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PRESENTATION

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Good afternoon, everybody, and thank you for joining us for the Q3 results call today. With me on the call is our CFO, Klaus Neumann. Klaus will walk you through the financials.

Before we start, please be reminded of our legal disclaimer on page 2. Now let's move on to page number 3. On page number 3, you see that on the sales side, and I focus very strong on the Defence side. We have a growth rate of 17% on the Defence, up to EUR2.3 billion. The total sales is EUR2.78 billion. The operating results on the Defence side is EUR361 million, a plus of 7% and it's EUR360 million in total of plus 19%.

Operating margin is, on the Defence side, 15.7%. And it's lower on the total sales on operating margin is 12.9%. The people still want to come to Rheinmetall. So we had more than 200,000 applications. Operational free cash flow is going down on the Defence side, minus EUR286 million, total minus EUR168 million. And CapEx is growing because of all the new factories that we build up at the moment to 8.9%.

And Rheinmetall nomination and the issue that we have a minus of 36% is, as you know, the election period that we had in Germany so that we had delayed order intakes. And -- but that's very normal because the government was not able to give these order intakes to us. But Rheinmetall backlog is -- we're still very healthy. With EUR63.8 million as nearly EUR64 billion, we have a plus of 23%.

Let's have a look to slide number 4. And here, we have shown some innovations. We presented the innovations on the DSEI in London. And we have shown with together with Lockheed Martin, the JAGM tank counter on a new Fox mobile, but it can be implemented also on other vehicles, then we have a growing family of our Strykers, the Mission Master, which is (inaudible)-- and the next-generation ship protection with the Luchs 2, there are a lot of more innovations that we have shown on the DSA. It's a small overview about that, what we did in London.

On the right side, you see the [Telfort Gancho] groundbreaking ceremony. And we will invest in total about EUR100 million and we will create 100 highly skilled jobs and it's important for us to produce the caliber range of 120 to 155 from the last caliber side. but we are also able to produce medium caliber. The need for that branch over the next year is huge, and we create upper capacity of more than 150 large caliber guns per year in the United Kingdom.

Let's have a look to page number 5. And here, you can see that the Parliament made good decisions. So at the end of the day, 2025, finally, we will have a budget of EUR95 billion. There is a growth rate of 23% and in '26, the draft, and we expect nearly EUR120 billion, where EUR83 billion is coming out of (inaudible)ELP 14 than the special fund and the Ukraine relief fund. So the decision on the budget in '26 budget has to be passed in November, so that we are able to plan -- really fix then for the next years.

Let's have a look to slide number 6. On slide number 6, you see two new activities that we have inside the Rheinmetall Group. One activity is that we reached an agreement with Lurssen family. And to take over the naval vessels from Lurssen, so we had the signing. And we expect that the closing is latest end of January in 2026.

The potential sales that we see in 2030 is up to EUR5 billion. Next year, the expectation is that we can grow up to around EUR2.5 billion, but then double the sales. And the order intake potential that we see over the next five years is between EUR20 million and EUR30 billion because there are huge programs also from the German Navy but also international navies.

On the right side, you see the ICEYE cooperation. We formed a 40-60 joint venture with doing ICEYE and Rheinmetall. So Rheinmetall has the majority. And we signed it on the 23 of September in '25 -- the first market is Germany, but we look for more markets and the immediate need we see is at the moment, 40 satellites. And Rheinmetall, the expectation on nomination is about EUR2 billion. And if everything is working well, we can have an order intake also this year of that EUR2 billion, so the first big contract on satellite for Rheinmetall.

Now let's have a look to page 7. And here you see how Rheinmetall weapon and ammunition is creating this European ecosystem. And the expansion of existing capacities in Spain, doubling or in some areas, tripling capacities in Spain, the same in South Africa and in Australia are in progress. In Germany, we started the trial production for the 155 projectiles. And we are also on a good way, and the first stage is ready on the powder production in Bulgaria. And we will double, and in some areas, triple also the productions in Bulgaria on the powder side. So we are on a very good way in that area.

The groundbreaking in Lithuania for ancillary ammunition. And we signed an MOU also for propellant to create a center of competence of propellants in Lithuania signed also where the President of Lithuania was with us. A new ammunition plant in Latvia, signed Bulgaria, joint venture for powder and 155-millimeter is established.

And in Romania, a joint venture for powder production is also established. And on the Romanian side, we plan at the moment, and it can be also very fast in the first quarter next year, a package deal with the Romanian government, not only about ammunition, but also about tanks and other equipment for the Romanian Army.

Now let's have a look to page 8. Here, you see what happens now with the Power Systems, the process of selling our automotive business is going forward. And the submission of final offers will be in quarter 4, we expect over the next four weeks that we get binding offers. And if everything is running well, we can finalize the process in the first latest in the second quarter of next year.

Now I take over to my colleague to Klaus, and he will give you an overview about the financials.

Klaus Neumann - Rheinmetall AG - Chief Financial Officer

Thank you, Armin. Yes, we had a strong quarter in which our sales grew by 13%. Defence sales grew even stronger -- sorry, with which now make up EUR2.3 billion or 83% of the total sales of EUR2.8 billion. Our operating results grew even stronger than sales to EUR360 million, with a margin of 12.9% for the group and 15.7% for Defence.

