

Israel VC Indicator Survey.

Expectations as of Quarter 4, 2011

Caution Rules - Again!



About

The purpose of the Israel VC Indicator Survey is to identify trends within the venture capital arena. Its objective is to give a comprehensive picture of the Israeli VC community's expectations for the next six to twelve months. The survey is designed to explore relevant key aspects, such as economic and market conditions, deal activity and an investment and managerial focus. The results produce a forward-looking measure of the overall sentiment in the Israeli venture capital community, which is extremely relevant to immediate deal flow.

The 39th Deloitte Brightman Almagor Zohar Israel VC Indicator Survey results for Quarter 4, 2011 include a comparison to responses from previous surveys.

Responses to Israel's VC Indicator Survey for Quarter 4, 2011 were collected from January 2nd, 2012 to January 10th, 2012. The responses were collected from venture capitalists in Israel.

Deloitte TMT Business Development Team uses a variety of research and statistical tools to provide an extensive and accurate analysis of the survey results. If respondents do not answer a question, the count for the question is adjusted accordingly. All charts presented in this report are sourced from the survey results.



Fourth Quarter, 2011

Highlights

There is a pessimistic sentiment among venture capitalists and entrepreneurs as one concerning the money raising activities.

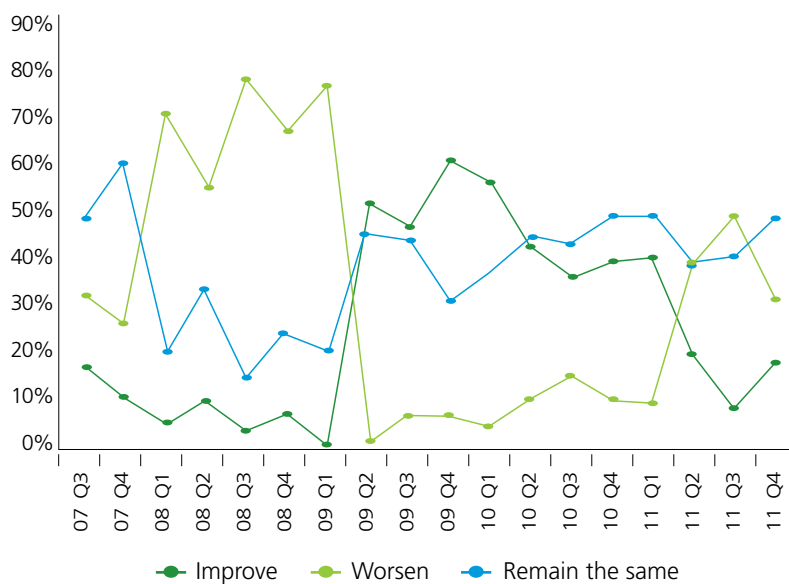
Venture capitalists are taking precautions in all segments measured.

The internet sector continues to be in the center of attention.

Results

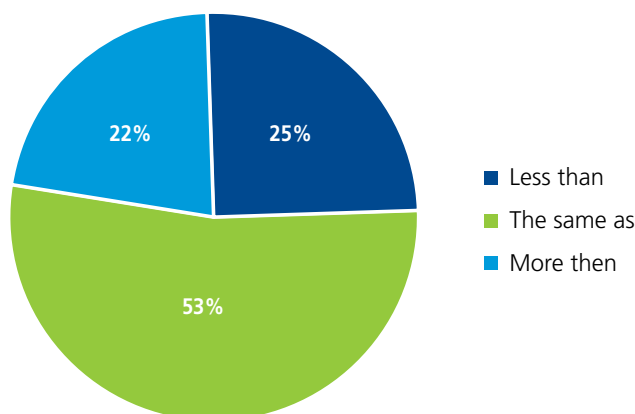
The widespread perception in Q4 2011 is that the economic climate will remain the same in the next six months (50%), while 34% believe it will worsen. The percentage of the venture capitalists that believe that the overall economic climate will improve is twice that it was in Q3 2011.

During the next six months, I expect the overall economic climate to:



22% of venture capitalists believe that the economic condition in 2012 will affect the high-tech industry more than it had in 2009, versus 25% that believe that there will be a lesser affect than in 2009. 53% believe it will remain the same.

