



The Dynamics and Economics of Israel's Venture Financing Ecosystem: A Unique Opportunity for American Firms

AVS Capital Solutions
Janvest Capital Partners

The Presenters

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Valuation Solutions

Topics to Be Covered

1. Israel's Tech Market Macro Economics
2. How did Israel become a Tech Powerhouse?
3. Micro View of Israel's Tech Ecosystem
4. The new Middle East and what it means for the acquisition of Israeli tech startups by US strategic acquirers

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CAPITAL PARTNERS

BUILT IN ISRAEL
SCALED IN THE U.S.



THE ECONOMICS OF ISRAEL'S EMERGING TECHNOLOGY MARKET

JANVEST BY THE NUMBERS

Janvest

Janvest is a **SEED STAGE VENTURE FUND** investing in enterprise-grade deep technologies being developed in Israel and commercialized in the United States

\$80MM

Assets under management

27

Investments executed since 2011

100%

Of core funds posting top quartile/decile DPI

3

Offices: New York, Atlanta, Tel Aviv

7

Focus Areas: Cyber Security, Data Analytics, Connectivity, Cloud Infrastructure, Business Intelligence, DevOps, and Enterprise Software

ISRAEL'S TECH MARKET MACROECONOMICS

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- 1st globally in percentage of GDP allocated to R&D (4.5%)
- 50%+ of exports are high tech products and services
- 4th in the world in the number of foreign companies traded on American exchanges
- 1st in amount of VC invested per capita - \$175 vs. \$75 in U.S.
- \$8.3B invested in Israeli start-ups in 2019 (4x since 2010)
- 20% of total private cyber security investments go towards Israeli companies
- \$200B in transactional value created in high-tech market (2010-2019)

HOW DID ISRAEL'S TECH MARKET GET HERE?

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מדינת ישראל
משרד החינוך
STATE OF ISRAEL
MINISTRY OF EDUCATION



MORE THAN 6,600 ACTIVE TECHNOLOGY COMPANIES

- 2010-2018 – new company formation in Israel increased ~100% (~1,400/yr)
- 2013-2018 – VC invested in Israel increased from \$2b to \$4.7b (19% CAGR)
- More than 430 investors with a permanent presence in Israel (23% foreign)
- 344 multi-nationals active in Israel (192 are from the U.S.)
- Q1-Q3 2020: \$7.5B across 438 deals (24% increase in \$ invested over 2019)
 - 42% directed at larger, later stage rounds
 - 60% decline in seed deals from 2019 and 2018

ISRAEL'S ENTERPRISE CONCENTRATION

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80% (5,302) of Israeli start-ups are selling business to business (B2B) solutions

Source: Start-Up Nation Central

IT & Enterprise Software dominate the investment landscape – attracting more than 40% of all venture capital invested in Israel

Other sectors attracting Israel's venture dollars (2018):

Life Sciences – 20%

Internet/Web – 14%

Communications – 8%

Other Tech – 8%

Cleantech – 6%

Semiconductors – 3%

Source: IVC-ZAG Survey Q4/2018 / IVC-ZAG Survey Q1/2019

17% of all start-ups in Israel were developing AI-related solutions

10% of all start-ups in Israel were developing IoT or sensor-related technologies


ISRAEL'S LATEST PHENOMENON











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Companies staying private longer to achieve \$500MM+ valuations

Source: IVC Team Analysis, 2019

#	Company	Last known Valuation, Unrealized (\$M)
1		2,000
2		1,800
3		1,600
4		1,500
5		1,400
6		1,100
7		1,150
8		1,000
8		1,000
8		1,000

#	Company	Last known Valuation, Unrealized (\$M)
9		800
10		775
11		750
12		650
13		600
13		600
13		600
14		575
15		550
15		550

#	Company	Last known Valuation, Unrealized (\$M)
16		525
17		500
17		500
17		500
17		500
17		500
17		500
17		500
17		500
17		500

YET MOST EXITS IN ISRAEL ARE SUB-\$100M

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EXIT VALUES (SAMPLING – 2014-2019)

\$25MM+



ASPECTIVA



\$62.03MM

Average
VC-Backed Exit
2008-2018

\$100MM+

REDKIX



ΔORΔTO



elastifile

\$250MM+



ARGUS
CYBER SECURITY



\$500MM+



\$1B+



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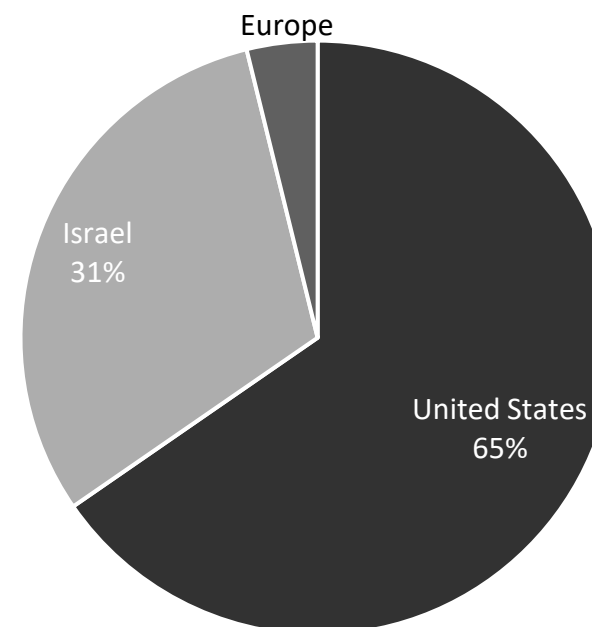
2018-2019:

60% of VC-backed exits in Israel were valued at less than \$50MM, and 76% were valued at less than \$100MM

THE U.S. PLAYS A CRITICAL ROLE



Headquarters of Israeli founded start-ups valued >\$100MM



Most successful Israeli cos. are **Hybrid Start-Ups** with sales/marketing in the U.S. and R&D in Israel

