

G Holdings

Venture Capital: a winning card

Just before the bubble burst, Rony Zarom took the best step of his life - selling eXalink to Comverse for \$550 million, \$200 million straight into his pocket. Since then, he has bought a real estate company (Aspen), and opened a venture capital fund (Decima), but remains almost anonymous. What next? A first interview.

Shlomit Len and Avi Shauli

Rony Zarom

Age: 46

Personal: Married + 3. Lives in Manhattan

Track: After military service in the paratroopers and the Givati brigade, went to New York to study computers, working in security for El Al. After completing his master's degree, returned to Israel and joined Elron; set up Alronet, later Netvision, and set up eXalink, which was bought by Comverse for \$550 million. Since then, he has invested in businesses through his venture capital fund, Decima, and in real estate through Aspen.

Alternatives: "If computers hadn't existed, I might have gone to study cinema"

“Somehow the stars were always aligned and things worked out”

If there is anything that makes Rony Zarom shudder, it is the attempt to weave a Cinderella story around him, to take the circumstances of his childhood in Ramle and to cluck over the way, at a blow, a fabulous exit of over half a billion dollars - the sale of his start-up eXalink to Comverse in 2000 - turned him into a tycoon, invested both in high-tech and in real estate, and then to tie all this to the Unistream organization that he founded with the aim of building business leadership among the youth of peripheral communities. More than one of the country's rich and famous would be only too happy to boast of the transit camp in Netanya or the poor neighborhood in Brooklyn, but Zarom is too fastidious to feel at ease playing a role in this drama. This is apparently the reason why he has not, until now, given a comprehensive interview to the press, and even after his bank account has been well padded with hundreds of millions, he does not feel the need to flash his money around in order to promote his public image. Whoever needs to know him does - whether they are aspiring entrepreneurs searching for an angel to finance their fantasy, or property sharks. Now, for the first time, he has consented to reveal himself to the general public as well, in a comprehensive interview with G.

Wealth sits well on him, like a well-tailored suit. Not showy, not ostentatious, and giving him as much comfort as anyone could wish for. So he was able to buy control of the construction company Aspen, just because he decided that real estate sounded interesting; and then, when his partners somewhat tripped themselves up in an attempt to carry out an interested party transaction that led to eyebrows being raised, to solve the problem by buying them out. So too, he is in a position to hold a venture capital fund, Decima, alone and without partners, based only on his own finances, and naturally this is the only venture capital fund that, instead of declaring its intention to maximize value for its partners, has announced that "our task at Decima is to spend every day doing what we love to do".

After selling his share in the exit, \$200 million in Comverse shares, at just the right time - before all values shrank by a factor of 10 - Zarom could have sat back and taken his ease. "The idea certainly crossed my mind a number of times", he admits, "but it is not in my nature to be too passive". He therefore directed his energies to investing in high-tech entrepreneurs, real estate ventures, and in the generation of the future in Israel's periphery. For a number of years he has lived in Manhattan, with his wife and three children, coming to Israel for a week every month or two to see how business is doing, and how the youngsters at Unistream are progressing. He sends his oldest son to a school whose motto is "happy learning", because in his view, childhood experiences are much more important than how much math and science can be crammed into a young head at school.

Ramle to Manhattan, via Beirut

Zarom, 46, was born and brought up in the Weizmann neighborhood of Ramle, and his mother was a teacher of mentally handicapped children. His father died when he was "relatively young". Zarom shrinks into his chair when the subject is brought up, to such an extent that it is hard to ask for further details such as how old he was at the time. Since he was the child of his parents' old age, there was a considerable gap between him and his brothers and sisters, who were already at home much less when he was growing up. For as long as he can remember science has enthralled him, and apart from poking around the innards of transistor radios -his strongest childhood memory - he was also fascinated by the history of science. "How Faraday discovered the magnetic field, how Mme Curie discovered x-rays and radiation", he waxes poetic. "I know it sounds very nerdy. I would spend hours in the library at school. It was a very big part of my life."

He studied in the electricity and electronics track, developing programs on index cards, with the exact location of the letter marked in pencil. Afterwards, they would go from school in Ramle to Tel Aviv University and run the programs on the computer. The school later upgraded and purchased teleprinters with rotating rolls of paper. In the army, Zarom bought himself a small Sinclair computer, with which he developed games such as 'Battleships'.

