

The Kesselman & Kesselman PricewaterhouseCoopers Israel MoneyTree™ Report for the first quarter of 2010

Venture capital investment in Israel remains low in early 2010

Some \$170 million VC-backed investments made in Israeli hi-tech companies in

The latest Kesselman and Kesselman PricewaterhouseCoopers Israel MoneyTree™ Report indicates that venture capital-backed high-tech companies raised \$170 million in Israel during the first quarter of 2010, a 15% drop compared with the previous quarter, when \$201 million was raised, and a 12% decline compared to the corresponding quarter last year, when \$194 million was raised.

The Report also reveals that 72 Israeli high-tech companies raised capital in the first quarter of 2010, compared to 77 in the preceding quarter and 49 in the corresponding quarter of last year. The average investment per company in the quarter under review was \$2.4 million, compared with \$2.6 million in the preceding quarter and \$4 million in the corresponding quarter of last year.

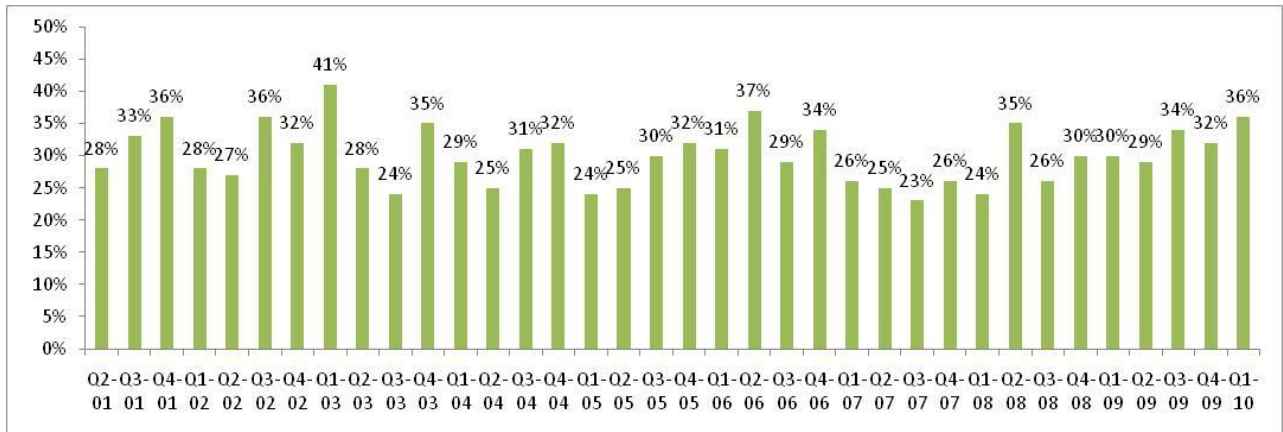
The report data indicate a decrease in the average level of investment. The average investment in the quarter is \$2.4 million, the lowest since the fourth quarter of 2002. Total investment in the semiconductors sector in the quarter is higher than total investments in this sector in the entire 2009. Total investment in the quarter in seed-stage companies is the highest in the last few years.



