In this issue

Departments

Tax Reform: Implications for the VC Industry

In June, the Committee for Tax Reform headed by Yair Rabinovitz, CPA, submitted its recommendations to the Minister of Finance. These recommendations included several tax benefits for the venture capital industry and foreign investors. Some were included in the law enacted by the Knesset on July 31. Other recommendations will likely be accepted by the Israel Tax Authority (ITA), either formally through ITA publications or practically via rulings granted by the ITA. ***Amit Oring*** *and* ***Yael Zafran-Strassman****, taxation specialists at Kost, Forer & Gabbay – Ernst & Young Israel, assess what the Tax Reform Law means for the venture capital industry, specifying which types of tax relief are granted under the new Law and which other tax benefits may be granted directly by the ITA .*

Foreign investors gained some tax relief as a result of the new tax reform law enacted in July. Although not all Rabinovitz Committee recommendations were included in the Law, many of its recommendations appear to have been accepted as policy, which will be announced in the near future by the ITA

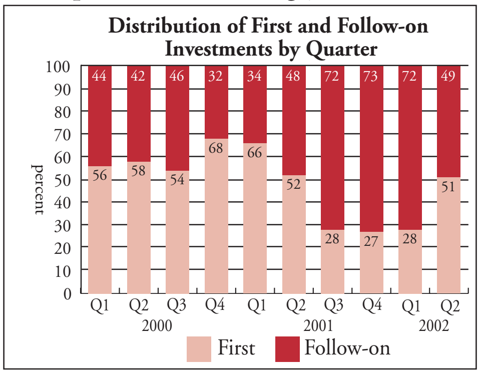
continued on page 20

IVC Research Center Q2 Report - Highlights

VC investments down 23% to $291m, but more companies successfully raise funds

–First investments jump 67%–

Investment in Israeli high-tech companies continued to slide in the second quarter of 2002, as capital raised reached $291 million, a 23 percent decline from the $376 million raised in the first quarter. Interestingly, more Israeli companies were successful in obtaining funds, 91 versus 80, but the higher number helped to lower the average financing round to $3.2 million from $4.7 million. Capital raising in the second quarter compared less favorably (off 43 percent) with the comparable year-earlier period, when 135 companies raised funds.



These and other findings were reported by the IVC Research Center in its quarterly survey of high-tech capital raising activity.

In the first half of 2002, 171 private Israeli high-tech companies raised $667 million from local and foreign investors. This amount is 42 percent lower than the $1.15 billion raised by 289 companies in the first half of

continued on page 22

Managing Editors
Joel Bailey and Tsafrir Bashan
Marketing Manager
Guy Saad and Koby Simana
Graphics
Ronen Meshi and Elizabeth Bleier
Research Department
Racheli Er-el, Director of Research
Doron Rosenbaum, Information Manager

Israel Venture Capital Journal is published by
IVC Research Center
Ramat Aviv Tower
40 Einstein Street
POB 17672, Tel Aviv 61172
Tel: 972-3-640-2339
Fax; 972-3-640-2351
Email: info@ivcj.co.il
Web site: www.ivc-online.com

Foreign Investment Banks Shift Focus

It's far from business as usual for foreign investment banks operating in Israel. Israel had been a prime source of promising technology companies with great ambitions, providing numerous candidates for initial public offerings. But, as the initial public offering market dried up, the investment banking community has been forced to look to other ways of developing business. The task has not been an easy one. The foreign investment banks operating here have had to face a myriad of difficulties including poor economic conditions globally and a concurrent downturn in the local technology industries. Moreover, some of the US investment banks have been beset with problems relating to their investment recommendations and IPO distribution, sparking US government investigations, as well as lawsuits.

Shift in investment focus

Despite the tough business environment, the foreign investment banks operating in Israel have generally been adept at adjusting to the new reality. Where IPO business has fallen off, most investment banks are focusing on other areas – private placements for mid- to late-stage companies, government financings, secondary offerings, privatization issues and financial advisory for mergers and acquisitions.

"In the technology area, Israel mirrors what is happening on Nasdaq, and little can be done about that," contends Jerry Mandel, head of Merrill Lynch's Israel office. "But it's a different situation for mature businesses which have strong fundamentals." He cites healthcare, defense and basic industries as attracting increasing interest from his and other investment banking firms.

"Our focus is on the M&A side," says Salomon Smith Barney's Joel Maryles. "We're advising Israeli companies on purchases abroad, such as the recent acquisition made by Nice Systems. And we're also working with foreign and local firms on acquisitions of Israeli companies."

Are foreign companies bargain hunting in Israel? "There are bargains all around the world," maintains Maryles. "Overseas companies are not fixated on valuations, but are rather looking for technological competence, which is more prevalent here than elsewhere in the world."

Robertson Stephens closes

By and large, the leading foreign investment banking firms are maintaining their Israeli operations. There have been two notable exceptions. The decision by Fleet Boston Financial to exit the investment banking business and close its Robertson Stephens unit, accordingly impacted Robertson Stephens' operations in Israel.

The technology boutique was especially active here a few years ago in the heyday of the new issues boom and was known for its well attended annual investor conferences. Banc of America Securities is another bank that has pulled back its operations, substantially downsizing its Israeli office.

Three types of presence

Foreign banks operating in Israel generally fall into three categories, according to industry analysts. There are those that are part of a global investment banking organization that have established offices in Israel. These have small to medium sized

Merrill Lynch's Jerry Mandel

staffs locally and draw upon the expertise of A third

personnel located abroad, giving a broader perspective to their business approach. Lehman Brothers, Merrill Lynch and Salomon Smith Barney are examples of firms that fall into this category.

Another type of bank may rely on a sizable local staff for all its operations, but doesn't, as a result, necessarily draw on expertise from its foreign operations.

A third type is the informal operation, where one or two representatives are based in Israel, but much of the real investment banking work is conducted abroad. These firms necessarily have more flexibility to raise or lower their involvement in Israel as business conditions change, in comparison to those operating with active local offices. Goldman Sachs and CSFB may be considered in this category.

Above are those investment banks that have an established presence in Israel through their own offices or, in the cases of US Bancorp Piper Jaffray and RBC Dain Rauscher, through active representative offices operated by local investment banking firms.

continued on page 6

continued frome page 4

Foreign Investment Banks Active in Israel

(partial list)

Investment Bank	Web Site	Israel Office Manager	Telephone
Bear Stearns	www.bear.com/bearstearns	Gerald Segal	972-9-951-2770
BNP Paribas	www.bnpparibas.com	Charles Reisman	972-3-525-8686
CIBC	www.cibcwm.com	Eli Shani	972-3-526-2673
Deutsche Bank	http://group.deutsche-bank.de	Boaz Schwartz	972-3-710-2000
HSBC	www.hsbc.com	Michael Israel	972-3-710-1160
ING Barings	www.ing-barings.com	Michel Habib	972-3-566-5614
JPMorgan Chase	www.jpmorganchase.com	Ron Senator	972-3-560-9056
Lehman Brothers	www.lehman.com	Ron Lubash	972-3-623-8600
Merrill Lynch	www.ml.com	Jerry Mandel	972-3-607-2000
Morgan Stanley	www.morganstanley.com	Yair Saroussi	972-3-623-6300
Oscar Gruss	www.oscargruss.com	Adam Parnes	972-3-519-9000
RBC Dain Rauscher	www.rbcdain.com	Tamir Fishman & Co. (representative)	972-3-714-8333
Salomon Smith Barney	www.salomonsmithbarney.com	Joel Maryles	972-3-684-2500
UBS Warburg	www.ubswarburg.com	James Applebaum	972-3-693-0931
U.S. Bancorp Piper Jaffray	www.piperjaffray.com	Nessuah Zannex (representative)	972-3-753-2020

FundScope

BRM Capital returns $100 milion to its investors

BRM Capital has reduced the capital under management in its latest fund to $150 million "in light of changes in the high-tech market," according to the New Jersey-based fund. The fund, which invests in Israel-related companies, had been completed in mid-2000 with capital of $253 million. The move is by no means unique in today's venture industry, which has seen high-profile funds such as **Kleiner Perkins, Accel Partners, Charles River Ventures** and **Mohr, Davidow** return hundreds of millions of dollars to their investors.

