

# Capital Markets Day 2013

## International Partner for Security and Mobility

Helmut P. Merch

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### What's on the CMD agenda? **Objectives of this presentation**

**Provide a brief overview on group financials as of H1**

**Submit a further update on progress of the restructuring programs**

**Explain the reasons for the operational underperformance in 2013**

**Reveal the major drivers and required conditions to achieve our targets 2015**

**Provide more insight into the Defence business**



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## H1 2013 in detail Sales decreased, EBIT down, free cash flow from operations improved

Rheinmetall Group <i>in € million</i>	H1 2012*	H1 2013	Δ H1 2013/ H1 2012
Sales	2,253	2,062	- 191
Operational earnings (EBIT before special items)	92	29	- 63
Special items (one-offs, restructuring costs)	31	- 47	- 78
EBIT (reported)	123	- 18	- 141
Group net income	72	- 45	- 117
Earnings per share <i>in €</i>	1.94	- 0.66	- 2.60
Cash flow	162	46	- 116
Free cash flow from operations	- 297	- 174	+ 123
Employees	21,690	21,596	- 94

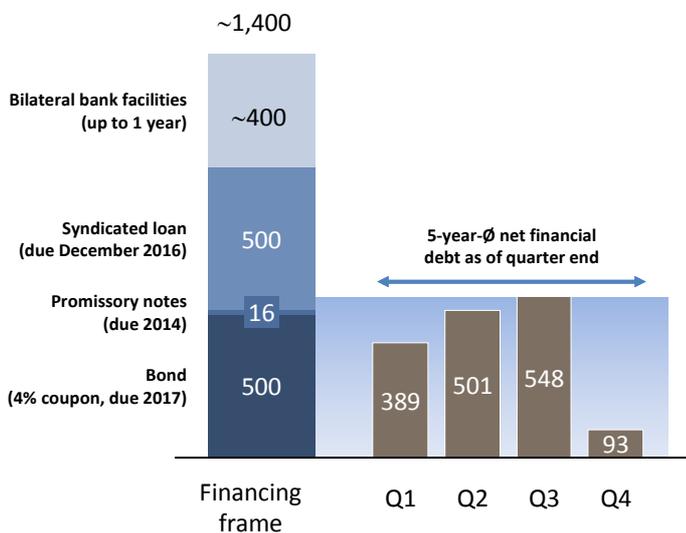
- **Lower sales and EBIT** due to Defence
- **Free cash flow from operations improved** due to lower working capital
- **Restructuring program in progress:** costs of € 47 million booked

\* 2012 figures restated for retrospective application of IAS 19 Employee Benefits (revised 2011)

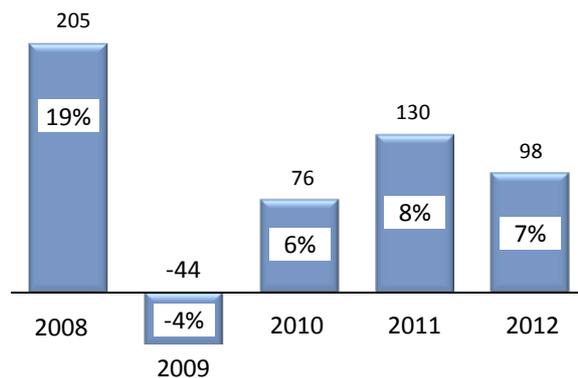


## Solid balance sheet High cash credit facilities and low net financial debt

Cash credit facilities (as of July 31, 2013) in € million



Net financial debt (at year-end) in € million  
Net gearing\* in %

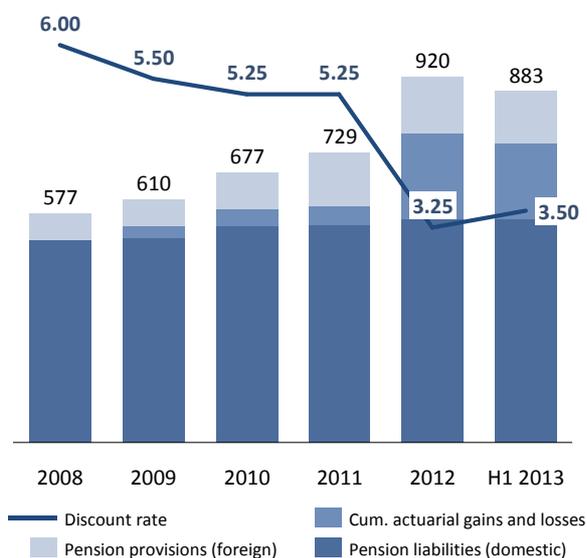


\* Net debt in % of equity

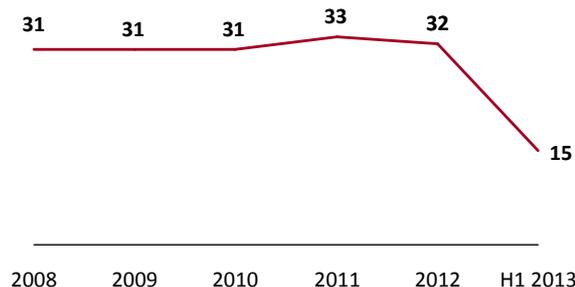


## Solid balance sheet Rising pension liabilities, but current expenses stable

Pension liabilities and discount rate\*  
in € million resp. %



Domestic pension payments in € million



\* Discount rate for German pension liabilities of Rheinmetall

## Despite a solid balance sheet Moody's has initiated review process of investment grade rating

“The decision to place Rheinmetall's ratings on **review for downgrade** was triggered by the company's announcement on 29 July 2013 in which it significantly revised downwards its guidance for its performance in the current fiscal year, **driven by the weaker performance of its defence division.**”

Moody's, August 01, 2013

### Analysis:

Moody's review process triggered by operational weakness of the Defence division

### Action:

- Implementing restructuring measures to improve cost base
- Acquiring further orders to secure future sales with good profitability
- Generating cash flow

## Outlook 2013 updated Defence reduced, Automotive confirmed

	Sales <i>in € billion</i>		EBIT <i>in € million</i>	
	Original	Updated	Original	Updated
Group	4.8 - 4.9	4.7 - 4.8	240 - 260*	180 - 200*
	Restructuring costs		60 - 80	75 - 85
Defence	2.4	2.3	130**	60 - 70**
	Restructuring costs		40 - 50	40 - 50
Automotive	2.4 - 2.5	2.4 - 2.5	140**	140**
	Restructuring costs		20 - 30	35

