



Capital Raised by Israeli High Tech Companies Q2 and H1 First Half 2001

Low Point in “First” Investments by Israeli VCs

Capital Raised by Internet Firms Drop 89%

Direct Fund Investments Without Israeli VC Involvement Declines 80%

August 5, 2001. The IVC Research Center released results of its second quarter survey today. The survey reviews investments in Israeli high-tech companies by Israeli venture capital and other investment entities and is based on reports from 124 venture investors, of which 85 were Israeli venture capital funds and 39 were other - mostly foreign - investment entities. IVC economists conduct the survey each quarter, preparing a comprehensive research report for IVC clients. The IVC Research Center has been operating since 1997 and specializes in analyzing and monitoring the Israeli high-tech industry.

Capital raising from venture capital firms by private Israeli high-tech companies skidded 20 percent to \$513 million in 2001's second quarter from first quarter levels (chart 1). The amount is nine percent below the \$566 million raised in the year-earlier period.

Fewer companies (137) raised capital in the second quarter than in the first quarter when 155 firms obtained investment. The average financing round declined to \$3.7 million from \$4.1 million.

Q2 results brought capital raised by 292 companies to \$1.15 billion in the first half of 2001, which compares to \$1.21 billion raised by 225 companies for the year-earlier period. The average financing round in the first half declined to \$3.9 million from \$5.4 million in the first half of 2000.

Large financing rounds - those exceeding \$20 million – dipped in the first half to 11 from 13 from the first half of the previous year. These large rounds aggregated \$322 million, against \$364 million.

Investment Activity of Israeli VCs, Foreign Investors and Others

During the first half of 2001, Israeli VCs invested \$463.7 million, a 3 percent decline from the same period in 2000. A much larger drop occurred in the second quarter when Israeli VC investments were off by 23 percent from both Q1 and Q2 2000 (chart 1).

Remaining amounts raised (\$312 million) by Israeli firms were from non-Israeli VC sources (chart 1). The bulk of that amount (\$274 million) came from financing rounds in which at least one Israeli VC participated, while \$37 million was raised in rounds in which Israeli VCs were entirely absent.

In the second quarter, foreign entities along with Israeli non-VC companies reduced their investments by 18 percent to \$312 million from \$378 million in the first quarter. Financing rounds with no involvement of Israeli VCs skidded by 80 percent to \$37.3 million in Q2 from \$190.4 million in Q1.

In Q2, capital raised from Israeli VCs (in financing rounds where at least one VC participated) constituted just 42 percent of amounts raised from all investors (chart 2). This comes on the heels of Q1 when Israeli VC relative involvement was at its peak (58 percent).

In Q2, Israeli VCs invested a smaller proportion (52 percent) of its total investments in “first” investments than it did in Q1 (66 percent), whereas the share of follow-on investments surged to 48 percent from 36 percent (chart 3). First investments of the funds totaled \$104 million (\$2.7 million average), compared to \$97 million (\$0.8 million average) for follow-on investments.

Capital Raised by Sector (chart 4-5)

Communications

Thirty-nine companies raised \$222 million in Q2, a decline of 19 percent from Q1 and an increase of 3 percent from the corresponding quarter in 2000. Communications kept its position as the most popular investment sector, attracting 44 percent of the amount raised (43 percent in Q1). The number of companies raising capital in Q2 declined 20 percent to 39 from 49 in the previous quarter. The average financing round for communications firms rose slightly to \$5.7 million from \$5.6 million.

Software

Twenty-eight firms raised \$118 million, off 24 percent from Q1, but 12 percent more than in 2000's first quarter. Software companies attracted 23 percent of the total capital raised, compared to 24 percent in Q1. The average round was \$4.2 million, well below Q1's \$5.9 million.

Life Sciences

Twenty-two life science companies drew 13 percent of capital raised in Q2 2001, and improvement from 11 percent in Q1. Sector companies raised \$66 million, off 1 percent from Q1 but 50 percent above year-earlier amounts. The average financing round increased to \$3.0 million from \$2.6 million in Q2.

Internet

The Internet sector continued to experience sharp declines in capital raised. Internet company capital raising (\$13 million) plunged 89 percent from first quarter levels to its lowest level in two and a half years. Internet firms garnered just 2 percent of the amount raised by high-tech companies versus 18 percent in Q1 and 13 percent in Q2 2000. The average financing round dropped to \$0.7 million compared to \$2.9 million in the prior quarter.

Capital Raised by Stage (chart 6)

IVC divides capital raising into four stages: 1. Seed, 2. R&D, 3. Initial Revenue, 4. Revenue Growth.

