



**The Kesselman & Kesselman PricewaterhouseCoopers  
MoneyTree™ Survey for the Final Quarter of 2005 Reports:**

**Investments in 2005 amounted to approximately \$1.1 billion as compared to \$1.2 billion in 2004**

**Investments for the final quarter of 2005 amounted to approximately \$221 million - a 29% decrease since the previous quarter**

The Kesselman & Kesselman PricewaterhouseCoopers MoneyTree™ survey reports that hi-tech companies backed by venture capital firms (where at least one of the investors in the financing round is a venture capital fund) raised in Israel approximately \$1.1 billion in 2005, a decrease of approximately 9% as compared to 2004, where investments totaled approximately \$1.2 billion, and an increase of approximately 42% as compared to the 2003 (approximately \$770 million). The average investment in 2005 was \$3.4 million, as compared to \$4 million in 2004 and \$3.2 million in 2003.

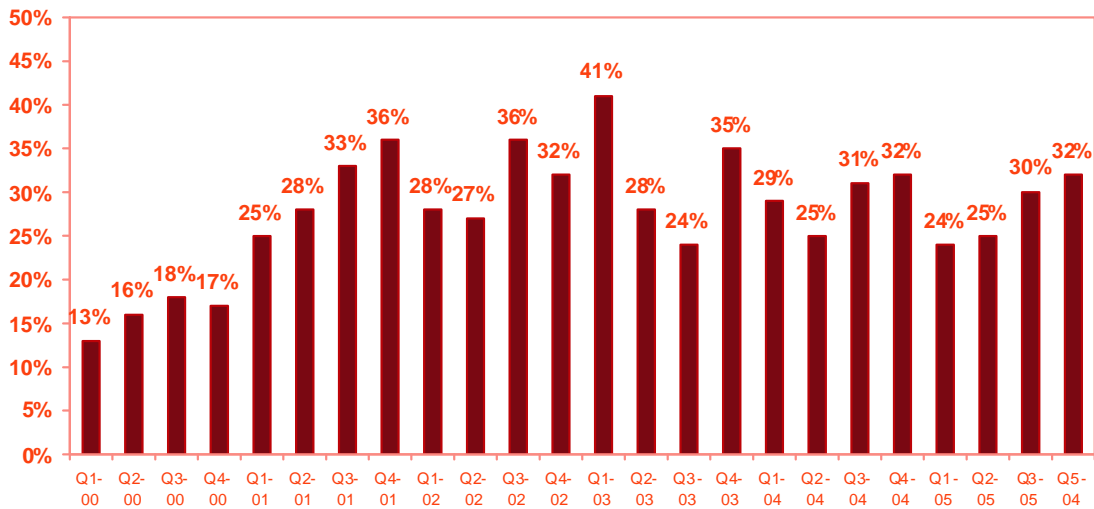
Analysis of the findings for the final quarter of 2005 shows that 73 companies with Israeli operations raised at least \$221 million, a decrease of 29% as compared to the preceding quarter, where \$311 million was infused into 85 companies, and a decrease of 24% as compared to the corresponding quarter in the previous year, with 78 companies and \$292 million.

The average investment per company also went down, amounting to \$3 million, as compared to \$3.7 million in the previous quarter and in the corresponding quarter last year.

According to **Joseph Fellus**, Senior Partner and Hi-Tech Practice Leader at Kesselman & Kesselman PricewaterhouseCoopers, the decrease in the volume of investments in the fourth quarter is sweeping and crosses all sectors and rounds, and is inter alia due to low average investments and a significant downturn in the Software sector.

In 2005, investments by local funds in local high-tech companies saw a record high for the past four years, with a record amount of \$618 million, representing 56% of total investments, as compared to \$559 million (46% of total investments) in 2004 and \$348 million (45% of total investments) in 2003.

