

# Israel VC Indicator Survey.

Expectations as of Quarter 3, 2011

## Definition of Uncertainty



## 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 38<sup>th</sup> Deloitte Brightman Almagor Zohar Israel VC Indicator Survey results for Quarter 3, 2011 include a comparison to responses from previous surveys.

Responses to Israel's VC Indicator Survey for Quarter 3, 2011 were collected from October 2<sup>nd</sup>, 2011 to October 16<sup>th</sup>, 2011. 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.

# Third Quarter, 2011

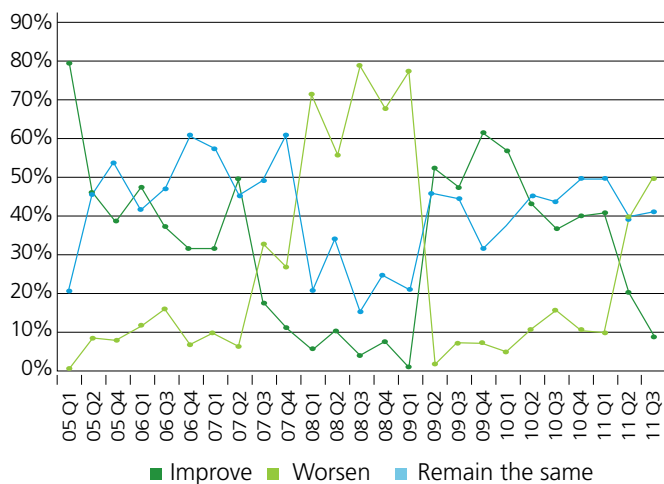
## Highlights

- The economic pessimistic sentiment which we started to see in the previous quarter has grown stronger and gained additional momentum
- Exit valuations is expected to decrease
- Despite the capital markets turbulence - institutional investors still aren't forecast to shift money to the VCs
- The Internet sector continues to be in the center of attention

## Results

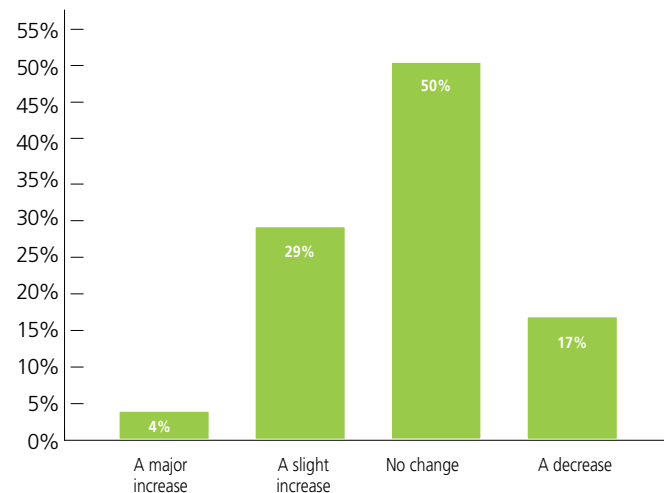
The general perception among venture capitalists indicates a negative market sentiment compared to the first quarter of 2011. Such that, only 8% claim that the conditions will improve, while 50% believe that the economic climate will deteriorate, that being the highest expectation of an economic climate overall decline since Q1 2009. 42% of venture capitalists expect that the overall economic climate will remain the same.

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



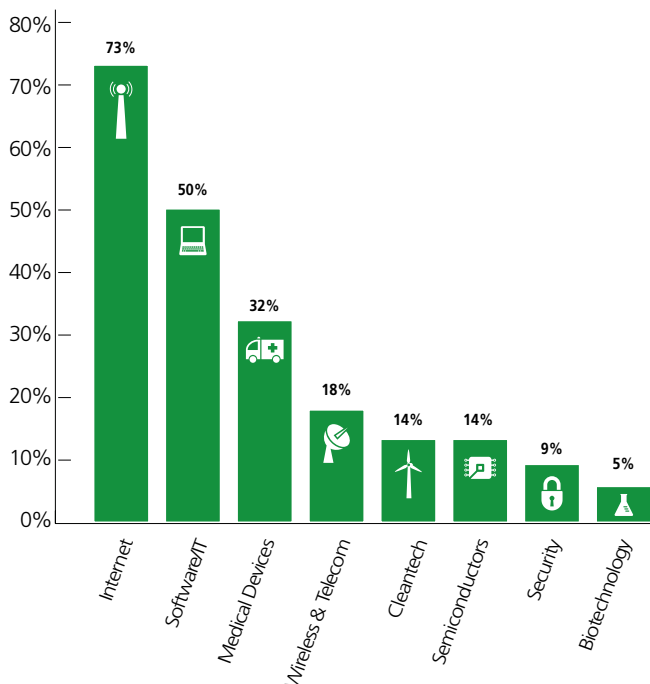
Pessimism amongst venture capitalists continues to be felt towards deal flow activity; given that only 33% believe that the deal flow activity will increase in the next six months. The pessimistic sentiment towards deal flow is even more apparent due to the fact that 17% of the respondents forecasted a decline in activity, while 50% of surveyed participants forecast deal flow to remain at current levels.