AVS Capital Solutions



AVS Capital Solutions Helps with the Following Strategies

MERGERS & ACQUISITIONS

PRE-DEAL SUPPORT AND ANALYSIS

SELL-SIDE SUPPORT

BUY-SIDE SUPPORT

QUALITY OF EARNINGS

FAIRNESS & SOLVENCY OPINIONS

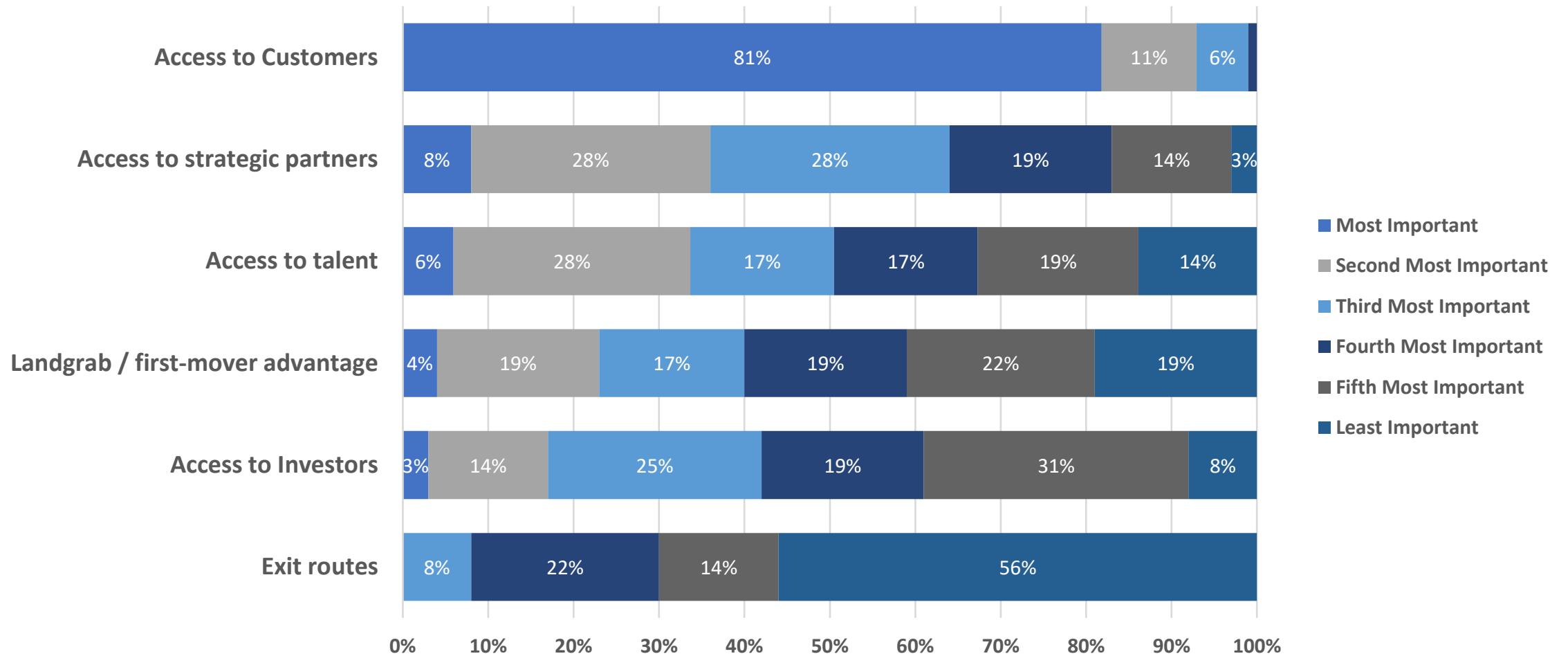
The left side of the slide features a decorative background consisting of numerous overlapping, wavy, blue lines that create a sense of depth and movement, resembling a stylized topographical map or a series of concentric ripples.

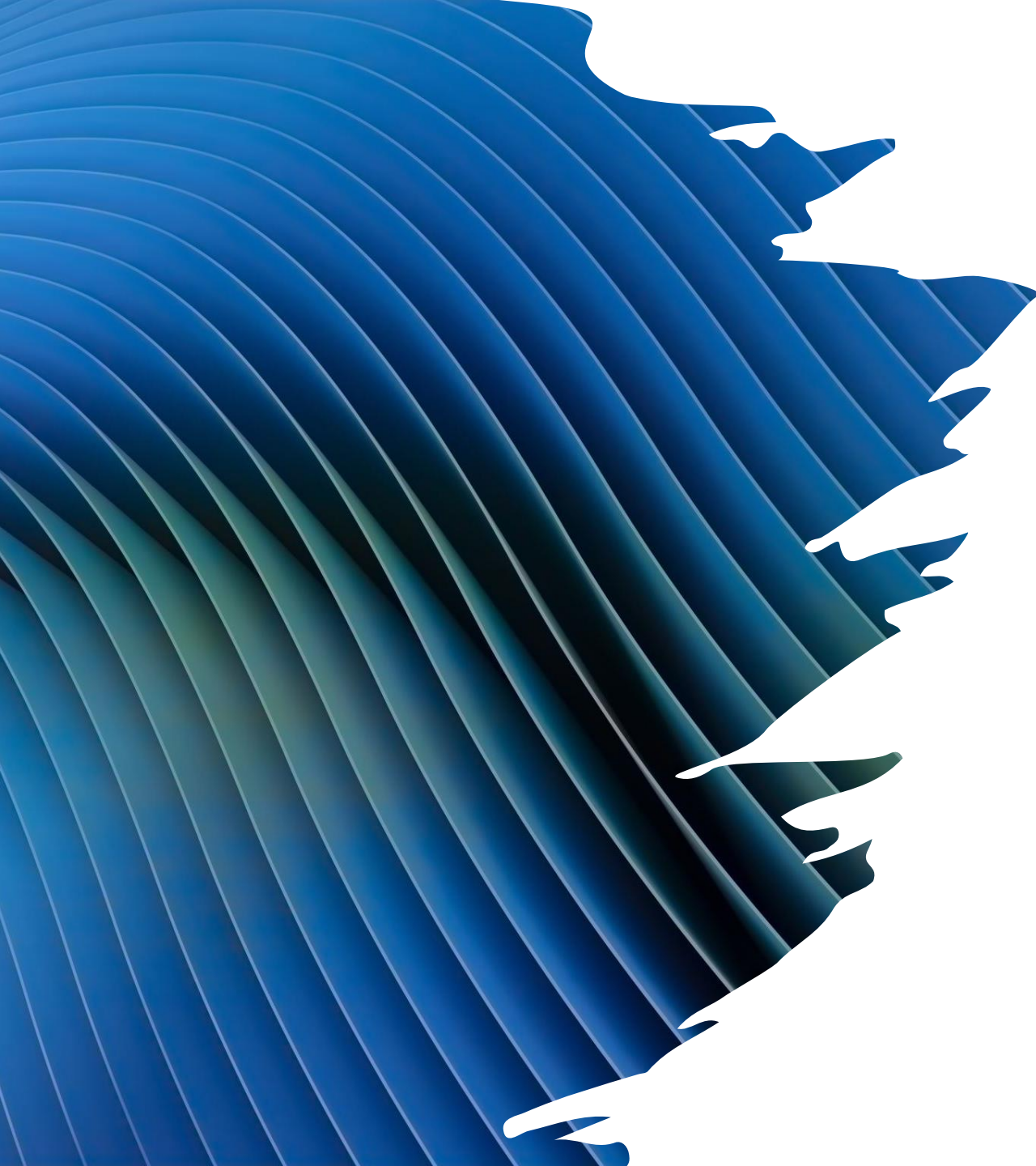
Why Should Mid -Size US acquirers look at Israeli startups as targets in the same way they consider acquisitions of early-stage US firms?

