

# ISRAEL HIGH-TECH & INVESTMENT REPORT

A MONTHLY REPORT COVERING NEWS AND INVESTMENT OPPORTUNITIES

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## a Natural Resource is Added!

Since the founding of the State of Israel nearly 52 years ago, we have described it as a nation totally dependent on a single resource--- what became known as the "human resource". Primarily, its recently arrived Russian immigrants, its institutes of higher learning with world class standing in science and engineering, its belief in the sacredness of human life originating from the tradition of excellence set forth by Moses Maimonides. Also included are traits such as daring often a synonym for "chutzpah". All this climaxes in the entrepreneurial spirit so visible among the young Israelis who are the engine of growth of the high-tech sector.

The "big news" is that there are first signs that Israel's geological surveys followed by the expanding and intensive exploration and drilling programs are beginning to yield results. It is premature to state that Israel is geographically positioned on vast pools of oil and pockets of natural gas as are found in mineral rich neighboring countries among them Iran, Iraq, Kuwait, Qatar and Egypt

We quote from a recent report: The Isramco Oil and Gas Exploration company and British Gas, its partner in the Or 1 drill site, have decided to proceed to develop the infrastructure for extracting the gas discovered. They will also open negotiations with the partners in the Noa 1 drill site who include Reading & Bates. Estimates of the exploitable gas reserves at the Or and Noa drill sites are 200 billion cubic feet and 230 billion cubic feet, respectively. The two sites should be able to produce up to 120 million cubic feet of gas per day after more wells are drilled. If actual production meets these estimates, the wells will supply 40 percent of Israel's daily gas needs.

Professionals in the oil exploration industry estimate that the drill sites require the construction of a 23-mile 24-inch diameter pipeline at a cost of about \$50 million and a separation plant at a cost of \$35 million. The cost of drilling wells will be \$40 million, raising the total cost of the infrastructure to between \$125 million and \$135 million. Isramco and British Gas, will soon carry out a survey of the 300-square mile area around the Or 1 drill site. For a country previously bereft of any but human resources the strategic and economic impact of these natural resource discoveries should positively impact Israel's geopolitical position in the Middle East and act as catalyst towards peace in this area of the world.

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## ***Venture Capital Developments: Past and Future***

Factors behind the rapid uptake of venture capital funding is related to two main themes. One is the continuing dynamic emergence of Israeli startups in the "hot" fields of telecommunications and software related to the Internet. The other is the growing demand for follow-on capital funding by one-time startups as they enter the marketing stage. In 1999 all previous records were shattered. Barring any major political or economic global upheavals the road is open for an even higher level of investment activity in 2000.

Israeli companies received over \$ 1 billion of venture capital investment in 1999. In Q4 1999, the trend of increasing venture capital investments continued with \$ 381 million invested of which 72% was committed to Internet-Related companies.

In the past year, 254 companies benefited from vc funding, according to the recently published Money Tree™ Survey by Kesselman & Kesselman Price Waterhouse Coopers.

The firm tracks activity of investment in venture-backed companies where at least one of the investors is a venture capital firm. In Q4 1999 a record of \$381 million - was funded, with 110 companies sharing these funds (also a record). This marks an increase of 46% as compared to the record set in the previous quarter and an increase of 189% as compared to the fourth quarter of 1998. In 1999, total investments came to over a billion dollars. Cumulative investments over the last three years aggregate \$2 billion.

In Israel, venture capital investments increased by 77% in 1999, as compared to the previous year; the NASDAQ index increased by 86% and twelve Israeli companies went public for the first time on Wall Street, raising over \$ 1.9 billion.

The competition between the funds for the riper companies has led to more and more funds varying their portfolios with investments in seed companies. The relative weight of seed transactions in

1999 was almost double (17% of all transactions) what it was in 1998 (9%). Recently, we have noted the establishment of venture capital funds, investment companies and new investment greenhouses, most of which specialize in the seed stage.

### **Overview of results**

In the fourth quarter of 1999, there was a relatively high number of large-scale investments; 27 companies raised amounts higher than \$ 5 million (and 13 of those companies raised over \$ 10 million). The average investment in a financing round in the fourth quarter was \$ 3.5 million. However, 52% of the investments in this quarter went to 12% of the companies.

