Rheinmetall in the first half of 2020:

Defence remains an anchor of stability during coronavirus crisis

- The Group’s half-year sales fall by 7.7% to €2,597 million due to declining automotive markets
- Coronavirus crisis causes drop in consolidated operating earnings from €163 million to €70 million
- Defence continues to grow: sales rise by 19% to €1,641 million; operating earnings improved by 75% to €122 million
- Automotive significantly affected by crisis-induced production decline: sales fall by 34% to €956 million with operating earnings of €-41 million
- Impairment of €300 million on account of reduced growth forecast in Automotive sector
- Annual forecast for Defence specified: sales growth of 6% to 7%; aiming for operating earnings at the upper end of the forecast range
- Forecast for Automotive: target is operating net income of between €-30 million and break-even

Rheinmetall AG in Düsseldorf demonstrated resilience in a challenging economic environment in the first half of the year. The technology group’s Defence sector continued to grow and significantly increased its income. However, this only partially offset the crisis-induced decline in the Automotive sector. Overall, the Rheinmetall Group therefore posted a year-on-year reduction in sales and operating earnings in the first half of 2020.

The technology group is confirming and specifying its 2020 forecast from March of this year for the expected business performance of the Defence sector. In 2020 as a whole, sales growth is currently expected to be between 6% and 7% (previously 5% and 7%). A figure of around 10% is now being targeted for the sector’s operating margin, i.e. the upper end of the annual forecast of 9% to 10%.

A more precise forecast for Automotive is currently impossible due to the persistent uncertainties in regard to the future development of demand and production in the automotive industry. As things stand, however, the management is targeting operating net income of between €-30 million and break-even for the sector.

Armin Papperger, CEO of Rheinmetall AG said: “Our Defence sector, with its strong performance, is Rheinmetall’s anchor of stability during the crisis. In the Automotive sector, we, like the rest of the global automotive industry, were affected by the massive production declines and general market weakness in the second quarter in particular. With strict cost management, however, we were able to significantly limit the effects of the crisis. We will continue doing this. We want to keep growing profitably in the Defence sector in the current fiscal year.
and are now targeting an operating margin of 10%. The situation in Automotive remains very challenging. However, in the coming months we will do our utmost to get as close as possible to breaking even in terms of operating result and to develop the business positively again in subsequent years.”

**Rheinmetall Group: strong Defence sector provides stability during crisis**

Consolidated sales decreased by €217 million or 7.7% year-on-year to €2,597 million in the first half of 2020. Adjusted for currency effects, the decline was 7.0%.

The Group’s drop in sales was entirely due to the Automotive sector, where sales declined by a massive €484 million year-on-year due to the impact of the coronavirus pandemic. The Defence sector, in contrast, is proving a stable source of support during the crisis. The sector increased its sales by €266 million year-on-year despite the government-ordered plant closures as a result of coronavirus lockdowns in certain countries.

The differing performance of the two sectors is reflected accordingly in the operating earnings for the first half of 2020. While the Defence sector increased its operating earnings by €52 million to €122 million, Automotive posted negative operating earnings of €-41 million, down €143 million year-on-year. Operating earnings in Others/Consolidation fell slightly by €2 million. For the Group, this results in operating earnings of €70 million, down €93 million on the previous year’s figure of €163 million.

The Group’s reported earnings before interest and taxes (EBIT) amounted to €-232 million in the first half of 2020, €402 million lower than in the previous year. As well as the declining operating earnings, the reduction in reported EBIT is largely attributable to negative non-recurring effects of €302 million. These comprise impairment of €300 million, which is almost exclusively attributable to the Hardparts division in the Automotive sector. The impairment resulted primarily from the international automotive industry’s drastically reduced production volume on account of the coronavirus pandemic in 2020 and to current expert assessments, which – compared with pre-coronavirus forecasts and planning assumptions – anticipate significantly lower growth for passenger cars and light commercial vehicles even over the medium term. In addition, non-recurring effects of €2 million were recognized in the Defence sector as a result of restructuring measures.

**Automotive: sharp sales decline and strict cost management during coronavirus crisis**

The Automotive sector did not escape the negative effects of the global crisis in the automotive industry and posted a 34% reduction in sales to €956 million (previous year: €1,440 million). Sales were down by 33% after adjustment for currency effects. The global production of light vehicles according to IHS Markit Vehicle Production Forecast (update of August 4, 2020, vehicles under 6 t) declined by 33% year-on-year in the first half of 2020.

As a result of the crisis-induced sales decline, Automotive closed the first six months of 2020 with operating earnings of €-41 million, compared with €102 million in the first half of 2019. The operating margin was -4.3% (previous year: 7.1%). The reported earnings before interest and taxes (EBIT) of €-341 million in the first half of 2020 were likewise significantly lower than the previous year’s figure of €104 million, which largely resulted from the impairment of €300 million recognized in the second quarter of 2020.