But he was not just what he calls a "geek". He set up his first business venture before the army - selling books from door-to-door - heading a team of boys who did the work. He remembers thinking "hey, I'm making money. You can make good money if you only find the way to do it".

As a boy, did you lack material things?

"There were undoubtedly things that I lacked, like any teenager at that time in certain areas. I would not define myself as being different from other boys from the periphery, at least in the neighborhood I lived in. We were not the only family that didn't have much money, and there was no sense that we lacked anything essential. If I needed a computer and access to computers, I found them at school."

Although the majority of his friends from the electricity and electronics track went into the military reserves, Zarom preferred combat service. He served in the paratroopers, Battalion 202, went on an officer's course, and stayed on to train officers at the Bahad 1 training base until he was called upon to join the reestablishment of the Givati Brigade in 1983. When Battalion 202, in which he had grown up, was trapped in Beirut the new division

was called to its assistance. Zarom remembers the "almost surreal" atmosphere going into Beirut. "We were taken in by Hercules transporters, and landed at Beirut airport in the middle of the fighting. From there, after a very short briefing, we went into battle in Beirut, straight into an ambush", he recalls. "We were completely exposed. I think that in the first act of the battle I already lost a soldier there, I remember seeing an RPG passing right by my head, my legs ran without my being able to respond. This was undoubtedly a life-changing experience."

At the end of his military service, he went off to study computer science at Queens College in New York. He got some scholarships, and also worked a bit for El Al security. Towards the end of his master's degree he met his wife, who was a stewardess. Although he was supposed to go on to doctoral studies, they took a joint family decision to return to Israel as soon as he finished his master's degree.

The year was 1994, the beginning of the high-tech momentum in Israel, and Zarom had plenty of offers of work. Out of all of them, he chose to join Elron, where he became a kind of in-house entrepreneur within the organization, setting up Elronet, which later became Netvision - the first company to provide commercial Internet services in Israel. Afterwards, he set up other ventures, such as voice transfer over the Internet, until he decided that he would set up his next venture independently.

Perhaps it was the experience that he acquired in the Elron incubator, together with an amazing period of passion for every new technology, as well as the idea that attracted giants in the field such as Comverse and Cisco, who competed over the privilege of buying it. One way or another, eXalink, which developed a technology to connect cellular telephones to the Internet, turned into an amazing exit when it was sold to Comverse just before the bubble burst, in a \$550 million share exchange deal.

The company was set up at the beginning of 2000, in Kfar Saba, where rents were very low, with a budget of \$50,000 out of the savings of Zarom and his partner, Eilon Tirosh. After some time, they raised capital from the Shalom.com, Evergreen and Shafrat Funds. "We had to work very quickly, because we were not the only ones to identify this opportunity, and other companies had already started to get into it", he says, "so we had to be very competitive". About a year and a half after the initial development, they received a phone call from Itzik Danziger, at the time CEO of Comverse, and they also met with Kobi Alexander ("A fantastic person. At the business level, I really enjoyed talking to him. I didn't have a social connection with him because we never had the chance to become friends"), and thus the eXalink exit was born.

"The stars were somehow aligned, and so it worked", says Zarom. "I don't want to detract from the efforts that you have to make in order to succeed, but there is also an element of timing, luck, and everything that makes the world of high-tech into a world of venture capital".

How does it feel when \$200 million lands in your lap?

"It's a feeling that is hard to describe. You have to pinch yourself every morning when you get up. I still find it hard to believe that I had this experience. It doesn't happen to everyone, and anyone that it happens to, should consider themselves lucky. I really seem to have been very fortunate. In a way, it is an unreal experience because it is very hard to take it in."

What was the first thing that you did?

"I bought myself the pen I had always wanted, a silver Montblanc."

In what sense has your life changed?

"Materially, there is no doubt that it has changed. Socially, I still have the same friends - from university, from the neighborhood, and from previous workplaces. I still don't have friends just for business reasons. It is actually thanks to the fact that I don't need this kind of friendship that I have been able to retain my friends."

How did your friends react?

"They felt that one of those amazing things that you can only dream about happened, and it happened to someone that they know."

What do you do? Do you buy the family a house?

"You try to decide to help the people you love -I won't go into too many details, and also to help the community."

