

Rheinmetall-AG_Conference-Call_04.05.2023
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File length: 00:32:25

O Operator

DS Dagmar Steinert

S Speaker

O Hello ladies and gentlemen, and welcome to the Rheinmetall AG conference call. At this time, all participants have been placed on a listen only mode. The floor will be open for questions following the presentation. Let me now turn the floor over to Dagmar Steinert.

DS Thank you for your kind introduction. Good afternoon, everyone, and welcome to Rheinmetall first quarter 2023 conference call. Before I start on page three, I would kindly raise your attention to our legal disclaimer on the following page. So now let's start with page number three. The first quarter was in line with our expectations. Operation and sales performance benefited from the overall positive trend in our security businesses, and we reported the best operating free **[01:00]** cash flow ever in a starting quarter. We are again expecting a very pronounced seasonality in the year 2023, largely driven by the growing sales share of the weapon and ammunition business. Art equity contributions made the difference in both starting quarters. While the operating result in the first quarter 2022 included a positive art equity effect, the first quarter 2023 was quite the opposite, summarized a negative deviation of minus 29 million euro and in addition, the burden of the inflation compensation payment. We reported an IT incident at the end of April with an isolated effect **[02:00]** on our civil businesses. There was at no time any danger that the incident was transmitted to the defence network, and we are currently in the process of bringing all systems back to normal. Last but not least, we confirm our full year guidance and once we have closed the Expal System deals, we will provide an updated guidance. So please turn to page number four for an overview on the market.

The new minister of defense, Boris Pistorius, had a strong start. He's clearly trying to make change happen in his domain, and things in Germany start to happen. After the Puma issue was finally resolved by mid-January, we have booked the Puma upgrade contract in the first quarter, **[03:00]** and we are awaiting a decision on the second lot in the course of the second half. We have made really good progress with the ammunition framework contracts for tank and artillery and some vehicle programs like the airborne platform CARACAL. In addition, the government-to-government deal with Australia for the heavy weapon carrier is now taking shape. Lockheed and Rheinmetall have recently signed an MOU regarding the cooperation on a rocket artillery system for the German forces. This opens a completely new field for Rheinmetall. Please move on to page five for the presentations of our Ukraine business.

The support of the Ukrainian people remains a top priority **[04:00]** for the European Union and the German government, and as you can see on this slide, Rheinmetall is trying to support with all available resources. Order intake for Ukraine reached year to date around 700 million euros. This includes the delivery of the first 20 Marders from our own inventories until the end of March. And more demand for tactical vehicles is expected. Ammunition is clearly in focus, and we have

signed contracts for medium caliber tank and artillery rounds together with additional service components such as field hospitals and automated surveillance systems. We are expecting to receive further orders because the financial funding from Germany and the European Union to further support Ukraine has already been committed. [05:00] Please continue on page seven. Sales grew operationally by 7.7% to almost 1.4 billion euros. Currency and mergers and acquisitions did not have any material effect in the first quarter. All divisions, but Weapon and Ammunition were able to improve year over year. The decline of the operating result by 19 million euros to 73 million euros was mostly attributable to negative art equity contributions from our Chinese joint ventures and the Hungarian joint venture, 4iG. Our German employees received an inflation compensation payment in the first quarter. This was an additional burden [06:00] to the P&L and we are expecting a similar payment for the first quarter, 2024.

Special items have a supportive effect and result from positive market-to-market valuation effect of our liquidity reserve. Basic earnings per share for the continued business rose from 1.08 euros to 1.15 euros. In accordance with IRS 33 we report a diluted earnings per share of as well 1.15 euros due to antidilutive effects. Please turn to page eight for a more detailed analysis of Rheinmetall seasonality. Quarter four is the quarter with the highest business impact for Rheinmetall. We realized on average [07:00] over the last three years, one third of our sales and more than 50% of our operating result in the last quarter. The second half is representing more than 50% of sales and almost three quarters of the total operating result. We are expecting that weapon and ammunitions will continue to be a gross driver for the group, and combined with the spending behavior of our governmental customers, the trend to expense at the end of the budget year will most likely continue. Therefore, we recommend to anticipate this backend loaded pattern again for the year 2023. Let me move on to page nine for the details of the art equity results.

