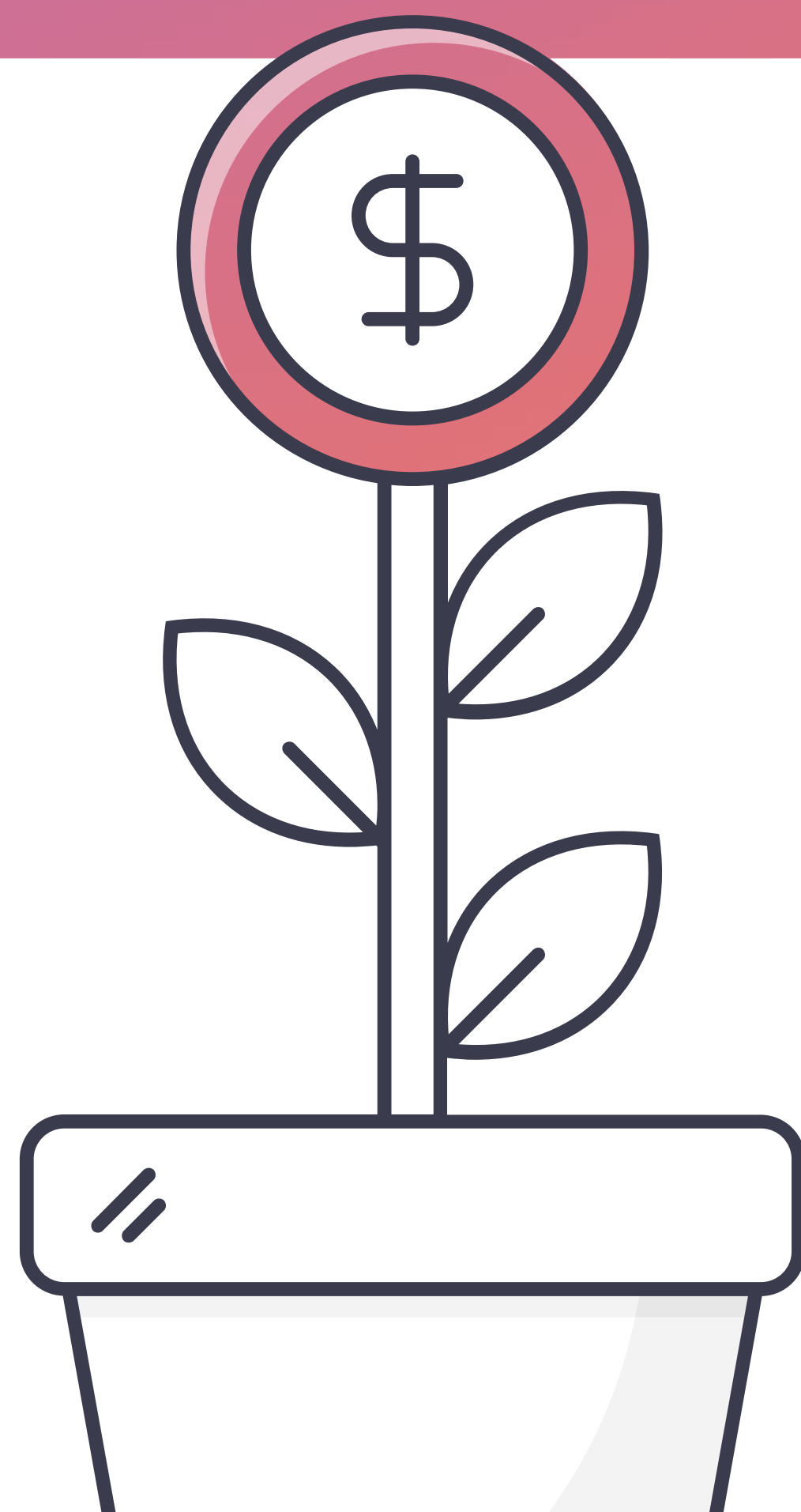
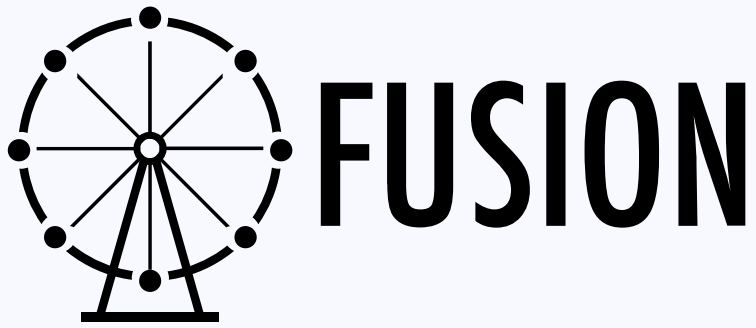


# The 2023–2024 Israeli Pre-Seed Investment Landscape

A Survey of Active VCs and Angels by Fusion VC





## About us

Fusion is Israel's most active pre-seed VC platform and startup accelerator.

Since 2017, Fusion has backed over 110 startups with a combined valuation of over \$1B, raising over \$400 million from top investors. Each year, Fusion writes dozens of \$150,000 checks to help entrepreneurs bring their vision to life - often first-time founders from sectors that are underrepresented in the Israeli VC landscape. In addition to pre-seed funding, Fusion runs an intensive bootcamp in Tel Aviv, Silicon Valley, New York and Los Angeles. During the accelerator, portfolio companies learn from 150+ sessions of seasoned founders, investors, and mentors.

Fusion is backed by Insight Partners, top-tier global VCs and 70+ serial founders.



## Participating VCs

Logos are clickable

10D

91 VENTURES

AnD

at.inc/

CARDUMEN CAPITAL

deftly.vc

DISRUPTIVE AI

EARTH & BEYOND VENTURES

ENTRÉE CAPITAL

F2

FLINT CAPITAL

fresh fund

GOOD COMPANY

Hetz Ventures

Jibe ventures

Joule VENTURES

MENSCH CAPITAL PARTNERS

MizMaa

MORE VC

RANDOM FOREST

Recursive VENTURES

SARONA VENTURES

SECRET CHORD

SEEDIL VENTURES 2

STAGE ONE

symbol

TAU VENTURES BY TEL AVIV UNIVERSITY

TechAviv

upwest

VIOLA VENTURES

# Intro: The State of Pre-Seed

Amidst the tumult of judicial reforms, economic turbulence, and the lingering impact of the October 7th terror attack, we set out to find an answer to one question: How has all of the above affected the Israeli pre-seed investment landscape in 2023? Was there a slowdown, or is that just a myth?

You can find the answer below, but let's start by answering a more basic question...

