

Elbit Systems Ltd.
Q2 Conference Call – Edited Transcript
August 16, 2022

Operator: Ladies and gentlemen, thank you for standing by. Welcome to Elbit Systems Second Quarter 2022 Results Conference Call. All participants are at present in a listen-only mode. Following Management's formal presentation, instructions will be given for the question-and-answer session. As a reminder, this conference is being recorded. You should have all received by now the company's press release that is available in the news section of the company's website, www.elbitsystems.com. I would now like to hand over the call to Rami Myerson, Elbit Systems Investor Relations Director. Rami, please go ahead.

Rami Myerson: Thank you, Yoni. Good day, everyone, and welcome to our second quarter 2022 earnings call. On the call with me today are Butzi Machlis, our President and CEO; Kobi Kagan, our CFO, and Yossi Gaspar, Senior EVP, Business Management.

Before we begin, I would like to point out that the Safe Harbor statement in the company's press release issued earlier today also refers to the contents of this conference call. As we do every quarter, we will provide you both with our regular GAAP financial data as well as certain supplemental non-GAAP information. We believe that this non-GAAP information provides additional detail to help understand the performance of the ongoing business. You can find all the detailed GAAP financial data as well as the non-GAAP information and the reconciliation in today's press release.

Kobi will begin by providing a discussion of the financial results, followed

by Butzi, who will talk about some of the significant events during the quarter and beyond. We will then turn the call over to a question-and-answer session.

With that, I would like to turn the call over to Kobi. Kobi, please.

Kobi Kagan: Thank you Rami. Hello everyone, and thank you for joining us today. The second quarter results reflects a pickup in demand, with a series of significant contracts award for our solutions in the quarter, as our customers start to implement the lessons learned from the Russian invasion of Ukraine.

Second quarter revenues were similar to 2021, as growth in Europe and Asia Pacific offset the decline in the US. Our revenues by geography tend to fluctuate on a quarterly basis, based on the specific programs and project performed, as well as milestones reached in a particular quarter. We believe the long term revenue trends supported by the growth in the order backlog are more representative and encouraging in most of Elbit Systems' geographic end markets.

I will now highlight and discuss some of the key figures and trends in our financial results.

Second quarter revenues were 1 billion 303 million dollars, similar to the second quarter of 2021.

In terms of the revenue breakdown across our areas of operation, Airborne Systems accounted for 39%, and Land Systems was 21% of total revenues. C4ISR at 30% of revenues increased year over year, mainly due to UAS sales to Asia Pacific customers. Electro-Optics accounted for 9% of revenues, increasing year over year, mainly due to night vision sales. Other sales accounted for 2% of revenues, and declined year over year, due to lower medical device sales.

The second quarter highlights the strategic importance of our diverse geographic revenue base. In the second quarter, Asia Pacific contributed 29% of our revenues, North America 26%, and Israel and Europe each at 20% of revenues. Asia Pacific revenues increased mainly due to UAS sales. The growth in European revenues was broad base and included growth in training and simulation, precision guided munitions, and night vision sales. The growth in European and Asia Pacific revenues helped offset lower North American sales.

The non-GAAP gross margin for the second quarter was 26.5% compared to the second quarter of 2021 at 26.6%. GAAP gross margin in the second quarter was 26.1% of revenues compared to 26% in the second quarter of 2021.

Second quarter non-GAAP operating income was 103.3 million dollars, or 7.9% of revenues, compared with 114.9 million dollars, or 8.8% of revenues last year. GAAP operating income for the second quarter was 115.1 million dollars, versus 117.1 million dollars in the second quarter of 2021.

The operating expense breakdown in the second quarter was as follows. Net R&D expenses were 7.4% of revenues versus 7.3% in 2021. The recent conflicts have highlighted the alignment of Elbit Systems' product portfolio to the priority areas of our customers, demonstrating the return on our historic investments in research and development. The current investments in R&D will help upgrade existing and develop new products and solutions, and ensure that we continue to supply a range of market-leading solutions for our customers in the future.

Marketing and sell expenses increased to 6.4% of revenues from 5.8% last year. We continue to invest in sales and marketing, to take advantage of

the positive inflection in global defense budgets, and the new opportunities these create.

