

Conference Call: 14 May 2024, 8:30am CET

00:00:01 Operator

Hello Ladies and Gentlemen, and welcome to the Q1 results call 2024 of Rheinmetall AG. 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, CFO of Rheinmetall.

0:00:22 Dagmar Steinert

Thank you for the kind introduction. Good morning, everyone, and welcome to Rheinmetall's Q1 24 conference call. Before I start on page 3, I would kindly remind you of two things: First, as we are hosting our virtual AGM later this morning, we have a hard stop at 9:15. I will try to be brief so that I have time to answer your questions in the Q and A. Second, please be reminded of our legal disclaimer on the second page. Let us now move to page 3 please.

The first quarter marks an excellent start to the year and was characterized by double-digit top line growth and a solid margin improvement. However, higher working capital and capex activities affected our operating free cash flow.

As in previous years, I would like to remind you that we are expecting a heavy backend loaded business.

We didn't book business with the military trucks which we are expecting to be called off in Q2 and Q3 this year. Rheinmetall's Backlog surpassed the 40 billion Euro mark for the first time. The main driver for Rheinmetall Nominations of nearly EUR4bn were orders for Skyranger air defense systems. Another significant contribution came from the service contract for the heavy weapon carrier, which unlike the heavy weapon carrier itself was already booked in the first quarter.

The strong start to the year and the progress that we are currently seeing in our second quarter gives us high confidence to achieve our '24 guidance.

Lastly, we successfully closed the small-bore pistons disposal on April 15 and were able to sell all remaining Shriram shares in the first quarter. With this, we fully accomplished the exit of the pistons business and overall it marks an important milestone for the realignment of the Rheinmetall Group.

Please turn to page number 4.

We are conducting several capacity expansions across Europe. All of them are well on track. The new plant Niedersachsen and the F-35 plant in Weeze are both expected to start production in 2025.

Next to that, we are in advanced discussion with the Romanian government to establish a new powder factory in Romania, with a potential annual capacity of up to 1,500 tons.

Furthermore, on April 16 we signed a MoU with the Lithuanian government to establish a new plant for 155mm artillery ammunition with a potential annual capacity of up to 100 thousand rounds.

Lastly, although not mentioned on the slide here, another interesting acquisition we completed in March was REEQ in the Netherlands, of which we acquired 100%. REEQ gives us access to promising hybrid technologies, which can be used in light tactical vehicles.

Please move on to page 5.

In the first quarter, we witnessed a sales increase of 16% year-over-year and a solid margin expansion. Sales rose to nearly EUR1.6bn and the margin improved by 2.4 percentage points to 8.5%. Operating result improved significantly by 60% year-over-year, thanks to a great contribution from Expal. The EBIT pre PPA stood at EUR138m.

Please turn to page 6.

Our operating free cash flow came in at minus EUR187m. This had two main effects. First, we continued to increase our working capital to nearly EUR2bn. A major share of this are the military trucks, which we are expecting to be called off in the second and the third quarter this year. Second, we kicked off multiple new capex projects, like for example the artillery plant

Niedersachsen. As I said earlier, a continued driver for the working capital build-up is the pronounced seasonality of the defense business which is heavy backend loaded.

Moving on to page 7.

Our balance sheet remains strong and unleveraged. Our Net Debt to EBITDA ratio stood at 1, well below our target of 3. As a result, Moody's confirmed our credit rating on April 23rd at Baa2 with a stable outlook.

With a cash position of EUR515m and undrawn credit lines of more than EUR1bn, we have ample firepower to stay opportunistic.

Moving on to the next page.

Rheinmetall Backlog jumped by more than 42% year-over-year and crossed the EUR40bn mark for the first time. A number of air defense orders were the main driver for a strong jump in Rheinmetall Nominations to more than EUR3.9bn in the first quarter.

As mentioned before, a significant building block came from the service contract for the heavy weapon carrier with a contribution of more than EUR600m net in Q1. The vehicles however will be booked in the second quarter.

Please turn to page 9 for an update on our segments.

Vehicle Systems grew sales by almost 7% to nearly EUR500m with an operating margin of 7.7% in Q1. Different seasonality of the ring swap agreements affected the operating margin in the first quarter.

