



Summary of Israeli High-Tech Company Capital Raising Activity Q4 2001 and Full Year 2001

*Total Venture Capital Investments in Israel in 2001 –
at \$2 billion, 36% less than in 2000*

*23% Increase in the Capital Raised by Israeli High Tech
Companies in Q4*

Strong Shift to the Life Sciences

Tel Aviv, January 27, 2002. The following are the findings of the quarterly survey conducted by the **IVC Research Center**, which for more than 6 years has been at the forefront of venture capital research in Israel. This survey, which was conducted with the cooperation of the Israel Venture Association (IVA), reviews capital raised by private Israeli high-tech companies from Israeli venture capital funds and from other investors. The Survey is based on reports from 168 venture investors, of which 105 were Israeli venture capital funds and 63 were other – mostly foreign – investment entities.

IVC Survey indicated that technology companies raised \$2.0 billion in 2001, 36 percent less than the \$3.1 billion raised in 2000. In the fourth quarter of 2001, 120 private Israeli high-tech companies raised \$464 million from local and foreign investors. This figure is 23 percent higher than the \$376 million raised by 117 companies during the third quarter. Of the 120 companies that raised capital in Q4, 106 did so with the participation of Israeli VCs. For the entire year, 526 high-tech companies raised capital, compared to 513 in 2000. The average financing round per company during Q4 was \$3.9 million. This amount was 22 percent above the \$3.2 million average round in the third quarter. However, for all of 2001, a 37 percent decrease was experienced to \$3.8 million from the \$6.0 million of the prior year.

“Q4 data indicate that the rapid decline in high-tech investment in Israel has been halted and Israel’s high-tech industry continues to be an attractive venue for foreign investors”, said Yigal Ehrlich, Chairman of the Israel Venture Association (IVA).

Israeli VC Activity slowed while Foreign Investor Activity Gains Momentum

In 2001, Israeli VCs invested \$812 million, a decrease of 36 percent from 2000. Israeli funds in 2001 invested smaller amounts as the quarters progressed, in contrast to investment activity in 2000. Investments by Israeli funds totaled \$168 million in the fourth quarter, down seven percent from third quarter levels.

Racheli Er-el, Director of Research at IVC, explained that “the source of the increase in capital raised in Q4 was the greater activity by entities that are not Israeli VCs – mostly foreign investors.” Er-el went on to add that these entities invested \$296 million in Q4, 51 percent more than in Q3. Of the \$296 million, \$45 million was invested in financing rounds without Israeli VC participation.

The drop in investments by local VCs in Q4, along with the rise in investments by foreign entities, resulted in Israeli funds accounting for just 40 percent of company fund raising (in rounds in which at least one Israeli VC participated), which compares to 53% in the third quarter. The share of the Israeli VC funding (in the financing rounds with Israeli VC participation) was 48% in 2001, compared to 41% in 2000.

In 2001, a significant decline occurred in “First” investments made by Israeli VCs. They constituted 46 percent of fund investments, compared to 60 percent in 2000. In Q4, the First investments share declined from the third quarter and they constituted just 27% of total fund investments. At the same time, the share of follow-on investments increased to 73%.

Life Science Companies Double Their Share of the Pie

In 2001, **Life Science** companies accounted for 16 percent of total capital raised, double its share of the previous year. Within the sector, 103 companies raised \$310 million, compared to 75 firms that raised \$238 million in 2000. Nevertheless, the average financing round declined from \$3.2 in 2000 to \$3.0 million in 2001. In the fourth quarter, life science firms raised \$95 million, 17 percent more than in Q3.

In 2001, **Communications** once again stood out as the largest recipient of capital with 42 percent of the total, compared to 39 percent in 2000. In contrast to the trend of the first three quarters of 2001, Q4 fund raising increased by 45% from the prior quarter. The average financing round declined to \$5.2 million in 2001, from \$9.1 million in 2000.

In the fourth quarter, **Software** companies raised \$74 million, a 35% increase from the third quarter, but a 49% decrease from the same quarter last year. In 2001, Software companies accounted for 20 percent of capital raised in comparison to 16 percent in the previous year. The average financing round was \$4.1 million in 2001, compared with \$5.7 million in 2000.

