

# ISRAEL HIGH-TECH & INVESTMENT REPORT

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## Space Ship on Target

### Israeli startups raised \$550m in February

Startups have raised \$1 billion in the first two months of 2019, after the record \$6.4 billion raised by startups in 2018.

Israeli startups raised nearly \$550 million during February, according to press releases issued by companies that have completed financing rounds. The figure may be more as some companies prefer not to publicize the investments they have received. After raising \$450 million in January, Israeli startups have now raised \$1 billion in the first two months of 2019.

This figure is below the pace for 2018, when according to IVC-ZAG, Israeli startups raised a record \$6.4 billion, up from \$5.24 billion in 2017. However, it beats the sluggish start to 2018, when Israeli startups only raised \$760 million in the first two months of the year.

As usual, most of the money raised last month, was in large financing rounds by a small number of companies. \$420 million was raised by just nine companies.

Telco network company DriveNets led with a \$110 million financing round. Big data company Redis Labs raised \$60 million, and cybersecurity company PerimeterX raised \$43 million. Robotic process company Kryon Systems, fintech company Rapyd and AI assisted CRM company Gong.io each raised \$40 million.

Three healthcare startups also completed handsome financing rounds in February. Microbiome company Biomx raised \$32 million, medical imaging company Cathworks raised \$30 million, and AI blood testing company Sight Diagnostics raised \$27.8 million.



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**I.D. Systems buys Israeli telematics co Pointer for \$140m**

The Rosh Ha'Ayin based company provides innovative telematics and mobile IoT solutions to the automotive, insurance and logistics industries.

US enterprise asset management and Industrial Internet of Things (IoT) technology developer I.D. Systems Inc. (NASDAQ: IDSY) has entered into a definitive agreement to acquire Israeli telematics and mobile IoT solutions provider Pointer Telocation Systems Ltd. (Nasdaq:PNTR; TASE:PNTR) for \$140 million in a cash and stock deal. I.D. Systems will pay \$72 million cash and 11 million shares in PowerFleet, a new holding company, which will be traded on Nasdaq and the Tel Aviv Stock Exchange (TASE).

Based in Rosh Ha'ayin northeast of Tel Aviv, Pointer Telocation is a leading provider of innovative telematics and mobile IoT solutions to the automotive, insurance and logistics (cargo, assets and containers) industries. Pointer's cloud-based software-as-a-service (SaaS) platform, which has more than 275,000 monthly subscriber units, extracts and captures data from an organization's mission critical mobility points, including drivers, routes, points-of-interest, logistics network, vehicles, trailers, containers and cargo. Pointer's platform then analyzes and converts this data into actionable intelligence optimizing customers' assets and improving profitability. Pointer's technology is deployed in three million light and heavy commercial vehicles in 80 countries.

Pointer CEO David Mahlab said, "Pointer has built a successful and profitable company in the high-growth telematics industry. We have earned a reputation for technology rich products, expert technical services, advanced software solutions and innovative IoT mobile solutions, all under a brand that is valued by

our customers and the industry for quality and reliability. The combination of I.D. Systems and Pointer will deliver high-value, technology leading, IoT products globally. By expanding our product offerings and services, we expect to extend our leadership position in the growing mobile IoT and connected vehicle market, increase our penetration in North America, as well as expand our share of the global multi-billion-dollar IoT telematics market. I am extremely proud of Pointer's track record of improving shareholder value and this combination marks yet another step in delivering on our commitment to that goal."

I.D. Systems CEO Chris Wolfe, and CFO Ned Mavrommatis will lead the merged company with Mahlab to serve as CEO International and as a member of the PowerFleet Board of Directors. Pointer CFO Yaniv Dorani will serve as Deputy CEO International.

Wolfe said, "The acquisition builds on a two-year strategic working relationship with David and the Pointer team, where we have been co-developing numerous award-winning

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products. Through our collaboration, it became increasingly evident that our business values and strategy are well aligned on the shared mission of improving our customers' operations through innovative design, engineering discipline, and building industrial-grade solutions. By unifying our businesses, we plan to create significant operational, technological and go-to-market synergies, which will enable faster time-to-market of revenue generating new products and features. Realizing these product development and delivery opportunities is enhanced by the fact that we both utilize the same tech stack in our development and hosting environments. Together, I.D. Systems and Pointer will join a select group of IoT companies with more than 500,000 subscribers, and have the added benefit of being vertically integrated, unlike others in the market."

