



The Underutilized Potential of CVCs in Israel's Tech Ecosystem

ANALYSIS OF THE ACTIVITY OF CORPORATE VENTURE CAPITAL (CVC)
FUNDS IN ISRAEL BETWEEN THE YEARS 2015-2022

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Research and writing: Danny Biran and Ido Meiboom

Introduction`

Corporate Venture Capital (CVC) funds are investment arms of large corporations. Like any other VC fund, CVCs seek to maximize the returns on their investment, but they often also consider the strategic objectives of the corporations that own them. CVCs play an important role in the innovation ecosystem because they provide additional benefits to the start-ups in which they invest, such as:

- access to the resources of the CVC's parent corporation, which can help with product definition, relationships with potential customers and partners, and so on.
- an investment by a CVC indicates that its parent corporation sees value in the area the start-up operates in, as well as in the technology or solution it develops. This often encourages other VCs to invest in that start-up.

Another distinction between a CVC and a standard VC is that while the latter must raise money from other investors (e.g. limited partners), CVCs get all their funding from their parent corporation. As a result, CVCs are less vulnerable to business-cycle fluctuations: they do not face the same difficulties in raising funds during downturns, and thus are not forced to change their investment strategies in such time.

Due to the important role of CVCs in the ecosystem, we analyzed their activity in Israel in recent years. Unless stated differently, the data used for this analysis is from the Startup Nation Finder database.

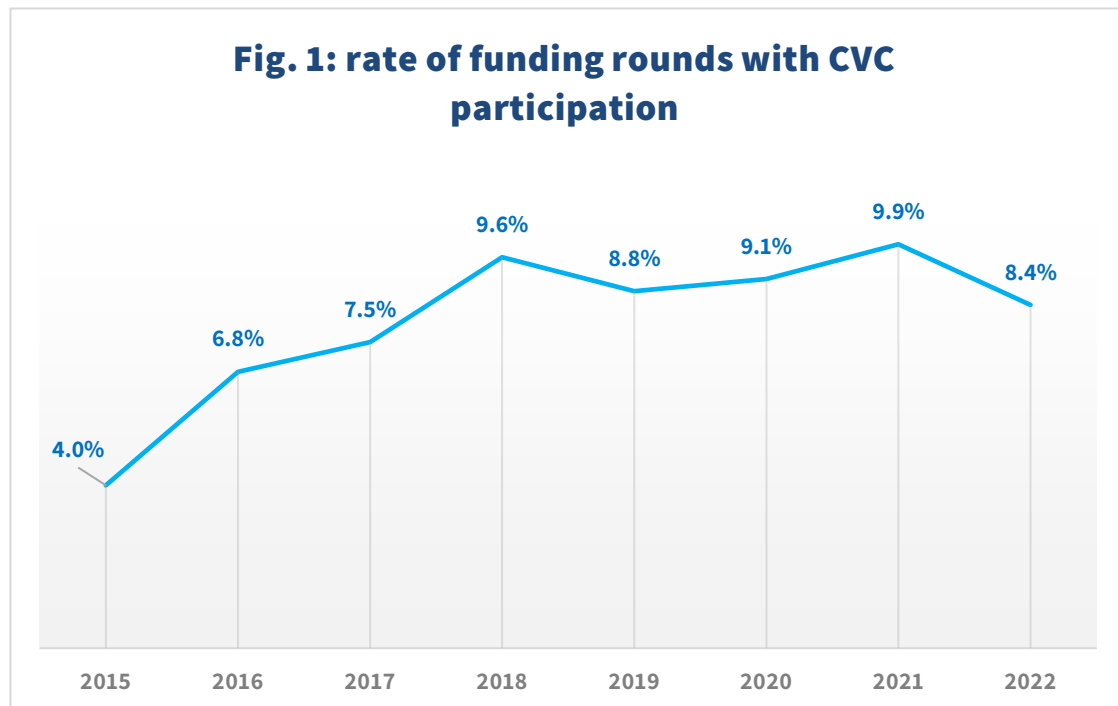
Key Findings

Among the interesting findings from our research:

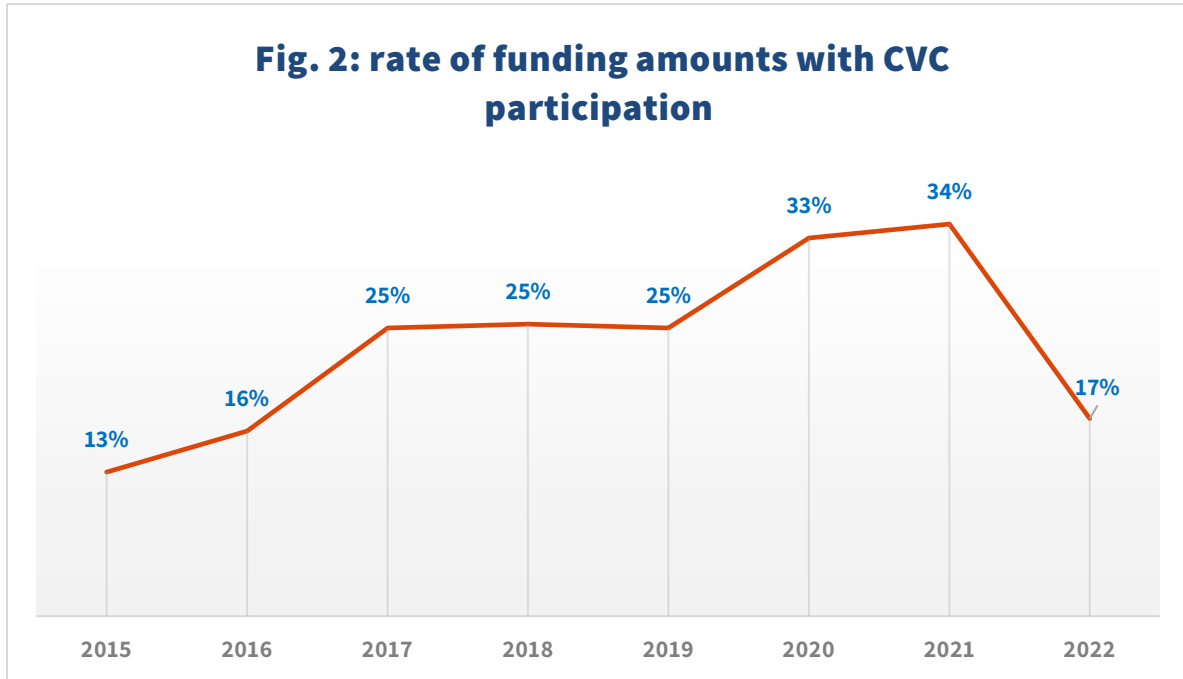
- In recent years, CVCs have participated in 8-10% of the funding rounds (deals) in Israeli start-ups. This is an increase from 4% in 2015.
- CVC participation in 2021 rounds represented 34% of total investment that year, the highest recorded to date.
- CVC participation has traditionally been higher in late funding rounds, but in recent years, it has increased in early rounds.
- *Only two* of the world's ten most active CVCs invested in Israeli start-ups in 2022. This emphasizes the significance of attracting more CVCs to Israel.
- CVCs that are active in Israel are mostly from the US and Israel. There is little activity by Asian and European CVCs, even though there are active CVCs there.
- Intel Capital was the most active CVC in terms of investment volume during the time period studied.

General Data

As shown in Fig. 1, CVC participation in funding rounds increased from 4% in 2015 to 8-10% in recent years.

