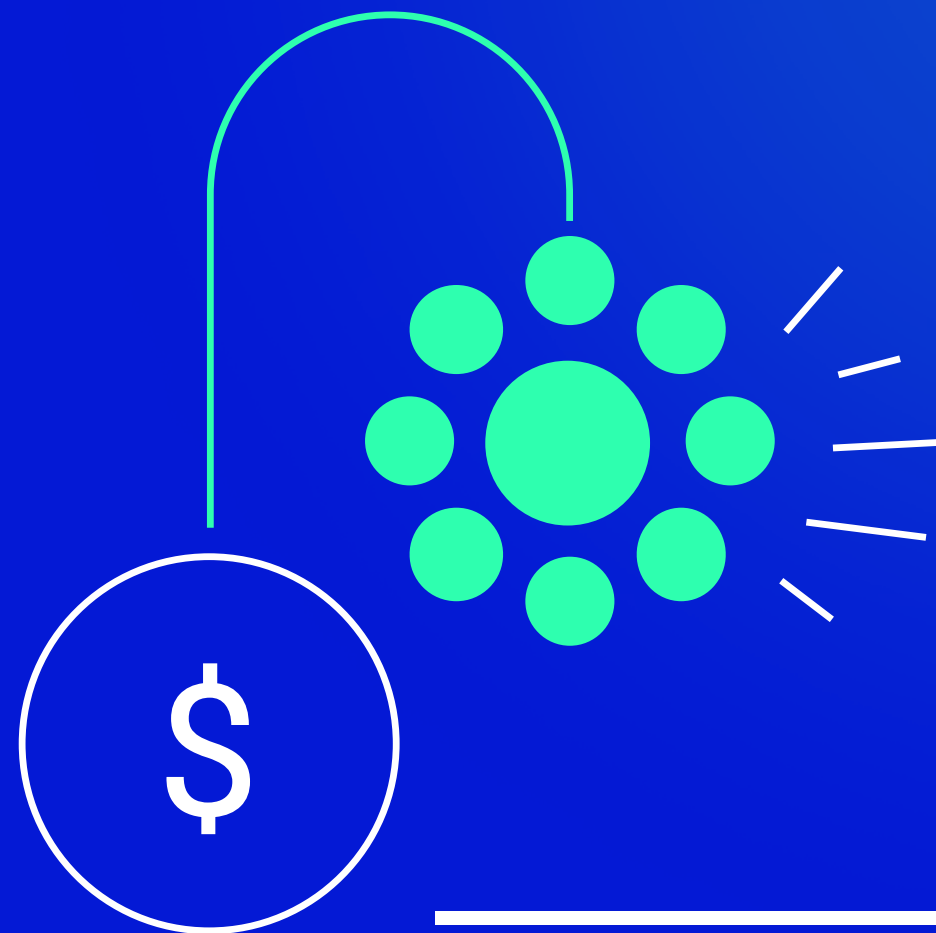


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Annual Survey of the VC Pre-seed Landscape in Israel | 2022



What are investors looking for in pre-seed founders?
Has the market downturn affected pre-seed funding?
What is the average pre-seed check size?

We reached out to VC funds in Israel active at the pre-seed stage and gathered data from 20 investors.

We thank them for sharing their numbers and insights to empower founders!





