START-UP NATION CENTRAL: FINDER INSIGHTS SERIES

ISRAELI HIGH-TECH H1 2018 REPORT:

A growing layer of maturing startups, raising bigger rounds

START-UP NATION CENTRAL

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EXECUTIVE SUMMARY

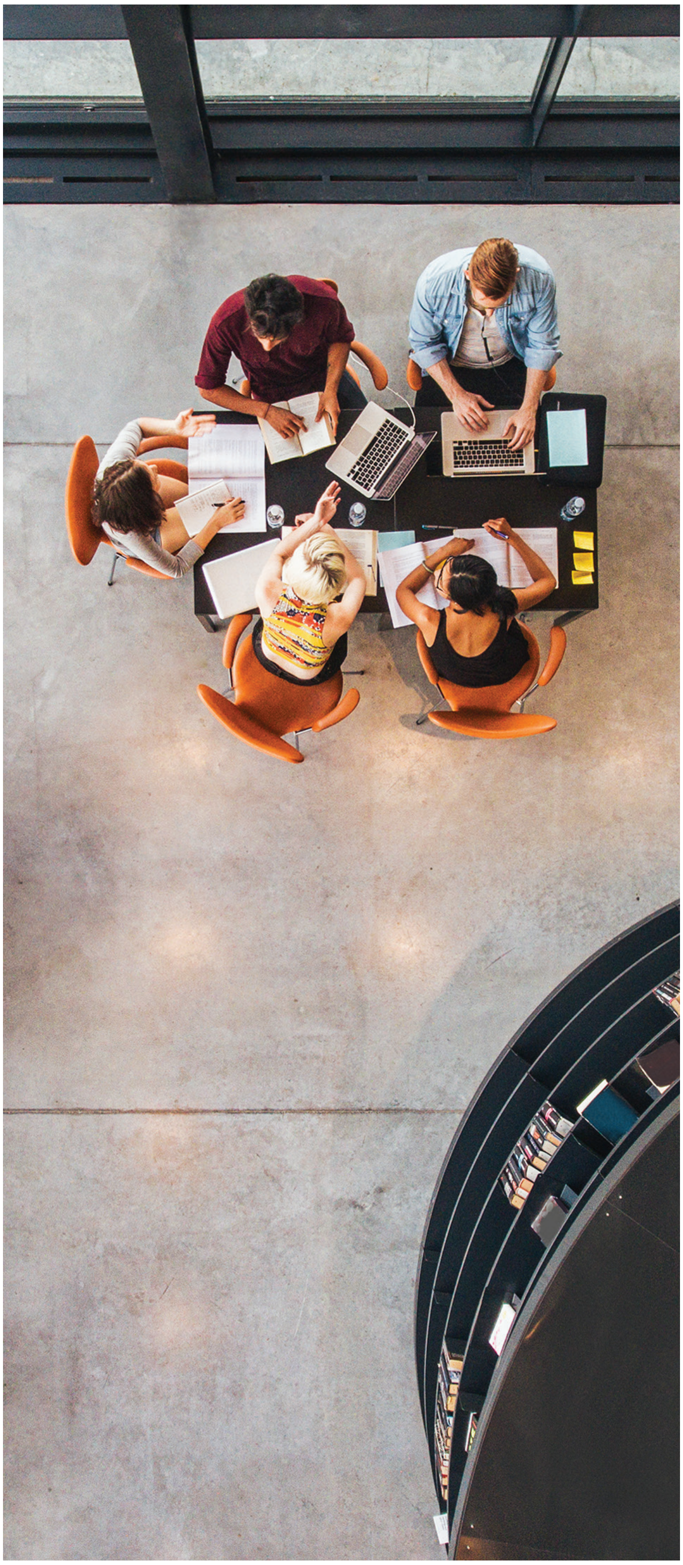
The first six months of 2018 in Israeli high-tech deal making indicate a maturing ecosystem, with a growing layer of startups raising more money at later stages from investors placing fewer and more prudent bets.

H1 2018 saw $2.42B raised by Israeli high-tech companies in 260 funding rounds, making this one of the highest first half-years of capital raised since the beginning of 2015.

The amount of capital raised by Israeli tech companies has jumped 33% from H1 2015. In addition, across all funding stages, the median size of a funding round for an Israeli tech company has increased dramatically, from $2M in H1 2015 to $5M in H1 2018, a jump of 150%. Even in earlier stages there was an increase in the median size of a Seed round, from $800K in H1 2015 to $2M in H1 2018, even though there were fewer funding rounds in H1 2018, a 30% drop over the past 3 years.

Our view is that the Israeli industry is showing significant long-term growth: the number of $10M-$20M rounds has more than doubled compared to 2015 – from 22 rounds in H1 2015 to 53 in H1 2018. There is also tangible growth in the $5M-$10M band, although not as marked as the larger band. All of this is new in Israeli high tech, long characterized by a trajectory of meteoric rise, precipitous fall, or sudden exit for many young startups. The jump in the amount of money raised as well as the growth of the $10M-$20M band signal a maturing of Israeli tech entrepreneurial activity, with startups pacing themselves more and investors placing bigger bets on sturdier companies. This 33% jump, significantly, came from fewer deals, with a 17% drop in the number of rounds from the same period in 2015. In other words: fewer deals overall, but more money into companies with an air of durability and dynamism around them.

