Israeli Startup Success Report 1999-2014

IVC and REVERSEEXIT report:

Only four of 100 startups succeed; Only four of 500 are successful growing independently

Key facts:
- The good news: It is not necessary to raise capital to build a successful startup – 17% of successful startups did not raise capital from investors
- The bad news: Investment does not guarantee success for a startup – 41% of venture-backed startups shut down or are sold at a loss; and fewer than 9% prove successful
- 46% of Israeli startups stop operating within 3.5 years on average
- 71% of successful companies are acquired; Only 139 companies that are active today can be considered successful

Tel Aviv, Israel, January 28, 2015. In recent years, there has been an influx of young people entering the entrepreneurial world through academic programs, accelerators and startups, which appear to be surfacing at an astonishing rate. All entrepreneurs establishing a startup do so in order to succeed, to "make it big time". What nearly all entrepreneurs lack, however, is knowledge of the crucial ingredients for success. At the same time, they are generally oblivious to their startup’s chances of success.

A new report by IVC Research Center and REVERSEEXIT examines, for the first time, success rates among Israeli startups. The goal was to learn the key factors that lead to success in order to provide entrepreneurs with tools to better predict the likelihood of success for their venture. REVERSEEXIT will soon be launching a new international platform integrating analytics tools and advanced search engines, specifically geared at improving startup success rates, by connecting startups early on with organizations that can help them.

More than 10,000 high-tech companies founded between 1999 and 2014 were examined. Parameters analyzed included capital raising, length of activity, company size, technology, ownership, investor identity and more. In addition, the researchers attempted to define, with the help of various industry players, the factors that constitute a successful startup. Koby Simana, CEO of IVC Research Center, explained, "As we attempted to define what could be termed a success for a high-tech company, we found that there were different perspectives on how success is defined. According to most entrepreneurs, success is the realization of a business idea, a dream or technological innovation and its concrete implementation into a real business. Among younger entrepreneurs, we also found the wish to 'hit it big time' that is, to build a startup and sell it for a significant profit, although this view did not represent the majority. For investors, a real positive return on investment determined a success, while for the government and state, success was measured in terms of exports, job creation and tax payments, such as income tax and company tax."

The researchers determined, in line with the findings, three indicators of success: annual sales, number of employees and an exit ratio that reflects a positive return on investment from the sale of
a company’s shares. They found that more than 46 percent of the companies established in the last 16 years have been closed and are no longer active, while the remainder continue active in various stages of development. Among the companies that are no longer active, 662 (14 percent) were acquired and only half were acquired for a positive exit ratio, i.e. for an amount larger than the total capital invested in the company between its establishment and the exit – which can be considered successful.

Of more than 5,400 companies active today, only 139 companies can be defined as successful (about 2.5 percent). The indicators for successful active companies consist of annual revenues of $100 million or 100-plus employees. The application of more flexible criteria to include companies with valuations of $50 million or more exhibiting sales growth, or companies that no longer require capital raising from shareholders and are sustained by sales, expands the number of successful companies to below 350. In other words, even with a lower threshold, only six percent of currently active startups can be deemed successful.

All other companies active today, more than 5,100, are what the report refers to as "running" companies. Yehuda Regev, founder and CEO of REVERSEEXIT, explains that "most startup companies manage to go through the development stage and the selection of technology. Some push through to the product development stage. Most, however, fail when it comes to market reach. This type of failure is precisely the reason why most companies – failed and running – do not manage to escape the "valley of death" – the ongoing burning of cash and the inability to meet the needs of consumers and customer – while moving from the development phase to generating positive cash flow."

Among “running” companies are thousands of seed companies, most of which were established in the last three years. But also found are companies running for 16 years, surviving mainly due to investor backing. In total, there are 1,184 “running” companies established between 1999 and 2007, that is, companies eight years of age or older, that have yet to succeed (Chart 1).

Further analysis of today's active companies shows that the majority is private and only 102 are public. Among public companies only 19 can be termed successful according to the research criteria. The rest are traded at low valuations, employ a relatively small number of employees or generate sales volumes below the threshold of success. A significant portion of these companies, particularly life science companies, are listed in secondary markets such as OTCQB or stock exchanges with low trading volume.

