

# ISRAEL HIGH-TECH & INVESTMENT REPORT

A MONTHLY REPORT COVERING NEWS AND INVESTMENT OPPORTUNITIES

JOSEPH MORGENSTERN, PUBLISHER

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## Venture Capitalists Meet as Stock Markets Signal Prospects of Global Recession

We turn to assess critically and analytically Israel's competitiveness on the global scene. With the possibility of a deepening economic downturn in the United States and the prospect of a knock-on effect spreading to other countries, investors and venture capitalists will wish to pinpoint the countries and areas of investment where they can seek attractive opportunities.

In our current April issue we are taking a closer look at Israel and identify Israel's position as a competitor among western industrial nations. We were aided by some excellent reports, which include the highly informative study --- U.S. Competitiveness 2001. This answers some basic questions such as what drove the U.S. prosperity of the last decade, where did America fall short in economic performance, and which countries are emerging as challengers to American leadership. The just-released Bank of Israel Recent Economic Developments report for the second half of 2000 is instructive. It pinpoints recent trends and allows us to extrapolate as to what we may expect in the future.

Just a fortnight ago we received IVC-Online's report on Trends of Israeli High-Tech Industry in 2000. It concludes that attracting risk capital is linked to the movements of Nasdaq and not to political unrest.

There has been massive entrepreneurial activity in Israel in the past three to four years. Ministers from Ireland and Australia, among others, have visited Israel to study the nature of this activity. They have

come to learn about the unique characteristics of Israel's high-tech community and to learn about the government policies which support research and development and which offer tax relief to the foreign investor. In reality the visitors came to better understand how Israelis are harnessing themselves to the globalization process. Israeli entrepreneurial activity is responsible for high-tech exports representing 60% of this country's total

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exports. Estimates have been put forth that three to four startups were born daily in 1998-2000. The combined results of this entrepreneurial energy and activity, are impressive in the increase of foreign investment and job creation.

However, the big picture has recently dramatically changed. The valuations of the high-tech public companies on Nasdaq, including those of many of the 125 Israeli companies were decimated by nearly four trillion dollars. Should major economic morasses develop, a deleterious effect could extend not only to startups and the venture capital community but to the economies of the industrialized western world.

The seven fat years and the seven lean years, figuratively if not literally, that we read about in the Bible, may be replaying themselves as capitalism is being put to the test. The venture capital community is evaluating its future steps as stock markets' performances are forecasting the prospect of a global recession.

## An Open Letter to Venture Capitalists

In the past decade, Israel's venture capital community has played a pivotal role in providing the capital needs of the country's expanding entrepreneurial universe. This community has grown nearly one-hundred fold. Aided by booming American stock markets, it has reaped untold riches for its investors, and international recognition for many of its managers.

In the process, it is estimated by accounting firms, that locally based venture capital companies have accumulated and have available for investment more than \$3.0 billion in capital reserves. The likelihood is that for the rest of this year the new-issue (IPO) market will not open its window for cashing out. It does not mean that venture capitalists should cease investing. A greater degree of caution could meaning-

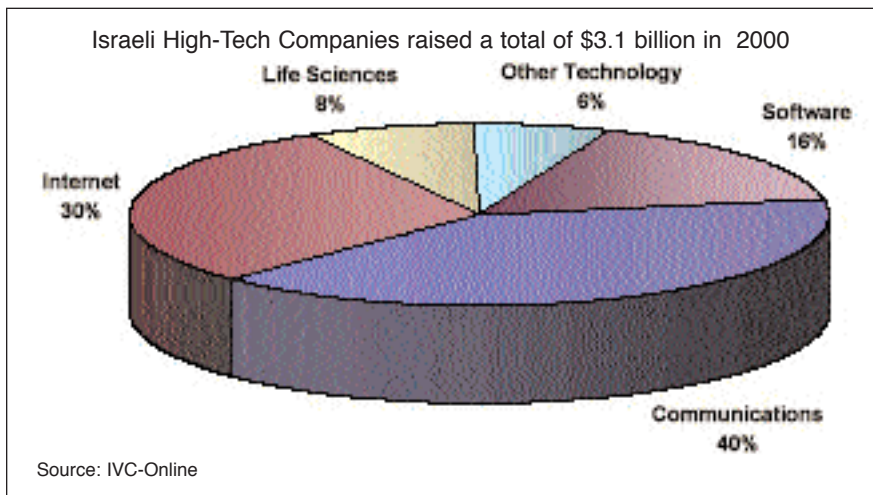
fully improve overall returns and decrease failure. We are not unaware that some investments were executed without applying the due diligence process. The dot com mania undoubtedly was responsible for loosening the purse strings.

The results of our report of Israel's relative competitiveness among Western industrialized nations indicate that--in terms of innovation, entrepreneurial capability and skills--this country has the characteristics to keep its position among global leaders. Even if the prospects of quick profits are not on the horizon for Israel's venture capitalists, this should not deter them from investing their reserves. Needless to say, it was the entrepreneurs who were responsible for the profits. The deserving ones should not be denied liquidity. The road for the entrepreneur from the bench of innovation

The importance of a high level of **National Competitiveness** is critical to a nation's progress. Its goal is to increase the real income of this nation's people. To do so a nation requires to create and produce high value products and services that meet the stringent criteria posed by international markets.

Israel's post 1995 growth was capped by a GDP per capita of 5.9% in 2000. The aim for this nation's growth to be fueled by high-technology was reached as exports from this sector account for nearly 60% of Israel's total annual exports. The long-term quality of this country's competitiveness, based on the globally accepted measures of growth in GDP, innovation and entrepreneurial activity is hard earned and is internationally acknowledged.

What is less clear is what the near-term will bring for the high-tech sector. We believe in Israel's ability to withstand a downward global economic trends. Our special report on the following three pages reinforces this view.



