

ISRAEL HIGH-TECH & INVESTMENT REPORT

A MONTHLY REPORT COVERING NEWS AND INVESTMENT OPPORTUNITIES

JOSEPH MORGENSTERN, EDITOR

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From the Editor's Desk

THE JOY\$ OF PEACE?

If the bright new future being talked about between Israel, Jordan, Syria and Lebanon offers no more than the sterile "peace" being practiced by Egypt, one must wonder what all the brouhaha is about.

Though Egypt has had a peace agreement with Israel since the days of Camp David, it has chosen to avoid doing business with this country, just as it has continued to vilify Israel and the Jews in its media, and refuse the extended hand of Israeli scientists and agricultural experts.

Peace is much more than a grudgingly maintained cease-fire. Until our Arab neighbors learn this basic lesson of modern life, the opportunities for more widespread use of Israeli technology may be more beguiling than real.

And it's not as if the countries in the region had any great technology of their own. Israel's geographic neighbors are not among the well-to-do nations, such as the oil-laden Emirates. On the contrary, the standard of living in these countries could use a major lift. Quite aside from any help which Israel may be allowed to offer, what's required is billions of dollars in international loans.

Infrastructure projects of a joint nature come to mind. In the Arab countries, electricity grids which we take for granted are not widespread and are generally inefficient. One suggestion worth consideration is the merging of the various grids into one system serving every country in the region. Experts say this would be efficient and cost effective. One could also envision a revival of the plan to construct a canal between the Red Sea and the Dead Sea. As the Dead Sea rises, eventually reaching sea level, its salinity

would drop until it could once again support life. As well, one would expect to see the climate in this part of the world return to the lush fecundity of 2,500 years ago. In the meantime, large amounts of hydroelectric power would be generated.

A highway system connecting Cairo, Tel Aviv, Amman, Beirut and Damascus would revolutionize both business and tourism. A regional Free Export Processing Zone, for example -- perhaps on the Golan Heights -- could supply massive employment and investment for Israel and its northern neighbors. Looking into the not-too-distant future, the international community could take advantage of the new overland routes and get some bang for its aid buck by trucking its nuclear waste here. The unpopulated wastelands in this region would be an ideal location for the world's first full-sized electromagnetic launch tube. The radioactive garbage could then be dropped into the sun -- the only truly safe disposal site. This sure-fire, non-polluting technology exists, and remember, you read it here first.

In this Issue

The Joy\$ of Peace- Editorial Comment
Bio-Dar: Prospers Under Scientist Turned Businessman
Recent Economic Developments
Farming Salt Ponds
BioTechnology General: 1994 Seen as Banner Year
Israeli Companies on Wall Street News and Comments
Edusoft, Magal, IIS.....
Tel-Aviv Share Market Higher... Gains on Lower Interest Rates
ECI Telecom -Telematics Merger

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Attention: Mr. Robert M. Bruckenthal Tel.: 914-723 8321 Fax: 914-723 8340
Editorial Offices: P.O. Box 33633, Tel Aviv 61336, Israel
Tel: 972-3-5235279 Fax: 972-3-5227799

SLOW PRODUCT, FAST MARKET, BIO-DAR IS GROWING RAPIDLY

A revolution is occurring in the masking of unpleasant tastes in substances such as vitamins and minerals.

"It was unreasonable to expect sick children to take evil-tasting medicine," says chemistry researcher Avner Rotman. An expert in membrane technology, the Weizmann Institute's Associate Professor in Chemistry decided to move into the business world. In 1984 he started Bio-Dar, a development company whose first goal was to encapsulate (coat) children's medicines to eliminate the bad taste.

A group of Americans put up seed money, and are now partners in a thriving science-based production and development company.

As well as working to mask the taste of vitamins and minerals, the firm is working on sustained-release oral medications. Medicines in powder form were coated with a shell about 100 millionths of a meter thick, resulting in a chewable pleasant-tasting candy with three active ingredients. Bio-Dar had its first product.

Besides its ability to mask taste, microencapsulation is useful in the stabilization of the core material in a given medium, allowing controlled release. Some of the drugs so processed include aspirin, paracetamol, vitamin C, vitamins B1, B2, B3 and vitamin A.

