

# Israel VC Indicator Survey.

Expectations as of Quarter 4, 2003

The optimism is here

*Now all we have to wait for is the manifestation*



The purpose of the Israel VC Indicator is 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 initiative, which is conducted on a quarterly basis concurrently in the US, the UK, Canada, Israel, Germany, Austria, Switzerland, the Netherlands, Italy, Australia, Hong Kong and China, India, Taiwan and Korea.

The results were collected from November 6<sup>th</sup> through November 24<sup>th</sup>, 2003 from 45 VCs in Israel, including most of the largest VCs in the country.

This project is conducted by the Business Development Department within the TMT Group.

## Introduction

There is no doubt as to the magnitude of the optimistic expectations the VC community is expressing. This is the third consecutive quarter in which positive expectations hit the charts with an even stronger pole than before. These indicators appear across the board starting with expectations with regard to the overall economic climate, onwards through prospects of raising new funds by both companies and VCs. Now all that is left is for hopefully to overcome harsh realities and these expectation manifest themselves leading us into a more prosperous period.

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

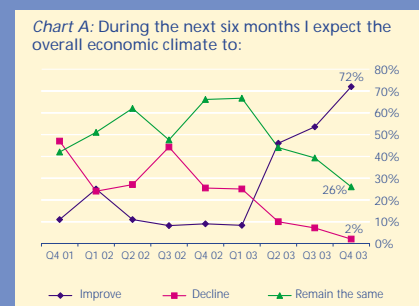
The results produce a forward-looking measure of the overall sentiment in the Israeli venture capital community, which is extremely relevant to immediate deal flow.

The 9<sup>th</sup> Deloitte Brightman Almagor Israel VC Indicator Survey results for Q4 2003, include a comparison, where relevant, to responses from previous surveys.

## Results

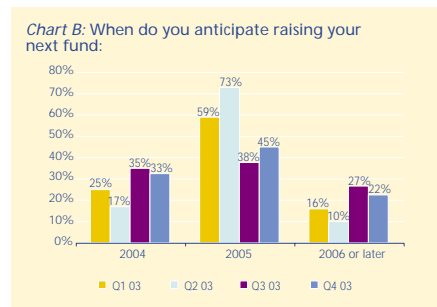
This quarter's results indicate a clear and strong positive trend, with a definite brighter and more optimistic point of view. The shift in expectations in a positive direction, which began two quarters ago, continues. The VC community has an increasingly optimistic outlook on the economy with 72% of the respondents expecting the overall economic climate to improve over the next six months (compared to 54% in Q3, 2003)

and only 2% expect a decline (compared to 7% in Q3, 2003). (Chart A)

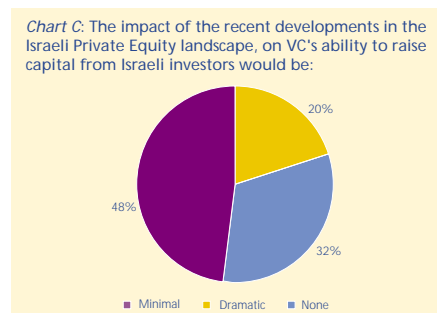


As part of that general optimism, 98% (compared to 91% in Q3, 2003 and 73% in Q4, 2002) of the respondents expect raising new funds by companies from VCs to be less difficult (41%) or to remain the same (57%) as they are nowadays. Furthermore, 96% (compared to 88% in Q3, 2003 and 43% in Q4, 2002) of the respondents expect raising new funds by VCs to remain the same or to be less difficult than they are at present.

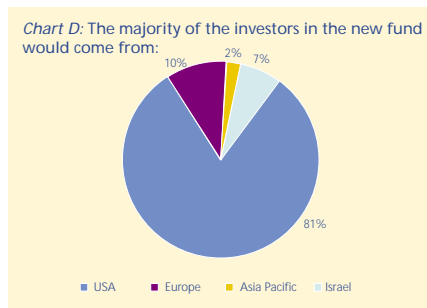
Signs of that optimism can be detected in the timetable parameter as well. 78% of the VC community members anticipate the raising of their next fund to be during 2004 or 2005 (compared to 73% of the respondents in Q3, 2003) and 24% of the respondents foresee a return of a healthy IPO market for technology companies by 2004 (compared to only 12% in Q3, 2003), (Chart B).



An interesting aspect with respect to VC's ability and intention to raise capital for their next fund can be witnessed in the following two figures: 80% of the respondents expect that the impact of recent developments in the Israeli private equity landscape on VC's ability to raise capital from Israeli investors will be none or minimal (Chart C).



