

The opportunity of the Israeli market



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High Potential for a Bio-Pharma Industry in Israel

- Excellent Academic Infrastructure
- World Leadership in # of Granted Patents per Capita
- Rapid growth in Life sciences R&D Companies
- Human Capital
- Global Success and Positioning ; Blockbuster Products in the Market

Available institutional Capital

The government as a partner – a proven success

- Chief Scientist granting system
- Yozma, public-private investment funds enabled the growth of the hi-tech industry



Life Sciences Funds

1. Shortage in capital, financing tools, business models, managerial expertise
2. Long life cycle
3. “High risk/ high reward” nature
4. Fragmented Industry

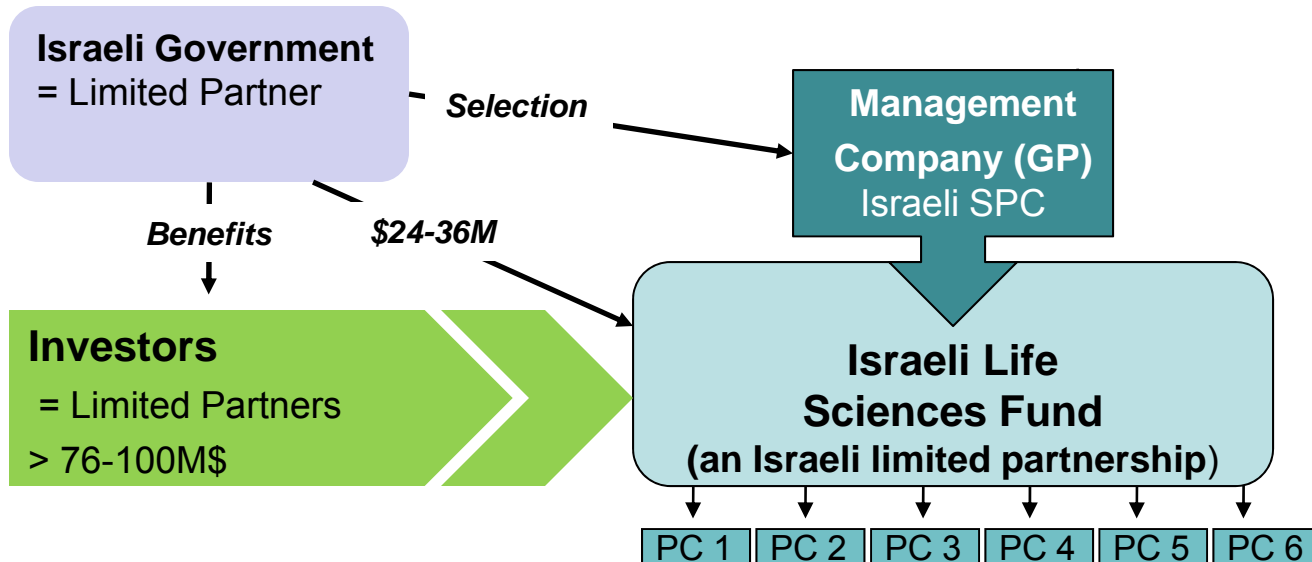
Academic excellence
Innovation, IP
Human capital
Early stage funding
High % of seed
companies

GAP

Advanced
companies
Mature companies
Therapeutics
products



Structure of Israeli Life Sciences Fund



Government Benefit

Although Fund's return
negative private LP receive
positive return!



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Total Fund IRR	Standard VC	Life Sciences Funds	
		Private Partners	Government
-30%	-30%	-16%	-86%
-20%	-20%	-4%	-84%
-10%	-10%	+8%	-82%
0%	0%	+20%	- 80%
10%	8%	+27.68%	-26.65%
20%	16%	+27.68%	-10.5%
30%	24%	+27.68%	+27.68%
40%	32%	+34.2%	+28.72%

• Assuming Leverage Ratio of 1:4

• Return of Limited Partners is based on 5% hurdle rate of 5 year as of investment compounded annually

Israel Life Sciences Funds Roadmap

11/09

Standard Venture Capital structure
LP's: Israeli government and the private sector
Total Government commitment > \$104M

