

## ELBIT SYSTEMS

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### Part 1: Methodology

The presentation about Elbit Systems will be divided into two parts. While I will focus on the background information on the company itself, Jamal Juma' who will speak after me will talk more about the human rights violations committed by Elbit, and its participation in war crimes. The information that I present here is based on an array of sources which, despite its variety and scope, remains very limited. Elbit Systems is first and foremost a weapon's company. Most of its products are intended for military use, and as such it is naturally a secretive company. Thus, most of the information available on the company originates in the company itself – through numerous press releases which are distributed through the Israeli press in Hebrew, intended mostly for the eyes of potential investors.

Two points should be made here:

- We have more access to information about Elbit because it is a privatized company, and a by-product of their search for investors is more advertising.
- Elbit is far more quick to announce deals with Europe and the U.S, but rarely mentions the names of their customers when the customers are from Asia or Latin America (with the exception of Brazil and South Korea)<sup>1</sup>. Elbit's financial statements reveal ties with Argentina, Australia, Brazil, Bulgaria, Canada, Columbia, Georgia, Romania – but even the financial statement sometimes refers to "other customers" without specifying.<sup>2</sup>

### Part 2: General information about the company

Elbit was founded in 1967, when the aftermath of the occupation created a business opportunity. The Israeli government refused to relinquish the occupied territories, and has increased government investment in military buildup in order to face the inevitable conflict that

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<sup>1</sup> Maoz, Yuval, 2009, "Elbit Systems Will Provide Airborne Electronic Warfare Systems for Korea for 7 Million Dollars," *TheMarker*, February 8<sup>th</sup>, 2009.

<sup>2</sup> Securities and Exchange Commission, 2006 "Form 20-F: Annual Report Pursuant to Section 13 or 15 (d) Of the Securities Exchange Act of 1934 – Elbit Systems LTD.," *Securities and Exchange Commission*, Washington D.C. 2006.

would ensue from the occupation. In 1996, the company split into Elbit Systems Ltd. And Elbit Imaging Ltd.

The company has been growing rapidly since the 1990s, and has been acquiring more and more companies as part of its strategy to merge and grow. In 2007 it was ranked the world's 37<sup>th</sup> place in growth rate of defense companies in the world by Defense News.<sup>3</sup>

In 2001-2005, Elbit had revenues of \$765-\$1,070 million annually, and a net profit of \$1.07-\$0.8 annually. Total shareholder's equity was between \$378 million and \$451 million.<sup>4</sup>

In 2005 it employed 6,430 workers.

The company is worth today approximately Euro 1.6 billion, and the net profit for 2009 was Euro 88 million. In 2009 it reached a profit per capital of nearly 30%.

The CEO is Joseph Ackerman, the biggest controlling share is by Michael Federmann.

Elbit is a multi-branch company with many subsidiaries. It owns Tadiran, one of Israel's oldest weapons companies.<sup>5</sup> Other subsidiaries are Vision Systems International, which develops targeting systems for ground bombing,<sup>6</sup> Elisra which produces electronic warfare systems,<sup>7</sup> Elop which produces electro-optic systems for defense and homeland security purposes, Cyclone which produces metal structural parts for aircraft, Silver Arrow (UAVs), Opgal (thermal imaging), SCD (semiconductors), Ortek (perimeter security systems) and U-TacS, a British subsidiary operating the Watchkeeper Program.<sup>8</sup>

Elbit Systems has a subsidiary called "Elbit Systems of America (ESA)," which does deals with the U.S army to take advantage of the U.S military aid money to Israel.<sup>9</sup> An important aspect of this is Elbit's contract with Lockheed Martin for developing helmets and other systems for the F-35 stealth fighter.<sup>10</sup>

In 2009 Elbit bought Kinetics, a company which produces accessories for combat vehicles<sup>11</sup> and BVR, a company which produces training systems and simulators.<sup>12</sup> It proceeded to purchase

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<sup>3</sup> Koren, Ora, 2008, "Defense News: Elbit Systems in 37<sup>th</sup> Place in Rapid Growth Rate of Security Companies in the World," *TheMarker*, September 7<sup>th</sup>, 2008.

<sup>4</sup> Securities and Exchange Commission, 2006 "Form 20-F: Annual Report Pursuant to Section 13 or 15 (d) Of the Securities Exchange Act of 1934 – Elbit Systems LTD.," *Securities and Exchange Commission*, Washington D.C. 2006.

<sup>5</sup> Sela, Rotem, 2008, "Tadiran Communications from Elbit Systems Group Won a Contract for 127 Million Dollars to Provide Tactical Systems," *TheMarker*, May 5<sup>th</sup>, 2008.

