

Elbit Systems Ltd.
Conference Call
May 28, 2024

Operator: Ladies and gentlemen, thank you for standing by.
Welcome to the Elbit Systems' first quarter 2024 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 call is being recorded. I would now like to hand over the call to David Ravia, Elbit Systems' Investor Relations Director.

David Ravia: Thank you, operator.
Good day everyone, and welcome to our first quarter 2024 Earnings Call. On the call with me today are Butzi Machlis, our President and CEO and Kobi Kagan our CFO.
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 David,

Hello everyone and thank you for joining us today.

The financial results of the First Quarter of 2024 reflect the significant increase in demand and the opportunities the company has. This demand, supported the growth of our order backlog to more than \$20 billion dollars. As we mentioned in our previous quarter's investment conference, we can see the continuous improvement in our profitability. I will now highlight and discuss some of the key figures and trends in our financial results.

First quarter revenues were 1 billion 554 million dollars compared to 1 billion 394 million dollars in the first quarter of 2023.

Our diverse geographic revenue base is important to the long-term sustainability of our business.

In the first quarter of 2024, Europe contributed 25%, North America 21%, Asia-Pacific 20% and Israel contributed 29% of revenues.

Growth in Israeli revenues reflects the increased demand for a broad range of our solutions following the breakout of the Swords of Iron war.

The non-GAAP gross margin for the first quarter was 24.7%, compared to 26.5% in the first quarter of 2023.

GAAP gross margin in the first quarter was 24.1% of revenues compared to 25.9% in the first quarter of 2023.

The First quarter non-GAAP operating income was \$121.6 million or 7.8% of revenues, compared with \$108.5 million or 7.8% of revenues in the first quarter of last year. GAAP operating income for the First quarter

was \$105.4 million or 6.8% of revenues, versus \$93.9 million or 6.7% of revenues in the first quarter of 2023.

The operating expense breakdown in the first quarter was as follows:

- Net R&D expenses were \$98.5 million or 6.3% of revenues, compared to \$110.3 million or 7.9% of revenues in the first quarter of 2023.
- Marketing and selling expenses were \$89.1 million or 5.7% of revenues, versus \$80.2 million or 5.8% in the first quarter of 2023.
- G&A expenses were \$81.2 million or 5.2% of revenues, compared to \$77.1 million or 5.5% of revenues in the first quarter of 2023.

Financial expenses were \$31.2 million in the first quarter, compared to \$24.2 million in the first quarter of 2023.

Financial expenses in the first quarter reflect the high interest rate environment as well as the required increase in net working capital.

We recorded a tax expense of \$11.6 million in the first quarter, compared to \$8.7 million in the first quarter of 2023.

The effective tax rate in the first quarter of 2024 was 14.6% compared to 12.8% in the first quarter of 2023.

Our Non-GAAP diluted EPS was \$1 and 81 cents for the first quarter of 2024 compared to \$1 and 78 cents in the first quarter of 2023.

GAAP diluted EPS was \$1 and 65 cents for the first quarter of 2024 compared to \$1 and 40 cents in the first quarter of 2023.

I will now review our business segments' first quarter of 2024 financial results, and would note that our segmental disclosure of operational income is provided on a GAAP basis.

C4I and Cyber revenues increased by 12% year-over-year mainly due to increase in radio systems sales in Israel.

ISTAR and EW revenues increased by 17% in the first quarter of 2024, mainly due to Electronic Warfare and Electro Optic systems sales in Israel.

Land revenues increased by 26% in the first quarter of 2024, mainly due to increased ammunition and munitions sales in Israel.

Aerospace and Elbit Systems of America revenues were similar year-over-year.

Our order backlog as of March 31, 2024 was \$20.4 billion, \$4.5 billion higher than the backlog at the end of the first quarter of 2023, almost \$2 billion of the increase is from Israel. Out of the new orders of the first quarter, \$1.5 billion is from Israel. Approximately 71% of the current backlog is attributable to orders from outside of Israel. Approximately 51% of the current backlog is scheduled to be performed during 2024 and 2025, and the rest is scheduled for 2026 and beyond.

