



High-tech industry gathers pace

By Ian Limbach in Tel Aviv

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For all of their inventiveness, Israeli entrepreneurs tend to stick to what they know best: communications networks, security software and semiconductors.

Over the past seven years, communications companies have attracted the most funding, absorbing an average of 35 per cent of annual venture investments in Israel. By contrast, internet companies accounted for 5 per cent of capital raised last year.

But other sectors are gathering momentum. Lifesciences, clean technology and homeland security all play well to the tech industry's strengths in algorithms, imaging and sensors.

Veteran entrepreneurs believe Israel's high-tech industry can quickly retool to pursue new growth areas.

"Israelis can get quickly into a new field. They like that kind of challenge," says Yehuda Zisapel, who has set up dozens of companies.

"At the end of the '90s, there was a trend towards optics. The Weizmann Institute [in Jerusalem] did a survey and found only a handful of scattered R&D activities at universities. A year later, there were more than 300 ventures." And less than two years later, optical networking start-up Chromatis Networks was sold to Lucent for \$4.5bn.

Even internet ventures are picking up, an area where Israelis have underperformed. In the first quarter of 2007, 17 internet companies raised \$64m, a five-year record, according to the Israel Venture Capital Research Center.

Perhaps most challenging for Israeli engineers will be the shift to consumer-focused technologies.

"The next interesting internet field is going to be getting all the way to the consumer," says Erez Shachar, managing partner of Evergreen Venture Partners.

But Zeev Holtzman, chairman of Giza Venture Capital, says Israelis will continue to focus on engineering rather than services. "Israel is still a tech play. If we do Web 2.0, we will be doing the enabling technology."

New ways to invest in Israeli innovation are also emerging. Edouard Cukierman, chairman of Cukierman and Co, has created the Catalyst family of private equity funds targeting mature tech companies.

"There are lots of opportunities because few people are focused in Israel on late stage," Mr Cukierman says.

