

Capital Market Day 2016

## **Rheinmetall Defence – Markets and Strategic Development**

Armin Papperger, CEO

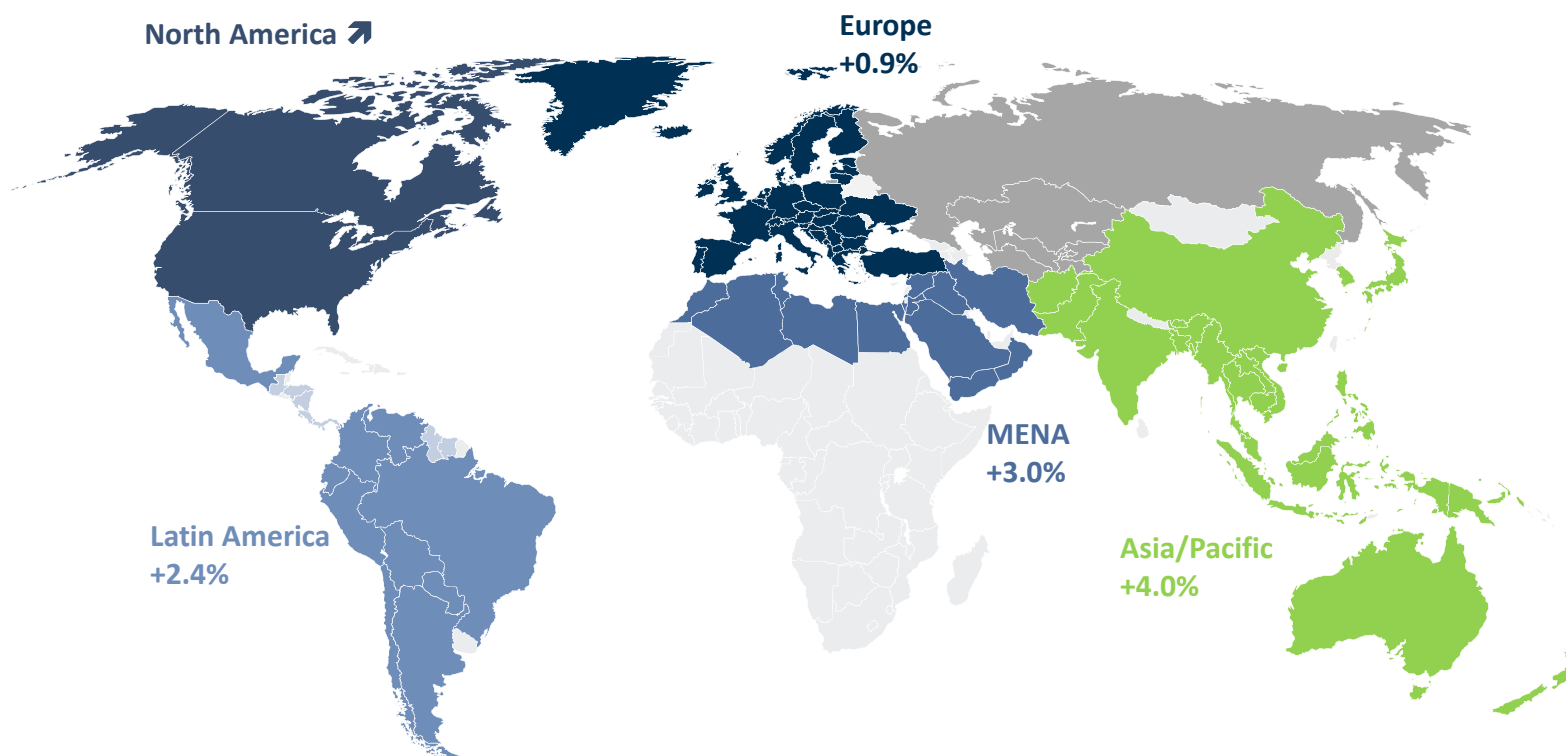
Düsseldorf | 9 December 2016

**1** Development of markets and internationalization strategy

**2** Strategic targets of our divisions

# Global defence budgets growth

## Defence is at the beginning of long lasting market growth



### World 2016 - 2020

- Expected average annual growth ~1.5%

### NATO-Target

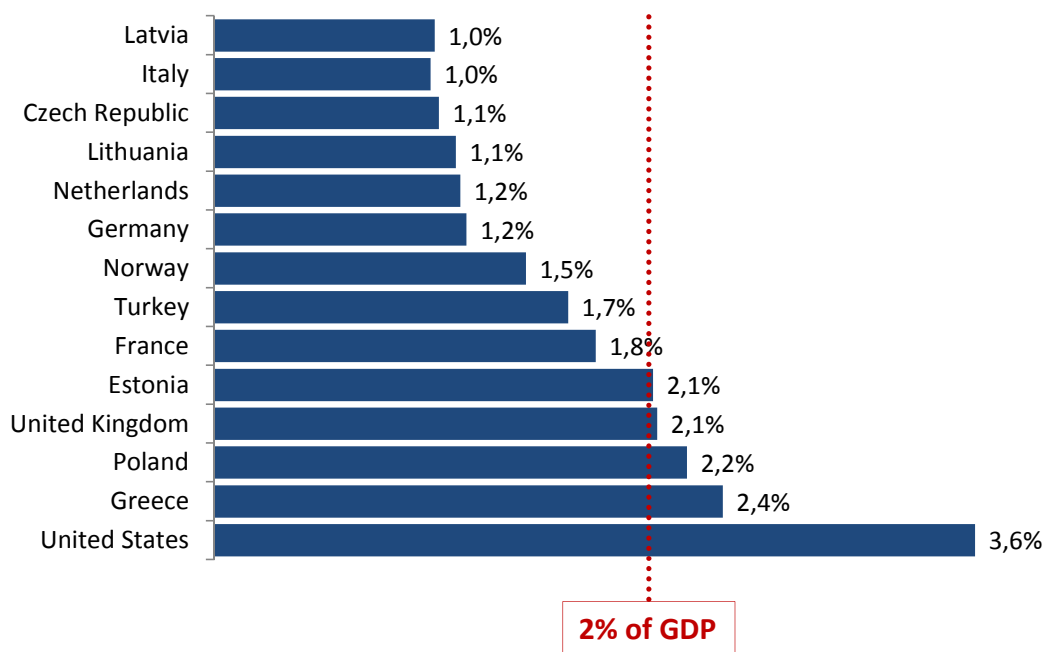
- Moving defence budgets to 2% of GDP in all member states until 2025

Source: IHS  
(Development of defence budgets 2016e-2020e in % p.a.)

# NATO Defence budgets

## Efforts to reach the 2%-target

- Selected NATO countries –  
Defence expenditures *in % of GDP 2015*



- 2015: **Five countries** exceed the NATO-standard of 2%
- 2016: Increasing budgets in **22 of 28 NATO countries**
- United States** – Downward trend stopped; defence budget 2015/16 **+3.5%**
- Europe** – Largest four countries increase their defence budgets 2015/16 by **+2.5%**

Source: NATO, Defence Expenditures of NATO Countries 2016



