

MoneyTreeTM Report

Q2
2008
results IL Report



The Q2 Israeli MoneyTreeTM results are in! This special report provides summary results of Q2 2008. More detailed results, including an expanded version of this report, can be found on our web site at www.pwc.co.il

Approximately \$291 million invested in Israel in high-tech companies backed by venture capital funds in second quarter of 2008

\$717 million invested in 161 high-tech companies in first half of 2008

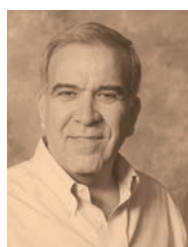
The latest Kesselman and Kesselman PricewaterhouseCoopers MoneyTreeTM Report shows that, during the course of the second quarter of 2008, venture capital-backed high-tech companies raised approximately \$291 million, a decrease of approximately 32% in comparison with the previous quarter (which was a record quarter in which approximately \$427 million was raised), and a decrease of approximately 9% in comparison with the corresponding quarter of last year, in which approximately \$320 million was raised.

The report also reveals that 69 Israeli high-tech companies raised capital in the second quarter of 2008, as compared to 92 companies that raised capital in the previous quarter and 80 companies that raised capital in the corresponding quarter of last year. The average investment per company in the present quarter was \$4.2 million, as compared to \$4.6 million in the previous quarter and \$4 million in the corresponding quarter of last year.

Investment for the first half of 2008 totaled approximately \$717 million (\$1.4 billion on an annualized basis), this comparing with a level of investment of approximately \$626 million for the first half of 2007. The total investment in high-tech companies for the first half of 2008 is the highest level of such investment in the first half of any year since the first half of 2001. The number of companies raising capital during the first half of 2008 reached 161, a number similar to that for the first half of 2007. During the first half of 2008, the average investment per company was \$4.4 million, as compared to \$3.9 million for the first half of 2007.

Joseph Fellus, Partner, Advisory & High-Tech Practice Leader at Kesselman and Kesselman PricewaterhouseCoopers, says that, when looking at recent quarters, it may be possible to discern a trend whereby venture capital funds have begun to focus on software-based sectors at the expense of other sectors. A continuation of this trend will inevitably lead to a structural change in the nature of the Israel high-tech industry.

Rubi Suliman, Partner, High-Tech Practice at Kesselman and Kesselman PricewaterhouseCoopers, adds that the unmistakable decline in the rate of investment in seed companies, companies at the initial stage of their development, is a continuation of the trend noticed in recent quarters whereby venture capital funds have, in the absence of financing opportunities in the financial markets, chosen to lend their support to companies whose operations are at a more mature stage of development. This trend opens the door wide for angels and other investment entities to fund seed companies.



