

ISRAEL HIGH-TECH & INVESTMENT REPORT

A MONTHLY REPORT COVERING NEWS AND INVESTMENT OPPORTUNITIES
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Is Israel's High-Tech Boom Sustainable?

The Israeli high-tech juggernaut is fueled by its immense number of start-up companies. Never accurately counted the generally accepted and oft-quoted figure puts their number at 3,000. Added to the startups are the nearly 150 public companies listed on NASDAQ and more recently, a trickle to European stock markets. To these one may add the tens of high-tech and high-tech related companies listed on the Tel-Aviv Stock Exchange.

The professional number crunchers and venture capital industry surveys that are published are suggesting that the future of high-tech in Israel may be less than rosy when compared to its development since the beginning of this decade. The streamlined budget for research and development supervised by the office of the chief scientist is the subject of discussion, and soothsayers or those who are likely to be affected predict a crisis of the high-tech sector.

The commentary appearing in our newspapers, fueled by the comments of "interested parties" including industrialists and various industrial organization, can only lead to the erroneous conclusion that the forward progress of the high-tech industries may be slowed. This is far from being the case. The high-tech industries are attracting some of the best professional minds in Israel. A second generation of managers and entrepreneurs are heading innovative start-ups. They are showing an ability to avoid the shoals created by the so-called Asian flu and last fall's Russian economic debacle. Neither are the ups-and-downs of Middle East politics a deterrent to foreign investment in this field. It is obvious that foreign companies are not likely to invest in garment companies to be located in Israel with the hope of supplying Middle Eastern countries. However, high-tech products are easily shipped and in many cases include software which can

be marketed easily anywhere in the world. The masses of money paid by multi-national corporations in acquiring technology-laden Israeli companies has also attracted the attention of a slew of major household name companies who maintain a universal watch on technology developments. In this issue alone we report on Intel's investment in TelsciCOM, and the Swedish giant's Ericsson investment in NovaNet. Merrill Lynch, the global investment banker, has just announced that it is investing in Walla, Israel's Hebrew language leading Internet portal. The hottest global game involves the Internet. The worldwide exponential growth of individuals going on-line and the even more astounding increase in electronic commerce has fueled a global search for

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technologies related to the Internet. The Money Tree Survey by Kesselman & Kesselman, Price-Waterhouse Coopers details that Venture capital investment in Israeli Internet companies increased sharply, to a record level of \$30 million, representing Q1 1999's most attractive industry. Nearly one quarter of each of the \$130 million total invested by 46 Israeli and two American venture capital companies was invested in backing Internet related companies. The Israeli venture capital companies, since they are managed by Israelis, generally take a shorter-term view towards their investments than their American counterparts. They measure and estimate how quickly they can cash-out on their investment and since Internet companies are showing an incredible resilience in getting Initial

Public Offerings on the world's stock markets they will continue to attract investment.

So while young start-ups in the medical and electronic fields may find it more difficult to raise capital in their infancy and seed capital continues to be scarce,

(with only 5% of the total venture capital invested in the first quarter of 1999), they will continue to get a portion of the investment funds available, though to maintain their piece of the available money it will take a greater effort on their part.

From our vantage point the second half of 1999 will be a banner year for Israeli Internet companies. We have tracked two of them in the pages of this newsletter. They are quietly preparing to move from private to public company status. One of these has the potential of achieving an American stock market capitalization of more than \$350 million.

newZPrint Software Turns Online-News Sources into Real Newspapers

New Software Delivers Leading Web Based News Sources in a Traditional Newspaper Format
infoPager Technologies, a leading developer of electronic publishing technology, announced the release of newZPrint™ a Windows-based client software package, which collects content from leading online news sources and delivers it with the "look and feel" of a traditional newspaper. newZPrint provides substantial benefits for end users by allowing content from leading news web sites to be transformed into the same intuitive, easy to read style as printed editions of newspapers, magazines, or newsletters. newZPrint employs patent pending, formatting technology and allows

Internet users to schedule a convenient time for delivery of their preferred news sources. User-defined online sources are "mined" for information, which is then collected and formatted by newZPrint into a personalized newspaper or magazine. newZPrint can

Vishay to Set Up Plant with \$35 Mln Investment

Vishay chairman Dr. Felix Zandman announced that Vishay Intertechnology, a Fortune 500 company, has decided to set up a new plant for components assembly in Beer Sheva or Dimona. Initial investment will be \$35 million, and the plant will employ 500 workers. Vishay chose the tax exemption alternative under the Capital Investments Encouragement Law, deciding to forego a grant for investment in equipment.