Operating cash flow for the first quarter was a \$6.4 million outflow, compared to \$73.0 million in the same quarter last year. The cash flows in the three months ended March 31, 2024 were affected mainly by the increase in inventories and trade receivables, offset by the increase in contract liabilities.

The Board of Directors has declared a dividend of 50 cents per share.

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

Butzi, please go ahead.

Butzi Machlis: Thank you Kobi.

I would like to begin by thanking all our Elbit employees around the world for their hard work and ongoing commitment to our customers. I wish to thank our employees in Israel that have been working intensely for months and have made it possible for the company to address the

IMOD's needs during the war.

I also want to send my sincere condolences to the families of our employees that have lost loved ones during this conflict and send our prayers to the injured for a speedy recovery. I, along with the entire company, hope for the quick return of all the hostages that remain held in Gaza.

I am encouraged by our financial results of the first quarter, as there has been significant increase in our order backlog, which surpassed \$20 billion, and approximately 12% in revenue growth.

I would like to highlight two main points of major importance to our business: the relevance of Elbit Systems' portfolio of advanced technological solutions that have been operationally proven in light of the increase in global defense budgets, and the high demand by the Israeli MOD, which positively impacts the revenues and growth of the company.

Elbit Systems is continuing to implement its long-term strategy and plans, while strengthening its global presence and maintaining its commitments to customers.

The Company is continuing to implement its transformation plan in order to enable our internal target of \$7 billion revenues, which I believe will be achieved ahead of schedule, and our internal target of around 10% operating margin.

Throughout the Swords of Iron war, we have accelerated the R&D of some of our solutions that were still in development. Some have already been deployed to the frontlines. We are also upgrading multiple systems and solutions based on lessons learned during the war.

We have ramped up production to support the IDF's requirements while

maintaining deliveries to our international customers. We increased production capacity at our factories by adding shifts and recruited several hundred additional employees to support the surge in demand. The last quarter was impacted by massive recruitment, and we are still recruiting new employees, mainly for manufacturing and development projects.

I would like to now focus on several successful decisions that we have made as part of our long-term strategy that can explain the financial results in the first quarter.

The acquisition of IMI was a remarkable success. The synergy between the capabilities of IMI and Elbit Systems enabled us to offer an enhanced portfolio, fulfill the potential of the technologies and increase our market share. There is significant international as well as Israeli demand for the products that could not have been developed without the acquisition of IMI. We plan to continue developing precision ammunition and increasing production.

The increase in demand requires us not only to operate 24/7, but to grow. As such, in 2024 we plan to begin the operations at our new ammunition production site in Ramat Beka, which will operate in parallel with the IMI facility in Ramat Hasharon.

A good example for the successful integration of IMI into Elbit Systems, was the announcement on May 21, of our award of a group of contracts in an aggregate amount of approximately \$760 million for the supply of ammunitions to the Israeli Ministry of Defense. The contracts will be performed over a period of two years. Since the beginning of the Swords of Iron war, Elbit Systems has experienced a material increased demand for our products and solutions from the Israeli Ministry of Defense, compared to the demand levels prior to the war. Subject to further

developments, which are difficult to predict, the IMOD's increased demand for the Company's products and solutions, may continue and could generate material additional orders to the Company.

In addition, on March 26, we announced that we were awarded an approximately \$600 million contract to supply systems to Hanwha Defense Australia for the Australian Land 400 Phase 3 project. This project aims to deliver advance protection, fighting capabilities and sensors suite to the Redback infantry fighting vehicles for the Australian Army. The contract will be performed over a period of 5 years.

The decision to invest in manufacturing facilities has proven itself, positively impacting our order backlog and revenues, and we hope that our targets, as stated in our previous investor conference, would be reached even earlier than expected.

In addition to contracts that we had received in Israel and in the Netherlands, a few weeks ago, on May 5, we announced an initial contract of approximately \$37 million to supply Iron Fist Active Protection Systems to General Dynamics Ordnance and Tactical Systems for upgrades to the US Army Bradley vehicles. The contract will be performed over a period of 24 months and has significant potential.

