

ISRAEL HIGH-TECH & INVESTMENT REPORT

A MONTHLY REPORT COVERING NEWS AND INVESTMENT OPPORTUNITIES

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2000 - - - what's ahead for High-Tech?



The decade of the 1990s is over. The millennium is with us. From our 37 year privileged vantage point of being stationed in Tel-Aviv the enclaves of Israeli telecom and internet nests of high-tech startups such as Herzliya and Raanana are 30 minutes distant. The magnificent science based industries park in Nes Ziona, adjacent to the Weizmann Institute of Science, that nourishes so many applied scientific ideas is less than half an hour from our publication offices. The famed Jerusalem Har Hahotzvim industrial park is three-quarters of an hour away. The Technion-Institute of Technology is equidistant and Haifa's science-based industries park is even closer. Beersheba and further south is Omer and then northwards to Rose Garden in the Galilee.

In the 1980s, along with Uzia Galil, the father of Israeli high-tech, and Stef Wertheimer, the hard-headed industrialist, who carved out a small empire on the Lebanese border, we promoted a vision of an industrial Israel based on brains and not on natural resources. In 1949 Chaim Weizmann, internationally acknowledged chemist and Israel's first president stated, "The potentialities for industrial development must be surveyed and harnessed by the State as one of the supreme tasks.... We have a mighty weapon which we must utilize with ingenuity and skill, with every means available to us: Science is that weapon, our vessel of strength and our source of defense".

Israel, in the decade of the 1990s has convincingly

proved that it has sorted its priorities into a workable order. The national human resource, the country's young people, after obtaining some of the best education available anywhere, experiencing army service in the Israel Defense Forces elite units, are picking up the challenge of applying the software, electronic and telecom skills to the working place. By contrast to the country's periphery where there is unemployment, high-tech companies are increasing staff at 25% a year or more. Looming labour shortages are worrisome but the technical universities and colleges are stepping up the pace and skilled Israelis returning from overseas are picking up the slack.

However what does the Israeli high-tech balance

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sheet look like? Among the most visible achievements are the 15 companies, members of the billion dollar plus stock market capitalization club. They are recognized by the international investment community as developers, producers and marketeers of globally useful products and services. Not surprisingly, only one of the 15, Bank Hapoalim is a non-technology company. The group includes among others Comverse Technology, Amdocs and CheckPoint Software Technologies. The combined market capitalization of these three companies exceeds \$20 billion. Altogether more than 150 companies have their shares traded mostly on the US Nasdaq, but increasingly more on European technology markets such as Easdaq, Neu Markt and Nouveau Marche.

At the other end of the spectrum is the growing legion of startup companies staffed by some of the brightest and most entrepreneurial oriented minds. I see them, I meet them and continue to marvel at the speed at which they race towards the marketplace from a bright idea, to a product and into the real commercial world. Software exports in 1998 crossed \$1.5 bln, up by 275% from 1996. In the early 1990s the software association was having difficulty in being recognized as an industry. Since the early 1990s these startups have been receiving ever greater amounts of venture capital funding by the country's venture capital and private equity industry. As the decade began there was only one venture capital fund with a war chest of \$24 mln. Today, according to the Israel Venture Association 1999 yearbook, there are 57 technology venture capital funds in operation, They are joined by 31 private equity funds and 13 investment companies. Of a total of \$3.0 bln raised, more than 60% has been invested in backing 450 startups. Since 1996 the annual sums of capital raised has nearly doubled to more than \$750 mln.

What can be expected in the new decade? The dizzyingly rapid growth in the use of the Internet and its attendant development of electronic com-

merce (goods and services purchased on the Internet) will continue to serve as the engine of growth for Israel's high-tech sector. Unlike oranges, cotton and flowers which are dependent on mother nature, and whose shipping costs are high, the creation and export of human resource created products is suitable to Israel's mindset for the 21st Century.

In the next three years Israel's venture capital companies will raise more than \$1.0 bln each year and will speed up the investment process for the 1,600 identified startups and for an equal amount in various stages of formation.