BRM's fund has invested some $60 million in eight companies, leaving close to $90 million available for future investment. Most, says BRM, will go to new investments in the software and communications fields. Following the fund downsizing, total assets managed by BRM approximate $250 million.

www.brm.com

SFKT gets nod from Koreans to manage $150m fund

Israel's **Shrem, Fudim, Kelner Technologies** was selected by the Korean Ministry of Communications as international managing partner of **KGIF**, a new venture capital fund. SFKT will co-manage the fund with **KDB Capital** (the Korean Development Bank) and **STIC Ventures** (a Korean VC manager). The Koreans are targeting a $150 million fund, $110 million of which has been raised to date. The fund will specialize in investing in communications and IT, principally in Korea but also in foreign start-ups, although there are no plans to invest in Israel. According to SFKT's Shuki Gleitman, "the Koreans are interested in following the Israeli model of setting up local start-ups, having their management and marketing headquarters in the United States, and issuing on Nasdaq."

www.sfk.co.il

APAX merges European and US operations

Apax Partners has merged its European and US operations. Previously, they operated as separate entities, while working closely together and sharing investment opportunities. Sir Ronald Cohen has assumed the chairmanship of the combined entity, while Alan Patricof is now Vice Chairman. Apax Partners has over 12 billion euro under management or advice.

www.apax.com

Opportunities for Investment in Internet Security

Rami Beracha, Managing Director
Sharon Gelbaum-Shpan, Principal
Pitango Venture Capital www.pitango.com

In the past two years, the security sector has become more visible, gained greater respect and, together with the 9/11 tragedy and other drivers, has gained a sense of urgency. In recent years, the nature of security has undergone a significant change. While traditional enterprise security solutions were regarded as protective, aimed at blocking unauthorized access, the new generation of Internet security solutions is becoming an enabler of new business for the enterprise.

Unlike the more mature enterprise security market, the Internet security market is still in the early stages of commercial adoption. It is lagging behind Internet infrastructure spending by at least two to three years. Companies that spent heavily in building out their networks now have to address their security concerns. CIOs in Fortune 500 companies are placing security as the number one budget item, and more than 62 percent of IT managers said that they plan to increase security spending in 2002.

Key Internet security drivers

A few key drivers can be identified as promoting growth within the Internet security market. Corporate LANs, isolated in the past, fundamentally changed with the advent of the Internet. Suddenly private networks that never had to contend with the outside world were left to fend for themselves. Network administrators are now opening their networks to provide access to their roaming workforces, suppliers and customers that are connecting to the network through a variety of technologies. Each of these communications technologies carries its own security weaknesses. In order to combat potential threats from hackers and other unauthorized users, network administrators are beginning to search for solutions that provide the required level of security.

As industries move their business operations on-line and deploy mission-critical applications over the Internet, the threats become more complex. They require innovative solutions to conduct business safely over the Web as well as to protect the e-commerce application and Web-published content from being altered or abused.

With the deployment of broadband Internet access services which promise "always-on" connectivity, as well as the introduction of Wireless LANs, a whole new set of security challenges arises. This connectivity leaves networks wide open for hackers and other unauthorized users. Add to this the fact that today external traffic running across corporate LANs has increased dramatically, and that remote storage devices are deployed widely, proportionately increasing the potential for a serious security breach.

As security has become a greater concern, traditional security schemes have been unable to meet the new challenges brought about by the emergence of a variety of new technologies. A new generation of security solutions, such as intrusion detection systems (IDS), content security, application security, storage security, virus scanners and similar targeted technologies have been emerging.

> CIOs in Fortune 500 companies are placing security as the number one budget item

The US federal government could also be a key driver in this sector with the government recommending a 56 percent increase in spending in fiscal year 2003 for upgrading network security systems at its various agencies. Not only could government be one of the industry's largest customers, but it may play a major role in determining the direction of technology development within the private sector.

Major issues in the security market

The security market today is extremely fragmented with an abundance of product and vendor choices. Many companies built their security systems by putting together disparate single-point solutions from various vendors, which has proven to be expensive and difficult to manage. The resultant confusion and inability to manage a wide array of products have given rise to a new demand by customers for security solutions that offer greater interoperability, manageability and product integration.

Consolidation is the word being used to characterize the next step in the evolution of the security market. With customer confusion and the growing demand for interoperability and product integration, single solution technology providers (IDS, firewall, VPN etc.) are beginning to look for ways to augment their growth by extending their product offerings and expanding their market opportunity. This can be achieved through the acquisition of newer companies offering sophisticated technologies in other market segments.

Recent acquisitions by large market players such as

continued on page 8

continued from page 7

Symantec and ISS, and additional acquisitions in the pipeline, demonstrate vendor attempts to build a truly interoperable platform for security products through consolidation.

Furthermore, it is believed that other large IT suppliers, such as those that operate in the networking and systems management areas, may choose to enter the security arena as it is one of the few technology sectors that is enjoying steady demand growth. They are likely to enter the market through partnerships with existing suppliers or through acquisition.

Another growing trend emanates from new players offering management consoles targeted at easing the burden of integration, management and interoperability by allowing companies to choose "best-of-breed" offerings in various security segments.

Investment risks in the security market

The security market has thus far managed to survive the current turmoil in the capital markets. While there are some positive prospects driving growth in this sector, there are threats and challenges facing companies that should not be ignored.

The security market is inundated with small, start-up companies developing specific technologies. Oftentimes these technologies provide innovative and exotic solutions. However, IT managers are conservative by nature and are slow to adopt new solutions. They prefer to buy from well-established vendors and system integrators with known brand names. Additionally, they are looking for a one-stop shop solution whereby one company will provide a complete security system. This makes it very difficult for start-up companies to sell directly to the customer.

While these start-ups are creating the next generation security solutions, which may become the mainstream of the future, they have to deal with the very real issue of survival. Raising capital is particularly difficult in today's environment. Start-up companies need to prove market validation through sales. In the security sector, the sales cycle is inordinately slow, even for well-established vendors, let alone for start-ups.

Facing those challenges, start-up companies in the security market are trying to establish strategic partnerships with leading vendors and system integrators in order to sell their products. This is no small challenge, however, because incumbent vendors are not known for 'growth through acquisition' strategies, while system integrators will require a significant market traction as a condition to integration. Add to that the fact that in each market sector there are large numbers of start-ups, creating an inefficient market where supply is greater than demand.

IT managers may be committed to increasing their security spending, but they themselves are facing budget cuts, and security is not a revenue promoter. It is therefore difficult for IT managers to justify expenditures to upper management who are only aware of the need when it affects them directly.

A final word

Looking at the big picture, the Internet security market looks intriguing. The proliferation of new risks and threats ensure that security will remain a dynamic market, creating growth opportunities for public and private companies alike. However, it is vital to look at the details and be aware of the risks inherent in this sector. All told, it is believed that as macroeconomic conditions improve, corporate profitability revives and businesses start spending again, surviving Internet security vendors will be early beneficiaries. ■

Israel sets 'very high bar' for security technologists

Giga Information Group, a Cambridge, Massachusetts technology advisory firm, has recognized Israel's leadership in security technology. According to Steve Hunt, Giga Vice President and an authority in the security field, "Israel has the dual influence of its technologies being superior innovations, meeting the newest technical threats with the most elegant and creative technical solutions, and its innovators setting the bar very high for technologists around the world."

Hunt places Internet security into four basic categories – Authorization (firewalls, antivirus, encryption, proxies, resource access control); Administration (user management, device management, provisioning); Authentication (passwords, tokens, certificates, single sign-on); and Audit (log consolidation, log filtering, reporting, intrusion detection, etc.). He points out that for the first two sectors, Israel is responsible for 30 percent and 20 percent of the total technology available, respectively; while for each of the latter two, Israel accounts for 5 percent. To ensure a high level of global technical innovation and new attack preparedness, Hunt advocates continued aggressive support for Israeli development.

DenX exit by way of Australia

DenX Medical Software Systems will soon be listed on the Australian Stock Exchange through its largest shareholder, which plans to fully acquire DenX stock. An agreement reached in late July calls for **Helm Corporation Ltd.**, which is publicly listed in Australia, to issue additional stock in exchange for the shares of the 70 owners of DenX. Current DenX shareholders, which include venture firms **Alon**, **Israel Seed**, **Persys** and **Vita Life** as well as **Teva Pharmaceutical**, will own 63 percent of Helm after conclusion of the transaction.

