

ISRAEL HIGH-TECH & INVESTMENT REPORT

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New Investment Bucks Seek New Directions!

Large Israeli high-tech companies are growing in terms of sales and profits at a fast pace. In some instances at 25%-35% or more a year. The highly profitable ones are plowing back profits to advance their future development. There are those like CheckPoint and Comverse whose stocks are sizzling and at these high-levels their shares are cash equivalents for acquisitions. Medium-sized companies, not yet public, are on the receiving end of follow-on investments from corporate and venture capital investors. Keeping in mind these conditions it should not surprise anyone that the ongoing and growing wave of financing activity is focusing on the myriad of Israeli start-ups. These number anywhere between 1,500-3,000, by our and other sources. Internet and communications both software and technology projects related activities are clearly of interest to American "big corporate players". They have full confidence "that if it's developed in Israel" it is likely to work. E-commerce, broadband, building web communities, foreign languages word translations, communications systems over high-frequency communications network, e-mail and fax routing solutions, Internet security and encryption are, "hot" start-up areas which need and will attract capital. However, mature investors are looking for companies which have a developed product, a proven technology and even patent protection. Before they can reach these achievements the companies need to attract the attention of the hardy breed of investor variously known as angels, seed money providers or vc'ers specializing in start-ups. For the more venturesome investors this scenario represents a window of opportunity. There are those

that are climbing onto the "invest in the start-up and early stage" bandwagon. Mentioned in this issue is the formation of a new venture capital fund founded by Robin Hacke-Farhi and Julie Kunstler. The new vc fund has started to raise a war chest of up to \$100 million. The fund will specialize in investments in early stage companies in the communications field in Israel, Europe and the United States. The Israeli based partners are making it clear that they hope that at least a third of the money will flow into Israel "but if valuations here are high we will go elsewhere", says one of the partners.

The large number of young companies seeking a

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place among their more mature brothers has put a strain on venture capital firms to evaluate the hundreds of business plans and propositions which they receive each month. An attempt to speed up the process is a new Internet based website which takes a square aim at Israeli start-up companies. Visitors to the site are told that if their project meets standards they will get their money within five weeks.

Israel's investment bank and venture capitalist community could hardly be culpable of transparency or ease of approach. They exude the smell of success, are hard to reach and often even more difficult to offer personal contact, thus they are far from being easily accessible to the startup entrepreneur. Those who have previously proven themselves by starting and selling a company, that is successful entrepreneurs, have little difficulty in getting a hearing to promote a new idea or new widget. The five year old Jerusalem Global Ltd. (JG) is out to change this by launching a website for entrepreneurs. Those using the its website "yazam.com" will find that JG is offering the entrepreneur a quick way to be exposed to the possibility of raising capital for a startup or for a company at the seed investment stage company level. An extravagant promise but we understand that it is moving ahead.

Then there is another Internet based "matchmaker" calling itself: Angels for Israel, an investor/entrepreneur Internet matching service This new service is aimed at enabling individual and corporate investors to access young Israeli high-tech companies. The emergence of venture capital funds specializing in startups as well as new services such as Yazam and Angels for Israel are an indication of a recognition of an unbalance of investment focus by venture capital funds. The recent Money Tree Survey pointed out that while overall venture capital investments are pouring at a rate of more than \$900 million a year, seed investments amounted to a miserly 3% of the total venture backed investment. However, just as nature abhors a vacuum

so do enterprising investors who can seek and identify new opportunities among Israel's vast ocean of start-ups .

European Union Seeks to Fund Israeli R&D Programs

Israeli companies can look for research and development grants beyond the Office of Israel's Chief Scientist of the Ministry of Industry and Trade which distributes some \$370 million in research and development grants whose principal is to be returned in the form of royalties. They can apply for R&D grants under the European Union's Information Society Technologies Program (IST) which is a major theme of research and technological development within the European Union's Fifth RTD Framework Program, (1998-2002). IST is conceived and implemented as a single and integrated program that reflects the convergence of information processing, communications and media technologies.

