

**Rheinmetall AG
Investor Relations
Conference Q2 2024
Transcript**



Conference Call: 8 August 2024, 14:30 CET

00:00:01 Operator

Hello, ladies and gentlemen, and welcome to the Rheinmetall AG conference call. At this time, all participants have been placed on a listening only mode. The floor will be open for questions following the presentation.

Let me now turn the floor over to the CEO, Armin Papperger.

00:00:20 Armin Papperger

Thank you very much for the kind introduction, and also a very warm welcome from my side to the Q2 earnings call. I will walk you through the presentation together with my colleague, Dagmar Steinert, who will take over the quarterly financial details. Before I start with the highlights, please let me remind you of the legal disclaimer on the following page.

Now let's go to page number 3. Rheinmetall had a very good Q2 2024. Here are the highlights. We had a plus of 49% on sales to 2,234 billion euro. The operating results has a plus of 110% to 270 million. Operating margin is growing up to 12.1%. And also, and we are very happy about that, we can say welcome to 3,573 people if you compare that with the quarter last year. So we are still in good shape to get good and highly qualified and also very highly motivated people.

Operational free cash flow sounds good with 169 million euro, a plus of 388. And on the CAPEX, we are still -- we are at the moment behind. We are on a level of 5.4%. As you know, over the whole year, it will be a little bit more percentage-wise because of all the investments that we have at the moment. But with our investments, we are absolutely in time and in some areas ahead of time.

Rheinmetall Nomination, very important for us, plus 180% with 11.443 billion, absolutely all-time high for quarter two. So the Rheinmetall Backlog now is growing up, and we have a backlog of more than 48 billion. This is a plus of 62%.

Now let's go to the next page. And as said before, the Rheinmetall Nomination with 11.4 billion in total is an outstanding figure for a quarter. Let's go into the details. Vehicle Systems, a very good order intake of 123 Heavy Weapon Carriers. As you know, this is a contract that we got from Rheinmetall Australia back here to Rheinmetall. On the land system side, it's a 1.6 billion and plus 300 million on the Electronic Solutions side, what you see then later. Boxer NNbS, the first contract for that 110 million. And for the Puma, the AGDUS system, this is for the trainings equipment, 90 million euro.

The Weapon and Ammunition side is the big ticket for sure, the 155-millimeter frame agreement of 7.1 billion euro. I must say that the modular charges will be an extra contract that will come over the next month so that this contract will grow again. 35-millimeter AHEAD ammunition for low-digit million figures for an international customer. This is especially for fighting against drones. And modular charges, a first contract from Germany of 170 million. As I said, there is a strong contract of hundred thousands of modules, which will come over the next weeks.

Let's go to Electronic Solutions. In Electronic Solutions, we are very happy to book this 360 million frame contract about hearing protection and communication systems. This is in combination with the helmet that we also give to Bundeswehr. Then, as I said, 300 million euro for Heavy Weapon Carrier in combination with Vehicle Systems and a missile contract with MELLs LR2 of 170 million euro.

Let's go to the civilian business. Also, the civilian business was very successful. We are also here on track. EGR and exhaust backpressure valves in low three-digit million euro range. Plug-in and play heat pumps in double-digit million range and electronic coolant pumps. These are only three examples of the success that our civilian business has. Now let's go to the next page.

A very important decision for us was to get the MoU with Leonardo. Our friends from Italy and Rheinmetall, we wanted to make a joint venture, a 50-50 joint venture, which will be an Italian joint venture where we will have the headquarter in Rome. And the first contract in that joint

venture should be end of this year, latest the first quarter next year. We speak about in total between 20 and 25 billion, so the last figure is, but it is not fixed, it's a plan of '24 billion, where we'll be around 10 billion euro hardware and the rest will be service maintenance and long-term agreement.

The first vehicles will come from Germany because the Italian Army wants to have very fast vehicles. Then we implement the Italian technology. Therefore, we will get also money for development. At the moment, it's between 500 million euro and 800 million euro. And if after implementation of the Italian technology in this Italian fleet, we will get then the contract. As I said, the first year contract for a smaller amount end of this year, and then the main contract together with Leonardo for the whole fleet later.

What are the potentials? Inside that plan at the moment of around 24 billion euro is not ammunition and for sure also not export. On the ammunition side, we have the first forecast. And for sure, if you have a fleet, you need ammunitions, and you have to fill the stocks. For tank ammunition, usually the calculation, this is up to NATO standards, is to buy about 120,000 rounds and 2 million rounds for the infantry fighting vehicle. If you calculate all that things, it's about 2.5 billion euro.