## US defence policy New approach by the new administration?



Speech on national security, September 07, 2016

- “We currently have the smallest Army since 1940 ...”
- “As soon as I take office, I will ask Congress to fully eliminate the defense sequester and will submit a new budget to rebuild our military.”
- “Additionally, I will be respectfully asking countries such as Germany, Japan, South Korea and Saudi Arabia to pay more for the tremendous security we provide them.”

- ▶ Increase of US-Defence budget
- ▶ Higher pressure on armament expenses in most of the NATO countries

## The German role in global defence

### A new political mindset becomes evident



**Ursula von der Leyen**, *Minister of Defence*

“Germany has to carry over more responsibility in the world. Indifference is not an option.”



**Joachim Gauck**, *Federal President*

“The Federal Republic must also be ready to do more for the safety, that has been granted by others for decades.”



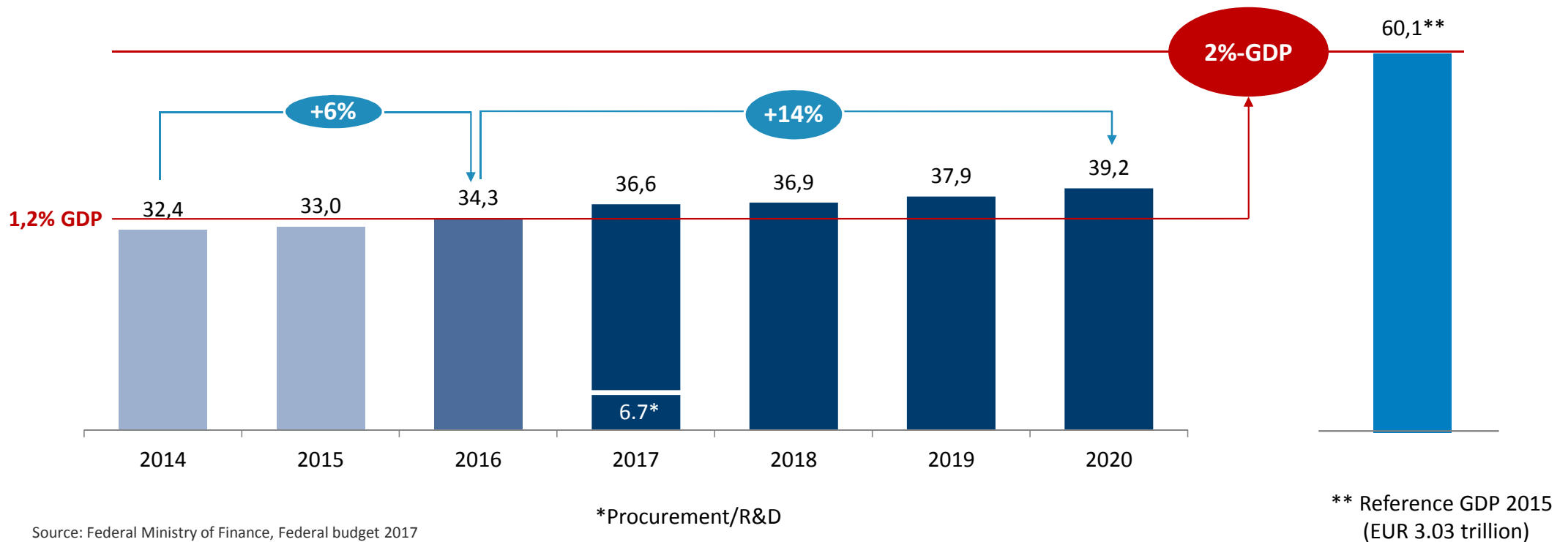
**Angela Merkel**, *Federal Chancellor*

“Certainly, this means, that a country like Germany, which spends 1.2 % of its GDP for defence, and the USA, which spend 3.4 %, will have to come closer together.”

