

# Sapiens

SAPIENS INTERNATIONAL CORPORATION N.V.

# Annual Report



Click



*emerge into the future*

99

## contents

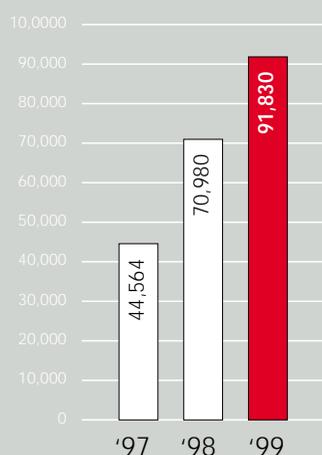
---

Financial Highlights	<b>3</b>	Letter to Shareholders	<b>6-9</b>	eMerging Into the Future	<b>10-17</b>
Financial Section	<b>18-56</b>	Corporate Directory	<b>57</b>		

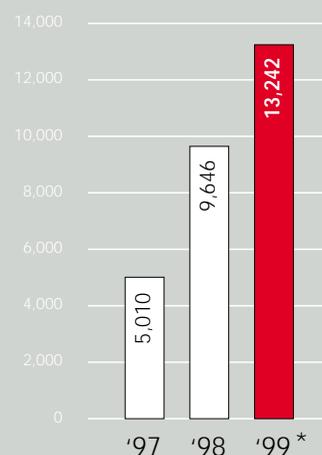


# Financial Highlights

**Annual** (\$ thousands)  
**Revenue**



**Operating** (\$ thousands)  
**Income**



(Dollars in thousands)

	1999	1998	1997
Revenues	91,830	70,980	44,564
Gross Profit	46,143	36,679	24,584
Operating Income	13,242 *	9,646	5,010
Net Income	15,087 *	9,735	4,544
Operating Margin	14.4% *	13.6%	11.2%

\* Excluding \$2 million restructuring charge

The new millenium has heralded the e-business revolution—an Internet-based global economy that is changing the way organizations worldwide conduct business. The benefits of e-business, such as global reach, cost savings and improved business processes, are many; but the challenges are great as well. The winners in the e-business world will be those organizations that are most adept at using their information technology (IT) resources to maximum advantage. Sapiens has the technologies and know-how to help bring our customers to the winners' circle.

We have taken bold strides into the new world of e-business. Building on our core competencies—proven expertise and experience in large-scale, mission-critical application development and implementation—we are providing solutions that leverage the Internet to enhance competitiveness, expand market presence and conduct commerce, while increasing efficiencies. With superior technologies, methodologies and business-driven IT expertise, we are uniquely poised to offer comprehensive best-of-breed solutions in this new era of the Internet.

New e-business paradigms are changing the way companies conduct business, creating new challenges for companies across all industries. We continue to help our customers meet those challenges by defining and identifying the most appropriate Internet-based solution to maximize their competitive advantage. For our traditional brick-and-mortar customers, Sapiens offers solutions that leverage existing legacy IT assets to enable e-business functionality. For the newer dot-com companies with Internet-enabled business models, Sapiens offers solutions for building integrated IT infrastructures and systems that enhance efficiencies and help create competitive advantage. While we vigorously pursue these new opportunities, we continue our expansion into key vertical markets such as financial services, insurance and e-logistics, where our proven technologies and domain expertise make Sapiens the right choice for the transition to e-business.

Bringing

“Brick”  
and  
“Click”

Together





Our *eMerge* offerings

are fully **responsive**

to the most significant business transition of our time,

and **address** the **specific needs**

of brick-and-mortar and dot-com companies

as they move to **further establish**

themselves in **e-business.** ”

RON ZUCKERMAN

---

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

# Dear Fellow Shareholders,

1999 proved a pivotal year for Sapiens. We succeeded in outperforming our growth forecasts as we transitioned the Company for the future.

Annual revenues grew from \$71.0 million in 1998 to \$91.8 in 1999, an increase of 29%. Operating income increased 37%, from \$9.6 million to \$13.2 million, excluding a \$2.0 million restructuring charge related to the closure of year 2000 activities. On the same basis, operating profit margins increased from 13.6% in 1998 to 14.4% in 1999 and net income increased substantially, from \$9.7 million in 1998 to \$15.1 million in 1999, or \$0.43 per share in 1998 to \$0.61 per share in 1999, a 42% increase.

During the year, Sapiens made significant advances by implementing large-scale IT reengineering and euro transition solutions for our global customers. We also leveraged our past successes to position our Company for strategic expansion and stronger growth. The momentum fueled by these combined triumphs propelled the successful launch of *Sapiens eMerge™*, a family of end-to-end, e-business solution offerings.

