

The Kesselman & Kesselman PricewaterhouseCoopers Israel MoneyTree™ Report for the second quarter of 2010 Venture capital investment in Israel in the second quarter of 2010 soars 21% over previous quarter

Some \$206 million VC-backed investments made in Israeli hi-tech companies in Q2-2010

The latest Kesselman and Kesselman PricewaterhouseCoopers Israel MoneyTree™ Report indicates that venture capital-backed high-tech companies raised \$206 million in Israel during the second quarter of 2010, a 21% increase compared with the previous quarter, when \$170 million was raised, and a 27% increase over the corresponding quarter last year, when \$162 million was raised. The total investment in the first half of 2010 amounted to \$376 million (\$752 million in annual terms), compared to the first half of 2009 with \$356 million.

The Report also reveals that 60 Israeli high-tech companies raised capital in the second quarter of 2010, compared to 72 in the preceding quarter and 61 in the corresponding quarter of last year. The average investment per company in the quarter under review was \$3.4 million, compared with \$2.4 million in the preceding quarter and \$2.7 million in the corresponding quarter of last year.

The data reflects the highest level of investment since 2004 in the life science section (which combines medical devices and biotechnology). The internet sector returned to the investment level of the last few years, following a weak previous quarter. Investments in seed stage companies went down, while investments in more advanced stages, and in particular later stage were up. This is particularly interesting given the renewed growth in early-stage investments in dollars.

