



Research and data center

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***After a weakness that characterized the High Tech industry in Q2/2000:***

***A major leap in the capital raised by Israeli High Tech companies in Q3/2000, setting a record of all times***

***A sharp increase of 74% in capital raised by high tech companies to more than 1 billion dollars. The capital raised in Q3/2000 exceeds the amount raised during the whole of 1999. The amount of capital raised in communications was more than double.***

Tel Aviv. The following are the findings of the quarterly survey conducted by the **Zinook Research and Data Center – IVC-Online** – Israel Venture Capital Online, regarding capital raised by private Israeli high tech companies and investments by Israeli venture capital funds. This survey, which received full cooperation from Israeli venture capital funds (76 funds), accompanied a comprehensive research report conducted by the Zinook research department – IVC-Online.

During the third quarter of 2000, 153 private Israeli high tech companies raised \$1.058 billion. This figure is 74% higher than the amount raised by companies in the previous quarter, which totaled \$609.9 million, and 281% higher compared to the amount raised in the parallel quarter in 1999, which totaled \$278 million.

In comparison, during the whole of 1999, Israeli high-tech companies raised total of \$1.012B.

These figures are encouraging, especially due to the decrease of 10% in the scope of capital raised by high tech companies listed in the previous quarter (see chart 1).

Zeev Holtzman – Chairman of Zinook and Giza Venture Capital, noted, “The third quarter, despite the optimistic figures, does not reflect the sharp declines in the NASDAQ lately and the security situation.” These two factors, estimates Holtzman, “ will have a negative effect on the high tech industry in the fourth quarter.”

A further increase during the third quarter was noted both in the number of companies raising capital and in the average size of financing round. 153 private Israeli high tech companies raised capital from venture capital funds during the quarter, compared to 120 companies that raised capital in the previous one.

The average financing round was \$6.9 million, 35% higher than the average amount raised in the previous quarter, which was \$5.1 million. The median in the third quarter totaled \$3M. Eran Mordechai, an Analyst in Zinook and the Director of the Research Dept. explained: “ the gap between the average financing round and the median is influenced by the effect of the large financing rounds”. By neutralizing these large financing rounds of funding, noted Mordechai “ the average amount raised per company is significantly lower.”

The sharp climb in the amounts raised by the companies was possible, in part, due to the significant growth in the level of activity of the local VC funds. The Israeli VCs invested during the third quarter a sum of \$380.7 million in 204 deals. This remarkable figure is 46% higher than the amount invested in the previous quarter, which totaled \$260.6 million, and more than three times the amount invested by the funds in the parallel quarter last year (\$121.2 million). The amount invested by the funds this quarter constitutes 87% of the amount invested in the whole of 1999, which totaled \$435.6 million.

The amount raised by high tech companies, which wasn't from local VCs, is attributed to other investors, mostly foreign VC's, but local investment companies and private investors as well. This amount totaled \$677.3 million, 94% higher than the amount invested by these investors in the previous quarter (see chart 1). Mordechai notes “ the growth in investments by these entities is attributed almost in all to the foreign VCs, which increased their investments in Israel during the third quarter, after reducing them by 24% in the previous one”.

By examining the portion of local VCs investments from the total amount of capital raised, it can be deduced that in the third quarter the investments made by local VCs constitute 36% ( $380.7 / 1,058 = 36\%$ ) of the total amount raised by the companies, compared to 43% in the second quarter of the year (see chart 2).

### **Analysis of Israeli VC Investments in Israeli Hi-Tech by Company Sector (chart 3-4)**

#### **Communications**

The communications industry, which constituted 53% of the total amount raised, was definitely the most attractive industry during the past quarter. In all the parameters taken into consideration – total amount raised, number of companies and average amount raised per company, the communications industry emerged as the leading field for investments.

