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30 NOVEMBER 2008

Elbit Systems (ESLT:TASE)

Sector: Defense | **Neutral**

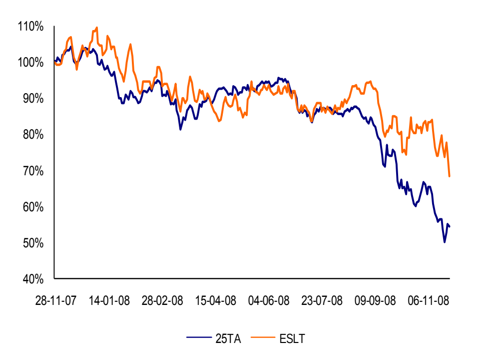
Initiation | **Target price: -**

Stock Data		
TASE		ELST
Bloomberg		ELST.IT
Reuters		ELST.TA
Price (NIS)		141.20
Shares O/S (m)		42,102
Market Cap (NIS,m)		6,117
Free Float (%)		54.4%
12 Mo. Range (NIS)	141.2	237.1
12 Mo. Average Volume (NIS m)		34.8

Don't pull the trigger yet

- Elbit is Israel's largest publically listed domestic defense company, and is a component of the main TA-25 index. The company is a vertically integrated, high-quality vendor of defense electronics. However, based on valuation, we initiate with a Neutral recommendation.
- Elbit's businesses are in areas of the industry that are fast growing (increasing efficiency and the safety of military personnel), or which should fare well even in an environment of reduced defense spending (systems upgrades).
- The company operates in four main areas: C4ISR, airborne systems, land systems and electro optics. The company is a world leader in the field of advanced communications, electro-optics, and unmanned air vehicles.
- The company's strategy is to be a multi-domestic player, with sales and production facilities in its main markets, and to grow through acquisitions and R&D-driven organic growth. Elbit's main customers include the US military, European armies and the Israeli military (together accounting for 80% of sales).
- While possessing a strong backlog and demonstrating improved operating profitability, the company remains slightly less profitable than the sector's average and trades at 10x 2009E earnings, a premium to the sector's average. **Therefore, we initiate the company with a Neutral and await a stock pullback before we become more positive.**

Elbit Versus TA25 Relative Strength



Summary Earning Estimates

Summary Earning $m	2005	2006	2007	2008E	2009E
Sales	1,070	1,523	1,982	2,637	2,943
Op profit	67	92	108	266	320
Net income	34	52	75	183	224
EPS	0.78	1.72	1.81	3.32	3.83
DPS	21.6	24.3	26.7	49.8	57.5

Key Valuation Ratios

	2005	2006	2007	2008E	2009E
P/E (ENS, x)	30.5	16.0	24.0	11.2	9.7
ROE	7.2%	15.3%	14.9%	23.5%	21.7%
FCF Yield (%)	13%	12%	8.6%	1.0%	10.5%
Dividend Yield	2.2%	2.1%	1.5%	3.2%	3.7%

Investment Thesis

Elbit is Israel's largest publically-traded defense company and is a component of the main TA-25 index. The company is known for innovative products and is a pioneer in high-growth sectors such as electro optics and unmanned aerial vehicles (UAV). In recent years the company has grown rapidly through a strategy of acquisitions, and has successfully developed its international business (today only 20% of revenues come from the domestic market) employing a multi-domestic business model suited to the industry. From an investor point of view we see the following pros and cons to owning Elbit shares:

Pros:

- The defense sector is relatively defensive in that it is based on government spending rather than private consumption. With unemployment on the rise and private consumption on the decline, governments will be less likely to cut spending in ways that could hurt the local industry and further exacerbate unemployment levels.
- While the new administration in the US may hope to rein in defense spending, history teaches us that in times of extreme economical hardships, hostilities are more likely to erupt. Despite attention being focused on the current economic turmoil, the global geopolitical picture has been characterised by increasing tensions in recent years. A quality defence company could be a good hedge.
- Even if global defense spending slows, Elbit's businesses are countercyclical, or exist in areas that should continued to benefit from strong growth. The company offers improved efficiency technology, products that reduce the risk to military personnel (not a luxury in the era of post-heroic warfare), and system upgrades, which should perform well when Governments decide to reduce spending by prolonging the life of existing equipment.
- Elbit is a multi-domestic company with subsidiaries and production facilities in its main markets. In an industry where, for national security reasons, imports are minimal, a local presence is a key success factor.
- The increasing success of Elbit's solutions has placed the company on a positive trajectory. Its backlog (despite a small and possibly temporary 3Q08 setback) is increasing and accounts for 75% of 2009E revenues, providing impressive visibility in the current macroeconomic environment. In addition, Elbit exhibited a strong operating margin improvement, form ~7% in 2007 (net of x-items), to ~10% in 2008E.
- The company is predominantly held by a relatively loyal domestic shareholder base. It is not widely held by foreign investors, allowing for some upside in terms of ownership expansion.

Cons:

- The new Democratic US administration could usher in a period of significantly reduced defense budgets among Western governments. With the US and Europe jointly accounting for 60% of Elbit's revenues, it is hard to see the company entirely escaping the brunt of such an eventuality.
- Elbit is amongst the most expensive companies in its peer group when compared by earnings multiples, and even when measured on a PEG basis the company is relatively expensive. Also it is not the most profitable company in the group due to its prolific product offering and the resulting absence of significant economies of scale.

