

Netanyahu: Israel Can Make Top 10 in GDP per capita

In a press conference held in April, marking two years in office, Minister of Finance Benjamin Netanyahu announced Israel will undergo an economic revolution within a decade, to reach the top ten countries in the world in terms of per capita income and standard of living. Netanyahu mentioned Ireland as a successful economic example, which was able to end many years of discordant employer-employee relations, thereby putting the country on the path to growth. Netanyahu added that he planned to privatize a large number of government-held companies as soon as possible.

In May, the Government of Israel sold its controlling interest in Bezeq (TASE: BZEQ), Israel's incumbent carrier. Apax-Saban group, led by media mogul Haim Saban and leading British private equity firm Apax, won the tender. The state sold 30% of Bezeq, for approximately \$940M, with an option on its remaining further 10.7% stake.

Israel VCs Raised \$724M in 2004

Israel's venture capital funds raised \$724M in 2004, according to the annual survey of the IVC Research Center. These figures follow two drought years: In 2003 just \$14M were raised, while in 2002 there were net returns of capital totaling \$174M.

The report says that the amount raised in 2004 was mainly made up of \$300M raised by Pitango for a fourth fund, \$200M raised by Gemini for a fourth fund, and Giza Venture Capital's first closing of \$120M for its fourth fund.

IVC Research Center and Giza Venture Capital chairman Zeev Holtzman said, "Total capital sought by Israeli funds is more than \$4B. We estimate, however, that in 2005 about \$1.5B will be raised by VCs. As a result, a shortage of capital for investments in technology companies is expected. This situation is in contrast to the US, where there is an overhang of capital. Israel, as a result, will continue to have attractive opportunities."

IVC estimates that \$1B in capital is currently available for investment by Israeli venture capital funds, of which \$500M are intended for high-tech company seed investments. The remainder is reserved for follow-on investments.

Up and Out

With only three months remaining before Israel's historic evacuation of Gaza Strip, the indications of a positive economic impact as a result of this political move are growing stronger. The *Economist* and other leading economic sources expect that Israel will experience strong economic growth following the evacuation.

According to forecasts, export, investments, private consumption, salary levels and government expenses will rise, while the unemployment rate will decrease sooner than previously expected. The budget deficit target will be met, notwithstanding expenses stemming from the evacuation plan.

The real estate market in Israel, which has undergone a deep recession in the past years, is expected to recover in the forthcoming year. Resettlement of evacuated Israeli Gaza Strip inhabitants will mean a strong demand for new housing units and may generate real growth in this significant sector. In addition, tourism has made a strong recovery and the Minister of Tourism recently projected that Israel will return to the peak level of two million tourist entries per year. The *Economist* predicts that the positive trend of recovery of the Israeli market will continue through 2006.

The high-tech sector in Israel continues to expand independently of political developments, Exit prospects for Israeli companies have improved and the number of IPO and M&A transactions is increasing. There have been dozens of such transactions since the beginning of 2005. Especially prominent is the trend of Israeli high-tech companies going public in London. Financial sources estimate that the second half of 2005 will also show substantial growth in the number of Israeli companies going public on Nasdaq.

If the State of Israel will manage to maintain the strong positive momentum, generated by the evacuation process, the next two years seem to hold high prospects for the Israeli economy.

