

MONEYTREE™ Survey

The volume of venture capital investments in Israel remains unchanged in the final quarter of the year, at \$192 million

The life-sciences sector gradually increases its relative share in total investments

Q4
2003
RESULTS ISRAEL REPORT

The level of investment in high-tech companies backed by venture capital funds (where one of the investors in the financing round is a venture capital fund) in the fourth quarter of 2003 was similar to the level recorded in the preceding quarter, both in the volume of investments (in monetary terms) and in the number of transactions. According to the survey, 74 high-tech companies raised \$192 million during the fourth quarter (as compared to \$190 million that was invested in 76 companies in the preceding quarter). The average investment in each company was \$2.6 million.



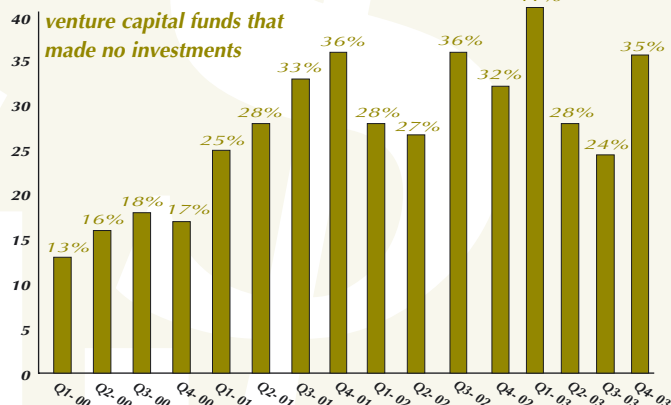
Mr. Joseph Fellus,
Partner & High-Tech
Practice Leader

Joseph Fellus, notes that the life sciences sector is attracting an increasing share of investments by venture capital funds. This trend may prevail even further, in view of the IPOs of venture backed companies in the United States in the fourth quarter of the year, that place the sector in the lead. 5 out of 17 IPOs in the fourth quarter were in the life sciences sector. This alone is sufficient to encourage funds to invest additional resources and effort in this direction in the future.

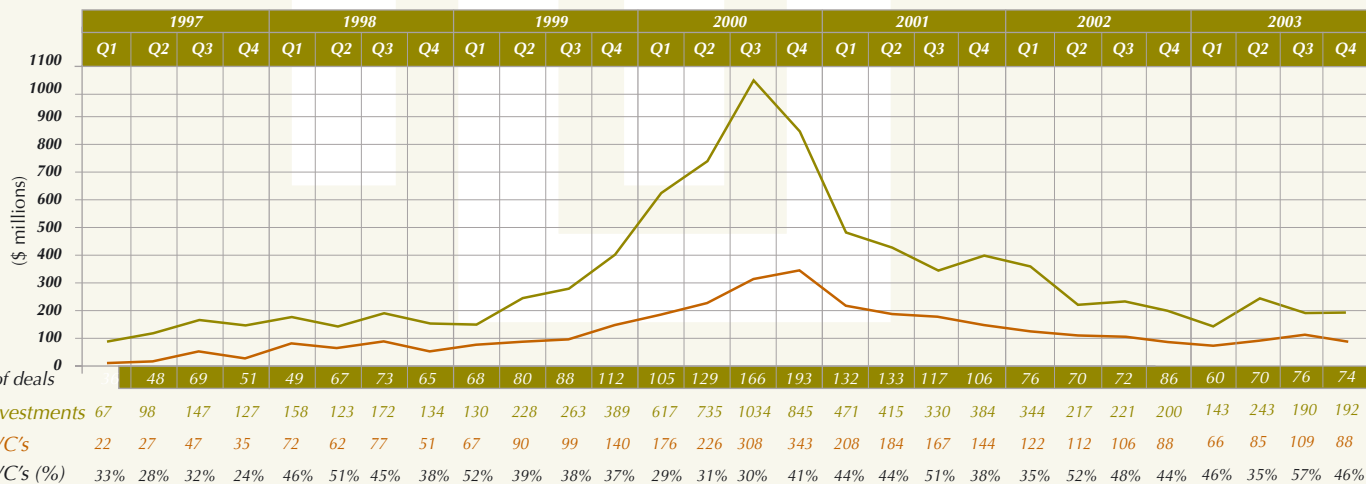


Ms. Adi Bengal,
Israeli MoneyTree
Project Manager

Analysis of the investment chart for the quarter shows an increase in the number of inactive funds: 71 venture capital funds participated in the survey this quarter, 25 of which have made no investments during the quarter (neither in new companies nor in their portfolio companies). A closer examination reveals that 5 funds had not made any investments in 2003 and 8 local funds had only made investments in one quarter of the year.