## Record Year

It was a record year in 2000 as Israeli companies raised more than \$3.1 billion. 2001 is expected to be a more difficult year for raising capital. The window of Initial Public Offering opportunity appears to be nearly closed.

Venture capitalists are expected to be more selective in committing funds.

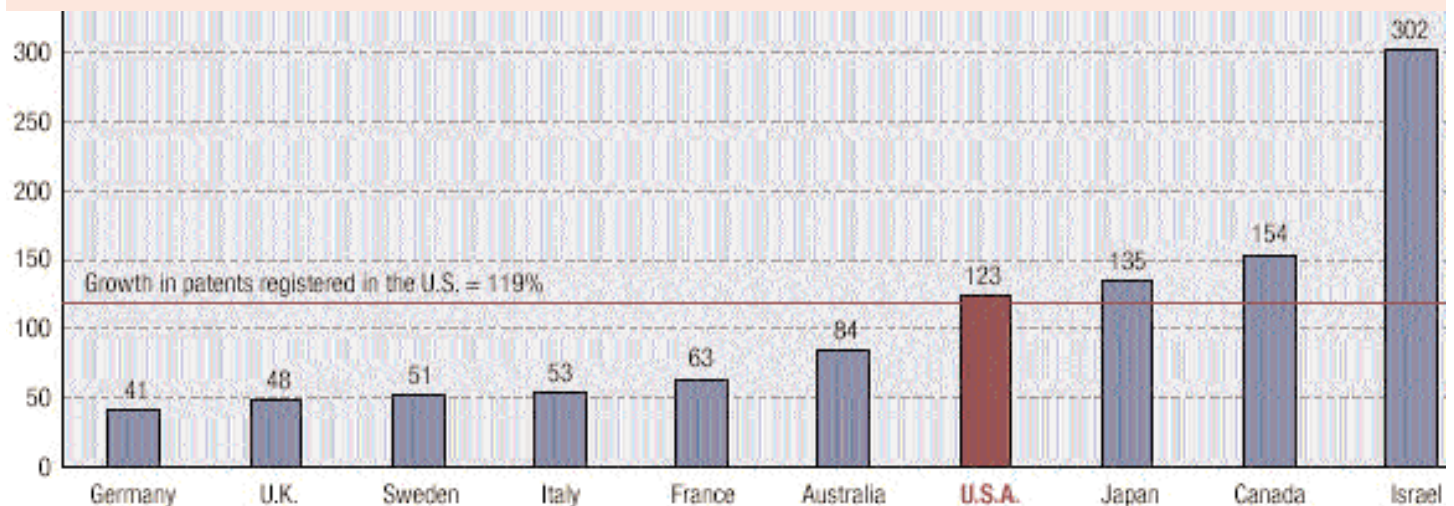
## Competitiveness Measured by Growth in Patents Obtained by Israeli Innovators

One indicator of this nation's rapid pace of innovation is patenting.

The US Patent and Trademark Office cites Israel as having the highest percentage of growth in patenting in the years 1986-1999. For Israel, it was the highest, among ten industrialized countries at 302 percent.

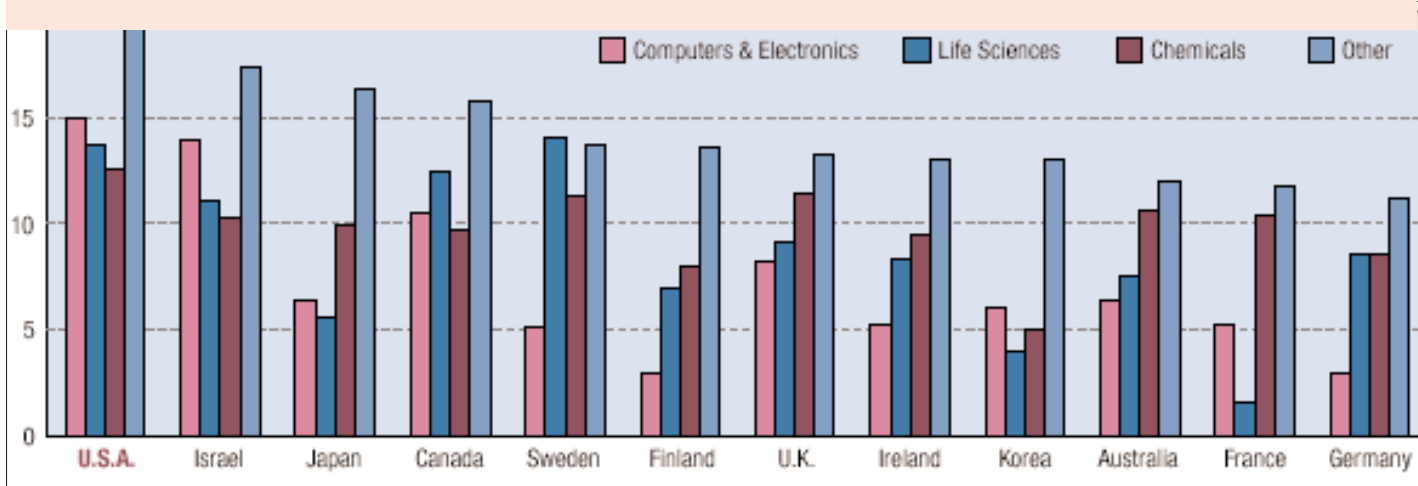
Canada at 154%, Japan at 135% and the USA at 123% were ranked behind Israel.

Percent Growth in Patents Granted in the US 1986-1999



Source: US Patent and Trademark Office

Another measure of **Competitiveness** is the quality of patents. One way to measure this is to compare the percent of highly cited patents as achieved by individual countries. The study is based on patents which were filed between 1994 and 1998 and were cited in 1999. According to CHI Research, Israel at 16% is only second to the United States at just over 18%.

