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ELRON ELECTRONIC INDUSTRIES LTD.

TASE: ELRN

Sector: Holdings

Quarterly Update

27 November 2001

Buy (unchanged)

TARGET PRICE: NIS 79.0

Uneventful Quarter at Elron

STOCK DATA

Price (NIS)	57.7
Shares O/S (m)	21.2
Market cap (NISm)	1,237.4
Free float (%)	35.5
BVPS (NIS)	48.9

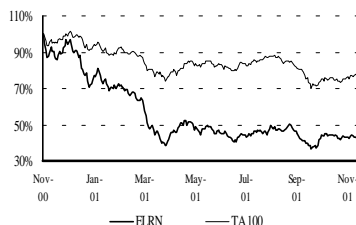
MARKET PERFORMANCE

	Absolute	Relative*
1 month	▲ 1.1%	▼ 3.6%
3 months	▼ 10.4%	▼ 15.1%
12 months	▼ 48.9%	▼ 53.5%
12 mo. High/low (NIS)	H 124.9	L 47.5
3 mo. Volume (NISm)		3.2
12 mo. Volume (NISm)		3.8

Discount to NAV

NZS Valuation	38.0
Market Valuation	---

ELRN VERSUS TA100 RELATIVE STRENGTH



- Global technology markets, as well as derailing financial markets, heavily impacted *Elron's* financial performance, as demonstrated by a 3Q01 net loss of \$10.6 million, or an EPS of -\$0.5 in 3Q01, vs. a net income of \$19.9 million (and EPS of \$0.94) in 3Q00.
- *Elron Telesoft* and *Elron Software* operating loss for 3Q01 amounted to \$3.7 million, a decrease of 36% vs. their operating loss in 3Q00. We project that *Elron Software* will break even on an operating basis by 2H02, and is estimated to burn approximately \$5-\$10 million before recording a positive cash flow. *Elron Telesoft* is currently reorganizing activity, positioning telecommunications activities as a core business. We believe that this process should help *Elron Telesoft* to break even on an operating basis in 1Q02, subject to global telecom market conditions.
- Despite difficult market conditions in the competitive domestic ISP market, *Netvision* (one of the largest ISP providers in Israel) reached breakeven at operating level in 3Q01, reporting a \$1.5 million positive EBITDA vs. operating loss of \$4.8 million and an EBITDA loss of \$3.7 million in 3Q00. We believe that *Netvision's* operating revenues will remain at current levels until broadband Internet packages are offered in Israel and that *Netvision* will leverage its large customer base to become the cable companies' ISP.
- The recent floatation of *Given Imaging* (NASDAQ: GIVN) on NASDAQ (15% in stake) clearly reflects the attractiveness of *Elron's* holding portfolio. *Given Imaging* has submitted more than 20 patents worldwide. The latest announcement regarding *Given Imaging's* IPO is an important step in creating value for shareholders.
- We point towards *Elron & Elbit's* (TASE: ELBT) merger as a positive that will contribute to *Elron's* overall valuation and decrease its discount to NAV, while eliminating duplicity between *Elron & Elbit's* headquarters, and simplify the holding structure within the *IDB* group.
- Our position remains the same regarding *Elron*; that is we recommend holding a long term view on *Elron*, conducting close analysis over its holdings potential. We project that management efforts will bear fruit once markets settle.
- **We maintain our BUY recommendation for Elron while factoring in the difficult market conditions. Trading at a 39.0% discount to its NAV, we are lowering our twelve months objective from NIS 95.0 to NIS 79.0**



ELRON - NAV Model

Figures are in USD (000), except per share data

	Market Value	NZR Value	% held	Value to Elron	% of NAV	Delta
<i>Public companies</i>						
Elbit	135,099	135,099	44.1%	59,606	13.2%	6,812
Elbit Systems	710,249	-	21.3%	151,283	33.4%	69,294
Netmanage	287,400	-	1.2%	735	0.2%	551
Given Imaging	251,364	-	7.3%	18,350	4.1%	14,196
ArelNet	1,935	-	11.2%	216	0.0%	43
Kana Software	275,000	-	0.58%	1,678	0.4%	1,300
	1,661,048	135,099		231,868	51.2%	92,196
<i>Private companies</i>						
Elron Software	-	82,400	96.0%	79,104	17.5%	87,479
Elron Telesoft	-	37,500	100.0%	37,500	8.3%	78,976
Netvision	-	70,000	50.0%	35,000	7.7%	33,493
Chip Express	-	30,000	34.1%	10,215	2.3%	7,190
Oren Semiconductor	-	60,000	19.1%	11,454	2.5%	6,330
DEP Technology	-	50,000	33.0%	16,500	3.6%	13,122
Witcom	-	40,000	11.5%	4,600	1.0%	2,317
3DV	-	32,520	2.1%	683	0.2%	112
Mediagate	-	33,000	35.2%	11,629	2.6%	9,885
Wavion	-	15,000	33.7%	1,362	0.3%	-
Gemini Israel Fund	-	34,913	5.3%	895	0.2%	-
Kit	-	-	28.0%	6,000	1.3%	2,266
Galil Medical	-	-	3.2%	1,074	0.2%	-
Others	-	1,901	100.0%	5,000	1.1%	3,099
	-	487,234		221,016	48.8%	244,269
Total				452,884	100%	336,465
Elron's book value, net	237,964					
Market Value of Elron				289,460		
Elron Share Price				13.5		
Total NAV				574,429		
Capital Gain Tax				24,151		
Net				550,278		
Discount to NAV				47.4%		
Present Value of loans to subsidiaries, Net				65,000		
Present value of Management fees & G&A, net				18,222		
NAV, net				467,056		
NAV /Share				22.0		
Discount to NAV, net				38.0%		



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