

# MoneyTree™ Report

## Q 3 2010 results IL Report

### *Amid uncertainty, VC investments continues to grow in third quarter*

## Some \$253 million invested in Israeli VC-backed hi-tech companies in Q3-2010

*The PwC Israel MoneyTree™ Report for the second quarter of 2010*

The latest PwC Israel MoneyTree™ Report shows that venture VC-backed high-tech companies raised \$253 million in Israel during the third quarter of 2010, a 23% increase compared with the previous quarter, when \$206 million was raised, and a 42% increase over the corresponding quarter last year, when \$178 million was raised.

The Report also reveals that 68 Israeli high-tech companies raised capital in the third quarter of 2010, compared to 60 in the preceding quarter and 55 in the corresponding quarter of last year. The average investment per company in the quarter under review was \$3.7 million, compared with \$3.4 million in the preceding quarter and \$3.2 million in the corresponding quarter of last year.

Report data show a significant increase in the amount and number of investments in the internet sector. Internet sector investment this quarter is the highest since this segment was first reported as a separate sector in the second quarter of 2008.

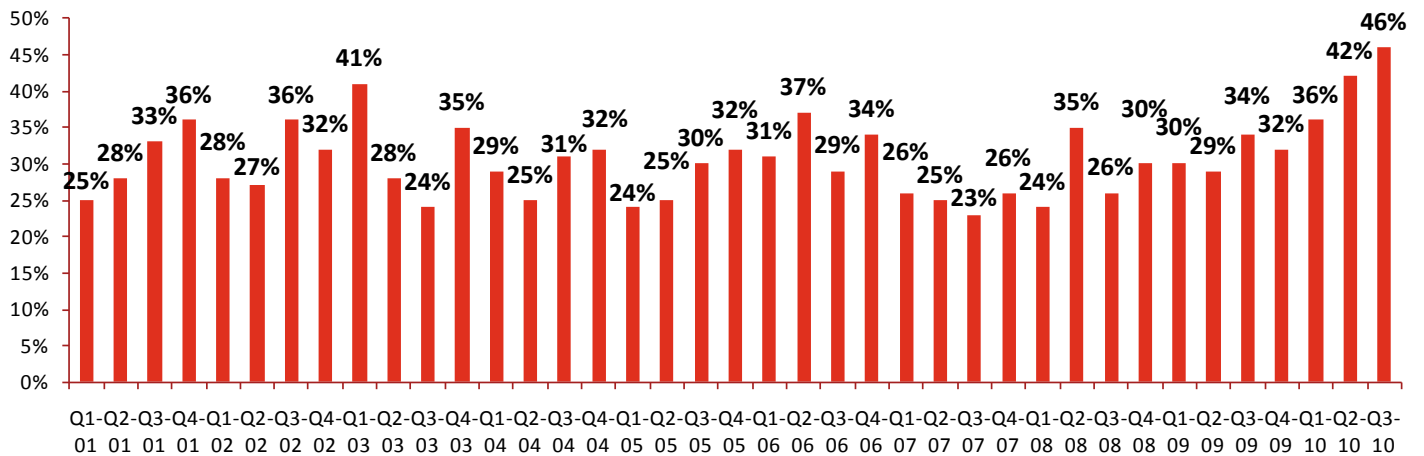
Since the fourth quarter of 2009, the number of investments in seed companies has declined along with an increase in investments in later stages of development. This quarter also marked a significant 186% increase over the previous quarter in later stage investment rounds.



