

IVC-Online High Tech Survey

First Half - 2000

The purpose of this survey is to track the investment activities of Israeli venture capital funds, as well as the capital raising activities of Israeli high tech companies. For a discussion of the scope and methodology of this project please refer to the Methodology section.

Summary of Survey Findings

In Q2/2000, opposite trends in Israeli VCs investments and capital raising by Israeli high tech companies were identified. Whilst the amount raised by Israeli high tech companies from all sources decreased 10% in comparison to the previous quarter, local VCs invested a record \$260.6 million.

Israeli VC Investment Activities

- The combined investment of the 17 most active funds was \$204.2 million, accounting for 78% of the total investment made by Israeli venture capital funds during Q2.
- Israeli VC investments in the communications sector, which began to rise sharply during Q1/00, continued to rise and increased 34% in comparison to Q1/00 and an accumulated 177% in the past two quarters.
- The revenue growth stage, which is the most mature stage, enjoyed a sharp increase of 65% in comparison to Q1.

Israeli High Tech companies

- During Q2, 120 private Israeli high tech companies raised \$609.9 million, 10% less than the amount raised in the previous quarter, which totaled \$676.7 million.
- The decrease in the share of the Israeli VCs from the total amount raised by the companies has ceased in Q2.
- Internet companies, hurt by the precipitous decline of NASDAQ, raised \$176 million in Q2, 46% lower than the amount raised by Internet companies in Q1.
- Twenty-two high tech companies raised over \$10 million each in the second quarter.
- The only stage that experienced growth in this quarter was the seed stage – the earliest company stage.

Analysis of Israeli VC Investment Activities

General

In Q2/2000, opposite trends in Israeli VCs investments and capital rising by Israeli high tech companies were identified. Whilst the amount raised by Israeli high tech companies from all sources decreased 10% in comparison to the previous quarter, local VCs invested a record \$260.6 million in Q2. This is a 20% increase over the \$216.7 million invested in Q1, and a 164% increase over the \$98.7 million, which was invested in Q2/1999.

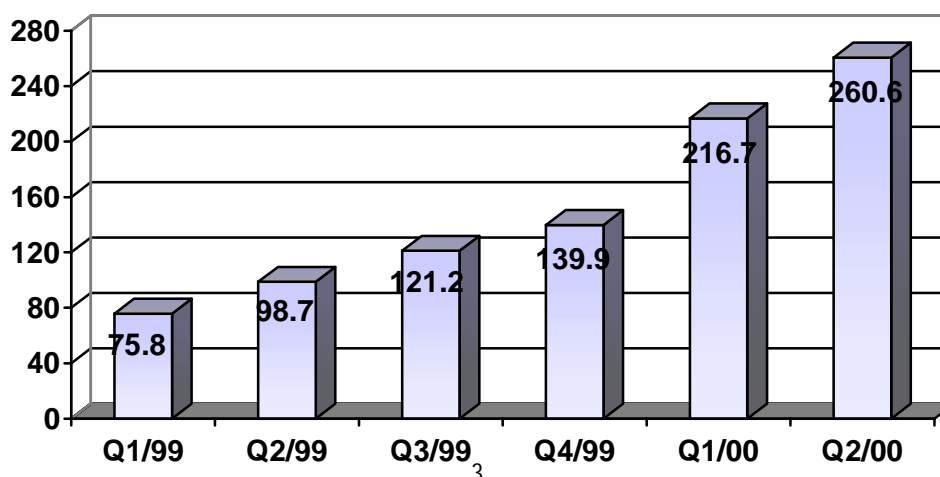
Due to these opposite trends, the share of the Israeli VCs investments of the total amount raised by the companies increased for the first time since January 1999 (extension in page 9).

Seventy-two Israeli VC funds, invested \$260.6 million during Q2 in 176 deals involving 120 companies. (An investment round in which a company receives funding from more than one VC fund is counted as a deal for each of the funds and only as one transaction for the company).

The average amount invested by the Israeli VCs in a deal during Q2 was \$1.5 million, a 25% increase in comparison to the average amount in Q1, which was \$1.2 million.

| No. of Funds | Total Amount Invested (\$M) | No. of Deals | No. of Companies | Average Amount Invested (\$M) |
|--------------|-----------------------------|--------------|------------------|-------------------------------|
| 72 | 260.6 | 176 | 120 | 1.5 |

Total Amount Invested by Israeli VC Funds by Quarter (\$M)



Investment Activity of VC Funds

Seventeen Israeli venture capital funds invested over \$5 million each during Q2 (compared to twelve during Q1). Three of them invested over \$10 million each and five more invested over \$15 million each. The combined investment of these seventeen funds was \$204.2 million, accounting for 78% of the total investment made by Israeli venture capital funds during Q2.

| Investment Level | No. of Funds* | Total Amount Invested (\$M) | % of Total | Average amount invested (\$M) |
|-------------------------|----------------------|------------------------------------|-------------------|--------------------------------------|
| \$0m - \$0.5m | 15 | 1.6 | 0.6% | 0.1 |
| \$0.5m - \$2m | 15 | 20.2 | 8% | 1.3 |
| \$2m - \$5m | 9 | 34.6 | 13% | 3.8 |
| \$5m - \$10m | 9 | 61.0 | 23% | 6.8 |
| \$10m - \$15m | 3 | 40.4 | 16% | 13.5 |
| More than \$15m | 5 | 102.8 | 39% | 20.6 |
| Total | 56 | 260.6 | 100% | 4.7 |

* This survey is based on the figures reported to IVC-Online by 72 active Israeli venture capital funds, managed by 56 management companies. For the sake of clarity, the data refers to the management companies.

