

Entrepreneurial Confidence Index - ECI Analysis

First Quarter 2003
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Victoria Santaella, Head of Research vsantaella@vfinance.com
Dave Spector, Director of Online Business dave@vfinance.com

Tel. (800) 564 0859
Tel. (561) 981 1015

During the first quarter, more than 11,000 emerging companies, institutions and private investors participated in the Entrepreneurial Confidence Index (ECI) at www.vfinance.com, the Internet's leading private equity portal. The results are an extremely useful tool for early identification of industries and sectors that will lead the economy's future growth.

This quarter was characterized by a short-lasting war, a slowdown in consumer confidence and soaring unemployment, which increased overall entrepreneurial activity, in many cases, out of necessity. Therefore, entrepreneurial activity remains an important engine supporting the US economy, making this analysis the only indicator that measures and analyzes entrepreneurial confidence and activity worldwide. Following are some of the most relevant findings:

- Entrepreneurial activity surged 16% in the first quarter of 2003 versus the fourth quarter of 2002. The ECI, which measures entrepreneur and private equity investor activity worldwide, reported increases in 12 of 28 major industry classes and 140 of 289 niche sectors. The ECI also showed a 32% increase in entrepreneurial activity over Q1 2002.
- When analyzing the breakdown of total entrepreneurial activity by major industry class in Q1 2003, **Computer Software and Services (CSS)** was the industry with by far the largest number of individuals searching for financing, accounting for 13.0% of the total annual universe, followed by **Leisure** with 9.2% and **Real Estate** with 8.3%. Even though CSS continues to attract the largest percentage of entrepreneurs, this is the fifth consecutive quarter that it experienced a decline in the number of participants. The least popular entrepreneurial industries were all capital intensive, such as Conglomerates, Insurance, Metals & Mining, Utilities, Chemicals and Aerospace & Defense – each with an overall contribution of less than 1.0% of our total universe.
- The survey also revealed that the most popular sub-sectors in Q1 2003 were: Internet/Intranet Software (2.9% of overall activity); Specialty Retail (2.8%); Property Investment & Management (2.3%); Entertainment (2.2%) and Real Estate Development (2.2%).

Analysis by Industry

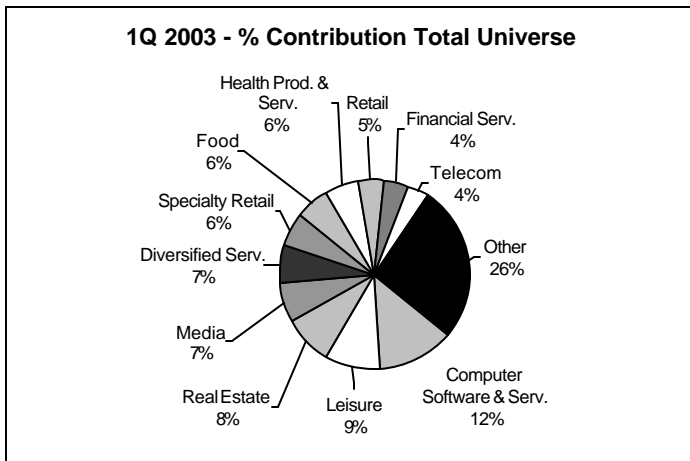
- The industries with the largest increase in activity when compared to the same three-month period of 2002 were **Specialty Retail, Retail, Food and Real Estate**. The Specialty Retail and the Retail industry increased by 3.2 percentage points (p.p.) its participation to 10.6% of the total universe of entrepreneurs. On the other hand, Food and Real Estate continue to experience a solid growth increasing its participation by 1.1 p.p. and 0.9 p.p. respectively, versus the same period of the previous year. **These figures continue to indicate that entrepreneurs are migrating “back-to-basics”, focusing in recession-proof industries that provide a steady cash flow, such as Food and Retail.**
- When compared to the previous quarter (Q4 2002), the industries that experienced a significant increase in entrepreneurial activity were **Specialty Retail, Manufacturing and Leisure**. While **CSS, Media and Financial Services** were the industries with the largest declines during the quarter, losing between 0.5 p.p. and 0.7 p.p. from previous results.

