



WHAT CHARACTERIZES ISRAELI TECH COMPANIES THAT RAISED MONEY IN 2023?

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Introduction

2023 was a tough year for Israeli high-tech, with investments in Israeli companies hitting a five-year low, driven by a combination of a global slowdown, the political instability following the judicial reform, and the Iron Swords War. As the saying goes, a rising tide lifts all boats. But particular attention should be given to companies that managed to raise money in such a challenging, with emphasis on two groups:

- **Start-ups that raised money for the first time.** This group is interesting since difficult times require special conviction, determination, and even courage from entrepreneurs, and the start-up itself should be especially attractive to investors. The same characteristics are needed on the investor side, as the first investment in a start-up is often the riskiest.
- **Companies that raised mega-rounds (\$100M or more).** This group is interesting since during difficult times investors are often reluctant to commit large amounts. Also, there is considerable pressure on company valuations, dissuading entrepreneurs from raising large amounts that would lead to high dilution of their holdings.

The [2023 annual report](#) we recently published indeed shows significant declines in both early investments in start-ups and mega-rounds in that year

In this report we analyze what characterizes the companies in these two groups, including their industry sectors, key personnel, and investor profiles.

Unless stated otherwise, data about funding rounds and investors is from the Startup Nation Central Finder platform, and data about entrepreneurs is based on analysis of the LinkedIn social network.

Recent Publications

- [The Israeli High-Tech in 2023 - Annual Report](#)
- [The Impact of War on Israeli Start-ups](#)
- [Survey on the state of high-tech since the war broke out](#)
- [Underutilized Potential: CVCs in Israel's Ecosystem](#)
- [Israeli High-Tech Human Capital Report :2022-2023 Snapshot](#)

First Investments

The first investment in a start-up, whether it is called pre-seed, seed, or A round, is the riskiest one for investors. At this stage the company is in its infancy, and usually its product is still in early development, and it is very difficult to predict how competitive it will be when it reaches the market and how customers will perceive it. In a challenging year like 2023, when investors typically prioritize supporting their existing portfolio companies, many are reluctant to make initial investments in new ventures.

Difficulties in fundraising, which usually affect funding terms like start-up valuations, can make it less attractive for entrepreneurs to raise money. There is also a trend of high-tech employees moving from smaller to larger companies, including multi-national corporations, which are perceived safer.

Given these challenges, it is not surprising to witness a substantial decline in number of early investment rounds (pre-seed or seed) in 2023 (a 45% decrease compared to 2022). And yet, 159 start-ups successfully raised money for the first time during that year. We analyzed what characterizes these start-ups and the "brave" entrepreneurs and investors who lead them. It should be noted that we researched only start-ups that raised funds for the first time in 2023, and not all those that raised "early rounds". For example, a start-up that raised a seed round in 2023 and a pre-seed round in previous years is outside the scope of our research.

Start-ups

Figures 1 and 2 depict the distribution of start-ups that secured initial funding in 2023 by industry sector and founding year. Notably, over 60% are software companies (the number is actually higher since some start-ups in the Life Sciences & Health-tech sector are software companies that develop digital health solutions).

