

IVC – Israel Venture Capital

April 16, 2001

Summary of Capital Raised by Israeli High Tech Companies During the First Quarter of 2001

The trend of decline in the capital raised by companies accelerates:

44% Decline in the Capital Raised by Israeli High Tech Companies in the First Quarter of 2001 compared to the Fourth Quarter of 2000

For the first time in two years, there was also a decline in the amount invested by the Israeli VC

Tel Aviv. The following are the major findings of the quarterly survey conducted by **IVC (Israel Venture Capital)**, which has reviewed the Israeli high-tech industry for 4 years. This survey reviews investments at Israeli high-tech companies, in which at least one Israeli venture capital fund participated. This survey received full cooperation from 87 Israeli venture capital funds, and is based on a comprehensive research report conducted by IVC.

During the first quarter of 2001, 117 private Israeli high tech companies raised \$447.4 million from venture capital investors, both local and foreign (chart 1). This figure is 44% lower than the amount raised by companies during the fourth quarter, which totaled \$797.5 million, and is 31% lower than the amount raised in the same quarter of 2000, which totaled \$645.2 million.

A decrease was also noted in the number of companies raising capital. 117 private Israeli high tech companies raised capital during this quarter, compared to 146 companies that raised capital in the fourth quarter of 2000. The average financing round per company during Q1/01, which totaled \$3.8 million during the first quarter of 2001, was 31% lower than the average financing round during the fourth quarter, which totaled \$5.5 million.

Zeev Holtzman, CEO and Chairman of Giza Venture Capital, said at the time the findings were published that “the combination of the sharp decreases from the foreign investors, as well as from the local investors, should send a signal to the country’s economic policymakers. Only rapid solution of the tax problems might encourage renewal of the foreign investments in Israel”. Holtzman stated that “should Israeli funds, which are currently raising capital, not be able to raise money for the following funds, the crisis is expected to escalate in the coming quarters”.

Israeli VC Investment Activity

During the first quarter of 2001, Israeli VCs invested a total amount of \$262.6 million, 34% lower than the amount invested by the funds in the fourth quarter of 2000 and 21% higher than the funds' investments in the same quarter last year. One should emphasize that this is the first time in two years that Israeli funds decreased their aggregate investment in the companies (chart 1).

The remaining amount raised by companies from sources other than Israeli VCs - \$185M, came primarily from foreign entities. These investors reduced their investments by 54% in comparison to the fourth quarter of 2000.

Eran Mordechai, the Director of research in IVC, explained that “due to the sharp decrease in foreign investment, the share of the Israeli funds out of the total amount raised by companies climbed and reached a peak of about 60% of the capital raised, in comparison to 50% in the former quarter” (chart 2). “This data”, emphasized Mordechai, “signifies that for the first time in two years, the weight of the Israeli funds was higher than that of foreign investors”.

Analysis of Capital Raised by Technology Companies by Sector (chart 3-4)

Communications

Despite the sharp declines in the capital raised within each sector, the communications continues to be the leader in terms of total money raised even in the first quarter of 2001. In addition, its share of the total amount raised was similar to the one noted in the fourth quarter of 2000 – 37% in comparison with 36%. 32 companies from this sector raised \$163.4 million during the quarter, a decrease of 43% in comparison to the former quarter and down to the level of the same quarter last year. The average financing round of the communications companies also decreased and reached \$5.1 million, a 27% fall in comparison to the average of the previous quarter, which was \$7 million.

Internet

The Internet industry, which experienced the steepest fall in capital raised – 57% in comparison with the fourth quarter of 2000 and down to the level it was at in mid-1999. 31 Internet companies raised a total amount of \$82.1 million and attracted only 18% of the funds raised by companies (compared with 24% in the fourth quarter of 2000). The steep decline caused the Internet industry to fall to the third place in raising capital, after it was the most prominent sector in 1999 and the second largest during the last three quarters of 2000. The average financing round of Internet companies was \$2.7 million compared with \$4.8 million in the former quarter, revealing a 44% decrease.

