

QUARTERLY REPORT 1ST QUARTER

2020

5050

Strong performance by the Defence sector provides support for Rheinmetall during coronavirus crisis

- Consolidated sales grow by 1.1% to €1,358 million
- Coronavirus crisis causes drop in consolidated operating earnings from €54 million to €34 million
- Automotive: Crisis pushes sales down by 14% to €618 million; operating earnings shrink from €49 million to €10 million
- Significant growth in Defence: Sales increase by 18% to €740 million; operating earnings more than triple year-on-year to €29 million
- Order backlog increases by 13% to €10.3 billion
- Forecast for fiscal 2020 confirmed with regard to the Defence sector; forecast for Automotive is currently impossible due to coronavirus pandemic

Rheinmetall in figures

		Q1 2020	Q1 2019
Sales/earnings			
Sales	€ million	1,358	1,342
Operating earnings	€ million	34	54
Operating earnings margin	%	2.5	4.0
EBIT	€ million	34	54
EBIT margin	%	2.5	4.1
EBT	€ million	25	45
Earnings after taxes	€ million	18	33
Cash flow			
Cash flow from operating activities	€ million	(142)	(84)
Cash flow from investments	€ million	(46)	(44)
Operating free cash flow	€ million	(188)	(129)
Balance sheet (March 31)			
Total equity	€ million	2,241	2,194
Total assets	€ million	7,406	6,831
Equity ratio	%	30	32
Cash and cash equivalents	€ million	705	412
Total assets ./ Cash and cash equivalents	€ million	6,701	6,419
Net financial debt	€ million	(249)	(171)
Leverage ratio ¹⁾	%	3.7	2.7
Net gearing ²⁾	%	11.1	7.8
Human resources (March 31, FTE)			
Rheinmetall Group		23,671	23,149
Domestic		11,455	11,284
Foreign		12,216	11,865
Rheinmetall Automotive			
Sales	€ million	618	714
Operating earnings	€ million	10	49
Operating earnings margin	%	1.7	6.9
Capital expenditure (net investments)	€ million	15	23
Rheinmetall Defence			
Order intake	€ million	731	564
Order backlog (March 31)	€ million	10,034	8,615
Sales	€ million	740	629
Operating earnings	€ million	29	9
Operating earnings margin	%	3.9	1.4
Capital expenditure	€ million	29	18
Shares			
Stock price (March 31, 2020/March 29, 2019)	€	64.06	92.88
Earnings per share	€	0.30	0.74

1) Net financial debt/total assets adjusted for cash and cash equivalents

2) Net financial debt/total equity

Business performance of the Rheinmetall Group

€ million	Q1 2020	Q1 2019	Change
Sales	1,358	1,342	15
Operating earnings	34	54	-20
Operating earnings margin	2.5%	4.0%	-1.5%
Operating free cash flow	(188)	(129)	-60

Initial effects of the coronavirus pandemic appear in the past quarter

The first quarter of 2020 was already influenced by the beginnings of the coronavirus pandemic. From the start, protecting employees and ensuring stable business processes were Rheinmetall's highest priorities. Comprehensive measures were adopted in order to minimize the risk of infection for the employees at the roughly 130 Rheinmetall locations worldwide and to ensure the highest possible level of protection in operational processes. In this challenging situation, Rheinmetall succeeded in slightly increasing consolidated sales during the first quarter of fiscal 2020 as well as compensating for crisis-related reduced performance in the Automotive sector with sales growth in the Defence business.

Shortfalls in orders from customers in the Automotive sector are currently being addressed with a variety of measures for reducing production which will be adjusted according to the respective situations of the different Automotive sites. Consistent efforts are being made to ensure that the plants' supply chain remains functional as far possible. In addition, all necessary preparations were made in due time for a controlled restart of the plants that were required to suspend production due to the coronavirus pandemic.

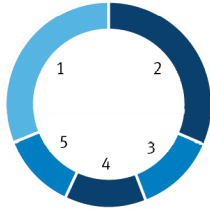
In the context of the current virus-related threat situation, Rheinmetall is also making substantial contributions towards resolving the lack of protective equipment for medical and nursing personnel. Rheinmetall has already procured a million respiratory masks from China and had them delivered to Germany. Large quantities of additional masks as well as other crucial materials (gloves, protective gowns and protective suits) are also en route. Large volumes of disinfectant are being produced at a Rheinmetall site in South Africa, including 2.5 million bottles of medical disinfectant to be delivered to Germany.

