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RHMG.DE - Full Year 2025 Rheinmetall AG Earnings Call

EVENT DATE/TIME: MARCH 11, 2026 / 1:00PM GMT

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PRESENTATION

Operator

Ladies and gentlemen, welcome to the Rheinmetall AG full-year 2025 conference call. I'm Mauritz, your Chorus Call operator. (Operator Instructions). And the conference is being recorded. (Operator Instructions) The conference must not be recorded for publication or broadcast.

At this time, it's my pleasure to hand over to Armin Papperger, CEO. Please go ahead, sir.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Thank you very much. Good afternoon. I start with page number 3, and I welcome you to the full-year call of the Rheinmetall Group. The year 2025 was a good year for Rheinmetall. We had smaller impacts from the ammunition side because of the accident that we had in Murcia. But I think with nearly EUR10 billion sales, it's a good year.

The operating result is growing 33% to EUR1.841 billion, and the operating margin is growing up to 18.5%. Important is to understand that we no longer have our civilian business in those figures, so we lose about EUR2 billion on sales.

Reduction on headcounts. On the headcount side, we are now without Naval and without the civilian business on 29,000 people. Very positive, we see the operational free cash flow. Even if we had this strong growth of nearly 30% on the defense side, we had an operational free cash flow of EUR1.218 billion, which is a plus of 15% in comparison to last year.

CapEx is on a level of 7.8%. That's important because we continue to grow. As you know, we invest into all these factories to build up the capacities. On the nomination side, we have a delay this year in '26. There is something pushed into '26, but still the Rheinmetall organic

growth was 9% to EUR26.44 billion. So the Rheinmetall backlog, and we also reduced the backlog from the civilian side, it's about EUR8 billion that we reduced on a level of nearly EUR64 billion, a plus of 36%, and all that is now [inside].

Let's go to the next slide. On the next slide, we see only some words about the macro highlights, and this is very clear that we have a disruption of the geopolitical order with the new conflict from the Iranian side, also the whole Middle East, oil price, and all the things are under shock. And on the next page, you see what is the impact for Rheinmetall.

So slide number 5 shows that the attacks from the Iranians is going to a lot of countries in Middle East and all or nearly all that countries have Rheinmetall Air Defence systems. So they are very successful, and they fight very successful against drones. The Oerlikon twin gun, the Millennium Gun, and the Oerlikon Revolver Gun is in all that countries. And we expect strong orders over the next months because over the last five, six days, these countries asked us if we are able to deliver fast more of our systems.

The reason is that, in the first 72 hours, the US and the allies of the US, they expanded 2,000 munitions, and the cost of them was EUR4 billion, about EUR4 billion. These are official numbers. And if you see how strong are the stocks of these Air Defence ammunitions is that over a period of next two, three or four weeks, if the conflict continues like it would be over the first two or three days, the stocks should be empty.

So we need -- and that's the reason that we developed our Skyguard, Skynex, and our Air Defence systems, that we are able, if we use five rounds with to fight with \$5,000 against a Shahed drone, which has a price between \$20,000, \$30,000, up to \$50,000 maximum. The missile cost is between \$500,000 and \$3 million. There are two drivers on business for us. One is our Air Defence systems, where we believe that we have huge opportunities. On the other side is to fill up the gaps of missiles, and with our missile, new missile production line, I think we have huge opportunities also for new contracts.

If you have a look now to page 6, here you see the macro view. On the geopolitics, you see the increase of tensions very clear. I must not say about that. We have to drive the European sovereignty. These are the two drivers on the geopolitical side. On the financing side is the German budget. These are the EUR100 billion. There are also the EUR500 billion, which are coming up.

SAFE money of EUR150 billion, SAFE II in discussion. And as you know, NATO target, not all the NATO countries will fulfill it, of 3.5% on core defense and 1.5% on infrastructure. Rheinmetall will have in both areas, on the core defense and on the infrastructure some projects. So that is the reason that we expect that there is a potential this year of EUR80 billion on orders.

We are not in time on the order side. There is a delay from the customer side. It's not from our side, it's mostly because the capacity on the customer side are limited. But at the moment, there are only smaller delays. There is nothing canceled, and there is nothing at the moment in danger, and that's positive. What is on the Rheinmetall side in preparation? On one side, for sure, we have to build up the capacities. We do that, yeah, and we are in line with that, what we always told on the capacity side. The same is on the personnel people, recruitments, more than 300,000 CVs came in and on the supply chain.

We have a stable supply chain, but we have to grow up the supply chain with a second and a third source to be more stable also in the future. At the moment, no big problems. Absolutely no big problems on the supply chain side. That's the reason that the CAGR is around 35% over the years and also over the next years.

What are the next highlights? We have now all domains under one roof. This is what you see on page number 7. The reason that we acquired Naval Systems are on one side, Naval will be a big business only in Germany over the next years. 10 years, the expectation is that the German Navy has to spend nearly about EUR80 billion for Naval Systems.

The second point is that we want to implement the Naval Systems into our digitization family, and therefore, you need platforms. And number three is that we on the Naval Systems side are able, like on ammunitions and vehicles, to do a vertical integration, create also internally in Rheinmetall, more value, and to be able, like on ammunition, also to enlarge the profitability on the Naval business.

So we took over nine sites, about 2,100 employees, in that areas, and I'm very happy to have these people on board because very well-educated people. And the backlog between EUR5 billion and EUR6 billion and decisions that we expect this year for F-126 and F-127, which are a potential of, I think, more than EUR12 billion order in '26.

Let's have a look to page number 8. Here you see what we did in last year and what we want to build up the capacities. As you know, most of the capacity build up already in '27. So in 2026 is a very important year. We are in time. Capacity ramp up from the artillery Rhein lines. The capacity enlargement in Spain is ready. The capacity enlargement in Unterlüß is on a good way.

We expect that we are able to produce about 140,000 rounds in Unterlüß this year because of the ramp-up curve. Next year, we grow to 250 and then to the maximum capacity of 350,000 rounds. Murcia is back on track, so we are now in full production also on powder and green and white packs. And the rocket artillery starts in Q1 2027 with qualification, so that over the year 2027, our product should be qualified so that the sales will come in '28, the first bigger sales.

On the vehicle side, we have to optimize the production cycles. We were very successful in this area. We reduced the production cycles a lot. The level of automatization is a very important thing to come forward in these areas. We recruit a good workforce and they are good. We have no problems about that. And we are ready on the truck side.

The capacity is still there on 54,500 infantry trucks and infantry fighting vehicles and APCs. We're on a level of 1,000. Air Defence, there's EUR3 billion backlog on the Air Defence we have to bring into sales. We prepare an additional factory for that with 100 new Air Defence systems here in Germany, in Neuss, 150 in Switzerland and 150 in Italy, then we grow up to 400 systems.