\* Including holding costs, before restructuring costs

\*\* Before restructuring costs



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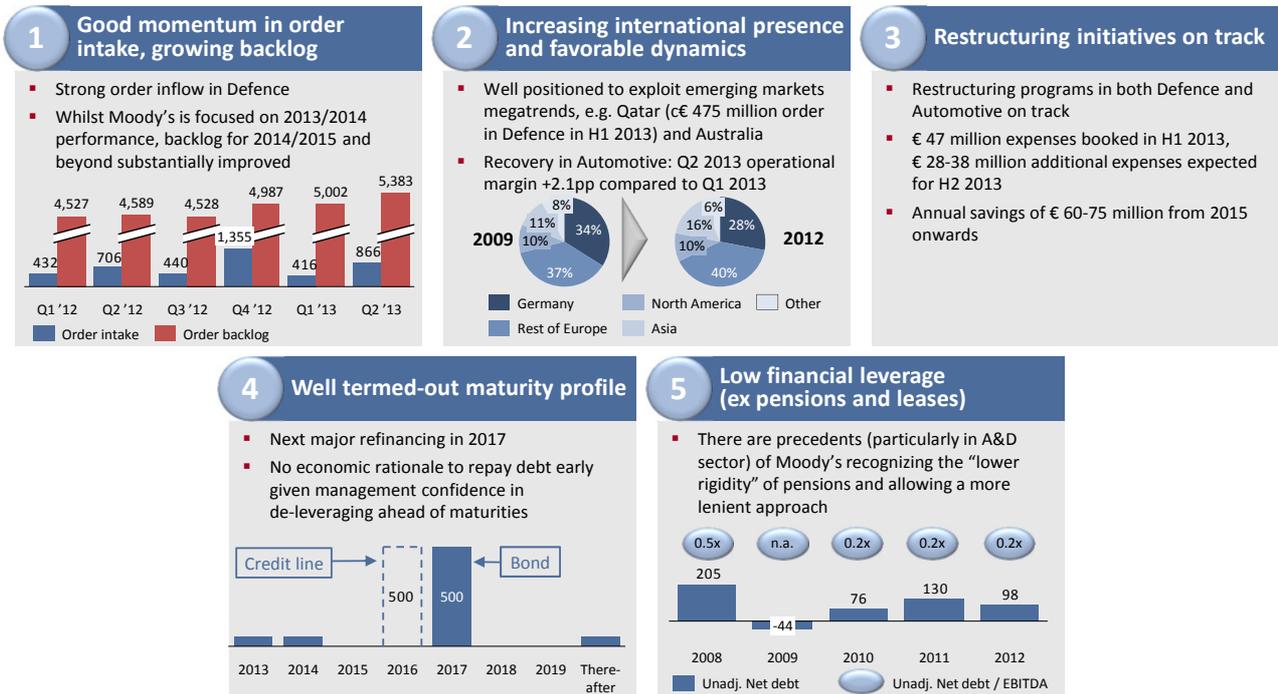
## Update on restructuring programs Reducing capacities in order to handle changed market environment

	Costs 2012	Costs 2013		Total reduction of employees until 2015	Expected savings 2014	Full annual savings from 2015
		H1	H2e			
Combat Systems (esp. Tracked Vehicles)	17	1	14 - 24	150 - 170	~15	40 - 50
Electronic Solutions (esp. Air Defence Zurich)	3	0		100 - 130		
Wheeled Vehicles (esp. Logistic Vehicles)	0	25		250		
<b>Total Defence</b>	<b>20</b>	<b>26</b>		<b>500 - 550</b>		
Hardparts (esp. Pistons Thionville/Neckarsulm)	0	14	14	370	~10	20 - 25
Mechatronics (esp. merging Neuss/Nettetal)	0	7		100		
<b>Total Automotive</b>	<b>0</b>	<b>21</b>		<b>470</b>		

- More detail on major Defence programs at a later stage in this presentation
- More detail on Automotive programs in the presentation of Dr. Merten



## Key strengths of Rheinmetall



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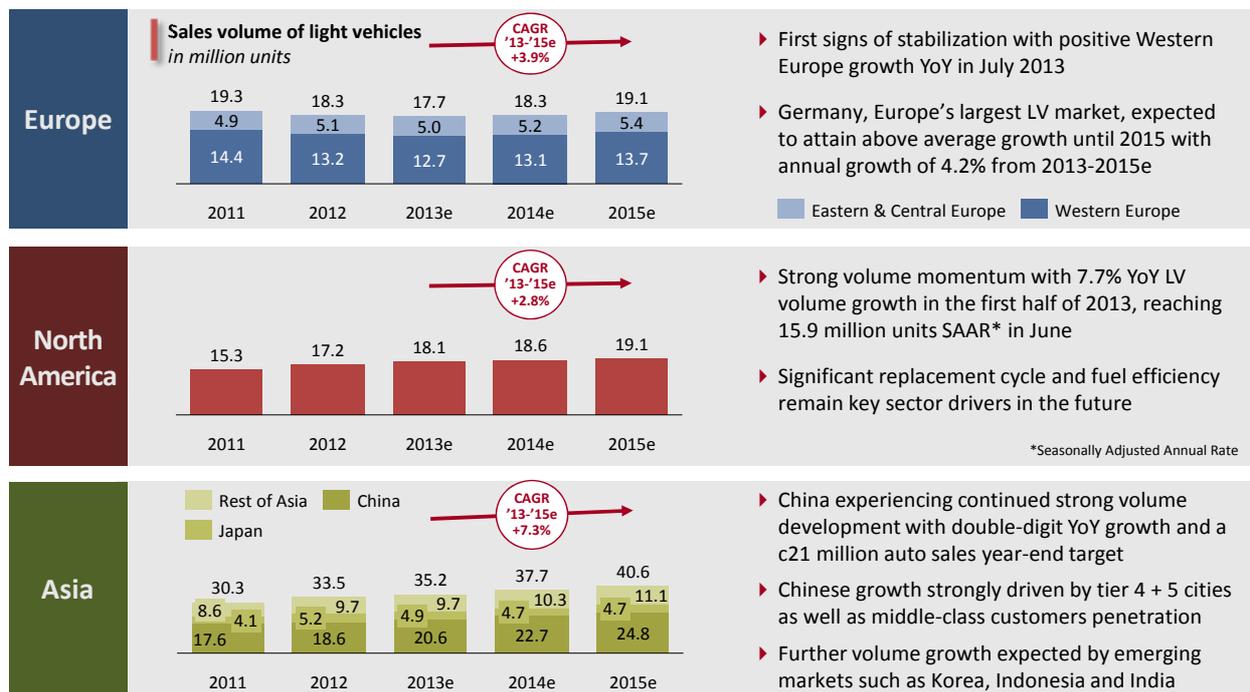
Provide more insight into the Defence business

