

Startup Companies in Times of Emergency

Insights

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1. Introduction

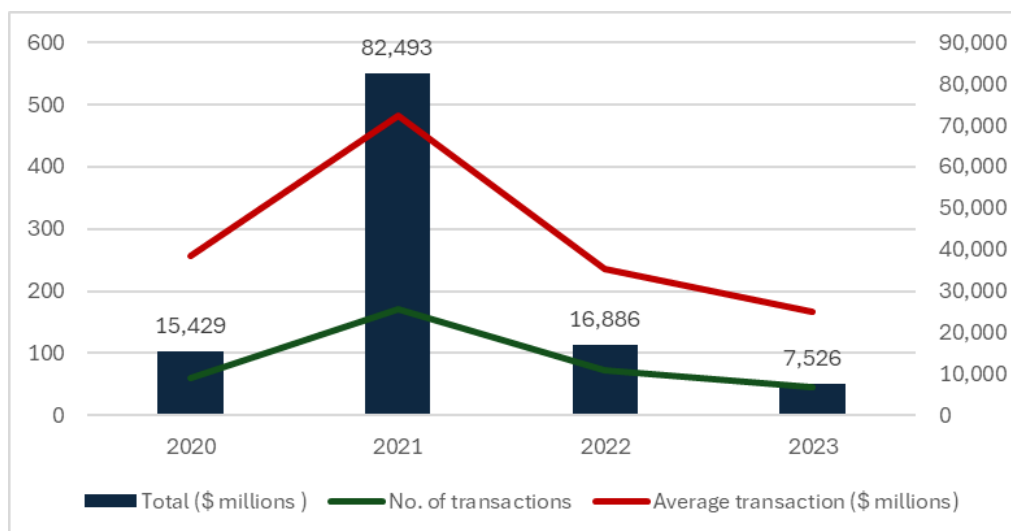
The background for this report and the insights delineated herein pertain to the continuous decrease, over the past year, in the number of new startups and startups that survive past the early stages.

1.1 Background

2023 saw a crisis in the scope of investments in Israeli high-tech as a result of the judicial overhaul, a global investment crisis, and later on as a result of the Swords of Iron War. Investments in high-tech decreased during that period in Europe and the US as well, but by far lower rates than in Israel, and so at the start of 2024 Israeli high-tech in general and startups in particular find themselves in a state of uncertainty. According to an SNPI¹ report, total venture capital investments in Israeli high-tech in 2023 amounted to \$7.3 billion, a decrease of about 60% in relation to 2022. The trend of ongoing decrease in investments began in the second quarter of 2022, and peaked in the last quarter of 2023 with the war as an exacerbating factor. During that quarter, Israeli startups had raised only \$1.3 billion. The decrease in investments in Israeli high-tech during the war months is also evident when compared to the global situation, as investments in Israel decreased by 35% between the third quarter of 2023 and the last, compared to 23% in Europe and 11% in the US. In early investment rounds (pre-seed and seed) the past year had recorded a drop of 45% in investments as compared to 2022. This downward trend attests to significant damage to Israeli entrepreneurship and to the ability to establish new startups and support existing ones.

¹60% Drop in Investments, Foreign Funds Keeping Distance, and Expanding Gaps with Global Ecosystems, The Israeli High-Tech in 2023, January 2024, Eynav Ehrlich, Danny Biran, Assaf Patir