Sincerely



Aharon Beth Halachmi
Managing Partner

PRIVATE PLACEMENTS

- **Actelis Networks** raised \$23M (Series D) from ATA Ventures (lead), DuPont, Nova, Innovacom, Carlyle, NEA, USVP & Vertex. Actelis has developed a platform which enables high-quality broadband services over copper networks.
- **AesThera**, which has developed an innovative science for skin treatments, raised \$8.5M (Series A) from MedVenture (lead), Adam Street Partners, Yacha Sutton, Thomas Hardy & Zeev Tadmor.
- **ApNano Materials**, a nanotechnology company that is commercializing proprietary technology for nanospheres and nanotubes made from inorganic compounds, raised \$5M (Series B) from private Swedish investors.
- **BrainsGate**, which creates innovative solutions for treating central nervous system disorders, raised \$10M (Series A) from Boston Scientific (lead), Pitango, Alice Ventures & Infinity.
- **Cadent**, which manufactures and markets 3D digital imaging solutions for the dental industry, raised \$25M (Series E) from Star (lead), Pitango, Apax Partners, JP Morgan & Schroder Ventures Life Sciences.
- **Celltick**, the market leader in idle-screen services and interactive mobile broadcast, raised \$11M (Series C) from JVP & Amadeus Capital Partners.
- **Celletra**, which provides advanced network enhancement solutions for cellular networks, raised a \$5.7M internal round from Mofet, Gemini, Star & Infinity.
- **Devicescape Software** (formerly Instant802 Networks), which provides embedded platforms and enterprise applications that enable

manufacturers to create diverse wireless devices, raised \$12.2M (Series B) from Enterprise Partners & JAFCO (lead), Kleiner Perkins Caufield & Byers, August Capital & Applied Materials.

- **eASIC Corp**, which has developed a structured ASIC technology to reduce fabrication cost and time of customized high performance semiconductor chips, raised \$7.5M (Series B) from Kleiner Perkins Caufield & Byers & Vinod Khosla.
- **FolloWap**, leading provider of carrier-class IM and Presence solutions, raised \$16M (Series B) from Sequoia, Siemens, Carmel, Star, Koor & The Israel Corporation.
- **GO Networks**, which provides carrier-class, broadband wireless access solutions for large-scale, high-capacity indoor and outdoor deployments, raised \$20M (extended seed) from Benhamou Global Ventures, Accel Partners, Apax & Siemens.
- **Invoke Solutions** (formerly NetOnCourse), which develops a tool for data-driven decisions, raised \$6.5M (Series C) from Bain Capital Ventures (lead) & BEV Capital.
- **Lumus**, which has developed a revolutionary optical imaging technology, enabling a wide range of ultra-compact personal displays for mobile applications, raised \$6M (Series B) from Motorola (lead) & JGV.
- **Mintera Corp** raised \$18.5M (Series B) from Polaris Venture Partners & RRE Ventures (lead), Court Square, Star & Portview. The company has developed a technology enabling migration to 40 Gbps optical transport in metro, regional, long-haul, and ultra long-haul networks.
- **Mobilitec Communications**, which offers an integrated software

suite of products that enable mobile service delivery, raised \$12.1M (Series C) from Canaan Partners (lead), Duchossois, Lucent & AIG Orion.

- **Pegasus Technologies**, which provides handwriting input solutions for the PC, PDA and cellular markets, raised \$5M (Series E) from Hitachi, Pentel, Nippon Ventures & New Frontier Partners.
- **Red Bend Software** (formerly Emony) raised \$10M (Series D) from Greylock & Pitango (lead), Carmel, Infinity & Poalim Ventures. The company develops technologies for the distribution and management of software applications in various platforms, including desktop, cellular, PDA and home appliances.
- **Resolute Networks** (formerly Redux) raised \$5m (Series C) from Genesis (lead), Accel, Benchmark, Delta Ventures, Giza & Partech. The company is developing and marketing networking equipment and technologies for multi-service, circuit emulation, pseudo-wire and synchronization over Ethernet and IP access and metro networks.
- **Siano Mobile Silicon**, which develops silicon receivers for the emerging MDTV market, raised \$11.5M (Series A) from JVP (lead), Walden & Star.
- **Teledata Networks**, a provider of wireline access products and network solutions for telecom operators and service providers worldwide, raised \$19M (Series A) from Elron & Infinity.
- **TeraChip**, a fabless semiconductor company, providing next-generation merchant switch fabrics for switch and router systems, raised \$7.2M (Series C) from Accel Partners & Benchmark.
- **Transtech Control**, which develops and markets advanced control systems to airports

worldwide, raised \$25M (Series A) from Giza, Accel & Formula Vision.

