

# INNOVATION AND SCOUTING CENTERS



## INVESTMENT MODELS IN ISRAEL



## THE ISRAELI INVESTMENT PROMOTION AGENCY

**I**nvest in Israel is an integrative body within the Ministry of Economy and Industry that serves as a one-stop shop for a wide range of potential and existing investors. Invest in Israel identify lucrative investment opportunities, map potential obstacles and help fast-track investment.

**Our advantage** lies in our ability to bridge between private client needs and to promote activities within the framework of the government.

### Foreign Investment Promotion

Forward-thinking conferences and delegations with key figures, businesses and government officials

### Investor Guidance

Expert sector managers that leads potential investors from initial interest to successful investments

### Post- Investment Support

Providing ongoing assistance to overcome challenges, bureaucratic obstacles, expanding operations and promoting conducive environment for foreign investors

# WHERE COMPANIES COME TO **SHINE**

# INNOVATION AND SCOUTING CENTERS

INVESTMENT MODELS IN ISRAEL

# ISRAELI SCOUTING CENTERS AT A GLANCE

## Start-up Nation – Leading in Technology and Innovation

Innovation is rooted deep within the cultural DNA of the Israeli people. Establishing a state in a land that is over 50% desert, under constant threat, led to the development of a highly advanced technological industry.

Israeli innovators, entrepreneurs, researchers and workers have created countless pioneering technologies and products that keep changing the lives of hundreds of millions of people around the globe. New and revolutionary technologies in a long list of industries, including media & Internet, cyber security, water technology, health & life sciences, agriculture & crossbreeding, FinTech, automotive, machine

learning, hi-tech & mobile, cleantech, sustainable energy and defense, all developed in Israel, continue to have great impact on the everyday lives of people in every corner of the world.

In recent years, Israel has entered a new era in which over 1,500 new hi-tech companies are established annually and the development of countless new and breakthrough technologies creates a race between the largest multinational corporations' venture arms, global VCs and other investment entities – all converging on Israel to invest in their growth and acquire their next best technologies.



## Scouting Centers

Hi-tech scouting has become highly popular in recent years, in direct correspondence with the huge growth in the Israeli start-up industry. This growth encouraged the influx of scouters to the Israeli hi-tech market, covering a wide range of activities. Some of them are lone start-up "hunters" working for a multinational corporation (MNC) or foreign company, some are official MNC venture entities operated either by a local scouting team or by a scouting center, some operate as accelerators and incubators run by either MNCs or VCs, and some are agents trying to introduce local start-ups to potential capital. They all share a common goal: to be the first to find the next best idea.

In a competitive world, in which companies rise and fall based on their technological leadership, many companies have realized that they must open their doors to new, original and out-of-the-box innovations that are often developed far away from their offices. In fact, these advanced technologies might even originate in a dark basement or local small coffee shop in Tel Aviv.

Many Israeli scouting and innovation centers focus on finding promising early stage start-ups. Early identification allows the corporation to shape the start-up or the technological direction according to its needs while keeping an open eye on its potential future acquisition.

Furthermore, MNCs' scouting centers allow them to acquire an organic team with proven experience

and success. This marks another advantage of scouting centers: often it's easier to establish an R&D center in Israel through an acquisition rather than from scratch.

The number of MNC R&D centers in Israel, many of which started out through scouting offices that led to an acquisition of an Israeli start-up, provides direct evidence of the impact of scouting. Among the acquired companies that became new MNC R&D centers in Israel are the HP R&D center, established following the acquisition of Indigo; the Apple R&D center, established following the acquisition of Anobit; the Siemens R&D center, established following the acquisition of Solel Solar Systems; Facebook's R&D center, established following the acquisition of Onavo; and many more.



# THE ISRAELI TECH INDUSTRY

## Start-ups



> There are over  
**6,000** active start-up  
companies in Israel.<sup>1</sup>

> Tel Aviv is the ecosystem  
with Highest Global  
Connectedness  
in the "Europe Region" according  
to Global Startup Ecosystem  
Ranking, 2017.



> **600** new startup  
companies per year.

> Israeli High-Tech Capital Raising  
Hits a Record High in 2016:  
**\$4.8 billion**  
(11% above the \$4.3 billion  
raised in 2015).