Since the acquisition of DenX will mean a change in activities for Helm (it currently has an investment in a biotech company), Helm will be required to prepare a prospectus to maintain its Australian Stock Exchange listing. Helm plans to issue new shares at that time enabling it to raise additional funds. Jerusalem-based DenX develops systems for dental training using optic, imaging and simulation technologies. Its newest product for image-guided implants enables dentists to perform implant surgery more accurately and less invasively using 3-D imaging, planning and navigation solutions. DenX sales for 2002 are expected to top $4 million.

www.denx.com

Jacada buys Anota assets to expand product offerings

Jacada Ltd. has purchased the assets of **Anota Ltd.**, a northern Israeli developer of software products that enable businesses to quickly make their applications available on the Web without installing software on the host system or on client computers.

Jacada, which is also based in Israel and trades on Nasdaq, paid $640,000 in its stock, assumed certain liabilities and entered an earnout arrangement based on future Anota revenues. Jacada, which develops software for extending and integrating legacy systems, will now be able to add Anota's complementary technology to its product line.

www.jacada.com

Inktomi acquiring info organizer Quiver

Information retrieval company **Inktomi Corp.** is acquiring San Mateo, California-based **Quiver, Inc.** for $12 million in cash and stock. Quiver, which was co-founded by Israelis Ofer Mendelevitch and Avi Segal, is a developer of information management software that provides an accurate and efficient way to organize, manage and distribute information.

Nasdaq-traded Inktomi expects the Quiver acquisition to strengthen its own product offerings.

www.quiver.com

Polycom acquires MeetU for its Web software

Nasdaq-traded **Polycom** of Pleasanton, California has acquired **MeetU**, a Waltham Massachusetts-based company, for an undisclosed price. MeetU's Web collaboration software, developed in Israel by MeetU's product development staff, has extensive synergies with Polycom's voice and video product lines. Venture fund **Concord Technologies** was an investor in MeetU.

www.polycom.com

Ness acquires Ramat Gan's Shore

Israel's **Ness Technologies** has acquired **Shore Technologies** for some $1 million.

Shore, headquartered in Ramat Gan, develops Web infrastructure for insurance applications. It focuses on serving its primary customer **Swiss Re**, the world's second largest reinsurer. Ness, a major Israeli provider of information technology services, has begun targeting the insurance industry as a key growth market. The Shore acquisition gives it access to the international insurance industry.

www.ness.com

Corporate Investing

AMD, Fujitsu take interest in Saifun as part of larger collaboration

Two major global companies, **Advanced Micro Devices** and **Fujitsu**, have taken a stake in **Saifun Semiconductors.** The investment is part of a package that involves cross licensing of patents, settlement litigation and collaboration on developing future generations of non-volatile flash memory technology. While AMD's investment has not been disclosed by the companies, Globes has reported an AMD investment of $50 million in return for a 10 percent interest in Saifun. Earlier this year, Saifun had sued AMD for patent infringement.

www.saifun.com

Capital Raised

Dune brings in $24m in first round financing

Dune Networks attracted $24 million in its first funding round co-led by **Aurum-SBC Ventures**, **Jerusalem Venture Partners** and **Pitango Venture Capital**. Also participating were **Alta Berkeley Venture Partners** and **Elwin Capital Partners**. Dune is a fabless semiconductor company developing silicon solutions for communication platforms that are used in enterprise backbones, metro dense wavelength-division multiplexing networks, and storage networks. Founded in October, 2000, Dune is headquartered in Agoura Hills, California and has its R&D center just north of Herzliya, Israel.

www.dunenetworks.com

Chip Express cashes in with $16m investment

Chip Express has garnered $16 million in funding from **Wasserstein Venture Capital**, which led its current round of financing. Also participating were **Elron Electronic Industries**, **Needham Capital Partners**, **Newlight Associates, Parker Price Venture Capital** and **UMC**, a manufacturing partner of Chip Express. Chip Express is an ASIC manufacturer serving the electronics industry. The company has raised some $44 million since its founding in 1985. The current proceeds will be used for R&D and marketing, especially in Asia.

www.chipexpress.com

MonoSphere completes $7 million round

MonoSphere has completed second round financing with a $7 million investment led by **Lightspeed Venture Partners** along with **Benchmark Capital**, MonoSphere's seed stage investor. MonoSphere's enterprise management storage systems are aimed at reducing storage acquisition costs, improving resource utilization and increasing application performance. Its principal product is now in the beta stage. Founded in 2001, MonoSphere has its headquarters in Menlo Park, California and an R&D center in Raanana, Israel.

www.monosphere.com

RFWaves adds $8 million to its coffers

Or Yehuda, Israel-based **RFWaves** completed an $8 million funding round led by **Sequoia Capital**. The company focuses on low cost, short range, low to medium bandwidth RF chipsets for wireless applications.

www.rfwaves.com

Can-Fite combats cancer with $10 million injection

Can-Fite BioPharma raised $10 million in its second round of fund raising, led by **Giza Venture Capital**. Also participating were VC funds **Yozma** and **Ascend** as well as several private Israeli physicians. Can-Fite had raised $3.5 million just over a year ago from **Biocom**, **Azritech** and **Mediseed** venture capital funds.

Can-Fite is developing drugs to treat cancer and other diseases. Its lead anti-cancer drug, CF101, is in Phase I clinical trials. Orally administered in the form of a pill or capsule, CF101 does not exhibit toxic side effects typically found in anti-cancer drugs, and protects white blood cells during chemotherapy (myeloprotection). Can-Fite was co-founded by Professor Pnina Fishman of the Rabin Medical Center.

Lambda Crossing adds $7.75 million to 2nd round fund raising

Lambda Crossing received a $4 million investment from **West STEAG Partners**, making its first investment in Israel. Taiwan's **China Development Industrial Bank** (CDIB) and existing investors joined this second tranche of round two financing to boost funds raised to $7.75 million. The company raised $13 million in a first tranche completed in July 2001 in which **Agilent Ventures** and **Young Associates** were new investors. The latest financing brings to $30 million the amount raised by Lambda since its founding in 1999. Located in Caesarea, Israel, Lambda manufactures integrated tunable optical components. Its technology allows for a dramatic reduction in size of optical circuits.

www.lambdax.com

Foxcom Wireless raises capital with Momentum

Foxcom Wireless completed a $9 million financing round led by **Momentum Management**, a late stage venture firm. Also participating were **Eurofund, Discount Capital Markets, Israel Seed Partners, Genesis** and **Apax Partners.** Foxcom Wireless manufactures fiber optic RF communication solutions for the wireless industry and is a key platform provider for the in-building wireless industry. The company has in-building and subway installations in North America, Europe, and Asia. Proceeds will be used by Foxcom for research and development and marketing. The company's facilities are in Lod, Israel and Vienna, Virginia.

www.foxcomwireless.com

Capital Raised

Insurance software firm FIS raises $9 million

FIS Software, a software developer for the insurance industry, raised $9 million in a recently completed financing round. **Genesis Partners** led the round with a $5.5 million investment, while **Giza Venture Capital** provided $3.5 million. The investment brought FIS's post-money valuation to $40 million. Tel Aviv-based FIS has a strong presence in the UK and offices in Spain and France as well. It plans to use proceeds from the financing to expand its marketing activities throughout Europe. Existing shareholders include **Formula Vision Technologies** and **Clal Insurance Company**.

www.fis-eu.com

Passave raises $7m from BRM, Eurofund, Walden

Passave Inc. has secured $7.2 million in its first institutional financing round from **BRM Capital**, **Eurofund**, **Walden Israel** and private investors including **Ray Stata**, founder and chairman of Analog Devices. Passave is a fabless system-on-chip company that is developing core technology for broadband fiber access systems. Funds raised will go towards product development and marketing the company's silicon solution for **Ethernet Passive Optical** Networks. The company, which was founded in early 2001, conducts its marketing activities from Boston and R&D from its facilities in Tel Aviv.

www.passave.com

Traiana brings in $10m in Sequoia-led financing

Traiana, Inc. has raised $10 million from lead investor **Sequoia Capital** along with Tennessee-based **Eastman Chemical Company** and previous investors **Gemini Capital Fund Management** and **Evergreen Partners**. Traiana provides banks, brokers, dealers, futures commission merchants and corporations with customer and counterparty transaction processing software. Traiana was established in 2000 and has its headquarters in New York City with a development center in Ramat Gan, Israel.

www.traiana.com

InfoCyclone secures $7 million to tackle database bottlenecks

InfoCyclone has raised $7 million in a financing round led by **Tamir Fishman Ventures** and Germany's **West STEAG Partners**. Seed round investor **Gemini Israel** also participated. InfoCyclone, founded in September 2000, provides data search and retrieval devices to process numerous simultaneous information requests at extremely fast speeds in enterprise, Web and cellular applications. The funding is intended to boost marketing activities of the Tel Aviv-based concern in the US and Europe. For West STEAG, InfoCyclone is its third investment in Israel. The German fund expects to close on another Israeli investment in the near future.

www.infocyclone.com

BrainsGate gets seed for drug delivery to CNS

BrainsGate closed a $4 million seed round led by **Pitango Venture Capital** and **Alice Ventures**. **Shrem Fudim Kelner Technologies** and **Infinity Venture Capital** also invested in the round. BrainsGate will be developing technology to overcome the difficulties that drugs have in penetrating the blood-brain barrier, which stifles treatment of CNS disorders. Ra'anana-based BrainsGate will use the funding for development and initiation of clinical trials.

