Summary of Israeli High-Tech Company Capital Raising – Q2/2017

IVC and ZAG report:

Israeli high-tech companies raise $1.3 billion in Q2/2017, 2nd largest amount in 5 years

Key facts:

- Deals above $20 million on the rise in Q2/2017 – 21 deals account for 55% of total amount
- VC-backed deals attract more capital in Q2/2017, 12% up from the quarterly three-year average
- Late stage capital raising improves, following three weak quarters – at $889 million
- Life sciences capital raising highest in H1/2017 - $622 million

Tel Aviv, Israel, July 19, 2017. In the second quarter of 2017, Israeli high-tech capital raising reached $1.26 billion, attracted by 157 companies, the second highest quarterly amount in the past five years, following Q2/2016's $1.7 billion raised in 194 transactions. The number of deals, even though slightly above the 155 deals reported for the previous quarter, remained 4 percent below the two-year average of 164 transactions.

The average financing round grew significantly in Q2/2017, reaching $8 million, compared with the $6.8 million average of the previous quarter, second only to the exceptional $8.8 million average in Q2/2016.

The first half of 2017 was the second highest in terms of capital raising, as 312 Israeli high-tech companies attracted $2.3 billion, just below the strongest H1/2016 period, when $2.8 billion was raised in 368 deals. Yet H1/2017 featured a slight drop in terms of the number of deals, 8 percent down from the corresponding past four years average.

IVC-ZAG's report revealed a 12 percent increase in capital raised in VC-backed deals in Q2/2017, compared to the $919 million three-year average in deals involving VC funds. "Our data indicate that local investments by venture capital funds have increased in the second quarter, following a series of declines in previous quarters," says Koby Simana, CEO of IVC Research Center. "This growth in the volume of activity by the VC funds reinforces two parallel trends we saw in the last quarter. On the one hand, the number of large deals, of over $20 million each, increased significantly, leading to a rise in the total capital raised in large rounds, although the average amount raised in such deals during the second quarter was no more than $33 million. We also see that the average small financing rounds (under $5 million) was up substantially in the second quarter, despite the fact that the number of such deals declined. Mid-range deals saw a minor increase both in terms of deal number and the average financing round."

Simana also explains the significance of the complex findings: "The increase in capital raised in the second quarter is not biased due to a number of large deals that distort the average upwards, as was the case in the record quarter last year. Rather, the figures indicate a real change in the way capital is raised in the local market - investors, especially venture capital funds, choose to make fewer investments but are prepared to invest larger amounts per round, at almost any stage." (see Chart).

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Capital Raising by stage

While mid-stage companies kept their leading position in Q2/2017 for the fourth quarter in a row, raising $462 million (37 percent of total), 19 late stage companies represented a noticeable improvement this quarter, contributing to the total quarterly increase, according to IVC-ZAG analysis, attracting $428 million (34 percent of total), compared to the previous three weak quarters. The amount was still under the exceptional $726 million raised in a remarkable number of 25 late stage deals in Q2/2016, when the stage led Israeli high-tech capital raising with 42 percent of total capital.

According to Adv. Shmulik Zysman, managing partner at Zysman Aharoni Gayer & Co. (ZAG/S&W): "Besides the overall increase in capital raising, the most encouraging figure in the present report is the volume of capital that seed companies succeeded to raise, which has doubled compared both to the previous quarter and even to the same quarter last year. These data indicate that our previous forecast - according to which the Mobileye deal will impact the following quarters, driving up capital raising proceeds as an indication and reaffirmation of Israeli companies' quality - has materialized. The Israeli high-tech industry continues to grow and receive a vote of confidence from foreign investors and VC funds. At the end of the day - despite the high risk they embody, there is no way to ensure the strength and future of the Israeli economy and the high-tech industry other than early stage investments, which offer exceptional returns to those willing to take risks."

In Q2/2017, 38 seed companies raised $65 million, a noticeable increase in comparison to Q1/2017 ($35 million) and Q2/2016 ($41 million).

Capital Raising by sector

Software was the leading sector, with $482 million (38 percent of total) in Q2/2017, as in the past four quarters. Life sciences was second, with $387 million, or 31 percent of total capital in Q2/2017.

Year 2017 demonstrated signs of being the record year for life science capital raising, with the highest capital amounts raised in both the second quarter and the first half of 2017, when a record amount of $622 million (27 percent of total) was attracted by life sciences, 32 percent up from the $473 million raised in H1/2016.

