IVC Survey Q3 2003

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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 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 125 venture investors, of which 62 are Israeli management companies and 63 are other – mostly foreign – investment entities.

Capital Raised by Israeli High-Tech Companies

The positive trend in the Israeli venture market continued in 2003's third quarter as 103 Israeli high-tech companies raised $283 million from venture investors – both local and foreign (Chart 1). The amount was up a moderate four percent from the $271 million raised in the previous quarter and 34 percent from the first quarter of the year.

The $283 million includes $129 million from Israeli VCs and $154 million from foreign and other investors. The latter amount includes $35 million in foreign investments that were made without Israeli participation.

One hundred and three companies succeeded in raising capital during the third quarter, which compares to 86 companies in both Q1 and Q2 2003 and 92 firms in Q3 2002. In Q3 2003, 60 companies attracted more than $1 million. Of these, 15 raised between $5 million and $10 million each and four raised more than $10 million each.

In the first three quarters of 2003, $765 million was raised, a decrease of 18 percent from the corresponding 2002 period. Capital was raised by 275 companies, compared with 263 in the first nine months of 2002.

Capital Raised by Stage

High-tech companies in this Survey were divided into 4 categories:

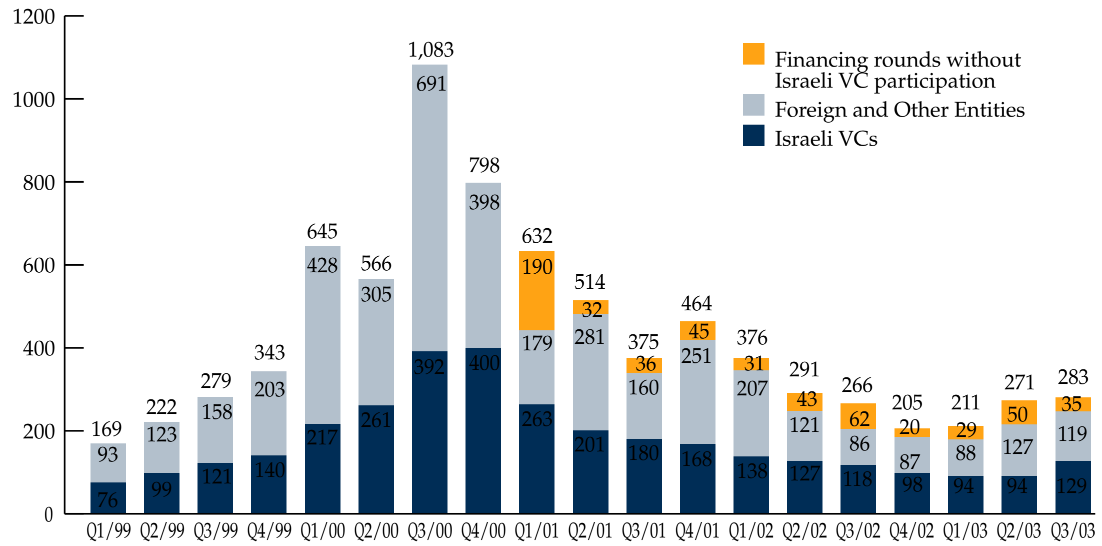
Seed, Early Stage/R&D, Mid-Stage/Initial Revenue, and Late Stage/Revenue Growth.

Fifteen Seed companies raised $21 million, seven percent of total capital raised. The amount was about the same as raised in the previous quarter, but 2.5 times the amount raised in Q3 2002.

In the first three quarters of 2003, 23 Seed companies raised $48 million, which compares with $14 million raised by 18 companies in the corresponding year-earlier period.

Thirty-five Early Stage/R&D companies attracted $80 million or 28 percent of the total raised, which compares with $94 million or 35 percent in Q2 2003 and $85 million or 32 percent in 2002's third quarter. In the nine months through September, 111 Early Stage/R&D companies raised $240 million, a decrease of 22 percent from the $310 million raised by 106 companies in the year-earlier period.

