

ISRAEL HIGH-TECH & INVESTMENT REPORT

A MONTHLY REPORT COVERING NEWS AND INVESTMENT OPPORTUNITIES
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The Origin of High-Tech and Armaments

The 1967 Six Day War, as it was named, marked the end of a multi-year relationship between Israel and France. The latter had become an important supplier of arms and Mirage airplanes.

In the wake of the Six Day War, it became apparent that Charles DeGaulle had effectively cut off the supply parts for the French made planes used so successfully by the Israeli air force. It was a bitter pill to swallow and voices of reason began to promote the idea that Israeli institutes of higher-learning must be weaned away from fundamental research to applied research. The country must produce its own electronics and smart systems and become independent of funky suppliers.

The adaptation of this concept marked the birth of Israel's high-technology industries which for the greater part dedicated itself to supply the critical needs of a country which needed to be always ready to defend itself. It was a slow go at first but once momentum gathered Israelis turned to technology in earnest.

Dan Tolkowky, the one-time Chief of the Israeli Air Force found a laboratory for Efi Arazzi from which he launched Scitex, which revolutionized digital photography. Several years later Tolkowsky helped Scitex to raise capital on the over-the counter market. Investors were attracted to the young Israeli startup and helped to double the price of the Scitex shares.

Other founders of a variety of Israeli high-

technology industries included Uzia Galil who used his close connection with the Technion Israel's Institute of Technology. Dov Frohman the brilliant engineer left his job at Intel America to establish Intel Israel, which exports more than four billion annually of its chips. While industries producing products for commercial consumption were thriving the armament sector was producing novel



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weapons, which were first used by the Israel Defense Forces and then eventually found export markets. for commercial consumption

Weaponry

- Israel Shafrir missile
- Israel Python air-to-air missile
- Israel Popeye air-to-surface missile
AKA AGM-142 Have Nap in US use
- Israel Popeye Turbo SLCM suspected long range submarine-launched cruise missile

- United States AIM-9 Sidewinder heat seeking air-to-air missile
- United States MIM-72 Chaparral surface-to-air missile
- Israel Delilah cruise missile
- Israel Iron Dome anti-rocket and mortar defense missile
- Israel David's Sling surface-to-air missile
- Israel Jericho II intermediate range ballistic missile
- Israel Jericho III intercontinental ballistic missile
- Israel created a niche for air space products.

These included Space systems

- Israel AMOS communications satellite Israel EROS earth observation satellite
- Israel Ofeq reconnaissance satellite
- Israel TecSAR reconnaissance satellite
- Israel Shavit space launch vehicle

IMI unveils Magic Spear artillery system

The 155-mm rocket, which has a range of 40 kilometers, was demonstrated to 17 countries at an Israeli test site.

IMI Systems specializes in the development and production of advanced artillery systems. The company recently held a demonstration of its products under the heading, "Artillery Systems - The Next Generation." The demonstration included live fire of Magic Spear - a precise 155-mm rocket with a 40-km

range developed by IMI Systems in cooperation with BAE Systems ROKAR.

Also demonstrated were a 120-kg exploding warhead fired on the EXTRA long-range missile designed for attacking high-quality targets at a range of 150 kilometers and an advanced warhead. The event, held on a test site in southern Israel, was attended by senior officials and industrialists from 17 countries. The demonstration was designed to highlight IMI Systems' advanced capabilities, and to consolidate its status as the world's leading producer of advanced artillery systems of this type.

Startups to compete for cardio invention of 2016

Contestants competing in Tel Aviv for the ICI annual innovation award include a tiny heart pump, and a diagnosis belt for the chronically ill.

Treat heart defects in newborn babies A new surgical procedure to treat heart defects

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in newborn babies, the world's smallest heart pump, and a new indicator that makes it possible to know retrospectively if you've had a stroke - these are some of the inventions that took part in the "Cardiology Innovation of the Year" competition, in the framework of the ICI Meeting 2016, an international conference for innovations in cardiovascular systems from December 4 to 6 in Tel Aviv. The meeting directors were Prof. Rafael Beyar, director of the Rambam Health Care Campus in Haifa, and Prof. Chaim Lotan, director of the Heart Institute of The Hadassah-Hebrew University Medical Center in Jerusalem. Eight finalists were selected from among dozens of developments submitted by companies from all over the world.