<sup>6</sup> Sviderski, Vadim, 2010, "Elbit System's Subsidiary will Provide Boeing Products for 80 Million Dollars," *TheMarker*, May 11<sup>th</sup>, 2010.

<sup>7</sup> TheMarkerOnline, 2010, "Elbit Systems will Provide an Asian Customers Electronic Warfare Systems for 147 Million Dollars," *TheMarker*, March 24<sup>th</sup>, 2010.

<sup>8</sup> Securities and Exchange Commission, 2006 "Form 20-F: Annual Report Pursuant to Section 13 or 15 (d) Of the Securities Exchange Act of 1934 – Elbit Systems LTD.," *Securities and Exchange Commission*, Washington D.C. 2006.

<sup>9</sup> Gabizon, Yoram, 2010, "Elbit Systems Won a Contract Worth 68 Million Dollars from the U.S. Army," *TheMarker*, October 13<sup>th</sup>, 2010.

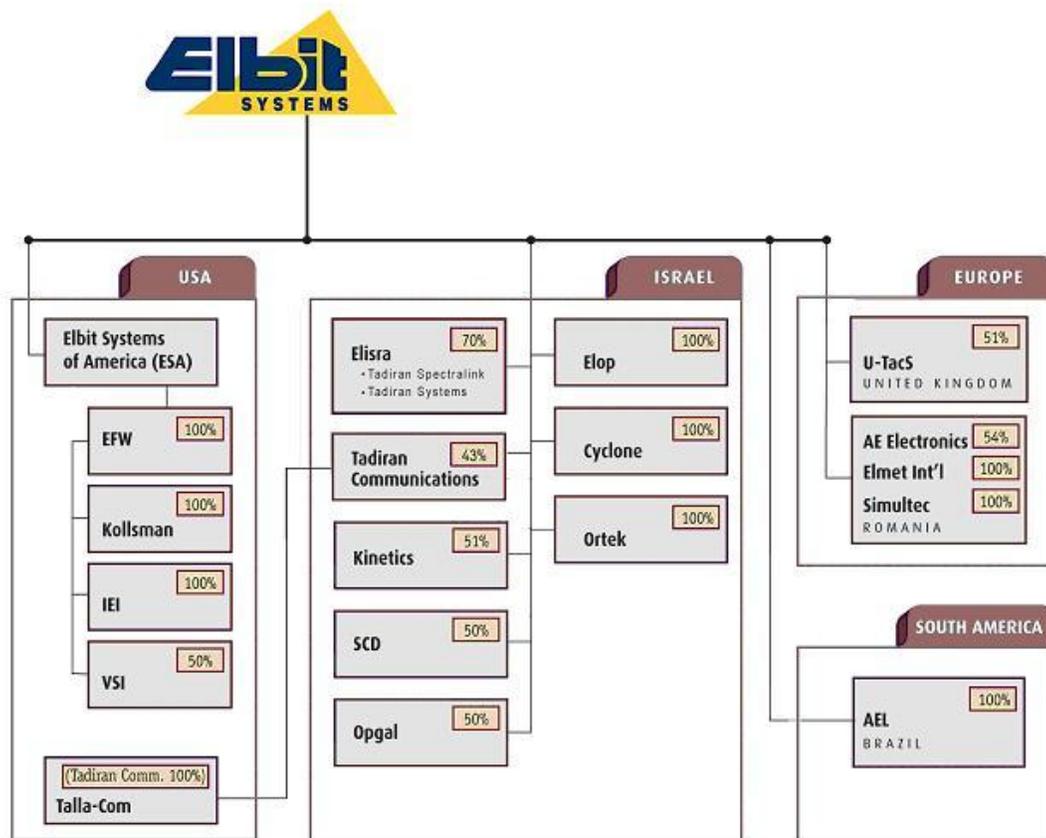
<sup>10</sup> Maoz, Yuval, 2009, "Elbit Systems Will Provide Head Systems for the F-35 Plane for 541 Million Dollars," *TheMarker*, June 16<sup>th</sup>, 2009.

<sup>11</sup> TheMarker, 2009, "Elbit Systems Buys the Remaining Stocks of Kinetics for 100 Million Dollars," *TheMarker*, April 7<sup>th</sup>, 2009.

Shiron, a company specializing in broadband communications.<sup>13</sup> Elbit also purchased the Mikal group which focuses on producing artillery and armored vehicles, in response to a trend among tank producers to develop the technology to upgrade their won tanks.<sup>14</sup> It also recently bought the Azimut company which develops surveillance and targeting equipment for military and civilian customers.<sup>15</sup>

Elbit also has a subsidiary called Elbit European Subsidiary based in Belgium.

Elbit is traded both in the Tel-Aviv Stock Exchange and on the Nasdaq.



<sup>12</sup> Sheva, Natan, 2009, "Elbit Systems to Buy BVR For 34 Million Dollars," *TheMarker*, July 20<sup>th</sup>, 2009.

