

IVC-Online

January 9, 2001

Summary of Israeli High Tech Companies capital-raising activities during Q4 2000 and the whole of 2000

After the record-breaking numbers of the third quarter:

24% Decline in the Capital Raised by Israeli High Tech Companies in the Last Quarter of 2000

The amount raised by the companies during all of 2000 totaled \$3.1 billion, more than triple the amount raised during 1999

Tel Aviv. The following are the findings of the quarterly survey conducted by **IVC-Online**, Zinook's Research and Data Center, regarding capital raised by private Israeli high tech companies, in which at least one Israeli venture capital fund participated. This survey, which received full cooperation from 84 Israeli venture capital funds, is based on a comprehensive research report conducted by IVC-Online. The number of VCs which participated in the survey during the fourth quarter rose from 78 to 84.

During the fourth quarter of 2000, 154 private Israeli high tech companies raised \$813.2 million from venture capital investors, local and foreigners (chart 1). This figure is 24% lower than the amount raised by companies during the third quarter, which totaled \$1.069 billion, and is 137% higher than the amount raised in the parallel quarter of 1999, which totaled \$343 million. The amount raised during the fourth quarter is equivalent to 80% of the amount raised during the whole of 1999 (\$1.012 billion).

The total amount raised by technology companies during the whole of 2000 was \$3.1 billion, a record-breaking figure for Israeli high tech. This amount is 207% higher than the amount raised in all of 1999, which as previously stated, totaled \$1.012 billion. Despite the decline in the amount of capital raised in Q4 in comparison to Q3, the fourth quarter still beat Q1 and Q2, which totaled \$647.7 million and \$575.6 million, respectively.

Zeev Holtzman, Chairman of Zinook and Giza Venture Capital, noted that had it not been for several rounds of financing initiated in Q3, total investments in Q4 would have been drastically reduced. Holtzman added: "Like the slowdown that we foresaw for the fourth quarter of 2000, we expect that the first quarter of 2001 will continue the pattern of decline."

Despite the decline in the amount raised during the fourth quarter, a slight increase was noted in the number of companies raising capital. 154 private Israeli high tech companies raised capital during Q4, compared to 136 companies that raised capital in Q3, 107 companies during Q2, and 120 companies during Q1. During all of 2000, 517 companies raised capital, compared to 338 companies during 1999.

The average financing round per company during Q4 (\$5.3 million) was 26% lower than the average financing round during the third quarter (\$7.2 million). During Q1 and Q2 2000, the average financing rounds were \$5.1 million and \$5.0 million, respectively. The median of 2000 totaled \$3 million.

Israeli VC Investments Activity

During the year 2000, Israeli VCs invested a total amount of \$1.272 billion, 192% higher than the amount invested by the funds in 1999, which was \$435.6 million. Like the year 1999, Israeli funds invested larger amounts as quarters progressed in 2000 (chart 1), even during the second and the fourth quarters, in which, as previously stated, the total amount raised by high tech companies declined.

Israeli funds' investments totaled \$402.6 million during the fourth quarter, 3% higher than the amount invested by the funds during the third quarter, and 188% higher than amount invested at the parallel quarter of 1999. The number of deals also slightly increased, and reached 220 deals during the fourth quarter, in comparison to 208 deals during the third quarter.

Eran Mordechai, the Director of IVC-Online, explained that "the source of the decline of the capital raised by high tech companies in Q4 was the decrease in the investment activity of entities which are not Israeli VCs, most of whom are foreign investors." Mordechai went on to add that these entities invested \$410.6 million during Q4 ($813.2 - 402.6 = 410.6$), 39% less than what was invested during Q3 (chart 1).

The climb in investments by local VCs in Q4, along with the decline in investments by foreign entities, meant that the share of Israeli VCs' investments constituted 50% of the total amount of capital raised by technology companies (chart 2). This percentage is the highest in the past two years. In comparison, during the third quarter the share of Israeli VCs was 37%, and in the parallel quarter of 1999, 41%.