### Do you expect the Deal Flow activity in the next six months, compared to the last three quarters, to show:



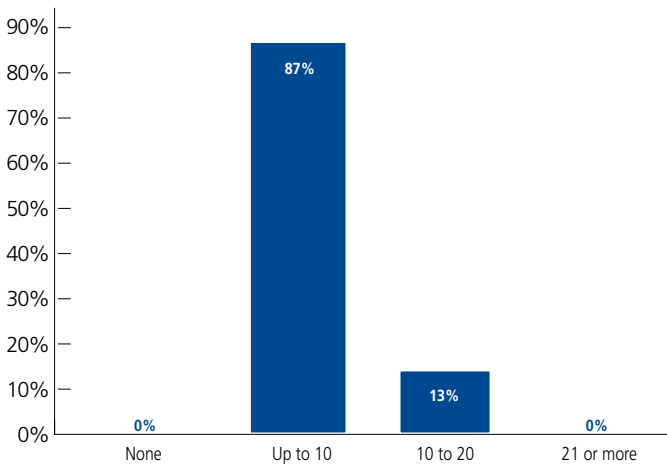
The internet sector continues to be the sector which the venture capitalists believe will yield the most M&A activity within the next six months (73%). The Software sector is also believed to experience much attention (50%), whereas the Biotech sector is forecast to experience the least M&A activity (5%) during the next six months.

### In which high-tech sector do you think there will be the highest M&A activity during the next six months:



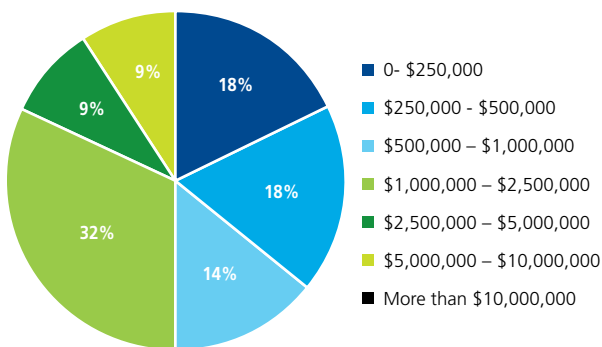
The vast majority (87%) of surveyed venture capitalists expects to see up to 10 exits in the next six months and 13% expect to see 10 to 20 companies exit during this period; this compares to 33% of respondents who expected to see 10 to 20 Israeli tech companies exit in Q2 2011.

**I expect to see \_\_\_\_ technology companies to exit during the next six months:**



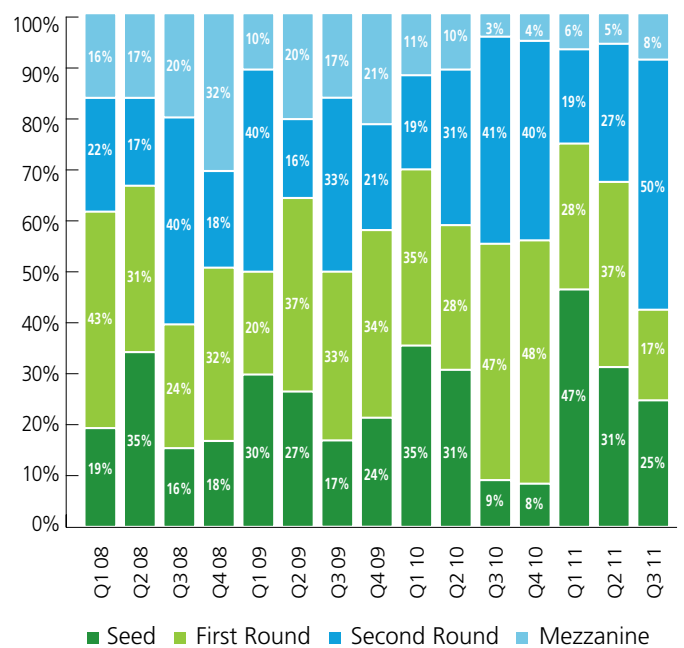
36% of the survey participants expect the average investment in a new company to be less than \$0.5M. \$1M- \$2.5M and 18% expect their new investment will be more than \$2.5M.

