

## Ruling Likud Party Gains Landslide Victory

The ruling right-wing party, Likud, is attempting to form a broad-based government of national unity following its landslide win in the January 28 elections to Israel's parliament, the Knesset. Likud has gained 38 of the 120 Knesset seats. The Labor Party will have 19 seats, Shinui 15, Shas 11, Arab parties 9, Ihud Leumi 7, Meretz 6, National Religious Party 5, United Torah Judaism 5, One Nation 4, and Yisrael Ba'aliya 2.

Perhaps the most remarkable success in these elections is that of "Shinui" - a secular centrist party, which has doubled in size to become the third largest party in Israel. Shinui, led by a former journalist, supports a free market economy, increased privatization, lower welfare, lower income taxes, increased competitiveness and globalization. It is also in favor of government support for entrepreneurs and increased investment in infrastructure. The party also backs free education from kindergarten to higher education, and the redirection of resources to the weakest sectors of society.

## Israel Mourns Fallen Astronaut

Israelis' morale was hard-hit by space shuttle Columbia's crash. The launch of the country's first astronaut into space, Ilan Ramon, 48, was followed closely.

Ramon was an air force colonel, whose military career included the 1981 bombing of an Iraqi nuclear reactor. Ramon had logged 4,000 hours of flight time and was part of the first Israeli squad to pilot American-made F-16 fighter jets in 1980. An electronics and computer engineer, Ramon began his training as an astronaut in 1997. He had spent much of Columbia's 16-day flight aiming cameras in an Israel Space Agency study of how desert dust and other contaminants in the earth's atmosphere affect rainfall and temperature.

Ramon, whose mother and grandmother survived the Holocaust, brought onto the space shuttle a small pencil drawing titled "Moon Landscape" by Peter Ginz, a 14-year-old Jewish boy who perished at Auschwitz. He also packed a credit-card sized microfiche of the Bible given to him by Israel's President Moshe Katsav.

### A Word from the General Partner

We are hereby inaugurating the Eurofund Newsletter, providing updates about our portfolio companies, information about our plans and activities, along with general and economic news from Israel. Our intent is to send such a newsletter during the first month of every calendar quarter.

In light of the slowdown in the global economy and the increasingly difficult business and competitive environments in Eurofund's areas of focus (telecommunications, information technology and microelectronics), our resources and energy are currently largely directed at coaching and supporting our portfolio companies. Most of our companies have had to modify their business plans and reduce burn rates in order to achieve targets that, in general, have been pushed further out on the time horizon. The process of making a new investment has become much longer, with the due diligence process now taking, at times, as long as six months to complete. The bar has been raised much higher in terms of our willingness to commit capital due to current market conditions. Nevertheless, last year we invested in Passave and Foxcom Wireless. Both are doing very well, as is further described in the newsletter.

Our ability to contribute to our portfolio companies is significantly enhanced by our strategic partners / investors. They support us in the different phases of investment analysis and selection, coach us in various areas and domains where they have great expertise, and help our companies in a variety of ways including serving as beta-sites for new products and assistance with marketing and business development. For this, we are most appreciative and thankful. It gives Eurofund important advantages.

We plan to use the experience and skills of our partners and analysts in the fast-growing field of security and are looking into investment opportunities that intersect between what is generally referred to as "Homeland Security" and Eurofund's investment focus. We believe Israel provides fertile ground for such opportunities.

We hope you find this and subsequent issues of our newsletter useful.

Aharon Beth-Halachmi

## VENTURE CAPITAL

### Q4 MoneyTree Survey: Local VC Investments Decline 39%

According to the MoneyTree survey, conducted by accounting firm Kesselman & Kesselman PricewaterhouseCoopers, there was a 39% decrease in the volume of venture capital-backed investments in Israel during Q4 2002.

VC-backed (where at least one investor in the first round of financing is a VC fund) raised \$200M in Q4, a 10% decrease as compared to the previous quarter (\$221M) and 48% as compared

to the corresponding period in 2001 (\$384M).

