SHINE

AN INTRODUCTION TO ENLIGHTENED DIRECT FOREIGN INVESTMENT IN ISRAEL

Presented by The Foreign Investments and Industrial Cooperation Authority
Invest 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 conductive environment for foreign investors

WHERE COMPANIES COME TO SHINE
AN INTRODUCTION TO ENLIGHTENED DIRECT FOREIGN INVESTMENT IN ISRAEL

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Israel’s economy is one of the strongest in the world, boasting positive and steady growth for over a decade.

Israel’s diverse open market economy has a proven record of resilience and sustained competitiveness in the face of global economic crisis.

Israel’s anchored banking system, elastic labor market and seasoned policy makers are well positioned to protect investor’s interests throughout turbulent global market conditions.

VIBRANT ECONOMY

“If people want to see the future of the world economy they should look at Tel Aviv, home to hundreds of startups and research centers.”

— Barack Obama
SECURE IN ISRAEL
Positive Growth Rate — Resilience to External Shocks

Newly discovered natural resources will boost the Israeli economy for decades to come.

STRONG IN ISRAEL
Low and Declining Unemployment Rate

SOURCE: The World Bank
The Israeli educational system is built upon a tradition of distinguished achievement and a culture of excellence.

From regional primary schools to multidisciplinary research institutions, Israel values and promotes the ingenuity and creativity of its students and scholars.

Recognized around the world for their leadership in science and technology, Israeli universities offer a broad spectrum of academic programs and degrees to advance a talented workforce.

“ISRAEL IS A WELLSPRING OF KNOWLEDGE AND SKILL AS WELL AS A FASCINATING PLACE OFFERING UNLIMITED OPPORTUNITY.”
— LI Ka-shing
No.3 In The World – University/Industry Research Collaboration

SOURCE: The Global Innovation Index 2017

No.3 In The World – High Level Skills

SOURCE: GTCI 2017-2018

No.3 In The World – Quality of Scientific Research Institutions

SOURCE: GTCI 2017-2018

No.3 In The World – Scientific Infrastructure

SOURCE: IMD 2016

Noted in Israel

12 Nobel Prize Winners

SOURCE: Roland Berger, 2016

Number of Scientific And Technical Journal Articles (per PPP USD m GDP), 2015
Israel is home to one of the most highly educated, entrepreneurial, and multicultural workforces in the world; advancing groundbreaking research and creating innovative technologies, products and services that impact lives and markets around the globe.

Israelis are known for their creativity and boldness. That’s what empowers them to break boundaries, think outside the box and imagine creative solutions for a successful business and a better future.
“WHEN YOU GO TO THE MIDDLE EAST LOOKING FOR OIL, YOU DON’T NEED TO STOP IN ISRAEL. BUT IF YOU GO LOOKING FOR BRAINS, FOR ENERGY, FOR INTEGRITY, IT’S THE ONLY STOP YOU NEED TO MAKE.”
— Warren Buffett
BLAZING RESEARCH & DEVELOPMENT

Israel is the Second in the world for investment in R&D as a percentage of GDP. A unique combination of strong academic research, comprehensive governmental support, and a strong defense industry has led Israel to worldwide R&D dominance.

“ISRAEL IS THRIVING IN TERMS OF INNOVATION BECAUSE YOU HAVE A CULTURE THAT MAKES IT POSSIBLE TO QUESTION AUTHORITY AND TO CHALLENGE EVERYTHING - YOU DON’T FOLLOW THE RULES.”
— Eric Schmidt
Invest in Israel

No.1 in the World – R&D Investment as % of GDP

R&D INVESTMENT AS % OF GDP

<table>
<thead>
<tr>
<th>Country</th>
<th>Investment as % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Israel</td>
<td>4.25%</td>
</tr>
<tr>
<td>Korea</td>
<td>4.23%</td>
</tr>
<tr>
<td>Japan</td>
<td>3.29%</td>
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<tr>
<td>Sweden</td>
<td>3.28%</td>
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<tr>
<td>Denmark</td>
<td>2.96%</td>
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<tr>
<td>Finland</td>
<td>2.90%</td>
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<tr>
<td>USA</td>
<td>2.79%</td>
</tr>
<tr>
<td>OECD</td>
<td>2.38%</td>
</tr>
</tbody>
</table>

SOURCE: OECD

ORIGIN IN ISRAEL

- 50% Of Global Low-Pressure Irrigation Systems
- MILLIONS Of Cardiovascular Stents
- 1,000+ Innovative Startups Per Year
- MILLIONS Of Intel Computer Processors
- DISK ON KEY Mobile Storage
- THE BEST The World’s Top Digital 3D Print Technology
- MOBILEYE Accident Prevention System
- BILLIONS Of MoTo Computer Processors
- PILL CAM First Ingestible Endoscopy Camera
- WAZE Navigation System
- REWALK an Exoskeleton That Enables Paraplegics to Walk Again
- KINECT Gesture Recognition System
- FIREWALL Protecting Millions of Users all Over the World
Israel’s thriving start-up industry is complemented by domestic venture capital funds, raising more than $1 billion annually.

