

The Kesselman & Kesselman PricewaterhouseCoopers Israel  
MoneyTree™ Report

**Approximately \$1.4 billion invested in Israel in venture  
capital-backed high-tech companies in 2008**

**In spite of the economic crisis, in 2008 high-tech companies raised  
the largest amount of capital in seven years.**

Tel Aviv, February 2, 2009

The latest Kesselman and Kesselman PricewaterhouseCoopers Israel MoneyTree™ Report shows that venture capital-backed high-tech companies (companies in which one of the investors in the investment round is a venture capital fund) raised approximately \$1.4 billion in Israel during the course of 2008, an increase of about 17% over the approximately \$1.2 billion raised in 2006 and again in 2007. The average investment per company in 2008 was \$4.4 million, as compared to \$3.9 million in 2007 and \$4.1 million in 2006.

Data relating to the fourth quarter of 2008 reveal that 81 companies raised approximately \$287 million, the smallest quarterly amount raised during the course of that year. These data represent a decrease of approximately 27% (in monetary terms) in relation to the capital raised in the previous quarter (in which 78 companies raised approximately \$393 million) and an increase of approximately 30% (in monetary terms) in relation to the corresponding quarter of last year (in which 69 companies raised approximately \$221 million). The average investment per company in the last quarter was \$3.5 million, as compared to \$5 million in the previous quarter and \$3.2 million in the corresponding quarter of last year.

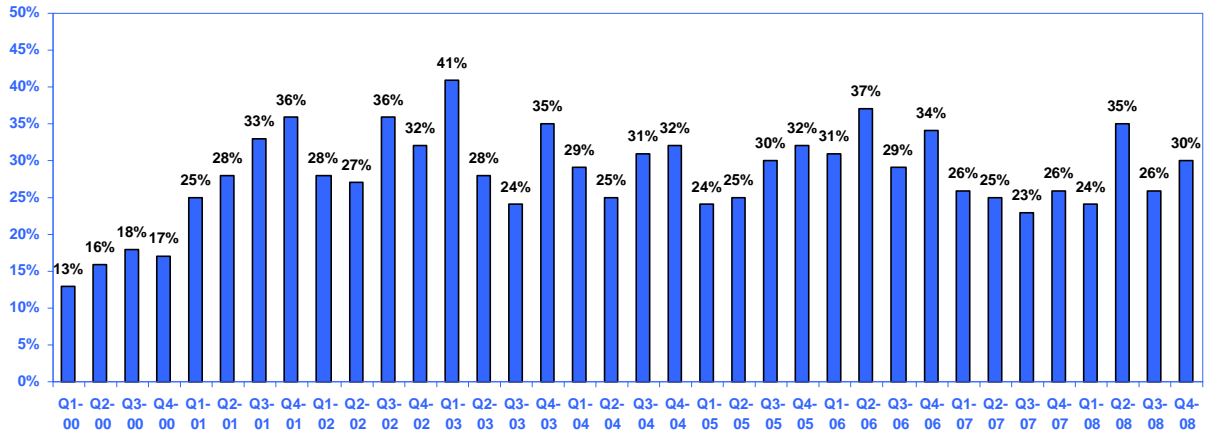
Despite the decline in the level of investment in the final quarter of 2008, the year as a whole does, in fact, show a sharp increase in the level of investment, this being the highest since 2001. In the past year also, the number of companies raising capital was the highest since 2005, with 320 companies raising capital (in 2006 and 2007, further capital was sought by 295 and 304 companies, respectively). The Report also reveals that the average investment per company was the highest for eight years.

**Joseph Fellus**, Partner and Advisory & High-Tech Practice Leader at Kesselman and Kesselman PricewaterhouseCoopers Israel, remarks that “the decline in the rate of venture capital investment in Israel as between the third and the fourth quarters of 2008 is identical to that which occurred in the United States (i.e., approximately 27%). In Israel, investments are focused on the traditional sectors, whereas, in the United States, increasingly large quantities of funds are being channeled towards the clean-tech sectors, which are supported and stimulated by the present U.S. administration.”

