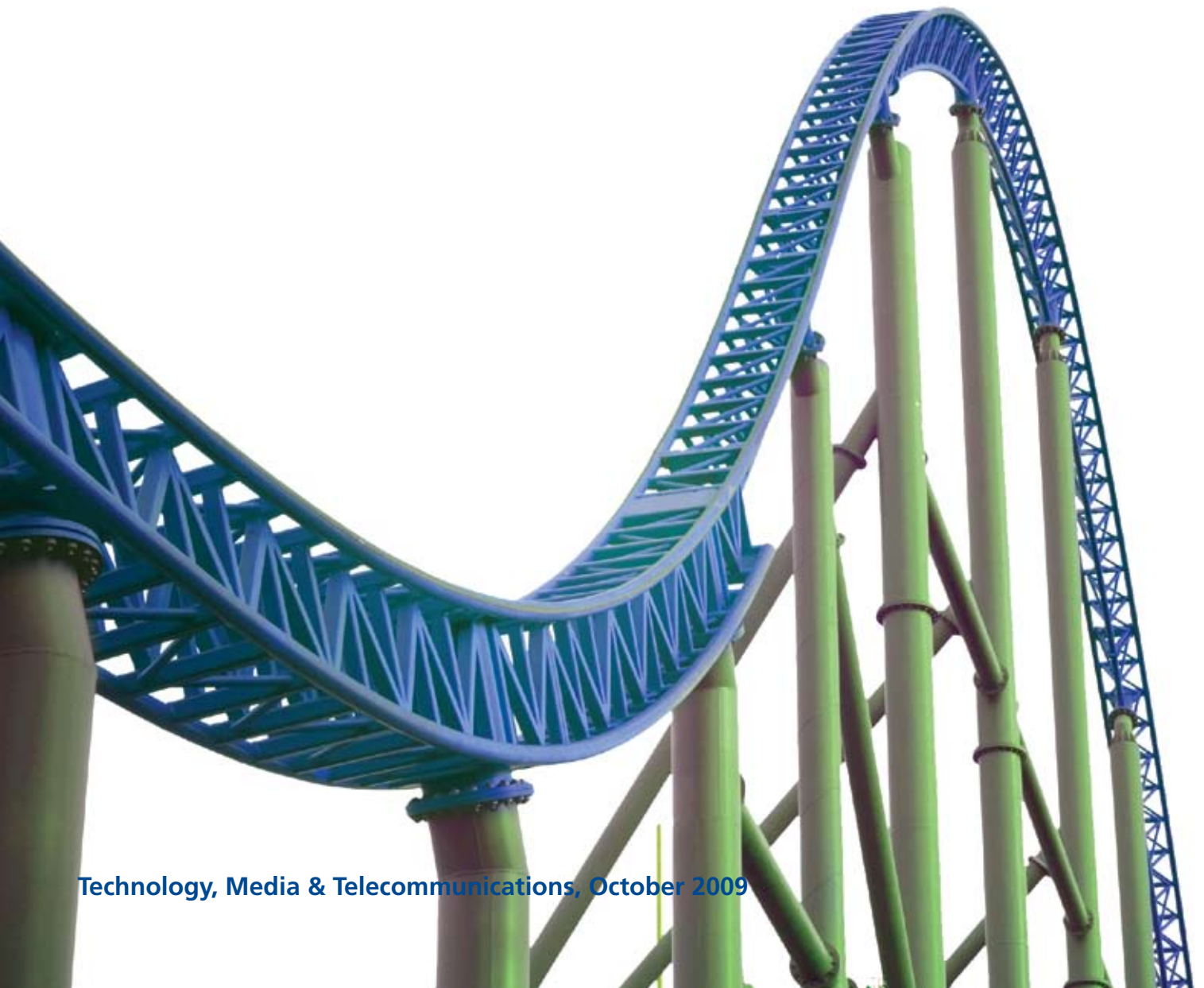


Israel VC Indicator Survey.

Expectations as of Quarter 3, 2009

Back on Track?!