## What's pre-seed, anyway?

When we at Fusion talk about pre-seed we are referring **only** to rounds of up to \$1.5M and often much lower, which are the first round of investor money that the company raises (i.e., excluding friends and family).

These small rounds tend to fly under the radar for a few months until the companies successfully raise the next big round (or fail to do so and die). Most of the time, they won't even be reported onward (as the investors are often not VCs who have to share the data and report to their LPs). Even when they are reported, it's tricky to put them on the books as these are smaller rounds, usually done via SAFE and without a definite valuation for the company. Naturally, these rounds also don't receive the same level of media attention, and many of them will not even be covered or publicized.

For years, we've argued that pre-seed rounds play a foundational role in Israel's early-stage technology landscape. Angels, incubators, syndicates, and micro-VCs (typically not the ones who are managing \$50-100m+ funds) provide the initial lifeline for dozens if not hundreds of companies – giving them enough resources to build fast, get traction, and validate their ideas towards the next round.

Contrary to what some believe, not all startups in Israel have started with a multi-million seed round. Many rely on pre-seed to jumpstart their journey. In this report we unfold the path some of them had and will have to go through, and why pre-seed remains stable (and so important) for our landscape.

As mentioned, this report does not cover larger rounds led by the "usual suspects" – VCs, super-angels, and syndicates. We've excluded these even in cases where it was a very early funding round, since they are fundamentally different from the type of pre-seed investments we wish to focus on.

# About this report

In this report, we compiled and analyzed the results of qualitative and quantitative data collected from 54 active angel investors and 31 active pre-seed/seed VCs, as well as data collected from Fusion's internal systems (documenting 900+ meetings with Israeli pre-seed companies). We used this data to understand the typical structure of pre-seed rounds, year-over-year changes to valuations and deal types, and investor expectations from founders.

We believe that in the unique circumstances of Israeli tech in 2024, the importance of the pre-seed space cannot be understated; at the same time, reliable data on pre-seed investment trends is very hard to come by. Our aim here was to both shine a spotlight on this often under-discussed part of the local tech ecosystem, as well as to help founders and investors make decisions based on a more solid understanding of the market.



**31**

Participating VCs



**54**

Participating Angel Investors



**110**

Reported investments by VCs



**190**

Reported investments by angels



**150+**

Unique pre-seed deals covered in the report

# Macro Trends

## 01 | Pre-seed is alive and kicking

Since the October 7th, Fusion has made 12 new investments, including 9 new investments and 3 follow-ups – all in the pre-seed rounds of under \$2M. These deals, which come on top of 900 meetings and 150+ recorded investments we've completed in 2023, show that the pre-seed category is alive, active, and more relevant than ever.

## 02 | The rate of new companies in Israel DOES NOT seem to have slowed

Despite rising interest rates and slowing markets at the start of 2023, the judicial reform, and the war that started on the October 7th, we estimate that the rate of new companies being founded has not slowed. To wit: we have recorded 900 new deals. The reports of a slowdown in new companies, which mostly come from the Israeli Innovation Authority, are based on data related to new incorporations as well as seed rounds. However, in the last six months, we have noticed a trend where about 80% of the companies that approach Fusion choose to incorporate as an American company in Delaware – some **with no intention to open an Israeli subsidiary**.

This is a growing trend from recent years which accelerated after the judicial reform and the October 7th attack. At the same time, Israeli service providers are more willing to recommend entrepreneurs set up a US company first, which they would not have done in recent years. Finally, more experienced founders are choosing to start their companies in the US from day-1 to alleviate any fundraising concerns of American investors from the macro and geopolitical trends, rising regulations, tax policies, etc.

We at Fusion encourage all of our portfolio companies to set up a Delaware C-Corp as soon as possible. If you intend to grow your business in the US, you will eventually do it. Many investors in the US (including VCs & Angels) will never invest in Israeli LTDs because of tax & legal issues.

Israeli policymakers and tax authorities should be concerned about this trend. However, the main challenge is creating a better regulatory and administrative environment for new companies in Israel, rather than the number of new entrepreneurial initiatives – where, contrary to what has been reported elsewhere, we are not identifying a slowdown.

# Macro Trends

## 03 | Better data is needed

Pre-seed investing operates in relative obscurity. There is no single database of the angels and micro-funds that operate in Israel and are open to smaller investments in startups. The lists that do exist are often inaccurate or flat-out wrong (for example, VC partners who made a sporadic angel investment might be listed as active angels). At Fusion we are working on creating this up-to-date database of angels and funds who have been active in rounds of up to \$1.5M, in the last two years. If you fit this description, tell us in these links: [VCs\GPs](#) | [Angels](#), and we will include you in the list (to be published soon).





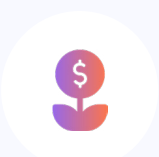


## 04 | Pre-seed is key to creating a more diverse Israeli tech landscape

As mentioned above, pre-seed is often overshadowed by the large figures and big names that dominate later rounds.

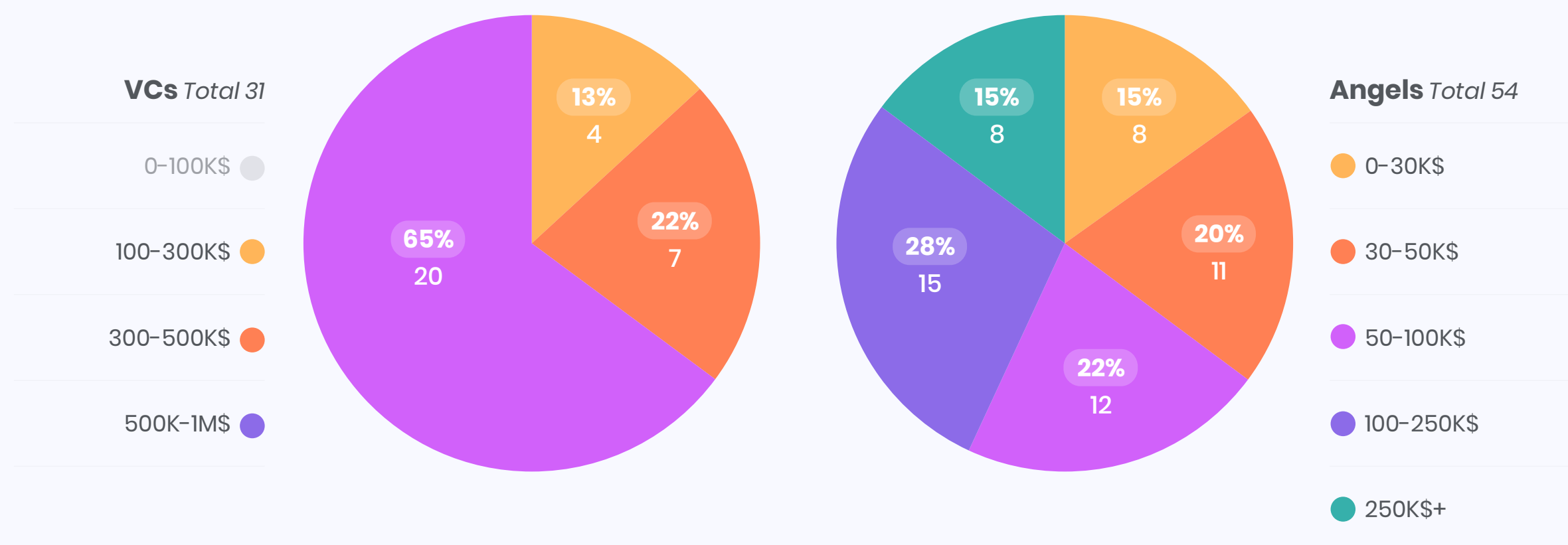
It's no secret that the high-tech industry in Israel has been traditionally dominated by alumni of the IDF's elite tech units (8200 / 81), and by startups that develop cybersecurity, data, or cloud technologies. Founders who fell into these categories enjoyed a much easier path to VC, and even more so if they were second-timers or serial entrepreneurs. The economic challenges of recent years have caused many VC firms to double down on these 'tried and tested' investment patterns

