

Kesselman & Kesselman PricewaterhouseCoopers Israel
MoneyTree™ Report for 2009

Venture capital funds invested approximately \$ 735 million in High-Tech
In 2009, venture capital funds invested the lowest amount for the last decade

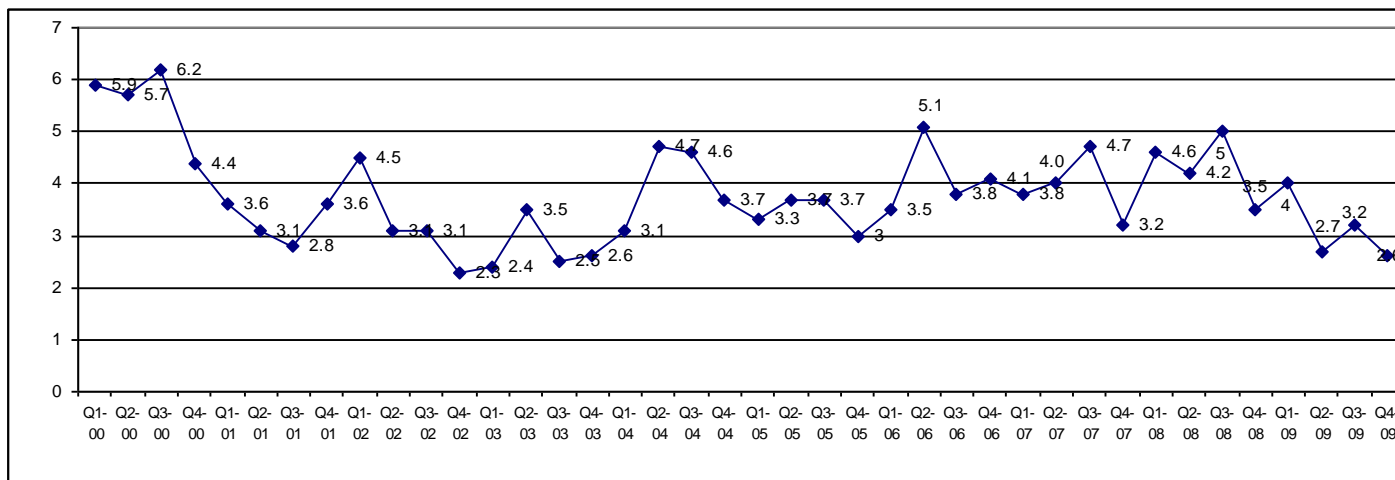
The latest Kesselman and Kesselman PricewaterhouseCoopers Israel MoneyTree™ Report indicates that venture capital-backed high-tech companies (companies in which one of the investors in the investment round is a venture capital fund) raised \$735 million in Israel during the 2009, a 47% decrease compared with the year 2008, when \$1.4 billion was raised, and a 39% drop compared to the corresponding amount raised in 2007, when \$1.2 billion was raised. The average investment per company in 2009 was \$3 million compared with \$ 4.4 million in 2008 and \$3.9 million in 2007.

In the fourth quarter of 2009, 77 companies raised \$201 million – the highest amount raised in a single quarter in 2009. This constitutes an increase of 13% (in monetary terms) compared with the previous quarter in which 55 Israeli companies raised \$178 million and a decrease of 30% (in monetary terms) compared with the corresponding quarter in the last year in which 81 companies raised \$287 million. The average investment per company in the last quarter under review was \$2.6 million, compared with \$3.2 million in the preceding quarter and \$3.5 million in the corresponding quarter of last year.

Rubi Suliman, Partner, High-Tech Assurance Practice at Kesselman and Kesselman PwC Israel, commented on the findings: "Year 2009, as venture capital investments are concerned, is one that we will soon want to forget. In this year, the level of venture capital investments was even lower than the lowest point set in 2003, following the burst of the high-tech bubble. In this year it was clear that the rules have changed; the funds invested less in "dreams" and more in clear-cut and mature products with a real business plan. The funds focused more in the existing portfolio and the natural selection process caused the closure of many companies.