Fund Investment Activity by Industry Classification

The technology sectors which received the most investments from Israeli VCs in Q2, similar to Q1, were the Internet and communications. Israeli VCs invested \$89.7 million in Internet companies and \$86.8 million in communications companies. Additionally, Israeli VCs invested \$41.8 million in software, \$31.4 million in life sciences, and \$10.9 million in other technologies.

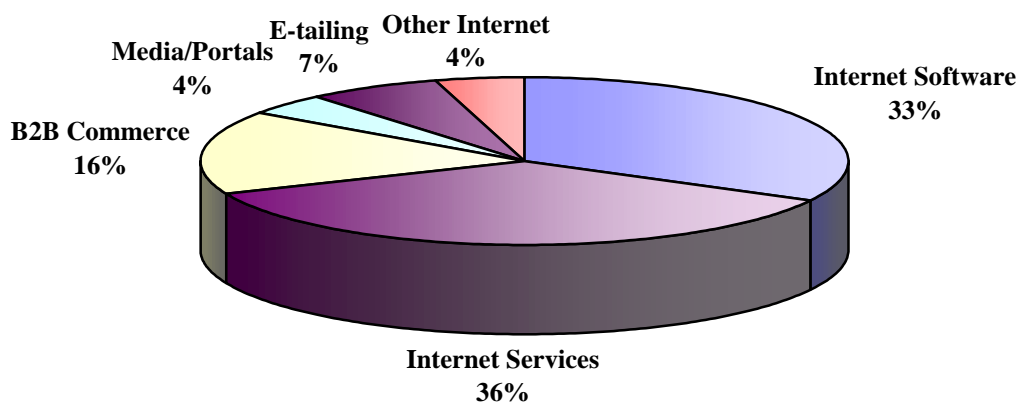
The life sciences, communications and Internet sectors enjoyed increases of 59%, 34% and 20%, respectively, while the software sector saw a decrease of 3%.

Internet. Although the fall in NASDAQ in March and April caused a sharp decline in the Internet sector, Israeli VCs invested \$89.7 million in Internet companies, 20% more than in Q1 and 418% more than in the parallel quarter last year.

The Internet companies are classified in six different categories: Media/Portals, E-Tailing (C2C, C2B, B2C), Business-to-Business Commerce (B2B), Internet Services, Internet Software and Other Internet companies.

As is reflected below, 69% of the investments in the Internet sector went to Internet services and Internet software companies.

Distribution of the Israeli VCs Investments in the Internet Sector



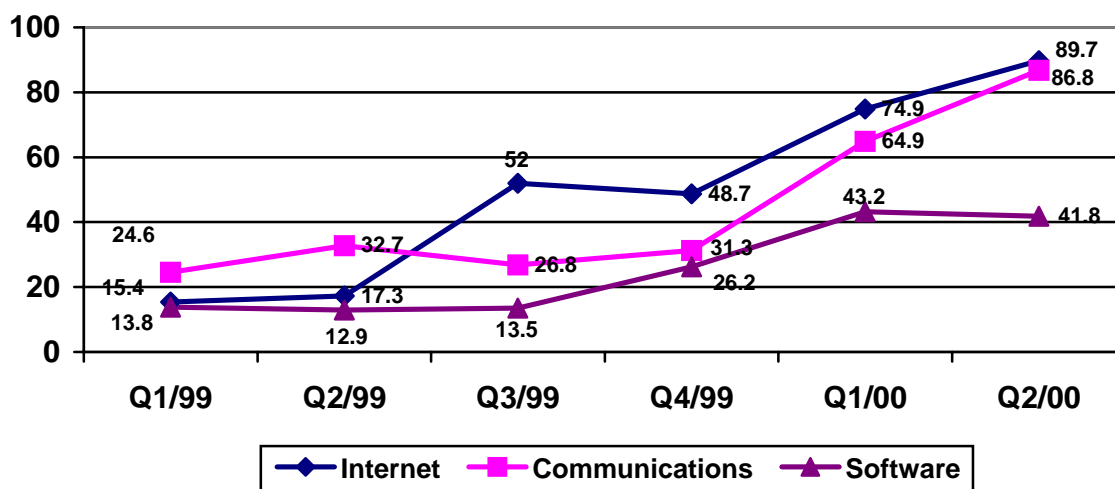
Communications. Israeli VC investments in the communications sector, which began to rise sharply during Q1/00, continued to rise and increased 34% in comparison to Q1/00 and an accumulated 177% in the past two quarters.

