

Tenth Edition, February 2024

STARTUP SNAPSHOT

STARTUP NATION IN
TIMES OF CONFLICT: THE
INVESTOR PERSPECTIVE

Together with:

Deloitte
CATALYST

Reichman
University

ZELL
Entrepreneurship Program

FinSec
Innovation Lab

Consiglieri
Empowering Israel's Innovation Ecosystem



**Startup Snapshot
is on a mission to
increase industry
transparency**

Yael Benjamin, Founder and CEO

Introduction

THE PARADOX

Our technology ecosystem is gripped by a paradox. We use data-driven insights to make investment and business decisions every day. But when it comes to data about the individuals who constitute the ecosystem itself, there's a lot of conversation, anecdotes, rumor and gossip. But not enough facts.

VISIBILITY THROUGH DATA

Startup Snapshot was created to fill that void. Our most recent research sheds some light on the state of the Israeli tech ecosystem during Operation Iron Swords.

In this research, we illuminate the current state of the investor mindset through data collected from over 100 investors, including

those in local and international funds, all of whom have invested in Israeli tech in the past.

THE IRON SWORDS EDITION

The goal of this research is to try to understand the driving forces behind investor sentiment and concerns, providing insights that can help founders accelerate their ventures during this increasingly volatile period.

It's our hope that the data and insights will encourage the conversation around how the local ecosystem can better support founders. Those building the future need support now. They need the recognition and tools required to successfully build the next generation of Israeli innovations.

Leading industry players join Startup Snapshot to share insights with the startup ecosystem



Moran Massad Hadar

Deloitte, Tech Sector,
Audit Partner

Moran is a High-Tech audit partner at Deloitte, providing invaluable financial and business advisory services to tech companies and VCs

Deloitte
CATALYST



Sidney Gottesman

CEO Finsec Innovation Lab:

Sidney is Senior VP at Mastercard and serves as the CEO of the FinSec Innovation Lab, providing acceleration services to early-stage Israeli startups in Cyber and FinTech

FinSec
Innovation Lab



Nimrod Vromen

CEO Consiglieri

Nimrod is partner at Arnon-Tadmor Levy's tech department, as well the CEO of Consiglieri, disrupting professional services for the tech industry.

Consiglieri



Ori Schnitzer

Executive Director Zell
Entrepreneurship Program

Ori is the Executive Director of the Zell Entrepreneurship Program, a venture creation program at Reichman University

ZELL
Entrepreneurship Program

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INVESTOR
SENTIMENT



Israeli tech in the eye of the storm

The current conflict in Israel has injected an additional layer of uncertainty into an already volatile startup investment landscape. While startup investing inherently involves risks, the events unfolding in Israel, particularly during the current conflict, have intensified investor apprehension.

Today, entrepreneurs and startup founders face unprecedented hurdles as a considerable portion of startup teams are deployed to reserves, disrupting operations and casting doubt on the duration of the conflict. This heightened uncertainty seems to have left many investors hesitant to commit capital to Israeli startups, wary of the potential impacts of prolonged political instability.

In an attempt to better understand

investor sentiment, we set out to collect data on the current climate to try and help illuminate the key factors influencing investment decisions. As Israel navigates through these very challenging times, understanding and addressing investor apprehensions may be crucial for sustaining the resilience and growth of its vibrant startup ecosystem.

**The conflict in Israel
has intensified investor
apprehension for
investing in local tech.
But how much?**

Investors who have invested in Israeli tech in the past are concerned about the local ecosystem, but no widespread panic

TO INVEST OR NOT INVEST? THAT IS THE QUESTION

Amidst the ongoing conflict in Israel, VCs face additional concerns about investing in startups. Despite these risks, data indicates that investors, while expressing some concerns, are not disproportionately worried. The prolonged nature of the conflict seems to have led them to integrate it into their risk assessments, showcasing a nuanced understanding within the VC community.

“ For some investors there is more concern about investing in Israel now, but not an overwhelming panic. The current conflict showed the VC community Israel’s strong resilience and ability to deliver even under extreme pressure, strengthening our long-term position globally.



