Cautious Optimism Alongside Reasons for Concern

The State of Israeli High-Tech in 2024

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Background

2024 was marked by the "Iron Swords" war. Despite the difficulties, there are reasons for optimism: in some indicators, declines were halted, and even increases were recorded; despite the challenges of the war, including the conscription of many high-tech workers into reserves, conversations with industry leaders suggest that Israeli companies generally continued to meet their commitments to customers or multinational parent companies; several companies managed to raise very large amounts of money; the number of public offerings increased compared to 2023; and almost all multinational companies continued their operations in Israel.

However, we believe that we should not fall into excessive optimism. The total investment in startups remains at a relatively low level, the number of active investors continues to decline, and employment data indicates a persistent stagnation in the number of high-tech employees. A new phenomenon that stood out in 2024 was an increase in concentration in the high-tech sector, which is why we devoted a special section of this report to the topic.

Summary of main findings for 2024:

- This year, there was an increase in total capital investments in Israeli companies. After statistical adjustments accounting for delayed investment disclosures, we estimate that total investments in 2024 amounted to about $9.7 billion, compared to about $8.7 billion in 2023. The fourth quarter again shows that **high-tech investments are stabilizing at a level of about $2-2.5 billion per quarter**.
- **The number of investment rounds continued to decrease** (even after statistical adjustments considering delayed round disclosures).
- Investment trends in Israel are similar to trends in the United States. In Europe, there was a decrease in total investments in 2024 (though there was an increase in the last quarter there as well).
- **A notable increase in concentration in Israeli high-tech in 2024:**
    - Cyber investments accounted for a record 42% of total investments.
    - Investments in the 10 companies that raised the highest amounts in 2024 accounted for a record 34% of total investments.
    - One foreign VC fund participated in rounds where a record 24% of total investments were made.
- The **decline in the number of active investors in Israel**, both local and foreign, which we pointed out in previous reports, continues to be concerning. In 2024, there was a decrease of about 16% in the number of both active foreign investors and active Israeli investors compared to 2023.
- **American investors made up 80% of the total foreign investors** in 2024 (both VC funds and all investment entities).
- Of the 20 most active VC funds worldwide in the past two years, five had never invested in Israeli companies. Eight of the remaining 15 did not invest in Israeli companies in 2024. Three of the 15 continued to invest at a similar pace to previous years, and one (Sequoia Capital) even increased its pace.

- Of the 20 most active Corporate Venture Capital (CVC) funds worldwide in the last two years, 11 had never invested in Israeli companies. Eight of the remaining nine invested in at least one Israeli company in 2024.
- **The number of public offerings increased from 4 in 2023 to 6 in 2024.**
- The number of acquisitions of Israeli tech companies in 2024 was similar to that of 2023, **but the value increased by about 60%.**
- The **stagnation in the number of high-tech employees continued in 2024,** with a **significant decrease in the number of people joining the sector this year**. Furthermore, after years of increase in the proportion of high-tech recruits without academic degrees, this proportion decreased in 2024. The war didn't affect the recruitment rate of Arabs in high-tech.

Looking ahead to 2025, it is unclear whether we are on the verge of a renewed growth period, or if the 2024 indicators reflect a new reality for Israeli high-tech, as alongside encouraging signs, there are also reasons for concern.

- The current stabilization in the north and the return to routine for large parts of the economy may reduce the risk premium for investing in Israel, but the danger of a return to the instability that characterized the economy in general, and high-tech in particular, throughout most of 2023 due to the judicial reform is very concerning.
- The increase in investments in 2024 is encouraging, but it is primarily driven by a single investment, and for two years, investment in startups has remained stable at a level of $2-2.5B per quarter.
- There is significant entrepreneurial activity in the defense-tech sector, but so far, the numbers are small, and overall, high-tech is becoming increasingly dependent on cybersecurity and enterprise software. Other sectors are failing to progress.
- As noted in our previous reports, we are still concerned about Israel's decline in global AI rankings, and the inability, at least for now, to rally behind a single national plan in this critical technology, fund it, and implement it fully. The establishment of the National AI Headquarters could be a step in the right direction, but the real test lies in its execution.

Unless stated otherwise, the data in this review regarding Israeli high-tech was taken from the IVC database. Data for other countries is based on the PitchBook database.

Naturally, a report published immediately at the end of a quarter suffers from the fact that delayed data is not included, and therefore, some of the numbers presented in this report may be updated in the future In some cases, we have added a statistical correction to account for that.

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- Israel's Position in the Artificial Intelligence Race

1. Investment in Israeli Companies

Since reaching a peak of over 9 billion dollars in the last quarter of 2021, capital investments in Israeli companies have steadily declined until the beginning of 2023, and then stabilized at a low level of about $2-2.5B per quarter. This trend continued in 2024, with one positive deviation in the third quarter due to the exceptional raise of approximately $1B by WIZ. As a result, **total investments in 2024 increased compared to 2023 – $8.7B billion dollars in 2024, compared to $8.3B the year before. According to our forecast, the final figure will approach $10B (and that of 2023 - $8.7B).** As noted in our previous reports, the total investment amount in 2024 depended mainly on the number and size of mega-rounds ($100M or more). **In 2024, there were 12 mega-rounds, which accounted for about 30% of the total investment**. Since the data known at the end of the quarter is expected to be updated in the future, we have added a forecast based on a statistical analysis of past data.