The startup echo systems in Israel and the US are essentially equivalent.

The round-trip cost of selectively acquiring Israeli technology is currently less than either developing it internally or acquiring a US equivalent. But it will not remain like this for much longer.

Key Factors When Deciding to Expand to the US (Survey of C-Level executives of Israeli Startups)





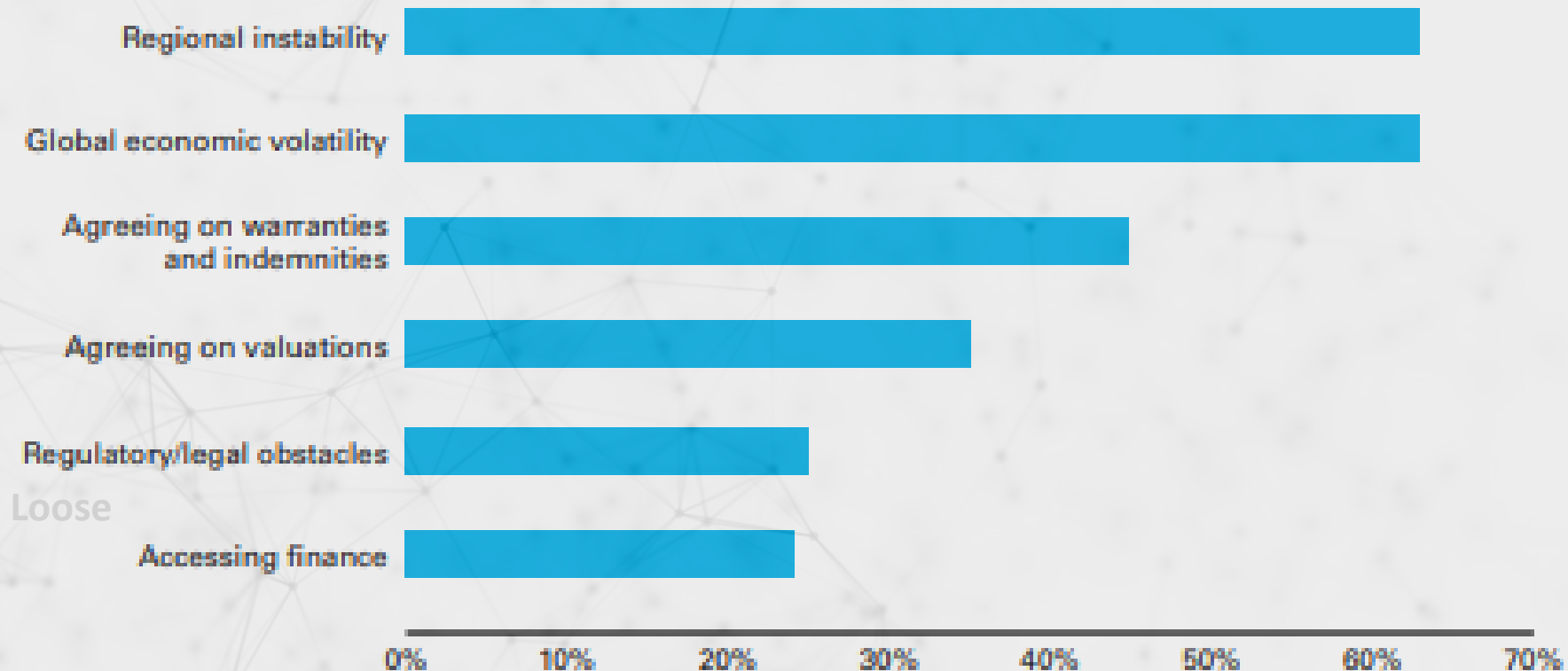
AVS Capital Solutions has concluded that Israeli startups are generally undervalued relative to their US brethren and this condition is disappearing.

WHAT WE KNOW

- S-Cube found that the 'price' of investing in an Israeli startup is cheaper than investing in a US startup and the valuation level of an Israeli company is lower than similar US companies. US investors sometimes call this the "Israeli discount." S-Cube found that this discount makes a significant difference and in growth stage financing rounds Israeli valuations can be tens of percentages and even more than 100% lower.
- S-Cube's report includes examining the sums raised externally by Israeli and US startups and the external valuation given and the stake in the startup that the investor receives. Thus S-Cube found that investors in a Series C or later financing round of a Israeli company would typically receive a 20% stake compared with a 10% stake in the US company for the same sum invested.

Why the Discount?

What will be the top-three challenges to Israeli M&A dealmaking over the next 12 months? (Select top three)



Where Should a US Investor Focus?

Corporate Investment Objective

Strategic

Financial

Most value created
If acquisition price
and terms
make sense

Tight

Link to
Operational
Capabilities

Loose

Driving

advances strategy of
current businesses

Emergent

allows exploration of
potential new businesses

Enabling

Complements strategy
of current business

Passive

Provides financial
returns only

What Does Research Tell Us?

“Complementarities may emerge not only from melding different areas of technical knowledge, but also from combining the target’s technical knowledge with the buyer’s manufacturing, marketing, sales, and distribution capabilities. Consistent with this logic, a recent study of long-term stock returns following technology acquisitions found that the interaction of the seller’s R&D resources with the buyers marketing resources had a positive effect on performance.”

--- Success and Failure in Technology Acquisitions: Lessons for Buyers and Sellers by
Melissa E. Graebner, Kathleen M. Eisenhardt, and Philip T. Roundy

What Does Research Tell Us?

