

MONEY TREE™ Survey

Twice as many investments were made by foreign and other investors this quarter as compared to the previous quarter

70% increase in the volume of investments as compared to the first quarter - at least \$243 million

Q2
2003
RESULTS
ISRAEL
REPORT



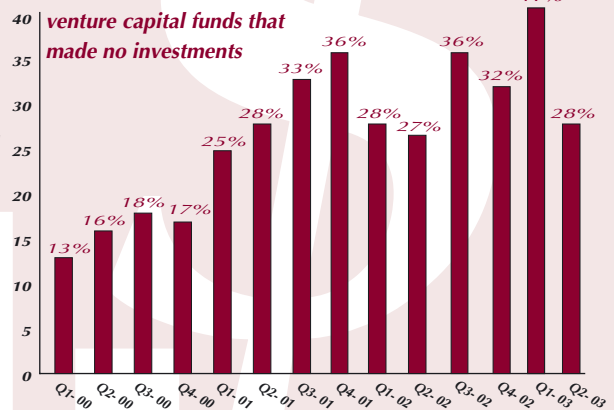
Mr. Joseph Fellus,
Partner & High-Tech
Practice Leader



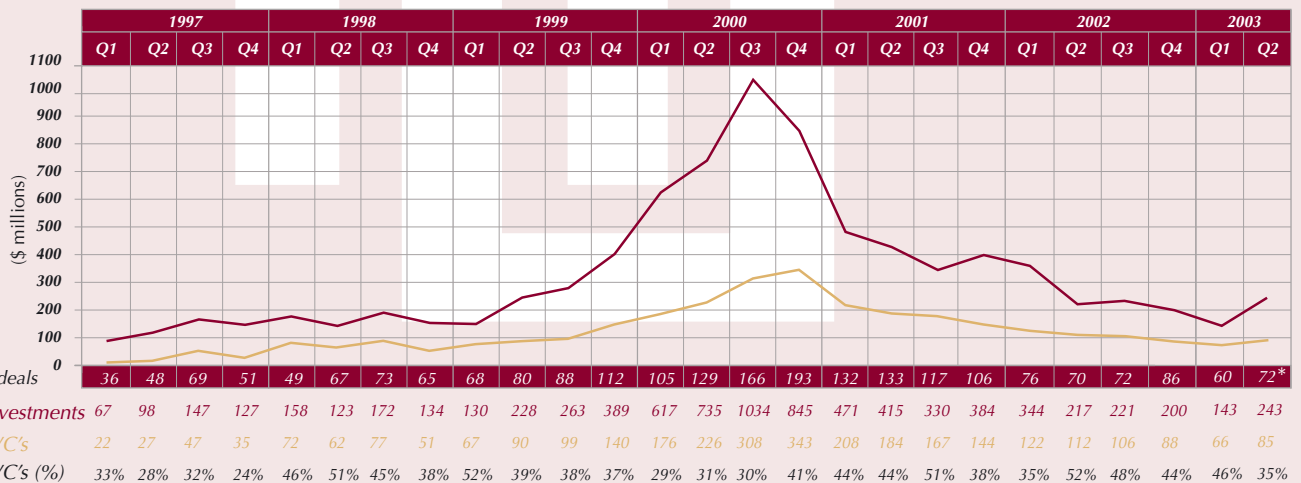
Ms. Adi Bengal,
Israeli MoneyTree
Project Manager

The findings of the survey show that high-tech companies backed by venture capital funds (where one of the investors in the first round of financing is a venture capital fund) raised \$243 million in the second quarter of 2003, a 70% increase as compared to the previous quarter (\$143 million) and 12% as compared to the corresponding period in the previous year (\$217 million). There was also an increase in the number of companies that raised capital this quarter as compared to the previous quarter (70 companies and 60 companies, respectively).

According to Joseph Fellus, in the first half of 2003 high-tech companies raised a total of \$386 million, a decrease of 31% as compared to the corresponding period in the previous year (\$561 million). The average investment in a company in the second quarter of 2003 was \$3.5 million, as compared to \$2.4 million in the previous quarter. Fellus notes that we are witnessing a renewed interest of foreign parties in Israeli high-tech companies. The level of investments recorded this quarter is quite impressive. On the background of the weakening of this sector in Europe, Israel is the European leader in the volume of investments. Entrepreneurs and companies backed by venture capital funds manage to reach an ever growing variety of financing sources, this in addition to the resources available from Israeli funds. In the second quarter of 2003, the number of funds that made no investments during the quarter (either in new companies or in their portfolio companies) decreased significantly as compared to the previous quarter: 21 venture capital funds as compared to 31 venture capital funds, respectively.