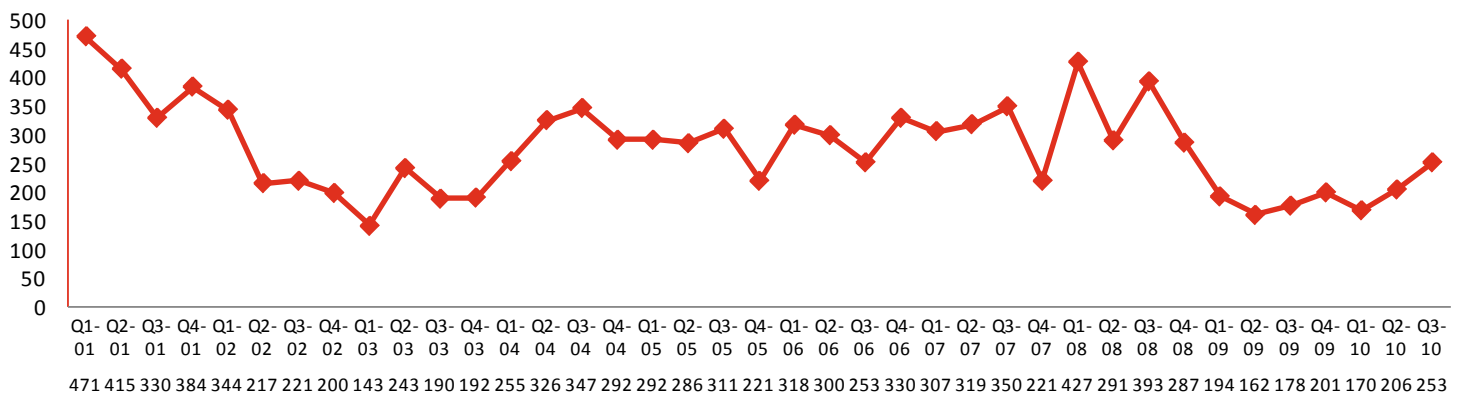
Mr. Rubi Suliman,  
Partner,  
Hi-Tech Practice

Rubi Suliman, Partner, High-Tech Assurance Practice at PwC Israel, commented on the findings: "Our latest report indicates a number of mixed trends. On the positive side, there was a significant growth in the amounts invested, the number of companies raising capital and the average investment per company. On the other hand, this quarter we saw the largest number in the last decade of funds making no investment at all. This trend of investments being concentrated with fewer funds is not new, but it continues to intensify and point to how hard it is for funds to raise money. Even today, the capital raising options for early-stage hi-tech companies is limited in the Israeli market, where funds contribute the lion's share of financing. In the absence of available financing alternative, the hi-tech market is expected to suffer, mainly in the long run. There were a lot of discussions lately regarding government intervention that would encourage angels, Israeli institutional investors and even create a government cleantech fund. It seems, then, that even the hi-tech engine needs a boost every once in a while to keep its lead... and the sooner the better.

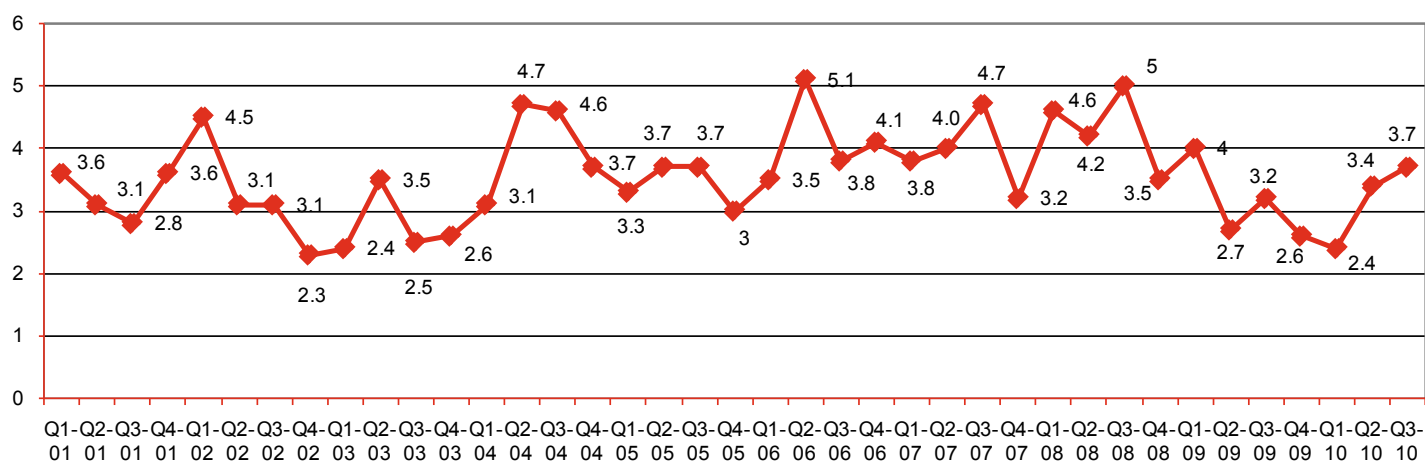
#### Percentage of funds making no investment



#### Annual investment levels of Venture Capital Funds (in millions of dollars)



### Average investment per company (in millions of dollars)



### Analysis by Location of Incorporation

50 companies, representing 74% of companies raising capital in the third quarter of 2010, are incorporated in Israel. These companies raised \$207 million or 82% of total investment. The vast majority of the remaining companies are incorporated in the US.

