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Transcript**



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Rheinmetall AG Conference Call

00:00:01 Operator

Good afternoon, ladies and gentlemen, and welcome to the Rheinmetall AG conference call regarding the first-quarter results 2022. 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 your host and CEO, Armin Papperger. Please go ahead.

Armin Papperger

Thank you very much. Thanks for your kind introduction. A warm welcome to all participants to the Rheinmetall Quarter 1 2022 earning call. I will be your host for the next couple of minutes and walk you through this presentation, together with my colleague, our CFO, Helmut Merch. Before I present the highlights of the first quarter, please be reminded of our legal disclaimer on the next page.

So let's have a look to page number 3. The first quarter in 2022 was for the Rheinmetall Group a really good quarter. So we had, like last year, from a sales side a really good year and we had sales of EUR1.266m. The operating profit improved and we have an improvement of about 10% to EUR92m, so that the operating margin is going up to 7.3%. I think this is significantly higher than the prior year, where we had a figure of 6.7%.

The beauty is also that we have a very high order intake. I will come later about to give you information about that and in detail for Quarter 1, my colleague, Helmut Merch, will give you the information. But the full-year guidance of 2022 is from our side confirmed.

Let's have a view to the next slide. In that slide we give you an overview about parliamentary decisions, what will happen and what is our expectation, what we got from the governmental side and the discussions that we have also with the Ministry of Defense.

As you know, on 27 February our Chancellor made the decision about a EUR100bn extra budget and also a decision about the 2% of our GDP that we want to spend over the next years.

In our last call we gave you an overview how this will be handled, so that we will have this EUR50bn/EUR51bn basic budget and we will fill up the basics to EUR70bn and EUR80bn.

Now in May there is a constitutional amendment for this EUR100bn fund. The first question is, will that happen? Yes, we think 100%, and all the discussion that we have is at the moment that they fix it between the different parties, maybe, and that is the reason that we have some dotted lines inside. There is a delay of one or two weeks, but we believe that the latest, in mid of June, we will have this amendment.

If we then have the final budget discussion, so end of June, maybe in the middle of July, we will have now the real budget and the planning chief of Bundeswehr will give now the frame of all the budget that we have, and this is now the timeframe for potential order intakes.

We are for sure now in discussions of different order intakes. Later I will give you more information about that.

So you see that now on page number 5. Here you see what happens on order intakes only from the German side. Our expectation, and we do not speak about gross figures, we speak about net figures now here – we planned for 2022, before the Ukrainian crisis, of about EUR1.6bn net. Now we plan between EUR6bn and EUR8bn net order intake from the German side.

So what are the key projects about that? First of all, ammunition. We are now in discussions with the government about different ammunitions, what they need. It's a medium caliber, it's tank ammunition, it's infantry ammunition and it's especially auxiliary ammunitions. Some of this ammunition should help also in the Ukrainian crisis.

The second point is on trucks. Yesterday I personally took over the key to the German government. We sold the first 3.000 UTF trucks and the first Wechsellader, which is a really big success. And as you know, trucks is a huge need. Without logistic vehicles, and we see that in the Ukrainian crisis, it is impossible to win a war.

Number three is the Puma, on the second lot. Here is still a discussion how many they want to have, if it's 100, if it's 250. But in total it will be a huge contract because we will bring all the first lot also on a level of each VJTF.

If we speak about Boxer, we speak about schwerer Waffenträger. On this product, this is a co-operation with Australia. The soldier system, where we also go in investments and in some of these areas we made pre-investments to order material after a handshake agreement with the government.

First time now we will show you what happens now in 2023. This is because we have a lot of frame contracts. Yes, you will see that we expected in 2023 EUR2.9bn, but after Ukrainian and after the discussions now with the government, our expectation in Germany is between EUR7bn and EUR9bn. All these order intakes, for sure, it is impossible to bring them immediately into sales. But also on the sales side from Germany, especially for ammunition, trucks and equipment, soldier equipment like helmets, where we expect two huge contracts. One of them is signed and both contracts will be of about between EUR60m and EUR70m.

In 2022 we expect from Germany EUR2bn, in 2023, EUR2.3bn. In those figures, there is no direct support from the Ukrainians. As you know, Germany at the moment, it's not easy to make a decision what Germany directly delivers to the Ukrainian. But I personally think that it is possible over the next months, so we gave a list of a potential between up to EUR500m, and there is a potential between EUR300m and EUR500m to get an order intake in 2022.

If you go now to the next page, you see now the defense market. And that's important, that's only the defense market, and the expectation of our order intake

in total. So you see that in 2021 we had EUR4.7bn order intake. Now in 2022 the guidance is between EUR13bn to EUR15bn. In 2023 our guidance for order intake is between EUR14bn to EUR16bn. This is only defense. But if you see also the nomination letters that we signed on the automotive side, the total booked business in 2022, our expectation is between EUR16bn and EUR18bn.

If you look now on the right side, the sales estimated on defense divisions, in 2021 we had EUR3.773m. Our guidance for 2022 is now EUR4.5bn to EUR4.6bn, a plus of about 20%. The estimation is in 2023 that we will grow up to EUR5.5bn to EUR6bn in 2023 only for the defense business.

But what are the drivers now for that? And you see that now on page number 7. It's a German market, for sure, that we discussed before. But there is also a huge opportunities on the international markets. Number one, you see the Slovakian order. We made the trials in Slovakia and are now at fulfilled. We did this this week. We think that in the second half of 2022 the Slovaks will make a decision. The potential is up to EUR1.5bn.