# The German defence budget

## Government determined to raise expenditures

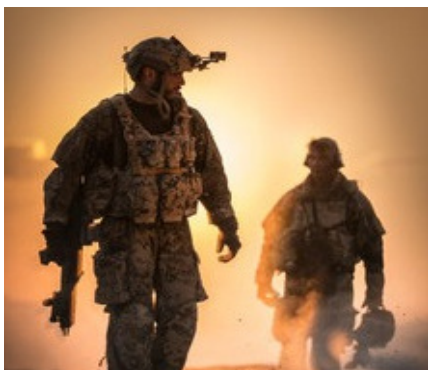
■ German Defence budget 2014-2020 in EUR bn



Source: Federal Ministry of Finance, Federal budget 2017

## Order potential from Germany

### A number of projects targeted by Rheinmetall



#### Gladius soldier system

Potential: ~ EUR 250 m

Long-term potential:

EUR ~300 m



#### Combat training center

Additional equipment

Potential: EUR >50 m

Service contract

Potential: EUR 50-100 m



#### Leopard 2

Upgrade order for 104 tanks

Potential: up to EUR 200 m

#### Fuchs

Order 2016: EUR115m

Further potential:

EUR ~300 m



#### Military trucks

1.lot: 558 vehicles

Volume: EUR 250 m

Long-term potential:

3,700 vehicles, EUR ~1,600 m

# Order potential from Germany

## A number of projects targeted by Rheinmetall



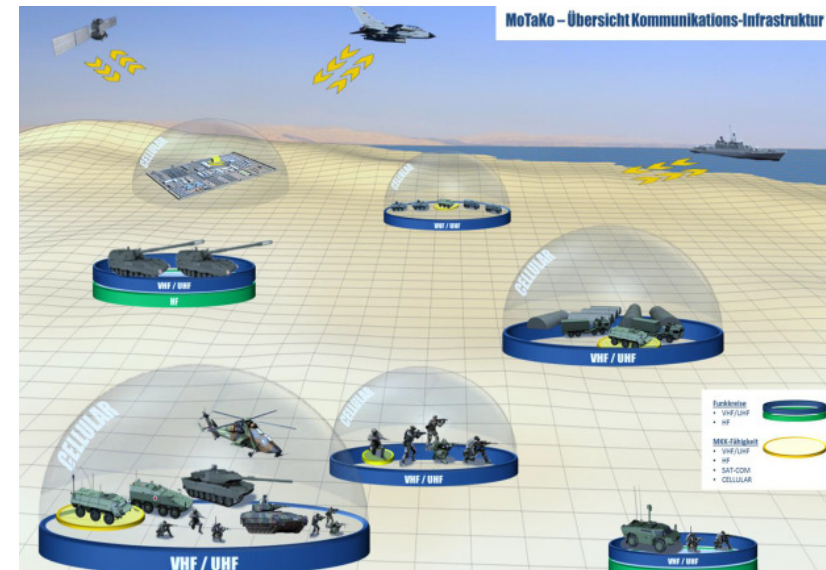
**Puma**  
 Additional equipment  
 Potential: **EUR 600 m**