At the outset of 2010, we see the clouds of the financial crisis disperse. The Israeli hi-tech engine did not stop (although it did slow down for lack of liquidity) and accepted the new rules. Israeli high-tech matured and adjusted itself; many companies worked in a bootstrap manner, self funding or low funding by angel investors, intensely focusing on revenue. In 2010, the number of mature companies applying to venture capital funding is large and although it is clear that the number of Israeli active funds decreased, foreign funds expanded their operations and involvement in the Israeli market and overall, the projection for 2010 is better".

Average investment per company (in millions of dollars)



The share of venture capital funds with Israeli representation in the high-tech industry

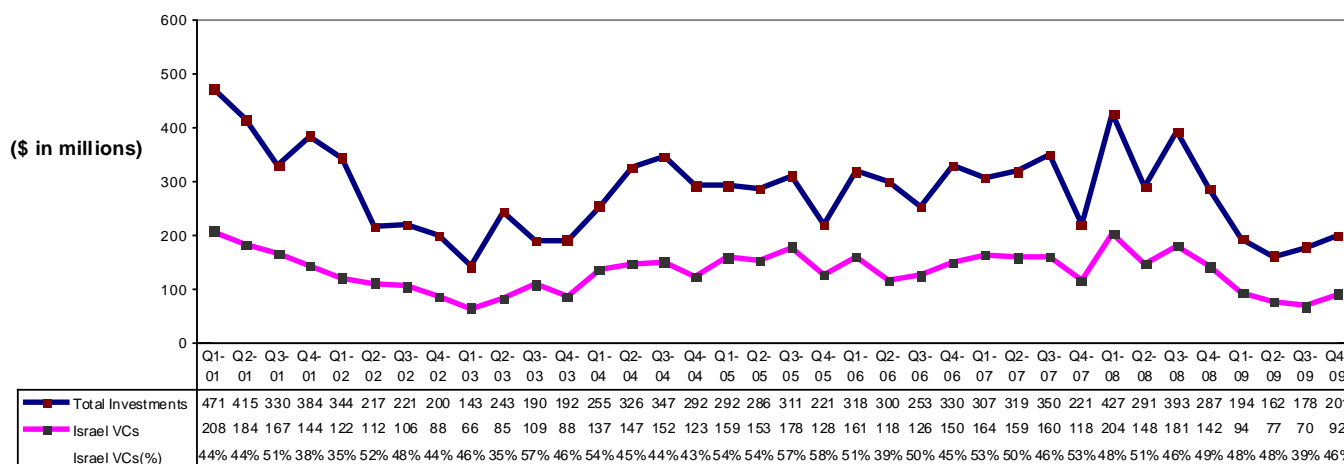
The venture capital funds with representation in Israel invested \$92 million or 46% of total investments in the fourth quarter of 2009. These investments compare with similar \$70 million, or 39% of total investments in the previous quarter and \$142 million, or 49%, in the corresponding quarter in 2008.

In 2009, venture capital funds with representation in Israel invested approximately \$333 million, or 45% of the total investments made this year. These investments compare with \$675 million, or 48% of the investments made in 2008 by the venture capital funds with an Israeli representation.

In addition to investments in high-tech companies with operations in Israel, local venture capital funds also invested approximately \$7 million in 11 overseas high-tech companies that have no operations in Israel, compared with \$2 million invested in 5 foreign companies in the previous quarter and \$32 million invested in 9 foreign companies in the corresponding quarter last year.

In addition, in 2009 local venture funds invested approximately \$32 million in 32 overseas high-tech companies that have no operations in Israel, compared with \$ 95 million invested in 48 such companies in 2008.

Investment levels of Israeli Venture Capital Funds (in millions of dollars)



54 companies, representing 70% of companies raising capital in the fourth quarter of 2009, are registered in Israel. These companies raised \$151 million or 75% of total investments. The remaining companies are mostly incorporated in the US.

Companies receiving grants from the Israeli Office of the Chief Scientist

26 companies, representing 34% of all companies raising capital in the fourth quarter of 2009, received grants from the Israel Office of the Chief Scientist. Some \$49 million of total investments went to these companies. The 2009 figures show that 75 companies raising capital this year received grants from the Israeli Office of the Chief Scientist. Some \$ 186 million of total investments went to these companies.