IST has a budget of 3.6 billion Euro, and is managed by DG XIII of the European Commission. The first calls for proposals were launched on March 19 and these attracted strong interest, as well as high quality proposals across all sectors. In September Briton David Talbot, a senior European Commission official, during his visit to Israel, spent many hours meeting with Israeli companies in order to convince them it would be worthwhile joining the European research program.

The projects winning European financing under the IST (Information Society Technology) program, in the EU Fifth Framework Program for R&D, were recently announced. The Israeli companies did well with 32 research proposals accepted for grants totaling Euro 17 million. Among the recipients are Israel Aircraft Industries, ECI Telecom, and Optibase, which has won European financing for the development of new technologies for the second time.

David Talbot is seeking local technologies that can be integrated into the specific area for which he is responsible - namely E-commerce. "We are now looking for technologies supporting the creation of digital trust, aimed at expanding the use of e-commerce," he explains. Altogether, this year, Israeli proposals are expected to obtain funding which is equal to the total funding Israeli companies received from Europe in the past three years. The open competition between Europe and the US plays no small part. A short while ago, European officials complained that the Israelis were selling all their technologies to the Americans. The Israeli response was that indeed Americans were buying and suggested that European buyers are just not in sight.

If Israel skilfully exploits the window of opportunity accorded by the EU Fifth Framework Program, it will be able to strengthen its closest export market. Against the backdrop of European stock exchanges competing with the US stock exchanges, the continent's financial market is starting to open up to foreign technological initiatives, including those of Israel, which bring their reputation with them from the US. In terms of financing conditions alone, the Europeans hold out some interesting promises. For example, a commercial company receiving an R&D budget must add another 50% from its own resources. In fact, this works out at much less, since the EU budget includes full overhead expenses, or 80% coverage of overhead expenses. If overheads are less than 80%, this means an almost clear profit to the company. Best of all is that the grant has no strings attached and no royalties are expected. Some companies in Israel are already examining how they get the best of both worlds: EU budgets and Chief Scientist budgets. The idea is simple - the EU budget is given for the development of technologies within two years. The Chief Scientist budget is given for the development of specific products. There is no conflict, and the two budgets can finance two separate stages of the same

\$5b. in Foreign Investment in Israel- Sets a Record

Foreign investments in the Israeli economy rose sharply since September 1998. Overall foreign investments in the period September 1998 - July 1999 reached a record \$5 billion. This emerges from figures published by the Bank of Israel, Israel's central bank. Overall direct (non-financial) investments in the economy (real estate and industry) amounted to \$2.8 billion in this period. Overall foreign financial investment was \$2 billion. The figures point to a sharp rise in foreign investments in Israeli securities overseas (notably high tech). Since the beginning of 1999, foreign investors bought \$970 million in securities issues on foreign stock exchanges. At the same time, the secondary market overseas posted a \$510 million fall. Foreign investments on the Tel Aviv stock exchange declined \$46 million since the beginning of the year, following a \$300 million drop in the first half of 1998.

process. ISERD is aware of this possibility, and not by chance. since Chief Scientist Dr. Orna Berry is chairman of ISERD, which is greatly interested in full cooperation.

Financing reaching Israel is miniscule in relation to the overall EU Fifth Framework Program (the high tech component amounts to Euro 3.6 billion, to be distributed in 1999-2002). However, ISERD is conducting an aggressive marketing campaign to convince the industry of the other advantages in cooperating with Europe.

Mid-Year Software Exports at \$1.0 b.

In the first half of 1999, Israeli software exports rose 43% compared with the corresponding period last year. Software exports during that period amounted to \$1 billion.

According to Amiram Shor, chairman of the

Israeli Association of Software Houses in the Manufacturers Association and chairman of MLL Software & Computers, if the trend continues at its present rate, software exports may cross the \$2 billion line this year. Mr. Shor points out that an Israeli Software Houses Association analysis of 26 New York-traded Israeli software companies accounting for 70% of overall exports, reveals that, with the exception of three companies that posted a drop in sales, all others posted 10%-80% sales rises. Shor said that a 15% rise in software exports was posted in Q2, compared with Q1. According to him, the shortage of computer professionals has eased recently, which moderated salary demands in the sector, despite a shortage of 1,500 skilled staff. The software industry has some 300 exporters. The sector includes 350 software houses employing an estimated 13,000 staff, mostly computer science, computer engineering and software engineering graduates. Some staff are practical engineers with programming certificates.

