



THE SPIRIT OF INNOVATION®

DEFENSE

HOMELAND SECURITY

SUSTAINMENT & SUPPORT

MEDICAL INSTRUMENTATION

COMMERCIAL AVIATION

AGENDA

- State of Global Security and Threats
- Future Trends and Requirements for Defense Technology
- Outlook for Defense Spending and the Budget
- Trump Administration and Defense
- Key National Security Programs

STATE OF GLOBAL SECURITY & THREATS

A large yellow graphic element consisting of two parallel diagonal lines that create a wide, upward-sloping triangular shape on the right side of the page.

GLOBAL SECURITY: A FULL SPECTRUM OF THREATS



SEVERAL CONFLICTING MACRO FACTORS ARE IN PLAY...

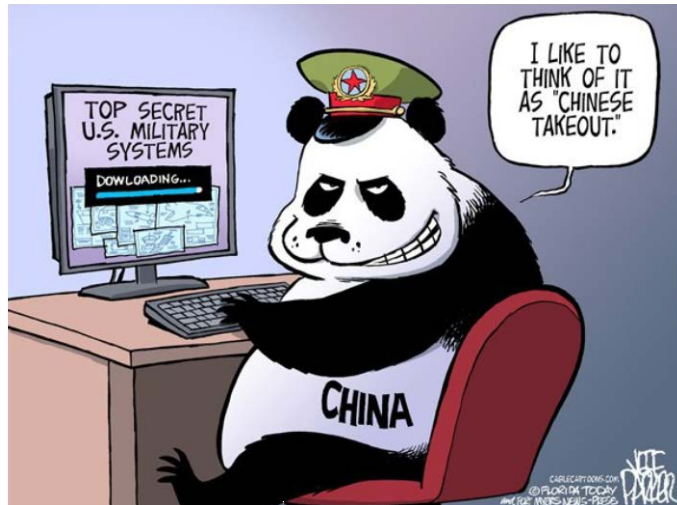
Commercial technology is advancing faster than military funded technology, and is proliferating across the globe



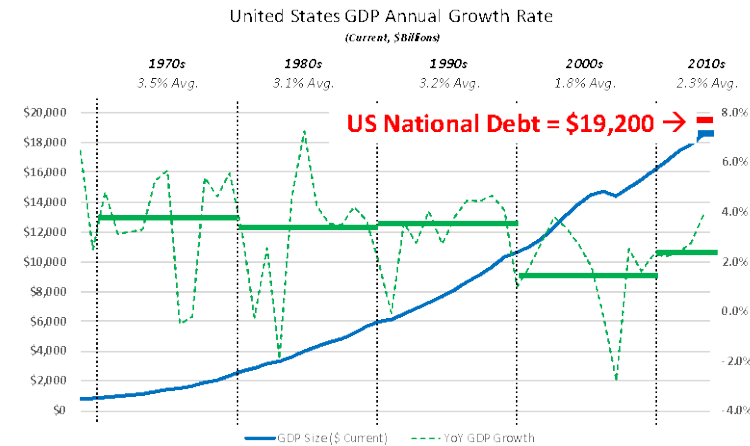
An increasingly complex set of security issues requires a diverse portfolio of capabilities and strategies ...



... cyber threat may be the most impactful to suppliers



Economy is growing, but not enough to ease debt burden



Elbit will face a USG customer with enduring constrained budgets that is seeking cost effective solutions

NATIONAL SECURITY STRATEGY – 4 +1 FRAMEWORK... IN 5 DOMAINS



Russia
China
North Korea
Iran
+
Global
Violent
Extremism

LAND, SEA, AIR, SPACE, AND CYBERSPACE

THE AMERICAN WAY OF WAR IS CHANGING....



The "American Way of Winning a War" since 1945 ...



... is being significantly degraded by adversary improvements in:

- Counter low observable capabilities
- Offensive cyber and adaptive EW
- Global terror networks & sleeper cells
- Advanced tactical ballistic missiles
- ISR and space capabilities
- Anti-Access Area Denial (A2AD)
- Navigation warfare/counter GPS
- Advanced SAM

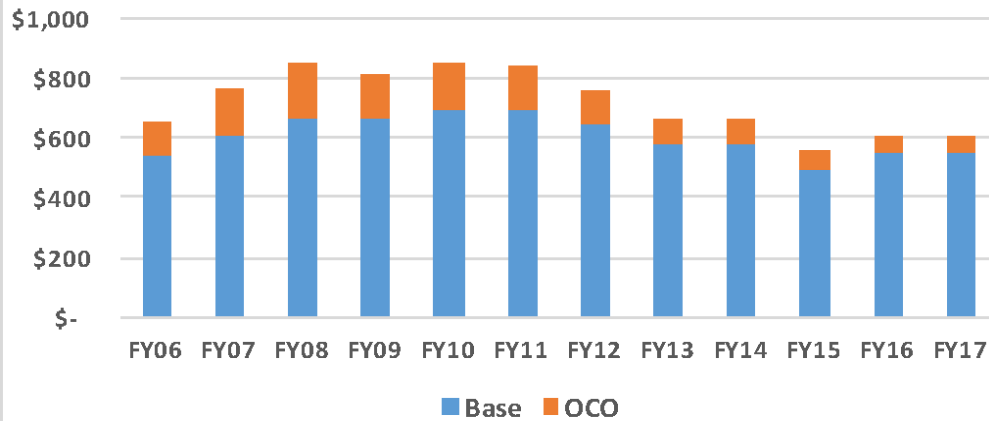
How the U.S. counters these developments will have a major long term impact on the addressable market for suppliers