Vishay executives made it clear that the US parent company, Vishay Intertechnology, would agree to the setting up of a plant in Israel only if the investment required in Israel would be similar to that required in setting up a plant in the Czech Republic.

also be used as a business productivity tool with features that allow users to manage their news professionally, including article reprints, archiving, forwarding and printing. "We have created a product that empowers Internet users to decide which news they want, when they want it, and how they want to read it," said infoPager Technologies CEO Drew Tick. "With newZPrint, our latest software innovation, infoPager Technologies once again demonstrates that we are putting a human face on the way people receive and read their electronic news." The newZPrint client software is currently available on an introductory basis, free of charge and can be downloaded from the newZPrint web site at <http://www.newzprint.com>

Oracle Receives “Promise For Peace” Award

Oracle Corp. recently announced the installation of 500 network computers that will use the Internet to connect students in three Israeli cities with three Palestinian cities. The historic undertaking is part of “Computers for Coexistence,” an extension of the Oracle’s Promise program which has provided more than 4,500 network computers to public schools in low-income neighborhoods throughout the United States.

Marc R. Benioff, Senior Vice President of Oracle Corporation, was on hand to receive the “Promise for Peace” award in gratitude for Oracle’s friendship and its role in fostering peace through information technology. The ceremony took place recently at ACCENT (The

Ariel Center for Communications and Educational Networking Technology) as officials unveiled the completed network that connects the first seven schools in Ariel. The resulting system is the most advanced educational computer network in Israel.

“It has been an honor to work with the Israeli and Palestinian school systems as they strive for peace through expanded communications,” said Oracle’s Benioff. “By connecting students, teachers, and families in the Middle East to the Internet, we hope our work will help increase understanding, knowledge, and peace by bridging the ‘digital divide’ here, in the United States, and across the world.” To launch the Middle East “Computers for Coexistence” project, Oracle worked closely with Gov-

ernment and municipal officials in Israel and with representatives in the Palestinian Authority to set up 300 network computers in Ariel, Israel and 20 computers in the Palestinian Authority city of Gaza. Oracle plans to install an additional 180 computers in the Palestinian cities of Nablus and Ramallah and another 40 computers in the Israeli cities of Ganey Tikvah and in the Negev city of Sderot. Upon the completion of the project this summer, the computers will link 10 schools, five

community centers and 3000 Israeli children and their families with nearly 2000 Palestinian children and families through the Internet.

The students’ first projects will be to create Web sites for their schools and to initiate

regular communication among all students via email. Oracle has arranged to train both Israeli and Palestinian teachers and a group of students to use the network this summer through Internet and computing courses. In Ariel, a special forum will be established called the “Smart School,” which will pioneer Internet-based education in Israel, creating the first server dedicated towards building a unified curriculum in Hebrew for use by Israeli schools.

Designed and built with the cooperation of information technology managers in Israel and the Palestinian Authority, the computers were installed by students and teachers with the help of Oracle consultants. The set-up includes access to Netscape, e-mail, Microsoft Word and Excel, mul-

High-Tech Career Opportunities

Israeli high-tech companies have launched a recruitment drive in the United States, seeking to attract personnel with technological skills by organizing recruitment fairs in California and New York. Representatives from seven companies – including Tower Semiconductor, Motorola Semiconductor, Efrat, and Israel Aircraft Industries – have been interviewing potential candidates at a fair held recently in Palo Alto, California, and another in New York. The fairs were organized in coordination with the Ministry of Immigrant Absorption, the Jewish Agency, the Israeli consulates in New York and San Francisco, and the Association of Electronic Industries in Israel. Hundreds of potential immigrants and expatriate Israelis contacted the organizers before the fairs opened to express interest. During a similar fair held last year, dozens of engineers were recruited by Israeli firms. Per capita production for an engineer is \$200,000 a year in Israel. Each engineer employed creates an average of two additional jobs.

timedia utilities and Java Virtual Machine, allowing students to surf the Internet, build Web sites, chat, learn to use word processing and spreadsheets, and eventually create their own Internet applications.

“Computers for Coexistence” is an extension of Oracle’s successful Oracle’s Promise program that currently links 100,000 school children in the United States with the Internet. The ‘Coexistence’ program was established after children at Cesar Chavez Multicultural Academy, an inner-city Chicago elementary school, spontaneously developed a relationship and built a Web site together with children in Chiba City, Japan. Computers for Coexistence will focus its initial efforts in the United States, the Middle East, and Ireland. Oracle’s Promise is a philanthropic initiative of Oracle Corporation chartered with providing network computers to public schools in low-income neighborhoods.

Founded in June 1997, Oracle’s Promise was launched with the announcement of \$100-million donation to help provide Internet and network computer access for every child in America. The donation was made in support of America’s Promise – The Alliance for Youth, a multiyear, national campaign created to propel

the mission and goals of the President’s Summit for America’s Future Forward. As of April 1999, more than 4,500 network computers have been deployed in nearly 100 schools, providing 100,000 students in Atlanta, Chicago, Dallas, Denver, Los Angeles, Oakland, San Diego, San Francisco, and Washington DC, among others, access to computer programs and the Internet.

