



Capital Raised by Israeli High-Tech Companies Q3 2002

Further Decline in VC Investments:

Q3/2002 VC Investments at \$266 Million, Versus \$291 Million in Q2/2002

'First' Investments account for almost half of total investments by Israeli VCs

Tel Aviv, October 27, 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 170 venture investors, 98 of which were Israeli venture capital funds and 72 were other, mostly foreign, investment entities. The Survey is conducted with the cooperation of the Israel Venture Association (IVA).

During the third quarter of 2002, 92 private Israeli high-tech companies raised **\$266 million** from venture investors, local and foreign. This amount is down nine percent from the second quarter and 29 percent from the same quarter last year (chart 1). The number of companies raising capital (92) did not change significantly from the previous quarter. In 78 of the transactions (85 percent) at least one Israeli VC participated. The average financing round was \$2.9 million, which compared to the second quarter's \$3.2 million.

Zeev Holtzman, Chairman and CEO of Giza Venture Capital, said, "the global crisis in the high-tech industry and the political situation in Israel continue to have strong influence on investment activity, resulting in the investment falloff continuing in the third quarter. Still, \$1.2 billion in investments in 2002 is higher than the total investment in 1999, which was considered a successful year."

Investment Activity of Israeli VCs, Foreign Investors and Others

Investments made by Israeli VCs totaled \$118 million in the third quarter. This amount is a decrease of seven percent from the second quarter and is down 35 percent from the year-earlier period (chart 1).

The remainder was raised from Other Entities – mostly foreign, but also from Israeli non-VC investors. These entities invested \$148 million in Q3 2002, 10 percent less than in the second quarter. However, investments by Other Entities in financing rounds in which Israeli VCs did not participate increased by 44 percent from Q2 and totaled \$62 million (chart 1).

Racheli Er-el, Director of Research at IVC Research Center, indicated that “since the beginning of 2002, foreign investors have tended to reduce their involvement in the Israeli market, while Israeli VCs, which recognize better investment conditions, enlarged their relative share, reaching a record 58 percent in the third quarter (for rounds in which Israeli VCs participated).” (chart 2).

In the third quarter of 2002, Israeli VC First investments accounted for 49 percent of all Israeli VC investments, compared to 51 percent in Q2. First investments totaled \$58 million, while Follow-on investments, which were 51 percent of investments in Q3, totaled \$60 million. The average First investment was \$2.2 million, compared to \$0.7 million for the average Follow-on investment (chart 3).

Capital Raised by Sector (charts 4-5)

Software

Capital raised by Software companies totaled \$89 million in the third quarter, a sharp increase of 170 percent from Q2 2002 and 62 percent more than Q3 2001. Twenty-three Software companies attracted 33 percent of the total raised in the third quarter, compared to 11 percent in the second quarter (20 companies). The average round of Software companies was up to \$3.9 million in Q3 from \$1.7 million in Q2.

Communications

Capital raised by Communication companies in the third quarter of 2002 totaled \$80 million, down 26 percent from the previous quarter and 66 percent from the same quarter last year. Communications drew 30 percent of total fund raising in Q3, versus 37 percent in Q2. The number of firms raising capital was 24 – close to Q2 levels – and the average Communications round was \$3.3 million, a 30 percent decrease from the prior quarter.

Medical Devices

Amounts raised by Medical Device companies totaled \$24 million in Q3, a 31 percent decline from Q2 and 42 percent from the same quarter last year. Thirteen Medical Device companies drew nine percent of the total investment, compared to 17 companies that drew 12 percent of total investment in Q2. The average financing round declined to \$1.9 million in Q3 from \$2.1 million in Q2.

Internet

Six sector firms raised \$11 million in the third quarter compared to seven firms that raised \$5 million in the second quarter and 12 firms that raised \$11 million in the same quarter last year. Consequently, the Internet sector accounted for four percent of the total amount raised in Q3, compared to two percent in Q2. The average round in Q3 rose sharply to \$1.8 million in Q3 from previous quarter's \$0.7 million.

Semiconductors

Five Semiconductor companies raised just \$8 million, an 85 percent fall from the amount raised by ten companies in Q2 and a 78 percent decline from Q3 2001 figures (two companies). Consequently, capital raised by semiconductor companies constituted only three percent of the total capital raised, compared to 18 percent in Q2. The average round slipped considerably to \$1.6 million in Q3 from \$5.2 million in Q2.

