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EXECUTIVE SUMMARY

2018 saw $6.47b in 623 deals—a 17% increase from 2017 and the highest amount for annual figures.

Record five $100m+ deals drive Israeli startup funding higher—13% of total annual capital for 2018.

Number of deals below $5m continues to decline—69 deals in Q4 following long term down-trend.

VC-backed deals in 2018 accounted for $4.7b, about 17% higher than 2017, but number of VC-backed deals declined by 14% from 2017—for the first since 2013.

Share of Israeli VC funds declines in 2018 to 12% of total amount invested, down from 14%–17% in 2013–2017. First investment activity lowest since 2013.
No doubt, Israeli tech funding saw another year of strong activity. The dominant trend in the industry in 2018 was investors’ focus on a smaller number of companies and higher amounts. The effect of mega-rounds—also called “Softbank effect”/ “Preemptive Rounds effect” or “Supergiant rounds effect” – is well-noted in Israeli tech: there were 24 mega-rounds (over $50 million) in 2018, reaching 31% of the total funding and pushing the figure to $6.47 billion, more than double the amount for 2013.

Israel’s share is just a fraction of the worldwide mega-round phenomenon, with the US leading the trend. A smaller number of winners took the bounty, which means things are looking less rosy for the majority. As a matter of fact, lower range deals, below $5m, accounted for less than 10% of overall capital investments during 2018, in 352 deals, with amounts similar to 2013 (page 16). In other words, nearly 60% of the transactions over the last year received less than 10% of the overall funding.

The economics of this situation—a kind of “Pareto Principle” for start-ups—will work as long as money keeps flowing. But this behavior also raises tough questions about what will happen when the music stops? A closer look at the current global economy leaves room for concern regarding local funding resources over the next 12 months.

First on the list of troubling portends is the US interest rate hike, which has already led to dramatic effects on Wall Street. Next is US–China relations and other global trade conflicts and last is the fear of a global economic meltdown.

All these could negatively affect the level of allocated funding to alternative asset classes in general and the allocations to the Israeli tech in particular. It is easy to imagine a scenario where 2019 will not meet the levels we have seen in 2018. However, barring a 2008 kind of black swan on the horizon, local available funding will not stumble too much either.
Largest Financing Deals
Q4/2018

- **JFrog**: $165m, Growth Stage - Later Financing
- **Habana**: $75m, Early Stage - B Financing
- **Hippo**: $70m, Early Stage - C Financing
- **89bio**: $60m, Early Stage - A Financing
- **Valens**: $63m, Growth Stage - Later Financing
- **Lightricks**: $60m, Growth Stage - B Financing

Source: IVC-ZAG Survey Q4/2018
EXECUTIVE SUMMARY 2018

Overall funding increased in 2018 to a record of $6.47b, up 17% compared to 2017 and a leap of 120% compared to 2013. 2018 saw 623 deals, less than the annual deal numbers from 2014 through 2017.

From 2013 through 2018 the number of high valuation deals grew significantly and was the main cause for the high amount in 2018.

The slight decrease in the number of deals could presage a downtrend in 2019–2020 in both the number and value of deals.
Q4/2018 capital intake reached $1.82b*, a growth of 8% compared to Q3 and another record quarter for the year.

JFrog captured 9% of the total amount this past quarter, raising $165m—the only deal above $100m.

Both average and median transactions were influenced by a decrease in the number of deals and a continual climb in deal values.

*All figures presented in relation to Q4/2018 are based on available data prior to December 25th.

IVC estimation for the entire quarter are:
1,815m + 105m more for a total of 1,920m
140 deals + 34 more for a total of 174 deals.
Projected data for 2018 suggests that this year’s deal count for early financing rounds (Seed) has surpassed 2017 figures.

Both reported and projected data show 2018 as the first year since 2015 where the number of deals in Seed rounds trended upward following two years of decline.

Projected data (please see Methodology, p. 35, for exact differences), stress the full influence of the number of Seed series financing during 2017–2018.
CAPITAL RAISED BY ROUND
The projected deals for Seed rounds, which reflect the expected number of deals in a 24-month period, present the full effect of the decline since 2015 and into 2018. Due to a relatively strong 2018, Seed round amounts approached $250m, roughly the same level as in 2017. 2018 saw 175 Seed deals, 18% higher than 2017, after a 27% drop from 2015 to 2017.
Median figures in all financing stages continued to rise. However, the median Seed round decreased to $0.68m in 2018, reflecting just 67% upside in 2013 – 2018, while all other median financing rounds more than doubled during this period.
CAPITAL RAISED BY DEAL SIZE
The number of transactions in the range of deals under $5m continued to shrink, while transactions in ranges over $20m kept climbing, reaching record 34 deals in Q4/2018.

