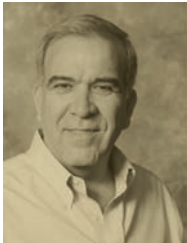


## Crisis also hits venture capital investments in Israel: 32% decrease in level of investment compared with previous quarter

Reaches lowest level of investment in five years



**Mr. Joseph Fellus,**  
Partner, Advisory &  
Hi-Tech Practice  
Leader

The latest Kesselman and Kesselman PricewaterhouseCoopers Israel (PwC 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 \$194 million in Israel during the first quarter of 2009, a decline of approximately 32% in comparison with the level of investment in the preceding quarter (when approximately \$287 million was raised) and a decline of approximately 55% in comparison with the level of investment in the corresponding quarter of last year (when approximately \$427 million was raised). The level of investment for this quarter is the lowest since the fourth quarter of 2003 when \$192 million was raised.

The Report also reveals that only 49 Israel high-tech companies raised capital in the first quarter of 2009, as compared to 81 companies that raised capital in the preceding quarter and 92 companies that raised capital in the corresponding quarter of last year. The average investment per company in the quarter under review was \$4 million, as compared to \$3.5 million in the preceding quarter and \$4.6 million in the corresponding quarter of last year.



**Mr. Rubi Suliman,**  
Partner, Hi-Tech  
Practice

The data matches the trend discerned in the United States during the first quarter whereby, as reported in the latest U.S. MoneyTree Report, that quarter reflected a decline of 47% in venture capital fund investment in comparison with investment levels in the preceding quarter and a decline of 37% in the number of companies seeking investment.

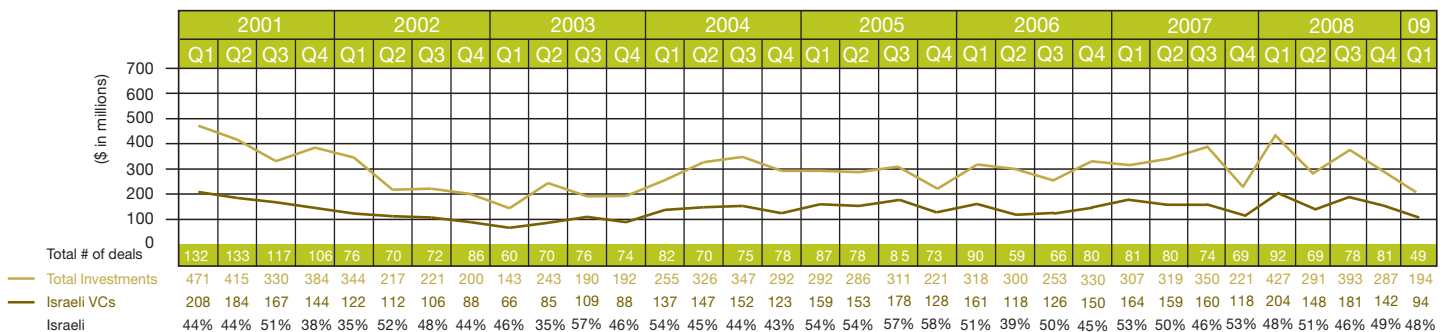
The Israel MoneyTree Report points to an increase in the relative proportion of total investment represented by large transactions (transactions involving investment in any one company in an amount exceeding \$10 million) in the quarter under review. During the course of the quarter, seven large transactions totaling approximately \$106 million were implemented (55% of total investment for the quarter), as compared to four such transactions totaling approximately \$56 million in the preceding quarter (19% of total investment for that quarter) and to twelve such transactions totaling approximately \$170 million in the corresponding quarter of last year (40% of total investment for that quarter).

**Joseph Fellus**, Partner and Advisory & High-Tech Practice Leader at PwC Israel, remarks that “the expectation of a reduction in investment levels was also borne out in this quarter. The underlying causes of this trend remain and it would seem that no change in the present condition can be anticipated in the short term.”

**Rubi Suliman**, High-Tech Practice Partner at PwC Israel also notes that “the results for this quarter reflect the fears of the funds engendered by the crisis. The results clearly indicate that the funds are preparing for a long winter. In the absence of any significant change in the global economy, investment levels in the prevailing state of uncertainty will remain low. On the other hand, with the deepening of an unremitting crisis, more and more companies will find themselves in need of additional finance from the funds – a trend that will pressure the funds to increase the scale of their investment, thereby exacerbating the struggle for survival of the investee companies.