On the Digital Systems, it's people because of the algorithms. More than 400 software engineers now on board. And the integration of blackned, which is very important also for DLBO, worked, and the initial TaWAN demo was successful and was completed. Is it easy to handle all these projects? No, it is not. But on the other side, we are a very good way also together with the customers to bring it into the right direction.

The next page is page number 9. You see that we have built up partnerships also for a huge contract on the space side. As you know, Minister Pistorius gave very clear order. We need a total budget at least of EUR35 billion for the satellites. The first SAR contract of EUR1.7 billion plus nearly EUR1 billion option is signed. We created a joint venture, and we are on the way, it's still not signed, but on the way to create this joint venture with (inaudible), a partnership with our German partner.

And on the communication side, there is a potential of at least EUR8 billion EUR10 billion. So up to 200 satellites, communication satellites are expected that we have to bring into space up to 2029. If you have a look now to the next page, you see that the Rheinmetall drones, and by the way, we produce drones since 25 years. This is always an interesting story.

If you see that Rheinmetall is a newcomer in drone production, I think we are one of the first producers of drones. We fired in front of the German customers, these drones. As you know, the Germans want to have a pure German solution. We fired more than one year ago, our German-Israeli solution, but now we have a fully qualified German solution. They -- the tests, the firing tests were fine, and also the digital tests were fine. We had 100% accuracy rate in this area.

And we see a total order potential as you know, because the German [Bundestag] limited it to EUR1 billion, but this is for us, I see only the starting point. We build up a capacity on the drone side here in Neuss, but also in Italy, a capacity up to 40,000 drones per year. How is it scalable? Very easy.

The point is you need the warhead. The most critical thing is the warhead and the booster to push out the points because this is like a small missile. And -- but we have that under control because we produce it by ourselves. Electronics is not and the structural part is not a bottleneck. And we have the gimbals which are also there, which is also a unique USP from our side.

With the gimbals, you can, over a period of 70 minutes, make also to create a reconnaissance drone, even if you fight or if you don't want to fight a USP which has Rheinmetall. Another USP is the warhead. We have a 6-kilogram payload, a warhead, on that. This has a very, very good penetration rate, I can say, not comparable to other drone producers. We see it very positive and it could be medium and long term, a good business also for Rheinmetall, and we are prepared.

Now, I take over to my colleague, Klaus Neumann. Klaus will show you now the financials.

Klaus Neumann - Rheinmetall AG - Chief Financial Officer

Yeah. Thank you, Armin. Let's turn to page 12. Just to give you some more detail and background on the development of our sales and operating margin is quite important that a large part of our growth in 2025 of 29% was basically organic, coming from the development of existing businesses. About EUR 0.5 billion was contributed from acquisition, mainly from the acquisition of Loc Performance that we acquired late in 2024.

Our operating results increased by 33% to EUR1.8 billion, resulting in an operating margin of 18.5%. Again, the growth of the result and the performance came primarily existing businesses. We had some smaller downward impact on the FX on sales and smaller on results mainly from the US dollar exchange rate as the dollar deteriorated over the year of 2025.

Let's turn to page number 13 to look deeper into the performance of the different segments in our business. The strongest growth percentage-wise was from Electronic Solutions at 45%. The business grew from EUR1.7 billion to EUR2.5 billion. At the same time increasing the profitability to 14.6%. That is an increase improvement of two percentage points from the 2024 level of 12.6.

Vehicle Systems grew by almost more than EUR1 billion. This growth was basically pushed by the contribution from Loc Performance. Also that business improved its profitability from 11.2% to 11.7%. The main drivers that contributed to the sales in 2025 were the tactical vehicle programs in our different locations and also we had a strong contribution from the logistical vehicles.

The increase in the growth of vehicle, Weapon and Ammunition at 27% in 2025 was very strong considering that the growth was limited by the issue that we had at our site in Murcia, as discussed throughout the year that basically reduced the sales number by more than EUR200 million in 2025. If you look at that, then the growth would have been even stronger than the 27% that we are reporting for 2025.

At the same time, profitability increased to 29.3%, and the division for the first time basically generated an operating result of more than EUR1 billion. Overall, our group increased the sales by, as mentioned, by 29%. One comment to the consolidation line, we had a positive contribution in 2024, so there is no otherwise strong change in the numbers compared to 2024.

Let's move to page number 14. As a result of our increase in profitability and in our performance, also earnings per share increased significantly to EUR25.28 per share. We had also some impact from the strong performance of some of our minority -- the business with minorities, primarily in South Africa and the vehicle business in Vienna, our joint venture with MAN. As a result of our strong performance in 2025, together with the Supervisory Board, we are proposing a dividend of EUR11.5 to the annual general meeting in May.

Let's move on to page 15. As mentioned, all the numbers that we are discussing do not include any contribution from our automotive business. As you know, we decided in mid-December to finally go to the next and final step of the disposal process. From that moment onwards, we are reporting that business as a discontinued operation.

I think it's quite helpful just to demonstrate what the numbers would have looked like if we had continued including the business in our numbers. At our Rheinmetall backlog number, we would have reached about EUR70 billion at the end of 2025, and sales would have reached, or have reached, including those numbers, EUR12 billion. The operating result, including the contribution from the power systems business, went up to EUR1.9 billion, equaling a profitability of 16% compared to the EUR12 billion sales number.

Let's move to page 16. This gives some context on our development on our nomination and also our backlog. As in the previous year, our book-to-bill ratio was in excess of 200%. The nomination of EUR26 billion, excluding any numbers from the Power Systems business, included EUR20 billion of fixed orders. That was a kind of key important basis for our growth in the coming years. That contributed to our order backlog of EUR64 billion by the end of 2025. Out of the EUR64 billion backlog, EUR41 billion are fixed orders.

Let's move to page 17. Just to go a little bit deeper in our cash flow numbers. As you can -- as in many other years, we have very different quarters in terms of the cash generation. 2025 was no different. In Q4, we saw the biggest positive cash flow of the year exceeding EUR2 billion in these three months alone, contributing significantly to the EUR1.2 billion generated through the continuing business in the year 2025. One key driver for the positive cash flow in Q4 were good negotiation or successful negotiations with our customers that agreed to substantial advance and early payments from new orders.

When you look at the right side, the development of the working capital, you can see that basically the EUR1 billion build up of inventory that we need to produce the orders in 2026 and the following years was mainly funded through prepayments from the customer. The customer contributed EUR1.2 billion to our working capital improvement. At the end of 2025, operating working capital for the business was just under EUR500 million.

