

ISRAELI TECH REVIEW Q3 2022

VC DATA AND INSIGHTS & **LEUMI**TECH

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Q3/2022 Israeli Tech Highlights

The video clips and news bulletins featured in recent Israeli Tech related conferences are all focused on the “crisis” in tech. To all outward appearances, third quarter numbers do not reflect any such crisis. If there was any anomaly in the last years, it was the 2021 numbers. So far, 2022 is just normal.

The real drama was taking place below the surface. In the last nine months we witnessed the complete destruction of large funding deal amounts (over \$50m each). In the third quarter, \$1.3b was raised in mega rounds, an 80% drop from Q4/2021 levels.

There is nothing unique about Israeli tech in this regard. Mega rounds are highly correlated with public companies’ valuations in the tech sector. Specifically in indexes or funds that follow high growth companies or new Initial Public Offerings (or SPAC deals). The best comparison is Cathie Wood’s ARK Innovation ETF, which lost 70% of its value since late 2021 through October 1, 2022.

But the decline in Mega round amounts is just peripheral. More troublesome (and hinted at in former quarters and validated in Q3 data) is the big exodus of foreign investors and the plunge in follow-on investments. In both cases some fundamental trends are changing and signaling a quick outflow of the big money especially in Mid-Late rounds, where usually the big money is deployed.

Q3/2022 Israeli Tech Highlights

The number of Follow-on investments, which are the major supply of capital for Mid-Late rounds, fell more than 50% from Q4/2021 to pre-COVID levels; While the downtrend for Israeli and foreign investors is similar, the changes are more explicit in the last year for foreign investors. The participation of foreign investors in Mid-Late rounds dropped back to late 2019 levels, after plunging 55% since Q4/2021 (See page 24).

Now that the 2021 anomaly has been reversed, we are left with the question: have we bottomed out yet (at least for 2022)? With the global economy facing a downtrend; an energy crisis looming in Europe; a Hawkish regime in the Federal Reserve; inflation still roaring; and Geo-Political uncertainty abound, it's hard to be optimistic in the short term.

Since 2010, the Israeli tech investments landscape showed uptrend momentum in which the seasonal pattern of the 4th quarter was, usually, sequentially up (unlike the 1st quarter for example). Importantly, over the decade, Q4 has continued the trend of previous quarters – whether up or down – and is expected to do the same this time.

Setting aside outlier deals of \$200m and above, the only comparable case is 2016, where we saw a 40% fall in amounts coupled with the same trend in deal numbers. Regarding the current quarter, a 40% drop in aggregate deal amounts is possible. Considering the current financial turmoil makes this even a conservative estimation. Barring outlier deals, our bet for Q4 is in the range of \$1.25 – \$1.5b, or \$1.38b at mid-point, approximating the year at \$13.7b.

Israeli High-Tech Investments

Investment Pattern 2015 – 2022* (With estimation for Q4/2022) - Adjusted



*Estimation for Q4/2022

Seed Deals Q1/2015 – Q3/2022 - Adjusted

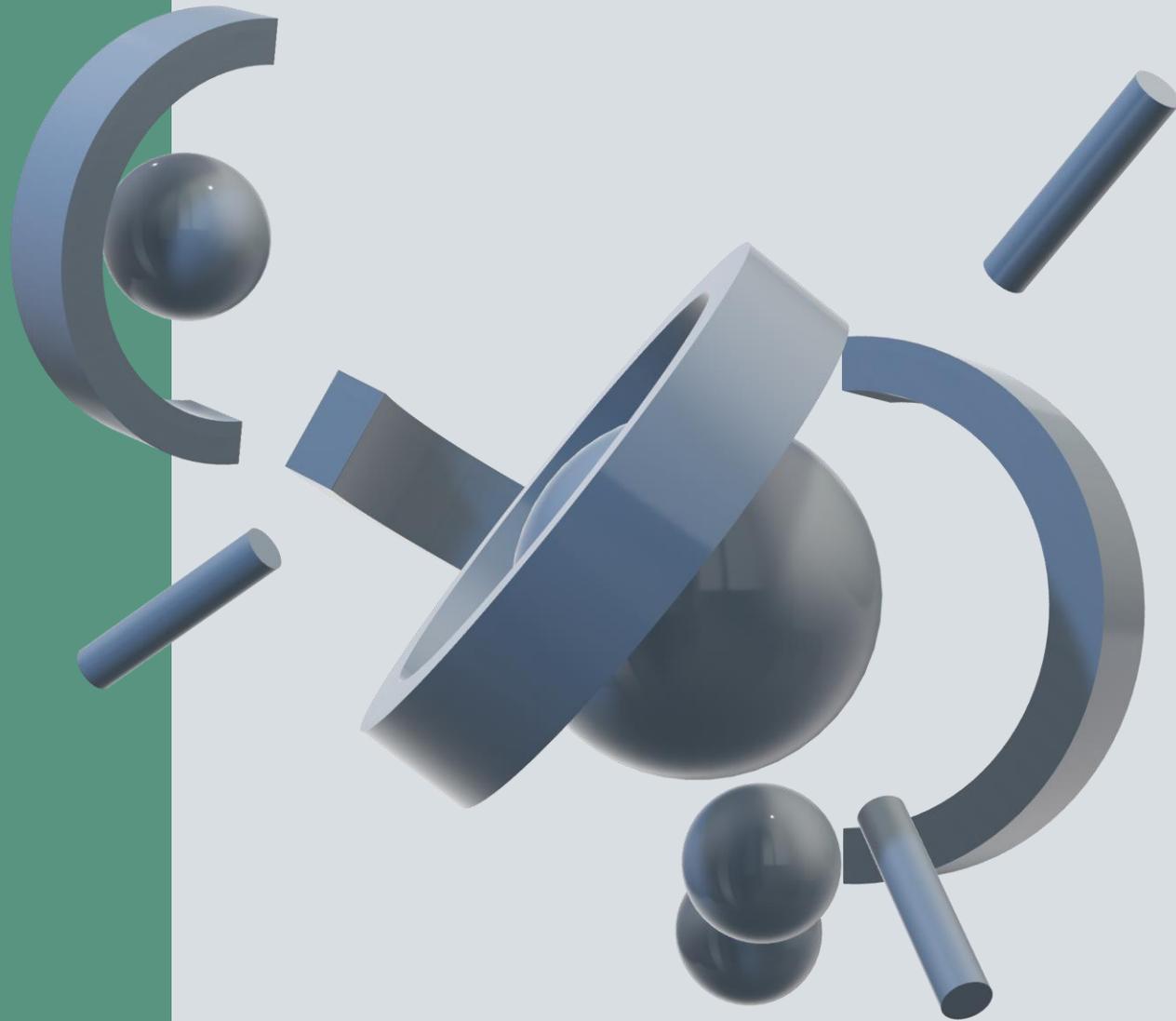


Source: IVC-LeumiTech Israeli Tech Review Q3/2022

One bright spot in this report is seed investments. Filter out the outliers (deals > \$50m), the seed investments scene looks surprisingly positive.

One reason for this could be the change in institutional investors' appetite for early rounds, especially seed deals.

Q3/2022
Israeli
High-Tech
Investments



Israeli High-Tech Investments

Q1/2015 - Q3/2022



Q3/2022 presented a drop in capital investments for the Israeli high-tech market, with \$2.57b raised in 143 rounds. The amount was 38% down from Q2/2022 and 55% below the Q3/2021 figure.

Number of rounds decreased as well, though less sharply – 22% and 16% from Q3/2022 and Q1/2021, respectively.

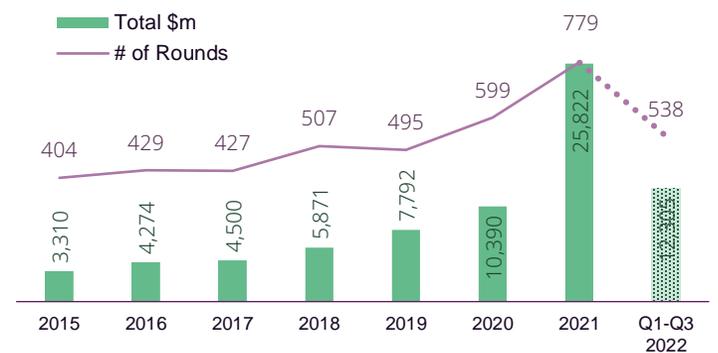
This continues an overall downtrend in Israeli capital raising demonstrated in 2022, in line with the global slowdown, especially reflecting Nasdaq activity for this period.

In Q1–Q3/2022, \$12.3b was raised in 538 deals – the second largest amount for this period over years. While deal numbers were almost as high as in Q1–Q3/2021, the amount reached only 48% of the capital raised over all of 2021.

Q1-Q3: 2015 - 2022



2015 - Q1-Q3/2022



Israeli High-Tech Investments

Both median and average capital amounts confirm the continuous downtrend in capital raising in Q1-Q3/2022.

Tech Investments: Average vs. Median 2015 - Q1-Q3/2022



Tech Investments: Average vs. Median Q1/2015 - Q3/2022



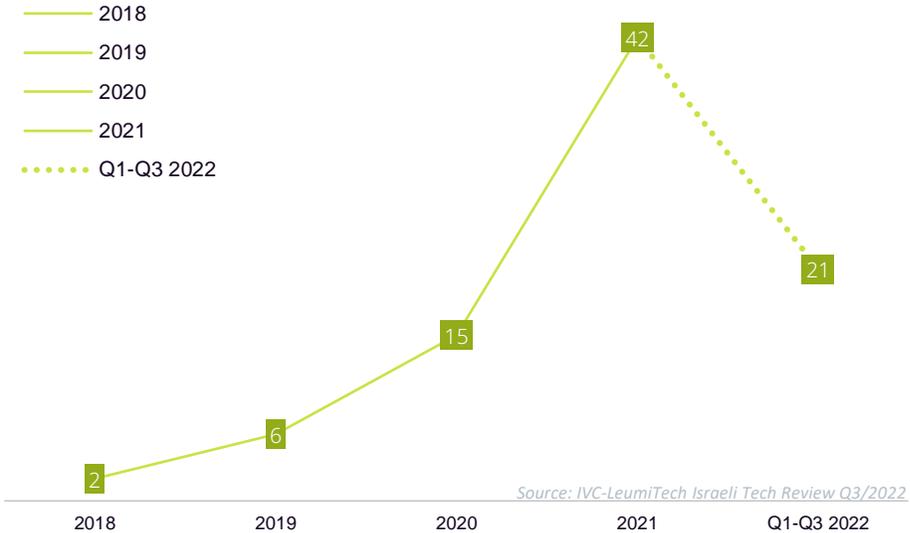
Israeli High-Tech Unicorns

Unicorns are highly sensitive to fluctuations in global capital markets, and as company valuations decline worldwide, Israeli growth companies reflect this trend first. Only one new Unicorn was added in Q3/2022.

► Unicorns Capital Raising Q1/2018 – Q3/2022



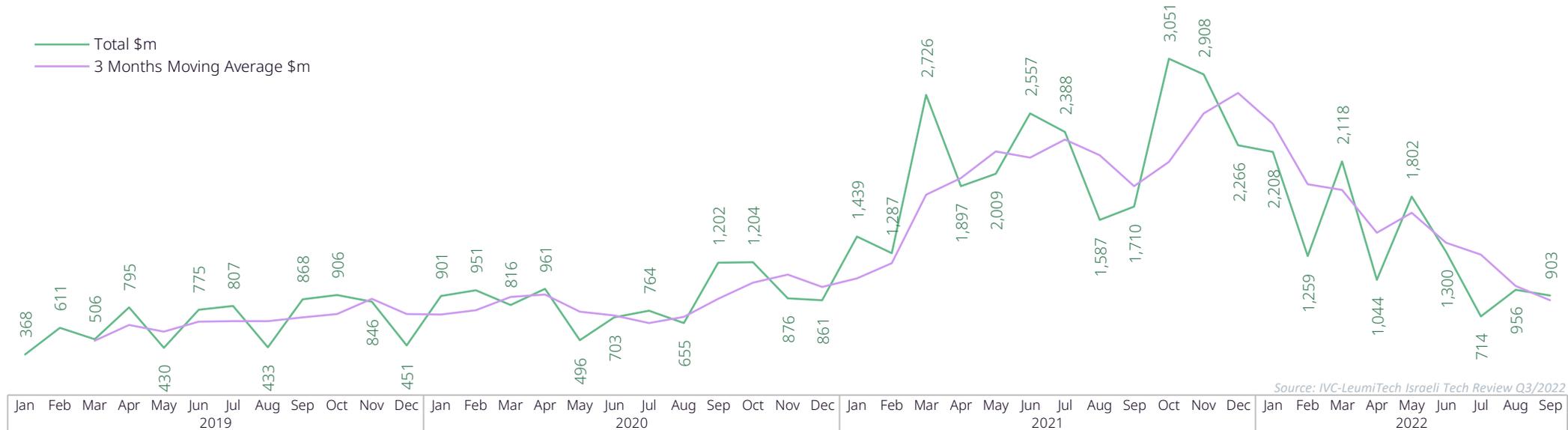
► # of New Unicorns by Valuation Date 2018 – Q1-Q3/2022