There is a delay in Australia, as you know. The reason is very clear – the election. They don't want to make a decision before the election. But we are still in good shape and we think that we can book this year the EUR4b in Australia. At least it will be a final decision. If there is a delay, maybe it could be also first quarter next year, but I believe still this year.

Czech Republic, as you know, is a delay, and the decision is expected in 2023, but also EUR2bn. Everyone knows the big, huge contract in the US which is possible. So there is a decision now in 2023 of EUR0.5bn, and then two years later there will be the huge contract decision. But this is nothing for tomorrow. So it's the day after tomorrow.

But there are also some new projects that we are discussing at the moment. This is coming up now because Europe has to stand much more on the defense side. If you see now Italy, and the Italian government made the decision for the fleet, of

army fleet, over the next 10 years, to spend EUR8bn, and EUR2.3bn will be available already in 2023. We are in negotiations with the army. We gave them an overview about our infantry fighting vehicle. This is a potential because for sure there is still competition.

I think on the Greece side we are one step ahead. If you have a look to the newspapers in Athens, you see that they want to have 275 Lynx. This is what you can read in the newspapers. The total budget, and there is also an upgrade program for the Leopards, will be up to EUR3.5bn.

Very, very important for us, is because we have our factory there also in the United Kingdom, that there is a decision that they want to build up. They have at the moment – there are two orders – Lot number 1 which is 500 vehicles, Lot number 2 with 100 vehicles. Both of them are booked. Lot number 3 is with another 400 vehicles, so that Great Britain will have in total more than 1000 vehicles on the Boxer fleet. And different variants will come up, for example, artillery, for example, air defense, etc. etc.

So UK and Hungary are, as you know, our home markets. We try to build up Greece and Italy also as a home market, because that's very important. If you go now to Hungary, we booked now the ammunition contract some weeks ago, and there is a new opportunity for intelligent ammunition, loitering ammunition, where is a possibility of around EUR250m. My expectation is that we have a possibility to book it this year.

Digitization and soldier systems, this is linked to our Lynx program. You need digitization about that, and we are discussing at the moment with the government, and we see a potential of EUR1.5bn over the next years.

There is a decision in Hungary also about an RDX plant. It's high explosive plant. There is a huge need in Europe on the RDX side. The amount of money is EUR170m. Rheinmetall is able to build that up with our plant engineering department, and an ammunition plant which has also a value of about EUR100m.

So if you sum up the whole Hungarian part that we have, we still booked about EUR5.05bn, so it's EUR6bn, EUR7bn in total that we would have in our order book from Hungary, a real home market.

Lithuania is looking also for more Boxers. These are all the trends which are coming up now. But the other Baltic States will follow, and this is only a small overview about that, what is on our sales side at the moment going on. And Lithuania is another potential of EUR150m. The information I think you've got is that Slovenia might also in the discussion a decision for us with a Boxer. There will be also very similar contract coming in via OCCAR.

So let's go now to page number 9. Here you see now that there are also some challenges. There is also a challenge on the defense side, because the challenge is for sure to make it happen on the operations side. Last time we discussed about our risk profile, what happens on that side. But now let's go to the civilian business.

On the civilian side you see that, especially from IHS, from the Automotive side, there will be a downward revision. The problem that we have for sure, that the whole world has, is the semiconductor shortages. It's not inside Rheinmetall but it's with the OEMs and we do not get the contracts out of the nomination letters. There is a supply chain disruption and there is a lockdown in China. That is the reason that the number of produced cars will slow down, the growth rate from 8.5% to 4.4%.

We expect internally from Rheinmetall that we are able to win nomination letters this year, and I told this before, about EUR3bn, so that the contracted orders on the civilian business is also really in good shape. The sales estimated, that we slightly improve our sales and slightly improve also our operating results.

Let's have a look now to page number 10. On page number 10 we see now that the outlook for the Rheinmetall Group is that the Group sales from 2021 to 2022 will grow between 15% and 20%. 15% is very safe and the 2022 guidance to 2023,

on the 2023 which we estimate is that we have a growth rate between 15% and 25%. This depends a little bit how fast we can book the order intakes, especially on the defense side from Germany.

So on page number 11 now, the 2022 guidance, we will confirm so that the organic sales growth will be between 15% and 20% and the operating margin will be more than 11%.

I conclude the first part of this presentation and I hand over now to my colleague. Helmut, please take over.

[0:17:43] Helmut Merch

Thank you, Armin.

I will start my presentation of the key financial data on page no. 13. Please be reminded that all figures apply to the continued business only unless stated otherwise.

Group sales of roughly EUR1.3bn already mentioned by Armin remained basically flat compared to the previous year. Compared to this virtually unchanged sales levels, we were able to lift operating profits by EUR8m to EUR92m. Special items mostly relate to the mark to market valuation of our liquidity reserve due to the current market environment. Earnings per share from continuing operations improved from EUR1.05 to EUR1.08 or 3% in the first quarter of this year compared to the prior-year period.

Please continue on page 14.

Operating free cash flow from continuing operations declined year-on-year by roughly EUR400m to minus EUR462m in the first quarter of 2022, but we have to bear in mind that the operating free cash-flow in Q1 last year was the best ever in company's history. This year's development resulted mainly from the strategic increase of working capital. We are currently building up inventory with focus on Weapon and Ammunition and Vehicle Systems to manage stressed supply chains

and secure future growth especially in H2 this year. Furthermore, we received high prepayments and milestone payments in Q1 2021 including Eur140m from Hungary and roughly EUR60m from Australia. In Q2 this year we are expecting a better situation regarding payments. And also we have continued with our opportunistic CTA funding, EUR50m were paid into the German CTA to finance our pension obligations furthermore.

