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When discussing Israeli Internet companies, there is always inherent tension. On one hand, there's excitement over young entrepreneurs successfully crafting an exit for their start-ups; on the other, there are complaints over these same entrepreneurs not demonstrating the forbearance and persistence required to build companies for the long haul.

Because most of the conversations focus on exits, those companies that succeeded in growing - companies that employ tens if not hundreds of employees, reaching revenues of tens of millions of dollars a year - do not always achieve the recognition and admiration they deserve.

This was the starting point of thetime (in collaboration with TheMarker), when we decided to map the Israeli Internet industry from a different perspective: not the innovative start-ups, not the big exits, but rather companies whose annual income is at least 10 million dollars. With data retrieved from IVC databases, from public sources and from the companies themselves, we created the first ranking of its kind of large Israeli Internet companies. We sought to identify the popular sectors among these companies, and the unique capabilities they've developed. We spoke to entrepreneurs and to venture capitalists in order to delve beyond the dry numbers and figures, and to find out whether the companies on the list were established for a quick exit - or for the long term.

Here's a first snapshot of the mature sector of the Israeli Internet industry.



A Digital World: the Major Trends

It would be impossible to discuss Israeli Internet companies without first mentioning some of the most important trends in the industry in general. Our canvas is too small to cover all of the important trends, but here are some facts and figures we should all be familiar with.



MOBILE

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ECOMMERCE

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MOBILE

2011



The first year in which smartphone sales exceeded PC sales

900M



Estimated number of smartphones in global use at the end of 2011

316M



Number of tablets that will be sold in 2016, according to Gartner

370M



Number of iOS devices
(iPhone / iPad / iPod)
sold by the end of ,2011
147M of them in 2011

850,000



Global daily activations
of Android devices

500M



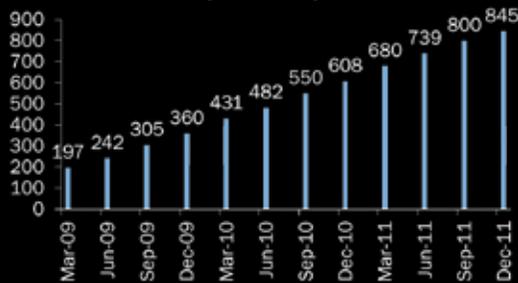
Mobile monthly active
users of Facebook, April
2012



SOCIAL

900M

Monthly Active Users Worldwide
(in millions)



Monthly active Facebook users, April 2012

100Bn



Add Friend

Number of Facebook "friendships" in December 2011 - and Facebook's estimated market value in dollars at time of IPO. In other words, a dollar per friend

Zuckerberg's Law



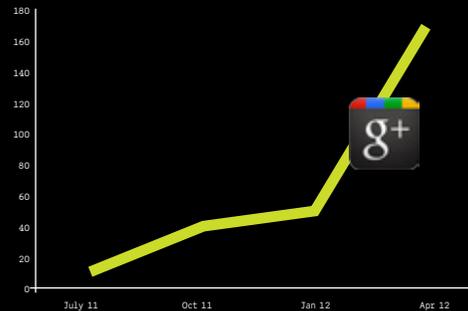
Zuckerberg's Law - Every year, people are sharing twice as much information as the previous year.

150M



Number of LinkedIn users,
February 2012

170M



Number of registered users of
Google+ after less than nine
months. But what is the level
of engagement?

3.2Bn

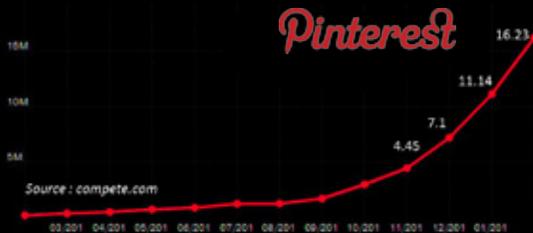


Daily number of likes
and comments on
Facebook, April 2012



SHARING

11M



Number of unique visitors per month to Pinterest, January 2012. No independent website in history has ever reached 10M so quickly

20Bn

tumblr.

Number of cumulative posts on Tumblr, March 2012. 15Bn page views.

25,088



Tweets per second during the screening of Castle in the Sky on Japanese television, December 2011. The all-time tweets-per-second record.

99,344,382



Amount, in dollars, of user contributions to projects on Kickstarter in 2011. More than 3 times the sum in 2010

2Bn



Pageviews on Reddit, December 2011. More than 100 million pages per employee

1Bn



Instagram

The amount, in dollars, that Facebook paid to acquire Instagram. 77M dollars per Instagram employee



GAMING

7Bn



Market value in dollars of Zynga at IPO

210M



Price, in dollars, that Zynga paid for OMGPOP, developer of the Draw Something app that reached 50 million downloads in 50 days.

