



**HealthIL**  
Transforming Healthcare

# H1 2024 HEALTH INVESTMENT SUMMARY

## THE GOOD, THE BAD AND THE UGLY



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### EXECUTIVE SUMMARY

High tech represents over 20% of Israel's GDP, and over 50% of exports. It is the only growth engine of the Israeli economy and a critical component of the continued success of the country. Every aspect of Israeli society, from welfare services through Yeshivas for the Ultra-Orthodox, is directly or indirectly dependent on maintaining the continued success of Israeli high-tech.

Health is the most impactful sectors of Israeli high-tech because of the significant involvement of key local stakeholders and that massive potential market. (The global Cyber Security market is estimated to be \$250B in annual revenue, whereas healthcare is over \$10T)

Israeli healthcare organizations provide critical data, pilot sites, co-development and trial sites for healthcare innovation, and over 80% of Israeli healthcare startups have done some form of collaboration with local healthcare organizations, or are planning to<sup>1</sup>.

The multinational corporations who touch healthcare – like Pfizer, Edwards, NVIDIA, and Microsoft – are a substantial and often overlooked component of healthcare innovation in Israel. These organizations work with both startups and healthcare organizations to drive the industry forward and are a major contributor to the ecosystem. Pharmaceutical companies spent over 822 million NIS on clinical trials in Israel in 2021 alone<sup>2</sup> (that amount has shrunk to 680M NIS in 2023<sup>3</sup>).

Startups are the economic future of the country. Over 2000 startups are building products and services in healthcare that will address global challenges. The continued success of Israeli healthcare startups is crucial for maintaining the future economic growth in Israel, a comparative advantage of Israeli innovation, and continued relevancy on the global market.

The importance of healthcare innovation Israel cannot be understated. There is no other sector in high-tech that has such a massive global market potential and also such a significant economic impact in Israel. Healthcare innovation is a national asset that must be maintained.

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1. 2023 HealthIL Annual Collaboration Survey
  2. <https://www.ynet.co.il/health/article/hjvrihvso>
  3. [https://www.globes.co.il/news/article.aspx?did=1001481609#google\\_vignette](https://www.globes.co.il/news/article.aspx?did=1001481609#google_vignette)

4. [https://finder.startupnationcentral.org/reports/snc-h1-2024-report?\\_gl=1\\*q31a5s\\*\\_gcl\\_au\\*ODI2NDk2NDcyLjE3MTQyODYyNTY\\*\\_ga\\*ODIzMzMzMzNTM3LjE2NzQ1OTM0NjI\\*\\_ga\\_XR55W56KTR\\*MTcyMTMyODAwOS4xMi4wLjE3MjEzMTgwMTIuNTcuMC4w](https://finder.startupnationcentral.org/reports/snc-h1-2024-report?_gl=1*q31a5s*_gcl_au*ODI2NDk2NDcyLjE3MTQyODYyNTY*_ga*ODIzMzMzMzNTM3LjE2NzQ1OTM0NjI*_ga_XR55W56KTR*MTcyMTMyODAwOS4xMi4wLjE3MjEzMTgwMTIuNTcuMC4w)

### ALL TRANSACTION TYPES

| Sector          | H1 2024 (\$M) | H1 2023 (\$M)   | % Change    |
|-----------------|---------------|-----------------|-------------|
| Bio/pharma/chem | \$ 189        | \$ 336          | -44%        |
| Device          | \$ 90         | \$ 243          | -63%        |
| Health Tech     | \$ 478        | \$ 546          | -13%        |
| <b>Total</b>    | <b>\$ 757</b> | <b>\$ 1,125</b> | <b>-33%</b> |

\*\* Disclosed Funding Only

## Digging Deeper – What is really going on

A deeper analysis of investment activity in the first half of 2024 reveals some key trends that should be highlighted:

- Noticeable and positive increase in mid (A/B) round activity.
- Noticeable dependency on extensions and grants for early stages, which is not sustainable.
- Later stages rely on public offerings.

### 1. Increased activity in Mid (A/B) Stages

One important point of optimism in H1 2024 is the increased funding for A and B rounds. There were 13 deals in both H1 2023 and H1 2024, but disclosed funding *increased* by over 60%. This indicates the quality of the startups founded between 2018 – 2021.