And on export, we see at the moment, there are some customers who are interested especially in this combination between also Italy and Germany that we will sell minimum 200 systems which is a potential of EUR4 billion only out of this joint venture and 500 systems for the inventory fighting vehicle, the Lynx, which have a potential of 7.5 billion euro. In the export, for sure, there is also potential for ammunition. So the story is going on, and this is a huge package also for the next years for the Rheinmetall Group.

Let's have a look to the next page on page number 6. We see now the relationship that we have between Lockheed Martin and Rheinmetall. We extended our collaboration agreement. So as you know, we had our collaboration agreement on the F-35 and also on the GMARS. Now we have the cooperation also on laser weapons, simulations and training, on SHORAD, on aeronautics. And very soon, we will also have a good relationship on the missile technology on Lockheed.

So what is the potential that we see? And this is the potential over the next years. As you know, done deal is the F-35. This EUR5 billion are not booked because, as you know, we book

it year by year. But this is a very fixed figure because the 400 fuselages that we are producing are in this area of EUR5 billion. And the beauty at the moment is that five other nations are looking for F-35. So Therefore, we see much more potential for the fuselages in F-35 because Rheinmetall will produce fuselages outside the United States, and we are the only producer for that outside the states.

Second point on GMARS. On the GMARS side is the biggest business for sure, not the launcher, but it's the rockets. We are at the moment to build up a rocket production in Europe in Unterlüß, in the north of Germany. And therefore, it's very important that we invest into this rocket motor production. We are on the way, and we are in Werk Niedersachsen or factory in Niedersachsen to implement also then the rocket for GMARS. So 7 billion euro, we see over the next 10 years potential.

On the laser weapons, there is a huge need also in US and very US-friendly nations, minimum EUR0.5 billion simulation and training, 0.5 billion to 1 billion and on SHORAD, and we offered our SHORAD solution, so the Skyranger solution also now for anti-drone fighting to the United States and US-friendly nations. There is a potential together with Lockheed of 4 billion euro and the aeronautic systems potential of EUR1 billion.

So let's have a look to the next page, page number seven. On page number seven, we see that the Boxer fleet is coming up. We see a real growing demand for wheeled vehicles. And as you know, there is United Kingdom, there is Germany, there is Netherlands. There are a lot of other nations who are looking for different variants.

So the beauty is that the Boxer is very well positioned to participate in this growth. ARTEC will take the contract, and as you know, our friends from Munich and we are the shareholders of ARTEC. And so we see a huge potential for heavy weapon carriers for RCH155 and for the Boxer MIV and also the wheeled infantry fighting vehicles.

You see the countries on heavy weapon carrier, Germany, Netherlands, UK, and rest of the world. But Asia is looking. Also, Middle East is looking for that. RCH is Germany, Netherlands, UK, Ukraine, and also the USA is now interested in that area. So the total order potential is up to 15 billion euro over the next years. And we are in a lot of negotiations at the moment. So that my expectation is that we can book over the next two or three years a lot of that contract.

Page number eight shows -- will show you what we have -- we gave a lot of news in the Eurosatory 2024 in Paris. And you see here several products and also several innovations. The feedback that we got from our customers was very, very good. So a new mine clearing tank, Keiler new, and other support vehicles. And we -- our expectation is also over the next 10 years that we can sell 500 units. Germany, Italy, Poland is looking, and the new -- only these three countries need huge numbers.

And only the Italian side is on support vehicles around 200. And as I said, only that three countries are around 500 units, so 7 billion euro potential. Skyranger on Leopard, it's a different story than the Boxer story because we use old Leopard 1 chassis. And on this platform, we will give a brand new turret or air defense turret. So the potential, we see a huge need in Ukraine. But also, in countries like Romania, they are looking for that solutions, 3 billion euro.

Skyranger on Boxer. This is especially also coming from the ESSI program but also on other programs. And it cannot be only the Boxer. It can be also other chassis. So here is a potential of more than 10 billion euro over the next years. And we see 500 units, Hungary, Italy. As I say, only Italy is more than 200 units.

Hungary, Ukraine, and other nations are coming up especially also after the initiative that we have with Leonardo. And more than 500 units, we see also EUR10 billion potential. GMARS, I told you before. I don't want to double that. And on the digitization, especially on Germany, Hungary, Australia, there is a potential of 10 billion euro.

Give me a minute for digitization. The point for me is that all the people really underestimate what Rheinmetall is doing on the digitization side. The digitization is very clear for us that all the things, what a lot of people are telling about artificial intelligence, is implemented in that area.