FUTURE TRENDS AND REQUIREMENTS FOR DEFENSE TECHNOLOGY

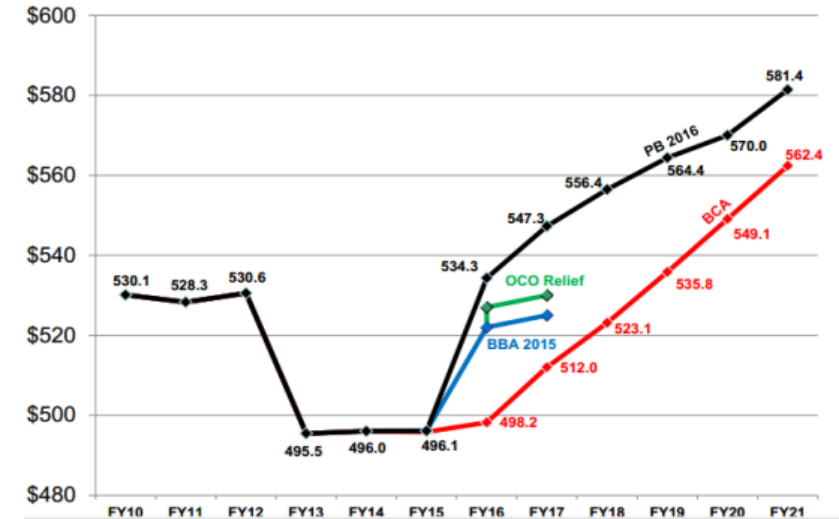
The background features a large yellow triangle on the right side, pointing towards the top right corner. A thin white diagonal line runs parallel to the hypotenuse of this triangle, creating a narrow white channel. The rest of the background is white.

DoD PRIORITIES CHANGED POST-2011

DoD Defense Budget Historical and Enacted



Base Budget Impact of the BBA 2015 (Dollars in Billions)



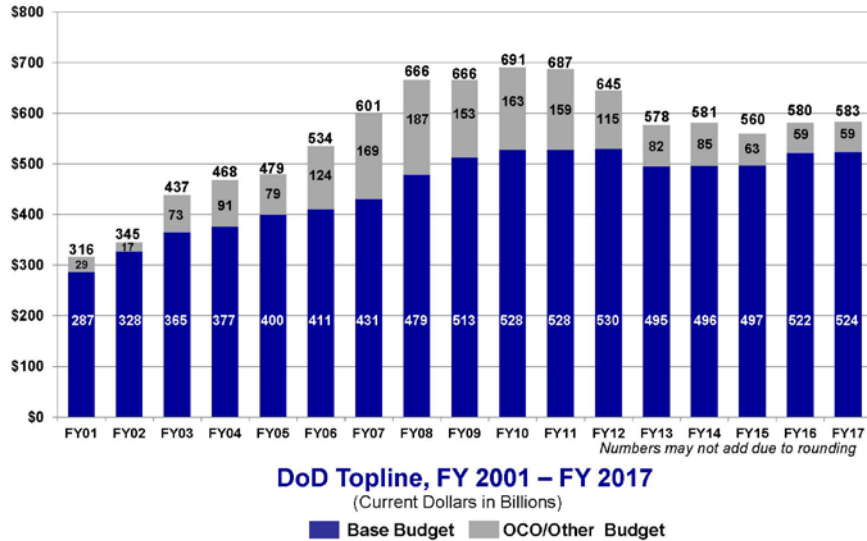
- *Buying Power and Buying Habits* of our customer changed
- U.S. military priorities changed, procurement requirements changed
- Shift to Asia-Pacific strategy not fully realized. . .back to Europe?
- Technology advancing rapidly – our adversaries are leveraging it, too

DoD BUDGET – SEQUESTRATION RELIEF



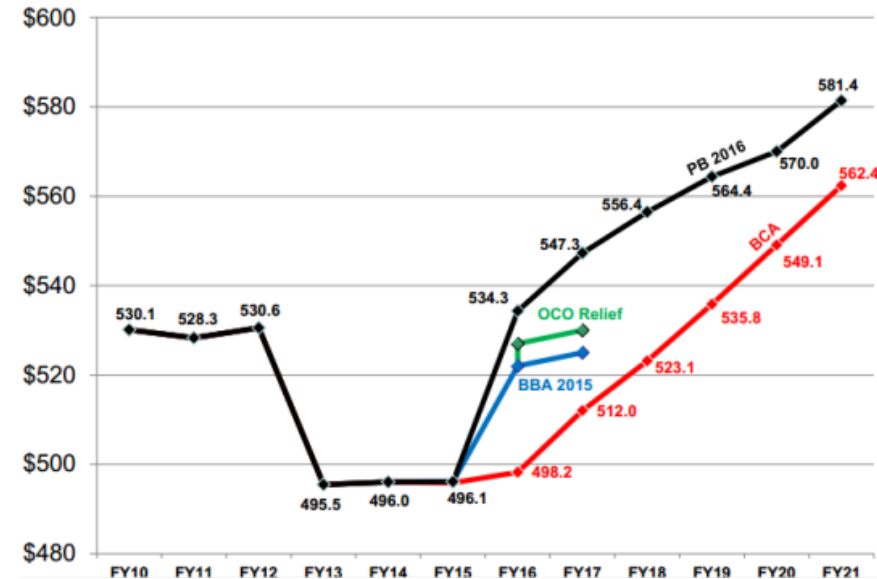
DoD Funding from 9/11 Through FY 2017 Request

