The Institutional Betrayal of Hi-Tech, the MobilEye Version

Many spoke of the miss in selling MobilEye to foreign parties, but the real miss is the institutional bodies' attitude toward the Israeli hi-tech industry

Eli Tzipori, March 17, 2017, 10:25 AM

1. It was only five months ago that we have chosen MobilEye as the Israeli hi-tech Company of the Decade in the special hi-tech supplement issued by Globes every year.

   There, we cited Benny Landa, the chosen Entrepreneur of the Decade, who had said, "Success is measured by actual facts, and actual facts are revenues, employment and production". This saying is so simple, so true, and also so trivial, that it is at times forgotten, when too many "successes", which are purely the fruit of image and marketing instead of facts, in the limelight. We have noted then that we would add "profit" to Landa's definition of business success, a word recently regarded as denounced in Israel. However, any technological success with actual facts ultimately translates into profit generation.

   One must realize that competition is a miraculous, wonderful thing. It usually works for the benefit of consumers, for lower prices, but it cannot exist without the "power" of profits, which can later be reinvested in innovation, development or opportunities for new technologies, which, in turn, will again lower prices and so on. This applies not only to the hi-tech sector, but also to any other industry, and particularly to the media, which had become largely dependent upon outer feeds, which oppressed all long-term motivation to do what any business should be doing: make profits, not only for its shareholders, but also, especially, for its employees and clients.

2. For those of you unfamiliar with MobilEye or its financial history, or those who know it through its beeping systems in cars – MobilEye managed to perfectly execute Landa's formula: it has an advanced, pioneering technology; proof of it after many years of development; revenues, employment and production; and, yes, it also has nice profits.

   You may wonder whether Intel is paying a price too high for MobilEye's profits, you may believe a bubble is surrounding the autonomous car industry, you may wonder why another successful Israeli technology company is taken by international hi-tech giants, but you cannot take away MobilEye's achievement.

   This is not a case of a couple-year-old startup, with big dreams and zero revenues. This is an 18-year-old company, current leader in the development of computer vision and machine learning, data analysis, location and mapping technologies for advanced driving systems and autonomous driving systems. Its systems are installed in 16 million vehicles worldwide, and some readers probably witness its simple system's performance.

3. The numbers speak for themselves: MobilEye demonstrates an annual sales rate of $ 360 million, with a double-digit growth rate minimum; its annual net profit is more than $ 100 million, also with a double-digit growth rate; it employs 660 people in Israel and keeps hiring. Its shareholders will pay large amounts in tax for the sale of their shares (hopefully, not many of them have diminished these by cross-country tax planning), employees will be taxed, as will all other employment circles.

Again, these numbers may not justify a $ 15 billion price, but, after missing out on the smartphone revolution, Intel had probably been inclined to pay a generous premium for a ticket to the fascinating world of autonomous vehicles.

4. At the time the company had been chosen, we spoke with its founders, Chairman Prof. Amnon Shashua (the "technological brain" behind the company) and CEO Ziv Aviram, at length. Mostly, they tended to keep their distance from the media, with interviews becoming even rarer after the company's IPO on NYSE. We have also talked with Dr. Shmuel Harlap, MobilEye's biggest private investor and controlling shareholder of Colmobil (Israeli importer of Mercedes Benz, Hyundai and Mitsubishi).

   Conversations were fascinating and a similar motto by all three emerged: the automotive sector is undergoing a revolution, a revolution of once in a hundred years and the greatest since the invention of automobiles. A revolution that will ultimately eliminate the need for private car ownership and integrate autonomous cars and shared cars. Aviram even offered a very surprising prediction: in two decades, he said, driving will be illegal. He, Shashua and Harlap spoke of a developing revolution which will reduce the number of vehicles on roads, because anyway, we only use our car 4% of the time, which makes the vehicle sector the least cost-effective of all. According to their vision, we will access an app, say we want to get from here to there, a car will stop next to us, pick others on the way. If, on weekends, we wish to travel with our children, we will order a minivan, or if we desire a sports car one morning, it will be available to us. No one will need to own a car in order to mobilize in a car from one place to another.

   The autonomous car vision holds that, once a driver is out of the equation, the number of traffic accidents will decrease, and drivers will suddenly have hundreds of billions of free hours, during which they can be provided information, ads and more as they travel. Therefore, this whole process has enormous financial motivation and that's why we see technology giants invest dozens of billions of dollars in the field.

   Surely, this revolution is complicated, challenging and raises hard moral questions, including its combination with the traditional industry: what will happen on roads when autonomous cars and cars driven by people mix? In our conversation, Harlap numbered four scenarios: the first, customers will own private cars as well as autonomous car kits. They will either use their kit or not, as they wish. Because all manufacturers will have it, this will be the standard option and will not require any payment.