M&A activities, as you can see on the slide, contributed to the sales, but only -- there was only a limited impact to profitability because we still have some integration costs for some of the acquisitions we did this year.

Please move on to page number 11. Let's have a look at the development in the different segments of our business. In Vehicle Systems, sales increased by 8% quarter-to-quarter to EUR1.3 billion, driven by more tactical vehicles, including services. As you know, there are some truck sales was slightly lower than in previous quarter because of the delayed deliveries to the German customers. There's a small negative mix effect and a regional split compared to the previous year, so we have a margin of 12.5% in this quarter compared to 13.1% in the previous year.

Let's move on to Weapon and Ammunition. Again, we saw the highest growth rate in this segment. Sales grew by 38% to EUR691 million, important sales related to tank ammunition and median Calama. As you know, artillery ammunition was held back to some extent by the delay of the new government permission for our production site in (inaudible) Operating margin decreased by 3.3 percentage points to 23.2% in the third quarter.

In Electronic Solutions, yes, sales growth was very strong with 32%, reaching EUR516 million. Main driver was the increasing contributions from multiple digitization programs as well as increased air Defence sales. Operating margin went up to 11.0% after 10.9% in the previous year.

Lastly, our Power Systems division showed slightly decreasing sales compared to the previous quarter as the auto market is a very difficult environment at the moment. And the division is fighting hard to basically keep its ground in that difficult market. Despite the sales decrease, operating results stayed stable compared to the previous year at EUR18 million, slightly increasing the margin from 3.6% to 3.9%.

Let's turn to page number 12. As mentioned, yes, I mean, our nomination was lower in Q3 2025 compared to previous year due to the delay in order placement, especially by the German customer. Also keep in mind, that last year, we imposed a large framework -- frame contract of trucks of EUR2.9 million, just to give us a bit of perspective of the development from year-to-year.

Overall, everything is going as expected. And you might have seen in our press releases, we are gaining additional order momentum on several big tickets now in the current quarter, Q4. More on this in the outlook section. Our Rheinmetall backlog rose by 23% to EUR63.8 billion year-over-year.

Let's move to page number 13. to look at our cash flow and our working capital development. As order intake in Rheinmetall Nominations was lower than in previous year, we also did not see the large prepayments that we enjoyed in 2024 so far, as a result and also as a result of the buildup of inventory for upcoming sales in the fourth quarter and in 2026. Our cash flow was negative at minus EUR813 million million for the nine months in 2025. Higher inventories again relate mostly to vehicle systems and are also impacted by the later truck deliveries compared to 2024.

Let's move to page number 14. While we have a negative operating free cash flow, this year so far, we have a strong support from -- on the financing side. I just want to give you an update on the situation with our convertible. We had no conversion of the Series B convertible bond and our total number of shares is now standing 46 billion shares.

Our equity ratio improved and is now at 32.9%. This conversion support our net liquidity position and strengthens our balance sheet. Due to the lower level of customer prepayments, our net financial position, nevertheless is now at minus EUR1.9 billion. And just to give you another example of our balance sheet situation, net debt-to-EBITDA ratio of 0.97 is still very strong and puts us in a very comfortable position to finance the upcoming M&A transaction.

With this, I would like to hand over back to Armin.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Thank you, Klaus. So I want to give you on page 16, an outlook about the nominations and the expectations that we have in Q4 after having the German government machine running again. So we are in negotiations, and we had the first successful -- the first success on the Jackal.

The -- let's start on the vehicle systems side after nine months. So we had, as Klaus said, also nearly EUR64 billion. Our expectation is on Jackal, 3.4 is booked. The other point is Puma. And these are always net values that we have only for Rheinmetall, not in cooperation with others. The Puma, the expectation is that on the Puma side, we have a potential of EUR1.4 billion.

On the Lynx side, there is another potential that we have from -- won from the Italian side, but also maybe from Romania, where if everything is going good. Only the Italian side will be a level of about EUR400 million.

On the Leopard side, we see EUR0.5 billion, EUR500 million also. And the support vehicles on the Leopard is another EUR300 million. And there are negotiation on the trucks, but it seems -- it can be that the trucks are also going into '26 into the first quarter into the negotiations.

On the Truck side, we are in negotiations at the moment to enlarge the frame contracts and which are then fixed contracts of more than EUR4 billion. A very positive point is also and maybe not in Q4 because it's a huge contract. This is a boxer contract, the government calls it Arminus, this Arminus contract is a total contract number. There will be nominations of EUR40 billion. from this EUR40 billion, we expect more than EUR22 billion also for Rheinmetall. But this will happen very safe in '26 and not longer in '25. But if it happens in Q1 or Q2, I will be very happy.

Next one, let's go to weapon and ammunition. On the weapon and ammunition side, there are the final negotiation on the 155 fixed contracts. And there are different numbers at the moment in discussions. First of all, we discussed about 1.7 million rounds than 1 million round, maybe it's in this year a little bit reduced because they want to bring something to this year and to next year to create fixed contracts. But the expectation in total on the ammunition side is an expectation of around EUR6 billion.