Brown & Sharpe Acquires Technologies for Electronics Market

Brown & Sharpe Manufacturing Company has created a new unit, Brown & Sharpe Surface Inspection Systems Inc., to focus on the electronics market. SIS has acquired substantially all of the assets, including the technology, of Display Inspection Systems, Inc., Morgan Hill, California, and Digital Data Inspection Systems, Ltd., K'Far Saba, Israel.

Solar Technology Breakthrough Opens the Way to Large Scale Use of Solar Energy

An innovative solar power system was presented at the ISES congress. The system has been under development since 1996, within the

framework of the US-Israel Science and Technology Foundation, by a consortium, which includes Boeing, Ormat, and Rotem Industries in collaboration with the Weizmann Institute of Science. The initial technologies were developed within the solar consortium Consolar in the framework of Magnet program of the Ministry of Industry and Trade. The system makes it possible to power state of the art combined cycle power plants by using both natural gas and solar energy. Gas fired power plants built today with provision for the addition of solar collectors will be usable in the future as solar powered power plants. When powered by solar energy, the efficiency of the plants will be much higher than that of photovoltaic cells.

Boeing, as the project team leader, is responsible for system integration, the heliostat field, the master control system, the tower and tower reflector. Ormat is responsible for the power conversion system and for the fluid loop integration, and Rotem is responsible for the air receiver and its associated optics.

The Weizmann Institute of Science through its commercial arm, Yeda, will transfer the unique solar technologies to industry and will also host the prototype system in the Institute's solar test facility. The prototype plant construction will be completed by the end of 1999.

Electricity transport has recently become competitive with natural gas pipelines for transporting electricity to distances of up to 5,000 km, making it possible to site power plants near the gas wells, rather than near the electricity consumers. Wherever gas fields are developed in sparsely populated areas with high solar intensity, there is a substantial advantage in constructing power plants close to the gas field: the initial investment in conventional gas fired plants, at competitive prices (with only minor modifications in the combustion systems), can be enhanced in the future, as gas fields deplete,

by adding solar collectors and using the plants as solar powered plants. This will extend the useful life of the plants and power transmission lines for decades beyond the exhaustion of the gas resources.

In the conventional approach, where gas is transported to consumption areas, gas pipelines and power plants become useless when gas reservoirs are used up. Using the proposed strategy, the life of power plants can be extended, avoiding the expense of de-commissioning power plants and pipelines. This innovative scheme can thus provide a truly sustainable power supply to densely populated areas.

Background information

The new system is implemented in a pilot solar plant, the first of its kind in the world, which uses solar energy for directly powering gas turbines in order to produce electricity. It is located at the Weizmann Institute of Science and will be completed by the end of 1999.

It makes use of technologies, particularly special optics and an innovative air receiver, developed on the basis of research conducted at the Weizmann Institute's Canadian Institute for the Energies and Applied Research. These technologies reflect, concentrate, and convert sunlight to provide the high temperatures necessary to directly power gas and steam turbines in a combined cycle and thus generate electricity.

The innovative solar system is equipped with highly reflective mirrors (heliostats), which track the sun in two axes and reflect sunlight up to another reflector atop a central tower. This reflector redirects the sunlight back down to a matrix of optical concentrators, capable of concentrating the light 5,000 to 10,000 times, compared to natural sunlight reaching the earth. The concentrated radiation then enters a unique group of solar receivers, located on the ground, which heats up compressed air to be used for driving the turbo-generator that produces electricity.

The pilot system's advantages stem from a

unique combination of technologies. Firstly, the production facilities, including the concentrators, receivers and turbogenerator, are located on the ground rather than at the top of the tower (as they were in previous systems). This innovation will make construction of the tower, whose sole function will be to support the reflecting mirror, significantly simpler and cheaper.

