



# Investment in Israel

## *A History of Success*

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# Introduction

## Israel at a Glance

|                 |               |                 |              |
|-----------------|---------------|-----------------|--------------|
| Population      | 6.7 million   | Penetration     |              |
| Area            | 21,000 sq km  | TV              | 92 %         |
| GDP             | \$109 billion | <b>Mobile</b>   | <b>100+%</b> |
| GDP / Capita    | \$ 17,200     | <b>PC</b>       | <b>70 %</b>  |
| Life Expectancy | 79yrs         | <b>Internet</b> | <b>55 %</b>  |

### Major Destinations - Flight Times



# Introduction

## Why do business in Israel?

- **Mature, Developed & Stable Economy**
  - Entrepreneurial culture
  - Extensive commercial ties with global community
  - Foreign companies are protected with comprehensive legal coverage
  - Global investment and commercial banks have local presence
- **Worldwide Technology Leader**
  - One of the most highly educated workforces in the world
  - R&D expertise & history of creating premier companies
  - Tremendous concentration of technology leaders
- **Unrivalled Value Proposition**
  - High quality, dedicated employees at lower cost
  - Generous R&D grants and tax breaks
  - Modern infrastructure for technological development
  - Peace process brightens prospects for continued growth

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# Israel – Facts & Figures

## Fundamental return to GDP growth

- GDP grew in 2003 & 2004 following two years of negative growth.
- Projections point to continued growth over the near term.



# Israel – Facts & Figures

## Macro economic parameters

- Overall economic activity (both imports and exports) has risen substantially in 2004
- Unemployment level: After reaching peak levels in 2003, a downward trend has occurred due in part to the improved economy and a greater demand for Israel's goods overseas.

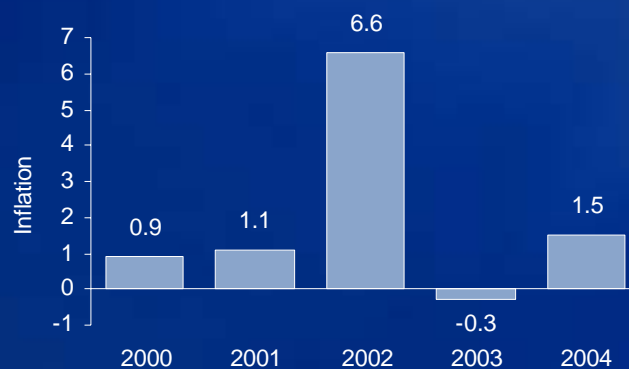
**Total Exports**



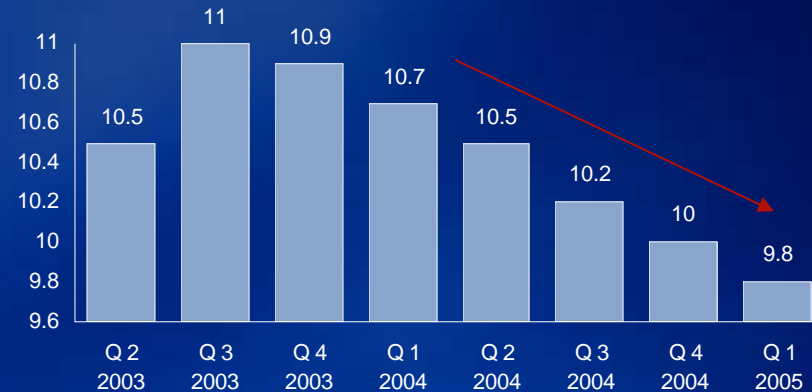
**Total Imports**



**Inflation % (excl. housing)**



**Unemployment %**



# Israel – Facts & Figures

## Total Exports, 2004 \$33.7 Billion

- Israel has free trade agreements with the US, EU & EFTA
- Israel's high-tech output has risen an annualized 9% since April 2002



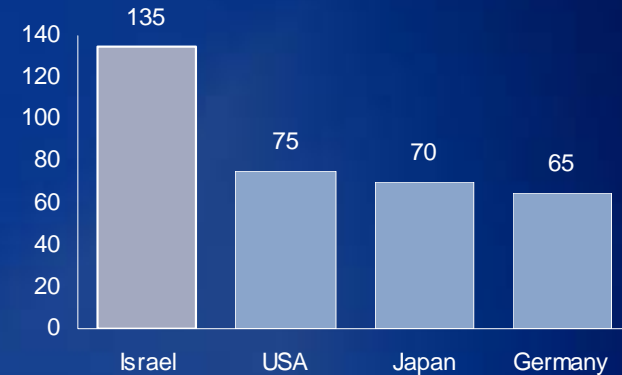
Source: Israel Central Bureau of Statistics

