

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**

Q1/2000 was the fifth quarter in which Israeli high tech companies achieved records in both investments by Israeli VCs and in capital raising.

### ***Israeli VC Investment Activities***

- Israeli venture capital funds invested \$216.7 million, a 55% increase from the previous quarter.
- The combined investment of the twelve most active funds was \$147.7 million, constituting 68% of the total Israeli venture capital fund investment during Q1/2000.
- Although the internet sector remained the most popular, attracting 35% of Israeli VC investments, the communications sector more than doubled in comparison to the previous quarter drawing 30% of Israeli VC investments.
- Investments in seed companies had a sharp increase of 159%.

### ***Israeli High Tech companies***

- Israeli high tech companies raised \$676.7 million, almost double in comparison to the previous quarter, and quadrupled in comparison to the corresponding quarter last year.
- Israeli VCs share of the amount raised by Israeli high tech companies declined.
- Although Israeli VCs did not give any substantial preference to internet companies in Q1/00, high tech companies in the internet sector were by far the most active. This was caused by the massive involvement of non-Israeli VCs in the internet sector.
- Twenty three Israeli high tech companies raised more than \$10 million each during Q1/2000, compared to only 18 companies during the entire 1999.
- A remarkable increase of 189% in the amount raised by initial revenue companies was reached.

## Analysis of Israeli VC Investment Activities

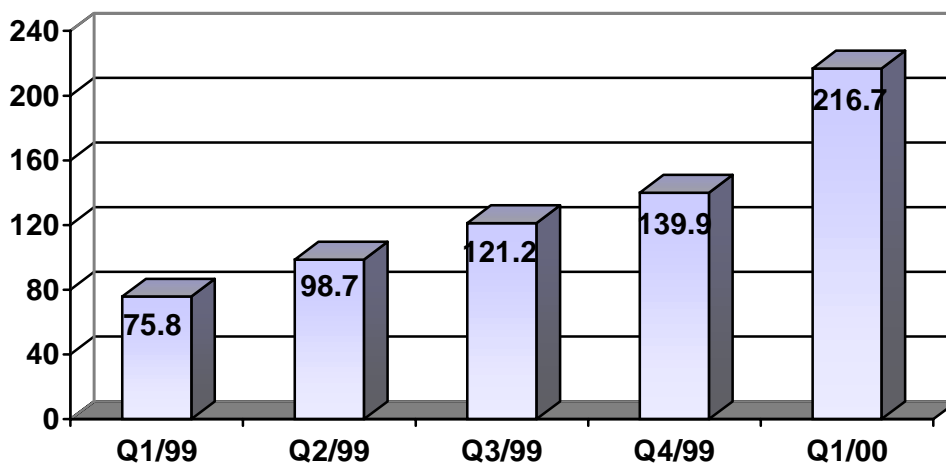
### General

Q1/2000 was the fifth straight quarter in which an all time record was achieved both in investments by Israeli VCs and in capital raising by Israeli high tech companies. During Q1/2000, private Israeli high tech companies raised \$676.7 million from Israeli venture capital funds and other investors. Israeli venture capital funds invested \$216.7 million of this amount, a 55% increase from the \$139.9 million which Israeli VCs invested in the previous quarter, and a 186% increase from the \$75.8 million which they invested in the corresponding quarter last year.

Sixty one Israeli VC funds, managed by 48 management companies, invested \$216.7 million in 187 deals involving 134 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).

No. of Funds	Total Amount Invested (\$M)	No. of Deals	No. of Companies	Average Amount Invested (\$M)
61	216.7	187	134	1.2

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



### **Investment Activity of VC Funds During Q1/2000**

Twelve Israeli venture capital funds invested over \$5 million each during the quarter. Four of them invested over \$10 million each and an additional four invested over \$15 million each. The combined investment of the twelve funds was \$147.7 million, accounting for 68% of the total Israeli venture capital fund investment during Q1/2000.