- > The average financing round reached **\$7.2 million** in 2016, 19 percent above the **\$5.1 million** five- year average.<sup>2</sup>

- > The double multiplier: ratio of funding rounds vs. exits gave investors approximately **\$2 from exits** for every **\$1** invested in the last 3 years.<sup>3</sup>



- > In 2016, there were **104 exits** worth a total of approximately **\$10 billion** compared to the same number of exits in 2015, worth a total of \$9 billion.<sup>4</sup>

- > In 2016, Israel's Cybersecurity sector broke its own record for financing raised, reaching \$581 million in investments, second only to the United States and representing 15% of the capital raised by the global Cybersecurity industry that year.



# THE ISRAELI TECH INDUSTRY

## Patents



- Israel ranked **6<sup>th</sup> globally** for PCT patent applications per million population.<sup>5</sup>

- Israel ranks **1<sup>st</sup>** in the world in number of patent requests in medical technologies, **2<sup>nd</sup>** in Pharmaceutical technologies, **3<sup>th</sup>** in computer technologies and **5<sup>th</sup>** in Optics technologies.<sup>6</sup>



- Patents in Israel are statutory under the Intellectual Property Law. In addition, Israel takes active part in the Global Patent Prosecution Highway (GPPH) arrangement.

- In 2016, **813 original patent** applications were approved, compared with 540 in 2015.<sup>7</sup>







> Most of the applications were filed by companies associated with universities: approximately **72%** in 2016 and **73%** in 2015 : Yissum of the Hebrew University, Yeda of the Weizmann Institute, Technion R&D foundation, Ramot of Tel Aviv University ,B.G. Negev of Ben Gurion University and more.<sup>8</sup>

> The most popular field of research is life science, with **2,743** patent requests in 2016, followed by Chemistry, Physics and Electricity.<sup>9</sup>



> The total revenue of research and development companies in 2014 was approximately **\$600 million**, **95%** of which was attributed to the pharmaceuticals industry.<sup>10</sup>

# JOIN THE BEST IN INNOVATION AND SCOUTING CENTERS

Companies conduct scouting activities based on their unique means and ends. *Invest in Israel* helps each one of them find its own path to growth, tailored perfectly to its needs. It doesn't matter which industry you're in, or what kind of product you develop. If you are looking for your next best investment, the scouting opportunities in Israel are endless.

## Selected scouting and innovation centers



### Nautilus AOL

An accelerator run by AOL Ventures holding programs lasting 8–12 months, during which participants get help honing their product so they go out to the world with vast business development experience. The accelerator targets start-ups in the seed/pre-seed stages in the fields of digital media, AdTech, software, IoT/Connected world, cyber, AR/VR, AI, BI, mobile, e-commerce, DevOps, communications and search. Nautilus AOL also joins the seed round with amounts of \$100,000 or more. Notable start-ups from the program include Hachiko, Zirra, EraSense, Splitty, Veed.me, Take&Make and Reactful.



### 3M R&D arm and innovation center

3M, a large scientific MNC, has been operating in Israel since 1996. After its investments in the Israeli company Attenti, it established an R&D arm that functions as a scouting center for further investments and acquisitions. Through its R&D arm the company invested in companies such as VocalZoom and TaKaDu. Recently, 3M opened a customer innovation center that deepens the company's level of exposure in Israel, and is meant to be a place where 3M can tout its wares to customers and learn what kind of new products those customers are looking for.





# WHAT MAKES ISRAEL THE BEST LOCATION FOR INNOVATION AND SCOUTING CENTERS

## The Israeli ecosystem: An innovation driven culture

One of the main success drivers of the Israeli hi-tech industry is its supporting ecosystem that encourages creative thinking, tolerance for high-risk actions, and establishment of independent small businesses.

The fact that start-up entrepreneurs are cultural icons and role models in Israel contributes to the constant emergence of new programs and facilities all made to enhance the abilities of new entrepreneurs and continually breathe new life into the ecosystem.

Israel's society is historically tightly linked through different kinds of networks. Mandatory military service is one powerful network, and so are other business and social networks, very common in Israel, that constantly facilitate connections and bring people together.

A study conducted by *The Economist* in 2016 found that informal networks are crucial to the success of ecosystems, just as much as funding and formal institutes are. According to the study, Israelis take the greatest advantage of online networking, they present the highest rate of meetings with other entrepreneurs in informal activity communities, and they are the most prolific participants in global online networking (LinkedIn, Facebook, Twitter, etc.).<sup>11</sup>

The combination of online and offline networking and the variety of hi-tech and innovation events, create a very high-scale informal start-up network that makes the "start-up nation" one of the most efficient start-up ecosystems in the world.

