

VC and Successful Eco-System in Israel

Yigal Erlich

Founder & Chairman, THE YOZMA GROUP

Table of Contents

1. Introduction
2. Building VC and the Eco-system in Israel
3. Why Inbal was not so successful. / Bureaucracy problem
4. Success Factors of Yozma
5. Ideas for developing VC in Japan
6. Yozma Group Korea

1

Introduction



Basic Information of Israel and High-Tech Industry

Basic Information of Israel

Population 2022	Area	GDP Growth (Q4/2021)	GDP (Q4/2020)	GDP/PER Capita (Q4/2020)	Ratio of National Debt/GDP (2021)
9.61M	22,145 Sq/Km	16.6%	402B (NIS)	\$43,610	70.3%

Investment in R&D (2018)	Inflation Rate (2021)	Unemployment Rate (2021)	Employees (2020)	OECD	Credit Rating
4.95% of GDP	1.41%	5.39%	3.9m	Full Membership since 2010	Fitch A+

Israel High-Tech Industry since 2010 at a Glance



More than 11,074 Startups



\$65,356M investments in Israeli tech companies



\$18,869M were raised by 190 Israeli VC funds, mostly from foreign investors



Total Exits \$121,987M (1371 deals)
Total M&A's \$116,850M (1271 deals)
Total IPOs \$6,025M (100 deals)



50 listed in US STOCK EXCHANGES



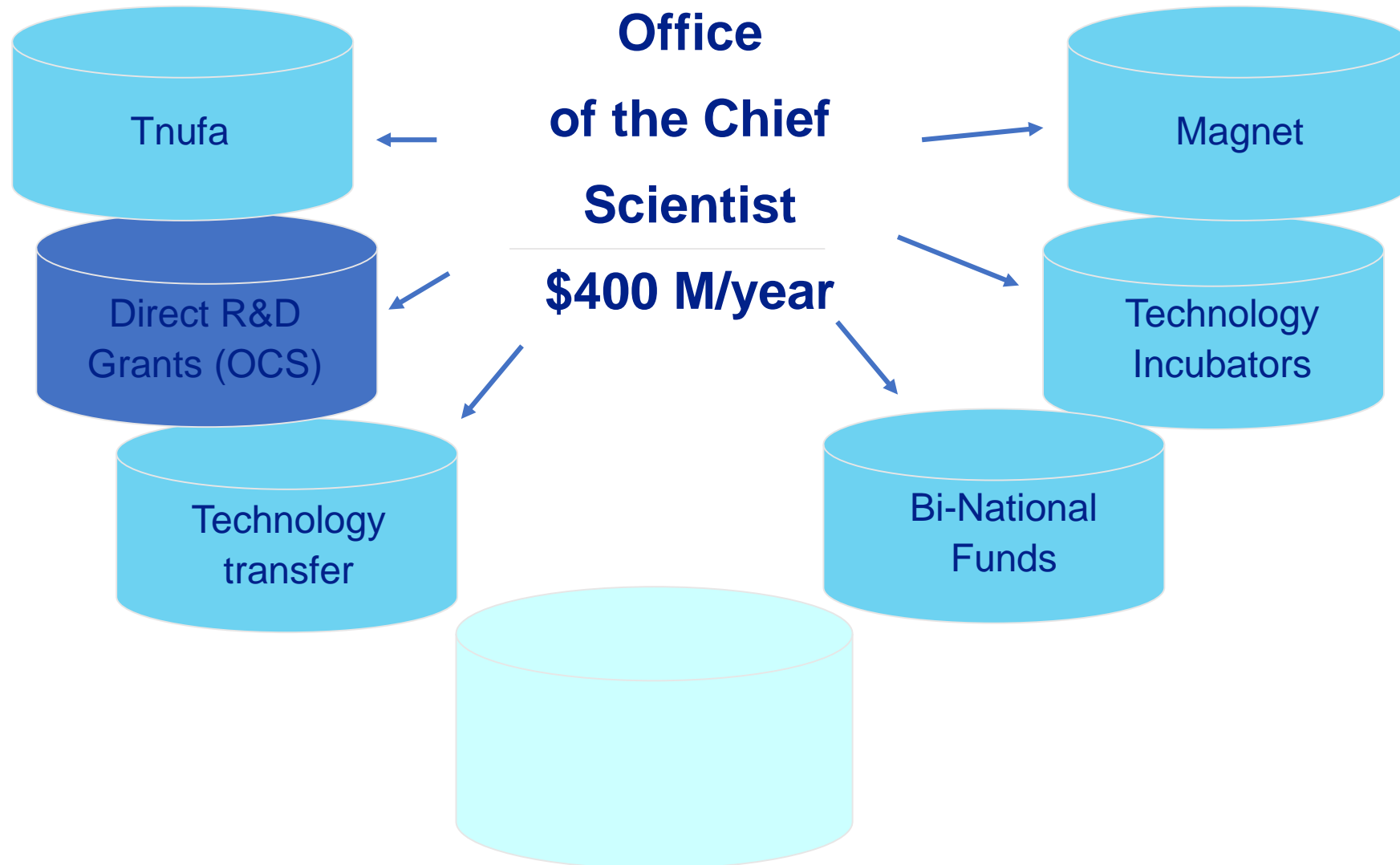
2503 Investors
406 Accelerators and Incubators
389 Active MNC