Please move to page 15.

I won't dive into the details of the balance sheet, but our KPIs continue to improve and this was also rewarded recently by Moody's, upgrading our long-term issuer rating to now Baa2 with stable outlook. Moody's referred to the improved operating result and credit ratio as well as the conservative financial policy.

Maybe one closer look to our pension obligations: We are now observing the accelerating effects from the discount rate increase in Germany and Switzerland, which were the drivers behind the improvement of roughly EUR130m to now EUR644m pension obligation. At the end of the first quarter we had a cash position of roughly EUR390m and additional securities held for trade with a value of roughly EUR150m.

And now moving on to page no. 16.

The first quarter showed a mixed performance of our divisions. The strong sales performance of Weapon and Ammunition as well as Materials and Trade helped to keep group sales at roughly EUR1.3bn. The high growth in Weapon and Ammunition sales was mainly the result of ammunition and propellant deliveries to an international customer. Materials and Trade profited from increasing demand in aftermarket activities. The operating result of Eur92m showed again a strong growth of roughly 10% and exceeded the already strong previous year's performance.

The development was driven by a positive mix and strict cost management in Vehicles Systems, and a very positive operating profit increase of EUR14m from

Weapon and Ammunition which included the effect of the sales increase and higher at equity contribution due to the final settlement of a customer order.

Electronic Solutions operating profit decreased mainly due to the first time consolidation of the acquired business of the drone manufacturer EMT and higher costs for business activities in the cyber security area. All divisions except Sensors and Actuators showed a negative operating free cash flow, mainly driven by lower prepayments and strategic working capital build up, as already mentioned.

Please now turn to page no. 17.

The positive development of the booked business in our civilian divisions continued in the first quarter. We reported a boost in our booked business by roughly 50% to EUR1.2bn. We received again high interest for our alternative propulsion business, including over 300.000 cathode flaps for an international fuel cell maker.

Let us move now to page 18 and the development of our order intake and backlog for our Defence divisions.

We delivered a strong order intake in the first quarter. The main driver behind this was the long announced ammunition order from Hungary with more than EUR800m which slipped from Q4 last year to Q1. And the second lot of Boxer from UK already mentioned by Armin worth more than EUR200m. Our continued strong order intake has now moved the backlog to a new record level of more than EUR15bn. Including the also increased shadow backlog, we are now close to EUR19bn. And as Armin already explained, we are expecting more to come in the near future.

Let us move to page no. 19 and the current situation in the Chinese market.

General and raw material price increases especially in the casting business continued to pressure our results, since price escalation or comparable protection mechanisms especially for aluminum were not fully in place. Negotiations with

most customers are constructive and we have agreed for future increases with most of them.

The massive outbreak of corona cases in China resulted in strict lockdown measures provoked by the Zero-COVID policy in China. Shanghai and areas close by are under lockdown. And as many of our sites are in that area we are of course impacted.

Our Production activities are currently materially reduced and we do not see any quick release of this situation. The severe lockdown situation is actually expected to extend until end of May or even June this year. Currently no employees are severely impacted. Employee food packages are being prepared as food supply remains key personal challenge.

On page no. 20, I would like to present to you the elements of our capital allocation policy, which most of you are familiar with. Last year we added the share buyback to our capital allocation policy. We are convinced that share buybacks offer in general an additional instrument to increase the attractiveness of our share. In the current market sentiment and due to the already increased share price a buyback is not off the table, but currently on hold and not our first priority. We continue to put a strong emphasis on the growth of the company supported by our growing backlog. The funding of our growth remains our top priority for the time being.

This brings me to my last slide of the presentation, featuring the risks and opportunities as well as a trading update for our Q2 on page 21.

For 2022 we still see and expect remaining uncertainties - but of course the positives and chances dominate our picture. In the current security policy situation, we consider ourselves well positioned to make valuable contributions to strengthening defense capabilities in many countries. This high demand for security will lead to rising defense spending worldwide and will offer additional business potential for us.

Despite all the opportunities, we are also facing some headwinds. The massive outbreak of cases in China forces strict lockdown measures. With almost all plants now affected significantly for at least the whole of April, we see increased uncertainty regarding the remainder of the fiscal year, especially with our Chinese businesses.

Additionally, supply chains of our OEM customers are negatively affected by the Chinese situation and the global supply chain disruptions. This continues to lead to supply bottlenecks at OEM customers resulting in a very volatile customer call-off for our business.

In general, Automotive market continue to be characterized by comparatively higher volatility risks causing ongoing downward revisions of the LV production growth assumptions by IHS to now 4.4% for the whole year instead of 8.5 % beginning of this year.

We continue to monitor our supply chain very closely and have more or less secured prices and volumes of our key input factors. Due to our combined price escalation and hedging strategy for raw materials and energies, we consider our business well prepared and also well protected.

This brings me to the trading update for our Q2: We are actually expecting sales growth between 8% to 10% and the operating margin in the range of 7.5% to 8.5% for the second quarter.

Thank you now for your interest and the floor is now open for your questions.

[0:29:10] Operator

Ladies and gentlemen, if you would like to ask a question, please press 9 and the star key on your telephone keypad. In case you wish to cancel your question, press 9 and the star key again. And first question comes from Sven Weier. Please go ahead.