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

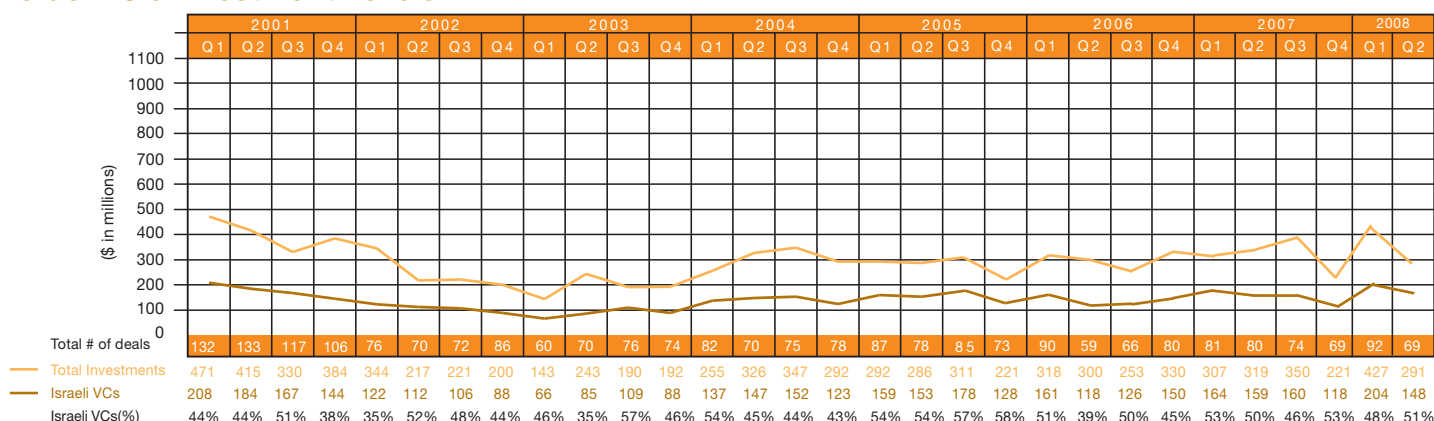


Mr. Rubi Suliman,
Partner, Hi-Tech
Practice



Mrs. Inbal Spiegel,
Israeli MoneyTree
Project Manager

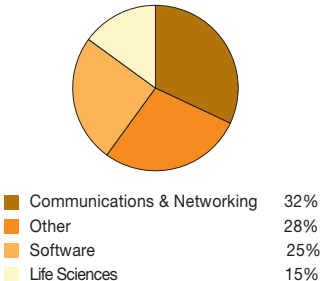
Israel VC's Investment Levels



Companies receiving grants from the Chief Scientist by sector

Companies Receiving Grants from the Chief Scientist

23 companies, representing 33% of all companies raising capital in the second quarter of 2008, have received grants from the Office of the Chief Scientist in Israel. Approximately \$87 million of total investment funds has flowed into these companies.



Analysis by Leading Technological Sectors

The **Communications & Networking** sector takes first place in the second quarter of the year, with 22 companies raising approximately \$140 million, this representing 48% of total investment for the quarter. This is the highest quarterly investment in this sector for four years and the biggest slice of total quarterly investment for five and a half years. This compares with 22 companies that raised approximately \$104 million in the previous quarter and with 26 companies that raised approximately \$133 million in the corresponding quarter of last year. The present quarter saw five large transactions (investment in amounts exceeding \$10 million per company) in this sector in a total amount of approximately \$75 million, representing 54% of the total investment in the sector.

The increase in this sector in both the overall and average investment levels for the present quarter can be attributable to the fact that most of the companies operating in this sector that raised capital in the present quarter are currently operating at the intermediate or later stages of their development. These stages of development are marked by a requirement for relatively high levels of investment - approximately \$131 million raised by 20 companies.

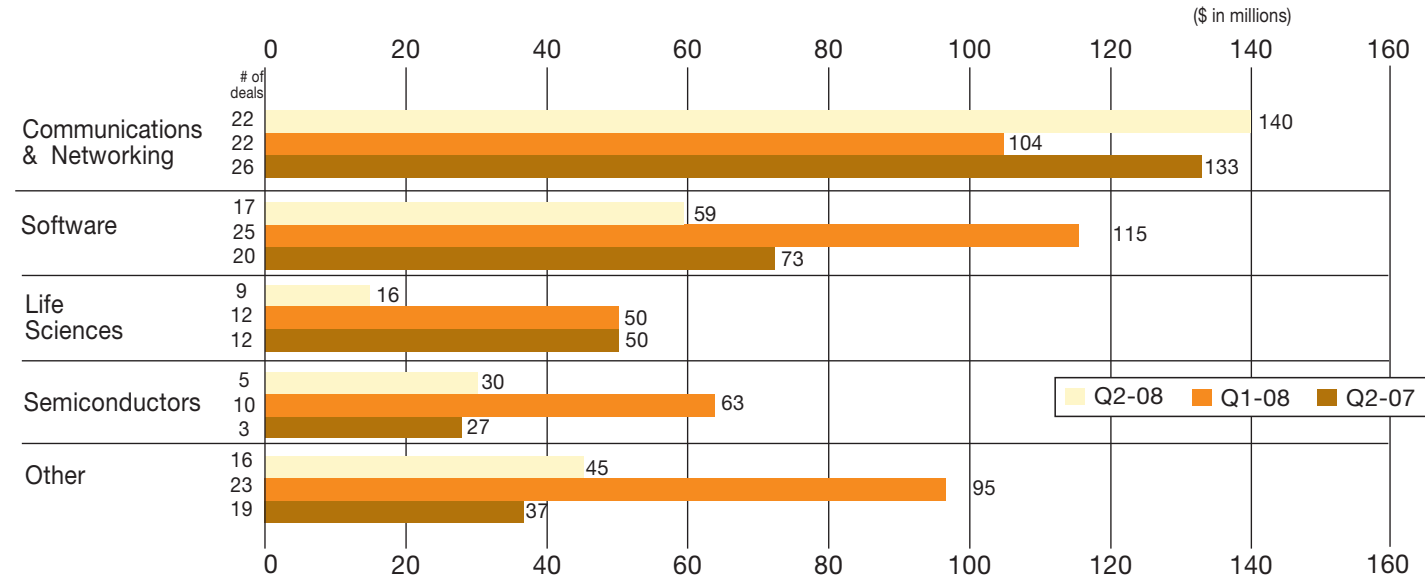
The **Software** sector takes second place in the present quarter, with \$59 million being invested in 17 companies. This compares with the amount of approximately \$115 million that was invested in 25 companies in the previous quarter and the amount of approximately \$73 million that was invested in 20 companies in the corresponding quarter of last year. In monetary terms, this performance is equivalent to a decrease of 48% in comparison with the previous quarter and of 18% in comparison with the corresponding quarter of last year.