Introduction

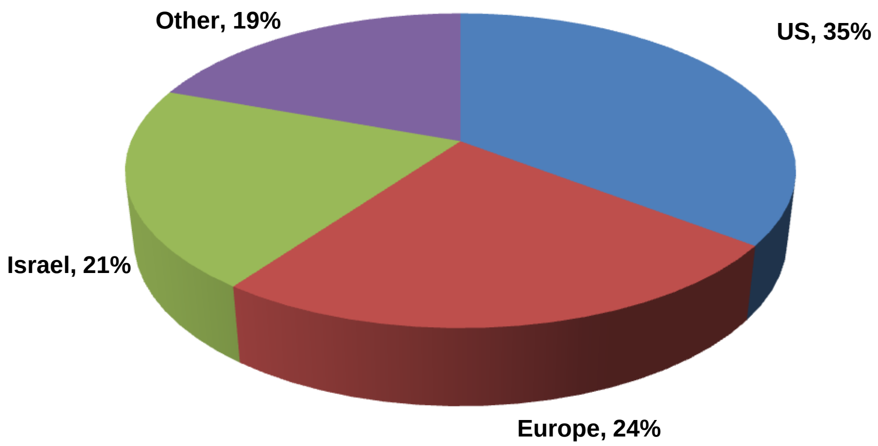
Elbit Systems is Israel's leading non-governmental defense company, specialising in defense electronics. It is a vertically integrated company with an emphasis on R&D. Lagging 12 month revenue based on 3Q08 results was $2.5bn, with a current backlog of $4.9bn. The company has 11,000 employees and significant operations in ten countries around the world.

Elbit's major business activities are defense and commercial airborne systems and simulators, unmanned vehicles, homeland security, data link and radio communication, digital army programmes, electronic warfare and countermeasures, combat vehicle systems, intelligence surveillance and electro-optic systems, and naval systems. The major segments within the company are C4ISR systems (Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance), land systems, airborne systems, and electro-optic systems.

What connects between these different activities is they contain products and solutions based on defense electronics. This is a newer and faster growing segment of the defense industry which is aimed at increasing the efficiency and safety of military personnel. The company produces stand alone products such as unmanned vehicles, and components for existing and new defense platforms, such as the Lockheed Martin F35. As such, the company's sales derive both from new products, and from the upgrading and refurbishment of existing platforms.

Many of Elbit's products are the fruits of the company's close working relationship with the Israel Defense Forces. This relationship provides Elbit with a means of studying the needs of its customers, and learning from its experiences. Having said that, Israel today represents only 20% of Elbit's revenue base. The company actively targets the major markets of the United States and Europe.

