Elbit Systems Ltd. Q2 2026 Results Conference Call 11.08.26

Daniella Finn

Hello everyone, and welcome to our second quarter 2026 Earnings Call. On the call with me today are Butzi Machlis, President and CEO, Kobi Kagan CFO and Myself Daniella Finn VP Investor Relations.

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. I would like to remind all listeners that the conference call today may contain forward-looking statements regarding the Company and its subsidiaries' business. Actual future results may differ materially from these forward-looking statements.

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 transparency to better 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 discussing the financial results, followed by Butzi who will elaborate on the main events during the quarter and beyond. We will then turn the call over to a Q&A session.

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

Kobi – please go ahead

Kobi Kagan

Thank you, Daniella,

Hello everyone and thank you for joining us today.

We are pleased to report another strong quarter, delivering double-digit growth in revenues, backlog, operating profit and EPS. Our profitability margins, gross, operating and net, continue to expand surpassing our internal targets. Building on the strong momentum we have established over the past several quarters, we continued to win important new business and expanded our backlog to a record $32 billion.

Taking a closer look into the second quarter results:

Second quarter revenues increased by 15.9% to two billion, two hundred and eighty-seven million dollars compared to one billion, nine hundred and seventy-three million dollars in the second quarter of 2025. We note that sequential revenue growth continues.

For the second quarter of 2026, Europe contributed 25% of revenues, North America 20%, Asia-Pacific 14% and Israel contributed 37% of revenues following inventory replenishments on the back of the recent conflict with Iran that ended at the beginning of April. Europe and Asia continue to be meaningful growth engines.

In terms of quarterly revenues by segment:

C4I and Cyber revenues increased by 11% in the second quarter of 2026, as compared to the second quarter of 2025 mainly due to sales of radio systems and command and control systems sales in Europe.

ISTAR and EW revenues increased by 22% mainly due to increased sales of airborne and land High Power Laser, Electronic Warfare and Maritime systems in Asia pacific.

Land revenues increased by 32%, mainly due to ammunition and munition sales in Israel.

Elbit Systems of America revenues increased by 17%, mainly due to a one-time favorable project mix during the quarter and the increase in sales of Night-Vision Systems, Maritime systems and Electronic systems.

Aerospace revenues decreased by 8% in the second quarter of 2026, mainly due to a one-time unfavorable project mix and lower sales of training and simulation systems in Europe, partially offset by the increase in UAV sales in Israel.

GAAP gross margin in the second quarter of 2026 was 25.3% of revenues compared to 24% in the second quarter of 2025.

Non-GAAP gross margin for the second quarter was 25.6%, compared to the second quarter of 2025 at 24.4%. We are pleased with the continued expansion of gross margins.

GAAP operating income in the second quarter was 218.8 million dollars or 9.6% of revenues, as compared to 157.8 million dollars, or 8% of revenues in the second quarter of 2025.

Non-GAAP operating income was 237.5 million dollars or 10.4% of revenues in the second quarter of 2026, as compared to 175.1 million dollars, or 8.9% of revenues in the second quarter of 2025. With this margin expansion we have surpassed our internal targets for operating profit margins.

On March 31, 2026, the Knesset, the Israeli Parliament, enacted the Law for the Encouragement and Incentivization of Research and Development. This newly introduced R&D Law applies to qualifying R&D expenditures incurred at the beginning of the tax year starting January 1, 2026. This law is meant to encourage R&D efforts in Israel. We increased our R&D spend in the first half of the year by about 70 million dollars, of which about half was funded by the new incentive law and the other half from company resources, to support the future growth of the company at the same time maintaining the margin expansion.

The operating expense breakdown for the second quarter of 2026, was as follows:

- Net R&D expenses were 159.1 million dollars or 7% of revenues, as compared to 129.7 million dollars or 6.6% of revenues, in 2025. We remain committed to investing in next-generation technologies and advanced AI capabilities that expand our solutions portfolio, support our customers' evolving mission requirements, and reinforce Elbit's leadership position in key markets for years to come.

- Marketing and selling expenses were 103.2 million dollars or 4.5% of revenues, in the second quarter of 2026, as compared to 91.5 million dollars or 4.6% of revenues, in 2025.

