



2022 EoY Report

ISRAEL'S HIGH-TECH ECOSYSTEM

The Year the Bubble Burst

WHAT'S IN THE REPORT

1
Global Market
Crash

2
Israel's Funding
Environment Facing
the Impact

3
Dramatic
Valuation
Correction

4
Our 2023
Forecast



2022 Global Market Crash

CHAPTER 1

Macro environment was extremely volatile in 2022



Global inflationary pressures

Hike of interest rates (& forward expectations)



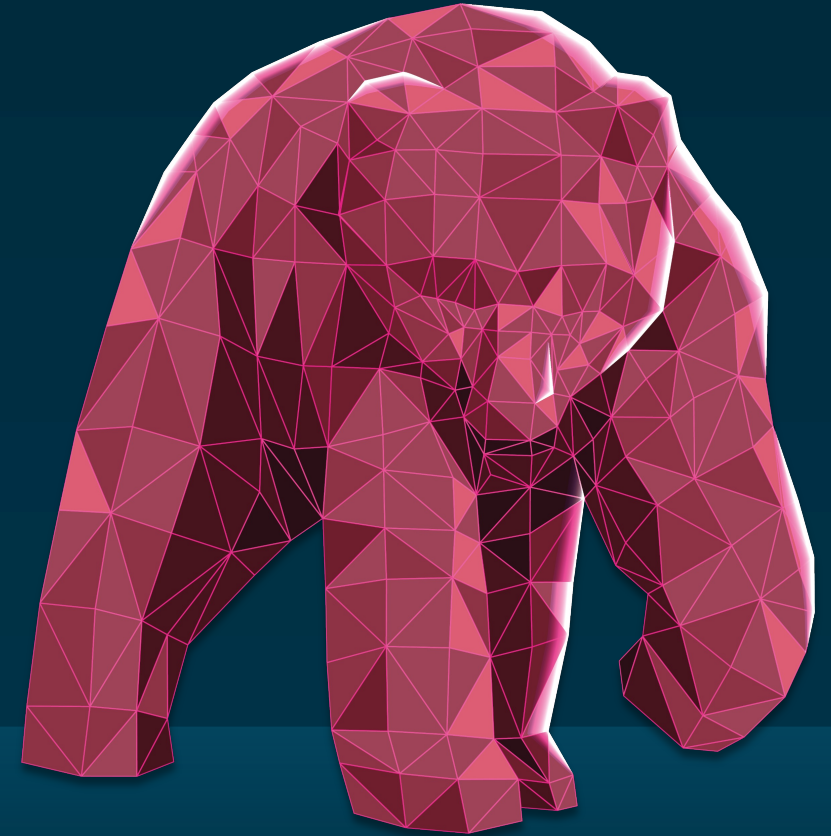
Looming recession concerns

Slow down in demand for goods and services

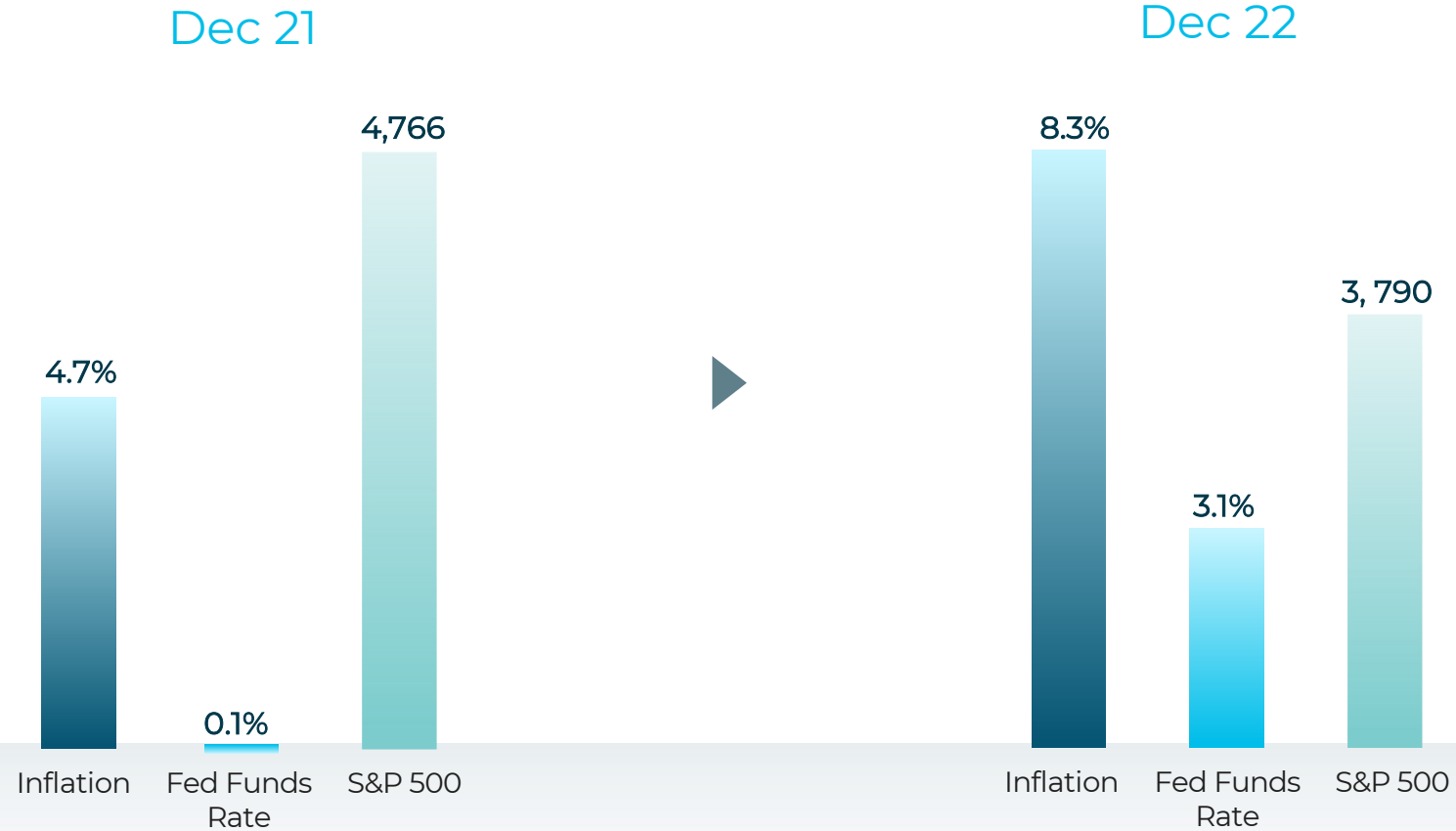


Uncertainty reduces risk-appetite

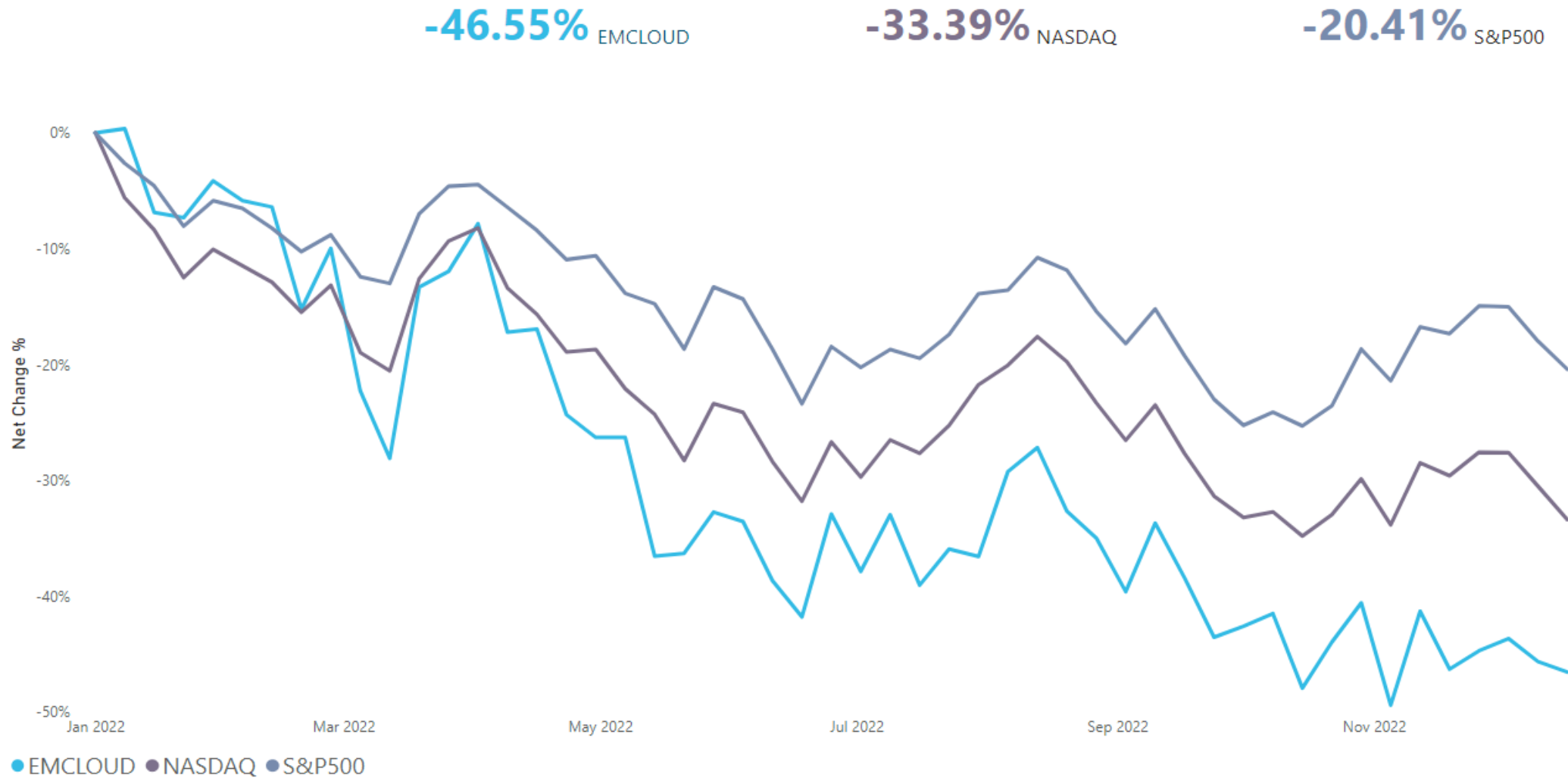
Geopolitical tensions and supply chain challenges



Decades-high inflation in 2022 led to interest rate hikes, negatively impacting public markets performance



The tech market took a bigger hit



*EMCLOUD - BVP Nasdaq Emerging Cloud Index includes 75 emerging public cloud companies.

