

MoneyTree™ Report

Q3
2007
results
IL Report



The Q3 Israeli MoneyTree™ results are in! This special report provides summary results of Q3 2007. More detailed results, including an expanded version of this report, can be found on our web site at www.pwc.co.il

In the third quarter of 2007, approximately \$350 million invested in Israel in high-tech companies backed by venture capital funds Highest quarterly investment for five-and-a-half years

The latest Kesselman & Kesselman PricewaterhouseCoopers MoneyTree™ Report shows that venture capital-backed high-tech companies (companies in which at least one of the investors in a financing round is a venture capital fund) raised approximately \$350 million in Israel during the third quarter of 2007, the highest quarterly investment since the fourth quarter of 2001. In monetary terms, this is an increase of 10% in comparison with the previous quarter in which approximately \$319 million were raised, and an increase of 39% in comparison with the corresponding quarter last year in which approximately \$253 million were raised.

The report further reveals that 74 Israeli high-tech companies raised capital in the third quarter of 2007, as compared to 80 companies raising capital in the previous quarter and 66 companies raising capital in the corresponding quarter last year. The average investment per company was \$4.7 million this quarter, as compared to \$4 million in the previous quarter and \$3.8 million in the corresponding quarter last year.

The report also points to a slowdown in investment in start-up companies this quarter, insofar as it would appear that investors have switched to investment in intermediate-stage companies and to companies in advanced stages of development. 61 companies in these stages of development together raised approximately \$314 million, the highest quarterly investment in eleven quarters (i.e., since the third quarter of 2004). This sum represents 90% of total investment for the present quarter. For the overwhelming majority of the funds investing in these companies, this is a follow-on investment in a company in which the fund has previously invested.

Joseph Fellus, Partner, Advisory & High-Tech Practice Leader at Kesselman & Kesselman PricewaterhouseCoopers says that the extent of the investment in Israeli high-tech companies and the slicing of the investment by technological sector, investment round and company development stage attest to the strength of the venture capital market in Israel and to the fact that the money invested by the funds is spread out in the right proportions. These results are compatible with the success of some of the venture capital funds in raising follow-on funds and the possibility, standing on the horizon, of other funds to take similar steps.

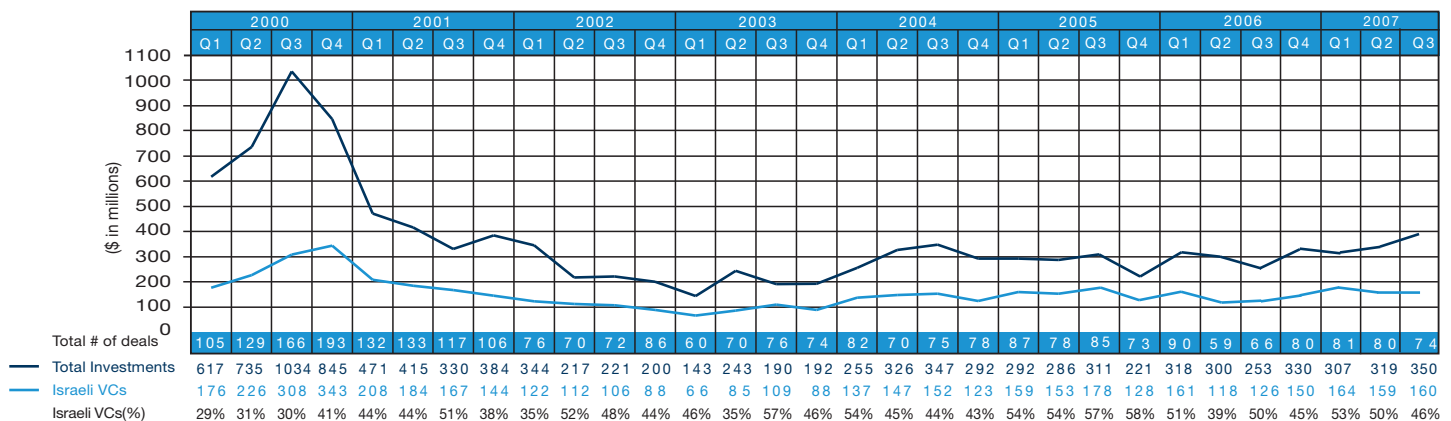


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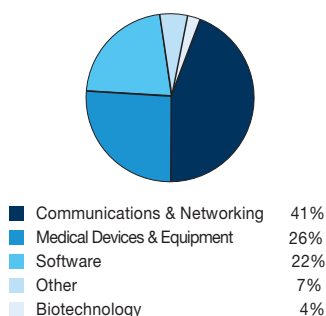
Israel VC's Investment Levels



Companies receiving grants from the Chief Scientist

27 companies, which constitute 36% of all companies raising capital in the third quarter of 2007, have received grants from the Chief Scientist. Approximately \$104 million of total investment have flowed into these companies.