Actona raises $7 million

Actona Technologies (formerly VersEdge) secured $7 million in second round financing from **Sequoia Capital, Evergreen Partners** and **Fantine Group**. Actona provides solutions for extending storage and applications over Wide Area Networks. Funds raised will go towards R&D and expansion. Actona is based in Los Gatos, California with offices in Haifa.

www.actona.com

ProSight attracts new funding

ProSight Inc., a provider of IT portfolio management software, secured $8.2 million in the first closing of its third round of financing. **Giza Venture Capital** led the round and was joined by existing investors, **BRM Capital**, **Prism Opportunity Fund** and **Sequoia Partners**. The new investment brought **ProSight's** total funding to $36.2 million.

ProSight software enables organizations to effectively oversee and manage IT investments, resources and performance. Its customers include AXA Financial Services, Baxter Healthcare, Ford Motor Company, the US Internal Revenue Service, and Snap-on Tools. The company, headquartered in Portland, Oregon, was founded in 1998.

www.prosight.com

Companies Raising Capital

Company: Activebase
Field: Enterprise software
Contact: Alon Rosenthal
Tel: 972-54-480-084
Email: alonr@active-base.com

Company: Active Cool
Field: Semiconductors, electronics
Amount: $2 million
Purpose: R&D, production, marketing
Contact: Ronen Meir
Tel: 972-54-445-077
Email: ronen@activecool.com

Company: Ad4ever Interactive Technologies
Field: Media
Amount: $3.5 million
Purpose: Marketing, sales
Contact: Sivan Tafla
Tel: 972-3-612-8811, ext. 207
Email: sivan@ad4ever.com

Company: BioShaf Ltd
Field: Medical diagnostics
Amount: $2 million
Contact: Dr. Shafrira Shai; Idan Barak
Tel: 972-4-820-7801, ext. 3
Email: shafrira@bioshaf.com

Company: Commodio
Field: Software
Amount: $1 million - $2 million
Purpose: Marketing, sales
Contact: Ramy Metzger
Tel: 972-9-764-3764
Email: ramy@commodio.com

Company: Expand Networks
Field: Networking devices
Purpose: Sales, marketing
Contact: Zohar Pearl
Tel: 972-3-766-8003
Email: zohar@expand.com

Company: Gallery IP Telephony, Inc.
Field: Telecommunications
Amount: $5 million
Purpose: Sales, support
Contact: Avihai Degani, CEO
Tel: 972-54-963035
Email: avihai.degani@g-ipt.com

Company: Lean-ex Ltd.
Field: Diet drug
Amount: $2 million
Purpose: Clinical trials
Contact: Dr. Avner Shenfeld
Tel: 972-55-440-551
Email: shenfeld@lean-ex.com

Company: CommerceMind, Ltd.
Field: Internet software
Amount: $2.5 million
Purpose: International sales
Contact: Esther Amir, Marketing Manager
Tel: 972-9-764-2008
Email: eamir@commercemind.com

Company: Mango DSP Ltd.
Field: Telecommunications/Semiconductors
Amount: $3 million
Purpose: Business development
Contact: Ilan Hadar, CFO
Tel: 972-2-532-8706
Email: ilanh@mangodsp.com

Company: Network Privacy Inc.
Field: Internet security
Amount: $2 million
Purpose: Marketing, sales
Contact: Avi Rose
Tel: 972-9-957-9795
Email: avi@networkprivacy.com

Company: NTR Visual Technologies
Field: Financial software
Amount: $2 million
Purpose: Expansion overseas
Contact: Shlomi Ziv
Tel: 972-3-562-7672
Email: sziv@ntr.co.il

Company: Redmatch Ltd.
Field: E-recruitment software
Amount: $5 million
Purpose: Marketing
Contact: Daniel Avidor
Tel: 972-3-938-8422
Email: davidor@redmatch.com

continued on page 18

Raising Capital? **List your company in our next edition.**
Send an email with relevant details to: editor@ivcj.co.il

Companies Raising Capital

continued from page 14

Company: SkyBot Ltd.
Field: Robotics
Amount: $2 million
Purpose: Sales, marketing
Contact: Niv Sofer, CEO
Tel: 972-3-687-2188
Email: skybot@netvision.net.il
Website: www.skybot.co.il

Company: Tadlys Ltd
Field: Wireless communications
Amount: $8 million
Purpose: Business development, marketing
Contact: Jonathan Monin
Tel: 972-8-936-6641, ext. 202
Email: monin@tadlys.com

Company: Vascular Technologies Ltd.
Field: Medical devices
Amount: $1.5 million
Purpose: Development, marketing
Contact: Eli Matalon
Tel: 972-8-930-1822
Email: matalon@vascular.co.il

Raising a new Israeli fund: Opportunities and Challenges

Many of Israel's well-established venture funds have postponed new capital raising efforts to what they feel is a more propitious time – when market conditions are more conducive. In spite of the difficulties, a new group under the name Equip Ventures is hoping to put in place a seed/ early-stage fund with a strong Israel focus. David Waxman, an Equip General Partner, spoke with IVCJ about the challenges of raising a new Israel-oriented fund.

There is no question that the barriers to raising a new fund are high in the current environment. Yet, they are not impossible to breach with the right combination of people, experience, focus and drive. Accordingly, even though we face significant challenges, we are "giving it a shot."

First, let me discuss the opportunity that we see. The timing for starting a new venture fund is, in many respects, ideal. Valuation expectations of entrepreneurs are way down, while at the same time we're finding that entrepreneurs are more experienced and effective. They have the experience of previous ventures and have gained insight and maturity from having gone through a boom and bust cycle. Additionally, there is a significant early-stage funding gap, especially here in Israel, as top tier entrepreneurs are finding capital in short supply and established VCs are very focused on their current portfolios.

Accordingly, our thesis calls for us to assemble a team with the right mix of high-tech management and investment experience; invest in very early-stage companies that are below the radar screen and whose milestones are not dependent on the capital spending downturn; work closely with the portfolio companies by applying strong operational discipline; and leverage our personal relationships with US VCs to obtain required subsequent round funding. Accomplishing this, we would be in a position to scale our innovative next-generation technology companies when pent-up IT spending releases a couple of years down the road. As a result, a window of opportunity for potentially superior returns exists for small, focused funds that can seek out early-stage ventures.

The team we have assembled maps very well to this strategy with the experience, expertise and relationships required to execute it. Nevertheless, especially in this risk-averse environment, there is still resistance by investors to participating in first-time funds. Investors place a strong premium on previous institutional track records. By definition, though, a first-time fund will only have the track records of the General Partners' prior endeavors. No matter how good a story and strategy GPs may provide, this is a challenge difficult to overcome in this market.

An Israel-related fund has an extra element of challenge due to the security situation. The images of violence shown in the media are dissuading investors from traveling to Israel. While that makes it more difficult to bring LPs on board, it enhances top tier deal flow opportunities for those VCs willing to invest in Israel now. Fundamentally, Israel's technology industry is less influenced by any domestic difficulties than by factors affecting the global tech economy. Accordingly, the security situation creates a "perceived risk arbitrage opportunity" for institutional investors who invest in vintage 2002/2003 Israel-related VC Funds. The challenge is to provide them with some degree of comfort regarding the long-term effect of security situation, which is where local institutional investor participation can be very helpful.

