

Summary of Israeli High-Tech Company Capital Raising – Q1/2017

IVC and ZAG report:

**Israeli high-tech capital raising in Q1/2017:
\$1.03 billion raised**

Key Q1/2017 facts:

- Capital raising was 8% down from Q1/ 2016
- The number of deals was 10% below the quarterly average in the past 3 years
- VC-backed deals in Q1/2017 were at their lowest in 3 years - 56% of total capital
- Israeli VC fund investments were up: \$162 million - 16% of total investments in Q1/2017

Tel Aviv, Israel, April 26, 2017. In the first quarter of 2017, Israeli high-tech companies raised a total of \$1.03 billion in 155 transactions, a minor, 4 percent decrease, from the \$1.07 billion raised in 165 deals in the previous quarter and 8 percent lower than the \$1.11 billion raised in 174 deals in Q1/2016. The number of transactions was down 10 percent in Q1/2017 compared to the quarterly average of 172 deals in the previous three years. The average financing round reflected a minor increase, with \$6.6 million, compared to the \$6.5 million and \$6.4 million averages of Q4/2016 and Q1/2016, respectively (see Chart).

Early rounds – seed and A rounds – dropped 16 and 31 percent respectively, with only 37 seed rounds and 40 A rounds closing in Q1/2017, at a total of \$247 million, 8 percent below the \$267 million raised in early rounds in Q4/2016, and 23 percent down from the \$320 million raised in the first quarter of 2016. The number of all later rounds (B, C and later) was up 20 percent with 78 deals in Q1/2017 compared to 65 deals in Q4/2016, but only 5 percent above the 74 deals in Q1/2016. In terms of capital raising, only C rounds managed to top their previous record, with \$285 million raised in 17 deals in Q1/2017, compared to \$100 million (only 9 percent) raised in the previous quarter and \$234 million (21 percent) in Q1/2016.

According to Adv. Shmulik Zysman, founding partner of ZAG-S&W (Zysman, Aharoni, Gayer & Co.), "Although 2017 started as a strong and stable year for Israeli high-tech capital raising, with figures similar to previous quarters, the number of financing rounds in the first quarter was the lowest since the corresponding quarter in 2012, while the number of new startups continued to grow. We expect the Mobileye deal – which shifted paradigms regarding valuations of Israeli companies - to have future impact on the industry in terms of growth in capital raising volumes. The deal is yet another proof of the high quality and standards of Israeli companies."

Adv. Zysman believes that "The fact that most of the capital goes into mature companies currently reflects, on the one hand, the maturity of companies today, but also the low appetite of investors for young companies, which embody greater risk. If it continues, this trend is liable to harm young companies' ability to realize their potential. In addition, according to the report, most of the capital injected into the Israeli market continues to come from abroad. Thus, it emerges that high-tech investments in Israel are biased toward foreign investments in low-risk companies, which is liable to affect the future of Israeli high-tech as a whole."

In Q1/2017, VC-backed deal-making was down, with both the proceeds and number of deals shrinking noticeably. These figures mark the lowest point in venture capital fund investments since Q2/2015, with \$577 million in only 68 transactions, a 19 percent decrease from Q4/2016's \$710

million in 95 deals, and 26 percent down from the \$777 million raised in 100 VC-backed transactions in Q1/2016. While capital raised in financing rounds involving VCs marked the lowest point in venture capital fund participation since Q2/2015, the number of VC-backed financing rounds was the lowest quarterly figure recorded since 2010. The average VC-backed financing round in Q1/2017 was up, however, with \$8.5 million, compared to \$7.5 million and \$7.8 million in Q4/2016 and Q1/2016, respectively.

Israeli VC fund investment activity

Israeli VC funds invested \$162 million or 16 percent of total capital in Israeli high-tech companies in Q1/2017. The amount was 26 percent above the \$129 million invested in Q4/2016 and 17 percent up from the \$138 million invested in Q1/2016. Israeli VC funds' share was up in Q1/2017, compared with these two quarters, when their share reached 12 percent of total capital each.

The IVC-ZAG Survey reveals that this upturn stems from the increase in first investments performed by Israeli VC funds in Q1/2017 - \$87 million, or 54 percent of their investments. The share of first investments was up, compared to 45 percent in Q4/2016 and 31 percent in Q1/2016. While Israeli VC fund investment in the past tended to lean towards early stage investments, in the first quarter of 2017, a whopping 65 percent of first investments went to late stage companies.