"I believe in virtualization"

Immediately after the sale, Zarom joined Comverse as VP in charge of the company's cellular Internet business. The organizational period of his life only lasted a few months. His entrepreneurial nature could not handle the corporate experience. "My time at Comverse was great fun, because it really is a relatively large organization with a great many resources, and with the technologies of a large organization", he says. "But on the other hand, I missed the more personal venture. In a big organization, the company itself was not really driven mainly by me, but by a team that was relatively very large. I missed it. As an entrepreneur, I wanted to influence and lead things."

There were claims that Comverse paid much too much money, and for a field which, in fact, took a lot more time to get off the ground than they thought - cellular Internet.

"The criticism arose from the fact that the value of the entire market dropped dramatically. When Comverse dropped in 2003 from a value of \$20 billion to \$2 billion, suddenly half a billion dollars looked like a great deal of money. From what I hear today, Comverse is very happy with the purchase."

The figures are less forgiving. Out of the 60 eXalink employees who set up the company with you and went over to Comverse with you, around one third lost their jobs at Comverse within two years of the purchase.

"I am not familiar with the internal dynamic that took place there, but in any organization, when there is a real merger into the company, in the end the organization wants complete ownership of the technology."

After leaving Comverse, he set up his own venture capital fund – Decima. Since he has no partners in the fund itself, only partners in particular investments, Zarom feels no need to detail how much money the fund manages, which is estimated at tens of millions of dollars, and is only prepared to say that his investment in each company in the limited and carefully selected portfolio is between a few hundred thousand dollars and a few million dollars.

The first company that Decima invested in, as soon as it was launched, was also a company that Zarom himself initiated and managed – Etagon, for the deployment and management of databases by means of virtualization, operating independently of the computer infrastructures. The company aroused great hopes, mainly in light of Zarom's record. At the beginning, the enthusiastic employees invested their income in the company in order to be partners in the coming success. Today, Zarom finds it hard even to remember what stage of its complicated life it is at.

What happened to Etagon? People said it would be the next eXalink.

"Virtualization is a field that has developed amazingly, and Etagon was the first to act under this banner. We overcame most of the technological complexities, we were the leaders in this field. But these are long-term processes, and it is necessary to invest a great deal in marketing and sales. The trend has also developed relatively slowly. The idea is an amazing one, the time was amazing, and whoever survived made quite good money. But not every company is a success."

After investing \$10 million, both from Decima and from the Evergreen venture capital fund, in 2005 Etagon merged with another company in the field, Bladefusion, which also had difficulty in taking off. Despite the fact that Etagon was the wealthier of the two, they were merged at equal value. Zarom, in any event, lost interest because leadership of the company was transferred to other hands.

And what happened to the employees' money?

"It is still there. We also limited them considerably, so that they would not invest too much in the company. The limit was \$5,000. We really thought that it was something good, and allowed what we called friends and family to join. I don't know just now what happened in the end with these shares, I hope that they will eventually benefit from them."

One company that has given satisfaction to Decima is PineApp, located in Nesher and developing security products against viruses and junk mail. Last year, PineApp had sales turnover of \$4 million, and it is expected to reach sales of \$7-\$8 million this year, with a market share putting it in first place in Israel in its field, and not insignificant penetration of the international market.

Let's admit the truth, you have not yet repeated the success of eXalink.

"As a fund, I can only give others the opportunity to do this, and trying to achieve it depends a great deal on how much motivation there is. The economy today is not the same as it was in 2001 or 2002. The challenges facing companies today are different. In 2000 - 2001, anyone who came up with a technology was king, and most of the exits were on the basis of technology. Today, technology alone is not enough and a start-up also needs to present marketing feasibility. Almost by definition, it has to grow quickly and compete with the big players."

Do you have a technological vision?

"I still believe in virtualization. This is something that was talked about in the past, but was not technically possible: the 'network-computer' - with the PC being a kind of simple, transparent terminal, and all the operating software located not on the computer, but on the Internet. This will simplify things wonderfully, make computers cheaper, and save on maintenance and dealing with computer problems. This vision could come true in the next 10 or 20 years, and it will undoubtedly represent a great change in the balance of power in the world. I think that Microsoft has understood this, and Google has understood it. This may be the next big thing to happen in the world. Naturally, a great deal of technological development is still needed, but it is no longer an imaginary scenario."