While these challenges are significant, we at Equip view Israel as an ideal market to invest in and develop next generation technology companies that will emerge as sustainable, profitable companies in the second half of this decade. While it certainly would be a lot easier to raise a fund in two years, we are willing to take on this very tough financing environment head-on and attempt to establish ourselves at what we view as an ideal time – when most others are sitting out the market.

David Waxman lectures on venture capital financing at New York University, while forming and raising capital for Equip Ventures. Waxman has a mix of entrepreneurial and VC experience. He was a co-founder and CEO of two technology startups, CompassWare and Giftworld.com and served as Entrepreneur-in-Residence at Sevin Rosen-backed Silicon Alley Seed Investors, an early-stage VC. Waxman's partner, Mark Goros, has 30 years of high-tech operating and entrepreneurial experience in Silicon Valley companies. He was an executive at Oracle in the 1980s and a co-founder of Broadvision.

Equip Ventures is currently raising a fund of up to $75 million. It will focus on next-generation communications, software and security technologies, areas in which Waxman and Goros – as well as Equip's ten member advisory board – have considerable experience. Equip plans to make seed and first round investments in start-ups originating in Israel and in California, with an emphasis on the San Diego region.

dwaxman@equipventures.com

Tax Reform continued from page 3

further to discussions to be held with the Israel Venture Association (IVA).

Tax benefits recommended by the Committee for Tax Reform

The Committee for Tax Reform, headed by Yair Rabinovitz, recommended the following in regard to foreign investors in Israeli VC funds:

- that the temporary policy (announced September 24, 2001 by the Minister of Finance) granting foreign investors in Israeli venture capital funds tax exemptions on investments made subsequent to September 24, 2001 become permanent policy.
- that there be a reduction in conditions to qualify for the foreign investor tax exemption. For example, a reduction in a fund's minimum capital investment is recommended. The current minimum is $20 million.

The tax exemption that was granted under the new policy and the above recommendations were not included in the Tax Reform Law. Obtaining a tax ruling is still a requirement to qualify for the tax exemption. However, it seems that the ITA is inclined to adopt the proposed changes, and it is very likely that they will be included as directives in professional publications issued periodically by the ITA, as explained below.

Tax relief under the Tax Reform Law

Foreign investors

Two main tax exemptions were provided under the Tax Reform Act:

- A foreign resident will be exempt from tax on capital gains derived from the sale of shares allocated to that foreign resident from the year 2003 onward in an Israeli research and development company in return for the investment. (The definition of "research and development company" is specified under the regulations relating to company mergers).

This provision is of considerable importance both for foreign investors investing in funds that do not qualify for the exemption under the tax policy of September 2001, and for foreign investors that invest in R&D companies directly (and not via VC funds).

- Capital gains derived from the sale of shares listed for trading on a Stock Exchange are exempt from tax.

Foreign investors were also granted potential tax relief by amendment of section 16A to the Income Tax Ordinance. This amendment provides the ITA with the authority to refund tax payments to foreign investors who theoretically can receive credit in their country of residence for taxes paid in Israel, but practically cannot enjoy this entitlement since they carry losses abroad.

Israeli investors

The Law provides for a reduction in the capital gains tax rate in respect to the sale of securities in a private company by Israeli residents. Both individuals and companies will be subject to a 25 percent tax in place of the 50 percent rate for individuals and 36 percent rate for companies.

Issues for IVA/ITA discussion

The Finance Committee, which dealt with the tax reform legislation, agreed that a special forum would be convened to discuss high-tech industry taxation. This forum includes, among others, the Tax Commissioner Tali Yaron-Eldar, Yair Rabinovitz, Knesset member Modi Zandberg, IVA representatives and Ernst & Young as tax consultants for the Knesset High-Tech Committee and the IVA.

The following issues have already been discussed with the ITA:

Defining the nature of income received by VC fund limited partners.

The Commissioner announced that the ITA will issue a formal publication determining that limited partner income will be regarded as capital gains. The implication is that Israeli individuals will be taxed at the rate of 25 percent (subject to the Law's provisions), and Israeli non-profit organizations will be tax exempt.

Granting tax benefits for Israeli investors. Unfortunately, despite a positive attitude of Prime Minister Ariel Sharon, no tax benefits were included under the Law as enacted. The IVA is continuing to raise this issue.

In addition, it was agreed that the following issues will be discussed by the special forum of the ITA and IVA to be convened in the near future:

- Implementation of the new tax policy of September 2001, including preparation of a new list of criteria to qualify for the tax exemption.
- Defining the carried interest as capital gains, as detailed below.

Taxation of carried interest

One of the main issues of concern to VC entrepreneurs is taxation of carried interest. In most countries, carried interest is taxed as income of a capital nature.

The definition of carried income was not set during discussions held between the IVA and the Income Tax Authorities which resulted in the policy of September 2001, nor was it decided through the Tax Reform Law. The definition of carried interest will have implications for entrepreneurs, particularly at this time, due to the new temporary provision in regard

continued on page 23

Trading Places

Chemi Peres has been elected Chairman of the **Israel Venture Association** (IVA). Peres will assume his new position on January 1, 2003, replacing Yigal Erlich.

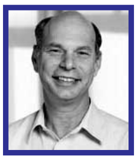
Chemi Peres is a Managing Partner of Pitango Venture Capital. His association with Israel's venture industry goes back to 1992 when he founded Mofet Venture Capital Fund. The IVA, with over 150 members, promotes the venture capital industry through its publications, relationships with the government and creation of networking opportunities. Peres was also one of the founders of the IVA in 1996.

Dror Gonen has joined **Apax Partners** as an Investment Manager covering the Communications and Information Systems sectors. Previously, he worked for Comverse, specializing in unified messaging products. Gonen holds an MBA in Finance from Bar Ilan University and has degrees in Electronics and Physics from the Technion.

Giora Bitan has been appointed Executive Vice President and Chief Financial Officer of **ECI Telecom**. Most recently, Bitan had been at Giza Venture Capital where he was a general partner. Previously, he was with Scitex Corp. as Executive VP and CFO. Bitan holds an MBA from the University of California at Los Angeles and a BA in Economics and International Relations from the Hebrew University of Jerusalem.

Michael Carus and **Laurel Bowden** have been appointed General Partners by **Jerusalem Venture Partners** (JVP). Based in New York, Michael Carus had previously served as JVP's CFO/COO. In his new position, Carus will be seeking new investment opportunities in the enterprise, networking and communications software sectors. Laurel Bowden, who was previously a Principal at JVP, will now manage JVP's European investments from its London office, specializing in communications software, enterprise software and enterprise networking technologies. Bowden holds an undergraduate degree in electronic engineering and an MBA from INSEAD.

Graham Thomas has joined **Cash-U Mobile Technologies** as VP of Strategic Marketing and Content. Previously, Graham had founded and headed mobile games activity at Nokia. Graham was also one of the founders and Chairman of the Mobile Games Interoperability Forum which standardizes technologies that will accelerate the adoption of mobile games in the marketplace. Cash U sells a kit to enable wireless carriers to develop mobile entertainment applications.



Shuki Ehrlich has been appointed Managing Director for Information Technology at **Giza Venture Capital**. He previously had been a Venture Partner at Giza. Before joining Giza, Ehrlich amassed more than 25 years of software industry experience, which includes his having served as Senior VP of Business Development at Amdocs. Ehrlich holds a BSc in Mathematics and Computer Sciences from Tel Aviv University.

Tal Keinan has joined **Giza Venture Capital** as head of the Security Technologies practice. Keinan spent eight years in the Israeli Air Force as an F-16 pilot, instructor and systems officer. He subsequently served on the management teams of two technology ventures in the telecommunications sector. Keinan holds a BA in Strategic Studies from Tel Aviv University and an MBA from Harvard Business School.

Garage Technology Ventures has tapped **Alon Carmeli** to be Vice President of its Venture Finance Group focusing on communication systems and components. Carmeli had been at Terayon where he was responsible for M&A activities and had also previously worked for DSP Communications, LSI Logic and Intel. He has an MBA from Carnegie Mellon University and a BS in Computer Engineering from the Technion.