Another promising field was the enriching of foods with vitamins. Market research in the United States indicated that Vitamin C is the most-desired vitamin, yet foods such as biscuits had no Vitamin C. The difficulty was that vitamin C becomes unstable at the temperatures required to produce baked goods. Encapsulation technology resulted in the enriching of biscuits, an important selling point for the manufacturer. Leading Israeli food manufacturers including Ossem and Vita are users of Bio-Dar encapsulated products to enrich their cookies, snacks, soups and similar products. The product is supplied in powder form.

The sugar substitute Aspartame is not stable when exposed to water. Encapsulation of this sweetener removed the barrier to its use by Israeli dairies, which are now offering dietetic yet sweet-tasting milk and yogurts. One dairy is using Bio-Dar vitamins to enrich its cream cheese.

Bio-Dar Personnel

The company has just hired more marketing personnel -- part of a plan to sell outside Israel. Due to the labor-efficient production process, only two of the 12 employees are directly involved in manufacturing. Three and a half are in research and development. (one half because the third person has other duties as well). Others are in administration and marketing.

Until quite recently, Bio-Dar was privately held by Prof. Rotman and the American investors. Though Bio-Dar is profitable, larger sums were needed to develop export markets. It was Clal Industries, a member of the country's largest investment company, that earlier this year invested \$1 million to acquire a 26% holding.

"The partnership is excellent, as Clal provides financial backing and extensive contacts. Our new partner is urging us to explore slow-release pharmaceutical applications outside Israel," says Prof. Rotman.

Correction

Advent International Corp. which was invited by the Israeli Government to participate in its Yozma plan pioneered in the founding of the Gemini Israel Fund LP. in January 1993, and not as reported in the September issue. Since then and by June the fund raised \$ 24 million from the Discount Investments/PEC Group, Yozma (the government) and from Advent Israel LP. Four deals have been initiated as of the end of this summer, according to Gemini's General Manager, Dr. Ed Mlavsky.

Bringing Know-How to Israel

The London-based Chelverton Group headed by John Porter owns a substantial share of Metalworking Lasers (Israel) Ltd., a public company manufacturing industrial lasers. Mr. Porter denied the substance of rumours which were published in a previous issue of IHTIR and to the effect that the overseas owners were interested in transferring MLI's know-how to foreign parties. "Just the opposite," says Mr. Porter, "we are in the process of negotiating the purchase of foreign know-how for MLI's use.

In situations where Government grants are used for research and development purposes the transfer of know-how acquired from the R&D activity requires official approval of the Ministry of Trade and Commerce. InterPharm's desire to transfer know-how to its foreign corporate parent Ares-Serono was a subject of great debate, with the Government intent on not letting know-how out of the country.

Yeda Research and Development

Yeda, which commercializes work done at the Weizmann Institute, is looking ahead to another active year. Because of its concentration on basic as opposed to applied research, less is expected from the Weizmann Institute in the way of practical applications than from the Technion or the Hebrew University. Yet in the past year, Yeda has taken part in four startup companies. Two of the startups were in the life sciences.

Yeda's most successful involvement has been with

InterPharm Laboratories, which commercialized the interferon research done at the Institute. Last year, Interpharm had sales of more than \$50 million. Yeda earned \$12 million from the sale of InterPharm shares, royalties and research grants.

RECENT ECONOMIC DEVELOPMENTS

Immigration has reinvigorated the economy as well as the spirit of the country. Moreover, the wave of immigrants from the former Soviet Union comes with an exceptionally high level of education and skills, and has turned Israel's population into the most educated in the world.

GDP growth has averaged more than 6% a year over the past three years (1.5% in per capita terms), and is expected to rise by more than 1% in 1993 and by 5% in 1994.

Construction activity was an important factor immediately following the arrival of the largest groups of immigrants in 1990 and 1991, but fell behind exports as the main source of growth in 1992. In fact, in 1993, the drop in residential construction is the main reason for the recent economic deceleration. However, the non-residential sector is still experiencing a boom, with the long-awaited rise in infrastructure projects.

Soaring exports are both the result of exogenous factors and of indigenous forces at play. Exports of goods and services jumped by more than 14% in real terms in 1992, and are expected to show an additional 8% rise in 1993. This in turn is the result of the new exchange rate policy, which has succeeded in achieving a real 10% devaluation of the shekel without reigniting inflation. The policy is one of gradual devaluations, according to a pre-announced schedule. The Israeli shekel is fixed with respect to a basket of currencies and is allowed to move within a diagonal band of 6% annual slope. The slope of the band was recently reduced from 8%, reflecting lower inflation expectations as stated by the Central Bank's announcement of a target of 8% for 1991. This policy has considerably reduced uncertainty in the foreign exchange markets, and eliminated the waves of speculation that existed prior to its introduction in December 1991.

