Elbit Systems Ltd.
Conference Call
November 29, 2022

Operator: Welcome to the conference call to discuss Elbit Systems' results for the third quarter of 2022. Thank you all for holding, 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 call is being recorded. I would now like to turn the call over to Rami Myerson, Elbit Systems' Investor Relations Director. You may begin.

Rami Myerson: Thank you, operator. Good day everyone, and welcome to our third 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 with both 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 third quarter results reflect sustained demand for our solutions and the investments we are making to realize the growing potential presented by increased geo-political tensions and growing defense budgets. Third quarter revenues were similar to 2021 as growth in Europe offset lower Asia Pacific revenues. Our revenues by geography tend to fluctuate on a quarterly basis, based on the specific programs and projects performed, as well as milestones reached in a particular quarter. We believe the longer-term revenue trends, supported by the growth in the order backlog, are more representative, as we have discussed with you in the past. I would note that the sale of Ashot Industries to FIMI was completed at the end of the second quarter of 2022, and our results in the third quarter of 2022 do not include a contribution from Ashot. The current operational environment is challenging due to supply chain disruptions and labor cost inflation. Profitability in the third quarter includes expenses related to employee stock price linked compensation plans. These plans help align employee compensation with share price performance, incentivizing our employees to generate long-term value for all of Elbit Systems' stakeholders. Our GAAP and Non-GAAP results have always included these expenses but this year they are higher than in recent years following the share price appreciation. Our conservative balance sheet management policies have enabled us to increase inventories and partially offset the supply chain disruptions to maintain deliveries to our customers on schedule. Our budgets and longer-term planning assume that the global economic trends of supply chain and wage inflation headwinds will gradually subside from the second half of 2023. We continue to invest in R&D to enhance our portfolio and maintain our competitive edge. We invest in sales and marketing to expand our customer base, and continue to invest in capex to improve and expand our manufacturing footprint. The rollout of the new ERP system and the construction of the new facility in the South of Israel are progressing and we expect these and other efforts to support an improved operational performance. I will now highlight and discuss some of the key figures and trends in our financial results. Third quarter revenues were 1.349 billion dollars compared to 1.364 billion dollars in the third quarter of 2021. In terms of the revenue breakdown across our areas of operation: C4ISR at 30% of revenues, increased year-over-year, mainly due to UAS and Command and Control Systems sales. Land Systems was 26% of total revenues and increased year over year due to artillery systems sales. Airborne Systems accounted for 32% and declined year over year due to lower airborne precision guided munition sales. Electro-Optics accounted for 10% and other sales accounted for 2% of revenues similar to the third quarter of 2021. The geographic revenue breakdown in the third quarter reflects our diverse geographic revenue base. In the third quarter, North America contributed 29%, Europe 26%, and Asia-Pacific and Israel each contributed 19% of revenues. European revenues increased due to growth in training and simulation sales. Asia-Pacific revenues declined mainly due to lower precision guided munitions sales. North America revenues were lower due to a decline in medical devices sales.

The non-GAAP gross margin for the third quarter was 25%, compared to the third quarter of 2021 at 27.2%. GAAP gross margin in the third quarter was 24.2% of revenues compared to 26.6% in the third quarter of 2021. Gross margins in the third quarter reflect a combination of unfavorable program mix, wage inflation and supply disruptions. GAAP and Non-GAAP gross profit in the third quarter include approximately $13 million of expenses related to stock price linked compensation plans. Third quarter non-GAAP operating income was $84.4 million or 6.3% of revenues, compared with $123 million or 9% of revenues last year. GAAP operating income for the third quarter was $73.4 million, versus $110.3 million in the third quarter of 2021. Operating profit in the third quarter include expenses of approximately $22 million related to the stock price linked compensation plans. The operating expense breakdown in the third quarter was as follows: Net R&D expenses were 8.4% of revenues, versus 7.4% in 2021. Marketing and selling expenses were 5.1% of revenues down from 6.2% last year. G&A expenses were 5.9% of revenues, compared to 4.9% last year, due to stock price linked compensation expenses. Other operating income of $9.4 million included a capital gain related to the sale of a building in Israel, which was included in our GAAP and Non-GAAP results. Financial expenses were $16.4 million in the third quarter, compared to $13.5 million in 2021. Other income of $4.8 million includes approximately $4.6 million related to the re-measurement of an affiliate following an investment round. We recorded a tax expense of $7.9 million in the third quarter, compared to $8.3 million in 2021. The effective tax rate in the second quarter was 12.8%, compared to 8.6% in 2021. Our non-GAAP diluted EPS was $1 and 40 cents in the third quarter compared with $2 and 33 cents last year. The GAAP diluted EPS was $1 and 26 cents compared with $2 and 8 cents last year. The stock price linked compensation expenses in the quarter were equivalent to approximately 45 cents on an EPS basis. Our backlog of orders as of September 30th, 2022 was $14.7 billion, approximately $1.1 billion higher than the backlog at the end of September 2021. Approximately 40% of the current backlog is scheduled to be performed during 2022 and 2023, and the rest is scheduled for 2024 and beyond. Operating cash flow for the third quarter was a $178 million inflow compared to no inflow in the same quarter last year. The cash outflow also included an inventory build related to our efforts to mitigate supply chain challenges as we have leveraged our solid balance sheet to support deliveries to our customers. Cash flow from investing activities includes the higher capex related to the new facilities in the South of Israel, Charleston, South Carolina as well as the roll out of the ERP system. The Board of Directors declared a dividend of 50 cents per share for the third quarter of 2022. I will now turn the call over to Mr. Machlis, Elbit's CEO. Butzi, please go ahead.