So Rheinmetall can make a live firing where we have 5, 10, 15 effectors where the artificial intelligence with our artificial intelligent algorithm is telling us who has the best hit rate and who has the highest survivability in these areas.

A lot of people have now theoretical things. We do it in practice. We show it in practice. So therefore, I think one of the main points also for the investors in the next months should be to give a better overview about the digitization story. Our expectation is that we are very, very

strong growing and electronic solutions, especially with air defense and digitization over the next years have the potential to grow up to 4 billion per year.

Let's go to the next page, page number nine. Here, it's very important that the localization of Rheinmetall in the Ukraine is going forward. So we opened our first maintenance shop and in-vehicle maintenance and spare parts. At the moment, we see a revenue, and this is a starting point of EUR100 million. There is much more in.

At the end of the day, we will have a strong capacity. And this capacity in Ukraine will be nearly the same size that we have in our factory in Unterlüß in the north of Germany when we are ready after all the investments we have to do in Ukraine. But the first step is done. First factory is running.

The second point is now the ammunition plant. And the Ukrainian government gave us an order to build up a 155-millimeter production. Rheinmetall later will have 51% of the shares of that production line. We take over the responsibility to produce it in a very safe area. And this will be ready in less than 24 months. The order value in the low three-digit million euro range plus -- and that is the factory alone, yeah? And plus the frame contract we will sign also end of this year about 155 ammunition production so that the potential that we will have latest first quarter is our expectation last year is 2 billion euro from the Ukrainian side.

On the vehicle side, there are also news. So the Ukrainian government and Rheinmetall has an agreement that the first Lynx, the first infantry fighting vehicle will be handed over end of the year. Ukrainian people are educated in our German factories at the moment that we can produce the Lynx also in that factories. And the ramp-up of the local production is now under discussion so that next year, we are able to produce Lynx in Ukraine.

Now let's go to page number 10. On that slide, I think it's very important to understand what we did on our truck side because that was a discussion also last time with a lot of investors and analysts in this area. As you know, we had a strong discussion with our customer about the pricings and especially the inflation rate over the last three, four years. And the Wechsellader contract was then renegotiated because of the inflation rate, and that was the reason that we delayed deliveries now into 2024. The trucks are running to German Bundeswehr now.

And in Q2, we had a peak working capital of trucks of more than 1,100 units. And already in Q2, the first 300 trucks are delivered to Bundeswehr. We created the first cash-in of 350 million euro. But the big pack is coming in Q3 and the beginning of Q4. I think that in November, we will be latest ready to deliver this 1,100 trucks and more. So we are in very, very good shape.

And the total call off of more than 1,500 trucks are very safe this year and will be completed, as said, in November 2024. So you will see, and that is the reason the biggest impact in Q3, which is very positive for us, and we also get a very fair price now.

On the next slide, slide number 11, you see that we stopped the white phosphorus illumination for the ammunition staff. When we took over the Spanish company, Expal. So Rheinmetall Expal stopped now in July the production of white phosphorus, and we did that because we made a handshake agreement also on our ESG side that we want to fulfill all the ESG issues in that area, which is, I think, also very positive. So far from the market side.

And now I hand over to Dagmar. She will take care about the financials.

00:21:30 Dagmar Steinert

Thank you Armin, a warm welcome from my side as well. So let us now look on page number 13 and take a closer look at the outstanding Q2 financials.

The anticipated sales acceleration was higher than expected. Part of this was due to an earlier shipment of several products. For example, sea mines for Australia and of course ammunition supply for an international customer. Sales increased by almost 50% to 2.2 billion euro with a positive contribution from all segments. Rheinmetall Expal Munitions achieved 130 million euro in Q2 alone. To put this into perspective, Expal had full year sales of around 370 million in 2023. So to sum it up, organic growth amounts to almost 41%. This higher sales translated of course into noticeable leverage effects and the operating result more than doubled to 270 million euro. As a result, our operating margin increased to 12.1%. The doubling of the operating result for the continued operations was the main driver for the improvement of earnings per share to 3.61 euro. So let us turn to the next page to have a closer look to the operating free cash flow.

Operating free cash flow improved significantly in the first half year from minus 325 million euro to minus 19 million euro. In Q2, our operating free cash flow stood at 169 million euro. And that's a great improvement and mostly a result of increased customer payments, prepayments and truck deliveries which started at the end of the second quarter. And this trend will continue in the second half year.

Nevertheless, inventories increased further to more than 4 billion euro, which were largely covered by customer prepayments, which are totaling to 3.4 billion euro. We are preparing the business for a strong second half year for which we anticipate the usual seasonality with a strong operating free cash flow in Q4. Moving on to page 15.