<b>Investment Level</b>	<b>No. of Funds*</b>	<b>Total Amount Invested (\$M)</b>	<b>% of Total</b>	<b>Average amount invested (\$M)</b>
<b>\$0m - \$0.5m</b>	10	0.9	0.4%	0.1
<b>\$0.5m - \$2m</b>	10	12.7	6%	1.3
<b>\$2m - \$5m</b>	16	55.4	26%	3.5
<b>\$5m - \$10m</b>	4	28.7	13%	7.2
<b>\$10m - \$15m</b>	4	42.8	20%	10.7
<b>More than \$15m</b>	4	76.2	35%	19.1
<b>Total</b>	<b>48</b>	<b>216.7</b>	<b>100%</b>	<b>4.5</b>

\* This survey is based on the figures reported to IVC-Online by 61 active Israeli venture capital funds, managed by 48 management companies. For the sake of clarity, the data refers to the management companies.

### **Fund Investment Activity by Industry Classification**

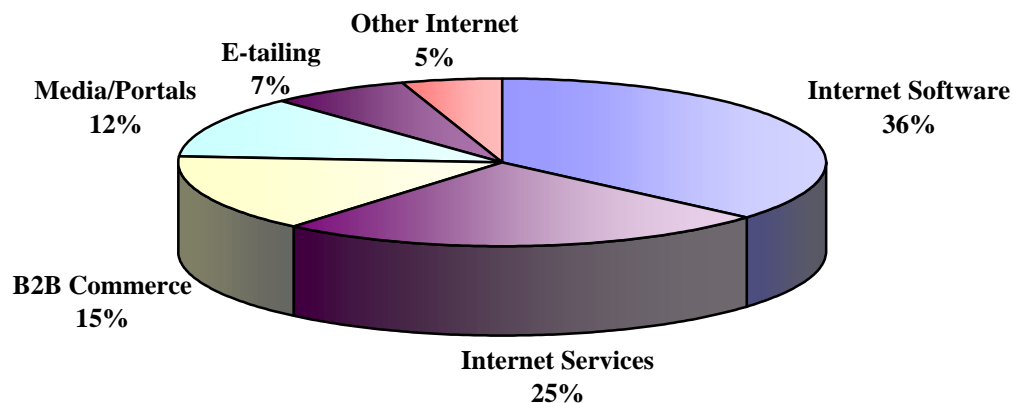
The notable technology sectors in Q1/2000 were internet and communications. Israeli VCs invested \$74.9 million in internet companies and \$64.9 million in communications companies. Additionally, Israeli VCs invested \$43.2 million in software, \$19.7 million in life sciences, and \$14.1 million in other technologies.

A sharp increase characterized the internet, communications and software sectors. Although the internet sector remained the popular sector by attracting 35% of Israeli VC investments, investments in the communications sector more than doubled in comparison to the previous quarter and attracted 30% of Israeli VC investments.

**Internet.** With a phenomenal increase of 200% in Q3/99, the internet sector became the most popular sector replacing the communications sector. In Q4/99, investments by Israeli VCs in internet declined by 6%, but rebounded in Q1/2000 with an increase of 54% compared to the previous quarter and 386% compared to the corresponding quarter last year.

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

### Distribution of the Israeli VCs Investments in the Internet Sector



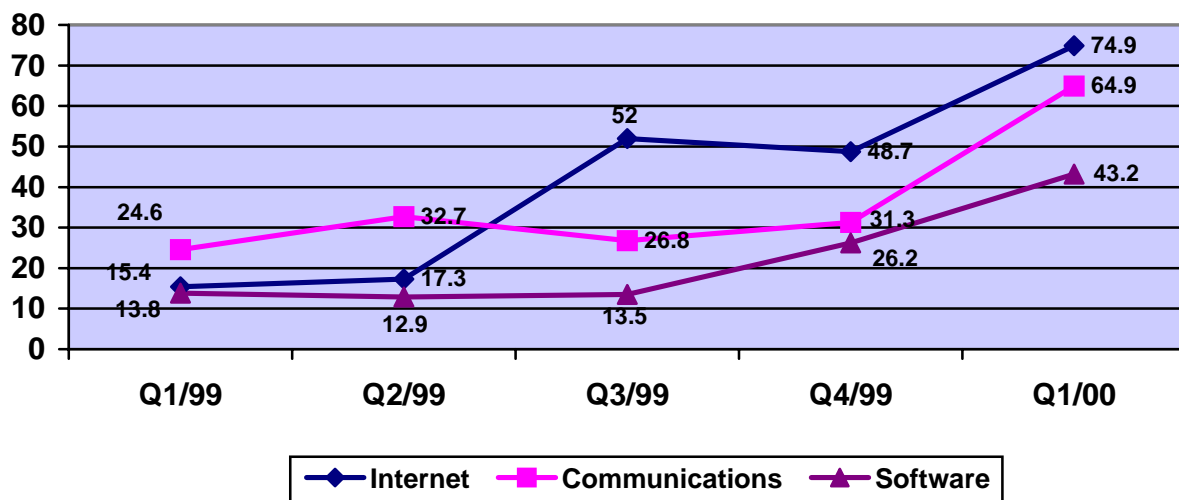
**Communications.** Israeli VC investments in the communications sector increased sharply by 107% in comparison to the previous quarter and by 164% in comparison to the corresponding quarter last year.