The direct result of staying private for longer periods is that during H1 2018, only 43 companies exited – the lowest number of exits since H1 2015 – for a total of $1.71B (in disclosed amounts), continuing a downward trend in the number of exits as well as the dollar amounts for which start-ups are exiting.
Israeli Cybersecurity, Fintech, Digital Health and Industry 4.0 – sectors which Start-Up Nation Central focuses on because of their potential global impact – all raised more capital than the previous half-year. The Israeli cybersecurity industry did particularly well, raising $536M in 60 rounds during H1 2018, representing an 81% jump in number of rounds and a 47% jump in the amount raised over the last half year. H1 2018 was the best half-year for cybersecurity funding since the beginning of 2015 according to both parameters.



Start-Up Nation Central is proud to present its semi-annual report for 2018, which offers an analysis of the current state of the Israeli innovation ecosystem. Start-Up Nation Finder, the innovation discovery platform for the Israeli ecosystem, is tracking some 6,000 Israeli innovative companies in the Israeli ecosystem. These are all companies that develop a proprietary technology/invention, whose founders are Israeli citizens, and who have local R&D activity.

GLOBAL VENTURE CAPITAL LANDSCAPE OVERVIEW

The first six months of 2018 were characterized by global record-breaking VC deal values, although the volume of deals decreased slightly. The increase in deal values is part of an ongoing trend since 2014. The global VC landscape has become more robust and extensive, and there is an explosion of capital seeking to be invested.[1]

There are numerous reasons for this: the stabilization of the global economy, the capital market boom of 2017, continuing low global interest rates (turning money into a relatively cheap resource), and the lessening of concerns over the recent U.S. government elections and Brexit. As a result, institutional, corporate and non-traditional investors (Limited Partners) are hungrier than ever for high-tech investments and potential exits and are consequently entering the VC domain with increasing frequency. Funds are growing and raising significantly more money than in the past. For example, SoftBank raised a colossal and groundbreaking $98B fund (Softbank Vision Fund), in November 2017. Sequoia is raising about $8B towards what is already considered one of the biggest U.S. growth venture capital funds ever. Battery Ventures is raising $1.25B across two new funds. General Catalyst Targets $1 Billion for its Next Fund. NEA 16, IVP XVI and Rocket Internet all raised more than $1B worth of funds. Such funds are also not just looking to invest in their local markets but are rather seeking to expand into new domains and geographies with the aim of finding further investment opportunities.

One of the effects of these changes is the dramatic growth of both early and late stage global median deal sizes. When there is an abundance of capital to invest, and fierce competition between investors, entrepreneurs, even those with less track-record and fewer proven results, are able to demand more capital for each round. As a result, round types that historically were lower in value have doubled or even tripled their worth. The demand for more capital on the part of the start-ups is also due to ever-increasing salary rates for specialist high-tech talent, particularly in such prevailing domains as AI and Cybersecurity, and also as a result of a stronger marketing focus.

Another effect of the changes is that early-stage rounds have decreased in number, specifically Seed rounds. Investors have become more selective and are looking for safer investments. Instead of spending small amounts of money on a lot of start-ups (AKA the “spray and pray” method), they choose fewer start-ups who show strong potential in terms of market size, technology and team expertise from the outset, and invest more money in each of them.

Early-stage companies seeking to raise money can now expect to answer stricter criteria and show better results and market-product fit. Those that do manage to raise Seed rounds do so at higher amounts, which allows them more breathing space, and the ability to advance their product further than early-stage start-ups had previously been able to do. At the same time, late stage investors are realizing that they have to start investing more in early rounds because their amounts are still affordable, and decent percentages of equity can be maintained.

All of this impacts exits. Once the Holy Grail of the VC industry, an exit is still a desirable outcome, but has become a far more distant goal that requires a higher selling price. Later-stage companies are commanding huge investment rounds, which allow them to remain private and independent for longer periods, and invest in scaling up by themselves, without being acquired or becoming public. Investors also prefer that their portfolio companies neither sell quickly nor settle for smaller amounts. Rather, the mindset of investors in recent years has been to look for “Unicorns”, (companies worth more than a billion dollars), which would garner them at least X3 and preferably higher multipliers on their investment, allowing them to provide impressive returns to their Limited partners (their own investors) which would justify the huge amount of money they’ve invested in their funds.[2]

These changes have had a profound effect on the Israeli start-up and venture capital ecosystem in recent years, albeit with certain delays. In the following section, we present a picture of the Israeli innovation ecosystem at the end of H1 2018.