Israeli High-Tech Investments Jan/2019 - Sep/2022

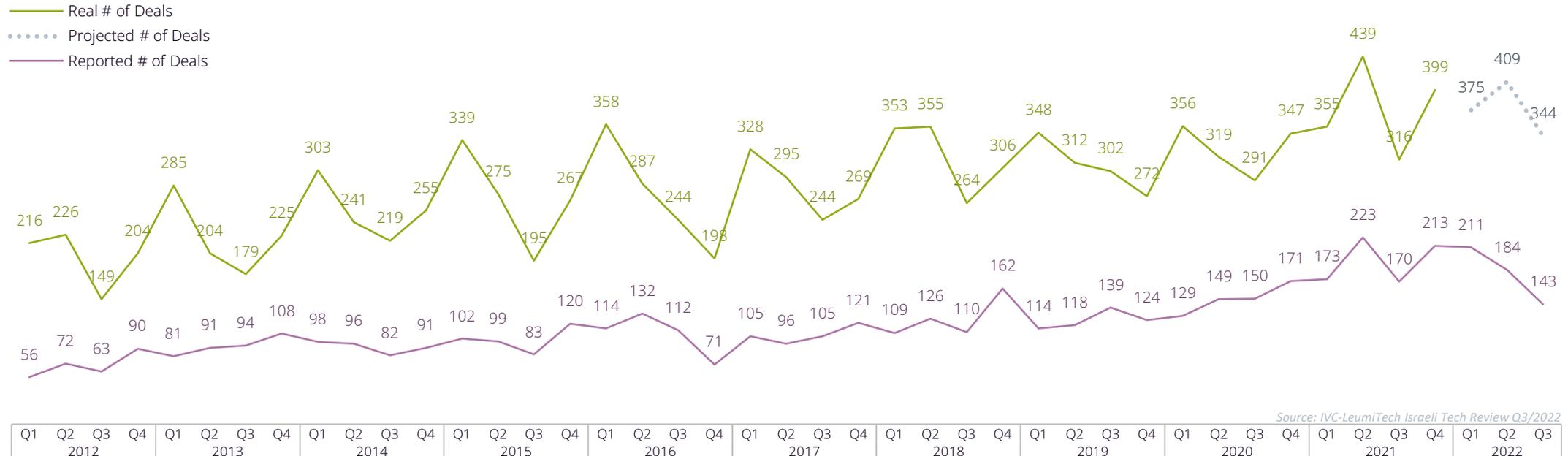
On a monthly scale, the downtrend since the end of 2021 continued during Q3/2022, with monthly dollar amounts dropping nearly 72% from October 2021 to September 2022.

Tech Investments: Monthly Capital vs. 3-Months Moving Average Jan/2019 - Sep/2022



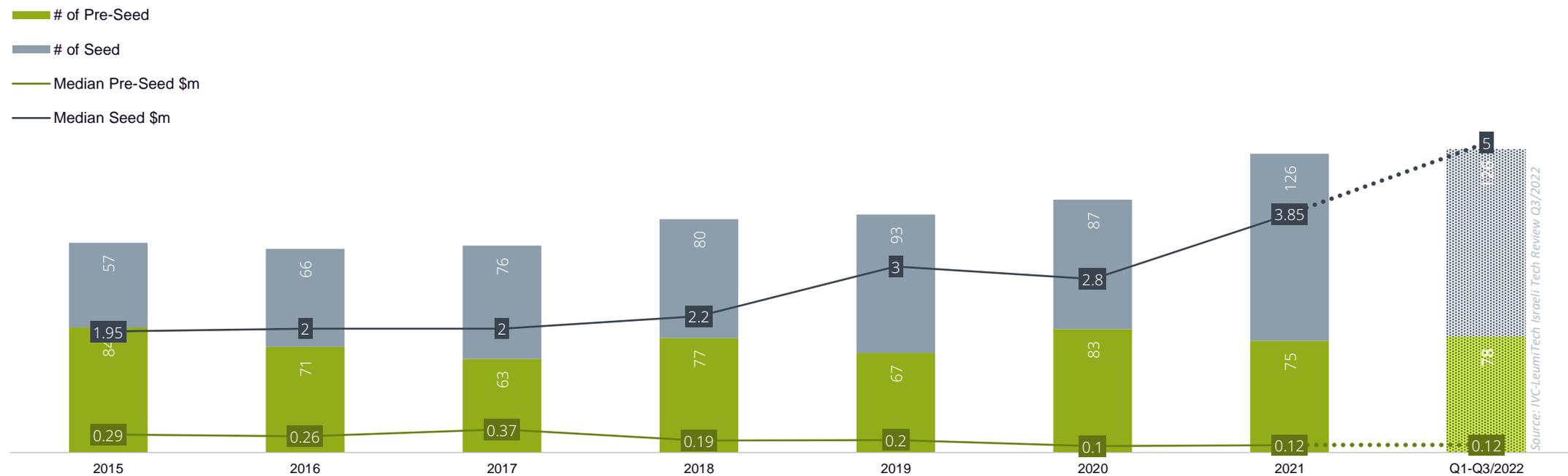
Projections: Real vs. Reported # of Capital Investments

Estimating the quarterly real number of deals helps us to grasp the full implications of the investment trend, even though only a fraction of the deals has been reported thus far. When major changes occur in the trend – as happened in the last quarters – it might take the time-series estimation a quarter or two to adjust, as indicated in 2020–2021. See our [Methodology](#) for more details.

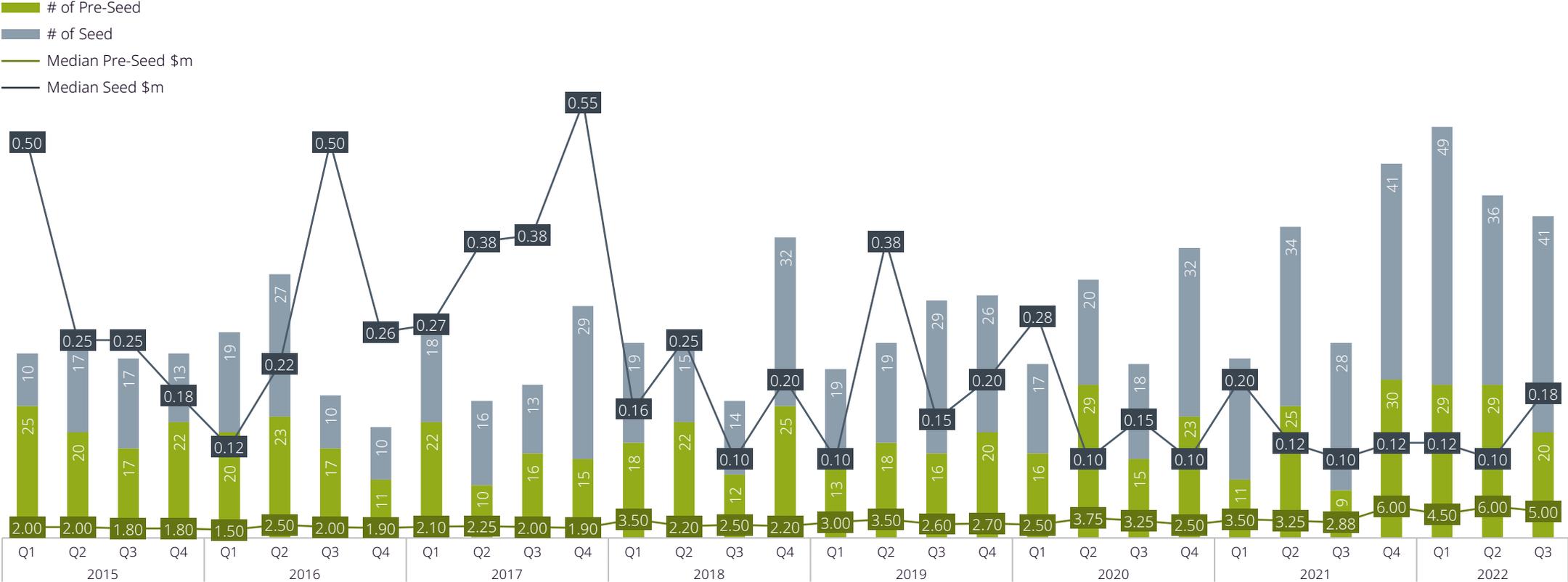


Pre-Seed & Seed Deals: Numbers and Median

More young companies succeeded to raise seed capital through the Q1-Q3/2022 period, with 126 deals – equal to the annual 2021 number. Median seed financing was up from 2021, reaching \$5m in Q1-Q3/2022



Pre-Seed & Seed Deals: Numbers and Median



Source: IVC-LeumiTech Israeli Tech Review Q3/2022

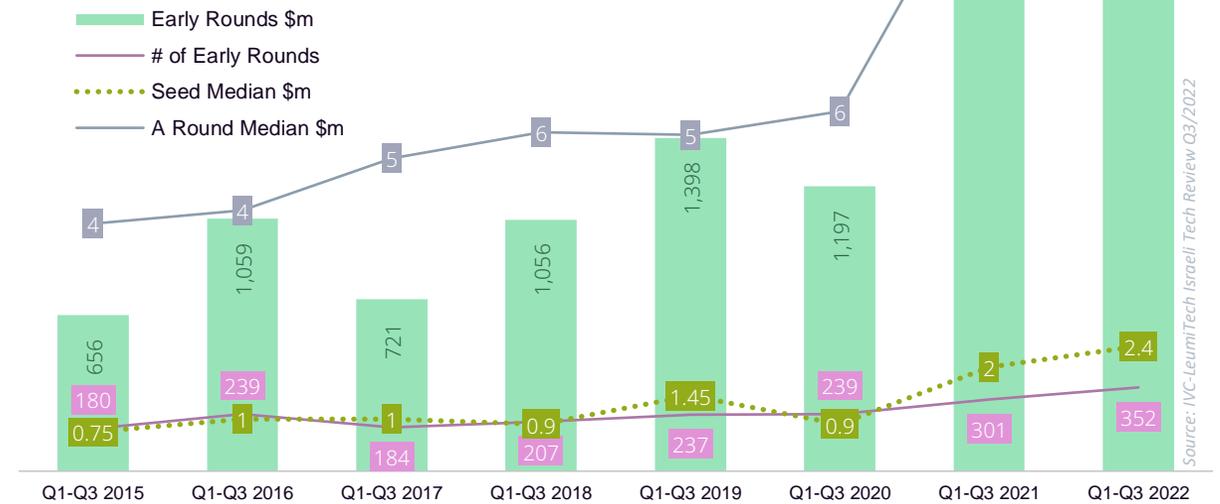
Early Rounds Totals: Amounts, Numbers and Median

Total capital raised in early rounds (pre-seed, seed and A rounds) has surpassed Q1–Q3/2021 numbers, a gain of nearly 82% of the 2021 annual amount. Yet, according to the quarterly analysis, the general downtrend has affected these round types in the last quarters. The stability of early rounds capital raising is mainly explained by the larger number of pre-seed/seed deals made through 2022 in higher median amounts.

▶ Early Round Capital \$m Q1/2018 – Q3/2022



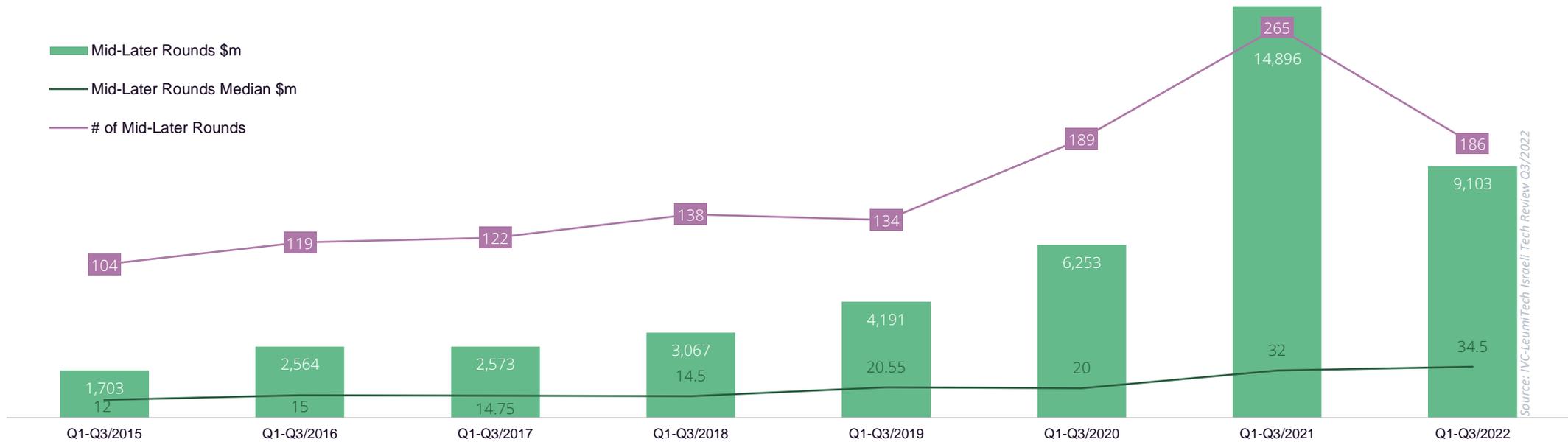
▶ Early Rounds Q1-Q3: 2015 – 2022



Investments in Mid - Later Rounds

Mid-later rounds have been impacted the most by the global downtrend in Q1—Q3/2022. The capital raised declined 39% and the number of deals by 30% from the same period in 2021.