**Software.** Since Q3/99, investments in software companies more than tripled. The \$13.5 million investments in Q3/99 grew to \$26.2 million in Q4/99 (a 94% increase) and to \$43.2 million in Q1/2000 (a 65% increase).

**Life Sciences.** Since Q2/99 the interest in life sciences companies has remained very steady. Investments by Israeli VCs ranged from \$16.9 million in Q2/99 to \$19.7 million in Q1/2000.

Industry	Amount invested (\$M)					% of Total	Number of Investments by Funds	Average amount invested (\$M)
	1999				2000			
	Q1	Q2	Q3	Q4	Q1			
Communications	24.6	32.7	26.8	31.3	64.9	30%	42	1.5
Internet	15.4	17.3	52.0	48.7	74.9	35%	71	1.1
Software	13.8	12.9	13.5	26.2	43.2	20%	31	1.4
Life Sciences	11.1	16.9	17.0	18.7	19.7	9%	27	0.7
Other Technology	10.9	18.9	11.9	15.1	14.1	6%	16	0.9
<b>Total</b>	<b>75.8</b>	<b>98.7</b>	<b>121.2</b>	<b>139.9</b>	<b>216.7</b>	<b>100.0%</b>	<b>187</b>	<b>1.2</b>

### Fund Investment Activity in the Internet, Communications and Software Sectors During Q1/2000 (\$M)



### Fund Investment Activity by Company Stage

As in the previous two quarters, R&D was the most popular stage for investment by Israeli VCs, receiving \$77.9 million. Companies in Initial Revenue, Revenue Growth and Seed stages attracted \$68.6 million, \$36.2 million, and \$23.9 million, respectively.

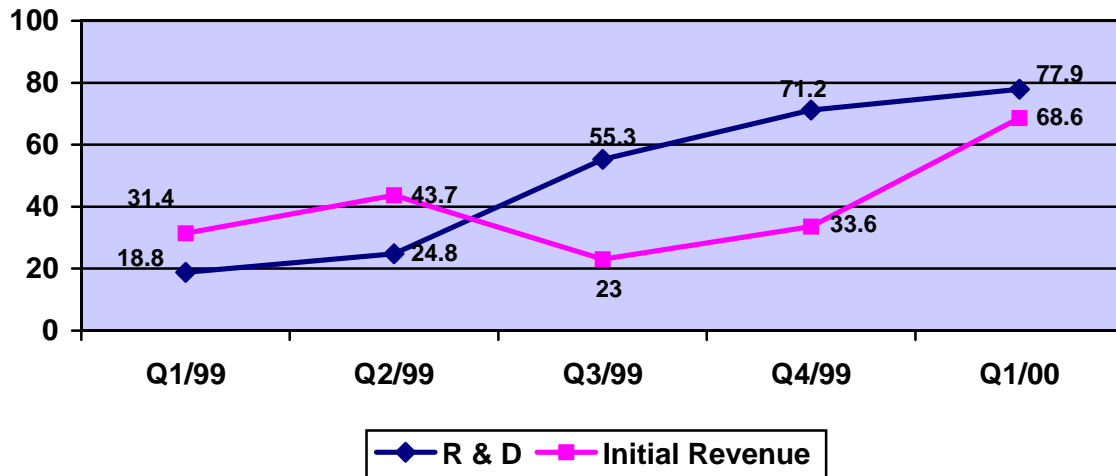
Sharp increases in Israeli VC investments characterized almost all stages. The Seed stage led with a 159% increase followed by the Initial Revenue stage which increased

104%. The Revenue Growth stage increased by 64%. R&D, the most popular company stage, as mentioned above, saw only a 9% increase.