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1 Sources: Venture Pulse Q2 2018 – KPMG, MoneyTree Report Q2 2018 - PwC and CB Insights, Preqin, Crunchbase

2 Source: Startup Fundraising in 2018 - Gil Ben-Artzy (UpWest Labs)

ISRAELI VENTURE CAPITAL LANDSCAPE - H1 2018

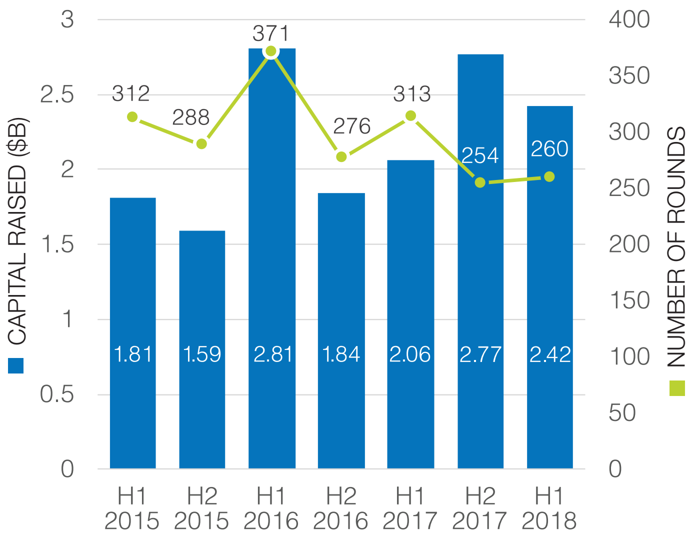
The Israeli high-tech industry is both growing (in the amount of money raised by its tech startups), and maturing (a growing layer of maturing companies). It is enjoying the fruits of previous successes and innovations, the knowledge accumulated by serial entrepreneurs and multinationals based in Israel, also the continuous flow of capital from abroad.

FUNDING TRENDS

During H1 2018, Israeli high-tech companies raised a total of $2.42B* in 260 rounds, compared with H2 2017's $2.77B in 254 rounds. Despite the slight decrease in the amount raised compared to the previous period, when reviewing investment activity in Israel since 2015, the overall trend has been an increase in the amounts raised. The last six months have shown an impressive 33% jump in VC funding compared with H1 2015, in which $1.81B was raised. Across all funding stages, the median size of a funding round for an Israeli tech company has increased dramatically, from $2M in H1 2015 to $5M in H1 2018, a jump of 150%.

Furthermore, the first six months of 2018 show a 17% increase in the amount raised in comparison to H1 2017 – all of which indicates that the global trend of higher amounts of capital flow is also happening in Israel.

Figure 1: **Number of rounds and capital raised**



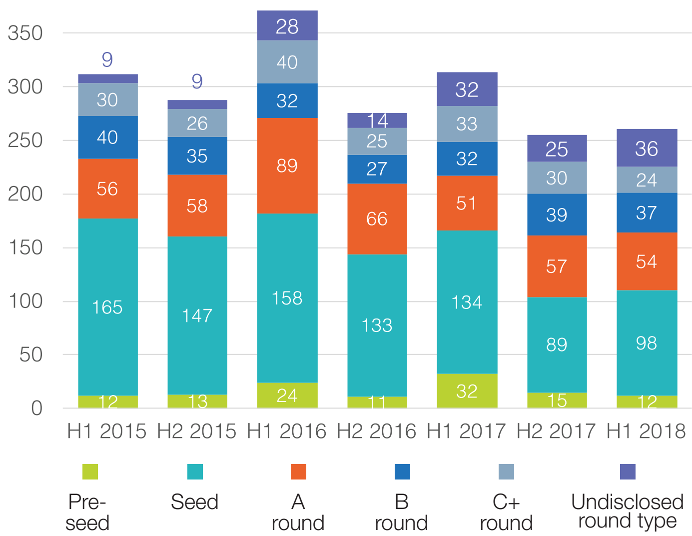
* 41 rounds were of undisclosed amounts

The top three funding deals of H1 2018 were consumer blockchain infrastructure company ORBS's $118M round, enterprise collaboration and project management solutions company Clarizen's $110M round and social trading network company eToro's $100M Series E round. eToro raised its round from various Asian investors, that included China Minsheng Financial, Korea Investment Partners and the SBI Group, while Clarizen raised its round from the American private equity firm K1 Investment Management. This is indicative of an ongoing tendency of foreign investors who are neither US-based nor venture capital funds (instead being private equity, corporate venture arms, and so on) putting their capital in Israeli innovation.

DEAL TYPE TRENDS

When comparing the last two half-years, there are similar trends evident in distribution of capital between the different types of rounds. There is a slight increase in the amounts raised in Seed rounds, though other types of rounds maintain similar amounts. However, there has been gradual decrease in the number of Seed rounds during the half-years since 2015, which has become a noticeable long-term trend. If in H1 2015 there were 165 Seed rounds, which represented 53% of the rounds, during the last six months there were only 98, representing 38% of the rounds. This decline is part of the global trend explained in the previous chapter.

