

thetime
report

Grow
Up
Nation

The Israel internet industry 2014

Agenda

Introduction	Major Internet trends	10 facts about the Israeli Internet industry	Biggest Israeli Internet companies	Focus areas of Israeli Internet companies
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Unique capabilities of Israeli Internet companies	The funding challenge	The changing entrepreneur	The next generation	Methodology
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internet report | 2014 thetime

June 8th, 1998. Israel is captivated by the sale of Mirabilis to AOL for the unprecedented-at-the-time sum of 407 million dollars. There is probably no event more fitting for marking the advent of the local Internet industry.

16 years later, all signs indicate the Israeli Internet industry has grown up – and the term "industry" is finally beginning to reflect its accomplishments, in both qualitative and quantitative terms. It is now an established industry, with unique capabilities that can serve as foundations for continuous growth – an industry that does not necessarily seek an "exit".

Almost three years ago, when thetime decided to map the Israeli Internet industry from a different angle – not that of innovative start-ups, but rather of companies with annual income greater than 10 million dollars – the diagnosis was not that clear; the Israeli Internet industry was not saliently mature. The second edition of the Israeli Internet report, which is based on public sources, on numerous conversations with entrepreneurs and industry executives, and on data from VC databases, sketches a fascinating portrait of an industry undergoing transformation, and reveals the biggest companies, the growth areas, the capabilities that have developed in recent years – and the challenges ahead.

A digital world:

The major trends

It would be impossible to discuss Israeli Internet companies without first mentioning some of the most important trends in the industry in general.

Our canvas is too small to cover all of the important trends, but here are some facts and figures we should all be familiar with.



Mobile



Social



Sharing



Gaming



Advertising



ecommerce

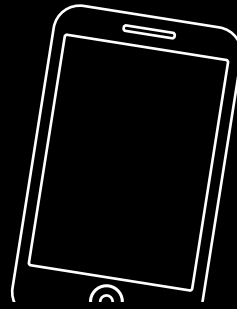


Internet of Things



Video

Mobile



2013

The year in which smartphone sales exceeded feature-phone sales.

In 2011 smartphone sales exceeded PC sales



1.75Bn

Estimated number of smartphones in use globally at the end of 2014.

Compared with 900M in 2011



25Bn

Size of the app economy at the end of 2013.



Mobile

800M

Number of iOS devices (iPhone / iPad / iPod) sold by mid 2014.

Compared with 316M by the end of 2011



1.5M

Global daily activations of Android devices.

Compared with 850,000 at the end of 2011



1.07Bn

Monthly active mobile users of Facebook, July 2014.

Compared with 425M at the end of 2011



Social

1.32Bn

Monthly active Facebook users,
July 2014.

Compared with 845M at the end
of 2011



4.5Bn

Daily number of likes on
Facebook, May 2013.

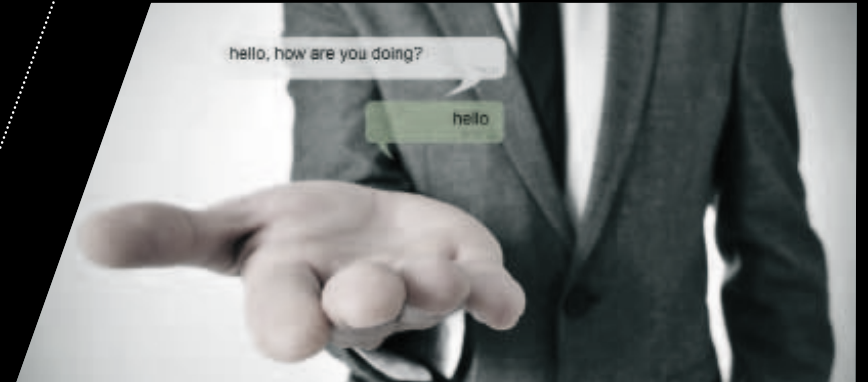
Compared with 2.7Bn at the end
of 2011



345M

The amount, in dollars, Facebook
paid per employee of WhatsApp
(19Bn, 55 employees)

Compared with \$77M per Instagram employee



Social

313M

Number of LinkedIn users,
July 2014.

Compared with 150M in February 2012

97%

Growth in Facebook stock
price from its May 2012 IPO
until mid-August 2014.

303%

Growth in Facebook stock price
from its May 2011 IPO until mid-
August 2014.



Sharing

18Bn

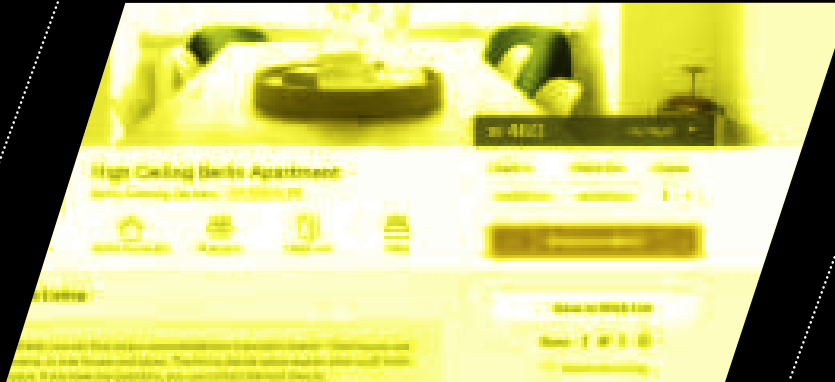
Number of daily messages sent on WhatsApp in January 2014

Compared with 19.5Bn daily SMS texts.



600,000

Number of Airbnb listings on April 2014, similar to the global room count of all Hilton-branded hotels.



17Bn

Uber's valuation, in dollars, following June 2014's funding round of \$1.2Bn.



Sharing

580,616

Tweets per minute record set during the Germany-Brazil world cup semi-final game.

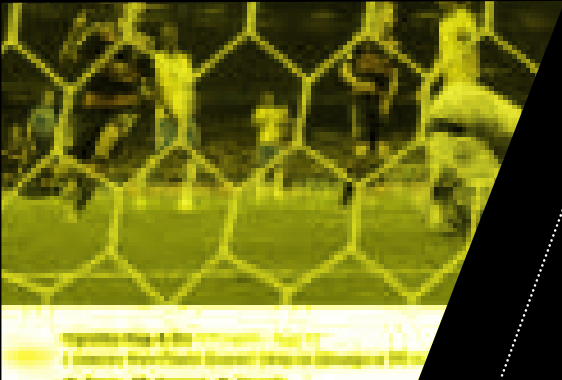
700M

Number of messages (snaps) shared per day on Snapchat, May 2014.

480M

Amount, in dollars, pledged by Kickstarter users in 2013.

Compared with \$99M in 2011



Gaming

970M

Amount, in dollars, paid by Amazon for video game streaming site Twitch, August 2014.

