

# ISRAEL HIGH-TECH & INVESTMENT REPORT

A MONTHLY REPORT COVERING NEWS AND INVESTMENT OPPORTUNITIES

JOSEPH MORGENSTERN, PUBLISHER

July -Aug. 2000 Vol. XVI Issue No.7

You are invited to visit us at our website : <http://ishitech.co.il>

---

## Summer Time and the Going is Easy!

### Looking ahead to the Rest of the Summer

As is our custom in recent years; after the publication of this July issue, we will take our summer vacation and resume publication with the September 2000 issue. It used to be that the hot summer months of July and August were generally devoid of newsworthy developments in the Israel's universe of investments and high-technology. What was once true is no longer the case today. The most probable reason was voiced at the recently held Oracle conference in Tel-Aviv. Moshe Horev, Israel Managing Director of Oracle Israel, in introducing keynote speaker Mark Jarvis, Senior Vice- Marketing Manager of Oracle Corporation said, "every day in Israel three new startups are born". The "three a day start-up birth" cycle is not startling news. It began a number of years ago. The number of startups has been mushrooming and these, once having progressed beyond the fledgling stage, are nearly daily making their presence felt. For them the battleground may be to obtain the next financing round. After obtaining funds they go back to work, but for us it becomes news. It may be a new technology breakthrough. That is also news! We, who faithfully try to record these events for the investment community, lately find ourselves, more often than ever before, dusting off our databases and updating what was once mentioned as the birth of a hopeful high-tech company. But that is not all! True enough, Initial Public Offerings will be few and far-in-between. But even in that area there are signs of surprises and some revival.

The Israeli company Click Software has just raised

\$28 million and is to be followed by Accord Networks and Precise Software Solutions.

Precise, which develops e-business and enterprise application performance management solutions for Oracle-based environments, is planning to raise \$63 million. The company's value according to the IPO price is expected to be about \$250 million.

Accord, which develops network equipment for video conferencing, also plans to issue its IPO on Nasdaq The company

<http://ishitech.co.il>

### In this Issue

Summer Time and the Going is Easy!

Annual Per Capita GDP of \$16,810 Earns Israel 32nd Spot in World Rank

British Gas Competes for Long Term Supply of Gas to Israel

Finding One's Way on the Internet

Largest Share Offering Ever in Israel

Weizmann Particle Detectors Used to Explore Primordial Matter in Collider Project

Accord Networks plans Nasdaq IPO

Tactical High Energy Laser Shoots Down Katyusha

Massive Gains in Electronics Industries Exports

Cisco Buys Hynex from Elbit Ltd. for \$127 million

Teva Begins Marketing Copaxone in the UK

LaserComm Raises \$38 mln at \$260 mln Company Value

An Upbeat Analysts' Report

British Telecom Plans First Israeli High-Tech Investment

TASE Publicly Traded Venture Capital Companies: UPDATE

Records Broken for Capital Investments in the US and Israel in Q 2000

IHTIR Model Portfolio Update: Comverse Technology:

Point of Sale Ltd.: Tecnomatix Warns of an Earnings Slowdown

ISRAEL HIGH-TECH MODEL PORTFOLIO of Selected Israeli Growth Companies

Web Economy Doubled In 1999

Yazam Leads \$5 Million Round of Seed Funding for Onna.com

aims to raise about \$55 million, at a company value of \$220 million.

We are beginning to identify a trend toward mergers and acquisitions and these deals are likely to be the future "big" news. The startups of yesteryear have grown and are now sufficiently large to gain ranking as players in the megadeal category. Deals of several tens of millions of dollars are not considered as newsworthy. Now it is big time "M & A". With each new announcement observers are tempted to speculate whether this is the last of the megadeals or just a respite before the next new big buck record is announced. A case in point is that of Chromatis Networks Inc, which a few short weeks ago announced that it had accepted a \$4.5 billion takeover offer from Lucent Technologies Inc. This created a new record in terms of sheer size for an Israeli company. Chromatis, makes optical equipment for urban areas. Its products allow voice, data messenger and video traffic to travel efficiently along crowded urban networks and let customers use optical wavelengths only where and when needed. Industry insiders suggest that the Chromatis partners from the very outset worked to fill a gap in Lucent's development program. This is a likely explanation and may yet become a model for others. Lucent was an early stage investor in Chromatis and could easily have guided Chromatis management to concentrate on developing solutions for its own corporate needs. It already sounds like a marriage made in heaven as Lucent has emphatically stated that it expects Chromatis' products to generate sales of "several hundreds of millions of dollars" next year.

