Capital Raised by Israeli High-Tech Companies
Q2 2002

Major Findings:

Total Q2/2002 VC Investments Off 23 Percent to $291 Million

Increase in First Investments

Israeli VCs Raise Share of Total Fund Raising to 51%

Tel Aviv, July 24, 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 reviews capital raised by private Israeli high-tech companies from Israeli and foreign venture capital funds as well as other investors. The Survey is based on reports from 167 venture investors, 99 of which were Israeli venture capital funds and 68 were other, mostly foreign, investment entities. The survey is conducted with the cooperation of the Israel Venture Association (IVA).

During the second quarter of 2002, 91 companies raised **$291 million** from venture investors, compared to $376 million raised in the first quarter (chart 1). The amount raised in Q2 2002 was 23 percent less than in Q1 2002 (80 companies) and 43 percent less than in Q2 2001 (135 companies). In 78 of the 91 transactions (86 percent), at least one Israeli VC participated. The average financing round decreased by 32 percent to $3.2 million, compared to the first quarter's $4.7 million.

During the first half of 2002, 171 private Israeli high-tech companies raised **$667 million** from local and foreign investors (chart 1). This amount is 42 percent lower than the $1,146 million raised by 289 companies in the first half of 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.

Large financing rounds – those exceeding $20 million – fell in the first half to five from 11 in the first half of the previous year. Large rounds constituted 34 percent of total capital raised in the first half of 2002 ($228 million), versus 28 percent in the same period last year ($322 million).

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Venture Capital in Israel versus US and Europe

The IVC Research Center compared trends in capital raised by Israeli high-tech companies to capital raised by European and US companies. In the second quarter of 2002, Israeli companies experienced a 23 percent decrease from the previous quarter, US companies a 15 percent decline and European companies an increase of 10 percent [1].

Zeev Holtzman, CEO and Chairman of Giza Venture Capital, said, “IVC Survey results, which are significantly different from other surveys published recently, demonstrates that in the long run, the situation in Israel is very encouraging considering the global crisis of the industry and the local political climate.” Holtzman also noted that “investment of about $300 million in the second quarter reflects an annual rate of $1.2 billion a year. This annualized rate is higher than total investments made in 1999.”

Investment Activity of Israeli VCs, Foreign Investors and Others

In the second quarter of 2002, investments made by Israeli VCs ($127 million) decreased by eight percent compared to the first quarter and were down 37 percent from the year-earlier period (chart 1).

The remainder was raised from Other Entities – mostly foreign, but also Israeli non-VC investors. These entities invested $164 million in Q2 2002, 31 percent less than in the first quarter. Investments by these entities in financing rounds in which Israeli VCs did not participate increased by 39 percent from Q1 and totaled $43 million (chart 1).

Holtzman added that “survey figures indicate that the Israeli high-tech industry continues to be the attractive to foreign investments in Israel and policymakers in the Ministry of Finance should understand that this sector provides a major avenue for the return to economic growth as well as a means of attracting foreign investors.”

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

The share of Israeli VCs in fund raising (those in which at least one Israeli participated) rose sharply to 51 percent in Q2, following the 40 percent share in the last two quarters. The first half of 2002 and the first half of 2001 show similar shares – 40 percent and 41 percent, respectively (chart 2).

In the second quarter of 2002, Israeli VC First investments constituted 51 percent of Israeli VC investments as in the year-earlier period. 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. Average First investment was $2.3 million, compared to $0.7 million for the average Follow-on investment (chart 3).

[1] Sources for US data: VentureWire. Sources for European data: Windmill New Money Report.

In the first half of 2002, the share of First investments declined to 40 percent of the total Israeli VCs investments, compared to 60 percent in the same period last year. Those investments totaled $104 million, well below the $277 million in 2001's first half. Follow-on investments totaled $160 million in 2002's first half, a 14 percent decrease from last year's first half.

Capital Raised by Sector (charts 4-5)

Communications

Capital raised by Communication companies in the second quarter of 2002 totaled $108 million, 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. The average Communications round was $4.7 million, well below Q1's $9.5 million.

In the first half of 2002 Communication companies raised $298 million, 41 percent less than in the same period in the previous year. The number offirms that raised capital was less than half of those of the year-earlier period (43 versus 90). The average round, however, was up to $6.9 million from $5.6 million. The sector's share was similar in both periods – 45 percent in H1/02 and 44 percent in H1/01.

