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Conference Calendar

The 6th IVA International Conference

April 1 - April 3, 2001

David Intercontinental Hotel
Tel Aviv

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IVC-Online High-Tech - VC Survey:

Capital Raised Tops \$3.1b in 2000

24% decline in Q4 from record Q3 levels...
trend likely to continue

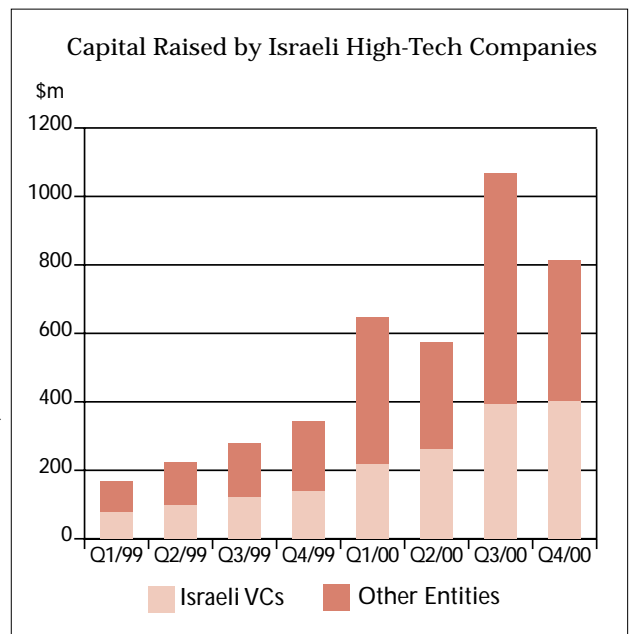
One hundred and fifty-four Israeli firms raised \$813 million from both local and foreign venture capital investors in the fourth quarter of 2000, according to a survey by IVC-Online's Research and Data Center. The amount raised is 24% below the record \$1.069 billion in the third quarter, yet more than double the \$343 million raised in 1999's fourth quarter and 80% of capital raised (\$1.012 billion) during the whole of 1999. The frenetic pace of capital raising during the year brought total capital raised in 2000 to \$3.1 billion, three times the year-earlier figure.

The IVC-Online survey, conducted quarterly, focuses on capital raised by private Israeli high-tech companies where at least one of the participating investors is an Israeli venture capital fund. The fourth quarter survey was conducted with the cooperation of 84 Israeli venture capital funds.

Quarterly declines likely to continue

Zeev Holtzman, Chairman of Giza Venture Capital, noted that without several rounds of financing initiated in the third quarter, total investments in the fourth quarter would have been considerably lower than they were. "We expect that the first quarter of 2001 will continue the pattern of decline," predicted Holtzman.

Eran Mordechai, Director of IVC-Online, attributed the fourth quarter decline to "decreased investment activity by foreign investors and other



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non-Israeli VC entities. Investments by this group nosedived," said Mordechai, "dropping 39% from third quarter levels."

More companies raising capital

Despite the decline in amounts raised during the fourth quarter, an increase was recorded in the

than the \$444 million invested in 1999. As in 1999, Israeli funds invested larger amounts in each progressive quarter, even in the second and fourth quarters when gross amounts raised by high-tech companies declined.

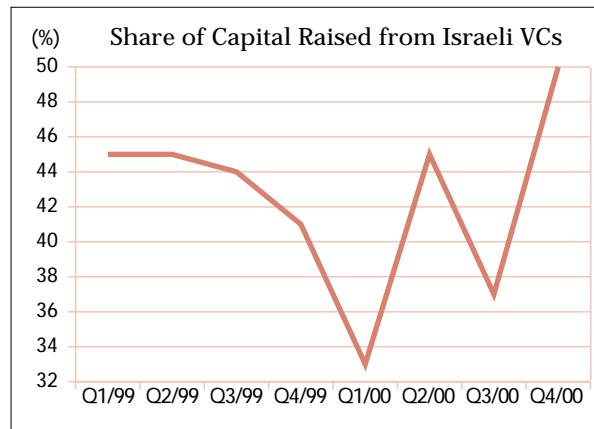
Fourth quarter fund investments reached \$403 million, a slight 3% higher than investments in the third quarter, but a significant 188% above year-earlier figures. The number of deals edged up to 220 from 208 in the third quarter.

More investments by local VCs in the fourth quarter boosted the proportion of Israeli VC investments to 50% of capital raised by technology companies. This percentage is the highest in the past two

years. For example, the share of Israeli VCs stood at a mere 37% in the third quarter and 41% in the fourth quarter of 1999.

Communications advances to favored sector status

The communications sector was the most adept at capturing investment in 2000. One hundred and thirty-seven communications firms raised \$1.248 billion. This accounted for 40% of the total amount raised, compared with 29% in

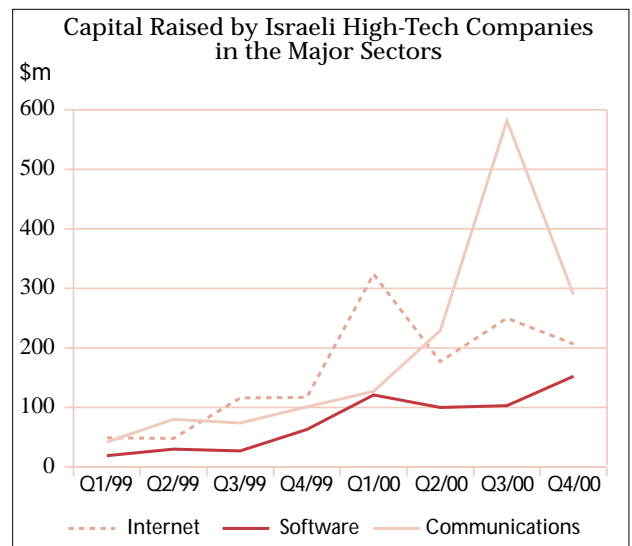


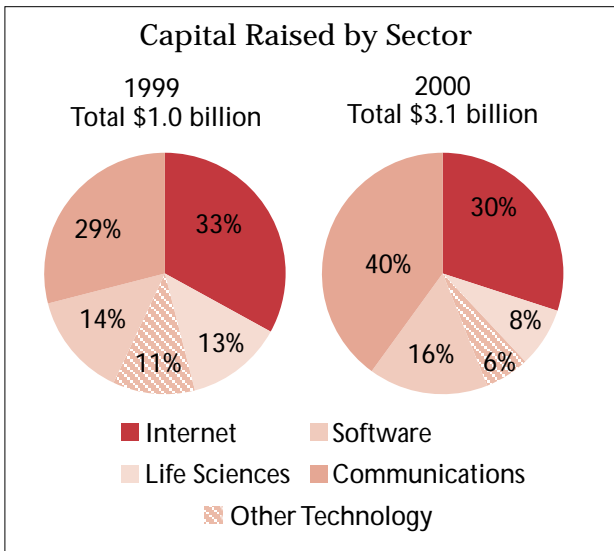
number of companies raising capital. One hundred and fifty-four private Israeli high-tech companies raised capital during the fourth quarter, compared to 136, 107 and 120 companies in the three preceding quarters, respectively. During the course of 2000, 517 companies raised capital, compared to 338 companies in 1999.

