Summary of Israeli High-Tech Capital Raising Activity
Q1 2002

Slowdown in High-Tech Activity in Israel

Total Q1/2002 VC Investments Off 19 percent to $376 million

Three Companies Account for Almost Half of Capital Raised in Quarter

Israeli VCs Maintain Share of Total Fund Raising

Tel Aviv, April 30, 2002. The following are the findings of the quarterly survey conducted by the **IVC Research Center,** which for more than seven years has been at the forefront of venture capital research in Israel. This survey, 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 157 venture investors, of which 98 were Israeli venture capital funds and 59 were other – mostly foreign – investment entities.

The IVC Survey indicated that 79 technology companies raised **$376 million in the first quarter of 2002** from local and foreign investors, compared to $464 million in Q4/2001. The amount raised in Q1/2002 is 19 percent less than raised by 120 companies in Q4/2001 and 41 percent less than in Q1/2001 (154 companies). In 69 of the 79 transactions (87 percent), at least one Israeli VC participated. The average financing round increased by 23 percent to $4.8 million, compared to the 2001 fourth quarter's $3.9 million (chart 1).

The number of large financing rounds – those exceeding $20 million – was reduced from six in the fourth quarter last year to three in the first quarter of 2002. The three large financing rounds of Q1, however, totaled $171 million,* against $148 million raised in the previous quarter. Moreover, the large financing rounds constituted 46 percent of the total amount raised in Q1, compared to 32 percent in Q4.

Investment Activity of Israeli VCs, Foreign Investors and Others

In the first quarter of 2002, Israeli VCs invested $138 million, a decrease of 18 percent from the fourth quarter and 48 percent from the same quarter last year (chart 1).

The remainder was raised from Other Entities – mostly foreign, but also Israeli non-VC investors. These entities invested $238 million in Q1/2002, 20 percent less than in the fourth quarter of 2001. Investments by these entities in financing rounds in which Israeli VCs did not participate declined by 31 percent and totaled $31 million (chart 1).

Racheli Er-el, Director of Research at IVC, explained that “since investments by local and foreign investors declined by similar rates, Israeli VCs continued to supply some 40 percent of total financing in rounds in which at least one Israeli VC participated” (chart 2).

In the first quarter of 2002 the share of First investments barely changed from the two previous quarters, and constituted 28 percent of Israeli VC investments. First investments of the funds totaled $39 million in the first quarter, while Follow-on investments were $99 million (72 percent). The average First investment was $2.6 million, compared to $0.9 million for the average Follow-on investment (chart 3).

Capital Raised by Sector (charts 4-5)

Communications

In Q1, Communication companies increased their share of funds raised to 50 percent from 42 percent in Q4/01. The number of companies raising capital, however, dropped to 20 from 31 in Q4/01. The 20 companies raised $190 million, a 3 percent decline from Q4 and 30 percent from Q1 2001. The small decrease resulted from the two large financing rounds of Chiaro and Atrica*, which totaled $115 million. The average financing round for Communication companies was $9.5 million, compared to $6.3 million in the fourth quarter of 2001.

* Only $35 million was included in this quarter from Atrica. The other $40 million had already been included in fourth quarter figures.

Semiconductors

Six Semiconductor companies raised $72 million, an 8-fold increase from Q4/2001 and 14 times the amount raised in Q1/2001. The sector's share of total capital raised also rose – to 19 percent in Q1/2002 from 2 percent in Q4/2001. The sector's growth is accounted for principally by Mellanox, which raised $56 million. The average round was up to $12.1 million in Q1 from $2.3 million in Q4.

Medical Devices

Capital raised by Medical Device companies declined by 37 percent compared to the fourth quarter of 2001 and by 33 percent compared to the same quarter last year and totaled $29 million. Ten Medical Device companies (19 in Q4/2001) constituted eight percent of the capital raised, compared to ten percent in Q4. The average round rose to $2.9 million in Q1 from $2.4 million in Q4.

