

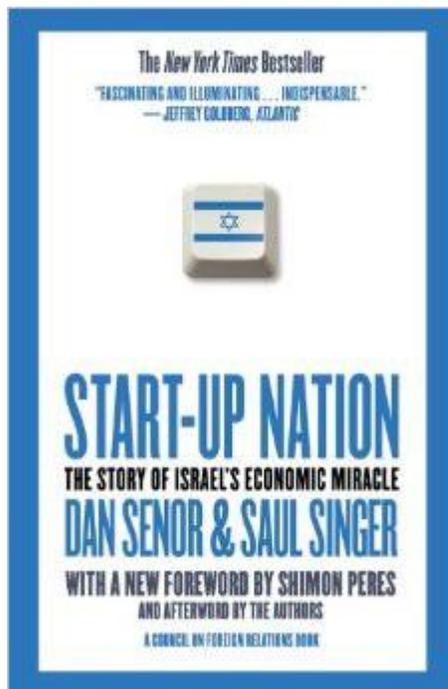
# Why I'm Doubling Down On Israel



No one has a crystal ball that tells the future. But once in awhile, we all see something that changes our perspective. And if we actually act on that new perspective it can have a dramatic impact on our lives.

The last time that happened to me was in 2010 when I was angel investing in New York. Someone offered to sell me shares in Facebook at a \$16 billion valuation. It was a price which most of the blogosphere was ridiculing. I did a back of the envelope analysis of the company that indicated Facebook would be worth \$100 billion in five years. Discounted back, that meant it was worth \$50 billion at the time! Now I wasn't the first person to believe in Facebook. Peter Thiel and Reid Hoffman beat me by five years. But I felt so energized by what I saw, that I was compelled to write my first "research report" in 10+ years (I left a career as an equity analyst at Goldman Sachs in January Of 2000 to start the TLD .tv). I emailed the report to 150 friends as fodder for future conversations, and thought that would be that. But the report blew up in the press, and it lead to my return to Wall Street as the Street's first private share analyst. I had a great second run as an analyst, during which I updated my Facebook forecast once, in 2011, projecting it would be worth over \$234 billion in 2015 (it's currently trading at \$243B).

My second run as an equity analyst led to the opportunity to launch The Social Internet Fund (TSIF) in July, 2012. TSIF is a stage agnostic venture fund investing in primary and secondary shares of rapidly growing internet companies. A few months after launching TSIF, I read a great book, "The Prime Ministers", about an 18-year old from Britain who moves to Palestine in 1947, fights in the 1948 war, and eventually makes his way to the Israeli government in 1958, where he spends the next 25 years, working closely with five Prime Ministers. Reading the book, I was struck by how alone Israel was. Even the U.S. was not the friend I thought it was. Again, I felt compelled to do something, which led me to AIPAC. As I got more involved with AIPAC, I was surprised to learn that there were active sub groups for lawyers and bankers and real estate execs, but there was no sub group for people in tech. So along with a few others, we formed the first Technology Group at AIPAC. The speaker at our first event in February of 2013 was Dan Senor, the co-author of "Start-up Nation: The Story of Israel's Economic Miracle".



The book, written in 2009, highlights the factors that enable Israel, a tiny nation of just 8.1 million people, to start so many successful companies. Israel is so successful at starting companies, that, as of today, Israel has the most companies listed on the NASDAQ (99, or 1 company per 80,000 people) of any foreign country in the world, other than China (153 companies listed on the NASDAQ, or 1 company per 8,000,000 million people).

*Start Up Nation* discards the arguments of religious exceptionalism or individual talent as major reasons for Israel's high-tech success. Instead, the book highlights many other reasons for Israel's high tech success, starting with the fact that at 61 years of age, Israel itself is a start up, iterating and pivoting to survive. The book also highlights Israeli *chutzpah* (defined in the book as "gall, brazen nerve, incredible guts..."). But the two major factors that, in the authors' opinion, contribute the most to Israel's economic growth are 1) mandatory military service and 2) immigration. The military service point really resonated with me.