*"In recent years it has become apparent that entrepreneurs helping entrepreneurs in informal networks are a core component of what's become known as a "start-up ecosystem".*

*Access to finance, talent and ideas are integral to any such ecosystem, as are the formal structures which facilitate such access, such as incubators, accelerators and co-working spaces. Entrepreneurs' connections with their peers, however, have been shown to be as important to start-up growth in some cities as the role of institutions."*

Informal Innovation, *The Economist*, 2016

# The perfect locations

The location of companies is mainly derived from human resources and research capabilities around the area, which lead many of them to settle around major universities and research institutes. Although companies of all industries locate themselves throughout the entire country, some areas have developed unique characteristics that attract higher percentages of companies in specific fields. This consequently turns the area into a hub, by which it gains an important factor that is essential for development and growth. For example, the financial and technological center of Israel is the Tel Aviv metropolitan area, containing over 50% of the hi-tech companies in the country.



## 1. Tel Aviv and the central region:

ICT, Internet, Software, mobile, Fintech, life sciences and more.

## 2. Be'er Sheva and the Negev region:

Cyber technology and solar power.

## 3. Jerusalem:

Computer science and data management, AI, machine learning, sustainable energy, pharmaceuticals and life sciences.

## 4. Haifa and the Northern region:

Health & life sciences, marine science, defense, robotics and semiconductor.

## 5. Rehovot:

3D printing, semiconductor, sustainable energy, agri-tech and life sciences.



# WHAT MAKES ISRAEL THE BEST LOCATION FOR INNOVATION AND SCOUTING CENTERS

## Top events and organizations

**1. Hackathons:** Originally, hackathons were events where computer programmers and others involved in software development collaborate intensively over a short period of time in order to solve a specific problem. In addition to a very large amount of Israeli computer-related hackathons in areas such as cyber security, advertising, big data and more, there has recently been an expansion of the hackathons concept to new and diverse areas, such as:

1. Haclimaton<sup>12</sup>: A hackathon run by the Herzliya municipality aimed at reducing the use of private transportation and diminishing traffic problems and greenhouse gas emissions.
2. Hackathon on Wheels<sup>13</sup>: Run by the TinyLove Company, aimed at designing creative and smart solutions and products for babies.
3. Hacking the Psoriasis Journey<sup>14</sup>: Hackathon aimed at the development of technological solutions that will improve the quality of life of psoriasis patients.

**2. Innovation events & conferences:** Israel is a natural home for start-up and innovation events and conferences. These events make it easier to form connections between relevant players in the industry and find new opportunities for cooperation.

The highlight of these events is the global DLD conference, held in Tel Aviv for 6 consecutive years.<sup>15</sup>

Digital Life Design (DLD) is a global conference network that acts as a platform for an exchange of visions and experiences, driven by the mission to create a network of innovation, digital prospects, science and culture. The conference is held in major cultural centers around the globe, such as New York, Beijing, San Francisco, London, Moscow, New Delhi, Rio de Janeiro, Hong Kong, Tel Aviv and Munich.

**3. The Israeli Innovation Center:** The center, located at the Peres Center for Peace in Tel Aviv, was launched in June 2016. The center aims to present Israel's transformation from an arid and desolate desert into the international technological powerhouse it is today to visitors from around the globe. Alongside the museum, it will also function as an entrepreneurship hub and a center for innovation events, hackathons, courses and education.

**4. IATI<sup>16</sup>:** Israel Advanced Technology Industries (IATI) is Israel's umbrella organization of hi-tech and life science industries. Its 700+ members belong to every level and aspect of the ecosystem: entrepreneurs, start-ups, incubators, accelerators, R&D centers, local and international MNCs, VC

funds, private investors, TTOs (Technology Transfer Offices) and service providers. IATI is active in networking locally and globally, in business development, Knesset lobbying, promoting STEM education and organizing many events and conferences.

**5. Governmental entities:** The Israeli hi-tech industry is highly diverse, sharing a common interface with almost every aspect of daily life in Israel. There are several governmental entities that are in charge of different features of the hi-tech industry, which operate under several ministries:

1. Ministry of Economy and Industry: Operates the Israel Innovation Authority, MATIMOP – the Israeli center for R&D, and the incentive programs for FDI.
2. Ministry of Science, Technology and Space: Operates the National Council for Civil R&D.
3. Ministry of Education: Operates the Council for Higher Education which monitors the institutes of higher education in Israel.
4. Ministry of Defense: Operates the Administration for the Development of Weapons and Technological Infrastructure and partially some of the large defense industry corporations: IAI, Rafael, IMI and Elbit.