This industry started its climb in Q4/99, and since then is on the rise every quarter. During the third quarter 52 companies from this industry raised a record sum of \$566.4 million, reflecting a sharp rise of 120% compared to the amount raised last quarter, which totaled \$257 million, and a rise of 665% compared to the amount raised in the parallel quarter last year, which totaled \$74M. 16 more companies raised capital compared to the previous quarter, and the average amount raised in the third quarter, which totaled \$10.9M, is 54% higher than the previous quarter.

The communications industry was greatly affected by 10 particularly large financing rounds that occurred during the quarter. In each one of these rounds, more than \$20M was raised, and in two of them the amount raised even succeeded \$50M .

### Internet

The Internet companies, which received a tough blow in the second quarter from foreign investors, drew investments totaling \$252.7M in the third quarter, 44% higher than previous quarter, and 118% higher than in parallel quarter last year. The average amount raised climbed by 40% to \$5.9M per company, while the number of companies raising capital grew from 42 in the second quarter to 43 in the third quarter. The growth in the scale of capital raised is mostly attributed to Internet infrastructure companies and not dot.com companies.

### Software

The software companies maintained the scale of capital raised in comparison to the second quarter, and raised a total \$99.1 million, 1% less than last quarter. The software industry in the third quarter was characterized by a growth in the number of companies that received funding – 24 compared to 16 in the last quarter, on account of a decline in the average amount raised per company, falling 33% to \$4.1M.

### Life Sciences

During the third quarter 17 companies from the Life Sciences industry raised capital totaling \$79.7M, an amount 54% higher than last quarter. The average of capital raised climbed from \$2.7M per company in the previous quarter to \$4.7M in the third quarter. The growth of the total amount raised, and the growth of the average amount raised per company was greatly affected by Compugen, which raised \$36M in a mezzanine round.

## **Analysis of Israeli VC Investments in Israeli Hi-Tech by Company Stage (chart 5)**

The high tech companies in this research were divided to 4 categories:

1. Seed, 2. R&D, 3. Initial Revenue, 4. Revenue Growth

Companies in the R&D stage (2<sup>nd</sup> stage), enjoyed the sharpest rise in all parameters examined in the research: scale of capital raised, number of raisings and average amount raised per company. The companies in this stage raised a total \$477.9M in the third quarter, 132% higher than last quarter, and constitute 45% of the amount raised by high tech companies during the quarter.

Companies in the Initial Revenue stage (3<sup>rd</sup> stage) increased the scale of capital raised by 59%, and companies in the mature Revenue Growth stage increased their scale of capital raised by 46% compared to the second quarter.

The Seed stage companies maintained a similar level of fund raising compared to the second quarter, and raised \$65.6M, a decline of 2% compared to the previous quarter.

**Analysis of the effect of the large rounds on the research results**

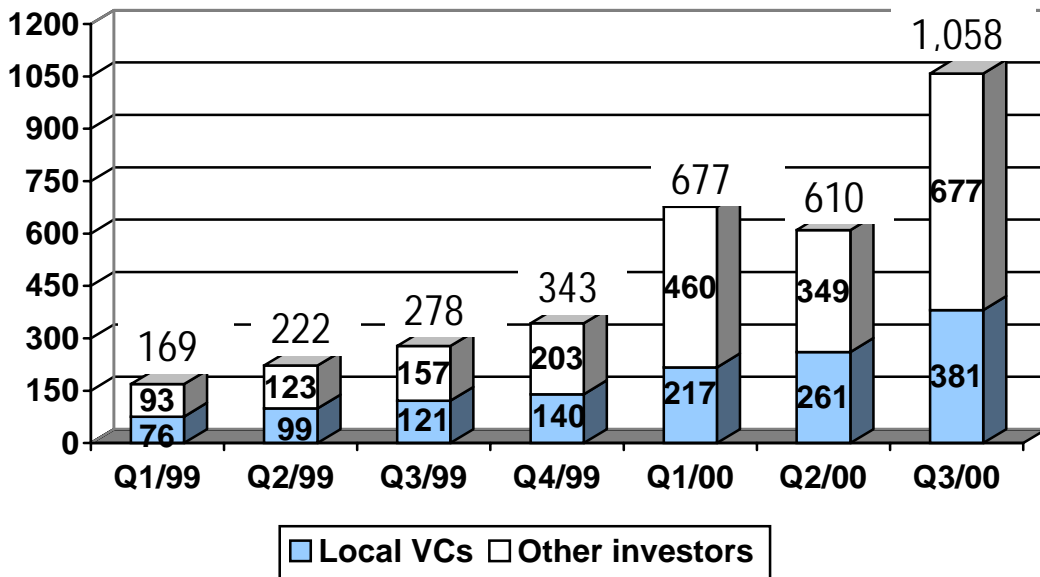
Fifteen out of the 153 companies that raised capital during the quarter were the major cause of the sharp rise in the scale of capital raised in the third quarter. Mordechai explained that “in contrast to the second quarter where only 6 companies raised between \$20-50M, in the third quarter 13 companies raised a comparable amounts, in addition to 2 companies which raised a total of \$57m and \$100M each”.