### **Stryker buys Israeli orthopedic device co OrthoSpace for \$220m**

The Caesarea-based company has developed a plastic cushion device for treating serious shoulder inflammation and injury, as an alternative to surgery.

UK med-tech company Stryker (NYSE:SYK) announced today that it has completed the acquisition of Israeli orthopedic device company OrthoSpace Ltd. for an immediate payment of \$110 million and future milestone payments of up to an additional \$110 million.

Based in Caesarea, OrthoSpace develops and commercializes simple-to-implant, biodegradable balloon systems for the orthopaedic market. The company aims to create effective solutions for orthopaedics that reduce pain and increase patients' range of motion while preserving patient bone and joint structures.

OrthoSpace's main product InSpace is a minimally invasive plastic cushion device for

treating wounds and serious inflammation of the shoulder as an alternative to surgery. The device, which is designed for patients with rotator cuff injury, reduces shoulder pain and improves range of motion by realigning the natural biomechanics of the shoulder.

OrthoSpace CEO Itay Barnea said, "With 20,000 treated patients world-wide, InSpace addresses severe rotator cuff tears for patients who have few other options. We are so pleased to be joining Stryker as we start this next phase of our growth in bringing InSpace to patients in need in additional countries, and I am thankful for the contributions of the OrthoSpace team and shareholders in getting us to this point."

Stryker Group president MedSurg Andy Pierce said, "The acquisition of OrthoSpace is highly complementary to our existing portfolio and aligns with Stryker's focus on investing in sports medicine. We are excited about the momentum OrthoSpace has in key global markets and the additional surgical option this technology provides our customers to address a complex pathology."

Founded in 2009 in the Xenia technological incubator, the company has raised \$30 million to date. The Innova Health fund holds a 75% stake in OrthoSpace, while other investors include Triventures, which led the company's A round, and Johnson & Johnson's JJDC.

### **Netafim wins \$100m Indian project**

Netafim will provide irrigation solutions for over 60,000 farmers in over 100 villages.

Israeli irrigation company Netafim today reported that it would carry out four large community irrigation projects in the Indian states of Karnataka and Andhra Pradesh for over \$100 million. Netafim will provide irrigation solutions for over 60,000 farmers in over 100 villages in an area of 550,000 dunam

(137,500 acres).

Netafim said that the four ventures were a follow-up to a community irrigation project that it completed in Karnataka in 2017, in which it provided precision irrigation solutions to 7,000 farmers in 30 villages.

"India is a strategic market for Netafim, whose mission is to help the world grow more crops with fewer resources," Netafim president and CEO Ran Maidan said today. "The community irrigation model originated by Netafim is especially affordable, and makes it possible to supply farmers with advanced irrigation systems within a short time. These projects will be integrated with digital agricultural systems we developed together with mPrest. The combined systems enable the government and farmers to control and supervise water and irrigation systems in real time, using cloud technologies and access from any mobile device."

### **Israeli lunar spacecraft conducts another successful maneuver**

SpaceIL's Beresheet spacecraft's most important maneuver on the way to the moon will be conducted on April 4.

Israeli spaceship Beresheet has pulled off another successful maneuver on its way to the moon. Israel Aerospace Industries (IAI) and SpaceIL today announced that Beresheet had maneuvered in space for 60 seconds, during which its engine was operated and an elliptical orbit was set that would bring the craft close to the moon. The farthest point in this orbit is 405,000 kilometers from earth.

IAI and SpaceIL said that the spacecraft's systems were functioning as planned, and communications with the control room in Yehud were taking place. They added that the control team had successfully minimized the difficulties that arose shortly after Beresheet's

launch when its star trackers were dazzled by the sun rays. IAI explained that during the entire maneuver, the star trackers were aimed in the spacecraft's direction, not towards the sun or the earth.

IAI further stated that the Beresheet's journey to the moon was depleting its fuel supply. In an attempt to prevent the spaceship from wobbling as a result of fuel splashing in its tanks, the control team activated a momentum wheel to stabilize its movement in space.

