

**Rheinmetall AG
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Transcript**



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Rheinmetall AG Conference Call

00:00:01 Operator

Good afternoon, ladies and gentlemen, and welcome to the Rheinmetall AG conference call regarding the full year result 2022. At this time all participants have been placed on a listen-only mode. The floor will be open for questions following the presentation. Let me now turn the floor over to your host, Armin Papperger.

0:00:20.2 Armin Papperger

Thank you very much for your kind introduction. Good afternoon everyone and welcome to Rheinmetall 2022 fiscal year earnings. I'm here together with Dagmar Steinert, our new CFO and we both will walk you through our presentation for the next couple of minutes. Before we start, please be reminded of our legal disclaimer on the following page. And now let's go, we start with page no. 3.

Frank Walter Steinmeier, the president of the Federal Republic of Germany gave a speech in the occasion of his reelection where he made the following statement: "Peace cannot be taken for granted, it needs dialogue, but where necessary also deterrence and determination". He gave that speech ten days before Russia invaded the Ukraine and his words were proven right in the most dramatic way over the last 12 months.

Rheinmetall is a member of our society, a society that is determined to defend its values. We are taking responsibility in this changing world. We serve governments enabling them to fulfil their security policies and we develop technologies for the protection of the people that will protect us.

If you go to the next page, you see an overview of how Rheinmetall is partner and supports the Ukrainians. The support of the Ukrainian people has intensified over the course of the last year and Rheinmetall contributed on every level. In a first step, the Ukraine received soviet designed reinforcement and the donators

replaced it with NATO standard equipment. The Leopards, Marders and trucks had a value of around half a billion Euro and came from our own inventories. I will provide you with a more detailed overview on the following page.

In a second step, Rheinmetall delivered trucks, ammunition, air defense and military field hospitals directly to Ukraine and finally we are now in talks with the Ukrainian customer to build a production site for modern tactical vehicles locally. The reason for that – and this is really important – is to help Ukrainians to help themselves. They must be able to defend themselves and we go no risk because the production line will be built up from the Ukrainian government, if they make a positive decision.

If you go now to page no. 5, we see what Rheinmetall delivers or will deliver. First of all, have a look to the Leopard 1; we bought in 100 Leopard 1 plus a lot of spare parts, because we think we need them over the next years. We also have a possibility to buy another 30, up to 35 Leopards 1. And from the Ukrainian and from the first 100 we think that between 80 and 90 vehicles we can offer to the Ukrainians. And the reason for that is because not everyone is in a very good shape, that we can bring out 100. The potential that we see is that we're able to deliver 20 of that vehicles in 2023, maybe a little bit more. And the contract signing is expected soon. At the moment there is one obstacle and the obstacle is, maybe you know this, is that Switzerland is blocking the sale of the Italian tanks produced in Italy and also for the Italian forces. But currently these tanks belong to a Swiss company. So now the Swiss government is checking, if we can give it to the Ukraine or not.

Second point is Leopard 2. We have access to about 50 Leopard 2, 29 of them are in the ring swap. We discussed about that last time, this were the Slovaks and the Czechs, and the first deliveries are already done. We did that in Q4 2022, and the complete delivery will end in 2023 end of this year.

There are some more vehicles that we want to deliver and at least another 40 to 50 can be sold directly to the Ukraine or via countries in Europe who will donate them to the Ukraine.

Case no. 3 is now Marder; in the meantime we have 140 to 150 Marders on stock. We have more but the 140 to 150 we are able to make operational tanks out of them. 60 vehicles are under contract and 40 Marder in the ring swap with Greece and 20 are directly delivered now to Ukraine. In fact, we will deliver to the German government and they will deliver to Ukraine. The potential that we see on top of these 60 right now, every month we will produce another ten vehicles so that our European partners are able to donate, or that the Ukrainians directly buy from us. So if you count that up, and if everything would work, only Rheinmetall is able to deliver over the next, let me say, twelve months 250 to 300 different vehicles.

We go now to page no. 6. On page no. 6 you see, how Rheinmetall is preparing for the acceleration, for the growth acceleration. And no. 1 is the capacity growth of our factories. So we did our homework and the growth rate or the capacity is going up in Germany, in Hungary, in the UK, in Australia but also in the United States of America. In United States of America the trigger point will be more and more this year, but last year we did a lot on these four countries.

In total temporary workers and fix workers is between 2,500 and 3,000 people, we drive some of the factories three shifts. The factory that we use for propulsion systems we work 24/7. And we will have capacity for a third shift, if the contracts are coming in.

No. 2 is the Merger and Acquisition that we did with EXPAL. That is very important for us, especially for artillery ammunition, medium caliber and mortar ammunition. So we are able to double our capacity together with EXPAL. The expectation is that in summer 2023 there is the closing. So hopefully June/July so that we can bring it then in the second half of the year on topline.

On innovations I think we are on a good way, main battle tanks, main ground combat systems, Leopard upgrade, a new battle tank like the Panther, we are investing in drone technology, in long-range artillery, infantry fighting vehicles and digitization.

If you go now to the next page no. 7, you see that we had a very good order intake. The Rheinmetall nomination is on one side the order intake on the defense and also what we get on our civilian business, the nomination letters. So in total orders we got is a value of EUR9,156bn. So the Rheinmetall Backlog is growing up to EUR26,572bn and you notice Sales is now on a level of EUR6,410bn. This is a growth rate of around 13%. Dagmar later will go into the details of the figures.

The operational result is growing from EUR594m to EUR754m and the operating cash flow – and that is important for me – is minus EUR152m, but is there a problem? I see not a problem at the moment because it's a delay, sometimes only of some days, sometimes of some weeks. And Q1 will be very good on the operational free cash flow, but some of our customers asked us, if they can delay the sales, so we delayed sales and we delayed also cash in, because they are running out of cash because of the Ukrainian crisis and all the bills they have to pay for Ukraine. So these are the two main reasons that the operational free cash flow is negative. I think there is a third thing, which is important that last year (2021) we had a very, very good operational free cash flow. And if you see it over a period of two or three years, the operational free cash flow targets are always fulfilled.