Let's turn to page 18. Just to give you an update on our financial position. Financial position is positively impacted by the cash flow, as I explained before. We also had a good contribution from our convertible that was converted throughout 2025, and there were further conversions in 2026. So by the end of February 2026, 83% of the Series B convertibles were converted. Series A had already been fully converted in 2025. That also improved our equity ratio that now stands at 33.5% at the end of 2025.

The strong balance sheet and our good liquidity position that, for the first time basically was positive at the end of the year, is a good basis for the acquisitions that we did at the end of February when we acquired, the Naval business. Even after that acquisition, our balance sheet is strong to continue basically a growth path where we are able to also acquire businesses when it fits into our strategy and portfolio.

With these comments, I hand over back to Armin for the outlook of our business.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Thank you, Klaus. Page number 20, it shows us now nearly EUR64 billion backlog without automotive. There is a naval impact, so the Rheinmetall Naval business, EUR5 billion to EUR6 billion backlog and we expect nominations of minimum EUR12 billion. Then, there is the Rheinmetall nomination from the German side, where the biggest piece for sure is Boxer. I will come on the next page on the details.

Also ammunition, armored vehicles like the Puma trucks, et cetera. EUR55 billion. As I said, some of this business stepped from '25 to '26, but it doesn't matter. It is only a delay. For us, it doesn't matter. On the Romanian side, Italy, and Ukraine, you see the international business where we have an opportunity of around EUR16 billion. So that in total, we expect the exact timing if it is coming in Q2 or if it is coming in Q3, for example, the big contract on the Boxer and also the ammunition contracts.

We hope that we can do as much as possible in the second quarter, but if it is coming into the third quarter, it's I think also okay because there is no influence about the sales. On the sales side, the EUR14 billion to EUR14.5 billion, we have a coverage rate from 91%, so that nearly everything is inside the books that we need.

And especially service business for chemical stuff, et cetera, is still not in, so that the coverage is nearly 100%. So it should be relatively safe to get this sales, which is then 100% defense sales. So then the backlog in the end of 2026, there is a potential to get EUR135 billion.

If you have now on the next slide 21, a view on the biggest program at the moment that we are in negotiations. This is the Boxer program or the Arminius program, how the customer calls it. There is for Rheinmetall a total potential of EUR38 billion, where the EUR12.5 billion in Q2 or Q3 would be -- is expected as a fixed order, and this fixed order is also expected with down payments.

So this is the driver for operational free cash flow, and this is also the big driver for the order intakes. But ammunition, trucks is always multi-billion contracts on top, but the real big beast is the project Arminius. You see the different variants, and you have variants from Schakal on the left side to the ARV IFV Boxer, then Flakpanzer Boxer, which has a lot of different variants, which is a long-term program at least to 2035. But in our discussions, we are up to 2040.

If you have a look to the next page, it's page number 22. There is a new business, and this new business could grow very strong also. This is the service business on defense to handle ammunition. As you know, it's not easy to do it because you need the rules and regulations to handle also weapon systems and to bring different systems from the western part of Europe to the eastern part of Europe.

This is with infrastructure with logistics a big opportunity with an order potential over the next years. Maybe the first contract, it's a smaller one, EUR200 million to EUR300 million. It could come in April, but if it is a framework contract, it could grow up to EUR7 billion.

Now from the service side, let's go to the D-LBO side. We really try to step deeper inside because that's a very important program for Rheinmetall, but not only for us, also for Bundeswehr. So what are the interface points? The first point is that the army has to give us the vehicles. This is the first interface point.

Why? Because we have all these vehicles at the moment in service. SO they have to take it out of service, they have to give it to us. Then first of all, there is a hardware retrofitting for radios, monitors, servers, and et cetera. So we are at the moment on the Rheinmetall side on a level of, I would say 95%, to be ready. So we are not on a 100% level, but 95% is fine.

The second point is then to integrate the software. On the software side, Rheinmetall has a very important role because Rheinmetall has the so-called Tactical Core. And in the Tactical Core, we connect hardware and software components into our Tactical Core. And that is a huge team at the moment working on that. The software optimization is the point that we have to fulfill. And after that, if the function testings are really going forward, then the vehicle can be again handed over to the Ministry of Defense.

It's -- we try to do it on this simple picture, but if one of the steps has a delay, the big problem is that we have a delay on the vehicle handover and the army is missing vehicles. So that's the reason that also the minister says it's such an important project. As I told, for Rheinmetall, it is absolutely priority number one. It's the most complex digital program at the moment worldwide that we are doing. But I think we are not on a bad way. It's good. It's good at the moment.

So if you have a look at the next page 24, what are the clear targets for '26? This is the integration of this Rheinmetall Naval Systems. That's very important to have the vertical integration, as I told before, on the Rheinmetall Naval Systems. The second point is the capacity ramp up. We are in a good way, especially on the vehicle side. Ammunition is full in scale, and for sure, the order execution. So these are the main points to fulfill the sales.

And if you have a look now to the figures, there again is on the sales side on '26 we will have a growth rate of 40% to 45% on sales, up to EUR14 billion to EUR14.5 billion. And the -- on '25, you see the nearly EUR10 billion to EUR14 billion to EUR14.5 billion. And pro forma, if you see, we had EUR11.8 billion in '25. So if we would add the civilian business. Operating margins is growing from 18.5% to 19%, and the expectation is that the operational free cash flow will be also good in 2026, even when we were good in '25 with 66.2%.

The last page shows you now the growth rates, where we are growing. We will have a growth rate of about 20% on the vehicle side from EUR5.9 billion to EUR6 billion. Weapon and Ammunition, 40%. This is the driver from this year. This is the driver of success, 40%-plus. This is because of the delays last year because of the accident that we have in Spain, but because of the market. And as you have seen, we have the business 100% booked, so that only operational problems can stop us.

Digital Systems, again, a strong growth of 27%, and Air Defence, a growth rate of 25%. This is maybe there is more in maybe, if now the conflicts with Iran are going forward and the Middle East is also coming up. What we do at the moment is really to grow in that areas and to invest also in these areas like hell, because we believe over the next 10 years, there is a huge need.

Then Naval Systems with 1.3-1.5. It depends a little bit also about the decision of F-126, and when we can start it. I hope that over the next two to three months, we have a final decision on F-126, where Rheinmetall can book this order. If you see the operating results, we are not everywhere in the target corridor. Vehicle Systems 12%-13%. Ammunitions around 30%, so we are there where we want to be.

The Digital Systems is still on a growth phase because of all the investments. By the way, there is also our air systems, not Air Defence, but our air systems like F-35 and the drone business where we have to invest. Air Defence is with 19% in good shape. There is also margin in the Naval Systems between 11%-13% is still not in the corridor where we want to be, because as you know, this is our target to go to 15%, so that we'll have margin of about 19% EBIT growth.