The sector which drew most of the large financial rounds raised was the Communications Industry (10), followed by the Internet companies (3), Life Sciences (1) and Software (1).

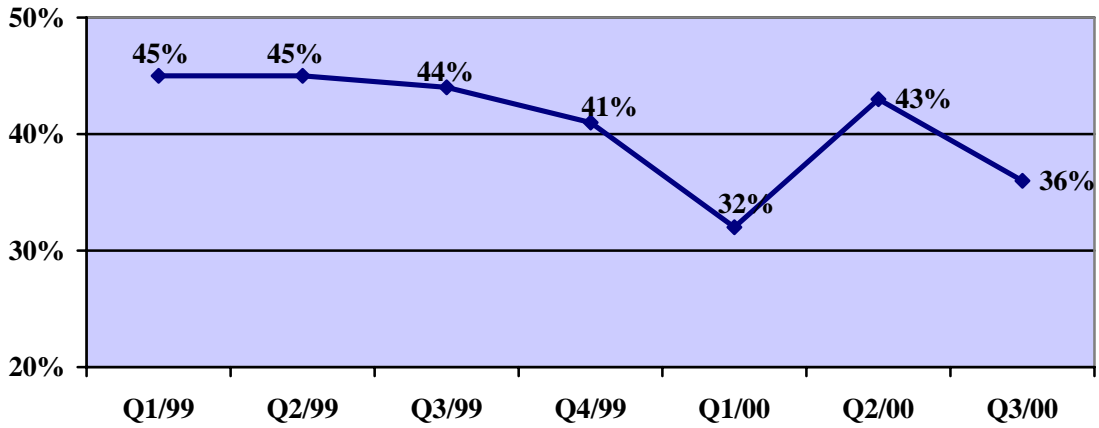
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The following are selected charts representing survey findings:

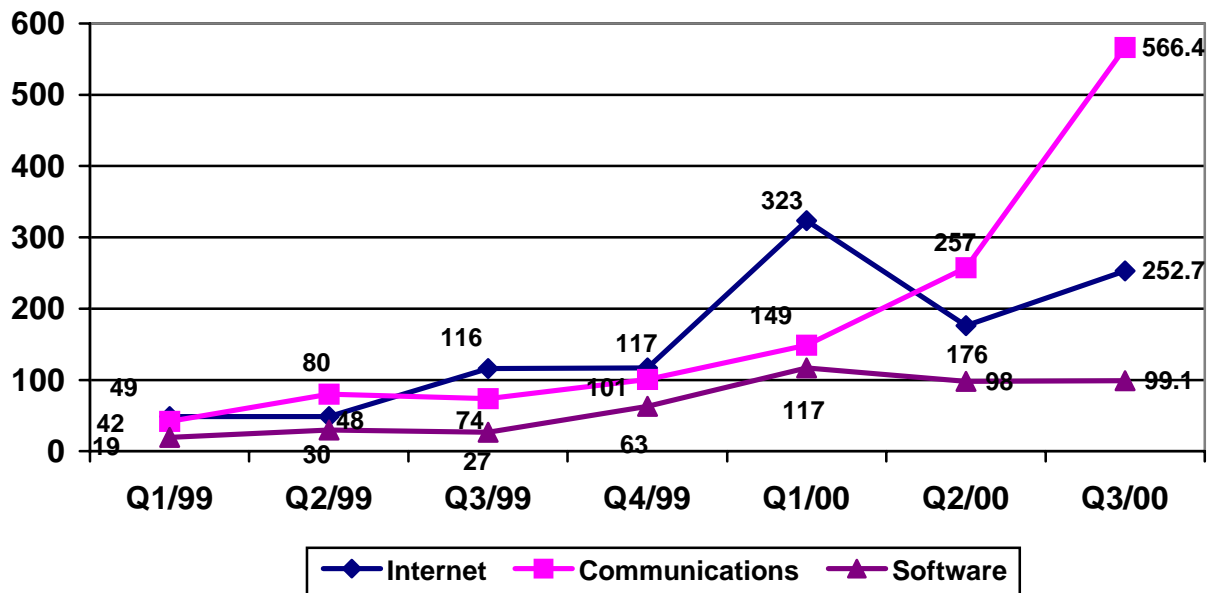
**Chart 1: Distribution of Capital Raised by High Tech Companies by Character of Investor (\$M)**



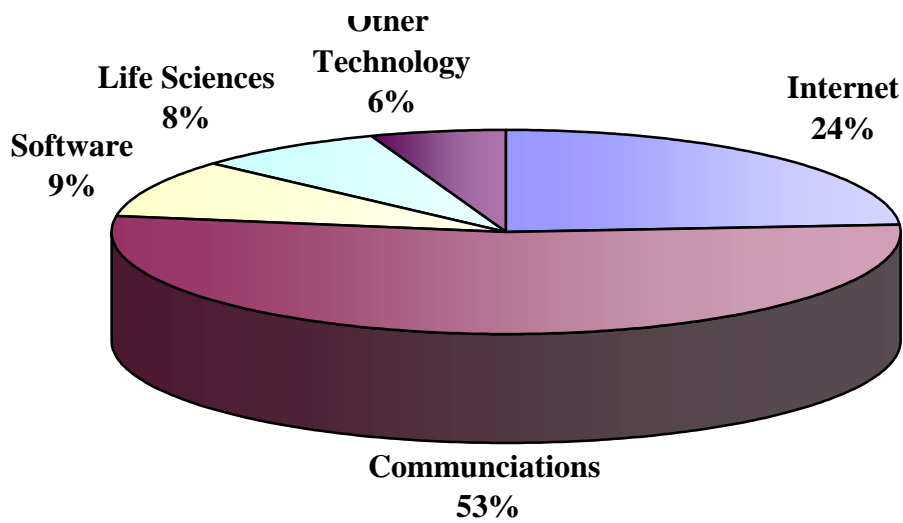
**Chart 2: The Share of Israeli VC's in The Amounts Raised by  
Israeli High Tech Companies**



**Chart 3: Capital Raised by Israeli High Tech Companies in the major industries  
(\$M)**



**Chart 4: Capital Raised by Israeli High Tech Companies by Industry During Q3/2000**



**Chart 5: Capital Raised by Israeli High Tech Companies by Stage During Q3/2000**

Stage	Total Amount Raised by Companies (\$M)	% Of Total
Seed	65.6	6%
R&D	477.9	45%
Initial Revenue	296.9	28%
Revenue Growth	217.8	21%
<b>Total</b>	<b>1,058</b>	<b>100%</b>