The initial response to the launch has been extremely positive. Soon after the launch in the last quarter of 1999, we implemented several *eMerge* projects. We can already cite examples of new *eMerge*-developed applications



**RON ZUCKERMAN**

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

that have been successfully integrated into our customers' business.

Sapiens is at the forefront of the change process that drives today's global businesses. Our *eMerge* offerings are fully responsive to the most significant business transition of our time, and address the specific needs of brick-and-mortar and dot-com companies as they move to further establish themselves in e-business.

### ***New Solutions – The eMerge Family***

As the year came to a close, we launched our new end-to-end, e-business solution, *eMerge*. We created this new solution from our accumulated expertise, innovative technologies and proven methodologies—capabilities that have made Sapiens the preferred provider for innovative, rapid and incremental solutions. The *eMerge* family of solutions targets both new as well as traditional businesses, and provides solutions unique to their distinctive business requirements. *eMerge* seamlessly links the established brick-and-mortar's back-end with a new, Internet-based business model and it helps build the "brick" back-end essential for the dot-com's continued success.

Sapiens' *eMerge* solution is a powerful tool that offers three significant e-business benefits to our customers: the ability to exploit the substantial cost-savings inherent in Internet-based businesses; the nimbleness to rapidly deploy Internet-based applications when speed is paramount; and the flexibility to adapt in response to evolving market conditions. These benefits address the most important and fundamental issues in business today: how to structure and continually refine e-business to tackle the dynamic nature of the Internet age.

During the year, we also introduced *eMerge Insure™* and *eMerge Loan™*—Sapiens' e-business vertical market offerings, and we plan to introduce our *eMerge Supply Chain* solution during the first half of the year 2000. Our objective is to aggressively pursue a diversified and extensive market by targeting companies that deal with complex supply chain issues.

### ***The Euro Bandwagon***

Our winning EuroMigration™ solution positioned Sapiens as the undisputed leader in the euro transition market, and established our pan-European expertise, experience and presence. As we exploit this strength to implement euro migration projects for corporations such as 3M, Bosch and Air France, our European opportunities continue to expand. The euro has helped usher in the new era of e-business, and as the euro migration issue is resolved, the challenges of e-business will steadily increase. Sapiens' *eMerge* offerings together with our lucrative EuroMigration installed base, secures our access to the emerging European e-business applications market. We will aggressively pursue this new market by capitalizing on our superior reputation and building on our established reference accounts.

### ***Meeting Global Demand***

Sapiens arrived in the new millennium as a global corporation in every sense of the word. We established strategic alliances with industry leaders such as Cap Gemini, KPMG, IBM and CA to offer customers the most comprehensive solutions available in the global market. Sapiens is committed to finding new and innovative ways to leverage our resources in pursuit of value-focused global growth. Sapiens will maintain this strategy to continually strengthen our business presence and leadership position across the globe.

Sapiens was recently honored with a special award from the World Economic Forum. We were praised as being "one of the 100 leading technology companies at the forefront of the knowledge economy," and recognized

as "a company that will continue to be a principal engine of growth well into the 21st century." This past January, in Davos, Switzerland, we were honored to stand among our colleagues to accept tribute and recognition for our contribution to the economic development and social progress of the world.

### ***Expanding Our Competencies***

Leadership in the 21st century requires that we build greater competencies to meet the rapidly expanding demands for comprehensive and highly tailor-made e-business solution offerings. To meet this demand, we must align our resources in three fundamental domains: technology, business strategy, and marketing strategy. During the first quarter of the year 2000, we strengthened our competencies and aligned our resources by acquiring complementary businesses such as Internet Marketing Associates, an Internet design and consulting firm. By leveraging this confluence of skill sets, Sapiens will maintain its leadership position in delivering rapid, highly customized solutions.

### ***eMerging Into the Future***

As we look ahead to the future, we see the exponential growth of business opportunities and possibilities. New business models are evolving as quickly as the technology that fuels them, accelerating the demand for pioneering technological solutions. Our development teams are dedicating significant resources to create new solutions and technologies in anticipation of these future trends. A perfect example is our recently announced initiative in the world of business-to-business (B2B) Internet marketplaces, which we will pursue through our newly

formed subsidiary, eZoneXchange.com. The need to coordinate the IT systems of these marketplaces with those of their buyers and suppliers gives us an excellent opportunity to market our well-known strength in building business-driven solutions that integrate complex IT systems. Sapiens' vision, creativity and pioneering innovations not only prepare us for the next wave of business reinvention, but also augment our reputation as a leading solution company.

