

ISRAEL HIGH-TECH & INVESTMENT REPORT

A MONTHLY REPORT COVERING NEWS AND INVESTMENT OPPORTUNITIES

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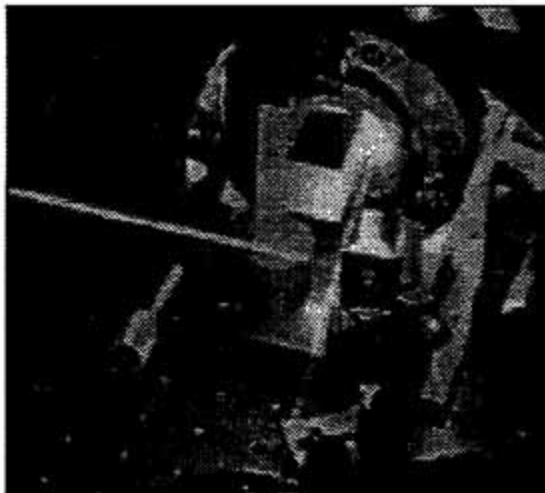
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\$\$\$ EMERGING MEDICAL PROJECTS \$\$\$

Most of the money invested in Israeli technology is in software. As a result the country's exports have increased by several billion dollars. The software industry, with 300 software houses and over 8,500 scientists and engineers, exported an estimated total of \$400 million in 1996. The Israeli computer industry is growing 20% annually, according to International Data Corporation, the information technology industry's most reliable source of information. Most notably, Israel's software exports are affected by the Internet explosion. Israeli software developers exploited the Internet hype in order to capitalize on the global need for Internet software and applications. Using its strong base of highly skilled software developers, Israel has now become one of the world's leaders in Internet software development. Yet, due to the highly competitive nature of the industry, this and next year may see a major "shakeout" where many of the young software companies will be swallowed by Microsoft, Netscape and Cisco or the like or swept away by new technologies. Software companies enter markets quickly but many find business progress rocky.

The next exciting area of technology, which in my view is likely to attract worldwide attention and increase Israel's economic prowess, is that of medical equipment. To medical systems and diagnostic products companies we add pharmaceuticals and biotechnology companies. Medical products unlike software programs require strict government regulatory examinations before being marketed. The

Gas Laser Used in Surgery



United States, the world's largest market, imposes the strictest sets of regulations regarding approval of new products. Time consuming and costly clinical trials are prerequisites for the granting of marketing approval by the Food & Drug Administration. Israel's hospitals are approved for clinical trials by the Federal Drug Administration.

Multinational companies count on getting clinical trials done here and they take advantage of the world class reputation that these hospitals enjoy in the international medical community. Merck, Bayer, and Hoffman LaRoche are among the many companies conducting clinical trials here. Small companies, taking advantage of Israel's medical strengths, are prospering as well. An American company named Angiosonics researched and developed at a Tel Aviv Hospital a unique system that virtually explodes plaque into harmless particles in arteries. The development was cited recently in professional publications and in the international press as a major "breakthrough" in the treatment of heart disease. The patented system that has undergone extensive trials in Israel and in other

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Der Spiegel Feature

Information Technology Market Surges Ahead.

Subscription: Bulk copy and reprint information available on request

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international medical centers. Angiosonics is poised for commercial success as are other commercial companies such as Spegas, Combact and Myriad. They are just some among scores of companies which will make their mark positively on the commercial scene.

Moreover, the speed at which new projects surface will accelerate as the country's hospitals increase their research activities. Hospitals have the advantage of an existing, highly valuable infrastructure and the availability of researchers and experienced medical practitioners. A further advantage is the quality of its medical staff and researchers, recently grown in size as a result of the Russian immigration. "Israeli geography" namely the sheer smallness of the country itself, is another positive factor as it allows for easy interaction between researchers in different disciplines. Six leading hospitals are located within 90 minutes driving distance from Tel Aviv. Dr. Martin Lapidot, deputy general manager of the Rabin & Golda Medical Center, (formerly Beilinson), points out that sponsored medical research and development and pre-certification trials are a growing specialty. These activities have resulted in a number of outstanding medical developments including a procedure for the relief of prostate cancer and a highly popular treatment for the removal of kidney stones with a non-invasive system which crushes the kidney stones so that they can be removed naturally by the human body. I have recently undergone such a procedure at Tel-Aviv's Ichilov-Sourasky Medical Center. I underwent the non-invasive stone crushing procedure at 6 p.m. and was released the next morning.

"Clinical trials are a tool for creating funds for research and development. The large companies like Bayer and Roche have budgets greater than that of Israel and it is a substantial business for the hospital. Working with these companies exposes our staff to international expertise," says Gad Gilat, Professor of Science and Coordinator of Clinical Trials at Asaf Harofe Medical Center, a large Government hospital. The trials can turn out to be very profitable for the hospital. "A department head may organize trials which earn a profit for the hospital of 40-50% of the budget," says Gilat.

However, is the expansion of clinical trials an unmixed blessing? Far from it. "The medical researchers running the clinical trials have to

move within a narrow range of activity prescribed by the sponsor. It tends to suppress creative research," says Dr. Hylton Miller, head of the catheterization department and a researcher whose advice is sought by commercial companies. Miller looks ahead to establish, in the foreseeable future a \$2 million research center at Ichilov-Sourasky. The research and development at all levels in the medical field is becoming widespread but this new, powerful trend will be felt fully only as the projects yield products, result in sales and, in due course, big dollar exports.

