

MoneyTree™ Report

Q1
2007
results IL Report



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The Q1 Israeli MoneyTree™ results are in! This special report provides summary results of Q1 2007. More detailed results, including an expanded version of this report, can be found on our web site at www.pwc.co.il

In the first quarter of 2007, approximately \$307 million invested in Israel in high-tech companies backed by venture capital firms

\$89 million invested in initial investments, the highest amount in five and a half years

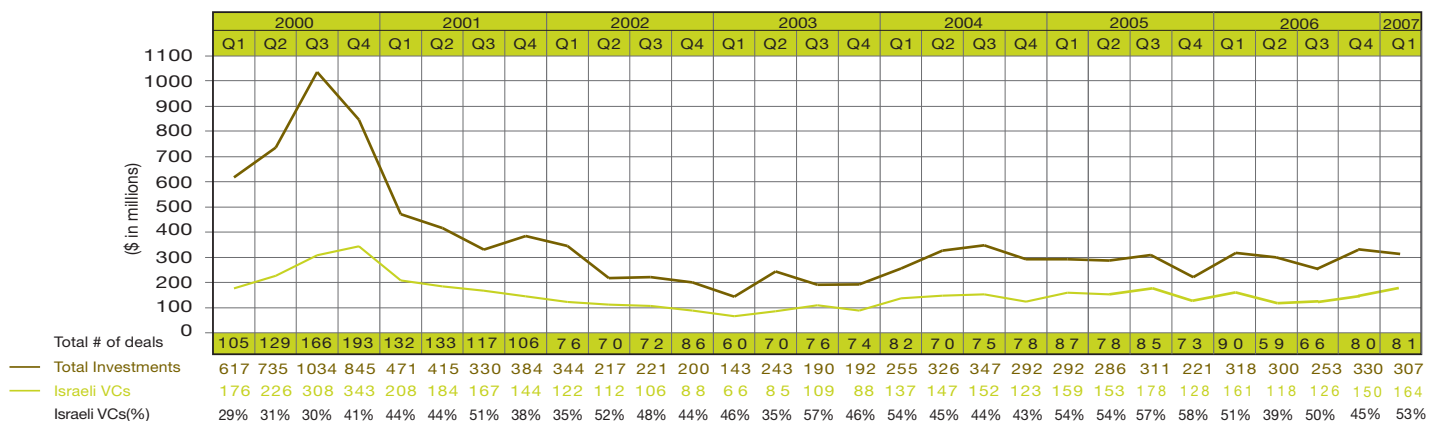
The latest Kesselman & Kesselman PricewaterhouseCoopers MoneyTree™ Report shows that venture capital-backed hi-tech companies (companies in which one of the investors in the financing round is a venture capital fund) raised approximately \$307 million in Israel during the first quarter of 2007, a decrease of approximately 7% in comparison with the previous quarter in which approximately \$330 million were raised, and a decrease of approximately 3% in comparison with the corresponding quarter last year in which approximately \$318 million were raised.

The Report reveals that 81 Israeli hi-tech companies raised capital in the first quarter of the year, as compared to 80 companies raising capital in the previous quarter and 90 companies raising capital in the corresponding quarter last year. The average investment per company was \$3.8 million this quarter, as compared to \$4.1 million in the previous quarter and \$3.5 million in the corresponding quarter last year.

The first quarter of 2007 saw a rise in initial investments, with one particular venture capital fund making its first investment in a particular company. Venture capital funds made initial investments of approximately \$89 million in 31 Israeli hi-tech companies, the highest level of initial investments for five and a half years. 14 of these companies, currently in the intermediary or later stages of their development, were the recipients of approximately 56% of the initial investment funds.

Joseph Fellus, Partner, Advisory & Hi-Tech Practice Leader at Kesselman & Kesselman PricewaterhouseCoopers notes that, the results of the first quarter of 2007 point to a stability in investments level in the Israeli market against a background of growth in the investments level in the United States, where investments surpassed \$7 billion. It may be assumed that the venture capital market in Israel, which is marked by a strong affinity with the U.S. market, will continue to demonstrate stability, if not growth, during the course of 2007.