So if you count it up everything, it's EUR5.5 billion to EUR6 billion for the vehicles minimum, EUR6 billion on the ammunition. Then we go to Electronic Solutions. On the Electronic Solutions side, we see the satellite program. And the contract that we expect this can be around EUR2 billion. The SkyRanger is implemented in the program Arminus.

And then we have Luchs 2 weapons and weapon stations, about EUR300 million laser light modules, EUR300 million loitering ammunition. This is what you have seen in the newspapers over the last two weeks, the first bigger contracts for drones and also some other smaller contracts so that we see potential of EUR3 billion that we can reach this year.

The rest will be in first quarter and second quarter, and this is the big bunch then, which is coming in the first and the second quarter next year. If you count up everything, so we are still in the range of around EUR80 billion, how we expected at the beginning of the year. Don't beat me if it is, let me say, 78% or 82% or is the big contract is coming earlier on ammunition, it's a little bit more. But let me say, around EUR80 billion is a fair value.

Now let's go to page 17. On page 17 on the outlook. A positive signal is also that 95% or more than 95% of the backlog coverage we have, let me say, in our books. So we are confident about the full year guidance. On the sales side, we think that on the Defence, we can grow between 35% and 40%. There is no growth rate on the civilian business, maybe a little bit shrinking business in that area.

And the operating margin will be around 15.5%. And it depends a little bit for sure about the down payments because, as you say, at the moment, the operational free cash flow on Q3 is very negative. But with the new German contract, usually, we expect between 20% and 30% down payment, so that then the cash conversion rate would be positive. If the down payments are delayed, we will get the cash in the first quarter.

So far, and now we can start the Q&A. Thank you very much.

QUESTIONS AND ANSWERS

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions)

Sebastian Growe, BNP Paribas Exane.

Sebastian Growe - *Exane Bnp Paribas - Analyst*

Everybody, thanks for taking my questions. The first one would be on the nominations and the chart that you presented on page -- or slide 16. So the question here for me is, as you also made reference to the frame contracts in the wake of the Trucks business, in particular, on earlier occasions, you said that you were expecting probably upgrading from EUR20 billion of frame contracts by the 50% option, i.e., EUR30 billion you have been putting the trucks potentially at 4.

So how should we think of the latest developments in this frame contract conversion and then also with regard to the down payments that you mentioned at 20% to 30%, you also said on prior occasions that you are in discussions with the customer to even also think about special timing this way. So what's the latest in this regard?

And if you may then finally ask one very quick higher question around the guidance. It seems apparently that on the sales side, things are in flux and it's not these coming down probably to Spain, the restart and then also to the truck deliveries the German customer. So my highlight question is, are you confident to reach the operating profit target of around EUR2 billion, almost irrespective of what's happening to the top line? Thank you.

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

Yeah. So let's start with the nominations. On the nomination side, as I said, we are in discussion to get fixed contracts also on the trucks for up to 29%. This is what we are in discussions. And we hope we can reach that.

And you are absolutely right. If everything is going well, there is a potential, which is 50% to the nominations that we had. At the moment, I want to reach the first step to change nomination into fixed contracts and also to get the the down payments. This is on the truck side, and this is also on the ammunition side. So this is -- if we -- let me say, have smaller -- this was a discussion that we have.

Is it good if we get the huge contracts to have it on, let me say, on -- in one shot, or is it better to get it in two or three shots also the down payment. At the moment, we take whatever we can get. And we are in negotiations there for everything at the moment, which is going from frame contract to fixed contracts or in new contracts to get between 20% and 30%.

Second point is on the guidance. Yes, there is an impact -- still an impact on the Spanish side because -- we are still have not the permission. We are on the -- in the last stage to get it, but the government is -- yeah, it's a governmental decision when they give us this step, but we expect we get it. We stay on the sales side because as you know, the impact is an area of EUR150 million. But I think we are able to compensate in different areas because there are such the businesses in between so big that it is possible to compensate it.

But at least, we are able to compensate on the operating margin. This is exactly what we expect, and we expect to go up to this EUR2 billion target. So that should be possible, if not extraordinary things happen. But at the moment, we are in line. Is that fair enough, Mr. Growe?

Sebastian Growe - *Exane Bnp Paribas - Analyst*

It is. Thank you so much and see you then soon in (inaudible). Thank you.

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

Yeah, happy to see you.

Operator

Chloe Lemarie, Jefferies.

Chloe Lemarie - Jefferies LLC - Analyst

Yeah, hello everyone, thank you for taking my question. So I had one on (inaudible), but I guess that was already answered. The other one is actually on free cash flow. So assuming you get those 20% to 30%. And obviously, with the reversal of the inventory buildup you have done over the past nine months. How high could free cash flow conversion get if you do reach the all the contracts that you expect by year-end? Thank you.

Klaus Neumann - Rheinmetall AG - Chief Financial Officer

Yeah. We do have a negative cash flow until the end of September. It highly depends on what kind of contracts will be placed in 2025. And also what kind of prepayment arrangements we will be able to negotiate.

As Armin mentioned, in some cases, the actual cash in might be -- might fall into Q1 2026. So it might -- there's a huge volatility at the moment, and it's quite difficult to exactly predict. But if everything is ordered already in 2025, and we look at all the payments already in 2025. It will be substantially above the 40% that we mentioned.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

It's easy to calculate Chloe, if they can help. It's EUR15 billion that we will have in order intake. And therefore, from EUR3 billion is, let me say, the potential of of down payments.