Companies receiving grants from the Chief Scientist by sector



Analysis by Leading Technological Sectors

The **software** sector takes first place in the third quarter of 2007, with 20 companies raising approximately \$83 million, the highest quarterly sum raised by this sector in three quarters. This compares with approximately \$73 million invested in 20 companies in the previous quarter and approximately \$88 million invested in 19 companies in the corresponding quarter last year. In monetary terms, the above represents an increase of 14% in comparison with the previous quarter and a decrease of 6% in comparison with the corresponding quarter last year.

The increase in both total investment and average investment in this sector for the present quarter can be attributed to the fact that most of the companies that raised funds during the present quarter are currently at the intermediate or later stages of their development. These stages are marked by the need for a relatively large amount of investment, with 18 companies together raising approximately \$70 million.

The **Life Sciences** sector, which includes the fields of Medical Devices and Biotechnology, strengthened during the present quarter, with 14 companies raising approximately \$72 million, the highest quarterly sum raised by this sector in two-and-a-half years. This represents, in monetary terms, an increase of 44% in comparison with the previous quarter, in which 12 companies raised approximately \$50 million, and an increase of 13% in comparison with the corresponding quarter last year, in which 13 companies raised approximately \$64 million.

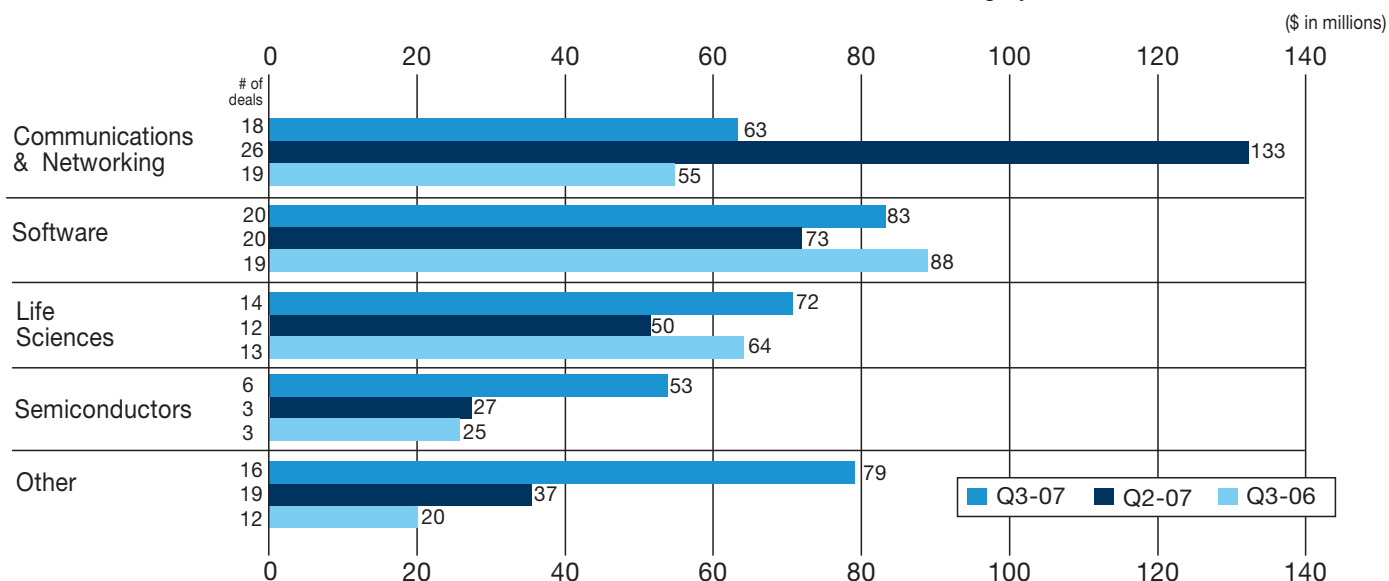
This sector saw, in the present quarter, three large transactions (investment in excess of \$10 million per company) in a total amount of approximately \$45 million, representing 62% of total investment in this sector.