Biotechnology

Capital raised in the Biotechnology sector totaled \$7 million in Q3, compared to \$16 million in Q2 and \$40 million in Q3 2001. Five Biotechnology companies accounted for just three percent of the total raised, compared to seven companies that constituted five percent of amount raised in Q2. The average round was \$1.4 million in Q3 versus \$2.3 million in the previous 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 Q3 2002, capital raised by Mid-Stage/Initial Revenue companies increased by 59 percent and totaled \$169 million. Consequently, their share of the total raised jumped to 64 percent, versus 37 percent in Q2. However, Late Stage/Revenue Growth companies plummeted 82 percent from Q2 levels and totaled just \$6 million. This amount was two percent of the total amount raised, compared to 11 percent in the previous quarter. Early Stage/R&D companies raised \$85 million, down 42 percent from Q2 and accounted for 32 percent of capital raising, against 50 percent in the prior quarter. In comparison, capital raised by Seed stage companies remained at \$6 million, two percent of total amount raised in the quarter.

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.

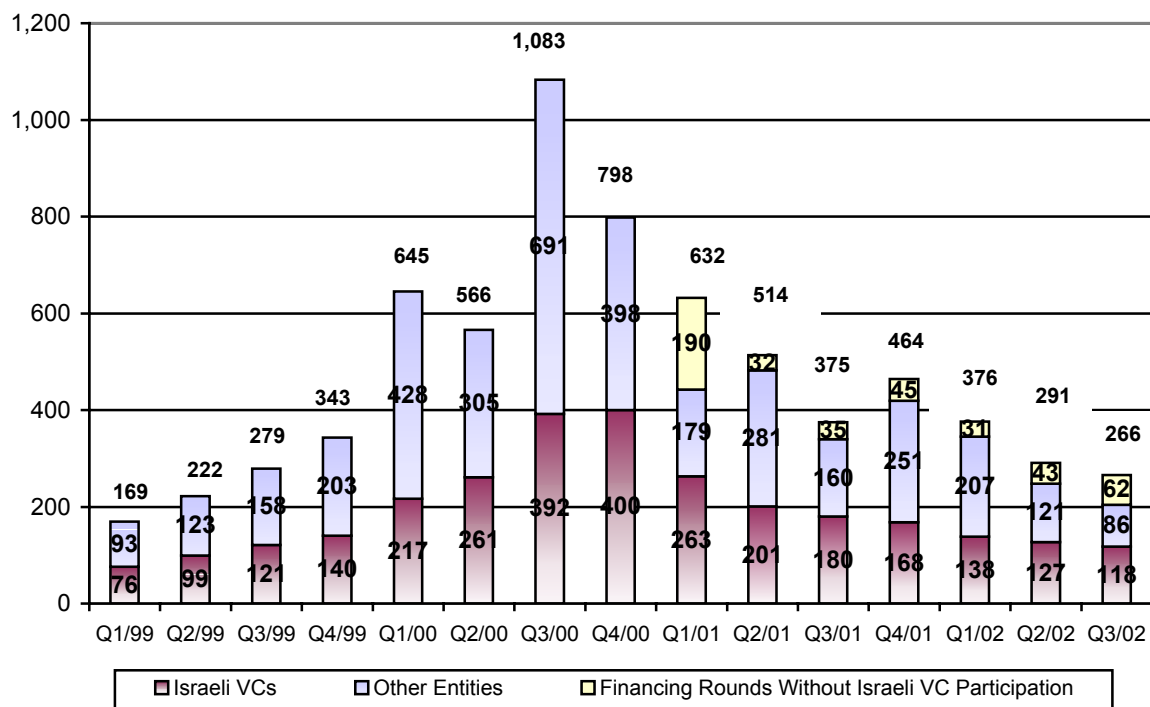
Among IVC's products and publications are the Quarterly Survey, which examines capital raising trends by Israeli high-tech companies, the bi-monthly Israel Venture Capital Journal (IVCJ), which reviews developments in the venture capital and high-tech industries, and a comprehensive database with over 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**