The Internet phenomenon intensified in the fourth quarter with 72% of all investments going to Internet-related companies (i.e. - those companies which cut across all standard industries).

From a geographic point of view, companies in Tel Aviv and the central area continue to be the main magnet for venture capital investments. In 1999, 78% of all investments were made in the Tel Aviv area, 14% in Haifa and the north and 8% in Jerusalem, with the south remaining devoid of venture capital investments.

In 1999 as a whole, venture capital was invested in 254 companies with activities in Israel (in over 340 transactions). Forty-four percent of all transactions this year were in the software field (83 of those transactions were in Internet companies), 17% in communications, 15% in medical equipment, 11% in computers and electronics, 4% in biotechnology and the rest - in other fields. Venture capital investments were made in 110 companies in Q4 1999, an increase of 72% as compared to the corresponding period in the previous year.

A peak of 57 transactions in the seed stage was recorded in 1999 (17% of the total transactions for the year). This is a tremendous increase over the 23 transactions in the seed stage in 1998 (9% of

total transactions). This trend is likely to strengthen with the entry of foreign investors into the Israeli market and with the increase in local venture capital investors.

The average investment in a transaction in most rounds of investment has increased over the years. This is most obvious in later rounds, since the competition on international markets consumes more and more resources, which are in turn more expensive. In the United States, the increasing cost of financing rounds is even more striking, particularly in the Internet field. In Israel, the average investment in an Internet company almost doubled from \$ 1.6 million in 1998 to \$ 3.1 million in 1999.

52 Israeli and 4 American venture capital firms participated in the survey for Q4 1999.

### ***Getronics-Imagine Partnership***

Getronics and Imagine, a fully owned subsidiary of NISKO Group in Tel Aviv, Israel, where Imagine is headquartered, announced a European partnership to integrate live customer support into Internet based e-business solutions. Getronics will integrate Imagine's Visual Meeting™ technology with their customer interaction and e-business solution framework. This enables live audio, video, chat and data collaboration interaction between Getronics' clients and their customers, providing "face-to-face" interaction and a personal dimension to e-business. Examples of such integration include incorporating Visual Meeting into Getronics Global Electronic Banking framework to allow for live interaction between financial advisors and customers over the Internet, together with Customer Interaction Solutions like help desk and knowledge management. Another example of the integration between Visual Meeting and Getronics Customer Contact Management is a multimedia kiosk. This type of kiosk is located on a retail premise to provide product selection advice, via a remote agent for products that are not available locally. Getronics is one of the world's top five Information and Communica-

tion Technology (ICT) companies, providing next-generation business solutions to customers worldwide. IMAGINE is a privately held technology company that specializes in Internet Provider solutions for customer contact centers. Imagine's solutions Net-enable customer contact centers to provide real-time customer service and agent support. The Visual Meeting solution by Imagine provides advanced, powerful tools that improve the productivity of agents, increase the delivery of assistance to customers and strengthen customer loyalty.

### ***Sony to Integrate Accord***

Sony International has signed a cooperation agreement with Israeli company Accord whereby Sony will integrate Accord's flagship product MGC-100 into several of its own video conferencing products. Accord's development center and headquarters are in Israel, and it has branches in Atlanta, Georgia (US) and near London.

The company has cooperative agreements with both the French and Deutsche Telecoms and with Microsoft. Accord develops and markets video

### ***Motorola's Next-Generation Processor Developed in Israel***

Motorola has unveiled its next-generation processor, which was fully planned and developed at Motorola Semiconductor's center in Herzliya. The processor will be available to strategic customers in the second quarter of 2000 to be priced below \$100. The new processor is the first product developed by the strategic partnership between Motorola and Lucent entered into April 1999. The partnership is to create next-generation computers for the communication and signal processing sectors. "This is a genuine breakthrough for performance-intensive applications in wireless and wireline infrastructure equipment," stated a Motorola executive.

conferencing units enabling multi-participant video conferencing, with all participants appearing on the screen. The company has more than 100 employees. It ended 1998 with sales of \$10 million. Accord has raised a total of \$24 million, its investors including Israeli venture capital funds Concord, Veritas, Nitzanim and Staras, non-Israeli funds Gilde and ATV and US companies Norvest and Vtel. The company is planning to raise \$50 million on NASDAQ in Q1 2000.

