

Israel VC Indicator Survey.

Expectations as of Quarter 1, 2014

Going Cyber



Insights

The most significant insight in this survey is that the level of optimism at the Venture Capital community is the highest it has been in the past three years. This may indicate that the next half a year is expected to be a flourishing one, as most of the respondents predicted that the overall climate will improve.

Another reason for optimism is that only 5% of respondents believe that the number of foreign investments in local startups will decrease during the next six months.

We also found that the most promising trends in 2014 are Big Data analytics, Internet of Things and Cloud Computing. As for purchases made by the traditional industries, Venture Capitalists believe that there will be more acquisitions of technology companies in the Financial and Retail sectors, followed by the Manufacturing and Food & Beverages fields.

Another interesting insight is that Israeli Cyber Security companies have become a hotbed in the global market. Due to the increased attention and need for advanced solutions for information security threats, most Venture Capitalists believe there will be a growing number of Cyber Security companies in Israel and even more investments in this arena.

Lastly, while North America remains the leading portfolio market for VCs, South East Asia seems to be on the rise. Moreover, most of the respondents foresee more acquisitions of Israeli startups by non-Western companies.



1st Quarter, 2014

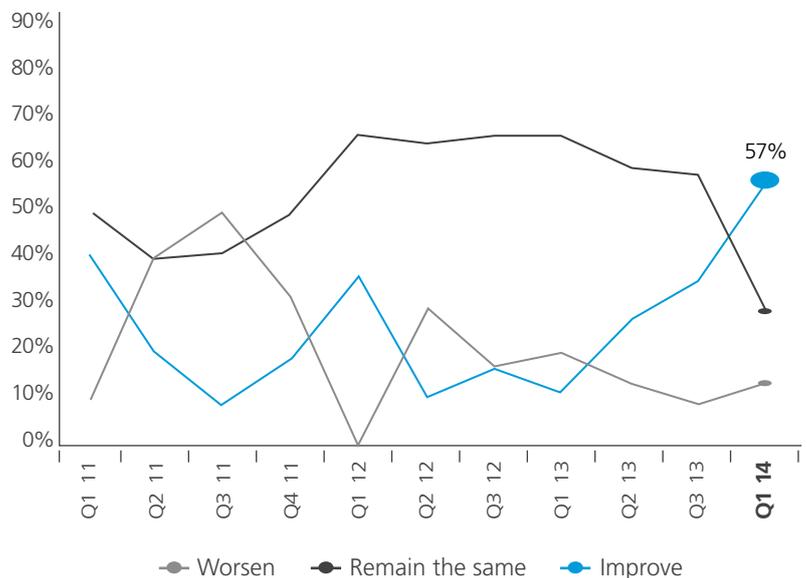
Venture Capitalists are the most optimistic they have been in the past three years regarding the expected economic climate in the next two quarters.

Results

After a relatively prosperous year, full of possibilities for Israeli startups, it seems that Venture Capitalists are the most optimistic they have been in the past three years regarding the expected economic climate in the next two quarters.

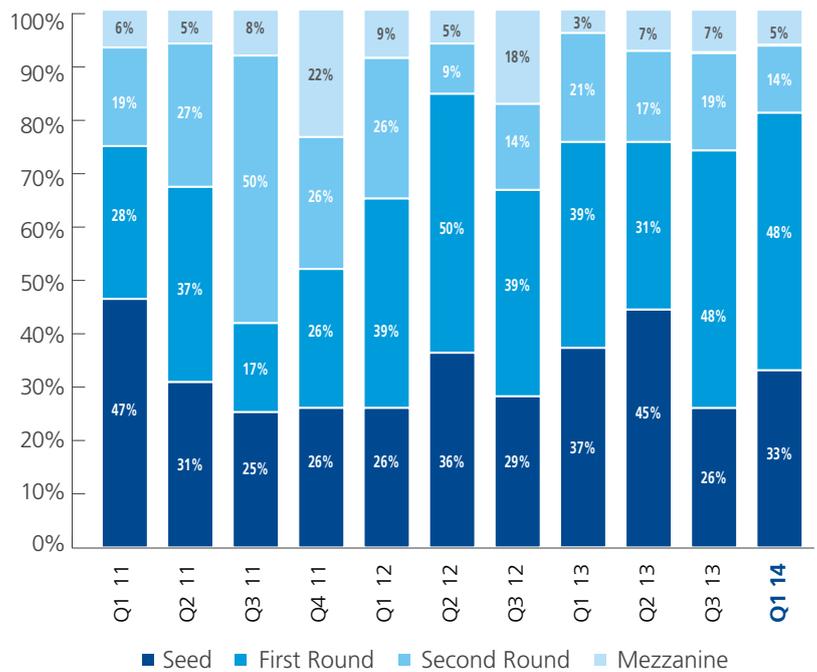
57% of the respondents expect the economic climate to improve during the upcoming half year and a grim 14% believe it will worsen. In addition, only 29% predict there will be no change in the economic climate.

