

Cybertech: Israel's Start-Up Scene

HardenStance attended Cybertech in Tel Aviv from January 29th - 31st and met with twenty-three local start-ups. Here are some take-aways:

- Despite empirical evidence of a slowdown in the number of new Israeli cyber start-ups coming to market, evidence from Cybertech is that the market is still buoyant.
 - Where start-ups are thinking about exit strategies, it's typically to the big old favourites among mostly U.S security vendors that they're looking.
 - Despite the huge stimulus they provide to demand for their products and services, some cyber security start-ups are joining other industries in pointing to the negative impact of the Internet giants on their market place.
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Cybertech, Tel Aviv

This was HardenStance's first time to Cybertech. For once I deliberately avoided the Symantec, Cisco, Microsoft and Check Point booths and made a beeline only for the start-ups right at the back of the Tel Aviv convention centre. I met twenty-three of them in two and a half days. Some take-aways as follows:

- **There is empirical evidence of a slow-down in the number of new cyber security start-ups coming to market in Israel.** The well respected YL Ventures reported recently that it witnessed 60 newly founded cybersecurity start-ups emerge in Israel during 2017, a 28% decrease from the 83 companies founded in 2016. Conversely, the average 2017 seed round increased 16% YoY, growing from \$2.85 million to \$3.3 million.
- **You'd never guess from three days at Cybertech that some of the froth is starting to come off the market and that a bit of rationalization is starting to creep in.** I only met with twenty-three start-ups. The event program listed seventy of them. And it looked like they were all there.
- **Many local entrepreneurs are still giddy from the \$400 million widely reported by local media to have been paid recently by Continental AG for Argus Cyber Security.** Tel Aviv-based Argus develops security solutions for connected cars. The idea that an automotive firm would stump up that kind of money for a local company focused on a vertical market surprised a lot of people.
- **Most start-ups I spoke with at Cybertech are looking for an exit strategy via one of the big security software vendors.** The most common goal is to sell up to a Symantec, a Cisco, a Check Point or a Microsoft. That said I was surprised at the number of people that said they genuinely aren't interested in an exit strategy. There are two different motives in play here. Some want to grow to be a \$100 million or \$1 billion revenue company in their own right – call it the "be the next Check Point" strategy. And quite a few are actually just in it to be good white hats – make a good but unspectacular living protecting other people from one of the great challenges of our times.

Oh, and there were a couple who wondered aloud whether one of the 'Big Four' accounting firms might make a play for them. Microsoft was the only one of the

Internet giants that came up in conversation as a likely acquirer. Even though both AWS and Google have got their cheque books out to acquire cyber security start-ups in the past - including in the recent past – hardly anyone I spoke with expected them to feature prominently among their suitors.

- **Some start-ups think of the Internet giants as being foe as much as friend.** They might drive demand for security products as enterprises migrate to the cloud and consumers spend on connecting anything and everything. They might even serve as a great channel to market for a lot of security vendors, but some start-up Founders and CEOs still manage to grumble that Microsoft, Amazon and Google pose a real threat to Israel’s cyber start-up sector.

The reason? These companies are certainly being drawn to Israel for the security and other high-tech smarts they can gain access to. And they are indeed investing and recruiting locally. The problem is, some say, that their recruitment drives are pushing up local wages to a level where some start-ups are finding it increasingly hard to compete for talent.

Legislators that are demanding corrective action from the Internet giants for having made the Internet less, rather than more, safe would like nothing more than to add undermining a critical hotbed of cyber security innovation to their lengthening charge sheets.

Some of this looks like normal market rationalization with a unique twist, although by historical standards the market power of the Internet giants isn’t exactly ‘normal’. The unique twist is Israel’s remarkably high concentration of innovation in a field that’s uniquely critical to the way human societies evolve in the years ahead. There’s nothing wrong with a little bit of air being let out of this ‘balloon’. Too much would be a cause for concern.

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