Chloe Lemarie - Jefferies LLC - Analyst

Very clear. Thank you.

Operator

Sam Burgess, Goldman Sachs.

Sam Burgess - Goldman Sachs - Analyst

Thank you very much for taking the question. Two, if I may. Firstly, there's obviously been a big pickup in interest across Europe on air Defence over the last quarter. Could you just talk us through the opportunities you see here? At the moment, your portfolio is quite focused on short-range Defence. Do you see any opportunities to expand the portfolio maybe into something more medium range?

And then the second question would just be about, I guess, interoperability between the operational domains. You've got pretty good coverage across five operational domains now. Do you see an opportunity here for Rheinmetall to be a prime integrator of Battlefield software? Thank you.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Yeah. So on the short-range air Defence, we are focused at the moment on the gun side. But as you know, we also offer the missile solutions, and we implement the missile solutions into our gun solution. So this (inaudible), for example, will have also a gun solution, but also (inaudible) system has gone and missile solutions. So yes, we focus on both -- the -- on the drone side, and this is the big numbers that you have.

As you know, Germany is looking for 600, 650 systems. It's not 100% fixed. But we have now also Denmark. We have Austria. We have a lot of other European partners who buy that systems. And our expectation is that we are able to sell much more than 1,000 Skyranges.

Skynet system is very successful. I can give you that information that on the Skynet side in Ukraine, we are also able not to fight against drones. We fight it against midsize -- and we had the first successes also to shoot down missiles in the Ukraine. So everybody is very happy about that things. So in a nutshell, yes, we focus on the big pieces, which are the total systems.

Second, yes, we focus also on the missile implementation. And we want later, but this will happen in maybe two, three, four years produce also some missiles and by ourselves if our rocket motor and Missile Center is ready in (inaudible) .

Battlefield, on the battlefield management system is, I think, the best thing is what we are doing at the moment in Germany, and we want to implement that also on other European partners. On Germany, we create the infrastructure, we create the battlefield management in total. We have the huge digitization contracts of more than EUR15 billion to do this digitization from the German side.

There are needs in other countries. The Netherlands is looking for such a system, Hungary is looking for such a system. So there are opportunities for us, but we are not at the moment in the situation that we said we will sign over the next six months contracts in this area. So -- but yes, we are prepared. And yes, we want to do it.

Sam Burgess - Goldman Sachs - Analyst

Great, thank you very much.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Thank you.

Operator

Sven Weier, UBS.

Sven Weier - UBS AG - Analyst

Yeah, good afternoon. Thanks for taking my questions. The first one is just coming back to the the list of projects we had a debate in Germany recently about, maybe last minute changes on the Fuchs successor, where, I guess, quite a few local state presidents have no bet in favor of you guys in terms of getting into the project despite the fact that it has been kind of awarded to Patria already. So that would obviously be a big change and a big project. I mean, what is your latest take on this one? Thank you.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Yeah. The Fuchs point is it's an initiative of the Premier, and it's not an initiative for Rheinmetall, and it's at the end of the day, political decision. The minister was very clear to say, okay, we want to have the first lot to do that together with our friends from Finland. And we will see if there is a split or no split, I'm open for everything. We are ready.

We are ready to perform and we are ready to perform also on Fuchs and Fuchs too, but it's a political decision. There are no further news. We are not, at the moment, in negotiations with the government. This -- the Premier initiative is a political initiative and we are here and we are ready to perform.

Sven Weier - UBS AG - Analyst

So it's not too late for this one.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Look at the end of the day, I always said it's it's never too late, yeah. You always have to try to try your chance. And at the end of the day, you never ever should give up.

Sven Weier - UBS AG - Analyst

Yeah. That sounds fair. Thank you. The second question I had was just -- I mean, there's a bit of discussion lately with the upcoming CSG IPO and competition from Eastern European companies. I mean as a matter of fact, you are striking all the deals in Eastern Europe on the ammunition and powder plants. I mean for the sake of the (inaudible), I mean, what do you think still differentiates you from those kind of competitors, which also seem to be quite a bit aggressive, but you take the contracts, that would be interesting. Thank you.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

I think that -- and it must be because the government, if you see Bulgaria, Romania, Lithuania, Latvia, the government show that the -- I think we are able to show this government that we are very trustful partner. This is number one.

The second point is that they see and this is -- this was a good example of what we have shown in (inaudible) that we are performing that we are able to make it happen in 12 months and maybe not in three or four years. So this is the second point where we say, okay, we have to hurry up. There is a budget.

And the other thing is that the financing, and this is the positive signal also for us from the governmental side will be mostly done via safe money from the European Union. So I think the combination between a huge player, a trustful partner and a company who has shown the performance in different areas are positive.

Another positive thing is that we have the newest technologies that we want to produce there. So we produce the -- we have all these technologies on powder. There are not a lot of companies around the world who have these technologies of powder, the newest technologies for triple-based powder or even harder, the surface coated powder technology, nobody has that.