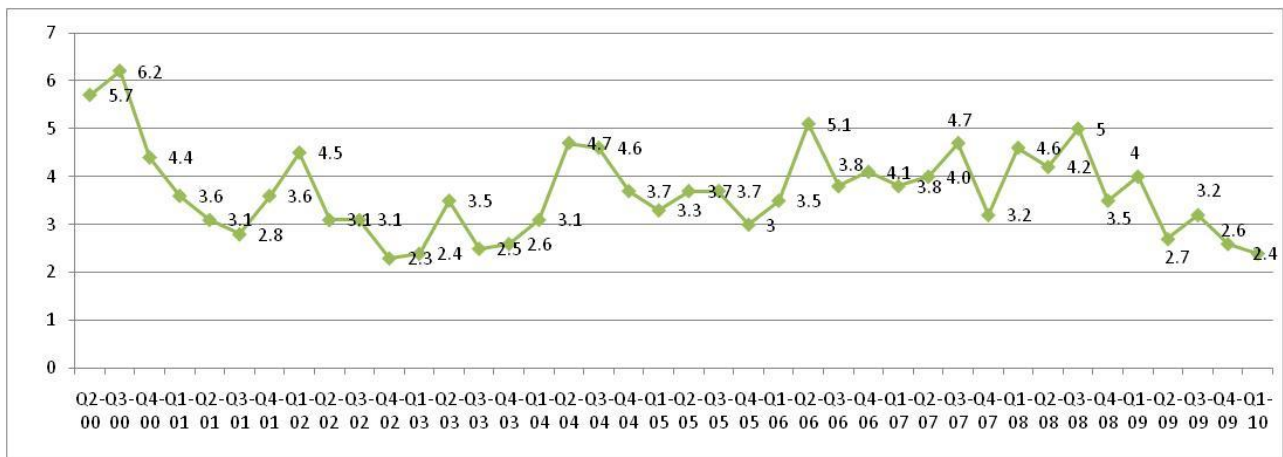
Rubi Suliman, Partner, High-Tech Assurance Practice at Kesselman and Kesselman PwC Israel, commented on the findings: "While we are proud of the sound Israeli economy in the face of frequent financial tremors in economies worldwide, we need to keep in mind that the Israeli hi-tech industry and VC investments are affected much more by the global economic landscape than the local one. We are yet to see a return to the previous high investment level, and the reason for that lies in part in the

continued difficulties of VC funds to raise the additional money that is needed for large-scale investments. Given the existing correlation between the robustness of the Israeli economy and of the Israeli hi-tech industry, a prolonged slump in hi-tech investments may harm the long-term growth of the local economy. However, the silver lining are the investments in seed-stage companies (10% of investments in the quarter), a fact representing great optimism for new hi-tech companies moving forward."

Percentage of funds making no investment



Average investment per company (in millions of dollars)



Analysis by Geographic Location of Company Registration

59 companies, representing 82% of companies raising capital in the first quarter of 2010, are registered in Israel. These companies raised \$121 million or 71% of total investment. The remaining companies are mostly incorporated in the US.

Companies Receiving Grants from the Chief Scientist

35 companies, representing 49% of all companies raising capital in the first quarter of 2010, are supported by the Israel Office of the Chief Scientist. Some \$84 million of total investment funds went to these companies.

Analysis by Leading Technological Sector

The **life sciences** sector, incorporating Medical Devices and Biotechnology, exhibited an increase compared with the preceding quarter. During the course of this quarter, 18 companies raised \$36 million, compared to \$18 million by 12 companies in the preceding quarter and \$11 million by 5 companies in the corresponding quarter of last year. In the present quarter, the average investment per company was \$2 million, as compared to \$1.5 million in the preceding quarter and \$2.3 million in the corresponding quarter of last year. In monetary terms, this is a steep 103% increase on the preceding quarter and a 216% jump compared with the corresponding quarter of last year.

During the first quarter of 2010, 22 companies operating in the **software** sector raised \$46 million, compared with an investment of approximately \$72 million in 21 companies in the preceding quarter and of approximately \$18 million in 11 companies in the corresponding quarter of last year. In monetary terms, this is a sharp plunge of approximately 37% from the preceding quarter and surge of 147% in comparison with the corresponding quarter of last year. The average investment per company was \$2 million in the first quarter, compared with \$3.4 million in the preceding quarter and \$1.7 million in the corresponding quarter of last year.

In the first quarter, 12 companies in the **communications and networking** sector raised approximately \$29 million, compared with 17 companies raising approximately \$36 million in the preceding quarter and with 17 companies raising approximately \$101 million in the corresponding quarter of last year. The average investment per company in this sector in the first quarter was \$2.4 million, compared to \$2.1 million in the preceding quarter and to \$6 million in the corresponding quarter of last year. In monetary terms, this represents a 20% fall in comparison with the preceding quarter and a 71% plunge in comparison with the corresponding quarter of last year.