It is Gratifying to be on the Right Side of the Angels: an IHTIR OP-ED

In addition to culling sources, interviewing scientists, entrepreneurs and venture capitalists for articles in this newsletter we try to pinpoint public companies which appear to have investment merit. Most local companies traded on non-Israeli stock exchanges fall below the generally recognized minimum market capitalization of \$100 million to qualify as an investment for institutional investors. Of the several companies who have received broad coverage in these pages and have not, nor are expected, to disappoint in the foreseeable future are Gilat Satellite Systems (Nasdaq:GILTF), NICE Systems Ltd. (Nasdaq:NICEY), and Silicom Ltd. (Nasdaq:SILCF). Gilat and NICE Systems, besides having products based on unique technologies, also have an extra ingredient namely: good management.

Gilat's 1Q97 showed strength in the bottom line as well in terms of sales. \$3.1 million net profits on sales of \$21.1 million as compared with \$2.7 million and \$15.5 million respectively a year ago. Moreover the company completed a \$75 million private placement. At the time of the earnings announcement, Gilat had a current market capitalization of more than \$340 million. It was considerably less a number of years ago when it debuted. NICE has a market capitalization of \$160 million - it was less than \$65 million when it went public in 1996. Analysts who follow these companies are predicting a growing stream of sales and earnings. As for Silicom Ltd., since the company's market capitalization is under \$30 million, institutions and investors are, as yet, not buying. However, we believe that at current price levels, today's investors will be well rewarded as the company's management is not likely to disappoint.

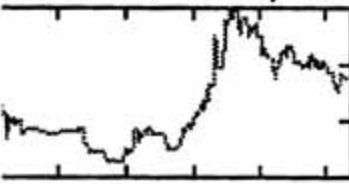
UPDATE

Silicom Posts 130% Increase in Revenues for Q1 1997.

Silicom Ltd (Nasdaq:SILF) reported Q1 fiscal 1997 revenues increased sharply by 130% to \$2.65 million from \$1.5 million in the same quarter of last year. Net income rose at an even faster rate 254% to \$308,000 or \$0.08 per share from \$87,000 or \$0.02 per share in the same quarter in 1996.

Silicom experienced significant sales growth in all its main product lines as well as in its main marketing channels in the quarter just ended. Sales of the company's PC Card products to strategic OEM part-

SILCF as of 19-May-1997



I Sep Nov Jan Mar May

ners and world-wide distributors as well as purchases by leading US-based PC manufacturers of Silicom's PLA products, continued to grow.

Increased sales of the Silicom's multi-function PC Card products significantly contributed to the company's record sales in the quarter.

Software Firms Rated Among Israel's 150 Largest Companies For First Time

In Dun & Bradstreet's latest report on Israel's leading 150 companies, software and computer companies appear for the first time. The companies are those with over 50% of their activity in software development. Formula leads the list of largest software development companies, with a turnover of \$109.5 million and over 60% growth in 1996. Formula is ranked number 66 in the list of the 150 largest industrial companies. Mashov Computers is the second largest software company with \$51.4 million turnover and 8% growth in 1996. Third place goes to Techem with a turnover of \$47.7 million but a low 2.8% growth rate.

Software companies Tecnomatix and New Dimension, ranked fourth and fifth, reported significant growth rates last year of 33% and 22%. On average, the software industry grew by 35% in comparison with the previous year. Among the largest companies in computer and software sales IBM Israel, the Aurec group, and Digital kept their places in the opening threesome, with Digital showing the highest rate of growth among the computer companies - over 30%, and sales of \$190 million. IBM's sales were \$290 million, and Aurec's \$210 million. The high-tech sector stands out for its rates of growth. 6 out of the 10 industrial companies with the highest rates of growth are high-tech companies.

Leading the list is Orbot Instruments, with an impressive 433% growth rate in 1996, and sales of \$44 million. Behind it are ranked El-Op (100% growth), Teledata (78%), Efrat Future Technology (69%), Formula (62%), and Opal Technologies (44%).

Other electronics companies which stood out last year for their rates of growth are ECI Telecom, which increased its activity by 30%, Intel Electronics, which grew 28%, and Motorola Israel, with a growth rate of 26% in 1996.

The Israeli high-tech sector (electronics and software) grew against a background of a slowdown characterizing many sectors of the economy. Electronics industry revenues rose 24.8% in 1996 to \$11.3 billion, representing 37.2% of the activity of industry's entire top flight companies. If software companies and software and computer dealing companies are added, high-tech activity in Israel amounts to some \$13 billion.

Silicom Ltd. is primarily engaged in the design, manufacture, marketing and support of modular, miniature connectivity products which combine hardware and software to enable PCs (including notebook, laptop and handheld), to interface with Local Area Networks and Wide Area Networks.

Comverse Technology

Founded by a former Israeli intelligence specialist, Comverse makes specialized telecommunications products.

Its AUDIODISK is a monitoring product based on rewritable optical disk technology, used by police and surveillance agencies, correctional institutions, emergency "911" services, financial institutions, and telemarketers.

TRILOGUE is a multimedia messaging and information processing system. Aimed at markets in emerging countries where phone lines are scarce and expensive, TRILOGUE supplies an electronic mailbox that takes voice messages 24 hours a day and can be accessed from a public phone.