During the next two quarters, I expect the overall economic climate to:



As in the last VC survey, 48% of Venture Capitalists believe their VC fund will invest in startup companies during their First Round. However, there is an expected increase in Seed investments during the next six months (33%), whereas fewer respondents predict investing in Mezzanine (5%) and Second Rounds (14%).

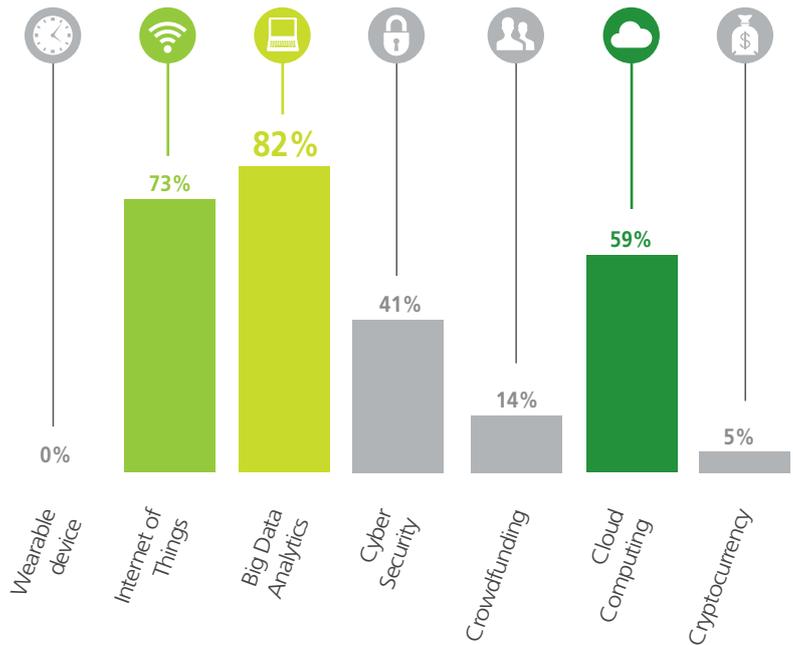
During the next six months, I expect the majority of my new investments to be:



The most promising trend in 2014 will be Big Data Analytics (82%). In addition, Internet of Things (73%) and Cloud Computing (59%) remain the next two promising trends for the upcoming year.

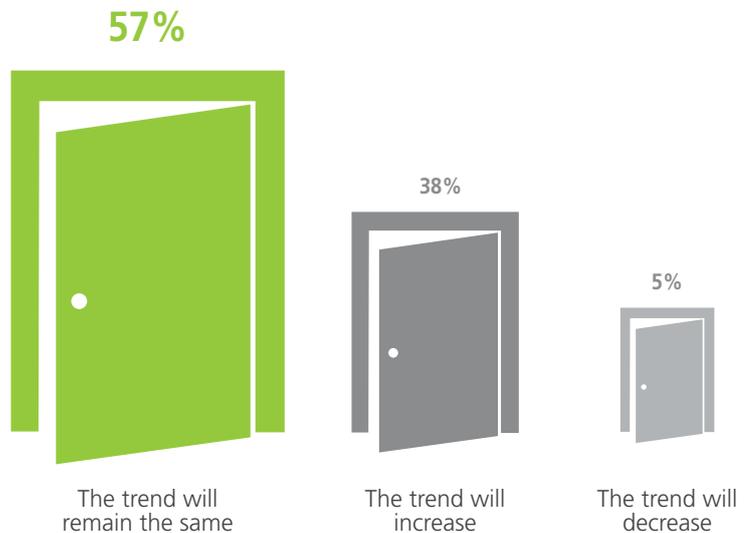
Most Ventures Capitalists believe that the most promising trend in 2014 will be Big Data Analytics (82%). In addition, Internet of Things (73%) and Cloud Computing (59%) remain the next two promising trends for the upcoming year. However, in correlation with Deloitte's Technology, Media and Telecommunications Predictions for 2014, expectations are set carefully when it comes to wearable devices, as none of the respondents chose this category.