Source: Bessemer Venture Partners



Multiples fell below pre-pandemic average

EMCLOUD Index EV / NTM Revenue Multiples Since 2013



Six months ago, the tech ecosystem faced a major shift



From post-COVID high to looming recession

- Consumers & businesses lowering spend
- Companies missing top line targets
- The cost of capital increased
- Overall expectation for scarcity of capital



Tech companies reacted

- Rebudgeting and extending their runway
- Refocusing on efficiency



Investors adjusted

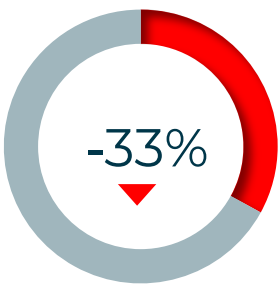
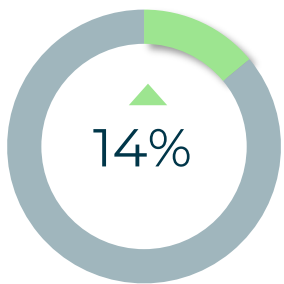
- Less capital invested
- Fewer deals
- Longer periods between rounds
- Lower valuations

This shift gained momentum mid-year –
H2 showing very different characteristics than H1

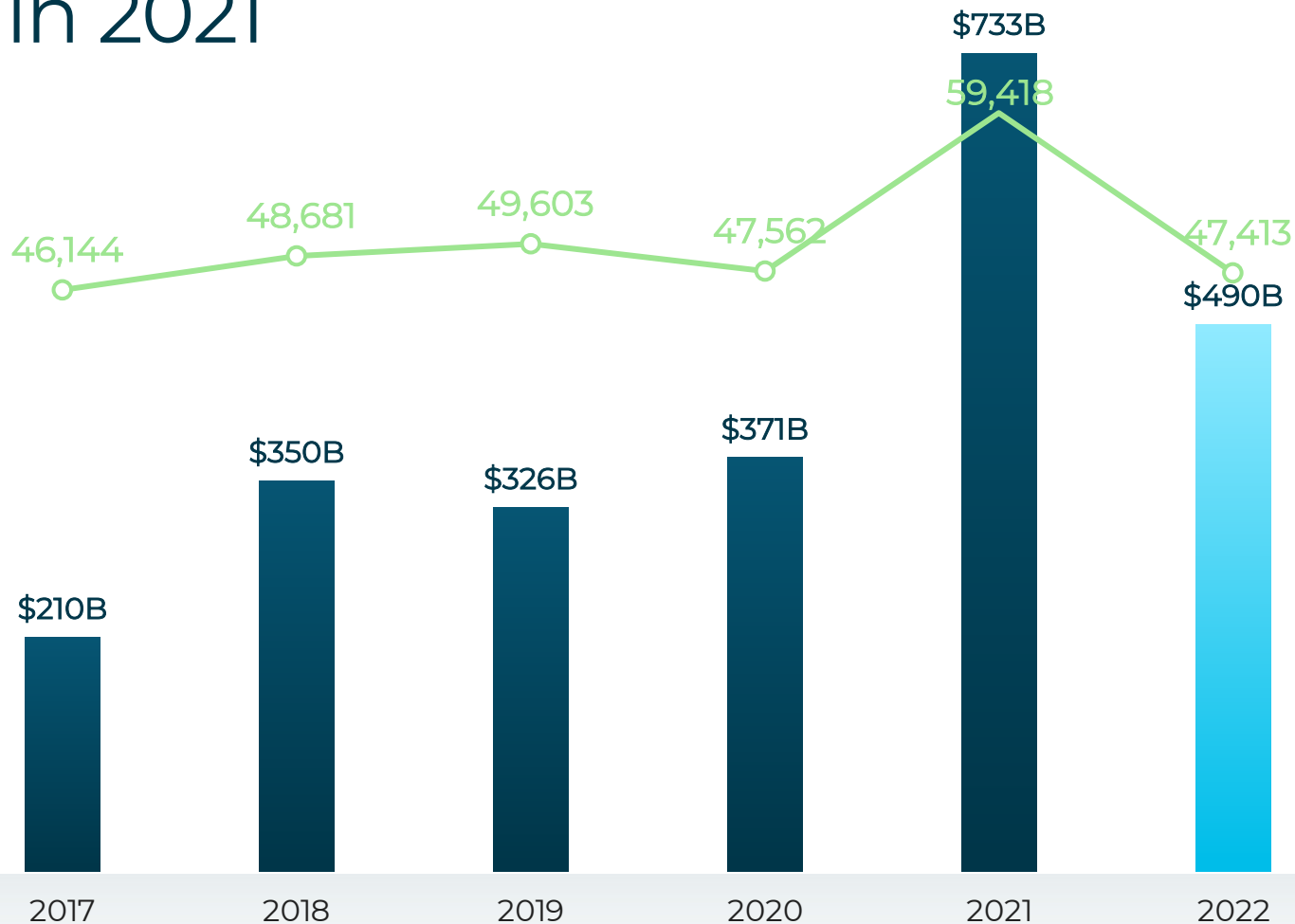
Private capital raised globally fell from record levels in 2021

3 Year - CAGR

YoY Drop



 Global Funding
Activity, by Year



Capital Raised Deal Count

Source: Viola Data, Pitchbook

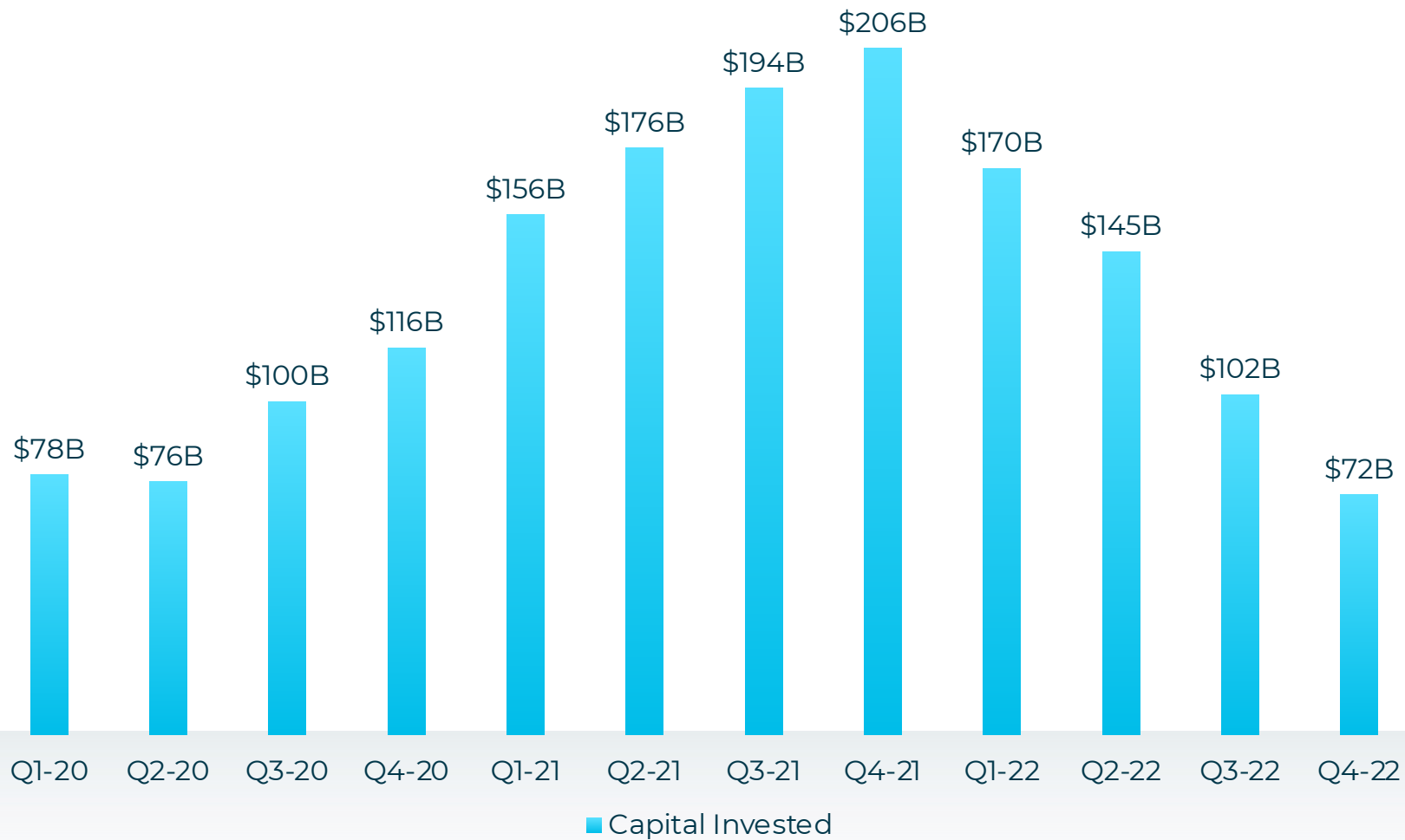


Funding activity reached a 3-year low in Q4

Q4-22 Vs Q4-21



Global Funding Activity, by Quarter





2022

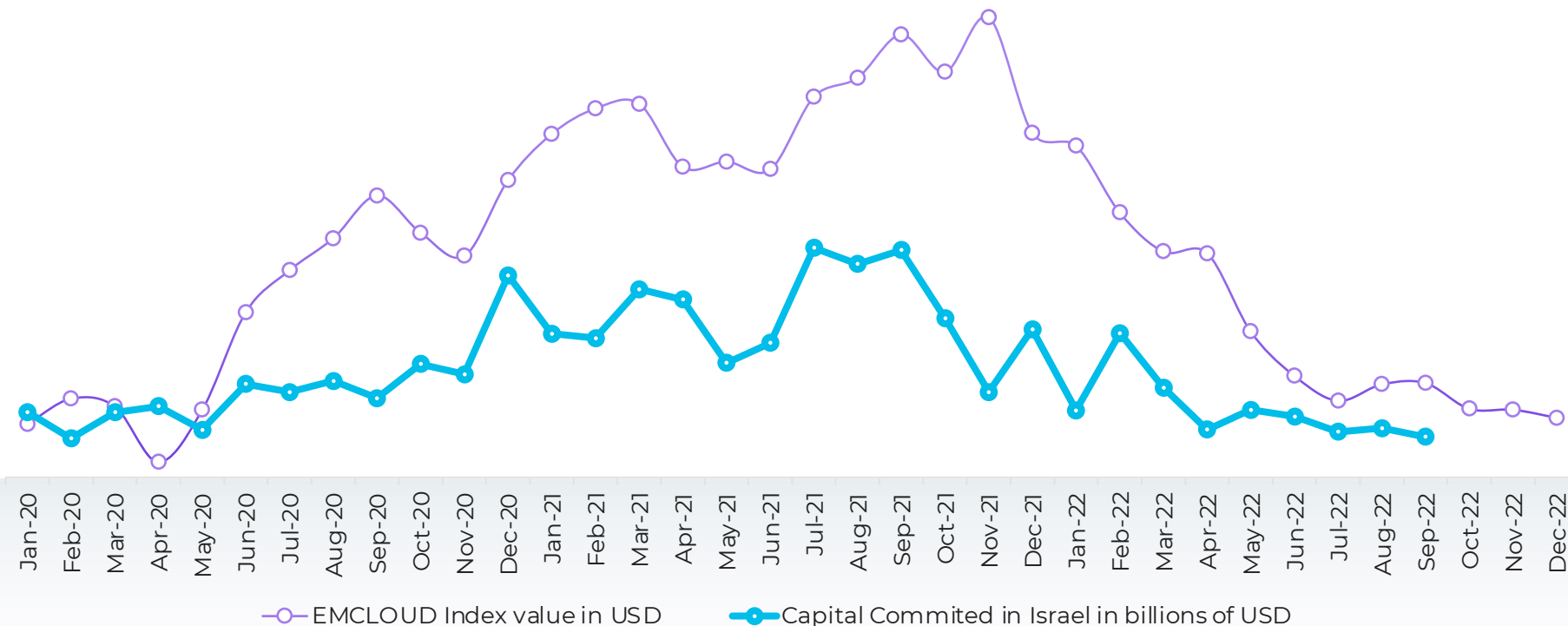
Israel's Funding Environment Facing the Impact

Israeli funding activity was negatively affected by the public markets' performance

Capital committed, which lags a quarter after reported capital, is a good proxy for private markets' performance.