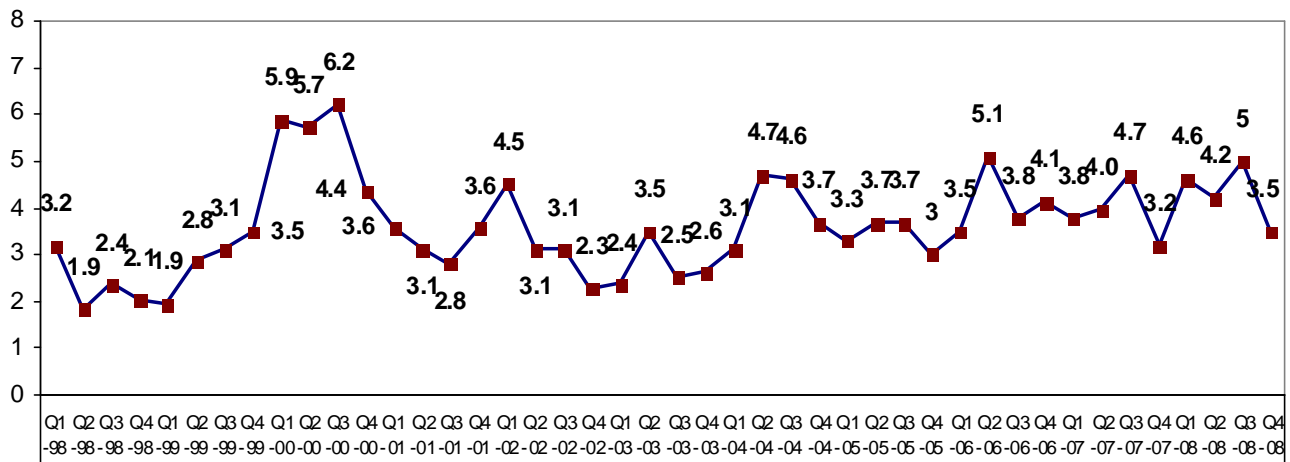
**Robi Suliman**, High-Tech Practice Partner at Kesselman and Kesselman PricewaterhouseCoopers Israel also notes that “while 2008 as a whole was an excellent year for venture capital investment, it is hardly surprising that developments in the fourth quarter resemble the swallow heralding the arrival of the global financial crisis at the doors of this industry. In addition, there has been an upturn in investment (from \$68 million in 2007 to \$95 million in 2008) undertaken by domestic venture capital funds in foreign companies not engaged in any operations in Israel. Another considerable trend is the decline in seed stage investment, the rate of seed stage investment in the fourth quarter

remains very low, this emphasizes the necessity in governmental support especially for these companies."