Yet, when coming to look at origin of the majority of the investors in the new funds, only 7% of the respondents expect that it would come from Israel (Chart D).



As for VC investments, 67% (compared to 55% in Q3, 2003) of the respondents expect that the recovery of public markets will be the most important factor in their decision to increase their investment levels. Once an investment opportunity is laid on the table, 66% (compared to 63% in Q3, 2003) of the respondents feel that the most important factor in determining pre-money valuation for a potential venture is the evaluation of milestones reached, whereas only 2% (the same level as it was in Q3, 2003) of the respondents define the previous round valuations as the most important factor.

When it comes to looking at the investment lifecycle from a VC perspective, the vast majority of the respondents (71%) felt that the most pressing business issues confronting their portfolio companies in the next six months would be seeking new alliances or business convergences. Whereas further on in the lifecycle towards the exit, 68% of the VC community members feel that in the current environment their funds' acceptable return on a potential exit opportunity for a portfolio company exceeds three times their original investment (compared to 49% in Q3, 2003) whereas 24% indicate that one to three times is an acceptable return (compared to 49% in Q3, 2003).

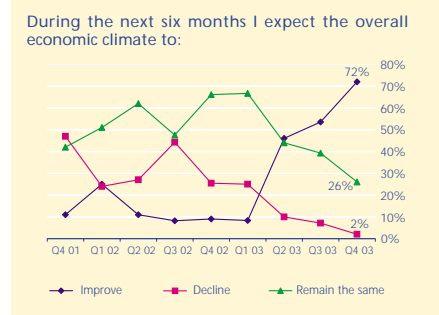
According to 85% of the respondents, the Internet / e-commerce sector would be the sector that demonstrates an increase in the number of transactions during the next six months. The optimism does not stop here; according to the vast majority of the respondents during the next six months the number of transactions in all high-tech sectors will show either an increase or at the very least remain the same.

## Insights

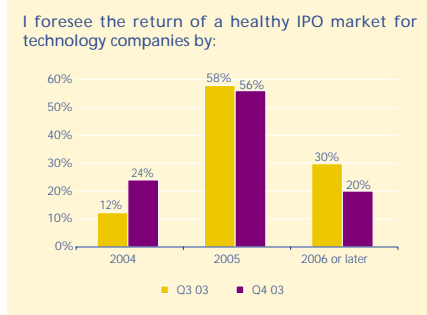
- The Israeli Private Equity is coming of age slowly but surely. Recently, we have witnessed a variety of signals - good and bad - indicating that the industry is maturing. Establishment of funds focusing on buyouts, Real Estate, industrial investment, low-tech, and others; disputes between investors and VC's, etc. Hopefully, this normal course of evolution will lead Israeli institutional investors to increase the portion they invest in VC's to match those amounts common among their American and European counterparts.
- The American economy has proven that thanks to the existence and activities of its VC industry the export, R&D and taxes have increased. The Israeli government must give all the support it possibly can to the local VC and high-tech industries, not only because of the above parameters, but because in Israel - unlike in the US - there is no other alternative.
- A call for Entrepreneurs: combination of factors - fund's future size, Israel's relative strength in innovation and entrepreneurial activity, feedbacks from foreign investors, etc. - leads the VC community to an increased focus on the early stage arena.
- The Internet is here to stay and big time. It is no longer accursed, even between VC's. Since the days of "The Bubble", a great deal has occurred. Internet companies learned how to generate profits (through viable business models), there has been constant growth in e-commerce and the business community has gained a better understanding of evaluating that "gift".