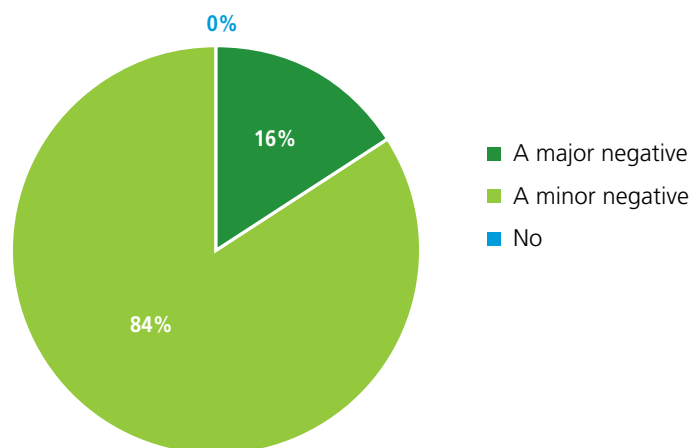
I believe that the economic condition in 2012 will effect the high-tech industry _____ in 2009.



69% of venture capitalists believe that it will be more challenging for entrepreneurs to raise seed money.

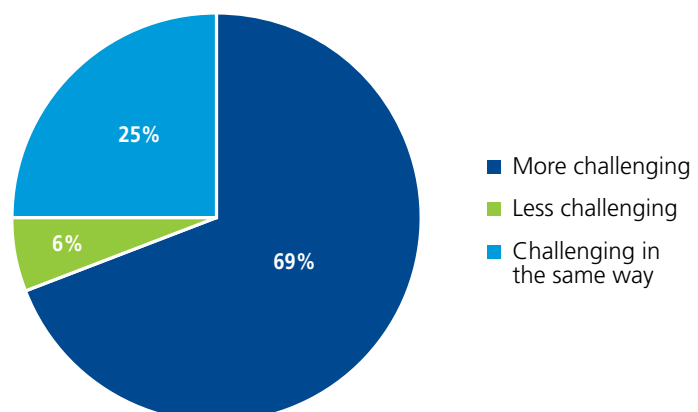
All venture capitalists unanimously believe that the Euro zone economic crisis will have a negative impact on high tech companies. Furthermore, 16% believe it will have a major negative impact.

The Euro zone economic crisis will have _____ impact on Israeli tech companies in the next six months:



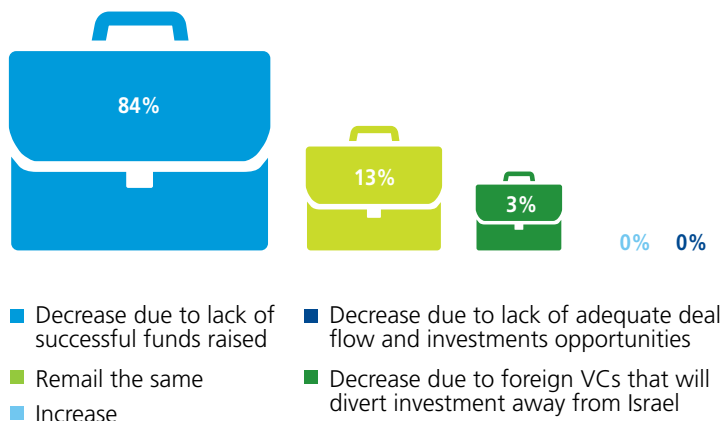
69% of the respondents believe that it will be more challenging for entrepreneurs to raise money from the beginning of 2012. Only 6% believe it will be less challenging for entrepreneurs to raise seed money.

I believe that compared to last year it will be _____ for entrepreneurs to raise seed money.