The system provides armored platforms with 360-degree protection from a wide variety of anti-armor threats, such as rocket-propelled grenades and up to Kinetic Energy tank rounds in both open terrain and urban environments. This system required years of investment in R&D.

There is already a lot of interest in the system, and that is a good example how our advanced solutions maintain our position as a global leader and contributes to the high demands for our products internationally.

On the night of April 14th, Iran attacked Israel with hundreds of drones and missiles. On that historic night, Israel along with its allies, successfully intercepted the majority of the incoming aerial threats with coordinated precision, showcasing the talent of the Israeli Air Force and the strength of our air defense systems.

Our role in helping to defend against this attack was two-fold: Our simulators helped train the aircrews, and our Strategic Command and Control centers of the Israel's missile defense systems, including the Arrow, aided in the interception of the Iranian aerial threats. Our Golden Almond and Citron Tree solutions are the heart and brain of the interception systems. The synergy of the two elements led to the successful defense of Israel.

And with that, we 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 that 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: Good afternoon everyone, Butzi, quite incredible backlog growth the last couple of quarters. I remember only five years ago, it was about 10 billion in backlog. So, this will challenge your capacity. That's for sure. But let me ask this, because I'm wondering if there's yet another leg up to come. Because the US passed a fairly substantial Israeli security supplemental, you know, multiple billions of dollars. I'm not sure how much has flowed yet, but maybe that's what you can give us insight into.

To what extent do you think Elbit has exposure to the US security supplemental for Israel, you know, a third, 50%, 75%, because it is quite substantial. And over what time frame do you think you would book orders from that funding? Thank you.

Butzi Machlis: Hello, Pete. Good morning. You're right, it is really a remarkable backlog, and I'm sure that we'll be able to handle it and to convert it into revenues and profit. Yes, it's true, Israel is going to get additional funds and additional package from the US, and Elbit is certainly having part of it. I cannot mention exactly the percentage or the numbers, but we have part of this package. And we are working with our IMOD right now to discuss the details, and for sure, it will help us to strengthen our position here in Israel as well as well as in the US. These additional contracts, most of them will be done in our Elbit Systems of America subsidiary, in our US facility.

Pete Skibitski: Okay. I appreciate that. I guess, last question for me then. Can you talk about, you know, workforce challenges and supply chain challenges? Just in terms of your ability to execute on this backlog in a time frame in which your customers want. I know you said you're working 24/7, but just talk about the challenges you face there.

Butzi Machlis: Yes. We are working 24/7, in some of the facilities, we are working in three shifts. And in order to meet the growing demand, we have invested quite a lot in inventories, and you can see it in the report. And this is in order to make sure that we don't suffer from any supply chain challenges, or our exposure to the supply chain challenges are limited. So; we took a strategic decision to increase inventories. Of course, it costs us money. But this is one way for us to make sure that we can meet our commitments to our customers. And this is on top of that, as was

mentioned, we are recruiting hundreds or even thousands of employees. And just to make sure that we have enough workforce. And the Israeli MOD allow us, or we are working with IMOD, to continue the work we do in Ramat HaSharon in parallel to the new facility in Ramat Beka, so we'll have actually two production sites in parallel that will enable us to meet the demand.

Pete Skibitski: Okay. Thank you very much. Appreciate it.

Butzi Machlis: Thank you.

Operator: The next question is from Sheila Kahyaoglu of Jefferies. Please go ahead.

Sheila Kahyaoglu: Good morning, guys, and thank you for the time. You have great top line momentum, and I know you don't necessarily want to, kind of, commit to this 12%. And, should we continue to think about low double digits growth for this year, just given the sustained level of demand you're seeing out of Israel. And any color you could provide by segment on how we think about the growth trajectory.

Kobi Kagan: Thank you, Sheila and good morning. As you know, we don't provide guidance, but you see the order of backlog, the increase in backlog, which is 29% year-over-year. In the end, all the backlog is going to be converted to revenues. So, we believe in ongoing revenue growth, also for the rest of the year.

