

# eurofund quarterly

Q3 2004

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## Elbit Systems - in \$1.5B British Defense Deal

Elbit Systems Ltd. (NASDAQ:ESLT) won the British Ministry of Defense's \$1.5B "Watchkeeper" tender, along with Boeing and Thales. Elbit's part of the deal is estimated at half - \$750M.

According to *Globes*, Israel's business daily, Elbit will supply the UK Government with its Hermes 450 and Hermes 180 Unmanned Air Vehicles (UAV). The Hermes UAV family comprises new-generation unmanned aircraft designed for real time imaging and data distribution, capable of carrying multiple payloads, featuring fully redundant avionics and providing mission flexibility and reliability.

Elbit Systems is an international defense electronics company engaged in a wide range of defense-related programs throughout the world, in the areas of aerospace, land and naval systems, command, control, communications, computers, intelligence, surveillance and reconnaissance ("C4ISR"), advanced electro-optic and space technologies.

Elbit focuses on the upgrading of existing military platforms and developing new technologies for defense and homeland security applications.

## Q2/20 Capital Up 5% from Q1 to Total \$338M

In H2/04, ninety-one Israeli high-tech companies raised a total of \$338M from venture investors – both local and foreign, according to the quarterly survey published by the IVC Research Center. The amount was up 5% from the \$323M raised by 111 companies in Q1/04, and 25% higher than the \$271M raised by 86 companies in Q2/03.

This Survey, conducted with the cooperation of the Israel Venture Association (IVA), reviews capital raised by 117 venture investors of which 62 are Israeli management companies and 55 - mostly foreign investment entities.

The average company financing round increased by 27% from Q1 and 17% from Q2/03 to \$3.7M. Sixty-four companies attracted more than \$1M. Of these, 8 companies raised \$5M-\$10M each and 8 companies raised more than \$10M.

"The latest figures indicate the recovery of Israel's high-tech sector continued in Q2/04," said Efrat Zakai, Director of Research at IVC. "We are forecasting that full year capital raising by Israeli firms will increase by 20% from 2003 levels."

## Enter: Exits

After three lean years, Israel's venture capital market is finally showing signs of overcoming the deep crisis it has undergone. The second quarter of 2004 brought about the first IPO of a venture-backed company in three years and a number of acquisitions by foreign players, which have generated substantial profits for investors.

PowerDsine, the first Israeli IPO on NASDAQ this year, raised \$58 million at \$11.50 per share, reflecting a market cap in excess of \$200 million. The company was founded in 1994 and its investors were well rewarded for their patience and perseverance. Hopefully, this will open the door for other IPOs of Israeli companies.

Two other Israeli venture-backed IPOs are anticipated relatively soon, namely shopping.com, which is expected to go public at a \$400 million market cap, and Saifun – dubbed for some years now as "the best start-up in Israel" - is expected to have a market cap of approximately \$1 billion.

The pace of acquisitions in the first half of 2004 is ahead of last year, although large transactions (which we define as >\$100 million) have not occurred. Notable deals announced so far this year are Actona, acquired by Cisco for \$82 million, Envara sold to Intel for \$40 million, Riverhead Networks, acquired by Cisco for \$39 million, and Magnifire, acquired by F-5 for \$30 million.

We hope these trends will gather momentum and further revitalize Israel's venture capital market.