Software

Capital raised by Software companies totaled $24 million in the first quarter, 68 percent less than in Q4/2001 and 84 percent less than in Q1/2001. Nineteen Software companies attracted 6 percent of the total raised in Q1, compared to 16 percent in Q4. The average round of Software companies was $1.3 million, just a third of the average round in Q4/2001.

Internet

The Internet sector accounted for only 4 percent of the total amount raised in Q1, after constituting 11 percent in Q4/2001. Ten Internet companies raised $15 million, compared to 18 Internet companies that raised $49 million. The average round at $1.5 million decreased by 45 percent from the previous quarter.

Biotechnology

In the first quarter, the Biotechnology sector dropped by 95 percent compared to Q4/2001 and by 92 percent compared to Q1/2001. Four companies raised only $2 million in Q1, which constituted just 0.5 percent of the total amount raised in the quarter. The average round per company was $0.5 million, versus $3.5 million in 2001's fourth quarter.

Capital Raised by Stage (charts 6-7)

High-tech companies in this Survey were divided into 4 categories: Seed, Early Stage/ R&D, Mid Stage/Initial Revenue, and Late Stage/Revenue Growth.
In the first quarter of 2002, a slight increase was seen in amounts raised by Seed companies, compared to the fourth quarter of 2001 – to $6 million in Q1 from $5 million in Q4. Seed company share of total fund raising did not change appreciably at 2 percent of the total amount in Q1, compared to 1 percent in the previous quarter. Mid-Stage/Initial Revenue companies raised $246 million, a 41 percent increase compared to Q4/2001 with its share of the total fund raising jumping to 65 percent

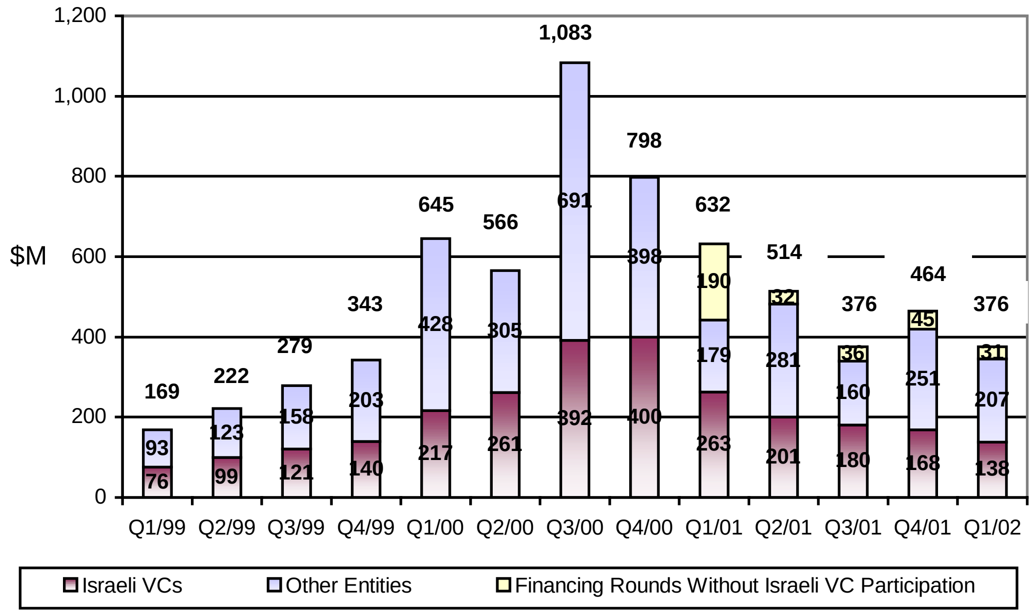
from 37 percent in Q4/2001. Amounts raised by Early Stage/R&D declined to a low of $79 million and constituted only 21 percent of the total amount raised. Late Stage/ Revenue Growth companies declined by 53 percent from Q4/01 and attracted 12 percent of the total amount raised.

