

ISRAEL HIGH-TECH & INVESTMENT REPORT

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Annual Conference Circuit in Full Steam!

For the young Israeli entrepreneur listening to the presenters at the recently held 3rd Annual Hambrecht & Quist/Tamir Fishman Growth Conference it might have been a repetition of yesteryear when listening intently to the wisdom of an overbearing but well wishing father. During the harrowing discussions the son's every weakness was exposed. At some point the remonstrative father did point out that indeed the son has some good qualities but...but..... Every Israeli entrepreneur, worth his salt, especially those "on their second company" know certain facts of the arduous high-tech existence. Among these: no matter how nimble, aggressive, open minded and technologically clever he doesn't even think of how to market his novel system, hardware or software, from the Land of Silicon Wadi. However, Mr. Izhar Harmony undoubtedly a former Israeli, repeatedly hammered a message to the participants at the Conference. Startups are insufficiently market driven. There is not enough experience in having successful companies. There is too much 'meat and potatoes' and not enough 'sizzle'. Israeli entrepreneurs should switch from the 'jungle mode to the 'highway mode', preached Mr. Harmony, He was not the only preacher of How to Succeed. Mr. Clifford Higgerson of Communications Venture, well known in the field of telecommunications investments, must have also been prompted that he should preach to the unconverted audience. The downside, as he put it was that Israel's technical leadership did not have the necessary management skills. Were Messrs. Harmony and Higgerson marketing and management specialists their words would have carried the weight which

experienced experts can and should bring to conferences. One only had to be reminded that these individuals were venture capitalists. However, there is no venture capitalist alive that will not proclaim that it is not just money that is supplied but the investee is accompanied, nurtured, introduced and led to ultimate Initial Public Offering and a springboard to wealth and prominence. Well, the Effi Arazis, Uzia Galils, David Rubiners and more recently the Gil Shweds all managed. As Woody Allen once said: Fellows you must be kidding! The highly entertaining chairman and CEO of Vignette, Inc. Mr. Ross Garber sympathized with the plight of the Israeli who has to adjust to the

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American culture of doing business. Mr. Garber is an entrepreneur who made it big. The Vignette story is truly one from rags to riches!

Israeli entrepreneurs who enter the market are well aware that one has to be 'first and fastest'. This sentiment was echoed by Rami Kalish, general partner of the Israeli venture capital firm Polaris. Mr. Kalish knows the game well and his firm has notched up many investment 'hits'. However, even his four principles of having 'technology, management, business model and good execution' could hardly impress the listeners.

It may appear that I am being somewhat harsh on the visiting speakers. However, it is likely that what I criticized is far from being their own fault. Undoubtedly, the organizers prompted them and suggested what the content of their presentations should be.

On the other hand, among the more than 100 company presentations, over the two day Conference it was clear that there are many gems and near gems. In fact, it was exciting to come listen to presentation by managers of Comverse Technology and CheckPoint Software. These companies represented a combined market capitalization of about \$12 billion.

D-Pharm and XTL Biopharmaceuticals. Internet and Internet related companies such as Top Tier Israel were in abundance and impressed with their sheer technical brilliance and audacity in rushing innovations to a "hot" market place.

Near Record High Share Offering

Hong Kong based Hutchison Whampoa Ltd said its indirect Israeli mobile unit, Partner Communications Co Ltd, is proposing to offer about US\$525 million in American Depository Shares. Partner Communications was applying for the ADSs to be listed on the Nasdaq stock market and admitted to the Lon-

Intel to Acquire Minority Stake in DSP tt \$1.6 billion Valuation

Intel (Nasdaq:INTC) has announced it will buy DSP (NYSE:DSP) Communications for \$1.6 billion in cash. For Intel the acquisition marks a major step in acquiring the technology that makes wireless phones operate and communicate with other devices. DSP employs 300 people, of these 250 in Israel. The company provides chipsets, design, software and other key technologies for the next generation of lightweight wireless phones that are now emerging. The new phones are increasingly being designed to handle Internet functions and Nokia has just introduced a new line of cellular phones having these capabilities. Intel makes chips for most of the world's personal computers, but the market for its PC chips is slowing. With the cellular market growing so fast, Intel is determined to expand its roster of products to capitalize on the growth of the Web and demand for Internet-ready phones.