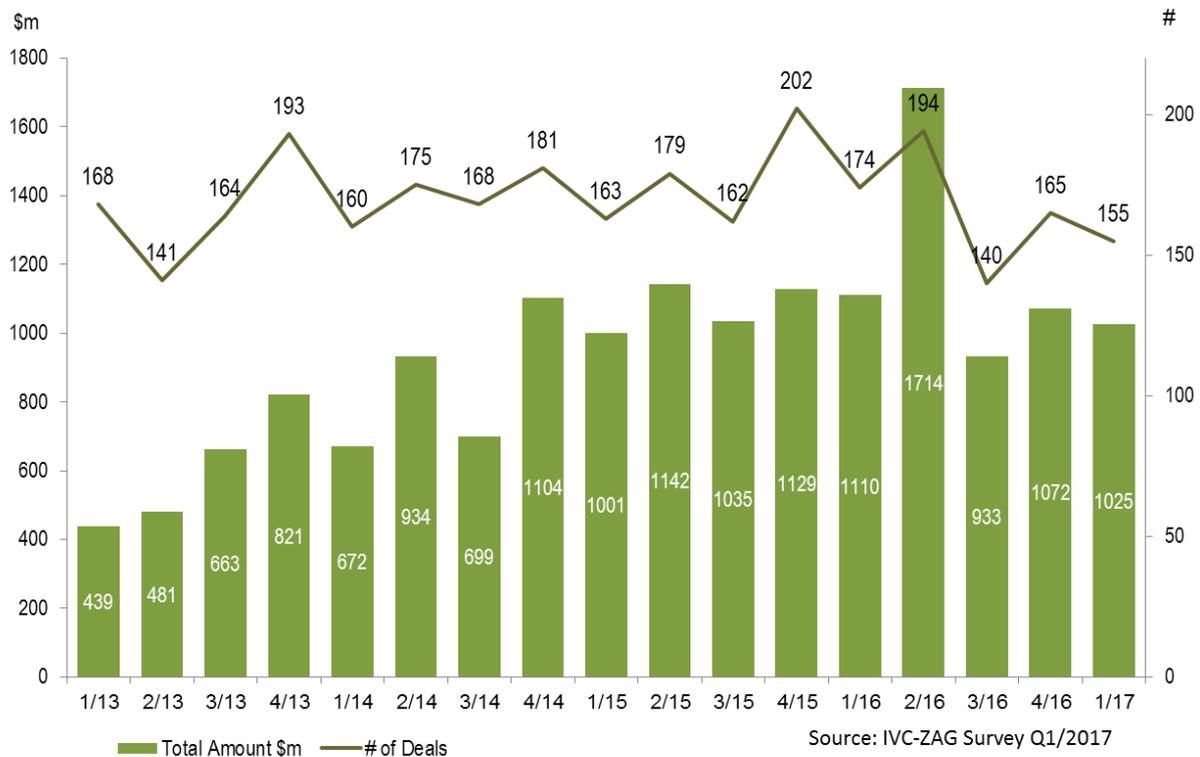
Koby Simana, CEO of IVC Research Center, noticed: "Our analysis shows that venture capital funds, both Israeli and foreign, are shifting their activity focus to investments in later stages – in terms of companies' product development stage, financing stage or capital raising round. This change creates a void in the early stages that is not fully met by other investors, such as accelerators or private investors. On the one hand, it creates an opportunity for new investors willing to focus on young startups and early stage companies without much competition, but on the other hand - spells danger to the future of the local venture capital model. If VC funds pass up the opportunity to join at early stages and hold the majority of shares in a company, they will have less control over their deal-flows. If there are no investments in early stages and early rounds now, two years down the line there could well be a shortage of promising late stage companies."

Capital raised by stage

Mid-stage companies continued to lead quarterly capital raising in Q1/2017, with \$478 million (47 percent), 11 percent below the \$534 million raised in Q4/2016, the highest quarterly amount for this stage, but 17 percent above the \$409 million raised in Q1/2016.

The first quarter of 2017 was the weakest for early stage rounds in three years, with 41 companies raising only \$199 million, or 19 percent of total capital.

Chart: Israeli High-Tech Capital Raising, Q1/2013- Q1/2017 (\$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 305 investors of which 38 were Israeli VC management companies and 267 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 will appear in [IVC High-Tech Yearbook 2017](#) to be published in May 2017.

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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 15,000 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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