**Do you expect the average investment per new company your VC will invest in to equal (in USD)**



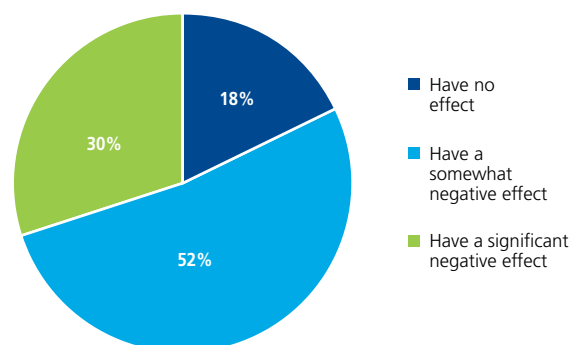
The segmentation of forecasted new investments reflects a relative jump in pessimism. Our survey shows that only 25% of venture capitalists currently expect the majority of new investments to be made in Seed and 17% forecast new investments in the First Round. Early investments (Seed and First Round) show a 26% decrease from the second quarter of 2011.

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



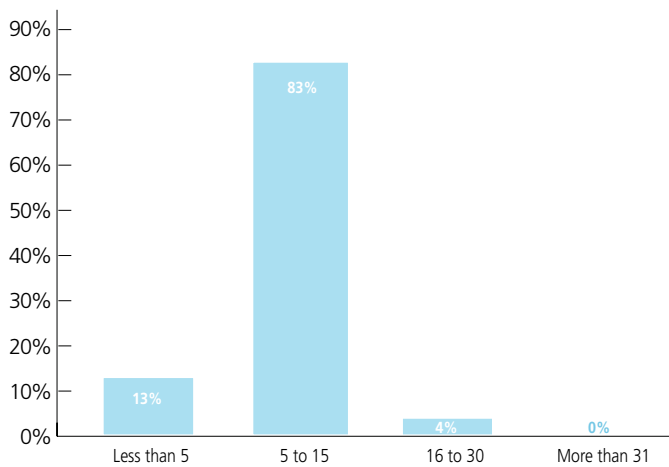
The vast majority of venture capitalists believe that the recent turbulence in the global capital markets will have a negative influence on the exit valuations (82%), and only 18% believe that the latest turbulence in the global capital market will have no effect.

**The recent turbulence in the global capital markets will \_\_\_ on the coming exit valuations:**



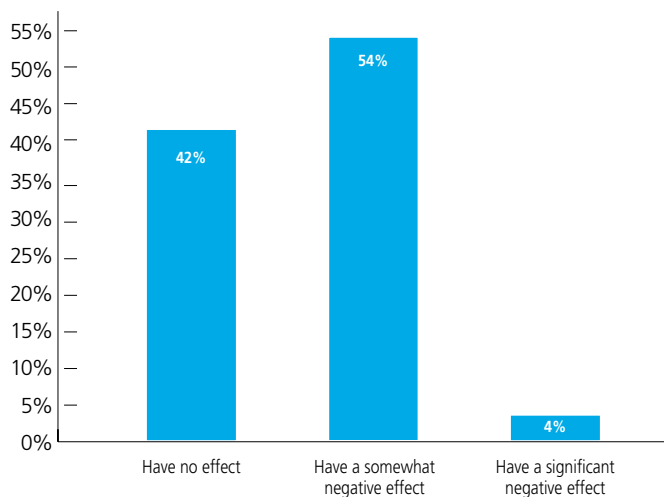
A further indication of Israeli venture capital pessimism is reflected by the fact that 83% of venture capitalists expect that by the end of 2012 we will see only 5 to 15 major venture capital funds active in Israel, whereas only 4% of the respondents expect to see 16 to 30 VC funds active in Israel in the next 14 months.