- **Trendum**, which specializes in online media analysis, raised \$6M (Series A) from private investors.
- **Xeround Systems**, which provides scalable signaling software solutions to carriers that deploy VoIP and next generation IP services in large scale, raised \$6.5M (Series A) from Giza & Benchmark Capital.

EXITS

- **Juniper Networks** (Nasdaq: JNPR) will acquire Israeli start-up **Kagoor Networks**. Kagoor develops session border control technology that ensures customers for IP communications services. The deal is valued at \$67.5M in cash, plus options, incentives and equity compensation.
- **National Semiconductor Israel**, a subsidiary of National Semiconductor Corp. (NYSE: NSM), has signed a definitive agreement to sell the company's Israel-based PC Super I/O (the advanced PC division) business to **Winbond Electronics Corporation**, based in Taiwan. The deal is estimated at \$75M in cash.
- **Native Networks**, a developer of high-speed transport solutions for optical access networks, will be acquired by French communications giant **Alcatel** (Paris:CGEP.PA; NYSE: ALA), for \$55M in cash.
- **Oplus Technologies**, a fabless semiconductor company that designs, develops and markets integrated circuit and software solutions for flat panel Plasma and LCD-TVs, Projection Systems, LCD multi-function monitors and emerging digital display applications, was acquired by **Intel** (Nasdaq:INTC) for \$100M in cash.

- **Modem-Art**, which develops and markets sophisticated programmable baseband processor chips, software and reference design for 3G terminal manufacturers, was acquired by **Agere Networks** (NYSE: AGR), for \$145M in cash and stock.
- **Ki-Bi Mobile Technologies**, which provides solutions for the physical distribution of content to mobile users, raised £10M before expenses on AIM, London's Alternative Investment Market, in a placing with UK institutions of new ordinary shares at a price of 98 pence per share.
- **Emblaze's** (LSE: BLZ) mobile content services technology subsidiary **Adamind** (AIM:ADA) raised £15M on AIM in February. Market cap reached \$90M.
- **Shamir Optical** (Nasdaq: SHMR) raised \$47.6M in March at a company value of \$225M. The company has developed unique Eye-Point Technology that simulates human vision, and a mathematical software program for optimally designing progressive and aspheric lenses.

VENTURE CAPITAL

- **Sequoia Capital** plans to raise its second wholly designated fund for investment in Israel, at a scope of \$175-225M.
- Israel-based VC fund **StageOne Ventures** is in the advanced stages of raising a \$100M follow-on fund.
- Israel-based **Genesis Partners** has raised just over \$100M to date, and will close its third fund at \$150-175M in a few months.
- London-based **Alta Berkeley** Venture Partners announced that it will open an office in Jerusalem, following a strategic decision by the fund to focus on investments in Israel and the UK.

Spotlight on



CyOptics Acquires TriQuint Division

CyOptics, a developer and manufacturer of Indium Phosphide (InP) devices and optical engines for broadband solutions, acquired TriQuint Semiconductor's (Nasdaq:TQNT) optoelectronics operations in Pennsylvania and Mexico, for \$23.5M (cash and stock). The deal was announced in April.

TriQuint Semiconductor is a leading supplier of high-performance communications components, providing standard and custom product solutions as well as foundry services.

The asset sale includes all products, manufacturing equipment, inventory, the Mexican entity, related intellectual property rights and other assets that constitute the operation that manufactures indium phosphide (InP) optical chips and components for the optical networking market.

CyOptics' wafer/chip fabrication operations are located in Yokneam Illit, Israel, while its automated packaging and testing operations are located in Lehigh Valley, Pennsylvania.

CyOptics plans to employ the vast majority of TriQuint's 100 employees in Pennsylvania and approximately 150 employees in Mexico.

Ed J. Coringrato, President and CEO of CyOptics, stated "Industry consolidation is much needed and with this acquisition, CyOptics is well positioned to serve the once again growing telecom equipment market."