<sup>13</sup> Sheva, Natan, 2009, "Elbit Systems Signed a Deal to Buy the Shiron Communication Company According to a 16 Million Dollars Value," *TheMarker*, January 8<sup>th</sup>, 2009.

<sup>14</sup> Gabizon, Yoram, 2010, "Elbit Systems Bought Gilat's and Naftali's Mikal for 90 Million Dollars," *TheMarker*, September 2<sup>nd</sup>, 2010.

<sup>15</sup> Gabizon, Yoram, 2010, "Elbit Systems is Buying Azimut According to a Company Value of 210 Million NIS," *TheMarker*, January 25<sup>th</sup>, 2010.

Share of sales:

|               | Year Ended December 31 |             |             |
|---------------|------------------------|-------------|-------------|
|               | <u>2003</u>            | <u>2004</u> | <u>2005</u> |
| Israel        | 29%                    | 26%         | 29%         |
| United States | 37%                    | 37%         | 37%         |
| Europe        | 12%                    | 13%         | 10%         |
| Others        | 22%                    | 24%         | 24%         |

The profits of Elbit Systems are closely tied to European customers. When in the second quarter of 2010 European countries ordered fewer UAVs, Elbit suffered a 17% drop in sales.<sup>16</sup>

### **Part 3: Mode of Operation**

Elbit's business model is built on very close relations with the Israeli military. It has close ties with specific units in the army, and begins recruiting them even before they are released from service.<sup>17</sup>

In addition to the soldiers, who help the company with combat experience and with an intimate knowledge of the needs of the military, the company works closely with Israeli institutions of higher learning: the Technion in Haifa, and also the Weizman Institute, both opened centers for electro-optic research with Elbit (and the Technion specifically trains students to work in Elbit). The Technion also gave an honorary PhD to Joseph Ackerman. Michael Federmann, Chairman of the Board of Directors of Elbit and biggest owner, is also a member of the Board of Governors of both the Weizman Institute and the Hebrew University. The Weizman Institute initiated with Elbit a program to train high-school pupils in electro-optics in Elbit factories. Elbit also sponsors the Atidim program for academic reserve soldiers.

Once Elbit develops a system, it first gets the Israeli army to use it. Once the Israeli army makes an order, its much easier to market the system to other armies as well. The systems are sold to customers on the basis of a sequence of contracts. The clients buy the equipment, but Elbit offers to renew and improve it after several years with a follow-up contract.

Elbit is a major supplier for the Israeli air force. For example, it provides training airplanes for air force cadets,<sup>18</sup> flight simulators for F-16 planes.<sup>19</sup> It also provides equipment for other branches for the Israeli army. For example, it provides fire control and electric gun and turret drive

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<sup>16</sup> Gabizon, Yoram, 2010, "Elbit Systems Will Set Up a Joint Enterprize in the UAV Field with She French Segem," *TheMarker*, September 16<sup>th</sup>, 2010.

<sup>17</sup> Securities and Exchange Commission, 2006 "Form 20-F: Annual Report Pursuant to Secion 13 or 15 (d) Of the Securities Exchange Act of 1934 – Elbit Systems LTD.," *Securities and Exchange Commission*, Washington D.C. 2006.

<sup>18</sup> Sviderski, Vadim, 2010, "Airport Extends Elbit Contract for Snunit Training Planes for 20 Million Dollars for 10 Years," *TheMarker*, February 22<sup>nd</sup>, 2010.

<sup>19</sup> Levy, Tal, 2008, "Elbit Systems Provided a Simulator fot eh Sufa Plane of the Airforce," *TheMarker*, March 6<sup>th</sup>, 2010.

systems to Israel's main battle tank, the Merkava, that is used against civilian populations, and for Israel's "Digital Army" program that was used in the war of 2006.<sup>20</sup>

Elbit provides electronic equipment for land forces and air forces, and has done so for many countries, including several European countries.<sup>21</sup>

Elbit also deals with intelligence equipment, providing products for both Israeli and international customers.<sup>22</sup>

Elbit's targeting systems, especially night-vision equipment, is also widely distributed around the world (for example to the U.S).<sup>23</sup>

Elbit is very famous for its unmanned aircrafts which are used by the Israeli military but also by many other countries, including the UK. Elbit cooperates with the French Sagem company and the British Thales company in producing and marketing the UAVs.<sup>24</sup> These UAVs are used in Afghanistan.<sup>25</sup>

The Hermes 1500, for example, is capable of carrying a payload of 350kg, and has a range of 200km (or double if it does not return), can stay 24 hours in the air. As such, it could also be considered as a missile.

