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The Rise and Fall of an IPO in the Defence Industry: IS RADA ELECTRONIC A GOOD TARGET?

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Abstract Group Part

This case study delves into the captivating journey of Leonardo DRS, a prominent U.S. defence and technology company, as it navigates the complexities of an unsuccessful initial public offering (IPO) attempt. By examining the pivotal factors that led to the IPO withdrawal, this study sheds light on the range of viable growth strategies available to Leonardo DRS post-IPO. While considering the spectrum of available growth avenues, this case study places a special emphasis on a comprehensive analysis of RADA Electronic Industries, a potential target company. Through a meticulous evaluation of various growth opportunities, Leonardo DRS's management faces the challenging task of determining the most suitable path to achieve the company's ambitious goals for future expansion and diversification. This case study provides insights into the intricate world of corporate growth strategies and the strategic decision- making process, allowing readers to engage with the challenges faced by industry leaders while contemplating the potential outcomes and implications of their choices.

Keywords (Defense & Aerospace Industry, IPO, Reverse Merger, Growth Strategies, Mergers & Acquisition, Corporate valuation)

Abstract Individual Part

This case study aims to understand if RADA Electronic, an Israeli defence company, is a good target for Leonardo DRS by taking into consideration the markets where RADA operates and its financial conditions, more precisely its liquidity, capital structure and cash flow management. This case study investigates how defence spending, the growing need for military radars, and the market variables affects RADA's business. DRS's management will combine the market conditions with the financial analysis to evaluate if RADA can be considered a good target for the company.

Keywords: Financial Statement Analysis, Ratio Analysis, Liquidity, Capital Structure, Cash Flow Management

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1. Introduction

"The strategic principle of war and football is that the best offense is a good defence." – Harold Goldmeier, Business & Finance Author

By the end of 2020 Leonardo DRS, the Arlington-based subsidiary of Italian defence and space contractor Leonardo S.p.A., achieved outstanding results, scoring significantly better than competitors in terms of stability and growth. As part of their growth strategy and given the solid financial position in which Leonardo DRS found itself, the team decided to file an IPO, choosing Goldman Sachs as underwriter, leading the company to become a publicly traded on the New York Stock Exchange (NYSE) under the ticker "DRS"[1]. Specifically, on the 15th of March 2021, Leonardo DRS filed paperwork with the Securities and Exchange Commission to offer 31.9 million common shares at a price between $20 and $22 per share, during its to-be-determined IPO date but expected at the end of the month. At that price, the IPO could generate between $638 million and $702 million[2]. Everything was running smoothly, combined with a deep interest shown by the investors during the undertaken roadshow. However, despite the mentioned interest, on the 24th of March 2021, Leonardo DRS decided to withdraw its IPO. The news shocked investors, and their disappointment was immediately reflected in the 6% drop in the morning trade of Leonardo S.pA's stock[3]. Leonardo DRS' team explained how the timing of the IPO was not ideal, given the adverse market condition to not allow an adequate valuation of the firm.

[1] "A Record Year for IPOs in 2021." Nasdaq.com, January 13, 2022. Accessed May 15, 2023.
[2] Id. Note 1.
[3] SeeNews Deals. "Italian Leonardo halts US Listing of DRS unit." Accessed February 6, 2023.

"DRS remains a core part of Leonardo's business portfolio and the IPO will potentially be revisited when market conditions are more favorable and a successful IPO at an appropriate valuation for this strategic business can be achieved." – William J. Lynn III, CEO of Leonardo DRS [4]

Adding to the uncertainty created by the pandemic, Joe Biden administration was rumored to reduce military spending to fund its economic stimulus plan. This in turn played a role in delaying Leonardo DRS's IPO. On the other hand, however, despite the pandemic, 2021 resulted in the best-ever recorded year in terms of IPOs, fueled by the popularity of Special Purpose Acquisition Companies (SPACs)[5]. There were over 1,000 new listings of which more than half were SPACs. Overall, 2021 presented both opportunities and challenges for undertaking an IPO. Additionally, Leonardo S.p.A.'s CEO, Alessandro Profumo, decision to postpone the IPO was subject to severe critics in the political sphere. In fact, Italy's prime minister Matteo Salvini commented that it was an "urgent and necessary step to undertake a change in the driving seat of Leonardo, given the current CEO to not be able to operate strategically and signal stability to international investors"[6]. Also, Alessandro Profumo didn't have a "clean" past either, as he received a six-year prison term in late 2020 for accounting fraud committed while serving as CEO of Banca Monte dei Paschi di Siena, the position he held prior to being chosen to lead Leonardo S.p.A., further aggravating the discontent among investors and politicians. Hoping the market conditions would recover from the Covid-19 pandemic and economic consequences of such, DRS management had to decide whether to re-try an IPO, or to choose a different growth strategy. More than a year passed, and on the 21st

[4] Id. Note 1.
[5] "A Record Year for IPOs in 2021." Nasdaq.com, January 13, 2022. Accessed May 15, 2023.
[6] Reuters. "Leonardo postpones DRS IPO due to adverse market conditions." Accessed February 4, 2023.

of June 2022, Leonardo DRS announced that it has entered into a definitive agreement with RADA Electronic Industries (RADA) to merge and become a combined public company.

> *"We are working closely with DRS for almost a decade now, and DRS has been a significant contributor to RADA's successful penetration into the U.S. market over this period. This merger takes our collaboration with DRS to the next stage."*
>
> *– Dov Sella, CEO of RADA*[7]

In the scenario of a reverse merger, Leonardo DRS would acquire 100% of the share capital in RADA in exchange for approximately 19.5% equity ownership to RADA shareholders in the combined company, which would maintain the name Leonardo DRS and is anticipated to trade on NASDAQ and Tel Aviv Stock Exchange under the symbol "DRS".

2. Company Overview

2.1. The Leonardo DRS Company

In 1969 two young American engineers, namely David Gross and Leonard Newman, funded a small defence company called Diagnostic/Retrieval Systems, widely known as DRS. The company designs and produces innovative and differentiated products and solutions formilitary applications. DRS kept growing at a strong pace thanks to its outstanding technologicalwizardry and prowess that resulted in the commercialization of a wide range of new products for America's warfighters and adjacent commercial customers. Under the management of DRS's founder David Gross, the company was publicly listed on the American Stock Exchangein 1981, raising $33 million to invest in the future of the company[8]. Furthermore, the company

[7] Reuters. Edited Transcript of RADA.OQ earnings conference call or presentation. Accessed February 4, 2023.
[8] Leonardo DRS. "Fifty years of Innovation Excellence." Accessed March 15, 2023

kept expanding through acquisitions to strategically diversify its product line and to become a major force in the mid-tier of the U.S. defence industry. Over the next decade, under the management of Marc Newman, DRS began a thorough M&A strategy which brought them to acquire twenty-four companies and business units of already existing firms. This strong inorganic growth along with technological progress allowed the company to reach $500 million in revenues in 2002 and to move from the American Stock Exchange to the NYSE[9]. Almost forty years later, DRS Technologies was acquired by Finmeccanica, an Italian defence company listed on the Milano Indice di Borsa (FTSE MIB), which is the Italian national stock exchange, consisting of the forty largest and most-traded companies. Hence, DRS was delisted from the NYSE[10]. Later, Finmeccanica was rebranded as Leonardo in honour of Leonardo da Vinci, Italian engineer and scientist. From then on until today, DRS is officially called Leonardo DRS and has been operating as a leading provider of defence products and technologies in the U.S.

DRS incorporates eight business units that are organized around three operating segments: Advanced Sensor Technologies, Network Computing & Communications, and Integrated Mission Systems[11]. The company offers a wide range of defence products and services such as advanced sensing, electronic warfare and cyber, network computing, communications, force protection, and electrical power conversion and propulsion that can be used across the land, sea, air, space, and cyber domains. Its wide range of products is supplied to all branches of the U.S. military, major aerospace and defence prime contractors, government intelligence agencies, and international military customers. DRS's main client and source of income is the U.S. Pentagon, accounting for 86% of its revenue in 2021[12].

[9] Id. Note 8.
[10] Id. Note 8.
[11] United States Securities and Exchange Commission. Form S-4 - Leonardo DRS. 2022.
[12] Id. Note 11

Leonardo DRS is controlled by its immediate parent U.S. Holding which owns all its outstanding common stock. Indeed, the U.S. Holding is the unique and sole shareholder of the company. The Italian parent company Leonardo S.p.A. owns the entire share capital of the latter and indirectly owns DRS. Therefore, DRS is controlled by a foreign company and a foreign country as the Italian state owns 30.2% of Leonardo S.p.A.'s outstanding ordinary shares[13]. However, DRS being a U.S. defence contractor, it has entered with Leonardo US Holding and Leonardo S.P.A into an agreement with the Depeartment of Defence (DoD), where the later has put different restrictions on Leonardo US Holding and Leonardo S.p.A's rights to reduce the risk of foreign ownership, control, and influence on classified programs[14].Leonardo S.p.A. is one of the top ten global aerospace, defence, and security players, as well as Italy's largest industrial firm, operating in 150 countries[15]. The company is listed on the Milan Stock Exchange. Leonardo is organized around four business sectors, namely, helicopters, space, aeronautics, and defence electronics & security. The company also operates through its subsidiaries such as Leonardo DRS, joint ventures, and investees such as ATR, MBDA, Telespazio, Thales Alenia Space, and other smaller entities[16].

2.2. Leonardo DRS strategy

William J. Lynn III was appointed CEO of Leonardo DRS in 2012. Before joining the company, he served as the 30th United States Deputy Secretary of Defence from 2009 to 2011 and prior was also from 2002 to 2009 Senior Vice President of Government Operations and Strategy at the Raytheon Company, a direct competitor of DRS[17]. Mr. Lynn was appointed as CEO when DRS was challenged along with other American defence companies by one of the

[13] Id. Note 11.
[14] Id. Note 11.
[15] Id. Note 11
[16] Id. Note 11.
[17] Id. Note 8.

largest U.S. defence drawdowns in decades. Since its appointment, Mr. Lynn is working on making DRS one of the most important global defence companies by focusing on its growth and stabilizing its revenues on a sustainable basis with long-term contracts[18].

Leonardo DRS aims to have a more diversified and balanced business that is less susceptible to U.S. budgetary decisions and international geopolitical events. Furthermore, it focuses on setting up strong technological and market positions in sectors that are crucial for the DoD[19]. Leonardo DRS works towards strengthening its historical relationship collaborations to increase customer satisfaction and stockholder value by constantly innovating its line of products, reinforcing its operations, and investing in research and development. Another focal point of the company's strategy is to invest in specific technologies to expand market dominance in important strategic fields and to generate income from new markets and possibilities. Indeed, the latter aims at expanding geographically[20]. As a result, Leonardo DRS will concentrate on business acquisitions and investments to diversify its product line, get access to new markets, and develop new technologies. The company also wants to access global markets to have more financial flexibility, which can in turn help financing its future acquisitions[21].

2.3. Leonardo DRS stakeholders

The U.S. DoD is responsible for the decisive share of revenues. The cooperation between the partners and Leonardo DRS is based on either a direct contract with the DoD or indirect contracts with the U.S. Army and the U.S. Navy where the revenue share accounts for approx. 38% and 31%, respectively. Moreover, Leonardo DRS acts as prime contractor in 48% of all

[18] Id. Note 8.
[19] Id. Note 11.
[20] Id. Note 11.
[21] Id. Note 11.

cases, therefore holding the position as sub-contractor in 52% of opportunities. The remaining portion of revenues derives from other smaller government agencies. However, Leonardo DRS plans to concentrate primarily on the DoD and focuses its investments thereon. Leonardo DRS employs approximately 6,200 individuals, including 1,300 engineers who work throughout all technical segments, scientists, technicians, and other skilled workers. It is a publicly traded company, and its shareholders are a critical stakeholder group. These shareholders include institutional investors, pension funds as well as individual investors. Leonardo DRS relies on a network of suppliers that provide components, materials, and services. These suppliers include small businesses, subcontractors, and other companies that support Leonardo DRS's operations. The latter partners with a variety of organizations, including other defence contractors, universities, and research institutions to develop and deliver innovative products and solutions. It is subject to a variety of regulations and standards. Thus, major U.S. regulatory agencies are stakeholders, especially during the company's operations. Furthermore, it operates in several locations throughout the U.S. The company's operations have an impact on the local communities in which it operates[22].

3. Drivers of the first IPO's failure

3.1. Aerospace and Defence (A&D) Market Conditions in 2021

3.1.1. Global A&D Market

Still recovering from the impact of the Covid-19 pandemic, the A&D industry performance remains well below the pre-pandemic levels. However, the defence sector remained particularly stable, with modest growth in the U.S., and significant growth in Europe, with global military expenditures hitting an all-time high of $2.1 trillion in 2021, according to

[22] Leonardo DRS. Annual Report 2022.

Stockholm International Peace Research Institute[23]. These are expected to remain largely stable since military programs are critical to national defence, especially when considering the geopolitical tensions that exist today.

3.1.2. U.S. A&D Markets

In 2021, the three main areas of budget allocation in the Federal Budget were Social Security, Defence, and Non-defence (Exhibit 11), revelling the strong emphasis given on military spending. In 2020 and 2021, U.S. defence spending amounted to $778 billion and $801 billion, respectively (Exhibit 15). To put these values into context, when compared to other countries, the U.S. military spending is higher than the one of other countries like China, Saudi Arabia, Russia, the United Kingdom, India, France, Japan, Germany, and South Korea, together (Exhibits 12 & 13). In 2021, defence budgets and revenues for defence contracts remained largely stable, since military programs continue to be critical to national defence.

"Difficult choices must be made to sustain and strengthen U.S. deterrence with China as the pacing challenge and Russia as an acute threat we also confront." – Christine E. Wormuth, Secretary of the Army to the Force[24]

In 2020, due to the Covid-19 pandemic, the U.S. economy contracted by 2.8% (Exhibit 14), and to boost the economy from this downturn, Joe Biden decided to cut U.S. military spendingin 2021 to focus on its stimulus package for the whole economy (Exhibit 15 & 16).

[23] Stockholm International Peace Research Institute. SIPRI Military Expenditure Database. Accessed March 17th, 2023.
[24] Sec. Christine E. Wormuth. "Message from the Secretary of the Army to the Force." Accessed March 17th, 2023.

"The Army's 2022 budget needed to be $180 billion to keep pace with inflation. The Biden budget offers only $173 billion, a loss of $7 billion in purchasing power. Biden's budget would cut crucial combat training, curtail needed end-strength growth, and slash equipment programs." – Thomas Spoehr, Author and Expert for National Defence[25]

3.2. IPO Market

To get a broader picture of the potential merger with RADA and to foster his overall knowledge for future discussions and negotiations, Mr. Lynn appointed a leading consulting firm to provide a research paper on the recent development of the IPO market and reverse mergers.

3.2.1. Global IPO Market

Supported by the reopening of the global economy, more accommodative monetary policies, and strong corporate earnings, markets were also less volatile, with investors seeking investment opportunities. These market conditions created a perfect environment for IPOs. A&D deals activity set records in 2021, topping $100 billion in value. The A&D sector's M&A deal activity went on a torrid streak in 2021, with deals valued at $104 billion, up from $46 billion in 2020. Additionally, the deal volume rose from 337 deals in 2020 to 555 deals in 2021. The record level was largely driven by SPACs activity [26] (Exhibits 17, 18 & 19).

3.2.2. U.S. IPO Market

In 2021, there was a record-breaking of 416 IPOs, which raised more than $155 billion, compared to the 224 IPOs that raised only $86 billion, in 2020 (Exhibit 20 & 21). SPAC IPOs

[25] Spoehr, Thomas. "Biden's First Defense Budget Batters the Army." Accessed March 17, 2023.

[26] PwC. Global IPO Watch 2022. Accessed February 10, 2023.

were strong contributors to these IPO levels, but in the second half of the year they saw increasing regulatory attention, increasing redemptions, and a tighter PIPE (Private Investment in Public Equity) market. Despite the increasing regulation in the second half of 2021, SPAC deals still registered a record year, resulting in raising approximately $163 billion through 613 deals (Exhibit 22 & 23), out of which 199 were SPAC mergers, with a total acquisition value of around $465billion[27].

3.2.3. Reverse Mergers

In 2021, reverse mergers were rising, both in the form of traditional reverse mergers and SPACs. Indeed, 398 reverse mergers were announced, valued at more than $134.4 billion, making a record-high annual count. More than 60% of 2021's reverse merger deals have been SPACs. However, non-SPAC traditional reverse mergers marked a record high as well of 152 deals. The aggregate value of these was $21.4 billion, with an average deal size of $428 million. These traditional reverse mergers have seen different waves of popularity and controversy in the past decades. In 2011 and 2012, the abuse of Reverse Takeovers (RTOs) led the United States Securities and Exchange Commission (SEC) to delist or suspend more than 100 U.S.-listed Chinese companies. It was found substantial evidence of fraudulent accounting practices from overstated operations to the inability of newly public firms to report filings completely and accurately. This led to RTOs' share prices falling by 45%, as well as a substantial drop in the volume of deals. Reverse merger activity has shown a persistent decline when compared to its levels in 2010. Only the strong IPO market in 2018 slowed the rate of the decline, however not sparking the revival of the reverse merger market. In 2018, the volume of reverse merger transactions was 46 deals, compared to a high of 256 transactions in 2010, the year before the enforcement actions by the SEC against several Chinese companies presenting poor accounting

[27] Go, Paul. 2022. “EY Global IPO Trends Report.”

practices. Compared to 2017, reverse merger transactions decreased by 6% in 2018. In 2017, these had increased by 16% compared to 2016.

In the defence industry, reverse mergers have been used as a way for private defencecontractors to gain access to public markets and raise capital for R&D, expansion, and other strategic initiatives. More recently, in 2009, Iridium, a leading provider of global satellite communications services to government, military, and commercial customers within the defence industry, completed a reverse merger with GHL Acquisition Corp., a publicly traded SPAC. Iridium, once a project of Motorola, went public in 1997 with an ambitious plan to compete with mobile phone companies in the market for wireless communications. However, things did not go as planned, and so the company filed Chapter 11 by 1999. Ever since, the company restructured its business model, building a profitable, growing company.

4. Leonardo DRS Reverse Merger with RADA

Leonardo DRS' management took into consideration and analysed the advantages and disadvantages of the different possible growth strategies for the company. They then concluded that the reverse merger could be the most suitable strategy for the firm. After careful consideration, the management team found the perfect puzzle piece on their transformation road towards a leading provider of advanced sensing: RADA Electronic Industries Ltd.

"The combination of RADA's tactical radar capabilities and Leonardo DRS' strength as a premier mid-tier defence provider make the Combined Company a leader in the rapidly growing force protection market, increases our addressable market, expands international opportunities and ultimately unlocks value for shareholders," – William J. Lynn III, CEO of Leonardo DRS

4.1. RADA Electronic Industries

RADA, founded in 1970 in Netanya, Israel, is a key player in the field of defence technologies. In essence, RADA is well-known for its radar and legacy avionics systems. RADA's product portfolio is considered rather non-diversified. It is very concentrated on tactical radars for all kinds of applications such as maritime, vehicles, air defence, counter rockets, and hemispheric surveillance, which refers to the ability to use a single camera to observe an entire area. All radars follow the mission "*one radar fits it all*", based on shared characteristics such as advanced software definition through special signal and processing algorithms or in-depth 4D analysis of any targets. The high quality and increasing need for defence radars with an advanced technological edge is reflected in RADA's figures: the company's revenue reached $117.2 million in 2021, demonstrating a strong CAGR of 62.62% during the years 2019-2021. During this period, RADA concentrated sales efforts on tactical radar systems for force, critical infrastructure protection solutions, and military avionics especially throughout North America. This coincides with the fact that up to 50% of total revenues are attributed to only 5 key customers. In 2021, RADA recorded a net income of $25 million and had a workforce of around 240 employees, with the majority specializing in research, development, engineering, manufacturing, and logistics.

But who is responsible for this outstanding development during the last few years? RADA's CEO Dov Sella joined the tactical radar company already as a chief operating officer in 2003. After holding the position of chief business development officer since 2007, he was appointed as chief executive officer in November 2016. Before, he already worked in the defence industry, in essence at Elbit Systems Ltd., another leading defence contractor in Israel. After his Bachelor of Science in Computer Engineering from the Technion-Israeli Institute of Technology, he started his career in multiple start-ups in different industries.

RADA's management board concluded that a merger with a larger, U.S.-based defense market participant such as DRS would be the ideal strategic move for RADA and its shareholders, with the main drivers of the latter decision being: synergistic operations, familiarity with RADA's markets and technology, managerial continuity, escalating competition from government-supported rivals offering comprehensive solutions, and a merger agreement exchange ratio that delivers a substantial premium to RADA's shareholders compared to the average closing price of RADA shares. [28]

RADA's shareholder structure is very fragmented, only 21.21% of ownership is distributed among 3 key shareholders: The Phoenix Holding, Wellington Group Holdings, and Franklin Resources. They all are investment companies from Israel, Boston, and New York, respectively.

4.2 Parties to the Merger

In the analysed merger there are three main parties involved: Leonardo DRS, RADA, and Blackstart Ltd. Importantly, Leonardo DRS is not a publicly traded company, and its common stock is valued at a par at $0.01 per share[29]. The ordinary shares of RADA, par value of New Israeli Shekel 0.03 per share are traded on the NASDAQ and the TASE under the ticker "RADA"[30]. Finally, Blackstart Ltd is a company organized under the laws of the State of Israel and a wholly owned subsidiary of Leonardo DRS (also referred to as Merger Sub), only established to effect the merger[31]. Blackstart Ltd has not conducted any activities other than

[28] United States Securities and Exchange Commission. Form S-4 - Leonardo DRS. 2022.
[29] Id. Note 11
[30] Id. Note 11.
[31] Id. Note 11.

those incidental to its formation and the matters contemplated by the merger agreement. Exhibit 24 shows a visualization of the overall structure of the parties to the merger before the merger.

4.3 The Merger

The merger agreement between DRS, Blackstart, and RADA outlines the merging of Blackstart, a fully owned subsidiary of DRS incorporated in accordance with Israeli legislation, with and into RADA. Blackstart (as the *target company* in the Merger) shall be merged with and into RADA on the terms and subject to the conditions outlined in the merger agreement (as the *absorbing company* in the Merger)[32]. As a result of the Merger, Blackstart's independent corporate existence ends, and RADA continues as the surviving corporation, becoming a fully owned direct subsidiary of DRS, continuing to be governed by Israeli law, having its registered office in Israel, and inheriting all Blackstart's and RADA's rights, properties, and obligations[33]. As a result, the merger being carried out would be a reverse triangular merger.

A forward triangular merger specifically occurs when a business buys a target business through a subsidiary or shell firm. As the parent firm of the subsidiary or shell business is indirectly acquiring the target company in this type of transaction, it is frequently referred to as an indirect merger. In a forward triangular merger, the target company "disappears" into the shell company after the merger has been conducted. This is different when compared to the Leonardo DRS case, as in this merger, the absorbing company is RADA, and the target company would be Blackstart. Hence, in this case, RADA is not being absorbed by Blackstart, but rather is Blackstart to be absorbed by RADA[34]. On the other hand, a reverse triangular merger is when a company creates a shell company with the specific intention of using it to acquire a target

[32] Id. Note 11.
[33] Id. Note 11.
[34] Id. Note 11.

company. When the shell company acquires the target company, it is absorbed into the parent company. In a reverse triangular merger, the shell company disappears into the target company after the merger has been conducted. The reverse triangular merger structure is preferred as it reduces the transaction costs. Indeed, this structure allows to keep the operational business independent and therefore there is no need to change the vendor numbers, employer indication number, bank accounts, etc[35]. Also, the reverse triangular merger may remove the need for the public company shareholder approval to close the deal. However, this advantage does not apply if the public firm trades on a significant exchange like NASDAQ given that trading regulations require any reverse mergers to be approved by shareholders[36].

Mr. Lynn brought this merger approach to the next meeting's table, and Mr. Dippold, CFO of Leonardo DRS, explained how each RADA share issued and outstanding immediately before the merger's effective time would be converted into and exchangeable for one share of DRS common stock at that time. The shares will be exchanged according to a 1:1 ratio (Exhibit 26 & 27).

Before the effective time, the shares of Leonardo DRS common stock held by the U.S. Holding will be split (rounded to the nearest whole share), so that after the effective time and the distribution of the shares of Leonardo DRS common stock is transferred to the owners of RADA shares[37]. The treatment of the options to purchase RADA shares in accordance with the merger agreement is exercised on a fully diluted basis. The U.S. Holding will possess 80.5% of the issued and existing shares of Leonardo DRS common stock, and the holders of RADA

[35] Sjostrom, William K. Jr. 2008. The Truth About Reverse Mergers. Entrepreneurial Business Law Journal. Vol. 2:2, p. 744-759
[36] Feldman, David N. 2006. Reverse mergers: taking a company public without an IPO. Bloomberg Press: New York
[37] Id. Note 11.

shares and RADA options will hold the remaining 19.5% of these shares or be entitled to receive those shares in the future[38]. Any awards or other equity interests that Leonardo DRS may grant in accordance with entitlements under the Leonardo DRS long-term incentive plan or the issuance of any One-Time Awards are not included in the aforementioned percentage computation. At the effective time, all excluded shares, by virtue of the merger, will cease to be outstanding, will be cancelled, and will cease to exist. Hence, no payment will be made in respect of such shares. Exhibit 29 shows a visual representation of the post-merger structure.

5. Conclusion

After the failed IPO in 2021, Mr. Lynn had to re-organize its strategy to take the next step regarding DRS' future growth plan. Indeed, he considered all the possible growth strategies available and carefully analysed all its pros and cons, to choose the one would better fit into Leonardo DRS's long-term strategy. After having evaluated the different inorganic growth opportunities, the CEO believed it was still important for DRS to be publicly traded in the market, in order to have a stronger position in the segments it operates in, as well as access to new ways of financing. Therefore, Mr. Lynn is challenged by two decisions. On the one hand, Leonardo DRS could retry an IPO in October 2021, hoping that the market gets back on track. On the other hand, Leonardo DRS could enter the public market through a back door by undertaking a reverse merger.

Both options could have successful outcomes and could help Leonardo DRS to become one of the best mid-tiers defence companies in the world. However, there are also many constraints in undertaking an IPO or a reverse merger that could damage Leonardo DRS's financial

[38] Id. Note 11.

situation and reputation among stakeholders. After weighing all the options, DRS announced to merge with RADA. Was this the best decision for DRS' growth?

