

Venture Capital Outlook and Perspective for Europe and the related effects on Innovation Financing

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Pool of Private Venture-Backed Companies

This Venture Insights presentation examines trends in the pool of private venture-backed companies in the US, Europe, Israel and China, providing perspective on the scope, industry focus and cumulative capital invested in private VC portfolios. The following topics are examined in this presentation:

- I. **Pool of Private Venture-Backed Companies** An examination of the annual change in the size of the pool from 1/1/2002 to 1/1/2007, in terms of both number of companies and cumulative VC dollars invested in them. Includes an analysis of the pool in key regional hotbeds in the US, Europe, and China.
- II. **Pool of Active Investors** A calculation of the number of firms making investments in venture-backed companies each year in IT, Healthcare and Business/Consumer/Retail. This section includes an analysis of fundraising trends.
- III. **Exits From The Private Company Pool In 2006** An analysis of the exits from the pool over the course of 2005 due to M&A, IPO or closure. Includes a quantification of the current exit pipeline.
- IV. **Initial Rounds** An analysis of initial rounds in the US, Europe, Israel and China, including a breakout of the top industry codes in 2006.

I. Pool Of Private Venture-Backed Companies

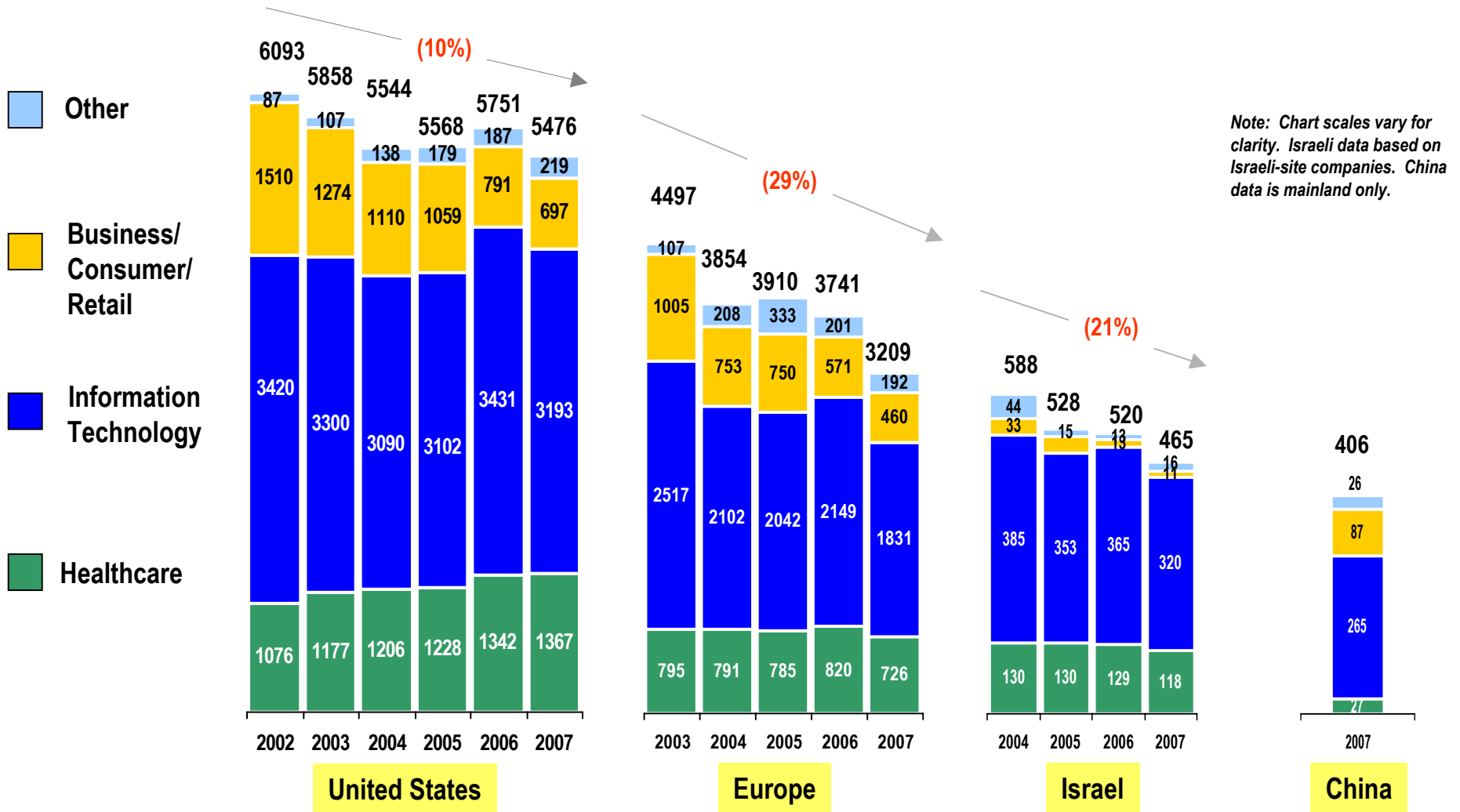
Definition of the Pool: Private and independent venture-backed companies that have received at least one round of financing in the prior six years.

Private Venture-Backed Pool Conclusions

- **The combined pool in the US, Europe, Israel and China stands at 9,556 private venture-backed companies with \$173 billion in cumulative capital invested.**
- **The IT pool is still shrinking.** The number of companies and cumulative capital invested in IT continues to decline. The exception is the web-heavy Information Services segment.
- **The Business/Consumer/Retail pool is shrinking even faster than IT.** The number of companies and cumulative capital invested in these companies has declined by over 50% in the last few years.
- **The Healthcare pool is growing.** The US has seen year-on-year in growth in the number of companies and cumulative capital invested. In Europe and Israel, there are fewer companies but more invested capital.
- **The VC industry consolidation continues in the US, Europe and Israel.** The number of active investors has fallen by half in these geographies since 2000. China is the exception. The number of active investors in China has more than doubled since 2002.
- **Good news: the pool population is shifting away from bubble-era companies.** The majority of US and Chinese companies in the pool were funded between 2002 – 2006. Europe and Israel are not far behind.
- **Challenging news: Companies initially funded before 2002 still account for the majority of invested capital.** What will happen to IRRs?
- **The exit pipeline is full...too full?** Globally there are 316 profitable companies with \$5.3 billion invested that have not received a financing since 2001/2002. There are another 873 companies with \$13.5 billion invested that are currently shipping products.