**Percentage of Funds That Made No Investments**

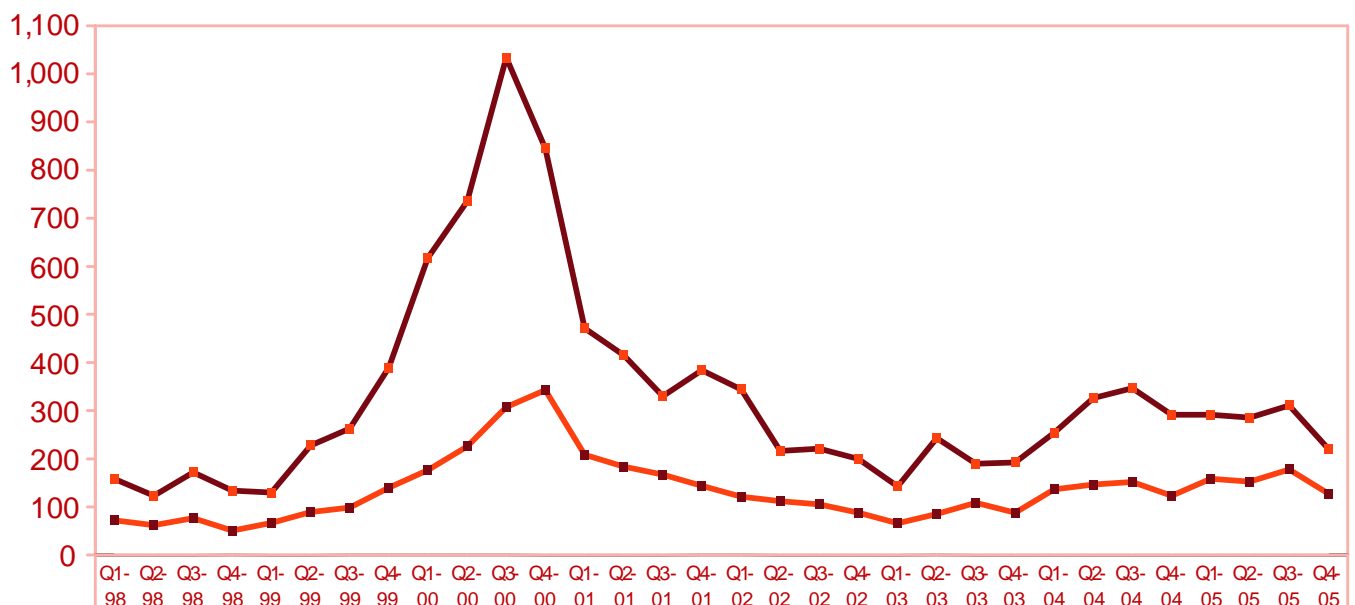


**The Venture Capital Funds' Slice of the Hi-Tech Cake**

The decrease in the volume of investments in the final quarter of 2005 was also reflected in the investments by local funds, which amounted to \$128 million as compared to \$178 million in the previous quarter. It should be noted that, despite the decrease in the volume of investments, the local funds maintained their share, accounting for 58% as compared to 57% in the previous quarter.

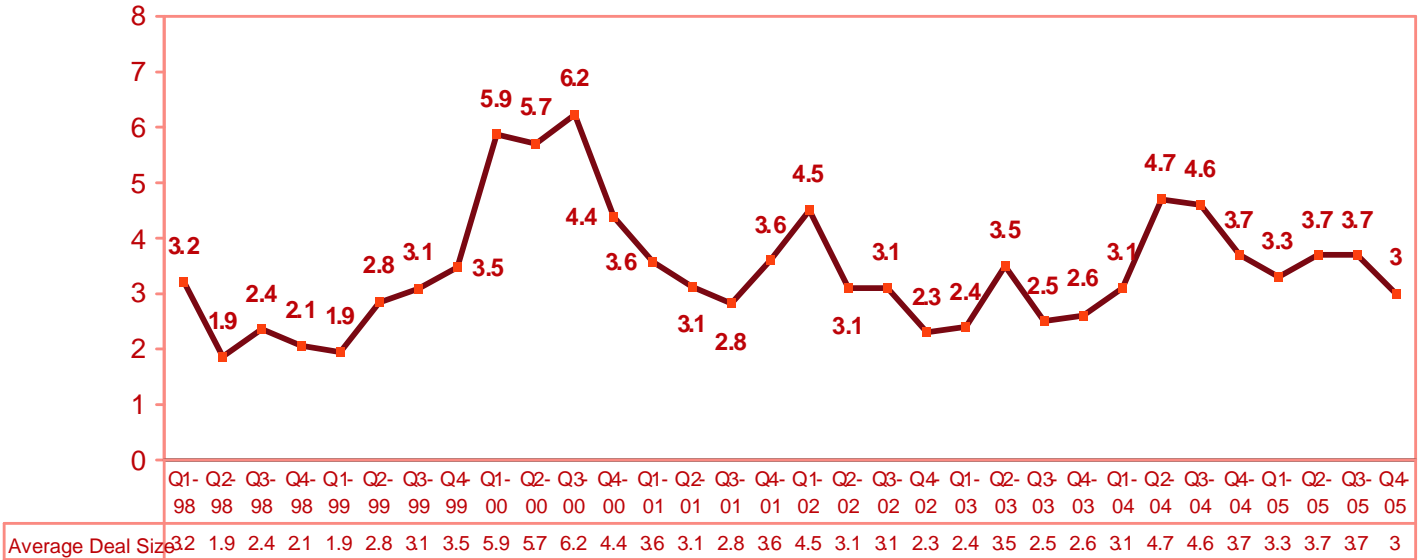
The survey also reveals that, in addition to the investments in companies with Israeli operations, local venture capital funds invested approximately \$14 million in 10 overseas companies, as compared to approximately \$19 million invested in 14 foreign companies in the previous quarter.