6. Abbreviation Table

SPACs	Special Purpose Acquisition Companies
IPO	Initial Public Offering
TASE	Tel Aviv Stock Exchange
A&D	Aerospace & Defence
ESG	Environmental, Social and Governance
RTOs	Reverse Takeovers
SEC	Securities and Exchange Commission
R&D	Research & Development
DoD	Department of Defence
M&A	Mergers & Acquisitions
RSUs	Restricted Stock Units

7. Exhibits

Exhibit 1: Leonardo DRS Inc. Consolidated Statement of Earnings, 2019 – 2021 (in millions of U.S. dollars)

	2019	2020	2021
Products	2 220	2 412	2 505
Services	494	366	374
Revenues	**2 714**	**2 778**	**2 879**
Products	(1 904)	(2 000)	(2 067)
Services	(351)	(284)	(265)
COGS	**(2 255)**	**(2 284)**	**(2 332)**
Gross profit	**459**	**494**	**547**
SG&A	(277)	(283)	(293)
Other operating expenses, net	(10)	(21)	(9)
D&A	51	53	58
EBITDA	**223**	**243**	**303**
D&A	51	53	58
EBIT	**172**	**190**	**245**
Interest expense	(65)	(64)	(35)
Other, net	(3)	(5)	(1)
EBT	**104**	**121**	**209**
Income tax provision	(20)	(27)	(46)
Net earnings	**84**	**94**	**163**

Source: S-4 Statement

Exhibit 2: Leonardo DRS Inc. Consolidated Balance Sheet, 2020 – 2021 (in millions of U.S. dollars)

	2020	2021
ASSETS		
Current assets		
Cash and cash equivalents	61	240
Accounts receivable, net	102	156
Contract assets	672	743
Inventories	247	205
Related party note receivables	115	-
Prepaid expenses	33	23
Other current assets	33	22
Total current assets	**1 263**	**1 389**
Non current assets		
Property plant and equipment, net	355	364
Intangible assets, net	60	52
Goodwill	1 057	1 071
Deferred tax assets	87	56
Other non current assets	134	137
Total noncurrent assets	**1 693**	**1 680**
Total assets	**2 956**	**3 069**
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Short-term borrowing and current portion of long-term debt	53	41
Accounts payables	478	479
Contract liabilities	177	174
Other current liabilities	267	295
Total current liabilities	**975**	**989**
Noncurrent liabilities		
Long-term debt	374	352
Pension and other post retirements benefits plan	88	61
Other noncurrent liabilities	92	74
Total noncurrent liabilities	**554**	**487**
Total shareholder's equity	**1 427**	**1 593**
Total liabilities and shareholder's equity	**2 956**	**3 069**

Source: S-4 Statement

Exhibit 3: Leonardo DRS Inc. Consolidated Statement of Cash Flows, 2019 – 2021 (in millions of U.S. dollars)

	2019	2020	2021
OPERATING ACTIVITIES			
Net earnings	75	85	154
Adjustments to reconcile net earnings (loss) to net cash from operating activities			
Depreciation and amortization	51	53	58
Deferred income taxes	12	30	31
Other	3	3	-
Changes in assets and liabilities:			
Accounts receivable	9	(35)	(54)
Contract assets	(166)	65	(71)
Inventories	(36)	(38)	42
Prepaid expenses	(2)	(14)	10
Other current assets	3	3	12
Other noncurrent assets	19	22	19
Defined benefit obligations	(1)	(9)	(13)
Other current liabilities	(11)	30	28
Other noncurrent liabilities	(16)	(14)	(36)
Accounts payable	156	(58)	1
Contract liabilities	61	2	(3)
Net cash provided by operating activities	**157**	**125**	**178**
INVESTING ACTIVITIES			
Capital expenditures	(55)	(56)	(60)
Business acquisitions net of cash acquired	(4)	-	(14)
Proceeds from sales of assets	8	5	-
Net repayments received (advances) on related party note receivable	(100)	(15)	115
Cost method investment	-	(4)	(2)
Net cash provided by (used in) investing activities	**(151)**	**(70)**	**39**
FINANCING ACTIVITIES			
Net (decrease) increase in third party borrowings (maturities of 90 days or less)	16	(11)	(18)
Repayment of related party debt	(895)	(1 170)	(950)
Borrowings from related parties	880	1 105	930
Other	(2)	(4)	-
Net cash used in financing activities	**(1)**	**(80)**	**(38)**
Effect of exchange rate changes on cash and cash equivalents	1	1	-
Net increase (decrease) in cash and cash equivalents	5	(25)	179
Cash and cash equivalents at beginning of year	79	85	61
Cash and cash equivalents at end of year	**85**	**61**	**240**

Source: S-4 Statement

Exhibit 4: RADA Electronic Industries Consolidated Statement of Earnings, 2019 – 2021 (in thousands of U.S. dollars)

	2019	2020	2021
Revenues	**44 331**	**76 217**	**117 236**
Cost of revenues	28 394	47 882	69 691
Gross profit	**15 937**	**28 335**	**47 545**
Operating costs and expenses			
R&D	(6 912)	(8 846)	(10 014)
SG&A	(11 128)	(13 989)	(17 168)
Other Operating Costs	-	(27)	(5)
D&A	1 223	2 289	3 660
EBITDA	**(880)**	**7 762**	**24 018**
D&A	1 223	2 289	3 660
EBIT	**(2 103)**	**5 473**	**20 358**
Financial (expenses) income, net (Note 13)	(121)	167	(159)
EBT	**(2 224)**	**5 640**	**20 199**
Tax benefit (Note 12)	-	-	4 875
Other Adjustments	(115)	-	-
Net Income	**(2 339)**	**5 640**	**25 074**
Net income (loss) attributable to non-controlling interest	(309)	-	-
Net income (loss) attributable to RADA Electronic Industries' shareholders	(2 030)	5 640	25 074

Source: RADA's Annual Report 2021

Exhibit 5: RADA Electronic Industries Consolidated Balance Sheet, 2020 – 2021 (in millions of U.S. dollars), Part

	2020	2021
ASSETS		
Current Assets		
Cash and cash equivalents	36 289	78 746
Restricted deposits	567	492
Trade receivables, net	14 095	32 747
Contract assets (Note 4)	756	930
Other accounts receivable and prepaid expenses (Note 5)	1 637	1 946
Inventories, net (Note 6)	28 783	48 882
Total current assets	**82 127**	**163 743**
Long-Term Assets		
Equity investments in privately-held company (Note 7)	-	3 000
Long-term receivables and other deposits	230	244
Property, plant and equipment, net (Note 8)	13 968	19 888
Deferred tax assets (Note 12)	-	5 681
Operating lease right-of-use asset (Note 3)	10 581	11 287
Total long-term assets	**24 779**	**40 100**
Total assets	**106 906**	**203 843**
LIABILITIES AND EQUITY		
Current Liabilities		
Short term loan	454	-
Trade payables	10 603	19 890
Other accounts payable and accrued expenses (Note 9)	9 855	13 445
Advances from customers	2 323	1 763
Contract liabilities (Note 4)	232	474
Operating lease short term liabilities (Note 3)	1 885	2 262
Total current liabilities	**25 352**	**37 834**
Long-Term Liabilities		
Operating lease long-term liabilities (Note 3)	8 732	9 160
Accrued severance-pay and other long-term liability	789	783
Total long-term liabilities	**9 521**	**9 943**

Source: RADA's Annual Report 2021

Exhibit 5: RADA Electronic Industries Consolidated Balance Sheet, 2020 – 2021 (in millions of U.S. dollars), Part

	2020	2021
Equity		
Ordinary shares of NIS 0.03 par value	440	489
Additional paid-in capital	144 944	203 854
Accumulated deficit	(73 351)	(48 277)
Total equity	**72 033**	**156 066**
Total liabilities and equity	**106 906**	**203 843**
Numbert of Shares Outstanding	43 724 446	49 402 847

Source: RADA's Annual Report 2021

Exhibit 6: RADA Electronic Industries Consolidated Statement of Cash Flows, 2019 – 2021 (in millions of U.S. dollars)

	2019	2020	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	(2 339)	5 640	25 074
Adjustments required to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Short term loan forgiveness	-	-	(454)
Share based compensation to employees	1 148	1 436	3 022
Depreciation	1 223	2 289	3 660
Net loss from sale of fixed asset	-	27	5
Severance pay, net	74	(25)	(6)
Operating lease right-of-use asset	551	1 076	2 296
Increase in deferred tax assets	-	-	(5 681)
Increase in trade receivables, net	(383)	(330)	(18 652)
Operating lease long-term-liabilities	(466)	(1 125)	(2 196)
Increase in other accounts receivable, long-term receivable and prepaid expenses	(284)	(17)	(298)
Decrease (increase) in contract assets	(370)	513	(174)
Increase (decrease) in contract liabilities	(170)	36	242
Increase in inventories	(6 613)	(12 820)	(21 688)
Increase in trade payables	1 439	1 872	7 458
Increase in other accounts payable, accrued expenses, long-term liabilities and advances from customers	2 729	5 042	3 031
Net cash provided by (used in) operating activities	**(3 461)**	**3 614**	**(4 361)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(4 092)	(4 853)	(6 170)
Construction-in-process	(459)	(94)	-
Equity investments in privately-held company	-	-	(3 000)
Disposal of discontinued operations	(526)	-	-
Increase (decrease) in long-term receivables and deposits	(56)	17	(24)
Net cash used in investing activities	**(5 133)**	**(4 930)**	**(9 194)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of Ordinary shares, net	1 500	23 534	55 937
Short-term loan	-	504	-
Transaction with non-controlling interest	(534)	-	-
Net cash provided by financing activities from continuing operations	**966**	**24 038**	**55 937**
Increase (decrease) in cash and cash equivalents and restricted cash	(7 628)	22 722	42 382
Cash and cash equivalents & restricted cash at the beginning of the year	21 762	14 134	36 856
Cash and cash equivalents & restricted cash at the end of the year	**14 134**	**36 856**	**79 238**

Source: RADA's Annual Report 2021

Exhibit 7: Description of Comparables of Leonardo DRS Inc. and RADA Electronic Industries, Part

AeroVironment, Inc	AeroVironment, Inc. develops a technologically advanced portfolio of intelligent, multi-domain robotic systems and related services for government agencies and businesses. The Small Unmanned Aircraft Systems segment is focused primarily on products designed to operate reliably at very low altitudes in a range of environmental conditions. The Tactical Missile Systems segment focuses primarily on tube-launched aircraft that deploy with the push of a button. The Medium Unmanned Aircraft Systems focuses on manufacturing unmanned aerial and aircraft systems. This segment also integrates flight autonomy solutions.
Kratos Defense & Security Solutions, Inc	Kratos Defense & Security Solutions, Inc. is a technology, intellectual property, proprietary product and system company. The Company operates through two segments: The Kratos Government Solutions (KGS) and Unmanned Systems (US). The KGS segment includes space, satellite and cyber, Intelligence Surveillance and Reconnaissance modular systems, turbine technologies, and defence and rocket support services operating segments. The KGS and US segments provide solutions and services for mission critical national security programs. KGS and US customers primarily includes national security related agencies and the United States Department of Defense (DoD).
Hensoldt AG	Hensoldt AG, former Hensoldt GmbH, is a Germany based manufacturer of search, detection, navigation, guidance, aeronautical and nautical systems and instruments. The Company also directly or indirectly acquires, holds, sells and manages stakes in companies involved in the development, manufacture, operation and sale of electrical engineering systems, optronic products and software solutions for military and non-military purposes.
Mercury Systems, Inc	Mercury Systems, Inc. is a technology company serving the global aerospace and defence industry. The Company provides sensor and processing technologies mission-critical applications. Processing technologies that comprise its platform include signal solutions, display, software applications, networking, storage, and secure processing. It manufactures components, products, modules and subsystems for defence prime contractors, the United States government, and original equipment manufacturers (OEM) commercial aerospace companies.
Thales Group	Thales SA is a France-based technology company. It provides a wide range of solutions divided into three segments: Aerospace, Transport and Defence and Security. Aerospace provides onboard electronic equipment designed to increase flight safety and reliability, civil and military aircraft simulators, as well as equipment, satellites, systems and services for the space sector. Transport offers railway signaling, telecommunications, supervision and systems. Defence and Security offers radio communications products, network and infrastructure systems, protection systems, critical information systems and cybersecurity. Thales SA operates globally.

Source: Bloomberg

Exhibit 7: Description of Comparables of Leonardo DRS Inc. and RADA Electronic Industries, Part

Elbit Systems Ltd	Elbit Systems Ltd. is an international technology company. The Company develops and supplies a portfolio of airborne, land and naval systems and products for defence, homeland security and commercial aviation applications. The Company's activities include military aircraft and helicopter systems; helmet mounted systems; commercial aviation systems and aerostructures; unmanned aircraft and unmanned surface vessels; land vehicle systems; command, control, communications, computer and intelligence systems; intelligence and cyber systems. It operates primarily in the defence and homeland security arenas.
Teledyne Technologies, Inc	Teledyne Technologies Incorporated provides enabling technologies for industrial growth markets. Its segments include Digital Imaging, which includes sensors, cameras and systems, within the visible, infrared, ultraviolet and X-ray spectra for use in industrial, scientific, government, space, defence, security and others.
L3Harris Technologies, Inc	L3Harris Technologies, Inc. is a global aerospace and defence technology company. The Company operates through three segments. The Integrated Mission Systems segment includes multi-mission intelligence, surveillance and reconnaissance systems; advanced electro-optical and infrared solutions and commercial aviation products. The Space & Airborne Systems segment includes space payloads, sensors and full-mission solutions; classified intelligence and cyber and avionics. The Communication Systems segment includes tactical communications with global communications solutions.
Raytheon Technologies Corporation	Raytheon Technologies Corporation is an aerospace and defence company. The Company's operations are classified into four principal business segments: Collins Aerospace (Collins), Pratt & Whitney, Raytheon Intelligence & Space (RIS) and Raytheon Missiles & Defence (RMD). Its Collins segment is a provider of technologically advanced aerospace and defence products. Pratt & Whitney is engaged in supplying aircraft engines for commercial, military, business jet and general aviation customers. RIS segment is a provider of integrated space, communication and sensor systems, and cyber and software solutions to defence, federal and commercial customers. RMD segment is a provider of end-to-end solutions for United States and foreign government customers designed to detect, track and engage threats.

Source: Bloomberg

Exhibit 7: Description of Comparables of Leonardo DRS Inc. and RADA Electronic Industries, Part

General Dynamics Corporation	General Dynamics Corporation is a global aerospace and defence company. The Company offers a portfolio of products and services in business aviation; ship construction and repair; land combat vehicles, weapons systems and munitions, and technology products and services. The Company's segments include Aerospace, Marine Systems, Combat Systems and Technologies.
Northrop Grumman Corporation	Northrop Grumman Corporation is a global aerospace and defence technology company. The Company operates through four segments: Aeronautics Systems, Defence Systems, Mission Systems and Space Systems. The Aeronautics Systems segment is engaged in the design, development, production, integration, sustainment and modernization of advanced aircraft systems for the United States Air Force, the United States Navy and other United States government agencies. The Defence Systems segment is engaged in the development, production and sustainment of weapon and mission systems for United States military and international customers. The Mission Systems segment is engaged in advanced mission solutions and multifunction systems. The Space Systems segment is engaged in the design, development, integration, production and operation of space, missile defence, launch and strategic missile systems.
Lockhead Martin Corporation	Lockheed Martin Corporation is a security and aerospace company. It operates through four segments. Aeronautics segment is engaged in military aircraft. Missiles and Fire Control segment provides air and missile defence systems. Rotary and Mission Systems segment provides design, manufacture, service and support for various military and commercial helicopters, surface ships, sea and land-based missile defence systems and radar systems. Space segment is engaged in the research and development and production of satellites, space transportation systems, strike and defensive systems.

Source: Bloomberg

Exhibit 8: Figures of Leonardo DRS Inc. and RADA Electronic Industries' Comparables (in millions of U.S. dollars), Part

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
AeroVironment , Inc.										
Revenues	240	252	259	264	229	268	314	367	395	446
EBIT	4	17	3	12	19	31	38	48	43	6
Current Assets	264	307	329	344	354	399	470	504	402	369
Current Liabilities	42	38	47	46	48	62	45	67	96	101
CapEx	(12)	(7)	(5)	(7)	(9)	(10)	(9)	(11)	(11)	(22)
Kratos Defense & Security Solutions, Inc.										
Revenues	951	763	657	669	603	618	718	748	812	898
EBIT	31	24	13	(3)	17	34	41	32	30	12
Current Assets	430	373	320	373	471	495	522	765	758	583
Current Liabilities	251	226	172	197	189	165	183	198	221	234
CapEx	(17)	(12)	(11)	(9)	(26)	(23)	(26)	(36)	(47)	(45)
Hensoldt AG										
Revenues	-	-	-	-	-	1 110	1 114	1 207	1 474	1 707
EBIT	-	-	-	-	-	148	162	(1 781)	226	224
Current Assets	-	-	-	-	-	1 083	1 063	1 634	1 630	1 644
Current Liabilities	-	-	-	-	-	789	783	1 344	1 255	1 203
CapEx	-	-	-	-	-	(60)	(81)	(97)	(102)	(95)
Mercury Systems, Inc										
Revenues	194	209	235	270	409	493	655	797	924	988
EBIT	(17)	(2)	22	30	46	54	88	101	97	70
Current Assets	146	160	188	245	246	332	582	635	643	815
Current Liabilities	31	33	33	68	73	72	98	126	151	194
CapEx	(4)	(7)	(6)	(8)	(33)	(15)	(27)	(43)	(46)	(28)
Thales Group										
Revenues	12 698	12 974	14 063	14 885	15 228	15 855	18 401	15 371	16 192	17 569
EBIT	-	-	-	-	-	-	-	-	-	-
Current Assets	11 184	11 596	13 093	14 066	14 829	16 974	15 879	17 427	19 704	21 014
Current Liabilities	11 107	11 616	13 204	13 310	14 450	14 617	17 492	17 176	18 568	20 743
CapEx	(384)	(473)	(473)	(480)	(439)	(393)	(503)	(379)	(451)	(535)
Elbit Systems Ltd										
Revenues	2 925	2 958	3 108	3 260	3 378	3 684	4 508	4 663	5 279	5 499
EBIT	229	244	270	278	317	243	339	278	387	359
Current Assets	1 884	1 996	2 249	2 283	2 453	2 611	3 279	3 672	4 273	4 980
Current Liabilities	1 509	1 435	1 624	1 638	1 926	2 089	2 911	3 173	3 622	4 024
CapEx	(63)	(71)	(99)	(124)	(108)	(102)	(138)	(132)	(189)	(261)

Source: Bloomberg

Exhibit 8: Figures of Leonardo DRS Inc. and RADA Electronic Industries' Comparables (in millions of U.S. dollars), Part

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Teledyne Technologies, Inc										
Revenues	2 339	2 394	2 298	2 150	2 604	2 902	3 164	3 086	4 614	5 459
EBIT	263	301	289	280	326	424	495	513	758	968
Current Assets	799	942	827	846	1 012	1 114	1 314	1 723	2 429	2 818
Current Liabilities	418	539	394	502	541	721	763	761	1 498	1 523
CapEx	(73)	(44)	(47)	(88)	(59)	(87)	(88)	(71)	(102)	(93)
L3Harris Technologies, Inc										
Revenues	5 112	5 012	5 083	5 992	5 900	6 182	12 856	18 194	17 814	17 062
EBIT	907	882	1 072	873	1 406	1 186	1 634	2 122	2 295	2 498
Current Assets	1 948	1 991	3 183	2 624	2 073	2 223	6 312	6 667	6 359	6 754
Current Liabilities	1 297	1 115	2 274	1 981	1 926	1 788	4 009	4 240	4 551	5 776
CapEx	(165)	(201)	(148)	(152)	(119)	(136)	(267)	(368)	(342)	(252)
Raytheon Technologies Corporation										
Revenues	56 600	57 900	56 098	57 060	59 452	66 501	45 349	56 587	64 388	67 074
EBIT	8 807	9 696	9 161	8 729	8 248	8 544	6 406	3 767	7 493	7 422
Current Assets	29 442	31 483	26 706	28 550	32 858	35 503	61 577	43 376	42 050	42 443
Current Liabilities	22 800	23 475	22 618	21 906	24 391	31 368	46 594	35 848	35 449	39 114
CapEx	(1 569)	(1 594)	(1 652)	(1 699)	(2 014)	(1 902)	(1 868)	(1 795)	(2 134)	(2 288)
General Dynamics Corporation										
Revenues	30 930	30 852	31 781	30 561	30 973	36 193	39 350	37 925	38 469	39 407
EBIT	3 727	3 918	4 295	3 744	4 236	4 502	4 570	4 133	4 163	4 211
Current Assets	18 162	17 407	14 571	16 534	18 328	18 189	20 288	21 543	19 987	21 063
Current Liabilities	12 259	13 751	12 445	13 450	13 099	14 739	16 801	15 964	13 978	15 341
CapEx	(436)	(521)	(569)	(392)	(428)	(690)	(987)	(967)	(887)	(1 114)
Northrop Grumman Corporation										
Revenues	24 661	23 979	23 526	24 706	26 004	30 095	33 841	36 799	35 667	36 602
EBIT	3 123	3 271	3 424	3 888	3 917	4 829	4 434	4 065	3 757	3 601
Current Assets	9 488	7 780	6 334	6 856	16 587	9 680	10 685	15 344	12 426	12 488
Current Liabilities	5 815	5 892	5 457	5 630	7 092	8 274	9 434	9 580	9 530	11 587
CapEx	(364)	(561)	(471)	(920)	(928)	(1 249)	(1 264)	(1 420)	(1 415)	(1 435)
Lockheed Martin Corporation										
Revenues	45 358	39 946	40 536	47 290	49 960	53 762	59 812	65 398	67 044	65 984
EBIT	4 837	4 947	4 995	7 138	8 343	9 343	10 509	10 520	11 119	10 157
Current Assets	13 329	12 322	14 573	15 108	17 505	16 103	17 095	19 378	19 815	20 991
Current Liabilities	11 120	11 112	13 918	12 542	12 913	14 398	13 972	13 933	13 997	15 887
CapEx	(836)	(845)	(939)	(1 063)	(1 177)	(1 278)	(1 484)	(1 766)	(1 522)	(1 670)

Source: Bloomberg

Exhibit 9: Estimates of Comparables of Leonardo DRS Inc. (in millions of U.S. dollars, except percentual data)

Company Name	Price	Shares	Enterprise Value	Market Cap	Revenue 2021E	EBITDA 2021E	EBIT 2021E
Hensoldt AG	16.02	105	1 739	1 682	1 502	244	142
Mercury Systems, Inc	69.86	58	3 814	4 059	919	202	89
Thales Group	100.25	210	17 075	21 066	16 192	2 255	1 192
Elbit Systems Ltd	140.56	44	8 879	6 232	5 279	576	419
Teledyne Technologies, Inc	399.14	47	24 190	18 761	4 600	1 037	646
L3Harris Technologies, Inc	192	190	48 367	36 472	17 942	3 826	3 374
Raytheon Technologies Corporation	79.57	1 463	155 864	116 427	64 620	10 632	7 179
General Dynamics Corporation	192.45	275	69 448	52 869	38 867	5 051	4 181
Northrop Grumman Corporation	305.74	153	71 614	46 795	36 036	6 196	5 813
Lockheed Martin Corporation	346.61	255	105 788	88 219	67 047	10 483	9 089
RADA Electronic Industries	-	145	-	-	2 879	303	245
Average	**184.22**	**280**	**50 678**	**39 258**	**25 3009**	**4 050**	**3 212**

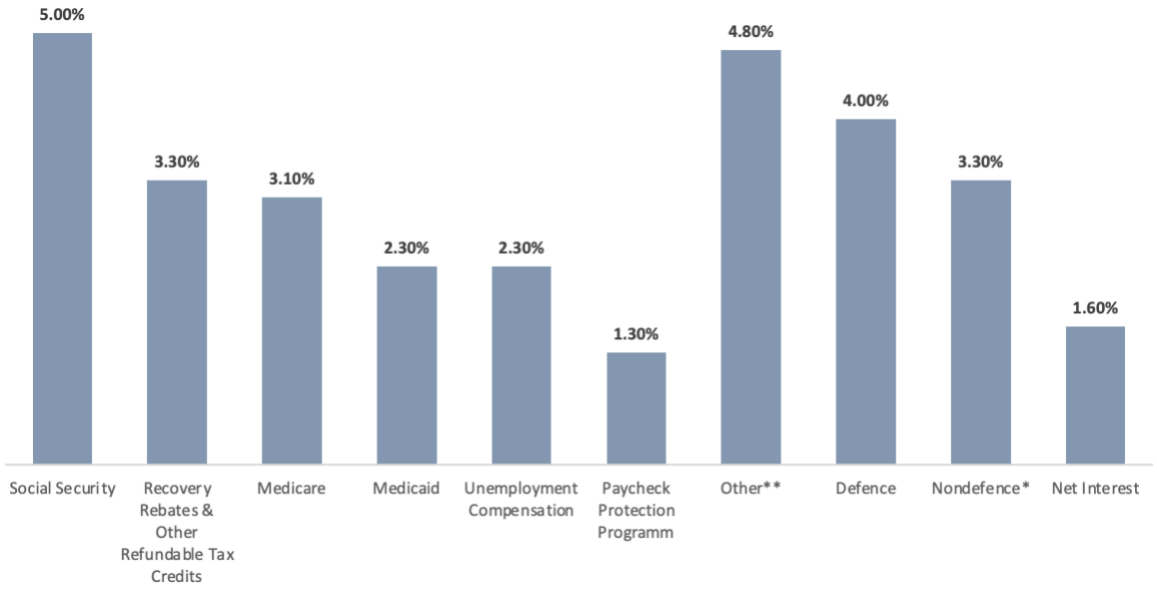
Source: Bloomberg, Eikon

Exhibit 10: Comparables of RADA Electronic Industries (in millions of U.S. dollars, except Price data)

Company Name	Price	Shares	Enterprise Value	Market Cap	Revenue 2022E	EBITDA 2022E	EBIT 2022E
Hensoldt AG	24.67	105	2 643	2 590	1 726	288	214
Mercury Systems, Inc	58.5	58	3 380	3 399	1 007	212	46
Thales Group	117.78	210	25 818	24 750	18 627	2 786	2 048
Elbit Systems Ltd	196.57	44	8 421	8 715	5 546	520	346
Teledyne Technologies, Inc	350.35	47	24 008	16 467	5 453	1 287	1 007
L3Harris Technologies, Inc	221.57	190	45 909	42 089	16 822	3 148	3 044
Raytheon Technologies Corporation	88.88	1 463	175 635	130 050	67 142	10 800	7 665
General Dynamics Corporation	209.78	275	77 634	57 629	39 2554	5 147	4 238
Northrop Grumman Corporation	443.99	153	94 276	67 954	36 57	4 873	3 595
Lockheed Martin Corporation	404.01	255	137 342	102 828	65 242	9 692	8 344
RADA Electronic Industries	11.26	50	481	560	115	19	8
Average	**211.61**	**231**	**54 141**	**41 548**	**23 381**	**3 525**	**2 778**