About

The purpose of the Israel VC Indicator Survey is to identify trends within the venture capital arena. Its objective is to give a comprehensive picture of the expectations of the Israeli VC community for the next six to twelve months. The survey is designed to explore relevant key aspects, such as economic and market conditions, deal activity and investment and managerial focus. The results produce a forward-looking measure of the overall sentiment in the Israeli venture capital community, which is extremely relevant to immediate deal flow.

The 30th Deloitte Brightman Almagor Zohar Israel VC Indicator Survey results for Quarter 3, 2009 include a comparison, where relevant, to responses from previous surveys.

The VC Survey and Private Equity Surveys are a Deloitte initiative. The surveys have been conducted for some years, running concurrently in Israel, the United Kingdom, Germany, Spain, Portugal, Central Europe, Mexico, South Africa and India, to name but a few. Moreover, once a year, Deloitte also releases a Global VC Survey. The Global Survey purpose is to identify attitudes of venture capitalists and private equity investors regarding investing on a global basis and tracking long-term trends about the attitudes of international investing.

Responses for Israel VC Indicator Survey Quarter 3, 2009 were collected from September 15th, 2009 through to September 23rd, 2009. The responses were collected from venture capitalists in Israel, including replies from the major VCs in the country.

Deloitte TMT Business Development Team uses a variety of research and statistical tools to provide extensive analysis of the survey results. If respondents do not answer a question, the count for the question is adjusted accordingly. All charts presented in this report are sourced from the survey results.

3rd Quarter, 2009

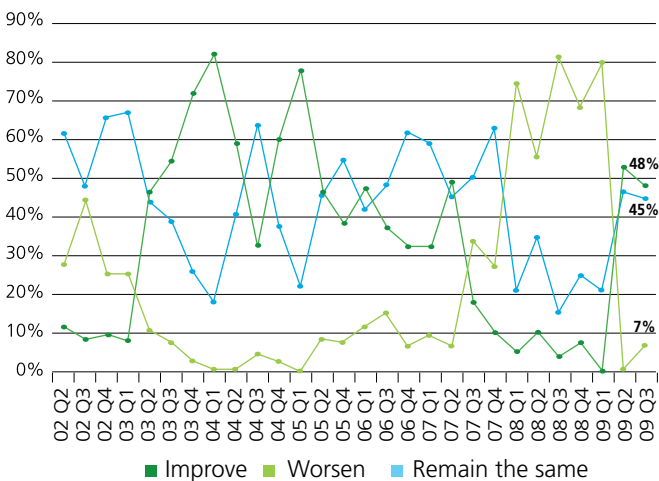
Highlights

- Full recovery forecasted to only arrive in 2010
- Focus on existing portfolio
- Exit valuations won't reach full potential in the near future

Results

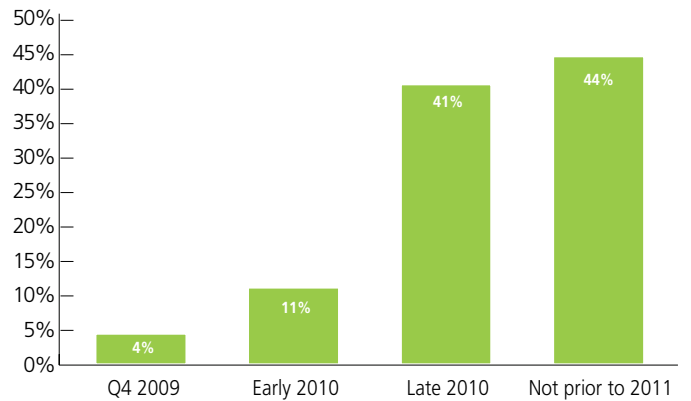
The general perception for market conditions is in line with last quarter's results which indicated an improvement in sentiment. Despite a 5% drop in economic climate perceptions, these expectations reveal a major change in comparison to the pessimism felt in the 5 quarters prior to quarter 2, 2009. Some negativity was reflected through a 7% increase in respondents who think that the economic climate will worsen (compared to 0% and 79% in Q2 2009 and Q1 2009, respectively). The optimism that faded for almost two years is back with 48% of the respondents feeling that the economic climate will improve (compared to an average of 11% in the last seven surveys).