**By the end of 2012 we will see \_\_\_ major active venture capitals in Israel (managing more than \$100M):**



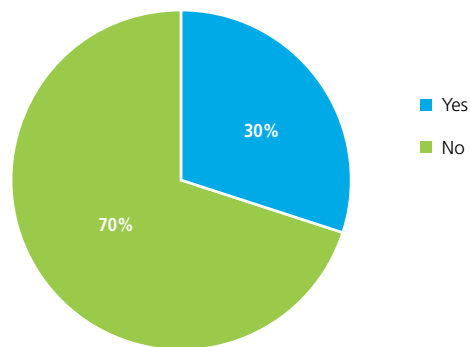
Only 4% of venture capitalists expect that the continuing deterioration in the political climate and the unrest in the Middle East are expected to have a significant negative consequence on the business development of Israeli high-tech companies.

**Will the recent unrest in the Middle East effect the business development of Israeli tech companies?**



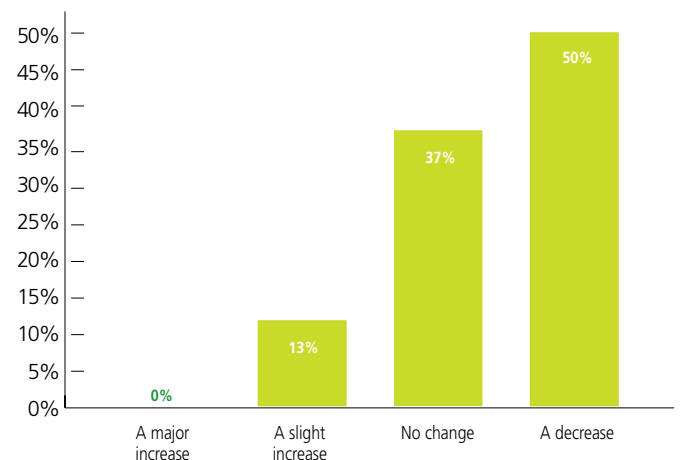
Despite the decline in the global capital markets, 70% of surveyed respondents believe that the Tel Aviv stock market will not become more dominant for Israeli tech companies.

**As a result of the falling of the global capital markets, do you believe that the Tel Aviv stock market will become more dominant for Israeli tech IPOs?**



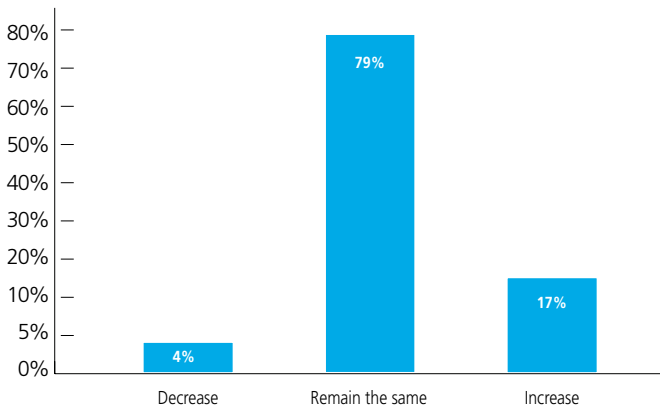
Despite of the growing risks in the capital markets and the Finance Ministry's latest incentives in order to encourage institutional investment in the venture capital industry, half of the venture capitalists expect to see a decrease in institutional investors investing in the venture capital market, and only 13% expect to see an increase.

