

The State of Israeli High-Tech

IN THE SHADOW OF A YEAR OF WAR

OCTOBER 2024



Resilient, Innovative &
Sustainable Economy

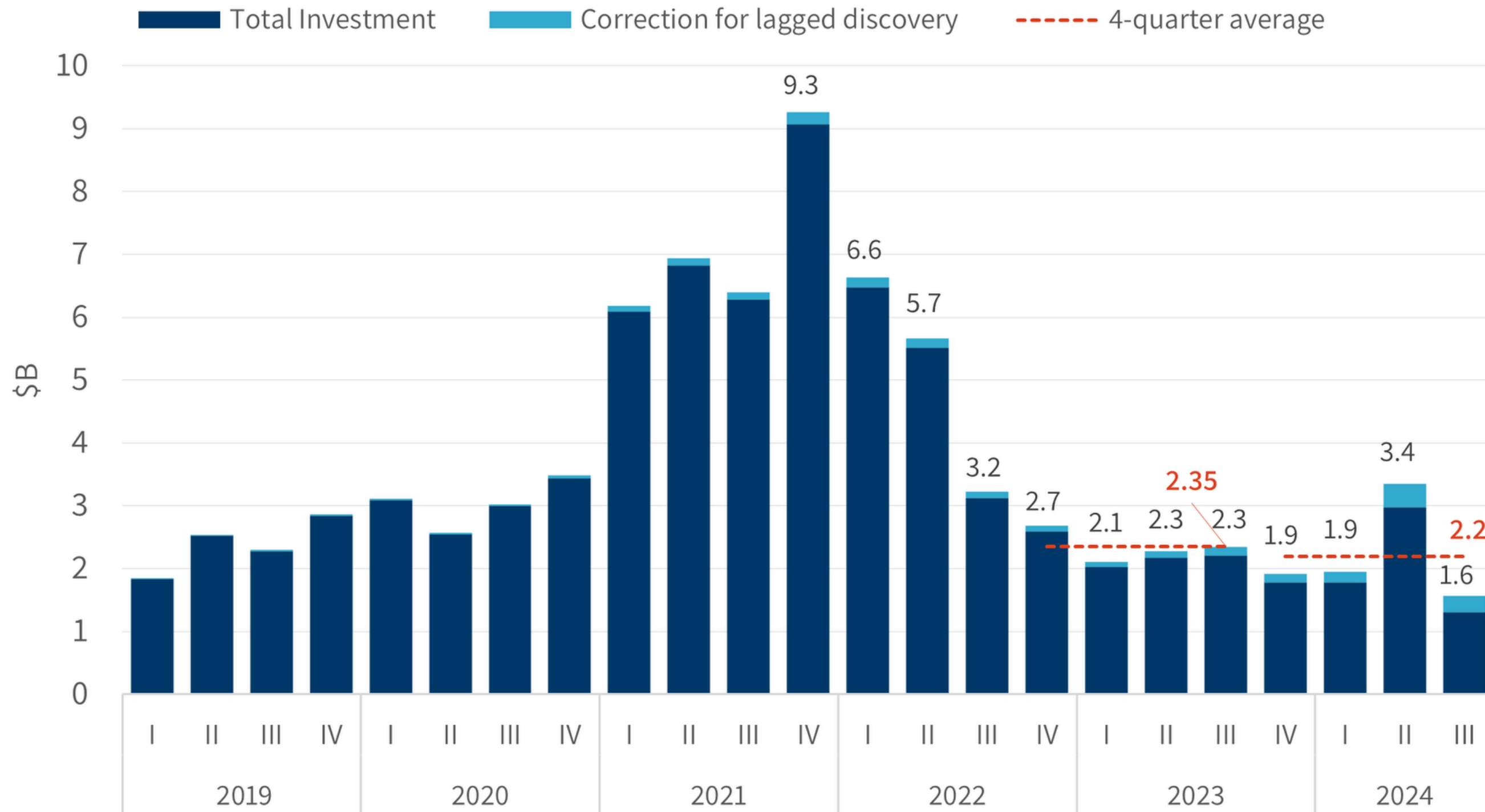
Summary of the year of war compared to the previous year

Metric	Total Expected Investments (Billion USD)	Expected Number of Investment Rounds	Number of Mega-Rounds	% of Investments in Mega-Rounds (as % of total investment)	% of 10 biggest Investments (as % of total investment)	Number of Acquisitions	Number of IPOs
War Year	8.8	1,067	18	45%	40%	90	4
Pre-war Year	9.4	1,207	17	30%	21%	106	5

From the High-Tech in a Year of War report by the Israeli Advanced Technology Industries Association (IATI) and the RISE Israel Institute

* Past data shows that the figure known at the end of the quarter will be updated somewhat upward in the future. Accordingly, we present the forecast for the total investments and the number of rounds based on the figures currently available.

