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Israeli Multinationals Rise in Foreign Markets

Release of the first ranking of Israeli multinational enterprises

Jerusalem and New York, July 9, 2008

The first-ever survey of Israeli multinational enterprises (MNEs) is being released today. It was conducted by a joint team composed of the Manufacturers Association of Israel, Tel Aviv University, the Hebrew University and the Vale-Columbia Center on Sustainable International Investment (VCC) in New York.¹

Its principal findings include: Israel's Top 15 MNEs – ranked by foreign assets – have US\$7.5bn assets abroad (table 1), have over US\$21bn in foreign sales (including exports) and employ nearly 63,000 persons abroad. Foreign sales and employment each have increased by 40% since 2004 (table 2). Four firms, Amdocs, Teva, Ormat and Israel Chemicals, together account for 77% of total foreign assets of the Top 15.

“Israeli firms invest abroad to have access to skilled labor and be close to foreign markets, as these are increasingly important as a source of their international competitiveness”, notes Dr. Seev Hirsch of Tel Aviv University and head of the Israel ranking project. “In addition, Israeli MNEs use foreign locations to source capital and as a venue for production and/or research and development.” Adds Dr. Karl P. Sauvant, Executive Director of the Vale Columbia Center: “Israel demonstrates that a relatively small economy can give rise to dynamically expanding and internationally competitive multinational enterprises.”

The three organizations in Israel and the Vale Columbia Center, a joint Columbia Law School – Earth Institute venture at Columbia University, collaborated on this project involving the ranking of Israeli MNEs. This exercise is part of a global effort to rank

¹ The Manufacturers Association of Israel is represented by the Foreign Trade Division; Tel Aviv University by the Recanati School of Business Administration; and Hebrew University by the Jerusalem School of Business Administration.

emerging market MNEs. Ranking lists for Brazil, Russia, and Slovenia have already been published (see www.cpii.columbia.edu).

Table 1. Ranking of the Top 15 Israeli multinationals, 2006 (Millions US\$)			
Rank	Name	Main industry	Foreign assets
1	Amdocs	Computer programming	2,099
2	Teva	Pharmaceuticals	1,530
3	Ormat	Power stations	1,153
4	Israel Chemicals	Mining and quarrying	999
5	Makhteshim-Agan	Chemicals	484
6	Strauss Elite	Food products	445
7	CheckPoint	Computer programming	209
8	Ness Technologies	Computer programming	127
9	Audicodes	Computer programming	109
10	Elbit	Electronic and optical products	104
11	Israel Aerospace Industries	Aviation and aircraft maintenance	64
12	Delta Galil	Wearing apparel	57
13	Gilat	Telecommunications	53
14	Orbotech	Electronic and optical products	20
15	Tefron	Wearing apparel	5
TOTAL			7,465

Source: Israeli-Vale Columbia Center ranking of Israeli multinationals.

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Profile of the Top 15

- Foreign assets of the **Top 15** Israeli multinationals represent over **18% of Israel's total outward FDI stock**.
- Israeli multinationals have **yet to reach the size of their foreign counterparts**:
 - Only three have more than \$1bn of foreign assets, and only two employ over 10,000 people abroad (*annex table 1*).
 - None would make it into the top 100 MNEs from developed countries and only four would make it into the top 100 MNEs from developing countries.²
- Israeli multinationals are **expanding at a high rate**: in two years, their aggregate foreign sales (incl. exports) grew by 40%, to \$21bn, and foreign employment grew by 40%, to 63,000 people, respectively.³

² See UNCTAD, *World Investment Report, 2007* (Geneva: UNCTAD, 2007). Data for 2005 are the latest available.

³ A percentage change in foreign assets from 2004 to 2006 cannot be calculated due to lack of data.

