

Conference Call: 07 November 2024, 14:00 pm CET

O Operator

AP Armin Papperger

DS Dagmar Steinert

00:01:01 Armin Papperger

So, ladies and gentlemen, without introduction, I immediately start. Thanks for your kind introduction and a warm welcome to all participants of Q3 conference call. As in the previous quarter, Dagmar and I will walk you through the presentation. Please be advised of our legal disclaimer on page number two, and now let's get started with the group highlights. Give me a chance, first of all, to have two extra points because of the political situation that we have and also personal decision. Let's start with the political situation. You have nothing in your handout but I am very happy to give you the latest information about the decisions in Berlin about the German parliament. So, the positive thing is that the German constitution, it is impossible to have a time without government. The government stays as long as we have a new government in Germany and the old government can take actions. The same is for German Bundestag. All the people in the German Bundestag can make decisions until the end of their political period. It is very positive that we have a preliminary budget. With that, it is

impossible that we have a shutdown. The governmental shutdown is impossible like it is in the US. So, therefore, the German government is always able to make decisions. The only thing if we have not an acting government is that we only can / Every month can spend one-thirteenth of the previous year on the budget side. But anyway, it is very positive that we have no shutdown. We have a very positive role for the German Bundeswehr. They have an extra role because we have our extra budget. Therefore, it is independent from the budget in 2025 because we have the Sonderbudget [special fund] which has 100 billion and they will spend about that. And as I said before, one-thirteenth of the budget of the previous year in 2025, it will be 2024, they also can spend.

So that we see maybe some smaller delays but not really big ones. At the moment and especially today, there will be a meeting between the Leader of the Opposition and the German Chancellor between Mr. Scholz and Mr. Merz and they will take care about when the next elections are. Our expectation is that Mr. Merz will take care that latest on the 9th of March in 2025 will be the next election so that we have then a new parliament very soon.

If we have a negative vote of confidence which will happen maybe, then the President has 21 days, then he needs a majority and if he does not find a majority inside the Bundestag after 60 days, we will have these new elections. So what are the impacts for us? What are the impacts for Rheinmetall? We see absolutely no big impacts. Maybe there is an impact and this is what we at the moment count in that we have delays of maybe four, six or eight weeks in some of the order intakes.

But the positive thing that today the parliament gave green lights for another contract of trucks and in this year all planned contracts which are bigger than 25 million where the government has to make a decision, we got the feedback that it will go through. And later I will give you an overview about all the contracts where we are in the final negotiations so that we see at the moment as I said not a very big negative impact. Second information, this is about personnel and maybe you read it yesterday.

It is a personal decision from my colleague Dagmar end of the year to lay down the CFO position that she has at the moment. So it is a very clear part that she made a private decision about that things. I fully understand that. I appreciate the last two years that we worked together. She made a great job and thank you very much Dagmar for everything what you did for our group. All the best also from family side. All the best for you. I hope everything is going

into the right direction. So now ladies and gentlemen let's go to the real conference call and I start with page number three.

On this slide you see that sales is growing 40%. Very positive quarter three. The operational results a plus of 52% or 302 million Euro so that the operating margin is growing to 12.3%. For sure we also have higher FTE so there is an FTE degrees of 2,610 people or plus of 11% and with all the investments that we are doing we have a very positive operational free cash flow.

Dagmar will give you an overview about that later in the financial part but plus of 221 million is huge after all these investments. So we spend 7.4% capex of sales and we have after a record Q3 last year also now a very good quarter three for Rheinmetall Nominations of more than 6 billion Euro. So the Rheinmetall backlog has a growth rate of 41% and this is nearly now 52 billion.

Later I will give you an overview about that. This continues and the order backlog will still grow to the end of this year. At the beginning and at the end I have two figures which are very important also.

If you see the accumulation of Q3 so the defence growth. We had a growth rate on defence of 55% which is I think at the moment of the bigger companies the biggest growing defence company on the sales side and also a very good profitability. So only on defence side the profitability is on the level of 15.3% EBIT ROS which is really good.

So the civilian business has no growth and that is a very simple thing that we are growing faster on the defence side and also the profitability on the civilian side is much much lower than on the defence. The expectation for the full year 2024 I will show you later. Let's go to the next slide.

Slide number four shows that the total Rheinmetall Nomination or order intake in Q3 is 6.1 billion. The big driver is Vehicle Systems. On the Vehicle System side we booked another 6,500 military trucks.

This is not the end of the story because at the end of the day there is a need of between 15 and 25,000. It really depends the role of the Bundeswehr that they have and there is more in but another 6,500 military trucks are very positive. We also booked a Leopard 2 for Czech Republic.

This is lot 1 plus lot 2 for 151 million and Fox Kits. This is especially for our 6x6 vehicle trucks for Algeria. It is about 280 million.

Second driver was Weapon and Ammunition Ukrainian order. You know that we built up a 155 millimetre production plant. Here we got a three-digit million euro order intake and the framework with Spain for propellant charges of 250 million.

Electronic Solutions with 60 Skylanders, 30 turrets for Denmark and also intercoms from a frame contract for 356 million and also several bookings for Power Systems. So in total 6.1 billion. Let's have a look to the next slide.

We really continue a very positive point with Leonardo. So we founded Leonardo Rheinmetall Military Vehicles in Italy. It is a new player in the European tank production.

As you know we implemented the Panther tank and also the Lynx tank as a base version and we implement also some Leonardo technologies in these vehicles. We have a 50-50 joint venture and a 50-50 work share. So 60% will be produced in Italy, 50% for Leonardo, 10% for Rheinmetall Italy and 40% the rest of the Rheinmetall factories.