Oracle Corporation is the world’s leading supplier of software for information management, and

the world’s second largest independent software company. With annual revenues of over \$8.3 billion, the company offers its database, tools and application products, along with related consulting, education, and support services, in more than 145 countries around the world.

Ericsson Invests \$7.5 Mln in NovaNet Start Up

Swedish company Ericsson’s components division has just completed a \$7.5 million investment in Ra’anana start up company NovaNet, in exchange for an option on 40% of the company’s shares. The move matches Ericsson’s strategy of investing in broadband communications products as well as continuing development of products in the telephony market. The company reported that the company’s value for investment purposes was \$19 million after money. NovaNet is currently in the throes of a second round of fundraising, aiming for another \$7 million.

NovaNet is a start up founded a year ago as a subsidiary of NovaCom. The company develops and markets chips for ATM and Gigabit Ethernet data communication networks. The company’s products are designed for transmission of large volumes of information over great distances.

NovaNet general manager Avishai Noam said that Ericsson, “as a company that produces a variety of components of various sizes, opens a wide range of opportunities for us and enables us to utilize the advantages of its size and volume.” The company estimates its target market at \$160 million a year, with forecast growth bringing the total to \$300 million in the year 2002. NovaNet’s sales outlook for 2002 is \$42 million.

Rolls Royce in Israeli Joint Venture

British engine and turbine producer Rolls-Royce Plc. said on Tuesday it had formed a joint venture with partners in Israel to manufacture aero-engine compressor blades. The new company Techjet Ltd. is 50 percent owned by Rolls-Royce,

with Blades Technology Ltd. owning a 30 percent stake and Wertheimer Company Ltd. the remaining 20 percent. When fully established early next year in Tefen, northern Israel, Techjet will forge and machine up to 450,000 compressor blades a year, Rolls-Royce said. The company said it would invest £8 mln in its Hillington factory near Glasgow to upgrade its technology to the level of that used in the Israeli factory.

“The effect of this investment would be to establish Hillington as a world class manufacturing center,” said Ron Bates, managing director of Rolls-Royce compressor systems. “The plan underlines our commitment to Hillington and gives the facility access to manufacturing methods it does not have at the present.”

Lycos and Versaware Launch New Online Research Center Featuring Funk and Wagnalls Encyclopedia, Random House Webster's College Dictionary and News From Reuters

Versaware Technologies and Lycos, Inc. (Nasdaq: LCOS), the most visited Internet hub and the world's largest online community, launched the Lycos.com Research Center, a co-branded site <http://www.funkandwagnalls.lycos.com> with content provided by Versaware in its feature-rich Versabook® eBook format. The Lycos.com Research Center, powered by Versaware, includes an online version of the acclaimed 29-volume Funk & Wagnalls Encyclopedia, Random House Webster's College Dictionary as well as world news from Reuters. Visitors to the Lycos.com Research Center will be able to easily search and access the various services available on the co-branded site, which are enhanced with sounds, pictures, maps and animations. Versaware's patent-pending technologies enable users to simultaneously cross-search all content converted to the Versabook eBook format. “By teaming with Versaware Technologies, we can provide our users with fast and easy access to valuable content in the Versabook eBook format,” said Jan Horsfall, vice president of marketing for Lycos. “Our alliances with Lycos and other leading portal sites, in tandem with the growing list of prominent publishers using online Versabook technology, highlight our success in making Versabook the preferred method for providing multimedia enriched content for ePublishing on the Internet and other electronic distribution opportunities,” stated Harry Fox, Founder and CEO of Versaware. Versaware Technologies is redefining the way we learn about the world in which we live. Pioneers in the digital content ePublishing revolution, Versaware's breakthrough patent-pending technologies rapidly and inexpensively convert any content into a rich multimedia format called Versabook®. Headquartered in New York City, Versaware has Sales and Marketing offices in Silicon Valley and Research and Development facilities in Jerusalem, Israel. Recent alliances with leading publishers and strategic alliances include Lycos, World Book, AOL UK, Pearson Education, Oxford University Press, Random House, Primedia, Merriam Webster, ICTV, Websurfer and others. Founded in 1995, Lycos, Inc. (Nasdaq: LCOS) is a leading Web media company and owner of the Lycos Network, the most visited hub on the Internet reaching 51.8 percent of Web users.

