

# eurofund quarterly

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## 2006 Israeli Hi-Tech M&A Transaction Volume: \$14.6B

M&A activity involving Israeli companies totaled a whopping \$14.58 billion in 2006 in 77 deals. According to the IVC Research Center, the total dollar volume of M&A transactions was significantly higher than in previous years. It exceeded 40% of the \$35.8 billion aggregate value of Israeli high-tech M&A deals in the six years from 2000 to 2005.

The two most noteworthy M&A deals during 2006 were the acquisition of publicly traded Mercury Interactive by Hewlett-Packard for \$4.5 billion and the \$4 billion acquisition of privately-owned Iscar by Warren Buffet's Berkshire Hathaway.

Other noteworthy deals include the acquisition of Nasdaq-listed M-Systems by SanDisk for \$1.55 billion and the acquisition of Nasdaq-listed Lipman Electronic Engineering by VeriFone Holdings for \$793 million.

According to IVC General Manager Guy Holtzman, "Most Israeli high-tech companies that were merged or acquired are providing the buying company with highly accomplished R&D centers, underpinned by strong technology and outstanding human resources. While many talk about India and China or even Eastern Europe, Israeli entrepreneurship and the Israeli experience still have distinct advantages over the near term, as Israeli managers have prepared to meet the global competitive challenges. We expect foreign interest in Israeli firms to continue in 2007."

Venture-backed Israeli mergers and acquisitions in 2006 totaled \$2.96 billion and consisted of 45 deals. This included the acquisition of Passavé by PMC Sierra for \$300 million and the acquisition of Disc-O-Tech Medical Technologies Ltd. by Kyphon for \$240 million.

In 2006, 20 Israeli companies raised \$693 million through initial public offerings on US, European, Asian and Israeli stock exchanges. Notable offerings in 2006 were Playtech, which raised \$460 million on AIM; Allot Communication, which raised \$78 million on Nasdaq; and Incredimail, which raised \$49 million on Nasdaq Small Cap. Venture-backed IPOs of Israeli firms raised \$148 million in six deals including the Nasdaq offerings of Allot and Omrix Biopharmaceuticals.

## Year of the Media-Related Technologies

Foreign investors have visited Israel repeatedly since the early 1990s, on the lookout for new and innovative technologies. They were primarily interested in acquiring leading semiconductor, software and communication equipment companies.

Since those early days, the number of foreign companies seeking to make acquisitions in Israel increased dramatically and their areas of interest became more diverse. Also, their ranks expanded to include world-class technology companies that are leaders in their fields.

A decade ago the first Israeli media technology company was acquired. The buyer was, surprisingly enough, Microsoft. Back in 1996, the Redmond giant bought VDONet, an Israeli company that developed a technology for video streaming long before it became an industry standard.

In 2006 we witnessed a renewed interest in acquiring companies developing leading edge media-related technologies targeted for deployment at the user's home. The ability of Israeli companies to develop technologies that generate "hot products" has also made Israel a target market for many relatively smaller-size foreign technology companies looking for new technologies to enrich the media experience in the third millennium.

It seems that in the past the major acquisition criteria was the target company's ability to sell its products to carriers and enterprises. Today, another major and complimentary factor is emerging - the company's ability to enhance the consumer's leisure time. A case in point is the acquisition of Passavé (a Eurofund investment). Passavé's chip enables a richer media experience for household users served by fiber-optic cables.

Fasten your seat belts. The first few weeks of 2007 seem to indicate the 2006 record-setting pace of acquisitions by foreign companies of Israeli technology start-ups is continuing.

Yours sincerely,



Aharon Beth-Halachmi

## Capital Raising in 2006 Reaches \$1.62 Billion

**Highest in five years • Q4/06 capital raising was 80% higher than Q4/05, with \$477 million raised**

According to the Quarterly Survey conducted by the IVC Research Center, 402 Israeli high-tech companies raised \$1.62 billion in 2006, from local and foreign venture investors, 21% above the \$1.34 billion raised in 2005 and 11% above 2004 levels. In Q4, 105 Israeli high-tech companies raised \$477 million, a 25% increase from the \$381 million raised by 87 companies in Q3 and an 80% jump from the \$264 million raised in Q4/05.

Seventy-three companies attracted more than \$1 million each in Q4. Of these, 11 companies raised between \$5 million and \$10 million each, 8 companies raised between \$10 million and \$20 million each, and 5 companies raised more than \$20 million each. The average company financing round was \$4.5 million, compared with \$4.4 million in the previous quarter and \$3.0 million in Q4/05.

In 2006, Israeli VCs invested \$651 million in Israeli high-

tech companies, about equal to investments made in 2005 (\$655 million) and 2004 (\$665 million). The Israeli VC share of the total amount invested in Israeli high-tech companies was 40%, compared to an average of 43% in the previous 7 years and 49% in 2005. The remainder came from other investment entities, mostly foreign. "Capital raised by Israeli high-tech companies in 2006 was the highest in five years," said Zeev Holtzman, Chairman of IVC Research Center and Giza Venture Capital. "Foreign participation in investments in Israeli companies increased in 2006, since Israeli high-tech is regarded as a material part of the global technology sector, prominent even against the growing activity in China and India. We therefore expect foreign investment in 2007 to remain similarly high."