Figure 2: **Number of rounds - round type drilldown**



When looking more closely at the deal sizes, we see a significant increase in the number of $10M-$20M rounds. While only 22 rounds raised that amount in 2015, there were 53 similar rounds in H1 2018, an increase of almost 150%. These so-called "scale-up rounds" allow companies to grow and expand their operations. It is a sign of a maturing ecosystem with enough strong companies that survive the initial start up stages and indicate enough positive growth to justify such investments.

Figure 3: **Number of rounds - round size drilldown**

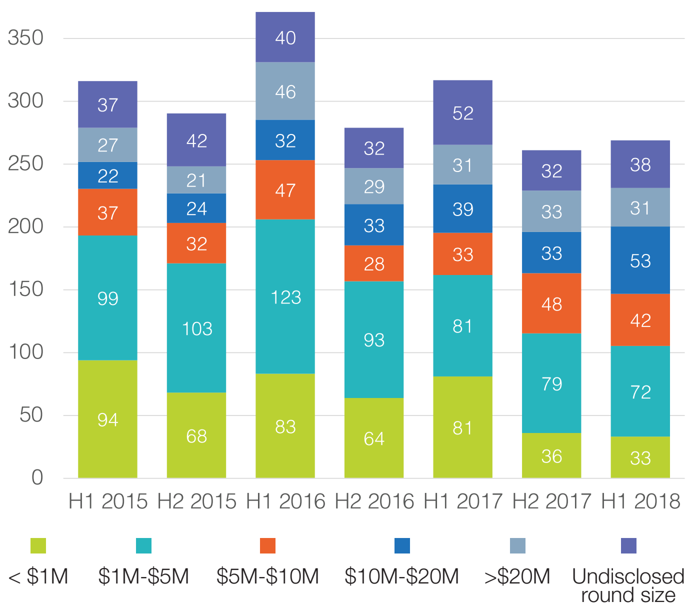
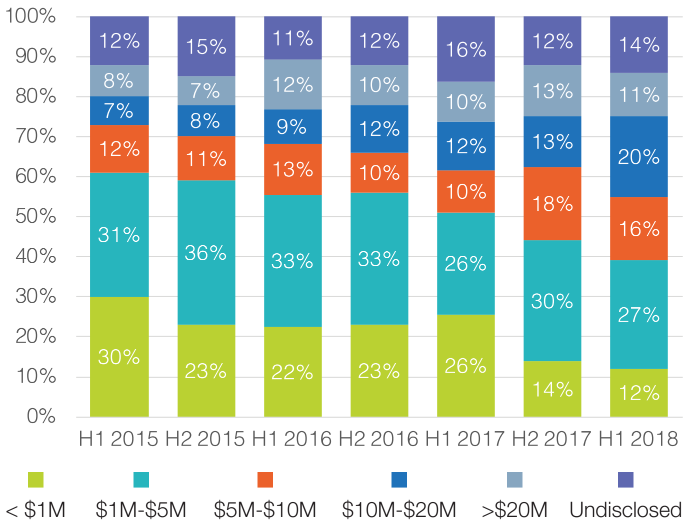


Figure 4: **Number of rounds - round size percentage**

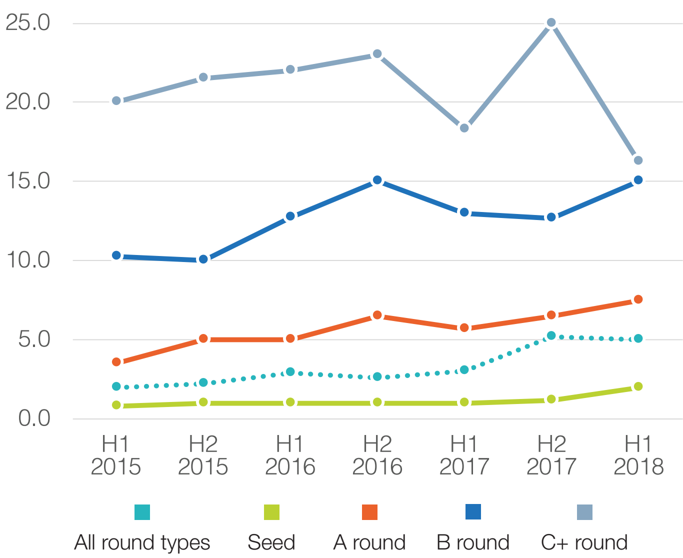


While in general the median amount raised in funding rounds has stayed relatively the same over the last 12 months, there are some interesting differences between H1 2018 and H2 2017 in the distribution of capital between the different types of rounds. Early and mid-stage rounds (Seed, A, B) have all shown an increase in the median amount of capital raised, while series C+ rounds have shown a 35% decline. It is important to note that there are naturally relatively few C + rounds in half-year calculations, and therefore changes might be sharp rather than indicative of a general trend.

More broadly, the sizes of early and mid-stage rounds have been rising since the beginning of 2015. In fact, the median amount raised in H1 2018 for Seed, A and B rounds was the highest compared to all other half-years since early 2015.