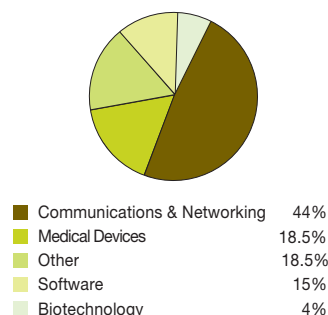
Israel VC's Investment Levels



Companies receiving grants from the Chief Scientist

27 companies, which constitute 33% of the total number of companies that raised capital in the first quarter of 2007, have received grants from the Chief Scientist. Approximately \$134 million of the total amount invested has flowed into these companies.

Companies receiving grants from the Chief Scientist by sector



Analysis by Leading Technological Sectors

The **Communications & Networking** sector maintained its lead this quarter, with 26 companies raising approximately \$111 million, representing approximately 36% of total investments for the quarter. This compares to 26 companies that attracted approximately \$133 million in the previous quarter and 25 companies that attracted approximately \$70 million in the corresponding quarter last year. Three major transactions took place this quarter that alone raised approximately \$45 million, representing 40% of total investments in this sector.

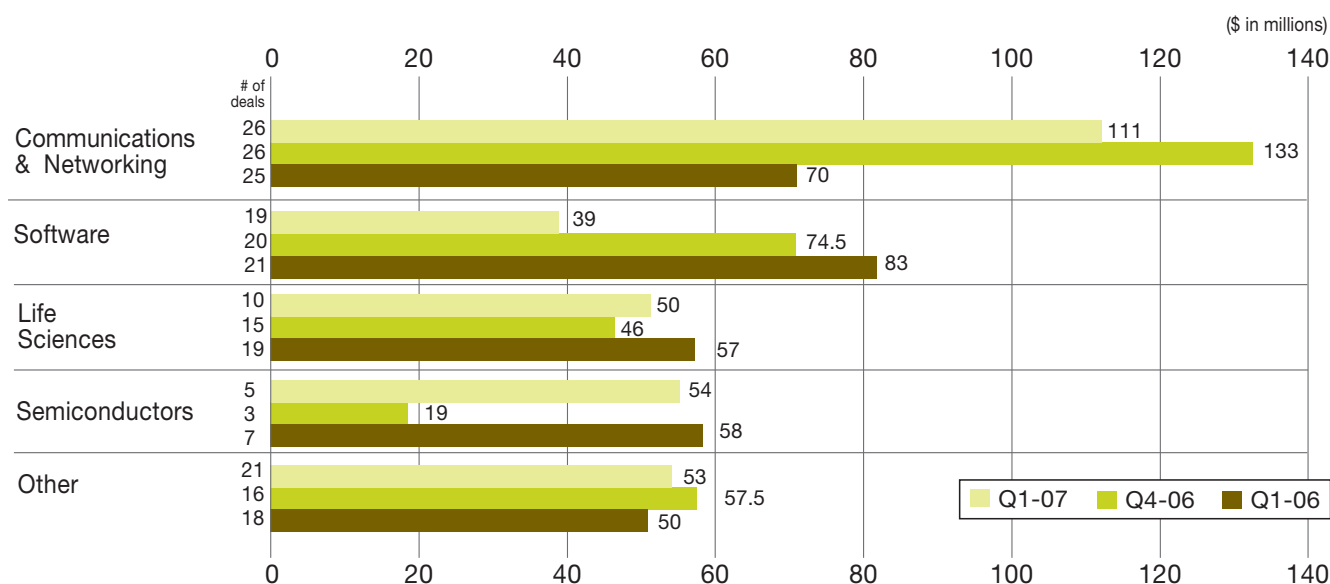
The **Semiconductors** sector has strengthened, insofar as 5 companies raised approximately \$54 million, this representing approximately 18% of total investments for this quarter. This compares to 3 companies that attracted approximately \$19 million in the previous quarter and 7 companies that attracted approximately \$58 million in the corresponding quarter last year.

