



## The small company specialists

# COMPANY INFORMATION

### ESPRO Information Technologies Ltd (OFEX - ESP)

Date: November 2006

Company Eye Ranking

25/50

### EDITOR'S NOTE

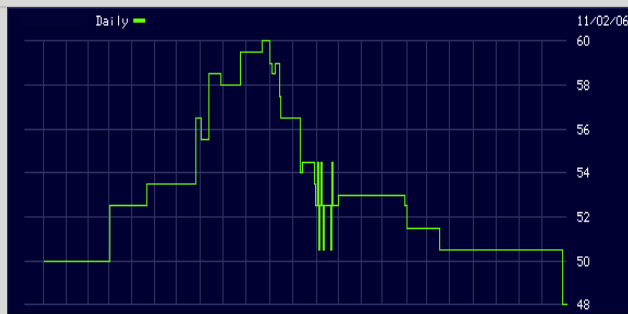
Espro is a global developer, manufacturer and marketer of audio and multimedia hand held interpretive systems and multi-lingual content. Espro's products and services are used in museums, cultural and visitor centres, walking tours and trade shows worldwide. The client base of the Group includes over 400 active sites, and comprises some of the world's best known museums and heritage sites, including the Museum of Modern Art in New York, the Orsay Museum and the Rodin Museum in Paris, the Imperial War Museum in London, the Guggenheim Bilbao in Spain, the State Hermitage Museum in St. Petersburg, the Museum of Fine Arts in Vienna, the Israel Museum in Jerusalem, the Royal Museums of Fine Arts of

Belgium in Brussels, the Forbidden City in Beijing and the National Palace Museum of Taiwan in Taipei. The Group employs approximately 85 full-time staff in 8 subsidiaries worldwide.

The Group has experienced strong growth in the first half of the year. A selection of core business contracts signed since the year began.

The Group has experienced especially strong growth at its US, French and Australian subsidiaries, who have gained market share in their geographies. Could be a turn for the better again, although costs need to be trimmed and a venture in to net profit is required.

### 2 YEARS CHART



### FUNDAMENTALS

Company Name	ESPRO Information Technologies Ltd
Current Price	48p
Status	Plus
Market Cap	£8.43 m.
Shares in Issue	17,571,095
Activities	Development, manufacturing, marketing and distribution of multi-lingual audio interpretation systems and content, and customized catalogues and posters via a MyCollection print-on-demand technology
Sector	Media & Entertainment
Corporate advisor	St Helen's Capital plc.
Registrar	Computershare Investor Services Plc

### HISTORY

ESPRO Information Technologies (Espro), a company registered in Israel, was established and commenced operations in 1992. It is engaged in the development, manufacturing, marketing and distribution of multi-lingual audio guidance systems. Espro has developed a new innovation that enables site visitors to compile customised media based on their visit experience. Espro views its mission as becoming a premier supplier of

the ultimate visit and post-visit experience, based on its patented audio-guiding and MyCollection technologies, offering its services to customers worldwide via a wide network of representatives, and to attain a leading market position.

Most of its revenues are derived from customers located in Europe. Espro is the first Israeli company to be traded on OFEX, which it joined in November 2004.

### THE BUSINESS

The company is developing, manufacturing and marketing multi-lingual audio interpretation systems and content. Its technologies and services, designed to enhance tourism and cultural experiences, include guided interpretation and customised catalogues and posters, via its MyCollection product, developed in collaboration with Hewlett-Packard.

Espro acquired Acoustiguide Corp. in April 2005 to create the Espro Acoustiguide Group, the world's second largest company in the audio and multimedia interpretation industry. It has a large presence in the UK, Europe, North America, South America and Asia using agents and distributors.



## The small company specialists

# COMPANY INFORMATION

Espro is developing exciting new directions and applications in information technology. It provides audio tours and audio contents oriented by theme or by location and delivered on various platforms, for visitors in art, culture and tourism sites and venues, and at trade shows and visitor centres.