I think a real win-win situation. There is an opportunity of more than 20 billion in the first shot with Italy but our expectation is with ammunition and export that there is a possibility of 50 billion over the next 10 years that we can make in this joint venture. So very positive direction.

Have a look to slide number 6, what happened on the market side. So we made a new strategic alliance from the U.S. transatlantic alliance with Honeywell. And Honeywell has some good technologies that we also need in Germany. The main technology is for sure collaborations on auxiliary powers but also the potential to cooperate on the maintenance on helicopters for example is the engine for the Chinook Honeywell engine and we see potential that we cooperate in that area also for the German Chinook programme.

We have high energy applications and specifically in building automation and overarching thermal management we see also opportunities to do that with Honeywell. So the opportunities that we have is first of all we must not develop things we can use it from Honeywell and we can be faster and we can use the Honeywell capacities also in different areas and Honeywell can take over some technologies to Rheinmetall to produce it here in Europe to be a European hub also for the Honeywell technologies.

Let's have a look to page number 7. This is also an important alliance that we have with MBDA. So we tested as you know very successful our laser weapons on the frigate Sachsen. This was already completed in 2023 and now there is a decision from the German government that we want to continue and we want to implement also the laser technology on the German Navy on different ships on frigates and corvettes and therefore we have a new cooperation agreement and we plan to launch a joint maritime drone defence product on the market. There is a laser weapon but it can be also gun-based in combination with gun-based and laser-based weapons for the Navy. A huge potential also for Rheinmetall.

Let's have a look to page number 8. On page number 8 we see you know that we made a signing on the Loc Performance acquisition. It is very very well on track and I can say a very positive tomorrow. We expect the green lights from the government so that everything is going into the right direction. So monopoly commission and all the other things seems to be okay. The feedback from the U.S. government is very positive so that our expectation is that latest end of this year is closing expected.

So what does it mean? It means that first of all we take over the order book of Loc Performance. We take over 1,000 people and we are ready for operations in the United States for the big programmes that we are because then we have the factories that we need to make the U.S. customer happy. Let's have a look to page number 9. On page number 9 it is a very important agreement between Great Britain and Germany that we signed.

You see the picture between where both ministers signed it and I personally have a discussion with the Prime Minister of UK what is possible of Rheinmetall investments and also contracts for sure in the United Kingdom. And there are four items that we can bring forward with a huge potential which annual sales. I see as number one the gun shop. We will start very soon with the gun shop and this gun shop will be for medium calibre up to 120 smoothbore guns to 155.

There is an opportunity between 300 and 400 million per year. The second is a powder production. At the moment UK has no powder production and there is an opportunity of more than 200 million per year and then munitions and vehicles which is a potential of 500 million every year.

So the British market is really going forward and my expectation is that it is possible to make in Great Britain between 1 and 1.5 billion euro per year. So now political decision number three. U.S. gets a new president and this is you see on page number 10.

What is there an impact on the business for Rheinmetall? So what we believe is that President Trump will press the Europeans to be more independent to invest more into defence programmes and with all the discussions I had with NATO but also with Pentagon the expectation is also from the U.S. that 2% is not enough that we have to spend more. So at the end of the day there will be big pressure. This pressure helps us to get budget and this budget helps for sure to have permanent opportunities also to deliver in Europe.

This is for the whole European forces. Loc Performance as I said is done so we see no negative impact about that and we see also no negative impact on the U.S. programmes because the point is very clear that Rheinmetall builds up all the people, the jobs. We create the jobs in the United States.

We will produce every screw in the United States and this is also a feedback from Pentagon from some governors and also senators that say: "Okay President Trump wants to make that is very clear America great again and we have to create jobs. If we create jobs in the U.S. he will be happy and will protect these companies who create jobs." So let's have a look to page 11 and this is also very clear the expectations of the NATO and exactly what the president of BND for example said but also NATO General Secretary Mark Rutte. And all the comments you can read here on page number 11 sounds very positive for the business because over the last 30 years the Europeans invested not enough.

There is as you know at the moment a gap in Europe of up to 1.6 trillion euro for investments and there is a gap of minimum 300 billion in Germany for that. So there is much more in at the end of the day we have to find the budgets in Europe but I believe that the debt break that we have in Germany very soon will fall and therefore we will get a new budget to invest more in also security of Europe. So I hand over now to Dagmar she will make the financials and later you get an overview about the opportunities that we have over the next month. Please Dagmar.

00:20:23 Dagmar Steinert

Many thanks Armin. A warm welcome also from my side.

Please turn to page 13 and let me allow you to give you a few more financial details on the past quarter. Sales grew around 40 percent to 2.5 billion euro driven especially by a sales jump in Vehicle Systems. There we saw a significant number of truck deliveries.

The currency effects were only minor. Next to that the M&A effect from Rheinmetall Expal Munitions is only visible for July as we fully consolidated Expal from August '23 onwards. The operating result improved by more than 100 million euro to 302 million euro, which represents an increase of more than 50 percent.

As a result our operating margin increased once again quarter over quarter to 12.3 percent. This improvement in profitability of one percentage point also becomes visible in the increase of our earnings per share by 30 percent and I believe that is a great development. Please turn to the next page.

The operating free cash flow of 118 million euro in the third quarter. This represents an improvement of 221 million euro quarter over quarter and it is a very good continuation of the trend we started to see in the second quarter earlier this year. It is all about higher customer payments and of course a significant number of truck deliveries.

Nevertheless inventories increased further as we are preparing for a very intense fourth quarter especially in the area of Weapon and Ammunition and Vehicle Systems. Our cap expense started to accelerate in the third quarter and we still expect to end up the year around seven percent of sales. Moving on to page 15.

Our balance sheet is really in a great shape. The cash position is close to half a billion euro. Furthermore we have undrawn credit lines of 1.3 billion euro and an increased commercial paper programme of now 750 million euro available.