Table 2. Snapshot of Israeli's 15 largest MNEs, 2006* (Billions of US\$ and thousands of employees)			
Variable	2004	2006	% change 2004 - 2006
Employment			
Foreign	45	63	40
Total	88	113	25
<i>Share of foreign in total (%)</i>	51	56	
Sales (incl. exports)			
Foreign	15	21	40
Total	18	25	38
<i>Share of foreign in total (%)</i>	83	84	

Source: Israeli – Vale Columbia Center ranking of Israeli multinationals.

* Data on foreign assets for 2004 were not available.

- These growth rates far outpace those of the world's 25 leading multinationals, as well as those of the top 25 multinationals from developing countries.⁴ This means that Israeli global players are **catching up with international competitors**.
- International expansion **does not impede domestic growth or employment**: The Top 15's domestic employment rose by around 16%, and domestic sales grew by around 33% from 2004 to 2006.
- Nearly all outward investment from Israel is accounted for by **public companies**. (Only **one** out of the Top 15 companies, Israel Aerospace Industries, is owned by the state.)
- The industrial composition of Israel's top MNEs reflects the country's resource endowment. **High-tech** industries, whose output tends to be characterized by intangible products, accompanied by services (e.g. computer programming), represent 35% of the foreign assets of the Top 15 (*annex figure 1*).
- Firms in which there is comparatively **high investment in R&D** (e.g. pharmaceuticals) represent 21% of the foreign assets of the Top 15 (*annex figure 1*).
- **Traditional industries** such as clothing and food products account for a **small** and diminishing **share** of Israel's multinationals. Only one firm manufactures natural resource-based products.
- **NASDAQ** is the preferred stock exchange (seven firms are listed there). Four have dual listings, on the **Tel Aviv Stock Exchange (TASE)** and **either the New York Stock Exchange (NYSE)** or NASDAQ. Three are listed only on TASE and two, only on NYSE.

⁴ See UNCTAD, *op.cit.*. Data for 2005 are the latest available.

- The Top 15 now have **305 foreign affiliates** (*annex table 1*), implying an average of more than 20 affiliates per firm. Israel chemical firms, with 114 foreign affiliates, followed by Makhteshim-Agan, with 56 foreign affiliates, head this list.
- These 305 affiliates are located mostly in Europe (51%) and North America (25%), as revealed in the Regionality Index (*annex table 2*) and the geographic distribution of affiliates (*annex figure 2*). There are virtually no affiliates in Africa. However, they are gradually moving from these traditional markets to Asia and the Americas.
- The **nationality of the senior management** in the top Israeli MNEs continues to be dominantly Israeli; however Teva and Checkpoint are beginning to internationalize their senior management. Hebrew is the **official language** used at the parent company and in the affiliates.
- The value of the **Transnationality Index**⁵ of the Top 15 is 64% which is much higher than the average for all Israel's firms whose average TNI index barely exceeded 15%.

The whole picture

As a result of the dynamic expansion of Israeli multinationals, FDI *outflows* from Israel rose from very low levels in the early 1990s to US\$14bn in 2006, making Israel one of the top 20 countries in terms of outward FDI flows (*annex figure 3*).

As a result, the *stock* of outward FDI has risen from US\$8bn in 2000 to US\$41bn⁶ in 2006 (*annex figure 4*). The outward FDI stock is expected to continue to rise significantly.

A good part of Israel's outward FDI takes the form of cross-border M&As, with Teva's acquisition of the US based firm IVAX for US\$7.4bn representing the largest foreign M&A activity of an Israeli multinational (*annex table 3*). Greenfield investments also increased significantly in recent years, rising from 58 investment projects in 2004 to 105 in 2006.⁷ Recent greenfield investments are observed especially in real estate (*annex table 4*).

It is noteworthy that the 2006 list of Israel's top MNEs is quite different from what it would have been in 2003. A 2003 list would have included several leading industrial firms such as Iscar (a producer of carbide tools), M-Systems (a producer of data compressing devices), and the software firm Mercury. These firms meet all criteria commonly associated with globalization i.e., they have substantial foreign sales, foreign assets and foreign employees. However, these firms have been acquired by foreign (mostly US based) corporations and therefore are excluded from this list.