**Percentage of funds making no investment**



**Average investment per company (in millions of dollars)**



Average Deal Size	3.2	1.9	2.4	2.1	1.9	2.8	3.1	3.5	5.9	5.7	6.2	4.4	3.6	3.1	2.8	3.1	2.8	3.6	4.5	3.1	3.1	2.3	2.4	3.5	2.5	2.6	3.1	4.7	4.6	3.7	3.3	3.7	3.7	3	3.5	5.1	3.8	4.1	3.8	4.0	4.7	3.2	4.6	4.2	5	3.5
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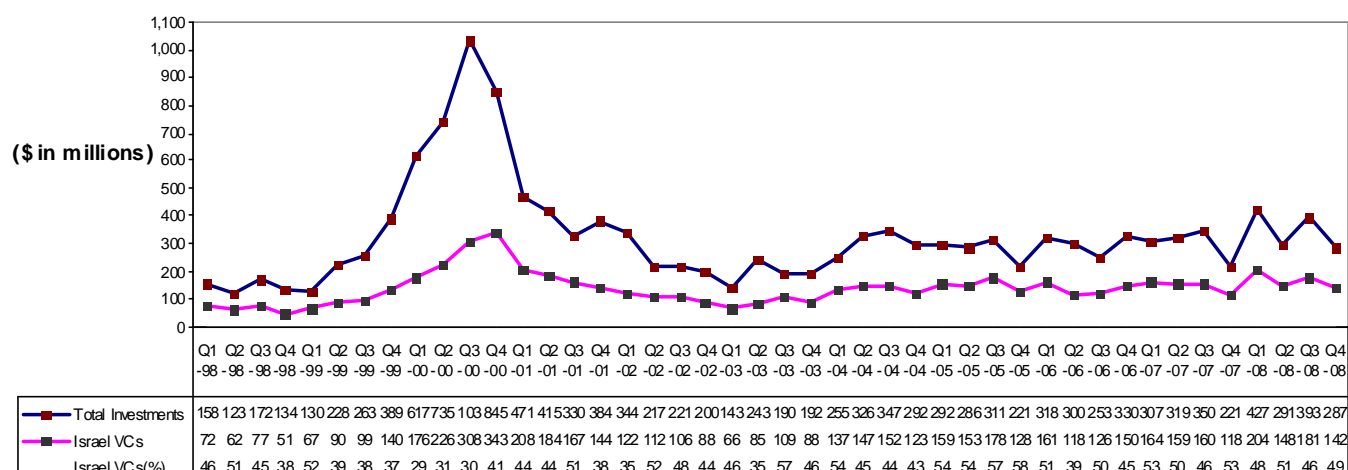
### Slice of Israel Venture Capital Funds in high-tech cake

The domestic venture capital funds invested approximately \$142 million, this sum representing approximately 49% of total investment for the final quarter of 2008. This investment for the present quarter compares with similar investment of approximately \$181 million for the previous quarter (approximately 46% of total investment for that quarter) and of approximately \$118 million for the corresponding quarter of 2007 (approximately 53% of total investment for that quarter).

In addition to investment in high-tech companies with operations in Israel, local venture capital funds also invested approximately \$32 million in 9 overseas high-tech companies that are not engaged in operations in Israel. This compares with approximately \$35 million invested in 16 non-Israeli companies in the previous quarter and with approximately \$15 million invested in 10 non-Israeli companies in the corresponding quarter of last year.

In 2008, approximately \$95 million was invested in 48 foreign high-tech companies that are not engaged in any operations in Israel – a situation that may be compared with the amount of \$68 million invested in 68 such companies in 2007.

### Investment levels of Israel Venture Capital Funds (in millions of dollars)



### Analysis by geographic location of company registration

51 companies, representing 63% of the total number of companies raising capital in the final quarter of 2008, are registered in Israel. These companies raised approximately \$179 million, this sum representing approximately 63% of total investment. The remaining companies are registered overseas, the overwhelming majority in the United States.

### Companies receiving grants from the Chief Scientist

20 companies, representing 25% of all companies raising capital in the final quarter of 2008, have received grants from the Office of the Chief Scientist. Approximately \$94 million of total investment funds has flowed into these companies. The data for 2008 reveal that 101 companies raising capital during the course of 2008 received grants from the Office of the Chief Scientist and that approximately \$494 million of total investment funds flowed into these companies.

## Analysis by leading technological sector

The **Communications and Networking** sector took first place in the quarter just ended, with 26 companies raising approximately \$93 million, this representing 33% of total investment for the quarter. This situation compares with 16 companies raising approximately \$99 million in the third quarter of 2008 (this representing 25% of total investment for that quarter) and with 14 companies raising approximately \$58 million in the corresponding quarter of last year (this representing 26% of total investment for that quarter).

This sector achieved its best performance since 2001 with 86 companies raising approximately \$437 million, as compared to 84 companies that raised approximately \$365 million in 2007 (in each case, these investment levels representing 31% of the total investment for those years). The average annual investment in the sector was \$5.1 million in 2008, as compared to \$4.3 million in 2007.