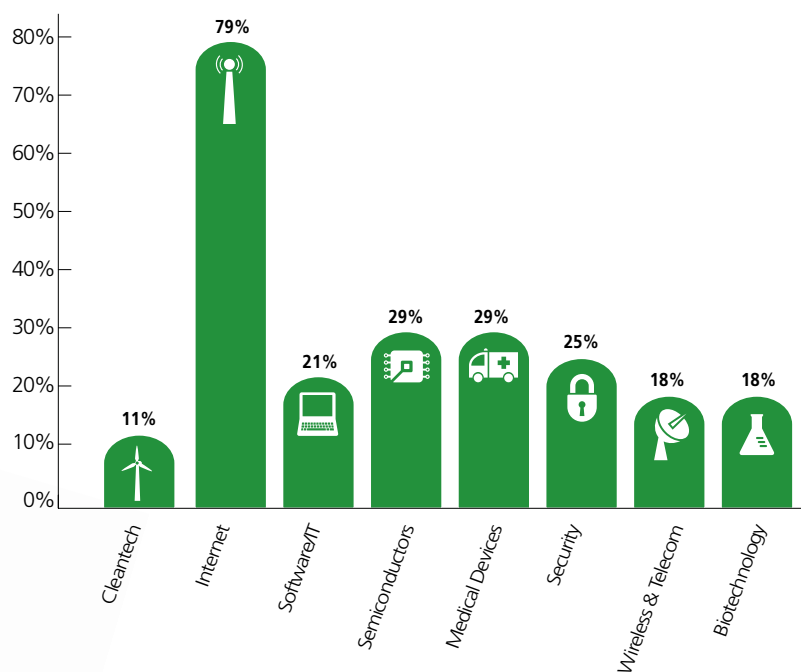
Not even one venture capitalist believes that we will see an increase in the number of active venture capitals by the end of 2012. The majority believe that we will see a decrease in the number of active VCs and the main reason for that is the lack of successful funds raised.

By the end of 2012 the number of active VCs in Israel will:



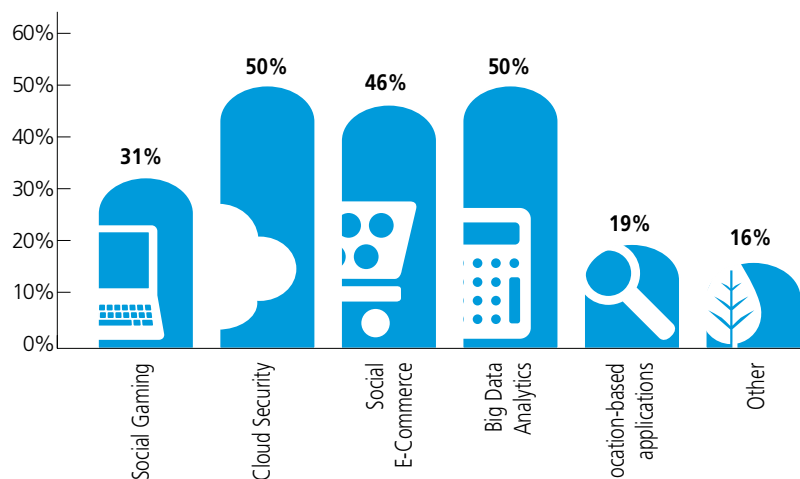
The Internet sector continues to be the sector which the venture capitalists believe will yield the most M&A activity within the next six months (79%). The Software sector decreased by 29% from last quarter and stands on 21%. Moreover, the Semiconductor sector increased by 15% since Q3 2011. The Cleantech sector is forecast to experience the least M&A activity (11%) during the next six months.

In which high-tech sector will M&A activity will be the highest in the next six months?



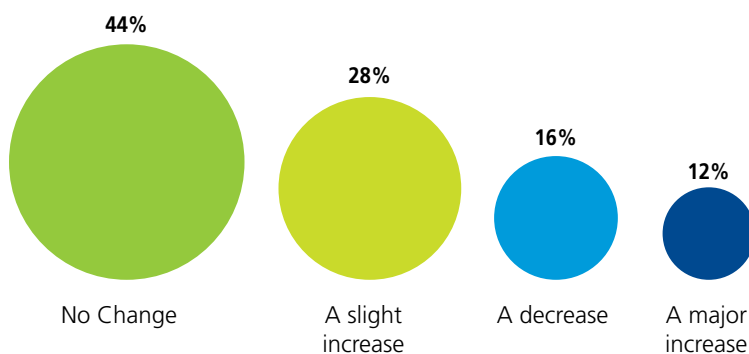
Venture capitalists believe that in 2012 they will see the most interesting deal flow opportunities in Cloud Security, Big Data Analytics and Social E-Commerce. Other sectors that were mentioned are Cyber Security and Agro & Food Technologies.