Of interest is the amount invested by Israeli VCs in seed companies averaged \$1.4 million. All the other categories averaged \$1.1 million.

Industry	Amount invested (\$M)					% of Total	Number of Investments by Funds	Average amount invested (\$M)
	1999				2000			
	Q1	Q2	Q3	Q4	Q1			
Seed	10.2	4.8	10.8	13.1	33.9	16%	25	1.4
R&D	18.8	24.8	55.3	71.2	77.9	36%	70	1.1
Initial Revenue	31.4	43.7	23.0	33.6	68.6	32%	60	1.1
Revenue Growth	15.5	25.3	32.1	22.1	36.2	17%	32	1.1
<b>Total</b>	<b>75.8</b>	<b>98.7</b>	<b>121.2</b>	<b>139.9</b>	<b>216.7</b>	<b>100.0%</b>	<b>187</b>	<b>1.2</b>

### Fund Investment Activity in R&D and Initial Revenue Stage Companies During Q1/2000 (\$M)



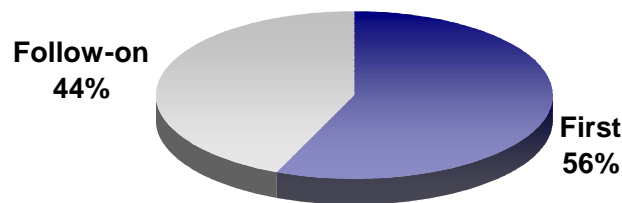
### First & Follow-on Investments

The 187 deals in Q1/2000, with a total value of \$216.7 million, were divided between 79 first-time investments attracting \$122.2 million, and 108 follow-on investments (companies receiving additional capital from a fund which had previously invested)

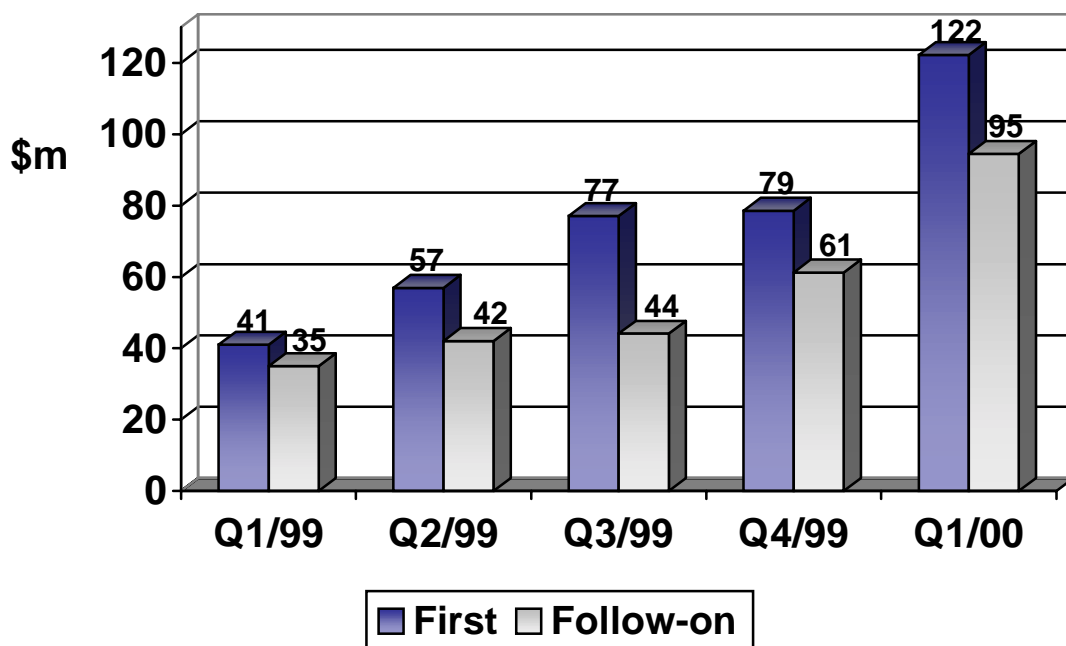
receiving \$94.5 million. Both first and follow-on investments enjoyed approximately a 55% increase in investments by Israeli VCs compared to the previous quarter.