The **Life Sciences** sector, which also encompasses Medical Devices and Biotechnology, strengthened during the fourth quarter and took second place with investment of approximately \$58 million in 13 companies. This situation compares with investment of approximately \$28 million in 11 companies in the third quarter of 2008 and investment of approximately \$32 million in 15 companies in the corresponding quarter of last year. The principal explanation for the strengthening of the sector lies in the number of relatively large transactions undertaken. These transactions included two large transactions (transactions involving investment in any one company in an amount exceeding \$10 million) which together totaled \$24 million.

The 2008 Report reveals that, in spite of the relative strengthening of this sector in the fourth quarter, there was an evident weakening of the sector during the year as a whole, with total investment therein of just \$152 million in 2008, as compared to total annual investments of \$199 million and \$203 million in 2006 and 2007 respectively.

During the course of the quarter under review, 19 companies operating in the **Software** sector raised approximately \$52 million, this representing 18% of total investment for the quarter. This situation may be compared to similar investment of approximately \$123 million in 28 companies in the previous quarter (this representing 31% of total investment for that quarter) and of approximately \$47 million in 18 companies in the corresponding quarter of last year (this representing 21% of total investment for that quarter).

In spite of the weakening of this sector in the final quarter of 2008, that year, when considered in its entirety, was, both from the standpoint of the total extent of the capital raised and from the standpoint of the number of individual companies seeking to raise capital, the best year for the sector since 2001. The average investment in the sector in 2008 was \$3.9 million – the highest since 2004, when the average investment was \$4.4 million.

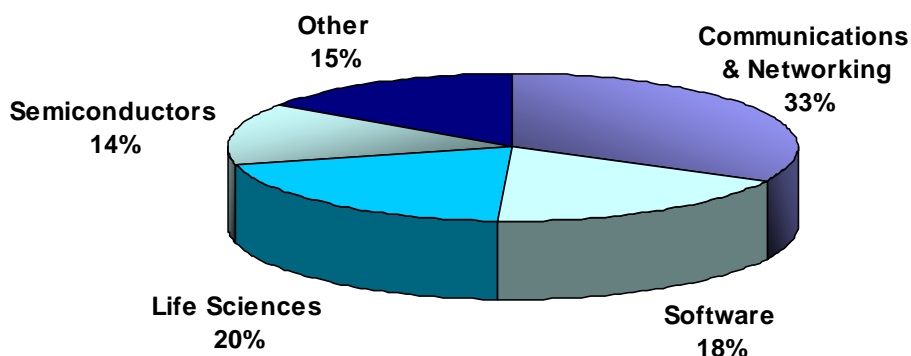
The **Semiconductor** sector weakened in the fourth quarter, with just 5 companies raising approximately \$39 million (14% of total investment for the quarter), as compared to 7 companies raising approximately \$62.1 million in the previous quarter (this representing 16% of total investment for that quarter) and to 5 companies raising approximately \$51 million in the corresponding quarter of last year (this representing 23% of total investment for that quarter). The fourth quarter saw one large transaction (see definition above) in an amount of approximately \$18 million, this transaction representing 46% of the total investment in the sector.

In 2008, this sector recorded investment of approximately \$194 million (14% of total investment for the year), in comparison with investment of approximately \$185 million in 2007 (15% of total investment for that year). In 2008, the average annual investment in the sector was \$7.2 million, as compared to \$9.7 million in 2007.

Amongst the companies operating in the **Miscellaneous** sectors category are companies operating in the internet sector, the clean-tech sector and the media sector. This category registered a decline in total investment in the fourth quarter of 2008, with 10 companies raising approximately \$27 million. This situation may be compared with the 11 companies that raised approximately \$47 million in the previous quarter and with the 17 companies that raised approximately \$34 million in the corresponding quarter of last year.