Both Seed and Series A funding rounds have more than doubled their median amounts. Seed rounds went from $800K in H1 2015 to $2M in H1 2018. Series A rounds more than doubled from $3.5M in H1 2015 to $7.5M in H1 2018. Series B rounds had a more modest increase from $10.2M in H1 2015 to $15M in H1 2018.

Figure 5: **Median size per per deal type**



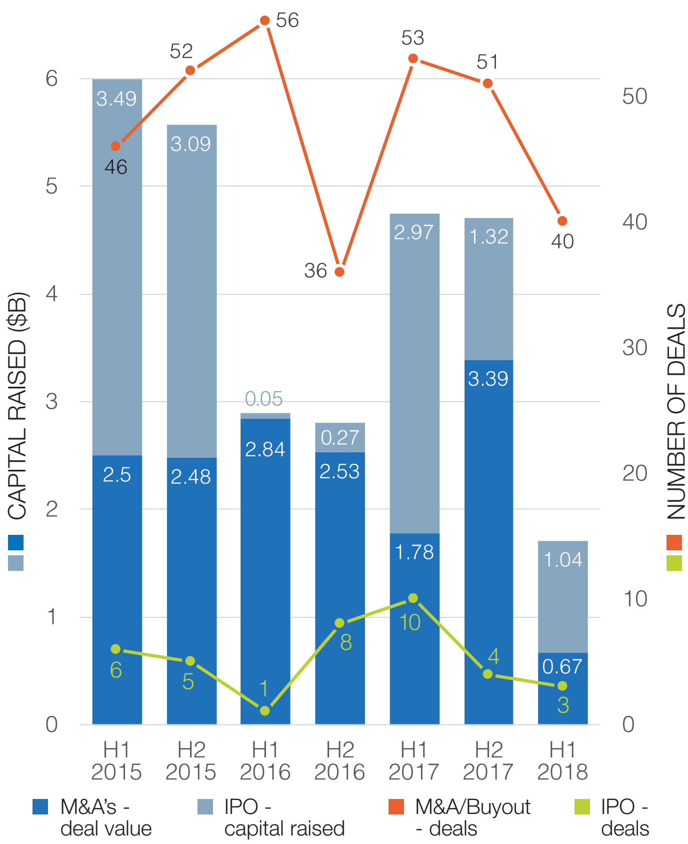
NEW FUNDS

Another indicator of the pulse of a bustling ecosystem is the amount of new funds opened. Over the last six months, a number of VCs finished raising money for new funds dedicated to investing in Israeli technology companies.

- Israel Growth Partners (IGP), a private equity investment firm, raised $230M for its second fund, which will invest in growth stage companies. Among LPs of IGP are Clal Insurance, Bank Leumi's Leumi Partners, Discount Capital Markets and other institutional and private investors. The VC, founded in 2014, has invested in nine companies, two of which have already been acquired.
- Jerusalem-based JVP has raised $168M for an eighth fund called JVP VIII, which aims to reach a target of $200M. One of JVP's investors is Alibaba. Founded in 1993, JVP invested has in more than 120 companies in Israel, the US and Europe.
- London-based VC, Entrée Capital, raised $80M for its second fund to invest in Israel-linked early-stage start-ups, and plans to invest in Fintech, Software as a Service, Augmented and Virtual Reality, and AI. Entrée was founded in 2004 and manages $300M in assets. Two of its portfolio companies were acquired. Investors in the fund include Vintage Investments Partners and Cendana Capital, a Seed VC specialist.
- Haim Sadger, the founder of Sequoia Capital's Israeli subsidiary, has opened a new fund called S Capital. The new fund aims to raise $100M and has so far managed to raise $94M.

EXIT TRENDS

Figure 6: **Exits (M&A / IPO)**



In the last six months, 43 companies had exits garnering $1.71B, compared to the previous half-year in which 55 companies had exits, garnering $4.71B , meaning that the exits in H1 2018 were fewer and gained a lot less capital, although it is important to note that at the time of writing, most M&A amounts during H1 2018 have been not publicly disclosed. The majority of these exits (40 of the 43) were M&As, rather than IPOs, and garnered $672M.

Huge deals, such as the acquisition of Orbotech by KLA-Tencor for $3.4B, and that of NDS by Permira for $1B, have been excluded from this aggregation since they were secondary deals which occurred after previous acquisitions or IPOs. Other exclusions include SteadyMed Therapeutics, Enzymotec, Vonetize, SerVision, Gamatronic, Frutarom and Eloxx Pharmaceuticals, for similar reasons.

The previous half-year had some impressive exits. Plarium Global was acquired by Aristocrat for $500M, Argus Cybersecurity was acquired by Continental for $450M and Gigya was acquired by SAP for $350M. 21% of the exits in H2 2017 were above $100M whereas in H1 2018 there were only 2 such exits that have been publicly disclosed. These were EPD Solutions' acquisition by Royal Philips for $292M and SECDO's acquisition by Palo Alto Networks for $100M. This decline is part of the global trend described earlier. High-tech companies raise capital in huge amounts and at high value. They are not in a rush to sell and are looking to continue to grow in order to sell one day at a value that will justify the capital invested in them and ensure a substantial return to their investors. Through bigger growth stage investments, and the involvement of new types of investors, it is possible to expand into new markets, create new strategic partnerships and expand the circle of customers without requiring M&As or IPOs.