Figure 1

Note: Some of the Israeli databases include investment data for Safe Superintelligence, led by former Israeli Elia Sotskver, which raised a $1 billion seed round in the third quarter. In our opinion, this is not an Israeli company, and therefore we did not include it in the investment data in this report. It is worth noting that the company itself states that it is: An American company with offices in Palo Alto and Tel Aviv.

In terms of sectors, investments in cybersecurity in 2024 reached a peak of 42% of total investments.

Figure 2 shows the **continued decline in the number of investment rounds in Israeli companies**: a decline that began in 2022 and continued into 2024. Since many investment rounds are not revealed in the quarter in which they take place, the number is expected to be updated upwards later, and accordingly, we have added a forecast based on a statistical analysis of past data.

Additionally, due to the difficulty in raising capital, many startups, especially at early stages, are raising funds through SAFE investments, a process that allows a company to raise capital without determining its valuation at that time, and in return, investors receive various benefits. There are also companies that raise capital only from previous investors in the company (internal rounds). Usually, companies do not publish internal rounds or SAFE rounds, so the actual number of rounds is higher than what is publicly reported. However, this phenomenon has existed in the past as well, and there is no reason to assume that it has changed in the past year compared to the one before it.

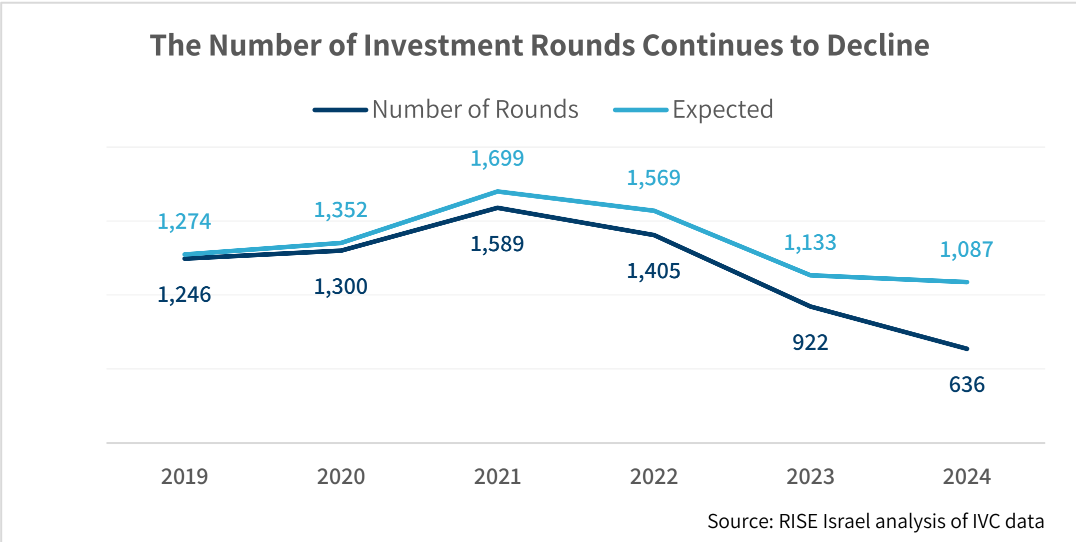

Figure 2

Figure 3 compares investment in Israel, US, and Europe, normalized to 2019.