Having become an acknowledged center for technological innovation the new decade should see an even greater attraction for investment banking merger and acquisition activity. In this sphere the American aphorism "you ain't seen 'nothing yet' will become highly appropriate. Which areas will draw the most attention? A consensus of investment bankers points to telecommunications equipment, semi conductor chips and equipment, the Internet and software as high-target areas. Intel acquired DSP Communications for \$1.6 bln this past year, a record high paid for an Israeli company. While deals are generally becoming more expensive and are likely to stay that way, it is more likely that the mergers and acquisitions will produce big sum transactions but will accelerate at lower per deal levels.

In addition there is the prospect of peace in the region in 2000. Peace with Syria and subsequently with Lebanon, has never appeared to be more tantalizingly closer. If realized, it will be the first time in Israel's history, that it will be recognized by all of its neighbors. It will mark the end of all economic boycotts which will no longer make sense even to its perpetrators. If that goal is realized, no matter how cold the peace may be, it will heat up Israel's economy. It will also make Israel an even more attractive place for profitable investment.

Prof. Sela's Research is Applicable

IHTIR's Choice of the Leading Israeli Scientist of the 20th Century

The Israel High-Tech Investment Report undertook a daunting task after it decided to identify the outstanding Israeli scientist of the 20th Century whose academic work, fundamental and applied research activities resulted in greatest impact on society.

We consulted with Prof. Daniel Weihs, Provost of the Technion - Israel Institute of Technology. Following long discussions with our editorial consultant, Dr. Clive Leslie Carpel, and spokesmen of Israel's institutes of higher learning we came up with a short list which included Prof. Yuval Ne'e-man, the late Prof. Nathan Rosen, Prof. Dan Schechtman, Prof. Jacob Ziv and Prof. Avram Hershko. All of these exhibited brilliance in their activities. Then we came to the name of Prof. Michael Sela of the Weizmann Institute of Science and felt that he embodied all of the criteria which we had set for ourselves. In 1978 when I first met Prof. Sela he was serving as the President of the Weizmann Institute of Science. He was already then a staunch proponent of the use of scientific research toward solving the problems of the State of Israel. An excerpt from a chapter authored by him and appearing in the book: "Science Based Industries in Israel" is reproduced here. (see box).

He is the only scientist to serve as President and Deputy Chairman of the Board of Governors of the Weizmann Institute. The list of international institutions which has honored him is a veritable 'who's who' and includes among others: Max-Planck Institute for Immunobiology. He has served as the President of the International Union of Immunological Sciences and since 1989 President, Scientific Council Institut Pasteur-Weizmann Institute. For more than forty years he has "probed into the realm of proteins and immunity".



Prof. M. Sela

In immunology the notion of specificity in immune reactions, and its good use for therapeutic and prophylactic purposes is important. "in the case of an autoimmune disease, that of multiple sclerosis, we have succeeded in developing a drug/vaccine which has now been approved

by the F.D.A. in the United States, as well as in seventeen other countries. The substance named by us as Copolymer 1 can suppress the onset of the disease," explains Prof. Sela.

Copolymer 1 was developed, tested and marketed by Israel's Teva Pharmaceuticals Ltd. Sales of Copaxone® for the first nine months of 1999 totaled \$111.2 mln, compared to \$58.1 mln in the first nine months of 1998, an increase of 91%.

"The Government, the institutions of higher learning and industry all awoke to a looming crisis. Warnings, sounded earlier, suddenly began to receive official and urgent attention. If new methodologies were to be sought, then new priorities had to be established. The status of applied research had to be rapidly upgraded, and its interactions with basic research examined in depth. A growing number of young scientists would have to be persuaded and encouraged not to seek tenured positions at universities but rather to look for and succeed in jobs in industry, applied medicine and teaching.