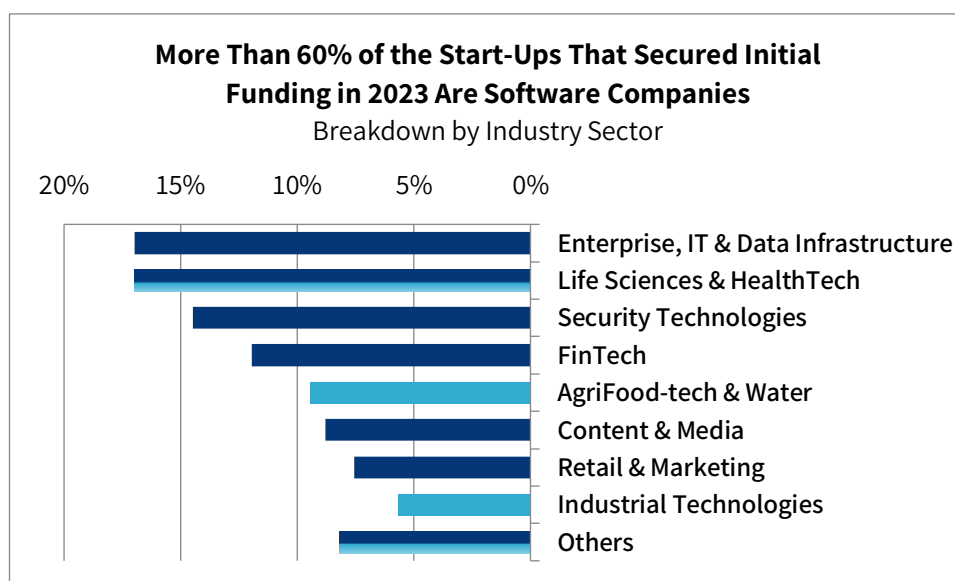


Figure 1

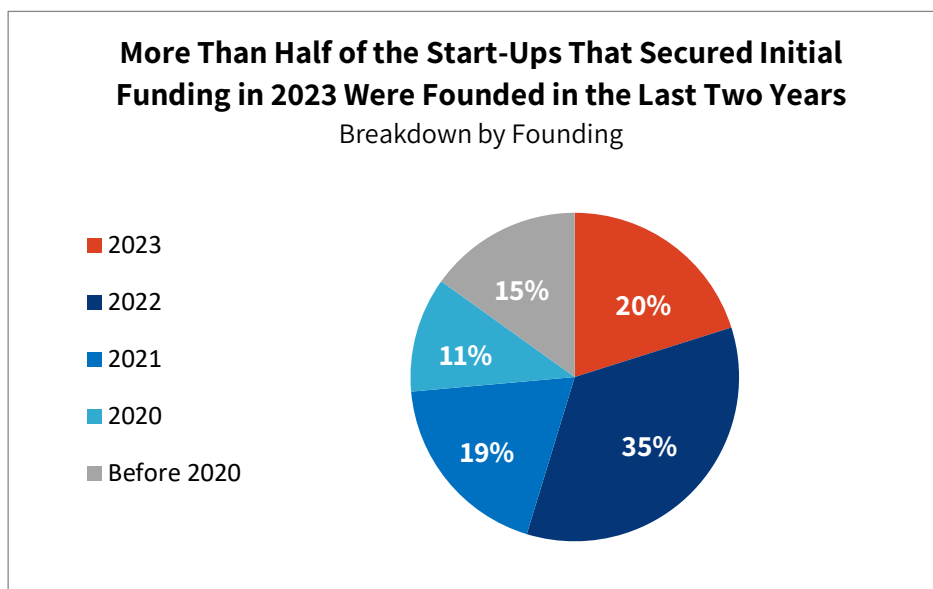


Figure 2

Entrepreneurs

Figure 3 shows the prior workplaces of entrepreneurs who secured initial funding in 2023. Most of them worked in another start-up. This may suggest that start-up experience is essential in training entrepreneurs and/or is deemed attractive by investors. Also, 18% of these entrepreneurs previously worked in a multi-national corporation, underscoring the important contribution of these corporations to entrepreneur development and training.

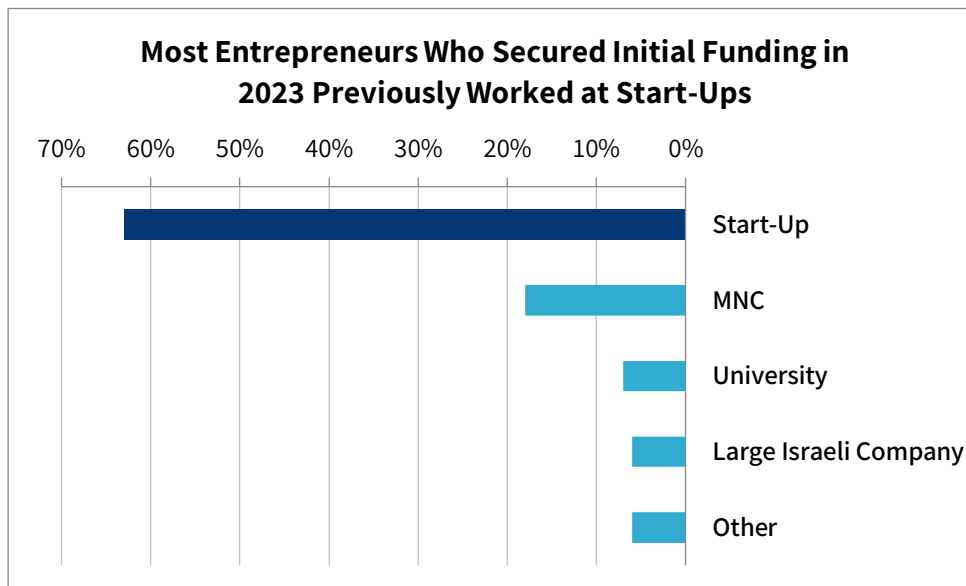


Figure 3

A gender analysis reveals that **12% of entrepreneurs who secured initial funding in 2023 were female**. Within this group, 57% are in the Life Sciences & Health-tech sector, 14% in Agrifood-tech & Water, and 10% in Retail & Marketing.