During 2012 the most interesting deal flow opportunities will be in:



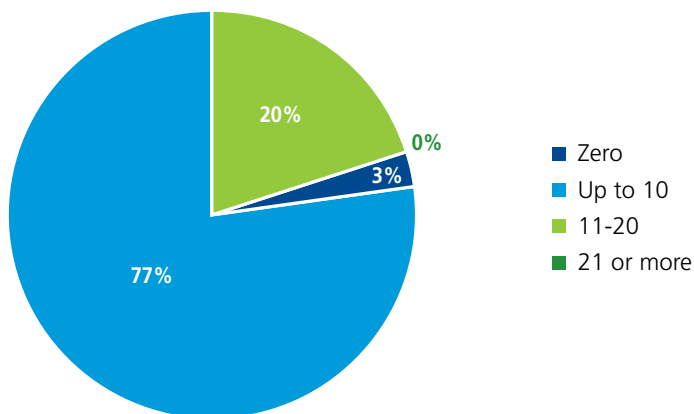
The cautious optimism shown in the chart to the right reflects the expectations of the majority of venture capitalists to see no change at the least (44%) and an increase in deal flow activity at the most (40%) in the next six months. 12% believes that there will be a major increase in deal flow activities. In comparison to last quarter, when only 4% of venture capitalists expected to see a major increase.

I expect the deal flow activity in the next six months, compared to the last year, to show:

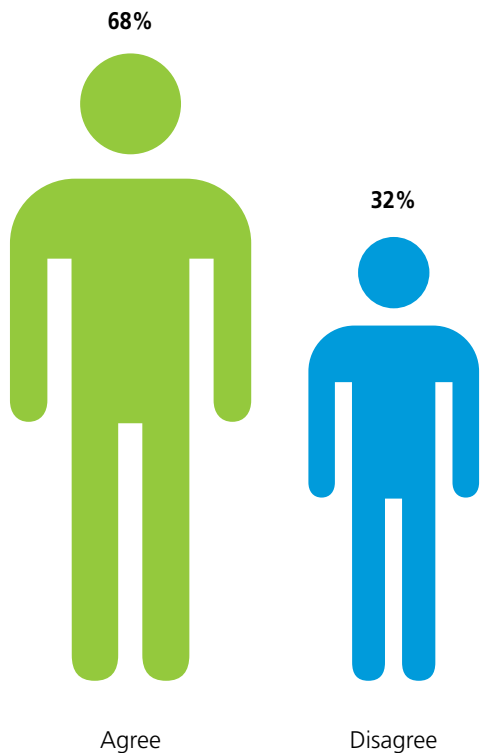


Only 3% believe there will be no exits during the next six months. Most venture capitalists believe that there will be up to 10 exits (77%) and 20% believe there will be 11-20 exits.

I expect to see _____ technology companies exits during the next six months:



In the coming year we won't see major exits via IPO:

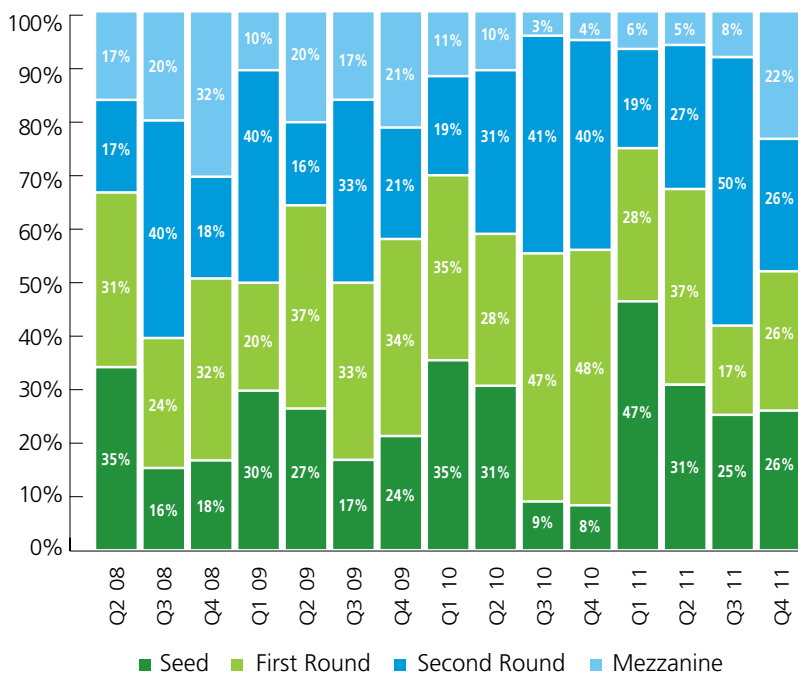


Even though the tech capital markets are still frozen, 32% of the respondents believe we will see at least one exit via IPO in the coming year while the vast majority doesn't see it happening.