Yet though the purchase price for Chromatis was the highest ever paid for an Israeli-associated startup – it reflected the development of a unique product for the fast-growing optical networking, where a new market is created with a new technology, and from a start up that is positioned to lead that new market. The Lucent-Chromatis deal may result in an acceleration of the trend of U.S. companies looking to Israel for technology talent and products. So as we ready for our vacation we do so

with the full confidence that there will be an abundance of news and developments to report in our September 2000 issue.

### ***Annual Per Capita GDP of \$16,810 Earns Israel 32nd Spot in World Rankings***

In a World Bank economic ratings chart for 2000, Israel was ranked in 32nd place, with an annual per capita GDP of \$16,810. Israel ranked above Spain, among others, with \$14,100; Greece, with \$11,740; and Portugal, with \$10,670 GDP per capita.

Heading the chart were Luxembourg and Liechtenstein with \$45,100 GDP per capita. Third place went to Switzerland (\$39,980), followed by Norway and Bermuda (\$34,310). Japan, the US and Germany ranked only 7th, 10th and 13th, with \$32,350, \$29,240 and \$26,570 respectively.

### ***British Gas Competes for Long Term Supply of Gas to Israel***

Five months ago we described in detail ongoing gas exploration efforts led by the giant British Gas Company and Israel's Isramco Oil and Gas Exploration. British Gas has notified the Israel Electric Corporation and Israel's Ministry of National Infrastructures that it is capable of supplying all natural gas requirements in Israel for the next fifteen years.

The sources of the gas are the future fields in Israel, off the Ashkelon coast, from fields it owns in Egypt, and from Palestinian Authority territory off the Gaza coast. The announcement is indicative of the competition between various groups for the long term contract. Other groups have also announced their willingness to bid for the long-term supply of gas to Israel Electric.

British Gas is planning next year to conduct the largest explorations ever held in Israel, in the framework of the permits it has received. The exploration work at the Ashkelon fields, according to our sources, will intensify this summer.

## Finding One's Way on the Internet

*"Internet for Dummies"* is the world's most popular book for beginners to learn simple ways to become acquainted with the Internet and, more important, how to use it. The third edition, with great effort at clarity, explains how to find specific addresses or web sites situated in the myriad of millions of computers, any one of which we may be seeking to access. In the section titled the Duke of URL the authors blithely point out that every Web resource or location requires a single consistent name or address – its URL, an acronym for Uniform Resource Locator. Having gone this far, the reader of *Internet for Dummies* is advised to note how a URL is constructed. Let us take <http://ishitech.co.il> – the address of the Israel High-Tech & Investment Report web site where-in surfers can access the content and electronic copies of our newsletter. The word before the colon is the scheme whereby a browser gets to the web site. For a Dummy beginner the word is http or Hyper Text Transfer Protocol. Generally, a consistent syntax follows and after the colon come two slashes, always forward, and the name of the host computer. Presto! Simple, really nothing to it! Except most beginners and even experienced surfers immediately stumble across the issue of 100% accuracy. Type one letter inaccurately and the host computer or server does not respond. If one does not remember the URL address or errs, then not even *Internet for Dummies* has the answer. However, Net Express Ltd., an ambitious Israeli startup less than two years old, is offering Netex, software designed to provide easy access in the user's own language and in the user's own country and without using URLs, www or dot.com addresses. The current versions of the major browsers allow the user to search by company name only, but this feature is of limited use. It applies to only some USA-registered sites and requires exact names. However, the patented

Netex technology solves one of the greatest routing problems, resulting from errors in keying site names and allows users to reach the site in the most natural way possible and in their own language. To get started connect up to the Netex website at [www.netex.co.il](http://www.netex.co.il) and download the enabling software. The system instantaneously allows the user to access Internet sites rapidly after keying in the name or a keyword in the white space provided by the browser Netscape Navigator or Microsoft Internet Explorer. In other words, it "adapts itself" to the regular browser. There is no need to activate it or to execute any special operation in order to use it. One simply keys in the name of the required site in the browser address window, and Netex will bring you immediately to your desired destination.