The **Communications & Networking** sector weakened, with 18 companies raising \$63 million in the present quarter. This compares with 26 companies that raised approximately \$133 million in the previous quarter and 19 companies that raised approximately \$55 million in the corresponding quarter last year.

The **Semiconductor** sector shows an increase in investment in the current quarter, with 6 companies raising approximately \$53 million. This compares with 3 companies that raised approximately \$27 million in the previous quarter and 3 companies that raised approximately \$25 million in the corresponding quarter last year.

Amongst the **Other** sectors category are companies operating in the internet sector, the media sector and the clean tech sector. This category as a whole recorded an increase in investment, with 16 companies raising approximately \$79 million, the highest quarterly amount for this category in six-and-a-half years. In monetary terms, this represents an increase of 114% in comparison with the previous quarter in which 19 companies raised approximately \$37 million, and an increase of 285% in comparison with the corresponding quarter last year in which 12 companies raised approximately \$20 million.

The increase in total investment in this category may be attributed to the fact that the quarter saw two large transactions (investment in amounts exceeding \$10 million per company) in a total amount of approximately \$40 million (approximately \$30 million being invested in an internet company), this representing 51% of total investment in this category.



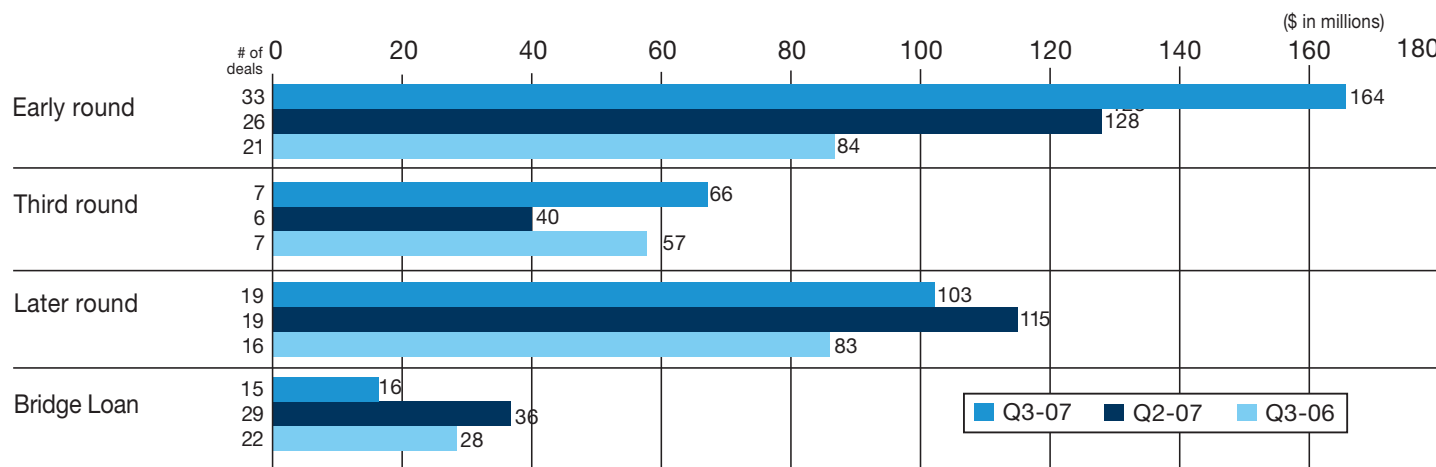
Analysis by Financing Round

In the present quarter, 33 companies raised approximately \$164 million in the **Early round** (the first and the second rounds combined), the highest quarterly sum raised in this round in five quarters. This compares with 26 companies that raised approximately \$128 million in this round in the previous quarter, and with 21 companies that raised approximately \$84 million in the corresponding quarter last year.

In the present quarter, 7 companies raised approximately \$66 million in the **Third round**. This compares with 6 companies that raised approximately \$40 million in this round in the previous quarter, and with 7 companies that raised approximately \$57 million in this round in the corresponding quarter last year.