Critical mass investment in Bio-Pharma
Government Benefits: upside sharing, downside protection
Distribution waterfall + 5% hurdle rate favor LPs

3/10

4 experienced management teams passed the pre-qualification threshold
All received \$24M government conditional commitment

5/10

Selection of management team – RFP (current status)
Each must raise, during 12 months, a minimum of \$ 76M
\$8M bonus to the fund with most Investors' commitments

Disclaimer

This presentation, the accompanying comments, and the answers to be given in this conference are aimed at *clarifying* the “Request for Proposals” and are **not** intended to *amend* the “Request for Proposals.” Any such amendment will be made by a separate addenda.

In the event of any discrepancy between this presentation and the official “Request for Proposals”, the Invitation shall govern.



Barriers to sustainable Industry

Shortage in Capital, Financing Tools & Business Models

VC investment in the Israeli life sciences 1997-2008: \$2.1 billion

37% in BioPharma ; 63% in Medical Devices. Reversal of the U.S. split

Relatively long life cycle

“High risk/ high reward” nature

Extremely Fragmented Industry

- 40% of companies are less than 6 years old
- 85% of companies have less than 25 employees

Special Benefits

Upside Sharing - up to 80% of the government net profit will be distribute to the other LPs (Benefit Fraction)

- The Benefit Fraction is the product of the Leverage Ratio (other LP's commitments divide by the government commitments) multiplied by 0.2, provided such fraction ≤ 0.8

5% hurdle rate for LPs' investments

Downside protection

Distribution waterfall favors LPs

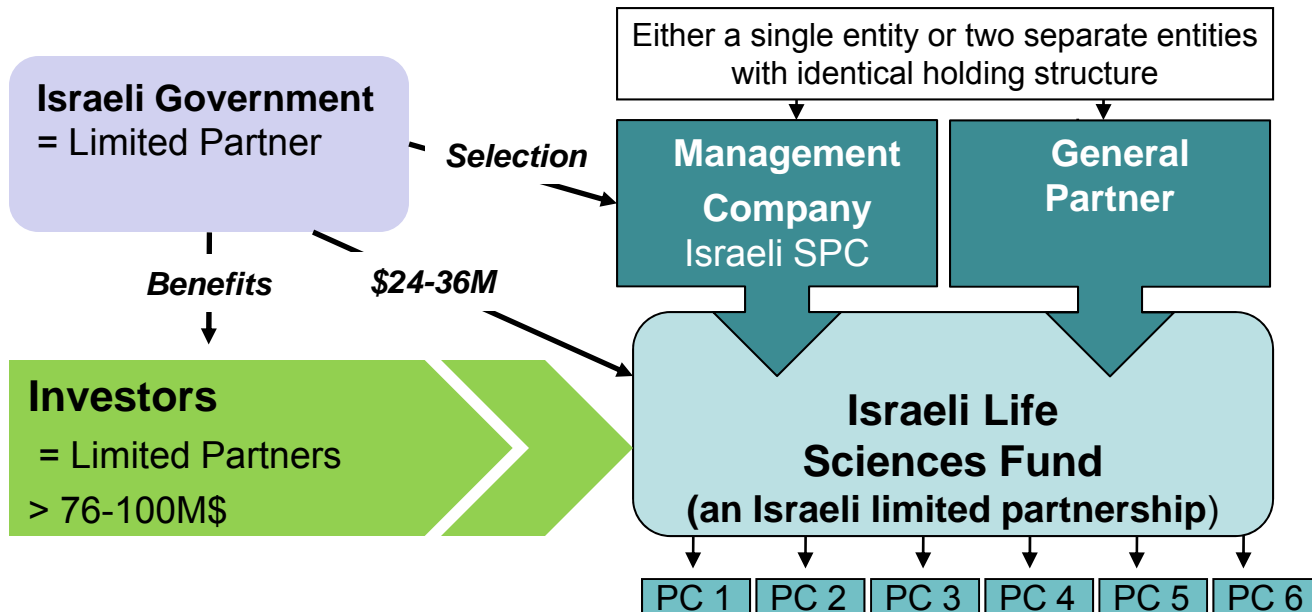
Full GP "catch up"