Israeli VC's investment level



* 72 investments were made in 70 companies.

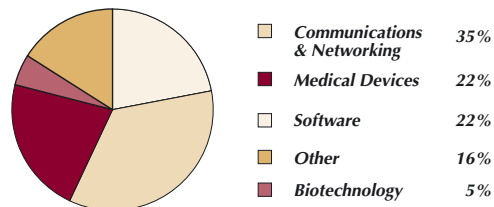
The survey further shows that local venture capital funds invested \$85 million in high-tech companies this quarter, as compared to \$66 million in the previous quarter. Nevertheless, according to Adi Bengal, Israeli **MONEYTREE™** project manager, the relative weight of local funds in total investments decreased significantly, constituting 35% of total investments in monetary terms (as compared to 46% in the previous quarter and 52% in the corresponding quarter in the previous year). This decrease, adds Bengal, reflects the growing share of foreign and other investors in the various rounds, and does not necessarily indicate a decline in the volume of investments by local funds. The survey reveals a 105% increase in the volume of investments made by foreign and other investors: \$158 million as compared to \$77 million in the previous quarter.

Along side the investments in companies that have a connection to Israel, as above, local venture capital funds invested \$21 million in 11 foreign companies that have no activities in Israel, which constitutes 20% of total venture capital fund investments for the quarter (as compared to \$23 million and 15 companies in the previous quarter, constituting 26% of total investments made by venture capital funds).

COMPANIES RECEIVING GRANTS FROM THE CHIEF SCIENTIST

The survey shows that 37 of the companies that raised capital in the quarter received grants from the Chief Scientist. The findings of the survey show that 26 of these companies are registered as Israeli companies and the rest are registered in the United States.

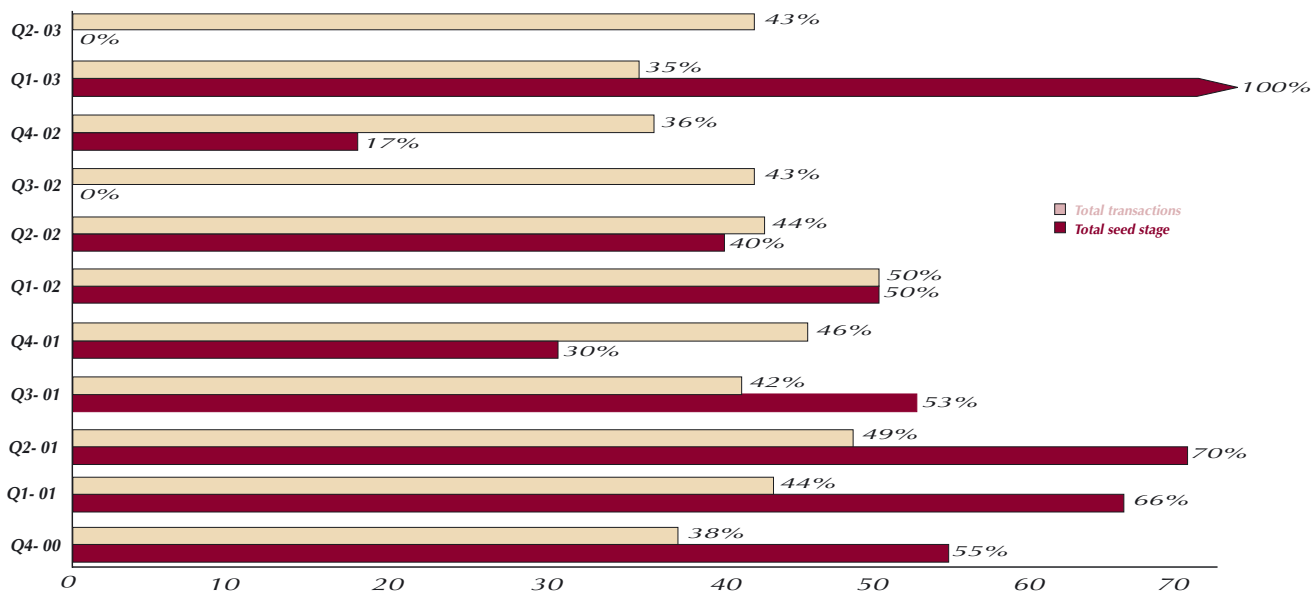
Companies Receiving Grants from the Chief Scientist by Industry - Q2-2003 (% of Total)



ANALYSIS BY PLACE OF REGISTRATION

According to Fellus, 40 of the 70 companies that raised capital this quarter are registered in Israel (57%). The rest are foreign companies, mainly registered in the United States. The average investment in a foreign company was \$4 million, as compared to an average investment of \$3.1 million in an Israeli registered company. The survey also shows that the 2 seed stage companies that raised capital this quarter are registered as Israeli companies.