The researchers found a total of 480 companies established since 1999 that are considered successful according to the research criteria. These 480 companies were analyzed to verify the factors of success. Among other findings, they discovered that the vast majority of successful companies (about 83 percent) raised an average of $22.5 million. Eighty-one companies – about 17 percent of the successful companies – did not receive any external investment at all, and were entirely bootstrapped. Among the companies that have been venture-backed, nearly 60 percent were funded by venture capital funds, and about 30 percent by corporate investors.

Yehuda Regev states that "REVERSEEXIT makes risk-free connections between young companies starting out and corporations, helping them form strategic partnerships which promote the startup’s market reach. We do this using our patent pending algorithm and our innovative model, since we
believe that connecting to a corporation early on can propel a startup’s popularity and instantly ensure high demand for its services. Investors, mentors and suppliers are also be able, via REVERSEEXIT, to connect to startups in equity-based transactions, where no cash is burned."

Corporations play a significant role in the success of startups, not only as investors, strategic partners and customers, but also as potential acquirers. Among successful companies, 71 percent were acquired by corporations, yielding positive exit ratios and value returns to shareholders (an average ratio of over 18 times on capital invested). "Speaking about exits is all well and good, but our data suggest that (a) only a small percentage of startups reach an exit, and (b) an exit does not necessarily guarantee success," said IVC’s Simana. "Not all acquisitions resulted in positive returns to investors, and we’ve found companies that were sold after running for quite a long while and where millions of dollars in investments turned almost worthless. Companies have to think about value creation from day one. Fortunately it seems that the market and entrepreneurs have been implementing this rule in recent years, which accounts for the fact we found startups that were successful within less than three years of establishment."

Among the companies that were successfully sold, the average age was 5.3 years. Venture capital funding added another six months of activity, compared to companies that received no financing at all. Successful companies that are still active have been operating for slightly over 10 years, on average, whereas failed companies, shut down on average within 3.2 years of establishment.

Methodology
The above findings are based on data derived from the IVC-Online database - www.ivc-online.com. The report examined 10,185 Israeli and Israel-related high-tech companies that were established as technological startups from 1999 through 2014. Successful companies were defined as (a) companies with 100 employees or more; or (b) companies with annual revenues of $100 million or more; or (c) companies sold for a positive exit ratio greater than 1, i.e. acquired for more than the total amount invested in the company until the acquisition, thus constituting a positive return for investors. In the event that an acquired company never raised capital, only companies sold for $10 million or more were considered a success. The additional “more flexible” criteria used by researchers included companies with more than 50 employees, companies with recent fundraising that produced valuations of $50 million or more, and companies with revenues below $100 million, but that have stood independently without capital raised in the last three years.
Chart 1: Israeli Startup Companies: Number of Companies by Year Established, by Success Index 1999-2014

Chart 2: Israeli Startup Success Index (number of companies by segment)
Contact information
Marianna Shapira, Research Manager, IVC Research Center
Tel: 972-73-212-2339; e-mail: marianna@ivc-online.com

About the authors of this report:
IVC Research Center is the leading online provider of data and analyses on Israel’s high-tech, venture capital and private equity industries. Its information is used by all key decision-makers, strategic and financial investors, government agencies and academic and research institutions in Israel.

- IVC-Online Database www.ivc-online.com showcases over 12,000 Israeli technology startups, and includes information on private companies, investors, venture capital and private equity funds, angel groups, incubators, accelerators, investment firms, professional service providers, investments, financings, exits, acquisitions, founders, key executives and R&D centers.
- Publications include newsletters; Daily Alerts; the IVC High-Tech Yearbook - the Israel High-Tech, Venture Capital, Startup and Private Equity Directory; surveys; research papers and reports; and interactive dashboards.
- IVC Industry Analytics – analysis, research and insights into the status, main trends and opportunities related to exits, investments, investors, sectors and stages

REVERSEEXIT® helps startups succeed using a revolutionary, patent-pending method, backed by a smart metadata analysis platform that connects early stage startups with strategic partners, thus boosting a startup's successful activity by highlighting its attractiveness for investors, mentors, crowdfunding, accelerators, vendors and all other players in the industry that willing to conduct equity-based transaction.