

ISRAEL HIGH-TECH & INVESTMENT REPORT

A MONTHLY REPORT COVERING NEWS AND INVESTMENT OPPORTUNITIES
February 2015 Vol. XXX1 Issue No.2

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Record Israeli high-tech exits

Record \$15b. Israeli high-tech exits in 2014
Reports indicate that in 2014, many more mature Israeli high-tech companies preferred an IPO to being acquired.

Israeli high-tech exits doubled to a record \$15 billion in 2014. This has been by far the best-ever year for the country's high-tech and biomed sector in terms of exits.

In 2014, the stars were aligned exactly right for Israeli high-tech. The IPO window was open in the US and England due to the maturity of many Israeli companies and investors, the major availability of money for high-tech from buyers and investors, and of course the strength of Israeli high-tech that knew how to reinvent itself and adapt to the times.

Start-up financing highest since 2000
In 2013, Israeli exits totaled \$7.6 billion and in 2012 exits totaled \$5.5 billion. The closest to 2014 was 2006 when exits totaled \$10 billion.

In 2014, there were 70 IPOs and mergers and acquisitions in Israeli high-tech, up from 45 such deals in 2013. Between 2005 and 2009 the number of deals, but not the total amount of money involved, surpassed 2014, with 76, 93, 88, 84 and 73 deals respectively.

In 2014, there were 18 IPOs totaling \$9.8 billion compared with just \$1.2 billion raised in 2013. There were also mergers and acquisition

worth \$5 billion in 2014, down from \$6.5 billion in 2013. The fall shows that many more mature Israeli high-tech companies preferred an IPO to being acquired. 52 Israeli companies were acquired in 2014, compared with 39 in 2013.

The value of the average deal in 2014 was \$212 million, compared with \$170 million in 2013.

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Phillip Frost's Opko to list on TASE Opko Health acquires Prolor Biotech for \$480m.

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Israeli start-ups raised record \$3.4b in 2014

Israeli venture capital fund investment activity

Amazon acquires Annapurna Labs for \$350m.

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Nasdaq was the main venue for Israeli IPOs in 2014 with 67% of the offerings, London's AIM saw 28% of offerings and the NYSE 5%.

In terms of sectors, semiconductors saw deals worth \$5.7 billion in 2014 followed by IT and software with \$3.08 billion, life sciences with \$2.2 billion, Internet with \$1.8 billion, communications with \$1.44 billion, and cleantech with \$430 million.

Leading IPOs included Mobileye (NYSE: MBL), CyberArk Software Inc. (Nasdaq: CYBR), and Crossrider Ltd. (AIM: CROS).

Microsoft is acquiring Aorato
Microsoft Corp. (Nasdaq: MSFT) has confirmed that it is buying Israeli cyber security start-up Aorato Ltd. Financial details were not disclosed, but sources report that the acquisition price was around \$200 million.

Corporate security is more important than ever. Nearly every day there are more headlines about breaches, fraud and data loss. Unfortunately, compromised passwords, stolen identities and network intrusion are a fact of life. Companies need new, intelligent solutions to help them adapt and defend themselves inside the network, not just at its edge.

Aorato's sophisticated technology uses machine learning to detect suspicious activity on a company's network. It understands what normal behavior is and then identifies anomalies, so a company can quickly see suspicious behavior and take appropriate measures to help protect itself. Key to Aorato's approach is the Organizational Security Graph, a living, continuously updated view of all of the people and machines accessing an organization's Windows Server Active Directory (AD). AD is used by most enterprises to store user identities and administer access to critical business applications and systems. Therefore, most of our enterprise cus-

tomers should be able to easily take advantage of Aorato's technology. This will complement similar capabilities that we have developed for Azure Active Directory, our cloud-based identity and access management solution.

Aorato raised \$10 million in January from Accel Partners Eric Schmidt's Innovation Endeavors and Gilot Capital Partners, and private investors Mickey Boodaei, a co-founder of Imperva Inc. and Trusteer. Last year Boodaei earned \$151 million from the sale of Trusteer to IBM.

Aorato was founded in 2012 by CEO Idan Plotnik, VP R&D Michael Dolinsky, and VP professional services Ohad Plotnik. The company is based in Herzliya and has 10 employees and has raised \$11 million to date.