Percentage of companies registered as foreign
(vast majority in the U.S.)



VENTURE CAPITAL INVESTMENTS BY ROUND OF FINANCING

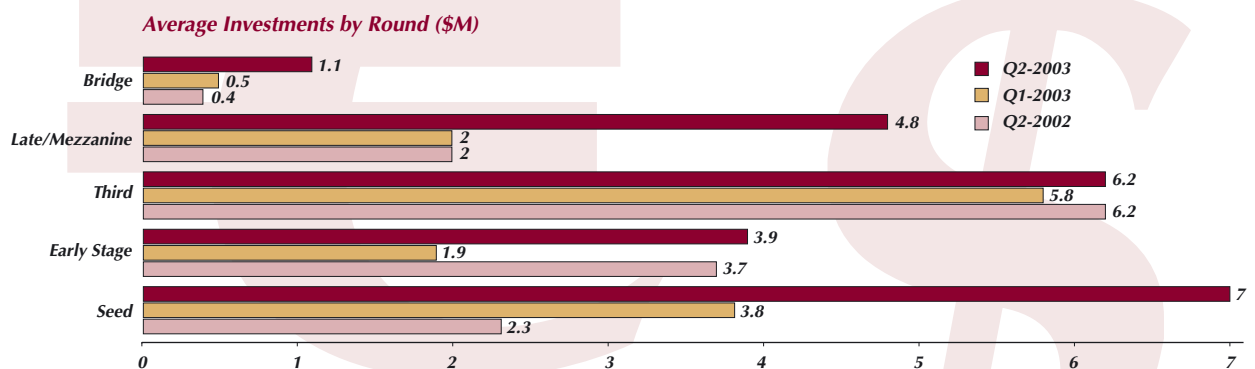
The analysis by investment round shows that only 2 **Seed stage** companies raised approximately \$14 million in the second quarter of the year (one transaction accounted for \$11 million).

The **Early stage** (the first and second stages together) attracted 38% of the volume of investments and 33% of the number of transactions for the quarter: 24 early stage companies raised \$93 million, as compared to 22 companies and \$42 million in the previous quarter. The average investment in these rounds was \$3.9 million, as compared to \$1.9 million in the previous quarter.

The **Third round** accounted for 20% of total investments in monetary terms and 11% of the number of transactions for the quarter. Some \$50 million was infused into 8 companies in this round, as compared to 12 companies that raised \$69 million in the previous quarter. (2 of the 8 companies raised an aggregate of \$26 million).

In **Later stage** rounds (fourth to mezzanine), \$58 million was invested in 12 companies, as compared to \$16 million and 8 companies in the previous quarter.

In the second quarter of 2003, 26 companies raised \$29 million by way of **Bridge loans**, as compared to \$8 million infused into 16 companies in the preceding quarter and 17 companies that received \$7 million in the corresponding period last year.



VENTURE CAPITAL INVESTMENTS BY INDUSTRY

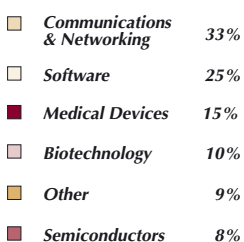
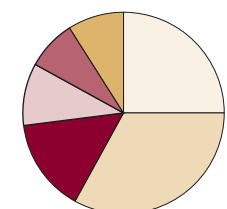
In the second quarter of 2003, the **communications & Networking** sector returned to the top of the investment chart, with \$80 million that was infused into 18 companies in this sector, as compared to 10 companies that raised \$30 million in the preceding quarter. Excluding two large transactions aggregating \$32 million, the average investment in a company was \$3 million, unchanged as compared to the previous quarter.

The **software** sector also enjoyed an increase in the volume of investments in monetary terms: \$60 million was invested in 16 software companies, as compared to 13 companies and \$32 million in the previous quarter. It should be noted that this sector too recorded two large investments, accounting for \$27 million. The exclusion of these two investments reveals the same level of investment as in the previous quarter, both in monetary terms and in the number of transactions.