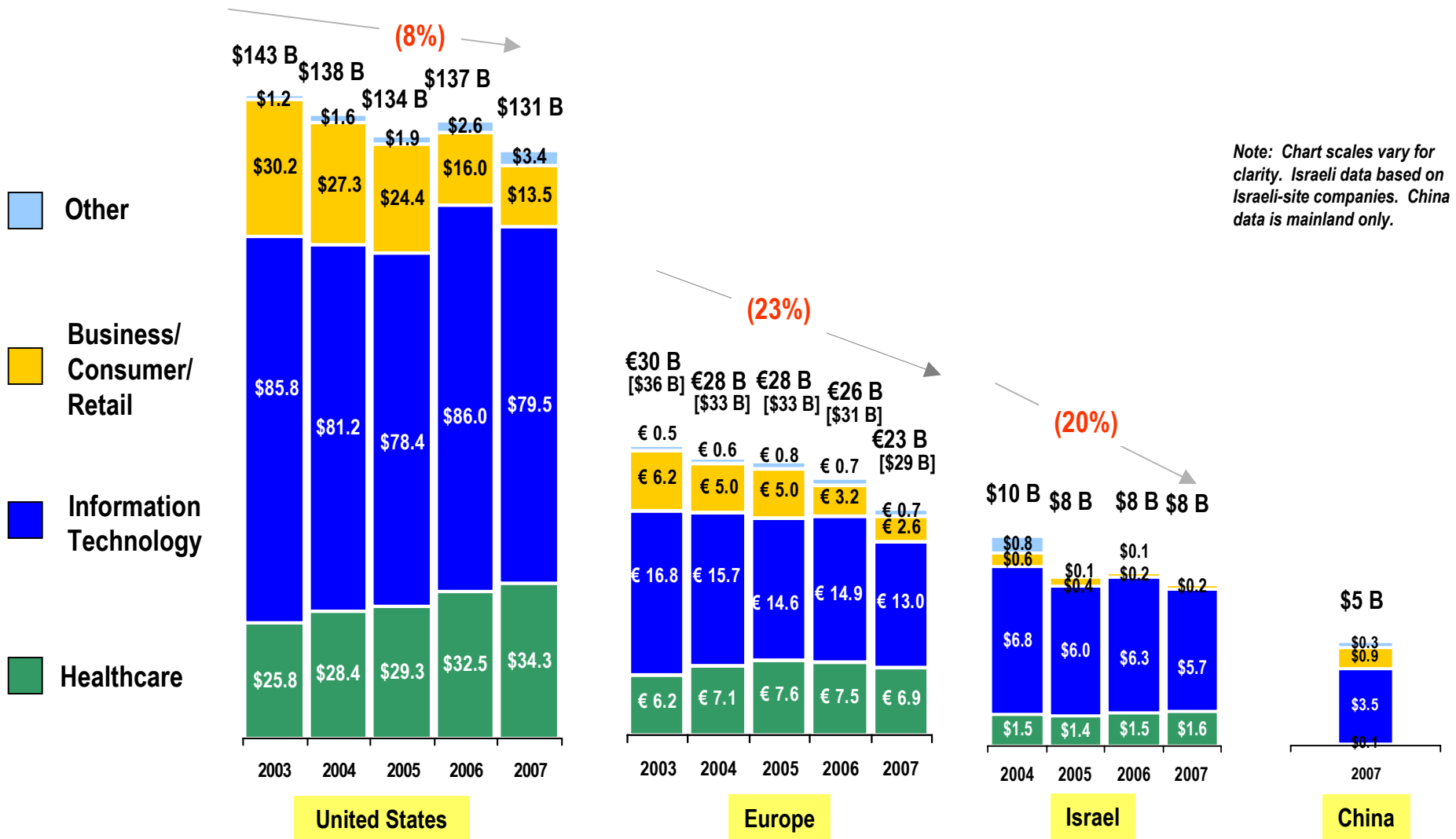
Total Number of Companies in the Pool

US Stabilizing; Mainland China Pool Comparable to Israel



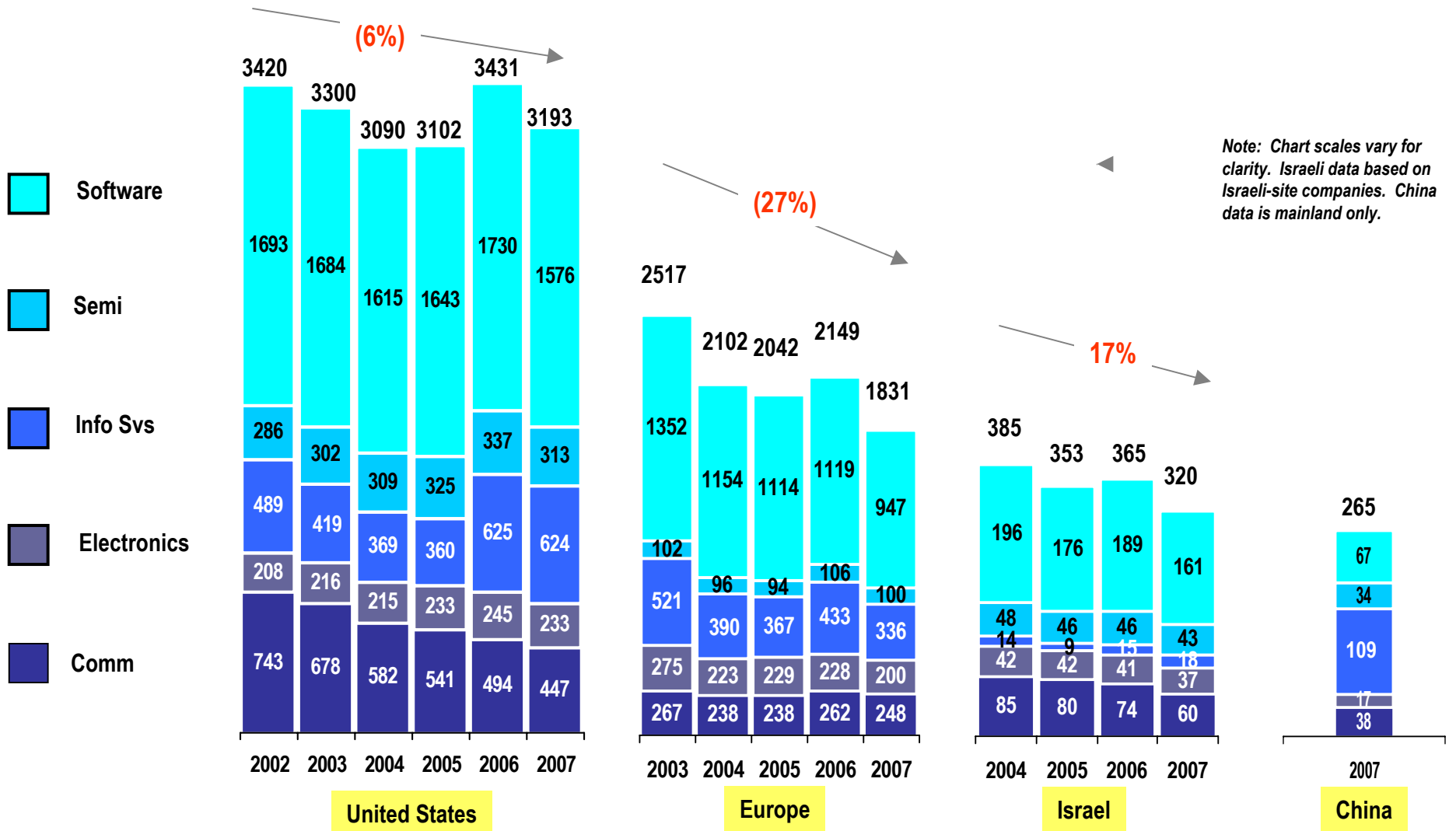
Total Cumulative Capital Invested in the Pool

Europe leads decline



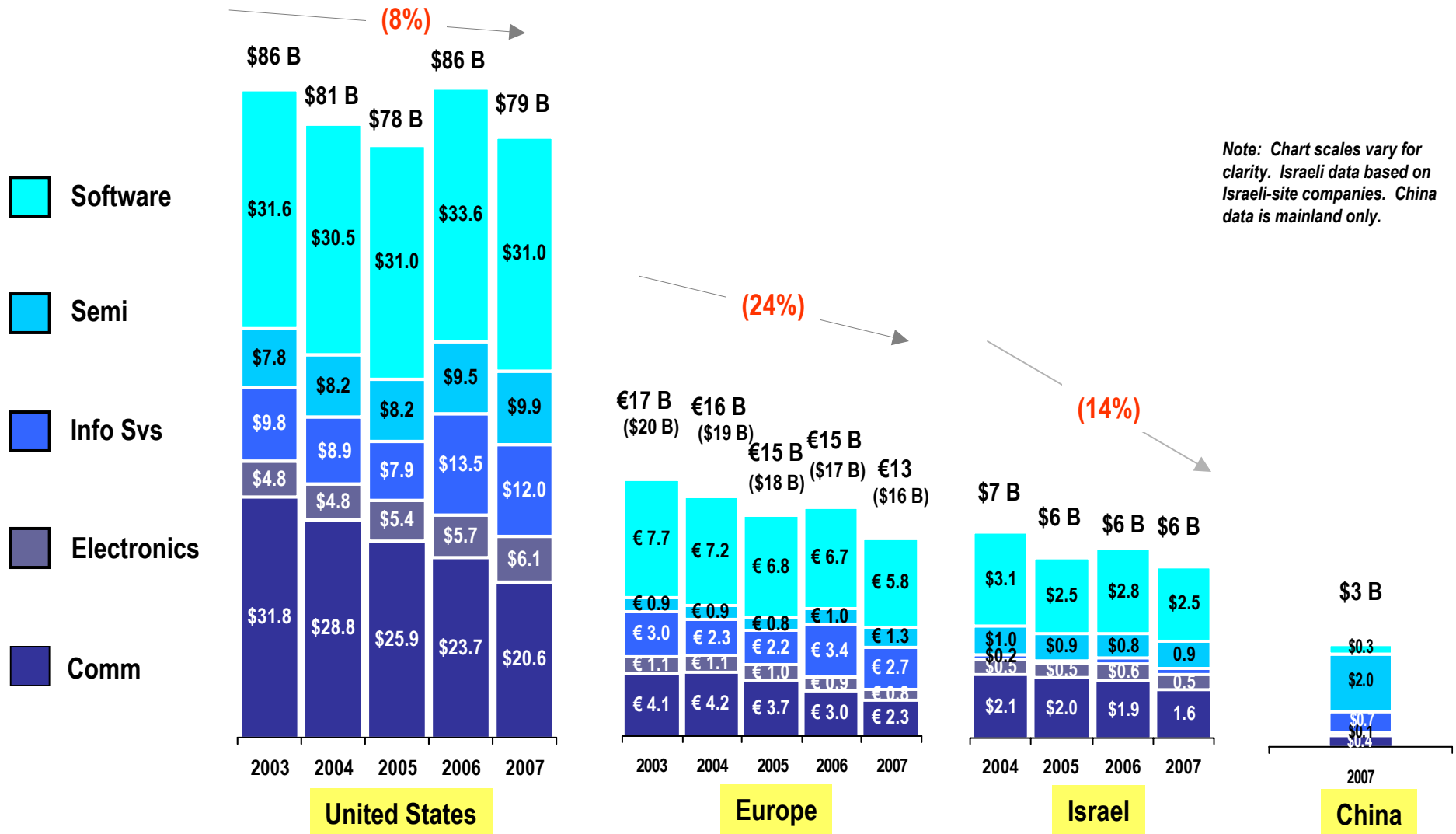
Information Technology Pool: Number of Companies

IT Growth in Recent Years Driven By Information Services



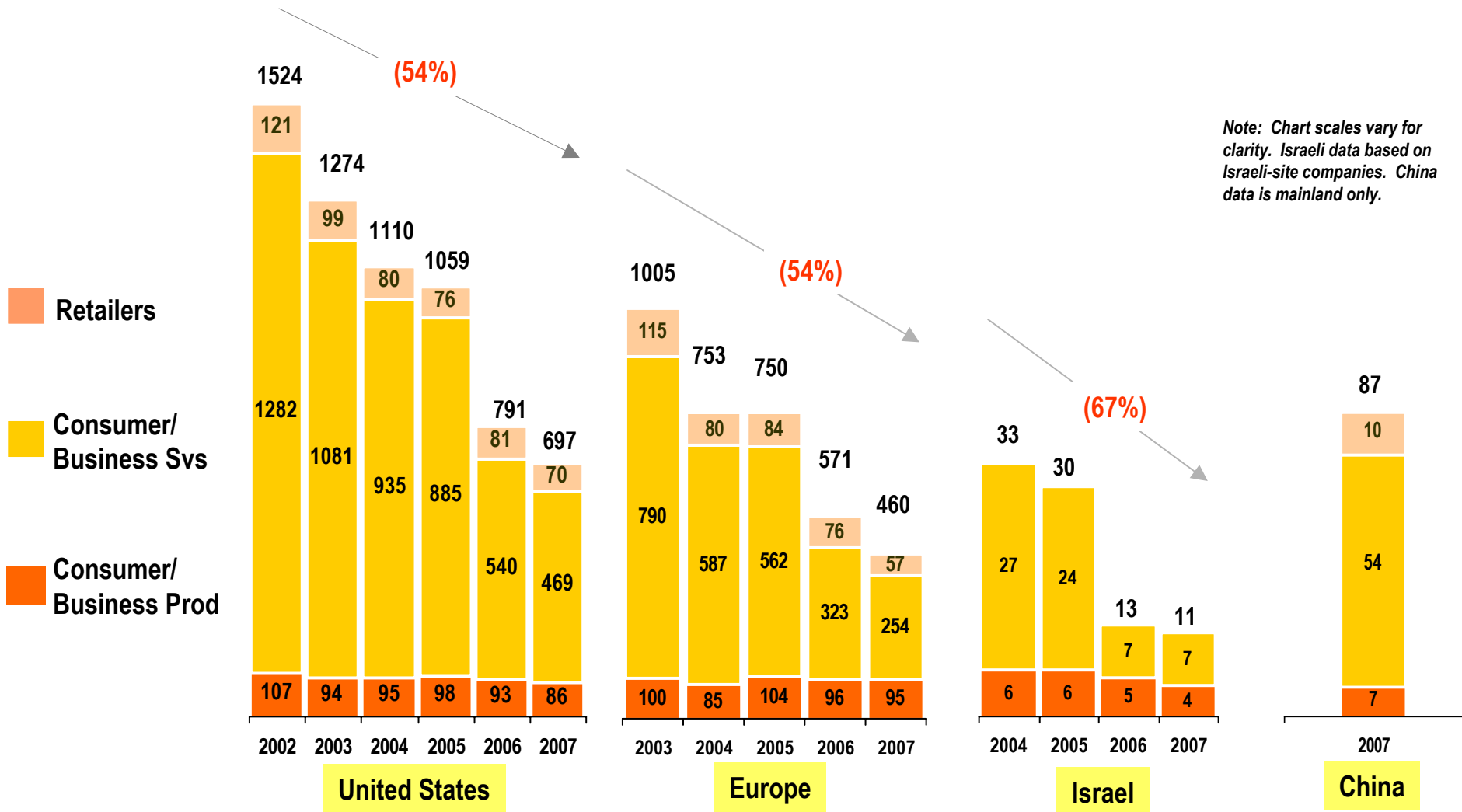
Information Technology Pool: Cumulative Capital Invested