[08:00] If we compare the operating performance of the group, excluding the art equity results, we would report an improvement of more than 12% to 85 million euro year over year. The first quarter 2022 reported a positive contribution from at-equity in the amount of 17 million euro, including a high single-digit positive effect in the division Weapon and Ammunition, as well as positive contributions from the China joint venture. China flipped from positive into negative territory in the first quarter, 2023, and we had a negative art equity contribution from our 25 percentage stake in 4iG in Hungary. 4iG reported a net loss for 2022 and [09:00] the first quarter 2023 driven by non-cash write-offs, which in total accounted for around 12 million euro. We are assuming that the 2022 business development of 4iG will basically continue in the year 2023. The Metalworkers Union negotiated an inflation compensation bonus and this first impact in the first quarter 2023 accounted for a high single-digit amount. Please turn to page number 10. The first quarter 2023 was in fact the best operating free cash flow ever of a starting quarter and came in at minus 105 million [10:00] euro after minus 463 million euro in the previous year quarter. Due to a delay into April of one payment, we missed the targeted break even. We were able to collect a lot of receivable after the sales surge in Q4 2022 and received as well first prepayments from our international customers. Inventory buildup continued but at a much lower level than in the previous year. Moving on to page 11.

The successful placement of the one-billion-euro convertible bond had a structural effect on our balance sheet. It is still liquidity neutral in the first quarter, but the accounting treatment of the convertible has an impact on the [11:00] equity and debt positions. We book the option value of the convertible in equity and treat the difference to the received cash as debt. This explains why

equity increases to 3.2 billion euros and the equity ratio drops to 34.7%. But let's have look at the divisional performance on page 12. Vehicle Systems reported a strong quarter, the sales improvement of more than 15% to 462 million, higher leverage and a strong performance of tactical vehicles drove the operating result to 42 million euro after 29 million euro in the previous year's quarter.

As a result, margin improved to **[12:00]** 9.1%. Operating free cash flow rose by 31 million euros to minus 94 million euro mainly on prepayments, which were partly offset by inventory buildup. Rheinmetall ammunition sales declined from 258 million euro to 238 million euro as increasing orders from the German customers were not sizable enough to compensate the effect of missing export licenses in South Africa. The previous year included a favourable art equity contribution as already mentioned. Adjusted for this effect, margin would've improved and reached an excellent result improvement of 10%. Cash collection and carefully managed working capital led to the best operating free cash flow in the **[13:00]** first quarter ever. The operating free cash flow was clearly a highlight and a result of the high cash collection of Q4 receivables. Electronic solutions reported a 20% sales growth to 201 million euro and more than doubled the operating result to 10 million euro. This generated an operator margin of 5%. This very positive development was largely driven by the ramp up of the Hungarian links and high volumes for personal equipment. The division successfully reduced their receivables and improved operating free cash flow by 36 million euro to minus 71 million euro. Sensors and actuators grew sales by **[14:00]** 4.5% to 363 million euro, but suffered a decline in operating results of 50% to 13 million euros. Sales growth stayed behind comparable overall global production growth of 8.3%. The operating result was hit by additional raw material cost increases that have not yet been passed on to customers.

Materials and trade increased sales by 4% to 198 million euro. This sales increase was mostly volume driven. The drop of the art equity contribution from our Chinese joint venture was a major driver behind the decline of the operating result from 60 million euro to 12 million euro. The currently sluggish light vehicle demand in China is mainly **[15:00]** affecting higher priced luxury cars of Western origin, which happen to be our main customers. The 4iG art equity contribution is reported in the line non divisional and consolidation, and is a reason for the decline of 13 million euro. Please move on to page 13. Rheinmetall nominations declined by 8% to 3.1 billion euro and book business and frame nominations remained on previous year's level, but the order intake was 278 million euro below last year. Please bear in mind that we reported the single biggest ammunition order for Hungary with a volume of around 850 million euro in the first quarter, 2022. So compared to an adjusted **[16:00]** 2022, the order intake looks much better and is composed of quite a few orders across the division. The Rheinmetall order backlog has crossed the 28 billion level, and we are expecting to see further growth. This takes me to my last presentation slide, number page 15. We have presented the above guidance only seven weeks ago. At this stage, we don't see anything that poses a threat to our guidance, and once we have closed the Expal, we will have a closer look at the guidance and provide you with an update. Thank you for your attention. And now I'm available for your questions.