# AUTOMOTIVE

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## Rheinmetall 2015 – Automotive Automotive sector shows return to growth



Source: IHS as of Q3/2013



## Rheinmetall 2015 – Automotive Growth and earnings targets

- In a continuously growing Automotive market, Automotive wants to **exceed sector growth slightly** and, together with the Chinese JVs, exceed sector growth clearly
- From 2015, **more than one third of sales** should be generated **in regions outside of Europe**. Special emphasis lies on markets in India and China
- Assuming a stable market environment, Rheinmetall Automotive envisages **an EBIT margin of 8% from 2015**



## Rheinmetall 2015 – Automotive Key drivers to achieve Automotive targets

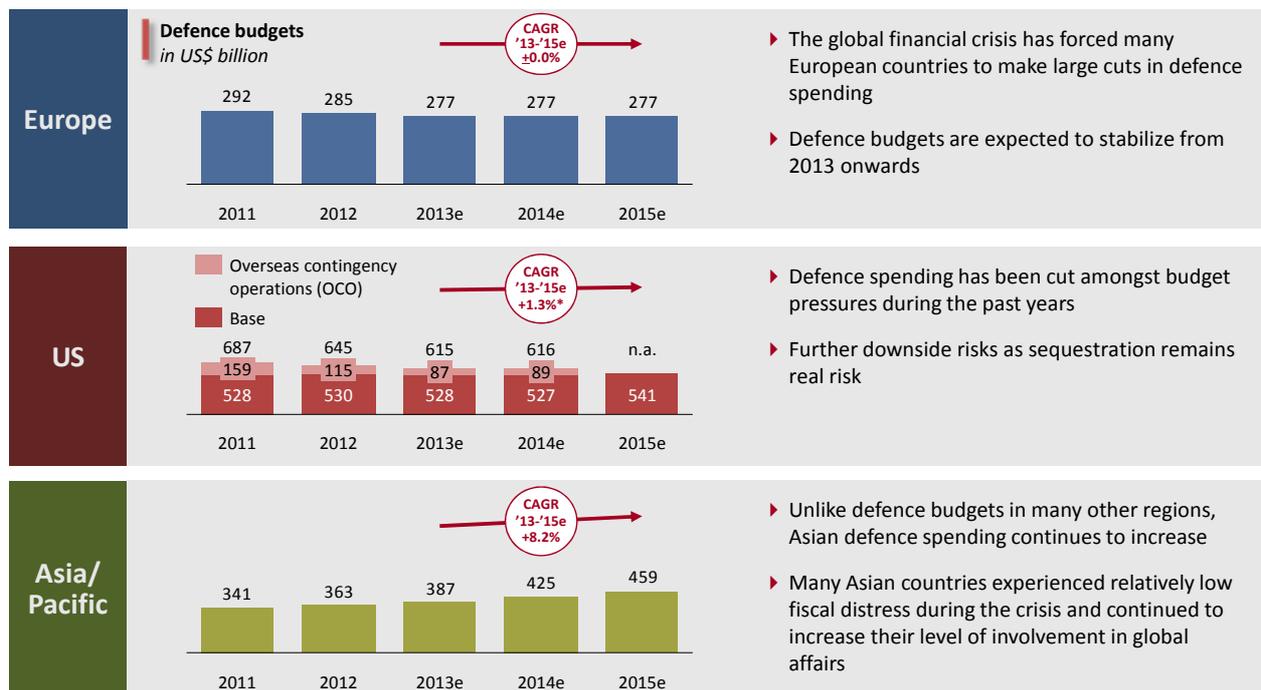
- A **stable Automotive cycle** including a recovery in Western Europe
- **Still growing markets in China and USA**
- **Strong pipeline** of innovative Mechatronics products
- **Selective growth strategy** in Hardparts
- Stronger focus on **production sites outside Europe**
- **Restructuring measures** in Western European plants 2013 will **fully pay off from 2015 onwards**
- **Encouraging development in the first 8 months 2013** confirming the FY Automotive guidance

# DEFENCE

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## Rheinmetall 2015 – Defence Defence budgets are stabilizing



\* CAGR based on Base figures, OCO not available for 2015

Sources: European Defence Budget as per Frost & Sullivan; US Defence Budget as per US Defence Budget as per DoD Fiscal Year 2014 Budget Request as of April 2013; APAC Defence Spending as per Marketline as of August 2013



## Rheinmetall 2015 – Defence Growth and earnings targets

- From 2014, we want to **grow organically** and gain market share
- From 2015, about 50% of our sales should be generated with **customers from outside Europe**
- We see **growth potential** especially in Asia and Australia
- After the successful completion of restructuring , Rheinmetall Defence expects an **operational EBIT margin of 10%**