- Private Partner's share of each distribution will be divided between such Limited Partner and the General Partner

The solution: Life Sciences Funds

- 2-4 Life Sciences Funds
- Standard Venture Capital structure
- LP's will be the Israeli government and the private sector
- Government commitment as LP: up to USD 104 million
- Minimal capital to be raised by private sector investors - LP's
- Experienced managers
- Critical mass investment in Biopharma
- Minimal governmental interference
- Government Benefit designed to boost returns of the private sector investors

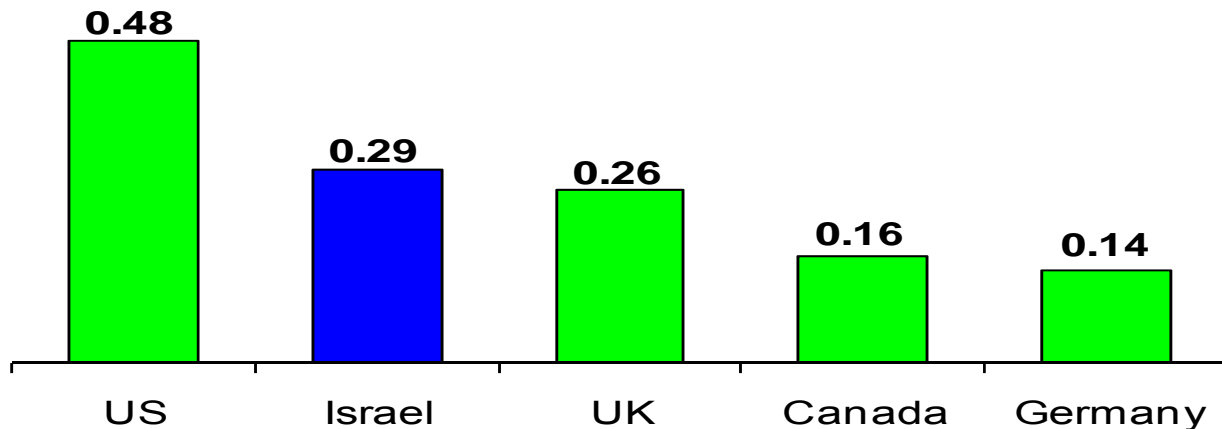
Structure of Israeli Life Science Fund



Publications in leading LS Journals* per capita



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* Nature, Science, The Cell

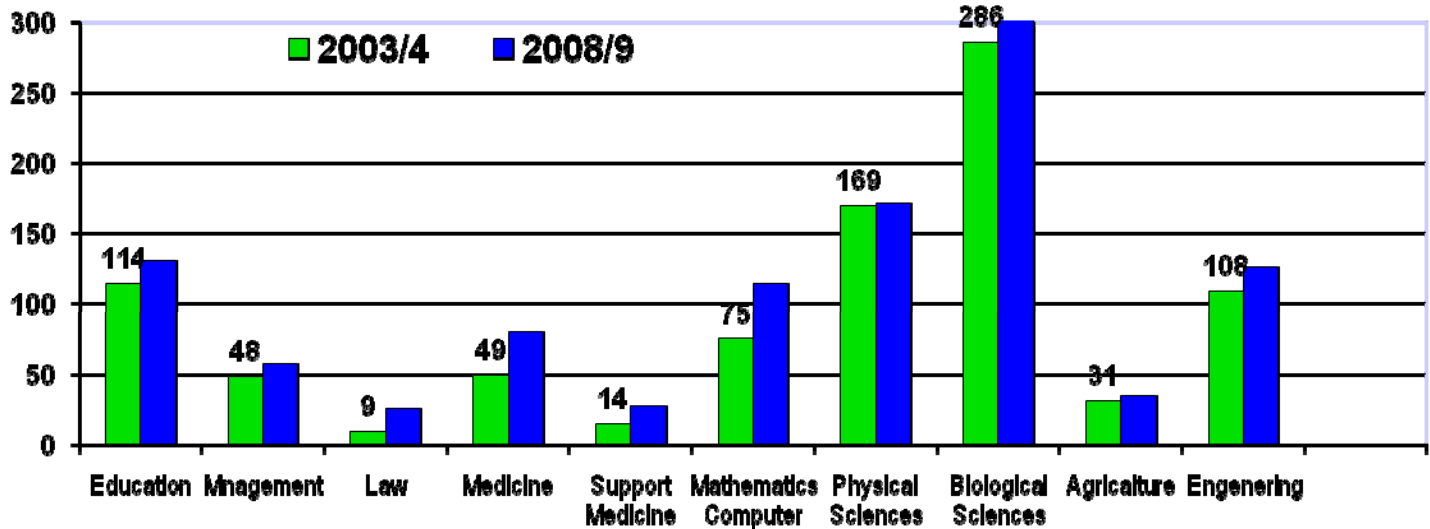
Source: Science & Engineering Indicators 2006, US NSF; OCS.

