

## Entrepreneurial Confidence Index Analysis

**Second Quarter 2002**  
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During the second quarter, more than 7,000 emerging companies, institutions and private investors participated in the Entrepreneurial Confidence Index (ECI) survey at [www.vfinance.com](http://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. Following are some of the most relevant findings:

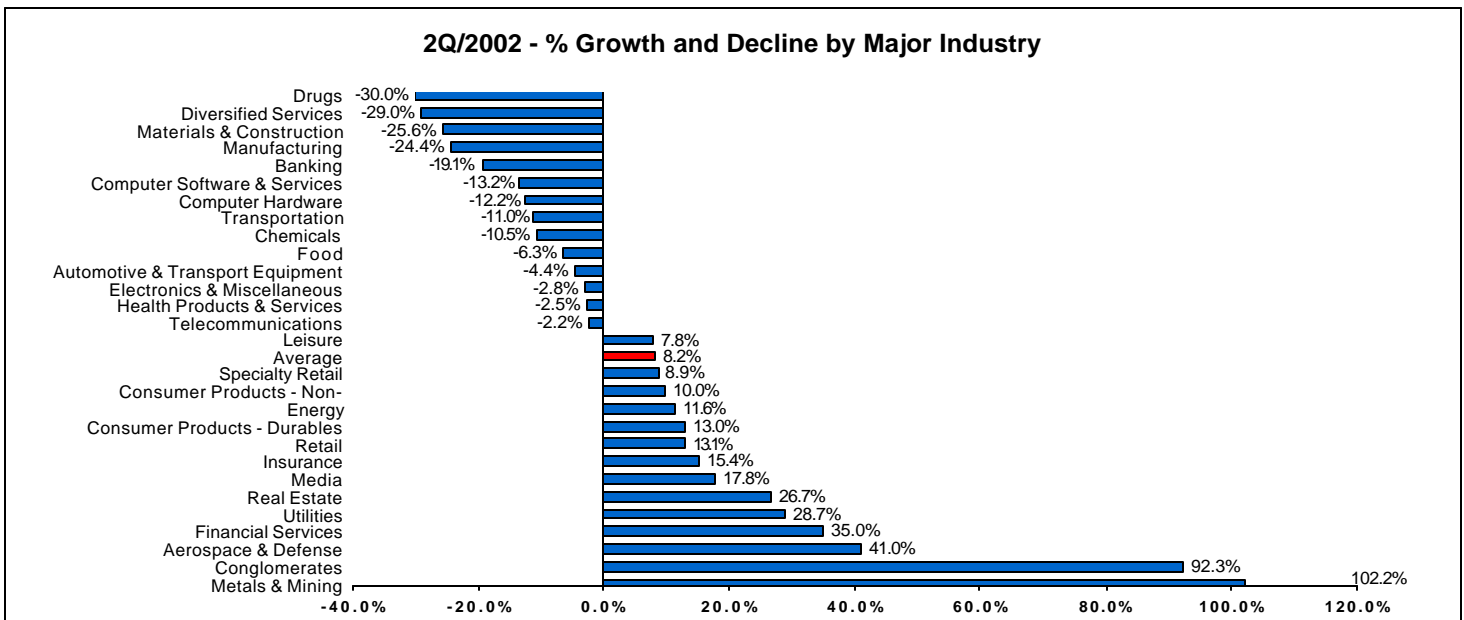
- During the second quarter of 2002, the total number of entrepreneurs seeking funding through our site declined by 10% versus the previous quarter.
- The industries with the largest increase in activity in this quarter were Aerospace and Defense, Financial Services, Utilities, Real Estate and Media. The increase in defense expenditure, the weakness in the stock market, along with increasing concerns regarding electric generation capacity, drove entrepreneurs into these industries. Moreover, the extremely low interest rate environment continues to drive more entrepreneurial individuals into the booming Real Estate sector for the third consecutive quarter.
- Although the Metals and Mining industry, along with Conglomerates, registered a substantial increase in activity this quarter, we could not identify any particular trend as these two sectors have experienced some volatility in the past nine months. If we consider longer periods of time, overall, entrepreneurial activity in these two sectors has been relatively flat.
- On the other hand, Drugs, Diversified Services, Materials & Construction and Manufacturing Industries, experienced the largest declines in financing search activity, dropping anywhere between 25% to 30% versus the previous quarter.
- This quarter we identified an important new trend in the **Music and Publishing Sector**, which experienced a 69.7% gain, surging from 1.53% to 2.60% in overall share of entrepreneurial activity. Within the Media industry, other sectors also displayed increasing activity, including: Television Production with a 53.8% increase, as well as Motion Picture & Video Production and Distribution with a 36.3% increase versus the previous quarter. This trend in the Media industry clearly indicates that new concepts and/or products might soon be hitting the market, which should translate into a significant growth potential for established companies already in this space.
- Another particular sector that continues to enjoy a solid growth trend is the Retail Industry, specifically the Sporting Goods sector, which might reflect some cyclical due to recent World Cup.
- The Alternative Energy and the Gaming sectors showed declines of 23.1% and 53.9%, respectively during this quarter after experiencing significant growth in the previous two quarters. We will continue monitoring these two sectors and try to determine if the recent downturn signals a tide change or if the sectors are only "catching their breath" after spectacular performance earlier in the year. A similar situation is occurring within the Biotechnology-Research sector, which dropped from 0.7% to 0.3%, a 55% decline in its overall share of entrepreneurial activity. This may reflect the difficult ongoing environment for funding.
- When analyzing the breakdown of total entrepreneurs searching for financing by major Industry Class, Computer Software and Services (CSS) appears to be the industry with by far the largest number of individuals searching for financing, accounting for 15.5% of the total universe, followed by Leisure with 9.5% and Real Estate with 9.4%. Nevertheless, it is important to point out that even though CSS continues to attract the largest percentage of entrepreneurs, it continues to decline rapidly. In the last quarter of 2001, CSS represented 21.0% of our total universe, while this quarter it captured only 15.5% of the audience. This may be a result of the sector's highly competitive environment. Or, perhaps this industry may have reached capacity, with less funding available.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