So let's go to page no. 8. The AGM has to decide on their record dividend proposal so supervisory board and board of Rheinmetall made a proposal that our dividend will grow from EUR3.30 to EUR4.30. It's one euro growth and the reason for that is, because we are very clear that over the next years the cash flow will be really good, the earnings will be really, really good and it's hopeful a very positive signal also to the capital market, that we are absolutely confident, that we are going into the right direction.

And now I hand over to the financial part and Dagmar takes over.

0:11:57.5 Dagmar Steinert

Yes, thank you Armin and many thanks for your kind introduction and a warm welcome from my side. I'm looking forward to meeting you all in person very soon. Please turn now to page 10 for the discussion of the key financial data for 2022.

The fourth quarter really set a new milestone regarding sales growth and profitability. We increased our sales by almost 30% to EUR2.3b, currency and M&A effects were both around EUR30m, so we can report a sound operational improvement of around 25%.

Operating result rose by an impressive 45% to EUR431m, again with negligible currency and M&A contribution. So operating margin gained 2.2 percentage points and rose to 18.6%.

Obviously, the high leverage especially in our division Vehicle Systems and the excellent profitability of our division Weapon and Ammunition drove the quarter. The importance of the fourth quarter increased further to around 36% of our total annual sales and to 57% of our full year operating result. Move on to page 11.

The operating free cash flow came in on the high level of the previous year. Looking at the full year, operating free cash flow is behind our expectation. Compared to the year 21, the working capital was significantly increased by more or less EUR0.5b. The shortage of raw materials and the instability of the supply chain resulted in an increase of inventories of critical parts. Furthermore, with an eye on the forecasted customer demand, we also began to manufacture more in advance, especially in regard to ammunition and trucks. Additionally, we made advance investments, agreed with customers whose call offs are postponed to the year 2023. Capex increased in line with the planned ramp up of our capacity.

And now, that we are already well advanced in the first quarter, I would like to provide you with a glimpse on the outlook for the cash situation in the first quarter of the running year. We clearly expect to improve our operating free cash flow in the first quarter and will have a significant improvement compared to the last year.

Coming now to page no. 12. Our balance sheet remains strong. The equity ratio increased to 38.1%. Looking on the right side of the chart, you can see that our Pension obligations declined due to the rising interest rate environment especially in Germany and Switzerland. Our net financial position amounted to minus EUR426m at year's end 2022. This is a decline of EUR544m and of course it's mainly due the significant working capital built up, but also this includes cash out for acquisitions and, of course, our dividend payment.

On the next page, on p. no. 13, I would like to continue with a short overview of our placement of convertible bonds in January this year. This placement was a success, and we managed to secure favorable financial terms for the financing of our EXPAL Systems acquisition, where we still expect the closing in the coming months. The design of the maturities over 5 and 7 years, each EUR500m, provides us with flexibility. We were able to take advantage of the favorable market environment in order to secure good coupon rates. This helps us as well to save more than 2% of interest cash outs compared to a straight bond. Please turn now to page 14 for the discussion of the divisional highlights.

As already mentioned, the fourth quarter was really strong in all divisions. Vehicle systems made almost EUR1b of sales in the fourth quarter and basically doubled the operating result and operating free cash flow year on year. Delivery of trucks to Germany, first Leopard 2 deliveries from the swap agreement plus ramp up of the Lynx for Hungary and Fox kits provided the momentum to drive sales to EUR950m. Higher growth, as already mentioned, was held back at customer request. The positive leverage and the favorable product mix accelerated the

margin to 14.5%. Improved earnings and milestone payments let the operating free cash grow by EUR102m to EUR178m.

Weapon and Ammunition increased sales by EUR98m to EUR621m. Key projects included exports from Rheinmetall Denel Munition in South Africa and sales to the Netherlands. Sales would have also been higher, had customers not asked for a delay of deliveries to 2023. Strong leverage combined with strict cost management helped to achieve a record margin of 32%. This strong trend did not continue in the operating free cash flow. Higher working capital and deferral of payments into 2023 had a big negative impact on the operating free cash flow, which amounted to minus EUR157m.

Electronic Solutions grew sales by 12.6% to EUR422m. First orders from the special fund for personnel equipment and Gladius Soldier Systems supported the sales growth. Operating result rose 35.2% to EUR68m lifting the margin to 16.2%. Higher volumes and favorable product mix were responsible for this improvement.

Our division Sensors and Actuators clearly outperformed the relevant market for light vehicles in the fourth quarter. Q4 global market growth excluding China was 4.7%, and the division grew 9.3% with most of the growth in the traditional light vehicle market. Total quarterly sales rose to EUR337m, driven by our activities in Europe and America. As already mentioned in earlier calls, cost inflation can only be passed through with some delay and we are not fully back on track. However, we can observe a sequential margin improvement from 4.5% in Q3 to 8.5% in Q4. It's clearly moving in the right direction. The improvement in operating free cash flow was the result of a more sensible CapEx spending.

Materials and trade managed to pass on cost inflation to customers and benefited from a continued favorable demand environment. Sales increased by 9.2% compared to the previous year and ended at EUR181m. Higher volume and the asset divestment of our Amprio business lifted the margin to 12.5%, and the operating result almost doubled to EUR23m after EUR13m in the last quarter '21. At equity results were positive, but remained basically on last year's level. The

non-divisional sales amounted to -EUR190m and the operating result decreased to -EUR25m. So for the full year, sales were slightly more negative than guided and the operating result matched the guidance of -EUR90m.

I'm coming now to the next page, 15. There is a new definition that we will publish regularly in the external communication. It's Rheinmetall Nomination. Rheinmetall Nomination includes the order intake of the security divisions and the booked business of the civil divisions. The included frame nomination is the net effect of new framework agreements minus call-offs. Overall growth of Rheinmetall Nomination accounts for 15% which drives the full year figure to EUR9.2b. Order intake was at EUR5.6b and experienced a growth rate of 20%. This reflects the current dynamics in the market and underpins the interest for our portfolio. Booked business rose by 10% to EUR2.5b with just 40% contribution of our light vehicle ICE business.

