

Israeli firm takes venture world with crowdfunding approach

February 1 2018, by Ilan Ben Zion



Investors attend the OurCrowd Global Summit in Jerusalem, Thursday, Feb. 1, 2018. Israeli venture capitalist Jonathan Medved launched his OurCrowd funding platform by billing it as a novel way to enable individual investors to get a piece of the action on the country's vibrant start-up scene, traditionally the playground of well-heeled venture funds. Five years later, his firm has blossomed into a \$650 million behemoth. (AP Photo/Tsafir Abayov)

When Israeli venture capitalist Jonathan Medved launched his OurCrowd funding platform five years ago, he billed it as a novel way to

give individual investors a piece of the action on the country's vibrant start-up scene, traditionally the playground of well-heeled venture funds.

Now, his firm has burgeoned into a \$650 million behemoth.

He has gathered over 20,000 investors from over 100 countries worldwide, taken stakes in dozens of cutting-edge start-ups and watched 18 of his portfolio companies enjoy "exits" through public offerings on global stock markets or acquisitions by larger tech giants. An estimated 10,000 investors and entrepreneurs from around the globe descended on Jerusalem on Thursday for OurCrowd's gala birthday bash and [investor](#) conference.

But as the firm marks its anniversary this week, questions remain about whether its creative approach is a wise investment for small investors.

While traditional venture funds seek investors like billionaires, university endowments and pension funds to put down millions of dollars at a time, OurCrowd allows affluent individuals to invest in selected companies with a minimum of \$10,000, or enter their funds with investments as low as \$50,000. OurCrowd pools these investments and takes stakes in start-ups on behalf of its clients.

Realizing the risky nature of venture investing, OurCrowd's clients must meet local regulations. American clients, for example, must have \$1 million in assets. Still, these clients are far different than the traditional [venture capital](#) crowd.

"We can democratize to an extent," Medved said. Clients can either choose individual companies, with the hope of being part of Israel's next big thing.

"Or you could actually get into a [venture capital fund](#), but you don't have

to be a billionaire to do so," he said.

Medved, a seasoned businessman who founded and funded several Israeli start-ups and previously managed one of the country's largest [venture capital firms](#), called OurCrowd a "hybrid" between crowdfunding and traditional venture capital.

Unlike other many equity crowdfunding platforms, in which people invest directly into companies, OurCrowd vets the companies and provides clients with investment guidance.

In just five years, OurCrowd has made a splash in Israel's venture capital scene. It holds stakes in many of the country's most promising start-ups, such as Consumer Physics, developers of an optical spectrometer, alongside more established firms such as Freightos, a shipping logistics [company](#), and mPrest, developer of Israel's Iron Dome missile defense system.

Since its launch in 2013, the company says it has raised \$650 million in assets for 145 start-ups and 12 funds, ranging from health care technology to artificial intelligence. The bulk of the start-ups are Israeli.

"I think it's fair to say that OurCrowd has opened it up to retail investors in a way that it was never was open to retail before," said Michael Eisenberg, a partner at Aleph, a Tel Aviv-based venture capital fund. "Otherwise I would say it is close to impossible for a retail investor to get into almost any venture capital deal without something like an OurCrowd."

Experts caution that venture capital remains very risky, with low success rates and slim payouts in many cases. Venture capitalists emphasize that the bulk of profits are derived from a tiny percentage of investments.

Medved acknowledged that the Hebrew term for venture investing translates as "danger capital" and recommended that investors enter diversified funds, instead of individual startups.

"The reality is if you don't take a basket, you're unlikely to get that one towering winner, because usually 1 out of 10 will really hit," he said.

Over the past two decades, Israel has developed into one of the world's most fertile grounds for venture capital firms. It is home to a bustling start-up scene, fueled by an entrepreneurial spirit and the successes of graduates from secretive high-tech military units.

Israel has produced a series of high-profile successes over the years, including Check Point Software Technologies, a cybersecurity company that trades on the Nasdaq, mobile navigation app Waze, which was acquired by Google for about \$1 billion and Mobileye, which produces technology for self-driving cars and was gobbled up by Intel last year for \$15 billion.

Of OurCrowd's 145 portfolio companies, 18 have made profitable exits. Yet according to OurCrowd, the return on investment on these exits has been a modest 30 percent. Six companies have flopped.

"If they can secure some of the top entrepreneurs and startups within the ecosystem in Tel Aviv and its surroundings, then that makes sense," said Christian Catalini, an economist at MIT who studies the venture capital world. "But otherwise you're taking a lot of risk because it's extremely early stage, and at the end of the story, of course they do a lot of due diligence, but you're relying on their process."

OurCrowd declined to provide a full breakdown of its investors, but said it has drawn huge sums from North America, and increasingly, Asia. It even counts investors from Muslim countries that don't have diplomatic

ties with Israel, including Algeria, Bahrain, Indonesia, Kuwait, Morocco, Pakistan, Qatar, Saudi Arabia and the United Arab Emirates.

Marianna Shapira, a researcher at the Israel Venture Capital Research Center, said equity crowdfunding firms, foremost among them OurCrowd, are meeting a growing need in the Israeli tech market for early stage investment.

As more Israeli companies reach maturity, [venture](#) capital firms are focusing their financing on growth, leaving "a void in earlier development stages," she said. Equity crowdfunding platforms have stepped up by "answering this financing demand, mostly because of their natural tendency to invest smaller amounts per round."

For the time being, investing in the next tech phenomenon through platforms like OurCrowd remains out of reach for all but the very wealthy, though Medved envisions a future in which the less affluent can get in on the ground floor.

"Over time, we hope we can become much more democratic and allow ways to broaden this out so that schoolteachers and bus drivers and students can invest," Medved said.

© 2018 The Associated Press. All rights reserved.

Citation: Israeli firm takes venture world with crowdfunding approach (2018, February 1) retrieved 21 June 2024 from <https://phys.org/news/2018-02-israeli-firm-venture-world-crowdfunding.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.