Sincerely,



**Aharon Beth-Halachmi**  
Managing Partner

# israel VC news

## VC ROUNDS

- **Arcwave**, a provider of broadband wireless equipment for cable operators, raised an additional \$6M (Series C), closing the round at \$8M. Investors: Vulcan Capital (lead), Comcast, Mayfield, Venrock & SBV.
- Broadband multimedia routing systems provider **BigBand Networks** raised \$25M (Series E). The insider round was backed by Charles River Ventures, Redpoint, Evergreen, Meritech, Pilot House Ventures & Time Warner Ventures.
- Optical communications technology developer **BroadLight** raised \$17.9M (Series C). Investors: Azure, Advanced Fibre Communications, Star, Delta, Israel Seed & Siemens. The company has raised \$28M to date.
- **Camero**, a developer of electromagnetic radiation technology that can “see” through walls, raised \$5M (Series A). Investors: Jerusalem Global (lead), Walden Israel & Motorola Ventures.
- **Carrius**, a developer of switching platforms that enable enhanced voice and data services to be deployed over circuit-based & packet-based networks, raised \$14.5M (Series B) from Sevin Rosen, Star, Centerpoint & Chisholm.
- **Celletra**, a developer of cellular coverage technology, raised \$6.5M (Series D) from Mofet, Gemini, Star & Clal.
- **Cymbet**, a developer of thin-film batteries, has raised \$9M as part of a \$15M round. The company is backed by Millennium Materials Technologies and Helmet Capital.
- Security software company **Finjan** raised \$10M from Cisco, Benchmark Capital, Bessemer & Israel Seed.

- **CVidya Networks**, a developer of Internet broadband provider solutions, raised \$7M (Series B). Investors: Carmel (lead), Hyperion & Stage One.
- **eASIC**, a developer of structured ASICs, raised \$12M from Kleiner Perkins.
- **Eliyon Technologies**, a developer of automated content search technology, raised \$7M (Series A) from Venrock. Shareholders include Flagship, Commonwealth Capital & Ascent.
- **Integrated Materials**, a developer of silicon products used in semiconductor diffusion processes, closed an \$8.5M (Series B) round. Investors: Labrador Ventures (lead), Rocket & Alloy.
- **Itemfield**, a developer of data transformation software, closed on \$13.5M (Series B) Investors: Foundation Capital (lead), Accel, Evergreen, Fourteam & Gemini Israel Funds.
- Storage technology developer **Kashya** closed on \$15M (Series C). Investors: TL Ventures (lead), Jerusalem Global & Battery Ventures.
- **Magink Display Technologies** closed a \$27M round. Investors: VantagePoint (lead), Formula Ventures & Japan Asia Investment.
- **OzVision**, a developer of remote video transmission technologies, raised \$8M from General Catalyst, POD & Dor.
- **ReShape**, a chip-level design automation company has completed a \$12M round (Series C). American River (lead) Bay Area Equity, New Enterprise & Canaan joined. Founded in 1997, the company has raised \$31M to date.
- **RIT** has raised \$7.1M from Special Situations Fund and current controlling shareholders Yehuda & Zohar Zisapel.

- **XoSoft**, a developer of disaster recovery solutions for the enterprise market, has raised \$9M from JK&B Capital.
- **Zend Technologies**, developer of the PHP Platform, raised \$8M (Series C) from Azure Capital Partners, Index, Platinum Neurone Ventures & Walden Israel.

## VC FUNDS

- **Jerusalem Global Ventures** is raising a new \$150M fund. JGV was established by Dr. Shlomo Kalish, founder of the JG Group, and formerly a general partner at Concord Ventures.
- **Shamrock Holdings**, the investment arm of the Disney family, has established a \$120M Israel-focused fund. Shamrock has invested over \$800M in Israel.
- The €500 million **Siemens Venture Capital** fund has expanded its Israel investment activities with the appointment of Heike Wiegand to direct local activities.

## M&A

- **Cisco Systems** acquired **Actona Technologies** for \$82M in cash and stock. This is Cisco's seventh acquisition in Israel in recent years. Investors included Mayfield, Sequoia Capital, Evergreen and Fantine.
- **Zoran** (Nasdaq: ZRAN) acquired Emblaze Semiconductor for \$54.2M.
- **SAP** (NYSE, LSE: SAP; XETRA: SAPG) is acquiring **A2i**, which develops content management solutions, reportedly for \$10M.
- **Vyyo** (Nasdaq: VYYO) has completed the acquisition of **Xtend Networks**, a developer of broadband solutions for coaxial cable TV networks, for \$20M.

