

**Elbit Systems Ltd.**

**Conference Call**

**May 24, 2022**

Operator: Ladies and gentlemen, thank you for standing by. Welcome to Elbit Systems First Quarter 2022 Results Conference Call. All participants are at present in 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](http://www.elbitsystems.com). I would now like to hand the call to Rami Myerson, Elbit Systems Investor Relations Director. Rami, please go ahead.

Rami Myerson: Thank you, Operator. Good day, everyone, and welcome to our first 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 now to turn the call over to Kobi.

Kobi, please.

Kobi Kagan: Thank you Rami. Hello everyone, and thank you for joining us today. It is both an honor and a privilege to present Elbit Systems' first quarter results to you today.

I would like to thank Yossi Gaspar for his help in recent months. Yossi has retained responsibility for capital markets and investor relations. I look forward to meeting you Elbit Systems investors and analysts over the coming weeks and months.

The first quarter results reflect a healthy market environment for Elbit Systems and sustained demand for our solutions from customers around the world. Revenue growth in the quarter was primarily due to the fulfillment of orders received in previous years and the Sparton acquisition. The Russian invasion of Ukraine in late February and proposed budget increases did not have a material impact on order intake or revenues in the quarter.

Profitability in the quarter includes a sharp increase in expenses related to employee stock price-link 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. In the first quarter, compensation expenses were significantly larger than normal following the appreciation in the share price after the Russian invasion of Ukraine, reducing profitability in the

quarter, as noted in our fourth quarter and full year 2021 results press release published on March 29th, 2022. Assuming a decline in share price volatility, we expect that these stock price-link compensation expenses to return to historic levels.

I will now highlight and discuss some of the key figures and trends in our financial results. First quarter revenues were 1 billion 353 million dollars, and increased by 21% year over year. A major part of the growth was organic in addition to the contribution from Sparton, which was acquired in the second quarter of 2021.

In terms of revenue breakdown across our area of operations, airborne system accounted for 37% of total revenues and increased year over year mainly due to airborne precision guided munition sales. Land system sales accounted for 22% of total revenues, a similar level of revenues to 2021. C4ISR at 29% of revenues increased year over year, primarily due to the acquisition of Sparton and unmanned system sales. Electro-optics accounted for 9% and Other sales accounted for 3% of revenues.

Our diverse geographic revenue base is important to the long term sustainability of our business. In the first quarter, North America contributed 27% of our revenues, Asia Pacific 30%, Israel was 21%, and Europe 19%. Asia Pacific revenues increased mainly due to sales of precision guided munitions and UAS. The growth in European revenues was due to primarily to training and simulation sales.

The non-GAAP gross margin for the first quarter was 24.6% compared to the first quarter of 2021 at 25.6%. GAAP gross margin in the first quarter was 24.2% of revenues compared to 25.2% in the first quarter of 2021. GAAP and non-GAAP profit in the first quarter include approximately 20 million dollars of expenses related to stock price-link

compensation plan.

The first quarter non-GAAP operating income was 65.8 million dollars or 4.9% of revenues compared with 92.9 million dollars or 8.3% of revenues last year. GAAP operating income for the first quarter was 58.6 million dollars versus 83.8 million dollars in the first quarter of 2021. GAAP and non-GAAP operating profit in the first quarter included expenses of approximately 35 million dollars related to the stock price linked compensation plans.

The operating expense breakdown in the first quarter was as follows: net R&D expenses were 7.4% of revenues versus 7.5% in 2021; marketing and selling expenses increased to 6.4% of revenues from 4.6% last year, due to the Sparton acquisition and the stock price-link compensation expense; G&A expenses were 6.2% of revenues compared to 5.5% last year due to stock price-link compensation expenses. Other operating income includes a capital gain of 3.7 million dollar related to the disposal of a non-core business.

Financial income was 1.1 million dollar in the first quarter compared to financial expenses of 200 thousand dollars in 2021.