Academic Environment: Potential for long term growth



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Human Capital: Ph.D. graduates

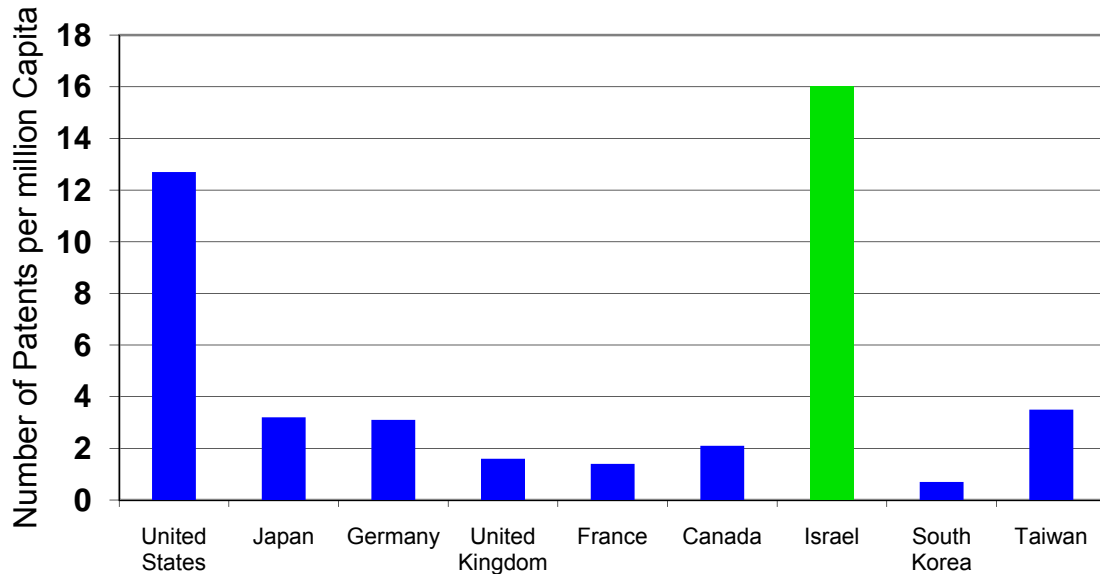


Innovation: US granted Patents per Capita



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Medical Device Patents per million Capita 2007