700M



Estimated number of downloads of Angry Birds games on all platforms, March 2012

50%



Share of time devoted to games out of total time spent on mobile apps, December 2011

3.3M



Amount, in dollars, raised by developers of the game Double Fine Adventure on Kickstarter, a record at the time (March 2012)

8M



Number of Kinect units sold by Microsoft within two months after launch

Sources: Zynga, Rovio, Kickstarter, Microsoft



VIDEO

1.2Bn



Number of online video viewers worldwide, October 2011

60



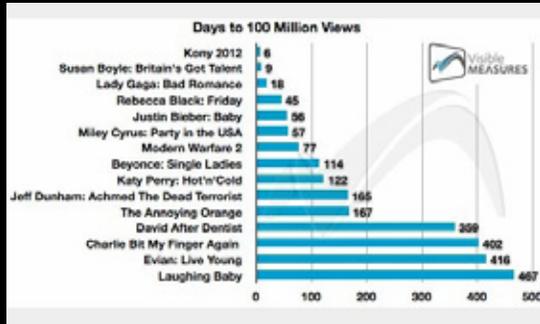
Hours of video uploaded to YouTube every minute, December 2011

4Bn



Number of videos viewed every day on YouTube, December 2011. More than one trillion views per year

6



Number of days for the video KONY 2012 to reach 100 million views. The most viral video in history

1.05M



Number of US households that cancelled their cable or satellite subscriptions in 2011

7.6



Hexabytes (billions of gigabytes) of mobile video traffic in 2016. 24 times the traffic in 2011



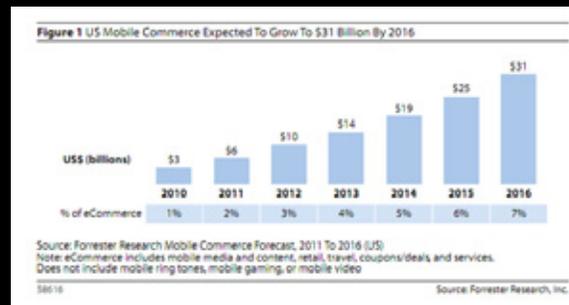
ECOMMERCE

256Bn



Estimated US ecommerce spending in 2011 (including travel), in dollars

31Bn



Forecasted US ecommerce spending in 2016, in dollars

8Bn



Forecasted mobile phone transactions on eBay in 2012, in dollars

1.6Bn



Groupon revenues in dollars in 2011 - an increase of 419% compared with 2010. Will the company turn profitable and salvage the image of daily deals?

600M



Estimated revenue in 2011, in dollars, of the Gilt Groupe - the pioneer of private flash sales.

48Bn



Amazon's revenue in dollars in 2011.



ADVERTISING

73Bn



Global online advertising revenues, in dollars, in 2011.

44%



Google's market share out of the global online advertising pie in 2011.

132%



Growth of display advertising between 2011 and 2016, according to Forrester.

7.7Bn



Forecast, in dollars, of global social network advertising in 2012.

70%



Facebook's estimated share of social network advertising.

3Bn



Estimate, in dollars, of global mobile advertising in 2011.

10 Facts

about the Israeli Internet Industry

Source: IVC

Number of active Israeli Internet companies

1,150

Number of people employed in the industry over-

15,000

Number of Internet companies founded in 2011

153

Decline in the number of newly founded companies compared with 2009

40%

Number of exits in 2011

15

Number of Internet companies closed in 2011

49

Amount of capital raised in 2011

\$482M

by 115 companies

The Internet's share out of total capital raised in the hi-tech sector

25%

Total sum of Internet industry exits in 2011

\$1.5Bn

Number of IPOs of Internet companies in 2011

0



The 10 Biggest Israeli Internet Companies

Based on available data, more than 40 global Israeli Internet companies have reached revenues of 10 million dollars a year. Their total combined revenue exceeds 2.5 billion dollars.

1		500
2		276
3		262
4		125-120
5		120-100
6		105
7		85
8		90-80
9		80
10		70

Other companies

50 million dollars and up:

Babylon

30 to 50 million dollars:

Kontera

Outbrain

Perion

EasyForex

Kenshoo

Kaltura

SupportSpace

10 to 30 million dollars:

BrainPOP

iMesh

eTeacher

InnerActive

Plimus

Wix

Spotoptions/
bancdebinary

RoadStar
Media

Oberon

TLV Media

Gigya

Volonet

eTrader/
anyoption

Massive
Impact

MyHeritage

Iron Source

eToro

4XPlace

uTest

SweetIM

DoubleVerify

xForex

eXelate

WebCollage

Optionbit/
Tradologic

MyThings

Mobixell

Metacafe

On the verge:

Optionfair

Virtech

Plarium

Websplanet

WinBuyer

Time to Know

Payoneer

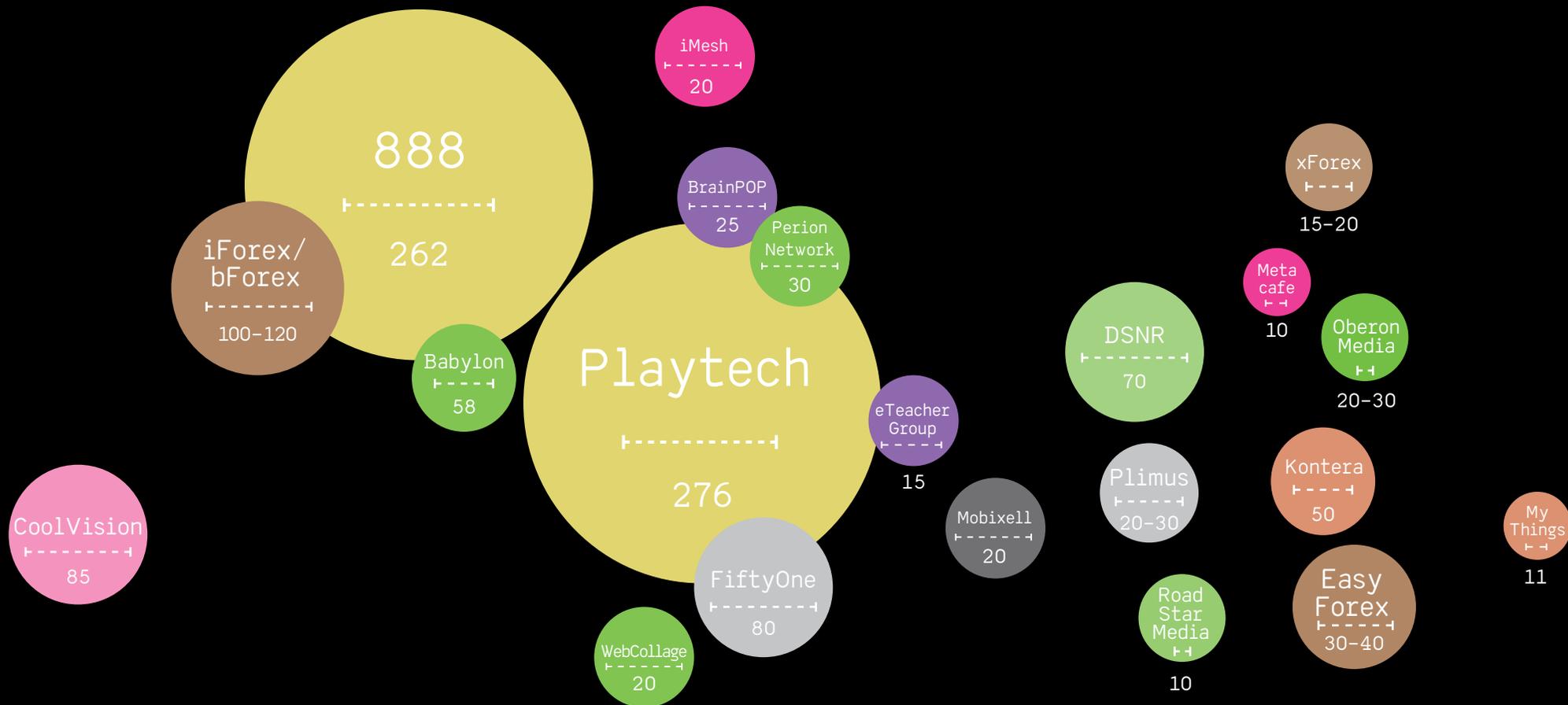
Exent

AdStract

Seeking Alpha

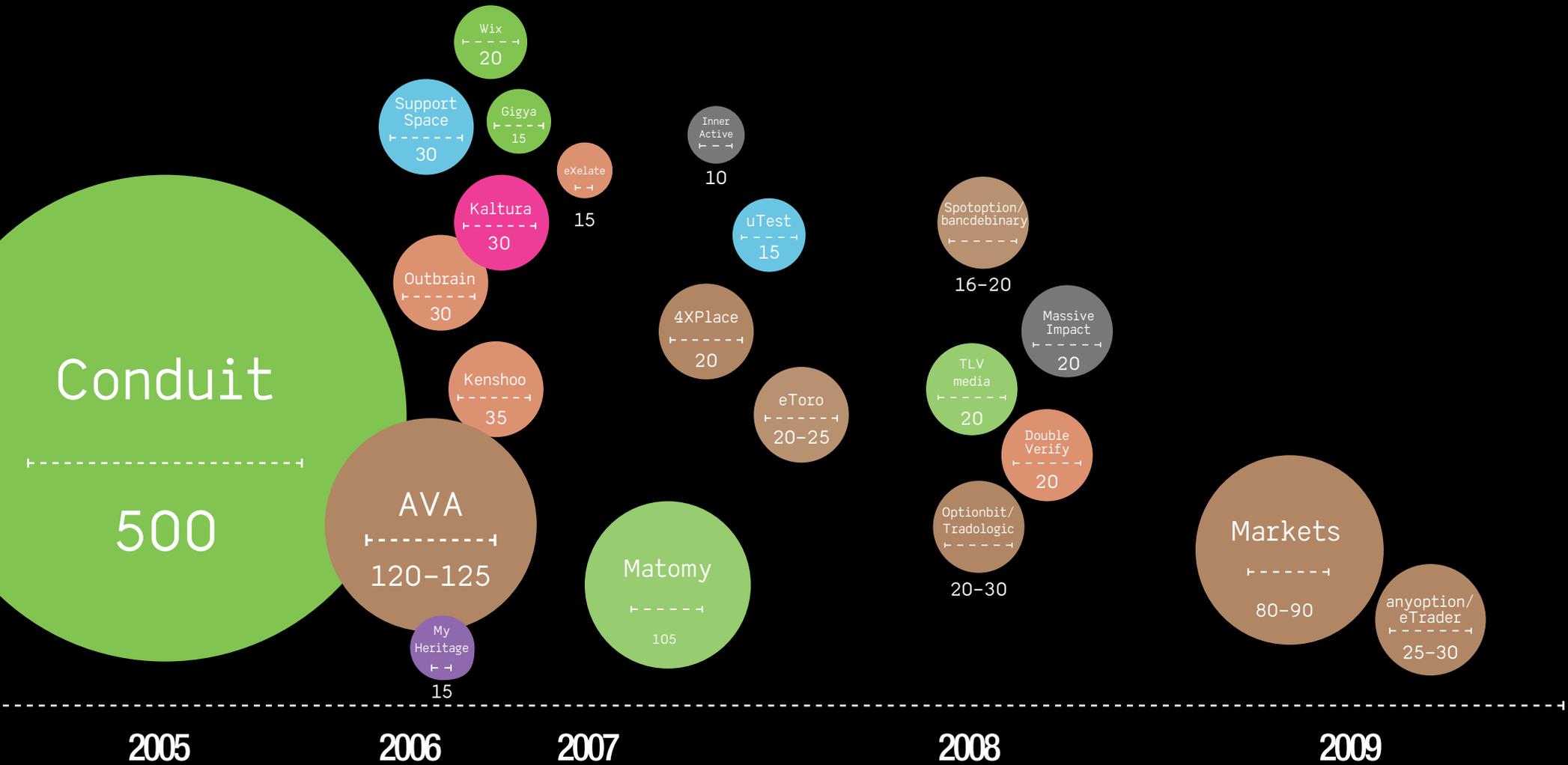
Peer39

Agent Video



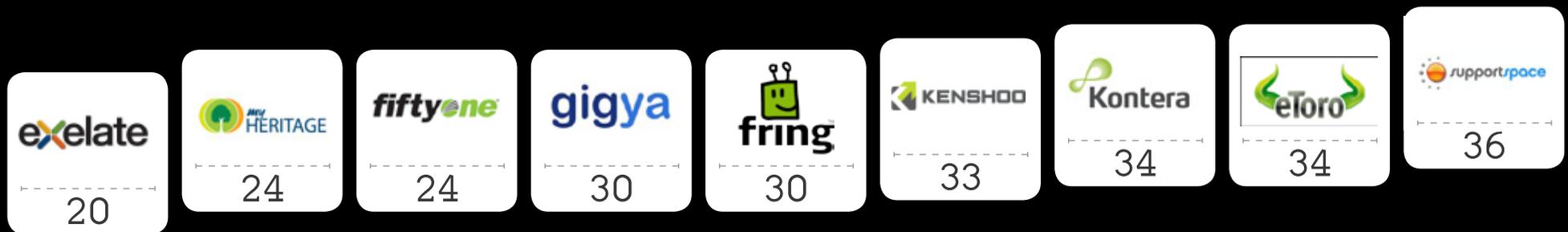
1994 1996 1997 1999 2000 2001 2003 2004

- Social Network
- Forex and options
- Gaming
- Advertising technology
- Cellular advertising
- Pornography
- e-commerce
- Web applications
- Advertising
- Content management and delivery
- e-learning
- Other



Biggest money raisers

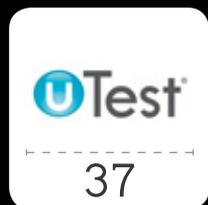
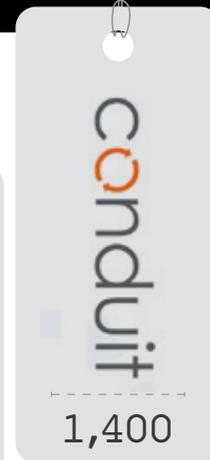