Software. Growth in the software sector, which was characteristic of the period between Q4/99 and Q1/00, came to a halt during Q2, as VCs investments went down by 3% from Q1. However, Israeli VCs investments in this sector are still 224% higher than the same quarter last year. The average amount Israeli VCs invested in software companies, which totaled \$1.9 million, was higher than all the other industries (this number refers only to the average amount invested by the Israeli VCs and not to the total round of the company).

Life Sciences. While sluggish growth has plagued this sector since Q2/99, Israeli VCs investments skyrocketed by 59% more than Q1 and 86% from Q2/99. Yet, life sciences companies still receive the lowest amounts on average from the Israeli VCs.

| Industry | Amount invested by Israeli VCs (\$M) | | | | | | % Of Total | Number of Investments by Funds | Average amount invested (\$M) |
|------------------|--------------------------------------|-------------|--------------|--------------|--------------|--------------|---------------|--------------------------------|-------------------------------|
| | 1999 | | | | 2000 | | | | |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | | | |
| Communications | 24.6 | 32.7 | 26.8 | 31.3 | 64.9 | 86.8 | 33.5% | 49 | 1.8 |
| Internet | 15.4 | 17.3 | 52.0 | 48.7 | 74.9 | 89.7 | 34.5% | 66 | 1.4 |
| Software | 13.8 | 12.9 | 13.5 | 26.2 | 43.2 | 41.8 | 16% | 22 | 1.9 |
| Life Sciences | 11.1 | 16.9 | 17.0 | 18.7 | 19.7 | 31.4 | 12% | 28 | 1.1 |
| Other Technology | 10.9 | 18.9 | 11.9 | 15.1 | 14.1 | 10.9 | 4% | 11 | 1.0 |
| Total | 75.8 | 98.7 | 121.2 | 139.9 | 216.7 | 260.6 | 100.0% | 176 | 1.5 |

Fund Investment Activity in the major industries (\$M)



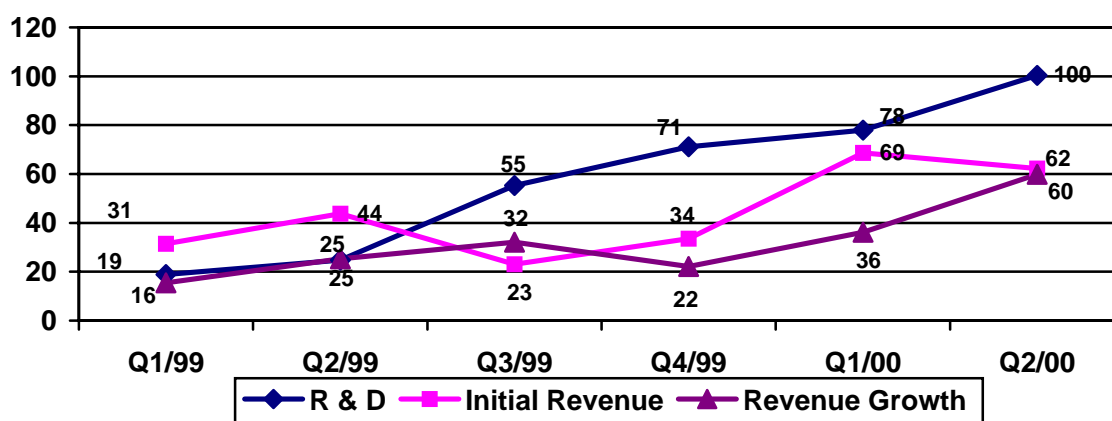
Fund Investment Activity by Company Stage

As in the previous three quarters, R&D was the most popular stage for investment by Israeli VCs, receiving \$100.3 million. Companies in initial revenue, revenue growth and Seed stages attracted \$62.2 million, \$59.9 million, and \$38.3 million, respectively.

The revenue growth stage, which is the most mature stage, enjoyed the sharpest increases with a 65% increase in comparison to Q1. Companies in the R&D and seed stage enjoyed increases of 29% and 13%, respectively, while companies from the initial revenue stage got 9% less than they did in Q1.

| Stage | Amount invested by Israeli VCs (\$M) | | | | | | % Of Total | Number of Investments by Funds | Average amount invested (\$M) |
|-----------------|---|-------------|--------------|--------------|--------------|--------------|---------------|--------------------------------------|--|
| | 1999 | | | | 2000 | | | | |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | | | |
| Seed | 10.2 | 4.8 | 10.8 | 13.1 | 33.9 | 38.3 | 15% | 38 | 1.0 |
| R&D | 18.8 | 24.8 | 55.3 | 71.2 | 77.9 | 100.3 | 38% | 61 | 1.6 |
| Initial Revenue | 31.4 | 43.7 | 23.0 | 33.6 | 68.6 | 62.2 | 24% | 47 | 1.3 |
| Revenue Growth | 15.5 | 25.3 | 32.1 | 22.1 | 36.2 | 59.9 | 23% | 30 | 2.0 |
| Total | 75.8 | 98.7 | 121.2 | 139.9 | 216.7 | 260.6 | 100% | 176 | 1.5 |