00:29:33 Sven Weier

Yes and good afternoon. Thanks for taking my questions. The first one is on your slide number six in the presentation slide where you give the sales outlook for the defense divisions for this year and next, so first of all thanks for that visibility. It's more of a technical question, because, I guess, the way to arrive there is to add up the three divisions of cost less the consolidation line. Is it fair to assume that the consolidation line for the -defence should be around 400m for this year, 500m for next year? Is that round about the right neighborhood?

00:30:13 Armin Papperger

Yes, yes.

00:30:16 Sven Weier

Okay, clear answer. Thank you for that. The second question is actually on the more mid-term defense sales outlook, because I saw you, Mr. Papperger, being cited in the Spiegel magazine that you foresee a defense sales level of around EUR10b in the next five years. I guess when I look at your order intake expectations that you also show on slide six, that sounds quite a reasonable comment. Can you confirm this?

00:30:47 Armin Papperger

Yes, yes.

00:30:50 Sven Weier

Okay, another clear answer, thank you. And then lastly on this order intake guidance, I just wonder what of the projects that you outlined on the slides you have included as a profitability weighted inclusion there, or how did you go about this order intake guidance?

00:31:11 Armin Papperger

Yes, this is now a little bit more to tell you, Mr. Weier, but I think that the Greek side is – I have some echo. On the Greek side I think here is a huge opportunity. I

personally believe that latest in the first quarter next year, the Greek government will make a decision. We are in really strong discussions with them on both programs. But also on the Leopard program, there is what we discussed at the moment, active protection inside our electronics, etc., which is a huge program for Rheinmetall. And as you know, the Lynx would be 100% a program that we do. So this is really good.

On the UK, it's for me very fast to tick in the box, so this is very clear which is come. Hungary is very safe. This is not only a potential. Lithuania is for me also very safe, which is coming. And the thing that we have to fight hard at the moment is the Italian side, because on the Italian side there is very clear that we have to find an industrial strategy in Italy. We have to find with the Italian companies a good role how to go forward in these areas. But the rest is for me a really good potential.

00:32:46 Sven Weier

And on the Australian one we obviously saw a lot of press noise before the elections, some of the reports saying that decision has been made for Hanwha already because you guys would be too busy with the German clients. And I think that was also – but, I guess, yes, interested to hear your thoughts. And also the other one, commenting on the Boxer deliveries, that there would be some technical issues, with the, I think, called carbon monoxide emissions inside the tanks, so, yes, would be interested in your comment on this.

00:33:21 Armin Papperger

Yes. So first of all, I will start with the Boxer. The Australian government, and I have this written so I have a paper of that, as Rheinmetall is the best and best qualified deliverer for the Australian army. So this I think tells everything. I don't want to give comments about our competitors. I never blame competitors in things. This is on the Boxer side, so we are happy. We are fine, and we are in line, and this is from the top, from the prime minister via the ministers to the state

secretaries and all the other guys. So there is no issue. This is number one. And some people are launching some information because they tried to change some decisions. This is not the style that we do.

The second point is it's very clear that the Australians said, "Okay, we don't want to make such a big decision for land systems before the election, because there could be an impact on the election side," so they had to wait. As you know, the election is now in three weeks' time, and I personally think we'll get after the election a decision. The government told us that they want to decide at the latest in September.

00:34:51 Sven Weier

Okay. Now, if I may, a final follow-up on my 10 billion questions. What is your thought on what margin would go alongside such a very high sales level in the mid-term in defense?

00:35:05 Armin Papperger

Yes, we told you very clearly that we want to have more than 11%, but this will be not the end. There is a leverage inside for sure, and everything that we book at the moment is, if we make a calculation project by project, it's more than 10%. But if you see the leverage which is going up, now at the moment there is more in. But I must say very clearly, we cannot give a better guidance at the moment and we should not do this. But I believe more than 11 is really good.

00:35:42 Sven Weier

Okay, thank you.

00:35:45 Armin Papperger

A pleasure.

00:35:48 Operator

And the next question comes from Ben Heelan. Please go ahead.

00:35:52 Ben Heelan

Yes, morning guys. Thanks for the questions. I had a couple of questions on margins in weapons and ammo and vehicle systems so the strong improvement in Q1 in both of those divisions, so could you talk a little bit about what drove that and how you see the margins for these divisions playing out as you see revenue growth over the next couple of years?

And then a second question on supply chain and inflation. Could you talk a little bit about how you're managing that both in the defense and the auto business, and what are the different trends that you're seeing there? And then a final question from me was obviously you said buyback is still there but not the priority. The focus will be on investing in growth. Can you talk a little bit about what those investments in growth are going to require? Is it a significant amount of Capex Just any color around that, how we should be thinking about the investment in growth over the next couple of years. Thank you.

00:36:51 Armin Papperger

I'll make the first point. Helmut will make the second point. On the vehicle side, my expectation is that we over time have a profitability which is more than 10%. On the ammunition side there should be a profitability EBIT worth-wise which is bigger than 15%. So these are the two expectations that we have, and also on the electronics side maybe to make it clear, there is also an expectation that we should be between 10 and 15%.

00:37:24 Helmut Merch

And one additional remark is that Q1 is positively impacted by weapon and ammunition by the aforementioned at equity contribution, which drove the profitability in Q1. This is more or less a one-time impact here, but the profitability

will grow in the upcoming quarters as Armin already told you. And as you know, this is the highest profitability within our divisions.

So coming to your second question regarding a supply chain, we actually are very busy but we are also lucky in managing the supply chain in a proper way. Actually up to now, we have not produced any standstill at our OEMs. It's the other way around. We have this high volatility coming from our OEMs because they have been forced to standstills by other suppliers because they have some problems in their supply chain. So we are on a good way to manage semiconductors and also other raw materials, and we are also managing pretty well for the time being the price material increases.