G&A expenses were 5.6% of revenues compared to 5.1% last year. Other operating income of 27.2 million dollars include a capital gain related to the sale of our subsidiary, Ashot Ashkelon Industries, in the second quarter, and the sale of a building in Israel.

I would note the significant increase in the share price since the beginning of the third quarter. We would expect a significant impact in compensation expenses related to our stock price link compensation plans to employees, if the shares remain at current levels or increase further. As we discussed at our first quarter results, we believe these plans help align employee compensation with share price performance, incentivizing our employees to generate long term value for all of Elbit Systems' stakeholders.

Financial expenses were 9.3 million dollars in the second quarter, compared to 7.1 million dollars in 2021. Other expenses of 12.1 million dollars include a 10.6 million dollars non-recurring pension adjustment expense related to the sale of Ashot Ashkelon.

We recorded a tax expense of 12.8 million dollars in the second quarter compared to 20.1 million dollars in 2021. The effective tax rate in the second quarter was 13.6% compared to 18.5% in 2021.

Our non-GAAP diluted EPS was 1 dollar and 73 cents in the second quarter compared with 2 dollars and 11 cents last year. The GAAP diluted EPS was 1 dollar and 82 cents compared with 2 dollars and 30 cents last year.

Our backlog of orders as of 30th of June, 2022, was 14.1 billion dollars, approximately half a billion dollars higher than the backlog at the end of June 2021. Approximately 52% of the current backlog is scheduled to be

performed during '22 and '23, and the rest is scheduled from '24 and beyond.

Operating cash flow for the second quarter was a 169 million dollar outflow compared to a 170 million dollar inflow in the same quarter last year. The cash flow in the quarter includes the payment of 73 million dollars following the company decision to release exempt earning from approve and privilege enterprises in Israel. The cash outflow also includes an inventory build related to our effort to mitigate supply chain challenges and the timing of receiving payments from various customers. We expect to receive these payments over the coming quarters.

The Board of Directors declared a dividend of 50 cents per share for the second quarter of '22.

I will now turn the call over to Mr. Machlis, Elbit's CEO. Butzi, please go ahead.

Butzi Machlis: Thank you, Kobi. Orders in the second quarter reflect good demand for our solutions from customers around the world. A series of significant orders in recent months have validated the alignment between Elbit Systems' portfolio and our customers' priority areas of defense spending and their mission critical requirements. I believe that we are at the beginning of a period of global defense budget growth, driven by the escalation in geopolitical tensions. We are encouraged by the order intake in the second quarter, but as I've learned from decades of experience, the conversion of defense budget growth to RFPs and then into orders and revenues can take time, particularly when militaries are adjusting procurement processes and force structures for a new era.

The Abraham Accords have also helped open new markets and new opportunities for strategic partnerships with the nations that are party to

this historical agreement. We opened Elbit Systems Emirates at the end of 2021, and announced our first order for DIRCM systems in March 2022. Government and militaries are analyzing the Russian invasion of Ukraine and the evolving conflict to prepare for the next one, as they have done in the past with other conflicts. We have identified five areas that should benefit from increased defense spending over the coming years. These are platform protection, command and control systems, electronic warfare, unmanned systems, and network precision munitions. During the second quarter we announced additional contracts for four of these five priority areas from customers in Europe and other part of the world, who are implementing the lessons learned. I would like to provide an overview of these priority areas.

Starting with platform protection, the conflict in Ukraine has demonstrated the vulnerability of platforms across all domains and the critical need to protect both platforms and their occupants. Elbit Systems provides systems and solutions that enable protection of aerial, naval and ground platforms from a range of threats. Our DIRCM systems are installed on more than 25 different type of military and commercial aircraft, and have accumulated hundreds of thousands of flight hours protecting them from ground to air missiles. In July, we received an 80 million contract to supply C-MUSIC DIRCM system and airborne EW solution to an Asia Pacific country, and we were selected to provide a J-MUSIC DIRCM system for a Gulfstream G650 of the Netherland Ministry of Defense. Our platform protection systems include infrared missile warning systems, chaff and flares for a range of aircraft , the Iron Fist active protection system for armed vehicles and EW systems that protect ships and submarines.