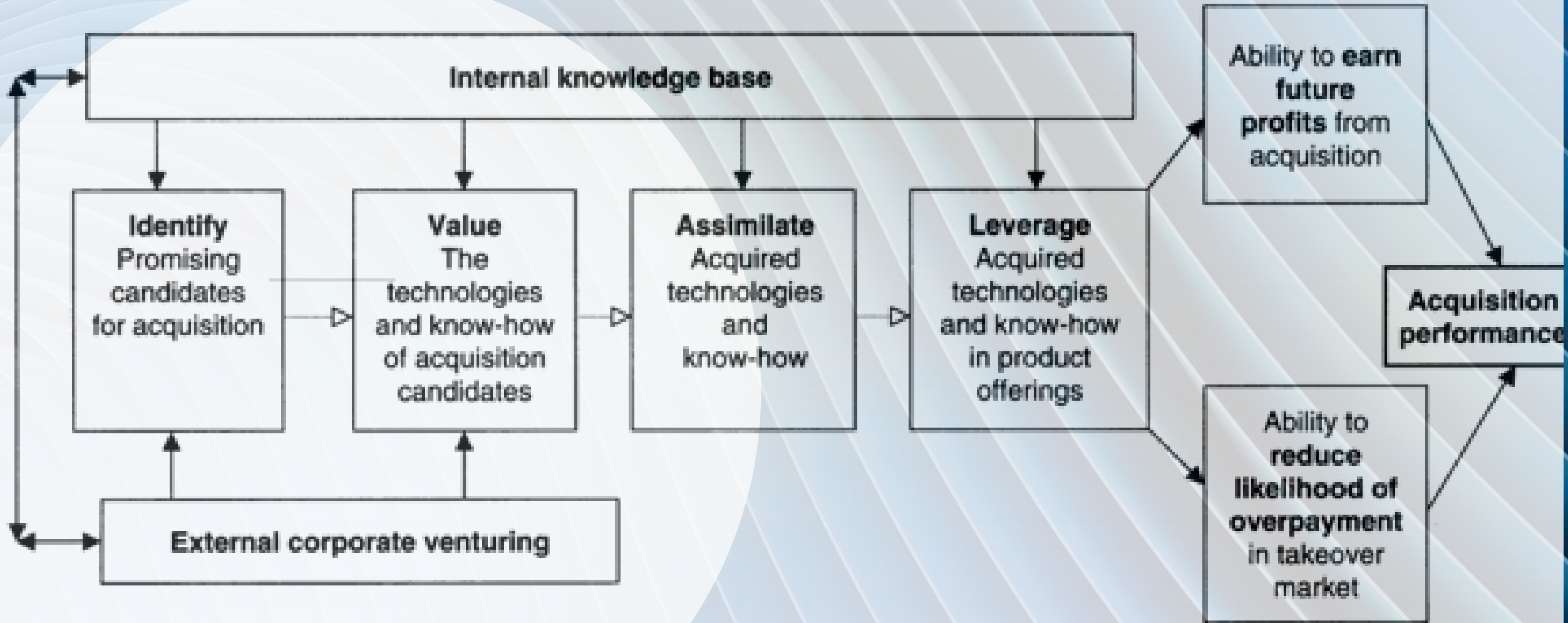
“Buyers pursue technology acquisitions to obtain strategically valuable resources, achieve market power, or generate strategic renewal. Sellers pursue acquisitions not only to obtain valuable resources, but also to relieve idiosyncratic personal pressures. Despite these opportunities, technology acquisitions face obstacles due to unusually high seller power, uncertainty about target value, information asymmetries between buyer and seller, and implementation challenges such as maintaining both firms’ momentum and balancing integration with autonomy.”

--- Success and Failure in Technology Acquisitions: Lessons for Buyers and Sellers by
Melissa E. Graebner, Kathleen M. Eisenhardt, and Philip T. Roundy