All the founders served in the IDF cyber security unit, and have a decade of experience in the field. The company says that its product is "the first context-aware, behavior-based Directory Services Application Firewall (DAF). The com-

Israel High-Tech & Investment Report

Published monthly since January 1985

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Annual subscription \$95.- per year, for 11 issues,

Israeli residents add 17% VAT

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pany's solution profiles, then not only learns, but also predicts entities' behaviors enabling context aware real-time decision making."

The Plotnik brothers previously founded Foreity which was acquired by Aman Group in 2012.

Recent acquisitions in Israel by Microsoft include video search company VideoSurf in 2011 and 3DV ventures and gesture recognition company 3DV Systems in 2009.

Windward, CyberSeal win security innovation

The Homeland Security and Cyber Security Innovation Competition is organized by Israel's Chief Scientist.

At the recent annual Homeland Security (HLS) Conference in Tel Aviv, the Chief Scientist at the Ministry of the Economy announced the winners of the Homeland Security and Cyber Security Innovation Competition. The aim of the competition is to foster leadership from research to commercial implementation, for the benefit of Israel's economy and industry.

First place in Homeland Security and Cyber-security was awarded to Windward, an intelligence and information technology company supplying analysts with data on the movement of ships around the world. Windward will receive a \$3,000 grant for participation in an expo in its field, as well as a place in the prestigious program sponsored by the California-based Merage Institute and a one-year membership of the Israel Export Institute.

Second place was awarded to CyberSeal, a company that provides cyber-security solutions to mission critical networks and applications. The company will participate in the program sponsored by the California-based Merage Institute and will receive a one-year membership at the Israel Export Institute.

The Office of the Chief Scientist established the KIDMA program, Advancing Information Security in Israel, in collaboration with the Israeli National Cyber Bureau. The program seeks to reach out to Israeli entrepreneurs and companies developing new technological solutions for defense in different cyber areas.

Dozens of companies with novel cyber-security initiatives registered to compete in the cyber and HLS competition, organized by the Chief Scientist through the Israeli Industry Center for R&D (MATIMOP) and the Israel Export and International Cooperation Institute. The criteria for choosing the winners include innovation, international-level breakthroughs, ability to implement technological solutions in the State of Israel, commercialization, the company's economic/commercial potential and the company's commitment to the issue of cyber-security.

Chief Scientist Avi Hasson said, "Novel Israeli solutions are raising a great deal of interest around the world. Thanks to the unique capabilities developed by the security establishment and through the government's recognition and support for the issue, Israel is a world leader in information security. Israeli companies' impressive research and achievements are a source of pride throughout the world - these achievements reflect the direct support and the encouragement this field receives."

Windward was established in 2010 by Matan Peled and Ami Daniel. shortly after commercial satellites began to be used to pinpoint the precise location of ships on the open sea.

The company combines "old world" naval skills with modern data science, offering technology and intelligence that enables analysts to monitor the movement of all ships around the globe and automatically determine whether a particular vessel may be involved in illegal activities. Additionally, the company is developing new

technology which can map the global movement of goods and help traders on Wall Street and other financial entities identify and determine trade opportunities in real-time.

CyberSeal supplies cyber-security solutions for mission critical networks and applications. The company offers tailor-made solutions for its clients as well as a unique line of products for protection of landline and cellular communications networks. The company's technology for identifying cellular attacks offers an efficient solution for dealing with cyber threats in these networks. CyberSeal was established in 1998 under the name WebSilicon and was bought in late 2012 by Magal Security Systems Ltd. (Nasdaq: MAGS; TASE: MAGS), a world leader in security solutions. With the addition of CyberSeal, Magal offers a comprehensive solution for protecting infrastructure and critical installation

Mellanox components chosen for fastest computers

The US Department of Energy hopes to develop computing systems that will be 20-40 times faster than today's supercomputers.

Mellanox Technologies Ltd. (Nasdaq:MLNX) has been chosen to be part of a US government project to provide key components for new supercomputers at two of the country's premier national labs - Oak Ridge National Laboratory (ORNL) and Lawrence Livermore National Laboratory (LLNL). The US Department of Energy is allocating \$425 million for the High Performance Computing (HPC) project.

The US Department of Energy said that the new supercomputers, "will help to advance US leadership in scientific research and promote America's economic and national security."

In the project, Mellanox which will provide infiniband connectivity is collaborating with IBM and NVIDIA.

The project hopes to develop computing systems that will be 20-40 times faster than today's leading supercomputers.

Mellanox provided no financial details about the deal but said, "This is an important win for us. We will be building the future of supercomputing together with IBM and NVIDIA and we are proud and happy to take part in such a project."