Secondly, the sophisticated design of the concentrators, based on pioneering research at the Weizmann Institute, will make it possible to concentrate sunlight sufficiently in order to heat the air to the temperature needed for driving advanced gas turbines.

A third innovation is the use of the Weizmann Institute-designed solar receiver (nicknamed "Porcupine") that contains hundreds of ceramic pins arranged in a geometric pattern that maximizes the collection and use of sunlight. Compressed air that flows across the pins is heated and channeled to the gas turbines. Sunlight enters the device through a special cone-shaped quartz window that can withstand higher pressure than a similarly designed steel cone.

Israel's NetVision Plans U.S. IPO

Israel's NetVision Ltd. is planning an initial public offering on Wall Street at an estimated company valuation of about \$250 million. Netvision did not say how much it hoped to raise in the

3rd Annual Hambrecht & Quist and Tamir Fishman Growth Conference

The conference will highlight close to 90 companies, both public and private. The conference provides a meeting point for entrepreneurs and investors from Israel and around the world to explore the opportunities generated by the technologies. Hilton Hotel – Tel Aviv, Israel October 6–7, 1999.

offer. Salomon Smith Barney is expected to underwrite the offering, which is to take place in the next few months. Elron Electronic Industries (Nasdaq:ELRNF), Tevel and Aurec Local Information Service Ltd. together with Monitin Itonut Ltd., each own a 33 percent stake in NetVision, a leading Israeli Internet service provider.

Tadiran Scopus Supplies CBS with Compression/Decompression Systems

Tadiran Scopus has supplied CBS Newspath with digital compression and decompression equipment for converting the company's existing analog broadcasting channels into digital ones. The integration of existing systems with Tadiran Scopus systems was done by US communications company Miralite Communications.

Tadiran Scopus' equipment enables distribution of CBS's video broadcasts from an ASC video server at the central news station in New York to CBS's various broadcasting stations across the US. The equipment includes digital compressors and CODICO receivers enabling video, audio, and data transmission through compressed video broadcasts.

Delta Three IPO Aims to Raise \$58m.

Delta Three, a provider of Internet Protocol (IP) telephony services and other web-based communications services, is planning to raise \$58 million by a public offering on American capital markets. Delta Three is fully owned by the telecommunications company RSL Communications, which is controlled by Ronald Lauder, owner of the Estee Lauder cosmetics empire. Market sources believe Delta Three will be issued according to a valuation of around \$300 million. The issue will be underwritten by the investment houses of Lehman Brothers, Piper Jaffray, Warburg Dillon Reed and Lazard Freres & Co. Delta Three was established in 1996 as an American company, but it carries out most of its

activity in Israel. The company has 85 workers, of which 65 are in its development center in Jerusalem, and the remaining 20 in the company's New York offices. RSL took over Delta Three in two stages. In the middle of 1997 it acquired 50 percent of the company for \$5 mil-

Angels for Israel

Ramat Gan, Israel-based Seraphim (Hebrew for "Angels") International Ltd. recently launched Angels for Israel. The new Internet service is aimed at enabling individual and corporate investors to access young Israeli high-tech companies. Angels for Israel focuses on high potential start-ups in growth areas of Israel's economy such as Internet, communications, information technology, software, electronics and bio-medicine and matches companies with the requirements and preferences of investors.

Until now, the company asserts, clear actionable information on Israeli companies has been difficult to obtain by investors. Angels for Israel's Internet based service bridges the information gap on opportunities within Israel. Israel has developed into a Silicon Valley of the global technology community with hundreds of innovative companies in the forefront of scientific research. As a result, venture capital firms have been adding more and more Israeli companies to their portfolios. Israeli high-tech has proven appeal because of its enormous success in the international marketplace.

Over 135 companies have made initial public offerings on US and European exchanges - the great majority in high-tech fields. Moreover, scores of Israeli firms have been acquisition targets by large US companies, primarily motivated by a desire to acquire advanced technologies.

lion. Then in April 1998, RSL bought the remaining founder's shares for \$14.7 million, thus becoming the sole shareholder.