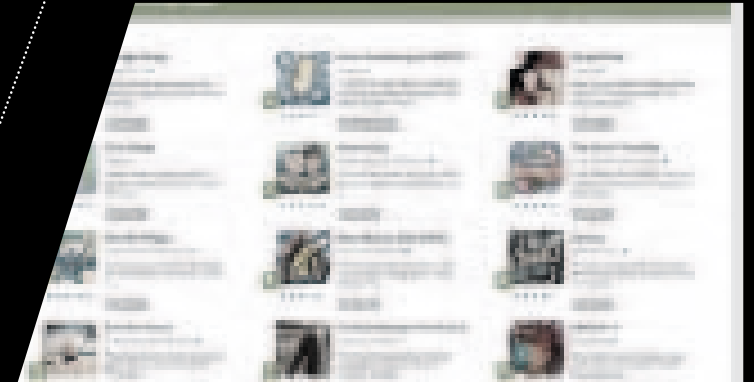
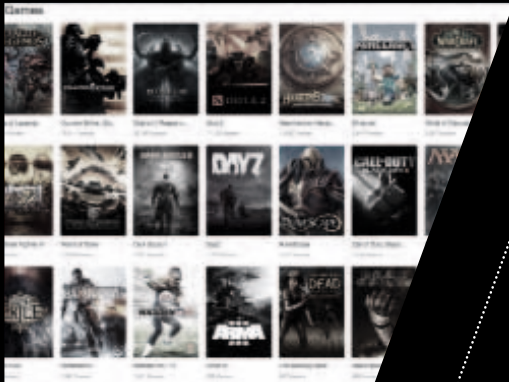
32%

Share of time devoted to games out of total time spent on mobile apps, April 2014.

92%

Share of revenue generated by games out of Google Play's total revenue.

At Apple's app store, the figure is 79%



Gaming

30M

Number of subscribers to the PewDiePie youtube channel, in which a Swedish guy films himself playing video games. No other personal channel has more subscribers.



500M

Number of Candy Crush Saga downloads in 2013.

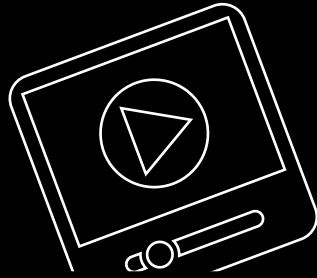


40%

The decline in King Digital Entertainment's stock price since its IPO in March 2014. King is the maker of Candy Crush.



Video



1.264

Forecasted global video traffic, in zettabytes (a thousand billion gigabytes), in 2018.

A threefold increase since 2013



100

Hours of video uploaded to YouTube every minute, May 2013.

Compared with 60 hours in December 2011



6Bn

Number of videos viewed every day on YouTube, May 2013. More than one trillion views per year.

Compared with 4Bn in December



Video

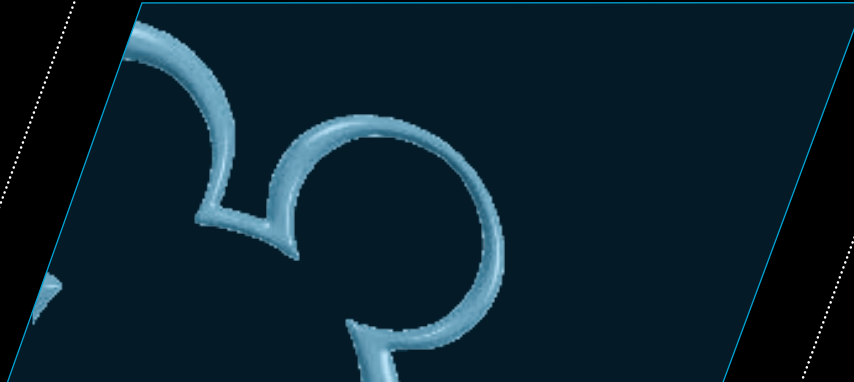
2Bn

Number of Gangnam Style views recorded by July 2014, in less than two years – an all-time high.



500M

Amount, in dollars, paid by Disney to acquire Maker Studios, a leading youtube multichannel network.



50M

Number of Netflix subscribers, July 2014.

100% growth since 2011



Advertising

137Bn

Estimate, in dollars, of global online advertising revenue, in 2014.

Compared with \$73Bn in 2011



31.5Bn

Estimate, in dollars, of global mobile advertising revenues in 2014.

Compared with \$3Bn in 2011



32.6Bn

Forecasted global expenditure, in dollars, on programmatic display advertising in 2017.

Compared with \$2.8Bn in 2011



Advertising

218%

Increase in average Facebook Ads CPM in the past year (July 2014).

64%

Decline in average CPC on Google in the past 3 years.

42%

Forecasted share of search-based advertising out of the US online advertising pie in 2017.

Compared with 47% in 2011



ecommerce



2 trillion

Forecasted global ecommerce spending, in dollars, in 2016.

Compared with \$1trillion in 2012



263Bn

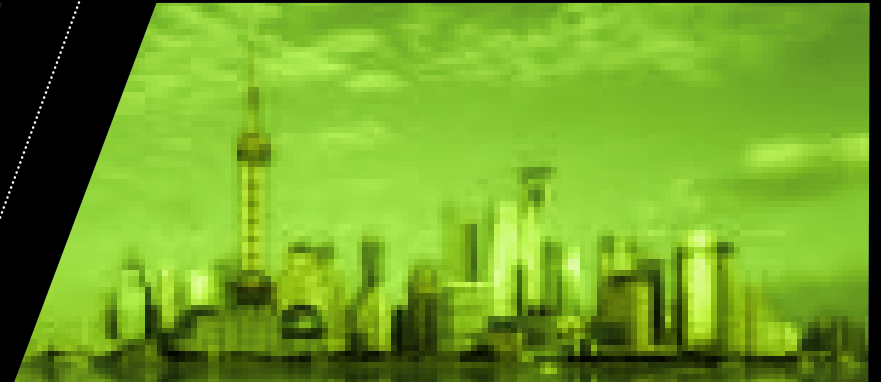
US ecommerce spending in 2013, in dollars.

Compared with \$194Bn in 2011



290Bn

China's ecommerce spending in 2013, in dollars.



ecommerce

57.8Bn

Forecasted US mobile commerce spending, in dollars, in 2014.

Compared with 13.6Bn in 2011



279M

Number of active buyers on Alibaba in the second quarter of 2014.