Analysis of Capital Raised by Technology Companies by Sector (chart 3-4)

Communications

The most prominent industry during the year 2000 was the communications sector, which constituted 40% of the total amount raised, in comparison to 29% in 1999 (chart 4). 137 companies from this industry raised a total amount of \$1.248 billion during 2000. The communications companies were characterized by high growth during the first three quarters of the year, and by a sharp decline during the fourth quarter (chart 3). The average financing round of the communications companies rose to \$9.1 million during 2000, compared with \$4.6 million during 1999. Nevertheless, during the fourth quarter, the sector noted a decline in all the parameters taken into consideration – total amount raised, number of companies and average amount raised per company.

The communications companies raised \$289.2 million during the fourth quarter, 50% less than the amount raised during the third quarter, and 187% higher than the amount raised during the parallel quarter of last year. The average financing round of communications companies also dropped during the fourth quarter to \$6.7 million, a 40% decline compared to the average financing round at the previous quarter, \$11.2 million. Eran Mordechai explained those declines: “In contrary to the third quarter, the fourth quarter did not include the huge financing rounds that had taken place in the optical communications sub-sector, which caused a disproportionate increase of the third quarter’s results.”

Internet

The Internet industry, which was the most prominent industry in 1999, was characterized by volatilities during 2000 and constitutes 30% of the amount raised, compared with 33% during 1999. 170 Internet companies raised a total amount of \$918 million during 2000. The average financing round during 2000 was \$5.4 million, compared with \$3.2 million during 1999.

Internet companies also suffered a decline in amount of capital raised in Q4, although less so than communications companies. Internet companies raised a total amount of \$206.6 million during Q4, a 17% decrease from Q3 and 77% increase from the parallel quarter of last year. The average financing round per company decreased 19% during Q4 to \$4.7 million.

Software

The share of software companies in the total amount raised by technology companies in the year 2000 was 16%, in comparison to 14% during 1999. 88 software companies raised a total of \$499 million in the year 2000. The average financing round per company was \$5.7 million, in comparison with \$3.1 in 1999.

Despite a general decrease in raising capital during Q4, the software sector was the only sector that increased in comparison with Q3. Software companies raised a total amount of \$152.4 million during Q4, 48% higher than Q3. The average financing round per company also rose, reaching \$5.6 million during Q4, 19% more than Q3.

Life Sciences

Life sciences companies attracted 8% of the total amount raised by companies raised during 2000, in comparison with 13% during 1999. The number of companies which raised capital did not significantly change – 75 companies raised capital during 2000, in comparison with 76 in 1999. The average financing round per company was \$3.2 during 2000, in comparison with \$1.8 during 1999.

Companies from the sector raised a total amount of \$64.2 million during Q4, 21% less when compared to Q3, and 72% more than the parallel quarter of 1999. The average financing round per company declined by 44% to \$2.7 million during Q4.

Analysis of Capital Raised by Technology Companies by 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

R&D (stage 2) companies constituted the highest percent of the amount raised, which attracted 39% of the total amount raised during 2000 (chart 5). In 1999, R&D companies were also the most attractive for investment, holding 42% of the amount raised. Companies in the Initial Revenue stage (stage 3) constituted 31% of the amount raised in 2000, while companies from the Revenue Growth stage (stage 4) and seed companies (stage 1) attracted 20% and 10% of the total amount raised, respectively.

The only category which enjoyed an increase in the amount of capital raised in Q4 was the Seed Stage. Those companies raised a record-breaking \$132 million, 75% more than during the third quarter and more than six times in comparison with the parallel quarter in 1999. Seed companies also enjoyed higher average financing rounds in comparison to the previous quarter, and more companies were involved in the capital-raising process.