Rheinmetall Backlog is the composition of the order backlog and the frame backlog and the nominated backlog of the civil business. This Rheinmetall Backlog in total rose 11% to close at EUR27b, and that again is a new record high.

Having said that, I would like to hand over again to Armin for our outlook.

0:24:13.2 Armin Papperger

Thanks Dagmar. So on the outlook, first of all let me start with the civilian market. On the civilian market, we have different pillars of growth, and so one side is still the last man standing strategy. And we have innovation on the ICE portfolio, and we have very successful nominations for the last ICE generation, and Euro 7 will help us also in this area to grow. For example, in the United States, we are growing very strong also on the ICE side because electrification in the United States out of California is not growing as strong as in Europe.

The second point is that we are very well equipped on electrification. The electrification portfolio is growing. Last year, the nomination letters, we had about 40% of our nomination letters for ICE. The rest is for electrification for industrial

business and trucks. So we are in good shape and the transformation process on the civilian market is running very well.

Number three is the entry of the “warm house” markets. On the “warm house” side, we have a new technology of compressors. This compressor combined with Rheinmetall pump technology is helping the producer of heat pumps a lot. It's a vibration-free and very silent heat pump, and we think that over the next years we can book a lot of business. Last year we booked for pumps and for compressors nearly EUR1b. The same is going to be true for hydrogen components, and for the hydrogen components we have a lot of good technologies. We are very good in flaps, so how can I really handle hydrogen and add hydrogen pump technology? This is Rheinmetall technology and I think we will be one of the leading producers in that technology also over the next years.

The market disruption is very well managed, so it's very cost effective, and if you see only the transformation cost that we have Sensors and Actuators is putting us in the situation that we are around 7% margin in this area. Otherwise it would be higher. So materials and trade is near with more than 9% last year. It's near to our target on the civilian market of about 10%, and I'm sure that we will bring also Sensors and Actuators back in that area.

Now let's go to the next page, and page number 18 gives you an overview about German decisions, and we expect that there are a lot of decisions now over the next months. First of all on the equipment side. On the equipment side, we got the first contract on the Puma upgrade. This contract is signed. My expectation is that the second lot of Puma, which is as you know a tracked vehicle, will be in Q3. And the Marder successor, this will be 100, not 100%, but very sure a Boxer with turret. These are then the wheeled vehicles. There will be a decision also end of the year.

The heavy weapon carrier, it's in good shape, so the discussion government to government between Germany and Australia is in a good shape, and also there we expect that in Q3 there is an order intake for Rheinmetall. And to ensure trucks

are going into the right direction and a lot of other vehicles that are in discussion, so we gave, as you know, many of our tanks to Ukraine, so we have to bring them now also to the German government the same applies for self-propelled howitzers. So there are activities at the moment which are on a multibillion level.

Point number two, and this is for sure – this has a strong growth rate. It's the ammunition, and on the large caliber side you see that we have to book the 105mm because Leopard 1 without ammunition makes no sense. At the moment, we see a potential of minimum 100,000 rounds, which will have a price of around EUR200m. The 120mm, for that the German government is looking at the moment to enlarge the frame agreement. This is a multibillion agreement over the next eight years, and also a multibillion agreement of 155mm is at the moment in discussion and over the next two months I'm sure that we are able to sign contracts for that. So at the moment, the power play that Minister Pistorius is doing is a good one, and he is really pushing the organization to sign the contracts.

On the ammunition side there are more opportunities. On the medium-caliber side, we are on the way to sign a contract for 20mm ammunition. On the 20mm ammunition we have given an offer of 2 million rounds, these 2 million rounds which will have a contract value of about 200€m. Then the Puma ammunition, 600,000 rounds with a value of nearly 600€m and the 35mm Gepard of 300,000 rounds that we signed with 160 €m. You see that also on the medium caliber side, we have a potential for the next months, signed and opened for signing for about EUR1b.

Last but not least, on the German side we are very strong in discussions with the Soldier System, and the first call-off is done. It was a smaller contract, but now we are looking for the main contract that we want to sign in this year, and here we also talk about a EUR1b opportunity. And D-LBO is digitization land-based operations. As you know, there is a lot of money also in the 100 billion package. In total there is 20 billion for digitization, and we see an opportunity at the moment for different things, so D-LBO is to bring the first vehicles into a status that they

are able to be digitally connected. So in total there is an opportunity of minimum EURO.5b.

So let's go to the next page, page 19. We see now the sales drivers for the next years. So the growth of Germany on the ammunition budget was raised from 0.7 to 1.2 billion. My expectation is that there will come some extra money again on top of that budget because they have to plan additional ammo budget, because if you count up what we discussed before regarding tank ammunition, artillery ammunition and medium caliber ammunition, the full package is a multibillion package which is growing up, let me say, much more than EUR5b, so there must be – only for Rheinmetall. So there must be a higher budget.

We have to refill the NATO stocks, and it's interesting that the European Union now is going also into this area. The commissioners of the European Union, they made a decision, Mr. Borrell, that if we have to give from the European Union EUR1b minimum to help the Ukrainians. The Ukrainians asked for 4b, the interesting thing now is that we very soon will have a meeting with Mr. Borrell on this area how Rheinmetall can help because we have the biggest capacities, so this is an extra source for us where we can help to supply ammunitions to the Ukrainians.

The new production plants are going into the right direction, so the medium-caliber plant in Unterlüß will be ready in May. At the moment we are in the final qualification of the manufacturing equipment for the med cal line in Italy, because we produced it at our Division Sensors and Actuators in Italy. So these guys are doing the industrialization strategy for our factories and build also the automation. So then Hungary (RDX plant) is – over the next 18 months we will have Hungary ready and we also have a concept to build up a new production line here in Germany, and this is for propulsion systems and also for artillery systems, so it will be for the propulsions and for about between 50 and 100,000 rounds artillery.

Second point is vehicle systems. On the vehicle systems, we start now the prototype phase of OMFV and CTT. On CTT we got the first contract, so this was

the trucks. On OMFV our expectation is now that there is a down selection in May, there is a delay of one month from April to May at the moment. Then the ramp up of Lynx in Hungary is running since end of December. We started the production of the Lynx tanks in Hungary. Challenger has started in UK and the Boxer volumes are really growing up in UK but also in other countries, and my expectation is really that very near there will be an order intake of 1,000 to 1,500 Boxer vehicles.