**Pre-seed investment provides a vital lifeline and inroad for new founders who operate outside of the traditional enterprise software or security domains – and thus plays a crucial role in creating a more diverse and vibrant tech scene in Israel. This is particularly crucial for companies in vertical SaaS platforms, life sciences, energy, B2C/D2C, and climate startups, which require a significant capital investment to get started.**

# Key Findings

- 
 Investment through SAFEs accounted for 80% of pre-seed invested capital (similar to US benchmarks).
- 
 Most angel investors (57%) in Israel write checks for less than \$100K. 35% of the active angels we surveyed typically write a first check smaller than \$50K.
- 
 Most Israeli angels won't invest in more than three companies in one year (67%); a majority (56%) reported not closing any deals in Q4 2023, following the October 7th terror attack.
- 
 Angels typically like to invest with other angels - 87% would invest alongside at least 3-4 other individuals/funds, and no one likes to be the only angel in the round.
- 
 In 2023, VCs had a median pre-seed investment count of three.
- 
 65% of active pre-seed VCs (20 funds) in Israel prefer to write \$500K-1M checks during the pre-seed round, with the expectation that the company's valuation during a seed round will be in the \$15M-20M range.
- 
 Both VCs and angel investors don't expect to see significant sales at the pre-seed stage, but do prefer to see proof of concepts, unpaid pilots, or partnerships.

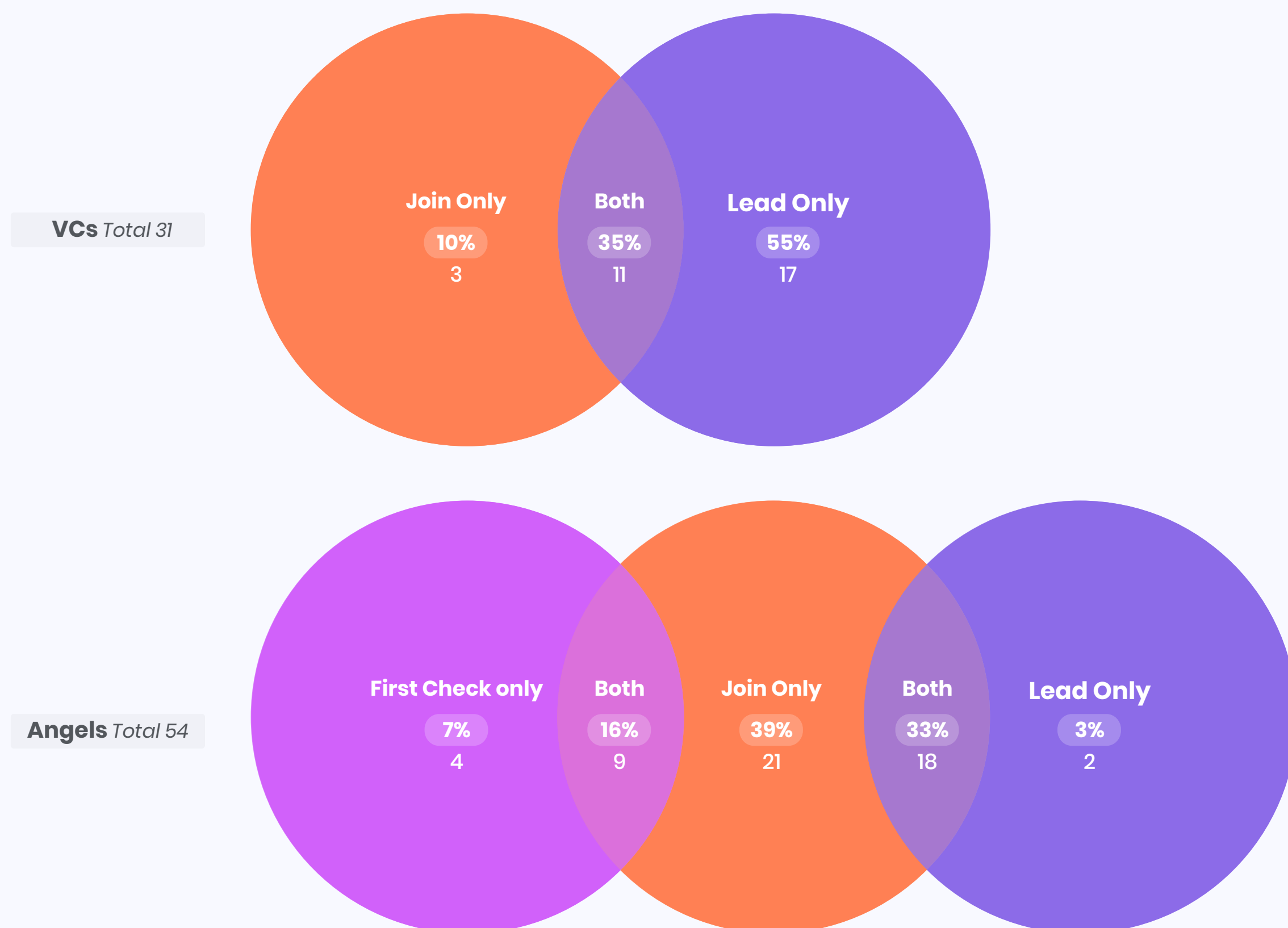
**Pre-Seed VC/Angel Investor average check size**



# VCs prefer to lead rounds; angels are happy to participate

90% of VC firms surveyed stated that they prefer to lead a pre-seed round; only 35% were willing to participate in rounds as secondary investors, while a significant 55% would only join a pre-seed round if they were leading it. In contrast, nearly 90% of angels were willing to join pre-seed rounds, with only 40% actively seeking to lead, and only 3% saying they would not invest otherwise.