"It had to burst"

Despite the excitement of imagining what the technological tomorrow will look like, Zarom decided that an entrepreneur could not live by high-tech alone, and decided to expand his business to a field that appears to be completely different - real estate. "As someone who has suddenly received such a bundle of money", he explains, "I have had to think how to maintain my values, and on the other hand, also create new areas of interest. Real estate was the natural thing that attracted me, because in the Israeli market three or four years ago there was an opportunity to invest in real estate following the crash - both worldwide and locally, due to security issues and the intifada."

Zarom hesitated over whether to set up a REIT fund to invest in the field, or to buy a company. His interest did not go unobserved by the movers and shakers in the world of real estate, and one day he was visited by two developers, Shmaya Reichman, of the well-known Canadian Reichman family, and Ehud Amir, who suggested that together with them, he buy Aspen (formerly Mario Leznik), which was at that time under the control of Eliezer Fishman (controlling shareholder of Globes).

Zarom agreed, and the three purchased the group in May 2005. "In general, there was a sense that Aspen was not doing business, that the company was not being cultivated", he explains in retrospect. "For various reasons, it was

simply a company at a standstill. This was not only characteristic of Aspen, but also other companies in the Israeli market at the time. The philosophy was, let's wait for the market to recover."

His intention was to make the company very active, very dynamic, but in reality it took some time before it began to grow. It also suffered from the strange and convoluted structure of three public companies – Aspen Construction, Aspen Real Estate, and Aspen Properties - which was not justified in light of its limited activities. As if that were not enough, the company also became embroiled in power struggles between Zarom's partners, Reichman and Amir, and the Etgar Fund, a minority shareholder in the company, against the background of Reichman's desire to take control of Aspen Properties and transfer the Aspen Construction holdings in it to Skywards, a private company under his ownership. Despite the fact that Reichman offered a price that was considerably higher than the market value at the time, the Etgar representatives felt that it was not a good enough price. Reichman, for his part, fired their director, souring relations even further, and in addition, the Israel Securities Authority also put in requests for clarification with regard to the deal. In the end, Zarom undertook leadership of the company and bought out Reichman and Amir, making him the controlling shareholder with 47% of the company.

"I don't know what happened there", he says. "I don't want to judge, but my feeling is that they tried to do a deal that they considered to be very important. This deal did not succeed, and therefore the mutual feeling was that it was better to part company, and I bought Shmaya's share. Amir stayed on with us for a while, but he wanted to change direction, so I bought his share too."

It was still necessary to solve the multiplicity of public companies, and after the deal to sell the company at a value of NIS 118 million to the Canadian Jewish investor Hershey Friedman a year ago blew up (Zarom prefers not to go into the story of why the deal blew up, on the grounds that he is not familiar with the details), at the beginning of the year a purchase offer for Aspen Properties was made and accepted in full, thus making Properties a private company belonging to Aspen Construction.

In addition to Israel (see box), Aspen is active in countries that appear to be "sated", where the increase in real estate prices has already been exhausted, such as Germany and Switzerland, and not in the developing countries of Eastern Europe. Zarom, a cautious man, says that inflation is the enemy of real estate, and its levels in Eastern Europe make investment there too risky. In general, he is a big believer in conservatism: slow and moderate growth with a positive cash flow is preferable to rapid growth with high leverage - "by contrast with the trend in the world of real estate, which can be the right trend, as long as you have the ability to raise capital."

This trend also led to the world real estate crisis, no?

"Yes, the trend was to grow as quickly as possible; people did not stop to check how you were growing, because as long as you showed growth on paper, you got the plaudits. But this growth was actually a bubble. It was driven by the desire of the man in the street to grow quickly too, in almost the same way. To take a big loan to fulfill his desires, with leverage that was not based on anything real apart from the market, which made it possible to sell or remortgage the property, and the banks, which let this happen because it was in their interests. It had to burst."

In the past Zarom used to play chess, but today, when he meets with friends, he wants to go out and have a good time in their company, rather than sitting on either side of the chess board. His favorite sport, tennis, also includes social interaction.

What would you have done if you had not gone into computers?

"If computers had not existed, I might have studied cinema, that is something that I love. But the truth is that it is hard that for me to imagine myself in any other field."

The next eXalink?

On the starting blocks: Zaron's start-ups

PineApp: Raised \$6 million. Active in the field of data security and protection of networks and e-mail systems. Has 30 employees.

