

IVC Survey Q2/H1 2003

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

Israeli high-tech firms boost fund raising to \$271 million in Q2, \$482 million in H1

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 130 venture investors, of which 68 are Israeli management companies and 62 are other – mostly foreign – investment entities.

In the second quarter of 2003, 86 Israeli high-tech companies raised \$271 million from venture investors – local and foreign (Chart 1) – an increase of 28 percent from the amount raised in the previous quarter. Forty-nine companies attracted more than \$1 million. Of these, 12 companies raised between \$5 million and \$10 million and eight companies raised more than \$10 million each. In the first half, however, capital raising was down 28 percent from H1 2002 levels.

Capital raised in financing rounds without participation of Israeli VCs totaled \$50 million, an

increase of 72 percent from the previous quarter. Investment by Israeli VCs in Israeli high-tech companies was relatively stable at \$94 million. First investments accounted for 40 percent of Israeli VC investments, compared to 34 percent in the previous quarter and 51 percent in Q2 2002 (Charts 2 and 3). The average First investment was \$2.2 million, compared to \$0.6 million for the average Follow-on investment.

Israeli VC investments in foreign companies reached \$34 million, almost double the \$18.2 million invested in Q1 2003.

Capital Raised by Sector (Charts 4 & 5) Communications

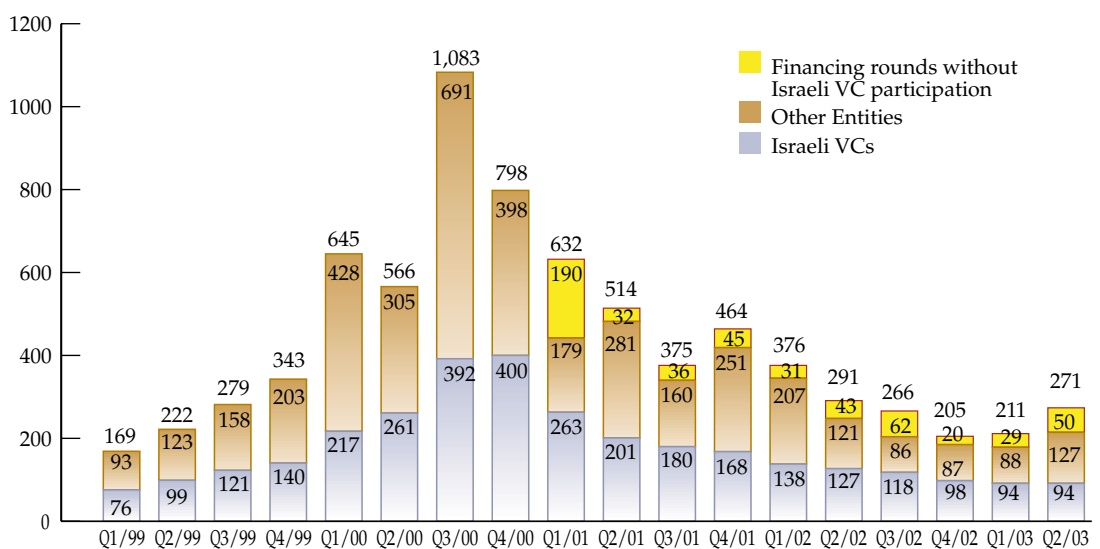
In the second quarter of 2003, 23 Communications companies attracted 29 percent of total capital raised in the period. The \$79 million raised was the same as in Q1, but 27 percent less than the \$108 million in the corresponding period in 2002.

Foreign investors increase activity

Software

Software companies accounted for 19 percent of capital raised in the first quarter, compared to 18 percent in the previous quarter. Seventeen Software companies raised \$52 million, up 37 percent from Q1 2003 and 56 percent from Q2 2002.