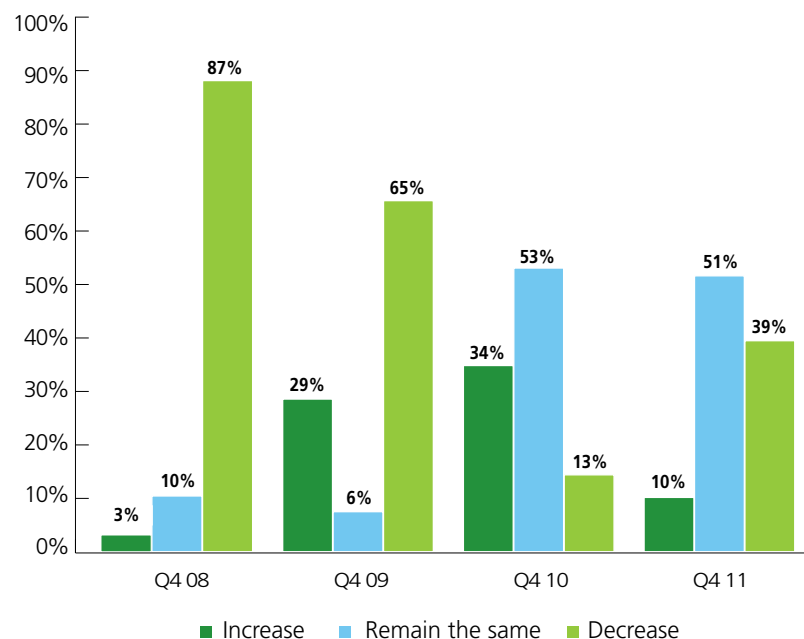
The segmentation of forecasted new investments reflects equal distribution of investment in Seed, First and Second rounds (26%). In Mezzanine investments there is an increase of 14% from last quarter. In addition, we can see an upward segmentation from Q3 2010 in Mezzanine investments.

During the next six months, I expect the majority of my new investment to be made in:



Most venture capitalists expect investment valuations to remain the same (51%) while 39% expect it will decrease in the next six months. Looking back to Q4 2010, we can see much more optimism with a third of the respondents who believed the valuations would increase.

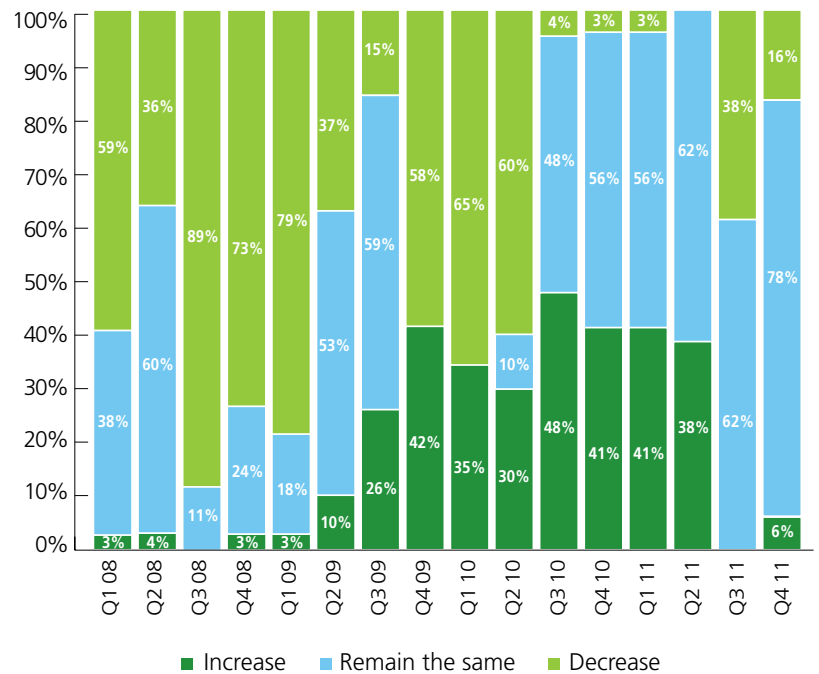
During the next six months, I expect investment valuations to:



In Mezzanine investments there is an increase of 14% from last quarter (22%).