**Israel VC's Investment Levels (\$ in millions)**



	Q1-98	Q2-98	Q3-98	Q4-98	Q1-99	Q2-99	Q3-99	Q4-99	Q1-00	Q2-00	Q3-00	Q4-00	Q1-01	Q2-01	Q3-01	Q4-01	Q1-02	Q2-02	Q3-02	Q4-02	Q1-03	Q2-03	Q3-03	Q4-03	Q1-04	Q2-04	Q3-04	Q4-04	Q1-05	Q2-05	Q3-05	Q4-05
Total Investments	158	123	172	134	130	228	263	389	617	735	1038	845	471	415	330	384	344	217	221	200	143	243	190	192	255	326	347	292	292	286	311	221
Israel VCs	72	62	77	51	67	90	99	140	176	226	308	343	208	184	167	144	122	112	106	88	66	85	109	88	137	147	152	123	159	153	178	128
Israel VC(%)	46%	51%	45%	38%	52%	39%	38%	37%	29%	31%	30%	41%	44%	44%	51%	38%	35%	52%	48%	44%	46%	45%	57%	46%	54%	43%	44%	43%	54%	54%	57%	58%

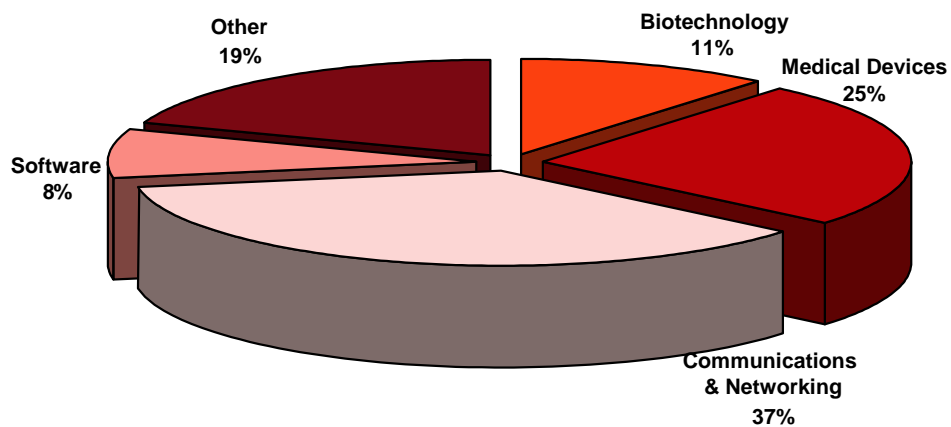
**Average Investment in Monetary Terms (\$ in millions)**



**Companies Receiving Grants from the Chief Scientist**

36 companies, which constitute 49% of the total number of companies that raised capital in the current quarter, have received grants from the Chief Scientist. Approximately \$97 million of the total capital raised has been invested in said companies, as compared to approximately \$151 million in the previous quarter.

**Companies Receiving Grants from the Chief Scientist  
(Percentage of total investments)**



### Analysis by Place of Registration

The Survey's findings indicate that of the 73 companies that raised capital this quarter, 43 are registered in Israel (59%), and the rest are registered as foreign companies (mostly in the United States).