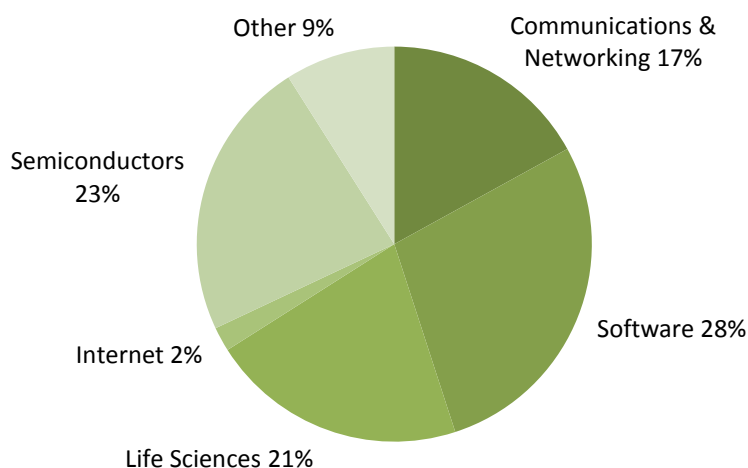
In first quarter of 2010, 8 companies operating in the **Semiconductors** sector raised approximately \$38 million, compared to 6 companies raising \$14 million in the preceding quarter and 3 companies raising \$12 million in the corresponding quarter of last year. In the present quarter, the average investment per company in this sector was \$4.7 million, as compared to \$2.3 million in the preceding quarter and \$4 million in the corresponding quarter of last year.

Internet sector investments shrank relative to the previous quarter. In this quarter, 4 companies raised \$4 million, compared to 11 companies raising \$35 million in the previous quarter and 5 companies raising approximately \$15 million in the corresponding quarter last year. The average investment per company in this sector for the present quarter was \$1 million, as compared to \$3.1 million in the preceding quarter and to \$3 million in the corresponding quarter of last year. In monetary terms, this is a sharp decline of approximately 88% in comparison with the preceding quarter and a decrease of approximately 73% in comparison with the corresponding quarter of last year.

Amongst the companies operating in the **miscellaneous** sectors category are companies operating in the clean-tech sector, the media sector and others. Five companies classified under this category raised approximately \$15 million in the present quarter, representing 9% of the total investment for the quarter. These figures are compared to 10 companies raising \$26 million in the previous quarter, and 8 companies raising \$35 million in the corresponding quarter.

The share of the clean-tech sector of the miscellaneous category was \$0.9 million invested in 2 companies, compared to \$3.2 million invested in 3 companies in the previous quarter.

Total investment by sector by sector



Analysis by Investment Round

Early round

In the first quarter, 28 companies raised \$73 million in the early round (the first and second rounds combined). This compares to 24 companies that raised early round investment funds of \$84 million in the preceding quarter and to 15 companies that raised early round investment funds at \$97 million in the corresponding quarter of last year. The average early round investment per company for the first quarter was \$2.6 million, as compared to \$3.5 million for the preceding quarter and \$6.5 million for the corresponding quarter of last year.

Third round

In the first quarter, 5 companies raised \$17 million in the third round. This compares to 9 companies raising third round investment funds at \$46 million in the preceding quarter and to 5 companies that raised \$35 million in third round investment in the corresponding quarter of last year. The average third round investment per company for the first quarter was \$3.3 million, as compared to \$5.1 million for the preceding quarter and \$7 million for the corresponding quarter of last year.

