



# Dear Friends,



## Dear Friends,

In a world where the cyber space has turned into the wild wild west of security, cyber security is one of today's hottest elements in high-tech. It is also the focus area for this edition of 'Doing Business in Israel'.

Ishai Wertheimer, Head of Information Security Services at KPMG Israel, explains why and how Israel is the go-to place in this field, attracting 20 percent of global investment - second only to the United States.

This edition also explores Israel's first of its kind, Fintech Hub, operating inside the Tel Aviv Stock Exchange with the backing of some of the world's biggest banks, KPMG, Intel and many others. In addition, there's an interesting update about a change in the regulatory approach with respect to foreign companies' activity in Israel via the internet, and a glimpse into a unique cultural experience in a northern Kibbutz.

Since July is already in full swing, I hope you will enjoy the upcoming summer months, or as the American writer and philosopher Sam Keen said: "Deep summer is when laziness finds respectability".

July Edition

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July 2016

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# 01 Business Insights

## **Big Tax Breaks for Multinational Tech Firms**

The Prime Minister's office and the Finance Ministry are promoting a dramatic change in the budget arrangements' law for 2017-18 to include provisions that would provide multinational high-tech companies significant tax breaks.

The tax breaks will be granted to IT companies that set up research and development operations within Israel, and register the intellectual property they develop in the country.

The proposed legislation would lower the corporate income tax rate for qualifying companies to between 5%-8%, instead of the usual rate of 25%. The rate on dividends would be 5%, instead of the current 30%.

Unlike past legislations which gave incentives mostly to companies operating outside of the big cities, the proposed tax breaks will be given to high-tech companies regardless of their geographic location in Israel.

# Latest Transactions

**Canadian Cott Corporation**, one of the world's largest producers of beverages, acquired Israel's Eden Springs for \$535 million. Eden Springs is the parent company of the Israeli mineral water producer Mey Eden, but it is also one of Europe's leading suppliers of water and coffee solutions to offices in 18 European markets. (The Marker)

**Mobileye**, Israeli driver assistance systems and collision avoidance developer, has teamed with German automaker BMW Group, and chipmaker Intel to make self-driving vehicles a reality by 2021. Using Mobileye's systems and Intel's chips, BMW will begin the series production of the iNEXT car by 2021. (Globes)

**Doodle**, an online scheduler and a subsidiary of the Swiss media group Tamedia, acquired the Tel Aviv-based startup, Meekan, a developer of a chatbot that acts as a virtual scheduling assistant, for an undisclosed amount. (Times of Israel)

**IronSource**, an Israeli company which designs tools to help mobile app developers distribute and profit from their apps, has acquired the Israeli startup StreamRail for a sum estimated to be in the seven figure range. StreamRail has developed a special video player for advertisers that enables running a video much faster than other providers (Calcalist)

**Aurum**, a gold company based in Melbourne, has merged with Humavox, buying a 50% stake in the Israeli company for \$16 million. Humavox is producing wireless charging technology. Humavox CEO Omri Lachman will be made the new Aurum CEO thanks to a complete restructuring of the merged company. (Businesswire)





# 02 Interview

## "Thanks to Our Unique Cyber Ecosystem, Multi-Nationals Prefer to Keep Their Operations Here"

Israel's cyber security expertise has become so valuable that the global investments in the local industry are skyrocketing. Ishai Wertheimer, KPMG Israel's Head of Information Security Services, explains how the country has become a cyber-powerhouse

**When** a country smaller than New Jersey claims 20 percent of global investment in cyber security companies, it is quite mind-boggling. But this figure – double the proportion a year earlier – is indeed a reality: In recent years Israel has become a cyber-superpower.

Israel's security ecosystem has many aspects. There are 430 cyber companies currently operating in Israel, including mature companies such as Check Point alongside early-stage startups. At the same time, leading global companies like Microsoft, Deutsche Telekom and PayPal have opened global R&D centers in the country.





Roni Michael,  
Head of IT Consulting  
at KPMG Israel



Ishai Wertheimer,  
Head of Information  
Security Services at  
KPMG Israel

Since 2011, more than 230 local and foreign investors invested in over 165 Israeli cyber technology startups – including achieving some amazing exits like Trusteer (a suite of security software) being bought by IBM for nearly \$1 billion, Microsoft acquired Adallom (cloud security) for \$320 million and Watchdox (secure document sharing) who was sold to Blackberry for an estimated \$150 million; to name a few of many.