This means we have plenty of financing sources available for the acquisition of Loc Performance. Compared to the previous year following the acquisition of Rheinmetall Expal Munitions we have already improved our net financial position driving our net debt to EBITDA ratio below one. Moving on the next page.

The main driver for Rheinmetall Nominations of more than six billion euro in the third quarter was as Armin already said the large truck framework for Germany. This is a very strong result but compares to an even stronger previous year's third quarter as this included large projects

such as the Caracal and the large framework for tank ammunition. The backlog crosses 50 billion euro barrier and now stands at almost 52 billion euro.

That in fact is a really big number and great achievement. More than 50 percent of the backlog are firm orders. Please turn to the next page for a closer look at our segment results.

Vehicle Systems grew revenues by 88 percent to more than 1.2 billion euro with an operating margin of 13.1 percent in the third quarter. The operating result nearly doubled from 82 to 162 million euro. The main driver behind that were the trucks that we delivered.

Despite the pull forward effects that we reported in the second quarter we saw a very robust performance across all metrics in Weapon and Ammunition. However I would like to point out that the 26.5 percent margin included a special effect due to a release of a provision of Expal. We were able / It was from the initial consolidation and we were able to solve this with a positive outcome.

In Electronic Solutions we had a good development as well. Especially the margin improvement of 3.1 percentage points stands out. One significant driver here was the accelerating air defence business.

Power Systems saw a decline in the business as we have seen in the entire industry over the last couple of weeks. Even though sales and operating results declined, we were able to maintain a small positive margin. Especially in the former OEM business Sensors and Actuators the situation is really challenging. As of today we expect that this trend is going to continue and might even deteriorate further towards the year end.

And with this I would like to hand over back to Armin for the outlook.

00:26:14 Armin Papperger

Thank you, Dagmar. So let's have a look to page number 19 and as last time we discussed a lot about what happens with the frame contracts and what happens with especially the call-offs from the frame contracts.

And what you see is that out of frame contracts from 2021 to 2024 we have three times higher call-offs out of the frame contracts. What does it mean? Frame contracts are very for few customers. This is number one.

It is Germany, Netherlands, United Kingdom, Spain, Norway and Sweden. And it is also for few products and this is especially for trucks and for the ammo contract, for propulsion and also for intercoms. So what is the reason of this frame contract? The reason of the frame contract is that sometimes the governments are giving us down payments in this area or milestone payments.

These are very very big contracts and if we have percentage-wise these down payments the governments want to separate it also that the down payments are not first of all too big on one side and on the other side these are contracts sometimes over five, over seven or over ten years. So that it is possible yes to handle that in slices to have also a risk reduction for the customer and for us in both sides. But this picture shows that the call-offs are getting bigger and bigger and over the last 10 years is always that they fulfilled 100% or more than 100% of the frame contract. Sometimes like in ammunitions of artillery and also on the truck side we have we got extra contracts because the frame contracts we delivered earlier in the frame contracts than the expectation of the frame contract. So it is a positive, a very positive signal.

Now let's go to the next page, page 20 which I think is a very important page to give you an overview about the rest of the year, how safe our business is and how safe our expectations about the order intake are.

So you see that here fiscal year 2022 9.5 growing to 19.9 nearly 20 billion last year and in after nine months we still have 21 billion. So and now give me some time to give you an introduction about that what is still open and where we are in final negotiations, real final negotiations on the contract. I start with Vehicle Systems.

On the Vehicle Systems there are turret reconnaissance vehicles in Germany we call it Radschützenpanzer and this is a contract that we have together with our colleagues in Munich which is more than 3 billion so for every company more than 1.5 billion euro. Because of the situation that we have I believe that this will be booked in the first quarter it will be not in the December meeting this is our expectation.

But to be fair enough for us it does not matter because we could not expect that in the beginning of last of this year or end of last year. So we are not so bad if we have a hit rate which is let me say plus minus two months. Second point is Gepard upgrade programme which is on a level of 600 million.

Then we have the RCH 155. This is in total also 1 billion together with our friends in Munich and it will be 500 million for us.

So then we have LuWa. This is a 400 million package for turret and vehicle. This is an R&D contract. Then we expect 500 million Skyranger contracts and we also expect that we get a contract together with GD.GD will have the main contract of Spähfahrzeug in Germany and for us it could be for more than 500 million. So this is on the vehicle side.

Let's go to Weapon and Ammunition. There are 35 millimetres ammunition contract of 200 million together with Ukraine. There are 100,000 rounds of Lithuania. This is an area of about five between 500 and 600 million euro in Lithuania for artillery. And then are 20,000 rounds out of Spain which will also go to Ukraine. We expect that we can sign it, let me say in December. If it is January, do not hit me, but it is very near.

Another very near contract. My expectation is also '25. It will not longer work now, but everything is in line. That is the positive thing. It is for modular charges. Germany needs a lot of modular charges because they ordered the projectiles.

Last time we discussed about the order intake of the projectiles and they need millions of charges for that because at the end of the day there is a 2.2 million contract with us, but also with other companies and we are at the moment the only producer for the modular charges. This is a 3 billion opportunity that we at the moment negotiate. It is not an opportunity, it is a must because otherwise they cannot fire. But as I said, my expectation is that it will not work. End of this year it will be next year, this 3 billion.

Another very positive thing is that we go now to Electronic Solutions. TAWAN, they want to sign this year. This should be in the next meeting in Berlin. It is a 1.6 billion fix, but it will be a frame contract and this frame contract will be net on a level of nearly 8 billion, so exactly 7.6 billion euro.

So a big, a very, very big digitalisation contract. And then DLBO, this will be a 1 billion contract that we expect and the Soldier System where we will book fixed 350 million and a frame contract of 3.1 billion. So if I count everything together, we have a level between 19 and 20 billion euro where we are in the final negotiations on contracts.

