CMD 2019 Financial Update

Helmut Merch
Unterlüß | 20 November 2019
**Rheinmetall Group**

Segments perform with different momentum

### Group
- Independent business cycles
- Increase synergistic potential by leveraging technologies

### Defence
- Super cycle with sustainable momentum
- Long-term project cycles with backlog already until second half of next decade
- Political risk mitigated by increased sales to uncritical customers (GER, AUS, UK)

### Automotive
- End markets with flat/negative growth
- Engine cycles with currently limited visibility
- Regulation increased as a key positive business driver
- Raise powertrain independence (product and market diversification)
Automotive
Automotive market sentiment
Industry is wary of likely mid-term flattish development

Continental AG, CFO W. Schaefer:
“Like other market participants, we do not expect global production to pick up significantly in the next five years. In the best case scenario, we expect global automobile production to move sideways in 2020.”

Bosch Group, CEO V. Denner:
“We are cautious and assume that automobile production will not grow until 2025.”

Audi, Nov 12th 2019
AUDI decides to pause the night shift at Neckarsulm plant

VDMA, Carl Martin Welcker:
“We now expect production to fall by 2 percent in real terms in 2019”.

Q3 call:
“We expect a flat 2020”
Automotive market
IHS revised 2019 LV volumes repeatedly and provides weak outlook

- IHS 2019 forecast
- IHS Mid-term outlook with growth on low level

IHS swings almost 8% within last 12 months

Latest industry comments are very cautious short to mid-term!
Automotive Q4 2019 effects
Automotive impacted by special effects beyond market deterioration

- **Sales bridge**
  - in €m
  - Q4 2018: 731
  - Market decline
  - GM Strike
  - Negative Ramp effect
  - Q4 2019

- **Operating result**
  - in €m and %
  - Q4 2018: 69
  - Market
  - GM
  - Ramp effect
  - Malware
  - Q4 2019: ~5%
## Automotive mid-term

2019 reports biggest market decline post the financial crisis

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</thead>
<tbody>
<tr>
<td>Avg. cycle margin</td>
<td>~7.5%</td>
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<td></td>
<td>8.9%</td>
<td>5-7%</td>
<td>~8%</td>
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<tr>
<td>Financial crisis</td>
<td>-12.2%</td>
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<tbody>
<tr>
<td>6.4%</td>
<td>-1.0%</td>
<td>-5.8%</td>
<td>2.3%</td>
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<thead>
<tr>
<th>Market trend</th>
<th>Recovery</th>
<th>Growth</th>
<th>Decline</th>
<th>Flat</th>
<th>Slow growth</th>
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<tbody>
<tr>
<td>IHS November 2019</td>
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Automotive mid-term
Early installation of self help in 2018 successful

- Self help measures to protect the margin

- HR Measures
  - Reduction of leased workers (-40% per 10/2019)
  - Reduction of time accounts and weekly working hours from 40-35
  - Reduction of direct personnel cost (short-time work at 3 sites)
  - Normal fluctuation (-1.6%) and recruitment stop

- Selective R&D
  - Prioritization of R&D projects
  - Reduction of external R&D
  - But: Pedelec R&D affects P&L 2020 with €12-15m

- Efficiency improvements
  - General cost reduction programs
  - Eliminate quality issues
Micro mobility
From internal innovations project to market entry

<table>
<thead>
<tr>
<th>Year</th>
<th>Event Description</th>
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<tbody>
<tr>
<td>2016</td>
<td>One Rheinmetall award for Pedelec</td>
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<tr>
<td>2017</td>
<td>Design make over</td>
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<tr>
<td>2018</td>
<td>First market presentation at Eurobike</td>
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<td>2019</td>
<td>Presentation at Eurobike Customer acquisition</td>
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<td>2020</td>
<td>Production setup</td>
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<td>2021</td>
<td>Start of production</td>
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<td>2022</td>
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Total Development cost ~€30m

Group R&D expenses
Division R&D expenses -€12-15m in 2020
Defence
**Defence FY 2019**

New record year ahead for Defence

- Defence sales and operating margin in €m and %

- **+9% sales growth**

- **Growth across all three divisions**

- **Margin improvement continues**

- **Project pipeline is filled and diversified**

- Prepare for solid program execution

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Defence

Project delays or shifts are part of the business

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<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021+</th>
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<tr>
<td>2018 - late formation of</td>
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<tr>
<td>German government</td>
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<td>German KSA ban</td>
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<td>Italian export ban</td>
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<td>RSA export issues</td>
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<td>Challenger order intake</td>
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<td>delayed into 2020</td>
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**Defence**

**Military procurement projects enjoy long lead times**

Large orders typically turn into sales after 12-24 months!