There were various ways in which these obligatory changes could be accomplished. Drastic emergency solutions- not unknown elsewhere- could be applied; theoretically all scientific research in Israel could become centrally directed and the authorities empowered to allocate the national budget could do so in strict accordance with immediate national needs. The process of academization could be sharply curtailed by decree. But there were also other less perilous and more palatable possibilities. The needed shift from basic to applied research could be accelerated by stressing industrial innovation, by training good scientists to become good industrial researchers, by encouraging the growth and expansion of technological and applied science facilities within Israel's institutions of higher learning, by helping Israeli industry to become aware of the need of R & D and by placing the fruits of basic research more efficiently and rapidly at its disposal. Fortunately, the increasing pressure found a willing response everywhere. With virtual uniformity, the institutions of higher learning made the necessary accommodation without damaging or diminishing their essential concern for standards of excellence in the exact sciences."

Prof. Michael Sela

Science Based Industries in Israel by Joseph Morgenstern, 1978

MRI data on Copaxone® was presented in September 1999 at the Ectrims/Actrims conference in Basel, Switzerland. Study results showed that patients who had received Copaxone® for the extended 18 months period continued to benefit from the drug, as their MRI activity and burden of disease further declined. Patients who switched from placebo to Copaxone® at the 9-month point showed a significant reduction in MRI activity and stabilization in MRI burden, confirming that Copaxone® has sustained beneficial effects over time. During the conference, Copaxone® was formally launched in Switzerland.

The growing widespread use of Copaxone (Copolymer 1) is one of the greatest satisfactions in Prof. Sela's career. He spoke of that during a recent interview in his offices in the Wolfson Building at the Weizmann Institute. Prof. Sela has a delightful way of expressing his views: "I dislike the expression 'pure and applied research' because the pure implies that the other is impure and as for applied I prefer to call it applicable, because so little of what is applicable ends up being applied. In the last 30 years or so I have been involved in immunotargetting of drugs, which is 'applicable' research. The only subject in my research that is actually 'applied' is the development of Cop 1 as a drug against multiple sclerosis".

Ireland's Riverdeep Acquires LOGAL

Ms. Mary Harney, Deputy Prime Minister of Ireland, and holder of the portfolio of Minister for Enterprise and Trade and Mr. Ran Cohen, Israeli Minister for of Trade Industry have furthered ties between their respective countries. It began with a Memorandum of Understanding, signed in September in Jerusalem, "to plan to cooperate in technical activities of mutual benefit, and also to develop a plan for working

together to facilitate enhanced cooperation in industrial science and technology, research and development of industrial relevance". This was followed by a visit to Ireland by a contingent of Israeli businessmen, led by Mr. Ran Cohen. Israel's Investment Center now has notified us that Ireland's Riverdeep is acquiring Israel's LOGAL Educational Software & Systems. Riverdeep Interactive Learning is a privately held Irish software company headquartered in Dublin,

Riverdeep paid \$5.25mil in cash to LOGAL for the purchase of LOGAL's educational software assets and its name, including LOGAL's full library of internet-enabled interactive educational science and math software, and its internet education portal.

One of Every Four Households Connected

25% of all households in Israel are connected to the internet, according to most estimates. The 25% translates itself into 300,000 individuals. The area of greatest uptake is among upper income homes. There are schools that are Internet connected, many more are eager to connect but are held back due to budgetary considerations, says Judy Koren, an Israeli information professional with 20 years experience in the field of databases and computerized information supply.

Internet Service Providers (ISP) are regulated and this has kept down the number of participants in this lucrative area. The likelihood is for deregulation and along with it a marked rise in new participants. As to the volume of trade between businesses and consumers in Israel: it is expected to reach \$100 million in 2003, compared to the current \$4 million, according to Yacov Gelbard, GM of Netkardo, a Discount Investments Group subsidiary specializing in e-commerce.

Ireland's Ambassador to Israel, Brendan Scannel has told the Israel High-Tech & Investment Report that there is a strong likelihood that Deputy Prime Minister Ms. Mary Harney will again visit Israel in February.

Israel's bilateral trade with Ireland exceeded \$400 mln in 1998 and is trending upwards.