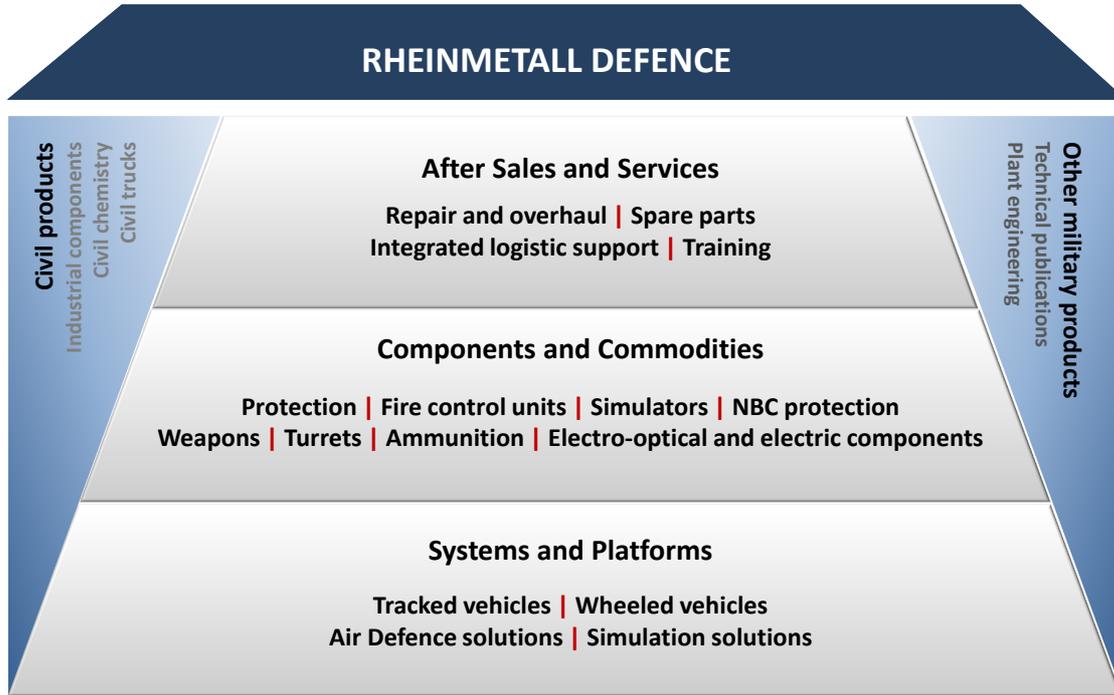
## Organizational overview – Divisions established in 2012

RHEINMETALL DEFENCE		
Sales: € 2.3 billion Employees: 9,600		
Combat Systems Sales: € 1.1 billion	Electronic Solutions Sales: € 0.7 billion	Wheeled Vehicles Sales: € 0.6 billion
Combat Platforms	Air Defence Systems	Logistic Vehicles
Infantry	Defence Electronics	Tactical Vehicles
Protection Systems	Electro-Optics	Customer Service
Propulsion Systems	Simulation and Training	
Combat International		

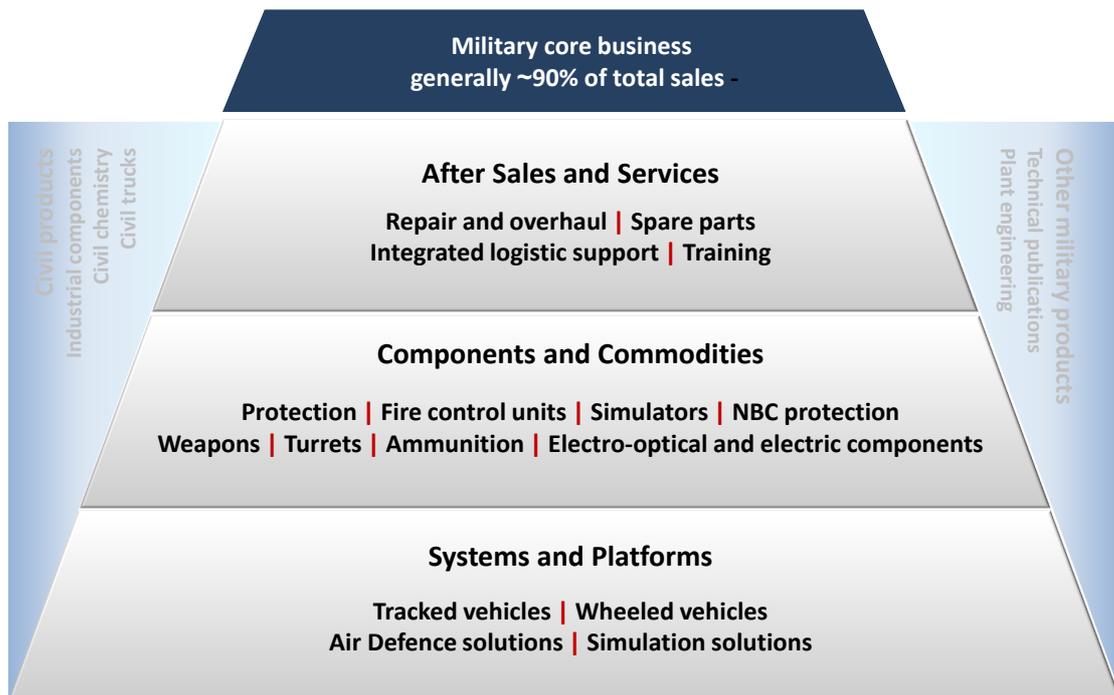
Sales figures fiscal year 2012, inter-company sales consolidated, employees per year's end