Weapon and Ammunition saw a significant revenue increase of around 70% to EUR362m year-over-year as a result from higher ammunition call-offs. Key projects included several artillery orders from both Germany and Ukraine. Rheinmetall Expal generated sales of more than EUR100m in the first quarter and thus made a decisive contribution to sales growth. The operating result more than doubled to EUR53m and margins expanded significantly to 14.7%.

However, an organic increase of more than 400 FTEs and adverse FX effects when compared to the previous year, burdened the leverage effect in the first quarter in anticipation of further growth. Typically, Weapon and Ammunition has a very strong seasonality as more than 40% of annual sales are expected to come in in the fourth quarter.

Electronic Solutions reported sales growth of around 26% to EUR287m year-over-year and a great improvement of the operating result to EUR17m, increasing the operating margin to 6%. Germany was the key sales driver with Skyranger air defense systems, further delivery shares for the Puma as well as delivery of combat helmets.

Our civil business, which is now operating under the new name Power Systems, had a flat quarter in terms of revenue growth but was able to improve the operating result by nearly 30%. Sales growth in the US and Asia, offset the weak development in Europe. Higher sales prices and a better product mix, together with the at-equity result of our Chinese joint venture, led to a margin increase to 5.8%.

Please move to page 10, where I would like to give you a bit more color on the consolidation line.

Whereas our sales consolidation increased to minus EUR101m year-over-year, we saw a significant improvement in the operating result consolidation to minus EUR6m, which represents an increase of around twenty percentage points. There are three driving forces behind this: first an improved operational performance of 4iG. Second, a change of the allocation logic for holding related costs back to the segment level and third the disposal of all remaining Shriram shares. For full year 2024, we expect a sales consolidation effect of around 6% of sales and for the operating result a consolidation effect of around 5% of operating result. Of course, all these figures are minus.

Let us move to page 11.

As we discussed in the last earnings call, we have guided for a capex spend of around 7% of sales. There are multiple large capex projects across all segments, which we have listed here. If there are any new major projects coming up in the next months, we will finance them in a cash neutral manner. This could happen via down payments, grants, subsidies, etcetera.

Please turn to page 12 for a brief outlook on the current quarter.

As half of the second quarter already lies behind us, I would like to give you a bit color on the current development. Our Q2 sales are expected to increase in line with our guided annual growth rate.

Next to that, Rheinmetall Nominations will double year-over-year mostly as a result of German orders.

Lastly, while Q1 capex spent stood at 6% of sales, we are seeing an acceleration; given the groundbreaking ceremony for our new artillery plant Niedersachsen only took place in mid-February. To sum it up, Rheinmetall reports a strong start to the first quarter of 2024 with ongoing sales growth and significant higher income.

And with this, I would like to conclude my presentation and I am now happy to take your questions. But again, please be reminded that we have a hard stop today at 9:15 due to the AGM.

0:12:12 Operator

So Ladies and Gentlemen, if you would like to ask a question now, please press 9 followed by the star key on your telephone key pad. In case you wish to cancel your question, please press 9 followed by the star key a second time.

And the first question comes from Sven Weier, UBS. Please go ahead.

0:12:11 Sven Weier

Good morning and thanks for taking my questions. The first one is following up on your order intake guidance. I just wanted to get the wording right here. Are we talking about firm order intake on nominations in total? The other question I had, because you are expecting 30bn orders from Germany this year, I was just wondering to where that takes you by the end of Q2, what percentage of the 30bn you expect to have in by the end of the quarter. That's the first one. Thank you.

0:12:47 Dagmar Steinert

Yes, Mr. Weier, thank you for your question. Of course, we are talking about Rheinmetall nominations and for the second quarter our nomination from Germany, what we expect will be just around EUR7bn.

0:13:43 Sven Weier

And you had how much in Q1?

0:13:49 Dagmar Steinert

In Q1 we had – you're asking now how much Germany?

0:13:54 Sven Weier

Just Germany.

0:13:55 Dagmar Steinert

Just Germany? From German nomination in Q1 was not that much. I mean our nomination was 3.9 in total in the first quarter, and from Germany it was roughly a little bit less than EUR2bn.

0:14:14 Sven Weier

Okay. So meaning that the majority of the 30b is then for the second half, I would guess. Yes?

0:14:22 Dagmar Steinert

Yes. Yes, that's correct.