Analysis by main technological sector

The **Software** sector was the leading sector this quarter in terms of funds raised. During the course of the quarter under review, 21 companies operating in the software sector raised approximately 72 million constituting 36% of total investments in this quarter, compared with only 9 companies, raising \$5 million that constituted 3% of total investments in the previous quarter and 19 companies, raising \$ 52 million constituting 18% of total investment in the corresponding quarter last year.

In spite of the increase in investments in this sector compared to the previous quarter and this sector being the leading sector in the scope of investments for this quarter, the total investment in 2009 in this sector was the lowest in the last decade; In 2009 total sum of funds raised was \$143 million in 60 companies, constituting 20% of the investments this year. This compared with 89 companies raising \$349 million in 2008 and constituting 25% of total investments in this year. The average annual investment in this sector was \$2.4 million in 2009, compared with \$3.9 million last year.

During the course of the quarter, 17 companies of the **Communications and Networking** sector raised approximately \$36 million, constituting 18% of the investments in this quarter. This situation compares with 15 companies raising approximately \$37 million in the third quarter, constituting 21% of total investments in the third quarter, and with 26 companies raising approximately \$93 million, constituting 33% of total investments in the corresponding quarter of last year.

In 2009, this sector had the lowest level of fund raising for the last decade, raising only \$204 million invested in 63 companies and constituting 28% of total investments for this year. This compares with \$437 million which were invested in 86 companies in 2008, constituting 31% of total

investments this year. The average annual investment per company in this sector was \$3.2 million, as compared with \$5.1 million in 2008.

The **Life Sciences** sector, incorporating Medical Devices and Biotechnology, exhibited a significant decrease in the fourth quarter. This sector raised \$18 million by 12 companies. This situation may be compared to an investment of approximately \$65 million in 8 companies in the third quarter of 2009 and \$58 million in 13 companies in the corresponding quarter of last year.

In 2009, a total of \$126 million was invested in 38 companies, constituting 17% of the investments this year. This situation compares with 45 companies in 2008, in which \$152 million were invested, constituting 11% of total investments for this year. In 2009, the average annual investment per company in this sector was \$3.3 million, compared with \$3.4 million in 2008.

During the course of the fourth quarter of 2009, 6 companies operating in the **Semiconductor** sector raised approximately \$14 million, constituting 7% of the total investments this year, compared to 4 companies raising \$4 million, constituting 2% of the total investments in the previous quarter. This situation may be compared to an investment of approximately \$39 million in 5 companies, constituting 14% of total investments made in the corresponding quarter of last year.

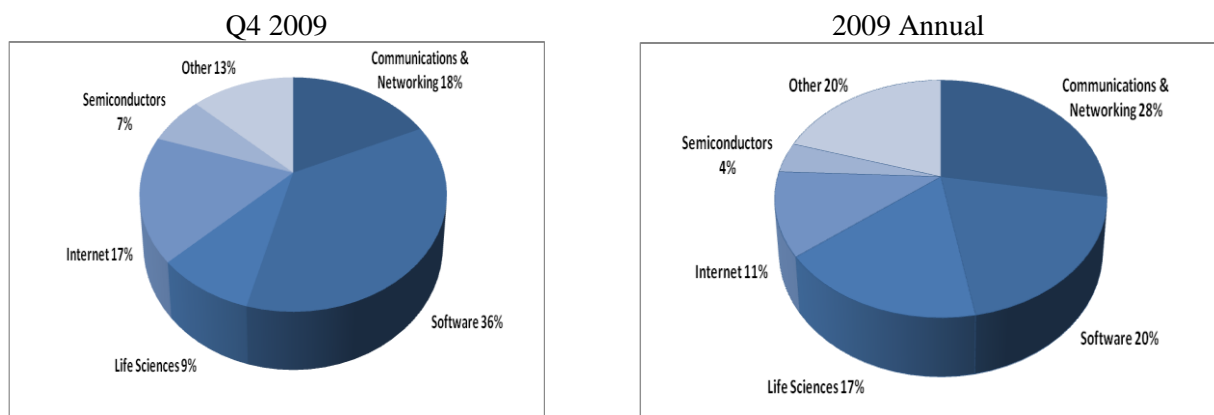
In 2009, a total of \$31 million was invested in 14 companies, constituting 4% of the investments this year. This situation compares with 27 companies in 2008, in which \$194 million were invested, constituting 27% of total investments in 2008. In 2009, the average annual investment per company in this sector was \$2.2 million, compared with \$7.2 million in 2008.