We are expecting now the Land 400 Phase 3 decision, and this decision is – you never know what really happens in the market, but again the Australian government says we have to make a decision now latest end of April, beginning of May. We will see if that happens because we got that information several times.

Heavy Weapon carrier G to G with Australia is on a perfect way. Everything is fine, so in May we will have the final decision on that and the contract is growing, and in total this contract, at the moment, the order expectation is AUD3b, which will be about nearly EUR2b. Electronic solutions, we discussed that also before and the potential of Gladius is about EUR1b.

So go now to page 20. There is a growing importance of our service business, and the service business is a good business for us because it's relatively safe and if you see what happens is that from 2020 to 2025 our expectation there is that we can grow from 820 million to 1.6 billion. This is our civil and our security service business. It will be around 1 billion on the security and about 550 million on the civil side. My expectation is that if everything goes well with helicopter service, with the F-35 fleet, etc., this can grow much stronger. But the expectation to have a profitable business of minimum 1.7 billion in 2025 is a very good one. It is a good driver of profitability inside the Rheinmetall group.

We go now to page 21. On page 21 we have a new business for Rheinmetall, and it's a real unique opportunity to step into the aviation business. So we are in negotiations with Lockheed and also with Northrop Grumman on the middle part of the F-35. Lockheed and Northrop made a decision that Rheinmetall should produce that. We are in the final stage at the moment also of the negotiations of

the contracts. This middle part should be for the non-American fighters, so all the fighters outside America. It's not only for the 35 pieces in Germany. Our expectation is 400 to 500, maybe a little bit more middle parts that we can produce over the next 10 to 15 years. Price of a middle part at the moment is in the area between six and seven. With inflation you can have an average value between nine and ten, so it's a multibillion contract where we go forward. With that contract, we also have an ability to have a long-term contract for the demand of F-35, so maintenance for F-35 for the German air force, maybe for other air forces this is also possible.

Now we go to the next page. Here are the four main drivers of our business over the next years. Number one is European initiatives to strengthen the defense autonomy, 15 members minimum in that. The German government is coordinating project including the gun-based systems, the missile-based systems and some electronic equipment from Rheinmetall is inside. So we are in qualification at the moment with the German government and the must is that all the governments have the same equipment on turrets, on ammunitions, etc. So this is a real driver of growth as well on ammunition side. It's for the 35mm airburst ammunition because if 15 nations have that, they have to make the war stopping. Then we have a joint procurement of that system, so the system by themselves is a good growth, and Rheinmetall offers also platform agnostics and we have different solutions, like Skynex or Skyranger, so mobile and also stationary solutions.

Second driver is MBT. On the MBT, and this is what I told you before, we offered for – the biggest market is the Ukrainian market at the moment, but there are other drivers. But there are other drivers. Main Ground Combat System will continue on development phase. So we will develop together with other partners new technologies and we get sponsoring from the governments.

The Panther for Eastern European countries and also for the Ukraine could be a big potential. Then the upgrade of their Leopards and to build new Leopards,

these are other businesses because my expectation is that over the next two years minimum between 100 and 200 new Leopards have to be built, because there is a need. This need we have to fulfil at the moment with the Leopard tanks.

Long-range artillery – on the long-range artillery, so we have a three-stage strategy. The strategy number one is to be number one house on the mortar side. So therefore we bundle these strategies on our mortar activity from South Africa, from Hungary and also now from Spain and Germany.

The second point is to be the leading artillery house and the artillery house from a distance of 25km to 100km. Then we want to be also a leading player in Europe of long-range artillery missiles. This we will do in co-operation with US companies, and we can give you some more details and give you more details over the next two to three months about that.

Ammo restocking, for sure, will be for the next ten years our main driver of business because this ammo restocking will be for whole Europe. But not only there, also in Australia and in other countries they need it and even the Americans ask for more. So they invest now also in artillery but I think it will not be enough.

Now let's go to the next page, on page 23. We see no obstacles for Rheinmetall's growth. At the moment we see not really big obstacles on the energy and on the energy price. Most of them are hedged. Then the energy cost in total, if it is electricity, if it is district heat, if it is gas and oil etc. etc., is on a level between 1% and 1.5% of our total sales cost, so it's relatively small. So there is no risk on energy.

On the supply chain there are always risks for sure. Raw material situation is addressed, but we bought stock. The clear figures Dagmar told you before, it's EUR500m, a little bit more than EUR500m of working capital that we were growing up. So we have a lot of components in our stocks. It's electronic components. It's armored steel etc etc.

The material price escalation clause is in place, so we will – at the moment we sign no contract, absolutely no contract without material price escalation. Also the order contracts at the moment, we renegotiate because in some areas there is not an open floor and sometimes it's a cap inside so we negotiate at the moment the cap out.

So at the moment there is no major supply chain issues left and the same on personnel. We discussed that last time in detail, that we hired a lot of people, and if you count in also the temporary workers, it's between 2500 and 3000 people.

The same amount of people, my expectation is also between 2000 and 3000 people. I do not know it exactly. We will hire again in this year, in 2023. Because of the growth rate, we need the people.

Let's go now to the next page. In this page you will see the outlook. On the outlook side and one thing is very important for us and this is very clear – we want to deliver. Therefore on the outlook side we are between EUR7.4b and EUR7.6b on sales for 2023. If we say around 12%, my personal opinion is that it must be more than 12%, but it's around 12%. So this is also very clear and the operating free cash flow is between 4% and 6%.

This is a value if we have down payments and other things, we can hopefully make it better. But on the other side, as is said, and in detail, Dagmar told you that the minus EUR152m that we have was only an effect of one or two weeks. Then two weeks later, three weeks later, we were much, much better.

So at the end, I just have to say thank you very much to our shareholders. There is one more thing for sure and this is Rheinmetall will be joining the DAX 40 next Monday.

Thank you very much to our investors. Thank you very much to the trust that you have given to us. We know exactly our role. We have to serve. We have to serve to the government and we have also to serve to our shareholders. Thanks for your time, and now we are open for Q&A.

