

MoneyTree™ survey

Q3
2005
results = Report



The Q3 Israeli MoneyTree™ results are in! This special report provides summary results of Q3 2005. More detailed results, including an expanded version of this report, can be found on our Web site at www.pwc.co.il

\$311 million invested in Israel in venture capital-backed hi-tech companies during the third quarter of 2005

Investments by local funds in start-up companies have peaked: total of \$39 million



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

The results in the third quarter of 2005 show that hi-tech companies backed by venture capital funds raised approximately \$311 million in this quarter, an increase of 9% as compared to the previous quarter, in which investments totaled approximately \$286 million, and a decrease of 10% as compared to the corresponding quarter last year (approximately \$347 million).

The average investment per company remained unchanged as compared to the previous quarter, amounting to \$3.7 million, as compared to \$4.6 million in the corresponding quarter last year.

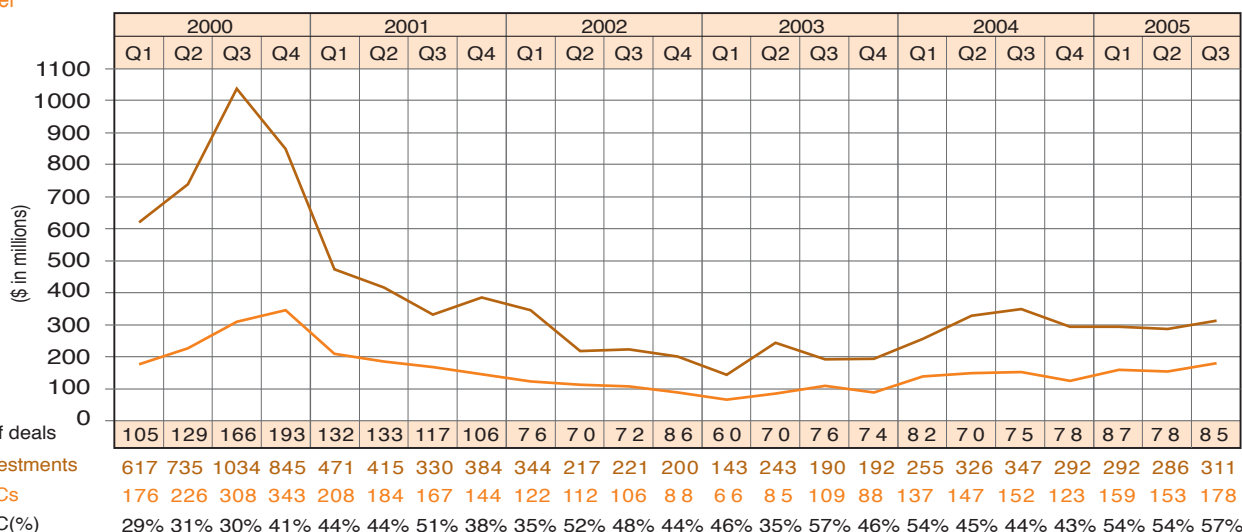
During the current quarter, the local funds' fundraising stood out in the local hi-tech market in general, and in start-up companies in particular: the Survey's findings indicate that the upward trend in investments by venture capital funds has continued. During the current quarter, investments by local funds saw a record high in the last four years - approximately \$178 million, as compared to approximately \$153 million in the previous quarter. The analysis of investments made by local venture capital funds reveals that approximately \$39 million, which constitutes 22% of the total investments by local funds, has been invested in seed-stage companies, a record amount since 2001.



Mr. Yariv Azar,
Israeli MoneyTree
Project Manager

Joseph Fellus, Senior Partner and High-Tech Practice Leader at Kesselman & Kesselman PricewaterhouseCoopers, notes that the current quarter marks the third consecutive quarter in which Israeli funds have surpassed all other investors, making 57% (in monetary terms) of the total investments in which they participated. This figure reflects the Israeli funds' confidence and trust in the market in which they operate.