I predict the most promising high tech trends in 2014 will be (Pick 3):



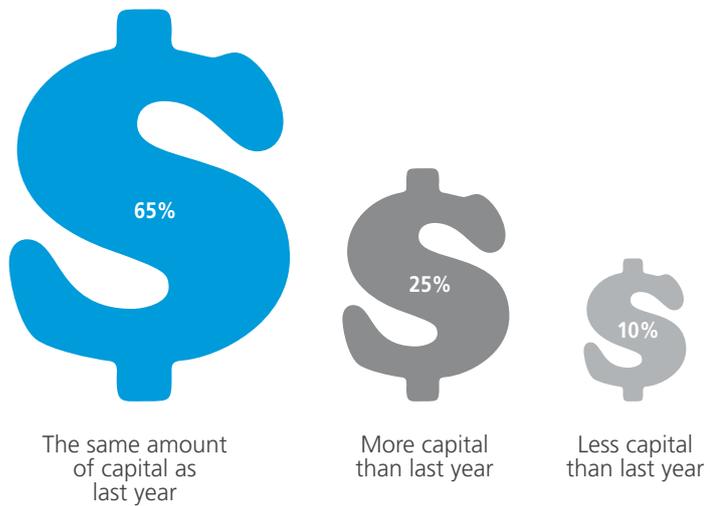
Quite a few Israeli startups have recently joined the "Unicorn Club" of high tech companies valued at over 1 billion dollars by public or private market investors. This survey shows that most venture funds (57%) don't expect the trend to change anytime soon, and 38% believe there will be even more companies gearing towards an exit in 2014.

Lately, we have witnessed an increase in private technology companies with an income of tens of millions of dollars gearing towards an IPO or M&A. I believe that in 2014:



There seems to be a slight decline in the amount of capital raised by local venture funds. While previous surveys showed a continuous increase in expected capital raised by VCs, most Venture Capitalists (65%) now believe the amount of capital they will manage to raise by the end of 2014 will remain the same as last year.

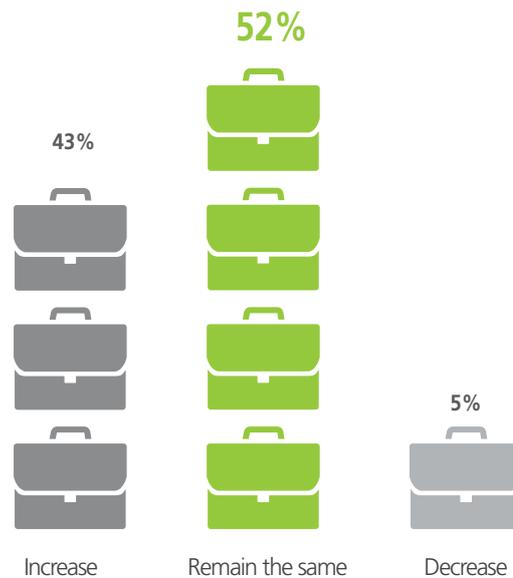
Up until the end of the year, I expect my VC to raise:



Only 5% of the respondents believe the number of foreign investments in local startups will decrease during the next six months.

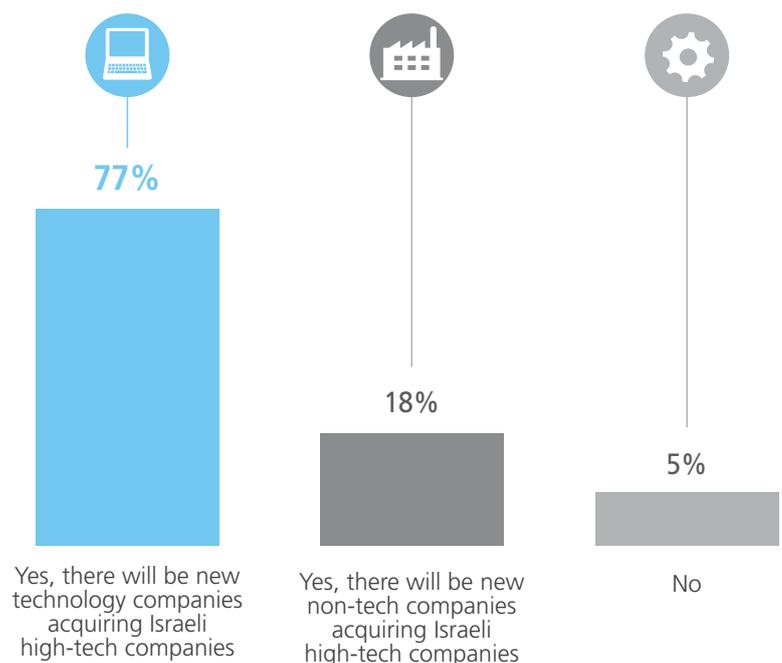
Lately, we have witnessed a growing interest in Israeli startups among multinational companies. This upward trend is seen clearly in the survey: Only 5% of the respondents believe the number of foreign investments in local startups will decrease during the next six months.