The concern is that global sentiments concerning Israel will continue to erode, which may materially affect these startups in their next rounds.

| Transaction Type               | H1 2024 (\$)   | H1 2023 (\$)   | % Change |
|--------------------------------|----------------|----------------|----------|
| Early (PreSeed / Angel / Seed) | \$ 45,605,000  | \$ 53,010,415  | -14%     |
| Mid (A/B)                      | \$ 187,650,000 | \$ 116,250,000 | 61%      |
| Late (C+)                      | \$ 162,000,000 | \$ 342,700,000 | -53%     |

### 2. Reliance on Extension Rounds and Grants in early stages

Extension rounds (also known as “unlabeled rounds” or “ghost rounds”) are extremely popular during periods of market uncertainty like in early 2023. Startups use Extension rounds to raise smaller chunks of capital to “stay afloat” during weak economic cycles. Extension rounds were heavily used in both Europe and the US in early 2023, as 2023 was a transition year from the hype cycle of 2020 and 2021 to the economic downturn of 2022 and 2023.

In Israel, Extension rounds were a critical component of investment activity in H1 2023 – accounting for 30 transactions (over 25% of the total). In H1 2024 extension rounds dropped to 14 (13% of the total).

Extension rounds are ideal mechanism for market uncertainty, and even though the use of extension rounds dropped in Israel, it could be because **startups who had already raised capital faced significant challenges in convincing investors to contribute more money to help the company through the difficult period**. This is particularly problematic for earlier stage startups who are more reliant on extension rounds to survive market downturns.

In turn, grants were a significant mechanism of fundraising for startups in H1 2024 and accounted for 28 transactions – 35% of all the transaction types – at over \$17M in disclosed funding.

It is very clear that grants became a “lifeboat” for health startups in the first half of 2024 to fill funding gaps. The Israel Innovation Authority was a major contributor to this activity, participating in over a third of the grant activity in H1 2024.

| Grant Frequency by Sector – H1 2024 |                       |
|-------------------------------------|-----------------------|
| Sector                              | Num. Disclosed Grants |
| Bio/pharma/chem                     | 4                     |
| Device                              | 4                     |
| Health Tech                         | 20                    |

| Grant Issuers – H1 2024 |                       |
|-------------------------|-----------------------|
| Issuer                  | Num. Disclosed Grants |
| IIA                     | 10                    |
| Undisclosed             | 7                     |
| Google Startup Program  | 3                     |
| EIC                     | 2                     |
| BIRD                    | 2                     |
| Iron Nation             | 1                     |
| HUJI                    | 1                     |
| CIRM                    | 1                     |
| 8200 Impact             | 1                     |

*Dependency on grants and extension rounds in early stages is not sustainable.*

Grants and Extension rounds have limited capacity and do not offer startups enough capital for sustained growth to reach milestones and traction necessary for larger more traditional rounds.



### 3. Challenges in Later Stages

There was a significant drop of over 50% in C+ funding in H1 2024 as compared to H1 2023 – \$162M as compared to \$342M. Additionally, almost all of C+ funding (\$150M) came from *one* mega-round in Insightec.

Effectively this means that there was only one C+ round in H1 2024 as compared to 8 in H1 2023. Instead, we see that major cash transactions came from public market transactions – specifically Private Investments in Public Equity (PIPE) deals – in the first half of 2024.

Understanding public transactions is important in the context of investment activity in H1 2024 because these deals are relatively “simpler” to execute. Traditional private transactions require convincing outside investors to give capital, whereas public deals happen at the discretion of the company. In effect, the company can raise capital on their own volition with less need for convincing outside private investors.

#### **An important note on PIPE deals:**

PIPE deals refer to the practice of private investors buying a publicly-traded stock at a price *below* the current price available to the public. Typically, a company will privately sell their publicly traded common or preferred shares at a discounted rate relative to the market price because the company needs capital quickly or because the company could not acquire it through other means.

PIPE deals are popular because of their efficiency — especially compared to other kinds of secondary offerings — and because they are subject to fewer regulations.

But, PIPE deals also harm existing shareholders because they dilute the value of the existing pool of shares and also are frequently interpreted as a signal of underlying concerns on the part of the company.

It is important to note that most Israeli startups are *not* publicly listed, which means they cannot participate in public transactions. In addition, PIPE deals are not preferred mechanisms in stable markets, even for those few companies that can utilize this mechanism.

The noticeable decrease in private C+ deals, and the increase of PIPE deals, in H1 2024 could be indicative of challenges that late-stage Israeli startups are facing with regards to the current perception of Israel.