The pattern of quarterly small size deals (below $5m), which has pointed downward since late 2015, seems to be continuing.
Large deal amounts (over $20m) reached a record level of $1.3b in Q4/2018, due to mega-deals (over $50m):
Investor incentive to focus on winners is highlighted via a growing uptrend in the number and value of big deals (over $20m). While amounts and deal numbers in this range almost quadrupled from 2013 into 2018, seizing 64% of total amounts in 2018, the number of small deals, in the $0m – $5m range, has trended down dramatically since 2015.
VC-BACKED TRANSACTIONS
VC-backed deals—deals that VC funds took part in—continued the downtrend, tracing back to early 2017, reaching 83 deals in Q4/2018.

However, deal amounts for Israeli VC-backed deals have never been higher: $1.47b was invested in Q4 in VC-backed transactions.
ISRAELI VC – BACKED DEALS CAPITAL RAISING 2018

2018 was the weakest year for VC fund involvement since 2014, though amounts for this year reached a new record—$4.7b.

The average deal amount in 2018 for a VC-backed deal was $14.4m, almost double the average in 2014 and 36% higher compared to 2017.
CAPITAL RAISED BY STAGE
Until 2016, investors clearly had more appetite for early maturity stage companies (Seed + R&D stages).

The trend changed in 2017 and continued in 2018. The gap between early and mature companies (initial + growth revenues stages) in number of deals reversed in 2018, with mature stage companies leading capital raising.

This behavior was also accompanied by changes in funding allocation. During 2018, the gap between capital raising amounts in mature and early stage companies was wider than ever.
Software has grown considerably since 2013, reaching a high of $1.01b in Q4/2018, with 19 deals of over $20m each, totaling $900m alone.

Life sciences amounts have remained stable over the years with allocation for medical device companies averaging in the range of 40% to 50% of the total amount.

The number of life science deals has continued to trend downward, with deals of over $20m accounting for more than 65% of the total amount for the sector in Q4/2018.
Deal amounts in the IT & software sector clearly made a huge upsurge since 2013. Total amounts in this sector grew six-fold in 2013–2018, rising more than 50% in 2018 alone.

Twelve mega software deals (over $50m each) totaled more than $1b in 2018. This is due to the ubiquity of the sector’s software-based Artificial Intelligence (AI) and Cyber Security technologies.

With the exception of software, the number of deals in other major sectors did not grow.
CAPITAL RAISED BY SELECTED CLUSTERS
CAPITAL RAISING BY TECHNOLOGY CLUSTERS Q4 | 2 0 1 8

The number of transactions during Q4 continued the trend in the leading industry verticals: Artificial Intelligence (AI), Cyber Security and Fintech. Cyber companies continued to show historically high numbers. Demisto was the greatest round in the cyber vertical with $43m, Hippo Insurance Services ($70m) in Fintech and Habana Labs ($75m) in AI.

CHART 18
ISRAELI HIGH-TECH CAPITAL RAISING BY # OF DEALS AND $M IN SELECTED CLUSTERS

Source: IVC-ZAG Survey Q4/2018
Median amounts in AI, cyber, fintech and digital health clusters decreased during 2018, proving that at least some of the hype surrounding these industry verticals has begun to diminish.

Nevertheless, a lot of AI and cyber companies seeking early stage financing (Seed + A rounds) received funding in these clusters at the same level as in last years. The level of financing of new fintech companies, however, continued to decrease in 2018 compared to 2017 and 2016.

Source: IVC-ZAG Survey Q4/2018
Cyber security companies saw 2018 as the strongest year in number of deals and amounts, with 89 deals and $1.08b in investments, much higher than in 2017. About half the amount was invested in 15 companies, which raised more than $20m each during 2018.

While companies with AI characteristics continue the uptrend in valuation, fintech companies attracted higher funding in 2018 due to several deals such as eToro ($100m), Next Insurance ($83m) and Hippo Insurance ($95m – in two rounds).
INVESTORS BY TYPE 2018

Six types of investors, listed below, had the largest impact in terms of deal-making in 2018. The largest investment share came from VC funds—34% of total capital invested this year, a decrease in the total share of VC money.