We recorded a tax expense of 8 million dollars in the first quarter compared to 10.8 million dollars in 2021. The effective tax rate in the first quarter was 13.8% compared to 13.4% in 2021.

Our non-GAAP diluted EPS was 1 dollar and 22 cents in the first quarter compared with 1 dollar and 72 cents last year.

The GAAP diluted EPS was 1 dollar and 19 cents compared with 1 dollar and 64 cents last year. The stock price-link compensation expenses in the quarter were equivalent to approximately 72 cents on an EPS basis.

Our backlog of orders as of March 31st, 2022 was approximately 13.7 billion dollars, 1.9 billion dollar higher than the backlog at the end of March 2021, and at a similar level to the backlog at the end of 2021. Approximately 55% of the current backlog is scheduled to be performed during 2022 and 2023, and the rest is scheduled for 2024 and beyond. The percentage of short term backlog decline in recent years following the receipt of more long term contracts, improving our visibility for future revenues.

Operating cash flow for the first quarter was a 36 million dollar inflow compared to a 30 million dollar outflow in the same quarter last year.

The Board of Directors declared a dividend of 50 cents per share for the first 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, and good luck.

Growth in the first quarter reflects the strong demand for our solutions from customers around the world. As Kobi mentioned, growth in the quarter does not include the impact of the Russian invasion of Ukraine or the proposed increase in defense spending by NATO countries. In recent months, we have witnessed a noticeable increase in RFPs and incoming inquiries as militaries look to equip themselves with a range of Elbit's capabilities. We believe many of these will convert to orders and revenues over time. I expect elevated geopolitical tensions and growing defense budget will support the improved momentum in the businesses over the coming years.

I would like to share my perspective on the profitability and compensation expenses in the quarter. Elbit Systems' 19 thousand

employees are the company's most important asset. We continue to invest in recruiting, retaining and motivating a high quality workforce to realize the long term potential of Elbit Systems. I believe it is important to align employee compensation and incentives to the share price to encourage long term value creation for all stakeholders. We continue the work on a range of efficiency plans as we have discussed with you in the past as part of our effort to improve profitability and cash generation.

Turning to recent geopolitical developments, the Russian invasion of Ukraine was a wake-up call for many countries. I expect it to be a turning point for European and global defense spending. Elbit Systems has invested in a broad portfolio and global footprint and is well positioned to benefit from faster defense budget growth proposed by governments in Europe and in other part of the world. Elbit Systems has a global footprint of multiple operational subsidiaries that are an integral part of the domestic defense ecosystem in their home countries. They employ hundreds of local employees and support domestic supply chains. I expect that our subsidiaries will benefit from the increase in defense budgets in their home countries as governments look to invest the increased funding in supporting the domestic defense industrial base. Our investment in R&D as a percentage of sales is higher than many of our peers to ensure we can provide a portfolio of technological advanced cost effective solutions to our customers. Elbit Systems has demonstrated that it can leverage the significant operational experience of our engineers, most of them are veterans with significant military experience. Many of them continue to serve, often using Elbit's product and systems. This provides a valuable short feedback loop between the field and lab. The current conflict has highlighted the relevance of our portfolio. I

would like to provide a few examples.

Elbit Systems provides a broad range of systems that provide or enable protection of aerial, naval and ground platforms from a range of threats. We provide electric warfare systems for aerial platform like the missile warning system for the US Air Force Air National Guard F-16. In May, we were selected by Airbus to supply J-MUSIC DIRCM systems for the A330 MRTT aircraft of European Air Force. Our DIRCM systems defend military and commercial aircraft from ground-to-air missiles. We also supply chaff and flare for a range of aircrafts.

The Iron Fist Active Protection System has been selected by Israel, the Netherlands, Australia and the US, to protect armed vehicles from a range of incoming strikes. Last year, the UK MoD Navy selected Elbit Systems UK to provide electric warfare system that will help protect Royal Navy ships.