Israel Receives \$50 Mln for R&D from European Union Fifth Framework Program

One hundred and eighty companies and research institutions in Israel came in for R&D budgets totalling \$50 million under the first Call for Proposals (CFP) issued by the European Union Fifth Framework Program (EUFP). This was reported by Marcel Shtaun, general manager of Israd, the Israel Administration for the EUFP.

Shtaun noted that Israel had thereby covered its \$35 million investment in the EUFP for 1999.

He noted that under the first CFP, the seven Israeli universities and a number of colleges such as Shenkar and Tel-Hay were accorded grants. Companies whose R&D proposals were approved included: ECI, which won two telecom projects; Israel Aircraft Industries, five of whose aeronautics projects and four of whose electronics and software projects were approved; Optibase, which won two video compression projects and Orckit, which won a teleprocessing project.

Also gaining approval were projects by Tadiran, in the recycling of lithium batteries, Solel Boneh, in solar energy, and VocalTec in Internet. R&D proposals by Rafael (Israel Weapons Development Authority) and IBM were also approved.

Cahoots in \$50 Mln Financing

Cahoots was founded in September, 1998 by three Israeli software engineers, who saw a need to humanize the World Wide Web and created a way to do it. Together, they developed technolo-

gy that enhances the Web as a medium for communication, collaboration and commerce by linking together Web users that are at different sites. To date, the company has closed \$17 million in venture funding, on the way to an expected \$100 million in total financing.

Cahoots will launch its Web-wide communications network in early 2000. Cahoots is an American company with headquarters in Brisbane, California and a research and development facility in Tel Aviv, Israel. Investors included Sevin Rosen Funds, New Enterprise Associates, Walden International Investment Group, Integral Capital, Vertex, and GCP.

Investors included New Enterprise Associates, Walden International Investment Group, Integral Capital, Vertex, and GCP. A current round aimed at raising \$50 mln.

RadView Raises \$6 Mln

RadView has raised \$6 mln with the company valued \$25 million. The financing was led by Boston based venture capital fund Northbridge, which invested \$3.5 million. \$2.5 million was invested by existing shareholders, including TASE listed Sadot R&D, entrepreneurs Zohar and Yehuda Zisapel, Formula Ventures and US company Platinum Technologies.

RadView has developed a software called Webload for testing and analyzing the performance of Internet applications, with special emphasis on testing systems under varying user loads on e-commerce applications on the Internet.

The product makes it possible to plan in advance the resources required to ensure quality service in high-load situations.

RadView, is headquartered in Boston, and maintains a development center in Israel. Its com-

petitors include Segue and Israeli company Mercury, the world leader in software testing tools.

Koor Industries & Israel Corp. Join Forces

Koor Industries Ltd. and Israel Corp said they would invest up to \$100 mln in a new high-tech joint venture. The companies said, in a statement to the Tel Aviv Stock Exchange, that the investment would be equally divided.

The joint venture would invest in Internet and telecommunications projects and companies. The companies said that they were in negotiations with a suitable candidate to manage the joint venture.

Israel's Metalink Soars in Nasdaq Stock Debut

Shares of Israel's Metalink Ltd (Nasdaq:MTLK) more than doubled in their recent stock debut.

The company, which makes digital subscriber line (DSL) chip sets, surged 10 points to 22, after pricing its initial public offering at \$12 a share. Metalink, which raised \$48 million through the IPO, traded as high as 30. The Tel Aviv-based company plans to use proceeds from the offer to fund growth through expansion of marketing and sales and the creation of a design center in the United States, according to federal filings.

Metalink also noted in those filings that it would use the funds to pay off debt, for increased research and development and potential acquisitions. DSL chip sets developed by Metalink are used by telecommunications equipment makers and allow digital transmission of voice and data over copper wire lines at speeds up to 30 times faster than by conventional analog modems.

The company stated it has sold more than one million chip sets to companies including Newbridge Networks Corp. (Toronto:NNC) and Siemens AG. Metalink's main competitors

include Conexant Systems Inc. (Nasdaq:CNXT) and Level One Communications, a unit of chip giant Intel Corp. (Nasdaq:INTC).