The importance of foreign activity to changes in sales and employment is demonstrated in annex table 5. All firms reported an increase in sales over the 2004-2006 period, and

⁵ The Transnationality Index is a composite ratio calculated by averaging the relative shares of foreign assets, foreign employees and foreign sales as a percentage of their respective totals. See UNCTAD, *op.cit.*

⁶ The FDI stock according to UNCTAD, *op.cit.* is lower and sums up only to \$US34bn. The US\$41bn level comes from the Israel Bureau of Central Statistics, 2006 and is more current.

⁷ See UNCTAD, *op.cit.*

in most cases growth in foreign sales exceeds that of total sales.⁸ Dividing the change in foreign sales into the change in total sales gives a measure of the "elasticity of foreign sales". When elasticity exceeds 1.0, growth is dominated by foreign sales. Overall, annex table 5 reveals that, on average, the increase in foreign employment and foreign sales of the top 15 MNEs is larger than the total increase in employment and sales. However, further analysis that we have done suggests that, at least in terms of domestic employment, this growth in multinationality does not impede domestic growth. On average domestic employment grew in 11% between the years 2004-2006 generating about 3400 new posts in Israel.

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Emerging Markets Global Players Project

The Israeli -Vale Columbia Center 2007 Ranking of Israeli Multinational Enterprises was conducted in the framework of the Emerging Markets Global Players Project, a collaborative effort led by the Vale Columbia Center. It brings together researchers on FDI from leading institutions in emerging markets to generate annual ranking lists of emerging market MNEs. The MNE ranking for Brazil, Russia and Slovenia were released in 2007 and the first half of 2008. The next rankings will be released for India. Visit www.cpii.columbia.edu for further information or contact vcc@law.columbia.edu.

The Israeli Team

The survey of Israel's leading multinational firms is a joint endeavor of the Foreign Trade Division of the Manufacturers Association of Israel, headed by Mr. Dan Catarivas (www.industry.org.il) and the two leading business schools in Israel. The project is headed by Professor Seev Hirsch from the Recanati School of Business Administration at Tel Aviv University (www.recanati.tau.ac.il), together with Dr. Niron Hashai and Mr. Ohad Red from the Jerusalem School of Business Administration at the Hebrew University (bschool.huji.ac.il).

Vale Columbia Center on Sustainable International Investment

The Vale Columbia Center on Sustainable International Investment, headed by Dr. Karl P. Sauvant, is a joint Columbia Law School – Earth Institute venture at Columbia University. It seeks to be a leader on issues related to FDI in the global economy, paying special attention to the sustainability aspect of this investment. The Center focuses on the analysis and teaching of the implications of FDI for public policy and international investment law. Its objectives are to analyze important topical policy-oriented issues related to FDI, develop and disseminate practical approaches and solutions, and provide students with a challenging learning environment. For more information, see www.cpii.columbia.edu.

⁸ Lack of data prevents separating out exports from total foreign sales.

Annex table 1. Ranking of the Top 15 Israeli multinationals, key variables, 2006
(Millions of US\$ and no. of employees)