Speeding to a New Record

The purest semiconductor in the world, made from gallium arsenide, has been produced at the Weizmann Institute's Center for Submicron Research. This material allows particles

to travel record distances without collision. Until recently, Bell Labs of the US held the record. The length of time needed for electrons to move inside an electronic processor's ingredient material is one of the factors determining the efficiency and speed of that processor. In order to minimize that period of time, either the processor can be reduced in size to a minimum, or the speed of the electrons can be accelerated. This speed is dependent on the purity of the material, to which the Weizmann Institute scientists have made a contribution. Research was carried out in a new laboratory, set up at the Institute, containing the world's most advanced vacuum machine. Electronic components based on gallium arsenide are slated to serve as the electronic processors of computers as we enter the 21st century.

Wall Street Journal To Use BackWeb Technology To Push Personal News

The Wall Street Journal (WSJ) has adopted an Israeli developed software system to broadcast news over the Internet. The WSJ interactive Internet edition (<http://wsj.com>) now offers a new service called "Personal Journal News Alert" which automatically supplies news items to the subscriber according to his desired subjects.

Jerusalem-based BackWebb activities are based on Internet Broadcast technology which facilitates the supply of information according to the subscriber's demands, whether or not he is surfing the Net at any particular moment.

The newspaper follows and searches articles and information requested by the user's profile. Options include company names, keywords, and up to 25 stock and fund prices. At the same time, headlines and flash bulletins on related subjects are displayed.

BackWeb displays the headlines and Internet stories in the background, without disturbing ongoing work, and uses those packets of time that the subscriber does not use on his communication line to the Internet. BackWeb develops and markets broadcast software called "push" technology. More than 40 companies now supply content or program applications to personal computer users connected to the Internet, by means of the company's client software. BackWeb was founded in 1995 by BRM Technologies.

Teledata's 1Q97: EPS Doubles to \$0.22

Teledata Communication Ltd (Nasdaq:TLDF) reported a 100% gain in sales for the first quarter ended March 31, 1997, to \$19.2 million compared with \$9.6 million in last year's first quarter. The company also posted a substantial gain in net income of \$2.5 million, or 22 cents per share, compared with \$1.1 million, or 10 cents per share in the first quarter of 1996.

Teledata designs, develops, manufactures, markets and supports advanced wireline and wireless customer access network equipment for telephone operating companies worldwide. Its products allow telephone companies to enhance the capacity, reach and functionality of the network transmission links that connect subscribers to the local exchange, generally known as the "local loop" or "customer access network."

Genes Enable Tomatoes to Resist Wilt Disease Findings will Facilitate Tomato Breeding

A group of genes that makes tomatoes resistant to wilt disease has been discovered in an Israeli-American study headed by Prof. Robert Fluhr of the Weizmann Institute of Science. The finding, reported in the current issue of *The Plant Cell* (volume 9, issue 4), is expected to speed up the breeding of new disease-resistant varieties and reduce the need for chemical spraying.

Wild tomatoes - not cultivated varieties - are naturally resistant to wilt disease spread by the soil-borne *Fusarium oxysporum* fungus. Once a widespread blight plaguing tomato crops, *Fusarium* wilt disease was largely brought under control through classical breeding techniques.

However, breeding new varieties through this method is a laborious process that can take years because it entails producing many successive generations of hybrid plants in which the undesirable traits have been eliminated but the beneficial ones retained. The new study facilitates this process by providing molecular markers allowing breeders to simply trace the genetic makeup of new hybrids rather than test for it at each stage. The findings also pave the way for genetically engineered new varieties with an optimal mixture of desired properties.

"In the absence of genes that endow plants with natural resistance to disorders such as wilt disease, farmers must rely on extensive chemical spraying and soil treatment," says Prof. Fluhr, a member of the Weizmann Institute's Plant Genetics Department. "By imparting natural self-defense capabilities to plants," Fluhr says, "we reduce the amount of dangerous chemicals entering the environment."

UPDATE

NICE Systems Ltd. ADR NICEY

1Q97 Net Income more than triples to \$2.15 Million

NICE Systems Ltd. (Nasdaq:NICEY) reported very strong growth in revenues and earnings. Net income for the first quarter of 1997 rose to \$2.15 million or \$0.28 per share compared with \$640,000 or \$0.09 per share in the previous year's first quarter. Revenues for the quarter were up 64 per cent to \$13.3 million compared with \$8.1 million during the same quarter last year.

We noted that investment bankers Lehman Brothers have raised their 1997 earnings estimate for NICE citing a strong first quarter by the Israeli computer telephony company. NICE earned \$0.02 a share more in the first quarter than Lehman's estimate of \$0.26. Lehman also upgraded its estimate of NICE's earnings per share (EPS) to \$1.29 from \$1.26 for 1997 and maintained its 1-Buy rating for NICE and considers that strong revenue and earnings momentum should allow the company's shares to trade at a premium to the voice processing group, or at least 25 times the revised 1997 estimate of \$1.29 a share.

NICE Systems is a leading global provider of Computer Telephony Integration (CTI) logging, monitoring and management solutions for voice,

fax and data. Notable recent announcements have been that NICE was awarded new significant contracts by Chase Manhattan Bank and Halifax Building Society in the UK, and the selection of

NiceLog™ Digital Voice Logging System by the Austrian Air Traffic Control. The Halifax Building Society, a major British financial institution, has chosen to incorporate the NiceLog voice recording and retrieval system as part of an innovative call center solution for recording client transactions through Computer Telephony Integration (CTI) technology by incorporating NiceLog through an Application Program Interface (API). The application gives center operators the ability to selectively record customers on line, and retrieve the conversations when needed.