Capital committed is correlated to public markets, reacts quickly, and is currently down YoY, YTD, QoQ.

Funding Activity
in Israel by month



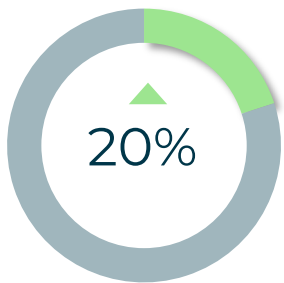
For further information about Public market effect on private market, check our [2022-H1 Report](#)

Source: Viola Data, IVC,BVP

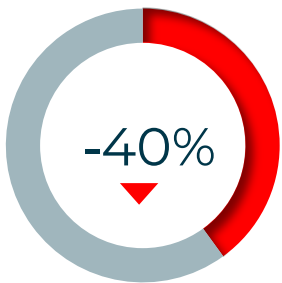


Israeli funding decreased by ~40% in 2022, compared to a 33% decrease globally

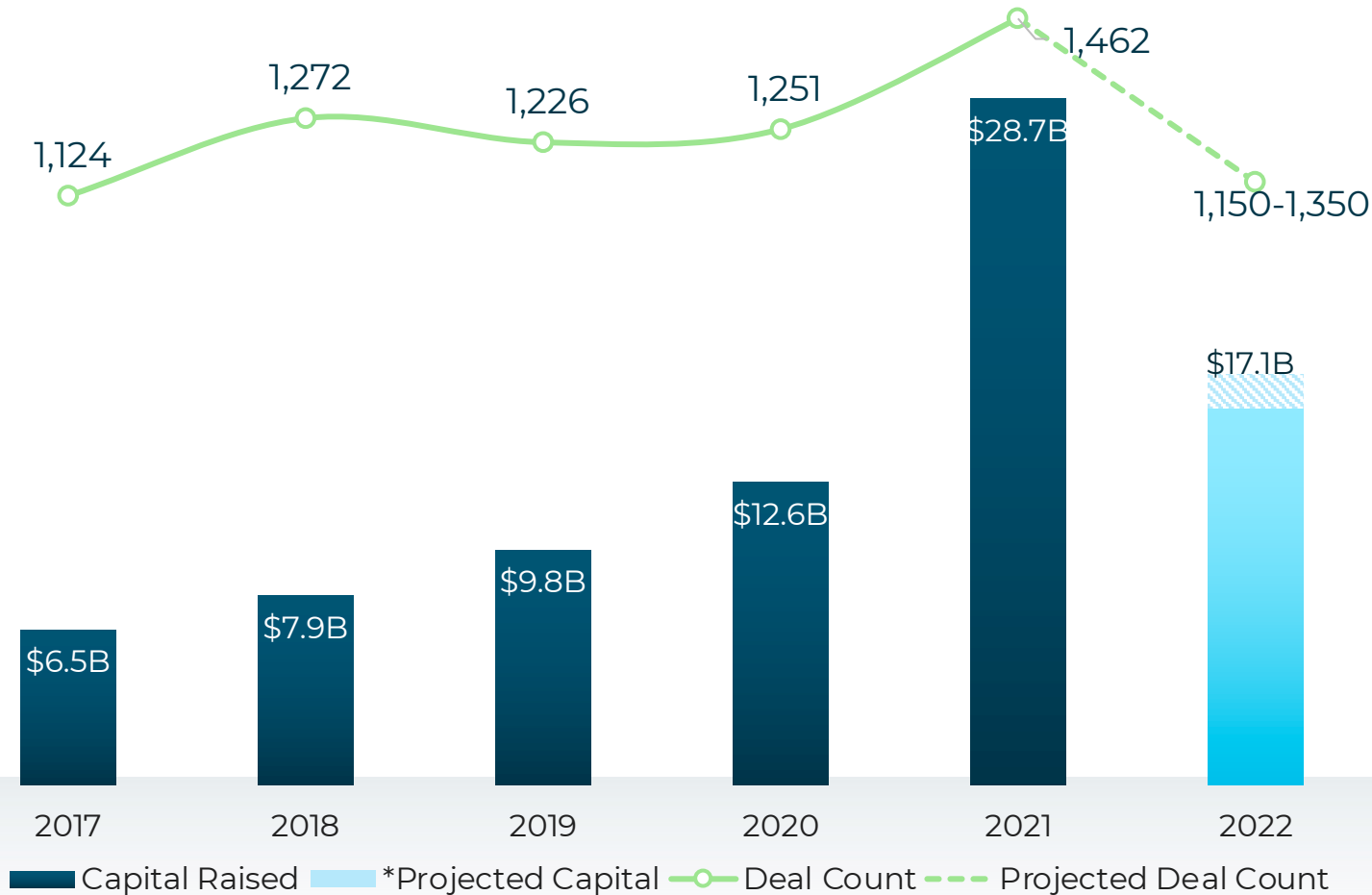
3 Year - CAGR



YoY Drop



Funding Activity in Israel, by Year

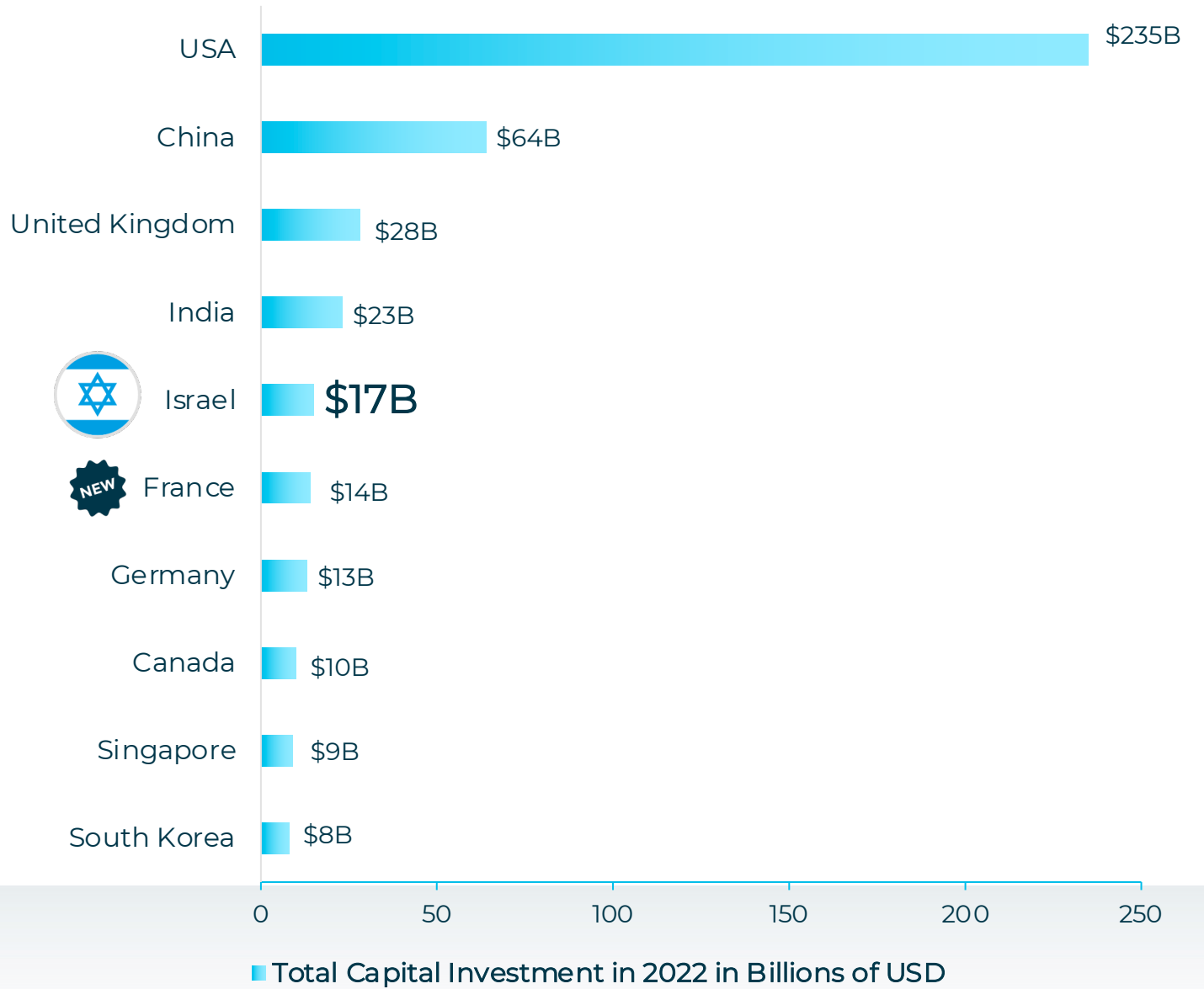


*Projected capital is the prediction of undisclosed early-stage rounds



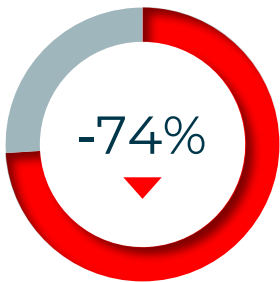
Despite the decline,
Israel maintains its
place as the 5th largest
tech ecosystem