Israel was ranked 2nd by The Global Competitiveness Report 2017-2018, for venture capital availability.

Israel has far outperformed any other country in VC volume per capita according to Deloitte, 2017.

Israel’s venture capital availability and highly efficient financial sector give its innovative industries the right environment in which to flourish.

“THE INNOVATION GOING ON IN ISRAEL IS CRITICAL TO THE FUTURE OF THE TECHNOLOGY BUSINESS.”
—— Bill Gates
Investors were asked to rate their confidence level in each country. Confidence levels were measured on a scale of 1 to 5, with 5 representing the most confidence.

Deloitte US/ 2015 VC Survey

Belief in Israel
No.2
Venture Capital Confidence

SOURCE: Deloitte

No.1
In Venture Capital Investments as a Ratio of GDP

Israel
United States
Canada
China
United Kingdom
India

Belief in Israel

No.2
Venture Capital Confidence

SOURCE: Deloitte

Israeli High-Tech Capital Raising Hits a Record High in 2016

$4.8b*

SOURCE: IVC-ZAG

Financed in Israel

$20.8b*

Capital Raised By Israeli Hi-Tech Companies 2006 - 2016

SOURCE: IVC-ZAG

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With more than 1,000 new startups per year, thousands of entrepreneurs and a comprehensive business ecosystem, Israel has truly earned the title of “Startup Nation”.

Over 300 multinational companies such as Microsoft, Motorola, Google, Apple, Facebook, Berkshire Hathaway, Intel, HP, Siemens, GE, IBM, Toshiba and Cisco see Israel as an international hub for innovation and operations.

Israeli innovators and inventors are leading the future of business within: New Media & Internet, Cyber Security, Water Technology, AgriTech, Health & Life Sciences, Financial Technology and the Automotive Industry among many others.

"ISRAEL IS A DYNAMIC AND IMPORTANT PART OF THE FUTURE OF THE INTERNET, AND OF COURSE EBAY. WE ARE LOOKING TO INCREASE OUR PRESENCE IN ISRAEL AND WE WILL CONTINUE TO SEEK GOOD TECHNOLOGIES AND TALENTS IN ISRAEL, IN ORDER TO BRING INNOVATION INTO THE COMPANY."

— John Donahoe, Former eBay CEO
SECTOR BRIEF
AEROSPACE

✓ The Israeli aerospace industry is strongly export driven, with approximately 80% of its production destined for overseas customers.

✓ Experienced manufacturers and suppliers available in a small geographic range.

✓ Hundreds of Israeli companies provide metal products and services to the aerospace industry.

✓ Israel’s aerospace industry is a leading exporter of technology, with turnover of more than US $5 billion, derived from sales to more than 60 countries.

✓ The Israeli metal industry employs approximately 60,000 people, and includes nearly 2,800 companies engaged in various fields.

✓ Israel has vast experience and field-proven ability in missile technology, including satellite launching and leading missile interception systems.
Israel was ranked 1st for Cyber Security (IMD 2013) with annual exports of more than US $3 billion.

Israel’s Cyber Security industry is estimated to represent 10% of global sales and 20% of global investments.

Israel hosts R&D centers for 40 MNCs, such as IBM, Cisco, and GE.

Israeli anti-virus software protects 1 in 6 computers worldwide.

65 Israeli cybersecurity companies raised a total of $581 million in 2016, about 15 percent of all capital raised by the industry globally.

Israel cybersecurity exports account for 5-10% of the global cybersecurity market.
✓ The vast majority of R&D centers in Israel focus on the field of ICT.

✓ Israel has the 3rd highest share of ICT-related trademarks (% of total trademarks).

✓ ICT contributes 20% of the private sector’s GDP.

✓ The Israeli ICT Ecosystem was gradually established in the Tel Aviv and Haifa areas, both areas close to leading academic institutes.

✓ The Israeli Military Intelligence Directorate as well as the higher education system, both supported by the government, have contributed a great deal to the success of the ICT sector in Israel.

