

ISRAEL REPORT **MONEYTREE™** survey



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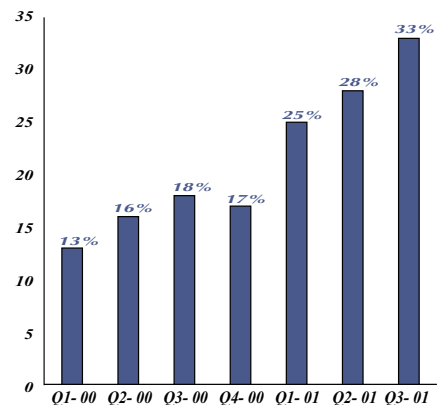
*The volume of venture capital investments - \$ 330 million - identical to that in the last quarter of 1999*

*Sharp decrease in seed stage investments; 53% of the seed stage companies that raised capital are registered as foreign companies, as compared to 70% in the previous quarter.*

A continuing slow-down in investments in hi-tech companies backed by venture capital funds (where one of the investors in the first round of financing is a venture capital fund) in the third quarter of 2001. According to the survey, during the third quarter, hi-tech companies raised only \$ 330 million, a decrease of approximately 21% as compared to the previous quarter (\$ 415 million) - similar to the volume of investments recorded in the last quarter of 1999 (\$ 389 million) and a decrease of 68% as compared to the corresponding quarter in the previous year, which saw a peak in the volume of venture capital investments (\$ 1.034 billion). There was a decrease of 12% in the number of companies (117) that raised capital during this quarter, as compared to the previous quarter (133), according to Kesselman & Kesselman PwC. The average investment per company was \$ 2.8 million in this quarter - identical to the level of investments in the second quarter of 1999.

The number of venture capital funds that made no investments during the quarter (neither in new companies nor in their portfolio companies) increased in the third quarter: 25 venture capital funds in this quarter, as compared to 20 funds in the previous quarter - constituting 33% of the funds participating in the survey this quarter, as compared to 28% in the previous quarter and almost twice their number in the third quarter of the previous year (18%).

*Percentage of venture capital funds that made no investments*

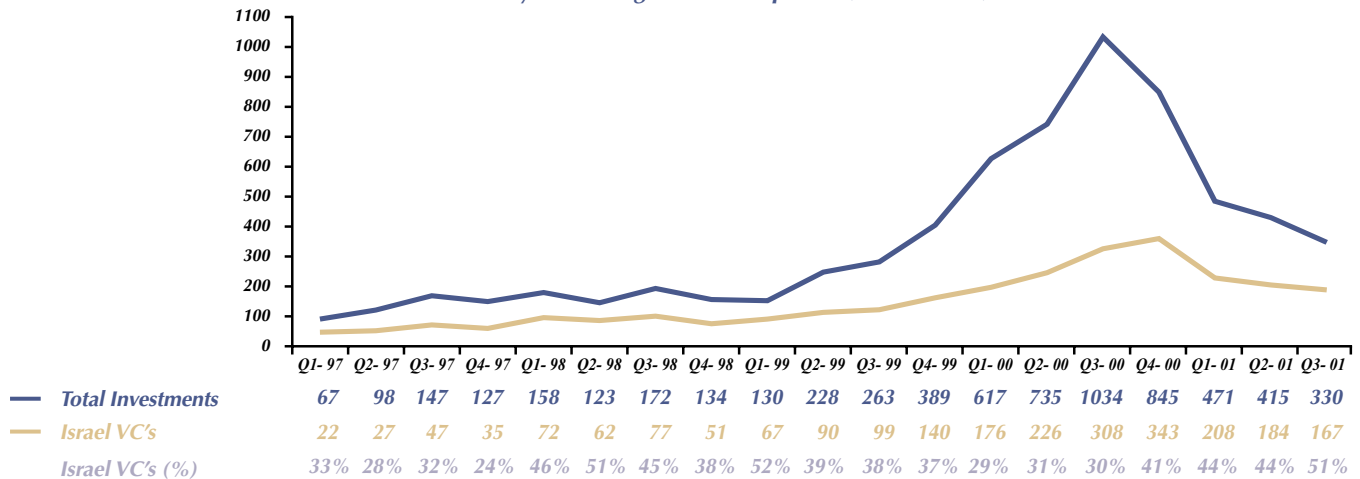


Joseph Fellus, Partner & High Tech Practice Leader at Kesselman & Kesselman PwC, adds that the relative weight of local venture capital funds in total investments in the third quarter of 2001 increased significantly and constitutes, in monetary terms, approximately 51% of total investments made during this quarter (as compared to 44% in the first two quarters of 2001 and 30% in the corresponding quarter in the previous year), as a result of a further decline in the number of active funds. This indicates that the financing burden is carried by fewer and fewer funds.