20

Number of funds
surveyed



76

Total pre-seed
investments



04

Average number of pre-
seed deals per fund

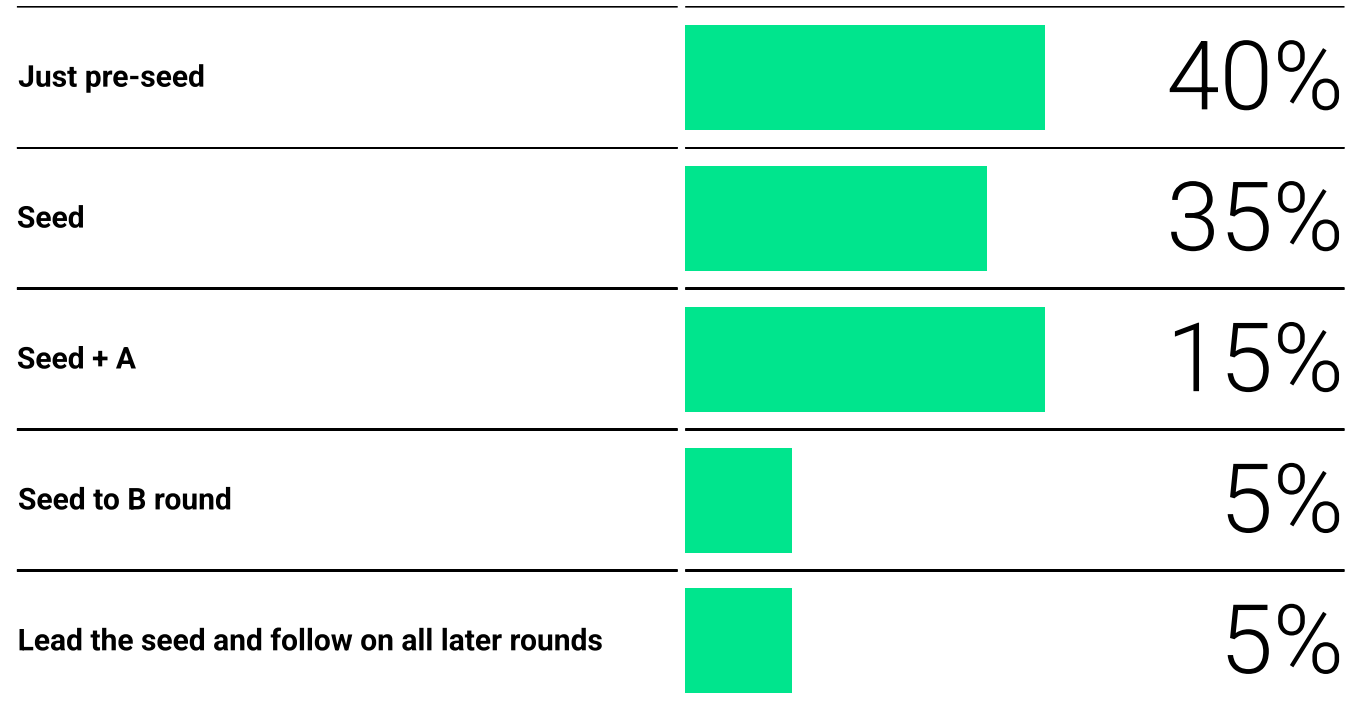


08

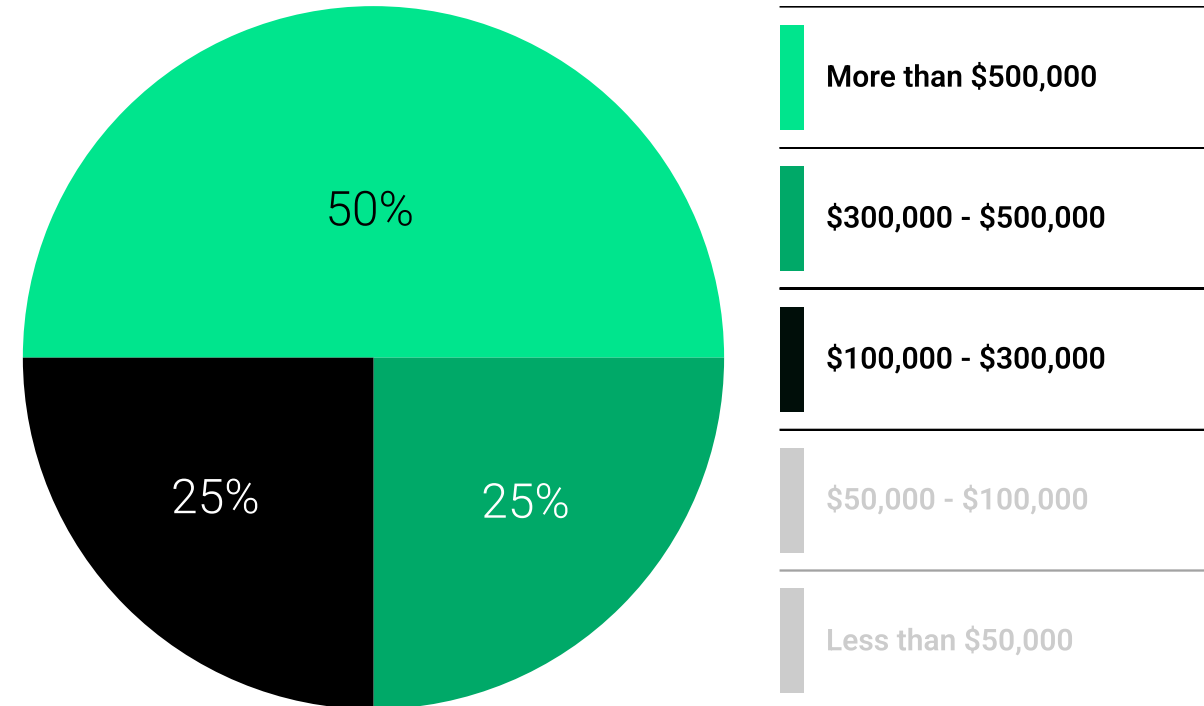