0:14:25 Sven Weier

And then, if I may just the other point I had was on the organic performance of the Weapon and Ammunition business because Q1 last year was a relatively soft start as well and now I think the organic sales were up low double-digit and EBIT went back. Is that also just a timing issue in terms of the client taking delivery? Because I guess it's not you, you're producing probably full-steam of the ammo side. Is it also just a timing thing and you are seeing those deliveries in the second quarter just like on the truck side or –

0:15:01 Dagmar Steinert

Well, looking at Weapon and Ammunition, of course it's a timing issue and as we have a very strong growth in the running year, of course we have to build up capacities and therefore our cost increase and that's a burden for the leverage. And as I mentioned, especially Weapon and Ammunition is heavy backend loaded business, and therefore we are just talking about a timing issue.

0:15:36 Sven Weier

Thank you Mrs. Steinert.

0:15:40 Dagmar Steinert

You're welcome.

0:15:41 Operator

The next question comes from Virginia Montorsi, Bank of America. Over to you.

Virginia Montorsi

Good morning, thank you for taking my question. Its a follow up to something that has been mentioned already in the presentation. But if I look at your full-year guidance for revenues and what you just said for Q2, it does imply over 40% growth in revenues for the second half of the year. So can you help us understand a little bit more how you think about the divisions , what's driving that and is it mostly going to be Q4 related? Is there anything we should keep in mind? Thank you.

0:16:14 Dagmar Steinert

Well, of course our seasonality of the business applies to every segment except, of course, Power Systems. And we expect call offs for the military trucks already in the second quarter but more in the end of the second quarter. A bigger portion we expect in the second half of the year, therefore the vehicle systems business is backend loaded as well. Weapon and Ammunition is backend loaded as already mentioned, but of course with Expal which we included in our group in the third quarter last year. Therefore compared with the second quarter there will be a strong growth as well from Expal seen in Weapon and Ammunition and that's the development. And Electronic solution will have the same development regarding seasonality like last year.

0:17:37 Virginia Montorsi

Okay, thank you very much.

0:17:41 Operator

The next question comes from Sebastian Growe, BNP Paribas Exane. Please go ahead.

0:17:47 Sebastian Growe

Good morning, thanks for taking my question. The first would be a follow-up to Sven's question, when it comes to the nomination from Germany. Can you shed a bit more light around what's behind the 7bn that you expect in the second quarter and referring to the mix by segments and backdrop for the question clearly is you had obviously the slippage of both Weapon and then clearly (inaudible) and then also trucks into '24 from '23 and my understanding is that a function of frame contract that you are still to sign in order to get the shipments done, so if could you be a bit more specific around what's behind the EUR7bn? That's my first question, then I have 2 more.

0:18:27 Dagmar Steinert

Of course. One order intake which we expect is the heavy weapon carrier where we just got the service part in the first quarter. Then of course, we expect our ammunition for our Weapon and Ammunition business, where we build our new plant in Niedersachsen. That are the, let me say, biggest order we expect from Germany.

0:19:04 Sebastian Growe

To be precise here the heavy weapon carrier that's about what, like EUR 1,5b, EUR2b-ish for the vehicles as such?

0:19:13 Dagmar Steinert

No, the heavy weapon carrier is in total a little bit less than 3b. And then of course...

0:19:20 Sebastian Growe

(inaudible)...600m the first quarter, right?

0:19:25 Dagmar Steinert

Yes. And then, of course, we expect other order intakes from trucks.

0:19:33 Sebastian Growe

But the large frame contract for large calibers for artillery that's not yet in the scope for the second quarter, is that a fair understanding?

0:19:42 Dagmar Steinert

It's in scope for the second quarter.

0:19:46 Sebastian Growe

Okay. And then the second question I had, I didn't really catch what you said around the ring swap agreement impact. You made some comments around it for the first quarter and if you could you repeat those? And my question is also what you would expect from ring swap agreements in the entirety of '24?

0:19:50 Dagmar Steinert

Well, the ring swap agreements usually have quite a high margin and we have booked sales in the first quarter 2023. Therefore if you compare our margin year-on-year, we have a lower margin in this business in 2024. It's just a question of product mix in the segment Vehicle Systems, and of course we have seen in the first quarter 2023 as well sales from material kits with Fuchs, Algeria and that was a high margin business as well.

0:20:23 Sebastian Growe, Exane BNP Paribas

Okay, thank you. The very last question, then, just on the reallocation of your overhead costs. Will you provide then also readjusted figures for the first quarter of 2023 to get a better understanding of what the impact is at the operational level?