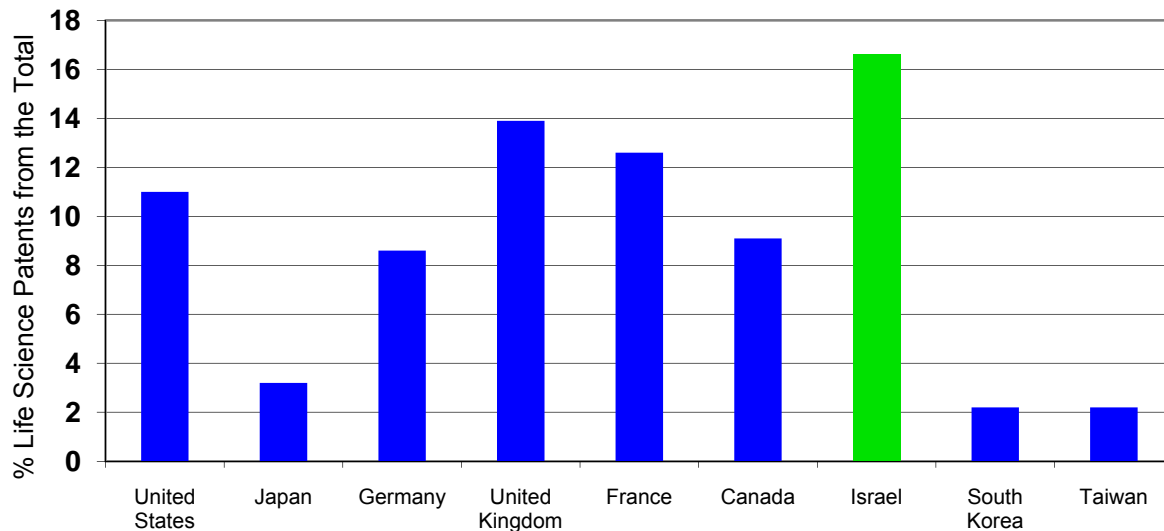


Innovation: US granted Patents per Capita



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Granted BioPharma Patents per Million Capita 2007



Source: www.uspto.gov. Analysis: ILSI ©

Number of Life Sciences Companies



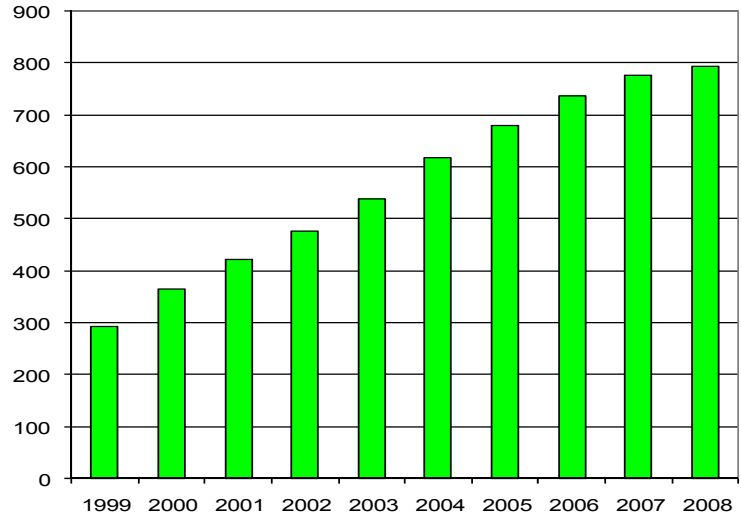
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A decade of rapid growth

From 250 companies in 1998 to almost 800 companies in 2008

An average of 55 new companies being formed per year over the last decade

40% of all Life Science companies operating in Israel today are less than 6 years old