Software

20 software companies raised a total amount of \$112.2 million, a decline of 22% from the fourth quarter of 2000 and an increase of 3% in comparison to the same quarter last year. Due to the comparatively moderate decline in capital raised, software rose to second place in terms of capital raised, after the communications sector, and drew 25% of the total amount raised (compared with 18% in the fourth quarter of 2000). This sector also attracted

the only three large rounds of financing, which were above \$20 million per round. The average round per company totaled with \$5.6 million, in comparison to \$6 million in the former quarter.

Life Sciences

23 life science companies drew 13% of the capital raised in the first quarter of 2001, compared with 9% in the fourth quarter of 2000. The total amount raised in this sector was \$59.9 million, a drop of 12% in comparison to the former quarter and an increase of 40% in comparison to the same quarter last year. The average financing round of life science companies did not change and stood at \$2.7 million.

Analysis of Capital Raised by Technology Companies by Stage (chart 5)

The high tech companies in this research were divided into 4 categories:

1. Seed, 2. R&D, 3. Initial Revenue, 4. Revenue Growth

R&D companies (stage 2) continued to constitute the majority of the financing rounds and attracted 47% of the total amount raised by the companies during the first quarter of 2001 (chart 5). The Initial Revenue companies (stage 3) constituted 25% of the financing round in the quarter, while the Revenue Growth companies (stage 4) and the Seed companies (stage 1) attracted 22% and 6% of the total amount raised, respectively.

All the stages noted declines in the total amount raised and in the average financing round. The number of companies also declined in all the stages, except in the R&D stage, which kept the same level as in the former quarter – 57 companies. The sharpest declines were noted in the Seed stage and in the Initial Revenue stage – 79% and 51%, respectively. The R&D stage and the Revenue Growth stage also absorbed decreases of 33% and 22%, respectively. The average financing round dropped in all stages, showing decreases between 33% (R&D stage) to 44% (Seed stage).

The following are selected charts representing survey findings:

**Chart 1: Distribution of Capital Raised by Israeli High Tech Companies
by Quarter (\$M)**

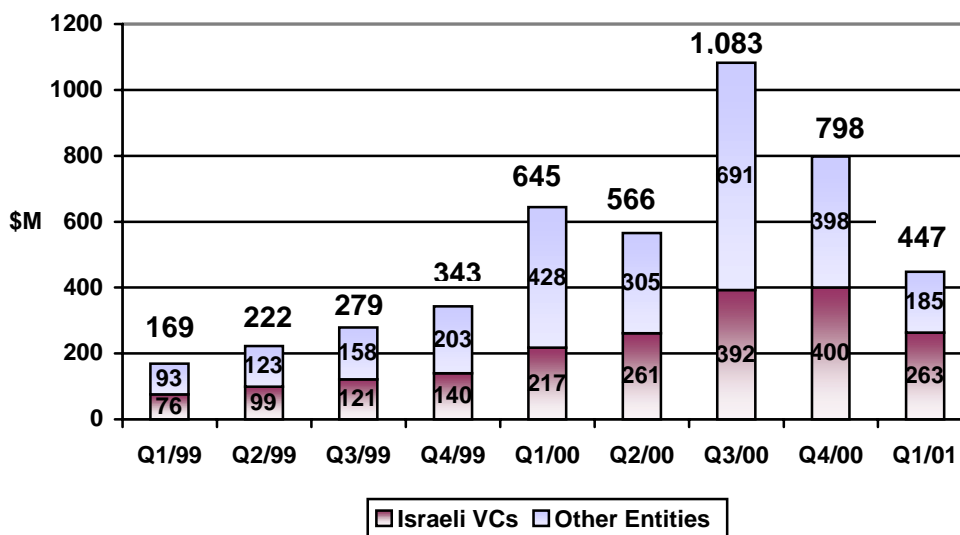


Chart 2: The Share of Israeli VCs in The Amount Raised by Israeli High Tech Companies