In H1 2018 only 3 Israeli companies made initial public offerings. All of these began trading on the NASDAQ and operate in the medical domain. The total amount raised during these IPOs was $104M.

These IPOs were:

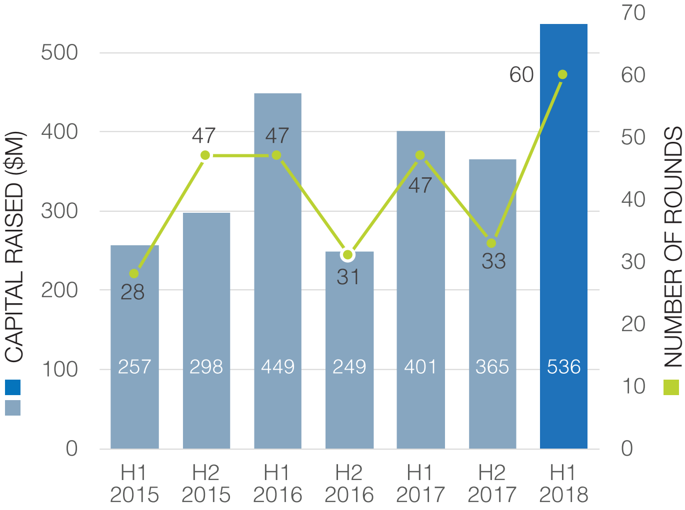
- Sol-Gel, a silica-based drug delivery company, raised $75M at a $225M valuation in February 2018.
- Motus GI, a medical technology company dedicated to improving endoscopy outcomes, raised $17.5M at a $77.9M valuation, also in February 2018.
- Entrea Bio, which develops oral delivery of large molecule drugs for the treatment of hypoparathyroidism, osteoporosis, and bone disorders, raised $11M at a $91M valuation in June 2018.

The previous half-year had 4 IPOs with $132M worth of capital raised.

SECTOR SPOTLIGHT

In this report we chose to present investment trends of Start-Up Nation Central's focus sectors: Cybersecurity, Fintech, Agritech, Digital Health and Industry 4.0. It is important to note that there are companies that fall under the definition of two sectors, meaning that investment data in two or more sectors could include rounds from the same companies.

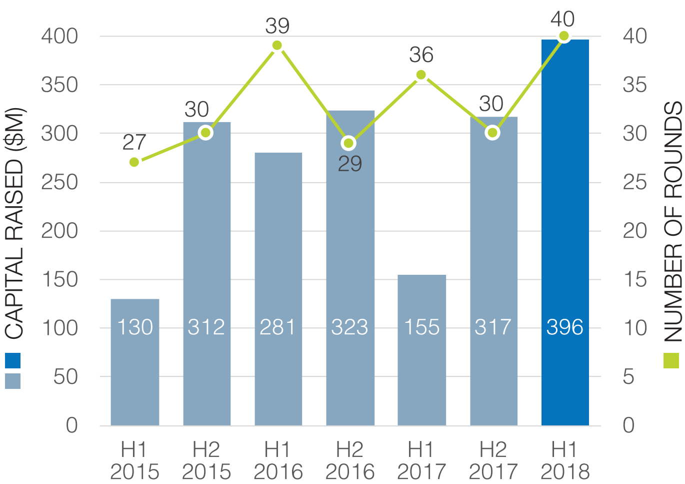
CYBERSECURITY



Cybersecurity companies raised $536M in 60 rounds during H1 2018, representing an 81% jump in number of rounds and a 47% jump in the amount raised over the last half year. H1 2018 was the best half-year for cybersecurity funding since the beginning of 2015 according to both parameters.

The biggest funding rounds in this sector were industrial cybersecurity company Claroty, which raised a $60M Series B from Bessemer, Innovation Endeavors and others, privacy risk management company BigID, which raised a $30M Series B from SAP.iO, Comcast Ventures, BOLDstart Ventures and other investors, and automated network security management company AlgoSec, which raised a $36M round from Claridge Israel.

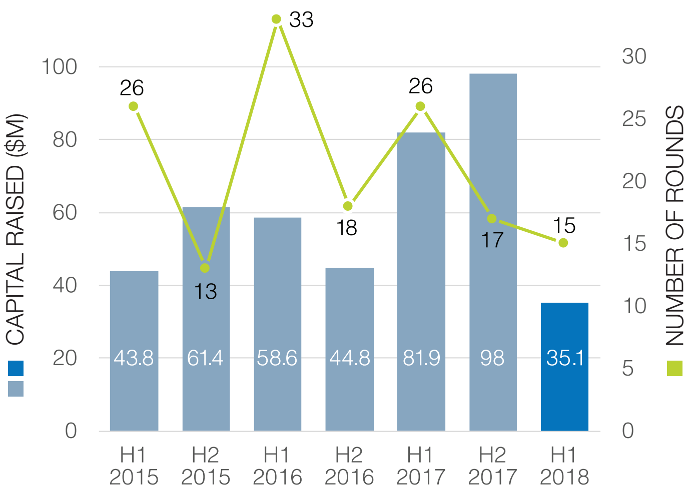
FINTECH



Fintech companies raised $396M in 40 rounds during H1 2018, representing a 33% jump in the number of rounds and a 25% jump in the amount raised over the last half year. Israeli Fintech companies managed to raise the highest amount of capital this half-year since H1 2015.