Haifa Science Museum Exhibit to Jerusalem

The superb exhibit of the Leonardo daVinci Exhibition “Science and Engineer” created by the Israel National Museum of Science was put on display at the newly dedicated Beck Science Center, at the Har Hotzvim Science Based Industries Park adjacent to Jerusalem. The Science Museum's activities

are under the auspices of the Technion Israel Institute of Technology. The exhibit superbly demonstrated the genius of Leonardo as his drawings were converted by the Technion engineers into 30 exhibits. DaVinci was the first to uncover the mechanical properties of the screw which lead to his designing an automatic machine for making

various screws. The displays are interactive and allow visitors to manipulate them. The Beck Science Center doubles as the new home for major science based industries and as a cultural center. Attending the gala opening were the Mayor of Jerusalem Ehud Olmert and Leon Recanati who founded the National Science Museum.

Point of Sale Ltd. Announces Strong 1999 Q1 Results

Point of Sale Ltd. (Nasdaq:POSIF) reported financial results for the first quarter ended March 31, 1999. Revenues for the first quarter of 1999 increased approximately 47% to \$5.1 million as compared to \$3.5 million reported in the same period in 1998. Net income for the first quarter of 1999 was approximately \$1.3 million, or \$0.12 per share, compared to \$805,000 or \$0.09 per share, for the corresponding period in 1998. Investors welcomed the report and the shares advanced to over \$11.

Barry Shaked, CEO of Point of Sale, commented, "Sales and service revenues, as well as earnings,

have increased not only in comparison to the corresponding quarter last year but also sequentially quarter after quarter." Mr. Shaked continued, "We continue to gain recognition in our target markets with the ongoing implementation at Tesco, the UK's largest food retailer, and with our pilot installation at Albertson's in the US. At the same time, we are continuing our strategy to focus on expanding our sales and distribution capabilities and to invest in the development of new products during the quarter. Our products were extremely well received at two US trade shows this quarter and we expect leads developed at these shows will contribute to increased demand

About Point of Sale Ltd.:

Point of Sale Ltd., with headquarters in Israel, develops and markets enterprise-wide open software solutions predominantly for the food retailing industry. These are targeted at improving store operations, reducing costs and increasing worker productivity.

The company's products have been installed in

Summary of Quarterly Financial Results

Nasdaq	1Q EPS		Revenues		Analysts' mean est.
	1999	1998	1999	1998	
ELSTF	\$0.28	\$0.25	\$106.7mln	\$103.1mln	\$0.25
EMITF	NIS 0.03	(0.54NIS)	12.9 mln NIS	19.7mln NIS	
GILTF	\$0.41	\$0.35	\$66.1mln	\$31.0 mln	\$0.41
ORBK	\$0.82	\$0.69	\$64.2 mln	\$54.2 mln	\$0.70
SCIXF	\$0.06	(\$).88)	\$157.4 mln	\$150.7 mln	\$0.03
TEVIY	\$0.46	\$0.41	\$287 mln	\$268 mln	\$0.44
VOCL	(\$0.86)	(\$0.23)	\$6.03 mln	\$4.91 mln	(\$0.86)

ELSTF	Elbit Systems Ltd
EMITF	Elbit Ltd.
GILTF	Gilat Satellite Networks Ltd.
ORBK	Orbotech
SCIXF	Scitex Corp.
TEVIY	Teva Pharmaceuticals Industries
VOCL	VoelTec Communications Ltd.

over 9,000 stores worldwide. The company was founded in 1982, and its ordinary shares have been trading on the Tel Aviv Stock Exchange since November 1994. On July 15, 1998, the company and certain selling shareholders completed an initial public offering of 2,750,000 ordinary shares of stock in the U.S. at a price of \$7.00 per share.

Elron Electronic Industries Reports

Elron Electronic Industries (Nasdaq: ELRNF) reported 1Q EPS of \$0.22 vs \$2.00 in the prior year period, on revenues of \$9.0 mln vs \$4.2 mln. NOTE: 1Q98 includes \$36.5 mln gain from the sale of Elbit Medical Imaging Ltd. ultrasound division to GE Medical Systems. Elron expects to record a 2Q gain of \$20 mln related to the sale of all its holdings in Elbit Medical Imaging Ltd.

NICE-Systems in Japan

NICE Systems Ltd. (Nasdaq: NICEY) said the Japanese Ministry of Transport had installed its Nice-Log voice recording system in 14 airports throughout the country. Nice-Log is a digital voice recording and archiving system used to record, store, evaluate and manage voice communications, call data, desktop screens and video. Nice did not say how much the contract was worth. Lehman Brothers recently lowered its EPS esti-

mates for Nice-Systems Ltd. to reflect increased research and development investment and higher estimates for Y2K related expenses.

Lehman analyst Tim Luke estimated Nice will earn \$1.60 per share in 1999 and \$2.20 in 2000, against previous estimates of \$1.81 and \$2.25, respectively. He maintained his "buy" recommendation and 12-month price target of \$45 for the share.