### ***Former Governor of Bank of Israel Joins Merrill Lynch***

Professor Ya'akov Frenkel, who recently resigned governor of the Bank of Israel, is joining Merrill Lynch in a senior position. He will chair the Sovereign Advisory Group and the Global Financial Institutions Group. Frenkel stepped down as bank governor early January. He will lead Merrill Lynch's efforts to develop its global business strategies with sovereign governmental entities, with supranational agencies such as multilateral financial institutions, and with banks and other financial institutions and will work to develop and improve the firm's relationships with these entities in the global investment banking, debt and equity businesses, with a focus on Europe and Latin America.

Professor Frenkel will reportedly command an annual salary of \$3.0 mln. Frenkel was appointed governor of the Bank of Israel in 1991 and reappointed to a second term in 1996. He set a goal of cutting Israel's inflation rate through monetary policy and succeeded in bringing inflation down to an estimated 1.5 percent for 1999, less than the government's goal of 4 percent.

Dr. David Klein who has assumed the post of the new Governor of Israel's Central Bank, due to the current trend of low inflation is expected to gradually lower, over the medium term, the prime rate of interest.

### ***Siemens buys Newbridge's Stake in Seabridge Israel***

Siemens AG stated that it has acquired full control of Israel's Seabridge by acquiring the 49.9 percent stake held by Newbridge Networks Corp. The purchase price was not disclosed. When Siemens and Newbridge acquired Seabridge—then called Radnet—in 1997, they paid \$130 million for the company. Seabridge makes access switches for asynchronous transfer mode (ATM) networks. Seabridge, according to a Siemens statement, will become the German company's center for access switches.

It is looking to add 80 employees to its staff of 200. Among Seabridge's high-profile projects was the setting up of a telecommunications network for the Olympics in Sydney and setting up a telecoms network for 100 branches of a German

### ***Amdocs to Establish Development Center in Dublin a la Israeli Model***

Amdocs (NYSE: DOX), a major international provider of customer care, billing and order management solutions to the telecommunications industry, has opened a development center in Dublin Ireland. The Dublin development center builds on Amdocs' existing global base of development centers in the United States, Cyprus and Israel. Amdocs, with the support of the Industrial Development Agency (IDA) of Ireland, set up the center, which will provide new jobs for computer graduates and experienced software developers. The Dublin development center builds on Amdocs' existing global base of development centers in the United States, Cyprus and Israel. The agreement follows meetings between Tainaiste Mary Harney, the Irish Deputy Prime Minister, and Amdocs officials. In September 1999 Ms. Harney, during her first time ever visit to Israel met with Amdocs personnel at the Israeli development center, in Raanana, just outside of Tel-Aviv. (HTIR - Sept. 1999)

bank. Siemens and Newbridge are considered world leaders in ATM technology. Their partnership intends to supply telecommunications companies with the most advanced set of solutions in the industry based on this technology.

## VC INVESTMENTS

### ***IBM Invests \$10 mln in Genesis II Fund***

IBM announced it will invest \$10 million in the Genesis 2 venture capital fund. This is IBM's first investment in an Israeli vc fund, and its first venture capital investment outside the US. To date, IBM has invested \$100 million in a small group of US-based venture capital funds. IBM with this initial investment is seeking access to Israeli start-ups on the cutting edge of technology. "The fact that IBM has chosen Israel as its first venture capital fund investment outside the US is a mark of recognition in the ability and potential of Israel's companies," stated an IBM Israel official. Genesis 2 is the follow-on to the Genesis 1 Fund, which was established in 1997. Two months ago, Genesis 2 made its first closing at \$100 million. Since then, the fund has made four investments.

The funds' general partners are Eddy Shalev and investment bank CIBC Oppenheimer.