We expect an increase in demand for unmanned systems as a result of the conflict. Elbit Systems has a broad portfolio of unmanned aircraft. The IDF recently unveiled its new expose and attack companies that will incorporate Elbit System drones to identify and designate targets at a battalion level. A few months ago, with the Hermes Starliner was the first unmanned aircraft certified for commercial air space.

The conflict highlighted the need for advanced command and control systems that enable combined forces operation by connecting intelligence, maneuvering forces and logistics across multiple domain. Our C2 system incorporate intelligence gathering gathered by a range of sensors, utilize AI to identify targets and connect to the relevant effector, shortening the sensor to shooter loop and helping our customers to engage targets quickly and efficiently. Our command and control

systems are in service with customers, including Israel, Sweden, the Netherlands, the UK and the US. These are just a few examples and I believe there are many other products and systems in Elbit Systems portfolio that will benefit from increased demand, as militaries around the world apply the lessons learned from the conflict in Ukraine.

I would like to reiterate Elbit Systems' commitment to environmental, social and governance best practices. At our recent Investor Day, we highlighted the investment we are making to reduce our environmental footprint. We are also introducing electric vehicles for our employees after a very successful rollout of hybrid vehicles a few years ago. We are rolling out solar fields at our new facility in the south of Israel and PV panels on the roofs of buildings around the world. We are also connecting sites to natural gas to reduce emissions.

We are investing R&D to develop solutions that will help reduce fuel consumptions and emission. One example of this R&D are our training and simulation systems that help reduce the flying hours required to train a pilot.

I am proud to see the involvement of thousands of Elbit Systems employee over the world in activities that benefit their communities. Last week, more than 70 Elbit employees organized, hosted and monitored a hackathon to develop tools that protect children from violence on social media. I visited the hackathon and was impressed to see how our employees leveraged Elbit's innovative and entrepreneurial culture to develop tools to protect our children online.

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

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 Scott Forbes of Jefferies. Please go ahead.

Scott Forbes: Hi. How are you kind of seeing demand signals come through as we think about the opportunities stemming from what's happening in Eastern Europe, particularly as we started to get some clarity on NATO budgets? I mean, what do you guys – you see as really the largest areas of opportunity, I mean, whether that really be from a product perspective or more geographical?

Butzi Machlis: It's a combination. I would say that we see, in Europe, growing demand for solutions to protect platforms and to protect to protect sites, which include EW solutions, DIRCM systems, active protection systems, chaff and flare and more. We also see growing demand for UAVs, for command and control systems, for intelligence solutions, for cyber protection systems and growing demand for guided munition in order to fill stocks again in Europe. But this is not just in Europe. We see growing demand also in the US, also in the Far East, to support the forces protect themselves against China. So actually, we see growing demand also here in Israel. We have a budget, we have a five year plan, and we are getting new programs and contracts here in our country. So all together, we see growing demand for most of our portfolio, and we see growing budgets and interest almost all over the world. Especially, the fact we have such a wide portfolio, and so many subsidiaries in the US, of course, in Canada, in the UK, in Germany, in Austria, in Romania, in India, in Australia and many others, helps us to be part of

the local supply chain in all of these countries.

So the combination of wide portfolio, large footprint, is part of the strong strategy of the company for many years, and we are taking benefit of it now. We expect to see many more contracts for the company and to continue the momentum we are seeing, also over the coming quarters.

Scott Forbes: And then just on the US specifically. I mean, you've got a chance to go out and take a more detailed look at the FY '23 budget, we got a fit up this year. What were your initial takeaways, and how do you feel your product portfolio lines up to those priorities being shown in that budget?