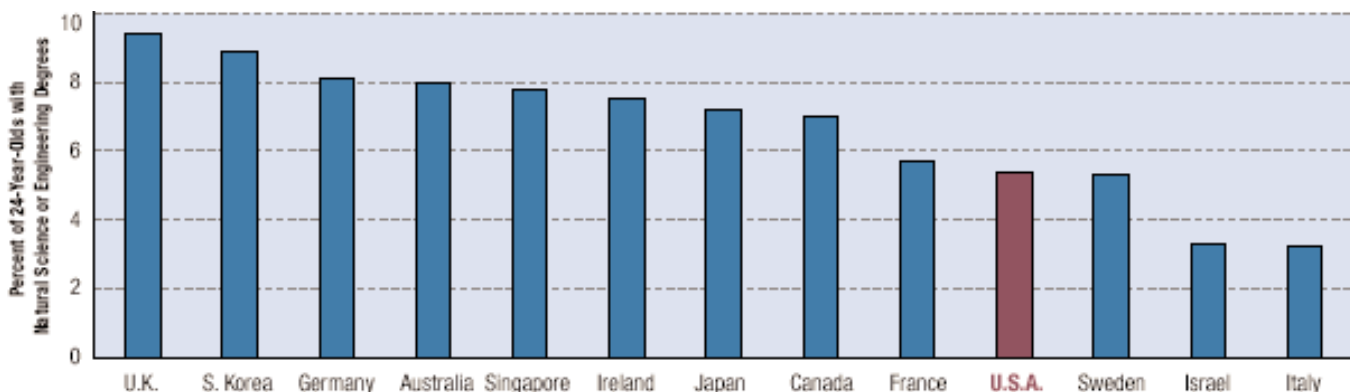


The ratio number of science and engineering degree holders to the 24 year old population is used by the US National Science Foundation (NSF), Science & Engineering Indicators 2000 as a measure of availability of technical talent, a critical factor in assessing future competitiveness.

At a level of about 3.5% Israeli educational planners could pay some attention that many of the industrialized countries are rated at the 8.0% level.

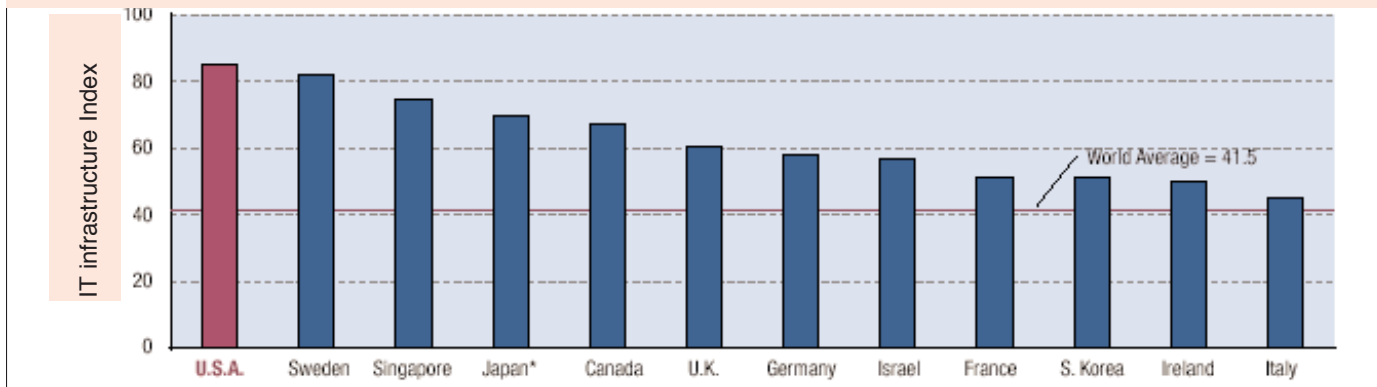
Natural sciences, medicine, business administration and law still are powerful magnets in Israel to those who undertake higher education studies.

The Rate of Increase of Scientists and Engineers to the 24-Year Old Population 1998 or Latest



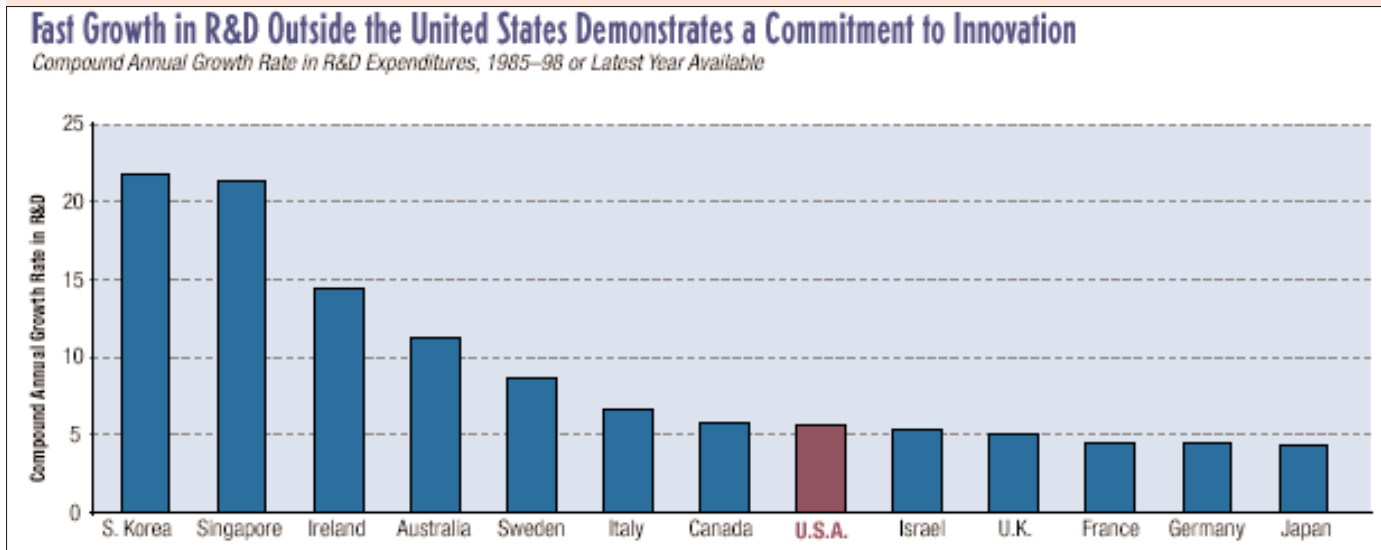
Source: National Science Foundation: Science & Engineering Indicators 2000