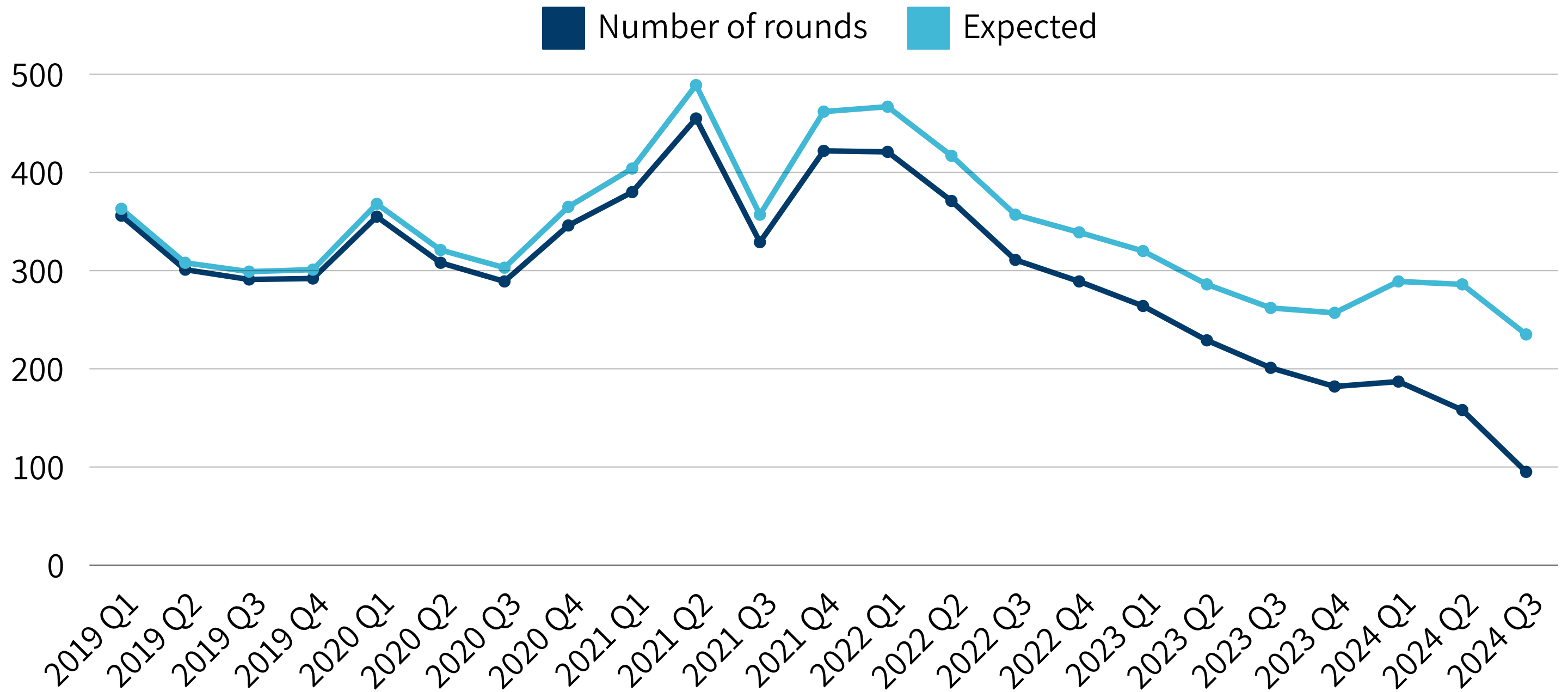
The decline in investments continues



Software continued to attract the majority of investment, reaching a peak of 76% of total investment in 2024. Among the various software fields, cybersecurity increased its relative share during the war year.

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A decline in the number of funding rounds



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Half of the companies that raised seed funding in 2022 have yet to raise Series A Round