Figure 1: Total "Exits" – IPOs, mergers and acquisitions 2022-2023

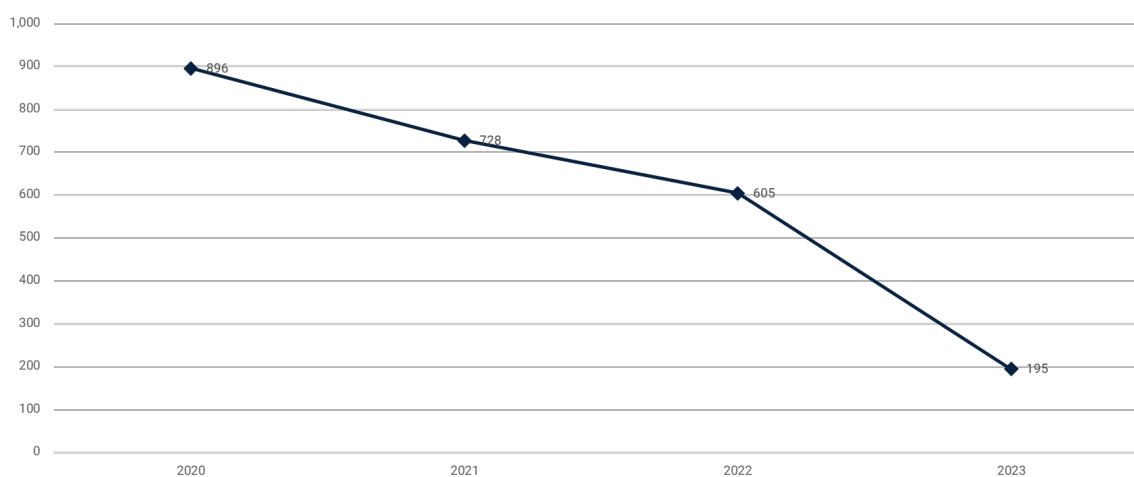


Source: Samuel Neaman Institute's processing of data from PwC Israel's 2023 Exit Report²

1.2 Establishment of New Startups

Since the start of the judicial overhaul, the number of new startups in Israel had dropped dramatically, and only 20% of those startups chose to register in Israel. In the past two months, this phenomenon was exacerbated by the war, and almost no new startups were founded. Dozens of investors attest that for the first time, and in contrast to the past, Israel does not currently have a large enough supply of new ventures³.

Figure 2: Number of new startups established in Israel



Source: Samuel Neaman Institute's processing of SNC data⁴

² [2023 Exit Report](#)

³ [Israeli high-tech affected by the war: beginning to lag behind](#)

⁴ [The decrease in startup establishment \(Part A\)](#)

Over 50% of early-stage high-tech companies have a cash horizon of less than 6 months. 56% of the companies expect they will not be able to secure another round of funding (Dror Bin, Israel Innovation Authority CEO, December 19 2023⁵).

1.3 Solutions for Times of Crisis

To assist startups that had previously received investments from the Israel Innovation Authority, in November 2023 it launched an ILS 400 million fast-track incentive program⁶⁷, intended to support startups whose ability to raise capital was hindered by the war. The program is designed for companies with a short runway. To receive the grant, the company's existing private investors must match 50% of the Innovation Authority's funding. The program is intended for technological startups at the product-development or early-sale stages. Startups who do not meet these criteria are left with no support or financial solution that will enable their survival beyond the current crisis. These are mostly startups at the pre-seed, seed, and series A and B funding rounds.

In January 2024, the Ministry of Finance's Budgets Department and the Israel Innovation Authority announced a series of steps to bolster Israeli high-tech⁸. These include the following new programs:

- A new startup fund that will invest, alongside private-sector investors, over ILS 500 million a year in pre-seed, seed and series A rounds, focusing on startups with limited access to capital, technological depth, and groundbreaking innovation.
- Yozma Fund 2.0 for encouraging Israeli institutional entities to invest in Israeli venture capital funds, in a "fund of funds" model, amounting to ILS 4 billion of joint investments over a period of 5 years.
- New incubators – new investment entities that will also incorporate international investors, providing financial backing and a supportive infrastructure for venture creation in deep-tech.

⁵ [New-Tech magazine](#)

⁶ [Israeli government to allocate ILS 100 million in emergency grants for high-tech](#)

⁷ [Minister of Finance Smotrich decided to quadruple the budget, to provide a "quick and immediate solution" for startups with funding difficulties during the war](#)

⁸ [Government approves stimulus package to boost Israeli high-tech](#)

Israeli high-tech is in distress after a particularly difficult year. Israel does not have the privilege of relying only on market forces, and risking the decline of the engine of the economy - followed by the economy of Israel as a whole. As in past crises, it must be ensured that high-tech will recover and even emerge stronger from the current crisis. Today, more than ever, there is a need for a smart, coherent and pro-active government policy. (Prof. Eugene Kendall, SNPI Research Center Chairman⁹).