- G&A expenses were 97.9 million dollars or 4.3% of revenues, in the second quarter of 2026, as compared to 93.9 million dollars or 4.8% of revenues, in the same period last year.

Financial expenses were 22 million dollars in the second quarter of 2026, as compared to 31.2 million dollars in the second quarter of 2025. The decrease in financial expenses, net in the second quarter of 2026, was mainly due to a reduction in the average debt during the quarter.

Taxes on income were $32.7 million in the second quarter of 2026, as compared to $7.1 million in the second quarter of 2025. The higher tax expense in the second quarter of 2026 was mainly driven by the implementation of the OECD Pillar II global minimum tax rules.

The effective tax rate in the second quarter of 2026 was 16.4% compared to 5.6% in the second quarter of 2025.

GAAP diluted EPS for the second quarter of 2026 was 3 dollars and 61 cents up 34% as compared to 2 dollars and 69 cents, in the second quarter of 2025.

Our non-GAAP diluted EPS was 4 dollars and 14 cents in the second quarter of 2026, up 28% as compared to 3 dollars and 23 cents in the second quarter of 2025.

Our backlog as of June 30, 2026, stood at $32 billion, with the increase during the quarter driven predominantly by orders from international customers, mainly from Europe.

Approximately 73% of the current backlog was generated from outside of Israel. Approximately 42% of the backlog at the end of June is scheduled to be performed during the remainder of 2026 and in 2027, while the rest is scheduled to be performed during 2028 and beyond. New business and the quarterly backlog increase provide us with good visibility into future sales growth.

Cash provided by operating activities in the quarter ended June 30, 2026 was 237 million dollars, as compared to 120 million dollars in the quarter ended June 30, 2025. The cash flow in the second quarter of 2026 was affected by the increase in net income, a strong increase in contract liabilities and stabilized inventory levels.

At the end of the second quarter of 2026 we delivered 150 million dollars of free cash flow as compared to the 71 million dollars free cashflow generated at the end of the second quarter of 2025. Cash conversion remained strong at 86% for the quarter, reflecting the quality of our earnings and disciplined working capital management.

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

Buzi, please go ahead.

Butzi Machlis CEO

Thank you, Kobi.

Following another quarter of strong financial performance, as Kobi just outlined, we continued to convert market demand into growth, booking substantial new orders and increasing our backlog to a record $32 billion. I am very proud of the consistent execution and business momentum demonstrated across our organization.

In the U.S., Elbit Systems of America received multiple awards from the U.S. Customs and Border Protection valued at approximately $370 million. These awards reflect the continued confidence in our ability to deliver advanced, operationally proven solutions that enhance situational awareness and support critical national security missions.

Additionally in the U.S., we secured a $212 million order for the continued production of ENVG-B systems for the U.S. Army. Notably, the Army has historically split production for ENVG-B systems among multiple vendors, however Elbit Systems of America was selected as the sole prime supplier under this award, reflecting the Army's confidence in our advanced night vision capabilities.

We also expanded our UAS footprint in the U.S., with the Army selecting our THOR Group 2 unmanned aerial system. THOR provides tactical units with a rapidly deployable, autonomous capability for reconnaissance, surveillance, target acquisition, and other mission-critical operations.

As I mentioned on the last call, during the quarter we were awarded a landmark $1.4 billion contract from a European customer for a comprehensive military modernization program. Spanning multiple domains, the program includes advanced airborne, land, communications, electronic warfare, and autonomous capabilities, further validating the strength and breadth of our portfolio.

We also announced the formal award of our approximately $750 million PULS contract with Greece. This significant program further strengthens PULS' position as a leading rocket artillery solution in Europe and reflects the growing international demand for advanced precision fires capabilities.

In Sweden, we successfully completed one of Europe's largest live demonstrations of a digitalized land force network. Over a two-week field exercise, our solutions seamlessly connected soldiers, vehicles, and command posts in a unified network, enabling real-time situational awareness and decision-making across all levels of command. The demonstration highlighted the strength of our NATO-interoperable C4I and communications portfolio and its ability to support modern, networked battlefield operations.

