

THE LAWYER

Technology

BRIEFING:
*Israel*Israel's high-flying
hi-tech sector

Israel's hi-tech entrepreneurs ensure the country's technology companies are in hot demand by international investors



By David Osborne,
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Israel remains a key player in the global hi-tech arena both in research and innovation. As a result, Israeli companies continue to be a target for global companies seeking to acquire innovative products and state-of-the-art technology that will give them a cutting-edge over their competitors.

Over the past decade the Israeli hi-tech sector has had a major influence on Israel's economic growth, helping to create a 10 per cent rise in exports to Europe and causing a substantial growth in the number of IPOs, as well as generating substantial foreign investments in its companies.

Israel's well-educated workforce, which is also characterised by an ability to adapt to sudden changes and endowed with a strong sense of entrepreneurship, has been a key factor in Israel's overall economic success. In addition to the inherent qualities of the Israeli workforce, government policy is consistently seeking to promote and expand the hi-tech industry, whether by granting benefits and incentives (in the form of tax breaks and grants) for R&D, or by the allocation of considerable funding to research departments in Israel's universities.

Last year was another successful year, with a string of high-profile acquisitions. According to the IVC Research Center, there were 104 exits by Israeli hi-tech companies, generating approximately \$9.02bn (£6.2bn) in proceeds. This makes 2015 the third strongest year for acquisitions in the past decade.

M&A highlights of 2015 include Facebook acquiring Pebbles Interfaces, a start-up with hand-and-gesture technology, for \$60m; Amazon's acquisition of the micro-electronics company Annapurna Labs for \$350m; the acquisition of semiconductor company EZchip by Mellanox Technologies for \$811m; Microsoft Inc purchasing cloud security company Adalton for \$320m; HeartWare International Inc acquiring Valtech Cardio Inc for \$860m; and DH Corporation's \$1.2bn acquisition of Fundtech, a company that provides financial software solutions.

These acquisitions have not only been beneficial for Israeli entrepreneurs, but have also contributed to the robustness of the Israeli economy in general in the midst of global uncertainty in the financial markets.

In the past couple of years or so, new players have entered the Israeli market. Significantly, Israeli start-up companies are increasingly catching the attention of Asian investors, with commercial and trade delegations from these countries

now visiting Israel on a regular basis. Chinese investors have formed partnerships with Israeli institutions, transferring hundreds of millions of dollars in investments to develop innovative technology. Following the growth in Asian investors' investments in Israeli companies, there is an expectation that Israeli companies will further expand their businesses in the Asian markets.

Accelerating progress

Recently, MassChallenge, the world's largest start-up accelerator, announced that it is expanding its global network to Israel. Its founder and CEO John Harthorne declared that: "Israel is an outstanding and growing hub for entrepreneurship. Launching a new accelerator in Jerusalem that is connected with other global hubs dramatically expands the MassChallenge community, which will provide entrepreneurs in Israel and all over the world with better access to global resources."

In addition, it will further strengthen Israel's status as a prominent player in the field of hi-tech.

Aside from the fact that Jerusalem has been named one of the top 50 start-up cities in the world, another up-and-coming hub has been developing in Israel's northern region. The pretty town of Yokneam is the location for over 100 hi-tech companies that generate approximately \$6bn a year; some of the significant acquisitions that took place in 2015 were of Yokneam-based companies. Other major hubs are located in Tel Aviv, Herzliya Pituach, Rehovot and Beer Sheva, providing an important geographical balance for work opportunities. Yigal Arnon & Co mentors and sponsors many of the hi-tech hubs, and is representing several of the global players in their investments and acquisitions.

To instill the love for technology and innovation into future generations, Israel's first Science Kindergarten opened in October 2015. "Exposing kindergarten-age students to the sciences will open a window for them into endless activities and challenges," said education minister Naftali Bennett at the opening of the kindergarten in Beer Sheva.

Given recent successful exits, the growing global interest in Israel and the internal efforts to promote growth, the future for Israeli hi-tech continues to look bright. Yair Seroussi, Bank Hapoalim chairman, recently said that: "Our hi-tech entrepreneurs, who symbolise excellence, are Israel's best ambassadors these days."

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