

Israel goes global

Israel's high-tech wizards are now heading for the United States, Africa and Asia to expand their business empires.

As Israel marks the 60th anniversary of its re-creation this year, the country's buoyant economy is taking on an international dimension.

Comprehensive deregulation across all sectors has enhanced the business environment and boosted foreign investment to record levels. Capital flows have been liberalized, inflation kept below 3% and, for the past five years, the economy has grown steadily at a solid annual average of 5%. Last year, it maintained this average in spite of the war against Hizbollah.

However, with 7 million people living in an area slightly smaller than New Hampshire, the Jewish state's entrepreneurs know that to expand their thriving businesses even further, they have to extend their horizons.

Israeli companies have made \$16.4 billion in acquisitions at home since a domestic stock market rally began five years ago, according to data compiled by Bloomberg. But economic analysts believe that prospects for further significant, internally driven growth are slim because of the limits of the country's own consumer market.

Having created a high-tech hub at the eastern end of the Mediterranean, Israel's business tycoons are now heading abroad to make their mark in the burgeoning economies of America, Africa and Asia.

"I believe very much in Israel, and I have great faith in the Israeli economy, but it is clear that our expansion must be overseas," says Nochi Dankner, chairman of the IDB Group, the country's largest conglomerate, which employs 40,000 people and is responsible for 15.1% of the revenues of Israel's 500 top companies. He intends to continue to increase the proportion of IDB's business abroad, mainly through the companies it already owns, and in cooperation with leading international entities.

Dankner demonstrated this intention in spectacular fashion in the U.S. last

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November when the IDB Group, in partnership with Israeli billionaire Yitzhak Tshuva, demolished the 16-story New Frontier Hotel, the second-oldest casino on the Las Vegas Strip. The joint venture company for the project, Elad IDB Las Vegas LLC, is currently developing an \$8 billion luxury complex that will include a hotel with more than 3,500 rooms, private skyscraper residences, retail space and a casino designed to attract the highest of high rollers.

The IDB Group has substantial business stakes around the world. Last year alone, it acquired control of the AIM-traded U.S. investment firm Titanium Asset Management Corporation, entered a joint venture with Kimberly-Clark in Turkey and provided broadband Internet services in Brazil.

One analyst noted that IDB has increased its holdings abroad to approximately 21% of its total holdings. Property & Building Corporation, an IDB subsidiary, has expanded its operations with local partners into India, Germany, Switzerland, Romania, the U.K. and Ukraine, as well as the U.S.

Another subsidiary, Makhteshim Agan, the world's leading producer and distrib-

utor of branded off-patent crop and non-crop protection products, has manufacturing facilities in Brazil, Columbia, Spain and Greece and sells its merchandise in more than 100 countries. Sales in the first nine months of 2007 totaled \$1.6 million, of which only about 4% were in Israel.

In Brazil, IDB has a share in GVT Brazil, a telecommunications company that last year completed its initial public offering by raising \$480 million, reflecting a company value of \$1.2 billion, which today has a market cap of more than \$2.3 billion.

IDB executives believe that one day the company will be regarded as a global business that simply happens to have holdings in Israel.

Nochi Dankner is reputedly the most powerful businessman in Israel, but he is not the only top tycoon involved in the globalization of the Israeli economy. His cousin, Dani Dankner, chairman of Bank Hapoalim, aims to have 30% of the bank's activity in the international arena by 2010. "We are completing a deal in Kazakhstan and looking at possible transactions in Russia, Ukraine and Greece, among others," he says.

Bank Hapoalim's acquisitions are only one aspect of a larger picture. According to Shari Arison, chairman of the Arison Business Group, which owns Bank

Hapoalim, "We start in Israel because that is our center, but we are also looking globally."

In addition to banking, the group is involved primarily in real estate and sustainable development, and, through its subsidiary Housing & Construction Holding Co. Ltd., is active in locations as diverse as Israel, Eastern Europe, Africa, India, Guatemala and Romania.