Merrill Lynch buy 10% of Walla

IBI and the U.S. investment bank Merrill Lynch acquired 10 percent of Mashov Marketing's Walla! Communications last night for about \$2 million. Walla is Israel's most popular Internet portal, serving about 50,000 customers a day.

Walla's stock has gone up more than 1,200 percent over the last year, as the Internet craze on Wall

Street has boosted Internet shares trading on the Tel Aviv Stock Exchange as well. Walla has been holding strategic investment talks with a number of companies in recent months.

The buy is not viewed as a substitute for a strategic investment, and sources close to the deal said Walla may yet take on a strategic partner.

This seems unlikely to happen before Walla finishes rais-

ing more capital, probably through a TASE issue aimed at raising some \$10 million in the third quarter.

Intel Rumored to Invest \$2.0 mln in TelsciCOM

Unconfirmed reports speculate that Intel has invested \$2.0 mln in TelsciCOM, a young start-up. The company was founded in 1997 by Yossi Ophir, formerly deputy general manager of ECI Telecom., Michael Sternberg and the company's general manager Doron Koren. At the beginning of 1998, the Neuron venture capital fund invested at a company value of \$26 million. TelsciCOM was originally formed in order to develop a faster, better quality and cheaper wireless communications product. TelsciCOM uses a technology called 'spreadulation'. It consists of a wireless communications chip, designated for use in the MMDS market, at a speed of 42 Mbps and for use in the LMDS market, on a 30 Megahertz band, at a speed of 155 Mbps. Originally, TelsciCOM intended to manufacture a terminal unit for fast, cheap wireless communications. Yossi Ophir says, "The company will provide a competitive alternative to cable modems and ADSL modems."

The Money Tree Survey

Venture capital investment in Internet companies increased sharply, to a record level of \$30 million, representing Q1 1999's most attractive industry. Q1 1999 investment totaled \$130 million, a 1% decrease in venture capital investment compared to Q4 1998.

Kesselman & Kesselman Pricewaterhouse Coopers reports that investments in venture backed companies (investments where at least one of the investors is a venture capital firm) during Q1 1999 remained virtually unchanged compared to Q4 1998, which was low compared to the records achieved in previous quarters. Most of Q1 1999 investments went to the software companies (45%), communications companies (18%) and medical devices companies (14%). 46 Israeli and 2 American venture capital firms participated in Kesselman & Kesselman Pricewaterhouse Coopers Money Tree Survey for Q1 1999.

Mr. Joseph Fellus, Partner & High-Tech Practice Leader in Kesselman & Kesselman Pricewaterhouse Coopers, noted that Internet companies were the most attractive in the first quarter, receiving investments of \$30 million. This amount almost equaled the total amount invested in Internet companies throughout 1998 (\$35 million) and was 38% above the amount invested in Internet companies throughout 1997 (\$22 million). According to Fellus, the increased investment made in Internet companies was probably influenced by the trend of the massive increases in market capitalization of US Internet companies (e.g. AOL, YAHOO!, Amazon.com, eBay etc.), the current IPO and M&A merger and acquisition activities of internet companies and by the fact that the Internet has become an inseparable part of business and private life.

Fellus also noted that seed investment in venture-backed companies remained relatively low. In Q1 1999, venture capital firms mainly re-invested in their portfolio companies (57% of investments made were follow-on), this trend is similar to that

reported in the previous quarter.

Seed investment in Q1 1999 remained low, representing just 5% of the total venture backed investment. The average seed stage investment fell from \$1.91 million in 1997 and \$1.16 million in 1998 to \$0.8 million in Q1 1999. Software and communication companies attracted all the seed investment, 76% and 24% respectively.

First round investment totaled over \$25 million, a surprisingly large increase of 46%, compared to Q1 1998 and 152% compared to Q4 1998. Communications and software companies attracted most of Q1 1999's first round investment, 44% and 34% respectively. Average first round investment decreased from \$1.8 million in 1998 to \$1.3 million in Q1 1999.

Second round investment totaled \$39 million, the same level as that reported in Q4 1998, but 26% lower than that reported in Q1 1998. The average second round investment increased from \$2.8 million in 1998 to \$3.3 million in Q1 1999.

Third/expansion round investment totaled \$26 million which represents a sharp decrease when compared to Q4 1998 and Q1 1998.

It was also noted that the number of bridge investments in Q1 1999 was relatively high (10 deals) compared to 21 during the whole of 1997 and 20 during 1998.

The analysis of the majority of Q1 1999 investment by rounds can be summarized as follows: Seed stage – 5%; First round – 20%; Second round – 30%; Third/Expansion round – 20%; Late/Mezzanine round – 10%; and Bridge round – 7%.