Source: Bloomberg, Eikon

Exhibit 11: U.S. Federal Budget (in % of GDP), 2021

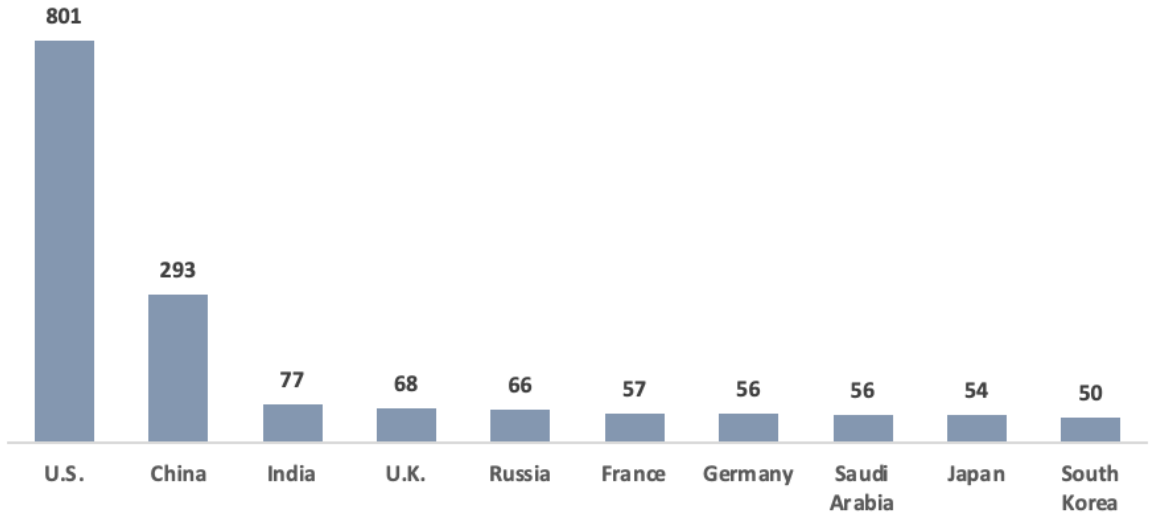


**Nondefence: Outlays for many programs related to health, transportation, education, certain veterans' benefits, housing assistance, and other activities.*

***Other: Outlays include federal civilian and military retirement benefits, some veterans' benefits, the Supplemental Nutrition Assistance Program, and other mandatory programs, minus income from offsetting receipts.*

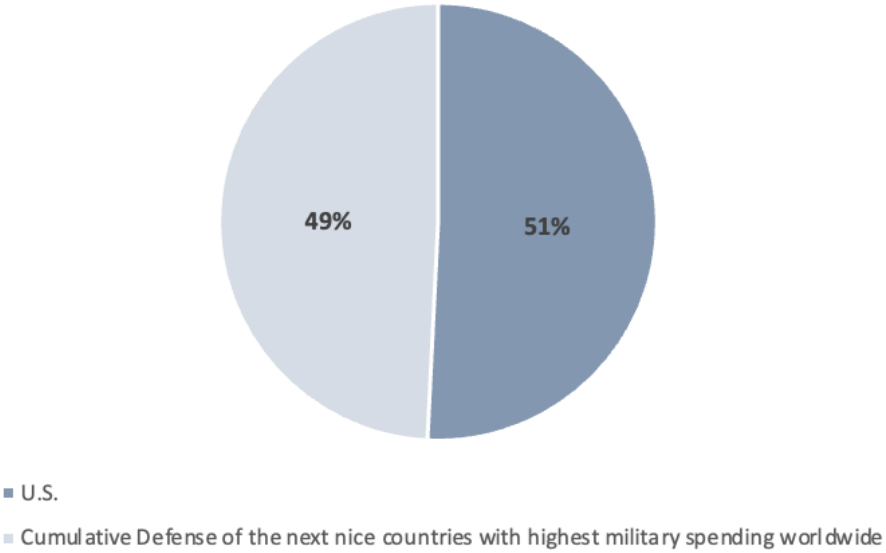
Source: Congressional Budget Office

Exhibit 12: Top 10 Countries with the Highest Military Spending (in billions of U.S. dollars), 2021



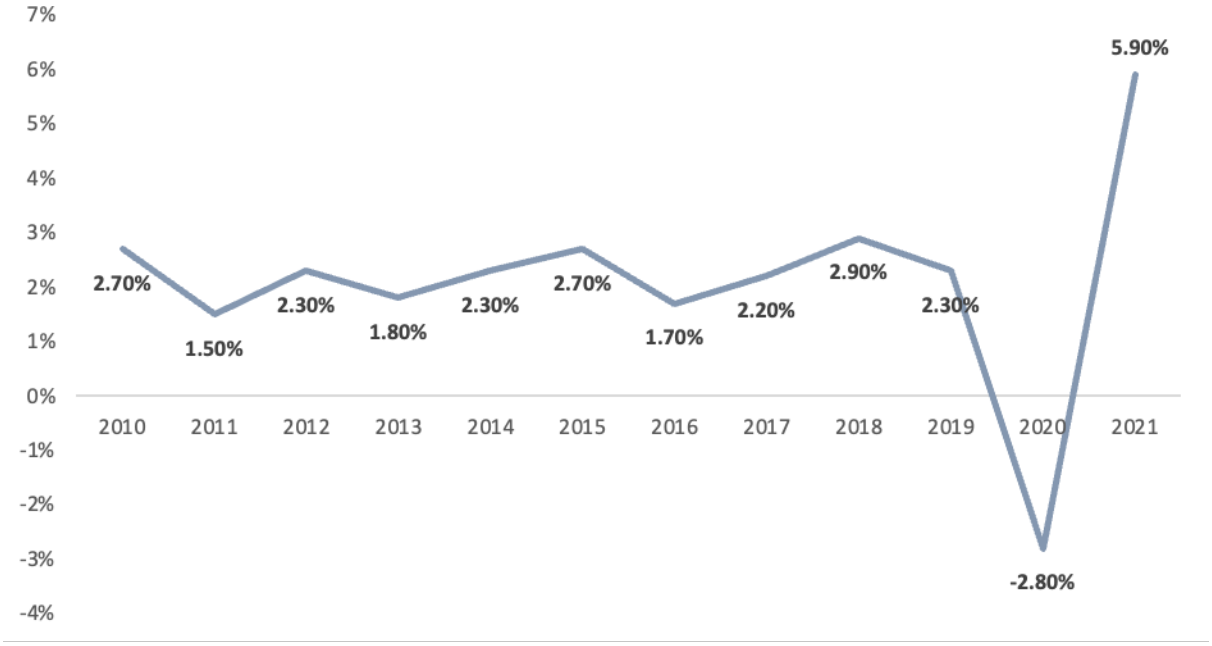
Source: Statista, 2022

Exhibit 13: U.S. Military Spending Vs. Other Countries



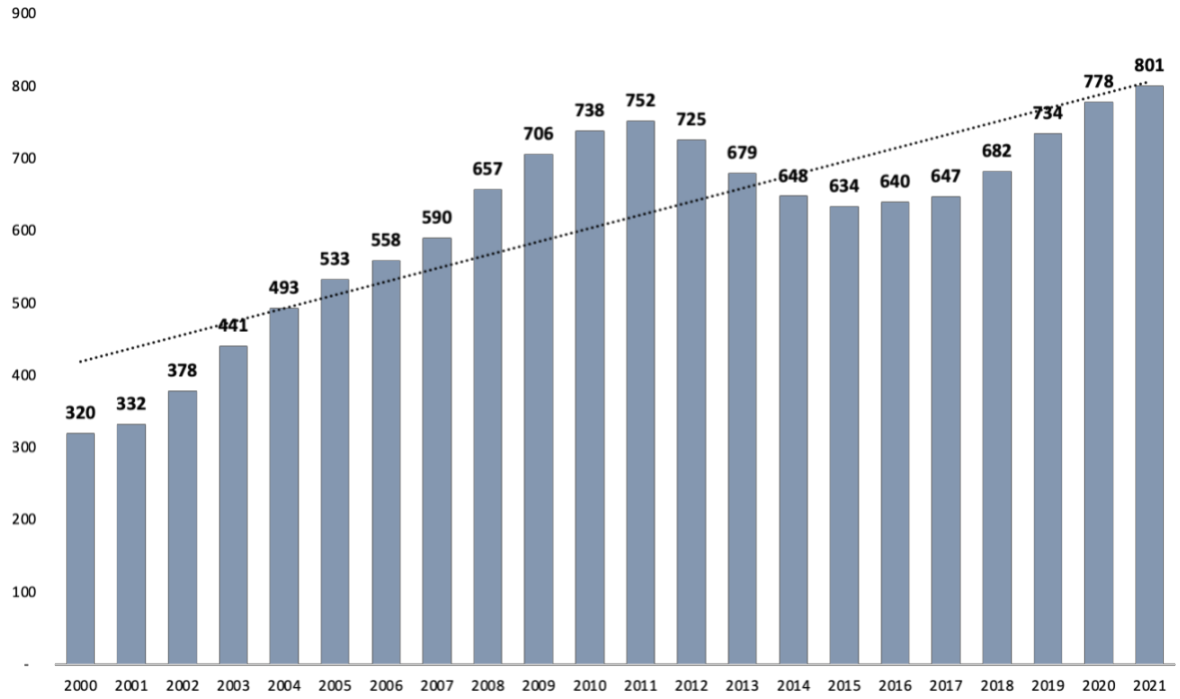
Source: Statista, 2022

Exhibit 14: GDP Growth in the U.S. (in annual %), 2010 – 2021



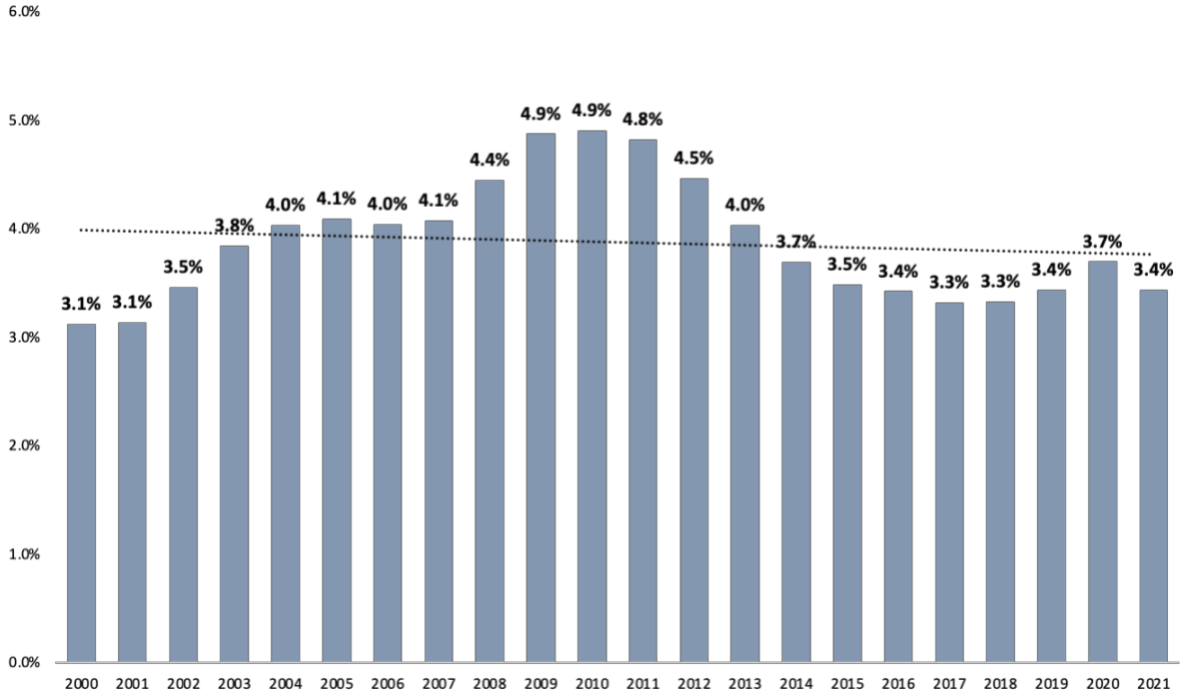
Source: The World Bank – Data

Exhibit 15: Military spending in the U.S. (in billions of U.S. dollars), 2000 – 2021



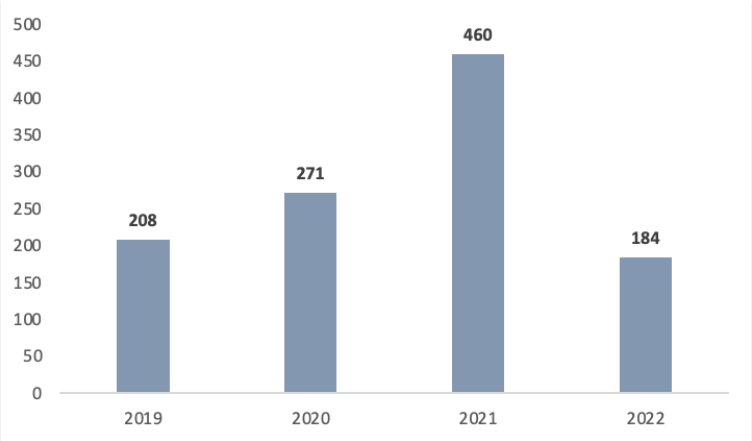
Source: Statista, 2022

Exhibit 16: Military spending in the U.S. (as a % of GDP), 2000 – 2021



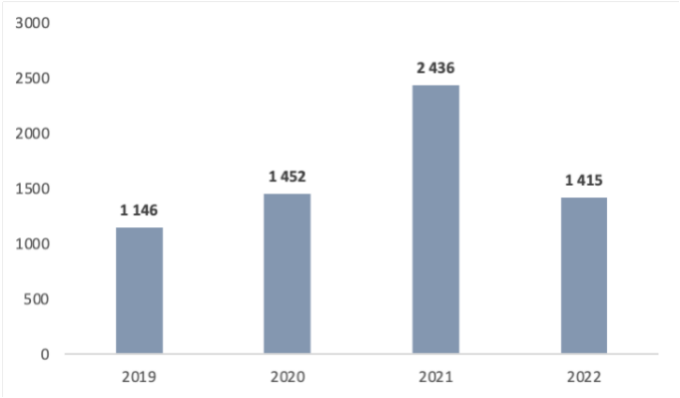
Source: Statista, 2022

Exhibit 17: Global IPO Activity by IPO Proceeds (in billions of U.S. dollars), 2019–2022



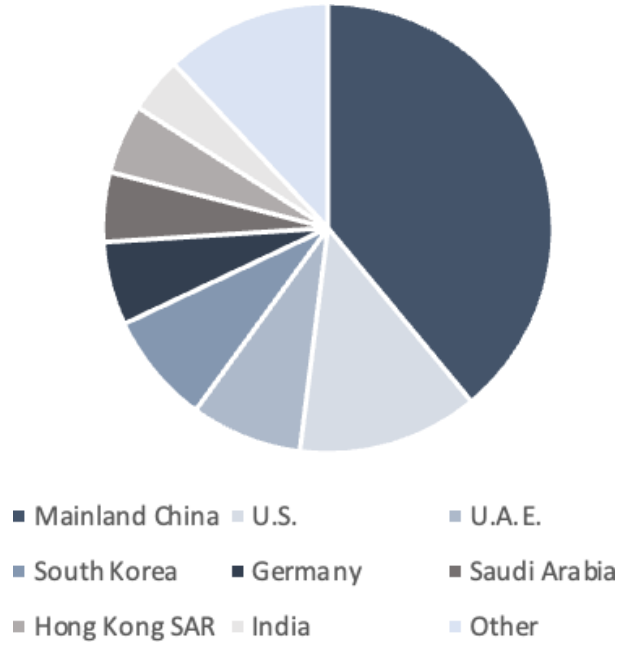
Source: EY, 2022

Exhibit 18: Global IPO Activity by number of IPOs, 2019 – 2022



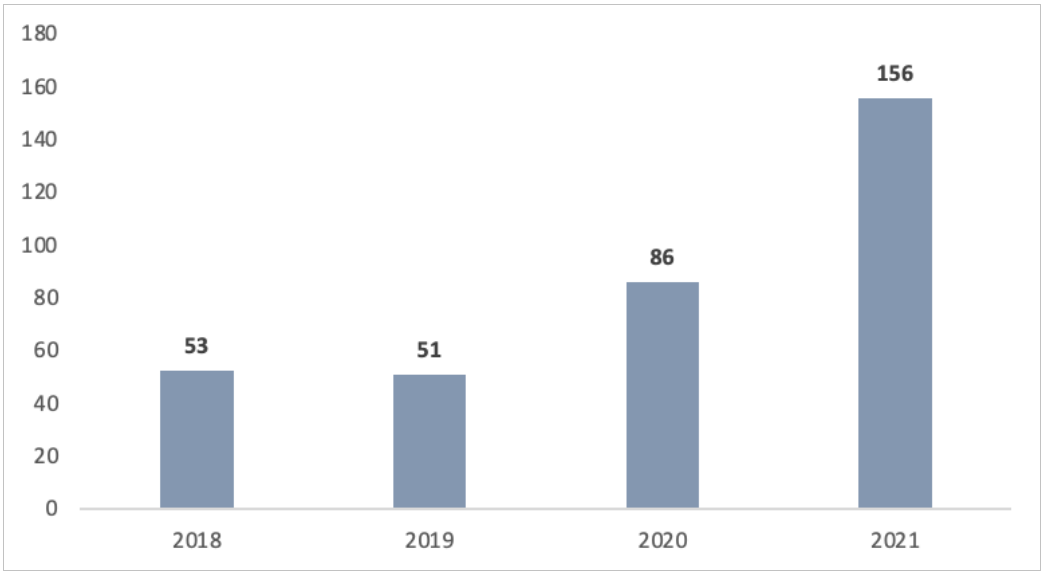
Source: EY, 2022

Exhibit 19: Global IPOs by Geography (in % of global proceeds), 2021



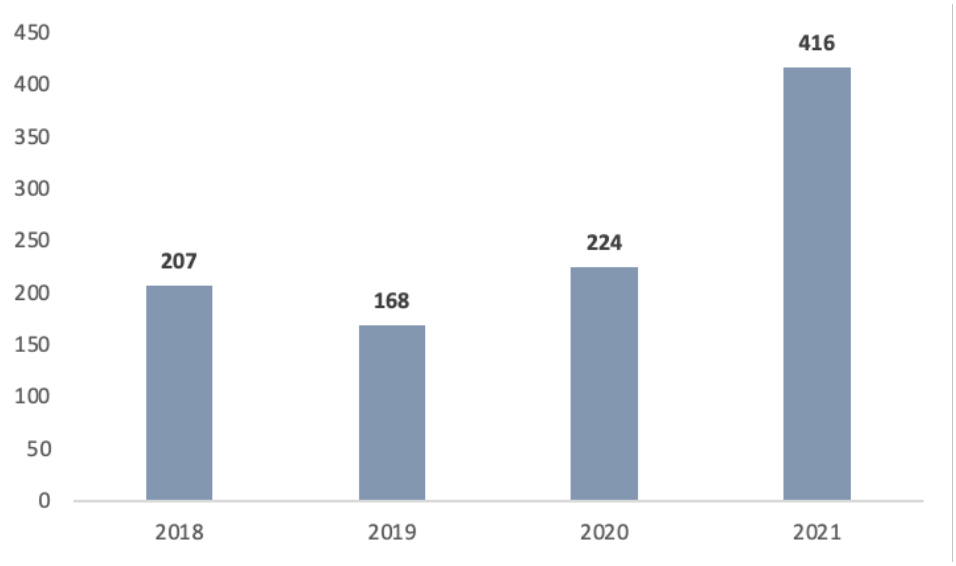
Source: PwC, 2022

Exhibit 20: U.S. IPO Activity by IPO Proceeds (in billions of U.S. dollars), 2018 – 2021



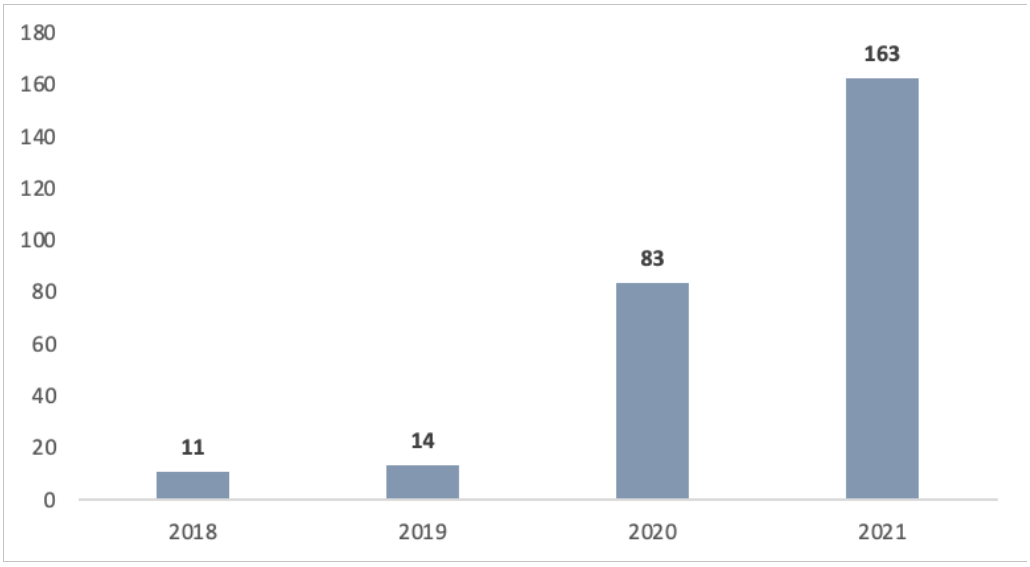
Source: EY, 2022

Exhibit 21: U.S. IPO Activity by Number of IPOs, 2018 – 2021



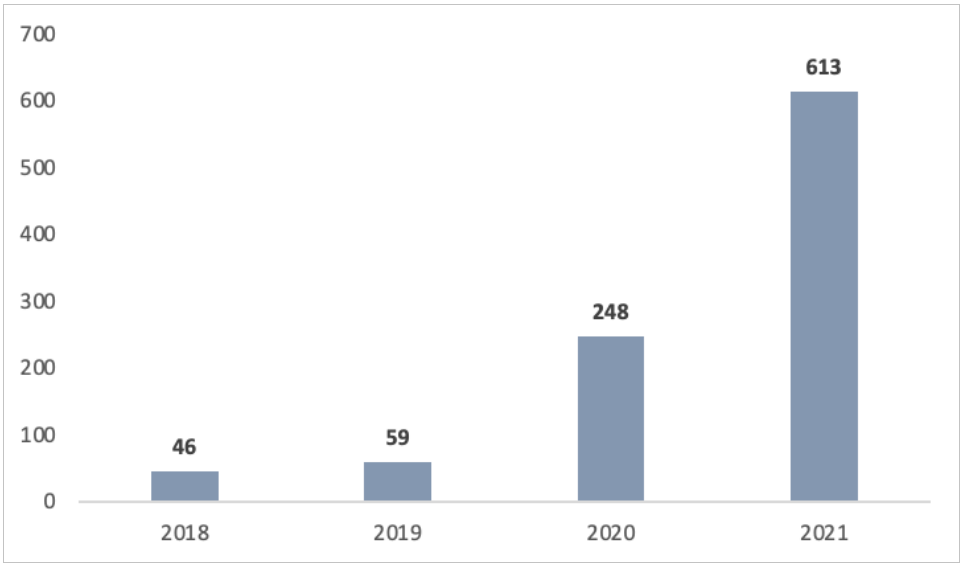
Source: EY, 2022

Exhibit 22: U.S. SPAC Activity by SPAC Proceeds (in billions of U.S. dollars), 2018 – 2021



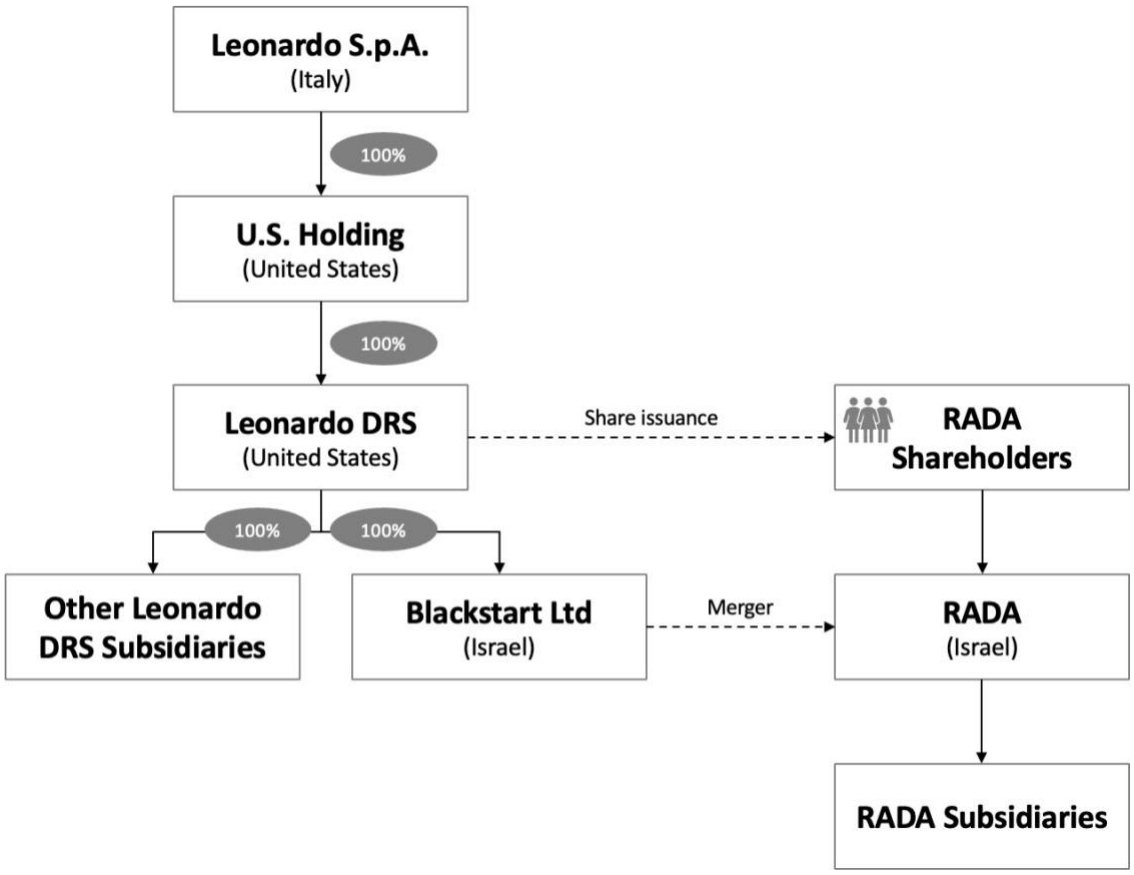
Source: EY, 2022

Exhibit 23: U.S. SPAC Activity by Number of SPACs, 2018 – 2021



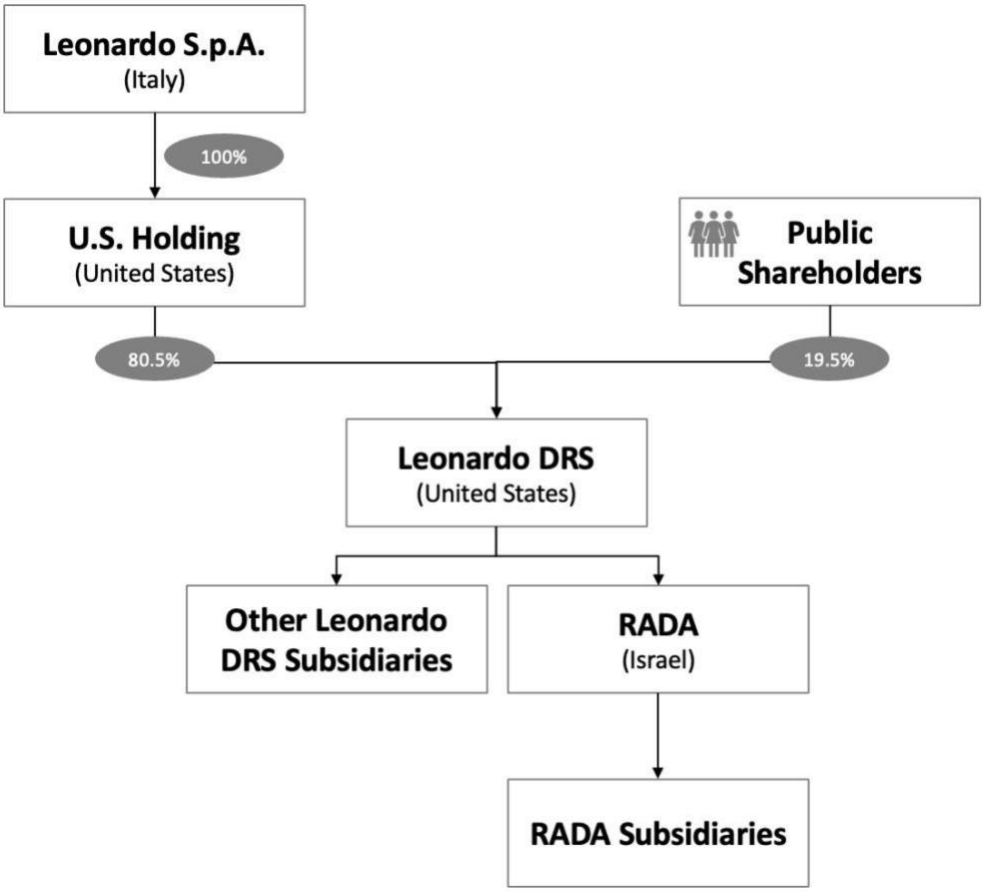
Source: EY, 2022

Exhibit 24: Pre-Merger Structure



Source: S-4 Statement

Exhibit 25: Post-Merger Structure



Source: S-4 Statement

Exhibit 26: Estimated Preliminary Purchase Price (in millions, except per share data)