### Analysis by Leading Technological Sectors

During the quarter, the volume of investments, in monetary terms, in the **Communications & Networking** sector decreased by 21% - 23 companies raised \$76 million, as compared to 30 companies and \$97 million in the previous quarter. It should be noted that, for three consecutive quarters, the investments in this sector have been on the decline. In addition, the average investment level remained low, at \$3.3 million as compared to \$3.2 million in the previous quarter. The survey results for 2005 reveal that, despite the decrease in the volume of investments in this sector, the sector maintained its relative share; approximately \$377 million, representing 34% of total investments have been invested in this sector in 2005, as compared to \$406 million (34%) in 2004.

The **Life Sciences** sector attracted approximately \$30 million in the current quarter, as compared to approximately \$60 million in the previous quarter and approximately \$130 million in the corresponding quarter last year. The **Biotechnology** sector dropped again, with approximately \$8 million raised by 6 companies, as compared to \$41 million and 7 companies in the previous quarter. The survey results show that, in 2005, there was a significant decrease in investments in Biotechnology companies as compared to 2004, which was reflected both in the volume of investments and in the number of companies that raised capital. The \$60 million raised by 18 companies (in 21 deals) in this sector during 2005 reflect a 47% decrease (in monetary terms) as compared to 2004, where 25 Biotechnology companies (in 31 deals) raised approximately \$114 million.

The **Medical Devices** sector held its position in the current quarter: 13 companies raised approximately \$22 million, as compared to \$19 million infused into 9 companies in the previous quarter.

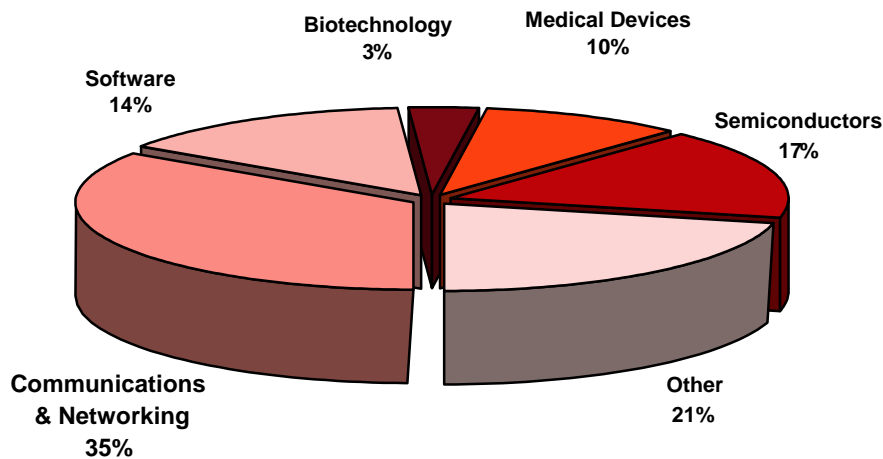
As a result, the **Life Sciences** sector concluded 2005 with total investments of approximately \$205 million, as compared to approximately \$286 million in 2004. This decrease is mainly due to the weakening of the Biotechnology sector in 2005.

**Yariv Azar**, the Survey manager, noted that, despite the decrease in the volume of investments in the Life Sciences sector in 2005, there was a significant increase in the volume of investment, in monetary terms, in seed stage Life Sciences companies. In 2005, approximately \$49 million was invested in 8 companies (13 deals), as compared to approximately \$31 million infused into 11 companies (14 deals) in 2004 and \$13 million infused into 5 companies (5 deals) in 2003.

This quarter saw a decline in the **Software** sector. During the quarter, 14 Software companies raised only \$32 million, the lowest level in six years, and about half the amount raised in the previous quarter (\$ 61 million). The average investment in a software company was \$2.3 million, as compared to \$3.6 million in the previous quarter. Despite the decrease in the volume of investments in this sector during 2005, the sector maintained its relative share in total investments: approximately \$234 million, representing 21% of total investments, was infused into this sector in 2005, as compared to approximately \$286 million, representing 24% of total investments in 2004.

6 companies in the **Semiconductors** sector raised approximately \$37 million, as compared to 5 companies and approximately \$46 million in the previous quarter. It should be noted that this level is primarily due to two investments in excess of \$10 million, which together accounted for \$31 million. In 2005, this sector registered record investments of approximately \$127 million, as compared to approximately \$90 million in 2004.