Nevertheless, the survey shows that, as compared to previous quarters in 2002, more companies managed to raise capital: Q4 showed an increase of 16% in the number of companies raising capital over Q3 (86 and 72, respectively). The annual average investment per company was \$3.2M - unchanged as compared to 2001.

|   | 2001 |     |     |     | 2002 |     |     |    |
|---|------|-----|-----|-----|------|-----|-----|----|
|   | Q1   | Q2  | Q3  | Q4  | Q1   | Q2  | Q3  | Q4 |
| Volume of capital invested by local funds in Israeli companies (\$M)                | 208  | 184 | 167 | 144 | 122  | 112 | 106 | 88 |
| Relative weight of local funds in total local investments (%)                       | 51   | 44  | 44  | 38  | 35   | 52  | 48  | 44 |
| Volume of capital invested by local funds in companies unconnected to Israel (\$M)  | 46   | 28  | 19  | 29  | 11   | 18  | 9   | 13 |
| Relative weight of foreign investments in total investments made by local funds (%) | 18   | 13  | 10  | 17  | 8    | 14  | 8   | 13 |

- Israeli venture capital funds Vertex Management Israel and Formula Ventures are in advanced negotiations for a merger. Vertex Management Israel is also negotiating to assume the management of Ha'Poalim Capital Markets' portfolio. If the two negotiations go through, Vertex Management Israel will become the largest VC fund in Israel.

- Transtech Control, a subsidiary of TASE-listed Formula Vision, raised \$9.3M in a private placement. Formula Vision itself invested half of the sum through capitalization of a loan. The company develops and supplies monitoring, control, and guidance systems for airports. Formula

Vision also invested \$1M in IDIT Technologies, which develops software for direct insurance.

- Compugen Ltd. (Nasdaq:CGEN) announced that Evogene Ltd., its agricultural biotechnology subsidiary, is in the final stages of closing a \$2M private placement with a group of Israeli, European and US investors.

- Med-tech start-up Medigus raised \$4M from Israel Healthcare Ventures and Delta Ventures. The company develops a non-invasive ultrasound-guided endoscopic platform to examine the stomach and intestinal tract. Johnson & Johnson is a shareholder in the company.

The Euro reached an all-time high in January, topping NIS 5.30 per 1 Euro. The US Dollar remained well over NIS 4.80 for most of January and early February.

## R&D

- The European Union will advance \$3.5M Euro for a cellular trial of Bamboo MediaCasting's multimedia content facilitating product. The company has raised \$10M so far in two financing rounds.

- Teva (Nasdaq:TEVA) will collaborate with Illinois-based BioSante Pharmaceuticals on the development of a hormone therapy product for the US market.

- New Intel (Nasdaq:INTC) mobile computer chip Centrino, unveiled in early January, was developed in Israel under the code name Baniyas. The next generation chip, using advanced 90-nanometer technology, will also be developed in the company's Haifa R&D facility.

- A Global Entrepreneurship Monitor survey of business entrepreneurship places Israel in 17th place among the 37 countries participating in the survey. According to the study, the general level of entrepreneurship in Israel rose from 5.7% in 2001 (when it ranked 26 in a similar study) to 7.1% in 2002, a 25% increase.

## M&As

- California-based Veritas Software Corporation (Nasdaq:VRTS) is to acquire Israel's Precise Software Solutions (Nasdaq:PRSE) in a deal valued

at \$537 million. Veritas, one of the world's largest software companies, will pay Precise shareholders \$16.50 per share in cash, a 37% premium above Precise's closing price of \$12.05 at the time of the announcement.