2007 revenues by region

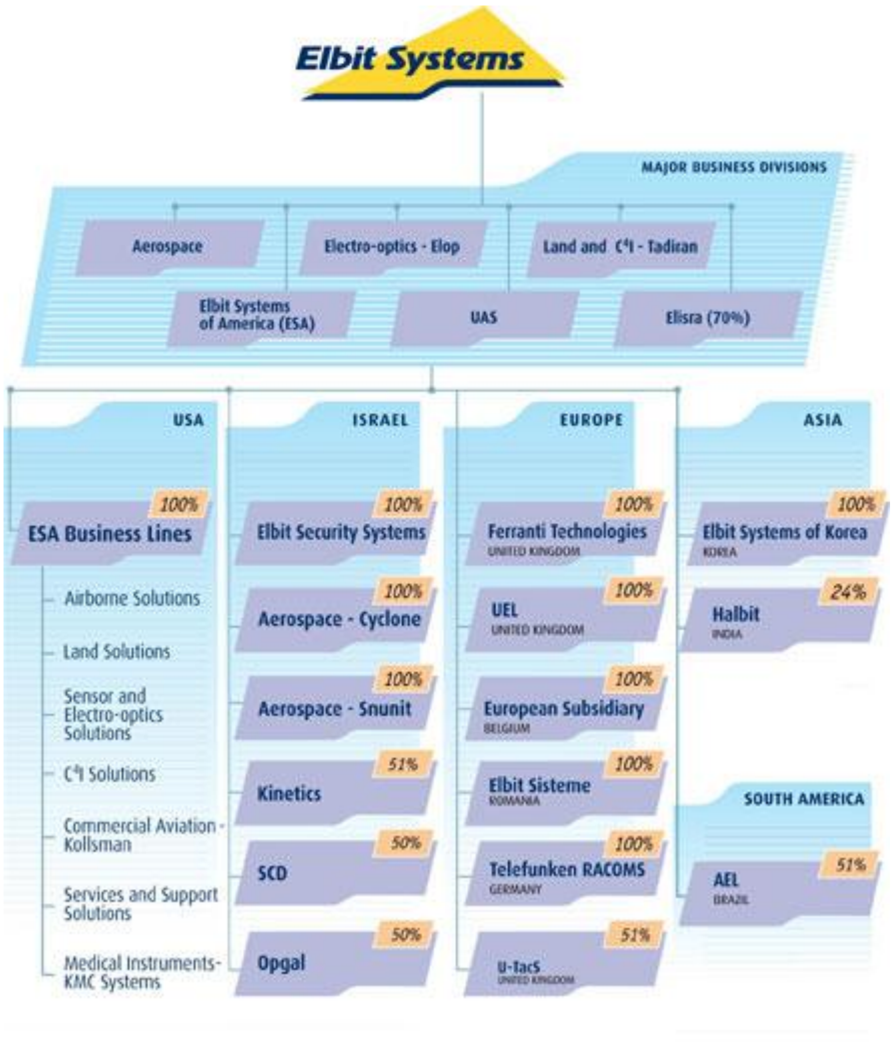


Source: *Company data*

Background

The Elbit group was formed in 1966. In 1996 Elbit Systems was spun off from its parent company and listed on the Tel Aviv Stock Exchange and the NASDAQ exchange. It is the only privately owned company among Israel's four large defense companies. Israel has a relatively large and developed defense industry, a legacy of continuous regional conflict and the weapons embargo that was imposed by France in 1967.

As it stands today, Elbit Systems is a product of a relatively large number of acquisitions both at home and abroad. The major ones being El-Op (Israel) which specialises in electro-optic systems and was purchased in 2000; Elisra (Israel), which is 70% owned by Elbit and creates electronic warfare systems, signal intelligence, and C4ISR solutions, was purchased in 2005-2006; and finally Tadiran Communications (Israel, US and Europe) which was purchased in 2006-2007, is wholly owned by ESLT, and which specialises in civilian and military communication technology.



Source: *Company data*

Strategy

There are two main facets to Elbit Systems' strategy. The first is to be a multi-domestic player. Defense is one industry where, for obvious reasons, customers (usually being Governments) prefer to work almost exclusively with companies based in the same countries. Only 4% of the global defense budget is accounted for by imports. As such, Elbit Systems has established subsidiaries in all of its major markets. In the US for example, Elbit has operations in nine states, with Elbit Fort Worth (Texas) being the company's main US subsidiary. ESLT has 1,800 employees in the US alone with $700m in revenues. Local presence also opens up opportunities for participation in joint projects with other local players. We think that Elbit System's multi-domestic strategy has been, and will continue to be, a key factor in its ability to grow international revenue and continue diversifying its revenue base.

Complementary to the company's aim of being a multi-domestic player is ESLT's acquisition strategy. Since 1996 the company has executed 12 acquisitions. These acquisitions have served several functions; to grow revenues, acquire knowledge and products, and to penetrate new markets. While the potential for new acquisitions in the short-term appears limited, the company will continue to place acquisitions at the centre of its strategy. The current environment of falling asset prices and restricted access to credit may yet present new opportunities, and ESLT's very low debt levels puts it in a good position to take advantage of opportunities.

Industry

Most of Elbit's revenues are derived from Government contracts. Global defense spending fell following the collapse of communism, and stagnated for most of the 1990s. This, like many other things, was changed by the events of 9/11. Global defense expenditure began to pick up in 2001, increasing from $903bn in 2000 to $1,327bn in 2008E (in 2006 dollar terms). About a third of this budget goes towards the purchase of equipment, while two thirds goes to payroll, and the maintenance of both troops and existing equipment. The budget for electronic defense is growing at twice the rate of the overall defense spending. Elbit calculates that the total US budget for defense electronics relevant to its business will, over the next ten years, total $770bn.

In terms of geographical split, the global defense industry is very much a concentrated market, with the United States accounting for just under 50% of the global defense budget. The US is followed (at a significant distance) by China, Russia, the UK and France (according to data from the International Institute for Strategic Studies). In terms of regions, Europe accounts for approximately one quarter of global defense spending. Elbit's marketing strategy closely mirrors this breakdown, with the US and Europe being the key markets. Israel of course remains a key strategic market, while focus is also put on certain emerging markets with faster growth rates in military spending. However, as part of its strategy, Elbit does not market its products in certain countries, where to do so would create a conflict of interest with its existing customers.

The industry at the moment is being driven by the global war on terror (GWOT), by the wars in Afghanistan and Iraq that were born of this new conflict, and by initiatives of homeland security both in the US and other countries. Given Barak Obama's victory in the US Presidential elections, the current economic environment and the vast sums of money that Governments around the world are having to commit towards stabilising their economy, we have our doubts as to whether the recent growth in defense spending will continue. Having said that, there are good reasons to argue that Elbit will continue to see healthy growth in demand for its product in the coming years.

1. The consumption of electronic systems in defense budgets has in recent years increased at twice the rate of overall defense expenditure. This has happened as Governments of developed countries seek to operate more efficient and effective armed forces, that place a higher premium on the protection of individual lives, and which seek to apply technology in order to gain strategic and tactical advantages over adversaries.
2. As the front-line has vanished from the face of much of modern warfare, the need for technology to assist modern armies in conflicts has also increased dramatically.
3. The wars in Iraq and Afghanistan will continue to drive demand, both for the duration of the conflict, and following it, as the US replaces and upgrades its equipment stock.
4. We do not, at the moment, foresee any significant lessening of geopolitical tensions. Certainly do we see any near-term resolution to the conflict in the Middle East.