- Liat Aaronson
Chairperson Zell
Entrepreneurship Program



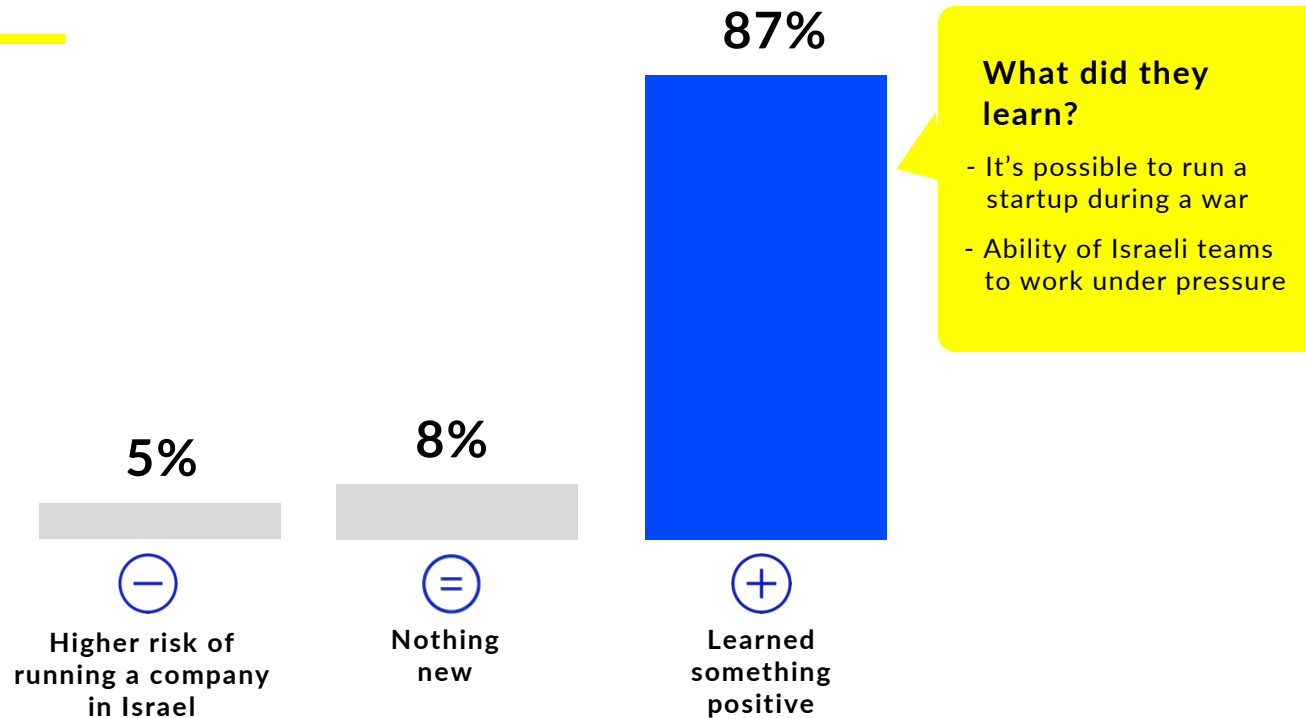
How concerned are you about investing in Israel?

(1=not concerned, 10=extremely concerned)

4.4
out of 10

Even in challenging times, a glimmer of hope: This conflict taught investors something new about Israeli talent

WHAT DID YOU LEARN ABOUT STARTUPS DURING OPERATION IRON SWORDS?



“

The conflict highlighted the unwavering determination and adaptability of local entrepreneurs, who continued to navigate business challenges during immense stress and uncertainty. They represent the next generation of tech talent, the individuals investors will eagerly seek to invest in for their resilience and innovative spirit.

- Yael Benjamin
Founder and CEO
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Investment trends for 2024

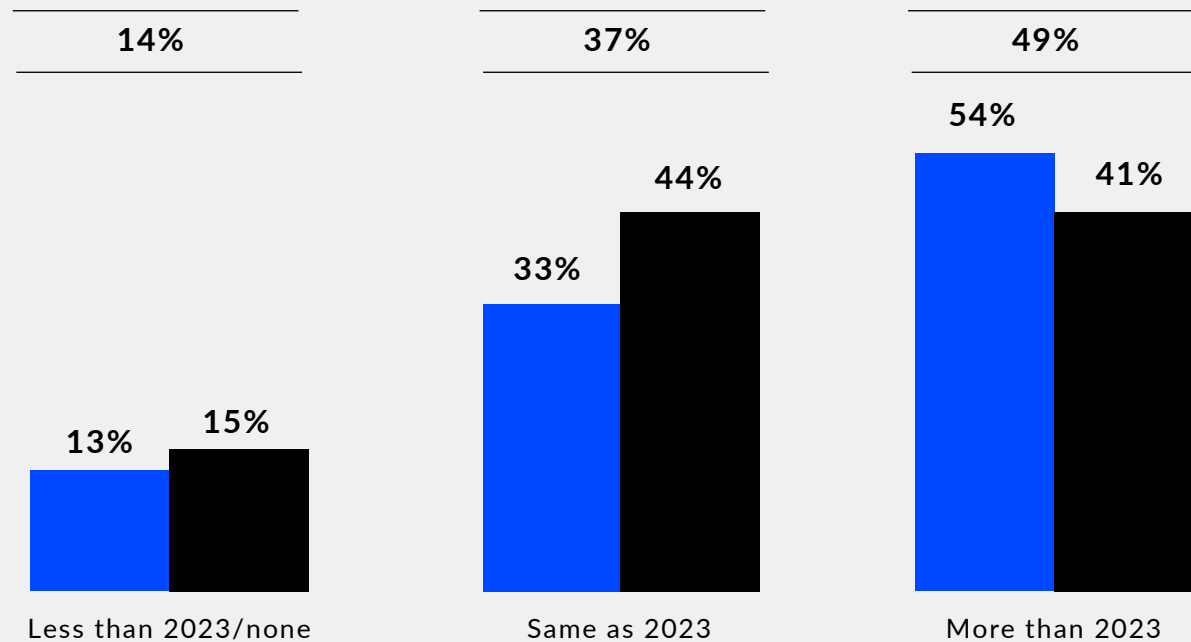
Analyzing the data, it's evident that the recent conflict did not diminish faith in Israeli tech, as a significant number of investors express their intent to increase investments in 2024 compared to the subdued levels of 2023.