## Growing Sophistication in Information Technologies as an Engine for Productivity Growth



Source: Based on data from the International Data Corporation

The long-term posture of this country's competitiveness, based on the globally accepted measures of growth in GDP, innovation, research and development and entrepreneurial activity is hard earned and an internationally accepted fact of life. The Government of Israel provides liberal support of R & D activity. What is less clear is what the near-term will bring for the high-tech sector, the overriding workhorse of the Israeli economy.



Source: National Science Foundation

The National Science Foundation has looked into the growth rate in R & D outside the United States and has found it to be very high. Israel is among the industrialized nations with a compounded annual growth rate in R&D of about 5%.

## VENTURE CAPITAL CORNER

### **Ehrlich Advises New Zealand on Setting up Venture Capital Funds**

One of the founders of Israel's thriving venture capital industry has been hired to advise the New Zealand Government on how to invest in new businesses.

Yigal Erlich, the man behind Israel's pioneering Yozma fund, first visited New Zealand late last year. He returned to Auckland at the beginning of March.

New Zealand's Minister of Research, Science and Technology, Pete Hodgson, announced the Government's new scheme. He said Yozma, which began as a government-driven fund before being privatized, had kick-started the Israeli venture capital industry from its inception in 1993.

Yozma's two funds have invested more than \$US170 million in 40 portfolio companies, some of which have gone public on stock exchanges in the United States and Europe. Hodgson's plan, approved by the Cabinet, involves setting up a Crown Seed Capital Fund (CSCF) to invest alongside domestic and international investors in several venture capital funds focused on businesses in the early stages of development. Private-sector managers appointed by the Government will manage the fund.

### **Texas Instruments Establishing \$100 million Cellular Fund**

Texas Instruments (TI) is establishing a \$100 million investment fund. Company sources say

that most of the money is designated for investment in Israeli companies that have business ties with TI. The fund will invest in companies exploiting a TI-developed technology, called OMAP, based on digital signal processor (DSP) chips, which TI develops and produces. The technology is designed to enable high-speed digital signal processing for 2.5- and third-generation cellular telephones.

Possible applications of the technology include voice identification, security as well as, video and audio content streaming on cellular devices.

The investments will be made over the coming year. TI has invested to date in Israeli start-ups Surf Communication Solutions and Mysticom, and acquired Butterfly and Libit Signal Processing, which has become the corporation's R&D center in Israel, employing 250 people. Libit cofounder Prof. Ehud Weinstein, now a senior TI executive expects that most of the funds will be invested in Israel.

Almost concurrently, TI announced it will invest \$400,000 to establish two DSP laboratories at Tel Aviv University.

Previously, TI set up a \$100 million fund in cooperation with Granite Ventures in 1996, of which \$75 million has already been invested. The fund usually invested \$1-3 million in initial-stage investments in its portfolio companies. TI is one of the world's leading chip manufacturers, with the largest share of the DSP market.

### **Swiss ETF to Invest \$100 million in Israeli High-Tech Enterprises**

The Swiss investment company ETF, which manages investments totaling \$1 billion, reportedly plans to invest up to \$100 million in Israeli high-tech. The company has not yet decided on the format for its entry into Israel and is examining a number of alternatives, including investing through a local branch and Israeli venture capital funds.

ETF chairman Giorgio Ronchi was in Israel recently and held meetings with representatives of the Menorah Gaon banking group, which is expected to manage the company's investment activities in Israel. During his visit, Ronchi said that despite the situation, ETF believes that Israel is an inexhaustible source of talented high-tech companies. He expressed confidence that other groups would follow ETF in Israel. ETF has invested in two Israeli companies in the past---Versaware and IP Planet.

To date, the company has invested in 50 high-tech companies (25 in the US and another 25 in Europe). Its portfolio includes companies such as TheStreet.com, Commerce One and Mineva Networks.

### **Etgar II Fund Completes \$161 million Financing**

The Challenge Funds - Etgar L.P. has completed a \$161-million financing round for the new follow-up venture-capital fund Etgar II.

Etgar, which has so far invested only in high-tech, is "already looking into low-tech companies," President Joseph Ciechanover said. The Etgar funds were founded in 1995 by Joseph Ciechanover, who currently is concluding a second term as board chairman of El Al Israel Airlines. He is a member of the International Markets Advisory Board of Nasdaq. Other Etgar limited partners are Mickey Guter, Tamar Ciechanover, Yossi Vinisky and Doron Pat.

Investors include the Italian insurance company Generali, Bank Hapoalim and such veteran investors as companies controlled by Edgar Bronfman, who chairs Etgar's advisory board, and US agro-products giant Archer-Daniels-Midland.

Etgar does not limit its investments to any specific sector. Although 70 percent of the investments made by Etgar I were in high-tech, the

rest were in old-economy enterprises. Etgar I invested in 32 companies, about 10 of which either went public or were bought out. Etgar II has already invested in 26 Israeli startups, including ComGates, Witcom Wireless and BreezeCOM.

### **TelesciCOM in \$10 million Financing Round**

TelesciCOM, an Israeli startup, is in the advanced stages of a \$10 million financing round, at a company value of \$35 million, before money.

The financing round was led by Giza Venture Capital. The company's value reflects current high-tech company values. In early 1999, Intel invested in TelesciCOM at a company value of \$50-60 million.