During the next two quarters, I believe the number of foreign investments in Israeli startups will:



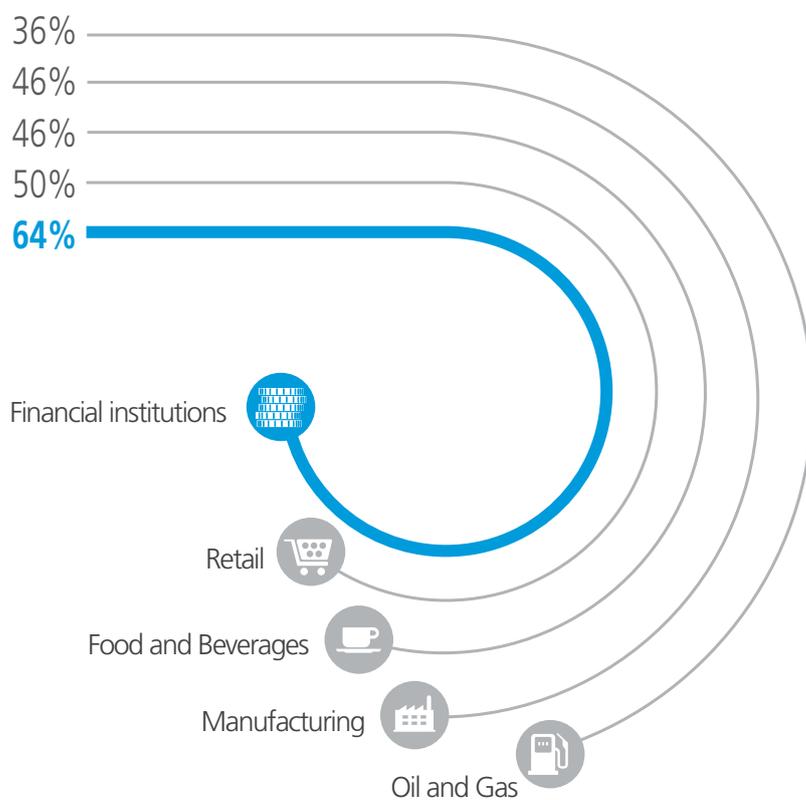
As more Israeli startups are acquired by global technology players, it seems that there is another reason for optimism. Not only do most respondents (77%) believe this trend is here to stay, but another 18% predict there will be new non-tech companies acquiring Israeli high-tech companies in the upcoming year.

Do you believe there will be new players showing interest in acquiring Israeli high tech companies during the upcoming year?



More BODs of traditional industries have recently expressed their concerns regarding their company's lack of innovation. As part of these new innovation frameworks, Venture Capitalists believe that the Financial (64%) and Retail (50%) industries will make more acquisitions of technology companies, followed by the Manufacturing (46%) and Food & Beverages (46%) industries.

Innovation has become a common theme in board meetings of Fortune 500 companies. In the past six months, we have witnessed a growing interest by traditional industries in purchasing technology companies, as part of their innovation program and the handling of technological disruption. In which industry do you expect to see more of these purchases in 2014 (Pick 3 out of 5)?



70% of the respondents expect this year more acquisition activity of Israeli startups by non-Western companies.

According to ABI¹ Research, by 2018 the BRIC countries will surpass the U.S., Western Europe and Japan to become the world's largest smartphone market. In addition, populous countries like Russia, India and Brazil constitute enormous markets where Israeli internet companies have room to grow. This is reflected in the survey's results, as 70% of the respondents expect this year more acquisition activity of Israeli startups by non-Western companies.

Do you expect more acquisition activity of Israeli startups by non-Western companies (e.g. Brazil, Russia, India and China) in 2014?