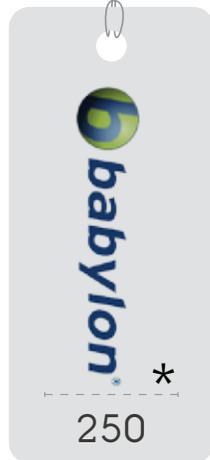
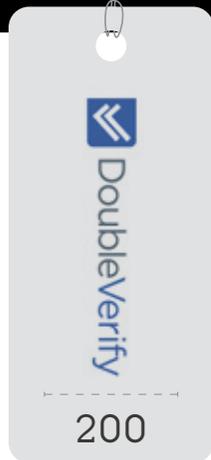
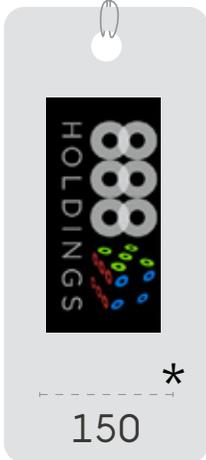
Capital raised in millions of dollars



Market value

Known market value in millions of dollars

* Traded company, market cap as of 19.4.2012
Partial list; information based on public sources



Source: IVC, public sources

Focus Areas

The focus areas of Israeli Internet companies are the result of objective market conditions and of attributes that are traditionally ascribed to Israelis in general, and to Israeli entrepreneurs in particular.