**Do you expect that due to the growing risk in the capital markets we will see \_\_\_ in Institutional investors in the venture capital market?**



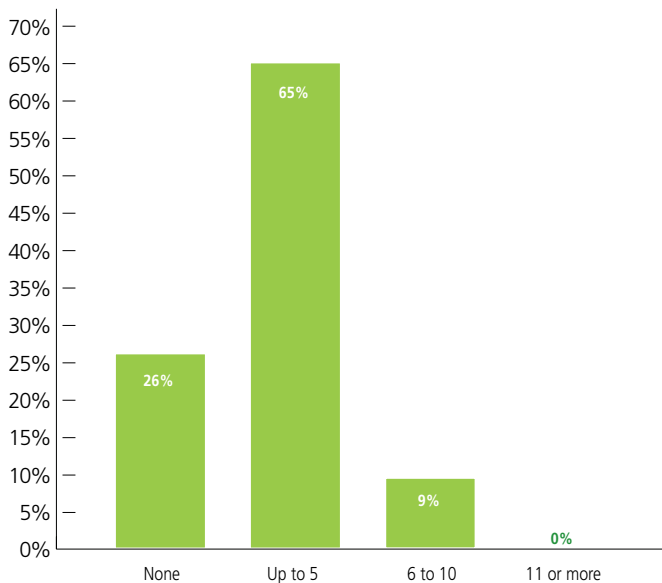
79% of the surveyed participants believe that the Concentration Committee and the Trachtenberg Committee's recommendations will have no effect on the attractiveness of Israeli high-tech companies.

**Do you expect that as a result of the Concentration Committee and the Trachtenberg Committee recommendations the attractiveness of Israeli high-tech companies will:**



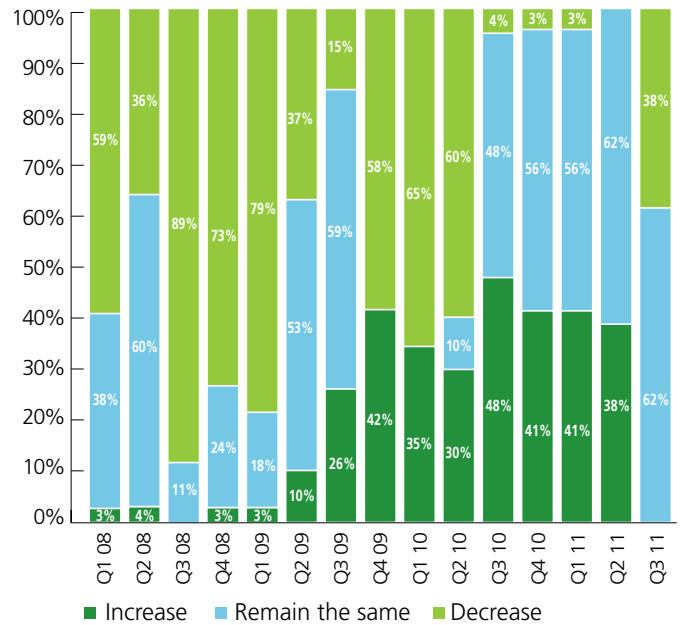
26% of survey respondents believe that we will not see a new Israeli-Arab high-tech company by the end of 2012, 65% expects to see up to 5 companies and 9% expect to see 6-10 new Israeli-Arab high-tech companies.

**By the end of 2012 I expect to see \_\_\_ new Israeli - Arabs high-tech companies:**



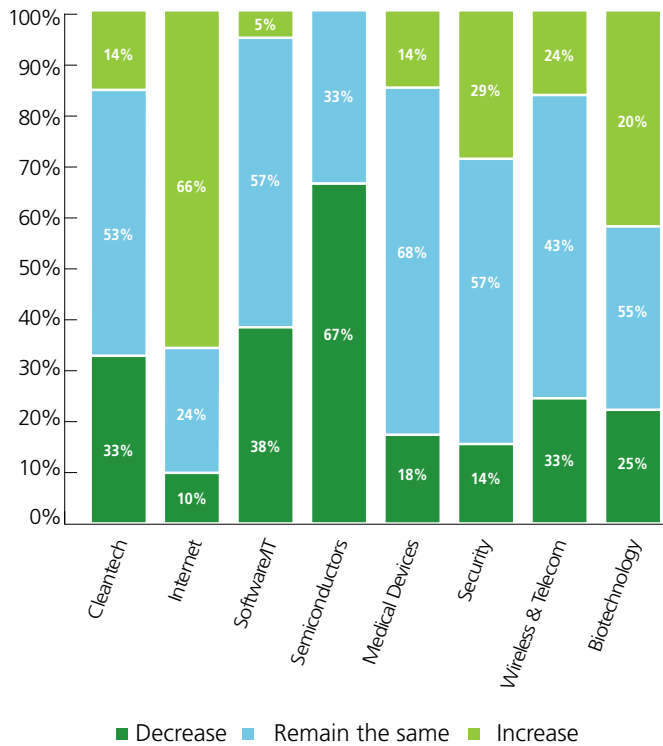
Regarding exit valuations, we can see a complete turnover. While no surveyed respondents believe exit valuations will increase during the next six months, 38% of the surveyed respondents believe they will decrease during the next six months, in contrast to the previous quarter in which none of the survey respondents predicted that we would see a decrease in exit valuations.