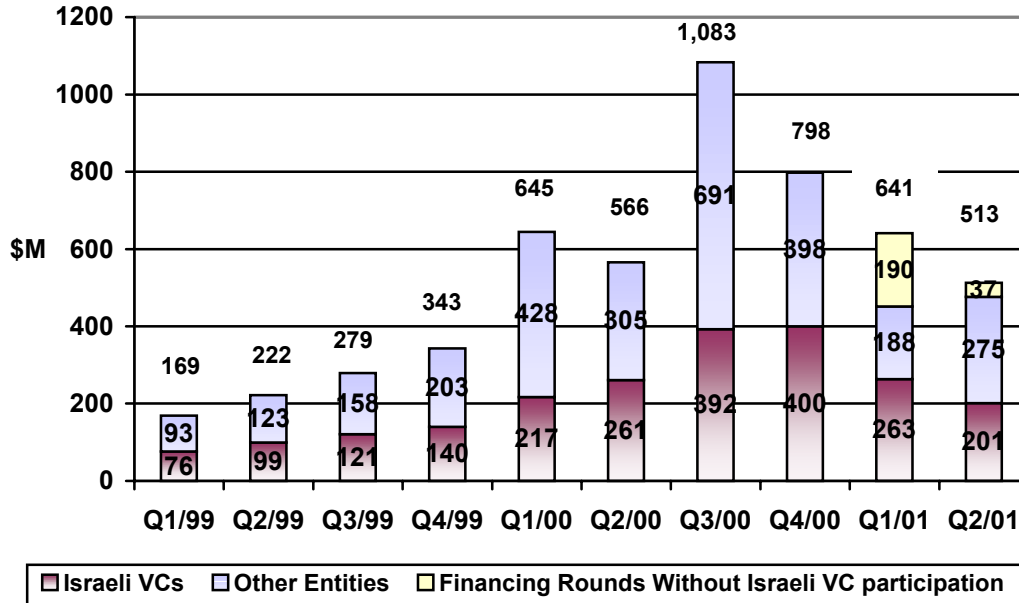
Amounts raised by Seed, R&D and Revenue Growth companies declined in Q2 from Q1 by 16 percent, 40 percent and 46 percent, respectively. In contrast, capital raising by Initial Revenue companies climbed 61 percent.

R&D companies did not constitute most of the capital raised for the first time in two and a half years. It attracted 38 percent in Q2, versus 51 percent in Q1, while the Initial Revenue Companies garnered 39 percent of amounts raised, compared to 20 percent in the previous quarter. Seed companies drew 7 percent, versus 6 percent in Q1. Revenue growth comprised 16 percent, compared to 23 percent in the first quarter.

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The following are selected charts representing survey findings:

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 (Financing Rounds Which At Least One Israeli VC Participated)

