

Time for Action

Introduction

It must be noted that the results to the survey were collected prior to the onset of the war in Iraq and prior to the release of the new Israeli governmental economic plan, and the influence of these events can not be predicted at this time.

A new year has opened and the results of the first quarter of 2003 mainly indicate that there is still a long way to go before the industry will reach equilibrium which will result in a steady industry that has resources, raises new funds on a regular basis from investors both in Israel and from abroad, invests and witnesses exits on a steady basis. However, until that day arrives, the uncertainty folded in the global and local conditions both the political and economical ones, have to be removed.

The Israel VC Indicator Survey is a comprehensive picture of VCs expectations for the next six to twelve months and acts as an indicator of changing confidence levels in:

- Economic and market climate
- Deal activity
- Investment and Managerial focus

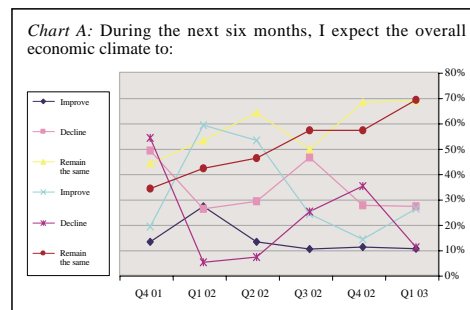
The results produce a forward looking measure of the overall sentiment in the Israeli venture capital community which is extremely relevant to immediate deal-flow.

The sixth Deloitte & Touche – Brightman Almagor Israel VC Indicator Survey results for Q1 2003, include a comparison, where relevant, with responses from the previous quarters surveys in Israel and with the results of the Q1 2003 VC Confidence Survey which is conducted by Deloitte & Touche on a quarterly basis in the Silicon Valley.

Results

The results of the first quarter of 2003 indicate that a gap is forming between the Israel VC community's expectations and those of the Silicon Valley VC community. The Israeli VCs, as in the two previous quarters, continue to have a negative outlook regarding the overall economic climate. 67% of the respondents expect the economic climate to remain the same and 25% expect a further decline (compared to 66% and 25% respectively in Q4, 2002). In contrast to this, the VC community in the Silicon Valley shows the first solid signs of recovery in over a year. 24% of the respondents expect an

improvement in the overall economic climate and only 9% expect a decline (compared to 12% and 33% respectively in Q4, 2002). (Chart A)



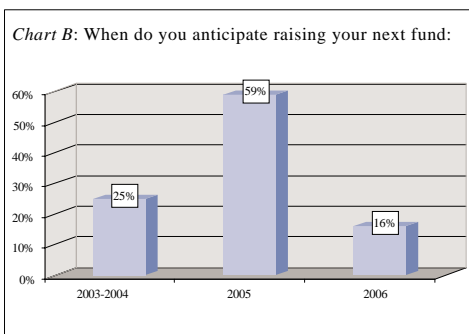
The Israel VC Indicator is a survey that is meant to identify trends within the venture capital arena. Its objective is to give a comprehensive picture of the expectations of the Israel VC community for the next six to twelve months. The survey is designed to explore relevant key aspects, such as the economic and market climate, deal activity and investment and managerial focus.

The VC Survey is a Deloitte & Touche initiative being conducted on a quarterly basis, concurrently in US's Silicon Valley, the UK, Canada, Israel, Germany, Austria, Switzerland, the Netherlands, Italy, Australia, Hong Kong and China.

The results were collected from February 19th through March 5th, 2003, from 49 VCs in Israel, including most of the largest VCs in the country.

This project is conducted
by the
Business Development department
in the TMT Group

Another indication to this gap in expectations and in the overall sentiment between the Israeli community and the Silicon Valley VC communities can be seen in the expectation regarding raising new funds for VCs. The Israeli VCs continue to expect it to be very hard to raise new funds for themselves and only 25% of them indicate that they will raise their next fund during the years 2003-2004, in comparison to 39% of the respondents in the Silicon Valley. All the estimations reflect a situation where by 2004 there will be a shortage of funds in the Israeli VCs, and therefore this will present the local market with a problem. Despite this optimistic expectation in the Silicon Valley, 35% of the respondents there expect their next fund to be smaller than their current one and only 5% expect it to be larger. (Chart B)