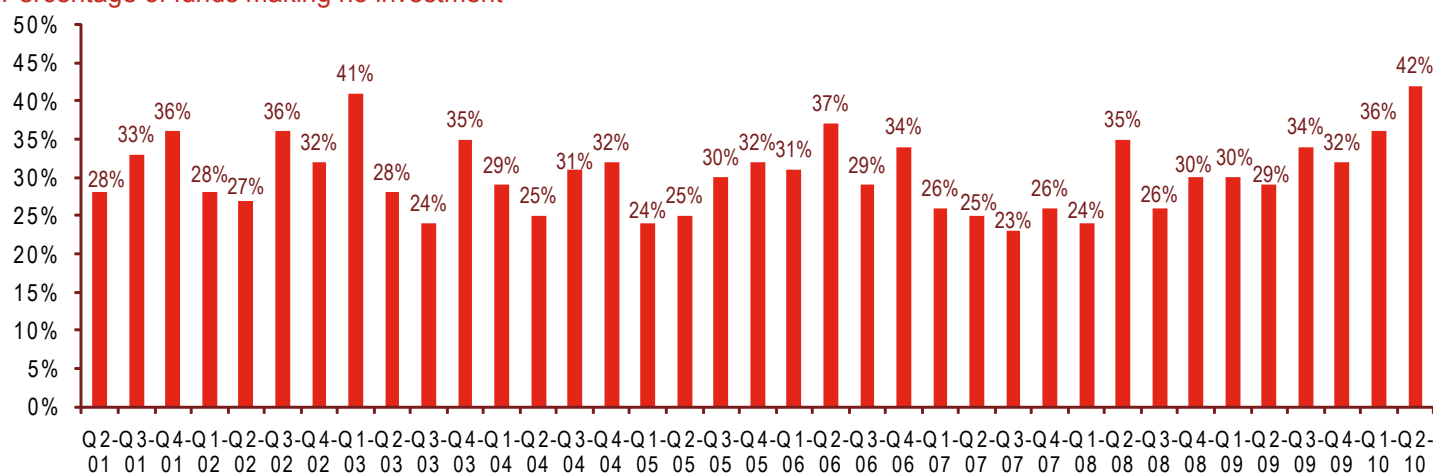


Mr. Rubi Suliman, Partner,
Hi-Tech Practice

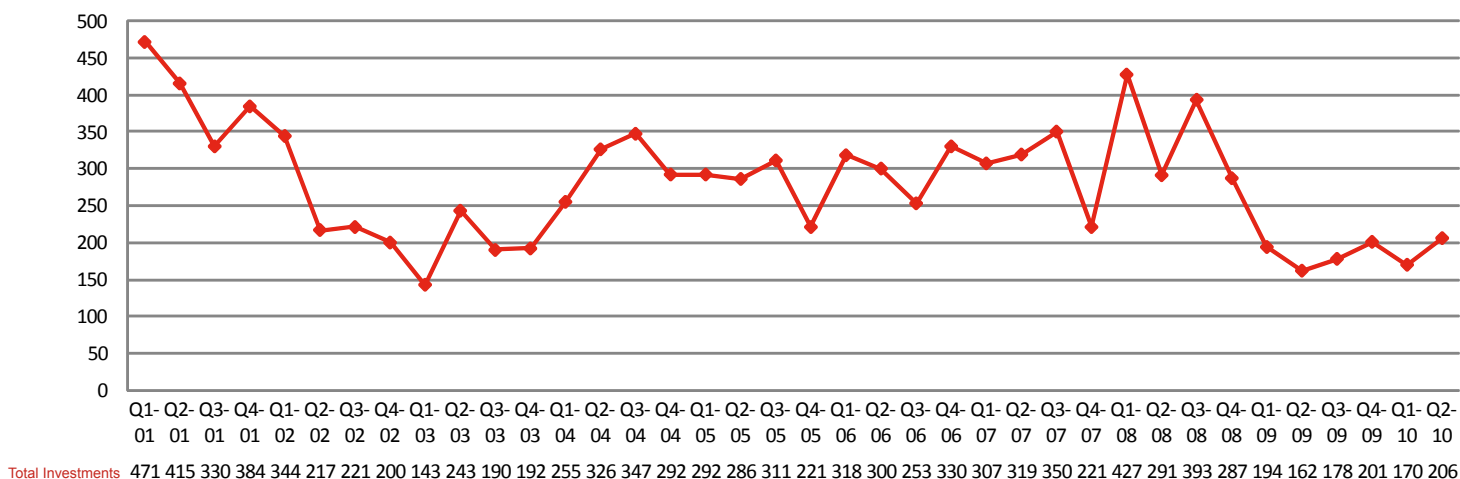
Rubi Suliman, Partner, High-Tech Assurance Practice at Kesselman and Kesselman PwC Israel, commented on the findings: "The growth in the level of VC investments in Israel during the second quarter is modest relative to the 34% growth in the US over the first quarter and a 50% rise over the first half of 2009. Still, these results represent a great promise for the Israeli hi-tech industry, as changes in investment levels in Israel tend to follow those in the US over time. It is evident that VC investors feel more comfortable in the current market and are more confident with the maturity of their existing portfolios, and as a result, in the ability to cash in on their investments. As a direct upshot, funds make larger investments in companies outside their portfolios.

"That said, we must keep in mind that the high levels of investment are still not here, and that the industry continues to struggle. However, the venture capital industry has not said its last word, and there are many positive signs of continued growth in 2010."

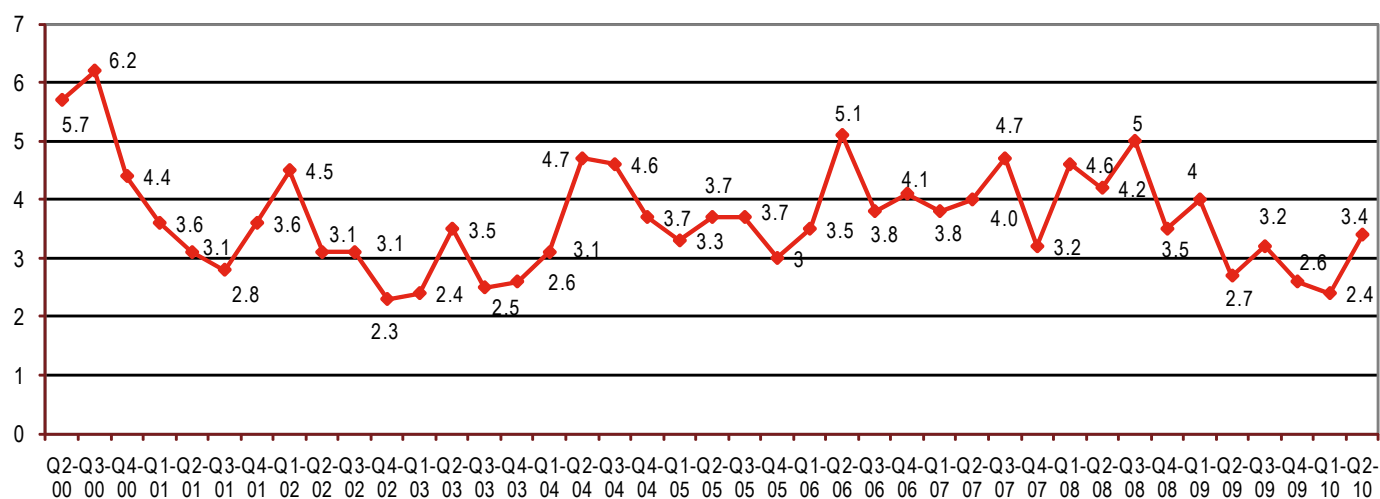
Percentage of funds making no investment