The average financing round per company was \$5.3 million in the fourth quarter, 26% below the \$7.2 million third quarter average. During the first and second quarters, average rounds were \$5.1 million and \$5.0 million, respectively. The median round in 2000 equaled \$3 million.

Investment activity among Israeli VCs

During 2000, Israeli VCs invested \$1.272 billion, 192% more





1999. Capital raising efforts boasted high growth in the year's first three quarters before experiencing a sharp quarter-to-quarter decline in the year's final three months. In 2000, the average financing round jumped to \$9.1 million, compared with \$4.6 million for the previous year. Nevertheless, during the fourth quarter, the sector experienced a quarter-to-quarter decline in the number of companies that raised capital, total capital raised and average amounts raised per company (See graph below). In explaining the declines, IVC-Online's Eran Mordechai pointed out that "the fourth quarter was absent the huge third-quarter financing rounds in the optical communications sub-sector, which caused a disproportionate increase in figures for the third quarter."

Internet sector sees luster fading

The Internet industry, most prominent in 1999, accounted for 30% of capital raised in 2000, compared with 33% in the prior year. One hundred and seventy Internet companies raised \$918 million during 2000, averaging \$5.4 million per round (versus \$3.2 million).

Fourth quarter capital raising fell 17% to \$207 million from the

previous quarter levels, but up 77% from the parallel quarter in 1999. The average financing round per company decreased 19% from the third quarter to \$4.7 million.

Software relatively strong

Software companies accounted for 16% of capital raised in 2000, compared to 14% in 1999. Eighty-eight companies raised a total of \$499 million, averaging \$5.7 million per financing round, compared to \$3.1 million in 1999.

Software was the only sector to have raised more capital in the fourth quarter (\$152 million) than in the preceding quarter (\$103 million). The average financing round reached \$5.6 million in the fourth quarter, 19% more than in the third.

Life science firms attract larger average investments

Life science companies attracted 8% of the total amount raised during 2000, compared with 13% during 1999. The number of companies raising capital did not significantly change – 75 versus 76 – but the average financing round increased sharply to \$3.2 million from \$1.8 million.

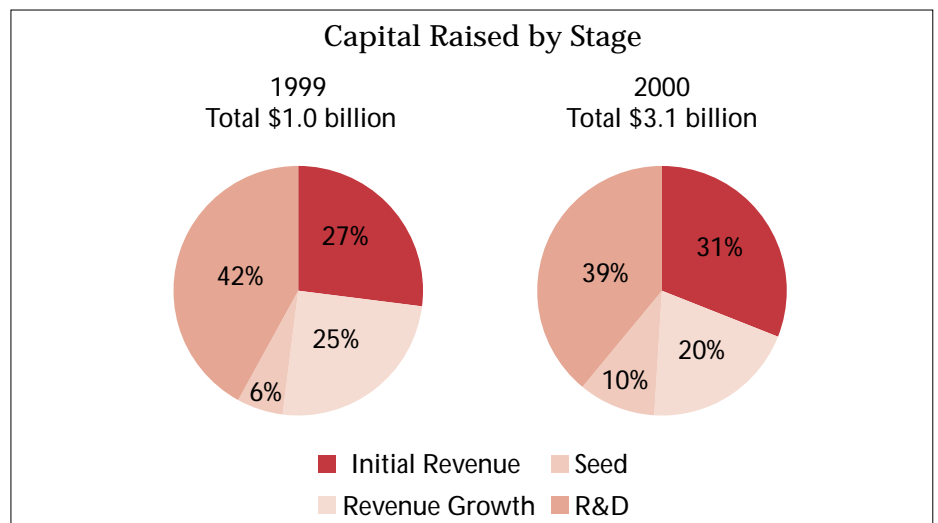
In the fourth quarter \$64 million was raised, 21% below third quarter levels but a robust 72% more than in the third quarter of 1999. The average financing round per company declined by 44% to \$2.7 million from third quarter levels.

R&D-stage gets lion's share of capital

R&D companies attracted 39% of the capital raised in 2000, versus 42% in 1999. Initial revenue-stage firms garnered 31% of funds raised, while companies from the revenue growth-stage and seed companies accounted for 20% and 10%, respectively.

In the fourth quarter, only seed-stage companies raised more than in the preceding quarter. They raised a record-breaking \$132 million, 75% more than during the third quarter and more than six times that of the corresponding year-earlier quarter. Seed companies also enjoyed higher average financing rounds in comparison to the previous quarter, and more companies were involved in the capital raising process.

Companies in the most mature stage, revenue growth, suffered a 54% quarter-to-quarter decline in capital raised during the fourth quarter, while R&D and initial revenue stages declined 34% and 11%, respectively.



Setting the Record Straight

by Zeev Holtzman

The conventional wisdom that Israeli companies lack the ability to transform their technology into long-term, successful companies needs serious reconsideration

Israeli high-tech no longer needs a pat on the back. Nevertheless, it was flattering when *Red Herring* dedicated a special report in September to the dynamic growth and revolutionary impact that Israel's technological innovations have been generating across the globe.

Despite the magazine's positive outlook, certain sections reinforced a long-held notion that Israeli companies have the brains to create technology, but not to run successful, multinational companies. One supposition is that Israel's military and security situation has led to a business mentality that scoffs at the *softer* areas of marketing and investor relations. Moreover, critics point to a general lack of Israeli experience in managing large, export-minded companies, despite their innovative prowess.

True, many of the Israeli companies traded on Nasdaq maintain their corporate headquarters abroad, while keeping their research and development operations in Israel. This also seems to be the goal of most Israel-based private companies in their intermediate or advanced stages. However, this phenomenon has nothing to do with Israeli shortcomings in marketing or management.

Israeli companies leave Israel for two reasons: taxes and access to markets abroad. Despite the incentives it gives entrepreneurs for start-ups, the government is not doing enough to encourage companies to stay headquartered in Israel. Even though it is undergoing reformation, the current tax structure is out of touch with Israel's modern economic reality.