Most pre-seed
deals by one fund

State of Deal Flow

Other than pre-seed, what stages do you invest in?

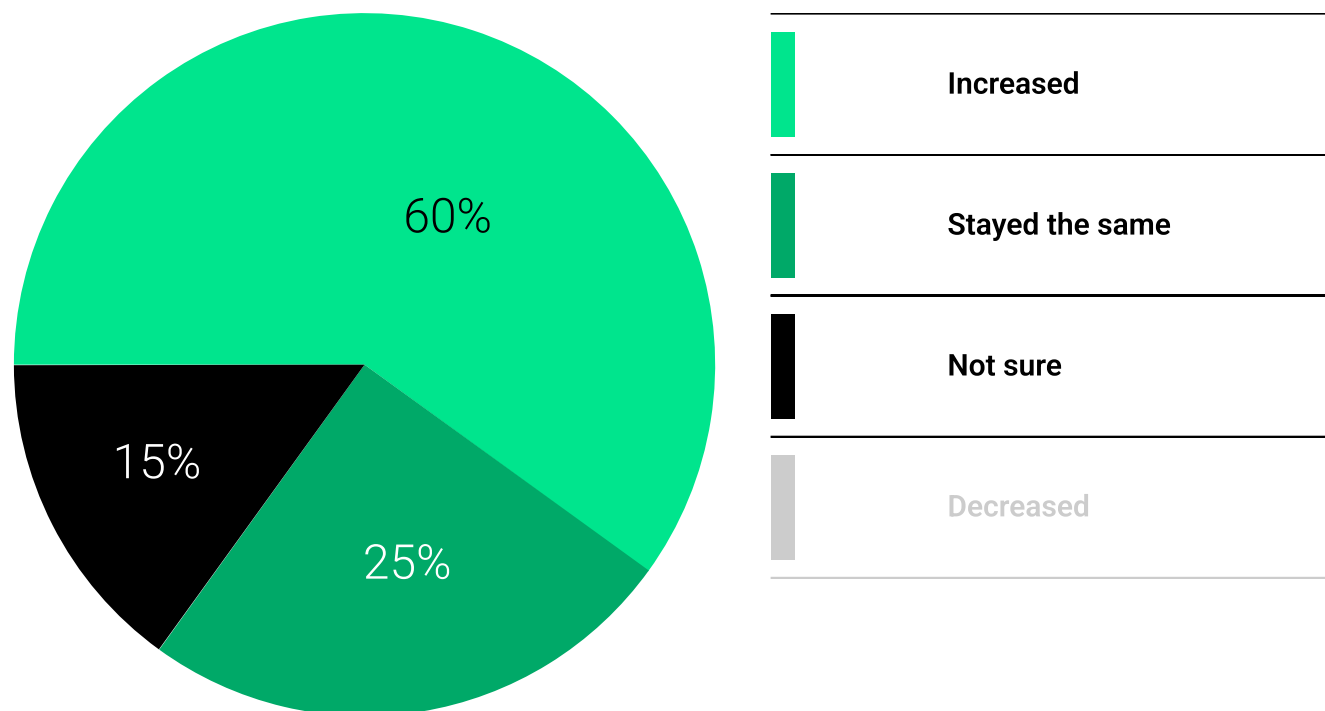


What is your average pre-seed check size?