# Israel – Facts & Figures

- Israel has nearly 2x the number of engineers (per 10,000 employees) as the US and Japan.
- Israeli engineers cost significantly less than their peers in Silicon Valley.
- Israel ranks first globally in number of medical patents issued per capita.
- Israel's technological incubator program currently has over 200 active projects, 735 graduated projects and private investments for 54% of these projects.

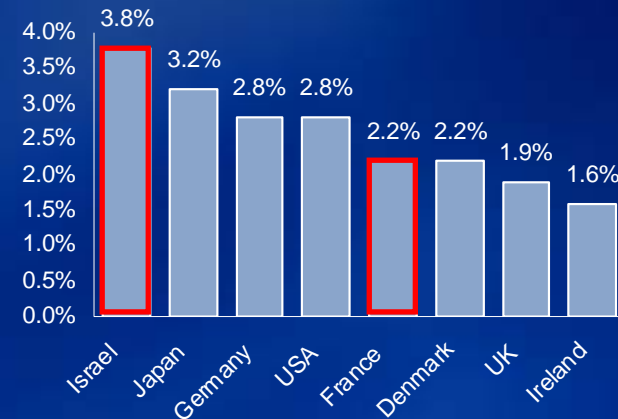
## R&D Focus

People Per 10,000 in population



## Civilian R&D Expenditure

as % of GDP



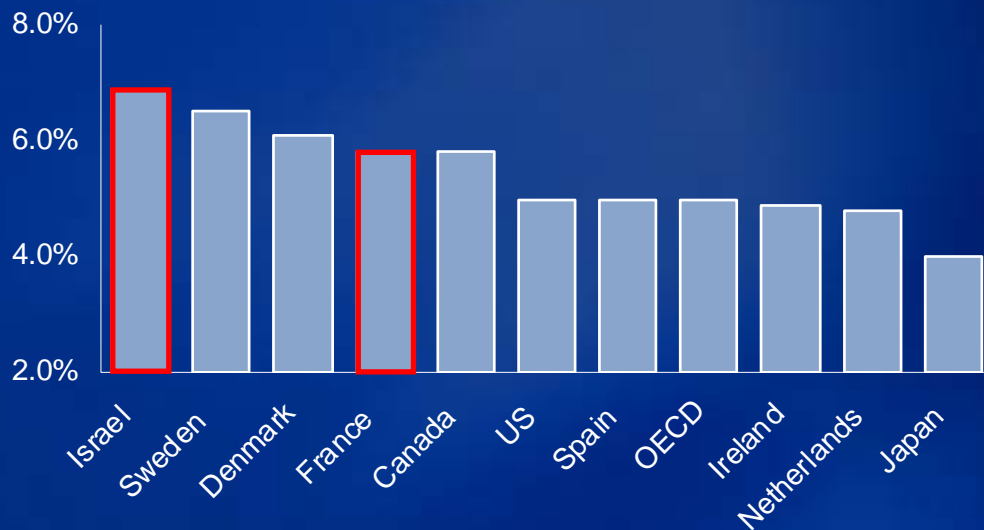
Source: Ministry of Industry, Trade & Labor

# Israel – Facts & Figures

## Culture breeds entrepreneurship

- Israel boasts the largest number of university graduates per capita in the world.
- Israel spends more on education than most western countries.
- 35% of Israelis between the ages 25-64 hold a university degree, compared to only 13% in the US.
- 12% of this group hold advanced university degrees.