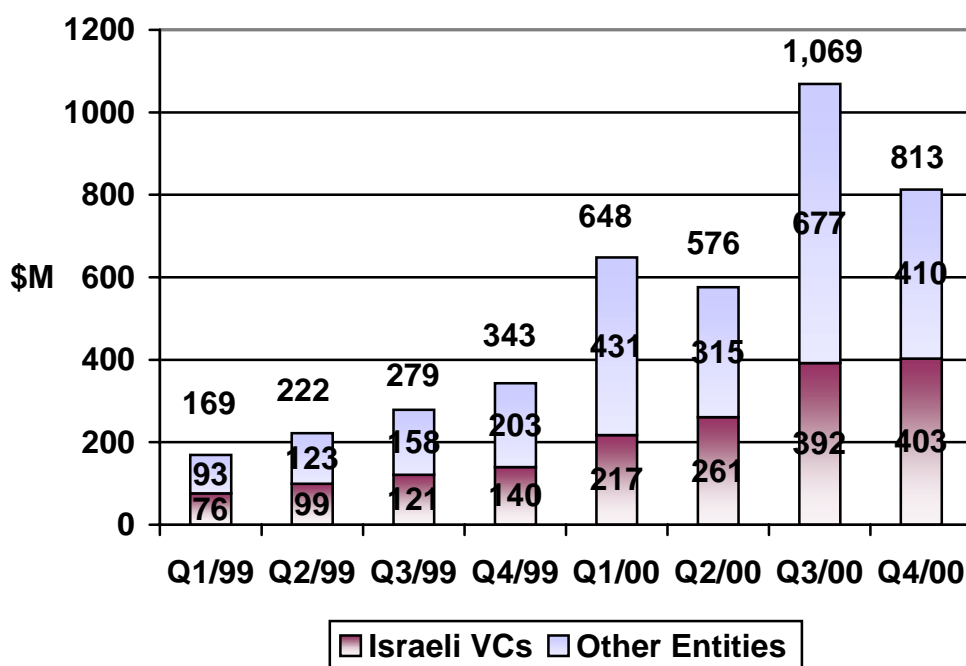
In contrast, companies in the most mature stage, Revenue Growth, suffered a decline of 54% in the amount raised during Q4. The amount raised by companies in R&D and Initial Revenue declined 34% and 11%, respectively, in comparison with the third quarter.

If you would like to receive this report on a quarterly basis by e-mail (free of charge), please contact us:

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The following are selected charts representing survey findings:

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



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

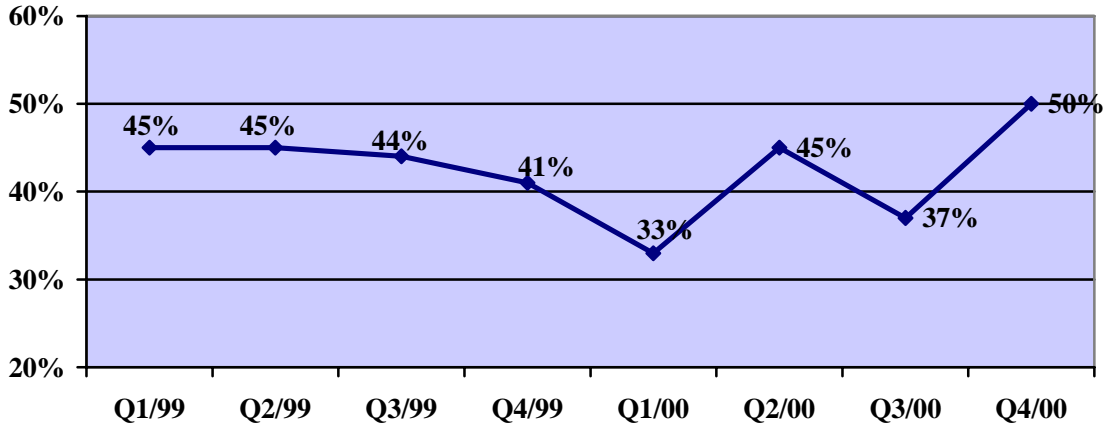


Chart 3: Capital Raised by Israeli High Tech Companies in the major sectors (\$M)

