Press Release

August 1, 2019

Figures for H1/2019:

Rheinmetall increases sales and earnings

- Consolidated sales increase by 2.2% to €2,814 million with an improved operating margin, despite declining automotive markets
- Consolidated operating earnings up 5.8% to €163 million
- Earnings per share rise by 36.3% to €2.44
- Automotive posts robust development in a weak market environment – operating margin at 7.1%
- Defence increases sales by 8.8% or €112 million to €1,375 million; operating earnings more than doubled to €69 million
- Order backlog for the Group reaches €8.8 billion
- Group forecast for operating margin confirmed

The Rheinmetall Group in Düsseldorf ended the first half of 2019 with increased sales, another improvement in consolidated operating earnings and a higher operating margin. This performance is being driven by the technology group's Defence sector, which is achieving profitable growth in a dynamic market environment and increasing its operating earnings significantly. Although the automotive business outperformed global automotive production, which experienced a decline of around 7%, it was influenced by the weak industry environment.

Rheinmetall specified its forecasts for the Automotive and Defence sectors according to the relevant market developments. The forecast for the Group operating margin has been confirmed at the same figure of around 8%.

Armin Papperger, Chief Executive Officer of Rheinmetall AG: "In the current fiscal year, the two-sector corporate structure once again puts Rheinmetall on a solid and profitable footing. Although, as expected, Automotive is unable to distance itself entirely from the downward trend on global automotive markets, the Group remains on track for growth with respect to sales and earnings. In the Defence sector, we are increasingly feeling the effects of the considerable backlog of demand in military procurement in many countries. This is especially true in Germany as well, where we are a key partner to the German armed forces in terms of modernizing equipment and bridging the gaps. The comparatively robust business performance of our Automotive sector shows that we are in a good position with our extremely flexible cost management policy to remain highly profitable even in adverse market situations."

The Rheinmetall Group increased its sales by €61 million or 2.2% year-on-year to €2,814 million in the first half of 2019 (previous year: €2,753 million). Adjusted for currency effects, sales growth amounts to 2.0%.

Consolidated operating earnings increased by €9 million or 5.8% in the same period to €163 million (previous year: €154 million), bringing the operating margin at Group level up slightly from 5.6% to 5.8%.

Earnings per share rose by 36.3%, from €1.79 in the previous year to €2.44 in the first half of 2019.

The order backlog in the Rheinmetall Group rose significantly year-on-year, reaching €8.8 billion (June 30, 2019), after €7.0 billion the year before.

At 72%, the international share of business activities was lower than the previous year's figure (77%). The resurgent significance of the German market can be attributed in particular to the growing volume of orders with the German armed forces, whose efforts to modernize equipment are linked to increasing national sales in the Defence sector.

Automotive: weak market situation impacting sales and earnings – margin remains high

In the first half of 2019, Rheinmetall Automotive again outperformed the international automotive industry, but was unable to escape the downward trend on global automotive markets. The global production of light vehicles (vehicles under 6 t) declined by 6.7% in the first half of 2019. Rheinmetall Automotive posted sales of €1,441 million, a figure that was €50 million or 3.4% lower than the previous year's figure of €1,491 million and far less than the decline in production of the industry as a whole. Adjusted for currency effects, sales declined by 4%.

The sector's operating earnings decreased by €31 million to €102 million. Nevertheless, the operating margin remained at a comparatively high level of 7.1% (previous year: 8.9%).

Sales in the Mechatronics division came to €808 million after the first six months of 2019, which is €38 million lower than in the previous year. This decline is largely attributable to the downward trend on passenger car markets and in particular to the persistently weak market performance for diesel passenger vehicles, which was not counterbalanced by the higher sales in truck and pump business. Operating earnings declined from €90 million in the previous year to €66 million in the first half of 2019.

Despite the difficult market environment, in the first half of 2019 sales in the Hardparts division were on a par with the previous year at €503 million (previous year: €504 million). The market-driven decline in plain bearings business was offset by higher sales for large-bore pistons and an equipment sale. Operating earnings amounted to €22 million after €35 million in the previous year.

In the Aftermarket division, sales fell by €12 million year-on-year to €177 million in the first six months of 2019. The sales regions of Western Europe and North America were particularly weak. Despite the decline in sales, stable profit contributions and a strict cost management policy resulted in operating earnings of €17 million, like in the previous year, after the first six months of 2019.