Comm On Sense: Raised \$1 million. Active in the field of gaming. Has 5 employees.

Reimage: Raised up to \$2.5 million. Active in remote computer repair and support. Has 15 employees.

Magnético: Raised \$3 million. Deals with office products. Has five employees.

Fenavic: Raised \$1.5 million. Active in the field of Telecom. Has 10 employees.

Axxana: Active in the field of storage. Has 20 employees. The amount raised has not been published.

Have you been to Germany?

Aspen is not satisfied just with the local real estate arena

Aspen Construction and Development, which controls, among other things, Aspen Real Estate, both traded in Tel Aviv, has both local and international activities. In Israel, Aspen concentrates its activities on erecting and acquiring industrial buildings, workshops, offices and commercial areas. The company has buildings for rent in Israel on a scale of 170,000 sq m, rented to around 200 different tenants, with 95% occupancy.

Among its properties are a building in the new eastern industrial area of Kfar Saba, the Hutzot shopping mall in Ashkelon, a retirement home in Haifa, a 5,000 sq m building in the Yokneam industrial area, entirely rented to Lumenis, the Yahalom business center in Rosh Ha'ayin, the Lev Hadar residential cluster in Haifa, and Nir Tech House in Afek Park in Rosh Ha'ayin. In addition, the company owns land reserves of around fifty dunams in Israel. In the residential field, the company has two main projects: in Hadera (Kfar Hayam) and in Kfar Yona.

Overseas, the company has expanded its operations in the past year, and currently operates a number of projects in Europe: an office and commercial building with a rental area of 9,500 sq m near the capital of Switzerland, Berne; a logistics center on 3.5 dunams of land near Frankfurt in Germany; and 50% of a hotel in the Black Forest resort area of southern Germany. Other projects in Germany include three buildings rented under long-term contracts to the leading supermarket chains.

Despite the expansion of its activities, the company is not highly leveraged relative to companies of a similar size, and its equity capital represents 25% of the company's total balance sheets, as of the end of the first quarter of the year. Aspen ended the quarter with a spurt of 93% in income by comparison with the same quarter last year, reaching NIS 23 million.

The company is currently traded at a market value of NIS 133 million, after losing 45% of its value last year. Like many other real estate companies, Aspen too is taking advantage of the sharp reduction in the company's debenture price, and is buying one debenture at a time in order to record a capital profit and reduce its debt.

Coming back home

Zarom's baby: Unistream, a social venture for encouraging leadership potential in the periphery

With all due respect to business, the sphere of activity that Zarom is most enthusiastic about today is Unistream, his social venture. "One of the reasons that the periphery is neglected", he says, "is the fact that no business leaders have come from there. When part of the business leadership is based on leaders who have grown up in the periphery, part of their success will go back there."

The truth is that for the most part, the people from the periphery who succeed move to Tel Aviv, Savyon or Manhattan, like you. Success coming from the periphery barely goes back there.

"That is certainly legitimate. Young people looking for their way – we don't outline what their career will be and where they will live. But there is a given situation that there are fantastic youngsters in the periphery who are not exposed to opportunities. Our aim is to give those young people with ability and potential exposure, give them the chance to break out of the circle that encompasses them and prevents them from moving forward."

Some 400 youngsters aged 15 to 17, in nine different centers, participate in a mentoring program in which they come to the center every day, hear lectures given by colleagues who are among the leading officeholders in the economy and who have risen to Zarom's challenge, and prepare business plans.

Who is chosen?

"The accent is not on good students so much as on students who have leadership potential. We try to catch this leadership potential at an early stage in the peripheral communities, and show them that there is a way that they might otherwise not have been exposed to. The whole business world is very foreign to communities that suffer from socio-economic problems."

At the Maale Tarshisha Center, for example, they have produced a belt whose color can be changed by means of strips of silicone mixed with rubber, so that it can suit any garment, giving an up-to-date look at an attractive price. The students at Gilboa have given thought to another problem, of particular concern to those of limited means - how to make use of the same shirt both for school and for wearing in the afternoon? So they have invented the logo-stick - strong, multi-use stickers with the logo of the school or workplace. In addition to a business venture, each group of youngsters also plans and carries out a social project for the benefit of the community in which they live.

"When you look at these youngsters", says Zarom, "and see the spark, the motivation, the determination - that's something amazing."