

# MONEYTREE<sup>TM</sup> Survey

In 2002, venture capital investments in Israel aggregated at least \$982 million - a decrease of approximately 39% from the volume of investment in 2001

86 high-tech companies raised at least \$200 million in the last quarter of the year, the lowest level since the first quarter of 1999 (\$130 million)

The life sciences sector became prominent in the last quarter of the year, attracting 30% of total investments



The fourth quarter of 2002 showed a decrease of 10% in the volume of venture capital investments in Israel (where one of the investors in the first round of financing is a venture capital fund) as compared to the previous quarter (\$221 million), aggregating \$200 million and 48% as compared to the corresponding period in the previous year (\$384 million).



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

Despite the decrease in the volume of investments during the quarter, the survey shows that, as compared to the previous quarters, in 2002 more companies managed to raise capital: the fourth quarter showed an increase of 16% in the number of companies that raised capital as compared to the previous quarter (86 and 72, respectively). The average investment in a company was \$2.3 million this quarter, as compared to \$3.1 million in the two preceding quarters. According to the annual analysis, the average investment in a company was \$3.2 million - unchanged as compared to 2001.

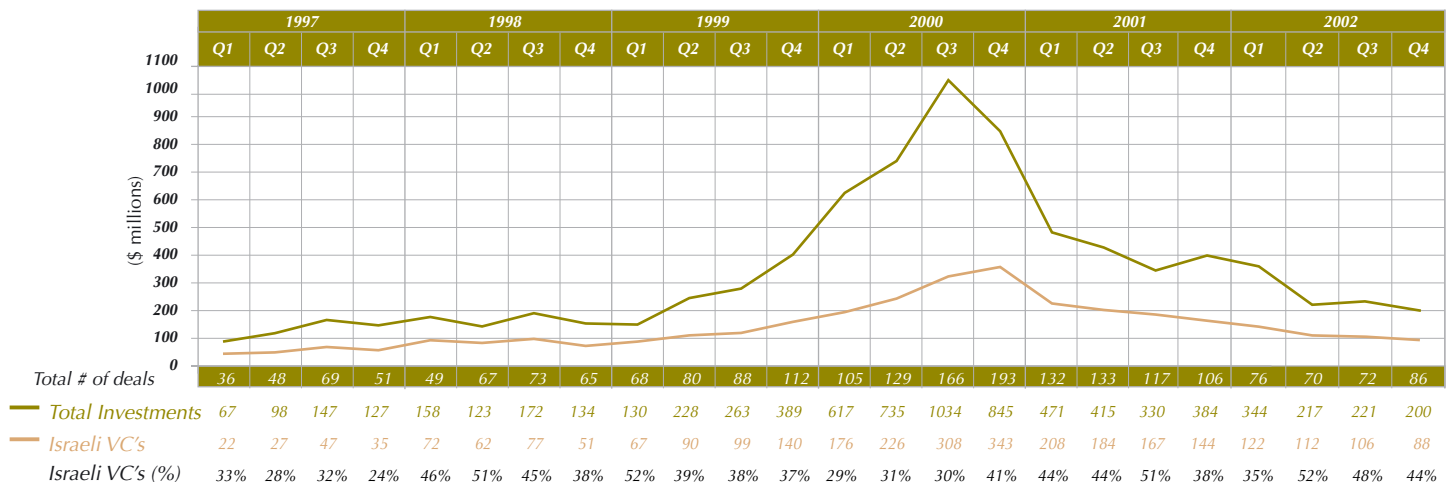
According to Joseph Fellus, a senior partner and Hi-Tech Practice Leader at the accounting firm Kesselman & Kesselman PwC, the fall in the average investment level referred to above has been characteristic for all the various financing stages and reflects a drop of some 26% in real terms in the price levels at which investments are made. This phenomenon is a direct result of the increasingly greater difficulties encountered by companies in their endeavors to raise capital against the background of the scarcity of sources of temporary finance for investment purposes.