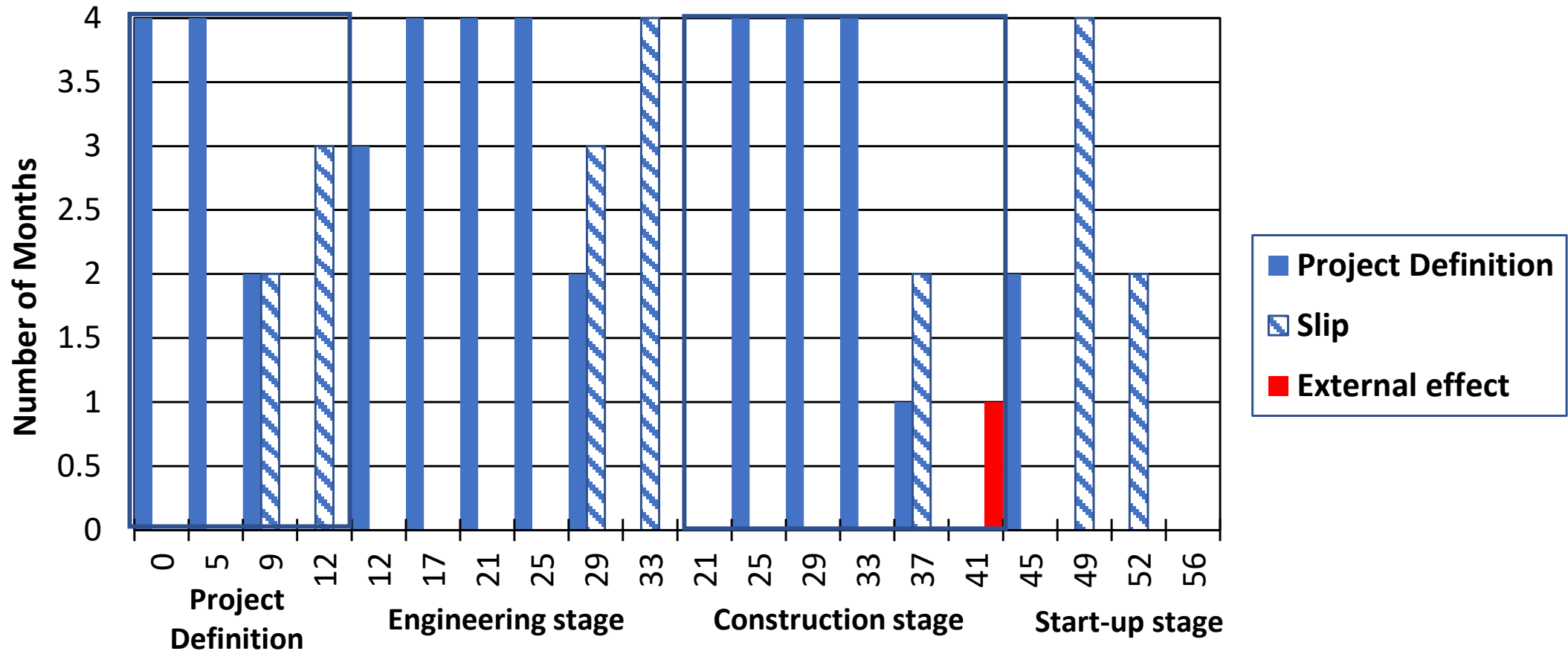


Optimizing the Acquisition of a Tech Startup

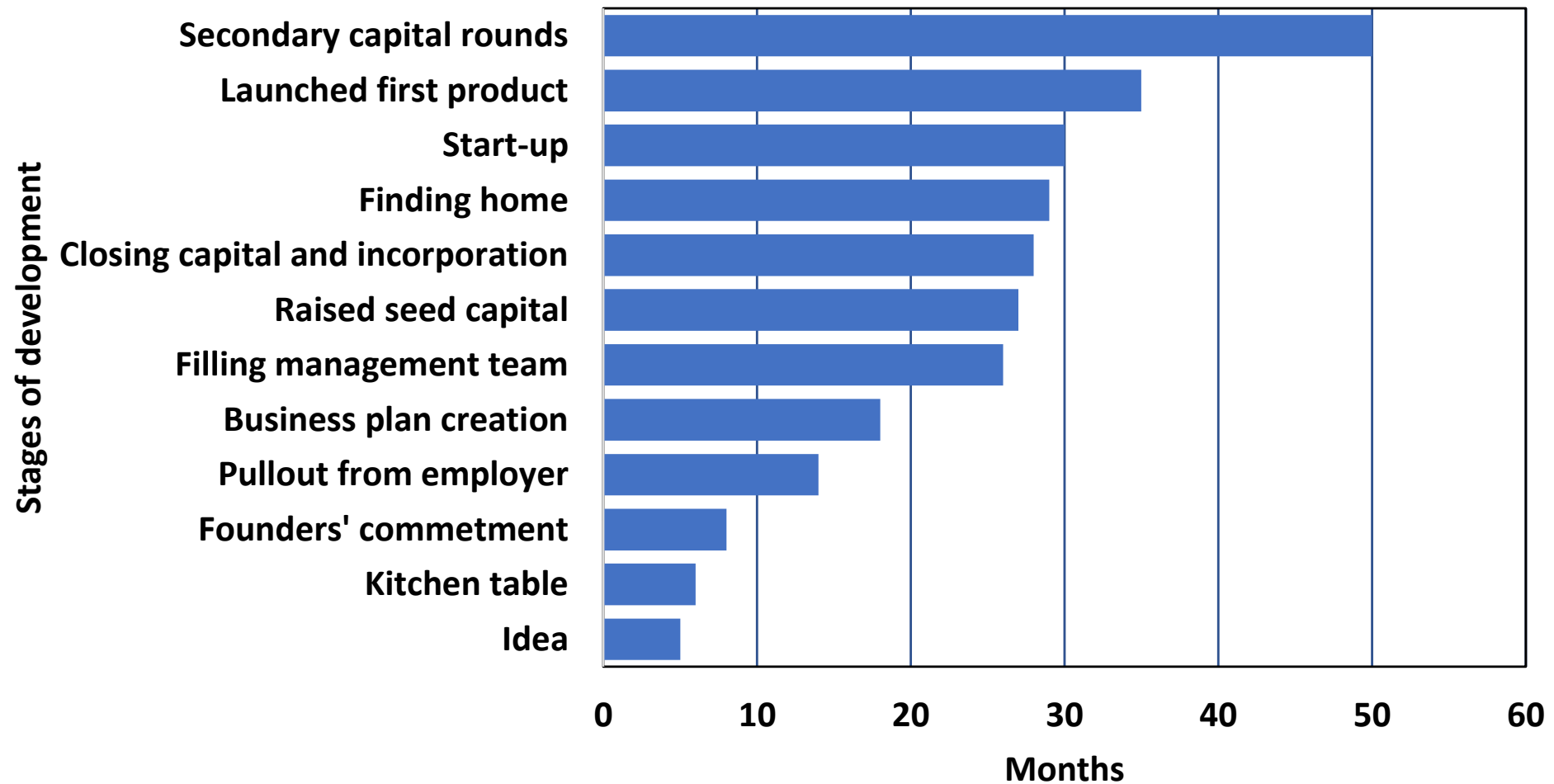
Phase 1: Map Technology



Phase 2 A: Evaluate the Stage of Development of the Tech Startup