⁹ [Israeli high-tech 2023 summary report](#)

2. Purpose Statement

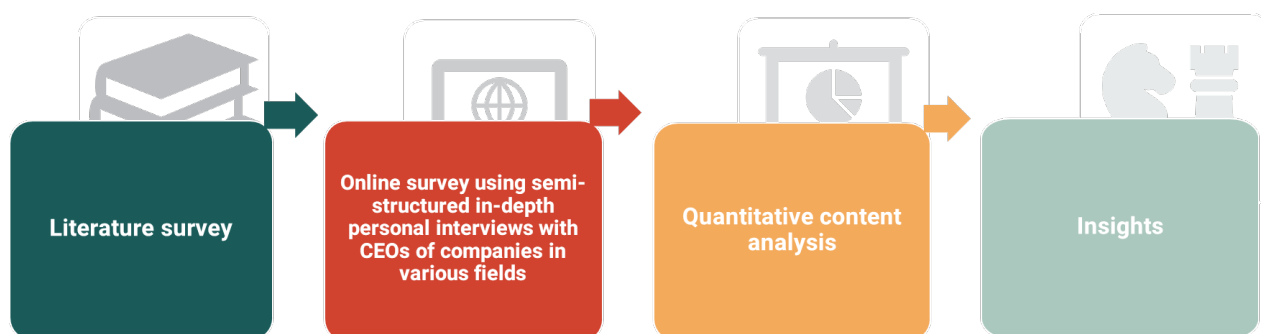
Firstly, to understand the difficulties that early-stage startups experience; and secondly, to understand what tools the CEOs we have spoken to consider essential for coping with and surviving a protracted state of emergency.

Using qualitative research and in-depth interviews with founders and CEOs of early-stage startups in a wide variety of fields, we hope to express problems, solutions, and other coping means from the field, and to reflect them to decision makers in a different manner than the dry data of quantitative surveys.

We hope these means will form a part of the considerations and ideas used in the process of developing and delivering new financial tools that will assist early-stage startups in the difficult times ahead.

While most of the recently-conducted studies were based on quantitative questionnaires circulated among many companies, and focusing on problems only – we have chosen to focus on the question of what they think will help them.

3. Methodology



4. Findings

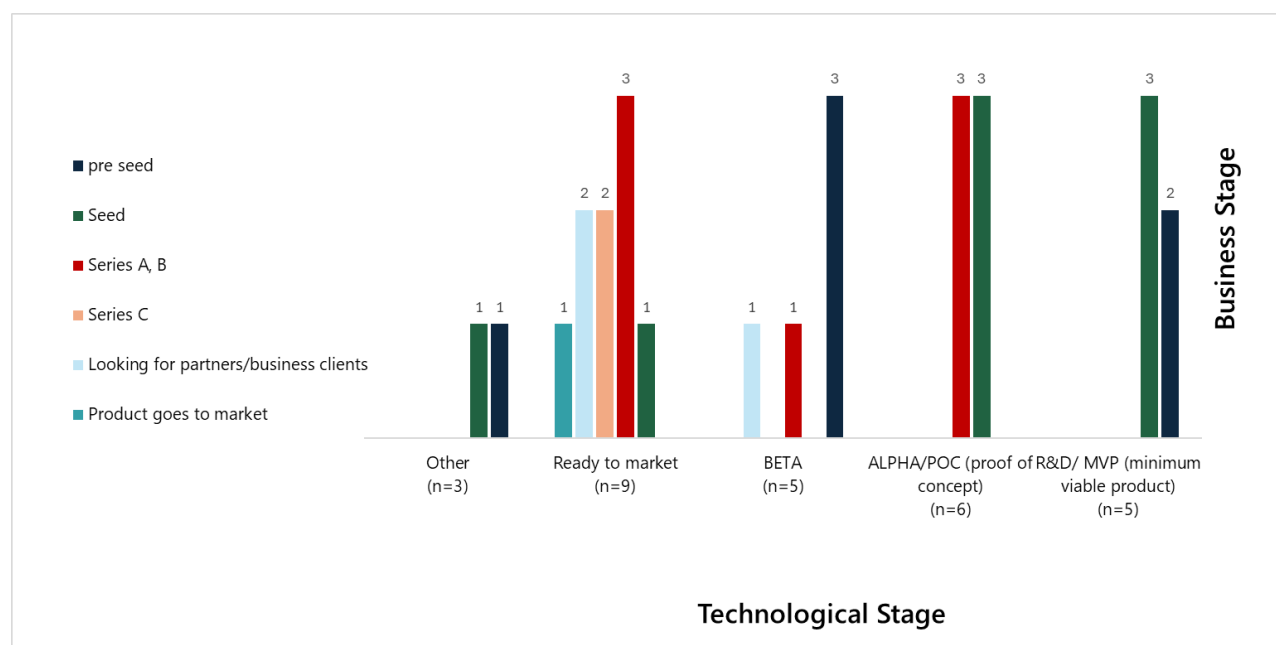
An analysis of the interviews found various possibilities and ways to assist startup companies. We have learned that the existing means of funding and support are insufficient, and that there is concern for the survivability of early-stage startups across the board and from all fields.