However, it's crucial to contextualize this optimism by acknowledging that the deal volume in 2023 was notably low. While the projected increase is undoubtedly positive, it does not necessarily signify a complete rebound to pre-existing market growth levels.

Cautiously Optimistic: Despite the conflict, the majority of investors don't expect to reduce their investments in Israeli tech in 2024

Will you invest more/less compared to last year?

- Israeli funds & private investors
- International funds & private investors



*Note: Relatively low investment volume of 2023

Unlike local investors, fewer international investors see lower valuations as a major opportunity

VALUATIONS UNDER FIRE

In 2023, the Israeli startup ecosystem experienced a decline in investment volume and valuations, influenced, among others, by global macroeconomic shifts and increased risks associated with judicial reform. The onset of the war in early 2024 exacerbated these challenges, leading many startups to lower valuations to secure funding. The looming question persists: Will investors perceive the reduced valuations as attractive given the current risk profile of investing in Israel, or is there a potential for further decline?

“ The data shows that compared to Israeli investors who see an opportunity in the lower valuations, investors abroad are still not sure that the high risk premium of investing in Israel matches the already low valuations.



– Moran Massad Hadar
Deloitte Tech Sector, Audit
Partner

How do we compare?

% of investors that think lower valuations in Israel are a major opportunity

83%



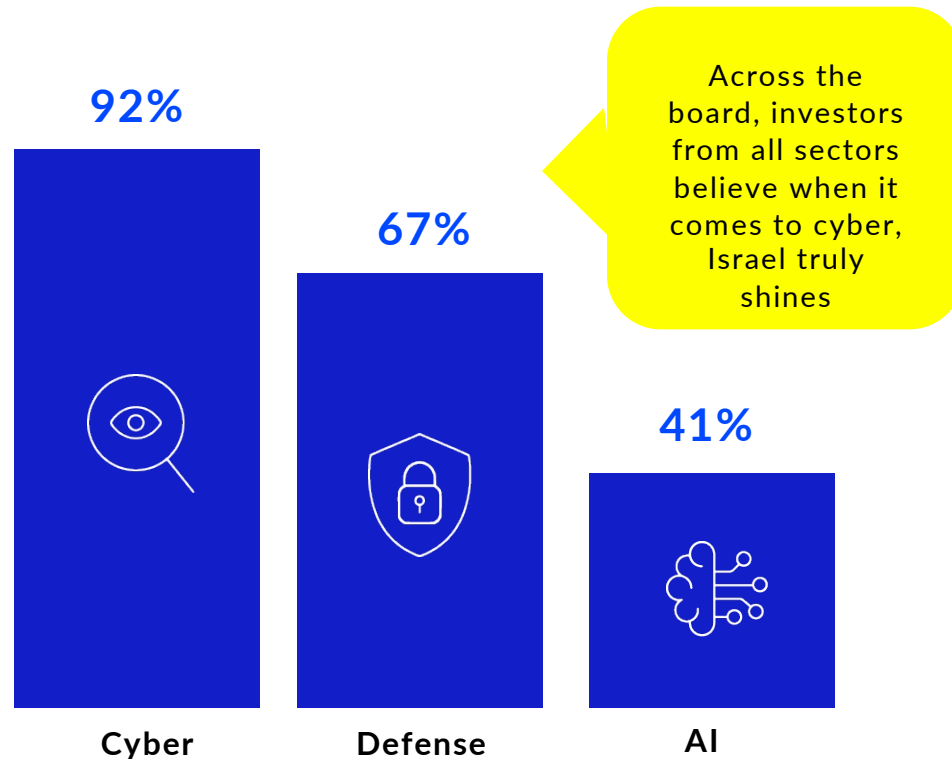
56%



Despite a massive surge in defense tech, Israel's cyber brand holds strong

IN WHAT THREE INDUSTRIES DO YOU THINK ISRAEL HAS A GLOBAL COMPETITIVE ADVANTAGE?

(% of investors that chose each industry)



“

The data reinforces the interconnected narrative: Israel's undeniable leadership in cyber, attributed in part to its robust military cyber units, and the announced national imperative to bolster its position in AI. While Israel's advantage in cyber is evident, the competitive landscape in AI demands proactive engagement to secure a place at the forefront of innovation.