In 2004, Espro developed MyCollection, an innovative service designed for visitors arriving at museums and tourist sites. The service is a market first and enriches the visitor's post-visit experience through a new concept. MyCollection not only provides information to visitors when and where they need it but it also allows them to bookmark, select, create, print and take home customised catalogues or posters, representing a personalised memento of their visit. Other products include exSite, MyGuide, and GroupGuide and are multi-lingual, audio and multimedia, hand-held interpretive systems that are used in hundreds of sites and walking tours worldwide. Espro's products are as follows:

### Audio Guiding

**exSite:** this MP3 system is the most advanced audio information system available. It incorporates some superior capabilities such as CD quality audio, 576 hours of information, wide graphical screen, ergonomics, automatic infrared activation and video synchronisation, collection and analysis of visitor usage data. exSite's advanced features and bookmark ability are fully compatible with Espro's MyCollection software. exSite was launched in 2000 with its selection by Centre Georges Pompidou in Paris. **GroupGuide:** this advanced portable system incorporates notable qualities both in operation and ergonomics for group guides and for group member tourists. **MyGuide:** this

popular audio portable system is in use worldwide in hundreds of leading museums and sites since 1993.

### Audio Tours

The audio tour tells the story and turns the visit into a memorable experience. Appreciating his, Espro has specialised in the production of high quality, multi-lingual audio content and is employing top writers, translators, narrators, production staff and special effects experts. These are working closely with customers on the processing stages, starting with the telling of the story, composing and editing the text, casting of the voices to narrate it and integrating music, sound effects and recorded interviews.

### MyCollection

MyCollection system allows visitors, in addition to the audio guidance, to select their points of interest and bookmark them as they walk through the exhibition halls, using the same Espro's exSite portable unit. The visitors can then tailor their own individual media product as personal catalogues or posters in a variety of sizes to be printed for them. This service gives the visitor the capability to take home a piece of their experience.

### REVENUE STREAMS

Customers can purchase systems and services or have long-term rental or revenue-sharing agreements. Espro is also prepared to operate as a concession holder, supplying and operating audio information technologies and services, as the case is, for instance, at the Topkapi Palace Museum in Istanbul, Rodin Museum and Luxembourg Museum in Paris and The Israel Museum in Jerusalem.

## DIRECTORS

### Simon Bentley, Non-Executive Chairman

Mr. Bentley qualified as a chartered accountant in 1980. In the late 1980s, he joined Blacks Leisure Group Plc where he was Chairman and Chief Executive for over 12 years. Under his management Blacks Leisure expanded from 30 outlets in outdoor retail to become a significant retail and wholesale business handling a number of brands and retail formats involving footwear, apparel and accessories which were sold in approximately 550 outlets across the UK.

After stepping down from Blacks in 2002, Simon has become involved in a variety of companies and organisations. He is the UK Chief Executive of Morgan, the women's fashion brand and leading retailer, the Deputy Chairman of the solicitors, Mishcon de Reya, and Deputy Chairman of The Leadership Trust. He is also Chairman of the prominent hair brand, Umberto Giannini, as well as holding a number of other positions in both commercial and charitable activities. These include the leading UK 5-a-side football facility operator, Powerleague plc, the OFEX listed hotel operator AJ Leisure Holdings plc, the women's fashion and fitness-wear brand USA PRO and the sports retailer that trades as 'First' within a variety of health clubs across the UK.

### Israel Gal, Director, President and CEO

Mr. Gal has served as Espro's president and CEO since 1997.

During this time he has transformed the Company from an OEM manufacturer of audio guiding systems into a company that develops and sells a range of audio and multi media interpretation products and services.

In 2004 Mr. Gal brought Espro to the London Ofex market and in 2005, he led the acquisition of its competitor Acoustiguide Corporation, and the subsequent formation of a new entity, the Espro Acoustiguide Group.

From 1993 to 1997, he served as CEO of a subsidiary of Koor, one of Israel's largest holding companies. From 1990 until 1993, he served as the manager of the Tel Aviv branch of Bank Tefahot, a leading Israeli mortgage bank.

Mr. Gal has a Master's degree in political and international studies from Haifa University and a Bachelor's degree in economics and business administration from Tel Aviv's Bar-Ilan University. From 2002 to 2004 he sat on the board of directors of Elbit Vision Systems, a public company traded on NASDAQ.

### Shmuel Shalem, Director and CTO

Shmuel Shalem is one of the founders of Espro and is responsible for all technical functions and activities of the company from R&D, through complete design of the company's products, to company-wide technical support.