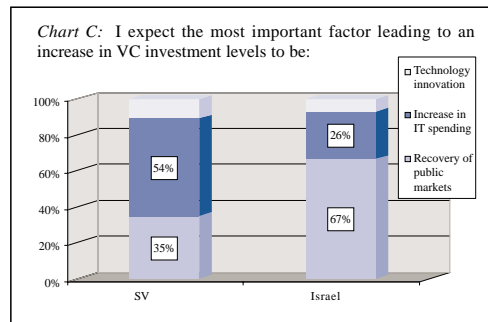


Despite the extremely challenging environment that the VCs have been operating in over the past two years, 66% of the Israeli respondents indicate that this is a good time to be a venture capitalist, and 58% of the respondents view this to be a good time to be a technology entrepreneur. In comparison 75% of the respondents in the Silicon indicate that this is a good time to be a venture capitalist, and 77% of the respondents view this to be a good time to be a technology entrepreneur. This correlation between the VCs and the entrepreneurs in each of the geographical areas, indicates that the two communities (VCs and entrepreneurs) have more in common than not.

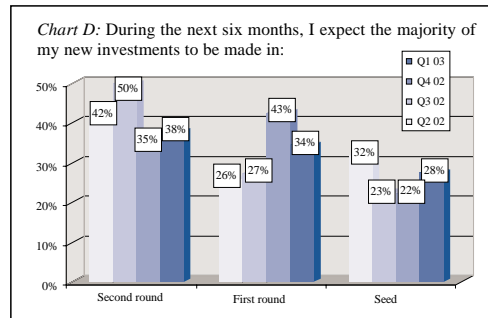
New Investments

67% of the Israeli respondents expect the most important factor leading to an increase in VC investment levels to be the recovery of public markets, compared to 35% in the Silicon Valley where over half of the respondents (54%) expect the most important factor to be an increase in IT spending in the market (only 26% of the Israeli respondents).

Does this indicate a difference between the two markets or do they both refer to exits of portfolio companies in different ways? In both communities, technology innovation is a relatively less important factor since it is a given. (Chart C)



Again, as in the previous quarter, the majority of the respondents expect most of their new investments to be made in seed companies and first round (28% and 34% respectively, compared to 22% and 43% in Q4, 2002). Regarding new investments in seed companies, approximately half of the respondents see this already happening in the market or expect it to take place within the next six to twelve months (24% and 25% respectively), and the other half view the statements made by many players in the VC industry regarding their intention to invest mostly in seed companies, as mainly a buzz. (Chart D)



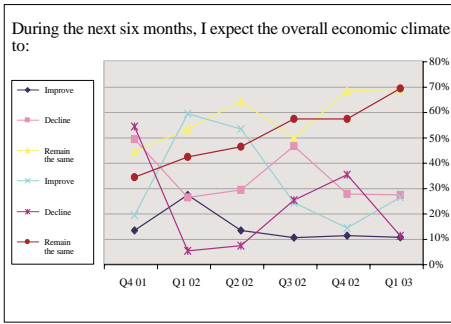
As a small optimistic sign it should be noted that while searching for new investments, 63% of the Israeli respondents note that they aren't seeing fewer quality business-plans today than two years ago. In the Silicon Valley the situation is even better with 71% of the respondents indicating the same. Homeland security is expected to be a "hot" sector for investments during the next six months with 70% expecting an increase in investments in this sector. Along with this sector, an increase is expected in medical devices, biotech and software (47%, 35% and 26% respectively). An interesting point may be noted in the fact that 42% of the respondents expect an increase in non-technology investments during the next six months.