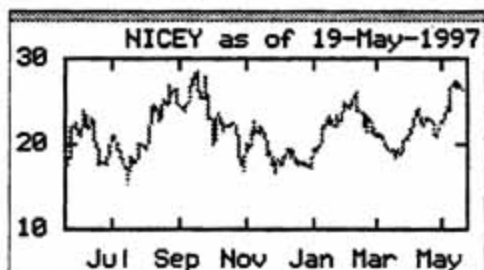
A project manager at Halifax Direct, says that the development of this facility was part of a comprehensive plan by Halifax Direct to offer its customers the most efficient and secure facilities for their telephone transactions.

"The recording of telephone conversations is a very important aspect of the call center's function. It allows us to selectively record conversations for the protection of our customers, which involve debit card transactions, the transfer of large sums or if a client requests that a conversation is recorded," explained the executive.

NiceLog 6.0 is a disk-based CTI voice logger which provides functionality aimed at the call center market. The product provides continuous, high quality digital recording and archiving of telephone conversations.

Economist Ranks Israel Third Among Emerging Markets

The Gross National Product per capita in Israel has reached \$20,000. According to "The Economist" Israel ranks third among the 25 emerging markets. Hong Kong and Singapore took first and second place, with GNP of \$22,950 and \$22,770 respectively.



Check Point FireWall-1 Continues to Garner Top Industry Honors

Market-Leading Network Security Solution Wins NetWorld+Interop

Singapore and Network Magazine Awards. Check Point Software Technologies Ltd. (Nasdaq:CHKPF), a leader in comparing security software announced that its award winning Check Point FireWall-1 enterprise security software suite has

received two additional industry awards. At NetWorld-Interop '97 held recently in Singapore, FireWall-1 was awarded Best Internet/Intranet Product honors in the Best of Show awards sponsored by LAN Magazine's Asian Edition. In addition, Network Magazine awarded FireWall-1 the best firewall product honors in the firewall products category in its "1997 Products of the Year" cover story appearing in the May issue.

Tecnomatix: Net Income Increased by 95%

Tecnomatix Technologies Ltd. (Nasdaq:TCNOF) announced results for the first quarter ended March 31, 1997.

Revenues for the first quarter of 1997 increased by 29% to \$12.3 million from \$9.6 million for the same period in 1996. Net income increased by 95% to \$2.1 million or \$0.20 per share, from \$1.1 million or \$0.13 per share, for the first quarter of 1996.

Tecnomatix Technologies Ltd. is a leader in the market for computer-aided production engineering (CAPE) software products. The company develops, markets and supports CAPE products that allow production engineers to create virtual machines and production equipment models, interactively arrange them into a virtual manufacturing line and manipulate them to perform on-screen manufacturing activities.

Wiztec Wins Second Austrian Project with Siemens Unit

Wiztec Solutions Ltd. announced it has seized another slice of Austria's cable TV market by signing an agreement with Kabelsignal Holding, Austria's second largest cable TV operator with 130,000 subscribers, to supply the WIZARD Subscriber Management and Billing System. Kabelsignal is a unit of Siemens AG Austria.

The contract follows a successful implementation of WIZARD at Telekabel Wien, Austria's largest cable TV operator with 450,000 subscribers. Telekabel went live with WIZARD in February. WIZARD will enable both Kabelsignal and Telekabel to offer subscribers enhanced Pay TV options as well as Pay Per View and Internet access.

Wiztec supports, develops, and markets WIZARD, one of the most comprehensive and advanced Subscriber Management Systems (SMS) available for multi-channel subscription television operators.

MEMCO Announces Strong First Quarter 1997

MEMCO Software Ltd. (Nasdaq: MEMCF) announced its Q1 1997 revenues of \$4.5 million compared with \$2.1 million recorded in the same period a year ago. Net income totaled \$1.2 million versus \$0.1 million in Q1 1996.

A leading provider of advanced information security solutions, MEMCO software offers a comprehensive product set designed to address enterprise security concerns. MEMCO's solutions effectively enforce, administer and control security and productivity in distributed environments.

Accent Reports First Quarter 1997 Results

Accent Software International Ltd. (Nasdaq: ACNTF) announced Q1 revenues of \$727,000 compared to \$222,000 for Q4 of 1996. Losses during the first quarter of 1997 were \$2 million compared to a loss of \$5 million for Q4 of 1996. Accent Software International Ltd. is a provider of language solutions for software products in over 30 languages, and Internet automation products.

Tadiran Telecommunications Ltd - Buy

We have noticed that Salomon Brothers, the US investment bankers, initiated coverage of Tadiran Telecommunications with a buy recommendation describing the shares as undervalued when compared with others in the same group. They estimate an average annual growth of the company over the next few years to be around 15 - 20%. Earnings per share for 1997 are projected at \$1.72 and \$2.0 for 1998 with a share price target of \$24-\$30 in the next year.

The Israel-based company, 80% owned by Tadiran, develops, manufactures and sells worldwide, a wide range of telecommunications equipment and systems.