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



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

Chart 2: Israeli VC First/Follow-on Investments by Industry – Q2 2003

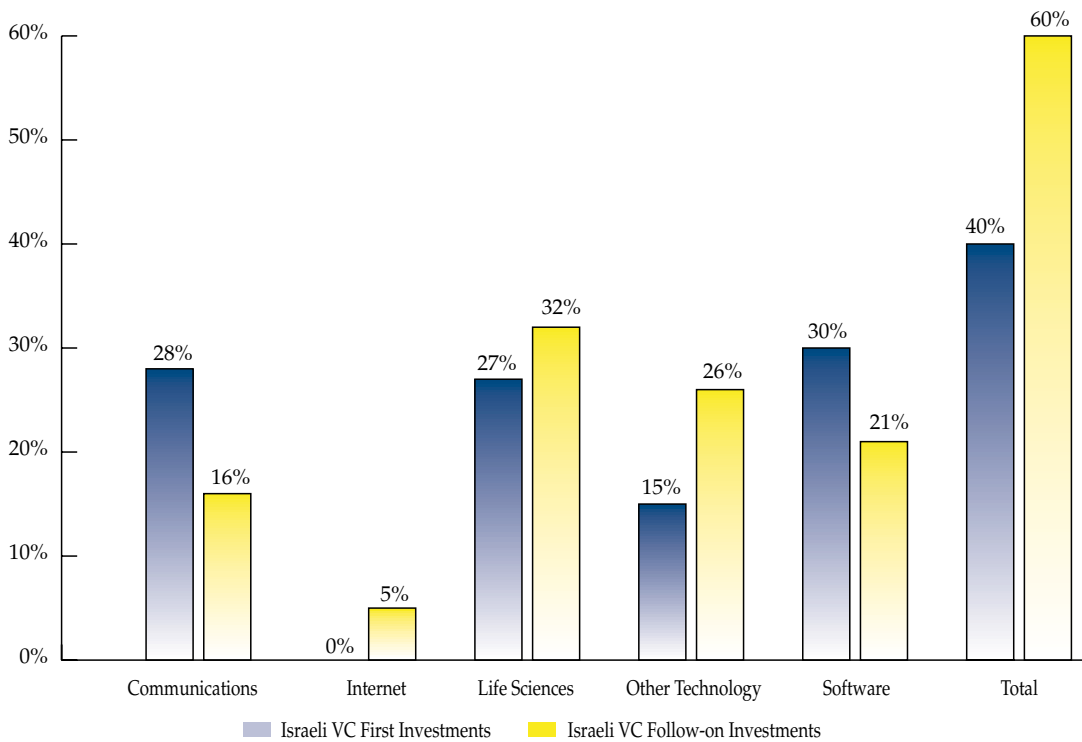
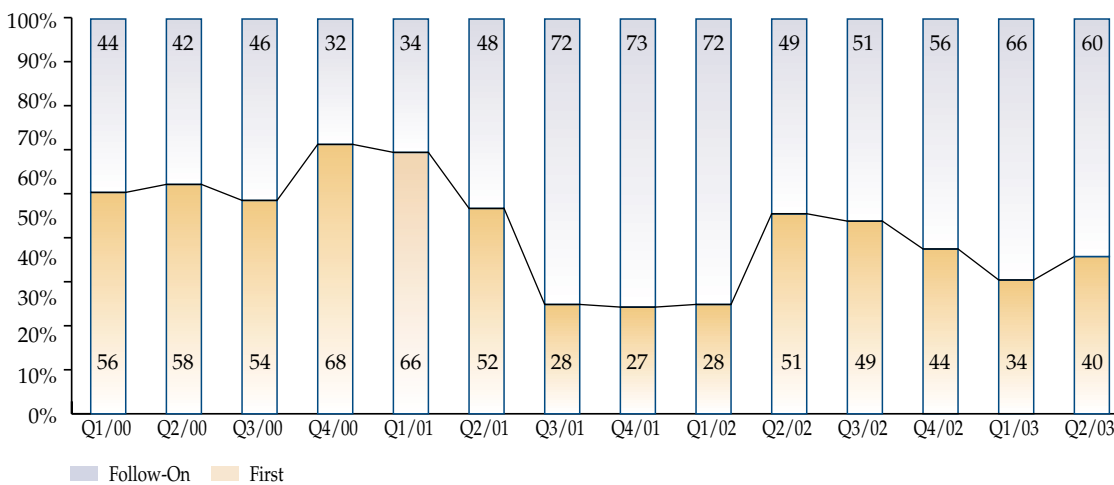


Chart 3: Distribution of First and Follow-on Investments by Israeli VCs



Life Sciences

Twenty-one Life Science companies raised \$56 million, 21 percent of total capital raised, versus \$39 million or 19 percent in Q1 2003. Within the sector, 15 Medical Device firms raised \$39 million, up 63 percent from the previous quarter. Medical Device companies accounted for 70 percent of Life Science capital raising, compared to 62 percent in the first quarter of 2003.

Internet

Two Internet companies attracted \$4 million or two percent of total capital raised. Internet firms also accounted for two percent of capital raised in both Q1 2003 and Q2 2002.