46:04.1 Operator

Ladies and gentlemen, if you like to raise a question now, please press 9 and star on your telephone keypad. In case that you like to withdraw your question, please press 9 and star again.

The first question comes from Sven Weier. Your line is open now.

0:46:19 Sven Weier

Yes, good afternoon. Thanks for taking my questions. The first one is just coming back to the guidance you just discussed, Mr. Papperger, which I'm trying to square a bit because it strikes me as being quite conservative. If I take – last year you already said Defense guidance of EUR5.5b, plus even if I assume a stable civil business, I already get should be EUR7.6b. Then you said you had revenue push out from 2022 into 2023, which I guess would normally come on top, plus the addition of Ukraine-related business that has come. Can you just help me square the guidance in this regard?

0:47:06 Armin Papperger

Look, first of all, as you know, we start the year and we want to be sure that we can fulfil everything. I hope, and this is very clear and Dagmar and myself discussed that in this area that we can perform better. But please give us a chance first of all to give a guidance which is conservative. I am totally with you that there is more in, but we cannot give you more information now because we need a little bit more time.

You are right, first of all, that the Ring Swap will give us a good potential.

The second point is, and this is also what we discussed last time, Mr. Weier, that EXPAL is not included that area. So in the second half there will be much more. But we stay on our level, and then you can calculate Weapons and Ammunition will stay on the level of 20%. My expectation is that the Vehicle Systems will be

between 12% and 15% and Electronic Solutions will be around 12%. The civilian business should be between 8% and 10%.

So then you can make also calculations about that, but I think we can fulfil that, what is here. Yes?

0:48:33 Sven Weier

That's good per year and I was – that's fair enough, yes. I was just wondering, the Germany orders you mentioned that are coming, especially on the ammunition side. You said, I think, in the interview, you need the orders. But does it mean that maybe some of the ammunition contracts that come in the coming weeks are not included in the guidance, or they would be coming on top? Or are you assuming that these orders are going to come anyhow?

0:49:03.4 Armin Papperger

No, these orders will come. But you must know that if ammunition orders for large caliber ammunitions are coming in, that you have not – you cannot have an order intake and then the sales. Most of the sales will be then in next year. So starting then in beginning of next year and after signing, you need logically beside always between six and nine months to bring it into sales.

So I'm very relaxed about that and I'm very relaxed about the next years. And it will come. I'm also relaxed about that, but I don't want to overvalue at the moment what we can do in 2023. But we will have enough in our books.

0:49:55 Sven Weier

Good. The second question I had was just on the Greece decision for the Lynx and the Leopard upgrades that we could hear have been made. I was just wondering when you expect the order intake for the Greece order this year, which quarter?

0:50:14 Armin Papperger

You mean – which Greece order you mean? You mean an ammunition order, you mean the Marder order or –

0:50:19 Sven Weier

For the Lynx.

0:50:20 Armin Papperger

Yes. The Greek government is the Greek government. I can give you no information, when they really want to make a decision, we are in negotiations for six months, how to go forward. We are still waiting for the government to government agreement between Germany and Greece. It's not signed now. So therefore I can give you no answer.

0:50:20 Sven Weier

The final question just from my side on the 2025 outlook, including EXPAL. I think that is for a number of EUR11b to EUR12b. But I was just confused by – I think there was a podcast with you on the Pioneer where you mentioned EUR12b to EUR13b in the next two to three years. So is that EUR12b to EUR13b then for 2026? Or how should we look at that number?

0:51:17 Armin Papperger

I am always on the level. So what we have on the Capital Market Day is a plus of EUR700m to EUR800m with EXPAL. So if you add that, you have – you are on the level of EUR12b or a little bit more. That is the reason to say, okay, yes, you cannot say exactly what's coming up. I'm not saying exactly, is it in the end of EUR12b or if it's then starting in EUR13b, but in that area we are. I think this is a growth rate which is really fine. You will see this also this year.

0:51:51 Sven Weier

Understood. That's very clear. Thank you, Mr. Papperger.

0:51:54 Armin Papperger

A pleasure.

0:51:57 Operator

The next question comes from David Perry. Your line is open now.

0:52:03 David Perry

Yes, hi. Thanks for taking the call. Two – one of them is maybe embarrassingly simple, but let me ask it. I see every day in the newspapers these stories of how much ammunition's been fired, how much is needed, how much can be produced. A lot of the numbers are inconsistent. So I just wonder if you could help me, as someone quite new to the stock. Roughly how much ammunition sales do you have? How much of weapons ammo is ammo today? Do you have a view of where that will go, excluding EXPAL? That would be helpful, if you could share it.

The other is, I don't think you've mentioned this Norway deal for Leopards. Could you just talk about that? Because that was announced by the Norwegian government, just what that means for you. Thank you very much.

0:52:54 Armin Papperger

Okay. Yes, I can give you the information. So 120mm, because we are at the moment really on a growth rate last year about 80,000, this year growing up to about 150,000. Total capacity about 240,000 rounds. This is 120mm.

155mm, without EXPAL, because EXPAL in that area has a higher capacity than the capacity that we had. We are on a level of this year about 80,000 rounds. This is mainly from South Africa.

Then I'm not exactly clear if we can do it, we also have in Australia a production line about – we have a production line where we can produce 30,000 to 50,000, if we run in two shift, artillery rounds. So you can add, let me say, add 20,000 on top of them. So we will be on a level of 100,000.

So we have then the potential of 350,000 of EXPAL where hopefully 50% of them for the second half of the year we can step in. Let's make it conservative again. So it's 150,000, so that this year we will have 250,000 rounds artillery.

On the medium caliber side we will produce about 1.2m rounds and with EXPAL we will have the capacity of 2.4m. So we will double that – 2.4m rounds.

Is that good enough for you?

0:54:51 David Perry

It's super-helpful and maybe it's a lazy question, but if I turned all of last year's production into a sales number? I really don't know, is it EUR400m? Is it EUR800m?

0:55:030 Armin Papperger

On the ammunition?

0:55:05 David Perry

Yes.