The funds invest specifically in information technologies: communications, Internet and software. Genesis 1 has invested in 26 Israeli companies including FundTech, VLSI, Butterfly, Vcon and AudioCodes.

### ***Philips to Increase Investment in Israel through new VC fund***

Philips, whose global sales exceeded \$33.9 billion 1998 has been active locally through its two year old Philips (Israel) subsidiary and promotes cooperation with Israeli R&D projects and the sale of Philips products in Israel. The interna-

tional concern has decided to expand its research and development operations this year by investing in start-up companies in Israel, Europe and Silicon Valley. The investments will originate from a venture capital fund that Philips established in 1999, and will be in addition to the company's direct investments in companies that develop technologies relevant to its plans for future products. Ronen Gadot, in charge of the fund's activities in Israel, stated that Philips is expanding and outsourcing R&D outside of the company Philips has in the past, invested \$25 million in Israeli start-up companies in three specific areas, and plans to widen its operations in 2000. Philips recently announced plans to purchase \$10 million worth of equity in Israeli start-up companies, specifically in the high-tech sector. The fund's focus is in consumer products, communication and multimedia, semi-conductors, medical equipment and software.

### ***Globescom invests in ISPFocus***

Globescom company, controlled by Israel's Fishman and Baron group, is investing \$1.5 million in the ISPFocus Internet start-up. ISPFocus has developed a system called Active Portal for transferring information to a user based on his interests. Active Portal tracks the sites that an Internet user visits and actively offers additional information on the topics covered by the sites. ISPFocus's main clients for the system will be content suppliers and e-commerce companies. Globescom's CEO, Amos Lasker, stated that the system represents a significant breakthrough in the way information is transferred over the Internet. The company's first products are expected to reach the market during this spring. In the early 1990s, the American Pointcast company failed to market a similar product based on push technology. An ISPFocus executive said yesterday that Active Portal is different from the Pointcast program in that it adjusts itself to the individual user's wants and needs. Globescom has other

investment holdings in several telecommunications companies, including the international telephone cable company Med 1, the Israeli cable television firm Golden Channels and the start-up Commerce Mind.

### ***Perfecto Raises \$16 mln***

Israel based company, Perfecto raised \$16 million in exchange for 17.8% of shares in a private placement, at a \$90 million company valuation, after the money. US investment banks Goldman-Sachs, Donaldson, Lufkin & Jenrette (DLJ) invested \$12 mln, while the remainder was invested by previous investors, among them Intel and the Sequoia, Walden and Mofet venture capital funds. Perfecto, founded in 1997 by Gil Ra'an and Eran Reshef, specializes in developing application level security products for the Internet, mainly for e-commerce. The company's product "AppShield" serves as a solution for security problems in sites involved in sales and purchases over the Internet. Organizations currently secure their communications networks with Firewall systems, a market which Israeli Check Point leads. Perfecto's product is intended for an application level that has no solution on the global market.

### ***Incubator Companies Attract \$14.5 mln***

After a relatively quiet period, investment in incubator companies is on the rise. Private companies and bodies have indicated that they will invest \$14.5 million in four companies set up under a program financed by the Chief Scientist's Office at the Ministry of Trade and Industry. Under an agreement signed recently, Clal, Poalim Investments, the Etgar Fund, and other entities will invest \$7.5 million in Polyheal, a "graduate" of the LN Innovative Technologies incubator at Haifa Bay. The company has developed a unique medicinal substance for accelerating the healing process. Plasma Laser, another "graduate" of LN Innovative Technologies, is about to sign an

investment agreement with a local businessman Daniel Dankner, whereby Dankner will put \$4.5 million into the company. Plasma Laser has developed an innovative technology for metal processing (welding and cutting), combining a laser source with a plasma source in a single processing head. The company has beta testing sites at Volkswagen in Germany and Honda in the US. Tav Tech of the Golan Initiative Center incubator is on the verge of signing an agreement whereby \$1.5 million will be invested in it. The company has developed JETOX, a disposable product for cleaning wounds. The product is easy to carry and operate. Venture capital fund Millennium will invest \$1 million in NiTi Alloys Technologies. The company develops and manufactures medical and industrial products based on NiTi alloys that have a shape memory. In 1998 the company completed the development of a device for joining bowel loops that is naturally ejected from the human body after a few days. In cooperation with the Israeli Poria Hospital, the company also developed implants for use in mouth and jaw surgery. NiTi is about to complete its negotiations for business cooperation with German company Normad.