Information Services Shows Growth in US; Semiconductors in Europe



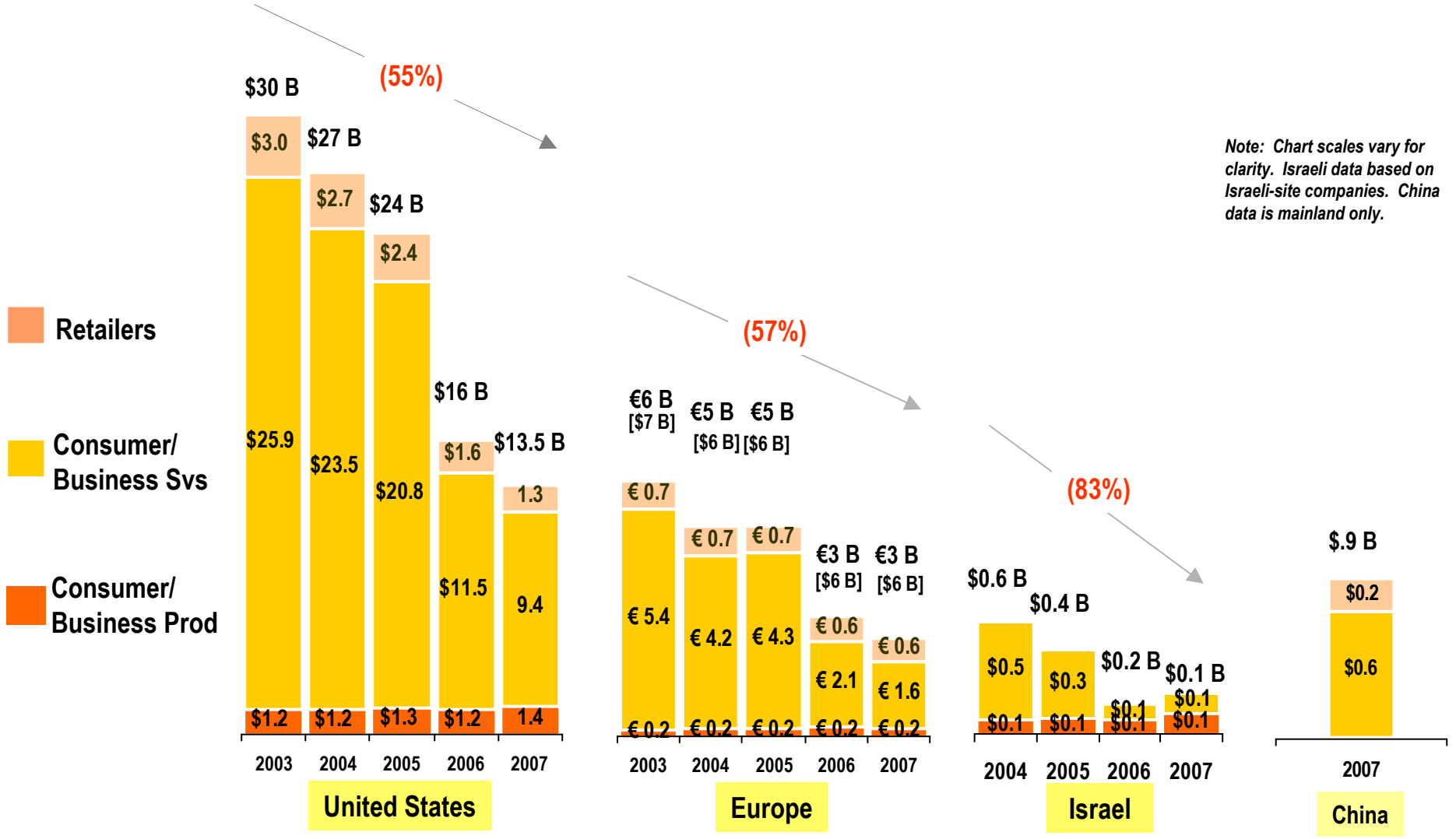
Business/Consumer/Retail: Number of Companies

Continued Declines in Developed Markets; China Shows Focus on Services



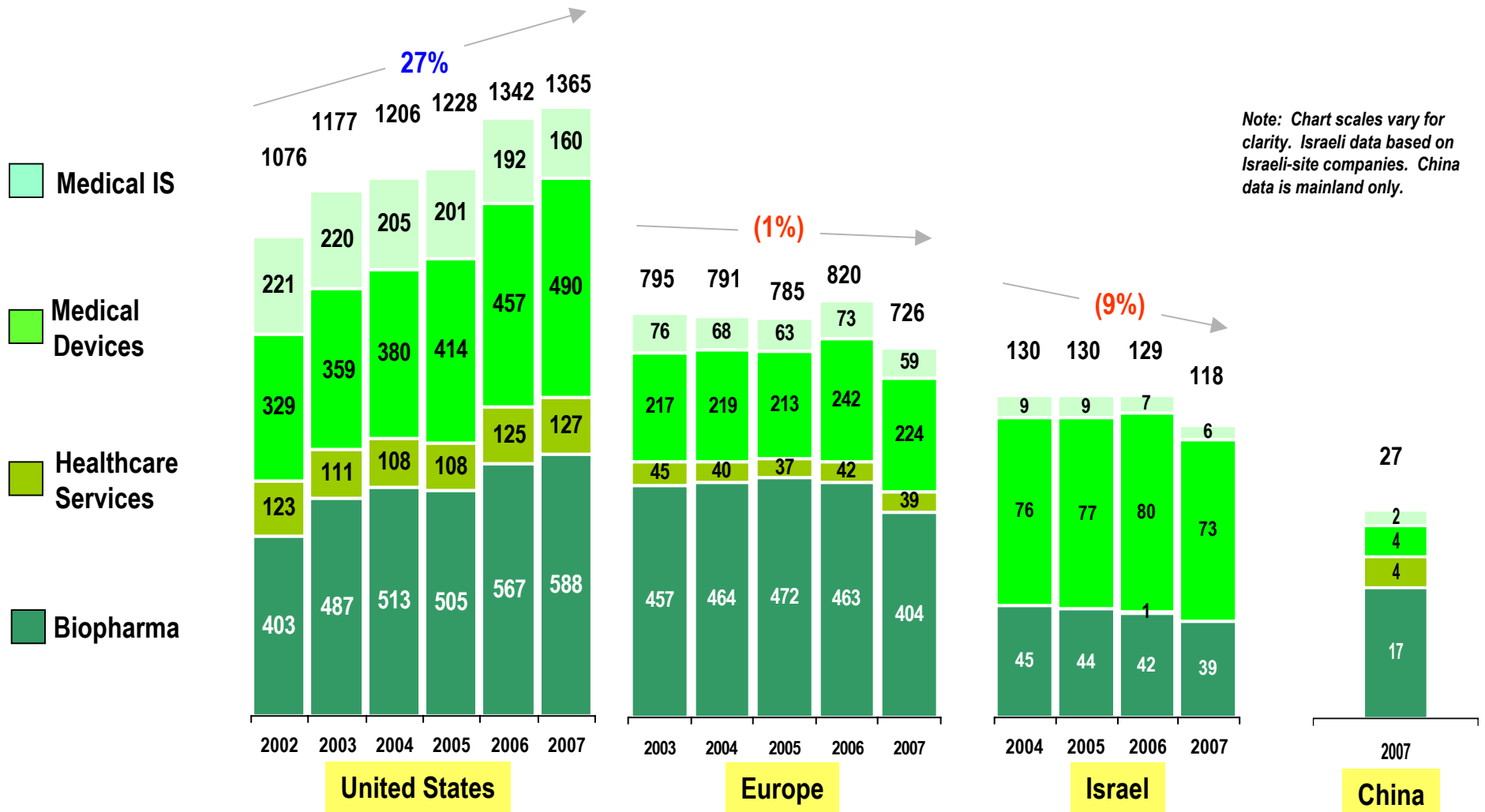
Business/Consumer/Retail: Cumulative Capital Invested