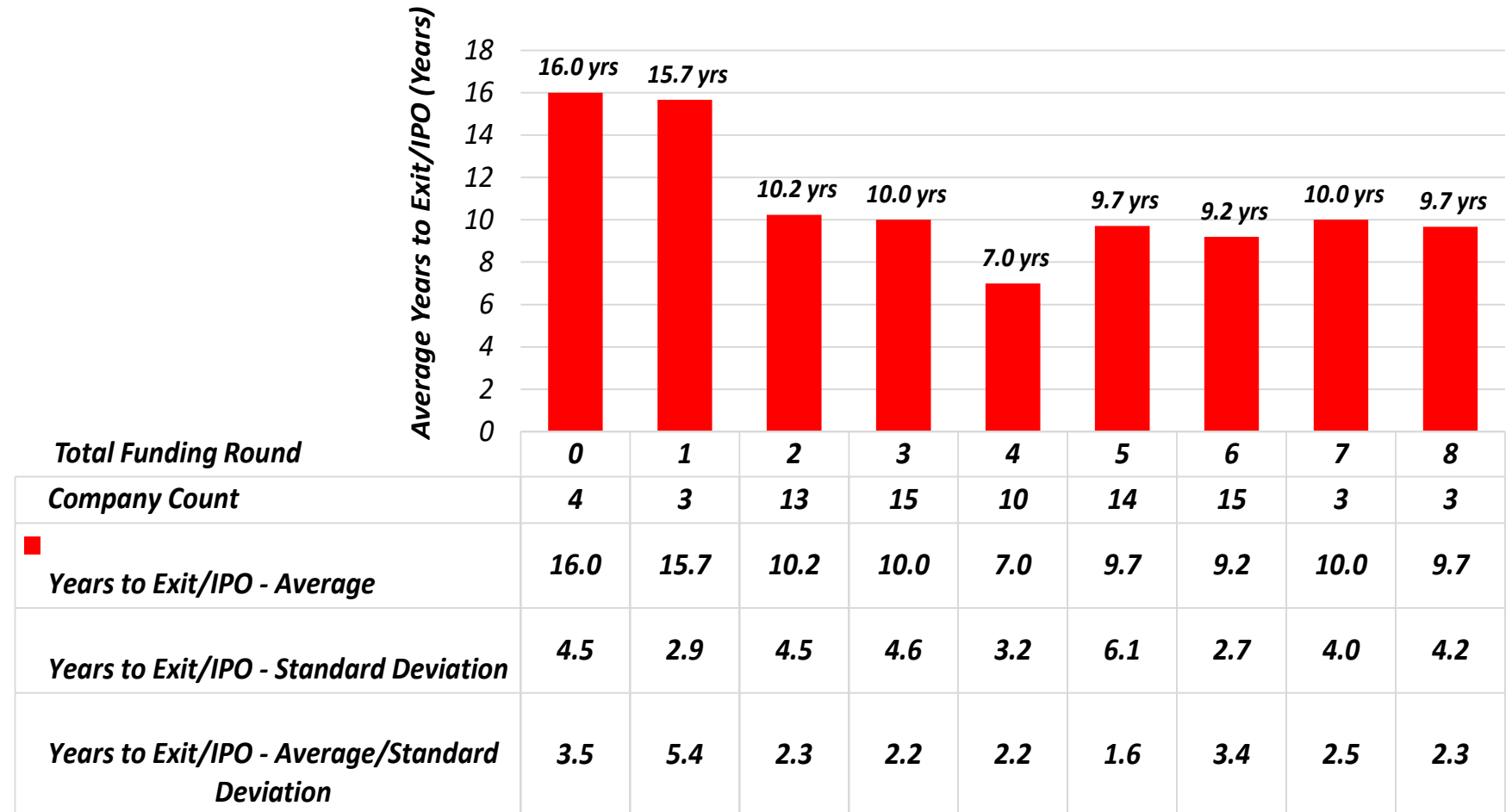


Phase 2 B: Understanding the Target's Capital Structure



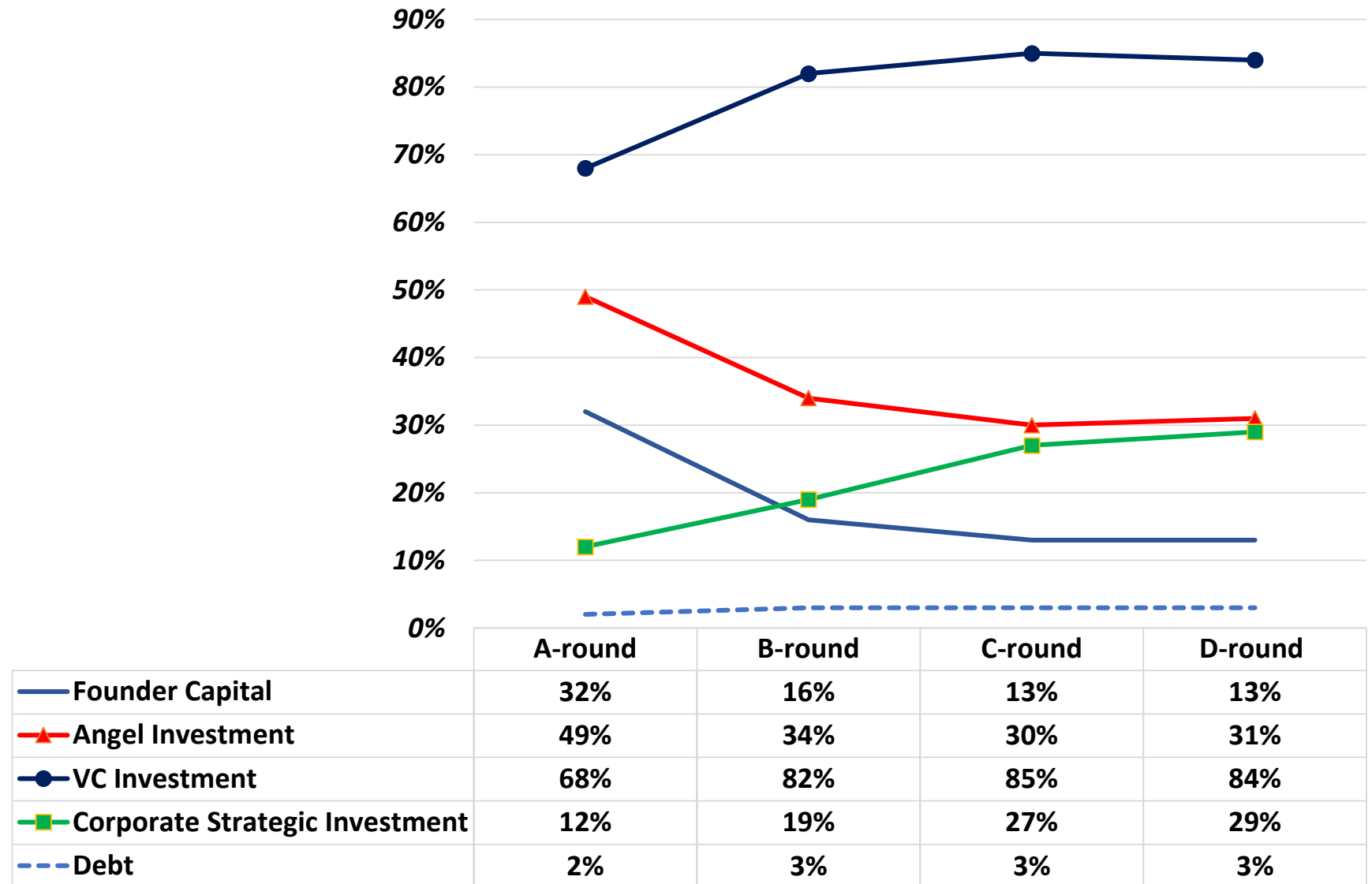
More
funding
rounds,
more exit
options!