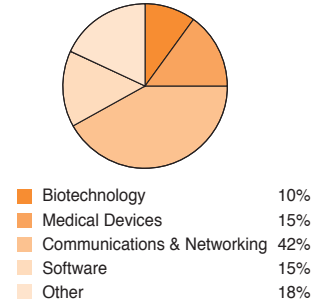
Israel VC's investment levels



Companies receiving grants from the Chief Scientist

40 companies, which constitute 47% of the total companies that raised capital in the current quarter, have received grants from the Chief Scientist. Approximately \$151 million of the total capital raised has been invested in said companies, as compared to approximately \$192 million in the previous quarter.

Companies receiving grants from the Chief Scientist (% of total investments)



Analysis by leading technological sectors

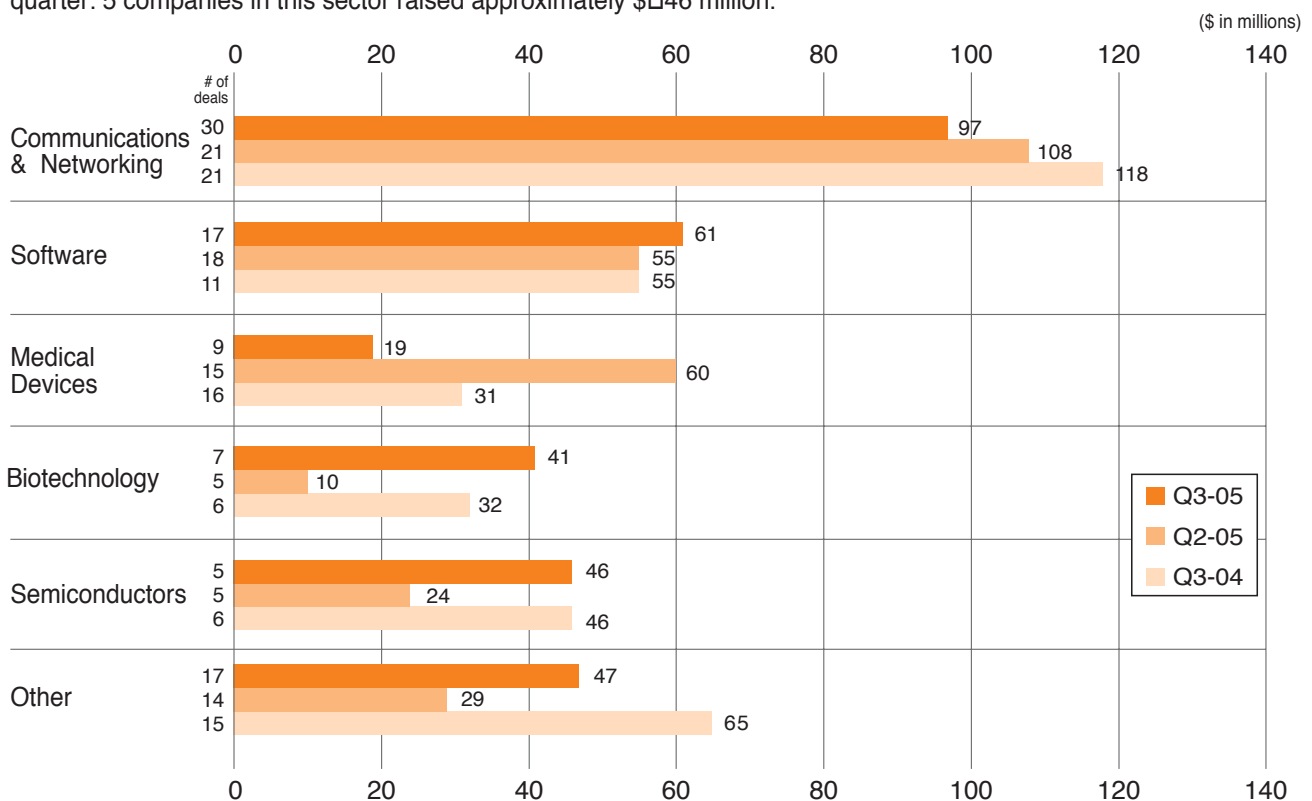
The **Communications & Networking** sector saw the largest number of companies that raised capital, maintaining the overall fundraising volume in monetary terms. 30 companies - the largest number of companies in the last three years raised approximately \$97 million. The marked increase in the number of companies, while the overall investment volume remained at the same level, brought about a significant decrease in the average investment: \$3.2 million in the current quarter - the lowest average investment for this sector in the last two years.