2

Building the VC and Eco-System in Israel



Government Engine for the High-Tech Industry (since the 70's)



Government Support (in the 90's)

- Policies supporting Investment and entrepreneurship
- Encouraging legislation: R&D and investment grants, tax benefits and exemptions to foreign investors
- R&D budgets, Chief Scientists Office incentives
- Incubators Program
- Initiation of the “YOZMA Program”

Technological Incubators in Israel – lessons learned (In 15 years since establishment)

- The program administrated by the OCS, Ministry of Industry, Trade and Labor
- Goals: establishing start-up companies from innovation ideas
- Means:
 - Professional guidance and administrative assistance
 - Financial support:
85% of the budget provided as a conditional loan - absorbing a large portion of the risk
 - Physical premises
- Outcomes:
 - 24 incubators, many of them owned by large investment groups
 - over 1100 projects matured
 - ~60% left the incubators and have successfully attracted
Private investments amounting a total of ~\$2B
 - Over 40% are still up and running

Some key factors for creating a successful VC industry

- Entrepreneurial environment
- Government support
- Professional management
- Professional investors
- Success stories
- Luck

The Israeli perspective towards VC

- ✓ **Entrepreneurial spirit**
- ✓ **Technological expertise**

Government Involvement

- ✓ Market failure conditions
- ✓ Government as a catalyst
- ✓ Risk sharing

Yozma (government company)

- ✓ Predetermined exit conditions
- ✓ No government control
- ✓ Indirect investments (funds)

Professional VC funds

- ✓ Capable to raise funds
- ✓ Choosing the right investments
- ✓ Managing the investments
- Building value for exit

Yozma Venture Capital

Mission: To create a venture capital market in Israel

Method: To entice the private sector and foreign investors to set up new VC funds.

To secure an obligation of the new VC funds to invest in start-up companies in Israel (by participation in IC of the new funds)