Sheila Kahyaoglu: Okay. And maybe, you know, can you talk about how much of it is tied to artillery and ammunition. And – I know you don't want to put a concrete number around margins for 2024, but curious if you could provide some high-level puts and takes on, like, the mix impact of that.

Kobi Kagan: Sheila, I can share two points of view. The first one, as you see in our financial results, there is an increase in our sales in Israel. The revenue

in Israel increased year-over-year by 200 million dollars, from 250 million dollars to over 450 million dollars. And secondly, we announced just this week, as Butzi mentioned, a 760 million dollars group of orders from the Ministry of Defense. So those are the details that we can provide.

Sheila Kahyaoglu: Okay. All right. I'll jump back in the queue. Thank you.

Butzi Machlis: But it's very important, Sheila, to mention, that the majority of our revenues is coming from the international market, and it will continue to be this way.

Kobi Kagan: And we believe that the 7 billion dollar, the internal targets that we had, that we saw them coming over '26, will be coming sooner than 2026, with this increased backlog.

Operator: The next question is from Omri Efroni of Oppenheimer. Please go ahead.

Omri Efroni: Hi, guys, and congrats on a great quarter. I have a couple of questions. The first, you had a huge increase in revenues from Israel. And I wondered, if you got now the 760 million dollars of additional contract of ammunition and munitions, what is the gain, the productivity gain and gross margin gains you're going to get from getting into full ramp-up and full capacity in the Ramat Beka site, compared to Ramat HaSharon.

Kobi Kagan: So, Omri, good afternoon. As we mentioned, we are going to work in parallel, both in Ramat HaSharon and Ramat Beka operational sites. So, it's going to double our capacity, and the work there is very intensive and 24/7, in few shifts every day. We are going to inaugurate the site in Ramat Beka later this year. So, it's not going to be fully operational this year, but is going to be fully operational next year. So, we are going to enjoy, of course, a better and modern site that will be working gradually up in capacity during 2025.

Omri Efroni: And you – and you still need ... the ramp up has got to be completed in the first half of '25, is it realistic number?

Kobi Kagan: We are going to ramp up production during 2025. I think that the prediction of first half is a good one.

Omri Efroni: Okay. Got you. For the second question for me, I was hoping if you can get some color about the protection systems against drones specifically counter drone systems that maybe Elbit is looking to develop, and a little bit more color on loitering munition as it's been proliferated in the Middle East and a lot of the enemies of Israel is using loitering munitions, and what opportunities Elbit seeing about this Thank you.

Butzi Machlis: Are you talking about ways to defeat drones?

Omri Efroni: Yeah. Both, as the current UAS systems, the ... drones, and additional ... munitions for attacking purposes.

Butzi Machlis: Okay. So, let's divide the answer into two. First, we have a very successful solution or system by the name of ReDrone, which using unique EW capabilities, and EO and radar package, can detect the threat, and can block it or jam it. This system is very successful in several countries. We announced, I think it was half a year ago, or maybe even prior to that, a nice contract we own in the Netherlands for this system. I can tell you that the Dutch forces is only one customer for the system, and we see a lot of potential for that, in many countries. It can be fit small drones, quadcopters and it can detect them, and defeat them as well. So, this is as regards to that. We have a very attractive solution in our portfolio, and there is a big potential for that these days in many countries. With regards to loitering munition, we have a system by the name of SkyStriker, which this system was delivered to many countries as well. It's also, it's a small UAV, which can attack as well. And there

is a growing market for such solution for loitering munition, and we have it in our portfolio with many contracts as well.

Omri Efroni: Okay, great. Great, and congrats on the great quarter.

Butzi Machlis: Thank you.

Kobi Kagan: Thank you.

Operator: Ladies and gentlemen. 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. *[pause]* 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 all participants that a replay of this call will be available in two hours after the conference end. In the US, please call 1-888-782-4291. In Israel, please call 03-925-5900. And internationally, please call 972-39-25-5900. A replay of this call will also be available at the company's website, at 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, Mr. Machlis. This concludes Elbit System Limited first quarter 2024 results conference call. Thank you for your participation.

You may now go ahead and disconnect.

[End of conference call.]

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