The second area of priorities spend are advanced command and control

systems. These C2 systems are the critical enablers of combined force and multi domain operations. Elbit System Torch-X C2 solution provides visibility and connectivity to commanders and soldiers, utilizing the intelligence collected by a multitude of sensors across the battlefield, identify adversaries, enabling fast decision making and the ability to convert insights into action. Our C2 systems help shorten multiple sensor to shooter loops as well as supporting logistics. In June, we received a 548 million dollar four year contract to upgrade the multi domain combat network warfare capabilities for the armed forces of an Asia Pacific country. As part of this contract, Elbit will provide a range of networking and command control systems as well as software defined radios for air, ground and naval platforms.

The third priority area is electronic warfare that provides armed forces with the capabilities to utilize the electromagnetic spectrum to protect, attack and exploit the communications, intelligence and other enemy activities. Elbit Systems is the Israeli MOD's prime supplier of EW capabilities for air, ground and naval platforms and domains. In recent years, we received number of prestigious EW contracts from the US and German Air Forces and the UK Royal Navy. In May, we received a 69 million dollar contract to supply electric warfare systems to a country in Asia Pacific, and in June we were awarded a 70 million dollar contract to supply a ground based EW and signal intelligence solution to an international customer.

The fourth priority area is unmanned systems. Elbit Systems has decades of experience developing and manufacturing a broad portfolio of unmanned air, ground and maritime solutions. Elbit also provides the command and control systems to connect and operate them, as well as a

range of advanced payloads. These unmanned solutions can execute a broad range of missions reducing the risks to forces and increasing their effectiveness. At Eurosatory in June, we demonstrated Legion-X, a multi domain autonomous network solution for swarms of unmanned platforms in the air, on land, and at sea. Legion-X enables the command and control of a range of unmanned platforms of various sizes and capabilities, in a cohesive swarm, helping soldiers perform their missions in complex environments, such as urban warfare.

The fifth priority area is networked precision munitions that enable armed forces to engage time sensitive targets with power, precision, and minimum collateral damage. Elbit Systems has combined the portfolio of munition acquired with IMI, our legacy precision guidance and networking capabilities and the technologies we acquired with Rokar last year, to develop a range of precision munition from the Iron Sting 120 millimeter mortar round to the Rampage long-range air to ground supersonic missile. In June, we received a 220 million dollar contract to supply Lizard precision guidance kits for airborne munition of an Asia Pacific country. In July, the German defense company KMW signed a cooperation agreement with Elbit Systems Land, and Elbit Systems Deutschland, in the area of rocket artillery. We believe this agreement will leverage the leading expertise these companies have in the area of rocket artillery and will enable both companies address a growing potential in the European market for these solutions.

These are just five areas of Elbit's broad portfolio. We believe that each one has the potential to generate billions of dollars of revenues over the medium term.

At the end of June, we closed the sale of our 84.9 percent stake in Ashot

Ashkelon Industries to FIMI Opportunities Funds for 84 million US dollars. We regularly review our portfolio to ensure that we remain focused on the core areas of our business. As part of this review, we decided to sell Ashot Ashkelon that we acquired with IMI in 2018, and was not considered as core business of Elbit. I would like to take this opportunity to thank the hundreds of Ashot Ashkelon employees for their hard work and dedication, and to wish them success in the future.

Elbit Systems' strategy is to focus on global defense markets and I do not expect this to change. I believe it is important to remain focused on the markets and technologies you know, and to reduce distractions from markets that may appear attractive but often require a different skill set to access. That said, we continue to explore opportunities to leverage our technology and solutions developed for military applications in adjacent and new markets. In July, our US subsidiary Universal Avionics received a 33 million US dollar order from AerSale for ClearVision enhanced flight vision system for Boeing 737NGs. As part of this contract, Universal will supply ClearVision EFVS systems featuring the SkyLens head wearable display and EVS 5000 cameras. The ClearVision system enables commercial pilots to fly in degraded visibility situations in day and night, to take off and land faster, saving time and increasing operational effectivity and safety. In August, Opgal, our thermal imaging subsidiary, and the Sheba Medical Center in Israel signed an MOU to explore opportunities to utilize thermal imaging technology to improve the efficacy of surgery and treatment in four key areas, heart surgery, diabetic foot treatment, surgical incision infections, and respiratory monitoring. I am proud of our engineers that are looking for additional opportunities to utilize Elbit technologies to protect and save lives.