Israeli VC's investment level



The volume of investments by local funds decreased both in absolute terms and in terms of its relative share in total investments: \$88 million (46%), as compared to \$106 million (57%). The remaining part was invested both by foreign venture capital funds and by other investors.

Local venture capital funds also channel investments to companies overseas: during the quarter, some \$25 million was invested in 15 foreign companies that have no activities in Israel, accounting for 22% of total venture capital fund investments for the quarter (as compared to \$17 million invested in 18 companies in the previous quarter, constituting 14% of total investments made by venture capital funds).

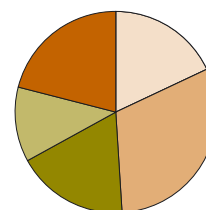
According to Adi Bengal, the findings of the survey indicate an ongoing trend of large investments that characterized the past two quarters: in this quarter, 5 companies each raised amounts in excess of \$10 million (in total, these companies attracted \$64 million, representing 33% of the total volume invested in monetary terms).

COMPANIES RECEIVING GRANTS FROM THE CHIEF SCIENTIST

34 of the companies that raised capital in the quarter received grants from the Chief Scientist. Analysis of the findings shows that 22 of the companies that received grants from the Chief Scientist during the quarter are registered as Israeli companies and the rest are registered in the United States.

Companies Receiving Grants from the Chief Scientist by Industry - Q4-2003 (% of Total)

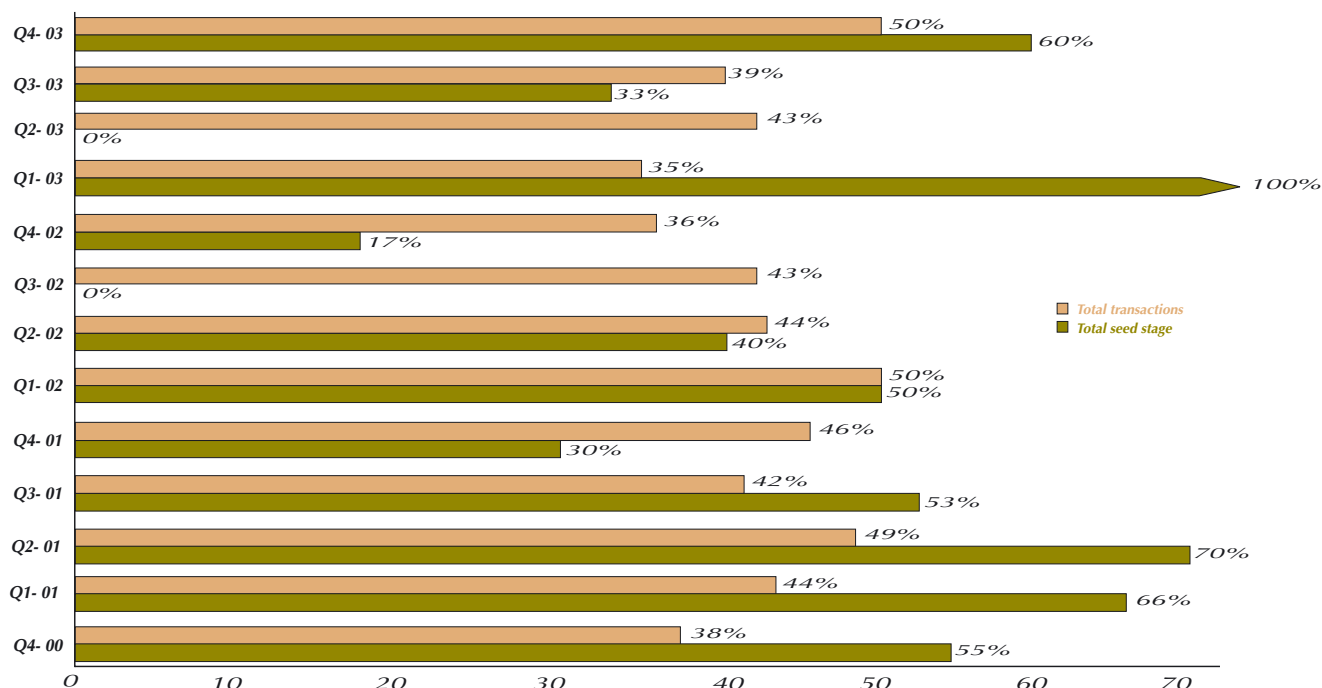
Communications & Networking	31%
Other	21%
Software	18%
Medical Devices	18%
Biotechnology	12%