NuHeart from Norway has developed the world's tiniest heart pump

Inserted through the femoral vein, the pump weighs 10-15 grams, which compares with about 200 grams for the smallest pumps currently available, the insertion of which requires risky surgery. The product is especially suitable for children and other patient groups restricted in their ability to undergo surgery.

A patient sometimes feels symptoms that may stem from a slight stroke or heart attack, but existing imaging devices and blood tests are not always sufficiently accurate to tell for certain whether such an event is taking place or has taken place in the past. The information is important in order to know how to treat the patient, for an actual event or to prevent recurrence in the future.

Current practice is to carry out a blood test for a protein called troponin, which is released by damaged heart muscle. A group of researchers from Chile has developed a new test based on other proteins in the blood called circulation ECMVs, which are released as a result of changes in communications between cells. According to the researchers, this test has

advantages over the existing one: it diagnoses the damage earlier, and is relevant to brain events as well, not just heart attacks. They estimate that they can produce a testing kit for \$30. Heart surgery and catheterization procedures are carried out in conditions of high levels of radiation throughout the procedure. This radiation is damaging both to the patient and to the medical personnel. Ikomed Technologies Inc. of Canada, run by Israeli Eran Elizur, has developed technology that monitors the movements of the surgeon's eyes and instruments to determine where their gaze is focused, and then reduces radiation on the rest of the body by means of a lead shutter. The areas on which the surgeon is not focusing at a given moment receive lower radiation and less frequent pulses, so that an image is still obtained in case of some dramatic developments in those regions but it is less sharp. The company estimates that it can obtain a ten-fold reduction in radiation levels to which patients and medical staff are exposed.

The system facilitates automatic focusing using sensors and algorithms developed by the company, or manual operation. The product developed by Haifa-based Vigor Medical Technologies Ltd. is aimed at people who sustain a blow to the chest that leads to blood or air gathering around the lungs in places where they should not accumulate. The correct functioning of the lungs depends upon pressure differences around the lungs, and when the pressure difference is incorrect, it is impossible to breathe and the injured person suffers lung and heart failure.

Irina Kavounovski, the company's director of medical equipment, says that when a person with this kind of injury is encountered in the field, a sealing device is attached to the patient's chest in the area of the injury, but it is hard to make stick because of the blood and dirt. After that, tubes are inserted to draw off the air through the sticker, or via the neck directly into the lung. These tubes tend to

become blocked, and they are only a short-term solution, while when they are inserted via the neck they endanger the carotid arteries, and that is sometimes a worse injury than the trauma that required treatment in the first place.

An alternative is to sew a drain with a wider diameter in the injured area, but that requires a doctor and can take place only under local anesthetic. Vigor has developed a device that is inserted via the wound, (or that can itself make a hole), and that immediately adapts itself to the structure of the wound, seals it, and leaves an opening via which a tube can easily be inserted. The device was designed in such a way as not to require a doctor; a medic can use it in the field or in an ambulance without prior knowledge. The tubes inserted through it can be replaced more frequently, and narrower tubes can be used, causing less suffering to the patient, without fear that they will become blocked.

"After an injury we have an hour in which it is possible to save 50% of the patients who die from trauma of this kind. When we make the treatment accessible to a non-doctor, we make it possible to give treatment within this critical hour," says Kavounovski.

Kavounovski relates how her mother suffered from the treatment using existing methods, and in the end died. The company was founded by her father, Igor Waysbeyn, and obtained finance from a US firm called Northlea Partners. It has taken part in the Technion accelerator and in the MassChallenge Accelerator in Boston, and has won various awards in international competitions.

Treating a baby's heart

Congenital heart disorders can dramatically alter the heart's shape, the directions of blood flow and the systems of valves and vessels that regulate the flow. Heart surgeons working in this field are required to show remarkable creativity, in-depth understanding of the flow

theory and particularly precise hands, in order to operate on a newborn who is a few days or weeks old and in practice reshape the heart, in a way that will affect any future development, morbidity risks and life expectancy.