ESC Medical Systems Ltd. Announces Record 1997 Q1 Results

ESC Medical Systems Ltd. (Nasdaq:ESCMF) announced record results for Q1 ended March 31,

1997. Net sales for the first quarter of 1997 more than doubled to \$23.0 million compared to \$10.1 million in the first quarter last year. Net income in the first quarter, increased to \$5.7 million compared to \$2.4 million in the same period of 1996. These results for the first quarter of 1997 and the comparison quarter of 1996 include the operations of Luxar Corporation, which ESC recently acquired.

In the past few months ESC received U.S. FDA clearances for the Topaz™ 30 and Derma™ 20 lasers, both of which address general dermatological applications, including the fast growing skin resurfacing applications.

ESC Medical Systems Ltd. develops, manufactures and markets medical devices utilizing both state-of-the-art lasers and proprietary intense pulsed light source technology for non-invasive treatment of varicose veins and other benign vascular lesions, as well as for hair removal, skin cancer, skin rejuvenation and other clinical applications.

NetVision Acquires NetMedia for 3% of NetVision's Shares Plus \$250,000

Internet service provider NetVision, owned by Elron and NetManage, signed an agreement to acquire competitor NetMedia.

NetVision, which is Israel's largest Internet service provider, has a subscriber base of 45,000. NetMedia has 5,000 subscribers. The primary reason for the NetMedia acquisition is NetVision's need for additional trained personnel.

NetVision recently reported \$2 million losses in for 1996, despite growing subscriber base. The company is Israel's leading Internet provider and expects to achieve profitability in the near future.

AutoMedia Raises \$3.5 Million in Private Placement

High tech firm AutoMedia has raised \$3.5 million in a private placement, managed by Clal Issuing and a group comprising Clal Venture Capital, Gemini Capital Fund Management and private investors.

AutoMedia was founded in 1994 and has developed a computerized vision system for the digital image processing market.

Technion Selects NetWiz TurboSwitch 2000

NetWiz Ltd. announced that the Technion-Israel Institute of Technology, the nation's first and largest technical university, has chosen the NetWiz TurboSwitch 2000 LAN switch as its switching platforms to support the Technion entire campus computer system.

This installation allows the Technion computers to satisfy the increasing demands for enhanced high-speed data connectivity solutions.

With the addition of 18 new LAN switches scheduled for completion by the middle of 1997, Technion's fiber optic networks will serve 18 faculties and approximately 400 TurboRouted LAN ports.

Technion-Israel Institute of Technology, located in Haifa, is Israel's largest and most prestigious technical university with 10,700 students and 800 faculty members.

NetWiz is a leading supplier of end-to-end switched networking solutions for large enterprises, with a special focus on Ethernet, Fast Ethernet and Giga Ethernet switching.

Eshed Robotec Signs a Joint Marketing Agreement with Light Machines

Eshed Robotec (Nasdaq:ROBOF) announced that its North American marketing subsidiary signed a joint marketing agreement with Light Machines Corporation, a world leading developer and manufacturer of educational and industrial Benchtop CAD/CAM/CNC systems. Light Machines Corporation is a member of the Dover Corporation Group.

Eshed Robotec is one of the world leaders in the field of technological education serving technical schools, universities and industry. The company designs, manufactures, markets and supports a complete range of solutions in the field of Automated Manufacturing Technology (AMT).

Aladdin Announces Record Net Income for 1Q97

Aladdin Knowledge Systems Ltd reported record net income for the first quarter ended March 31, 1997.

1Q sales rose 13 percent to \$8.09 million, compared with \$7.19 million during the 1Q of 1996. Net income for the quarter reached \$2.18 million, compared with a net loss of \$1.79 million for the comparable 1996 quarter.

Earnings per share for the quarter were \$0.22, based on 10.060 million shares outstanding, compared with a loss of \$0.18 per share in the first quarter of 1996, based on 9.937 million shares outstanding. Sales of HASP - The Professional Software Protection System continue to grow world-wide. HASP has maintained its position as the fastest growing software security product in the market with a strong growth in the U.S. Aladdin Knowledge Systems Ltd. is a leading supplier of information security solutions for software developers.

Orckit Revenues Increase 119% in Q1

Orckit Communications Ltd, a leader in the manufacture and development of Digital Subscriber Line systems and modems, reported first quarter revenues up 119 percent to \$5.2 million, compared with \$2.4 million for the same period in 1996. The net loss for the first quarter was \$552,000, or \$0.04 per share, compared with a net loss of \$613,000, or \$0.05 per share during the first quarter of 1996.

Orckit Communications develops, manufactures and markets a wide range of high-speed local loop communications systems that take advantage of state-of-the-art digital signal processing and VLSI technologies.

Orbotech: Record 1Q 1997 Results

Orbotech Ltd. (Nasdaq:ORBKF) announced consolidated financial results for the first quarter ended March 31, 1997. Revenues for the first quarter were \$41.4 million, an increase of 10% from \$37.6 million for the first quarter a year ago. Net income totaled \$6.5 million, or \$0.49 per share, an increase of 34% compared with net income of \$4.8 million, or \$0.37 per share in the first quarter of 1996.

Net margins were the highest recorded by the company since the merger of Optrotech and Orbot five years ago, reaching 15.6% as compared to 12.8% for the first quarter of 1996. Sales were particularly strong in the United States, growing by 39%, and Japan, growing by 21%. Sales of

inspection equipment for printed circuit boards ("PCB"s) increased by 24%. The company also sold three inspection systems for flat panel display boards ("FPD"s) during the quarter. Orbotech recently received the first order for its new automated optical inspection system for shadow masks. Shadow masks are fine metal grids used in the production of cathode ray tubes ("CRT"s) which are usually inspected manually in a labor-intensive process. Its inspection system offers breakthrough benefits to shadow mask manufacturers, enabling them to automate, streamline, and vastly improve their inspection processes and yields.