# Detailed Results, 4th Quarter, 2003

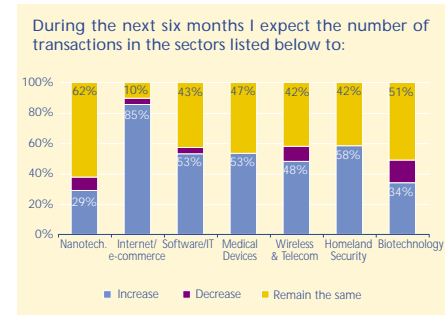
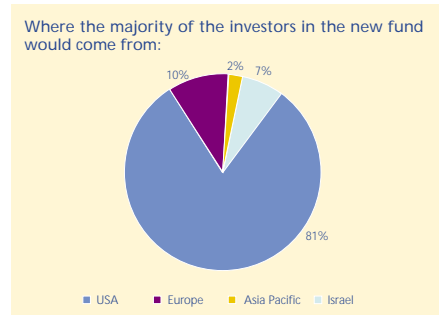
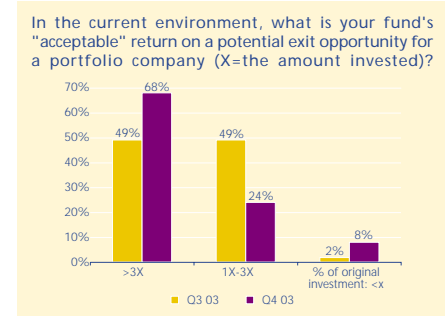
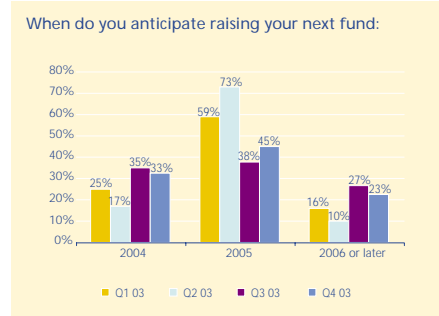
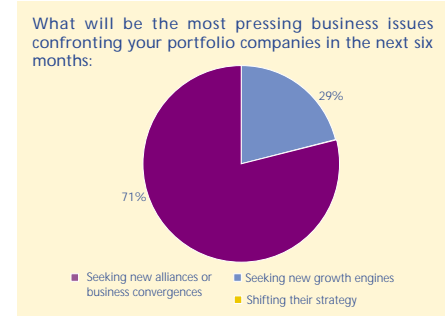
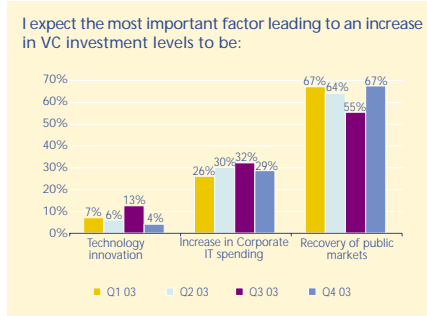
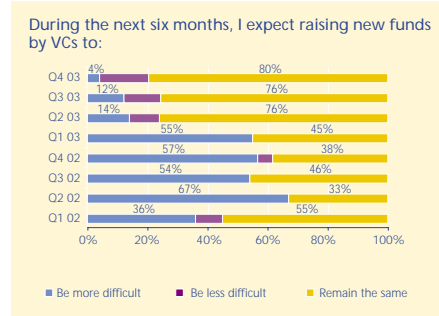
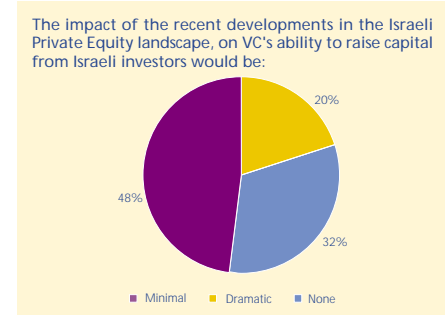
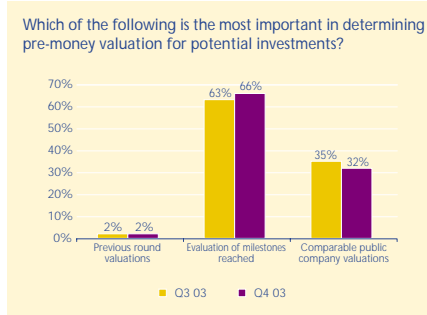
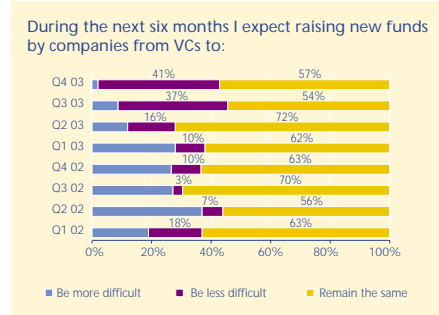
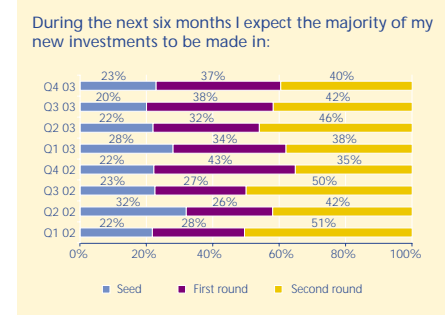
## Economic Activity



## Deal Activity



## Investment & Managerial Focus



## For more information...

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