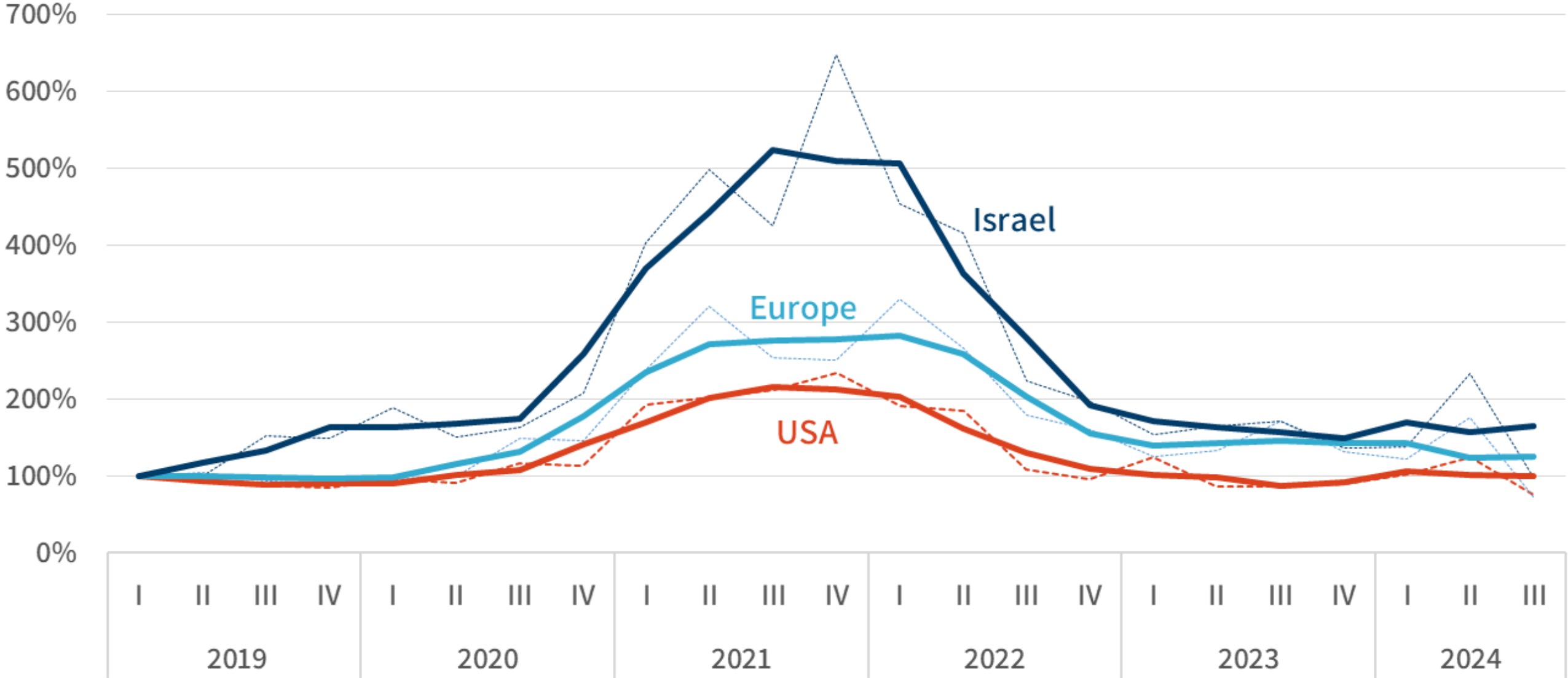
The number of companies that raised series A rounds vs. the expected, by year of seed round



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Israeli High-Tech Continues to Follow the Trends in Europe and the U.S.

Venture capital investment, a global comparison (Q1 2019 = 100)