NetGame Ltd. Announces High-Speed, Hotel Internet Access

NetGame Ltd., a fast-growing Israeli-based company that plans a future IPO, with installations in well over 30 countries, announced that it would be exhibiting its NetHotel product at Microsoft Corporation's HITEC booth. Microsoft will be dedicating part of its HITEC booth to include Microsoft-based in-room Internet applications, among them NetGame Ltd.'s NetHotel product. NetGame's NetHotel enables guests to access the Internet using their laptop computers, or through in-room, set-top devices, while at the same time eliminating the excess traffic on the hotel's PBX system. Based on Microsoft BackOffice & Internet Information Server (Option Pack 4) technologies, NetHotel provides business travelers with high-speed Internet access from the comfort and security of their hotel rooms. NetHotel uses the existing hotel cable television infrastructure to provide continuous, fast, and low-cost connections to the Internet and online services at speeds of up to 100 times faster than possible with standard telephone modems. At the core of the NetHotel system is a Microsoft Windows NT host installed at the hotel. Hardware for the network consist of the NetHotel Bridge that can be easily stored in the basement or business center, and NetHotel Cable Modems that are placed in the rooms. Software for the Network consists of the NetHotel Stand-alone Management System based on Microsoft BackOffice technologies and Microsoft Internet Information Server (Option Pack 4). The NetHotel Cable Modems are connected to the NetHotel Bridge on the existing cable network (RF network), and the Bridge connects to the Router on an Ethernet 10-Based T

port. All NetHotel Cable Modems are equipped with 10-Base-T Ethernet interfaces. The NetHotel Cable Modems enable the hotel guests to become members of a local area network (LAN), bypassing the hotel's PBX. A high-speed phone line (T1, ISDN, or ASDL) connects the network to a local ISP. An interface to a property management system allows hotels to bill NetHotel charges to a guest's folio automatically. NetHotel provides an in-room, high-speed Internet access port for the increasing number of hotel guests that are traveling with laptop computers. By eliminating the need to burden the hotel's existing PBX (telephone exchange) for their guests' Internet access, NetHotel decreases the load on the hotel's telephone system, while also allowing guests to access the Internet at speeds of up to 10 Mbps. Plus, the convenient service is as easy for guests to use as their own corporate LAN. Besides keeping travelers connected to the Internet,

NetHotel is a solution for connecting guests to the hotel's business center, enabling guests to use printers, disk storage, fax machines, and even lease software from the hotel, essentially providing travelers with a comprehensive business support solution.

"Microsoft is dedicated to creating advanced platform technologies that help improve the way business is conducted either on the road or in the office," said Gary Cooke, business services manager at Microsoft Corp. "We're pleased to see NetGame leverage our platform to develop and deploy a robust in-room Internet service solution that addresses remote access needs for business travelers."

According to Benny Gagin, CEO of NetGame Ltd., "NetHotel is part of NetGame's overall strategy to extend our market presence by providing data over cable solutions to small to medium-size cable networks.

About NetGame

NetGame Ltd. is dedicated to the development of digital solutions for the cable television industry, specializing in data over cable technologies. NetGame Ltd. has already installed its End-to-End solution in Europe, Eastern Europe, Hong Kong, China, and the United States as well as in Tel-Aviv's new Sheraton City Tower. NetGame Ltd. Was founded in 1994 and is a subsidiary of BVR Technologies (Nasdaq:BVRTF).

Schema Raises \$5m.

Schema, of Kibbutz Glil Yam has raised \$5 million from venture capital funds Walden (\$2.4 million), Etgar (\$1.5 million) and Gemini 2 (\$1 million). The balance (\$100,000) was raised from private investors. This is the company's second round of financing. In the first round in July 1997, the company raised \$2 million from the Gemini 1 fund (a branch of the Van Leer group of the Netherlands), and IIRS of Israel. At the seed stage in May 1995, the company raised \$800,000 from the Gemini1 fund, Eurofund and Onyx. Schema has a generic technology that enables the optimization of systems in many spheres, without prior knowledge of the systems. The company started out by applying the technology in logistic fields, but in recent years it has directed its efforts to the cellular market. According to founder and general manager Yuval Davidor, the company has just successfully completed a series of tests in six cellular operators in the US and in Israel. As part of the tests, the software, which enables better exploitation (10-35%) of the cellular operators' frequencies range, was examined. Davidor says the software represents an alternative to investment in infrastructures. The cost of installing an antenna is likely to reach between \$400,000 and \$2 million. He said the operators participating in the tests calculated that purchasing the software would enable them to save \$20-\$45 million. Schema was set up by Dr. Yuval Davidor in 1995, and has a payroll of forty in Israel and the US.