- Sidney Gottesman
CEO Finsec Innovation Lab



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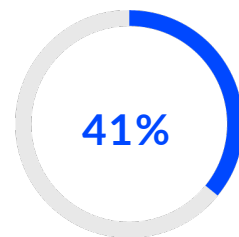
AI is disrupting every industry, but even AI investors don't recognize Israel's advantage in the field

Unlike other sectors where Israel boasts a global competitive advantage, such as cybersecurity or medical technology, the nation has faced delays in establishing itself as a dominant player in AI. This delay can be attributed to several factors, including limited access to large-scale datasets necessary for training AI algorithms, stiff competition from established AI powerhouses like the United States and China, and a shortage of skilled AI talent relative to demand. While progress is being made, overcoming these challenges and achieving a prominent position in the global AI landscape remains a work in progress for Israel.

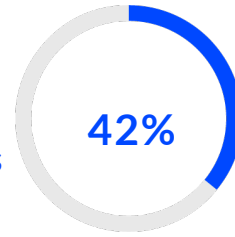
ONLY 42% OF AI INVESTORS THINK ISRAEL HAS A STRONG ADVANTAGE IN THE FIELD, SIMILAR TO RANKING BY NON-AI SPECIALIZED INVESTORS

(% of investors that think Israel has a competitive advantage in AI)

All investors



Only AI investors



“

Pioneering AI-focused investments, I see Israeli startups gaining an unfair advantage in building accurate AI tech to business pain points and executing it fast. From a wider perspective, Israeli startups are in a great position to stand out providing utilities (picks & shovels) to support the AI "gold rush".

- Yorai Fainmesser
General Partner
Disruptive AI



Startup Snapshot

2 THE MOODY'S DOWNGRADE



Moody's move shocks the market

In an unprecedented move, amid the turmoil and economic repercussions of the conflict, Moody's downgraded Israel's foreign currency and local currency issuer rating to A2 from A1 in February 2024. This decision reflects the agency's concern over the conflict's impact on Israel's economic stability and fiscal health.

The repercussions of Moody's historic downgrade extend beyond Israel's general macroeconomic landscape, casting increased uncertainty over its thriving tech ecosystem. Investors are grappling with the implications of this rating adjustment, weighing the perceived heightened risk against the allure of Israel's innovation-driven market.

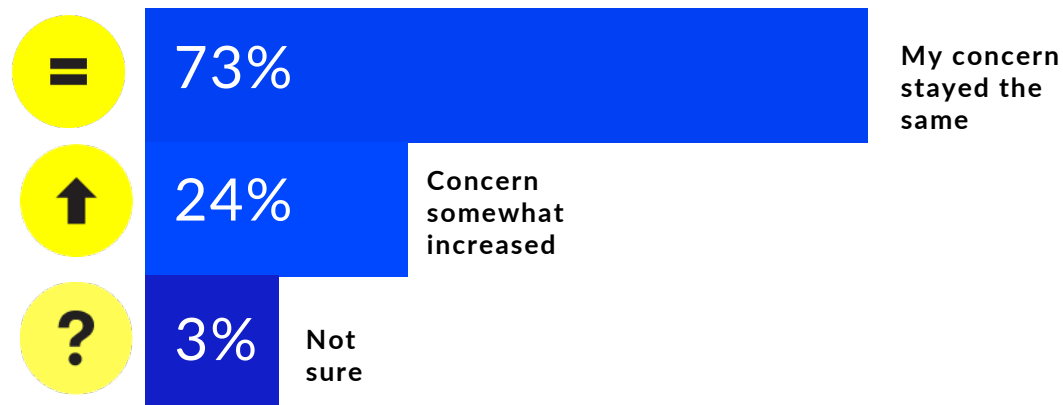
To better understand market sentiment, we collected data from investors in the wake of this pivotal decision. Our aim was to gain insights into how the downgrade may impact Investment decisions, as well as their perception of the risks of the Israeli tech sector as a whole.

Will the repercussions of Moody's historic downgrade cast increased uncertainty over its thriving tech ecosystem? Only time will tell

Investors that are familiar with Israeli tech report the downgrade will not affect their 2024 investment plans

Moody's decision to downgrade Israel's credit rating adds additional layers of uncertainty for tech investors in the country. However, our data suggests that investors who have previously invested in Israel recognize the inherent strengths of its tech ecosystem. Despite the downgrade, many investors affirm that on a personal level, their decision-making regarding investment amounts remains unchanged.

HOW DID MOODY'S DOWNGRADE AFFECT INVESTORS SENTIMENT ABOUT INVESTING IN ISRAEL?

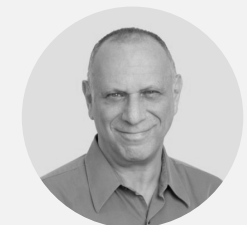


80% OF INVESTORS REPORT THAT MOODY'S DECISION DID NOT CHANGE HOW MUCH THEY PLAN TO INVEST IN 2024

“

As is shown in the data, early-stage VC funds will continue to invest, as innovation and entrepreneurship have not changed. The concern is that late-stage VC funds, most coming from US, might lower their investments in Israel as their mandate is broader. If this will happen, we might see a broken chain of start-up funding, which might damage the local ecosystem. However, I have no doubt that finally Israel will get the leadership it deserves and the Israeli capabilities will prevail.