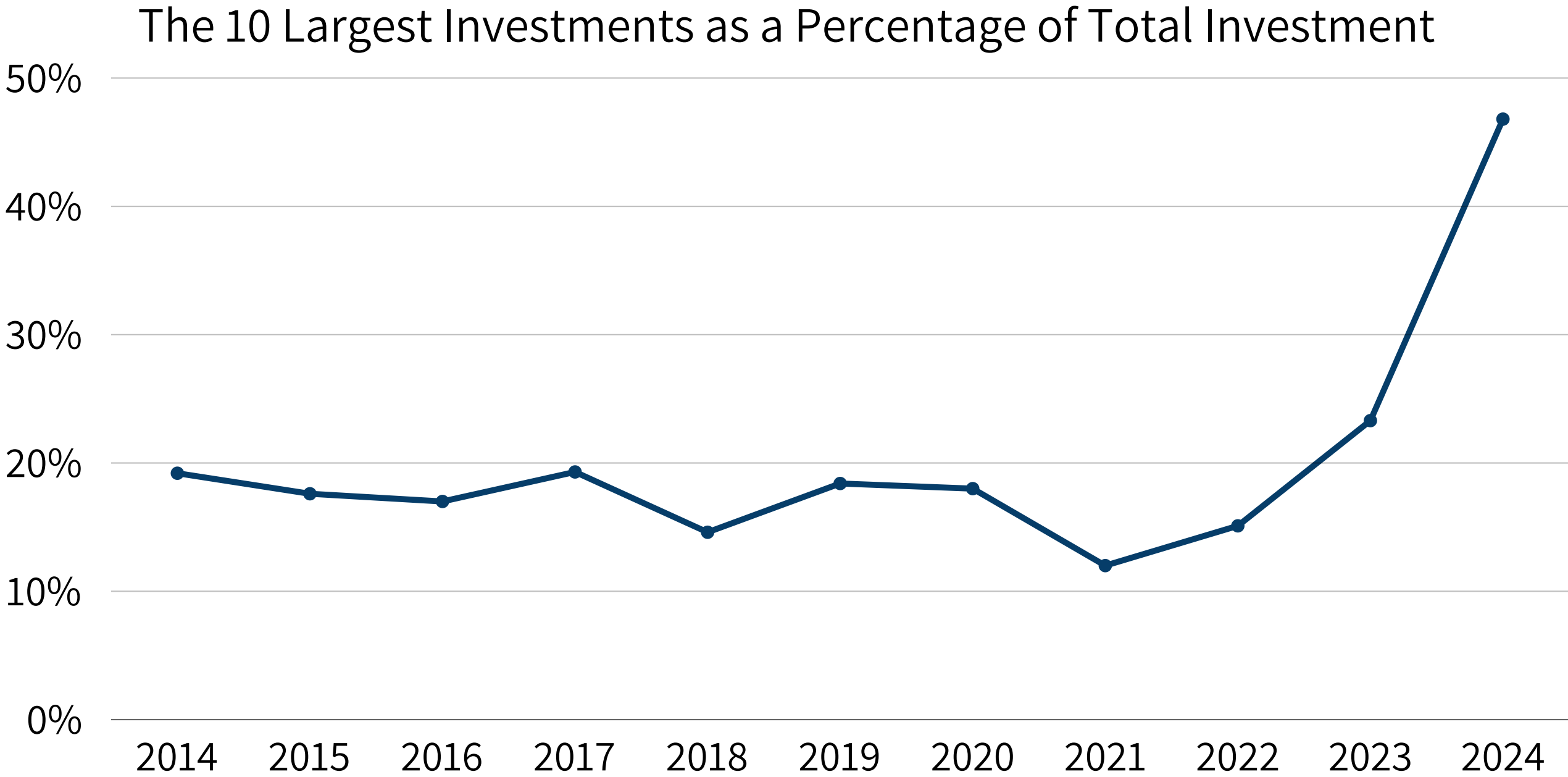


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Investments Are Concentrated in a Decreasing Number of Companies

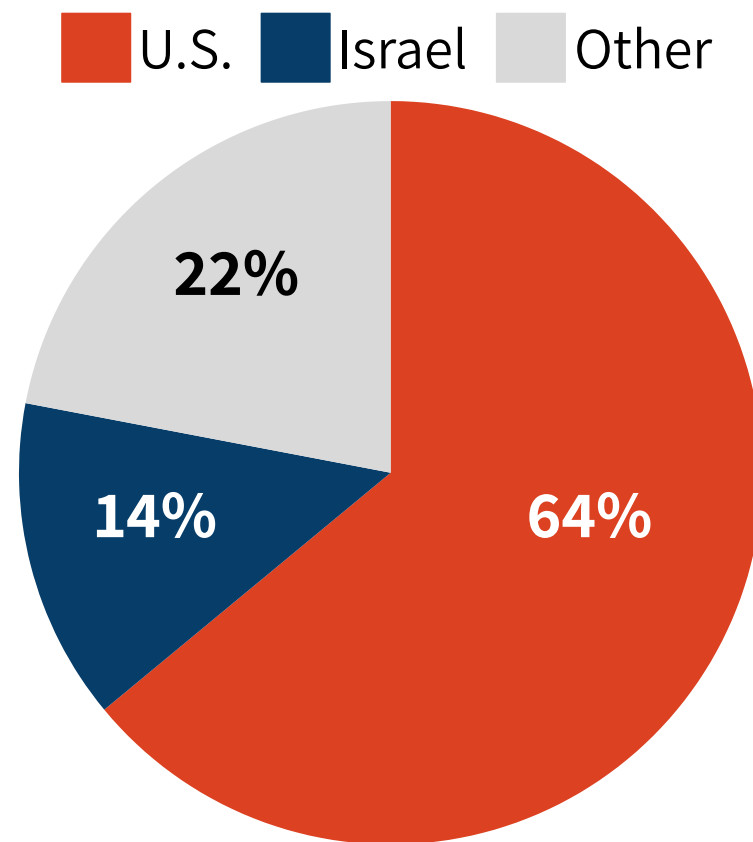
While in each year between 2014-2022 the ten largest investments made up less than 20% of total investment, in 2023 they accounted for 23% of all investment, and in 2024 it peaked at 47%.