"Cellular technology is emerging as a new high-speed method of connecting to the Internet and we believe that over time it will become increasingly important for connecting PCs to the Internet," said Craig Barrett, chief executive of Intel.

Over the past few years, DSP Communications has found a nice niche for itself as one of the largest independent suppliers of chipsets for cell phones using digital signal processing technology. The company had been seen as a takeover target, with potential buyers rumored to include Intel, Motorola, IBM and Texas Instruments. With this deal, Intel will eventually become a more direct competitor with Texas Instruments Inc. (NYSE:TXN). and Lucent Technologies Inc. (NYSE:LU)., the two biggest players in the communications components market, analysts said.

don Stock Exchange. Partner Communications, Israel's third-largest cellular telephone operator, would offer about 23 per cent of its enlarged ordinary share capital in the form of American Depositary Shares, raising US\$525 million (HK\$4.07 billion). Elbit Ltd., (Nasdaq:ELBTF), an Israeli high technology company owns 16.5 per cent of Partner's shares and would be a major beneficiary from the IPO. Matav-Cable Systems Media Ltd. (NasdaqNM:MATVY), owns 20.3 per cent of Partner. Matav is an Israeli cable TV operator.

Hutchison's stake in Partner Communications through wholly-owned subsidiary Advent Investments (Pty) Ltd would be reduced to 34.3 percent, down from 46.7 per cent, after the offer. Morgan Stanley Dean Witter and Warburg Dillon Read have been appointed as joint global coordinators for the offer.

Increasing Signs of Recovery: Israel's-GDP to Grow by 2 per cent in 1999

Economic performance is improving in investment and growth rate, according to economic forecasts for 1999 published this week by the Central Bureau of Statistics (CBS). According to the forecasts, GDP will rise by 2 per cent this year and business product by 1.6 per cent, investments will increase by 7.6 per cent, and exports by 7 per cent. There is a sharp acceleration in growth in the second half of the year: GDP is poised to rise at an annual rate of 3.3 per cent, compared with only 0.9 per cent for the first half of the year. Business output is expected to rise by 4 per cent. Approximately 10 per cent of the growth in GDP is from increased high tech activity.

However, the CBS warned against excessive optimism and took the position that it was still too early to predict a dramatic rise in growth, in spite of several bright spots, among them a sharp increase in exports in most sectors. "If the increase in export and activity persists, it will

cause faster growth, which will be felt mainly in the year 2000", according to the CBS. Growth this year is still the lowest in the past decade. Per capita growth this year will be fractionally below the break even level. and the standard of living will rise by only 0.4 per cent.

Mercado Software Receives New Round of \$12 mln

Mercado Software Inc., the pioneer of online catalog integration and search, today announced the closing of a \$12 ml round of financing. The monies come from the company's original Israeli investors plus new investments from US-based Eucalyptus Ventures and Access Technology Partners.

Record \$5 bln in Foreign Investment

Foreign investments in the Israeli economy rose sharply since September 1998. Overall foreign investments in the period September 1998 - July 1999 reached a record \$5 bln. This emerges from figures published by the Bank of Israel, Israel's central bank. Overall direct (non-financial) investments in the economy (real estate and industry) amounted to \$2.8 bln in this period. Overall foreign financial investment was \$2 bln. The figures point to a sharp rise in foreign investments in Israeli securities overseas (notably high tech).

Since the beginning of 1999, foreign investors bought \$970 mln in securities issues on foreign stock exchanges. At the same time, the secondary market overseas posted a \$510 mln fall.