Netex was launched in Israel in late May 1999 and immediately captured the attention of the Internet-using Israeli surfer. The number of users early in the year 2000 surpassed the 100,000 mark. The figure is growing at 10,000 new users a month. "In another year the non-English language side of the net is expected to reach 173 million users vs. 168 million English-language users. We are rapidly moving into Europe to introduce Netex to the German, French and Spanish speaking public," says Sol Gradman, Net Express Ltd., Chief Executive Officer. The Netex services are currently provided solely via personal computers. However, the company has plans to offer, in the foreseeable future, its smart routing services on mobile communication platforms like cellular phones and other wireless appliances.

The Internet industry has been criticized as long on concept and short on business models which would result in revenues that could sustain expansion and meet the rapid growth of Internet usage. The Net Express business model is based on giving the software away free and deriving revenue from 50-50 joint ventures in foreign countries. Revenues accrue from advertising sales and fees

from referrals.

Israel has served as an admirable testing ground for the Netex routing technology because of the difficult issues involved in accessing with a language which is written from right to left. "We have overcome some major hurdles and are fully capable of applying Netex in Europe. That is, we are able to apply Netex to all European languages. Not the least of the difficulties that we overcame was to offer support for languages with different characters. Our system works in French, German, Italian and Spanish," says Mr. Gradman. In Internet-related industries speed is the essence. A European joint-venture partnership need not take more than three months to enter the market. Mr. Gradman will shortly announce the forging of a European partnership which should become income-producing well before the end of the year. The Net Express management team is led by Shlomo (Sol) Gradman, who has managerial experience in Israeli and American computer and high-tech companies. Among them are IBM, Optrotech, and ASP Computer Products. He obtained his first degrees from the Technion Institute of Technology and Bar-Ilan University and earned an MBA at San Jose State. The company's founders also were the providers of funds to cover early-stage activities. Mr. Ze'ev Refuah, who serves as Net Express board chairman, is managing director of the consulting firm Haft Refuah Ltd. He formerly was manager of the Government Companies Authority in the Treasury Ministry and headed the Israel government's privatization project. He is a former chairman of the Israel association of software companies. Other board members include Mr. Haim Inzelberg, who is managing director of the Ha'Aretz group, one of Israel's leading communications groups; Mr. Avi Tanenbaum, managing director of IOL, which operates Israel's largest interactive information network; and Mr. Eli Nahiasi, who is Chairman of the American company EasyNet Access Inc. and serves as chairman of Aerotel of

Israel. Net Express is currently raising \$2.0-\$3.0 million for 10-15% of the company at a valuation of \$20 million. Mr. Gradman says that a group of American financiers has already committed itself to invest \$500,000. "Where do you see Netex three years from now?" we asked him. "I believe that by then we will have achieved a strong presence in Europe as well as in the Far East. We have set out an ambitious program but are confident that we can achieve our stated goals and in due course we will aim at a public offering to allow our backers to profit from their investment," says Mr. Gradman.

### ***Largest Share Offering Ever***

In what was the largest ever share offering on the Tel-Aviv Stock Exchange the Government of Israel sold its 17.3% share holding in Bank Hapoalim and realized \$510 mln. While the government's policy of privatizing state holdings is continuing, many observers note that it has been a slow process. The government still retains a controlling interests of 40% in Bank Leumi and 56% in Discount Bank. The Bank Hapoalim share offering was oversubscribed by nearly twice the amount on offer. More than two dozen leading European institutional investors, among them HSBC, Schroeder and Credit Lyonnais were allocated shares while some bids including one from Fidelity went unfilled. Estimates are that overseas institutional investors acquired 15% of the issue, constituting about 2.5% of the bank's shares.

## **Science Corner**

### ***Weizmann Particle Detectors Used to Explore Primordial Matter in Collider Project***

The first collisions of particles that will allow scientists to study matter as it existed just after the Big Bang, were observed with the help of unique particle detectors designed and built at the Weizmann Institute of Science in Israel. The collisions