Transactions executed in **Later rounds** (fourth round to mezzanine) representing 29% of total investment in the current quarter, with 19 companies attracting approximately \$103 million. This compares with 19 companies that raised approximately \$115 million in the previous quarter and with 16 companies that raised approximately \$83 million in the corresponding quarter last year.

In the present quarter, 15 companies raised approximately \$16 million through **Bridge loans**, the amount thus raised being the lowest quarterly amount raised in this manner during the course of the last four years. This compares with 29 companies that raised approximately \$36 million in this manner in the previous quarter, and with 22 companies that raised approximately \$28 million in this manner in the corresponding quarter last year.



Analysis by Company Development Stage

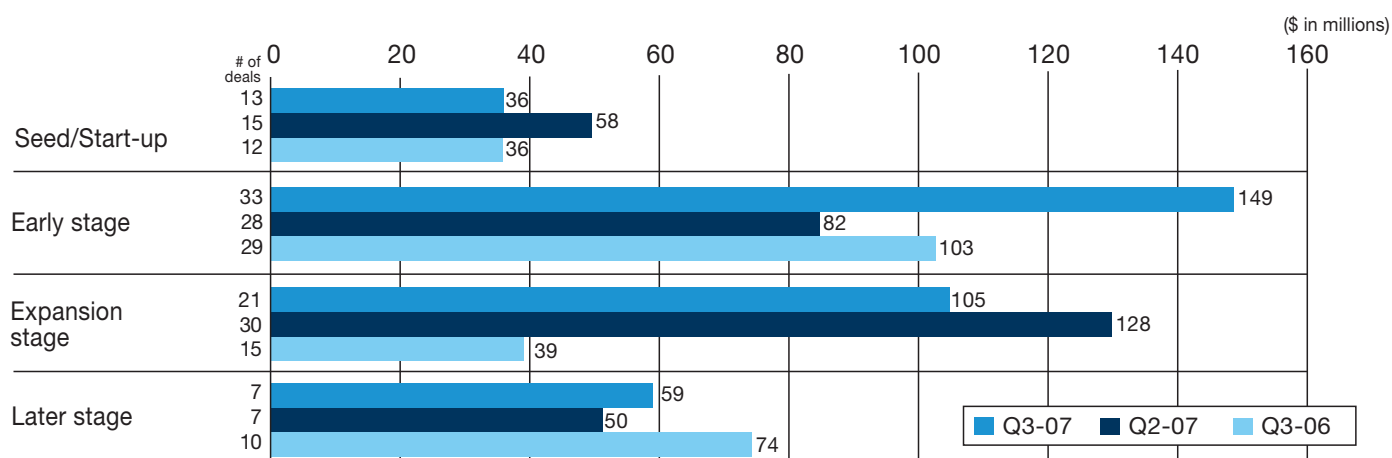
13 companies at the **Start-up** stage raised approximately \$36 million during the third quarter of 2007, the lowest quarterly amount raised by companies at this stage in a year. In monetary terms, the total amount of funds raised in this quarter represents a decrease of 38% in comparison with the funds raised in the previous quarter, in which 15 companies at this stage raised approximately \$58 million. In the corresponding quarter last year, 12 companies raised approximately \$36 million.

During the course of the current quarter, 54 companies at the **Intermediate stage** (early/expansion stage) raised approximately \$254 million, the highest quarterly amount raised by companies at this stage in three years. This compares with 58 companies that raised approximately \$210 million in the previous quarter and with 44 companies that raised approximately \$142 million in the corresponding quarter last year.