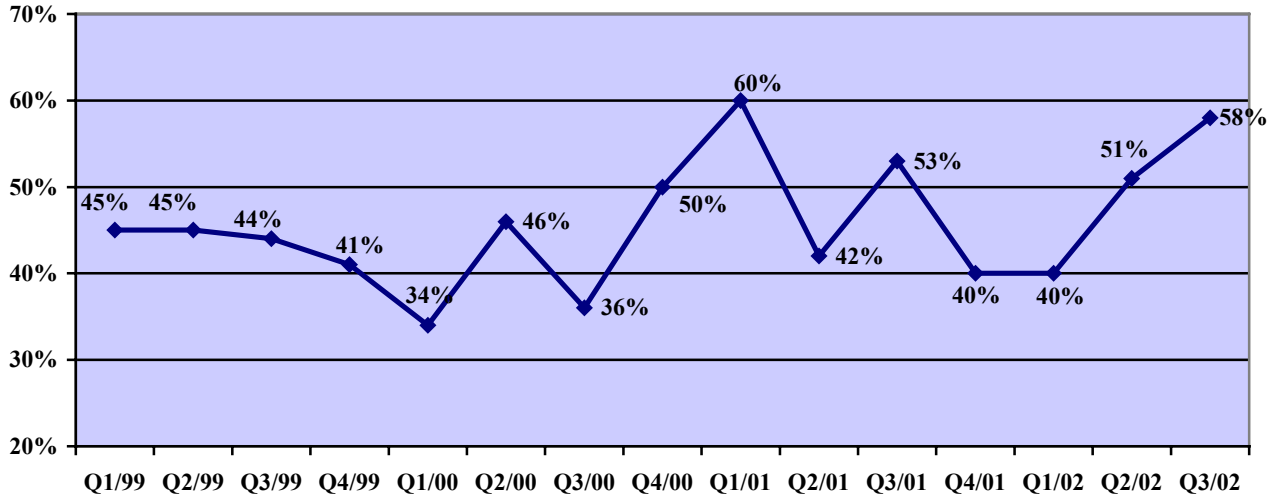


Chart 3: Distribution of First and Follow-on Investments by Quarter

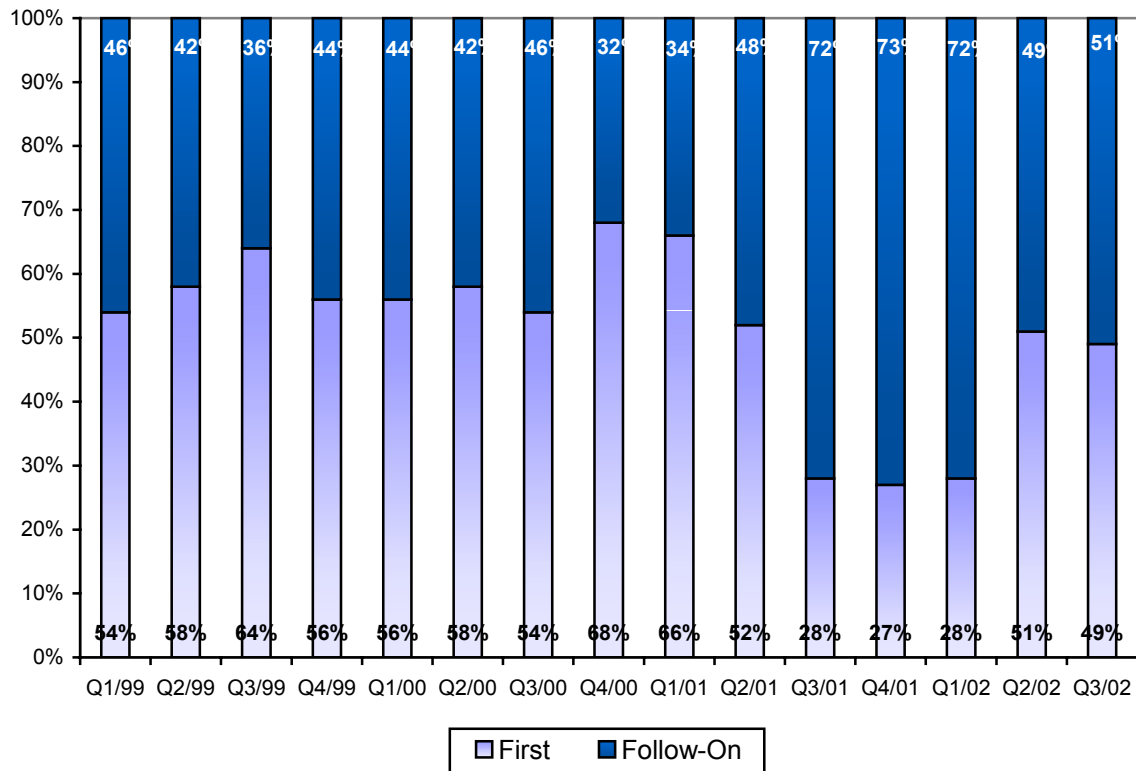


Chart 4: Capital Raised by Major Sector (\$m)