Butzi Machlis: Thank you Kobi. Firstly, I would like to thank the investors on the call and all our shareholders for their continued support. In a volatile world, we Elbit's management team, have to make hard choices and decisions as we strive to create value for all our stakeholders and ensure we find the right balance between long term value creation and short term performance. We are fortunate that Elbit Systems shareholders understand the strategy, the potential and the long-term investment horizon that has supported the growth and the success of the company for decades. We are also aware that you expect a better operational performance, including higher profitability, than what we delivered in the third quarter. We are working to improve the short-term performance while maintaining the balance with the long-term success of Elbit Systems by investing in our people, our portfolio and our customers. This year we increased investment in our people. Elbit's employees are the most critical contributor to our long-term success. We invested to retain talent in a competitive labor market in Israel and around the world, including stock price linked compensation plans that had a material impact on our profitability in 2022. I would like to remind you that our executives and employees come to work at Elbit for more than just a salary. They join Elbit because we are an attractive employer that provides them with an opportunity to work on some of the worlds most advanced technologies and to support those responsible for the protection of our loved ones and our countries. Our business is growing and we continue to recruit around the world to deliver our record backlog and support our customers. We continue to invest in R&D to develop leading solutions that provide our customers with a valuable competitive edge, leveraging the operational experience of our employees and the proximity and short feedback loop with our customers. We are investing in new facilities. Elbit is building new advanced facilities in Israel, the UK, Germany and the US and we continue to gradually upgrade existing facilities. These facilities will include the latest manufacturing technology and processes that should support the operational improvement. We are also investing in creating value for our customers by providing them with advanced capabilities, investing in our multiple subsidiaries around the world and by utilizing our balance sheet to build inventories and maintain deliveries on schedule. We know that our customers appreciate our efforts and we expect these investments to deliver good returns in the future. Elbit Systems long-term growth has been driven by a healthy combination of both organic growth and acquisitions. These include Elbit Night Vision in 2019 and Sparton in 2021 that enhanced our technological portfolio and strengthened our position in the US. Sparton and ENV reported significant milestones in recent months. In October, Sparton was one of three suppliers awarded a joint five year $5.1 Billion ID/IQ contract to supply sonobuoys to the US Navy. This follows selection of Sparton as a qualified vendor for the multiple award delivery order contract or MADOC in July. This IDIQ is significantly larger than the previous five year IDIQ. This illustrates the importance of anti-submarine warfare as near peer tensions escalate and the growing demand for next-generation sonobuoys. U.S. Naval Forces Central Command is currently conducting a three-week Digital Horizon Exercise in the Middle East focused on employing and integrating unmanned and Artificial Intelligence systems. Elbit Systems of America together with our Israeli based Maritime business unit are showcasing Elbit Systems' Seagull unmanned surface vessel as part of this exercise. These events validate the investments Elbit has made to build its maritime capabilities and the growing importance of the maritime domain. In October, Elbit Night Vision received a $107 million order to supply Night Vision systems to the US Army as part of the OTA contract received in 2020. In September, ENV received a contract to develop an advanced night vision sensor for the US Army's IVAS system. Militaries around the world continue to invest to equip their soldiers with capabilities that enable