But we want to do this also in that countries because we see that all these factories will be guided from Rheinmetall, IPRs are also under Rheinmetall control. So there is a combination of newest projectiles and newest power technologies that we implement in that country and the countries are happy with that. And on the other side, I think that we are able to create all these things because we have our own planning, we have our own real estate company who is going forward in these areas. We can do it very fast, and we can do it for a fair price. I think that's a combination, the four, five aspects that I told you that here that we win the contract. I'm not unhappy about that.

Sven Weier - UBS AG - Analyst

And is it also the input that you have from South Africa from the engineering capabilities that you have down there?

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Yeah. It's a small part also, but it's part of the ecosystem that we build up that in South Africa with the -- with our companies that we have there because we have two companies, one company in South Africa is doing the shell production and implement all that things, the same what they also did in (inaudible).

And the second one is doing that we bought this chemical components. And so we are not dependent from other companies. And there are not a lot of companies also in the world who are able to do this chemical stuff, so how to build all the explants, how to build powder plants, how to build these chemical converters, et cetera, et cetera. And this makes us reliable.

This makes us fast and I think this is the decision-making process of the government. But at the end of the day, the government, I'm happy if they share if they say, okay, Rheinmetall is a reliable partner, let's do it with them. But at the end of the day, as I said, they are in the driver seat.

Sven Weier - UBS AG - Analyst

Makes sense. Thank you (inaudible). See you in two weeks. Thank you.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

It's a pleasure.

Operator

Christoph Laskawi, Deutsche Bank.

Christoph Laskawi - Deutsche Bank AG - Analyst

Good afternoon. Thank you for taking my questions. The first one on M&A. You just said the idea is to double revenues of NVL in 2016, if I understood that correctly. It's obviously quite a big step up. Is that already in the books? Or do you need to see some business wins in Q4 for that one to happen as well?

And then on the [Vecco], it seems that (inaudible) is still pointing to some uncertainty if it makes sense to carve out the Defence trucks business and sell it to you. Where do you see the likelihood of that deal coming through next year? And if it makes sense.

And then the second question would be on the order intake. With the last quarter in Q2, you said the potential that you highlighted to some degree is conservative. If we think basically today, how does the potential look versus the communication around Q2, was there still more business opportunities that emerged to even better? Or is it essentially unchanged? Thank you.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

The last thing I didn't get, do you think for next year, the up to Q2 next year or?

Christoph Laskawi - *Deutsche Bank AG - Analyst*

Yeah, correct.

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

Order intake and on business. Yeah, let's start with that. On Q2 or up to Q2 in the next year, there is -- I would say every week, there are new businesses coming up. What we told you is still valid, what we want to do also in the next year. And I think the next year will be a very strong year also for order intake. It's not bad what we do this year.

And if we can grow up to nearly let me say, EUR80 billion, I think it's not a bad value. But if my expectation is that up to Q2, and this is always what I thought there is really a potential to grow up -- potential to grow up to EUR120 billion backlog. So it's a very strong Q1 and Q2 next year.

Trucks, on the Italian side is, look, for me, it's a point that we have a handshake agreement and that we will, first of all, that Leonardo takes over, and then we have the opportunity to go in. I have no glass ball. I cannot tell you what happens. First of all, there is a process at the moment what's going on. I read the comment also if -- how to go forward. Anyway, it's a potential, but we have it not in our business plan. And I still think that the handshake agreements are agreements between gentlemen that work.

Next point is NVL. On the NVL side, yes, it is in the order books and the order book is a good one. and we can grow with the order book, and there are smaller contracts for sure coming in. We are able, in 2026 to grow up to more than EUR2.5 billion.

Christoph Laskawi - *Deutsche Bank AG - Analyst*

Thank you very much.

Operator

Marie -Ange Riggio, Morgan Stanley.

Marie-Ange Riggio - *Morgan Stanley - Analyst*

Yeah, hi, thank you for taking my question. I just would like to come back on Germany because obviously, we have seen the '25 different it passed, and now we will have a new budget for '26. So I just would like to know if there is any update on the addressable market for you. So what do you see in terms of budget allocation, how much is likely to go through equipment? And if German companies are clearly the priority for the government? And if you still see a potential for 50% market share? So that's my first question.

The second question is on capacity expansion because you have announced several capacity inflation in weapon and emission since September with (inaudible), Romania, I just would like to confirm and to know if it's incremental to your previous target that you gave? And if it's incremental, if you can just update us on the capacity outlook now. Thank you so much.

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

Yeah. Let's start with the ammunition side. On the ammunition side, we always said and we calculated and you know when we discussed, Marie-Ange, that we calculated that in 2027, we want to grow up to 1.1 million around. And we speak always about this affillary technologies. Yeah, there is also medium-caliber technologies, but 1.1 million, in 2030, we will have a total capacity if everything is running 10% to 1.5 million.

At the moment, we do not plan more because we think that then we have an overcapacity and we want to fill the factories up, let me say, also up to 2035. So I don't want to have overcapacities in these areas. So no, it is not add on. It is exactly what we expected. This is exactly what we planned.

And Lithuania is in the plan, Bulgaria, based on -- these are not so huge factories that we have. So -- and we speak then if you have EUR1.1 million or EUR1.5 million, we speak about to 100,000 drones above that. So it's less than 10% of that is going on. Is it possible to do a little bit more? I think yes, but it's not in my expectation. So I stay with the figures that we had before. Is that okay?