One of the principal culprits is the 50% capital gains tax, which does not differentiate between short-term and long-term investors. Compare this to the United States: long-term investors (more than one year) pay 20% capital gains tax, or less than one-half of what they would pay in Israel. In this era of global capitalism, when governments should be promoting competition to prevent the emigration of businesses to lands of greater opportunity (read: the United States), the Israeli government has not moved quickly enough. It gives the most incentives to

manufacturers and start-ups, not to fully developed companies.

Operating from the US gives Israeli companies clear marketing advantages in terms of name recognition and proximity to customers. Even the time difference is important. Missing deadlines or posting inaccuracies can spell death for a company's investor relations or its perception by analysts. Some

investors too, for various reasons, would never dream of putting their money in an Israeli outfit, but would gladly invest in a promising American high-tech company, which has Israeli operations.

Furthermore, it is simply not the case that Israeli companies must leave Israel if they want to compete successfully and grow.

Take Check Point, heralded as one of the founders of Internet security. It has a market capitalization of close to \$20 billion and is widely considered Israel's most successful company. CEO Gil Shwed consciously chose to stay based in Israel, even though most of his employees operate from abroad. Others examples are Gilat Satellite Networks and ECI Telecom. One of Israel's largest telecommunications companies, ECI has a market capitalization well over \$1 billion and an outstanding track record over the last decade. ECI serves practically all of the world's major carriers including AT&T, GTE, Telefonica, and Deutsche Telekom, but is headquartered in Petach Tikva. Other successful Israeli companies that are headquartered in the United States – Amdocs, Comverse, Mercury – still maintain large Israeli presences. It goes without saying that companies have to be export-minded to win the global game, but this is as true for American companies as it is for Israeli ones.

During Israel's high-tech infancy in the '90s, the focus of entrepreneurs was unmistakably on technology, sometimes even at the expense of a long-term business strategy. But Nasdaq's recent volatility and corrections mean that Israeli technology companies will have to go beyond innovation alone to succeed. Investors are no longer going to put their money into a company just because it has a superior

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Israeli companies leave Israel
for two reasons: taxes and
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Giza's 3rd fund weighs in at \$211 million

Giza Venture Capital's third fund, Giza GE Venture Fund III, completed raising \$211 million in November. Giza III invests in start-up companies in the areas of communications, Internet infrastructure, software and healthcare and focuses exclusively on Israel-related companies. Since the beginning of 2000, it has invested in more than 15 companies including Bandwiz, White Cell, Smartlink, Flash Networks, Redux, HLAN and CardoNET. Typical investments range between \$3 and \$10 million.

Major investors in the Giza III fund are GE Capital, Deutsche Banc Alex. Brown and NIB Capital of the Netherlands. Institutional investors from the US, Europe and the Far East as well as several Israeli pension funds are also among its investors.

The closing of Giza III has propelled Giza to one of the largest VC fund groups in Israel. The Tel Aviv-based Giza has a staff of 20 professionals and maintains offices

in San Francisco and Singapore. A London office is expected to open in early 2001.

Tamir Fishman Raises \$150 million for second fund

Tamir Fishman Ventures completed fund raising for its second fund, Tamir Fishman Ventures II, in December. One hundred and fifty million dollars was raised from US, European and Israeli investors, bringing total funds under management at TFV to over \$200 million. Investors included US investment banking firm Dain Rauscher Wessels; Baker Capital and Sandler Capital, two US-based, communications-focused private equity firms; technology investor J.F. Shea; and Nasdaq-traded Aladdin Knowledge Systems, an Israel-based Internet security firm. Additional investors include Israeli banks, insurance companies and funds, European and US institutional and private investors.

Tamir Fishman Ventures focuses on early-stage investments, and makes some seed and late-stage

investments as well. Favored industries are communications, software and Internet infrastructure. Since beginning investing in June 2000, six investments averaging just under \$3 million were made in Allot Communications, Tashilon, Expand, Sagitta, ModemArt, and Teleknowledge Group. The new fund is a follow-on fund to the Tamir Fishman-managed Eucalyptus Ventures that has been fully invested since the first quarter of 2000.

Nokia targets Israel with new \$500 million fund

Nokia Venture Partners launched a \$500 million fund in December, the telecommunications company's second fund that will invest in start-up companies in the mobile Internet sector. The geographical scope of Nokia's venture capital arm is being expanded. According to Nokia management, the fund will have "an increased focus on Israel and the Asia Pacific region given the tremendous potential these areas have in the mobile Internet sector." The older fund had backed over 25 companies from the US, the UK, Germany and Finland.

The new fund also includes third party investors, among which are investment banking firm Goldman Sachs; BMC Software, one of the world's largest independent software

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Gilo Ventures Opens TA Office

Gilo Ventures, a Woodside, California-based venture fund, has opened a Tel Aviv office. Under the management of Ilan Judkiewicz, the Israeli operations will focus on companies in telecommunications, Internet infrastructure, broadband access and semiconductors. Davidi Gilo, Chairman of the fund, formerly headed DSP Communications, which was sold to Intel for \$1.6 billion.

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product. They want to see a synthesis of technological and managerial capabilities, and a long-term vision for becoming a market leader.

Even the Knesset is starting to respond. Legislative proposals to reform the tax structure would slash the capital gains tax to a uniform 25%. This would be ideal for companies seeking short-term Israeli

investors and long-term American ones, exactly the situation of most Israeli start-ups.

And when Israel produces two or three or ten more Check Points – as I am sure it will – we will close the book on the idea that Israel does not have the skill to create and lead superior companies.

Zeev Holtzman is the founder, Chairman and CEO of Giza Venture Capital.

FundScope continued from page 5 vendors; and CDBWebTech, a listed private equity company founded by Italian industrialist Carlo De Benedetti that focuses on communications technology.

Nokia Venture Partners is based in Menlo Park, California and has offices in Washington, London and Helsinki. Nokia invested in the fund in order to gain exposure to markets and technologies beyond the reach of its current operating businesses.

Ampal to manage \$30 million Korean fund

Nasdaq-traded Ampal-American Israel Corp. established a \$30 million venture capital fund in January that will invest in Korean high technology companies. Ampal holds 20% of the fund, while its partners, the Government of Korea, Korean venture capital manager Intervest and foreign investors own 40%, 11% and 29%, respectively. The fund, to be managed by an Ampal subsidiary and Intervest, plans to invest in the areas of semiconductors, communications, software and hardware.

Ampal's businesses have until now focused on acquiring interests in Israeli or Israel-related businesses. The investment firm has begun disposing of long time holdings in basic and low-tech industries and has, in recent years, sought to build up its holdings in communications and other high technology sectors. The Israeli portfolio may derive benefit from this new Korean connection as Ampal expects its investee companies to obtain easier access to Korean markets.