## Business model – Rheinmetall Defence as a systems provider

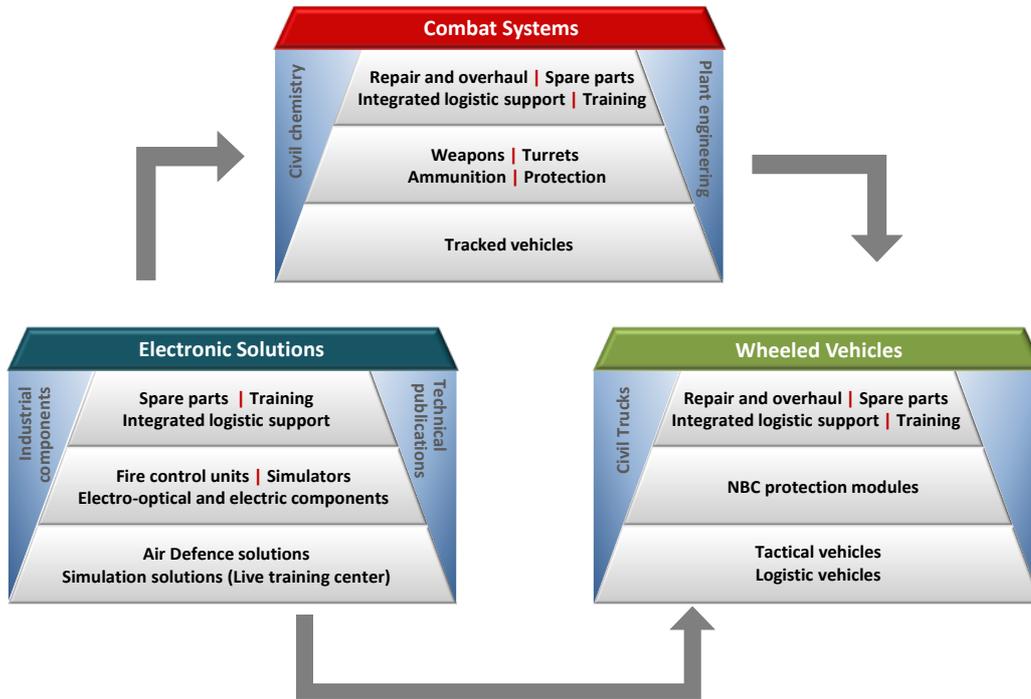


## Business model – Rheinmetall Defence as a systems provider





## Each division is a systems provider



## Characteristics of the broad Defence product portfolio

	Systems & platforms	Components & commodities	Aftersales & services
Duration of acquisition and execution	1 month to > 10 years (marker at ~80%)	1 month to > 10 years (marker at ~20%)	1 month to > 10 years (marker at ~10%)
Predictability	low to high (marker at ~85%)	low to high (marker at ~40%)	low to high (marker at ~75%)
Profitability	low to high (marker at ~30%)	low to high (marker at ~55%)	low to high (marker at ~75%)
Risk potential	low to high (marker at ~35%)	low to high (marker at ~25%)	low to high (marker at ~15%)

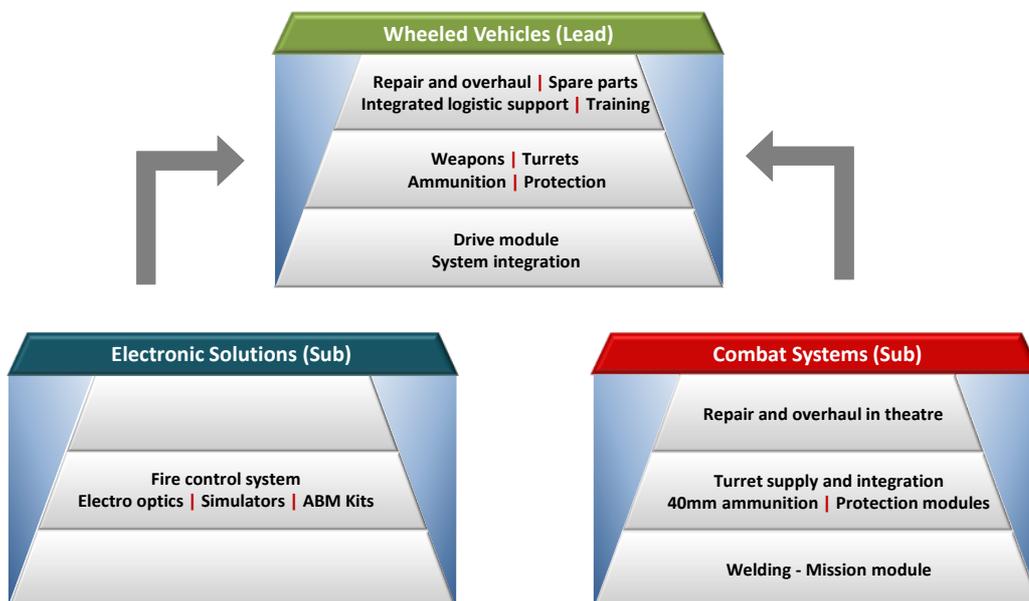
**Acquisition of systems is a strong opportunity to obtain orders for components and future services**