The negative development in operating earnings was chiefly due to the crisis-induced lack of sales in the second quarter of 2020, which – because automotive production in Europe and North America temporarily came almost to a complete standstill – decreased by more than half (53%) compared with the previous year’s figure. The management countered this development with strict cost management. Extensive and fast-acting measures significantly reduced the size of the earnings decline in the Automotive sector. In addition, net investments in the first half of the year were reduced by 40% compared with the previous year in order to secure liquidity.
In the first half of 2020, the Mechatronics division generated sales of €520 million, down €288 million or 36% on the previous year’s figure. As a result of the sales decline, the division’s operating earnings fell to €-15 million after €66 million in the previous year.

At €332 million, the Hardparts division’s sales were down in the first half of 2020, falling by €172 million or 34% year-on-year. Despite the above-mentioned measures to reduce costs, the Hardparts division’s operating earnings amounted to €-29 million, down €51 million year-on-year.

In the Aftermarket division, sales decreased by €26 million or 15% year-on-year to €150 million in the first half of 2020. The division’s operating earnings amounted to €-29 million, down €51 million year-on-year. This decline of €11 million compared with the previous year’s figure of €17 million was due both to lower sales and to the first-time allocation of micromobility activities to the Aftermarket division.

After the early coronavirus-induced sales slump in the first quarter of 2020, the joint ventures in China, which are not included in the Automotive sector’s sales figures, increased their sales again in the second quarter thanks to a recovery of the Chinese automotive industry. In the first half of 2020, the companies achieved sales of €393 million, down 14% on the previous year’s figure. By comparison, the production of light vehicles in China declined by 22% in the same period.

**Defence: strong sales growth and sharper rise in earnings**

In the first half of 2020, the Defence sector increased its sales by 19% or €266 million year-on-year to €1,641 million (previous year: €1,375 million). The significant growth resulted partly from higher orders and customers bringing delivery dates forward.

The sector’s operating earnings increased at a higher rate than sales, namely by 75% year-on-year to €122 million. The operating earnings margin thus increased to 7.4%, after 5.0% in the previous year. Because of non-recurring effects of €2 million from restructuring measures, the reported earnings before interest and taxes (EBIT) amounted to €120 million, €52 million above the previous year’s figure of €67 million.

With growth of 39%, the sector’s order intake also increased significantly. In the first half of 2020, Rheinmetall Defence posted orders of €1,483 million, after €1,065 million in the comparative period.

The order backlog in the Defence sector was €10,125 million as of June 30, 2020. Compared with the figure for the same period of the previous year of €8,307 million, this is an increase of 22%, resulting primarily from high-volume incoming orders for military vehicles.

Sales in the Weapon and Ammunition division – driven mainly by international ammunition business – increased from €384 million in the previous year to €443 million in the first half of 2020. This equates to growth of €59 million or 15%. The division’s operating earnings increased to €15 million in the first half of 2020, after €-1 million in the same period of the previous year.

The Electronic Solutions division reported a year-on-year increase in sales of 8.0% or €29 million to €398 million in the first half of 2020. The division’s operating earnings increased by 8.9% to €29 million (previous year: €27 million).

The Vehicle Systems division increased its sales from €718 million to €903 million in the first half of 2020. The year-on-year increase of €185 million or 26% is due primarily to increased deliveries of logistics and tactical vehicles to the German and Australian armed forces. Operating earnings rose from €45 million in the previous year to €84 million in the reporting period, growth of 88%.

**Outlook**

Rheinmetall does not currently expect the coronavirus crisis to have any lasting impact on the Defence sector’s business performance in the current year. For this reason, the annual forecast for the Defence sector published in mid-March 2020 has been confirmed and specified in light of the
positive development in the first half of 2020. For 2020 as a whole, sales growth is currently expected to be between 6% and 7% (previously: 5% and 7%). A figure of around 10% is now expected for the operating margin, i.e. the upper end of the annual forecast of 9% to 10%.

In the Automotive sector, the effects of the coronavirus crisis on end-customer demand, automotive manufacturers’ production figures and global supply chains still cannot be reliably forecast. An adjusted sales and earnings outlook for 2020 as a whole that reflects the changed market situation is still not possible given the existing uncertainties. Provided there is no new lockdown, operating net income of between €-30 million and break-even is currently targeted for the Automotive sector.

Forward-looking statements and forecasts

This press release contains forward-looking statements. These statements are based on Rheinmetall AG’s current estimates and forecasts and the information available at the time. Forward-looking statements should not be understood as a guarantee of the future developments and results mentioned in this press release. Rather, they depend on a number of factors, involve various risks and imponderables, and are based on assumptions that may not prove to be accurate. Rheinmetall is under no obligation to update the forward-looking statements made in this press release.