In addition, Cyoptics raised \$17M from existing shareholders, including Eurofund, JVP, the Sprout Group, Towerbook Capital Partners (formerly Soros Private Equity) and a strategic publicly-traded investor.

www.cyoptics.com

- **RADWIN**, a leading supplier of broadband wireless equipments for Carriers and Private Networks, launched a new and extremely cost competitive product line in Q4/04. Winlink-1000 addresses variety of applications, such as cellular backhauling, WiFi hotspots backhauling, access and remote site connectivity. It provides high capacity (50Mbps) carrier-class services for a range of up to 80 km and markets through OEMs partners and local distributors.

www.radwin.com

- **Hotbar**, whose product enables users to personalize and enhance their Web browsers and emails, substantially increased its revenues in 2004. It continues to seek ways to capitalize on the exponential growth in internet advertising and expand its user base globally. Hotbar recently launched its newest product, a comparative shopping service, and is forming key strategic partnerships with Internet shopping and travel industry leaders to market this product.

www.hotbar.com

- **ByInSync**. On April 11th BeInSync introduced a new version of its secure, peer-to-peer, synchronization software - the next-generation in remote access technology. BeInSync Pro 1.5 incorporates new feature enhancements that make it easier for individuals, mobile professionals and small business users to synchronize, access and share data between multiple computers. Customers can rely on BeInSync to automatically ensure their data is always up-to-date and always available. Hundreds of thousands of people from more than 150 countries have downloaded BeInSync's software since it was introduced in August 2004.

www.beinsync.com

- **Tevet** process control technologies, an innovator of integrated metrology solutions for film thickness measurement of semiconductor devices, continued to solidify its position as a provider of a standard semiconductor manufacturing solution by getting full final-acceptance for all its systems installed at a North American 300mm wafer Fab. Tevet also made significant progress in the Asian market: it has installed and received acceptance for the first custom-built system sold to a 300mm wafer Fab customer in Japan.

www.tevet-pct.com

- **MobileAccess** Networks, a leading provider of in-building wireless solutions, announced in Q1/05 the appointment of wireless industry veteran, Magnus Friberg, as COO. Mr. Friberg bolsters the executive team with more than a decade of wireless telecommunications industry, business management and leadership experience. Prior to MobileAccess, Mr. Friberg recently served as president for Allgon Telecom. MobileAccess completed in-building wireless installations at Alltel Stadium, the site of the 2005 SuperBowl and the US Senate. The Senate implementation enables coverage within multiple government buildings for users of cellular phones, BlackBerry devices, and Wi-Fi, while visitors to Alltel Stadium can use their cellular phones throughout the complex.

www.mobileaccess.com

- **Schema**, a global provider of industry-leading network optimization, simulation and related management solutions, announced in late March that it has signed an agreement with SUNDAY Communications Limited of Hong Kong, to deploy Schema's UMTS

OptiPlanner to support SUNDAY's plans for an aggressive rollout of their UMTS network.

Under the agreement, SUNDAY will deploy Schema's UMTS OptiPlanner, a field-proven automatic RF cell planning and optimization solution that produces optimal cell parameter configurations.

Schema's solutions are deployed and benchmarked by leading wireless operators worldwide, including Verizon Wireless, Cingular Wireless, AT&T Wireless, U.S. Cellular, BellSouth International, Hutch India, Sunday Hong Kong, Cellcom Israel and Pelephone Israel.

www.schema.com

- **Passave** experienced rapid revenue growth in 2004 as installation of EPON in Japan began. It recently extended its leadership position by releasing a sophisticated forward error-correction (FEC) mechanism for Ethernet-based passive optical networks (EPONs). The mechanism enables the use of low-cost, low-power lasers in optical networks, and enables Ethernet to successfully transmit data over low-quality transmission lines, such as lines using aging fiber.

FEC doubles the reach of a FTTH network and doubles the number of customers that can be served from a single optical line terminal (OLT) in the central office. FEC improves the cost-performance curve for FTTH, further driving FTTH as a technology cost-competitive with DSL and cable modem services while providing approximately one thousand times the bandwidth of those technologies.

www.passave.com

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