Accomplished through: Establishment of a \$100M investment company

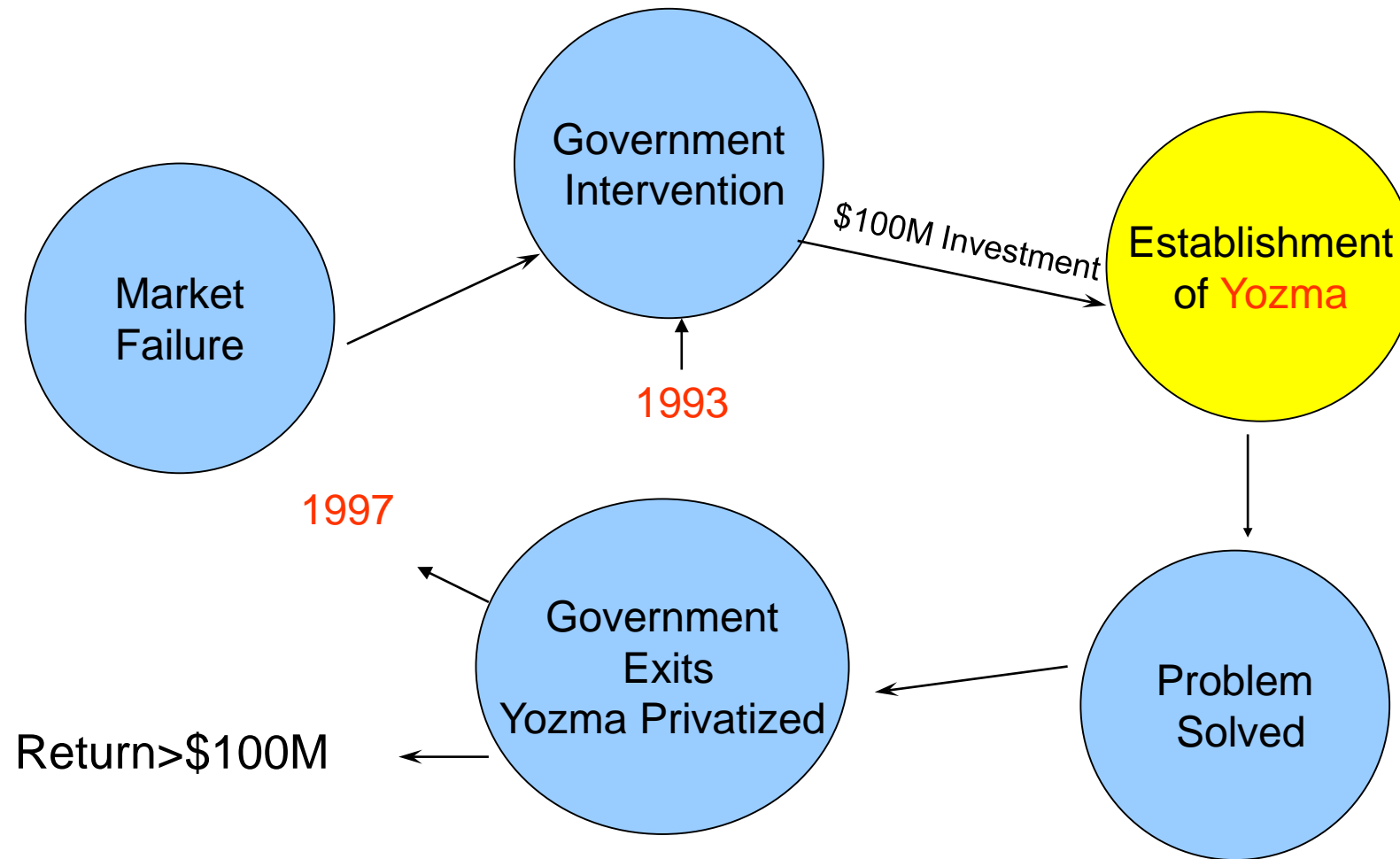
- Investment of \$8M in each drop-down fund (minority position)
- A 5 year option to Yozma's partners to buy out the Government's share at predetermined conditions

Use of proceeds: Establishment of 10 drop down funds together with strategic partners. 15 Direct investments