In addition, the survey shows that the average investment of an Israeli venture capital fund in the third quarter remained almost unchanged as compared to the preceding quarter - \$ 1 million. For the third

consecutive quarter, there was a decrease in the volume of investments made by local funds: \$ 167 million, as compared to \$ 184 million in the previous quarter (a decrease of 9%). The remaining part was invested both by foreign venture capital funds and by other investors. Aside from the investments in companies that have a connection to Israel, as mentioned above, the local venture capital funds invested only \$ 19 million in foreign companies that have no activities in Israel, which constitute 10% of total investments made by these funds during the third quarter.

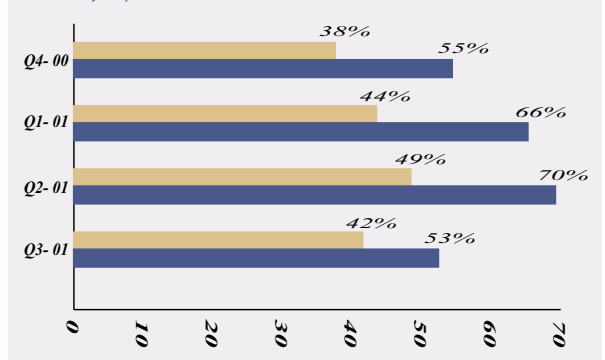
Total Amount Raised By Israeli High-Tech Companies (\$ in millions)



## ANALYSIS BY PLACE OF REGISTRATION

The findings of the Money Tree™ Survey show a decrease in the number of companies that are registered as foreign companies that raised capital this quarter in general and in the seed round in particular: of the 117 companies that raised capital this quarter, 42% are registered as foreign companies (49 companies, the vast majority of which are registered in the United States) and the rest are registered as Israeli companies. The analysis of the seed level investments alone shows that 10 out of 19 companies that raised capital at this stage are registered as foreign companies (53%). The survey also shows that the average investment in a company which is registered as a foreign company was \$ 3.6 million, as compared to only \$ 2.3 million in a company which is registered as Israeli. Fellus adds that lately, due to the difficulties in raising finance, we have been witnessing a situation in which entrepreneurs recognize the advantages in utilizing the package of incentives that the State of Israel offers to companies (Chief Scientist grants, tax benefits under the Law for the Encouragement of Capital Investments and under the Law for the Encouragement of Marketing). This phenomenon is expressed in the change of trends, as more companies prefer to be registered as Israeli companies over being registered as American companies.

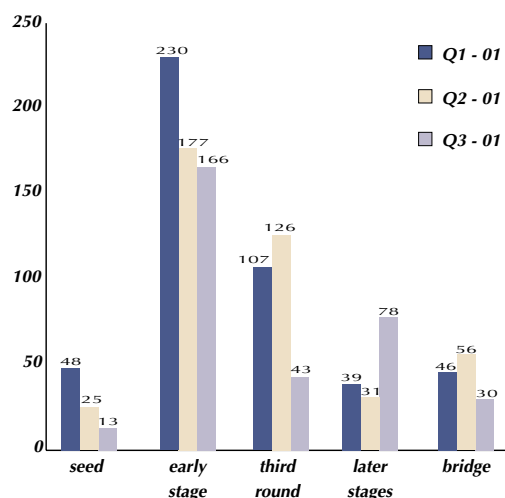
Percentage of companies registered as foreign (vast majority in the U.S.)