Relatively stable sales development in China, despite strong decline in passenger car production

In a significantly declining market environment – light vehicle production in China fell by 13.5% compared with the same period of the previous year – the joint ventures in China, which are not included in the Automotive sector's sales figures, achieved growth in sales of €10 million or 2.2% in the first half of 2019 to €457 million (previous year: €447 million). Adjusted for acquisitions, the joint ventures in China reported a slight downturn in sales of 1.3%. However, this was far less than the decline in passenger car production in China as a whole.

Defence: growth in sales and strong rise in operating earnings

The Defence sector is continuing its growth trajectory, posting growth in sales of €112 million or 8.8% in the first half of the year to €1,375 million, after €1,263 million in the same period of the previous year. Adjusted for currency effects, the growth is 9.0%.

Defence increased its operating earnings by €38 million to more than double the previous year's figure from €31 million to €69 million. This resulted in a considerable improvement in the operating margin, from 2.5% to 5.0%.

Incoming orders for the Defence sector came to €1,065 million in the first half of 2019, which was lower than the high comparative figure for the previous year (€1,427 million). However, the weaker incoming orders for the first half of 2019 were offset as early as July by a major order from the German armed forces with a gross order volume of over €470 million (net order volume: €397 million).

Sales in the Weapon and Ammunition division went down slightly by €4 million year-on-year to €384 million. At €-1 million, the division's operating earnings remained €5 million lower than the previous year's figure. The main reason for this was lower sales of high-margin products.

The Electronic Solutions division increased its sales by €46 million or 14.2% to €369 million. The main driver of this in operating terms was the delivery of soldier systems (Future Soldier System) to the German armed forces. Operating earnings improved by €23 million to €27 million due not only to increased sales, but also to positive product mix effects and the elimination of losses from a foreign subsidiary.

The Vehicle Systems division reported an increase in sales of €46 million or 6.8% to €718 million in the first half of 2019, having expanded its military truck business in particular. The improved utilization of capacity linked to this volume effect increased operating earnings by €11 million year-on-year to €45 million.

Outlook specified due to market developments in Automotive and Defence – Group forecast for operating earnings margin remains the same

In fiscal 2019, the Rheinmetall Group expects to continue its growth trajectory, despite the persistently weaker trend for global automotive production. Sales growth is currently expected to remain in line with original expectations, albeit at a somewhat more modest figure than previously forecast.

Starting from around €6.1 billion in fiscal 2018, the Rheinmetall Group's annual sales are expected to grow organically and before currency effects by around 4% in the current fiscal year. This corresponds to the lower end of the previous growth forecast for consolidated sales (4% to 6%).

In the Defence sector, sales are expected to grow organically and before currency effects by around 11%, which corresponds to the upper end of the previous growth forecast (increase of sales in the region of 9% to 11%).

On the other side, there has been a deterioration in experts' forecasts for future global automotive production in the second half of the year, in which a tangible market recovery was expected to take place. The experts at IHS Markit have lowered their 2019 forecast to a production downturn of 3.7% for the time being. A number of major automotive manufacturers and important suppliers are now anticipating a decline in global automotive production of between 4% and 5% against the previous year's figure. Rheinmetall is following this assumption. In light of these gloomier market expectations, for 2019 as a whole Rheinmetall is no longer anticipating a stagnant to slightly positive sales performance in the Automotive sector, but a slightly negative sales performance of between -2% and -3%.

Based on these market expectations for the automotive business and the new sales forecast derived from that, Rheinmetall anticipates an operating margin of around 7% in the Automotive sector in 2019. The previous forecast, which was still based on a considerable market recovery in the second half of the year, was around 8%.

Rheinmetall anticipates a further improvement in operating earnings in the Defence sector in fiscal 2019 and forecasts an improved operating margin of around 9% (the previous forecast was between 8% and 8.5%).

Taking into account holding costs, the Rheinmetall Group's expected operating margin for 2019 as a whole comes to around 8%, which means that the previous forecast is unchanged.

Statements and forecasts referring to the future

This release contains statements referring to the future. These statements are based on the current estimates and forecasts of Rheinmetall AG and the information currently available to it. The statements referring to the future are not to be understood as guarantees of the future developments and results that they describe. These instead depend on a number of factors. They involve various risks and uncertainties and are based on assumptions that may prove to be inaccurate. Rheinmetall does not undertake a commitment to update statements referring to the future made in this release.