The Israeli army is deliberately thinly staffed at the top to enable the decentralized decision making necessary in the military initiatives the army regularly undertakes. Thus, a talented Israeli in his early-to-mid 20's can rise to Commander in the Israeli army, where they are in charge of 100 soldiers and 20 officers, often in intensely pressurized situations. That experience, which is unique to young Israelis, gives them

the confidence needed to start a company, and the leadership skills critical to start up success.

After reading the incredible story of *Start-Up Nation*, I became more open to opportunities to invest in Israeli companies. As a result, in the following year, I made two investments in Israeli companies, Viewbix and IT Central Station. Both companies are doing well. When the tenant anchor in TSIF suggested that TSIF II focus on later stage companies, I partnered with Gil Penchina and we launched The Israel Syndicate on AngelList in April, 2015, as a way to stay involved in earlier stage companies.

The Israel Syndicate closed its first investment on June 9th, in Segmanta. The following week I finally made my way to Israel for, I'm embarrassed to say, the first time in 20 years. What a week! I went with high expectations. They were more than fulfilled. Here's a brief list of the reasons why I believe Israel is still early in it's emergence as a major ecosystem for tech innovation and wealth creation.

I believe the world is flat. In addition to Israel and Silicon Valley, I've invested in companies in New York (where I live), Los Angeles (my home town), Toronto, Raleigh-Durham, Toms River (New Jersey) and London. But there is only one Silicon Valley, which continues to dominate in terms of wealth created from tech start ups. There are many reasons for this, but one major reason I've always marveled at is how open and accessible the Valley is. I first saw this point written about in a post by the esteemed Vivek Wadhwa who opined in a TechCrunch article in 2011 that:

*"In Silicon Valley, sharing information is the norm—unlike most places in the world...in the Valley, techies are far less secretive and are generally helpful to one another...Silicon Valley is one giant network..."*

I have always felt that way about Silicon Valley, and I had never felt that way about another city until my week in Tel Aviv. Not only was virtually everyone I reached out to open to meeting, every meeting included the offer of multiple additional introductions. It felt like I was with family. The joke in Israel is "everyone is just one degree of separation away from everyone else". In Israel Sand Hill Rd and Market Street are combined, it's called Rothschild Blvd. Walking on Rothschild with an entrepreneur was one long hug fest. They do a lot of that in Tel Aviv.

I spent a great few hours speaking at a meeting of AlmaLinks, a "global network fostering the next generation of Jewish business leaders".



Another great example of the openness and collaboration in Tel Aviv is SOSA (as in South of Salame, a riff on SF's SOMA, which was a riff on NY's SOHO)

SOSA is a shared workspace. In addition to the normal start ups, more than 40 members of the tech community are members, ranging from VCs, to large multi nationals to incubators/accelerators, lawyers, bankers, and others. It's a meeting place, and a home for those

without a home (be they wayward VCs or multi national corporations). The shared workspace 1871 in Chicago is the closest parallel I've seen elsewhere in the world.

Israel has long been a major outpost for Silicon Valley's largest companies, where they have grown organically and through multiple acquisitions. Intel's largest R&D center outside of the Valley has long been in Israel, where they now employ over 9,200 people. It's now impossible to go to a major building in Israel without seeing multiple floors taken by the likes of Google (acquired Waze for over \$1 billion in 2013), Facebook (acquired Onavo in 2013, price undisclosed), and Apple (acquired PrimeSense for \$350 million in 2013).

Acquisitions are a key part of successful tech ecosystems, as they create wealth that can be poured in to new start ups, and leave a trail of experienced tech executives who can invest in and mentor the next wave of start ups. Yossi Vardi began mentoring and investing in start ups after he sold ICQ to AOL for over \$400 million in 1998. With Yossi now focused on his DLD Conferences, the baton has been passed to a rapidly growing list of experienced, talented, and supportive entrepreneurs like Noam Bardin (Waze CEO), Gigi Levy (CEO of online gaming site 888 acquired by Ladbrokes for £240 million 2011) and others who have had successful exits and become active angel investors and mentors.