Demand for additional IFVs  
 Long term potential:  
**EUR 900 m**



**Ammunition**  
 partnering agreement

Potential: **EUR ~300 m p.a.**



**Net centric digital battlefield**  
 Key project of German armed forces

Total potential: **up to EUR 10 bn**

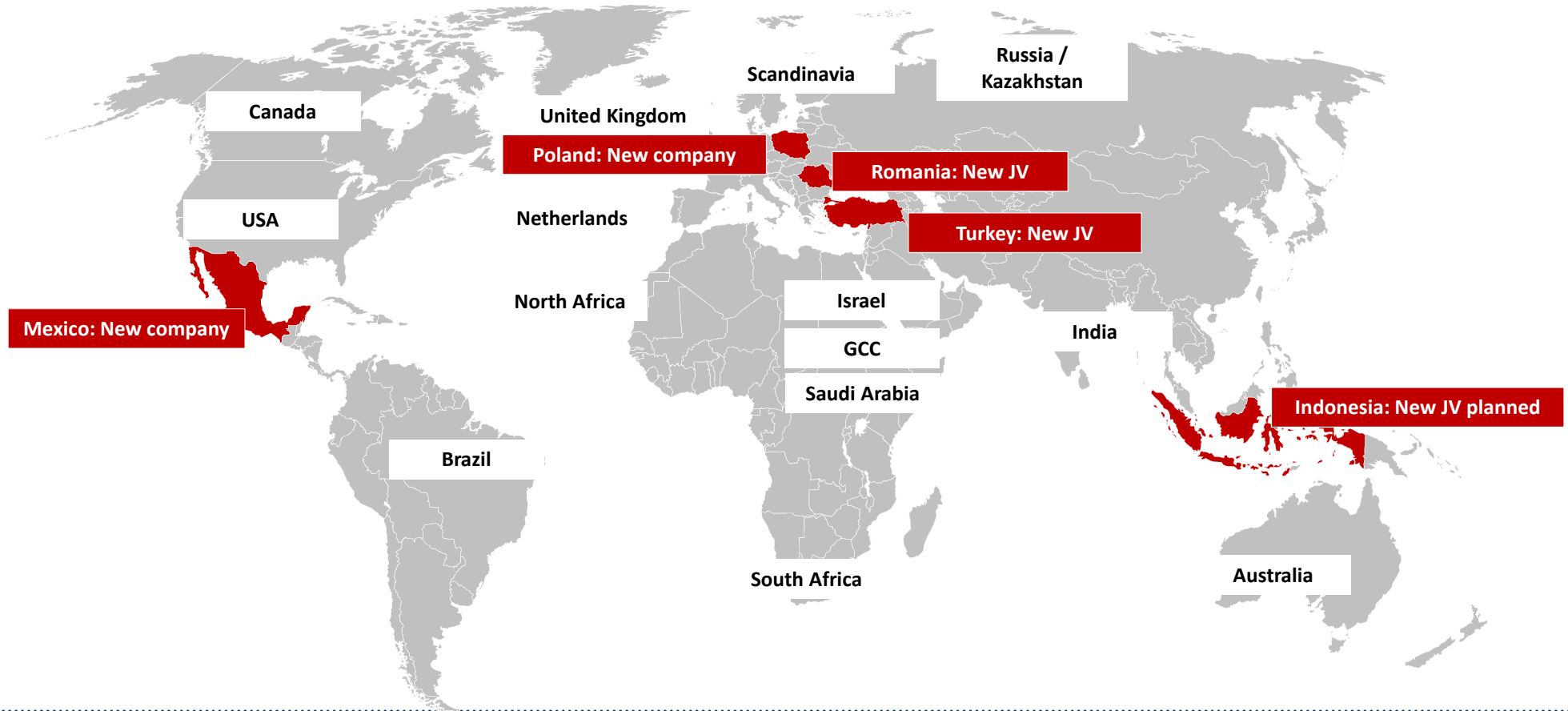




## Progress in the internationalization strategy

# Internationalization strategy

## Recent developments in establishing hubs and JVs



## International order potential Focus on new huge projects



**Australia**  
Land 400 program  
Boxer with Lance turret  
  
Potential: **EUR ~2.5 bn**



**Australia**  
Logistic Vehicles  
Demand for further orders  
  
Potential: **EUR >300 m**



**United Kingdom**  
Challenger 2  
Life extension and upgrade  
  
Potential:  
**EUR 780 m**



**United Kingdom**  
Mechanized Infantry Vehicle-  
Boxer  
  
Potential:  
**EUR >2 bn for 1,700 vehicles**



## International order potential Focus on new huge projects



**Middle East customer**  
Logistic Vehicles  
Demand for further orders  
  
Potential: EUR ~600 m



**Asian customer**  
Air Defence  
  
Potential: EUR >200 m



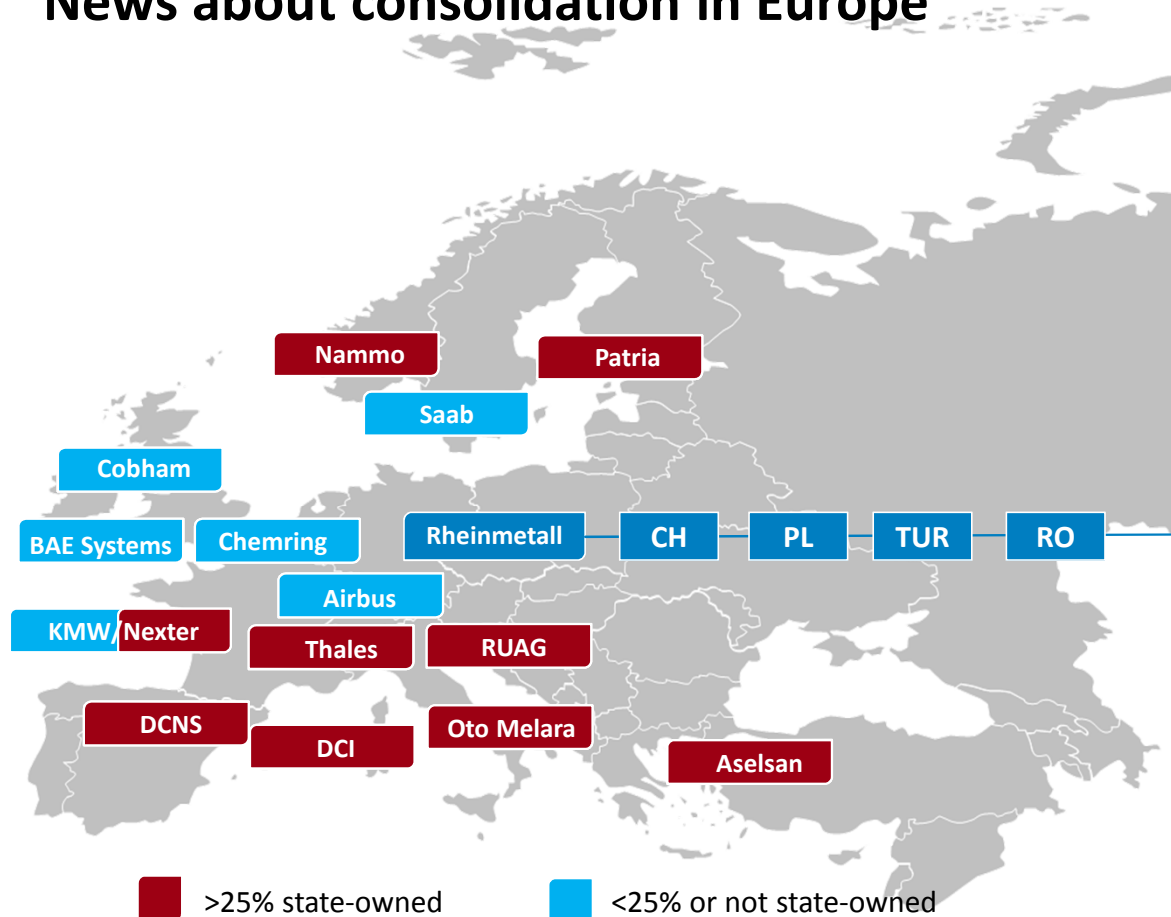
**Asia/Pacific region**  
Munition  
  
Potential: EUR 300-400 m



**Algeria**  
Fox kits  
  
Potential: EUR >200 m