- Dov Moran
Managing Partner
Grove Ventures



Startup Snapshot

However, there is uncertainty about the severity of the effect on the tech ecosystem as a whole

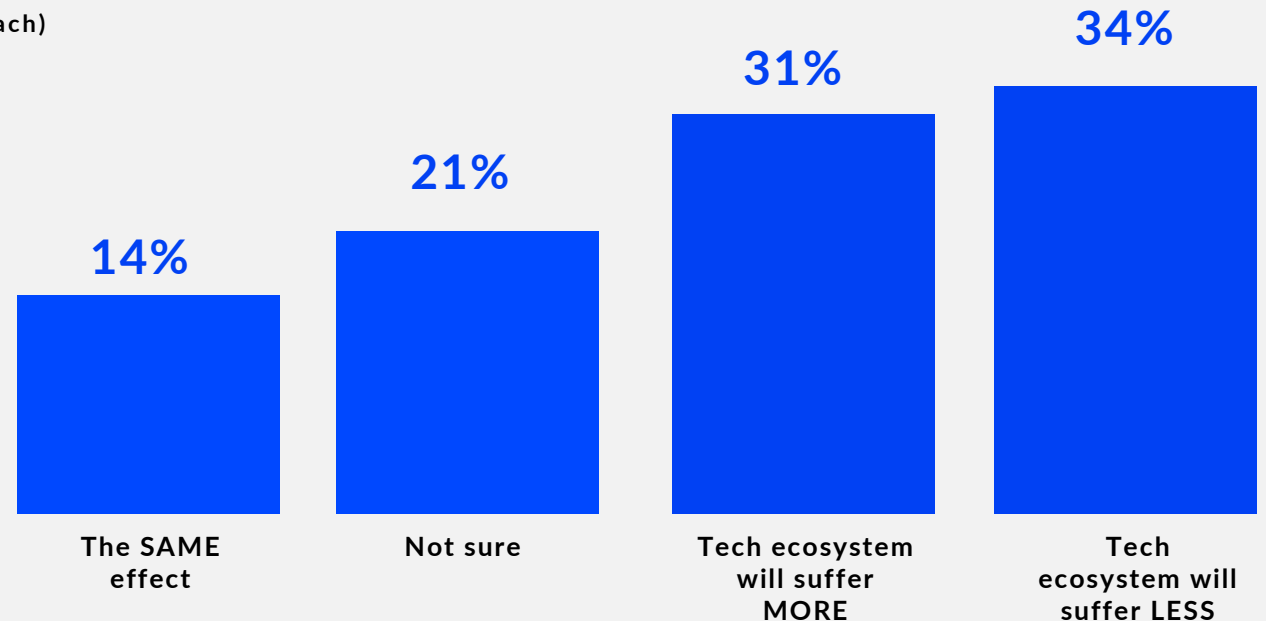
Investors are currently grappling with uncertainty regarding the potential impact of Moody's decision on Israel's tech ecosystem compared to its broader economy.

Divided opinions within investor circles reflect varying perspectives, with some believing that the downgrade will exert a more pronounced effect on the tech sector, while others anticipate a lesser impact.

This divergence underscores the complexity of the situation and the challenges in accurately gauging the repercussions of such a significant situation which is happening now for the first time ever.

Will Moody's downgrade affect the local tech ecosystem differently than it will affect Israel's economy as a whole?

(% of investors that chose each)



3 MITIGATING RISKS



Strategic approaches for stability

In the face of mounting global macro economic uncertainty compounded by the ongoing military conflict and potential escalation in Israel's neighboring regions, investors are sounding the alarm.

They are urging startups to brace for a multitude of possible scenarios. To heed investors' advice, startups should prioritize adaptability and resilience in their strategic planning. This involves not only diversifying risk exposure but also implementing agile practices that enable swift responses to all circumstances. Whether it's reevaluating market strategies, optimizing their operational efficiencies, or fortifying their finances, startups are urged to proactively assess and address vulnerabilities across all

facets of their operations.

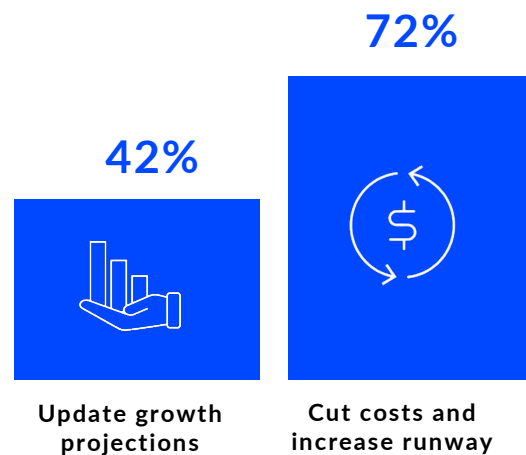
To better understand different investor strategies for risk mitigation, we set out to unearth key insights that can inform strategic decisions and can empower startup founders to navigate the intricacies of the today's incredibly volatile and risky market dynamics.

Do investors urge startups take extreme measures to mitigate current conflict-related risks?