Investment Level	No. of Deals	Total Amount Invested (\$M)	% of Total	Average amount invested (\$M)
First	79	122.2	56.4%	1.5
Follow	108	94.5	43.6%	0.9
<b>Total</b>	<b>187</b>	<b>216.7</b>	<b>100%</b>	<b>1.2</b>

### Fund Investment Activity – First and Follow-on Investments Q1/2000



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



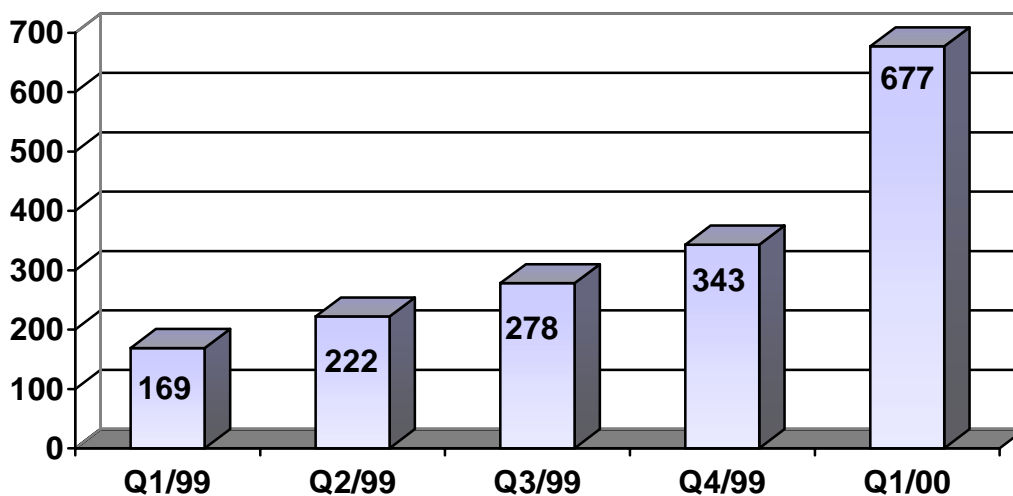
## Analysis of the Total Amounts Raised by Israeli High Tech companies

### General

An outstanding record of \$676.7 million was reached in Q1/2000 by the Israeli high tech companies. This amount reflects a sharp increase of 97% in comparison to the capital raised in the previous quarter, and a 300% increase in comparison to the corresponding quarter last year.

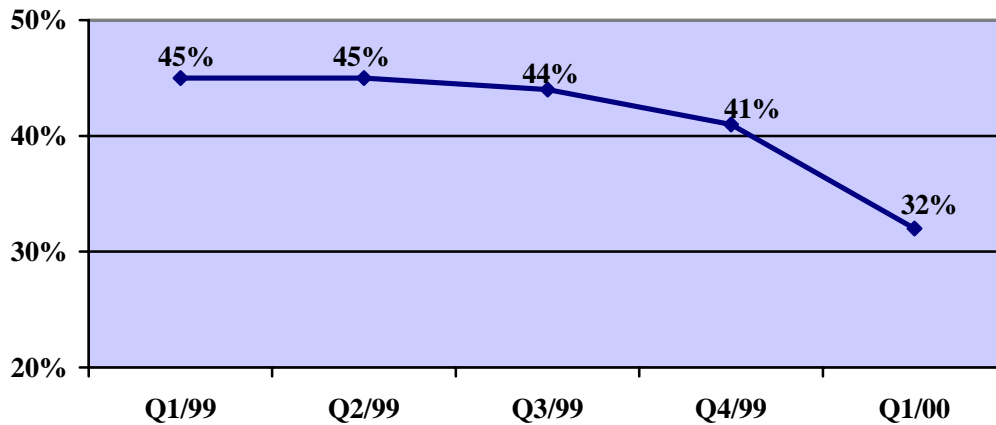
Increasing activity in Israeli high tech investments by other entities led to the sharper increase in the amount raised by high tech companies over the 55% increase in the amount invested by the Israeli VCs. Local VCs invested \$216.7 million of the total raised by the Israeli high tech companies, while the remaining \$460 million came from other entities. These entities increased their level of investment by 127% from the previous quarter. Included in these entities are mainly foreign investors such as foreign venture capital funds and foreign companies. Also included are Israeli investment companies, other Israeli companies and angel investors.