Headquartered in Yokneam, Mellanox led by CEO Eyal Waldman has a market cap of \$1.9 billion. The company provides chips, cards, communications switches and cables for transferring big data through enterprise communications.

Knee, back treatment AposTherapy raises \$15m

The company uses a uniquely calibrated shoe to treat knee and back pain.

AposTherapy, which has developed a treatment for knee and back pain using unique individually calibrated shoes, has completed a \$15 million financing round at an estimated \$100 million company value, after money. Previous investors, including Pitango Venture Capital, Aviv Venture Capital, and Invus, accounted for half of amount invested in the current round, and private US investors, including David Levy, responsible for the health sector in international firm PricewaterhouseCoopers, and CD&R senior partner Richard Schnall, accounted for the other half. AposTherapy has raised \$30 million to date, and has 140 employees. The company has already been marketing its services for several years, mainly in Israel and the UK, but also in Singapore, the US, and other countries. The treatment is fairly well recognized in Israel, and is subsidized by a number of health funds and private health insurance companies. There is also partial insurance reimbursement for the treatment in the UK.

AposTherapy currently treats 50,000 patients, each of whom pays several thousand dollars, so the company has posted to date at least tens of millions of dollars in revenue. AposTherapy also recently appeared at the Oppenheimer conference for promising private companies, which may signal its future intention to turn to overseas capital markets or strategic investors. In a lecture at the conference, AposTherapy CEO Elad Duschak talked about changes currently taking place in the company's business strategy.

Up until now, the company's business model was the supply of medical service and a medical device on a hybrid model. The service includes diagnosis of the problem in the walking dynamics of the patient, whose attempt to avoid the pain is liable to make it worse. The treatment includes adapting the shoes with special curvatures that force the patient to alter his walking dynamics in order to walk. The adapting and training are carried out by physiotherapists on behalf of the company. The fact that the company itself performs the service constrained its ability to develop rapidly in international markets. The company is now trying to change its model by transferring its service activity to physiotherapy institutes, while concentrating on research and development of the device and the manufacturing process.

In 2015, the company will focus on expanding its business in the US market. This year, the company is working with eight physiotherapy clinics in New York, and by 2016, it aims at having dozens of trained clinics offering the product/service. China is also knocking on the door in the company's strategic plans.

AposTherapy's treatment competes with pain relievers and extremely complex back and knee surgery for ending the unbearable pain, which in some cases can be stopped by using the product. The treatment also constitutes an

alternative or supplementary product for physiotherapy. The patient must walk at least one hour a day using the shoes in order to obtain results, but they can also be used as ordinary shoes (a person used to the shoes can walk in them at normal speed, and they are not conspicuous). The company's studies show that 86% of users reported less pain within five weeks."

Yissum biotech unit raises \$3m. from Chinese investors/

Hebrew University's Integra Holdings has received \$3 million from Guangxi Wuzhou Pharmaceutical.

Integra Holdings, the biotechnology holdings company of Yissum, the technology transfer company of the Hebrew University of Jerusalem, has received a \$3 million investment from China's Guangxi Wuzhou Pharmaceutical Group. The funds raised will be used to advance Integra Holdings' existing portfolio companies and to create new companies, based on promising projects originating from the Hebrew University.

Integra Holdings, founded by Yissum in 2012, has a portfolio of companies in such therapeutic areas such as oncology, Alzheimer's disease, infectious diseases, analgesia and inflammation. The innovative products developed by the portfolio companies range in maturity from pre-clinical stages of development, through clinical stages, to registration. Currently, the portfolio includes Ayana, Atox Bio, Avraham Pharmaceuticals, Lipomedix, Tiltan Pharma, Lipocure and HIL Applied Medical, in addition to two new companies, which are now being established and develop products with expected short time to market.

Investors in Integra Holdings are Invatech Holdings, a group of private US and Israeli investors; Halman-Aldubi Provident and Pension Fund; the Funds of Teaching Personnel and the HUJI

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Provident Fund. Integra Holdings has raised a total of \$12 million to date.

“We are pleased to have Guangxi Wuzhou Pharmaceutical Group join as an investor that can also assist us in introducing biotech products and technologies based on research performed at the Hebrew University to the Chinese market,” said Yissum CEO and Integra chairman Yaacov Michlin. “After only two years since its inception, Integra Holdings has obtained an investment at twice its original valuation.”