LSI Logic Will Invest \$10 Million in New Center

LSI Logic, manufacturer of application-specific integrated circuits (ASIC), will invest \$10 million to expand its planning and development center, set up two years ago in Netanya. The center will coordinate activities on wireless communications for the cellular telephone market.

To date the center, operated as part of the company's local office, employs a dozen workers. It will become part of the company's product division. In the coming year, its budget will expand to \$10 million and the worker pool will grow to 40.

The company's US management proposed expanding the development center in order to recruit Israeli engineers and development staff. By the end of 1998, 120 persons will be employed, making it one of Israel's largest planning centers in this field.

The company's products are applied in several new systems manufactured in Israel, such as the new Madge routing brand developed at Lannet, ATM (asynchronous transfer mode) products developed in Israel for 3COM, and Telrad products developed for Northern Telecom.

The development center is currently developing semi-conductors for communication products for GSM (global system for mobile communication) cellular technology, which provide a complete solution for future telephones in one component. LSI Logic was the first company to successfully plan and manufacture application-specific integrated circuits (ASIC). This allows every manufacturer to plan custom designed semi-conductors for particular customer applications, and to manufacture whatever quantity is needed.

Laser Industries Reports Record Quarterly Results

Laser Industries Ltd. (Nasdaq:LASRF) reported record revenues and earnings for the first quarter ended March 31, 1997. Sales rose to \$16.4 million, an increase of 17 percent from \$14.0 million over the comparable period in 1996. Net income for the quarter increased by 37 percent to \$2.6 million compared with \$1.9 million in the corresponding period. Earnings per share reached \$0.31 compared with \$0.29 in the first quarter of 1996. The weighted average number of shares outstanding was 8.6 million in the first quarter of 1997 compared with 6.7 million shares in the comparable quarter in 1996. Laser Industries Ltd said it named Mannie Olswang to the new position of vice president and chief financial officer.

Olswang, 51, served for 17 years as the CFO of ECI Telecom Ltd.

Laser Industries Ltd. is a leader in the design, manufacturing, marketing and servicing of a broad range of aesthetic and surgical laser systems for use in a variety of medical applications. Laser Industries markets more than 20 laser systems under the trade name "Sharplan". The company has also expanded its business to include patient services and opened its first center in Tel Aviv in February 1997.

Elron Electronic Industries Ltd. Announces 1997 Q1 Results.

Elron's net income was \$2.7 million, or \$0.13 per share as compared with \$2.4 million or \$0.12 per share in 1996.

Revenues of the companies in the Elron group in the first quarter of 1997 amounted to \$275 million, as compared to \$265 million in the same quarter last year. Elron's earnings result from three main sources: Elron's share in the net income (loss) of affiliated companies, gain on equity from change in holdings in affiliated companies and other income resulting primarily from the decision to sell some investments or holdings.

Sapiens International N.V. Announces Q1 Results

Sapiens International N.V. (Nasdaq:SFNSF), a leading provider of mission-critical business solutions, today announced results for the first quarter ended March 31, 1997. Total revenues in the first quarter increased to \$9.5 million from \$9.2 million in the same period last year. Product rev-

enues, which include mainly license fees, rose 7% to \$3.2 million. Consulting and maintenance revenues increased to \$6.3 million from \$6.2 million in the first quarter of last year. Excluding Smartstar maintenance revenues, which were assumed by an independent distributor in late 1996, total revenues in the first quarter of 1997 increased 11% from the same period last year. Net income for the first quarter of 1997 was \$406,000 compared with \$325,000 for the same period last year.

Drop in IPO Offerings

The number of initial public offerings on Wall Street, dropped off sharply to 28 in April, the lowest in more than two years, according to the Newark, N.J.-based Securities Data Co., which provides financing and merger data. It was the lowest number of new equity issues since January 1995, when only 18 deals went public, excluding closed-end funds and real estate investment trusts. April IPOs raised \$1.29 billion, not a record low for this year, but only the fourth month in the past two years in which monthly proceeds were under \$2 billion.

Three large IPOs accounted for 60% of the money raised. High technology issues raised only \$223 million, or 17 percent of the month's volume. As reported in recent IHTIR publications, the changing investment atmosphere for new public issues will slow down the number of Israeli IPOs coming to Wall Street. We are aware of a number of IPOs in the pipeline but of no actual financings, except for secondary issues carried out as private placements.

Vishay Agrees to Acquire 65% of Lite-On Power Semiconductor Corporation

Dr. Felix Zandman, Chairman and Chief Executive Officer of Vishay Intertechnology, Inc. (NYSE:VSH), announced that Vishay is to acquire 65% of Lite-On Power Semiconductor Corp. (LPSC) a Taiwan company and a member of the Lite-On Group of the People's Republic of China, for \$130 million. A closing is expected in mid-summer 1997. LPSC is a major producer of diodes in the Far East with manufacturing plants in Taipei, Taiwan; Shanghai, China; and Lee's Summit, Missouri, USA. Diodes are discrete semiconductor components used to convert electrical

currents from AC to DC and are used in all electronic equipment that requires such conversion. Applications for the products cover a range of markets that include computers, telecommunications, automotive, industrial and consumer goods. The annual market for rectifying diodes is approximately \$1.6 billion worldwide.