10 companies in the **Life Sciences** sector, which includes the fields of **Medical Devices** and **Biotechnology**, raised approximately \$50 million, this representing approximately 16% of total investments for this quarter. This compares to 15 companies that attracted approximately \$46 million in the

previous quarter and 19 companies that attracted approximately \$57 million in the corresponding quarter last year. Two major transactions, one in the field of medical devices and the other in the field of biotechnology, took place this quarter that together raised approximately \$34 million, representing 68% of the investments in this sector.

The **Software** sector has weakened, insofar as 19 companies raised approximately \$39 million, this representing 13% of total investments in the current quarter. This compares to 20 companies that attracted approximately \$74.5 million in the previous quarter (23% of total investments for that quarter) and 21 companies that attracted approximately \$83 million in the corresponding quarter last year (26% of total investments for that quarter).

The decrease in the level of overall investment in this sector during the current quarter may be attributed to the multiplicity of bridge loan transactions or to early investment rounds, which are marked by relatively low levels of investment - 12 transactions, which represented 63% of the number of transactions in this sector, together raised approximately \$20 million only.



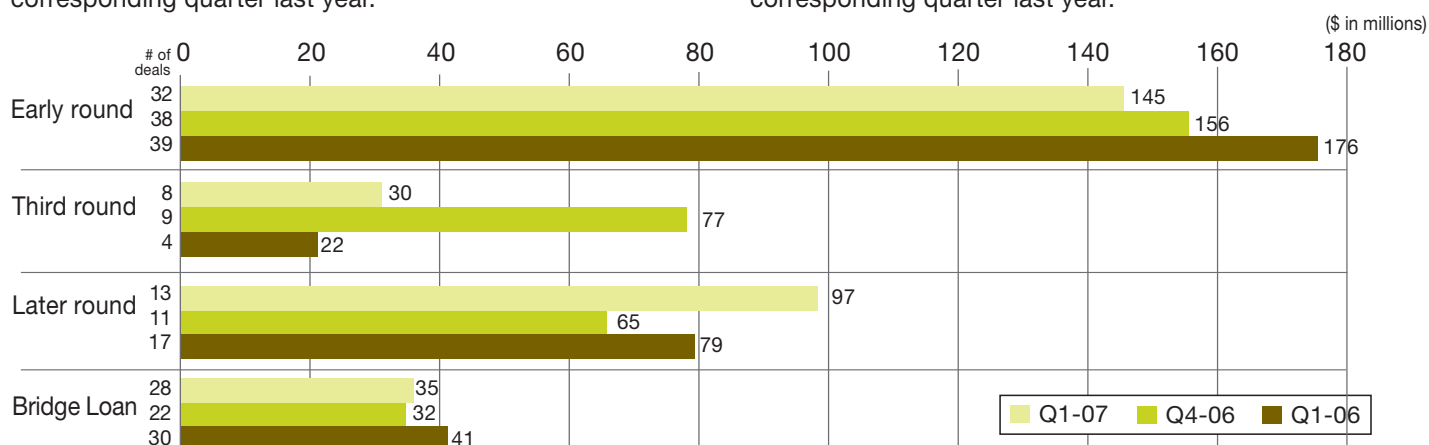
Analysis by Financing Round

In the current quarter, 32 companies raised approximately \$145 million, in **Early round** investment (the first and the second rounds together), representing 47% of total investments. This compares to 38 companies that raised approximately \$156 million, representing 47% of total investments in the previous quarter, and to 39 companies that raised approximately \$176 million, representing 55% of total investments in the corresponding quarter last year.

8 companies raised approximately \$30 million in the **Third round**, representing 10% of total investments in the current quarter. This compares to 9 companies that raised approximately \$77 million, representing 23% of total investments in the previous quarter, and 4 companies that raised approximately \$22 million, representing 7% of total investments in the corresponding quarter last year.