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<tr>
<th>Activity</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
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<td>Request for tender Phase</td>
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<td>24.08.18</td>
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<td>Risk Mitigation Phase</td>
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<td>1.4.19</td>
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<td>Order value €30m</td>
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<td>16.09.19</td>
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<td>Government Decision</td>
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<td>Delivery Order value €4.5bn</td>
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<td>21 quarters lead time</td>
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<td>2024-2031</td>
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German commitment to increase defense budget affirmed

**German Defence Budget**
in €bn and % of GDP

- **1.2%**
  - Trough!
- **1.4%**
- **1.5%**
- **2%**

**November 2019:**
Chancellor Merkel* and Defence secretary Kramp-Karrenbauer** renew commitment to 1.5% defence spending in 2024 and a further increase to 2% in 2031

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*NATO 70 anniversary speech
**Grundsatzrede Bundeswehrhochschule; both Nov 7 2019
*** 1.5% on ~€3.600bn (Bundesbank estimate); inflated by 1% until 3031
Project pipeline
Promising super cycle pipeline

UK: MIV Boxer✓
   Challenger
   France: MGCS

Sweden✓
   Trucks

USA:
   Ammunition✓
   Fuzes
   OMGV

Green: booked business / black: potential

Germany:
   Trucks ✓
   IDZ ✓
   VJTF Puma ✓
   80 Leopards
   3. Boxer lot
   2. Puma lot
   2. IDZ lot
   Fox
   Boxer variants
   TEN (D-LBO)
   Indirect fire
   Ammunition
   MGCS

Lithuania:
   Boxer ✓

Poland:
   Leopard II ✓

Hungaria:
   Leopard, Howitzer, ✓
   IFV (wheeled/tracked)

Czech Rep:
   IFV (tracked)

Slovakia:
   IFV

Bulgaria:
   IFV (wheeled)

Romania:
   IFV (wheeled)

Slovenia:
   APC (wheeled)

UK:
   MIV Boxer✓
   Challenger
   France: MGCS

Sweden✓
   Trucks

Germany:
   Trucks ✓
   IDZ ✓
   VJTF Puma ✓
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Lithuania:
   Boxer ✓

Poland:
   Leopard II ✓

Hungaria:
   Leopard, Howitzer, ✓
   IFV (wheeled/tracked)

Czech Rep:
   IFV (tracked)

Slovakia:
   IFV

Bulgaria:
   IFV (wheeled)

Romania:
   IFV (wheeled)

Slovenia:
   APC (wheeled)

Australia:
   Land 17 1 C.2 ✓
   Land 121 3a, 5b ✓
   Land 400 II ✓
   Land 400 III Lynx
   Simulation M1

Green: booked business / black: potential
Defence
Mastering the challenge for smooth execution of large programs

- Programme execution

  - Capacity expansion
    - Set up MilVehCoe in Australia ~€100m thereof ~€60 IFRS 16
    - Ammo plant Australia <€10m
    - Prepare RBLS for Boxer production ~€10m

  - Personnel
    - Recruitment of 1.600 personnel in 2019/2020 thereof Australia: 650

  - Supplier base
    - Smooth integration of new supplier base into Boxer value chain
      - Australia
      - UK

Σ ~€120m
Defence mid-term
Profitable growth lasts into the next decade

- Operating margins in %
  - 11.7%
  - 6.7%
  - -0.4%
  - 5.0%
  - 7.9%
  - ~9.5%
  - >9%
  - 9-10%