Ecosystems that attracted
the most capital in 2022

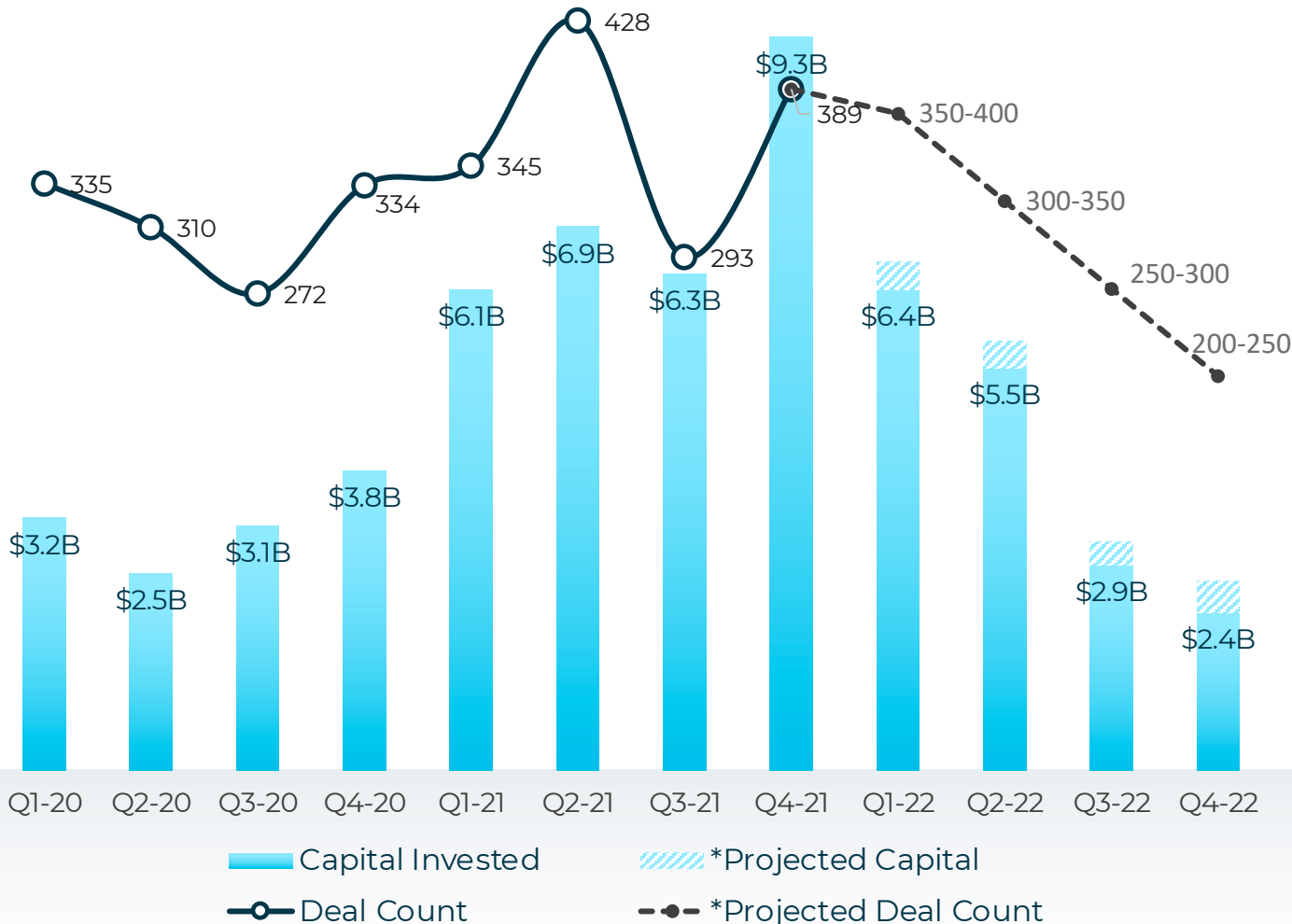


Q3's decline intensified in Q4, with the lowest number of deals and lowest amount of capital raised since 2020

Q4-22 Vs Q4-21



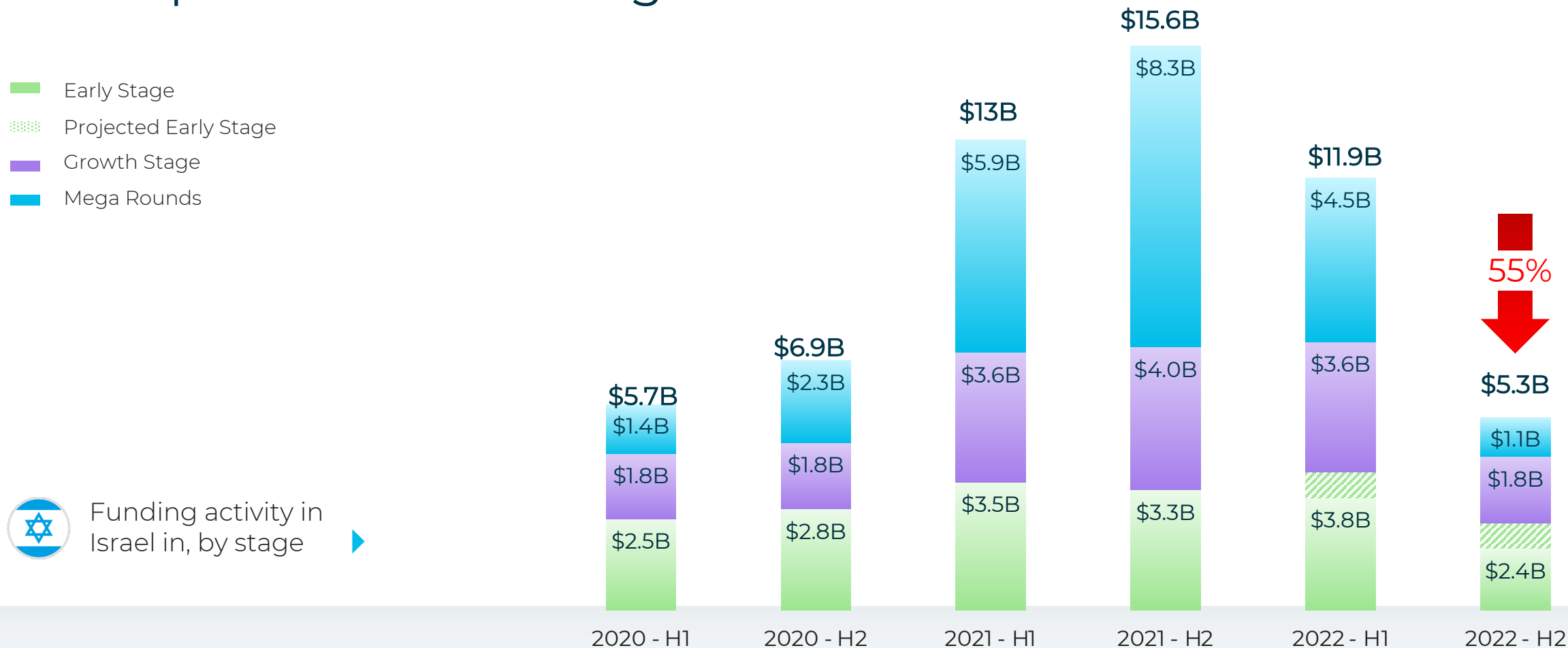
 Funding Activity in Israel, by Quarter



*Projected capital is the prediction of undisclosed early-stage rounds



As a whole, H2-2022 saw a decline across all stages, with an emphasis on later stages

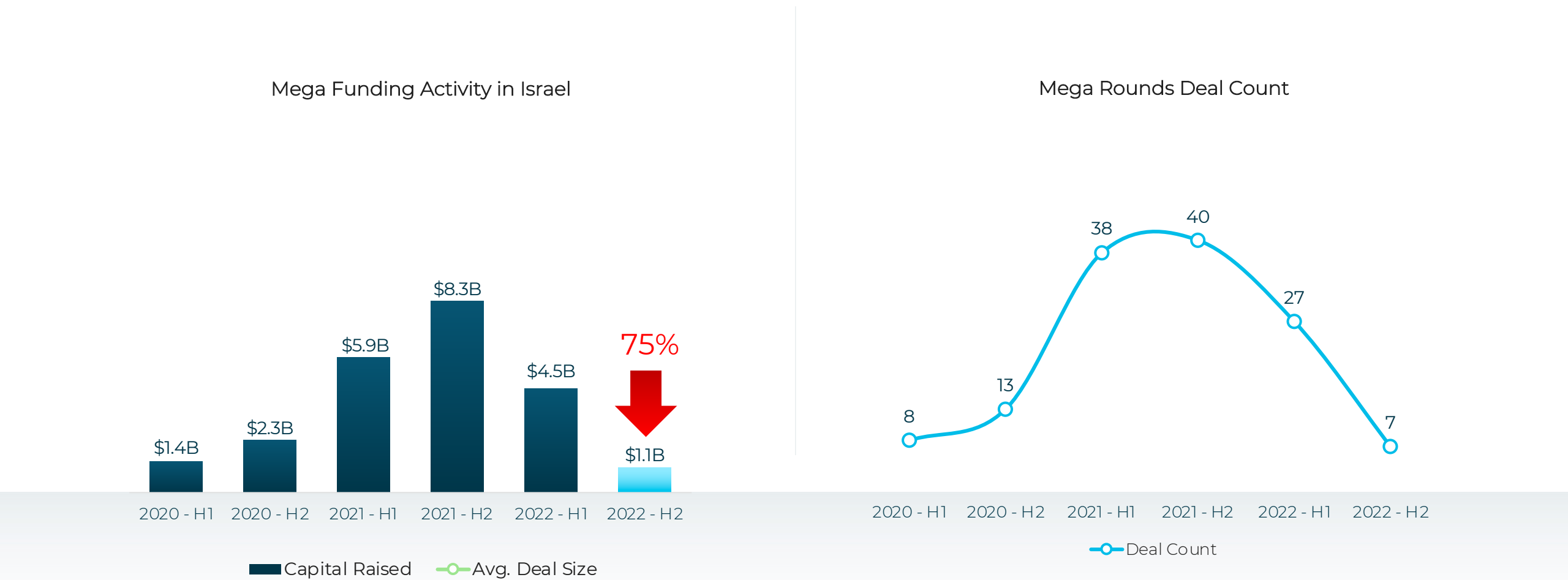


*Projected capital is the prediction of undisclosed early-stage rounds

Source: Viola Data, IVC



Mega stage deals showed the highest increase in 2021, followed by the sharpest dip in 2022