Butzi Machlis: I would say that we see a growing demand for naval activity, and the fact we have Spartron now as part of the Elbit family helps us a lot to participate in this effort. Talking about airborne activities, just to remind all of us that we have systems like helmets, like part of the avionics on each and every certified F-15, F-18, V-22, F-16 of course, each Apache. We have a major part on the T-X, the T-7 of Boeing. So we have a strong position on many airborne platforms in the US. And we also have many systems to support ground forces, which include laser designators, which include night vision equipment for the soldier, target acquisition solutions, guided munitions, active protection systems, which are all required to support the the troops in Europe. So all together, I believe that we are well positioned to take advantage of the growing need also in the US market, based on our strong position we have in the US under Elbit System of America, which has more than 3 thousand employees already.

Scott Forbes: Thank you.

Rami Myerson: Thanks, Scott.

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

Ella Fried: Okay. Sorry. when I was offline, I congratulated you on the growth in this quarter, even though it is not necessarily representative of the year. But we shall hope that it indicates a lot. And I would like to ask you about the timeline that you spoke of, of these opportunities that you spoke of. Because things in the defense industry usually are moving slowly, and there is a feeling that this time, some countries are very keen to get their orders as fast as possible. How much of it do you expect, or to expect is too strong a word, do you think that will be translated into order that we will see before the end of this year? Because obviously, the next year we'll see lot of it. But presently, there is a feeling that a lot of it is going on, but how much of it is actually translated into real orders that they are visible in the near quarters?

Butzi Machlis: Thank you, Ella. First, I want to remind all of us that you can see in the numbers, I believe, an impressive growth in revenues, which is prior to the invasion to Ukraine. The invasion to Ukraine took place in the end of February this year. And what you actually can see in the numbers is a 21% year over year increase in revenues. And if you take out the one-time expense we had for the phantom options, you can see also growth in the GP and I'm talking GAAP numbers from 281 million dollars to 347 million dollars and OP from 84 (million) to 94 (million). So we see significant growth in revenues, and also growth in profit, that's before the invasion to Ukraine.

And with regard to your question, we see a lot of inquiries and we see growing demand for the systems and product we have. I can tell you that we also see some urgent requirements, which I believe will convert to programs and to contracts in a relatively short period of time, hopefully, this year. And of course, we also see growing budgets, which part of it

will convert next year as well. We see that the funnel of opportunities is growing. And I believe that part of it will be seen in our numbers in the coming quarters, this year.

Ella Fried: Okay thank you. And I have also a financial question. The gross margins were more solid in this quarter. And we know that there are lots of pressures that are the currency rate, and the supply chains, and a lot of inflation, and many other reasons. But can we hope to see this level of above 26 throughout the year, or it's still, I know that you are doing your best to do it. But is it something that we can expect? Or we have to be careful there?

Yossi Gaspar: Hi Ella, this is Yossi.

Ella Fried: Hi, Yossi.

Yossi Gaspar: You know, Ella, from previous discussions, that we do not provide guidance. However, excluding the extraordinary expenses due to the stock price linked options we discussed earlier, we have improved from previous quarter to this quarter by 0.4% our gross profit.

And we have improved by a significant amount also the operating profit. But, the one thing that I wanted to point out that I'm not sure that it was transmitted properly. In view of what Butzi just mentioned earlier, the increase in the funnel of the marketing opportunities, if you look at our results, you will see you can see an increase in marketing expenses. Now this is not just spending money. These are two things that are related one with another. When we have marketing opportunities growing, then definitely the company is spending the marketing efforts in order to catch this new business. So there is a correlation. And these extraordinary expenses in sales and marketing, they definitely have affected our operating profit to some extent. Now, we want to catch the business, we

want to do everything possible in order to benefit from what's happening in the business environment that we are experiencing now, which is very positive. So, maybe, we have a little bit of a drag on our operating profit because of this element. But no doubt that increasing our backlog and growing the top line, everything will be shown, and will show up in the operating profit and bottom line as well in the future.

Ella Fried: Thank you.

Butzi Machlis: Ella, I also want to add to – to two topics, which I believe are important.