First investments made by Israeli VCs were 43% of the total amount invested by Israeli VCs in 2006, equal to 2005 levels.

time, mobile and mission-critical applications.

● **HyperRoll** (formerly AplicaTek), which provides data aggregation software that delivers improvements in business intelligence application performance, raised \$10M from Hyperion, Bessemer, Sequoia, Greylock & Vertex.

● **Kidaro**, a provider of desktop computing for the enterprise, raised \$10M from Opus Capital, Genesis & Storm Ventures.

● **Mercado Software**, a provider of Commerce Search & Navigation and Enterprise Search & Navigation solutions, raised \$11.5M from Challenge-Etgar, Consensus Group, Valley VC, Lighthouse, Star, Pitango & Eucalyptus.

● **Monosphere**, a creator of storage capacity planning software, raised \$11M from Intel Capital, ComVentures & Lightspeed Ventures.

● **Narus**, a software-based deep packet inspection specialist, raised \$30M from American Capital Strategies, Mayfield, Walden, JP Morgan, NeoCarta Ventures & an undisclosed investor.

● **Skyrider**, which develops smart networking technology to support the creation, location and monetization of content on peer-to-peer networks, raised \$12M from ComVentures, Sequoia & Charles River.

### M&As

● **Jungo**, a supplier of residential gateway software solutions, was acquired by NDS for \$107.5M.

● **StoreAge Networking Technologies**, a provider of split-path storage management solutions, was acquired by LSI Logic Corp. for \$50M.

### FINANCING ROUNDS

● **Crescendo Networks**, a provider of high performance application acceleration solutions, raised \$10M from Evergreen, StageOne, Apax, Convergent & Magnum.

● **DoubleFusion**, a provider of dynamic in-game advertising, raised \$26M from NVP, Accel, JVP, Time Warner, Hearst, IDG Ventures & Sedona Capital.

● **EPOS Technologies**, a provider of Advanced Digital Positioning Technologies for next-generation products for PC, Mobile and Gaming, raised \$10.5M from Walden Israel, Intel Capital & JVP.

● **Extricom** raised \$12M from Belden, Vertex, Motorola Ventures & Magnum. Extricom designs high-performance, enterprise-class Wireless LAN infrastructure solutions for data, voice (VoWLAN), video and other real-

- **Nasdaq-listed PowerDsine**, which provides the capability to deliver and manage electrical power over data network cables, was acquired by Microsemi for \$245M.

- **PortAuthority** (formerly Vidius), a provider of information leak prevention security solutions, was acquired by Websense for \$90M.

- **ProSight**, a provider of portfolio management solutions for the enterprise, was acquired for an estimated \$45M by Primavera Systems.

- **Disc-O-Tech Medical Technologies**, a developer of implantable devices for minimally invasive orthopedic surgery, was acquired for \$240M by Kyphon.

- **FolloWap**, a provider of presence and IM solutions to the telecommunications industry, was acquired by NeuStar for \$139M.

- **ItemField**, a provider of universal data transformation software, was acquired for \$55M by Informatica.

- **Topio**, a provider of software for data replication & recovery, was acquired by Network Appliance for 160M.

- **Relegence Corp.** (formerly eNow), a provider of next generation solution for premier content publishers, was acquired for an estimated \$60M by AOL.

- **Onigma**, which provides organizations protection solutions from insiders, was acquired by McAfee for \$20M.

## MISC

- Israeli mogul Lev Leviev and his partners in the MTS group beat billionaire Shari Arison and her partners in biggest private-sector tender in Israeli history, which will bring light-rail service to Israel's

busiest metropolis - Tel Aviv.

MTS's bid was \$1.7 billion.

The winning group partner list includes: Africa Israel, Siemens of Germany, Egged the Israeli bus cooperative, CCECC of China, Da Costa Soares of Portugal and HTM of Netherland.

- In a surprise move aimed at maintaining the government's annual inflation target of 1%-3%, Governor of the Bank of Israel Stanley Fisher announced the

reduction of interest rates by 0.5% to 4.5%, contrary to assessments that he would be content with a smaller reduction of 0.25%.

- Despite the war in the North, Israeli gross domestic product grew 5% in 2006, according to preliminary figures released by the Central Bureau of Statistics. The results beat economists' expectations as exports of goods and services and investment in fixed assets surprised on the upside.

## Spotlight on



# ColorChip Introduces New High Performance Product Family

ColorChip, a leading developer and provider of fiber optics components based on PLC technology, recently announced the availability of the new high performance Spark splitter family. The Spark splitter produces some of the highest optical performance for the fiber to the home and FTTH market place in a very compact design.