This investment was made possible through the local Chinese contacts of the Lakers Holdings Group. Guangxi Wuzhou Pharmaceutical Group Co. Ltd. is a subsidiary of the Guangxi Wuzhou Zongheng Group, a Chinese investment holdings company.

Fortissimo to start raising new \$400m fund
Foreign and local investors are showing interest in the Israeli private equity fund’s fourth and largest fund.

Israeli private equity fund Fortissimo Capital is about to raise its fourth and largest ever fund. Fortissimo has begun raising \$400 million (NIS 1.6 billion) for the fund, which is slated to begin operations in 2015. In recent weeks, the fund’s partners have been meeting with investment institutions and presenting the plan and strategy for the fund. No response to the report was available from Fortissimo, as of web posting.

Only two years ago, Fortissimo completing its \$265 million third fund. The fund decided to start another fund because its second fund had already invested 70% of its money. The second fund was oversubscribed, and was enlarged by \$15 million as a result. Fortissimo’s first two funds, raised in 2004 and 2008, totaled \$80 million and \$150 million, respectively.

The decision to peg the fourth fund at \$400

million was due to strong demand for the previous fund from investment institutions and the fact that private equity funds, headed by FIMI Opportunity Funds, Fortissimo, Sky Fund, and Viola Private Equity, have in recent years become the dominant player in the mergers and acquisitions market for non-financial businesses in Israel, combined with the fall of the local tycoons.

Most of the investors in Fortissimo are local investment institutions, but foreign institutions have also begun to express interest in the fund in recent years. In contrast to Fortissimo’s first two funds, 40% of the investors in the third fund were financial institutions in the US and Europe. Large US pensions funds are also among the investors, and according to market sources are slated to play a major role in the fourth fund.

Founded a decade ago, Fortissimo, led by cofounder and managing partner Yuval Cohen, is one of Israel’s leading funds. Fortissimo has raised a total of \$500 million to date, mostly from local institutions. Cohen, Shmoulik Barashi, Eli Blatt, Mark Lesnick, Yochai Hacoheh, and Yoav Hineman, the fund’s founders, are very focused in their work. They invest in mature companies that have reached a turning point, so that a change in their management and a capital injection are likely to accelerate their growth. Most of the emphasis is on technology and industrial companies that the fund believes have significant upside potential.

Up until now, this strategy has been successful. The fund’s leading investment was in SodaStream International Ltd. (Nasdaq: SODA), which develops home systems for mixing carbonated drinks, an investment by Fortissimo’s first fund. Fortissimo invested \$10 million in the company in 2007, when it was experiencing difficulties. After selling its stake in SodaStream’s offering, Fortissimo came away with \$200 million. This investment was one of the reasons for the first

fund's return: it made six times its investment, amounting to an impressive 42% annual internal rate of return (IRR).

Fortissimo's second fund was also a big success, for example its investment in the Cadent software company. In 2011, Fortissimo sold Cadent to medical equipment company Align Technology for \$190 million, tripling its investment in only two years. In recent years, the fund invested in companies in various sectors, with the list including glass manufacturer Phoenicia, Comverse Inc. (Nasdaq: CNSI) spinoff Starhome, Solcon, and Kornit Digital. Other companies improved by Fortissimo include AOD and Nur Macroprinters Ltd. (OTCBB:NURM).

In recent months, Fortissimo has been promoting its offering of communications equipment company Telrad Networks Ltd. at a company value of NIS 300 million, before money, but this has not been carried out. The decision to postpone the offering was taken following the nt arm

Phillip Frost's Opko to list on TASE Opko Health acquires Prolor Biotech for \$480m.

OPKO is also eligible to receive initial royalty payments associated with the commercialization of hGH-CTP for Adult GHD, which is subject to regulatory approval. Following the launch of hGH-CTP for Pediatric GHD, which is subject to regulatory approval, the royalties will transition to gross profit sharing for both hGH-CTP and Pfizer's Genotropin.

OPKO will lead the clinical activities and will be responsible for funding the development programs for the key indications, which includes Adult and Pediatric GHD and Pediatric SGA. Pfizer will be responsible for all development costs for additional indications as well as all post-marketing studies. Pfizer will also fund the commercialization activities for all indications and lead the manufacturing activities covered by the global development plan.

Defense Ministry conducts successful Arrow 3 trial

Israel's Ministry of Defense said the Arrow 3 anti-ballistic missile system performed its mission successfully on a target missile.

The Israel Ministry of Defense today conducted a successful test of the Arrow 3 anti-ballistic missile system on a target missile. The Ministry of Defense said that the missile fired had performed its mission successfully.