These stark differences in investor preferences help us better understand investor motivations. Angels want to join deals where other players are already on board - typically larger pre-seed rounds where the risk feels more hedged - even if it means compromising on equity. VCs, due to their financial model, will want to lead the deal, set conditions, and grab a larger portion of equity at earlier stages. The insistence on leading a round can also be a sign of competition among VCs, who prefer to protect their 'status' as round leaders, even at the price of passing on attractive investment opportunities.

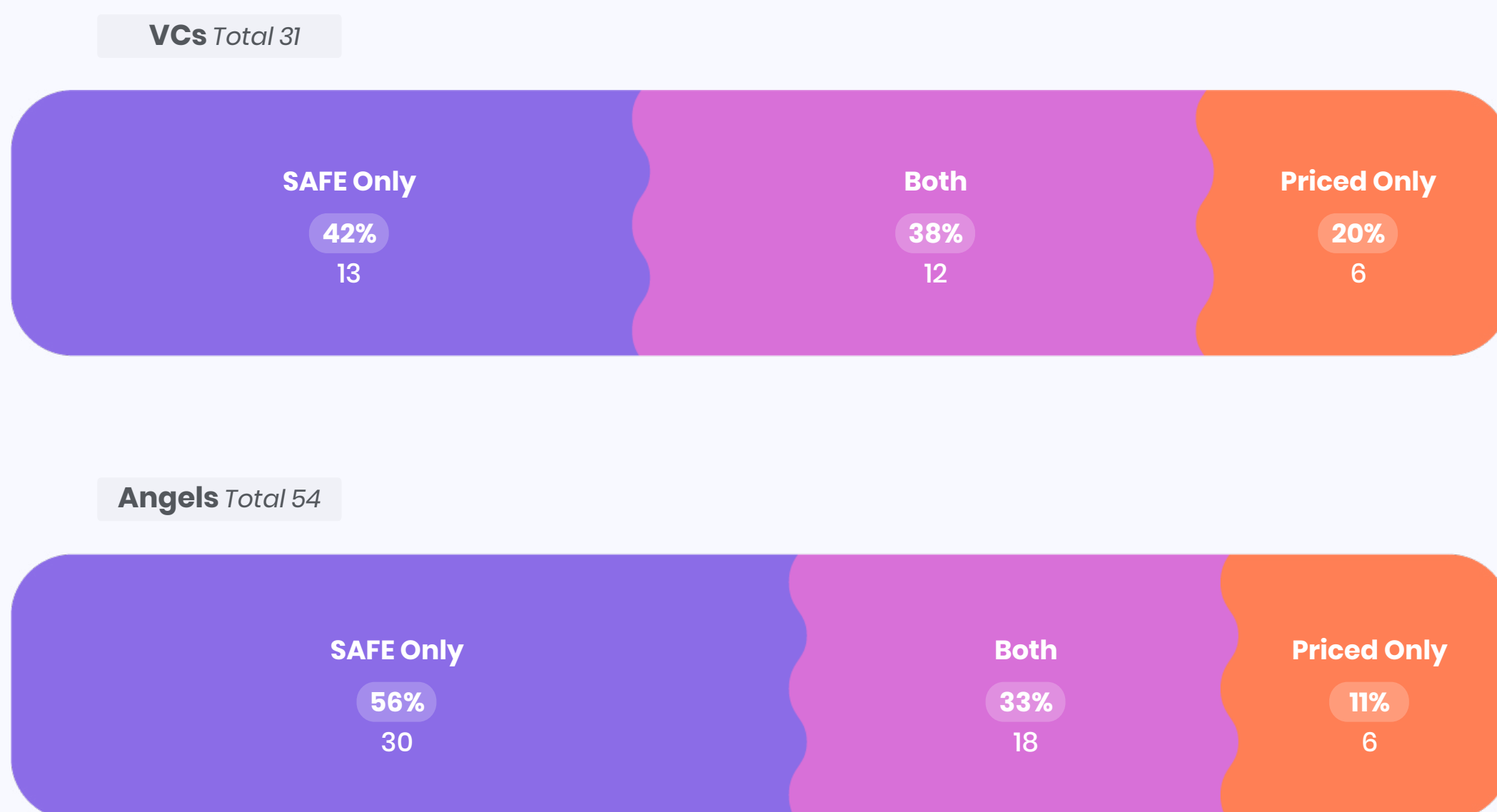




## The SAFE mechanism is popular in pre-seed stages; most rounds are pre-valuation

The industry rumors about the death of SAFE are safe to ignore. 80% of VCs prefer using SAFE agreements; however, 38% participate in both SAFEs and priced rounds. Angel investors show an even higher inclination towards SAFEs, with 56% exclusively opting for this financing mechanism and an additional 33% participating in both SAFEs and priced rounds. Priced-only rounds are less common - and were reported by a mere 20% of VCs and 11% of angels.

Even though the SAFE mechanism does not determine an official, legally binding valuation, it would seem that most pre-seed investors view the SAFE valuation cap as a sufficient way to manage their risk at early stages. A high valuation cap, which is not justified by business results, might make it more difficult to raise further rounds (similar to a high valuation at seed). We have seen this ourselves with some of our portfolio companies, and hence recommend founders remain mindful of this possibility and not treat their valuation cap as an afterthought.



