

Entrepreneurial Confidence Index - ECI Analysis

Fourth Quarter 2002
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During the fourth quarter, more than 8,000 emerging companies, institutions and private investors participated in the ECI survey 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.

As corporate America continues to underperform, entrepreneurial activity remains an important engine supporting the US economy. Hence, the ECI's importance is increasing rapidly as it is the only indicator that measures and analyzes entrepreneurial activity worldwide. In this edition of the ECI, we analyze entrepreneurial activity both for the whole year 2002 and for the fourth quarter of 2002. Following are some of the most relevant findings:

Annual Highlights

- During 2002, more than 30,000 emerging companies, institutions and private investors participated in the ECI survey at www.vfinance.com.
- When analyzing the breakdown of total entrepreneurial activity by major industry class in 2002, **Computer Software and Services (CSS)** was the industry with by far the largest number of individuals searching for financing, accounting for 15.0% of the total annual universe, followed by **Leisure** with 8.9% and **Real Estate** with 8.5%. Nevertheless, it is important to point out that even though CSS continues to attract the largest percentage of entrepreneurs, it continues to decline rapidly. The least popular entrepreneurial industries were all capital intensive, such as Conglomerates, Chemical and Insurance – each with an overall contribution of less than 1.0% of our total universe.
- The ECI also revealed that the most popular specific sub-sectors in 2002 were: Internet/Intranet Software (3.6% of overall activity), Entertainment (2.4%) and Specialty Retail (2.4%).
- The industries with the largest increase in activity when compared to the same three-month period of 2001 were **Real Estate, Food and Leisure**. Real Estate has more than doubled its participation to over 8.7% in the 4Q/2002 from 3.7% in the 4Q/2001, while entrepreneurial activity in the Food industry increased from 2.7% to 5.3% and Leisure reached an all time record of 8.6% from 4.8% in the 4Q/2001. The reading behind these figures continues to indicate that entrepreneurs are migrating “back-to-basics” focusing in recession-proof industries that provide a steady cash flow.
- Some of the sub-sectors within the Real Estate industry that experienced a phenomenal growth versus 4Q/2001 include: Residential Construction, reaching 0.84% share versus 0.23% a year ago; REITs' (both Mortgage Investment and Hotels) and Property Management, which doubled its participation to an outstanding 2.2% of the overall universe of entrepreneurs.
- On the other hand, the industries that experienced the largest declines in entrepreneurial activity versus 4Q/2001 were: Telecommunications declining from 6.6% in the 4Q/2001 to 3.9% in the 4Q/2002, followed by Computer Software & Services (CSS) declining from 20.1% to 13.7% and Financial Services dropping to 4.5% from 6.2%. This is a clear reflection of cost cutting programs at major corporations, attempting to offset a decline in revenues and an overcapacity in the Telecom industry.

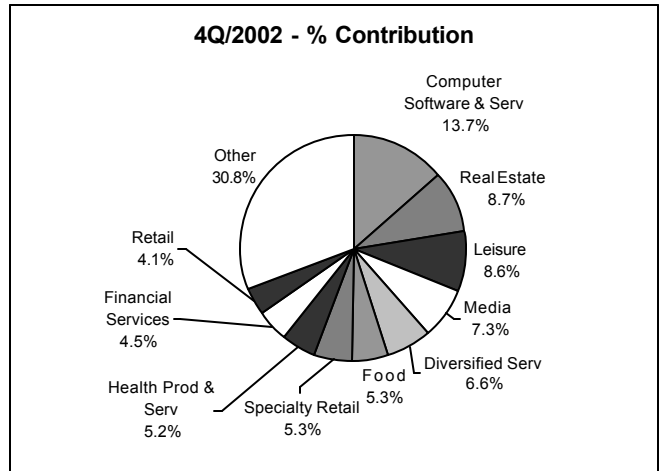
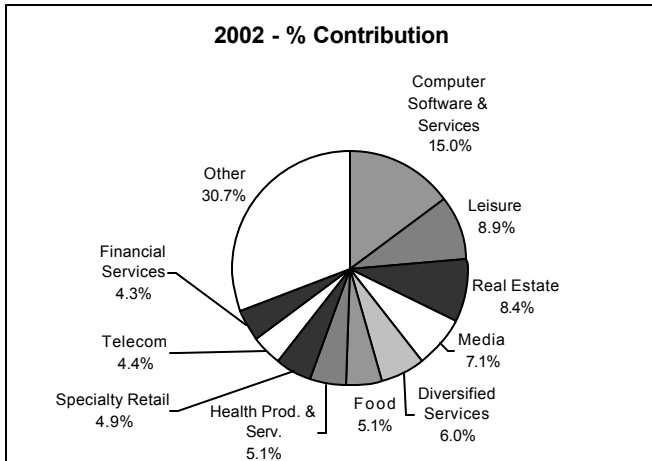
Quarterly Summary – 4Q 2002 vs. 3Q 2002