Shareholders in the company are Walden, Gemini, Etgar, Eurofund, private investors, the founder and employees.

As the 20th Century Draws to a Close An Economic View Israel, Past, Present and Future

As early as the 18th century Adam Smith attempted to define how and why the economy works, placing considerable emphasis on the role of labor and the operation of unrestricted market forces. More recently economists have developed different theories.

W.W. Rostow argued how and why the economy works. He suggested that the process can be divided into stages—the traditional, largely agricultural stage; a transitional stage, in which the human and technological conditions for a rapid advance are established; the take-off stage of rapid growth; and a mature stage marked by large-scale production and mass consumption. Israel's economic growth can be identified by applying the Rostow model. In the early years, the 1950s until the mid-1960s agriculture flourished and was driven by the need to feed a rapidly expanding population. The population quadrupled from 600,000 in pre-state period to 2.5 million in the 1960s. Agricultural output whether vegetable and orange growing or was enhanced by locally developed technologies which allowed the use of brackish water for growing vegetables. and intensive irrigation techniques which included the use of computer controlled water dripping systems which concentrated the irrigation process at the root of the plant. It was good for agriculture and it maximized the available water

supply. It worked well for raising flowers which to this day, long after the eclipse of citrus growing, continues to be an annual source of several hundred millions of dollars in export revenues. Fertigation, by the introduction of fertilizers into the irrigation fluid made the whole growing process more effective. It helped in providing the food supply basis for Israel's population and subsequently these techniques became exportable to countries in South America as well as to big population nations such as China and India.

It is generally agreed that, especially in the early stages of development, natural resources exert a major influence on the rate of economic growth. However, even more important are human resources: the size of the labor force as a proportion of total population; the quality of the labor force, which is dependent on the level of education as well as inherent qualities of the people. After a few economic high-inflation hiccups in the early 1980s Israel entered a period in which both the human resources and technology basis was being laid for an unparalleled period of growth. The production of knowledge is a broad category including outlays on all forms of education, on basic research, and on the more applied type of research associated with industry.

In the early 1990s the arrival of about 700,000 Russian immigrants brought with it a highly educated human resource base which blended perfectly with the Israeli entrepreneurial and pragmatic approach to problem solving. Many of the new Israelis were extremely well grounded in physics, medicine and electronics. They knew very little about applied science. They had worked in their native Russia in large national institutes where the aim was to understand how things worked rather than how to apply basic science. Israelis were long on application and market orientation. There was a natural synergy between the two and it formed the productive human resource basis for a period of multi-year

growth of more than 7.0% a year.

A labor force that is engaged in the production of high-technology products will produce more added value (the amount by which the cost of labour and raw materials is exceeded by the final selling price) than one engaged in simple processing industries. For this reason, most economists agree that the higher the rate of capital and technological investment, the higher the rate of economic growth. There is considerable empirical evidence that suggests that countries that devote a comparatively high proportion of their resources to investment, as opposed to consumption, tend to have relatively high long-term economic growth rates. It is argued that fast-growing industries tend to be those having a high research and development component in their total costs. In addition, firms within an industry that have large R&D budgets tend to experience the most rapid technological progress. The argument is that technical change and improvements must originate in inventions that lead to innovations in the products produced or in the processes where by existing products are manufactured.

So as the 20th century draws to an end Israel has in just over 50 years, leapfrogged through the various stages of economic progress and its more recent economic indicators are pointing upwards. Low inflation, an incredibly high rate of foreign investment which will total several billions of dollars, by the year's end, a highly trained and motivated workforce and an unparalleled track record of technological achievement in the areas of IT and Internet.