Marie-Ange Riggio - *Morgan Stanley - Analyst*

Yeah. Perfect. And that's on Germany.

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

Yeah. On the German side, at the moment, all the expectations are that we have are running. So we -- we have huge negotiations. My teams are every day at the moment in -- with the government to make these huge numbers also of negotiations. There is, for sure, one thing that will be the news on the Capital Markets Day to give you a detailed overview about the Naval business, what we are doing because the Naval business for was not part of the discussion that we had over the last months.

And there is a huge opportunity, and we want to give you in detail then the opportunities that we have on the Naval business side. So I'm still -- I still think that we have the opportunity to grab a big piece of that, what the government's contract is giving out.

Marie-Ange Riggio - *Morgan Stanley - Analyst*

Okay, thank you so much.

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

Thank you.

Operator

Marco Vitale, Mediobanca.

Marco Vitale - *Medobanca - Analyst*

Good afternoon. Thank you for taking my question. The first one is on the space JV that you have announced, you were targeting -- you said that you're targeting the general market, but also looking at other international opportunities.

I was wondering if you could provide us -- how do you expect to position the JV compared to the other, say, big European deal has been announced by (inaudible). What could be the, say, competitive landscape going forward for this business?

The second question is -- and second question is about Ukraine. We read from local press articles that you are planning to strengthen the operation for the vehicle systems if you could provide us some additional details on this. Thank you.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Yeah. So on the space side, we are newcomers in this area. We know that very well. And -- but we -- I think we started on a smart way, because we are not starting to develop huge satellite programs. We are starting to make more from the same what is still in the market.

And this is what we do with our joint venture with ISI. The German government asked us that they want to have also a German production line. And we build that up at the moment. And if we are able, over the next four weeks, to sign the first contract on the satellite side, then we see a huge opportunity, also only for the German market because Germany wants to invest EUR35 billion into satellites.

This is not a small number. And we are starting with the SAR satellites, but we will go also into the electrooptic and also into the communication satellites with other partners. I still cannot give more details about that because this is not signed at the moment. But even if we can pick up a big part of the German contracts, it's an attractive business for us. But if you have the satellite then in the orbit, you can use that satellites also for other partners.

Marco Vitale - Medobanca - Analyst

Okay. Thank you.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

And Ukraine -- on the Ukrainian side is, yes, we are -- we build up more capacities also on the vehicle side, absolutely right. And what we want is we are now because the Ukrainian government gave green light also now for the inventory fighting vehicle, for the Lynx. We stay with (inaudible), we stay with the lead maintenance, et cetera, et cetera. But now the green light for the Lynx is there, and it's the first it's small numbers. It's only five lines where they want to start. And -- but I think the government is now very convinced about that. This is a very useful vehicle in this contract with Russia. And then we want to build up also capacities to build the Lynx in Ukraine. Is that okay, Marco?

Marco Vitale - Medobanca - Analyst

Yes, very clear, thank you.

Operator

Adrien Rabier, Bernstein.

Adrien Rabier - Sanford C Bernstein & Co LLC - Equity Analyst

Hi, good afternoon. Thank you for taking my questions. First, I'd like to ask a follow-up on your margins, please. You had positive mix. But on a division-by-division level, your margin has been contracting slightly in that? So are you still comfortable with our target that? Do we expect a bottom-up inflection in Q4?

And then a question on CapEx, please. It's great to see all these new projects. I mean, you were talking about doing more partnerships in the US this morning. Are you still expecting CapEx to normalize in the coming years? Or are we expecting more investments?

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Yeah. On the merchant side, you know that the big lever will come in Q4. and on the margins, we stay where we were. And this is -- we have our target margins and the people have to reach this target margins. As you know, we have the ability because of the vertical integration between 25% and 30% on the ammunition side.

We want to reach on the vehicle side between 12% and 15% where we are and Electronic Solutions will have a strong growth rate over the next years with digitization. We will also have a look -- very sharp look on the Defence side, which -- where we see also opportunities because we also have very strong vertical integration in this area, where we can make between 15% and 20%. So that's our target that we are, over the next years can reach the 20% EBIT profitability in the defense side is still valid. So therefore, from my side, absolutely tick in a box.

Now I lost your second point, Adrian.

Adrien Rabier - Sanford C Bernstein & Co LLC - Equity Analyst

On CapEx, please, yeah, CapEx.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Yeah, CapEx. So on the CapEx side, we will have, as you know, this year and also next year on the side up to an area of 10%. This is what we need because of all the investments on ammunition and also the automatization that we do on the vehicle side. But this CapEx will be over the next two, three years going down. Is it going down back to 5%?

It depends a little bit about the contracts that we say maybe it is between 5% and 6%. But we -- I think we can overcompensate that things if the down payments are really coming in. And this is what we want to do with our customers.

Adrien Rabier - Sanford C Bernstein & Co LLC - Equity Analyst

Great. Thank you.

Operator

Benjamin Heelan, Bank of America.

