

ESLT Earnings Call Transcript

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Quarter: 3

Operator: Ladies and gentlemen, thank you for standing by. Welcome to Elbit Systems' Third Quarter 2025 Results Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. I would now like to hand over the call to Daniella Finn, Elbit Systems' VP, Investor Relations. Daniella, please go ahead.

Daniella Finn: Thank you, Karen. Hello, everyone, and welcome to our third quarter 2025 earnings call. On the call with me today are Butzi Machlis, President and CEO of Elbit Systems; and Kobi Kagan, Corporate 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 usual, we will provide you with both 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 developments during the quarter and beyond. We will then turn the call over to question-and-answer session. With that, I would like to now turn the call over to Kobi. Kobi, please go ahead.

Yaacov Kagan: Thank you, Daniella. Hello, everyone, and thank you for joining us today. We are very pleased to announce another set of quarterly results with double-digit year-over-year growth in revenues, backlog and EPS. Quarterly free cash flow was solid at \$101 million, underscoring our healthy cash generation. I will now highlight and discuss some of the key figures and trends in our financial results this quarter. Third quarter 2025 revenues were \$1.922 billion, compared to \$1.718 billion in the third quarter of 2024, a solid 12% growth in quarterly revenues year-over-year and 18% growth for the 9 months ended 30th September. In the third quarter of 2025, Europe contributed 28%; North America, 21%; Asia Pacific, 14%; and Israel was 33% of revenues. GAAP gross margin in the third quarter was 24.9% of revenues compared to 24% in the third quarter of 2024. The non-GAAP gross margin for the third quarter was 25.2% of revenues, compared to 24.4% in the third quarter of 2024. GAAP operating income for the third quarter was \$171.4 million or 8.9% of revenues versus \$125.8 million or 7.3% of revenues in the third quarter of 2024. Non-GAAP operating income was \$186.7 million or 9.7% of revenues, compared with \$140.7 million or 8.2% of revenues in the third quarter of last year. We are very pleased with this margin expansion trajectory. The operating expense breakdown in the third quarter was as follows: net R&D; expense were \$129.1 million or 6.7% of revenues, compared to \$119.9 million or 7% of revenues in the third quarter of 2024. Elbit continues to invest in R&D; to secure future profitable growth, which will maintain Elbit's position as the market leader in years to come. Marketing and selling expenses were \$91 million or 4.7% of revenues versus \$91.3 million or 5.3% in the third quarter of 2024. G&A; expenses were \$86.7 million or 4.5% of revenues, compared to \$75.7 million or 4.4% of revenues in the third quarter of 2024. Financial expenses were \$34.5 million in the third quarter, compared to \$45 million in the third quarter of 2024. The decrease in financial expenses, net in the third quarter of 2025, was mainly due to a reduction in the average net debt. We recorded a tax expense of \$11.4 million in the third quarter compared to \$12.8 million in the third quarter of 2024. The effective tax rate in the third quarter of 2025 was 8.2% compared to 14.6% in the third quarter of 2024. The decrease in the effective tax rate for the third

quarter of 2025, was mainly due to the increase in deferred tax assets. GAAP diluted EPS was \$2.80 for the third quarter of 2025 compared to \$1.77 in the third quarter of 2024. Our non-GAAP diluted EPS was \$3.35 for the third quarter of 2025, compared to \$2.21 in the third quarter of 2024. Quarterly segment revenue for the third quarter of 2025. Aerospace, third quarter revenues decreased by 3% year-over-year, mainly due to a decrease in Precision Guided Munition sales in Asia Pacific, partially offset by the increase in PGM sales in Israel and an increase in unmanned aerial system sales in Europe. Revenues for the 9 months were up 9%. C4I and Cyber, revenues increased by 14% year-over-year, mainly due to radio systems and command and control system sales in Europe. For the 9 months, revenue rose by 15%. ISTAR and EW, revenues increased by 5% in the third quarter of 2025, mainly due to Electro-Optic systems and Electronic Warfare systems sales in Israel and high-power laser sales in Israel. For the 9 months, revenue increased by 8%. Land revenue increased by 41% in the third quarter of 2025, due to ammunition and munition sales in Israel and in Europe. For the 9 months, revenues were up 44%. Elbit Systems of America, revenues decreased by 2% due to a decrease in Electronic systems and medical instrument sales, partially offset by the increase in Maritime and Warfighter system sales. For the 9 months, revenue rose 6%. The order backlog as of September 30, 2025, was \$25.2 billion, \$3.1 billion higher than the backlog at the end of the third quarter of 2024, and \$1.4 billion higher than the backlog in the second quarter of 2025. The increase in backlog during the quarter came mainly from new European orders. Approximately 69% of the current backlog is derived from order outside of Israel. Approximately 38% of the current backlog is scheduled to be performed during the remainder of 2025 and during 2026. And the rest is scheduled for 2027 and beyond. Cash flow provided by operating activities in the 9 months ended September 30, 2025, was \$461 million, as compared to \$82.5 million in the 9 months ended September 30, 2024. The cash flow in the 9 months ended September 30, 2025, was affected mainly by the strong increase in net income. On the back of the continuous strength of the company's result the Board of Directors declared a dividend of \$0.75 per share to be paid on January 5, 2026. I will now turn the call over to Mr. Machlis, Elbit's CEO. Butzi, please go ahead.