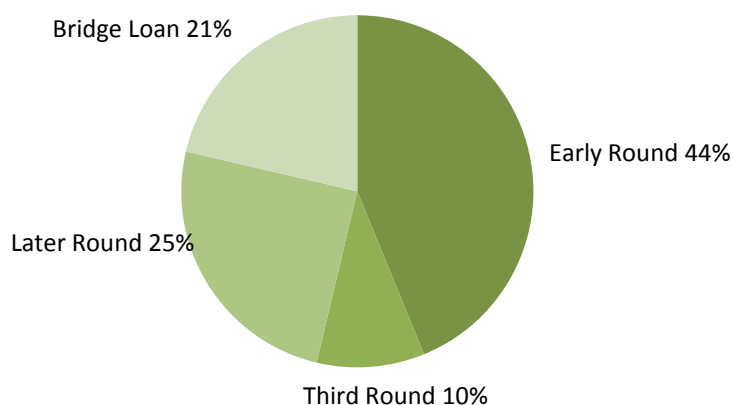
Later round

Eleven companies raised approximately \$42 million in the present quarter through later investment round transactions (i.e., commencing with the fourth investment round). This compares to 10 companies that raised later round investment funds at \$16 million in the preceding quarter and to 9 companies that raised \$41 million in the corresponding quarter of last year. The average later round investment for the first quarter was \$3.8 million, as compared to \$1.6 million for the preceding quarter and \$4.6 million for the corresponding quarter of last year.

Bridge loans

In the first quarter of 2010, 25 companies raised approximately \$36 million through bridge loans. This may be compared to 33 companies that raised \$42 million in the preceding quarter and to 18 companies that raised \$15 million in the corresponding quarter of last year. In the present quarter, the average amount of bridge loans per company was \$1.4 million, as compared to \$1.3 million in the preceding quarter and \$0.9 million in the corresponding quarter of last year.

Total investment by investment round



Analysis by Company Development Stage

Seed/start-up stage

Twelve companies at the start-up stage raised approximately \$17 million during the first quarter of 2010, representing 10% of total investments made in the first quarter, this may be compared to 13 such companies that raised \$24 million in the preceding quarter and 3 companies that raised \$4 million in the corresponding quarter of last year. In the first quarter, the average investment per company at this stage of development was \$1.4 million, compared to \$1.8 million in the preceding quarter and \$1.3 million in the corresponding quarter of last year.

Intermediate stage (early/expansion stage)

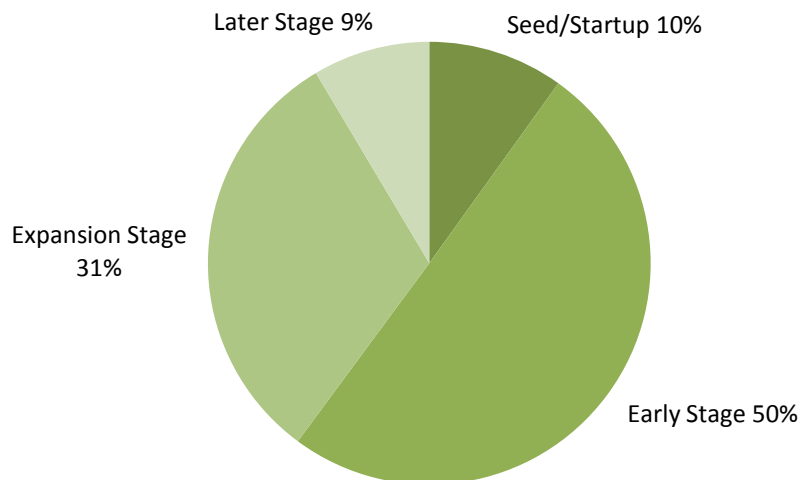
In the first quarter of 2010, 55 companies at the intermediate stage of development raised \$138 million. This may be compared to 53 companies that raised approximately \$159 million in the preceding quarter and 37 companies that raised approximately \$154 million in the corresponding quarter of last year. The average investment for the quarter was \$2.5 million, as compared to \$3 million for the preceding quarter and to \$4.2 million for the corresponding quarter of last year.

An internal analysis of intermediate stage investment reveals that 37 companies at the early stage of development raised \$85 million during the quarter under review, with 18 companies at the expansion stage of development raising \$53 million during that same quarter.

Later stage

Five companies at the later stage of development raised \$14 million in the quarter. This compares to 11 companies that raised \$18 million in the preceding quarter and 9 such companies that raised \$36 million in the corresponding quarter of last year. The average investment for the quarter was \$2.9 million, as compared with \$1.6 million for the preceding quarter and to \$4 million for the corresponding quarter of last year.

Total investment by company development stage



The MoneyTree™ Report is published quarterly by Kesselman & Kesselman PwC Israel, in conjunction with the reports published in the United States and Europe by the global accounting, tax and consulting firm, PricewaterhouseCoopers. This quarter, 47 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.

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