Chart 1: During the next six months, I expect the overall economic climate to:



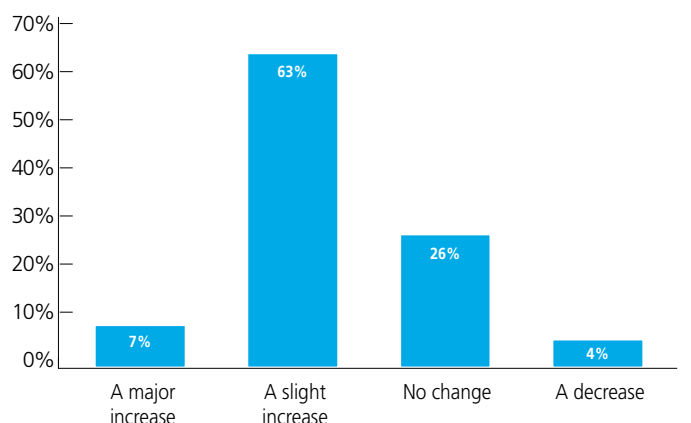
Despite the optimism in relation to economic forecasts and a return to a more positive market sentiment, there's still a long way to go before we can attain a full recovery. Only a small portion of respondents believe that a full recovery can be achieved in the coming quarter and only 11% feel that a full recovery can be achieved in early 2010. The deciding majority of respondents (85%) don't sense a full recovery to be realized before the end of 2010, while 44% of those respondents believe this to occur only subsequent to 2011.

Chart 2: A full recovery will be achieved in:



In anticipation for changes in expectations for the beginning of the end of the current crisis, 70% of respondents forecast an increase in deal flow activity. However, it is essential to understand that a majority of respondents (63%) expect only a minimum increase in deal flow activity. A fourth of the respondents forecast activities to remain without change and only a small fraction of respondents foresee a decrease in deal flow activity.

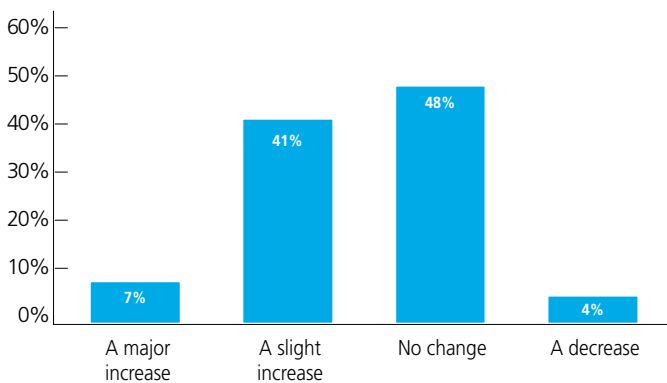
Chart 3: I expect the deal flow activity during the next six months, comparing to last three quarters, to show:



In spite of positive forecasts for growth in deal flow activities, the trend for new Israeli companies to be incorporated is more conservative. Less than half of the respondents (41%) believe that we'll see growth in the number of incorporations, in comparison to the last three quarters. Whereas, roughly half of the respondents (48%) believe that there won't be any dramatic change in the number of companies to be incorporated during the

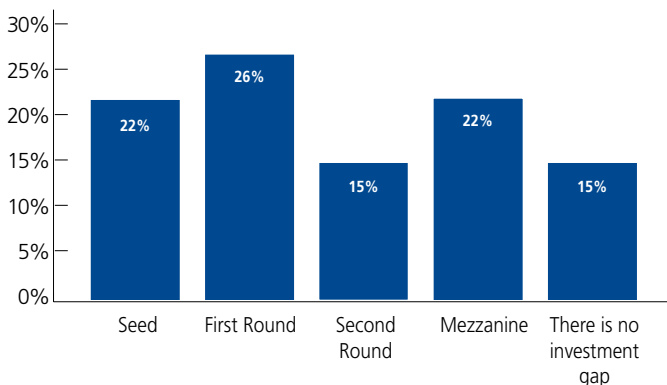
next six months. In conjunction with deal flow activities, here to exists a small proportion of respondents (4%) still reflecting pessimism and foresee a drop in the number of companies to be incorporated.

