarter. Three of the investments were First investments, and the remainder were Follow-ons.

Capital Raised by Sector (chart 2-3)

Capital raising in Q1 2008 was led by the Software sector, which attracted 26 percent of the total raised, followed by the Life Sciences with 24 percent, Communications with 20 percent, the Internet and Semiconductors with 9 percent each and Cleantech with 4 percent, while Other sectors made up the remaining 8 percent.

Both the number of companies and capital raised in the **Software** sector were at their highest levels since the Survey began in 1999. Thirty-eight companies raised \$161 million (26 percent), about four times the amount of Q1 2007's \$41 million and more than triple the \$49 million of the previous quarter. Software comprised only 10 percent of capital raised in both Q1/07 and Q4/07.

Life Science companies followed the Software sector in Q1 as 21 Life Science companies attracted \$147 million or 24 percent of total capital raised. This compares with \$68 million or 17 percent in the first quarter of 2007 and \$122 million or 24 percent in the previous quarter. Within the Life Sciences, the Medical Devices subsector attracted 43 percent of the amount raised in the entire sector and 10 percent of total capital raised by all sectors.

Twenty-eight **Communications** companies attracted \$126 million – 20 percent of the total amount raised in the quarter, compared with \$124 million or 30 percent in the first quarter of 2007 and \$71 million or 14 percent in the fourth quarter of 2007.

In the first quarter, 19 **Internet** companies raised \$55 million or 9 percent of the total, compared with \$64 million or 16 percent in the first quarter of 2007 and \$76 million or 15 percent in the fourth quarter of 2007.

Eight **Semiconductor** companies raised \$56 million, 9 percent of the total capital raised in the first quarter of 2008, compared with \$42 million or 10 percent in the first quarter of 2007 and \$156 million or 31 percent in the especially high fourth quarter of 2007.

Nine **Cleantech** companies raised \$23 million or 4 percent of the total capital raised. This compared with \$16 million or 4 percent in the first quarter of 2007. **Other** companies attracted \$49 million, 8 percent of capital raised.

Capital Raised by Stage (chart 4)

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.

In the first quarter, 27 **Seed** companies attracted \$35 million, 5.5 percent of total capital raised. This compared with \$54 million or 13 percent in the first quarter of 2007 and \$18 million or 4 percent in the previous quarter. Within Seed Investments, Software companies attracted the largest share – 50 percent – followed by Internet companies with 28.

Early Stage companies attracted the most funding in the first quarter of 2008 as 39 companies raised \$245 million, compared to \$163 million raised in the first quarter of 2007 and \$134 million in the previous quarter. The Early Stage share of capital raised was 40 percent, versus 40 percent in the first quarter of 2007 and 26 percent in the previous quarter. Within Early Stage Investments, Life Science companies attracted the largest share – 57 percent – followed by Communication and Software companies with 11 percent each.

Forty-eight **Mid-Stage** companies (up to \$10 million in revenues) raised \$197 million, 32 percent of total capital raised. This compares with 12 companies that raised \$119 million in the first quarter of 2007 and 15 companies that raised \$171 in the previous quarter. Within Mid-Stage investments, Communication companies attracted the largest share – 37 percent – followed by Semiconductors with 19 percent and Software companies with 17 percent.

Twenty-one **Late Stage** companies (more than \$10 million in revenues) raised \$140 million, 22.5 percent of total capital raised. This compares with 12 companies that raised \$70 million or 17 percent in the first quarter of 2007 and \$180 million or 36 percent in the previous quarter. Within Late Stage investments, Software companies attracted the largest share – 59 percent – followed by Communication firms with 19 percent.