Fund Investment Activity in the major stages (\$M)



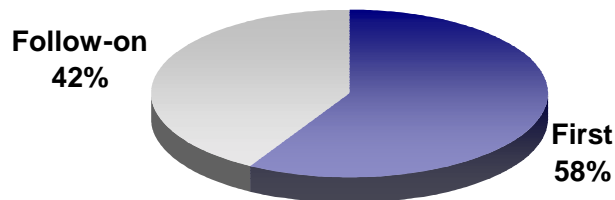
First & Follow-on Investments

Solid first round investments characterized Israeli VCs investments during Q2/00. The 176 deals in Q2/2000, with a total value of \$260.6 million, were divided between 89 first-time investments, attracting \$152.3 million, and 87 follow-on investments (companies receiving additional capital from a fund which had previously invested) receiving \$108.3 million. In terms of capital, first investments enjoyed a 25% increase

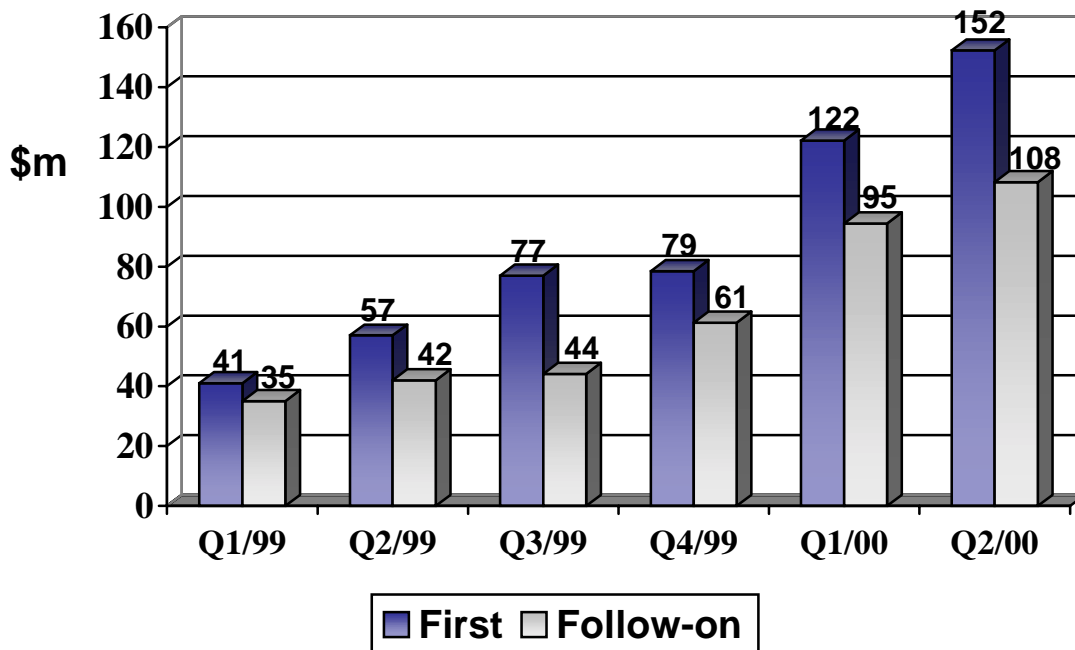
in comparison to Q1, while follow-on investments increased by 15%. The second quarter saw 89 first investment deals, 10 more than in Q1, and 87 follow-on deals, 21 fewer than in Q1.

| Investment Status | No. of Deals | Total Amount Invested (\$M) | % of Total | Average amount invested (\$M) |
|-------------------|--------------|-----------------------------|-------------|-------------------------------|
| First | 89 | 152.3 | 58.4% | 1.7 |
| Follow | 87 | 108.3 | 41.6% | 1.2 |
| Total | 187 | 216.7 | 100% | 1.5 |