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



Source: IVC Research Center

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

Chart 2: Capital Raised by Israeli High-Tech Companies by Stage Q3 2003 (%)

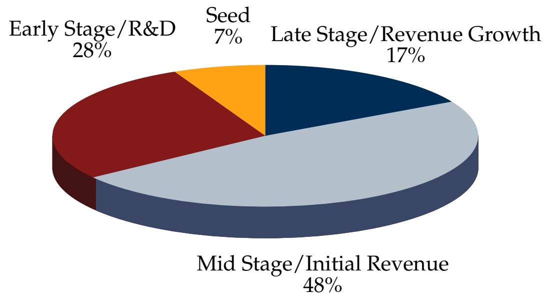
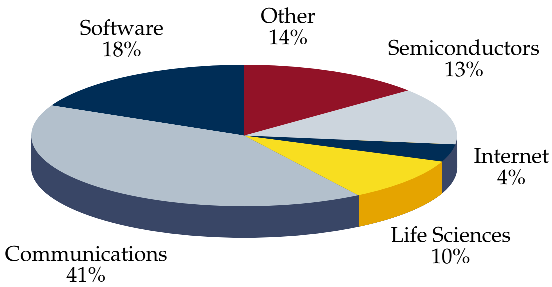


Chart 3: Capital Raised by Israeli High-Tech Companies by Sector Q3 2003 (%)



Most funding in Q3 2003 was attracted by 47 Mid-Stage companies that raised $135 million, 48 percent of total capital raised. This percentage was similar to that of the second quarter of the year, but well under the 64 percent of Q3 2002. In the first three quarters of 2003, 126 Mid-Stage companies raised $359 million, a 31 percent drop from $521 million raised by 128 companies in the year-earlier period.

Six Late Stage/Revenue Growth companies raised $47 million or 17 percent of the total. This amount is $20 million higher than capital raised by six Late Stage/Revenue Growth companies in Q2 and $41 million above that raised by five Late Stage/Revenue companies in Q3 2002.

In the three quarters through September 2003, 15 Late Stage/Revenue Growth companies raised $118 million, 40 percent more than 15 Late Stage/Revenue Growth companies raised in the corresponding period of 2002 (Chart 2).

Capital Raised by Sector

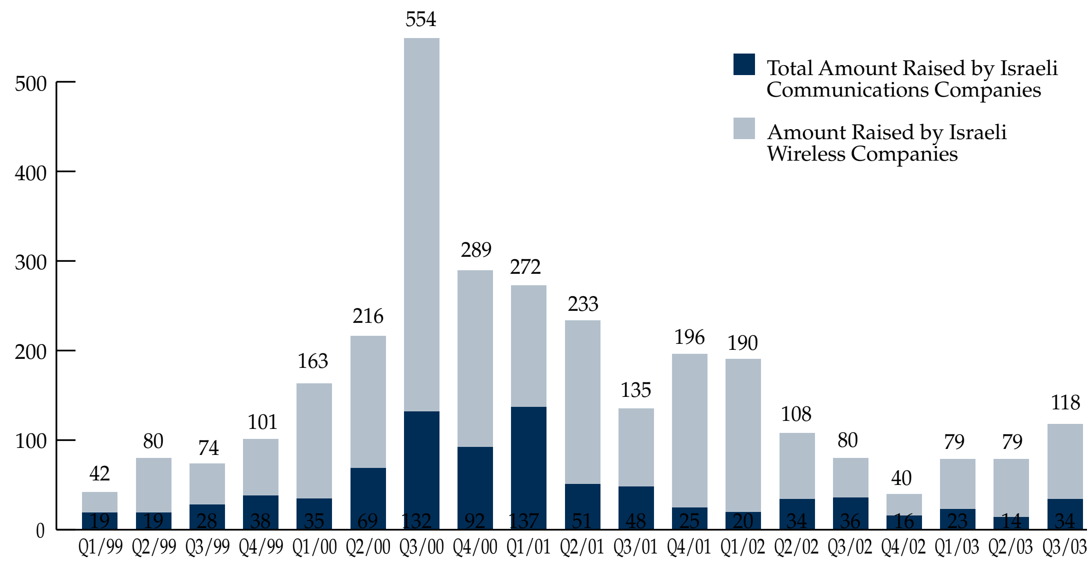
As in the previous two quarters, the Communications sector attracted most of the funds raised (Charts 3). Thirty Communications companies raised $118 million, 41 percent of the total amount raised, which compares with 29 percent and 37 percent in the second and first quarters of the year, respectively. In the nine months through September, 72 Communications companies attracted $276 million, down 27 percent from the $378 million raised by 68 Communications companies in the year-earlier period.

