

Israeli Consolidation

Rafael, Aeronautics Share Control of Controp

By BARBARA OPALL-ROME

TEL AVIV — A small, yet significant, consolidation in the Israeli defense industry was completed last week with the merger of Controp Precision Technologies with state-owned companies Rafael and Aeronautics.

Under an agreement that had been in the works since last spring, Rafael acquired 50 percent of Controp shares, while Aeronautics upped its 18 percent holdings in the privately held, high-end sensor specialty firm to 50 percent.

Israel's Ministerial Committee on Economic and Social Affairs and the government's Anti-Trust Authority signed off on the deal Dec. 29, and Rafael and Aeronautics executives held an introductory meeting with Controp employees at the firm's Hod Hasharon headquarters Jan. 5.

Consummation of the acquisition was announced Jan. 9.

"Controp will continue to operate as an independent company with engineering, administrative and marketing support from Rafael and Aeronautics," Rafael noted in a Jan. 9 statement. "This [support] will enable it to offer comprehensive solutions and advanced systems to the Israel Defense Forces and security organizations, as well as to civilian sectors and to its customers abroad."

Neither Rafael nor Aeronautics publicized the price paid for their respective acquired holdings, but industry sources here assessed Controp's value at about \$70 million.

Founded in 1988 as a boutique developer of high-end sensors for Israel's Ministry of Defense, the 200-employee firm now produces some 75 percent for export. The firm's top market for its portfolio of stabilized, multimission, miniaturized payloads is Asia, followed by sales to Aeronautics, which provides integrated systems, including

UAVs and aerostats, to customers worldwide.

In an interview last May, Controp Chief Executive Shlomo Nir, one of the four original investors in the electro-optics firm, claimed more than a decade of consistent growth, annual profit margins of some 15 percent and a product portfolio of more than 40 in-production payloads. Nir said the firm, as a rule, reinvests about 8 percent of profit in research and development.

Controp concluded 2010 with \$47 million in sales and a backlog of \$41 million, slightly less than a year's worth of work.

In a late December interview, Rafael Chairman Ilan Biran said that despite defense spending cuts at home, in the U.S. and most of Europe, he expected Rafael to maintain and even improve its position as a global provider of "relatively exotic and cost-effective" systems. Biran declined to provide preliminary 2011 year-end

performance data, yet noted the firm would continue to invest between 7 percent and 8 percent of annual turnover in research and development.

Last March, Rafael posted \$1.85 billion in annual turnover for 2010, up from \$1.6 billion in 2009. After-tax net profits in 2010 reached \$170 million, up from \$112 million in 2009. Year-end 2010 backlog stood at \$3.6 billion, more than 55 percent of which went for export.

The Rafael chairman did not specifically address the planned merger with Controp, yet reiterated his long-held support for what he termed "smart consolidation" within the Israeli defense industry and intensified cooperation on the world market. Rafael's goal, he said, is to increase exports to 70 percent across all core business sectors, including air defense, precision missiles, targeting and reconnaissance pods, command-and-control systems and various types of armor.

Avi Leumi, chief executive of privately held Aeronautics, declined to provide financial data. Through a spokesman, Leumi said his company's 50 percent equity in Controp, a longtime cooperative

partner, would strengthen the competitive standing of both firms on the global market.

Yavne-based Aeronautics develops and produces unmanned communications and surveillance systems for military and civilian customers worldwide, including Israel.

Johnny Carni, Controp vice president for marketing and sales, acknowledged in an interview last May that the right merger would ease the firm's limitations as a sub-tier supplier reliant on prime contractors to push its products.

"As a small company, we don't have much contact with the end user," Carni said. "So our strategy obliges us to keep coming up with better-performing, higher-value products and innovations that compel partners and sometimes the customers themselves to choose us."

In a Jan. 9 interview, Lori Erlich, Controp director of marketing and communications, insisted that strategy wouldn't change, and that Controp would remain an independent provider to existing and future customers. □

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