In the coming weeks, Beresheet will carry out several additional small maneuvers aimed at improving its orbit to the moon, in preparation for its moon capturing maneuver on April 4. The spacecraft is scheduled to land on the moon on April 11, almost a month after being launched from the US.

Commenting on Beresheet's successful maneuver, IAI Space Division general manager Opher Doron said, "We have reached a place in the orbit at which the moon circles the earth in preparation for the most important maneuver, during which it should be captured by the moon's gravity."

Doron added, "The main risk in the capturing maneuver is that if we do it the wrong way, the spacecraft will fly into open space, and we will lose it forever. It's a tough maneuver, and we have to do it right."

### **Israeli army chief wants to set up new innovation division**

The new division will tailor future weapons systems to the IDF's operational and intelligence needs.

IDF Chief of Staff Lt. Gen. Aviv Kochavi is promoting a plan to establish a new IDF division for innovation and development of technological systems for branches of the army according to their future operational

needs, sources inform "Globes."

The plan is still being formed, and a number of discussions have been held on the matter with professional parties. A source involved in the plan said that the planned division would lead plans for developing future weapons systems in accordance with the IDF's dynamic operational and intelligence needs in order to meet the threats and challenges likely to face the IDF in the coming years.

Founding the division will change the existing situation in R&D of security technologies, currently spread around special technology units in branches of the army and the IDF R&D unit, which is subordinate to the Administration for the Development of Weapons and Technological Infrastructure in the Ministry of Defense.

Many other R&D activities are conducted by the defense industries, which frequently directly coordinate their actions with the Administration for the Development of Weapons and Technological Infrastructure and conduct joint development programs with it, as in the case of the development of the Iron Dome system and the system for detecting tunnels and underground spaces, which led to the uncovering of dozens of terrorist tunnels from the Gaza Strip and Lebanon leading into Israel.

Sources inform "Globes" that the new division will deal with aspects relating to innovation, connectivity, and development of future technologies under a single roof and from a perspective transcending all of the IDF's branches.

A defense source said, "It is still unclear how authority will be divided between the planned division and the Administration for the Development of Weapons and Technological Infrastructure. It cannot be ruled out that the measure will cause serious friction between the parties on the matter."

The source continued, "The chief of staff ordered background work done on the subject. After examining the models used by other armies around the world in this matter, he found that there was a need for an agency that would manage all matters in the army pertaining to innovation. It is hard to argue with this plan, because there is a need for such a division, but there may be quite a few pitfalls on the way to implementing it."

Although a significant proportion of the IDF's plans in recent years have involved aspects relating to innovation and advanced technologies, it is clear that in practice, they are encountering obstacles, bureaucracy, and lack of creativity.

Last December, the "Haaretz" daily reported an internal IDF study showing that senior officers give thinking, creativity, and innovation in army units a mediocre or low mark. The officers who participated in the study attributed the low marks that they assigned to a conservative and bureaucratic organizational culture, fear of errors, and the price that they would have to pay if they were found responsible for unsuccessful ventures, as well as lack of patience and difficulties in containing such situations.

The study was conducted among dozens of officers in various IDF units, led by the air force unit for cooperation.

According to what "Haaretz" reported, the officers interviewed in the study cited their desire to avoid conflicts and wish to achieve a consensus as part of the reason for the low mark that they gave to innovation in the army. They also complained about the character of the internal discussions taking place in the various units, which they said did not allow for brainstorming, showed lack of awareness among commanders of gaps in innovative matters. They complained that in most cases, medium-level commanders did not encourage

creative and enterprising thinking.

A number of reports published by the State Comptroller in recent years also pointed to difficulties in the army in this area, while citing a lack of coordination and cooperation between IDF units and the Ministry of Defense on research and development programs.

Last October, State Comptroller Judge (ret.) Joseph Shapira published a report whose findings included faults in reciprocal relations between the Administration for the Development of Weapons and Technological Infrastructure and IDF units.