NUR Establishes Stillachem S.A. to Make Inks for Digital Printing

NUR Macroprinters Ltd. (Nasdaq: NURM), manufacturer of wide and superwide format digital printing systems, today announced the establishment of Stillachem S.A., a 50% owned subsidiary that will focus on the development and manufacture of specialized inks for piezo drop-on-demand digital printing systems.

Stillachem is now in the process of establishing a manufacturing facility in Belgium that will be dedicated to the manufacture of inks for the NUR Fresco wide-format production press. Belgium's Walloon Regional Government is providing support for this venture.

Inks manufactured by Stillachem will be marketed to users of the NUR Fresco. The NUR Fresco is a piezo drop-on-demand digital production press designed to offer a viable alternative to traditional screen printing for short and medium-run jobs.

NUR Macroprinters is currently supervising a Beta program for the product at sites throughout Europe. Commercial distribution of the NUR Fresco is expected to commence in the first quarter of 2000.

NUR Media Solutions, a wholly owned subsidiary of NUR Macroprinters, will be working closely with the development and manufacturing teams at Stillachem. The inks produced at Stillachem's new manufacturing facility will be incorporated into NUR Media Solutions marketing program for offering customers complete wide-format applications solutions.

Initial Public Offerings: Pros and Cons

Israeli IPOs on the American markets enjoyed not only an initial good response but also further gains in the period that followed the IPO. In the

box that follows we have listed nine companies of which eight can be considered as high-technology companies, and have indicated the percentage change in the price of each issue from its initial IPO price. On the average they were ahead by 162.5% from the issue price.

This is considerably higher than the average non-Israeli IPO on NASDAQ.

For Israeli companies an IPO generally brings with it public recognition which is a good way to bring about product brand awareness and allows for the building-up of an investor following.

IPO US			INITIAL PUBLIC	INITIAL PUB
Company	Date	IPO price \$	Price 12/15	% change
Delta Galil	mar	9	17	89
Optibase	apr	7	28	300
AudioCodes	may	14	66	371
BackWeb	june	12	30	150
ComTouch	july	16	32	100
RADWare	sep	18	49	172
Jacada	oct	11	21	91
Partner Comm	oct	13.5	18	33
ECTel	oct	12	22	83

The NASDAQ will undoubtedly continue to be the market of choice for Israeli companies as it has always been a market that welcomes Israeli companies.

However, the emerging European stock exchanges aiming to attract young companies have made it clear that they would welcome Israeli companies for registering and trading their shares on their markets.

We have listed in the table that follows, nine Israeli IPOs on European exchanges. This is the single largest number historically of Israeli companies whose shares have been registered for trading on the London Stock Exchange and Germany's Neuer-Markt and the French Nouveau Marche.

The NASDAQ, on its part, aware that there may be a new trend emerging, has predicted that it will open up its own NASDAQ market in Europe in the year 2000.

Since the European markets have

not been able to provide the same liquidity that Nasdaq provides for its securities, they are offering less stringent criteria for listing.

This could easily have a negative effect on the quality of the issues which are being listed in Europe.

This may not be overly serious as markets trend upwards but would become more apparent in bear markets.

1999 Euro IPOs		
IT Int'l Theaters	EASDAQ	theaters
CMT Medical Techs.	EuroNM, Nouveau Marche	dig image systems
Bank Hapoalim	London SE	banking
WizCom Techs	EuropeNM, Neuer Markt	language translation
Supercom	EASDAQa	Secure ident docs
Unitronics	Europe NM	auto logic programs
On Track Innovations	EuropeNM, Neuer Markt	contactless smart cards
RTSET	EuropeNM, Neuer Markt	virtual tv studios
Orad Hi-Tec	EuropeNM, Neuer Markt	virtual tv studios

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

UPDATE

TASE Publicly Traded Venture Capital Companies

The shares of the companies among the TASE publicly traded Venture Capital Companies are attracting investor interest as the underlying potential for holdings of baskets of Israel's promising startups becomes ever more convincing. All shares in the group continued to trade on the upside resulting in **substantial gains** in the return on investment.

