

## After Imperva and Mobileye, Here's What's Next for Israeli Startups



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Chemistry Nobel Prize winner Israeli scientist Daniel Shechtman gives a press conference in the Technion Institute of Technology in the northern port city of Haifa on October 05, 2011. JACK GUEZ/AFP/Getty Images)

Israel has taken plenty of companies public on the NASDAQ -- including Imperva, CyberArk, and Mobileye -- which went public in [August 2014](#) and was bought by Intel for [\\$15.3 billion in March 2017](#). While many of these startups get acquired by big U.S. companies and most split their teams between the Tel Aviv area and Boston or Silicon Valley, that could be changing according to six experts I interviewed.

Before getting into that, let's look at the numbers. In the second quarter of 2017, 157 Israeli high-tech companies raised \$1.26 billion, attracted -- the second highest quarterly amount in the past five years. For the first half of 2017 -- 18% below the strongest period in recent history (the first half of 2016), 312 Israeli high-tech companies attracted \$2.3 billion, according to [Israel Venture Capital \(IVC\)](#).

Israeli tech exits in 2016 were down -- with mergers much higher than IPOs. total exits last year totaled \$10 billion. There were "93 M&A deals, eight buyouts and just three IPOs. The low number of IPO deals, totaling just above \$15 million, made 2016 the year with the second-fewest IPOs in the past 10 years. In 2014, by comparison, Israeli tech IPOs reached a record \$2.1 billion in 17 deals," according to [Start-Up Israel](#).

These declines are not a big surprise since the U.S. IPO market has been in the doldrums since 2014 and is showing no signs of recovery as I wrote [earlier this month](#). After all, tech IPOs like Snap and Blue Apron have mostly cratered. And the biggest unicorns have so much capital that they are in no hurry to brave the public markets.

But Israel continues to invest in and create startups thanks to its engineering talent, capital, and investment from U.S. tech giants like Microsoft, Google, Facebook, Intel and others. What's most interesting to me is that at least one company -- run by Israel's most prolific info sec company founder, Shlomo Kramer, is that Israel is beginning to develop enough talent in marketing and sales that his latest company is able to operate out of Israel instead of being run from Silicon Valley.

Tel Aviv is the center of Israel's startup scene even though its top talent is educated [52 miles away](#) at Haifa's Technion. As Edouard Cukierman, Managing Partner and Founder of Catalyst Funds, said in an August 10 interview, "When I was at the Technion, the joke was 'What is the nicest place in Haifa? The highway to Tel Aviv.' Entrepreneurs want to be in Tel Aviv -- it's a place of fun; whereas Haifa is a serious place for studying."

Haifa 's Technion is not investor friendly according to one expert. Shlomo Maital, [an emeritus professor of economics there](#), explained in an August 6 e-mail, "I have a personal 'beef.' Universities in general, Technion in particular, in my view, cling too tightly to IP developed within the university. This deters investors like citronella deters mosquitos. MIT let Bose use his Ph.D. results to launch a speaker company -- later, Bose willed the whole company to MIT! Technion does not following this model. I

regret it. Technion is a public university, funded in part by government (at least, the operating budget). IP developed within Technion belongs to the people and should be more freely released. (Not everyone agrees)."

Pillar companies -- local, publicly-traded tech companies that supply talent and capital to startups -- are not big drivers of the Tel Aviv startup ecosystem. As Cukierman said, "There are 200 Israeli publicly-traded companies and thousands of private tech companies there; but besides Check Point Software, the public companies that help our ecosystem are Google, Intel, Microsoft, HP and others. These U.S. companies buy the private Israeli companies or open incubators here to get access to Israeli R&D talent."

Indeed, demand for that engineering talent outstrips supply. "There is a 10,000 engineer shortage in Israel. Companies are setting up engineering operations in Eastern Europe. Most of the engineering talent comes out of the Israeli Defense Force -- units like the 8200 -- which specializes in information security. But there is a good amount of talent from the University of Tel Aviv, Hebrew University, and Ben Gurion University of the Negev," explained Cukierman.

The enterprise marketing talent in Israel generally comes from well-regarded U.S. companies. As Uri Goldberg, an expert on Israel's high tech ecosystem, said, "The vast majority of marketing and sales executives and general managers I know were trained at places like Google, Facebook, or Akamai. VCs want to be able to see that you have the best people -- these U.S. brands represent quality. I can feed my family because I am a McKinsey alum."

With 272 U.S. IPOs and 101 European IPOs, Israel has generated plenty of capital for startups.

In the last five years, a growing number of Israeli companies don't open branch offices overseas because they sell to consumers and therefore do not need enterprise sales people close to customers -- in Boston or Silicon Valley, for example. Cukierman said, "These include traffic app Waze (bought by Google), content marketing service, Outbrain [and web site hosting service, Wix]. And some of the best Israeli enterprise-focused companies like Check Point Software and Mobileye were based in Israel."

Mentor networks are not as developed in Israel as they are in the U.S. As Uri Goldberg, an expert on Israel's high tech ecosystem, said, "There is a growing network of angel investors in Israel. But many startup CEOs wonder what value besides capital these angels can add. The CEOs tell the angels, 'thanks for your capital, leave me be.' I know a few investors who really believe they are going to be good mentors. But it is hard to match founders with mentors [who truly add value]."

Parental attitudes towards entrepreneurship remain very positive in Israel -- which makes startups an obvious career choice.

"Mothers in Israel used to urge their children to become doctors or lawyers. Every week in the newspapers are reports of acquisitions and IPOs of local tech companies. So mothers push their children to become entrepreneurs," said Dr. Amir Guttman Managing Partner of Aviv Venture Capital, in an August 10 interview.

In an August 16 interview, Daniel Shinar, CEO of venture firm, [ClalTech](#) explained, "Entrepreneurs like Kramer and others are the new heroes -- they are seen as having courage, vision, and they became wealthy without harming others."

Life in Israel prepares entrepreneurs. "The level of responsibility for young people in the Israeli army trains them for entrepreneurship and they see startups as a way to follow the Jewish idea of Tikun Olam -- improving the world," said Cukierman.

Interesting new companies are being cooked up by people with a track record of success.

For example, Kramer has moved back to Tel Aviv from Palo Alto. His new company Cato Networks -- that "connects remote locations, mobile users, physical and cloud datacenters into a secure and optimized global SD-WAN" -- is targeting a huge market.

As Kramer explained in an August 15 interview, "Cato is targeting the \$72 billion a year market for wide area networks. We have over 100 customers and are growing rapidly after less than a year of starting to sell the product. 50% of our revenues are in the U.S. and 40% are outside. We have 60 people in Tel Aviv and have engineering and marketing people here who have had experience in these roles from my previous companies Trusteer, Imperva, and Incapsula -- where our VP of worldwide sales worked before Cato."

A Mobileye founder is among those who have venture backing for new firms. As Guttman said, "In 2011, we invested in Valens, that makes semiconductors for efficient transfer of compressed video over long distances. Daimler signed with the company and in [April it raised from Delphi, Goldman Sachs, and Samsung](#), among others. We also invested in [OrCam](#), another machine vision company cofounded in 2013 by Amnon Shashuah, who was Mobileye's co founder, that helps people with severe vision problems to see."

If not all these companies do IPOs, I would not be surprised if some U.S. companies buy them.

<https://www.forbes.com/sites/petercohan/2017/08/21/after-imperva-and-mobileye-heres-whats-next-for-israeli-startups/#12de5fe46907>