Business Units

C4ISR

Command, control, communications, computers, intelligence, surveillance and reconnaissance systems. This segment accounted for 35% of revenue in the first nine months of the year, making it the largest contributor to the company's revenue base. The products in this segment address challenges faced today not only by national defense forces, but by many corporations and organisations: whereas once the problem was a lack of information, today the problem is often an overload of information without the necessary resources or abilities to interpret the data in a meaningful way so as to facilitate better decision making. In combat situations for example, the ability to rapidly transfer information from the field to command centres and back, in order to allow for decision making in a way that's quick and effective, is crucial. Such technology is also marketed for peacekeeping efforts and for Governments to use for internal security needs.

The products in this segment include: tactical communications, artillery C4 systems, battle management systems, digital imagery systems, border security systems, digital army and HQ C4I systems, Government IT systems and rugged tactical terminals.

Airborne systems

These accounted for 24% of revenues in Q1-Q3 of this year. Within this segment the company offers aircraft and helicopter system upgrades, providing modern systems and equipment as a solution to replacing ageing aircrafts. As such, this segment is expected to perform well during times when Governments cut back expenditure.

Airborne systems also includes helmet mounted systems, and unmade air vehicles (UAVs). The company offers a selection of UAVs, from the smaller variety that are carried by soldiers and used for localised intelligence gathering in the field, to the larger and more sophisticated UAVs that can fly missions over long ranges for long stretches of time. UAVs, and other unmanned vehicles on land and sea, are likely to continue growing in use and importance as they reduce risks to human, and offer effective and cost-efficient methods of intelligence gathering.

Land systems

In the land systems segment, which accounted for 22% of revenues in Q1-Q3, Elbit offers upgrades for land-based vehicles. The upgrades includes all functions of armoured fighting vehicles, and specifically: fire control, turret and gun control, battle management, life support and laser warning systems. This is another segment which should perform reasonably well during times of reduced defense sending.

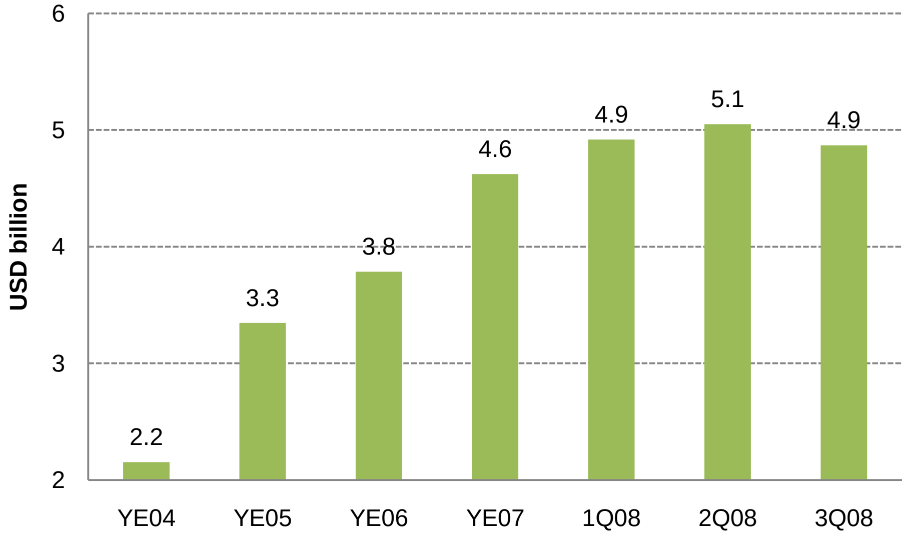
Electro-Optics

Products in this segment, which accounted for 12% of revenues in the first nine months of the year, are manufactured by El-Op, Elbit's subsidiary in Israel purchased in 2000. El-Op produces a full range of electro-optical sensors and systems used in space, air, land and sea deployment. These include space cameras, specialised sensors, and reconnaissance systems. El-OP also makes electro optic countermeasure systems, which comprise of detection of threats and countermeasures to deal with such threats.

Financial analysis

Backlog: Elbit's backlog is a strong predictor of the company's revenues. The backlog is published every quarter and consists of firm orders (orders which meet specific conditions, such as proof of funding, receipt of advances, letters of credit and guarantees). 57% of the backlog is for completion until YE09 and the rest is scheduled to be performed in 2010 and 2011. In addition, the company calculates (but does not publish) a soft backlog, which consists of orders that have a high probability of coming to fruition- for example, orders that await routine budgetary approval by the customer. We estimate that the company's soft backlog amounts to about 20% of the published backlog ($4.9bn as of 3Q08).