- Entrepreneurial activity declined 1% in Q4 vs. Q3 according to the ECI, with 15 of 28 major industry classes and 150 of 289 niche sectors showing declines. The largest percentage gain in overall entrepreneurial activity in Q4 was recorded by the Consumer Services Industry, which captured 6.6% of all entrepreneurial activity, up from 5.8% in Q3.
- The Retail Industry saw its audience share grow from 3.6% to 4.1%, and Real Estate, rose from 8.1% to 8.6% of all entrepreneurial activity in Q4 2002.

- Conversely, the Transportation dropped from 3.3% of all respondents to 2.9% in Q4 versus Q3. Among other noteworthy laggards, the woeful Telecom industry once again failed to attract entrepreneurs in Q4, dropping from 4.2% in Q3 to 3.9% of all respondents. The Media Industry was flat for the first time in ECI history (7.2% of overall activity). Previously, Media was the only major industry to show growth in every quarter the ECI has been published (September, 2001).
- Shaking off a slight dip in the previous quarter, the **Real Estate** sector continued its upward trend in Q4, nourished by historically low interest rates and a good value proposition when compared to the volatile financial markets.
- The sub-sectors with the largest increases in entrepreneurial activity in this quarter were: Appliances, Computer Peripherals and Industrial Software. Large decliners included: Biotechnology Research and Wireless Communication.
- The Entrepreneurial Confidence Index (ECI) also measures both **entrepreneur and investor confidence** in the private equity markets nationwide. This quarter's results showed that over 63% of entrepreneurs seeking financing are "very confident" they will get funded, which is similar to the figure registered in the previous quarter and a year ago.
- In addition, investors' motivation declined as 67% of institutional and wealthy private investor respondents indicated they would fund more than two deals this year, down from 72% in the fourth quarter of the previous year.

Chart No. 1 – Percentage contribution by Industry in 2002

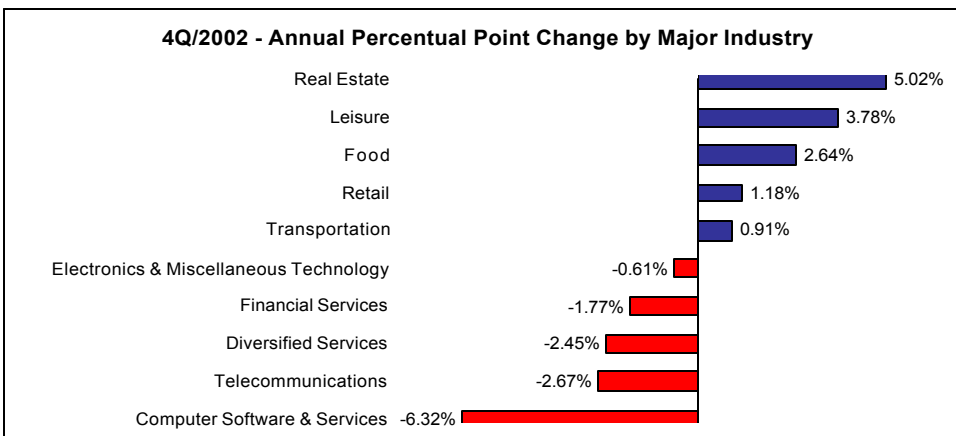
Chart No. 2 – Percentage contribution by Industry in 4Q/2002



Sources: vFinance website: www.vfinance.com

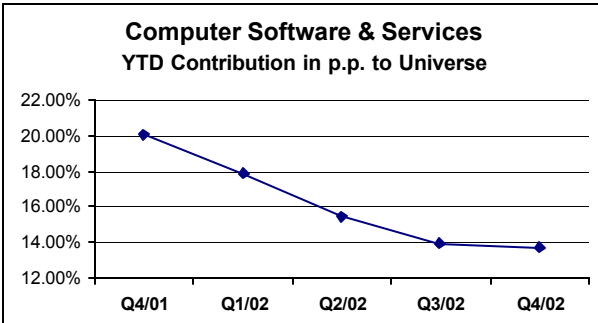
Chart No. 3 – 4Q 2002 vs. 4Q 2001 - Major Growth and Decline in Participation by Major Industry.