And with that, I will be happy to take your questions.

Operator: Thank you. Ladies and gentlemen, at this time we will begin the question-and-answer session. If you have a question, please press star-one. If you wish to cancel your request, please press star-two. If you are using speaker equipment, kindly lift the handset before pressing the numbers. Your questions will be polled in the order they are received. Please stand by we poll for your questions.

The first question is from Ellen Page of Jefferies. Please go ahead.

Ellen Page: Hi, guys. Thank you for the question.

Rami Myerson: Hi, Ellen.

Ellen Page: Can we talk about C4ISR has grown double digits for two years now, in the first half. How do we think about a normalized growth rate in that business? And is there anything chunky in there that might start to moderate growth?

Rami Myerson: Ellen, can you please repeat the question? Your line is a little bit disrupted.

Ellen Page: Sure. Is that better?

Rami Myerson: Yes. Much better.

Ellen Page: Just that C4ISR you've posted double digit growth, two years in a row in the second quarter. And just how do we think about a normalized growth rate in that business and the sustainability of the demand?

Butzi Machlis: We see a growing demand for C4ISR solution which includes communication systems, networking systems, applications, UAVs, and autonomous solutions. These are all included under C4I. As was mentioned earlier, UASs, UAVs and ground unmanned systems are all under this definition. And as was mentioned earlier, we see a growing demand for such solutions. We have vast experience using unmanned

systems in Israel, as well as in other markets. And we have delivered them to many customers with full interoperability to different forces. We own all the technology in-house, and we see a growing demand for this segment. So I believe that the growth will continue.

Ellen Page: Great. And just on cash. You mentioned that there's a build of inventory related to supply chain disruptions and timing of collections, was an impact in the quarter. But can you just walk through working capital in the back half? And, just go over that 76 million dollar cash tax payment, again, and how it relates to future tax planning?

Kobi Kagan: This is Kobi Kagan. Thank you, Ellen, for this question. We had in the quarter a one-time payment of 73 million dollars, which is related to the company's decision to release exempt earnings from approved and privileged enterprises in Israel. So this is a one-time payment to settle – to settle this with the Tax Authority here in Israel.

This is of course would not affect the second half of the year, as this is a one-time expense. We are seeing cash flow as a full year and not on a quarterly basis. And so we think that, as we mentioned, that we expect to receive payments in the coming quarters from various customers.

Ellen Page: Great, thanks. I'll head back in the queue.

Rami Myerson: Thanks, Ellen.

Operator: The next question is from Pete Skibitski of Alembic Global. Please go ahead.

Pete Skibitski: Hey, good afternoon, everyone.

Butzi Machlis: Good morning.

Pete Skibitski: Yeah. Let me start with, I guess, maybe, Butzi. You know, you had good sequential backlog growth this quarter, Butzi, but I think that didn't include the pretty large intelligence systems contract that you booked in Europe. I

think it was 660 million, that closed after the quarter. So that was a nice win, and I'm, you know, I'm curious, because I haven't seen an intel contract that large booked by Elbit. And so, you know, it raises a question, I think, do you see other opportunities out there to sell a contract of this magnitude to other countries in the intel area?