Transactions executed in **Later Rounds** (fourth round to mezzanine) represented approximately 32% of total investments in the current quarter, with 13 companies attracting approximately \$97 million. This compares to 11 companies that raised approximately \$65 million, representing 20% of total investments in the previous quarter, and 17 companies that raised approximately \$79 million, representing 25% of total investments in the corresponding quarter last year. All the current quarter investments in this round were made in companies at intermediary or later stages of their development, a situation characterized by the relatively greater amount of funds required.

In the current quarter, 28 companies raised approximately \$35 million by way of **Bridge Loans**, as compared to 22 companies that raised approximately \$32 million in the previous quarter and 30 companies that raised approximately \$41 million in the corresponding quarter last year.



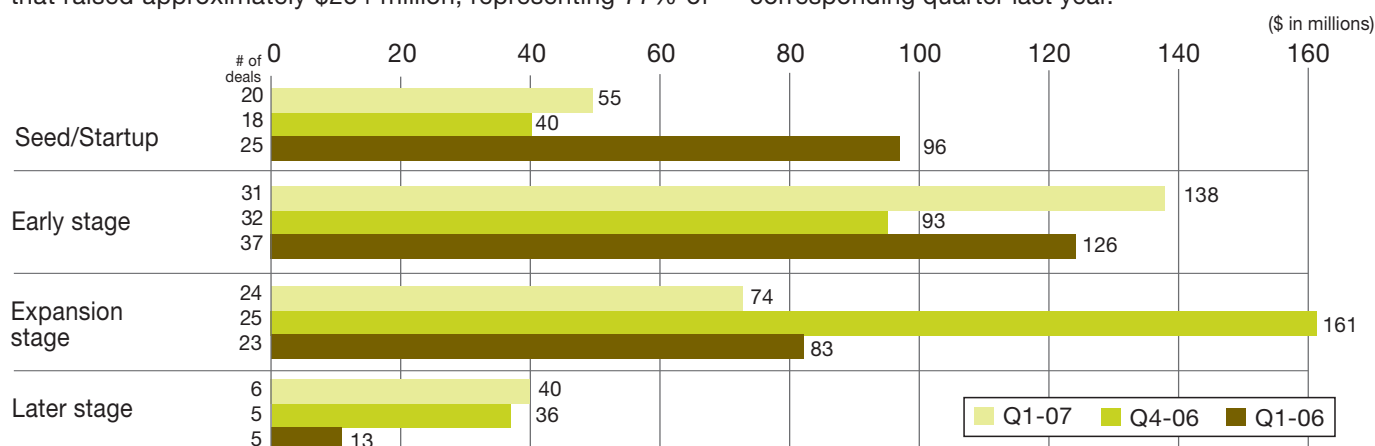
Analysis by Company Development Stage

Israeli **Start-up** companies are recovering, insofar as 20 companies raised approximately \$55 million, a sum representing approximately 18% of total investments for the current quarter. This is the highest sum raised since the peak of the first quarter of 2006, when 25 companies raised approximately \$96 million, a sum that represented approximately 30% of the total investments for that quarter. This compares to 18 companies that raised approximately \$40 million in the previous quarter, representing 12% of total investments for that quarter.