The State Comptroller found that these connections were not formalized, were unsystematic, and were not sufficiently organized. He commented that the IDF did not do enough to inform the Administration for the Development of Weapons and Technological Infrastructure about the IDF's future needs, and about defects discovered in the preservation of information stored by the Administration for the Development of Weapons and Technological Infrastructure in the framework of regular research and development. The State Comptroller recommended that the IDF and the Ministry of Defense devise an overall development plan, while settling budget issues, thereby improving the IDF's ability to have a significant impact on projects led by the Administration for the Development of Weapons and Technological Infrastructure.

The State Comptroller also cited a series of failures in two technological projects led by the IDF computer section. He did not specify the projects, but noted that they involved important initiatives aimed at facilitating a flow of computer information between different IDF bodies.

The development of these two ventures took many years, costing hundreds of millions of

shekels paid for by the defense budget, plus tens of millions of dollars from US military aid.

The same report severely criticized the IDF computer section and planning section for their regular handling of the initiatives, as well as the supervision and control of them. The State Comptroller assigned overall responsibility for this matter to the computer section, saying that it had "failed in its duty." He also found that the faults discovered in these enterprises were severe and substantial, resulting in operational gaps reflected in the summer of 2014 in Operation Protective Edge in the Gaza Strip.

The IDF spokesperson told "Globes" in response, "It is natural for the first months of a new chief to staff to arouse great interest, leading to hypotheses based on incomplete processes.

"As always, when decisions are made on any matter, we will comment on them and publish them. In this case, no final decision has yet been taken."

### US Army to buy Israel's Iron Dome defense system

Israel's Ministry of Defense has announced that the US will buy the short range missile defense systems for "immediate needs."

The US army has decided to procure an unspecified number of Israel's Iron Dome short range missile defense systems from its developer Rafael Advanced Defense Systems Ltd. for immediate needs, Israel's Ministry of Defense has announced. This is the first-ever export deal for Iron Dome agreed by Israel.

Israel's Ministry of Defense said that Iron Dome will undergo trials for deployment as a system for defending US forces overseas from a wide range of ballistic and airborne threats and in the long-term it will be tested for wider use."

"Globes" revealed last September that intensive talks were underway between the US army and Israel's Ministry of Defense on the procurement of Iron Dome. To date, Iron Dome has intercepted over 2,000 rockets fired at Israel from Gaza.

Acting Defense Minister and Prime Minister Benjamin Netanyahu said, "This is a great achievement for Israel and another manifestation of the deepening of our steadfast alliance with the US, and an expression of Israel's rising status in the world."

US Army Col. Patrick Seiber told "CNN," "The Iron Dome will be assessed and experimented as a system that is currently available to protect deployed US military service members against a wide variety of indirect fire threats and aerial threats. While Iron Dome has been in operational use by the Israeli Air Force since 2011 and proven effective in combat, it should be noted that the US Army will assess a variety of options for its long-term IFPC solution."

### Puls Israel's most promising 2018 startup

This year, to rank the startups, "Globes" approached senior figures in Israel's venture capital industry, though IATI (Israel Advanced Technology Industries) the umbrella organization of Israel's high-tech and life science industries. 41 funds and investment companies chose to participate in the ranking. Each voted for one of its portfolio companies and for two companies in which it is not invested. In the event of a tie, the decision went to the Globes Tech team and IATI. Companies that have featured in previous years' rankings were not eligible for selection again this year.

The following investment entities (in alphabetical order) selected the companies: 12Angels; 2b - Angels; 83North; aMoon; Aviv Venture Capital; Besadno; BRM; ClalTech;

Elron; ExitValley; Gandyr; i3equity; Janvest Capital Partners; JVP; Kaedan; LionBird; Lool; Magma; Maverick; Momentum Fund; Norwest; OrbiMed; OurCrowd; Peregrine; Pitango; Plus Ventures; Pontifax; Qumra Capital; Red-Dot; Sequoia; State of Mind; Takwin; TAU Ventures; Team8; Tel Aviv Venture Partners; Union Group; Vertex; Viola Growth; Viola Ventures; VitaLife; YL Ventures.

### "Newsweek" ranks Israeli hospital in world's top ten

In ranking Sheba Medical Center tenth, "Newsweek" says it is a leader in medical science and biotechnical innovation.