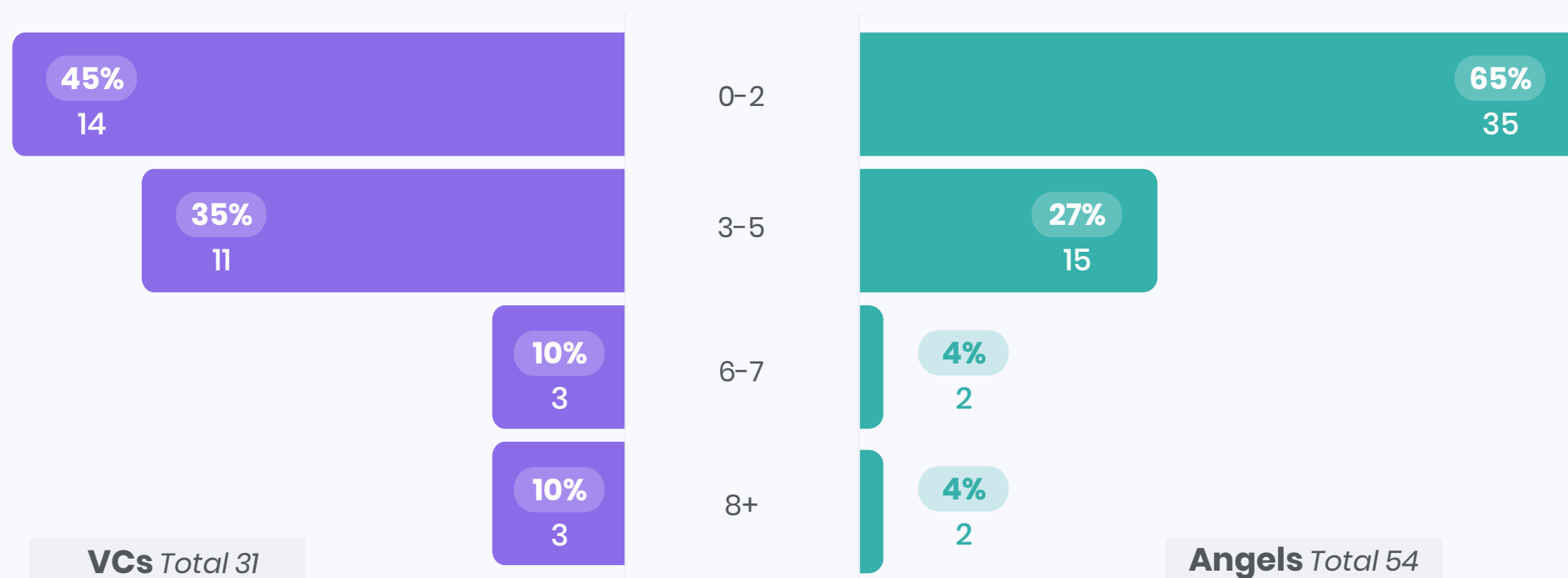
# In 2023, VCs had a median pre-seed investment count of three

Throughout 2023, the median VC firm made 3 pre-seed investments (2-4 on average). However, it's worth noting that most of these investments happened in the first three quarters of the year, and Q4 was uncharacteristically dry - with only (3) 9.7% of VCs executing more than one deal.

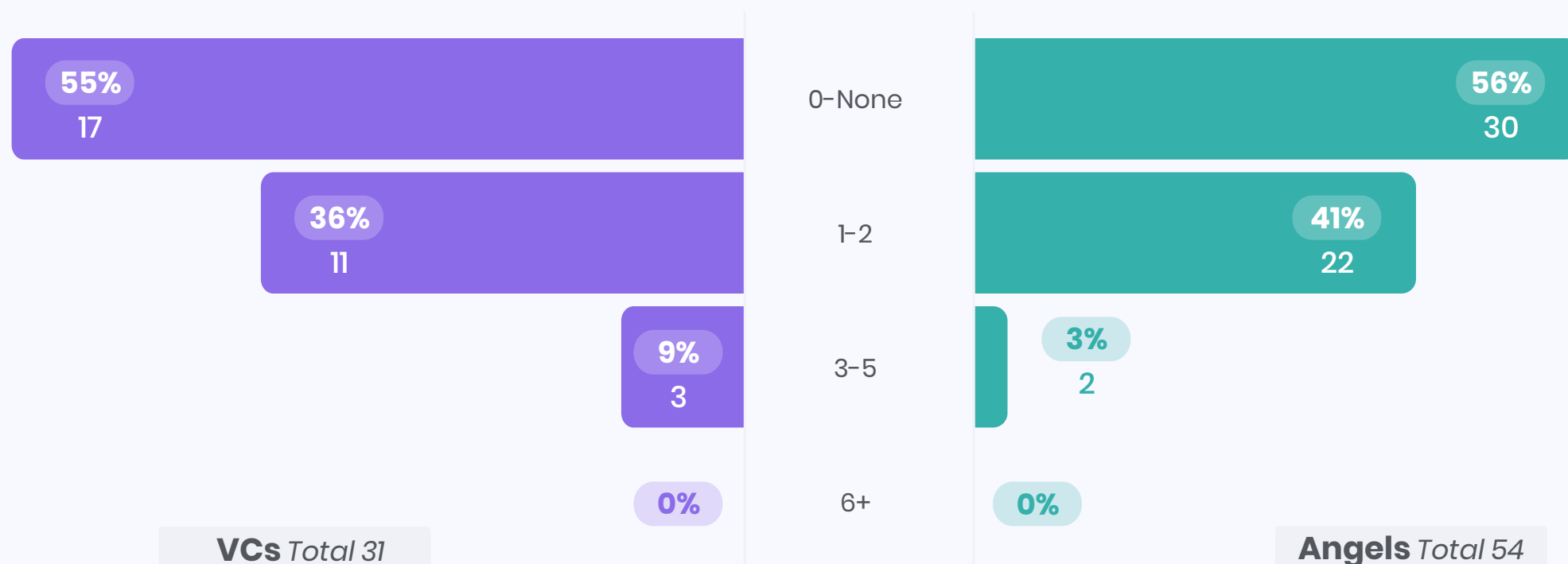
This presents a challenge for founders and teams who found themselves contending for a reduced pool of available capital. Only a small minority of teams (20-25%) successfully closed their pre-seed rounds. A similar trend can be seen among angel investors. This could indicate that the broader slowdown is beginning to impact pre-seed investments, but it is too early to determine as we don't yet have data on 2024.

When approaching angel investors, founders should inquire how many investments they have already made: 65% of them will make three deals or less during the entire year. Getting them to commit to a fourth or fifth one might prove more challenging.