**National Expenditure on Education**  
as a % of GDP



Source: Ministry of Industry, Trade & Labor

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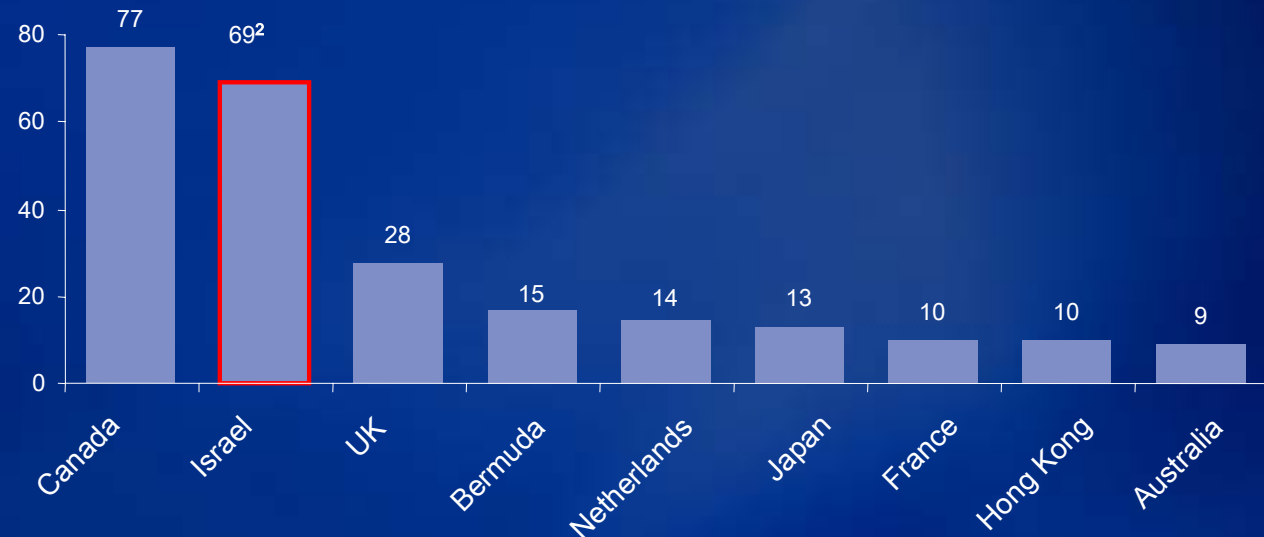
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# Respected by Investor Community

## Successful in NASDAQ offerings

- Other than Canada, Israel has more NASDAQ listed companies than any other foreign country.
- Despite the recent downturn, NASDAQ remains as fertile ground for Israel oriented offerings.

Nasdaq Non-US Listed Companies<sup>1</sup>



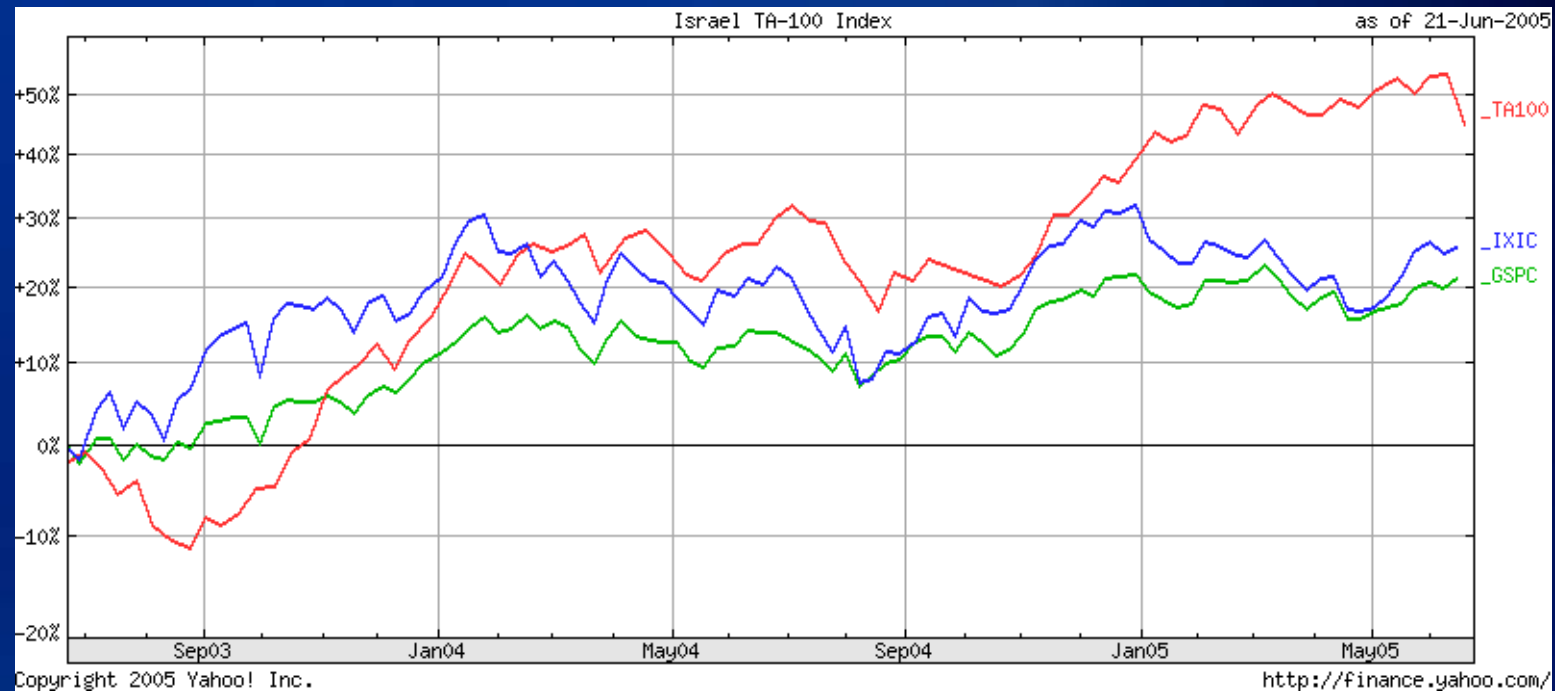
1. As of December 16, 2004.