Our balance sheet remains rock solid. Our Net Debt to EBITDA ratio remains at 1 and that is well below our threshold of 3. The net financial position changed to minus 1.4 billion euro year over year, which represents an increase of 536 million. And just remember in July last year we paid out 1.2 billion for the acquisition of Expal. Our credit rating remained at Baa2 with a stable outlook. With a cash position of nearly 550 million euro and undrawn credit lines of 1.2 billion euro, we are keeping our powder dry to remain opportunistic.

On page 16, you can see Rheinmetall Backlog continues to increase and is now nearing the 50 billion euro mark. We recognized most of the contracts in Weapon and Ammunition as well as in Vehicle Systems. The biggest order was a German frame contract for 155mm ammunition, which we signed in June. With this we were able to maintain a high pace which we had by the end of last year. And Armin will later show you that momentum continues in the second half. Please turn now to page 17 for a detailed look at our segments.

Overall our defense business recorded a significant increase in sales and operating result. And this is a driver of profitable growth. Vehicle Systems grew revenues by 47% to more than 800 million euro with an operating margin of 10.1% in Q2. The margin came down slightly year over year due to the product mix. But we were able to deliver the first 300 trucks to the German customer by the end of June. Weapon and Ammunition showed a significant revenue increase of more than 100% to 692 million euro year over year and an even higher change in the operating result to more than 150 million euro. As a result, the operating margin jumped to 22%. Of course, this includes again a significant contribution of Expal, overcompensating a higher cost base. Electronic Solutions reported sales growth of around 30% to 360 million euro

year over year and an impressive improvement of the operating result to 36 million euro driving the operating margin to 10%.

The main driver for the margin expansion is a ramp up of the air defense business. Power Systems operating result doubled even though sales only rose by 6% in the second quarter. And this is mainly due to two effects. Firstly we have seen a strong upturn in business since the cyber incident affected the previous year and secondly our trading business has developed well. Let's move on to page 18.

The first half year marked a solid sales growth of around 33% compared to the first half of 2023. And that's great. However, we will have to accelerate even more in the second half in order to achieve our ambitious full year guidance. Looking at the large order pipeline in the defense business, we are fully confident to achieve this. Let me explain that. At last year's Q2 reporting we had 86% defense sales already covered. This year the figure has increased to 91%. For the second half we will send more than 1,000 load handling systems to the German customer and of course, traditionally Weapon and Ammunition is prepared for a strong Q4. Sales seasonality is in line with previous year while operating result is ahead. And with this I would like to hand over back to Armin for the outlook.

00:29:25 Armin Papperger

Thanks a lot, Dagmar, and page 20, we gave a graph. And I think it's very important to understand that graph, how sustainable the business is. If you see, and we gave you an information from 2015 up to 2028 because this is a point where we know the budget is, as you know, the 100 billion euro budget, the extra money that the government gave to Ministry of Defense, the Chancellor's budget, and also the EPL 14 budget is summed up in this area. And you only see here the German defense spending for new equipment and maintenance. This is not the whole budget for defense, for sure what is much, much bigger.

But the beauty at this graph is really that from 8 billion that the German government spend it for new equipment and maintenance. It's growing up now in 2024 to 34 billion. That will be stable in '25. And it will be slowly grow up then to 2028. It depends how much the GDP of Germany will grow.

But what does that mean? The commitment of Germany about the 2% and all ministers committed, and for sure, we will not have a decision now before the election. But after the

election, there is still a lot of time that we need a very stable budget for new equipment and maintenance, and we will get it. That we need it is a very clear thing because we are at the starting point to bring the German Bundeswehr back on track. And the other thing is there will be a support over the next 10 years. Also, even if tomorrow war stops, and everyone wants that this crazy war really stops. But we have to fill the stocks in Ukraine, and the Ukrainians need help from the European Union and from the US. And that is also a very clear discussion with the different ministries that also Germany has to help and will help. So what does it mean? It means that there is a very, very stable business, and my expectation is of minimum 10 years, maybe 15 years to bring Bundeswehr back on track and to help our partners.

And the other beauty is that Rheinmetall booked over the last little bit more than two years in between 28 billion cross from German budget since the Russian innovation in Ukraine. And you see now on the next page that the rally is going forward. But in July 2024, we booked from January on, 20 billion euro. And a lot is at the moment in the pipeline.