In addition, new markets have opened to Israeli exporters, such as those of the Far East, of South East Asia and Eastern Europe. In fact, these new markets accounted for half the rise in Israeli exports in 1992, and are expected to see further expansion in the future. The steep decline in tourism in 1991 has been forgotten after the dramatic increase in 1992, a record year for tourism.

Inflation dropped significantly in 1992, to an annual rate of 9.4%, the lowest since 1969. This deceleration was felt across all price indices, and thus

truly reflects a drop in prices and price expectations. The arrival of the new immigrants had originally pushed prices up, particularly in housing, but has now put steady downward pressure on prices as real wages are falling steadily.

Note, however, that the CPI rose at an accelerated pace during the winter months (17% in annual term for the first four months of 1993), and at an unusually slow rate for the summer months (2%). The forecast for 1994 is slightly lower, and stands at 8.5% for the year.

Unemployment was still a painfully high 11% in the first quarter of 1993, though down from 11.4% at the end of 1992. It is showing signs of further alleviation during the second quarter of the year, with a significant 16% drop in workseekers between the first and second quarter.

Recall that this unemployment is in great part the result of the mushrooming labor force, and not a consequence of economic contraction, as is the case elsewhere in the world.

Foreign Debt

The balance-of-payment situation in Israel has eased considerably since the bad days of the early '80s, as the following developments show.

Net foreign debt as a percentage of GDP has continued to drop despite the large influx of immigrants and the consequent surge in imports, and reached 24.5% by the end of the first quarter of 1993. Indeed, the current account has shown a slight surplus on average for the 1990-92 period.

Net foreign debt stood at \$16.2 billion at the end of the first quarter of 1993.

The total foreign debt as a percentage of total exports stood at 56% at the end of 1992, down from 157% in 1986.

Debt servicing (interest and principal) amounts to 15% of exports (half of the burden in 1985) while interest payments on the debt equal 15% of total exports (down from 17% in 1985).

The expected current deficit for 1993 and 1994 is significantly below the \$2 billion in loan guarantees that will be granted by the United States every year for the five years starting in 1993. Thus Israel can easily borrow from abroad to cover the expected deficits, and can do so at a reduced rate.

How the World Views Israel's Improvement

The International Country Risk Guide again upgraded Israel's composite risk rating by two points in June 93, which puts it on par with countries like Italy, and one point below that of Thailand.

Employing the Bank of England Matrix, a widely used systematic appraisal of country risk ranking whereby a minimum number of 30 "bad points" justifies bad debt reserves, Israel's economic

statistics give it four points, and a pessimistic evaluation of its political risk would bring it up to a maximum of nine.

Thus according to this respected methodology, Israel is way below the threshold that justifies bad debt provisions.

Standard and Poor's credit analysis service upgraded Israel's rating from BBB- to BBB in February 1993, based on Israel's improved economic stability. On Israel's future, it adds: "The outlook reflects continued strengthening of the economic performance and reforms which would further enhance economic flexibility."

Salomon Brothers, commenting on the improved rating assessment of S&P, maintains that despite this upgrade, "We continue to consider Israel to be among the most seriously misrated countries in the world."

In the same publication of May 1993, it concludes: "The country's economic structure is more similar to single A and double A rated developed economies such as Ireland, New Zealand or Portugal than to developing countries.

"Even if the reality of Israel's geopolitical risks pushes a rating agency to lower its rating below what a purely economic analysis would suggest, it does not, in our opinion justify a rating below the single A- range."

Courtesy Bank Hapoalim

EduSoft Lands Million-Dollar Project

EduSoft Ltd. (NASDAQ:EDUSF) announced on August 24 that its parent company, Degam Systems Ltd., has been awarded a project on EduSoft's behalf from a Central American government to equip over 2,000 student computer stations with EduSoft's educational software products. The value of the project is approximately \$1 million, and a final agreement is to be negotiated in the very near future.