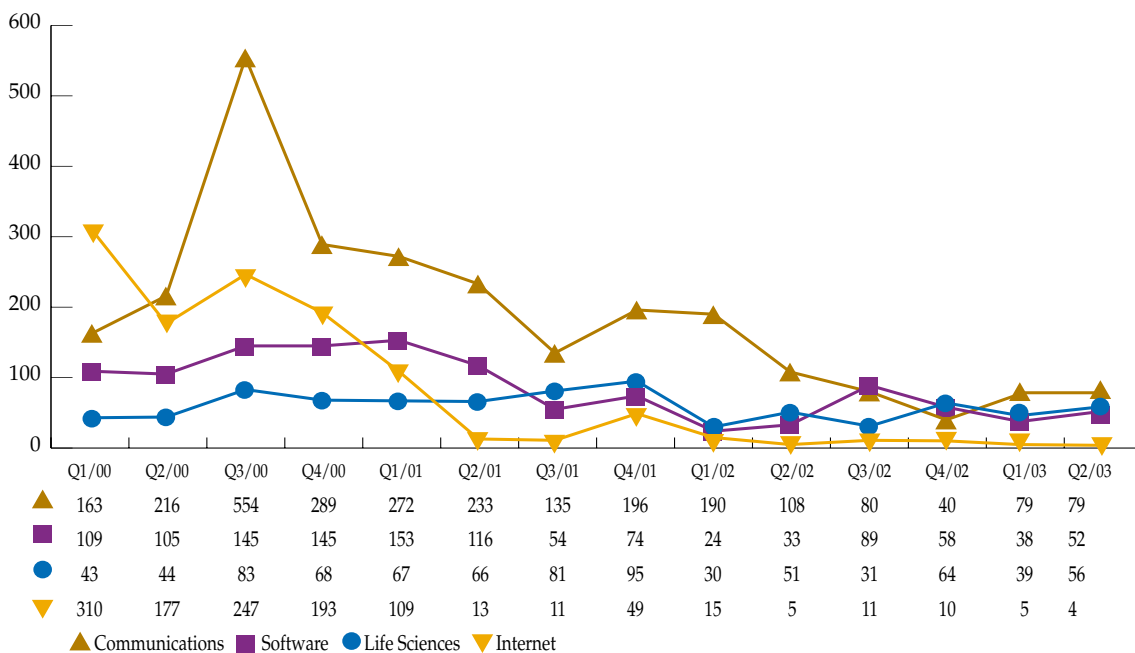
Capital Raised by Stage (Chart 6)

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. The breakdown of investments by stage in Q2 2003 and Q1 2003 was roughly comparable.

Seed companies experienced a large relative boost in funding in Q2 2003. Six Seed companies raised \$19 million or seven percent of total capital raised, compared to \$7 million or three percent in the previous quarter and \$6 million or 2 percent in the year-earlier period.

Thirty-four Early Stage/R&D companies attracted \$94 million or 35 percent of the total raised, which compares with \$66 million or 31

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



percent in the first quarter of 2003 and \$146 million or 50 percent in 2002's second quarter.

Mid Stage/Initial Revenue companies continued to be the most attractive with \$130 million raised from 40 companies, representing 48 percent of total capital raised. The amount is 38 percent above that raised in Q1 and 23 percent more than Q2 2002 levels.

Six Late Stage/Revenue Growth companies raised \$27 million or 10 percent of the total. The amount is 39 percent below the \$44 million raised in Q1 and 18 percent less than the \$33 million raised in Q2 2002.

Chart 5: Capital Raised by Israeli High-Tech Companies by Sector Q2 2003

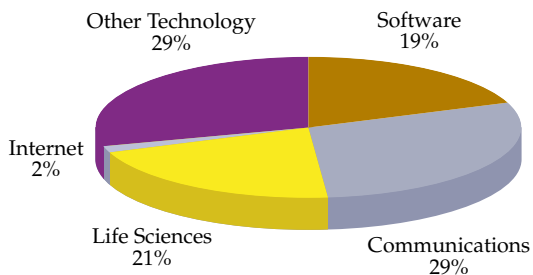
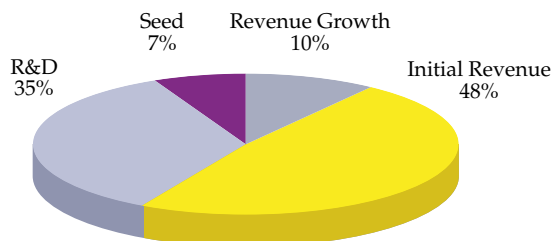


Chart 6: Capital Raised by Israeli High-Tech Companies by Stage Q2 2003



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BROADBAND TECHNOLOGIES

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