The biggest funding rounds in this sector were social trading network eToro, one of the biggest rounds raised during H1 2018, working capital financing to SMEs provider Bluevine, which raised a $60M Series E round from Menlo Ventures and SVB Capital, and Tipalti, a supplier payments automation provider, which raised a $30M Series C round from Zeev Ventures.

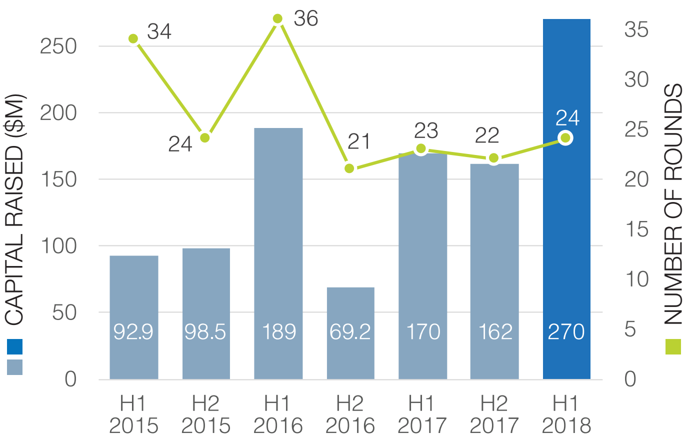
AGRITECH



2017 was the Israeli Agritech sector's most highly funded year to date. The beginning of 2018 showed an indication that the funding to Israeli Agritech had dropped somewhat, with Israeli Agritech companies raising $35M in 15 rounds. The previous half-year had a similar number of rounds, but there was a 64% drop in the total amount raised during 2018 so far.

The biggest funding rounds in this sector were Rootility, a root-focused plant breeding company, which raised a $10M Series C from GreenSoil Investments, Cibus Fund and Middleland Capital, Saturas, developer of miniature sensor for assessing stem water potential, which raised a $4M Series A from The Trendlines Group, Gefen Capital, Hubei Forbon Technology and others, and FieldIn, creator of an IoT pest management platform, which raised a $4M Seed round from Terra Venture Partners, Gal Ventures and Germin8 Ventures.

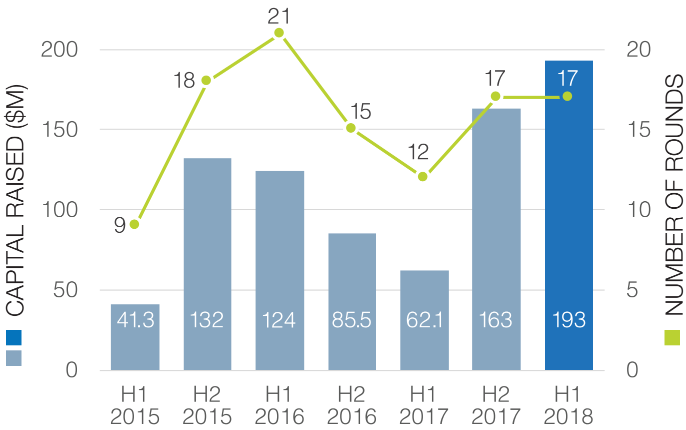
DIGITAL HEALTH



The digital health sector showed significant growth in raised capital during the first half of 2018, with $270M raised in 24 rounds, the highest amount of capital raised since the beginning of 2015. The number of rounds stayed relatively the same during this period.

The biggest funding rounds in this sector were infiBond, developers of an AI-powered behavioral analysis platform, which raised $40M in January 2018, OrCam Technologies, developers of assistive technology for people with vision impairment or reading disabilities, which raised a $30.4M round at a $1 Billion valuation from Clal Insurance, Meitav Dash Provident Funds and Pension Ltd., and Medial EarlySign, which raised a $30M Series B from aMoon Fund, Horizons Ventures and Nir Kalkstein.

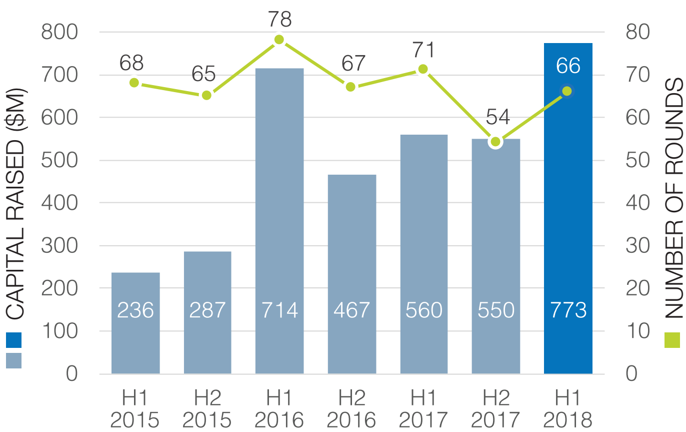
INDUSTRY 4.0



Industry 4.0 also showed signs of flourishing in the amount of capital the sector managed to attract since 2015. Israeli industry 4.0 companies raised $193M in 17 rounds during the first half of 2018. While this is the same number of rounds raised during the previous half-year, there was a 18% increase in the amount raised.