The **Internet** industry reached a low point in 2001, attracting only 9 percent of the total amount raised, compared with 30 percent in 2000 and 33 percent in 1999. The

sector raised \$182 million, a decline of 80% from 2000. The fourth quarter, however, was characterized by improved figures in all categories surveyed - total amount raised, number of companies raising capital, average financing round and share of sector in total fund raising - compared to the previous quarter. In particular, capital raised showed immense improvement, jumping 308 percent from Q3 2001.

Seed Stage Investments Account for Just 5% of Capital Raising

High-tech companies in this Survey were divided into 4 categories: Seed, R&D, Initial Revenue, and Revenue Growth. Survey results showed that as in the past two years, R&D companies continued to raise the largest amounts of capital - 40% of total in 2001. Seed companies constituted only 5% of the total fund raising in 2001, compared to 10% in 2000. In the fourth quarter, Seed stage companies raised only \$5 million, a decline of 72% from Q3 levels. The \$189 million in capital raised by R&D companies, however, was up 78% from the previous quarter. "These findings are consistent with last year when VC funds preferred to invest in more mature companies", explained Racheli Er-el.

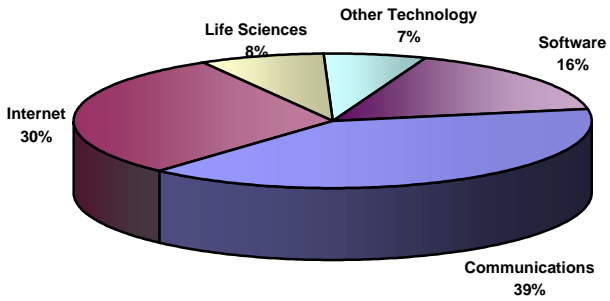
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Among IVC's products and publications are the Quarterly Survey, which examines capital raising trends by Israeli high-tech companies, the bi-monthly Israel Venture Capital Journal (IVCJ), which reviews developments in the venture capital and high-tech industries, and a comprehensive database with over 3,000 Israeli high-tech companies, venture capital funds, investment companies and technology incubators, news updates and more.

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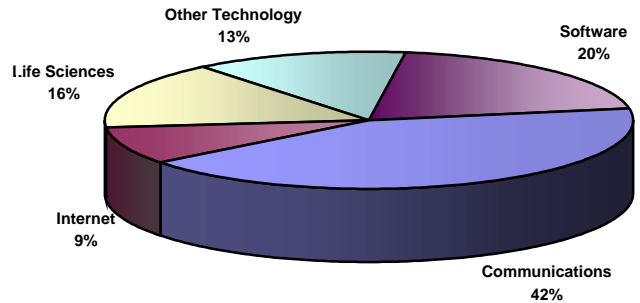
Capital Raised by Israeli High Tech Companies by Sector

Year 2000



Total \$3.1 billion

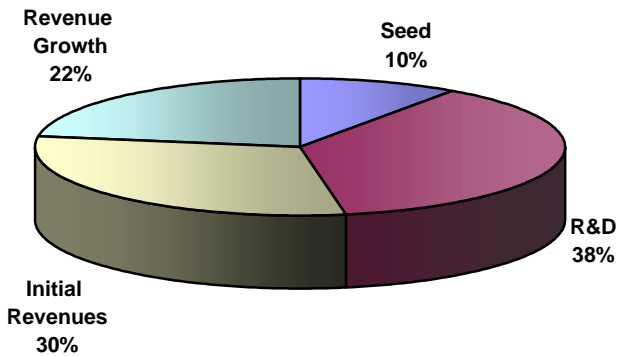
Year 2001



Total \$2 billion

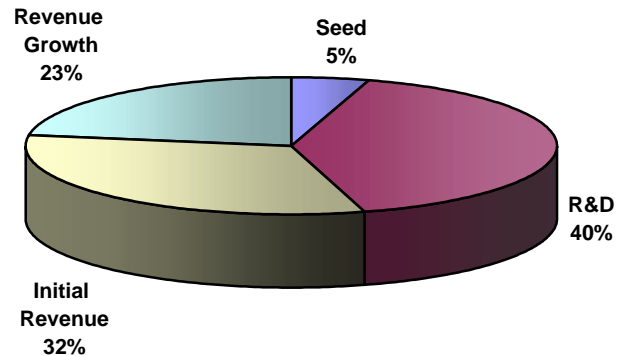
Capital Raised by Israeli High Tech Companies by Stage

Year 2000



Total \$3.1 billion

Year 2001



Total \$2 billion