We continue to work on efficiencies. To invest in new facilities. You know that we are building a new facility in the south for IMI. We continue to deploy the new ERP system in the company, which I'm sure we'll benefit from in the near future as well. And of course, the currency level as it is now, is more favorable than it was in the first quarter, which I hope will also help us to create more profit in the future.

Ella Fried: Okay, thank you very much.

Rami Myerson: Thank you, Ella.

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 this call will also be available on the company's website, [www.elbitsystems.com](http://www.elbitsystems.com). Mr. Machlis, would you like to make your concluding statement?

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

*[End of conference call.]*

This transcript was prepared for the purpose of accessibility accommodations for people with disabilities in accordance with the Regulations for Equal Rights of Persons with Disabilities (Adjustments for Access to Service), 5773-2013 and with the Israel Standard (IS) 5568. It is clarified that insofar as any discrepancy is discovered between what is stated in the original content and what is stated in this transcript, what is stated in the original content is binding. The making of the accessibility accommodations in such content does not impose any responsibility on Elbit Systems Ltd. ("Elbit systems", and collectively with any or all of its subsidiaries, the "Company") or anyone on its behalf, explicitly or implicitly, for the accuracy, reliability, or completeness of what is stated in this transcript.

This transcript, reference to which herein includes information that may be provided by the Company orally or in writing in connection therewith, is provided for general information only, and should not be relied upon for making any investment decision. By viewing this transcript, each attendee ("Attendee") agrees that he or she (i) has read this disclaimer, (ii) is bound by the restrictions set out herein, (iii) is permitted, in accordance with all applicable laws, to receive such information, (iv) is solely responsible for his or her own assessment of the business and financial position of the Company and (v) will conduct his or her own analysis and be solely responsible for forming the Attendee's view of the potential future performance of the Company's business. This transcript does not constitute, is not intended to be, and should not be construed as a recommendation, regarding any securities nor part of any offer, or the solicitation of any offer, to buy, subscribe for or sell any securities of the Company, and nothing in this transcript will in any way constitute or form part of any legal agreement or be relied upon in connection with any contract, commitment or investment decision. Nothing in this transcript constitutes investment advice or any recommendations that may be contained herein have not been based upon a consideration of the investment objectives, financial situation or particular needs of any specific Attendee. No representation, warranty or undertaking, express or implied, is given by the Company and/or its respective directors, officers, employees, agents, representatives and/or advisers as or in relation to the accuracy, completeness or sufficiency of the information contained in this transcript or as to the reasonableness of any assumption contained therein. To the maximum extent permitted by law, the Company and its respective directors, officers, employees, agents, representatives and/or advisers expressly disclaim any and all liability that may arise from any use of this transcript, including any errors or omissions relating to the transcript.

The information in this transcript is not intended to replace the need to review Elbit Systems' filings with the Israel Securities Authority ("ISA") and the U.S. Securities and Exchange Commission ("SEC"), including without limitation its annual report on Form 20-F, prior to making any investment in Elbit Systems' securities. In case of any inconsistencies between the information provided in this transcript and Elbit Systems' filings, the latter will prevail.

This transcript may contain forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Israeli Securities Law, 1968) regarding the Company, to the extent such statements do not relate to historical or current facts. Forward-looking statements are based on management's current expectations, estimates, projections and assumptions about future events. Forward looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, as amended. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions about the Company, which are difficult to predict, including projections of the Company's future financial results, its anticipated growth strategies and anticipated trends in its business. Therefore, actual future results, performance and trends may differ materially from these forward looking statements due to a variety of factors. Further information is contained in Elbit Systems' annual report on Form 20-F. All forward looking statements speak only as of the date of this transcript. Although the Company believes the expectations reflected in the forward-looking statements contained herein are reasonable, it cannot guarantee future results, level of activity, performance or achievements.

Unless otherwise indicated, all numbers in this transcript are as of 31 March 2022. The Company does not undertake to update this transcript or publish any of the data contained therein in the future.