(Discretionary Budget Authority)



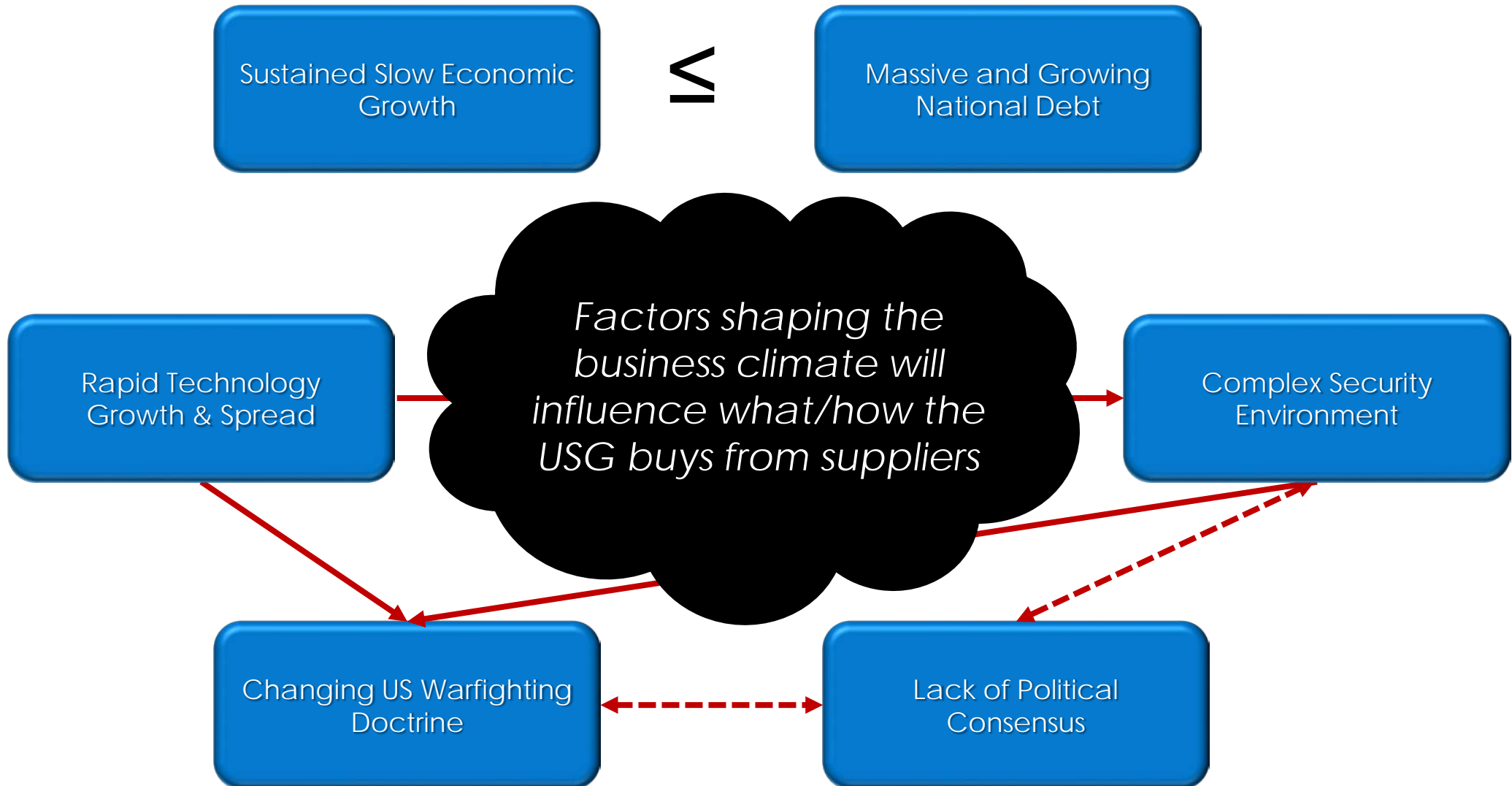
Base Budget Impact of the BBA 2015

(Dollars in Billions)



- DoD Budget FY16 grows for the first time since 2010
- Budgets > sequester, but < levels needed for key programs
- Budgets for lower-priority programs remain at risk
- Trump Administration signaling an end to sequestration

CHANGE + DISRUPTION = OPPORTUNITIES TO EXPLOIT



U.S. Defense Priorities

Counter Chinese, Russian And Iranian A2AD Challenge

Secure battle networks and C3I against cyber/EMS Threat

Mitigate tyranny of distance and time in strike, ISR, mobility

Develop disruptive CONOPS and Strategies for pressuring enemy

Leverage analytics and processing to enhance intelligence fusion

Acquire improved capability more quickly and cheaply

2017-2021: DoD REQUIREMENTS ARE/WILL BE DIFFERENT



US Defense Priorities

- Extending lifetimes of major programs via tech refresh and upgrades
- In-sourcing R&D and advanced concept demonstration work
- More reliance on contractor funded early development
- Increased reliance on networking & integration to deliver capability
- Open systems architectures
- Convergence of RF and cyber functionalities, systems and CONOPS
- Increased security requirements (both technical & regulatory)

Priorities for Sourcing

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- U.S. response is central to succeeding in six critical priorities
- Will, in turn, drive increased funding in “fast stream” sectors