Group's sales increase – operating earnings lower than previous year

Consolidated sales were increased by €15 million or 1.1% year-on-year to €1,358 million in the first quarter of 2020. Adjusted for currency effects, sales growth was 1.5%.

The sectors performed differently here. While the Defence sector increased its sales by 18% or €111 million, the Automotive sector posted a sales decline versus the comparative period of the previous year of around 14% or €-96 million.

Sales by region € million



	Q1/2020	Q1/2019
Rheinmetall Group	1,358	1,342
1 Germany	422	366
2 Other Europe	429	444
3 Americas	171	162
4 Asia	177	227
5 Other regions	159	144

The Group's operating earnings declined by €-20 million compared to the same quarter of the previous year to €34 million. This was entirely due to the performance of the Automotive sector, which posted a decline in operating earnings of €-39 million. The Defence sector, on the other hand, increased its operating earnings by €20 million.

Earnings per share decreased by 59% from €0.74 in the previous year to €0.30 in the first quarter of 2020.

Operating free cash flow lower year-on-year

Operating free cash flow declined by €-60 million to €-188 million in the first quarter of 2020. This was particularly attributable to the higher increase in working capital in the Defence sector and an allocation to the contractual trust agreement (CTA) of €42 million.

Business performance of the Rheinmetall Group

Automotive sector

€ million	Sales		Operating earnings	
	Q1 2020	Q1 2019	Q1 2020	Q1 2019
Automotive	618	714	10	49
Mechatronics	348	401	9	31
Hardparts	210	251	(3)	13
Aftermarket	83	85	4	8
Others/Consolidation	(23)	(24)	-	(2)

Positive operating earnings despite significant decline in sales

The Automotive sector was unable to escape the slump of global automotive markets and the impact of the coronavirus crisis in the first quarter of 2020. The sector's sales fell by 14% year-on-year to €618 million. Adjusted for currency effects, sales were by 13% lower than in the previous year. The global production of light vehicles (vehicles under 6 tons) declined by 23% in the first quarter of 2020 compared to the same quarter of the previous year. The operating earnings of the first three months of 2020 decreased by €39 million compared to the previous year's figure to €10 million. This was accompanied by a lower operating margin compared with the previous year of 1.7% (previous year: 6.9%). The Automotive sector has introduced numerous measures to mitigate the effects of the decreases in production resulting from the coronavirus crisis. For example, the number of contract workers has been sharply reduced and reduced working hours have been introduced at a number of locations. Additional restrictions have been implemented on the approval of investments and expenses.

In the Mechatronics division, sales decreased by 13% year-on-year to €348 million in the first quarter of 2020. Due to the decline in sales, the Mechatronics division's operating earnings amounted to €9 million, down from the previous year's figure of €31 million. The division's operating margin decreased from 7.6% in the same quarter of the previous year to 2.7%.

At €210 million, the Hardparts division's sales were down in the first quarter of 2020, falling by 16% year-on-year. Earnings were additionally reduced by lower earnings contributions from the investments with Chinese partners that are accounted for using the equity method. The Hardparts division slipped into the red during the first quarter of 2020 with operating earnings of €-3 million, after positive earnings of €13 million were generated in the previous year. The operating margin of the Hardparts division declined to -1.6% (previous year: 5.1%).

In the Aftermarket division, sales decreased slightly by 2.6% year-on-year to €83 million in the first quarter of 2020. The division's operating earnings amounted to €4 million after €8 million in the same quarter of the previous year, which was due both to the sales decline and to the first-time allocation of the activities in the micromobility sector to the Aftermarket division. The operating margin of the division decreased to 4.9% after 8.8% in the previous year.

Decrease in sales in China less pronounced than the reduced performance of the market as a whole

The Automotive sector's consolidated sales do not include the sales of the joint ventures with Chinese partners, as these are included in consolidation using the equity method.

In a significantly declining market environment influenced by the coronavirus, with light vehicle production in China decreasing by 50% compared to the same quarter of the previous year, the joint ventures in China generated sales of €144 million in the first quarter of 2020, a 33% decrease year-on-year. Earnings after taxes for the first quarter of 2020 came to €-2 million (previous year: €9 million).

For the German joint venture KS HUAYU AluTech Group, fiscal 2020 also had a weaker start than the previous year. Sales of €56 million were realized in the first three months of 2020 (-15% year-on-year). Accordingly, the earnings after taxes of €-2 million for the first quarter of 2020 were below the previous year's €-1 million.