marked the launch of the largest experiment of its type at the Brookhaven National Laboratory in Long Island, is intended to simulate the first stage in the creation of matter in the universe. This experiment, called PHENIX, involves some 450 scientists from 11 national groups, including the Israeli team headed by Prof. Itzhak Tserruya of the Weizmann Institute's Particle Physics Department. In the first millionth of a second after the Big Bang, the atoms of different elements as we know them today did not yet exist. The protons and neutrons had not yet been 'born' either. The jets of blazing matter that dispersed in all directions in the first few fractions of a second in the existence of the universe contained a mixture of free quarks and gluons, called the quark-gluon plasma. Later on, when the universe cooled down a bit and became less dense, the quarks and gluons got 'organized' in various combinations that created more complex particles, such as the protons and neutrons. Since then, in fact, quarks or gluons have not existed as free particles in the universe. Scientists studying the unique physical properties of the quark-gluon plasma have been trying to recreate this primordial matter using particle accelerators. In an experiment called CERES, conducted at the European Laboratory for Particle Physics (CERN) near Geneva, an international team including Weizmann Institute scientists came close to that goal. But in order to be certain that the goal has indeed been achieved and to maintain the quark-gluon plasma for a sufficiently long period, in order to study its properties, a special 3.8 kilometer circumference Relativistic Heavy Ion Collider (RHIC) was built at the Department of Energy's Brookhaven National Laboratory. RHIC creates two beams of gold ions, accelerates them almost to the speed of light and causes them to collide. The power of the collisions, about 40 trillion (40 million times one million) electron volts, turns part of the beams' kinetic energy into heat, while the other part of

the energy turns into various particles -- a process described in Einstein's famous equation  $E=mc^2$ . The first stage in the creation of new particles, just as in the first stage of the creation of matter in the Big Bang, is assumed to be the stage of the quark-gluon plasma. The 20 Weizmann detectors designed and built by Prof. Tserruya are crucial elements of the PHENIX detection system, intended to definitively identify the quark-gluon plasma. They are capable of providing three-dimensional information as to the precise location of the particles ejected from the area of the collision. The direction of the particles' motion, their energy and their identity will allow scientists to study the state of matter in the area of the collision. The PHENIX experiment is scheduled to run several years. Among the distinguishing features of the Weizmann Institute detectors is the fact that they are both lightweight and strong, a rare combination of properties. Also, they contain several unique elements, such as extremely complex printed circuits. The Institute scientists were able to find only one company in the world, located in Italy, that was able to manufacture the circuits matching their specifications.

### ***Accord Networks plans Nasdaq IPO***

Accord Networks, whose development unit is based in Israel, is preparing to launch an initial public offering (IPO) on Nasdaq. The company's valuation has been set at \$220 million. The company, which develops and manufactures video-conferencing networks, will seek to raise \$55-\$60 million through the issue of 5 million shares. Accord Networks' revenues in 1999 totaled \$25 million and the company reported a net profit of \$364,000. This represented nearly a 100 percent increase over 1998 revenues of \$13 million. During the first quarter of 2000, the company had sales of \$8.3 million. The company's flagship MGC-100 system enables video-conferencing between a large number of participants over various types of networks and network protocols.

The company's client roster includes Nortel, Credit Suisse First Boston, Microsoft and Notre Dame University. Its main competitors include Ezenia, Lucent, RadVision and CUseeMe. Principal investors in Accord Networks include a number of venture capital funds, VTEL, the company's founders Messrs. Gavish and Rosenfeld and employees of Accord Networks. Some 108 of the company's 180 employees work in Israel, while the remainder are located in the U.S., the UK and China.

### ***Tactical High Energy Laser Shoots Down Katyusha***

A novel laser weapon being developed to protect Israel from short-range missile attacks shot down a target rocket for the first time in a successful test, said project officials. The Tactical High Energy Laser took out a short-range Katyusha rocket, Lt. Gen. John Costello said in a statement issued by the U.S. Army Space and Missile Defense Command in Huntsville, Ala. Future tests will attempt to shoot down multiple rockets. A string of rocket attacks on Israel in 1996 prompted President Clinton to approve the program by the Army and the Israeli Ministry of Defense to develop the \$250 million weapon. Congress is considering an additional \$5.7 million for the laser. Army officials planned to turn it over to Israel this fall if tests proved it effective. Defense Department spokesman Kenneth Bacon has said it is up to Israel to disclose how and when it plans to deploy the new weapon. Hezbollah guerrillas use the Soviet-designed Katyusha rockets, against Israel. The laser weapon is being built under contract by Cleveland-based TRW Space and Laser Programs Division. Costs have been shared by the Israeli and U.S. governments.

### ***Massive Gains in Electronics Industries Exports***

Electronics industry exports are projected to

record an increase of 25% to \$9 billion in 2000. The increase in electronics exports is due mostly to full-capacity operation of Intel's chip plant in Kiryat Gat, whose exports are expected to total \$1 billion this year.