According to **Yariv Azar**, the Survey Manager, the high number of bridge loans in deals in this sector in the current quarter - 17 deals out of the 30 deals in this sector have been bridge loans of approximately \$23 million - constitutes another reason for the marked decrease in the average investment per company, since such investments are not characterized by high volumes and averages.

The **Life Sciences** sector attracted approximately \$60 million in the current quarter, as compared to approximately \$70 million in the previous quarter. The **Biotechnology** sector has succeeded in improving its performance in the current quarter and returned to its former level, with 7 companies attracting approximately \$41 million. 9 companies of the **Medical Devices** sector only attracted approximately \$19 million in the current quarter.

The volume of investments in the **Software** sector remained stable, attracting approximately \$61 million in the current quarter, as compared to approximately \$55 million both in the previous quarter and in the corresponding quarter last year.

The volume of investments in the **Semiconductors** sector doubled in the current quarter as compared to the previous quarter: 5 companies in this sector raised approximately \$46 million.



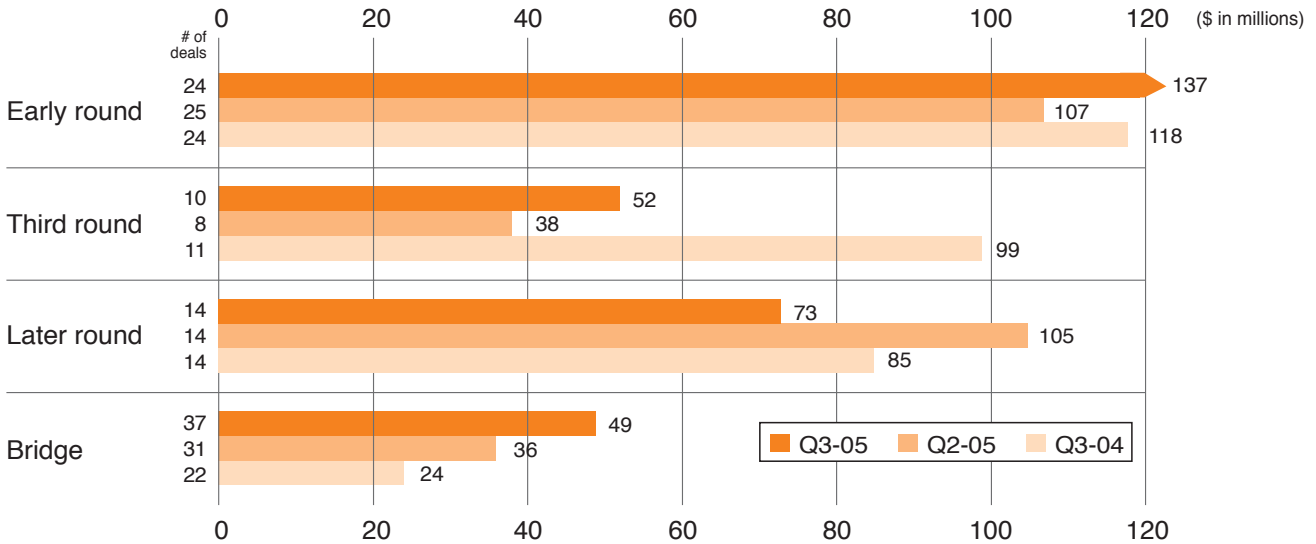
Investment by financing round

The **early round** (the first and second rounds together) continued to rise, attracting approximately \$137 million in the current quarter, as compared to \$107 million in the previous quarter.

10 companies raised approximately \$52 million in the **third round** in the current quarter, as compared to 8 companies raising approximately \$38 million in the previous quarter. The average investment in this round amounted to \$5.2 million, as compared to \$4.7 million in the previous quarter.

Deals carried out in **later rounds** (fourth to mezzanine) attracted 23% of the total investments in monetary terms, with 14 companies raising \$73 million, a decrease of approximately 30%, as compared to 14 companies raising approximately \$105 million in the previous quarter.