IVC *is Israel's leading Venture Capital/High-Tech research center, providing analysis of trends and developments. IVC publications and services are regularly used throughout Israel and abroad by venture capital funds, private investors, high-tech companies, financial investors and institutions and public entities including the Prime Minister's office, the Central Bureau of Statistics, the Bank of Israel and the Chief Scientist at the Ministry of Industry and Trade. IVC cooperates with the Israel Venture Association (IVA), and together they publish the IVA Yearbook, the most authoritative and comprehensive publication on Israel's venture capital industry, which includes a wealth of data on Israeli VCs and their portfolio companies.*

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.

For questions and additional details, please contact Racheli Er-el, Tel: 972-3-640-2367, Email: racheli@ivc-online.com

Chart 1: Capital Raised by Israeli High Tech Companies by Quarter ($m)*



* From Q1/2001 the data include financing rounds without Israeli VC participation.

Chart 2: Share of Capital Raised from Israeli VCs

in financing rounds in which at least one Israeli VC participated

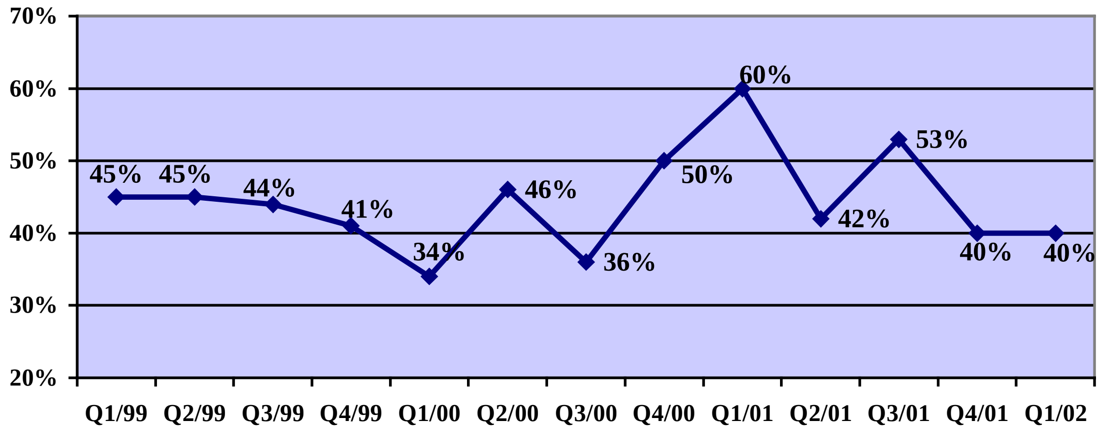


Chart 3: Distribution of First and Follow-on Investments by Quarter

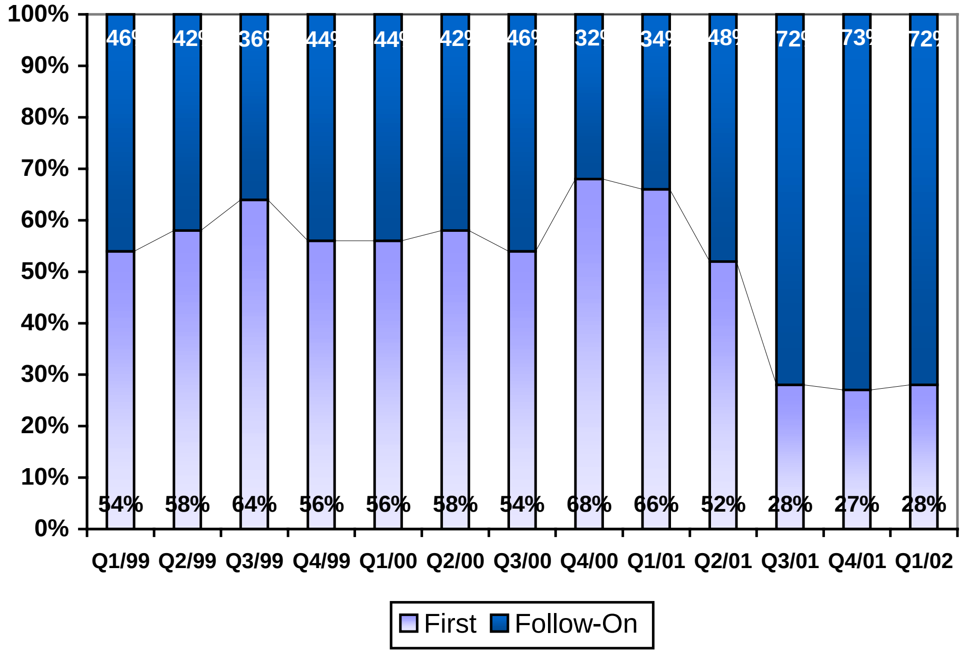


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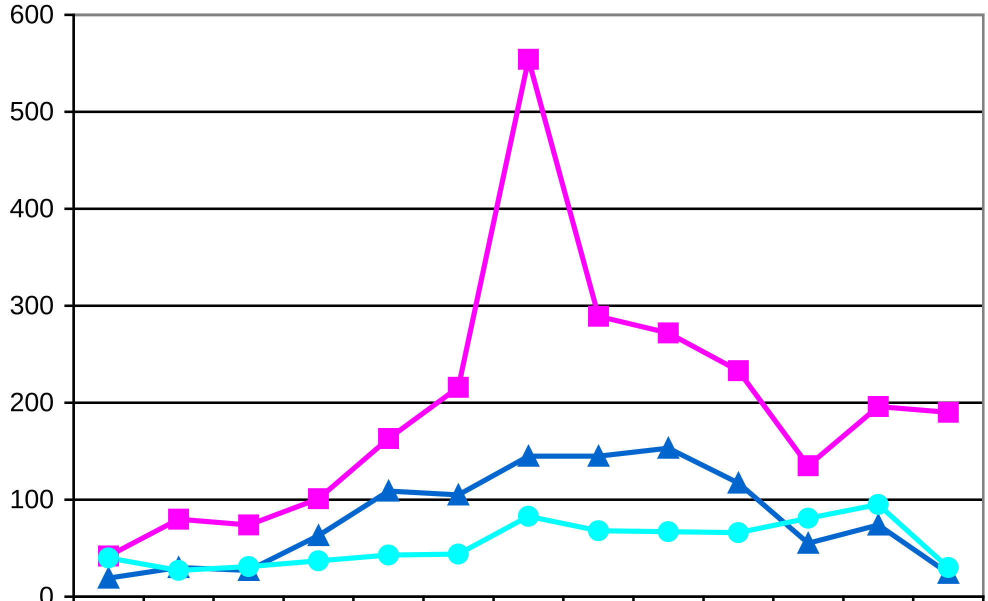
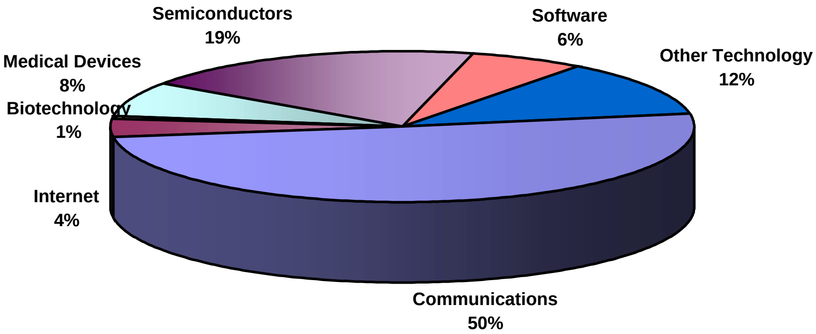
Chart 4: Capital Raised by Major Sector ($m)



	Q1/99	Q2/99	Q3/99	Q4/99	Q1/00	Q2/00	Q3/00	Q4/00	Q1/01*	Q2/01*	Q3/01*	Q4/01*	Q1/02*
Communications	42	80	74	101	163	216	554	289	272	233	135	196	190
Software	19	30	27	63	109	105	145	145	153	117	55	74	24
Life Sciences	40	27	31	37	43	44	83	68	67	66	81	95	30