Dr. Zandman stated, "With over 1,100 employees currently in the People's Republic of China, we believe LPSC is well-positioned as a low-cost producer to effect substantial market penetration as evidenced by sales in 1996 of \$50.3 million. This acquisition is Vishay's first step into the \$14 billion discrete semiconductor market, which includes diodes and transistors of many types. Vishay intends to further penetrate this market through continued acquisitions and internal growth. The fact that LPSC is a major Far East manufacturer positions Vishay to better penetrate the Asian market with its passive components. Vishay Intertechnology, Inc., a FORTUNE 500 company with headquarters in Malvern, Pennsylvania, is the largest U.S. and European manufacturer of passive electronic components. Its plants in Israel, which employ 2,800 people, exported more than \$250 million worth of components in 1996. While Vishay is not expected to build new plants locally, Israeli managers have been quoted to the effect that there may be some future cooperation with LPSC.

Elbit Ltd. Announces First Quarter 1997 Results

Elbit Ltd. (Nasdaq:ELBTF) announced results for Q1 1997. The Company's revenues from continuing operations for the quarter ending March 31, 1997 were \$9.3 million, compared to \$7.1 million in the equivalent quarter of 1996. The company reported a net loss in the first quarter of 1997 of \$1.4 million, compared to a net loss of \$1.8 million in the same quarter last year. Elbit is engaged in operations, products and services in communications and other commercial businesses. The company's strategy is to develop its communications business in two main areas, which are still in the development stage. The first area is based upon ATM technology for use in LAN and WAN connectivity products. The second area is telephony over television cable networks (CATV) in various countries and regions throughout the world where television cable networks are well-established but telephony penetration is low.

Elbit Ltd. designs, manufactures, markets, and supports a wide range of products in the field of connectivity between the public and private networks by broadband access products and integrative solutions for transmission of data, voice and video using state-of-the-art technologies.

Elbit Medical Imaging Ltd. Announces 1Q Results

Elbit Medical Imaging Ltd. (Nasdaq:EMITF) announced results for the first quarter ended March 31, 1997.

Revenues of Elbit Medical Imaging Ltd. for Q1, 1997 were \$111 million, compared to \$120 million reported in the corresponding quarter last year. The reduction in revenues was primarily attributable to the discontinuation on December 31, 1996 of the distribution of Hitachi products in a number of European countries by the Elbit Ultrasound subsidiary. Net income for the first quarter was \$200,000, or \$0.01 per share. Net income for the same period last year was \$1.0 million, or \$0.05 per share.

Elbit Medical Imaging Ltd. is engaged in the development, manufacture, sale and support of medical diagnostic systems and equipment, directly and through its subsidiary companies.

Elbit Systems Ltd. announced revenues for Q1, 1997, were \$91.8 million, an increase of 55% versus \$59.2 million in the first quarter of 1996. Net income was \$4.7 million, or \$0.21 per share, an increase of 38% over the \$3.4 million, or \$0.16 per share, recorded in the first quarter of 1996.

The company's backlog of orders as of March 31, 1997, was \$620 million versus \$614 million at the end of 1996. Approximately 76% of the backlog are orders from outside Israel.

Elbit Systems Ltd. is engaged in a wide range of defense-related airborne, ground and command, control and communications ("C3") programs throughout the world. They focus on upgrading of existing military platforms and developing new technologies for defense applications.

Elsclint Ltd. 1997 First Quarter Results

Elsclint Ltd. (NYSE:ELT), a subsidiary of Elbit Medical Imaging Ltd. (Nasdaq:EMITF), announced its results for the first quarter ended March 31, 1997. Consolidated revenues for the quarter were \$70.4 million, a decrease of 3% from the \$72.7 million reported in the corres-

ISRAELI INFORMATION TECHNOLOGY-MARKET OVERVIEW

The information Technology (IT) market in Israel is growing as quickly as, in many instances faster than comparable IT markets in Western Europe and throughout the world. IT spending in Israel totalled just over \$2 billion in 1996 and is expected to grow in the next three years at an annual rate of 14.9%. By 2000 total IT spending in Israel is expected to surpass \$3.5 billion. In comparison, the worldwide IT market is expected to grow at an average annual rate of just more than 10% for the next three years, Israel has no doubt the most highly developed economy in the Middle East. Its IT market makes up one quarter of the regional spending on information technology in the Middle East and Africa. 44% of IT spending in Israel goes to hardware, i.e. servers, PCs, workstations, printers and other peripherals. An additional 20% of the spending goes to purchasing packaged software, consisting of system software, application tools and application solutions, IT Services and Data Communications equipment account for the rest of the spending, with 25% and 12% shares respectively.

In terms of growth, the fastest growing market in Israel is for data communications equipment, with a 1995-2000 compound annual growth rate (CAGR) of 20%. The market for multi-user systems is expected to grow at a 1995-2000 CAGR of 12.3% and the market for single-user systems, notably PCs, will grow at a CAGR of 11.5%.

Israeli users' are known for their acceptance and early adoption of new computer technologies. This is seen most notably in the home sector, where PC penetration rates are estimated at about 40% of Israeli households, making Israel one of the world leaders in home PC adoption, together with the United States. In all. The Israeli home market spent last year \$155 million on IT product and services, taking up a 7% share of total IT spending in 1996. Although the native language in Israel is Hebrew, the Internet, primarily an English based network, has quickly gained popularity in Israel. IDC estimates that one out of every five PC owners in Israel is now connected to the Internet. IN the past couple of years, numerous local online services have appeared, offering subscribers online applications in Hebrew, and also boosting regular Internet access.