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



Average investment per company (in millions of dollars)



Analysis by Location of Incorporation

44 companies, representing 73% of companies raising capital in the second quarter of 2010, are incorporated in Israel. These companies raised \$123 million or 60% of total investment. The remaining companies are mostly incorporated in the US.

Companies Receiving Grants from the Israel Office of the Chief Scientist

8 companies, representing 13% of all companies raising capital in the second quarter of 2010, are supported by the Israel Office of the Chief Scientist. Some \$9 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 an increase compared with the preceding quarter. During the course of this quarter, 19 companies raised \$67 million, compared to \$36 million by 18 companies in the preceding quarter and \$32 million by 13 companies in the corresponding quarter of last year. The average investment per company this quarter \$3.5 million, up from \$2 million in the preceding quarter and \$2.5 million in the corresponding quarter of last year. In monetary terms, this is a steep 88% increase on the preceding quarter and a 109% jump compared with the corresponding quarter of last year.

In the **software sector**, 8 companies raised \$24 million in the second quarter of 2010, compared with \$46 million invested in 22 companies in the preceding quarter and \$47 million in 19 companies in the corresponding quarter of last year. In monetary terms, this is a sharp 47% plunge from the preceding quarter and a 49% over the corresponding quarter of last year. The average investment per company this quarter was \$3 million, compared with \$2 million in the preceding quarter and \$2.5 million in the corresponding quarter of last year.

In the **communications and networking sector**, 16 companies raised \$62 million, compared with 12 companies raising \$29 million in the preceding quarter and 14 companies raising \$29 million in the corresponding quarter of last year. The average investment per company in this sector in the second quarter was \$3.8 million, compared to \$2.4 million in the preceding quarter and to \$2 million in the corresponding quarter of last year. In monetary terms, this represents a 111% increase over the preceding quarter and a 115% jump over the corresponding quarter of last year.

In the **Semiconductors sector**, 2 companies raised \$11 million this quarter, compared to 8 companies raising \$38 million in the preceding quarter and a single company that raised \$1 million in the corresponding quarter of last year. In the present quarter, the average investment per company in this sector was \$5.5 million, as compared to \$4.7 million in the preceding quarter and \$1 million in the corresponding quarter of last year.

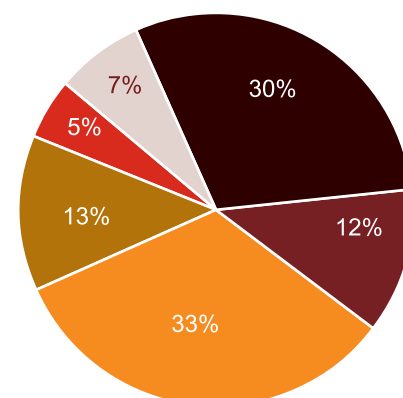
Internet sector investments grew relative to the previous quarter. In this quarter, 7 companies raised \$27 million, compared to 4 companies raising \$4 million in the previous quarter and 3 companies raising \$9 million in the corresponding quarter last year. The average investment per company in this sector for the present quarter was \$3.9 million, compared to \$1 million in the preceding quarter and \$3 million in the corresponding quarter of last year. In monetary terms, this is a sharp 568% rise in comparison with the preceding quarter and a 208% 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. Eight companies classified under this category raised \$14 million this quarter, representing 7% of the total investments in the quarter. These figures are compared to 5 companies raising \$15 million in the previous quarter, and 11 companies raising \$44 million in the corresponding quarter.

The share of the clean-tech sector of the miscellaneous category was \$3.8 million invested in 3 companies, compared to \$0.9 million invested in 2 companies in the previous quarter.