In Israel Elbit was awarded a contract by the Israel Ministry of Defense to develop an extended-range capability for the IDF's F-35's. The program is expected to enhance the aircraft's operational capabilities.

During the quarter, we received approximately $200 million in contracts from the Israel Ministry of Defense for advanced air-launched munitions. These awards reflect the continued demand for our precision-strike capabilities and our role in supporting the operational needs of the Israeli Air Force.

Elbit secured a $350 million contract to modernize a fleet of main battle tanks for an international customer. The program includes upgrades to fire control, communications, situational awareness, and other mission-critical systems, extending platform life and enhancing operational effectiveness. This award further reinforces our leadership in tank modernization and our ability to deliver integrated solutions that enhance platform effectiveness, survivability, and operational advantage.

Since the beginning of the year Elbit has made three bolt on acquisitions. The recent one published in May was the acquisition of Bluewhite Robotics, an Israeli developer of AI-powered autonomous ground solutions, strengthening Elbit's autonomy capabilities. The acquisition expands our multi-domain autonomy portfolio and enhances our ability to deliver advanced robotic and manned-unmanned teaming solutions.

As we reported last quarter, Elbit and KNDS partnered to establish EuroPULS in Germany, a joint venture that will market the PULS rocket artillery system to European customers. The venture combines Elbit's battle-proven launcher technology with KNDS's strong European footprint and advanced fire control capabilities.

We further expanded our partnership with Diehl Defense through a new agreement to offer the SkyStriker loitering munition system to the German Armed Forces. Combining combat-proven precision-strike capabilities, advanced autonomy, and flexible deployment across multiple platforms, SkyStriker addresses growing demand for next-generation strike solutions while supporting sovereign defense capabilities and local industrial participation in Germany.

Recently we participated in three major European exhibitions: Eurosatory, Farnborough and ILA Berlin where we showcased our latest operationally proven solutions. Interest from customers, partners, and investors alike was exceptionally strong, particularly around sovereign defense capabilities, advanced training solutions, electronic warfare, autonomy, and next-generation air and land systems, reflecting continued demand for advanced defense technologies across multiple domains.

Elbit Systems ranked first in the defense integrators category in a recent survey carried out by Dun & Bradstreet's ranking of Israel's defense industry. We are honored to be recognized as the leading defense integrator in Israel. This recognition reflects the strength of our ability to combine advanced technologies across multiple domains into comprehensive, operationally proven solutions for our customers.

Behind every milestone we achieve and every innovation we deliver stands an exceptional team of employees whose talent, dedication and sense of purpose continue to shape Elbit's future. I am deeply grateful for their commitment and contributions every day.

Following an outstanding first half of the year, Elbit is operating from a position of strength. Supported by record demand, a robust backlog, continued innovation and the dedication of our global team, we remain focused on executing our growth strategy and creating long-term value for our customers, shareholders and other stakeholders.

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

Q&A

Operator: We will now take your questions. The first question is from Sheila Kahyaoglu of Jefferies. Please go ahead.

Sheila Kahyaoglu, Jefferies

Good morning, everyone, and thank you very much for taking my questions. There are a lot of positive developments underway.

To start, could you discuss how you think about your revenue growth profile given the growth in backlog, what you're seeing in terms of demand, and the broader news cycle, including discussions of a potential ceasefire between Israel and Iran?

How should investors think about the company's medium-term growth profile as you continue to see demand in Europe and in the U.S.?

Butzi Machlis

We are seeing growing demand for our portfolio in both Europe and the United States.

As you can see, our backlog grew significantly during the quarter. That growth came primarily from markets outside Israel, mainly Europe as well as Israel. Looking at our opportunity pipeline, I see many additional opportunities for the company in Europe, the U.S., Asia-Pacific, and our region.

The funnel is very large, and I believe you will continue to see growth in our backlog in the coming quarters.

One of our major advantages is the breadth of our portfolio. We provide UAVs, command-and-control systems, guided munitions, simulation systems, and many other solutions. In all of these areas, we offer highly advanced technologies.

At the same time, we are uniquely positioned to transfer intellectual property and technology to our partners and subsidiaries in Europe, the U.S., and other regions. By doing so, we help support local economies and become part of each country's industrial ecosystem. This is a very unique business model and a significant competitive advantage for us.