operations at night or in dark environments. Recent conflicts have highlighted the importance of these capabilities. Elbit is a leading provider of night vision capabilities for soldiers thanks to the acquisition of ENV and our legacy solutions. We are working to realize the synergies between our night vision capabilities and additional technologies in Elbit's' portfolio like the integration of our command and control systems that can project information on the night vision display. At our second quarter results conference call we discussed five capability areas that we identified should benefit from increased defense spending over the coming years, following the lessons learned from the Russian invasion of Ukraine. These are platform protection, command and control systems, electronic warfare, unmanned systems and networked precision munitions. We believe that each one has the potential to generate significant revenues over the medium term. During the third quarter, we announced additional contracts across these five priority areas. Starting with platform protection. In November, we announced a $200 million contract for Military Helicopter Self Protection suits to an Asia Pacific customer. The conflict in Ukraine has highlighted that only ground forces equipped with tanks and APCs can maneuver and execute large-scale operations. The conflict has also demonstrated the vulnerability of platforms across all domains and the critical need to protect both platforms and their occupants. This highlights the importance of active protection systems to protect maneuvering ground platforms. The Iron Fist active protection system development is on track for platforms in Israel, the Netherlands, Australia and the US. I believe there is significant potential for this unique solution that can protect armored personal carriers and a range of military platforms. Helicopters provide critical support to maneuvering ground forces and our DIRCM systems protect helicopters and fixed wing aircraft from a range of threats. Another area of priority spend is autonomy and unmanned systems in the air, on the ground and at sea. The effectiveness of a loitering munition or an armed UAV is limited when operated as a single platform. Armed forces require a comprehensive solution that generates targets and closes the sensor to shooter loop quickly and effectively. Elbit can supply our customers with a multi-layered solution of autonomous aerial intelligence capabilities from small drones to MALE UAVs. We can connect these platforms with our command and control solutions and equip them with a range of electro-optical, ELINT and EW sensors and payloads, all developed in house at Elbit. The vertical integration of our internal supply chain enhances our ability to tailor unmanned and autonomous solutions to customer requirements, increasing effectiveness by maximizing the performance of each part of the solution and reducing cost. In September, we were awarded a $120 million contract to supply Hermes 900 Maritime UAS to the Royal Thai Navy. These UAS will be configured for maritime missions and will be equipped with maritime radar, satellite communications, droppable inflatable life rafts and other capabilities. In November, we received a $72 million contract to supply Hermes 900 UAS to an international customer. The Hermes 900 UAS has been selected by more than 15 customers around the world. The third area of priority spend are advanced radios and command and control systems. To maneuver effectively and combine multi domain operations modern armies have to be equipped with advanced C2 systems. In October we were awarded a $65 million contract to supply the first fully networked mechanized solution to an army in Latin America. This solution includes armored vehicles equipped with software-defined radios, a battle management system and MAGNI mini unmanned aerial systems. In October we received a $25 million contract from the Finnish Ministry of Defense to supply radio communication systems to the Finnish Army. Our military radio communication systems have been selected by several European and NATO countries including Sweden, Germany, the Netherlands, Switzerland, Spain and others. And with that, we will be happy to take your questions. Operator?