4.1 Quantitative Findings

Interviews with company CEOs were mostly conducted online in the second half of December 2023. We have conducted interviews with 25 startup CEOs. The main startup fields sampled were medical equipment (39%) and agritech + foodtech (26%)¹⁰ (Figure 3). Most companies (91%) employ up to 50 employees¹¹.

A quarter of all companies (26%, n=6) are at the pre-seed business stage (in various technological stages). Over a third of all companies (39%, n=9) have a ready-to-market product, but only one company is at the product release business stage. The rest of the companies still wish to raise funds and/or find partners/business clients (Figure 3).

Figure 3: Companies' business stage by technological stages*



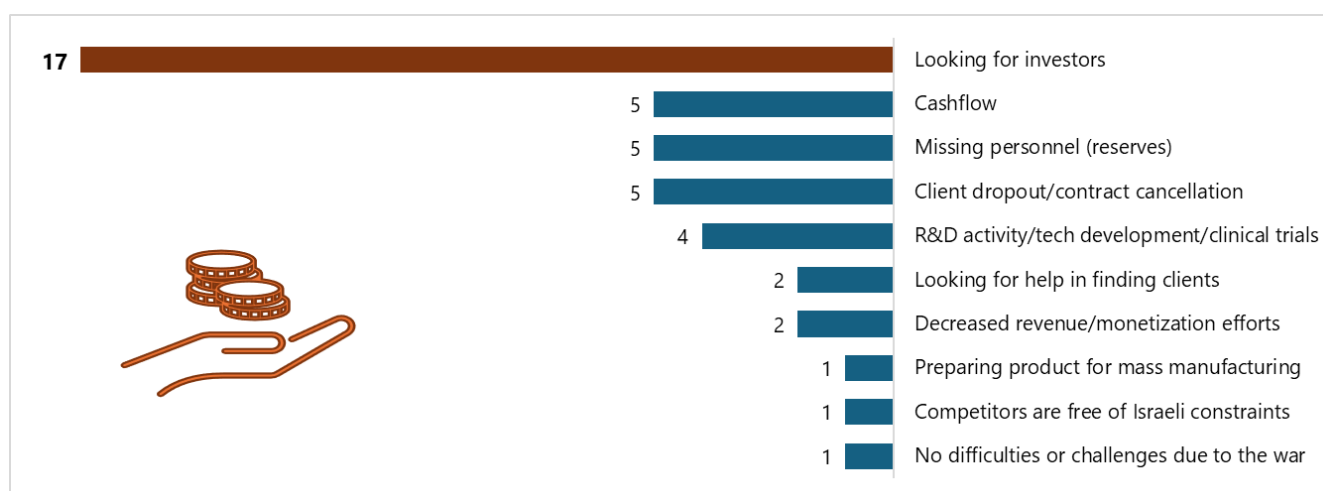
* Companies were permitted to choose more than one business or technological stage

¹⁰Other fields of activity: advanced manufacturing (n=4), cyber, fintech, cleantech (n=2), agronomy, water tech, business software (n=1). Companies may be active in more than one field.