### Companies Receiving Grants from the Israel Office of the Chief Scientist

20 companies, representing 29% of all companies raising capital in the third quarter of 2010, are supported by the Israel Office of the Chief Scientist. Some \$61 million of total investment funds went to these companies.

## Analysis by Leading Technology Sector

The **life sciences sector**, which combines medical devices and biotechnology, exhibited a decrease compared with the preceding quarter. During the course of this quarter, 10 companies raised \$30 million, compared to \$67 million by 19 companies in the preceding quarter and \$65 million by 8 companies in the corresponding quarter of last year. The average investment per company this quarter was \$3 million, down from \$3.5 million in the preceding quarter and \$8 million in the corresponding quarter of last year. In monetary terms, this is a 56% drop on the preceding quarter and 54% compared with the corresponding quarter of last year.

In the **software sector**, 16 companies raised \$36 million in the third quarter of 2010, compared with \$24 million invested in 8 companies in the preceding quarter and \$5.5 million in 9 companies in the corresponding quarter of last year. In monetary terms, this is a 47% jump from the preceding quarter and a sharp 550% jump over the corresponding quarter of last year. The average investment per company this quarter was \$2.2 million, compared with \$3 million in the preceding quarter and \$0.6 million in the corresponding quarter of last year.

In the **communications and networking sector**, 11 companies raised \$81 million, compared with 16 companies raising \$62 million in the preceding quarter and 15 companies raising \$37 million in the corresponding quarter of last year. The average investment per company in this sector in the third quarter was \$7.3 million, compared to \$3.8 million in the preceding quarter and to \$2.5 million in the corresponding quarter of last year. In monetary terms, this represents a 32% increase over the preceding quarter and a sharp 118% increase over the corresponding quarter of last year.

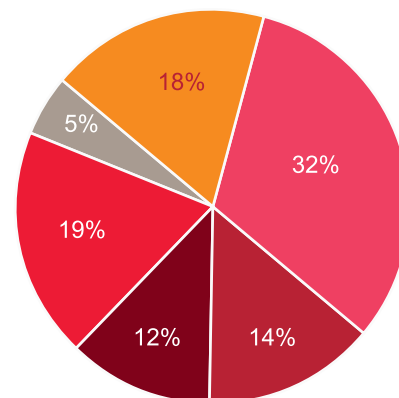
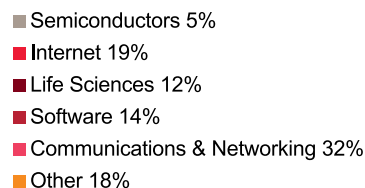
In the **semiconductors sector**, 3 companies raised \$13 million this quarter, compared to 2 companies raising \$11 million in the preceding quarter and 4 companies that raised \$4 million in the corresponding quarter of last year. In the present quarter, the average investment per company in this sector was \$4.3 million, as compared to \$5.5 million in the preceding quarter and \$0.9 million in the corresponding quarter of last year.

**Internet sector** investments grew sharply relative to the previous quarter. In this quarter, 13 companies raised \$48 million, compared to 7 companies raising \$27 million in the previous quarter and 4 companies raising \$24 million in the corresponding quarter last year. The average investment per company in this sector for the present quarter was \$3.6 million, compared to \$3.9 million in the preceding quarter and \$6 million in the corresponding quarter of last year. In monetary terms, this is a 74% rise in comparison with the preceding quarter and a 95% increase over the corresponding quarter of last year.

Amongst companies operating in the miscellaneous category are companies operating in the clean-tech, media and **other sectors**. Fifteen companies classified under this category raised \$46 million this quarter, representing 18% of the total investments in the quarter. These figures are compared to 8 companies raising \$14 million in the previous quarter, and 16 companies raising \$43 million in the corresponding quarter.

The share of the clean-tech sector of the miscellaneous category was \$25 million invested in 2 companies, compared to \$3.8 million invested in 3 companies in the previous quarter.

### Total investment by sector



## Analysis by Investment Round

### Early Round

This quarter, 16 companies raised \$73 million in the early round (the first and second rounds combined), compares to 26 companies that raised early round investment funds of \$90 million in the preceding quarter and 16 companies that raised \$48 million in the corresponding quarter of last year. The average early round investment per company for this quarter was \$4.6 million, compared to \$3.5 million for the preceding quarter and \$3 million for the corresponding quarter of last year.