### ***So what's the story behind all that? What actually happened with Israel and Cyber?***

Global fears – both by governments and companies – has made protecting computer networks and data from hackers become one of the biggest tech industries worldwide. According to Roni Michael, Head of IT consulting at KPMG Israel, “the Israeli success story is all about a unique partnership between different parts of society - the military, government, academia and the private sector”.

“Israel realized in the early 2000's, while the world was still

recovering from 9/11, that the cyber threat is something to be taken no-less seriously”, says Mr. Wertheimer. “It obviously has a lot to do with our existence in ‘a tough neighborhood’. We are constantly vigilant, both online and off.”

Since citizens face mandatory military service in Israel, the army's huge cyber units can take the best young minds and harness their brains for this objective. According to Mr. Wertheimer, “It's a huge industry driver. It provides an amazing platform for young folks to study this whole area and get hands-on experience with the most sophisticated systems and operational challenges. As a result of that, we have a huge number of young cyber experts.”

But it's not only the army that has been giving this industry a boost. “The Israeli financial industry also serves as a good test bed for those technologies. Banks and insurance companies open their doors to the cyber startups and allow them to experiment in a real environment”, says Mr. Wertheimer.

“The biggest companies in the world invested hundreds of millions of dollars here. Young people who come up with good ideas land investments relatively easy.”

Another interesting aspect is when a foreign company buys an Israeli cyber company, “They understand there's a significant advantage to keeping their operations here in Israel. Unlike other high-tech industries where after the exit, the company's operations are taken abroad; in cyber they increase their investments and their activity in Israel due to our unique ecosystem.”

And of course there's the government, which sees it as a national task and channels funds, resources and tax

breaks to the cyber industry. Nowadays, for example, a new “cyber-city” is being built in Beersheba in the south of the country, which will serve as a hub for Israel's most talented computer experts. Located right next to the Ben Gurion University in Beersheba, it will house the national cyber response team, as well as the local headquarters of several major multinational corporations, including PayPal and Lockheed Martin.

### **The Israeli financial industry also serves as a good test bed for those technologies. Banks and insurance companies open their doors to the cyber startups and allow them to experiment in a real environment”**

This cyber hub will also be the base of Israel's National Cyber Bureau (NCB). One of the responsibilities of the NCB is to create and implement a national cyber protection methodology. This huge project includes the creation of a cyber-protection methodology for organizations, governmental offices and authorities, as well as for specific industries.

KPMG was engaged by the NCB for the creation of that methodology, and for implementation of the methodology in government offices. The methodology helps organizations assess their cyber risks and determine the required cyber protection controls. It has been implemented in several government offices and organizations, including the Prime Minister's office, Ministry of Finance, Courts Administration and others.

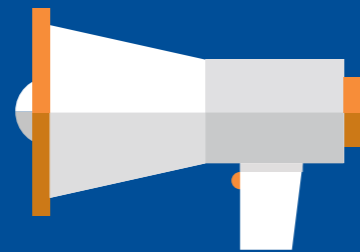


# Israel's Cyber Security Sector



**66**

New cyber startups established annually since 2012 on average, compared to an average of 49 over the previous decade



**40**

Cyber research and development centers opened in Israel by foreign companies

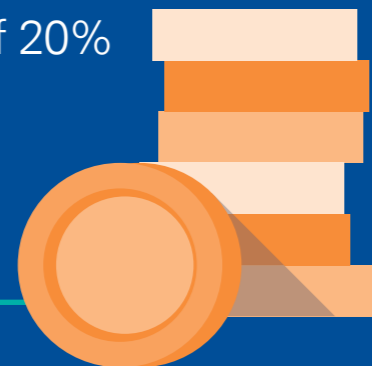


**17,000**

Number of employees in the Israeli cyber industry

**\$540 million**

Capital raised by 78 Israeli cyber companies last year, an increase of 20% compared to 2014



**\$1.2 billion**

Total worth of Israeli cyber exits in 2015, a 40% increase compared to 2014

**\$6 billion**

Exports by Israeli Cyber security companies in 2014

Source: IVC Research Center Report

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# 03

## Regulatory Spotlight

### **Foreign Companies' Activity in Israel via the Internet**

On April 11, 2016, the Israeli Tax Authority published a tax circular 4/2016, "Foreign Companies' Activity in Israel via the Internet" (hereinafter, "the circular").