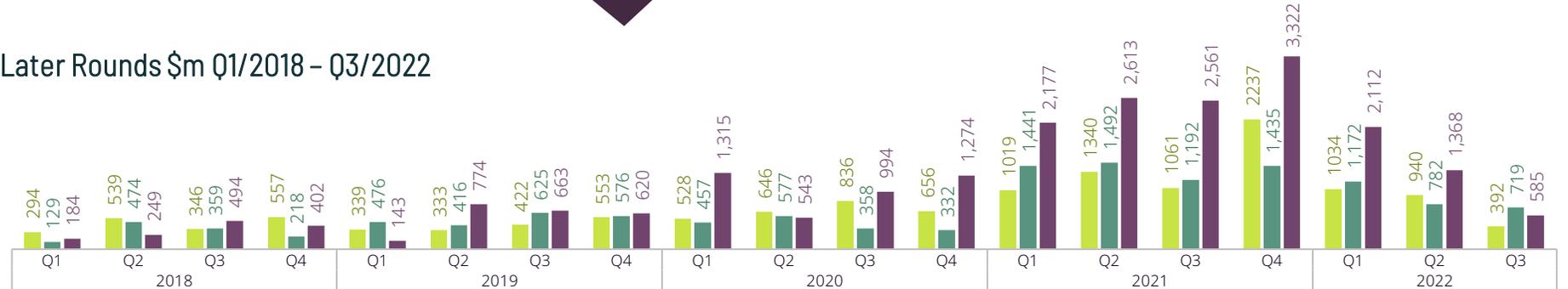
Investments in Mid - Later Rounds Q1-Q3: 2015 - 2022



Investments in Mid - Later Rounds

Investments in Mid - Later Rounds \$m Q1/2018 - Q3/2022

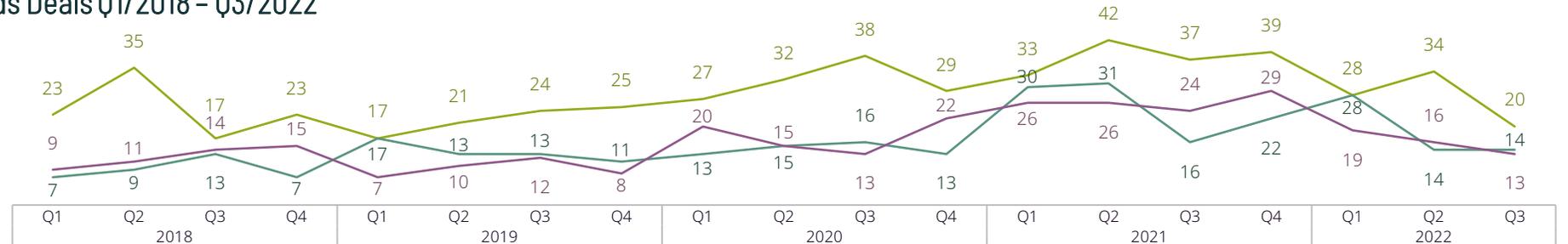
■ B Rounds \$m
■ C Rounds \$m
■ Later Rounds \$m



Source: IVC-LeumiTech Israeli Tech Review Q3/2022

of Mid-Later Rounds Deals Q1/2018 - Q3/2022

— # of B Rounds
— # of C Rounds
— # of Later Rounds



Source: IVC-LeumiTech Israeli Tech Review Q3/2022

Mid-Later Rounds Median \$m Q1/2018 - Q3/2022

■ Median B Rounds \$m
■ Median C Rounds \$m
■ Median Later Rounds \$m

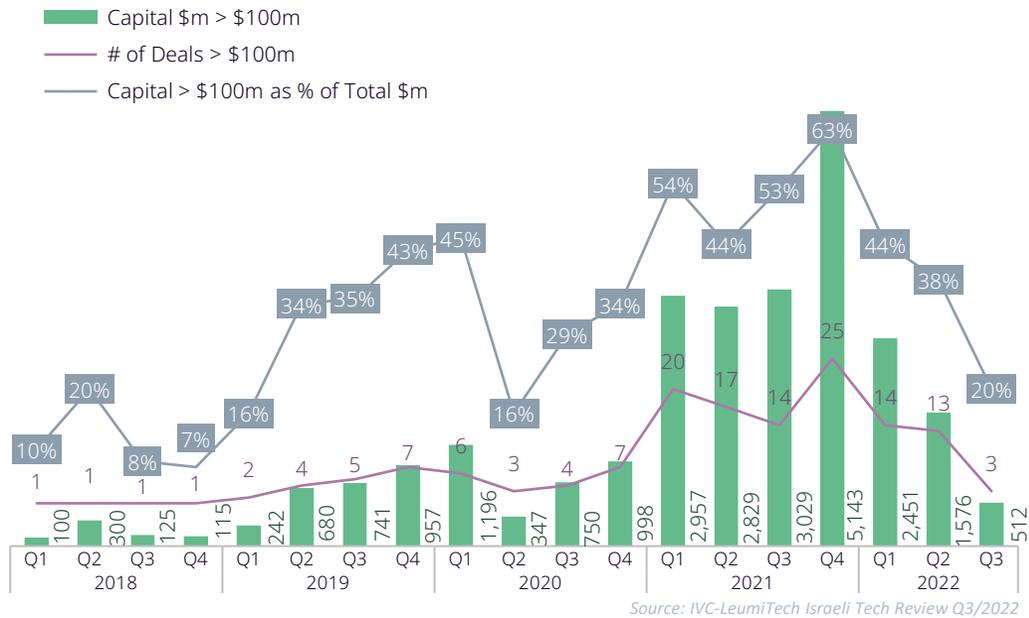


Source: IVC-LeumiTech Israeli Tech Review Q3/2022

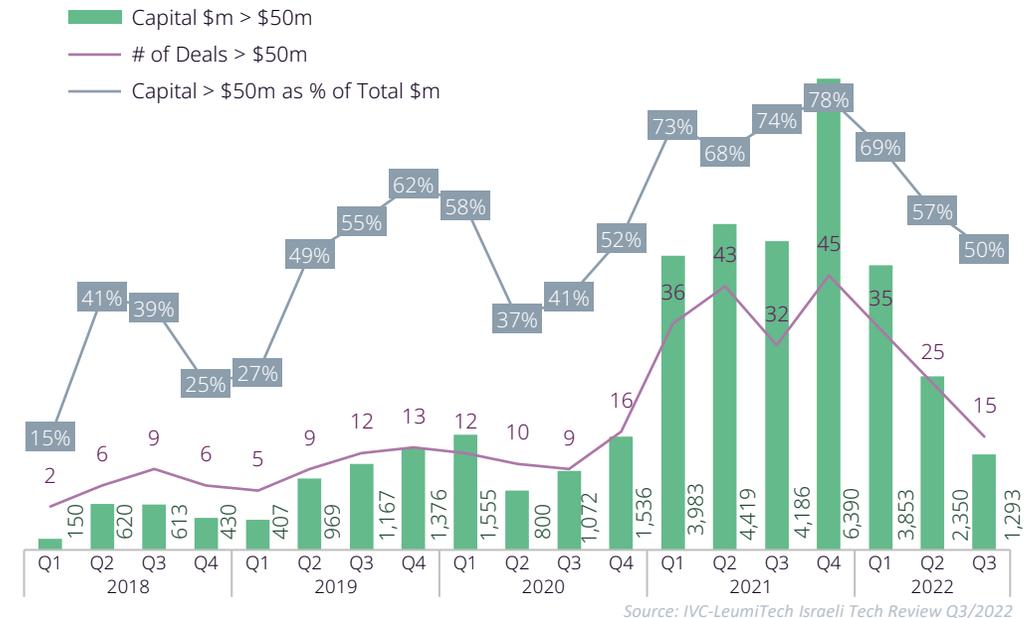
Capital Raising by Deal Size

The number of large deals in Israeli tech (> \$50M) fell by 66% on a quarterly basis from Q4/2021 to Q3/2022, while deal amounts in this period dropped by almost 80%.

Deals over \$100m Q1/2018 – Q3/2022



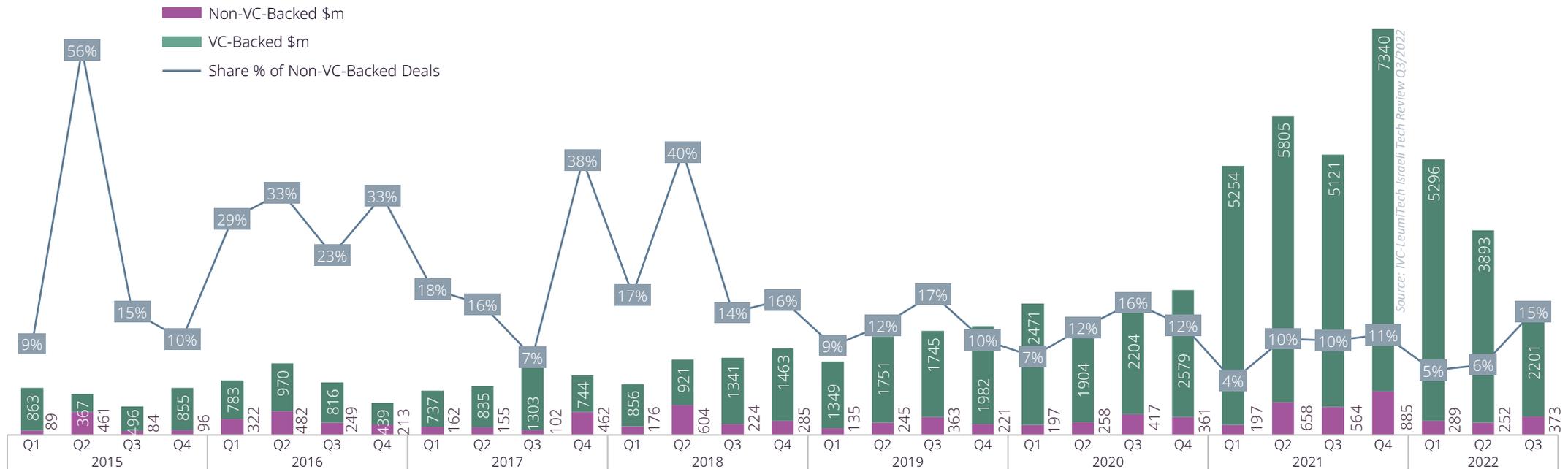
Deals over \$50m Q1/2018 – Q3/2022



VC-Backed Deals

Although VC amounts continue to decline, the share of non-VC investors is still at a record low, with just 14.5% of deal amounts done without VC involvement. After three quarters of less than impressive amounts, non-VC-backed amounts are back at pre-pandemic levels. Even VC quarterly amounts in Q3 are finally back to 2019–2020 levels.

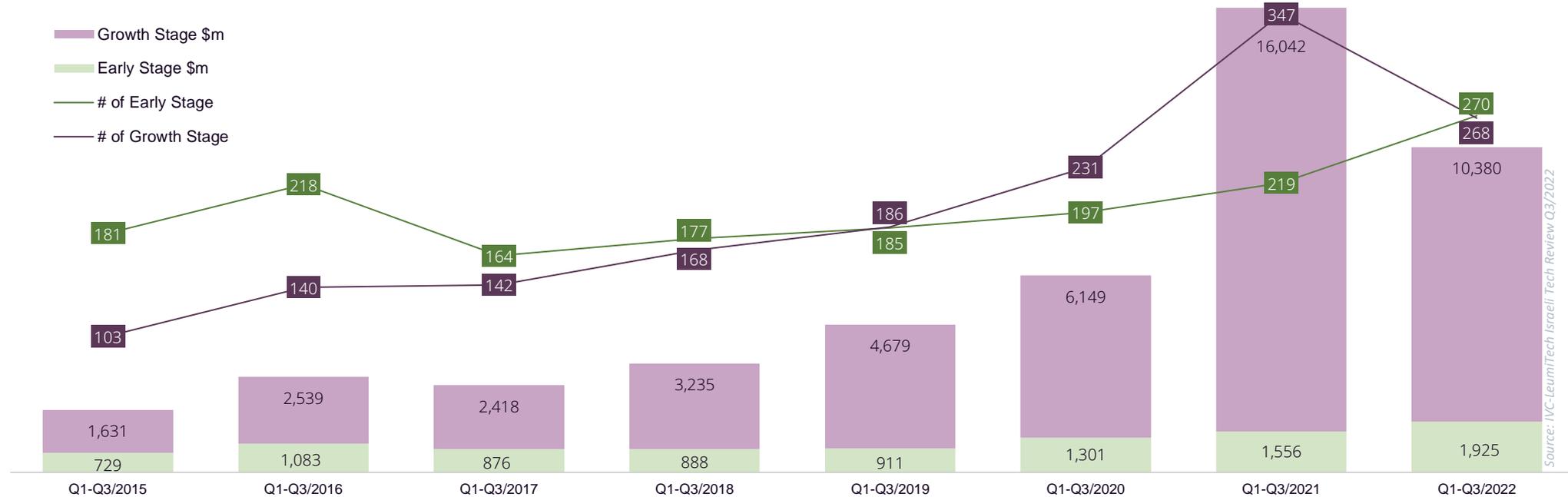
VC-Backed Deals Q1/2015 - Q3/2022



Capital Investments by Operational Stage

Q1-Q3/2022, early-stage companies (seed and R&D) held the record number of deals for this period – 270 deals, surpassing the 219 deals raised in Q1-Q3/2021.