## VENTURE CAPITAL INVESTMENTS BY ROUND OF FINANCING

The survey's analysis of investments by rounds shows a decrease in investments in the **Seed stage** for the third consecutive quarter, both in the volume of investments and in the number of transactions, as compared to the previous quarter: during this round, 19 companies raised only about \$ 13 million, as compared to 27 companies and approximately \$ 25 million in the previous quarter. In the third quarter of 2000 (that showed the peak in the volume of investments), 38 companies raised capital in the seed stage, in the total volume of \$ 51 million (twice as many companies and four times the volume of investments as compared to the third quarter of 2001).

**VC Investments by round of financing - Q3-2001**  
(\$ in millions)



Fellus adds that today, it is common for investors in seed stage companies to lose a substantial percentage of their investments during the life of the company (up to the write-off of their share) as a result of later rounds. This is due to the fact that the investors in the later rounds impose such joining terms and dilution mechanisms that persistently eat into the holdings of the seed stage investors. The **Early stage** round (the first and second rounds together) accounts for 50% of total investments in monetary terms, as compared to 43% in the previous quarter. In this round, 42 companies raised \$ 166 million, as compared to 41 companies that raised \$ 177 million in the previous quarter. In the **Third round** Only \$ 43 million were invested in 11 companies. The average investment in this stage decreased significantly in comparison to the previous quarter: \$ 3.9 million, as compared to \$ 9 million, respectively. In the peak quarter of 2000, the average investment in this round was \$ 15.3 (four times the average in this quarter). In this quarter, there was a sharp increase in the volume of investments in **Later stages** rounds (from fourth round to Mezzanine round): 8 companies raised \$ 78 million (2.5 times the volume of investments in these stages in the preceding quarter). 37 companies raised \$ 30 million through **Bridge loans**, as compared to \$ 56 million that were infused into 40 companies in the previous quarter.

## VENTURE CAPITAL INVESTMENTS BY INDUSTRY

### Communications and networking

Despite the decline both in the number of transactions and in the volume of investments, the field of communications and networking continued to lead the investments in the third quarter of 2001: 41 companies in this field raised only \$ 126 million (38%), as compared to 47 companies and \$ 208 million (50%) in the previous quarter. The average investment in this industry decreased significantly as compared to the preceding quarter - \$ 3.1 million as compared to \$ 4.4 million, respectively.

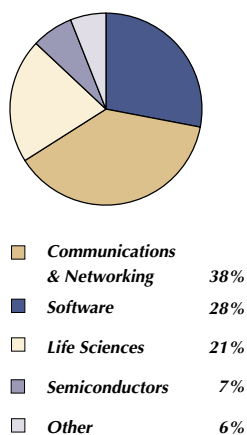
### Software

The software industry registered a moderate decline both in the volume of investments and in the number of transactions. 29 software companies raised \$ 91 million during the quarter (28%), as compared to 35 companies which raised \$ 95 million in the preceding quarter (23%). The average investment in this industry was \$ 3.1 million as compared to \$ 2.7 million in the previous quarter.

### Life Sciences

The life sciences sector constituted, in monetary terms, 21% of total investments for the quarter, as compared to 14% in the previous quarter and attracted investments in the volume of approximately \$ 68 million which were infused to 19 companies this quarter (as compared to \$ 59 million which was invested in 20 companies in the preceding quarter). For the first time, the field of Biopharmaceuticals lead the investments in the life sciences sector, with an investment volume of approximately \$ 46 million (68% of the total volume of investments in this sector), which were invested in 6 companies (as compared to \$ 6.8 million infused into the same number of companies in the preceding quarter). 12 companies in the Medical Devices field raised \$ 22 million (a decrease of 57% from the volume of investments in this field in the previous quarter).

