April 13, 2023

Israeli high-tech ecosystem survey in light of the government's judicial legislation and civil unrest

On March 22-23, 2023, Start-Up Nation Central conducted the most comprehensive survey[1] targeting the high-tech ecosystem during this time of turmoil. The goal was to understand the ecosystem's sentiment regarding the impact of the judicial legislation and the resulting civil unrest, and planned actions in response. It is important to note that although the survey questions were focused on the government's judicial legislation efforts, it should be viewed also in the context of the global macro-economic challenging environment affecting the high-tech sector.

The Israeli high-tech ecosystem is the economic engine of the Israeli economy. It represents about 16% of GDP, and consists of over 7,300 companies, over 400 venture and investment funds, and approximately 500 multinational corporations' (MNCs) innovation and R&D centers. It employs about 400,000 people, representing 11% of the Israeli workforce, and contributes more than 25% of the total income tax collections by the Israeli government.

The survey was sent to over 8,000 company CEOs and founders, investment firms' managing directors and MNC GMs. 1,142 respondents answered the survey, representing 873 companies and firms according to the following breakdown: 888 surveys answered by startups/tech companies' CEOs/founders, 187 surveys answered by investors, 67 surveys answered by multinational corporations' GMs. This reflected a total participation rate of 14% (startups/companies – 13%, investors – 19%, MNCs – 11%), reflecting the largest survey of the high-tech ecosystem at this time.

The survey reflects a sample of the entire high-tech ecosystem and has been analyzed by Prof. Camil Fuchs, Professor emeritus of Statistics at Tel Aviv University.

Key findings

Observations

1. **A deep concern of the high-tech ecosystem regarding the negative impact of the judicial legislation**

    - 84% of investors and 80%[2] of startups believe the judicial changes will have a negative impact on them and their portfolio companies
    - 69% of multinational corporations (MNCs) have expressed a negative sentiment regarding the judicial changes on their activity in Israel

[1] The survey was conducted before the announcement of the sacking of the Minister of Defense on March 26, the nation-wide strike on March 27, and the Prime Minister's announcement of suspending the judicial legislation to enable discussions with the opposition on the evening of March 27

[2] 20% of respondents expected a neutral or positive impact. 80% expected a list of negative outcomes such as difficulty in raising capital, acquiring customers, retaining talent, owning IP, and managing corporate governance

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2. **Cross ecosystem expectation that the judicial legislation will harm Israeli companies' business activity and access to customers**

    - 50% of startups believe the judicial legislation will result in difficulty in acquiring customers abroad, and 63% of investors believe it will have a negative effect on their portfolio companies' ability to acquire customers
    - 65% of MNCs expect a negative impact of the judicial changes on their interest in piloting, buying, or commercializing Israeli innovation

3. **A clear expectation of a drastic reduction in investments and M&A activity, primarily from global sources (which represent approximately 90% of ecosystem funding)**

    - 84% of investors believe the judicial changes will have a negative effect on ability to raise capital from abroad
        - Of these investors, 40% believe they will raise over 50% less than their last fund and 51% believe they will raise 20-50% less than their last fund
    - 77% of companies believe it will be difficult to raise capital from foreign investors versus 47% of companies believe it will be difficult to raise capital from Israeli investors
    - 79% of companies currently raising capital have reported cancellations of meetings with investors since the judicial unrest has begun (31% have reported many cancelled meetings to a total halt in investor meetings)
    - 76% of investors believe the judicial changes will have a negative effect on M&A in the high-tech sector (38% expect a very negative impact)

Planned actions

4. **An aggressive diversification of high-tech companies' cash holdings outside of Israel resulting in potential massive cash outflows. Global banking turmoil does not seem to affect these plans**

    - 46% of companies are planning to extract cash reserves outside of Israel
        - 58% of them plan to move more than 50% of their cash reserves
        - Another 31% plan to move between 25-50% of their Israeli cash reserves
    - 92% of companies stated that the collapse of Silicon Valley Bank and other foreign banks' turmoil has limited to no impact on their plans or policy to allocate funds outside of Israel. 60% stated no effect whatsoever; only 8% identified this as a significant effect on their plans

5. **A resounding change in Israeli companies' HQ jurisdiction to other countries outside of Israel**

    - 78% of investors expect a change in their portfolio companies' HQ jurisdiction
    - 42% of companies are considering changing their companies' registration / jurisdiction

6. **A consensus about planned reduction in workforce across ecosystem. Alarming interest in relocation of employees outside of Israel**
    - 72% of investors believe the judicial changes will result in increasing their portfolio companies' layoffs (34% expect a significant increase)

- 27% of companies are considering relocating their employees outside of Israel (of those, 35% are proactively planning to offer relocation packages to employees)
- Although 28% of MNCs expressed relocating of employees as a potential action if judicial legislation passes, only 9% expressed layoffs as a potential action
- 37% of companies expressed concern in retaining talent in light of the judicial legislation. Of those, 51% plan to lay off over 20% of their work force
- 27% of MNCs expect a reduction of over 50% in their investment in R&D personnel and budget and 12% expected a complete halt, versus 20% that expected to keep investment at steady state or increase it

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