So what does it mean? Our expectations were not too high. Maybe, yes, and again, you can blame us. We have a delay of some months for some of these programmes.

But it seems to be that it is very, very safe between 30 and 35 billion, but the 40 or 40 plus billion at the moment, we are absolutely in the range, absolutely in the range and nothing happened. And the positive thing is also from the market side. We lost nothing.

So everything is still in the budget. Everything is still in discussions. We need it. And especially most of them are from the German government. And there are on top some contracts also from the international market, which is another positive signal. So let's go now to page 21.

And on page 21, you see that after nine months, we have 6.3 billion sales. We have 3.2 in the existing backlog. And there are some things that we book in, for example, more than 100 million in service, which is coming automatically in Q4.

Chemicals, civilian chemicals, and also 150 million trade. So between 300 and 400 million is very fixed so that we have, let me say, nearly no gap to make this around, as I said, ~10 billion.

What is the risk of that? As you said, life always have risks. And at the end, at last year, we had two losses of ammunition where we had late deliveries. So it was some days deliveries late, but sometimes you also have a risk in lost acceptance test. But at the end of the day, we think that the risk is not very high to have sales around 10 billion, which is a very positive signal.

And now also from profitability, I think this is also a very important thing. I give you only one example. The biggest driver, as you know, is Weapon and Ammunition.

The first three quarters, we made 1.55 billion in Weapon and Ammunition. Only in quarter four, we will make 1.34 billion in Weapon and Ammunition. And you know that this is the real trigger point also on profitability.

So if you see that, it is a very important thing that we have a plus of nearly half a billion on the Weapon and Ammunition side. But also the inventories are growing on 500 million. So what I can say is nearly everything of the ammunition is ready.

So that the risk is a logistical risk and a firing, a qualification risk on the firing side. This is, let me say, the only risk I see at the moment. So and if you calculate and if you see what we have over the whole year, the defence growth rate will be more than 50% in comparison of last year.

And our expectation is that we are able on the defence side to make an EBIT ROS of nearly 18%, which is also, I think, an excellent figure.

So then we go to our last page. This is the full year guidance. And on the sales side, it is very clear that we said we have around these 10 billion sales. The operational margin will be around 15%. As I said, nearly 80% around the defence.

The rest is civilian business. And on the civilian business, and we overcompensate that from the planning. Because the civilian business is really breaking down.

And also the profitability, we lost from our expectations 30 to 40 million euro. We compensate, overcompensate that on the defence side. And this is also one point that we for sure said that defence is our core business and the civilian business in some areas are absolutely then not core. And we have to take care about that.

And the operational free cash flow will be more than 40%. It depends a little bit really the cash that we get if we get it end of December or if we get it beginning of January.

But Dagmar showed you in the presentation what we are investing. And if everything is running well, my expectation is that we have between 700 million and more than 1 billion operational free cash flow for this year. And I think that is a very fair value with all that investments that we do inside Rheinmetall.

So we prepare our company for the future. We will grow strong this year. We will grow strong next year and then in the years after we prepare our factories for that because the investments will be done this year and also next year.

But we still have a good operating operational free cash flow which is very good for our investors and also very good for the people who are working here in Rheinmetall. Thank you very much for your attention. So now we are fine with Q&A. Please start.

00:39:51 Operator

So ladies and gentlemen, if you would like to ask a question now, please press 9 followed by the star key on your telephone keypad. And if you wish to cancel your question, please press 9 followed by the star key again. And we will start with Sven Weier from UBS.

00:40:10 Sven Weier

Yes, good afternoon and thanks for taking my questions. Mr. Papperger, I want to follow up with I think something really important you said on the German debt break because you said you expect this to fall relatively swiftly which I think is an important statement.

So do I take it that you think that the CDU will give up its opposition against the debt break? And do you also assume that the AFD and the BSW will support a two-third approval rate in the Bundestag for dropping it? That is the first one. Thank you.

00:40:47 Armin Papperger

Yeah, first of all, I think they do not need it because as you said, there are some mechanisms that it is possible.

So the easiest way for that is what I hear from my discussions. First of all, that they want to invest into the security of Europe and Germany. And the Christian Democrats are pushing that and they go forward and there are different opportunities.

And sometimes you do not need a two-third. So it was possible for example also to have this opportunity of this 100 billion budget. Maybe they give an extra budget but at the end of the day, I think that the pressure will be so high that there is no other opportunity.

00:41:35 Sven Weier

So you think there will be kind of an emergency ruling or something because I think also special fund needs a two-third majority to have that go through.

00:41:48 Armin Papperger

I believe they will have it. I believe they will have it because if you see what AFD and BSW at the end of the day have, what is it? Is it 12 plus something from five? So you have a two-third if you want to do it.

I believe they have to do it because then we need it for investments in Germany. And you know, I think that we will not really go forward if they do not do it. This is my expectation.

00:42:20 Sven Weier

Yes, let's see. I hope that happens because at the moment it looks a little bit tricky. The other thing I was just wondering because you said you expect maximum four to eight week delay on the decision making.

I was just wondering, I mean, at the earliest point we will have new elections in January, I guess, until the new government is in place, it will be March. So do you see your conversation partners are still working now in Berlin or is not everything in a bit of a disarray?

00:42:52 Armin Papperger

No, no, absolutely they work. You see, even yesterday we had a decision that there will be a change on the governmental side. Today we got the decisions of the contracts. So they work. And as I said, there is maybe some delay, hopefully not too much.

And that was the reason that I started with that political statement. The government is able to make decisions as long as they are government. And everything what is in the plan is at the moment that I see positive.