0:55:06 Armin Papperger

Last year? No, no, it's much more. On the ammunition side we are on the level of more than EUR1b. So you see, there is still a lot of space, and that is the reason that our ammunition business up to 2025, because of the space that we have, is between – that my expectation is between EUR3b and EUR3.5b.

0:55:30 David Perry

Just on ammunition?

0:55:32 Armin Papperger

Just on ammunition.

0:55:33 David Perry

Including EXPAL?

0:55:35 Armin Papperger

Including EXPAL.

0:55:40 David Perry

That's very helpful. The reason I ask is, all these stories that seem to be in the newspaper every day about how low the European production is and how low the US production is, seem to get me to far, far lower numbers.

0:55:54 Armin Papperger

Yes. Yes.

0:55:54 David Perry

I assume from the Press, so that's why I'm asking for the help. Yes.

0:55:59 Armin Papperger

No, at the moment, this is also very important to understand. This is also the discussion that I have and that's a good story for us. At the moment the United States is able to produce about 12,000 rounds per month. So let's make it simple. It's about 140,000 rounds per year. They want to double it, so then they have, the US has 280,000 rounds.

So if we go now into our capacities and drive it full throttle, the 155mm , so then, South Africa, make it simple, 100,000 rounds, 50,000 in Australia, 350,000 rounds in EXPAL. So you are on a level, I always said, around – with Australia, up to 500,000.

Then we recreate Hungary. Hungary, but this is then not for next year. This is the year after the next year because we are not ready next year in this area. Hungary is also – it depends, one, two shifts between 50,000 and how much is the need

between 50,000 and 100,000 rounds. Then Germany, where we also want to build up with the propulsion, with the powder production, is another 50,000 to 100,000.

So if we are fully equipped in two years' time we grow up to 600,000 artillery. Then we are by far the biggest artillery house in the world. By far. We are now – with EXPAL we are now.

Is that good for you?

0:57:55 David Perry

Yes, it's super-super-helpful, thank you. I really appreciate it. Just a word on Norway and Leopard, if you could?

0:58:01 Armin Papperger

Yes. Yes, sure. The Norwegian Leopard, yes, this deal is done. It is signed. the main contract on the Norwegian side is going to KMW. We produce with KMW the components, the gun turret technologies, electronics, etc. etc.

For sure there is an opportunity also for tank ammunition and this is another point, that the German government at the moment is combining all the European needs. That is the reason that we get this big frame contract, as the sale came then Rheinmetall has the capacity to grow up in this area.

So in total with ammunition it's a very good business for us. But it's small, if you compare it with the huge ammunition business where we discussed before.

0:58:58 David Perry

Okay. Thank you, appreciate the call.

0:59:01 Armin Papperger

Thanks.

0:59:04 Operator

The next question comes from Sebastian Growe. Your line is open now.

0:59:09 Sebastian Growe

Yes, good afternoon, everybody, Ms Steinert, Mr. Papperger. The first one is just a quick follow-up question around the ammunition business. Did I hear correctly that you said EUR3b to EUR3.5b sales in ammunition over time, and that was by 2025 or was the year that you provided?

0:59:27 Armin Papperger

2025.

0:59:29 Sebastian Growe

All right. Okay. The other questions were more round the Ring Swaps. So first of all, thank you for providing the color there on slide number 5. The first question I have around it is if you would be willing to share what the sales contribution of these Ring Swaps was in 2022? I would assume about EUR15m, but could we start there, please?

0:59:51 Armin Papperger

Yes, it's not a lot. It's really in that area. Yes.

0:59:59 Sebastian Growe

Okay. And for 2023, based on the existing contracts, Slovakia, Czech Republic and then also Greece, what would be the leftover that comes in 23? Something like EUR400m? Is that realistic?

01:00:16 Armin Papperger

Yes, you're not bad.

01:00:23 Sebastian Growe

So if I take that together, so you had them for the, that was a right figure and we just assume that there's EUR450m in total for about 90 to 100 vehicles. So say EUR5m per vehicle. And I know it's difficult because a Leo is different than the Marder. But I think at least as a starting point, it would help probably to put the EUR250, EUR300m sorry, 250 to 300 units that you mentioned before on the potential along the Ring Swaps for Leopard, etc. into perspective. So we should look at an opportunity of around EUR1.5b overall. Is that a sort of correct assumption?

01:01:03 Armin Papperger

Maybe a little bit less, because we have less Leopard 2s and more Leopard 1s. And the price for Leopard 1 is not the same level.

01:01:12 Sebastian Growe

Yeah. Okay. And the last question around the Ring Swaps. It's difficult to provide any sort of real number around profitability. But the only directional hint that I would like to have from you is, is there much of a difference between shipping a Marder, as opposed to a Leopard 1 to a Leopard 2? Or would sort of the overall profitability levels for the Ring Swap agreements be about the same?

01:01:41 Armin Papperger

It's always, it's about the same. But we say to our customer, and also this is a point, this is what we can tell, we cannot give you the margins on projects. We don't do that. And the point for us is that we said, it's a profitable business in these areas and we always tell that at the end of the day, the profit must be minimum 10%.

01:02:11 Sebastian Growe

Ten percent. Okay. Well, on my calculations, I would assume that just the spill over of the Ring Swaps would take you easily and really easily to the guidance EUR900, EUR950m excluding. But yeah, the same that we saw.

01:02:27 Armin Papperger

Don't press us so hard. You know that we want to make it happen at the end of the day. So and for sure, every one of us is fighting very hard to make better figures, but we are in the beginning of the year. And these are, I think, excellent numbers and if we are even better about that. And my expectation is also that we will have a very good year in 2023. All of us will be very happy. But give us the time for the first quarter. And in the first quarter, this is then May, the beginning of May, we have a much better picture and then we can give you maybe a new guidance. Is that fair enough?

01:03:09 Sebastian Growe

Absolutely. These are indeed marvelous figures. So I'll go back into the queue. Thank you.

01:03:13 Armin Papperger

Thank you very much.

01:03:16 Operator

And the next question comes from Sash Tusa. Your line is open now.