Yes

SEVENTY%

No

THIRTY%

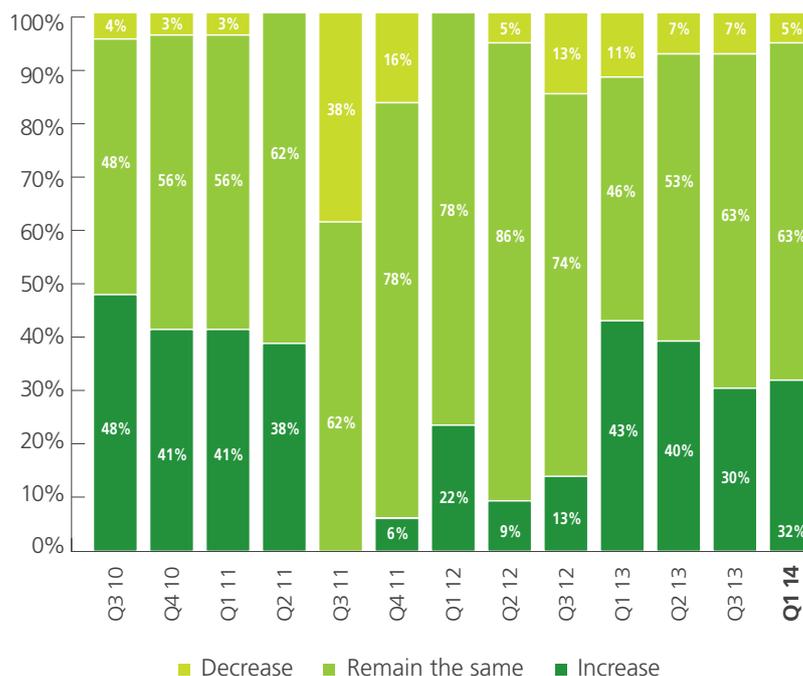
1) ABI Research is a marketing research firm based in New York. The organization provides research on areas like: Wireless Connectivity, Enterprise Security, Telematics and Navigation and more.



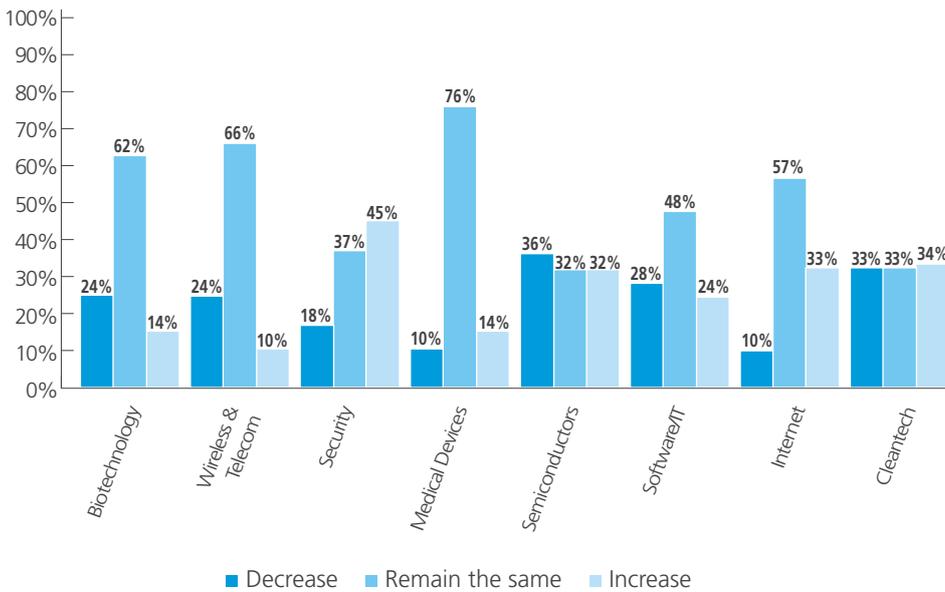
Venture Capitalists expect the Security industry to have the greatest increase in the number of investments during the next six months

Despite recent acquisitions of Israeli startups by multinational companies, most Venture Capitalists (63%) believe the number of exits in the Israeli high-tech sector will remain the same in the next six months. In addition, only 5% expect a decrease in the number of exits during the same period.

In the next six months I expect the number of exits in the Israeli High-Tech sector to:



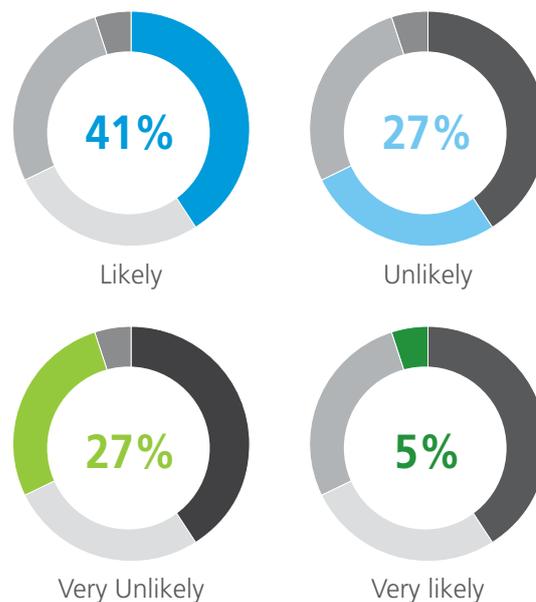
During the next two quarters, I expect the number of VC investments in the sectors listed below to:



Venture Capitalists expect the Security industry to have the greatest increase in the number of investments during the next six months (although it suffered a slight downturn from last survey). Moreover, compared to the previous survey - VCs predict the most significant rise in the number of investments will be in the Cleantech sector (34% versus 20% in last survey).