We, as you know, are protected to a higher extent from the material escalation clauses. The rest, which is open, we are having hedging instruments in place, and only up to 5% of all volumes we are buying on spot markets. And therefore, if there is anything we could have not hedged, for instance steel or plastics, then we are able to pass these raw material price increases through to our customer and only a very, very small amount is in our P&L.

And regarding investments of future growth, I think in our first call in this year, Armin clearly explained that we are well-prepared regarding ammo production. We have in our biggest plant in Germany, in Unterlüß, we have an installed capacity coming from the Cold War situation and give you only one example. The average volume we have produced in large caliber ammunition was around 30,000, up to 40,000, maximum 50,000 rounds and installed capacity is around 250,000 rounds. Therefore we can easily bring up production in a greater volume situation. We have installed a second or third shift and we have to hire personnel. But this is manageable.

The second situation regarding necessary Capex, is especially dedicated to our truck plant in Vienna. Actually, we have a production of roughly 2200 trucks and our plans now more or less fixed is that we are able to ramp up the production to a volume of roughly 4000 trucks. It will take us some time, but early in the

beginning of 2024 we should have reached this status. Also this is being managed by additional shifts, by additional employees and the final statement to this is we are actually ramping up our new facility in Australia.

We have made our inauguration of the newest factory in Hungary which takes up production in early 2023. We are under way to renovate, to modernize our facilities in UK. So, from the vehicle side we are well prepared to ramp up production in 2023 further on. Therefore it is a limited Capex but we will need some Capex, no doubt.

[0:42:09] Armin Papperger

Yes, but only some millions. One example that Helmut said was if you go to Vienna to our factory where, he said, we grow up to 4000, so we can double the sales in a period of two years. We need 400 people for that. So this is very well planned: 350 blue collar and 50 white collar people, everything is planned, also the shifts are planned. So we are totally prepared. We can press the button.

[0:42:37] Ben Heelan

Okay. And a quick follow-up then. If Capex isn't going to be a significant drag on capital, is working capital, is that an area that we need to be thinking about?

[0:42:48] Armin Papperger

Now, at the beginning, yes, for sure, because as you know, you see that also we have to invest now at the moment. But we are in negotiations with the customers when we signed the contract that we get down payments on that things, but we have to invest in materials. Because if you have no material, you can make no sales.

But this is a period that, let me say, a short period, and the feedback that we get from the customer side is that we have not a huge cash drain that they want to help us in this area with down payments and milestone payments.

[0:43:21] Helmut Merch

So if I may add, for our full year our strategic range regarding operating free cash flow, the ratio is still valid. It is a range of 3% up to 5% of total sales. So in between this area we will also have our target for this year.

[0:43:46] Ben Heelan

Very clear. Thank you, both.

[0:43:48] Armin Papperger

Thanks.

[0:43:52] Operator

The next question comes from Christian Cohrs. Please go ahead.

[0:43:56] Christian Cohrs

Yes, good afternoon, and thanks for taking my questions. Coming to the speed of orders in Germany, I've heard rumors that the EUR100bn budget might also be then actually managed by the federal procurement office in Koblenz and that is not necessarily known to be a fast decision-maker. Can you confirm this rumor? Or what is the base for your optimism that the placement of orders will be rather fast?

Second question then relates to the order potential in outside markets of Germany. You mentioned some. Two are actually missing – Finland and Sweden might join the NATO, and I wonder whether this has any implications for their rearmament or whether this opens up any business potential on your side?

Then the obligatory question regarding pistons, the disposal process. Maybe can you provide a brief update?

Lastly, a housekeeping item to Mr. Merch. In the operating cash flow – sorry, in the cash flow statements there are non-cash items of minus EUR118m. I wonder what this is about? Maybe you can shed shortly some light on it. Thank you.

[0:45:16] Armin Papperger

We will do, Mr. Cohrs. First of all, yes, finally we had to handle all this money. This is very clear. What is the reason that we are very optimistic about that? The first thing is that we have frame agreements. And due for the frame agreement, to enlarge it, for example, for the trucks or for the ammunition, yes. You only need a one-pager about that. So it's not a negotiation of a new contract, because the contract is there, and for ammunitions, for all the different calibers we have this frame agreement. So if they want to double the sales per year, they fix it with the one-pager.

The same on the truck side. By the way, we did that several times now. As you know, we also have a frame agreement on the truck side and we at the moment, if you see -- we deliver now, as I told before, 3000 UTF trucks. In the contract we have to deliver 2200. So we are 800 over the contract at the moment. The reason for that is because we have this COVID package which we got in really one week. And the same we can do if there is the budget now and first of all they need the budget. The planning chief has to give the full budget now to the minister. The minister has to give this to the government. The government is giving that back to the armament director. The armament director is giving that to BAINBW and BAINBW is giving that to the industry. So this is the where way where we go forward.

You usually need, if you have a frame contract for the whole thing, three weeks. So I'm still very positive. If we negotiate totally new contracts, it's a different story, because it lasts usually longer. But Rheinmetall is in good shape.

On the Puma, it's the second example about that, they have our offer and we are still in negotiations about that things, even if the budget is at the moment not there, so that we are forced.

So maybe some examples about your first question. The second point is I totally agree with you. Finland and Sweden, if they go into the NATO, they are very well equipped. But some weeks ago – I think it was about four weeks ago – I had a meeting with the Finnish government there in Finland. We spoke about different opportunities to cooperate in these areas, especially on the vehicle side.