01:03:22 Sash Tusa

Oh, thank you very much indeed. Good afternoon. My question actually on Ring Swap profits has been answered. Thank you for that. But I've got another question about your planned build up of artillery ammunition. You give the impression you are going to become a huge producer consumer of the raw materials for propellants, but also fillings. How much of the propellant requirements at the moment do you supply and how much do you buy in, and the same for fillings? And can you actually buy enough nitroglycerin in particular, or nitric acid on the open market to get to that 200,000 rounds capacity that you would have in a couple of years' time.

01:04:12 Armin Papperger

So part of them, so I will see 50% of them we produce by ourself. We have our own nitroglycerin plants, in that nitroglycerin [inaudible 01:04:20]. And other things we produce also by ourselves. The biggest problem we see at the moment is the linters on the linter site. We are looking for different sources. South America, Turkey, US because of the, at the moment we buy a lot of linters from China. But what we did is we bought linters for 6000 tonnes three times, so for three years, so that we are safe to produce our nitrocellulose. So therefore, Sash, we are really in good shape. I see not a big problem at the moment. Also, the biggest problem we had is that we buy in the RDX. And this is, especially from the US, I think that, I think about 50% of the US RDX site. But what we do now is with the RDX plant that we build up in Hungary, we have our own capacity and the capacity that we produce at the moment in South Africa already exists, is not big enough. So we have to triple the RDX outcome. And if we have the RDX, then I think we have everything, nearly everything under control in all the line. Because we do the igniters, we do the shells, the combustibles and all the other things. So we have the whole vertical integration done from the fuse, via the propulsion to the whole ammunition. So the whole vertical integration is done. We can produce nearly 100% after the raw materials.

01:06:17 Sash Tusa

Great, thank you. And just a follow on to that, your ambitions to get into rocket artillery clearly would increase again, your requirements for, particularly for propellants, but to a lesser extent for RDX. Did you include that within your sort of, your longer term requirements?

01:06:38 Armin Papperger

Yes.

01:06:39 Sash Tusa

Or would that require? Okay.

01:06:40 Armin Papperger

Yes. This is also a partly inside and we have a huge capacity in South Africa. But we want to build up, also for rocket propellers and for the warhead technology we want to build up these capacities also in Germany now to be independent.

01:06:58 Sash Tusa

Thank you very much.

01:07:00 Armin Papperger

Thank you, Sash.

01:07:04 Operator

And the next question comes from Virginia Montorsi. Your line is open now.

01:07:09 Virginia Montorsi

Thank you very much for taking my question, and good morning, everybody. Just a quick one on inflation. Could you just give us a little bit of color, whatever you can share, on the prices collision clauses, the kind of delays and how easy it is to renegotiate contracts in terms of the difference by divisions? Is there anywhere where it's more difficult to renegotiate contracts? Is there anywhere where you've got more delays? Basically, should we be aware of any different divisional splits? Thank you.

01:07:38 Armin Papperger

Yeah, we'll do that. On the inflation side is we have a formula inside the contract where the customer has to pay full inflation. So it doesn't matter to us if it is 6% 8% or 4% inflation. So and what we do is now, and this is a big trigger point, because always at the beginning in January, the clause will give us a lot of extra order intake. Because if you have if you have 1 billion orders or 2 billion, make it

simple, 2 billion order intake and 5% inflation, you have January, next week, another 100 million order intake because of the inflation clause. So what we did is, first of all, so this is positive and the customers sign that contract. It's mainly material based and it's a huge formula that is inside but we are on the safe side for that. The customer is with us because they said okay, I want to do, I want to make long-term contracts with Rheinmetall and if I have a long-term contract of six, seven years, like on the ammunition side, we need this formula. Otherwise, we cannot sign the contract because the risk is too high for us. That's good for us. It's good for you?

01:09:01 Virginia Montorsi

Perfect. Thank you very much, you're very clear.

01:09:03 Armin Papperger

Thank you.

01:09:07 Operator

The next question comes from Christian Cohrs. Your line is open now.

01:09:11 Christian Cohrs

Yes, good afternoon. Thanks for taking my questions. I would actually like to discuss cash flow and also looking at the push backs on the revenues and business side from 2022 to 2023. You mentioned that this was part of the reason for the negative cash flow in last year. Now looking at your guidance for the current year, actually there seems to be no big catch up from that. If I combine actually your cash flow guidance for the current year and the free cash flow achieved last year, then this sums up to obtain below 2% of sales. So what is the background here? Are you simply also conservative as with regards to your earnings guidance? And maybe discussing singles cashflow items, can you maybe also provide us with any guidance on your Capex side? Then, besides EXPAL, are you engaged or looking for further acquisitions also to have access to capacities, to people, to be capable to

execute on the prospect of growth in the coming years? And lastly, I think we've discussed this in previous calls. Have you been successful also, not only to negotiate inflation formulas in your contracts, but also more and more regular milestone payments, especially with the German customer, so that cash flow is a bit more balanced going forward? Thank you.

01:10:54 Dagmar Steinert

Well, I will take this question regarding the cash flow. Starting with EXPAL. EXPAL is not included in that figure, not in our guidance, not for the cash flow guidance. And first of all, we have to have the closing and then of course, we will adjust our guidance. And looking at the history of the company, the cash flow is always very lumpy regarding quarters, and somehow it happens even regarding full-year figures. And as I explained that we have seen a significant increase in working capital due to advanced production and difficulties in supply chain. We put material on stock, for instance, for the next three years, just to make sure that we are able to deliver. If you have in mind our strong growth, which we guided for, for the year 2023, we will have to build up somehow working capital again. And what we don't foresee so far is the amount of advanced production in the year 2023. And I already gave you a slight glimpse on our free cash flow for the first quarter 2023, it will be significant better and we are targeting the figure zero. In the last year, in the first quarter 2022 we had a negative figure of EUR464m. So let's start into the year with that and keep you updated the next quarters.