Relationships between Total Funding Round & Average Years to Exit/IPO for Software as a Service (SaaS) Companies



Founder's
Participation
Declines with
Each Funding
Round

Types of Investors Participating in Each Round of Outside Financing in the CompStudy Dataset

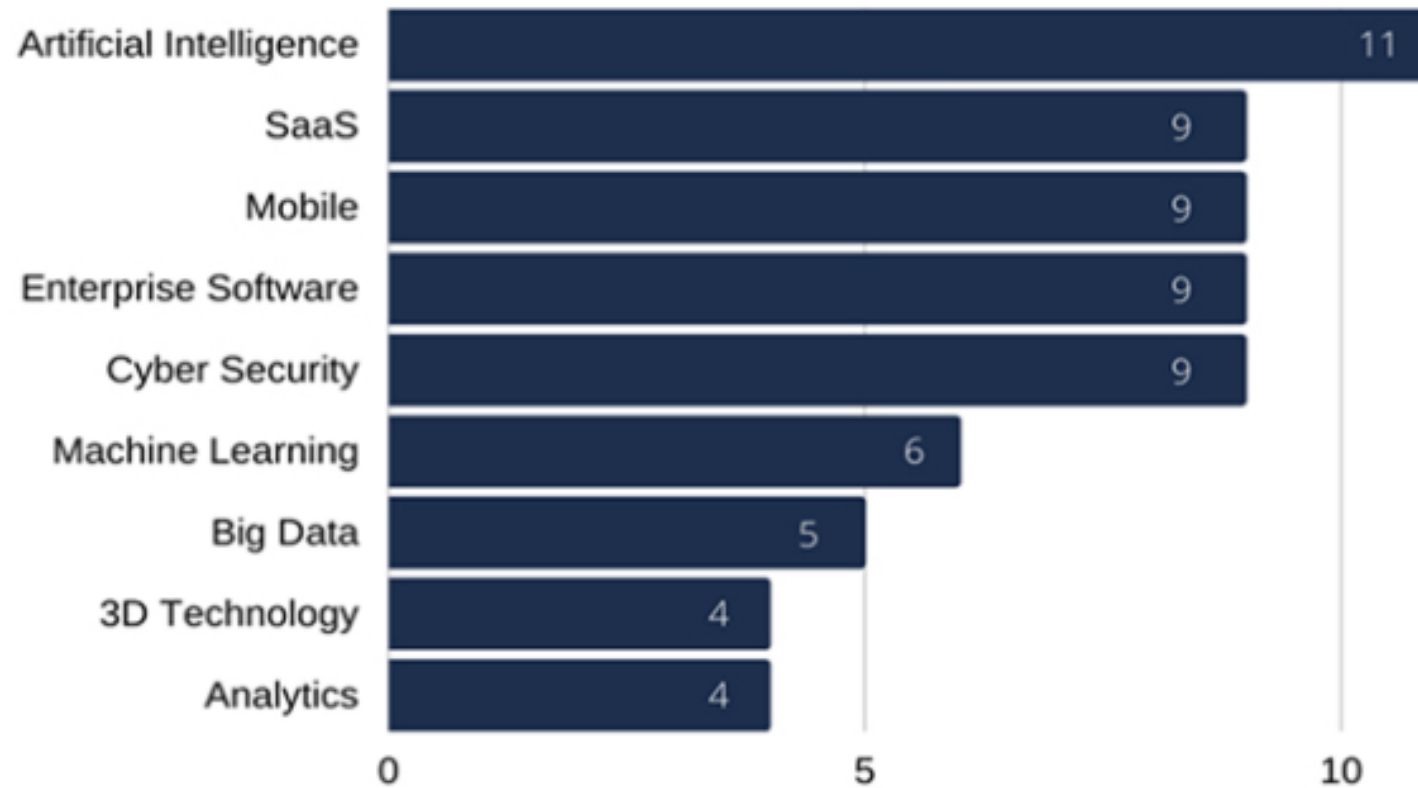


Number of US - Israel Cross-border M&A deals



Israeli M&A Deals in the Tech Sector

Top 10 target sectors in US- Israel M&A deals



Credit: Allied Advisers analysis based on Crunchbase data

Tech Israeli
M&A Deals
by Sector

Summary of what we know

- The most successful acquisitions of startups- long-term returns are greater- when the acquirer purchases a target whose technology either enables or compliments the strategic objectives of the acquirer.
- Israeli tech startups fit the long-term return profile because they look to strategic partners in order to scale
- Israeli startups come to the table with some level of institutional funding which will become more available as a result of the Abraham Accords. **The Israeli discount will disappear**
- Acquiring startups too early in their development is problematic. A startup with multiple rounds of financing , all else equal, is likely to result in a successful acquisition relative to an identical firm less dependent on institutional investors.



The Acquisition Game

- T is considering a 4th round of financing and a subsequent IPO exit. Strategic acquisition is less desirable since fear of culture clash and institutional investors believe that an IPO exit is value maximizing.
- A wants to acquire T and needs to make a case for the acquisition.
- Question: How does A make the case?
- Answer: By demonstrating that valuation possibilities are greater with a strategic acquisition than what a 4th round of financing would create

Valuing an Early-Stage Tech Firm: Monte Carlo

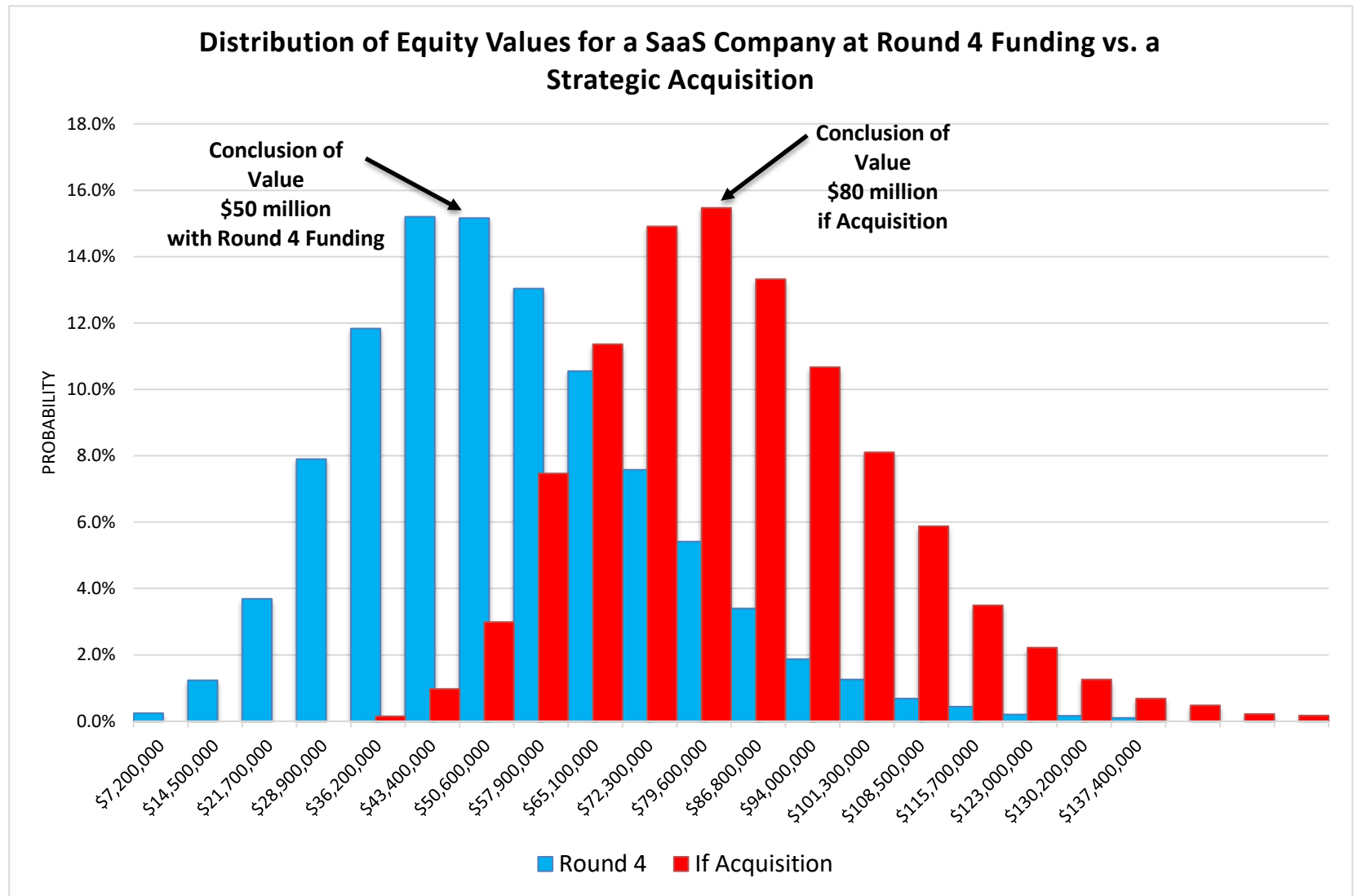
The Monte Carlo Approach is the only method that is uniquely applicable to the valuation of an early-stage firm and is the method used by AVS to help clients determine the optimal transaction price.