"Year to Date" (as of December 19, 1999)

Sadot: up 206.6%

Teuza: up 58.8%

Marathon: up 115.3%

Mofet: up 56.5%

Inventech: up 97.8%

Mofet investors include Green, a local investment company which has accumulated a 31% stake. Green has put a \$44.5 mln valuation on **Mofet**, whose recent stock market valuation now stands \$53.5 mln..

Inventech's cashout prospects are pegged to several promising investments.

Teuza reports that **PIA**, a major Israeli mutual fund management group, has recently invested in Teuza's TASE listed shares. However, it is **NESS** which occupies Teuza management's attention as it is currently raising \$10 mln in a private placement. **NESS** is the acronym for "neuromuscular electrical stimulation system". The pain reducing device has received FDA approval.

Sadot has a holding in RadView which recently completed a \$6.0 mln financing round. RadView is described as "a model of an Internet company that merits attention as it has genuine revenues". RadView is likely to end 1999 with sales of \$5 million, compared with only \$1million last year. Expectations suggest that the growth rate will be sustained in the foreseeable future.

Sadot R&D invested \$460,000 in RadView in this round of financing, which brings its investment in the company to \$2 million. Sadot currently owns 10% of RadView shares.

year	target	acquirer	sum \$ mln
1999	Architel	Amdocs	358
1999	Oshap	Sunguard	210
1999	New Dimension	BMC Software	675
1999	Butterfly VLSI	Texas Instruments	50
1999	Wave Access	Lucent	60
1998	Summit Design	Orcad	180
1998	GE Spacenet	Gilat Satellite	na
1998	Memco	Platinum Technology	386
1998	TeledataCom	ADC Communications	200
1998	Elscint MRI	GE	100
1998	Elscint CT div	Picker	275
1998	Tadiran Telecom	ECI Telecom	396
1998	Soltam	Michael Ltd	33
1998	MemcoSoftware	Platinum Technology	386
1998	Bezeq Israel Telecom	HSBC	103
1998	Potaras de Llobregat	Investor Group	110
1998	Lannet Data	Lucent	117
1998	Granite Hacarm	Investor Group	211
1998	Mirabilis	ADL	407
1998	Korea Tungsten	Iscar Ltd.	150
1998	ZAG Ind's	Stanley Works	113
1998	CheckFree Cash	Fundtech	18
1998	MetallInfo	CheckPoint Software	28
1998	ECI Telecom	Koor Industries	275
1998	Lamar Signal	Andrea Electronics	48
1998	Class Data Sys	Cisco	50
1998	Idanit	Scitex	60
1998	Delek Israel Fuel	Investor	107
1998	Cable Tel LLC	Tevel Broadcast	280
1998	RADLINX	VocalTec	9
1998	Laser Ind	ESC Medical Sys	260
1998	CiaI Trade	Investor	134
1998	Motorola Com Is	Ampal-America-Israel	120
1998	AbirNet	Memco	55

Standard & Poor in its 1999 Directory of Israeli Public Companies and Financial Institutions lists 77 International Financial Institutions active in Israel, directly, through subsidiaries, affiliate or existing representative relationships. These institutions are the merger and acquisition infrastructure in that their intimate knowledge of the Israeli market place is indispensable in identifying M & A opportunities. Lehman Brothers, BancBoston Robertson Stephens, Goldman Sachs or Oscar Gruss, Astaire & Partners, and Softbank just to mention a few key participants, provide the entrance to foreign "technology scouts" bent on pinpointing and acquiring new technologies from Israel. Essentially the process is simple and uncomplicated. Just take the example of John Sculley who in the course of a few days visit to Israel and with the help of a local investment banking group acquired several companies. Developing a technology which complements high-speed broadband Internet access, methods for individuals to communicate while online, or the developing compression techniques for the transfer of movies via existing telecommunications, requires the marketing skills and presence provided by such companies as Intel, General Electric and Lucent.