## How many Pre-seed Investments have you done in 2023?



## How many Pre-seed investments have you done in 2023 post 07/10?

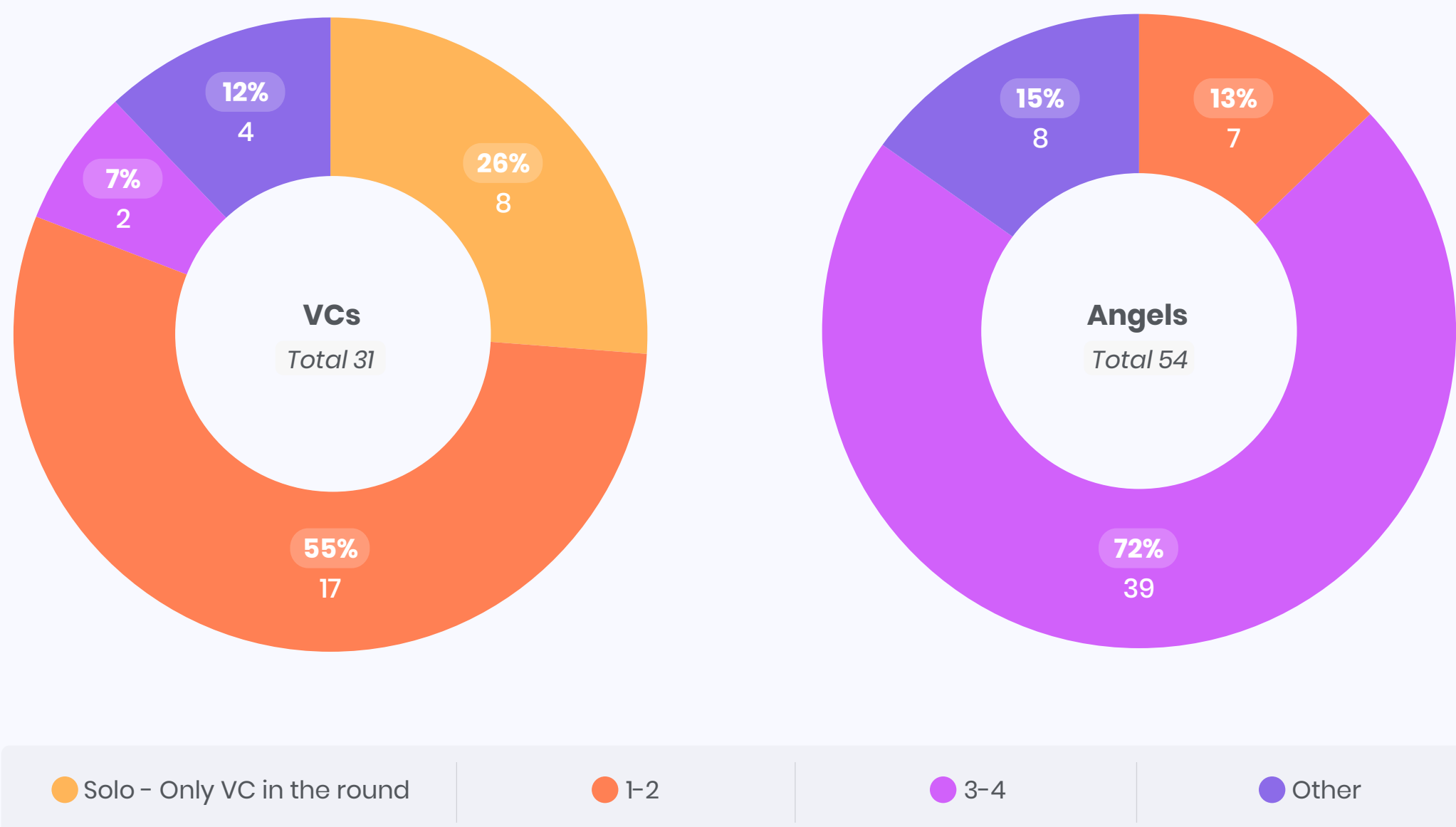


## Less VCs participate in a pre-seed round compared to later rounds

While it's very common to see later rounds led by a number of VCs, in pre-seed the default is the opposite. Most rounds are led by one dominant VC that wants to maintain most of the equity, which does not leave "room" for many additional investors. More than 25% of pre-seed investments are attributed to a single VC, and more than half of the remaining rounds involve only 1-2 VCs who join the leading investor. This dynamic allocates a substantial 20% of pre-seed rounds to smaller VC players, who, despite managing comparatively lower assets under management (\$ AUM), who usually compete for less conventional teams,

With angels, we don't see a similar trend: nearly 75% of angel-participated pre-seed investments involve three or four angel investors.

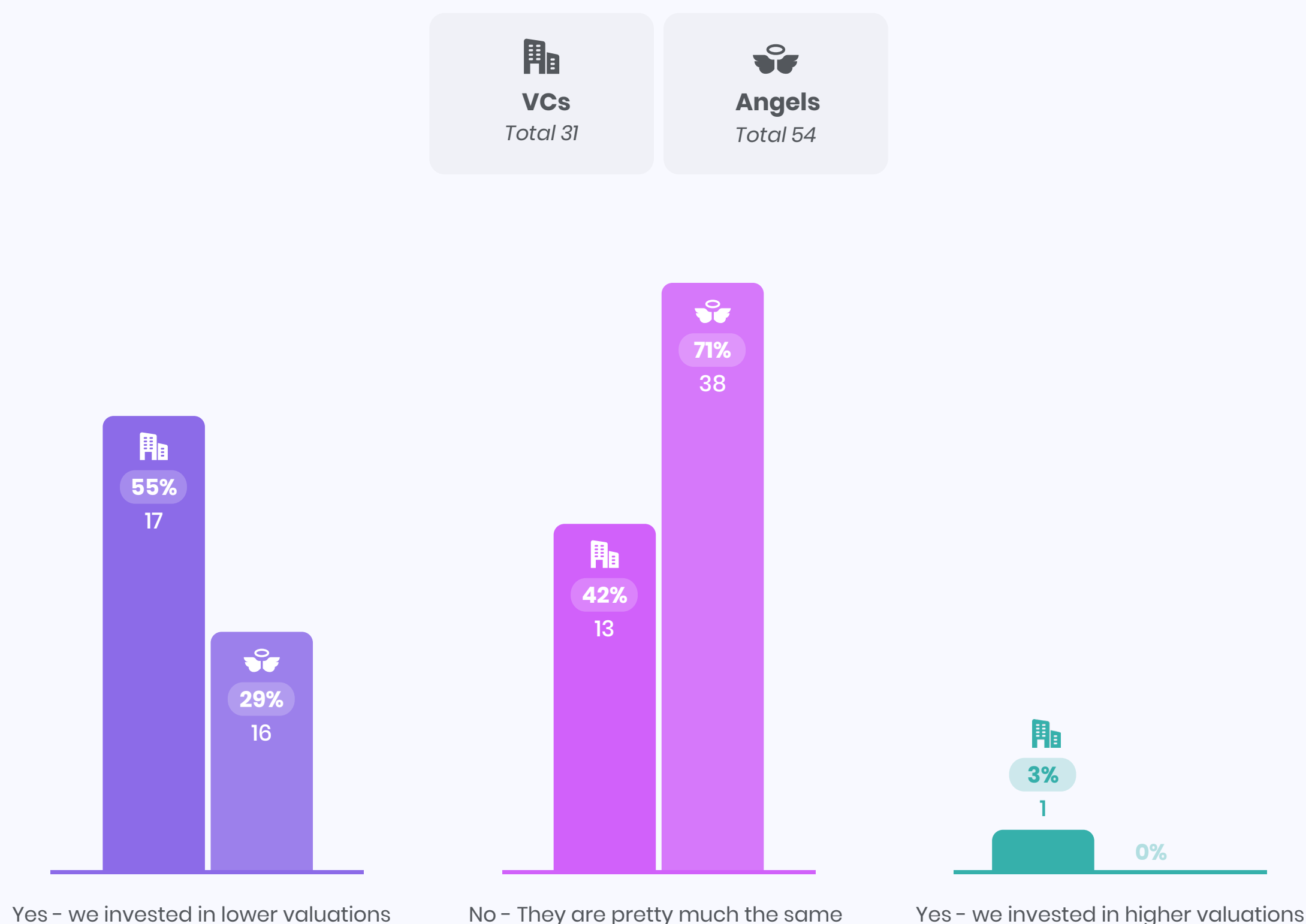
### How many VCs/Angels usually participate in the Pre-Seed rounds you've been part of?



