

Summary of Israeli High-Tech Company Capital Raising - Q3/2016

IVC and KPMG report:

**\$1.19 billion raised by Israeli high-tech companies in Q3/2016:
second highest quarter in 10 years**

Key Q3/2016 facts:

- Q3/2016's amount up 12% from three-year average; while number of deals down 17%
- VC-backed deal making dropped to \$662 million
- Investments by Israeli VC funds totaled \$130 million
- Seed and early stage financing shrunk

Tel Aviv, Israel, October 26, 2016. Israeli high-tech companies raised a total of \$1.19 billion in the third quarter of 2016, the second highest quarterly amount in 10 years. The amount was significantly affected by the exceptional Ormat PIPE deal of \$204 million, which captured 17 percent of total capital raised. Excluding the Ormat transaction, the quarterly results stand at \$982 million, similar to the \$1 billion quarterly average raised in the past three years. (Chart 1)

IVC-KPMG Survey findings presented only 142 funding deals closed in the third quarter of 2016, a 26 percent drop from Q2/2016 numbers (193 deals) and 17 percent below the three-year quarterly average of 171 rounds per quarter.

Ofer Sela, Partner at KPMG Somekh Chaikin's Technology group: "While we observe a decline in the number of investments, we don't believe that the local ecosystem is going to be dramatically impacted by the global downtrend in the long run, since the flow of quality deals continues to be strong and new growth investors are investing in these deals, providing a wider horizon to such companies, both in terms of the type of potential exit and valuation." Sela added: "We expect the IPO market in the US to be much stronger at the beginning of 2017, which will keep pushing both investors and VC-backed companies to continue nourishing the local ecosystem, alongside more traditional industries that are looking to reinvent themselves through innovative solutions."

Since the beginning of 2016, Israeli high-tech companies raised a total of \$4 billion in 510 deals, 27 percent above the \$3.15 billion raised in 491 deals in the first nine months of 2015, and only 7 percent below 2015's record of \$4.3 billion. The average transaction reached \$7.8 million, a noticeable increase, compared with the \$6.4 million average in Q1-Q3/2015. In the third quarter of 2016, the average company financing round stood at \$8.4 million, or - controlling for the Ormat deal - \$7 million, far above the three-year average.

Koby Simana, CEO of IVC Research Center says, that IVC noticed a drop in foreign investor participation in Israeli technology capital raising, particularly by foreign VC funds, in rounds closed during the third quarter. "This is a reflection of the global downtrend in VC investment that has been going on for over a year. Venture capital investors have put on the brakes in nearly every country, with US capital raising, for example, declining for the fifth quarter in a row. In Israel, we have so far been going against this trend, exceeding former capital raising records. Thus, this drop in the number of deals involving foreign VC funds is not entirely unforeseen. However, we need to wait for the fourth quarter results in order to determine that Israeli market is indeed following the global tendency. In any case, we expect 2016 to close as a record year in terms of capital raising, so

short of a dramatic surprise in the coming months, we are still far from declaring that the global VC crisis has hit Israel," he concluded.

In Q3/2016, 75 VC-backed deals attracted \$662 million, or 56 percent of total capital. This reflects a 41 percent decrease from the \$1.1 billion invested in 119 deals in the previous quarter, and a 24 percent year-on-year decrease (\$869 million was invested in 101 deals in Q3/2015). The number of VC-backed deals this quarter was the lowest in the past three years, 23 percent below a quarterly average of 97 VC-backed deals.

The survey editors believe the decline in VC-backed deals reflects a global downtrend in VC investments, as foreign and Israeli VC funds adjust their investment strategies and models, focusing on later stage investments and strengthening existing portfolios. Concurrently, new early stage investment models are being developed and expanded, with accelerators and private investments – including angels, investment clubs, family offices and crowdfunding platforms growing in prominence as seed and early stage funding sources - offering alternatives to Israeli high-tech companies. (Chart 2)

Israeli VC fund investment activity

In Q3/2016, \$130 million were invested by Israeli venture capital funds in local high-tech companies, a mere 11 percent of total capital proceeds. The amount demonstrated a 45 percent decrease from the \$238 million (14 percent of total) in the previous quarter, back to Q3/2015 levels of \$131 million (13 percent of total).