Eurofund 2000 raises \$52 million

Several existing investors participated in Eurofund 2000's

second venture fund which raised \$52 million in December. The consortium of local and international investors included GE - Corporate R&D, Federmann Enterprises, Daimler-Chrysler, Bertelsmann, ECI Telecom, Deutsche Telekom, Rad Data Communications, Lockheed Martin, Germany's Freiburger Compound Materials and Bezeq. Eurofund focuses on early-stage companies in communications, information technology, Internet and micro-electronics.

JVP aims for \$500 million for its fourth fund

Jerusalem Venture Partners expects the first closing of its fourth fund to take place by the end of February. The Jerusalem-based fund should be well on its way toward its \$500 million goal for JVT IV. Current investors in JVP funds, which focus on early-stage companies, include France Telecom, Boeing, Reuters, Flag Venture Partners, Merrill

An uncommon Sadot goes to London

Sadot Research and Development Fund, in an unconventional move for an Israeli venture capital fund, has obtained a listing on the London Stock Exchange. Sadot was admitted to the exchange's Official List as of January 3rd, becoming the first Israeli venture fund to trade in London and the second Israeli venture fund to trade in Europe. (Astra Technological Investment was the first.)

Sadot's history has been atypical for an Israeli venture capital fund. One of Israel's first venture funds, Sadot was established in 1992 when it raised \$8 million on the Tel Aviv Stock Exchange. Its mandate was to invest in computer technology, communications and electronics firms under INBAL, an Israeli government program to promote venture capital. Under this program, shareholders of Sadot received guarantees on 80 percent of their original investment provided certain criteria were met. Two years later, shareholders decided to forego the guarantee, but with market conditions weak, the investment manager froze new investments. At the time, Sadot had just six software companies in its portfolio.

In May, 1996 Jack Elaad, Abraham Radzinski and Ben-Zion Israel acquired ownership of Sadot's management company and subsequently embarked on fund raising. A 1997 offering of equity and convertible debt on the TASE raised a total of \$16 million, while private placements in 2000 yielded an additional \$35 million.

The move to the London Stock Exchange creates a variety of new possibilities for Sadot. The listing is intended to enhance Sadot's international profile and give it a broader base of potential investors in future capital raising efforts. It is also aimed at helping Sadot expand its investment portfolio, particularly in Europe. Sadot has already made an investment outside of Israel - in Enfocus Systems, a Belgian company.

As of September 30, 2000 Sadot had 21 portfolio companies, valued at \$36 million, spanning Internet

technologies, information technology, telecommunications hardware and equipment and medical devices. The portfolio was most heavily weighted towards Internet with two firms, Elemental Software and Nasdaq-traded Radview Software accounting for half the fund's fair value.

| Sadot's Portfolio | |
|--------------------|------------------|
| <i>Stage</i> | <i>Companies</i> |
| Initial financing | 9 |
| First/second round | 6 |
| Third round | 4 |
| Publicly traded | 2 |

Lynch, AXA and Invesco among others. Several of JVP's existing investors are expected to participate in the new fund as well.

US venture investments reach \$103b in 2000

US venture capital investments soared 73.5% to \$103 billion in 2000, according to recently released figures from The National Venture Capital Association and Venture Economics. A record 5,380 companies were funded, an increase of 36% from 3,967 companies

funded in 1999. The Internet continued as the most popular sector, attracting over 40% of all fourth quarter venture investment.

The top three regions for venture investment were Northern California (\$33.4 billion), Greater New York (\$12.1 billion) and New England (\$10.5 billion), while the Rocky Mountains led all regions with the largest year-to-year growth in investment (136% to \$5.6 billion). Companies at the expansion stage took the bulk of investment in the fourth quarter, accounting for 52.4%, followed by later-stage at 23.4%, early-stage at 21.9% and buyout/acquisition stage at 2.3%.

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Trading Places



Ami Ayalon, former commander of Israel's navy and the retired head of the Israel Security Agency, has been appointed manager of Argoquest's Israeli operations.

Argoquest has made several investments in Israel focusing on infrastructure and enabling technologies.

BRM Capital has appointed Mike Mers as Managing Director. He will focus on investments in communications and wireless infrastructure. Mers had been with Hewlett-Packard for several years and most recently managed strategic investments at Intel Capital.

Carmel Ventures' new office in Munich Germany is being managed by Dr. Walter Grassl, formerly Director of Business Strategy at the Siemens IT Services group. Grassl, with extensive experience in the software field, is being charged with assisting Carmel's portfolio companies in developing strategic relationships, recruiting management and sourcing deals in Europe. He holds a Ph.D. in computer sciences and an M.Sc. in technology management from MIT's Sloan School of Management.

Vertex has appointed Ogen Perry as head of its US office. Perry was the founder of California Israel Angels, a Silicon Valley angel investor group and was a partner at Helix Capital, LLC, a mergers and acquisition firm. He

holds an MBA from the Wharton School of the University of Pennsylvania and an M.E. in computer and systems engineering from Rensselaer Polytechnic Institute.

Daniel Chinn has been named Vice President - Operations and General Counsel at Israel Seed Partners. Chinn was formerly a partner at the law firm of Herzog, Fox & Neeman where he specialized in mergers, acquisitions and investments in technology.

Yishai Klein is en route to Singapore as Giza Venture Capital's new regional director for Asia/Pacific. Klein, who joined Giza Group in 1997, will be facilitating strategic alliances and cultivating relationships with Asian investors and entrepreneurs. Klein holds a B.A. in international relations and economics from the Hebrew University of Jerusalem.



Dr. Avi Molcho has been appointed Sr. Vice President - Life Sciences of Giza Venture Capital. Dr. Molcho was formerly head of the Post-graduate Training Program in Psychiatry at Tel Aviv University School of Medicine and held medical positions with the College of Physicians & Surgeons, Columbia University and the Israel Defense Forces. He received his MD degree from Tel Aviv School of Medicine and holds an MBA from the Recanati School, Tel Aviv University.

Funds Raised

Cyota closed its second round of financing with \$11 million from a multinational investment group led by Giza Venture Capital. The other investors included Dresdner Kleinwort Wasserstein, the newly formed investment banking division of the Dresdner Bank Group; iValue Creation Company, the in-house venture capital unit of Toshiba Corporation; Poalim Capital Markets; Quan Ventures, a Geneva-based venture capital firm; JAFCO Investment (Asia Pacific) Ltd., a member of the Nomura Group; and Israel Seed Partners. Israel Seed was among the company's earlier-round investors. Cyota is a growing factor in the online payment security field. Its lead product allows consumers to purchase online without revealing their real credit card number.