The **Internet** sector presents an increase in the fourth quarter compared with the previous quarter. During the course of the fourth quarter of 2009, 11 companies raised app. \$35 million, compared with 4 companies raising \$24 million in the previous quarter and 8 companies that raised \$17 million in the corresponding quarter last year. The average investment per company in this sector for the present quarter was \$3.2 million, as compared to \$6.1 million in the preceding quarter and to \$2.2 million in the corresponding quarter of last year.

Amongst the companies operating in the **Miscellaneous** category are companies operating in the clean-tech sector, the media sector and others. Ten companies classified under this category raised approximately \$26 million in the present quarter, representing approximately 13% of the total investment made this quarter. This situation may be compared to investments of approximately \$43 million in 16 companies in the preceding quarter and of approximately \$27 million in 10 companies in the corresponding quarter of last year. The share of the cleantech sector out of this category in the last quarter is \$3 million invested in 3 companies and \$67 million invested in 13 companies in the year 2009.

In 2009, 664 companies from the miscellaneous and internet sectors, raised \$227 million. This situation may be compared with 71 companies that raised \$259 million in these sectors in 2008.

Total investment by sector



Analysis by investment round

Early round

In the fourth quarter of 2009, 24 companies raised approximately \$84 million in the early round (the first and second rounds combined), constituting 44% of total investments. This compares to 16 companies that raised early round investments of approximately \$48 million, constituting 27% of the total investments in the preceding quarter and 25 companies that raised early round investments of approximately \$80 million constituting 28% of the investments in the corresponding quarter of last year.

The average early round investment per company for the fourth quarter was \$3.5 million, compared to \$3 million for the preceding quarter and \$3.2 million for the corresponding quarter of last year.

\$301 million were raised by 76 companies in the early round, constituting 43% of total early round investment funds in 2009, compared with 107 companies that raised \$547 million, constituting 39% of total investments in 2008.

Third round

In the fourth quarter of 2009, 9 companies raised approximately \$46 million in the third round, constituting 24% of total investments. This compares to 7 companies that raised third round investments of approximately \$40 million, constituting 23% of total investments in the preceding quarter and to 8 companies that raised third round investments of approximately \$57 million in the corresponding quarter of last year, constituting 20% of total investments. The average third round

investment per company for the fourth quarter was \$5.1 million, as compared to \$5.7 million for the preceding quarter and \$7.1 million for the corresponding quarter of last year.

26 companies raised in the third round \$136 million, constituting 19% of total third round investments raised in 2009, compared with 28 companies that raised \$235 million, constituting 17% of total investments made in 2008.

Later round

During the course of the fourth quarter of 2009, 10 companies raised approximately \$16 million by means of transactions undertaken within the context of later investment rounds (i.e., commencing with the fourth investment round), constituting 9% of total investments. This compares to 8 companies that raised later round investments of approximately \$64 million, constituting 36% of total investments in the preceding quarter and to 11 companies that raised later round investments of approximately \$62 million, constituting 21% of total investments in the corresponding quarter of last year. The average later round investment for the fourth quarter was \$1.6 million, as compared to \$8 million for the preceding quarter and \$5.6 million for the corresponding quarter of last year.