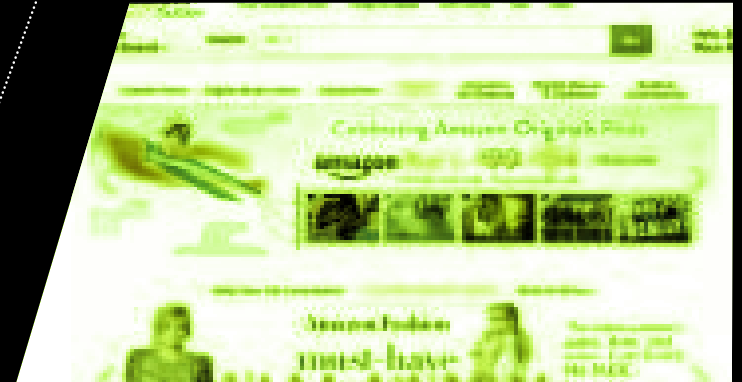
Compared with 133M in the second quarter of 2012



91Bn

Amazon's forecasted revenue in dollars in 2011.

Compared with \$48Bn in 2011



Internet of Things@

50Bn

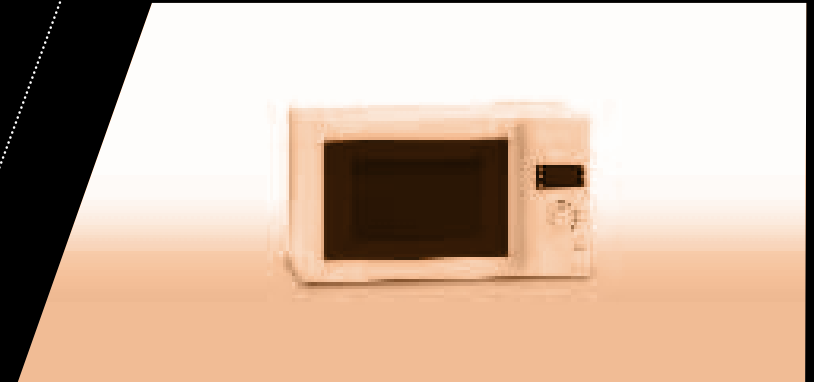
Estimated number of “things” that will be connected to the internet by 2020.

9Bn

Estimated number of things connected to the internet in 2012.

0.6%

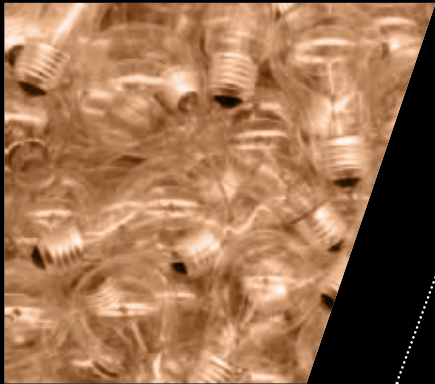
Percentage of things connected to the internet in 2012.



Internet of Things

2008

The year in which the number of things connected the internet surpassed Earth's population.



19trillion

Estimated total size, in dollars, of the Internet of Things market in 2020.



3.2Bn

Amount, in dollars, paid by Google for smart thermostat maker Nest, January 2014.



10 facts

about the Israeli Internet industry

A digital world: The major trends

1,532

Number of active Israeli Internet companies in 2014
(compared with 1,150 in 2011)

\$417M

Amount of capital raised
in the first half of 2014

\$2.1Bn

Total sum of Internet
industry exits in 2011

7

Number of IPOs so
far in 2014

307

Number of Internet
companies founded in 2013

26%

The Internet's share out of total
capital raised in the hi-tech sector

9

Number of exits
in 2013

2

Number of IPOs
in 2013

102

Number of Internet
companies closed
in 2013

\$238M

Average exit amount,
highest of all hi-tech
sectors

The 100 Club:

Biggest Israeli Internet companies

Based on available data, 15 global Israeli Internet companies are forecasted to reach annual revenues of at least 100 million dollars in 2014 (compared with 6 companies in the previous report).

Their total combined revenue is approximately 3.6 billion dollars – more than the entire list of companies in the previous report.

3.6 Billion Dollars:

Total combined revenue of the 100 Club



564



426

Perion

390



ironSource

270

MATOMY

260



250



250



190



iMesh

170-200



180



Markets

150-180

Borderfree

140



130



PLARIUM

100-120



90-100

Ninety 10 Million Dollar companies

Based on available data, about 90 global Israeli Internet companies are forecasted to reach annual revenues of at least 10 million dollars in 2014 (compared with 50 companies in the previous report).

Their total combined revenue approaches 6 billion dollars (compared with 2.5 billion in the previous report).

80 to 100 Million Dollars:

Payoneer	CoolVision
Supersonic Ads	iForex
Credorax	bForex
R2Net	lbario

50 to 80 Million Dollars:

DMG	SafeCharge
Crossrider	Marimedia
StartApp	Applause (uTest)
Revizer	MyThings

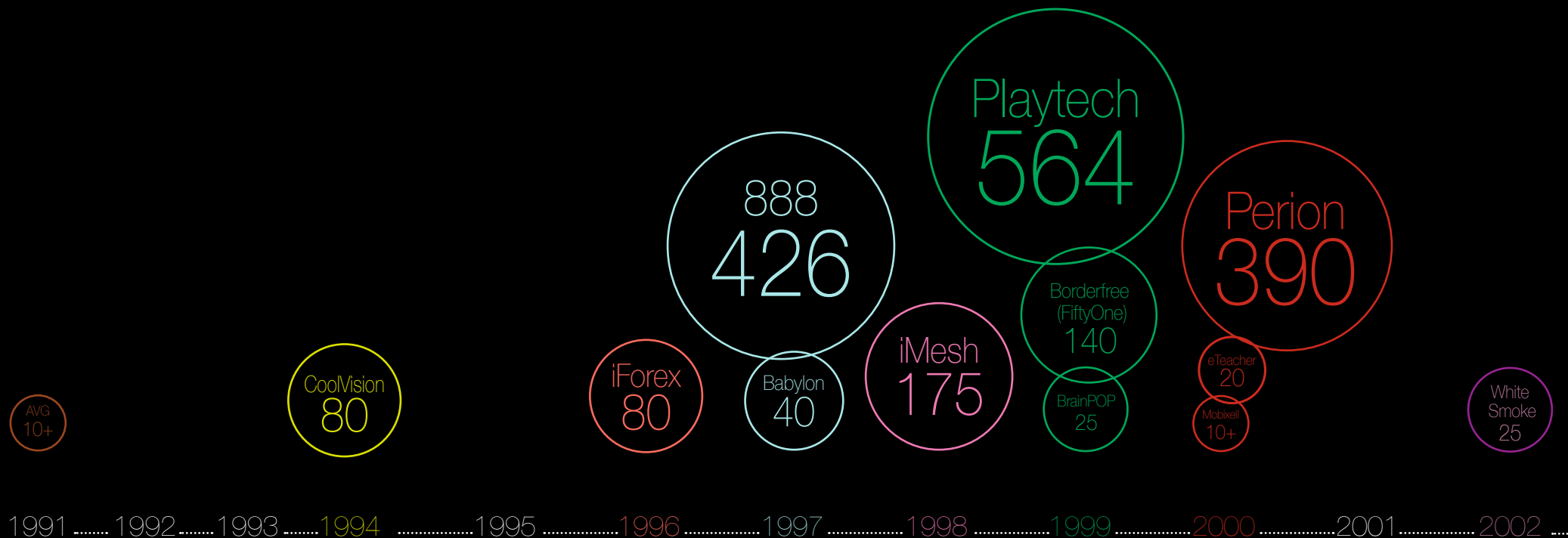
30 to 50 Million Dollars:

SuperFish	AnyOption/eTrader	eXelate	Innovid
MyHeritage	EasyForex	Gigya	Get Taxi
eToro	XLMedia	4XPlace	
Kaltura	Babylon	OneHourTranslation	
		TabTale	

10 to 30 Million Dollars:

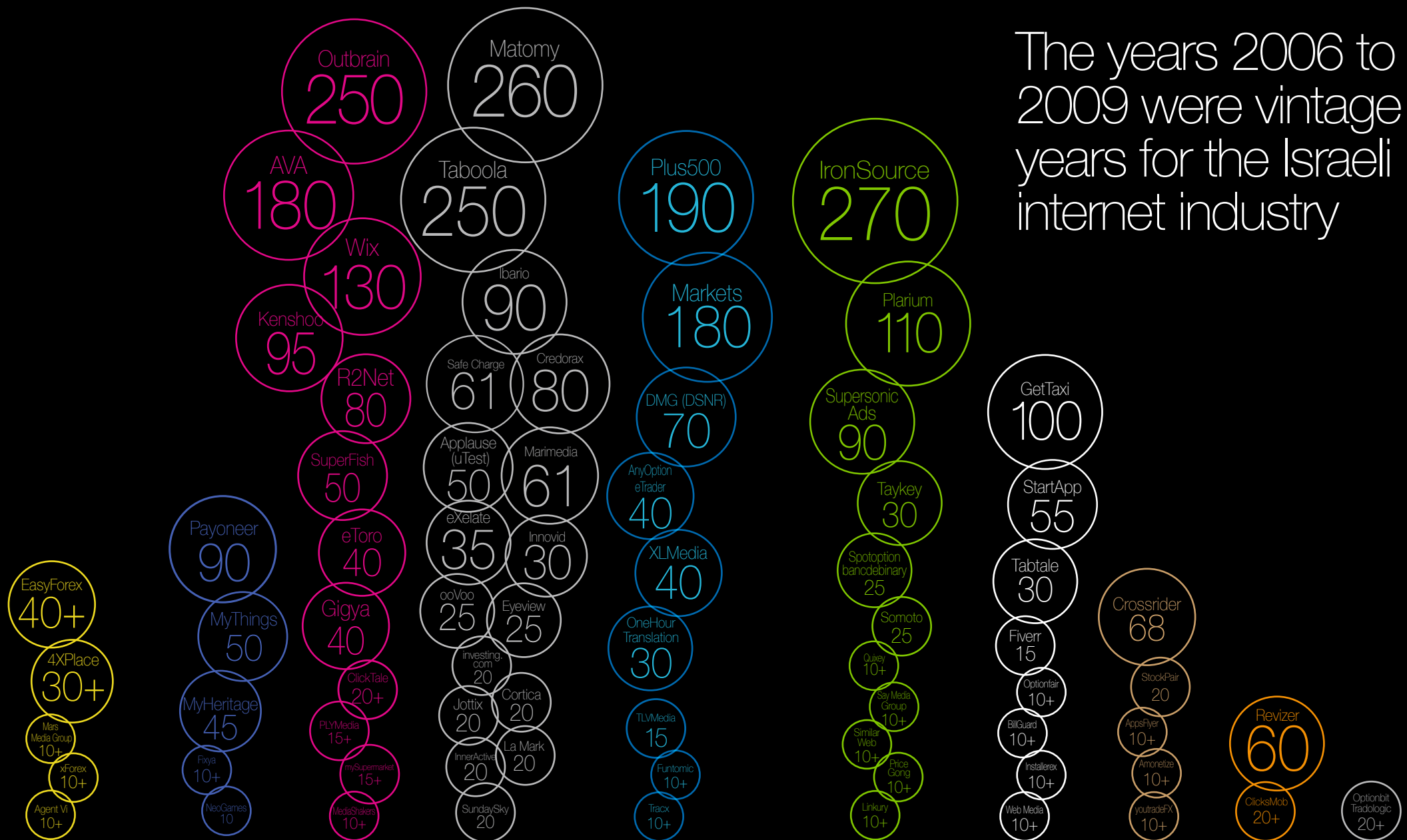
Taykey	ClickTale	Somoto	AVG	SimilarWeb
Eyeview	Optionbit/	mySupermarket	Installerex	Fixya
BrainPOP	Tradologic	PLYMedia	Amonetize	Funtomic
ooVoo	InnerActive	Fiverr	Web Media	Linkury
Sotoption/bancdebinary	SundaySky	Quixey	Say Media	Price Gong
White Smoke	StockPair	AppsFlyer	Group	Tracx
ClicksMob	La Mark	xForex	MediaShakers	youtradeFX
investing.com	Cortica	Optionfair	Mars Media	NeoGames
eTeacher	Jottix	Mobixell	roup	
	TLVMedia	Agent Vi	BillGuard	

A chronological view of the 90 companies



1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002

The years 2006 to 2009 were vintage years for the Israeli internet industry























2003.....2004.....2005.....2006.....2007.....2008.....2009.....2010.....2011.....2012.....2013

The Quarter-Billion-Dollar Club

The aggregate market value of the ten biggest companies on our list is nearly 11 billion dollars, compared with 3.5 billion in the previous report. Moreover, the current list includes at least 14 companies with a market value in excess of 500 million dollars (estimated values or post-IPO valuation), and at least 20 companies with a market value in excess of 250 million dollars. If we add to this "club" companies such as GetTaxi and exits such as Waze, Viber, Adap.tv and Check, the figures climb to 16 and 24, respectively. In comparison, the previous report included only 3 such companies! Companies belonging to this club not only boast a high net worth, the great majority of them are growing and profitable companies relying on solid business fundamentals – i.e., this is not a bubble.

However, not everyone we spoke with shared the enthusiasm about the list. The reason is the supposition that despite the industry's rate of growth in recent years, the gap between the Israeli and American Internet industries has in fact widened. "While we grew four-fold, Silicon Valley has grown 20-fold," said one of the venture capitalists we interviewed. The growth is indeed impressive, but we must not rest on our laurels.