Across the Board Declines



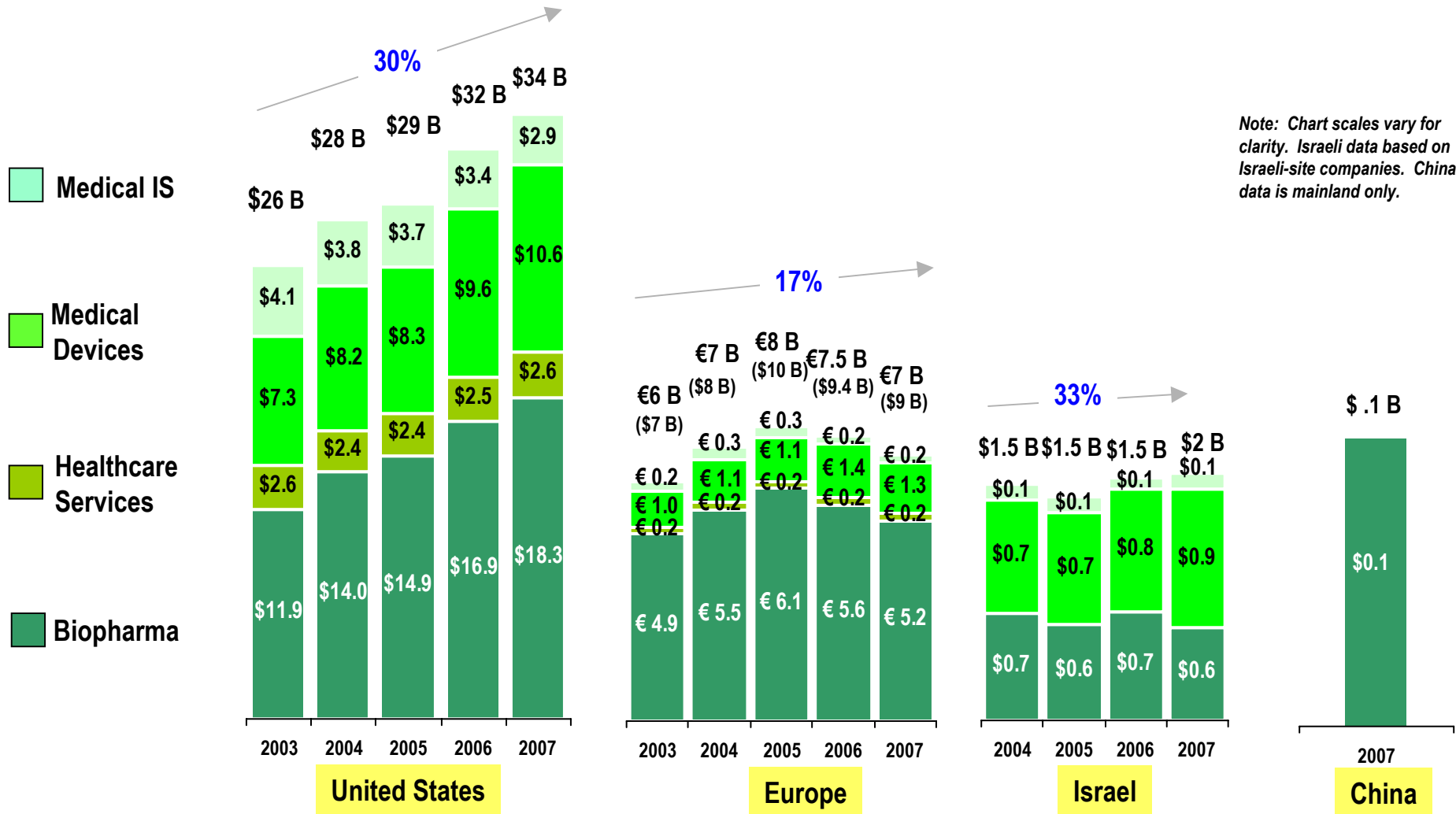
Healthcare: Number in Pool

US Shows Strong Growth in Healthcare Pool



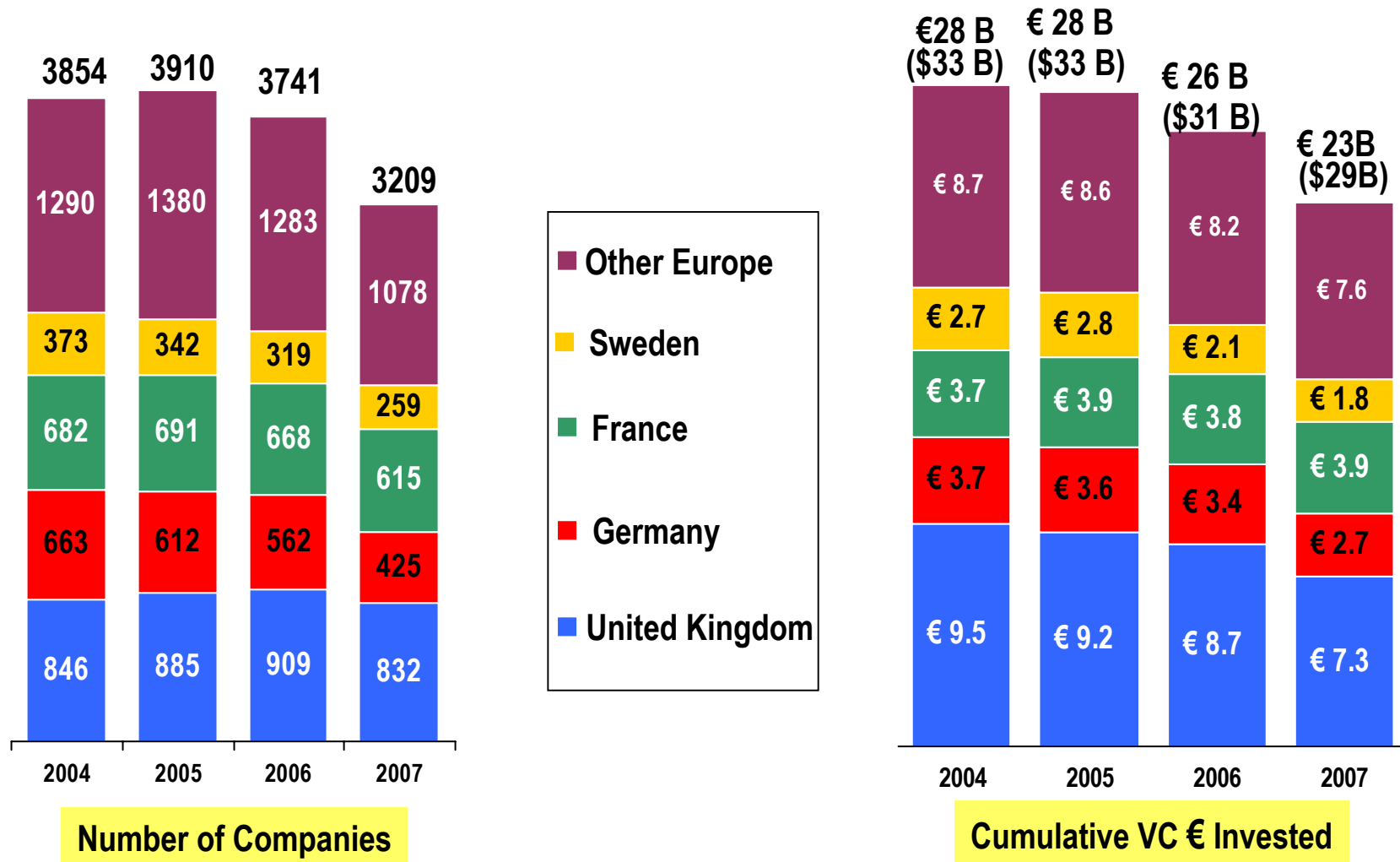
Healthcare: Cumulative Capital Invested

Increasing Capital in US, Europe and Israel



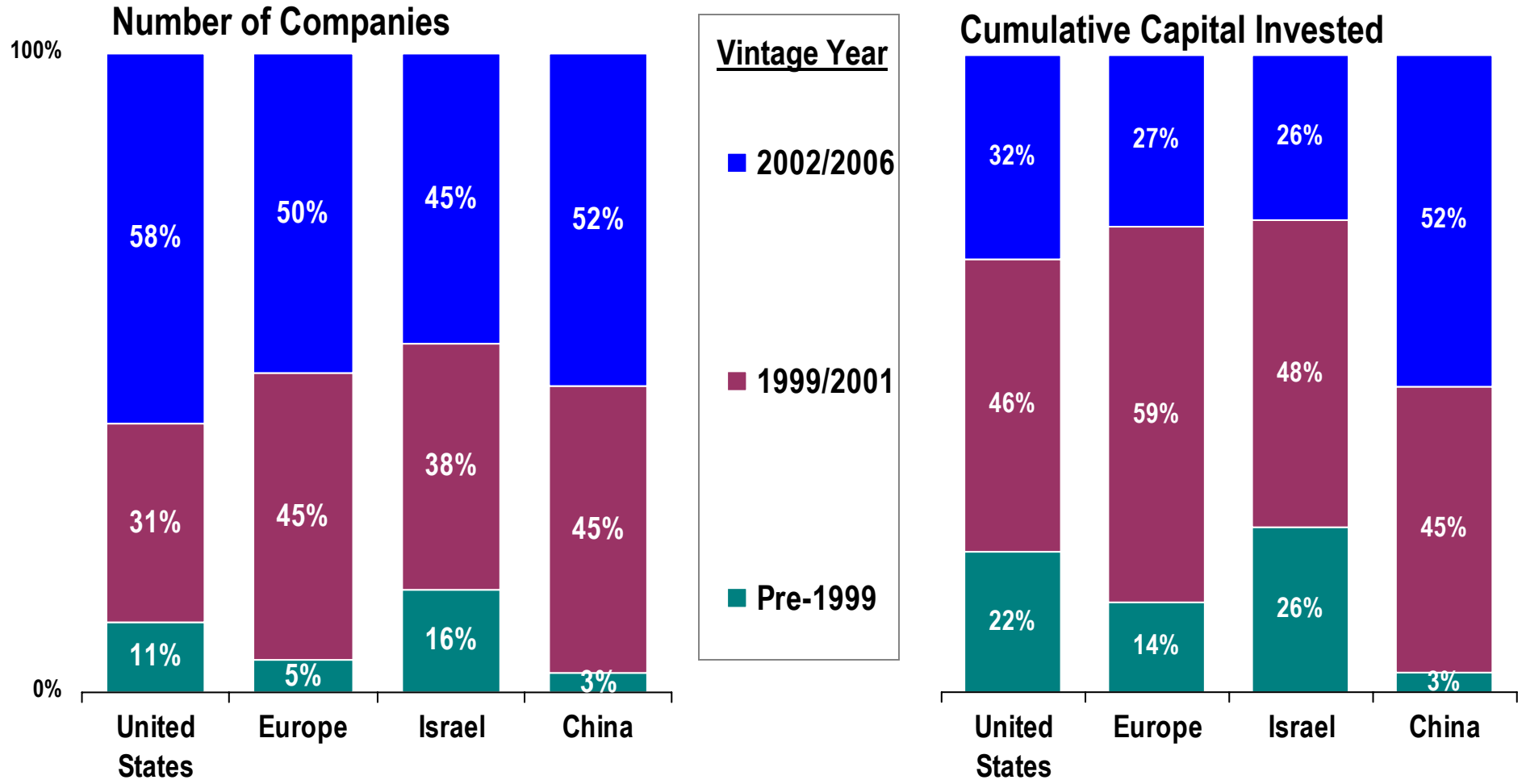
Pool By Major Regions: Europe

UK Maintains Base of Companies



Current Pool By Year of Initial Financing (Vintage Year)

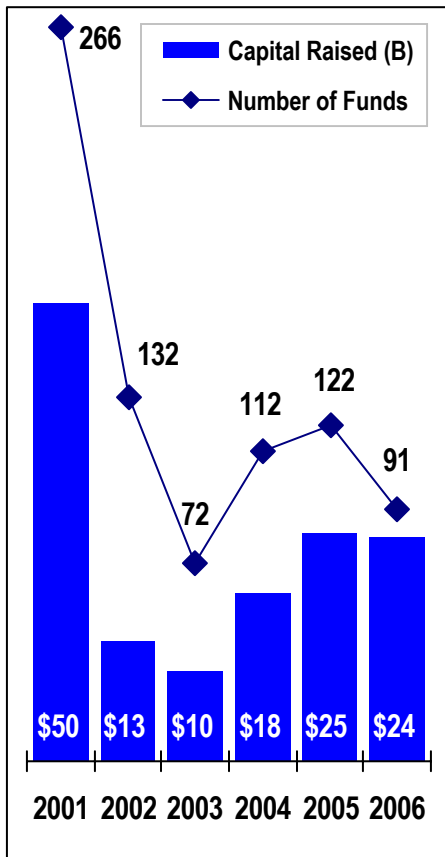
*Pool Population Shifting Away From Bubble-Era Companies, Especially in US
Post-Bubble Companies Clearly More Capital Efficient*



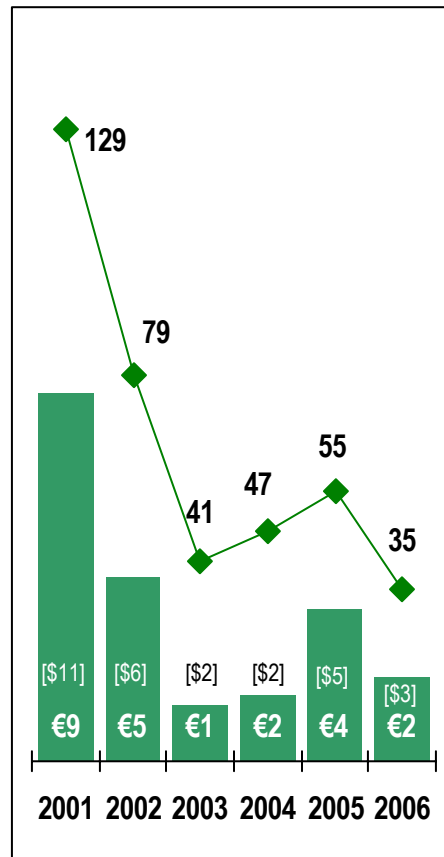
II. Pool Of Active Investors

Venture Capital Funds Raised

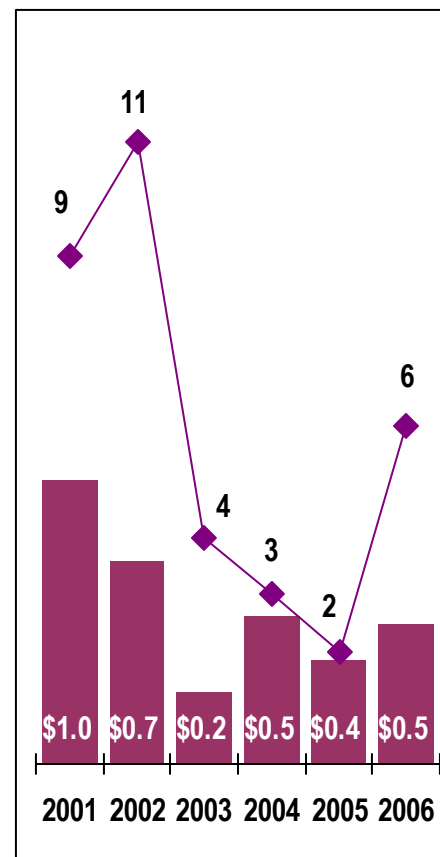
A New Fundraising Cycle Began in 2003...