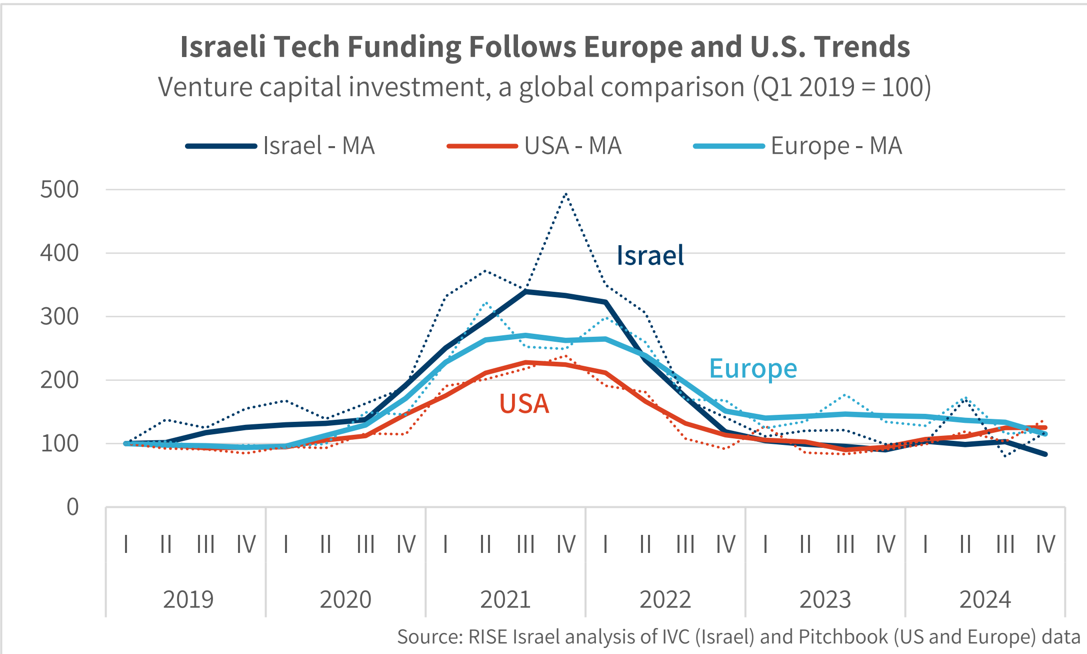

Figure 3

Note: investment in Israel in Q4 of 2024 was higher than in Q3, but the figure shows a 3-quarter moving average. The high amount of Q2 is not included this time, thus the figure shows a decline.

2. Investors in Israeli Companies

In our recent reports, we pointed to a concerning decline in the number of active investment entities in Israel, both local and foreign. As can be seen below, **this trend continued in 2024**. Since the decline in the number of active investment entities began in 2022, it is unclear how much of it is due to the global slowdown that started that year, how much was influenced by internal instability and the war that characterized 2023, and what the implications are of the ongoing war and the deterioration in sentiment towards Israel in various countries in 2024. Additionally, it is likely that at least part of the decline in activity by local bodies is due to their own difficulty in raising capital.

Figure 4 compares the number of all active investment entities (i.e., those that made at least one investment) that are not private individuals – VC funds, Corporate VC funds (CVC), institutional investors, and corporations – with a distinction between foreign and Israeli entities.

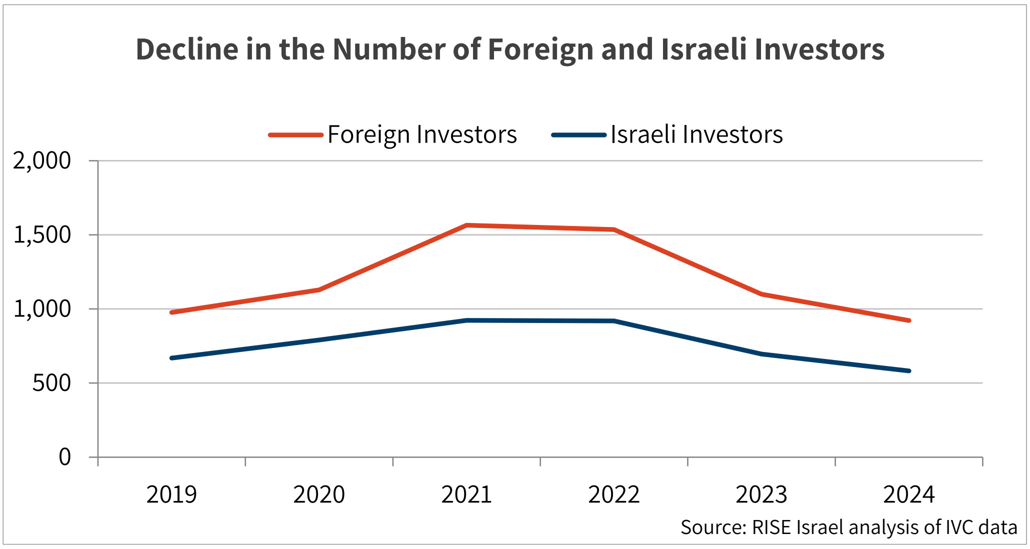

Figure 4

Figure 5 compares the number active VC funds, with a distinction between foreign and Israeli ones.