“For some quarters now, we have been warning of the low level of investment in seed companies. In this quarter, just 2% of total investment is directed towards three companies at the seed stage of development – an all-time low. This particular trend, if it continues, could influence adversely on the future of the high-tech industry in Israel.”

### Israel VC's Investment Levels



## Companies receiving grants from the chief scientist

11 companies, representing 22% of all companies raising capital in the first quarter of 2009, have received grants from the Office of the Chief Scientist. Approximately \$33 million of total investment funds has flowed into these companies.

## Analysis by leading technological sectors

The **Communications and Networking** sector raised the greatest amount of capital in the first quarter of 2009, with 17 companies raising approximately \$101 million. This situation compares with 26 companies raising approximately \$93 million in the preceding quarter and with 22 companies raising approximately \$104 million in the corresponding quarter of last year. The present quarter saw five large transactions in this sector at a total value of approximately \$71 million, an amount representing 71% of total investment in the sector.

During the course of the quarter under review, 11 companies operating in the **Software** sector raised approximately \$18 million, this representing 10% of total investment for the quarter. This situation may be compared to an investment of approximately \$52 million in 19 companies in the preceding quarter and of approximately \$114 million in 25 companies in the corresponding quarter of last year. In monetary terms, this performance is equivalent to a sharp decrease of approximately 65% in comparison with the preceding quarter and of approximately 84% in comparison with the corresponding quarter of last year.

During the course of the first quarter of 2009, 3 companies operating in the **Semiconductor** sector raised approximately \$12 million. This situation may be compared to an investment of approximately \$39 million in 5 companies in the preceding quarter and of approximately \$63 million in 10 companies in the corresponding quarter of last year. In monetary terms, this performance is equivalent

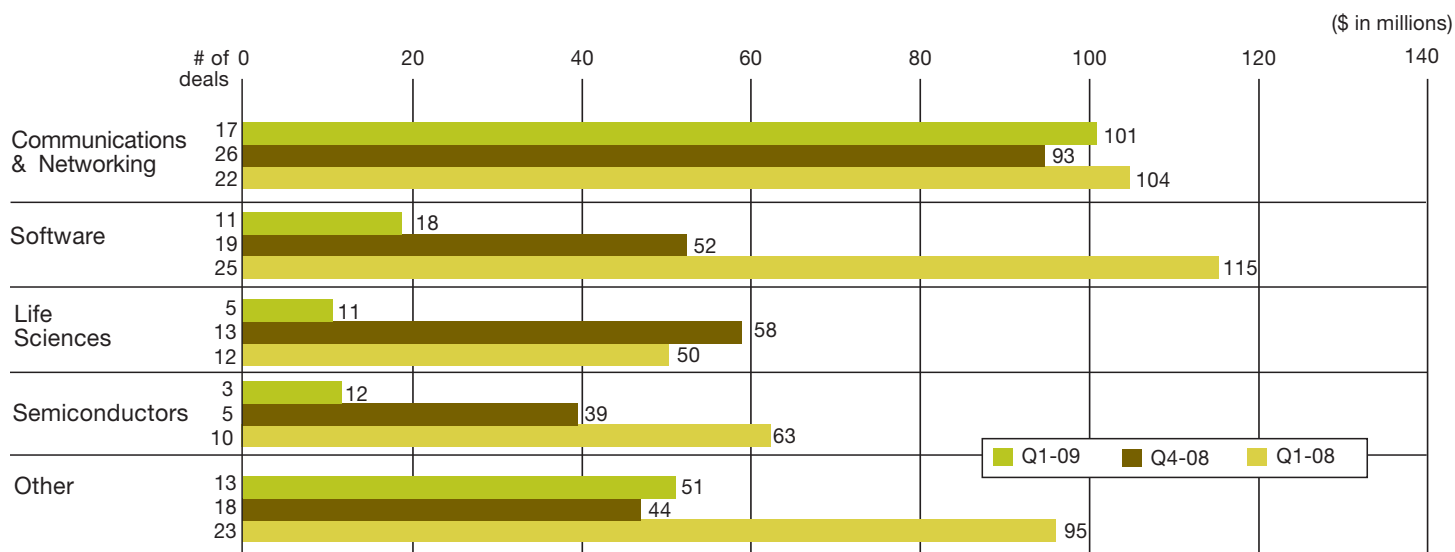
to a sharp decrease of approximately 69% in comparison with the preceding quarter and of approximately 81% in comparison with the corresponding quarter of last year.