I cannot tell more about that, because this is not officially. But Finland and Sweden are huge opportunities, but I have it not in my list. By the way, this list that you see is not the full list. There is for sure more where we are working on, but we give you examples to see where we are working and in which programs we are working.

On the piston side we have today, now, it's now since two hours closed, for the large bore business. We closed the period that the guys can give us an offer. And this, we have now several people who gave us an offer about that, and we go now into the final negotiations. For the large bore pistons, they are very, very interested in that.

The same is what we are doing now for our business in India. As you know, we are here on the Indian stock market and at the moment the value that we have, the 20% of Shriram has a value of about EUR46m. So we can place that after the negotiation with the family Shriram. The same is what we are doing in Japan. So step-by-step, we are selling the business. As we told you, Piston will not come back.

Cash flow, Helmut?

[0:49:25] Helmut Merch

Mr. Cohrs, I will pick up your question regarding our statement of cash flow. Our presentation, I have to admit, could be slightly misleading, because we presented two line items on a gross basis which also could have been shown on a net basis. So I will explain.

The line item you have referred to is to be connected with the line item "changes in pension provision". So these changes in pension provision, in our statement of a plus of EUR125m consists of a minus cash effective EUR8m, and a plus EUR133m positive non-cash effect from an asset ceiling of pensions in Switzerland. In Switzerland for the time being we have currently an asset surplus from funding of our pension provision and in this quarter, for the first time, we have an asset ceiling that prevents us from recognizing an asset in the full amount. As of end of March, we recognized an asset in the amount of EUR92m and the remaining amount of the surplus of EUR133m consequently does not lead to a reduction in pension provision. So the corresponding negative non cash effect is shown as actuary gains and losses in the line item you have referred to other non-cash expenses and income and the effect from the asset ceiling is therefore presented on a gross basis. So in case we would have netted both line items. This would have been probably the better way. We will switch a net presentation in Q2. So changes in pension provisions would have shown then a minus of EUR8m and the other non-cash expenses and income would have shown an amount of plus EUR50m. So I apologize for possible misleading, but this is the explanation behind.

00:51:35 Christian Cohrs

Yes, that's fine. Thank you. Nothing to apologize for. Thank you.

00:51:39 Helmut Merch

Welcome.

00:51:44 Operator

And the next question comes from Sebastian Growe. Please go ahead.

00:51:49 Sebastian Growe

Yes, thanks. Good afternoon, everybody. Thanks for taking my questions. First one would be around defense and on Germany. So if we're going to that one again. I would be interested in the German orders in 2022, 23, and especially the composition. Can you give us any more color around what is coming from Weapon and Ammunition especially for the ammunition part? And clearly, I'm asking that question, because on one of the earlier calls in March, you said that you're expecting up to EUR12bn after that, in your earlier speech of Mr. Scholz. So if you can start there.

00:52:22 Armin Papperger

So maybe you see an overview that we have on page number five so on the on the key projects what I see. So, the trucks, if the trucks are going up, I see from the truck side for this year that we get minimum EUR3bn check for the Wechsellader system. Maybe we are also able to go to the UTF, for a second lot of UTFs which would be also some billion in 2022 or in 2023. Depends where it is. And sometimes we could book it earlier because we are as you know, in a frame contract. And then maybe 22 will be higher or 2023, it will be in 2023. On the ammunition side, I think that year by year my expectation is that we can make about EUR1bn on top per year from that, what we had on the German side and these are different ammunitions. It could be but this is not finally done, it could be that they will book the whole frame of contract. If that happens, sure the figures will be higher. But at the end of the day, we want to be here conservative. And if you see that now on the Puma second lot together with the VJPF package, there are between EUR2bn and EUR3bn, which let me say conservative, EUR2bn for the Rheinmetall side. The Boxer with schwerer Waffenträger is for me minimum EUR1bn and the soldier systems with that renegotiate is between EUR1bn and EUR1.5bn. So this is, and then, as you know, there are a lot of small contracts that we have also. These are only the huge contracts. But if you count that up, you come into this area that we discussed. Is that fair enough for you?

00:54:38 Sebastian Growe

It is, yes. Thanks very much. And then the other question related to it, and that's obviously the same slide, on slide number five, is on the conversion into revenues. I'm a bit puzzled about the fact that the 23 sales is only picking up kind of slowly with everything you just said, especially around ammunition. So the item question I would have is, when you're going to reach the EUR4bn plus level that you referred to, I think, also on this early March call.

00:55:07 Armin Papperger

It could be faster if we are really fast now in the decision of the contract. But this depends a lot on that. So if the question that we had before was forced to say okay, they are very slow, if there is a delay in sight and this is what we calculated, then maybe it switched also to something to 2024, which is then a better figure. If we are very fast, or especially on the ammunition side, it could be better. But because we are not in the final stage of the negotiations of the contract, and especially of the delivery dates that is in the contract in sight, I cannot give you a better information about that. But this is our expectation. And for sure, it could be possible that the expectation is better, but at the end of the day, we have to deliver.

00:56:06 Sebastian Growe

That makes sense. And then lastly, on the 25 targets, you had obviously the EUR6bn defense sales online. So that's obviously feeling like ages ago with everything that's happened in between. But can you give us a sense of what the realistic growth rate might be beyond 23. So thanks, really, for sharing your thoughts around 22, 23. But to just get a sense of when really all these enormous orders will ultimately then convert into revenues.