37 companies, the highest number in four years, raised approximately \$49 million by way of **bridge loans**, as compared to 31 companies raising approximately \$36 million in the previous quarter and 22 companies raising approximately \$24 million in the corresponding quarter last year.



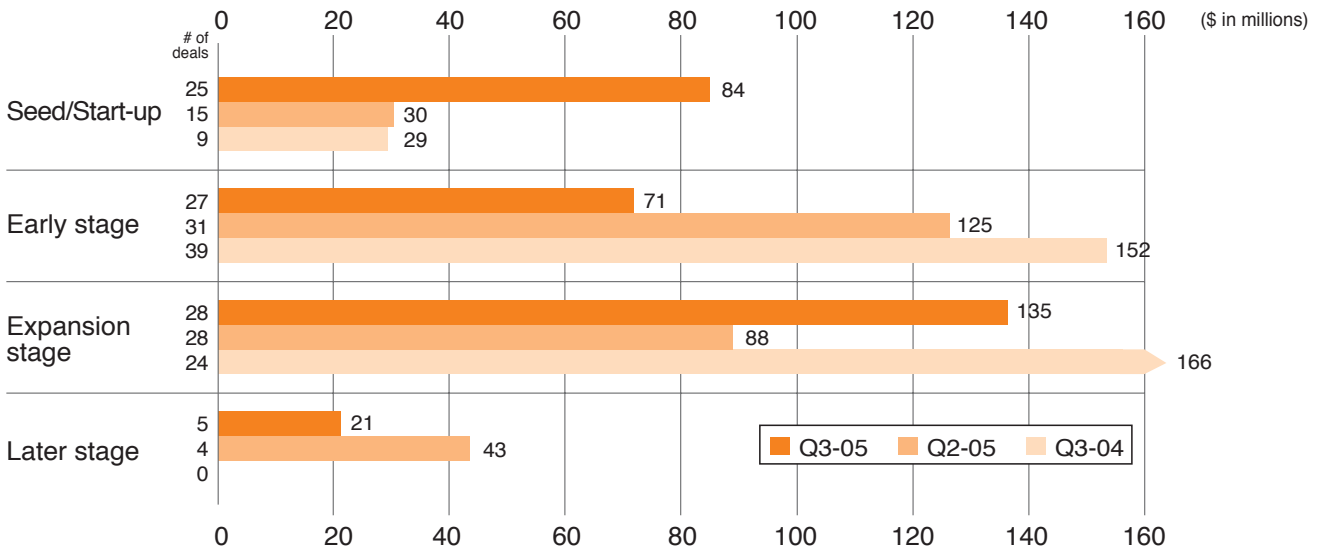
Investment by stage of development

Local **start-up** companies continued to perform well, with 25 companies raising a record amount of approximately \$84 million in the current quarter, as compared to 15 companies raising approximately \$30 million in the previous quarter and 9 companies raising approximately \$29 million in the corresponding quarter last year.