Other veteran investors are Neurone Ventures, owned by E&M Computing, Nisko Hi-Tech and Ocif as well as Lasercom Investments. Neurone invested in the company in early 1998, acquiring 3.42% for \$900,000, at a company value of \$26 million.

Nisko HI-Tech invested in the same round, acquiring 1.18% of TelesciCOM shares at the same company value.

TelesciCOM develops and manufactures two-way wireless access last-mile chips.

Company chairman Joseph Ophir declined to provide details about the report.

### **Alcatel and Israeli Incubator Raising \$14 million Startup Fund**

France's Alcatel and the Israeli incubator Runway are setting up the Runway Telecommunications Fund for an expected \$14 million. Alcatel will invest half the sum, raising the other half from additional investors. The fund will invest in startups operating in

# How the Global Individual Investor Can Capitalize on Israel's High-Tech Boom

**UPDATE**

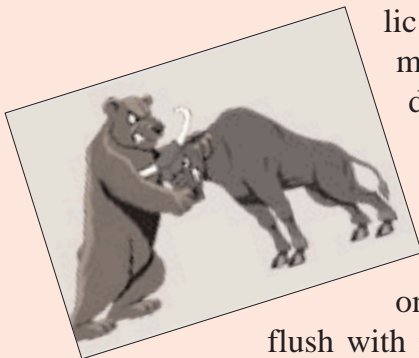
## TASE Publicly Traded Venture Capital Companies

### Results for the individual companies

<b>Sadot</b>	- 19.2 %*
<b>Teuza</b>	+ 13.2 %*
<b>Marathon</b>	- 26.5 %*
<b>Mofet</b>	- 21.9 %*
<b>Inventech</b>	- 43.5 %*
<b>Tamir Cap</b>	- 12.7 %*

\* Yields Year to Date and as of March 21, 2001

Tel-Aviv Stock Exchange publicly traded venture capital companies since they are part of the Tel-Aviv Stock Exchange and are dependent on their profits from Initial Public Offerings on the American Nasdaq or other stock markets have again moved lower in the past month. These have experienced further sharp drops, in the past month.



It is hard to pinpoint bargains in this group but we are reminded, for one example, that Tamir Fishman's capital raising exercise in the spring of 2000 of approximately \$300 million was achieved at a share prices of about \$0.84. At the current market price of \$0.42 one can buy two shares for the original price of one. The fund is still flush with money and while there is no second guessing the current market's direction these shares will undoubtedly work out well in the long run.

The Tamir-Fishman group is one of five sponsors of the VIth Annual Conference of Israel's Venture Capital industry.



the Runway incubator.

Alcatel is one of the world's largest telecoms. Runway, founded by CEO Shlomo Touboul, is an incubator in the telecommunications field with the goal of accompanying startups from the earliest idea stages up to the sale of products.

According to Touboul, the incubator gives startups immediate access to Alcatel's infrastructures and its customers, which offer them their installation facilities for testing the products.

### **VC Funds to Raise 50 percent Less this Year**

Israeli venture capital firms will raise 50 percent less money in 2001 compared to last year, predicted a report issued by the Economics Division of Israel's Manufacturers Association. The Association expects VC firms to raise about \$1.1 billion this year. The association's assessment is based on the total funds raised in 2000 and the unspent funds remaining at VC firms that had not raised additional capital last year.

The Bank of Israel further reported that the sharp fall of share prices in the US, especially on Nasdaq, has caused the postponement of planned issues by Israeli companies, totaling \$1.3 billion. In some cases, cancellations were announced after all the issue preparations had been completed. The share price falls are calling into question the ability of Israeli companies to achieve their capital-raising forecast of \$2.7 billion in cash in 2001.

Another serious problem exposed by the Bank of Israel report is that since the beginning of 1999, Israeli companies have raised \$4-5 billion on the US stock exchanges at very high price levels. These financing rounds were mainly influenced by the illusion of high prices, rather than by the companies' current needs. Israeli companies' share of capital raised by all foreign companies on US stock exchanges in 2000 was only 3%.

## Science Corner

### **Human Trials for Treating Glaucoma to Follow Weizmann Groundbreaking Research**

Scientists at the Weizmann Institute of Science have succeeded in greatly reducing the progressive loss of eyesight in animals with a glaucoma-like disease. Their research suggests that Copaxone, a drug developed at the Weizmann Institute to treat multiple sclerosis, may also stop or at least slow the loss of eyesight in people with chronic glaucoma.

Trials of Copaxone in human patients with glaucoma are expected to begin soon. The US Food and Drug Administration has already approved Copaxone for treating multiple sclerosis.

The Israeli scientists reported their study in the March 6, 2001, issue of the Proceedings of the American National Academy of Sciences. Glaucoma, the main cause of blindness in adults, affects one percent of the adult population. Most chronic glaucoma patients suffer from increased pressure inside the eye, due to defective drainage of the transparent fluid that bathes the eye and nourishes its outer cells. Increased pressure damages the optic nerve, often leading to loss of eyesight.

For many years, researchers focused on correcting the eye's drainage system to reduce pressure. Eventually it became clear that this was not enough to halt the degeneration of the optic nerve. A series of studies led by Prof. Michal Schwartz of the Weizmann Institute's Neurobiology Department showed that immunization with fragments of proteins belonging to myelin, the protective sheath of the nerves, can prevent degeneration of the damaged optic nerve. However, this can be risky because some of these protein fragments, or peptides, cause the immune system to attack nerve fibers, leading to multiple sclerosis. Look-

ing for a safe alternative, Schwartz and her group, in collaboration with Profs. Irun Cohen and Michael Sela of the Weizmann Institute's Immunology Department, demonstrated that immunization with Copaxone, a synthetic compound, protects the damaged optic nerve from neuronal degeneration. The present study sought to establish how Copaxone produces its protective effect on the nerve. This research showed that immunization with Copaxone shields the nerve from the toxic effects of the neurotransmitter glutamate. These findings strongly suggest that Copaxone immunization is a potential therapy for glaucoma, in which the optic nerve undergoes degeneration and glutamate levels rise.