To start with, the competition in the consumer Internet industry is tough and rages among huge companies. The critical market to break through is the US market, in which Israeli companies are at an inherent disadvantage because of physical distance and because they are unfamiliar with the local consumer. To succeed, they must enter with a clear competitive advantage. "In the process of natural selection", says Ron Yekutiel, the founder of Kaltura, "you either come to market with something smart and innovative, or you rely on a regulatory advantage".

The massive entry of Israeli companies into the "shadow" sectors of the Internet industry is explained by the regulatory advantage Israeli companies possess over their American counterparts, complemented by Israeli hutzpah. In the field of advertising technology, the explanation is different. "Israeli companies don't usually develop new platforms", says Yekutiel. "We provide incremental improvements. We are the mouse riding the elephant, and we go for the things with 1:100 chance of success, not 1:1000. For customers, it's less of a gamble to make an incremental choice".



Advertising

Matomy
DSNR
TLV Media
RoadStar Media



Ad tech

Kontera
Kenshoo
Outbrain
DoubleVerify
eXelate
MyThings



Forex and options

AVA
iForex/bForex
Markets
EasyForex
Optionbit/
Tradologic
Anyoption
eToro
4XPlace
Spotoption/
bancebinary
xForex



Web applications

Conduit
Babylon
Perion Network
WebCollage
Wix
Gigya
Volonet
Iron Source
SweetIM



Ecommerce

FiftyOne
Plimus



Content management and delivery

Kaltura
iMesh
Metacafe



Pomography

CoolVision



Gambling

Playtech
888



Games

Oberon



Social Networks

MyHeritage



E-learning

BrainPOP
eTeacher Group



Cellular advertising

Mobixell
Massive Impact
InerActive



Other

SupportSpace
uTest

Unique Capabilities

Tech Smarts

Israeli Internet companies and entrepreneurs have developed outstanding skills in several specific fields in recent years. "Israelis are more willing to solve problems where the technological challenge is formidable" says Yaron Galai, founder of Outbrain. "Americans look for the quick path to get to the end-user, and will usually start from the business end. Israelis start with the technology".

Yair Grindlinger, founder of SupportSpace agrees and adds: "We're problem solvers. Israelis will come up with sophisticated and creative solutions to relatively complex, algorithm-heavy problems". This can sometimes result in situations where Israelis will start out with a technology, says another entrepreneur, and only then try to understand which problem it actually solves. Yet there is no doubt the technological ingenuity demonstrated by Double Verify, Outbrain, Kenshoo and others - dynamic analysis and optimization of billions of exposures - is world-class.

Execution

But Israeli technological expertise has been around ever since graduates of army unit 8200 started hitting the market. In the past decade, Israeli entrepreneurs have developed another much-valued skill. Rina Shainski, a partner at Carmel Ventures, believes one of the strengths of Israeli companies these days is the ability to execute. "Israeli companies can successfully execute various facets of the business, be it distribution or monetization. They dynamically respond to market needs by constantly optimizing the proposition, the packaging, and the business model. A generation of managers has grown in Israel that possesses not only technological know-how, but also the ability to do the hard implementation work".

Meir (Iri) Zohar, founder of eXelate, agrees: "By now there's an ecosystem here. Managers and entrepreneurs who grew up in start-ups, experienced both success and failure, accumulated knowledge, and then set out on their own and founded new companies".



The experience and capabilities of Israeli companies in web marketing, customer acquisition and retention, are unparalleled on a global level".

Michael Jackson,
Mangrove Capital Partners



We no longer fear the consumer"

Yaron Galai, Outbrain

Direct Marketing

The "shadow companies" serve as incubators for quite a few of these managers. The know-how acquired in these companies, of direct marketing to the end customer, is tremendous - and it inevitably seeps into the "legitimate" companies. After many years in which Israeli entrepreneurs were derided for lacking marketing skills, for being "afraid to go Direct-to-Consumer, and only seeking channels and VARs", the conversation has now changed.

Michael Jackson, a partner at Mangrove Capital Partners, says: "The experience and capabilities of Israeli companies in web marketing, customer acquisition and retention, are unparalleled on a global level". Yaron Galai puts it succinctly: "We no longer fear the consumer".