# Markets and Competition

## News about consolidation in Europe



- **Governmental shareholding** restricts room for cross-border consolidation
- **Big common armament programs** as catalyst for further consolidation are not at European mid-term horizon

- **JV partnerships with companies in different nations** instead of “putting all eggs in one basket”
- **Sufficient organic growth potential**, but suitable M&A transactions are possible

# Public Security Market

## Police forces and budgets



**Worldwide: about 20 million police officers (HC)**  
**Total expenditure: USD 606 bn**

Source: Internet research

## Public security gains importance ... with chances for our technical capabilities



Law Enforcement

Airport Security

Special Purpose Vehicles

Equipment for Police Forces

Protection of Critical Infrastructure and Events

# Cyber Security





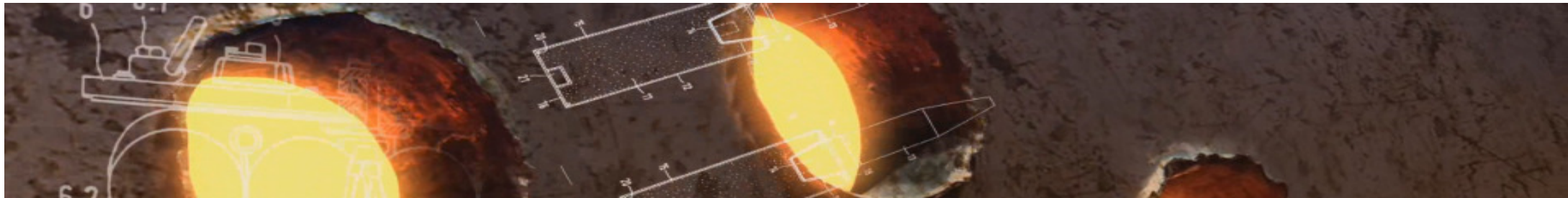


## Strategic targets

## Division Weapon and Ammunition – Strategic Targets

### Sustaining and extending the business

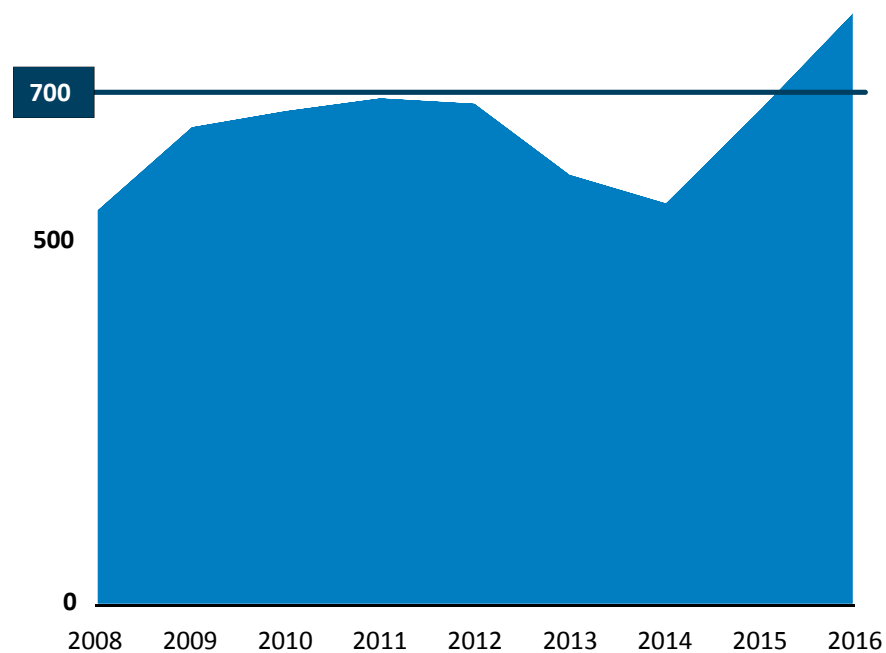
- Maintaining the globally leading market position by organic growth and new strategic partnerships
- Expanding leadership in technology by shifting innovations to serial production
- Securing independence of exports and profitability by internationalizing manufacturing and R&D capacities