In 2008 as a whole, approximately \$259 million (19% of total investment for the year) was invested in companies classified within this category, a situation that compares with similar investment of approximately \$203 million in 2007 (17% of total investment for that year).

**Total investment by sector**



## Analysis by investment round

### Early round

In the fourth quarter of 2008, 25 companies raised approximately \$80 million (28% of total investment for the quarter) in the early round (the first and second rounds combined). This compares to 30 companies that raised early round investment funds of approximately \$179 million in the previous quarter and to 24 companies that raised early round investment funds of approximately \$99 million in the corresponding quarter of last year (in both cases that investment representing 45% of total investment for those quarters).

The average early round investment per company for the fourth quarter was \$3.2 million, as compared to \$6 million for the previous quarter and \$4.1 million for the corresponding quarter of last year.

In 2008 as a whole, 107 companies raised early round investment funds of approximately \$547 million (39% of total investment for the year), as compared to 115 companies that raised similar funds of approximately \$536 million in 2007 (45% of total investment for that year).

### Third round

In the fourth quarter, 8 companies raised third round investment funds of approximately \$57 million. This compares to 9 companies that raised third round investment funds of approximately \$77 million in the previous quarter and to 10 companies that raised third round investment funds of approximately \$48 million in the corresponding quarter of last year. The average third round investment per company for the fourth quarter was \$7.1 million, as compared to \$8.6 million for the previous quarter and \$4.8 million for the corresponding quarter of last year.

In 2008 as a whole, 28 companies raised third round investment funds of approximately \$235 million (17% of total investment for the year), as compared to 31 companies that raised similar funds of approximately \$183 million in 2007 (15% of total investment for that year).

### Later round

During the course of the quarter just ended, transactions undertaken within the context of later investment rounds (i.e., commencing with the fourth investment round) constituted 21% of total investment for that quarter. Accordingly, the fourth quarter saw 11 companies raising later round investment funds of approximately \$62 million. This compares to 6 companies that raised later round investment funds of approximately \$82 million in the previous quarter (21% of total investment for that quarter) and to 8 companies that raised later round investment funds of approximately \$24 million in the corresponding quarter of last year (11% of total investment for that quarter). The average later round investment for the fourth quarter was \$5.6 million, as compared to \$13.6 million for the previous quarter and to \$3 million for the corresponding quarter of last year.

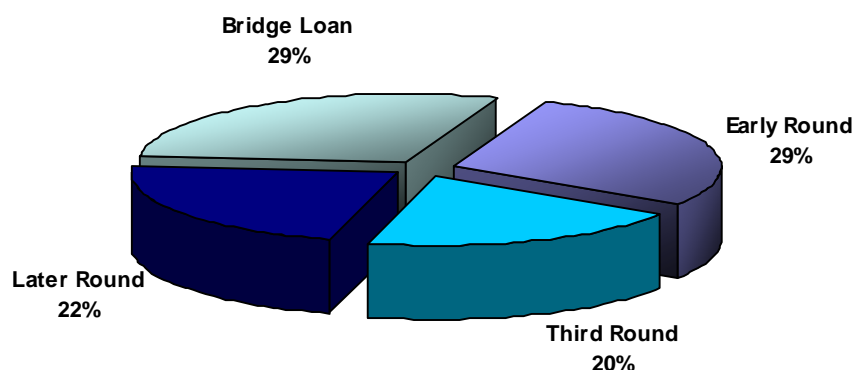
In 2008 as a whole, 53 companies raised later round investment funds of approximately \$337 million (24% of total investment for the year), as compared to 59 companies that raised similar funds of approximately \$340 million in 2007 (28% of total investment for that year).

## Bridge loans

In the fourth quarter, 34 companies raised approximately \$82 million through the medium of bridge loans, the highest quarterly amount raised in this manner since data on bridge loan financing began to be recorded for the purposes of this Report eleven years ago. In contrast to the data for this quarter, 30 companies raised bridge loan finance of approximately \$50 million in the previous quarter and 27 companies raised bridge loan finance of a similar amount in the corresponding quarter of last year. In the present quarter, the average amount of a company bridge loan was \$2.4 million, as compared to approximately \$1.7 million in the previous quarter and to approximately \$1.9 million in the corresponding quarter of last year.