In Q1 1999, the software sector, and in particular the Internet segment, was the most attractive for venture capital firms. The software sector (which includes Internet, information technology and multimedia companies) attracted 45% of the venture-backed investment, representing investments in 25 companies. Further analysis into the segments of the software sector showed that \$30 million, of the \$59 million invested in the software sector, was invested in Internet companies. This level of investment, in the Internet segment, is higher than that invested in any other sector.

For the first time, we surveyed investments made in Internet-related companies (i.e. those companies that span the gamut of Internet and Internet-related industries). 38% of investment made in Q1 1999 flowed into these venture-backed companies. In the U.S., for example, the level of Internet-related investments made in the last two years increased by more than 3 times.

The slowdown trend in the communications sector that started during Q4 1998, continued during Q1 1999, with just \$23 million invested in 13 companies. This represents 18% of the total investment made this quarter and less than half of the investments made in Q1 1998. Consistent with 1998, one third of this quarter's investment went into Data Communications companies and the balance went into Telecommunications companies.

The medical devices sector attracted \$18 million, a similar level to Q1 1998, which represents 14% of the total Q1 1999 investment and an increase of 26% compared to Q4 1998.

Almost \$10 million was invested in the computers & electronics sector, representing a 24% decrease compared Q1 1998. 60% of this investment was in semiconductor companies.

Just \$3.5 million was invested in the biotechnology sectors. It was noted that Q4 1998 was a record quarter in the biotechnology sector with investments of \$32 million.

Weizmann Discovers Mechanism Involved in Causing Colon Cancer

Weizmann Institute researchers have discovered a molecular mechanism that may be involved in causing colon cancer, according to a study reported

recently in the Proceedings of the National Academy of Sciences. This research may one day contribute to the development of potential therapies for this type of malignancy and possibly for other types of cancer as well. The discovery of the new mechanism has solved two seemingly unrelated molecular mysteries. One concerned an important finding made some two years ago: the fact that colon cancer

cells often have abnormally large quantities of a protein called beta-catenin, one of today's "hottest" research molecules. Beta-catenin has been dubbed a "moonlighter" because it holds down two distinct cellular jobs. In its better-known task, beta-catenin binds to adhesion molecules – those molecules that sit in the cellular membrane and allow cells to stick together.

Ehud Barak – Israel's New Prime Minister

Prior to the recent election and in his victory speech Ehud Barak stressed his commitment to restarting the Peace Process. The election vote totals yielded the highest majority accorded to a prime minister candidate in recent memory and are an indication of the desire on the part of most Israelis to move back to the "peace track".

On the economic front a broad coalition government is expected to stress a supportive attitude to foreign investments and assume a positive stance to science-based industries (high-tech).

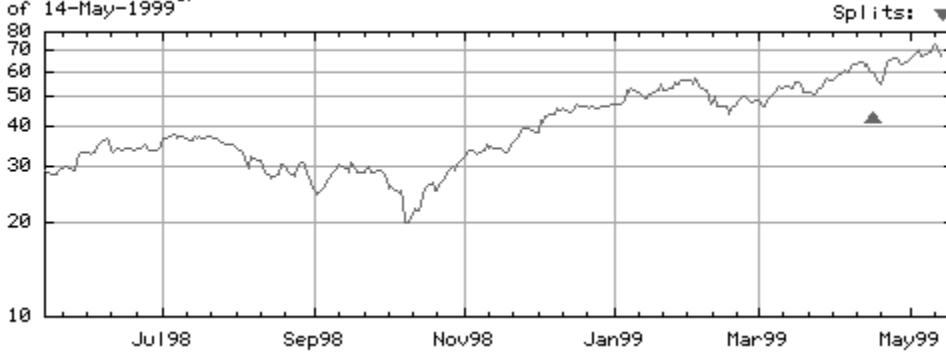
We are hopeful that Israel's economy, which has slipped into low gear in the past three years will again resume its high-growth of the early 1990s.

In its other role, beta-catenin is known to regulate the performance of genes in the nucleus. However, how exactly beta-catenin does this – and which genes it controls – remained unclear. A team of researchers led by Prof. Avri Ben-Ze'ev of the Weizmann Institute's Molecular Cell Biology Department, in collaboration with the group of Dr. Richard Pestell from the Einstein College of Medicine in New York, has now put these puzzle pieces together.

A patent application for this method has been filed by Yeda Research and Development Co., the Weizmann Institute's technology transfer arm.

These types of intervention may provide the basis for developing future therapies for colon cancer, as well as for melanoma and other types of cancer in which the levels of beta catenin are abnormally elevated.