## Example for a Rheinmetall system: Boxer IFV with LANCE turret

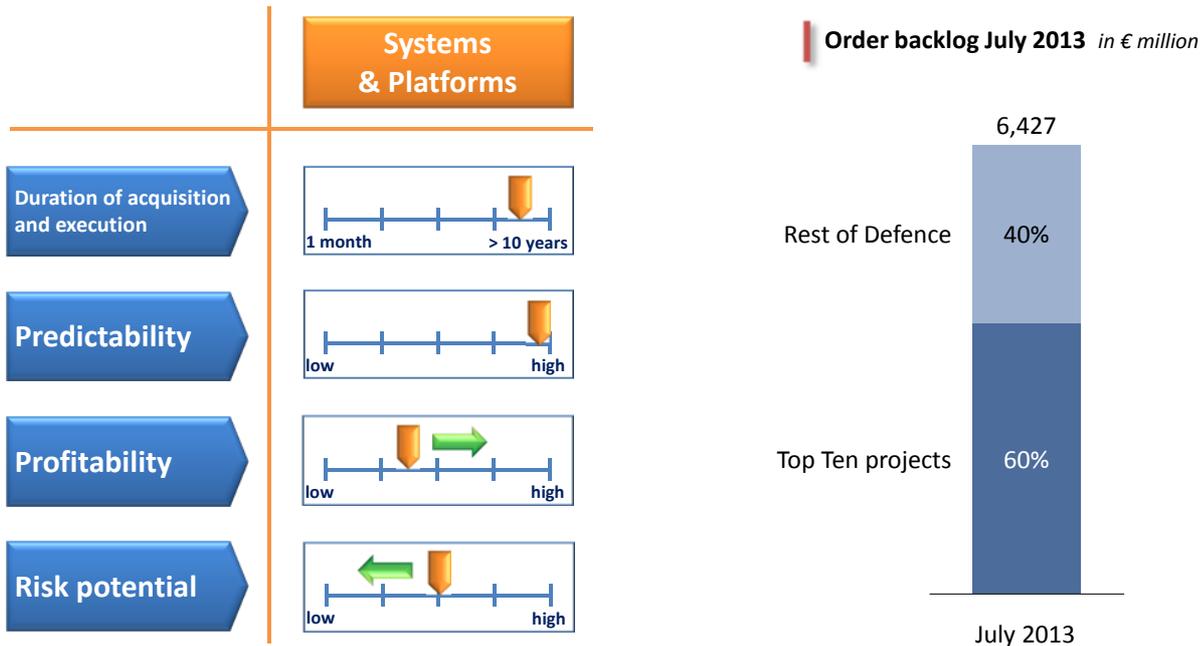


## Example for the system house approach: Boxer IFV with LANCE turret





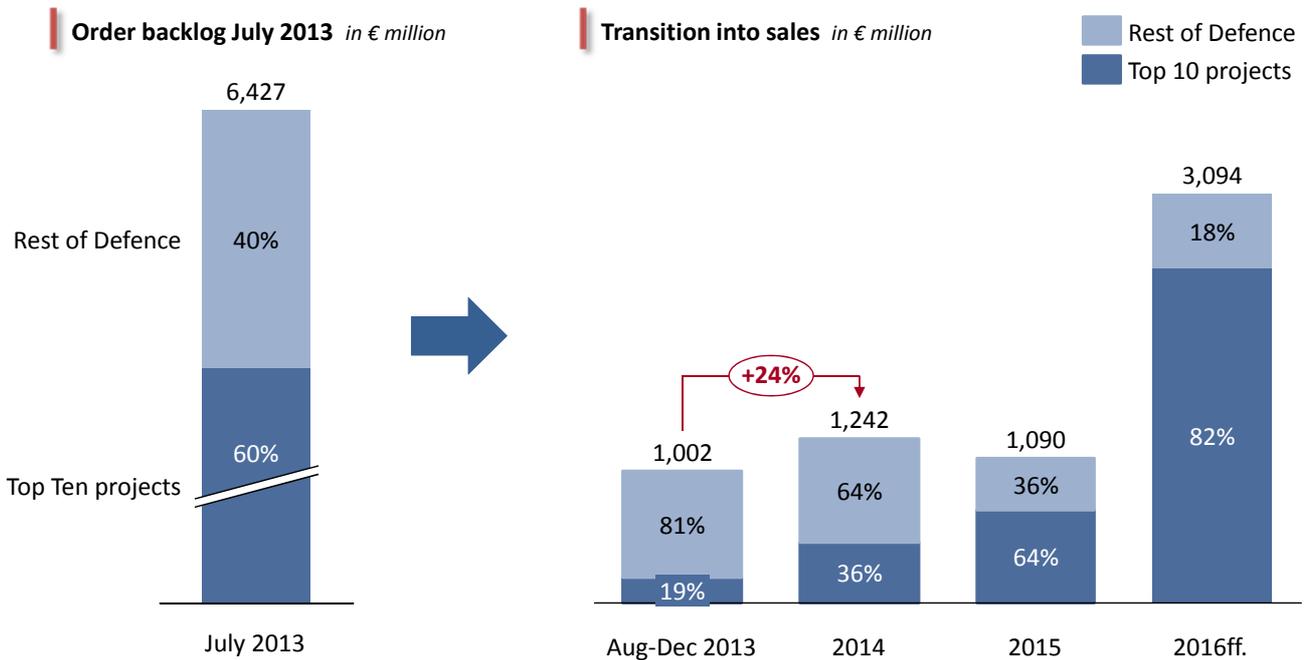
## Order backlog driven by systems business