Backlog



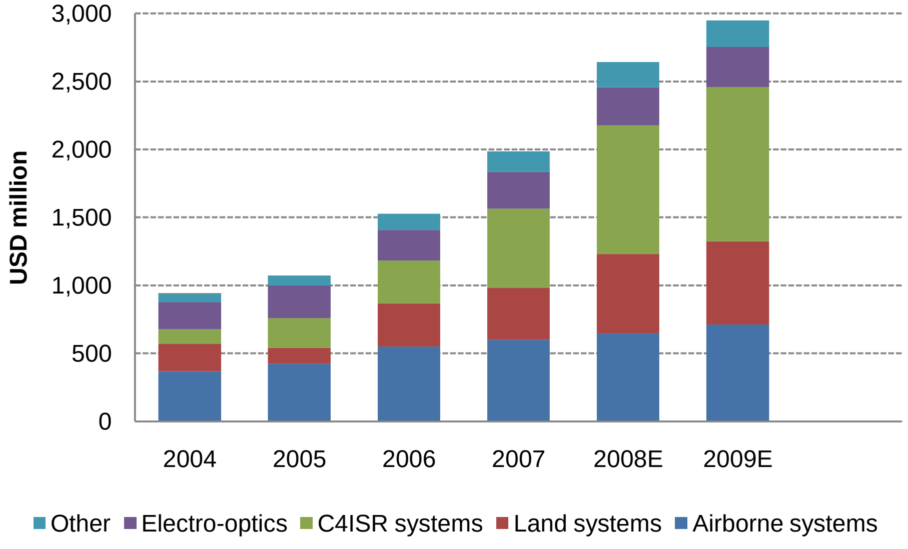
Source: *Company data*

The company announced a number of large deals after the quarter closed, including a $100m deal for communications equipment, and a $187m deal to supply avionics for the Brazilian AMX jet upgrade project. Indeed, the company expects an improvement in the backlog during the fourth quarter (QoQ).

Still, given current economic conditions we cannot disregard the recent sequential decline in the company's backlog, and remain on the lookout for possible signs of a negative trend. We would want to see continued growth in the backlog figures in 4Q08 and 1Q09 before we are satisfied that Elbit is not experiencing a softening of demand levels.

Revenues: Despite the global economic downturn, we model 12% revenue growth for 2009, based on the company's (usually conservative) backlog figures, the overall defensiveness of the sector, and the company's focus on higher-growth products lines. We forecast growth in all of the company's divisions in 2009, but as noted above, there are downside risks to this forecast.

Revenues breakdown by Product lines

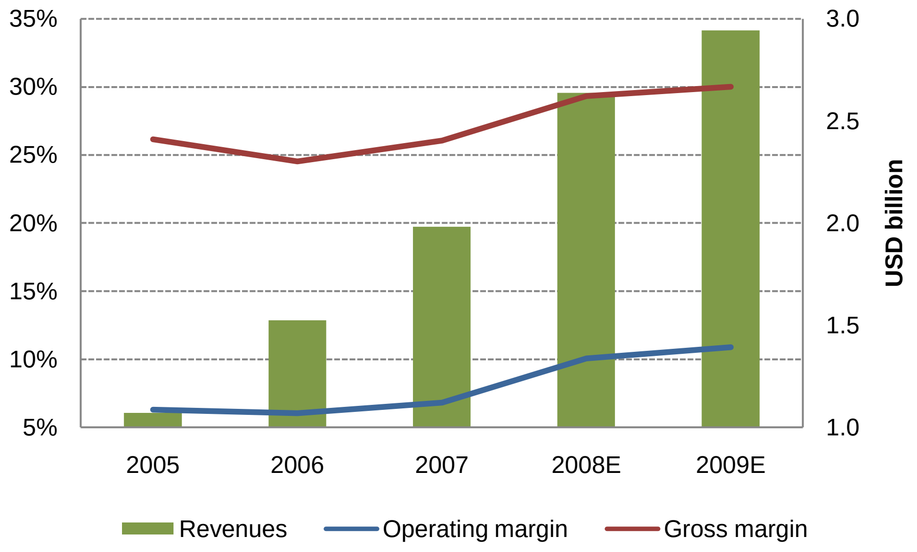


Source: *Company data, XNES*

Profitability: Despite the fact the company operates in an industry with high barriers to entry, enjoys strong growth, and its main product lines are characterised by high value-added and are first-rate in terms of quality and innovation, the operating margin of the company is slightly below that of its peers and hovers around 10%.

We would however add that the company delivered strong profitability improvement from 2007 to 2008, especially through a stronger gross margin on better mix and short-term deliveries. For 2009, we model a gradual profitability improvement on sales volumes and cost control.

Profitability improves with volumes and product mix

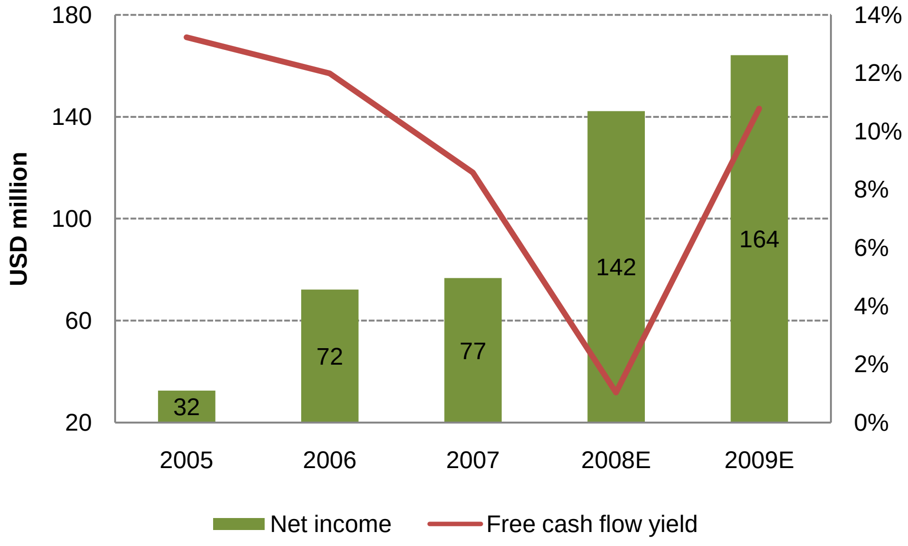


Source: *Company data, XNES*

The chief reason behind Elbit's seemingly disappointing profitability is the variety of its product mix. The company boasts a rich product offering with high vertical integration, making Elbit much more self-sufficient than its peers. To put it differently, Elbit offers a product range of a company twice its size. This characteristic is a legacy and function of being an Israeli defense company. While it offers certain advantages, economies of scale and higher profitability are not one of them.