17% of the start-ups that raised their first funding in 2023 had at least one female founder.

This percentage aligns with the percentage of Israeli start-ups with at least one female founder that secured any funding in 2023. **It is notably lower than the figure for start-ups with at least one female founder that secured funding in 2023 in the US and Europe** (26.2% and 25.5% respectively according to Pitchbook).

Investors

A total of 294 investors participated in these rounds (some invested in more than one company). Table 1 shows a breakdown by investor type.

Investor Type	Israelis	Foreign
VC	60	118
Corporate VC and Corporates	12	25
Private Equity	2	5
Incubators and Accelerators	9	2
Angels	36	25

Angels and incubators typically operate locally, so it comes as no surprise that most of them are Israeli. In contrast, among the various investment funds the number of foreign funds is twice that of Israeli ones (148 vs. 74), underscoring the important role played by foreign investors in Israel's high-tech ecosystem.

Mega-Rounds

A company's ability to secure a mega-round (\$100M or more) indicates high investor confidence. While mega-rounds are quite common during "normal" times, they become much less frequent in a challenging year like 2023, for a couple of reasons:

- Many investors are more risk-averse and are reluctant to make large investments in specific companies.
- There is pressure on company valuations, dissuading entrepreneurs from seeking large funding amounts that could significantly dilute their ownership stake in the company.

Therefore, it is not surprising that, mirroring a global trend, the number of mega-rounds in Israel declined significantly from 40 in 2022 to just 15 in 2023. Despite that, **15 companies successfully raised mega-rounds, accumulating over \$2.3B (over 30% of total investments in Israel in 2023)**. We tried to examine these companies and the lead investors in these mega-rounds.

Companies

Figure 4, which breaks down the companies that raised mega-round in 2023 by industry sector, shows the dominance of software in Israel's high-tech. Only two companies (one in Life Sciences & Health-tech and one in Smart Transportation) are not pure software ones.