Magal Security Systems has Record Second Quarter

Magal Security Systems Ltd. (NASDAQ:MAGSF) has announced record operating results for the second quarter ended June 30, 1993.

Net Income rose 66% over the comparable 1992 period.

Revenues for the quarter rose 42.1% to a record \$3,348,000, from \$2,356,000 in the same quarter in 1992.

Net income increased to a record \$427,000, a gain of 66.1% from the \$257,000 reported in the same period a year earlier.

Net income per share for the quarter was \$0.09 as against \$0.08 last year. The weighted average number of shares outstanding for the second quarter was 4,740,000, compared to 3,360,000 a year earlier. The higher number of shares in 1993 reflects

the company's initial stock offering in March. Revenues for the six months ended June 30, 1993 were \$5,763,000, up 24.5% from \$4,627,000 in the comparable period in 1992. Net income rose sharply to \$645,000, or \$0.16 per share, a 77.6% increase from \$363,000, or \$0.11 per share in the same period last year. The weighted number of average shares outstanding for the six months ended June 30, 1993 was 4,061,436 compared to 3,360,000 for the similar period in 1992.

Magal Security Systems is engaged in the development, manufacture and marketing of computerized security systems which automatically detect, locate and identify the nature of intrusions. Magal also manufactures and markets systems which automatically detect, locate and identify explosive devices in luggage, packages and other parcels. The company's principal products include a detection system called AISYS, and a video motion detection system called DTS. Magal's products are used in more than 20 countries to protect national borders and sensitive facilities from terrorism, theft and other threats.

J. Even-Ezra, Chief Executive Officer and Chairman, attributed the company's performance in the second quarter partially to the inclusion since May 24, 1993 of the operating results of its recent acquisition of Gemini, as well as the sales of two AISYS 370/A machines.

Mr. Even-Ezra said: "The Gemini acquisition has opened up new markets and opportunities for other Magal products which will enhance our growth prospects in the US."

Additionally, Mr. Even-Ezra noted that the European Civil Aviation Conference recently decided that within the next few years, all airports in Europe must have a detection system capable of screening 100% of all passengers' luggage. He believes that an automatic bomb-detection machine such as Magal's AISYS 270/A has the 100% screening capabilities and the speed to meet ECAC's requirements.

The company recently sold two AISYS 370/A Automatic Bomb Detection Machines, which were delivered in the second quarter. To date, Magal has sold a total of 12 such machines.

The first units of the Company's Video Motion Detection System DTS-1000 were delivered to its Israeli and overseas customers toward the end of the quarter.

Compact Holographic Display

Car drivers, pilots and doctors may all benefit from a novel Weizmann Institute method of displaying visual information in front of the viewer's eyes. Such displays, created with the help of two holographic elements recorded on a single glass plate, may help drivers concentrate on the road,

assist pilots in monitoring instruments, and make it easier for doctors to perform surgery without large incisions. The twin-hologram system also has a multitude of other potential applications, such as assisting object identification by robots.

The new technique, which will be partially described in the August 1 issue of *Optics Letters*, was developed in Weizmann's Department of Electronics by Dr. Yaacov Amitai and Prof. Asher Friesem, in cooperation with Dr. Itzhak Shariv, Silviu Reinhorn and Michal Kroch.

Instead of using familiar 3-D holographic images, the new system employs holographic elements as lenses for collecting and diffracting light. It consists of two holograms coated upon glass: one receives light signals corresponding to a particular image and diffracts them at an angle that leads to the trapping of light inside the glass plate -- a phenomenon that in the past four to five years has emerged as a focus of intense research in planar optics. The trapped light travels through the glass to the second hologram, which projects the image onto the desired spot.

While systems with conventional lenses are usually large and bulky, this type of approach uses planar optical holographic elements only a few millimeters deep. Another major advantage, according to Dr. Amitai, is that with the twin holograms it is possible to exploit regular light, and not only the laser light used in display holography.

Using this system, instrument readings could be projected onto a pilot's transparent helmet visor. While other systems have been proposed for such purposes, the unique dual-hologram solution is cheaper and more compact.

In another potential application, the system could be used to assist doctors in performing laparoscopic surgery, in which the surgical instrument is equipped with

a viewing device and inserted into the body through a small incision. At present, doctors can view the internal organs on a TV monitor next to the operating table, but this requires constantly glancing away from the patient during the operation. The new technology would eliminate this inconvenience: the doctor would wear a head-mounted device with a tiny stereoscopic screen inches in front of his or her eyes, on which a picture of the patient's organs would be displayed.