One example is the procedure developed by Indian surgeon Sanjib Moskwad as part of his PhD thesis. He treated a rare heart defect that appears in 6 out of 10,000 children in India, which does not enable their hearts to receive blood from the veins. In a healthy heart, after completing oxygen distribution throughout the body, the blood returns from the veins to the heart, is mixed there and then flows to the lungs to be further loaded with oxygen. In these children the heart must be bypassed and the veins connected directly to the lung.

At present, current practice among the few surgeons who operate in this field is to connect the lower vein, transferring blood from the lower part of the body, to one of the lungs, and the upper vein transferring blood from the upper body to the other. This, however, causes one lung to receive blood arriving from the liver, where it undergoes processes that enable it to collect oxygen, while the other receives blood from the brain and the head, where it does not undergo this process, leading to the imbalance between the lungs. Another option is to first connect these two veins in a cross, causing the blood to mix. However, in this case, the two blood flows collide and thereby lose substantial energy.

Moskwad's development is a rubber component inserted in this junction, enabling the blood to flow in a swirl, thereby preventing loss of energy, while dividing the two blood streams, the one from the liver and the one of the brain, equally between the two lungs. This product is inserted in a catheterization. The concept is currently being registered as a patent.

A diagnosis belt for the chronically ill

The Indian company Uber Diagnostics has developed a belt worn on the patient's body, monitoring heart pressure, pulse and ECG indices. While there are many other entities developing wearables monitoring these parameters, Uber Diagnostics' product is unique in the way it conceptualizes product use. The company stores this data both on the cloud and in the device itself, turning it into what it defines as a 'mini medical record'. The device accompanies the patient, and could be displayed to any doctor he chooses, both routinely and in an emergency, in order to help monitor patient data and draw conclusions.

The products are earmarked for the Asian market and are aimed at enabling patients to more clearly see the link between the causes and symptoms of the illness and thereby 'take ownership of the disease' and be able to manage themselves better.

Vest for lung fluid monitoring

Lung fluid content constitutes an important indicator in determining whether a chronic heart failure patient is in the middle of seizure. The earlier this is diagnosed, the more quickly and easily that problem can be treated and deterioration in the disease prevented.

Israeli company Cardioset has developed a vest that could help patients monitor lung fluid level by measuring the level of electrical resistance in a particular area of the lungs, compared with other areas covered by the vest. Trials carried out by the company have shown that the use of this product is capable of dramatically reducing mortality and hospitalization rates of heart failure patients. This monitoring will be carried out on a daily basis at the patient's home.

The electricians of the heart

Arrhythmia disorders cause heart damage and could result in the formation of dangerous

blood clots leading to eventual blood vessel obstruction and a stroke. Among other things, arrhythmia is a result of a problem in electrical conductivity between heart nerves. It can be treated similarly to an electrical shortage at home, by applying insulation. The current practice is to cauterize certain areas of the heart muscle, using RF radiation. The cauterization causes controlled damage to tissue in the cauterized area, preventing the damaged tissue from conducting electricity - which is exactly the desired outcome, since reducing conductivity prevents the 'short-circuit' and restores the heart to a regular rate.

A group of researchers from Japan, headed by the Kyorin University surgeon Hiroshi Kubota, propose cauterization using infrared radiation instead of RF radiation. They claim that this will enable reaching into the heart's tissue (while still doing so in an accurate manner), making the insulation complete. Nowadays, the cauterization is not always deep enough, enabling the electrical current to pass through and cause the arrhythmia, even after surgery. That product has already undergone trials in 18 hospitals.

Orbotech signs biggest ever Chinese deal

The Israeli inspection solutions company has signed a \$61 million deal with BOE Technology for very large TV screens.

Electronic device inspection system company Orbotech Ltd. (Nasdaq: ORBK) reported today that BOE Technology, a leading Chinese manufacturer of flat panel displays had chosen its inspection and testing.

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of flat panel displays had chosen its inspection and testing

Orbotech has been operating in China for over 20 years and earns 30% of its revenue in the Chinese market. The company currently has 2,450 employees, about 600 of them employed in China in the fields of R&D, sales, marketing, customer service and operation.

"This is the largest single deal in Orbotech's history in China, building on more than a decade of close and successful cooperation with BOE and harnessing our proven track record of over 20 years in providing superior yield enhancement solutions for mass production to the flat screen industry," said Orbotech Vice President Gil Oron.