**To achieve our targets 2015, an improvement in project management is a key driver.**

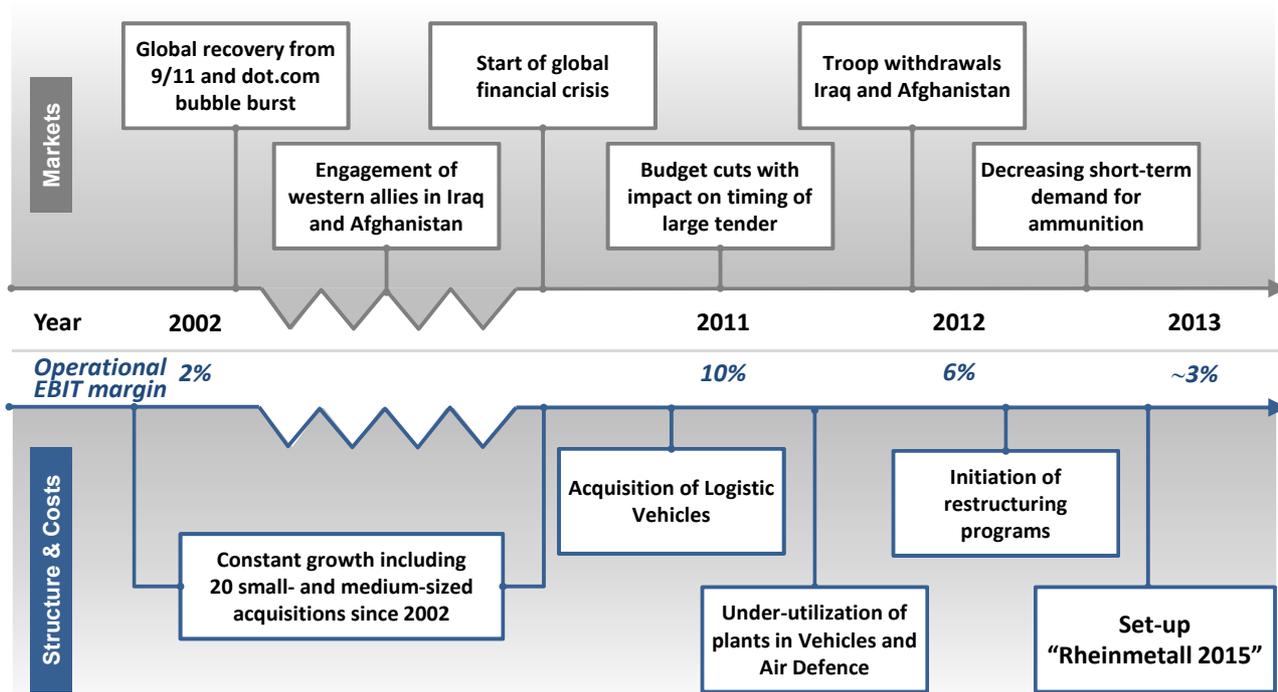


## Order backlog is backbone for topline growth in the mid term

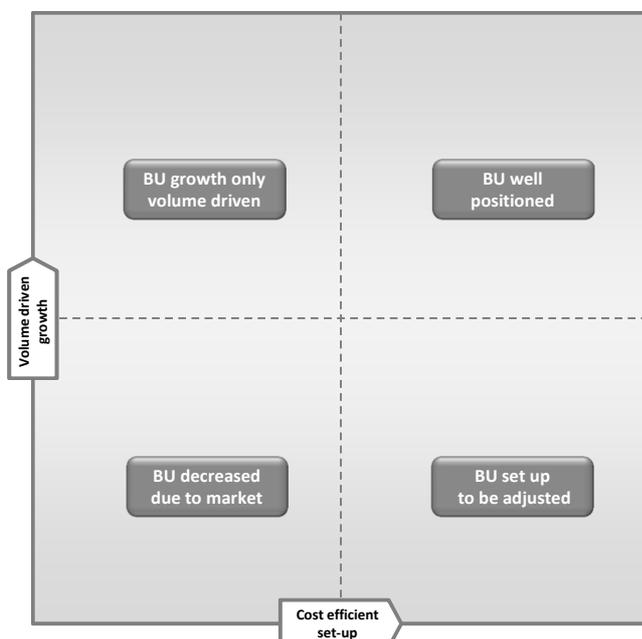




## Major reasons for the operational underperformance since 2011



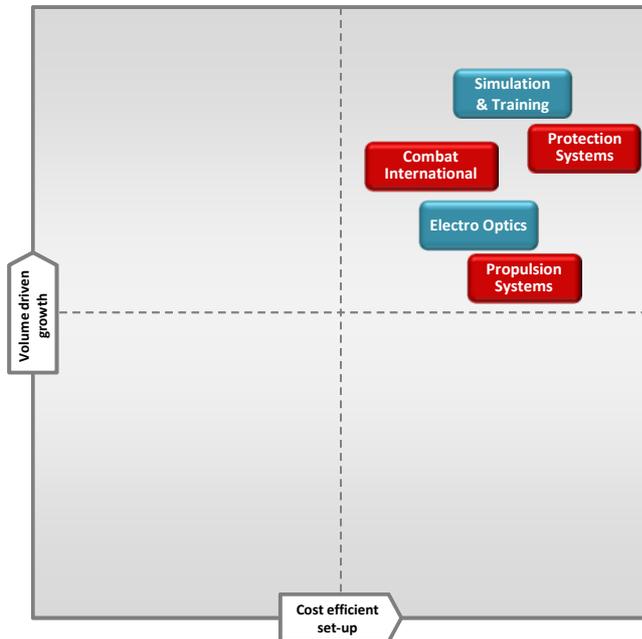
## Performance since 2011: Assessment of business units



- The assessment of our **performance varies from business unit to business unit**
- Some units are **well positioned in their market** and have already **efficient cost structures**
- In some units we are facing headwind from the market due to
  - ⇒ shrinking customer demand and/or
  - ⇒ higher competition
- In other units we had to **adjust our cost structure or the organizational set-up**



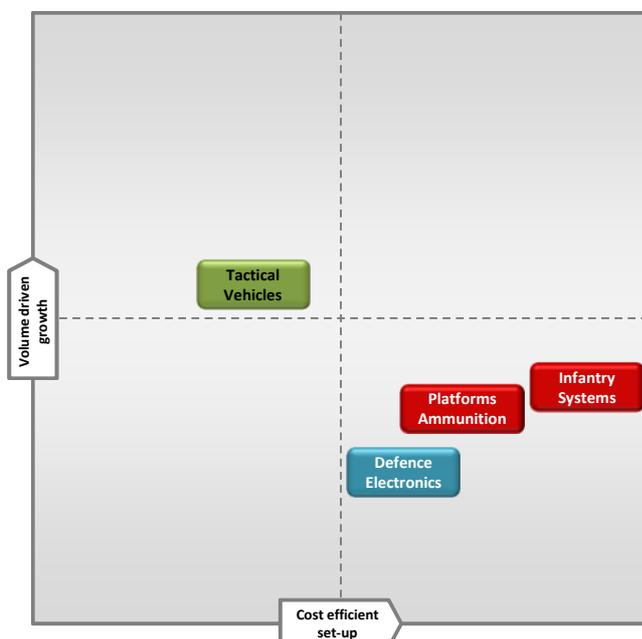
## Performance since 2011: Five business units are running well



- 5 of 11 business units are running well
- Propulsion, Protection, Simulation, Combat International, Simulation and Electro-optics are in good shape: volume driven and high EBIT
- Business highlights in the last three years have been
  - ⇒ growth story South Africa (RDM)
  - ⇒ the TAPV order in Canada (€ 160 million)
  - ⇒ market entry in Russia for Simulation & Training



## Performance since 2011: Temporary setback in the ammunition sector

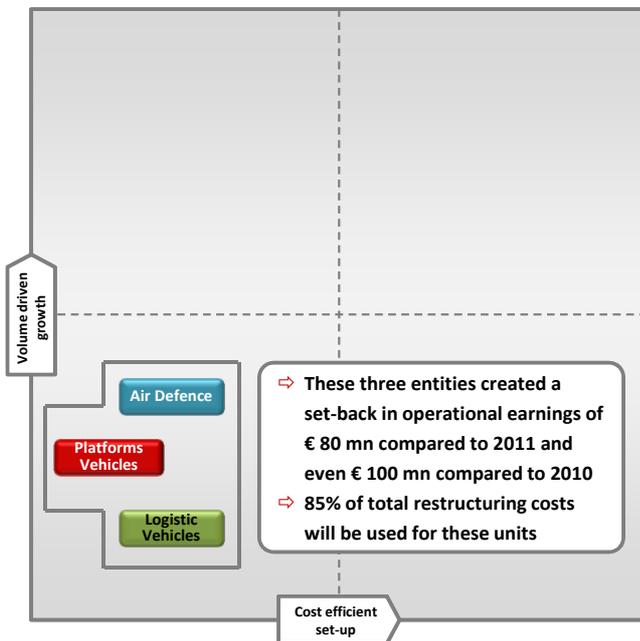


- Infantry and the ammunition part of Combat Platforms face market pressure in 2013
- Defence Electronics will be merged with Electro Optics and Air Defence in order to gain synergies in terms of marketing and R&D
- Within Tactical Vehicles the Algerian Fox Program is progressing well, sales growth came from the ramp-up of the Dutch Boxer program





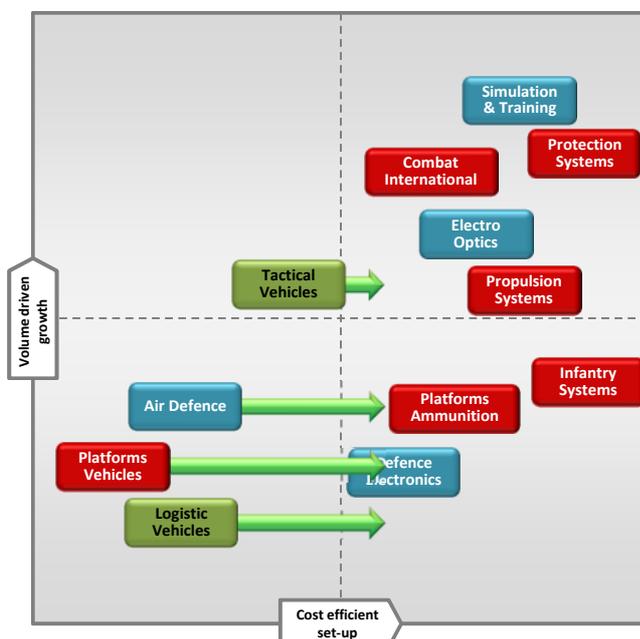
## Performance since 2011: Focus on three restructuring programs



- **Logistic Vehicles** saw a continuous downturn in sales from 2011 to 2013 leading to underutilization of the Vienna plant. The significant restructuring program will be completed in Q4/2013 - Q1/2014
- The workforce reduction for **Air Defence** derives from a very low order intake in 2011 and will be completed in Q1/2014
- Restructuring of **Tracked Vehicles** is the most challenging program. This unit struggles due to inefficiencies in project management, leading to cost overruns and overcapacities in the R&D sector.