So I see that they are able to make decisions and they are also able to make decisions in January and February next year, even if there is an election in March.

00:43:44 Sven Weier

Good. And maybe the final question is just a housekeeping one, because on the EBIT guidance, I can see you have broadly not changed the divisional margin guidances except for Power Systems.

I was just wondering on the other line, because I think we started the year with this minus 50 million guidance. Now, after nine months, we are already quite a bit above 80. So I wonder whether that guidance item, how that has maybe changed?

00:44:16 Dagmar Steinert

Well, that is due to increasing IT costs. You know, we are in an IT transformation process. And unfortunately, it takes not only time, but it costs money.

00:44:34 Sven Weier

So what should we expect then for the full year on the other line?

00:44:38 Dagmar Steinert

Well, you should expect at the end 20 million more.

00:44:47 Sven Weier

Okay, thank you. I go back in line.

00:44:52 Armin Papperger

Thank you.

00:44:55 Operator

So next up is Christoph Laskawi from Deutsche Bank.

00:45:00 Christoph Laskawi

Good afternoon. Thank you for taking my questions.

The first one, just on the projects that you flagged also in Germany, did any of those see changes in size more recently? Have they been upscaled versus your initial expectations? And could you comment on which projects those have been? And then second question, and you alluded to that in a recent interview, when should we expect the Italian order intake to come through? Is it fair to assume the first 10 billion in 2025-26, and then the last 10 in 2027? Or is there any changes in that timeline? And then just lastly, on the auto business, peers of you are restructuring, right-sizing the footprint, et cetera. Now, you are in need of staff, obviously, in defense. Can you make use of that? And do you right-size the auto footprint currently? Thank you.

00:45:56 Armin Papperger

Yeah. So first of all, on Germany, yes. There are some higher figures now than expected before.

And the reason is that some of these programmes are now one year later, and the price indications are higher also, so that we have to ask for higher prices. This is especially for our Boxer turret with turrets. This is also on the TAWAN side.

But the biggest thing is, let me say that on the TAWAN side, the government now wants to have a frame contract. Always before, we discussed net 1.5 billion, and now it is net, let me say, nearly 8 billion on the frame side, because they want to do this over the next 10 years. So yes, there are higher figures now.

That is also the reason that if you count up everything, and if everything would be perfect to be booked end of the year, as I said, it is nearly impossible. But for me, it does not matter if it is Q4 or Q1, but it will come. It is more than 40 billion that we could plan this year.

Second point from Italy. Yes, the budget from the Italian government, they gave the budget. The first budget is now for the Lynx.

It is on a level of 2.5 billion. And next year, the budget for the Panther is between 8 and 9 billion. So yes, you are right.

It is for this year and for next year. And I really do not know, because we have November now. And next, in December, maybe then we have the joint venture is then ready.

All the bureaucracy also in Italy is done. And then I expect that the first contracts will be in Q1. But your calculation is not so bad that in 2025, it could be really on a level of about 10 billion and the rest will be later.

Question number three, on the auto side. Yes, absolutely. It is very, very important for Rheinmetall to take care about the people that we have.

And we take care and at the moment, people from the civilian business are going to defence business. And the second point is what we want to do is, and there we will make the final decision end of this year, that we take over factories, the defence, because we need capabilities and capacities, defence will take over civilian factories. So that we have not like other automotive producers, programmes to restructure everything.

And also not that we lose 1,000 or 2,000 people, but we take care about our people. At the moment we have a plus of 6,000 people per year on the defence side. So and so, and at the moment on the civilian business, we have around 7,000 people.

So we can really take care about our people. But we still have civilian business, as you know, there are 2 billion that we have to make. And on the other side, if we take care from the defence side to take over the factories, and also we must not invest on defence.

So these are very positive things, because we must not invest in new factories, because the factories are there, we take over the factories. And so I think we can really have a win-win situation to save money on one side to have not a restructuring programme, because we can take over the people. And on the other side, we save money and capex because we do not need new factories. That is fair enough, Mr. Laskawi.

00:50:11 Christoph Laskawi

Very clear. Thank you very much.

00:50:13 Armin Papperger

Thank you.

00:50:15 Operator

So next up is George McWhirter from Berenberg.

00:50:21 George McWhirter

Yes, good afternoon. Thank you very much for the questions. I am too pleased if I may. Firstly, just on the truck deliveries facing this year, have the majority of the German and UK truck deliveries been made in Q3? Or should we expect another large share to be happening in Q4? And the second question is just on Ukraine.

So NATO General Secretary Rutte was quoted this week saying that you are close to finishing the second site in Ukraine. Can you just update us on the status of what that factory is making? And also the other factories that you got planned? And also the revenue contributions from those, please? Thank you.

00:50:59 Armin Papperger

Yeah. So question number one, on the truck side, we delivered a bunch for sure in Q3, but we also deliver in Q4. Deliveries, we continue delivering for that till end of the year. The positive thing this year is that we sell everything or nearly everything that we produce, because now the frame contract is running and contracts are fully booked.

We are not waiting in November for other big contracts. We get this 200, now 200 trucks on top. This is what they signed today in the German Bundestag.

But yes, we deliver also in Q4. Your second question about Ukraine. On the Ukrainian side, as you know, we have now two factories in Ukraine for vehicles.

This is for maintenance, but also there we are able to produce new vehicles. And you know that end of this year, the first Lynx will be in Ukraine. And we are at the moment now preparing everything for the ammunition factory.

We have signed the contract. We got the down payments from the Ukrainian government. The Ukrainian government pays for the whole factory.

And we will be ready for artillery production in a period of 13, 14 months. So what is our next plan? The next plan is to implement also a powder production. There is a contract at the moment not signed, because we have to make it step by step.