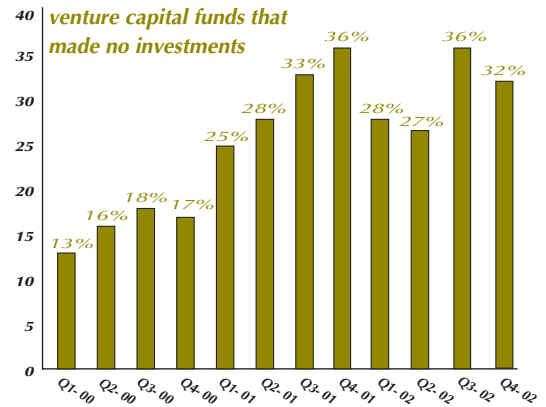
Ms. Adi Bengal,  
Israeli MoneyTree  
Project Manager

The findings of the survey for the fourth quarter of 2002 showed a continuing decrease in the relative weight of local venture capital funds in total investments, in monetary terms (44% as compared to 48% in the third quarter and 52% in the second quarter). According to the findings of the survey, in the fourth quarter local funds invested \$88 million, as compared to \$106 million in the previous quarter. The remaining part was invested both by foreign venture capital funds and by other investors.

## Israeli VC's investment level



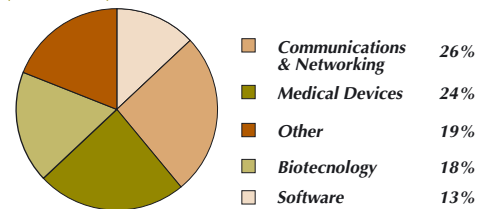
24 venture capital funds made no investments in the quarter (either in new companies or in their portfolio companies). The findings for the full year show that 43 of the 78 funds that participated in the survey made no investments during at least one of the quarters in 2002. A closer examination shows that 5 local funds made no investments in 2002, 9 local funds invested only during one quarter of the year and 13 other funds invested only during two quarter of the year.



## COMPANIES RECEIVING GRANTS FROM THE CHIEF SCIENTIST

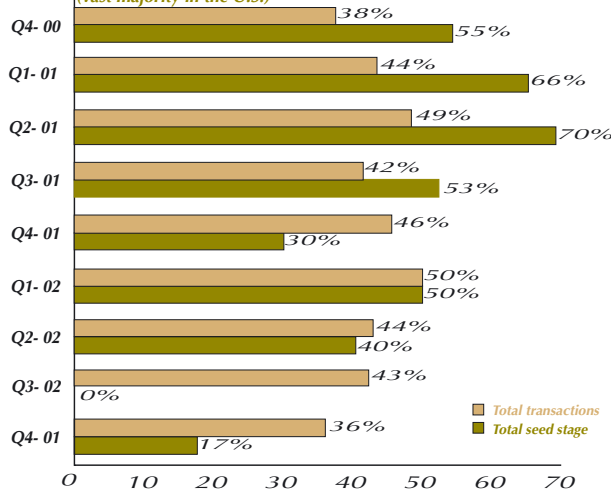
38 companies out of the total number of companies that raised capital in the aggregate amount of \$87 million from venture capital funds during the quarter received grants from the Chief Scientist. The survey also shows that 32 of the companies that received grants from the Chief Scientist during the quarter are registered as Israeli companies and the rest are foreign companies, the vast majority of which is registered in the United States.

Companies Receiving Grants from the Chief Scientist by Industry - Q4-2002 (% of Total)



## ANALYSIS BY PLACE OF REGISTRATION

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



The findings of the MoneyTree™ Survey show that of the 86 companies that raised capital this quarter, 55 are registered in Israel (64%) and the rest are registered as foreign companies, the vast majority of which is registered in the United States.

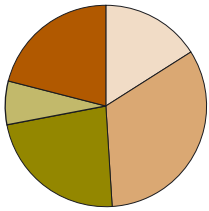
Another noteworthy finding is that, in the fourth quarter of 2002, the average investment in a foreign company was \$3 million, as compared to an average investment of \$2 million in an Israeli registered company.