In 1994-1995 Bill Gates may have missed in identifying IT as the major new trend but Israelis were already on the band wagon. Large scale of output of technological products is part of Israel's projection of economic growth as well as a continuous growth in mass consumption.

Nectaris Raises \$4mil. from Hummer Winblad

In 1989 the American based Hummer Winblad Venture Partners (HWVP) was created as the first venture capital firm focused exclusively on software. As the software industry has grown from PC software to enterprise computing to Internet applications, the company has been at the forefront - funding the entrepreneurs and ideas that helped define these markets. Its investment portfolio has included some of the well known names the Internet universe. HWVP, after a three day examination of the company, invested \$4 million in Nectaris, based in Ramat Gan Israel. According to Mark Gorenberg, a director, Nectaris will soon unveil a revolutionary new Internet service that is to change the way people find and share information on the web.

HK Strategy & Finance Forming \$100m. Venture Capital Fund

Robin Hacke-Farhi together with Julie Kunstler formed, some years ago, what became one of Israel's leading business, marketing and business strategy consultancies. The two are shifting gears and are in the process of forming a \$100m. venture capital fund which will invest in Israel, Western Europe and the U.S. Hacke-Farhi has experience in finding investible firms and has done that for John Sculley, former Apple president who invests for his own account. She pinpointed at least three companies for Sculley who completed his initial investments in Israeli technology internet companies.

"Over the next 30 months we expect to form the fund and invest in 15 deals. Outside of Israel we will concentrate on companies who have a visible product, preferably in beta testing. However, in Israel where we hope to conclude 5-7 investments. Here we may invest in an earlier stage of a company's development if they have seasoned management," Robin-Hacke told the Israel High-Tech & Investment Report.

There are Likely to be More Buyout Candidates!

Since August 1998, no fewer than seven publicly traded Israeli companies have been bought for cash or stock. Sungard Data bought Oshap Technologies for \$210 million. BMC Software bought New Dimension Software for \$650 million. Cinar Corp. bought Edusoft for \$41 million. Texas Instruments bought Libat Signal for \$365 million. Convergence bought Wiztec for \$110 million. Texas Instruments bought Butterfly for \$50 million. NESS Technologies bought ConTahal for \$25 million

Elbit Wins Australian AF Contract

Elbit Systems Ltd. (Nasdaq:ESLTF) announced that it has been awarded a contract to supply night vision systems for the Australian Army's "Black Hawk" helicopters. Elbit Systems will supply 12 Aviators Night Vision Imaging System/Head Up Display systems to Raytheon Systems Company Australia, a subsidiary of Raytheon Company.

The system projects all necessary data into the pilot's Head-Mounted System, allowing him to receive mission information without having to look at the cockpit instruments.

Israeli-Chinese Joint Ventures

According to Uri Har, Electronics Industry Association general manager Israeli and Chinese high tech companies currently have 60 joint ventures. Israeli electronics exports to China were \$43 million in 1998. Har expects exports to rise considerably in the next two years. A delegation of industrialists is currently in China in an effort to extend industrial cooperation between the two countries.

ISRAEL HIGH-TECH MODEL PORTFOLIO

Selected Israeli Growth Companies

	Quantity	Commission	Open Amount	Current Value	Gain/Loss
Israeli Growth Company					
Check Point Software Tech				Price as of 9/17/99: 88.00	
Total:	1,000		\$0.00	\$45,375.00	\$88,000.00
					\$42,625.00

Comverse Technology, Inc.				Price as of 9/17/99: 89.875	
Total:	1,000		\$0.00	\$46,250.00	\$89,875.00
					\$43,625.00

Gilat ComSat				Price as of 9/17/99: 16.125	
Total:	5,000		\$0.00	\$49,375.00	\$80,625.00
					\$31,250.00

Gilate Satellite Networks				Price as of 9/17/99: 52.875	
Total:	1,000		\$0.00	\$56,125.00	\$52,875.00
					(\$3,250.00)