Analysis by Sub-Sector

- Some of the sub-sectors within the Specialty Retail industry that experienced phenomenal growth versus Q1 2002 include: Auto Dealers & Distributors, reaching 0.51% share versus 0.13% a year ago; Sporting Goods and Clothing, which reached a participation of 0.7% and 1.9%, respectively from 0.3% and 1.3%. Other sub-sectors that experienced notable growth include Property Investment Management, Lodging, Music Production & Publishing and Restaurants.
- On the other hand, the sub-sectors that experienced the largest declines in entrepreneurial activity versus Q1 2002 were Internet and Intranet Software declining from 4.5% in the 1Q 2002 to 2.9% in the 1Q/2003, followed by Educational Software declining from 1.0% to 0.5%, Miscellaneous Entertainment and Security Software. This is a clear reflection of cost cutting programs at major corporations, attempting to offset a decline in revenues and the lack of new investments (financing) going into those industries.

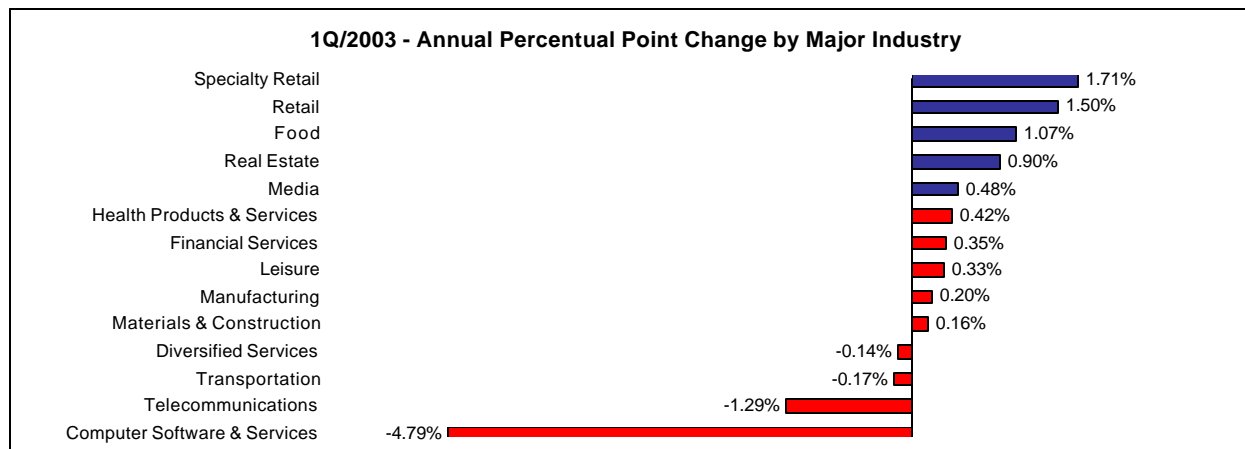
- When compared to the previous quarter, the sub-sectors with the largest gains include Clothing, which increased its share from 1.5% in the Q4 2002 to 1.9% in this Q1 2003, followed by Specialized Health Services, Trucking, Manufacturing, Lodging and Restaurants. Again, the results continue to indicate that many entrepreneurs are moving into niches that are recession proof, where demand is steady, investment low and a high degree of specialization (training) is not required.
- Sub-sectors such as Motion Picture & Video Production, Electronics, Financial Services and Security Software registered the largest declines when compared to the previous quarter. **The fact that Security Software and Wireless declined during the quarter comes as a surprise after showing a steady growth during 2002.** This might suggest that these sectors are starting to experience a slowdown and/or overcapacity, which could translate into fierce competition for the newcomers.
- The Entrepreneurial Confidence Index also measures both **entrepreneur and investor confidence** in the private equity markets nationwide. This quarter's results showed that over 59% of entrepreneurs seeking financing are "very confident" they will receive funding, suggesting a more negative outlook versus the previous quarter when 63% of the entrepreneurs claimed to be "very confident".
- 70% of institutional and wealthy private investor respondents indicated they would fund more than two deals this year, up from 67% in the fourth quarter of 2002.

Chart No. 1 – Percentage contribution by Industry in 1Q 2003



Sources: vFinance website: www.vfinance.com

Chart No. 2 – Q1 2002 vs. Q1 2003 - Major Growth and Decline in Participation by Major Industry.
 The following table presents the top 14 industries that contribute with over 80% of our universe.