The following table presents the 10 industries that had experienced the largest growth and decline in their overall participation during the 4Q of 2002 in comparison to participation levels in the 4Q of 2001.



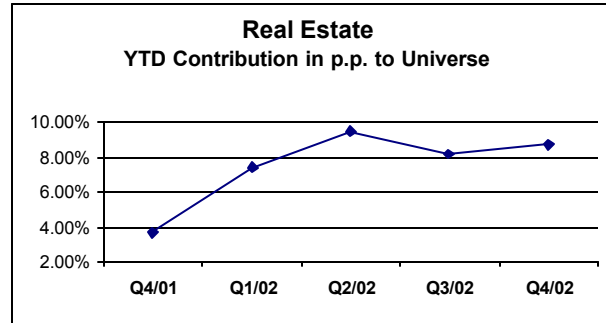
Sources: vFinance website: www.vfinance.com - Only considers industries that contribute 80% of the sample.

Chart No. 4



Sources: vFinance website: www.vfinance.com

Chart No. 5



Top 40 Sectors with the Highest Growth and Declines – 4Q/2002 vs. 4Q/2001

Description	Specific	Q4 2001	Q4 2002	Diff. Pp
Metals & Mining	Gold & Silver & Other Precious Metals	0.06%	0.31%	0.250%
Real Estate	Residential Construction	0.23%	0.84%	0.608%
Food	Meat Products	0.10%	0.34%	0.249%
Real Estate	Miscellaneous Real Estate Services	0.29%	0.89%	0.597%
Real Estate	REIT - Mortgage Investment	0.12%	0.37%	0.244%
Retail	Convenience Stores & Gas Stations	0.14%	0.37%	0.230%
Real Estate	REIT - Hotel/Motel	0.16%	0.43%	0.266%
Specialty Retail	Toy & Hobby Retailing & Wholesale	0.30%	0.78%	0.484%
Leisure	Adult Entertainment	0.19%	0.49%	0.299%
Specialty Retail	Auto Dealers & Distributors	0.11%	0.27%	0.163%
Automotive & Transport Equipment	Auto Parts	0.34%	0.81%	0.476%
Transportation	Airlines	0.27%	0.66%	0.383%
Media	Movie	0.19%	0.44%	0.251%
Health Products & Services	Long-Term Care Facilities	0.14%	0.31%	0.172%
Utilities	Alternative Energy Sources	0.22%	0.47%	0.252%
Health Products & Services	Home Health Care	0.23%	0.50%	0.268%
Real Estate	Property Investment & Management	1.04%	2.20%	1.167%
Computer Hardware	Computer Peripherals	0.22%	0.47%	0.245%
Energy	Oil & Gas Exploration & Production	0.22%	0.46%	0.239%
Real Estate	REIT - Diversified & Miscellaneous	0.17%	0.33%	0.162%
Manufacturing	Miscellaneous General & Special Machine	2.16%	1.44%	-0.721%
Leisure	Tour Operators & Other Travel Services	0.55%	0.37%	-0.188%
Telecommunications	Miscellaneous End-User Communications	0.48%	0.31%	-0.162%
Telecommunications	Internet & Online Service Providers	0.94%	0.61%	-0.329%
Computer Software & Services	Other Application Software	1.14%	0.69%	-0.448%
Diversified Services	Consumer Services	1.41%	0.84%	-0.575%
Telecommunications	Wireless Communications Services	0.76%	0.44%	-0.326%
Computer Software & Services	Communications Software	0.62%	0.34%	-0.272%
Telecommunications	Miscellaneous Services to Communication	0.58%	0.31%	-0.264%
Computer Software & Services	Educational Software	1.01%	0.54%	-0.465%
Computer Software & Services	Networking & Connectivity Software	0.75%	0.40%	-0.354%
Computer Software & Services	Internet & Intranet Software & Services	5.63%	2.78%	-2.850%
Health Products & Services	Medical Laboratories & Research	0.58%	0.28%	-0.299%
Computer Software & Services	Information Technology Consulting Services	2.37%	1.13%	-1.244%
Diversified Services	Management Consulting Services	1.39%	0.66%	-0.735%
Financial Services	Venture Capital Firms	0.84%	0.40%	-0.444%
Computer Hardware	Networking & Communication Devices	0.68%	0.31%	-0.371%
Food	Diversified Foods - Major	0.63%	0.27%	-0.354%
Telecommunications	Switching & Transmission Equipment	0.75%	0.30%	-0.446%
Drugs	Biotechnology - Research	0.75%	0.29%	-0.455%

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

Methodology: This analysis only considered 14 industries and 121 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.

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