- The ECI also measures both Entrepreneur and investor confidence in the private equity markets nationwide. This quarter's results show that over 62% of the Entrepreneurs seeking financing are "very confident" they will get funded, which is a mood deterioration versus the 71% registered in the previous quarter. Entrepreneurs are more pessimistic, and so are the financial markets of the world.
- However, investors remain motivated; with 72% of institutional and wealthy private investor respondents indicating they will fund more than two deals this year. Additionally the survey indicated that 78% of respondents prefer start-up and early stage deals.

## Major Growth and Decline: by Major Industry

The table below reveals Major Industry Classes experiencing significant growth and decline over previous quarter:



Sources: vFinance website: [www.vfinance.com](http://www.vfinance.com)

The table below reveals specific sectors experiencing significant growth and decline over previous month:

Specific Sector	2Q vs 1Q % Increase	Specific Sector	2Q vs 1Q % Decline
Sporting Goods Retailing	92.3%	Information Technology Consulting Services	-28.2%
Miscellaneous Real Estate Services	74.6%	Beverage & Tobacco	-30.1%
Discount & Variety Retailing	73.8%	Air Services	-32.7%
Aerospace/Defense - Products	72.3%	Diversified Building Materials	-33.1%
Music Production & Publishing	69.7%	Multimedia Production	-33.4%
REIT - Residential	57.7%	Auto Parts	-34.9%
Television Production	53.8%	Security Software & Services	-35.3%
Restaurants	44.8%	Management Consulting Services	-36.9%
Investment Banking & Brokerage	43.1%	Miscellaneous General & Special Machinery	-37.3%
Miscellaneous Financial Services	41.7%	Manufacturing & Industrial Software	-38.5%
Property Investment & Management	39.4%	Corporate	-38.9%
Home Health Care	39.0%	Miscellaneous Services to Communication Providers	-40.2%
Personal Care Products	36.4%	Miscellaneous Business Services	-43.3%
Motion Picture & Video Production & Distribution	36.3%	Networking & Communication Devices	-44.1%
Document Management Software	34.6%	Investment Firms	-44.5%
Home Furnishings	32.8%	Asset Management	-47.4%
Wireless	26.2%	Gaming Activities	-53.9%
Housewares & Accessories	26.0%	Biotechnology - Research	-55.0%

Sources: vFinance website: [www.vfinance.com](http://www.vfinance.com)

Note: Only considers sectors with more than 20 responses.

**Methodology:** Any increase or decrease shown is the result of changes in the entrepreneurial participation in a specific industry or sector within the overall universe. This methodology should help to identify more solid trends in the market place regarding Entrepreneurial activity, which typically is one of the initial indicators of economic growth within a particular industry or sector.

## Sectors with the Highest Growth – 2Q/2002

Industry	Sector	2Q % Growth vs 1Q 2002
Specialty Retail	Sporting Goods Retailing	92.3%
Real Estate	Miscellaneous Real Estate Services	74.6%
Retail	Discount & Variety Retailing	73.8%
Aerospace & Defense	Aerospace/Defense - Products	72.3%
Media	Music Production & Publishing	69.7%
Real Estate	REIT - Residential	57.7%
Media	Television Production	53.8%
Leisure	Restaurants	44.8%
Financial Services	Investment Banking & Brokerage	43.1%
Financial Services	Miscellaneous Financial Services	41.7%
Real Estate	Property Investment & Management	39.4%
Health Products & Services	Home Health Care	39.0%
Consumer Products - Non-Durables	Personal Care Products	36.4%
Media	Motion Picture & Video Production & Distribution	36.3%
Computer Software & Services	Document Management Software	34.6%
Consumer Products - Durables	Home Furnishings	32.8%
Telecommunications	Wireless	26.2%
Consumer Products - Durables	Housewares & Accessories	26.0%
Diversified Services	Personal Services	21.8%
Energy	Oil & Gas Exploration & Production	20.9%
Leisure	Tour Operators & Other Travel Services	17.2%
Transportation	Logistics & Other Transportation Services	15.4%
Real Estate	Real Estate Development	14.6%
Computer Software & Services	Diversified Software	13.5%
Computer Software & Services	Other Application Software	12.7%
Consumer Products - Non-Durables	Miscellaneous Non-Durable Consumer Goods	10.3%
Leisure	Sporting Activities	10.1%
Health Products & Services	Medical Practice Management & Services	8.7%
Real Estate	REIT - Hotel/Motel	8.7%
Electronics & Miscellaneous Technology	Miscellaneous Electronics	8.3%
Retail	Clothing	5.2%
Food	Diversified Foods - Other	4.2%
Computer Software & Services	Educational Software	2.1%
Leisure	Lodging	2.0%
Computer Software & Services	Miscellaneous Computer Services	0.0%

Sources: vFinance website: [www.vfinance.com](http://www.vfinance.com)

Only considers sectors with more than 20 responses in 1Q/2002 and 2Q/2002

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