Chart 4: I expect the number of new Israeli companies that will be incorporated during the next six months, comparing to last three quarters to show:



Owing to the results, it can be learnt that there's no clear agreement amongst our respondents relating to the central investment gap in the Israeli start-up Industry. Only 15% of the respondents claim that venture capital financing has no investment gap. The remaining opinions are dispersed relatively evenly relating to the main investment gaps. Such that 22% feel the main gap is in the Seed Stage, 26% in the First Round, 15% in the Second Round and 22% in the Mezzanine Stage.

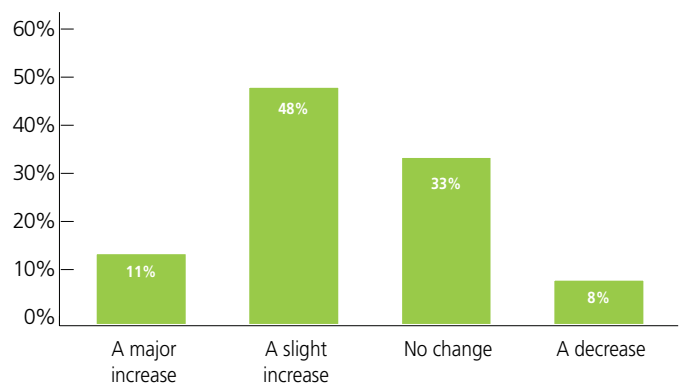
Chart 5: What is the main investment gap in the Israeli start-up industry?



The emergence of a positive trend continues to be reflected in the volume of venture capital investment transactions. A majority of the respondents (59%) claim that there'll be an increase in the volume of investment

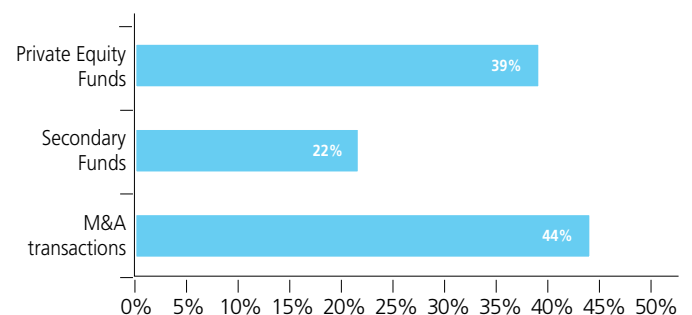
transactions during the next six months. However, only a small fraction of respondents (11%) forecast a sharp increase in investment transactions. A third of the respondents believe that investment transaction, volume will remain the same and 8% anticipate a decrease in investment volume.

Chart 6: During the next six months, I expect the volume of investment transactions to show:



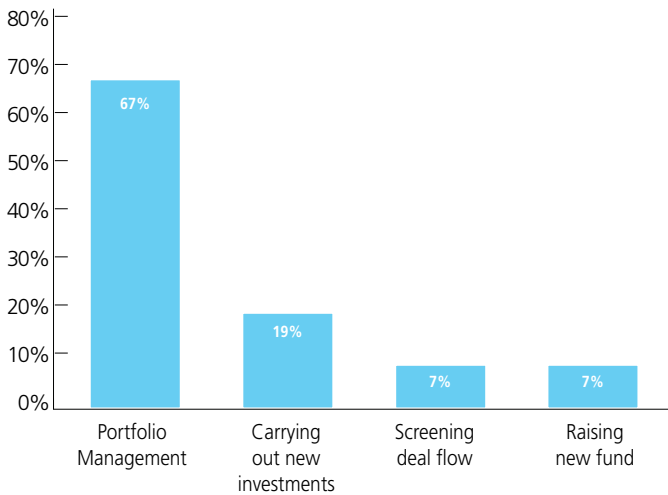
The majority of respondents still predict M&As to be the central exit vehicle. A significant segment of respondents (39%) expect the role of Private Equity whereas, a relatively small percent of respondents feel the composition of exit events to be mostly consisting of Secondary Funds.