Bezhael Machlis: Thank you, Kobi. Hello, everyone, and thank you once again for joining us today. As Kobi just described, these results continued the growth and margin expansion trajectory, driven by strong demand for our solutions, particularly in Europe and Israel. Elbit's seventh consecutive quarter of double-digit growth further demonstrates our global leadership on the modern battleship. Our recently tested and proven solutions position us as the leading authority in our rapidly changing industry as defense budget continued to rise globally and our customers seek cutting-edge battle-proven system to secure and protect their population. Our portfolio of ever relevant technologies support our customers pursue of advanced warfighter solution across all domains. On the back of the strong results, I am proud that we continue to improve the translation of our revenue growth in both profit and cash flow. This is the fifth consecutive quarter where we delivered positive free cash flow and improved the company's cash conversion. Yesterday, we announced the signing of an international contract for a strategic solution for approximately USD 2.3 billion. This contract will be performed over a period of 8 years. I'm extremely pleased with this announcement of the largest contract in Elbit history, further testament to the superiority of our product and technologies. We will continue to equip our customers with advanced and relevant solutions. During the quarter, Elbit received another large contract to supply a European country with a range of our solutions totaling of USD 1.625 billion (sic) [USD 1.635 billion] to be delivered over the next 5 years. The contract includes long-range precision strike artillery-rocket systems and broad-spectrum of unmanned reconnaissance and loitering aerial combat systems, highly sophisticated ISTAR capabilities, including SIGINT, COMINT and electric warfare system. Enabled intelligence collections and processing system will also be delivered, along with advanced electro-optic, and night-vision system, combat vehicle upgrade, and protective systems. New orders also included contracts for our Hermes 900 drones, advanced airborne munitions for the IMOD and USD 260 million contract for DIRCM system to Airbus. Following the 12-day campaign against Iran, Elbit has seen growing interest in our solutions, mainly through not exclusively for the Hermes drones, EW system and training platforms. The Hermes platforms enable us to cross-sell products for other segments and offer our customers comprehensive solutions, since its first order in 2011, the Hermes 900 has been selected by over 20 customers worldwide. In August, we successfully launched the

advanced JUPITER space camera, aboard the National Advanced Optical System satellite, supporting a wide span of earth observation mission, including military operations, environmental, monitoring and scientific research, developed by Elbit System ISTAR and EW, JUPITER is one of the world's most advanced space camera, featuring a very large aperture and exceptionally lightweight design. The camera is multispectral offering a combination of imaging channels. During the quarter, we expanded our operation in Europe, opening new facilities in Sweden and Germany to enhance our local delivery capabilities to ensure more secure, faster support to our customers. Being close to our customers is crucial for us, our enhanced presence in Europe strengthen our ability to deliver modern and reliable solutions at the pace required to ensure the unforced capability to defend Europe from its offenders. In June, we launched PAWS 2, a next-generation infrared missile warning system for fighter aircraft designed to enhance their survivability and operational effectiveness. The system detect wide range of threats regardless of seeker type and provides advanced protection for fighter jets, transport aircraft, and helicopter operating in complex high-threat environment. At DSEI, we unveiled Frontier, a cutting-edge wide-area persistent surveillance system, designed to address the inducing complexity and intensity of border protection challenges. Frontier autonomously operates multiple type of sensors to visually confirm and classify threats transmitting only the most relevant analyzed information to the appropriate forces. It leverage advanced artificial intelligence to optimize intelligence gathering and decision-making across land, air and maritime domains. All this notable achievement would not have been possible without our dedicated employees whose day and night, commitment to Elbit is truly unique. I would like to thank each and every one of our outstanding employees for their continued professionalism and dedication. And with that, I will be happy to answer your questions. Operator?