Butzi Machlis: Thank you for the question. As we all see, the company is in the middle of a transformation. And we are getting big contracts, and that's on top of small and medium size contracts we used to get in the past. And we continue to get. So, these huge contracts include, actually, the entire portfolio of the company. And one of the main advantages of Elbit is that we are very versatile. We have EW solution, we have radars, we have electro-optic solutions, we have networking systems, command and control, UAVs, USVs, and other platforms with a lot of AI and data analytic capabilities, on an applications. So we are quite unique, having such a wide portfolio. And this portfolio enables us to win mega projects, and to adapt the technology to the required needs of each customer. So, the answer is yes. We see more demand for end-to-end solutions, to mega projects. And we got two very big contracts in the second quarter, the networking digitization program in Asia Pacific, for 550 million dollars, and the 660 million dollars in Europe. We see more and more demand for mega projects, with that on top of the medium size and small project we continue to get. And the whole company is transforming, to perform and to get more contract like these, and to propose accordingly. So, we have more production capabilities, we are working in several places three shifts, and this is in order to meet this demand. And if you remember, last year, the company was re-organized in a new way. Actually, we have four main divisions right now in Israel, and not five as we used to have. And that's

in order to prepare us better for these mega projects, which we got, and we hope to continue to get. But the answer to – the simple answer is yes. We see more and more demand for combined mega projects which involve many technologies from the group.

Pete Skibitski: That's great. I really appreciate all the color, and the context, and it's great. If I could, now, maybe, shift the conversation to – to margins. Could you guys give us an update on where you're at with implementation of the ERP system? As well as how construction is coming along on the new IMI facility? Because I think – I think those two initiatives are – are important to, kind of, the mid term margin expansion outlook, is my recollection.

Butzi Machlis: I will start with IMI activity, and then Yossi will continue with ERP. We are progressing according to the plan, with IMI, and to shift the main production facility of IMI from the central part of the country to the south. We are investing a lot of money in the new infrastructure, which is much more modern, much more efficient, to increase yields and productivity, which will enable us to deliver bigger quantities with better quality and lower costs to our customers. So actually the first phase, to shift some of the activities to the new facility will happen by the end of this year. The majority of the plan will be concluded around the end of 2024. That's according to the plan.

Yossi Gaspar: In addition to that, regarding ERP – this is Yossi. Regarding the ERP system, we are on track with that. Actually, we have now about 60% of the organization implementing the new ERP. And next major milestone will be by the end of this year, when we will probably reach somewhere in the 80 percent plus, probably 85%, and by mid of next year, the whole organization will be operating on that one ERP system. The benefit from these activities, we expect them to start to come towards the second half

of next year, and definitely much stronger into the beginning of '24.

Pete Skibitski: Okay. Thank you, Yossi and Kobi. Let me ask one more along these lines also, with regard to pricing. You know, because obviously we're in kind of a global inflationary environment, you know, labor, materials. And so, I'm wondering, I guess, mainly, you know, with the ERP system coming along, do you feel like you're getting the pricing that you need to offset the impact of inflation? Are you getting net pricing gains? Or, will that take more time? And, strategically, do you feel like you're getting the prices that you need, given the value you're providing the clients?

Yossi Gaspar: Well, as you probably know, Pete, prices are defined by the market. However, we have linkage to indexes of labor, and indexes of material, in many of our contracts. So, to some extent, we can compensate the increase in the cost. I must say, we cannot compensate for everything. We do see in some of the integrated circuits big changes in the short term, but we expect this to change in the longer term, and to return to what we call normal. But, looking at our bill of material, what is that composed of, I must say that the basic impact is not material on the cost. And we are not immune because of these increases in some of the electronic parts that we all see as challenges. So, bottom line of all this long discussion is that yeah, we are affected, but it is not material, from point of view of impact of profitability. And part is compensated by our contracts, which do include indexing to cost, of material.

Pete Skibitski: Okay. That's very helpful. That's very helpful. Thank you. Let me ask one last one before I – and I'll be completely done. Butzi, on the MOU you signed with KMW, Krauss-Maffei, on the rocket artillery. Are there, I imagine Europe has to be getting ready to conduct a lot of sales campaigns. Are there anything near term in Europe along the lines of rocket sales that

you expect to book in the second half of 2022? Or maybe it won't be until 2023?

Butzi Machlis: The answer is yes, I cannot go into the details, as you can imagine, but the answer is yes. We see near term potential for new orders in Europe for guided rockets.

Pete Skibitski: Right. Thanks so much

Operator: The next question is from Ella Fried of Bank Leumi. Please go ahead.

Ella Fried: Hey, good afternoon.

Rami Myerson: Hi Ella, We hear you.