00:56:38 Armin Papperger

Try to be fair with me, because I don't want to give you a figure if I have not really booked now the billions. And what I want to do is first of all, to make my job to book it, then to calculate everything. And I think it'd be very fair to give you an outlook of 23. But now to give you an outlook up to 25 is nearly impossible because we do not have the dates of deliveries that our customer wants. My expectation is for sure that the growth rate is really a good one. A really good one about that, but give us a little bit more time, please.

00:57:25 Sebastian Growe

Okay, understandable. Sorry, and one final and trying my luck on the margin side as well. I do hear all the comments around the mix, etc. So I guess that's all what you indicated on prior occasions. My question really is, with all this enormous demand with the situation being really a seller's market, is there any risk at some point in time from the negotiations that you're having that the governments are asking for sort of a cost plus structure, so that they are going to put a ceiling on your margins? Or how should we think about that conceptually.

00:58:02 Armin Papperger

No, there is no discussion at the moment about that. And the point is, if you speak about cost plus structures, also if you have cost plus structures, it is possible to make good profitability let me say if the leverages in the factories are good. The leverages over the next years will be good and my personal expectation is that we will be bigger than 11%. And if you want to calculate something, so I would say between 11 and 15 over the next year, independent.

00:58:39 Sebastian Growe

Wide range and the high end of the range. Okay, thank you very much, Mr. Papperger.

00:58:45 Armin Papperger

It's a pleasure.

00:58:49 Operator

And the next question comes from Alexander Wahl. Please go ahead.

00:58:53 Alexander Wahl

Yes, thank you very much for taking my question. It's actually a question on your fiscal year 23 growth outlook. So my intention is more or less to reconcile page or slide five and slide 10. On slide five, you basically show that you expect German revenues to grow from or by roughly EUR300m, which I think is about 5% and at the same time, you guide for revenue growth and gross levels for 15 to 25% for 2023. So am I right to assume that the largest share of this growth is basically not accounting or reflecting expected revenues of Germany, but is backed by your current backlog?

00:59:36 Armin Papperger

It's a growth of 15%, never five.

00:59:40 Alexander Wahl

EUR300m.

00:59:42 Armin Papperger

Yes, it's a growth of 15%.

00:59:44 Alexander Wahl

Year on year, on EUR6bn.

00:59:48 Armin Papperger

But maybe I understood it wrong. But this is, I try to say it again. If we are able to book the contract earlier, there is a possibility, especially on the ammunition side, but also then shown on the truck side, which are the huge drivers. But also on the vehicle side. Vehicle side, we need a little bit longer. As I said, I said on the build

vehicles and on the tracked vehicles, there is a delay from order intake up to 24, maybe a little bit longer in some areas, a month. So you cannot see something in 2023. So we are not able to make sales with the Puma, for example, if we book the Puma contract even in three months. On the truck side, we try to make a performance and on the ammunition side, I think we do a lot. There is a core, there is a ramp up curve. In 23 and 24, you will see more. Otherwise, it would be impossible to grow in the areas where we are. If the contracts are earlier, hopefully then we can also perform in 2023 and to make a better sales.

01:01:12 Alexander Wahl

Okay, thank you very much.

01:01:15 Armin Papperger

My pleasure.

01:01:19 Operator

And the next question comes from Michael Raab. Please go ahead.

01:01:24 Michael Raab

Hi, gentlemen. Mike Raab, Kepler Cheuvreux. Sorry I got temporarily disconnected, and please forgive me if my following question has already been answered. But yet, I'd still be interested in the answer to it. With all the numbers we've been bouncing or whirling around today, is the overall number of the EUR42bn package that you proactively approached the German government with, still intact as of today. Or has it shifted to the up or to the downside by any magnitude, please?

01:01:54 Armin Papperger

So the EUR42bn was a list of opportunities that we gave. And as I told you last time, over the next ten years, what for me is a very clear point to say, okay, that we are on a level between 30 and 35, which I think that we really can grab. The

rest is still open, because there is no decision. But at the end of the day, we only can offer something. But at the end of the day as you know, because I have no glass ball, the customer has to make a decision about things and there is also something that can change. But at the moment, my expectation is that we are between EUR30bn and EUR35bn that we can book. But this will be a period of ten years. This is also very important not to understand it, not that we said we'd book it tomorrow and the day after tomorrow, we make sales. That is impossible for us. This is not possible. But what we can do is we can grow our business. And this is what you see also on the figures that we see, that you can see on page number six. We can grow, we can grow our businesses up to EUR6bn in 2023 which is I think not a bad value. And if we grow between 20 and 30% per year, for us in the operations, we have to make it happen.

01:03:32 Michael Raab

Absolutely, great. I totally agree. Okay, now just want to get an update on where we stand with regard to that specific number which obviously has been very intriguing to all participants ever since you first issued it. Then a second question just to make sure I didn't mishear anything. When it comes to the number of Pumas that the second batch is supposed to be consisting of, did you say 100 to 150? Or did you say 200 to 250, please?

01:04:03 Armin Papperger

No. At the moment there is still a discussion if they need 100, 150 or 200 or 220. This is for me, but for me at the end of the day it doesn't matter because there are such a lot of opportunities around that things. I personally believe that they will have a full lot, that they will have 200. But maybe the chief of the army will overcompensate that with other wheeled vehicles. Because you know, the discussion that we have about the heavy brigades and the medium heavy barricades about that things. So they have to make a final decision. But for us at the end of the day, it doesn't matter, because we do it anyway.

01:04:53 Michael Raab

Alright, good. Thank you.

01:04:56 Armin Papperger

Thank you.

01:04:59 Operator

And we have a follow up question from Sven Weier. Please go ahead.