Benjamin Heelan - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Yeah, afternoon, guys. Thank you for taking my questions. First was, Armin, you have a statement in here about in your presentation about strength of the balance sheet and that's supporting your M&A, I think you say ambitions or something. Could you talk a little bit about where you want to deploy capital over the next couple of years post the naval deal? And then could we get a bit of an update in terms of where we are on both Anderil and the Lockheed ventures? That would be great. Thank you.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Okay. Let's start with Lockheed and Ronel, but a lot of others that we have. So we are working very hard at the moment with our American friends to create a European business also or a transatlantic business between United States of America and Europe. And I think the best way for that is really to have this joint venture where -- and we are looking at the moment also with other companies to do this.

And it's not someone is very open that we speak with Honeywell, we speak with others and we speak with others in that area because the product portfolio is -- yes, very different also with the US companies.

But now especially also with the naval stuff that where we are investing, is there is a huge opportunity also for naval missile and others, and rockets usually not the producer of that, but rations it. So in a nutshell, it's going very very well, and we are very, very happy.

Strengthening our Naval business, and if I understood right also, is there other investments or other things that we have to do in this area. I think that the shipyards that we take over that these ships are, at the moment, really, really in good shape that we are able to use it immediately and that we are able also to grow strong in that point. But what did I missed something.

Klaus Neumann - Rheinmetall AG - Chief Financial Officer

I think the other bit was basically how we are looking at capital allocation over the next couple of years. And as we always said, we are continuing to look into M&A targets. And it's always a preference to basically to a first finance our organic growth then look at good business opportunities for acquisitions as we have proven in the last years. And only at the very last thing, it would be to basically use cash for share buybacks or something else. At the moment, we don't see that happening.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

There are opportunities to buy companies, and that's at the -- that's good for the growth

Benjamin Heelan - Bofa Merrill Lynch Asset Holdings Inc - Analyst

I guess, Armin, sorry, just a follow up. I guess my question was you just said that the opportunities to buy companies, which are the areas within defense? Are you looking at buying companies now?

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Yeah. The first thing is we want to stabilize very clear now the Naval business. Is there something what you can use around electronics and other things. What we did on the the land system side, we are looking for that. We have no fixed target at the moment.

The second point is digitization. On the digitization side, we have to grow. We are looking for start-ups. We are looking for investments also in digital companies, even if we start with a minority and later to take over, there are a lot of companies where we see at the moment where we can fill smaller gaps that we still have inside the Rheinmetall Group, and we are looking for it.

But we said we -- as you know, when we are very careful in these areas. And first of all, we -- we check it a lot. And I think all the acquisitions we made over the last five years were not so bad.

Benjamin Heelan - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Very clear. Thank you both. I appreciate it.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Thank you.

Operator

David Perry, JPMorgan.

David Perry - JPMorgan Chase & Co - Analyst

Yes, hi, I'm in, hi (inaudible). Sadly, I can't make the CMD. So my questions are a bit in that context. First one, back in about six months ago, Armin, you started talking about EUR40 billion to EUR50 billion of sales potential in 2030. Has anything materially changed in the last five to six months that would change your view up or down there?

And then the second question is, if it is still EUR40 million to EUR50 million? Can you just help us think about the cadence, the journey from '25 to 2030. In terms of percentage growth, is it even? Is it front-loaded? Is it back-loaded? Thank you.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Yeah, this is -- David, this is exactly the story I want to tell you on the Capital Markets Day. So it's really bad that you are not able to come there because I need a long time about that because this is division per division. And we want to see exactly, I want to tell you exactly on the Capital Markets Day, how we make it happen.

So -- but in the calculation at the end of the simple, where you want to go. So -- and this is -- this stays. And on the ammunition side, we have the ability to grow up to more than EUR10 billion, maybe up to EUR15 billion.

On the vehicle side, yeah, at the end of the day, it's the same. So it will be more than EUR10 billion but also up to EUR15 billion. So we are on a level of EUR30 billion. So electronics solution -- this will be -- there will be a possibility also to grow up, if I make it conservative between EUR5 billion and EUR10 billion, but maybe more on the billion.

On the air defense side, we go to a level of EUR3 billion to EUR5 billion. And on the naval side, we want to be more than EUR5 billion. So if you count up and if you see EUR30 million, EUR40 million, it's EUR50 billion maximum. And this is EUR40 million EUR50 million. So now the point is -- you can ask me now if you have now more M&A in this area. Is there more in?

Yeah. This is, in a nutshell, the story that we will tell in the Capital Markets Day. I'm very unhappy that you will not come. So this is -- you will see live firings, you will see drones flying. You will see everything about that everything live. So nobody will show you that.

David Perry - JPMorgan Chase & Co - Analyst

Well, no, I'm very upset. My colleague, Lucie will be there. I just have the clash. Can I just ask, though, about -- because now we've all seen the kind of some of the releases from the German government, I know they're not all formally into law yet. But I was just wondering if you had a little better feel for the phasing as some of the vehicle programs look like they'll take time to ramp up. So will we see more of the growth in '28 to '29? Or could we see more in '26, '27

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

So you are right that it is more backloaded and '28 to '29. And the reason is, we need next year for automatization. The same what we need for the ammunition side. We need one year, maybe 14 months, 15 months to make all this automatization streets. Welding Street, we will give you also a lower view on Capital Markets Day, what we do on automatization in detail.