Internal focus amid external risks: Investor advice for founders in uncertain times

Amidst the backdrop of a global macro downturn and heightened instability due to the ongoing local conflict, the Israeli tech ecosystem finds itself navigating turbulent waters. In response to these challenges, investors are advocating for an internal focus, emphasizing the importance of building sustainable and efficient businesses with minimal burn rates. This approach may not only fortify companies against external pressures but may also provide them with the resilience to weather prolonged periods without the immediate necessity of fundraising in such a challenging environment.

WHAT WOULD YOU
ADVISE STARTUPS TO DO
IN ORDER TO MITIGATE
WAR-RELATED RISKS?



“

Investors urge founders to work on the fundamentals of their business. They understand that the current conflict is temporary and that founders need to still excel at cutting costs and adjusting to realistic growth projections in times of crisis. In turn, this also helps investors follow-on at lower valuations, which are more in line with the heightened risk of war.

- Nimrod Vromen
CEO Consiglieri

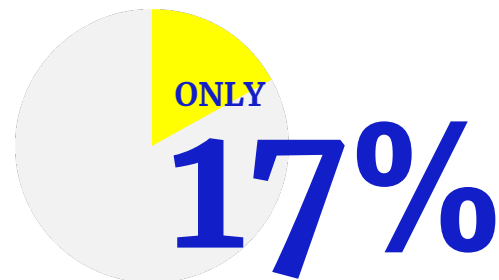


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Despite looming threat of ongoing war, investors don't recommend global hiring as a strategy to mitigate risk

THE STRENGTH OF LOCAL TALENT

The recent conflict underscored the resilience and adaptability of Israel's local talent pool. Despite a significant portion of the workforce being called up for reserves, the Israeli tech sector continued to thrive. Agile entrepreneurs found innovative ways to cope with limited resources, ensuring that companies remained operational and the ecosystem resilient. Recognizing this strength, investors now see the value in Israeli startups maintaining their reliance on local talent rather than advocating for them to hire abroad.



OF INVESTORS
THINK ISRAELI STARTUPS SHOULD
HIRE MORE EMPLOYEES ABROAD
TO MITIGATE WAR RISKS

“

There are many reasons to be optimistic about the local ecosystem. Our entrepreneurs demonstrate exceptional resilience, navigating through an extremely difficult year that brought a global downturn, political conflict, stress and military reserves. I believe that over time, this understanding will further shape the way foreign investors perceive Israeli entrepreneurs.

- Moran Massad Hadar
Deloitte Tech Sector, Audit
Partner

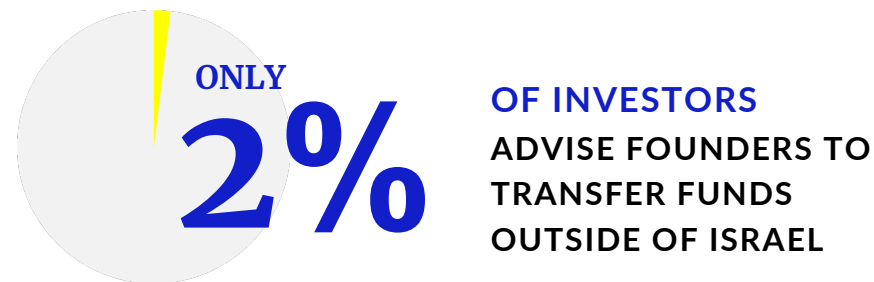


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Moving funds out of Israel is no longer the answer

FROM TURBULENCE TO STABILITY

The current landscape is in stark contrast to the days of the judicial reform, where some investors were urging their portfolio companies to mobilize funds outside of Israel and decrease exposure to the local currency. Today, according to the research, the overwhelming majority do not think moving funds abroad will help mitigate risks. The change in sentiment can be traced back to the events of the past few months, where investors were reminded of the strengths of the local ecosystem and the resilience of the Israeli society.



“

The current situation has obscured concerns that prevailed in the market during the judicial reform, and today there is almost no discourse surrounding the transfer of funds outside of Israel.

- Nimrod Vromen
CEO Consiglieri



Startup Snapshot

The Delaware Flip? Investors don't think this is the solution for mitigating current risks

Over the past year, rising concerns associated with Israel's judicial reform prompted a notable trend among founders and investors, with many urging startups to increasingly shift out of Israel. However, with the current conflict, investors understand that it is just temporary and that flipping the company to a Delaware corporation is an expensive and timely process that will not necessarily reduce risk in the current situation. Instead, the focus has shifted from legal solutions to finding innovative solutions and weathering the storm together within Israel.



ONLY
13%
OF INVESTORS
THINK ISRAELI STARTUPS
SHOULD FLIP TO BECOME A US-
BASED CORPORATION IN ORDER
TO MITIGATE CURRENT RISKS

“ We are seeing many conversations around this topic, but it is not a widespread phenomena. Investors believe that the current conflict is temporary and do not think a Delaware flip is the solution for mitigating current risks.