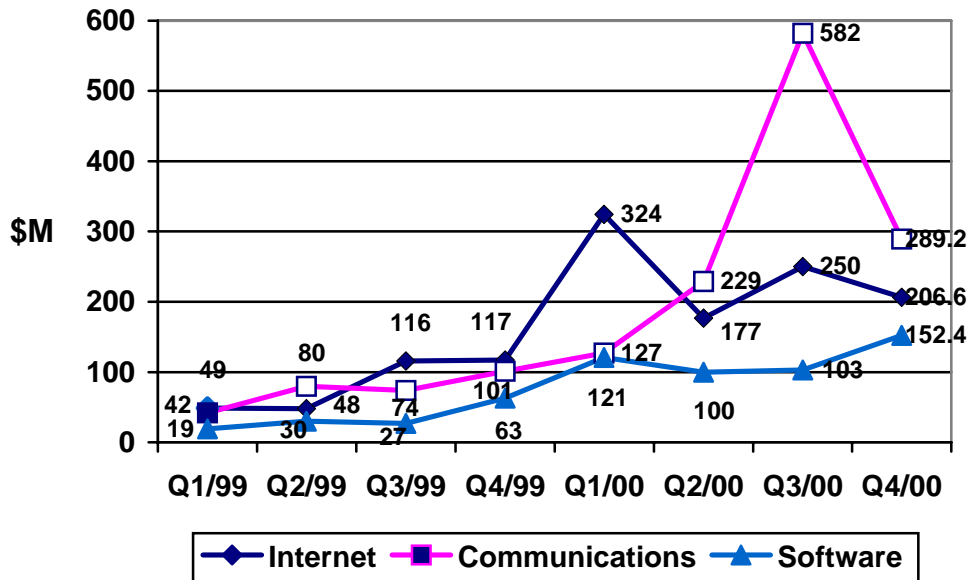
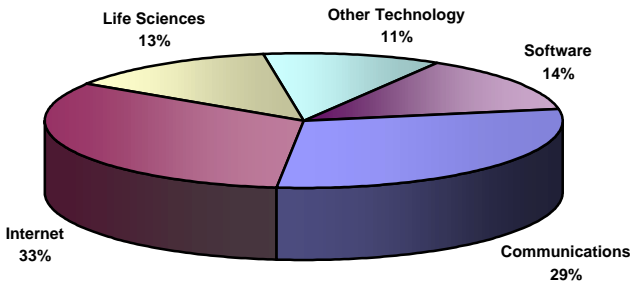


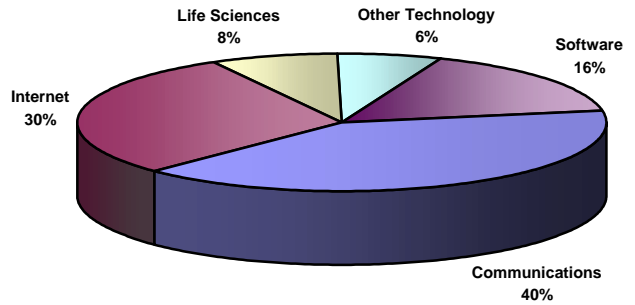
Chart 4: Capital Raised by Israeli High Tech Companies by sectors in 2000 and 1999

Year 1999



Total Amount \$1.01 billion

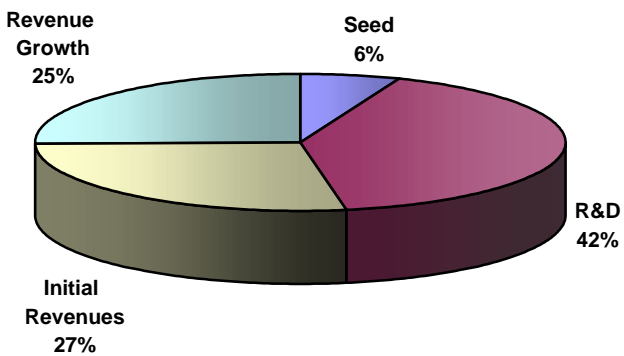
Year 2000



Total Amount \$3.1 billion

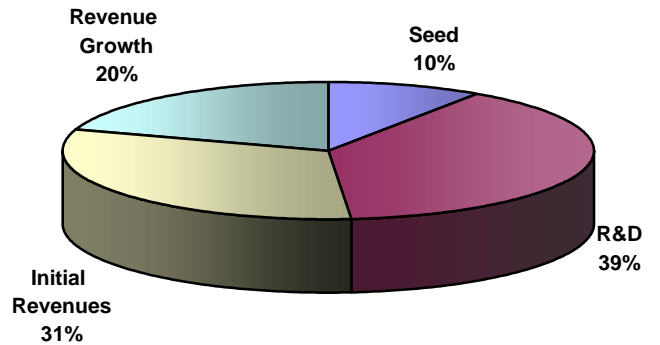
Chart 5: Capital Raised by Israeli High Tech Companies by stage in 2000 and 1999

Year 1999



Total Amount \$1.01 billion

Year 2000



Total Amount \$3.1 billion