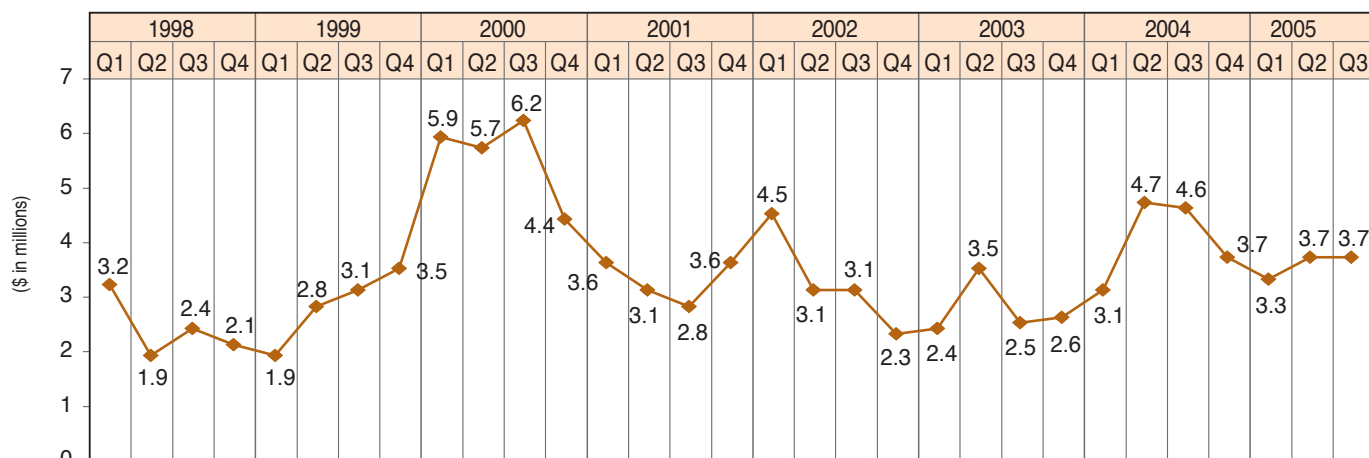
According to **Joseph Fellus**, the dramatic increase in the number of companies and in the volume of investments should be attributed to the quality of local hi-tech companies available to potential investors, rather than to such investors' available funds; this places Israel at the forefront of countries that have become a cradle of innovative technology.

55 companies in the **intermediary stage (early/expansion stage)** raised approximately \$206 million in the current quarter, as compared to 59 companies raising approximately \$213 million in the previous quarter.

In the current quarter, 5 companies in the **later stage** raised \$21 million, as compared to 4 companies raising \$43 million in the previous quarter.



Average deal size



Participating Israeli Venture Capital Funds in the MoneyTree™ survey Q3-2005 (listed alphabetically)

- | | | |
|--|---|---|
| Ag-Tech Fund | Eurofund L.P. | Pamot Asset Management Add-on Ltd. |
| Aig Orion Fund LP. | Evergreen Partners | Pitango Venture Capital |
| Alon Technology Ventures Ltd. | First IsraTech Fund L.P. | Platinum Venture Capital |
| Apax Partners Ventures (Israel) Ltd. | Formula Ventures Ltd | Portview Communications Partners |
| Aprupo IT Venture I L.P. | Gemini Israel Venture Funds Ltd | Sequoia Capital Seed Fund |
| Argoquest, Inc. | Genesis Partners L.P. | Shrem, Fudim, Kelner & Co. Ltd. |
| Ascend Technology Ventures | Genius Technologies | StageOne Ventures |
| Aviv Ventures | Giza Venture Capital | STI Ventures |
| Atara Technologies Ventures Ltd. | Israel Healthcare Ventures Ltd. | SVM Star Ventures Capital Management Ltd. |
| Benchmark Israel | Israel Infinity Venture Capital Management Ltd. | Tamar Technology Ventures |
| BRM Capital Management Inc. | Israel Seed Partners | Tamir Fishman Ventures |
| Carmel Ventures | Jerusalem Global Ventures | Technoplus Ventures |
| Catalyst Fund L.P. | Jerusalem Venture Partners | Teuza - A Fairchild Technology Venture Ltd. |
| Cedar (Israel) Financial Advisors | Kaptech Holdings Ltd. | Vectory Investment Company Ltd. |
| Columbine Ventures | Koor Corporate VC | Veritas Venture Partners |
| Concord Venture Fund | Magnum Communications fund | Vertex Management Ltd. |
| Corex Industries Management Ltd. | Medica Venture Partners | Vitalife Life Science Ventures |
| Delta Ventures Ltd. | Millenium Materials Fund Management | Walden Israel Ltd. |
| Edmond De Rothshchild Venture Capital Management | Mofet Venture Capital Fund Management (1992) Ltd. | Yozma Management & Investments Ltd. |
| Eucalyptus Ventures | Montefiore Partners | |
| | PNV (Platinum Neurone Ventures) | |

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 investment data.

For more information on PricewaterhouseCoopers' Israeli MoneyTree™ survey, please call Yariv Azar, at 972-3-7954975, e-mail: yariv.azar@il.pwc.com, or visit our web site: www.pwcmoneytree.co.il

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