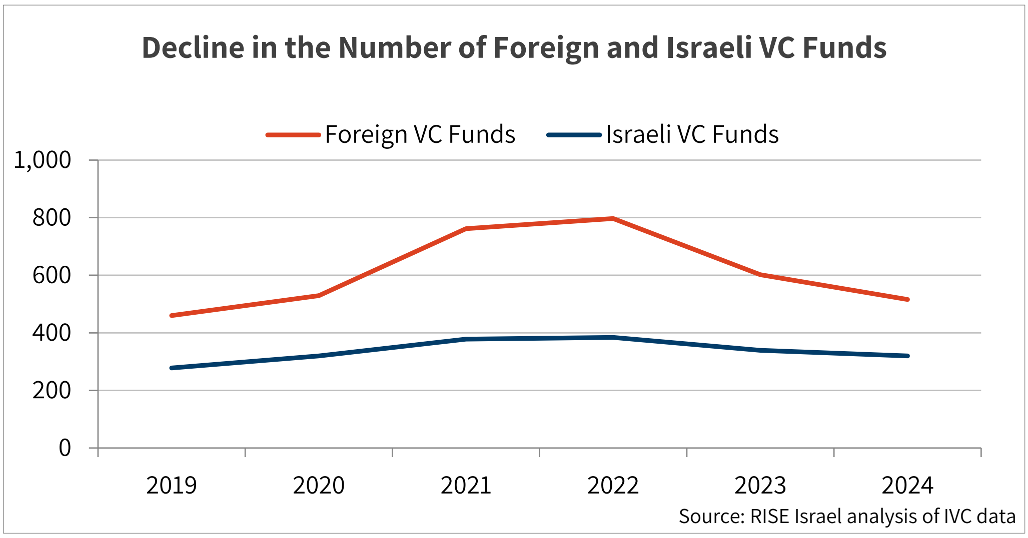

Figure 5

About 80% of the foreign investment entities active in Israel in 2024 are American, and a similar proportion of all foreign VC funds. This is an increase of 8% and 5%, respectively, compared to 2023, indicating that investors from Europe and Asia were likely more affected by the war.

Since the global slowdown that began in the second half of 2022 has impacted and continues to affect investors worldwide, it is possible that some investors who were previously active have stopped investing, not only in Israel. Therefore, this time we also examined investments in Israeli companies by the most active VCs and CVCs worldwide in 2023-2024.

VCs

Out of the 20 most active VCs worldwide in terms of the number of investments in 2023-2024, five have never invested in Israeli companies. Three of these cannot invest outside the countries in which they operate, so only two of the 20 most active funds, which are able to invest in Israeli companies, have never done so.

Out of the 15 funds that have previously invested in Israeli companies:

- Four did not invest in any Israeli company in 2023 and 2024.
- **Seven did not invest in any Israeli company in 2024.**

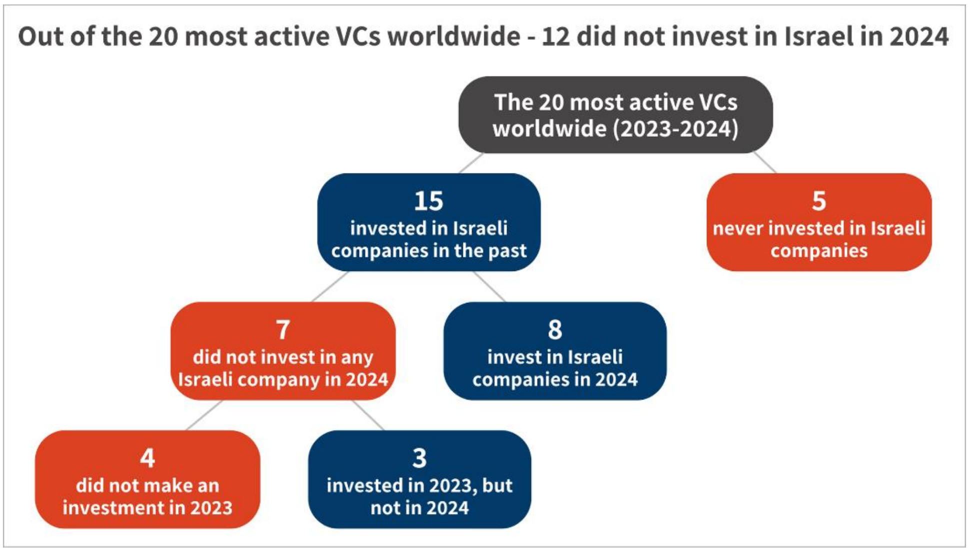

Figure 6

As noted above, this cannot be attributed to the general activity of those VC funds, as these were the most active world-wide in 2023-2024. We should note that the number of investments of four of these funds in Israeli companies in the last couple years was similar to prior years. One of them, Sequoia Capital, actually increased its activity in Israel in 2024, and even re-opened a local office.

CVCs

Out of the 20 most active CVCs worldwide in terms of the number of investments in 2023-2024, 11 have never invested in Israeli companies. Two of these cannot invest outside the countries in which they operate, so nine of the 20 most active ones, which are able to invest in Israeli companies, have never done so.

- All nine CVCs that invested in Israel in the past, invested in at least one Israeli company in 2023.
- **Eight of them invested in at least one Israeli company in 2024.**

This may suggest that CVCs are less affected by local events, highlighting the importance of attracting those who never invested in Israel to start doing so.

3. High-tech Concentration

One of the phenomena that characterized Israeli high-tech in 2024 was a significant increase in concentration in terms of sectors, companies, and investors. Figure 7 shows the proportion of investments in cybersecurity out of the total investments.