Vertex Management and Concord Ventures invested \$10 million in Rishon Lezion's Runcom Technologies at a \$48 million valuation. Founded in 1997, Runcom develops OFDM and CDMA-based modems for the wireless cable market.



Population genetics company IDgene completed a second

round financing, raising \$7.7 million. Investors were Apex Partners, Israel Seed Partners and the Wellcome Trust. Founded 16 months ago, IDgene is compiling genetic information that will be used to develop drugs for asthma, Alzheimer's, schizophrenia, various cancers and other diseases.



A \$6 million first round investment in Mobixell Networks was led by Apex Partners Europe along with Comverse Technology and Optibase Ltd. The 15-employee Herzliya-based company was founded in 2000 by former executives of Optibase. Mobixell's media aware mobile Internet platform enables cellular operators and service providers to offer rich media value-added Internet-based services for delivery to PDAs and other web appliances.



AppSwing Ltd., a start-up founded in January 2000, received \$3 million in seed financing from Zinook, Giza Venture Capital and Fidelity. AppSwing focuses on enabling technology to optimize migration of enterprise legacy Windows applications to Web-based and wireless-based environments,

allowing integration among applications and customization of the application front-end according to user requirements.



BrightCom Technologies completed a private equity placement of \$15 million at a \$95 million post-money valuation. The placement was managed by Beeson-Gregory with investors Jupiter, Tudor Capital and Invesco. BrightCom manufactures silicon and software solutions for Personal Area Networking based on the Bluetooth open standard. Proceeds are for continued development of its chip products and for international marketing and sales. Funding in previous financing rounds was provided by BVR Technologies, SFK Group, STiVentures, and Argoquest, Inc. Beeson-Gregory's private equity arm, Index-IT, invested in BrightCom in early 2000.



In a major second round financing, StoreAge Networking Technologies raised \$25 million from Cisco Systems, Genesis Partners, IIS Intelligent Information Systems, Koonras Technologies, Morgan Keegan & Company, Ophirtech and others. StoreAge provides storage networking solutions for the enterprise in an open system distributed environment. Proceeds will be used for marketing and support and designing a new generation of products.



Carmel Ventures led a \$4.3 million round of investment in Rosh Ha'ayin-based Emony Ltd. Emony's main product reduces the time to download software releases by approximately 95%,

Witcom Ltd., a developer and manufacturer of wireless digital networking solutions, secured \$20 million in its latest financing round. Its newest investors include ABN AMRO Venture Capital, the VC unit of Europe's 5th largest bank; Nomura International plc, the European subsidiary of Nomura Securities; US-based East-West Ventures; The Challenge Fund; and Clal Electronics. Existing investors include The ComSor Investment Fund, owned by Comverse Technology and the Soros Management Fund; Ascend (a Nortel Networks affiliated fund); Dr. A. Viterbi, co-founder of Qualcomm; Rafael Development Corporation; Discount Investment Corp.; and Elron Electronic Industries. Witcom is to use capital raised for new product development, business development and marketing.

cutting the costs of distributing software. It is targeting all platforms particularly desktop, cellular, PDA, and home appliances. BackWeb Technologies joined the investment group with a \$1 million investment. It targets the same markets as Emony, and its products are complementary.



Ampal-American Israel Corporation made an additional investment of \$1.5 million in Enbaya Ltd., a provider of interactive, rich-media solutions for the Internet, based on 3D graphics and animation. The investment, as part of a \$5 million financing round at a \$15 million post-money valuation, upped Ampal's stake in Enbaya to 21%. Other investors include Poalim Capital Markets, DS Polaris and Partner FutureComm. In the first quarter of 2001, Enbaya is expected to launch beta services for brick-and-mortar retailers seeking to provide a content-rich web experience where customers can interact with products and objects. Enbaya was founded in 1999 and has R&D facilities in Ramat Gan.



ProSeed Capital has provided \$100,000 in seed funding to Tel Aviv-based Notal Vision, developing technology to detect retinal malfunction and deterioration via interactive self-examination. The exam can be performed over the Internet, cable TV or stand-alone device. The first product is to provide early detection of age-related macular degeneration



CopperGate Communications Ltd.'s first round funding was led by Tamir Fishman Ventures along with co-investors The Challenge Fund and

NextNine, formerly Rtviv, raised \$20 million in second round financing. The round was led by Morgan Stanley Dean Witter Private Equity, and included Redwood Venture Partners, the Yozma Venture Capital Group and Ofer Technologies Group. Headquartered in Cambridge, Massachusetts with a development center in Ramat Gan, NextNine's technology provides remote technical support and diagnostics over the Internet or other networks for embedded devices such as network routers, telecom switches, cell phones, PDAs, and household appliances. Naiot Technology Center, Yozma, Ofer and private individuals were among the company's earlier investors.

Menora Gaon Underwriters. The company raised \$5.5 million according to a pre-money valuation of \$8 million. The one-year old CopperGate is developing a chipset for home networking equipment to enable 52 megabits per second broadband access over existing copper phone lines in multi-dwelling units, homes and small offices.



Fiberoptics is now in favor among venture investors. Optichrom received a \$5 million investment from Jerusalem Global Ventures' Commlaunch fund and from Elron Electronic Industries. The Migdal Haemek firm is developing optical components for incorporation into fiberoptic networking systems.



Petach Tikva-based Kerenix Networks raised \$20 million in a funding round led by Jerusalem Venture Partners. The optical networking company was founded in June 2000. In addition to JVP, investors include CDB Webtech and EVP.



Sintec Media, a member of the Formula Group, raised \$4.5 million from Shamrock Holdings and the Eliezer Fishman Group. The producer of broadcast management

software was valued at \$22 million, post-investment.



Come2gether added \$1 million to its coffers at a \$7 million after-money valuation. Its Every Net Works product provides net-working and collaborative services by setting up a workspace where a company can work together with clients and suppliers. Investors include Cap Ventures and Jeff Braun, the founder of Maxis, which developed the popular Sim City software game.



Tadiran Scopus Ltd. raised \$17 million through Polaris, Vertex, Sadot R&D Fund, Formula, Catalyst and Mirabilis founder Yossi Vardi. Established in 1995, the Holon-based company manufactures MPEG-2, DVB compression equipment for professional broadcasters and business TV networks. Its newest product line focuses on delivery of digital TV and IP/ data over DVB platform.