Semiconductors

Ten Semiconductor companies raised $52 million, 28 percent less than the amount raised by six companies in the first quarter but appreciably higher (79 percent) than 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 did not change significantly and accounted for 18 percent of total capital raised in Q2.

Sixteen Semiconductor companies raised $124 million in the first half of 2002, a 265 percent increase from the capital raising of six companies in 2001's first half. An increase was also noted in the average round per company - $7.8 million versus $5.7 million in 2001's first half. The sector also raised its share of total fund raising to 19 percent in H1 2002 from three percent in H1 2001.

Medical Devices

Amounts raised by Medical Device companies totaled $35 million in the second quarter of 2002, an increase of 25 percent from the first quarter and a decline of 26 percent from the same quarter last year. The share of Medical Device companies (17 in Q2 2002 versus ten in Q1 2002) edged up to 12 percent of capital raised from eight percent in Q1. The average financing round declined to $2.1 million in Q2 from $2.8 million in Q1.

During the first half of the year capital raised by Medical Device companies totaled $63 million, a 30 percent decline from the parallel period last year. Yet, the proportion of capital raised was similar in the two periods – nine percent in 2002's first half and eight percent in 2001's first half. The number of companies raising capital was down to 27 in

H1 2002 from 31 in H1 2001. The average round was $2.3 million in the first half of 2002, compared to $2.9 million in last year's first half.

Software

Capital raised by Software companies totaled $33 million in the second quarter, 38 percent more than in Q1 2002, but significantly less (72 percent) 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.

Capital raised by Software companies declined 79 percent to $57 million in 2002's first half from the year-earlier period. Consequently, the sector accounted for just eight percent of total capital raised in H1 2002, compared to 23 percent in H1 2001. The number of companies raising capital declined to 39 in the first half of 2002 from 55 in the first half of 2001. The average round fell by 69 percent from the previous year's first half and was $1.5 million in H1 2002.

Biotechnology

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.

Eleven Biotechnology companies raised $18 million in this year's first half, compared to 17 companies that raised $43 million in the previous year's first half. The average round declined by 36 percent to $1.6 million in H1 2002. The sector's share declined slightly to three percent in H1 2002 from four percent in H1 2001.

Internet

Internet experienced a sharp decline in Q2 2002. Seven sector firms raised $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.

Capital raising in the Internet sector plummeted 84 percent to just $20 million raised in H1 2002 from $122 million raised in H1 2001. Seventeen companies constituted three percent of the total fund raising in 2002's first half, compared to 52 companies that attracted 11 percent of capital in 2001's first half. The average Internet round was $1.2 million in the first half of 2002, half the average of the same period in the previous year.

Capital Raised by Stage

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 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. Late Stage/Revenue Growth fell to a low, drawing $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.

Mid-Stage/Initial Revenue was the only stage for which capital raised grew in the first half of the year compared to the corresponding year-earlier period, and totaled $352 million, 13 percent more than in H1 2001. This stage also raised its share of the total capital raised to 53 percent, compared to 27 percent in 2001's first half. Seed companies and Late Stage/Revenue Growth companies declined 82 percent to $13 million and 68 percent to $78 million, respectively, in H2 2002. These companies attracted, respectively, two percent and 12 percent of total capital raised in the first half of 2002, compared to six percent and 22 percent in the first half of 2001. Early Stage/R&D companies raised $224 million in the first half of 2002, 57 percent less than in the first half of 2001, and attracted 33 percent of total capital raised in H1 2002, versus 45 percent in H1 2001.

According to Holtzman, "Although seed investment figures comprise a low share of the total capital raised, we estimate a downward bias due to unreported seed company investments."

