Future of the Israeli Defense Industry – Market Attractiveness, Competitive Landscape and Forecasts to 2019

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Summary

“Future of the Israeli Defense Industry – Market Attractiveness, Competitive Landscape and Forecasts to 2019” report offers the reader detailed analysis of the defense budget over the next five years. Alongside it offers insights into the market opportunities and entry strategies adopted by foreign OEMs (original equipment manufacturers) to gain a market share in the Israeli defense industry.

The report provides detailed analysis of the current industry size and growth expectations during 2015-2019, including highlights of the key growth stimulators. It also benchmarks the industry against key global markets and provides detailed understanding of emerging opportunities in specific areas.

Key Findings

One of the most riveting defense markets in the Middle East, Israel allocated XX% of its gross domestic product (GDP) towards the defense sector, with a budget of US$XX billion in 2014. Between 2010 and 2014, defense expenditure increased at a CAGR of XX% and is expected to record growth at a CAGR of XX% during the forecast period. The growth can be partially attributed to the US$XX billion, the country receives as military aid from the US scheduled between 2015 and 2019. Moreover, the continued security threats from Palestine terrorist organizations and hostile relationship with Iran and Syria are forecast to result in Israel spending US$XX billion on defense during the forecast period.

Key Features and Benefits

The report provides detailed analysis of the Israeli defense industry during 2010–2019, including the factors that influence the military expenditure. It provides detailed expectations of growth rates and projected total expenditure.

It provides the manufacturers with insights on market opportunities along with industry structure and dynamics prevalent in the country. In addition, the report focuses on the regulations governing the Israeli defense industry and the potential market entry strategies with an expert analysis of the competitive structure.
1. Market Attractiveness and Emerging Opportunities

1.1. Defense Market Size Historical and Forecast

1.1.1. Israel’s defense expenditure to register a CAGR of XX% over 2015–2019

In 2014, the Israeli defense market valued US$XX billion including US military aid, compared to US$XX billion in 2010. Between 2010 and 2014, the defense budget increased at a CAGR of XX%. Israel’s defense budget is projected to increase by XX% year over year in 2015, as the military needs greater funding for the ongoing conflict in the Gaza strip and to confront enemies at the borders. During the forecast period, defense expenditure is expected to grow from US$XX billion in 2015 to US$XX billion in 2019, registering a CAGR of XX%. The growth in defense expenditure is driven by the country’s efforts to mitigate the threats rising from Palestine, Iran, Syria, and other neighboring countries.

The following table and figure show the Israeli defense expenditure between 2010 and 2014:

<table>
<thead>
<tr>
<th>Year</th>
<th>Defense expenditure (US$ bn)</th>
<th>Defense growth percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td></td>
<td></td>
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<td>2011</td>
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<td>2012</td>
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<td>2013</td>
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<tr>
<td>2014</td>
<td></td>
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</tr>
</tbody>
</table>

CAGR 2010-2014

Source: Ministry of Finance and SDI analysis

© SDI
The following table and figure show projected defense expenditure of Israel over the forecast period:

**Table 2: Israeli Defense Expenditure, 2015-2019**

<table>
<thead>
<tr>
<th>Year</th>
<th>Defense expenditure (US$ bn)</th>
<th>Defense growth percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
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<td>2016</td>
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<td>2017</td>
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<tr>
<td>2018</td>
<td></td>
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<tr>
<td>2019</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

CAGR 2015-2019

Source: Ministry of Finance and SDI analysis © SDI

**Figure 2: Israeli Defense Expenditure, 2015-2019**

Source: Ministry of Finance and SDI analysis © SDI
1.2. Analysis of Defense Budget Allocation

1.2.1. The majority of Israel’s defense budget is earmarked for capital expenditure

Between 2010 and 2014, the Israeli Ministry of Defense (MoD) allocated an average of XX% of its total defense budget towards the acquisition of weaponry and the remaining XX% towards revenue expenses. Over the forecast period, the proportion of capital expenditure is expected to increase to XX% of the overall defense budget. Although the number of personnel in Israel’s armed forces is relatively small, the country provides all its personnel with extensive training, and as a result, Israel is expected to continue to allocate XX% of the overall defense budget towards payroll and other revenue expenditure.