Capital Raising by Stage Q1-Q3: 2015 - 2022



Q3/2022 Selected Top Investments

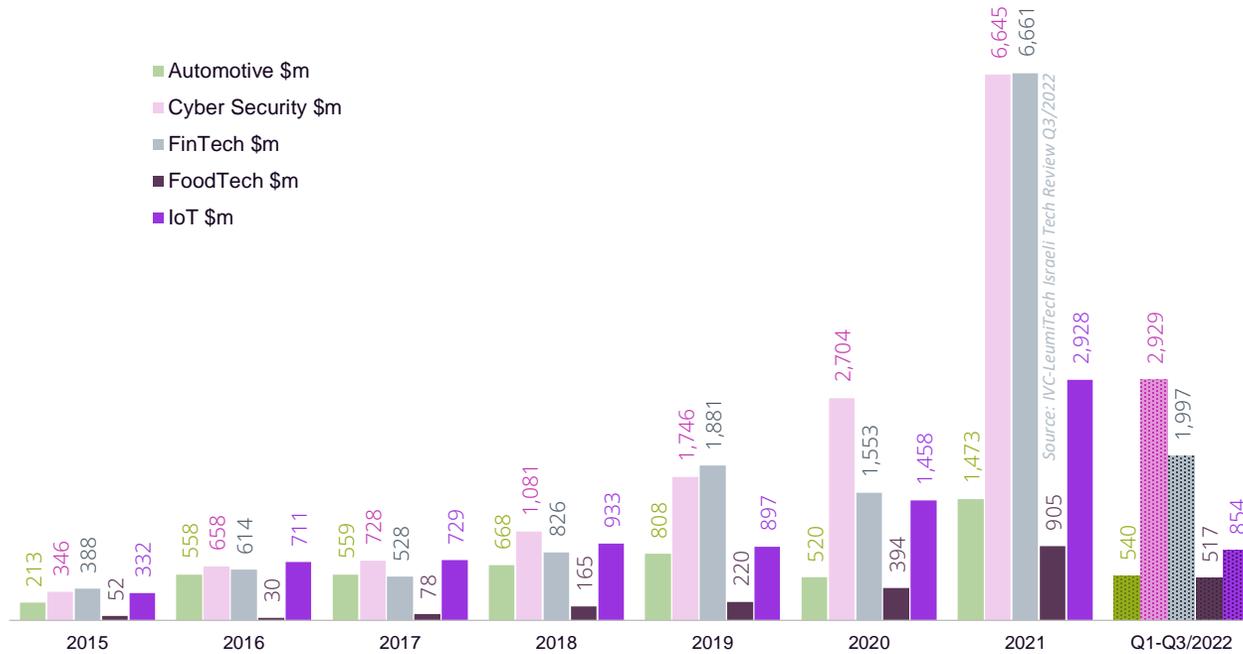
1 DriveNets Ltd. Communications Mobile Infrastructure Third Round 262 M\$	2 Hibob Ltd. (bob) IT & Enterprise Software Enterprise Applications Fourth Round 150 M\$	3 Talon Cyber Security Ltd. IT & Enterprise Software Security First Round 100 M\$	4 Guesty Bookhost Inc. Internet Internet Applications Fifth Round 85 M\$	5 Zesty Tech Ltd. Internet Internet Applications Second Round 75 M\$
6 CathWorks Ltd. Life Sciences Digital Health Fifth Round 75 M\$	7 Cymulate Ltd. IT & Enterprise Software Security Fourth Round 70 M\$	8 AI21 Labs Ltd. IT & Enterprise Software Miscellaneous Third Round 64 M\$	9 Aurora Labs Ltd. IT & Enterprise Software Miscellaneous Software Third Round 63 M\$	10 Deep Instinct Ltd. IT & Enterprise Software Security Fifth Round 62 M\$
11 AccessFintech Ltd. IT & Enterprise Software Enterprise Applications Third Round 60 M\$	12 Mesh Payments Inc. IT & Enterprise Software Enterprise Applications Third Round 60 M\$	13 Carbyne Ltd. Communications Mobile Applications Third Round 56 M\$	14 Balance Payments Inc. Internet Internet Applications Second Round 56 M\$	15 ForSight Robotics Ltd. Life Sciences Medical Devices First Round 55 M\$

Source: IVC-LeumiTech Israeli Tech Review Q3/2022

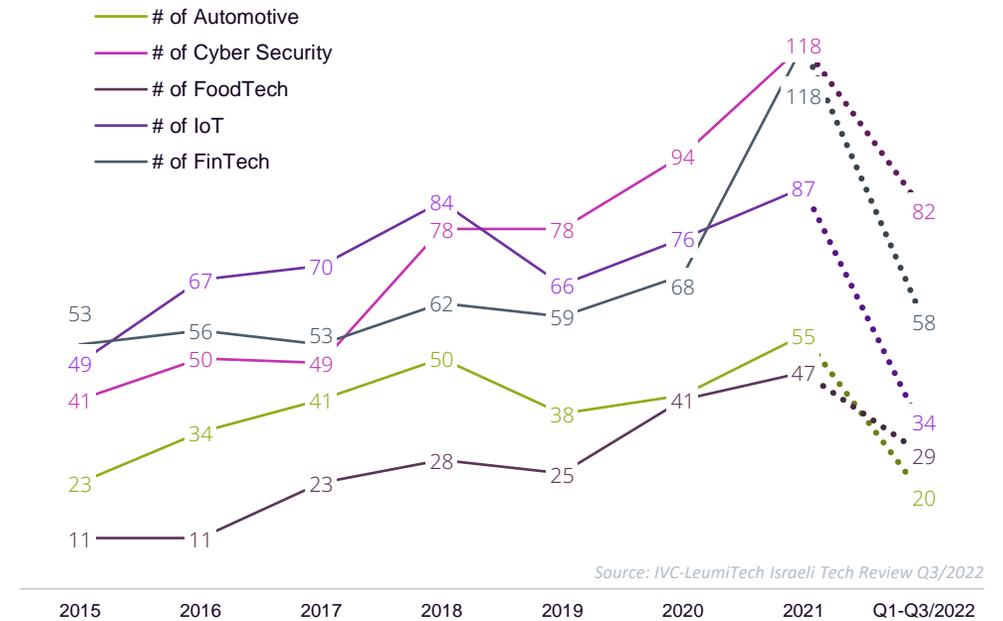
Investments by Verticals

Capital amounts slowed down across the Technology verticals in Q1-Q3/2022, compared to 2021. Deal numbers for the first nine months of 2022 support what we know from Wall Street indexes – Cyber Security companies perform better in this financial environment, than other currently hyped verticals, like Fintech or Automotive.

Investments by Verticals \$m 2015 – Q1-Q3/2022



of Investments by Verticals 2015 – Q1-Q3/2022



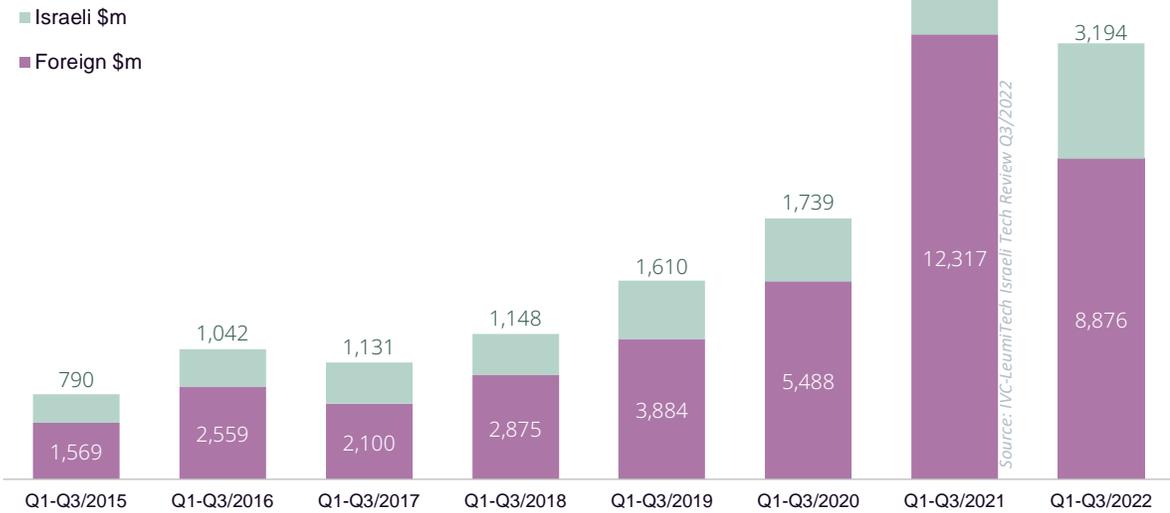
*Each company may belong to more than one tech vertical

Israeli Vs. Foreign Investments

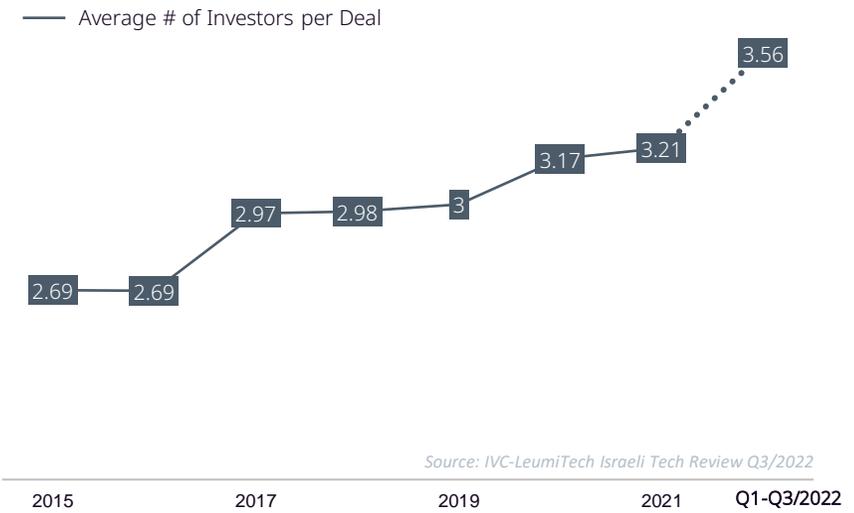
In Q1-Q3/2022, the foreign investor share of total capital remained in the range of 74% of the total, with investments down 28% from investment amounts in Q1-Q3/2021, similar to Israeli-based investor patterns.

While total invested amounts were down in 2022, the number of investors has continued to increase in average number of investors per deal.

▶ Israeli Vs. Foreign Investments \$m Q1-Q3: 2015 - 2022



▶ Average # of Investors per Deal 2015 - Q1-Q3/2022



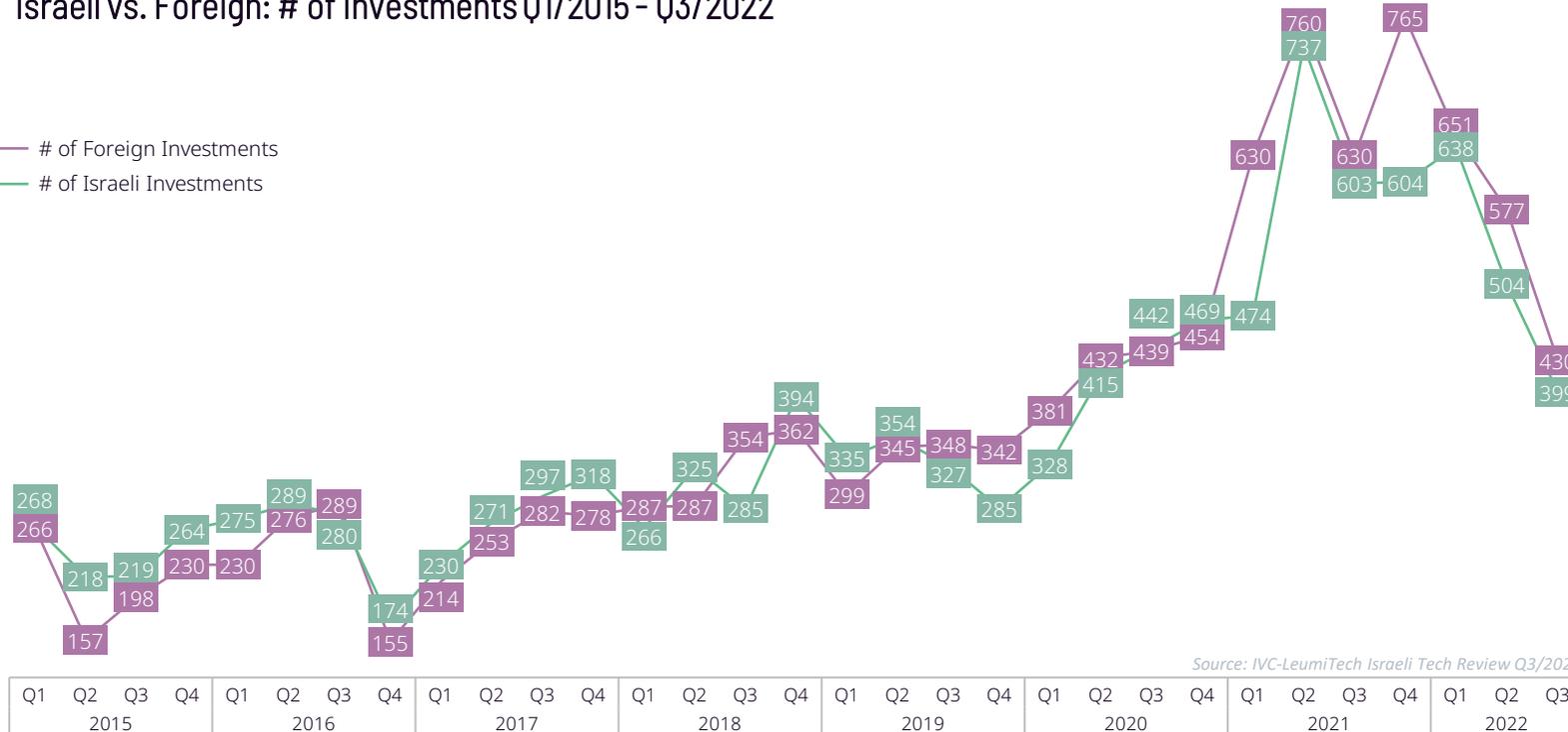
*Some Investors were undisclosed

**Investments performed by Investor Region

Israeli Vs. Foreign Investments

▶ Israeli vs. Foreign: # of Investments Q1/2015 - Q3/2022

— # of Foreign Investments
— # of Israeli Investments



Source: IVC-LeumiTech Israeli Tech Review Q3/2022

*Some Investors were undisclosed

**Investments performed by Investor Region

So far, 2022 has seen a decrease in the number of investments – an indication for larger dollar amounts – ending an upward trend from Q4/2019, which peaked in Q4/2021.