The diamond and real estate tycoon Lev Leviev, famous for cracking the De Beers diamond cartel, is another Israeli billionaire who is expanding internationally. His Africa Israel Investments Group has 13 publicly traded companies in stock markets around the world, and he is active with a variety of projects in the U.S., Europe and Russia. "Ten years ago, 100% of the activities of Africa Israel Group were here in Israel. Since then I have taken 90% outside," he says. "But the 10% of activities that we do still have in Israel is five times what the 100% was ten years ago."

The expansion is taking place in all directions, as proven by the success of Infinity, the first onshore venture capital fund in China. "We are witnessing the globalization of the Israeli economy," says Managing Partner Amir Gal-Or. ❖

By Michael Knipe

Israeli bank spreads its wings

While the credit crunch rocks world economies, one financial pioneer with U.S. links is eyeing emerging markets.

Israel's banking system is in robust health, despite the uncertainties spreading through the international banking sector.

Controversial reforms were introduced five years ago, after a crisis that left the banking system near bankruptcy. This resulted in the sale of mutual and provident funds of the country's banks to reduce conflicts of interest.

The changes, known as the Bachar reforms after the former director general of the Ministry of Finance who chaired the committee, were designed to create and consolidate a more competitive and efficient capital market and to provide alternative sources of business financing.

Bank Hapoalim, Israel's leading financial group and largest bank, has adapted well to the changes. The bank posted a record performance in 2006 and expects to deliver a return on earnings of above 15% from last year's regular banking activities.

Chairman Dani Dankner says his primary goal now is to transform the bank into a fully global institution with its core center in Israel, rather than an Israeli bank with global activities.

"Our very promising area of expansion is in emerging markets," he says. "We believe that several of the emerging markets will undergo similar processes of market liberalization, modernization and reform as those we experienced in Israel in recent decades."

A key feature of this process, he says, is the rapid development of financial markets and new banking products, such as long-term mortgage loans. "Given Hapoalim's pioneering role in this process, we believe we have a lot to contribute to other countries facing similar changes," he said.

As a successful example of this process, Dankner mentions Hapoalim's investment in Bank Pozitif in Turkey. "I'm delighted to report that Pozitif is reaching the financial goals we set for this year much faster than expected."

"We are focused on maximizing returns and are strongly committed to social and community involvement."

*Dani Dankner,
Chairman, Bank Hapoalim*

Hapoalim is now interested in buying a bank in Switzerland, which it will merge with its existing operations. "This was the model we followed with our acquisition of Bank of New York-Inter Maritime Bank, Geneva, which was quite successful," he says.

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Innovative Israel joins world's top club

The country is a leader in research and development and a center of excellence for engineering expertise in the Middle East.

Israel's ability to attract capital market business will be strongly enhanced with its formal entry in June into the Organization for Economic Cooperation and Development (OECD) – the exclusive group of the world's most developed countries.

Israel is an outpost of high technology in the Middle East, with more engineers in the workforce than Japan and the U.S. combined. It hosts more than 100 foreign research and development centers, and on a per capita basis, it is a world leader in the patents it holds in a variety of research fields.

Scores of Israeli companies are operating at the cutting edge of scientific and technological advances.

From its corporate headquarters in Yoqneam in northern Galilee, Israeli medical device manufacturer Given Imaging has redefined the field of gas-

trointestinal diagnosis by developing and marketing disposable miniature cameras that patients swallow to detect internal disorders.

Evogene, a biotechnology enterprise in Rehovot in central Israel, is developing ways to convert inedible crops into biodiesel fuel. This could alleviate concern over the diversion of edible crops to production of biofuel, thereby forcing up food prices and causing world shortages.

With so much innovative potential on hand, foreign investment rose from \$9.9 billion in 2005 to \$16.6 billion in 2006 and was expected to reach around \$9.5 billion in 2007.

Shraga Brosh, president of the Israel Manufacturers Association, points out that while half of the country's industrial capacity is high-tech, the other half is traditional industrial production.

With few natural resources, Israeli manufacturers have to import most of the raw material, and with an open market and no tax barriers on imports, they have to compete both locally and abroad with international traders.



RICK ROSEN/CORBIS

"The fact that our traditional industry is competing very well shows that our manufacturers are smart enough to adapt their technology and adopt innovative measures to make their products worth buying," says Brosh. "Our industrial production is not based on cheap labor costs but on quality and innovation."