# Have valuations changed between 2022 and 2023?

A small majority of VCs (55%) reported investing in lower valuations than the previous year, reflecting increased caution; whereas a large majority of angel investors (71%) noted consistent valuations, signaling a more stable approach in their strategy. Interestingly, no angels reported investing at higher valuations.

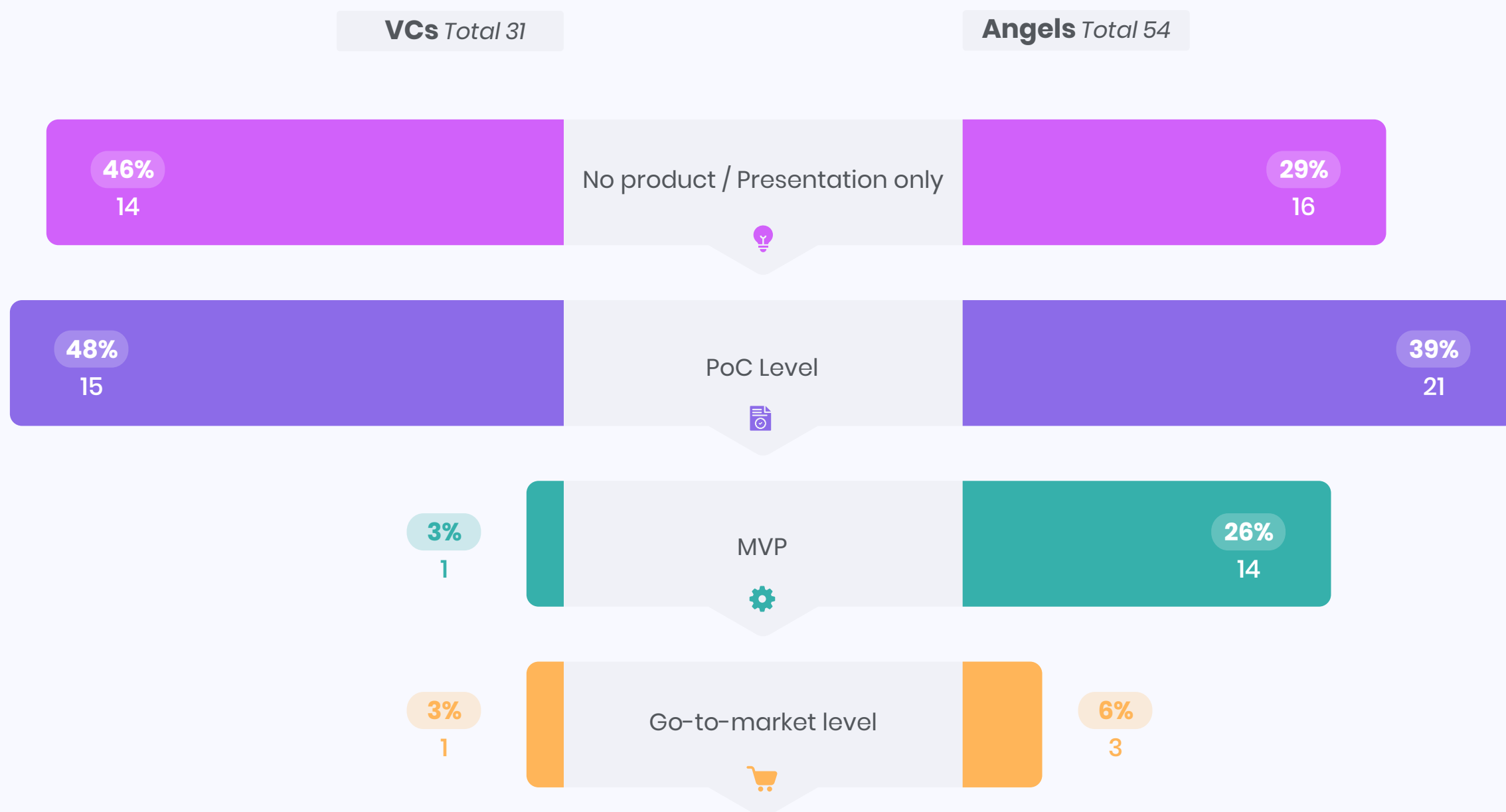
These differences could indicate differing appetites toward risk. However, it's also worth considering that the VCs are more likely to set company valuations, and might be displaying a preference for investing at lower valuations compared to previous years, considering the current climate. Angels tend to join rounds rather than lead them, and hence have little control over valuations (which could explain why they are not seeing major changes). We will follow up on this point in future reports, and attempt to identify a trend in average valuations.



# How mature does a product need to be at the pre-seed stage?

Investors' expectations of product maturity inversely mirrors the experience of the founding team. When entrepreneurs have a proven track record (in academia, the army, or industry), investors are willing to show more flexibility, and will consider investing in very early 'minimal viable products' (MVPs), or even without a product at all (i.e., based on a slide deck).