Portfolio Companies: Developments and Prospects

A Shift in Investor Focus Gives Boost to Israel's Small Cap Shares

The financial press, for month's on end, has been concentrating on the merits of Israel's high market capitalization shares. One of these is CheckPoint Software Technologies, an Internet security company (Nasdaq:CHKP). It recently announced that its board approved a two-for-one stock split, pending shareholder approval at the next meeting slated for January 13. The record date for the split is expected to be Jan. 23, with post split trading to begin Jan. 30.

Management also announced that it has created a new company called SofaWare Technologies, which will adapt Check Point Software's market-leading technology to bring Internet security to home and home office users with broadband Internet connectivity. The company's earnings record continues to reflect quarter-to-quarter strong earnings growth.

Comverse Technology the other high-cap performer reported a gain of 51% for the first nine months. It earned \$119 mln, a 40 mln gain over 1998.

In the month under review CheckPoint Software (CHKP:Nasdaq), again was a major upside gainer, with a rise of 50.4%. However, the pride of place as the stellar performer is accorded to Gilat Communications Satellite with a price jump of 60%. These shares appear in the IHTIR Model Portfolio.

All in all, there appears to be a major swing in investment sentiment towards Israeli technology companies, which until recently appeared, according to many local observers, to be undervalued and lacked institutional following. At the outset of 1999 Gilat Communications Satellite was trading sedately at \$10 share. In October it had traded at \$15 + and trading volumes were less than 65,000 a day. The other day the Gilat shares had a one session turnover of more than 430,000. That certainly reflects being noticed. Four US brokers have labeled Gilat as a Strong Buy and estimates for 2000 point towards earnings of \$1.00 per share, up by more than 35% from the 1999 estimate of \$0.73 a share.

Moreover, Gilat has a good story, with its capability to provide learning to distant points by satellite. Tecnomatix Technologies Ltd. (TCNO:Nasdaq) an experience supplier of Digital Factory Software has become supplier of choice for major industrial concerns including leading automobile manufactures in the US and Europe. A recent upswing in Nasdaq of 37%, when analyzed showed that 27% of the total gain was concentrated in the ten leading companies. There is a parallel to be drawn by the performance of CheckPoint and Comverse Technologies. Now companies such as Orckit, Orbotech, Gilat Communications and Tecnomatix, to mention just a few stars from the galaxy of Israeli technology companies are experiencing the classic case of "catchup". We have noted that US guru Abby Cohen, one of Wall Street's most influential forecasters, recently set her targets for the year 2000. Cohen now predicts that the Standard and Poor's 500 index will hit 1,525 by the end of 2000, a gain of nearly 8 percent over a recent closing price of 1,413.33. Local guru economist Micha Astrachan, a bull on the US market for many years has gained local media attention by predicting a 15%-25% fall on Wall Street in Q1, 2000.



ISRAEL HIGH-TECH MODEL PORTFOLIO

Selected Israeli Growth Companies

	Quantity		Commission	Open Amount	Current Value	Gain/Loss
IHTIR Model Portfolio						
BackWeb		BWEB		Price as of 12/11/99: 32.00		
Total:	1,000		\$0.00	\$43,500.00	\$32,000.00	(\$11,500.00)
<hr/>						
Check Point Software Tech		CHKP		Price as of 12/21/99: 194.00		
Total:	750		\$0.00	\$34,031.25	\$145,500.00	\$111,468.75
<hr/>						
Comverse Technology, Inc.		CMVT		Price as of 12/21/99: 124.25		
Total:	750		\$0.00	\$34,687.50	\$93,187.50	\$58,500.00
<hr/>						
Gilat Commun.		GICOF		Price as of 12/21/99: 27.50		
Total:	5,000		\$0.00	\$49,375.00	\$137,500.00	\$88,125.00
<hr/>						
Gilat Satellite Networkss		GILTF		Price as of 12/21/99: 108.50		
Total:	1,000		\$0.00	\$56,125.00	\$108,500.00	\$52,375.00
<hr/>						
Point of Sale Ltd.		POSI		Price as of 12/21/99: 13.125		
Total:	7,800		\$0.00	\$49,725.00	\$102,375.00	\$52,650.00
<hr/>						
Technomatix		TCNO		Price as of 12/21/99: 30.75		
Total:	871		\$0.00	\$23,734.75	\$26,783.25	\$3,048.50
<hr/>						
IHTIR Model Portfolio			\$0.00	\$291,178.50	\$645,845.75	\$354,667.25