Within the sector, Wireless firms attracted 29 percent of the amount raised for communications and 12 percent of the amount raised by all industries (Charts 4,6). A total of $34 million was raised by 11 companies, four of which were each able to attract more than $5 million (Chart 5). The average amount raised by wireless companies was $3.1 million, compared with $2.9 million in the previous quarter and $5.1 million in Q3 2002. In the first nine months of 2003, 23 Wireless companies raised $71 million, compared with 20 wireless companies that raised $90 million in the corresponding period of 2002.

Software companies accounted for 18 percent of capital raised in Q3, compared to 19 percent in the previous quarter. Twenty-three Software companies raised $50 million. In the nine months through September, 61 Software companies attracted $140 million, off slightly from the $146 million raised in the corresponding year-earlier period by 61 companies.

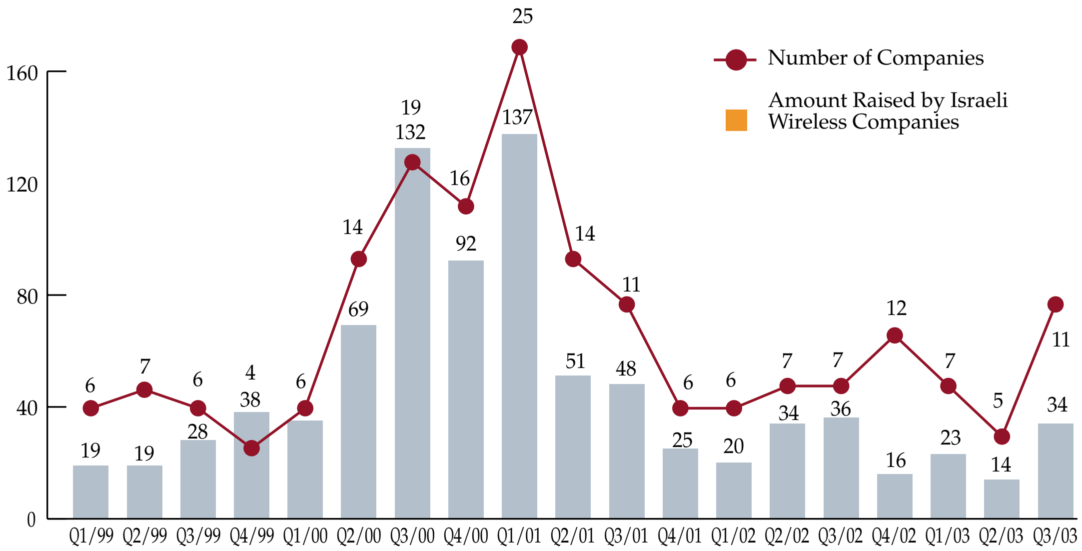
Life sciences capital raising declined with 24

Chart 4: Capital Raised by Wireless and Other Israeli Communications Companies by Quarter ($m)



Source: IVC Research Center

Chart 5: Capital Raised by Israeli Wireless Companies by Quarter ($m)



Source: IVC Research Center

companies raising $28 million or 10 percent of the total, compared with 21 companies raising $56 million or 21 percent of the total in the second quarter. Within the sector, 16 Medical Device firms raised $18 million, down 54 percent from the previous quarter. Medical Device companies accounted for 64 percent of Life Science capital raising, compared to 70 percent in Q2 2003.