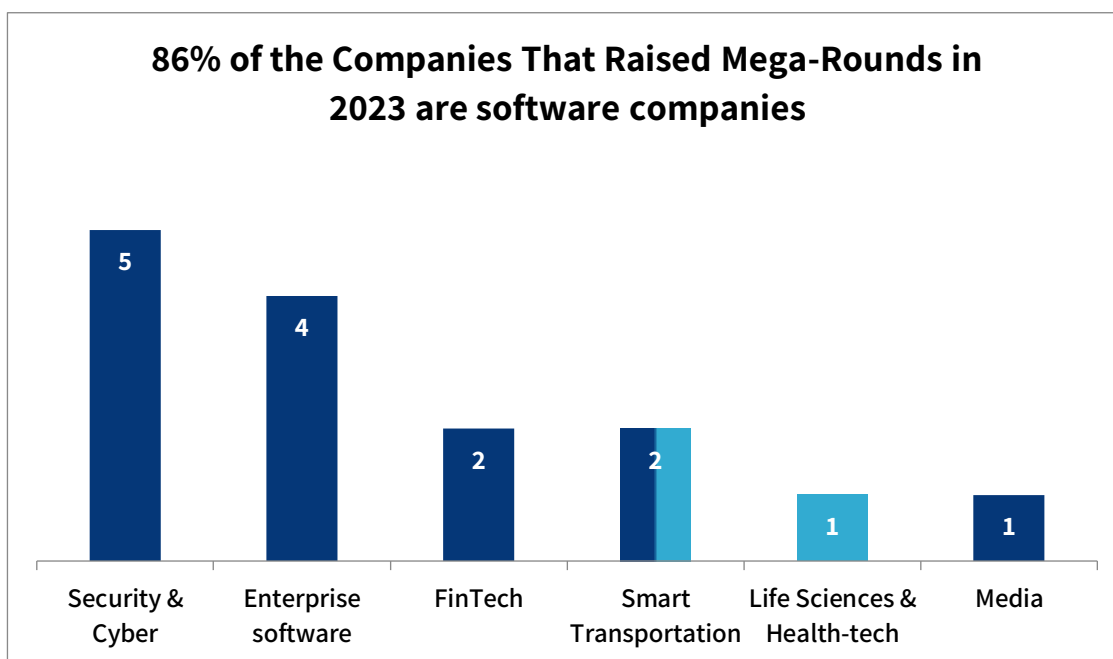


Figure 4

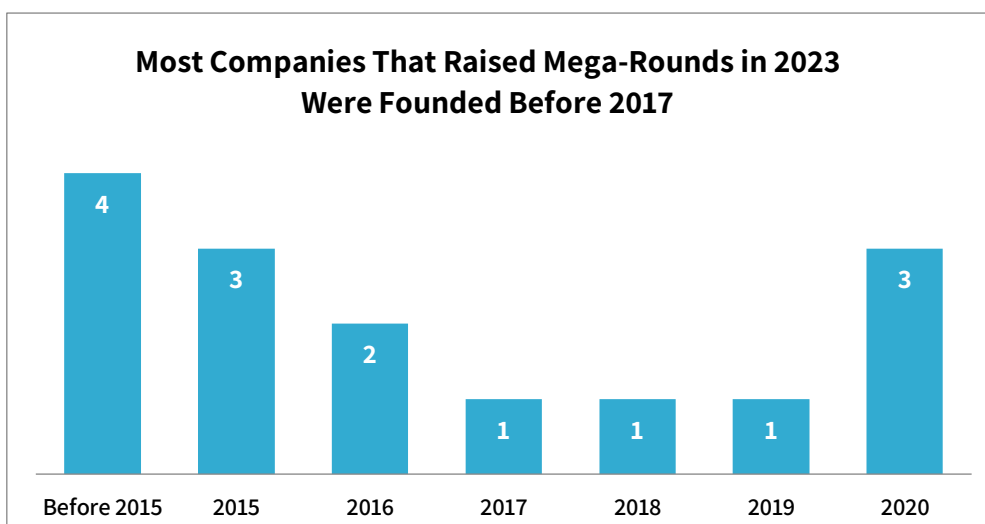


Figure 5

Figure 5 breaks down the companies that raised mega-round in 2023 by founding year. All three companies that were founded in 2020 are in the Security Technologies sector. Since a company can raise a mega-round, especially in a year like 2023, only if it demonstrates impressive technology and business accomplishments, this shows the uniqueness and strong capabilities of Israeli companies in this sector.

Unicorns

Nine of the 15 companies had a unicorn status before the last funding round. Only one became a unicorn in this round (AI21 Labs), and five did not reach a unicorn status. In total, two new unicorns were "born" in Israel in 2023 (one in a funding round of less than \$100M).

Additional Data

- **Only four of the 15 companies are headquartered in Israel.** 10 are headquartered in the US and one in the UK. This raises an important question – do investors prefer companies whose headquarters are abroad, or do successful companies prefer to be headquartered abroad?
- **Four of the companies are "Artificial Intelligence (AI) companies"**, i.e. either develop core AI technologies or AI is a fundamental technology in their products.
- **At least nine of the companies saw a valuation increase** in this round relative to the last one. Two maintained the previous valuation, and there is no data about the remaining four. This is an impressive accomplishment given last year's fundraising challenges.
- **All 15 CEOs are also founders (or co-founders).** This is also impressive. In the past common thinking was that entrepreneurs who can launch a start-up aren't necessarily capable of leading it in its growth phase. As mentioned, all these companies are led by their founders.
- Analyzing gender and geography diversity shows there is much to be desired:
 - **All 15 CEOs are male.**
 - **All companies are located in the center of the country, 13 of them – in Tel Aviv.**

Lead Investors

The lead investors define the funding terms, including the company valuation. As such, they play a major role in any funding round, and in particular in mega-rounds. Analyzing the lead investors of the 2023 mega-rounds reveals a couple of interesting points:

- Nine companies had a single lead investor.
- **There were a total of 25 lead investors (two of whom led two investments each). Four of them were Israeli and 21 foreign.** Of the foreign investors – 13 from the US, five from Asia, and three from Europe.

Summary

Times of crisis highlight the exceptional companies. 2023 was a crisis year for Israel's high-tech, including in fundraising. Our research reveals several interesting points:

- While more than 25% of the start-ups that secured their first funding in 2023 are in the Life Sciences & Health-tech and AgriFood-tech sectors, about 90% of the companies that raised mega-rounds are software companies. This shows that the vast majority of Israeli high-tech companies that manage to grow are still in the software domain.
- **Israel's high-tech highly depends on foreign investors**, both in early investments and in mega-rounds, underscoring the need to keep Israel's image as a stable and attractive place for these investors.
- Women participation is still low, both among entrepreneurs who secured their first funding and among CEOs of companies that raised mega-rounds.