				
*3,469	1,200	1,000	1,000	*887
 ironSource				
800	*734	700	*609	*505
		 Borderfree		
500	500	*441	*439	400
				
350	350	*344	300	250

* Traded company, market cap as of 28.8.2014.
Partial list; information based on public sources

Focus areas:

Coming out of the
shadows

Coming out of the shadows

A look at the industry sectors on which Israeli Internet companies focus their efforts reveals an interesting trend, one that we call Coming out of the shadows. In the previous report, gambling and forex companies stood out. In fact, seven of the ten largest companies in the report belonged either to sectors that were perceived as shady by entrepreneurs we interviewed (gambling, forex, porn), or to the "grey" area of "Download Valley". These sectors are still prominent on the list, but their weight has declined: 7 of the 15 companies with an annual turnover of more than 100 million dollars belong to them. Gambling and forex have remained stable (despite the ever-present threat of regulation); the binary options sector has risen alongside forex.

The situation is different in "Download Valley". The sector is undergoing a shake-up, primarily due to practice-altering directives imposed on the companies from the outside (i.e., from Google), and due to users' switching to mobile. The wave of mergers and acquisitions that has swept the sector over the past two years marked the beginning of the struggle, not its end. Companies that acted in advance to diversify their sources of income – IronSource, for example – came out relatively unscathed; those who failed to do so, crashed (Babylon). Most companies (Perion, Ibario, Revizer, Crossrider, Somoto, White Smoke, etc.) are still trying to cope with the changes.

A significant number of Israeli companies focus on digital advertising. Israel is a global leader in native advertising, thanks to pioneers such as Outbrain and Taboola. In performance-based advertising, Matomy and Supersonic Ads have shown impressive growth. Mobile advertising companies (such as StartApp) are also on the rise, as are ad-tech companies (eXelate, Taykey, Eyeview). At the same time, there are a few companies whose growth has stalled (DoubleVerify, Massive Impact and TLVMedia).

In addition, several other areas should be noted, such as: Data analytics (ClickTale, AppsFlyer and more), payments (Payoneer, Credorax and SafeCharge), ecommerce (Borderfree), gaming (Plarium), content management and distribution (Kaltura), and crowdsourcing (Applause, BillGuard and more)



(21)

Advertising & Ad tech

Matomy
Supersonic Ads
DMG (DSNR)
Marimedia
XLMedia
Innovid
SundaySky
Jottix
TLV Media
PLYMedia
Web Media
Say Media Group
MediaShakers
Mars Media Group

Outbrain
Taboola
Kenshoo
MyThings
eXelate
Taykey
Eyeview



(4)

Mobile advertising

StartApp
ClicksMob
InnerActive
Mobixell



(15)

Forex & Binary options

AVA
Markets
iForex
bForex
AnyOption/eTrader
EasyForex
4XPlace
Spotoption/bancdebinary
Optionbit/Tradologic
StockPair
xForex
Optionfair
youtradeFX
Plus500
eToro



(3)

Gambling

Playtech
888
NeoGames



(3)

Gaming

Plarium
Tabtale
Funtomic



(14)

Downloads

iMesh
Perion
IronSource
Ibario
Crossrider
Revizer
Babylon
White Smoke
Somoto
AVG
Installerex
Amonetize
Linkury
Price Gong



(3)

Payments

Payoneer
Credorax
SafeCharge



(5)

Crowdsourcing

Applause (uTest)
OneHourTranslation
Fiverr
BillGuard
Fixya



(3)

Search

SuperFish
Quixey
Cortica



(7)

Other

Wix
GetTaxi
MyHeritage
ooVoo
Investing.com
Kaltura
CooMision



(3)

ecommerce

Borderfree
mySupermarket
R2Net



(2)

Social media management

Gigya
Tracx



(4)

Data analytics

ClickTale
AppsFlyer
Agent Vi
SimilarWeb

Israeli strengths:

Not just
technology

Not just technology

Israel was and continues to be a technological powerhouse, yet the success of Israel's Internet industry is not solely based on technology. There is a consensus among people inside and outside the industry that Israel is a global leader in online marketing (OLM). The deep know-how accumulated inside "shadow companies", of direct marketing to online users, has permeated and spread to other Israeli Internet companies, in all sectors (unsurprisingly, the number of people practicing direct online marketing in Israel exceeds 20,000; in comparison, 4,000 people work in the traditional advertising industry).

Such online marketing is based on three pillars: automation, optimization and monetization. Commoditization of Internet media has spurred the development of the first pillar. When media is a commodity, those who use technology to automate the media buying process may have a clear advantage. But automation of the process is not enough; it must be carried out in a sophisticated manner – performing real-time dynamic optimization, analyzing hundreds of millions and even billions of bits of data. Finally, you must know exactly what the user acquisition cost is – know that a customer is worth X, and acquire it for less (what some call "unit economics"), in order to attain a positive ROI.

These analytical and commercial competencies are keys to Wix's success; the company is successful in a highly competitive category due to a marketing advantage rather than a technological one. This is also true for Outbrain and Taboola – the category they invented, and which they lead, is based on optimization and monetization, the ability to generate more revenue for publishers.

Bring me an Israeli CEO

Beyond technology and OLM prowess, many of those we spoke with noted the marked improvement in Israeli management skills.

“If you look at the past decade, there is significant improvement. Whereas once management was American, today it is mostly Israeli,” said a partner at one of the leading law firms serving the hi-tech sector. The data backs his assertion: of the 20 companies with the highest turnover on the list, 14 are led by Israeli CEOs. Industry veterans smile when telling the story of the VP Marketing who got hired thanks to his native English; executives’ country of origin might still vary today, but with the development over time of Israeli management at large companies, chances are high these days the CEO will be Israeli.

Bring me an Israeli CEO

This does not mean there is enough managerial talent in the market. “I think we have all the skills in the world”, told us a VC partner. “The main barrier to leaping forward is management. There are not enough local role models. How many Israeli executives of Internet companies have managed a company with more than 100 million dollars in revenue? How many have managed a billion-dollar company? If you try to assemble such a list for the hi-tech industry, you'll have Gil Shwed, and who else?” Others agree: “It's true there are now large companies, but the fact there is a growth in revenues does not necessarily mean the organizational DNA has changed. Such a change is key for building a large Internet company – that is, a management capable of re-inventing itself and the company. This is still a shortcoming of Israeli companies, and that is where they will be tested over time. IronSource has it; Taboola and MyHeritage have it. But many companies lack it”.

However, the trend speaks for itself – and contradicts one of the theses of the book Start Up Nation: Israeli entrepreneurs can also become successful managers. In Israel, as in Silicon Valley – whereas in the past the belief was that an entrepreneur should hand the reins over to a professional executive for the company to achieve serious growth, the current approach is different: the founder can definitely be the manager that grows the company.