Foreign investments on the Tel Aviv stock exchange declined \$46 mln since the beginning of the year, following a \$300 mln drop in the first half of 1998.

Minister of Communications on Israel's Telecommunications Market

Benjamin (Fuad) Ben Eliezer, a former general entered the political arena and served as Minister of Housing under the late Yitzhak Rabin. He was appointed by Prime Minister Ehud Barak to the post of Deputy Prime Minister and Minister of Communications. The Israel High-Tech & Investment Report recently listened to the Minister's overview of Israel's telecommunication market.

Three companies service this country's 2.5 mln cellular phone subscribers. PelePhone, Cellcom and Partner Orange compete for a market share. These numbers translate themselves into a 42 per cent penetration of potential users. A fourth entry into the market will be approved in the foreseeable future.

The international telephone market is serviced by Bezek, Golden Lines and Barak. The competition among these three has benefited the Israeli phone user as rates have plummeted from among the highest to the lowest in the world.

On June 1, 1999 the Government opened up the local telephone communications market when it canceled the monopoly status held by Bezek Israel Telecommunications. Bezek held the monopoly for 50 years, or since the establishment of the State of Israel. Even ahead of the opening of telecommunications, Israel has attracted foreign investors including Bell South, Hutchenson, the French and Belgium Telecoms and Britain's Cable & Wireless. The Government has declared that it is prepared to issue licenses to other carriers.

There are more than 30 service providers for Internet connection. The number of Israelis having an Internet connection is 800,000 and

according to estimates this figure will rise to 1.2-1.5 mln in 2000.

90 per cent of Israel's population or 1.1 million homes have cable TV.

A license has been extended for a consortium to supply Israel's first DBS (Direct Broadcast by Satellite) service and it is scheduled to begin operation shortly.

Video Cameras Put in to Observe Milk Production

Israel's largest dairy company has responded to a rabbi's instructions and installed video cameras in its cowsheds to make sure Jewish employees aren't working on the Sabbath. Orthodox Jews are not allowed to consume products produced by Jews working on the Sabbath.

The Tnuva company installed cameras at knee level in the milking sheds to see who is doing the work and when.

The videos are collected by rabbinical supervisors and then monitored, the Haaretz newspaper reported recently.

The strict supervision enables the company to sell strictly kosher dairy products to those who request it, Haaretz said. Kashrut is a set of dietary laws, including rules on food preparation. Tnuva produces 70 percent of Israel's dairy products.

UK Science Minister in Israel

UK Science Minister Lord Sainsbury, visited Israel from October 3-6 to underline the importance the UK attaches to scientific and industrial co-operation with Israel. He was accompanied by the CEO designate and two British directors of the BRITECH Foundation, the company that will administer the £15.5 mln BRITECH Fund, announced in May this

year. A jointly-funded bilateral UK/Israeli initiative, BRITECH will help finance research and development projects resulting from companies from both countries working together.

“Israel has a highly developed high technology sector and is at the forefront of developments in IT and biotechnology. Cooperation between the UK and Israel has brought benefits to both sides, and the BRITECH Fund will make an unprecedented contribution. I am particularly keen to discuss the Israeli approach to supporting small high technology companies, and hope to gain insights that can be used in industrial and educational programmes in the UK,” Lord Sainsbury said.

Microsoft International, Internet Gold to Invest \$7 Mln in Setting Up MSN Israel

Microsoft International and Internet Gold signed an agreement to set up a joint portal called MSN Israel, with a \$7 million investment over two years. Moshe Lichtman, Microsoft Europe president stated that one of the major reasons for Microsoft's early entry into the Israeli portal market was the Israeli partner's willingness to invest its own money. Lichtman said that the two companies expected the venture to reach profitability in two years. The Israeli Internet provider will own 50.1% of the portal, and Microsoft will hold the rest. Most operating costs will be carried by Internet Gold, with Microsoft supplying the technological infrastructure for the site.