US representatives taking part in the development of the aerial defense system participated in the trial, together with the Israeli industries involved in development of the weapons system: Israel Aerospace Industries Ltd. (IAI) (TASE: ARSP.B1), Elta Systems, Elbit Systems Ltd. (Nasdaq: ESLT; TASE: ESLT), and Elisra Group. Rafael Advanced Defense Systems Ltd. developed the target missile. US company Boeing is also involved in production of the missiles.

The test was part of devising an aerial defense for Israel against ballistic missiles, such as Iran's Shahav missile. The Arrow system is a key element in Israel's multi-layered defense system.

Arrow 3 completes successful flight trial

Israel's aerial defense system has four layers: Iron Dome, which intercepts medium-range rockets; Magic Wand (David's Sling), currently in development, which is designed to provide a solution for short-range rockets; Arrow 2, which has already been operational for a decade; and Arrow 3, which is still undergoing tests.

Interception tests of Arrow 3 are expected in the near future, in the hope that the tests will succeed and Arrow 3 will provide the final element in Israel's aerial defense system. When all the developments are completed, Israel should be better protected against missiles than any other country in the world.

Prime Minister Benjamin Netanyahu congratulated the Ministry of Defense on the successful test. “This is another step in the measures we’re taking to protect Israeli citizens against the threats aimed at us,” he said.

In light of these trends, a viable solution over time can only be found with the use of innovative and groundbreaking food technologies in all technological dimensions of the value chain. This need is a fertile ground for technological innovation in the food industry. Solutions enable us to increase the value for consumers through the development /identification of smart ingredients, increasing product freshness and bringing the customers products that are as close to their natural form as possible, while improving their nutritional value.

Technological innovation: more value to the consumer

FOODTECH pertains to those technologies that have food-related applications through the entire value chain – from growing agricultural raw materials through various processing stages to packaging. Companies that employ such new and advanced technologies will be able to manufacture improved-value products for their consumers.

In the past, it was evident that technological innovation came from projects invested by private investors. Next it was the corporations that led to such solutions by setting up laboratories and conducting research. In recent years, investments of venture capital funds have taken over to promote innovation, and more and more companies are currently establishing accelerators and funds to support such projects.

The reason for growing investments of external funds in food is that large food corporations are placed in a weak position when they develop an innovative technology. It is a small startup

company that can operate flexibly and quickly and achieve its goals faster and more efficiently compared to a large corporation.

Conversely, corporations can more efficiently assist the promotion of early-stage ventures and help take a venture from the basic feasibility stage to prototype development, while providing professional managerial tools.

The journey of Strauss to the technology incubator

At Strauss Group we realized that in order to compete successfully in the global and domestic markets we must stand at the forefront of food technology. To this end, we started the Alpha venture in recent years, which aims to promote and create a complete ecosystem in relevant technologies to the food industry.

The venture was established with the understanding that a large industrial entity was needed in order to link the numerous research institutes, researchers, inventors and entrepreneurs to the market; help them understand consumer trends and challenges of the industry; and enable them to use its assets (laboratories, technologists, production lines, etc.) as a test site for new technologies before they are turned into products.

The venture also engages in the connection between the “technology manufacturers” and venture capital funds, market service providers, government representatives, our strategic partners and more. This reflects the understanding that the creation of a FOODTECH community in Israel can only occur if all players in the ecosystem take part in it.

We regard the technological incubator as a “complementing effort” to Strauss Group’s activity in the technology world, and to the Alpha project. Establishing an incubator will enable us to increase our assistance apparatus to encourage technological initiatives. We have at

Strauss an opportunity to support companies in their very early stages, in a structured manner, and with a purpose-built team that devotes 100% of its time to this.

Strauss Group brings tremendous contribution to the incubator- thorough knowledge of the food and beverage industry: Given that the Group operates in many product categories, it has extensive knowledge in the relevant technological wrappings across most industrial fields, and can also serve as “beta” for numerous technologies. In addition, since Strauss Group is highly experienced in supporting early-stage ventures, it will support the incubator in various areas, including advice on incubator operation, logistics, administration, legal and financial assistance, HR and more. The Group can also become involved in various projects in production lines, development and more.

Israel: Silicon Valley of food technologies

Our vision is to create here in Israel the “Silicon Valley of food technologies”. A FOODTECH incubator, led and supported by Strauss Group, including the Alpha Strauss venture, will create the suitable ecosystem for developing food technologies and groundbreaking food production technologies that have relevance for the entire world.