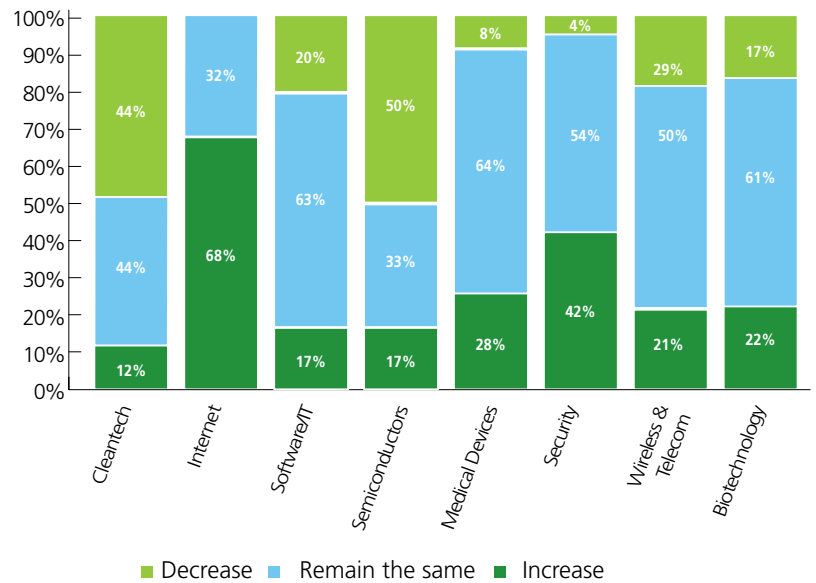
Regarding exit valuations, we can see a minority of 6% that believe we will see an increase, while the vast majority believes exit valuations will remain the same during the next six months and 16% of the surveyed respondents believe they will decrease.

During the next six months, I expect exit valuations to:



The Internet sector is once again leading the list with 68% forecasting, that we will see transactions in this sector during the next six months. In addition, the Security sector is also perceived with interest, such that 42% of respondents expect that the number of transactions to increase, whereas only 17% expect to see an increase in exit transactions in software/IT, compared to 66% in Q3 2011. The sector perceived to result in the least number of transactions is the Cleantech sector (12%).

During the next six months, I expect the number of transactions in the sectors listed below to:



42% of venture capitalists expect that the number of transactions in the security sector will increase.

Insights

The venture capital community opened 2012 with a cold welcome. The general feeling is that we probably won't see a major improvement in the economic and business environment as well as the high-tech industry and the startups arena. In addition, the Euro zone occurrences might affect high-tech companies directly. It is inevitable that companies and investors will be held to moderate growth and even economic slowdown that will affect the portfolio's performance and the investments and exits' progression.

In the startups arena it is also hard to identify optimism. The ability to raise seed money in the next six months will be more challenging than last year. Furthermore, all respondents expect that there will be no increase in the number of active venture capitals in Israel, as a result of the difficulty in raising money. In the past year, many micro venture capitals popped up which invested in early stage startups, but as 2012 opened, we have come to believe that they will not dramatically affect the startup funding in Israel.

The internet sector will be at the forefront of deal flow activities and will lead, by far, M&A activities in comparison to other sectors, including Medical Device and Security. The ability for the internet sector to preserve the lead has become possible due to its development and the entrance of new supporting players to the sector, such as, Social E-Commerce and Cloud Security.



Contacts

We welcome suggestions for issues to be addressed in future Israel VC Indicator Surveys. You are welcome to send your suggestions to Naama Yanko at nyanko@deloitte.co.il

Please contact us for further information about: the results of this survey, the special services offered by Deloitte Brightman Almagor Zohar and its affiliates to VCs and assistance with deal initiation and the execution process.

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