Fund Investment Activity – First and Follow-on Investments Q2/2000



Fund Investment Activity – First and Follow-on Investments by Quarter



Analysis of the Total Amounts Raised by Israeli High Tech companies

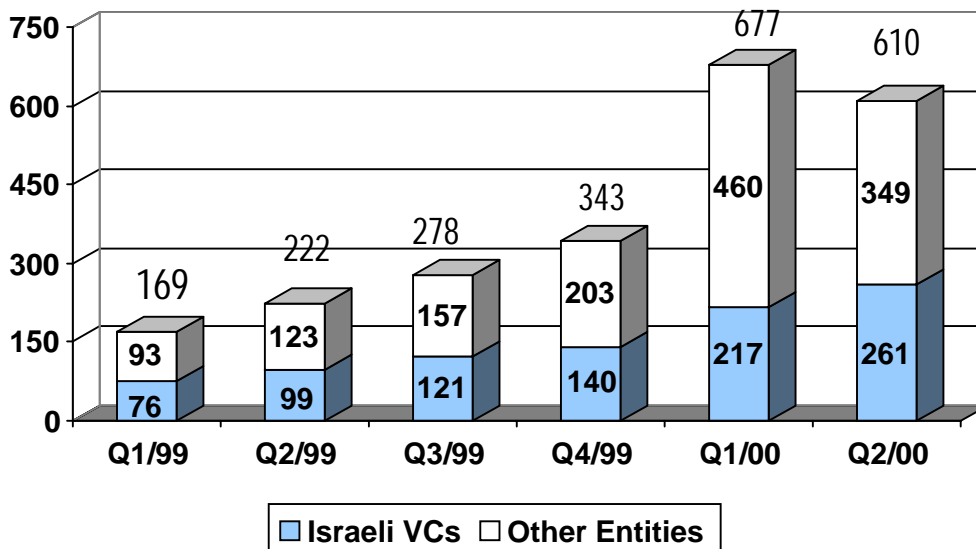
General

During the second quarter of 2000, 120 private Israeli high tech companies raised \$609.9 million. This figure is 10% less than the amount raised in the previous quarter, which totaled \$676.7 million, yet, still 175% higher than the second quarter of 1999, which totaled \$222 million.

This decline is a new phenomenon in the Israeli high tech sector, which, had seen sharp quarterly increases since January 1999. For example, the average quarterly increase in capital raised in 1999 was 27%, and the increase in the first quarter of 2000 over Q4/99 was 97%.

The drop in capital raised in Q2/2000 can be explained by the decline in investments by investors other than Israeli VCs (“other entities”). These investors, which include mainly non-Israeli VCs and also Israeli investment companies and private Israeli investors, decreased their investment in Israeli high tech companies by 24% and thus affected the total capital raised by the companies.

Total Amount Raised by Companies by Quarter (\$M)



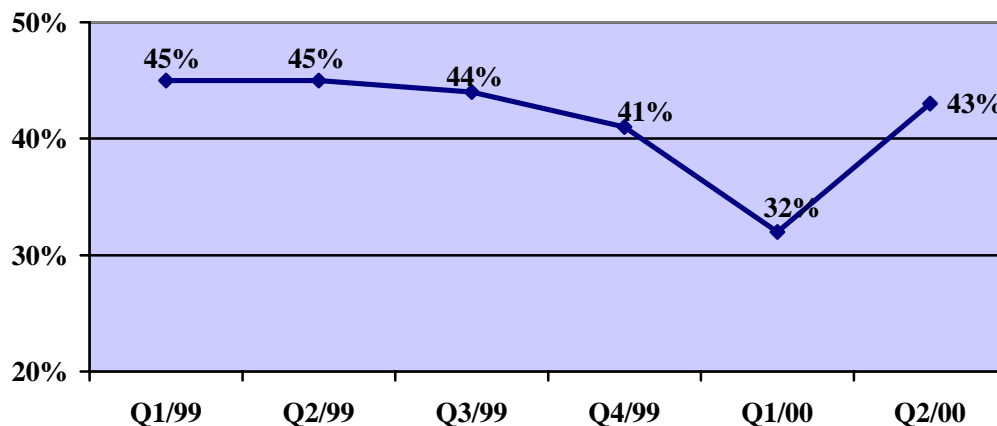
This quarter also saw a decrease in the number of companies raising capital. 120 private Israeli high tech companies raised capital in Q2 as opposed to 134 companies in Q1. The average amount raised per company this quarter was \$5.1 million, which is comparable to the previous quarter.

The decline in the amount raised would have been more drastic had the Israeli venture capital funds not increased their investments during the quarter, which, in turn, offset part of the decrease in the other entities investments.

Although capital raising did decline, an overall analysis of the findings shows that the \$1,286.6 million (\$609.9M in Q2 and \$676.6M in Q1) raised by companies in the first half of 2000 is 27% higher than the figure for all of 1999 which equaled \$1,011.6 million.

The trend of decreasing share of the Israeli VCs from the total amount raised by the companies has ceased as a result of decreasing total amounts raised by the companies as investments by Israeli VCs increased. The Israeli VCs share had been decreasing since Q2/1999. At the lowest point of this trend in Q1/2000, Israeli VCs accounted for only 32% of the total capital raised. In Q2, however, 43% of the capital raised came from the Israeli VCs, representing a shift in this trend.