The number of foreign investments in Q3/2022 is down 44% from Q4/2021, reaching 2020 quarterly levels, back to the normal pattern of similar number of Israeli vs. foreign investment deals.

Mid-Later Rounds: Israeli Vs. Foreign Investors

► Mid-Later Rounds: Israeli vs. Foreign: # of Investors Q1/2019-Q3/2022

— # of Foreign Investors
— # of Israeli Investors



Source: IVC-LeumiTech Israeli Tech Review Q3/2022

*Some Investors were undisclosed

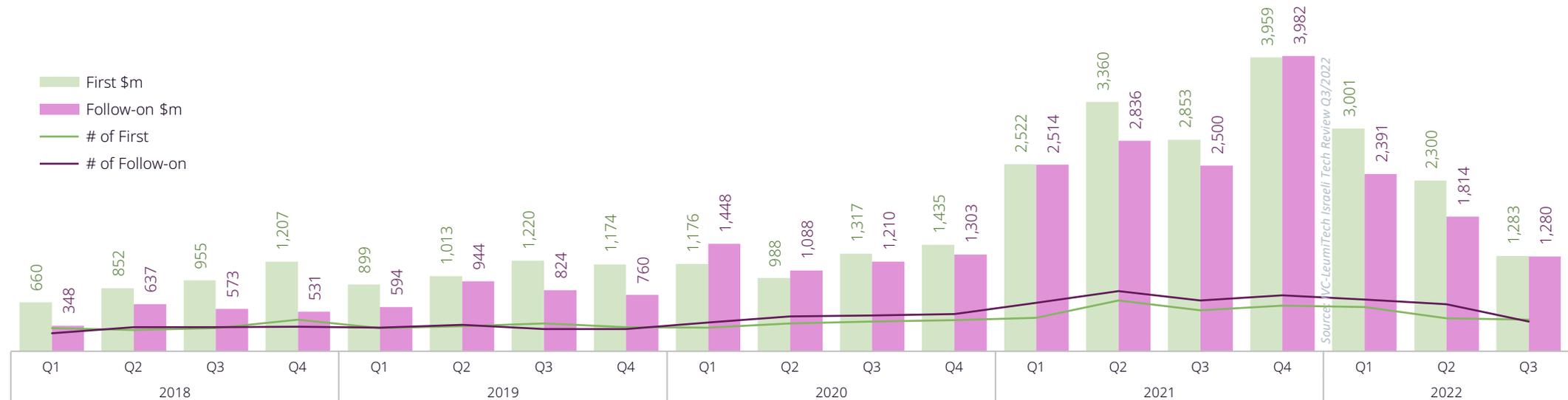
**Investments performed by Investor Region

There was observed a clear downtrend in 2022, when the number of both Israeli and Foreign investors that took part in Israeli high-tech capital investments have plunged back to 2019 quarterly levels

First Vs. Follow-on Investments

Similar to Israeli/foreign investment deals, the first vs. follow-on deals signal a change in the risk environment. Even before COVID, in Q4/2019, we saw the follow-on number of deals outpace first investment deal numbers, an indication that more money would flow into Israeli tech. This pattern has now reversed back to the level of 2019 – early 2020.

► First Vs. Follow-on Investments Q1/2018 – Q3/2022



*Some Investors were undisclosed

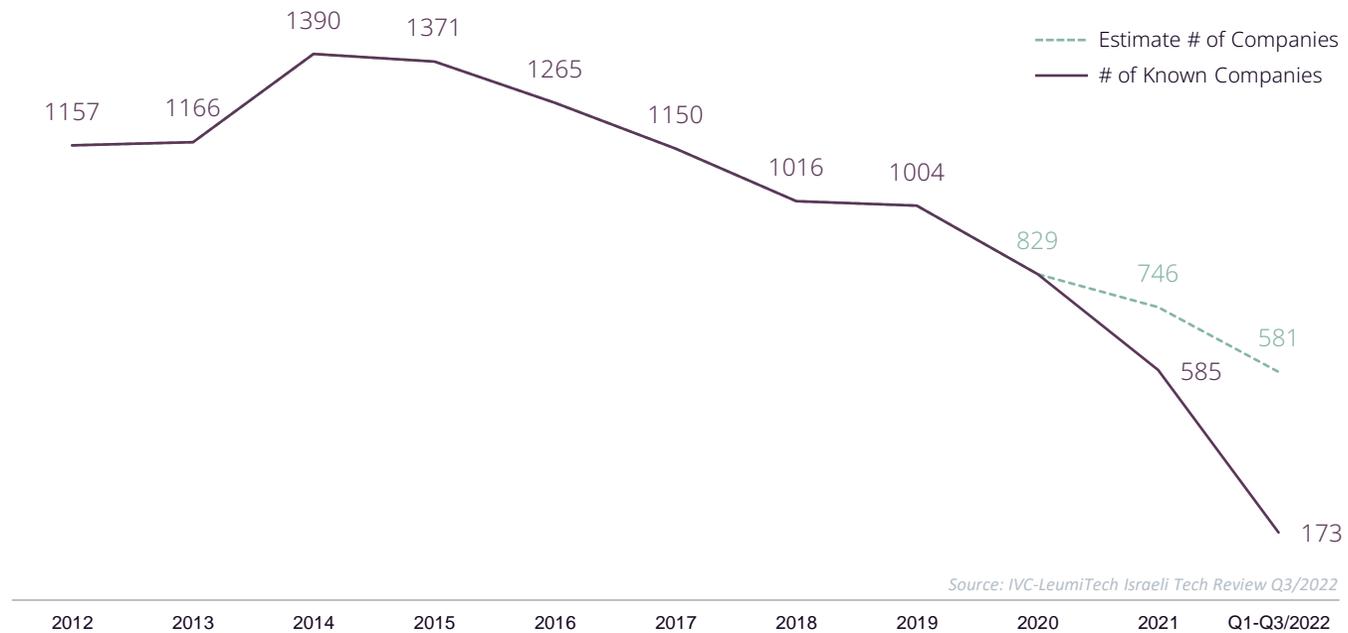
**Investments performed by Investor Region

New Companies: Known and Estimation

While the final figures for the number of companies established during 2021–2022 is not yet known (see our [methodology](#)), our model suggests that the final numbers for 2021 will be between 750–800 companies.

For Q1–Q3/2022, we estimate that approximately 580 new companies were established so far this year, similar to 2020 and 2021 numbers.

► 2012 – Q1-Q3/2022



Source: IVC-LeumiTech Israeli Tech Review Q3/2022

Q3/2022 Israeli High-Tech Exits



Israeli High-Tech Exits

In Q1–Q3/2022, Israeli high-tech exits activity experienced a slowdown, with 100 exits amounting to \$13.4 billion. This is notable, compared to the 196 exits in Q1–Q3/2021 and below the average of 115 exits for the same period from 2015–2020.

There were 15 exits over \$100m each in Q1–Q3/2022, with the largest – the acquisition of TowerJazz by Intel for \$5800m (excluded as an outlier from further calculations).

▶ Israeli High-Tech Exits (M&As, Buyouts, IPOs) 2015 – Q1-Q3/2022

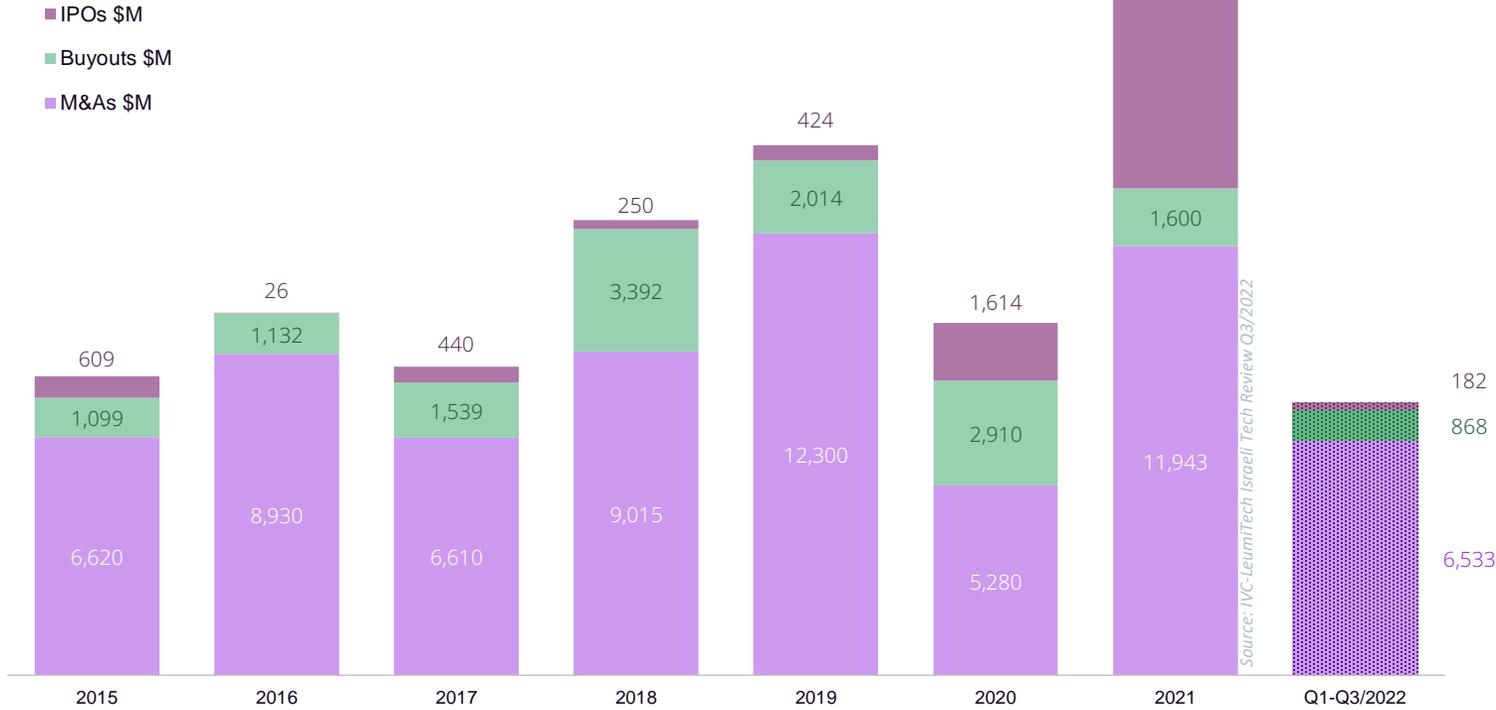


▶ Israeli High-Tech Exits (M&As, Buyouts, IPOs) Q1-Q3: 2015 – 2022



Israeli High-Tech Exits

Exits by Type \$m 2015 - Q1-Q3/2022



* Exits under \$5B

Source: IVC-LeumiTech Israeli Tech Review Q3/2022

The most notable change in Q1-Q3/2022, was an almost complete shutdown of IPO activity following a very robust period over 2021.