And last but not least, an air defence factory also not signed contract about that. They need a lot of them, but at the moment the budget is limited also from the Ukrainian side. And we do not take the risk to build up factories without contract coverage and or without down payments. So we must make this risk reduction also to be safe from our side. Yeah. Is that okay?

00:53:17 George McWhirter

Yes. Thank you.

00:53:23 Operator

So next question comes from Dario Dickmann from HSBC.

00:53:27 Dario Dickmann

Yeah. Hi. Thanks for taking my questions. I have got one on possible international tenders. Do you have some updates regarding Poland or even Romania?

00:53:39 Armin Papperger

Yeah. Is that the only one or do you have another one?

00:53:45 Dario Dickmann

And the other one would be clarification on the DLBO. So you mentioned you expect a 1 billion contract. Are you in total still expecting something up to 6 billion?

00:53:57 Armin Papperger

Yeah. First of all, tenders on the Polish side, there are still negotiations, no decisions on the Polish side. There is a huge need in Poland.

There is also a huge political negotiation at the moment between the Polish government and the German government. You know that there are discussions about cross payments, et cetera, et cetera. My expectation is that the first decisions maybe we can get in the second half next year, not earlier on the Polish side.

Romania is a bit faster. As you know, we booked the first 300, 400 million on the air defence side. There is another need now on Leopard 1 chassis from air defence.

There should be a decision on the infantry fighting vehicle side. So the process is running. Romanian government told us that they want to make a decision end of this year.

My expectation is because that is also a huge contract we speak about on the infantry fighting vehicle side, nearly 3 billion Euro. My expectation is that this will be also a decision next year. It will not work. It was also not in our list as you have seen. So in that country, it always needs a little bit longer time. So on the propulsion production, we started the planning.

The planning will be ready for everything in about four weeks. If the plan is ready, so the tendering process for the civilians is running, and then the contract I expect also not end of this year, but next year. But it is a very clear statement also from Romania that these three programmes, and there is a fourth programme of ammunition they want, they need, and they need it also very, very fast.

Second point is very clear DLBO. In DLBO, our digitisation by themselves is a big budget in total. There is some spread. DLBO was a combination before also of integration of digitisation in vehicles on one side, and also some hardware, which some of them is now in TAWAN. As I said, the TAWAN contract is on gross figures about 9 billion now, but the DLBO is also much more than this 1 billion. Do not hit me, but I think my expectation is that in total it will be more than 4 billion. Is that okay for you?

00:56:59 Dario Dickmann

Yes, that is great. And maybe on digitisation for Australia, are there any updates?

00:57:08 Armin Papperger

No, at the moment there are no updates about that. We are still in negotiation with the customer in Australia, and also no decision this year, very clear.

So this is also next year. They are shuffling around in Australia at the moment also the budgets, as you know, because they need a lot of money for the submarines. They need a lot of money for their long-range hit, but at the end of the day they need the digitisation.

But I expect also a decision next year.

00:57:46 Dario Dickmann

Great, thank you very much.

00:57:49 Armin Papperger

It is a pleasure.

00:57:51 Operator

So next up is Marie-Ange. Riggio from Morgan Stanley.

00:57:57 Maria-Ange. Riggio

Hi everyone, thank you for taking my question. I have three.

The first one is about your nomination. So we have seen that you have introduced a new target range, so about 30-40 billion. You have mentioned that the main reason is some project might shift to '25, but can you give us a bit more of colour about the main reason of the delay? Is it like a question of price? Is it a question of volume? Is it just a question, it is not the priority of the government at the moment? Just any colour on that would be useful.

The second question is about Ukraine and your exposure there. So if I am right, you have stated that your direct and indirect sales to Ukraine should be around 1.6, 1.7 billion. Well, given we are already in November, I would assume this is pretty safe for this year.

But let's say in '25, in the case of potential conflict escalation, how should we think about the potential recurring, if I can say it like this, revenue in Ukraine? And lastly, about the UK and the new archery and tank gun factory. Can you give us a bit more colour about the timeline, please? Thank you so much.

00:59:10 Armin Papperger

Yeah, sure. First of all, the 30 to 40 billion, mostly it is delays in negotiation. So there are, as you know, time slots, time slots where these contracts have to go to the German Bundestag. And if you go to different things, so we are very, very good because we are ready.

We are now ready on TAWAN. And this will be, I think, go through in the next meeting. We have still open issues because sometimes the customers see our calculation in a different way. But we still fight for our profitability in different areas. Then there are some changes inside the contract. This is mainly the point that the negotiation between our team and the team of

BAAINBw. We lose some weeks, or sometimes we lose one or two months. If you lose two months at the end of the day, yes, you have a delay that comes then in the next meeting in January or in February, but that is the most important thing. No problem, no problem, it was cancelled.

No problem was, has a problem, let me say, with, to say, okay, we have no longer money for that. This is what we told you and what we negotiate is going forward, so far from the German side. So Ukraine, you are right, on the Ukrainian side we are on this level, but the beauty is on the Ukrainian side that we have good contracts, also long-term, signed, and a lot of them are also 50% paid, or there are down payments.

So for you to get an overview about that, we nearly, nearly booked 6 billion for Ukraine. Some of them paid from the Ukrainian government, some of them paid from the U.S. or for European side. So it is a big package that we have, and from this 6 billion I would say 4 billion is still open that we deliver next year and the year after that.

This is especially a long-term ammunition contract that we have with Ukraine. So on the Ukrainian side, as you know, we deliver a lot of ammunition for next year and also for 2026 we booked a lot of contracts for the Ukrainians there. So we are safe.

United Kingdom, on the United Kingdom we will build up a gun shop in the next 12 months. So we will be ready end of 2025, this is our expectation. We have at the moment 5-6 different places where we want to invest.