***IVC Research Center** 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.

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

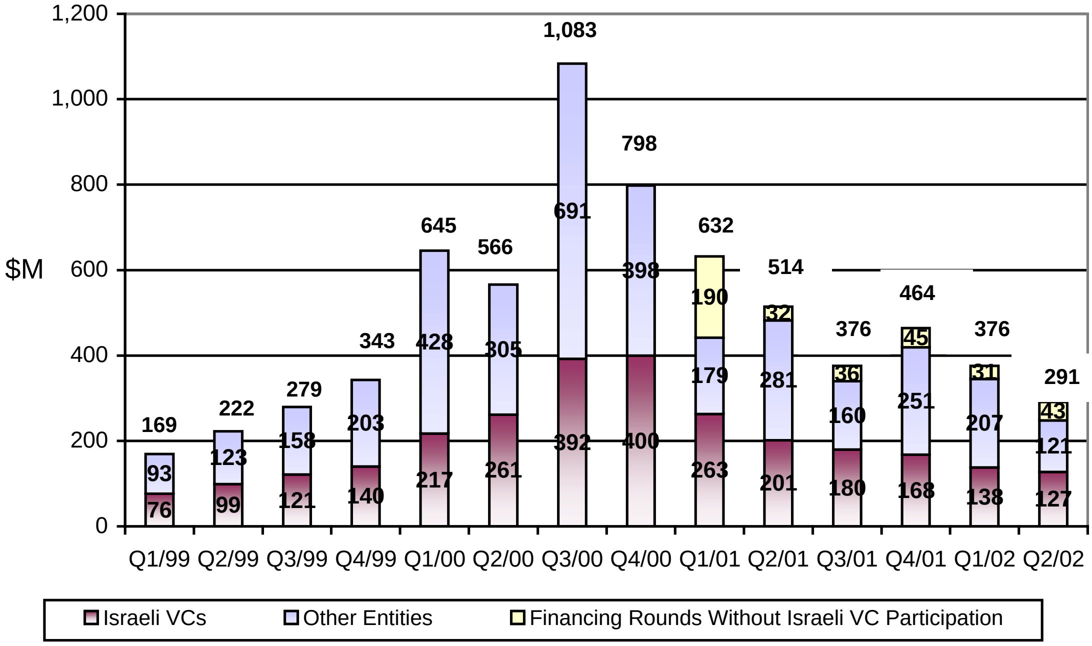


Chart 2: Share of Capital Raised from Israeli VCs

in financing rounds in which at least one Israeli VC participated

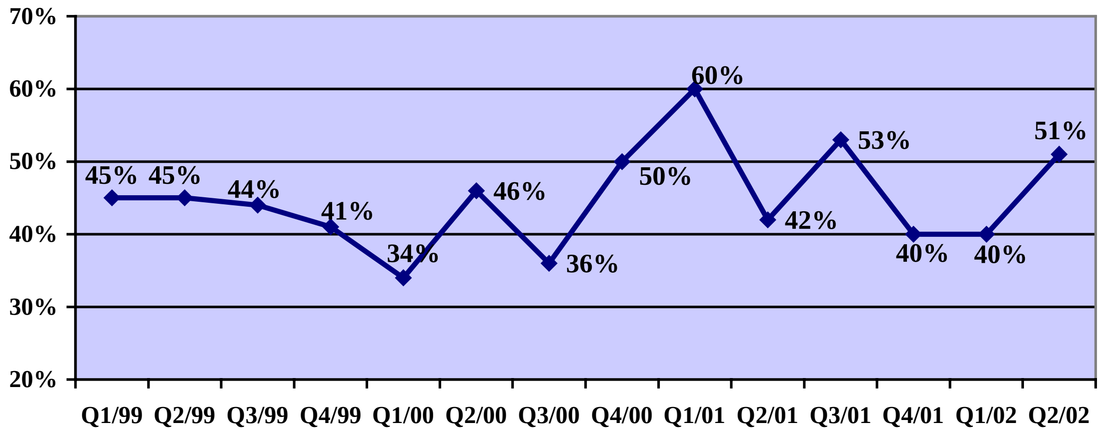


Chart 3: Distribution of First and Follow-on Investments by Quarter