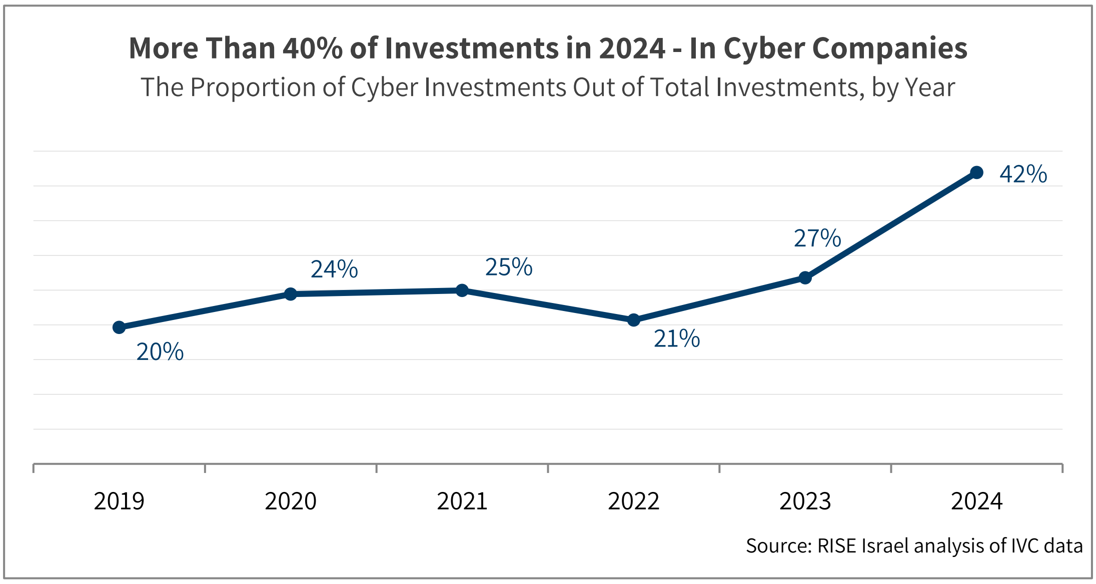

Figure 7

Figure 8 shows the proportion of investments in the 10 companies that raised the most money out of the total investment. While in previous years this proportion was usually about 20% or less, in 2024 it rose to 34%.

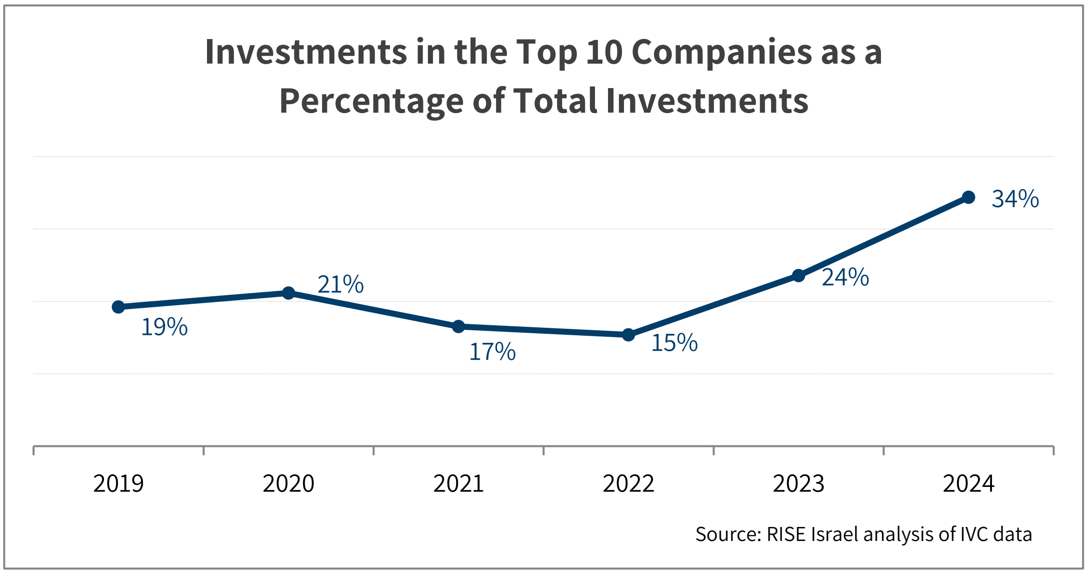

Figure 8

For figure 9, we examined which foreign VC participated each year in the highest proportion of investment rounds in terms of investment amounts. The figure shows the proportion of total investments in the investment rounds in which this fund participated, out of the total high-tech investments in that year. In 2024, it was Sequoia Capital, which participated in rounds where 24%

of the total investments of that year were made. It can be seen that in previous years, the proportion usually did not exceed 10%, with the previous peak being 16% in 2021 (at that time, it was Insight Partners).