State of Deal Flow

Has your pre-seed deal flow increased?



To no one's surprise, the sentiment of most funds was that pre-seed deal flow has increased since last year, a time when money was incredibly cheap and securing early funding was, as some would say, too easy.

State of Deal Flow

Has the current market shift affected the pre-seed landscape?

Here is what they had to say:

The shift is causing more entrepreneurs to be thoughtful and analyze their market further prior to accelerating. They are focused on bringing added insights and traction from the field before raising significant sums of capital.

Instead of "I will go and raise a seed", we are hearing "Let's build slow and steady".

It has become harder to raise big seed rounds off a deck alone, and there are far more opportunities to engage with strong founders on a pre-seed check.

Valuations have come down to a very reasonable valuation once again as founders understand that 2020 & 2021 were the end of the cycle.

Some feel the market will begin shifting deal flow soon:









We believe that as quality founders struggle to raise a seed round in the coming period, they will look to first raise pre-seed.

And there are those who don't believe the current market has had an effect:

There's always a flow of new ventures looking for early money.

State of Deal Flow

What value-add are pre-seed investors providing for their founders besides funding?

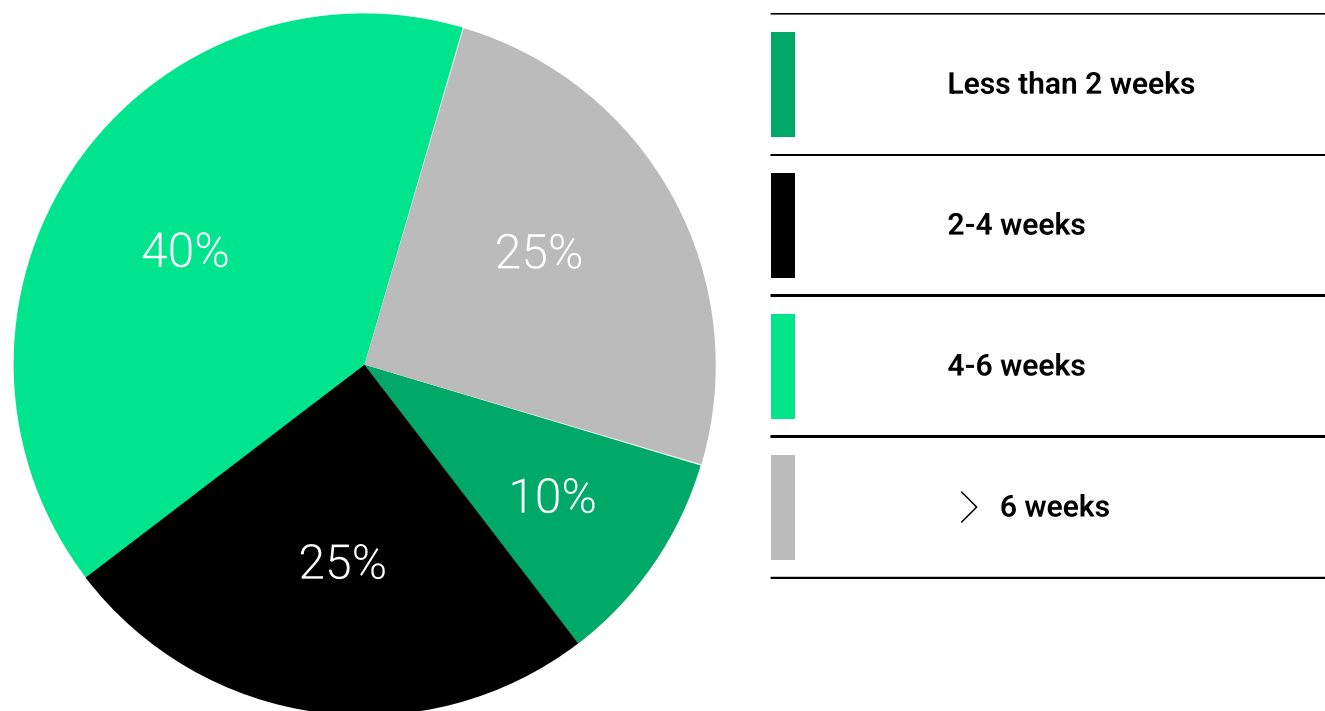
 Networking	<div><div></div></div> 95%
 Community	<div><div></div></div> 74%
 Recruiting	<div><div></div></div> 68%
 Workspace	<div><div></div></div> 52%
 Marketing	<div><div></div></div> 52%
 Business Development	<div><div></div></div> 37%
 Strategic Advice	<div><div></div></div> 16%
 Exclusively Funding	<div><div></div></div> 5%

At the pre-seed stage, there is a very long and challenging road ahead for founders. Therefore, many pre-seed investors offer value outside of funding, to give their early-stage founders the best possible chance of success.