Another factor behind the exports' surge is the increase in production throughout the electronics sector, notably communications, industrial equipment and electronic components. Electronics industry officials have stated that the electronics sector would have grown even faster, but for the shortage of electronics engineers and software experts.

### ***Cisco Buys Hynex from Elbit Ltd. for \$127 million***

Elbit Ltd. said it signed an agreement to sell privately held Hynex to Cisco Systems for \$127 million. As a result it expects to record a \$47 million net capital gain from the sale. According to the deal, \$9.2 million out of the purchase price will be paid in cash to cover a shareholder's loan Elbit extended to Hynex. The remaining sum will be paid in Cisco shares, which Hynex plans to sell and to distribute the proceeds as a shareholders' dividend.

### ***Teva Begins Marketing Copaxone in the UK***

Teva Pharmaceutical Industries, Israel's largest pharmaceutical company expects to start selling its multiple sclerosis treatment, Copaxone, in Britain by the third or fourth quarter of 2000. Britain's Licensing Authority recently recommended approval of Copaxone; however, the company expects the initial impact from Copaxone sales to be felt only sometime next year.

### ***LaserComm Raises \$38 mln***

Israeli start-up LaserComm has raised \$38 million at a company valuation of \$260 million. The financing was led by the Morgan Stanley. Investing in the company for the first time are

Piper Jaffray, Index Ventures, CIBC and Wit Soundview. Other investors from previous rounds are Gilde Investment Funds, GE, Equity, Cedar, ABS GE, Giza Capital, SSM Ventures, Link Technologies Venture Capital and Vantage Point. This is the company's third financing round. The company develops optical components for fiberoptic networks. The money raised is designated to accelerate product development and distribution. In July 1998, the company raised \$3 million, followed by another round in July 1999, when the company raised \$15 million. LaserComm's optical components enable DWDM network operators to increase existing bandwidth, accelerate data transmission and lengthen transmission distance, with minimal energy loss, and with minimal noise. According to data the company released, the market for optical components to DWDM network operators is rising 50% annually, and is expected to reach \$7 billion in 2003. LaserComm was founded in 1998. It specializes in broadband optical components. The R&D facilities are located in Israel, and operations and manufacturing in Texas. The company's general manager is Eduardo Shoval.

### ***An Upbeat Analysts' Report***

Investment banker Salomon Smith Barney remains bullish on Israel's technology sector and expects some stocks to double in price by year-end. "We believe the Israeli technology stocks will continue to outperform the broader market," wrote analysts Victor Halpert and Colby Wheeler in a recent report. Their top picks are ECTel Corp (NasdaqNM:ECTX ), Magic Software (NasdaqNM:MGIC ), M-Systems (NasdaqNM:FLSH ) and Nice Systems (NasdaqNM:NICE ) "Israeli technology companies have matured in the way they target their prospective markets, establish distribution channels, develop strategic alliances and manage to

exceed Wall Street expectations," the report said. "For the first quarter of 2000, on average, our universe of companies performed better than expected. We believe that is now the trend." The report noted that year-over-year aggregate projected earnings in Israel's high-tech sector stand at more than 20 percent. "In our group, some companies have earnings growth projections above 70 percent," Salomon said. "Given the robust fundamental landscape, we see a strong propensity for continued upward estimate revisions." M-Systems, for instance has a target price of \$115, well above the current price on Nasdaq of \$53-1/4. Halpert and Wheeler said they are "aggressive buyers" of the share, following contracts with major original equipment manufacturers (OEMs). A shift in the revenue mix towards telecoms companies should boost ECTel to \$30 from \$15-3/8, they wrote, adding that ECTel is poised to acquire new companies to expand its Internet Protocol activities and to offer a larger line of products. The completion of two acquisitions and two more in the pipeline will jump start Magic's shares, pushing them to \$40 from \$12-13/16. Salomon said it also had high hopes in 2000 for:

Comverse Technology (NasdaqNM:CMVT ),  
Galileo Technology (NasdaqNM:GALT ),  
Gilat Communications (NasdaqNM:GICOF ),  
Gilat Satellite Networks (NasdaqNM:GILTF),  
Radvision (NasdaqNM:RVSN),  
Radware (NasdaqNM:RDWR),  
Tecnomatix Technologies (NasdaqNM:TCNO)  
and Zoran Corp (NasdaqNM:ZRAN) -- most of which are expected to post share price growth of two to three times that of 1999. The brokerage company said it was not only bullish on Israeli high-tech but on the wider technology and telecommunications sectors, recently shifting to an "overweight" recommendation from "market weight" in its tech sector allocation. "Despite the recent market volatility we continue to