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





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



### **Capital Raising by Industry**

Although Israeli VCs did not give any substantial preference to internet companies in Q1/2000, high tech companies in the internet sector were by far the most active. This was caused by the massive involvement of other entities in the internet sector. Investments by Israeli VCs in internet companies constituted only 23% of the total investment in the sector.

***Internet.*** Internet companies attracted \$323.3 million. This sum is 176% more than the previous quarter, and 565% more than the corresponding quarter last year. This exceptional growth was enabled by a 264% increase in internet investments by the other entities over the previous quarter. This compared to only a 54% increase by Israeli VCs.

***Communications.*** The communications sector raised a total of \$148.7 million. A 48% increase compared to the previous quarter, and a 254% increase compared to the corresponding quarter last year.

In contrast to the internet sector, growth in communications is attributed to Israeli VCs investing more than double in the sector compared to the previous quarter. Other entities increased their investments by only 21% compared to the previous quarter.

Although only 17 communications companies raised capital during the quarter, compared to 61 internet companies, the average round of \$8.7 million was substantially higher than that of all other sectors. In internet and software for instance, the average round was \$5.3 million and \$5.6 million, respectively.

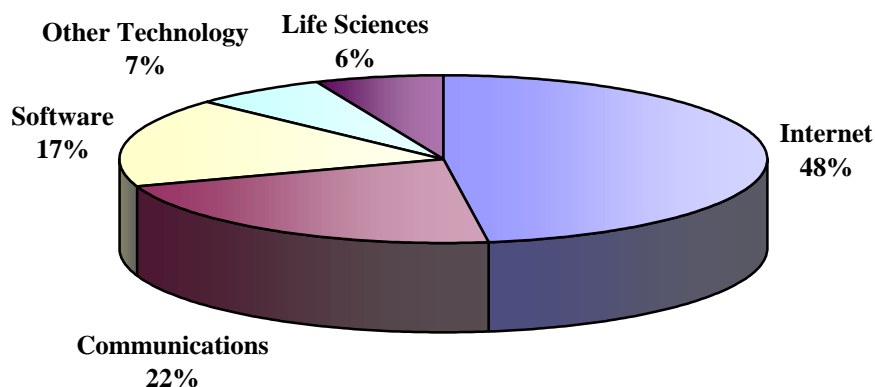
**Software.** Software companies continued their aggressive growth from Q3/99 with an 86% increase in the capital raised this quarter over the previous quarter, and with 505% increase over the corresponding quarter last year.

Other entities greatly contributed to the intensive growth in this sector, but their contribution was not as strong as it was in the internet sector. These entities increased their investments in the sector by 101% compared to the previous quarter, while the local VCs increased their investments by only 65%.

**Life sciences.** Life sciences companies benefited from the growth in the high tech industry in only a minor way. Not only averaging the lowest rounds with \$2.1 million, the life sciences sector experienced only a 16% rise in investments compared to the previous quarter, and by an 8% rise compared to the corresponding quarter last year.