Ella Fried: Well, I have a few follow up questions, but before, if you don't mind, I really would appreciate your repeating the answer to the first questions about double-digit growth or something, because the line was really – distorted, and there were some people – so for the sake of few people, please tell what you told.

Butzi Machlis: Yeah, so, Ella – it's Butzi. The question was with regards to C4I solutions. If I believe that the growth will continue, and the answer was yes. We see a growing demand for C4ISR solutions, which includes UAVs, USVs, UGVs, different sensors, different payloads, different command control systems and solutions. So there is growing demand for that. We just announced a contract for an intelligence solution which is part of this segment as well. It's a mega project, and we see growing demand for these solutions, for these systems, as a result of the last conflict in Ukraine.

Ella Fried: Okay. And so, another follow up question. You seem to perform much better in terms of growth than many companies in your peer group, and we don't have still this quarter for everybody. But on the annual level, you really have the best results for growth in this, and then in the, I think, in the wider group as well. How do you explain it? Why is it that some

companies are decreasing, and Elbit is really outperforming?

Butzi Machlis: I think the answer to that is our strategy. And our strategy is composed of two main pillars. The first one is a very wide and deep portfolio. There aren't many companies that have a portfolio like Elbit. Which includes UAVs, electro-optics, simulators, avionics, helmets, communication, EW, electro-optics, lasers, guided munition, UAVs, USVs, UGVs, artillery and sensors. There aren't many companies that have such a portfolio, and I didn't mention everything. So we have a very wide and deep portfolio, which enables us to tailor solution per specific needs of our customers. That's number one. And most of the portfolio is very mature, and is combat proven. That's the first pillar. We continue to grow the portfolio. We just announced a very nice development of a new radar system, and we continue to invest in our airborne laser system, which is very advanced and unique. So, a very wide portfolio, that's the first pillar.

The second pillar is our international position, our global footprint. We have dozens of subsidiaries all around the globe. In the US we have about four thousand people, we have 600 people in the UK, we have hundreds of people in Germany, hundreds of people in Romania. We have a company in Brazil, in Austria, in Belgium, in India, in Australia, in Canada, and many more. And many customers prefer to buy locally today. There is a growing demand for defense solutions, countries prefer to buy proven solutions, and they prefer to buy locally, from their own industries. And we gain right now from previous investments and our strategy to build local subsidiaries. And we win most of our programs via these subsidiaries.

So the combination of growing demand in the market, a large portfolio, and global footprint, all of them together bring us a success in the market.

Ella Fried: On the other hand, the scope and the versatility of relatively not such a huge company on this ground of – of the leading companies globally, it's a challenge. I think the challenge of profitability is even intensified by this versatility. So, are you planning more of creating other centers, like you have Israel, you have US, you have, you know, developing activities in Asia and Europe. But do you plan to create bigger hubs? I don't know, because the operation is very costly of all this versatility.

Butzi Machlis: It's true that it's costly to maintain such a machine. And also to protect the portfolio we have. That's the reason why we invest 7.4% in R&D.

Ella Fried: Yeah, you were leading, I not...

Butzi Machlis: And which is, I believe, double the nominal number in this market. And this is to support this portfolio, and to bring new innovation and new capabilities to the market. But I want you to know, that although it's a big company with many subsidiaries abroad, we try not to duplicate capabilities between the different facilities. And some of the activities, some of IP, is coming from Israel, some of the capabilities are coming from our subsidiaries.

Just to give an example, in the US, we have two main capabilities which serve the entire group. The Night vision capability, based on a company we acquired few years ago in the US, night vision, they are center of excellence for the entire group. The same is Sparton in the US, they are also a center for the entire group. Sonars, we do in Canada. And they serve the entire group for sonars. HF radios we do in Germany. They serve the entire group for HF solutions and radio communication systems.

And the same is true also for production capabilities. We have centers of excellence for different production capabilities, which enable us to leverage the talent and facilities we have all around the globe. That's

number one.

Number two, we have reorganized the way we work with our subsidiaries to make sure that we get maximum efficiency, and we gain maximum positions in the different markets, and that's part of the responsibility of Mr. Gaspar who you know very good.