We are making substantial efforts to convert our growing backlog into revenue and profit. To support this, we increased our capital investments to approximately $300 million annually. We are building new production facilities, investing in robotics and AI, and improving productivity and delivery capabilities.

These investments will help us convert backlog into revenue, profit, and cash. I believe this momentum will generate meaningful results in the near future.

Our new production facility in southern Israel is already operational. We have also expanded several facilities abroad. As a result, I believe we are very well positioned to meet the growing demand we are seeing, both in terms of backlog growth and revenue generation.

Kobi Kagan

Good morning, Sheila. Let me add some numerical perspective to Butzi's comments.

We are seeing 34% year-over-year growth in our backlog, while revenue increased 16%. This provides us with extended visibility into future growth and supports our confidence in our ability to convert that backlog into revenue, earnings, and cash flow, as Butzi described.

Omri Efroni, Oppenheimer

I have a question on the maritime domain, where we are seeing significant investment, particularly in the U.S., but also globally. How do you see this sector developing worldwide and what does it mean specifically for Elbit?

As a follow-up, regarding high-power lasers, where are you seeing the strongest demand? Do you expect the greatest opportunities in the U.S., Israel, Asia-Pacific, or elsewhere?

Butzi Machlis

The maritime domain is certainly a growth engine for the company.

We have several activities in this market and continue to expand our portfolio. Our naval electronic warfare solutions are among the most advanced in the world. As a reminder, we won the Royal Navy's future naval electronic warfare program in the UK and are currently delivering EW systems to the Royal Navy.

This success extends beyond the UK to additional customers in Europe and other regions. I believe our naval EW solutions are among the most advanced currently available in the market.

In sonar buoys, we operate through Spartan in the United States, an Elbit Systems of America subsidiary. Spartan is one of only two suppliers of sonar buoys to the U.S. Navy, as well as to international customers. Demand for sonar buoys continues to grow globally, particularly in the United States.

We also provide unmanned surface vessels that are already operational in Israel and with other customers. These systems are used for mine detection and clearance, as well as anti-submarine missions. They can be equipped with different types of weapons, including short-range and long-range missiles, and are already operational with several navies.

Our fully owned subsidiary GeoSpectrum Technologies, which is well known for its towed sonar solutions. The company serves customers across Europe, Asia, and other regions and continues to grow rapidly with unique and highly effective solutions.

In addition, we are active in ship modernization, maritime radars, electro-optical systems, remote weapon stations, communications systems, and many other maritime solutions.

Taken together, we continue to strengthen our position in the maritime domain. It is a rapidly growing segment for Elbit and one that we expect will continue to expand in the future.

Regarding high-power lasers, we are already delivering a high-power laser solution for the Israeli defense program, Iron Beam. We are meeting our schedules and expect additional orders from Israel.

We see growing international interest in these capabilities. We continue developing our airborne laser solutions. Elbit was selected as the prime contractor for airborne high-power laser systems, and it was recently announced that we will develop high-power laser solutions for Israeli Air Force helicopters as well as fighter aircraft.

We are making significant progress, and the helicopter solution is expected to become operational within a relatively short timeframe.

We are also developing an airborne laser pod for fighter aircraft. This solution was showcased at exhibitions in Europe, including Germany, the UK, and Paris. The level of interest has been tremendous.

Interest in our high-power laser technologies, particularly our airborne solutions, is coming from across the globe, not just Europe.

Many nations are evaluating these technologies for integration into their defense architectures. We believe this will become an important growth engine for the company with significant long-term potential.

High-power lasers are only one part of our broader investments in directed-energy technologies, an area where we continue to invest heavily.

Sheila Kahyaoglu, Jefferies

I'd like to ask about Elbit Systems of America. It was great seeing the team in Texas. The business delivered strong growth this quarter, up 17%.

Could you discuss the favorable project mix that benefited the quarter? And as a follow-up, how should we think about growth in the night vision business given the recent orders? Also, do you have any updates regarding the IVAS program?

Butzi Machlis

Sheila, thank you for your visit.

We continue to expand in the United States across several areas.

We are very well known for our aviation activities in the U.S. Many U.S. platforms utilize our avionics systems and helmet-mounted solutions for both domestic and international customers.