"FAST STREAM" SECTORS



- 1 Secure Networking and Communications
- 2 Non-Kinetic Effects (EW, cyber)
- 3 Tailorable Precision Kinetic Effects Across Entire Threat Spectrum
- 4 Multi-function Radio Frequency / EMS Systems
- 5 Autonomous and Unmanned Systems
- 6 Passive Sensors and Multi-Sensor EO/IR and RF Fusion
- 7 Improved Airborne Capability via New Programs, Upgrades and UAS
- 8 Modernization of Naval Strike and Undersea Capabilities
- 9 Develop Space Control Capabilities, Improve Resiliency & Secure GPS
- 10 R&D for Disruptive Technology, Systems and CONOPS
- 11 Enhanced Border Security and Counter-Terrorism Capabilities
- 12 Programs & Products Supporting Growth of Allied / Partner Capabilities

Source: RSAdvisors

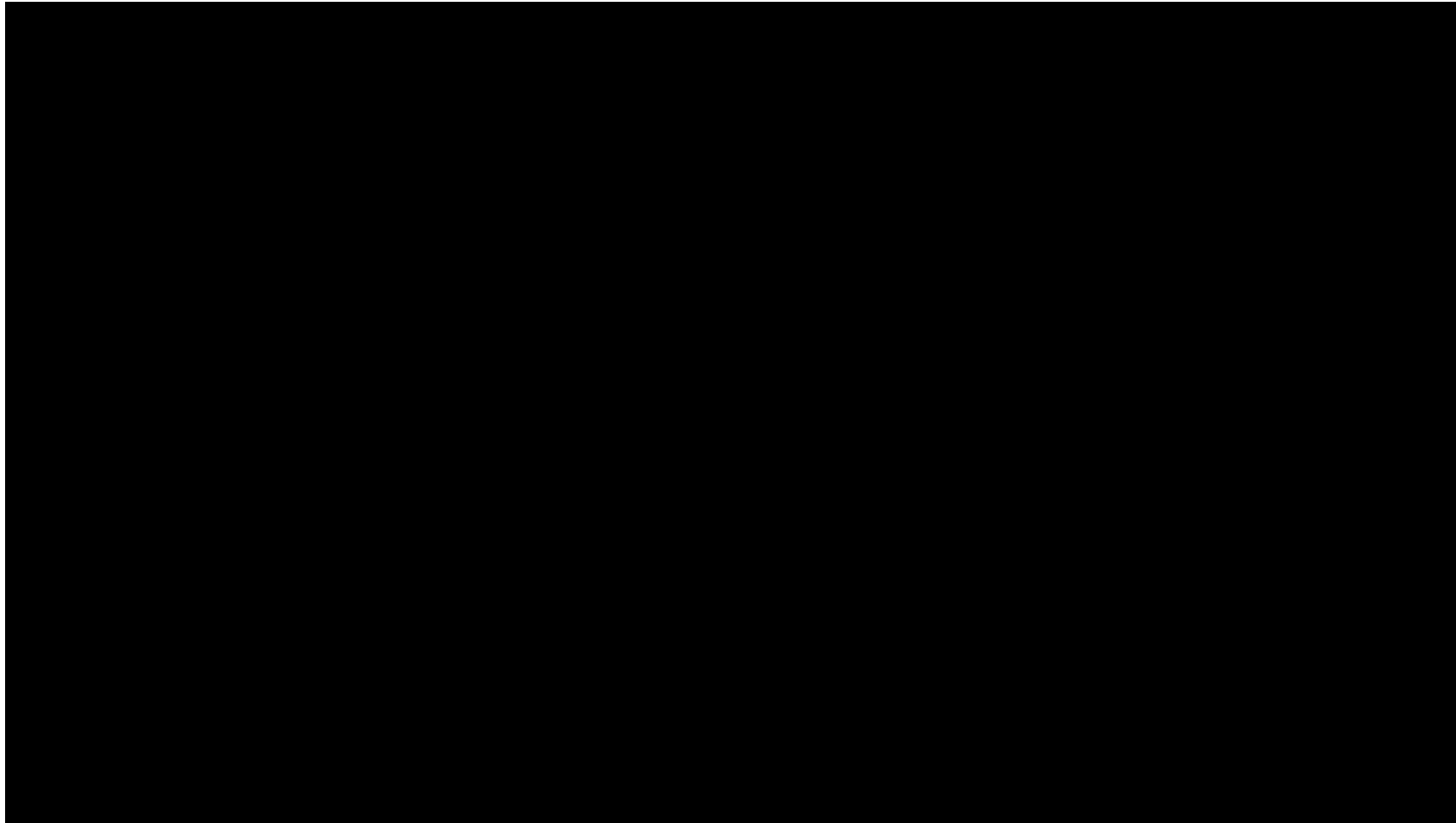
Threat Drivers of Fast Streams:

- Near-Peer's geographic expansion
- Cyber domain
- High-end kinetic and non-kinetic effects
- Transnational terror networks
- Operations in urban "mega centers"
- Space control

Technological Drivers of Fast Streams:

- Convergence across EMS and cyber domain
- Commercial IT and networking advances
- Advanced microelectronics
- Autonomy
- Disaggregation
- Biological enhancement and modification