Rank	Company	Industry	Assets		Employment		Sales		TNI Index (%)	No. of foreign affiliates
			Foreign	Total	Foreign	Total	Foreign	Total		
1	Amdocs	Computer programming	2,099	2,120	11548	16,234	2,455	2,480	90	21
2	Teva	Pharmaceuticals	1,530	2,193	21,631	26,670	8,072	8,408	82	26
3	Ormat	Power stations	1,152	1,335	411	774	291	291	80	n.a.
4	Israel Chemicals	Mining and quarrying	999	2,997	4632	9,307	3,050	3,258	59	114
5	Makhteshim-Agan	Chemicals	484	486	1592	3,184	1,672	1,779	81	56
6	Strauss Elite	Food products	445	852	5000	10106	489	1,220	47	23
7	CheckPoint	Computer programming	209	253	860	1,568	569	575	79	n.a.
8	Ness Technologies	Computer programming	127	238	4085	7,515	247	474	53	19
9	Audicodes	Computer programming	109	120	285	701	135	147	74	7
10	Elbit	Electronic and optical products	104	424	1357	8,030	1,116	1,523	38	12
11	Israel Aerospace Industries	Aviation and aircraft maintenance	64	466	500	14985	2,273	2,813	33	6
12	Delta Galil	Wearing apparel	57	99	8925	11000	647	707	77	12
13	Gilat	Telecommunications	53	130	550	950	248	249	66	n.a.
14	Orbotech	Electronic and optical products	29	575	797	1,596	408	417	51	5
15	Tefron	Wearing apparel	5	77	693	2,086	183	188	46	4
	Total		7,465	12,365	62,866	114,706	21,284	24,529	64	305

Source: Israeli-Vale Columbia Center survey of Israeli multinationals

Annex table 2. The Top 15 Israeli MNEs: Regionality Index^a, 2006

Name	Europe	North America	Latin America+Caribbeans	Asia & Australia	Africa
Amdocs	43	47	5	5	0
Teva	42	46	12	0	0
Ormat	n.a.	n.a.	n.a.	n.a.	n.a.
Israel Chemicals	57	15	6	22	1
Makhteshim-Agan	62	7	20	9	2
Strauss Elite	48	48	4	0	0
CheckPoint	n.a.	n.a.	n.a.	n.a.	n.a.
Ness Technologies	58	16	0	26	0
Audicodes	n.a.	n.a.	n.a.	n.a.	n.a.
Elbit	17	75	8	0	0
Israel Aerospace Industries	33	33	17	17	0
Delta Galil	50	42	0	8	0
Gilat	14	29	57	0	0
Orbotech	20	20	0	60	0
Tefron	50	25	0	25	0

Source: Israeli-Vale Columbia Center survey of Israeli multinationals.

^a The Regionality Index is calculated by dividing the number of a firm's foreign affiliates in a particular region of the world by its total number of foreign affiliates and multiplying the result by 100.

Annex table 3. The top 10 Israeli outward merger and acquisition (M&A) transactions, 2005 - February 2008

(Millions of US\$)

Date	Acquiror's name	Target name	Target industry	Target country	% of shares acquired	Value of transaction
01/26/2006	Teva	IVAX Corp	Pharmaceuticals	United States	100	7,367
04/16/2007	Investor Group	RBS Group PLC-Marriot Hotels	Hotels and motels	United Kingdom	100	2,171
03/02/2007	Delek Real Estate	RoadChef Motorways Ltd	Eating places	United Kingdom	100	734
04/30/2007	Africa Israel Investments	NY Times Bldg, New York, NY	Operators of nonresidential buildings	United States	100	525
02/21/2008	Teva	CoGenesys Inc	Pharmaceutics	United States	100	400
08/14/2007	Israel Chemicals	Supresta LLC	Chemicals	United States	100	352
12/07/2006	Delek Capital	Republic Cos Group Inc	Insurance	United States	100	290
08/30/2007	NICE Systems	Actimize Inc	Prepackaged software	United States	100	279
01/20/2006	Crawford Properties	Hornbach Holding AG-DIY(7)	Hardware stores	Germany	100	267
04/17/2005	Alon Mekel	Neckermann Versand AG-	Catalog and mail-order houses	Germany	100	261

Source: Thomson Financial.