- Broadband communications company Marvell (Nasdaq:MRVL) is to acquire Israel's Radlan Computer Communications, a provider of embedded networking software, in a deal valued at \$50M.
- Scitex Corporation finalized a merger between its subsidiary Scitex Vision and its affiliated company, Aprion Digital. The value of the two companies for the purposes of the deal was set at \$36M for Scitex Vision and \$18M for Aprion. The merged company, which will have 500 employees worldwide, will include in its offering Aprion's digital printing machinery for the industrial market. Scitex Vision was started by acquiring Idanit for \$65M from Eurofund I and a private investor.
- Start-ups Celltrex and Valis will merge. The new company, which will total 60 employees, will operate in the field of person-to-person communications services. Main shareholders include Pitango VC, Concord Ventures, US based Bassini Playfair and AOL Time-Warner.

## DEALS

- Israeli information security company Beyond Security has signed a cooperation agreement with South African Internet service provider (ISP) Tiscali World Online. The deal has an estimated business potential of \$2.5M in the next two years.
- Lavie TimeTech, a Team

Computers and Systems subsidiary, will supply working time management and calculating systems to British shipbuilders Green's Marine, which designs and constructs race boats.

- Ex-Libris, a Library and data management software start-up, has installed \$1.2M of systems with German clients. Other customers include Bayer, Novartis, MPG, Austria's University of Innsbruck and a consortium of Swiss libraries.
- Hostile java detection company Finjan Software has signed a deal with US web-security company Blue Coat (Nasdaq:BCSI), to market its flagship product, SurfingGate, as part of its overall security solution against internet viruses.

## BANKING

- Bank Hapoalim, Israel's largest bank, has been under fire from the National Workers' Union, the Histadrut, for laying off 900 employees. Work disruptions in other large banks are expected in the next few weeks. Another large bank, Bank Leumi, will promote a voluntary redundancy plan for 500 of its workers this year.

## GOVERNMENT

- Fitch Sovereign Ratings senior director Richard Fox said to Globes Business Daily that Israel's 2002 deficit of 3.97% of GDP was better than expected and Fitch would not downgrade Israel's sovereign rating in the near term.
- The Government 2002 budget deficit was NIS 19.3B, including both domestic and overseas activity, in line with the deficit framework determined under the June 2002 emergency economic plan. The deficit, amounting to 3.97% of

GDP, effectively meets the government's revised 3.9% target set in June. Tax revenues in 2002 fell short of the target: NIS 182.3B, NIS 9B less than the NIS 191.3B forecast. Government spending in 2002 totaled NIS 200B.

- State of Israel Bonds raised a record \$1.3B in 2002, higher than the target set by the Ministry of Finance. The number of bond purchasers was 40% higher last year than in 2001, assumingly as a result of the situation in Israel.

## EMPLOYMENT

- Comverse Technology (Nasdaq: CMVT) subsidiary Comverse has submitted a NIS 19.3M investment plan to the Investments Promotion Center at the Ministry of Industry and Trade. Despite the recession in Comverse's communications market, the company promises to hire 300 new employees, increase exports by NIS 803K and domestic sales by NIS 846K by 2005. Comverse has 1,900 employees worldwide. The company announced last August that it was laying off 1,200 employees.
- US-based Marvell (Nasdaq: MRVL) has submitted a request to the Ministry of Industry and Trade Investment Promotion Center to invest NIS 111.6M in expanding its operations in Israel. As part of its plan, Marvell has promised to hire another 150 employees. Marvell acquired Israel-based Galileo Technologies 30 months ago for \$2.7B in shares, and has since expanded Galileo's development activity.
- Intel (Nasdaq: INTC) plans to invest \$50M in expanding its development centers in Israel. The chip maker says the expansion will create 250 new jobs in its centers in Haifa, Jerusalem, Yakum and Omer.

● Ron Hiram is joining Eurofund as Managing Partner. He was previously a partner at TeleSoft, a Silicon Valley-based venture fund, and co-headed its investment activities in Israel. In the 6 years prior to his return to Israel, he was a partner at George Soros' management company in New York, where he focused on private equity investments and overall management of a hedge fund. Ron held a variety of positions at Lehman Brothers, New York, over a 13-year period. His most recent position was as a manager of a workout and restructuring group responsible for a \$2.5B diversified asset portfolio. Ron currently serves on the boards of Converse, Ulticom and SMARTS. We welcome Ron as our new partner and believe that his extensive and diverse experience will greatly complement the capabilities of our other partners.