The network effect

The improvement in Israeli Internet companies' management capabilities can be attributed to another strength cited by quite a few of the people we interviewed: the development of a real ecosystem in and around the Israeli Internet industry. This is about more than the social element – after all, the distance between Israelis is often zero degrees of separation, hi-tech community included. “We see a snowball effect, where a person who gained a lot from the industry, gives back – in money, as well as in knowledge and experience,” said one of the entrepreneurs. “Once there was only one Yossi Vardi – now there are many Yossi Vardis. People who water the tree that fed them. This is in contrast, say, to retail – someone who has sold a large supermarket does not fund 30 small kiosks. An amazing ecosystem has developed here”.

This is further proof the industry is growing up.

“Once there was
only one Yossi Vardi
– now there are
many Yossi Vardis...”

Getting to know
the consumer:
B2C or not 2C?

B2C or not 2C?

Lately, in discussions concerning the competencies of Israeli Internet companies, people often refer to Israel's growing strength in the Business to Consumer (B2C) arena. The question is whether this claim has a basis in reality.

The debate originates with recent Israeli success stories – Waze and Wix are most often mentioned, as is Viber (three exits of close to a billion dollars; over the past decade there have been only three exits in the Israeli hi-tech industry that crossed this threshold). Here, the optimists claim, is the proof of our strength in consumer marketing. But there are quite a few who think otherwise. “I think the claim that Israelis are getting stronger in B2C is simply wrong,” said one of the people we interviewed. “Wix, Waze – they are anomalies.” “These anomalies are exactly what we are looking for”, retorted one of the VCs we spoke with. “After all, we are an industry of anomalies”.

In any case, there is general consensus that as Israelis we do not have a particular advantage in understanding the American consumer, for instance. “Ultimately, the success of Waze and Wix is not due to an understanding of the consumer, but due to other reasons”, said a venture capitalist. “We did crack the code for OLM. For consumer marketing? Less so”, said another. However, the important point is that the success of these companies inspired hundreds of entrepreneurs to develop their own B2C ideas (so much so that one of the VCs worried that we are losing talented people who are going down the wrong path, thinking they can start a B2C Internet company).

“We are a B2C powerhouse in the making.”

As a result, many interesting companies can be spotted that address end consumers. Some of these companies produce content, become publishers, and attract millions of users: playbuzz, FTBPro, investing.com. Some of them establish ecommerce operations (food, glasses, jewelry and more). Some are gaming companies, in which user experience know-how is being developed. Some are companies that leverage user communities, such as Fiverr and Fixya. This is an intensifying trend; many of the people we spoke with said: "We are a B2C powerhouse in the making".

The keys to success, we were told by entrepreneurs and VCs alike, are marketing (OLM) and execution. “We usually do not have a technological advantage in B2C”, said one of them. “And the claim that we do not 'live' the American consumer is a fact of life. This will not change”. In other words, to succeed we need to strengthen our strengths. Another key is funding – typically, a B2C start-up needs a significant sum to reach scale, since in many cases the strategy is to first accumulate a large number of users and only then to try and generate revenue. Here, the concern arises that funding is a major barrier to the development of Israeli B2C Internet companies. A barrier we will discuss shortly.

Silicon Valley or Silicon Wadi?

One of the questions we tackled in the previous report was whether, for an Israeli company to grow, it is necessary to relocate the center of operations abroad.

In the current round of interviews, the answer was short: it depends. The longer version was: it depends on your customers.

If you do not need to directly communicate with your customer or clients, if it is not necessary for both of you to be in the same time zone, then you do not have to move; IronSource and Matomy are cases in point. On the other hand, if you need to be close to your biggest customers – e.g., publishers – then it is critical to relocate; see Taboola, Outbrain and Borderfree. As a matter of fact, there is an entire range of alternatives – from full operations in Israel, through sales offices abroad, through management relocation, through keeping only an R&D center in Israel, to moving the entire company abroad. The final decision weighs business, technological, marketing and human factors.

Over the past two years a new reply has developed to the question posed in the heading. At the beginning of 2013 about 60 Israeli start-ups were operating in New York; now there are over 200. Silicon Alley has become an attractive answer to the question, especially in certain industry segments. “New York is Tel Aviv 2.0: it is more suitable for Israelis than Silicon Valley is, it is geographically closer to Israel, and it is more convenient time zone-wise. And if you're in the media or content industries, New York is the capital of the world”, said one of the entrepreneurs we interviewed.

The funding paradox:

Where's
the
money?