Operator: 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 Pete Skibitski of Alembic Global. Please go ahead.

Pete Skibitski: Yes, good afternoon, everyone. Hope everyone's doing well.

Rami Myerson: Hey, Pete.

Pete Skibitski: Guys, I had a question about the airborne systems unit. Revenue was down quite a bit this quarter. I think, Kobi, you mentioned that it was on airborne precision guided munitions. It was also down a little bit in the second quarter. I'm just wondering, if there was, maybe, one large program that's ending, that's driving that weakness? And that maybe as we get into the fourth quarter, or first quarter, we'll see easier comps there, and a return to growth?

Kobi Kagan: Thank you, Peter, for the question. This is Kobi. You're right, it is a large program that we announced early last year, that we had concluded in the previous quarter. And in this quarter, we don't have any sales from this large program. We announced a new airborne precision munition sale that we got this year. So we expect that next quarter, we will continue to sell on this issue.

Pete Skibitski: Okay, that's helpful. Thanks so much for that. And then, I just wanted to switch now, to underlying gross margin issues. In particular, pricing. I'm just wondering, you know, as we've heard, the US defense contractors worked their way through the third quarter, they are also experiencing, of course, higher labor rates, and there's sort of a delay effect in terms of, not being able to pass on the higher labor rates through updated pricing, until they start new contracts, essentially. And so, you've got this mix of, current contracts, with higher labor rates, but pricing that reflects, labor rates from maybe a year or two ago. So I'm just wondering, have you, has Elbit had success in terms of the ability to pass on the cost of higher labor rates through pricing on new contracts? And so, maybe ignoring for now stock linked compensation, but just in terms of base labor rates. Are you getting better pricing on new contracts as opposed to the contracts that, were awarded a year ago, when labor rates were a bit lower?

Yossi Gaspar: Hi, Pete, this is Yossi. I would address it in the following way. First of all, the extraordinary cost related with our stock option plan, that is something, kind of a one time, and it goes away, and it's not something of the baseline of cost of the company. So that should be neutralized and it does impact the present year, and is not something that will continue with us. On the baseline cost, I would say the following. Some of our contracts with customers do have economic price adjustments, and therefore we are compensated because of the growth in the cost of the labor, and also, to some extent, cost in the growth of basic materials, which is also price adjusted according to what happens in the market. However, we don't have that in for all of our contracts. And therefore, we are suffering to some extent because of that. We definitely take all these changes into consideration when we bid for new contracts. And I would say that even in the recent growth of backlog that we have experienced, this already includes orders that take into account these economic adjustments, and hopefully these contracts will result in improved profitability in the future.

Pete Skibitski: Okay. That's very helpful, great color. I appreciate it. Now, I'll just ask one last one and then I'll get out of the queue there. On the backlog growth, that's a good transition Yossi, it was very strong this quarter, year to date backlog growth has been strong. I'm just wondering, can you bifurcate it a little bit by region for us? Is there any one region that's been very, very strong, and maybe some laggards? And I'm sure a lot of people want, are wondering, if Europe and even Eastern Europe is driving that growth, or if you're seeing strength across the board? Would appreciate any color on that topic.

Yossi Gaspar: Yeah. Well, first of all, I would say the following about that. We have, kind of, a steady state business flow which we were exposed to years ago, and we continue to have. These are what we call the medium size contracts, of tens of millions of dollar each, and that continues, and even increases. Then we have on top of that, some significant number of what we call three-digit contract, that have in the hundreds of millions of dollars per contract, that we have seen in recent two years increase in the number of those contracts. And definitely the high level dollar value contracts have the potential to improve future revenues, and also the bottom line. Regarding the areas, geographic areas, you can look at our press releases of the various major contracts that we have announced. And if you analyze those, I would say that the contracts in the US are more or less in the steady state growth that we have seen in past years. Contracts from Europe and Asia Pacific are higher than what we have seen in the past, especially related with some of these three-digit contracts that I mentioned earlier. And the contracts in Israel, of course, are more or less at the level that we have seen that in the past, maybe with some mid-single digit growth from what we have seen in the past. In total, year over year, our backlog has increased by $1.1 billion, which is a significant number. And the spread, the global spread, as I said, the higher level growth is in Asia Pacific, Europe, and all the others are at the normal level.

Pete Skibitski: Okay, that's great. Appreciate the color, guys.

Rami Myerson: Thanks, Pete.

Operator: The next question is from Ellen Page of Jefferies. Please go ahead.

Ellen Page: Hi, guys. Thanks for the question.

Rami Myerson: Hi, Ellen.

Ellen Page: Just to start. Looking at – both from a cash and margin perspective, how would you describe supply chain disruption today relative to where they were in Q2? Are things improving at all? Both from ability to source materials, and also from an inflation perspective.

Butzi Machlis: Hi, Ellen. It's Butzi. With regards to supply chain, we see an improvement in shipment, shipping costs are going down. Not yet at a historical level, but they are going down. And we see also prices going down for metal parts, and material going down. Once again, not yet as at their historical level prior COVID, but going down. We don't see this yet in electronic components. There we still see a shortage, and the main challenge we face right now is mainly around electronic components. That's also the reason why our stocks went up, and inventories. From what we understand and from what we estimate, we believe that the improvement will happen during the second half of next year, and we are taking all the required measures in order to overcome some of these challenges.

Ellen Page: Helpful. And just looking at Land Systems. It was very strong in the quarter, and I believe that's where Ashot came out. Is that accurate? And how do we think about growth going forward, as we think about both ammunitions and weapons and active protection?