5 companies operating in the **Semiconductors** sector raised approximately \$30 million during the present quarter, as compared to 10 companies that raised approximately \$63 million in the previous quarter and 3 companies that raised approximately \$27 million in the corresponding quarter of last year.

The **Life Sciences** sector, which includes the fields of Medical Devices and Biotechnology, displayed a decrease in investment in the present quarter, with just 9 companies raising approximately \$16 million, representing 6% of total investment for the quarter. This is the lowest quarterly amount raised by this sector for about four and a half years and the smallest slice of total quarterly investment in about eight and a half years. This situation may be compared with 12 companies that raised approximately \$50 million in both the previous quarter and the corresponding quarter of last year.

Amongst the companies operating in the **Other** sectors category are companies operating in the internet sector, the cleantech sector and the media sector. 16 companies in this category raised approximately \$45 million in the present quarter - approximately 15% of total investment for the quarter. This compared with 23 companies that raised approximately \$95 million in the previous quarter and with 19 companies that raised approximately \$37 million in the corresponding quarter of last year.

With 8 companies raising approximately \$23 million, the **internet** sector attracted about 52 % of the total investment in this category for the present quarter and approximately 8% of the total overall investment for the quarter.



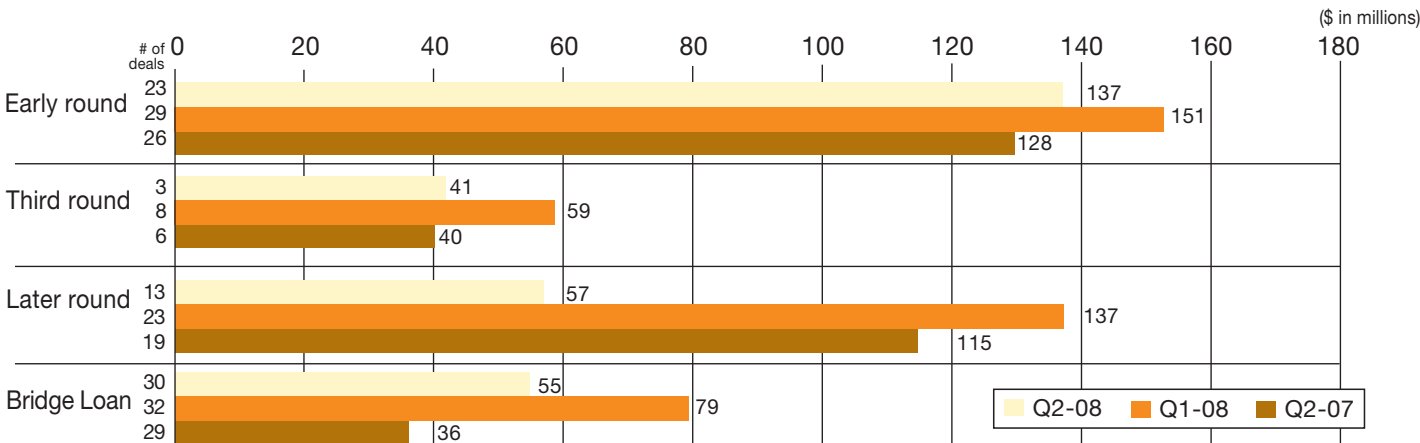
Analysis by Investment Round

In the present quarter, 23 companies raised approximately \$137 million in the **Early round** (the first and the second rounds combined). This compares to 29 companies that raised early round investment funds of approximately \$151 million in the previous quarter and to 26 companies that raised early round investment funds of approximately \$128 million in the corresponding quarter of the last year.