€ million – 100% basis	China joint ventures		KS HUAYU	
	Q1 2020	Q1 2019	Q1 2020	Q1 2019
Sales	144	219	56	66
Earnings after taxes	(2)	9	(2)	(1)

Business performance of the Rheinmetall Group

Defence sector

€ million	Order intake		Sales		Operating earnings	
	Q1 2020	Q1 2019	Q1 2020	Q1 2019	Q1 2020	Q1 2019
Defence	731	564	740	629	29	9
Weapon and Ammunition	327	344	166	177	(16)	(11)
Electronic Solutions	324	168	174	167	11	10
Vehicle Systems	136	78	446	329	36	12
Others/Consolidation	(57)	(26)	(46)	(45)	(3)	(2)

High order backlog

The Defence sector generated an order intake of €731 million in the first quarter of 2020, exceeding the previous year's figure of €564 million by 30%. The Electronic Solutions division made a significant contribution to the positive development in the order intake in the first quarter of 2020 by acquiring a major order worth €205 million.

The order backlog in the Defence sector of €10,034 million was 16% or €1,419 million higher than the corresponding figure for the same quarter of the previous year.

Sales increase and improvement in operating earnings

The Defence sector increased sales by €111 million or 18% year-on-year to €740 million. Organic growth amounted to 14%.

The Weapon and Ammunition division generated sales of €166 million in the first quarter, €11 million or 6.5% below the figure for the previous year. This decrease in sales is a result of outstanding and pending export licenses, mainly for foreign subsidiaries. In terms of earnings, this led to a decrease in operating earnings from €-11 million in the previous year to €-16 million in the first quarter of 2020. The operating margin was -9.4% (previous year: -6.1%).

The Electronic Solutions division generated sales of €174 million, a €7 million or 4.4% increase year-on-year, due to project start-ups for the German customer. Operating earnings slightly improved to €11 million from €10 million in the previous year. The operating margin rose to 6.4% (previous year: 5.9%).

The Vehicle Systems division increased its sales by €117 million to €446 million due primarily to increased deliveries of logistics and tactical vehicles to the German and Australian customers. At €36 million (previous year: €12 million), operating earnings were substantially higher than the previous year. The operating margin was 8.1% (previous year: 3.6%).

Risks and opportunities

Efficient risk management

Systematic and efficient risk management systems have come to hold a particular level of importance during the global COVID-19 crisis. At the beginning of the expanding pandemic, coronavirus action teams which analyze and evaluate the local situation on a daily basis and define and communicate measures were formed at all Rheinmetall Group locations. A central crisis team led by the Executive Board is monitoring the global situation and coordinating measures across locations.

As a Tier 1 automotive supplier, the Automotive sector has been affected by the shutdown of automotive manufacturers and lockdowns in several countries to a greater extent than the Defence sector. Promptly initiated measures such as the targeted use of time account reduction and reduced working hours according to location for the Automotive sector have reduced the effects of the financial situation on Rheinmetall and preserved jobs. In addition, the Automotive sector has structured these measures and selected pre-production in such a way that Rheinmetall's capacity to make deliveries to clients will be immediately guaranteed when the plants are ramped up.

The other material opportunities and risks of the expected development of the Rheinmetall Group are described in detail in the Group Management Report for 2019. Apart from the coronavirus crisis, no material changes or new findings have arisen. Based on the current assessment of the Rheinmetall Group's risk tolerance, there are no identifiable situations of existential risk for the Rheinmetall Group.

Outlook

Defence forecast confirmed, forecast for Automotive not yet possible at present

Rheinmetall does not currently expect the COVID-19 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 is confirmed. The forecast anticipates sales growth of between 5% and 7% for 2020 as a whole. The Defence sector's operating margin is expected to come to between 9% and 10%.

In the Automotive sector, the potential effects of the COVID-19 crisis on end-customer demand, automotive manufacturers' production figures and global supply chains cannot be reliably forecast at present. An adjusted outlook for the Automotive sector for 2020 as a whole that reflects the changed market situation therefore is not yet possible under the circumstances due to the high level of uncertainty.

Rheinmetall expects that sales and operating earnings in the Automotive sector and the Group will be significantly lower than in previous forecasts, which did not yet account for the effects of the coronavirus crisis.