Sources: vFinance website: www.vfinance.com - Only considers Industries that contribute 80% of the sample.

Chart No. 3 – Industries w/ largest growth in Entrepreneurial participation.

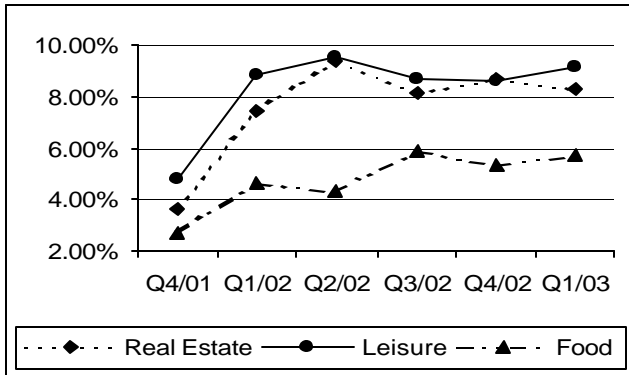
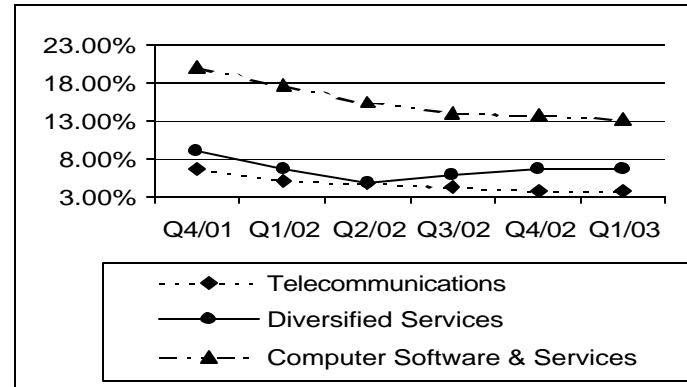


Chart No. 4 – Industries w/ largest declines in Entrepreneurial participation.