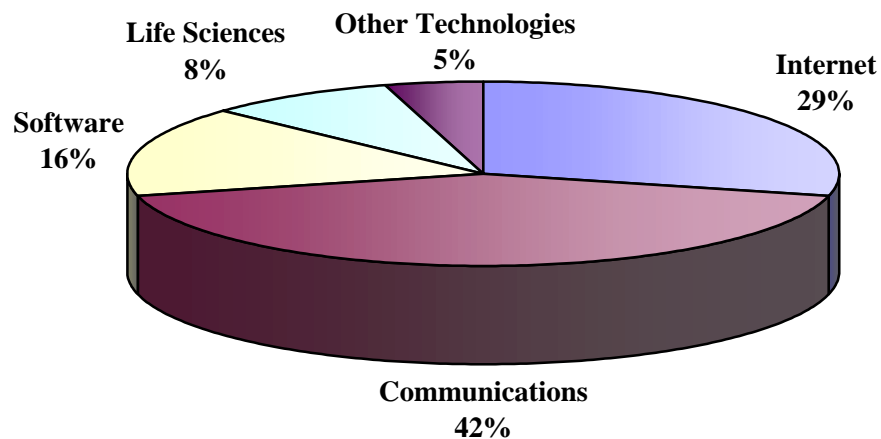
The Share of the Israeli VCs in The Amounts Raised by The Israeli High Tech Companies by Quarter



Capital Raising by Industry

The most popular sector during the quarter was communications in contrast to the three previous quarters when the Internet was the most popular.

Capital Raised by Companies by Industry During Q2/2000



Communications. Companies in the communications sector raised a record \$257 million, a 72% increase over the \$149 million raised in the first quarter. The 72% increase is attributed to the other entities (investors other than Israeli VCs), which increased their investments in communications by 103%, as well as to Israeli VCs, which increased their investments in this sector by 34%. The average amount raised by each company in the communications sector was \$7.1 million, higher than the average in any other sector.

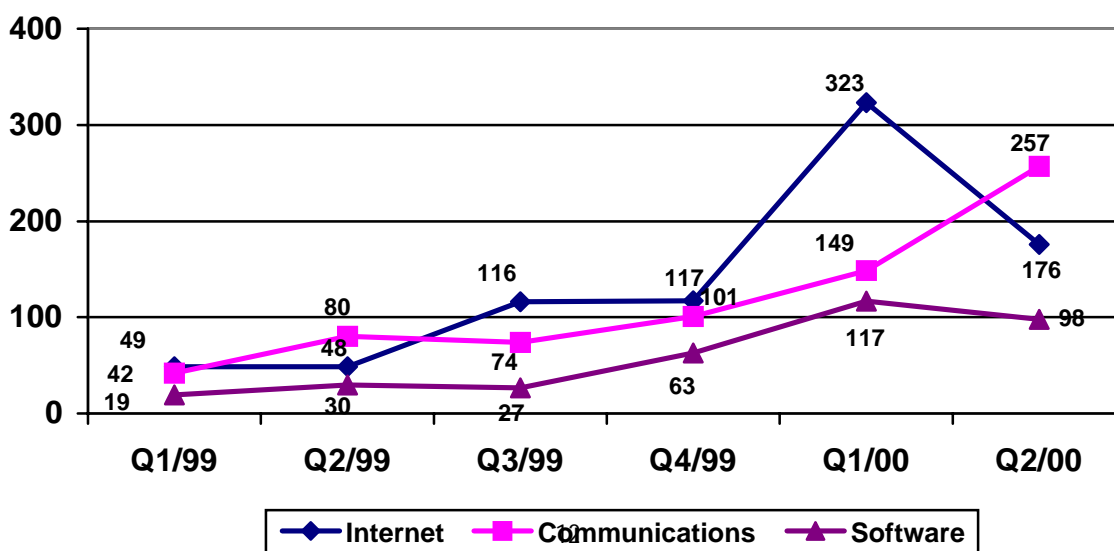
Internet companies, hurt by the precipitous decline of NASDAQ, raised \$176 million in Q2. This is 46% lower than the amount raised by Internet companies in Q1. The sharp decrease would have been accentuated even more had the Israeli VCs not increased their Internet investments by 20%, which helped compensate the 65% decrease in Internet investments of investors other than Israeli VCs. The 42 Internet companies rose this quarter an average of \$4.2 million for a round each.

The *Software* sector, after sharp increases in Q4/1999 and Q1/2000, received \$98 million, 16% less than in the previous quarter. Both Israeli VCs and other entities lessened their investments in the sector, even though the other entities decrease was greater than the Israeli VCs. Sixteen software companies averaged a relatively high figure of \$6.1 million per company.

The *Life Sciences* sector, which had been extremely steady in the previous quarters, received \$51.7 million, 19% more than in Q1. This increase was due to the Israeli VCs, which increased their investments by 59% in the sector. In contrast to the local VCs, the other entities decreased their investments by 14%. The 19 life sciences companies averaged only \$2.7 million for a round each.