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



The Internet sector once again shined brightest with 66% forecasting we will see an increase in the number of exit transactions during the next six months. In addition, the Security sector is also perceived with interest, such that 29% of respondents expect that the number of transactions will increase, whereas only 14% expect to see an increase in exit transactions in the Medical Device sector, this compared to 40% in Q2 2011. The sectors perceived to result in the least number of transactions are Software (5%) and Semiconductors (0%).

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



## Insights

The Israeli venture capitalist community perceives the high-tech industry as a standalone industry, which operates almost completely separately from the Israeli economy, and as such, is affected by the global economic climate. Therefore, it is no surprise that the recent instability in the capital markets around the world and in Israel have had a direct effect on the Israeli VC community's expectations for the near future. Such that, the economic pessimistic sentiment which we started to see in the previous quarter has grown stronger and gained additional momentum. The high-tech industry perceives itself as part of the global arena and therefore sees the global instability as a much greater threat than the geopolitical tension in the Middle East.

The previous economic crisis which led to a decrease in the number of active VC funds in Israel is continuing to show its consequences with 83% of venture capitalists expecting that by the end of 2012 there will be no more than 15 active capital funds in Israel. In the long term, a decrease in the number of VC funds, will have an effect on the number of tech companies established in Israel, the level of R&D and of course, the competitive positioning of the Israeli economy.

Most of the venture capitalists believe that the recommendations of the Concentration Committee and the Trachtenberg Committee will almost have no effect on the attractiveness of Israeli high-tech companies; One may argue that the Israeli high-tech industry is an example of an industry that provides a significant contribution to GNP and has a very high competitive level and extraordinary level of efficiency.

Although the Israeli high-tech industry is a leading industry in the local economic landscape, when it comes to the involvement of the institutional investors in the VC market, it seems that there is no room for optimism. Despite the sharp falls in the capital market and the declines in yields, the Israeli VC community does not believe that the institutional investors perceive the VC market as an alternative to their investments. And vice versa, a vast majority of surveyed participants believe that the Tel Aviv stock market will not become more dominant for Israeli tech companies IPO's and fund raising.

# Contacts

We welcome suggestions for issues to be addressed in future Israel VC Indicator Surveys. You are welcome to send your suggestions to Rony More at [romore@deloitte.co.il](mailto:romore@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.

## Deloitte's Technology, Media & Telecommunications (TMT) group:

### Tal Chen

Leader of Israel TMT Industry  
+972 (3) 608 5580  
[talchen@deloitte.co.il](mailto:talchen@deloitte.co.il)

### Eden Dvir

Marketing & Business Development  
+972 (3) 608 5569  
[edvir@deloitte.co.il](mailto:edvir@deloitte.co.il)

### Naama Yanko

Business Development & Deal Flow  
+972 (3) 608 5353  
[nyanko@deloitte.co.il](mailto:nyanko@deloitte.co.il)

## Services:

### Assurance & Advisory

Asher Mechlovich  
+972 (3) 608 5524  
[amechlovich@deloitte.co.il](mailto:amechlovich@deloitte.co.il)

### Due Diligence & VC Tools

Shlomi Anfang  
+972 (3) 608 5550  
[sanfang@deloitte.co.il](mailto:sanfang@deloitte.co.il)

### Tax

Yitzchak Chikorel  
+972 (3) 608 5511  
[ychikorel@deloitte.co.il](mailto:ychikorel@deloitte.co.il)

### Incentives

Nadav Gil  
+972 (3) 608 5378  
[ngil@deloitte.co.il](mailto:ngil@deloitte.co.il)

## [www.deloitte.co.il](http://www.deloitte.co.il)

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