## The small company specialists

# COMPANY INFORMATION

Prior to founding Espro in 1992, Mr. Shalem worked at National Semiconductors Ltd., Israel, for eight years, managing a team of chip designers and software engineers responsible for the design verification of new VLSI computer products.

Mr. Shalem earned a Master of Science degree in Electrical Engineering from the University of Santa Clara in California, specializing in computers, digital systems and microelectronics. He has a Bachelor's degree (BSEE) from the Technion – Israel Institute of Technology.

### **Pinhas Dror, Non-Executive Director**

Pinhas Dror has served as a director since 1996. He was the Israeli Minister of Economic Affairs in Washington and before that, chairman of the board of directors of Oil Refineries Ltd. After concluding his tenure in Washington in 1991, Mr. Dror initiated and managed several VC funds with a current portfolio of 13 companies valued at \$50 million. He is also chairman of CMT Medical Technologies Ltd., a company that develops x-ray-based imaging systems and is traded on the Paris Nouveau Marche.

Mr. Dror received an MBA from Roosevelt University in Chicago, Illinois. He earned a Master's of Science degree in chemistry and biochemistry from the Hebrew University of Jerusalem and a Bachelor's degree in chemical engineering from the Technion-Israel Institute of Technology.

### **Professor Richard Stone, Non-Executive Director**

Professor Richard Stone joined the Board in 2001 and has been very actively involved in all of Espro's financing for the past five years. Professor Stone graduated magna cum laude from Harvard College in 1963 and magna cum laude from Harvard Law School in 1967. After two years in private practice, he was then appointed Assistant Solicitor General of the United States, where he served from 1969 to 1973.

In 1974, Professor Stone was appointed to the faculty of the

Columbia Law School, where he was promoted to the rank of full Professor in 1979. In 1990, he received the Wilbur Friedman Chair in tax law, which he holds today.

Professor Stone served on the Board of Directors of Applied Neurosolutions, Inc. from 1995 until September 2005, and is on the board of several private companies. Professor Stone is a founder, principal and investment supervisor of Bluegrass Growth Fund, a hedge fund that invests primarily in PIPEs (private investments in public equities). Richard is also active in many civic matters and serves on numerous not-for-profit boards.

### **Basil Gamsu, Non-Executive Director**

Basil Gamsu, born in 1947 in Johannesburg, South Africa, is the Managing Director of Corex Israeli Industries Ltd., an Israeli Private Equity Company established in 1995. Mr. Gamsu immigrated to Israel in 1976. He joined the Corex Group in 1995 after 11 years experience in senior management positions with the Israel Chemicals Group, including being a director of four companies within the Group. Before joining Israel Chemicals, Mr. Gamsu was head of the mergers and acquisitions department of a leading management consultancy firm.

Mr. Gamsu has extensive investment experience in Israel and South Africa, generally with particular emphasis on private equity and capital markets, corporate finance, international capital markets and industry. Mr. Gamsu is a qualified chartered accountant (licensed in Israel and South Africa) and has a Bachelor of Commerce degree in Economics from the University of Witwatersrand, South Africa.

Mr. Gamsu's experience includes membership of the Government Committee investigating the privatization of the Israeli Postal authority and he currently serves on the Investment Committee (participating policyholders) of the Phoenix Insurance Company.

## FINANCIAL RESULTS

\* The Group's consolidated revenues increased 94% to US\$7.7m for the half year (H105: US\$4.0m). This is a 22% increase on pro forma revenues for H105, which include a full half year of Acoustiguide revenues.

\* The Group's gross profit increased 101% to US\$4.8m for the half year, representing 62% of revenues. (H105: US\$2.4m, 59% of revenues). This is an increase of 41% on pro forma gross profit for H105.

\* The Group's operating profit increased to US\$129,000 from an operating loss of US\$723,000 for the same period last year.

\* The Group also moved into a positive EBITDA position,

achieving an EBITDA of US\$862,000 compared to a negative EBITDA of US\$356,000 for the same period last year.

\* The Group's net loss for the year decreased to US\$128,000 from a net loss of US\$819,000 in the previous year.

\* The Group had a positive cash flow of US\$683,000 from operating activities in the half year, compared to a positive cash flow of US\$542,000 for the same period last year.