Chart 7: During the next six months, I expect the role of Secondary Funds, Private Equity Funds and M&A transactions, regarding exit events, to be comprised mostly of:



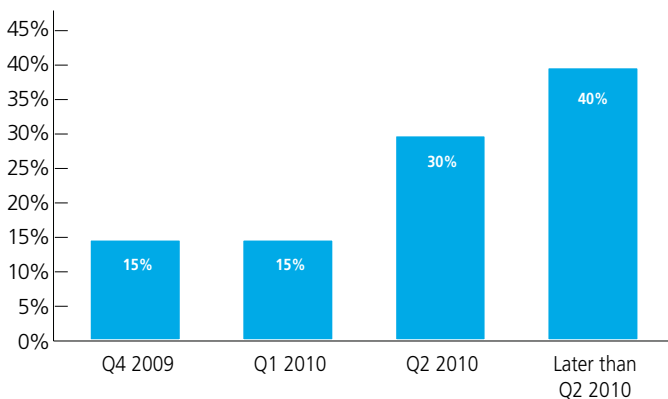
According to venture capitalists, they allocate a majority of their time to Portfolio Management, 67%. Financially stressing times like today coupled with the fear of returning to the recent past's prevalent trepidation is clear why only 19% of venture capitalist time is focused to carrying out new investments or 7% allocated to deal flow screening.

Chart 8: During the next three months, I expect to spend the majority of my time focusing on:



40% of respondents indicated that they feel that the first IPO on the NASDAQ will only be later than the second quarter 2010. Despite the bleak picture this portrays, the truth is, Israel hasn't contributed any IPO's on the NASDAQ since July, 2007 (Voltaire). On the flipside, 60% of the total respondents believe that there'll be an initial public offering by the 2nd quarter of 2010, thereby reflecting preliminary signs of optimism in a majority of the respondents. The outlook for the fourth quarter suggests a small but respectable 15% believe an IPO is imminent.

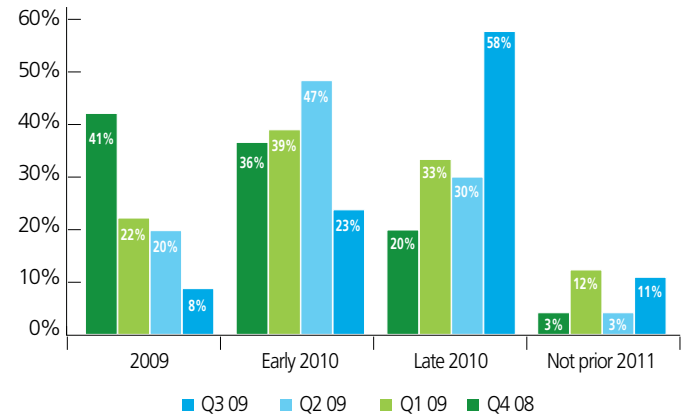
Chart 9: When will we see the next Israeli IPO on the NASDAQ?



As a result of the past year, it can be understood why a majority of respondents have come to terms with the fact that the M&A market won't ramp up until after 2009. This was reflected in a small percentage of respondents (8%) expecting transactions of this sort to be ramped up in the current year. The forecast for 2009 was significantly more optimistic during the fourth quarter of 2008 where

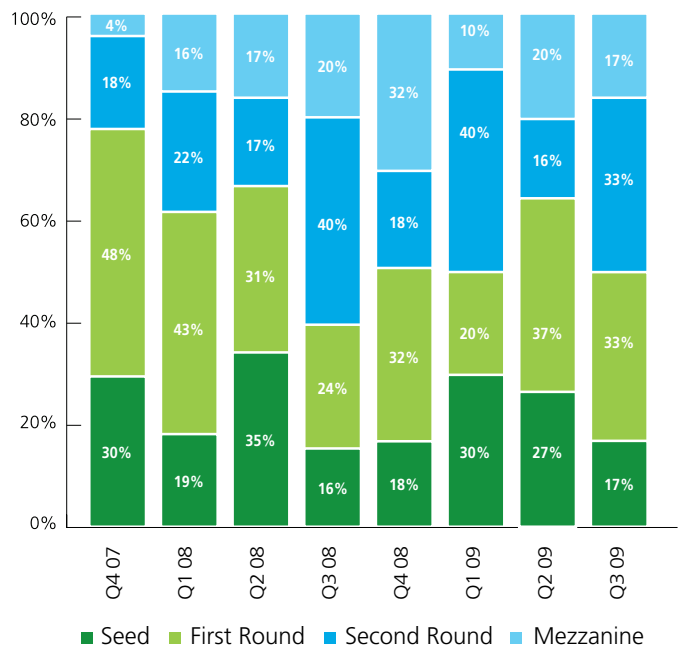
41% of respondents expected the M&A market to be revived. The respondents' sentiment regarding IPO's bears much similarity, such that a majority of the respondents (69%) foresee the M&A market to revive only after 2010.