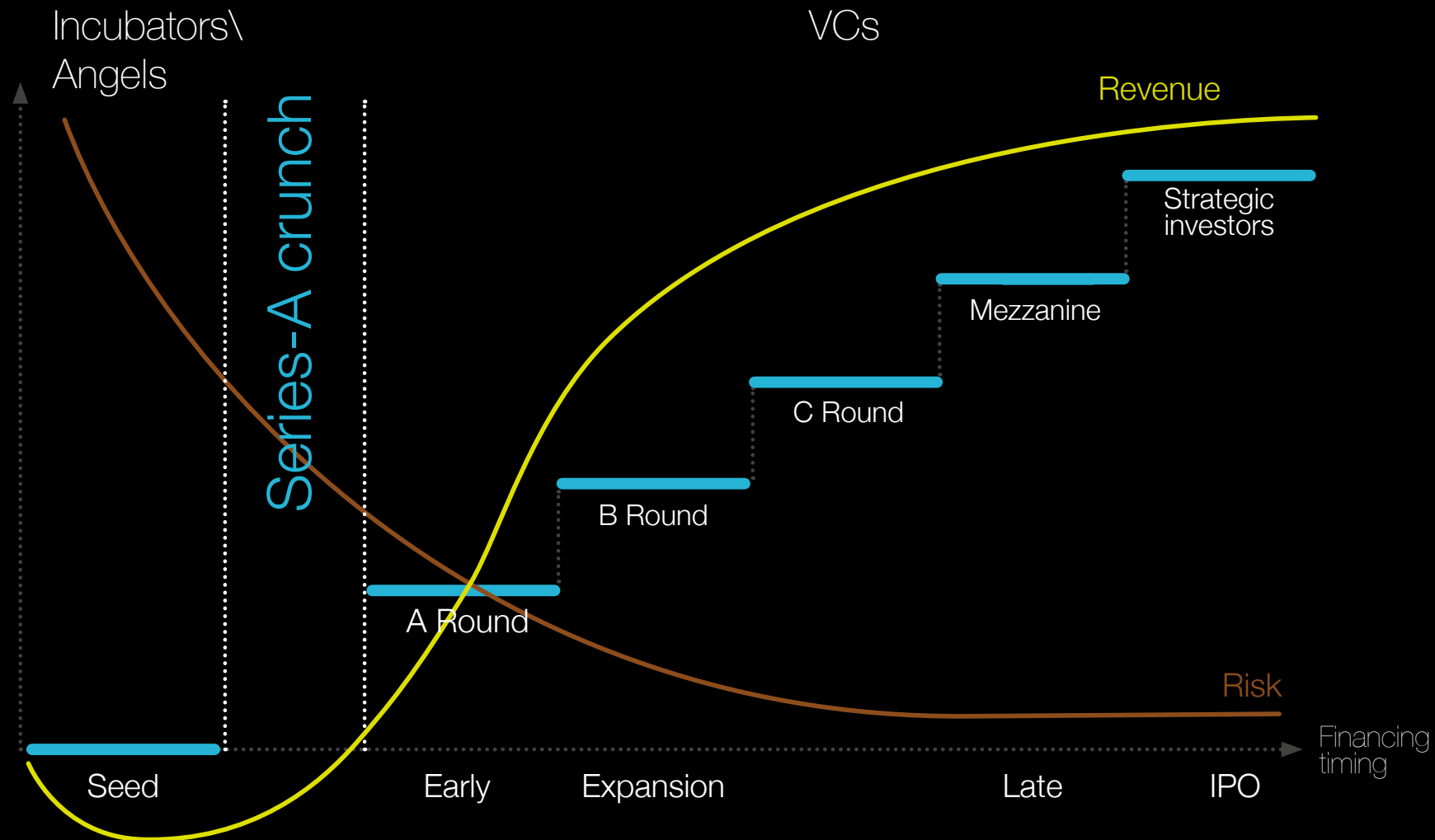
The funding paradox

If there is one area in which the Israeli Internet industry is stuck in a pre-adolescent stage, it is funding. The imbalance between the contribution of hi-tech companies in general, and Internet companies in particular, to the Israeli economy – and the proportion of funding from local sources was defined as “absurd” by one of the entrepreneurs. 85% of funding for the Israeli Internet industry comes from foreign sources; the frustration from local sources’ lack of involvement in financing grows bigger when you consider that many Internet exits did not require high levels of funding, in relative terms. In this area, Israel has failed to develop an ecosystem.

The market failure cuts across all funding stages, except for the seed stage. During the latter there is no supply problem, and there are numerous players involved: friends and family, angels, incubators, and micro-funds. The sums required for setting up an Internet start-up are lower than ever, and the initial tens or hundreds of thousands of dollars are relatively easy to obtain. But once the stage is over, the so-called Series-A crunch awaits.

“You are at the end of the seed stage”, described one of the entrepreneurs. “You’ve built a product, but you’re still not sure what the user acquisition cost is. You have users, maybe even some traction, but nothing is certain yet. You know you need another million dollars, more or less, to get to the A round. But those that gave you the money in the beginning are no longer in the game. The funds are not yet involved – they are looking for low risk and a big “ticket”, both of which are irrelevant at this stage. The American funds want Israeli funds to invest first, but there are none – in 2005 there were 50, today there is maybe half that number. There is no money”.

The Series-A Crunch



The funding paradox continued

Another entrepreneur places the blame, at least partially, on the entrepreneurs themselves.

“People fall in love with their product and fall in love with their stakes. They invest so much in trying to raise a million dollars and do not understand they just need 150,000 to finish the product. The most important thing is to release the product as quickly as possible and to test its viability, rather than to endlessly think of features that will make it perfect – since if you run out of money before you release the product, you're in trouble. You're better off getting it to market – if it succeeds and there's traction, you'll be able to raise money. If it fails, it won't matter anyway.”

The current funding dynamic is difficult for Israeli companies from the A-round onwards as well. “American funds now tend to invest much higher sums in A”, said one entrepreneur. “If you have an American competitor who raised 25 million, you have to raise the same amount – and this is difficult in Israel.” It's a Catch-22 for Israeli companies – they need to reach scale, but they do not have the sums American companies have, sums that allow them to recruit higher-quality personnel and to invest more in marketing. The rich get richer.

The funds' point-of-view is a bit different. “Israeli AAA companies have no problem raising from anyone,” says a venture capitalist. “Funding is a problem for the other 85%. Entrepreneurs talk about the funding problem, and I understand them. But even in Silicon Valley not everyone is able to raise money. We are not an American fund that will sell a company for 5 billion dollars – that's a crazy outlier anyway. In Israel there is Mobileye, and they didn't take VC money. This is why Israeli funds are more conservative.” The bottom line is, Israeli funds' share of A-round investments ranges from 1% to 6%, depending on data source used.

The funding paradox continued






Another cloud hovering over the funding of Israeli Internet companies is the rise in attractiveness of other hi-tech sectors – such as cyber, big data and cloud technologies. It appears a number of funds have changed their investment focus as a result. The concern is that this development will negatively affect the Internet sector's growth trajectory.

The Israeli financing paradox can be attributed to several other factors, especially when it comes to later rounds. Whether due to lack of knowledge or to a conservative approach, Israeli institutional investors hardly invest in the hi-tech industry in general, and in the Internet in particular – not directly in companies nor indirectly through funds, and certainly not in the early stages. Israeli banks had scant knowledge in hi-tech company financing, so Israeli companies had no choice but to turn to foreign banks. It is only recently that we have seen signs of awakening in this area (Leumi Bank, for instance, established Leumi Tech to address the sector). Israeli private equity funds – FIMI, Fortissimo and others – did not invest in the sector either (Viola is one of the exceptions). Finally, the Tel Aviv Stock Exchange does not provide a legitimate solution or the proper expertise befitting Start Up Nation. Israeli companies are too small for the American NASDAQ, yet Israel does not have a suitable platform for raising funds.





A recent positive development is the appearance of investors from countries heretofore unseen in this sector – for example, Russia (GetTaxi, VidMind) and Mexico (Mobli). Nevertheless, the Israeli Internet industry is in need of a leapfrog when it comes to funding.

Biggest money raisers 2013-2014

					
\$M	207	120-130	116	99	86
rounds	4	5	6	5	3





					
\$M	85	85	80.8	74.2	69.8
rounds		3	6	3	6





Biggest money raisers continued

				
\$M	64	60	50	50
rounds	6	3 before IPO	3	3

				
\$M	49	48	47	40
rounds	5	3	4 before acq	3

Recent financing by Israeli Internet companies 2013-2014

				
\$M	150	85	80-90	60
date	August 2014	August 2014	August 2014	November 2013

				
\$M	50	47	43	40
date	October 2013	February 2014	January 2014	August 2013

Recent financing by Israeli Internet companies_{continued}

					
\$M	30	30	30	28	25
date	June 2014	August 2014	August 2014	December 2014	March 2014

				
\$M	25	20	20	20
date	September 2013	April 2014	October 2014	August 2013

The changing entrepreneur: Dr. Wozniak and Mr. Jobs

Dr. Wozniak and Mr. Jobs

When you think of the prototypical Israeli hi-tech entrepreneur, what comes to mind is an ex-8200 technologist, who identified a technological problem and is not necessarily in touch with the market. In recent years, we have seen a new breed of entrepreneurs develop, whose starting point is not necessarily technological. This new breed identifies a consumer problem, and sees technology as the means to solve it. The new entrepreneur is, if you like, a perfect Steve – a hybrid of Jobs and Wozniak, of marketing and technology, of art and science.