The biggest funding rounds in this sector were by the following companies: Claroty, which was mentioned above in the Cybersecurity sector, and offers security and visibility for critical infrastructure and operational technology networks , raised a $60M Series B, Armis, which develops an IoT security platform aimed also at protecting industrial facilities, raised a $30M Series B round from Red Dot Capital Partners and Sequoia Capital, and CommonSense Robotics, which builds robotic on-demand supply chains, raising $20M from Aleph, Innovation Endeavors and Playground Global.

ARTIFICIAL INTELLIGENCE



Artificial intelligence (AI) technologies, including machine learning and deep learning, is far beyond just a buzzword in 2018. More and more companies incorporate AI technologies in their products and processes, and investors are demanding that companies seeking capital have some AI strategy in place. During the first half of 2015 companies using AI technology raised $236M, and by the first half of 2018 had already raised $773M in a similar number of rounds to 2015. Some of the big funding rounds mentioned throughout the report, including eToro, infiBond, OrCam Technologies, and Medial EarlySign utilize AI in their solutions.

METHODOLOGY

This study and the analysis presented within are based on data from Start-Up Nation Finder, the innovation discovery platform from Start-Up Nation Central. Research was conducted on public web sources, free and premium databases, intra-organizational knowledge, interviews with prominent players in the Israeli high-tech and venture capital ecosystem, as well as a survey sent to investors. This report describes the Israeli high-tech ecosystem only. Amounts and definitions accord with those of Start-Up Nation Finder. As such, companies considered for this report must meet all the following criteria:

- The company develops a proprietary technology/invention*
- At least one of the founders must be an Israeli citizen (but he/she doesn't have to be living in Israel)
- The company has an office in Israel with local R&D activity

We refer in this report to investments as any equity transaction (e.g. VC, corporate and angel investments, private equity in growth stage), including partial or majority liquidity. Included round types are Pre-Seed, Angel, Seed, Round A-G and Undisclosed Round. Excluded round types are Crowdfunding, Grant, Initial Coin Offering, Joint Project Grant, Convertible Debt, Debt Financing and Post-IPO Equity.

Investment amounts entail only the value invested in a given half-year; even if a deal includes terms for future obligations, in this report they are not considered part of the half-year amount. We refer to exits as only first-time liquidity events (including M&A, buyout, reverse merger, and IPO) of companies that have not previously exited. Reverse mergers/buyouts are addressed as M&As.

* Types of companies that do not develop a proprietary technology/invention and therefore are excluded from Finder are: Service providers, consulting services, advertising companies, design/software houses, mobile app developers, integrators, and similar types of companies.

ABOUT START-UP NATION CENTRAL

Start-Up Nation Central is an Israel-based non-profit that serves as a gateway to Israeli innovation. The organization leverages its in-depth knowledge of Israel's innovation sector to connect business leaders, governments, and NGOs from across the globe with Israeli innovation, by designing highly customized visits that introduce them to the Israeli people and technologies that can address their most pressing challenges.

Start-Up Nation Finder is Israel's definitive Innovation Discovery Platform, which Start-Up Nation Central created by deeply mapping Israel's innovation ecosystem. The Finder includes more than 5,900 innovative companies, R&D centers, investors and academics, and is kept continually up-to-date by Start-Up Nation Central's research team. Finder has become a globally used platform, providing corporate, government and NGO players the opportunity to access detailed and up-to-date financial performance of start-ups, and well-organized and informed data concerning investments and deals.

The success of the Israeli innovation ecosystem in the market is the motivation behind Start-Up Nation Central's activities, with close focus on the developing Agritech, Cybersecurity, Digital Healthcare, Fintech and Industry 4.0 sectors, helping them build practical tools and expand their skillsets. A further focus of the organization is to develop existing tech communities within the ecosystem, thus increasing collaboration and knowledge-sharing.

Start-Up Nation Central's mission is to ensure that the tech ecosystem remains strong, and the organization has become a go-to body on policies relating to Israeli innovation. By convening thought leaders to help shape policies which support the Israeli innovation engine, Start-Up Nation Central cultivates the growth of companies and cutting-edge technologies, as well as initiating activities to address the shortage in human capital. Through knowledge and connectivity, Start-Up Nation Central acts as the premier gateway to Israeli innovation.

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Contact us

For more information on the Israeli high-tech industry and the companies cited in this report, please visit:
finder.startupnationcentral.org

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