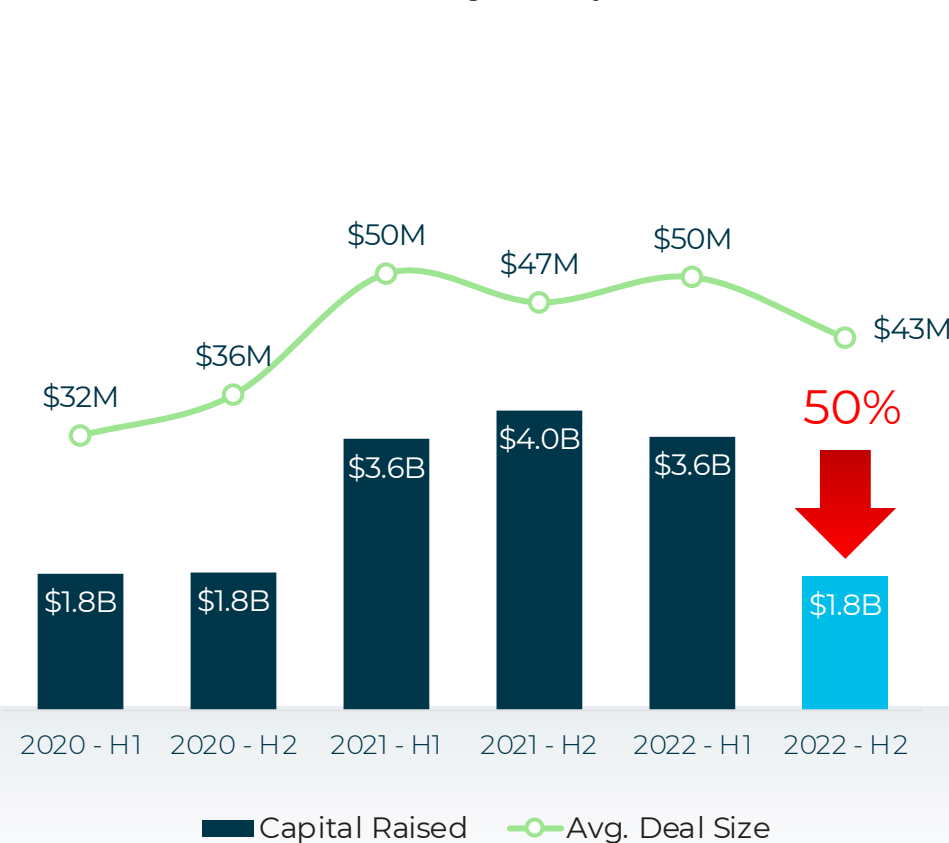


* 2022 data is based on our new methodology in which Mega Stage relates to rounds over \$99M

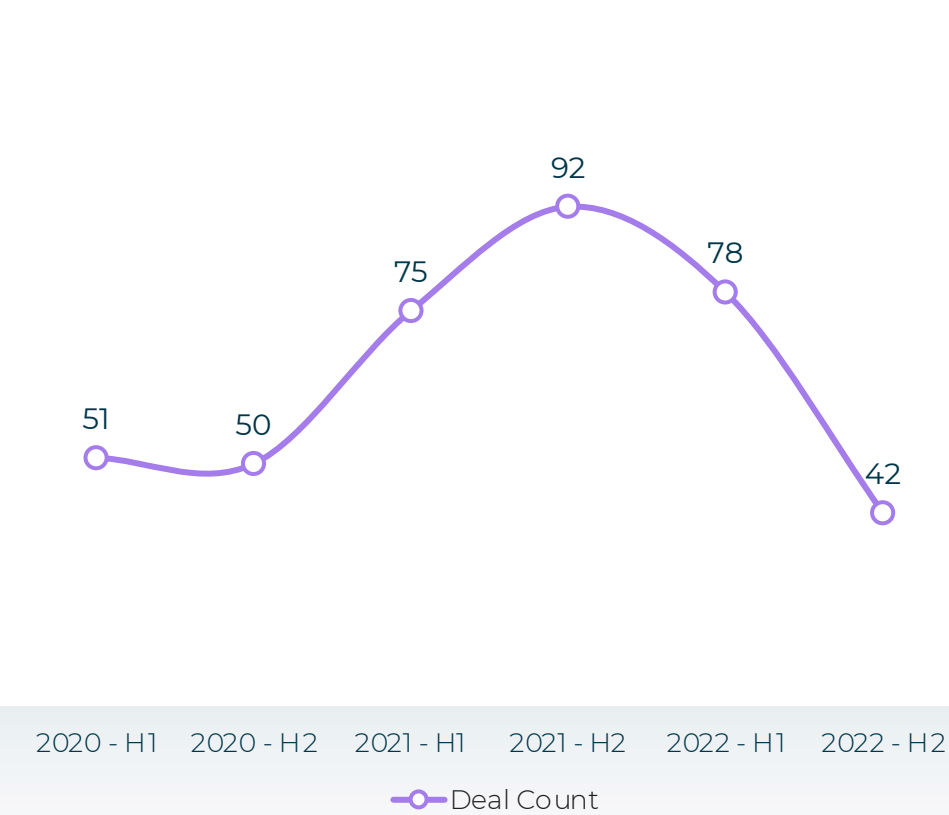


Growth stage accelerated its downward trend in H2

Growth Funding Activity in Israel



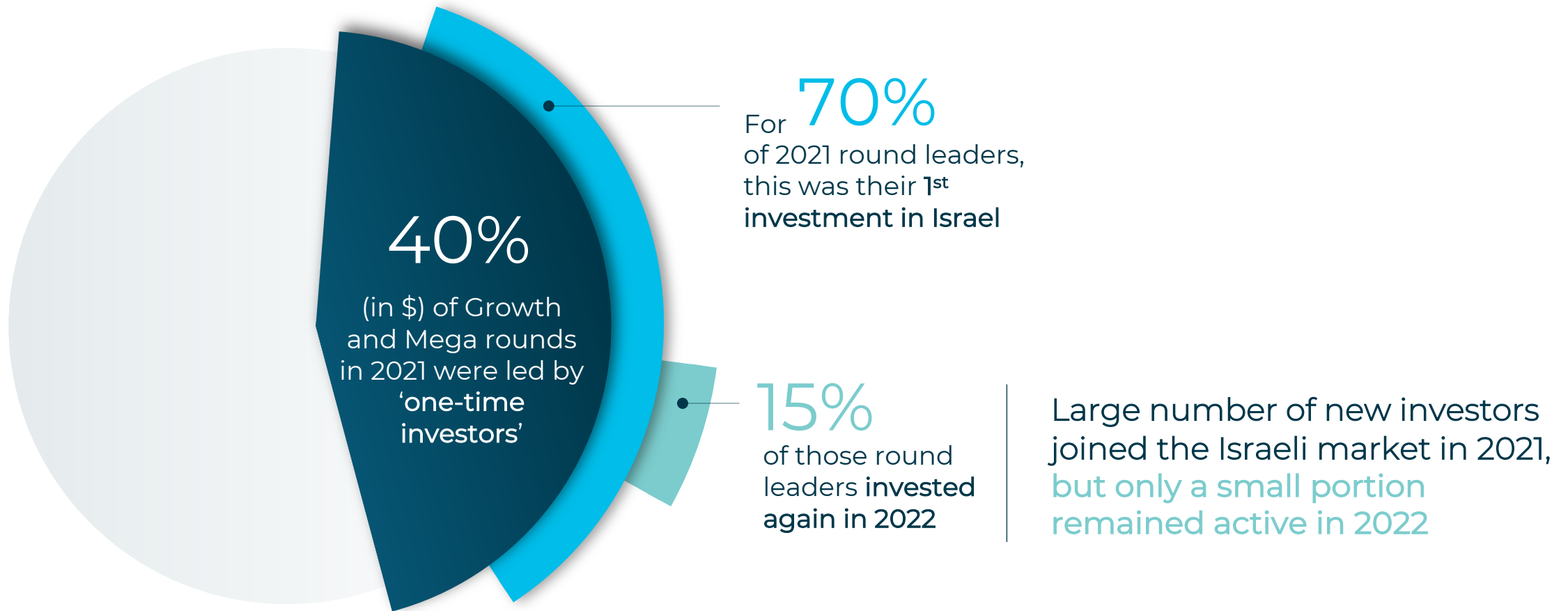
Growth Rounds Deal Count



* 2022 data is based on our new methodology in which Growth Stage relates to rounds between \$30-\$99M

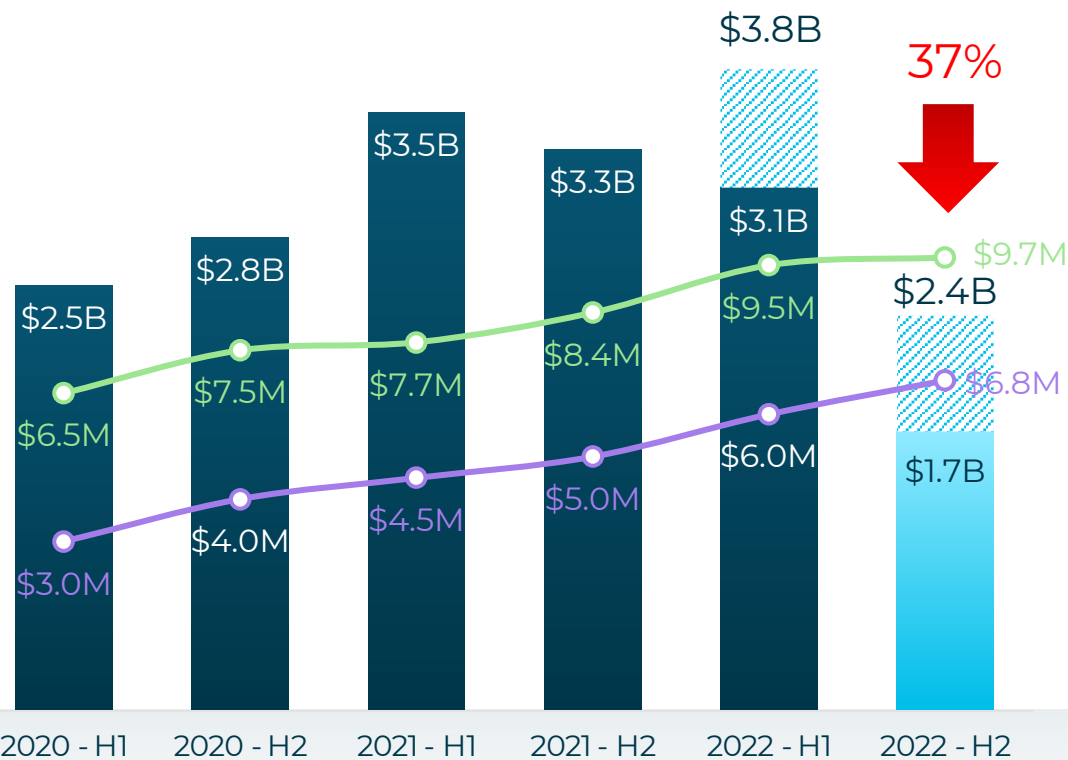


Many of the Mega and Growth investors who fueled the 2021 hype are no longer active in Israel