Baobab Technologies closed a \$2.5 million round of seed funding led by Yazam. Also participating in the round were Big Sky Partners and Intel Capital. Baobab is developing software to enable customers to use intuitive and natural commands or queries instead of complex menus and difficult

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Companies Raising Capital

Company: Astrocell Inc.
Field: Gene therapy
Stage: Early
Amount: \$2 million - \$4 million
Purpose: R&D
Contact: Mordechai Rosenblum, CFO
Tel: 972-8-876-2551

Company: ComITCom Ltd
Field: Software for supply chain management
Amount: \$1.2 million
Contact: Asher Ben-David, CEO
Tel: 972-4-959-1604
Email: mottid@comitcom.com

Company: Power Paper
Field: Enabling Technology: Flat disposable battery for medical/consumer applications
Amount: \$8 million - \$12 million
Contact: Baruch Levanon, President
Tel: 972-3-900-7500
Email: lori@powerpaper.com

Company: Pelican Security
Field: Information protection solutions
Amount: \$10 million
Contact: Irit Rapaport, CEO
Tel: 972-3-648-8454
Email: irit@pelicansecurity.com

Company: iMesh
Field: Internet search technology
Amount: \$4 million
Purpose: Complete technology development and open US branch
Contact: Ilan Oren, CEO
Tel: 972-3-538-8700

Company: First Global IP Inc.
Field: Work-flow system for intellectual property law firms
Stage: Early
Amount: \$2 million
Purpose: Deployment, marketing
Contact: Mark Simon, CEO
Tel: 972-2-587-9925
Email: msimon@FGIPUS.com

Company: Tagra Biotechnologies Ltd.
Field: Micro-encapsulation technologies for cosmetics and pharmaceuticals
Amount: \$2 million
Contact: Vladimir Babtsov, Manager
Tel: 972-4-990-6793
Email: info@efal.com

Company: fBit
Field: Breast cancer diagnostics
Amount: \$2 million-\$2.5 million
Contact: Dr. Miriam Shaharabany, GM
Tel: 972-3-534-1694
Email: miriam@fbit.co.il

Company: Lapid Pharmaceuticals
Field: Develops long acting prodrugs
Amount: \$5 million
Contact: Stanley Fass, CEO
Tel: 972-8-936-1575
Email: stanfass@netvision.net.il

Company: Stil Biotechnologies
Field: Drug discovery platform
Stage: R&D
Amount: \$5 million
Contact: Dr. Sylvie Luria
Tel: 972-3-535-0968
Email: info@stil.co.il

Company: VLScom Ltd.
Field: Video streaming
Stage: Early
Amount: \$2 million
Purpose: R & D, marketing
Contact: Zami Aberman
Tel: 972-8-936-3610
Email: zami-rose@isdn.net.il

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editor@ivcj.co.il

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ProChon Biotech sets sights on healing fractures

Bone fractures - seven million each year in the US alone - are one of the most common mishaps necessitating a hospital or clinic visit. Driven by an increasingly aging population, the incidence of fractures is expected to grow rapidly. Several types of fractures, such as lower leg and hip fractures, place a particularly heavy economic burden on patients and the healthcare system due to prolonged healing times and high complication rates. Many osteoporotic patients with these fractures become partially or permanently disabled and risk spending the rest of their lives requiring assistance at home or in a nursing facility.

Profile

ProChon Biotech Ltd.

Treating fractures is a tricky business in that even when a bone is set properly, healing is an uncertain process. ProChon Biotech, a Rehovot-based firm, is developing a product aimed at promoting faster and better-quality healing. It expects to be among the first to enter this untapped and potentially lucrative billion dollar market.

Fibroblast Growth Factors for skeletal growth and repair

ProChon began operations in 1997, specializing in novel therapeutic approaches for the treatment of genetic and acquired skeletal disorders. It has developed comprehensive proprietary know-how on Fibroblast Growth Factors (FGFs), their receptors (FGFRs) and their role in skeletal growth and repair. This knowledge is being used to develop therapies for bone fracture healing as well as acute and degenerative joint disorders, metabolic bone disorders and short-limbed dwarfism.

The single most important factor in healing a fracture is the complete immobilization of the fractured ends. This is achieved through the production of immature bone and cartilage matrix around the broken end of the bone. Formation of this reparative tissue in certain areas of the skeleton, such as the lower leg, may be scant and healing may be delayed, sometimes indefinitely.

ProChon's approach for enhancing bone fracture healing is based on the use of a receptor-specific modified FGF in the form of a gel, which is injected directly into the fracture site. Preliminary results in animal fracture models are encouraging, demonstrating that local fracture healing is significantly promoted through this minimally invasive procedure.

Short FDA track

The US FDA has determined that treatments such as those being developed by ProChon are regulated as Class III medical devices, obviating the need for the very lengthy clinical trials required for drugs. By using carriers already approved by the FDA for clinical use, ProChon hopes to move on an accelerated track for clinical trials and registration of its FGF formulation, thus shortening the time to market.

First commercial product

ProChon already has one product at the commercial stage. BioCart, a product for treatment of cartilage lesions in the knee, was approved and launched in Israel in November 1998 and in Turkey in July 2000. The company is now filing for marketing approval in Europe. The market for this product is estimated at \$300 million annually.

BioCart's Cartilage Repair



Short-limb dwarfism, a small but substantial market

Achondroplasia is the most common form of short-limb dwarfism, prevalent in one in 20,000 births. Currently, there is no satisfactory treatment for this rare condition, and ProChon is believed to be the only company worldwide with an ongoing Achondroplasia program. Yet the market size is substantial at some \$200 million to \$300 million per year, based on the number of patients undergoing surgical limb lengthening procedures.

Received several grants

ProChon was founded by Professor Avner Yayon of the Weizmann Institute of Science. Its principal investor is a UK investment company, which has a controlling interest in the firm. ProChon has also received substantial support from various government affiliated agencies for several of its drug research and development programs. It benefits from grants from the Bi-national Research and Development Foundation (BIRD-F) for a joint project with SUGEN Inc., the Office of the Chief Scientist in the Ministry of Industry and Trade (OCS) and the Magnetron program (also via the OCS).

VLScom combines quality video with narrow bandwidth

Mobile devices have several uses that require high quality video. These include access to news, corporate communications, entertainment, security cameras, video conferencing and videophones. To offer these services and find a receptive market, mobile service providers must provide multimedia and video content on the narrow and noisy channels existing today. Later on they will need to offer interactive multimedia and video. The problem is that far-reaching technical demands of wireless communications mean the limited available resources are channeled elsewhere at the expense of video quality.

Profile

VLScom Ltd.

The Motion Picture Experts Group (MPEG), developers of industry compression standards, developed what is known as the MPEG-4 standard with an eye to improving the functionality of mobile devices (in addition to Internet and TV broadcasting) – enabling content to be encoded and played out at varying rates. However, the low bit rate requirement reduces video quality.