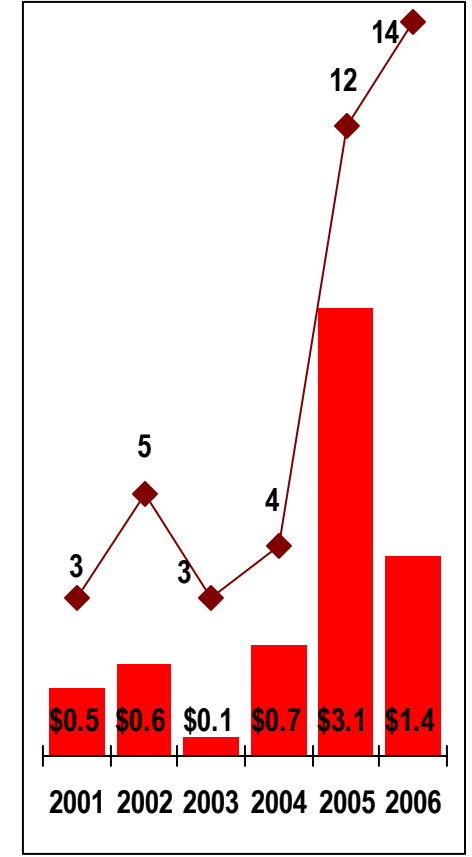
United States



Europe



Israel

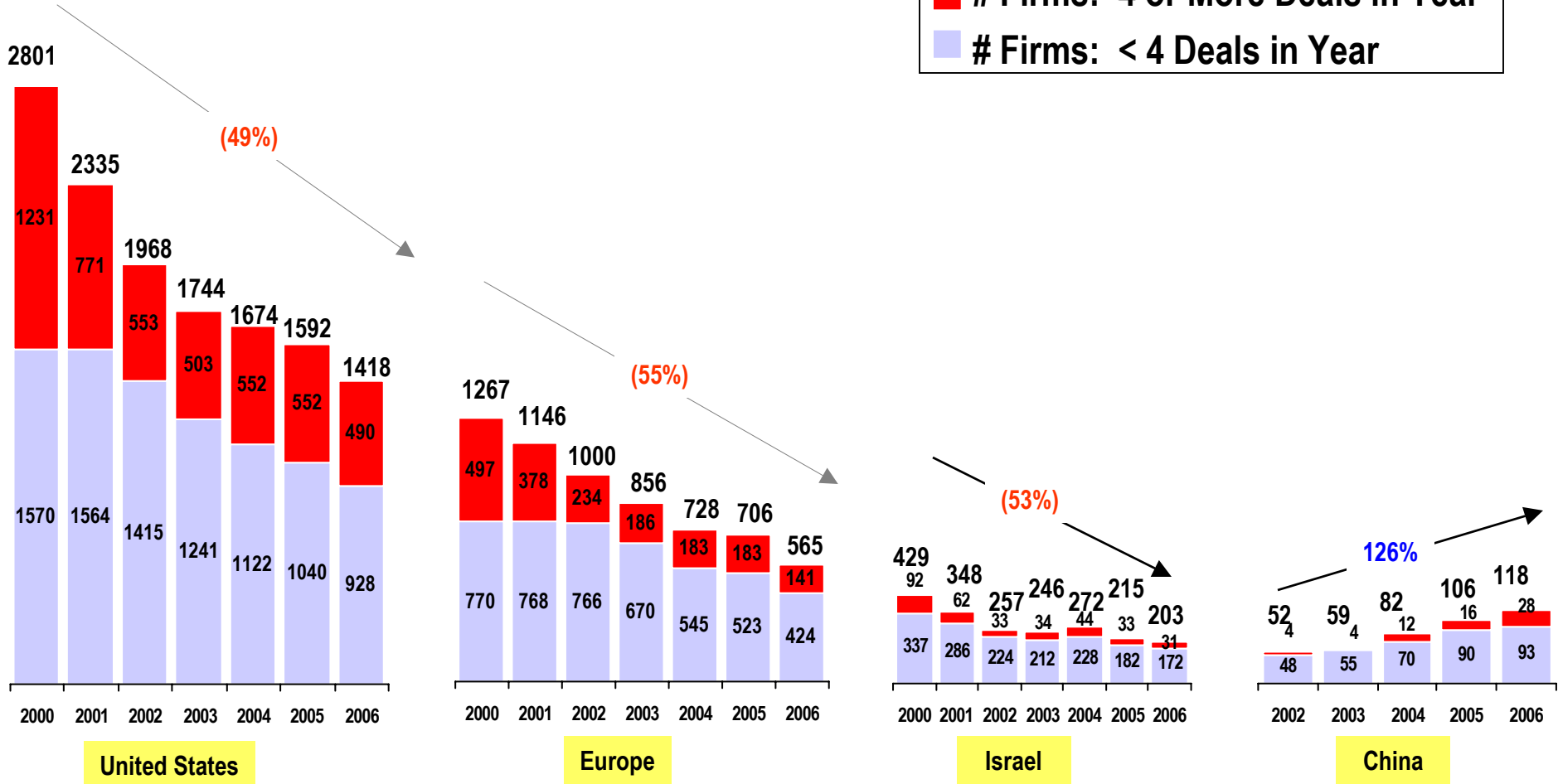


China

Investor Pool: Number of Firms Investing In All Industries

..But the Number of Active Firms Continues to Decline Everywhere Except China

■ # Firms: 4 or More Deals in Year
 ■ # Firms: < 4 Deals in Year

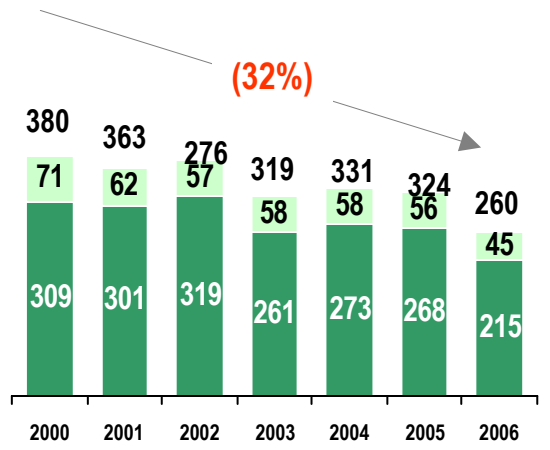
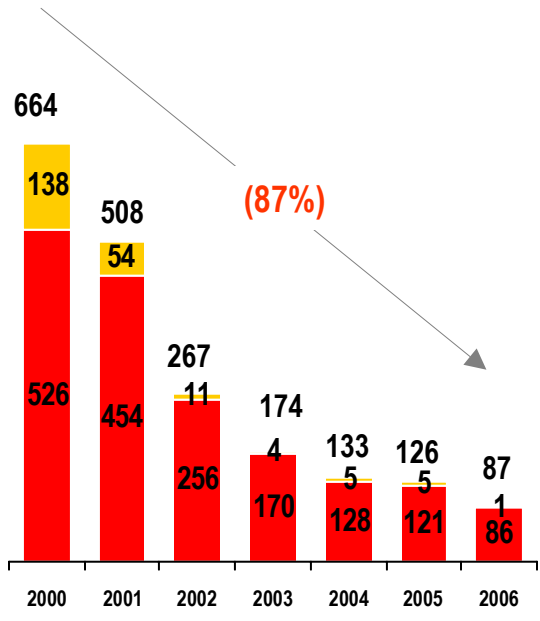
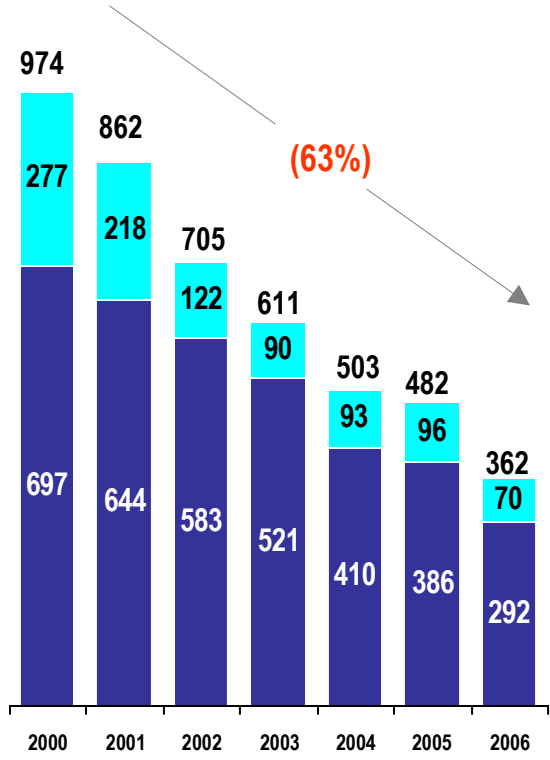


Europe: Number of Active VC Firms Investing By Segment

■ # IT Firms: 4+ Deals/Year
■ # IT Firms: < 4 Deals/Year

■ # BCR Firms: 4+ Deals
■ # BCR Firms: < 4 Deals

■ # HC Firms: 4+ Deals
■ # HC Firms: < 4 Deals



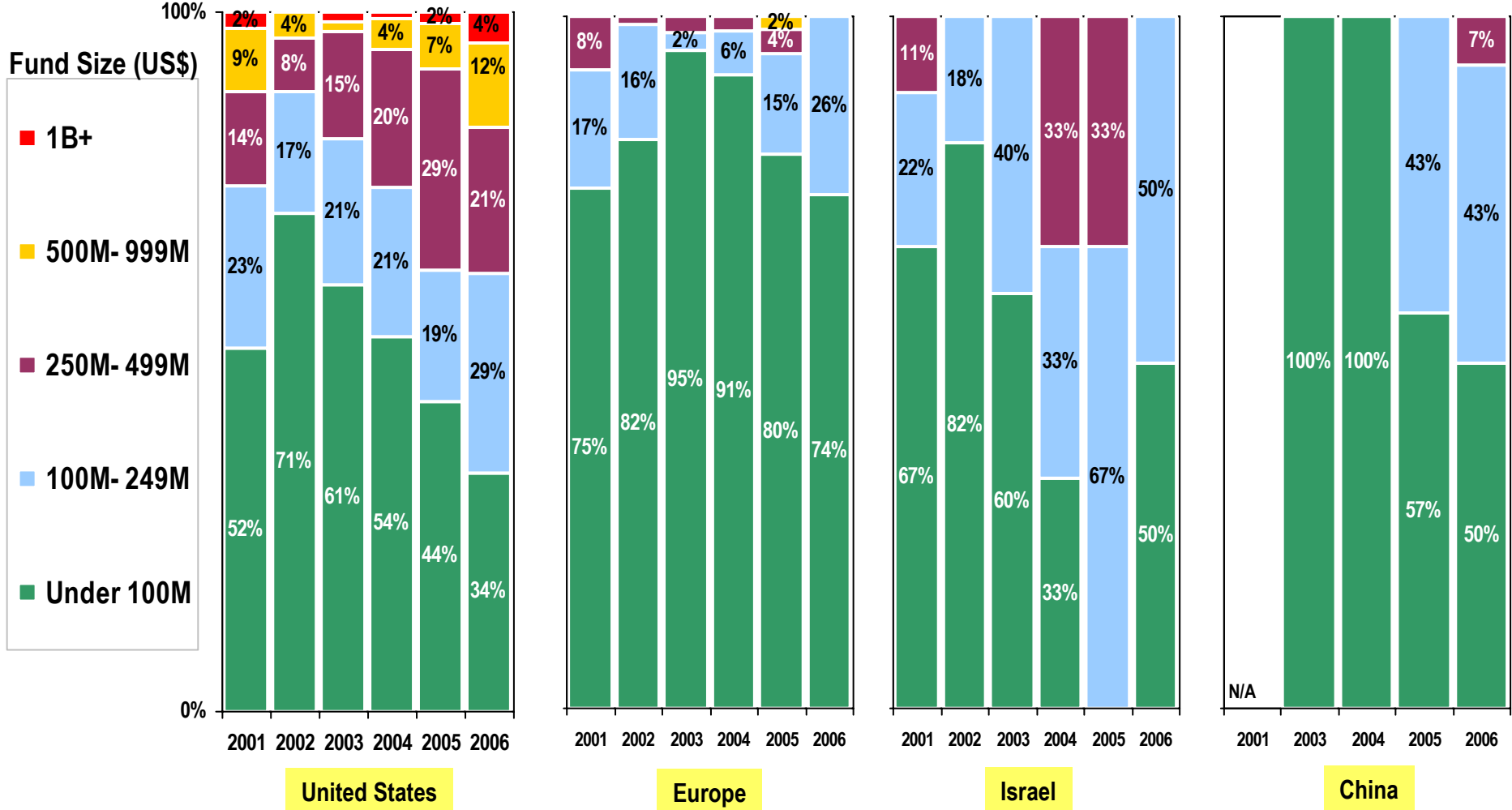
Note: Investors are not unique and can be counted in more than one industry group.