Israeli Internet companies have yet to develop teleportation skills. Whether the Israeli entrepreneur likes relocation or not, the general consensus is that at a certain stage, in order to grow, it is necessary to move the company's headquarters overseas (i.e. Silicon Valley, in most cases). Iri Zohar of eXelate: "It's obviously feasible tech-wise to stay here. But it's about business. It's about people, and the market is in the US. For Americans, the US is the center of the world - and if you don't have a local operation, they won't take you seriously". Daniel Cohen of Gemini adds: "It's true there are exceptions, companies that decided to do it differently - Wix, Conduit - but in most cases there is still no alternative to being close to customers and consumers".

Not all entrepreneurs agree. Wix, Conduit and other companies did indeed decide to build a global company from Israel. "People kept suggesting we work according to the classic Israeli hi-tech model - management in the US, R&D in Israel", said the CEO of Conduit, Ronen Shilo, in a March 2012 The Marker interview. "I refused. I think it's important that a CEO be close to his team". Nir Tarlovsky, one of the founders of Matomy and thetime adds: "The world is flat is not just a great title for a book. Today's Internet offers a real opportunity for Israeli companies to establish global operations centered in Israel, with customers spread throughout the world. A digital product or service can now be distributed to the end-customer, whether business or private, through direct marketing over the web - a field in which Israel stands at the cutting edge globally".

Silicon Valley

or

Silicon Wadi?





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Iri Zohar, eXelate

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Nir Tarlovsky , thetimee

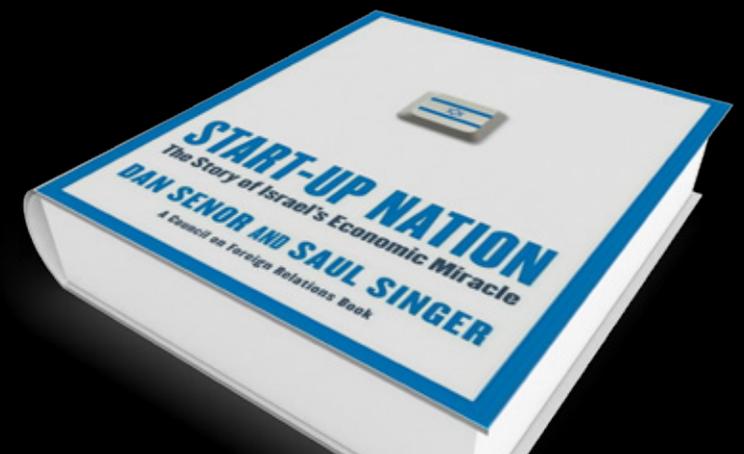
Built to last or built to sell?

When discussing the typical traits of Israeli entrepreneurs, there is one about which there is widespread agreement: the tendency for a quick exit. The well-known stereotype is of Israel as Start Up Nation: Israelis are creative and daring entrepreneurs, but when the time comes for systematic management and a long term perspective - that's the sign to sell to an American company that will take it to the next level. We're sophisticated and nimble, we know how to take

advantage of an opportunity - and then we move on, to the next new thing. "The book they wrote about Israel is not called Late Stage Nation", says Ron Yekutiel of Kaltura, "here it's eat and be merry, because tomorrow Iran will strike".

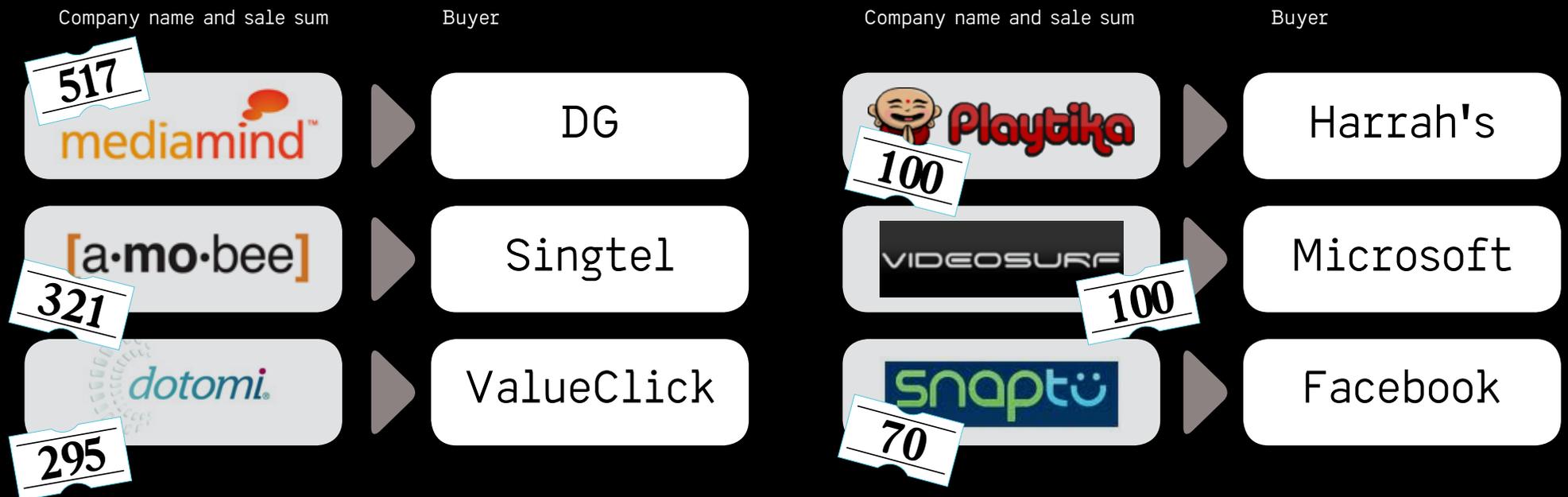
The fact is that over the past decade many Israeli Internet companies have chosen to realize profits through a sale to a foreign company, rather than continue growing via an

