



Capital Raised by Israeli High Tech Companies Q3 2001

Capital Raised by Israeli High-Tech Firms Continues to Slide:

“First” Investments by Israeli VCs Constituted Only 28% of Total Investments

November 5, 2001, Tel Aviv. Capital raised by Israeli high-tech companies showed sharp deterioration in the third quarter of 2001. The \$371 million raised from local and foreign venture capital investors was 28 percent below second quarter levels and 66 percent less than in the third quarter in 2000 (chart 1). These survey results were released today by the IVC Research Center based on reports from 128 venture investors, of which 91 were Israeli venture capital funds and 37 were other – mostly foreign – investment entities.

The number of companies raising capital declined from 137 in Q2 to 117 in Q3, with the average financing round slipping 14% in Q3 to \$3.2 million from Q2's \$3.7 million.

In Q3, there were four large financing rounds – those exceeding \$20 million – compared to five such rounds in Q2. Amounts raised in these rounds totaled \$110 million (30 percent of total capital raised), versus \$161 million (31 percent). In comparison, large financing round investments in Q3 2000 saw 15 companies raise more than \$20 million each for a total of \$516 million (48 percent).

Investment Activity of Israeli VCs, Foreign Investors and Others

In Q3 2001, Israeli VCs invested \$180 million, an 11 percent decline from Q2 investments and a 54 percent drop from the corresponding period in 2000 (chart 1). The remainder raised (\$191 million) by Israeli firms was from non-Israeli VC sources. The bulk (\$156 million) came from financing rounds in which at least one Israeli VC participated, while \$35 million was raised in rounds in which Israeli VCs were entirely absent.

Foreign entities along with Israeli non-VC companies reduced their investments in Q3 by 39 percent to \$191 million from \$312 million in the second quarter. Financing rounds with no involvement of Israeli VCs decreased by 5% to \$35 million from \$37 million in Q2.

In Q3, capital raised from Israeli VCs (in financing rounds where at least one VC participated) rose to 54 percent of amounts raised from all investors (chart 2). This follows the low point of 42% reached in the previous quarter.

“First” investments made by Israeli VCs constituted only 28% of fund investments, dropping from 52% in Q2 (chart 3). First investments of the funds totaled \$51 million (\$2.1 million average), compared to \$129 million (\$1.0 million average) for follow-on investments.

“IVC forecasts materialized,” said **Racheli Er-el**, Director of Research for IVC. “First investments of Israeli funds declined to an unprecedented low point in Q3, continuing the trend started last quarter.”

Capital Raised by Sector (chart 4-5)

Communications

Thirty-nine communications companies raised \$141 million in Q3, a decline of 37 percent from Q2 and a decrease of 75 percent from the corresponding quarter in 2000. Communications continued as the number one sector in terms of financing rounds, but its share of the total amount raised slipped to 37%, compared with 43% in the previous quarter. The number of companies raising capital in Q3 remained unchanged from the Q2, but the average financing round declined from \$5.7 million to \$3.6 million.

Life Sciences

Funds raised in the life sciences sector totaled \$81 million in the third quarter, an increase of 23 percent from the second quarter and a decline of only 2% from the same quarter last year. Twenty-two companies drew 22 percent of capital raised in Q3, compared with 13 percent in Q2. The average financing round increased by 23% to \$3.7 million in Q3 from \$3.0 million in Q2.

Software

Twenty-three software firms raised \$54 million, down 54 percent from Q2 and 63 percent from 2000's third quarter. Software companies attracted 15 percent of the total capital raised, compared to 23 percent in Q2. The average round was \$2.3 million, well below Q2's \$4.2 million.

Internet

Funds raised in the Internet sector jumped 231% to \$43 million from a low point of \$13 million in the previous quarter and accounted for 12% of the total funds raised by high-tech firms, compared to just 3% in Q2. The average financing round for the 15 companies raising capital soared by 300% to \$2.8 million, compared with \$0.7 million in the prior quarter.

IVC's **Er-el** explained that “the sharp increase reflected the large round raised by Sanctum and does not necessarily indicate recovery of the sector.”

Capital Raised by Stage (chart 6)

All four stages defined by IVC – Seed, R&D, Initial Revenue and Revenue Growth – experienced decreases in amounts raised in the third quarter. The sharpest declines – 47% and 44% - were for R&D and Seed stage companies, respectively. Initial Revenue companies and Revenue Growth companies experienced moderate declines of 13% and 11%, respectively.

There was continued erosion in the popularity of R&D stage companies, which attracted 28 percent of amounts raised in Q3, versus 38 percent in Q2 and 43 percent in the third quarter last year. Initial Revenue companies made further advances in terms of their relative share with 47% of capital raised, compared with 40% in Q2 and 27% in Q3 2000. Seed companies slipped to 5% from 7% in Q2 and Revenue Growth rose to 20% from 16% in Q2.