FUTURE WAY OF WAR – C2 FUSION





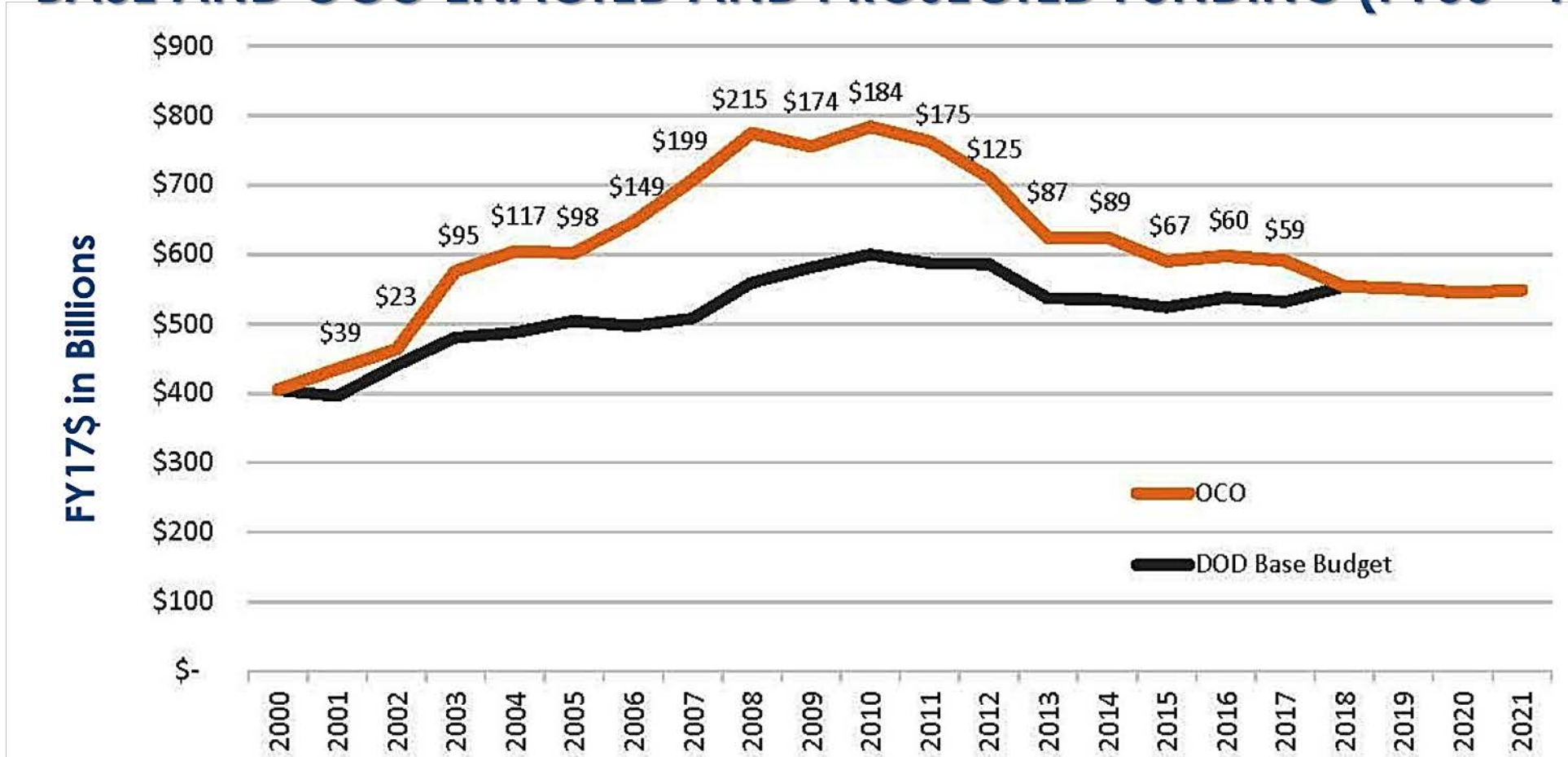
OUTLOOK FOR DEFENSE SPENDING & THE BUDGET