It was also reported that Microsoft will contribute international content to the site, and that Internet Gold will unify MSN Israel and its own portal, and be responsible for local content, sales, business development, technical support, and running operation of the site.

Lichtman said that Microsoft's early entry into the Israeli portal market was a strategic move, since the Israeli market is characterized by a high penetration rate of technologies.

Conference

Fifth Annual Tel Aviv Growth & Technology Conference - 1999

More than 100 public and private companies are expected to highlight their corporate strategies and key investment issues at presentations at the fifth annual Tel Aviv Growth & Technology Conference, November 8-9 at the Tel Aviv Hilton. The conference is hosted by BancBoston Robertson Stephens' joint venture, Robertson Stephens Evergreen.

In particular, the private companies represent Robertson Stephens Evergreen's selections of notable companies for the future.

Citibank to Open Tel Aviv Branch

Citibank announced its intention to open a branch in Israel, after obtaining the required approval from the Bank of Israel. The move requires approval from NY State Bank Authorities.

Citibank's first Israel branch will concentrate mostly on commercial credit, project financing in the area of infrastructure, private banking services, and derivatives, but it will exclude retail banking.

Citibank established its representative office in Israel three years ago and will be the first foreign bank to open a branch in Israel since the 1970's when the Exchange National Bank of Chicago opened an Israeli branch.

The Australia-New Zealand bank ANZ announced the opening of its branch in Israel several years ago, but has opened only one branch to date, in East Jerusalem.

ECI Begins Selling Subsidiaries

Trayon Communication Systems Inc. has agreed to buy Telegate Ltd for about \$100 mln in stock. Telegate is controlled by ECI Telecom Ltd. with 30 per cent, and Aryt Industries, with 28 per cent.

As a result of the transaction ECI Telecom expects to record a pre-tax capital gain of \$22 mln to \$30 mln from the sale. At the recently held Hambrecht & Quist Conference ECI's CFO Doron Inbar said that ECI is and will be seeking to sell off any subsidiaries which are not related to its core business.

IPO: Jacada Raises \$50 mln

Jacada, a Herzliya software house, raised \$48.5 mln on Wall Street at a value of up to \$216 mln. They sold 4.5 mln shares. The IPO was led by US investment bank Lehman Brothers, with Oppenheimer and SG Cowen as co-managers. The company's shareholders include US investment house Goldman Sachs, which after the issue will hold 9.9 per cent of the shares worth \$21 mln; the Star venture capital fund, which will hold 9.4 per cent, worth \$20 mln. The company was founded in 1990, and was formerly known as CST. It has developed a software system that upgrades organizational computer systems (mainframe or AS 400) in large corporations. Such systems have many terminals connected to a central computer.

This configuration has several limitations, among other things the obsolete terminals, usually with green and black screens, and the inability to access the Internet. Jacada's software makes it possible to upgrade the terminals to color screens, and facilitates Internet access. It represents a quick, cheap, low risk alternative to installing a new computer system. Jacada has demonstrated impressive sales growth. It sells software to Mitsubishi, Boeing, Toyota, Lockheed Martin, among others. In the first half of 1999, its sales totaled \$6.3 mln, compared with \$4 mln in the corresponding period in 1998.

Jacada made a net loss of \$2.9 million in 1998, but is expected to end 1999 with a small profit.

Silicom Shares Rocket by 65%

Kfar Saba, Israel based Silicom Ltd., founded by the RAD group of companies announced that a leading European manufacturer of mobile networking products placed a first 2,000 units order for the Silicom USB Ethernet adapter. The Silicom USB Ethernet adapter allows home users and small-office/home-office environments, to access broad-band Internet services. Offering simple and true "plug and play" Ethernet connection, the Silicom USB Ethernet adapter is a basic building block of any multiple-PC household Home network capable of sharing Internet access, printers, scanners, files, applications and games.

The Nasdaq:SILCF traded shares soared by \$1.07 to \$2.07.