2. In addition to these 69 companies, there are approximately 30 Israeli Companies traded in the U.S that are officially US residents (i.e.: a 10K as apposed to 20F)

# Respected by Investor Community

## TA100 is in growth mode

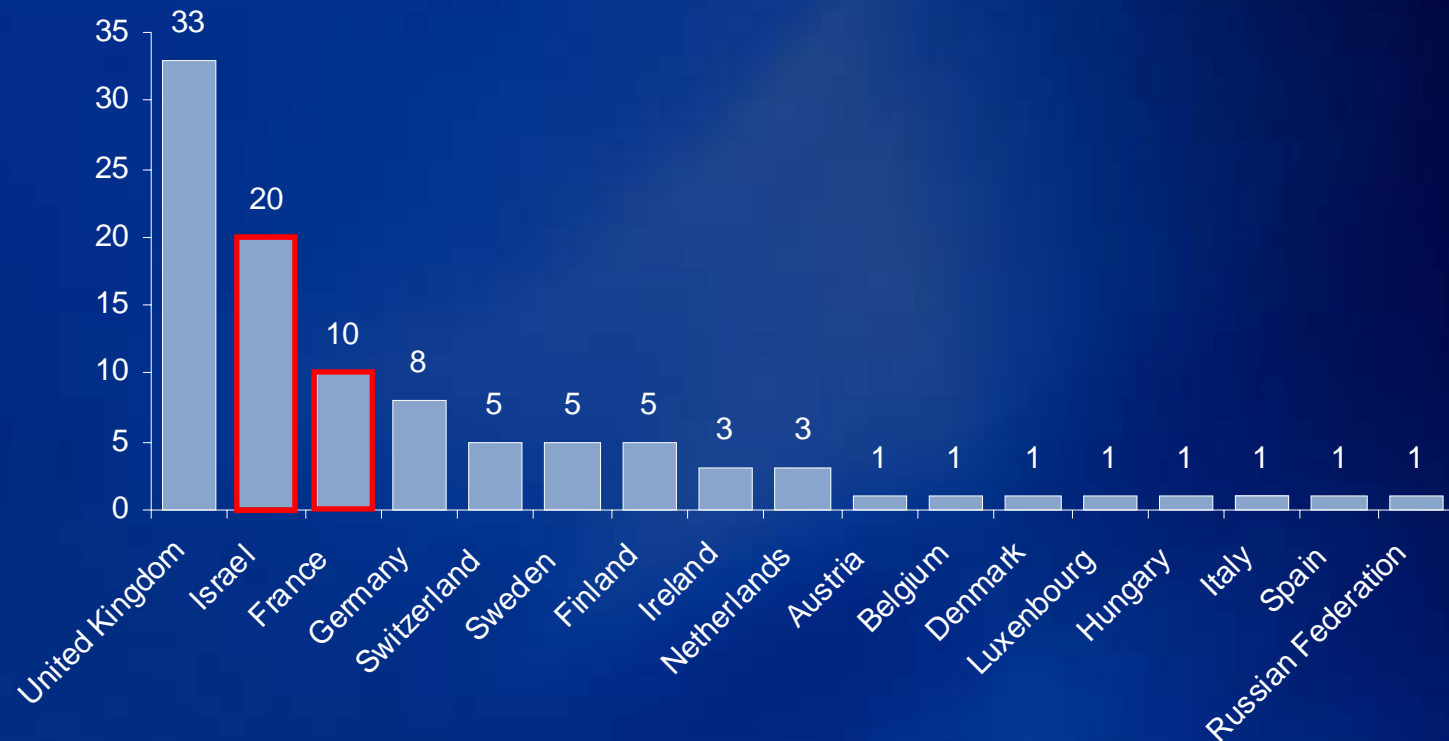
- The Tel-Aviv Stock Exchange has outperformed the Nasdaq and S&P in the last 2 years by over 30%.