✓ 15% annual growth is predicted for 3rd Platform Services until 2020.
SECTOR BRIEF
HEALTH & LIFE SCIENCES TECHNOLOGY

✔ Israel is ranked 1st for Medical Device patents and 2nd for Medical Device solutions (per capita).

✔ Israel exports groundbreaking Life Science products and services worth billions of USD annually.

✔ Israel has been the source of breakthrough treatments and blockbuster drugs, such as Copaxone and Rebif.

✔ About 1,350 life science companies are active in Israel 384 companies in the Israeli Digital Health sector.

✔ There are a number of world-renowned research facilities in Israel, led by the Weizmann Institute, rated sixth in the world in life sciences research by the prestigious Nature magazine.

✔ Although Israel's population is only 0.1% of the world's population, Israeli scientist are responsible for 0.5-0.8% of publication worldwide.
SECTOR BRIEF

SEMI-CONDUCTORS

✓ In 2016, semiconductors led all Israeli exits, totaling $1.34B.

✓ Three of the top deals in 2016 involved semiconductor companies, and accounted for 15% of total exits.

✓ Israel constitutes a leading source of talent for R&D centers at international semiconductor companies.

✓ There are five active semiconductor manufacturing plants in Israel, three of which belong to Intel, and the other two belong to Tower.

✓ Intel’s center has been operating in Israel for over 40 years, and is considered the most important development center outside of the US.

✓ Israeli engineers bring in-depth knowledge to the table because of experience gained during their military service.

✓ In Israel, there are prominent companies, such as Applied Materials, KLA-Tencor and Nova Measuring Instruments, provide metrology systems to control the engineering and manufacturing of semiconductors.
SECTOR BRIEF
FINANCIAL TECHNOLOGY

✓ In this growing arena of Financial Tech, Israel has introduced a large number of expanding companies and startups to the global market.

✓ In 2016, 53 fintech companies garnered a record of $699 million, almost 15 percent of the total capital raised in this period.

✓ KPMG placed 6 Israeli companies in the top 100 most innovative Fintech companies of 2016.

✓ Israeli startups are easing payment processes, reducing fraud, saving users money, promoting financial planning, and ultimately moving this giant industry forward.

✓ Israel also hosts Citibank Strategic Innovation Lab, the JP Morgan R&D center and the Barclays R&D center to develop advanced financial technology product and support global operations.
Israel excels in the automobile technology with over 150 research groups and over 2,000 entrepreneurs.

With such talent resources, General Motor’s Advanced Technical Center established their world-class R&D organization in Israel.

What’s more, other leading automotive brands like BMW, Mercedes, and Toyota are turning to Israel to develop cutting-edge auto parts and progressive design technologies to equip their latest models.

In 2017 Intel has acquired the Israeli company Mobileye, leader in the autonomous driving sector, for $15.3 billion, and set its global automotive headquarters in Israel.

The Israeli automotive and smart industry is home to more than 500 companies.
PILLARS OF THE SEMICONDUCTOR INDUSTRY:
Meteorology and Process Control Products. For years, Israel has had the largest group of fabless companies outside the U.S.

COMPOSITE MATERIALS
The Israeli composite material component can be found in dozens of airplanes, cars and medical devices around the world.

DIGITAL AND 3D PRINTING
Israel manufactures 40% of all 3D printers worldwide.

MEDICAL AND COSMETIC LASER
Israel is a pioneer in this sector, developing expertise and innovative technologies since its primary stages in 1990.
EXCELLENCE

ROBOTICS

Israeli robotics companies operate in a variety of fields, such as medicine and security, and grow at a rate of tens of percentage points a year.

BATTERIES FOR ELECTRIC CARS

Israeli Industry-academia collaboration fosters innovation and expertise.

UAVs

Since 1985, Israel has been responsible for 61% of all UAVs exports worldwide, produced by more than 30 UAV manufacturers.

PLASTICS INDUSTRY ADVANCED MANUFACTURING

60% of the sub-sector's production is exported worldwide.
SHINING A LIGHT ON INSPIRED GOVERNMENT INCENTIVES

THE GOVERNMENT OF ISRAEL OFFERS AN ASSORTED RANGE OF INCENTIVES IN TWO MAIN CATEGORIES: TAX BENEFITS AND GRANTS.

Israel seeks to offer maximally supportive conditions for companies and investors seeking to invest in Israel.

As part of the extensive range of incentives and benefits, the State of Israel encourages international and local investment by offering grants, reduced tax rates, tax exemptions and other benefits.