Balance sheet: Elbit's possesses a strong balance sheet, with debt-to-equity at 2008E of 15%, and an interest coverage ratio of more than 5x. Net working capital as a percentage of total assets is a modest 11% based on YE08E forecasts. Finally, assuming the company continues to pay dividends at a pay-out ratio of ~35%, Elbit should have a net cash position in 2009.

Free cash flow to recover in 2009E



Source: *Company data, XNES*

Valuation

Company	Ticker	Market cap, $	Operating margin 2007	P/E 2008E	P/E 2009E
Rockwell Collins	COL	5,246	20%	5.0	4.8
Finmeccanica	FNC	9,326	8%	6.7	6.5
Thales	HO	9,793	6%	9.9	8.5
Honeywell	HON	19,661	11%	7.2	7.6
Lockheed Martin	LMT	29,457	10%	9.5	9.2
Harris	HRS	4,630	13%	8.4	7.6
Goodrich	GR	3,998	14%	6.5	6.3
Alliant Techsys	ATK	2,619	10%	10.6	9.4
Orbital Sciences	ORB	984	8%	17.0	19.0
Esterline Tech	ESL	1,039	9%	9.7	8.9
Average			**11%**	**9.1**	**8.8**
Elbit Systems	**ESLT**	**1,543**	**7% -10%**	**11.6**	**10.1**

Like most peer groups, this one is not perfect. We built a mix of large-cap defense companies and smaller one that are more similar to Elbit's size. The businesses mix of these companies, however, does not match Elbit's. They are, however, all part of the defense industry, and are sufficiently close in nature to provide a reasonable valuation yardstick.

As the peer group table shows, Elbit is not among the cheapest of the group. Nor is it the most profitable. Admittedly, the 2007 profitability figure is misleading as the company exhibited an impressive margin expansion in 2008 (on volumes and mix). However, even with the 2008E 10% operating margin plugged in, and growth levels accounted for, we find it hard to justify Elbit's relatively rich earnings multiples.

Our DCF, based on a 9% WACC and 2% perpetual growth rate, yields a 15% upside to the current share price. Read in conjunction with the peer model, the DCF price does not offer sufficient upside to merit a buy recommendation. Based on this and the uninspiring peer group valuation, we initiate the company with a Neutral recommendation.

Financial models

Revenue breakdown

USD m	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08E	2007	2008E	2009E
Airborne systems	151.7	161.1	136.5	146.7	155.3	157.6	161.7	168.7	596.0	643.3	707.6
y/y	*9%*	*15%*	*-1%*	*12%*	*2%*	*-2%*	*18%*	*15%*	*9%*	*8%*	*10%*
q/q	*16%*	*6%*	*-15%*	*7%*	*6%*	*1%*	*3%*	*4%*			
Land systems	81.5	68.5	94.1	136.9	156.0	153.4	122.7	150.6	381.0	582.7	611.8
y/y	*95%*	*20%*	*-7%*	*16%*	*91%*	*124%*	*30%*	*10%*	*20%*	*53%*	*5%*
q/q	*-31%*	*-16%*	*37%*	*45%*	*14%*	*-2%*	*-20%*	*23%*			
C4ISR systems	86.9	136.7	192	166.4	164.5	216.2	297.8	266.2	582.0	944.7	1133.7
y/y	*5%*	*100%*	*187%*	*75%*	*89%*	*58%*	*55%*	*60%*	*86%*	*62%*	*20%*
q/q	*-9%*	*57%*	*40%*	*-13%*	*-1%*	*31%*	*38%*	*-11%*			
Electro-optics	52.3	65.2	61.0	92.8	88.1	73.4	63.7	55.7	271.3	280.9	294.9
y/y	*19%*	*43%*	*54%*	*-1%*	*68%*	*13%*	*4%*	*-40%*	*21%*	*4%*	*5%*
q/q	*-44%*	*25%*	*-6%*	*52%*	*-5%*	*-17%*	*-13%*	*-13%*			
Other	31.2	36.7	35.3	48.3	52.2	52.6	25.3	55.5	151.5	185.6	194.9
y/y	*16%*	*11%*	*13%*	*63%*	*67%*	*43%*	*-28%*	*15%*	*25%*	*23%*	*5%*
q/q	*5%*	*18%*	*-4%*	*37%*	*8%*	*1%*	*-52%*	*120%*			
Total	403.6	468.2	518.9	591.1	616.1	653.2	671.2	696.8	1981.8	2637.3	2943.0
y/y	*21%*	*36%*	*38%*	*26%*	*53%*	*40%*	*29%*	*18%*	*30%*	*33%*	*12%*
q/q	*-14%*	*16%*	*11%*	*14%*	*4%*	*6%*	*3%*	*4%*			
Backlog	3.8	4.2	4.5	4.6	4.9	5.1	4.9		4.6		