- O Yes, ladies and gentlemen, if you would like to ask a question, please press nine star on your telephone keypad. **[17:00]** If you would like to withdraw your question, press nine star again. In order to have a clearly structured question and answer session, we would like you to ask one question at a time. Once you receive an answer to your question, you may move to a second question. Please restrain yourself from asking multiple questions at once. Thank you. And the first question asked Mr. Christoph Laskawi from Deutsche Bank. Please go ahead.

- S1 Good afternoon, and thank you for taking my questions. The first one before I continue with others would be very publicly the German MOD was making statements to speed up procurement, has implemented changes to safeguard that as well. Do you actually already see the benefits of that? And as a result, could we expect sizable order intake from Germany before the summer break **[18:00]** or is it more likely that we'll get the press announcements after the summer break?
- DS Well, thank you for your question, Mr. Laskawi. We expect for the full year 2023 a high order intake and of course we are working on getting orders in the second quarter and compared with the previous year's quarter, it would be significantly more.
- S1 Thank you. And the second question is on the art equity result, thinking how that should turn into Q2. Should we expect another negative as we've seen it in Q1 from your 4iG contribution? Or is that basically done now and it should be more normalized going forward?
- DS Well, **[19:00]** in the first quarter, 2023 we have an impact of 4iG from the first quarter, 2022 and the first quarter, 2023. So in the coming quarters, the art equity result, which we expect to stay negative is a lower single-digit number.
- S1 Thank you. And the last question will be on the autos business. Sensors and actuators has clearly dropped in earnings year over year because of, as you highlighted, inflationary pressure. Do you see any improvement in the negotiations with the OEMs? Do you get past those already in Q2, or should we expect that largely being backend loaded? Thank you.
- DS I would expect that largely more backend loaded due to the fact of course that we had our IT incident in April, **[20:00]** end of April, and of course that affects somehow the whole organization. And therefore, we see it more in the second half of the year.
- S1 Thank you.
- O Yes, thank you. The next questioner is Mr. Sven Weier of UBS. Please go ahead.
- S2 Yes. Good afternoon. Thanks for taking my questions. Hello Miss Steinert. The first one would be a follow up on Christopher's question on order intake. And you just kindly said it will be substantially higher than Q2 last year. Now, my question really is, given that you differentiate between frame nominations and order intake, I think in Q2 there's a lot of ammunition framework agreements coming from Germany, and particularly a couple of billions. What about the core order intake? **[21:00]** So outside the frame nominations, what are you expecting there?
- DS Well, regarding my question to the order intake in Q2 compared with the previous year's level, of course, a significant increase that includes these bigger ammunition orders, which we expect to come in the second quarter. But some of course as well in the second half of the year. Overall, the order intake of the rest of the orders should remain on a high level.
- S2 Understood. Thanks for the clarification. And maybe if I may, can you just help me understand the booking of the order intake regarding the Leopard tanks for Ukraine? Because I guess that

was not yet booked in the first quarter. Is that all coming in Q2 [22:00] or how should we think about that?

DS It's not yet booked. That's right. And we are expecting it in the months to come.

S2 Because that was a fairly significant number as well, right?

DS Right.

S2 Understood. And then I was just wondering, as a quick follow up to the IT issues that you've mentioned, is the incident that's only affecting the sensors and actuators business, and what's the kind of cost you would expect it to relate to that incident?

DS The IT incident affected our whole civil business. So that includes not only sensors and actuators as well as material and trade. Of course, we will have some additional cost to set it all up again. But if you [23:00] think back in 2019, we had an attack as well on our civil business. And overall, the additional cost which we had to spend was middle-figure digit number. And therefore, we are very confident that this IT incident will not substantially affect our performance.

S2 Understood. And then the final one from me is just on the pushout you had in Q4. I remember you had around, I think, 300 million pushouts from Q4 that we were normally expecting in Q1. Is that revenue level related to South Africa? Were you still missing the exports approvals, or am I right or something else?

DS No, [24:00] it has been several orders or sales and it's not related with these South African ones.

S2 But those delays have not been booked in Q1 yet?