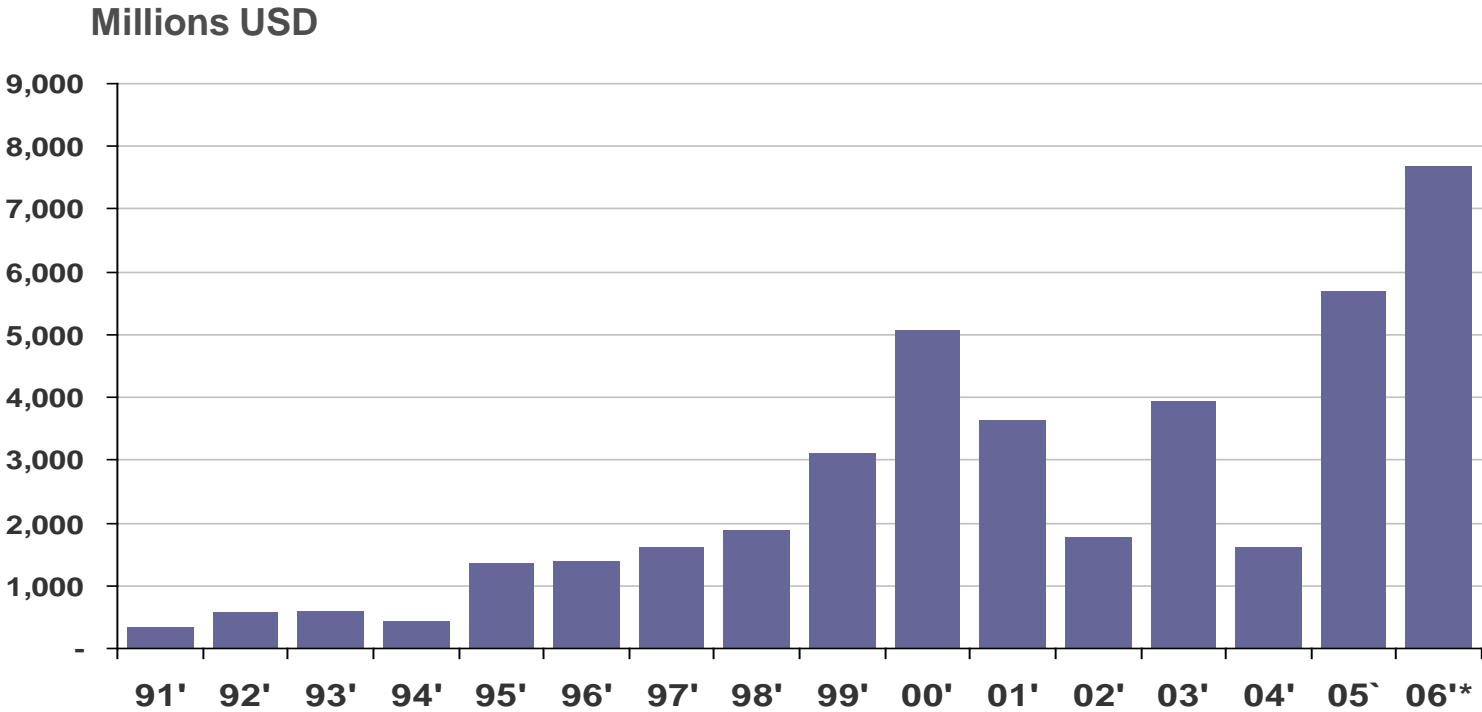
Results: The Israel Venture Capital industry has been established

- 8 out of the 10 drop-down funds have exercised their option and bought out the Government. 9 out of the 15 companies Yozma has invested in directly, went public or have been acquired

The Government as a Catalyst



Foreign Direct Investment in Israel



Contribution of VC & High Tech to Economy

Inflow of Funds – 1995-2005

	<u>Total</u>	<u>Life Sciences</u>
Capital Raised and Invested by Israeli + Foreign VC's (~50%)	\$16B	(\$1.6B)
Sale of Israeli Com. to Foreign Entities	\$23B	(\$2.4B)
IPO's on Foreign Exchange	\$6B	(\$1.7B)
Total	\$45B	(\$5.5B)

International Companies in Israel

70's , 80's

Cheap labor, Academic Institutes

- IBM
- Intel
- Motorola
- National Semiconductor

90's

Business Opportunities (greater than the "country risk"), Skilled Workforce, M&As

- | | | |
|------------------|-----------|------------|
| • IBM | ▪ Sun | ▪ CA |
| • Intel | ▪ Cisco | ▪ Infineon |
| • Motorola | ▪ J&J | ▪ Marvell |
| • National Semi. | ▪ Sun | ▪ Avaya |
| • Compaq | ▪ Lucent | ▪ Vishay |
| • Microsoft | ▪ Toshiba | ▪ EMC |
| • Applied Mat. | ▪ AOL | ▪ Oracle |
| • 3Com | ▪ Alcatel | ▪ Siemens |
| • Nortel | ▪ Acer | ▪ Broadcom |
| • Samsung | ▪ HP | ▪ KLA |
| • TI | ▪ SAP | ▪ Qualcomm |
| • GE | | ▪ Hitachi |

Israeli High-Tech Investments | 2015-2021

Israeli high-tech capital raising in 2021 has reached a new record, with \$25.6 billion raised in 773 deals –a 146% increase from the amount raised last year and 28% more deals.

Israeli High-Tech Investments 2015-2021



Israeli High-Tech Investments Average vs. Median 2015-2021

