



Summary of Israeli High-Tech Company Capital Raising Q4 2002 and Full Year 2002

- *Total VC Investments in 2002 fall 43% to \$1.14 billion*
- *Investments made by Israeli VCs totaled \$481 million, a decrease of 40 percent from 2001*
- *Seed companies take just 2% of total fund raising*

Tel Aviv, January 20, 2003. The following are findings of the Annual 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 other investors. The Survey is based on reports from 159 venture investors, of which 91 were Israeli venture capital funds and 68 were other – mostly foreign – investment entities.

During 2002, private Israeli high-tech companies raised \$1.14 billion from venture investors, local and foreign, a 43 percent drop from the \$2.00 billion raised in 2001. Three hundred and fifty-two companies raised capital in 2002, a decrease of 33 percent from 2001.

In the fourth quarter of 2002, 89 Israeli high-tech companies raised \$205 million (chart 1). This figure is 23 percent lower than the \$266 million raised during the third quarter and 56 percent below the \$464 million raised in the fourth quarter of 2001.

The average company financing round in 2002 was \$3.2 million, 16 percent below the \$3.8 million average round in 2001. In the fourth quarter, the average round slid 20 percent to \$2.3 million from \$2.9 million of the prior year.

Investment Activity of Israeli VCs, Foreign Investors and Others (Chart 1)

In 2002, investments made by Israeli VCs totaled \$481 million, a decrease of 40 percent from \$812 million invested in 2001. Quarterly investments were progressively smaller throughout the year, as in 2001. Investments by Israeli funds were \$98 million in the fourth quarter, down 17 percent from third quarter levels and 42 percent from Q4 2001.

Israeli VC First investments during 2002 accounted for 42 percent of total Israeli VC investments. Average First and Follow-on investments were \$2.3 million and \$0.7 million, respectively, compared to \$2.1 million and \$0.9 million in 2001. In Q4 2002, First investments accounted for 44 percent of all Israeli VC investments, a decrease from Q3 (49 percent) and an increase when compared to Q4 2001 (27 percent).

In 2002, foreign investors reduced their involvement in Israel. Foreign investments without Israeli VC participation declined by 49 percent from the previous year, and totaled \$156 million. The share of total investments without Israeli VC participation was roughly constant at 14 percent and 15 percent, respectively.

Capital Raised by Stage (chart 4)

High-tech companies in this Survey were divided into 4 categories: Seed, Early Stage, Mid Stage, and Late Stage.

In the past two years, Early Stage and Mid Stage companies raised the largest amounts of capital. Mid Stage companies attracted 54 percent of total investments in 2002 (\$614 million), compared to \$631 million in 2001. Early Stage companies garnered 29 percent, raising \$332 million, compared to \$811 million (40 percent) in 2001. Seed companies lagged behind for a second year in a row, constituting only two percent (\$23 million) of the total funds raised in 2002, compared to five percent (\$95 million) in 2001.

In the fourth quarter, capital raised by Late Stage companies tripled, compared to Q3, totaling \$18 million and attracting eight percent of capital. Mid Stage firms attracted \$93 million (45 percent), compared to \$169 million (64 percent) in the prior quarter. Seed and Early Stage capital raising, at \$5 million and \$89 million, respectively, varied little from Q3's \$6 million and \$84 million.

Capital Raised by Sector (chart 2-3)

Communications

In 2002, 90 Communication companies raised \$417 million (37 percent of total capital raised), compared to 160 firms that raised \$836 million (42 percent) in 2001. The average financing round declined to \$4.7 million in 2002 from \$5.2 million in 2001.

In Q4, Communication companies raised \$40 million (19%), down 50 percent from Q3's \$80 million and 80 percent from \$196 million in the year-earlier quarter. The average financing round decreased by 45% to \$1.8 million.

Software

In 2002, 80 Software companies raised \$204 million (18 percent of total capital raised), a 41 percent decline from the previous year (20 percent). The average financing round also fell and was \$2.5 million, compared to \$4 million in 2001.

Capital raised by 18 Software companies totaled \$58 million (28%) in Q4, a 35% decrease from Q3 and a 45% decline from Q4 in the previous year. The average financing round was \$3.2 million, versus \$3.9 million in Q3.

Life Sciences

In 2002, 81 Life Science companies raised \$176 million (15% of total capital raised), compared to 103 firms that raised \$310 million (15%) in 2001. The average financing round declined to \$2.2 million from \$3 million.