When we asked investors about the value-add they give their pre-seed founders, networking stood out as the most common, with community and recruiting assistance next on the list. Only 21% of pre-seed funds offer no other value-add outside of funding.

State of Deal Flow

What is the average time from your first meeting with pre-seed founders to money in the bank?



Striking the balance between comprehensive due diligence and moving fast to win the deal is always a struggle. In pre-seed, this comes with its own challenges, while investors may not have too much to dive into on the technical and business end as the startup is often too early to have a product or data to show, they still need to ensure that they are investing in the right TEAM and MARKET. This includes founder-product fit, market DD, founder history, and team dynamics.

It seems the sweet spot is 4-6 weeks.

Investor Preferences

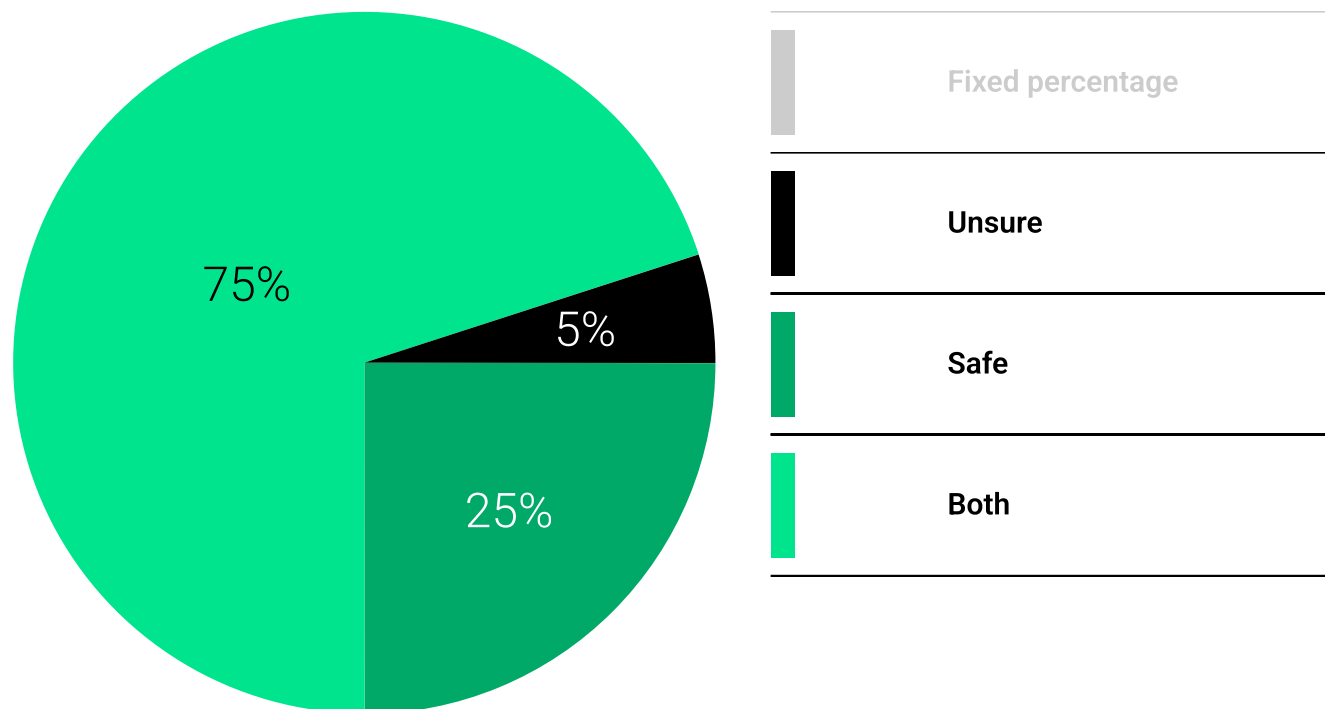
What are the most attractive pre-seed sectors in 2022?