Making better use of bandwidth

VLScom, a Rehovot-based start-up, has developed a solution that meets the most demanding requirements for MPEG video compression standards.

In video streaming applications, it can reduce the amount of data or bits per pixel without impacting video quality. Quality video performance can then be achieved at low bit rate and low power – critical for cellular and other wireless applications where bandwidth is limited. Moreover, its real-time ability to control the relationship between quality and bit rate means VLScom's technology can significantly reduce the bit rate per channel and increase the channel offerings to users.

Moving quickly with new products

Founded in 1999 by high-tech entrepreneur Zami Aberman and Professor Semion Sheraizin, a prize winning scientist in adaptive image processing from the former Soviet Union, VLScom has already introduced encoder and transcoder products utilizing its advanced image compression techniques. These are currently in beta testing with suppliers of satellite and cable TV communications equipment and also CATV service suppliers. By mid-year VLScom is expected to introduce an MPEG-4 transcoder for xDSL and wireless video applications and by year-end VLScom anticipates introducing a chip with its proprietary technology that will be aimed at chip suppliers of handheld devices (PDAs). One of the company's main goals at this time is to develop strategic partnerships with wireless equipment manufacturers that can ease the way in integrating this chip into handheld devices.

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Dealtime readies for IPO, Updates Nasdaq filing

Dealtime, the Netanya-based high-profile operator of a comparative shopping service on the Web, still has its sights set on going public. The company filed a registration statement with the US SEC last March when it hoped to raise \$50 million through a Nasdaq IPO. Soon after, however, market conditions turned sour, particularly for Internet-related stocks, and Dealtime was forced to postpone its plans.

While market conditions are not necessarily better than they were last year, the need to raise funds is more urgent. Dealtime has amended its filing and hopes to move forward when conditions permit, even though the company's valuation and monies raised will likely be lower than those of last year.

The offering is being led by Robertson Stephens and co-managed by Bear, Stearns & Co., UBS Warburg and Nomura International plc. The number of shares to be sold and their anticipated price range have not been set as yet. Dealtime is expected to appropriately trade under the symbol DEAL.

Dealtime's US-oriented shopping service has been available on the web since June, 1999. It allows consumers to compare brands, models, merchants and prices from among more than 2,000 online merchants and manufacturers of 350 different types of products. The site also offers a feature comparison tool, buying guides, and reviews of products, merchants and manufacturers.

Dealtime has been busy extending its reach beyond the US. In the past 14 months it launched comparative shopping service web sites for the United Kingdom, German and Japanese markets. To date, revenues from international operations have not been a big contributor to total corporate revenues, although they are expected to increase significantly in the future.

Revenue model focuses on merchants

Dealtime's services are free to consumers. Dealtime's service helps merchants and manufacturers through lower customer acquisition costs and increased visibility, as well as through targeted direct marketing opportunities.

The company generates revenues from two main sources: merchant lead generation fees and advertising. Lead generation fees are earned and recognized for accounting purposes each time someone clicks through to a merchant's website from Dealtime's website.

Advertising revenues reflect fees for online advertising, as well as advertising revenue sharing with strategic partners. Most advertising is derived

from short-term contracts under which Dealtime provides a specified number of impressions to be delivered to users over a designated period.

Wide range of competitors

Many web services vie for Dealtime's target market by attempting to match consumers and merchants. Dealtime also indirectly encounters competition from other websites which solicit advertising.

| Competitors |
|---|
| <i>Comparison-shopping services:</i> mySimon, BizRate |
| <i>Store guides:</i> Yahoo! Shopping, ShopNow.com |
| <i>Consumer buying guides:</i> Ecompare |
| <i>Downloadable shopping aids:</i> RUSure, WhenUShop, ClickTheButton |
| <i>Buying groups:</i> MobShop, Mercata |
| <i>Individual online merchants and manufacturers:</i> Buy.com, Amazon.com |
| <i>Auction sites:</i> eBay, Yahoo! |

Losses likely to continue

Losses to date have resulted from investment in research and development, building a selling and marketing infrastructure and the substantial marketing, advertising and branding campaigns. Management expects to continue heavy expenditures in these areas and sees substantial operating losses continuing for the foreseeable future and possibly increasing from current levels.

Several venture firms have holdings

Bertelsmann is Dealtime's largest shareholder with a 16% stake. Other holders include:

| | |
|---|-----|
| Odeon Capital Partners L.P. | 12% |
| Israel Seed II L.P. | 11% |
| Nomura International plc | 10% |
| Nahum Sharfman, board chairman and founder | 8% |
| Amir Ashkenazi, CTO and founder | 7% |
| Israel Infinity Venture Capital Partners L.P. | 6% |
| WaterView Partners L.P. | 5% |
| Bain Capital Integral Investors, LLC | 5% |

Income Statement Highlights (\$000s)

| | 9 months ended 9/30/2000 |
|---------------------------------|-----------------------------|
| Revenues | 3,695 |
| Research & devel. exp. | 6,016 |
| Selling & marketing exp. | 28,922 |
| General & admin. exp. | 8,274 |
| Amortization | 8,902 |
| Total operating expenses | 52,114 |
| Loss from operations | 48,419 |
| Interest income | 3,043 |
| Loss before income taxes | 45,376 |
| Income taxes | 392 |
| Net loss bef. minority interest | 45,768 |
| Minority interest | 147 |
| Net loss | 45,621 |

At the Exit

Verisity Ltd.

Shares to be offered: 3,335,000
 Exchange: Nasdaq
 Proposed Symbol: VRST
 Estimated price: \$8 to \$10/sh.
 Post-offering shares outstanding: 18,053,301
 Estimated market capitalization: \$162 million

Venture-backed Verisity Ltd. is hoping to make its initial public offering on Nasdaq shortly. Underwriters Robertson Stephens, Dain Rauscher Wessels and SG Cowen are expected to sell 3.3 million shares in a range from \$8 to \$10 a share, which will net Verisity approximately \$27 million. Assuming an offering price of \$9, the company's post-offering \$162 million valuation is necessarily more modest than the market might have afforded the shares just one year ago.

Corporate background

Rosh Ha'ayin-based Verisity produces software that automates the process of detecting flaws in the design of electronic systems and integrated circuits. Operations began in 1996. Revenues have risen steadily since then, reaching \$14 million in the nine months through September 2000. In November 1999, Verisity acquired Verisity Design of Mountain View, California, the current location of Verisity's US headquarters.

Verification needs grow as device complexity increases.

