

Israel 2012 – Is There More to Come?

*by Adrian Daniels*

It has become commonplace to point out that while Israel's early pioneers are feted to have founded the kibbutz, dried the swamps and made the desert bloom, Israelis today are leveraging their pioneering heritage for technological innovation on a global scale.

The bigger question when looking back at 2011 is not whether Israelis continued to imagine, invent and create - they clearly did and in numbers larger than ever - but whether anyone believed in them enough to stake their increasingly precious investment resources in this troubled corner of the globe? Put another way, did 2011's hyper-cautious investors spend their money in Israel or did they prefer the alternatives?

While the answer is certainly not clear cut - with a disappointing third quarter - the fact is that overall in the first three quarters of 2011, (and despite the weakness of the Israeli VC sector), investments in Israeli technology companies increased by 71% compared to the same period in 2010, with foreign investment occupying an increasing share of the market. Additionally, according to PWC's MoneyTree Report, the average investment per Israeli company has remained above \$4M for three consecutive quarters for the first time since 2008 and for only the second time ever, with software and communications companies leading the way. Investors also enjoyed some significant exits in 2011, with thirteen yielding over \$100M for an aggregate of over \$3bn.

The outlook for 2012 is not as rosy, with the Bank of Israel forecasting much slower growth for the Israeli economy. However, it is hard to imagine a dampening of the Israeli entrepreneurial spirit. Having provided an example of what can be achieved, I think that Israel's first hi-tech generation has created a self-renewing dynamo of innovation. It has become as much a part of the local culture as folk dance and falafel. On a personal level, I have seen more start ups looking for legal representation and more entrepreneur forums emerging, and I have lectured to more and larger groups of young innovators, than at any time over the last 15 years. The questions I field from young entrepreneurs are increasingly mature and nuanced – where once they asked “what percentage should I hold in my company after the A round?” now it is “Do you think we should be looking for foreign investors in order to bring in foreign sales and marketing experience on to our board?” Where the finance is harder to come by, the boots are strapped just that much tighter and new ventures such as Techloft or Venture Geeks emerge to provide cheap, cosy and collaborative environments for Israel's new generation of entrepreneurs to work through their ideas.

I believe that despite (or perhaps because of) the expected turbulent times ahead for the world economy in general and Israel in particular, the high tech market here will continue to find innovative ways to ensure Israel remains a principal target for the scarce investment resources looking for serious investment opportunities.

I am certainly looking forward to another busy year ahead.

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