#1	Enterprise SaaS
#2	Fintech
#3	Cyber
#4	Proptech
#5	B2C
#6	Web3
#7	Retail Tech

In 2021, Web3 startups were all the rage and funds were making many Web3 bets. In sharp contrast, in 2022 pre-seed funding has gone back to more classic bets. Investors are once more zeroing in on Enterprise SAAS, FinTech, and cyber while Web3 has taken a back seat.

Investor Preferences

How do funds structure their early-stage investments?



First introduced by YCombinator, the SAFE (Simple Agreement for Future Equity) is an instrument that allows companies to raise capital without the lengthy process or negotiation over terms. From an investor standpoint, SAFE's ensure a place in the round with a discount to the valuation and preferred rights agreed with a VC down the line.

Investor Preferences

What do you consider the most to least important factors when doing a pre-seed investment?

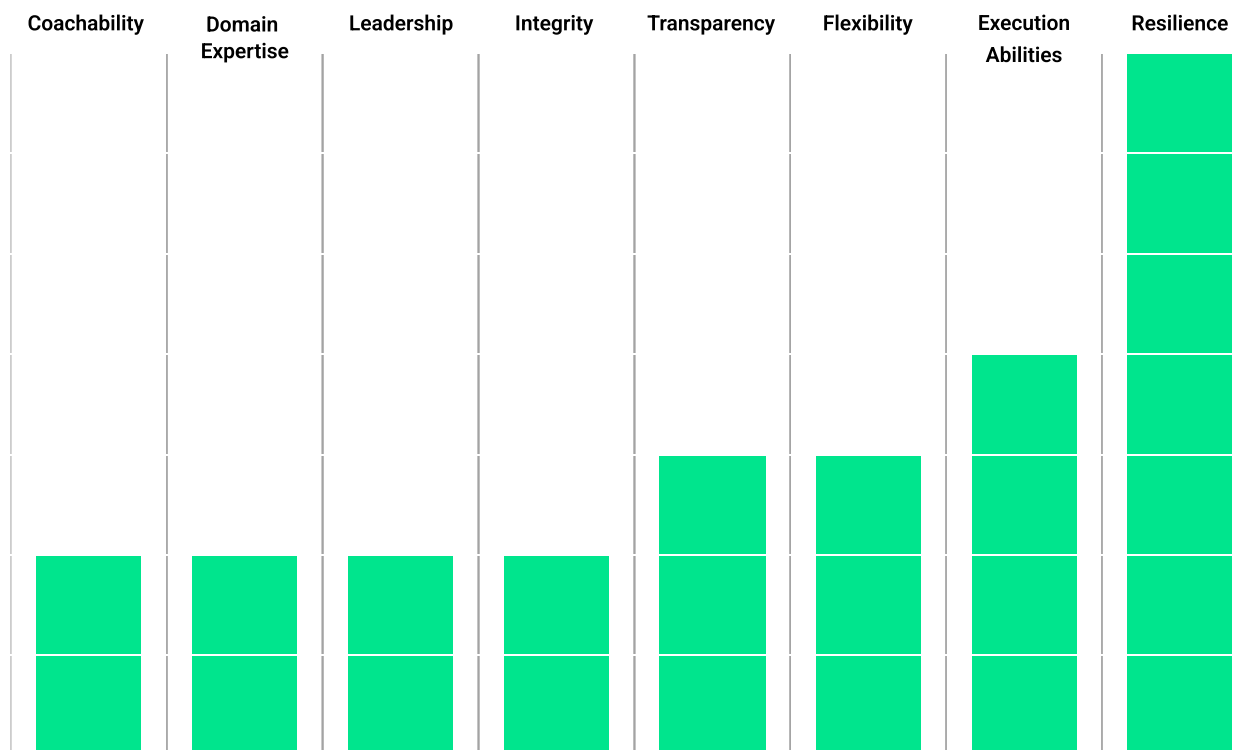


Pre-seed investments are bets on the future. As a result, investors base their decisions primarily on the strength of the founders and the size of the target market. Typically, the technology and product are still in development so factor less into decision-making. Moreover, pre-seed companies often pivot their product, technology, and business model over time, so it's truly all about the people for investors at this stage.