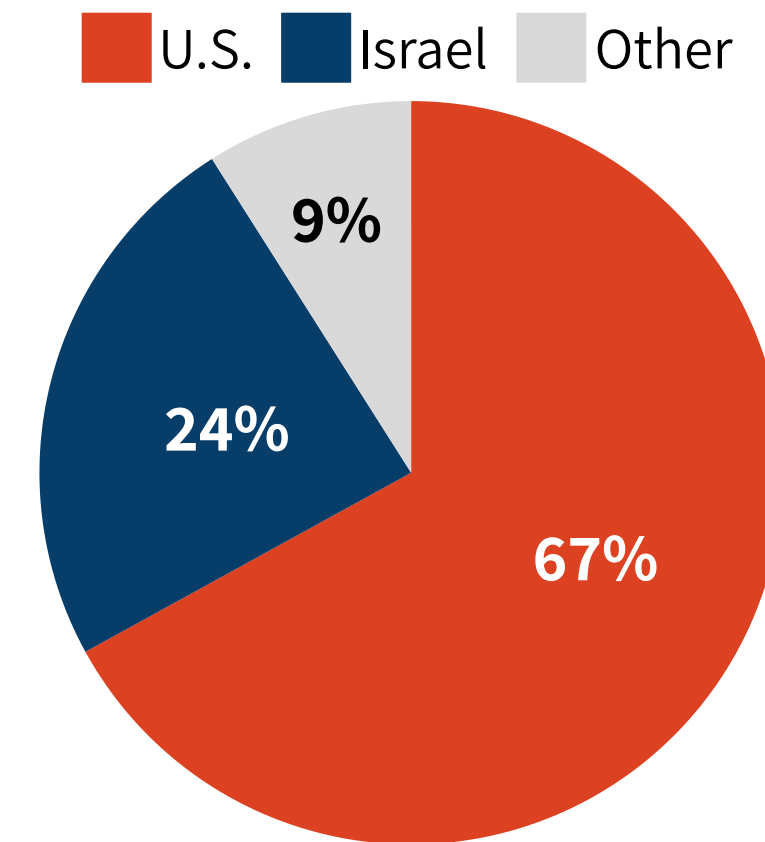
From the High-Tech in a Year of War report by the Israeli Advanced Technology Industries Association (IATI) and the RISE Israel Institute

Fewer than 25% of companies raising significant funds this year are headquartered in Israel

Distribution of Headquarters Locations of Companies That Raised \$100 Million or More Since the Beginning of 2024



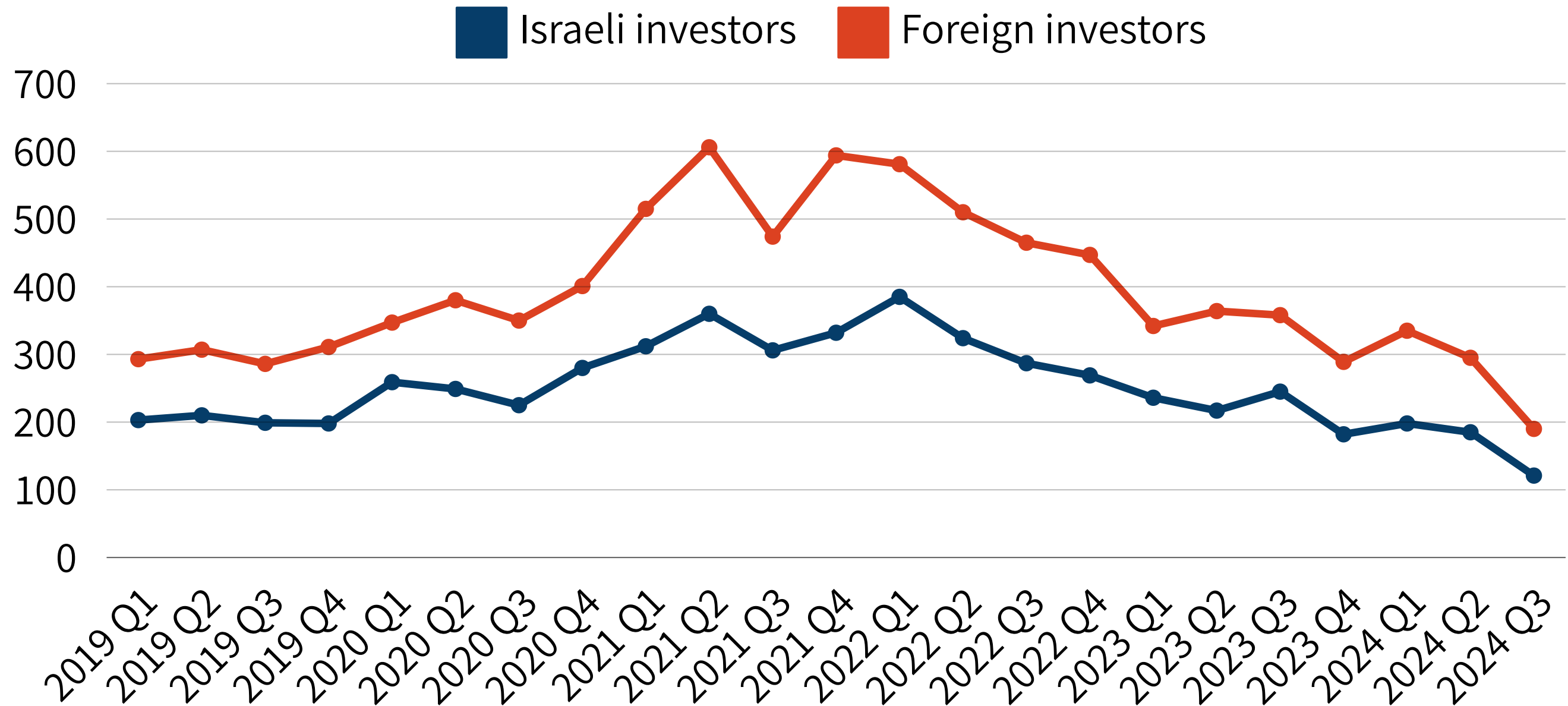
Distribution of Headquarters Locations of Companies that raised at least \$25 million in 2024



