

Elron Electronic Industries, Ltd.

Current Price: \$12.15 (9/21/07)

2008 Target Price: \$9.71

Group 5

September 23, 2007

Company Profile

Market Cap

Shares outstanding	29.62
Stock price	12.15
Market cap	359.9

Enterprise Value

Market Cap	359.9
Debt	9.62
Cash	18.50
Enterprise Value	351.00
Stock Price ex-cash	11.85

Numbers in millions of USD except for per share data

Investment Thesis

- We place a **SELL** recommendation on Elron for the following reasons:
- Our P/E valuation shows it to be overvalued by 25%
- Analysts currently project Given Imaging, which represents 23% of Elron's current assets, to grow at 33.5% annually over the next five years. This high growth seems to be unlikely, since it only grew 20% year-over-year for Q2.
- In a portfolio that needs names trimmed off, Elron is not a company that necessitates a buy. Combine that with the fact that we currently hold only 100 shares, .05% of our portfolio, Elron is a good candidate to be sold.

APM Position

- APM currently owns 100 shares of Elron
- Smallest holding in the portfolio at .05%
- Purchased at an average cost of \$10.97
- Currently trading at \$12.15
 - Return of 10.67%

Company Summary

- Elron Electronics Industries, Ltd. is a holding company that specializes primarily in technology holdings of companies representing most stages of development
- Currently has significant holdings in over 20 companies
- Primary sectors include:
 - Medical devices
 - Information and communication technology
 - Semiconductors
 - Clean technology

Business Subsidiaries

Elron Group Structure Ownership							
Medical Devices		ICT		Semiconductors		Clean Technology	
Given							
Imaging	21%	NetVision	18%	ChipX	29%	Atlantium	32%
Galil Medical	21%	Wavion	38%	3DVSystems	45%	AqWise	34%
Impliant	22%	Starling	50%	Jordan	27%	AMT	34%
BrainsGate	22%	Teledata	21%	Sela	39%		
NuLens	29%	Enure	41%				
Notal	23%	Safend	26%				
Medingo	50%						
Neurosonix	16%						

Given Imaging

- 23% of Elron's total assets
- Overly optimistic future growth is already priced into the stock, with a forward P/E multiple of 41
- True future cash flows rely on many assumptions
- Analysts are calling for 33.5% annual growth over the next 5 years
 - 2Q '07 year-over-year growth of only 20%

Management and Strategy

- Investment oriented management provides operational and strategic financial support to its group of holdings
- RDC – Rafael Development Corp. was established as the principal R&D entity to support the group of holdings
- Implements a hands-on approach through board seats and financial backing

Risk Analysis

- Revenues from many holdings depend on the successful continuous innovation of hi-tech products from their subsidiaries.
- Equity Price Risk
 - Elron holds publically traded companies that experience high volatility
 - At year end 2006, Elron employed no means of hedging this risk of price fluctuation
- Exchange rate risk
 - Although generic, this risk affects Elron, Ltd as the American dollar continues to decline against currencies such as the New Israel Shekel

Price-to-Earnings Valuation

- P/E Valuation using four comparable companies.
- Companies were chosen based upon: services offered, similarity in market cap, and business structure.
- Current share price is currently overvalued by 32% compared to our P/E valuation.

Comparable Companies (P/E)					
	IGLD	ANEN	BVC.LSE	MDA.TSX	Avg.
F '08 P/E	9.02	13.94	27.30	16.50	16.69

Relative Valuation (P/E)	
Earnings	16.3
F '08 P/E	16.69
Price	272.05
Wt. Avg Shares	29.62
P*	\$ 9.18

Price-to-Book Valuation

TOTAL NAV	312.91
CASH	18.5
DEBT	9.62
Book Value	<u>321.79</u>
Shares Outstanding	29.62
BV/Share	\$10.86
Share Price (9/21/07)	12.15
Price/Book (2Q 07)	1.12

References

- Elron 20-F. December 31st,2006. Pages 34,49.
- Elron 6-F. Q2 Financial Report. August 14th, 2007. Page 14.
- www.elron.com. Investors Section.
- I.B.I. Analyst Report. Thomson One. June 12, 2007.