In general, pre-seed investments are structured as a SAFE (simple agreement for future equity) with the negotiation on valuation delayed until the first equity round in the future.

Investor Preferences

We asked investors what traits are most important to see in pre-seed founders, these are the top traits by order of frequency mentioned:



Team dynamics and founder psychology are key drivers for pre-seed investment decisions. Recognizing the immense challenges and uncertainty on the road to startup success, investors look for the quality of resilience in founders above all else. The ability to recover quickly from setbacks is evident in previous experiences at work or home, and in the case of Israeli founders, in the military.

Qualities like transparency also stand out and relate closely to flexibility and execution abilities. Founders who think carefully about their KPIs to manage their business and take the time to report to investors on a regular cadence earn trust and build confidence for initial pre-seed and follow-on investment decisions.

Gender Diversity

When it comes to diversity in pre-seed funding, there is still a clear gap in female representation that gets more apparent over time.

Out of all the pre-seed investments made by those funds we surveyed:

9%

of investments
had a female
CEO and founder

10%

of investments
at least 1 female
founder



According to the Israel innovation authority, from 2018-2021 only 8% of Israeli startups were led by women.

Additionally, their research showed that the percentage of women-led startups decreases at every round, dropping off at Series-A to 7% and to a dismal 6% from Series B.

While the data from our small survey indicates a slight positive step in the right direction, it could rather be a symptom of the 'trickle-down effect' which sees far more gender diversity at the earlier stages than late stages.

Advice From Investors

We asked for one piece of advice for founders looking for pre-seed funding in Israel.
Here is what they had to say:

Pick the person, not the fund, that you want to work closely with for the next decade, much like picking a co-founder.

Come prepared with research to back every claim as you don't have the product/tech to show yet.

Raise smaller checks! It may be intimidating given the current state of the market, but smaller checks imply lower dilution, leaving you better positioned to raise the seed.

Stay lean and do everything you can do to grow and not spend.

Make sure the deal won't impact your Cap table in a way that complicates your next round + invest a lot of time in getting to know your potential new investors.

Stay lean and do everything you can do to grow and not spend.

Be humble. 2021 is over.

We also asked for one piece of advice for investors funding pre-seed in Israel:

Don't invest under pressure - no matter how good the founders look, we have returned to times where you can "date" your potential partners and make sure there is a good investor-founder fit.

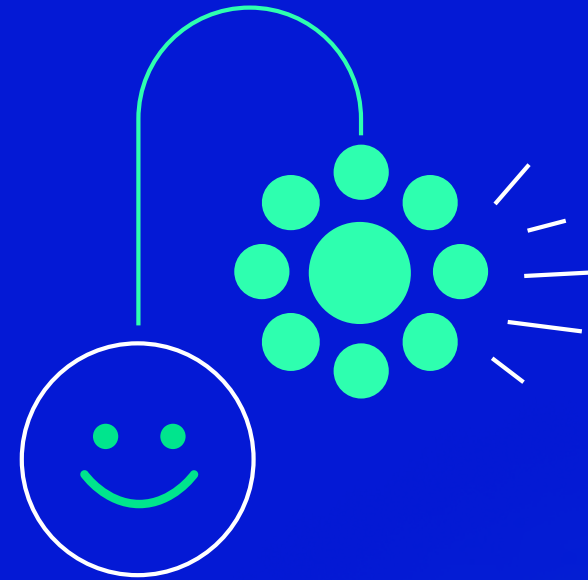
Focus on the need and market.

Bet on founders. They are the only constant. All else are variables.

The most important is the best team in a potentially big market.

If you are investing earlier than you have until now (i.e. previously invested Seed and A) you need to adjust your expectations.

Thanks for reading!



While trying to guarantee that our data is as complete and accurate as possible, we might have overlooked some of our peers in Israel's pre-seed landscape. If you work for a VC investing in pre-seed and would like to see yourself added to our future survey or have spotted an error, please do not hesitate to reach out directly at contact@f2vc.com