BackWeb Q3 1999 Results :156 Percent Revenue Growth

BackWeb Technologies Ltd. (Nasdaq:BWEB), a leading provider of Push for e-business solutions, announced results for the third quarter ended Sept. 30, 1999. Revenues for the period increased 156 percent to \$6.2 million, from \$2.4 million in the same period a year earlier and up 22 percent from \$5.1 million in the previous quarter.

The company continues to move towards profitability. Excluding amortization charges related to a previous acquisition and deferred stock compensation, BackWeb's net loss for the third quarter of 1999 was \$1.6 million, or \$0.05 per share loss, compared to a net loss of \$2.9 million or \$0.13 per share loss for the third quarter of 1998, and a net loss of \$2.4 million, or \$0.09 per share loss for the second quarter of 1999.

BackWeb continues to attract industry-leading, globally branded companies such as Nortel, Lucent and British Telecom. Primary drivers for the company's third quarter growth include the continued acceptance of the Sales Accelerator

product. Sales of packaged applications built on BackWeb's infrastructure now make up a significant portion of BackWeb's license revenue.

In the quarter, BackWeb added two new products to its Accelerator Suite of packaged applications. Service Accelerator is an application targeted at proactive delivery of critical information to deployed service personnel. The application can push and notify the recipient of new software updates, new documentation, service alerts, and similar rich content critical in efficient operation of deployed service organizations.

Third quarter sales to Global 2000 customers continue to show the broad applicability of BackWeb's solutions to today's e-business challenges. New customer added this quarter include Nortel, Ericsson, British Telecom, Disney, Lucent, JEFFERIES & Co., BancBoston, and Telenordia.

Blind Computer Hackers Reported Cracking IDF Radio Station

A pair of blind computer-hackers from Israel have been detained and charged with cracking into the Israeli Defense Force radio station using customised braille and voice-activated gadgetry, according to ZD NET UK..

Blind since birth Munther and Muzhir Badir, apparently Israeli-Arabs, have developed such computer expertise that by their late teens they were running their own unconventional consulting agency.

Israeli prosecutors accuse the Badirs of remotely accessing the radio station switchboard in order to make free long-distance phone calls. The Defence Force's newly formed cybercrime unit remains baffled by the Badir brothers' activities however. When asked how this could have been done, a spokesperson reported.

commented: "It could be done with God's help, otherwise it's impossible."

However, Munther Badir, undaunted by his own disability or even the fact that he is already in custody, defied the Israeli police saying: "The cop who can catch me hasn't been born."

A Lagging Manpower Supply

Prof. Daniel Weihs, Provost Technion Institute of Technology expressed concern to the Israel High-Tech & Investment Report about this country's ability to supply the industry's needs for electronic engineers and software programmers. "Villages of Indians working in Cyprus for Israeli and European companies are an obvious sign of developing shortages. The previously adopted goal of enlarging by 40% the number of student openings (400) for Electric Engineering and Computer Sciences at the Technion has been reached, but it is now at a plateau. Country-wide the number of graduates a year is 2,000. Israel is a country of more than five million and according to the Central Bureau of Statistics the annual number of births is 100,000. After attrition one can look to the 20% of this group or 20,000 who are intellectually suitable as candidates for these studies. However, not everyone will go into these fields, leaving the viable pool of 6,000-7,000. The student body nationwide is evenly divided between universities and colleges. The university graduates have a considerable qualitative edge over those from the colleges. With keeping in mind the growth of industries, Israeli institutes of learning cannot keep up with the demand. There are plans for stimulating interest in these studies at a public school level," explained Prof. Weihs.

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

TASE Publicly Traded Venture Capital Companies

Strategic investors such as IBM, Intel, General Electric, Siemens, Deutsche Telecom, Cable and Wireless, pour millions of dollars into the burgeoning Israeli high-tech industries. Experience has proven that Israeli startups possess superb technology resulting in products which create substantial added value.