\* A review of the Group's depreciation policy relating to one of the Group's product lines resulted in a reduction of US\$30,000 in depreciation expenses for the six month period ending June 30, 2006.

## GROWING MARKETS

The Group has a direct presence and sales offices in many major cities worldwide (New York, Washington, London, Paris, Berlin, Beijing, Shanghai, Taipei, Sydney, Istanbul, Tel Aviv and others) and a network of third party resellers and agents in South America and Europe. The Group continuing to exploit the opportunities that exist for its products and solutions in new vertical markets such as corporate clients, trade shows and academic institutions. During the year the Group signed contracts with several Universities providing audio tours for

students, including the London School of Economics, the University of Glasgow and Warwick University. In the corporate arena, clients now include Dell in Ireland and Teva Pharmaceuticals Industries Limited in Israel. Additionally, the Group has seen a significant increase in demand for its GroupGuide product, enabling a tour guide to lead an audio tour around an exhibit. Wins in the year include the Grand Palais in Paris, the Luxemburg Museum in Paris, and the West Wall Tunnels in Jerusalem.



The small company specialists

# COMPANY INFORMATION

## SHAREHOLDINGS

	Number	%		Number	%
Directors' interests		10.6			

## FINANCIAL HISTORY

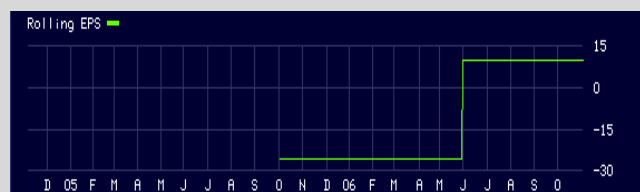
Profit and loss account for the six months ended June 30

USD'000	2006	2005
Revenue	7,708	10,909
Cost of revenues	2,950	4,451
Gross profit	4,758	6,458
Research and development costs	213	436
Selling and marketing expenses	2,167	2,921
General and administrative expenses	2,187	3,817
Share-based compensation	62	276
Operating income (loss)	129	(992)
Financial expenses, net	17	244
Other expenses, net	95	204
Income (loss) before taxes on income	17	(1,440)
Taxes on income	145	147
Net loss	(128)	(1,587)
Basic and diluted net loss per share (US\$)	(0.01)	(0.1)
Weighted average number of Ordinary shares used for computing basic and diluted net loss per share	16,672,714	15,588,631

Balance Sheet as at June 2006

USD'000	2006	2005
Cash and cash equivalents	1,973	889
Trade receivables, net	3,084	3,096
Other accounts receivable	750	911
Inventories	535	619
CURRENT ASSETS	6,342	5,515
Equipment leased to others, net	1,744	1,885
Finance lease receivables	874	867
Deposits	321	271
Property and equipment, net	318	301
Deferred income taxes	46	55
Intangible assets, net	1,063	874
NON-CURRENT ASSETS	4,366	4,253
Short-term bank credit	1,328	906
Trade payables	954	1,511
Other accounts payable	2,700	2,695
Liability in respect of acquisition of investee companies	644	-
CURRENT LIABILITIES	5,626	5,112
Long-term loans from banks and others	1,798	1,051
Accrued severance pay	178	124
Government grants payable	702	787
Deferred taxes	171	118
Accrued commissions	9	26
Liability in respect of acquisition of investee companies	-	932
Liability in respect of warrants	55	107
LONG-TERM LIABILITIES	2,913	3,145
Total liabilities	8,539	8,257
Share capital	42	40
Additional paid-in capital	18,066	17,188
Foreign currency translation reserve	148	245
Accumulated deficit	(16,108)	(15,979)
EQUITY	2,148	1,494
Minority interest	21	17
Total equity	2,169	1,511
Total liabilities and equity	10,708	9,768

## ROLLING EPS



## RISK FACTORS

In addition to the other relevant information, the following specific factors should be considered carefully when evaluating whether to make an investment in the Company. The investment offered in this document may not be suitable for all of its recipients. Before making an investment decision, prospective Investors should

consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities. A prospective Investor should consider carefully whether an investment in the Company is suitable for him/her in the



## The small company specialists

# COMPANY INFORMATION

light of his/her personal circumstances and the financial resources available to him/her. There are various risk and other factors associated with an investment of the type described in this document. In particular:

The value of an investment in the Company is largely dependent upon the expertise of the Directors and their ability to identify and acquire or invest in suitable companies or businesses. There can be no certainty that the Company will be able to identify suitable acquisition targets or complete the purchase of any identified targets at a price the Directors consider acceptable.