ANALYSIS BY PLACE OF REGISTRATION

The survey reveals that, of the 74 companies that raised capital this quarter, 36 are registered in Israel (48%) and the rest are foreign companies (mainly registered in the United States). The average investment in each foreign company was \$3.5 million, as compared to an average investment of \$1.6 million in each Israeli-registered company. Analysis of seed stage investments on their own shows that 2 of the 5 companies that closed seed financing arrangements are registered as Israeli companies.

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



VENTURE CAPITAL INVESTMENTS BY INDUSTRY

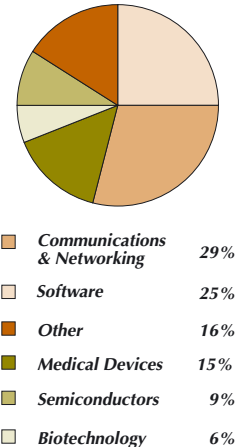
The **communications & networking** sector maintained the lead in investments during the fourth quarter of the year, attracting a total of \$56 million (29%), which was infused into 25 companies in this sector. The significant decrease in the relative share of this sector in total investments (in monetary terms) is due to a number of large transactions that characterized the preceding quarters. In this quarter, only one large financing round took place that raised over \$10 million.

The **software** sector maintained its relative share in total investments in monetary terms (25%), alongside a slight decrease in the number of transactions (19% as compared to 25% in the previous quarter): 14 software companies attracted investments totaling \$48 million, two of which, adds Adi Bengal, accounted for \$21 million.

The **life sciences** sector recorded an increase in the volume of investments (in monetary terms), while the transaction remained stable. This increase is due to a large transaction of \$13 million in the field of medical devices. In this quarter, \$40 million was infused into 19 companies, compared to \$16 million invested in 21 companies in the previous quarter.

The field of **medical devices** attracted investments of \$29 million, which was invested in 14 companies. 5 biotechnology companies raised a total of \$11 million.

VC Investments by Industry - Q4-2003 (% of Total)



VENTURE CAPITAL INVESTMENTS BY ROUND OF FINANCING

In this quarter, 5 companies attracted **seed** capital aggregating approximately \$4 million, as compared to \$27 million that was infused into 6 companies in the previous quarter. It should be noted that two transactions in the previous quarter accounted for \$21 million.