Top 40 Sub-Sectors with the Highest Growth and Declines – 1Q/2002 vs. 1Q/2003

Description	Specific	1Q 2002	%	1Q 2003	%	Diff. Pp	Diff. %
Real Estate	Property Investment & Management	96	1.60%	252	2.27%	0.7%	42.3%
Retail	Clothing	76	1.26%	211	1.90%	0.6%	50.5%
Leisure	Lodging	49	0.82%	160	1.44%	0.6%	77.0%
Media	Music Production & Publishing	92	1.53%	235	2.12%	0.6%	38.5%
Specialty Retail	Miscellaneous Retail	137	2.28%	308	2.78%	0.5%	21.9%
Leisure	Restaurants	60	1.00%	165	1.49%	0.5%	49.1%
Health Products & Services	Specialized Health Services	86	1.43%	212	1.91%	0.5%	33.6%
Real Estate	REIT - Residential	40	0.67%	126	1.14%	0.5%	70.8%
Diversified Services	Personal Services	24	0.40%	90	0.81%	0.4%	103.3%
Specialty Retail	Auto Dealers & Distributors	8	0.13%	57	0.51%	0.4%	286.2%
Specialty Retail	Sporting Goods Retailing	20	0.33%	77	0.69%	0.4%	108.7%
Transportation	Trucking	29	0.48%	92	0.83%	0.3%	72.0%
Financial Services	Miscellaneous Financial Services	38	0.63%	107	0.96%	0.3%	52.6%
Automotive & Transport Eq.	Auto Manufacturers	26	0.43%	83	0.75%	0.3%	73.0%
Food	Diversified Foods - Major	8	0.13%	48	0.43%	0.3%	225.2%
Manufacturing	Construction	16	0.27%	57	0.51%	0.2%	93.1%
Transportation	Taxi & Other Passenger Services	9	0.15%	43	0.39%	0.2%	159.0%
Media	Motion Picture & Video Production & Dist.	57	0.95%	130	1.17%	0.2%	23.6%
Food	Beverage & Tobacco	22	0.37%	65	0.59%	0.2%	60.2%
Retail	Health & Beauty Product Retailing	18	0.30%	57	0.51%	0.2%	71.7%
Drugs	Biotechnology - Medicine	35	0.58%	43	0.39%	-0.2%	-33.4%
Real Estate	Real Estate Development	143	2.38%	239	2.16%	-0.2%	-9.4%
Telecommunications	Internet & Online Service Providers	50	0.83%	64	0.58%	-0.3%	-30.6%
Leisure	Gaming Activities	35	0.58%	35	0.32%	-0.3%	-45.8%
Diversified Services	Miscellaneous Business Services	76	1.26%	108	0.97%	-0.3%	-23.0%
Computer Software & Serv	Entertainment & Games Software	67	1.11%	91	0.82%	-0.3%	-26.4%
Real Estate	Residential Construction	55	0.91%	66	0.60%	-0.3%	-35.0%
Drugs	Biotechnology - Research	41	0.68%	38	0.34%	-0.3%	-49.8%
Telecommunications	Miscellaneous End-User Comm. Serv	38	0.63%	32	0.29%	-0.3%	-54.4%
Computer Software & Serv	Information Technology Consulting Serv	91	1.51%	127	1.15%	-0.4%	-24.3%
Computer Software & Serv	Multimedia Production	52	0.87%	53	0.48%	-0.4%	-44.8%
Consumer Prod-Non-Durables	Miscellaneous Non-Durable Consumer Goods	69	1.15%	84	0.76%	-0.4%	-34.0%
Health Products & Serv	Medical Instruments & Supplies	54	0.90%	56	0.51%	-0.4%	-43.8%
Media	Media - Major Diversified	112	1.86%	161	1.45%	-0.4%	-22.1%
Leisure	Sporting Activities	132	2.20%	190	1.71%	-0.5%	-22.0%
Diversified Services	Marketing & Public Relations Serv	61	1.01%	56	0.51%	-0.5%	-50.2%
Computer Software & Serv	Security Software & Services	63	1.05%	59	0.53%	-0.5%	-49.2%
Leisure	Miscellaneous Entertainment	168	2.79%	243	2.19%	-0.6%	-21.6%
Computer Software & Serv	Educational Software	64	1.06%	51	0.46%	-0.6%	-56.8%
Computer Software & Serv	Internet & Intranet Software & Serv	268	4.46%	322	2.90%	-1.6%	-34.9%

Sources: vFinance website: www.vfinance.com - Only considers Industries that contribute to 80% of the sample.

p.p. Percentual Point

Methodology: This analysis only considered 14 industries and 119 sectors, which constitute 80% of the overall universe of industries and sectors. The variations are analyzed on a weighted manner; therefore, any increase or decrease shown is the result of changes in the participation of a specific industry or sector within the overall universe.

Boca Raton, FL
3010 North Military Trail, Suite 300
Boca Raton, FL 33431
Tel. 800 266 8023

New York, NY
880 Third Avenue, 4th Floor
New York, NY 10022
Tel. 800 564 0859

vFinance Investments Branch Offices

Alexandria, MN
Tel. 800 648 5948

Broomall, PA
Tel. 610 356 6988

Clifton, NJ
Tel. 800 762 3050

Florham Park, NJ
Tel. 973 966 0101

Littleton, CO
Tel. 800 843 0504

Newport Beach, CA
Tel. 949 718 1152

Pittsford, NY
Tel. 800 325 0565

Redbank, NJ
Tel. 888 900 8087

Atlanta, GA
Tel. 404 239 6080

Chicago, IL
Tel. 312 274 3418

Dover, DE
Tel. 302 734 0314

Houston, TX
Tel. 281 759 3300

Melville, NY
Tel. 800 403 6722

Philadelphia, PA (Logan Capital)
Tel. 800 215 1100

Pleasanton, CA
Tel. 925 398 0848

Topeka, KS
Tel. 785 272 1323

Blairstown, NJ
Tel. 908 362 8055

Clearwater, FL
Tel. 727 724 1941

Durham, NC
Tel. 302 734 0314

Houston, TX
Tel. 281 416 3000

Mount Laurel, NJ
Tel. 866 914 9806

Pittsburgh, PA
Tel. 412 531 0100

Princeton, NJ
Tel. 888 655 8550

Westport, CT
Tel. 888 766 9856

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