

A New Venture Capital Fund Investing in Web 2.0

The hype following the Google-YouTube deal is producing new initiatives to invest in Israel. The new fund, Jerusalem Capital, plans to invest \$10 to \$20 million in Web 2.0 companies and additional internet companies.

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While American venture capital funds enjoy investing in internet companies, the Israeli funds still remember the burst of the bubble and are acting quite cautiously.

It appears there are signs of shift in direction. Today in Israel, there is a new venture capital fund, Jerusalem Capital, which is specializing in Web 2.0 investments. There are only a few unique funds in Israel that invest in the sector, including, Gemini Venture Funds, Lightspeed, and JVP Studio. The rest of the Israeli venture capital funds invest in internet companies on a very limited basis.

According to the data of IVC-online, Israeli internet companies raised \$7 million in the third quarter and \$65 million dollars in the first three quarters. While this shows growth for 2006, it is still a tiny sum compared to the funds raised by all hi-tech companies. In the third quarter hi-tech companies raised \$381 million, and in the first three quarters they raised \$1.145 billion.



Jacob Ner-David (Left) and Lior Lifshitz

Despite this small amount, American venture capital investments in internet start-ups are producing results. According to the Dow Jones report VentureOne, in just the first half of the year venture funds invested \$263.3 million dollars in internet companies, compared to \$199.1 million in similar companies during 2005. A pace like this clearly shows investments in Web 2.0 will at least double this year.

As a result of the hype in this sector, Lior Lifshitz, the former CEO of ProSeed Fund, and Jacob Ner-David, the founder of DeltaThree, are starting a new venture capital fund that will invest on the seed level in Web 2.0 companies and in Technology-Enabled service companies. The two are dreaming of helping companies grow in the likes of 888.com, ICQ, answers.com, Skype, and shopping.com.

One of the investors in the fund is Jeff Pulver, the founder of VON. Other investors include Brent James, former CEO of abebooks.com and MDSI, Tom Evslin, former senior executive at Microsoft, Josh Fidler, founder of Boulder Ventures, and the Crown family of Chicago.

The fund will grow to a size of \$10 to \$20 million. To date the fund has raised \$10 million, and recently announced its first closing.

Currently, the fund management is trying to raise an additional \$10 million from Israeli government agencies. If the two managers don't succeed to raise the additional capital, the fund will remain a \$10 million fund—an especially small venture capital fund, which is appropriate specifically for seed investments. Jerusalem Capital expects to invest between half a million and one million Dollars in each company. Next week, the fund will announce a second investment, after it already invested in a start-up for in-game advertising called Double Fusion.

According to Ner-David, "Israeli venture capital funds do a great job, but they are very hesitant to invest in Technology Enabled Service companies. This is a developing segment, where the business model is to sell service (e.g. Salesforce.com). Here the model is not based on selling licenses."

(Translated to English by Jerusalem Capital)