In another series of experiments, conducted with scientists from the US company Allergan, immunization with Copaxone dramatically protected the nerve from pressure and chemically induced damage. Only about 4 percent of nerve cells died in glaucoma-affected eyes of rats immunized with a single injection of Copaxone, compared with 28 percent in non-immunized rats.

### **Israel Denies Cloning Experimentation**

The Israel Health Ministry said that cloning human beings is illegal in Israel. Responding to reports that a reproduction team planned to begin the first cloning of a person in Israel within a year, Health Ministry legal adviser Miriam Higher told Israel radio that a 1999 law prohibits human cloning. "The person who clones is guilty of a criminal offense," she said.

A cloning team led by Panos Zavos, a reproduction researcher who recently resigned his post at the University of Kentucky, was quoted as saying that it planned to produce the babies in an unnamed Mediterranean country.

The team includes Italian fertility doctor Severino Antinori, known for helping women past

menopause conceive. Antinori has said that a human would be cloned within a year. The Italian news agency ANSA quoted Antinori as saying it would "very probably" be Israel.

The German weekly *Der Spiegel* said the venue would be in Caesarea, an Israeli coastal resort. Israeli researcher Dr. Avi Ben-Abraham, who is said to be a member of the cloning team, has said that Judaism is more favorable to cloning than Roman Catholicism.

The possibility that Israel could become the site of the first cloned baby has resulted in a heated national debate. Israel has been receptive to innovations in reproduction technology, and the country has a large number of fertility clinics. Practices such as in vitro fertilization are widely accepted. However, no senior political or religious figure has spoken out in favor of cloning. "Generally, Judaism considers in positive light any development in medical technology, on the condition that it is intended to save life, to solve problems of fertilization and regarding life expectancy," Israel's Chief Ashkenazi Rabbi Israel Meir Lau was quoted in *Maariv*, an Israeli daily newspaper. "Regarding the case of cloning a baby, it is still not clear of its necessity and we should relate to it cautiously." Israel's Chief Sephardic Rabbi Eliyahu Bakshi-Doron was more emphatic: "The idea of cloning people is against (Jewish) religious law." Adam Freedman, a geneticist from Hebrew University, stressed that existing law ensured that cloning would not be allowed. "The law prohibits for five years, starting from last year, any experiment that at the end could result in the cloning of people. There is no possibility of cloning a person," in Israel, he told Israel radio.

An Israeli Health Ministry official, responsible for ethics, said he did not know of any Israeli laboratories that were involved in cloning animals but that it was not illegal to do so in Israel.

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# ISRAEL HIGH-TECH MODEL MILLENNIUM PORTFOLIO

3/21/2001

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	Quantity		Commission	Open Amount	Current Value	Gain/Loss
Millennium Portfolio						
AudioCodes Ltd.		AUDC		Price as of 3/21/2001: 7.938		
Total:	9,350		\$0.00	\$100,073.05	\$74,220.30	(\$25,852.75)
BreezeCom						
Total:	8,300	BRZE	\$0.00	\$100,122.07	\$50,322.90	(\$49,799.17)
Check Point Software Tech						
Total:	3,450	CHKP	\$0.00	\$254,150.01	\$177,461.10	(\$76,688.91)
Comverse Technology, Inc.						
Total:	2,700	CMVT	\$0.00	\$245,870.10	\$149,512.50	(\$96,357.60)
Orbotech Ltd.						
Total:	3,000	ORBK	\$0.00	\$104,061.00	\$78,564.00	(\$25,497.00)
Precise Software						
Total:	4,300	PRSE	\$0.00	\$96,212.50	\$70,150.20	(\$26,062.30)
Retalix Ltd.						
Total:	10,200	RTLX	\$0.00	\$99,450.00	\$103,275.00	\$3,825.00
Millennium Portfolio			\$0.00	\$999,938.73	\$703,506.00	(\$296,432.73)

**As Nasdaq fell to a 52 week low the shares of the Israeli Companies on Wall Street fell precipitously. CheckPoint and Comverse did not announce profit warnings but fell anyway. Since the start of 2001 the portfolio is down by 27%.**

The ISRAEL HIGH-TECH MODEL MILLENNIUM PORTFOLIO is a simulated portfolio We accept no responsibility for investment results based on the Model Portfolio.

### **Earnings Revisions and Changes in Recommendations in Portfolio Holdings**

Goldman Sachs cut Orbotech Ltd. (Nasdaq:ORBK), announced that it has removed Orbotech from its U.S. recommended for purchase list as it sees the automated optical inspection equipment maker's business slowing faster than expected. It lowered its 2001 earnings per share estimate to \$2.53 from \$2.80. It also lowered its 2001 revenue outlook to \$420 million from \$444 million. Goldman Sachs added that it believes inspection equipment revenue could see sharper slowdowns than initially forecast. The brokerage said its longer-term view is very positive

### **BreezeCOM Revises Outlook to Below Wall Street Estimates**

BREEZECOM (Nasdaq:BRZE) revised its quarterly and yearly revenue projections, which fell significantly below Wall Street consensus estimates, and said the U.S. economic slowdown had temporarily impacted growth. BreezeCOM said it expects break-even earnings and revenues of \$23 million to \$26 million in the first quarter, an increase of between 47% and 67% over year-ago revenues. The company posted a per-share loss of 1 cent in the first quarter of 2000. Earnings for the entire year 2001 should come in at 15 cents to 20 cents per share, the company said in a press release. BreezeCOM said it expected \$120 million in sales in 2001 as compared with an earlier announced expectation of \$150 million in revenues for all of 2001.