### ***Giza 3 and Jerusalem Global Raise \$100 mln Each***

As mentioned, the upward trend of the Israeli capital market that began in early 1999 is growing ever more pronounced. Two venture capital funds - Giza 3 and Jerusalem Global - have just finished raising \$100 million each for investment in Israeli start-up companies. Jerusalem Global will invest the money in three technological incubators it has established. Giza managed to raise the entire sum in only two and a half months. Giza 3 is the Giza Group's third venture capital fund in cooperation with GE. The fund plans to raise another \$100 million in the coming months. Giza has invested in a large number of Israeli start-ups, the most prominent among them Libit,

(which was sold to Texas Instruments for \$365 million), Telgate, Webglide and Butterfly (also sold to TI). Most of the investors in Giza 3 had also invested in the company's previous funds. Among the fund's most prominent investors are Korea's Acer, which invested in the fund through its own investment fund, the Alex Brown Investment Bank and the Dutch company Alpine West. Jerusalem Global is a Jerusalem-based investment bank owned by Shlomo Kalish. The capital being raised is intended for the company of Jerusalem Innovation Centers, an investment firm that established and finances the activities of three technological incubators, one for Internet companies, a second for companies in the field of communications infrastructure and a third in the field of life sciences. Small companies that are just starting out will work in the framework of these incubators and receive financing and professional counseling. Among Jerusalem Innovation's most prominent investors are a number of the largest Internet companies in the world, headed by America OnLine, the largest Internet provider in the United States, Scorpio, Net-to-Phone, and Israeli investors such as Clal, Africa-Israel, Bank Hapoalim and industrialist Steph Wertheimer.

## Science Corner

### ***Understanding of Key Control Mechanism in the Brain***

Weizmann Institute findings could provide new insights into a wide range of neurological disorders, including Alzheimer's disease, autism, and epilepsy. Despite more than a century of research on inhibitory neurons, very little is known on how this small population (10-20% of brain neurons) exerts its controlling effect on the brain. Pivotal for normal brain development, learning, and memory, it is not surprising that inhibitory

neurons are involved in most neurological disorders. A recent study at the Weizmann Institute, published in the January 2000 issue of *Science*, reveals key principles underlying the design and function of this inhibitory system. By repressing the level of activity in neighboring neurons, inhibitory neurons (I-neurons) prevent the brain from quickly spinning out of control into hyper-excited states or full-blown epilepsy. One of the problems that children with autism and attention deficit hyperactivity disorders (ADHD) have is I-neuron malfunction: their inhibitory system does not effectively suppress unwanted information, impeding their ability to make choices. I-neuron malfunction is involved in memory disorders (such as Alzheimer's disease), neural trauma, and addictions. It also plays a role in a wide range of psychiatric disorders, such as depression, obsessive compulsive disorders, and schizophrenia. In the past, researchers basically thought that I-neurons just sprayed an inhibitory neurotransmitter called GABA onto their neighbors. But this did not explain how they inhibited the right neurons at exactly the right time and to the right degree. The new study carried out in the laboratory of Prof. Henry Markram of the Weizmann Institute's Neurobiology Department shows how they achieve this.

### **Controlling the Neuron Crowd:**

The research team found new types of I-neurons, revealing that this tiny population is several times more diverse than previously thought. Further, using new methods that they developed, the researchers succeeded in recording directly how individual inhibitory neurons control their neighbors. They found that I-neurons build complex synapses (connections) onto their target neurons. The synapses selectively filter inhibitory messages, enabling I-neurons to shut down the activity in neighbors as required.