Glott Capital Partners raising \$70m VC fund

The fund, which invests mainly in early stage Israeli cyber security start-ups, has reportedly received commitments for the full amount.

While Israel’s major venture capital funds struggle to raise money from the country’s institutional investors, Glilot Capital Partners, which invests mainly in cyber security, is in very advanced stages of raising its second fund, which will total \$70 million.

As far as is known, the “mini” venture capital fund, which has recorded substantial success

with its first venture capital fund raised at the end of 2012, already has commitments for the full amount, even though the capital raising has not yet been completed, and the final amount of the fund not yet set.

Glilot Capital makes seed and early stage start-up investments in Israeli technology companies and the fund’s heads want to keep the same modus operandi in the second fund, actively supporting young start-ups through to exits. The fund’s investors are institutional bodies and Microsoft
Insightera

the people behind Glilot Capital are unusual and include interesting names such as founders Kobi Samboursky and Arik Kleinstein who have been joined by Sallai Meridor, Aaron Abramovich and Gordon England. The founders are venture capital investors and former IDF Intelligence Corps. officers while Meridor, the fund’s chairman, was Israeli Ambassador to the US, Abramovich served as director general of the Ministry of Justice and Ministry of Foreign Affairs for 10 years, and England was US deputy secretary of state for defense. Glilot’s management also includes former journalist Batya Feldman.

The first fund’s portfolio has reportedly earned triple digit returns and includes Insightera, which was sold to Marketo Inc. (Nasdaq: MKTO) at the end of 2013 for \$30 million, and Aorato, which was sold to Microsoft last month for \$200 million. Glilot reportedly held a 30% stake in Aorato for its \$2 million investment and also made handsome returns on Insightera. Other companies in the portfolio include BlazeMeter, prtcor, CyberX, YouAPPI, and Light Cyber.

Israeli start-ups raised record \$3.4b in 2014

688 companies raised 46% more capital than in 2013, with \$1.1 billion raised in the fourth quarter of 2014.

In 2014, Israeli high-tech and life sciences capital raising set an all-time record as 688 companies raised \$3.4 billion, IVC and KPMG report. This amount was 46% higher than 2013, when 659 companies raised \$2.3 billion.

In the fourth quarter of 2014 alone, 184 Israeli high-tech companies raised a massive \$1.1 billion - the most raised in one quarter since 1999. The amount was 58% higher than the \$701 million raised by 170 companies in the third quarter of 2014, and 39% higher than the \$795 million raised by 190 companies in the corresponding quarter of 2013. For the sake of comparison, the past decade's quarterly average was just \$470 million. The average company financing round increased to \$6 million in the fourth quarter of 2014 from \$4.12 million in the preceding quarter and \$4.18 million in the corresponding quarter.

Koby Simana, CEO of IVC Research Center CEO Koby Simana said, "The hike in capital raised by Israeli high-tech companies directly reflects the continuing increase in the number of large deals, which we described a few months ago. Our annual review of the findings shows that large deals accounted for 3% of total deals, at most, until 2014, while in 2014 the share doubled. Capital raised in large deals more than doubled in 2014, totaling over \$1.3 billion. This demonstrates that not only is the number of large deals growing, but their size is increasing as well, with a number of very prominent deals reflecting the trend, such as the Landa Corp., IronSource and Kaminario extra-large rounds."

KPMG Somekh Chaikin's Technology group partner Ofer Sela said, "During 2014, some 39 companies completed financing rounds exceeding \$20 million, positioning these companies to continue their market expansion. We believe that the maturity level of Israel-based companies in 2015 will attract private equity investors,

resulting in even higher amounts raised per revenue-growth company."

He added, "The fact that the number of deals in the \$5 million to \$20 million range increased consistently throughout the past year shows the ability of Israeli technology companies to attract capital. It has been said by some that you raise money whenever it's possible. It certainly looks like Israeli entrepreneurs are learning the lesson well, using the opportunity to raise more capital whenever the market allows the, which also explains why the relative number of small deals below \$5 million has somewhat declined, though they still constitute the largest portion of deals."

In the fourth quarter of 2014, 110 venture capital-backed deals attracted more capital than in any previous quarter in the last six years - \$845 million or 76% of total capital invested. The amount soared 78% from that of the the third quarter of 2013 and 41% from the corresponding quarter. The average venture capital-backed deal reached \$7.7 million, which compared with a six-year \$4.3 million average.