Thank you very much for your attention. Now we are ready for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Sebastian Growe, BNP Paribas.

Sebastian Growe - Exane Bnp Paribas - Research Analyst

Good afternoon, everybody. Thanks for taking my questions. The first one would be around the order pipeline. You pointed to the delays in the German order at the German customer in fiscal 2025. Given that you're hinting towards EUR80 billion orders in the pipeline for 2026, what is the approximate volume that you deem highly visible in this year in 2026? And probably what goes beyond this EUR12.5 billion related to the Arminius program.

Related to that, what is the amount of firm orders that you would expect in 2026, those that would then qualify for receiving also this 20%-30% down payment range that you had mentioned on the last call? Then I would have one more around the weapons and ammunition business, but maybe we take this one first, please.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

The by far the biggest one is Arminius. On the Arminius side, we speak, as said, about between EUR12 billion and EUR13 billion. We expect that the down payment rate is between 20% and 30% of that. This is what we have at the moment in negotiation.

The second big piece is a contract for the ammunition. On the ammunition side, we expect a fixed contract between 600,000 and 700,000 rounds, full shot artillery. This is also a multi-billion contract. Usually on the ammunition, the down payment rate is also 20%, between 20% and 30%. The next big piece is the Puma contract. They asked for a new contract on the Puma side. This is in total.

In Puma, we see another potential of minimum EUR3 billion, but up to EUR5 billion. Not everything may be in this year, but it can be EUR3 billion in this year. By the way, it continues also later, yeah. It is not the final stage that we have now. We book everything and then everything is done. This is a continuous process. We are now in negotiations with a new truck process. They need more protected trucks.

This is also more than EUR2 billion, et cetera. These are the points where we are. Medium caliber ammunition, smart ammunition, 155 smart ammunition. There are, I believe, hundreds of contracts at the moment, but this is only the very big ones. Is that okay?

Sebastian Growe - *Exane Bnp Paribas - Research Analyst*

Okay. It is, and just to clarify that, if I take then the EUR12-13 billion Arminius, maybe what you said around ammunition would point me towards EUR3, maybe rather EUR4 billion, the Puma, EUR3 billion. We're easily approaching like EUR20 billion on the firm order side that you would deem very realistic this year. Then the rest might be more on the frame side and things like that.

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

No, there is more fixed. There are more fixed contracts. They want to change more and more to more fixed contracts. I think also the smaller contracts for sure are fixed contracts. There are hundreds of smaller contracts, which are EUR5 million, EUR10 million, EUR50 million in this area.

So I think it is more -- it is very stable. So as you know, we are fully booked, and that's important. We are fully booked for '26. So in '27, over the next months, there is -- we still have also in '27 a rate that I think is more than 50% -- in between '26 and '27.

So with the growth rate that we have. And we expect on the growth rate that we are able to grow more than 30% year-over-year. As I said, this year between 40% and 45%. And for the next years, the backlog is also huge. Also the fixed backlog.

And the other program, nobody will stop it. Yes, if you go on the program like the 8x8 vehicles or the infantry fighting vehicles, you see that all the vehicles, the trucks, the ammunitions, all that was expected, came or more. And the reason is also very simple because we still have nothing.

On the ammunition, we have nothing on stock. Everything is going still to our partners in Ukraine. And we have to start for our stockpiling.

Sebastian Growe - *Exane Bnp Paribas - Research Analyst*

That's fair. And then if I may quickly move on then on to the ammunition side and considering the latest developments in the Middle East and the related importance apparently of missiles and also air defense as such. What is the incremental opportunity that you see here, given that the rocket artillery is starting in quarter one '27? And you will also need time to prepare for the full ramp on the Skyangers.

So how quickly can you really respond to these incremental, A, request? And B, what could it do to the previously communicated targets in that particular business area?

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

A strong driver will be really the gun-based system. We are able and we are at the moment in negotiations, and this is very fast to for the gun-based systems to deliver in August, the first systems also to the Middle East, because we are in production even if we have no contracts, we produce that systems.

We told you that we are ramping up to 400 systems and for that systems we need we must be variable to go into the direction to give the customer directly systems and directly impact. If we can deliver in August and they are trained because most of the states have our systems, they can use it immediately. Nobody knows at the moment how long the conflict lasts.

Donald Trump says tomorrow it stopped, but maybe it's not stopped. We will see. These countries prepare themselves. Over the weekend, I have a bunch of phone calls with very high-ranking guys with, on the minister level, to say, how can we help? That would be helpful for us on the system side, but on the other side, on the ammunition side. We need much more ammunition.

The driver number three is then on the missile side that we really can start. I see that we have a smaller impact in 2027, but in 2028 we should be ready. Missiles are not as easy as our ammunition because on the ammunition we have to produce more from the same, but on the missiles we have to produce new technologies, so it's not as easy.

Sebastian Growe - *Exane Bnp Paribas - Research Analyst*

That's helpful. Thank you.

Operator

Christoph Lascawi, Deutsche Bank.

Christoph Laskawi - *Deutsche Bank AG - Analyst*

Good afternoon. Thank you for taking my questions. The first one on '27, you highlighted in the slides as well that you're ramping up a lot of capacity in '26. You're preparing strong growth for '27. You had guided in the past to EUR20 billion to potentially EUR25 billion of revenues in '27. Obviously, that was including Power Systems. Now that is out, Naval comes in.

Could you, as a first question, just comment a bit on where you see the '27 now? And roughly the order coverage, if I understood it correctly, you're above 60%, around 66% in the comments you just had. And also, if the EUR20 billion plus again still stands for '27.

And then as a second question, just coming back to the air defense and reaching the 400 units essentially per year. Are you fully booked already now with the orders that you have on hand? Or can you fit in the Middle Eastern orders? And with that, get to a rate which is closer to 100% capacity utilization in the coming years?

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

Yeah, I think we can fit. We also can grow up. It's not a huge investment also to grow up in the air defense system. So if we need more than eight systems per week. And this is what we plan at the moment.

We can do that. The investments are not so big. The only thing what you need, you need a supply chain under control, but a lot of them from the supply chain we do by ourselves. We produce the weapons, we produce the weapon feeding systems. This is an internal production so we can grow up in capacities.

I have not a full picture at the moment how much this really will come because, as you know, in Middle East, you need the contract and not the negotiations. It's not like Germany. And if you have the contract, then we can give you an overview about that. I have not the full picture at the moment. But the opportunities are huge. This is for clear.

Second point for '27. We stay on the way, and we want to have the growth rates like we discussed and in our planning is a growth rate between 30% and 40% CAGR over the period up to 2030. And this is the reason that we are able to reach this EUR 50 billion if we are able also to make M&A processes over the last years, we were very lucky about that and we made it happen and we made good acquisitions.