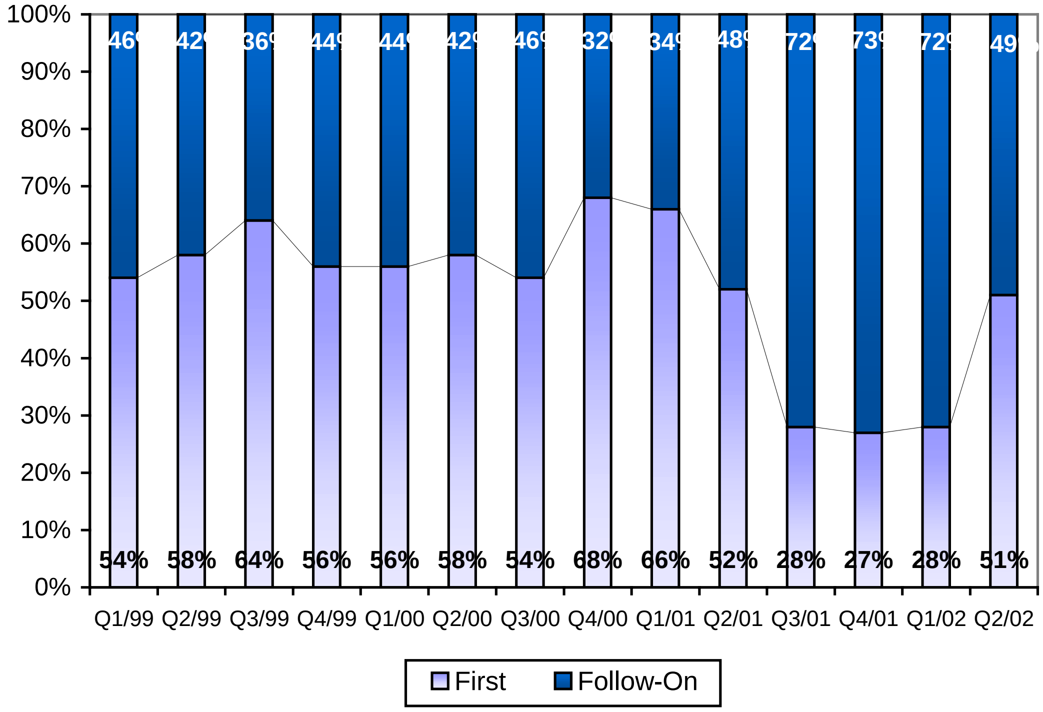
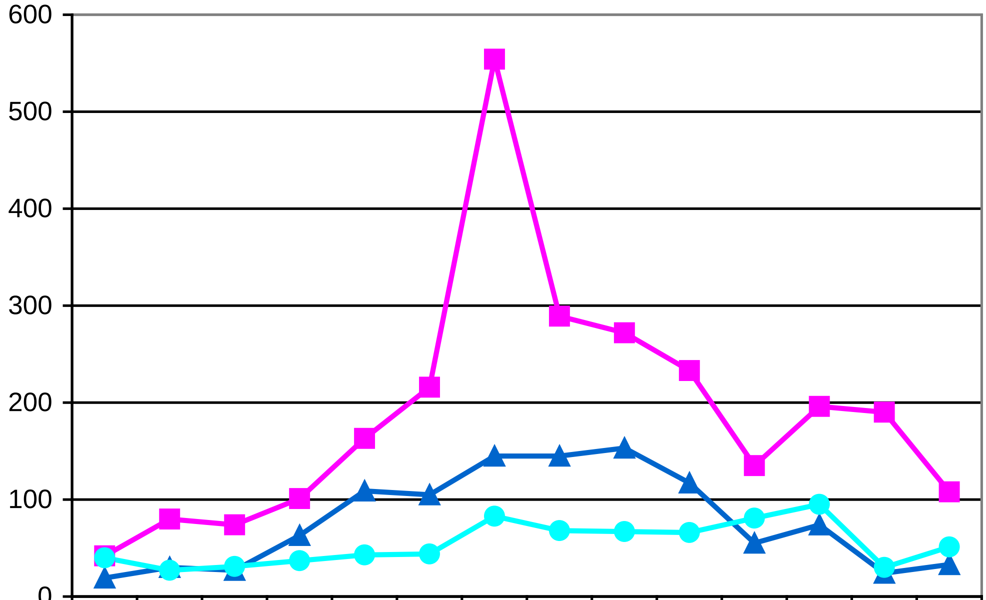


Chart 4: Capital Raised by Major Sector ($m)



	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	Q2/02
Communications	42	80	74	101	163	216	554	289	272	233	135	196	190	108
Software	19	30	27	63	109	105	145	145	153	117	55	74	24	33
Life Sciences	40	27	31	37	43	44	83	68	67	66	81	95	30	51