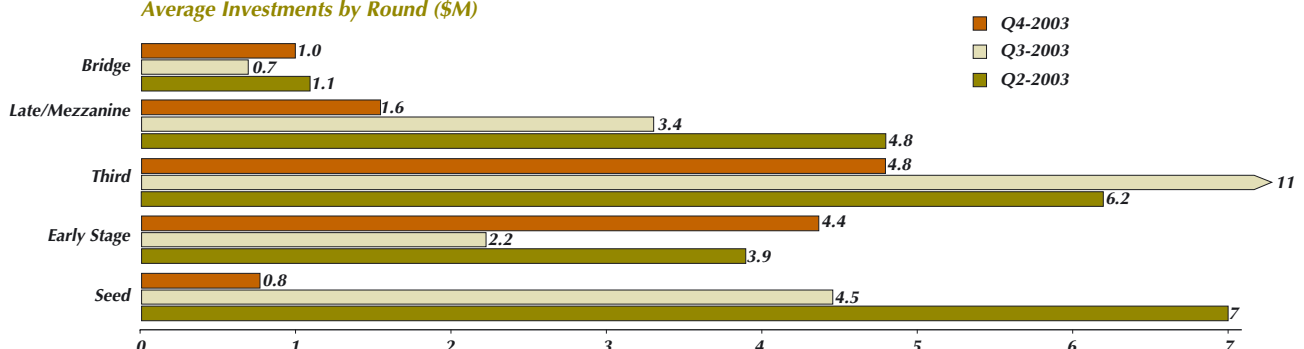
The **early stage** (the first and second stages together) held its relative share and attracted 37% of the volume of investments in monetary terms. However, there was a sharp drop in the number of companies that raised finance in this round: 16 early stage companies raised \$71 million, compared to 29 companies and \$65 million in the previous quarter. The average investment in this round was \$4.4 million, compared to \$2.2 million in the previous quarter.

The quarter showed a significant increase in both the volume of investments and the number of transactions in **third round**: 15 companies raised a total of \$72 million in third round financing during this quarter, compared to \$42 million that was infused into 4 companies in the previous quarter. The average investment in this round was \$4.8 million.

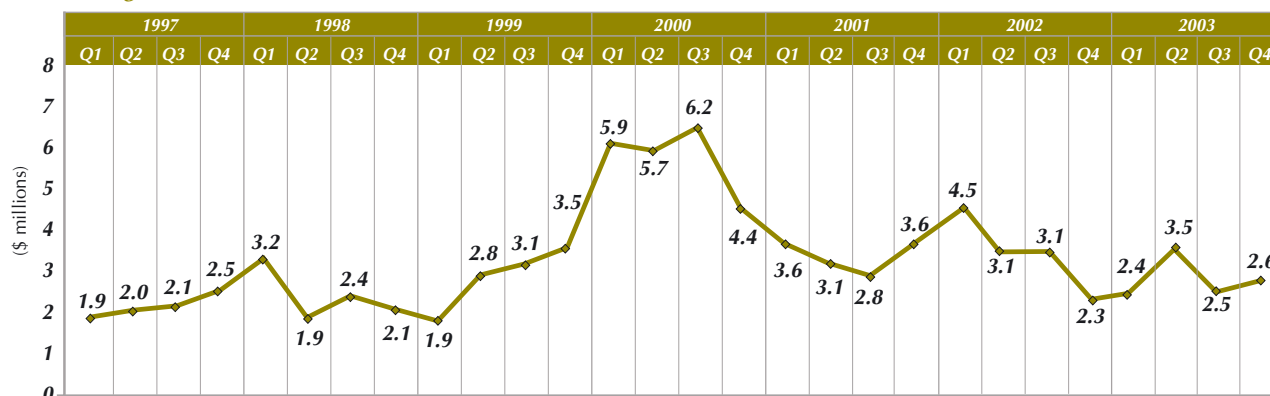
Transactions carried out in **later stage** rounds (fourth to mezzanine) totaled \$14 million in the fourth quarter, which was invested in 9 companies, compared to \$38 million and 11 companies in the previous quarter.

In the fourth quarter of 2003, 29 companies raised \$30 million by way of **bridge loans**, as compared to 26 companies that raised \$38 million in the preceding quarter.

Average Investments by Round (\$M)



Average Deal Size



Participating Israeli Venture Capitalists in the MoneyTree Survey Q4-2003 (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.
Delta Ventures Ltd.
Denali Ventures LLC
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
Inventech Investments Company Ltd.
Israel Healthcare Ventures Ltd.
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
Montefyori Partner
Neurone Venture Capital Fund
Ofer Technologies Ltd.
Ofer Technologies Ltd.
Orbotech
Pamot Asset Management Add-on Ltd.
Pitango Venture Capital (previously Polaris)
Platinum Venture Capital
Poalim Hashkaot
Portview Communications Partners
Proseed Venture Capital Fund
Seed Management Associates, Ltd.
Sequoia Capital Seed 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.
Vitalife 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.pwc.com or visit our web site: <http://www.pwcmoneytree.com>.

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Our people