Twin holograms could also be used in tasks that involve pattern recognition with optical correlators, which match one pattern against another. Such correlators are used, for example, when robots need to recognize objects. These tasks are now performed with large conventional lenses, whereas twin holograms would offer a compact and effective alternative.

A patent application has just been filed by the Yeda

Research and Development Co., which is responsible for commercial exploitation of Weizmann Institute research.

Farming Salt Ponds

A hardy alga, *Dunaliella*, originally discovered by Institute scientists in the Bardawil salt marsh off Sinai, is now being used to produce a product containing high quantities of A-Carotene, a highly valued substance that may have important cancer-preventing properties. A-Carotene, the chemical that gives carrots their color, is also a commonly used food dye and a precursor of vitamin A derivatives. The technology for growing the specialized plant on little more than sunlight, salt water, and air was developed by Dr. Ami Ben-Amotz (now with the Israel Oceanographic and Limnological Research Institute in Haifa) and the late Prof. Mordhay Avron.

A Japanese company, Nidden Sohonsha, has taken over and enlarged existing algal growth ponds to create a very modern facility close to the city of Eilat. The A-carotene-rich algae are processed for salt removal and spray dried to yield a unique powder containing more than 8% A-carotene.

More than 50 tons of this product is exported to Japan each year by the manufacturer, Nature Beta Technologies, where it is converted into tablets and distributed under the trade name *Dunaliella*, Natural Beta-carotene, Israel.

Weizmann Institute

BIO-TECHNOLOGY GENERAL CORP.-It could be flying soon!

Ten years of R&D and \$100 million are the figures used as a rule of thumb to describe the time and money involved in bringing a pharmaceutical to the marketplace. Since BioTechnology General Corp.'s (BTGC) founding in the US 13 years ago, it has spent more than \$100 million in research and development. Its 1993 research spending will be \$14 million. Nearly all the work is carried out in its own facility in the Science Based Industries Park next to the Weizmann Institute.

BioTechnology General's healthcare products are aimed at four market segments: cardiovascular drugs, anti-infectives, endocrinology products, and wound-healing anti-inflammatory agents. The company continues to develop products and processes by genetic engineering and related biotechnologies. Its lead product is human growth hormone (hGH). Wall Street analyst Frank Gallagher has predicted that sales of hGH will rise from \$3.7 million this year to \$36 million in 1996. Gross margins of 85-90% are not unrepresentative. Merrill Lynch's corporate researchers Dr. S. Weissbrod and E. Kammeraman project nearly \$69

million in sales of hGH in 1996.

Its second most important product, Oxandrine, is an anabolic steroid. This helps in the control of weight loss, and is being tested for efficacy in increasing the growth rate in children. It is also being tested as a deterrent for the weight loss associated with AIDS.

Owing to the heavy costs involved, BTGC has suffered liquidity problems, and its finances were restructured a number of times. At the outset of 1993, BTGC had \$18 million in cash. Gallagher concludes that these funds will be sufficient to finish developing products now in the pipeline. He also concludes that BTGC will have its first profitable year in 1994.

BTGC is a public company with shares registered on the over-the-counter market NASDAQ:BTGC. Its shares, selling at \$5.50, offer a longer-term opportunity to participate in the fruits of sophisticated research activity. BTGC's leading products include:

Product	Sales Area	Market Partner	Market Size	Market Share
Human Growth Hormone	US	BTGC	50,000	8%
Human Growth Hormone	EUROPE	Ferring	55,000	8%
Human Growth Hormone	JAPAN	JCR Pharmaceuticals	30,000	10%
Human Growth Hormone	FAR EAST + AUSTRALIA	Scitech Medical	50,000	20%
Hepatitis B vaccine	CHINA & PAC	BTG-Scitech Medical	200,000,000	30%
Oxandrine anabolic steroid	US	BTG SEARLE to MFR	2,000,000	100%

(Estimates provided by Merrill Lynch Pierce, Fenner and Smith)

Recent Milestones and the Gynex Merger

BTGC has adopted a strict policy of involvement in clinical trials either directly or with its marketing partners. To move products to the market faster (with the exception of hGH in the US) its products are sold by strategic marketing partners.