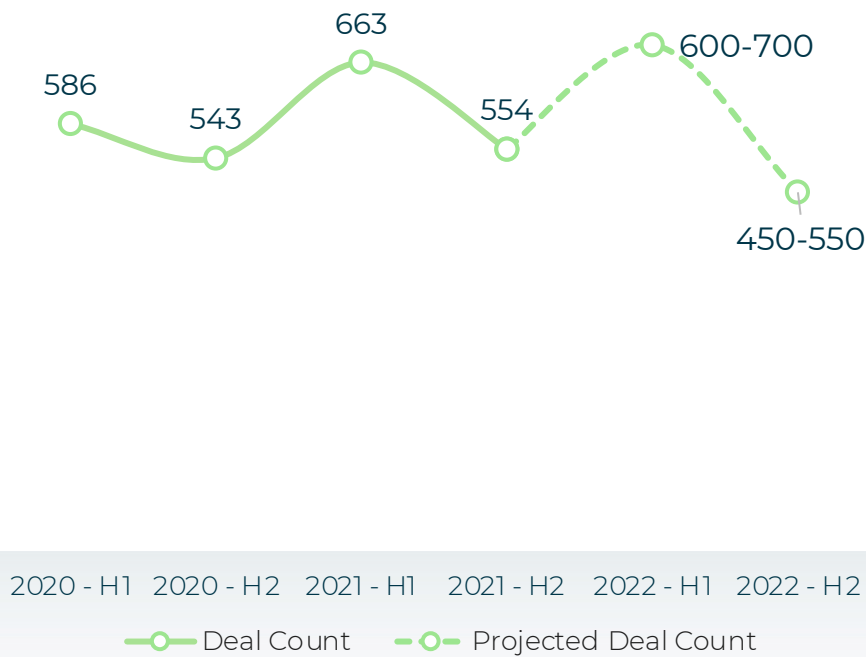


The slowdown has spread to Early stage, but hasn't reached its full effect yet

Early Funding Activity in Israel



Early Rounds Deal Count



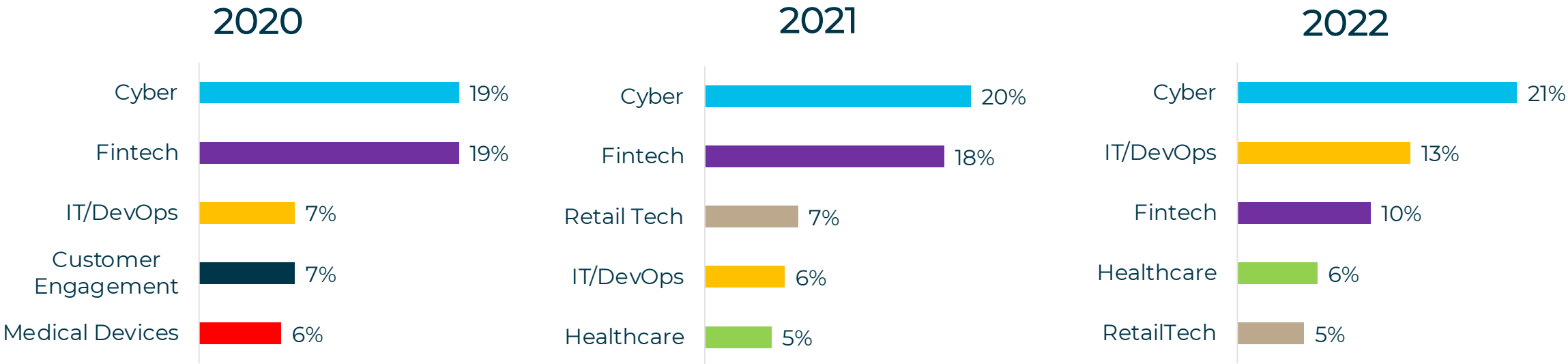
*2022 data is based on our new methodology in which Early Stage relates to rounds below \$30M
**Projected capital is the prediction of undisclosed early-stage rounds



Cyber security continues to lead as most active sector, with IT/DevOps & fintech 2nd and 3rd respectively



% of total capital raised in Israel, by Year and Category



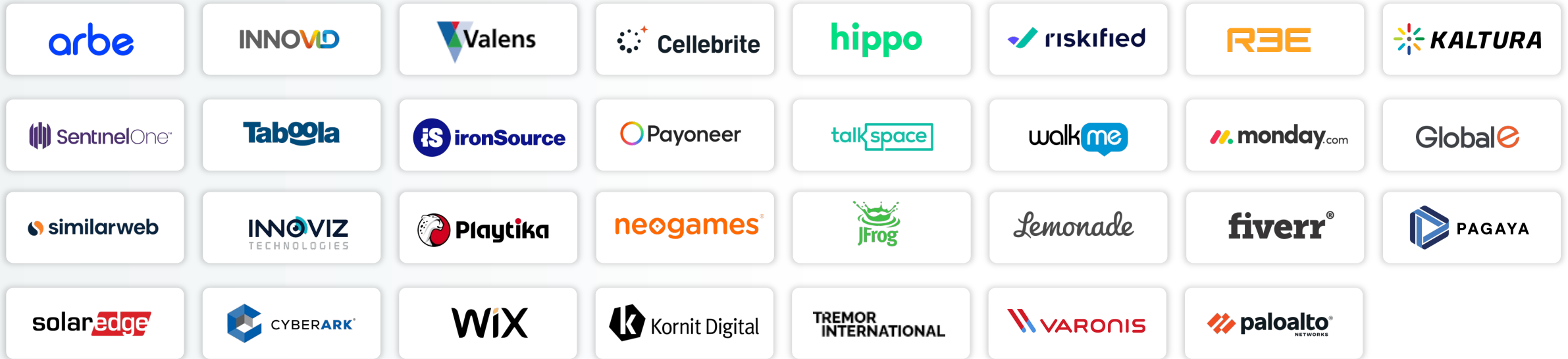


2022 Dramatic Valuation Correction

CHAPTER 3

Launching ITI - Israeli Tech Index

The new consolidated metric to track the performance of Israeli public tech companies



Viola's Israeli Tech Index

The index includes 31 Public Israeli tech companies that listed over the last decade

