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Trading places: Israel's medical device sector

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The Israeli medical device sector offers opportunities for companies across the globe. Daniel Green partner at Israeli law firm Yigal Arnon & Co, examines the rise of Chinese investment in the Israeli medical device industry and the lessons that would-be investors can learn from this experience.



As China continues to transition from the centre of global manufacturing to an innovation-based economy, Israel's technology sector has attracted its attention. Israel's life sciences and medtech industry has experienced growth and development in recent years and is playing a pivotal role in the world healthcare market, underpinned by 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.

Sources of innovation

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.

A number of leading academic and medical institutions within Israel's small geographic area have led to the cross-fertilisation of knowledge. This has fuelled innovation in medical technology. Medical institutions such as Jerusalem's Hadassah Hospital, Haifa's Rambam Hospital and Tel Aviv's Ichilov Hospital, plus academic centres such as Tel Aviv University, the Weizmann Institute of Science, the Technion and the Hebrew University continue to publish scientific papers. These institutions have developed technology transfer offices (TTOs) for the commercialisation and licensing of technology developed by employees. This serves as a primary foundation of the life sciences and medtech industry in Israel.

Government support

Decades ago, Israel recognised the importance of government support to assist the 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 life science and medical technology ventures to apply for and, if they qualify, obtain financial support for R&D. Government support is also provided through incubator schemes, 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.

Presence of global medtech companies

Global companies such as Johnson & Johnson, GE Healthcare and Covidien, have R&D centres in Israel to access local engineering and medical talent. These are a source of innovation. Teva Pharmaceuticals, the generic drug company, is heavily involved in R&D activities in the life sciences area. All of the above produce a steady flow of new life sciences and medtech start-ups and technologies. One of the first challenges they face is obtaining financing (beyond grant 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 growth in support provided by accelerators, incubators and more recently, accredited investor clubs. The leading source is Our Crowd, which operates an on-line accredited investor

portal. It allows investors accredited in their jurisdiction of residence to invest 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. There has also been a significant increase in activity in the Israeli medtech and life sciences sectors by Chinese VCs.

Going public is only an option for the most promising and profitable life sciences and medtech companies. A more likely 'exit' strategy for promising life sciences and medtech companies in Israel is acquisition by global pharma and medtech companies.

Challenges for companies and investors

Investors often face challenges when investing in or partnering with Israeli companies. Aside from language challenges, differences in business culture can impede negotiations. For example, Israel's business culture places an emphasis on quick action and at times, complex contractual arrangements; the Chinese approach is more measured and straightforward contractual arrangements are often preferred. 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 gaps can take time.

Opportunities

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 improvements to the lives of millions of people around the world. While there are certainly challenges for investors such as the Chinese seeking to invest in or partner with Israeli companies, there are many opportunities to be had.

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