The **Life Sciences** sector, incorporating Medical Devices and Biotechnology, also exhibited a decline in comparison with the preceding quarter.

During the course of the first quarter of 2009, 5 companies operating in the sector raised approximately \$11 million. This situation may be compared to an investment of approximately \$58 million in 13 companies in the preceding quarter and of approximately \$50 million in 12 companies in the corresponding quarter of last year.

Amongst the companies operating in the **Miscellaneous** sectors category are companies operating in the internet sector, the clean-tech sector and the media sector. Thirteen companies classified under this category raised approximately \$51 million in the present quarter, this sum representing approximately 26% of the total investment for the quarter. This situation may be compared to an investment of approximately \$44 million in 18 companies in the preceding quarter and of approximately \$95 million in 23 companies in the corresponding quarter of last year.

With 5 companies raising approximately \$15 million, the **Internet** sector attracted approximately 30% of the total investment attributable to this category (a level of investment representing also approximately 8% of the overall investment for the quarter as a whole).



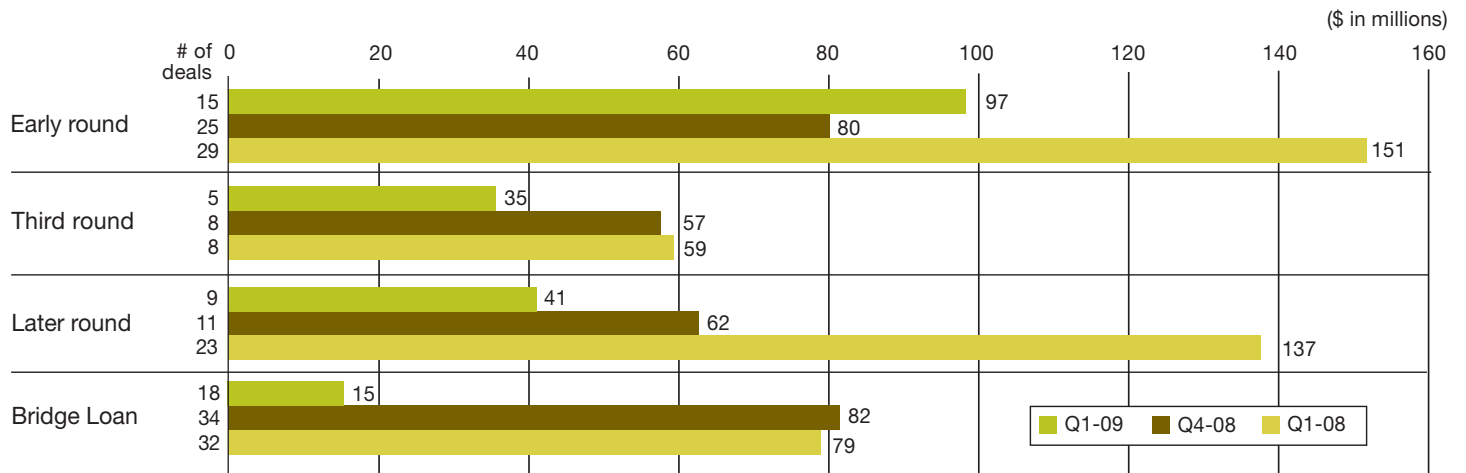
## Analysis by investment round

In the first quarter of 2009, 15 companies raised approximately \$97 million in the Early round (the first and second rounds combined). This compares to 25 companies that raised early round investment funds of approximately \$80 million in the preceding quarter and to 29 companies that raised early round investment funds of approximately \$151 million in the corresponding quarter of last year.

In the first quarter of 2009, 5 companies raised approximately \$35 million in the Third round. This compares to 8 companies that raised third round investment funds of approximately \$57 million in the preceding quarter and to 8 companies that raised third round investment funds of approximately \$59 million in the corresponding quarter of last year.

During the course of the first quarter of 2009, 9 companies raised approximately \$41 million by means of transactions undertaken within the context of Later investment rounds (i.e., commencing with the fourth investment round). This compares to 11 companies that raised later round investment funds of approximately \$62 million in the preceding quarter and to 23 companies that raised later round investment funds of approximately \$137 million in the corresponding quarter of last year.