Israel’s Ministry of Economy and Industry offers a wide range of specifically designed incentives in order to keep prosperity and growth in the country.
ENLIGHTENED TAX BENEFITS

The average Israeli corporate tax rate is 23%. Competitive industrial enterprises that are listed in Israel are entitled to preferred corporate tax rates, as follows: Companies located in Development area A could be entitled to a 7.5% reduced corporate tax rate. Companies located in other areas can enjoy a 16% corporate tax. In both areas, additional dividend tax reductions might also apply.

In addition Intellectual property (IP) based companies, in particular, technology companies are entitled to reduced corporate tax. Companies with consolidated revenues of over 10b NIS (app. 2.5b$): 6%, other companies: 12% (7.5% if the company is established in a national priority area). Companies can enjoy Dividend tax rate on eligible income of 4%.

Companies defined as special preferred industrial enterprises¹, are entitled to a further reduction: a 5% tax rate in Development Area A and 8% in the rest of the country.

¹ Depending on the investment characteristics (scope, no. of employees etc.)
SHINING A LIGHT ON GRANTS

SUPPORT GRANTS FOR INTERNATIONALLY COMPETITIVE INDUSTRIAL COMPANIES

Industrial companies located in Development Area A can receive grants of 20% of the approved investment\(^2\), covering investments in fixed assets (equipment, buildings, furniture, etc.) over a period of 5 years. The company must be internationally competitive and registered as an Israeli entity.

The company can receive an additional grant of up to 10% if it is located in southern and northern regions.\(^3\)

SUPPORT GRANTS PROMOTING R&D

SELECTED R&D INCENTIVES

The Israeli government recognizes the impact of R&D centers on its economy and offers a spectrum of incentives through the Israel Innovation Authority in the Ministry of Economy and Industry (which oversees all government supported R&D in the Israeli industry) for the establishment of new R&D centers.

The Israel Innovation Authority manages the grant programs as part of the tax benefit approval for eligible companies.

R&D GRANTS

- The grant approval process

The various aid programs are approved by a special committee. The committee reviews the applications thoroughly and rates them according to several criteria including the average salary the employer will pay, the enterprise’s location and the duration of the establishment period. For each program, the criteria may differ in accordance with the program characteristics. For a requested program, the applications with the highest rating will be granted the assistance.

INDUSTRIAL R&D:

a. The R&D Fund

The R&D Fund is the main instrument of the R&D Law. The fund provides financial grants of 20%-50% of approved R&D programs. In geographical areas designated as National Priority Areas (NPAs) the benefit can reach 60%. A research committee headed by the Chief Scientist is tasked with awarding the funds according to a predetermined set of terms and conditions. Israeli companies from all industry sectors, wishing to develop or upgrade products or manufacturing processes, may apply. A company supported by this program is obligated to pay royalties when a government assisted R&D project results in a commercially successful product.

\(^2\) Subject to the Investment Center’s approval
\(^3\) Subject to the Investment Center’s approval
b. Large Companies' R&D Centers in Israel's Periphery
The target companies are Israeli companies that wish to set up an R&D center in Israel's periphery, and have annual sales of more than $100 million in Israel. Qualified companies will receive multi-annual (24-36 months) support of 65%-75% for their R&D centers' approved expenses. If the project is profitable, royalty payments must be paid.

c. Generic R&D Program (Long Term R&D Support)
The target companies are Israeli companies with annual sales of more than $100 million and with R&D budget in Israel that exceeds $20 million or alternatively more than 200 R&D employees in Israel. Qualified companies will receive financial support of up to 50% of their approved R&D expenses. No royalty payments are mandated.

2. INTERNATIONAL COOPERATION IN R&D
a. Global Enterprise R&D Collaboration Framework
Within this framework, The Israel Innovation Authority will support the Israeli startup company with a conditional grant ranging between 20%-50% of the approved development budget. The MNC will assist and support the Israeli company in the form of consulting, services and resources (i.e. technological guidance, loan of equipment, use of laboratories, discounted software licenses, regulatory advice, etc.), instead of or in addition to cash funding. The MNC receives services such as scouting for possible partners and IP rights in the new projects (as per the rules of the program). In addition, the MNC is informed of the due diligence results of the Israeli partner companies. Eligible MNCs must have annual revenues exceeding $2 billion, significant investment in R&D, and worldwide presence. To date, over 40 corporations have joined the program. The participating MNC is not required to pay royalties.

b. Multinational Corporations' Project Centers in Traditional Industry
The target companies are Israeli companies and MNCs which collaborate on an R&D project. The MNC must have annual sales of more than $2.5 billion and must be from the low or medium technology sector. The Israeli partner must be an Israeli company or academic institution unaffiliated with the MNC. The financial support for qualified companies will differ between projects. No royalty payments are mandated for the MNC.

c. Cooperation with Countries and Regions
Israel has an extensive R&D cooperation network with different countries and regions.