Why? Because it considers thousands of outcomes that could impact the target and combines these randomly to create thousands of valuations and associated probabilities.

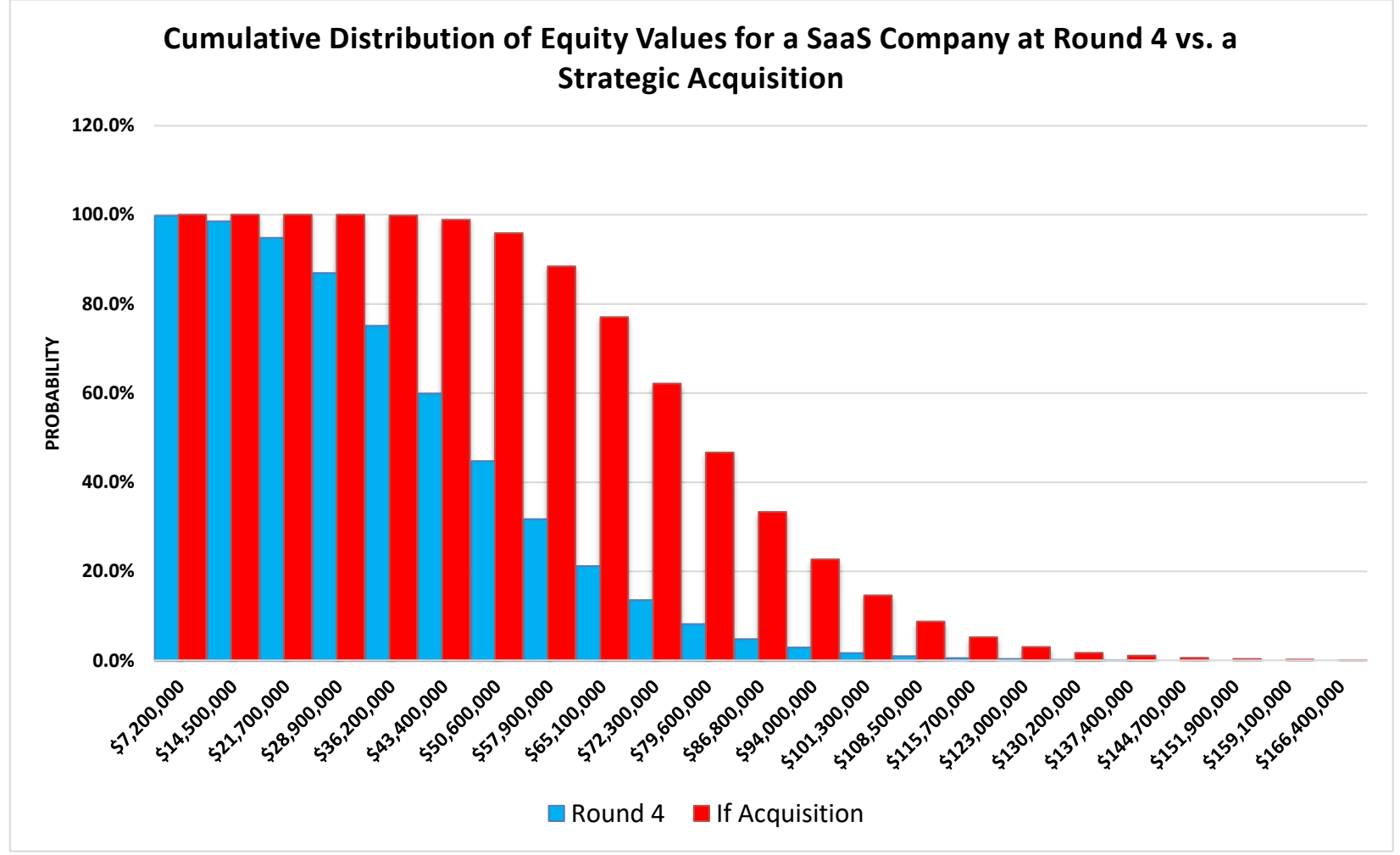
AVS asks the question: When should an early-stage firm accept another round of financing or look to exit?

Answer: Accept the new round when the value distribution indicates the value is wide enough that the expected value exceeds the takeout price.

Value Distribution Comparison: Round 4 vs. Acquisition



Cumulative Value Distribution Comparison: Standalone vs. Acquisition



Summary

- Israeli and US tech startup echo systems are equivalent.
- The Israeli discount will disappear in large measure due to the Abraham Accords and normalization between the key Arab states and the Jewish state. New sources of outside funding will emerge that will significantly drive-up acquisition multiples.
- Given, the new world, many Israeli tech startups may choose to go it alone- foreign funding to support scale in the US rather than look to strategic acquirers.
 - The upshot is that US acquires need to make the case that the going it alone strategy has a smaller payoff than the strategic acquisition path. AVS can help!