Consumer Applications are thought to be a high risk investment. This view is reflected in the survey as well, as 54% of the respondents don't believe their VC fund will invest in this sector during 2014. Only 41% of Venture Capitalists say their VC is likely to invest in Consumer Applications this year.

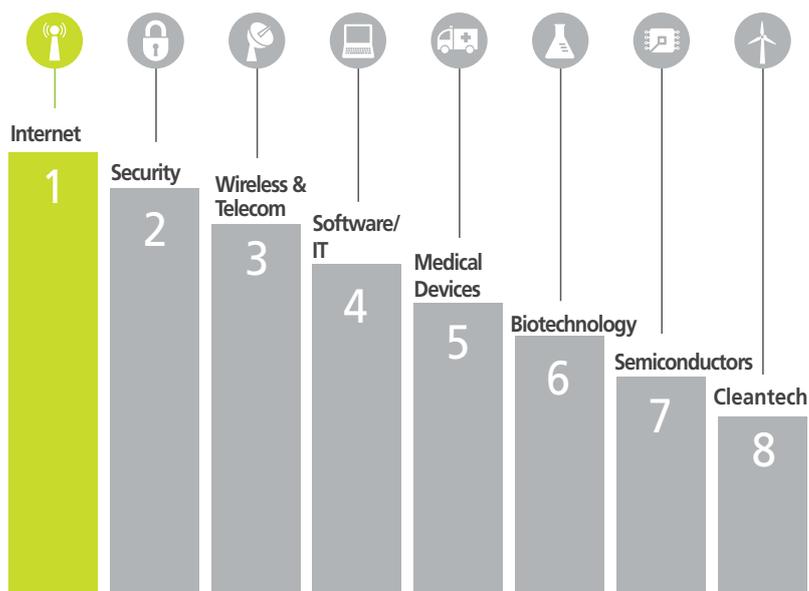
Consumer Applications are considered to be a high risk investment. Do you believe your VC will invest in Consumer Applications in the upcoming year?



In comparison to the last survey, the Internet sector climbs back to first place as the sector with the largest number of potential exits during the next two quarters. In addition, there are expected to be more exits in the Wireless & Telecom sector, ranked in third place, up from its fourth and fifth place in previous surveys.

However, Venture Capitalists believe there will be slightly fewer exits in the Security and Software/IT sectors, as they are ranked in second and fourth place, respectively.

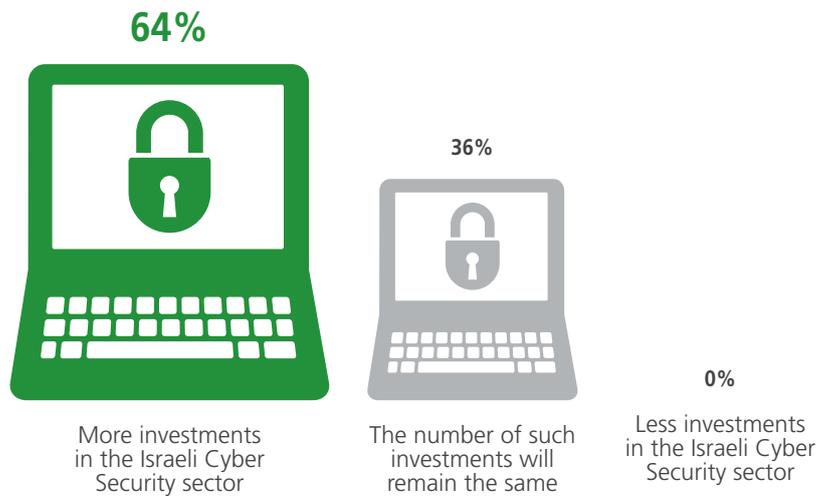
Which sector will experience the largest number of exits in the upcoming year?



Israeli Cyber Security companies have become a hotbed in the global market. *64%* of the respondents expect to see more investments in the Israeli Cyber Security sector.