**Investments by industry (in monetary terms)**



## Analysis by investments round

### *Early rounds*

During the quarter, 24 companies raised approximately \$95 million in early rounds (the first and second rounds together), as compared to 24 companies raising approximately \$137 million in the previous quarter. The average investment in this round amounted to \$4 million, as compared to \$5.7 million in the previous quarter.

### *Third round*

12 companies raised approximately \$52 million in this round in the current quarter, as compared to 10 companies raising the same amount in the previous quarter. The average investment in this round amounted to \$4.3 million, as compared to \$5.2 million in the previous quarter. Analysis of investments in this round over the years reveals that the share of existing investors increased over the years, and that this round is characterized by follow-on investments by the same investors. While in 2000 the share of existing investors was 68% of the total investments in this round, in 2005 87% of the investments in this round were made by existing investors.

### *Later rounds*

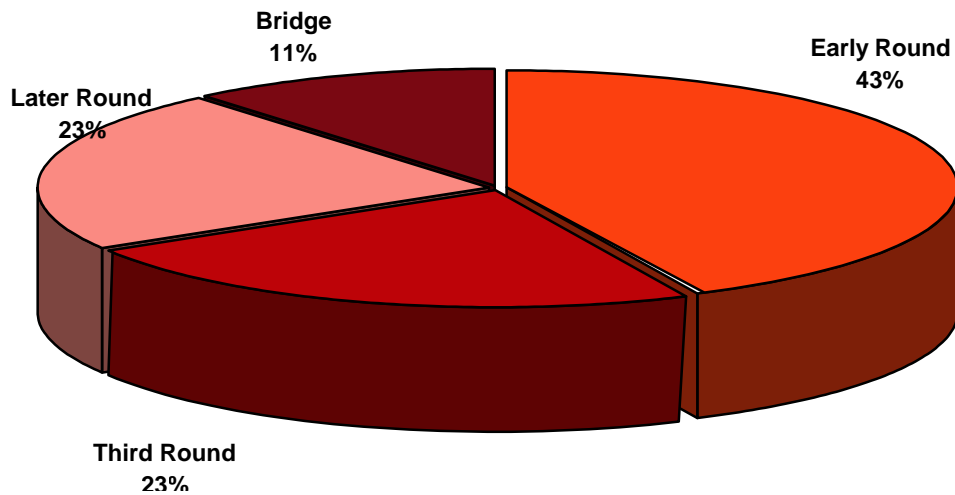
For the fourth consecutive quarter, there was a decline in investments in later stage rounds (starting from the fourth round). 9 companies raised approximately \$50 million during the quarter, as compared to 14 companies and approximately \$73 million in the previous quarter. The average investment was \$5.5 million this quarter, as compared to \$5.2 million in the previous quarter.

### *Bridge loans*

In the final quarter of 2005, 28 companies raised approximately \$25 million by way of bridge loans, as compared to 37 companies and approximately \$49 million in the previous quarter and approximately \$24 million raised by 20 companies in the corresponding quarter last year. The average loan was \$880,000 this quarter, as compared to \$1.3 million in the previous quarter.

Despite the sharp decrease witnessed this quarter, there has been a steady increase over the years in capital raised through bridge loans, which became increasingly common among investing funds. While in 2002 70 companies (in 97 deals) raised approximately \$69 million, in 2005 84 companies (in 125 deals) raised approximately \$153 million by way of bridge loans. It should be noted that these loans are normally converted and become part of the investment round.

**Distribution of the Volume of Investments Made By Venture Capital Funds By Investment Round**



**Stages of development**

*Seed/start-up stage*

18 companies in the preliminary stage (Seed/ Start-up) raised approximately \$44 million during the quarter, as compared to the record amount of approximately \$84 million raised by 25 companies in the previous quarter. The average investment for the quarter was \$2.4 million, as compared to \$3.3 million in the previous quarter.

Analysis of the findings for 2005 reveals a 71% increase in investments in these companies, in monetary terms, as compared to 2004. 54 start-up companies (in 76 deals) raised an aggregate of approximately \$207 million, representing 19% of total investments, as compared to 40 start-up companies (in 54 deals) raising approximately \$120 million or 10% of total investments in 2004.

