

## Israel May House Next Pixar as Margalit Sees Virtual Future for Start-Ups

By Gwen Ackerman - Nov 29, 2010 1:01 AM GMT+0200



Erel Margalit says the country, with the world's largest number of start-ups per capita, needs to build on its traditional high-tech industry to develop virtual offerings -- from films and online games to social media and mobile advertising. Source: Jerusalem Venture Partners via Bloomberg

For Israeli investor Erel Margalit, keeping the country's start-up nation status means delving into the virtual world.

The 49-year-old entrepreneur's \$830 million Jerusalem Venture Partners is the main investor in movie studio Animation Lab. Margalit says the country, with the world's largest number of start-ups per capita, needs to build on its traditional high-tech industry to develop virtual offerings -- from films and online games to social media and mobile advertising.

"The new era needs to go beyond the engineering club to work with different disciplines, like King Arthur's 12 knights at the round table, each representing a different discipline: film, Web, storytelling, medicine," he said in an interview at his office in Jerusalem.

Margalit, whose investments include AnyClip, a service that helps movie buffs find and view their favorite film moments, says the country's media industry could one day create a rival to Walt Disney Co.'s Pixar studios. The push into newer technologies may help revive Israeli exports, which declined 9.6 percent in the third quarter.

After Margalit backed Israel's largest sale ever -- he disposed of his investment in fiber optics company Chromatis Networks Inc. to Lucent Technologies Inc. for \$4.5 billion in 2000 -- he started investing in start-ups like Animation Lab. Founded in 2006, the movie company is working on its first animated feature film, "The Wild Bunch," a story of flowers defending their meadow from genetically modified corn stalks.

### Virtual Worlds

Margalit has greater ambitions for Animation Lab, whose sister company Funtactix is developing Web products for movies.

“Children experience animation passively,” he said. “In a few years, children will be able to participate as the characters themselves just as they do in an on-line game.”

“The Wild Bunch” producers want to capitalize on the attention Israel’s film industry got when “Waltz With Bashir,” an animated film about a soldier’s experience fighting in the 1982 Lebanon war, was nominated for an Oscar in 2009.

Koby Simana, head of the venture-capital center in Tel Aviv, said Margalit’s direction not only sets the investor apart from other Israeli funds, it appears to be succeeding.

“The others mostly focus on Internet communication technology,” Simana said. “Erel took a different direction and meanwhile it looks like he is on the right path.”

#### Overcrowded Market

Not everyone is convinced Margalit’s animation movie push will pay off. David Simon, former head of DreamWorks Animation SKG Inc.’s television studio in Los Angeles, said the Animation Lab project isn’t unique.

“There are many animation companies in the U.S., Canada, the United Kingdom, Australia, China and Korea, who have attempted and fallen short of their goals,” he said. “The computer graphics film business is overcrowded, with too many new players competing with each other, not only for a finite fickle audience, but also with DreamWorks and Pixar.”

Computer animation company Pixar, whose first film, “Toy Story,” was the top box office hit of 1995, was bought by Disney in 2006 for \$8.06 billion from Apple Inc.’s Steve Jobs.

Still, Margalit’s investment track record has helped him. JVP, as his fund is known, this year raised \$145 million. Since its inception in 1993, the fund has enabled investors to make 21 investment exits, 11 of them through initial public offerings. Its current portfolio includes several companies with revenue in the hundreds of millions of dollars.

#### Venture Industry

Margalit’s start-up Qlipso bought the assets of video-delivery website Veoh Network in April for an undisclosed sum, giving the two-year-old content platform access to millions of users and an advertising revenue stream.

His latest exit was business analysis software company Qlik Technologies Ltd., an investment made with Accel Partners. Qlik’s July 16 IPO was the eighth-largest by a venture-backed company in the

U.S. this year. It has since risen 87 percent and is valued at about \$1.9 billion. The return on the investment was one of the highest out of Israel, according to the fund.

Margalit's success comes at a time when Israel's venture capital industry, largely dependent on foreign investment, has been hit by the global slowdown. Some \$229 million was raised by Israeli venture funds in 2009, a 71 percent drop from the \$803 million raised a year earlier, according to Israel Venture Capital Research Center.

Fundraising this year is expected to be \$500 million, or the second-lowest since 2004, the center's figures show. Only 2009 was lower.

#### New Media

Technology products accounted for about 51 percent of the \$3 billion in Israel's industrial exports in September. The jump from the traditional Israeli focus on infrastructure and security technologies to new media offerings may have come easier to Margalit, said Saul Singer, co-author of best seller "Start-up Nation."

"This is not your average guy, even in Israeli high-tech terms," Singer said. "He is a guy who has reinvented himself a few times and is very creative."

Margalit was born and spent his early childhood in a kibbutz, a collective farm based on socialist values. He has a doctorate in philosophy from New York's Columbia University and his office is adorned with oil paintings by his artist wife.

"Margalit will push people very hard to do things they may not be thinking about doing or comfortable doing," said Dave Schaeffer, chief executive officer of the Washington, DC-based Cogent Communications Group Inc., a company that JVP helped take public in June 2005 for \$69 million. "But his pushing will get you to where he feels you should be and ultimately it proves to be successful."

To contact the reporters responsible for this story: Gwen Ackerman in Jerusalem at [gackerman@bloomberg.net](mailto:gackerman@bloomberg.net).

To contact the editor responsible for this story: Peter Hirschberg at [phirschberg@bloomberg.net](mailto:phirschberg@bloomberg.net).