5. Ministry of National Infrastructure, Energy and Water Resources: Operates in the fields of renewable and conventional energy, water technologies and cleantech.

6. Ministry of Health: Involved in health, medical devices and pharmaceuticals R&D through universities, hospitals and other health research institutes in Israel.

7. Ministry of Environmental Protection: Conducts research and distributes grants for environmental research.

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## Leading shared workspace complexes

The fast growth rates of the start-up industry make shared workspace complexes almost imperative. In a country where there are so many entrepreneurs and innovators, with countless ideas potentially worth developing, shared workspace complexes are a key factor that helps these ideas become a reality.

**"The WeWork concept is to create a physical model of the combination between Facebook and LinkedIn, which allows the entrepreneurs to consolidate their team and product, all within a 24/7 networking zone".**

Benji Zinger, WeWork Israel CEO

### SELECTED SHARED WORKSPACE COMPLEXES:

1. **WeWork** – The largest global shared workspace company, founded by Adam Neumann and Miguel McKelvey. The chain operates 54 complexes, 8 of which are located in Israel:
  - a. **WeWork Herzliya** – Located 20 minutes from the center of Tel Aviv (*1 Shenkar Street, Herzliya*).
  - b. **WeWork Dubnov** – Located in the center of Tel Aviv (*7 Dubnov, Tel Aviv*).
  - c. **WeWork Sarona** – Located in Sarona complex in the center of Tel Aviv (*3 Aluf Kalman Magen, Tel Aviv*).
  - d. **WeWork Ibn Gavirol** – Located in the

center of Tel Aviv (*30 Ibn Gavirol Street, Tel Aviv*).

- e. **WeWork HaZerem** – Located in South Tel Aviv (*7 HaPelech, Tel Aviv*).
- f. **WeWork Be'er Sheva** – Located in Southern Israel (*Gev-Yam Negev Park, Be'er Sheva*).

### Coming soon:

- g. **WeWork Haifa** - Located at a five minute walking distance from the Train station in downtown Haifa (*Derech Ha'atzmaut 45 Haifa*).
  - h. **WeWork Jerusalem** - Located in the center of Jerusalem (*King George 32 Jerusalem*).
2. **Mindspace** – Israeli shared workspace company. It operates 2 complexes in Israel and 2 in Germany:
    - a. **Mindspace Rothschild** – Located in the center of Tel Aviv (*45 Rothschild, Tel Aviv*).
    - b. **Mindspace Ahad Ha'am** – Located in the center of Tel Aviv (*54 Ahad Ha'am, Tel Aviv*).
  3. **Rishon Start-up** – A hub created by the city of Rishon LeZion in cooperation with the JVP VC, located in Rishon LeZion, 30 minutes from Tel Aviv (*6 Moshe Sharett, Rishon LeZion*).

## State-of-the-art accelerators and incubators

4. **SOSA** – Shared work space founded by venture capital industry veterans. Located in South Tel Aviv (*Schocken 13, Tel Aviv*).

Israel is home to over 100 accelerators, managed by global corporations, Angels, VCs, research institutes, municipalities and non-profit organizations. These accelerators work with start-ups in different stages, from the "raw" idea to the seed, and further on to the acquisition or IPO. An accelerator usually gives up to 6 months' support and an initial investment, in return for equity (generally 5%–10%, \$10k - \$50k).

Most of the incubators are part of a program managed by the Israel Innovation Authority. Incubator programs are usually longer and last between 1 to 2 years. They often target start-ups in industries with slower and more challenging development cycles.

### SELECTED ACCELERATORS

1. **8200 EISP** – An entrepreneurship program managed by The Alumni Association of the Elite Intelligence Unit 8200, a non-profit organization. Most of the entrepreneurs are 8200 alumni in various computer related industries, from cyber, through online advertising to mobile applications and so on.

2. **AltaLab** – An accelerator managed by the AltaIR VC. Its preferred industries are Internet, mobile, FinTech, AdTech and health.

3. **Microsoft Ventures** – A program targeting advanced start-ups where each member builds its own plan in collaboration with the accelerator. This program now cooperates with other global corporations such as Cisco, El Al and more.