Referring to the effect of this contract on expected company revenue for 2017, Orbotech CFO Ran Bareket said, "it is still early to discuss expected revenue or profit for next year, but we can definitely see positive trends in the company's operations. The number of screens sold globally does not change much, but the size, quality and of course production technology of sold screens does change. At present, the OLED technology is entering the market strongly and in the next few years we will see more and more screens working on OLED, and there is also the shift to flexible screens. These trends, of constant technological changes and upgrades, of course contribute to Orbotech's results, which we saw in third quarter statements."

Share price jumps, profits break records
Orbotech, managed by CEO Asher Levi, manufactures inspection solutions for electronics devices and focuses on two main fields: printed circuit boards and flat screen displays. Orbotech's market cap is \$1.5 billion, after a 42% rise in the past year. In the past five years, the company's share jumped almost 200%. Orbotech reported a \$205 million record profit for the third quarter, slightly higher than

analyst forecasts. Its revenue rose 4.6% from the last quarter and 7.6% from the corresponding quarter last year. Overall, non-GAAP net profit rose 39% from the last quarter, to \$33 million, or \$0.68 per share, \$0.04 higher than analyst forecasts.

The GAAP net profit was \$24.7 million, \$0.51 per share, 55.3% up from the corresponding quarter in 2015. In the first nine months of 2016, Orbotech reported a 4.8% rise in revenue to \$591.4 million, with non-GAAP net profit up 32.2% from the corresponding period last year. The company's management estimates that its fourth quarter revenue will be \$214-224 million and, if it reaches this target, its annual revenue will be \$805-815 million.

Life On Air's Houseparty

Life On Air's Houseparty, which allows large groups to participate in live chat, is one of this year's most popular apps. Israeli startup Life On Air Inc. has raised \$52 million for its live video chat app Houseparty. The financing round was led by Sequoia Capital with the participation of previous investors Aleph VC, Comcast Ventures and Greylock Partners. The company has raised \$70 million to date and the "Wall Street Journal" reports that the venture capital funds were competing to invest in the latest financing round.

Houseparty is an immensely popular app, launched in early 2016, which allows large groups to participate in live chat if they are members in the chat group. Thus participants can know exactly who they are chatting with. Houseparty has been one of the most downloaded apps this year from Apple's iStore.

Twitter rival Meerkat raises \$14m

Houseparty is a second app for Life on Air, whose first product was live-streaming

smartphone video app Meerkat, which failed after being frozen out by Twitter.

Life on Air is headquartered in San Francisco with its development office in Tel Aviv. The company was founded by CEO Ben Rubin, CTO Itai Danino, COO, Roi Tirosh and Head of Product Uri Haramati.

Avery Dennison to pay \$75m for Israeli coatings company Hanita

Hanita develops and manufactures coated, laminated, and metallized polyester films.

Avery Dennison Corporation (NYSE:AVY) today announced it has agreed to acquire Hanita, a pressure-sensitive materials manufacturer of specialty films and laminates from Kibbutz Hanita and Tene Investment Funds for the purchase price of \$75 million, subject to customary adjustments.

Hanita is headquartered in Israel, with sales and distribution facilities in the United States, Germany, China and Australia. The company develops and manufactures coated, laminated, and metallized polyester films for a range of industrial and commercial applications, all of which require high performance and superior quality.

Hanita's window films are used in architecture and automotive aftermarkets; its top-coated polyester films are used in the manufacture of durable labels; and its ultra-high barrier films form part of insulation systems used in refrigeration, buildings and cold chain packaging.

"We see clear opportunities to leverage our strong global organization and established brand to help accelerate Hanita's product commercialization around the world," said Avery Dennison president and CEO Mitch Butier. "In addition to expanding our product

portfolio and providing new growth opportunities, Hanita's culture of innovation and long-standing commitment to R&D are a strong fit with our own company's 80-year history of innovation in materials science," he added.

Hanita currently employs more than 220 employees, most of them at the company's headquarters in Israel's Western Galilee. The 33-year-old company generates sales in more than 40 countries. 2015 sales totaled some \$50 million,

"We are excited to be joining forces with such a global industry leader and see it as a great opportunity for Hanita to realize its full potential," said Hanita CEO Oved Shapira, "I am convinced that Avery Dennison's resources, distribution channels, and brand will benefit our customers across all our markets, enabling continued innovation through future investment and improved manufacturing efficiency.