The circular presents a change in approach by the ITA with respect to the activity of a foreign corporation operating in Israel via the internet, and deals mainly with the following issues:

**1.** When the activity of a foreign corporation which is resident in a reciprocating country is deemed to have a permanent establishment in Israel;

**2.** When Israel is to be viewed as the "place business is conducted" by a foreign company which is resident in a non-reciprocating country and is conducting business in Israel via the internet.

The circular provides new threshold conditions for the existence of a permanent establishment in Israel of a foreign company operating in Israel via the internet. It emphasizes that, inter alia, operations with a "fundamental digital presence in Israel", as detailed in the circular, will be deemed to be a permanent establishment. Accordingly, the revenues of the corporation derived from that activity will be subject to tax in Israel, even if the foreign corporation does not have any physical presence in Israel.



With regards to Value Added Tax, the circular provides that a foreign company whose transactions include the provision of services through the internet to Israeli resident customers, or which executes business in Israel according to one of the criteria specified in the circular (with respect to income tax), will be required to register as a dealer in Israel and appoint a representative according to sections 52 and 60 of the Value Added Tax Law – 1975.

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# 04

## Israeli Innovation

### “The Floor” – Israel’s first Fintech Hub

The first hub for financial technology (Fintech) startups was launched in Tel Aviv in the beginning of this year. The Floor offers Fintech entrepreneurs and start-ups 1,600 square meters of collaborative work space and a point of access to leading international financial players, tech giants and venture capitalists.

The Floor has partnered with four of the largest international banks - HSBC, Santander, RBS and Intesa SanPaolo - to ensure geographic coverage of global markets which can help Israeli startups reach any market in the world, thus tripling the number of international banks in Israel doing innovation operations locally.

KPMG Israel recently joined the venture as a strategic

partner, assisting startups from the initial market penetration strategy stage and will accompany them through financial regulation, cyber & IT assistance, fundraising, as well as, the implementation of projects within financial institutions around the world.

Based at the Tel Aviv Stock Exchange (TASE), The Floor offers ventures mentoring hours provided by senior executives, access to Asian markets (they already have three Asian banks locked down among their institutional supporters), an R&D center and a unique growth program for initiatives within the field.

According to its founders, the idea behind The Floor is not to be another accelerator/incubator, but an opportunity for companies in various stages to work on a particular challenge that each bank can define beforehand, and then work closely with an innovative company in a dedicated time and period to create an appropriate solution for that problem.

Several startups have already jumped aboard, hoping to successfully disrupt the financial services industry.

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# 05

## A Cultural Bite

### **Gottesman Etching Center at Kibbutz Cabri**

A visit to the etching workshop at Kibbutz Cabri is a wonderful opportunity for the art-lovers to get a first-hand view of etching techniques while basking in the beautiful view of the Galilee.

Founded in 1993 and overlooking mountains and the sea, the workshop boasts a nice combo of business enterprise with art. Cabri, home to various artists who live and work there, view art as a stimulus that contributes both to the community and its individuals,

but at the same time it is a business endeavor.

In the venue, a true artistic haven, artists from Israel and abroad produce etchings in a special work space. The place is known for the high level of its craftsmanship, equal to that of the best etching workshops in the world. Its expert staff produce richly colored etchings using a combination of various print techniques. The workshop space also features the largest press in Israel, large etching baths, a hot table and an aquatint box. There are also two galleries that exhibit the works produced by the artists working there. The work of each artist who's used the workshop facilities is available for viewing and purchasing.

While in Cabri, you should also pay a visit to the beautiful sculpture garden located next to the workshop of the late sculptor Yechiel Shemi and to the Cabri Gallery for Contemporary Art.

#### **The Gottesman Etching Center**

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<http://www.cabriprints.com/>