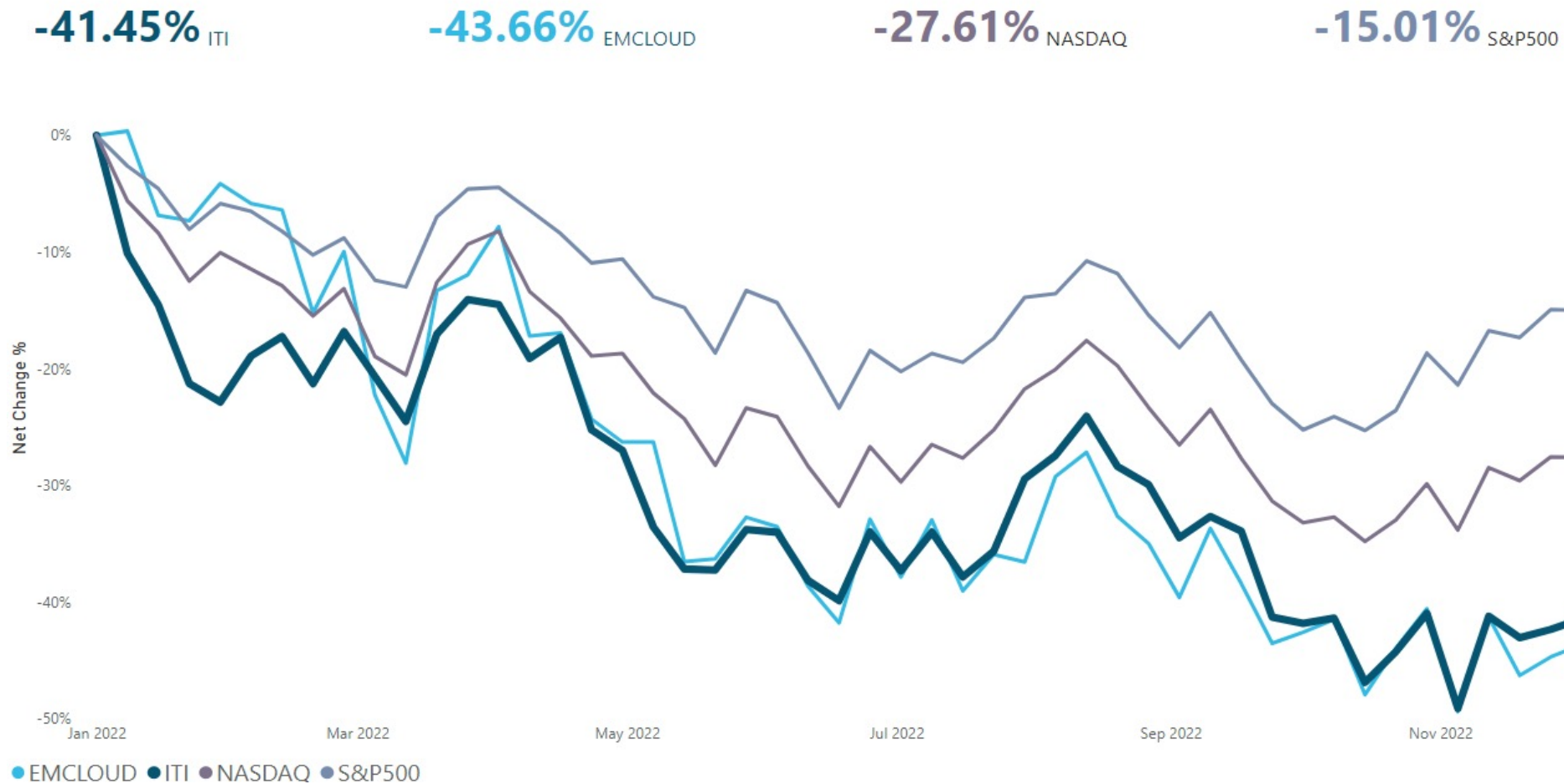
Market Capitalization-Weighted Index

Each component of the index is weighted relative to its total market cap

The Purpose

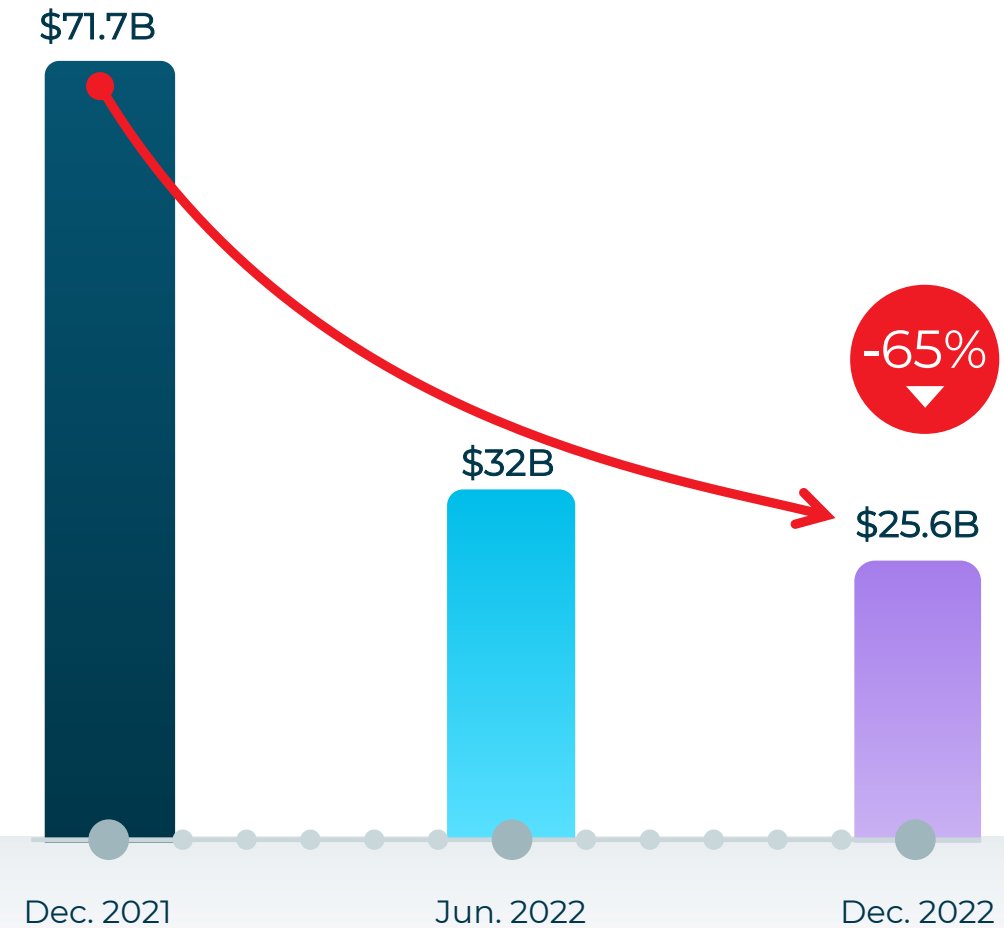
The Index is meant to create an intuitive, standard way to compare Israeli companies which are listed in US stock exchanges to the main tech indices

The ITI index performed similarly to EMCLOUD in 2022, yet significantly below NASDAQ



Israeli companies that went public in 2021 saw a 65% drop in market cap

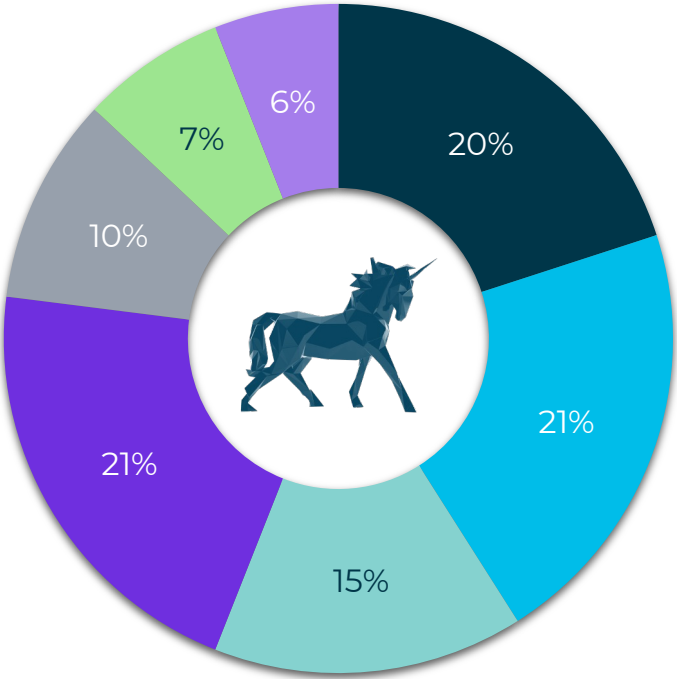
Top companies with IPO rounds in 2021 at NASDAQ or NYSE



Source : Viola Data, companies market cap



21 new unicorns minted in 2022 in Israel; 85 in total

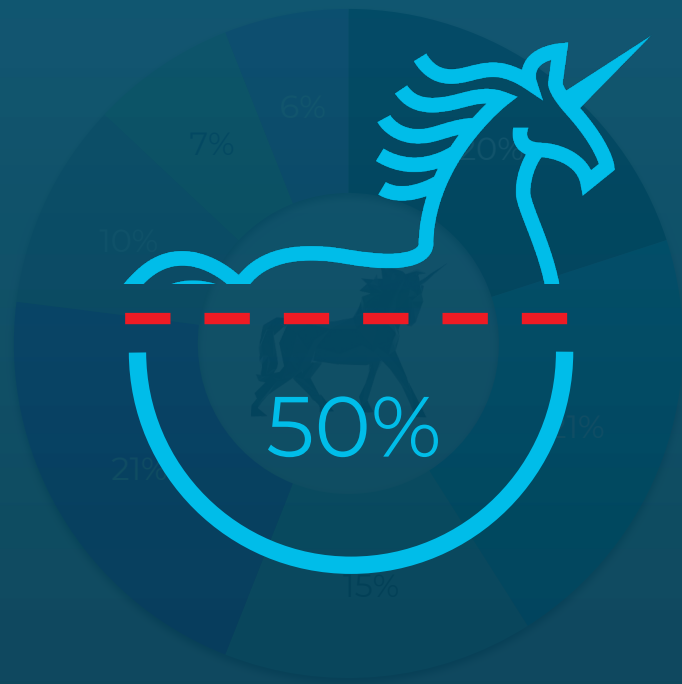


- Security
- Fintech & Insurance
- Horizontal Applications
- Adtech & Marketing
- Vertical Applications
- Infrastructure
- Consumer

Infrastructure 21%	<div> <div> </div> <div> </div> <div> </div> <div> </div> <div> </div> <div> </div> <div> </div> </div> <div> <div> </div> <div> </div> <div> </div> <div> </div> </div> <div> <div> </div> <div> </div> <div> </div> <div> </div> <div> </div> <div> </div> </div>
Vertical Applications 21%	<div> <div> </div> <div> </div> <div> </div> <div> </div> <div> </div> <div> </div> </div> <div> <div> </div> <div> </div> <div> </div> <div> </div> <div> </div> </div> <div> <div> </div> <div> </div> <div> </div> <div> </div> <div> </div> <div> </div> <div> </div> </div>
Security 20%	<div> <div> </div> <div> </div> <div> </div> <div> </div> <div> </div> <div> </div> <div> </div> <div> </div> <div> </div> </div> <div> <div> </div> <div> </div> <div> </div> <div> </div> <div> </div> <div> </div> <div> </div> <div> </div> </div>
Fintech & Insurtech 15%	<div> <div> </div> <div> </div> <div> </div> <div> </div> <div> </div> <div> </div> </div> <div> <div> </div> <div> </div> <div> </div> <div> </div> <div> </div> <div> </div> </div>
Horizontal Applications 10%	<div> <div> </div> <div> </div> <div> </div> <div> </div> </div> <div> <div> </div> <div> </div> <div> </div> <div> </div> </div>
Consumer 7%	<div> <div> </div> <div> </div> <div> </div> <div> </div> <div> </div> <div> </div> </div>
Adtech & Marketing 6%	<div> <div> </div> <div> </div> <div> </div> <div> </div> <div> </div> </div>



21 new unicorns minted
in 2022 in Israel; 84 in
total



- Security
- Fintech & Insurance
- Horizontal Applications
- Adtech & Marketing
- Vertical Applications
- Infrastructure
- Consumer

We believe **only 50%**
justify their unicorn status

based on our estimation of their current
revenue and offering

- The remainder will have to grow into their high valuation
- Very few new unicorns expected to emerge in 2023

Adtech &
Marketing
6%

AppsFlyer

OpenWeb

yotpo.