IPO or an additional round of financing. Thus was created the national Israeli syndrome known as the Nokia Syndrome, namely: why hasn't Israel produced a company like Nokia? The question is whether this statement will also be true for the entrepreneurs and companies on our list?



Biggest exits by Israeli Internet Companies in 2011-12

In millions of dollars



"It's time to put the syndrome to rest..."

First, we already have companies that are better than Nokia - Checkpoint, Mellanox" says Yaron Galai. "Second, the concept is wrong. Even in Silicon Valley there are quite a few companies that will jump at the first offer they receive. Entrepreneurs aged 20 to 30 are not a VC firm with a portfolio - their eggs are all in one basket. If they get an offer that will potentially change their lives, they'll accept". "The choice between 10-5 million dollars right now and continuing to work for a few more years, and then we'll see, is not a difficult one", says another entrepreneur. Ron Yekutieli adds: "Keep in mind that in Israel entrepreneurs do not come from families with a garage (like the famous Silicon Valley entrepreneurs that started out in garages - HP, Apple and others). Most don't even have an apartment".

Sometimes, market dynamics dictate the sale. "The field of advertising technology, for example, is highly complex", explains one of the entrepreneurs, "and so customers seek a comprehensive solution. A company that is unable to offer such a solution will look to sell". In other words, either you're big or you must sell at a certain stage to someone big. Another entrepreneur explains that "today's giants - Google, Facebook - are constantly on the lookout for a technological edge, by way of "plucking" start-ups at relatively early stages. Moreover, if a big company wants to dominate a certain domain via, for example, acquisition of a start-up - not your start-up - you now have to decide whether to continue and compete with a big company. This is a particularly difficult decision if you're not the leader in the domain, but number 2 or 3".



Entrepreneurs aged 20 to 30 are not a VC firm with a portfolio - their eggs are all in one basket. If they get an offer that will potentially change their lives, they'll accept".

Yaron Galai, Outbrain



The book they wrote about Israel is not called Late Stage Nation. Here it's eat and be merry, because tomorrow Iran will strike".

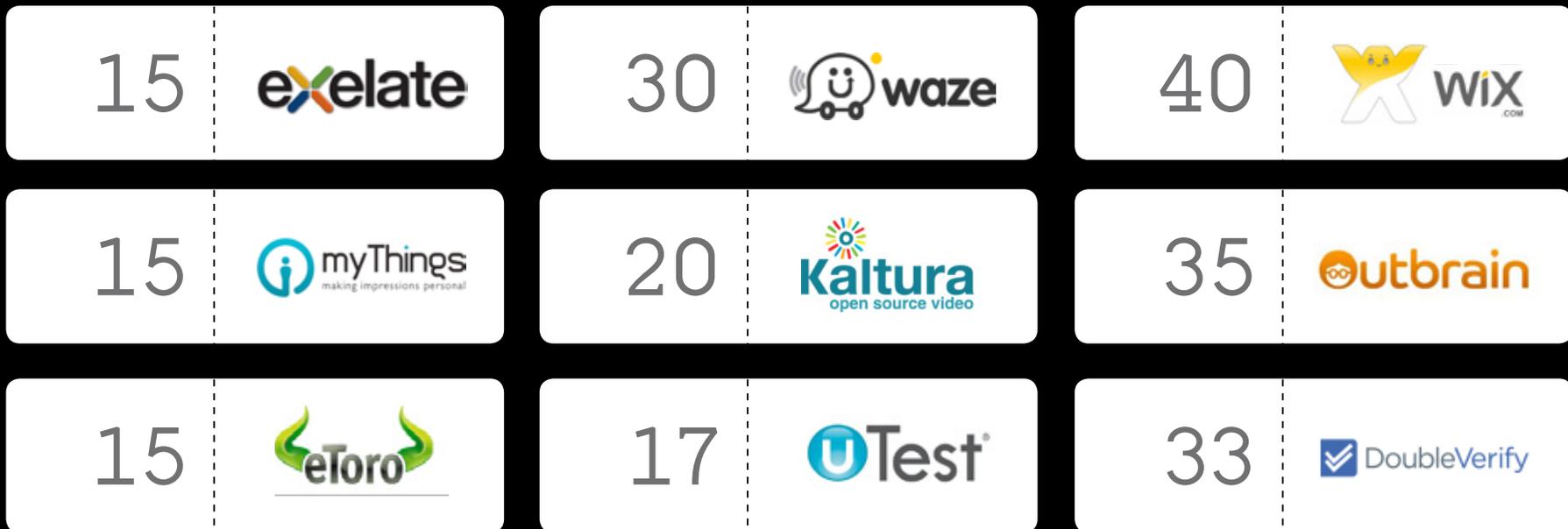
Ron Yekutieli, Kaltura

Some entrepreneurs blame the exit phenomenon on market failure: local VCs do not offer ample solutions for mature start-ups that need interim financing (mid/late-stage) that will enable them to grow.