## Strategic targets

# Achieving organic growth based on recently received orders

■ Sales weapon and ammunition business  
in EUR m



- In 2016, sales of weapon and ammunition will exceed the level of EUR 700 m and rise to a new peak
- In 2016, large orders with a value of up to EUR 770 m acquired from international customers
- Total order volume of EUR 1,1 bn in 2016 expected

# Strategic targets

## Growing by various strategic partnerships

### United States, Defense Munitions International (DMI)

- 50:50-JV with General Dynamics Ordnance and Tactical Systems

### New: United States RDZM

- 50:50-JV with Day & Zimmermann (RDZM)
- State-of-the-art ammunition for the US market

### United Kingdom

- Partnering agreements with Defence Equipment and Support (DE&S) and with BAE Systems

### Netherlands

- Partnering agreement

### New: Germany

- Partnering agreement with German government about a regular supply of large- and medium-ammunition

### New: Turkey

- JV for ammunition in preparation

### New: Indonesia

- JV for ammunition in negotiation



# Strategic targets

## Shifting innovations to serial orders

### Large Caliber Munition DM 11



- Advanced multipurpose ammunition with programmable fuses
- Market potential for 20 international customers

### High Energy Laser Technology



- Successfully tested by German Navy, ready for operations in 2-4 years
- Domestic R&D orders of EUR ~40 m received

### Smooth bore gun 130 mm



- Main armament designed for future generation of main battle tanks
- Improves performance by up to 50%

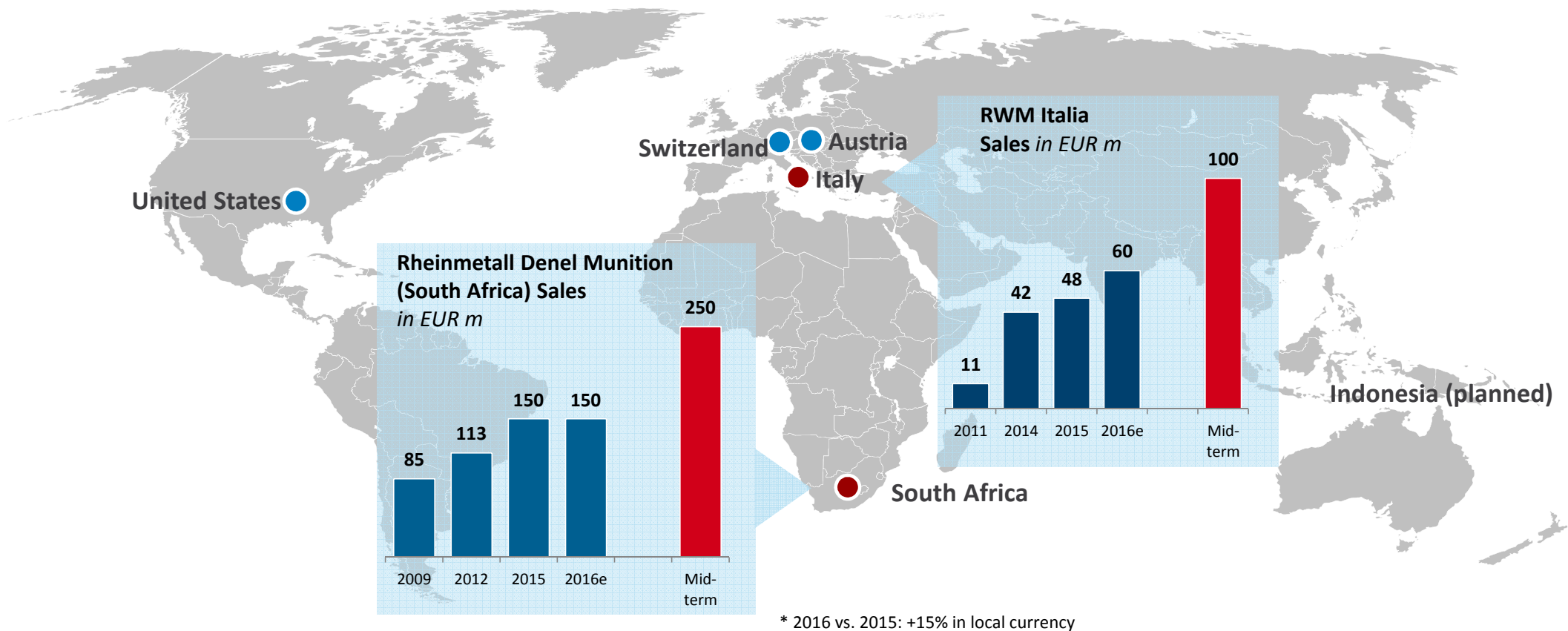
### Active Defence Systems



- Protection against light antitank weapons, guided missiles and certain improvised explosive devices (IEDs)
- Qualification phase in the German armed forces in preparation

# Strategic targets

## Secure independency of German export regulations and profitability



## Division Electronic Solutions – Strategic targets

### Reshaping and complementing the business

- Widening the Air Defence product portfolio by forming an exclusive partnership with a missile house to complement the canon-based SHORAD (Short Range Air Defence) product portfolio
- Expanding the customer structure in the Simulation and Training business by marketing of civil applications
- Strategic move in Mission Equipment from a component manufacturer to a system integrator