We are also expanding our night vision activities. As mentioned, we are a supplier of the ENVG-B program and were recently selected by the U.S. Army as a sole supplier in the most recent award.

Our maritime activities are also growing. In addition, we provide active protection systems for the U.S. Bradley fleet and other platforms.

During the quarter, we also secured a significant award from U.S. Customs and Border Protection, bringing advanced sensing technologies and integrated systems to the U.S. market. These technologies are already operational in Israel and in other countries around the world.

We continue investing in additional areas, expanding our footprint, hiring more people, transferring more technologies from Israel to the U.S., and strengthening our position as a local provider of advanced defense solutions.

The U.S. market is extremely important to us. I am very proud of our achievements there and believe the business will continue to grow. While growth may not continue at the exact pace seen this quarter, I am confident it will continue to grow.

Kristine Liwag, Morgan Stanley

Good morning, Butzi, Kobi, and Daniela. I would like to discuss backlog conversion.

Your backlog is at record levels, and some customers must wait several years to receive products. Historically, Elbit has been disciplined in its capital allocation, ensuring capacity investments are supported by long-term demand.

Given today's environment, with elevated geopolitical risks and increased focus on security of supply, have you seen customers become more willing to fund capital expenditures directly to expand capacity and shorten delivery times?

We're seeing this in other constrained areas of the aerospace and defense supply chain. Is this something you're discussing with customers? Could it help accelerate capacity expansion and backlog conversion while maintaining your disciplined approach to capital spending?

Kobi Kagan

Kristine, good morning.

We decided to increase our annual capital expenditure from approximately $220 million to $300 million. You can already see this reflected in our first-half spending, which exceeded $150 million.

This investment is funded from our own resources. At the same time, we are seeing customers increasingly willing to participate in capacity investments.

We are seeing two different models emerge. In some cases, customers are willing to match our investments. This is something we did not typically see in the past.

In other cases, customers that want technologies transferred to their own territories are willing to finance the entire capacity expansion, including the facilities required to support production.

This is a relatively new trend that has developed over the last two to three years. Beyond the $300 million we are investing ourselves, we are also benefiting from additional customer-funded investments. This represents a significant shift in the market.

Kristine Liwag

Would you quantify how much faster backlog could be converted into revenue if these investments materialize?

Kobi Kagan

What we can say today is that backlog increased year on year 34%, while revenue increased 16%.

When we look back to 2022, we see a consistent pattern: backlog growth has exceeded revenue growth, often by a significant margin.

As a result, our visibility today is dramatically stronger. At the same time, revenue growth has accelerated, with approximately 14% growth in 2024, 15% growth in 2025, and mid-teen growth again this year.

Three consecutive years of strong growth give us confidence in our ability to continue executing successfully going forward.

Kristine Liwag

Very helpful. Thank you.

Switching topics to autonomous systems: historically, Elbit's portfolio has included autonomous platforms, autonomy software, and the sensors and networks that enable those systems to operate together.

As autonomy becomes increasingly important on the battlefield, how do you see Elbit's role evolving? Do you intend to maintain an integrated approach, or are you willing to provide autonomy software as a standalone solution that can integrate third-party systems?

Butzi Machlis

One of Elbit's unique advantages is our vertical integration.

We control technologies at every level, from individual products through complete systems and systems-of-systems solutions.

We are very flexible in how we engage with customers and tailor our offerings to their needs. Some customers purchase individual products, others acquire system infrastructure, complete systems, or fully integrated systems-of-systems solutions.

We are open to all of these approaches.

As mentioned earlier, we are also unique in our willingness to transfer technology and intellectual property from Israel to our partners and subsidiaries worldwide. This allows us to support local economies and develop local industrial capabilities.

Because of this, many customers are willing to invest alongside us in manufacturing and development facilities. This creates a significant competitive advantage.

It is also important from a security-of-supply perspective. We strive to establish multiple production lines for key products and systems to ensure we can continue delivering to customers under all circumstances.

Operator

There are no further questions at this time.

Mr. Machlis, would you like to make a concluding statement?

Butzi Machlis

Thank you to everyone who joined us today, and thank you for your continued interest and support. Have a good day.