A third of Israel's exports go to the U.S., with another third going to Europe. Sixty percent of Israel's exports to the U.S. are high-tech products. But, says Brosh, only 32% of Israel's exports to Europe are high-tech.

This puzzles him. "Why is so little investment coming from Europe?" he asks. "Maybe they do not know of the opportunities." ❖

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Profile: Nochi Dankner

Magnate, mountaineer and philanthropist

From air force major to mega mogul, the highflier with a heart of gold



Dankner's holding company, IDB Group, is the largest business concern in Israel and touches every aspect of life in the country and far beyond.

For instance, you may be reading this article online on a computer screen in a high-tech park in Hyderabad, India, on land Dankner developed. If you are a farmer in Brazil or in more than a hundred other countries, you may have bought agricultural products from Makhteshim Agan, one of his biggest companies. If you are flying between New York and Tel Aviv, you may find yourself on the Isrir airline he owns.

At 52, Dankner has had a meteoric rise. After serving for five years in the Israeli Air Force and attaining the rank of major, he studied political science, international relations and law at Tel Aviv University, from which he graduated with distinction.

He began his career by opening a private law firm through which he masterminded his family's successful bid to buy a controlling share in Bank Hapoalim, where he was appointed vice chairman.

Seeking greater independence, he later parted ways from the extended Dankner family and, together with his father, sister and business partner Avi Fischer, established Ganden Holdings, an investment company named after a monastery village in Tibet that Dankner and Fischer visited together.

In 2003, a consortium headed by Dankner and the Ganden Group, together with its partners the Manor and Livnat families, acquired the majority interest in the IDB Group for \$841 million.

Since then, Dankner has dramatically turned the group around. In the past four years, IDB has made over \$5.8 billion in investments, sold more than \$4.2 billion of its asset holdings and raised \$8.7 billion in capital. The holding company now has total assets of \$28 billion

and in 2007 alone listed nine companies on the stock exchanges of Tel Aviv, the U.S., London and Brazil.

Twenty-four of Dankner's companies form 15% of the TA 25 index and 14% of the TA 100, the key index of the Tel Aviv Stock Exchange. Sixteen of his companies are traded on the NASDAQ, NYSE, AMEX, AIM and BOVESPA stock markets.

People who know Dankner regard him as a fair and talented manager, and in 2007 he was chosen as the country's best manager by *Yediot Aharonot*, the largest newspaper in Israel, and *Globes*, Israel's leading financial newspaper.

IDB companies encompass all aspects of the Israeli economy: Clal Insurance Enterprises is the largest insurance group in Israel with \$33 billion in assets under management; Cellcom is the largest cellular provider; Makhteshim Agan is the world's leading manufacturer and distributor of generic agrochemicals; Super-Sol is the largest retail chain in Israel; Property & Building Corporation is one of Israel's largest real estate groups with an extensive global presence; Nesher Israel Cement Enterprises is the sole Israeli

cement producer; and NetVision is one of the leading Internet and telecommunications providers.

Under Dankner's leadership, IDB has become known for its ability to create value in the companies it invests in. One example of a rapid turnaround is Cellcom.

In 2005, IDB bought the controlling share in Cellcom from the Safra family of Brazil and the communications giant BellSouth. Dankner replaced the management and brought in Goldman Sachs and several Israeli banks as minor partners. The success of his actions can be discerned from the figures: Cellcom, which in 2005 was worth \$1.25 billion, was valued on the NYSE at \$2 billion at the start of 2007 and today has a market cap of more than \$3 billion.

But there is more to Dankner than shrewd business sense and determination. Every year he takes a ten-day trek in the Himalayas. The perspective he gets from these trips is that, no matter how

The holding company now has total assets of \$28 billion and in 2007 alone listed nine companies on the stock exchanges of Tel Aviv, the U.S., London and Brazil.

important you are and how many companies you control, in a tent on a freezing-cold mountain, what really matters is the warm water in your flask and the batteries in your flashlight.

Given his business success, Dankner feels a sense of responsibility not only for his employees but also for all Israelis, and this manifests itself in a variety

of philanthropic ways. Dankner has contributed more than \$60 million to support communities damaged by last year's war with Hizbollah in the north and the continuing rocket attacks from Gaza in the south.