Israel oriented investors, on the other hand, invest in any one of approximately 125 Israeli companies listed on foreign exchanges, the majority of which are listed on the US Nasdaq market.

Institutional investors and wealthy individuals have the option of investing in the nearly 60 venture capital funds active in Israel. Venture capital investments, however, by definition, are generally high-risk and are offered to individuals whose net worth must be at or above a certain dollar level. Venture capitalists pool investment funds entrusted to them. The venture capitalist fund manager invests according to a set of guidelines such as investing in startups, early stage or mature companies. They may choose to invest in companies having a product with some sales and/or in focused sectors such as biotechnology or Information and Internet Technologies. Venture capitalists aware of the high risk involved in these investments seek investment opportunities with a potential of generating 60% or greater, compounded annual return. Venture capital funds are long term investments with a predetermined life expectancy of 10 years or longer. They do not offer the investor timely exit opportunities.

Investors in venture capital funds expect to be compensated for the risk to principal and the consequent variability in the return on investment by the prospect of massive capital gains. There is an alternate investment route available for those who are willing to accept the risk and reward of investing in Israel's start-up high-tech companies. A recent major research by the Israel High Tech & Investment Report has identified — "a basket of high-tech Israeli investments" not limited to high net-worth investors. The research focused on five public Tel-Aviv Stock Exchange traded venture capital companies. Overlooked by Israelis and unknown to international investors the shares of these five companies based on the criteria employed are undervalued. At least one of these companies is an exciting medium to longer-term investment opportunity. This company invested in 26 companies covering the gamut of exciting technologies. A \$633,000 investment in Netro, one of the portfolio companies founded

Venture Capital Fund	Symbol	Total Invested	Valued 6/30/99	1999 Return on Shares
Teuza	TUZA	\$22m.	n.a	22%
Marathon	MARA	\$13m	\$23.30	22%
Sadot	SDRD	\$6.8 m.	18.5 m.	99%
Mofet	MOFT	\$22 m.	\$50 m.	40%
Inventech	IVTC	\$25 m	\$42 m.	42%

in 1994, as of June 30, 1999 had a value that exceeded \$30 mln. Another company among the five companies has recorded profits of \$7.5 mln in the first half of 1999.

Four of the five companies have reported profitable operations in the first half of 1999. The mechanics of buying and selling the shares is uncomplicated, as buy and sell orders can be placed directly with brokers in the US or over the Internet. The price quotations can be followed daily on the Tel Aviv Stock Exchange website.

Teuza - A Fairchild Technology Venture Ltd.

Teuza's portfolio reflects a more conservative approach to investment than its peers, with holdings in semi-conductor equipment, software, healthcare, biotechnology, industrial equipment and printing. Only one of its holdings is in the communications field. The fund benefits from the supportive relationship by its joint founder the US Fairchild Corp. At mid year its total investment in portfolio companies was \$ 22 mln and their book value was but management did not report the mid-year value of its portfolio holdings. Teuza earned \$7.4 mln in the first half of 1999.

Marathon Capital Developments Funds Ltd.

Marathon's public visibility is lower than its peers as it is the only public venture capital company as yet without a website. Its current market capitalization is at an approximate discount of 20% relative to the company's valuation at mid-year. The portfolio of 13 companies reflects an aggressive management style with a broad spread of technologies and potential IPO candidates in 2000. The company currently has \$8 mln available for new investments and at mid year their investment portfolio was valued at \$23.4 mln. Marathon earned \$2.0 mln in the first half of 1999.

Sadot R&D - Sadot Research & Development Fund Ltd.