(cont'd on page 9)

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

**UPDATE**

## TASE Publicly Traded Venture Capital Companies

The five **TASE Publicly Traded Venture Capital Companies** continue to offer one of the most attractive vehicles available on the TASE for individual investors to participate in the bright prospects of Israel's high-tech early stage startups which are maturing and a surprisingly large number are about to become public companies. As the companies become public the holding investor immediately records a paper capital gain which he may realize at his discretion. Israeli investors, are mostly conservative, somewhat similar to their European counterparts. Pension funds and other institutional investors have shied away from investing in these companies mostly because evaluating portfolio holdings, at best, is not a simple exercise. A number of models for evaluation could be used. One is based on the Initial Amount invested in each holding. Another method is to employ a valuation based on the last known value of the company after its most recent round of financing. A third method is to employ a "seat of the pants" evaluation of the holdings based on "expectations for a public issue" and an assumed company valuation for the anticipated public issue.

Recently, Green Technologies, a company controlled by Yitzhak Tshuva, an entrepreneurial Israeli businessman, in the course of a few months turned a shell company into a venture capital empire worth almost half a billion shekels. The company has holdings in two venture capital funds - Mofet (50.3 percent) and Marathon (25.9 percent) - and in the Sadot R&D company (13.75 percent). Mofet holds a 5.8% investment in BreezeCom which is reported to be planning an IPO with a company valuation between \$200-\$250m and would stand to earn a capital gain of \$11.6 mln to \$14.5 mln. In the recent past the Green Technologies purchases have led to price increases.

Inventec venture capital fund manager Akiva Meir, recently estimated that the company is trading at 50% below its internal value. The following day its share price shot up 19.3%, and this self-fulfilling prophecy has turned the shares into a stellar performer.

<b>Sadot</b>	+ 31.9%
<b>Teuza</b>	+ 46.8%
<b>Marathon</b>	+ 32.4%
<b>Mofet</b>	+ 15.2%
<b>Inventech</b>	+ 90.0%*

\*as of January 21 and since Jan. 1, 2000



These synapses act as fast-switching 'if-then' filtering gates that allow inhibition to be applied only at the exact millisecond and to the right degree. Each I-neuron establishes complex if-then gates onto thousands of neighboring neurons and is therefore 'in charge' of controlling their activity. The gates allow I-neurons to rapidly switch their focus onto any one neuron that they are connected to. This ingenious design principle is what enables the small group of I-neurons to exert such a sophisticated effect, simultaneously 'giving personal attention' to the activity of each of the neurons to which they are connected. At the Negotiating Table the researchers showed that a 'discussion' between I-neurons and target neurons is involved in deciding which type of if-then gate should be set up to filter the inhibitory message. This decision-making process could allow each neuron in the brain to be inhibited in a potentially unique way. Dubbed the 'interaction principle', this process generates maximal diversity of if-then gates, allowing more complex and finer control over large numbers of neurons.

### **A Potential Brain-Mapping Tool**

The researchers went on to reveal a remarkable ability of I-neurons: they can sense neurons that share the same functions in the brain. I-neurons 'select' groups of target neurons to construct the same type of if-then gates, possibly enabling the I-neurons to control groups of neurons collectively. It also means that I-neurons can 'smell-out' neurons in the brain that collaborate in the most elementary functions even if they seem different in almost every other way (i.e., they can identify neurons descended from the same 'ancestors'). 'I-neurons can trace family trees of neurons. In other words, they could help us to work out how neurons are related to each other. This could one day enable us to map the functional aspect of the brain according to the genealogy of neurons - an organizing principle that we never dreamt possible,' says Markram. The researchers believe that

the ability to detect functionally related groups in the brain, called 'the homogeneity principle,' results from common signal molecules released by target cells. I-neurons may use the signal molecules to determine what kind of if-then gates to build. Future research designed to identify the nature of these molecules could yield a potent tool for mapping the functional structure of the brain.