HISTORICAL LOOK AT THE DoD BUDGET



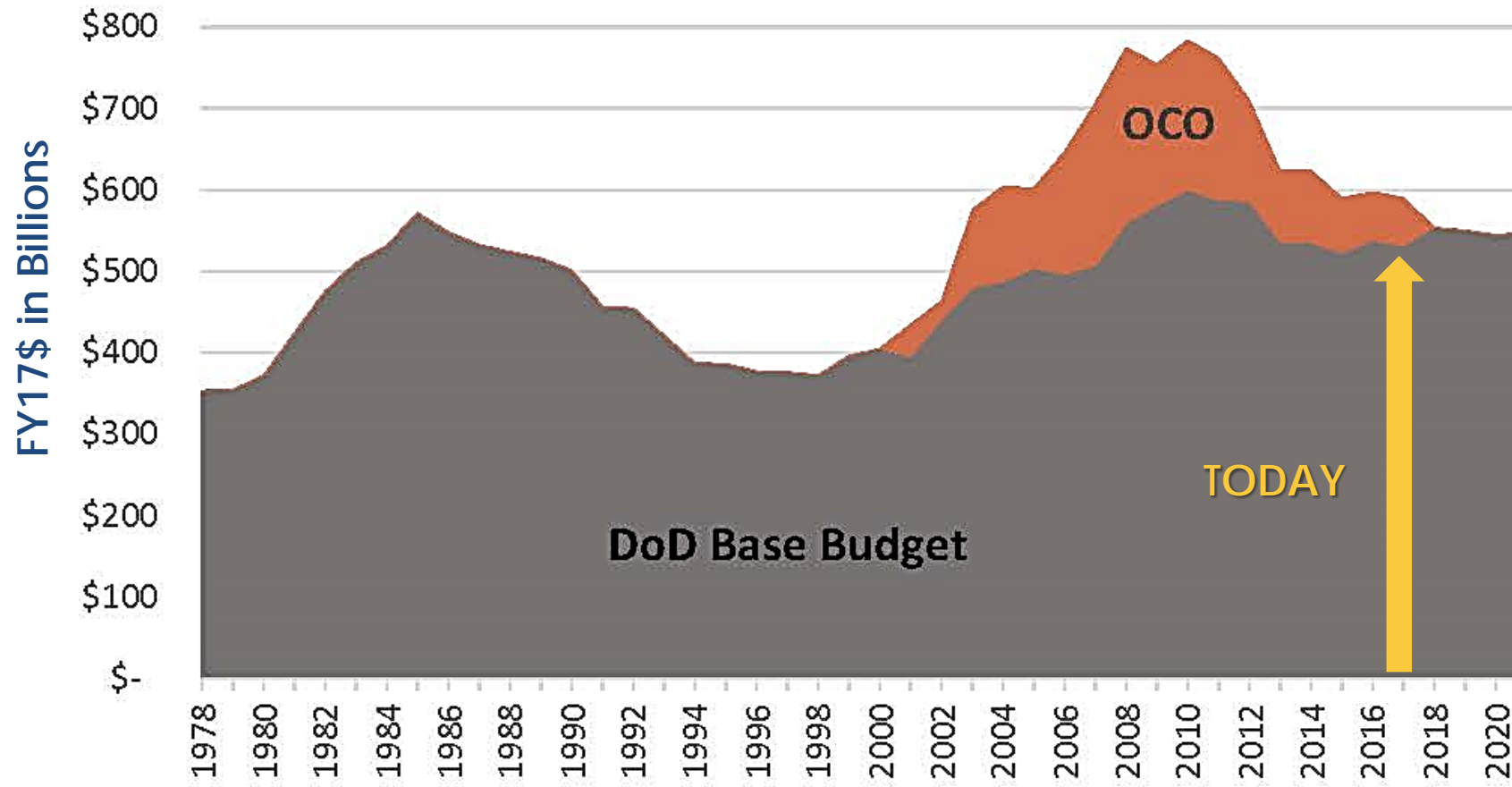
BASE AND OCO ENACTED AND PROJECTED FUNDING (FY00 – FY21)



OUSD Comptroller: FY17 Greenbook, Tables 1-2, 2-1, 6-8

OR...

DoD BASE BUDGET AUTHORITY AND WAR FUNDING (FY78 – FY21)



OUSD Comptroller: FY17 Greenbook, Tables 6-8, 2-1

THE OVERALL OUTLOOK FOR A&D BUSINESS IS POSITIVE



We expect investment funding (Proc + R&D) to exceed FY17 levels once OCO funds are allocated and Congressional plus-ups are made

PB18 Assumptions

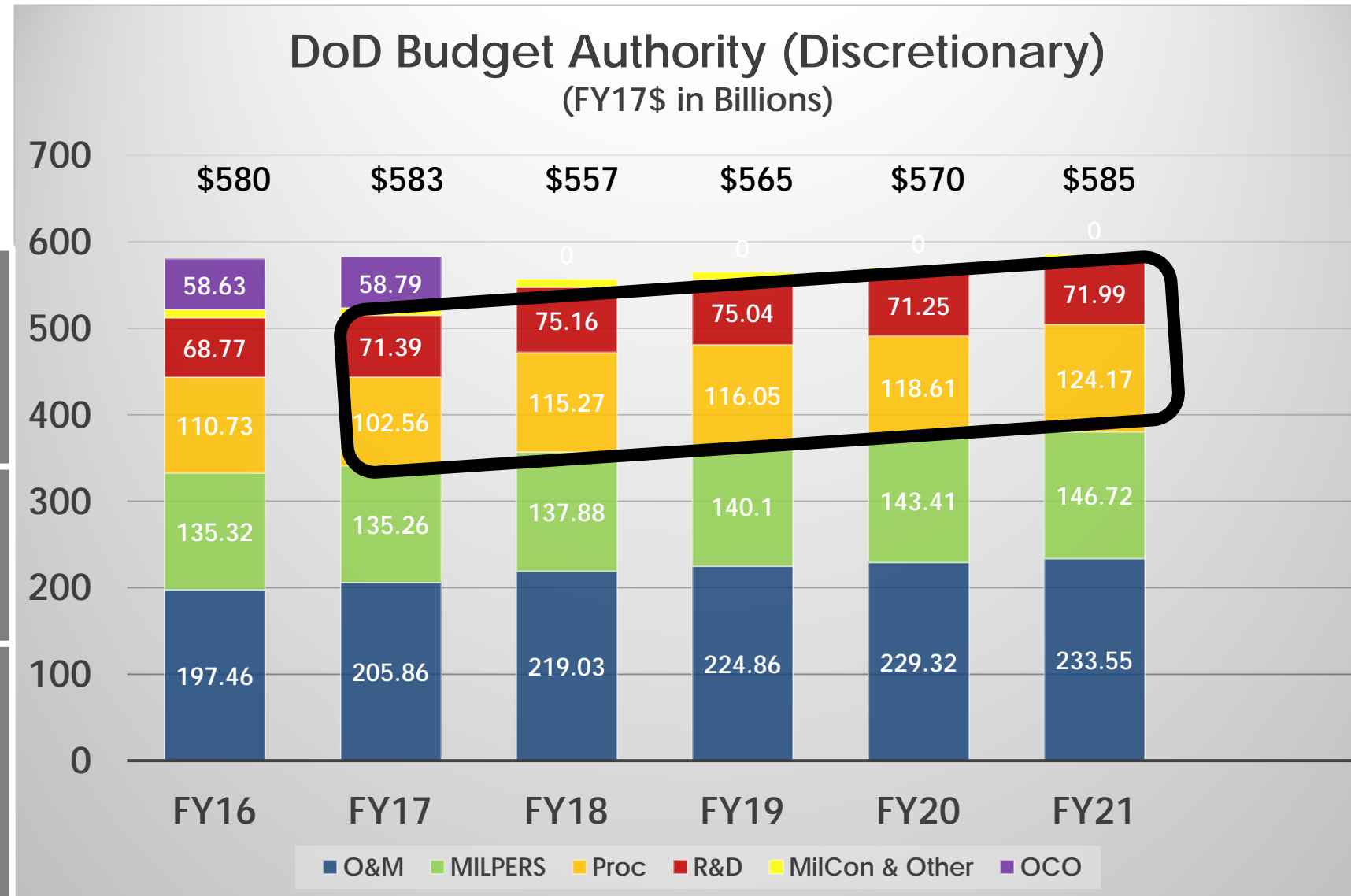
- No Sequestration/BCA
- DoD increase partially offset by reductions in domestic spending
 - Except DHS ("the Wall")