The proliferation of increasingly complex electronic devices such as high speed network routers, mobile telephones, PDAs and Internet appliances have created a demand for systems to ensure that the devices operate properly. Integrated circuits (ICs) that comprise these systems are becoming more and more complex, involving a greater number of sophisticated functions than ever before. Moreover, companies that design ICs often integrate off-the shelf design modules into their systems. It therefore becomes necessary to verify that each new system, IC and design module is free from design flaws between specifications and implementation of the design. Functional verification of designs has become so important that between 50% and 70% of development resources for electronic systems and complex ICs are typically devoted to it.

Verisity targets communications market

Verisity's products are aimed at automating the steps which determine whether systems and ICs conform to their design specifications. They focus on identifying design flaws that are difficult to detect prior to manufacturing and on automating processes typically performed manually. Verisity's products are

aimed at the communications markets, and provide components for protocols and bus standards, verification methodologies and verification of the integration of IP cores within systems-on-chips.

Top-flight customers

Verisity's main customers are Alcatel, Canon, Cisco Systems, Conexant Systems, Ericsson, Hewlett-Packard, Intel, LSI Logic, Lucent and Texas Instruments.

Further acquisitions may be on the horizon

Verisity management cites an industry analyst who asserts that there are 70 companies selling functional verification tools within Verisity's market segment. The proliferation of companies means industry consolidation is likely. Verisity intends to be one of the consolidators and use part of the offering proceeds to acquire complementary businesses, products and technologies. Industry consolidation may also result in Verisity becoming the target of another company's appetite.

Principal Stockholders

| | |
|--|-----|
| Yoav Hollander | 21% |
| Entities associated with Sequoia Capital | 13% |
| Entities associated with Venglobal Capital | 7% |
| Gemini Israel Fund | 6% |
| Zohar Zisapel | 6% |

Income Statement Data (\$000s)

| | 9 months ended | |
|--|----------------|---------|
| | 9/30/00 | 9/30/99 |
| Revenue: | | |
| License | 9,161 | 4,861 |
| Maintenance | 3,859 | 2,024 |
| Other services | 939 | 751 |
| Total revenue | 13,959 | 7,636 |
| Cost of revenue: | | |
| License | 240 | 125 |
| Maintenance | 1,180 | 1,153 |
| Other services | 299 | 155 |
| Total cost of revenue | 1,719 | 1,433 |
| Gross profit | 12,240 | 6,203 |
| Operating expenses: | | |
| Research & devel., net | 5,405 | 4,263 |
| Sales and marketing | 8,112 | 5,790 |
| General and administrative | 2,560 | 2,063 |
| Non-cash charges related to equity issuances | 734 | 61 |
| Total operating expenses | 16,811 | 12,177 |
| Operating loss | 4,571 | 5,974 |
| Other income, net | 107 | 227 |
| Net loss | 4,464 | 5,747 |

Balance Sheet Highlights (\$000s)

| | 9/30/00 | 9/30/99 |
|----------------------------|---------|---------|
| Cash and equivalents | 14,710 | 10,811 |
| Working capital | 4,666 | 7,944 |
| Total assets | 22,801 | 17,526 |
| Long term obligations | 1,644 | 1,388 |
| Total shareholders' equity | 4,819 | 8,282 |

Funds Raised continued from page 9
interfaces Proceeds from its capital raising will be used for R&D and promoting beta testing.

Commil Ltd., established early last year, completed a \$7 million financing round led by Tamir Fishman Ventures. Other investors included Formula Ventures and Gemini Fund, which led the seed financing Commil develops solutions based on Bluetooth wireless technology to enable the use of standard cellular phones and other handheld devices while indoors, as an extension of public and private data, voice and telephony networks without consuming cellular spectrum. Funds raised are for completing development of the first product line and for the initiation of sales



XMPiE, spun-off from Scitex Corp. in July, 2000, received a \$3.5 million investment from

Jerusalem Venture Partners. XMPiE is about to begin pilot tests of its first product in the personalized marketing field. It has earmarked the funds raised for the completion of product development, implementation of field trials and marketing, distribution and support operations.



Aduva, Inc. secured \$8 million in financing from The Capital Group, Cap Ventures and Evergreen Management, Ltd. and a number of private investors. Founded in 1999, Aduva has developed software technology to automate the administrative management of the Linux operating system for corporate and home users.



Carmel Ventures was the lead investor in Followap's \$10 million fund raising round. Followap's technology enables

wireless carriers to offer branded mobile instant messaging services. Its product connects mobile and PC users, enabling them to communicate and view each other. Other investors in this round included Star Ventures, Koor Corporate Venture Capital and the Israel Corp. The latter two were Followap's first investors.



Mainnet Communications of Kfar Saba received a \$10 million investment from PowerTrust, a Virginia-based utility. PowerTrust will also act as a strategic partner for Mainnet whose technology enables Internet services through electricity lines. The investment was made at a \$350 million pre-money valuation. Several weeks previous to the PowerTrust investment, Germany's MVV Energie AF invested in Mainnet at a \$120 million valuation.

Conference Calendar

February 12, 2001
Wap and Cellular Internet,
Dan Panorama Hotel
Contact: IMIF
Tel. 972-9-743-9302 Fax 972-9-742-8806
Email: frid@mail.netvision.net.il

February 12, 2001
The 3rd Annual Conference of Life Sciences,
David Intercontinental Hotel
Contact: Yifat Tel. 972-3-953-8865, Fax 972-3-952-0694

February 12-13, 2001
Mobile Commerce Conference, San Jose, California, USA
Contact: www.key3media.com/mc2

February 20-23, 2001
The 3GSM World Congress, Cannes, France
Contact: www.gsmworldcongress.com

February 26, 2001 - March 1, 2001
Intel Developer Forum, San Jose, California, USA
Contact: www.key3media.com

February 27, 2001 - March 1, 2001
Tech-Ed Israel, Eilat
Contact: Tel. 972-3-6164483 www.microsoft.com/Israel

February 28, 2001 - March 2, 2001
Media Forum, New York, USA
Contact: www.jup.com

March 2001
Investors Convention II,
Silicone Valley, San Jose, CA, USA
Contact: The Israeli Export Institute,
Eyal Meshulam Tel. 972-3-514-2981 Fax 972-3-514-2881
Email: meshulam@export.gov.il
Or Stadler Tel. 972-3-514-2895
Email: or@export.gov.il

March 6-9, 2001
Comdex IT France 2001, Paris, France
Contact: www.key3media.com

March 13-15, 2001
Comdex Canada West 2001, Vancouver, Canada
Contact: www.key3media.com

March 19-21, 2001
CRM Summit Spring, Chicago, Illinois, USA
Contact: www.gartner.com