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About 50% Decrease in Foreign and Israeli Investors in the last quarter Compared to Last Year

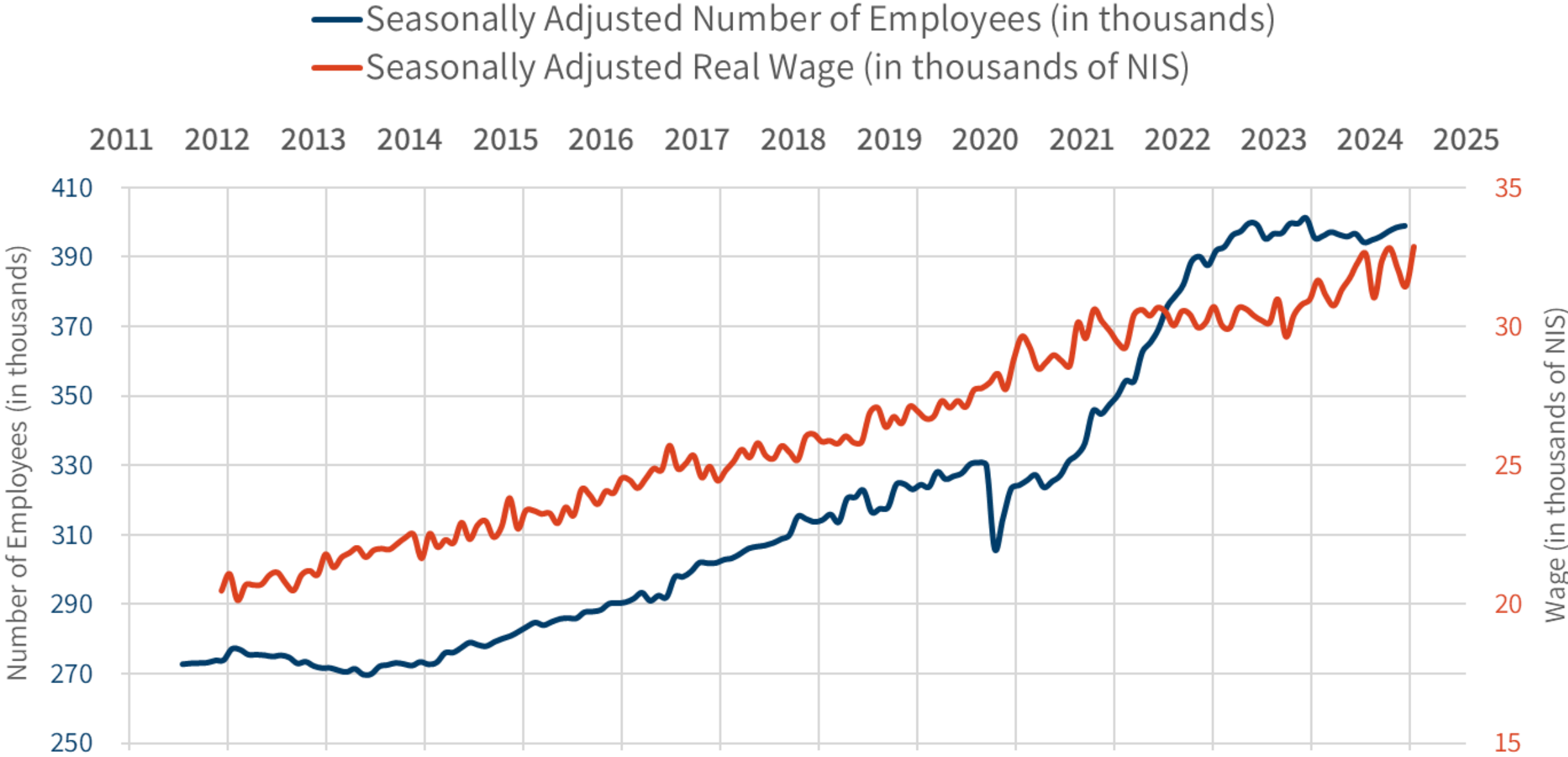
A decline of about 30% in the number of Israeli foreign investors compared to the year of war and the previous year