Source: ILSI Data Base - 2009

Israel's Life Sciences Industry

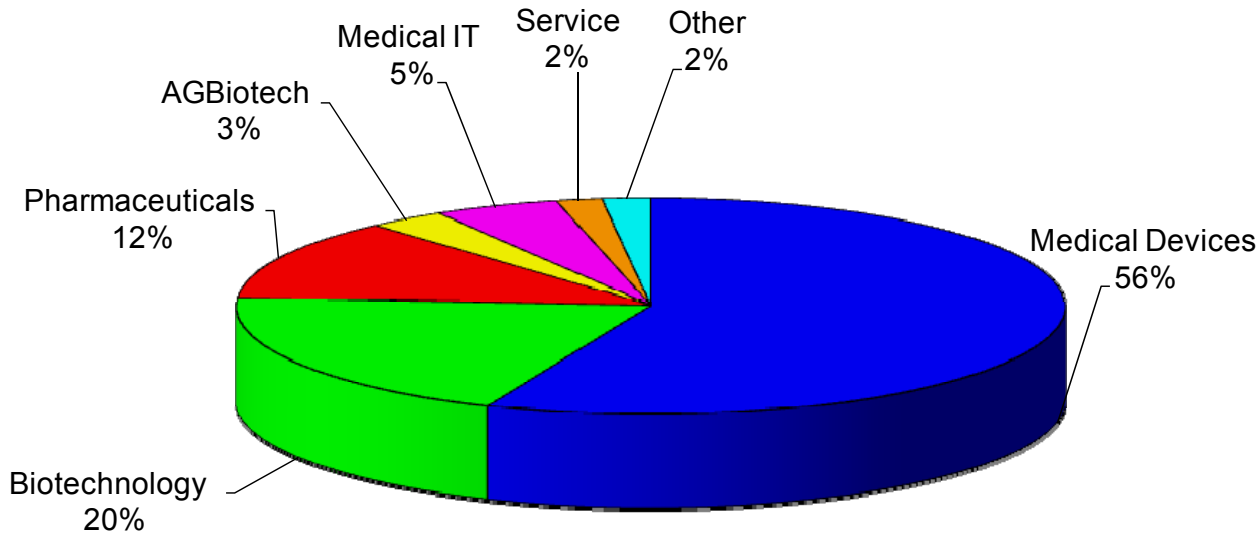
Blockbuster Launched Products



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Product	Indication	Company Licensee	Revenues 2008	Academic Institute	Inventor
Copaxone (glatiramer acetate)	Multiple Sclerosis	Teva	\$M 2,260	Weizmann Institute	Michael Sela
Rebif (interferon beta-1a)	Multiple Sclerosis	Merck-Serono	€M 1,331	Weizmann Institute	Michel Revel
Exelon (rivastigmine tartrate)	Alzheimer's	Novartis	\$M 815	Hebrew University	Marta Rosin
Doxil / Caelyx (Doxorubicin liposome)	Cancer	J&J Schering-Plough	\$M 430	Hebrew University Hadassah Hospital	Alberto Gabizon
Azilect (rasagiline)	Parkinson	Teva	\$M 175 Launched July 2006	Technion	Moussa Youdim
Erbitux	Cancer	Merck-Serono Bristol-Meyers Squibb	€M 565 Launched 07-2008 M\$ 749	Weizmann Institute	Michael Sela