### Understanding the Broader Context

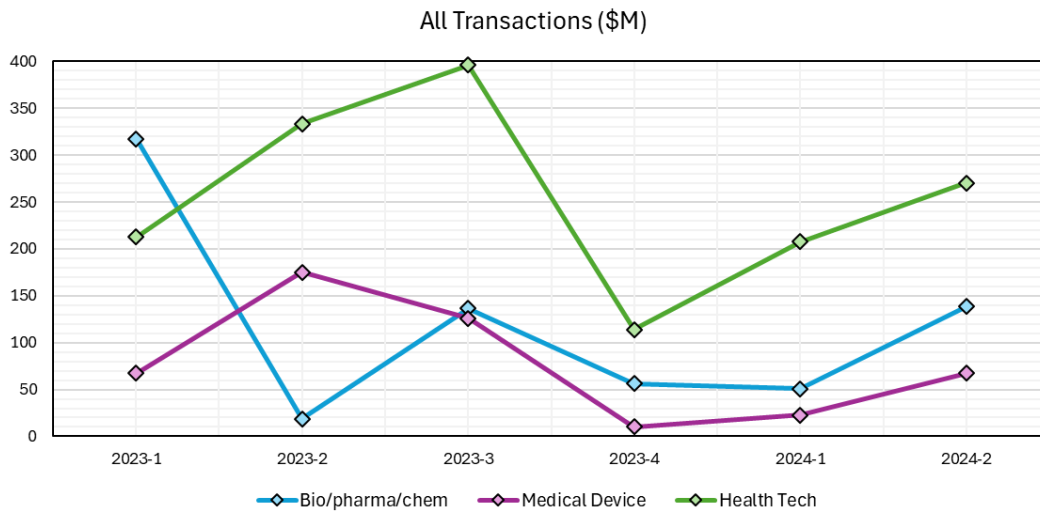
Transactions can take up to six months or more to finalize, which means that transaction activity is always a lagging indicator of market sentiment.

For example, transactions that were announced in the fourth quarter of 2023 – in the immediate months following October 7<sup>th</sup> – were “in the works” for several weeks prior to October 7<sup>th</sup>.

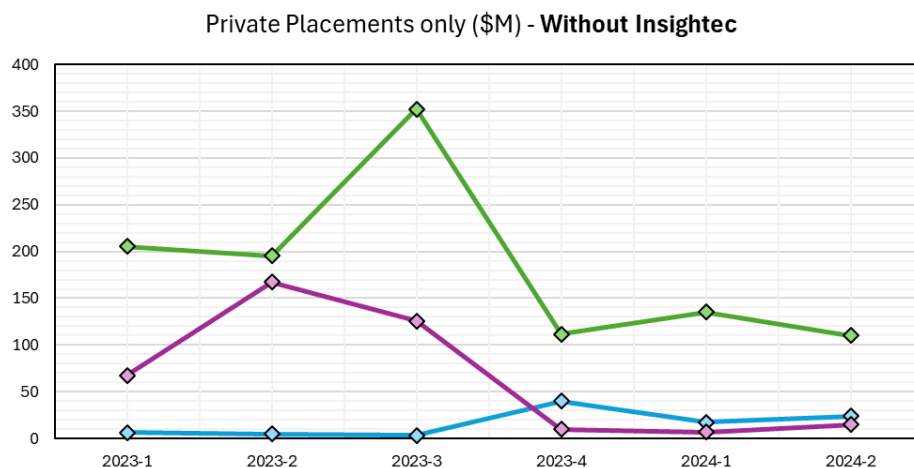
Therefore, to fully understand the impact of the ongoing conflict with Hamas on investment activity, it is important to look at investments in the broader context of investment activity over the past 18 months, specifically at *private* placements and *excluding* the major outlying Insightec round of \$150M.



On a quarterly basis, investments increased between Q1 2024 to Q2 2024, but this includes many public offerings and PIPE transactions.



A more accurate perspective of H1 2024, and the impact of the war, would look at only private placements. If we also exclude the major outlying Insightec round of \$150M we get a more accurate perspective of how the ongoing conflict has impacted investments:



Q1 and Q2 2024 are better reflections of how the ongoing conflict has impacted startups and their ability to raise from private investors. These investments most probably all started after the war and give a harsh “reality-check” about the extreme difficulty of fundraising while the war is ongoing.

The health-tech sector has been the most profoundly affected, where **investment activity in Q1 and Q2 2024 dropped by almost 60% as compared to the quarterly average before the war** (again, looking only at private placements).

Clearly appetite for Israeli startups in healthcare has been affected by the ongoing conflict, and there is tangible concern that negative perceptions of Israel will continue to affect funding over the remainder of the year.

It is important to note that while early-stage funding has decreased in Israel, and startups have become more reliant on grants, the *opposite* is happening in the US. According to Rock Health's H1 2024 Digital Health Funding summary<sup>5</sup>, seed stage activity has started to pick up in the US, as are traditional funding rounds. Non-traditional (extension and grand) rounds peaked at around 50% of all transactions in the US in Q4 2023, but have decreased to 33% of transactions in Q4 2024.