Binational Funds -
Israel has 4 binational funds, with the US, Canada, South Korea and Singapore. In this framework, two nations contribute a predetermined sum to a binational foundation intended to support cooperative projects.

Incentive Program for the Encouragement of the Establishment of Project Centers
of Multinational Companies in Israel -
Israel has entered more than 40 bilateral industrial R&D support programs all over the world. The programs encourage cooperation between Israeli and foreign companies by helping to find a suitable partner and through financial support of up to 50% of the approved project budget.

European Union R&D Programs -
The Framework Programs for Research and Innovation of the European Union are the world’s largest platform for international R&D cooperation between entities from the realms of commerce, industry, academic research and public entities. These programs are renewed every few years. The current program “Horizon 2020” began in 2014 and will end in 2020. The programs are managed by ISERD (The Israeli R&D Directorate for the European Research Area (ERA), which is responsible for the integration of Israel in the ERA and in other European Organizations.
3. MAGNET (INDUSTRY ACADEMIA R&D COOPERATION)
A group of programs intended for industrial companies cooperating with academic institutions in long-term R&D processes. Qualifiers can apply for grants covering up to 66% of the R&D project budget in an industrial company and up to 80% of the R&D budget in a research institution. A MAGNET project is usually approved for a 3-year period with extensions of 1 to 3 years possible. Main MAGNET programs include:

a. MAGNET Consortia
   The program supports the formation of consortia made up of industrial companies and academic institutions in order to jointly develop generic, precompetitive technologies. Industrial companies are granted up to 66% of their approved budget and academic institutions are granted up to 80%. The duration of a MAGNET consortium is three to five years. No royalty payments are mandated for this program.

b. MAGNETON
   The program promotes technology transfer from academia to industry. The program is intended for Israeli industrial companies wishing to receive new technologies from academia and for approved academic research groups wishing to conduct new applied research in cooperation with a relevant company. Qualified participants will receive a grant of up to 66% of the approved budget. No royalty payments are mandated.

4. TECHNOLOGICAL INCUBATORS
The primary goal of this program is to transform innovative technological ideas in their early, high-risk stages into viable startup companies capable of raising money and operating on their own. For a period of 2 to 3 years, the program provides approved companies with full financial support (approx. $500,000 – $750,000) to be repaid to the government only upon generation of sales. The incubator is operated by a licensee who is selected and approved by the relevant Israel Innovation Authority committee. The licensee invests only 15% of the project budget (the state invests the remainder).

5. SECTORIAL PROGRAMS
The Israel Innovation Authority operates additional support programs in several high-potential sectors: Cyber, Renewable Energy, Life Sciences, Alternative Fuels, Space Technologies, Dual Use (Military and Commercial) Technologies and AgriTech. These programs offer support for companies and investors operating in these fields.

TAX BENEFITS

1. R&D EXPENSES DEDUCTION
Clause 20A of the Israeli Income Tax Ordinance enables companies to deduct their R&D expenses from their current income in the year they were paid. The deduction is contingent on the Israel Innovation Authority confirmation that the expenses are indeed research and development expenses.
EMPLOYMENT GRANTS

In order to complement the tax benefits and the investment and R&D grants, the government has established additional programs to increase employment in the outlying areas of Israel, in specific centers with high unemployment and to promote special populations. The following are examples of the tracks offered:

HIGH INCOME TRACK
Grants are between 10% - 35% of the wage costs for a 48-month period, with a maximum monthly salary of US $7,500. Eligible employers must recruit at least 15 new full-time employees.

TRACK FOR POPULATIONS WITH LOW EMPLOYMENT RATES
Fixed participation as a percentage of employee wages (10% - 37.5%), by a particular group, for up to a wage of approximately US $6,000. The participation depends on the social identity of employees (e.g. Ultra Orthodox, ethnic minorities, individuals with disabilities, single parents) and geographic location, with preference to a combination of both.
ILLUMINATING OPPORTUNITY

✅ Invest in Israel to embrace a culture of curiosity and creativity.

✅ Connect to our people's natural entrepreneurial spirit.

✅ Feel secure in our stable economy.

✅ Further the innovative technologies that touch lives around the world.

✅ Advance groundbreaking manufacturing to build a sustainable future.

✅ Find a new home for your business to shine.

“WE CANNOT SOLVE OUR PROBLEMS WITH THE SAME THINKING WE USED WHEN WE CREATED THEM.”

— Albert Einstein

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