Annex table 4. The top 10 Israeli cross-border greenfield transactions, announced, 2006- January 2008
(Billions of US\$)

Date	Company name	Destination country	Sector	Value
<i>Dec-06</i>	BCD Group	Czech Republic	Real estate	1.00
<i>Nov-06</i>	Africa Israel Investments	Russia	Real estate	0.95
<i>Apr-06</i>	Fishman Group	Russia	Real estate	0.90
<i>Dec-07</i>	Elbit Imaging	Romania	Real estate	0.88
<i>Jan-08</i>	Israel Corp (IC)	China	Automotive OEM	0.80
<i>Jul-07</i>	Africa Israel Investments	Russia	Real estate	0.47
<i>Dec-06</i>	IDB Group	USA	Real estate	0.40
<i>Mar-07</i>	Gazit Globe	Bulgaria	Real estate	0.26
<i>Jan-08</i>	Teva Pharmaceutical Industries	India	Pharmaceuticals	0.25
<i>Jul-07</i>	SFK	Croatia	Real estate	0.22

Source: FDI Intelligence – Financial Times Ltd.

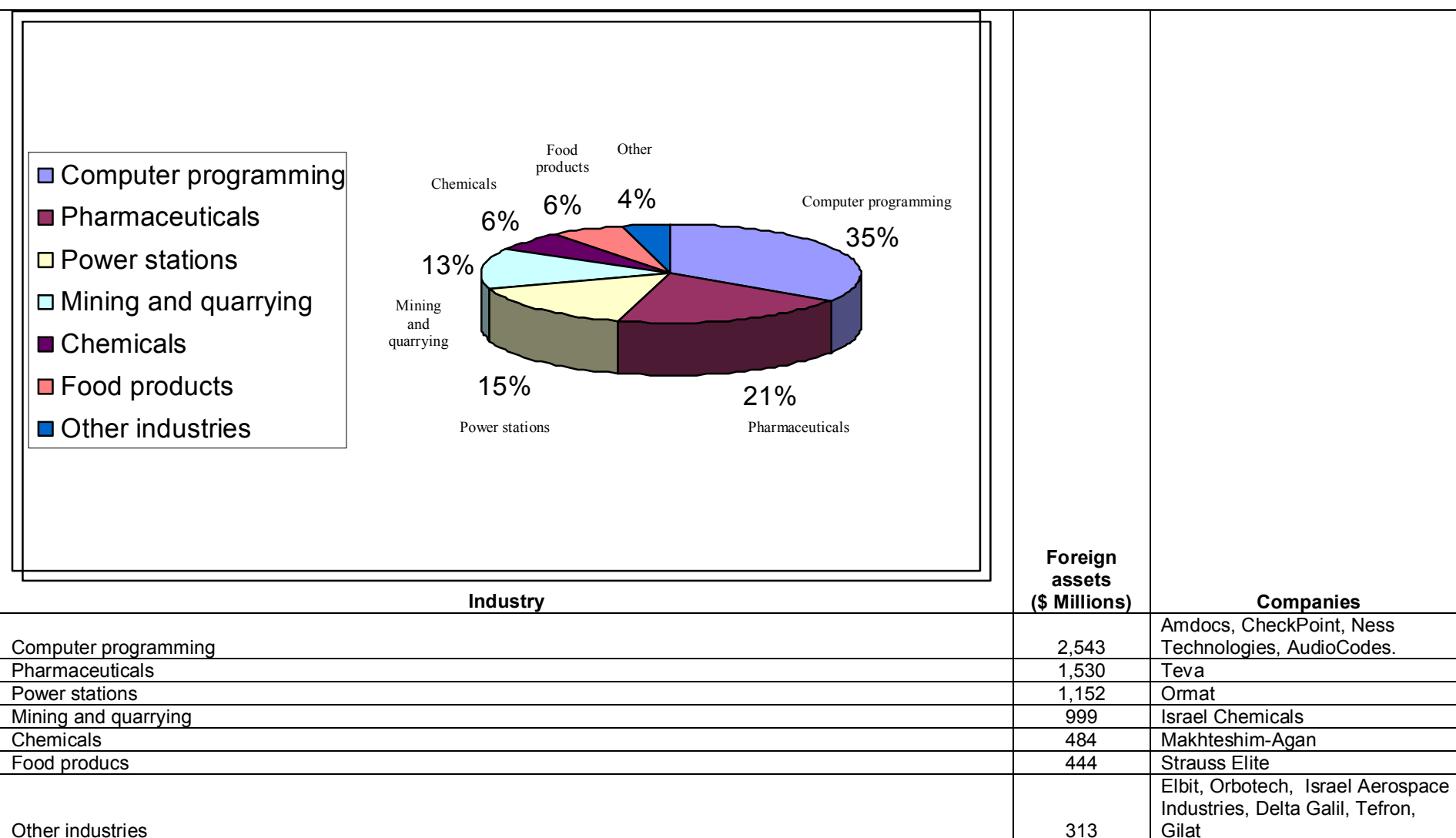
Annex table 5. Changes in sales and employment indicators of the Top 15 Israeli multinationals, 2004-2006
(Thousands of US\$ and no. of employees)