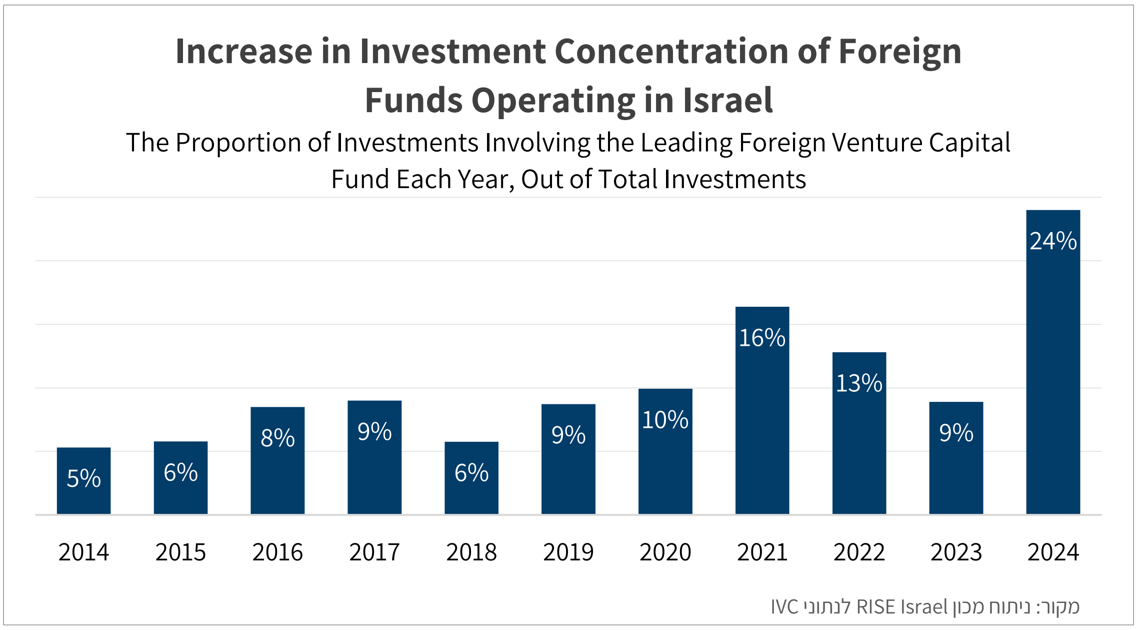

Figure 9

4. Human Capital

An analysis of data from the Central Bureau of Statistics (CBS) shows that the number of employees in the Israeli high-tech sector consistently increased in the decade leading up to 2023, usually at a rate of about 4% per year. It peaked at the beginning of 2023 and then stopped. This stagnation continued, but did not worsen in 2024 (see figure 10).

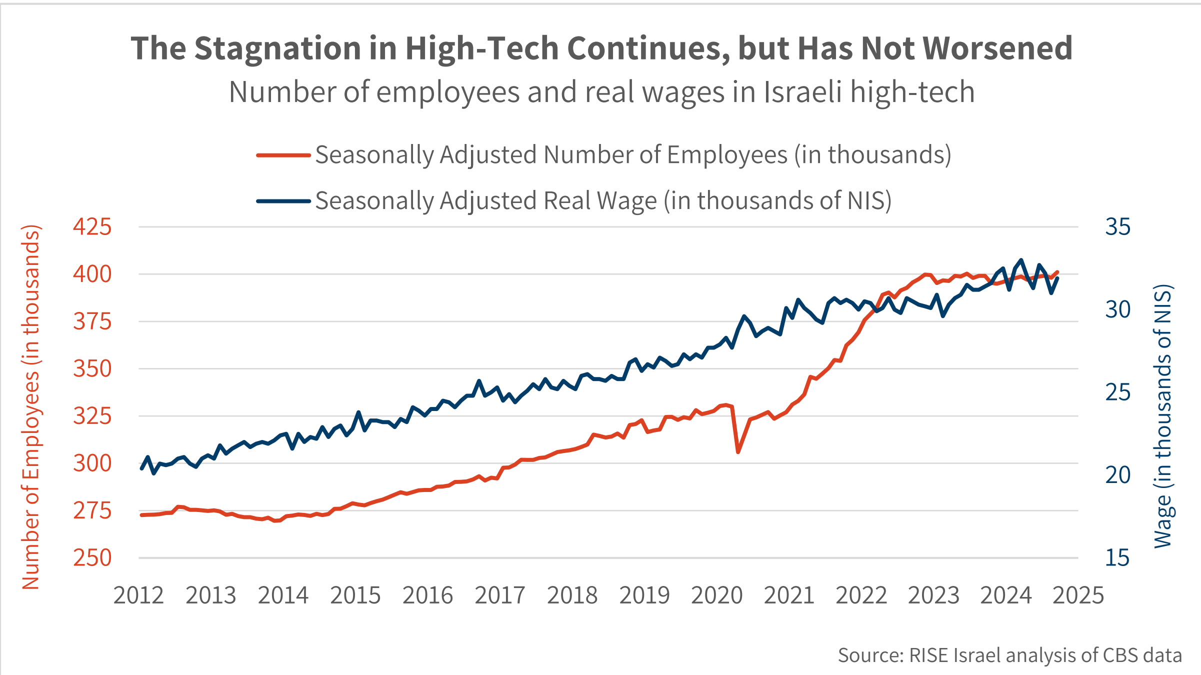

Figure 10

The stagnation in the number of high-tech employees raises questions about its possible impact on the recruitment of candidates from different populations. We intend to explore these questions in depth in a separate report. An analysis of data from the social network LinkedIn[1] shows that **after years of continuous growth in the proportion of people without an academic degree joining the high-tech industry, this proportion decreased in 2024** (see figure 11).

In recent years, there has been a gradual increase in the proportion of non-academics among those joining high-tech each year. This trend was the result of two main factors:

- Hiring by large companies, which usually employ a larger number of workers in roles that do not require an academic degree.
- The development of frameworks that provide non-academic, applied training for tech workers (such as Coding Bootcamps).