Operator: [Operator Instructions] The first question is from Jordan Lyonnais of Bank of America.

Jordan Lyonnais: So with the ceasefire now happening, how enduring are you guys thinking about the domestic demand? And if we do see a slowdown in the domestic bookings, how are we -- how should we think about the trade-off with margins as orders start to skew more towards international?

Yaacov Kagan: Thank you, Jordan. So your question about the domestic demand, we can look at this quarter. We had an increase of \$1.4 billion in our backlog, \$200 million in Israel and \$1.2 billion outside of Israel. We are looking at that as some kind of the nature of the growth of the backlog for the future. We are targeting around flattish backlog in Israel and growth outside of Israel, predominantly in Europe. That will be the growth area, which -- we see our funnel, we see our opportunities, and we see the demand that's coming out from Europe. And we think that this is the place that predominantly will provide the growth in the future in the backlog.

Operator: The next question is from Seth Seifman from JPMorgan.

Seth Seifman: I wanted to ask about when we think about the Aerospace business from here, and we saw the decline in the quarter. How should we think about the trajectory in that business going forward? I know you called out some decline in sales to Asia but also some drone orders during the quarter. So kind of where does that go from here?

Bezhael Machlis: It's Butzi. I believe that we will continue to see growth in this segment as well. We -- first, I would like to mention that our avionics is embedded on top of most of the Western platforms. It includes our helmet, but not only that, also quite a lot of other equipment from us is embedded in each -- in many, many platforms, all -- in many, many countries, not just in the U.S. So we enjoy from revenues coming from international sales of Boeing and Lockheed and other OEMs of all the platforms they bought. So I really feel that this -- I really believe that this market will continue to grow for us. And I would like also to mention UAVs. There is a huge demand for UAVs, for loitering munition. We have 20 international customers who bought till now, the Hermes 900 from us. And we provide not just a platform. We provide an integrated solution, which includes all our sensors and payloads from the company, and we have a very unique offering to our customers. And they see a growing market for UAVs or main UAVs, but also for small UAVs and for loitering munition, which are all under the Airborne segment. So I believe that this segment will continue to grow the company in Israel and mainly abroad.

Yaacov Kagan: And Seth, this is Kobi to further add on Butzi's answer, we -- if you look at the 3 quarters over 3 quarters last year, Aerospace segment grew 9%. And we think that the relevant growth number for the Aerospace is a single-digit growth in revenues, because this segment is leaning predominantly on the U.S. budget with a lot of revenue coming from the U.S., which is a single-digit

budget growth. And for that reason, that is the number that we think is relevant for this quarter -- for this segment.

Seth Seifman: Okay. Excellent. Excellent. If I could add one follow-up question. Can you talk a little bit more about the opportunities that are emerging in directed energy. We've seen some of the progress on IRON BEAM. Are you seeing a lot of opportunities emerge for directed energy solutions outside of Israel as well?

Bezhalet Machlis: Yes. The answer is yes. As you know, we are part of the Israeli program for ground high-power laser systems. The laser source is coming from us, and the first system should be deployed by the end of this year, the IRON BEAM system. And there's going to be -- I believe that next year, we'll see many more orders here in Israel for ground high-power lasers. Based on the success of Israel, there's a lot of interest in many other places for high-power lasers and for ground high-power laser system, and we are part of this solution. Here in Israel, we lead the airborne high-power laser system. It's still in the development phase. And actually -- and I believe that there is a very big potential for us, for the system. I think that high-power lasers in the air will be a game changer in the way countries are fighting against ones and against drones and against cruise missiles. And this is still under development, but also, it's only -- it's still in development, there is a lot of interest for that for many, many customers abroad. We are not developing just high-power lasers. We have other type of energy weapons, which are in a very advanced phase of development, which are -- some of them are confidential, but I can tell you that they are very unique. We really believe that this energy weapon activity is a very important growth engine for Elbit for the future.

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

Ellen Page: Just the margin was very strong in the quarter on a year-over-year and sequential basis. Can you discuss the drivers of that? And was there any element of mix that supported profitability in the quarter? And how do we think about the progression of margins from here?