So we stay, Mr. Laskawi, to that figure.

Christoph Laskawi - Deutsche Bank AG - Analyst

Thank you. Just a quick follow up if I may. As you mentioned M&A, is there any updates on the Iveco truck site? Is that progressing as planned or --?

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Yeah. There is a delay in the -- why? Because Leonardo is now able to make the closing. And if the closing is done, then we are able to step in. As you know, we had a handshake agreement that Rheinmetall takes over the trucks and the technical vehicles should be taken over.

And if they took over from Leonardo site. We are weekly in discussion with the Leonardo team in these areas. We are working on our due diligence side in this area, and we would be faster, it should be faster, but the first deal between Iveco and Leonardo had a delay, and then our deal has also a delay.

Christoph Laskawi - Deutsche Bank AG - Analyst

Understood. Thank you.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

It's a pleasure.

Operator

Marie-Ange Riggio, Morgan Stanley.

Marie-Ange Riggio - Morgan Stanley - Analyst

Yeah. Hi. Thanks for taking my question. I have two, actually. The first one is on the backlog, because this year it comes EUR6 billion short of orders compared to your initial target of EUR70 billion. My first question is like, should we expect this 6 billion orders to shift in 2026?

And my second question is probably a bit broader, but I understand that it's not a question of demand, but more a question of delay. Is there like any change in the German procurement process to prevent further delay and to provide your confidence about the EUR80 billion nominations for this year? That's the first one. The second one is on Germany, because you mentioned in the call that there is a EUR500 billion package of orders in Germany.

Do you think, like, you can keep the same capture rates around 40%-45% as the previous package? How much has been already allocated? Thank you so much.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Yeah. I can say that the German institutions are working very, very hard, and there are delays, but it's only because of this huge growth inside. You know the organization, also the (inaudible) organization is not able to grow as fast as they handle a contract. So I have a full understanding even if OCCAR is doing something, but the main task has -- is clear on the (inaudible) and the (inaudible) in Germany.

They are good. Yes, there is -- they have slipped something from '25 to '26. For example, what we expected is to book this 600,000 to 700,000 artillery rounds in '25. Only that is a multibillion contract in this area. And that is what we missed but it's not gone.

The only thing was that it came back to the State Secretary, the State Secretary says, is it up to '29? Or is it -- or do we have to book it more to 2030 or '31 et cetera? We will have over the next weeks a decision, but there is a delay.

But I'm not afraid that we have a basic problem. This is not a basic problem. It's really a problem because the size of the contract and the number of the contracts are so high that the parliament, the [indiscernible], the Ministry of Defense, all of them are really busy. They are really busy. We, as companies, we are also busy because at the end of the day, we have to write the offers.

We have to go into the negotiation, but it works relatively well. Not everything is in time. But as I always said, Marie-Ange, if I get it three or four months earlier or later for me, it doesn't matter because as long as I'm booked this year and nearly then also for the next year, and this will be very soon. We are not in hurry. So we have enough time to do it.

The EUR500 billion package I can exactly say how much we booked for the EUR100 billion package, but I cannot say exactly about the EUR500 billion package and what is the reason. The reason is, first of all, there are new -- a lot of new packages like the naval package where we have not such a lot of experience than on ammunition. On ammunition, on vehicles, it was relatively simple for us to say, okay, okay, this is the packages that I get.

My expectation is that Rheinmetall still has a very, very high value in this area. If it is 42% or whatever, please, I cannot give you the figure. The only thing what I can tell you is that we are in negotiation with the German government with a very, very high number also for this year and also for the next years of that EUR500 billion package. And this EUR500 billion package should then go up to 2030, as you know. This is not only for one year.

Marie-Ange Riggio - *Morgan Stanley - Analyst*

I think you're very clear.

Operator

Adrien Rabier, Bernstein.

Adrien Rabier - *Sanford C Bernstein & Co LLC - Equity Analyst*

Thank you for taking my questions. First question is on cash and the cash guidance, please. Could you elaborate on what the assumptions are in the guidance? It sounds from what you said before in that call that it could be a lot higher than 40%. Then hopefully a quick question on Weapon and Ammunition, please. Can you comment on where you think the inventories are at the moment? Are they improving?

Klaus Neumann - *Rheinmetall AG - Chief Financial Officer*

Yeah. Klaus Neumann speaking, I'll pick up the question on cash flow guidance for 2026. The 40% that we have guided, although higher than 40% is in line with our basically midterm strategic ambition or guide for our current growth phase. And we see potential to generate significantly more cash, but it's highly volatile, and it really depends on the level of prepayments that we can negotiate and the timing of the orders when they exactly will come in.

If you look at 2025 and as I explained, we needed an increase in customer payment through prepayments of more than EUR1 billion to reach the level that we achieved in 2025. In 2025, 2026, the level that in prepayment, the total amount will need to be bigger just to reach

the 40% because we will invest significantly in the expansion of our facilities and the automation of our vehicle plants that will take -- require lots of cash, and we also will continue to build up stock to basically -- to support the production of our existing orders.

So while there is potential above the 40%, considers some level of prepayments that we receive, but we think that will be --

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Adrien, it's -- I think a very -- if I can say from my side, a very, very simple thing, not only for Arminius and (inaudible) contract with EUR12.5 billion and EUR3 billion to EUR4 billion rounds where we would have -- we could have a down payment, if all the negotiations are running well, up to EUR5 billion. And then we don't -- we must no longer speak about cash conversion rates, yeah?

Klaus Neumann - Rheinmetall AG - Chief Financial Officer

Right.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Yeah. At the moment, it seems to be that we are on a good way, but it's not a done deal. Everything is fine. I asked the question on one of the investor conferences, what happens if we book EUR5 billion, EUR6 billion, EUR7 billion cash and have a cash conversion rate of whatever, 300% or 400%, what happens the next year?

Adrien Rabier - Sanford C Bernstein & Co LLC - Equity Analyst

That makes sense. Thank you very much.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Yeah.

Operator

Chloe Lemarie, Jefferies.

Chloe Lemarie - Jefferies LLC - Analyst

Yes, good afternoon. Thank you for taking my question. First one actually would be a quite high level on space. I think, Armin, you mentioned on the press call that you aim to build a big satellite consortium in Germany.

Could you maybe flag which areas you're targeting, and in particular, where compared to the other planned consortium between Airbus, Leonardo, and Thales? How aligned would you be on the German defense needs, the European institution push into space? Yeah, if you could shed some light on what exactly you're aiming to do there.

The second question, taking another stab at the free cash flow guide. Just within the 40% conversion that you're targeting, could you maybe share how many advances consumption you factored in, please?