In Q4, Life Science firms more than doubled their capital raising to \$64 million from \$31 million in Q3, but capital raised remained 67% below the \$95 million of Q4 2001. The average financing round increased to \$2.6 million from Q3's \$1.7 million.

In 2002, Medical Device companies accounted for 78 percent of amounts raised in the Life Sciences sector, compared with 57 percent in 2001. Medical Devices were 12% of total capital raised, versus 9% in 2001.

In Q4, Medical Devices also made up 78 percent of life science investments. Nineteen companies raised \$51 million (25% of capital raised), a significant increase from the \$24 million (9 percent) raised in Q3.

Internet

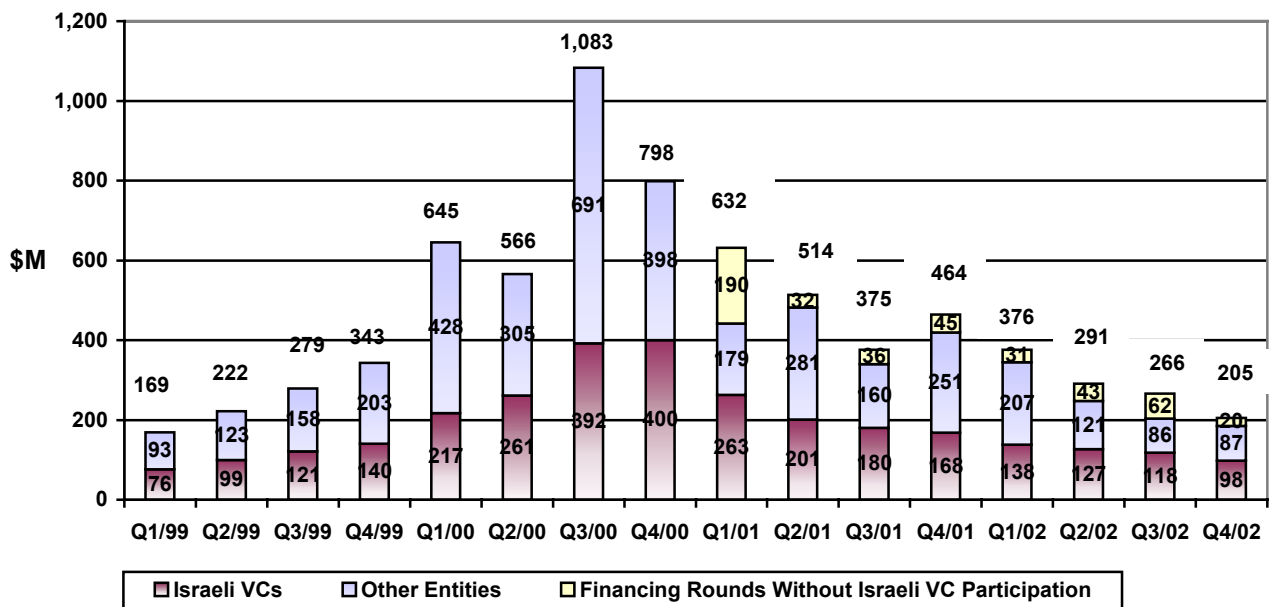
The Internet industry reached a low point in 2002 with 27 companies attracting only \$41 million (4 percent of the total raised), a decline of 77% from the \$182 million (9 percent) raised by 82 companies in 2001. The average financing round was \$1.5 million, compared with \$2.2 million in 2001.

In Q4, four Internet companies managed to raise \$10 million, close to the amount raised in Q3, but down 50 percent from Q4 2001. The average financing rose to \$2.5 million from \$1.8 million in Q3.

IVC 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 Quarterly Israel Venture Capital Journal (IVCJ), which reviews developments in the venture capital and high-tech industries, and a comprehensive database with over 3,600 Israeli high-tech companies, venture capital funds, investment companies and technology incubators, news updates and more.