Estimated Preliminary Purchase Price	
RADA shares outstanding at July 26, 2022	49 720 294
Exchange Ratio	1
Shares of DRS common stock issued	49 720 294
Fair value of a DRS common stock on July 26, 2022 (a)	$9.71
Fair value of DRS common stock issued to RADA shareholders	**$483**
Estimated fair value of RADA's equity-based compensation awards attributable to pre-combination services (b)	21
Total estimated preliminary purchase price	**$504**

Source: S-4 Statement

Exhibit 27: Purchase Price Consideration (in millions, except per share data)

Purchase Consideration	
RADA ordinary shares as of Nov 28, 2022	50
Share exchange ratio	1
Total Company shares issued	50
Fair value of the Company common stock (RADA SP on Nov 28, 2022)	$9.87
Total fair value of the Company common stock issued	**$491**
Replacement share-based payment awards pre-combination vesting exercise	20
Preliminary aggregate purchase consideration	**$511**

Source: S-4 Statement

Exhibit 28: Cost of Equity for Leonardo DRS, RADA Electronic Industries and Comparables

	Beta		Market Cap	
Company	**FY2021**	**FY2022**	**FY2021**	**FY2022**
Hensoldt AG	-	0.07	-	2 321
Mercury Systems	-	0.83	-	2 522
Elbit Systems Ltd	-	0.69	-	7 216
Teledyne Technologies, Inc	-	0.99	-	18 761
L3Harris Technologies, Inc	-	0.82	-	39 687
Raytheon Technologies Corporation	-	0.79	-	147 973
General Dynamics Corporation	-	0.77	-	68 084
Northrop Grumman Corporation	-	0.58	-	83 564
Lockheed Martin Corporation	-	0.64	-	123 568
Aero Vironment	-		-	
Kratos Defense & Security Solution	-	1.04	-	1 189
Mean		0.72		
Median		0.78		
Leonardo DRS Inc	**1.00**	**1.00**	**1 593**	**1 538**
RADA Electronic Industries	**1.10**	**-**	**465**	**-**

Data	**FY2021**	**FY2022**
U.S.		
10 year treasury yield	1.41%	3.54%
Expected Market Return	9.88%	9.24%
Israel		
10 year treasury yield	1.34%	3.81%
Expected Market Return	10.64%	13.50%
Germany		
10 year treasury yield		2.46%
Expected Market Return		11.05%

Source: Bloomberg

Exhibit 29: Cost of Debt for Leonardo DRS, RADA Electronic Industries and Comparables (in millions of U.S. dollars, except percentual data)

	Cost of Debt		Short-Term Debt		Long-Term Debt	
Company	**FY2021**	**FY2022**	**FY2021**	**FY2022**	**FY2021**	**FY2022**
Hensoldt AG	2.11%		30		759	
Mercury Systems	1.95%		-		575	
Thales Group						
Elbit Systems Ltd	4.91%		261		1 025	
Teledyne Technologies, Inc	4.45%		330		3 746	
L3Harris Technologies, Inc	4.30%		941		6 966	
Raytheon Technologies Corporation	4.20%		1 576		32 280	
General Dynamics Corporation	4.05%		1 541		10 797	
Northrop Grumman Corporation	4.11%		299		13 629	
Lockheed Martin Corporation	4.06%		402		16 345	
Aero Vironment						
Kratos Defense & Security Solution	2.38%		13		341	
Leonardo DRS	**1.52%**	**3.86%**	**41**	**92**	**352**	**411**
RADA Electronic Industries	**1.73%**	**-**	**2**	**-**	**9**	**-**

Source: Bloomberg

Exhibit 30: Leonardo DRS and RADA Electronic Industries' Taxes

Company	Statutory Tax Rate
Leonardo DRS	24%
RADA Electronic Industries	23%

Source: S-4 Statement and RADA's Annual Report 2021

Exhibit 31: Assumptions for Adjustments for the NewCo Income Statement

	2022 - 2031
Adjustments for Revenues	**(8.7%)**
Adjustments for COGS	**(9.0%)**
Adjustments for R&D	**0.0%**
Adjustments for SG&A	**11.0%**
Adjustments for Other Operating Expenses	**0.0%**
Adjustments for D&A	**0.0%**
Adjustments for Interest Expense	**(48.6%)**
Adjustments for Other	**0.0%**
Tax Rate	**24.0%**
Adjustments for Other Tax-related Costs	**0.0%**

Source: Casewriters analysis

8. End Notes

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Teaching Note

1. Synopsis

This case study analyses DRS' failed Initial Public Offering in 2021 and the triangular reverse merger between Leonardo DRS and RADA Electronics, that allowed the latter to become publicly listed in November 2022. The IPO and the reverse merger were part of Leonardo DRS' strategic growth plan to stabilise its revenue to make the company less dependent on the Department of Defence (DoD) budget, to raise capital and lastly, to become the best mid-tier defence electronics company in history. Leonardo DRS announced the IPO in March 2021 and postponed it nine days after because of adverse market conditions and DoD budget cuts[1].

The focus of the case is on the different possible growth opportunities for a defence company in a difficult economical national and international environment. Leonardo DRS' goal is to become one of the most important mid-tier defence companies in the world. Its strategy aims to increase its visibility in global markets to complete different acquisitions of businesses and investments that will expand or complement its current portfolio. Leonardo DRS withdrew its IPO in March 2021, despite investors' interest during the roadshow. One of the reasons behind this decision is related to unfavourable market conditions at that time caused by inflation post-covid. Therefore, DRS postponed the IPO as the adverse market conditions did not allow for a correct valuation of it. The other reason is based on rumours about President Biden's Administration reducing defence spending for 2022[2]. In October 2021, DRS put the IPO topic back on the table, saying that they would be listed in autumn. Mr. Lynn must decide what the

[1] Nishant Niket, Piovaccari Giulio. 2021. "Italian Defence Group Leonardo Launches $700 Million IPO of U.S. Unit DRS." Reuters. Accessed February 27, 2023.
[2]Quaglia, Maria Pia, and Segreti Giulia. 2021. "Leonardo Postponed DRS IPO due to U.S. Cuts in Defence Spending - CEO to Newspaper." Reuters. Accessed April 2, 2023.

best growth opportunity for Leonardo DRS is[3]. In June 2022, DRS announced to do a reverse merger with the Israelian company RADA. The reverse merger is a less expensive and faster way for DRS to be traded in the stock market. In the autumn of 2022, DRS and RADA merged and the new company called DRS became publicly listed on the NASDAQ and TASE[4].

2. Positioning

This case study is designed for Master's students in management and finance, and specifically for those interested in mergers and acquisitions (M&A). The case study can also be used as input for corporate finance and corporate valuation courses. It provides a valuable opportunity for students to apply their knowledge of finance and M&A in a practical setting, and to develop critical thinking skills necessary for successful business decision-making.

3. Pedagogical Objectives

The case has five main pedagogical objectives, aiming at knowledge enhancement, skill building, and attitudinal development.

i) The case exposes students to an overview of different M&A strategies, with a focus on reverse mergers, and the relative trends.

ii) The case analyses the extent to which external geopolitical macroeconomics influences the market and can affect the deal flow.

iii) It provides the chance for students to value the parties involved in the transaction, and the derived synergies, using two valuation methodologies, namely Discounted Cash

[3] Stone, Mike, and Landini, Francesca. 2021. "Italy's Leonardo Gears Up for Autumn Listing of DRS, Say Sources." Reuters. Accessed April 2, 2023.
[4] Leornardo DRS. 2022. "Leonardo DRS and RADA Agree to All-Stock Merger, Combining Top Defence Technology Companies into Leader in Advanced Sensing and Force Protection." Accessed February 26, 2023.

Flow (DCF) and Multiples. Note that the valuation aspect is relevant, however, it is not the first goal of the case study. Hence, the DCFs are done in a simplified format and should aim at only giving the students the chance of performing several valuations in the same class.

iv) The case allows the students to understand how managers undertake the process of assessing the risks involved in an M&A transaction, as well as the other proposals suggested in the merger agreement contract.

v) It helps students to understand and use the information contained in a merger agreement in order to assess the dynamics of a merger transaction.

For students that are not familiar with certain technical concepts discussed in the case study such as valuation approaches, the instructor might recommend reading chapter 8 of Robert Bruner's book[5] to acquire general knowledge about mergers and acquisitions. Also, to assist students with understanding what reverse mergers are and the differences between IPOs and the latter, the instructor can provide additional material such as the working paper written by Augusto Arellano-Osto and Sandro Brusco[6] or the article written by Vinay Datar, Ekaterina Emm and Ufuk Ince[7]. Furthermore, if the students want to have a broader picture of the deal between DRS and RADA they can read the S-4 form released by the Security Exchange Commission which explains in detail how the deal is structured. Lastly, to have a broad picture on the deal rationale, students could also consult the different organic and inorganic strategies. Therefore, students can also explore the working paper written by Tim Meierkord[8].

[5] Bruner, Robert F. 2004. *Applied Mergers and Acquisitions*. Hoboken, N.J.: J. Wiley.
[6] Arellano-Ostoa, Augusto, and Brusco Sandro. 2002. "Understanding Reverse Mergers: A First Approach." Business Economics Series 11, working paper 02-17.
[7] Datar Vinay, Emm Ekaterina, and Ince Ufuk. 2012. "Going Public through the Back Door: A Comparative Analysis of SPACs and IPOs." Banking and Finance Review 4, no. 1 (17-36).
[8] Meierkord, Tim. 2017. Analysis of Growth Strategies. Organic vs. Inorganic Growth.

4. Substantive Analysis

The class is divided into five major sections.

i) In the first section, the focus is set on the postponement of the IPO, by first understanding the motives behind the decision of becoming a publicly traded company and analysing the reasons for the retirement and implied failure but also what the valuation would look like.

ii) In the second section, the management team faces a decision-making dilemma, as after the IPO failure the best growth strategy must be undertaken.

iii) In the third section, RADA is determined as the target and the valuations are developed.

iv) In the fourth section, the deal includes other proposals, risks, interests, termination fees, etc.

v) In the last section, an analysis of the risks faced by both parties, individually and mutually, in the deal process.

4.1. The DRS' IPO

4.1.1. Reasons behind doing an IPO

The first IPO of Leonardo DRS is part of Mr. Lynn's transformation strategy. Indeed, it would allow the company to finance future acquisitions and gain trust and recognition from investors. Here, the instructor could start by explaining what an IPO is and what are the principal reasons behind initiating one. After having explained the general concepts, the instructor should deepen the reasons behind Leonardo DRS' IPO. The Initial Public Offering, also called an IPO, is the traditional technique and most common way for a private company to become public and to

raise capital in the market[9]. This process usually can take between six months and a year and a half as it requires different steps that companies must follow to succeed. First, the private firm must submit the registration statement to the Securities and Exchange Commission (SEC) that will usually need around thirty days to review the documents and give feedback.

Subsequently, the company should proceed with the submission of an S-1 form, a mandatory registration statement issued by the SEC for the public offering of new securities, followed by the commencement of its roadshow. After these two steps, the company must again file the prospectus and other documents with the SEC[10]. Throughout the process, the companies are supported and guided by an investment bank that they have chosen previously. The role of the investment bank is to manage the pricing and marketing of the issue in order to have the best price[11]. This process is perceived as very expensive and time-consuming; however, it comes also with different benefits. Indeed, IPOs can allow companies to raise additional capital by selling shares to public investors so that they can finance future acquisitions[12]. Also, raising capital through banks or private investors could be more expensive compared to doing an IPO. Furthermore, as a result of an IPO, companies gain recognition and are perceived as highly performant, therefore they can secure better terms for lenders[13].

Leonardo DRS aims to become one of the largest mid-tier defence companies in the world and therefore must reach new markets and customers by making new investments and acquiring business units or companies. The company needs capital to finance its future acquisitions,

[9] Id. Note 6.

[10] Gleason, Kimberly C., Jain Ravi, and Rosenthal Leonard. 2008. "Alternatives for Going Public: Evidence from Reverse Takeovers, Self-Underwritten IPOs, and Traditional IPOs." Financial Decisions. Article 1.

[11] Id. Note 6.

[12] Ashford, Kate, and Curry Benjamin. 2022. "What Is an IPO." Forbes. Accessed March 28, 2023.

[13] Id. Note 6.

hence, an IPO could represent the best option. Furthermore, becoming public would allow DRS to be seen by public investors and build trust among investors.

4.1.2. Valuation Results of DRS

Leonardo DRS filed the paperwork to offer 31.9 million of common shares, at a price between $20 to $22 per share. This means the IPO could generate between $638 million and $702 million. What was Leonardo DRS's standalone value at the time they filed for an IPO? In order to answer this question, students should perform a DCF and a Multiples valuation. For the DCF valuation, the instructor can also ask students to provide an analysis not only under a base case scenario, but also under an optimistic and conservative perspective. Exhibits TN-2&3 provide information about which assumptions were used under the three different case scenarios.

4.1.2.1 DCF Valuation

In other to project most of the figures of the Income Statement and Balance Sheet, students should use a comparable approach, given the information provided in Exhibit TN-1. Specifically, the students can derive the historical averages (2012-2022) from the provided tables. Note that the conservative and optimistic scenarios are subject to a +/- 1% change compared to the base scenario, both for revenues and EBIT margin. Similarly, for both the Weighted Average Cost of Capital (WACC) and the Terminal Growth Rate (TGR), a +/- 1.5% change was applied for the two alternative scenarios.

a) Revenues: the figures from FY2022A to FY2030E are based on the growth assumptions. Specifically, the FY2030 growth rate was assumed to be 8.2% according to the industry average (Exhibit TN-1), and every year's growth rate was estimated according to the

relative CAGR FY2020A-FY2030E. Revenue growth for the conservative and optimistic case was of -1% and +1% compared to the base case, respectively.

b) EBIT: The same logic applies for EBIT (see above). The industry average EBIT margin is of 11%, and the DRS' margin was adjusted according to the relative CAGR to align with industry values by the end of FY2030E.

c) Taxes: Leonardo DRS' Annual Report reports a 24% corporate tax rate, and it was assumed to remain unchanged until the end of the projected periods.

d) Depreciation & Amortization (D&A): Historically, Leonardo DRS shows stable D&A costs at 2% of revenues for the last two fiscal years. Hence, these were assumed to remain stable at the mentioned relative value.

e) Capital Expenditures (CapEx): The industry average is used to estimate CapEx as well. Specifically, on average CapEx accounts for 3% of revenues. As a result, it was assumed, by the final predicted year FY2030E, that these expenditures would linearly grow from the historical 2% of revenues to the industry average of 3%.

f) Net Working Capital (NWC): NWC was also estimated according to the industry average. Hence, the NWC's relative weight to sales was linearly increased from the FY2020's 10% to the industry average of 26%.

g) WACC: The cost of equity is 9.78%, shareholder's equity is $1,593 million, the cost of debt is 1.52%, and the total debt is $393 million. This yields a WACC of 8.15% (Exhibit TN-2).

h) TGR: Given the low extent of disclosure for this specific market, the TGR was assumed to be 3%, corresponding to the nominal U.S. GDP growth rate.

After performing the valuations, students should derive a similar share price of $10.85 under the base case assumptions. According to the performed DCF, Leonardo DRS' stock seems to be overpriced when compared to the value of $20-$22, namely the one expected by the company before the withdrawal of their IPO. This aligns with the theory of IPO underpricing, explaining

how firms tend to increase the go-to-market share price in order to avoid the long-run underperformance of the latter to drop below its intrinsic value[14]. According to the other scenarios' assumptions, the students should yield a share price within the lower bound of approx. $7.54, and the upper bound of approx. $22.35.

4.1.1.2. Comparable Multiple Valuation

In this section, students should refer to the given list of Leonardo DRS's peers (Exhibit 13) and its relative financials, in order to first compute the comparable multiples and then perform the comparable multiples valuation.

During this exercise, the students can work in groups to perform a multiple valuation of DRS and define the range of implied share prices for the company at the time of the IPO filing. The trading multiples that should be used for this valuation are Enterprise Value/Revenue, Enterprise Value/EBITDA and Enterprise Value/EBIT as being the most common ones and also the ones utilized in the defence industry. The most appropriate trading multiple is EV/EBITDA, both because the EBITDA margin is standardized across the industry, as well as because this measure is independent of the capital structure of the company.

DRS Implied Share Price (in $)

	Revenue	EBITDA	EBIT
Minimum	19.88	13.82	18.61
Mean	46.13	27.17	33.51
Median	36.41	26.52	25.09
Maximum	103.36	47.69	71.07

Table 1: DRS Implied Share Price

[14] Ritter, Jay R. 2012. "Re-Energizing the IPO Market." SSRN Electronic Journal.

After performing the valuation, students should focus on the median value, given this measure to decrease the impact of outliers. Students should derive a range of implied share prices similar to the ones suggested in Exhibit TN-4. Out of the entire set of values derived from the comparable multiples, students should focus on the median EV/EBITDA multiple for the reason aforementioned. This yields an implied share price of $26.52, higher than both the DCF value and the target share price for the IPO. The spread between the given results is driven by the fact that this is a market-reflected price, rather than an intrinsic value, hence involving market expectations and investors' demands and being also a function of the chosen comparables. Furthermore, the multiple valuation does not capture DRS growth as it pictures just one expected year. The multiple valuation, the majority of times, overestimate the true value as it ignores the difference in accounting treatment, the differences of the comparables businesses and structure and the risk related to the different countries. Therefore, the multiple valuation is not always reliable compared to the Discounted Cash Flow valuation which projects future cash flows and captures the capability of the company to create value. The aforementioned reasons can explain why in this valuation, DRS implied share prices are much higher compared to the range agreed during the roadshow.

4.1.3. Why did the IPO fail?

This section is a more qualitative analysis of the case study. The instructor can ask students to analyse the financial statements of Leonardo DRS and the conditions the A&D sector in the U.S. was facing at the time of the IPO, in order to arrive to a conclusion. Companies go public depending mainly on the overall stock market conditions, industry conditions, and whether or not they need the capital to continue to grow[15]. Leonardo DRS presents a strong position in

[15] Brau, James C., and Stanley E. Fawcett. 2006. "Initial Public Offerings: An Analysis of Theory and Practice." *The Journal of Finance* 61 (1): 399–436.

terms of capital structure, hence, the main reasons that might be attributed to the failure of the IPO in May 2021 are the overall conditions of the markets and the industry.

IPOs are a relatively expensive way of raising money[16]. Hence, when Mr. Lynn acknowledged the instability of the industry and the market at that time, he decided to withdraw the IPO. One of the biggest reasons was Biden's decision to cut military spending in 2021, due to its stimulus package to revive the economy of the U.S. hurt by the COVID-19 pandemic. Since Leonardo DRS's main client is the Pentagon, which accounted for 86% of its revenues in 2021, this statement might have "scared" Mr. Lynn, since the projections used to define a share price between $20 to $22 U.S. dollars might not be tangible anymore. There was uncertainty regarding how much of an impact this decision would have on Leonardo DRS' main source of income and how the expectation of having the A&D sector remain stable in the U.S. could impact the financial stability of Leonardo DRS.

Even though military spending in the U.S increased from $778 billion to $801 billion from 2020 to 2021, when considered relatively to GDP it decreased from 3.7% in 2020, to 3.4% in 2021, potentially impacting the valuation estimates of Leonardo DRS (the case writer assumed it would increase or, at least, remain stable).

The main goal of getting listed in NYSE was to find more financing sources to fuel Leonardo DRS' business as well as possible mergers or acquisitions to strengthen its market positioning. Their civil aerospace business consumes most of the company's cash flow, which needs to be sustained by strong incomings of cash into the company. All these adverse market conditions prevented an accurate prediction of whether this would be a viable option or not. Projections

16 Id. Note 15.

for 2022 were emphasizing inflation, tightening of Central Bank's policies and politics, and conflicts that were arising in some parts of the world, which might have had a negative impact on the accuracy of Leonardo DRS' valuation. In fact, the cyclicality in the IPO market additionally helps understanding the concerns regarding listing at such a time at which the big picture did not seem to be the best. Despite the investors' enthusiastic response, Mr. Lynn decided to exercise caution and take a more reserved approach in the IPO process. This decision aimed to mitigate the risks associated with potential loss of control or underperformance, which tend to emerge in the long run, even when companies are aligned with each other[17]. Furthermore, considering the cyclicality of the IPO market, it becomes evident why concerns arise when contemplating listing during a period when the overall market conditions appear unfavorable.

4.2. Leonardo DRS' New Growth Strategies

4.2.1. Overview of the available options

Before Mr. Lynn can decide how to continue Leonardo DRS's strategy, the management must analyse all the options available on the table. The following framework summarizes all growth strategies available. For further discussion, the instructor should consult both advantages and constraints of each strategy that are shown in Exhibit 28.

a) Organic Growth: Expansion and development of a business through internal means.

Advantages	**Constraints**
i) Control	iv) Competitive pressure
ii) Lower capital risk	v) Lack of economies of scale
iii) Company cultural fit	vi) Expansion boundaries

Table 2: Organic Growth Pros and Cons

[17] Id. Note 15.

b) Mergers & Acquisitions: consolidation of companies through various transactions such as acquisitions, mergers, or takeovers, aimed at achieving strategic objectives such as market expansion, synergies, or diversification.

Advantages	**Constraints**
i) Fast growth	iv) Rising cost
ii) Synergies	v) Legal constraints
iii) Quick diversification	vi) Post-Merger Integration Challenges

Table 3: M&A Pros and Cons

c) Partnership: A business agreement is established among two or more parties to jointly oversee and conduct business operations while distributing the resulting profits.

Advantages	**Constraints**
i) Low formation costs	iv) Longer decision-making ways
ii) Efficient management	v) Unlimited liability
iii) Sharing of risk	vi) Shifted consumer behaviour

Table 4: Partnership Pros and Cons

d) Joint Venture: A settlement in which two or more parties agree to combine their resources with the aim of achieving a specific task.

Advantages	**Constraints**
i) Growth opportunity	iv) Poor decision-making
ii) Use of resources	v) Capital allocation
iii) Power	vi) Cultural boundaries

Table 5: Joint Venture Pros and Cons

e) Strategic Alliance: Two companies reach an agreement to collaborate on a mutually advantageous project, all while maintaining their individual independence.

Advantages	**Constraints**
i) Developing a unique selling proposition	iv) Communication boundaries
ii) Portfolio analysis	v) Share of knowledge
iii) Overcome barriers	vi) Loss of control

Table 6: Strategic Alliance Pros and Cons

f) Licensing Agreement: A licensor collaborates with the licensee to market a product and receive in exchange either a lump sum or regular payments for each item sold.

Advantages	Constraints
i) Cost factor	iv) Decrease of future profits
ii) Shift of risk	v) Lend strategic property
iii) Lower capital requirements	vi) Licensing cost

Table 7: Licensing Agreement Pros and Cons

g) Spin-off: By selling or distributing new shares of its existing business, a new independent company is formed.

Advantages	Constraints
i) Shift of focus	iv) Loss of scalability
ii) Total market capitalization	v) Culture issues
iii) Prioritization	vi) Volatility in share price

Table 8: Spin-off Pros and Cons

h) Pure Asset Acquisition: When one company acquires another solely by purchasing its assets without acquiring any shares.

Advantages	Constraints
i) Simple valuation method	iv) Access to intangible assets
ii) Suitable for distressed M&A activities	v) Complex transfer
iii) Degree of flexibility	vi) Lower valuation

Table 9: Pure Asset Acquisition Pros and Cons

4.2.2. Reverse Merger Advantages and Disadvantages

Having identified the different growth options for Leonardo DRS and their advantages and disadvantages, the instructor can now focus on the option chosen by Mr. Lynn, namely, the reverse merger, and explain what the reasons are to undertake it and broach the topic of its constraints. The reverse merger between Leonardo DRS and RADA is part of Leonardo DRS' transformation strategy. Indeed, this process allows the latter to both expand its business and

product lines geographically and to become publicly listed on the NASDAQ and the TASE. According to the instructor's preference, a definition can be given of what a reverse merger is and followed by a description of the different types, or the advantages and disadvantages of the reverse merger compared to an IPO can be described directly.

A reverse merger allows a privately held company to become publicly listed without doing an IPO[18]. This method consists of a private company (privco) being acquired by a public company (pubco) where the privco's shareholders then control the pubco. Public companies are usually shell companies or defunct companies. A defunct company is an organization that previously conducted an initial public offering (IPO) but has become inactive and ceased operations due to various reasons and financial distress. The second type of company is created for the sole purpose of the acquisition and is registered under the SEC. These types of companies are known as Special Purpose Acquisition Vehicle or blank check companies. SPACs do not have any operations, assets or employees as they only were created for the purpose of the merger. Reverse mergers are usually structured as reverse triangular mergers as the DRS and RADA merger. The essence of the latter is that the public company creates a new subsidiary ("Merger Sub") that merges into the private operating company[19]. The private firm's shares are then converted into public company shares, constituting a majority ownership in the public corporation (between 80 and 90% stake). Here, the instructor can make the students brainstorm on why a reverse merger is better than an IPO and vice versa. Going public through the "backdoor" or reverse mergers, as they are sometimes referred to, should be compared to those of IPOs.