This is indicative that markets are stabilizing in the US and investor confidence is returning. There are initial signs that markets will continue to stabilize globally, as both the FED and the ECB have indicated interest rate cuts in Q3 of this year, and there is a major concern that Israeli startups will not be able to enjoy the upswing in funding activity if the situation in Israel does not improve.

## Summary and Looking Forward

Investment activity in health over the first half of 2024 has been gloomy. Private investments across all stages, and for every type of investment, have taken a major hit as investors struggle to justify transferring capital into Israeli startups during this period of highly politicized additional risk.

From a financial perspective, it is an excellent time to invest in Israeli healthcare innovation. Valuations are low, and investors can buy in to cutting edge technology at attractive price points. Unfortunately, results from the first half of 2024 indicate that investors are hesitant to invest in Israel, even with attractive valuations. There is also a tangible fear that the continued deterioration of Israel's reputation will further depress investment activity.

As the war with Hamas continues, and without clear indications of what will happen after the war, it may be time to consider governmental intervention to address both short term and long-term issues.

This can include things like:

- Mechanisms to protect downside risk for international investors
- Adapting operations of government representatives like Economic Attaches to better support earlier stage startups and help them achieve early traction.
- Build mechanisms for stronger innovative activities between startups and multinational corporations – which are a primary drivers of healthcare innovation activities in Israel – including reassessing how Israeli IP policy may inhibit future innovation.
- Long-term strategies to fill gaps in data infrastructure in Israel to return Israeli healthcare data to a level of international primacy.
- Mapping out and addressing differences in tax and accounting standards between Israel and the Rest of the World to increase ease of doing business.

Even with the dire financing results of the first half of 2024, there are points of optimism that show continued resiliency and perseverance of the Israeli health innovation ecosystem. The increase in A / B rounds is encouraging, and there were four exits in H1 2024, including Belkin, which was sold to Alcon for \$466M.

5. <https://rockhealth.com/insights/h1-2024-digital-health-funding-resilience-leads-to-brilliance/>

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In addition, there have already been some relevant transactions in the first two weeks of July alone, including an \$80M investment in Cytoreason<sup>6</sup>, a \$50M investment in K Health<sup>7</sup>, and Edwards' acquisition of Innovalve for \$300M<sup>8</sup>.

Investment activity over the first half of 2024 has shown is that even with these opportunities, the current war with Hamas has taken precedence over financial opportunities, and we are not yet at a "turning point".

In conclusion, it is impossible to ignore the relevance of Israeli healthcare innovation and its contribution to the wider Israeli economy. The continuing conflict, and the higher risk profile of Israel, will undoubtedly continue to harm investment activity in healthcare. While there is significant government involvement already, it may be time to consider adjusting governmental programs to face current challenges and maintain a competitive edge for the future.

### For more information and feedback:

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### About HealthIL

HealthIL is the leading Healthcare Innovation Ecosystem in Israel, aiming to foster technological transformation in healthcare systems, both in Israel and globally.

Our mission is to improve healthcare by bridging the gap between healthcare systems and technology, building innovation infrastructures, and addressing regulatory hurdles.

Since its establishment in 2018, HealthIL has made a significant impact in driving innovation in Israel's healthcare system. Through our support and leadership, the number of innovation managers in healthcare has grown from 4 to 126, and the number of startups and tech companies providing healthcare solutions has increased from only 370 to over 1,100. Our efforts have led to the more than 1,300 pilots to date and the implementation of over 160 projects in the Israeli healthcare system.

Global Engagement: HealthIL has led many global initiatives, including various delegations for knowledge sharing, workshops and round tables on innovation management and fostering partnerships. Through these activities and an ecosystem-to-ecosystem approach, HealthIL has established itself as a key player in the global healthcare landscape, actively contributing to the advancement of healthcare systems worldwide.

HealthIL is supported by the Ministry of Health, Ministry of Economy, the National Digitalization Office, the Innovation Authority, and the Israel Innovation Institute.

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6. <https://www.reuters.com/technology/artificial-intelligence/nvidia-pfizer-lead-80-mln-funding-israeli-medical-ai-tech-firm-cytoreason-2024-07-17/>
  7. <https://www.fiercehealthcare.com/health-tech/digital-primary-care-startup-k-health-raises-50m-equity-funding-round>
  8. [https://finance.yahoo.com/news/edwards-lifesciences-buys-mitral-valve-105301727.html?prefer\\_reader\\_view=1&prefer\\_safari=1](https://finance.yahoo.com/news/edwards-lifesciences-buys-mitral-valve-105301727.html?prefer_reader_view=1&prefer_safari=1)