Israel's Life Sciences Industry: Sectors

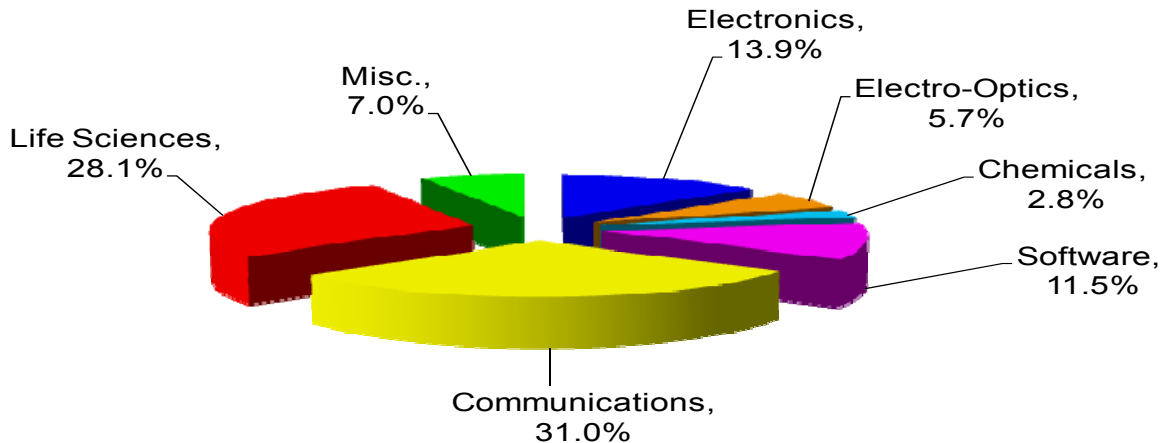


Source: ILSI Data Base – 2009

Office of the Chief Scientist Grants by Technological Sectors, 2009



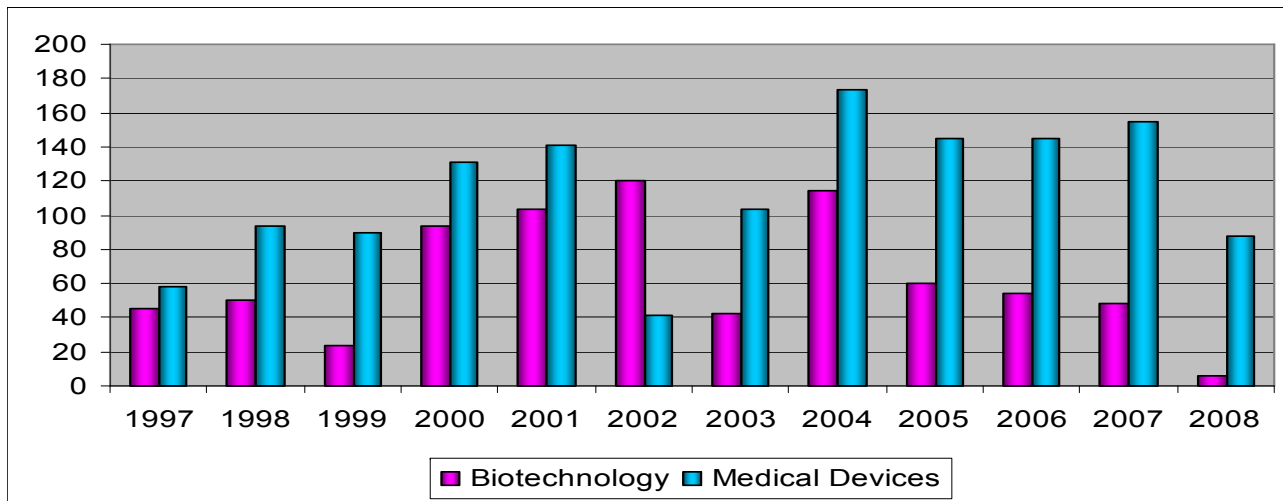
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Barriers to sustainable Industry:

Venture Capital Investments in Israel: 1997-2008 (\$ millions)



Available Institutional Capital

- Rapid growth in Savings of the Israeli market due to series of reforms implemented during the last decade
- The portion of P.F. investment in V.C. only 0.4%

Available Capital (Total: 732 Billion ILS)

- Pension funds: 263 Billion ILS
- Provident funds: 261 Billion ILS
- Insurance Companies: 208 Billion ILS
- Allocation for private equity funds: 1.6 Billion ILS

MOF-OCS Team

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The Global Alliance for Improved Nutrition

Innovative Finance Program

Milken Institute Global Conference
April 2010



www.gainhealth.org



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INVESTING IN PARTNERSHIPS TO STOP MALNUTRITION

Theme-Based Funds

www.gainhealth.org

GAIN has established nutrition-themed funds to address the lack of capital and to stimulate innovation around high quality, affordable complementary foods.

Challenges

Few affordable complementary food products available for infants and young children

Untreated moderate malnutrition leads to more severe forms

Small food businesses often lack capital

GAIN Offering



- Co-invest (equity and debt) in businesses in South Asia and East Africa
- Focus on infant and young child nutrition



- Grant funding for businesses to support the development of nutritious products
- Creates opportunities for follow-on investments in promising products
- Focus on infant and young child nutrition

GAIN Premix Facility (GPF)

www.gainhealth.org

The GPF was implemented to respond to the challenges associated with premix procurement and leverage GAIN's global scale.

Challenges in Premix Procurement

Premix quality varies from project to project

Absence of global procurement strategy results in price variation between projects

Micronutrient costs represent 70-90% of ongoing project costs

Some projects struggle to finance purchases upfront

GPF Service Offering

Certification Facility
(Certification Agent: Intertek)

Procurement Facility
(Procurement Agent: Crown Agents)

Credit Facility

Grant Facility

Lessons Learned

- Investing in prevention, e.g., to address moderate malnutrition before it becomes severe, represents a larger market opportunity for private companies
- Small grants for product development or market research can reduce risk and encourage companies to explore new products or markets, leading to investable opportunities
- Innovative financial structures can create more consistent or higher demand, pulling private investment into new markets
- Innovation is needed not just in product development but also in distribution systems in order to reach vulnerable populations at low cost
- Working with existing food companies to adapt products for new markets can lead to innovation