Gynex was merged into BTGC in the summer of 1993. The company has thus obtained the rights to Oxandrin, a steroid with the ability to help with loss of appetite and weight after certain medical procedures. It may also help AIDS victims, and people suffering with alcoholic hepatitis. Gynex has also developed an under-the-tongue delivery system for sex steroids.

Gynex intends to market its products through its own channels, so only one sales force can handle both companies.

Human Growth Hormone

BTGC has received approval for short-stature clinical trials in Europe. Approval for its sale as a treatment for AIDS was granted in Europe in November 1992. Ferring, a private chemical company based in the UK, will begin European sales in early 1994. BTGC is confident it can compete against anyone in the hGH field, due to its production technology, which employs the *E-Coli* process. Ares Serono, a competitor, uses a yeast system.

Bovine Growth Hormone may encounter objections from consumers who don't want to drink milk from cows which have been treated with the hormone.

Hepatitis B vaccine is expected to be cleared for use

in Asian countries by 1995.

Vitamin D3 for use in cases of eczema and dermatitis should be approved for 1994.

Hyaluronic acid is expected to obtain approval for sales in Europe in 1994.

If analysts' forecasts are accurate, in 1994 BTGC will have to supply anywhere from \$20-\$28 million worth of its product line. Is the present capacity sufficient to supply the market needs? We asked Dr. David Haselkorn, Director and Chief Operating officer, who has been with BTG since 1988.

"There is enough production capacity to take care of anticipated sales for the next two years," confirmed Haselkorn. Presently, BTGC has a \$13-\$14 million backlog of orders scheduled for delivery over the next two years.

ECI Telecom and Telematics in Strategic Friendly Merger

One of the largest, if not the largest transaction ever, involving an Israeli publicly owned company with shares traded in the United States will take place when the agreed upon merger between ECI Telecom (see IHTIR Sep. 93 ECI Telecom Update) and the US Telematics NASDAQ/NMS: International is consummated. The transaction is valued approximately \$260 million based on current market valuation of \$52 and \$17 respectively.

Telematics shareholders will receive individually 0.33 new ordinary ECI Telecom shares. As a result Telematics' shareholders, including the British famed philanthropist and fund manager George Soros will own 15.7% of ECI Telecom. According

to strategy the new entity will "be able to provide both major carriers and private corporate users with total answers for their voice and data communications network. ECI Telecom has 1,100 employees active worldwide. Telematics employs internationally 380 employees.

The Share Market Is Higher as Peace Expectations Rise and Interest is Lowered

In August there occurred a reversal of July's downward trend of the share market. The General Share Index rose by 9.2%. The Index for all mutual funds, as reported by Meytav, was 5.3% higher. Among the factors contributing to the renewal of demand for shares and the resulting advance were the continuous lowering of interest rates by the Central Bank and the announcement of a breakthrough in the peace process, following secret negotiations between Israel and the PLO. Short term deposit rates had fallen from 10% to 8%, since the beginning of April. The interest in shares continued in September up to the period of the New Year holyday. Two major privatization issues were easily sold. Bank Leumi BM and Shekem Department Stores. Institutions eagerly snapped up the maximum to which they could subscribe. The public issues were oversubscribed and were allocated less than one half a per cent of the amount bid. According to hearsay one bank offered its customers inexpensive credit, up to 30 times the amount of the clients holdings in his bank accounts. The availability of overnight credit to bid for the new issues resulted in an absurdly large oversubscription of 600 times the amount of Shekem securities on offer. The Bank Leumi issue was also heavily oversubscribed. Investors that sold their Leumi package of shares and options were able to realize an immediate net profit of 10-15%. In September the upward trend of the market predominated. The best performing mutual funds such as Magic and Mivneh, both share funds had gained approximately 10 per cent, one week before the end of September.

Share Funds

Category: Diversified and Flexible Share Funds

Investment Objective: Growth

Management Policy: Manager invests in equities with mix of investments adjusted to market conditions.