[18] Id. Note 10

[19] Sjostrom, William K. 2008. "The Truth About Reverse Mergers." Entrepreneurial Business Law Journal. Vol. 2.

Reverse Merger Advantages Vs. IPO	Reverse Merger Disadvantages Vs. IPO
i) Lower costs	ii) Does not raise capital
iii) Avoid initial requirements by the SEC	iv) Risks the acquirer undertake merging with another company
v) Less time consuming	vi) Target's shareholders
ii) Benefit from the target	iii) Target firm's past reputation

Table 10: Reverse Merger Vs. IPO

After having identified the main and most important advantages and constraints of the reverse merger compared to an IPO, the instructor can first develop the different points and then encourage the students to debate and apply their knowledge.

Reverse Merger Advantages vs IPO:

i. The private company survives the merger since it does not need to change its vendor numbers, employer identification numbers, bank accounts, or real estate titles[20].

ii. Usually, an IPO is a slower and more expensive process as it takes from 6 to 18 months compared to a reverse merger, which typically takes no longer than 3 months on average to be concluded[21].

iii. An IPO goes through very complex, costly, and time-consuming procedures as the SEC must verify that the private company is eligible to be listed in the capital market. Instead, a reverse merger can avoid the initial listing requirements[22].

[20] Id. Note 19
[21] Dasilas, Apostolos, Koulakiotis Athanasios, and Vutirakis Pantelis. 2009. "Reverse Takeovers: An Alternative to the IPO?" International Journal of Financial Services Management 4, no. 1 (11-20).
[22] Id. Note 6

iv. The acquirer obtains control of a public company and can employ its resources, explore a new region if the company is based abroad, and reorganize its board of directors as it pleases[23].

Reverse Merger Disadvantages vs IPO:

i. The private firms by undertaking a reverse merger do not raise capital as in an IPO[24].

ii. The risks of the acquirer company combining with a publicly traded firm that might not be free of issues, such as damaged financial statements or outstanding lawsuits[25].

iii. The private firm left some of its shares in the hands of shell company shareholders, therefore, it is highly advised to examine the list of the shell company's shareholders[26].

iv. The public firm's past and reputation, whether favourable or unfavourable, will undoubtedly be carried over to the private corporation to some extent and by consequence to the new company[27].

4.3. Reverse Merger with RADA

4.3.1. Reasons behind the reverse merger

Leonardo DRS management has opted for a reverse merger deal with RADA. The instructor can define with the class the main reasons behind the deal and then develop them.

Reasons Behind the Deal	
i) Synergies	ii) Expand horizontally
iii) Expand geographically	iv) Become publicly listed on the stock market

Table 11: Reasons Behind the Deal

[23] Id. Note 21
[24] Id. Note 6
[25] Id. Note 6
[26] Id. Note 21
[27] Id. Note 6

Leonardo DRS is pursuing a merger with RADA because it sees the potential for significant synergies between the two companies, which could result in enhanced value for their customers, increased returns for shareholders, and broader benefits for stakeholders. Actually, there is a long history of cooperation between the two companies, and over the years, they have shared values including customer satisfaction, operational excellence, integrity, and stockholder value[28]. Given the cultural alignment between the two companies, there is a strong likelihood that the combined entity will integrate effectively and cohesively. Also, the merged business generated $2.7 billion in revenue and $305 million in adjusted EBITDA in 2021, and it expects to grow its revenue due to technological synergies and comprehensive capabilities that will enable it to enter new markets and attract new clients[29]. Leonardo DRS and RADA together may achieve scale and have a balanced portfolio with complementary assets with a projected $19 billion addressable market in high-growth industries and military industry initiatives[30]. Moreover, the two companies by joining their workforce of engineers and scientists can accelerate and improve their research in new technologies. By merging, they would have the capacity to establish a market leader in integrated multi-domain systems and force protection, as well as to be more resilient in the face of challenging economic conditions, tightening regulations in the industries in which they operate, and reductions in defence spending[31]. Not to mention, having the new combined organization listed on the NASDAQ and TASE would enable Leonardo DRS to improve its visibility in international markets and enable strategic and financial flexibility to fund subsequent acquisitions[32].

[28] United States Securities and Exchange Commission. Form S-4 - Leonardo DRS. 2022.
[29] Id. Note 28
[30] Id. Note 28
[31] Id. Note 28
[32] Id. Note 28

4.3.2. Valuation Results of RADA

Once the reasons behind the merger have been identified, the instructor can present RADA as the target of Leonardo DRS. As shown in Exhibit 21&22 of the Case Study, the total estimated preliminary purchase price was of $504 million, based on nearly 50 million of shares and a share price of $9.71, which was the fair value of a RADA common stock on July 26, 2022. What was the standalone value of RADA at the time of the effective reverse merger? Was Leonardo DRS' offer over- or undervalued? In order to answer this question, the instructor should ask students to, once again, perform both a DCF and a Multiples Valuation.

4.3.2.1. DCF Valuation

For this section, students should perform a DCF following the same reasoning as the one undertaken for Leonardo DRS' valuation, as the assumptions are derived in the same manner (Chapter 4.1.2). Differently, in this case, for the optimistic and conservative scenario, the change between the WACC and TGR compared to the base case is only of 0.5% (Exhibit TN-7). The reason for which the change is smaller for RADA lies behind the fact of RADA being a smaller and faster-growing company, and this would hence maintain a closer gap between the upper and lower bounds. For instructors trying to speed up this section, one can assume the share price. On the other hand, if the valuation exercise is of one's interest, the remaining part of this section will be a walk-through of the DCF. Again, given the methodology to be the same, the following part only discloses the key assumptions made:

a) Revenues: target revenue growth of 8% by FY2031E, estimated by comparables.
b) EBIT: target EBIT margin of 10% by FY2031E.
c) Taxes: assumed to remain constant at 24%.
d) Depreciation & Amortization: constant at the same historical rate, namely 3% of Revenues.

e) Capital Expenditures: target CapEx as % of revenues of 3% by FY2031E, estimated by comparables.

f) Changes in Net Working Capital: target NWC as % of revenues of 27% by FY2031E, estimated by comparables.

g) Weighted Average Cost of Capital: based on information retrieved from Bloomberg for FY2022. Accordingly, equity cost is 11.57%, market capitalization is $465.37 million, cost of debt is 1.73% and total debt amounts to $11.42 million. This yields a WACC of 11.3%.

h) TGR: as for Leonardo DRS' valuation, the TGR was assumed to be 3%, corresponding to the nominal U.S. GDP growth rate.

The students' valuation should yield an implied share price of approx. $10.57. When compared to the actual trading price of $9.87, one can say investors were slightly undervaluating RADA. In fact, the actual trading price of RADA falls within the lower and upper bound of the performed DCF, with the range being $8.93 – $13.73.

4.3.2.2. Comparable Multiple Valuation

Again, also the comparable multiple valuation methodology aligns with the aforementioned.

RADA 2022E Implied Share Price (in $)

	Revenue	EBITDA	EBIT	Net Income
Minimum	4.54	4.92	3.4	3.75
Mean	6.92	7.13	5.42	7.63
Median	6.76	7.38	4.77	4.98
Maximum	11.46	8.87	13.54	28.84

Table 12: RADA Implied Share Price

After performing the valuation, students should again focus on the median value, given this measure to decrease the impact of outliers. Students should derive a similar range of implied share prices to the ones suggested in Exhibit TN-8. The valuation yields an implied share price of $7.38, lower than the DCF's value. The difference between the two outputs derives from the second methodology being market-based, hence involving market and investors' expectations and being also a function of the comparables chosen. However, versus DRS multiple valuation, the results of RADA are closer to the target share price. Therefore, the instructor can explain again to students why the multiple valuation is not as reliable as the DCF as the latter does not take into consideration the comparables differences and the risks related to their countries and businesses.

4.3.3. Valuations Results of the NewCo

The next step in the valuation process is to find the value of the merged company (NewCo), and whether the deal created synergies. The instructor can ask for a valuation of the combined company, as the previous ones, through a DCF model.

4.3.3.1. DCF Valuation

Once again, the instructor can ask students to perform one DCF analysis, using a similar methodology as the previous ones. This time, in order to get the actuals of the pro-forma, students should be able to adjust the NewCo Income Statement with the assumptions mentioned in Exhibit TN-9. Also in this case, if students present both a conservative and an optimistic case scenario, the changes in the WACC and TGR, when compared to the base case, are of +/- 1.5% (Exhibit TN-10).

a) Revenues: expected to grow 3% by FY3031E, estimated by comparables.

b) COGS: these are 80% of Revenues in FY2021A and given this to also be stable in the previous years, the case writer assumed them to remain constant at the mentioned rate throughout the projected period.

c) SG&A: same logic applies here. Given the historical stability, the case writer assumed SG&A costs to remain stable at 13% of Revenues.

d) Other Costs: Also, for this cost item the same logic applies. Here, it was assumed to remain stable at 1% of Revenues until FY2031E.

e) EBIT: differently from the other DCFs, here we do not assume a target EBIT margin, but rather, this is derived by subtracting the mentioned costs from Revenues.

f) Taxes: assumed to remain constant at 24%.

g) Depreciation & Amortization: expected to remain constant at the same historical rate of 2% of revenues.

h) Capital Expenditures: based on comparables estimates, it should be at 3% of revenues by FY2031E.

i) Changes in Net Working Capital: target NWC as % of revenues of 2% by FY2031E, estimated by comparables.

j) Weighted Average Cost of Capital: based on information retrieved from Bloomberg for FY2022. Accordingly, equity cost is 9.24%, market cap is $1,538 million, cost of debt is 3.86% and total debt amounts to $503 million. This yields a WACC of 7.91%.

k) TGR: as for DRS and RADA's valuation, the TGR was assumed to be 3%, corresponding to the nominal U.S. GDP growth rate.

After performing the valuation of the NewCo, students should arrive to an implied share price close to $12.41. Given nearly 260 million outstanding shares, the NewCo would be valued at $3,240 million. Under the two other scenario's assumptions, students should get an implied

share price laying between $8.29 and $29.4 under the conservative and optimistic scenarios, respectively.

4.3.3.2. Synergies

After evaluating the NewCo, the students should be able to evaluate, if this deal created any form of synergies. Synergies occur when the value of the target and acquirer as a merged company is greater than the two firms' standalone value[33]. Looking at the sum of DRS and RADA's standalone values, the value of NewCo is clearly bigger than the sum of the previous two – $3,240 million versus $2,193 million, indicating that there might be potential synergies of $1,046 million.

Given that Leonardo DRS paid $9.87 per each RADA's common share, and that the NewCo share price is expected to be $12.40, the students should be able to say that Leonardo DRS believed RADA was worth more than the market thought it was. The takeover premium paid by RADA was 25.6%, which is in between the range of what the bidder usually pays compared to what the target's shareholders value the stock, as well as what Leonardo DRS predicted to be. The instructor can then ask the students which might have been the potential sources of synergies behind the merger. Typically, firms can experience two primary types of synergies, namely operating and financial synergies. Operating synergies enable firms to enhance their operating income from existing assets, achieve growth, or both. On the other hand, financial synergies may result in higher cash flow, lower cost of capital, or both[34].In this case, the reverse merger of Leonardo DRS and RADA might allow growth and operating synergies, with an increase in cash flows from operations and an increase in the expected growth

[33] Feldman, Emilie R., and Exequiel Hernandez. 2021. "Synergy in Mergers and Acquisitions: Typology, Lifecycles, and Value." Academy of Management Review, March.
[34] Damodaran, Aswath. 2005. "The Value of Synergy." Papers.ssrn.com. Rochester, NY. October 30, 2005

rate, and also regarding cost savings in both Costs of Goods Sold and Selling & Administrative Expenses. Exhibit TN-11 shows the percentages that students should apply to each of the relevant figures of the Income Statement in order to arrive to the desired amount of synergies. The total value of synergies created in this deal amounts to $1,040 million. With this information, students should be able to create a range of offer prices, given the dollar value of synergy shared, the value of RADA plus synergy and the percentage of synergy shared. This yields a range of offer prices between $9.15 and $29.23, assuming RADA has nearly 52 million shares (Exhibit TN-11). Leonardo DRS' offer price only assumes 0% to 10% of synergies shared, while the NewCo valuation yields a share price of $12.40, assuming 0% to 20% of synergies shared. In order to be able to assume 100% of shared synergies, Leonardo DRS would have needed to offer $29.23 per common stock of RADA, which values RADA at $1,513 million.

5. Suggested Assignment Questions

1) Is Leonardo DRS ready for going public?

   Here the instructor should focus on which are the key traits of the companies going public, and what they seek. This would allow for class discussion on IPOs.

2) How much is Leonardo DRS worth?

   The students should prepare DCF and Multiples valuation on their own. Precisely, the students will undertake two valuations, based on the provided necessary information.

3) What were the reasons of the IPO postponement?

   The instructor should initiate a class discussion on what affects the process of undertaking an IPO and the market's effect.

4) What are the best alternatives for Leonardo DRS now?

   Why not re-try a second IPO? *The instructor should discuss with students the best inorganic options available. He should highlight the advantages and disadvantages.*

5) What were the reasons behind Leonardo DRS merger with RADA?

   The students should come up with their own ideas, also mentioning qualitative factors other than larger combined enterprise value due to synergies.

6) Is RADA a good target?

   The students should explore this through a DCF and Multiples valuation.

7) What are the expected synergies of the merger with RADA?

   The students perform an add-on exercise i.e., a pro-forma valuation of the combined company, analyzing the created synergies.

6. Suggested Teaching Plan

6.1. Suggested Class Structure

This class structure assumes that the students read the case study before the first session.

Day 1 – DRS' IPO

25 mins	1. **Introduction:** Why does DRS want to do an IPO? Explain the reasons behind doing an IPO.
35 mins	2. **Valuation of the IPO:** DCF and multiple valuation of DRS
25 mins	3. **Discussion:** What were the reasons behind the IPO postponement? 4. **Growth strategies:** What are the different growth options for DRS after the IPO postponement?
5 mins	5. **Conclusion:** Summary and what happened in the end

Day 2 – The Deal

10 mins	1. **Introduction:** What is the growth strategy Mr. Lynn undertook (short recap of day 1)?
50 mins	2. **Reverse Merger:** What are the advantages and disadvantages compared to an IPO? Why does DRS want to undertake a reverse merger with RADA? 3. **Valuation of the deal:** DCF and multiple valuation of RADA and DCF of the New Co
35 mins*	6. **Merger Agreement:** How is a merger agreement structured and what are the components of it? What are the conditions for the completion of the merger? What are the termination conditions and fees? How does the NASDAQ and TASE listing work? What are the different interests between RADA and DRS shareholders and Directors in the merger? 7. **Analysis of the deal risks:** What are the mutual risks? What are DRS and RADA specific risks?
5 mins	8. **Conclusion:** Summary and what happened in the end

** Note that this section can be considered as a bonus section, hence, depending on the instructor's interests, the suggested time can flow into the other section according to the instructor's time schedule*

6.2. Suggested Discussion Questions

Questions are the primary instrument for the teacher to drive class discussion. Hence, in this section, a list of suggested discussion questions is presented to the instructor. For the instructor to maintain a linear extent of focus throughout the case, the following suggested discussion questions are thought to maintain a stable level of focus throughout the case, by mixing the typology of questions every time, hence alternating a 1-on-1 discussion to group discussions. The following questions are thought to be used during the roll out of the substantial analysis.

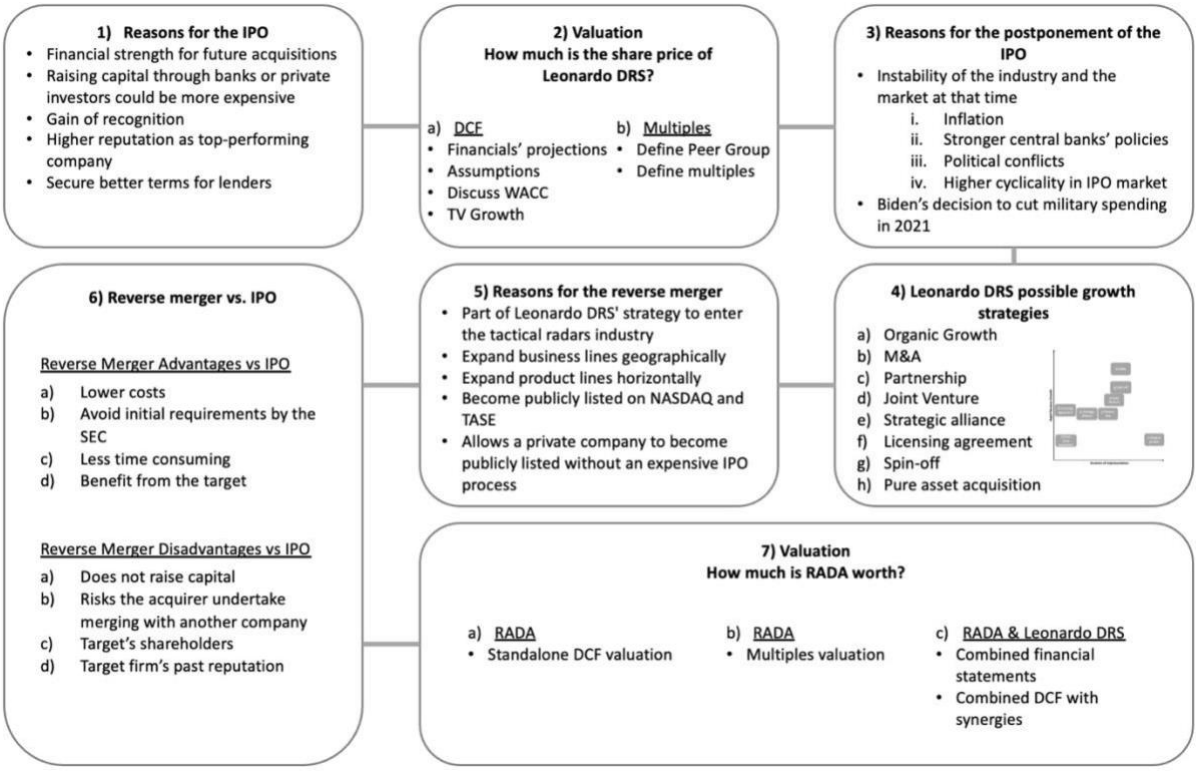
Section	Questions
Section 4.1: The DRS' IPO	
4.1.1. Reasons Behind Doing the IPO	- **(IS)** What is an IPO? Can you think of other companies that recently went public? - **(IS)** Why might a private company consider going public? - **(AN)** What are the core steps involved in the IPO process? And how can IBs help? - **(PR)** Why might DRS consider an IPO as the best option for raising capital to finance future acquisitions? What are the implied risks?
4.1.2. Valuation Results of DRS	- **(IS)** What is a DCF? - **(AN)** What are the assumptions made in the base case? And why is it important to develop more than one scenario? - **(SP)** Divide the class between who thinks RADA is a buy or sell stock, and discuss the decision drivers - **(GE)** How do DCF compare to Multiple Valuation?
4.1.3. Why did the IPO Fail	- **(IS)** What were the adverse market conditions that led to the fail of DRS' IPO? - **(AN)** How might the failure affect DRS' future plans? - **(HY)** What could have been the outcome if DRS had gone ahead with the IPO? - **(GE)** How common are IPO failures? And what are the essentials for success?

4.2. DRS' New Growth Strategies	
4.2.1. Overview of the Available Options	- **(SP)** Divide class into small groups and let them present which they believe to be the best and worst options for DRS' growth, and why?
4.2.2. Focus on the Reverse Merger	- **(IS)** What is a reverse merger? And what are the pros and cons Vs. IPOs - **(AC)** Would you have advised RADA to pursue an IPO or a reverse merger? - **(PR)** If a private company has a negative reputation, is a reverse merger or an IPO a better option for going public? Why? - **(GE)** What industries might be particularly well-suited to using a reverse merger to go public?
4.3. Reverse Merger with RADA	
4.3.1 Reasons Behind the Merger	- **(IS)** Why is a reverse merger different from a traditional merger? - **(AN)** What factors led to pursue a reverse merger rather than other means? - **(AC)** How will the NewCo leverage the combined knowledge to address a bigger market and ensure integration/cultural alignment? - **(HY)** How could the market respond to the merger news? And what could be the consequences?
4.3.2. Valuation Results of RADA	- **(IS)** What are the key assumptions made? And what differs from the DRS' DCF ones? - **(AC)** How could the information derived from a DCF be used to make investment decisions? - **(PR)** How can changes in industry trends impact DCF valuation? - **(GE)** What are the limitations of DCF valuation?
4.3.3. Implied Synergies of the NewCo	- **(HY)** What might happen is the NewCo fails to achieve the assumed synergies? - **(SP)** Considering the synergies and the value paid by DRS, do you think this was a good deal? Divide in groups and presents the reasons of the answers

4.4. Merger Agreement	
4.4.1. Regulatory Approval	- **(IS)** Which US agencies are responsible for the approval of the merger? - **(AN)** What are the grounds on which a merger is approved or not? - **(AC)** What steps should a company take in order to ensure that the merger will be approved?
4.4.2. Conditions for Completion of the Merger	- **(AN)** Why is it necessary for RADA shareholders to approve the merger? - **(GE)** What do you think are the most relevant requirements that must be met for the merger to take place?
4.4.3. No Solicitation of Acquisition Proposals	- **(IS)** What are the specific limitations imposed by the merger agreement? And what are the rationales behind them? - **(AN)** What factors might the RADA board consider when deciding whether a proposal qualifies as "superior"
4.4.4. & 4.4.5 Termination of the Agreement and implied Fees	- **(IS)** What are the circumstances under which DRS or RADA can terminate the agreement? And what are the termination fees for each side? - **(AN)** How could the termination fees impact RADA's P&L? - **(PR)** Based on the given information, what do you predict will happen with the merger agreement? Potentially divide class into groups to enable discussion. - **(GE)** In what ways can such clauses be beneficial or detrimental? And are clauses potentially different by industry?
4.4.6. NASDAQ and TASE Listing	- **(IS)** Will DRS' stock have different ticker symbols on the two markets? - **(AN)** What are the pros and cons of DRS being dual-listed? - **(SP)** Small group discussion and presentation of reasons regarding whether being dual-listed might increase/decrease/not change a company's share price.
4.4.7. Interest of RADA and DRS Directors in the merger	- **(IS)** What are transaction bonuses? - **(AN)** What potential agency conflicts could transaction bonuses lead to? - **(AN)** How might the interests of RADA directors and executive officers differ from those of RADA's stockholders in the merger? - **(AC)** How can potential conflicts of interest between RADA's directors and executive officers and the company's stockholders be mitigated? And what could happen if these are not mitigated effectively?

4.5. Risk Factors	
4.5.1. Mutual Risks; 4.5.2. DRS-Specific Risks; 4.5.3. RADA-Specific Risks	- **(IS)** What is the exchange ratio between DRS and RADA? - **(AN)** What risks arise from the exchange ratio being fixed? - **(SP)** Divide class into small groups, and let them rank the identified risks according to the degree of potential consequences, and finally explain the reasons behind the rankings - **(AC)** What steps can be taken to mitigate technical risk and geopolitical risks? - **(GE)** What are other strategies that companies can employ to mitigate risks?

6.3. Suggested Board Plan



7. Exhibits

Exhibit TN-1. Summary of Comparable Approach of DRS

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Average Revenues Growth by year	**0.0%**	**(0.1%)**	**2.3%**	**5.7%**	**9.3%**	**10.2%**	**18.9%**	**9.5%**	**11.9%**	**5.7%**
Average from 2014 to 2022										**8.2%**
Average EBIT Margin Growth by year	**9.8%**	**11.6%**	**13.6%**	**13.2%**	**14.5%**	**13.7%**	**13.4%**	**(6.2%)**	**12.4%**	**11.8%**
Average from 2014 to 2022										**10.9%**
Average Change in NWC % of revenues by year	**0.0%**	**0.2%**	**(0.3%)**	**2.2%**	**3.9%**	**1.5%**	**5.3%**	**4.1%**	**0.0%**	**0.7%**
Average from 2014 to 2022										**2.0%**
Average NWC % of revenues by year	**20.1%**	**20.2%**	**21.7%**	**23.7%**	**14.9%**	**31.4%**	**30.1%**	**29.9%**	**28.6%**	**30.1%**
Average from 2014 to 2022										**25.6%**
Average CapEx % of revenues by year	**2.3%**	**2.7%**	**2.6%**	**3.0%**	**3.2%**	**3.0%**	**3.5%**	**3.5%**	**3.4%**	**3.2%**
Average from 2014 to 2022										**3.1%**

Source: Casewriters analysis based on Exhibit 11 & 12

Exhibit TN-2. WACC Breakdown of DRS

E/EV	97.60%
Equity Cost	11.57%
D/EV	2.40%
Debt Cost	1.73%
WACC	**11.30%**

Risk Free Rate	1.34%
Equity Risk Premium	10.23%
Beta	1.10
Country/Region Premium	9.30%
Expected Market Return	10.64%
Risk Free Rate	1.34%
Equity Cost	**11.57%**
Market Capitalisation	**465**

Cost of Debt	**1.73%**
Short Term Debt	2.26
Long Term Debt	9.16
Total Debt	**11.42**

Source: Casewriters analysis based on Exhibit 23 & 24

Exhibit TN-3. DCF Valuation of DRS – Base Case Scenario

	Base Case
Revenue 2030	8%
EBIT Margin 2030	11%
CapEx as % of Sales 2030	3%
NWC as % of Sales 2030	26%
WACC	8%
TGR	3%
Taxes	24%

Base Scenario DCF

	2021	*2022*	*2023*	*2024*	*2025*	*2026*	*2027*	*2028*	*2029*	*2030*
Unlevered FCF	**113**	**116**	**119**	**122**	**124**	**125**	**125**	**122**	**116**	**105**
Present Value of FCF	105	99	94	89	84	78	72	65	57	47
Terminal Value										2 063
Present Value of Terminal Value										936
Enterprise Value										**1 726**
Cash										240
Debt										393
Equity Value										**1 573**
Number of Shares Outstanding (millions)										145
Share Price										**$ 10.85**

Source: Casewriters analysis based on Exhibits 1, 2, 3, TN-1, TN-2

Exhibit TN-4. DCF Valuation of DRS – Conservative Case Scenario

Conservative Case	
Revenue 2022-24 vs Base	(1%)
EBIT 2022 Vs Base	(1%)
EBIT 2030	9%
WACC	10%
TGR	2%

Conservative Scenario DCF

	2021	*2022*	*2023*	*2024*	*2025*	*2026*	*2027*	*2028*	*2029*	*2030*
Unlevered FCF	**115**	**117**	**120**	**121**	**123**	**124**	**123**	**120**	**115**	**104**
Present Value of FCF	105	98	90	84	77	71	64	57	50	41
Terminal Value										1 289
Present Value of Terminal Value										509
Enterprise Value										**1 247**
Cash										240
Debt										393
Equity Value										**1 094**
Number of Shares Outstanding (millions)										145
Share Price										**$ 7.54**

Source: Casewriters analysis based on Exhibits 1, 2, 3, TN-1, TN-2

Exhibit TN-5. DCF Valuation of DRS – Optimistic Case Scenario

Optimistic Case	
Revenue 2022 vs Base	1%
EBIT 2022	1%
EBIT 2031	12%
WACC	7%
TGR	5%

Optimistic Scenario DCF

	2021	*2022*	*2023*	*2024*	*2025*	*2026*	*2027*	*2028*	*2029*	*2030*
Unlevered FCF	**112**	**115**	**119**	**122**	**125**	**127**	**127**	**124**	**117**	**104**
Present Value of FCF	105	101	98	94	90	86	80	74	65	54
Terminal Value										4 882
Present Value of Terminal Value										2 546
Enterprise Value										**3 394**
Cash										240
Debt										393
Equity Value										**3 241**
Number of Shares Outstanding (millions)										145
Share Price										**$ 22.35**

Source: Casewriters analysis based on Exhibits 1, 2, 3, TN-1, TN-2

Exhibit TN-6. Multiple Valuation of DRS Standalone

2021A DRS Financial Metrics (in $ million)

Cash	240
Debt	393
Number of Shares	145

2021E Trading Multiple

	Revenue	EBITDA	EBIT
Minimum	1.1x	7.1x	11.6x
Mean	2.4x	13.5x	20.5x
Median	1.9x	13.2x	15.5x
Maximum	5.3x	23.3x	42.7x

2021E DRS Financial Metrics

	Revenue	EBITDA	EBIT
Minimum	2 879	303	245
Mean	2 879	303	245
Median	2 879	303	245
Maximum	2 879	303	245

2021E Implied Enterprise Value (in $ million)

	Revenue	EBITDA	EBIT
Minimum	3 036	2 157	2 852
Mean	6 842	4 093	5 011
Median	5 433	3 998	3 791
Maximum	15 140	7 068	10 458

2021E Implied Equity Value (in $ million)

	Revenues	EBITDA	EBIT
Minimum	2 883	2 004	2 699
Mean	6 689	3 940	4 858
Median	5 280	3 845	3 638
Maximum	14 987	6 915	10 305

Source: Casewriters analysis based on Exhibit 13
Note: For the purpose of the case study, the casewrites used Leonardo DRS and Thales 2021A financial metrics being the estimates not available on Bloomberg. Also, the EV of the peers and DRS are 2021A since estimates are not available on Bloomberg. Cash, Debt and Shares are also 2021A.