In 1999 the shares of Sadot doubled in value and in spite of the sharp rise are trading at a modest p/e of well under 10. Its major success to date has been its early stage investment in Point of Sale (Nasdaq:POSI). Point of Sale is one of the holdings in the Israel High-Tech & Investment Report's Israel High-Tech Model Portfolio. Part of the investment was realized in 1999 but at mid year Sadot's holding in Point-of -Sale was valued at more than \$1 mln. At mid year the company's holdings consisted of 14 companies representing a total investment of nearly \$8 mln and an evaluation of these holdings at over \$11 mln. Its recent stock market capitalization including convertible debentures was close to \$20 mln. Sadot earned \$1.6 mln in the first half of 1999.

Mofet Israel Technology Fund Ltd.

At mid year Mofet held a portfolio of 35 companies at a total cost of \$20.5 mln and a book value of \$50 mln. The company also had a cash position available for investment of more than \$9 mln. The investment portfolio includes promising holdings such as Enigma, Exsight, Mutek, Paradigm Physical, Precise Software and BreezeCom. Founded in 1992, BreezeCom develops, manufactures and markets products for the telecommunications, data telecommunications and wireless LAN applications. It has been voted as being one of

Israel's most promising young companies and at exit point should command a substantial valuation. Mofet's portfolio pickers had invested in Netro which is a public company in the US and recently had a market value of more than \$1.5 bln!!
Mofet earned \$1.5 mln in the first six months of 1999.

Inventech - Inventech Investments Co. Ltd.

Inventech at mid year held a portfolio of 23 companies at a total cost of \$23 mln and a book value of \$42 mln. Its recent stock market valuation was just under \$40 mln. Promising investments holding out a potential for future substantial capital appreciation include NOVA, Peptor and Visionix. Inventech reported an \$800,000 loss in Q2 1999. Inventech reported a loss of \$1 mln in the first six months of 1999.

Comments:

The total market capitalization of the five venture capital companies as of October of this year was just over \$161 mln. The market value in October, was very close to the total value of holdings as reported by the funds, in the June 30,1999 statements. Teuza does not report any evaluations. Management suggests that analysts' estimates be consulted but none were available for the half year covered in our report.

We would have liked to have evaluations of the holdings to be based on the value used in the most recent equity financing of the portfolio companies. This method of valuations we suspect, could indicate an undervaluation by the market.

An examination of the portfolio holdings reveals numerous companies with a potential participating in Initial Public Offering as well as becoming targets for acquisition.

The five Tel Aviv Stock Exchange Publicly Traded companies indicate a potential for capital gains over the middle to long term and Mofet seemed to have the most attractive portfolio mix.

At this time there is no tax on capital gains however, this may change within the framework of major Capital Market Taxation Reforms planned for 2001.

It should be pointed out that with the exception of Mofet and Teuza trading volumes are relatively small. Buy and sell orders should carry limits. Currency fluctuation have not been a serious issue as the Israeli Shekel has been stable when compared to major currencies vis-a-vis the dollar.

A basket of shares of the Tel-Aviv Stock Exchange Publicly Traded Venture Capital Companies since the beginning of the year, was up by 45%.

The report should not be construed as recommendation to invest in the companies. Effort has been made to present the information as accurately as possible, but it is not guaranteed.

ISRAEL HIGH-TECH MODEL PORTFOLIO

Selected Israeli Growth Companies

Quantity	Commission	Open Amount	Current Value	Gain/Loss	
IHTIR Model Portfolio					
Check Point Software Tech Total: 1,000	CHKP	Price as of 10/22/99: 103.50 \$0.00	\$45,375.00	\$103,500.00	\$58,125.00
Comverse Technology, Inc. Total: 1,000	CMVT	Price as of 10/22/99: 104.813 \$0.00	\$46,250.00	\$104,813.00	\$58,563.00
Gilat Commun. Total: 5,000	GICOF	Price as of 10/22/99: 13.625 \$0.00	\$49,375.00	\$68,125.00	\$18,750.00
Gilat Satellite Networkss Total: 1,000	GILTF	Price as of 10/22/99: 49.50 \$0.00	\$56,125.00	\$49,500.00	(\$6,625.00)
Point of Sale Ltd. Total: 7,800	POSI	Price as of 10/22/99: 10.188 \$0.00	\$49,725.00	\$79,466.40	\$29,741.40
IHTIR Model Portfolio		\$0.00	\$246,850.00	\$405,404.40	\$158,554.40