INSIGHTS

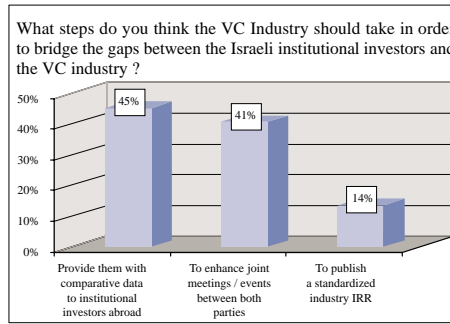
- The acquisitions of Israeli companies by foreign players over the past few months, despite the political-economical situation, indicate that the Israeli technologies together with the current valuations of the companies create a "market of opportunities" which must be further nourished by capital if from VCs and if from other resources. The question is what part will the local VCs play in this market of opportunities?
- The VCs are in need for additional fund resources. Although the Israeli institutional investors are somewhat of players in the VC industry, the amounts of investments done by them are still significantly lower than those done by institutional investors in the US. In order to enhance this, the institutional investors and the regulator must be provided with comparable data regarding the various VCs in the country along with the creation of a mechanism that will provide a bridge between the conservative world of the institutional investors to the world in which the VCs operate.
- The VC industry is far from being homogeneous. While over the past few months some of the VCs have known a substantial amount of activity and changes (the addition of new partners, new investments, etc.), other VCs have remained relatively idle. We expect to witness further divergence in the VC industry and further consolidation. The ones who will remain are the professional VCs.
- During the past year there are sounds of many LPs that are looking for a way out of their commitments to the VCs. More and more opportunities and options for secondary funds are being seen in the market.