- Moran Massad Hadar
Deloitte, Tech Sector, Audit
Partner

The VCs weigh in: Do not minimize war challenges when pitching new investors

STORYTELLING IS KEY

Acknowledging the undeniable hurdles and obstacles in today's unique environment, founders are urged to address these challenges directly and take control of the narrative. The key lies in openly communicating the war-related challenges faced by their ventures and articulating a strategic approach to overcoming each obstacle. Proactive and transparent communication not only fosters trust but also demonstrates the resilience and adaptability of founders in navigating adversities.

96% THINK FOUNDERS SHOULD BE TRANSPARENT WITH NEW INVESTORS ABOUT WAR-RELATED CHALLENGES

MOST INVESTORS DO NOT WANT FOUNDERS TO MINIMIZE WAR-RELATED CHALLENGES

Should founders minimize war-related challenges ?



DON'T MINIMIZE

“

‘We will deliver no matter what’ is the mantra of Israeli tech leaders in the past few months, and we do see unbelievable performance against the odds. Still investors don’t want to be surprised and should get a full disclosure on reality – customers, drafted employees, updated roadmaps and so on.

- Tzahi Weisfeld
VP & GM Intel Ignite:
Intel for Startups



Startup Snapshot

4 STARTUP SUPPORT



Supporting tech: Whose responsibility is it?

As the conflict rages on, investors are acutely aware of the impact on their portfolio companies and are stepping up to provide crucial support. From strategic guidance to facilitating introductions with potential funds, clients, and talent, investors are mobilizing a wide array of resources to bolster the resilience of Israeli startups during these trying times.

However, investors also acknowledge that the support needed by Israeli startups extends beyond their individual capabilities. Many believe that significant support should come from government initiatives and ecosystem stakeholders, such as accelerators and incubators. By collaborating with the entire ecosystem, investors aim to amplify their impact and ensure that

Israeli startups receive comprehensive support to weather the storm and emerge stronger on the other side.

In this chapter, we will delve deeper into the support mechanisms deployed by investors, as well as exploring the importance of collaborative efforts with government and stakeholders.

Investors are worried about lack of funding into Israel, but what are they actually doing to help their portfolio?

Lack of funding into Israel is the top investor concern, but the majority won't put their money where their mouth is

FEARS AND LIMITED ACTION

Investors express growing concerns over the insufficient funding for Israeli startups, fearing the potential jeopardy to their survival. Despite these apprehensions, only a third of investors are actively addressing the issue by allocating funds to support their portfolio companies, highlighting a disparity between expressed worries and tangible financial commitment.

LACK OF FUNDS IS THE NUMBER 1 INVESTOR CONCERN ABOUT CURRENT ISRAELI ECOSYSTEM...

HOWEVER ONLY 35%

WILL PROVIDE THEIR PORTFOLIO WITH FUNDING TO HELP THEM PASS THIS DIFFICULT TIME

“

There is a miscorrelation between how concerned investors are about funding and what they plan to do about it. This highlights how today's investors are more hesitant to deploy funding, adjusting their investment strategy to the lower risk appetite in the market.

- Moran Massad Hadar
Deloitte Tech Sector, Audit
Partner



Startup Snapshot

The funding gap: Investors think more funding should come from the government

ALLOCATING BUDGET IS KEY

The tech sector is a meaningful driver of economic growth in Israel. Recognizing its pivotal role, there is a mounting consensus among investors that the government should play an active part in supporting local startups amidst the ongoing funding crisis. As these innovative ventures face unprecedented challenges, investors advocate for government intervention through the allocation of budgets and the establishment of dedicated investment vehicles.

65%

OF INVESTORS
THINK THE GOVERNMENT SHOULD
INCREASE BUDGET TO CREATE
DEDICATED INVESTMENT VEHICLES

“ **There is an opportunity for the government** to create dedicated investment vehicles that match investor follow-on funding. This would provide a life-line for existing startups, while encouraging increased investments from existing investors.



- **Nimrod Vromen**
CEO Consiglieri

If not funding, what do investors help their portfolio with?

In the face of uncertainty surrounding the war, investors are rallying behind Israeli startups, extending vital support for the challenges that may lie ahead. Today, investors are rolling up their sleeves, diving into the trenches alongside their portfolio companies. They offer strategic advice, drawing from their wealth of experience to help navigate the challenging terrain ahead, as well as leveraging their extensive networks to forge new connections and partnerships. This hands-on approach underscores a shared commitment to not only survive but thrive.



In 2024, the top priority has shifted to extending runway and minimizing cash burn. VCs are deeply engaged with their portfolio companies, reassessing not only business strategies, pricing, and go-to-market approaches but also forging partnerships with industry experts and connecting with enterprises.

- Yael Alroy
Partner Viola Ventures

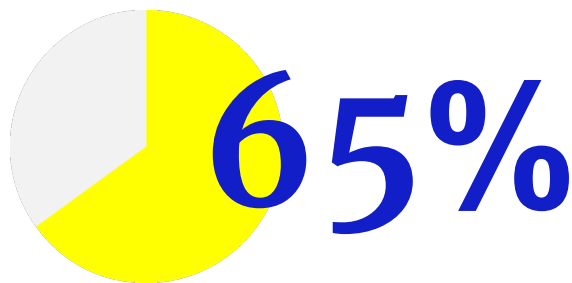


ARE YOU TAKING ADDITIONAL STEPS TO HELP PREPARE YOUR PORTFOLIO FOR A DRAWN OUT CONFLICT?



