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The Rise of Chinese Investment in the Israel Medical Device Industry



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Daniel Green, partner at Israeli law firm Yigal Arnon & Co, examines the rise of Chinese investment in Israel's medical device industry.

As China continues to transition from the center of global manufacturing to a more innovation based economy, Israel's technology sector has attracted increasing Chinese attention. While this is generally the case, it is particularly applicable to Chinese interest in Israel's life sciences and medtech industry which has experienced rapid growth and development in recent years. Indeed, this industry is playing a pivotal role in the world healthcare market, underpinned by its innovation and excellence in academic research, government support and increasing funding options. These factors are leading to ever more success and record investments, especially from China.

Recent high profile transactions include the sale of cCam Biotherapeutics to Merck (for up to US\$605 million) and the sale of MIS Implants to Dentsply Sirona. In addition, in one of the most significant China-Israel transactions to date in the life science area, Oramed Pharmaceuticals concluded a US\$50 million licensing and investment deal with China's Hefei Tianhui Incubator of Technologies Co. for rights to Oramed's oral insulin capsule technology in China. These transactions follow other major sector-relevant transactions attracting global attention such as the 2014 acquisition by Covidien (now Medtronic) of Given Imaging, developer of the world-famous "PillCam", for US\$860 million.

This brief article explores the sources of Israel's vibrant life sciences and medtech industry, financing opportunities available in this area and challenges for Chinese investors looking to invest in this sector.

Sources of Innovation

As observers of Israel's technological boom over the past decades will attest, the primary sources of innovation in the Israel's life sciences and medtech industry include world-class academic and medical

institutions, enhanced government support, and the active presence of global life sciences and medtech companies in Israel.

Institutional Sources. A large number of leading academic and medical institutions within Israel's relatively small geographic area have led to an environment of knowledge cross-fertilization of disciplines that has in turn fueled innovation in medical technology. Leading medical institutions such as Jerusalem's Hadassah Hospital, Haifa's Rambam Hospital and Tel Aviv's Ichilov Hospital, and academic centers such as Tel Aviv University, the Weizmann Institute of Science, the Technion and the Hebrew University, as well as many others, continue to publish numerous scientific papers. These institutions also have developed technology transfer offices (TTO's) which are engaged in the commercialization and licensing of technological inventions developed by their employees. These inventions, and their transfer to industry, serve as primary foundations of the life sciences and medtech industry in Israel.

Government Support. Decades ago, Israel recognized the importance of providing meaningful government support to assist the then-fledgling R&D sector. With the establishment of the Office of the Chief Scientist in the mid-1980s (now the Israel Innovation Authority), it was possible for early-stage technology ventures to apply for and, if qualified, obtain financial support for research and development programs in diverse technological fields, including life sciences and medical technology. Such grants can be a substantial part of R&D budgets. Government support is also provided through the various incubator programs, many of which aim to attract global expertise to support local start-ups. In this way, government funding reduces the risks involved in investing in medical technology start-ups. To date, some of the world's leading medtech companies, such as Boston Scientific, Medtronic and OrbiMed, are partners in these incubators.

Presence of Global Medtech Companies. Many global companies, such as Johnson & Johnson, GE Healthcare and Covidien, have established R&D centers in Israel in order to access local engineering and medical talent. These centers are themselves also a source of innovation. In addition, the presence of Teva Pharmaceuticals, the leading generic drug company, is heavily involved in R&D activities in the life sciences area. All of the above combine to produce a steady flow of new life sciences and medtech start-ups and technologies. One of the first challenges they face, either from inception or upon graduating from the incubator or accelerator is obtaining financing (beyond grants that may be available).

Financing Opportunities

In terms of financing opportunities for early-stage Israeli life sciences and medtech companies, there are many options. While not every venture is able to benefit from "angel" funding, there has been significant growth in support provided by accelerators, incubators and, more recently, accredited investor clubs. The leading "accredited investor" source is Our Crowd, which operates an on-line accredited investor portal. Our Crowd allows investors accredited in their jurisdiction of residence to make on-line investments in early-stage companies that have been screened by Our Crowd's professional team.

Venture capital also plays a significant role in financing life sciences and medtech ventures in Israel, with some of the leading VCs having established funds focused on investing in Israeli start-ups and more mature companies in this sector. More recently, there has been a significant increase in activity in the Israeli medtech and life sciences sectors by Chinese VCs. Aside from seeking investment opportunities, these investors are often interested in obtaining access to Israeli technology in these areas.

Going public is not generally an option for any but the most promising and profitable life sciences and medtech companies, and as such public money is not a major source of financing. A more likely “exit” strategy for promising life sciences and medtech companies in Israel is acquisition by global pharma and medtech companies, and many of the leading players in these areas have indeed made acquisitions in Israel in recent years. Once acquired, the companies often remain active in Israel, particularly by continuing to perform R&D activities.

Challenges for Chinese Companies and Investors

As is the case for any investor entering a new market, Chinese investors often need to deal with various challenges when investing in or partnering with Israeli companies. Aside from the evident challenges arising from language, differences in business culture can often impede negotiations towards a deal. For instance, Israel’s business culture places an emphasis on quick action and, at times, complex contractual arrangements; the Chinese approach is more measured and straight-forward contractual arrangements are often preferred. With respect to deal terms, Chinese companies are often interested in the outright acquisition of IP rights and technology, while Israeli medtech and life sciences companies typically prefer to grant licenses to such IP and technology. Bridging this gap can take significant time. Similarly, when Chinese partners seek broad access to Israeli technology, Israeli companies may be anxious about risks to their proprietary IP. There are creative ways to resolve these concerns, but the obstacles are real.

Chinese investors and companies contemplating entering into transactions with Israeli medtech and life sciences companies also need be aware of the legal and regulatory regime in which these ventures operate. For instance, many such companies may have, at one point or another, accepted funding from the Office of the Chief Scientist (now the Israel Innovation Authority), as noted above. By law, certain restrictions may apply to the transfer of know-how developed as a consequence of such funding. In addition, many of these companies may have consulting or other relationships with personnel affiliated with academic or medical institutions. Such arrangements may raise a variety of IP-related concerns that need to be carefully considered and addressed. As one would therefore expect, ensuring that appropriate due diligence is performed by qualified Israeli counsel is highly recommended.

Opportunities and Future Growth

There is no doubt that life sciences and medtech ventures are a major part of the Israeli high-tech industry, and will continue to contribute to the incredible growth of Israel, the “Start-up Nation,” while bringing meaningful improvements to the lives of millions of people around the world. While there are certainly challenges for Chinese investors and companies seeking to invest in or partner with Israeli

companies in this sector, there are many opportunities. The future remains promising for the expanding and deepening of the Israel-China relationship in this, and other sectors.

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