   According to Harlap's second scenario, customers will be able to buy the car and own it, but they will have the option of renting it out to other people, via a shared car company or a company owned by the manufacturer. Your car will be taken from you and rented out to interested parties on an hourly basis. The company will split its revenue from renting out the car with the owners, which will help them finance the purchase.

   The third scenario includes only the usage of the vehicle: customers will not purchase the car, but only order it when they need it (this is Aviram's scenario). The fourth scenario, according to Harlap, includes the same car rental options as today – on an hourly or daily basis.

   Again, the complexity of this technological revolution is unmatched – because an autonomous vehicle must imitate both human eye and intelligence. This is a difficult job, and MobilEye is currently nicely positioned in the forefront of development in the field, although in technology, naturally, things are more fluid than in other markets.

5. Some view the Intel-MobilEye deal as a miss: another local company taken by foreign hands. That is understandable. The problem is, really, that not many local companies have grown to reach the size of Check Point, MobilEye and Nice, and there goes MobilEye to be acquired by Intel. However, this is also something to come to terms with: exits are part of the hi-tech industry.

   By the way, legally, MobilEye is not Israeli, but rather Dutch (see Adv. Shirin Herzog's enlightening essay regarding the transaction framework, taxes and tender offer). However, Intel does have roots in Israel, as noted by Prof. Shashua even before the deal between the companies had been planned, and following its rich history with Israel, it is bound not to head away.

   The miss is completely different and it has to do with institutional bodies, and more accurately with the betrayal of the institutional bodies, as we have written before. What were the holdings of institutional bodies or Israeli venture capital funds during MobilEye's raises? They existed, but were quite negligible.

   Institutional bodies continue to betray Israeli hi-tech, continue to betray Israeli engineers, whose skills Aviram and Shashua have accurately described. It can't be that they manage enormous portfolios, of around NIS 1,500 billion, and only a negligible portion, something like 0.2%-0.3%, is invested in the Israeli venture capital industry.

   They betray the financial future of the country and allow the entire world to enjoy our hi-tech industry, except the Israeli investment bodies. This is absurd, and with all due respect to the Kahlon-Netanyahu disputes over the Broadcast Corporation or whatnot, one of the most important reforms now is a law to require institutional bodies to get out of their comfort zone and invest 5% of their assets in the Israeli hi-tech industry.

   This is all that is required – around NIS 75 billion, which will be sufficient to give the industry another push forward, create employment and build more export-oriented companies such as MobilEye. It only takes one simple decision, which is low-risk and endangering nobody, since even if all these investments are lost, which is highly unlikely, savings will be only marginally affected, but the contribution to the entire economy will be immense.

   One of the institutional arguments is that venture capital funds yield no appropriate returns. For their information, Globes purchased research company Preqin's report, which ranks the performance of venture capital funds and private equity funds worldwide. It cost Globes $175, and we assume institutional bodies can easily afford to purchase these or similar reports.

   According to the 2016 report, from the funds established between 2010 and 2013, the first Israeli Glilot Capital Fund is ranked third, with a 92% Internal Rate of Return (IRR), while the fund ranked first recorded a return of 119%. This is a relatively small, anonymous fund in the Israeli venture capital industry, compared to Pitango and JVP, for instance, but its returns speak for themselves. The fund specializes in cyber security companies and is run by Arik Kleinstein and Kobi Samboursky.

Now, is that enough for you, dear institutional bodies? Or would you continue to hurl various slogans about insufficient returns?

Buy surveys and start investing in Israeli venture capital. This is beneficial to you, to your clients (the savers) and to the building process of the country.

World's 10 Best Venture Capital Funds, founded 2010-2013

	Fund	Company	Founded	Fund Size ($M)	Region of Operation	Net Internal Rate of Return (IRR, %)
1	**Flagship Venture Fund IV**	Flagship Ventures	2010	269	North America	118.9
2	**OrbiMed Private Investments V**	OrbiMed Advisors	2013	735	North America	118.8
3	**DN Capital – Global Venture Capital III**	DN Capital	2012	144	Europe	92.2
3	**Glilot Capital Partners I**	Glilot Capital Partners	2011	30	Middle East and Israel	92.2
4	**Ventech China II**	Ventech China	2011	85	Asia	79.0
5	**Menlo Ventures XI**	Menlo Ventures	2011	400	North America	75.7
6	**Vickers Venture Fund IV**	Vickers Venture Partners	2012	81	Asia	75.4
7	**Foresite Capital Fund I**	Foresite Capital	2012	100	North America	74.2
8	**Foundry Group Select Fund**	Foundry Group	2013	225	North America	70.9
9	**Fulcrum Venture India Fund III**	Fulcrum Venture India	2013	16	Asia	68.9

Source: Preqin Private Equity Online

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