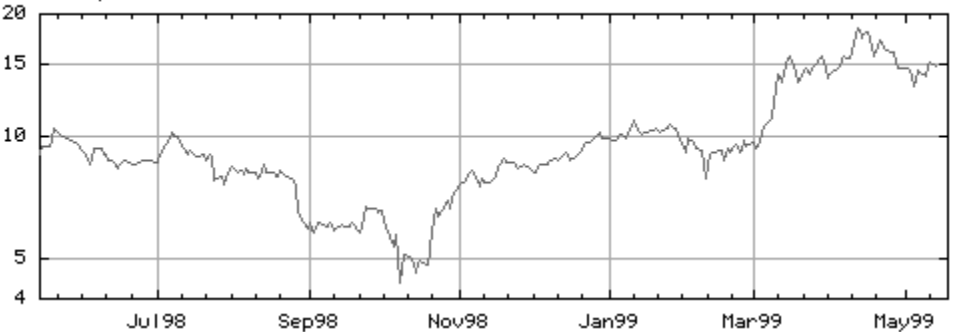
Comverse Technology Inc
as of 14-May-1999



CMVT remains a "strong buy". The company's growth in earnings, estimated at 20%, is driven by growing wireless networks and the deregulated wireless telecommunications industry. The market for the company's products is expected to grow annually by 30%. With a strong cash basis CMVT can continue to finance its growth internally or through acquisitions.

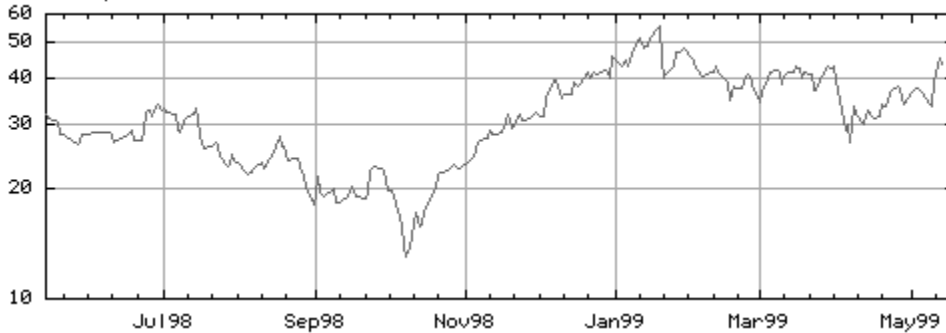
GICOF should be accumulated on weakness in the \$13-\$15 range. As a leader in providing satellite based interactive learning systems worldwide it has the basis for rapid growth. Estimates point to EPS of \$2.00 in 2000 to come on the heels of \$1.74 estimated EPS for 1999. The company provides a complete solution for clients as it offers both hardware and software for creating, broadcasting and conducting educational and training operations.

Gilat Communications Ltd
as of 14-May-1999



GICOF was featured in IHTIR Feb.99 as IHTIR's choice of small-cap to outperform in 1999

Check Point Software Technologies Ltd
as of 14-May-1999



CHKP continues to maintain a leading position in developing, marketing and supporting network security software products enabling connectivity with security and manageability. Its FireWall technology provides easy to use software that enables system administrators to define and enforce an integrated centrally managed enterprise-wide network security policy. A 25% annual growth in earnings is expected over the next two years.

GILTF continues as one of our favorites with earnings of \$0.55 for the June 99 Q a strong likelihood. Gilat is expected to earn \$2.65 in 1999 to be followed by a \$3.24 performance in 2000. The company designs, develops and markets and supports very small aperture terminal satellite earth stations It has proved over the years an ability to enlarge its market
Its earnings are advancing at more than 20% annually. At about \$50 per share level the Gilat shares offer an attractive investment opportunity.

GILTF is IHTIR's Choice for a Core Holding

Gilat Satellite Networks Ltd
as of 14-May-1999



Applications for Increased R&D Support

Several Israeli companies submitted applications for up to 60% more for government R&D support this year, compared to their applications last year. This is despite the official announcements of cutbacks in the R&D budget for large companies this year. Among these companies are Motorola, Telrad, ECI, Telecom, Scitex, Indigo, Lucent, El Op and Rad Computers. Estimates say some of these companies will be forced to publish profit warnings in their financial reports.

The Research Committee headed by Ministry of Industry and Trade Chief Scientist Dr. Orna Berry convened, but did not reach agreement on the removal of the grant restrictions on large companies. Currently amounting to NIS 407 million, the budget is 37% lower than the support received in 1998, which totaled NIS 597 million. Following the meeting, Manufacturers' Association economic department head Shuki Avramovitz estimated that the Ministry of Finance was close to removing the restrictions.