Education is also one of his philanthropic priorities. He finances thousands of scholarships, which go to students from the friction zones near the country's northern and southern borders.

Tellingly, among the numerous awards Dankner has received, there are honorary citizenships from all the confrontation-line towns and villages in the north of Israel – a sign of their gratitude for his generosity and activism on their behalf. ❖



JEFF ZELEVANSKY/REUTERS

Banking

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Dankner explains that Hapoalim's philosophy is to "go local" in foreign markets. "We believe that the local bank should be run by the most talented local managers who know the country and the potential clientele."

Hapoalim is the second-largest company listed on the Tel Aviv Stock Exchange. It has a market capitalization of \$5.8 billion and total assets of \$67 billion. As part of its multifaceted international strategy, Hapoalim established a Level 1 ADR Program in the U.S. in 2006, giving international investors greater access to its shares. It is estimated that foreign institutional investors hold 38% of its shares.

Hapoalim's opportunistic approach to growth is indicated by its involvement with Signature Bank New York. Signature was established in 2001 by Hapoalim, taken public in 2004 and sold at a profit of \$439 million in 2005. Dankner says that in North America, Hapoalim is not looking at local banking activities but rather at specific niches where it might have a comparative advantage.

"Working with Israeli companies that do business in the U.S. is one example of this advantage. Beyond that, the new activities we are developing in New York are focused on the global investment interest in the Israeli shekel."

Global investors have a clear appetite for investing in Israeli bonds, stocks and currency, he says, and Hapoalim should definitely be there with its products. "Bank Hapoalim has a growing global footprint," says Dankner. "We are focused on maximizing returns and are strongly committed to social and community involvement.

"The great potential of the Israeli market and its workforce has only recently been recognized, and I believe that Bank Hapoalim will play a central role in deepening Israel's ties to the global marketplace." ❖

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Building the business of tourism



Israel is tackling tourism development with a combination of professionalism and hutzpah

Two million tourists visited Israel last year, undeterred by the tension on the border with Gaza and Lebanon, or any of the negative issues that bedevil the bible land. Three million are expected this year, and the target figure for 2012 is five million.

Such is the appeal of a land which is holy to Jews, Christians and Muslims. It is equally appealing to secular travellers, seeking out the mysteries of its 5,000 years of history. Many others merely seek the desert sunshine of Eilat, or the cultural attractions and nightlife of Tel Aviv.

The majority of Israel's visitors are Americans, who account for a quarter of the total. Their interest is currently being enhanced by a \$12 million marketing campaign. But increasing numbers are coming from the former Eastern Europe states, and from the Far East.

Starting in May, there will be three flights a week from Korea, with Seoul acting as a hub for the region.

"We have just had a big influx of Christians from South Korea," says Yitzhak Aharonovitch, the Minister of Tourism. "They are Israel-loving people and they are coming by the thousand."

Visitors from Japan are increasing too, and an influx of Chinese travellers is expected, as the Beijing government signed an agreement with Israel in October that places Israel on the Chinese government's "Approved Destination" list.

Israel tackles the business of attracting tourists with the same determined professionalism and hutzpah that has transformed the Jewish state into most

dynamic in the Middle East. This year, the tourism budget has been quadrupled and the marketing budget has been increased seven-fold, says Aharonovitch.

Noting that two million Russians visit Turkey each year, the Minister has instigated a \$4.2 million marketing campaign to attract Russians to Israel and set in motion procedures to cancel the need for them to obtain visas.

"We are seeing an increase from 70,000 to 140,000 visitors," says Aharonovitch.

Other practical steps have been instigated to boost tourism figures. These, says Aharonovitch, include reassuring visitors that their safety will be secure, improving the infrastructure and strengthening the level of service they will receive.

After decades of dealing with the threats to its security, Israel has refined its safety measures to an unobtrusive optimum unmatched elsewhere. ❖

Tel Aviv beach south of the hotel district

Jerusalem: The Jewish Quarter in the Old City, the ruined Nissan Bek (Tiferet Israel) synagogue

Fresh produce at the Carmel Market in Tel Aviv





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