The Spark splitters are based on ColorChip's proprietary planar light wave circuit technology. A fully packaged 1x32 splitter achieves insertion loss values below 16.2 dB and PDL values below 0.2 dB making these splitters ideal for high performance FTTH networks. The Spark splitters are available in 1x4, 1x8, 1x16, and 1x32 splitters for the GEAPON (EPON), BPON and GPON markets.

"The Spark splitter product family was developed to achieve our customer's demand for ultra low loss splitters, used for PON networks. The advantage

of such splitters is the extra distance the network can reach from the central office," said Moshe Price, CEO of ColorChip. "ColorChip is committed in continuing to provide higher quality splitters to the market."

According to Price, the company's main market today is Asia Pacific, particularly Japan and Korea. "However, the demand for TriplePlay promises that 2007 will be a landmark year for us. In addition, with growing demand for FTTH in the US and Europe, and the growing buzz around Quadruple Play, we expect a surge in demand for our products in 2008-2009." ColorChip was founded in 2001 by Dr. Shimon Eckhouse (who founded Syneron and Lumenis, both of which reached \$1B market caps) and by Professor Shlomo Rushin of the Tel Aviv University. ColorChip is backed by Eurofund, Bessemer Venture Partners, Walden and Polytechnos.

[www.Color-Chip.com](http://www.Color-Chip.com)

● **Radwin**, a leading provider of advanced wireless broadband solutions, announced in October the commercial availability of its new WinLink™ 1000 Access solution, which provides high-quality, low cost Ethernet connectivity at the most competitive price in the market – starting from just \$1,100 per link. The product is especially designed to support multi point-to-point deployments.

Deployed in more than 70 countries by carriers, service providers and private networks, WinLink™ 1000 products power multiple applications including cellular backhauling, broadband access and enterprise connectivity.

[www.radwin.com](http://www.radwin.com)

● **MobileAccess Networks**, an enterprise wireless innovator, announced in November that The Children's Hospital, a leading pediatric healthcare network in Denver and throughout the Rocky Mountain Region, is installing the Universal Wireless Network throughout its new facility in Aurora, Colorado.

With the MobileAccess wireless in-building solution, The Children's Hospital is equipped with strong coverage that supports a full range of critical wireless services and applications – including cellular services from a variety of service providers, wireless email communication, two-way paging, and emergency radio – over a single, unified platform.

With 1,130 pediatric specialists and more than 3,000 employees providing pediatric care across a network with 11 care centers and more than 400 outreach clinics, The Children's Hospital has been ranked one of the best children's hospitals in America by U.S. News & World

Report for more than a decade.

In December, MobileAccess Networks announced that Peppermill Casinos, Inc. deployed the MobileAccess Universal Wireless Network at the Peppermill Hotel Casino in Reno, Nevada.

In the next phase of the project, Peppermill will extend the MobileAccess solution into its new \$300 million hotel scheduled to open in mid-2007.

MobileAccess Networks delivers its solutions to more than 1000 customers, including Fortune 1000 companies such as Lehman Brothers and Hearst Corporation, leading healthcare facilities such as Northwestern Memorial and Clarian Health, as well as many public sector customers such as Aladdin Resort and Casino, Alltel Stadium, American University and the Oakland International Airport.

[www.MobileAccess.com](http://www.MobileAccess.com)

● **Schema**, a leading global provider of network optimization software, announced in December that its product offering includes end-to-end optimization solutions for telecom operators. This includes products for radio access networks, as well as transport networks.

The offering allows mobile service providers to enhance efficiency across both ends of their network, with optimization products under the umbrella of a single company, reducing operational costs by up to 30% with the convenience of a one-stop-shop. Furthermore, this end-to-end solution covers optimization for current network infrastructure, and planning for future expansion taking into account new services.

Schema's solutions are deployed by leading wireless operators worldwide including Telefonica, Cellcom

Greenbay, Hutch India, Peoples PCS of Hong Kong, Sunday HK, VimpelCom Russia, Claro Brazil and Cellcom Israel.

[www.schema.com](http://www.schema.com)

● **BeInSync**, the leading provider of peer-to-peer (P2P) file synchronization software, announced in December BeInSync Pro Version 2.5, which incorporates new powerful sharing features and greater ease of use. BeInSync's customer base of over three million individuals, business users and mobile professionals can now benefit from enhanced data availability and user control functions.

[www.BeInSync.com](http://www.BeInSync.com)

● **CyOptics**, an industry leader in Indium Phosphide (InP) optical chip and component technologies, and Syntune AB, a developer of innovative single-chip tunable lasers and transmitters, announced a co-operative agreement for the introduction of a family of full band tunable laser products for the telecommunications market. This agreement will accelerate the market introduction of the full band tunable laser products and also provide a continuous volume supply of tunable devices. This co-operative agreement leverages the Syntune designed tunable lasers and the CyOptics world class automated manufacturing platform.

Founded in 1999, CyOptics designs, develops and markets a full line of InP optical chips and components for integration into access, metro and long-haul communications systems.

[www.CyOptics.com](http://www.CyOptics.com)

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