Butzi Machlis: Are we talking about Land Systems, Ellen?

Ellen Page: Yes. And Ashot, the divesture.

Kobi Kagan: Hi Ellen, this is Kobi. We had stronger artillery sales this quarter. And remember that the Ashot Ashkelon part was nearly 20 million dollars. So it was not so significant. But we had stronger artillery and ammunition sales due to the situation, mainly in Europe, so we had a stronger quarter in the land system business.

Ellen Page: Helpful. I'll hop back in the queue. Thank you.

Rami Myerson: Thanks, Ellen.

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

Ella Fried: Good afternoon. Thank you for taking my questions. Most of them were answered, but I have just one or two yet left. You mark sea, and the naval business, as one of your strategic moves into the next years. And also you have this conversion of product and technologies from air and from land into the sea. So, could you give us some milestones of when and how much this will be felt over the next years?

Butzi Machlis: Hi, Ella.

Ella Fried: Hi.

Butzi Machlis: As you remember, we acquired Sparton in the U.S. around two years ago and we continue to be an important supplier to the Navy of sonobuoys, and, as was mentioned, the 5.1 billion ID/IQ contract which should come, and be split between three suppliers is also a good indication that our revenues in Sparton will continue to grow in the future. We also made another acquisition a few years ago in Canada, a company by the name of GTI. They do sonars, and they are very successful, the company is growing as well, and they have already booked several international sales. And we see a growing potential for them as well. A year and a half ago, we won a very important EW naval contract in the UK. It was a very difficult competition, against local providers, and still we won it, because of the superior technology we have here in Israel. And this technology is similar to the technologies that we are deploying these days on the Saar 6 Corvette of the Israeli Navy. And, so, based on the – on our EW capabilities here and based on our capabilities in the US and in Canada, I am happy to say that we have a position in the US, we have a position in Canada, we have positions in the UK and in Israel. And we also have here a nice, a very advanced autonomous solution the Seagull. The importance of this naval autonomous vessel was demonstrated just recently in the Gulf, as well as in the conflict between Ukraine and Russia. So, we have several elements. We are combining them together to deliver integrated solution to our customers, we see a growing potential for that. And our long term forecast is to have activity for our naval customers, that should be around 1 billion dollar revenues a year.

Ella Fried: Okay, thank you. And I have a follow-up question. Unsurprisingly, on the bottlenecks in the industry also, it was quite a lot said about. The question is, if you could give us a bit more color and a bit more specifics about where are they? In chips? Is it mostly Asia? Or it's all over? And also, because there is such a ramp-up in the industry, especially in the US, is there competition between companies and you have sometimes just to stand aside and wait for a more rational price? How is it impacting you? Because the other, the American companies, they were ahead of you in the supply chain disruptions and you were much better off all this time. And now it reached you as well, so I would like to see how is it happening in the industry.

Yossi Gaspar: Hi Ella, this is Yossi.

Ella Fried: Hi, Yossi.

Yossi Gaspar: Hi. I would say the following. We all, the whole industry, and not only the aerospace and defense, were significantly affected by what's going on in the supply chain. However, as Butzi explained before, we already see some improvement in areas like the mechanical parts, like transportation, and deliveries, and so on and so forth. However, the electronic parts are still with us and impacting us. The good thing that we did two years ago is that we anticipated this was going to happen, and we increased our inventories significantly, which hurt our working capital, of course, as you have seen in our reports. And we continued to work along those lines during the last year and a half to two years. However, initially we thought that this would be significantly over by this time, and this has not happened. This explains why we were quite well organized for the initial year, year and a half, and it did not affect us as much as the US companies. However, at the end of the day, we are part of the global supply chain, and now it does affect us more. We do anticipate by the second half of 2023, this will decline, and what has happened in the mechanical parts, and in the transportation, and other areas, that will improve also in the electronic parts, and we will be back on track somewhere towards the second half of '23.

Ella Fried: Do your competitors also feel optimistic about this, more or less, this timing?

Yossi Gaspar: Definitely yes.

Butzi Machlis: These are the market estimates right now, and we are in daily contact with all our suppliers, to understand exactly when can we get the missing parts. You understand, in some cases, we have the entire product ready, and we are just missing one transistor or one piece of electronics, in order to deliver it to a customer and we can do it. So we are in daily contact with the relevant suppliers. We start to see some improvement, but the estimation right now in the market that it will be resolved, or most of it will be behind us during the second half of next year.