4. **CitiBank** – This accelerator, managed by the global banking giant, aims to lower the entry barrier between young start-ups and the global banking sector. The main field is obviously Fintech, on all its levels: payments, data, security and analysis.

5. **Zell** – An accelerator managed by the Adelson School of Entrepreneurship at the Interdisciplinary Center (IDC) in Herzliya. Each year, the program guides 24 third-year students in building projects in various fields. Zell program graduates established over 85 companies and raised over \$400 million.

6. **IBM Alpha Zone Accelerator** – An accelerator targeting technologies in the fields of Big Data, analytics, Cloud, mobile, security, Internet of Things, Smarter Commerce and cognitive computing. The program aims to create future business and technological

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## Investment industry

collaboration between IBM and the start-ups, by integrating IBM technologies into the developed solutions and vice-versa.

One of the main factors of the recent growth in the Israeli start-up industry is the availability of capital for investment.

**Israel ranks 4th globally for its venture capital availability<sup>17</sup> and 2nd in venture capital confidence.<sup>18</sup>**

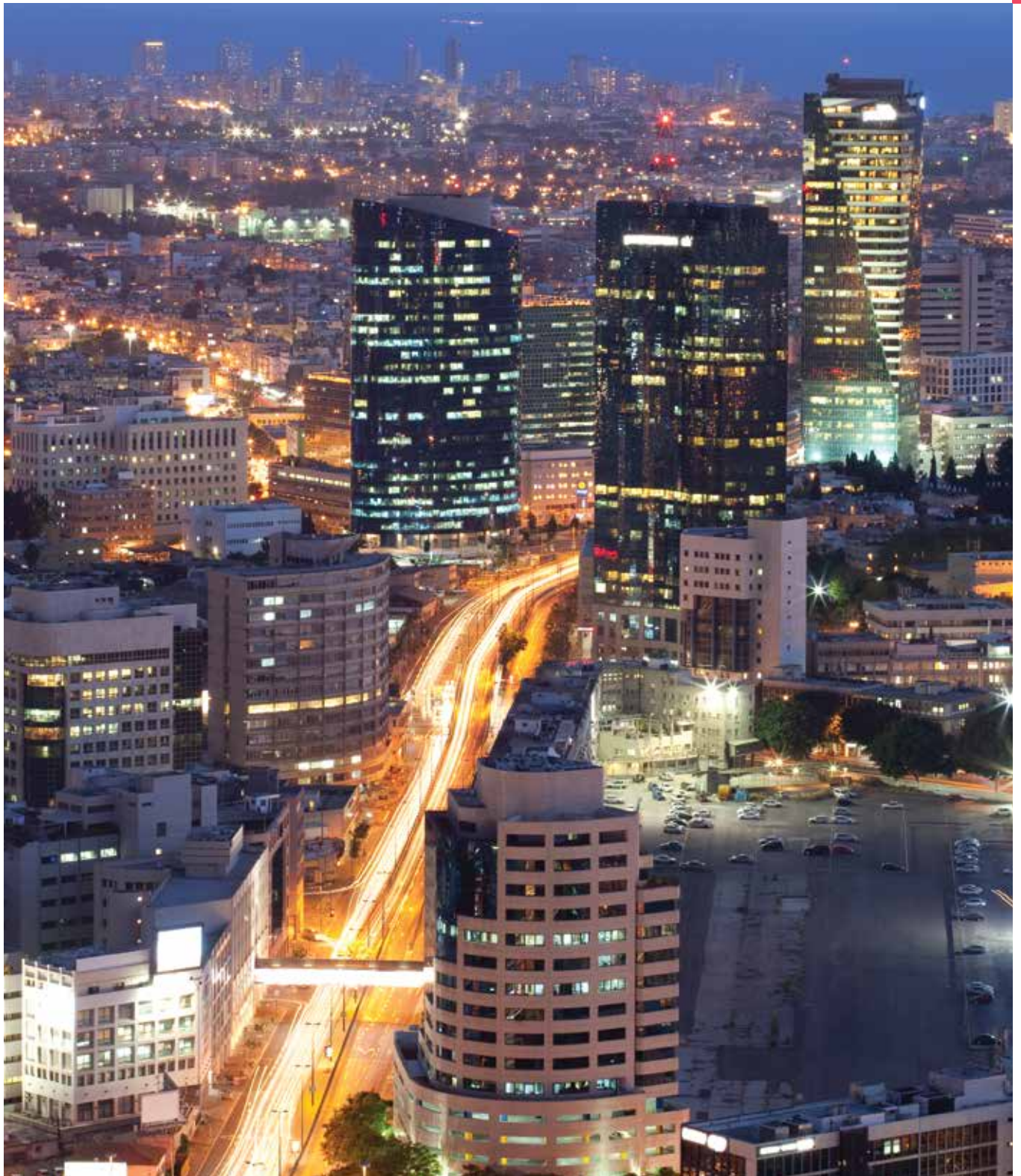
The investors' community in Israel is comprised of both local and global angels, VCs, crowd-funding platforms and international conglomerates.