Total investment by sector

- Semiconductors 5%
- Internet 13%
- Life Sciences 33%
- Software 12%
- Communications & Networking 30%
- Other 7%



Analysis by Investment Round

Early Round

This quarter, 26 companies raised \$90 million in the early round (the first and second rounds combined), compares to 28 companies that raised early round investment funds of \$73 million in the preceding quarter and 22 companies that raised \$83 million in the corresponding quarter of last year. The average early round investment per company for this quarter was \$3.5 million, compared to \$2.6 million for the preceding quarter and \$3.8 million for the corresponding quarter of last year.

Third round

In the second quarter, 8 companies raised \$35 million in the third round compares to 5 companies raising third-round investment funds at \$17 million in the preceding quarter and to 5 companies that raised \$14 million in third round investment in the corresponding quarter of last year. The average third-round investment per company for the second quarter was \$4.4 million, compared to \$3.3 million in the preceding quarter and \$2.9 million in the corresponding quarter of last year.

Later Round

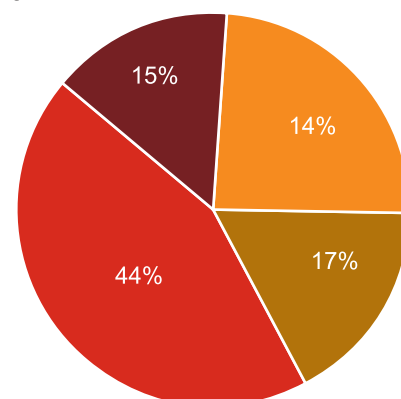
Seven companies raised \$49 million this quarter through later investment round transactions (i.e., fourth investment round or later). This compares to 11 companies that raised later-round investments of \$42 million in the previous quarter and to 10 companies that raised \$38 million in the corresponding quarter of last year. The average later-round investment for this quarter was \$7 million, compared to \$3.8 million for the preceding quarter and \$3.8 million for the corresponding quarter of last year.

Bridge Loans

This quarter, 19 companies raised approximately \$31 million through bridge loans, compares to 25 companies that raised \$36 million in the preceding quarter and to 23 companies that raised \$26 million in the corresponding quarter of last year. In the present quarter, the average amount of bridge loans per company was \$1.7 million, compared to \$1.4 million in the previous quarter and \$1.1 million in the corresponding quarter of last year.

Total investment by investment round

- Early Round 44%
- Third Round 17%
- Later Round 14%
- Bridge Loan 15%



Analysis by Company Development Stage

Seed/Start-Up Stage

Six companies at the start-up stage raised \$13 million during the second quarter of 2010, representing 6% of total investment for the quarter, compared to 12 such companies that raised \$17 million in the preceding quarter and 6 companies that raised \$7 million in the corresponding quarter of last year. In the second quarter, the average investment per company at this stage of development was \$2.1 million, compared to \$1.4 million in the preceding quarter and \$1.2 million in the corresponding quarter of last year.

Intermediate Stage (Early/Expansion Stage)

In the second quarter of 2010, 48 companies at the intermediate stage of development raised \$156 million, compares to 55 companies that raised \$138 million in the preceding quarter and 50 companies that raised \$141 million in the corresponding quarter of last year. The average investment for the quarter was \$3.2 million, as compared to \$2.5 million for the preceding quarter and to \$2.8 million for the corresponding quarter of last year.

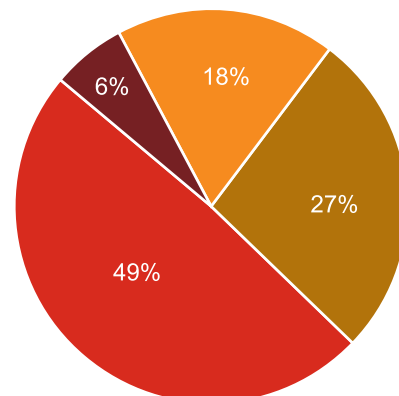
An internal analysis of the intermediate stage reveals that 34 companies at the early stage of development raised \$101 million during the quarter, with 14 companies at the expansion stage raising \$55 million during that same quarter.

Later Stage

Six companies at the later stage of development raised \$37 million in the quarter, compares to 5 companies that raised \$14 million in the previous quarter and 5 such companies that raised \$14 million in the corresponding quarter of last year. The average investment for the quarter was \$6.2 million, compared to \$2.9 million for the preceding quarter and \$2.7 million in the corresponding quarter of last year.

Total investment by company development stage

- Early Stage 49%
- Expansion Stage 27%
- Later Stage 18%
- Seed/Startup 6%



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, 45 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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