Not everyone agrees, though. "If you believe you can build a large company - you can raise the capital", said one of the entrepreneurs we spoke with. "It's true there aren't many late stage VCs in Israel. But if you're well connected, you can bring in foreign investors".

However, all of the entrepreneurs agree that Israeli funds do not perform enough internal exits to help entrepreneurs and senior executives resist the temptation of an exit, "pay off the mortgage" and continue building the company.

Recent late stage financing by Israeli Internet companies, in millions of dollars



The top 40 list
exhibits several
signs the exit norm
may be changing...

Many of the companies on the list have raised substantial sums in several rounds (Double Verify, Kenshoo, Kaltura, Wix, Gigya, SupportSpace, Outbrain, MyThings and others), and the entrepreneurs heading these companies are experienced, with the motivation and desire to build for the long term. "Nokia Syndrome? It's not necessarily true anymore", says Yair Grindlinger, founder of SupportSpace. "Think about it this way: ten years ago, were there 40 Israeli Internet companies that exceeded 10 million dollars in sales? I don't think so".

In an interview with TheMarker newspaper, Ronen Shilo of Conduit said: "I don't know what an exit is. People get up in the morning, go to work gladly and make a living. I don't understand this mania for seeing a company that employs people get sold". Yaron Galai attests: "We're enjoying the company we're building. I'm creating the product I love and that I want to see in this world, and I have no intention of stopping. If I had to bet, I'd say I'll still be at Outbrain 15-10 years from now".



Nokia Syndrome? It's not necessarily true anymore... Ten years ago, were there 40 Israeli Internet companies that exceeded 10 million dollars in sales? I don't think so".

Yair Grindlinger, SupportSpace



"It's hard to be inspired by flippers. I'm a marathoner start-up entrepreneur..."

Yaron Galai, Outbrain

10 million dollars: the next generation

Our list of large Israeli Internet companies reflects the state of the Israeli Internet 5-7 years ago - the period when most of the companies on the list were founded, and the time it took them to reach the annual income threshold of 10 million dollars (some of the companies were even founded during the dot-com bubble of the previous century).

However, we hope that in 5 years quite a few companies from this list will still be on it.

Here are some companies not currently on the list that might enter it in the near future.

Consumer



BILL\$ GUARD
SAFER TOGETHER

QUIXEY

BOXEE

Ad tech



Taboola

INNOVid
In-Video Spaces

PEER39*

ADAGOO

Crowdsourcing



SohoOS
open for business

Fixya

Soluto

waze

Gaming



exent

DRAGONPLAY

Content



Seeking Alpha α

Mobile



onavo

UppSite

The Israeli Internet industry is nearing the end of the second decade of its existence. A 20 year old industry, coming out of adolescence.

An industry that passed early stage, built up capabilities – some of which are unique – and has now arrived at a familiar crossroads: to make an exit, or to raise more capital and take the long road? We hope the answer will be similar to Yaron Galai's answer when asked who were the managers that most inspired him. He listed Steve Jobs, Jeff Bezos, Reed Hastings and Gil Shwed: "It's hard to be inspired by flippers. I'm a marathoner start-up entrepreneur".

Methodology



thetime internet report covers global Israeli Internet companies - i.e., Internet companies whose markets of operation are outside Israel.

For the purpose of the report, "Internet companies" were defined as technology companies that offer a product or a service that they developed and that is used over the Internet. This definition includes companies that develop platforms and tools for web services (marketing and advertising, ecommerce, service and more), email and instant messaging applications, platforms for delivering content and entertainment, social networks, search engines, and cellular and internet applications.

The definition does not include companies that develop communications hardware or equipment, companies providing Internet access services, providers and producers of content that have not developed their own technology, as well as advertising agencies and firms that purchase Internet media. Thus, our definition excludes from the survey companies such as Walla, ynet, Yellow Pages Zap, Yad2 and more.

The report only includes Internet companies that meet these criteria, and whose annual income totaled at least 10 million dollars in 2011.

The report's primary sources are IVC, public sources, entrepreneurs and VCs. Due to the difficulty of obtaining reliable and up-to-date data (as most of the companies in the report are private companies), some of the figures may be inaccurate. It is also possible that companies that do meet the criteria were not included.

The report was prepared in collaboration with TheMarker.

thetime

thetime is a leading investment company in the new media sector. The company invests at the seed stage, with the goal of building global Israeli companies. thetime's portfolio consists of 25 companies, including:



thetime's founders and leading investors are Nir Tarlovsky and Ilan Shiloah. The company's CEO is Uri Weinheber.



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