*Intermediary stage (early/expansion stage)*

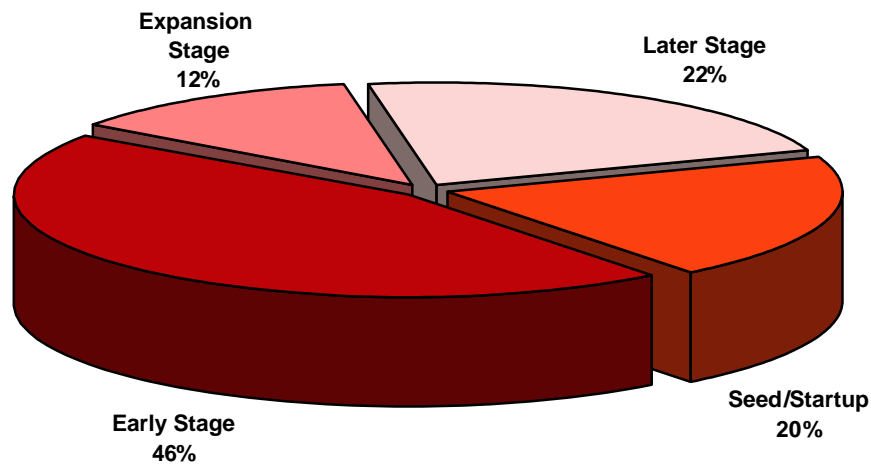
In the current quarter, there was a sharp decrease in investments in intermediary stage companies, with 47 companies raising approximately \$128 million, as compared to 55 companies and approximately \$206 million in the previous quarter. An internal analysis of this stage reveals that the decrease in investments in this stage is mainly due to lesser investments in expansion stage companies. During the quarter, 19 companies in this stage raised approximately \$26 million (the lowest historical level), as compared to 28 companies that attracted approximately \$135 million in the previous quarter.

*Advanced stage (later stages)*

In the current quarter, 8 companies in this stage raised a five-year record amount of approximately \$49 million, as compared to 5 companies that raised approximately \$21 million in the previous quarter. Analysis of the findings for 2005 shows a significant increase in investments in later stage companies. Approximately \$119 million was infused into 15 companies (in 19 deals) in 2005, as compared to approximately \$32 million invested in 3 companies (in 3 deals) in 2004.

According to **Joseph Fellus**, the main reason for this significant increase in investments in later stage companies is the number of large investments (in excess of \$10 million) made in this stage during 2005. Out of the 15 companies that raised apex \$119 million in 2005, 5 companies attracted approximately \$89 million in large deals (each in excess of \$10 million).

**Distribution of the Volume of Investments Made By Venture Capital Funds By Investment stage of development**



\*\*\*\*\*

The MoneyTree™ Survey has been carried out quarterly by Kesselman & Kesselman in Israel for the past nine years, in conjunction with the surveys carried out in the United States and Europe by the largest accounting and consulting firm in the world - PricewaterhouseCoopers (PwC). In this quarter, 60 venture capital firms participated in the Survey. The results of the Survey are used widely every quarter by Israeli and foreign venture capital funds, commercial banks, investment banks and other financial institutions in Israel and worldwide, hi-tech companies, government ministries, the Office of the Chief Scientist, and others.

For further information, please contact Yariv Azar, Kesselman & Kesselman PricewaterhouseCoopers, at: 972-3-7954975.

**Legal disclaimer**

The information contained in this survey is for general guidance on matters of interest only. The application and impact of laws can vary widely based on the specific facts involved. Given the changing nature of laws, rules and regulations, there may be delays, omissions or inaccuracies in information contained in this survey. Accordingly, the information on this survey is provided with the understanding that the authors and publishers are not herein engaged in rendering legal, accounting, tax, or other professional advice and services. As such, it should not be used as a substitute for consultation with professional accounting, tax, legal or other competent advisers. Before making any decision or taking any action, you should consult a PricewaterhouseCoopers professional.

While we have made every attempt to ensure that the information contained in this survey has been obtained from reliable sources, PricewaterhouseCoopers is not responsible for any errors or omissions, or for the results obtained from the use of this information. All information in this survey is provided "as is", with no guarantee of completeness, accuracy, timeliness or of the results obtained from the use of this information, and without warranty of any kind, express or implied, including, but not limited to warranties of performance, merchantability and fitness for a particular purpose. In no event will PricewaterhouseCoopers, its related partnerships or corporations, or the partners, agents or employees thereof be liable to you or anyone else for any decision made or action taken in reliance on the information in this Site or for any consequential, special or similar damages, even if advised of the possibility of such damages.