"This acquisition also provides employment opportunities to strengthen the periphery, as well as prospects for our employees as part of a global company. We're proud that Avery Dennison has chosen to invest in Hanita Coatings and the Western Galilee."

Avery Dennison says that it expects that completion of the transaction will take up to a few months, subject to customary closing conditions and approvals.

Pitango closes \$175m early stage VC fund

The Israeli venture capital fund now has more than \$2 billion under management.

Pitango Venture Capital today announced the launch of its seventh fund, Pitango Venture Capital 7. The Israeli fund, which has \$175 million under management, is investing

in young companies at very early stages, including at the Seed Stage.

The new fund will work alongside Pitango's first Growth Fund, which focuses on late-stage companies. This latest move brings Pitango's recent capital raising to a total of \$400 million in both funds and Pitango now has more than \$2 billion under management. Pitango's new fund focuses on IT and Life Science investments, specializing in Enterprise Infrastructure, IoT, Artificial Intelligence and Digital Health.

Rami Beracha, Eyal Niv and Ittai Harel lead Pitango's investments in young companies.

Pitango managing general partner Rami Beracha said, "Launching Pitango Venture Capital 7 is a part of Pitango's new investment strategy - working in small, highly-focused investment teams, using two parallel investment vehicles - a Venture Fund and a Growth Fund. This strategy gives us the flexibility needed in today's entrepreneurial world for initial investments in the early stages and leading large rounds in later stages."

Pitango invests in 3D printer co Formlabs
Pitango Venture Capital 7's first investment is in Graphcore, a British developer and manufacturer of an intelligent processing unit for Machine Learning, as part of a \$32 million investment round, with Bosch VC, Foundation Capital, Amadeus Capital Partners, Samsung's investment arm and other leading technology companies.

Pitango managing general partner Eyal Niv said, "I believe we are on the verge of a new era in which Deep Learning and Artificial Intelligence will gain momentum and impact every aspect of our lives. Smart IT Infrastructure, personalized medicine, autonomous transportation and robotics and accurate business forecasts are just some of the areas that will be transformed and improved

beyond recognition. I firmly believe that the Artificial Intelligence technology will bring about the greatest transformation, greater than the change brought about by the Internet, mobile phones and social media."

Pitango managing general partner Ittai Harel, who heads the Life Sciences sector, said: "Innovative companies in Healthcare, with a focus on Medical Devices, Digital Health, and Mobile Health, will be the main target of the fund's new investments. The global healthcare industry is undergoing massive transformation, and we see great potential in merging Israel's leading technological capabilities with its clinical and medical capabilities, to develop a new generation of highly promising companies."

As part of Pitango's mission statement to invest in the next generation of Israel's top technology and in exceptional entrepreneurs as early as the seed and pre-seed stages, and in close cooperation with strategic investors, Pitango has established two seed investment platforms for the fields of IoT and Digital Medicine:

MindUp, a Haifa based incubator supported by the Chief Scientist, focuses on Big Data and Predictive Analytics, Telemedicine, Cloud Computing, Wearable and Embedded Monitoring Sensors, Advanced Diagnostics, Personalized Healthcare, IT Systems for hospitals and applications and technologies for improving and streamlining medical procedures. The incubator was established in partnership with the technology giants Medtronic (Medical devices) and IBM (developer of Watson Health), Rambam Medical Center and Impact First, Israel's first social tech investment fund.

PwC Israel: Exits down 67% in 2016

There were only 55 Israeli high-tech exits totaling \$3.5 billion in 2016 according to the

PwC accounting firm. There were 55 exits in Israeli high tech from IPOs and mergers and acquisitions totaling \$3.5 billion in 2016, down 67%, compared with \$10.69 billion in 2015.

The number of deals also fell from 70 in 2014 and 2015, according to a report of exits by the PwC Israel accounting and consultancy firm.