Naturally, in 2024, when high-tech did not grow and the number of new recruits dropped sharply, there was less demand for workers in non-tech roles. Additionally, when fewer workers are being hired, employers can be more selective and prefer employees with academic degrees for tech roles.

It is important to note that in relation to the sharp decline in total employee recruitment (figure 12), the decrease in the proportion of non-academics is quite modest (from 17.4% at its peak to about 14.8% in 2024), indicating that non-academic training continues to be a relevant path for entering the high-tech sector.

Note: The data for 2024 refers to recruitment in the first 9 months of the year. Recruitment of academics tends to be higher in the second half of the year, after the academic year ends.

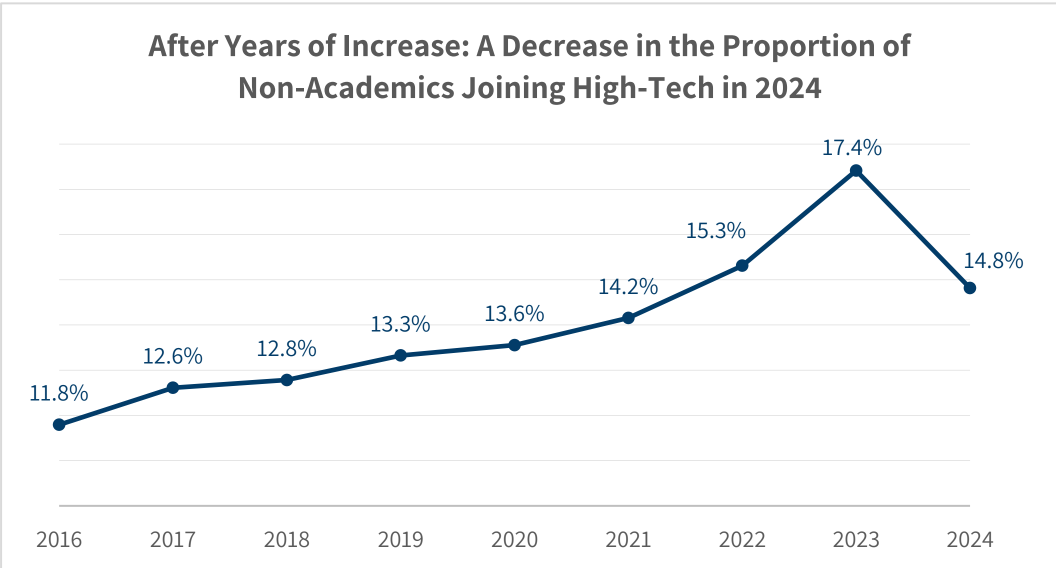

Figure 11

[1] The profile database from LinkedIn was collected by Bright Initiative and made available to us for research purposes. We are grateful to Bright Initiative by Bright Data for their generosity.

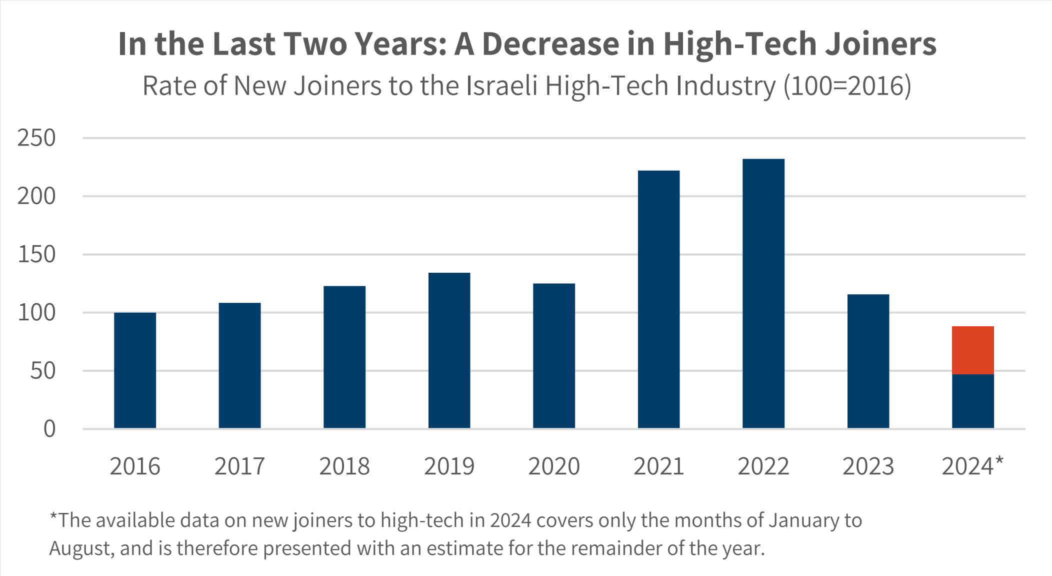

Figure 12

The analysis also indicates that there was no change in the hiring rate of Arabs into high-tech as a result of the war.