### ***New Appointments***

During the year, two senior executives were welcomed into our ranks. Mr. Dan Falk was appointed President and COO, and Mr. Yehuda Doron was appointed Executive Vice President, Worldwide Sales and New Business Development. Both Messrs. Falk and Doron bring to Sapiens their vision, leadership and rich experiences. Their contribution will help propel our continued growth as we expand our global horizons and solidify our leadership position.

For our past successes and for the hard work and dedication that drive us into the future, we gratefully thank our employees. Our people represent Sapiens' greatest competitive advantage and they are the catalysts for our ambitious plans in this rapidly changing world. On behalf of the entire Board of Directors, I would also like to thank our shareholders and partners for their continued support and confidence.



**RON ZUCKERMAN**  
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

**New!**



**VERTICAL MARKET OFFERING:  
eMerge Insure™**

*eMerge Insure is an Internet-enabled, expert property and casualty insurance solution that tackles the dynamic changes in the insurance market.*

*eMerge Insure empowers insurance providers to take a proactive stance to rapidly launch new insurance products and services—backed by Sapiens' team of seasoned insurance professionals.*

*eMerge Insure features include: built-in Internet/intranet capabilities for policy quotes, risk evaluation, issuance, and policy life-cycle support and security.*

*eMerge Insure enables business analysts to directly input changes into business rules without requiring the help of professional programmers.*

Sapiens has a governing objective of providing innovative, cost-effective solutions. Building on our proven experience in large-scale, mission-critical, application development and implementation projects, Sapiens continues in this tradition by solving the business-critical issues faced by companies as they adapt to continually evolving e-business models. Our traditional brick-and-mortar customers have invested significant resources in developing, customizing and maintaining enormous operational systems, yet they lack the appropriate Internet-enabling functionality for e-business. At the other end of the spectrum, new dot-com companies face the formidable task of developing an IT infrastructure to integrate their Internet-based front-end businesses to the supporting back-end. It is indeed a major challenge to develop or reengineer an e-business infrastructure, one that requires a substantial investment of both time and money. Most organizations lack the internal expertise to do so, and the absence of a well thought-out Internet strategy can put an organization at a significant competitive disadvantage.

Our *eMerge* family of solutions enables brick-and-mortar and dot-com companies to rapidly and cost-effectively implement their e-business strategies. *eMerge* engineers back-end systems and applications to support and maintain powerful Internet-based models, and leverages existing legacy IT assets to build dynamic e-business applications. Our enabling technologies and eRAD methodology allow companies to maintain "business-as-usual" functionality by facilitating the non-intrusive integration of applications across multiple platforms—both Internet front-ends and legacy back-office applications. *eMerge's* rule-based technology permits the addition of new business rules and functionality, and adds real business value by ensuring that the e-business systems are an integral part of the organization's IT infrastructure. The result: Our customers reap all the benefits of the e-business revolution: cost-effective access to global customers, efficient links to suppliers, dramatically improved customer relationships, and seamlessly integrated disparate computer processing within and between companies, to name just a few.

# Physical to the virtual

**ROB SCHAFFER, PROGRAM DIRECTOR, ENTERPRISE DATA CENTER STRATEGIES, META GROUP:** "SAPIENS eMERGE TAKES A PRAGMATIC APPROACH TO BRINGING 'BRICK-AND-MORTARS' TO E-BUSINESS. eMERGE MINIMIZES RISK BY SIGNIFICANTLY REDUCING COMPLEXITY AND MAXIMIZING QUALITY, WHILE ENSURING RAPID TIME-TO-MARKET BY LEVERAGING EXISTING IT INVESTMENTS."





“

WE ARE IN THE MIDST OF A TRANSITION INTO A NEW BUSINESS ERA, A SHIFT FROM THE **PHYSICAL TO THE VIRTUAL**. BRICK-AND-MORTAR BUSINESSES ARE THE LEGACY THAT WE HAVE, AND THESE SYSTEMS ARE ALSO THE CRITICAL BACK-ENDS OF DOT-COM BUSINESSES. SAPIENS CREATES SEAMLESS 'BRICK-AND-CLICK' SOLUTIONS.

”

---

JOHN F. CELESTIN | SENIOR CONSULTANT, SAPIENS AMERICAS

New!