Chart 1: Capital Raised by Israeli High Tech Companies by Quarter



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

Chart 2: Capital Raised by Major Sector (\$M)

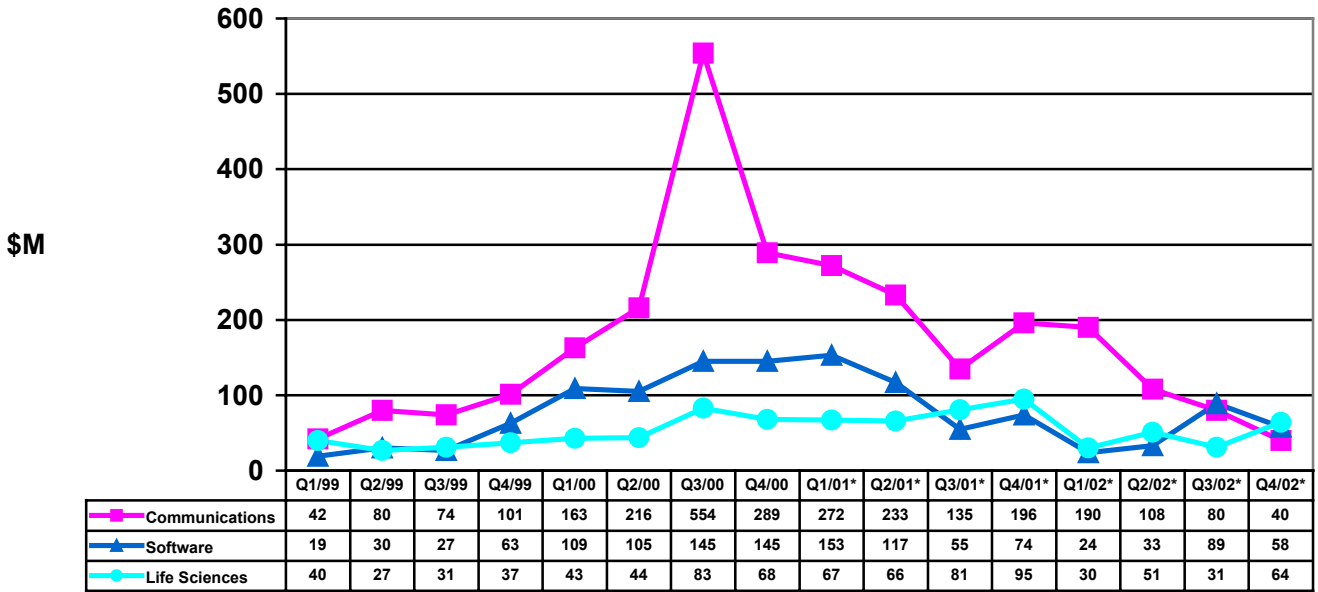
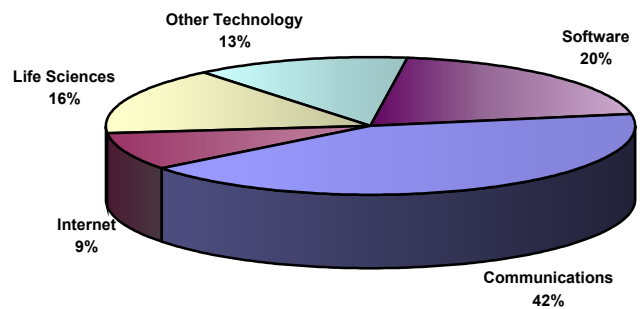
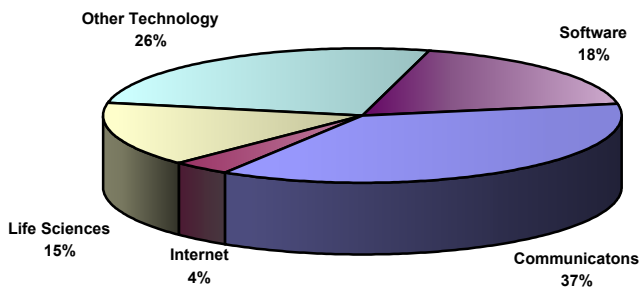