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

**UPDATE**

## TASE Publicly Traded Venture Capital Companies

### *Results for the individual companies*

<b>Sadot</b>	<b>+ 33.8 %</b>
<b>Teuza</b>	<b>+ 29.2 %</b>
<b>Marathon</b>	<b>+ 9.0 %</b>
<b>Mofet</b>	<b>+ 115.0 %</b>
<b>Inventech</b>	<b>+ 38.4 %</b>
<b>Tamir Cap</b>	<b>+ 14.9% *</b>

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

A balanced portfolio of the above TASE Publicly Traded Venture Capital Companies since the beginning of 2000 currently shows a nominal paper profit of 40.1%. This compares very favorably with the General Share Index of TASE traded companies which since the outset of this year has gained 11 per cent. Mofet Israel Technology Fund, with a 1157% gain since the start of the year, continues to be a major winner.

For the foreseeable future the Israeli Publicly Traded Venture Capital Companies, similarly to their overseas cousins, are not likely to benefit from capital gains to be reaped as a result of Initial Public Offerings on Wall Street. These are on the back burner, at least for the time being. However, they may become beneficiaries of foreign buyouts and Merger & Acquisition activity.

While none of the above were investors in Chromatis it is worthwhile to point out that Jerusalem Venture Partners and Tamir Fishman Ventures two non-publicly traded Israeli vc funds were among the investors that will cash out as Lucent pays for its acquisition.

Earlier this spring Tamir Fishman launched their \$300 million venture capital fund and the shares were registered on the Tel-Aviv Stock Exchange. At current price levels of about NIS 3.49 or \$0.85 a share the price reflects no premium over its cash or issue value. The new fund should benefit in making investments at lower price levels than at the outset of 2000 when deals were high priced.

As announcements of individual investments are made public it should draw attention to the shares and probably result in creating a premium over current levels.



believe that these sectors should be overweight in equity portfolios," Salomon analyst Andrew Barrett wrote. Strong global economic growth should drive demand over the next two years along with growth in Internet infrastructure, he noted.

### ***British Telecom Plans First Israeli High-Tech investment***

British Telecom is one of the largest telecommunications companies in the world, with annual revenues of about \$25.5 billion and operations in 54 countries. During a recent visit to Israel Mr. Keith Beecham, the director of technology investments at the British telecommunications giant stated that BT will shortly announce its first investment in an Israeli venture capital fund. Mr. Beecham met with eight Israeli venture capital firms and a number of high-tech companies in an effort to select investment opportunities in Israeli technology. BT's interest in the high-tech investments is strategic rather than financial. It seeks to identify technologies and to obtain the rights to use them. In recent years, it has adopted a business strategy of investing in high-tech companies in order to integrate the most advanced technologies in its systems. The company has allocated \$150 million for high-tech investments, but has only invested some \$8 million of that sum to date. The initial budget for investments in Israel is limited to less than \$10 million. The potential targets for BT's investment include companies working in the fields of optics, wireless and cellular technologies, data security, e-commerce infrastructure and control and billing systems.

### ***Records Broken for Capital Investments in the US and Israel in Q1 2000***

A new record of \$17.2 billion in the US and \$ 617 million in Israel was the total of capital investments in Q1 2000. The trend of increased average venture capital investment in the US- \$ 12.1 million, and in Israel - \$ 5.9 million

In the first quarter of the year 2000, venture capital investments in the US reached a record level of \$ 17.2 billion, an increase of 17% as compared to the previous quarter and 299% as compared to the corresponding quarter in the previous year.

In Israel, in the first quarter of the year 2000, venture capital investments reached a record level of \$617 million. This is an increase of 59% as compared to the record set in the previous quarter and an increase of 373% as compared to the first quarter of 1999.

The fact that the investments in the US continued to increase (by 17% as compared to the previous quarter) indicates that the fall of the stock exchange this past March did not have a material effect on venture capital investments in the first quarter of the year 2000. Although no data on investments in the second quarter have been compiled as yet, there have not been any signs of a dramatic reduction in venture capital investments in the US. Nevertheless, the rate of increase in the scope of investments is likely to be more moderate, in the near future.