Record high-tech funds raised in 2016

According to the report, exit deals averaged \$64 million in 2016, compared with \$153 million in 2015. On the other hand, 2016 was a strong year for Israeli technology companies in raising capital: \$4 billion was raised in the first three quarters of the year. \$200 million was raised in December and \$620 million in the fourth quarter, while \$4.3 billion was raised in 2015.

PwC Israel high-tech sector leader Rubi Suliman stated, "Since the potential pool of investors has remained more or less unchanged, it is natural for there to be a something of a lull also in Israel among certain investors, following the wave of acquisitions in recent years, for the purpose of utilizing and maximizing the technologies and companies already acquired, and for examining and investing in the new technologies."

Suliman added, "There is a great deal of money available for investments in Israeli high tech. The Israeli and foreign venture capital funds, strategic investors, angels, and other investment concerns are present in the market with more substantial than ever investment capabilities. The high-tech companies engaged in building long-term value will certainly again encounter a tsunami of acquisitions after a while."

Roboteam unveils soldier robots

The MTGR system is a lightweight combat proven tactical robot already serving in the Israeli and US armies. Israeli startup Roboteam, which is developing unmanned ground vehicles,

or in other words a type of robot soldier, has unveiled three new developments that it has been working on in recent years.

The first development is the MTGR system, a lightweight combat proven tactical robot, which can even climb stairs and has arms to deal with suspicious objects. MTGR is designed for patrol missions and intelligence gathering, can deal with bombs and can help protect soldiers fighting in an urban environment. The system significantly reduces risk to soldiers in the battlefield and enhances their ability to carry out complex and precise missions. The uniqueness of the system is high movement capability and ability to negotiate obstacles in difficult terrain while it can also gather and document intelligence using eight wide-lens cameras and a microphone. All this is operate intuitively so that required training is very short with options or adding sensors for special missions and resilience to survive the necessary environmental conditions during intensive operations. The system is being used by various Israel Defense Forces units, the US army, police units and many other armies worldwide and their deployment will be expanded enormously during 2017.

The second development is the IRIS - a very lightweight (1.8 kilograms) robot which can be used as the "eyes and ears" of a combat squad to gather intelligence in urban areas. The robot can be thrown three meters and has cameras that can scan acute angles, a sensitive microphone and an operations unit mounted on a standard computer tablet. The system is currently serving special police units and selected IDF units as well as security forces worldwide.

The third development is the second generation PRoBOT. This is a versatile, all-terrain carrier and reconnaissance robot that can carry up to 750 kilograms. This means soldiers need carry less equipment while the robot can carry the

injured away from the dangers of the battlefield. The robot can also carry out reconnaissance missions and patrols over large distances. ProBOT has semi-autonomous systems allowing it to track people or other platforms and in the coming months it will enter service in the Israeli army and revolutionize battlefield logistics for infantry and engineering brigades.

Tel Aviv based Roboteam, which was founded in December 2009 by Yossi Wolf and CEO Elad Levy recently raised \$50 million at a company value of \$200 million from the Generali Fund and a group of Singapore investors. Israeli AR co Lumus raises \$30m.

Snap Inc buys Israeli co Cimagine Media

The app has become popular because it allows the pictures to be edited, mainly by adding mini-elements to them. Snap Inc.'s Wall Street IPO at a company valuation of \$30 billion is scheduled for the first quarter of 2017.

Founded four years ago, Cimagine has developed an augmented reality (AR) solution with virtual elements that mainly provide more information about what is in front of us. These elements are combined with the real surroundings in real time and interactively. It was reported last week that Lumus, another Israeli company in the market, had raised \$30 million. The acquisition of Cimagine provides further evidence of the burgeoning attractiveness of AR technology. Cimagine's solution makes it possible to use a tablet or smartphone to assess the whether an object or electrical appliance fits into the space it must occupy. For example, when Coca Cola wants to place a soft drink machine in a grocery store, Cimagine's solution helps it spot the right place for it. The same applies to selecting living room furniture and the like.

CEO Yoni Nevo, a former ECI executive; VP product Nir Daube, a former Telco Systems executive; and VP R&D Ozi Egri, a former employee of Israeli company BATM; founded Cimagine. The company obtained most of its financing from various angels clubs. According to the Registrar of Companies, each of the founders owns 15% of Cimagine's share capital, and will therefore receive about \$5 million (NIS 20 million).



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