¹¹1-10 employees: 11 companies; 11-50 employees: 10 companies; 51-100 employees: one company; over 100 employees: one company

The companies rated the effect of the war on business activity as relatively high¹². The reasons they gave for the high effect were mostly difficulty raising funds for various causes: foreign investors keeping their distance, hesitancy of foreign investors to invest in Israeli companies, and lack of local investors. Other reasons mentioned were: many employees called-up for reserve duty; failure to renew contracts by potential Israeli clients in the civilian and military markets, causing sales stoppage and even complete halt of activity. **Most companies (74%, n=17) state that the main difficulty/challenge is looking for investors for the venture** (Figure 4). Only one company reported that it had transferred some of its activity overseas because of the war (Germany). However, other companies have stated that they are considering this move.

Figure 4: Entrepreneurs' main difficulties and challenges*



* Companies were permitted to choose several difficulties and challenges

Most companies (74%, n=17) did not receive any support due to the situation and rated the scope of support received as very low (1.4 points on a scale of 1 – did not receive support at all to 10 – received full support).

14 companies (61%) have stated that they have at their disposal some alternative means of funding, from both foreign and local sources. 5 companies (22%) have stated that they do not have at their disposal alternative means of funding.

Most of the company CEOs are optimistic and believe that they will be able to recover from the crisis in a year (average rating of 7.5 on a scale of 1 – in danger of closure to 10 – full recovery).

¹² Average 7 on a scale of 1 (lowest) to 10 (highest)

5. Insights

- The main challenge of small startups: fundraising and locating investors – as investors (even Israeli ones) have significantly decreased or completely stopped the flow of investment.
- CEOs of small companies have reported that expediting the timetables of funding from the Israel Innovation Authority would have helped their activity in emergency. Relaxing cumbersome bureaucratic processes would also be helpful.
- Companies are looking for alternative funding; some are considering funding from foreign governmental entities (Germany) or means of funding by the European market.
- At the time of the interviews, most startups did not receive State support due to the state of emergency.
- Most startups are not transferring their activity overseas, but some are generating parallel activity in foreign markets.
- Companies are in need of government support for launching in the American market, which requires capital they do not have.
- Most CEOs are cautiously optimistic about the future of their companies in one year.
- Every company with several months of runway believes it will survive. There is concern that should the war continue for more than 6 months, some will be in dire straits and will require government assistance to avoid closure.
- The need arose for bypassing or relaxing (or extremely accelerating) customs-release processes for the purchase of small quantities required for development purposes.
- A divergence was revealed in the Innovation Authority's support of companies with 3-5 employees, as compared to companies with around 30 employees and an advanced pre-launch product. The Israel Innovation Authority supports the larger companies via 50/50 matching with private investors, while small companies go unsupported following the war (as of the date of the interviews). There is hope that the stimulus program announced by the Innovation Authority in January 2024 will meet the funding needs of early-stage startups.

Note: During the interviews, several initiatives were mentioned that were established for supporting high-tech companies in times of emergency, like Geshem Fund¹³, established to provide quick emergency funding in the next six months for the best of its portfolio companies, [Chamal VC](#) – Support of CEOs during wartime on the road to success, [Next October](#) formed as a result of the October 2023 tragedy, with the purpose of generating over 1,400 startups, and [Iron Nation](#) – a volunteer organization without management fees or interest, headed by senior managers from the high-tech industry, intended to improve the financial aspect for a better future.

¹³ <https://www.globes.co.il/news/article.aspx?did=1001466517>

6. Additional Means of Support

The following recommendations for additional means of support that are not currently on offer have been suggested during interviews and **are quoted here verbatim**:

1. Zero-interest loans from Innovation Authority/Ministries of Finance and Economy, while reducing bureaucracy
2. War-designated funds, like Iron Nation Funding of \$0.5-1 million – will assist in the SAFE round
3. Israel Chief Scientists, the State – should come to the aid of companies in series A and B rounds during the crisis – via a fund that allocates money – as was the case with Yozma, with a part in a future exit, unlike what has been done so far
4. A model in which the State uses existing funds to allocate investments to startups that need it, while defining criteria and stages in the life of the startup, instead of learning how to do it itself
5. Making foreign investments, that suffer from excessive bureaucracy, easier Signaling to foreign investors by government entities
6. Allocating \$50k-100k among many companies, even in return for stock, to minimize risk and get some money back – buying time for small companies using cash injection
7. Match from the State if there are investors who express their trust by continued investment



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