Waze sale signals new growth for Israeli high tech

June 11 2013, by Josef Federman

Google Inc.'s $1.03 billion purchase of Israeli navigation software maker Waze marks an important milestone for the country that affectionately calls itself "Start-Up Nation."

The acquisition is not only among the largest-ever purchase prices for an Israeli start-up. It also cements a recent push by the local high-tech industry into the fast-growing consumer market.

"I think it's a big step forward," said Erel Margalit, a leading Israeli entrepreneur and opposition lawmaker in parliament. "Israel is no longer just a R&D center. It's a creative hub."

Waze's popular smartphone application combines GPS navigation software with social networking features, allowing users to improve the service's directions and traffic reports with their own data. This crowd-sourcing aspect enables the service to adapt to changing road conditions, such as accidents and speed traps, in real time.

After rumors of sales to both Facebook and Apple surfaced in recent months, Google, already an established leader in Internet mapping, beat out its rivals for Waze and its base of nearly 50 million users.

Israeli Prime Minister Benjamin Netanyahu phoned Waze CEO Noam Bardin to congratulate him. "You reached the destination," Netanyahu said. "You have again put Israeli technology on the world stage."

Faced with limited natural resources, Israel has fostered a vibrant high-tech culture in recent decades. The country is a popular destination for global venture capital funds seeking to capitalize on Israel's entrepreneurial spirit, as well as expertise honed in universities and advanced technology units of the Israeli army.

Israel boasts one of the largest collections of companies traded on the Nasdaq Stock Market. The world's leading technology giants, including Microsoft, Google and Intel, all have large research and development operations in the country. Israel's celebrated high-tech creations include cell phone technology, wi-fi internet, instant messaging, and USB thumb drives.

According to the Central Bureau for Statistics, Israel's official source of economic data, the tech sector accounts for just over a quarter of the country's exports. The bureau uses an internationally recognized definition of high-tech that excludes both biotechnology and Internet companies. When those are included, technology firms account for roughly half of Israel's exports, a key reason why Israel's standard of living is now on par with, and in some cases above, many European nations.

The Waze buyout is among the largest private company sales in Israeli history. In 2000, at the height of the high-tech bubble, Israeli start-up Chromatis Networks was bought out by Lucent Technologies for $4.5 billion. Lucent closed the firm a year later. More recently, networking giant Cisco last year purchased Israeli video software company NDS for $5 billion.

Margalit, a mastermind of the Chromatis deal, said that until recently, Israeli tech firms focused heavily on developing innovations for major telecom firms and other international tech giants. The large acquisition of a consumer-focused app like Waze shows that Israel's start-up culture

is "alive and well," he said.

"When Israel is also involved in building the major applications for consumers, it means other disciplines of creativity are entering the game," he said. Today, Israeli start-ups employ not only engineers, but also game designers, animators, graphic artists and writers.

One criticism of Israeli technology companies is that entrepreneurs have frequently looked to cash out quickly by selling their technology to larger companies. The result, say critics, is a big payout for company founders that creates few jobs and little broader economic benefit. The push into the consumer sector could bring a wider range of jobs to Israel and help foster more sustainable businesses.

Israeli media has reported that Waze's deal with Facebook fell apart because of Waze's insistence that it keep its R&D operations in Israel. The Haaretz daily said Google agreed to leave Waze's operations in Israel for three years.

Israeli tech investor Yossi Vardi said such arrangements are a common feature to prevent companies from losing talent while relocating. Vardi is a dean of the Israeli technology world who, among other things, helped launch ICQ, a forerunner to today's instant messaging services.

Vardi said that Waze's app embodied the kind of creativity increasingly seen in the evolving Israeli tech scene.

"It's very sticky, very addictive," he said. "I cannot leave home without opening Waze."

But while the app has quickly attracted users around the world, Vardi said, the company's ability to monetize that user base has lagged behind. He predicted that the sale to Google would give Waze greater ability to

earn money from its service. In turn, Waze should generate new innovations for Google in navigation software, allowing it to retain its lead over rivals like Apple.

"I'm sure this is going to be a very important property for Google," Vardi said. "It's just the beginning of this space."

Israel's largest high-tech deals

Internet giant Google announced Tuesday that it is purchasing Waze, an Israeli company whose navigation software uses social features to improve directions and traffic reports. The average value of private companies acquired in the Israeli high-tech sector has steadily risen since 2008, according to IVC Research Center, reaching $111 million last year. But at $1.03 billion, the sale of Waze is one of the largest high-tech acquisitions in Israeli history. Here's how it ranks among deals since 2005.

1.NDS sold to Cisco for $5 billion (2012)

2.Mercury sold to HP for $4.5 billion (2006)

3.M-Systems sold to Sandisk for $1.6 billion (2006)

4.Waze sold to Google for $1.03 billion (2013)

5.Retalix sold to NCR for $800 million (2012)

6.Lipman Electronic sold to VeriFone for $793 million (2006)

7.Object sold to Stratasys for $634 million (2012)

8.Shopping.com sold to eBay for $634 million (2005)

9.MediaMind sold to DG for $517 miilion (2011)

10.Zoran sold to CSR for $484 million (2011)

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