### ***New Listing on Neue Markt***

Another company, Visionix, is joining the ranks of companies that are issuing shares on Europe's technology stock markets. Visionix announced today that at the end of January 2000 it will issue shares on Germany's Neue Markt in Frankfurt. Company founder and general manager Dr. Marc Abitbol refused to divulge the amount expected to be raised or the value at which the company will be issued, but it is estimated that the latter will be more than \$35 million. This is the company value at which Rothschild Bank and German bank KJD purchased 15% of Visionix shares last month. Proceeds of the issue, will be used to continue to develop a new product out of the development of optic technology. Funds raised will also be used to develop additional models and a marketing operation. Abitbol says the company chose the Frankfurt market for a number of reasons. Firstly, most of its customers (65%) are in Europe. (cont'd on p.12)

Joint Venture Koor Industries' Koor Futures Markets subsidiary announced that Creditanstalt Investment Bank Austria (CAIB) bought a 16 percent stake in the company. Koor said the Austrian Bank's acquisition was in keeping with its aim of seeking to increase its activity in Israel. The move would expand the services the two can offer their customers and they will cooperate in underwriting and management of public offerings and as market makers, CAIB said. Both are members of the Easdaq small cap exchange.

# IHTIR Model Portfolio Developments and Prospects

## ***Stocks Ended 1999 at All-Time Highs***

U.S. stocks ended 1999 at record highs, capping off a year of stellar gains on Wall Street, led by the New Economy's white-hot technology shares. The **Dow Jones industrial average at 11,497.12 was up 25.25 percent in 1999.**

The technology-weighted **Nasdaq has gained more than 85 percent** this year and surged almost 2,000 points, marking the best year ever for any major U.S. index.



For many Wall Streeters The Y2K worries began to disappear in the course of December 1999 and the growing perception that the world would still be intact on January 1 would explain that the traditional January rally actually took place towards the end of December. At the end of the year buoyant buying took many Nasdaq shares to historically high levels. Most Nasdaq shares experience a correction of 10% or even more in the course of the first week of the millennium, which included a Nasdaq index fall of 3.88%, the second worst one-day

drop. The Dow Jones Industrial Average, while Nasdaq was falling, reached new highs prompting suggestions that it was all part of a rethink of investors in technology issues. The interim conclusions were obvious in that telecommunications related companies with positive earnings prospects emerged relatively unscathed. Generally, technology based companies stood up well to the test of the downward correction while directly Internet related issues felt the brunt of the correction.

## ***IHTIR Model Portfolio Handily Surpasses Nasdaq's 85% Gain in 1999***

**Peter Lynch**, for **13 successful years** was manager of the Fidelity Magellan Fund. During his period of management a **\$1,000** investment in Magellan became **\$28,000**. He described his strategy as **"invest in what you know"**. IHTIR has followed this principle over 30 years of continuing to **identify companies "which we know what they do"**, **who the management is and how they aim to position themselves to be leaders in their field.** **We will not be left out of the Information Technology field and the holdings in our Model Portfolio reflect this attitude.**

In the year 2000 these companies may be **expected to outperform their peers** but a **190.2% annual gain in the IHTIR Model Portfolio as in 1999**, or more than twice the gain achieved by Nasdaq is a hard act to follow.

# ISRAEL HIGH-TECH MODEL PORTFOLIO

## Selected Israeli Growth Companies

	Quantity		Commission	Open Amount	Current Value	Gain/Loss
<b>IHTIR Model Portfolio</b>						
BackWeb		BWEB		Price as of 1/21/2000: 40.875		
Total:	1,000		\$0.00	\$43,500.00	\$40,875.00	(\$2,625.00)
<hr/>						
Check Point Software Tech		CHKP		Price as of 1/21/2000: 243.81		
Total:	750		\$0.00	\$34,031.25	\$182,857.50	\$148,826.25
<hr/>						
Comverse Technology, Inc.		CMVT		Price as of 1/21/2000: 150.375		
Total:	750		\$0.00	\$34,687.50	\$112,781.25	\$78,093.75
<hr/>						
Gilat Commun.		GICOF		Price as of 1/21/2000: 24.00		
Total:	5,000		\$0.00	\$49,375.00	\$120,000.00	\$70,625.00
<hr/>						
Gilat Satellite Networkss		GILTF		Price as of 1/21/2000: 126.50		
Total:	1,000		\$0.00	\$56,125.00	\$126,500.00	\$70,375.00
<hr/>						
Point of Sale Ltd.		POSI		Price as of 1/21/2000: 17.50		
Total:	7,800		\$0.00	\$49,725.00	\$136,500.00	\$86,775.00
<hr/>						
Technomatix		TCNO		Price as of 1/21/2000: 39.50		
Total:	871		\$0.00	\$23,734.75	\$34,404.50	\$10,669.75
<hr/>						
<b>IHTIR Model Portfolio</b>			<b>\$0.00</b>	<b>\$291,178.50</b>	<b>\$753,918.25</b>	<b>\$462,739.75</b>