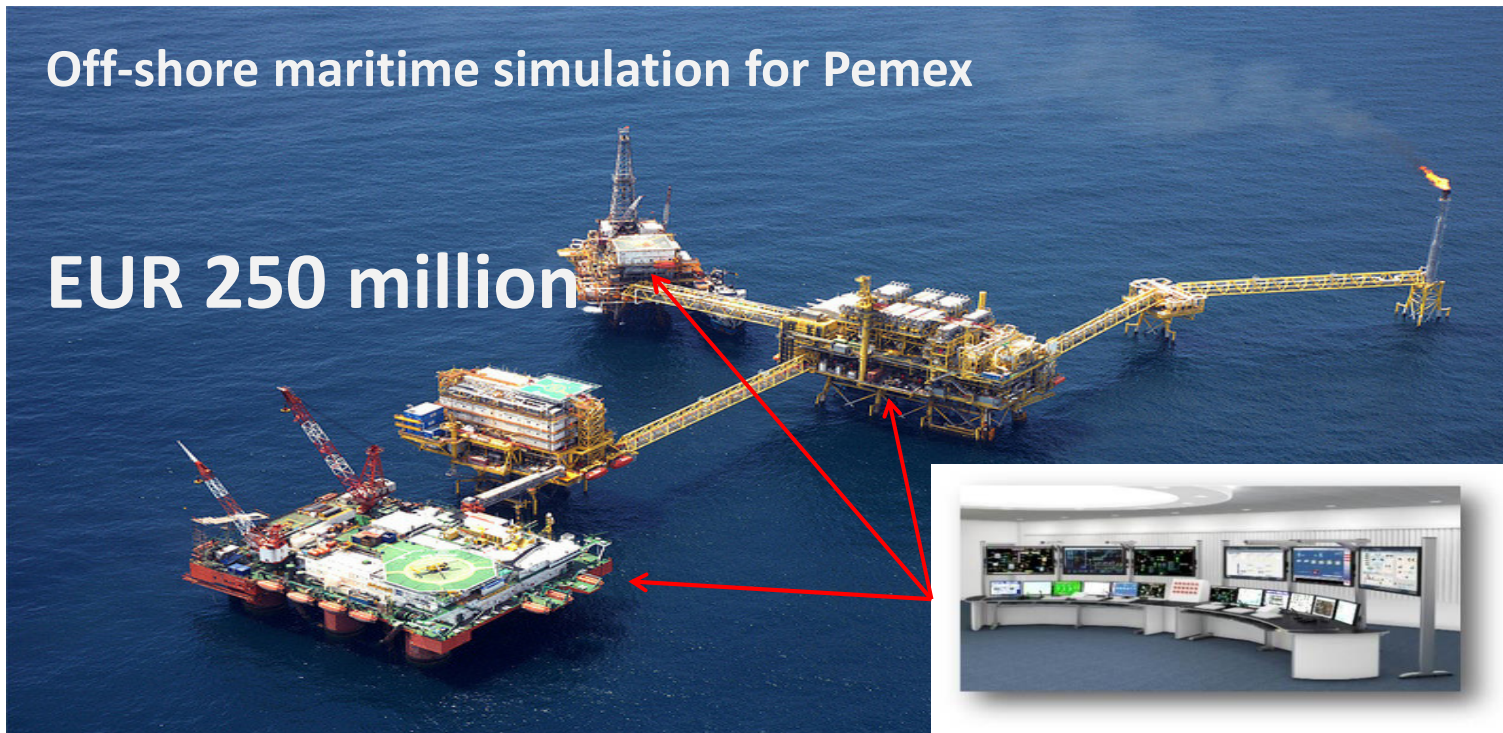


Strategic targets – Simulation and Training

**Expanding the customer structure by marketing of civil applications**

Off-shore maritime simulation for Pemex

EUR 250 million



Simulation and Training for

- Emergency and crisis management
- Exploration and production process
- Plant operation



# Strategic targets – Mission Equipment

## Moving from a component manufacturer to a system provider

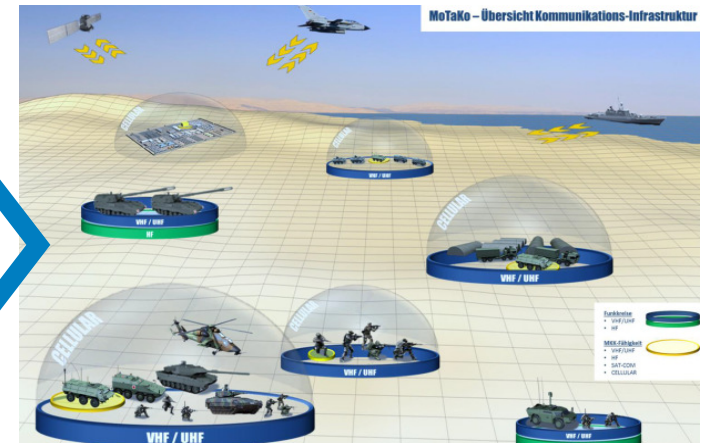


**Component supplier for (Rheinmetall) military vehicles**



**System house “Armored infantryman”**

- Gladius Soldier System
- Puma



**Net-centric digital battlefield/  
Mobile tactical communication**

- Position Rheinmetall as general contractor in the future key project of the German Land Forces