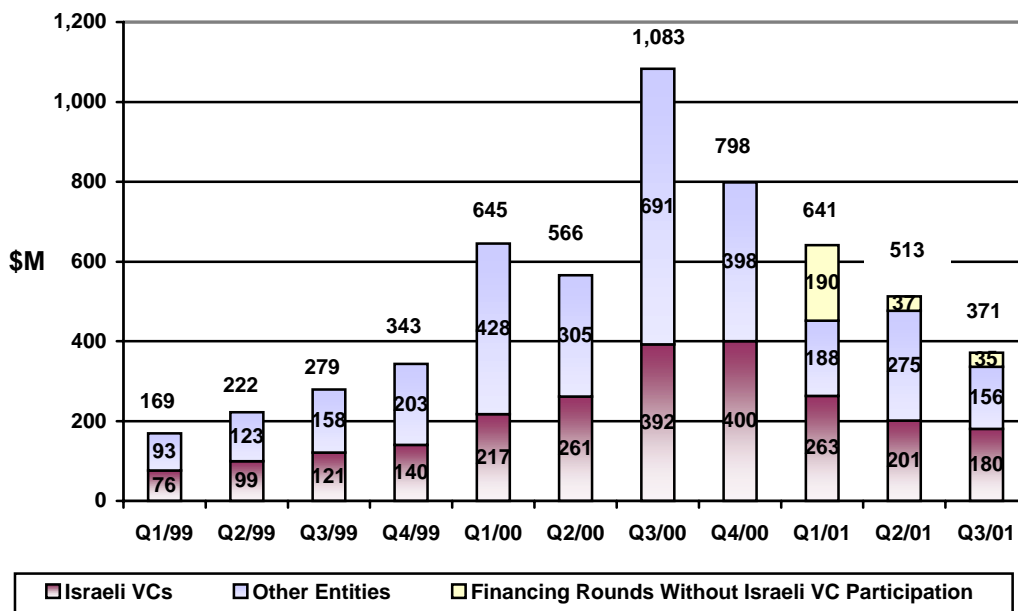
About IVC

The IVC Research Center is Israel’s leading research center specializing in analysis and monitoring of Israel’s high-tech and venture capital industries. IVC’s publications are used by major financial entities and government organizations in Israel and abroad. A comprehensive quarterly report based on survey results is available to IVC clients.

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

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)