In the first quarter of 2009, 18 companies raised approximately \$15 million through the medium of Bridge loans. This compares to 34 companies that raised bridge loan finance of approximately \$82 million in the preceding quarter and to 32 companies that raised bridge loan finance of approximately \$79 million in the corresponding quarter of last year.



## Analysis by company development stage

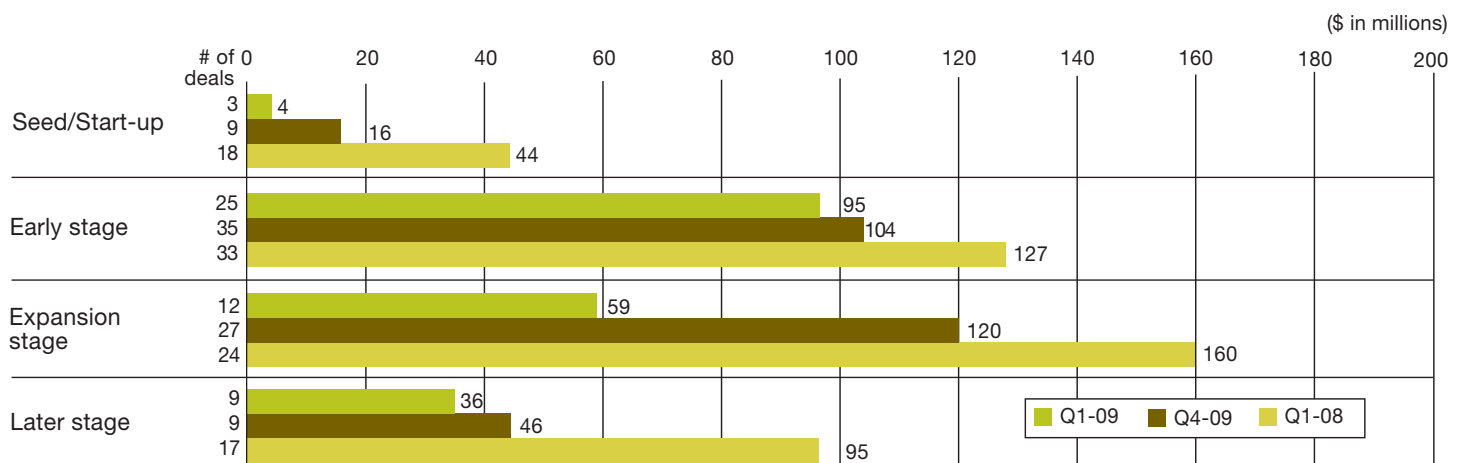
Three companies at the seed stage raised approximately \$4 million during the first quarter of 2009, this representing just 2% of total investment for the quarter. This may be compared to situations in which 9 such companies raised approximately \$16 million in the preceding quarter and 18 such companies raised approximately \$44 million in the corresponding quarter of last year.

In the first quarter of 2009, 37 companies at the intermediate stage of development raised approximately \$154 million. This compares to 62 such companies that raised approximately \$224 million in the preceding quarter and to 57 such companies that raised approximately \$287 million in the corresponding quarter of last year. The quarter under review also saw five large transactions totaling approximately