P&L

US$ m	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08E	2007	2008E	2009E
Total revenues	403.6	468.2	518.9	591.1	616.1	653.2	671.2	696.8	1,981.8	2,637.2	2,943.0
y/y	20.7%	35.8%	37.8%	26.5%	52.6%	39.5%	29.3%	17.9%	30.1%	33.1%	11.6%
q/q	-13.6%	16.0%	10.8%	13.9%	4.2%	6.0%	2.8%	3.8%			
Cost of revenues	300.1	341.2	378.8	434.9	447.7	455.8	472.9	487.7	1,454.9	1,864.1	2,060.1
Restructuring expenses	-	10.5	-	-	-	-	-	-	10.5	-	-
Gross profit	103.5	116.5	140.2	156.2	168.4	197.4	198.3	209.0	516.4	773.1	882.9
Gross margin	*25.7%*	*24.9%*	*27.0%*	*26.4%*	*27.3%*	*30.2%*	*29.5%*	*30.0%*	*26.1%*	*29.3%*	*30.0%*
R&D, net	24.1	29.0	34.5	39.4	38.0	38.1	45.0	45.3	127.0	166.4	191.3
R&D margin	*6.0%*	*6.2%*	*6.7%*	*6.7%*	*6.2%*	*5.8%*	*6.7%*	*6.5%*	*6.4%*	*6.3%*	*6.5%*
Marketing & Selling	32.4	39.2	41.6	44.3	49.7	53.6	49.5	55.0	157.4	207.8	241.3
Marketing margin	*8.0%*	*8.4%*	*8.0%*	*7.5%*	*8.1%*	*8.2%*	*7.4%*	*7.9%*	*7.9%*	*7.9%*	*8.2%*
G&A	20.3	24.1	28.8	34.3	32.1	45.7	25.6	30.0	107.4	133.4	130.0
G&A margin	*5.0%*	*5.1%*	*5.5%*	*5.8%*	*5.2%*	*7.0%*	*3.8%*	*4.3%*	*5.4%*	*5.1%*	*4.4%*
IPR&D	-	16.6		-	-	-	-	-	16.6	-	-
Operating income	26.8	7.6	35.4	38.2	48.5	60.0	78.333	78.7	108.0	265.5	320.3
Operating margin	*6.6%*	*1.6%*	*6.8%*	*6.5%*	*7.9%*	*9.2%*	*11.7%*	*11.3%*	*5.4%*	*10.1%*	*10.9%*
Finance expenses, net	2.9	5.0	0.7	10.6	4.6	12.4	16.1	12.0	19.3	45.1	40.0
Other income	0.1	-0.0	-0.0	0.3	4.1	0.1	0.0	-	0.4	4.2	-
Income before tax	23.9	2.6	34.6	27.9	48.0	47.7	62.3	66.7	89.0	224.7	280.3
Tax	6.7	5.4	9.2	-7.5	7.9	3.8	16.4	13.3	13.8	41.4	56.1
Tax rate	*28.1%*	*209.4%*	*26.6%*	*-26.9%*	*16.5%*	*7.9%*	*26.3%*	*20.0%*	*15.5%*	*18.4%*	*20.0%*
Income after tax	17.2	-2.8	25.4	35.4	40.1	44.0	45.9	53.4	75.2	183.3	224.2
Minority interest	1.5	0.2	3.3	8.0	10.5	16.2	12.4	13.0	13.0	52.1	70.0
Equity in affiliates	3.4	2.4	4.2	4.5	2.6	3.4	2.1	3.0	14.6	11.1	10.0
Net income	19.1	-0.7	26.4	31.9	32.2	31.2	35.6	43.4	76.7	142.3	164.2
Net margin	*4.7%*	*-0.1%*	*5.1%*	*5.4%*	*5.2%*	*4.8%*	*5.3%*	*6.2%*	*3.9%*	*5.4%*	*5.6%*
Basic EPS	0.45	-0.02	0.63	0.76	0.76	0.74	0.85	1.03	1.82	3.38	3.90
Diluted EPS	0.45	-0.02	0.62	0.74	0.75	0.73	0.83	1.01	1.81	3.32	3.83