| Industry | Amount Raised by Israeli High Tech Companies (\$M) | | | | | | Number of Companies | Average amount Raised (\$M) | Amount invested by Israeli VCs (\$M) | The share of the Israeli VCs from the total - % |
|------------------|--|------------|------------|------------|------------|--------------|---------------------|-----------------------------|--------------------------------------|---|
| | 1999 | | | | 2000 | | | | | |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | | | | |
| Communications | 42 | 80 | 74 | 101 | 149 | 257.0 | 36 | 7.1 | 86.8 | 34% |
| Internet | 49 | 48 | 116 | 117 | 323 | 176.0 | 42 | 4.2 | 89.7 | 51% |
| Software | 19 | 30 | 27 | 63 | 117 | 97.8 | 16 | 6.1 | 41.8 | 43% |
| Life Sciences | 40 | 26 | 31 | 37 | 43 | 51.7 | 19 | 2.7 | 31.4 | 61% |
| Other Technology | 19 | 37 | 31 | 25 | 45 | 27.5 | 7 | 3.9 | 10.9 | 40% |
| Total | 169 | 222 | 279 | 343 | 677 | 609.9 | 120 | 5.1 | 260.6 | 43% |

Capital Raised by Israeli High Tech Companies in the major industries (\$M)



Size of Financing Rounds

Twenty-two high tech companies raised over \$10 million each in the second quarter. Six of these companies raised over \$20 million.

In comparison, 1999 saw only 18 companies raise over \$10 million, and only 2 companies raised more than \$20 million. The combination of the first two quarters shows an encouraging picture. Forty-five companies raised over \$10 million each in the first half of 2000, and 14 of them raised over \$20 million.

| Round Size | Amount Raised by Israeli High Tech Companies (\$M) | | | | | | % Of Total | Number of Companies | Average amount raised (\$M) |
|-----------------|---|--------------|--------------|--------------|--------------|--------------|---------------|------------------------|--------------------------------------|
| | 1999 | | | | 2000 | | | | |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | | | |
| \$0m - \$0.5m | 1.7 | 3.2 | 5.4 | 6.3 | 5.0 | 2.9 | 0.5% | 15 | 0.2 |
| \$0.5m - \$2m | 27.7 | 18.3 | 24.3 | 33.0 | 36.7 | 35.5 | 6% | 35 | 1.0 |
| \$2m - \$5m | 51.7 | 46.9 | 56.5 | 80.5 | 91.0 | 70.6 | 11.5% | 26 | 2.7 |
| \$5m - \$10m | 65.8 | 89.3 | 69.7 | 117.5 | 124.4 | 138.3 | 23% | 22 | 6.3 |
| \$10m - \$20m | 22.0 | 64.0 | 100.5 | 85.4 | 195.4 | 201.7 | 33% | 16 | 12.6 |
| More than \$20m | --- | --- | 22 | 20 | 224.3 | 161.0 | 26% | 6 | 26.8 |
| Total | 168.9 | 221.6 | 278.5 | 342.7 | 676.7 | 609.9 | 100.0% | 120 | 5.1 |

Capital Raising by Company Stage

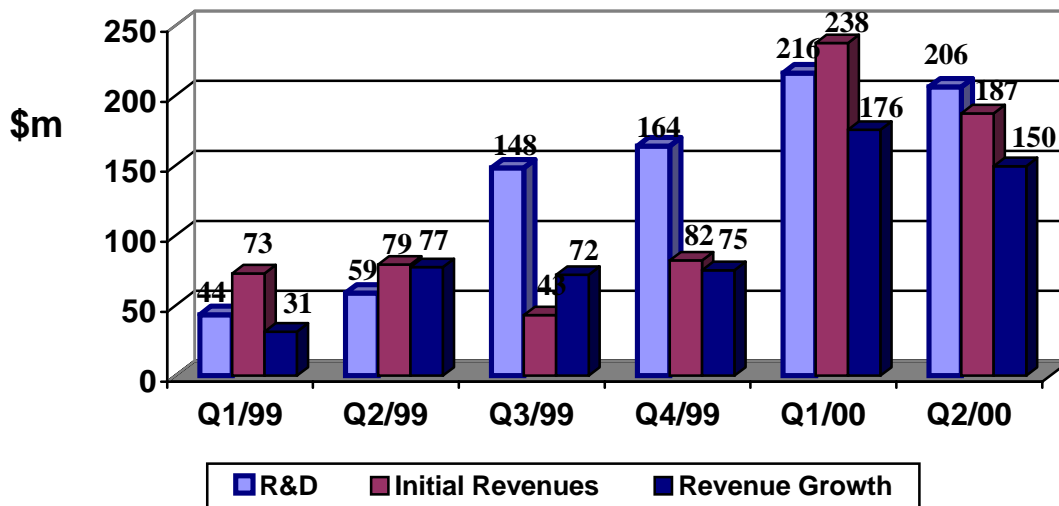
Declines in the amount of capital raised ranged between 5% and 21% for the three later stages of R&D, initial revenue, and revenue growth. The only stage that experienced growth in this quarter was the seed stage – the earliest company stage. Seed companies raised \$66.9 million. This constitutes a 40% increase over Q1/2000 and an outstanding 1134% increase over the amounts raised by seed companies in Q2/1999.

R&D stage companies took the biggest part of the total investment with 34%, while initial revenue, revenue growth and seed share was 31%, 24% and 11%, respectively.