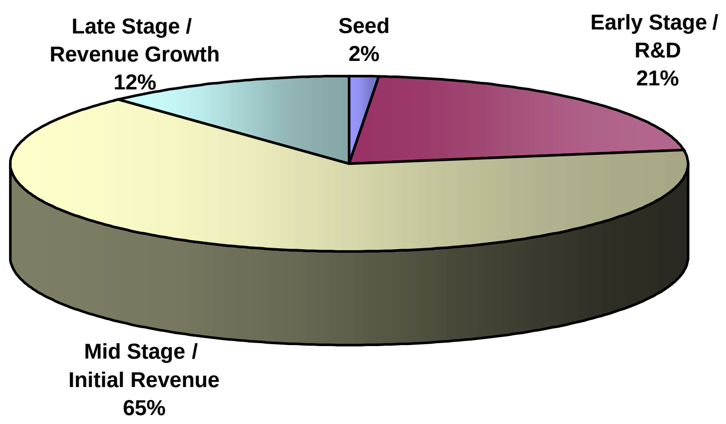
* Includes financing rounds without Israeli VC participation

Chart 5: Capital Raised by Sector* – Q1/02



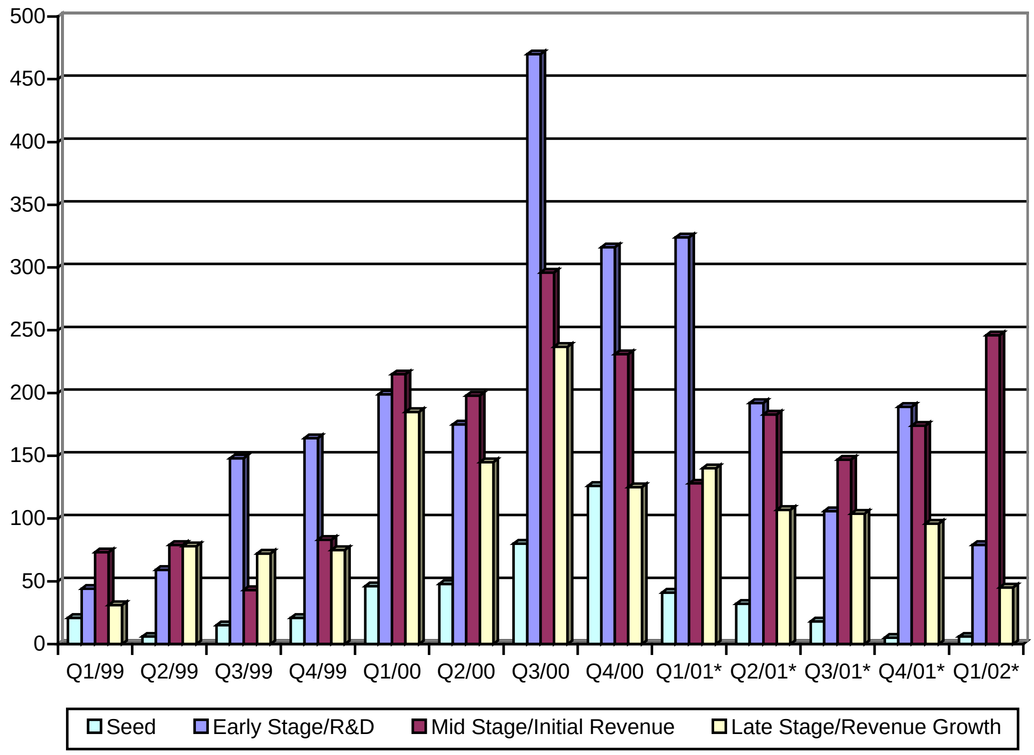
* Includes financing rounds without Israeli VC participation

Chart 6: Capital Raised by Stage* – Q1/02



* Includes financing rounds without Israeli VC participation

Chart 7: Capital Raised by Israeli High Tech Companies by Stage ($m)



* Beginning in Q1/2001, the data include financing rounds without Israeli VC participation.