International Data Corporation Study of Israel

ponding quarter of 1996. The decrease in net revenues is primarily attributable to a decrease in sales of Computerized Tomography (CT) units during the quarter.

Operating profit for the first quarter of 1997 was \$1.3 million compared to \$2.9 million in the first quarter of 1996. Net loss for the 1997 first quarter totalled \$800,000, or a loss of \$0.05 per share, compared with net income of \$2.6 million, or \$0.16 per share, in the same quarter of last year.

Elscint is an advanced medical imaging company serving healthcare professionals worldwide. The company designs, manufactures, sells and services a wide range of sophisticated computer-based medical imaging products including Computerized Tomography (CT), Magnetic Resonance Imaging (MRI), Nuclear Medicine (NM) and Mammography systems.

Teva Pharmaceutical Industries Posts 1Q EPS \$0.51 vs. \$0.30

Teva Pharmaceutical Industries Ltd. (Nasdaq: TEVIY) announced a March '97 three-month earnings per ADR, \$0.51 versus \$0.30 for the same period a year ago. Teva Pharmaceuticals, Israel's largest Pharmaceutical company, most of whose profits result from sales of generic drugs in the U.S. It is currently marketing COPAXONE, discovered at the Weizmann Institute's research department and developed into a drug by Teva.

PC Sales to Israel Highest in Middle East

Israel's market for personal computers continued its growth in 1996. A study of PC sales indicated that 217,785 units were sold in 1996, a growth of 14% over those in 1995.

Israel continues to be the the largest market in the ME for PCs with Turkey (190,000) and Saudi Arabia (104,000), placing second and third. The Israeli market is valued just under \$400 million, a growth of 19% from 1995 sales of \$334 million. The growth in the value of all sales was greater than the growth in unit sales. It was accounted by higher per unit sales and increased sales of Pentium based systems and growth in popularity of higher priced multimedia computers.

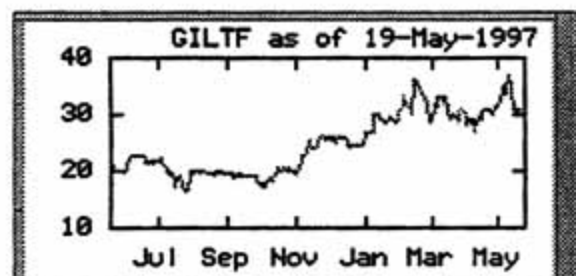
UPDATE

Gilat Satellite Networks Posts 1Q EPS of U.S. \$0.28 vs. U.S. \$0.24

3 Months. to Mar. 31: (\$000)		
	1997	1996
Net sales	21,073	15,486
Net income	3,094	2,682
*Sh. earns.	\$0.28	\$0.24

*Avge. shs.: 1997-11,202,000; 1996-11,104,000.

Gilat reported that it recently sold \$75 million in convertible notes in a private placement. The Tel-Aviv based company said the 6.5 percent convertible subordinated notes were due in 2004 but would not be redeemable for three years after issue.



The notes would be convertible into Gilat ordinary shares at an initial conversion price of \$42 per share compared with a current market of about \$30. A portion of the net proceeds of the private offering is expected to be used to finance joint ventures to operate rural telephony networks in remote areas, research and development projects, further expansion of the company's new facilities and for working capital and other corporate purposes.

The offering was lead-managed by Lehman Brothers, with Oppenheimer and Co Inc. and Smith Barney Inc as co-managers.

The cost of servicing the new debt will initially have some negative effect on earnings but in due course should strengthen the company's overall performance.

Point of Sale Computerizes Hed Arzi Stores

Hed Arzi will computerise its 13 stores with Point of Sale software. The project will link all of the chain's stores in Israel to its headquarters. The value of the project is only \$150,000 but we would not be surprised that the local experience in computerizing a chain selling music items may allow the company to transfer its local experience towards a substantially larger order outside of this country. This was the case with POS first computerizing local supermarkets and then it went and applied the experience to 500 English Tesco stores.

Scitex Posts \$0.17 1Q Loss vs. \$0.08 EPS

Scitex Corp. Ltd. Interim Consol. Earns.

3 Months. to Mar. 31: (\$000)		
	1997	1996
Revenues	162,867	194,515
Net income	d 7,435	3,285
*Sh. earns.	d \$0.17	\$0.08

*Avge. shs.: 42,809,000

Report Cited in Der Spiegel Feature Article on Israeli Computer Industry

Bauer, Springer, Burda and Gruner dominate Germany's magazine market with a market share of 60% and a total circulation of over 120 million copies.

We were very pleased to be quoted in a feature article on Israel's Computer Industry published by **Der Spiegel** in its May 5th issue. The three page article captioned "The Future is Already Here" described this country's software sector. Its author Jurgen Hogrefe focused on individual companies and accompanied the story with a photograph of a computer available for information at the Western Wall, the holiest site for the Jewish people. In the article he wrote: "Joseph Morgenstern who publishes the Israel High-Tech and Investment Report, responding to a request to characterize the qualities which identify the industry's personnel, said: 'That is our strength. We recognize a problem and plunge ahead towards a solution. As a result we take no detours and there is no going back'."