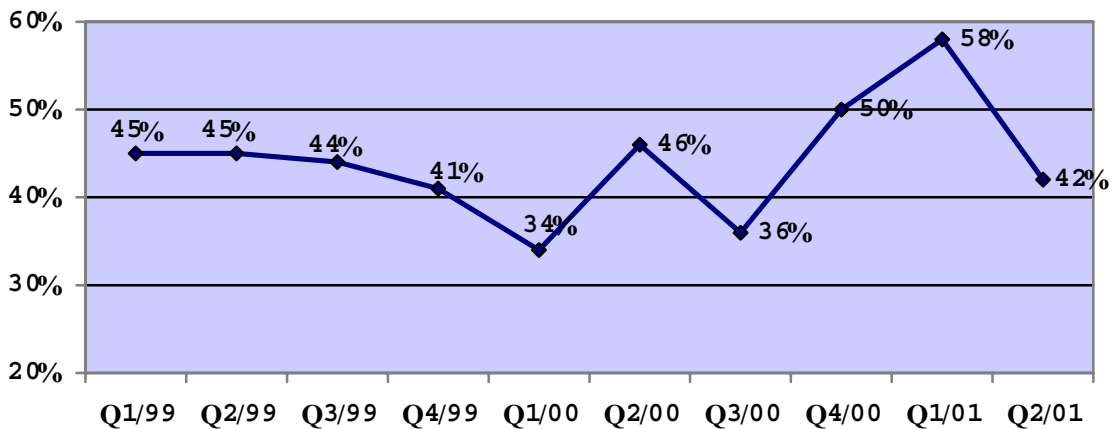


Chart 3: Distribution of First and Follow-on Investments by Quarter

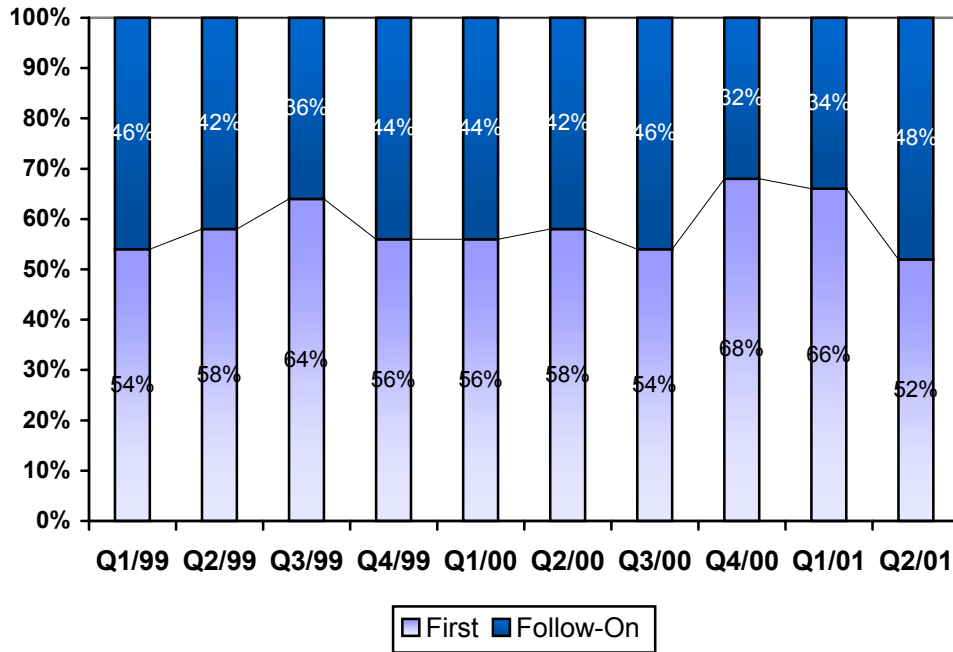
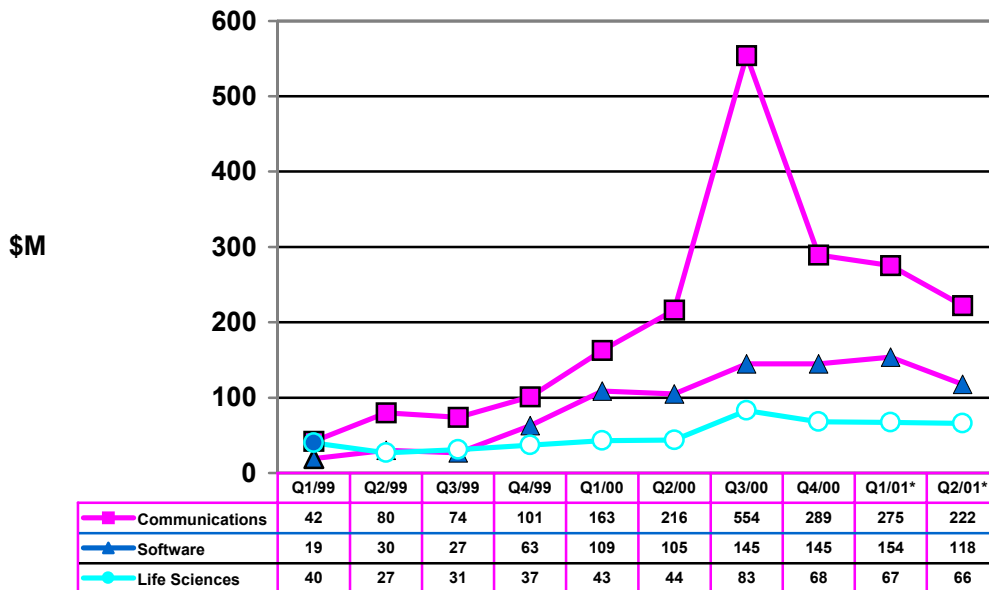
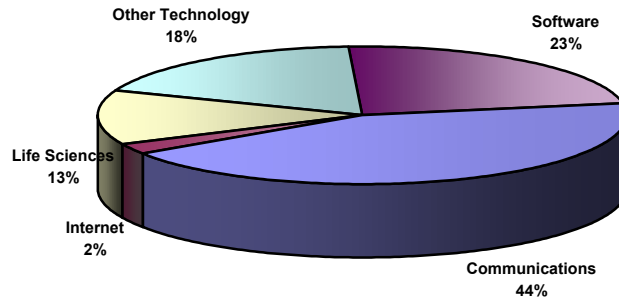
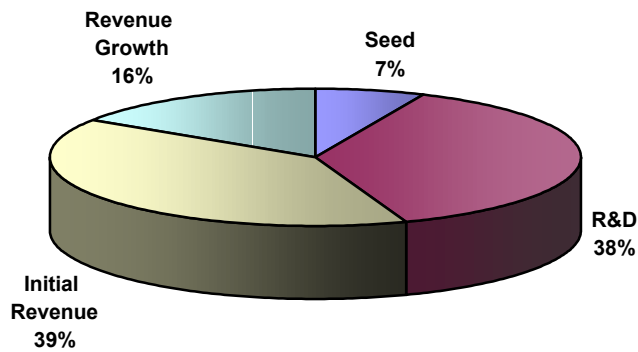


Chart 4: Capital Raised by Major Sector (\$M)



* Includes financing rounds without Israeli VC participation

Chart 5: Capital Raised by Sector* – Q2/01**Chart 6: Capital Raised by Stage* – Q2/01**

* Includes financing rounds without Israeli VC participation