In the present quarter, 3 companies raised **Third round** investment funds of approximately \$41 million. This compares to 8 companies that raised third round investment funds of approximately \$59 million in the previous quarter and to 6 companies that raised third round investment funds of approximately \$40 million in the corresponding quarter of last year.

In the present quarter, 13 companies raised approximately \$57 million in **Later round** investment (investment rounds from the fourth round to the mezzanine round inclusive). This compares to 23 companies that raised later round investment funds of approximately \$137 million in the previous quarter and to 19 companies that raised later round investment funds of approximately \$115 million in the corresponding quarter of last year.

In the present quarter, 30 companies raised approximately \$55 million through the medium of **Bridge loans**. This compares to 32 companies that raised bridge loan finance of approximately \$79 million in the previous quarter and to 29 companies that raised bridge loan finance of approximately \$36 million in the corresponding quarter of last year.



Analysis by Company Development Stage

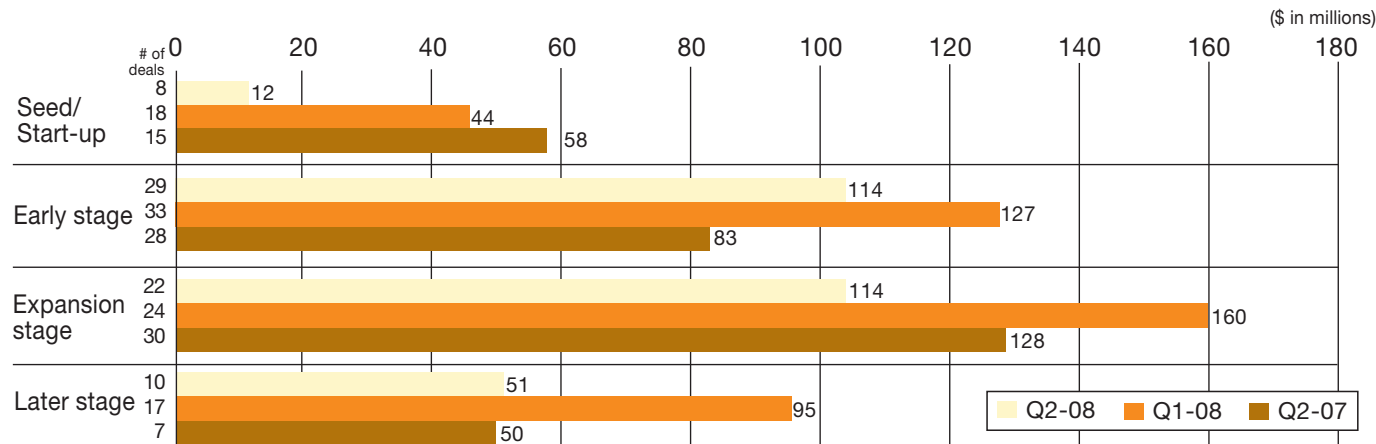
8 companies at the **Seed/Start-up stage** raised approximately \$12 million during the second quarter of 2008, this representing just 4% of total investment for the quarter. This is the lowest quarterly amount raised by companies at this stage of development for about seven and a half years and the smallest slice of total quarterly investment in about six years. This compared to 18 companies that raised approximately \$44 million in the previous quarter and 15 companies that raised approximately \$58 million in the corresponding quarter of last year.

In the present quarter, 51 companies at the **Intermediate stage** of development raised approximately \$228 million. This compares to 57 such companies that raised approximately \$287 million in the previous quarter and to 58 such companies that raised approximately \$211 million in the corresponding quarter of last year. The second quarter of 2008 saw eight large transactions in a total amount of approximately \$114 million, this representing 50% of the total investment in intermediate stage companies.