Chart 10: When do you think M&A transactions will ramp up?



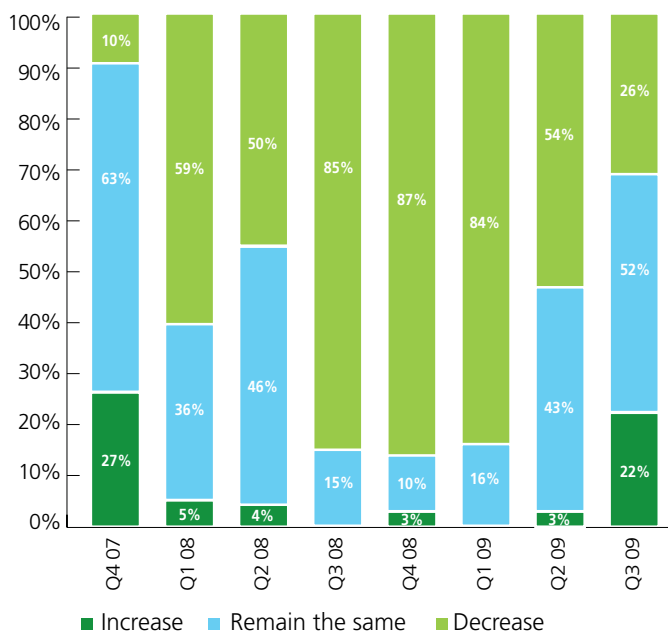
The segmentation of new investments bears similarities to the previous quarter, such that 17% of respondents expect to focus a majority of their new investments on Seed stage, 33% for First Round and the remaining 50% expect to invest in the later stages. Early investments (Seed and First Round) reflect little correlation to the trends that controlled the venture capital industry before the current "Credit Crunch". As can be seen in the end of 2007 and the beginning of 2008 there was a much higher tendency to invest in earlier stages.

Chart 11: During the next six months, I expect the majority of my new investments to be made in:



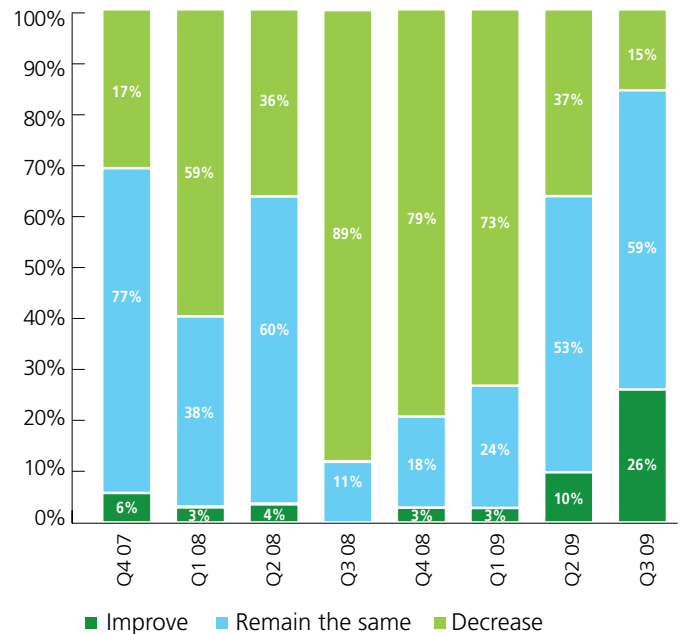
The optimistic trend can also be extrapolated through the expectation in investment valuations. Expectations for an increase in investment valuations hit double digits (22%) for the first time since 2007. This in contrast to the 3% of respondents expecting an increase in the next six months during the previous quarter. Roughly half of the respondents (52%) expect investment valuations to remain without change and only around a quarter of respondents (26%) predict a drop in investment valuations - in comparison to 54% in the previous quarter and 84% in the first quarter of 2009.