## VENTURE CAPITAL INVESTMENTS BY INDUSTRY

The two most prominent sectors in the fourth quarter of 2002 were the communications & networking sector and the life sciences sector. The field of **communications & networking** continued to lead the investments in the fourth quarter of 2002, with 33% of total investments for the quarter (both in monetary terms and in the number of transactions): 28 companies in this field raised capital aggregating \$65 million. The average investment in a communications & networking sector company was only \$2.3 million.

The volume of investments (in monetary terms) in the **software** sector dropped by 53% as compared to the previous quarter: \$32 million was infused into 14 software companies, as compared to \$68 million and 16 companies in the previous quarter. The average investment in a software company was approximately \$2.3 million, as compared to \$4.2 million in the preceding quarter.

**VC Investments by Industry - Q4-2002**  
(% of Total)



|                             |     |
|-----------------------------|-----|
| Communications & Networking | 33% |
| Medical Devices             | 23% |
| Other                       | 21% |
| Software                    | 16% |
| Biotechnology               | 7%  |

The **life sciences** sector based itself as a leading sector in this quarter, attracting 30% of total investments (it should be noted that during the quarter an aggregate of \$30 million was invested in two life sciences companies): \$60 million was infused into 24 companies, as compared to 17 companies and \$18 million in the previous quarter. The medical devices field led the investments in life sciences, with \$46 million, which was invested in 15 companies.

The downward trend of the **semiconductor** field continued, both in the volume of investments (in monetary terms) and in the number of transactions: 3 companies in this field raised an aggregate of some \$2 million, as compared to 5 companies that raised \$7 million in the previous quarter and \$41 million, which was infused into 10 companies in the corresponding period last year.

## VENTURE CAPITAL INVESTMENTS BY ROUND OF FINANCING

The analysis by round of financing shows that 6 **seed stage** companies raised approximately \$8 million in the last quarter of the year. The analysis for the year depicts an even more somber picture: in 2002, seed stage companies were the main casualties-only 20 companies (7%) managed to raise capital, as compared to 88 companies in 2001 (18%).

According to venture capital industry predictions, 2003 would register a renewal in seed stage investments (after the acute dry spell of 2002). Lately, local venture capital funds have been announcing their intentions of returning to investment in seed stage companies, based on the anticipation that these companies would reach maturity concurrent with the recovery of the capital markets in 2004-2005.

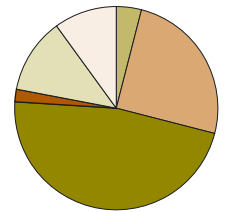
The **early stage** (the first and second stages together) attracted 47% of the volume of investments and 29% of the number of transactions for the quarter. 25 early stage companies raised \$94 million, as compared to 29 companies and \$116 million in the previous quarter. The average investment in these rounds was \$3.8 million, as compared to \$4 million in the previous quarter.

The **Third round** accounted for 25% of the volume of investments (in monetary terms) and 22% of the number of transactions: \$51 million was invested in 19 companies in this round, as compared to \$69 million and 11 companies in the previous quarter.

In **later stage** rounds (fourth to mezzanine), \$24 million was invested in 5 companies

In the fourth quarter of 2002 there was a significant increase in the volume of investments effected by way of bridge loans: 30 companies raised capital through **bridge loans** in the aggregate amount of \$20 million - an increase of 37% in the number of companies and 50% in the volume of investment, in monetary terms, as compared to the previous quarter.