# Respected by Investor Community

## Red Herring Magazine

- Red Herring's annual list of 100 European companies that are driving the future of technology includes 20 Israeli companies.
- Only the United Kingdom has more companies included on the list.

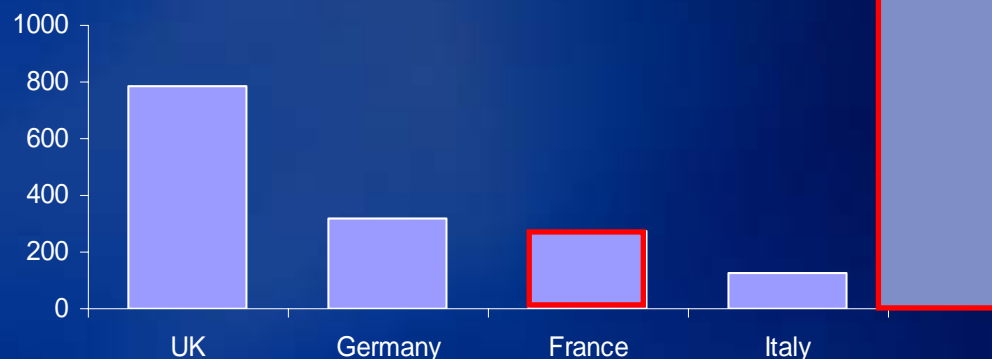


# Transactions Between Israel and France

| Buyer        | Target  | since 2000   | since 2004 |
|--------------|---------|--------------|------------|
| Israel       | France  | 118          | 18         |
| France       | Israel  | 158          | 38         |
| <b>Total</b> |         | <b>276</b>   | <b>56</b>  |
| Israel       | UK      | 334          | 68         |
| UK           | Israel  | 451          | 111        |
| <b>Total</b> |         | <b>785</b>   | <b>179</b> |
| Israel       | Germany | 113          | 24         |
| Germany      | Israel  | 205          | 43         |
| <b>Total</b> |         | <b>318</b>   | <b>67</b>  |
| Israel       | Italy   | 37           | 9          |
| Italy        | Israel  | 92           | 21         |
| <b>Total</b> |         | <b>129</b>   | <b>30</b>  |
| Israel       | US      | 2,264        | 481        |
| US           | Israel  | 881          | 226        |
| <b>Total</b> |         | <b>3,145</b> | <b>707</b> |

Source: Capital IQ.

Number of Transactions Since 2000 Between Israel and European Nations



# Respected by Investor Community

## Deals in the headlines

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- **Juniper Networks** agrees to acquire **Kagoor** for \$67.5 million – *April 2005*
- **Merril Lynch** to invest in **Makhteshim Agan** \$556 million – *February 2005*
- **Kodak** acquires **Orex Computed Radiology** in \$51 million deal – *February 2005*
- **Agere Systems** to acquire **Modem Art** for \$145 million – *February 2005*
- **Cisco Systems** to acquire **P-Cube** for \$200 million – *August 2004*
- **Perrigo** merges with **Agis Industries** reflecting value of \$818 million – *November 2004*
- **HP** acquires **Indigo** in \$629 million pact – *September 2001*

