

Summary of Israeli High-Tech Company Capital Raising Q2/2015

IVC and KPMG report:

Israeli high-tech financing breaks records again: \$1.12 billion in Q2/2015

Key facts:

- VC-backed deals shrink to 44%, down from 75% quarterly average in past 6 years
- Israeli VC funds involvement down to just 10% of total investments
- Late stage companies attract 43% of all capital in Q2/2015
- Software leads all investments, with \$487 million – highest quarterly amount for the sector

Tel Aviv, Israel, July 28, 2015. One hundred and seventy nine Israeli high-tech companies raised \$1.12 billion in Q2/2015. The quarterly amount was remarkably high, exceeding even former record high \$1.11 billion invested in Q4/2014. This constitutes a 12 percent increase from the \$997 million raised by 163 companies in Q1/2015, and 20 percent more than the \$928 million invested in 174 companies in Q2/2014. (Chart 1)

In the first half of 2015, 342 Israeli high-tech companies attracted the highest amount of \$2.1 billion, compared to the \$1.6 billion raised by 334 companies in H1/2014, and the \$878 million invested in 307 companies in H1/2013.

The average financing round in H1/2015 was \$6.2 million, while in H1/2014 the average was \$4.8 million, and \$2.9 million in H1/2013.

Ofer Sela, partner at KPMG Somekh Chaikin's Technology group, commented: "Fifty percent of the amount raised during this quarter, and even more since the beginning of 2015, results from large deals of \$20 million or more raised per round. The overall number of growth companies attracting investments continues to increase quarter over quarter, reflecting the health of the venture-backed ecosystem in Israel and the patience of investors supporting their portfolio companies to complete homeruns and grow into 'Unicorns' that are substantial and mature."

In Q2/2015, investments in VC-backed deals decreased significantly, with 99 deals totaling \$486 million - the lowest share for VC-backed deals in six years, at 44 percent. The amount fell 42 percent from the \$838 million raised in 92 VC-backed deals in Q1/2015, and was 9 percent below the \$533 million invested in 107 deals in Q2/2014.

The average VC-backed deal dropped to \$4.9 million, compared with the previous quarter's record of \$9.1 million, back to the Q2/2014 level, which stood at \$5 million.

In H1/2015, 191 VC-backed deals accounted for \$1.3 billion, or 63 percent, of total investments in the period. The amount was 33 percent up from \$1 billion (62 percent of total) invested in 183 deals in H1/2014, and 97 percent above the \$672 million (77 percent of total) raised in 182 deals in H1/2013.

IVC-KPMG's analysis of investors by type revealed that foreign private equity funds and corporate investors were responsible for \$477 million or nearly 43 percent of the total investments in Q2/2015. Koby Simana, CEO of IVC Research Center, notes: "Most of the increase in capital raising in the second quarter can be attributed to two exceptionally large deals, where private equity funds invested in growth-stage companies. Moreover, an investor profile analysis we conducted shows an impressive increase in the number of foreign private equity funds investing directly in

Israeli technology companies – i.e., in deals where the equity capital is placed directly in the company, rather than shareholder equity changing hands." (Chart 2)

Simana believes that the interest shown by private equity investors in growth stage companies is yet another indicator of the Israeli technology- and venture capital industry's involvement and maturity. "If we want the local high-tech industry to continue growing and see more large-scale, mature companies emerge, there is room for technology investments from more than just VC funds – local or foreign. The industry needs a variety of investors and investment models to support companies throughout various stages. Private equity funds and international conglomerates are the kind of investors we want to see supporting growth companies, and we have lately found that, indeed, the number of growth stage technology companies in Israel is rapidly increasing. As the number of high growth companies and company valuations climb even further, we expect to see a more diverse investor mix," concludes Simana.

Sela from KPMG added: "Investors from Asia are investing in an increasing number of Israeli growth companies, adding to the overall amount of cash available for market expansion. Overall, Israeli portfolio companies are priced much more reasonably than Silicon Valley companies, making Israel an attractive location for both investments and acquisitions."

Israeli VC Fund Investment Activity

In Q2/2015, Israeli venture capital funds invested \$117 million in Israeli high-tech companies - just 10 percent of all capital investments. The amount was 35 percent below the \$180 million (18 percent of total) invested in Q1/2015, and 23 percent down from the \$152 million (16 percent of total) invested in Q2/2014.