The Internet is proving to be a true "industry" and not just an investment channel. The findings of the Money Tree™ Survey in the US indicate that companies engaged in services, Tools/application and access/infrastructure jointly accounted for 58% of the Internet pie (22%, 20% and 16%, respectively). Content sites and e-commerce sites constituted 30% and 12%, respectively.

In Israel, the breakdown of investments in Internet-related companies was as follows: Tools/application – 47%, access/infrastructure – 25% and services – 13%, a total of 85% of the Internet pie (15% went to content Sites and to e-commerce sites).

A similar trend seems to be developing in the US and in Israel in the first quarter: The average investment in Internet-related companies in the US is \$14.1 million, approximately 43% more than the average investment in companies not related to the Internet.

The average investment in Internet-related companies Israel is \$ 6.55 million, approximately 40% more than the average investment in companies not related to the Internet.

In the first quarter of the year 2000, Internet companies in the US raised \$ 10.7 billion, 63% of the total investments for that quarter and over half of the money invested in Internet companies in all of 1999. In Israel, 71% of total investments went to Internet-related companies.

In the US, companies engaged in software (21%), business services (19.2%) and telecommunications (17.4%) raised a total of \$ 9.9 billion.

In Israel, the telecommunications industry leads (34%), followed by software and new media (25% and 23%, respectively).

Analysis of investment rounds shows that 45% of the total investments in the US were directed towards the early rounds (start-up and early stage); this represented 53% of the transactions, the average investment in these stages being \$ 10.25 million. Companies in the third/expansion stage raised 27% of the total investments, but only accounted for 23% of the transactions. The average investment in this stage was \$ 14.6 million. The early rounds (start-up and early stage), this represented 64% of the transactions, the average investment in these stages being \$ 4.6 million. Companies in the third/expansion stage raised 33% of the total investments, but In Israel, in the first quarter, 50% of the total investments were directed towards only accounted for 17% of the transactions. The average investment in this stage was \$ 11.3 million.

Based on the findings for the first quarter, on the average, 16 American companies raised \$ 190 million from venture capital investors each day. In Israel, on the average, one company raises \$6.7 million each day.

Reported by Kesselman & Kesselman PricewaterhouseCoopers in its Money Tree Survey.

The Money TreeTM Survey has been carried out quarterly by Kesselman & Kesselman in Israel

for the past four years, in conjunction with the surveys carried out in the US and Europe by the largest accounting and consulting firm in the world.

## IHTIR Model Portfolio Update

Comverse Technology, (Nasdaq:CMVT) is in talks to buy Israeli startup eXalink in a share swap valued at some \$500 million, TheMarker.com financial news Internet site said recently. Officials from both companies were not available for comment. EXalink makes gateways for cellular networks that allow access to other types of networks, including Internet protocol networks.

In an unrelated announcement Comverse Technology Inc. (Nasdaq:CMVT), a maker of software systems that allow wireless communications network operators to add services such as messaging, said that fiscal first-quarter earnings rose 54 percent, topping expectations, as revenues jumped. For the three months ended April 30, the Israeli-based company said earnings rose to \$56.4 million, or 33 cents per diluted share, from \$36.6 million, or 24 cents, in the same period a year earlier, excluding a one-time acquisition charge of 1 cent a share. Analysts had expected the company to earn 31 cents per diluted share, according to First Call/Thomson Financial. It was the 24th consecutive quarter the company beat estimates.

### ***Point of Sale Ltd. to Provide Software Systems to Narvesen ASA Partners with Siemens***

Point of Sale Limited (Nasdaq:POSI), a leading developer of enterprise-wide software solutions for groceries, hospitality and

