

Rafael's Goal: Double Sales by 2010

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Over the last five years, Rafael Armament Development Authority has transformed itself from a heavily subsidized research-and-development arm of Israel's Ministry of Defense into a stand-alone business built upon a worldwide network of profit-producing partnerships.

Over the next five years, the Haifa, Israel-based firm aims to double annual sales — from some \$800 million to \$1.6 billion — through strengthened international cooperation and an expanded portfolio of products from personal gear to satellites.

"Our goal is a 100 percent rise in sales within five years," said Rafael President Yedidya Ya'ari, a retired vice admiral and former commander of Israel's Navy.

With some 5,000 employees, Rafael is Israel's second-largest state-owned defense firm. But its 2004 profit of \$45 million topped the \$10 million of the much larger Israel Aircraft Industries.

Although Rafael has not yet released financial data for 2005, Ya'ari said he anticipates a modest 7 percent to 8 percent increase in sales as well as in new orders. In 2004, Rafael recorded \$800 million in sales and \$953 million in new orders, and began 2005 with a backlog of \$1.7 billion.

Ya'ari said his firm began 2006 with a larger backlog than the previous year, yet expected what he termed a slight "one-time drop in profitability" due to rising salaries and delays in new orders that were expected to be consummated in 2005.

"We experienced a series of isolated, nonrecurring events during 2005, such as orders that didn't come in when expected and bookkeeping adjustments for employee compensation, that will impact on profitability," he said. "But ... from 2006 and on, our results will show dramatic improvements along all parameters."

Financial Firsts

Despite the planned drop in after-tax profits, Ya'ari said Rafael planned to award an annual dividend of nearly \$9 million to its government owners. Last year, Rafael became the first government-owned defense firm to return a share of its profits to the Israeli Treasury.

In the coming weeks, the company also hopes to be the first state-owned defense firm to secure private-sector investment through an initial bond offering of \$64 million.

In December 2004, Rafael and San Diego-based Cubic Defense Applications created a new company — Cubic Advanced Tactical Systems (CATS) — to manufacture some of its defense products in the United States. In addition to U.S.-based production, CATS teamed last summer with another U.S. firm to market the Rafael-developed SkyLite mini-unmanned aerial vehicle to U.S. customers.

The start-up of CATS builds on Rafael's success in recent years with limited liability companies forged with international partners.

Company executives attribute close to \$1 billion in sales over the past five years to a joint venture with Lockheed Martin, which produces Rafael-developed air-launched missiles for the U.S. military and other customers in Troy, Ala. Eurospike, a venture established in mid-2004 with Germany's Diehl Munitionssysteme and Rheinmetall Defense Electronics, has yielded millions of dollars in sales of the Rafael-developed family of Spike anti-tank missiles.

Rafael does not rule out direct acquisitions of small specialty firms in its quest for future growth. But it prefers to focus on joint ventures and a significant increase in the dozens of program-specific teaming agreements in place with leading international aerospace and defense firms.

"As a government-owned company, we must be especially sensitive to the burdens that come along with the benefits of acquisition," Ya'ari said. "Therefore, we're focusing on achieving ... the right blend of [limited liability companies] and project-oriented teaming agreements."

The Rafael executive insisted that strategic partnerships based on the transfer of technology allow near-term as well as long-term success. "Through technology sharing arrangements, we not only enhance our international market share, but we help our partners upgrade their technology base," he said. "And this allows us to essentially anchor our place in that market for the next generation."

Efficiency Measures

Over the next year, Rafael aims to improve profitability by streamlining its corporate structure. By reorganizing its development, marketing and program management arms, the company aims to more effectively administer a portfolio increasingly geared to urban warfare and networked operations.

Ya'ari said organizational changes also will help accommodate a planned merger with two divisions of state-owned Israel Military Industries (IMI). Under a 2005 agreement between Israel's finance and defense ministries, IMI's Givon Rocket Systems Division and its Maltam Advanced Systems Division will be sold to Rafael.

Koby Toren, director-general of the Ministry of Defense, said the transfer of IMI's rocket and missile units to Rafael is a top industrial base priority. But he acknowledged that process was stalled for several reasons, including what he called "foot-dragging" by IMI.

Ya'ari said he expected the process of due diligence to begin this year, but held little hope the actual merger could be concluded. "Eventually, the incorporation of the IMI units will have a direct, very positive impact on future sales. But now we need to focus on increasing efficiency, removing redundancies and implementing necessary changes in our own organization."

With regard to Rafael's expanding product line, Ya'ari identified force protection and means of closing the so-called sensor-to-shooter loop through networked systems as two key growth areas. He noted Rafael offers a variety of armor systems, including its newest active protection system, Trophe, now being tested on the U.S. Army's Stryker vehicle.

As for network-centric warfare, Ya'ari said Rafael is spending heavily on miniaturized sensors and new command-and-control gear to connect the company's various manned and unmanned land, sea and airborne systems.

In parallel, Rafael plans to preserve its status as a key provider of tactical missiles. It also is adapting capabilities developed for its line of air-to-air missiles for ground-launched purposes of air and missile defense. Similarly, Rafael is modifying warheads and other components of its tactical missile line for urban combat.

In an interview earlier this year, Maj. Gen. Eliezer Shkedy, commander of the Israel Air and Space Force, credited the company with improving the precision and localizing the explosive impact of air-launched missiles in urban anti-terror operations.

According to Shkedy, modifications over the past two years have drastically reduced the number of innocent civilian casualties caused by Israeli air strikes in the heavily populated Gaza Strip. •