- 1. Angels:** There are a few hundred active angels in the Israeli market. The angels invest in all industries, with a tendency toward Internet companies (which is the main industry of investment for 32% of the angels).<sup>19</sup> The CleanTech and life science industries are known to have high entrance barriers, which is why the chance to conduct an exit with small investments is low, so they usually don't match the angel's requirements.
- 2. VCs:** VCs are the engine driving the start-up industry forward. There are around 100 VCs active in Israel today. The major VCs (in terms of number of investments) are: Singulariteam, Carmel Ventures, Innovation Endeavors, Magma, First Time, JVP, Vintage, Pontifax, Marker,

Blumberg, OrbiMed Israel, Plus Ventures and Disruptive. Most of them are Israeli firms, some are foreign with allocation to Israel and some are an Israel-dedicated foreign fund. Contrary to expectations, many of the VCs invest in companies in all stages, including the early and seed stages. In addition, there is a large industry of micro-VCs (typically managing up to \$50 million), including Lool Ventures, Peregrine, Elevator Ventures and InovGate.

- 3. Crowd funding:** Crowd funding is a new platform that brings together multiple people from around the world to create a VC. The VC approves all its members with the only restriction being a minimum annual investment. An example of this platform is Our Crowd, established by the Israeli-American investor John Medved, who leads the crowd funding trend.
- 4. Corporate VCs:** Israel is home to several hundred MNCs, holding scouting, R&D and manufacturing facilities. Alongside those activities, many MNCs maintain a venture arm in Israel, which aims to invest in or purchase an Israeli company with interesting relevant technologies. Among these are Intel Capital, Comcast Ventures, Samsung Ventures and Cisco Investments.





# WHAT WE CAN DO FOR YOU

**Making the decision to invest in a new location can often be difficult, confusing and frustrating. There are so many things to take into account, and so many different options to consider. At *Invest in Israel*, we offer a wide range of services to support and optimize your business in Israel. In fact, we'll walk through every step of your investment, together.**

## **FROM PROPERTY TO WAGES TO TAXES, WE'LL PROVIDE YOU WITH ALL THE INFORMATION YOU NEED.**

Starting a new operation in a new location requires a myriad of information, and you know as much as we do that every detail counts. We'll help you understand every aspect of your journey here in Israel, from the smallest issue to the biggest problem. Laws, regulations, locations, taxes, incentives and costs — we have it all figured out.

## **FEEL AT HOME, FROM DAY 1.**

No need to feel like the new guy. We can introduce you to peer companies and key figures in your industry, so you can easily facilitate your network of connections. Join the best companies in the world, in the most innovative ecosystem on earth.

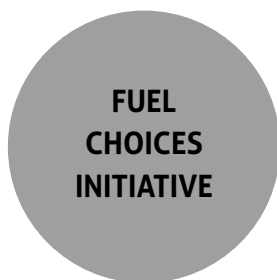
## **A VISIT IS WORTH A 1,000 WORDS. COME SEE FOR YOURSELF.**

There's nothing like an actual tour to help make a decision, and Israel has so much to offer for potential investors. We invite you to come to Israel and see why so many companies have made Israel their innovation center. Meet the people, see the locations, hear the stories.

Visit Israel. It's your first step towards your best investment.

## **LET'S TALK, LET'S MEET.**

You can schedule a meeting, give us a call or leave your details at our website, and we'll get back to you. You can also meet our global experts in your region. We are here to make it your easiest investment yet.



# YOUR ONE STOP SHOP

# FOOTNOTES

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The information included in this guide is relevant for January 2018. The content included is intended to provide only a general outline of the subjects covered and it is necessary that specific professional advice be sought before any action is taken.