From the High-Tech in a Year of War report by the Israeli Advanced Technology Industries Association (IATI) and the RISE Israel Institute

The Stagnation in High-Tech Continues, but Has Not Worsened

Number of employees and real wages in Israeli high-tech



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HR Survey

As part of the report writing, IATI conducted a survey among approximately 80 human resources managers in high-tech companies of various sizes and sectors:



45% of the companies in the sample reported that, on average, over 10% of their employees had been called up for reserve duty in the past year, and 16% of them reported that, on average, over 20% of their employees were in reserves



half of the companies intend to increase the number of employees in the country over the next year. However, about half of the companies also plan to increase the number of employees outside of Israel.

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The Defense-tech Sector

The Big Three

Revenues of Elbit and IAI in the first nine months of the war were **11%** higher than the preceding nine months, and in the first half of 2024 – **12%** higher than the first half of 2023. Refael has fared even better with increases of **32%** and **28%** respectively.

The Others

There are currently about **150** other defense-tech companies. The Israeli defense-tech sector is quite different than the overall high-tech sector, and the rate of "old companies" in defense-tech is much higher.

Other notable differences:

	All High-Tech	Defense-Tech
Percentage of VC-backed companies	53%	12%
Percentage of public companies traded on NASDAQ or NYSE (out of all public ones)	42%	21%
Percentage of public companies traded on TASE (out of all public ones)	41%	57%

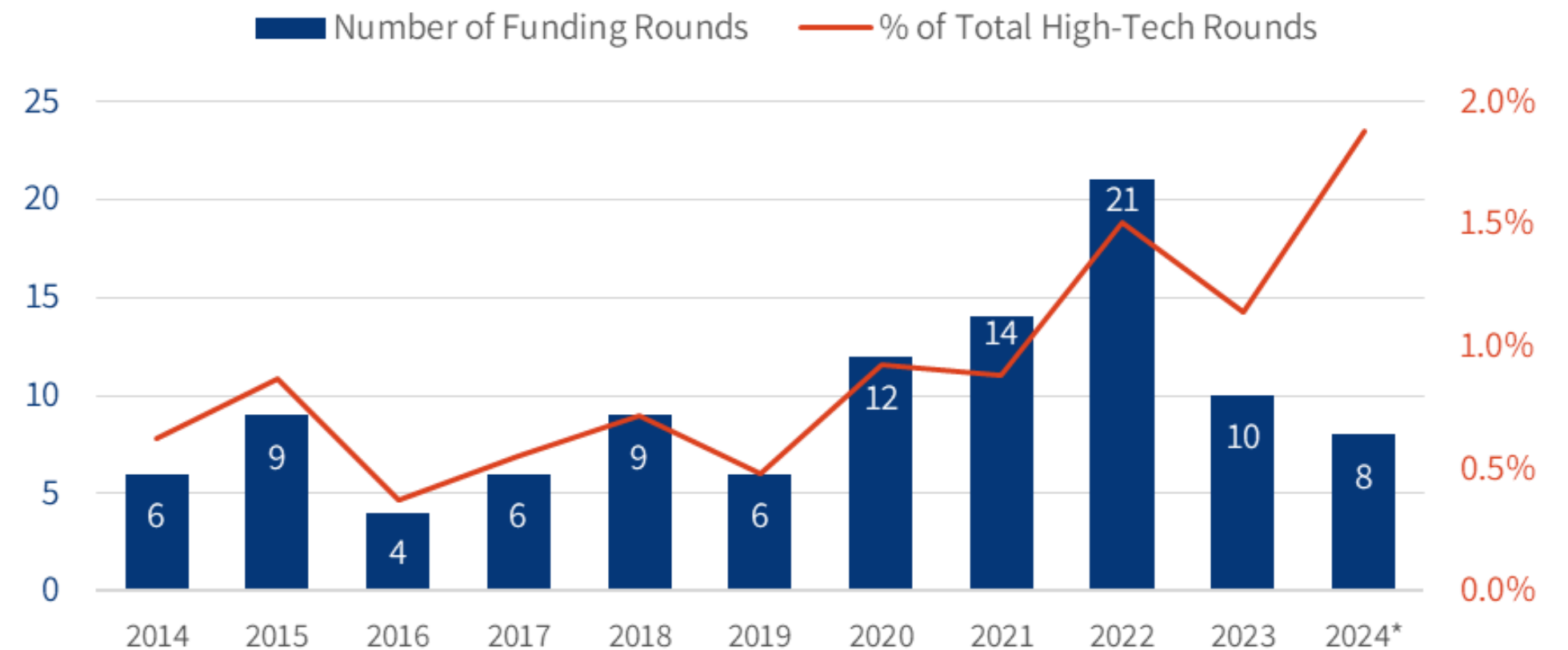
High-tech in Northern and Southern Israel