Industry	Amount raised (\$M)					Number of Companies	Average amount Raised (\$M)	Amount invested by Israeli VCs (\$M)	Investment by Israeli VCs - %
	1999				2000				
	Q1	Q2	Q3	Q4	Q1				
Communications	42.0	80.0	73.9	100.7	148.7	17	8.7	64.9	44%
Internet	48.6	48.4	116.1	117.0	323.3	61	5.3	74.9	23%
Software	19.3	29.5	26.6	62.9	116.8	21	5.6	43.2	37%
Life Sciences	40.3	26.3	30.7	37.4	43.4	21	2.1	19.7	45%
Other Technology	18.8	37.4	31.2	24.8	44.6	14	3.2	14.1	32%
<b>Total</b>	<b>168.9</b>	<b>221.6</b>	<b>278.5</b>	<b>342.7</b>	<b>676.7</b>	<b>134</b>	<b>5.1</b>	<b>216.7</b>	<b>32%</b>

## Capital Raised by Israeli High Tech Companies by Industry During Q1/2000



### Size of Financing Rounds

Twenty three Israeli high tech companies raised more than \$10 million each during Q1/2000, compared to only 18 companies during all of 1999. Eight of these 23 companies raised more than \$20 million, attracting 33% of the total capital raised by the companies. The largest amount raised in this category was \$50 million. During 1999 only 2 companies raised more than \$20 million, and accounting for 4% of the capital raised by the companies.

Round Size	Amount raised (\$M)					% of Total	Number of companies	Average amount raised (\$M)
	1999				2000			
	Q1	Q2	Q3	Q4	Q1			
\$0m - \$0.5m	1.7	3.2	5.4	6.3	5.0	1%	23	0.2
\$0.5m - \$2m	27.7	18.3	24.3	33.0	36.7	5%	40	0.9
\$2m - \$5m	51.7	46.9	56.5	80.5	91.0	13%	31	2.9
\$5m - \$10m	65.8	89.3	69.7	117.5	124.4	18%	17	7.3
\$10m - \$20m	22.0	64.0	100.5	85.4	195.4	29%	15	13.0
More than \$20m	---	---	22	20	224.3	33%	8	28.0
<b>Total</b>	<b>168.9</b>	<b>221.6</b>	<b>278.5</b>	<b>342.7</b>	<b>676.7</b>	<b>100%</b>	<b>134</b>	<b>5.1</b>

### Capital Raising by Company Stage

Companies in the seed, initial revenue and revenue growth stages more than doubled the amounts they raised during Q1/2000, compared to the previous quarter. A remarkable increase of 189% in the amount raised by initial revenue companies caused the initial revenue stage to be the most popular category in terms of capital raising, overtaking R&D companies. R&D companies are still the most popular company stage in terms of number of companies. This remarkable increase in the initial revenue stage took place due to tremendous involvement by the other entities, which increased their investment in the sector by 247%, compared to the previous quarter.

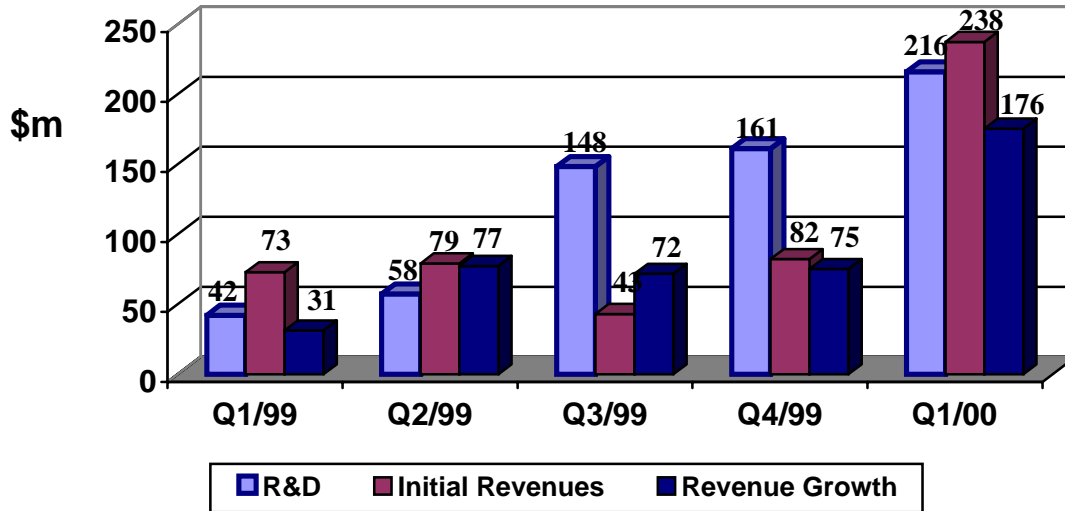
In Q1/2000, R&D companies raised 32% more than in the previous quarter. Other stages rose at least 120%, including seed stage companies which raised 129% more than they did in the previous quarter.