We will discuss with the government, which is politically also the best place to build up these production lines, and at the end of the day there will be a centre of competence which is very similar to the centre of competence in North Germany, in Unterlüss, where we are able to produce medium calibre, 120mm smoothbore and 155. And this is especially for the U.K. market but also for exports. And we need these capacities.

We have a bunch of contracts to build up new weapons because especially from the Ukrainian side, all the weapons systems, they shoot them out and shoot the barrels down because they shoot thousands of rounds. And that is the reason that we invest in U.K. to have an independent U.K. source on one side for the British programmes but also to build up capacities for export for the world. Is that okay for you?

01:03:25 Marie-Ange. Riggio

That is perfect Armin, thank you so much.

01:03:27 Armin Papperger

Thank you.

01:03:29 Operator

So next question comes from David Perry from J.P. Morgan.

01:03:35 David Perry

Hi Armin and Dagmar. Dagmar, unfortunately I can not make the CMD this year, so thank you for all your help if we do not speak again.

I have got two questions please. Armin, the first is on cash flow. Maybe I was too preoccupied this morning with the German political news but I saw the guidance change to over 40% and did not think much of it.

But what you have said on this call is significantly above 40%. I think the range you gave us, 700 to 1 billion, is 47% to 67% conversion, if my math is correct. So the question is this, we have seen with some other defence companies, sometimes when they significantly overachieve on cash, there is the payback the following year.

So is this a timing issue? Should we expect some payback next year? Or is this cash you can keep and maybe even, without wanting to get too ahead of myself, is there going to be a new level of cash conversion going forward that is higher than 40? That is the first question. Can I ask the second one now or should I come back? The second one is, so you have just nudged up your margin guidance to the top of the range, but you have told us on the call, auto is a bit worse and the other line is a bit worse. So just in terms of what is better, is it spread across all three defence divisions or would you steer us towards one of them as doing better than you expected? Thank you very much.

01:05:16 Armin Papperger

So let's start with the margins. So on the margin side, there is a lot, and this is what we discussed, David, also over our last meetings, the leverage effect that we have now inside. So we are, the growth rate that we have on the ammunition side is very, very positive for us.

You see this also in Q3. And if you see that also in Q4, we have another / Let me say, we have 40% of the annual sales in Q4 on the Weapon and Ammunition. You can imagine that there is a big trigger point also for profitability, this is number one.

Number two is that over, that Electronic Solutions is also in a good position because they are growing very strong. And they get now a lot of digitisation contacts. So if you see, and this is what is totally different to the picture that we had before, on the digitisation, if you see that TAWAN and DLBO is coming in and Soldier System is coming in, we expect now, and this is a point which started last year, on digitisation, 12, 13 billion contracts in that.

Never ever seen before in that area. So we will see on the digitisation, let me say, a similar effect that we have on the Weapon and Ammunition side. So this is the second trigger point.

And the trigger point number three is that now and also for the next years, Vehicle Systems will come into a situation that we go into really serial production. No longer, let me say, small numbers, big numbers going over, so that over all three divisions, we will see an effect which will be positive on profitability. Is that, let me say, something what you can raise forever? No, for sure not.

But at the end of the day, I think we are not in such a bad shape if we make on the defence side this year around, let me say, 18% EBIT ROS. So this is good. But there is more in for sure, but it will be over the next years.

And my expectation is really over the next years that we can go on the defence side on a level of 20%. If over the next years, and we make it happen, we can make it happen, the cash conversion rates will be better over the next years. This is very clear.

So the second point, and this is also a point, we have this year a lot of down payments. And we will not fall down to say, okay, that we have then a negative cash flow over the next years because the profitability of the project is very good. But you can not expect, if we book in December, all these big programmes, and if we book in December, for example, only TAWAN would have a down payment of 500 million.

That is the reason that we really have the possibility to go forward. And if the money comes in December and not in January, nobody knows, because as you know, we have to do it with government, then it could be that we really are on a level of 700 or more than 1 billion in this

area. Because if one trigger point or one contract is only 500 million down payment, it is very clear that this is one thing.

So the mean value in cash flow over the next years will be better than a cash conversion rate of 0.4. We have to bring it up in this area. But give us some time now to stabilise all those things. But I think it is a very positive thing. Is that good, David, for you? Is that okay?

01:09:16 David Perry

Yeah, I just want to, I mean, it sounds like there could be a risk that maybe you go below 0.4 in '20, well, in '25 or '26, if you consume these PDPs, these advances. Am I reading that correctly, or do you just think the ongoing new receipts will offset that?

01:09:34 Dagmar Steinert

Well, David, if you do not mind, I would like to answer your question maybe in a little bit more conservative style than Armin does. As our cash conversion rate, our guidance is always an average over a couple of years.

So therefore, at the end, you do not have to expect year by year, every year, a cash conversion rate over 40%.

01:10:05 David Perry

Okay. That makes sense. Thank you.

01:10:09 Operator

So our next question is from Sebastian Growe from BNP Paribas.

01:10:20 Sebastian Growe

Hi, everybody. Good afternoon. Thanks for taking my questions.

And first, Mrs. Steinert, and also as for David goes, I will not be able to attend the capital market day. So I would like to wish you all the best for the future. And with that out of the way, now to my questions.

The first one would be around the comments you made on serial production in Vehicle Systems and also related then to Weapon and Ammunition. You have so many, I think, Capex projects ongoing, be it on the green or brownfield side, so it is not necessarily that you need

to follow all those. Could you just sort of remind me quickly of what the sort of latest directional comments have been? So I do recall Weapon and Ammunition should be minimum 5 billion, could be higher.

I think Vehicle Systems was also in the ballpark of 5 to 6 billion by 26-ish. So is this sort of a right understanding or have there been so many, as mentioned, green and brownfield projects in the meantime that those numbers might be entirely wrong?