"Newsweek" has ranked Sheba Medical Center at Tel Hashomer near Tel Aviv as one of the world's top ten hospitals.

Top of the list are two US hospitals with Mayo Clinic in Minnesota in first place and Cleveland Clinic in second place. Singapore General Hospital is ranked third and another US hospital - Johns Hopkins in Baltimore is fourth. Fifth place is taken by Germany's Charite in Berlin and in sixth place is Massachusetts General Hospital. Seventh, eighth and ninth places are taken by Toronto General Hospital, University of Tokyo Hospital and Switzerland's Lausanne University Hospital, respectively.

Sheba is ranked in tenth place. In citing its reasons for selecting Sheba, "Newsweek" says the hospital is, "a leader in medical science and biotechnical innovation, both in the Middle East and worldwide. The center's collaborations with international parties have advanced innovative medical practices, hospital systems and biotechnology. The tertiary referral hospital, affiliated with Tel Aviv University, includes centers for nearly all medical divisions and specialties, and serves over 1 million patients per year. More than 25% of all Israeli medical clinical research takes place at its state-of-the-art facilities, and as

a hospital it works with nearly every Israeli medical institute to educate students and advance the future of the medical profession.”

### Edge computing and AI take Israeli auto-tech beyond cars

Many technologies developed by the Israeli auto-tech sector also have military applications, which could lead to US demands to restrict Chinese investment.

Interest among investors all over the world in Israel's auto-tech sector is as lively as ever, despite its lower profile and the fact that the consensus date for mass appearance of driverless cars has been postponed to the middle, or even the end, of the next decade.

Auto-tech technologies developed in Israel are also likely to have a major impact far beyond the auto industry. Yet it appears that the combination of global interest and strategically important breakthroughs is liable to create the most difficult barrier encountered by the auto-tech sector so far.

### Investments: The heavy guns are moving in

The open and official index for global interest in the local sector consists of official announcements of completed financing rounds, and there are plenty of those. Since October 2018, Israeli companies operating directly and indirectly in smart auto technologies announced financing rounds totaling \$150 million, but this is only what has been disclosed. Under the surface, tier-1 investors continue to invest in general funds and those specializing in auto technology.

Last week, for example, the Maniv Mobility venture capital firm held an investors' conference under the media radar on the occasion of the closing of its new fund. Almost all of Maniv Mobility's portfolio is now focused on Israeli auto-tech companies, and the same

is true of its new fund, which is planned to exceed \$100 million and bring Maniv Mobility's total investments in the sector to over \$250 million.

Although Maniv Mobility is a private specialist fund, the event drew unprecedented global attention. The only public announcement that coincided with the event was by US tier-1 auto supplier Lear Corporation, which announced its investment in Maniv Mobility.

Lear, a company with an \$8.8 billion market cap and nearly 150,000 employees working on production of components and technologies for the auto industry, directly acquired Israeli company EXO Technologies last year. It is definitely a prestigious addition to the fund.

Sources inform "Globes", however, some heavy guns joined Lear in the new fund, such as the venture capital fund of Hyundai Motors, the investment arm of Jaguar-Landover, and the new investment fund of BMW, which has not previously operated in Israel, in addition to the \$1 billion venture capital fund of Renault-Nissan, which joined Maniv Mobility last year.

This information has not been officially confirmed although judging by the senior rank of the international representatives who attended the conference, however, including Renault-Nissan, which is visiting Israel for the first time, the sector is still red-hot and arousing interest.

### Autonomous cars are only the beginning

Investors' interest in the sector is a direct result of the accelerated progress in Israeli auto-tech, the potential of which is now expanding beyond the auto industry. One especially prominent example is technology in the general category of edge computing, which aims at bringing computer power closer to where it is really needed.



In an autonomous vehicle, for example, this technology is of critical importance. Edge technology makes it possible to equip a vehicle with a brain-on-chip that is able to merge and process an enormous quantity of visual information, and after it streams in from the vehicle's sensors, to turn it into real-time decisions, without wireless transmission of the data to the cloud and processing of the information there.