01:05:04 Sven Weier

Yes, thanks for taking my follow-up question. The first one is just on the guidance you gave on the Ukraine order intake. I was just wondering does this order intake includes the 100 Marder tanks and the 88 Leopard 1 tanks?

01:05:22 Armin Papperger

At the moment, we have nothing in our presentations about that. This would be add on potential that we have. It's not inside the order intake that we have here. And the Ukrainian list I can speak more about that. It's a huge list with nearly 70 items on the list and the Marder and the Leopard are two of the things which went to the press. But at the moment there is nothing inside these order intakes because there's an extra potential. And this would be also an extra potential for sales.

01:06:10 Sven Weier

Okay, understood. Thank you. The second follow-up was on the EUR5bn helicopter contract, where there was some reports that the contract would be awarded to Boeing. But I was just wondering if you think that the last word has already been spoken on this one.

01:06:29 Armin Papperger

The information that we've got from the minister is that there is no final decision about that. And as you know, there is still the competition between Boeing and between Sikorsky. From our side, we really would appreciate if that would go forward. But this is also not fixed plan here in our order intake, because you see, it's not on the list. It's trucks, ammunitions and other things which are safe. If it is going inside, there would be another potential of nearly EUR1bn for us on top.

01:07:05 Sven Weier

Okay, thank you. And the last one is just on the acquisition impact you mentioned for electronic solutions from EMT. I was wondering if you could quantify the loss impact and whether this was just kind of an operational loss that will continue also in the next quarter. Or was that a kind of a one-time effect?

01:07:26 Armin Papperger

It may be one of the strategy, I tell you and Helmut give you then the clear figures about that. As you know, we took over EMT and the government appreciated that very well. So now we need to renegotiate the contract because they had nothing inside, so that the sales is coming in the second half of this year. **01:07:50 Helmut Merch**

So and this is the clear point, Mr. Weier. In Q1 we have no sales, but we have operational cost, because we are employing 180 employees. So then we expect also in Q2 very small sales, so we expect a loss due to a loss of roughly EUR2m in Q2. The loss in Q1 was roughly EUR4m, but we expect a total loss, including also post-merger integration costs of roughly EUR3m to EUR4m. So with the expected ramp up in sales in H2, we have partly compensating the losses from H1. So the outlook for the full year is a loss between minus three or minus four.

01:08:46 Sven Weier

Very clear. Thank you very much.

01:08:48 Helmut Merch

Welcome.

01:08:52 Operator

And the next question comes from Christoph Laskawi. Please go ahead.

01:08:57 Christoph Laskawi

Good afternoon. Thanks for taking my question. Could we please discuss the risk of order slippage? In the end when we're looking at the order intake guidance and your highlighted the increase should be in H2 this year but could be in Q1 next year as well. If that is fully factored in the guidance, how do you evaluate the risk of that slipping into next year, also for potentially other contracts? We've seen it in the past. It can be a bit lumpy one signature is missing. Has something structurally changed because of the situation of the war, and that there's higher focus, as you can call that more precisely? Or is there still fair risk? I wouldn't say in Germany, necessarily, but of the international project.

01:09:46 Armin Papperger

And you know, it's always a risk in order intakes and sometimes you have to wait some months, because of the customer. There is something, there are some people change or whatever. There are always, if you make a decision, there are minimum always ten different departments in the government who have to make this decision. So therefore, it's always a risk. Even in Germany, you cannot say it's exactly in that month. Sometimes it's also a delay of one month or two months in this area. But very often it works also. So you have risks. But at the end of the day, if you have contracts, which over a period of seven years, eight years, sometimes ten years, if you have frame contracts and other things, for me, at the end of the day, it doesn't matter if there is a delay of two months or not. The most important thing for me is to get the trust from the customer. And if you have these possibilities that we have to have this partner in this agreement, we have a long-term trust. So that is the most important thing for me. And we also are not creating pressure in these areas because this makes no sense. Because we work

very long-term together. Very often we can compensate something and we have to take care about our quarters but to be fair enough. If a contract, a huge billion contract is coming two months later, it's fine for me also.

01:11:21 Christoph Laskawi

Fair enough. And then a question on hiring and essentially raising capacity so to adding staff. You said before that you get a lot of applications. So in theory, there should be no shortage of people that you can hire. When it comes to the cost of those that you add with inflation being everywhere, is there a certain delta to the workforce you currently have? And can you well account for that in profitability or some near term? Or is everything essentially on the same level?

01:11:54 Armin Papperger

At the moment, we see no problem that we have, if you hire people, that we have to pay them higher wages than the people that we have. This is one point. What happens now at the moment with the unions over the next months, we don't know as you know, the union's asking for more money and some guy said okay, should be then 8% or whatever. In our calculations, I think, Helmut, we have 3.5 about that year-by-year in this area. But then we take that also into our calculations and we have, this is a very important thing from our side, we have a price escalation in nearly all our contracts inside. And in this price escalation is inflation inside on one side and on the other side is also material costs, etc., etc. inside so that we are usually on the safe side.

01:12:51 Christoph Laskawi

Thank you. That's all for me.

01:12:53 Armin Papperger

Thank you.

01:12:58 Operator

Thank you very much. At the moment, there seem to be no further questions. So if you would like to state another question, please press nine and the star key on the telephone again. Wait a couple more seconds.

01:13:28 Armin Papperger

Seems to be no questions. So thank you very much. Thanks for your time. Thanks for your questions, and we really appreciate the discussions with you. Hope to see you soon. All the best. Bye-bye.

01:13:40 Helmut Merch

Bye bye.