Investment companies and private investors provided another stable source of capital inflow, while corporate VC capital investments gradually grew over the years, reaching 9% of total capital invested in the 2018, close to 2017 share of 8 percent.

Amounts from accelerators and incubators grew to $75m in 2018, following the up-trend in 2017, but still comprise an insignificant part of industry financing amounts.

Source: IVC-ZAG Survey Q4/2018
While investor involvement in each transaction continued to increase from 2013 to 2018, not every investor type took part in this expansion.

The number of investments that were made by private investors continued to diverge from VC numbers. While the number of VC investments remained at the 2017 level, the number of private investors fell by 10%.
The decrease in private investor involvement is clearer in the number of investor types analysis. In 2018, for the first time, the number of VCs operating in Israel surpassed the number of private investors.

The average number of investors per deal showed the same trend, while the number of VC investors continued to rise and the number of private investors remained unchanged in 2018.
INVESTORS BY REGION 2018

2018 continued the turnover trend from 2013—Israeli investor shares continued to shrink (42% of total investments), as foreign investors made the majority of investments (58%).

In terms of annual capital investments, 30% of capital arrived from Israeli investors and 70% from foreign investors, similar to the historical numbers.

In 2018, most capital came from investors located in Israel, the United States, China, Germany and the United Kingdom.

Source: IVC-ZAG Survey Q4/2018
Israeli VC funds slowed their activity during 2018, both in new and follow-on investments. The annual number of follow-on investments exceeded the number of first investments in 2018 for Israeli VCs, marking several quarters of this trend.

A slowdown was also detected in the relatively low share of Israeli VCs compared to overall amounts—just 12%—the lowest in 6 years.

The growing need to allocate more money for follow-on investments and the end of 2015–2016 vintage funds lifecycle could provide an explanation to this decrease.

The follow-on investment average continued to climb, while the first investments average decreased dramatically, contrary to the upside trend of valuations in the industry in the course of 2018.
Methodology

- This report reviews capital raised by Israeli high-tech companies from Israeli and foreign venture capital funds as well as other investors, such as investment companies, corporate investors, incubators and angels.

The data for this report consists of two layers: reported (last updated on December 25, 2018) and projected.

- **Reported data** present the investments activity IVC collects from reliable media sources, and direct reports gathered by IVC’s information specialists’ team.

- **Projected data** cover 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 activity took place, the projected data shows the reported data multiplied by a constant that helps to understand the real impact of activity in Seed companies over the long run.

- The report is based on data from 516 investors of which 59 were Israeli VC funds and 457 were other entities. The report data was last updated on December 25, 2018.

The term R&D 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 and does not count direct transactions performed between company shareholders.

Each company belongs to more than one technology cluster, therefore the data regarding clusters should be viewed separately per cluster.

For more on our methodology, please click here →
IVC Research Center is the leading online provider of data and analyses on Israel’s high-tech, venture capital and private equity industries. Its information is used by all key decision-makers, strategic and financial investors, government agencies and academic and research institutions in Israel.

IVC-Online Database (www.ivc-online.com) showcases over 8,300 Israeli technology startups, and includes information on private companies, investors, venture capital and private equity funds, angel groups, incubators, accelerators, investment firms, professional service providers, investments, financings, exits, acquisitions, founders, key executives and R&D centers.

Publications include newsletters; Daily Alerts; the IVC Magazine; surveys; research papers and reports; and interactive dashboards.

IVC Industry Analytics – analysis, research and insights into the status, main trends and opportunities related to exits, investments, investors, sectors and stages.

ZAG-S&W (Zysman, Aharoni, Gayer & Co.) is an international law firm operating out of offices in Israel, the United States, China and the United Kingdom.

The firm’s attorneys specialize in all disciplines of commercial law for both publicly held and private companies, with particular expertise in hi-tech, life science, international transactions and capital markets.

ZAG-S&W provides result-driven legal and business advice to its clients, addressing all aspects of the clients’ business activities, including penetration into new markets in strategic locations. In recent years the firm has acted on a majority of the equity and debt financing transactions by Israeli technology companies on the NASDAQ.

It has been the firm’s experience that the best results, those that give our clients the competitive advantage they need, are attained by coupling professional experience, global presence, and connections with the investor communities in Israel and abroad.
The information contained in this report is derived from IVC-Online - the IVC Research Center Ltd. ("IVC") Database and the IVC-ZAG Israeli High-Tech Survey.

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