Rheinmetall Group

Consolidated balance sheet as of March 31, 2020

€ million	3/31/2020	12/31/2019
Assets		
Goodwill	563	567
Other intangible assets	236	233
Rights of use	193	204
Property, plant and equipment	1,310	1,361
Investment property	41	42
Investments accounted for using the equity method	307	309
Other non-current assets	266	255
Deferred taxes	226	224
Non-current assets	3,142	3,195
Inventories	1,598	1,463
Contract asset	487	388
Trade receivables	1,076	1,147
Other current assets	299	242
Income tax receivables	79	41
Liquid financial assets	20	20
Cash and cash equivalents	705	920
Assets held for sale	-	-
Current assets	4,264	4,220
Total assets	7,406	7,415
Equity and liabilities		
Share capital	112	112
Capital reserves	556	553
Retained earnings	1,457	1,478
Treasury shares	(13)	(17)
Rheinmetall AG shareholders' equity	2,111	2,125
Non-controlling interests	130	146
Equity	2,241	2,272
Provisions for pensions and similar obligations	1,075	1,169
Other non-current provisions	205	214
Non-current financial debt	874	880
Other non-current liabilities	95	86
Deferred taxes	13	16
Non-current liabilities	2,262	2,365
Other current provisions	758	709
Current financial debt	99	112
Contract liability	966	948
Trade liabilities	664	695
Other current liabilities	287	215
Income tax liabilities	129	99
Current liabilities	2,903	2,779
Total equity and liabilities	7,406	7,415

Rheinmetall Group

Consolidated income statement for Q1/2020

€ million	Q1 2020	Q1 2019
Sales	1,358	1,342
Changes in inventories and work performed by the enterprise and capitalized	126	90
Total operating performance	1,484	1,433
Other operating income	26	36
Cost of materials	804	764
Staff costs	442	421
Amortization, depreciation and impairment	75	65
Other operating expenses	160	165
Income from investments accounted for using the equity method	(1)	5
Other net financial income	6	(4)
Earnings before interest and taxes (EBIT)	34	54
Interest income	2	1
Interest expenses	(11)	(11)
Earnings before taxes (EBT)	25	45
Income taxes	(7)	(12)
Earnings after taxes	18	33
Of which:		
<i>Non-controlling interests</i>	5	1
<i>Rheinmetall AG shareholders</i>	13	32
Earnings per share	0.30 EUR	0.74 EUR

Consolidated statement of comprehensive income for Q1/2020

€ million	Q1 2020	Q1 2019
Earnings after taxes	18	33
Remeasurement of net defined benefit liability from pensions	40	(42)
Amounts not reclassified to the income statement	40	(42)
Change in value of derivative financial instruments (cash flow hedge)	(47)	3
Currency translation difference	(51)	19
Income/expenses from investments accounted for using the equity method	-	9
Amounts reclassified to the income statement	(98)	30
Other comprehensive income after taxes	(57)	(12)
Total comprehensive income	(40)	22
Of which:		
<i>Non-controlling interests</i>	(16)	3
<i>Rheinmetall AG shareholders</i>	(23)	19

Rheinmetall Group

Statement of cash flows for Q1/2020

€ million	Q1 2020	Q1 2019
Earnings after taxes	18	33
Amortization, depreciation and impairment	75	65
Allocation of CTA assets to secure pension and partial retirement obligations	(42)	-
Other changes in pension provisions	(3)	(2)
Income from disposals of non-current assets	-	(1)
Other changes in other provisions	59	27
Change in working capital	(182)	(125)
Changes in other receivables, liabilities (not including financial debt), prepaid expenses and deferred income	(68)	(85)
Pro rata income from investments accounted for using the equity method	1	(5)
Dividends received from investments accounted for using the equity method	-	5
Other non-cash expenses and income	-	3
Cash flows from operating activities ¹⁾	(142)	(84)
Investments in property, plant and equipment, intangible assets and investment property	(46)	(44)
Cash receipts from the disposal of property, plant and equipment, intangible assets and investment property	3	1
Payments for investments in financial assets	-	(4)
Payments for the purchase of liquid financial assets	(1)	(225)
Cash receipts from the disposal of liquid financial assets	-	55
Cash flows from investing activities	(44)	(217)
Other profit distributions	-	(1)
Borrowing of financial debt	24	31
Repayment of other financial debt	(47)	(44)
Cash flows from financing activities	(23)	(13)
Changes in cash and cash equivalents	(209)	(315)
Changes in cash and cash equivalents due to exchange rates	(6)	2
Total change in cash and cash equivalents	(215)	(312)
Opening cash and cash equivalents Jan. 1	920	724
Closing cash and cash equivalents March 31	705	412