The following table and chart display Israel’s defense budget share of capital and revenue expenditure between 2010 and 2014:

Table 3: Israeli Defense Budget Split Between Capital and Revenue Expenditure (%), 2010–2014

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital Expenditure Share</th>
<th>Revenue Expenditure Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td></td>
<td></td>
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<tr>
<td>2011</td>
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<td>2012</td>
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<td>2013</td>
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<tr>
<td>2014</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Ministry of Finance, Israel and SDI analysis

Figure 3: Israeli Defense Budget Split Between Capital and Revenue Expenditure (%), 2010-2014

Source: Ministry of Finance, Israel and SDI analysis
The following table and chart display Israel's defense budget share of capital and revenue expenditure over the forecast period:

### Table 4: Israeli Defense Budget Split Between Capital and Revenue Expenditure (%), 2015–2019

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital Expenditure Share</th>
<th>Revenue Expenditure Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td></td>
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<td>2016</td>
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<td>2018</td>
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<tr>
<td>2019</td>
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</tbody>
</table>

Source: Ministry of Finance, Israel and SDI analysis © SDI

### Figure 4: Israeli Defense Budget Split Between Capital and Revenue Expenditure (%), 2015-2019

Source: Ministry of Finance, Israel and SDI analysis © SDI
1.3. Homeland Security Market Size and Forecast

1.3.1. Israeli homeland security market expected to grow at a CAGR of XX% during the forecast period

The Ministry of Public Security is responsible for law enforcement and keeping public order in Israel. Founded in 1948, it carries out functions through the Israeli Police, Israeli Prison Service, the Fire and Rescue Commission, the Anti-Drug and Alcohol Authority, and the Israel Witness Protection Agency. The Israeli police service focuses on maintaining public security, maintaining law and order, and fighting crime. During the forecast period, Israeli homeland security expenditure is expected to grow at a CAGR of XX%, from an estimated US$XX billion in 2015 to US$XX billion in 2019.

The table and chart below show Israel's homeland security expenditure between 2010 and 2014:

### Table 5: Israeli Homeland Security Expenditure (US$ billion), 2010-2014

<table>
<thead>
<tr>
<th>Year</th>
<th>Homeland expenditure (US$ billion)</th>
<th>% Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td></td>
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<tr>
<td>2011</td>
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<td>2013</td>
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<td>2014</td>
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</tbody>
</table>

Source: Ministry of Finance, Israel and SDI analysis © SDI

### Figure 5: Israeli Homeland Security Expenditure (US$ billion), 2010-2014

Source: Ministry of Finance, Israel and SDI analysis © SDI
2. **Industry Dynamics - Porter’s Five Forces Analysis**

![Figure 4: Industry Dynamics – Porter’s Five Forces Analysis](source)

Source: SDI analysis

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Report Methodology

SDI’s dedicated research and analysis teams consist of experienced professionals with a background in industry research and consulting in the defense sector. The following research methodology is followed for all databases and reports:

Secondary Research

The research process begins with exhaustive secondary research to source reliable qualitative and quantitative information related to the defense market. The secondary research sources that are typically referred to include, but are not limited to:

- Industry associations
- National government documents and statistical databases
- Company websites, annual reports, financial reports, broker reports, investor presentations
- Industry trade journals and other literature
- Internal and external proprietary databases
- News articles, press releases, and webcasts specific to the companies operating in the market

Primary Research

SDI conducts hundreds of primary interviews a year with industry participants and commentators in order to validate its data and analysis. A typical research interview fulfills the following functions:

- Provides first-hand information on market size, market trends, growth trends, competitive landscape, and future outlook
- Helps to validate and strengthen secondary research findings
- Further develops the analysis team’s expertise and market understanding
- Primary research involves e-mail interactions, telephone interviews, and face-to-face interviews for each market category, division, and sub-division across geographies

The participants who typically take part in such a process include, but are not limited to:

- Industry participants: CEOs, VPs, business development managers, market intelligence managers, and national sales managers
- External experts: investment bankers, valuation experts, research analysts, and key opinion leaders specializing in defense markets

Conventions

- Currency conversions are performed on the basis of average annual conversion rate format calculations
- All the values in tables, with the exception of compounded annual growth rate (CAGR) and compounded annual rate of change (CARC), are displayed to one decimal place; therefore, due to this rounding method, growth rates may appear inconsistent with absolute values
The forecasted values are projected on the basis of nominal values; the inflation was not taken into account.

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