Funds in Category: 42

Top Five Performers

Fund	Manager	% gain
Sivan	Amban	32.4
Ycsodot	Moritz Tuchler	22.3
Ramko	Ramko	18.6
Psagot 50	Pia	17.9
Panther	Central Trade	17.9

Category: General, Maof and Specialized

Investment Objective: Aggressive Growth

Management Policy: Manager invests in the 70 leading shares making up the TASE Share index or in the 25 leading shares which make up the Maof Index

Funds in Category: 55

Top Five Performers

Fund	Manager	% gain
Zik	Unitrust	37.9
Pia Manof	Pia	32.3
Lahak Agomia	Lahak	29.2
Ahrayut Oil	Ahrayut	28.8
Ilanot Karam	Ilanot	28.2

(percentages represent gain in value in U.S. dollar terms for 12 months ending Sept. 30, 1993)

Database: Meytav Mutual Funds

IIS Shares Plummet on CEO's Statement: The Fall was Predicted

IIS Intelligent Systems' shares fell by 23% at the outset of trading on September 13 in reaction to the company's warning that third-quarter earnings would be below those of the second quarter.

"Sales from both European and U.S. markets for July and August were below management's expectations," said Chief Executive Jacob Herbst. The precipitous fall of \$7.50 a share came on a day

when 1.9 million shares changed hands, many times the average daily volume. Nearly \$100 million was cut from the market value of the company's shares. The selling was overdone, and came primarily from the US investors.

Fives issues back, in an article titled *Has IIS Intelligent Systems gotten ahead of itself?*, it was suggested in these columns that the IIS shares were overpriced. On the subject of the company's past performance we wrote:

IIS added more than \$12.75 million in sales and \$2.3 million in profits in the fourth quarter of 1992, to record \$45 million in sales and about \$7 million in profits for the year.. It was an outstanding performance for the Yokneam company, but has investor enthusiasm propelled the shares to dangerously high levels?

Yet Israeli investors continue to invest!. Have they gone meshugah?

There is little to add, other than to remind our readers that excessively high share prices can and do become the target of very strong price corrections when short-term expectations are not met.

New Substance for Self-Tinting Plastic Eyeglasses

In the US, 10 million self-tinting eyeglasses are sold annually with glass lenses. Most users would prefer the lighter plastic lenses, but the photochromic material which changes color when exposed to light dissolves into the plastic. Once the tinting material is gone, it cannot be restored.

At the Weizmann Institute, Prof. Valeri Krongauz and his team has worked up a polymer that contains high concentrations of a chemically bound photochromic substance.

A layer only a few microns thick has a powerful tinting ability, he says. It darkens quickly when exposed to sunlight, and immediately clears when indoors. The thin film can be applied on any plastic lenses, according to Prof. Krongauz, and can be removed and replaced by an optometrist.

A patent application has been filed.

Yeda, the commercialization arm of the Institute, confirms that several investors have already shown interest .

The Branover Report

Prof. Herman Branover, himself an immigrant from Russia, has obtained approval from Prime Minister Yitzhak Rabin to work with the inter-ministerial committee on absorption.

Key elements of the plan include retraining, administration and organization. Prof. Branover estimates that a five-year program at a cost of NIS 200 million could create 130,000 jobs. He envisions the establishment of 100 plants a year for the next five years.

Magic Software Moves Ahead

Intel has awarded Magic first prize for downsizing at the DB Expo.

This year the company introduced its products to the Unisys environment.

Magic is a public company with shares traded on NASDAQ:MGICF. It is Israel's largest exporter of software.

For the six months ended June 30, revenues were

\$6.5 million -- up 57% compared to \$4.2 million for the corresponding period in 1992.

The company reports net earnings of \$800,000 for the six months, compared to \$446,000 during the same period a year ago.

Assutech is Concentrating on Local Market

Assutech Ltd. is in the health-related food supplement industry. It develops its own products and markets them in Israel and internationally.

The company earlier this year completed a private placement of approximately \$1.25 million.

At the outset of the year Assutech projected \$5.0 million in sales in 1993 but these figures are unlikely to be reached this year. The Opuntia capsules have been well received in Israel where pharmacists have been recommending its use for prostate sufferers. However, the company has not found an export niche for its products. Management of the company has recently changed its marketing strategy and is concentrating on developing the local market and for the time being is not thinking if direct exports.

A new product is being launched these days which the company is offering it a "a meal substitute". It is based on citrus fibers and will replace the company's first product Assubar which has had a life span, of less than two years.

ISRAEL HIGH-TECH & INVESTMENT REPORT NEWS AND INVESTMENT OPPORTUNITIES

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