And so then if we are ready, then we start with the productions in '27 and '28, '29, we will run the business. So '29, I think, full throttle the vehicle business. '27, as we said, we start with the ammunition side. So this is good. Vehicle is 1.5, 2 years later.

Electronics Solutions is the same like Vehicle Systems. Air Defence will also, let me say, is in the ramp-up curve in 28 by '28, '29 and 2030 or three years now, where we book our business, where we are very well equipped, and that makes me -- yeah, makes me happy to reach this EUR40 million to EUR50 billion.

David Perry - JPMorgan Chase & Co - Analyst

All right, thank you, it's really helpful.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Thank you.

Operator

George McWhirter, Berenberg.

George McWhirter - Joh Berenberg Gossler & Co KG - Equity Analyst

Hi, good afternoon, thank you for taking my questions. I've got two, please. Firstly, on the NVL business. Can you just update us on the potential to gain more work show on the F126 frigate program. And the second one is on supply chain. Please, can you just talk a little bit about raw materials and earth minerals? And any potential bottlenecks you're seeing there? Thank you.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Yeah. NVL, F126, you know there are some bigger contracts, but F126 is a real big one. I think that the government will make a decision how to go forward. And I personally think it's not a decision done at the moment. And to be fair enough, I cannot go operationally at the moment because it's not -- we have no closing. So I can only say if the closing is positive, we for sure will help -- the German government that the F126 will be a successful program. I cannot say more about that legally. Is that fair?

George McWhirter - Joh Berenberg Gossler & Co KG - Equity Analyst

That's fair.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Yes? Second point, supply chain. On the supply chain side, we make weekly, weekly, a stress test on this area. We have a bigger problem on the supply chain on automotive than on Defence. And the reason is because on the defense side, we have -- we stocked everything up. So this was a point that is a rare earth. Everything what we spoke about, (inaudible), blah, blah, it's four years, let me say, in the stock. We have billions in our stock at the moment.

The second point is that our -- because of the smaller numbers, yes, if you go into the auto business, you have to produce millions and millions. If you go into the defense business and if you don't need it on the ammunition side, this is the only thing ammunitions are millions that we are producing. But for vehicles and for other electronic components, we usually have no problem.

What we can do is if there is something that we don't have in our stock, you can go to these technology traders -- and these technologies traders take care about that if our purchasing department is not able to bring it, you pay maybe a little bit more money. But with these small numbers, it really doesn't matter.

At the moment, we see no obstacles that one-- that there is -- that, for example, China can stop us. On the microprocessors, we have different sources. We have 10 different sources. And I think that we have a very professional sourcing system on our purchasing, now purchasing director is doing a great job in this area so that we are on the safe side.

George Mcwhirter - *Joh Berenberg Gossler & Co KG - Equity Analyst*

Thank you very much.

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

Thank you.

Operator

Alfonso Osorio, Barclays.

Alfonso Osorio - *Barclays - Analyst*

Hello. Thank you for taking my questions. Just coming back to the long-term margin ambition you just mentioned. So you quoted 20% again on the Defense side. Just wanted to double check this. So does that mean that you expect to keep the margin on the ammunition side of 25% in the winter? Or do you expect that to see that normalizing down line?

And then maybe on the business mix as well. You continue to Electronic Solutions division into two new ones from next year. Can you perhaps tell us the growth profile and margin differential between the defense division and the digital division going forward, please, as well? Thank you.

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

Yeah. So on the ammunition side, I believe that we can stay on this 25% to 30% of our vertical integration. We discussed that several times. And the point is that I have different companies. One company is producing, let me say, the raw material, the other company is producing the powder.

And this is the same what our competitors are doing, but they do not have everything in their own hands. And we have everything in our own hands. And so therefore, this is the reason that the margin are high. diminution by themselves has a margin like you have, let me say, after the rules and regulation of the government. But profit on profit is an opportunity -- is the opportunity that we can make it.

Will it stay in this area? Yes, we will stay on that area because now with automatization, we still reduced the personnel costs on that so that we are -- that we are able to stay in that area even if over the next years, and that is what we are doing at the moment for a huge contract for Germany, we will keep a discount. And also with that discount, we are able to stay on a very profitable way.

Air Defence. On the Air Defence side, if you see air Defence and digitization, Air Defence will be faster higher has faster a higher profitability than the digitization because the investment on the digitization at the beginning is high. But later than the digitization will be on the same level or higher than Air Defence. But on Air Defence, I expect also up to 20% EBIT. So -- and on the digitization, not tomorrow, but for the day after tomorrow, I expect the same. Is that okay, Alfonso?

Alfonso Osorio - Barclays - Analyst

It's very good. Thank you very much.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Thank you.

Operator

So it seems there are no further questions at this time. So I would like to turn the conference back over to Armin Papperger for any closing remarks.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Yeah. Thank you. Thank you, ladies and gentlemen. Like always, it's a pleasure to discuss with you about the things. I'm very happy to see nearly everybody from your side on our Capital Markets Day, (inaudible). Very happy to show you live and -- but also in presentations, what we are able to do. Take care, stay healthy, all the best. Bye-bye.

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