Rank	Company	% Change in employment	% Change in foreign employment	Employment elasticity	% Change in sales	% Change in foreign sales	Sales elasticity
1	Amdocs	61%	94%	1.53	40%	40%	1.00
2	Teva	93%	117%	1.26	75%	78%	1.04
3	Ormat	12%	N/A	N/A	21%	21%	1.01
4	Israel Chemicals	9%	20%	2.28	20%	22%	1.08
5	Makhteshim-Agan	5%	5%	1.00	16%	16%	1.06
6	Strauss Elite	50%	N/A	N/A	55%	133%	2.42
7	CheckPoint	17%	7%	0.40	12%	12%	1.00
8	Ness Technologies	50%	70%	1.40	56%	88%	1.58
9	Audicodes	58%	128%	2.23	78%	81%	1.04
10	Elbit	39%	18%	0.46	62%	60%	0.96
11	Israel Aerospace Industries	N/A	N/A	N/A	27%	31%	1.16
12	Delta Galil	-23%	-20%	0.90	8%	7%	0.91
13	Gilat	-3%	-10%	3.40	3%	3%	1.00
14	Orbotech	5%	8%	1.66	32%	32%	1.00
15	Tefron	-19%	42%	-2.23	27%	26%	0.97
	Total	25%	40%	1.58	35%	43%	1.23

Source: Israeli-Vale Columbia Center survey of Israeli multinationals

* Data on foreign assets for 2004 were not available.

Annex figure 1. Breakdown of the Top 15's foreign assets, by industry, 2006



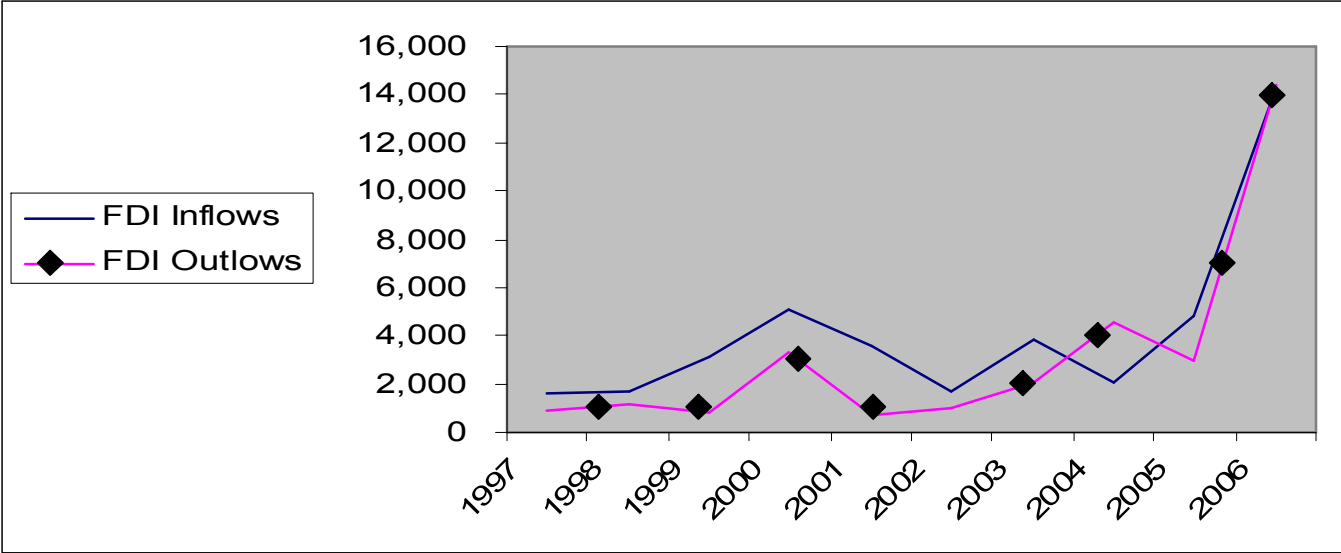
Source: Israel-Vate Columbia Center survey of Israeli multinationals.