CHEQ

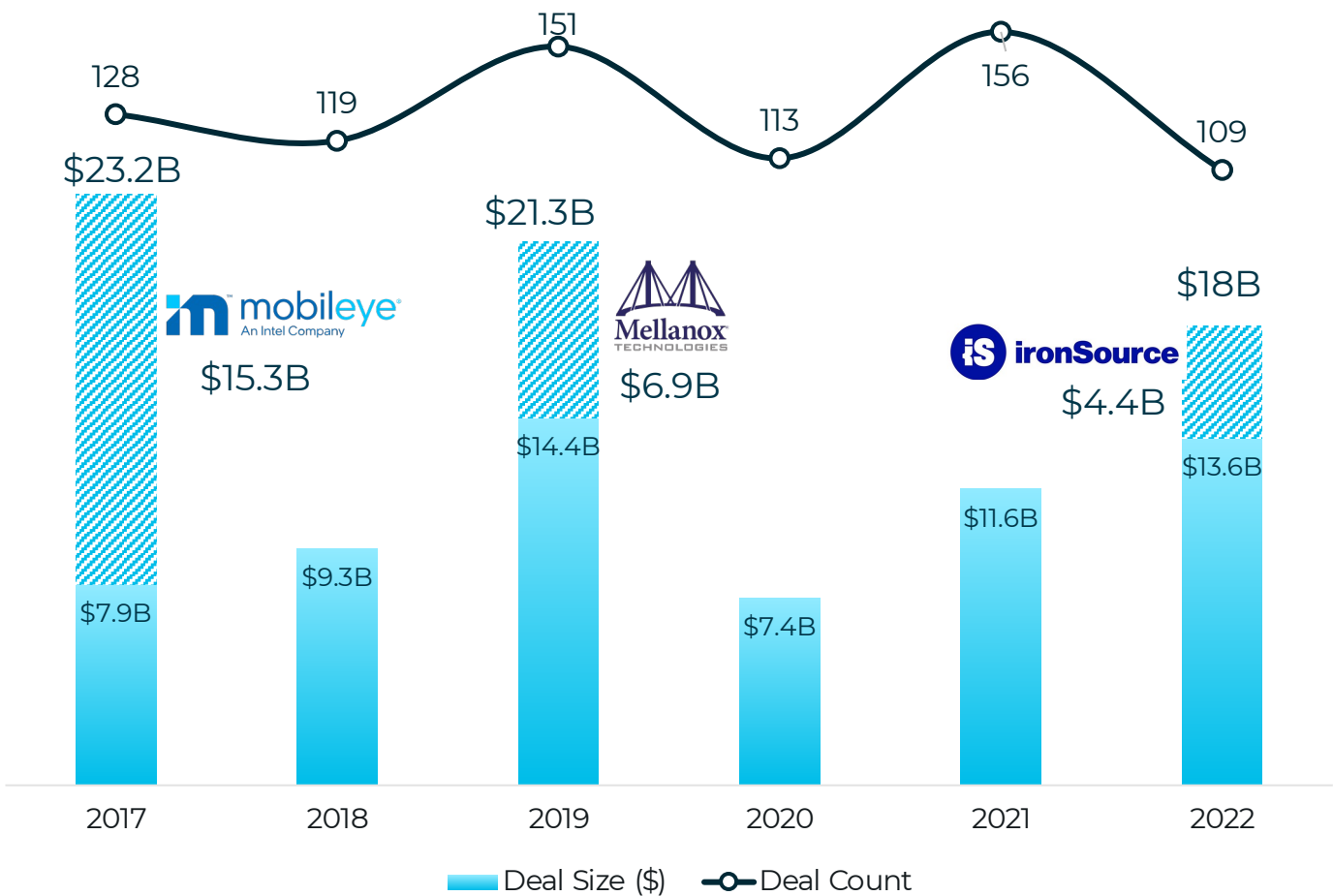
minute
media



The M&A market remains active



M&A in Israel, by Year



Notable M&As in 2022

ironSource
4.4B\$ Unity

Tower Semiconductor
5.8B\$ intel

GRANULATE
650M\$ intel

finaro
Formerly Credorax
575M\$ Shift4 PAYMENTS

cellwize
350M\$ Qualcomm

ZIMPERIUM
525M\$ LIBERTY

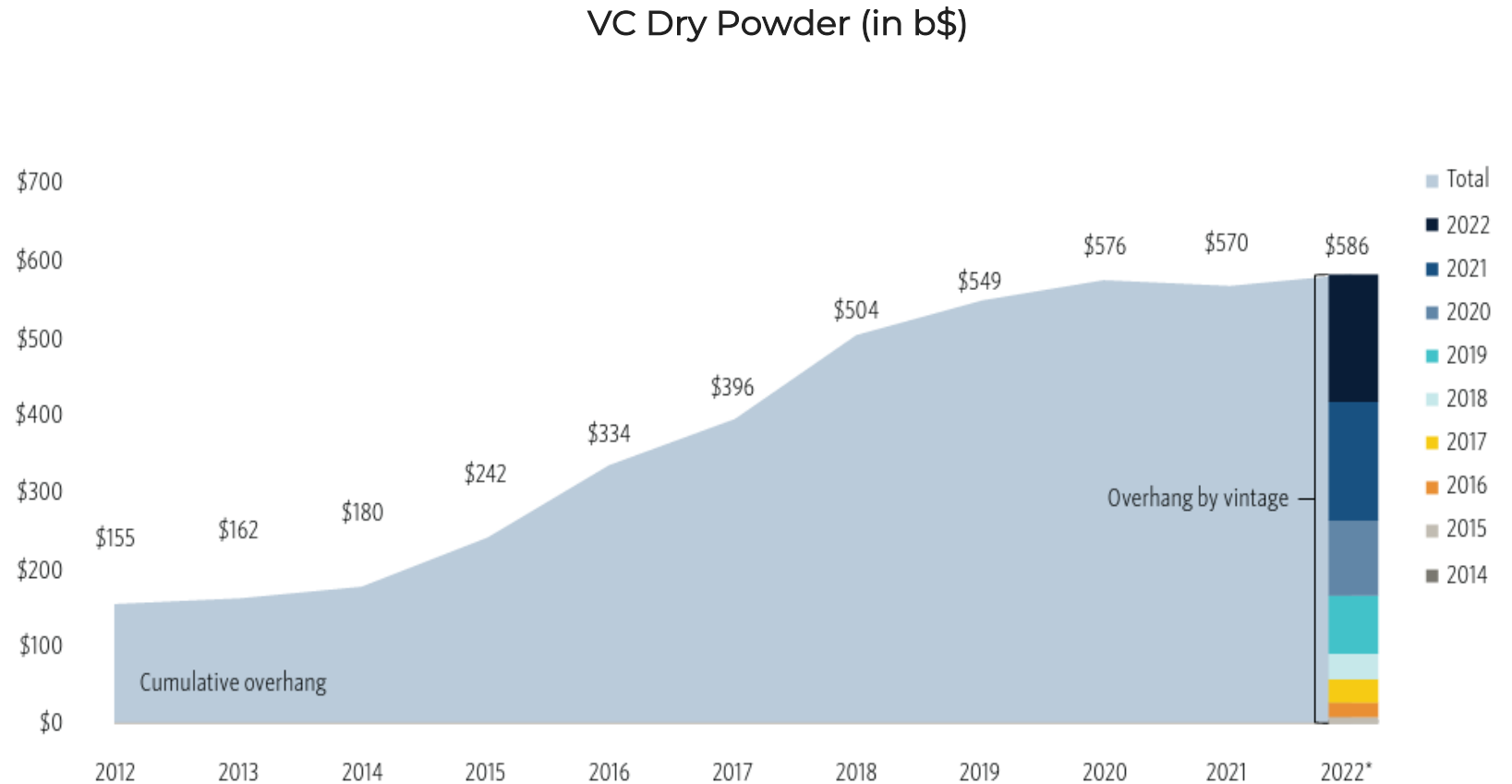




What's Next? Our Forecast for 2023

Despite the slowdown, significant dry powder is waiting to be deployed at a slower pace

- Market conditions make investors more cautious
- Yet, dry power is at record level high
- Tech adoption & digital transformation will not abate
- We will see adjustments of investment strategies across stages & verticals
- We expect to see an increase in equity fundraising in H2/2023



Source: Pitchbook



Late-stage companies will increasingly utilize debt

- As cost of VC equity financing increases, companies that have an alternative turn to debt
- Debt avoids significant dilution, and allows to extend the runway without setting a valuation price
- Available mostly to growth-stage companies with limited availability in early stage
- Similar to equity, the cost of debt increases and will become scarcer

2023 will see companies withdraw credit facilities, mostly taken in 2022

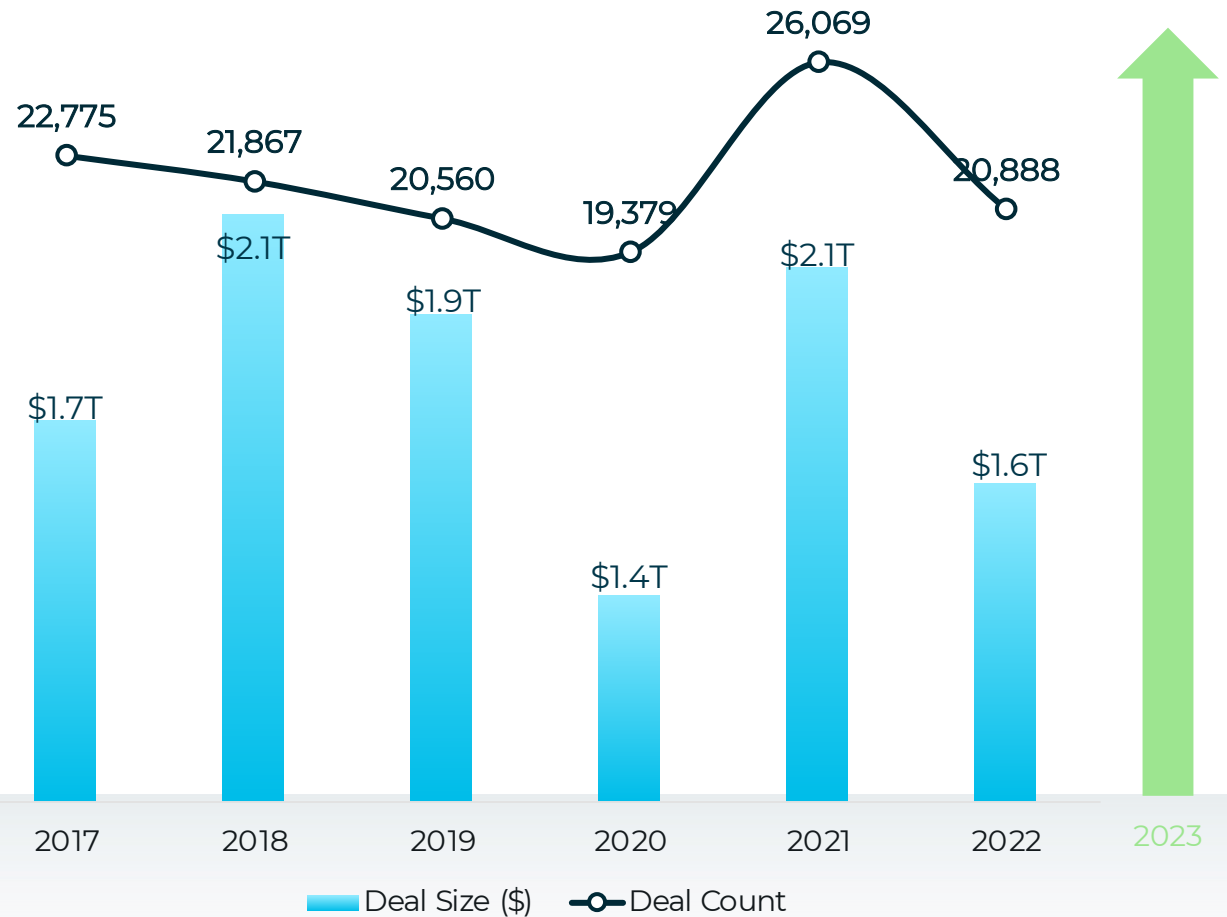


During the bear market, M&A activity will spike

- IPO window has closed
- Strategic buyers with substantial cash balances are in the market
- Attractive multiples environment for buyouts and rollups
- M&A will be the main alternative for exits in 2023



Global M&A,
by Year



The shift from growth to efficiency will continue

- Rule of 40% regained importance as valuation indicator in 2022
- Growth on its own doesn't explain valuation without some measure of profitability
- In 2023 we will see focus on sustainable business models



Source: Mertitech

Deal dynamics will change going forward



Focus on traction & efficiency

- Higher revenue threshold will be required beyond seed
- Retention and expansion will be pivotal
- Sales efficiency in growth stage will be a must



Higher dilution & protections

- Founders will surrender more control
- VCs will obtain more ownership per invested capital
- More structured deals (e.g., higher liquidation preference)



Governance is back

- Return of due diligence
- Emphasis on corporate governance
- Higher attention to reporting and audits



Overall lower valuations

- More extension rounds
- More down rounds
- Higher discount on secondary

SUMMARY – 2022 and Beyond

1 Looming recession with significant impact on private tech

2 No shortage of challenges in current environment

3 Refocusing on core business drivers to cope with challenges

4 Near future entails higher fundraising standards

5 Israeli tech ecosystem is meaningful, and will come out stronger

ABOUT VIOLA

Viola is Israel's leading technology-oriented investment group with over \$4.5B AUM, dedicated to building global category leaders. The group is comprised of 4 separate investment arms, focused on the different stages of the technology industry: Early stage, growth stage, debt & alternative lending and also a dedicated FinTech fund.

Founded in 2000, Viola has backed over 200 technology companies, including some of Israel's unicorns.

As part of our efforts to support our portfolio companies and entrepreneurs in their daily challenges, we leverage our extensive experience, know-how and BI database on Israel's tech ecosystem to create and share reports, industry maps, best practices and insights.

For questions or clarifications, please email us at OmriF@viola-group.com

To keep up with the latest on Israel's tech ecosystem, visit our website at www.viola-group.com