Gain	52 week Range	Investment Summary
CHKP +128.1%	10 7/8 105	Original Assumed Investment at the Start of 1999 was <u>\$ 246,850</u> Total Current Value <u>\$ 405,404</u> Gain as of October 22, \$ 158,554 + 64.23%
CMVT +126.6%	19 9/16 108	
GICOF +37.9%	4 1/8 23 1/4	
GILTF -11.8%	35 1/4 67	
POSI +59.85	31/8 14 1/2	

Check Point Software Technologies Ltd. Reports Record Results for Q3 1999

Check Point Software Technologies Ltd. (Nasdaq: CHKP), securing the Internet leader, announced financial results for the third quarter ended September 30, 1999. Net revenues for the quarter were \$57.8 mln compared with \$35. mln for the same period in 1998, an increase of 64%. Net income for the quarter was \$24.7 mln or \$0.60 per share, compared with net income of \$16., or \$0.45 per share for the same period in 1998, an increase of 46% in net income and 33% in net income per share.

Checkpoint continues to ride the global growth in the Internet, extranet and intranet markets as it provides critical infrastructure for e-Business and Internet security.

With revenues from the U.S. accounting for 50% of revenues, Europe 33% and rest of world 17%. Revenues from the Company's OEM partners were 12% of revenues, with the largest contribution coming from Nokia. In addition, service revenues reached 23% of revenues, due to continued strength in software subscription and educational services.

Union Bank of Switzerland Invests in Formula

UBS Capital has invested in the venture capital fund Formula Ventures , becoming one of its major partners. UBS Capital is a division of the UBS, the Swiss bank. UBS is represented in Israel by Warburg, Dillion, Read.

Formula Ventures has raised \$70 million so far, and expects to close the \$80 mln. fund by the end of the month. Formula's original fund has invested in eleven companies including Aviontek, Phonetic, CipherIT, New Channel, RadView, C3D, MainControl, Vsoft, Business Layers and Neteos. The fund specializes in information technologies, mainly e-business, corporate software and Internet infrastructure technologies.

Formula invested \$15 million, and has a 20% stake in the fund.

A Powerhouse in the US BancBoston-Robertson Stephens Thrives in Israel

Yaa'cov Burak founder and chairman of the Evergreen Group of Companies showed great wisdom when he convinced Robertson Stephens to open shop in Israel. BancRobertson Stephens was the first of the technology investment banks to recognize the potential of the Israeli market between 1992-1995 when it led three transactions involving EFI, Net-Manage and Tower Semiconductor. Initially the activity was launched a corporate effort with Evergreen in June 1995 and as a result of rapid growth, expanded into a fully integrated office in 1997. Since 1996, it has completed 30 transactions valued at more than \$2.0 bln.

In a far -ranging discussion with the Israel High-Tech & Investment Report Ande Kaye, Principal and Head of the Tel-Aviv Office explained that the group now includes four investment bankers, one investment analyst and a specialist in the sale and purchase of blocks of securities for institutional clients.

Israeli Venture Capital Funds in 130 Deals in Q3 1999

No fewer than 130 deals involving Israeli venture capital funds were concluded in Q3 1999. According to IVC Online, a member of the Giza Group 41 funds were involved with \$ 121.1 mln invested.

“Over the next five years Israeli venture capital funds will raise between \$2.0-\$2.5 bln annually. The Israeli high-tech sector will continue to be the leading sector of Israel's with all of Israel becoming one large Silicon Valley,” Zeev Holtzman, Chairman of the Giza Group told the Israel High-Tech & Investment Report at the annual meeting of the Israel Venture Association Conference “Institutional Investors and Venture Capital.