Robert Barron has joined the board of directors of **PacketLight Networks**. Barron is chairman and CEO of LightCross, Inc., a California-based provider of integrated optical networking components and formerly president of Lucent Technology's Metro Optical Networking Group. PacketLight is expecting to draw on Barron's guidance and industry relationships as its steps up marketing of its own integrated optical transport system for the metro.

Lord Young has been appointed an adviser to **TTI Telecom's** board of directors. He is a former Chairman of **Cable & Wireless** and currently Chairman of Young Associates, a private equity investment firm focused on technology and communication companies. Lord Young will assist TTI in establishing alliances with telecom equipment vendors and system integrators and introduce the firm to telecom service providers in Europe and the Asia Pacific.

IVC Survey continued from page 3

2001. The average financing round per company in the first half of 2002 was $3.9 million, a slight decline from the $4.0 million raised during the previous year's first half.

Israeli VCs show only small dip

Second quarter investments by Israeli VCs at $127 million was off by only eight percent compared to the first quarter, while Other Entities – mostly foreign, but also Israeli non-VC investors – invested $164 million, 31 percent less than in the first quarter. Investments by these Other Entities in financing rounds in which Israeli VCs did not participate increased by 39 percent from Q1 and totaled $43 million.

During the first half of 2002, Israeli venture funds invested $265 million, a 43 percent decline from the same period in 2001. Other Entities invested $402 million in the year's first half, 41 percent less than in the corresponding 2001 period.

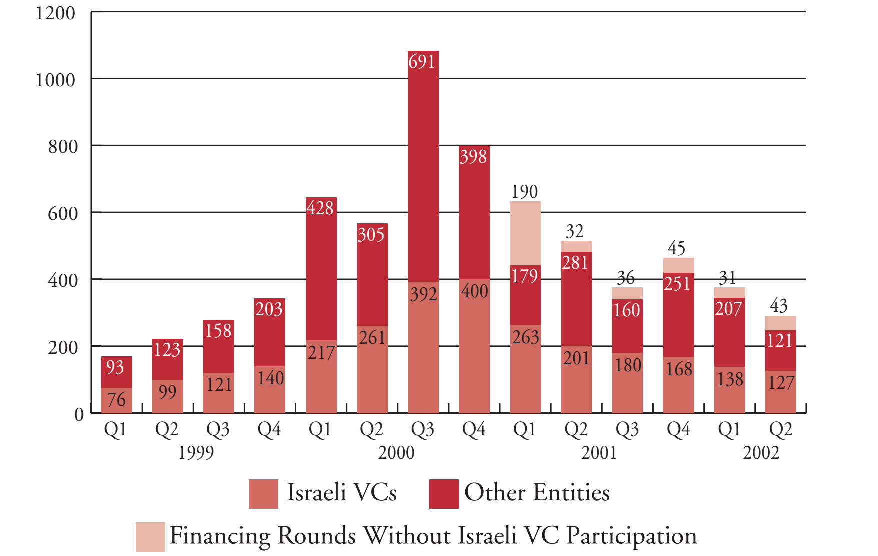
Israeli funds investing proportionately more

The share of Israeli VCs in fund raising rounds in which at least one Israeli fund participated rose sharply to 51 percent in Q2, from a 40 percent share in the prior two quarters. The first half of 2002 and the first half of 2001 show similar shares – 40 percent and 41 percent, respectively.

Funds still go for First investments

In the second quarter of 2002, First investments comprised 51 percent of Israeli VC investments, as in the year-earlier period, but interestingly rose from just 40 percent in the previous two quarters. First investments totaled $65 million, a 67 percent increase from the first quarter. Follow-on investments, which were 49 percent of investments in Q2, totaled $62 million – a 37 percent decrease from the previous quarter. The average First investment in Q2 was $2.3 million, compared to $0.7 million for the average Follow-on investment.

Capital Raised by Israeli High Tech Companies by Quarter ($m)



Less funds flow to Communications

Capital raised by Communication companies totaled $108 million in the second quarter of 2002, down 43 percent from the previous quarter and 54 percent from the same quarter last year. Consequently, Communications drew only 38 percent of total fund raising in Q2, versus 50 percent in Q1. The number of firms raising capital, however, rose slightly to 23 in the second quarter from 20 companies in the first quarter, with the result that the average Communications round was slashed to $4.7 million from Q1's $9.5 million.

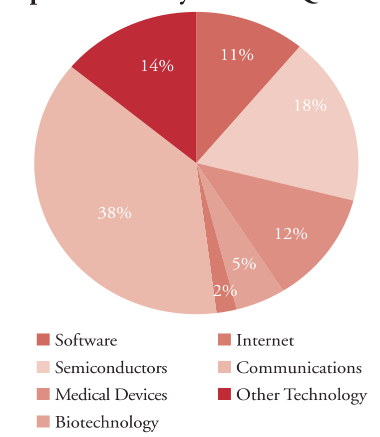
More Semiconductor firms raise less

Ten Semiconductor companies raised $52 million, 28 percent less than the amount raised by six companies in the first quarter, but 79 percent above the total raised by two companies in the corresponding quarter of 2001. The average round slipped considerably to $5.2 million in Q2 from $12.0 million in Q1. The sector's share of capital raised was 18 percent.

Medical Devices get more

Medical Device firms secured $35 million in financing in the second quarter, an increase of 25 percent from the first quarter, although the amount raised was still 26 percent below the same quarter last year. The 17 Medical Device companies that raised capital in the second quarter accounted for 12 percent of capital raised, versus 10 companies in the first quarter

Capital Raised by Sector – Q2/02



that accounted for eight percent. The average financing round declined to $2.1 million from $2.8 million in the first quarter.

Software firms up

Capital raised by Software companies totaled $33 million in the second quarter, 38 percent more than in Q1 2002, but 72 percent less than in Q2 2001. Twenty Software companies attracted 11 percent of the total raised in the second quarter, compared to six percent in the first quarter (19 companies). The average round of Software companies was up to $1.7 million in Q2 from $1.3 million in Q1.

Biotech recovers from dismal Q1

Capital raised in the Biotechnology sector jumped to $16 million in the second quarter of 2002 from $2 million in the first quarter. Seven Biotechnology companies accounted for five percent of the total raised, compared to four companies that constituted one percent of amount raised in Q1. The average round was $2.3 million in Q2 versus $0.5 million in the first quarter.

Internet firms fizzle

The Internet sector experienced a sharp decline in Q2 2002 as seven firms raised a mere $5 million, a 67 percent decrease from the first quarter (ten companies) and 62 percent from the corresponding quarter last year (15 companies). Consequently, the Internet sector accounted for only two percent of the total amount raised in Q2, compared to four percent in Q1. The average round fell 53 percent to $0.7 million in Q2 from the former quarter.

Share of Capital from Israeli VCs

in financing rounds in which at least one Israeli VC participated

Capital Raised by Stage

High-tech companies in this Survey were divided into four categories: Seed, Early Stage/R&D, Mid-Stage/Initial Revenue, and Late Stage/Revenue Growth.

In the second quarter of 2002, Early-Stage/R&D capital raising surged 84 percent from previous quarter levels totaling $145 million. Its share of total fund raising reached 50 percent from 21 percent in Q1. There was a slight increase in amounts raised by Seed companies compared to the first quarter – to $7 million in Q2 from $6 million in Q1. Seed firms accounted for just two percent of capital raised, as it did in the previous quarter. Yet, there is probably a downward bias in the figures due to unreported seed company investments. Late Stage/Revenue Growth attracted just $33 million, but remained at 12 percent of total capital raised in Q2. Capital raised by Mid-Stage/Initial Revenue companies decreased 57 percent from the first quarter and attracted 36 percent of the total, against 65 percent in Q1.

Tax Reform

continued from page 20

to the Social Security Law and the new tax reform provisions.

A temporary Social Security Law, effective July 2002 through 2003, abolishes the tax ceiling, thereby imposing on individuals a higher tax rate with respect to business income (approximately 63%).

The definition of carried interest, in light of the tax reform, might affect how the general partner will incorporate or identify itself – as an individual, an Israeli company or a foreign company.

To conclude, the tax reform took the tax picture for VC investors a step forward. During the past year, the government, as well as the ITA, tried to achieve some tax relief for VC investors to encourage a much-needed infusion of capital into Israel. Still, the tax picture is not explicit enough, but hopefully will become clearer in the coming months when further regulations are established by the Ministry of Finance and the ITA publishes professional directives following its discussions with the IVA.