### IHTIR Model Portfolio Investment Summary

Original Assumed Investment at the Start of 1999 was	\$ 246,850
Total Current Value	\$ 753,918
Gain as of January 21	\$ 462,740 +205.4%
Gain in Period December 21, 1999 and January 21, 2000	\$108,072 +16.7%

Secondly, Visionix managers believe that the Neue Markt is “the fastest growing stock market in Europe.” From its headquarters in Jerusalem, Visionix, set up in 1994, has built a wide customer-base of leading companies in the fields of optics, construction and aeronautics. In introducing PowerMap systems, a new system based on the Hartman Wavefront 3-D technology lens, manufacturers and labs found they were able to obtain a simultaneous, comprehensive and accurate picture of all of the optical parameters of an entire lens within seconds. The company is investing in adapting the technology for use by opticians and ophthalmologists. A company executive says company revenues are expected to reach \$3 million in 1999, and move to profitability. Recently, Visionix was able to apply the above technology in the development of a stand-alone lensmeter for the ophthalmologist, optometrist and optician. Shareholders on the eve of the issue are: general manager Marc Abitbol, with 30% of company shares; venture capital funds Fairchild (17%); JC Technologies (16.4%); the Inventech fund; the Rothschild Bank (7.4%) and the KJD bank (4.4%). The two banks will underwrite the forthcoming issue.

### ***Orckit and Spanish Telecom Radiotronica Joint Venture***

Spanish Telecom Radiotronica announced it is entering into a joint venture with Israeli Orckit Communications to develop ADSL lines for Spain and Latin America. The partners hope to win 20% of the market for this type of technology, which adapts conventional phone lines to carry high speed data. That would bring in estimated sales of \$3 bln in the next seven years, Radiotronica said in a statement.

### ***Clal Electronics Completes Purchase of International Paper's Scitex Holdings***

Israel's Clal Electronics Industries said it had completed the purchase of a 6.6% stake in Scitex from

International Paper for \$40 million, or \$14 a share. The acquisition, originally announced in November, will raise Clal's stake in Scitex to 19.7%.

### ***Model Portfolio Companies***

#### ***Recent Developments***

**CheckPoint** announced a two-for-one stock split, and reported that 1999 revenues grew 55 percent to \$219.6 million from \$141.9 million in 1998. Net profit for the year surged 42 percent to \$95.8 million from \$67.3 million, excluding a capital gain in 1998. There was strong gain in revenues in the fourth quarter at \$67.9 mln compared to \$40.5 mln for the same period in 1998, an increase of 68 percent. Net income for the quarter was \$29.8 mln or \$0.70 per share compared to net income of \$18. Its stock has been a strong performer in recent months and recently reached a market capitalisation of some \$9 billion. The product most likely to grow substantially in 2000 is expected to be the SVN architecture, a product that defines the standard that companies use to secure their connection to the Internet and to their partners.

**Tecnomatix** price surges after a Wall Street analyst projected target of \$80 for the TCNO shares.

RealNetworks®, Inc. (Nasdaq: RNWK), the recognized leader in media delivery on the Internet, and **BackWeb Technologies** (Nasdaq: BWEB), a leading provider of push for e-business solutions, announced an agreement to integrate BackWeb's Polite push technology into RealJukebox to create a first of its kind Internet music delivery service for consumers. This new free subscription-based delivery service -- code named “Quicksilver” -- will enable RealJukebox users to automatically discover and receive CD-quality samples and full-length songs from their desired genre of music. In a separate agreement, the two companies announced that RealNetworks would make a \$15 million minority investment in BackWeb.