continued on p 12

# ISRAEL HIGH-TECH MODEL PORTFOLIO

## Selected Israeli Growth Companies

6/22/2000

Page 1

	Quantity		Commission	Open Amount	Current Value	Gain/Loss
IHTIR Model Portfolio						
BackWeb		BWEB		Price as of 6/22/2000: 20.8125		
Total:	1,000		\$0.00	\$43,500.00	\$20,812.50	(\$22,687.50)
-----						
Check Point Software Tech		CHKP		Price as of 6/22/2000: 228.00		
Total:	1,500		\$0.00	\$17,015.62	\$342,000.00	\$324,984.38
-----						
Comverse Technology, Inc.		CMVT		Price as of 6/22/2000: 98.50		
Total:	750		\$0.00	\$34,687.50	\$73,875.00	\$39,187.50
-----						
Gilat Commun.		GICOF		Price as of 6/22/2000: 17.4375		
Total:	5,000		\$0.00	\$49,375.00	\$87,187.50	\$37,812.50
-----						
Gilat Satellite Networkss		GILTF		Price as of 6/22/2000: 78.21875		
Total:	1,000		\$0.00	\$56,125.00	\$78,218.75	\$22,093.75
-----						
Point of Sale Ltd.		POSI		Price as of 6/22/2000: 23.9375		
Total:	7,800		\$0.00	\$49,725.00	\$186,712.50	\$136,987.50
-----						
Technomatix		TCNO		Price as of 6/22/2000: 14.75		
Total:	871		\$0.00	\$23,734.75	\$12,847.25	(\$10,887.50)

### IHTIR Model Portfolio Investment Summary

<b>Original Assumed Investment at the Start of 1999 was</b>	<b>\$ 246,850</b>
<b>Total Current Value</b>	<b>\$ 801,654</b>
<b>Gain</b>	<b>\$ 554,804 +224.8%</b>

\*valued as of June 21, 2000

convenience stores, announced that it has been selected to provide software solutions for Norwegian convenience store chain Narvesen ASA. In a partnership with Siemens Norway, Point of Sale will be the sole software vendor for Narvesen's project "New Retail Solution Year 2000" encompassing some 430 stores and more than 600 tills over the first phase of the project. The same solution will potentially be expanded to the other retail outlets and could include approximately 700 stores/restaurants and a total of 1,200 tills in Scandinavia and Balticum. Point of Sale will be providing "host-to-post" software solutions for Narvesen ASA, which will employ BEETLE tills from Wincor Nixdorf, and hardware, installation and support from Siemens.

### ***Tecnomatix Warns of an Earnings Slow-down***

Tecnomatix Technologies Ltd. (Nasdaq:TCNO), which sells software for computer-aided manufacturing, in a surprise profit warning announcement said it expects second quarter earnings to be below Wall Street expectations, on weaker-than-expected revenues and currency factors. The company expects pro forma earnings to break-even or slightly better on revenues of \$23.5 million to \$25 million. The Wall Street consensus estimate was \$0.40 a share. Tecnomatix pointed to the strengthening of the U.S. dollar relative to European currencies and lower than expected revenues in its Detroit operations as causes for the worsening of results. The currency factor is expected to result in slower reported year-over-year revenue growth. TCNO now projects reporting revenue growth in the range of 10-15 percent this year and to return to at least historical levels of 25-30 percent. by 2001, according to a company executive. The company plans to report second quarter results during the week starting July 24, 2000. Tecnomatix (Nasdaq:TCNO) shares were down 6 7/8 at 17 after the maker of manufacturing software warned that second-quarter earnings will miss estimates. The company expects break-even or slightly better results, on a

pro forma basis. Tecnomatix, which plans to report results in the week starting July 24, said revenue for the quarter would be in the range of \$23.5 million to \$25 million.

### ***Web Economy Doubled In 1999***

The number of individuals employed in Internet-related jobs doubled last year to 2.5 million as the industry enjoyed a 62 percent jump in annual revenues, according to a new university study that highlights the increasing importance of the digital economy. The study concluded that the entire industry generated nearly \$524 billion in revenue in 1999, up from a readjusted \$322 billion a year earlier. Researchers examined 3,000 U.S. companies that generate all or part of their revenues from selling goods, creating hardware or software or acting as support or intermediaries for Internet transactions. The fastest-growing category was e-commerce, which saw a 72 percent increase in revenue to \$171.4 billion from \$99.8 billion a year earlier as traditional brick-and-mortar retailers such as Sears, Roebuck embraced Internet sales and companies increasingly began buying their own goods online.

### ***Yazam Leads \$5 Million Round of Seed Funding for Onna.com***

Yazam, a leader in international seed stage investing and business development, has led an international group of private angel investors in a \$5 million round of seed financing for Onna.com, a Japanese women's lifestyle Web site based in San Francisco. Launched in May, Onna.com is designed to facilitate an online community for Japanese women and provides users with communications tools, content and e-commerce opportunities. Designed for the fastest-growing segment of Internet users in Japan, it offers users the opportunity to contribute original content relevant to Japanese women. Yazam provides seed-stage funding and business development services to emerging Internet and technology start-ups. The company offers a Predictable Time to Money funding model that targets a closing within 45 days of initial contact for projects that are accepted.