In the event of an aborted acquisition it is likely that resources may have been expended on investigative work and due diligence, which cannot be recovered.

The acquisition of other businesses can involve significant commercial and financial risks and there can be no certainty that any acquired business will not have a material adverse effect on the operations, results or

financial position of the Company.

If the Company has not undertaken an acquisition or a significant investment within 24 months of the start of trading on Plus, there is no guarantee that the Company can maintain an Plus trading facility if the Directors do not deem any acquisitions or investments to be suitable within any such period.

It is likely that the Company will need to raise further funds in the future, either to complete a proposed investment or acquisition or to raise further working or development capital for such a transaction. There is no guarantee that the then prevailing market conditions will allow for such a fundraising or that the new investors will be prepared to subscribe for Ordinary Shares at prices that are the same or greater than the price at which they are being introduced.

## CONTACT

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Central Park 2000  
Kfar-Saba 44643  
Israel

## RANKING

	Ranking out of 50 (50 being highest)
<b>Business model - competitive advantage</b>	
Competition	30
Customers	33
Low cost	20
Management	
- corporate governance	23
- quality	23
- shareholding	27
Product	29
Sector	30
<b>Financial evaluation</b>	
Early and profitable exit potential	22
Financial strength	
- cash flow	26
- conservative accounting	21
- need for funding	
Growth at a reasonable price	24
Risk	24
<b>Overall average rating</b>	<b>25</b>



## The small company specialists

# COMPANY INFORMATION

### FURTHER INFORMATION ABOUT THE RANKING

#### Competitive advantage

Companies are assessed according to their business model and how this translates into strong and sustainable competitive advantage. This can only be achieved with low cost activities and doing something different from the competition. This 'differentiation' must add value to the customer who is then prepared to pay a premium price. The differentiation is most obvious in the product but it can exist anywhere in the company's value chain of activities, such as

easy payment terms, convenient locations, superior management, and quality of suppliers. Companies that do not achieve competitive advantage because they have the same costs and/or do the same as the competition are marooned in a profitless zone. They helplessly try to compete with the one weapon left open to them, which is the disaster of cutting prices and typically leads to similar retaliation by competitors, with disastrous results.

### THE FOLLOWING ELABORATES ON THE RANKING CRITERIA

#### Competition

How intense is the competition and are there barriers to entry?

#### Customers

Is the company controlling its customers and therefore its revenue streams? Are customers glued to the company and providing valuable and reliable recurring revenue or are they one-off, or 'transactional', providing shaky revenue? The company should ideally have weak and numerous customers.

#### Low costs

Has the company achieved low cost activities thus allowing more of the top line revenue to trickle down to the profit line?

#### Management

Is there good corporate governance? What is the quality of management, as this is crucial to any business? Are the directors' shareholdings significant but not so large that they control the company?

#### Product

Is the product different from the competition and adds value to the customer? Are there threatening substitutes? Does it have a powerful brand?

#### Sector

Is the company in an attractive sector that is profitable and adds value?

Services tend to be more protected than products from international competition. Does the sector ride the tailwind of multi-year mega trends? Is the business well positioned in the current stage of the economic cycle? What is its resistance to a recession?

#### Profitable exit potential

What is the potential for selling the share profitably? This is more applicable to pre-flotation investments.

#### Financial strength

Does the company have strong cash flow, the lifeblood of any business? Is the accounting conservative or is there 'accounting for growth'? Does it need more funding? Is the profit margin healthy and at least equal to its sector? What has been the track record in the growth rate of profits?

#### Growth at a reasonable price

Does the share offer growth at a reasonable price? This is commonly measured using the PEG. This is the price earnings ratio (PE) divided by the forecast growth rate in earnings per share (EPS). The lower the PEG the better and under 1.0 is considered good for a blue chip company and under 0.6 for a small growth company.

#### Risk

What is the risk rating of the share due to factors such as new markets, its business model and strategies?

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