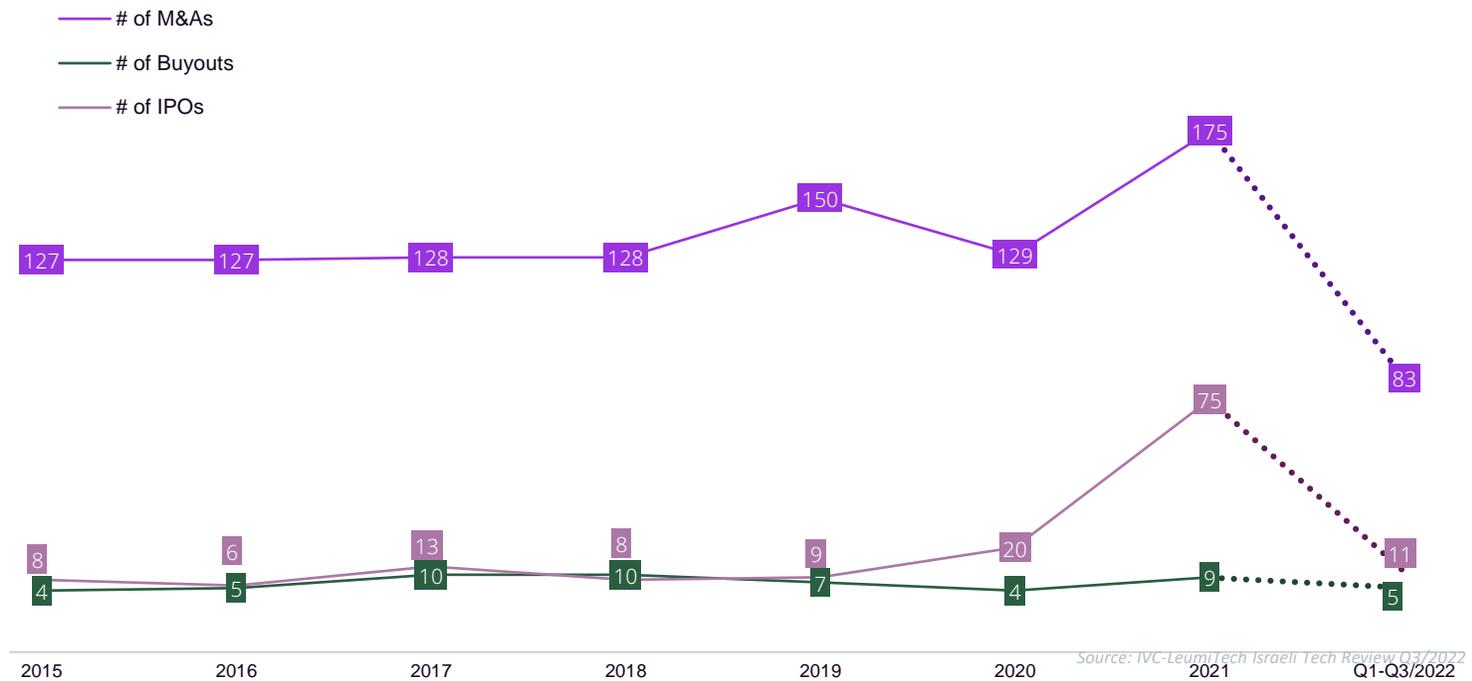
In Q1-Q3/2022, M&A capital proceeds (\$7.4b) reached only 55% of total M&A amounts in 2021, while close to the annual \$8.2b in 2020.

The largest exit in Q3/2022 was the acquisition of Elmo Motion Control Ltd. by Bosch Rexroth for \$700m.

Israeli High-Tech Exits

In Q1–Q3/2022, Israeli IPO activity in capital markets dropped back to the low levels of previous years, with 11 deals, following a very active 2021.

▶ # of Exits by Type 2015 – Q1-Q3/2022



* Exits under \$5B

Israeli High-Tech M&As

In the first three quarters of 2022, the general downtrend in M&As was less obvious in deal ranges of \$20m–\$500m, with \$4.77 billion.

There were no large deals over \$1 billion (excluding outliers of \$5 billion) in 2021 and so far none in 2022.

► M&As Q1-Q3: 2015 - 2022



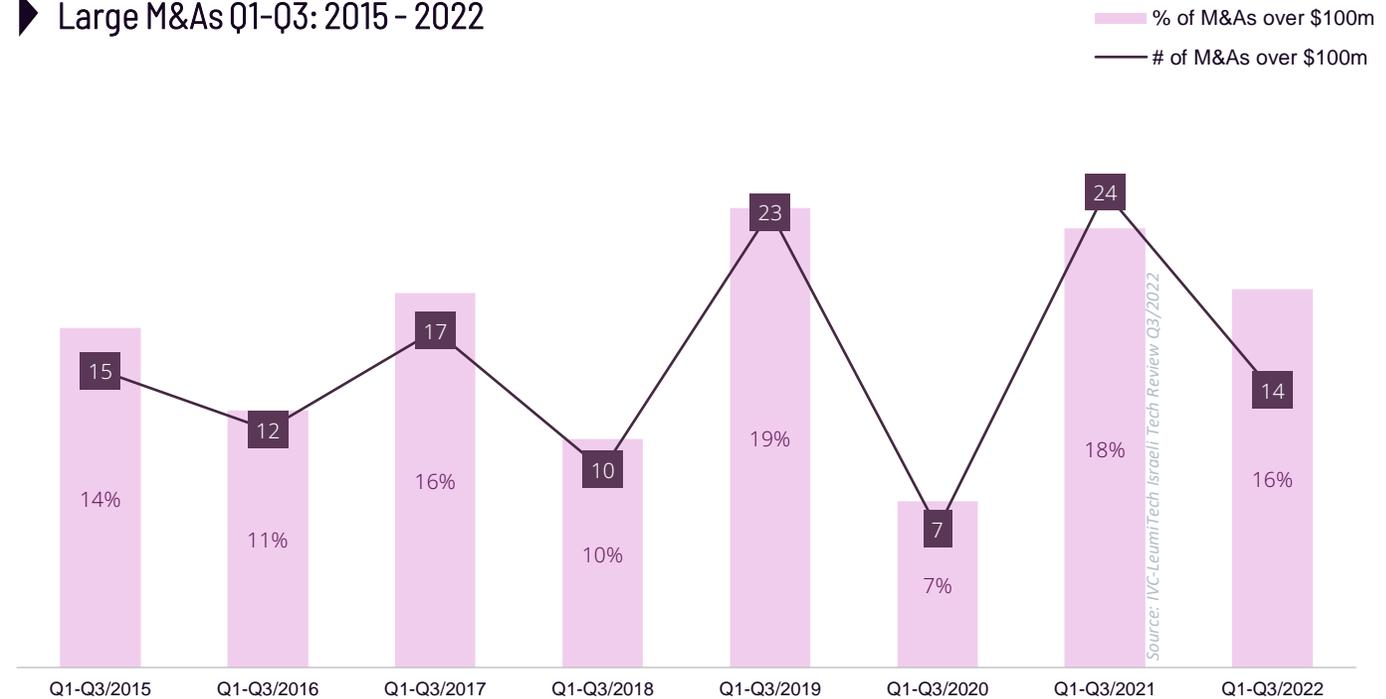
* M&As under \$5B

Israeli High-Tech M&As

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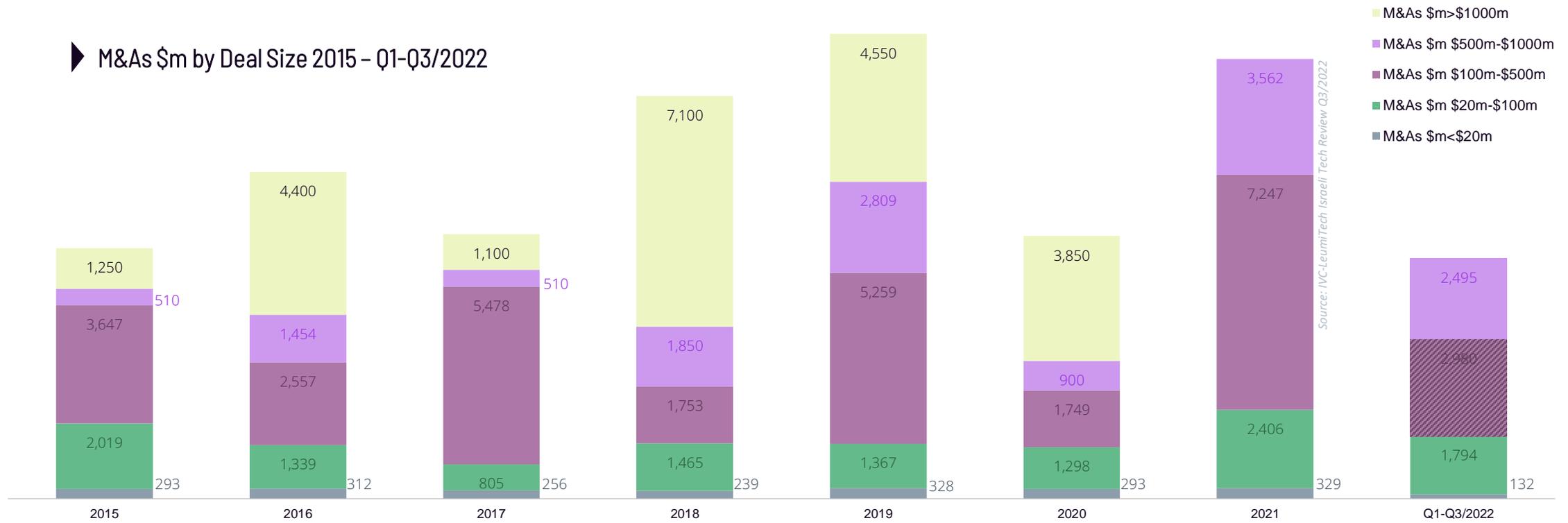
► Large M&As Q1-Q3: 2015 - 2022



* Exits under \$5B

Israeli High-Tech M&As

► M&As \$m by Deal Size 2015 – Q1-Q3/2022



Source: IVC-LeumiTech Israeli Tech Review Q3/2022

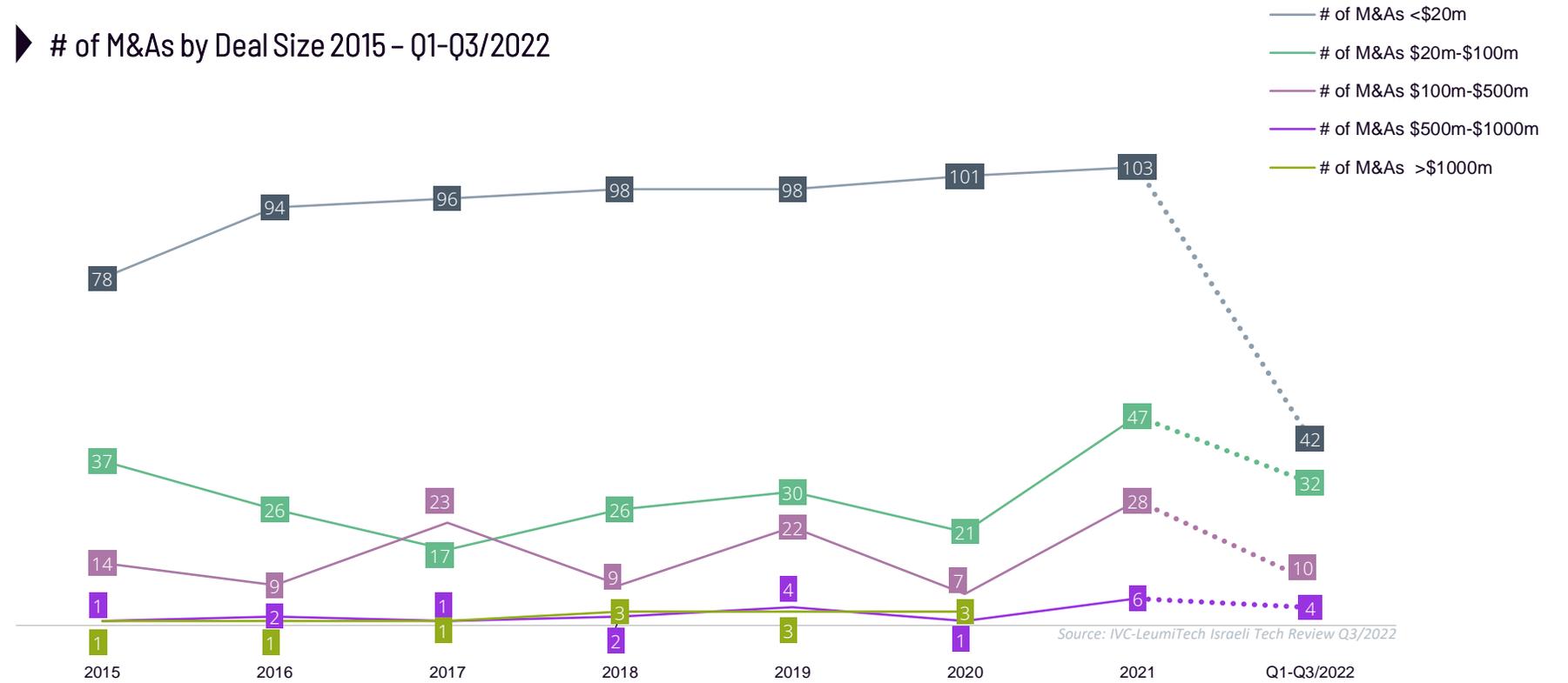
* M&A under \$5B

Israeli High-Tech M&As

The largest number of deals as regular, are with amounts <\$20m. The number of deals of this type were significantly lower in Q1-Q3/2022 compared to 2015-2021.

Yet, it must be taken into account that some of these deals are revealed only a few months later, so the decline isn't as dramatic as it seems.