Elbit UAVs were used by Turkey in the Southeastern, in the Kurd areas where the Turkish government is committing war crimes.<sup>26</sup>

Elbit also provides many products for the civilian market. For example, it provides a system to protect against ground-to-air missiles for commercial flights, but the system greatly increases the fuel consumption.<sup>27</sup> The system is already operative in some El-Al planes.<sup>28</sup>

Elbit became a major player in the "Homeland Security" market in the last decade, producing airport and seaport security systems, border control systems (including databases on

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<sup>20</sup> Securities and Exchange Commission, 2006 "Form 20-F: Annual Report Pursuant to Section 13 or 15 (d) Of the Securities Exchange Act of 1934 – Elbit Systems LTD.," *Securities and Exchange Commission*, Washington D.C. 2006.

<sup>21</sup> Dutch Ministry of Defense, 2010, "Contract Award Notice Goods – Battlefield Management System," September 28<sup>th</sup>, 2010.

<sup>22</sup> Maoz, Yuval, 2008, "Elbit Systems will First Provide Intelligence Systems for a Foreign Customer: The Deal is Estimated to be Worth 9 Million Dollars," *TheMarker*, June 17<sup>th</sup>, 2008.

<sup>23</sup> Gabizon, Yoram, 2010, "Elbit Systems Won a Contract for 45 Million Dollars for the U.S Army – Will Upgrade Night Targetting Systems for Helicopters," *TheMarker*, October, 26<sup>th</sup>, 2010.

<sup>24</sup> Gabizon, Yoram, 2010, "Elbit Systems Will Set Up a Joint Enterprize in the UAV Field with She French Segem," *TheMarker*, September 16<sup>th</sup>, 2010.

<sup>25</sup> Pollack, Yael, 2008, "Elbit Systems will Provide a European State Hermes 450 UAVs for 20 Million Dollars," *TheMarker*, July 7<sup>th</sup>, 2008.

<sup>26</sup> Koren, Ora, 2010, "IAI and Elbit Stopped a UAV Deal with Turkey for 180 Million Dollars," *TheMarker*, June 14<sup>th</sup>, 2010.

<sup>27</sup> Blumkrantz, Zohar, 2010, "Disagreement between the State, El-Al and Elbit Delays Protecting Planes," *TheMarker*, August 10<sup>th</sup>, 2010.

<sup>28</sup> Blumenkranz, Zohar, 2009, "Israel will Purchase an Elbit System to Defend Passenger Planes from Shoulder Missiles," *Haáretz*, June 24<sup>th</sup>, 2009.

passengers), coastal control systems, electronic fences, surveillance technologies, UAVs for police and so on.<sup>29</sup>

Some Elbit technologies are adapted for non-military use, such as for medical procedures.

#### **Part 4: Incentive for War**

Elbit is a classic case of a company that profits from war, with a vested interest in conflict, terror and fear.

During the recent global economic crisis, Elbit's profits soared while most of the companies around the world suffered heavy losses. In the third quarter of 2008, as the world was just struck by the Global Economic Crisis, Elbit's gross profits jumped by 121% to 78.3 million dollars, and their net profits jumped by 35% to 35.5 million dollars.<sup>30</sup> It had another 34.5% increase in net profit in the first quarter of 2009.<sup>31</sup>

But Elbit is not indestructible. The company's rapid expansion through mergers is fuelled by credit, and the credit is collected through the stock market by selling stocks and bonds. In 2009 the Norwegian Pension Fund to divest from Elbit as a result of their ethical policy, and because of the fact that Elbit provides equipment to the Wall of Separation in the West Bank, which was declared illegal by the International Court of Justice in the Hague in 2004. This decision was followed by similar decisions by Swedish and Dutch pension funds. In May 2010 Deutsche Bank decided to divest from Elbit as well. This decision was not a moral decision like with the pension funds, but a business decision based on the bank's strategic assessment that Elbit is about to lose many investors, and as a result to lose market value.

The example of Africa Israel proves that divestment can eventually force a company to respect international law, and Elbit seems no less vulnerable to such pressure.

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<sup>29</sup> Securities and Exchange Commission, 2006 "Form 20-F: Annual Report Pursuant to Section 13 or 15 (d) Of the Securities Exchange Act of 1934 – Elbit Systems LTD.," *Securities and Exchange Commission*, Washington D.C. 2006.

<sup>30</sup> Maoz, Yuval, 2008, "Elbit Systems Won Contracts to Upgrade Planes and Helicopters in Europe Worth About 80 Million Dollars," *TheMarker*, December 17<sup>th</sup>, 2008.

<sup>31</sup> Maoz, Yuval, 2009, "Elbit Systems Continues to Show Strength: Net Profit Jumped in the Quarter by 34.5% to 43.3 Million Dollars," *TheMarker*, May 20<sup>th</sup>, 2009.