Survey Reveals U.S. Marketing Objectives and Business Practices of Israeli High-Tech Companies

BetaSphere, Inc. released results of an in-depth survey of 65 Israeli technology companies (94% having 100 employees or less) attempting to penetrate the U.S. market. Israel, a country less than half the size of Maine, is home to nearly 3,000 high-tech companies. The majority have fewer than 100 employees, and many identify the U.S. as their primary target market. Since little has been written about the role of U.S. customer feedback in Israeli product development and marketing, BetaSphere surveyed Israeli companies to understand how they find prospective customers, beta users, and partners; how U.S. customer feedback influences product development; and how Israeli marketers assess U.S. acceptance of their products and services.

Important findings:

93% state the U.S. market is extremely or very important to their business in 1999-2000;

86% rate customer feedback obtained during product

development as extremely or very valuable to their development, quality assurance, and marketing organizations;

86% list "To increase understanding of customer requirements" as an extremely or very important reason for beta testing;

88% consider beta testing an extremely or very important quality assurance process;

67% list enterprise and business to business segments as their primary markets.

"These results address key concerns of investors and partners of Israeli high-tech companies," said Yishai Laks, Consul for Economic Affairs, Government of Israel Economic Mission. "Israeli's are famous for R&D, but long-term success rests on their ability to negotiate strategic marketing partnerships which enable closer communication with U.S. customers through all phases of product development and marketing." Survey participant Shlomi Cohen, VP Marketing & Business Development, BATM Advanced Communications LTD, an Israeli data communications company concurs, adding "Reaching more U.S. customers, understanding U.S. product marketing issues, and building credibility among U.S. early adopters is a top priority for our company. Developing products in isolation is not an option."

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BetaSphere initiated the survey following a spike in requests from Israeli companies for U.S. feedback management services.

Fitch IBCA Raises Israel Short-term Rating

Fitch IBCA, the international rating agency, upgraded the Short-term foreign currency rating of the State of Israel to 'F1' from 'F2'. This reflects the build-up in official reserves, low level of public

external short-term debt and special access to external financing even in times of crisis. At the same time, the agency assigned a rating of 'A+' to the local currency denominated debt of the State of Israel. Fitch IBCA said that the local currency rating reflected a balance of a high public sector debt countered by a long-term debt structure that reduces the risk of failure to refinance debt during periods of strain.

The agency also affirmed its Long-term foreign currency rating of the State of Israel at 'A-

In explaining its upgrade, Fitch IBCA cited Israel's strengthening liquidity, notably the rapid rise in official reserves since 1994 to \$22 bln and its unique access to financing through State of Israel bonds (which are made available to the Jewish diaspora through community organizations).

On the Long-term rating, Fitch IBCA noted the improvement in public finances, the strong

prospects for reducing inflation to close to trading partner levels and the structural shift in the economy from traditional industries towards high technology, notably advanced electronics and computing. The agency pointed out that the rate of new business creation remains impressively high. Israel has become a high income and well-diversified economy. Prospects for an upgrade would be enhanced by a resumption of strong gdp growth, consistent with continuing improvement in the

Compaq Adopts Israeli Encryption Software

Compaq, the world's largest PC manufacturer, will install the PriVaSUITE message encryption software produced by Israel's Aliroo, in its professional mini-computers series, operating in Windows CE. This was reported yesterday by Compaq and Aliroo, at the CardTech SecuriTech exhibition currently underway in Chicago. The mini-computers are meant for the use of roving employees in large organizations. Compaq intends to market them as part of a comprehensive organizational solution, which also includes communications encryption at the desk-top computer and organizational server level.

Aliroo general manager Meir Zorea said the computers had not yet been named, or even priced, but they would be the first mini-computers standardly fitted with an encryption system and a smart card reader. The arrangement was actually a three way deal between Compaq, Schlumberger and Aliroo. Schlumberger, one of the world's largest manufacturers of smart card technologies, will supply the card reading systems, complete with a card security system of Aliroo manufacture. At the same time, Aliroo will supply encryption software for the computers themselves. Zorea estimated that this is one of the young Israeli company's most important strategic deals. He said negotiations had already commenced with Compaq's desk top computer and organizational servers divisions managers, with a view to fitting those products with the encryption software.

e x t e r n a l accounts, and by progress in the peace process with the Palestinians and with Syria and Lebanon. The rating is constrained by the legacy of high public debt and net external debt, albeit offset by relatively low debt servicing costs thanks to concessional finance, and by the potential for financial volatility, demonstrated by a quick depreciation in late 1998. The a g e n c y

observed that political risks are not as great as is sometimes thought. Thanks to the peace treaty with Egypt and US support, Israel faces no credible conventional military threat while non-conventional threats are minimized by international efforts at non-proliferation and Israel's retaliatory capability. trade access to both the European Union and United States markets.