

November 17, 2017

Dear clients and colleagues,

Once a year, Bloomberg evaluates and ranks countries based on their level of productivity relating to innovation. This year, South Korea ranks highest per capita in technological development; certainly understandable since it is home to the highly innovative Samsung and has a dynamic car manufacturing sector. If we look at R&D intensity, which is research and development as a percentage of GDP, South Korea is also in the number one spot, followed closely by Israel.

Israel achieved first place in the “researcher concentration category”, or the number of professionals – including postgraduate PhD students – engaged in R&D per million people in the country.

Israel has been recognized as a technology powerhouse in the past, but activity has really gone vertical since Intel bought Mobileye, an autonomous driving systems company, for \$15.3 billion in March 2017.

The US has a longstanding economic relationship with Israel. Israeli high-tech companies have the third largest presence on the NASDAQ, after firms from the US and China. This has certainly allowed for a good flow of capital to Israeli companies.

Another country that remains at the top of the innovation list is Switzerland, which ranked fourth. The country continues to show strong innovation in sectors such as biotechnology and industrial technology. Further, Bloomberg ranked Switzerland first in the world for added-value manufacturing. Similar to South Korea with Samsung, Switzerland has an advantage in innovation as giants Novartis, Nestle and Roche are based in the country. Despite its diminutive size, Switzerland ranks well in all categories.

We are profiling companies from Israel and Switzerland today because these countries share two common characteristics: both are technology hubs and both have a relatively small market and geographic size. Because of their small size, management teams from these countries require an international mindset from inception.

Is an international mindset and strong technology a recipe for success? Corporations will tell you that patent lives are short, so the capacity to take advantage of international markets over a shorter period cannot hurt the net present value of a patent.

This is evidently clear in the small cap universe where the quality of international distribution networks vary greatly between companies. Portfolio company SolarEdge (SEDG:US) is certainly proving this theory, as its sales outside of the US grew from 36% in 2016 to 50% in 2017. SolarEdge is based in Israel and produces and sells solar inverters to solar energy installers around the world. Following the reduction of subsidies in the US market, the company was agile enough to redirect its sales efforts to other territories such as Australia, Germany and Italy, gaining market share versus its more established competition.

SolarEdge does not manufacture its products internally; rather it uses third-party manufacturers with a global footprint. This has allowed SolarEdge to focus on R&D as well as marketing and sales.

If there is one area that requires cutting-edge technology and an international focus, it is Cybersecurity, a large and still budding field where Israel is also a powerhouse. Israel receives 8% of total global cybersecurity investment funding versus 75% for the US.

Global Alpha is exposed to the cybersecurity sector through Nice Systems (NICE:US). The company is a provider of software solutions that enable organizations to take action in order to improve customer experience and business results, ensure compliance, fight financial crime and safeguard people and assets.

Nice Systems was founded in 1986 as Neptune Intelligence Computer Engineering by seven former Israeli army colleagues. The company initially focused on developing technology for security and defense applications, but soon refocused its efforts on civilian applications, mainly for contact centres, financial services and business intelligence markets. Nice Systems operates worldwide serving Fortune 500 companies.

Another Israeli-founded technology company we own is Ormat Technologies (ORMA:US), today based in Reno, Nevada. With 52 years of experience, Ormat's technology remains dominant in geothermal energy production equipment. This dominance has allowed the company to become an important power producer with over 760 MW of energy production across many continents in a variety of green energy production systems.

Swiss companies have many commonalities with their Israeli counterparts. For example, they need to succeed internationally early in their development. Switzerland's key industries include machinery, chemicals, watches, medical equipment, precision instruments and banking.

Global Alpha owns Schweiter Technologies (SWTQ:SWX). The company develops and manufactures composite panels and materials for layered polymer solutions used in four segments: core materials, architecture, display as well as transportation and industry. In order to concentrate its efforts on composite materials, Schweiter is currently transitioning out of a legacy unit which specializes in textile machinery. Schweiter offers the broadest assortment of high quality, plastic-based core materials and is the leader in markets such as wind structures and transportation.

Have a great weekend.

The Global Alpha Team