Chart 12: During the next six months, I expect investment valuations to:



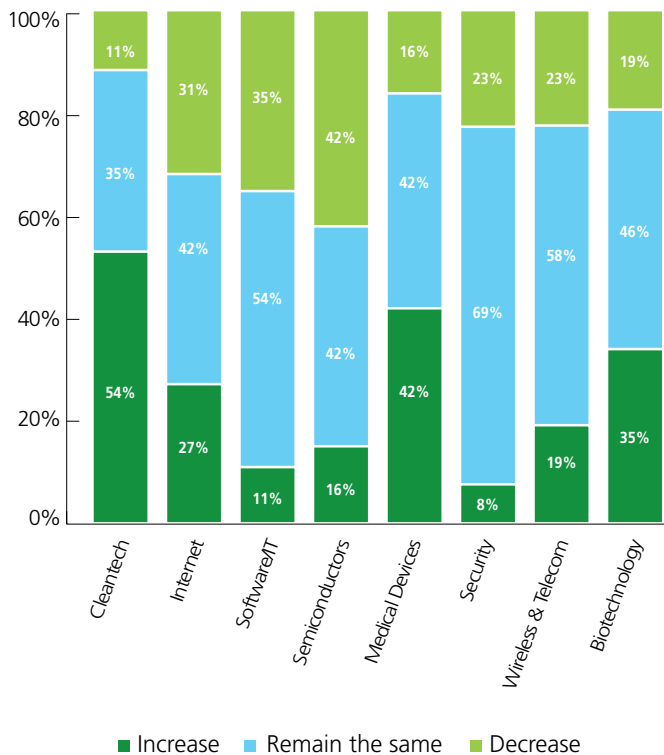
In conjunction with the trend represented in investment valuations, much optimism is shed in comparison to the previous quarters. Roughly a quarter of the respondents (26%) anticipate an increase in exit valuations and the majority (59%) expects no significant difference in valuations. In union with this sudden rise in optimism, exit valuations are expected to dramatically dwindle to 15%, in comparison to 37% in the previous quarter and 73% in the first quarter of 2009.

Chart 13: During the next six months, I expect exit valuations to:



In accord with the entire duration of the crisis, much interest has been projected on Cleantech (54% forecast an increase in investments in this sector), in Biotechnology and Medical Devices (with a forecasted 35% and 42% increase in investments by sector, respectively). According to respondents, the Semiconductor sector is forecasted to demonstrate the sharpest decline in transactions and is not surprisingly the sector which has also reflected similar results in the past few quarters.

Chart 14: During the next six months, I expect the number of transactions in the sectors listed below to:



Insights

In general, there's much data echoing optimism. Despite the apparent emergence of positive sentiment, it's still too early to extrapolate that we are back to business as usual owing to a full recovery forecasted to only arrive in 2010. Attributing to the crisis that rippled through all sectors and sub-sectors, portfolio companies are still testing water before they jump back in. It can be inferred that in the next six months we'll see increasing growth in Deal Flow activity due to increasing positive economic sentiment, however, the evident growth in Deal Flow won't necessarily translate into additional capital raising or incorporations.

Despite a strengthening wave in market sentiment, venture capitalists have emphasized much of their focus on their existing portfolio, rather than portfolio growth. Efforts are more driven towards management and assistance, while financial resources are allocated more to companies in later stages of development. Due to the market frailty, venture capitalists are in no rush to invest their time to Deal Flow screening or new deals, but alternatively to retaining and value creation from their existing portfolio.

The apparent emphasis placed on the existing portfolio is inline with the lack of forecasted exists. The next initial public offering (IPO) on the NASDAQ is not considered to be around the corner, let alone in the neighborhood. In similarity, the M&A market which was forecasted to awaken during 2009 has only provided much disappointment in the last two quarters. Due to the persistence in forecasts projecting increases in acquisition activities, comprised mostly of Private Equity acquisitions, exit valuations won't reach full potential until the crisis can only be seen in the rearview mirror.