**VC Investments by Round of Financing Q4-2002**  
(% of Total)

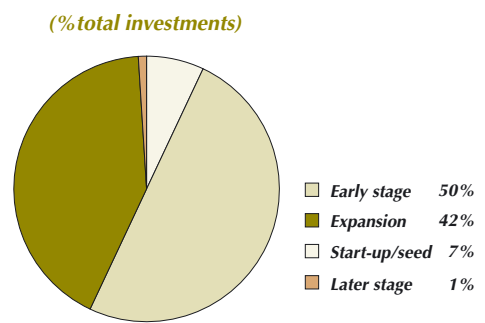
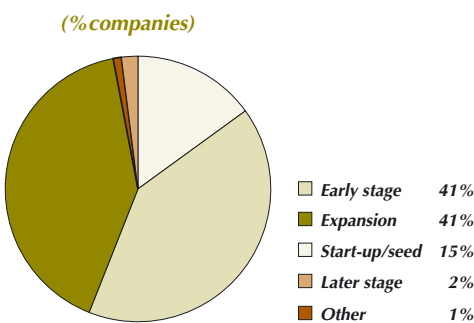


|                |     |
|----------------|-----|
| Early Stage    | 47% |
| Third          | 25% |
| Late/Mezzanine | 12% |
| Bridge         | 10% |
| Seed           | 4%  |
| Other          | 2%  |

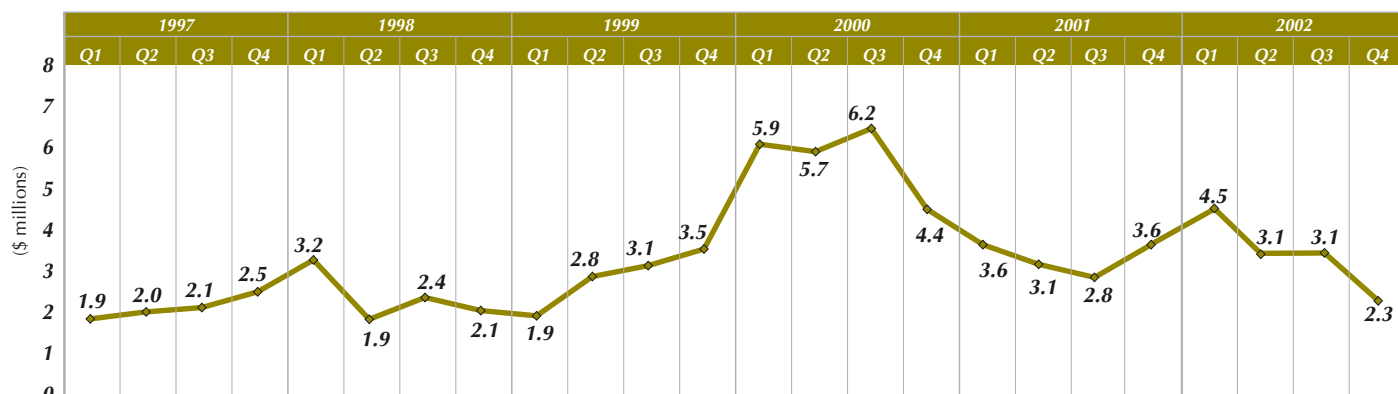
## INVESTMENTS BY STAGE OF DEVELOPMENT

Early stage companies attracted the most investments in the fourth quarter: 35 companies in this stage raised capital in the aggregate amount of \$100 million. Expansion stage companies also attracted a substantial portion of total capital invested: \$83 million was infused into 35 companies in this stage. The average investment in an early stage company was almost the same as the average for expansion stage companies (\$2.8 million as compared to \$2.4 million, respectively).

**VC Investments by stage of development Q4-2002**



## Average Deal Size



## Participating Israeli Venture Capitalists in the MoneyTree Survey Q4-2002 (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  
Biocom Managements Ltd.  
Botichelli  
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.  
Decima Ventures  
Delta Ventures Ltd.  
Denali Ventures LLC  
Edmond De Rothschild Venture Capital Management  
Eucalyptus Ventures  
Eurofund L.P.  
Evergreen Partners  
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, 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)  
Neurone Venture Capital Fund  
Orbotech  
Pamot Asset management Ltd.  
Peregrine Ventures  
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.  
Spring Technologies L.P.  
StageOne Ventures  
Steps – 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.  
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](mailto:adi.bengal@il.pwcglobal.com) or visit our web site: <http://www.pwcmoneytree.com>.

Your worlds



Our people