



CLIENT UPDATE

New Tender for Five Government-Sponsored Innovation Labs in Israel

Dear Clients and Friends,

The Israeli Innovation Authority ("IIA") is calling "Qualified" Multinationals and Israeli corporations to submit bid proposals to form and operate five Innovation Labs in Israel in their field of expertise and interest, with government support, under a three year franchise. The deadline for bid proposals is June 6, 2017.

Preference will be given to manufacturing corporations as part of a broad national initiative to promote adoption of advanced manufacturing technologies and to introduce innovative projects to Israel's manufacturing industries by encouraging joint innovation of mature corporations and start ups.

Innovation Lab – an open innovation platform for cooperation between the Lab's owner corporations and Israeli entrepreneurs and startups, in the Lab's field of expertise and interest:

- **Scouting** - the Lab will locate projects of Israeli startups to be invited to the Lab to carry out technological and business POCs for one year. The IIA must approve each selected project.
- **"Ideation"** – the Lab will actively promote creation of new projects in its field of interest (through meetups, Hackathons, calls for proposals, and conferences) to be invited to the Lab, if suitable.
- **Support** - to assist in conducting the POCs, the Lab will provide to the startups: (i) access to unique technological infrastructures (development, testing, manufacturing), market understanding and marketing channels, knowledge and expertise - in particular such that are not available to Israeli entrepreneurs; (ii) technological and other professional mentoring and supervision by R&D personnel of the Lab or of its owner corporations; and (iii) working space, if needed.
- **"Champion"** – the Lab will appoint a Lab director who will coordinate between the owner corporations and their relevant divisions and the startups and the relevant Israeli ecosystem.

Lab's legal structure – a Lab must be an Israeli registered entity that is either: (i) a Qualified Corporation, or (ii) is at least 30% owned by at least one Qualified Corporation (Israeli or non-Israeli). Shareholders in government-funded incubators cannot be direct or indirect shareholders in a Lab. NGOs and research institutions cannot be controlling shareholders in a Lab and cannot hold together more than 33%.

Qualified Corporations – (i) Multinationals and Israeli corporations; (ii) employing at least 100 employees; (iii) with at least NIS 100m sales last year; and (iv) owning unique technological infrastructures, knowledge or expertise, in Israel or abroad, that are currently not available to Israeli entrepreneurs.

Preference to advanced manufacturing corporations that perform physical or chemical transformation of materials or ingredients into new products by using machines, including in (but not limited to) the following fields: industry 4.0, 3D Printing, energy, motor vehicles, advanced materials, textile, wood, plastic, rubber, food and beverage, metal, construction materials, and electrical apparatus.

Lab's location – not restricted. However, Labs that will be located in Israel's periphery will receive greater funding for the technological infrastructure costs.

IIA Funding – will be granted in respect of the following costs:

- **Lab's technological infrastructure** – 33% of the costs (50% in Labs in the periphery); up to NIS 2M or NIS 4M funding (if the Lab accepts at least 2 or 4 projects, respectively).
- **Lab's operating costs** – 50% of the annual costs, up to NIS 500k funding per year.
- **Each POC costs** – 85% of the approved POC budget, up to NIS 1M funding. The remaining 15% will be funded by the company investors or other third parties (not necessarily by the Lab).

Repayment of IIA Support – no repayment obligation for IIA funding of the Lab's infrastructures and operating costs. The IIA funding for the POCs (plus LIBOR interest) to be repaid by the project companies (not by the Lab) through royalties on future revenues, if any.

Rights in the Developed Knowhow - notwithstanding the restrictions under the Israeli Innovation Law, the Lab and its Qualified Corporation owners will be able to receive joint ownership or a non-exclusive license in the knowhow that will be developed with the project companies in the Lab. Other than that, the project companies (but not the Lab) will be subject to restrictions under the Innovation Law.

The Tender and the Bid Proposals

- **Franchises** - the current tender is for franchises for five Labs. Each franchise period is three years (extension may be possible).
- **Qualified applicants are encouraged to apply jointly** - with partners with complementary abilities and expertise.
- **Selection** - The franchisees are selected by a special committee through a competitive bidding process. The criteria include: (i) the experience of the bidder and its shareholders, (ii) the expected added value of the bidder and its shareholders to the project companies; (iii) the bidder's business plan, and (iv) general impressions of the bidder.
- **Bid proposals** - must meet detailed legal and business prerequisites and conditions. Bid proposals have to be submitted by the Labs, in Hebrew only. Submission deadline is June 6, 2017.

The Call for Bids (in the meantime, in Hebrew) can be found [here](#)

Herzog Fox & Neeman has extensive experience in advising on IIA programs, industrial and manufacturing policy and on innovation matters as part of its [Government Incentives practice](#) and [Industrial Manufacturing practice](#). Please do not hesitate to contact us.

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