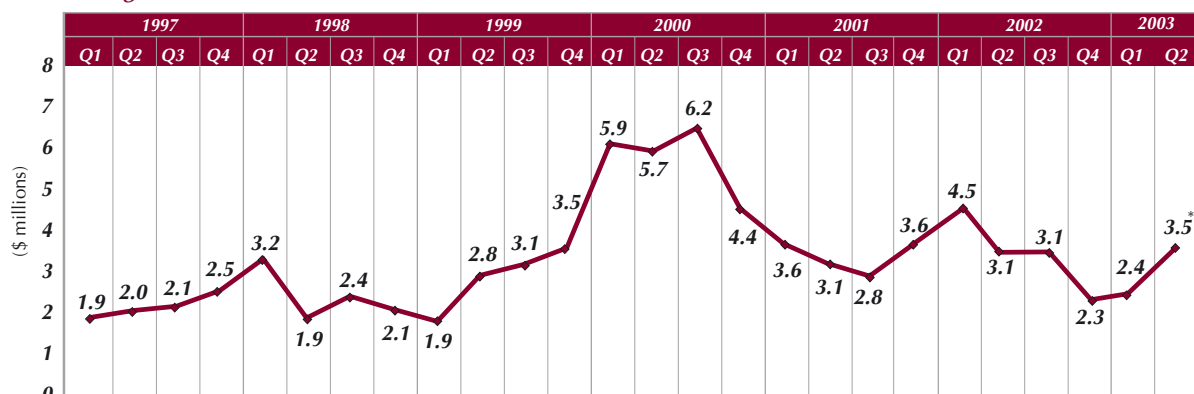
The **life sciences** sector accounted for 25% of the investments for the quarter in monetary terms, as compared to 18% in the previous quarter, and attracted investments of \$62 million that was infused into 20 companies this quarter. The field of Medical devices led the investments in the life sciences sector, with \$37 million infused into 13 companies. 7 biotechnology companies raised \$25 million (this amount includes one investment of \$11 million).

The **semiconductor** sector attracted \$20 million in the quarter, which was infused into only 3 companies (one large transaction accounted for \$13 million).

VC Investments by Industry - Q2-2003 (% of Total)



Average Deal Size



* 72 investments were made in 70 companies.

Participating Israeli Venture Capitalists in the MoneyTree Survey Q2-2003 (listed alphabetically)

Ag-Tech Fund
Aig Orion Fund LP
ALICEVENTURES
Alon Technology Ventures Ltd.
Apax Partners Ventures (Israel) Ltd.
Argoquest, Inc
Ascend Technology Ventures
Astra Technological Investments Ltd.
Atara Technologies Ventures Ltd
Benchmark Israel
Bio-Medical Investments
BRM Capital Management Inc.
Carmel Software Fund
Catalyst Fund L.P
Cedar (Israel) Financial Advisors
Clal Biotechnology Industries Ltd.
Concord Venture Fund
Corex Industries Management Ltd.
D.Z. Israel Associates Ltd.
Decima Ventures
Delta Ventures Ltd.
Denali Ventures LLC
Edmond De Rothshchild Venture
Capital Management
Eucalyptus Ventures
Eurofund L.P.
Evergreen Partners
First IsraTech Fund L.P.
Formula Ventures Ltd

Gemini Israel Venture Funds Ltd
Genesis Partners L.P.
Genius Technologies
Gilbridge
Giza Venture Capital
Global Catalyst Partners, LP
Inventech Investments Company Ltd.
Israel Health Care Ventures
Israel Infinity Venture Capital
Management Ltd.
Jerusalem Global Ventures
Jerusalem Venture Partners
Kaptech Holdings Ltd.
Koor Corporate VC
Magnum Communications fund
Marathon Venture Capital Fund Ltd.
Medica Venture Partners
Millenium Materials Fund Management
Mofet Venture Capital Fund
Management (1992) Ltd.
Montifyori Partner
Neurone Venture Capital Fund
Ofer Technologies Ltd.
Orbotech
Pamot Asset management Ltd.
Pitango Venture Capital (previously Polaris)
Platinum Venture Capital
Portview Communications Partners
Proseed Venture Capital Fund

Sadot R&D Fund Ltd.
Seed Management Associates, Ltd.
Sequoia Capital Seed Fund
Shalom Equity Fund
Shrem, Fudim, Kelner & Co. Ltd.
StageOne Ventures
STI Ventures
SVM Star Ventures Capital Management Ltd.
Tamar Technology Ventures
Tamir Fishman Ventures(II)
Technoplus Ventures
Technorov Holding (1993) Ltd.
Teuza - A Fairchild Technology Venture Ltd.
The Challenge Fund - Etgar L.P.
Vectory Investment Company Ltd.
Veritas Venture Partners
Vertex Management (III) Ltd.
Vita Life Science Ventures
Walden Israel Ltd.
Yozma Management & Investments Ltd.

ABOUT THE ISRAELI MONEYTREE™

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

For more information on PricewaterhouseCoopers **MONEYTREE™** survey, please call Adi Bengal, Israeli **MONEYTREE™** Project Manager, at 972-3-7954619, e-mail: adi.bengal@il.pwcglobal.com or visit our web site: <http://www.pwcmoneytree.com>.

Your worlds



Our people