Exhibit TN-7. Summary of Comparable Approach of RADA

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Average Revenue Growth by year	**0.0%**	**(1.5%)**	**1.1%**	**5.5%**	**6.4%**	**10.2%**	**18.5%**	**9.7%**	**11.2%**	**6.7%**
Average 2013-2022										**6.8%**
Average EBIT Margin Growth by year	**8.4%**	**10.3%**	**11.1%**	**10.9%**	**12.7%**	**12.8%**	**12.6%**	**(3.5%)**	**11.5%**	**9.9%**
Average from 2013-2022										**9.7%**
Average Change in NWC % of revenues by year	**--**	**1.5%**	**0.3%**	**2.7%**	**5.1%**	**2.8%**	**6.9%**	**6.2%**	**(3.1%)**	**(1.9%)**
Average from 2013-2022										**2.3%**
Average NWC % of revenues by year	**24.0%**	**25.2%**	**24.8%**	**26.3%**	**30.8%**	**27.6%**	**30.6%**	**32.6%**	**26.2%**	**22.1%**
Average from 2013-2022										**27.4%**
Average CapEx % of revenues by year	**2.5%**	**2.6%**	**2.5%**	**2.9%**	**3.5%**	**3.2%**	**3.5%**	**3.7%**	**3.7%**	**3.6%**
Average from 2013-2022										**3.2%**

Source: Casewriters analysis based on Exhibits 11 & 12

Exhibit TN-8. WACC Breakdown of RADA

E/EV	80.20%
Equity Cost	9.88%
D/EV	19.80%
Debt Cost	1.52%
WACC	**8.23%**

Risk Free Rate	1.41%
Equity Risk Premium	8.47%
Beta	1.00
Country/Region Premium	8.47%
Expected Market Return	9.88%
Risk Free Rate	1.41%
Equity Cost	**9.88%**
Shareholders Equity	**1 593**

Cost of Debt	**1.52%**
Short Term Debt	41
Long Term Debt	352
Total Debt	**393**

Source: Casewriters analysis based on E

Exhibit TN-9. DCF Valuation of RADA – Base Case Scenario

Base Case	
Revenue 2030	8%
EBIT Margin 2030	11%
CapEx as % of Sales 2030	3%
NWC as % of Sales 2030	26%
WACC	8%
TGR	3%
Taxes	24%

Base Scenario DCF

	2021	*2022*	*2023*	*2024*	*2025*	*2026*	*2027*	*2028*	*2029*	*2030*
Unlevered FCF	**(10 238)**	**(1 714)**	**9 369**	**21 859**	**34 511**	**46 237**	**56 240**	**64 059**	**69 531**	**72 726**
Present Value of FCF	(9 196)	(1 382)	6 789	14 227	20 175	24 278	26 524	27 136	26 456	24 855
Terminal Value										898 806
Present Value of Terminal Value										307 171
Enterprise Value										**467 034**
Cash										112 000
Debt										37 243
Equity Value										**541 791**
Number of Shares Outstanding (millions)										49
Share Price										**$ 10.97**

Source: Casewriters analysis based on Exhibits 4, 5, 6, TN-5, TN-6

Exhibit TN-10. DCF Valuation of RADA – Conservative Case Scenario

Conservative Case	
Revenue 2022-24 vs Base	(1%)
EBIT 2022 Vs Base	(1%)
EBIT 2030	9%
WACC	10%
TGR	2%

Conservative Scenario DCF

	2021	*2022*	*2023*	*2024*	*2025*	*2026*	*2027*	*2028*	*2029*	*2030*
Unlevered FCF	**(10 575)**	**(2 276)**	**8 345**	**20 099**	**31 750**	**42 255**	**50 893**	**57 287**	**61 358**	**63 243**
Present Value of FCF	(9 456)	(1 820)	5 966	12 849	18 150	21 599	23 262	23 413	22 423	20 666
Terminal Value										694 478
Present Value of Terminal Value										226 941
Enterprise Value										**363 993**
Cash										112 000
Debt										34 727
Equity Value										**441 266**
Number of Shares Outstanding (millions)										49
Share Price										**$ 8.93**

Source: Casewriters analysis based on Exhibits 4, 5, 6, TN-5, TN-6

Exhibit TN-11. DCF Valuation of RADA – Optimistic Case Scenario

Optimistic Case	
Revenue 2022 vs Base	1%
EBIT 2022	1%
EBIT 2031	12%
WACC	7%
TGR	5%

Optimistic Scenario DCF

	2021	*2022*	*2023*	*2024*	*2025*	*2026*	*2027*	*2028*	*2029*	*2030*
Unlevered FCF	**(9 883)**	**(1 117)**	**10 456**	**23 730**	**37 462**	**50 523**	**62 046**	**71 485**	**78 593**	**83 365**
Present Value of FCF	(8 917)	(909)	7 680	15 725	22 399	27 255	30 199	31 392	31 140	29 802
Terminal Value										1 176 440
Present Value of Terminal Value										420 564
Enterprise Value										**606 331**
Cash										112 000
Debt										39 790
Equity Value										**678 540**
Number of Shares Outstanding (millions)										49
Share Price										**$ 13.73**

Source: Casewriters analysis based on Exhibits 4, 5, 6, TN-5, TN-6

Exhibit TN-12. Multiple Valuation of RADA Standalone

2022A RADA Financial Metrics (in $ million)

Cash	79
Debt	11
Number of Shares	50

2022E Trading Multiple

	Revenue	EBITDA	EBIT	Net Income
Minimum	1.4x	9.2x	12.4x	17.0x
Mean	2.4x	14.9x	24.6x	34.7x
Median	2.4x	15.5x	20.6x	22.7x
Maximum	4.4x	19.3x	73.7x	131.1x

2022E RADA Financial Metrics

	Revenue	EBITDA	EBIT	EPS
Minimum	115	19	8	0.22
Mean	115	19	8	0.22
Median	115	19	8	0.22
Maximum	115	19	8	0.22

2022E Implied Enterprise Value (in $ million)

	Revenue	EBITDA	EBIT
Minimum	159	178	102
Mean	278	288	203
Median	270	301	170
Maximum	505	375	609

2022E Implied Equity Value (in $ million)

	Revenue	EBITDA	EBIT	Net Income
Minimum	227	246	170	187
Mean	346	356	271	382
Median	338	369	238	249
Maximum	573	443	677	1 442

Source: Casewriters analysis based on Exhibit 14
Note: For the purpose of the case study, the caswwriters did not include Aerovironemnt and Kratos Defense and Security Solutions as their 2022E EBIT and Net Income were negative.Also, the EV of the peers and RADA are 2022A since estimates are not available on Bloomberg. Cash, Debt and Shares are also 2022A.

Exhibit TN-13. NewCo Adjusted Income Statement

	2019	2020	2021
Adjusted Revenue	2 518	2 606	2 735
% Growth		*3.5%*	*5.0%*
Adjusted COGS	(2 078)	(2 122)	(2 186)
% Growth		*2.1%*	*3.0%*
Adjusted Gross Profit	440	483	549
% Growth		*9.9%*	*13.7%*
Adjusted R&D	(7)	(9)	(10)
% Growth		*28.0%*	*13.2%*
Adjusted SG&A	(320)	(330)	(344)
% Growth		*3.1%*	*4.4%*
Adjusted Other Operating Expenses	(10)	(21)	(9)
% Growth		*110.3%*	*(57.2%)*
Adjusted D&A	52	55	62
% Growth		*5.9%*	*11.5%*
Adjusted EBITDA	156	179	248
% Growth		*15.2%*	*38.3%*
Adjusted D&A	52	55	62
% Growth		*5.9%*	*11.5%*
Adjusted EBIT	103	124	186
% Growth		*19.9%*	*50.3%*
Adjusted Intertest Expense	(33)	(33)	(18)
% Growth		*(2.0%)*	*(44.9%)*
Adjusted Other	(3)	(5)	(1)
% Growth		*66.7%*	*(80.0%)*
Adjusted EBT	67	86	167
% Growth		*28.8%*	*94.2%*
Adjusted Tax Provision	(16)	(21)	(40)
% Growth		*28.8%*	*94.2%*
Adjusted Other Tax-related Costs	(0)	--	--
% Growth		*(100.0%)*	*0.0%*
Adjusted Net Income	51	65	127
% Growth		*29.1%*	*94.2%*

Source: Casewriters analysis based on Exhibits 26

Exhibit TN-14. NewCo WACC Breakdown

E/EV	75.40%
Equity Cost	9.24%
D/EV	24.60%
Debt Cost	3.86%
WACC	**7.91%**

Risk Free Rate	3.54%
Equity Risk Premium	5.70%
Beta	1.00
Country/Region Premium	5.70%
Expected Market Return	9.24%
Risk Free Rate	3.54%
Equity Cost	**9.24%**
Shareholders Equity	**1 538**

Cost of Debt	**3.86%**
Short Term Debt	92
Long Term Debt	411
Total Debt	**503**

Source: Casewriters analysis based on Exhibit 23 & 24

Exhibit TN-15. DCF Valuation of NewCo – Base Case Scenario

Base Case	
Revenue 2031	3%
EBIT 2031	11%
CapEx 2025-2031	3%
D&A from 2022-2031	2%
NWC % of Sales 2023-31	2%
WACC	8%
TGR	3%
Tax Rate	24%

Base Scenario DCF

	2021	*2022*	*2023*	*2024*	*2025*	*2026*	*2027*	*2028*	*2029*	*2030*
Unlevered FCF	**232**	**222**	**215**	**208**	**203**	**199**	**196**	**193**	**190**	**188**
Present Value of FCF	215	191	171	154	139	126	115	105	96	88
Terminal Value										3 944
Present Value of Terminal Value										1 842
Enterprise Value										**3 240**
Cash										418
Debt										431
Equity Value										**3 226**
Number of Shares Outstanding (millions)										260
Share Price										**$ 12.41**

Source: Casewriters analysis based on Exhibits 11, 12, 26, TN-9

Exhibit TN-16. DCF Valuation of NewCo – Conservative Case Scenario

Conservative Case	
Revenue 2022-24 vs Base	-1%
Revenue 2031	-1%
EBIT 2022 Vs Base	-2%
EBIT 2031	9%
WACC	9%
TGR	2%

Conservative Scenario DCF

	2021	*2022*	*2023*	*2024*	*2025*	*2026*	*2027*	*2028*	*2029*	*2030*
Unlevered FCF	**234**	**222**	**212**	**203**	**196**	**190**	**184**	**180**	**175**	**172**
Present Value of FCF	214	186	162	142	125	111	98	87	78	70
Terminal Value										2 202
Present Value of Terminal Value										895
Enterprise Value										**2 168**
Cash										418
Debt										431
Equity Value										**2 155**
Number of Shares Outstanding (millions)										260
Share Price										**$ 8.29**

Source: Casewriters analysis based on Exhibits 11, 12, 26, TN-9

Exhibit TN-17. DCF Valuation of NewCo – Optimistic Case Scenario

Optimistic Case	
Revenue 2022 vs Base	1%
Revenue 2031 vs Base	1%
EBIT 2022	2%
EBIT 2031	13%
WACC	6%
TGR	5%

Optimistic Scenario DCF

	2021	*2022*	*2023*	*2024*	*2025*	*2026*	*2027*	*2028*	*2029*	*2030*
Unlevered FCF	**229**	**222**	**217**	**213**	**211**	**209**	**207**	**207**	**206**	**206**
Present Value of FCF	215	196	180	166	154	144	134	126	118	111
Terminal Value										11 257
Present Value of Terminal Value										6 046
Enterprise Value										**7 590**
Cash										418
Debt										431
Equity Value										**7 577**
Number of Shares Outstanding (millions)										260
Share Price										**$ 29.14**

Source: Casewriters analysis based on Exhibits 11, 12, 26, TN-9

Exhibit TN-18. Potential Synergies

Value of Leonardo DRS (Standalone)		1 726
Value of RADA (Standalone)		467
DRS + RADA		**2 193**
New Co		**3 240**
Synergies		1 046
Price paid for RADA	**$**	**511**

Fair value of the Company common stock (RADA SP on Nov 28, 2022)	$	9.87
Share Price of NewCo	$	12.41
Difference in Prices	$	2.54
Takeover Premium		**25.70%**
Assumption on number of common shares		51.77

Synergies Asssumptions (in %)	
Revenue	2.4%
COGS	1.0%
SG&A	2.0%

Source: Casewriters analysis based on Exhibits 21, 22, TN-10

Exhibit TN-19. DCF Valuation of NewCo with Potential Synergies

Synergies Assumptions* (in %)	
Revenue	2.4%
COGS	1.0%
SG&A	2.0%
Total Synergies - $	1 046

**The core assumptions are the same as the one without synergies*

Base Scenario DCF

	2021	*2022*	*2023*	*2024*	*2025*	*2026*	*2027*	*2028*	*2029*	*2030*
Unlevered FCF	**248**	**241**	**242**	**243**	**245**	**248**	**252**	**257**	**261**	**266**
Present Value of FCF	230	207	192	179	168	157	148	139	132	124
Terminal Value										5 585
Present Value of Terminal Value										2 608
Enterprise Value										**4 285**
Cash										418
Debt										431
Equity Value										**3 436**
Number of Shares Outstanding (millions)										260
Share Price										**$ 13.21**

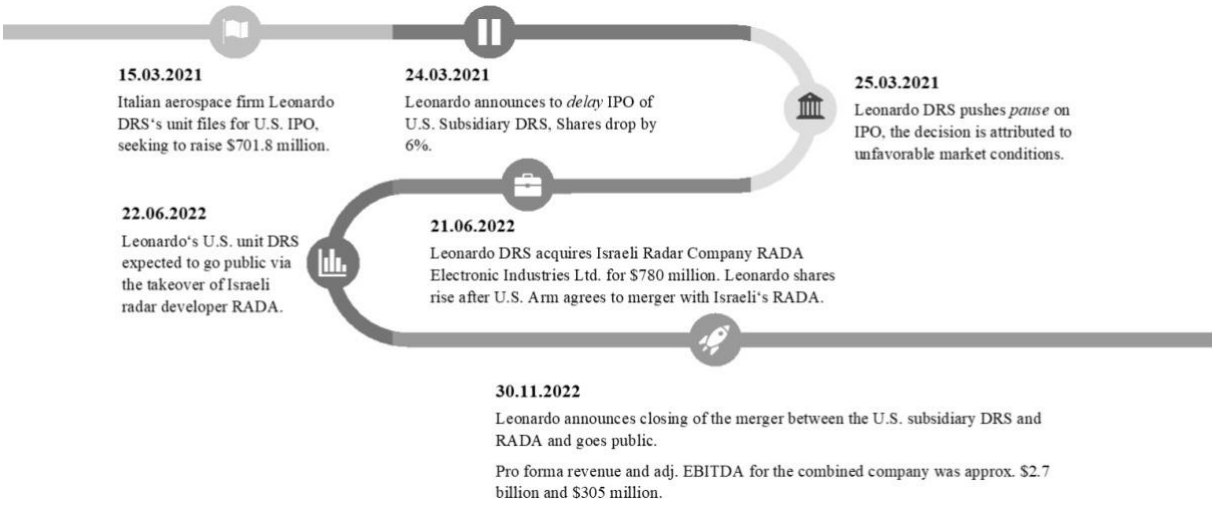
Source: Casewriters analysis based on Exhibits TN-11

Exhibit TN-20. Range of Offer Prices with Synergies

% of Synergy shared	Dollar value of Synergy shared	Value of target + Synergy	Offer price (52 million outstanding shares)
0%	-	467	9,02
10%	105	572	11,04
20%	209	676	13,06
30%	314	781	15,08
40%	419	886	17,11
50%	523	990	19,13
60%	628	1 095	21,15
70%	732	1 200	23,17
80%	837	1 304	25,19
90%	942	1 409	27,21
100%	1 046	1 513	29,23

Source: Casewriters analysis based on Exhibits TN-12

Exhibit TN-21. What Happened? Timeline of events



Source: S-4 Statement

Exhibit TN-22. The Merger Agreement, Part

Regulatory Approval	1) Hart-Scott-Rodino Antitrust Improvements Act of 1976's pre-merger notification requirements do not apply to the merger, but the Defence Counterintelligence and Security Agency and the interagency Committee on Foreign Investment in the U.S. must still approve it 2) The merger is exempt from pre-merger notification requirements however the Department of Justice, Federal Trade Commission or any state or foreign governmental entity could still challenge the merger on: a) Antitrust b) Competition c) Foreign investment d) Others
Conditions to Completion of the Merger	1) The merger agreement must receive the necessary approval from RADA shareholders 2) The listing of DRS common stock on NASDAQ to be authorized 3) The permission of various regulatory authorities 4) The absence of any laws or orders that would forbid the merger 5) Getting the Israeli Investment Center's and several Israeli government agencies' clearances These requirements must be accomplished without the introduction of any conditions or penalties that would cause significant harm <u>Additional requirements specific to RADA:</u> 1) RADA must have fulfilled all duties imposed by the merger agreement 2) All representations and warranties made by RADA as of the closure date must be truthful and accurate <u>Additional requirements specific to Blackstart:</u> 1) It must get a certificate from RADA's executive officer confirming that all requirements have been met

Source: S-4 Statement

Exhibit TN-22. The Merger Agreement, Part

No Solicitation of Acquisition Proposals	RADA and its subsidiaries will refrain from initiating or supporting any acquisition proposals, engaging in discussions or negotiations about such proposals, or disclosing any information to third parties in connection with such proposals from the date of the agreement until the merger is either completed or terminated But, if RADA gets an unsolicited written purchase proposal that wasn't the result of a violation of these requirements, there is an exception to these limitations: 1) RADA may make contact with the proposer to get clarification of the contents of the proposal, to provide information in response to a request, and to engage in talks or negotiations with the proposer. This is only allowed if RADA's board determines that the proposal is superior, or would be anticipated to produce a superior proposal, and that failing to act in this manner would be contrary to the directors' fiduciary duties 2) To qualify as a "superior proposal," a party or group must submit an unsolicited, legitimate written acquisition offer that would make them the beneficial owner of more than 50% of RADA's voting power, more than 50% of its consolidated net revenues, net income, or all its assets, instead of DRS or its affiliates. RADA's board of directors must decide that the proposal would lead to a transaction that would be more financially advantageous to RADA's shareholders than the merger, taking into account any changes to the terms of the merger agreement that RADA may be required to make under the terms of the agreement
Termination of the Merger Agreement	The DRS and RADA merger agreement may be terminated by mutual agreement or unilaterally by any party: <u>For DRS:</u> DRS can terminate the agreement if RADA does not respect its "no shop" obligations, materially breaches its representations and warranties, or fails to obtain the necessary vote for the merge <u>For RADA:</u> RADA can terminate the agreement if DRS or Blackstart materially breach their representations and warranties or fail to perform their obligations, or if RADA authorizes an alternative acquisition agreement in response to a superior proposal and pays the termination fee

Exhibit TN-22. The Merger Agreement, Part

Termination Fee	Termination fee is required: 1) If the merger agreement between the two parties were to be dissolved RADA would be required to pay DRS a $40 million termination fee 2) If the merger is not completed by the outside date 3) If the needed RADA vote is not received 4) If there is a RADA material breach termination 5) If RADA or its subsidiaries engage into an alternative acquisition agreement or complete an acquisition proposal within a year of termination 6) If Leonardo DRS ends the contract due to a no-shop breach or because the RADA board of directors changed its recommendation without first obtaining the appropriate RADA vote 7) If RADA ends the contract through a fiduciary out termination or a no-requisite RADA vote termination when Leonardi DRS would have been eligible to do so due to a no-shop violation
NASDAQ and TASE Listings; Delisting and Deregistration of RADA shares	Before the merger closes: 1) DRS has committed to making every attempt to obtain clearance for the listing of DRS common stock, including the shares issued in the merger, on the NASDAQ and the TASE 2) DRS common stock will be listed on both exchanges following the merger under the ticker symbol "DRS" 3) RADA shares won't be listed or registered under the Exchange Act or the Israeli Securities Law after the merger is finalized 4) RADA will not need to submit periodic reports to the SEC for RADA shares.

Source: S-4 Statement

Exhibit TN-22. The Merger Agreement, Part

Interests of RADA and DRS Directors and Executive Officers in the Merger	<u>Interests of RADA Directors & Executives:</u> **1) Transaction bonuses:** a) Before the merger: Cash payments b) After the merger: Retention awards **2) Restricted Stock Units (RSUs):** RADA employees newly receive or are replaced with DRS options <u>Interests of DRS Directors & Executives:</u> 1) **Omnibus Plan:** a) After the merger: One-Time Awards, maximum share value of 1 million shares and consisting of 40% RSUs and 60% PRSUs set fro two years after the merger closure 2) **Performance Related Stock Units (PRSUs)** that will be calculated based on the average closing price of a share of DRS's common stock on NASDAQ over the prevous ninety calendar days

Source: S-4 Statement

Exhibit TN-23. Interests of RADA's Director and Executive Officers in the deal

Transaction Bonuses

Name	Transaction Bonuses (in $)
Dubi Sella	2 000 000
Avi Israel	500 000
Max Cohen	100 000
Yossi Ben Shalom	1 200 000

Retention Awards

Name	Target RSUs (in $)
Dubi Sella	300 000
William Watson	100 000
Avi Israel	100 000
Max Cohen	120 000
All Other Key Employees and Executive Officers	375 000

Source: S-4 Statement

Exhibit TN-24. Interests of DRS's Director and Executive Officers in the deal

One-Time Awards

	Target RSUs (in $)	Target PRSUs (in $)
William Lynn	142 857	214 286
John Baylouny	42 857	64 286
Michael Dippold	34 286	51 429
Mark Dorfman	29 714	44 571
Sally Wallace	13 429	20 143
All Non-Employee Directors	22 856	34 288
All Other Key Officers	111 890	167 831

Source: S-4 Statement

Exhibit TN-25. DRS and RADA mutual risks

Exchange rate risk	Because the exchange ratio is predetermined and will not change in the event that the share prices of Leonardo DRS or RADA fluctuate, the merged company's value is undetermined by the effective time. The Leonardo DRS' common stock that RADA owners receive as a result of the merger has distinct rights from the RADA shares that they originally owned.
Market Risk	Due to shifts in the financial market, the value of both Leonardo DRS and RADA may fluctuate. This risk develops as a result of the market's irrationality and the shifting nature of the economy.
Technical Risk	In order to function, both Leonardo DRS and RADA rely largely on technology. Any technological error, system failure, or cyber-attack might stop them from operating normally, harm their reputation, and result in financial losses.
Regulatory Risk	Leonardo DRS and RADA's activities may be impacted by changes to laws or rules governing the sector. This can be tighter environmental rules, modifications to tax laws, or adjustments to government regulations that have an impact on the industries they work in.
Competition Risk	The risk of competition is there for both Leonardo DRS and RADA due to the presence of rival businesses in each sector. Market share, sales, and profit could all decline as a result of increased competition.

Source: S-4 Statement

Exhibit TN-26. DRS and RADA specific risks

DRS-specific risks	RADA-specific risks
Dependency on Government Contracts:A sizeable amount of Leonardo DRS's income is derived from government contracts (i.e., U.S. Pentagon). Its financial performance could be significantly impacted by budget cuts, policy changes, or the loss of a government contract.	Dependency on Defence Contracts: A sizeable amount of RADA's income is derived from defence contracts. Its financial performance could be greatly impacted by any adjustments to defence budgets, spending cuts, wars, or the loss of a defence contract.
Acquisition Risk: As a growth strategy, Leonardo DRS has a history of acquiring other businesses. Purchases come with numerous dangers, such as the possibility of paying too much, problems integrating the purchased business, and cultural incompatibilities.	Development Risk: The research and manufacturing of cutting-edge defence technology is the main goal of RADA's operations. There are considerable dangers associated with this, such as the risk of technological failure, protracted development times, and redundant expenses for research and development.
Currency Risk: Due to its international operations, Leonardo DRS is subject to currency fluctuations that may have an effect on its financial results. The value of its assets and obligations denominated in foreign currencies, as well as its sales and earnings, could all be impacted by changes in exchange rates.	Geopolitical Risk: RADA conducts business in nations that are vulnerable to geopolitical unrest and war. Geopolitical events may cause its activities to be disrupted, which could have a negative effect on its financial performance.