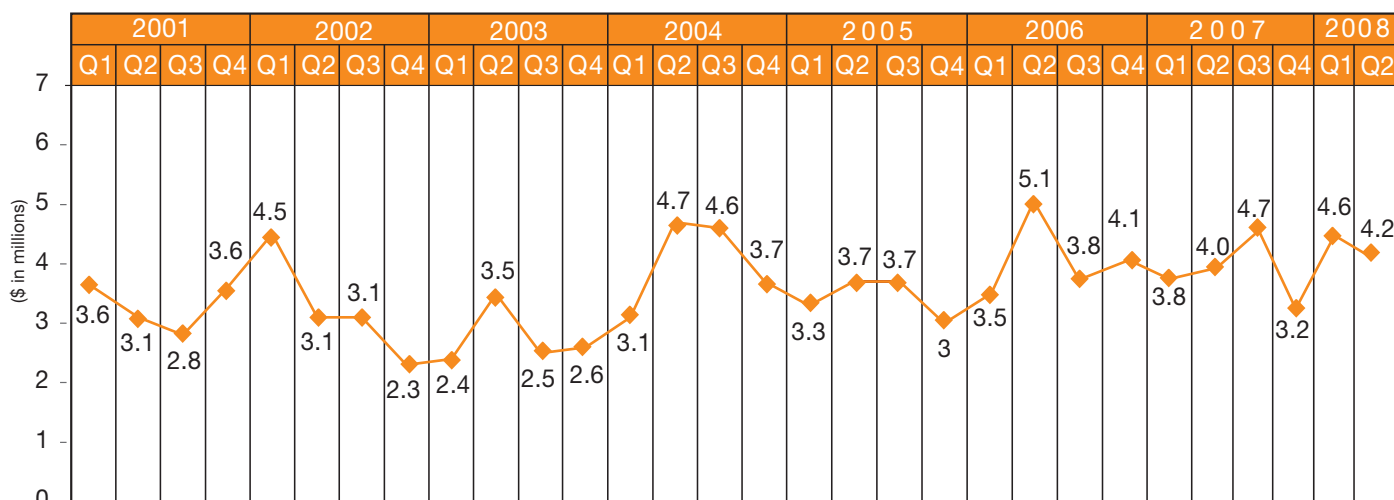
An internal analysis of transactions involving Intermediate stage companies has revealed that 29 companies at the early stage of development raised approximately \$114 million during the course of the present quarter, an amount identical to the amount raised by 22 companies at the expansion stage.

In the present quarter, 10 companies at the **Later stage** of development raised approximately \$51 million. This compares to 17 such companies that raised approximately \$95 million in the previous quarter and to 7 such companies that raised approximately \$50 million in the corresponding quarter of last year.

The present quarter saw two large transactions that totaled approximately \$30 million and which involved companies at the later stage of development. These transactions represented 60% of the total investment in later stage companies of development.



Average Deal Size



Participating Venture Capital Funds in the Q2-2008 MoneyTree™ Report (listed alphabetically)

Alon Technology Ventures
Ascend Technology Ventures
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
Denali Ventures
DOR Ventures Fund
Eurofund L.P.
Evergreen Ventures Partners

Formula Ventures
Gemini Israel Funds
Genesis Partners
Giza Venture Capital
Greylock Israel
Israel Cleantech Ventures
Israel Healthcare Ventures (IHCV)
Israel Infinity Venture Capital
Israel Seed Partners
Jerusalem Global Ventures (JGV)
Jerusalem Venture Partners (JVP)
Kaptech Holdings / Nehemiah Kaplan Investments
Magma Venture Capital
Medica Venture Partners
Peregrine Ventures
Pitango Venture Capital
Platinum Neurone Ventures (PNV)

Platinum Venture Capital
Poalim Ventures
SCP Vitalife
Sequoia Capital Israel
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 L.P.
Vertex Venture Capital
Vitalife Life Sciences Ventures
Walden Israel
Yozma

About the Israeli MoneyTree™ Report

Kesselsman & 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