Entrepreneurs have changed because the models have changed. With technology being more available and more generic, business and marketing thinking become imperative. If your biggest advantage is not a product advantage but a marketing one (e.g., media buying capabilities based on an understanding of unit economics), technology is a necessary but not sufficient condition for success.

The change is evident in numerous start-ups who lack “a perfect Steve”. In these start-ups the composition of founders reflects the need for adequate representation of both types. Studies show that companies with balanced teams (such as one technical founder and one business founder) are more successful: they raise 30 percent more money, and show 2.9 times more user growth (Start-Up Genome, 2012). In the Israeli Internet’s 100 Club, presented in this report, there are several companies with a balanced team of entrepreneurs (Outbrain and IronSource are two such examples).

“


The new entrepreneur
is the perfect Steve –
a hybrid of Jobs
and Wozniak,
of marketing and technology,
of art and science.”

Dr. Wozniak and Mr. Jobs continued

Technological talent is a must – “without it no one will invest in you”, said one of the VCs – but identifying a marketing, consumer, human problem has become no less important. “When I complete my 8200 service I will adapt the technology I developed for civilian use” has been replaced with “I was sitting with my wife in the kitchen the other evening and we thought that ...”. “We realized no one wants to build a website because it is tiring work, and then we thought up Wix,” said Avishai Abrahami in an interview for Ynet. The founder of GetTaxi, Shahar Waiser, said in an interview with Globes that the idea came to him while he was waiting for a taxi in Seattle with one of his employees. “We were waiting for thirty minutes, and he was worried he'd miss his flight. And I said – it's crazy that this service has not changed in a hundred years”. Marketing-oriented thinking has been bolstered by the migration of people from the traditional content and creative fields to the Internet industry. In the US the saying goes that “now that we've completed the building's [i.e., the Internet's] infrastructure, it's time for the designers to come in”. In Israel there is another factor at play: because of the hard times hitting the content and media industries, a large number of TV and advertising professionals are knocking on the doors of angels and VCs.





Biggest exits by Israeli Internet Companies



2013-2014

				
\$M	966	900	405	360
Buyer	Google	Rakuten	AOL	Intuit

				
\$M	150-200	150	100	100
Buyer	Facebook	Amobee (SingTel)	Bally	Facebook

IPOs of by Israeli Internet Companies in 2013-2014

			 Borderfree	
\$M	127	125	80	75
IPO value	750	400	488	200

			 marimedia Cybermedia and Media
\$M	70	69.4	50.3
IPO value	347	154.2	160

Dr. Wozniak and Mr. Jobs continued

Alongside these changes, the VCs we spoke with indicate there is a continuous improvement in the quality of entrepreneurs in Israel, thanks in part to the proliferation of 2nd-time entrepreneurs, and of 1st-timers who have studied the past. In our previous report, we posed the question: “Built to last or built to sell?” The current report reflects entrepreneurship that is less focused on shortcuts, and is more keen on building for the long-term – that is, not seeking an exit.

However, some venture capitalists expressed frustration at short-term thinking of a different sort by entrepreneurs. “We see hundreds of start-ups inventing the next generation of what has already been invented”, said one of them. “Three months after seed funding, it is not merely passé, it is pâté. The thinking is completely incremental. And with that, we won't get very far”.

10 million dollars: the next generation

Our list of large Israeli Internet companies reflects the state of the Israeli Internet 5-7 years ago – the period when most of the companies on the list were founded, and the time it took them to reach the annual income threshold of 10 million dollars. It's highly probable that in five years, the list will be completely different from the current one. Prophecy was given to fools, of course. Nevertheless, here are some companies not currently on the list that might enter it in the near future.



Ad tech



Internet applications



Content publishing



Payments



e health



Crowdsourcing



Internet of Things



Big data



Internet of Things



ecommerce



e health



Fintech

Summary:

from
Start Up Nation
to
Grow Up Nation

From Start Up Nation to Grow Up Nation

At the end of the previous report, we characterized the Israeli Internet industry as “A 20 year old industry, coming out of adolescence. An industry that passed early stage, built up capabilities - some of which are unique – and has now arrived at a familiar crossroads: to make an exit, or to raise more capital and take the long road?”

After less than three years the answer is clear: the Israeli Internet industry has succeeded in changing its status and has grown up. It has grown in terms of the number of large companies, their revenues and their market value. It is gradually coming out of the shadows that formed the origins of the industry, giving rise to new domains. It has fused technology with global leadership in online marketing. Management capabilities have developed, as have entrepreneurs, leveraging the ecosystem that nourishes the industry.

If we may have two wishes fulfilled by the time we write the next report, they are those: we wish for a solution to the funding market failure, and we wish for some 10X ideas from entrepreneurs. "There is a difference between the speed of light and the speed of sound", reminded us one of the venture capitalists. "Here people think they are dealing with the speed of light, when it is actually the sound, reaching us in delay".

The Israeli Internet industry has successfully passed the stage of infancy, and has passed the tests of adolescence. Will it ace its matriculation exams? That is the next challenge.

Methodology

thetime internet report covers global Israeli Internet companies - i.e., Internet companies whose markets of operation are outside Israel.

For the purpose of the report, "Internet companies" were defined as technology companies that offer a product or a service that they developed and that is used over the Internet. This definition includes companies that develop platforms and tools for web services (marketing and advertising, ecommerce, and more), email and instant messaging applications, platforms for delivering content and entertainment, social networks, search engines, and mobile and internet applications.

The definition does not include companies that develop communications hardware or equipment, companies providing Internet access services, content providers that have not developed their own technology, as well as advertising agencies and firms that purchase Internet media. Thus, our report excludes companies such as Walla, ynet, zap group, Yad2 and others.

The report only includes Internet companies that meet these criteria, and whose annual income is forecasted to total at least 10 million dollars in 2014.

The report relies primarily on public sources, industry interviews and IVC data. Due to the difficulty in obtaining reliable and up-to-date data (as most of the companies in the report are private companies), some of the figures may be inaccurate. It is also possible that companies that do meet the criteria were not included.

thetime is a leading investment company focused on the Internet and new media sectors. The company operates an incubator in partnership with the Israeli government's Chief Scientist for seed stage investments, as well as the firsttime fund for post-seed/pre-A investments

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