Chart 3: Capital Raised by Israeli High Tech Companies by Sector

Year 2002

Year 2001



Total \$1.14 billion

Total \$2.0 billion

Chart 4: Capital Raised by Israeli High-Tech Companies by Stage

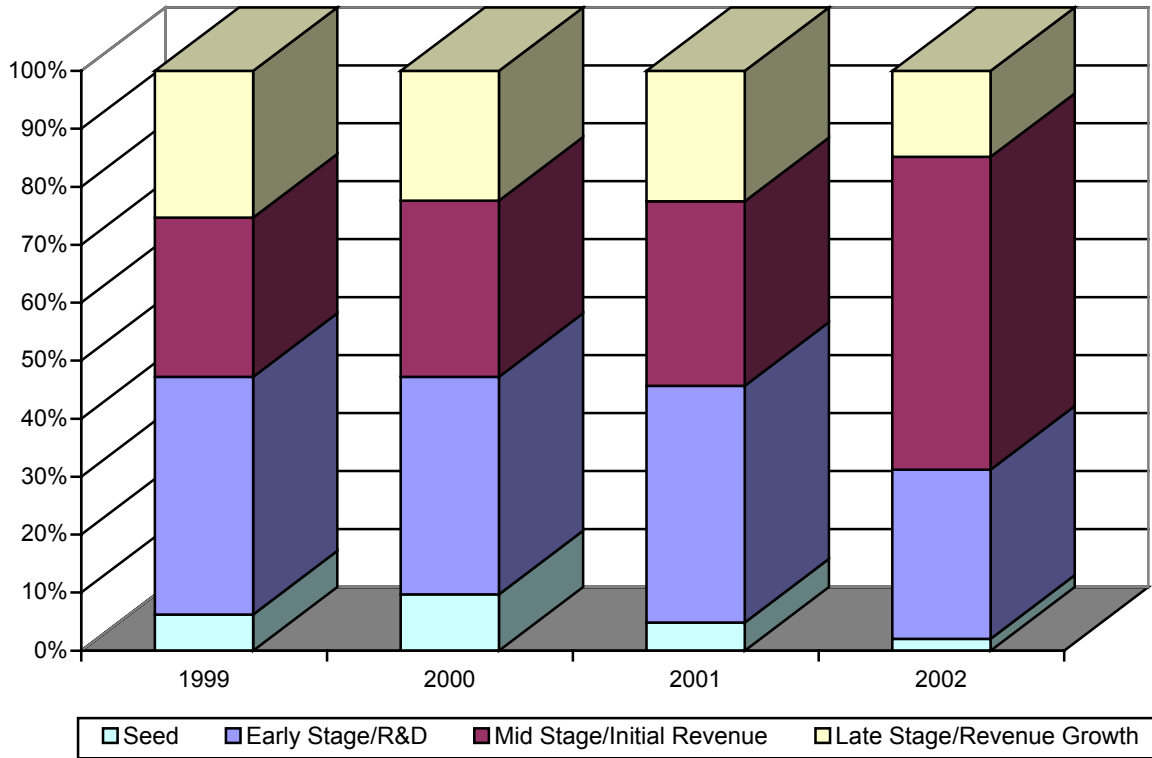
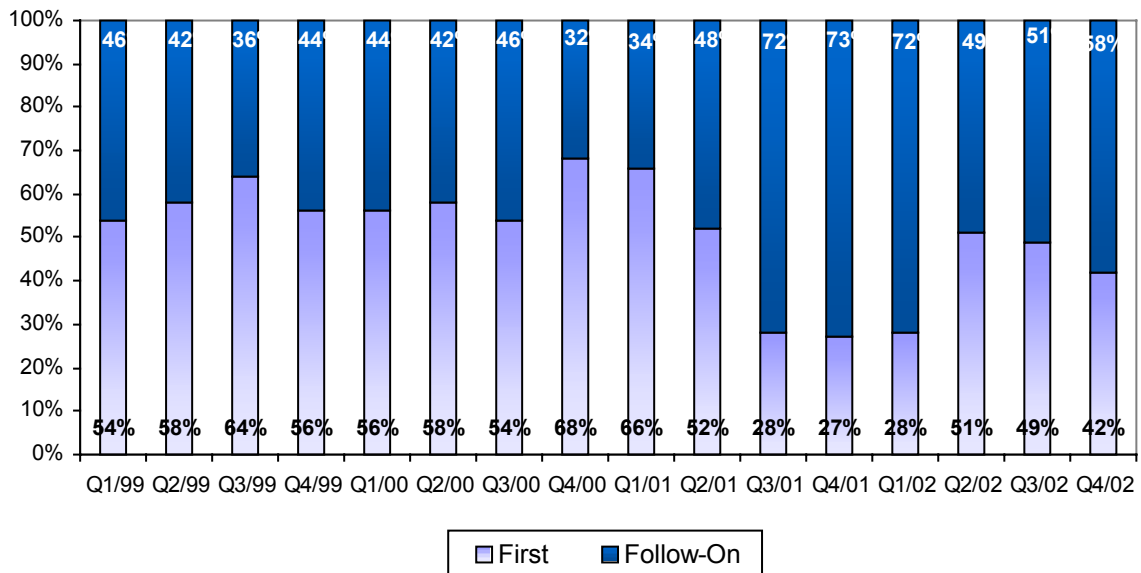


Chart 5: Distribution of First and Follow-on Investments by Quarter



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