Bandwiz speeds content delivery

Bandwiz was established in January, 2000 by eleven entrepreneurs and technical experts, among them scientists from Tel Aviv University, the Technion and MIT. Their original mission was to efficiently deliver large amounts of content, namely streaming media, to broadcast satellites.

Company Profile

Bandwiz Inc.

www.bandwiz.com

Meeting growing need

While waiting for the satellite market to have its infrastructure in place, Bandwiz discovered that it could apply its technology to a much larger market – enterprises that had to deliver huge amounts of data to an extensive number of widely dispersed recipients. This market was a rapidly growing one as more and more companies required fast electronic communications with employees, customers and suppliers, and the hefty files that were typically sent were putting overwhelming pressure on corporate intranets, consuming precious network bandwidth.

Speeds information through organizations

Bandwiz developed what it calls its InformationDelivery Suite, enabling large files – audio, video, documents, images, presentations, PDFs, software applications, and spreadsheets – to be securely sent throughout an organization at a small fraction of the speed of alternative methods. InformationDelivery uses peering technology for intelligent routing. A document that requires distribution to 100 recipients, for example, needs to be sent only once, in order reach the targeted recipients, thereby avoiding network saturation.

Huge corporate market

The market for content delivery systems is huge. Just about any major organization that has needs to rapidly send documents to dispersed sites or employees, particularly a sales or service force, is a potential customer. Insurance companies are prime targets of Bandwiz marketing, as policies, files and documents frequently need to reach branches, agents and employees without delay. Bandwiz marketing efforts are also being directed to other financial services organizations, the pharmaceutical industry and manufacturing industries. Initial Bandwiz sales efforts, directly and through integrators, are being focused on the US, particularly southern California and the Northeast where the market is most concentrated.

Software-based solution is a competitive advantage

Bandwiz has competition from several companies. However, a significant competitive advantage is that its system is entirely software-based in contrast to the hardware or hardware/software-based systems of others. Customers of Bandwiz therefore are spared pricey hardware purchases as well as installation and maintenance costs and the risk of hardware obsolescence.

Future directions

Content management is seen as one of the major concerns facing organizations in the future. Bandwiz hopes to direct its resources to coping with content management issues and solving infrastructure technology problems enterprise-wide.

Prestigious investors supply $17m institutional round

Seed capital of approximately $1 million was raised from Bandwiz founders. Late in 2000, Giza Venture Capital, GE Capital and Soros Private Equity Partners provided the company's first institutional funding round with an investment of some $17 million.

Entrepreneurial management

Haim Neerman

Bandwiz CEO Haim Neerman was one of the company's original founders. He had previously established and was CEO of Actil Ltd., a software firm focused on power electronics and electromagnetic compatibility. He is joined by Daniel Sapir, who heads up marketing and business development. Sapir, a specialist in database management, business intelligence and content delivery networks, had previous experience with Informix Software and Data General.

Two software products, DeliverIt and CastIt comprise the Bandwiz Information Delivery Suite. DeliverIt is a centrally managed software-based solution specifically designed to address bandwidth limitations of enterprise networks. It requires only a single server that is integrated into a company's existing network environment, supports any content, can be deployed on any IP network and requires no investment in additional computing or network resources. It maximizes existing network utilization, enabling all employee PCs to act as virtual delivery servers.

CastIt enables rich content distribution through a single broadcast stream, thereby reducing bandwidth requirements. It utilizes bandwidth optimally on any kind of network, especially satellite networks, and works reliably on very noisy or congested networks.

On the starting line

The private sector biotechnology incubators are waiting for final approval. Their purpose is to give Israel an updated image as a biotechnology power. These specialized incubators will be more businesslike, market-oriented, and responsive.

Aviva Mishmari

Israel's biotechnology incubators were born in an item in the report of the Monitor committee set up to determine and realize the country's biotechnology potential. Submitted to the Ministries of Finance and Industry and Trade in February 2001, the report recommended measures to streamline biotechnology transfer from the universities to the world of commerce. The committee found that the state's traditional incubator program was inadequate to preserve Israel's relative advantage in the field. A new private sector incubator model was required that would meet the demands of efficient, profitable activity.

As a result, in December 2001, the Office of the Chief Scientist at the Ministry of Industry and Trade published a tender to operate two biotechnology incubators. A month ago, in the wake of the storm over the results of that tender, the Ministry published another tender to operate a third incubator in Israel's outlying areas. The winners of the first tender, Ofer Brothers and the Zisapel brothers, announced they would establish their incubators in Rehovot and Jerusalem, respectively.

The Rad Bioscience consortium, headed by Yehuda and Zohar Zisapel, includes German pharmaceutical giant Merck KgaA, venture capital firms Star Ventures and TechnoVentures Management (TVM), investment banks US Bancorp Piper Jaffray and CE Unterberg Towbin, and Scientia

Photography: Karmit Shai

Zoar Zisapel

Health Group Ltd. The Rad-Ramot Biomedical incubator, which currently operates in Tel Hashomer in collaboration with Tel Aviv University, will move to Jerusalem.

Although they head the consortium, the Zisapel brothers will apparently let the experts manage the business. Zohar Zisapel earlier described to IVCG the degree to which he would be personally involved in the incubator's managerial decision. "A board of directors will manage the incubator, and it will make the decisions. Personally, I'll be a little less involved. We don't understand this field very well. We understand start-ups, but I can't claim that I understand the life sciences like I understand communications and computers. Our academic committee has 27 advisors, including Nobel Prize laureates. It will be necessary to synergetically combine all their knowledge".

From what is known about Rad-Bioscience's plans, one can conclude that the emphasis of the incubator will be, as always, biomedicine. Rad-Ramot CEO Dr. Vicki Rabenou, who will manage Rad-Bioscience, earlier told IVCJ that four companies would be chosen to set themselves up in the incubator in addition to the companies already based at Rad-Ramot. The new companies will all deal in drug discovery and development technologies. Rad-Bioscience VP Business Development Dr. Uri Elmaliah confirms that medical biotechnology applications will set the tone: drug development, new molecule discoveries, drug industry infrastructure development, etc.

Rad-Ramot CEO Dr. Vicki Rabenou, who will manage Rad-Bioscience, earlier told IVCJ that four companies would be chosen to set themselves up in the incubator in addition to the companies already based at Rad-Ramot. The new companies will all deal in drug discovery and development technologies

Will all the current companies transfer from Tel Hashomer to the new infrastructure in Jerusalem? "No decision has yet been made about the existing companies",

Photography: Israel San

Egall Zisapell

says Elmaliah. "This is not because of the companies – we have good companies. It is a question of what can be transferred and what cannot. In Jerusalem, we'll forme infrastructure to run eight companies".

The riddle is therefore still unanswered. What is certain is that, according to Elmaliah, the transfer to a larger operation will require hiring more managers. The present team is the cadre, but obviously there will be a need to hire more people.

As for Rad-Bioscience's working relationship with international groups, Elmaliah prefers not to provide details at this time. Nor does he care to discuss other aspects of the incubator's future work. "We are establishing an biotechnology incubator as promised in the plan submitted to the Ministry of Industry and Trade. In the context of this plan, our preparations are unceasing, but I don't want to discuss our chickens before they're hatched. The moment we get the green light, and when we sign the contracts with the State, we'll hit the road and put the plan into operation .

One of the reasons the green light has not yet been given is an appeal filed by the Israel Biodiscovery Fund after it was notified that it lost the first tender. Elmaliah says the appeal is pending, affecting all the other winners. Nothing has begun openly. "The appeal ostensibly does not affect us, because we won the first tender by a wide margin, but it does have an impact. In any event, all the plans are ready, and we know what we want to do", he says.