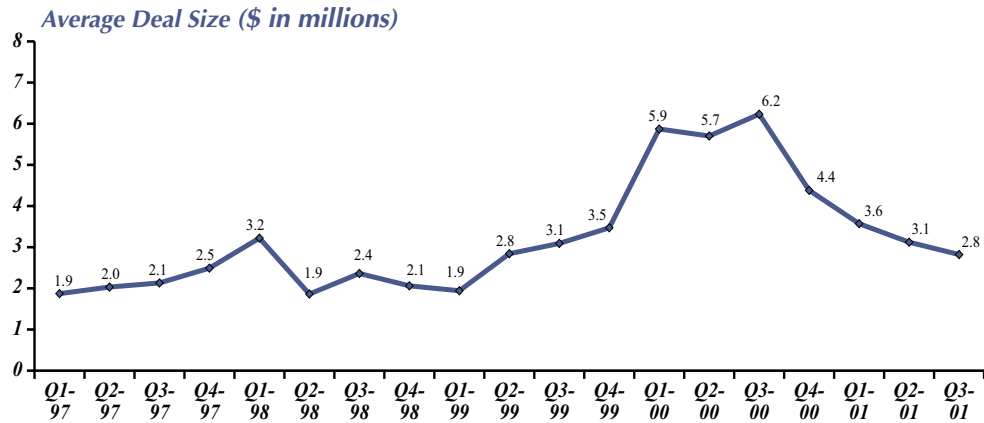
**VC Investments by Industry - Q3-2001**  
(% of Total)



## INTERNET-RELATED VENTURE CAPITAL INVESTMENTS

The third quarter of 2001 maintained stability in the volume of internet-related investments (the reference is to companies from all industries whose product, service or technology has some bearing on the Internet): 42 internet-related companies raised \$ 105 million (as compared to 54 companies and \$ 106 million in the previous quarter). In the third quarter, the weight of internet-related companies was 32% in total investments (in monetary terms) and 36% in the number of transactions (as compared to 26% and 41%, respectively, in the previous quarter). The average investment in internet-related companies was \$ 2.5 million, an increase of 27% as compared to the previous quarter (\$ 1.97 million).

The main investments in internet-related companies are still those in the Infrastructure and in the Software & Data Maintenance categories (both in volume of investments and in the number of transactions).



**Participating Israeli Venture Capitalists in the MoneyTree Survey Q3-2001 (listed alphabetically)**

Aig Orion Fund L.P.  
 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  
 Biocom Managements Ltd.  
 Botichelli  
 BRM Capital Management Inc.  
 Carmel Software Fund  
 Catalyst Fund L.P.  
 Cedar (Israel) Financial Advisors  
 Concord Venture Fund  
 Corex Industries Management Ltd.  
 D.Z. Israel Associates Ltd.  
 Delta Ventures Ltd.  
 Denali Ventures LLC  
 EastWest Ventures Ltd.  
 Edmond De Rothshchild Venture Capital Management  
 Eucalyptus Ventures  
 Eurofund L.P.  
 Evergreen Canada Israel Investments Ltd.

First IsraTech Fund L.P.  
 Formula Ventures Ltd.  
 Gemini Capital Fund Management Ltd.  
 Genesis Partners L.P.  
 Genius Technologies  
 Gilbridge  
 Giza Venture Capital  
 Global Catalyst Partners, L.P.  
 HK Catalyst Strategy & Finance  
 Incutech Ltd.  
 Inventech Investments Company Ltd.  
 Israel Infinity Venture Capital Management Ltd.  
 Jerusalem Global Ventures  
 Jerusalem Venture Partners  
 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.  
 Moriah Venture Capital Management Ltd.  
 Nessuah Zannex Venture Capital Management  
 Neurone Venture Capital Fund  
 Orbotech  
 Pamot Asset management Ltd.

Pitango Venture Capital (previously Polaris)  
 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.  
 Spring Technologies  
 Stageone Venuters  
 Steps Venuters  
 STI Ventures  
 SVM Star Ventures Capital Management Ltd.  
 Tamar Technology Ventures  
 Tamir Fishman Ventures(II)  
 Team D.C.L. Ltd.  
 Technoplus Ventures  
 Technorov Holding (1993) Ltd.  
 Telesoft Partners  
 Teuza - A Fairchild Technology Venture Ltd.  
 The Challenge Fund - Etgar L.P.  
 Vectory Investment Company Ltd.  
 Veritas Venture Capital Management Ltd.  
 Vertex Management (III) Ltd.  
 Walden Israel Ltd.  
 Yozma Management & Investments Ltd.

## ABOUT THE ISRAELI MONEYTREE<sup>TM</sup>

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 and 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](mailto:adi.bengal@il.pwcglobal.com) or visit our web site: <http://www.pwcmoneytree.com>.

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