Source: S-4 Statement

Exhibit TN-27. Discussion questions methodology

Abreviation	Meaning	Description
IS	Information Seeking	These queries aim to learn more or get a better understanding of a specific subject. Typically, they start with a question mark or a word like "what," "who," "when," "where," "why," or "how."
AN	Analytical	These are the kinds of queries that call for analysis or critical thought. They frequently challenge the reader to look closely at a certain situation or text and look for patterns or connections between various parts.
AC	Action	These are inquiries that call for the reader to act, either by choosing a course of action or by offering one. They frequently start off with a word like "should," "would," or "could."
HY	Hypothetical	These are questions that compel the reader to think of a fictitious circumstance and speculate on what would transpire there. They frequently start off with a phrase like "what if," "suppose," or "imagine."
PR	Predictive	These are inquiries that ask the reader to foresee or forecast a specific circumstance or event. They frequently start off with a word like "will," "might," or "could."
GE	Generalisation	These are inquiries that challenge the reader to consider a more general theme or notion connected to the text or subject at hand. Beginning with phrases like "how does," "what is the significance of," or "what can we learn from," they are frequently used.
SP	Special Techniques	Finally, the special questions add a gamification trait to the class. Hence, special questions might fall under one or more of the categories mentioned above, however, they do require class division and discussion between group in order to tackle every possible side of the posed question

Source: Casewriters analysis

Exhibit TN-28. Detailed analysis of the pros and cons of each growth strategy, Part

a) Organic Growth

i) Mr. Lynn can determine Leonardo DRS individual appropriate pace and can adapt his management accordingly step by step. Hence, Leonardo DRS is not exposed to rising product quality decrease risks and overall risks linked with a too rapid expansion (e.g., an exponential increase of overhead costs, decreasing synergies).

ii) Organic growth does not require one large investment position; it is rather linked to plenty of small investments Leonardo DRS has to undertake.

iii) Unlike M&A, Leonardo DRS can maintain its own culture and identity as it doesn't have to integrate many employees at one time. Mr. Lynn can rather hire the necessary human capital step by step at the right time[35].

iv) In a highly competitive market, organic growth can be too slow which could result in Leonardo DRS losing market share and thus, the availability to keep up.

v) Especially smaller companies often don't have the possibility to build e.g., a new production site from scratch in order to profit from scalability effects. For that reason, it is often cheaper to buy an existing one and adapt it to their own needs.

vi) It is harder to convince new markets and thus new customers if Leonardo DRS is completely new in a foreign country compared to, for instance, partnerships with another company that is already well-established[36].

[35] Wickham, Philip A. 2000. Financial Times Corporate Strategy Casebook. Google Books. Financial Times/Prentice Hall.
[36] Id. Note 8

Exhibit TN-28. Detailed analysis of the pros and cons of each growth strategy, Part

b) Mergers & Acquisitions

i) It enables Leonardo DRS to get direct access to markets, customers, products, and technologies[37].

ii) With the right target, the Leonardo DRS can realize significant synergies such as shared resources, reduced costs, and increased efficiency.

iii) Leonardo DRS can diversify their product portfolio without being exposed to certain risks e.g., related to high up-front R&D costs.

iv) Acquiring a company can be very expensive especially if the target has a high reputation and a high brand value that emphasises high takeover premiums.

v) An acquisition can be subject to certain regulatory hurdles and antitrust laws which could delay the transaction.

vi) The integration of the target's operations and the alignment of the 2 cultures can be subject to additional time-consuming investments[38].

[37] DePamphilis, Donald. Mergers, Acquisitions, and Other Restructuring Activities: An Integrated Approach to Process, Tools, Cases, and Solutions. 1st ed. Elsevier Science, 2009.
[38] Id. Note 8

Exhibit TN-28. Detailed analysis of the pros and cons of each growth strategy, Part

c) Partnership

i) A partnership business is quite easy to form by virtue of minimal legal procedures required and possible tax advantages. Moreover, there are fewer reporting requirements in the financial statements. Similarly, it is also easy to give up, if the partnership fails for any reason.

ii) Each partner can focus on its strengths (Benefits of specialization) which fosters fast and efficient results.

iii) The risk portion of each partner is lower compared to other growth strategies as it is always shared with the partner.

iv) Due to the consent of all parties, short decision ways are not possible in a partnership.

v) A large amount of capital could be blocked for the partnerships. This could be a bad deal if Leonardo DRS might display better opportunities.

vi) When the partner has not a similar reputation on the market, consumers could lose trust which could affect the important revenue stream from a certain main business unit[39].

[39] Skripak, Stephen J., Anastasia Cortes, Anita R. Walz, Richard Parsons, and Gary Walton. 2018. Fundamentals of Business, Second Edition. Vtechworks.lib.vt.edu. VT Publishing.

Exhibit TN-28. Detailed analysis of the pros and cons of each growth strategy, Part

d) Joint Venture

i) A JV helps Leonardo DRS to grow in those areas where the company does not have enough expertise and would fail otherwise[40].

ii) Leonardo DRS can make the most use of the resources that are at its disposal e.g., machinery, material and manpower. In exchange, Leonardo DRS can profit from the partner's existing technologies or patents.

iii) Two large companies together can establish more presence in new, untapped markets including international opportunities.

iv) Making poor tactical decisions caused by a misunderstanding of each company's role can lead to lower performance as if both companies would compete individually.

v) If the companies bring different values of assets into the JV, then each company has to compensate the portion with a sufficient level of debt which increases the pressure on the capital structure.

vi) Coping with different cultures, management styles and working relationships in each business could lead to conflicts in the long term[41].

[40] Netzer, David. 2005. "Benzene supply trends and proposed method for enhanced recovery."
[41] Herzfeld, Edgar, and Adam Wilson. Joint Ventures. 1st ed. Jordans, 1996.

Exhibit TN-28. Detailed analysis of the pros and cons of each growth strategy, Part

e) Strategic Alliance

i) A temporal strategic alliance could help Leonardo DRS to develop more effective processes, expand into a new market and develop an advantage over a competitor[42].

ii) A strategic alliance could be the first step of a later transaction process as it gives a company a less restricted opportunity to work with a potential target.

iii) Especially for international markets, strategic alliances are a pretty decent way to overcome certain tariffs which enhances the financial situation of Leonardo DRS[43].

iv) There is an increased need to manage communication with senior managers and employees in both companies so that there is a consistent understanding of the objectives.

v) If the gain is not the same on both sides, the risk one company runs is that it offers a low-cost route to new technology and tacit knowledge. In essence, there could be mistrust among the parties when some competitive or proprietary information is required to share.

vi) If the boundaries are not clearly defined, the companies become too much dependent on each other that they find it difficult to operate distinctively at times when they are required to perform as a separate entity[44].

[42] Pahl, Nadine. International Strategic Alliances and Cross-Border Mergers & Acquisitions. 1st ed. GRIN Verlag, 2009.
[43] Glover, Stephen I., and Craig M. Wasserman. 2003. Partnerships, Joint Ventures & Strategic Alliances. Google Books. Law Journal Press.
[44] Id. Note 8

Exhibit TN-28. Detailed analysis of the pros and cons of each growth strategy, Part

f) Licensing Agreement

i) Payments for licenses might be much lower than in-house R&D costs. Accordingly, the product development cycle is shorter, and Leonardo DRS can bring products to the market faster[45].

ii) Using licenses in the first step of an expansion is less risky than a common foreign direct investment or an acquisition. Because if a target is bought, the problems are also part of the new combined entity.

iii) If a license is bought, the terms and conditions are clearly defined for both parties which is a better basis for future planning plausibility.

iv) Licensing could potentially create rivals in downstream markets, who could erode the license giver's future profits.

v) A company's enterprise value is always created in the manner of how assets are combined rather than the stand-alone value of each asset. Hence, if an important strategic part is not created internally or 100% acquired, this part could be worth less in the future.

vi) The cost of licensing is normally part of the SG&A cost-block and therefore shrinks a company's profits year over year. In comparison, if an asset or technology is bought, it can be depreciated over time until it is fully owned and part of the balance sheet where it can create long-term value[46].

[45] Gutterman, Alan. Technology-driven Corporate Alliances: A Legal Guide for Executives. 1st ed. London: Quorum Books, 1994.
[46] International Trade Centre. Secrets of Intellectual Property. 1st ed. UN, 2004.

Exhibit TN-28. Detailed analysis of the pros and cons of each growth strategy, Part

g) Spin-off

i) If a business unit is separated, the management can focus more on the operations of the core entity. Hence, it makes the management and future performance more accountable and responsible[47].

ii) The total market cap of the mother company rises which leads to a lower risk factor for investors, making future investments more stable and mature due to lower volatility and greater analyst coverage.

iii) The good infrastructure and already set-up processes give the opportunity to focus on a few product groups from the beginning on. Moreover, as the spinned-off entity is not part of the large conglomerate anymore, it can work along shorter decision ways and can create a kind of innovative, lean start-up culture.

iv) As the new entity is now split up, it will not profit from economies of scale in the future or other financial advantages as everything will be organized as certain types of loans from the mother company.

v) It could be, that employees feel safer if they are working for a large conglomerate than for a newly created entity. In order to give them a feeling of belonging, time-consuming integration efforts need to be conducted by management[48].

vi) The new entity that is listed due to the smaller company size is subject to increased volatility in the share price during the spin-off process. However, in the long-term spin-offs are likely to underperform in weak markets and outperform in strong markets.

[47] Krause, Jan, Anthony Luu, Robert Uhlaner, and Andy West. Achieving win-win spin-offs. McKisney & Company, 2021.
[48] Towers Watson. Mitigating the Human Capital Risk of Spin-off. Institute for Mergers, Acquisitions and Alliances, 2016.

Exhibit TN-28. Detailed analysis of the pros and cons of each growth strategy, Part

h) Pure Asset Acquisition

i) The calculation of the (adjusted) book values is quite straight-forward compared to other valuation approaches. Moreover, compared to market prices, book values are easily retrievable.

ii) If a company is insolvent, it is often not worth more than its assets. Hence, Leonardo DRS would not be interested in the company's manner of combination of the assets because the buyer plans to use the asset elsewhere anyway.

iii) The whole acquisition is quite flexible in terms of organisation and the speed of the transaction's execution as it is not subject to constraints or boundaries regarding the legal and financial structure of the target company.

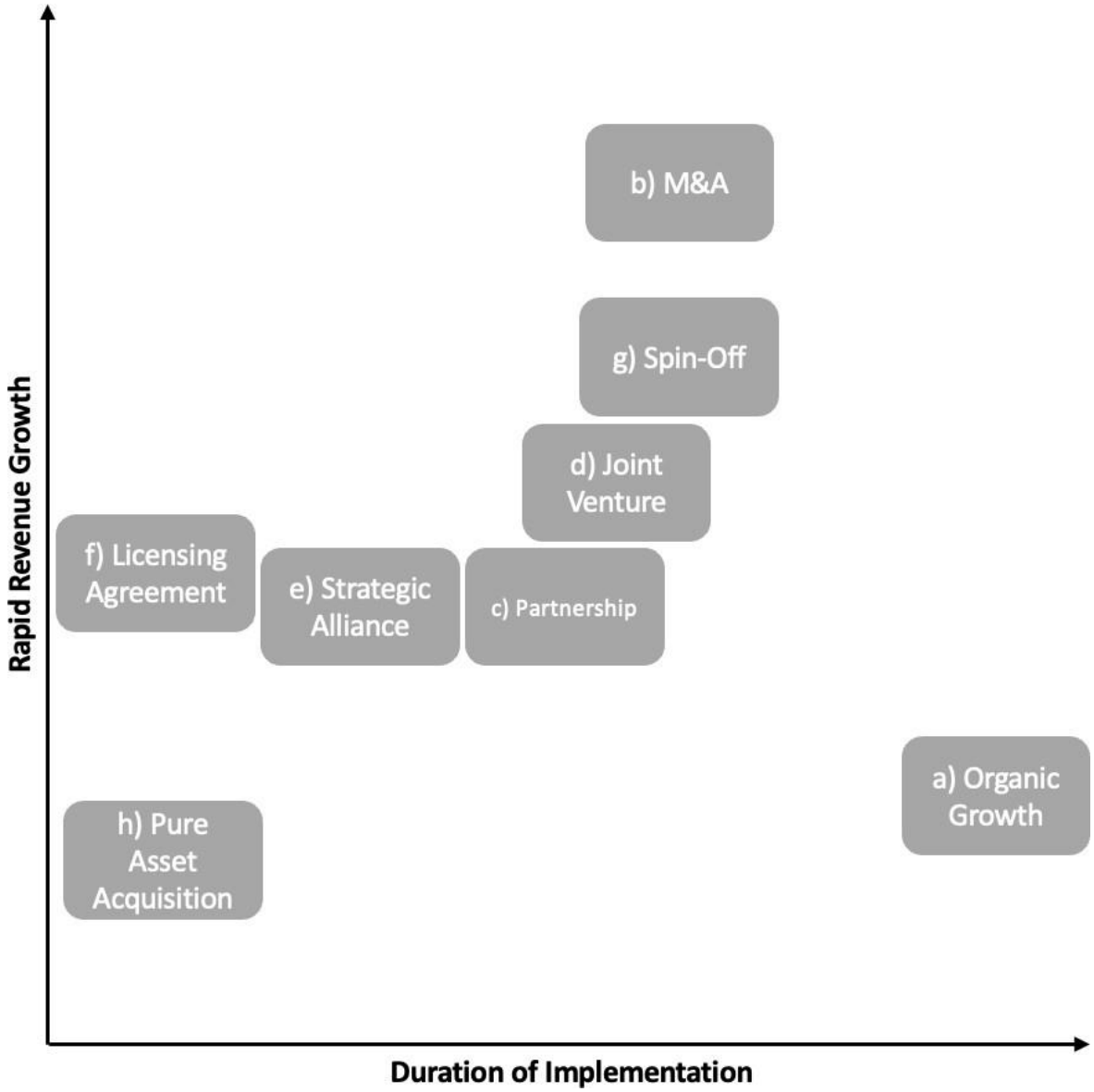
iv) Intangible assets are either difficult to value or are not valued at all because they are self-established[49].

v) Once the transaction is executed, the assets need to be transferred to certain locations which is a huge logistic expense. Moreover, A separate expert opinion must be prepared for each asset group.

vi) For the target company, the valuation is often the lowest bandwidth possible as a company's unique capabilities are often not valued in this option[50].

[49] Rödl & Partner. "Company acquisition: Share deal versus asset deal." Accessed March 13, 2023.
[50] Id. Note 37.

Exhibit TN-29. Summary of Growth Strategies



Source: Casewriter analysis

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Individual Case Study

In June 2022, Leonardo DRS' management, a leading American mid-tier defence company, announced an All-Stock Merger with RADA Electronic, an Israelian defence electronics company specializing in the production of tactical radars[1]. This operation is part of DRS's strategy to become a bigger mid-tier defence firm. The defence industry is composed of large players and the competition is very high. Therefore, DRS to be competitive, through the merger with RADA, will have the opportunity to expand geographically and to have a new business unit of radars products that will allow it to complete its products portfolio and reach more markets. Furthermore, it will also become publicly listed in both NASDAQ and TASE. The deal seems very attractive for DRS. However, is RADA truly a good target? How is RADA financially performing compared to its comparable peer?

DRS' management to decide if pursue this merger with RADA besides doing a valuation needs to observe the defence market conditions, more specifically, the Israeli defence market and military radar markets, then require an overview of RADA competitors and finally analyse RADA's financial conditions and operational performance.

[1] Leonardo DRS. 2022. "Leonardo DRS Announces Closing of Merger with RA

1. Global Defence Electronic Market

The Defence Market is shaped by technological, political, threat and economic factors. The factor that most influences it is the threat landscape that is to say the ongoing tensions and conflicts between the nations. Indeed, the number of ongoing conflicts has increased by 63% in the last 10 years and in 2021 it reached 160 conflicts[2]. The threat from Russia and China paired with their rapid advancement of capability and the conflict between Russia and Ukraine is driving the West to increase its defence spending making investments in new technologies and capacities a priority[3]. Indeed, in 2021 the global defence expenditure reached a level of $2.1 trillion[4]. This market can be defined as monopsony as it has one ultimate customer which is the government. Therefore, the government defence budget decisions truly affect the defence companies' profits. The US is the largest defence electronics market, consisting of about 56% of the global market[5].

[2] Uppsala Conflict Data Program. 2021. Department of Peace and Conflict Research.

[3] Globe Newswire. 2022. "Players Company Dossier 2022-2025: Strategy Focus, Key Strategies & Plans, Trends & Growth Opportunities, Key Programs and Market Outlook"
[4] Bezat Jean Michel. 2022. "Worldwide military spending reached record heights in 2021". Le Monde.
[5] Renaissance. 2020. "Global Defense Electronics Market"

1.1 Israeli Defence Industry

The Israeli military sector considered one of the top ten defence exporters is growing as recent geopolitical changes have expanded its market share in Europe and in GCC member nations. It is the second largest defence spender in the Middle East region and its budget is estimated to reach around $22.8 billion in 2027[6]. Israel's Ministry of Defence volume of contracts has increased by 55% in the last two years[7]. The reason behind this big jump is due to Europe doubling its acquisition from Israel in 2021. Furthermore, more or less 120 defence companies signed hundreds of export agreements thanks to the MoD[8]. The principal motive behind Europe relying more on the Israeli Market is the War in Ukraine. In fact, numerous European countries that after the Cold War strongly decreased their defence spending, are currently forced to increase their defence budget to protect their countries from a possible Russian threat[9]. Furthermore, being Israel allied with the US, European countries are turning towards the Israel Military market and are turning away from Sovietic weapons supply[10]. Moreover, NATO nations' defence spending is anticipated to increase by $140 billion (15%) between 2014 and 2022[11]. The Israeli defence budget is projected to be in 2022 of around $17.8 billion[12]. Therefore, following the geopolitical events, the European and NATO arms race and the Israel defence budget increase, Israeli defence companies will have opportunities to increase their revenues.

[6] Forecast International. 2023. "International Military Market – Middle East"
[7] Kalo, Avi. 2022. "Israeli Defense Industry Momentum: Russo–Ukrainian War and Abraham Accords to Boost Global Arms Export". Frost & Sullivan
[8] Id. Note 7
[9] Mackenzie Christina. 2022. "Seven European nations have increased defense budgets in one month. Who will be next? Breaking Defense"
[10] Id. Note 7
[11] Kirk-Wade Esme, Balakrishnan Sanjana. 2022. "Defence spending pledges by NATO members since Russia invaded Ukraine". UK Parliament
[12] Fabian, Emanuel. 2023. "Netanyahu, treasury and defense officials agree on multi-year defense budget. The Times of Israel"

1.2 Military Radar Market

The Military Radar Market is expanding and becoming of high importance in the defence industry. In fact, the latter growth is predicted to outperform total defence electronics spending growth[13]. The market for military radar was valued at $13.9 billion globally in 2021, and by 2031, it is anticipated to produce $25.1 billion, with a CAGR of 6.5%[14]. Indeed, the rapid increase of geopolitical conflicts and the growth in research and development activities in military radar for airborne platforms provide new opportunities for expansion for military radars markets globally in the next years. However, the increase of strict cross-border trading policies hampers its expansion. In 2021, the global military radar market was affected by the COVID-19 pandemic and the defence sector encountered supply chain disruptions. Furthermore, the pandemic also affected some of the defence programs that were challenged by expense increases and disruptions. However, the military radar market is recovering from the pandemic. Focusing on North America, the military radar market in this region was the largest in 2021 and represented half of the global military radar market[15]. Moreover, the U.S. is the main provider of military radars to the world markets. Nevertheless, the Asian Pacific market is the one reporting the most rapid CAGR of 8.1% as China, Japan and India are increasing their investments in defence products[16].

2. Aerospace and Defence players

DRS's management has analysed the global electronics defence market and more precisely the military Israeli market and military radar market to understand the conditions where RADA operates. Therefore now, it needs to observe RADA and its direct tactical radar peers which are

[13] Id. Note 5
[14] Id. Note 5
[15] Id. Note 5
[16] PR Newswire. 2023. "Military Radar Market to Reach $25.1 Billion, Globally, by 2031 at 6.5% CAGR: Allied Market Research"

Raytheon Technologies, Northrop Grumman, SAAB, Thales and Hensoldt to have an overview of its competitive environment[17].

2.1 Raytheon Technologies

Raytheon supplies cutting-edge equipment and services to global business, military, and governmental clients. It acts as a prime contractor or subcontractor for an extensive portfolio of defence and associated programs for military and government customers[18]. Raytheon has four business segments: Collins Aerospace Systems, Pratt & Whitney, Raytheon Intelligence & Space and Raytheon Missiles & Defence. Raytheon's major client is the US government that indeed represented in 2021, 48% of its total revenues[19].

2.2 Northrop Grumman Corporation

Northrop Grumman is one of the world's principal aerospace and defence companies that produce cutting-edge military solutions and services mainly for the US Department of Defence but also for international and national clients[20]. The company has four different segments that are aeronautics, space, mission, and defence systems.

2.3 SAAB

Saab is a Sweden world-leading defence company that supplies advanced military aircraft and solutions to civil security. It was founded to support Swedish Arm Forces and now also provides military products and solutions to other countries[21]. Saab distinguishes itself with its cutting-edge technology. The company has four core areas: Fighter Systems, Advanced Weapon

[17] RADA Electronic Industries LTD. 2021. Form 20-F.
[18] Raytheon Technologies. 2021. Annual Report.
[19] Id. Note 15
[20] Northrop Grumman Corporation. 2021. Annual Report.
[21] SAAB. 2021. Annual and Sustainability Report.

Systems, Sensors, Command and Control System and Underwater System. The latter operates with the U.S., Brazil, Australia, Finland, Germany, the U.K, and Sweden[22].

2.4 Thales Group

Thales is a European high-tech pioneer specializing in defence, aeronautics, space and digital identity fields. It has four core businesses: aerospace, defence and security, digital identity and security and transportation. The company works mainly with European businesses and governments as Europe represents 57% of its sales[23].

2.5 Hensoldt

Hensoldt is a global leading technology company that offers defence and security sensor solutions, products, and services. The company is using its cutting-edge technology to provide the best protection solutions to its clients in the air, land, sea, space and cyberspace[24]. It is composed of five divisions: optronics and land solutions, radar and naval solutions, spectrum dominance and airborne solutions, service, and space solutions and Hensoldt ventures.

2.6 RADA Electronic

Defence electronics manufacturer RADA Electronic Industries Ltd. is situated in Israel and specializes in the design, manufacture, and distribution of tactical land radars for force and border security, inertial navigation systems for air and ground platforms, and avionics systems and upgrades[25]. The company's principal customers are Elbit, Rafael, MER Group, Lockheed Martin, Boeing, Leonardo DRS, Anduril, CACI, General Atomics, Elettronica, the U.S. Marine Corps and Navy, the U.S. Air Force, Indian Security Forces, Rheinmetall, Leonardo, MBDA, Thales and Israel Military Industries[26].

[22] Id. Note 18
[23] Thales Group. 2021. Universal Registration Document.
[24] Hensoldt. 2021. Annual Report
[25] Id. Note 14
[26] Id. Note 14

Conclusion

Leonardo DRS announced in June 2022 its merger with RADA. This operation will allow the company to become more competitive, to add new products to its portfolio and to become publicly listed. Therefore, DRS's management needs to understand if RADA is a good target by taking into considerations two factors. First, the market conditions of the industry where RADA operates. Secondly, the financial situation of RADA compared to one of its peers.

Exhibt 1: *RADA Electronics LTD Income Statement (in U.S. thousands, except share and per share data)*

	FY 2019	FY 2020	FY 2021
Revenues	**44 331**	**76 217**	**117 236**
Cost of revenues	28 394	47 882	69 691
Gross profit	**15 937**	**28 335**	**47 545**
Operating costs and expenses			
Research and development, net	6 912	8 846	10 014
Marketing and selling	4 044	5 017	6 235
General and administrative	7 084	8 972	10 933
Net loss from sale of fixed asset	-	0	0
Total operating costs and expenses	**18 040**	**22 862**	**27 187**
Operating income (loss)	**(2 103)**	**5 473**	**20 358**
Financial (expenses) income, net (Note 13)	(121)	167	(159)
Net income (loss) from continuing operations before Tax	**(2 224)**	**5 640**	**20 199**
Net income (loss) from discontinued operations before Tax	(115)	-	-
Tax benefit (Note 12)	-	-	4 875
Net income (loss)	**(2 339)**	**5 640**	**25 074**
Net income (loss) attributable to non-controlling interest	(309)	-	-
Net income (loss) attributable to RADA Electronic Industries' shareholders	(2 030)	6	25 074

Source: RADA 2020 and 2021 Form 20-F

Exhibit 2: *RADA Electronics LTD Balance Sheet (in U.S. thousands, except share and per share data)*

	FY2019	FY2020	FY2021
ASSETS			
Current Assets			
Cash and cash equivalents	13 754	36 289	78 746
Restricted deposits	380	567	492
Trade receivables, net	13 765	14 095	32 747
Contract assets (Note 4)	1 269	756	930
Other accounts receivable and prepaid expenses (Note 5)	1 673	1 637	1 946
Inventories, net (Note 6)	17 196	28 783	48 882
Total current assets	**48 037**	**82 127**	**163 743**
Long-Term Assets			
Equity investments in privately-held company (Note 7)			3
Long-term receivables and other deposits	97	23	244
Property, plant and equipment, net (Note 8)	9 127	13 968	19 888
Deferred tax assets (Note 12)			5 681
Operating lease right-of-use asset (Note 3)	7 654	10 581	11 287
Total long-term assets	**16 878**	**24 779**	**40 100**
Total assets	**64 915**	**106 906**	**203 843**
LIABILITIES AND EQUITY			
Current Liabilities			
Short term loan	-	454	
Trade payables	7 661	10 603	19 890
Other accounts payable and accrued expenses (Note 9)	5 572	9 855	13 445
Advances from customers	1 563	2 323	1 763
Contract liabilities (Note 4)	196	232	474
Operating lease short term liabilities (Note 3)	1 240	1 885	2 262
Total current liabilities	**16 232**	**25 352**	**37 834**
Long-Term Liabilities			
Operating lease long-term liabilities (Note 3)	6 499	8 732	9 160
Accrued severance-pay and other long-term liability	764	789	783
Total long-term liabilities	**7 263**	**9 521**	**9 943**
Equity			
Ordinary shares of NIS 0.03 par value	394	440	489
Additional paid-in capital	120 017	144 944	203 854
Accumulated deficit	(78 991)	(73 351)	(48 277)
Total equity	**41 420**	**72 033**	**156 066**
Total liabilities and equity	**64 915**	**106 906**	**203 843**

Number of Shares Outstanding	43 724 446	49 402 847

Source: RADA 2020 and 2021 Form 20-F

Exhibit 3: *Northrop Grumman Corporation Income Statement (in U.S. millions, except share and per share data)*

	FY 2019	FY 2020	FY 2021
Sales			
Product	23 852	27 015	27 868
Service	9 989	9 784	7 799
Total sales	**33 841**	**36 799**	**35 667**
Operating costs and expenses			
Product	18 675	21 559	22 309
Service	7 907	7 762	6 090
General and administrative expenses	3 290	3 413	3 597
Total operating costs and expenses	29 872	32 734	31 996
Gain on sale of business	-	-	1 980
Operating income	**3 969**	**4 065**	**5 651**
Other (expense) income			
Interest expense	(528)	(593)	(556)
Non-operating FAS pension benefit	800	1 198	1 469
Markt-to-market pension and OPB benefit (expense)	(1 800)	(1 034)	2 355
Other, net	107	92	19
Earnings before income taxes	2 548	3 728	8 938
Federal and foreign income tax expense	300	539	1 933
Net earnings	**2 248**	**3 189**	**7 005**
Basic earnings per share	13.3	19.1	43.7
Weighted-average common shares outstanding, in millions	169.3	167.1	160.3
Diluted earnings per share	13.2	19.0	43.5
Weighted-average diluted shares outstanding, in millions	170.0	167.6	160.9
Net earnings (from above)	2 248	3 189	7 005
Other comprehensive loss			
Change in unamortized prior service credit, net of tax expense of $2 in 2021, $14 in 2020 and $15 in 2019	(47)	(41)	(8)
Change in cumulative translation adjustment and other, net	2	10	(7)
Other comprehensive loss, net of tax	(45)	(31)	(15)
Comprehensive income	**2 203**	**3 158**	**6 990**