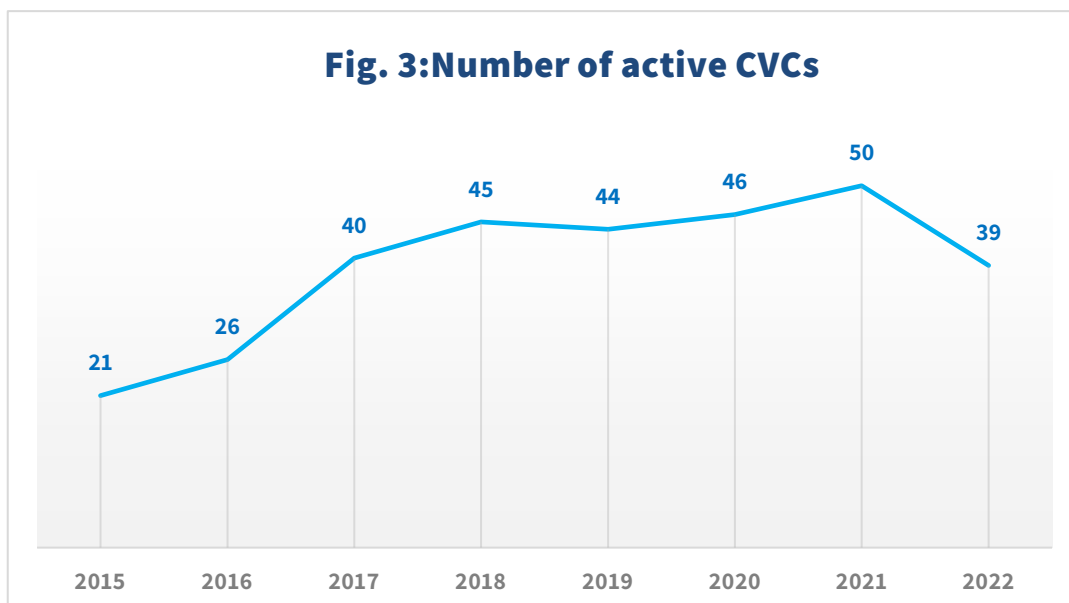


Start-ups that raise capital typically do not disclose the exact amount received from each investor. Therefore, we cannot analyze the amounts invested by CVCs; instead, we report on the total amount invested in rounds in which a CVC participated as a percentage of the total amount raised in that year. The analysis shows that after reaching a record high of 34% in 2021, the percentage dropped sharply to 17% in 2022 (Fig. 2). The decline is mainly due to reduced CVC participation in late-stage rounds which typically involve larger amounts.



Number of Active CVCs

The number of active CVCs (those that have made at least one investment) increased from 23 in 2015 to a new high of 50 in 2021 (Fig. 3). That number fell to 39 in 2022, which is consistent with most investment parameters for that year. Since many CVCs make a small number of investments in any given year, we can't draw any conclusion from this decline. It can be a result of changes in their strategy regarding investments in Israel, or simply a decline in overall investment activity due to the economic slowdown.