Chart 5: Capital Raised by Sector – Q2/02

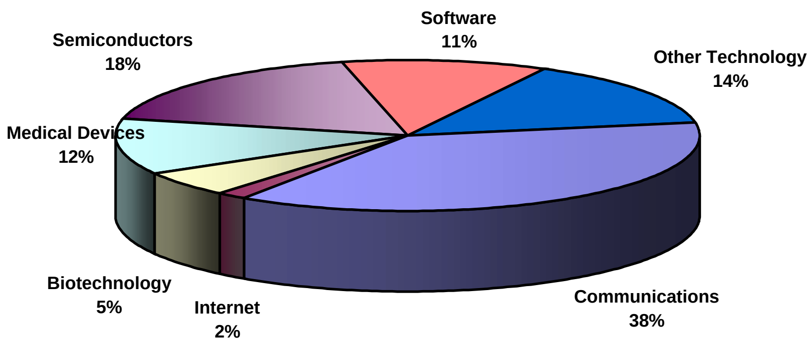


Chart 6: Capital Raised by Stage – Q2/02

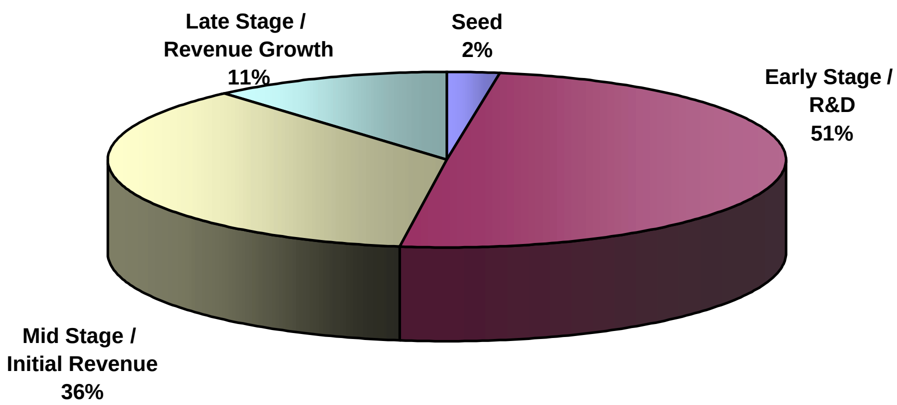
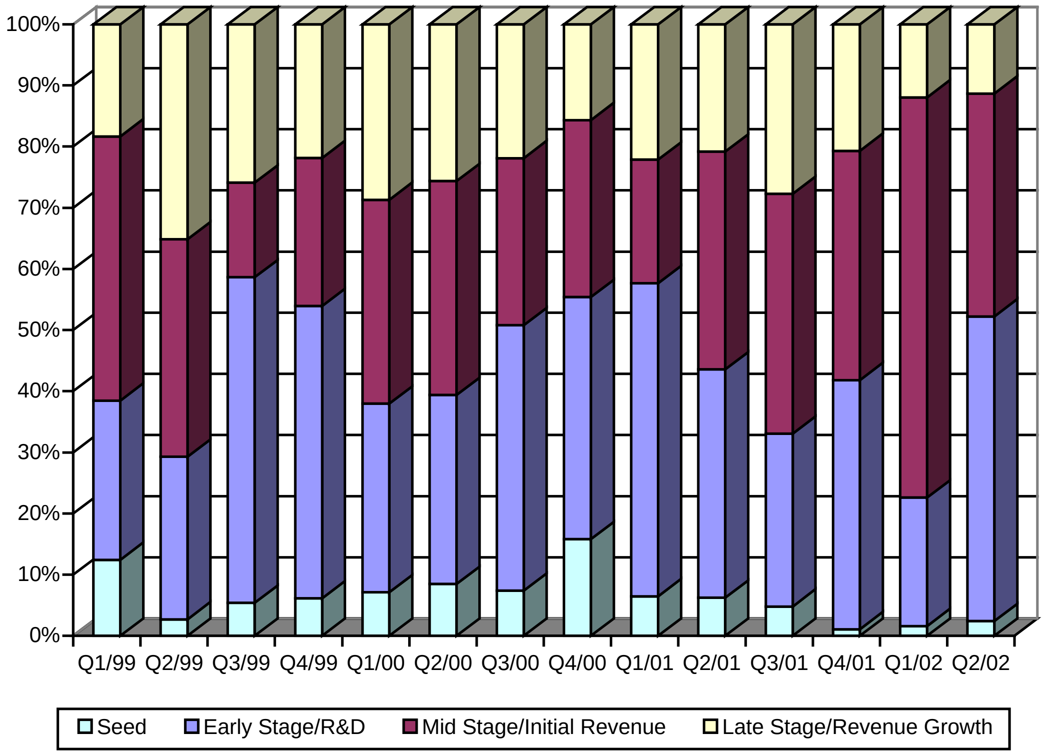


Chart 7: Capital Raised by Israeli High Tech Companies by Stage ($m)



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