In the first three quarters of 2003, 71 Life Science companies raised $123 million, up 10 percent from the $112 million of the year-earlier period. Within the sector, 43 Medical Device companies attracted $82 million, down slightly from $87 million raised by 40 Medical Device companies in the first nine months of 2002.

Six Internet companies attracted $11 million or four percent of total capital raised, close to the amount raised in Q3 2002. More than 70 percent of the amount raised was invested in two Internet companies by foreign investors. In the first three quarters of 2003, 10 Internet companies attracted $20 million, a decline of 35 percent from the $31 million raised by 23 Internet companies in the 2002 nine month period.

Seven Semiconductor companies raised $37 million, 13 percent of the total raised, compared with four companies that raised $14 million in Q2 and five companies that raised $8 million in Q3 2002. In the nine months through September, 17 Semiconductor companies attracted $92 million, 43 percent less than the $132 million raised by 21 companies in the corresponding 2002 period.

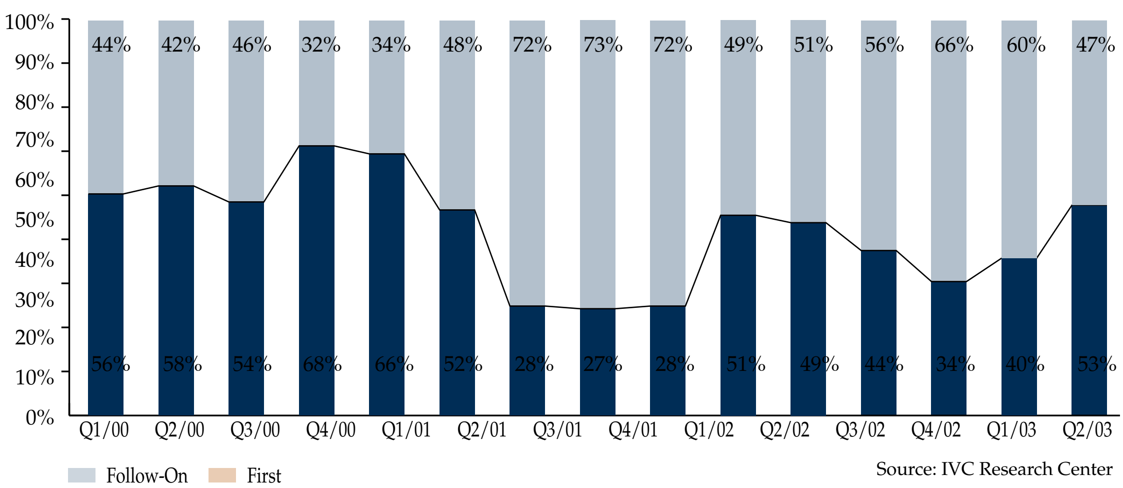
Israeli VC Investment Activities

In the third quarter, Israeli VCs invested $129 million in 80 Israeli companies, an increase of 37 percent from both first and second quarter levels and a nine percent rise from Q3 2002. The $129 million equaled 59 percent of the $220 million invested in rounds that had Israeli VC participation.

Out of 62 Israeli VC participants in the Survey, nine did not invest during Q3 2003. Thirty-five invested less than $2 million, 10 invested between $2 million and $5 million, six invested between $5 million and $10 million and only two invested more than $10 million.