### **AudioCodes Revises its Forecasts Downwards**

AUDIOCODES LTD. (Nasdaq:AUDC) warned that its first-quarter results will be lower than anticipated due to the economic slowdown. AudioCodes, based in Yahud, Israel, said in a release that it now expects earnings of 5 to 7 cents a share. Analysts' consensus forecast is 13 cents per share, according to a survey by research firm

First Call/Thomson Financial. The company also said it sees first-quarter revenues of \$13.5 million to \$15 million, compared with its previous estimate of \$20 million. The company is currently in several trials with several customers for the media gateway product and revenues from this line could steadily increase in 2001. Growth in the VoIP gateway area has historically come from the replacement market, although implementation within the switching market and within digital-loop carriers is a high-growth market and has the potential to make solid contributions to VoIP gateway revenues.

### **Comverse Beats Estimates and is Optimistic as to Future**

Comverse Technology (Nasdaq:CMVT) reported 4Q EPS of \$0.41 vs \$0.30 in the prior year period, on revenues of \$347 mln vs \$252 mln in 1999. Analysts' mean estimates were \$0.39, according to First Call. 2000 FY EPS were \$1.47 vs \$1.09 in the previous year. It announced for the fourth quarter of fiscal year 2000, ended January 31, 2001, net income growth of 48%, to a record \$76.9 million (\$0.41 per diluted share), compared with \$51.9 million (\$0.30 per diluted share) for the fourth quarter of fiscal 1999. The company posted record sales of \$346, for the fourth quarter of fiscal 2000, an increase of 37% over the fourth quarter of fiscal 1999. For fiscal year 2000, ended January 31, 2001, net income was \$264.0 million, or \$1.47 per diluted share (excluding one-time acquisition charges, net of tax, of \$14.8 million, or \$0.08 per diluted share), an increase of 51% over the net income, excluding one-time acquisition charges, of fiscal 1999. Sales for fiscal 2000 were \$1.22 billion, an increase of 35% over fiscal 1999. Kobi Alexander, Chairman and CEO of Comverse Technology, stated, "Our fourth quarter results reflect our leadership position in our major markets. More than 360 wireless and wireline telecommunications network operators have selected Comverse's enhanced services systems and software, which enable the provision of revenue-generating value-added services including call answering, wireless data and Internet-based information services, prepaid wireless services, Internet-based unified messaging (voice, fax,

and email in a single mailbox), one-touch call return, voice-controlled web portal and other speech recognition-based services, and additional personal communication services. And despite the U.S. economic slowdown, Comverse raised its outlook for its current fiscal year. "As communication providers face increasing competition and the commoditization of connectivity and transmission, enhanced services will continue to play an increasingly important role in the generation of revenues in our company," Comverse Chairman and Chief Executive Kobi Alexander said during a conference call with analysts. For the three months ended Jan. 31, the Israeli-based company said earnings rose 48 percent to a record \$76.9 million, or 41 cents a diluted share, from \$51.9 million, or 30 cents, in the same period a year earlier. Analysts had expected the company to earn 39 cents a diluted share, according to First Call/Thomson Financial. Revenues rose 37 percent to \$346.6 million from \$252.1 million in the fourth quarter 1999. Comverse supplies enhanced services systems and software, which allow its 360 wireless and wireline telecommunications service providers to offer their customers revenue-generating value-added services including call answering, wireless data and Internet-based information services. Customers can also be offered prepaid wireless services, Internet-based unified messaging (voice, fax, and e-mail in a single mailbox), one-touch call return, voice-controlled web portal and other speech recognition-based services, and additional personal communication services.

Sales for fiscal 2000 rose 35 percent to \$1.225 billion. "With strong sales and orders, good visibility, expanding market share and favorable market trends we are optimistic about our future," Chief Financial Officer David Kreinberg. With that, the company raised estimates for next fiscal quarter and the year and gave additional guidance for each of the quarters within the year. Comverse now expects revenue for the fiscal first quarter ending in April "not to exceed" \$356 mil-

lion and earnings "not to exceed" 42 cents a share, above analysts' current expectations. The company traditionally uses the expression "not to exceed" to guide published research. However its goal, which it almost always achieves, is to beat the guidance. For fiscal year 2001, the company says it expects earnings not to exceed \$1.518 billion and earnings of \$1.78 per share. Analysts had expected the company to earn 41 cents a share in the fiscal first quarter and \$1.47 a share for the year, according to First Call/Thomson Financial.

The company said it ended the quarter with cash and cash equivalents, bank time deposits and short-term investments of \$1.735 billion, working capital of \$1.86 billion, total assets of \$2.6 billion and stockholders' equity of \$1.24 billion

### **Nasdaq, Not Intifada, Regulates Inflow of Capital to Local High-Tech Firms**

The amount of capital Israeli high-tech firms raised in 1999-2000 was closely related to the up and down movements of the Nasdaq index, according to a new study by IVC Online. Private financing rounds attracted more funds as the Nasdaq rose, and fell off as the index of technology shares retreated.

Eran Mordechai, the manager of IVC Online, says the study disproves the conventional wisdom that the security situation is the bellwether of high-tech investment.

"Statistics indicate clearly that it is Nasdaq that is critical for high-tech companies, not security threats," Mordechai says.

### **Israeli Firms Raised Record Level of Capital Abroad in 2000**

Israeli companies raised a record high of \$4.3 billion overseas in 2000. Since 1995, Israeli companies have raised a total of \$12.4 billion in public financing, according to data released by the the Bank of Israel, which monitors capital movements. The capital-raising abroad made up more than half of all foreign investment in Israel

in recent years. In 2000, Israeli firms raised \$2.8 billion through share issues, \$1 billion by means of bonds and \$0.5 billion through convertible bonds. Some \$2.7 billion was raised in the United States in 2000, of which \$2.4 billion came from shares and convertibles and the rest from bonds. Some 38 Israeli companies raised capital in the United States last year, almost all of them in the Internet and software fields. By the end of 2000, some 125 Israeli companies were trading on U.S. stock markets, most of them on Nasdaq. Their total market value came to \$49 billion. Nasdaq has fallen an additional 20% since the beginning of 2001, eroding this figure.