- Avg. cycle margin ~4.4%
- Avg. cycle margin ~5.5%

- 2010: Market trend, Decline
- 2012: Annexation Crimea
- 2014: Slow growth
- 2016: Increase of global defence budgets
- 2018: Margin improvements across the divisions
- 2019: Super cycle intact
- 2020: Favorable book to bill ratio
- 2021/22: Steady top line growth

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Group
Group

Capex peak in 2020 due to IFRS 16 effect in Australia

- Capital expenditure
  in €m resp. margin in %

<table>
<thead>
<tr>
<th>Ratio</th>
<th>4.6%</th>
<th>5.6%</th>
<th>4.4%</th>
<th>~5.0%</th>
<th>~6.3%</th>
</tr>
</thead>
</table>

**Average `13-19** | 4.8%

- 2013: 204 €m, 6.3%, 2.9%
- 2015: 263 €m, 5.5%, 3.7%
- 2018: 262 €m, 5.5%, 3.1%
- 2019e: 262 €m, 5.6%, 4.2%
- 2020e: 262 €m, 5.6%, 7.0%

- **IFRS 16**
  - 2019e: €24m
  - 2020e: €85m

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R&D remains in the 5 – 6% range

- R&D expenditure
  in €m resp. margin in %

<table>
<thead>
<tr>
<th>Ratio</th>
<th>5.2%</th>
<th>5.0%</th>
<th>5.0%</th>
<th>~5.6%</th>
<th>~6.0%</th>
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<tbody>
<tr>
<td>Average</td>
<td>5.1%</td>
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<td>`13-19</td>
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Net R&D expenses with Defence figures incl. Research & Technology

- R&D remains in the 5 – 6% range
- Average `13-19: 5.1%
- 2013: 5.0%, 5.3%
- 2015: 4.8%, 5.1%
- 2018: 5.8%, 4.4%
- 2019e: 6.8%, 4.4%
- 2020e: ~7.0%, ~5.0%
Group

OFCF within target range

- Operating Free Cash Flow in margin in %

<table>
<thead>
<tr>
<th>Ratio</th>
<th>2.9%</th>
<th>4.7%</th>
<th>-0.5%</th>
<th>&gt;2%</th>
<th>&gt;2%</th>
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<tbody>
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<td>2016</td>
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<td>2017</td>
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<td>2019e</td>
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<td>2020e</td>
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Ratio 2-4% OFCF TARGET
Our capital allocation policy is geared towards further growth

- Funding of growth (organic and M&A)
- Dividend to shareholders (Payout ratio 30-35%)
- Improvement of pension funding via CTA (target level 50-60%)
FY 2019 Guidance
Group margin guidance held stable

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<thead>
<tr>
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<th>Group margin guidance held stable</th>
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<tr>
<td><strong>GROUP</strong></td>
<td>6.1</td>
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<tr>
<td><strong>AUTOMOTIVE</strong></td>
<td>4.2</td>
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<tr>
<td><strong>DEFENCE</strong></td>
<td>7.9</td>
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Operational growth at constant FX

<table>
<thead>
<tr>
<th>Sales</th>
<th>Operating margin</th>
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<tbody>
<tr>
<td>2018 Growth y/y in % at constant FX</td>
<td>2019e Growth y/y in % at constant FX</td>
</tr>
<tr>
<td>2018 in %</td>
<td>2019e in %</td>
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- DEFENCE sales: 7.9% growth in 2018, around 9% in 2019.

- GROUP operating margin: 8.0% in 2018, around 8% in 2019.
- AUTOMOTIVE operating margin: 8.9% in 2018, around 6.5% in 2019.
- DEFENCE operating margin: 7.9% in 2018, slightly above 9% in 2019.
**FY Mid-term Guidance next three years**

Sales growth and earnings improvement targeted

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<thead>
<tr>
<th>AUTOMOTIVE</th>
<th>DEFENCE</th>
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<tr>
<td><strong>Mid-term</strong></td>
<td><strong>Mid-term</strong></td>
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<tr>
<td>Sales growth</td>
<td>Operating margin</td>
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<tr>
<td>Flat to slow growth</td>
<td>Short-term setback to 5-7% (incl. Pedelec -€12-15m in 2020); mid-term recovery to around 8%</td>
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Operational growth at constant FX
MOBILITY. SECURITY. PASSION.