In 2014, 392 venture capital-backed deals totaled \$2.36 billion or 69% of total capital invested. This compared to \$1.7 billion (75%) in 2013 and \$1.3 billion (73%) in 2012. The average venture capital-backed deal size reached \$6 million, well above the six-year \$4.3 million average. Sela believes this trend will persist, saying "with the strong positive sentiment in US public markets and current economic conditions, we expect 2015 to be a robust year for VC-backed Israeli companies."

Israeli venture capital fund investment activity

In the fourth quarter of 2014, Israeli venture capital funds invested \$192 million in Israeli high-tech companies, 48% higher than \$130 million invested in the preceding quarter and

37% higher than the \$140 million invested in the corresponding quarter. Israeli venture capital funds accounted for 17% of all investments, equal to their average throughout 2014, but slightly under the 19% share of the preceding quarter and 18% of the corresponding quarter.

First investments by Israeli venture capital funds in Q4/2014 slipped to 20% from 43% in the preceding quarter, but rose slightly from 19% in the corresponding quarter of 2013. First investments, however, remained well below the 30% quarterly average of the last six years.

Israeli VC raises \$855m in new funds in 6 months

In 2014, Israeli venture capital funds invested \$574 million (17%) in Israeli high-tech companies, just 2% more than the \$561 million (24%) invested in 2013, but up 11% from \$515 million (29%) invested in 2012. First investments in 2014 accounted for 33% of total Israeli venture capital investments, slightly above the 31% of 2013, but lower than the 37% of 2012.

Capital Raised by Sector and Stage

In the fourth quarter of 2014, 36 Internet companies led capital raising, as in the previous quarter, with \$320 million or 29% of total capital raised. This was the largest amount ever raised by the sector in one quarter and compared to \$212 million (30%) attracted by 39 companies in the third quarter of 2014 and \$178 million (22%) invested in 61 Internet companies in the fourth quarter of 2013. The life sciences followed with \$250 million (23%) and software with \$230 million (21%).

The Internet, the life sciences and software were the leading sectors in 2014, attracting 28, 24 and 22% of capital raised, respectively. The previous year differed only slightly as both the life sciences and the Internet attracted 22%, followed by software with 21%.

In the fourth quarter of 2014, 22 late stage companies continued to lead all investments - as they did throughout 2014 - with \$381 million (34%). Fifty-seven early stage companies raised \$366 million (33%), while seed investments attracted 4%, in contrast to the unusually strong previous quarter when seed accounted for a 9% share of total capital raised.

The share accounted for by firms in the initial revenue stage in 2014 dropped to 26% from 47% in 2013, when the stage led all investments. At the same time, capital raised from late stage companies accounted for 39%, compared with just 20% in 2013. Seed companies maintained their 5% share over the two last years.

Amazon acquires Annapurna Labs for \$350m
The Yokne'am-based company, Amazon's first Israeli acquisition, is building an innovative semiconductor platform.

Amazon is acquiring Israeli company Annapurna Labs. The online trading company has confirmed the acquisition of the Yokne'am-based semiconductor company this evening. No financial details were disclosed but sources believe the acquisition is for about \$350 million. Very little is known about Annapurna Labs, which was founded by Avigdor Willenz in 2011. The company describes itself as building the next generation semiconductor platform.

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Very little is known about Annapurna Labs, which was founded by Avigdor Willenz in 2011. The company describes itself as building the next generation semiconductor platform.

Annapurna Labs will be integrated into Amazon Web Services. This is Amazon's first acquisition in Israel and there is speculation that Annapurna Labs will form the basis of an Amazon development center in Israel.

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The Impatient High Techies

We recently surveyed the list of publicly listed Israeli high-tech companies. The total number was certainly impressive. The listings included on the New York Stock Exchange, NASDAQ, London's Aim and some smaller European exchanges. What impressed us the most the few number of companies that could be called as biggies. These included Teva, Checkpoint and Amdocs. This discovery led us to analysis of how such a high tech savvy country was content to spawn only small companies.

The first conclusion was that it was connected to an impatience to achieve financial success. Israelis by nature are impatient. Their search for early success is only a part of the story. Admittedly the other issue is a lack of experienced management. That is understandable since the high tech industry is only some thirty years old. There has been little room for acquiring management experience. Most man-

agers assume their positions after their army service. The elite 8200 unit provides them with excellent technical experience but no management or administrative experience. Israeli business schools are not suited to provide management training.