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

From the space side, the first question is, as you know, we booked the SAR business. We do this, as you know, with ICEYE. The reason that we stepped in was very clear that the German government told us, we want to have a German production, and we want to have a German service line because we need a national. This is for national security.

These are national security data, and that is the reason that a German company, at the end of the day, has to take care about that. As Rheinmetall is the digitization head also of the German Army, the minister said, okay, it's a good idea if we do it that way. That was tick in a box, and this is done and we will fulfill it. Q3, the first satellite will be in space. Second point is now on the communication side.

On communication side, we said, okay, how can we do a thing to make the German customer happy? Because this is also for the defense side. The space side is on the commercial side, one side, but on the defense side, it's always national security.

Therefore, again, they need a consortium from the German side and German production lines. If we build up now in Neuss the satellite production, and OHB has in Bremen a production line, and they have to build up other production lines because there is not enough capacity. We discussed with the government, what can we do?

There is a partner number three. We have our joint venture then between OHB and Rheinmetall, but there would be a working community also, which is possible, and that is in negotiations at the moment with Airbus. There would be only one bidder. This is the consortium. No other people about that is going up. Then the contract would be very safe for the consortium. Is that clear, Chloe?

Klaus Neumann - Rheinmetall AG - Chief Financial Officer

Yes, it is.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Yeah.

Klaus Neumann - Rheinmetall AG - Chief Financial Officer

Yeah. Also the question of basically the use of the prepayments. I would put it the other way around. We need an increase of the prepayments that we currently have of EUR5.6 billion by about EUR2 billion to get to 40% as a starting point. As Armin mentioned, if we get the EUR5 billion for the big conflicts alone, yeah, we would have a significantly higher cash conversion rate.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

We use it for stocking, yeah. We need it because what we have -- the restocking that we have in our stocks to have the basic materials. These are very important things. This is number one. And the second point, for sure, continuously to grow what we discussed also before on the vehicle side for automatization because welding robots and other things that we buy in at the moment, it's also an investment.

But then it's -- we are really well prepared because then the investment rate will go drastically down over the next years.

Chloe Lemarie - Jefferies LLC - Analyst

Perfect. Thank you.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Pleasure.

Operator

David Perry, JPMorgan.

David Perry - JPMorgan Chase & Co - Analyst

Just a few questions in vehicles, please. One, can you just talk a little bit about Q4 where the EBIT came in quite like against the guidance from the CMD. So just what happened there? There was sales or it was execution or something?

And then the second one on vehicles. Armin, you talked about having capacity, I think you mean in the midterm to do 1,000 vehicles and some fighting vehicles and [APCs]. I just wonder, do you have that number for 2025, the actual? And do you, at this point, have a good visibility on the annual ramp-up? And if you do, can you share that with us, please?

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

So we are, by far, not on the 1,000. We are nearly ready on the logistical side. Here is everything done over two or three years ago, we started, as you know, with the investments on the logistics vehicles. Here we are ready. And here we are really ready to boost up to this 4,500 or even more vehicles if we press everything out.

On the inventory fighting vehicles and on the Boxer side, we have -- we need 3 to 4x higher capacities. If you compare it, what we what we did to grow up in this area. So we produce a number. I told you that the customers don't like to speak about all these numbers because this is -- are official data also for, let me say, for [aggressors] which are not good. If they said how many inventories, citing vehicles we deliver, et cetera, et cetera.

But I can tell you, at the end of the day, we have 3 to 4x higher. We have to grow up 3, 4x to fulfill this 1,000.

David Perry - JPMorgan Chase & Co - Analyst

Okay, and on Q4 just what happened there, please?

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Yeah. The Q4 thing is a very simple thing. So what you have is, first of all, you produce vehicles. If you produce the vehicle, everything is fine. Then, for example, for heavy weapon carriers and other things, we have, I think 12 or about 12 heavy weapon carriers ready and still no capacities from the Ministry of Defense to make the final checks in these areas.

This is, as you know, if you think quarterly, quarter-to-quarter, you always can have problems. But sometimes, you -- do you remember when we have this truck problem. It was not a problem from our side. We produced it. But we were not able because the customer was not able to take over these trucks. So this happens sometimes, and this happened also. This was number one.

The second point was that on one of the vehicles, they had some software problems. So we have to sort that out. It is sorted out now in this area. So there are sometimes delays if you are not in 100% serial production. Now become more and more, and this is a positive signal, become more and more into zero production, if we produce thousands of Boxers.

We are able -- like to produce it like ammunition. So the ammunition is very, very, very -- it's much easier because we produce thousands from the same thing. And the beauty is that the vehicles that we produce over the next years, there is only the Panther, which is new, and the rest is more from the same. So we believe that we have a better track record over the next years on vehicles than we had over the last two years.

David Perry - *JPMorgan Chase & Co - Analyst*

Okay. Thank you very much.

Operator

Benjamin Heelan, Bank of America.

Benjamin Heelan - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Yeah. Afternoon, guys. Thank you for the question. Hope you're both well. I wanted to touch a little bit on Air Defence and following, obviously what --

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

Hello?

Benjamin Heelan - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Middle East. Have you had calls from?

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

Ben, we lost you. We lost you in between.

Benjamin Heelan - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Can you hear me?

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

Yeah, we lost you in between. It stopped when you said you have a question about Air Defence, and then we didn't hear.

Benjamin Heelan - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Sorry. Okay. Yeah. The question is, you talked a little bit about the Middle Eastern customers that you've kind of discussed in the call. Have you had calls from your typical customers, Germany, the U.K., et cetera, about their Air Defences and what you can do for them? Because it just feels like what's happened in the Gulf is fairly unprecedented from an Air Defence perspective. That would be the first question.

The second question on the joint ventures with Lockheed Martin and Rheinmetall and Anduril Industries and the approvals, I think you were waiting for some approvals there. Could you give us an update on the timeline around that and where you are? Thank you.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Yes, Ben. We had contacts to a lot of governments also here in Europe. I cannot name the contracts because as you know, if this war starts, they want to do a lot of government to government. This is, I think I can say. There are some countries who want to help government to government. They contacted us and said, okay, what can you do? How much you can deliver? Can you change something?

Yes. From European countries that we have to deliver because as you know, we are in full production also now to help them. We are on the way at the moment to work it out. We are not ready with the concept because this is what over the weekend, where all the calls came in.

Germany takes care about that, and Germany wants also to help in that areas. I think that countries really appreciate that. There are not only Germany, there are a lot of other European countries who are looking for that to help very fast. The Lockheed Martin and the US agreement that we have is, I must say it's, I think it's too slow. We are usually much faster about that, and we want and we have to accelerate.