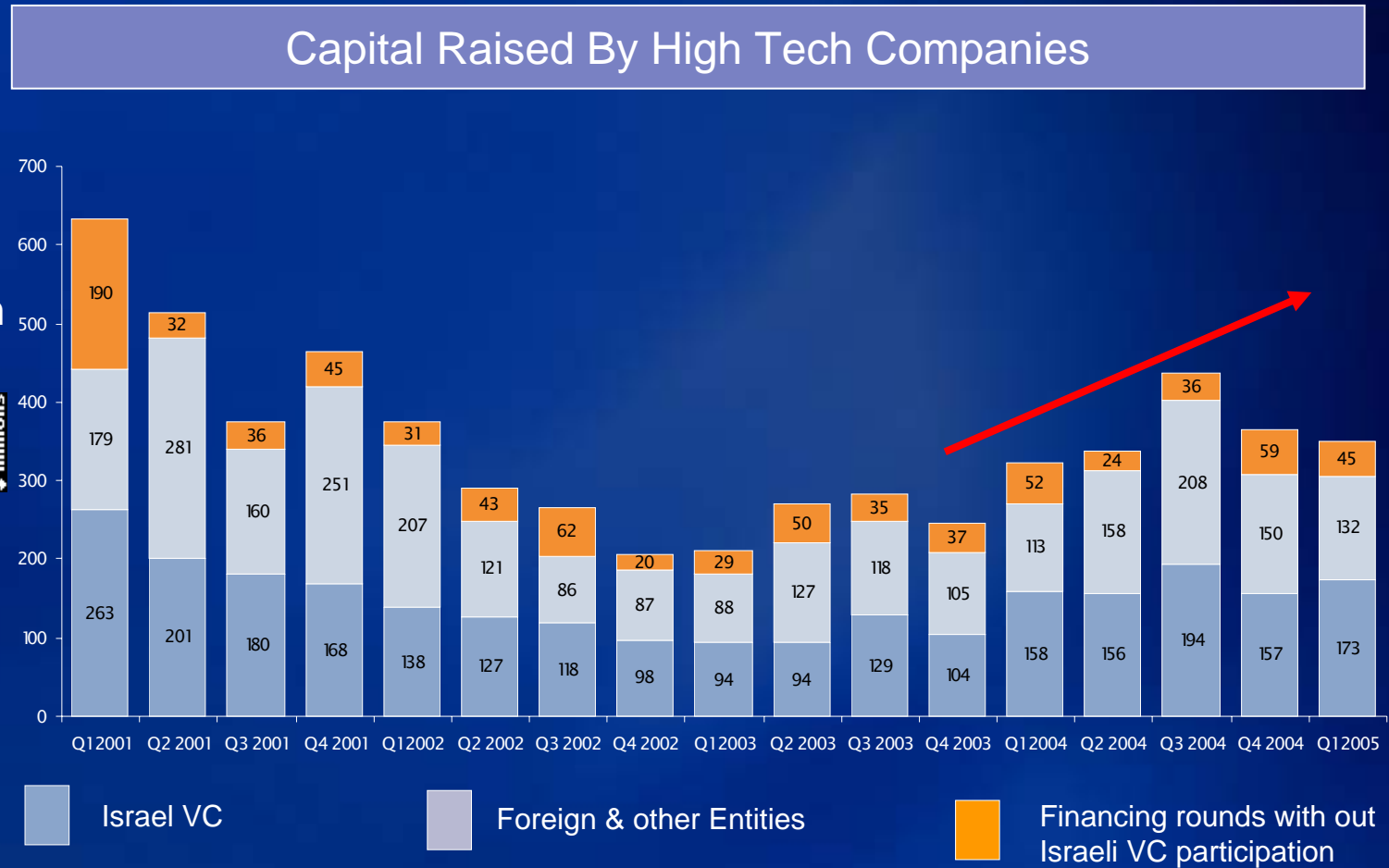
# Respected By Investor Community

- Israeli R&D plays a large role in the technology infrastructure worldwide.
- The Pentium MMX technology was designed by **Intel Israel**.
- The voicemail system you use is probably based on **Comverse** technology.
- Motorola's next generation processor (MSC8101) was planned and developed by **Motorola Israel**.
- **Given Imaging** developed the first pill camera.
- Almost every telephone caller in China is using **ECI Telecom DCME** systems to route the call.
- 60% of cordless phones have chips designed by **DSP Group**.
- **Checkpoint Software** dominates the VPN and firewall markets.
- **Amdocs** is the world's leading OSS player.

# A History & Future of Success

## High-tech engine is being refueled

- Developments indicate a stabilization of the market and that consistent, sustainable growth can be achieved.