Quality In Everything We Do

Distribution of Annual Funds Closed by Size

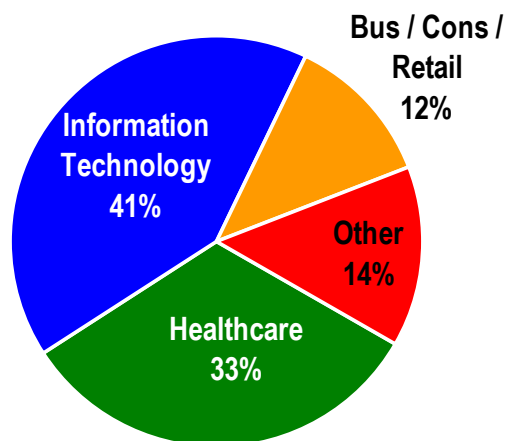
*Larger Funds Being Raised in All Geographies
2005 and 2006 Marked Arrival of Big Funds in China*



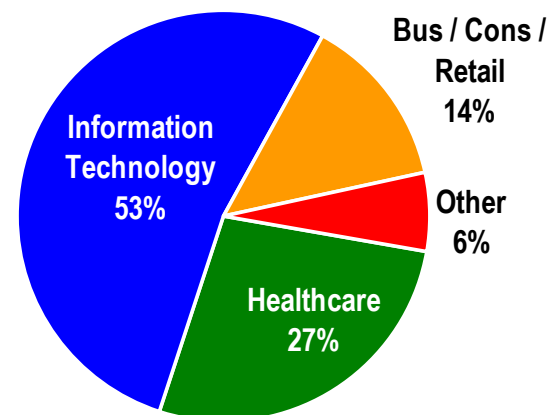
III. Exits From The Pool In 2006

European Exits from Pool in 2006: M&A, IPO & Closed By Segment

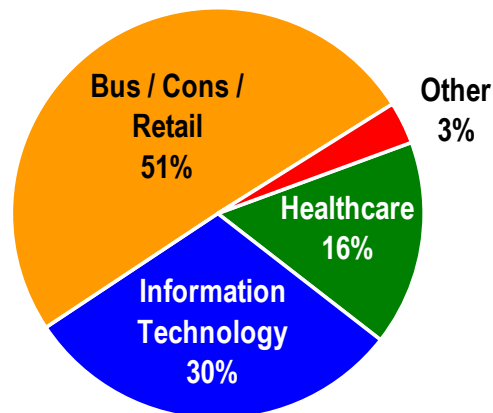
IPO: 91 Companies



Closed: 162 Companies



M&A: 242 Companies



2005 Comparison

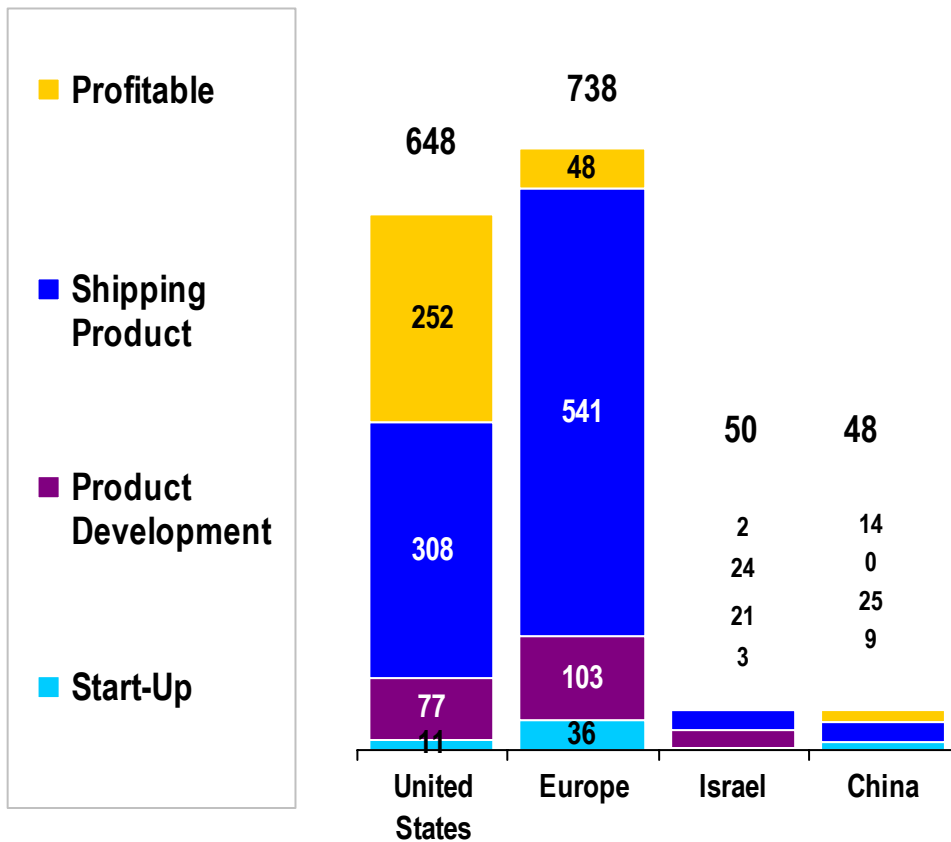
- IPOs: 69
- M&A: 204
- Closed: 158

2007 Exit Pipeline: Companies With Last Financing in 2001 or 2002

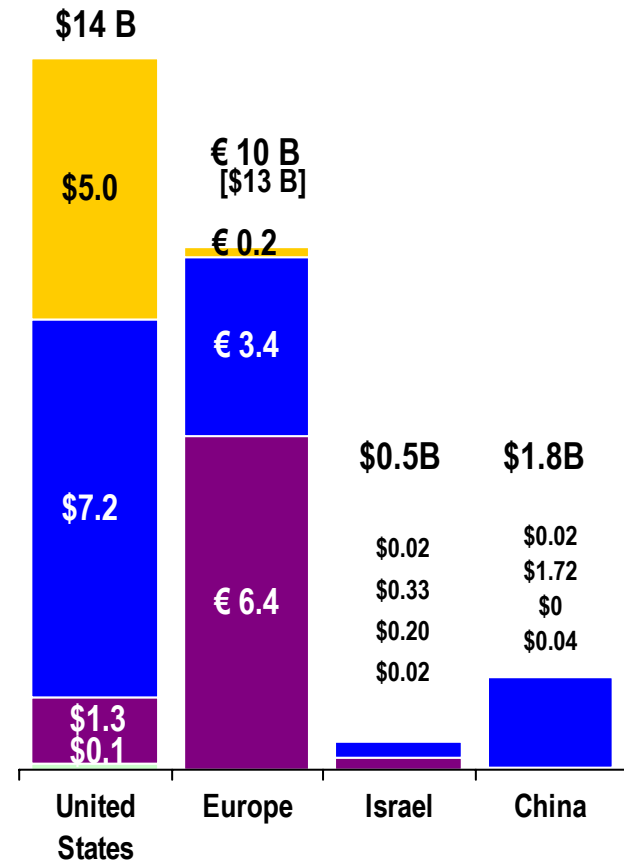
316 Profitable Companies With \$5.3 Billion Invested