VCs are looking to partner with the government to safeguard Israel's status as the Startup Nation

Israel has earned the name "Startup Nation" on the global stage, however, the ongoing conflict poses a potential threat to its reputation. To safeguard and uphold Israel's position, fostering close collaboration between the government and local venture capitalists is paramount. This close relationship ensures that the necessary support, resources, and strategic initiatives are in place to navigate the challenges presented by the current geopolitical landscape. By strengthening this collaborative foundation, Israel can continue to thrive as a beacon of innovation and maintain its status as a global leader.



OF INVESTORS
THINK GOV'T SHOULD
WORK WITH VCS TO
KEEP ISRAEL'S POSITION
AS A STARTUP NATION

“

As we witnessed the nation come together to support each other post-October 7th, it's time for a collective effort to support our startup ecosystem. Through public-private partnerships, open innovation between startups and corporations, and integration across academia, industry, and government, we can maintain our competitive edge and continue reaching new heights as a leading startup nation.

- Sharon Zarfati
Director Operations
Finsec Lab



Investors also see the increasingly important role of wider ecosystem support

Today, providing robust support to the local startup ecosystem has become more critical than ever, especially for early-stage startups that lack a fully developed investor and client network. In today's very challenging environment, accelerators and incubators are poised to play an increasingly central role, offering strategic guidance, mentorship, and access to networks.

49% of investors think that in today's reality, accelerators are much more valuable

”

Raising early stage funds is becoming increasingly difficult. Accelerators, especially those operated and backed by Multinational Corporations are increasingly valuable for young startups, providing them with product validation from large corporate partners, a stamp of approval necessary for securing new investor funding.

- Sidney Gottesman
CEO Finsec
Innovation Lab



”

Limited funding and short runways restrict early-stage startups, reducing their time for experimentation. Accelerators offer vital support, enabling these startups to achieve tangible results more quickly. In the current market landscape, this provides a significant competitive advantage, especially for first-time founders.

- Ori Schnitzer
Executive Director Zell
Entrepreneurship Program



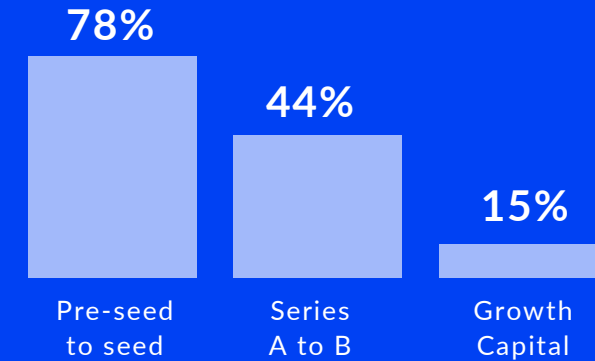
Methodology

About the Respondents

RESPONDENTS JOB TITLE



STARTUP STAGE(S) INVESTED IN*

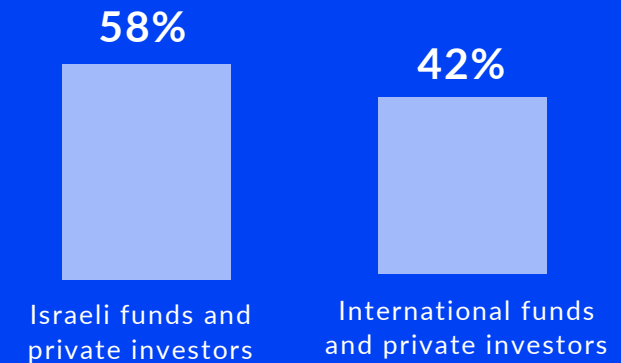


*Some investors invest in a number of startup stage

TWO DATA COLLECTION PERIODS



INVESTOR TYPE



*A third of original survey participants took part

The Startup Snapshot Methodology

Startup Snapshot is on a mission to collect, analyze and share data about the startup community and the investors who drive it. For this research, we gathered data via a digital survey from our wide-reaching, global community of startup investors. With this underlying data as our collective foundation, we had leading experts analyze the findings, bringing their own insights, perspectives, and provocative frameworks to our research.



01 SURVEY DESIGN

We worked together with leading VCs and investors to identify today's burning issues and formulate survey questions



02 DATA COLLECTION

The survey was distributed to our wide investor community. We also carried out in-depth interviews with entrepreneurs and thought leaders



03 ANALYSIS

We analyzed data collected from 100+ investors



04 INSIGHTS

We worked closely with ecosystem players and market experts to analyze the data and generate valuable insights

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IF YOU WANT TO TAKE PART IN OUR
FUTURE EFFORTS TO INCREASE
ECOSYSTEM TRANSPARENCY, CONTACT
US AT [INFO@YBENJAMIN.COM](mailto:info@ybenjamin.com)