**Annex figure 2. Foreign affiliates of Israel's Top 15 multinationals, by region, 2006
(Number of affiliates)**



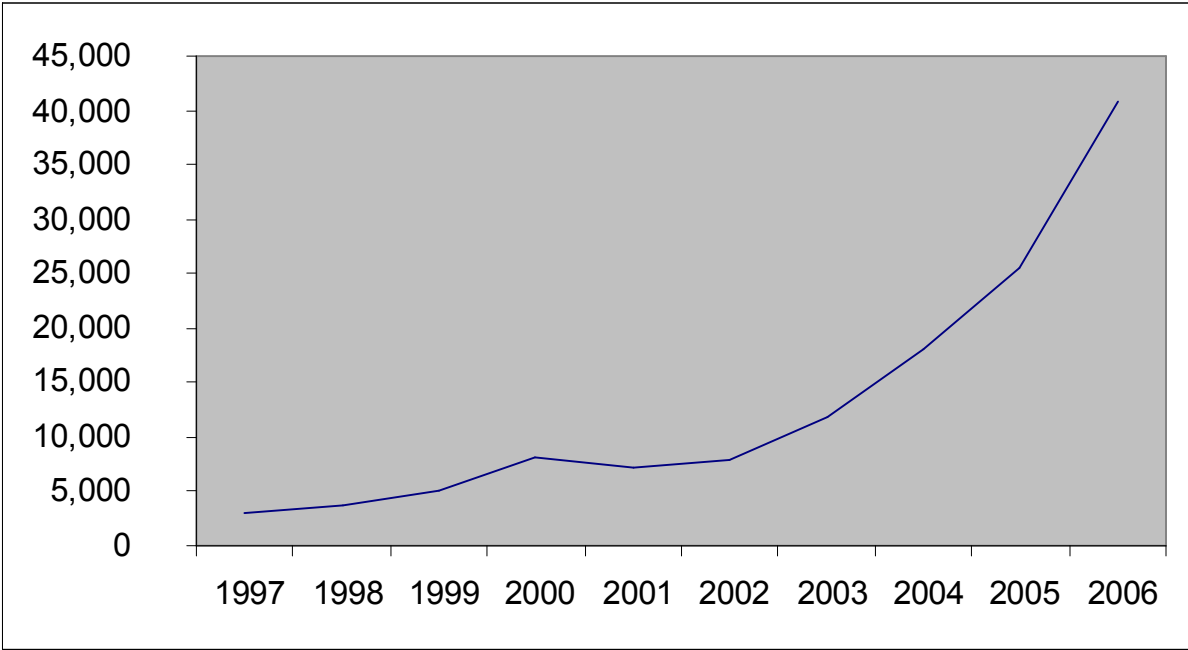
Source: Israel-Vale Columbia Center survey of Israeli multinationals.

Annex figure 3. FDI outflows from, and inflows into, Israel, 1997-2006 (Millions of US\$)



Source: Israel Central Bureau of Statistics, 2006.

**Annex figure 4. Stock of outward FDI from Israel, 1997-2006
(Millions of US\$)**



Source: Israel Central Bureau of Statistics, 2006.