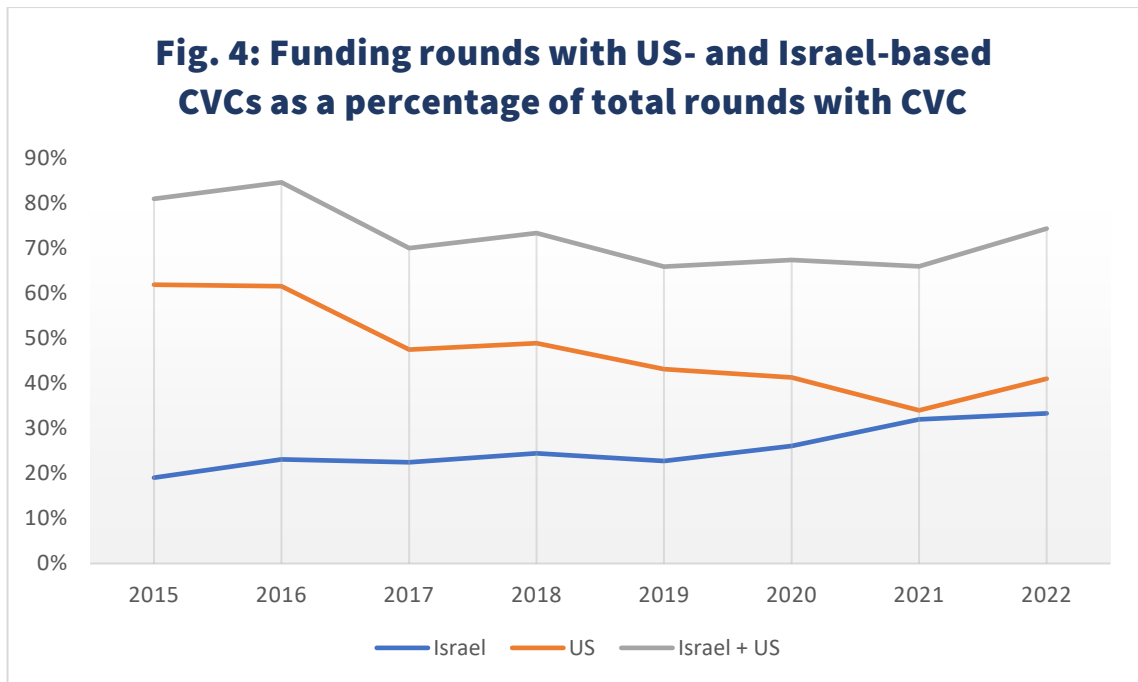


The table below shows the number of CVCs active in Israel by year and country of origin:

	USA	Israel	Singapore	Japan	Germany	South Korea	other
2015	13	4	1	1	0	0	2
2016	16	6	1	0	1	0	2
2017	19	9	1	3	3	1	4
2018	22	11	2	1	4	1	4
2019	19	10	2	3	4	1	5
2020	19	12	2	3	3	2	5
2021	17	16	2	2	5	2	6
2022	16	13	1	3	3	1	2

Main insights from the table:

- Throughout this period, the number of active CVCs has been led by CVCs based in the United States. However, following a peak in 2018, the number of active US-based CVCs has decreased. Part of the decline is not unique to Israel. Comcast Ventures, for example, which was active until 2020, has ceased operations as a CVC. Another example, whose impact will be felt in 2023, is Verizon Ventures, which ceased operations in Israel as part of a strategy to focus on the United States. However, the fact that few new US-based CVCs have begun operations in Israel in recent years is cause for concern.
- With the exception of 2022, when global investment fell, the number of active Israeli CVCs has been steadily increasing. Part of this growth is due to a number of Israeli unicorns that established CVCs, thus contributing to the Israeli ecosystem beyond their core operations.
- US and Israel-based CVCs have dominated the scene throughout this period, with their combined share moderately dropping from over 80% in 2015-2016 to less than 70% in 2019-2021 (Fig. 4). This is not representative of the global CVC landscape. Importantly, there are many CVCs based in Asia and Europe that are underrepresented in Israel. Attracting these CVCs could provide additional funding sources and strategic benefits to Israeli start-ups.



According to CB Insights, a market research firm, the top ten most active CVCs globally in 2022, include five CVCs from the US, four from Japan, and one from South Korea¹ (see the table below). Contrary to common belief, only two of these ten CVCs (Intel Capital and Salesforce Ventures) have invested in Israeli start-ups in recent years, despite Israel's reputation as the "Start-up Nation".

Rank	CVC Fund	Company Count	Origin Country	In Israel?
1	Coinbase Ventures	109	USA	no
2	Google Ventures	96	USA	no
3	Mitsubishi UFJ Capital	80	Japan	no
4	Salesforce Ventures	74	USA	yes
5	KB Investment	68	South Korea	no
6	Mizuho Capital	63	Japan	no
7	SMBC Venture Capital	60	Japan	no
8	SBI Investment	52	Japan	no
9	Binance Labs	50	USA	no
10	Intel Capital	46	USA	yes

¹ CB Insights. (2023). State of CVC 2022 Report. Retrieved (1/6/2023) from <https://www.cbinsights.com/research/report/corporate-venture-capital-trends-2022/>

Most Active CVCs

- Throughout the period covered here, Intel Capital has been the most active CVC, averaging eight investments annually.
- In 2020 and 2021, the top most active CVCs were Intel Capital, Salesforce Ventures, and M12 (Microsoft's CVC).
- Other notable CVCs in recent years are Qualcomm Ventures, Dell Ventures, Citi Ventures, Samsung Next, and specifically in 2021 also Verizon Ventures (which, as mentioned above, announced in 2023 it was closing down its Israeli operation).