We watched with interest the development of Yoram Galai. He founded Quigo, then a second company and now is on the verge of floating Outbrain, his third company. We don't know whether Yoram has the ability to manage as large a company however it is certain that he has made a lot of money for his backers. All of this before reaching 45.

Yet Israel has proved that it can produce high quality management. Afi Arazi who founded Scitex was one of Israel's

top managers. At its peak the company employed more than 4,000 workers. Scitex had a top management team. Eli Hutwitz was another example. Eli was a kibbutznik who developed world class talent. Another example is Steff Wertheimer who founded Iscar in a garage. The company employs several thousand workers and is managed by Wertheimer's son. Few years ago it was acquired by Warren Buffett for a big company price of more than \$4.0 billion.

From the point of view of employees it is to their advantage to work in a large company. It provides them with extra security.

Management experience is hard earned and requires many years on the job. Yet we believe that in the next decade we will see the development of larger companies in the process of raising capital, and \$1.1 billion is forecast to be raised during 2015.

IAI markets innovative electro-optical payload

Heron UAV

Israel Aerospace is in advanced talks to sell the surveillance and reconnaissance system to international customers.

Israel Aerospace Industries Ltd. (IAI) (TASE: ARSP.B1) innovative M-19HD payload has successfully completed all airborne test-flights on manned and unmanned platforms. The company said that local and international customers have shown interest in the novel electro-optical payload and advanced negotiations are underway.

The M-19HD is a true High-Definition, compact, multispectral, multi-sensor, single line-replacement unit (LRU) payload (simultaneously incorporating up to 7 sensors). The M-19HD enables continuous day/night surveillance under all weather conditions and provides outstanding acquisition ranges due to its powerful sensors, high stabilization and unique image processing capabilities. The M-19HD reduces the operator's workload and improves situational awareness by virtue of its multi-mode automatic video tracker (AVT). It also provides accurate geo-location using its embedded IMU/GPS (Inertial measurement Unit/Global Positioning System).

IAI Tamam Division acting general manager Shlomo Gold said, "The M-19HD payload is the ideal system for long-endurance ISR (intelligence, surveillance and reconnaissance) missions and area dominance. The M-19HD provides powerful sensors, high stabilization and unique image processing features, together with long range persistent surveillance capabilities. The M-19HD follows IAI's tradition of innovation and offers our customers high performance and a cost-effective solution".

IAI

IAI unveils maritime patrol aircraft

RAM armored vehicle

IAI wins African deals for RAM armored vehicles

IAI

Israel Aerospace Industries wins cyber security deals

IAI

IAI to found space technology incubator

F-35

IAI inaugurates F-35 wings production line

The system is designed to be installed onboard advanced unmanned aerial platforms such as IAI's Heron-1 and Heron TP UAVs, as well as aerostats and manned platforms, able to perform strategic missions.

The M-19 HD is designed to withstand severe environmental conditions, and operates in demanding, high-end applications on platforms such as high/medium-altitude, long-endurance unmanned aerial vehicles; fixed-wing aircraft; maritime vessels; aerostats; and combat helicopters.

Microsoft buys digital pen co N-trig for \$200m.

Microsoft Corporation (Nasdaq: MSFT) is buying Israeli digital pen company N-trig. The company has developed a chip for a digital pen and computer screen interface. No financial details about the acquisition have been disclosed but market sources believe that Microsoft will pay \$200 million for the Kfar Saba based company.

N-trig declined to comment.

Microsoft already owns a stake in N-trig and is by far its largest customer, responsible for 79% of revenue. N-trig has recently been financially-troubled after failing to meet the financial condi-

Apple CEO Tim Cook to visit Israel

Tim Cook will inaugurate Apple Israel's new headquarters in Herzliya, which will house 800 employees.

Apple Inc. (Nasdaq: AAPL) CEO Tim Cook will visit Israel next week. He will meet former President Shimon Peres and senior figures in Israel's high-tech industry, sources inform "Globes."

Cook is coming to Israel to take part in the inauguration of Apple Israel's new headquarters in Herzliya Pituach. The 12,500 square meter building will house 800 Apple Israel employees including the company's development center, and marketing and sales representatives. The building is being leased from Bayside Land Corp. Ltd.(Gav Yam) (TASE: BYSD1).

Apple Israel's development center is based on the acquisitions of flash memory developer Anobit (\$390 million in 2012) and movement sensor developer PrimeSense (\$300 million in 2013). Apple Israel also took in 150 employees being laid off in Israel last year by Texas Instruments.



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