Leading and shaping change – focus on profitability

Helmut Merch, CFO
Capital Markets Day 2018, 29 November, Berlin
Rheinmetall shares 2018
Downward movement in spite of solid performance and record order intake

- Share price low: 26.10.18: €70,94
- Share price high: 10.04.18: €118,15
- 01.03. Preliminary Figures
- 01.04. €380m orders for tank ammunition
- 03.04. UK reojis Boxer program
- 11.04. €100m Skyshield order from Asian customer
- 21.03. Australia opts for Boxer (Ad hoc)
- 23.04. €430m truck order Australia received
- 06.09. €430m truck order Australia
- 23.11.18
- 08.03. Multimillion Euro [€~200m] order for Fox kits
- 08.11. Q3 2018
- 02.08. Q2 2018
- 01.07.18: 01.08.18: 01.09.18: 01.10.18: 01.11.18
- Australia Announces purchase of 1000 trucks
- FY 2017
- 15.03. Q3 2018
- 08.10. multimillion Euro [€~200m] order for Fox kits
- 03.04. UK rejoins Boxer program
- 01.01.18 01.02.18 01.03.18 01.04.18 01.05.18 01.06.18 01.07.18 01.08.18 01.09.18 01.10.18 01.11.18
Rheinmetall shares 2018

Share price reflects Automotive but not Defence indices – W H Y ?

- 37 index points
- 7 index points

Rheinmetall shares

STOXX Europe TMI / Aerospace & Defense

STOXX Europe 600 / Automobiles & Parts
Rheinmetall valuation
Recent analyst’s comments

Valuation anomaly: Auto at a 50% discount vs. peers

Since April, RHM’s implied Auto valuation decreased from around 0.9x to 0.3x in 2019 EBIT, and trades at a 50% discount to EU Auto suppliers at 7.0x. Nothing fundamentally (client, products or geographically exposure) justifies Rheinmetall’s Auto business to trade at such a discount in our view. On the contrary, RHM Auto business has shown resilience in both growth and profitability in Q3 which should reassure.

Why the shares have come off over the last months
Rheinmetall shares had come off sharply before the Q3 results due to 1) the auto-sector-related sell-off 2) concerns about a break-up of the German government, which would then cause potential delays to German defence spending. And fears about weak Q3 defence numbers due to export approval delays and the South Africa ammunition site explosion. The actual Q3 results were very solid in auto; and while defence sales were indeed soft, margins and orders were quite strong. We continue to believe that the pullback of the shares represents a further buying opportunity for investors looking beyond the near-term turmoil and for a structural growth story in European defence.

Rheinmetall trades at c.8.0x E/E/EBIT 19e, well below EU defence peers (11x), despite its faster 2018-21e sales CAGR (6%). Our 2020 SOTP implies a rerating to c.9.0x.
Changing into an integrated technology group

Technology borders between Automotive and Defence will begin to fade

Sales in % of total sales

<table>
<thead>
<tr>
<th>2008</th>
<th>2018e</th>
<th>Mid-/long-term</th>
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<tbody>
<tr>
<td><strong>Automotive: 53%</strong></td>
<td><strong>Automotive: ~47%</strong></td>
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<td>Combustion engines</td>
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<td>▪ Engine blocks</td>
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<tr>
<td><strong>Land Systems &amp; Armament</strong></td>
<td><strong>Hybrid &amp; E-engines</strong></td>
<td><strong>Vehicle Systems</strong></td>
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<td>▪ Puma, Boxer (beginning)</td>
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<td>▪ Boxer established</td>
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<td>▪ Weapon &amp; Ammunition</td>
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<td>▪ Puma, Lynx</td>
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<td>▪ Air Defence &amp; Electronics</td>
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<td>▪ Trucks</td>
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<tr>
<td><strong>Defence: 47%</strong></td>
<td><strong>Defence: ~53%</strong></td>
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Robust and flexible business model of Automotive
Well prepared to maintain profitability in a changing environment

**Markets**

- **Light vehicles**
  - Private customers, global light vehicle market

- **Commercial vehicles**
  - Industrial customers, transport and shipping companies, bus operators

- **Aftermarket customers**
  - Repair shops, whole sellers

**Challenges**

- **Macro picture/Business cycles**
  - Global LV production
  - Tariffs

- **Structural changes**
  - Decline of Diesel demand
  - E-Mobility

- **Profitability**
  - Cost structure
  - Pricing

**Strengths**

- **Balanced product portfolio**
  - Broad spectrum of pumps and valves
  - Know how transfer to truck products

- **Innovations secure market leadership**
  - State of art technology
  - Efficient CO2 and NOX reduction
  - High value-added for customers

- **Resilient earnings generation**
  - Benefits from restructurings
  - Flexible cost structure
  - Price escalation clauses
Defence: Innovative products unfold their business potential