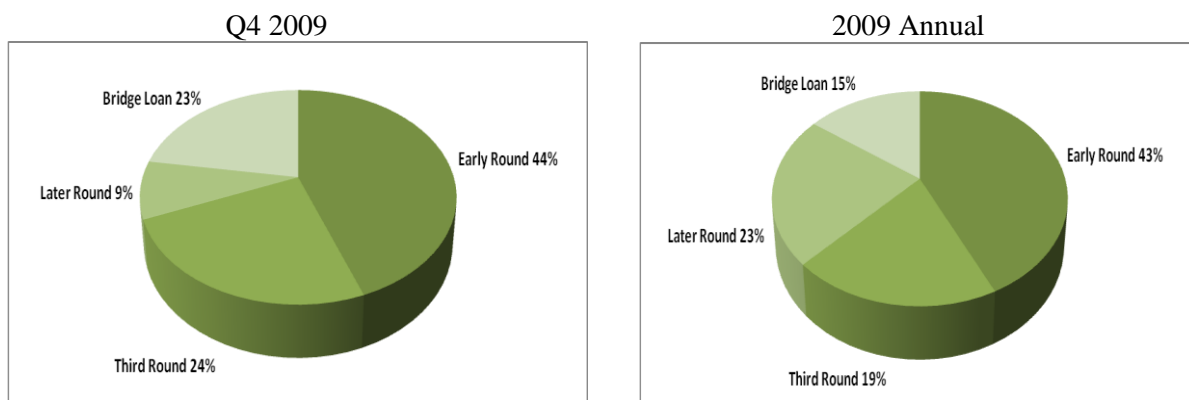
In 2009, 37 companies raised in the later round \$159 million, constituting 23% of total investments in this round. This may be compared with 53 companies that raised \$337 million constituting 24% of total investments in 2008.

Bridge loans

In the fourth quarter of 2009, 33 companies raised approximately \$42 million through the medium of bridge loans, constituting 23% of total investments. This compares to 23 companies that raised bridge loan finance of approximately \$22 million in the preceding quarter (constituting 12% of total investments) and to 34 companies that raised bridge loan finance of approximately \$82 million in the corresponding quarter of last year, constituting 42% of total investments. In the present quarter, the bridge loan average was \$1.3 million, as compared to approximately \$0.9 million in the preceding quarter and to approximately \$2.4 million in the corresponding quarter of last year.

In 2009, 97 companies raised \$106 million in bridge loans, constituting 15% of total investments in this round for this year. This may be compared with 126 companies that raised \$267 million constituting 19% of total investments in 2008.

Total investment by investment round



Analysis by company development stage

Seed stage/Start-up stage

Thirteen companies at the start-up stage raised approximately \$24 million during the fourth quarter of 2009, this representing 12% of total investments made in the fourth quarter. This may be compared to situations in which 4 such companies raised approximately \$4 million in the preceding quarter (constituting 2% of total investments in the previous quarter) and 9 such companies that raised approximately \$16 million in the corresponding quarter of last year, constituting 6% of total investments. In the fourth quarter, the average investment per company at this stage of development was \$1.8 million, as compared to \$1.1 million in the preceding quarter and \$1.8 million in the corresponding quarter of last year.

The 2009 figures show that the investment in these companies has decreased by 55% in monetary terms compared with 2008. Approximately \$40 million, constituting 5% of total investments in 2009 were invested in 26 start-up companies, compared with \$89 million, constituting 6% of total investments in 2008, that were invested in 48 start up companies.

Intermediate stage (early/expansion stage)

In the fourth quarter of 2009, 53 companies at the intermediate stage of development raised approximately \$159 million, constituting 79% of total investments. This compares to 43 companies that raised approximately \$116 million in the preceding quarter (constituting 65% of total investments in that quarter) and to 62 companies that raised approximately \$224 million in the corresponding quarter of last year (constituting 78% of total investments in that quarter). The average investment for the quarter was \$3 million, as compared to \$2.7 million for the preceding quarter and to \$3.6 million for the corresponding quarter of last year.

The 2009 figures show that \$570 million, constituting 78% of total investments, were invested in intermediate stage companies, compared with \$1,078 million invested in such companies in 2008, constituting 77% of total investments in 2008.