Appendix: 1st Quarter, 2003 Detailed Results

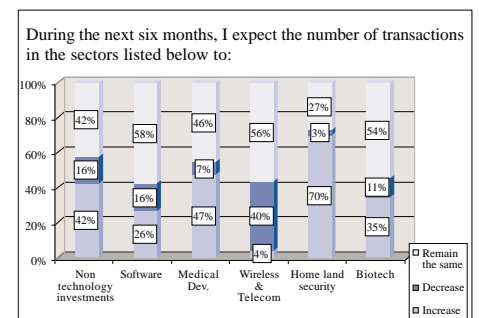
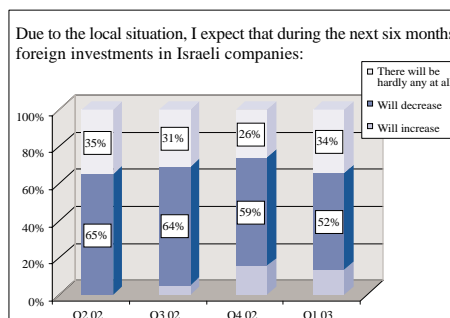
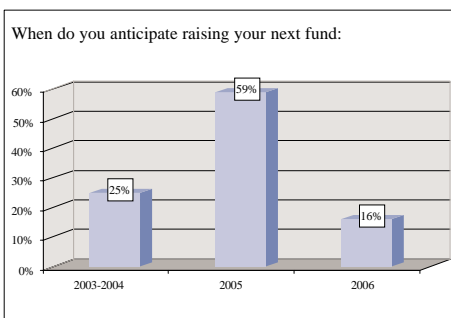
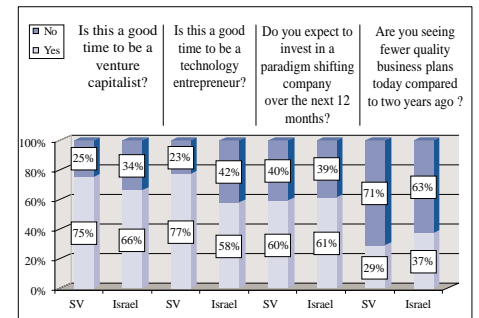
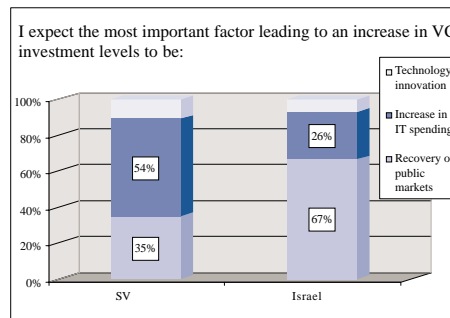
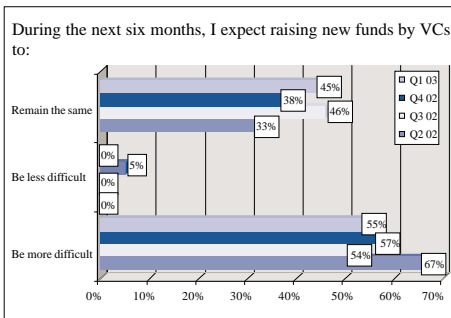
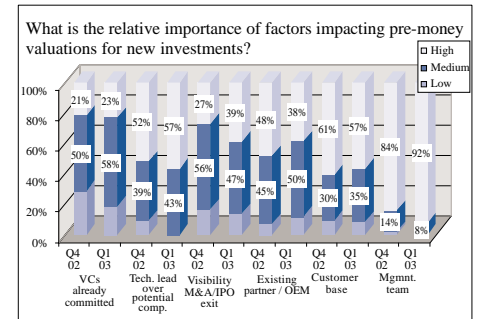
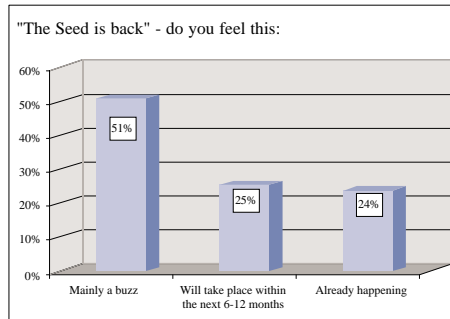
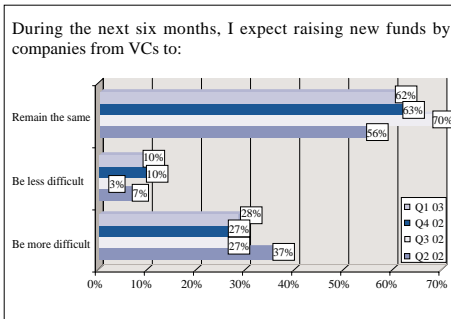
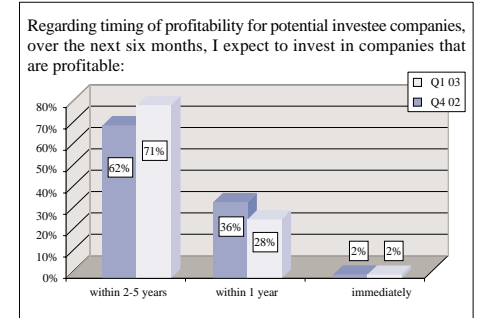
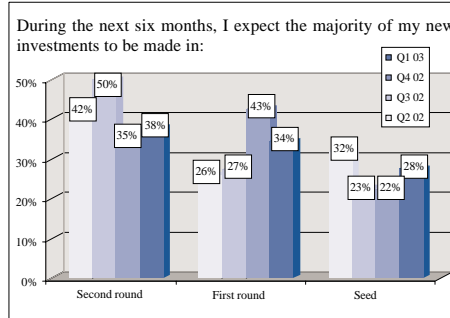
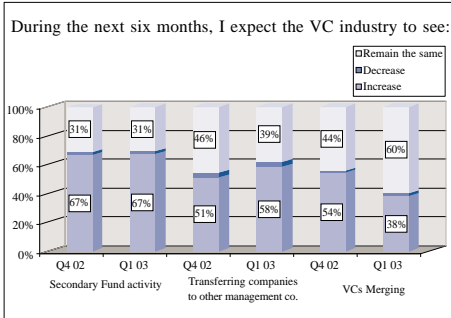
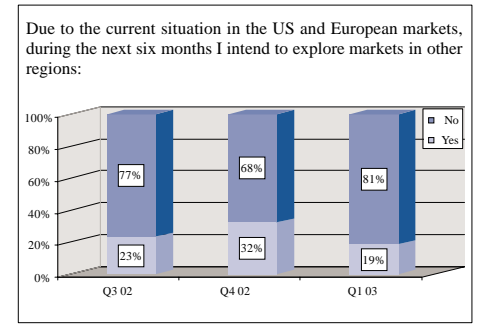
Economic Activity



Deal Activity



Investment & Management Focus



○ Contacts

Deloitte & Touche – Brightman Almagor initiated this survey and collected the results from February 19th through March 5th, 2003. The Israel VC Indicator Survey is conducted on a quarterly basis.

We welcome suggestions for issues to be addressed in future Israel VC Indicator Surveys.

For more information about this survey or the special services offered by Deloitte & Touche Brightman Almagor or its affiliates, to VCs, and how we can assist the deal initiation and execution process, please contact us as follows:

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