In 2008 as a whole, 126 companies raised bridge loan financing of approximately \$267 million (19% of total investment for the year), as compared to 99 companies that raised similar finance of approximately \$137 million in 2007 (11% of total investment for that year).

### Total investment by investment round



## Analysis by company development stage

### Seed/start-up stage

9 companies at the start-up stage raised approximately \$16 million during the fourth quarter of 2008, this representing just 6% of total investment for the quarter. This may be compared to situations in which 13 such companies raised approximately \$17 million in the previous quarter (4% of total investment for that quarter) and 10 such companies raised approximately \$20 million in the corresponding quarter of last year (9% of total investment for that quarter). In the fourth quarter, the average investment per company at this stage of development was \$1.8 million, as compared to \$1.3 million in the previous quarter and \$2 million in the corresponding quarter of last year.

Data for 2008 reveal that investment in these companies (in monetary terms) decreased by 48% in comparison with investment levels in 2007. In 2008, approximately \$89 million (6% of total investment for the year) was invested in 48 start-up companies, as compared to approximately \$170 million that was invested in 58 start-up companies in 2007 (14% of total investment for that year).

**Intermediate stage (early/expansion stage)**

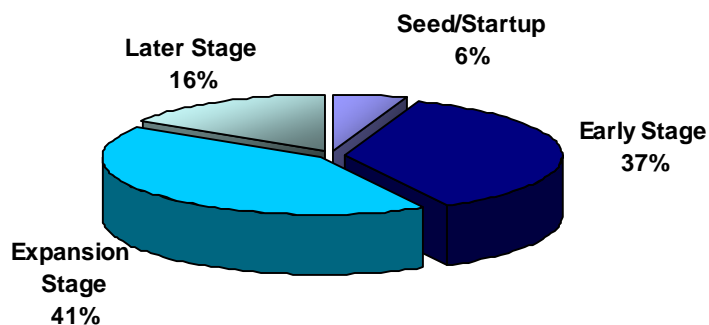
In the fourth quarter of 2008, 62 companies at the intermediate stage of development raised approximately \$224 million (78% of total investment for the quarter). This compares to 58 such companies that raised approximately \$338 million in the previous quarter (86% of total investment for that quarter) and to 49 such companies that raised approximately \$170 million in the corresponding quarter of last year (77% of total investment for that quarter). In the present quarter, the average investment per company at this stage of development was \$3.6 million, as compared to \$5.8 million in the previous quarter and to \$3.5 million in the corresponding quarter of last year.

In 2008, approximately \$1,078 million (77% of total investment for the year) was invested in companies at the intermediate stage of development, as compared to approximately \$847 million that was invested in such companies in 2007 (approximately 71% of total investment for that year).

**Later stage**

In the quarter just ended, 9 companies at the later stage of their development raised approximately \$46 million (16% of total investment for the quarter). This compares to 7 such companies that raised approximately \$37 million in the previous quarter (9% of total investment for that quarter) and to 10 such companies that raised approximately \$30 million in the corresponding quarter of last year (14% of total investment for that quarter). The average investment in this quarter was \$5.1 million, as compared to \$5.3 million in the previous quarter and to \$3 million in the corresponding quarter of last year.

**Total investment by company development stage**



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The **MoneyTree™ Report** is published quarterly by Kesselman & Kesselman, Israel, in conjunction with the reports published in the United States and Europe by the world's largest accounting firm, PricewaterhouseCoopers. This quarter, 43 venture capital firms participated in the production of the Report. The findings of the Report are widely used each quarter by Israeli and foreign venture capital funds, commercial banks, investment banks and other financial institutions both in Israel and abroad, and by high-tech companies, government departments, the Office of the Chief Scientist and others.