Balance sheet

US$ m	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08E	2007	2008E	2009E
Cash and cash equivalents	154.7	112.2	306.9	362.8	325.1	395.1	270.6	276.7	362.8	276.7	441.1
Short-term, bank deposits	1.1	20.8	14.5	10.1	32.2	31.4	19.0	19.0	10.1	19.0	19.0
Marketable securities	2.2	210.3	95.3	2.8	0.8	0.8	0.8	0.8	2.8	0.8	0.8
Trade receivables	339.8	379.8	411.0	432.0	444.6	454.9	433.8	496.3	432.0	496.3	524.1
Other receivables and other	85.3	106.7	112.9	123.3	153.5	125.0	111.9	111.9	123.3	111.9	111.9
Inventories	395.0	428.6	435.5	480.6	519.5	583.5	632.1	614.7	480.6	614.7	649.1
Total current assets	**978.1**	**1,258.3**	**1,376.2**	**1,411.6**	**1,475.6**	**1,590.7**	**1,468.1**	**1,519.4**	**1,411.6**	**1,519.4**	**1,745.9**
Investments	231.9	60.4	64.2	66.2	66.3	68.5	69.1	69.1	66.2	69.1	69.1
Compensation	15.5	15.5	15.5	15.5	-	-	-	-	15.5	-	-
Long-term deposits & receivables	5.4	21.3	10.5	20.7	19.3	26.9	27.3	27.3	20.7	27.3	27.3
Marketable securities	-	-	-	20.9	19.1	17.9	12.6	12.6	20.9	12.6	12.6
Deferred income taxes	7.5	17.2	18.7	19.3	15.6	17.9	15.0	15.0	19.3	15.0	15.0
Severance pay fund	163.0	208.5	223.6	238.1	254.5	274.6	271.5	271.5	238.1	271.5	271.5
Total investment and receivables	**423.4**	**322.9**	**332.6**	**380.7**	**374.7**	**405.7**	**395.6**	**395.6**	**380.7**	**395.6**	**395.6**
PP&E, net	294.1	326.5	336.3	350.5	359.7	370.2	385.5	399.4	350.5	399.4	462.5
Goodwill	58.4	319.2	331.7	331.8	331.8	331.6	336.7	336.7	331.8	336.7	336.7
Other intangible assets, net	68.3	307.9	309.3	301.0	289.3	283.8	272.0	263.0	301.0	263.0	227.0
Total intangible assets	126.7	627.1	640.9	632.8	621.1	615.4	608.7	599.7	632.8	599.7	563.7
Total assets	**1,822.3**	**2,534.9**	**2,686.0**	**2,775.6**	**2,831.1**	**2,982.1**	**2,858.0**	**2,914.1**	**2,775.6**	**2,914.1**	**3,167.7**
Short-term bank credit and loans	14.5	19.1	19.4	10.4	2.3	0.6	1.0	1.0	10.4	1.0	1.0
Current maturities of long-term loans	9.2	17.1	16.1	18.7	13.0	6.1	12.0	12.0	18.7	12.0	12.0
Dividend payable	6.7	-	-	-	7.6	-	-	-	-	-	-
Trade payables	159.5	185.8	229.0	272.6	290.6	331.9	347.7	347.4	272.6	347.4	366.9
Other payables and accrued expenses	284.5	427.0	441.6	424.8	512.4	506.1	439.0	439.0	424.8	439.0	439.0
Customers advances	353.1	443.2	493.7	510.6	495.5	471.4	407.9	407.9	510.6	407.9	407.9
Total current liabilities	**827.4**	**1,092.2**	**1,199.7**	**1,237.0**	**1,321.4**	**1,316.0**	**1,207.7**	**1,207.4**	**1,237.0**	**1,207.4**	**1,226.8**
Long-term loans, net of current maturities	125.3	396.7	431.3	431.3	397.7	463.5	382.9	382.9	431.3	382.9	382.9
Customers advances	134.4	178.7	153.4	137.3	111.3	102.0	112.5	112.5	137.3	112.5	112.5
Deferred income taxes and tax obligations	33.7	94.6	95.1	88.5	87.2	87.0	90.0	90.0	88.5	90.0	90.0
Pension and termination indemnities	191.7	267.0	281.0	293.8	320.0	345.2	340.8	340.8	293.8	340.8	340.8
Other long-term liabilities	-	-	-	31.3	4.6	37.2	34.2	34.2	31.3	34.2	34.2
Total long-term liabilities	**485.1**	**936.9**	**960.8**	**982.2**	**920.8**	**1,035.0**	**960.5**	**960.5**	**982.2**	**960.5**	**960.5**
Minority interest	8.4	8.6	11.9	20.1	30.6	46.8	57.1	70.1	20.1	70.1	140.1
Shareholders equity	501.3	497.2	513.6	536.3	558.3	584.4	632.7	676.1	536.3	676.1	840.3
Total liabilities and Shareholders equity	**1,822.3**	**2,534.9**	**2,686.0**	**2,775.6**	**2,831.1**	**2,982.1**	**2,858.0**	**2,914.1**	**2,775.6**	**2,914.1**	**3,167.7**

Ratings Key

1. **Buy**: Expected to outperform the relevant broader market index over the next 12-18 months.
2. **Neutral**: Expected to perform in-line with the relevant broader market index over the next 6-12 months.
3. **Sell**: Expected to underperform the relevant broader market index over the next 6-12 months.

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Conflict of interest - Analyst

At date of preparation of this report, the analysts are not aware of any conflict of interest with respect to the company that is covered in this report.

- **Information regarding analysis**

Valuation methodology
Using our earnings forecasts and historical data, we base our valuation on a DCF, a comparative model, and a sum-of-the-parts model.

Risks

1. The company is vulnerable to cycles and trends in global defense budgets.
2. The company is vulnerable to unexpected political factors.

Analyst Certification

We, Gil Dattner and Gilad Alper, certify that views expressed in this report accurately reflect our personal views about the subject securities and issuer. We also certify that we have not and will not receive any compensation for providing specific recommendations or views expressed in this report.

- <u>**Disclosure – Excellence Nessuah Brokerage Services Ltd (the 'Company')**</u>

Conflicts of interest

1. This report was published as an initiation of coverage.
2. At the time of publishing this report, or in the 30 days previous to this report, the company or companies associated with it, held in its Nostro or managed accounts, significant holdings in the securities of the company analysed, or companies associated with it.

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