Analyzing the average amount raised in each stage in historic perspective shows sharp increases in all stages, particularly the earliest and the most mature stage. The average amount raised by seed companies during Q2/00 was 250% higher than Q2/99. R&D, initial revenue, and revenue growth stage companies characterized in 71%, 51% and 140% increases from Q2/99, respectively.

| Stage | Amount Raised by Israeli High Tech Companies (\$M) | | | | | | Number of Companies | Average amount Raised (\$M) | Amount invested by Israeli VCs (\$M) | The share of the Israeli VCs from the total - % |
|------------------|--|------------|------------|------------|------------|--------------|---------------------|-----------------------------|--------------------------------------|---|
| | 1999 | | | | 2000 | | | | | |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | | | | |
| Seed | 21 | 6 | 15 | 21 | 48 | 66.9 | 32 | 2.1 | 38.3 | 57% |
| R&D | 44 | 59 | 148 | 164 | 216 | 206.1 | 43 | 4.8 | 100.3 | 49% |
| Initial Revenues | 73 | 79 | 43 | 82 | 238 | 187.3 | 32 | 5.9 | 62.2 | 33% |
| Revenue Growth | 31 | 77 | 72 | 75 | 176 | 149.6 | 13 | 11.5 | 59.9 | 40% |
| Total | 169 | 222 | 279 | 343 | 677 | 609.9 | 120 | 5.1 | 260.6 | 43% |

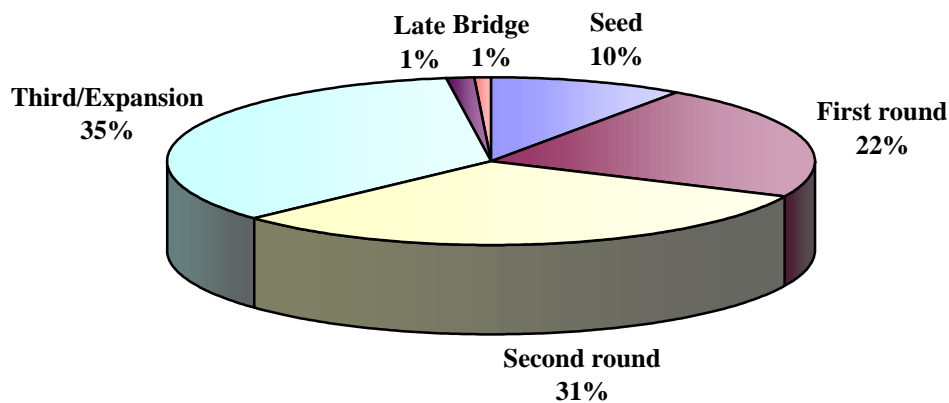
Capital Raised by Israeli High Tech Companies in the major Stages



Capital Raised by Financing Round

Companies in their third/expansion round raised \$211.8 million - the largest amount compared to the other rounds, in contrast to Q1, when the second round raised the highest amount. Companies in their second round raised \$190 million this quarter, while companies from the first round raised \$134.5 million. Companies in their seed round increased their total share, receiving \$59.7 million, while Late/Mezzanine companies had to settle for only \$8.5 million. Bridge rounds totaled \$5.5 million.

Capital Raised by Israeli High Tech Companies by Financing round During Q2/2000



Additional Information

IVC-Online (Israel Venture Capital Online), a subsidiary of Zinook, operates the Internet site www.ivc-online.com which supplies information regarding the high tech industry in Israel. The site includes the comprehensive data of more than 2000 Israeli high tech companies, information on Israeli venture capital funds and Israeli incubator programs. In addition, IVC-Online researches and edits the Survey of Capital Raising and Investment in Israeli High Tech Companies.

Methodology

This survey is based on the figures reported to IVC-Online by 72 active Israeli venture capital funds. All figures were verified by IVC-Online.

The survey does not include financing rounds in which no Israeli VC was among the investors.

An investment round in which a company receives funding from more than one VC fund is counted as a deal for each of the funds and only as one transaction for the company

The location of the high tech companies was checked so as not to include capital raised by foreign companies. Israeli companies were defined as companies registered as Israeli or with a branch in Israel (such as an R&D facility).

Therefore, in case of investment in a foreign company, we included the data only in terms of Israeli VCs investments and not in the terms of capital raising by companies.

For further questions and/or suggestions please contact Eran Mordechai at: 972-3-640-2339, fax: 972-3-640-2335, email: eranm@zinook.com.

Industry classification

| | | |
|------------------------------|-----------------------------|-------------------------------------|
| <i>Internet</i> | Telecommunications | Medical devices |
| Internet Software | Wireless communications | <i>Other Tech. Companies</i> |
| Internet Services | <i>Software</i> | Consumer & industrial products |
| B2B Commerce | Enterprise application | Electronics |
| Media/Portals | Networked application | Robotics & automated inspection |
| E-tailing (C2C, C2B, B2C) | Other software company | Semiconductors |
| Other Internet company | <i>Life Sciences</i> | Semiconductors-capital equipment |
| <i>Communications</i> | Biotech / Pharmaceuticals | Other |
| Data communications | Health information system | |