About **150 tech companies** are registered in the border regions. Approximately a quarter of them focus on the agri-foodtech sector (compared to only 5% of all Israeli high-tech companies), and only about one-fifth are part of the software sector (compared to 48% of the overall high-tech industry in Israel)



Although these companies represent a relatively small portion of the Israeli high-tech industry, they contribute to the diversity of the sector, and have an important social and economic role in the border regions.

In recent years, the number of VC rounds in border companies gradually increased from fewer than 10 rounds per year to more than 20 in 2022 (rising from around 0.5% to 1.5% of all fundraising rounds). This figure declined along with the rest of the high-tech sector in 2023:



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Perspective of Industry Leaders

Summary of personal interviews with managers of Israeli and multinational companies, VCs, and others:

The biggest challenges facing Israeli high-tech during this time:

- **Security, economic, and political uncertainty** in a world seeking stability and risk mitigation.
- **Damage to Israel's brand** as a strong, stable, and liberal high-tech powerhouse, with a strategy for strengthening the sector.

In addition, many companies have been **affected by the prolonged reserve duty** of a significant portion of their workforce

These factors lead to several concerning phenomena:

- **Many foreign investors are avoiding investments in Israeli companies**, as well as in Israeli VC funds, resulting in decreased activity in these funds.
- **Investors are requiring companies to establish or transfer some of their operations abroad.**
- **A trend of entrepreneurs moving abroad** and many more employees wishing to take positions outside Israel compared to normal times..
- **The reduction in international flights reinforces the impression of risk and insecurity.** This makes it difficult for companies to maintain regular contacts with international investors, partners, and clients.

Perspective of Industry Leaders

Amid all the challenges, there are also reasons for optimism:

- Most companies, both Israeli and the development centers of multinational companies, have managed to meet their product development timelines despite all the challenges.
- The number of mega-rounds (investments of \$100 million or more) in Israeli companies has actually increased during the war. In these rounds, foreign investors play a dominant role.
- Several leading VC funds have increased their investment pace in Israeli companies or announced their intention to do so.
- Acquisitions of Israeli companies by large multinationals indicate a willingness on the part of buyers to expand their operations in Israel.
- Above all, there is hope and belief that the innovation and entrepreneurial spirit of Israelis still exist, and when the country returns to security, economic, and social stability, a process of recovery will begin (even though it may not be quick)

Summary and Recommendations

Without delving into the security/political issue of when and how to end the war, the main recommendation from everyone in the field is for **the government to present a vision and strategy that will give hope to investors and entrepreneurs, along with policies of responsible economic management, preservation of democratic and liberal values, and reduction of international isolation.**

The most critical steps that must be taken to secure the future of the Israeli high-tech:

- **Encouraging Foreign Investors:** This includes focused outreach and persuasion efforts aimed at significant investors who currently do not invest in Israel, initiatives to reduce investment risks, and changing the definition of "permanent establishment" by the tax authority. This must be alongside the need to **encourage Israeli investors**, particularly institutional ones.
- Due to concerns about brain drain, the government must **develop and implement an effective program to attract or return talent to Israel**, both to industry and academia.
- **Support for Entrepreneurs and New Companies in Selected Fields:** This involves examining the various support programs for new companies, ensuring that in particularly important fields, the assistance provided is more substantial than it is today.