As for the record proceeds in the life science industry, Adv. Zysman adds: "This reflects the high level of the life science industry in Israel, as well as the great trust investors place in Israeli companies in this field. I expect investments in this field will continue to grow, as will the average capital financing per company. In addition, if institutional investors were to roll up their sleeves and invest in high-tech through the new dedicated funds currently proposed by the Ministry of Finance, this could lead to a significant increase in funding rounds and real growth for the entire Israeli high-tech industry."

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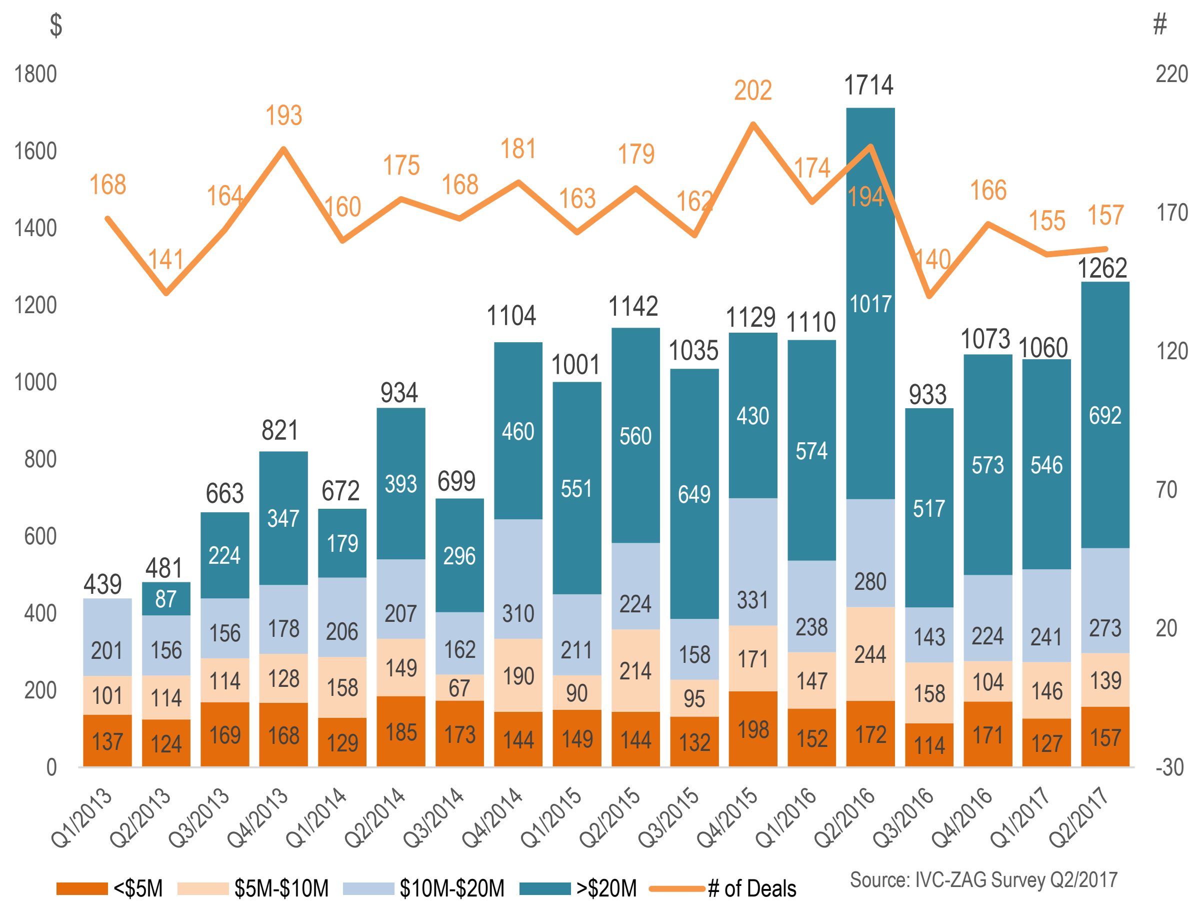
Chart: Israeli High-Tech Capital Raising by Deal Size, Q1/2013- Q2/2017 ($m)



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 366 investors of which 45 were Israeli VC management companies and 321 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. The survey includes amounts received by each company directly, and doesn't count direct transactions performed between companies' shareholders. For more on our methodology, please click here.

The full IVC-ZAG survey for 2016 appears in ***IVC High-Tech Yearbook 2017*** published in May 2017.

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