Not surprising, the average amount raised in each category increases as the maturity of the companies increases. For instance, companies from the seed stage raised \$2.2 million on average and companies from the Revenue growth stage raised \$9.7 million on average.

An interesting phenomenon is the decreasing involvement of Israeli VCs as the company gets more mature. The share decreased from 71% in the seed category, to 36% in R&D, 29% in initial revenue and only 21% in the revenue growth category.

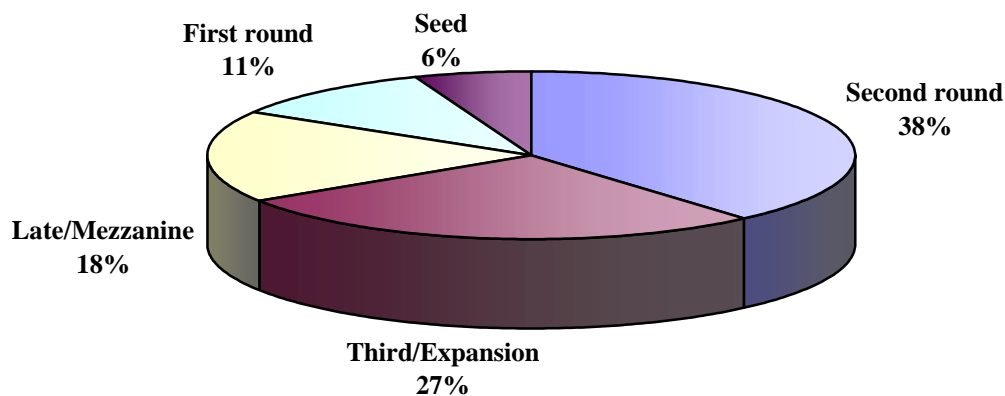
Industry	Amount raised (\$M)					Number of Companies	Average amount Raised (\$M)	Amount invested by Israeli VCs (\$M)	Investment by Israeli VCs - %
	1999				2000				
	Q1	Q2	Q3	Q4	Q1				
Seed	21.1	5.9	15.0	20.8	47.6	22	2.2	33.9	71%
R&D	43.5	59.0	148.4	164.3	216.1	53	4.1	77.9	36%
Initial Revenues	73.0	79.3	43.1	82.3	237.5	41	5.8	68.6	29%
Revenue Growth	31.4	77.4	71.9	75.3	175.5	18	9.7	36.2	21%
<b>Total</b>	<b>168.9</b>	<b>221.6</b>	<b>278.5</b>	<b>342.7</b>	<b>676.7</b>	<b>134</b>	<b>5.1</b>	<b>216.7</b>	<b>32%</b>

### Capital Raised by Israeli High Tech Companies by Stage



### Capital Raised by Financing Round

Companies in their second round raised \$260.4 million - the largest amount compared to the other rounds. Companies in their third round raised \$184.7 million, while Late/Mezzanine companies raised \$120.1 million. Companies from the first and seed rounds raised \$72.3 million and \$39.2 million, respectively.



## Additional Information

IVC-Online (Israel Venture Capital Online), a subsidiary of Zinook, operates the Internet site [www.ivic-online.com](http://www.ivic-online.com) which supplies information regarding the high tech industry in Israel. The site includes the comprehensive data of 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 61 active Israeli venture capital funds, managed by 48 management companies. For the sake of clarity, the data refer to the management companies. All figures were verified by IVC-Online. The survey does not include financing rounds in which no Israeli VC was among the investors.

For further questions and/or suggestions please contact Eran Mordechai at: 972-3-640-2339, fax: 972-3-640-2319.

### Industry classification

<b>Internet</b>	Telecommunications	Medical devices
Internet Software	Wireless communications	<b>Other Tech. Companies</b>
Internet Services	<b>Software</b>	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	<b>Life Sciences</b>	Semiconductors-capital equipment
<b>Communications</b>	Biotech / Pharmaceuticals	Other
Data communications	Health information system	