Staying on the path of growth and rising profitability

Markets

Germany
- Expanding size of German army with better equipment level
- From 2019 on preparing for VJTF leadership

Europe
- Rising demand for tactical vehicles (D/F, UK, Eastern Europe)

Global
- Potential in Australia, Asia, North America

Challenges

Managing “super cycle”
- Turning high order intake into profitable sales

Technology
- Transfer of know-how to local production sites
- Cooperation with international partners

Profitability
- Maintaining and improving price quality of orders
- Avoiding project risks

Strengths

Product management
- Roll-out phases of large-scale products with reduced risk profile
- Improved project management

Technology leadership
- Largest European supplier of military vehicles
- Globally leading market position in Weapon & Ammunition

Basis for earnings generation
- Top-line growth
- Improving leverage
- Legacy contracts phasing-out
Research and development
Stable ratio and ...

R & D Automotive
- Research and development in €m/in % of sales

R & D Defence (without external funding)
- Research and development in €m/in % of sales
Research and Development
...medium-term increasing budgets due to external funding

R & D Group
- Research and development in % of total

- Defence externally funded: 17% in 2017, 23% in 2021e
- Defence-self-funded: 27% in 2017, 27% in 2021e
- Automotive: 56% in 2017, 50% in 2021e

R & D volume rising, backed by German development budgets
Stable R & D / sales ratio for Automotive and Defence
Capex
Slight increase of capital expenditure in 2019

Capex Automotive
- Capital expenditure in €m / in % of sales

- 2013: 150
- 2014: 160
- 2015: 170
- 2016: 180
- 2017: 190
- 2018: 200
- 2019: 210

Capex Defence
- Capital expenditure in €m / in % of sales

- 2013: 30
- 2014: 40
- 2015: 50
- 2016: 60
- 2017: 70
- 2018: 80
- 2019: 90

6.0% increase in Capex Automotive from 2017 to 2018.
3.2% decrease in Capex Defence from 2015 to 2016.

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Free Cash Flow from Operations
Rheinmetall Group improves cash position

Free Cash Flow from Operations Group
- FCFO in €m / in % of sales

Target range for Group and segments:
- 2% - 4%

Ø 2016-17: 3.8%

1.2%

Ø 2013-2017
Free Cash Flow from Operations
Different business models create different cash profiles

- **Free Cash Flow from Operations Automotive**
  - FCFO in €m / in % of sales
  - Ø 2016-17: 3.8%

- **Free Cash Flow from Operations Defence**
  - FCFO in €m / in % of sales
  - Ø 2016-17: 5.7%

Steady Cash Flow ratio in Automotive
- Ø 2013-2017

Volatility in Defence influenced by prepayments and milestones
- Ø 2013-2017

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Use of operating Free Cash Flow
Creating potential for growth and fair participation of shareholders

- **M&A**
  - Up to €1bn potential “fire power”

- **Dividend**
  - Payout ratio of ~30-35% of operational EPS

- **Free operating Cash Flow**
  - Present status of treasury shares: 1.3%; increase currently not considered as an option

- **Debt reduction**
  - Further funding of pensions;
    - (CTA 2015-18: €85m)

- **Share buy-back**
Rheinmetall moves on with strengthened and solid balance sheet
Return to investment grade on improved credit metrics in 2018

Credit metrics
- Moody’s total adjusted debt in €m/
- Debt/EBITDA

Equity
- Equity in €m/
- Equity ratio in %

Moody’s raised investment grade to Baa3 with stable outlook
- Improvement on operating performance and cash flow
- Conservative financial profile
- Leverage ratio 2.5x-3.0x (Moody’s adjusted)
Brexit
Risks manageable due to limited UK exposure

- 2018 Group sales share in%

- UK sales share ytd 2018 again around 6%
- No supply chain issue identified in Automotive and Defence
- Good growth opportunities by big defence projects for Boxer and Challenger upgrade in spite of Brexit
Outlook on Q4 2018 confirmed
From today´s point of view in line with expectations

Automotive
- Ramp-ups in line with our expectations
- Market uncertainties not yet disappeared: WLTP, Diesel, conflicts on tariffs, China
- Expected Q4 growth supporting adjusted growth guidance
- Cash improving, but likely to end on the lower end of the guidance

Defence
- Order entry FY 2018 expected ≥ €5bn
- Truck export approvals blocked
- Profitability profile of executed orders in line
- Supply chain issue in Vehicle Systems solved
- Reduced inventory relieving working capital, but cash flow will remain clearly below last year´s level
Mid-term guidance
Update depending on future order profile

### Operating Margin
- ~8.0% to 8.5%
  - confirmed

### Sales Growth
- 100-200bp above market
  - confirmed

### Sales Growth
- 6-7%
  - confirmed, update in 2019

- CAGR 2018-2020: ~10%
  - confirmed
MOBILITY. SECURITY. PASSION.