873 Shipping Product Stage Companies With \$13.5 Billion Invested

**Number of Companies:
Last Financed in 2001 or 2002**

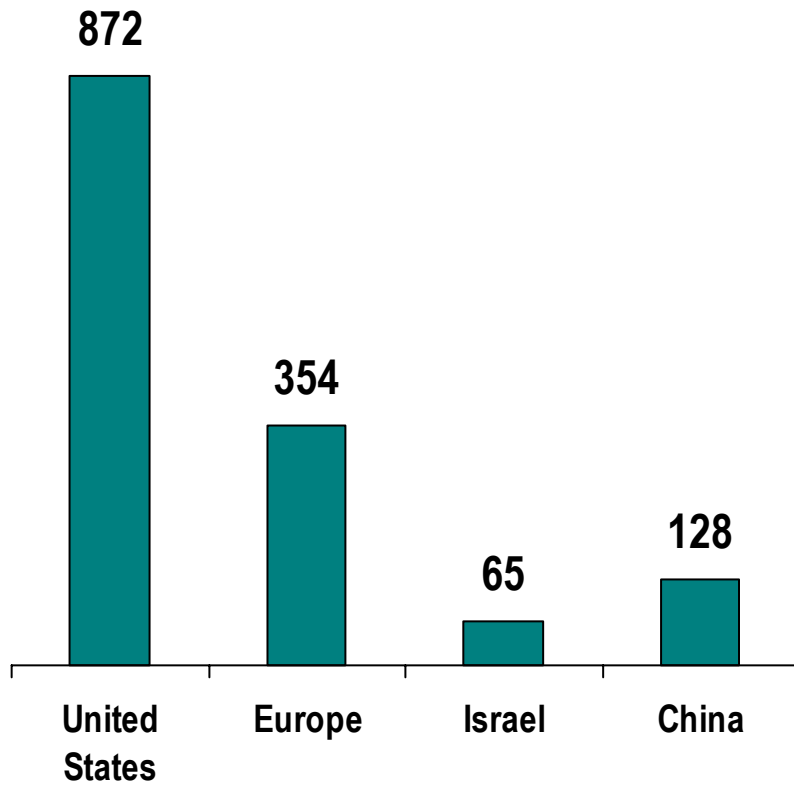


Cumulative Capital Invested

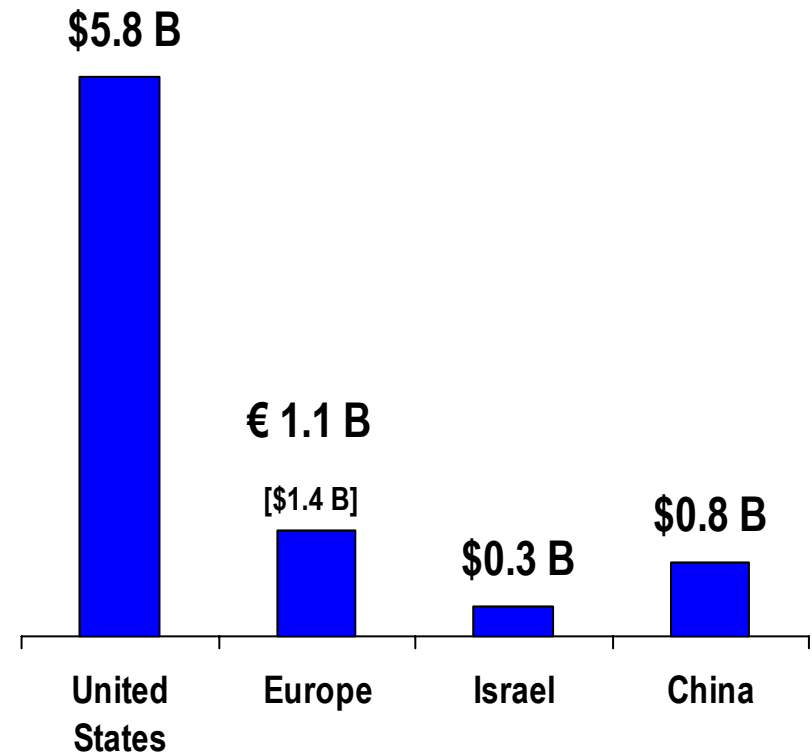


IV. Initial Rounds

2006 Initial Rounds

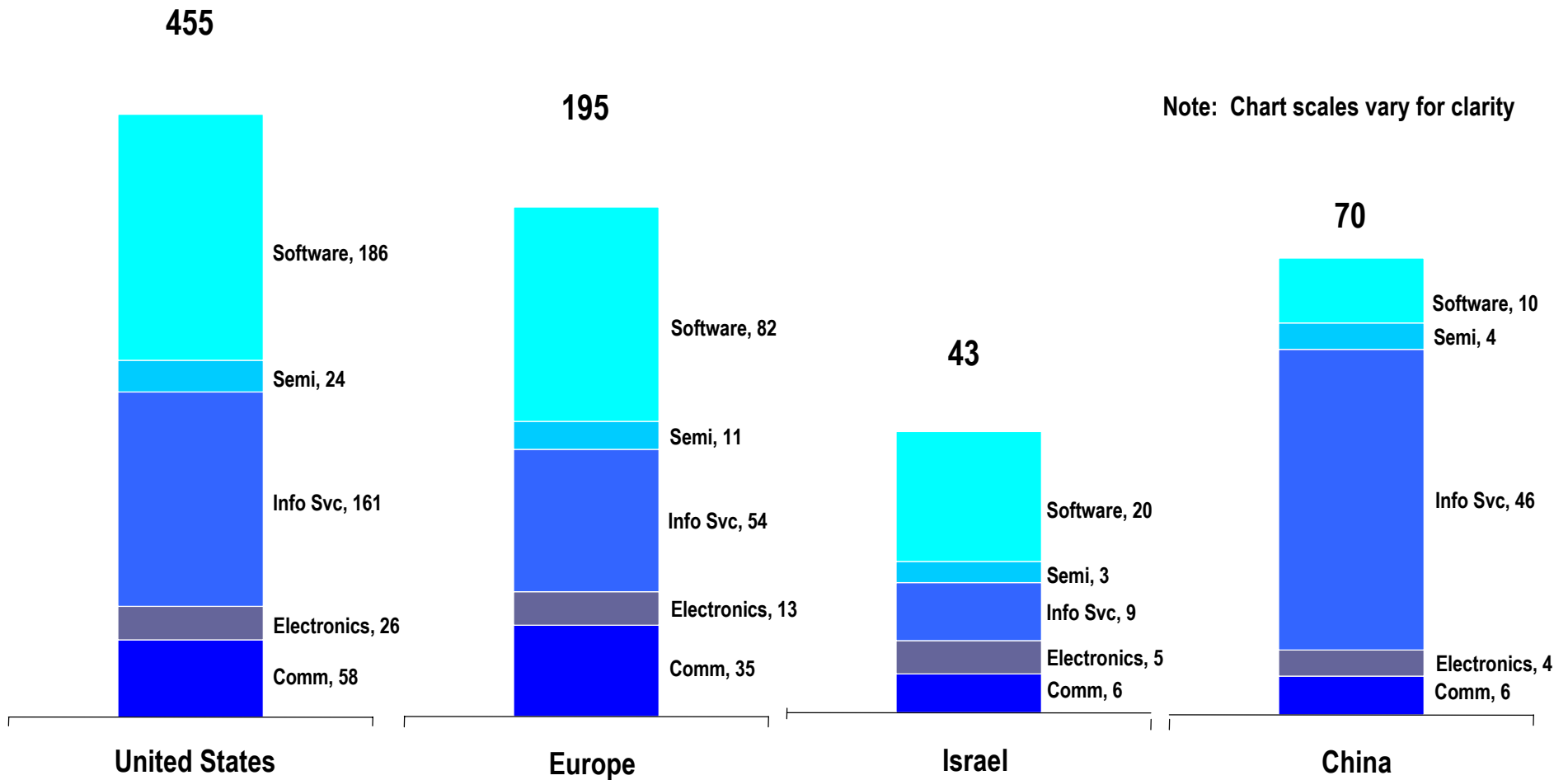


Number of Initial Rounds

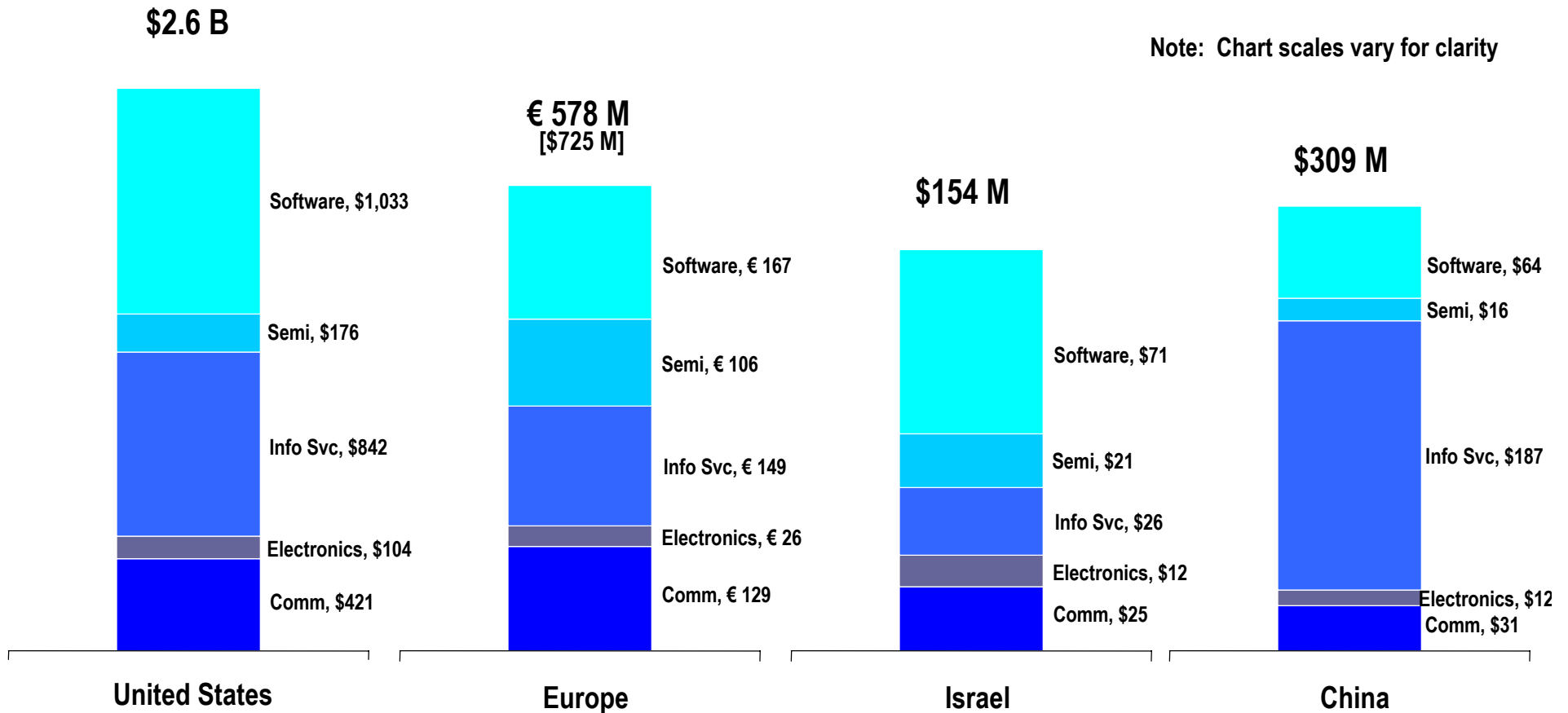


Capital Invested

Information Technology: Number of Initial Rounds

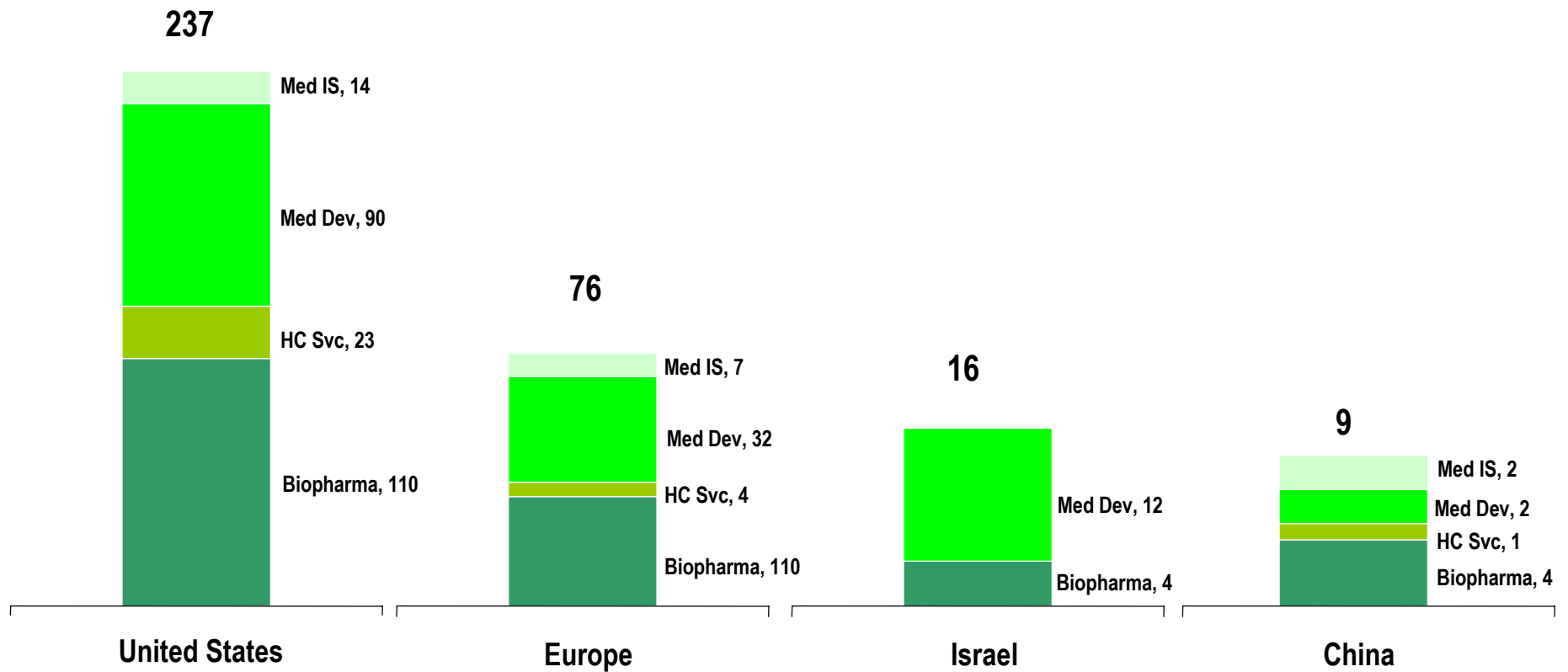


Information Technology: Initial Round Investment



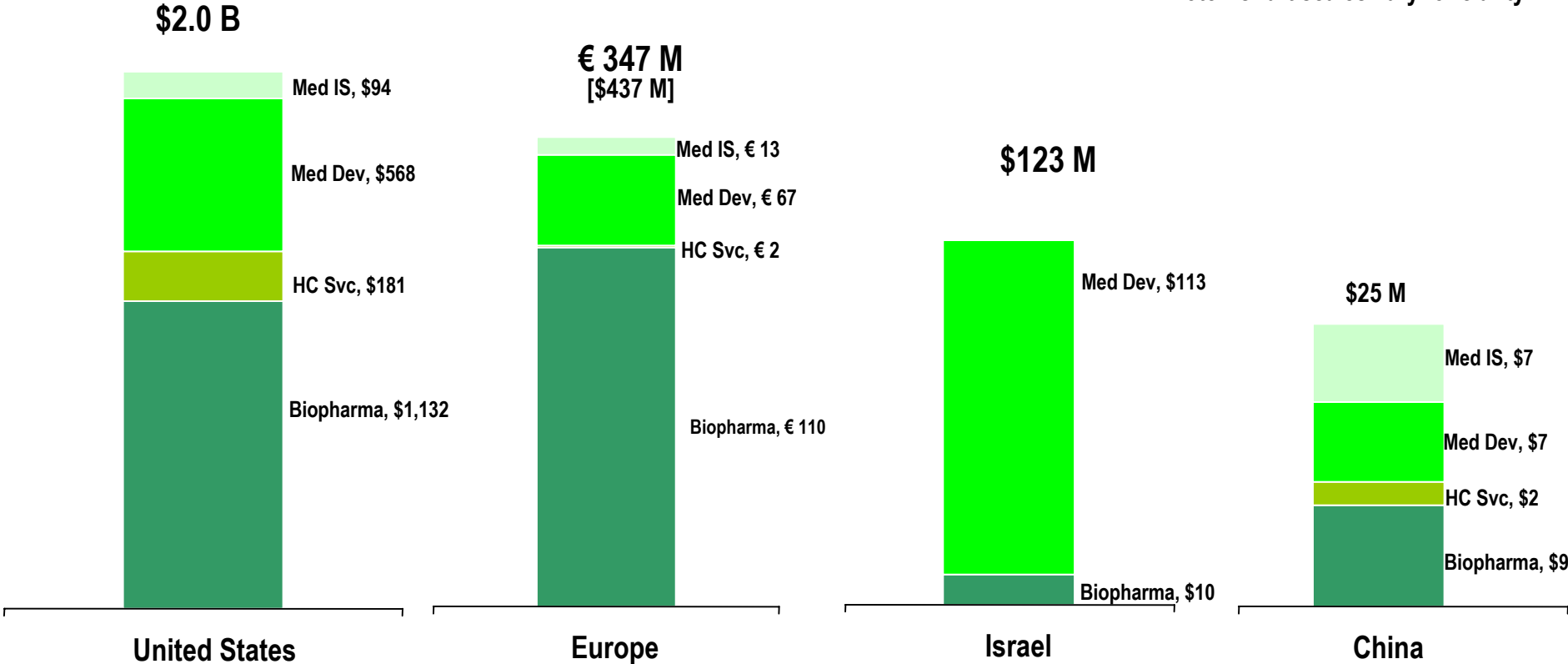
Healthcare: Number of Initial Rounds

Note: Chart scales vary for clarity

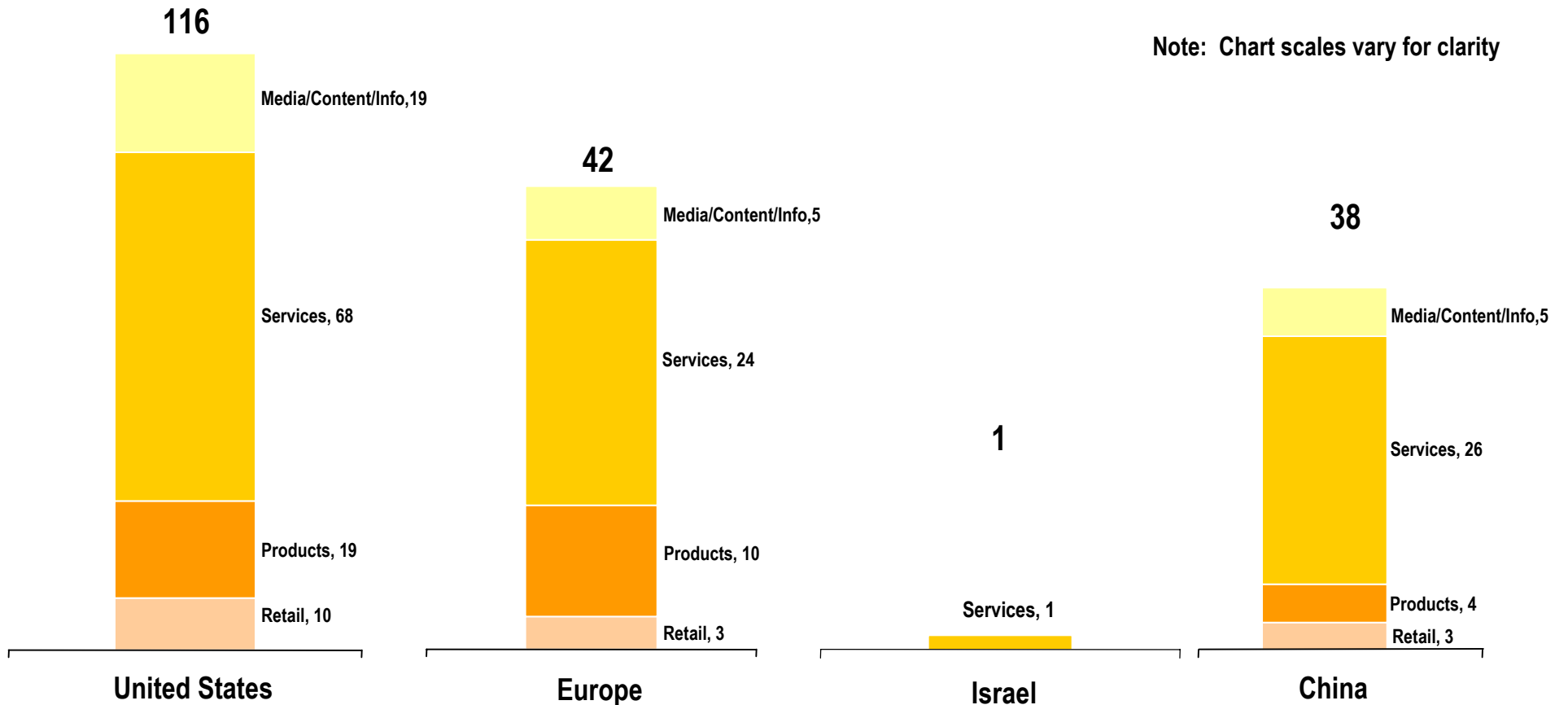


Healthcare: Initial Round Investment

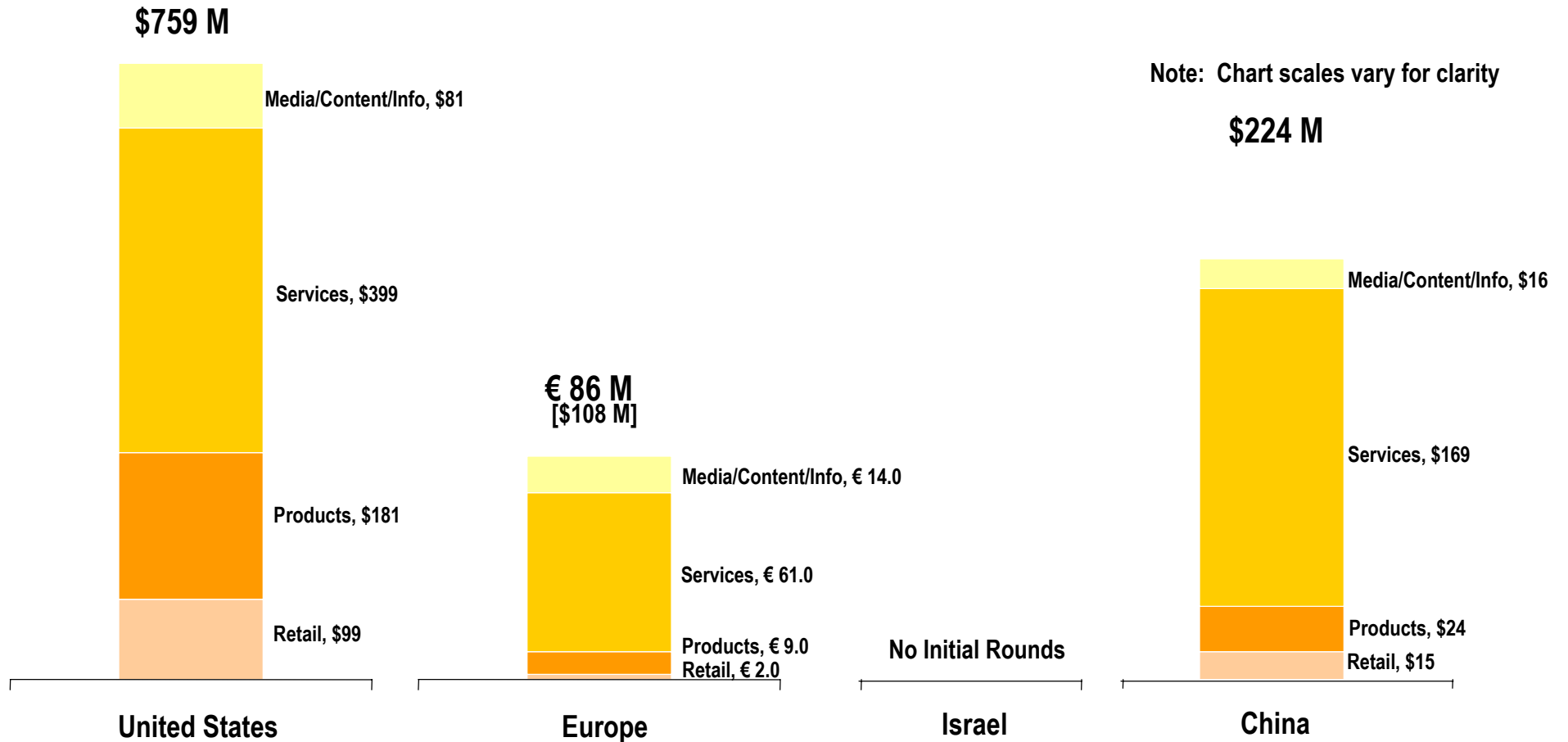
Note: Chart scales vary for clarity



Business/Consumer/Retail: Number of Initial Rounds



Business/Consumer/Retail: Initial Round Investment



2006 Initial Rounds: Top Industry Codes

United States

Industry Code	#
Connectivity/ Communications Tools	66
IT Business Services	59
IT Consumer Services	53
Business Applications Software	49
Biotechnology Therapeutics	49
Network & Systems Management Software	36
Business Services (Not Financial)	32
Financial Institutions & Services	26
Pharmaceuticals	25
Vertical Market Applications Software	22

Europe

Industry Code	#
Connectivity & Communications Software	36
Biotechnology Therapeutics	28
Business Applications Software	26
Business Services (Not Financial)	19
IT Business Services	16
Network & Systems Management Software	13
IT Consumer Services	13
Electronic Components	11
Vertical Market Applications Software	10
Application-Specific Integrated Circuits	9

Israel

Industry Code	#
Network & Systems Management Software	6
Application-Specific Integrated Circuits	5
Connectivity & Communications Software	5
Business Applications Software	5
Database Software	4
Vertical Market Applications Software	2
Computer Systems	2
Therapeutic Devices (Invasive)	2
Electronic Components	2

China

Industry Code	#
IT Consumer Services	31
Business Services (Not Financial)	15
IT Business Services	12
Alternative Energy Production	6
Media, Content & Information	5
Education & Training Services	5
Wireless Communications Equipment	4