01:13:09 Armin Papperger

Yes, I 100% agree. And so, Mr. Cohrs, if you see that point, I think we will be around like we say half a billion better than last year. And this is a thing of weeks. Nobody will discuss if we would have, let me say EUR350, EUR400m positive operational free cash flow. But if you have it four weeks later, for me as an entrepreneur, it doesn't matter. But this happens and you will see it, we cannot show it now because you will see them in Q1 results. Second point on investments, we will not enlarge our investments a lot in this area. So we stay on

the level of around 5% of our Capex. So this is what we do. For us it is very clear. EXPAL is for us a very, very positive investment because we will think we can grow this company over the next year a lot and I see over the next 10 years. And the milestone payments are also going into the right direction. So what we do, what we get now is, for example, we get payments, only some examples for that thing. So we are getting payments for the air defense system for Ukraine from the German government. And we speak between 20% and 30% in this area of down payments. We get down payments on the ammunition side, or milestone payments, on the ammunition side. For the 20 millimeters, for the 35 millimeter we have a milestone. We will, everything all the programs where we are, we want to be now cash positive. But we need a little bit time now, another six months, maybe nine months that all these trigger points that we indicated, that these trigger points are now coming into life. But we are successful on that and this is really, really, really positive. So I see absolutely no problem on the cash flow side, because and this is a very simple thing for me, even if I don't count every million in this area. But as an entrepreneur, I look, first of all, I book all the business very positive, high profitable business, high, high, profitable business. Second point, a lot of business that we have to grow in this area. And third thing is sure also make the customer happy, even if you'll not hit a milestone of whatever quarterly review, because sometimes it's impossible to hit it. Because sometimes, for example, if we buy now, we bought the Leopard 1s, and we have to pay them, and we have to wait for the money for that. This is a lot of cash that is going around. But if I have made my profit with that six months later as an entrepreneur, for sure I do this. And so therefore, I'm convinced, if you see the next quarter that you're happy with the cash flow for Rheinmetall. Is that fair enough?

01:16:16 Christian Cohrs

That's fair enough. I'm looking forward to it. And the last question was around M&A. So is there anything more you're looking at? You've spoken about Capex and investments, but is anything on the horizon with regards to M&A?

01:16:31 Armin Papperger

Not a big deal at the moment, because I'm fair enough. We have a lot to do and we have to deliver now. And the EXPAL deal was for us perfect because it fits 100% into the Rheinmetall strategy. But I must say, we are hazardeurs who want to grow like hell, but we cannot longer handle it. And the point is, we have to handle the growth. And if we grow on the defense side now, with more than 20%, this is a big job. And on the ammunition side with EXPAL, the growth rate, as you know, is much, much higher. So we have to do our job, we have to fulfill everything. And to be fair enough, in 2025, I'm more than happy if we make this EUR12b with a high profitability, so then we made our job.

01:17:28 Christian Cohrs

Okay, understood. Thank you very much.

01:17:31 Armin Papperger

It's a pleasure.

01:17:34 Operator

And the next question comes from Christoph Laskawi. Your line is open now.

01:17:39 Christoph Laskawi

Good afternoon. Thank you for taking my questions. The first one will be on the vehicle systems margin. Initially, I wanted to ask, essentially, the margin guide of 11 to 13 looks a bit conservative considering the Ring Swap agreement. But you already gave a comment there that it could be better than that. On the flip side, is there anything that weighs against operating leverage or good margins with regards to execution and ramp up that we should be aware of? And then the second question will be on the ammunition? Obviously, there's big discussions right now, the need for ammunition is quite large. And once the systems are delivered to the Ukraine, there will be an even increasing need for ammunition.

And very publicly you make clear that you will not start producing before there is an order. When it comes to the very urgent need in the Ukraine, would you start to pre-produce, say in Q2, Q3 when you see there is a need? Or would you wait for contracts to be signed before you start going to work?

01:18:50 Armin Papperger

First of all, I think that we will get very soon this frame contract from the German side. So I think we have no risk that we go into production. As I said, on the propulsion systems, we produce 24/7 and at the moment, we don't only produce for contracts that we have here, because the propulsion will be the bottleneck, so we need it anyway. So the second point is for sure the minister told me also in Germany, you can produce everything, we need it anyway in this area. But I'm a little bit careful, because if I have a delay of some, let me say quarters, two or three quarters what we have seen before, then I have lack of cash and I don't like that. So this is the point. For me, it is better really now to press and to negotiate hard with the government that we sign the contract and we get the down payment. So this is a point what is, what we are doing at the moment. Not too much risk in this area. But I'm very, very convinced that for this year and also for next year, we will be then fully booked with the capacities that we have and that we can grow very, very strong. Forward, margins on that is, there are always opportunities, there are no obstacles, no big obstacles at the moment. There are some smaller delays inside vehicle programs and the reason is, there are two special, two very special microchips that we missed and there was a delay of three, four months in the program in Australia and in Hungary. This is not a problem that we have on the margin side. This is maybe a problem that we are missing then sales, quarterly sales. But again, if I get the sales three months later or earlier with all the contracts that we have, it's not a huge problem from my side, if the customer is happy of that. So we negotiate with the customer always the problems. Very special microchip with this, which is at the moment not available for temperatures down to minus 46 degrees. We discussed that with the

customers. The customer made a double check, and then he said okay, that's life, sometimes it happens. But as I said 99% of the chips we have on stock, because we made this procurement program where we invested a lot, but some of them are still missing. Not a lot of them, but some of them. So, this could be always the problem, but this is not the margin problem. And this is a problem of timing. And if you bring quarterly the sales in or if we bring quarterly the sales not in, and this is the risk of operations, I will call it. This is not a risk of profitability. Because our people are fully work and we are not wasting money at the moment because our people are not working. We have enough work for our factories. But we won't be very, very transparent in that area. Sometimes you have operational problems and you have to delay of some months. That's the main risk I see at the moment.

01:22:23 Christoph Laskawi

Okay, thank you.

01:22:25 Armin Papperger

Thank you, Mr. Laskawi.

01:22:28 Operator

Currently, there are no further questions from the audience. So I may repeat once. If you have any further questions, please press nine and star on your telephone keypad. Please press nine and star on your telephone keypad. It seems that there are no further questions from the audience.

01:22:57 Armin Papperger

So thank you very much for your time. Thanks for your trust and stay healthy, and hope I see all of you very, very soon again. Thank you very much.

01:23:06 Dagmar Steinert

Thank you very much. Goodbye.