Yossi Gaspar: I would like to add, Ella, one more aspect. If you recall, in the past, we were emphasizing our international spread that actually helps us in reducing the risk in the business. And we are almost, I would say, immune, to changes in various geographies of the defense budgets. While one is declining, the other is growing, and so on. So the basic risk in the business is low. Now, I think that what we are seeing in recent quarters is exactly that. Your basic question was, how come that you are growing and the others did not, or not as much. And I think what we see now is exactly the fundamental of the strategy that Butzi explained before, of having a widespread business, both geographically and product-wise.

Ella Fried: Okay. Thank you. I have few more questions. One is, again, in the same direction. You mentioned on the previous call that this second quarter is going to be the first quarter to show actually the impact of Ukraine war. And we saw it not as much as we expected, but it's a company that performs projects, so we expect to see it in the following quarters. But the question is, when will you have more impact of this interest that you told us about in the previous quarter.

Butzi Machlis: Talking about orders, or new business we got, for example, as you have mentioned, we got a 660 million dollar contract for intelligence solution in Europe. That's one example of the impact of the conflict in Ukraine. So, the first phase of the impact is getting business. So then it takes some time until it goes down to the revenue level and to the profit level.

Ella Fried: But most of it is not in the backlog yet, right? Or is it?

Butzi Machlis: Part of it, part of it is in the backlog. The 660 million dollar contract we got is in the backlog. But you are right. There are many opportunities we see as a result of the Russian invasion into Ukraine. We see a lot more potential in Europe and in other countries because of that and we see also a growing demand not just in Europe.

We see also a growing demand other parts of the world. The Abraham Accords have opened a new horizon for Elbit, against a different threat. And as was mentioned, we have opened a company in the UAE, and we got already some business there. There is a lot of opportunity for us in our region. And the conflict between the Western world and China, is still there. We all saw what happened in Taiwan just a few weeks ago.

So there is a growing demand in the US and in Europe, and of course, in Asia Pacific against the Chinese threat. So there are three main threats which are here, which exist. And all of them create different demand, different requirements, for our portfolio, which is very relevant to meet these requirements. So it's not just Russia. It's Europe, it's our region, and it's also Asia Pacific. In all these areas there is tension, there is growing demand for our portfolio. That's the reason for the strong backlog we have, and I see growing opportunities, and more opportunities, for our company in the near term future as well as in the long term future.

Ella Fried: Thank you, Butzi. I have one more technical question. You mentioned in the press release that the stock price linked plan will affect the next quarter as well. So, about the scale of this impact. Is it going to be more like the first quarter, or is it going to be, I mean, relating to the present stock price. As I understand, the stock price is not the only component in this formula.

Yossi Gaspar: Well, Ella, you know what we explained in the first quarter, and you have

seen the increase in the stock price, and the effect on our results. We don't know yet how it will end this quarter. And there is a formula that we are using according to the plan that we have with our employees, how to calculate the impact. So you can make some general deductions out of that, and you can see the rate of growth in the first quarter, how it went, and then compare it to what's happening in the second quarter, and that will be a very rough estimate of what will happen. We cannot give you guidance now. But, bottom line, we really believe the stock goes up.

Ella Fried: Thank you for taking my questions and best success in the next quarters.

Butzi Machlis: Thank you.

Operator: There are no further questions at this time. Before I ask Mr. Machlis to go ahead with his closing statement, I would like to remind participants that a replay of this call will be available two hours after the conference ends. In the US, please call 1-888-782-4291. In Israel, please call 03-925-5900. And internationally, please call 972-3-925-5900. A replay of the call will be also available at the company's website, www.elbitsystems.com. Mr. Machlis, would you like to make your concluding statement?

Butzi Machlis: I would like to thank all our employees for their continued hard work and contribution to Elbit Systems' success. To everyone on the call, thank you for joining us today and for your continued support and interest in our company. Have a good day, and goodbye.

Operator: Thank you. This concludes the Elbit Systems Ltd. second quarter 2022 results conference call. Thank you for your participation. You may go ahead and disconnect.

[End of conference call.]

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