The decisions involved are critical ones, such as avoiding obstacles, drivers, and pedestrians, and decisions about driving policy, such as merging into road traffic. Up until now, the consensus in the sector was that artificial intelligence (AI) was needed to perform the heavy task of simulating the decisions of a human driver. AI programs, however, require very strong processors with a big appetite for electric power, and that is a real problem.

In recent years, the world's best IT giants have been trying to overcome the paradigm under which AI = processing power = electricity consumption. The really big breakthrough, however, is coming right now from Israeli auto-tech companies like Hailo, Cortica, Brodmann17, IonTerra, and others.

Each of these companies has a different technological approach to solving the problem. Some of them use thin AI algorithms, others offer a revolutionary electronic architecture. The final result in every case, however, is designed to be the same: chips that can handle massive quantities of information without complicated, expensive, and electric power-hungry hardware.

The moment the breakthrough from theory and software to hardware is achieved, and it is taking place right now, it is clear to investors that an autonomous vehicle will be only an intermediate stop - an important and prestigious stop, but one that is overshadowed by the inherent potential of these technology

outside the auto industry.

The bottom line is that the sector is now developing the missing link likely to utilize and realize the full potential of AI in a way that is independent, relatively cheap, friendly to electricity consumption, and able to accommodate mass production.

### Competition between countries has begun

The problem is that a considerable proportion of the technologies being developed by Israeli auto-tech, especially edge computing technology, are classified as dual-use technologies, meaning that they have the potential to change the rules of the game in both the civilian and military markets.

There is a great similarity between autonomous vehicle technologies and those that make it possible to manufacture autonomous weapons. For example, imagine a completely autonomous assassination drone equipped with a very efficient electric battery that is not controlled by an operator or control carriage in real time. It independently navigates itself to a target set without any wireless connection with its home base. It uses micro-radar and miniaturized LiDAR to detect obstacles, protect itself using cyber security technologies on a chip, and uses machine vision to identify a target selected in advance, whether a person or a vehicle. It carries out targeted killings independently according to field conditions, which are recorded and processed by its sensors, while obscuring its direct connection to whoever sent it on the mission.

These components are already being developed now in Israel and elsewhere by auto-tech companies, with the missing link being AI-based edge computing processors that can identify and map the surroundings and make real-time decisions using a drone's limited micro power sources.

This was impossible two years ago, but it is definitely possible now, thanks to the autonomous vehicle.

This technological duality and the threat posed by its reaching the wrong hands is currently of great concern to many decision-makers all over the world.

Just last week, at a conference in Berlin, German Minister of Foreign Affairs Heiko Maas called on the major powers and international regulatory agencies to immediately impose tight international supervision on such technologies.

"Killer robots that make life-or-death decisions on the basis of anonymous data sets, and completely beyond human control, are already a shockingly real prospect today," Maas said. "Fundamentally, it's about whether we control the technology or it controls us."

His remarks may sound like a script for a sequel to "The Terminator," but almost all of the major powers are now in a race to obtain technologies that can be used to produce "fire and forget" autonomous assassins, while at the same time attempting to prevent, or at least delay, the obtaining of such key technologies by competing powers.

Since the defense export channels are usually blocked and protected against leaks of strategic technologies, the dual-use auto-tech channel is ideal for obtaining the bits of technology needed to complete the jigsaw puzzle of autonomous weapons.

### Who dares to limit the Chinese?

The Israeli regulator has had trouble in keeping up with developments in this area, and perhaps did not want to. The US, however, which is in a race to deny the Chinese access to strategic

Western technologies, is pushing behind the scenes to halt, or at least restrict, Chinese entry through this side door.

This policy was officially voiced by Israel Security Agency director Nadav Argaman at a conference concerning the establishment of a supervision mechanism for the matter, and by US National Security Advisor John Bolton during his recent visit to Israel.

It is unclear what is happening behind the scenes, but according to data from the IVC research company, Chinese investment in the Israeli technology sector grew to \$325 million in the first three quarters of 2018, compared with \$274 million in 2016.

As far as is known, one quarter of this amount went directly or indirectly (through participation in general funds) to the auto-tech sector. If Chinese investments in Israeli auto-tech companies with dual-use technologies are restricted, it is likely to constitute an important bottleneck in the VC pipeline. This, however, is the result of straddling the nether region between the defense and civilian sectors.



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