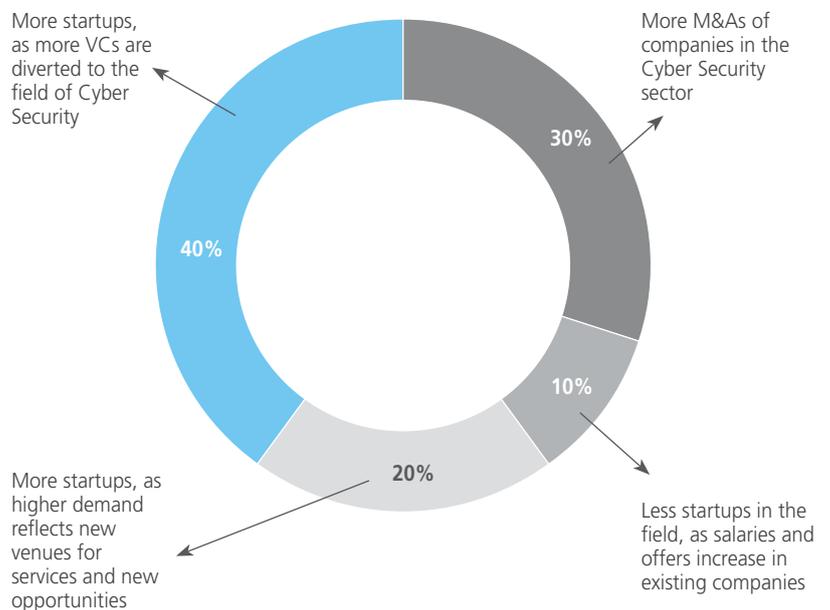
Israeli Cyber Security companies have become a hotbed in the global market. Due to the increased attention and need for advanced solutions for information security threats that are becoming ever more sophisticated, and following revelations that the NSA may be compromising encryption standards, chief executives like Larry Page have been reported as saying that they are going to invest even more in this arena. This is reflected in the survey's results as well. 64% of the respondents expect to see more investments in the Israeli Cyber Security sector.

Lately, the most powerful tech companies have shown a growing interest in encryption and have been fighting for transparency around government requests for information. How do you believe this will affect the number of investments in the Israeli Cyber Security sector?



Following the aforementioned results and in light of the lack of skilled talent in the Cyber Security field in the U.S, almost half of the respondents (40%) believe this will create more Cyber Security startups in Israel, as more VCs are diverted to this field. In addition, 30% of Venture Capitalists expect more M&As in the local Cyber Security sector.

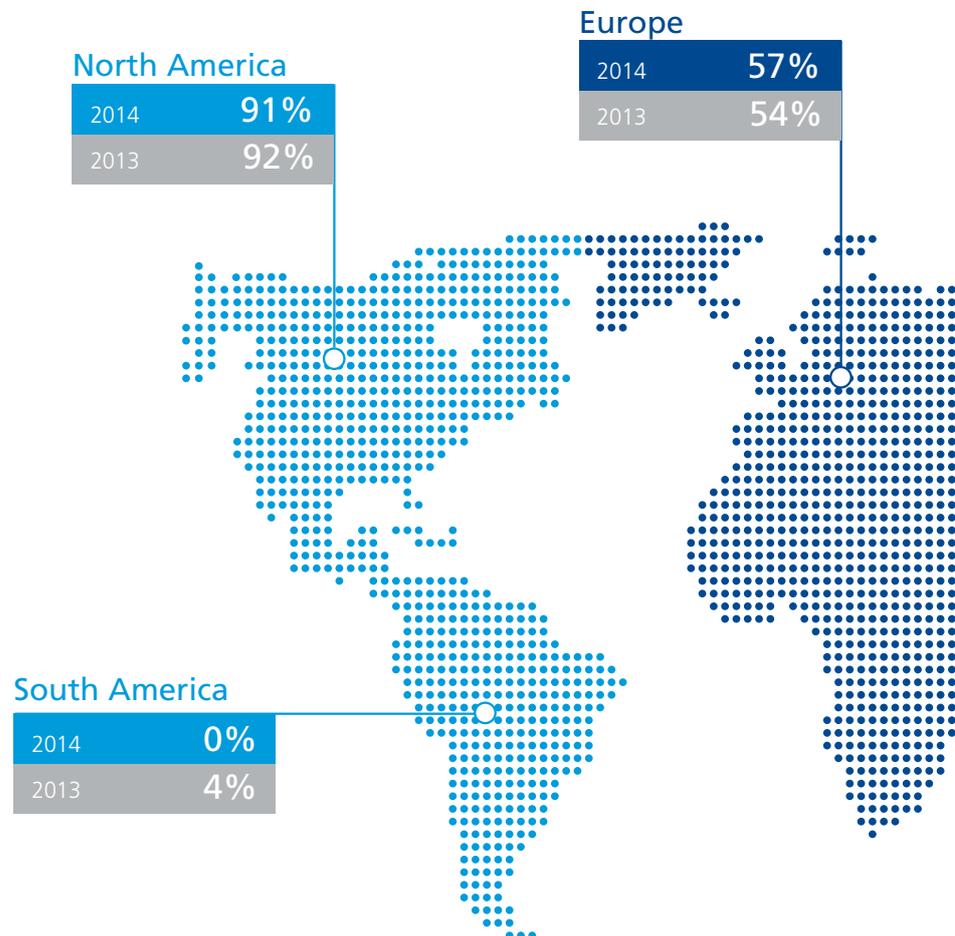
According to a recent survey commissioned by Raytheon (NYSE: RTN), there is a lack of skilled talent in the Cyber Security field in the US. In your opinion, how will it affect the Israeli market?