First investments by Israeli VC funds directed into new portfolio companies captured 38 percent of their total capital investments in Q3/2016, a 46 percent decrease in amount compared to Q2/2016, when their investments captured 39 percent of total capital.

Capital raised by stage and deal size

The survey revealed a continued descent in seed investments, at 30 seed deals in Q3/2016, closing \$35 million (3 percent of total), down 15 percent from \$41 million (2 percent) raised in 44 deals in Q2/2016, and 60 percent below the \$88 million (8 percent) raised in 53 seed deals in Q3/2015.

Moreover, while the number of deals (89 transactions) below \$5 million still comprised the majority of deals (63 percent) in Q3/2016, it was 25 percent down from the past three-year quarterly average of 116 deals.

The IVC-KPMG Survey has shown that larger deals are the running trend this year, with the third quarter keeping up the lively pace, featuring 20 deals above the \$20 million closed at a total of \$771 million, a staggering 65 percent of total capital raised in Q3/2016. This explains how the quarter placed second in 10 years in terms of dollar volumes despite a decrease in the number of deals.

Chart 1: Israeli High-Tech Capital Raising, Q1/2012-Q3/2016 (\$m)

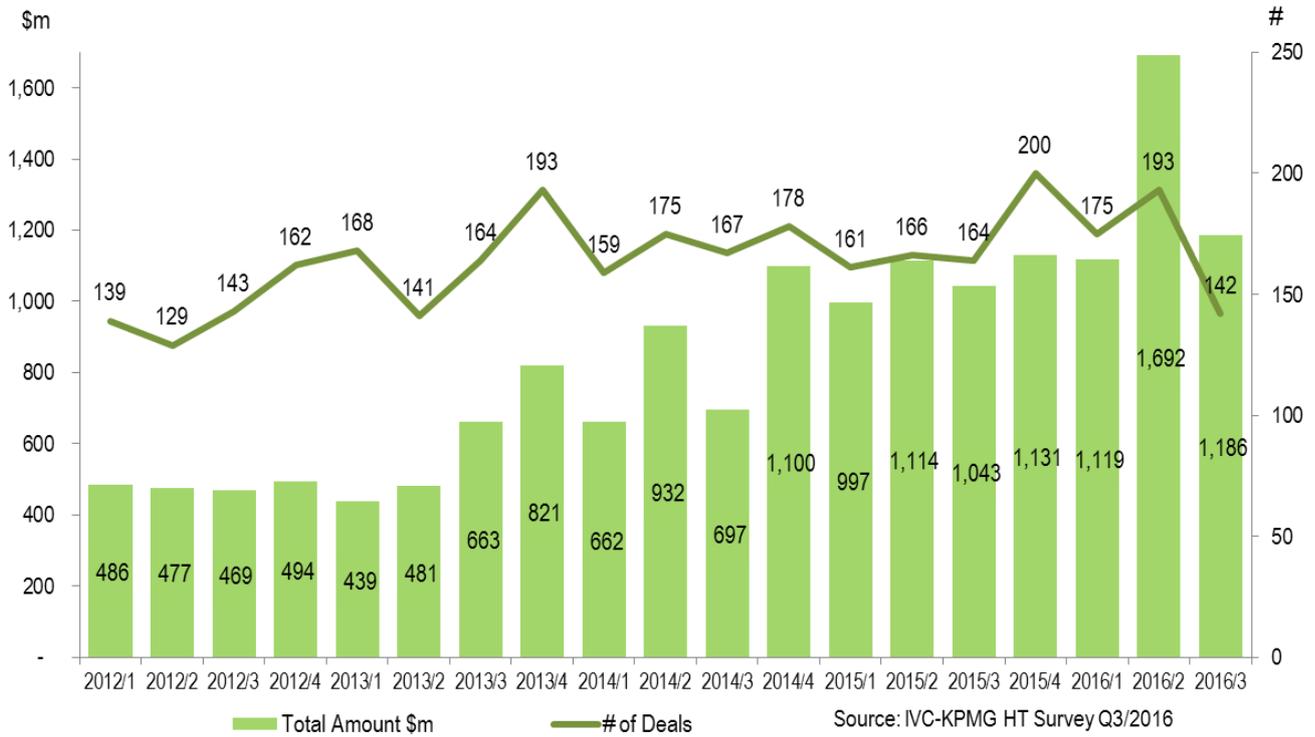
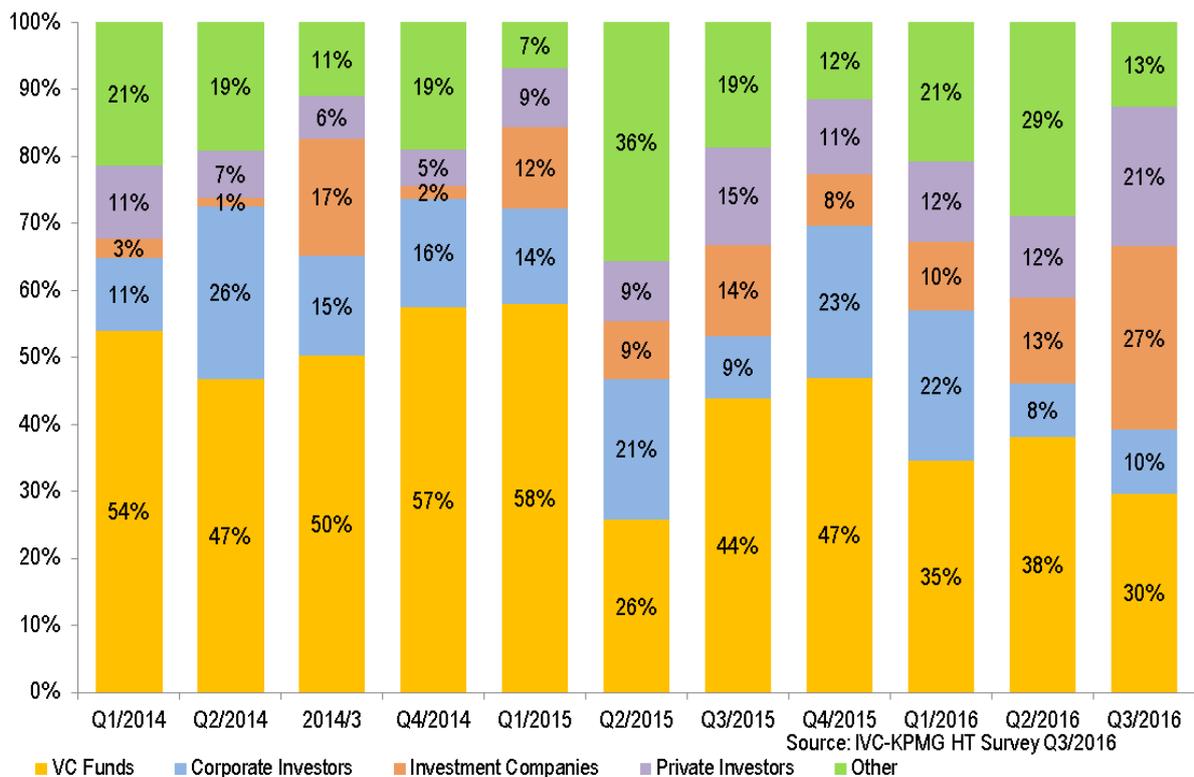


Chart 2: Israeli High-Tech Capital Raising by Investor Type, Q1/2014-Q3/2016 (%)



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 317 investors of which 38 were Israeli VC management companies and 279 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](#).

For additional information:

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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.

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- 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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