## Performance since 2011: The drivers for improvement are identified



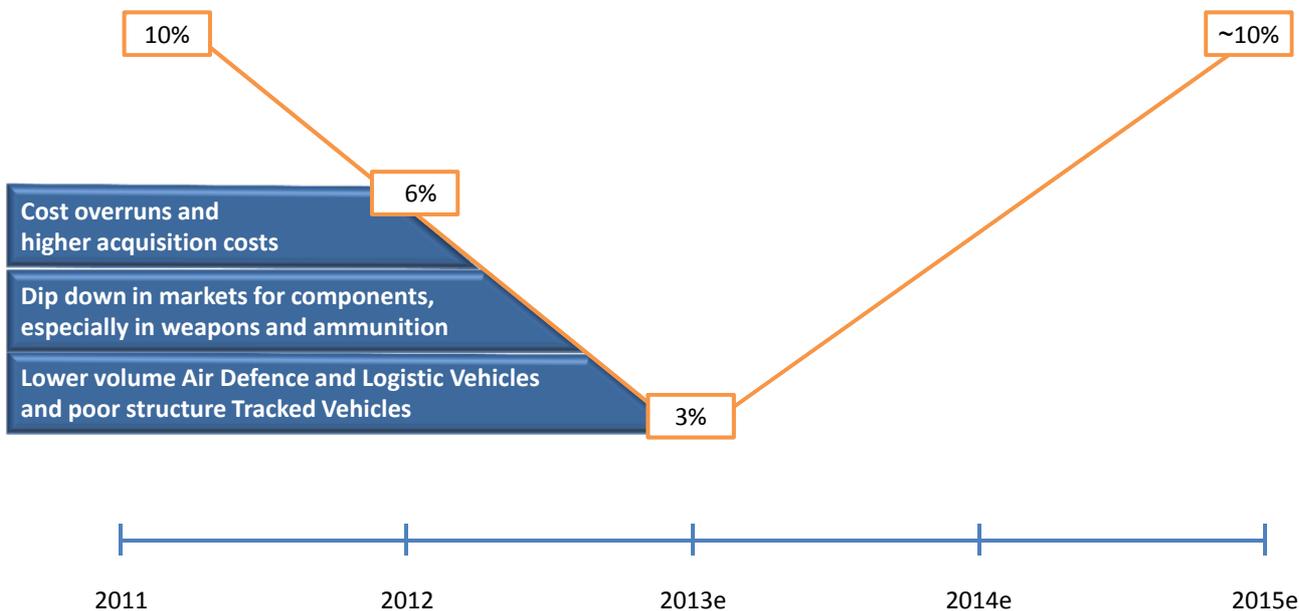
- Restructuring programs are important drivers and we are confident to bring the affected units back on track
- In addition, the expected market recovery in the ammunition sector will raise profitability of the group
- Capturing of new markets with established products like the Boxer will lead to profitable growth
- Despite the mentioned issues we have to focus on the improvement of our project management in the systems business and especially in Tracked Vehicles





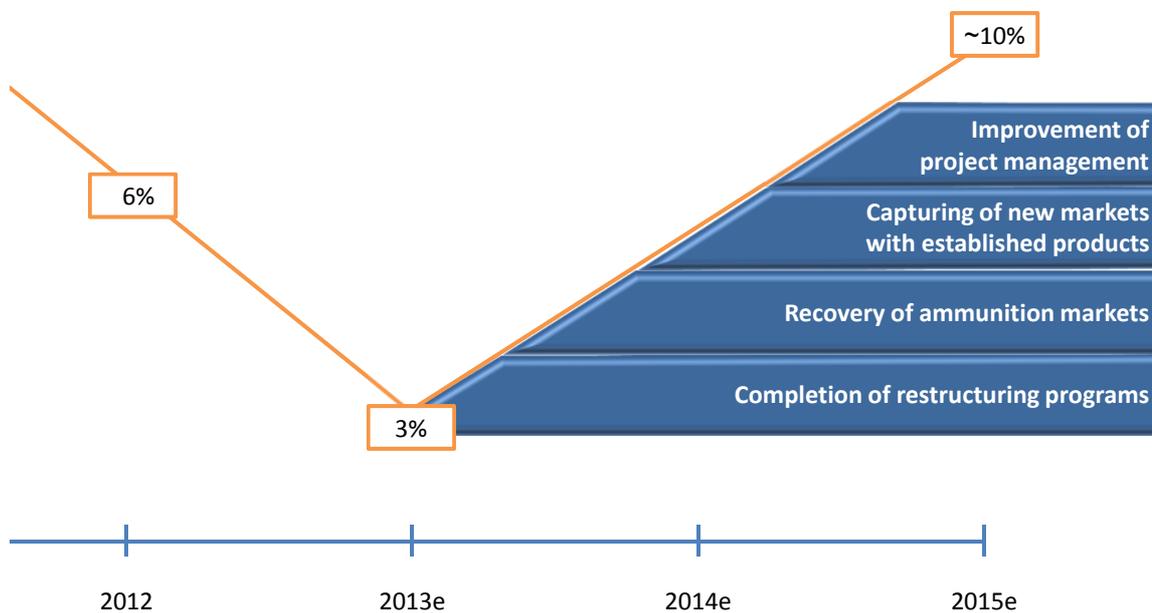
## Rheinmetall 2015 –Defence Growth and earnings targets continue to be achievable

Operational EBIT margin *in %*



## Rheinmetall 2015 –Defence Growth and earnings targets continue to be achievable

Operational EBIT margin *in %*



## Financial Diary

November 8, 2013	Q3 2013
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