Israeli companies continue to maintain their position among foreign companies traded in the United States. Of the 51 foreign firms that conducted initial share issues in the United States in 2000, 14 of them were Israeli companies. Companies such as Comverse, Amdocs and Mercury, which have most of their operations in Israel but are registered abroad for tax purposes or be closer to their market, raised a record \$5.8 billion in 2000. Some \$900 million of this sum was transferred to Israel for investment in Israeli companies linked to the foreign-registered firms. The forecast for 2001 is that Israeli companies will raise some \$2.7 billion abroad, about the same level as in 2000. About \$1 billion of the sum is expected to be raised through bond issues, a sector which has so far been immune from falling equity markets.

Last year also saw a continued increase in the capital raised by Israeli firms in Europe, an alternative source of funds, particularly for companies involved in the medical sector. Israeli firms raised a total of more than \$1.3 billion on exchanges in Zurich, Frankfurt, London, Brussels and Luxembourg. Of that sum, \$0.9 billion was in shares and convertibles. At the same time, there was also a substantial increase in the number of Israeli firms traded in Europe---from two companies in 1996 to 29 companies by the end of 2000. The market value of Israeli compa-

nies traded in Europe was \$0.4 billion at the end of 1998 and \$9 billion by the end of 2000. The increase in the number of Israeli firms trading in Europe was largely due to an easing of registration requirements for these stock exchanges compared to those for Nasdaq. Israeli companies were able to obtain high valuations for biotechnology and medical issues. These stock exchanges also allow relatively small issues to be traded. In comparison to the attraction for foreign stock exchanges continued to hold for Israeli companies, the local Tel Aviv stock exchange provided few incentives for such firms. The high-tech sector raised only \$400 million on the Tel Aviv exchange in 2000--a relatively small portion of the \$2.3 billion total raised on the local exchange by Israeli firms in general.

The quality of the companies, the lack of market depth and the relatively low share-price assessments for companies with large potential growth, have prompted Israeli companies to turn abroad for their capital requirements. The regulations for dual listing which were introduced last year in Tel Aviv are intended to help bring them back to the local stock exchange.

### **Finance Ministry Official Optimistic on Economic Prospects**

The Bank of Israel report caused a flurry of comments from various Government and industry sources. "Foreign investors have not lost their interest in Israel and are not at all concerned about security issues," Ms. Vered Dar, deputy director of the Economics and State Revenues Division at the Finance Ministry, was quoted in a published interview. Dar suggested that what worries the foreign investor is the state budget and the possibility of changes in taxation. She attributed the slowdown in Israel's economy in the fourth quarter of 2000 mainly to external reasons. These included the world economic crisis and especially the American economy, the Nasdaq declines, and the Intifada. She

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Dar voiced optimism that "an improvement in one or more of these factors will lead to a real improvement in the Israeli economy." In Dar's view, the business cycle turned upward during the second quarter of 2000. If not for the mainly external factors which hampered tourism and the building industry in the last quarter of 2000, the economy would have grown by a handsome rate of about 5 percent in 2001, Dar said. This year will be a period of transition, with economic growth of about 2 to 3 percent, but an upswing will kick in sometime in 2002, she predicted.

This is especially likely if the American economy makes a quick recovery, she said.

The treasury official makes a distinction between high-tech firms and startups. High-tech companies, she explained, are already an integral part of the economy, contributing about 18 percent of growth in 2000. Startups, on the other hand, are another story, according to Dar. She expects fewer startup ventures to be launched this year, especially in light of the Nasdaq crisis, but does not foresee a drastic reduction in this area. Dar noted that the 6 percent economic growth in 2000 was not due to startup successes alone. Without factoring-in startups, the economy still grew by 4 percent, double the 1999 rate. Startup firms have less impact on employment figures, according to Dar, who said that even if hundreds of engineers and technicians lose their jobs in startups this year, they should have little problem finding new jobs.

The steep decline in economic growth during the last quarter of 2000 was a temporary phenomenon, Dar said, noting that the economy is slowly starting to work its way upward.

However, exports of industrial goods, for January and February had not shown any signs of rebounding. The Central Bureau of Statistics reported that they fell by 2.5% since the beginning of 2001.

### **British Trade Missions Visit Israel**

The British Embassy has hosted three recent trade missions, bringing more than 35 British companies to Israel to explore trade opportunities and possible joint ventures. Bilateral trade figures for 2000 have exceeded £2.5 billion, with an increase of 17% of UK exports to Israel. Israel remains one of the most important trade destinations in the Middle East for UK business. Eight British biotech companies visited Israel in January. The delegation visited Pharmos, D-Pharm, Pro-Neuron and Mindset, as well as Tel Aviv University, Weizmann Institute and Hadassah Hospital.

### **Increased Cooperation between India and Israel in the Hi-Tech Sector**

Two-way trade between India and Israel crossed the one-billion-dollar threshold for the first time – reaching \$1.1 billion in 2000. This figure does not include \$50 million of trade in software, according to the National Association of Software and Service Companies of India. For 2001, the Israeli Association of Software Houses estimates a \$40 million to \$70 million turnover. Bilateral trade, since the opening of diplomatic relations between India and Israel in 1992, has increased five-fold. It stood at \$678 million in 1998, jumped to \$994 million in 1999 (increase of 46%) and showed another substantial increase of 11% at the end of 2000.

Amiram Shore, Chairman of the Israeli Association of Software Houses, was a keynote speaker at the Confederation of Indian Industry's Partnership Summit in early January in Hyderabad, India. Upon his return to Israel, he was enthusiastic about his impressions of the rapid progress achieved by the Indian hi-tech industry since his last visit to India. He pointed to the rapid growth of the Cyber City project in Hyderabad, and the change in attitude among Indian entrepreneurs, who were now on the lookout for new technologies, in contrast to the past when their priority was, sales.