First investments by Israeli VC funds have slightly increased in Q2/2015, and accounted for 38 percent, compared with 31 percent in the previous quarter and 35 percent in Q2/2014.

Capital Raised by Sector, Stage

The software industry led capital raising in Q2/2015, for the first time since Q1/2013, with \$487 million (44 percent) invested in 50 companies. The amount was the largest for the sector, almost triple the last two-years' average. Internet and life science investments, which led all sectors in Q1/2015, decreased reaching 21 percent and 13 percent, respectively.

In Q2/2015, late stage companies accounted for the majority of investments, with \$480 million, followed by mid-stage companies with \$379 million. Together, growth stage deals accounted for 77 percent of all quarterly investments, a noticeable increase compared to the 63 percent they reached together in each of the last three quarters. Early stage companies followed, with 19 percent, while seed investments accounted for four percent of the capital, though constituting a quarter of all the deals.

Chart 1: Israeli High-Tech Capital Raising (\$m)

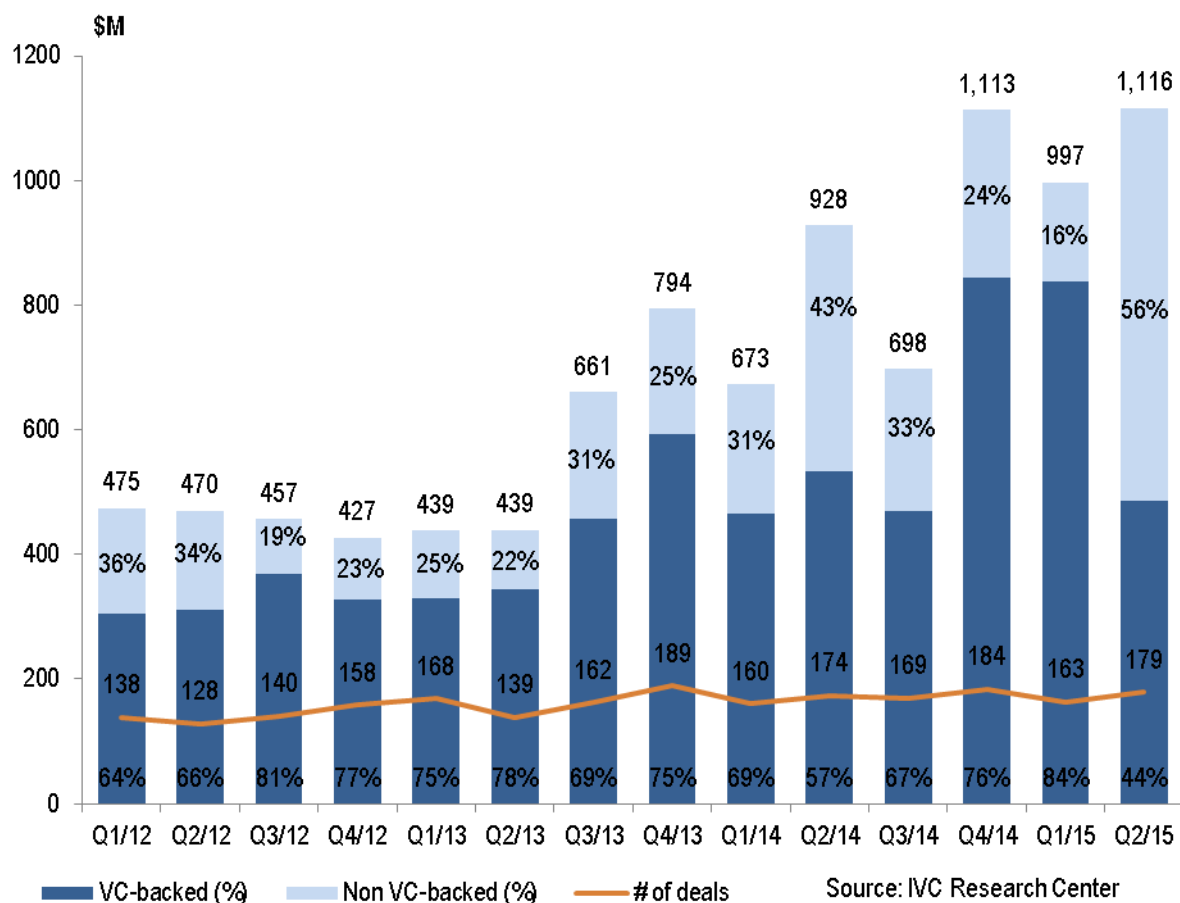
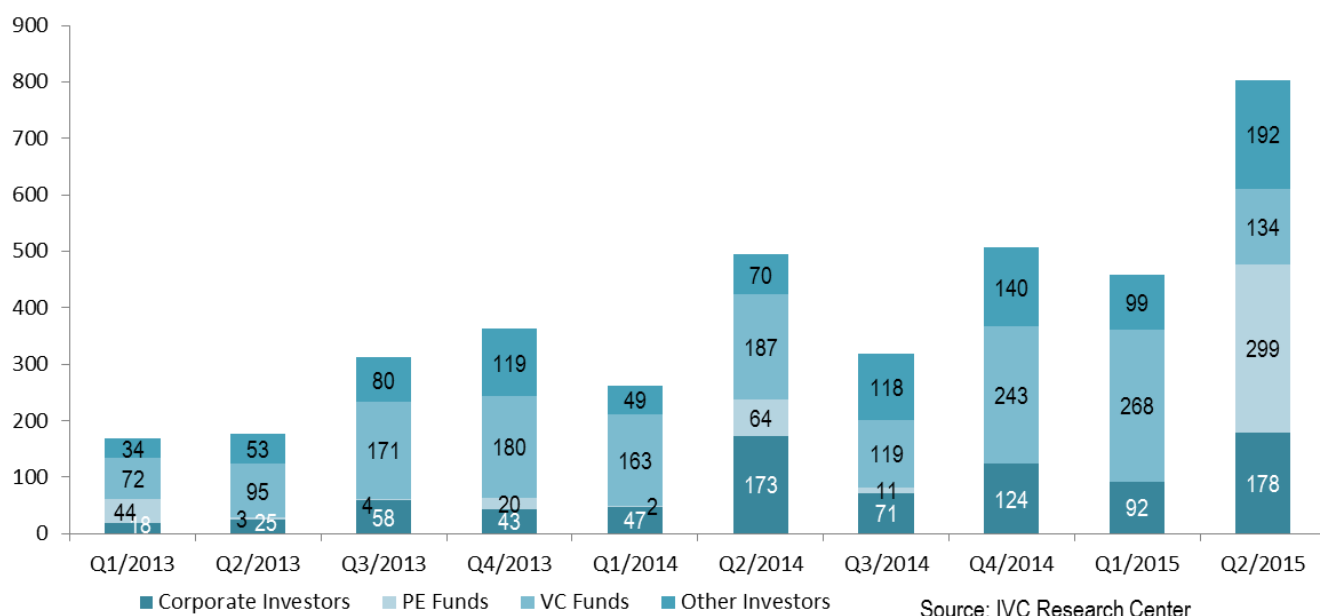


Chart 2: Foreign Investors in Israeli High-Tech Companies by Type (\$m)



Methodology

This Survey reviews capital raised by Israeli high-tech companies from Israeli and foreign venture capital funds as well as other investors, such as investment companies, corporate investors, incubators and angels. The Survey is based on reports from 143 investors of which 45 were Israeli VC management companies and 98 were other entities.

The survey covered total investment in the Israeli venture capital sector, including both VC-backed rounds where at least one investor participating in the round was a VC fund, as well as deals not backed by venture capital funds. *For more on our methodology, please [click here](#).*

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[IVC Research Center](#) is the leading online provider of data and analyses on Israel's high-tech, venture capital and private equity industries. Its information is used by all key decision-makers, strategic and financial investors, government agencies and academic and research institutions in Israel.

- IVC-Online Database (www.ivc-online.com) showcases over 12,000 Israeli technology startups, and includes information on private companies, investors, venture capital and private equity funds, angel groups, incubators, accelerators, investment firms, professional service providers, investments, financings, exits, acquisitions, founders, key executives and R&D centers.
- Publications include newsletters; Daily Alerts; the [IVC High-Tech Yearbook](#) – The Israel High-Tech, Venture Capital, Startup and Private Equity Directory; surveys; research papers and reports.
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