Point of Sale Ltd.				Price as of 9/17/99: 12.875	
Total:	7,800		\$0.00	\$49,725.00	\$100,425.00
					\$50,700.00

Israeli Growth Company			\$0.00	\$246,850.00	\$411,800.00
					\$164,950.00

	Gain	52 week Range	
CHKP	+93.94%	10 7/8- 96 1/2	Investment Summary Original Assumed Investment at the Start of 1999 was \$ 246,850 Total Current Value \$ 411,800 Gain as of September 17, \$ 164,950 + 66.82%
CMVT	+94.32%	19 9/16 93 1/2	
GICOF	+63.29%	4 1/8 23 1/4	
GILTF	-5.79%	35 1/4 67	

COMVERSE DOES NOT DISAPPOINT

The shares of Comverse Technology Inc., in the 3 1/2 week period ending September 17 were up nearly 13% from \$78 to \$88. Since the beginning of 1999 Comverse shares have gained 94% and at \$88 were slightly below their recent all-time high of \$93 1/2. With the continuous upward action it appears that this position in the portfolio is now set to double in about nine-months. With that sort of a gain the question arises whether profit-taking should be considered. For short term-investors a possible answer may be: sell and recoup your original investment and retain the profit. For these investors we would like to point out the adage: "that no one lost anything by taking a profit". But being an avid student and follower of Professor Benjamin Graham's investment philosophy we consider the value approach. The sage professor suggested that investors should buy stocks the way they bought their groceries. The buyer should ask: "How much should I pay?" The answer is: "What the market is currently evaluating these shares."

Recently Comverse company posted yet another positive earnings surprise. Hard to believe, given that Comverse has now beaten earnings expectations in each of the last 20 - count 'em -20 quarters! Over the last five quarters, the average surprise has been 6.23%, according to I/B/E/S. Since last October, the stock has swelled about four times.

Comverse recently released its quarterly earnings announcement. In the second fiscal quarter, which ended in July, sales of the company's services totaled \$209 million, a 25% year-over-year increase. Diluted earnings per share came in at \$0.52, up 55% from a year ago and 21.2% sequentially. Analysts were expecting Comverse to earn \$0.49. That's what happens when both gross and operating margins grow for the fifth consecutive quarter. The gross margin improved to 62.2% from 61.4% in the prior quarter, while the operating margin increased a full percentage point to 19.5%. Comverse is the world's number one provider of

messaging and information systems for telecommunications companies, both wireline and wireless. Forecasts call for continued strong demand for Comverse's products, which include Comverse Network Systems and the Infosys Division. Comverse Network Systems provides enhanced service platforms for telecommunications operators. Infosys markets digital multimedia recording and monitoring systems that can be used as a quality assurance tool for call centers and financial institutions. Furthermore, value-added services such as unified messaging (voice, fax, and e-mail in a single mailbox), prepaid wireless services, short text messaging, one-touch call return, to name a few, should continue to boost margins.

The prospects for further earnings surprises is most likely given its backlog of \$191 million, up 8.5% from \$176 million at the end of the first quarter, in comparison to sales growth of 5%. Add to that the better-than-expected results, and-voila—analysts are busy raising their estimates again. In fact, more than half of the analysts following the company raised their projections for the third quarter, which currently calls for earnings per share of \$0.53. For the fiscal year ended January 2000, the current consensus is for Comverse to earn \$2.07; it is expected to grow nearly 20% to \$2.48 in fiscal 2001. Based on these projections, at \$88 the stock is currently trading at 35 times the consensus estimate for the year ending January 2001, a premium of 85% to its expected growth rate. Comverse's exceptional visibility and history of stable revenue and earnings generation and its a dominant market position, with over 40% share and no clear competitors in sight are the sort of facts which make the value investor feel comfortable with a high-flier. Comverse also sports a neat balance sheet, with a cash position of \$713 million and rising, and a current ratio over 4.

The upshot is that with a massive backlog of nearly \$200 million, Comverse is on track to continue its superb string of over five years of upside earnings surprises. Those seeking an outstanding growth investment would do well to maintain a position.