Data by Funding Round

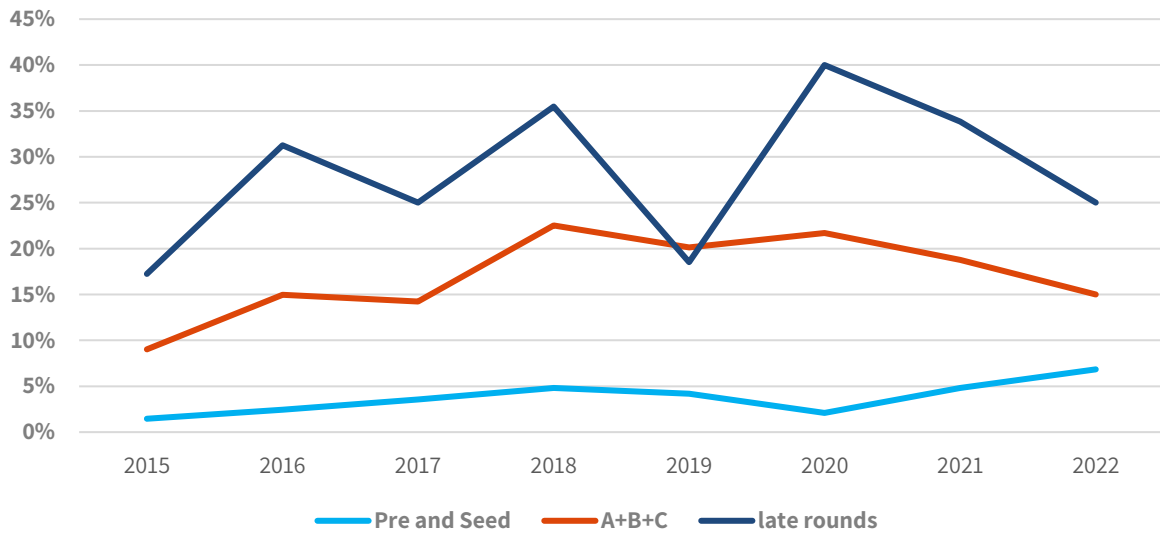
CVCs have traditionally invested more in late-stage rounds, which is not unique to Israel. The primary reasons for this are as follows:

- Reduced risk appetite.
- Many CVCs see an investment in a start-up as a step towards a potential acquisition by the CVC parent company. Consequently, they consider elements like revenue and profit, which are more applicable to more mature start-ups.
- CVCs are often not deterred by the high investment amounts associated with late-stage rounds.

Fig. 5 illustrates the rate of CVC participation in funding rounds by round type. That rate is typically higher in late stages (D and above), reaching a peak in 2020, when CVCs participated in 40% of all late-stage rounds. However, starting in 2021, CVC participation had declined in all but early (pre-seed and seed) rounds, where their participation has actually grown. There are several potential explanations to this:

- In 2021 and early 2022 it was easy for start-ups to raise late-stage rounds from other investors, reducing the need to raise from CVCs.
- Growing pace of technology and business model disruptions, have led a growing number of corporations with CVCs to view early-stage start-up investments as means to monitor such changes and their market impact.
- Different perspectives on the market and the role of a CVC among corporations that established CVCs in recent years, resulting in a greater willingness to take risks and make earlier investments.
- A broader trend of traditionally late-stage investors entering early-stage investments, partly due to perceived overvaluations of some late-stage start-ups.

Fig. 5 : rate of funding rounds with CVC participation by round type



Recommendations

This study clearly shows that CVCs from Asia and Europe are underutilized in Israel. Notably, none of the five Asia-based CVCs among the 10 most active ones in 2022 world-wide, made any investment in Israel. The Israeli hi-tech misses both potential funding sources and the strategic benefits Asian and European CVCs can bring.

There is no government entity tasked with attracting CVCs to Israel. We recommend that either the Foreign Trade Administration of the Ministry of Economy, via the commercial attachés, or the International Division of the Israel Innovation Authority, take action to address this issue.