● Eurofund Managing Partner Moshe Price has been elected board member of the Israel Venture Association (IVA). IVA is a non-profit organization, representing the diverse interests of the Israeli VC industry.

● **Foxcom Wireless** closed 2002 with record sales: approximately \$7.0M in CY 2002, with projected revenues of \$15.0M in CY 2003. Cash flow breakeven is expected in Q3 2003.

Founded in 1998, and headquartered in Vienna, VA, Foxcom is a leader in the multi-service in-building wireless infrastructure area. Among its 75 customers are AT&T Wireless, Cingular Wireless, Nextel Communications, Sprint PCS, T-Mobile USA, Boeing and Micron Technology.

Foxcom's management consists of professionals from leading communications and technology firms, such as AT&T, Lucent, Motorola, and Newbridge Networks (acquired by Alcatel). A turnaround and restructuring of the company has largely been completed. The company is currently raising \$3-5M.

[www.foxcomwireless.com](http://www.foxcomwireless.com)

● **HotBar.com Inc. 2002** has been Hotbar's best year so far, both in terms of revenues and profitability. The company, established in 1999, has developed a patent pending web browser enhancement tool, labeled "Dashboard to the Internet". The tool, which has become a leading targeted advertising platform on the web, enhances and personalizes the user's

surfing experience, directing surfers to prepaid content, technology and service sites.

Hotbar, headquartered in New York, has 65 employees worldwide, and is profitable.

[www.hotbar.com](http://www.hotbar.com)

● **Passave**, end-to-end silicon solutions provider for Ethernet Passive Optical Networks, has received an investment by Intel Capital. Passave Inc. is a fabless system-on-chip company, developing core technology for broadband fiber access systems. Passave delivers complete solutions expediting the design process for system vendors, while dramatically reducing product cost and enabling interoperability.

Existing investors include Eurofund, BRM Capital, Walden Israel, as well as Ray Stata, founder and Chairman of Analog Devices.

[www.passave.com](http://www.passave.com)

● **ART** (Advanced Recognition Technologies), has recently launched the first embedded, software-only speaker independent name-dialing solution, designed for wireless mobile devices.

Established in 1990, ART develops and markets solutions for the control and command of mobile devices by human voice and natural

handwriting. The company's solutions are deployed among its costumers: Acer, Casio, Hitachi, Mitsubishi, Panasonic, Philips, Samsung and Siemens Automotive.

[www.artcomp.com](http://www.artcomp.com)

● **Eldat Communication**, which provides advanced communication solutions to the retail industry, expects 2003 to be its best year yet, with more than \$10M in sales and with major new strategic alliances on the horizon. Established in 1994, Eldat has developed unique capabilities in the infrared communications field, based on experience in the development of Electronic Defense Systems. The company has 35 employees.

[www.eldat.com](http://www.eldat.com)

● **Schema**, a global provider of optimization and planning solutions for wireless networks, was named by Deloitte & Touche last year as one of North America's fastest growing technology companies. The company had a record year in terms of sales (~\$20M) and strategic achievements.

Schema has developed advanced algorithm optimization technology, which allows carriers to realize optimal spectrum efficiency, thus achieving significant capital savings.

Schema's solutions are deployed and benchmarked by leading wireless operators worldwide, including Verizon Wireless, Cingular Wireless, U.S. Cellular, BellSouth International, Cellcom Greenbay and Pelephone Israel.

[www.schema.com](http://www.schema.com)

● **Verisity Ltd.** (Nasdaq:VRST), the leading supplier of essential technology and methodology for functional verification, has ended 2002 with record sales. Revenue for the year ended December 31, 2002 was \$52.5 million, a 36% increase from previous year. As you may recall, Verisity was started by Eurofund.

[www.verisity.com](http://www.verisity.com)