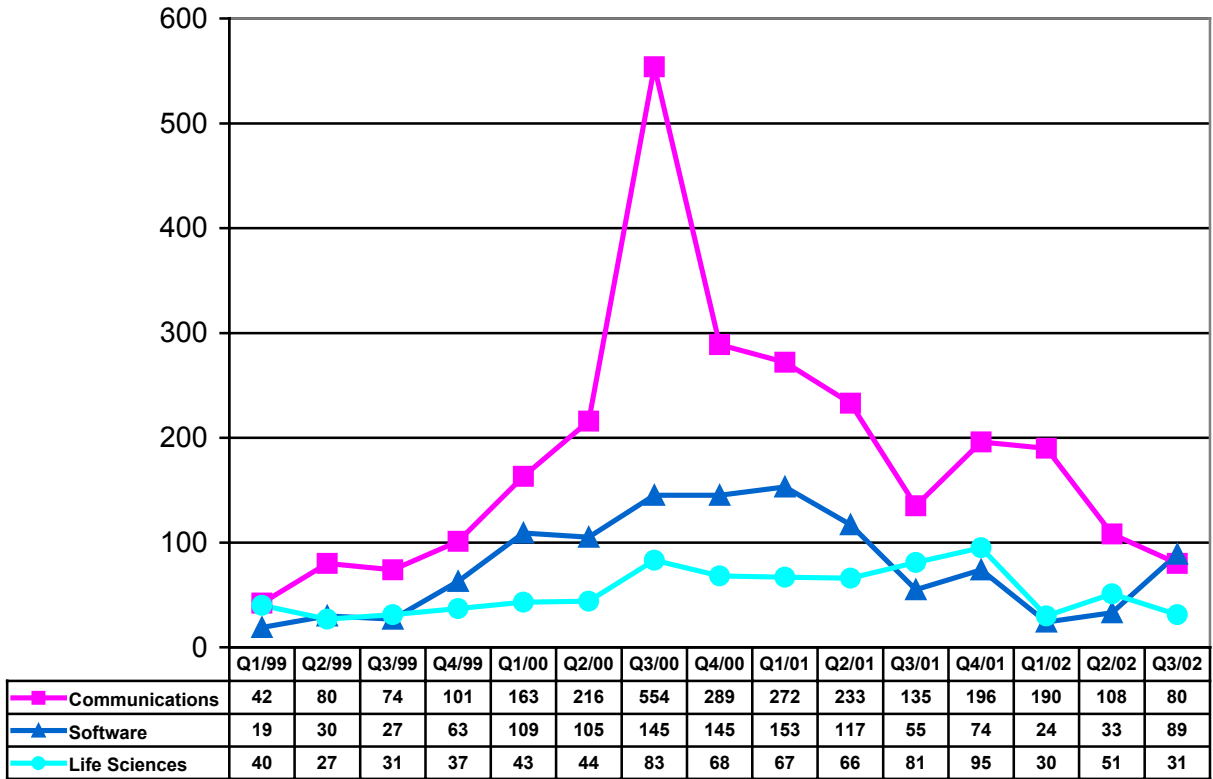


Chart 5: Capital Raised by Sector – Q3/02

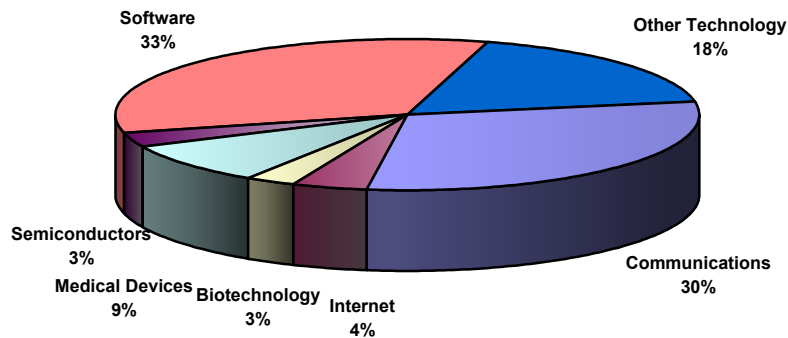


Chart 6: Capital Raised by Stage – Q3/02

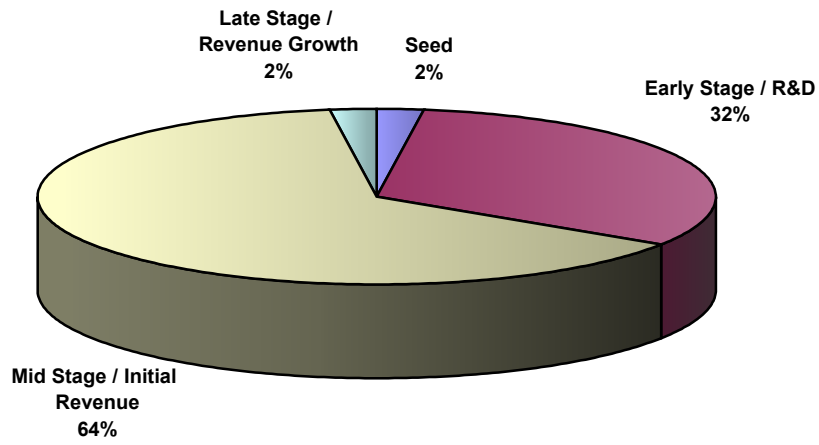


Chart 7: Capital Raised by Israeli High-Tech Companies by Stage (\$m)