**VERTICAL MARKET OFFERING:**

***eMerge Loan™***

*eMerge Loan is a user-powered, Internet-enabled loan and mortgage solution that enables the rapid penetration of new revenue-generating loan products and services.*

*eMerge Loan enables financial service companies to gain market advantage through the efficient and cost-effective processing of loan and mortgage transactions.*

*eMerge Loan's features include: multi-currency support, built-in Internet-capable modules for quote and application tracking, secure and discreet handling, and a consolidated view of the customer's loan and mortgage history.*

Our strategy for strong, sustainable growth is to solidify our market position with vertical industry frameworks based on our *eMerge* e-business solution. Our initiative includes capitalizing on our leadership position and domain expertise in a number of large markets; *eMerge Loan* and *eMerge Insure* are just the beginning.

At the end of 1999, Sapiens applied *eMerge Insure* to help insurance companies develop new general insurance products and encapsulate existing back-end applications to bring them to the Web.

At a major financial services corporation, we delivered a Mortgage Protection product from scratch and built a fully Internet-enabled system—in just 14 days. For the first task, we captured the business processes during joint application development sessions with our customer, who watched in amazement as the new application unfolded.

The second part of the project was to “wrap” an existing large-scale system. We recognized the intrinsic value of the existing system and encouraged the customer to reuse this application for business delivery on the Web. We also enhanced and improved the underlying business logic by applying Sapiens' rules. Within days, the application was up and running on the Internet—right in line with the look and feel of the customer's existing Web site, with no need for a rewrite.

Our client needed cost-effective time-to-market and that is exactly what *Sapiens eMerge* delivered.

# Know My Customer's Business



**MR. JOHN REYNOLDS, HEAD OF SYSTEMS OF J.D. WILLIAMS:** “SAPIENS HAVE DELIVERED A HIGH QUALITY APPLICATION BUILT USING THEIR eMERGE SOLUTION TO A VERY CHALLENGING TIMESCALE. IT ENABLES US TO EXERCISE IMPROVED CONTROL OVER OUR FIELD SALES FORCE, WHICH IS NOW EQUIPPED WITH PALM PILOTS AND IS TIGHTLY INTEGRATED TO OUR LEGACY APPLICATIONS. DURING THE PROJECT, I HAVE BEEN IMPRESSED BY THE COMMITMENT SHOWN BY SAPIENS' STAFF AND THEIR QUIET DETERMINATION TO DELIVER A QUALITY PRODUCT FOR J.D. WILLIAMS.”



“

WHEN I TELL A CUSTOMER I WILL SOLVE THEIR PROBLEM, I WANT TO DO IT RIGHT. I WANT TO SOLVE THE WHOLE PROBLEM. I HAVE TO **KNOW MY CUSTOMER'S BUSINESS** INSIDE OUT, AND SPEAK THE LANGUAGE THEIR INDUSTRY SPEAKS.

”

---

PAUL WANDER | eMERGE SOLUTION MANAGER, SAPIENS UK

In less than one year, Sapiens established itself as the undisputed market leader in facilitating a large-scale transition to the euro. Our comprehensive, end-to-end EuroMigration™ solution has earned well-deserved recognition as the best-of-breed solution from leading industry analysts.

We have won more than \$30 million in euro projects from corporations such as 3M, La Redoute, Air France, Bosch and Delta Lloyd, and one of our most recent projects, awarded just before year-end, is a \$7 million cross-platform euro project with the insurance giant Mutuelles du Mans Assurances (MMA).

Today, Sapiens professionals can be found throughout the entire continent. The €11 million project to manage the changeover for 3M's operations in Austria, Belgium, Finland, France, Germany, Holland, Ireland, Italy, Portugal and Spain is in full swing. At MMA, Jean-Claude Saussaye, Development and Strategic Projects Manager, says: "Sapiens has demonstrated superior euro project capabilities both in terms of its ability to define the business scope and parameters of the project, and its project management and implementation expertise. We are interested in building a long-term vendor relationship with Sapiens and in exploring Sapiens' e-business solutions."

In addition to impressive project revenues, our euro successes translate into new e-business growth opportunities in Europe. In the third quarter of 1999, we conducted a survey among leading CFOs from across Europe and over 50 percent stated that their organizations are planning e-business strategies to coincide with euro migration. Our European initiative is to continue ongoing projects with our satisfied installed base and on the heels of the projects' completion, immediately commence a new project that will help facilitate their transition into the new world of e-business.