Benjamin Heelan - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Can I ask a quick follow-up? I mean, when you're getting inquiries from governments, et cetera, given the kind of magnitude of what has happened in the last couple of weeks, if you think about the next 18-24 months, do you see potential for governments to shift their priorities in spending towards Air Defence and away from other areas? Or do you think this will just be incremental demand that will come on top of everything else? How should we think about that?

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

I don't see that they shift it. From my side, the priority number one is still ammunition. On the ammunition, it's all different kinds of ammunition. Auxiliary ammunition is a very big driver in these areas, but also medium caliber ammunition has a renaissance. Only Germany is looking for billions at the moment on the medium caliber, where we expect also a huge contract.

The whole missile business, where the whole Western world at the moment sees that they run out of ammunition because it's the, as I said before, EUR4 billion to spend on missiles, that's a huge number. If you see the capacities that the Western world had, even the US, yeah, it's a very small capacity. In some areas, US companies have a capacity of 70 missiles per year. This is usually shut down in half a day.

Benjamin Heelan - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Yeah. Okay, great. Thank you, Armin. I appreciate it.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Yeah, it's a pleasure.

Operator

Michael Raab, Kepler Cheuvreux.

Michael Raab - Kepler Cheuvreux SA - Analyst

Yeah, thanks. Hi, everyone. Michael Raab, Kepler Cheuvreux. Mr. Papperger, I'd like to get back to the issue of DLBO. Obviously, my understanding is this is sort of a lengthy process to retrofit those vehicles and equip them with the corresponding technology. Probably, I don't know, a couple of months, quarters per vehicle, including testing, whatever it may be. My question is, this is happening in a phase in which you're ramping up capacities for production.

Does this need to retrofit those vehicles to be in accordance with DLBO requirements by the German MOD? Does that sort of compromise your ability to increase the output of new Boxers, for instance?

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

No, absolutely not. The new Boxers get the DLBO module immediately from the beginning. If we produce the new Boxers, that is much better than the old ones because then you have the DLBO technology immediately inside that.

If you have all the old stuff, so all the new productions, because now we have a clear settlement in infantry fighting vehicles in Boxers, in 4x4 vehicles, what the equipment, how it has to look like. For the new ones, it's easy because then you implement it directly. For the old ones, it's a problem. The point is, because we have all the trucks and blah, blah, there are thousands and thousands of vehicles. That is the reason that these contracts are so huge.

This is a multi-billion EUR contract. If D-LBO is really ready and everything is ready about those things, I think at the end of the day, it will grow up to EUR10 billion.

Michael Raab - Kepler Cheuvreux SA - Analyst

Would you be willing to outsource some of the activity for retrofitting to other players in the industry to speed up the process?

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

We cannot. The reason for that is that at the end of the day, we are responsible for that. What we do is at the moment to implement technologies from others, and this is outsourced for sure, as you know. Rohde is doing the radios, and there are a lot of other suppliers who take care about that. The point is to make this software at the end of the day really working. This is our heart chamber. I don't want that other guys are looking into our algorithm.

Michael Raab - Kepler Cheuvreux SA - Analyst

Got it. Thank you.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Pleasure.

Operator

(Operator Instructions) Joe Orchard, Rothschild & Co, Redburn.

Joe Orchard - Redburn Partners LLP - Analyst

Thank you for taking my questions. The first one is on the XM30 program. Please could you provide an update from your side, given that Milestone B approval has not yet been signed off by the US Army. Are you still confident that this is a realistic opportunity for you?

The second question is on the dividend. Why did you increase the payout ratio this year above the range that you previously communicated of 35%-40%, given that the business still requires a lot of investment to scale up its manufacturing capabilities to translate your order backlog into revenue? Thank you very much.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Are you unhappy if we if we raise the dividend?

Joe Orchard - Redburn Partners LLP - Analyst

No, not necessarily, but I think it's an interesting decision.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Yeah, we will start with the XM30 program. On the XM30 side, we are, let me say, on a very good way with the US Army. The feedback, as I always said, is a very positive one. On the XM30 side, they want to see. This is now a program which is guided also from the White House.

This is also very interesting, a very interesting program. The White House, and President Trump by himself, takes care about the huge programs at the moment because he said we are late in different areas, especially on the Army side, but also on the Navy side.

There could be also an interesting opportunity for us in the U.S. on the Navy side because they want to build up more capacities, and they want to get also the technology that we have on land side. They have seen that we are able on the Lynx to have a full digital system. The XM30 is nothing else like an American Lynx with some American IPRs. I'm positive.

I believe that end of this year, beginning next year, we can get an indication about the program, and I hope that next year they really give an order. It's not in our business case. The whole program is not in our business case. But we have more in the U.S. In the U.S., it's not only XM30, it's the artillery program.

It's the program of the new howitzer, where we offer this. This is the same howitzer that Germany gets at the moment, the self-propelled howitzer with a light gun 47 cal. We have this autonomous vehicle programs running in the United States.

The newest thing now is, this is also because we have now Loc Performance, that the huge programs of the Navy are coming up. They look for competences, and they look for companies who are able to build up capacities in the United States to build, yeah, some of the frigates that they have. That could be an interesting program.

It's in a very early stage, but at the end of the day, I think, end of the year, we get a decision from the Americans if there is something where Rheinmetall can participate.

Klaus Neumann - Rheinmetall AG - Chief Financial Officer

Yeah. Some comments on the dividend. We had a very intense discussion in the board and also with the supervisory board about the level of dividend for 2025. You mentioned the payout ratio. Yes, we are above the one payout ratio that we communicated, and it was a guide for the past. We had moved to the higher end in recent years already. We look now also on our equity position.

If you look at the balance sheet, we have now an equity of EUR5.6 billion, up from EUR4.5 billion in 2024. On the balance of all the different factors, we think it is the right decision to increase the payout ratio for the dividend in 2025. We will look at all the different elements, our financial strength, our basic performance, and also our equity position, to decide where we are going forward.

Joe Orchard - Redburn Partners LLP - Analyst

Okay. Great. Thank you very much.

Operator

Afonso Osorio, Barclays.

Afonso Osorio - Barclays Services Corp - Analyst

Hello, everyone. Thank you for taking my question as well. Just one final one from me, if I can. On your CapEx spends, I think I'm looking on your CMD presentation. You planned to invest last year 25, roughly 11% of sales in CapEx. I think you just did 8%. Looking forward to 2026 and 2027, are the plan still the same, roughly 16% revs in 2026 and about 12% to 13% revs in 2027? Is that still the plan? Thank you.

Klaus Neumann - Rheinmetall AG - Chief Financial Officer

Yeah. The CapEx will be roughly the same. It might be somewhat lower than originally planned because we have constant movement in the way we invest, and we also want to invest only what is really required. The level will be very similar to what the company at Capital Markets Day.