Yaacov Kagan: Ellen, if you notice, there is a very strong expansion in margin this quarter, as you indicated, which comes as 0.9% improvement, a 1%, shy of 1% in the gross profitability of the company, an additional 0.5% on the operational expenses. So we are looking at a 1% expansion in the gross profitability and 1.5% expansion in the operational profitability. Those two are the fruits of improvement in our backlog profitability and for using a lot of operational excellence both investments and also processes that were inaugurated in the company, including using AI for different purposes of operational use. And that is driving our -- not just our operational profitability but also our gross profitability up. And this is the first quarter that we see this kind of expansion in both the gross profitability and the operational profitability. Including -- on top of that, we are also doing CapEx investments, which are yielding fruits. As we discussed many times in the past, the ERP system that is fully operational, the one ERP system that is fully operational in the company and also robots and cobots that we are also using now mainly in the ammunition and munition factories. And on top of that, if I can summarize everything, we can see that we have our advantages to the size, which with the increase in revenue, we are doing better conversion to profits.

Ellen Page: Great. That's very helpful. And how do we think about the impact of less operational disruptions assuming the ceasefire hold. Is that an opportunity for another step up from here?

Yaacov Kagan: So we see that -- we are very happy with the ceasefire, of course, and that is -- we prayed, everybody here prayed for that after 2 years of that -- this conflict. And we all hope that this quiet will be maintained here in Israel. And of course, in -- for the company, it allows us to regroup, people to come back for mobilization, and to get back to normal business which is, as you know, Elbit is mainly predominantly working outside of Israel, that this is our strength of doing around 70% of the business outside of Israel. It allows us to invest more in the business outside of Israel and to focus, of course, more about doing the ordinary business as we did before this 7th of October conflict. And of course, this is an opportunity for the company to receive more opportunities and more new business to strengthen our backlog.

Operator: I'm passing the call to Daniella Finn. Please go ahead.

Daniella Finn: Thank you, operator. We have a couple of questions from [indiscernible] from Excellence. [indiscernible], thank you very much for your questions today. The first one is, has there been any update to the company's profitability target for 2026, 10% operating profit following the

expansion of the order backlog and the improvement in gross margins in the current quarter.

Yaacov Kagan: Thank you, Daniella and [indiscernible]. We -- as you know, we're not giving specifically targets and providing guidance. Saying that, we will still maintain our internal targets to continue to improve our profitability. And this is, of course, a strong target in the company as well as the cash conversion, which is a very -- is the principal target in the company to continue the improvement in cash conversion in the company.

Daniella Finn: Thank you, Kobi. And the second question from [indiscernible], how does Elbit plan to generate added value from the significant expansion in the U.S. DoD's budget. Specifically, is there a concrete plan to pursue an M&A; transaction in the U.S. and/or to expand into verticals such as drone swarms or border protection applications?

Bezhael Machlis: Thank you, Daniella and [indiscernible]. The U.S. market is very strategic to Elbit. We see the U.S. as our home market. And we are -- I'm very pleased with our performance in the U.S. The last two positions we made, the night-vision activity and Sparton, the sonobuoys activity. Both of them are very successful, both of them are growing. And we certainly look for opportunities, for acquisitions in the U.S., we are exploring the market. I would like to say that in the past, we delivered a system to the CBP for border protection, and our system is deployed along the borders. And we are -- certainly, we believe that the current need for additional systems along the borders are very relevant to us, and we are planning to pursue it. And we have -- the rest of our activities in the U.S. are very successful as well. Our avionics activities are growing, and our Active Protection System is doing very well in the U.S. on top of the Bradley [light] tank, and we see -- we will continue to invest in the U.S. We will continue to recruit additional people, and we would like to expand our position in this very important market forward.

Daniella Finn: Thank you, Butzi. Operator, if there are no more questions, we can wrap up.

Operator: Before I ask Mr. Machlis to go ahead with his closing statement, I'd like to remind participants that a replay of this call will be available 2 hours after the conference ends. In the U.S., please call 1 (888) 782-4291. In Israel, please call (03) 925-5900; and internationally, please call (972) 3925-5900. A replay of the call will also be available at the company's website, www.elbitsystems.com. Mr. Machlis, would you like to make your concluding statement?

Bezhael Machlis: I would like to thank everyone on the call for joining us today and for your continued trust and support of Elbit. Have a good day and goodbye.

Operator: Thank you. This concludes the Elbit Systems Ltd., Third Quarter 2025 Results Conference Call. Thank you for your participation. You may go ahead and disconnect.