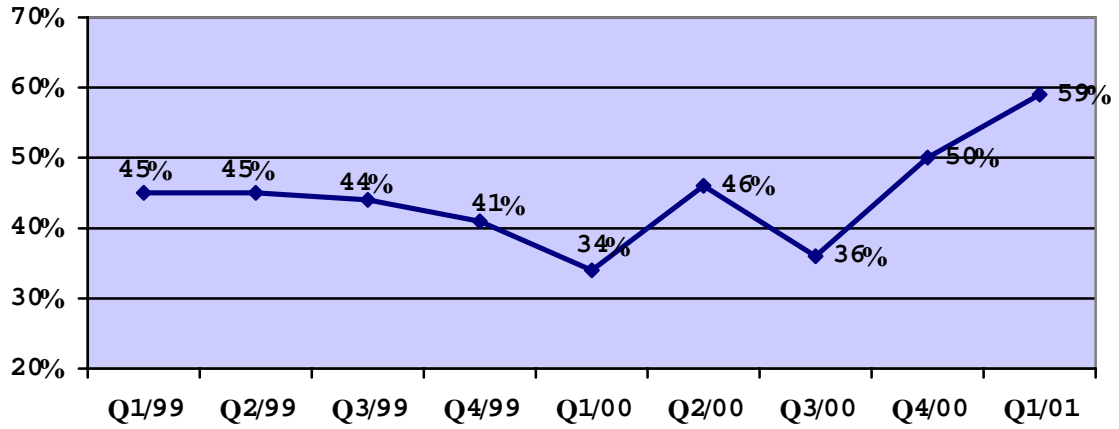


Chart 3: Capital Raised by Israeli High Tech Companies in the Major Sectors (\$M)

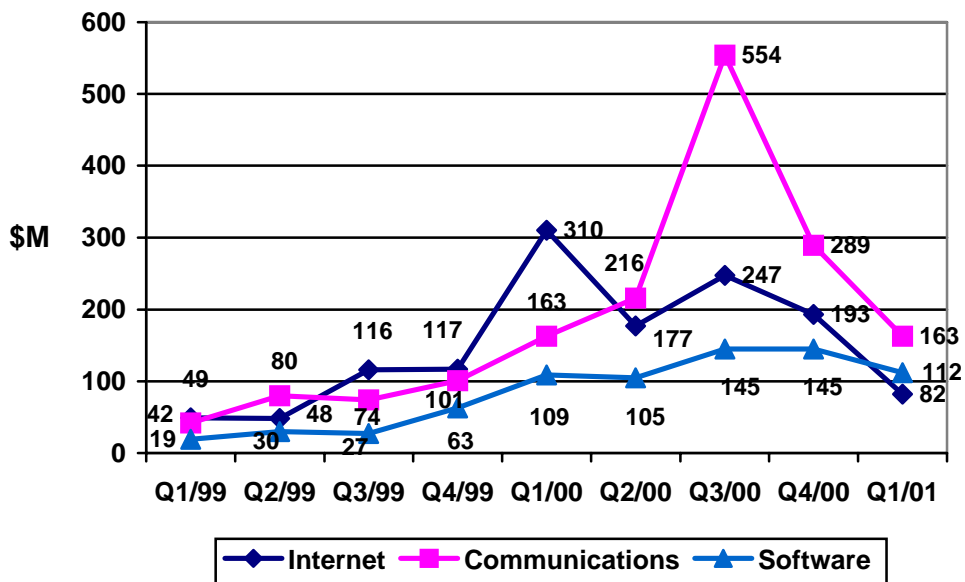


Chart 4: Capital Raised by Israeli High Tech Companies by Sectors

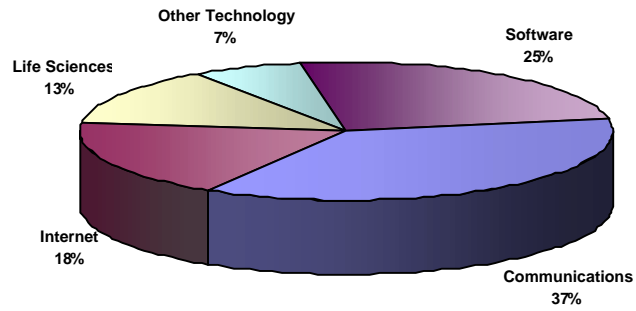


Chart 5: Capital Raised by Israeli High Tech Companies by Stage