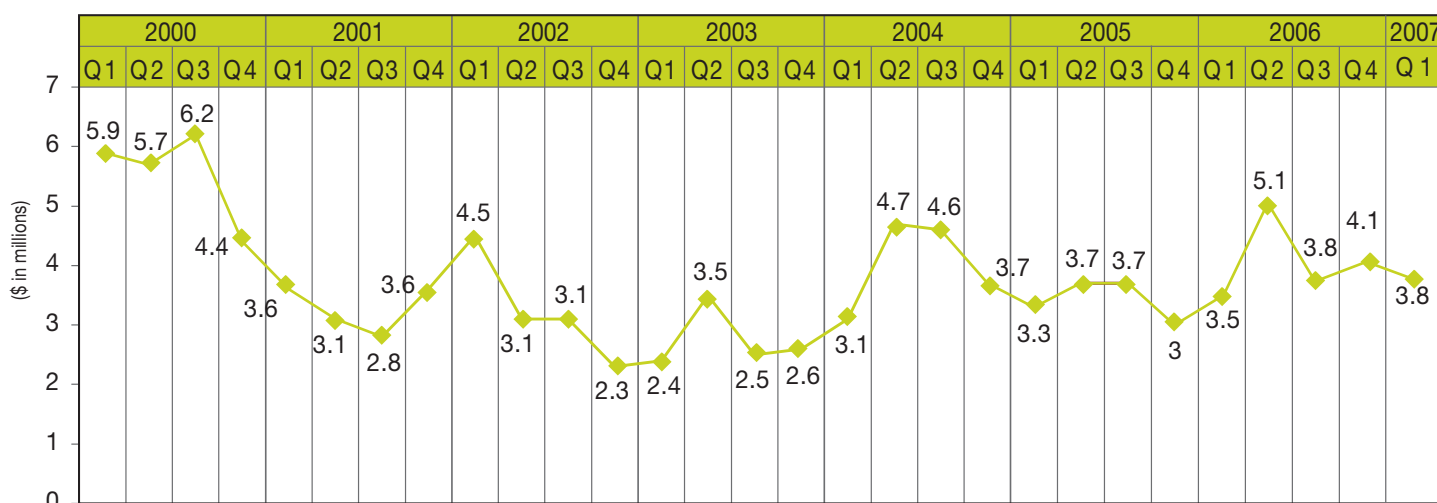
55 **Intermediary stage** (Early/Expansion Stage) companies raised approximately \$212 million, representing 69% of total investments in the current quarter, as compared to 57 companies that raised approximately \$254 million, representing 77% of

total investments in the previous quarter, and to 60 companies that raised approximately \$209 million, representing 66% of total investments in the corresponding quarter last year. Further analysis of this stage reveals that the early stage is the leading stage in the current quarter, raising \$138 million, representing 65% of total intermediary stage investments.

6 **Later stage** companies raised approximately \$40 million, representing 13% of total investments in the current quarter. This compares to 5 companies that raised approximately \$36 million, representing 11% of total investments in the previous quarter, and to 5 companies that raised approximately \$13 million, representing 4% of total investments in the corresponding quarter last year.



Average Deal Size



Participating Venture Capital Funds in the Q1-2007 MoneyTree™ Report (listed alphabetically)

Alon Technology Ventures
Apax Partners
Argoquest
Ascend Technology Ventures
Atara Technology Ventures
Aviv Venture Capital
Benchmark Israel Venture Capital
BioMedical Innovations
BRM Capital Fund
Carmel Ventures
Catalyst Investments
Cedar Fund
Concord Ventures
Corex Israeli Industries
Delta Ventures
Denali Ventures
Eurofund
Evergreen Ventures Partners

Formula Ventures
Gemini Israel Funds
Genesis Partners
Gilbridge Holdings
Giza Venture Capital
Greylock Israel
Israel Healthcare Ventures (IHCV)
Israel Infinity Venture Capital
Israel Seed Partners
Jerusalem Global Ventures (JGV)
Jerusalem Venture Partners (JVP)
Kaptech Holdings
Magma Venture Capital
Medica Venture Partners
Ofer Hi-Tech
Peregrine Ventures
Pitango Venture Capital
Platinum Neurone Ventures (PNV)

Platinum Venture Capital
Poalim Ventures
Sequoia Capital Israel
Shrem, Fudim, Kelner & Co.
StageOne Ventures
Star Venture Capital (SVM)
Tamar Technology Ventures
Tamir Fishman Ventures
TechnoPlus Ventures
Teuza - A Fairchild Technology Venture
The Challenge Funds
Vally Venture Capital
Veritas Venture Partners
Vertex Venture Capital
Vitalife Life Sciences Ventures
Walden Israel
Yozma Group

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 Inbal Spiegel, at 972-3-7954718, e-mail: inbal.spiegel@il.pwc.com or visit our web site: www.pwc.co.il