Source: Israel Venture Association

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# Concluding Thoughts

## Many high-level executives are “high” on Israel

- **“Thanks to quality education, Israel is one of the most advanced countries in the world. Israel is advancing in high-tech even more than other developed countries.”**  
Bill Gates, Chairman, Microsoft Corporation, January 2000.
- **“Israel is the second Silicon Valley, and it is therefore the only other place that we have chosen to expand our activities.”** Michael Moritz, General Partner, Sequoia Capital, March 2001.
- **“We have acquired five companies in Israel and set up a research center, and you can be sure we will make further acquisitions here because of the start-up culture. We have an acquisition development program here.”** John Morgridge, Chairman, Cisco Systems, November 2003,.
- **“If you liked investing in Israel in the late 1990’s, you’ve got to love it today- Same talent. Same opportunity. Better prices.”** Stanley Gold, Director, Walt Disney Company, CEO, Shamrock Holdings, July 2002.
- **“Outside the U.S., we invest in only one other country. That’s Israel.”** --Julien Nguyen, Managing Partner, Applied Materials Venture, September 2003.

# Concluding Thoughts

The future should be even brighter than its past

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**“For me, Israel is no longer an emerging market; it is home.”**

Paul Otellini, President and COO, Intel, June 2002.

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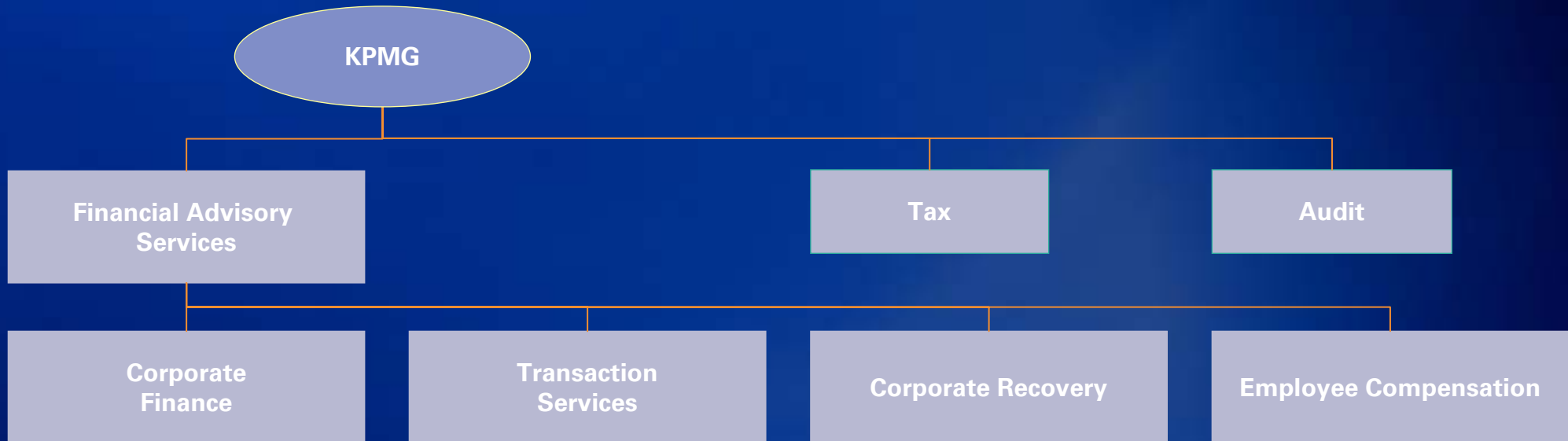
Respected by Investor Community

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# KPMG - Somekh Chaikin

## FAS - A wide range of services...



### Independent investment banking advice

- M&A advice
- Valuations and fairness opinions
- Structured and project financing
- Debt advisory services
- Private Equity services
- IPO sponsorship & advice

### M&A support throughout the transaction

- Pre-deal evaluation & advice
- Transaction evaluation (including due diligence)
- Vendor assistance
- Vendor due diligence
- Contract assistance
- Transaction structuring
- Integration/separation assistance

### Assisting under-performing companies

- Restructuring planning
- Cash management
- Contingency planning
- Investor assistance
- Lender assistance
- Insolvency services

### Aligning compensation with corporate objectives

- Long term plans
- Bonus plans
- Transaction integration
- Total comp. strategies
- Option valuations
- Benchmarking
- Tax and accounting optimization