- **Broadcom** bought **M-Stream** for \$8.6M. The developer of chips for improved cellular communications reception was founded in 2001, raising \$1.5M.

- Applications developer **Breach Security** has acquired **Gillian Technologies**, a developer of access security solutions for websites. As part the process, Breach raised \$7.8M (Series A) from Enterprise Partners, Ascend, Evergreen & Pitango.

- **eWave**, a developer of IT integration solutions, has acquired CRM software developer **SoftWatch** for \$6M. SoftWatch at one stage planned an IPO at a company value of some \$250M.

## STOCK MARKETS

- **PowerDsine** ended a three-year hiatus in public offerings by Israeli startups, raising \$58M at a valuation of over \$200M.

- **LeadCom** intends to IPO in Europe or Singapore, hoping to raise \$25M at an \$80M valuation. The company recorded 2003 sales of \$51M.

- Billing and customer care solutions developer **Formula Telecom Solutions** is preparing for an IPO on the Singapore Stock Exchange, to be held at a \$100M market cap.

- **Nipson** Digital Printing plc, a subsidiary of Polar Communications (TASE:PLRC), plans to raise £25 million on London's AIM this summer.

- **Syneron Medical**, a developer of aesthetic medical products, has filed to raise \$67.8M on the Nasdaq.

- **Arbinet-thexchange**, an electronic market for trading Internet capacity, has filed to raise up to \$115M via an IPO on the Nasdaq.

## Spotlight on

Tevet Process Control Technologies, a company specializing in advanced metrology solutions for the semiconductor industry, recently completed a \$4.5 million equity investment round (Series C). Eurofund and a strategic investor led the round. Our partner, Ron Hiram will join Tevet's board of directors.

Tevet's current investors, including Ofer Brothers Hi-Tech, West Steag Partners, Lewis Trust Group, Ltd., Eurovestech plc, and Goldman Investments, also participated in the round.

Increasingly sophisticated production processes enable packing more transistors into each chip, reducing the overall size of the chips, and enlarging the wafers. However, as the manufacturing process becomes more complex, the difficulty of detecting faulty wafers increases. And, as wafers get bigger, the cost of discarding each faulty wafer that made its way through the production process increases dramatically. These trends create a need for Automatic Process Control (APC) devices to provide metrology (accurate measurement and recording of key parameters) throughout the wafer fabrication process.

Integrated Metrology (IM) devices, unlike other APC methods, do not require removing sample wafers from the production line in order to perform measurements. IM modules measure each wafer and provide almost instant feedback and feed-forward. Yet, despite its promise, IM has not yet been widely adopted because it is a relatively new and costly technology.

Tevet has developed an IM module that fits on the production tool and provides an accurate and real time measurement of the thickness of the non-metal thin-films forming the base of each wafer



*Tevet's President & CEO, Yuval Wasserman*

layer. This measurement is one of the most important process control parameters in chip manufacturing and needs to be repeated at many steps along the production process. Tevet's module is a breakthrough in IM technology because it provides information of greater quantity and relevance at an order-of-magnitude lower price.

Tevet's modules have been extensively tested for a number of the processes involved in fabrication of next generation 300mm wafers and Tevet has begun to generate orders for its modules. Tevet's growth will be fueled by its success in capturing multiple IM applications in mass production.

The outlook for semiconductor manufacturing equipment providers continues to improve. Worldwide silicon wafer-area shipments rose 9% in Q1/04 from the previous quarter, and 29% from Q1/03, according to the SEMI Silicon Manufacturers Group (SMG). Tevet is well positioned to benefit from this positive momentum.

[www.tevet-pct.com](http://www.tevet-pct.com)

● **ART** Advanced Recognition Technologies: smARTspeak® NG will be offered by ART on Broadcom's family of mobile communication EDGE/GPRS/GSM platforms. This product combines both speaker independent digit dialing and speaker dependent name dialing and command functions in one bundle.