Note

\$54B increase above BCA caps for FY18 is just \$18B above President Obama's plans for the same year

Variables

- Debt ceiling increase?
- SASC/HASC to offer larger base budget
 - \$640B vs \$603B
- OCO to supplement base?



DoD resource focus for next 6 months: counter-ISIS and increasing readiness

Administration position	Implication for 2017-2021
Focus on U.S. Jobs	<ul style="list-style-type: none"> • Strengthen organic US-technology/manufacturing • Re-examination of global supply chains (?)
"America First" posture	<ul style="list-style-type: none"> • Increased difficulty accessing sensitive data • Increased cyber/data protection requirements • Need stronger solutions for FOCl mitigation • CFIUS more challenging (?)
Emphasis on new/existing platforms and fleets	<ul style="list-style-type: none"> • Legacy/existing platform capability upgrades • New platform spiral/incremental upgrades • Compatibility between legacy/5th Gen platforms
DoD ATL reorganization	<ul style="list-style-type: none"> • Increased local capabilities (e.g., rapid prototyping)
Acquisition agility/flexibility	<ul style="list-style-type: none"> • Proximity of design to customer

IMPROVING SENTIMENT IN DEFENSE SPENDING IS INCREASING
FORECASTED PRODUCTION OF ATTRACTIVE AIRCRAFT PROGRAMS

Key National Security **AEROSPACE PROGRAMS**

LARGE DEFENSE PROGRAMS DRIVE GROWTH



F/A-18



KC-46



M1 ABRAMS



LIGHT ATTACK A/C



SUBMARINES



CH-53K



F-35



FUTURE VERTICAL LIFT (Photo AMRDEC VizLab)



F-15



BOEING T-X



LOCKHEED MARTIN T-X



B-21

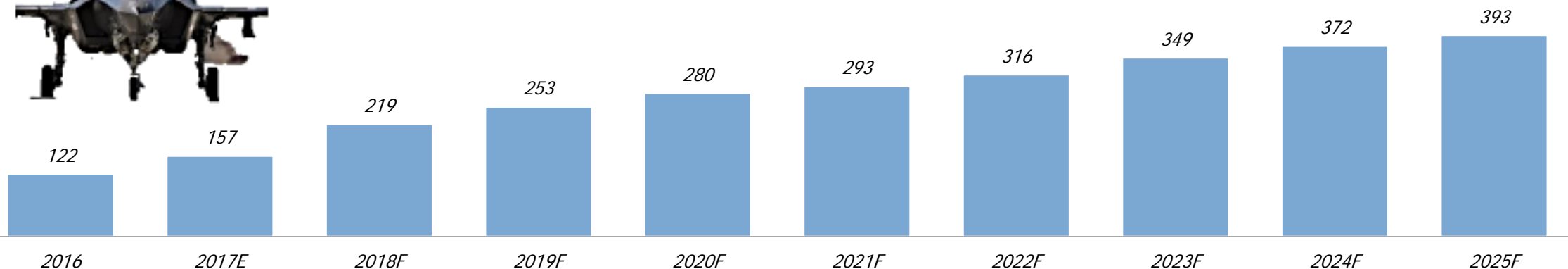
- Early "Trump Bump" will be on existing programs
- Top 100 programs consume > \$400B over FYDP w/Top 30 consuming 75%
- Key = be on existing and leverage to future programs

F-35 LIGHTNING II

- F-35 build rate is projected to grow dramatically over the next decade as the program ramps up
- Cost per aircraft decreasing – increased production per year will continue to drive down cost
- Trump negotiations with Lockheed Martin on the heels of DoD negotiations
- International sales projected to increase