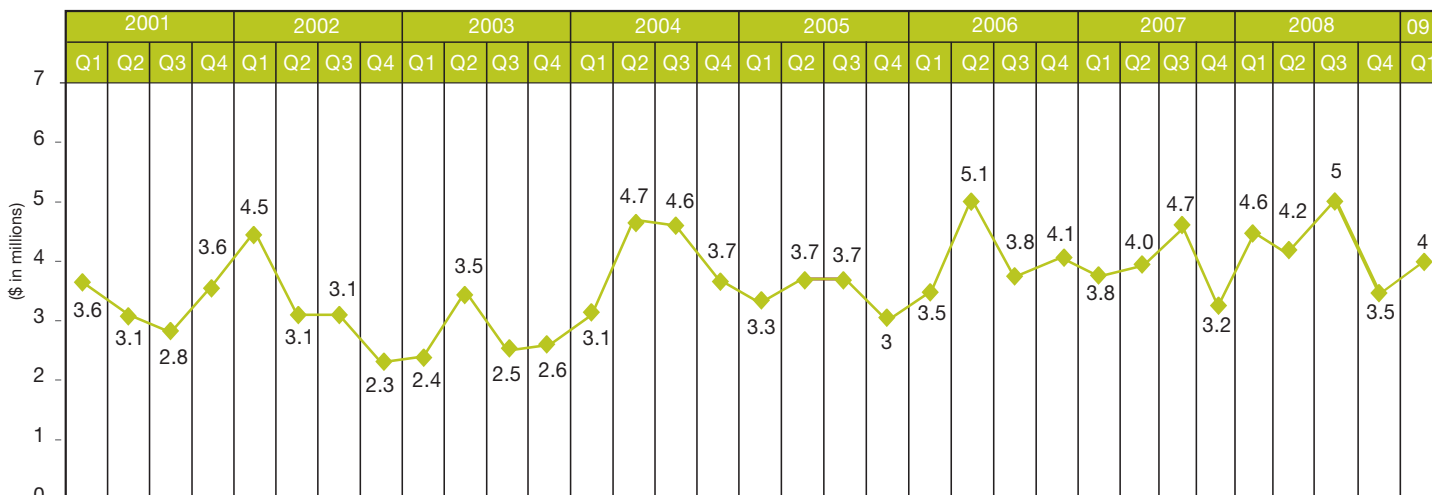
\$86 million, this representing 56% of the total investment in companies at the intermediate stage of development.

An internal analysis of intermediate stage investment reveals that 25 companies at the early stage of development raised approximately \$95 million during the quarter under review, with 12 companies at the expansion stage of development raising approximately \$59 million during that same quarter.

In the first quarter of 2009, 9 companies at the later stage of development raised approximately \$36 million. This compares to 9 such companies that raised approximately \$46 million in the preceding quarter and to 17 such companies that raised approximately \$95 million in the corresponding quarter of last year.



**Average deal size**



**Participating Venture Capital Funds in the Q1-2009 MoneyTree™ report (listed alphabetically)**

- Atara Technology Ventures
- Aviv Venture Capital
- Benchmark Israel Venture Capital
- BRM Capital Fund
- Canaan Venture
- Carmel Ventures
- Catalyst Investments L.P.
- Cedar Fund
- Concord Ventures
- Corex Israeli Industries
- Delta Ventures
- DOR Ventures Fund
- Eurofund L.P.
- Evergreen Ventures Partners
- Gemini Israel Funds
- Genesis Partners
- Giza Venture Capital
- Greylock Israel
- Israel Cleantech Ventures
- Israel Infinity Venture Capital
- Israel Seed Partners
- Jerusalem Global Ventures (JGV)
- Jerusalem Venture Partners (JVP)
- Kaptech Holdings / Nehemiah Kaplan Investments
- Magma Venture Capital
- Medica Ventures Partners
- Peregrine Ventures
- Pitango Venture Capital
- Platinum Neurone Ventures (PNV)
- Poalim Ventures
- SCP Vitalife
- Sequoia Capital Israel
- StageOne Ventures
- Tamar Technology Ventures
- Tamir Fishman Ventures
- TechnoPlus Ventures
- Teuza - A Fairchild Technology Venture Ltd.
- The Challenge Funds
- Vally Venture Capital
- Veritas Venture Partners L.P.
- Vertex Venture Capital
- Vitalife Life Sciences Ventures
- Yozma

**About the Israeli MoneyTree™ Report**

Kesselman & Kesselman PricewaterhouseCoopers Israel conducts the Israeli MoneyTree™ Report quarterly to promote investment in Israeli start-up ventures. We appreciate the support of the Venture Capital industry in this endeavor. The Israeli Report, initiated in 1997, has become the definitive source for Israeli investment data.

For more information on PricewaterhouseCoopers' Israeli MoneyTree™ Report please contact Benny Ginat, at 972-54-5615737, e-mail: benny.ginat@il.pwc.com or visit our web site: www.pwc.co.il

PricewaterhouseCoopers provides industry-focused assurance, tax, and advisory services to build public trust and enhance value for its clients and their stakeholders. More than 155,000 people in 153 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity. The information contained in this report is for general guidance on matters of interest only. As such, it should not be used as a substitute for consultation with professional accounting, tax, legal or other competent advisers. Before making any decision or taking any action, you should consult a PricewaterhouseCoopers professional.