## Division Vehicle Systems



## Foundation of the Division Vehicle Systems in 2016 A Competitive International Supplier



- **Leading European supplier** of military vehicle systems
- **Sole provider of the complete product portfolio** of military vehicles in the West
- **New vehicles are ready for market launch**
- **Strong track record** through successful order acquisition
- **Shortlisted in large volume procurement programs**

## Division Vehicle Systems – Strategic targets

### Securing growth by serial and upgrade orders

- Benefitting from the present status as the leading European system house for tracked and wheeled military vehicles
- Shaping the profile of Vehicle Systems as a one-stop-shop for a wide spectrum of innovative military vehicles
- Securing growth by acquisition of further high-volume orders inside and outside of Germany





# Strategic target

## Shaping profile of an one-stop-shop with the most modern fleet

### Tracked Vehicles

MBT Advanced Tech Demonstrator



PUMA (Joint Venture)



Lynx



### Wheeled Vehicles

BOXER Armored Multirole Vehicle\*



Fuchs 2 Armored Personnel Carrier



AMPV Armored Multi Purpose Vehicle



### Logistic Vehicles

SX – Tactical Truck System



HX – Operational Truck System



TG-MIL Militarized Truck System



### Turret Technology

Medium Caliber LANCE Turret



Large Caliber MBT Turret



Wiesel Mortar Combat System



### NBC / C-IED

Fuchs KAI



C-IED GPR Radar

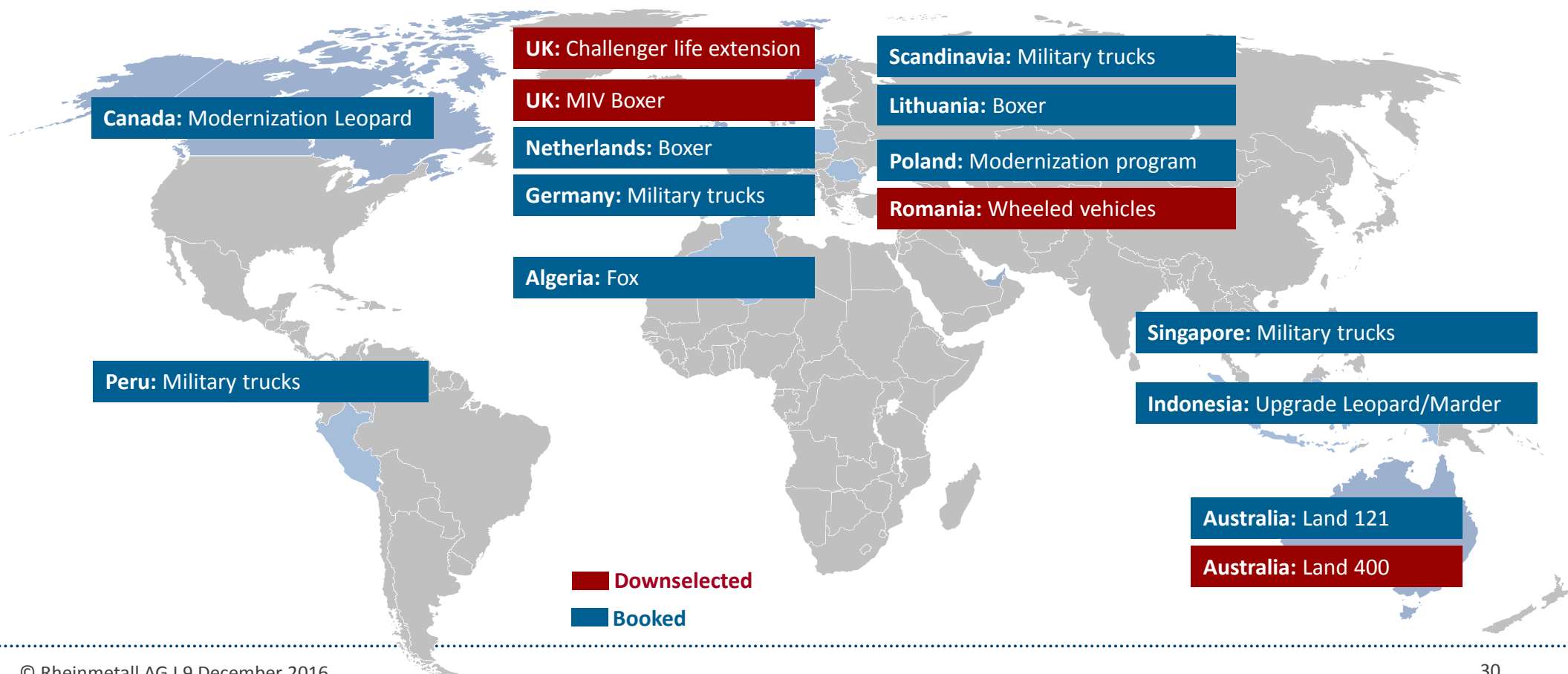


NBC Protection



# Strategic targets

## Securing growth by acquisition of further large-scale orders



## Summary

### Defence in an encouraging market environment

- Rethinking of Western defence policy results in higher budgets and **market growth**
- The high order book and current order potentials trigger **organic growth** of Rheinmetall Defence
- New threats and higher demand in **public security** lead to additional chances for Rheinmetall Technology
- **Innovative product portfolio** and **strong market positions** are Rheinmetall's basics for widening the global customer and partnership network

MOBILITY. SECURITY. PASSION.