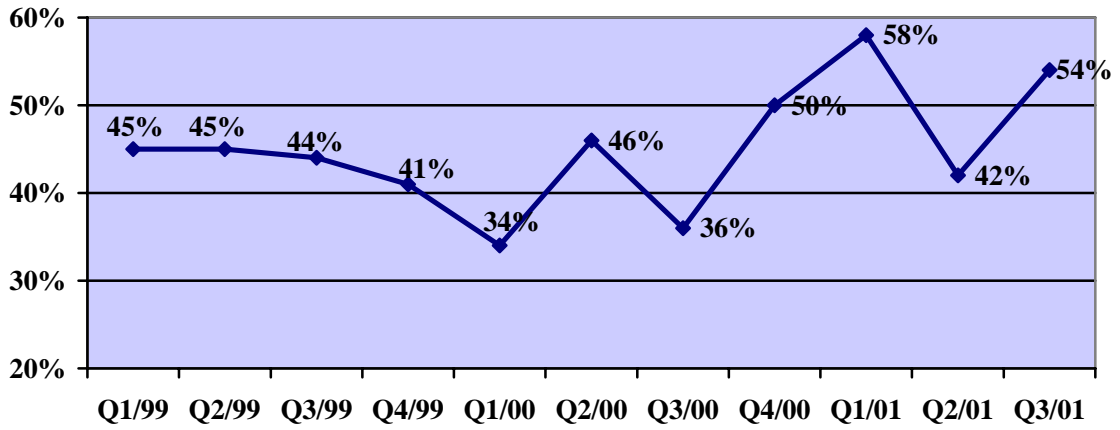


Chart 3: Distribution of First and Follow-on Investments by Quarter

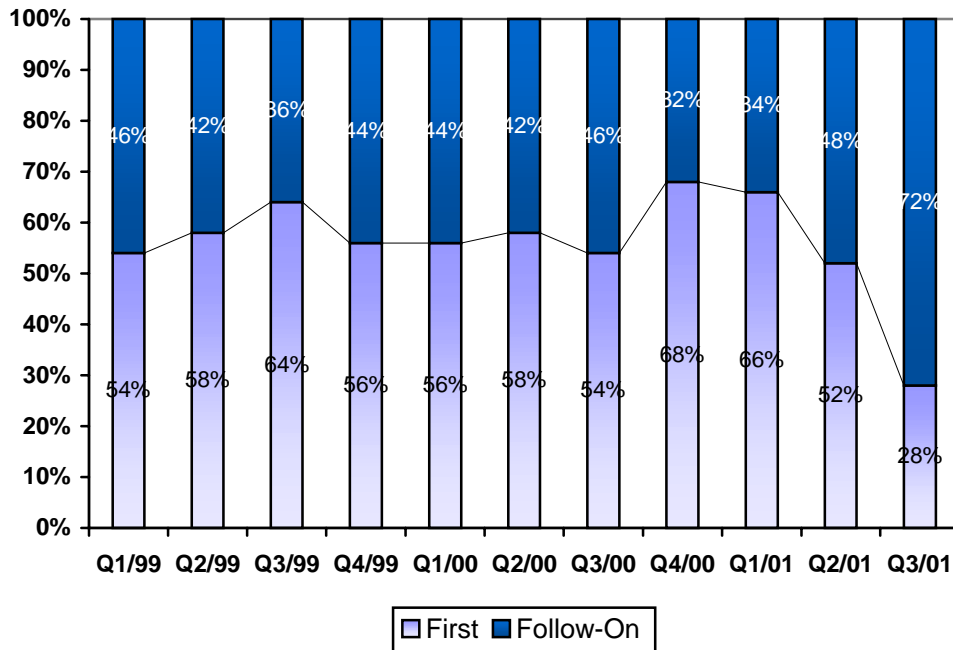
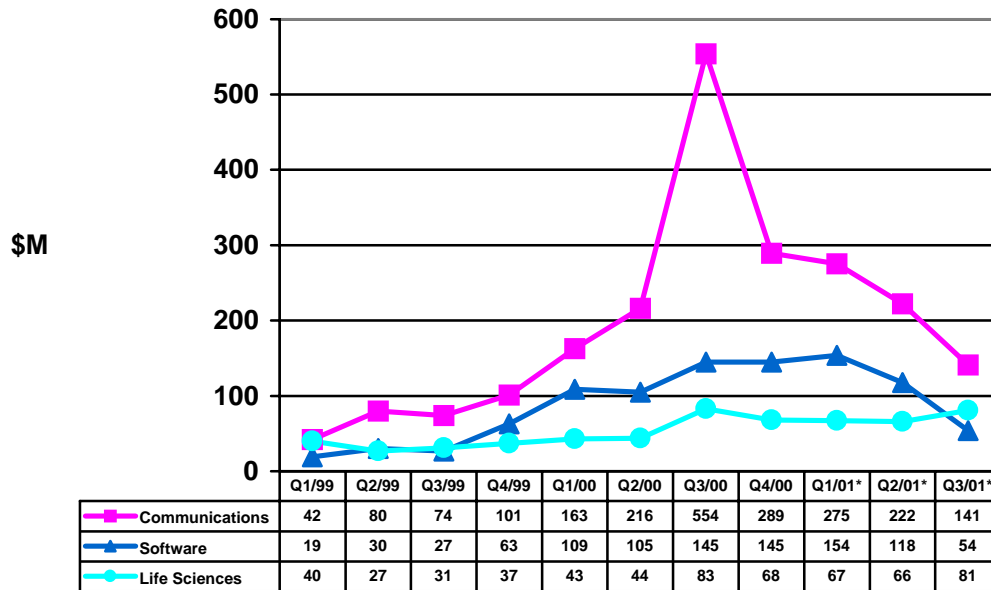
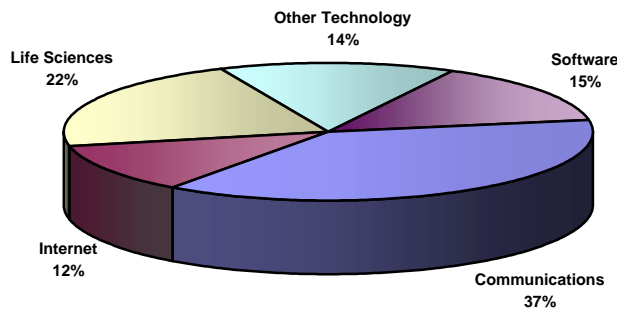


Chart 4: Capital Raised by Major Sector (\$M)

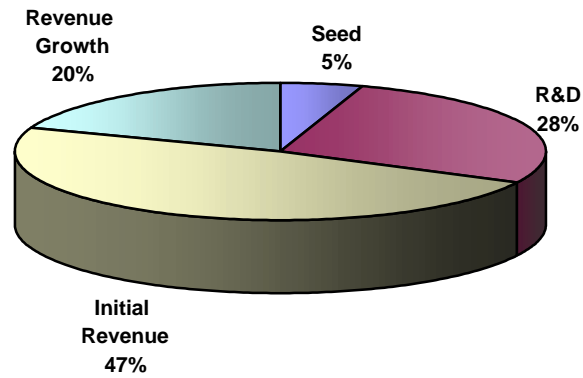


* Includes financing rounds without Israeli VC participation

Chart 5: Capital Raised by Sector* – Q3/01



* Includes financing rounds without Israeli VC participation

Chart 6: Capital Raised by Stage* – Q3/01

* Includes financing rounds without Israeli VC participation