Ella Fried: Okay, and last question about the hedges. I know that you have now a new hedge policy and it's less sporadic than it used to be. But this recent month presented quite an opportunity for hedging. So did you stick to this structured hedging, or did you take some opportunities in this market?

Kobi Kagan: Hi Ella, this is Kobi.

Ella Fried: Hi, Kobi.

Kobi Kagan: Hi. We are sticking to our policy, which is that we are not prophets and we cannot anticipate what happens with exchange rates. For instance, nobody anticipated the sharp decline in the British pound. So we are sticking to the policy. Next year, of course, we have stronger hedges due to the improvement in the rates. And sometimes, when we identify peaks, we actually take the opportunity and increase our hedges. But everything is around the policy. We maintain a strict policy which gives us a steady platform of exchange rates, and sometimes its worth a lot to understand the neighborhood of the exchange rates which we are working. Again, taking advantage on spikes that we identified.

Ella Fried: So, it will be more closer to the average and less to the spikes, if I read you right?

Kobi Kagan: Yeah, this is right. Because we think that a steady platform for the company is very advantageous to our work. And of course we have a significant improvement for next year in terms of the platform of the exchange rates that we are going to work with.

Ella Fried: Okay, thank you very much, and thank you for taking my questions. Good afternoon.

Kobi Kagan: Thank you, Ella.

Operator: The next question is from Ilya Fainer of Leader. Please go ahead.

Ilya Fainer: Okay. Thank you for taking my questions. So most of my questions were answered, but I want to ask you, what's your opinion about the fear that a recession will eventually lead to slower growth in defense budgets, and how is that going to influence the company. And the second question, we've seen impressive growth in the backlog. Do you have a range, or guidance, when we're going to see the growth in the revenue? And what's your guidance for the next year?

Butzi Machlis: Hello. With regards to the first question, we do not see any signs of recession in defense spending. On the contrary, we see growth. We see growth in Europe, we see growth in Asia Pacific, and we also expect growth in our positions in the US, in North America, and also here in Israel. So, after the election, we hope to see stability, which will enable a long term program to be executed. So we anticipate growth in defense spending. We see growing potential for the company, we see more opportunities, we deliver more offers, and the funnel of new positions is increasing. So that's with regards to the first question.

Yossi Gaspar: I think that the best indicator for the future growth in revenues is the backlog. If you look at our press release, we always give the breakdown of the backlog for the rest of the year plus the following year, and the backlog to be sold after the following year. By the end of the third quarter, we had a backlog of $14.7 billion. We also said that 40% of that backlog is going to be performed during the fourth quarter of '22 and '23. Just by making a simple calculation, that gives you about $4.7 billion of revenues that are going to happen in 2023. We usually have a coverage of backlog for approximately 80% for the following year, so just making simple mathematics, you can find out that we'll have very nice growth for the top line for next year.

Ilya Fainer: Okay, thank you.

Rami Myerson: Thank you, Ilya.

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

Pete Skibitski: Yes, thanks guys. I wanted to ask on the cash flow statement. The contract liabilities line which I think relates to customer advances, Advances were a little soft in the first half of the year but they were very strong in the third quarter and historically they've been very strong in the fourth quarter, so I just wanted to see if maybe some advances were pulled forward from the fourth quarter into the third, or do you expect the fourth quarter to be another good quarter for advances, because typically a good advances quarter for Elbit means a good free cash flow quarter as well. Just wanted to get a sense of that. Thanks.

Butzi Machlis: Hi Pete, it's Butzi. The answer is no, we didn't change anything. What you see right now is a reflection of the third quarter only. We put a lot of emphasis on cash flow in the company these days, and this is also for advances. That is why you see growth in advances in the company, and we expect it to continue.

Pete Skibitski: Okay, great. Thanks so much.

Butzi Machlis: Thank you.

Operator: If there are any additional questions, please press star-one. If you wish to cancel your request, please press star-two. Please stand by while we poll for more questions. 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 also be available on the company's website, www.elbitsystems.com. Mr. Machlis, would you like to make your concluding statement?

Butzi Machlis: Thank you. I would like to thank all of our employees for their continued hard work and contributions 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. third quarter 2022 results conference call. Thank you for your participation. You may go ahead and disconnect.

[End of conference call.]