Source: Northrop Grumman Corporation 2020 and 2021 Annual Report

Exhibit 4: *Northrop Grumman Corporation Balance Sheet (in U.S. millions, except share and per share data)*

	FY2019	FY2020	FY2021
Assets			
Cash and cash equivalents	2 245	4 907	3 530
Accounts receivable, net	1 326	1 501	1 467
Unbilled receivable, net	5 334	5 140	5 492
Inventoried costs, net	783	759	811
Prepaid expenses and other current assets	997	1 402	1 126
Assets of disposal group held for sale	-	1 635	-
Total current assets	**10 685**	**15 344**	**12 426**
Property, plant and equipment, net of accumulated depreciation of $6,819 for 2021 and $6,335 for 2020	6 912	7 071	7 894
Operating lease right-of-use assets	1 511	1 533	1 655
Goodwill	18 708	17 518	17 515
Intangible assets, net	1 040	783	578
Deferred tax assets	508	311	200
Other non-current assets	1 725	1 909	2 311
Total assets	**41 089**	**44 469**	**42 579**
Liabilities			
Trade accounts payable	2 226	1 806	2 197
Accrued employee compensation	1 865	1 997	1 993
Advance payments and billings in excess of costs incurred	2 237	2 517	3 026
Other current liabilities	3 106	3 002	2 314
Liabilities of disposal group held for sale	-	258	-
Total current liabilities	**9 434**	**9 580**	**9 530**
Long-term debt, net of current portion of $6 for 2021 and $742 for 2020	12 770	14 261	12 777
Pension and other postretirement benefit plan liabilities	6 979	6 498	3 269
Operating lease liabilities	1 308	1 343	1 590
Deferred tax liabilities	-	-	490
Other non-current liabilities	1 779	2 208	1 997
Total liabilities	**32 270**	**33 890**	**29 653**
Commitments and contingencies			
Shareholders' equity			
Preferred stock, $1 par value; 10,000,000 shares authorized; no shares issued and outstanding	-	-	

Common stock, $1 par value; 800,000,000 shares authorized; issued and outstanding: 2021 - 156,284,423 and 2020 - 166,717,179	168	167	156
Paid-in capital	-	58	-
Retained earnings	8 748	10 428	12 913
Accumulated other comprehensive loss	(97)	(128)	(143)
Total shareholders' equity	**8 819**	**10 579**	**12 926**
Total liabilities and shareholders' equity	**41 089**	**44 469**	**42 579**

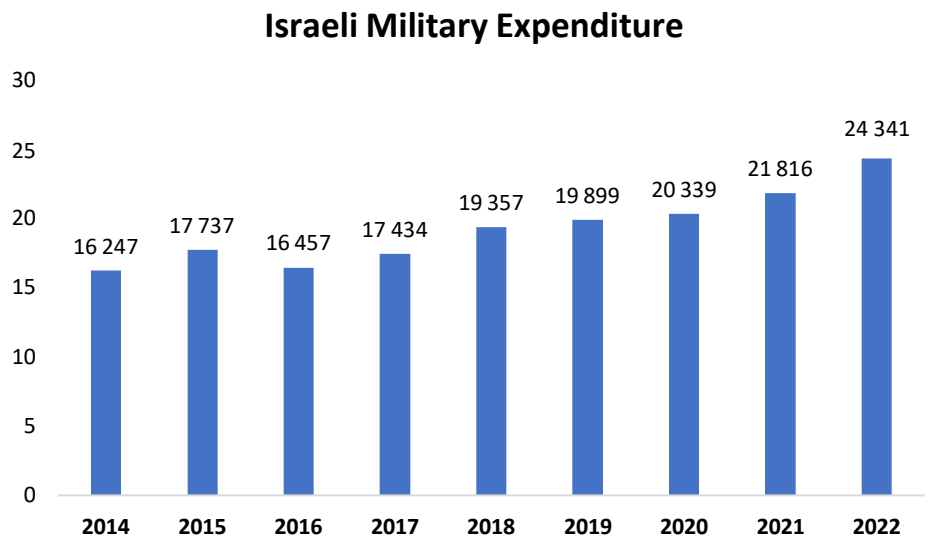
Source: Northrop Grumman Corporation 2020 and 2021 Annual Report

Exhibit 5: *RADA Comparable Companies (FY2021, in U.S. millions, except for margin)*

	Revenue	EBITDA	EBIT	EBITDA Margin	EBIT Margin
Comparables					
Raytheon Technologies	64 388	9 515	4 958	**14,8%**	**7,7%**
Northrop Grumman Corporation	35 677	6 890	5 651	**19,3%**	**15,8%**
SAAB	3 795	468	280	**12,3%**	**7,4%**
Thales Group	16 192	2 712	1 649	**16,7%**	**10,2%**
Hensoldt	1 617	276	138	**17,1%**	**8,5%**
RADA	**117**	**23**	**20**	**19,3%**	**17,4%**

Source: Eikon

Exhibit 6: *Israeli Military Expenditure (in U.S. millions)*



Source: Trading Economics

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Teaching Note

Synopsis

Leonardo DRS proposed a merger with RADA Electronic in June 2022. This merger is part of Leonardo DRS' strategy to add to its product portfolio tactical radars that are the core business of RADA and to become a bigger player in the defence electronics industry. This case focuses on understanding if RADA is a good target for Leonardo DRS according to the industry where the latter operates and through its financial statement analysis. The case analyses the Global Defence Electronics market, the Israeli market, and the Military Radar market in order to understand how RADA's business is affected by the different events and conditions of these markets. Furthermore, it observes RADA's tactical radars competitors to find the right comparable to evaluate its performance.

Pedagogical Objectives

This short case study is intended for Master's students in Management specializing in finance. It can be used in Corporate Finance courses and more specifically in Financial Statement Analysis and for Performance Measurement and Corporate Strategy.

The case has two main pedagogical objectives:

1. The case analyses how geopolitical and economic conditions can affect the market where a company operates and consequently its business.
2. Instead of focusing on the merger and doing a DCF or multiple valuations for the merger, this case observes the deal from another point of view. Indeed, it allows students to perform a financial statement analysis of a company to understand how the company is performing. The students will perform a liquidity analysis, an activity analysis, and an analysis of the company's capital structure. They will compare the results to another company in the same sector to observe how the company they have

analysed perform. It allows students to test their knowledge of how to read and interpret financial statements: income statement, balance sheet and cash flow statement.

For students that have little or no knowledge about financial statement analysis and the reasons behind doing one and how to perform one, could read the following book: Robinson, Thomas. 2012. International financial statement analysis: workbook. New York: Wiley. In addition, students that are also interested in understanding how the reverse merger between Leonardo DRS and RADA is structured, not being the focus of this case study, can read the S-4 form released by the Securities and Exchange Commission (SEC).

Substantive Analysis

1. **How the market conditions influence RADA's business?**

The instructor can guide the students in understanding how the markets conditions affect RADA's business. The markets where RADA operates are favourable for the latter for different reasons. First, the global defence market demand is growing as European and NATO countries are increasing their defence budget spending because of the war in Ukraine with China and Russia threat. Second, Europe is relying more on the Israeli market and therefore, RADA will benefit from it. Lastly, the military market grow is predicted to outperform total defence electronics spending. So, due to its expertise in tactical land radars, RADA will profit from this market expansion. Therefore, it can be concluded that the market where RADA operate are growing which allows the latter to increase its revenue, gain more market shares and customers.

2. **What is a financial statement analysis and why it is performed?**

Here the instructor can explain to the class what a financial statement analysis is and how to structure one to test the class's general knowledge on the topic. A financial statement analysis

is an approach for managers or investors to read the financial statements of a company to aid in assessing a company's financial situation and operational performance[1]. The analysis can be direct or indirect. In this case, students will perform an indirect analysis, which is thecalculation and the analysis of financial ratios. A financial ratio illustrates the correlation between two financial statement accounts and a ratio analysis is the evaluation of these figuresto evaluate the performance and current condition of the company[2]. Then the instructor can indicate the different types of financial ratios: liquidity, activity, profitability, and financial leverage. A ratio analysis must always be comparative. Indeed, there are different types of standards. The first one is to compare the company's past performance to the present one. Thesecond one is to observe how the company is performing compared to another company. The third one is to compare the company's current performance to its defined target previously decided[3].

3. How to choose the right comparable company for a Financial Statement Analysis?

In this case, RADA's performance is compared to another company's performance and the instructor can indicate the criteria the latter must have.

The comparable company must: be in the same industry, have a similar size, be in the same or similar region and have the same or similar business[4]. After having explained the general concepts regarding a financial statement analysis and the one that must be exercised in this case, the instructor can clarify how the choice of RADA's comparable company has been made. RADA is a public company with a very specific business and has a much smaller size compared to its competitors in the defence industry. Indeed, it is very difficult to find a company that could meet all the criteria required to perform a financial statement analysis. Therefore, in this

[1] Robinson, Thomas. 2012. *International financial statement analysis: workbook*. New York: Wiley.
[2] Id. Note 1
[3] Id. Note 1
[4] Id. Note 1

case, the case writer has chosen one company among RADA's direct radar competitors. The selection of this company was achieved by calculating the competitor's EBITDA and EBIT margin and choosing the one with the most similar margin to RADA. In this case, the company with the margins closer to RADA is Northrop Grumman Corporation as it can be observed in the Exhibit 5.

4. Is RADA efficient in managing its cash flow?

The instructor now will focus on the activity analysis of RADA to understand how the cash flow management of the company runs and how it manages its relationship with customers and suppliers. The activity ratios are expressed in number of days. The three activity ratios are the average holding period, the average collection period, and the average payable period. The cash conversion cycle is the number of days necessary for a firm to undertake its regular trade cycle and it is calculated by adding the average holding period to the average collection period and subtracting the average payable period. To calculate the average holding period, students must divide the inventories by the cost of sale and multiply it by 365. Instead, to calculate the average collection they must divide the receivables by revenues and multiply it by 365. Lastly, the average payable period is calculated by dividing the payables by the cost of sales and multiply it by 365 (Exhibit 1, 2, 3 & 4). As it can be seen in the Exhibit-TN 1, the cash conversion cycle of RADA has augmented by an average of 18 days from 2019 to 2021. The cash conversion cycle usually should be as low as possible. In this case is very high and it is bad for RADA as it signifies that it finances itself. Consequently, a high cash conversion cycle challenges the company as it put pressure on liquidity as it may lead the company to require additional debt. In the Aerospace & Defence industry the top performers have a cash conversion cycle of an of

average of 56 days and the average between top and bottom performers is of 128 days[5]. RADA's position is very below the average. Indeed, according to its industry's benchmark, it has a bad cash conversion cycle. The average collection period decreased by 11 days from 2019 to 2021 which signifies RADA's customers paid 11 days before compared to 2019. Also, the average payable period increased from 2019 to 2021 0f 6 days, that is to say, that RADA has 6 additional days to pay its suppliers.

The activity ratios of RADA and Northrop are very different except for the average collection period (Exhibit-TN 2). Indeed, the cash conversion cycle of RADA is higher by 201 days compared to Northrop, which means the latter has less pressure on liquidity as it consents cash flow to be produced faster. The reason they have such different cash conversion cycles lies behind the fact that RADA's average holding period (256 days) is 20 times higher than Northrop's average (10 days). This signifies that RADA's inventories remain in the company for a longer time before being sold compared to Northrop and therefore that it needs more time to sell its products. To conclude, Northrop better manages its cash flow as it has a very low cash conversion cycle (53 days) due to its very low inventory period and low average payable period. Therefore, RADA should strongly reduce its average holding period and deal with its supplier to have additional days to pay them to decrease the number of days it needs to complete its cash conversion cycle.

5. Is RADA capable to meet its short-term obligations?

The instructor can show the students the formula to perform a liquidity analysis. To calculate the current ratio, students must divide the current assets by the current liabilities. Then, to

[5] Shah, Gourang, James Fraser, Varoon Mandhana, and Vikrant Verma. 2022. *"Working Capital Index Report 2022 Helping companies benchmark for success".* J.P.Morgan.

calculate the quick ratio, they must subtract the inventories from the current assets and divide it by the current liabilities. Lastly, to calculate the cash ratio they must divide cash and cash equivalents by current liabilities[6]. As it can be observed in Exhibit-TN 3, RADA's current ratio, quick ratio and cash ratio have increased in the past three years, and it is a good trend for the company. RADA's current ratio is 4 times higher than 1 which is a good indicator. Indeed, it signifies that the company is able to cover short-term obligations with short-term assets. Looking now at the cash ratio, it is also twice of one which indicates RADA has a good ability to pay its short-term obligations with cash and cash equivalents. Comparing RADA to Northrop, it can be observed that RADA has a better performance in terms of liquidity. In Exhibit-TN 4, it can be seen that Northrop's current ratio and quick ratio are higher than 1, therefore, it means it is capable to cover short-term obligations with short-term assets. Northrop's cash ratio is 0,4 lower than 1, therefore it indicates the company is not able to pay its short-term obligations with cash. To conclude RADA is capable to meet its short-term obligations and outperforms Northrop.

6. How is RADA's capital structure?

As it can be spotted in the Exhibit-TN 5, RADA's solvency ratio has increased in the past three years, and it is much higher compared to Northrop's ratio. Therefore, RADA is capable to meet its obligations using the capital that has been invested or generated by the company. Generally, lenders prefer this ratio to be higher than 1, however, also a ratio of 0.5 is accepted.In the case of Northrop, the solvency ratio is lower than 0.5 in the past three years. This meansthe firm is not capable to pay its debts with the money it has invested or generated. Instead looking at the Exhibit-TN 6, RADA's financial autonomy ratio is also higher than Northrop's

[6] Rengasamy, Dhanuskodi & Ya'u, Abba & Olaniyi, Oladokun. 2022. Case Study: Liquidity Analysis through Financial Ratios. *International Journal of Scientific Research and Management.* 10(12). p.4402-4406

ratio but not by much. The financial autonomy ratio measures a business's autonomy from its creditors. This ratio is preferred to be higher than 0.25 as it would represent solid independence from lenders and therefore resilience in situations of financial crisis where it is much harder to access credit. RADA's financial autonomy ratio is higher than 0.25 in the past three years which signifies the company is independent from its lenders. Instead, Northrop's financial autonomy ratio was lower but very close to 0.25 in 2019 and 2020. However, in 2021 its ratiois of 0.30 which translates in the fact that the company has also autonomy towards its creditors.It can be concluded that RADA has a better capital structure compared to Northrop.

7. Is RADA a good target for DRS?

After the students have gone through RADA's liquidity, activity, and capital structure analysis, the instructor can now discuss with the class if RADA is a good target. According to the activity analysis, RADA is underperforming compared to Northrop and its industry benchmark as it has a high cash conversion cycle that put pressure on liquidity. However, according to the liquidity analysis, its cash ratio is high, which is very important for RADA as it means it has liquidity to meet its short-term obligations before it collects its receivables. Lastly, from the analysis it can be concluded that the solvency situation of RADA is good and therefore that the latter is able to meet its medium and long-term obligations. RADA compared to its peer Northrop has a better liquidity and solvency position which is a good indicator of how the company will react in case of financial distress. Even if Northrop has a better cash flow management, RADA has the ability to improve its financial performance and seize market opportunities by addressing the inefficiencies in its cash flow management, such as lowering its cash conversion cycle and decrease the average holding period. Therefore, according to this analysis, RADA is a good target. Furthermore, taking into account the market conditions aforementioned, RADA is positioned in a market with an increasing demand and that is

projected to grow in the future years. So, it means RADA will find itself with opportunities to increase its customers and its revenues. To conclude, RADA according to these factors can be defined as a good target for Leonardo DRS as it operates in a profitable and growing market and has a good financial situation. Furthermore, it would allow the company to gain new customers, market shares and expand its business.

Suggested Assignment Questions

1. How the market conditions influence RADA's business?
2. What is a financial statement analysis and why it is performed?
3. How to choose the right comparable company for a Financial Statement Analysis?
4. Is RADA efficient in managing its cash flow?
5. Is RADA capable to meet its short-term obligations?
6. How is RADA's capital structure?
7. Is RADA a good target?

Hypothetical Teaching Plan

15 min	**1. Introduction:** Give a very brief general context to the student of Leonardo DRS and RADA reverse merger and of the market where RADA operates
20 min	**2. Financial statement analysis:** What is a financial statement analysis? How to compute an indirect financial analysis?
40 min	**3. RADA comparable:** How to choose the right comparable company for a Financial Statement Analysis? **4. RADA activity analysis:** Is RADA efficient in managing its cash flow? **5. RADA liquidity analysis:** Is RADA capable to meet its short-term obligations? **6. RADA capital structure:** How is RADA capital structure?
15 min	**7. Conclusion:** Is RADA a good target for?

Exhibit-TN 1: *RADA Cash Flow Management (in number of days except for growth)*

RADA			
	2019	**2020**	**2021**
Average holding period	221	219	256
Growth in %		*(0.74)%*	*16.68%*
Average collection period	113	68	102
Growth in %		*(40.44)%*	*51.04%*
Average payable period	98	81	104
Growth in %		*(17.93)%*	*28.88%*
Cash conversion cycle	**236**	**206**	**254**

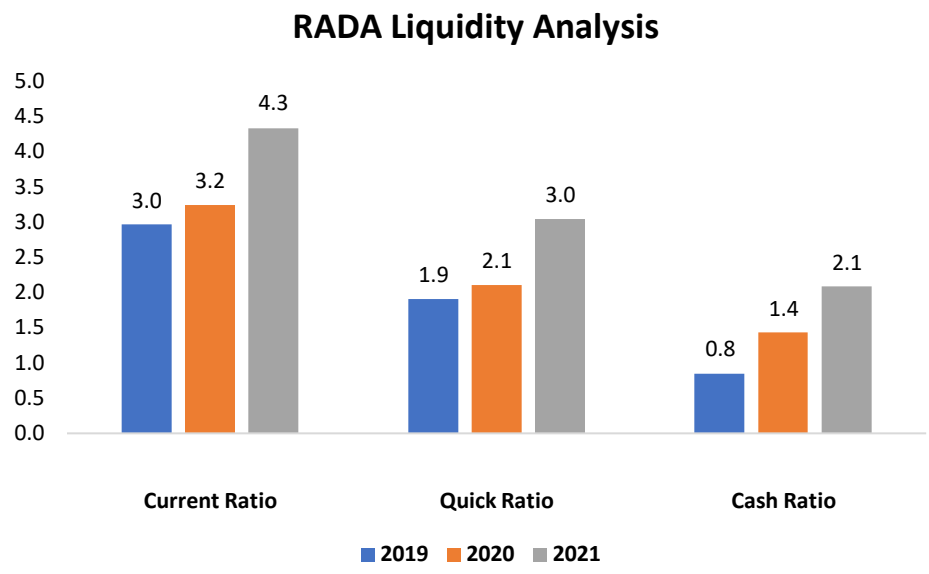
Source: Own contribution, from RADA 2020 and 2021 Annual Report

Exhibit-TN 2: *Northrop Grumman Corporation Cash Flow Management (in number of days except for growth)*

Northrop Grumman Corporation			
	2019	**2020**	**2021**
Average holding period	11	9	10
Growth in %		*(12.12)%*	*10.32%*
Average collection period	72	66	71
Growth in %		*(8.30)%*	*8.11%*
Average payable period	31	22	28
Growth in %		*(26.45)%*	*25.60%*
Cash conversion cycle	**52**	**53**	**53**

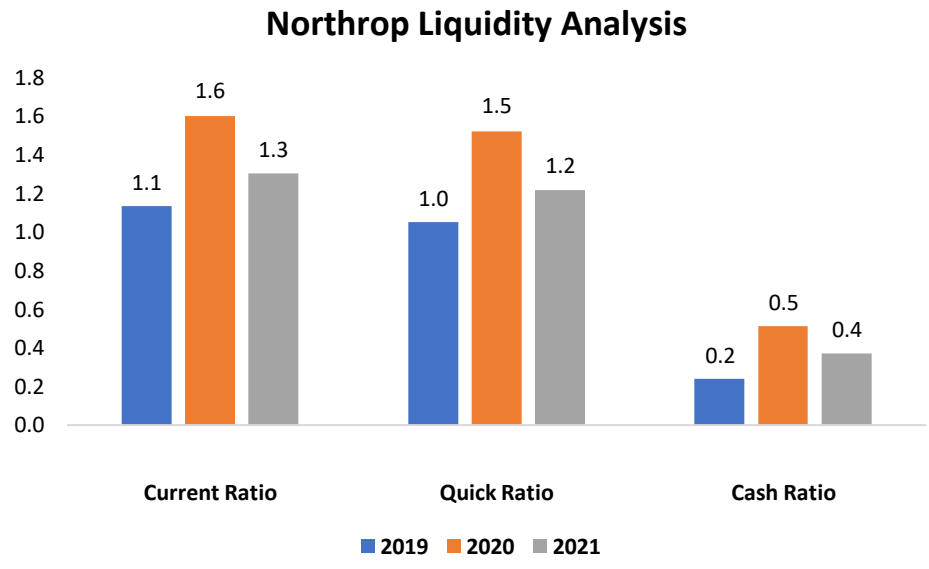
Source: Own contribution, from Northrop 2020 and 2021 Annual Report

Exhibit-TN 3: *RADA's Liquidity*



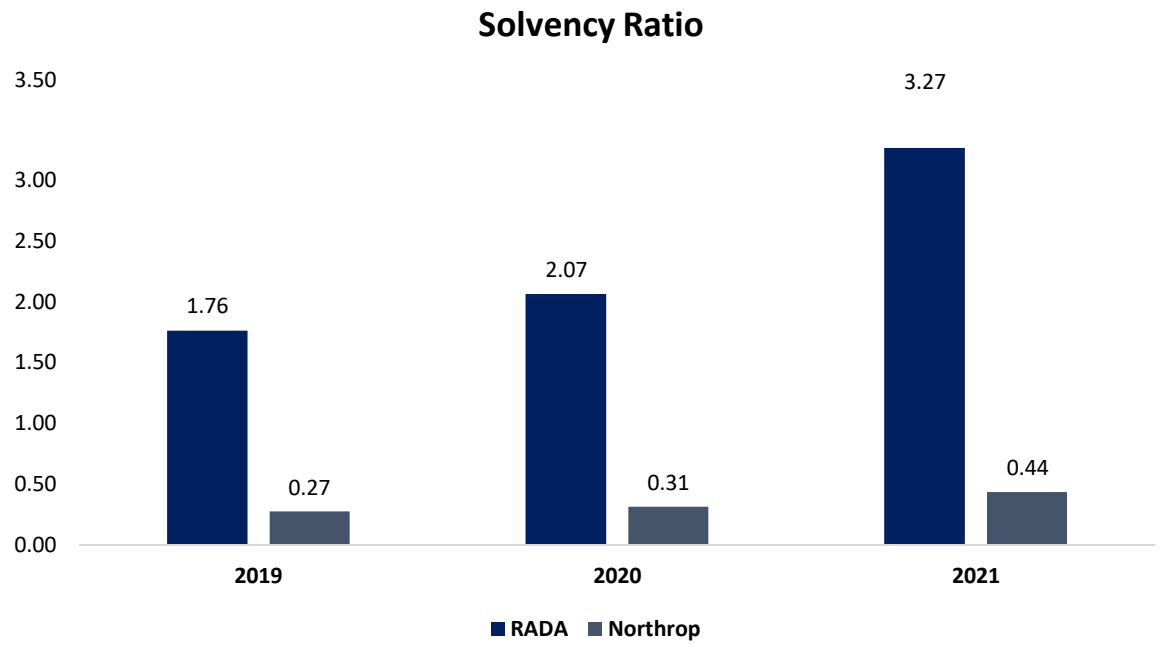
Source: Own contribution, from RADA 2020 and 2021 Annual Report

Exhibit-TN 4: *Northrop's Liquidity*



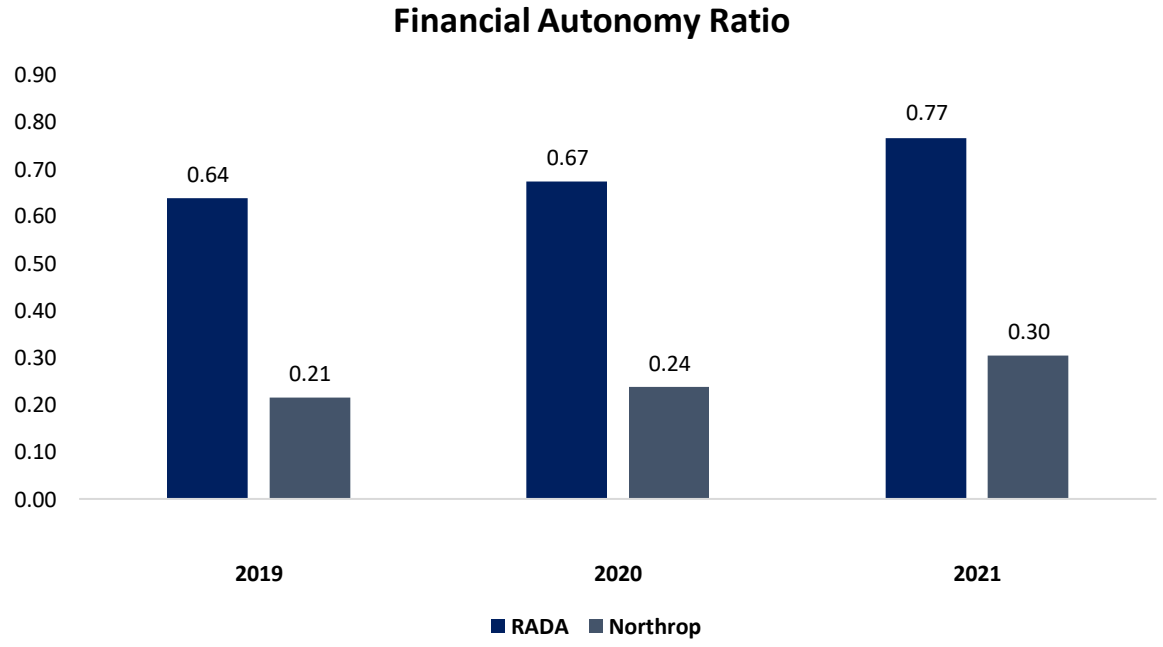
Source: Own contribution, from Northrop 2020 and 2021 Annual Report

Exhibit-TN 5: *RADA and Northrop's Solvency Ratio*



Source: Own contribution, from RADA and Northrop 2020 and 2021 Annual Report

Exhibit-TN 6: *RADA and Northrop's Financial Autonomy Ratio*



Source: Own contribution, from RADA and Northrop 2020 and 2021 Annual Report

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