Israel also enjoys a rapidly growing ecosystem of talented VCs that could hold their own against the best in the Valley. I had the pleasure of meeting with Arnon Dinur of 83 North, Modi Rosen at Magma Ventures, Tal Barnouch at Disruptive, in Tel Aviv, among others. Jerusalem is seeing increasing activity, lead by veteran firm JVP, which is being joined by newer seed stage firms like Jumpspeed Ventures. Israel also has it's own highly supportive commercial bank, Bank Leumi, which has long provided the needed support in Israel, and recently launched it's Leumi Tech initiative to provide the broad services needed by Israeli tech companies when they come to the U.S..

A long time knock against Israeli start-ups is that they sell too early. But this is changing, as more Israeli start ups become Unicorns and have aspirations for more. CyberArk went public last September, and is now trading at a \$2 billion valuation. Wix went public in November, 2013, and is now worth more than \$900 million, defying the silly belief that Israel can't build great B2C companies. When I met with Tomer Bar Zeev of ironSource (\$1.1 billion valuation), he clearly stated his aspirations to achieve far more than what ironSource has accomplished to date. While other Israeli unicorns, like Houzz (\$2.3 billion) and Taboola have moved to the U.S. to achieve their aspirations, their wins are surely Israel's wins as well.



In fact, Israeli companies that move to the U.S. are increasingly feeling at home as robust communities of Israelis can be found in New York (242 Israeli start ups are featured on Israel Mapped in New York) and San Francisco (check out Silo, where users get help from their professional network, which started with the Israeli community in Silicon Valley).

Academics is another strong point of the Israeli ecosystem. My visit to the Technion Institute of Technology in Haifa was a highlight of my week. Technion is already recognized as home to one of the world's leading academic environments for successful technology innovation ecosystems. The initiatives Technion has underway in partnership with Cornell in New York, and with Li Ka Shing in China, will only accelerate Technion's remarkable ascent. Israel has three other universities ranked in the top 300 in the world (Tel Aviv University, Hebrew University, and Ben Gurion University), not to mention the IDC and its innovative entrepreneur programs.

As with any tech ecosystem, Israel has its challenges. Like San Francisco, skyrocketing housing prices has become a major issue in Tel Aviv, while salaries remain low. This disparity is driving up the rate of start ups in Israel, which can make Israel a challenging environment to attract capital. Even though the amount invested in Israel is climbing, the number of companies receiving VC has remained relatively flat over the last two years.

High marks should go to the Israeli government which has long helped foster its tech ecosystem. As I was planning my trip, The Government of Israel Economic Mission in New York made several introductions including to Arale Cohen of seed stage investor 2B Angels. My meeting with Arale, the first investor in Yotpo, a rising star among Israeli tech companies, was a highlight. Within Israel's Ministry of Economy is the Office of the Chief Scientists (OCS). Among the various projects the OCS supports is a loan program which can provide up to \$400,000 in funding for start ups doing cutting edge research (broadly defined). The OCS also licenses incubators and then offers up to 5-to-1 leverage for investments the incubators make in start ups. Among the 24 incubators currently licensed is one run by Nielsen. You don't need to be licensed to operate an accelerator, and there are plenty of great programs. AOL's Nautilus, Coke's The Bridge, IBM's AlphaZone and Citi's Innovation Lab are just a few of the corporate accelerators blossoming in Israel.

Finally, I'm all in on Israel because I want to do things I believe in. I want to be a "missionary" CEO rather than a "mercenary" CEO, as defined by various VCs from Randy Komisar to John Doerr. I'm not very religious, but I find myself caring deeply about Israel's survival, and the biggest impact I can have on Israel's survival, is to help Israel thrive. That's why I'm on a mission to help the Israel tech ecosystem evolve to become the best innovation ecosystem it can be. It's not about being the next Silicon Valley. It's about being the best innovation ecosystem Israel can be. I'm clearly not the first person to be so optimistic on the Israeli tech ecosystem. But much like when I invested in Facebook at \$16 billion, I think it's still VERY early days for Start-Up Nation. So I'm all in.

<https://medium.com/errnio-mobile-gesture-monetization/why-i-m-doubling-down-on-israel-4007416b05a8>

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on Jul 5