▶ # of M&As by Deal Size 2015 – Q1-Q3/2022



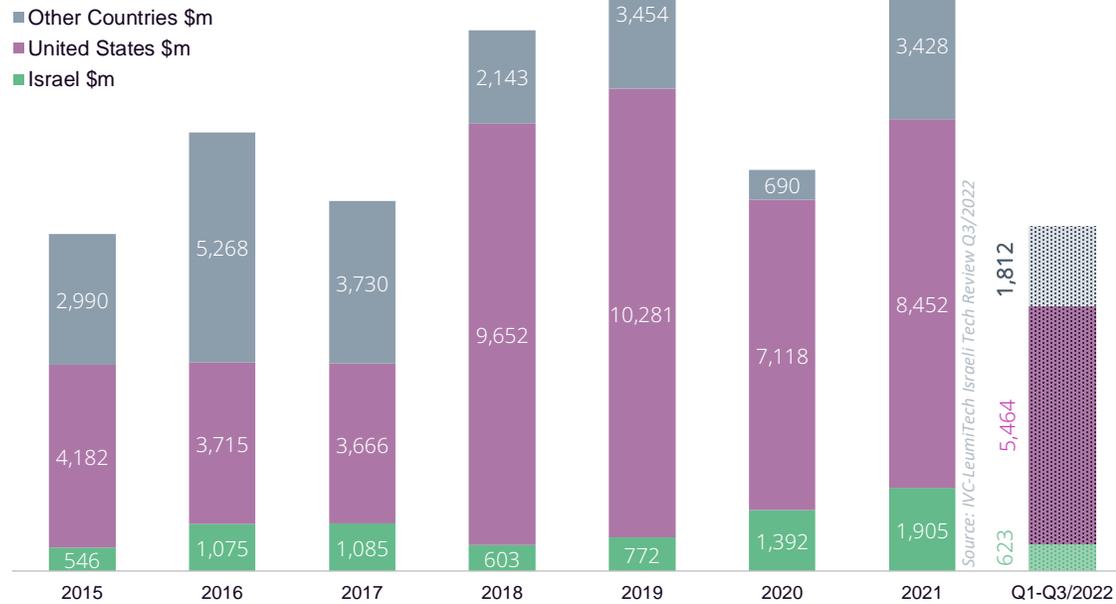
* Exits under \$5B

Source: IVC-LeumiTech Israeli Tech Review Q3/2022

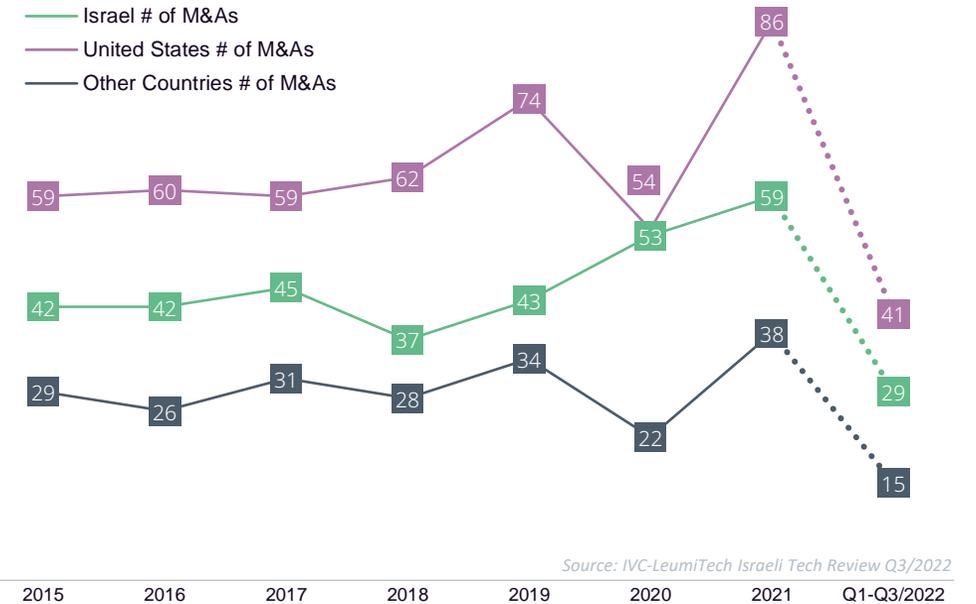
Israeli High-Tech M&As by Acquirer Country

Both Israeli and US interest in local high-tech acquisitions has clearly decreased in Q1-Q3/2022, with 29% and 34% less deals made, respectively, compared to the same period in 2021.

► M&As by Acquirer Country \$m
2015 - Q1-Q3/2022



► # of M&As by Acquirer Country
2015 - Q1-Q3/2022



* Exits under \$5B

* Exits under \$5B

Top M&As Q3/2022

 **Elmo**
Motion Control

by

 **rexroth**
A Bosch Company

Germany

700M\$

 **tufin**
The Security Policy Company.

by

 **TURN // RIVER**
LION
INVESTMENT PARTNERS

USA

570M\$

 **shamir** by  **ESSILOR**
MIEUX VOIR. LE MONDE

France

500M\$

Source: IVC-LeumiTech Israeli Tech Review Q3/2022

 **BreezoMeter** by  **Google**

VC Backed Exit | USA

225M\$

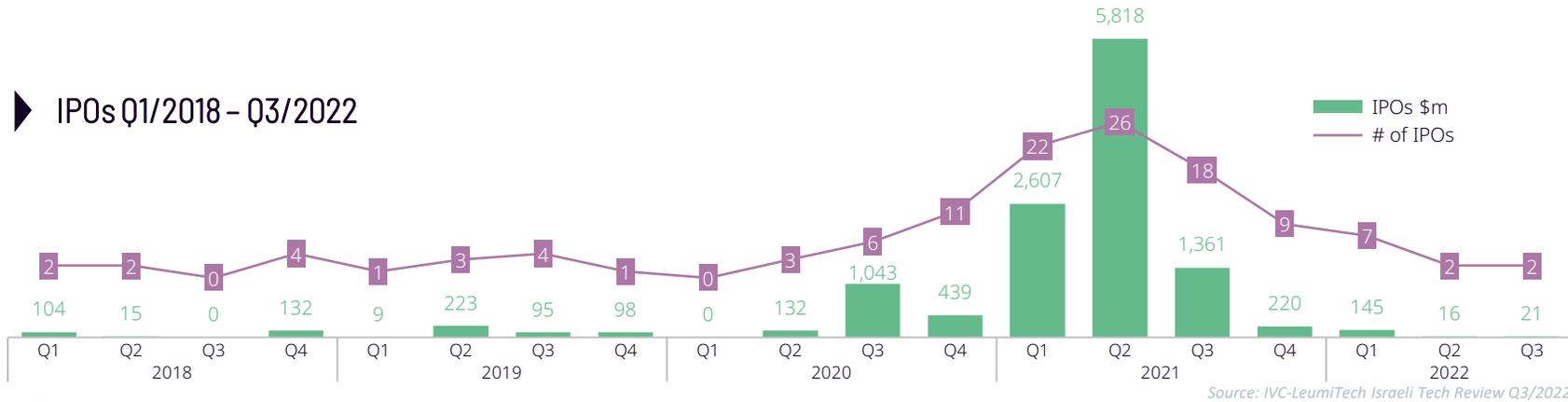
 **Databand** by  **IBM**
an IBM Company

VC Backed Exit | USA

125M\$

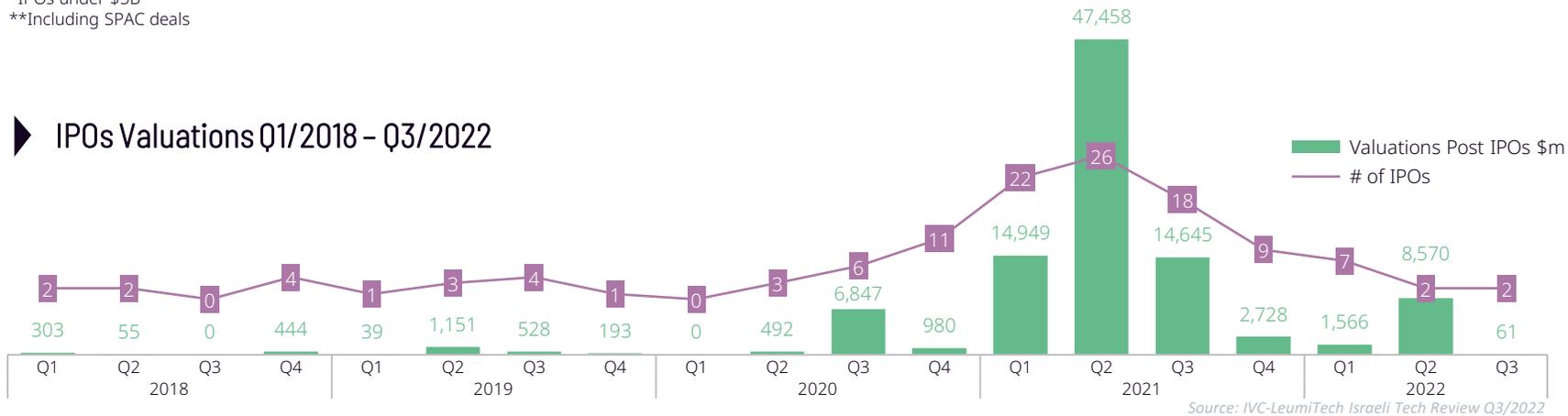
Israeli High-Tech Companies Public Offerings

IPOs Q1/2018 – Q3/2022



*IPOs under \$5B
**Including SPAC deals

IPOs Valuations Q1/2018 – Q3/2022



*IPOs under \$5B
**Including SPAC deals

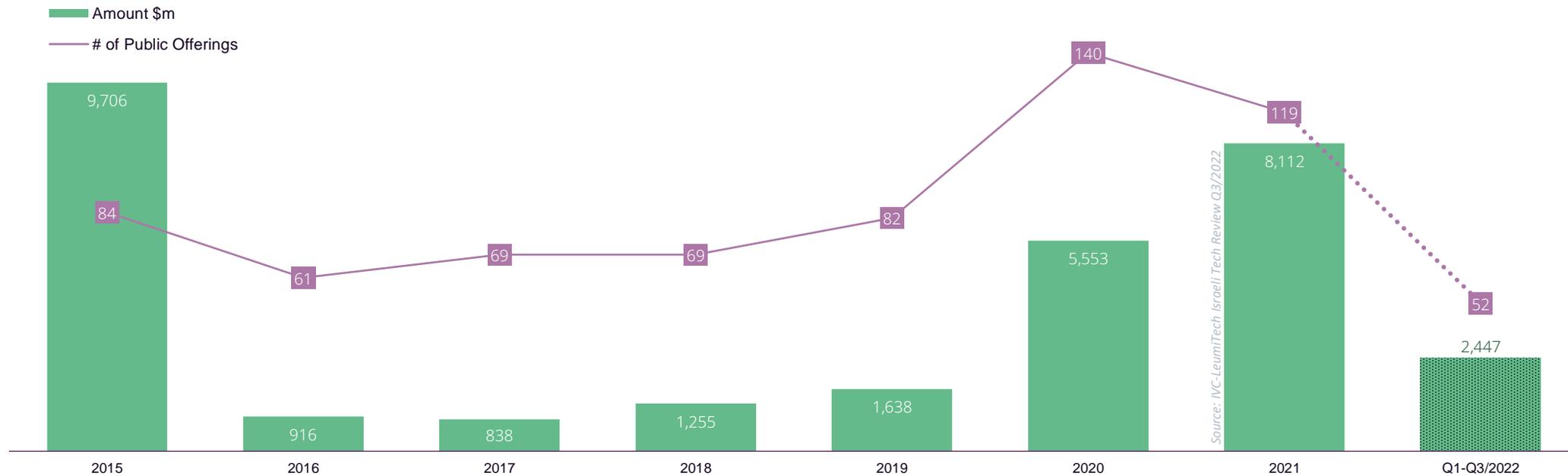
In the current capital market environment of 2022, Israeli high-tech company exit strategy tends to prefer M&A deals over a public market registration (IPO).

The IPO window is definitely closed at this period.

Israeli High-Tech Follow-on Public Offerings

Public follow-on offerings saw a decrease in activity in Q1–Q3/2022, similar to general global public market trends.