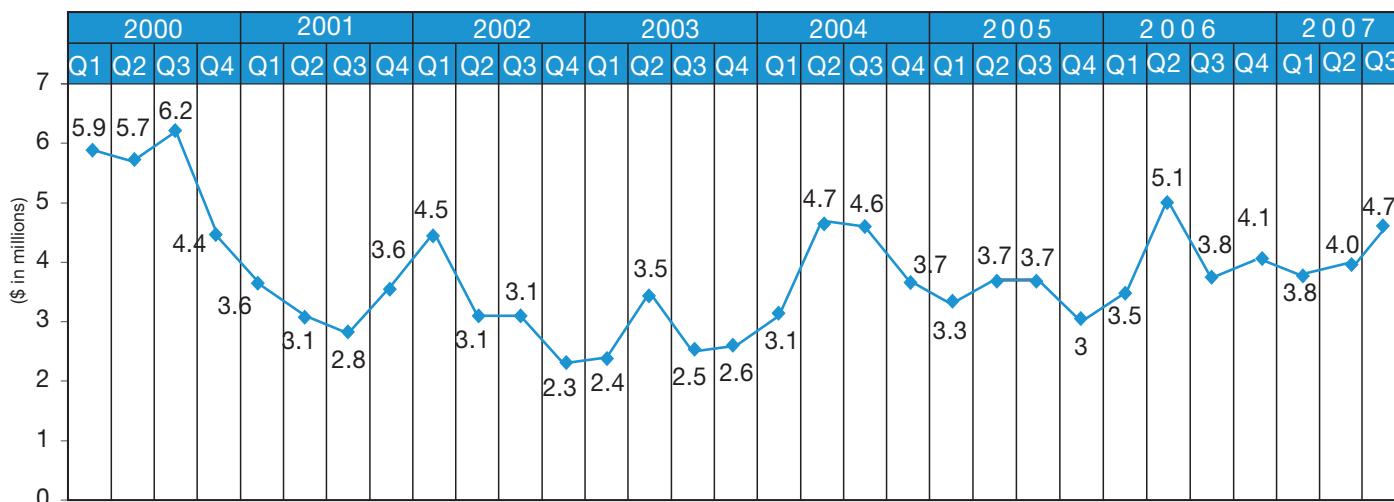
The third quarter of 2007 saw ten large transactions (investment in amounts exceeding \$10 million per company) in intermediate stage companies in a total amount of approximately \$141 million, this comprising 55% of the total investment in companies at this stage.

An internal analysis of the intermediate stage reveals that, in the present quarter, the early stage has been the leading stage, with 33 companies raising approximately \$149 million, representing 58% of total intermediate stage investment. Six of the ten large transactions involving companies at the intermediate stage were executed by companies at the early stage.

7 **Later stage** companies raised approximately \$59 million during the present quarter. This compares with 7 companies that raised approximately \$50 million in the previous quarter and with 10 companies that raised approximately \$74 million in the corresponding quarter last year.



Average Deal Size



Participating Venture Capital Funds in the Q3-2007 MoneyTree™ Report (listed alphabetically)

Alon Technology Ventures	Evergreen Ventures Partners	Platinum Venture Capital
Apax Partners	Formula Ventures	Poalim Ventures
Argoquest	Gemini Israel Funds	SCP Vitalife
Ascend Technology Ventures	Genesis Partners	Sequoia Capital Israel
Atara Technology Ventures	Gilbridge Holdings	Shrem, Fudim, Kelner & Co.
Aviv Venture Capital	Giza Venture Capital	StageOne Ventures
Benchmark Israel Venture Capital	Greylock Israel	Star Venture Capital (SVM)
BioMedical Innovations	Israel Healthcare Ventures (IHCV)	Tamar Technology Ventures
BRM Capital Fund	Israel Seed Partners	Tamir Fishman Ventures
Carmel Ventures	Jerusalem Global Ventures (JGV)	TechnoPlus Ventures
Catalyst Investments	Jerusalem Venture Partners (JVP)	The Challenge Funds
Cedar Fund	Kaptech Holdings	Vally Venture Capital
Concord Ventures	Magma Venture Capital	Veritas Venture Partners
Corex Israeli Industries	Medica Venture Partners	Vertex Venture Capital
Delta Ventures	Ofer Hi-Tech	Vitalife Life Sciences Ventures
Denali Ventures	Peregrine Ventures	Walden Israel
DOR Ventures Fund	Pitango Venture Capital	Yozma Group
Eurofund	Platinum Neurone Ventures (PNV)	

About the Israeli MoneyTree™ Report

Kesselman & Kesselman PricewaterhouseCoopers Israel conducts the Israeli MoneyTree™ Report quarterly to promote investment in Israeli start-up ventures. We appreciate the support of the Venture Capital industry in this endeavor. The Israeli Report, initiated in 1997, has become the definitive source for Israeli investment data.

For more information on PricewaterhouseCoopers' Israeli MoneyTree™ Report please contact Inbal Spiegel, at 972-3-7954718, e-mail: inbal.spiegel@il.pwc.com or visit our web site: www.pwc.co.il