You always need to consider that some of the investments, especially those that we do in together with partners, will be co-funded through capital contributions with by our other partner in the joint venture.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

And we gave a clear target, Afonso, to find the synergies also on the investment side. What is also interesting is, at the end of the day, what is possible at the moment to reduce also the costs in this area. This is a combination of that the CapEx is not as high as it was planned at beginning. If you are deep inside the program, at the end of the day, we found that it is always possible to reduce costs.

Afonso Osorio - Barclays Services Corp - Analyst

Very clear. Thank you very much.

Operator

Christian Cohrs, Warburg Research.

Christian Cohrs - Warburg Research GmbH - Analyst

Yes. Hello. Good afternoon. Thanks for taking my questions. I have two, actually. First of all, is it correct that your Electronic Solutions operating profit actually included a EUR48 million exceptional item related to divestments? And if so, is this also the reason for the margin backdrop for Digital Systems in the segment guidance you have outlined at the end of the presentation?

And secondly, coming to Power Systems, if I'm not mistaken, you originally envisaged a deal to be done before Easter. Now you write about Q2 or Q3. Does this change in statement imply more caution with the sale can actually materialize? I mean, given the structural weakness in automotive, the challenging macro environment, et cetera. Thank you.

Klaus Neumann - Rheinmetall AG - Chief Financial Officer

Yeah. Let's start with the question about Electronic Solutions. Yes, there is this gain on the disposal of technology-based investment in a company that we had for several years. As explained in our annual report, we divested this technology-based company because this technology is not part of our strategic portfolio.

From our point of view, it's a divestment of any other asset that we have held in use over many years. It just comes in the form of a divestment. That is not the main reason for the movement of the profitability of Digital Systems in 2026.

As Armin explained, there are lots of new programs that are ramping up in 2026 that require investment, that need to ramp up costs, and will only be covered by revenues that will materialize at a later point. There is cost pressure in 2026 through the ramp up. This disposal gain in 2025 is one element, if you look at it both years next to each other, but it's not the driving reason.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Big drivers are F-35 and the satellite business where we invest in this area. But long term, we are sure that the digitization, yes, will come into an area like we have on the Air Defence side.

Klaus Neumann - Rheinmetall AG - Chief Financial Officer

And then, yes, the original aim was basically to come to a final agreement before Easter, that now seems to be delayed by a few weeks. We hope to conclude an agreement in Q2. But these processes are difficult to predict. And the Q3 is a very latest date to finalize this process.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

By the way, the buy process of NVL had also a delay of two to three months. That's very normal in these areas. You need a target, first of all. As this is our target, we want to reach this target. At the moment, we still hope that we can sign it in April and have then the signing, and then it depends a little bit, as you know, from monopoly commission, how long we need and to have the closing. The process is running and nobody will stop it.

Christian Cohrs - Warburg Research GmbH - Analyst

Okay. Understood. Thank you.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Pleasure.

Operator

Sven Weier, UBS.

Sven Weier - UBS AG - Analyst

Yeah, good afternoon, and thanks for taking my questions. Apologies if that has already been asked, because I could only join a bit later. The first question is just on your existing joint ventures with Lockheed. Given the current discussion we have, around Air Defence, I mean, could you imagine that also the cooperation will be expanded to other missiles and also including Patriot? That's the first one.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Yeah, we are in discussion with Lockheed. I'm not happy with the speed that we have in that area because I spoke with Jim, the CEO of Lockheed, about that we have to hurry up to reduce bureaucracy in different areas because the world needs, at the moment, the capacities.

On the rocket motor side, there is a huge need from Lockheed and there is a huge need from us. But what we do at the moment is not only to speak with Lockheed, but also with other companies, also European companies, to build up because the capacities are there. End of the year, we are ready. Beginning of next year, we go into qualification. Then we want to fill the factory.

The demand is so huge that we prepare ourselves at the moment to fill it, whatever missile it is. We are very flexible in that.

Sven Weier - UBS AG - Analyst

Sounds good. The other question I had was just on NVL, because the other day I saw an article that you're expecting or that you could produce up to 1,000 unmanned vessels. Could you elaborate a little bit on that? Thank you.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Yeah. This is a program. This is, I think, the first decision and the first success. We will make a joint venture where Rheinmetall Naval has the majority with Kraken. As you know, Kraken has contract with the United States Navy and with United States Marine Corps. With that, in that joint venture, we have the ability to start with about 8- to 9-meter boats, then to 12-meter, we go to 24, but also to bigger boats which are unmanned. This 1,000 boats is for the smaller ones, for sure, not for the big ones. But there is a huge opportunity to grow strong in that area.

The German government is very, very interested, and these boats have an opportunity to speed up to 17 knots and to be a really fast boat in areas where it is very difficult to run around. We think there is a really big market. From the small boats, only for your idea, without weapon systems, the price will be about between GBP300,000 and GBP400,000. It's a smaller class.

For the bigger ones, we are in the multi-millions. That this could be only. If everything is running well, much more than EUR1 billion. There is an opportunity of much more than EUR1 billion sales. The technology is in-house.

We combine now also the Rheinmetall technology, the optimization. As you know, on the land system side, we won a lot of optimization programs. It should be easier to navigate on sea because there is much more space than on earth, in that area. This is what we do at the moment. The working groups are together, but if you know, we are now nearly two weeks owner of the company, so give us a little bit time.

Sven Weier - UBS AG - Analyst

The final question I have is just on the consolidation line. I mean, it came in much lower for 2026 at 8% against the original guidance of 12%. I mean, would you think that also for next year, where I think you guide 11%, that there is a likelihood that also 11% is maybe more on the high side? Thank you.

Klaus Neumann - Rheinmetall AG - Chief Financial Officer

Yeah. As there are significant changes in the structure, as I explained, with the different makeup, I think, I would more look at what we guide for 2026 than what we mentioned at the Capital Markets Day.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Yeah, and it's a product mix. If you may, we enlarge the product mix, where we have consolidation. If you see on the satellite, there is not a lot of consolidation. On the ship side, it's not a lot of consolidation. We're going to the right direction.

Sven Weier - UBS AG - Analyst

Makes sense. Thank you, both.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Thank you.

Operator

Ladies and gentlemen, this was the last question. I would now like to turn the conference back over to Armin Papperger for any closing remarks.

Armin Papperger - Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer

Thank you very much for your time. A very interesting discussion, and I hope we could give you an overview. We are responsible for the performance. You're responsible for the share price. Thank you. Bye.

Operator

Ladies and gentlemen, the conference is now over. Thank you for joining and have a pleasant day. Goodbye.

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