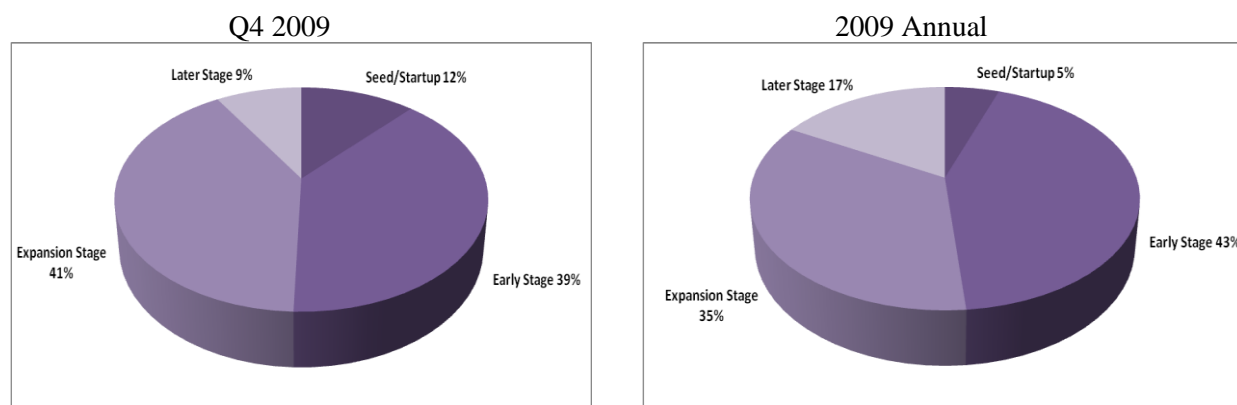
An internal analysis of intermediate stage investments reveals that 29 companies at the early stage of development raised approximately \$78 million during the fourth quarter of 2009, with 24 companies at the expansion stage of development raising approximately \$81 million during the quarter.

Later stage

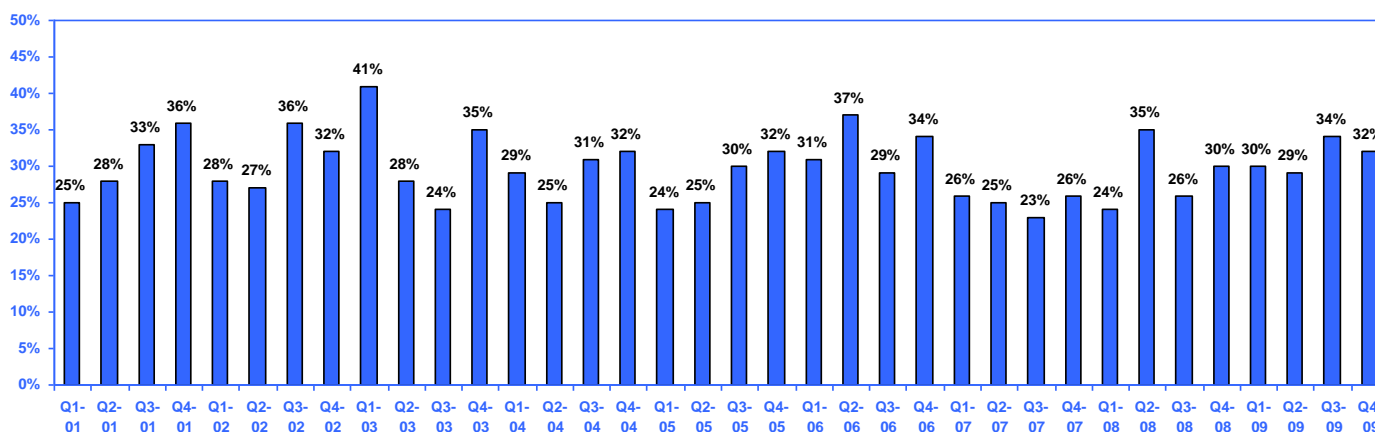
In the fourth quarter of 2009, 11 companies at the later stage of development raised approximately \$18 million (constituting 9% of total investments in the quarter). This compares to 7 such companies that raised approximately \$57 million in the preceding quarter (constituting 32% of total investments in the previous quarter) and to 9 such companies that raised approximately \$46 million in the corresponding quarter of last year (constituting 16% of total investments for the quarter). The average investment for the quarter was \$1.6 million, as compared with \$8 million for the preceding quarter and to \$5.1 million for the corresponding quarter of last year.

Approximately \$124 million, constituting 17% of total investments in 2009 were invested in later stage companies, compared with \$229 million, constituting 16% of total investments in 2008.

Total investment by company development stage



Percentage of funds making no investment



The **MoneyTree™ Report** is published quarterly by Kesselman & Kesselman PwC Israel, in conjunction with the reports published in the United States and Europe by the global accounting, tax and consulting firm, PricewaterhouseCoopers. This quarter, 41 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, high-tech companies, government departments, the Office of the Chief Scientist and others.