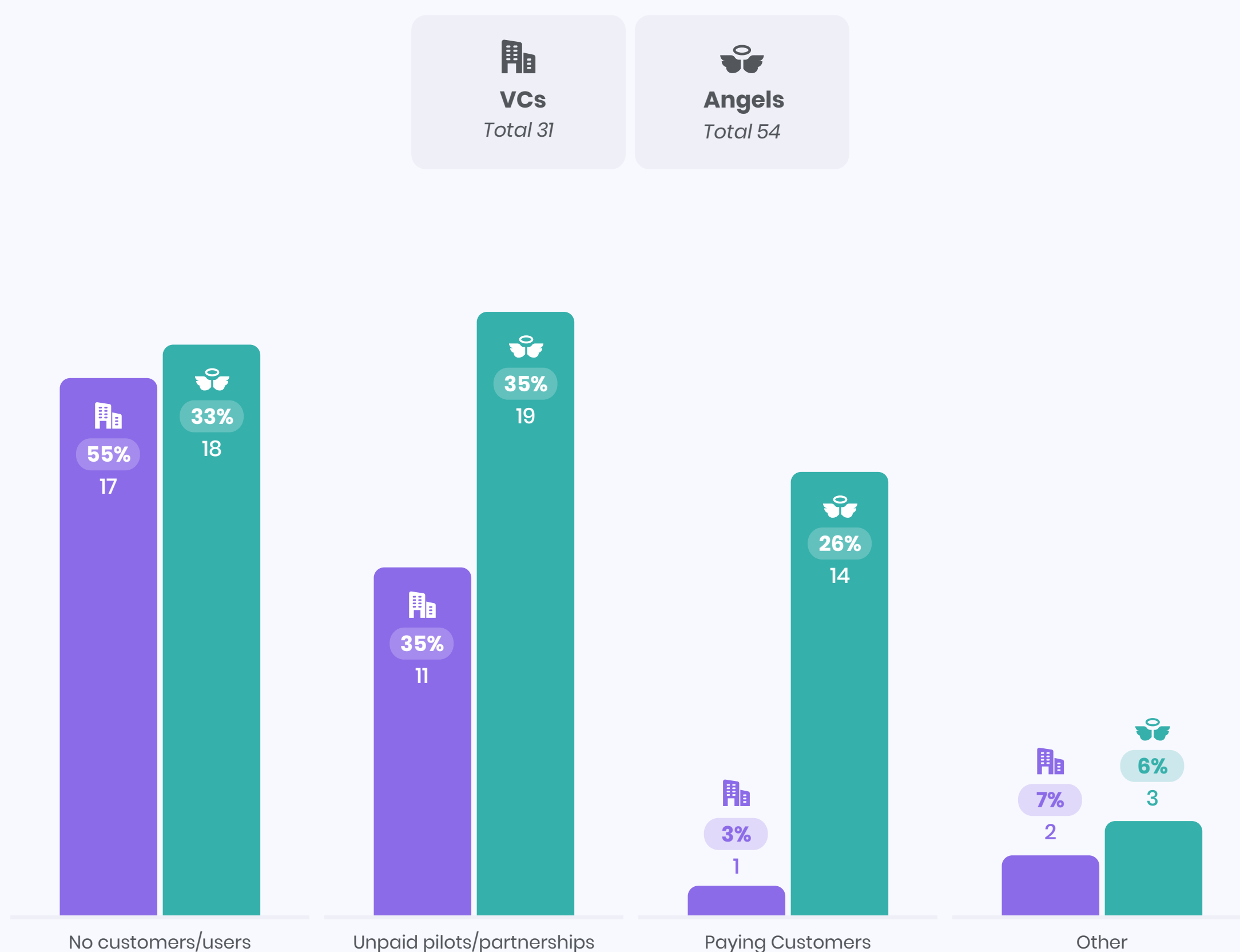
Angel investors tend to look for teams with more mature products, and in some cases will even want to see working products or proof-of-concept implementations. This could be a way for angels, who typically put their own money on the line, to de-risk their investments.



# What level of traction do investors expect to see?

Market traction varies significantly for different startups. Larger pre-seed rounds, often involving complex technology and extended R&D, may not necessarily hinge on immediate customer engagement; while certain B2B/Enterprise SaaS ventures with lower entry barriers will be able to show tangible signals of traction much earlier on.

Most VCs do not expect to see any revenue expectations at this stage. However, a notable subset anticipates nominal revenues, typically ranging from a few thousand and up to ten thousand dollars. For startups, reaching these might mean acquiring 2-3 paid partnerships, pilots, or early-paying customers.

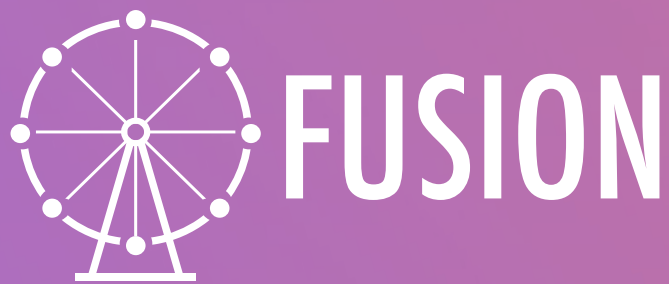


# Conclusions and Recommendation for Founders

Despite the turbulence of the last year, pre-seed investments in Israeli tech are stable. Entrepreneurs who can rally a strong team around a viable product offering will manage to raise funds; and while some investors might have lowered their valuations, the hit is not as bad as in later rounds. It is still very possible to raise money on favorable terms, and build great companies that will be well-positioned for fast growth when macro conditions improve.

**Founders should consider raising money in tranches.** Raising your first \$500K from a few angel investors and pre-seed funds that write small checks might be easier than pitching a larger VC for a \$3-7M check. Offer these "first believers" a more attractive valuation (\$2-5M).

This type of gradual fundraising will give you more room to collect early signs of validation; assemble a team and advisory board; and even close some proof-of-concept customers or partnerships, which will support your market momentum later on. Don't be afraid to take \$10-30K checks from industry insiders as a way to close your round and validate your idea. If going down this route, you should use SAFEs to minimize the risk of dilution by increasing post-money valuation after reaching milestones.



# Thanks for reading

This report is based on survey results and data collected from more than 300 reported pre-seed deals (we estimate that at least 150+ of these are unique). These deals included 54 active angel investors, 31 active pre-seed/seed VCs, and 900+ companies raising pre-seed funding, which had reached out to Fusion during 2023. The data presented below will be updated in a few weeks with additional information - If you wish to be included in the report and contribute your data, please feel free to fill-in our surveys:

Angels

VCs / GPs

Founders / CEOs

**Stay ahead in the world of VC as well as pre-seed investments  
and get Fusion's updates!**

Follow us on social media (LinkedIn, X, Facebook, Instagram),  
join our meetups for insights into conferences and networking,  
and delve into our latest articles