1) of which:

Net income taxes of €-15 million (previous year: €-14 million)

Net interest of €-5 million (previous year: €-6 million)

Rheinmetall Group

Statement of changes in equity

€ million	Share capital	Capital reserves	Total retained earnings	Treasury shares	Rheinmetall AG shareholders' equity	Non-controlling interests	Equity
As at January 1, 2019	112	547	1,384	(21)	2,022	151	2,173
Earnings after taxes	-	-	32	-	32	1	33
Other comprehensive income	-	-	(13)	-	(13)	1	(12)
Total comprehensive income	-	-	19	-	19	3	22
Dividend payout	-	-	-	-	-	(1)	(1)
Other changes	-	-	(1)	-	(1)	2	1
As at March 31, 2019	112	547	1,402	(21)	2,040	154	2,194
As at January 1, 2020	112	553	1,478	(17)	2,125	146	2,272
Earnings after taxes	-	-	13	-	13	5	18
Other comprehensive income	-	-	(36)	-	(36)	(21)	(57)
Total comprehensive income	-	-	(23)	-	(23)	(16)	(40)
Dividend payout	-	-	-	-	-	-	-
Disposal of treasury shares	-	-	-	4	4	-	4
Other changes	-	3	2	-	5	-	5
As at March 31, 2020	112	556	1,457	(13)	2,111	130	2,241

Composition of retained earnings

€ million	Currency translation difference	Remeasurement of net defined benefit liability from pensions	Hedges	Other comprehensive income from investments accounted for using the equity	Other reserves	Total retained earnings
As at January 1, 2019	(14)	(432)	7	(5)	1,828	1,384
Earnings after taxes	-	-	-	-	32	32
Other comprehensive income	17	(42)	4	8	-	(13)
Total comprehensive income	17	(42)	4	8	32	19
Other changes	-	-	-	-	-	-
As at March 31, 2019	3	(474)	11	3	1,860	1,402
As at January 1, 2020	13	(527)	17	(8)	1,981	1,478
Earnings after taxes	-	-	-	-	13	13
Other comprehensive income	(41)	40	(35)	-	-	(36)
Total comprehensive income	(41)	40	(35)	-	13	(23)
Other changes	-	-	-	-	2	2
As at March 31, 2020	(28)	(487)	(18)	(8)	1,997	1,457

Rheinmetall Group Segment reporting

€ million	Automotive		Defence		Others/Consolidation		Group	
	Q1 2020	Q1 2019	Q1 2020	Q1 2019	Q1 2020	Q1 2019	Q1 2020	Q1 2019
External sales	618	714	740	629	-	(1)	1,358	1,342
Operating earnings	10	49	29	9	(5)	(5)	34	54
Special items	-	1	-	-	-	-	-	1
EBIT	10	50	29	9	(5)	(5)	34	54
<i>Of which:</i>								
<i>At equity income</i>	(2)	5	1	-	-	-	(1)	5
<i>Amortization and depreciation</i>	41	38	28	25	2	2	71	65
<i>Impairment</i>	4	-	-	-	-	-	4	-
Interest income	1	1	1	2	-	(1)	2	1
Interest expenses	(6)	(5)	(9)	(8)	4	2	(11)	(11)
EBT	5	46	21	2	(1)	(4)	25	45
Other data								
Operating free cash flow	(49)	(76)	(152)	(93)	12	40	(188)	(129)
Order intake	442	736	731	564	(1)	(1)	1,172	1,298
Order backlog March 31	272	499	10,034	8,615	(1)	(1)	10,305	9,114
Employees March 31 (FTE)	11,335	11,694	12,084	11,194	252	261	23,671	23,149
Net financial debts (-)/Net liquidity (+) March 31	(67)	(94)	43	58	(225)	(135)	(249)	(171)

Legal information and contact

Dates

MAY 19, 2020
Rheinmetall AG Annual General Meeting

AUGUST 6, 2020
Report on H1/2020

NOVEMBER 6, 2020
Report on Q3/2020

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Rheinmetall's website at www.rheinmetall.com contains detailed business information on the Rheinmetall Group and its subsidiaries, current trends, 15-minute stock price updates, press releases and ad hoc notifications. Investor Relations information forms an integral part of this website and provides all the relevant details for download.

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