DS South Africa, no, there's no exports.

S2 But the other delays that we were expecting for Q1, the 300 million, is that still to come or?

DS Well, partly it came in in the first quarter and some of them are expected to come during the rest of the year, for instance, the tactical vehicles.

S2 Very clear. Thank you very much, Ms. Steinert.

O I have one more questioner is Ms. Virginia Montorsi of Bank of America. Please go ahead.

S3 Good afternoon. Thank you for taking my questions. Two for me. The first one would be, you've kind of touched on this, but [25:00] on weapon and ammunition, could you give us a little bit more colour on exactly what drove the lower or weaker operating performance and anything you can tell us in terms of how to think about the phasing for the full year? Thank you.

DS Well, overall operational, we have better performance in the first quarter because it's all linked to art equity contributions which are negative in the first quarter, 2023. Plus, these higher single-digit number of inflation compensation, which we had to pay in the first quarter due to the

agreements of the unions. Therefore, within our fully consolidated businesses, [26:00] the operational performance is much better compared with previous year's quarter.

S3 Okay, thank you. That's really clear. And maybe last question from me. We've seen Australia publishing their defense spending review and they've significantly lowered the number of vehicles for the Lynx contract that I think you mentioned a few times you were confident you could sign. How should we think about order index for this year, given that Australia's numbers of tanks are changing a little bit?

DS Well, the number of tanks in Australia, yes, it is reduced and about the timing of the order, I am not going to mention any quarter or any month because it took us already a long time where we expected the order income and as you know, [27:00] we didn't get it so far.

S3 Okay. Thank you very much. Very clear.

O Yes. Thank you. The next questioner is Mr. Christian Cohrs of Warburg Research. Your line is open.

S4 Yes. Good afternoon. Thanks for taking my questions. First, on the Ukraine, you mentioned the support and the business you've made with Ukraine. A couple of weeks ago, CEO Papperger was in the press stating negotiations with the Ukraine government about the potential manufacturing side for the Panther. So can you maybe elaborate how this potential project or idea has developed in the meantime?

DS Well, there is no decision as of today, but of course we are in negotiations and talks with the government and Mr. Papperger [28:00] mentioned seven weeks ago that he expects a decision within the next like two months or ten weeks. So therefore, we hopefully have an update within the next month.

S4 Okay, thank you. And second question relates to your group minorities. These were actually positive plus three million versus minus 13 million one year ago. Despite the fact that if you strip out the art equity, if you strip out the art equity earnings that the fully consolidated businesses have achieved higher earnings this year, and especially this is also true for vehicle systems. So maybe can you shed some light on the minority side which... Actually, what are the moving parts to explain this massive deviation [29:00] versus last year?

DS Well, of course if you look at the minorities, it's a number of minorities which are part of our fully consolidated companies. And one company for instance is the South African company Denel Muniton where you see difference in performance. And then we have of course our it's the... Hold on, let me just look it up. We see truck business where we have a little swing in the performance, and then there are several other smaller companies and that all ends up in the reported numbers. [30:00]

S4 Okay. So it's a broad mixture because I'm surprised, to be honest, by the magnitude of the swing.

DS But I just would like to remind you on the seasonality of our business and it's just the first quarter, so don't put too much effort on the first quarter.

- S4 Okay, understood. Thank you.
- O I have one more questioner, it's Sash Tusa of Agency Partners. The floor is yours.
- S5 Okay, thank you. Good afternoon. I just wanted to check whether there had been any change to your expectations for the closing date for Expal or indeed the antitrust issues or financial issues associated with that transaction?
- DS Well, [31:00] we expect to close this acquisition in the beginning of July and we are quite confident that it will take place there or then.
- S5 Thank you.
- O No questions at the moment. Therefore, I will repeat, ladies and gentlemen, if you still have a question to pose, please press nine star. There seems to be no further questions in the queue.
- DS So if there are no more questions, I would like to thank you very much for your kind interest and I would like to close the call with a brief summary. The first quarter was absolutely within our expectations. Our operational performance improved further in the [32:00] first quarter and operating free cash flow made a significant move in the right direction. And finally, we confirm the current guidance with an outlook that we will provide an update once we closed the Expal deal. Looking forward to meet you on the road. Goodbye and thank you from my side.