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

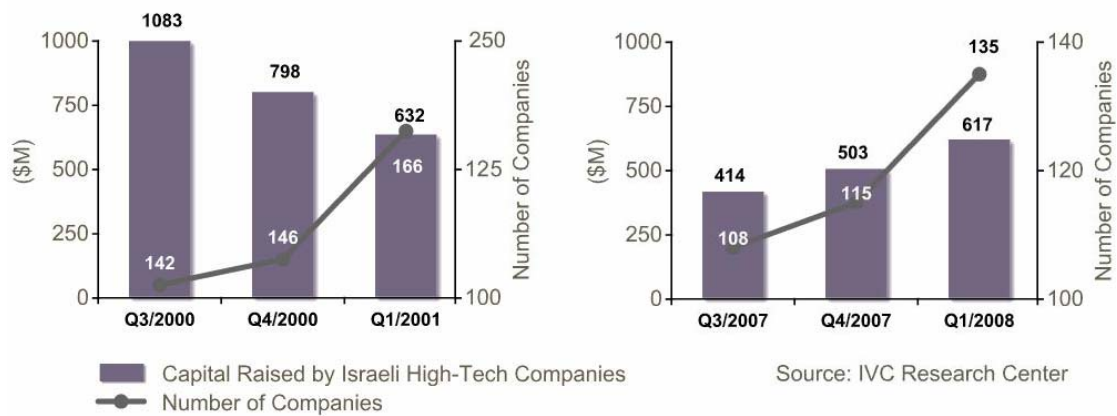
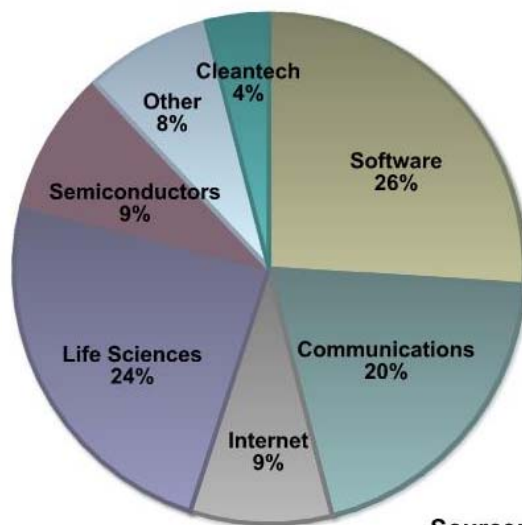


Chart 2: Capital Raised by Israeli High tech Companies by Sector



Source: IVC Research Center

Chart 3: Capital Raised by Software Companies

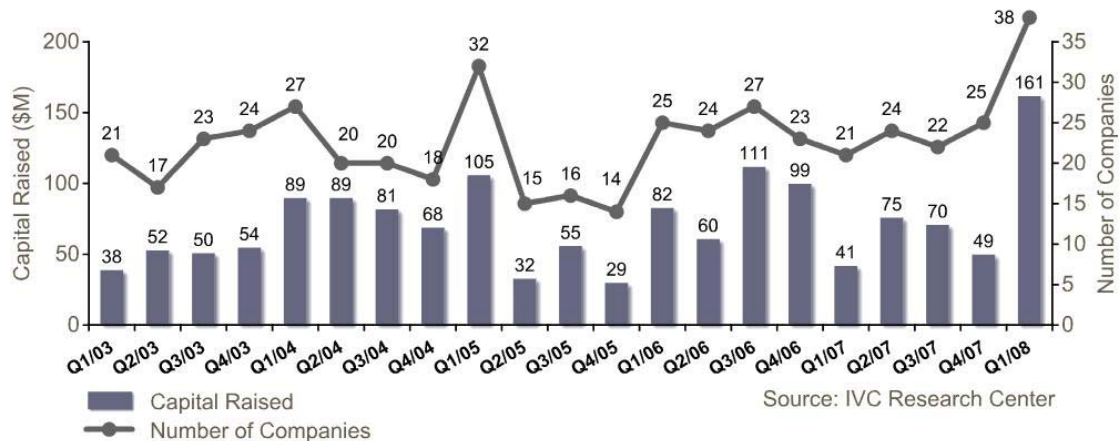
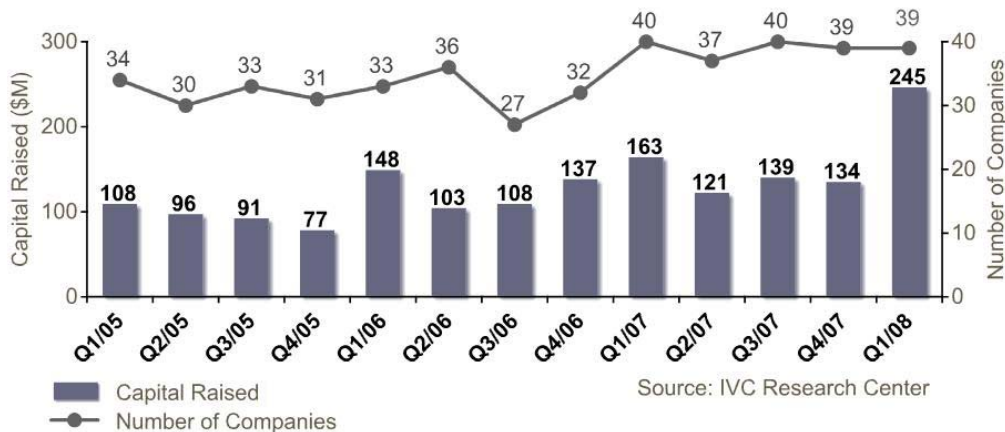


Chart 4: Capital Raised by Early-Stage Companies



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