0:20:39 Dagmar Steinert

Well, we reallocated mainly overhead costs regarding IT and with that, of course, there is in the first quarter '24 and that will remain of course in the future, higher IT costs are seen in the segment. There we are talking about a single digit million euro number.

0:21:14 Sebastian Growe

Okay. Thank you.

0:21:19 Operator

The next question comes from Christoph Laskawi, Deutsche Bank. Please go ahead.

0:21:21 Christoph Laskawi, Deutsche Bank

Good morning. Thank you for taking my question as well. The first will be a follow-up just on the ammunition frame contract. If we think about the scope that has been mentioned previously, which was around EUR10bn, could you comment on the technicalities of the booking there? Because the implied would obviously be lower in Q2. That will be the first question.

The second one would be on consolidation. Obviously your CEO highlighted recently in an interview that he is very open for that and you stressed that the balance sheet is healthy to be opportunistic. Is this opportunism, or basically your strategic set-up there, just for the idea that you discussed in the US? Or should we also think about European and continued focus and you're actively on a hunt for a deal here? Thank you.

0:22:17 Dagmar Steinert

Yes. Well, regarding the ammunition nomination or contract which we expect, of course overall it's over EUR10bn. But it will be a little bit split in separate frame contracts and therefore we just expect in the second quarter from Germany like EUR7bn and of course, a call-off of around EUR1bn.

Regarding our M&A activities, yes, we have a very strong balance sheet. We are open for further consolidation and, as we mentioned, we are looking at targets within the U.S., but there's nothing more I can mention today.

0:23:17 Christoph Laskawi

Thank you. Just to follow up on the ammo side. But you do expect the full EUR10b in 2024, right?

0:23:24 Dagmar Steinert

Yes. Definitely.

0:23:24 Christoph Laskawi

Thank you.

0:23:31 Operator

At the moment there seem to be no further questions. If you would still like to raise a question at this point, please press 9 followed by the star key on your telephone keypad.

The next question comes from Sash Tusa, Agency Partners. Over to you.

0:23:54 Sash Tusa, Agency Partners

Thank you very much, indeed. Good morning. Just a very quick question. Could you just confirm what the capital gain was on the share of the Shriram shares in the first quarter? You said that that was included in the Power Systems result.

0:24:13 Dagmar Steinert

It was EUR4m.

0:23:54 Sash Tusa

Thank you so much.

0:24:17 Dagmar Steinert

You're welcome.

0:24:24 Operator

The next question comes from Michael Raab, Kepler. Please go ahead.

0:24:28 Michael Raab, Kepler

Hey, morning, everyone. Mike Raab from Kepler here. I'd like to get back to your targets of the order intake and order backlog for the full year. Just first of all to reconfirm, you're looking for an order intake between EUR28bn and EUR36bn? You mentioned you were going to look for an order backlog of between EUR50bn and EUR60bn respectively. Is that correct?

0:24:51 Dagmar Steinert

That is correct, yes. But just to clarify, nomination and not – it's Rheinmetall Nomination and not (inaudible)

0:24:58 Michael Raab

It's nominations?

0:24:59 Dagmar Steinert

Yes.

0:25:00 Michael Raab

It's not from firm orders, it's nominations overall? Okay.

0:25:02 Dagmar Steinert

Yes. Yes.

0:25:03 Michael Raab

Okay, yes. That probably explains it. Because I was going to ask if we take EUR38bn as an order backlog, that you had at the end of last year, we take the midpoint of your order intake range of EUR32bn, we're going to get to EUR70bn. We deduct EUR10bn in sales roundabout, so we get to an order backlog of EUR60bn, which would already be at the upper end of the range. So let's say if you got into the mid – if you got to the upper end of the order intake range, then you could easily accumulate an order backlog in excess of EUR60bn. But what you're saying, this is including nominations, right?

0:25:41 Dagmar Steinert

Well, you made a perfect calculation. I couldn't have done it better.

0:25:45 Michael Raab

Okay. Okay, good. Good. So no mistake in my thinking. Thank you.

0:25:55 Operator

So that seems to be it for the moment. There are no further questions. I'd like to hand it back to you, Ms. Steinert, for the closing remarks.

0:26:07 Dagmar Steinert

Yes. Thank you very much. Thank you very much for your open and interesting questions, and I'm looking forward to the performance of our second quarter and of course for the full year 2024. I'm sure we will deliver and we will fulfil our guidance. So thank you very much, and goodbye.