### Third round

In the third quarter, 6 companies raised \$46 million in the third round compares to 8 companies raising third-round investment funds at \$35 million in the preceding quarter and to 7 companies that raised \$40 million in third round investment in the corresponding quarter of last year. The average third-round investment per company for the third quarter was \$7.7 million, compared to \$4.4 million in the preceding quarter and \$5.7 million in the corresponding quarter of last year.

### Later Round

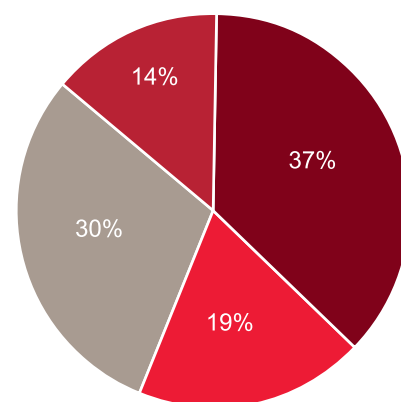
Nineteen companies raised \$91 million this quarter through later investment round transactions (i.e., fourth investment round or later). This compares to 7 companies that raised later-round investments of \$49 million in the previous quarter and to 8 companies that raised \$64 million in the corresponding quarter of last year. The average later-round investment for this quarter was \$4.8 million, compared to \$7 million for the preceding quarter and \$8 million for the corresponding quarter of last year.

### Bridge Loans

This quarter, 24 companies raised \$35 million through bridge loans, compares to 19 companies that raised \$31 million in the preceding quarter and to 23 companies that raised \$22 million in the corresponding quarter of last year. In the present quarter, the average amount of bridge loans per company was \$1.5 million, compared to \$1.7 million in the previous quarter and \$0.9 million in the corresponding quarter of last year.

### Total investment by investment round

- Early Round 30%
- Third Round 19%
- Later Round 37%
- Bridge Loan 14%



## Analysis by Company Development Stage

### Seed/Start-Up Stage

Three companies at the start-up stage raised \$11 million during the third quarter of 2010, representing 4% of total investment for the quarter, compared to 6 such companies that raised \$13 million in the preceding quarter and 4 companies that raised \$4 million in the corresponding quarter of last year. In the third quarter, the average investment per company at this stage of development was \$3.6 million, compared to \$2.1 million in the preceding quarter and \$1.1 million in the corresponding quarter of last year.

### Intermediate Stage (Early/Expansion Stage)

In the third quarter of 2010, 58 companies at the intermediate stage of development raised \$193 million, compares to 48 companies that raised \$156 million in the preceding quarter and 43 companies that raised \$116 million in the corresponding quarter of last year. The average investment for the quarter was \$3.3 million,

as compared to \$3.2 million for the preceding quarter and to \$2.7 million for the corresponding quarter of last year.

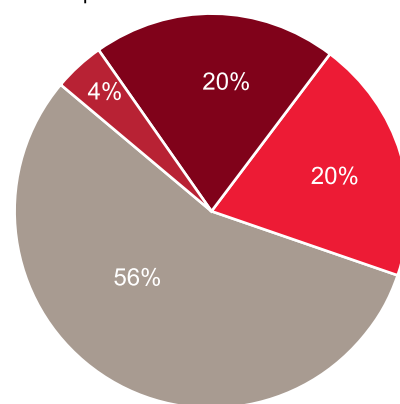
An internal analysis of the intermediate stage reveals that 41 companies at the early stage of development raised \$141 million during the quarter, with 17 companies at the expansion stage raising \$52 million during that same quarter.

### Later Stage

Seven companies at the later stage of development raised \$50 million in the quarter, compares to 6 companies that raised \$37 million in the previous quarter and 7 such companies that raised \$57 million in the corresponding quarter of last year. The average investment for the quarter was \$7.1 million, compared to \$6.2 million for the preceding quarter and \$8 million in the corresponding quarter of last year.

### Total investment by company development stage

- Early Stage 56%
- Expansion Stage 20%
- Later Stage 20%
- Seed/Startup 4%



The MoneyTree™ Report is published quarterly by PwC Israel, in conjunction with the reports published in the United States and Europe by the global financial services network, PwC. This quarter, 46 venture capital firms participated in the production of the Report. The findings of the Report are widely used each quarter by Israeli and foreign venture capital funds, commercial banks, investment banks and other financial institutions both in Israel and abroad, high-tech companies, government departments, the Office of the Chief Scientist and others.

### For further information

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