Beyond the specific projects of each group, there is a single purpose: to create a new, updated image of Israel as a biotechnology power the biotechnology incubators will be more businesslike, market-oriented, and responsive to market needs

according to Elmaliah, the transfer to a larger operation will require hiring more managers. The present team is the cadre, but obviously there will be a need to hire more people

With all the goodwill in the world, the Ministry of Industry and Trade's wheels turn very slowly. The signs can also be seen with the tender's other winner, the Einav group. Einav comprises Ofer Brothers Hi-Tech and the Yozma Fund, headed by Yigal Erlich. Until now, Ofer Brothers Hi-Tech was involved in incubators through its Ashkelon-based Naiot Technological Center. Naiot will continue business as usual, possibly affiliated with Einav. Other partners in Einav are Biotechnology General (Nasdaq: BTGC); Genzyme of the US; US venture capital company MPM Capital, which specializes in biotechnology and biopharmaceutical companies in the US and Europe; Equity4Life; Harlan Biotech Israel, which supplies research materials and animals for preclinical trials; IMI (TAMI) Institute for R&D of the ICL Group; and The Frenkel Group, a US consultancy firm specializing in biotechnology and pharmaceutical health services.

What is Einav planning to do? As with Rad-Bioscience, it is hard to get answers from Nurit Eyal, who will manage Einav jointly with Naiot CEO Lihu Avitov. Cutting through the government bureaucracy is slow going. In the meantime, Eyal says that the participating start-ups have not yet been chosen, although she knows that suitable candidates must be companies with rich technology pipelines. "They might be pharmaceuticals, tissue engineering, or drug delivery, but also bionanotechnology, stem cells or something else", she says.

Under the tender terms, three companies a year will be chosen for each incubator, which will provide a base of 18 companies after six years.

Einav's workforce will grow in accordance with projects and needs. "Our plans are to finally begin working. We are making preparations to set up the incubator in Rehovot in accordance with the rules, and to begin looking for projects. However, we're working on a very low burner. We're mainly waiting to sign the contract with

the Chief Scientist and begin working", Eyal says.

Einav has already begun working with the international partners in the Ofer Brothers consortium. "For example, we've been working with Genzyme on a daily basis from the beginning. Even though the incubator hasn't yet been established, when I see projects that might interest them, I send them over, and vice versa", says Eyal.

Genzyme, like all the pharmaceutical companies involved in the incubator, will have to keep to the well-established rule of the Chief Scientist: aid in the due diligence stages, without a commitment to invest. Eyal stresses that the decisions about which companies to bring into the incubator will be taken by the incubator's investment committee, not by the consortium's partners. Each partner will have the right to be involved in the initial process and have the option of a joint investment, but they cannot prevent us from having relationships with any other investor, says Eyal.

Nevertheless, what will be Einav's criteria for investment decisions? Eyal muses out loud, "Preliminary investments might be made through the existing Naiot incubator, and Einav will bring in later stage companies with proven feasibility".

Beyond the specific projects of each group, there is a single purpose: to create a new, updated image of Israel as a biotechnology power. In contrast to the older high-tech incubators, the biotechnology incubators will be more businesslike, market-oriented, and responsive to market needs. Each project will be based in the incubator for no more than three years, before leaving to prove itself on its own. Each start-up will receive maximum financing of $1.8 million. The state will provide a loan for 85% of financing in the first year, which will be reduced to 65% by the third.

Even without knowing how many blockbuster drugs (i.e. drugs with sales of $1 billion a year) will result from Israeli initiatives, their prospects will now be greatly enhanced. By the end of 2005, the current incubator start-ups are due to graduate and enter the world at-large, although this date may be pushed back, due to the recent delays. The presence of international pharmaceutical companies in the incubators' management promises the budding Israeli companies better access to company senior executives, while the pharmaceutical giants will get preferential investment opportunities in the Israeli companies in exchange.

we're working on a very low burner. We're mainly waiting to sign the contract with the Chief Scientist and begin working", Eyal says

Even without knowing how many blockbuster drugs will result from Israeli initiatives, their prospects will now be greatly enhanced

The presence of venture capital funds in the incubators' management will enable the start-ups to develop more sophisticated strategies, and learn how to play in the major leagues from the outset.

The tender for third biotechnology incubator to be established in Israel's outlying areas is in the preparation stage as these lines are being written. Since the only consortium presently participating in the tender is the Israel Biodiscovery Fund, which intends to establish the incubator in the Omer industrial park outside Beer Sheva, it seems that the Negev will be chosen. Prof. Max Herzberg, one of Israel's veteran biotechnology entrepreneurs, and Edmond de Rothschild Venture Capital Management President and CEO Joel Warschawski will head Biodiscovery. Other partners in the consortium include businessmen Stef Wertheimer and Morris Kahn, the Institut Pasteur, and European pharmaceutical companies Aventis, Sanofi, and Bio-Rad Laboratories, and clinical research group Quintiles Transnational Corp. Ben Gurion University of the Negev and Soroka Hospital will place their infrastructures at the incubator's disposal.

The losers also have plans. The fourth participant in the first tender, Lapid Biotechnology, recently announced that it would direct its efforts to setting up a $16 million fund. The consortium's partners include Pitango Venture Capital, Giza Venture Capital, Teva Pharmaceutical (Nasdaq: TEVA), Johnson & Johnson, and Yissum Research and Development Company of the Hebrew University of Jerusalem. It will operate as a venture capital fund. This is good news. Indeed, the past six months has been full of such good tidings. We now must wait for the incubators to begin operating and hope the results will show improvement in the state's handling of biotechnology.

Conference Calendar

September 4, 2002
Journey 2002
Hilton Hotel, Tel Aviv
Contact: Yifat Adoram
Tel: 972-3-953-8851
Email: yifat.adoram@ey.co.il
Web site: http://journey.ey.co.il/

September 17 - 19, 2002
Bear Stearns 15th Annual Healthcare Conference
Waldorf-Astoria, New York
Contact: Bear, Stearns & Co. Inc
Fax: 1-212-272-5326
Email: amon@israeliconsulate.org
Web site: www.bearstearns.com/conferences/healthcare2002

September 18 - 19, 2002
Private Equity Fund Raising 2002
The Crowne Plaza at the UN, New York
Contact: Yvonne Brandau
Tel: 1-212-661-3500, ext. 3705
Email: ybrandau@iirusa.com
Web site: www.iirusa.com/pefund/

September 18 - 20, 2002
Gartner CRM Summit 2002
Sheraton Chicago Hotel & Towers, Chicago
Contact: Ashley Pearce
Tel: 1-203-316-6757
Email: ashley.pearce@gartner.com
Web site: www.gartner.com/us/crm

September 23 - 24, 2002
European Private Equity Deal Flow Summit
Hotel Rey Juan Carlos 1, Barcelona, Spain
Contact: IBC Global Conferences
Tel: 44-1932-893-854
Email: cust.serv@informa.com
Web site: www.ibc-financial.com

September 25 - 27, 2002
TechVenture Asia 2002
Raffles City Convention Centre, Singapore
Contact: Mandy Ng
Tel: 65-64290718
Email: techventure@eventco.com
Web site: techventure-asia.com

October 7 - 10, 2002
UBS Warburg Global Life Sciences Conference
The Plaza Hotel, New York
Contact: Eleanor Neild
Email: eleanor.neild@ubsw.com
Web site: www.ubswarburg.com

October 13 - 15, 2002
Southeast-Israel Medical Technology Business Exchange
Crowne Plaza Ravinia, Atlanta, Georgia
Contact: Sidney Kirschner, American-Israel Chamber of Commerce
Tel: 1-404-843-9426
Email: info@usisraelexchange.com
Web site: www.usisraelexchange.com

October 16 - 18, 2002
Annual EVCA Technology Investment Conference
Princesa Sofia Inter-Continental, Barcelona, Spain
Contact: Joyce Dogniez
Tel: 32-2-715-00-20
Email: joyce.dogniez@evca.com
Web site: www.evca-specials.com/technology

October 28 - 30, 2002
BioMedical Asia 2002
Raffles City Convention Centre, Singapore
Contact: Justin Pau /Anna Hu
Tel: 65-6220-7633
Email: biomedtechasia@hfasin.com
Web site: www.biomedtechasia.com

November 4 - 5, 2002
8th European Investment Forum
Copenhagen, Denmark
Contact: Koby Simana, IVC Research Center
Tel: 972-3-640-2306
Email: koby@ivc-online.com
Web site: www.e-unlimited.com

March 11 - 13, 2003
Bio-Tech Israel 2003
Israel Trade Fairs & Convention Center, Tel Aviv, Israel
Contact: Danny, CONEXPO
Tel: 972-3-514-0088
Email: conexpo@kenes.com
Web site: www.kenes.com/biotech