01:11:20 Armin Papperger

So we will give these figures now in detail on the capital markets day. So you get also this documentation, which where we are going, there we give also the new way forward.

But I think at the end of the day, we minimum can reach that point. But we give you the figures in details in Rome when we have our capital markets day. And we still bring all the figures together.

But I think it will be, there will be two good days.

01:11:51 Sebastian Grove

That I would bet on. The other question I had is just making reference to the announced changes to the executive committee yesterday.

And I am not so sure if I am reading too much into this, but from the release, it sounds to me like the IT set up is not necessarily where you would like to have it at this point. So the question that comes with it is, how should we think about the investment needs here? And the second question, because you also have referenced it very strongly to the growth opportunities, should we take a better IT setup if that is the right understanding as an additional growth lever or what is sort of then the proper understanding and qualification of those comments you made in the press release?

01:12:36 Dagmar Steinert

Well, regarding our IT transformation and the way going forward, we are just in the phase to finish the, to take all IT services in-house. And that is quite a cost issue in the running year.

But we, yeah, you should not expect in absolute numbers that IT costs are really coming down as everything, if it is AI, if it is digitisation, everything is somehow related to IT. And of course,

there will be an improvement or further improvement of the whole IT infrastructure. If you compare our IT spending to sales, the percentage, of course, will come down over the years. And we are really fine in a, yeah, in a benchmark.

01:13:39 Sebastian Grove

All right. And in terms of being an additional growth catalyst, that would be the too far-fetched and that is the assessment on my end.

01:13:47 Dagmar Steinert

Pardon? What you, sorry, I did not really get your question, could you repeat it?

01:13:53 Sebastian Grove

The question was, I think that you have made the specific reference in that release that you have so many growth opportunities and IT is extremely relevant to drive that very, very growth. So the question that I am having is, is really IT an additional unlock catalyst, so to speak, or is it just as planned, if you want so?

01:14:16 Dagmar Steinert

Well, I was just referring to like white IT, all the basis, the backbone of the IT, and not, I was not talking about digitisation of our products. That is a different thing.

01:14:33 Armin Papperger

And it is also a point which helps us. This is absolutely, absolutely great on the IT side, also on the white IT. We need them. It is a catalyst for us to go forward, to be faster, to be more efficient in this area, and that is the reason that we are investing at the moment a lot of money.

So in the IT side, we invest more than 300 million, and between 300 and 350 million per year. It is important for us, especially also for the new factories. We have a new concept. We want to go to absolutely new IT versions to the most modern that we have. We want to use in different areas also artificial intelligence. So I agree 100% with your point or with your statement that at the end of the day, with IT, we must be more profitable, and we have to run the business better than we did over the last years. Is that okay?

01:15:37 Sebastian Growe

Sounds great. Yeah, absolutely. Okay, thank you so much.

01:15:43 Operator

So there are no further questions right now, so I would like to repeat. If you would like to ask a question now, please press 9 followed by the star key on your telephone keypad, and we will wait a moment if some more questions coming in. Yes. So I hand over to Victor Allard from Goldman Sachs.

01:16:07 Victor Allard

Yes, thank you very much for taking my question, and good afternoon, everyone. The first question is perhaps for you, Mr. Papperger.

I mean, we have seen the draft of the 2025 German budget, and I was wondering if you think there is a potential for revision of that draft going into the remaining phases of the approval process. And also, when you look at the makeup of that draft, how should we reconcile the ammunition category, which is being cut by half, I believe, versus 2024 with the implications for Rheinmetall? Is that just phasing because you have already such a large cover going into 2025? So the first question. And then the second one is probably for Dagmar, and apologies if I missed it. Could you please quantify the provision release in Weapons and Ammunition in Q3? Thank you.

01:16:52 Armin Papperger

Yeah. So first of all, for the budget next year, in 2025, we are on the ammunition side fully booked from German and international markets.

The only thing that we can press out at the moment, and this is really possible to have if you have some synergy effect. So I can give you an example about that. So the artillery ammunition in Spain, where we are able to produce 350,000, 400,000 rounds, we produced 20,000 more than expected this year because of synergy effect.

But the rest, there is no influence from the German budget side in 2025 because it is fully booked. The second point is that for 2025, the government has to make, let me say, another proposal. It is not still fixed about that.

And there is now, it is a different situation than we had before. I think there is some space. There are possibilities for the government to go forward if, for example, the opposition is now

with them. Because if you have a minority government, you can change something in this area. But nobody knows exactly what happens. But I think there is an opportunity.

But I have no glass ball what the politicians are doing in this area. But next year and in 2026, we are very, very safe, especially also on the ammunition side because we are very well booked.

01:18:22 Dagmar Steinert

Yeah. The provision we released in the third quarter in Weapon and Ammunition, that was an amount of 15 million Euro, so 15.

01:18:33 Victor Allard

Great. Thank you for the call. I appreciate it.

01:18:36 Armin Papperger

Thank you.

01:18:39 Operator

So, there are no further questions now. And I would like to hand back to Mr. Papperger for the conclusion of the call.

01:18:49 Armin Papperger

Yes. So, thank you very much, ladies and gentlemen, for your time, for your interest of Rheinmetall. I hope we could give you the transparency that you need as our shareholders.

Thank you very much to be our shareholders. Thank you for your trust. And, yeah, have a lot of fun, hopefully also in the future with Rheinmetall shares.

Thank you very much. Bye-bye.

01:19:15 Dagmar Steinert

And I would like to take the opportunity to thank each of you for the good collaboration over the past years, as today is my last earnings call for Rheinmetall. It was a privilege for me, and I am sure Rheinmetall will have a bright future. Thank you very much.