South East Asia is on the rise, with an increase of 15% of the respondents believing it will be a leading market for their portfolio companies in the next two quarters.

While North America remains the leading portfolio market for VCs, India and South America are expected to suffer a downturn, compared to last survey. However, South East Asia is on the rise, with an increase of 15% of the respondents, believing it will be a leading market for their portfolio companies in the next two quarters.

What will be the two leading target markets of your portfolio companies in the next two quarters?



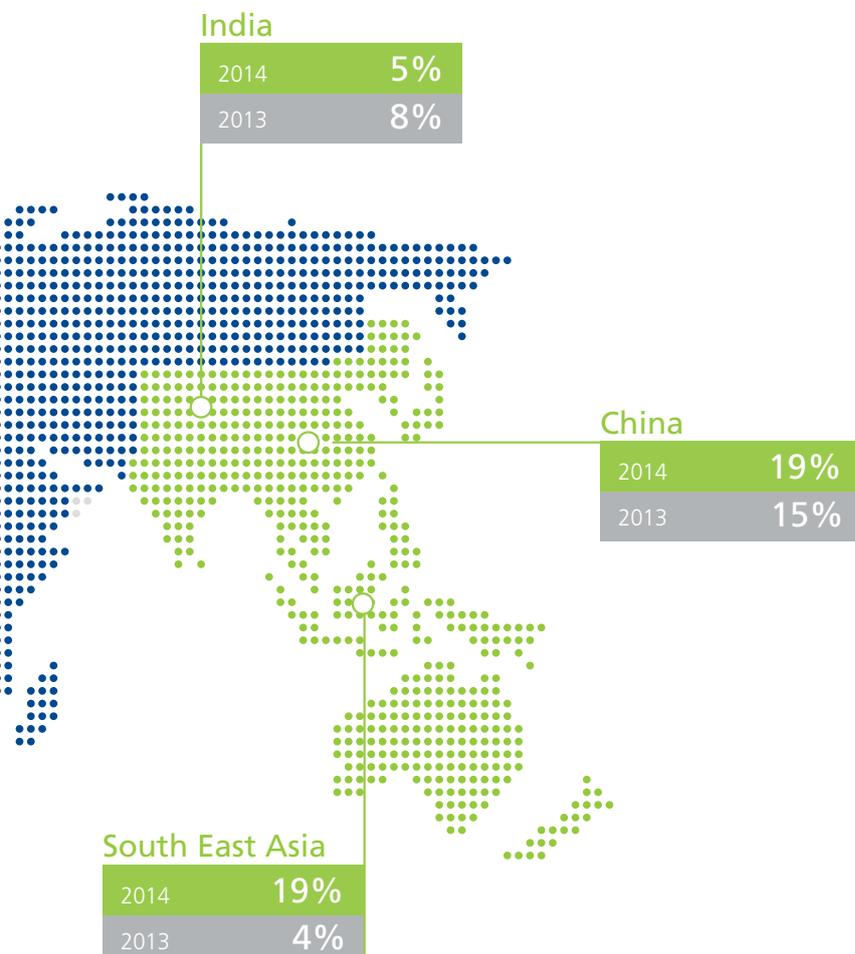
About

The purpose of the Israeli 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 investment & 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 46th Deloitte Brightman Almagor Zohar Israeli VC Indicator Survey results for Quarter 1, 2014 include a comparison to responses from previous surveys.

Responses to the Israeli VC Indicator Survey for Quarter 1, 2014 were collected from January 1st 2014 to January 22nd 2014. The responses were collected from investors and Venture Capitalists in Israel.

Deloitte's Technology, Media and Telecommunications Business Development Team use 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.



סקרו לארכיון VC



Contacts

We welcome your suggestions for issues to be addressed in future Israel VC Indicator Surveys. Please send your suggestions to gmor@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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