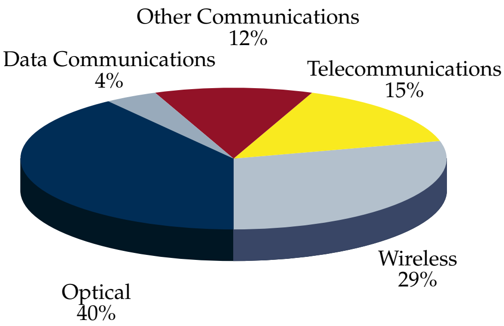
Forty-two First transactions by 26 Israeli VCs

Chart 7: Distribution of First and Follow-on Investments by Israeli VCs



Source: IVC Research Center

Chart 6: Capital Raised by Israeli Communications Companies by Subsector Q3 2003 (%)



took place during Q3 2003. The amount comprised 53 percent of Israeli VC investments, which compares with 40 percent in Q2 and 51 percent in Q3 2002 (Chart 7). The average First investment by Israeli VCs was $1.6 million, and the average Follow-on investment was $0.7 million.

Israeli VCs invested $18 million in 13 Seed stage companies via 20 transactions, compared with $10 million in six seed companies via seven transactions in the previous quarter and only $3 million in 2 companies via four transactions in Q3 2002.

Eight Israeli VCs invested in 12 foreign companies. Overseas investments amounted to $16 million, compared with $34 million in Q2 and $18 million in Q1.

In the first three quarters of 2003, Israeli VCs invested $317 million in Israeli companies, compared to $383 million invested in the first nine months of 2002. First investments were $135 million or 43 percent of the nine month 2003 amount and $161 million or 42 percent in the year-earlier period. Israeli VCs also invested $68 million in foreign companies in the nine-month period, compared to $51 million invested in the first three quarters of 2002.

From Embedded Cameras to Base Station Antennas

Continued from page 21

Instant messaging, being a huge service on the Internet, is being launched by many mobile operators around Europe. By logging onto the service, it is possible for contacts to see if a user is online and messages can then be sent in real time. IM remains a very small mobile market, but one with significant potential if interoperable with existing Internet IM services.

Axis Mobile (www.axismobile.com) formerly Celltrex Ltd., and Valis Ltd. combine expertise from both the world of cellular communities and messaging applications to create applications that people use to communicate.

MMS multimedia messaging - As seen by the above CSFB figures, a major part of mobile data growth is expected to come from MMS. Empirical evidence suggests that data congestion caused by multimedia messaging is already starting to occur in the network and increased pixel density by the new devices will place further strain on network capacity.

Mobixell Networks (www.mobixell.com) provides mobile multimedia performance optimization and delivery solutions to value-added service providers and vendors.

Bamboo (www.bamboomc.com) is a provider of multicasting platforms through which cellular operators can provide rich mass media services to their subscribers.

Unified Messaging is called Next Gen Voice Mail by operators. With standard voice mail services reaching over 70 percent penetration, mobile operators are seeking new ways of expanding the standard VM service into something bigger. Generally, Next Generation voice mail makes use of technologies such as MMS, SMS and Mobile Internet to provide more sophisticated, efficient and easier to use voice mail.

Comverse Technology, Inc. (Nasdaq: CMVT) is the world's leading provider of software and systems enabling network-based multimedia enhanced communications services. Its services include call answering with one-touch call return, short messaging services, IP-based unified messaging, 2.5G/3G multimedia messaging (MMS), wireless instant messaging, wireless data and Internet-based services, voice-controlled dialing, messaging and browsing, prepaid wireless services, and additional personal communication services.

CTI2 (www.cti2.com) is a privately owned firm that is a leader in unified communications.

The start-up case and challenge

With mobile technologies changing so rapidly, many opportunities are continuously being created for software developers and equipment manufacturers. As large players continuously seeking new growth engines, the need for flexibility, speed and innovation creates the natural ground in which start-up companies can operate.

The primary challenge for many start-up companies remains accessing the market, as operators are generally disinclined to base their services on platforms and products developed by small companies. Companies can overcome that barrier through partnerships and alliances early in the process, and by formulating an efficient business model. Companies capable of executing on a marketing plan, as demonstrated by success stories such as Amdocs, Comverse, M-Systems and DSPG, will be able to leverage their significant competitive innovations to become thriving companies.