# Springboard for e-Business

**CROSS-INDUSTRY OFFERING:  
Sapiens EuroMigration™**

*Sapiens EuroMigration is the premier system-wide solution for euro conversion, and the only solution on the market that draws on pan-European euro knowledge and expertise.*

*Sapiens EuroMigration delivers a well-planned, phased, and comprehensive transition to the euro that addresses the customers' immediate as well as long-term needs.*



**MALEK ZANZOURI, SYSTEMS DEVELOPMENT MANAGER, 3M FRANCE:** "WE CHOSE SAPIENS FOR ITS ABILITY TO MANAGE OUR EURO PROJECT FROM BOTH FUNCTIONAL AND TECHNICAL PERSPECTIVES. SAPIENS WAS THE ONLY VENDOR WHO OFFERED US THIS COMPREHENSIVE, END-TO-END SOLUTION. SAPIENS' EUROMIGRATION SOLUTION IS FLEXIBLE; IT BOTH ANSWERS OUR EURO TRANSITION NEEDS AND ALSO PRESENTS 3M WITH NEW OPPORTUNITIES FOR OUR EURO STRATEGY."





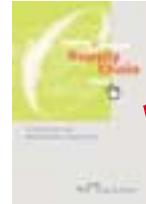
“ THE TRANSITION TO THE EURO IS THE **SPRINGBOARD FOR E-BUSINESS** IN EUROPE. TODAY, CURRENCIES ARE DISAPPEARING ALONG WITH BORDERS ... TOMORROW, COMPANIES WILL SELL VIA THE WEB ACROSS BORDERS IN A SINGLE EUROPEAN ECONOMY. ”

ELISABETH DE SEIGNEUR | DIRECTOR OF OPERATIONS, SAPIENS FRANCE

Our global clients need a global solution provider and Sapiens has operations throughout the world with offices in North America, Europe, the Middle East, the Pacific and the Far East. In our quest to provide global solutions, we have established strong collaborative alliances with multinational corporations such as Cap Gemini, CSC, CA, IBM and Sun Microsystems. We will continue the strategy of cementing partnerships with key players in the world of e-business to solidify Sapiens' global presence and to further expand our global reach.

Leading solutions providers, system integrators, consulting firms and developers across the globe have seen the results provided by Sapiens' enabling technologies and have recognized its added value. As an example, Sapiens is working with IBM to provide a comprehensive e-business order fulfillment system for Oxmoor House, a Time-Warner subsidiary and leading publisher of popular journals and publications. Using *eMerge*, Sapiens is developing strategic order processing and inventory applications that enable key supply chain processes to bridge with the existing IT environment.

IBM Global Services conducted an extensive evaluation process for Oxmoor House and determined that Sapiens *eMerge* was the most effective solution for the project. Mr. Atul Gupta, IBM's Senior IT Architect, who served as a consultant to Media Services throughout the evaluation process, summed it up best: "Sapiens has demonstrated its ability to deliver comprehensive and robust solutions as well as excellent collaborative skills to the customer."



To be launched in 2000!

**VERTICAL MARKET OFFERING:  
*eMerge Supply Chain™***

*eMerge Supply Chain is the premier Internet-enabled supply chain enterprise solution that facilitates reduced inventories, improved customer service, enhanced trading relationships, reduced time-to-market, and lower overall costs.*

*eMerge Supply Chain also enables the implementation of high quality, responsive applications within the existing systems.*

*eMerge Supply Chain's features include: forecast and demand planning, prospect tracking, a credit card server, a software development kit, bar-coding, EDI interface, shipping and manifesting, return manufacturing authorization (RMA), a product configurator and selector, Crystal reports and Seagate Information, and project management capabilities.*

# Choose a Winner

**MR. STEVE ADAMS, VICE PRESIDENT AND GENERAL MANAGER OF THE OXMOOR HOUSE MEDIA SERVICES DIVISION:** "WE CHOSE SAPIENS OVER OTHER LEADING SUPPLIERS AFTER EVALUATING, WITH IBM, SEVERAL COMPETING SOLUTIONS AND METHODOLOGIES. WE WERE MOST IMPRESSED BY SAPIENS' INDUSTRIAL STRENGTH SOLUTION, E-BUSINESS CAPABILITIES, SCALABILITY, OPEN INTEGRATION AND THEIR ABILITY TO MEET OUR OBJECTIVES QUICKLY."



“

EVERYONE LIKES TO **CHOOSE A WINNER**, AND WE ARE CHOSEN OVER AND OVER AGAIN. OUR INNOVATIVE TECHNOLOGY-DRIVEN SOLUTIONS HAVE HELPED US TEAM UP WITH LEADING INTERNATIONAL PARTNERS.

”

---

PAUL PANOVKA | SAPIENS E-BUSINESS SOLUTION MANAGER, SAPIENS INTERNATIONAL