F-35 Lightning II Production

Procurement Schedule

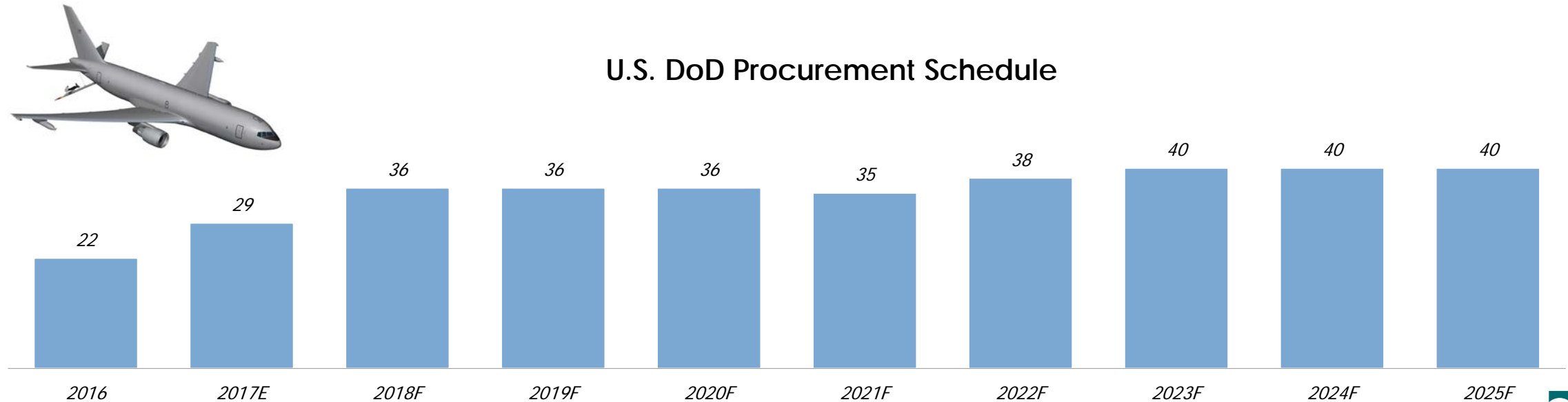


KC-46 PEGASUS



- KC-46 program is currently transitioning from development to production and is scheduled to replace ~40% of existing tankers
- Successfully completed boom envelope testing in Q4 2016 with 5 aircraft undergoing flight testing
- KC-Y and KC-Z follow-ons TBD – KC-135s remain in force

KC-46A Pegasus Production



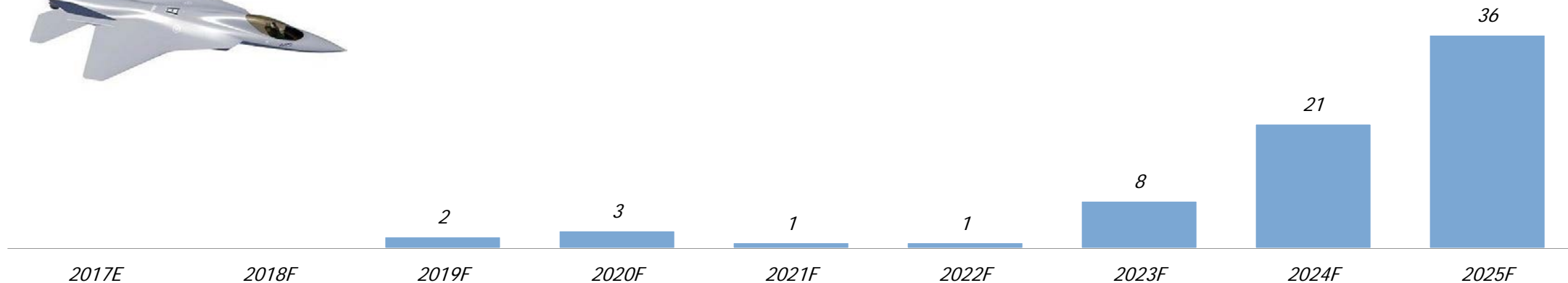
T-X TRAINER

- The T-X Trainer is the premier next generation training system, designed to meet evolving requirements and technologies
- 350 aircraft initially forecasted by the USAF – 1000+ possible
- Long-term program
- Winner could play in the USAF Light Attack Aircraft program

T-X Trainer Production



Forecasted Production Schedule



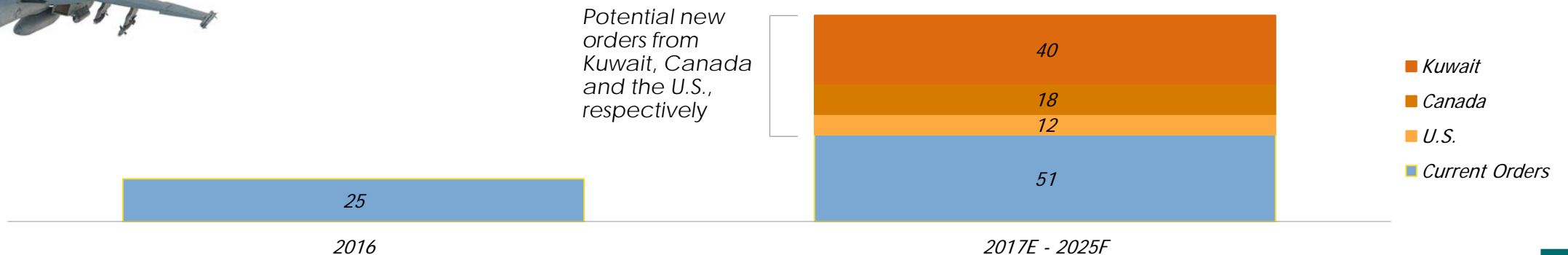
F/A-18 Super Hornet

- F/A-18 Super Hornet is receiving rejuvenated interest both domestically and internationally
- Relatively attractive cost and still strong performance profile
- USN has been successful in getting “adds” to DoD’s budget
- Trump negotiations with Boeing will be a factor

F/A - 18 Super Hornet Production



Forecasted Production Schedule





QUESTIONS AND DISCUSSION