LG Electronics, the world's largest producer of CDMA phones, selected ART's smARTspeak® XGT embedded speech interface solution for its latest voice-controlled CDMA phones. The new smARTspeak XGT features the industry's most advanced name-dialing technology for wireless phones and mobile devices.

In addition, ART's widely deployed handwriting recognition solutions will be marketed with Teleca's renowned pen-based software design, as an integrated solution. Teleca is a leading provider of mobile handsets software solution based in Sweden.

[www.artcomp.com](http://www.artcomp.com)

● **RADWIN Ltd.**, a provider of carrier class broadband wireless connectivity of TDM and Ethernet services, announced in May the release of WinLink 1000, a high availability, carrier-class, high capacity, point-to-point broadband wireless transmission system that packs legacy TDM and Ethernet services over 5.725-5.850 GHz unlicensed bands, effectively connecting voice and data over a single link.

[www.radwin.com](http://www.radwin.com)

● **Passave.** The FTTH market in Japan continues to grow at a rate of 100,000 subscribers per month, and recently topped 1.4M subscribers. Passave started supplying its EPON chipsets in commercial volumes, and secured a large order backlog. Passave has also partnered with

UTStarcom to develop a commercial EPON platform. The EPON standard was ratified by the IEEE.

Demand for EPON semiconductors is surging, as leading Asian carriers are quick to adopt the new IEEE802.3ah EPON standard. Broadband access in FTTH deployments is now available at bandwidths of up to 1000 times those of DSL and cable modems.

[www.passave.com](http://www.passave.com)

● **CyOptics**, a developer and manufacturer of Indium Phosphide (InP) optical engines for high-speed internet solutions, continues to experience wide industry acceptance of its XFP optical engine for use in the new industry standard ultra-small form factor pluggable transceiver. The higher density XFP solution, which operates at 10Gb/s, addresses the need to drive down per-port costs.

The CyOptics XFP optical engine is currently being sampled by a number of customers and has already achieved design win status with two Tier-1 accounts. CyOptics continues to see rapid revenue growth with Q2/04 revenues growing 123% as compared to Q1/04.

[www.cyoptics.com](http://www.cyoptics.com)

● **Schema**, a global provider of industry leading network optimization, simulation and related planning software-based solutions for telecom operators, won a vendor contract for UMTS (3G) optimization and secured a spot on the shortlist for a countrywide UMTS optimization project in Europe.

Schema is further extending its customer-base in Latin America, recently closing a large network optimization contract with a leading local provider. The company is also in the midst of a project with a large network operator in Asia-Pacific. Schema's new Transport Network

Optimization (TNO) suite of software and services will enable transport engineers to meet required capacity and reliability objectives while also minimizing associated costs by 15-30%.

[www.schema.com](http://www.schema.com)

● **Eldat.** Teraoka Seiko, Eldat's partner in Japan, recently placed an order for over one million Electronic Shelf Labels (ESLs) to be delivered by the end of the year. During the past year Eldat has become the leading provider of ESL in the international retail market with over 7.5 Million labels installed in about 850 stores worldwide. Eldat maintains its position as one of the fastest growing companies in the retail market.

[www.eldat.com](http://www.eldat.com)

● **MobileAccess Networks**, a leading developer of equipment for in-building wireless networks, opened its new corporate headquarters in Vienna, Virginia. The new facility will house the company's marketing, engineering, sales, finance and senior management personnel. In addition, MobileAccess will invest further in its state-of-the-art technology center in Lod, Israel.

The company recently launched the MA-850 Intelligent WiFi Switching Hub, which enables organizations to deploy WiFi networks using a new architecture that significantly improves the overall management and maintenance of their WiFi network and access points. The same architecture also supports other wireless communications including Voice over WiFi (VoWiFi) and cellular telephony for a truly converged wireless network.

[www.mobileaccess.com](http://www.mobileaccess.com)

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