5. Exits

In recent months, much has been written about the increasing number of exits by Israeli companies, sometimes as a positive indicator of the state of Israeli high-tech. It is important to clarify the topic, the data, and their implications.

Exits generally fall into two main categories – public offerings and acquisitions by other entities. A public offering is generally considered positive. The company demonstrates that it meets the legal and business requirements of the stock exchange where it is listing (most Israeli tech companies list on NASDAQ in New York, but there are also other examples), it raises money from the public, and continues to operate as an independent company.

An acquisition, on the other hand, is not necessarily "good" for entrepreneurs or the Israeli innovation ecosystem. Furthermore, there is no clear definition of a "good acquisition," as it depends on factors such as the purchase amount compared to the company's previous valuation, whether the sale is profitable for the entrepreneurs, investors, both, or some of them, what the alternative to the sale is, what will happen to the company and its employees after the sale, and so on.

Therefore, especially in a challenging period like the current one, it is not possible to form a clear opinion about the "quality" of exits. In this section, we will present some data about exits in the last five years.

Table 1 shows the number of public offerings by Israeli tech companies and the total number of public offerings on the NASDAQ stock exchange in New York (the preferred exchange for most tech companies). As seen in the table, **the number of public offerings by Israeli companies increased in 2024 compared to 2023**, in line with the total number of offerings. Five of the offerings were on NASDAQ and one was on the Tel Aviv Stock Exchange (TASE).

	2020	2021	2022	2023	2024
Number of public offerings by Israeli tech companies	20	77	12	4	6
Total number of public offerings on the NASDAQ	316	753	156	125	157

Table 1

Acquisitions

Table 2 shows the number of acquisitions of Israeli tech companies. **While the number of acquisitions of Israeli tech companies in 2024 was similar to 2023, the value of the acquisitions increased by about 60%.**

	2020	2021	2022	2023	2024
Number of acquisitions	145	210	137	97	100
Acquisition value ($B)	8.3	14.0	13.3	10.1	16.3

In 2024, there were three acquisitions worth $1B or more, compared to one in 2023.

Recommendations

After the instability that began in 2023 with the judicial reform and the Iron Swords war, the main recommendation is that the Israeli government presents a **vision and strategy that will provide hope for investors and entrepreneurs, and introduce a policy of responsible economic management, preserving democratic and liberal values, and minimizing international isolation**.

Encouraging Foreign Investors – The main reason foreign investors are hesitant to invest in Israeli high-tech is the high sense of risk due to the security situation and the economic and political uncertainties. However, it is important to take every possible action to encourage such investors and remove barriers. For example:

- Focused advocacy and persuasion efforts targeting important investors around the world who are not investing in Israel. These efforts should not focus on political issues, but on investment opportunities specifically during a crisis and on the contribution of Israeli high-tech to areas like life sciences, the environment, and so on.
- Initiatives to reduce investment risks.

- Encouraging foreign investors to establish a permanent presence in Israel by changing the definition of permanent establishment for the tax authorities.

As the report shows, it seems that CVCs operating in Israel are less affected by the situation, so it is recommended to invest special efforts in encouraging CVCs that do not currently invest in Israeli companies to start doing so.

Encouraging Israeli Investors – Against the backdrop of all the difficulties in attracting foreign investments, there is a critical need to encourage Israeli investors, especially institutional ones, to invest in local high-tech. During the year, the Innovation Authority launched the Yozma 2 program, which aims to address this. Among senior industry figures and local VCs, there are differing opinions about the effectiveness of this program, both due to the differences between it and the original Initiative program (whose success is undisputed), and due to the desire to see a more aggressive and faster program.

Given the fear of a brain drain from Israel, the Israeli government must **define and implement an effective program to attract or bring back talents to Israel, both for the industry and academia**. Such a program should not only deal with various tax benefits, but also address holistically everything that attracts researchers and experts, including research grants, access to infrastructure, and so on.

Assistance to New Companies in Selected Areas – The phenomenon of a decline in the number of new companies being established each year has been ongoing for several years. In the report we published recently, we showed that this decline is not a result of a shift from quantity to quality. It is recommended to examine the various programs for assisting new companies so that, in areas that are defined as particularly important, the support will be more significant than it is today. The European Commission has such programs to encourage European companies. Additionally, due to the difficulty for companies that raised seed funding in the last two years to raise a subsequent round, it is recommended to examine assistance for these companies as well.

Although we did not dedicate a special section to Artificial Intelligence in this report, it is clear beyond any doubt that leadership in this field is an essential condition for Israeli high-tech leadership in the coming years. This critical issue is multidisciplinary and includes human capital, infrastructure, R&D, regulation, and more. In his last report, the State Comptroller writes: "There is no long-term national strategy for artificial intelligence in Israel. When this is the situation, it is no wonder that we have dropped in international rankings. There is no justification for a change of government to cause the halt of a program that is not related to political disputes and whose goal is to move Israel forward in one of the global revolutions that will intensify even more in the coming years." In light of reports about the establishment of a new national headquarters for AI, there is **an immediate need to update Israel's national AI program, fully fund it, and implement it. The world is advancing by leaps and bounds, and Israel must not be left behind.**