▶ Israeli Public Follow-on Offerings 2015 – Q1-Q3/2022

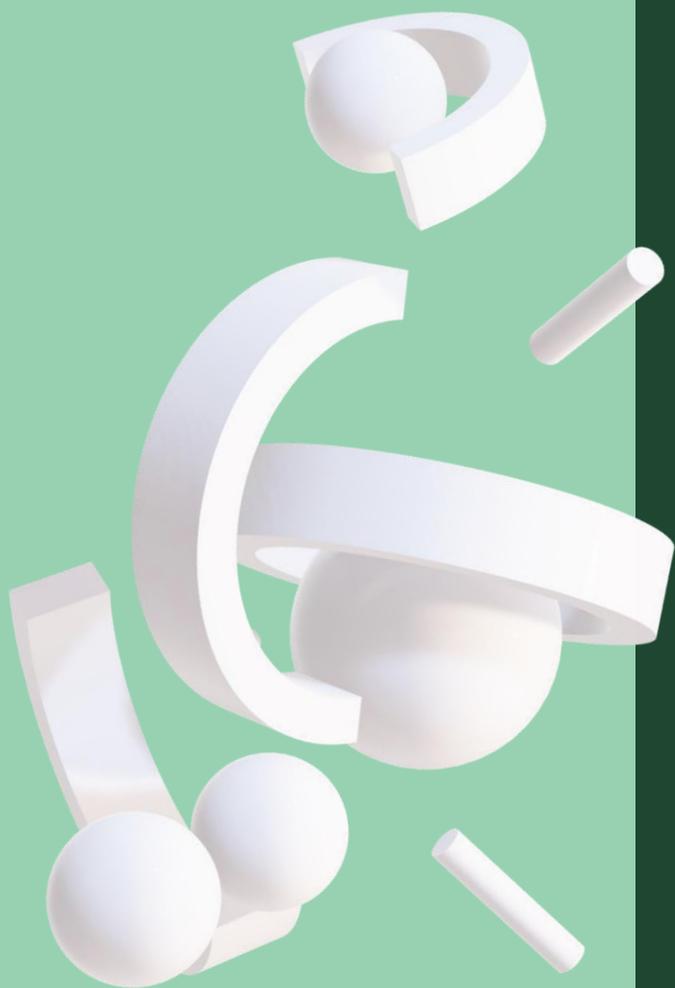


Source: IVC-LeumiTech, Israeli Tech Review Q3/2022

* Excluding IPOs

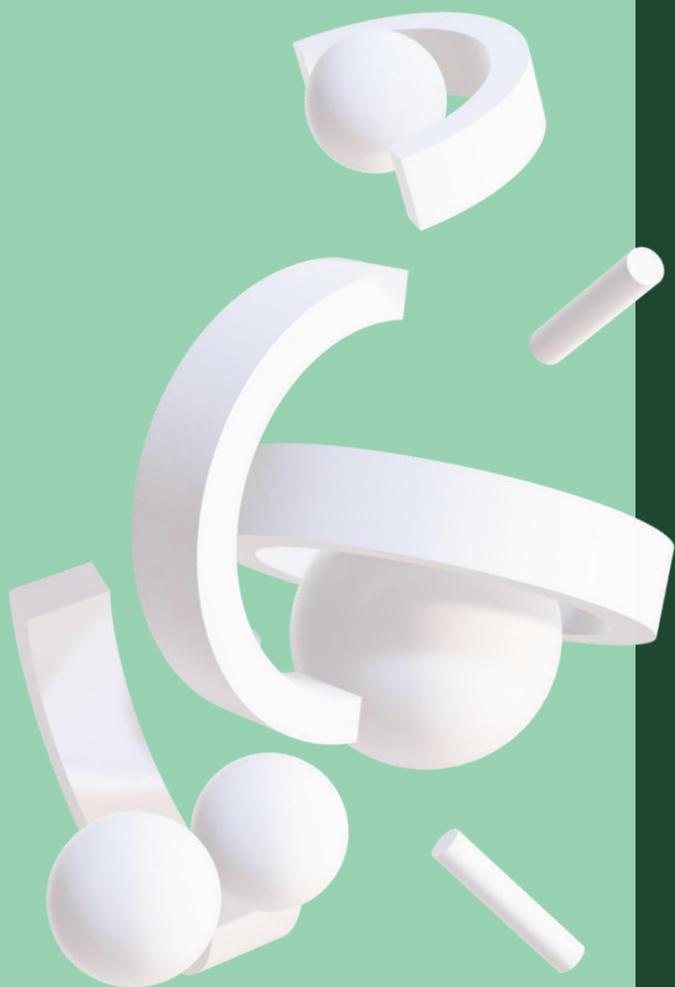
Q3/2022 Methodology





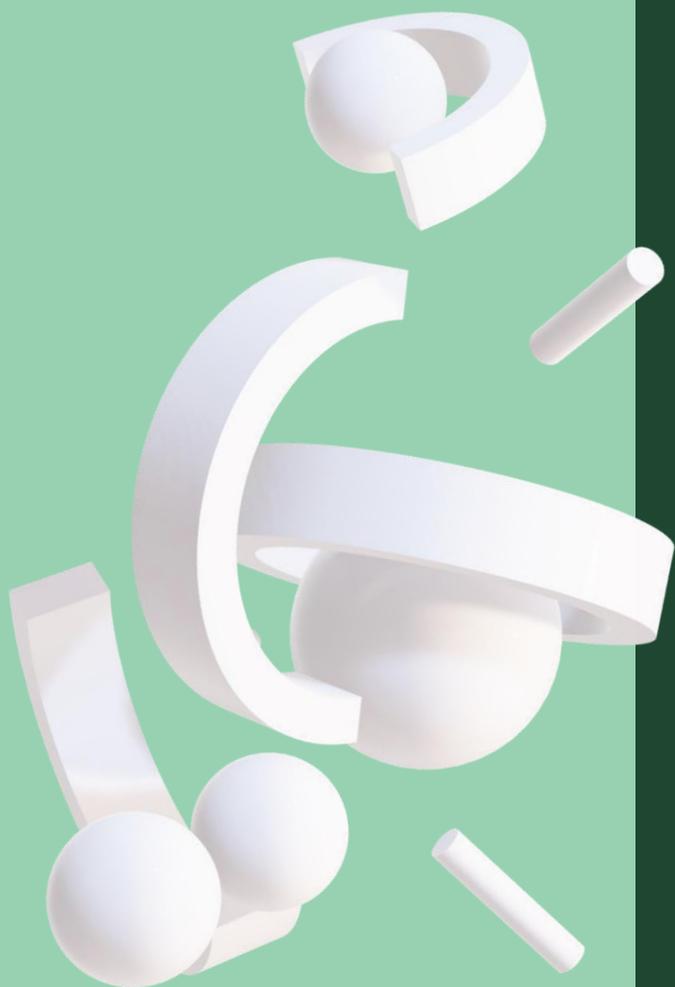
Methodology | General

- This report contains information derived from the IVC-Online Database. Deal numbers and valuations may vary across our reports due to continuous updates of historical numbers in the IVC database.
- This report summarizes activities of Israeli and Israel-related high-tech companies between 2015 - Q1-Q3/2022. "Israel-related" refers to a company which is not incorporated in Israel but has senior Israeli management and founders.
- Up-to-date information is available on www.ivc-online.com.



Methodology | Investments

- This report reviews capital raised by Israeli tech companies from Israeli and foreign venture capital funds as well as from other investors, such as investment companies, corporate investors, incubators and angels.
- Reported data presents the investments activity IVC collects from reliable media sources, and direct reports gathered by IVC's information specialists' team. In order to compare the data to previous periods, the data in IVC's database are normalized to include only the known published data for each quarter or year.
- Projected data covers the gap in knowledge about Seed companies' activity. Since most of the information about Seed companies comes to light 12 to 24 months after the closing took place, the projected data shows the reported data multiplied by a constant (factor) that helps to understand the real impact of activity in Seed companies over the long run. [READ MORE HERE](#).
- The report is based on data from 674 investors of which 97 were Israeli VC funds and 577 were other entities.



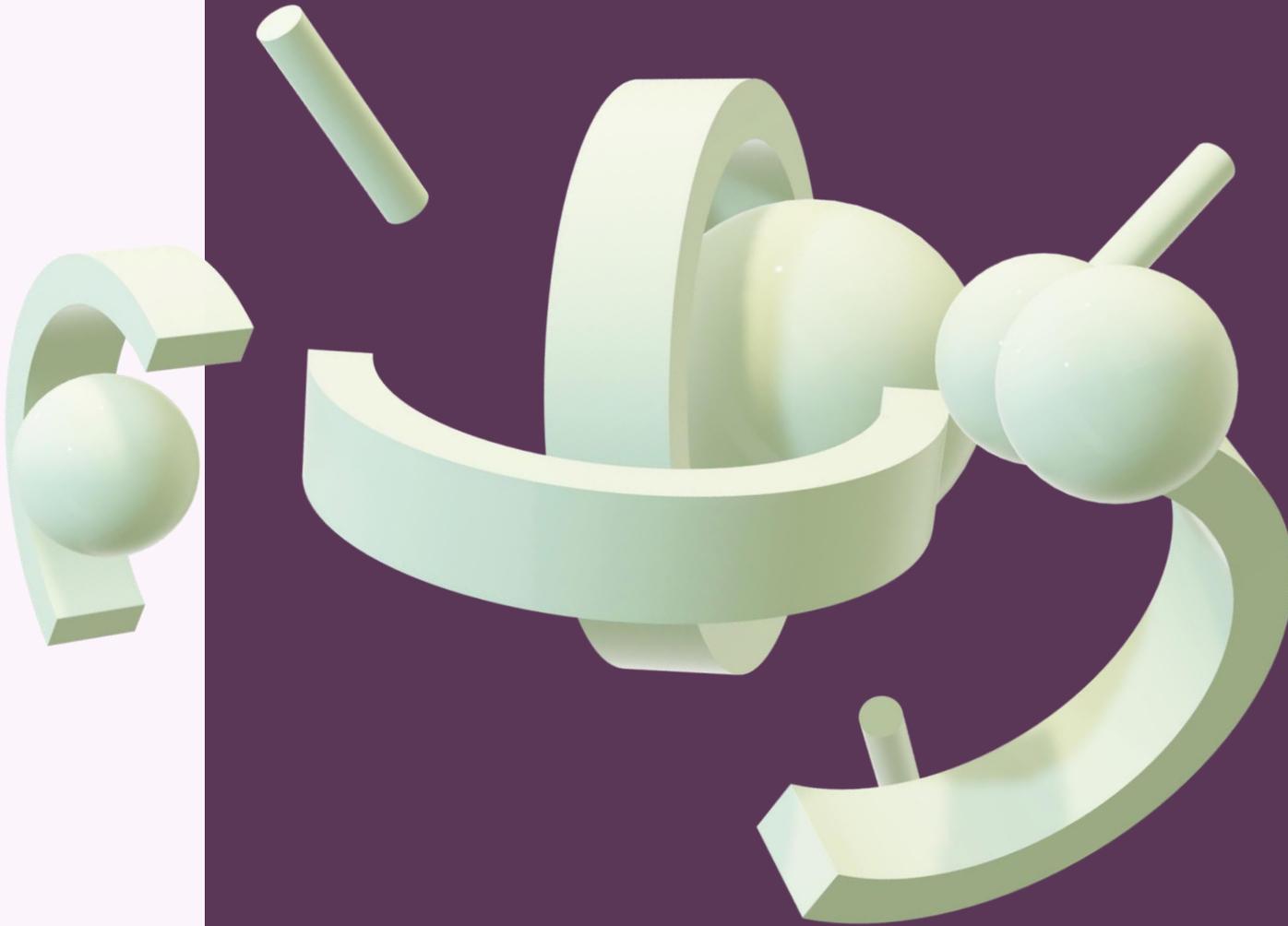
Methodology | Investments

- The term 'Early-Stage Companies' refers to high-tech companies in the process of development and not yet offering products to the market.
- The report covered total investments in the Israeli venture capital sector, including both VC-backed rounds where at least one investor participating in the round was a VC fund, as well as deals not backed by venture capital funds.
- The report includes amounts received by each company directly, including direct transactions performed between company shareholders.
- Most companies fall within more than one technology cluster, therefore the data regarding tech clusters should be viewed separately per cluster.

Methodology | Capital Markets

- Numbers and proceeds are extracted from public records.
- Registered direct deals and Follow-On Deals are bundled together.
- Primary transactions (both IPOs and follow-ons) include any secondary offerings consummated therewith.
- PIPE deals are analyzed as part of public Israeli high-tech companies' capital markets activity section.

About



About IVC

IVC is the leading data source and business information company in Israel's high-tech industry.

We help our clients understand the market, make connections and identify opportunities with access to the latest news, trends and developments.

From venture capital and private equity funds to industry leading companies and emerging startups across Israel's varied high-tech sectors, we cater to the varied business information needs that make up the Israeli high-tech ecosystem. We bring more than 20 years of experience of gathering and analyzing data, serving the IVC community. Our dedicated team of industry researchers and analysts has deep knowledge and hands-on experience working with Israel's high-tech sector.

Our management, professional sales, data and marketing teams drive IVC's commitment to excellence and client service. We enable a wide range of local and global clients, including entrepreneurs, local and foreign investors of all types and service providers such as lawyers and accountants, to get to know the Israeli high-tech ecosystem better

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About LeumiTech

LeumiTech, the banking arm of Leumi Group, specializes since 2014 in banking for high-tech companies and VC Funds, servicing companies from early stage through fast growing to giant corporates. We provide a comprehensive, personalized, tech-specific banking products and financing services as part of our complete solution for all of our clients' financial needs. Such services include high-tech credit expertise, hedging and investment tech center and access to global and local ecosystems.

With dedicated high-tech teams, LeumiTech provides a financial home for the Israeli high-tech industry.

www.leumitech.com



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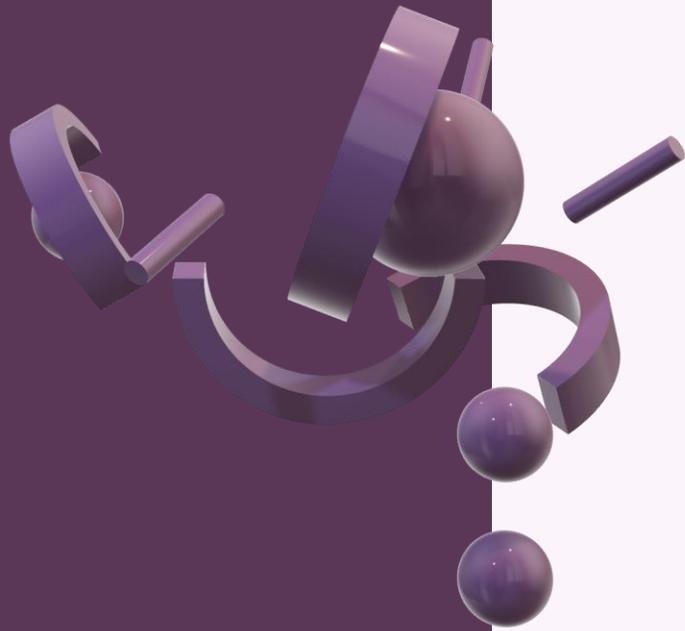
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