IHTIR Model Portfolio Investment Summary

Original Assumed Investment at the Start of 1999 was	\$ 246,850
Total Current Value	\$ 645,846
Gain as of December 21	\$ 354,667 +143.7%

A Briefing with Prof. Jacob Frankel, Outgoing Gov. of the Bank of Israel

Two weeks before the end of his tenure, on January 2nd, 2000, we met with the outgoing Bank of Israel Governor, Prof. Jacob Frankel. In recent years Prof. Frankel was often roundly criticized for his monetary policy of maintaining a high prime rate of interest. Some critics suggested that this policy had kept the Israeli economy in a recessionary state over the last four years. A broad range presentation of his ten years as Governor of the company's Central Bank, Prof. Frankel pointed to such fundamental changes in the economy as a doubling in the Gross Investments and exports. Since 1991, when inflation was 18%, it has fallen to an estimated 1.5% for 1999. The Gross Disposable Product in 1999 will be 60% greater than at the beginning of the decade.

He cites three factors as being key to understanding Israel's economy: the influx of immigrants, a geopolitical change whereby markets have been opened up to trade and investment, and a strategy to maintain an economy with controlled budgets, structural changes, and a firm, monetary policy practised by the Bank of Israel. Prof. Frankel also pointed to the liberalisation of foreign exchange as a step which "took power from policy makers and gave it to the market".

"Since Q2 there have been signs of an improvement in the economy", said Prof. Frankel and he suggested that the rising unemployment in Israel, still under 10%, represents a lagging economic indicator and that in the year 2000 he expects to see the beginnings of a decline in unemployment. "It is not uncommon," he stated, "that in a period of economic recovery, management will maximize the use of its existing labor before hiring additional employees".

As to "myth shattering", he mentioned the once cherished idea that in Israel you cannot lower inflation; you cannot have a rising stock market during periods of relative high interest rates; and that growth cannot resume with a relatively high inter-

est rate. As of September 1999, in support of his argument, he pointed to the 9% growth in industrial production recorded in the year ending September 1999. For the year 2000 he estimated a 3% growth in Israel's economy. He warned, however, that economic growth is a process and not a speech and therefore his views are not time-bound but take into account a longer time-frame. The improved economy he suggested will be a test of "governing beyond platitudes". He expressed some concern about Israel's national debt which, now larger than GDP, has exceeded the recommended Maastricht formula of 60% of GDP. He concluded his remarks by saying that the re-allocation of budgetary resources in itself is not harmful and will always work if the Government cuts its spending some place else.

News from IHTIR Model Portfolio Companies

Gilat Communications(Nasdaq:GICOF)t to Acquire Allen Communication,

Allen is a leading provider of technology-based training and services blue-chip clients such as BankOne, Intel, Autodesk, United Airlines, SBC, Sharp Electronics, Rockwell-Collins, Citibank and 3M who team with Allen to create and deliver training solutions to their employees and customers worldwide, via the Internet, Intranets and CD-ROM. Tecnomatix Technologies Ltd. (NASDAQ: TCNO), a pioneer in Digital Factory software, announced that it has received a follow-on \$750,000 order for Tecnomatix software from Volkswagen AG, Europe's largest automotive manufacturer.

Season's Greetings to all of our loyal and new subscribers and to the many new friends who visit our website.

We are pleased to note that in addition to Nasdaq, Israel's Investment Center of the Ministry of Industry & Trade has selected <http://ishitech.co.il>, as its favorite resource for news, analysis and views related to Israel's universe of high-technology.