And give me a chance to go into this new contracts that we are in negotiations. There is a wheeled infantry fighting vehicle. So there's a Boxer with turret. There are Leopard 2 contracts at the moment where Rheinmetall has electronics and gun systems inside. There is the Panther. We spoke about that from the Italian side. Then RCH155. It seems to be that this Howitzer is also a success story for our friends in Munich and for Rheinmetall, and also the Lynx Skyranger system for the anti-drone.

On the Weapon and Ammunition system, as I told before, this big contract for propulsion systems because if you fire millions of rounds, you need also, let me say, 5 times more modular charges of that. So 2 million rounds are 10 million modular charges. So huge systems are coming. As you know, our investments are running up also in Bavaria and in other areas where we produce these propulsion systems.

But also, our fuze production is running up. The 155 projectiles, and in the 155 projectiles, we are still, at the moment, only on the middle of the road. So the really high peak will be after - - or in 2026, where we have the full capacity where, again, the sales over the next two, three years will grow extraordinary especially on Weapon and Ammunition.

And the artillery barrels. So now everybody knows that on the barrel side with all the shootings, usually a barrel you can fire, there is a guarantee of 4,500, maximum 5,000 rounds.

Ukraine is firing more, and our barrels are still intact, are still good. But sometimes because of all the firings, they need new barrels.

So we got a big contract also for new barrels, and there will be more. So the barrel production is our expectation also, and we are world market leader in this area over the next 10 years is fully booked. And here also, we not only doubled. So we tripled or sometimes 4 times. We have higher capacities now than we had three years ago.

Electronic Solutions, there is a decision of TaWAN. This is equipment for Bundeswehr with antennas with the vehicles also on TaWAN. Also, that is a business between 1.5 and 2 billion euro. DLBO is going forward and the Soldier Systems. All that things are at the moment in plan, and we think that we get a decision from the German government in that area. And Power Systems, for sure, is also booking some things.

So that in the second half, our expectation is that our total potential, as we discussed before, is this year growing up to 40 billion euro, and that would help us also to have a very, very safe backlog also for the future. But my expectation is really over the next years, it continues because there is much more need than only that, also over the next years so that we are able to book also a lot of contracts and have a positive book-to-bill ratio.

If you have a look now to page 22, and you see that in our guidance for 2024, that sales is in an area of 10 billion. And Dagmar told you before that we are on a very good way because we booked nearly all the business for this year. The operating margin 14% to 15%, I must say I am much more on the 15% because we are on a very good way. But still, we have five months in front of us. So that is the reason that we are not at the moment changing our guidance, but I think we are on a top level in this area and also the operational free cash flow. Cash conversion rate will be around 40%. And this is also a very good figure if you see all these investments that we are doing at the moment. So customers are very fair to us at the moment. We are investing. We are investing billions but customers are very fair to us with down payments, and that is the reason that the operational free cash flow will also go into the right direction.

So far, the presentation, for that. So yeah, maybe one thing we should tell you before we go into the Q&A because maybe it's interesting also for you. We made a very clear decision about that where the next Capital Markets Day should be. And the last thing is that on the 18th and 19th of November, we will go to Rome and the Italian capital will welcome us. The reason is

also very clear because of our Italian business on one side. And on the other side, it's also a very nice city.

Thank you very much for your attention.

00:38:42 Operator

Ok ladies and gentlemen, if you would like to ask a question now please press 9 followed by the star key on your telephone keypad and if you wish to cancel your question please press 9 followed by the star key again. Ok, so first question comes from Sebastian Growe from BNP Paribas.

00:39:07 Sebastian Growe

Hi, good afternoon everybody, hope you can hear me well. Just a quick question around the truck contract with the German Army. You pointed in the slide deck to a first cash inflow of around 350 million, which was upon the delivery of the first 300 trucks. So question 1 is then how should one think of the cash inflows for the remaining more than 1,000 trucks that are still to come until the end? And how should we then think about the EBIT impact given that you had successfully renegotiated the price with the German customer?

00:39:44 Armin Papperger

So our plan is to deliver the last trucks in November so that the Ministry of Defense has time to pay the bills so our expectation is that we get all the money this year. This is the expectation for our deliveries and we don't go in details about, as you know, for single equipment but it helps us a lot at the moment the renegotiation that the EBIT is much more positive than we had before the renegotiation because otherwise we would carry all the inflation stuff. I don't go into single projects about the EBIT impact but it's a very positive one.

00:40:36 Sebastian Growe

But it would be fair to assume that a good part of that should start really coming through then as of the third quarter, right?

00:40:43 Armin Papperger

Third quarter, yes this is the majority and then the rest will come up to November, which is for sure fourth quarter. But if we have beginning of November the last deliveries then in December we are relatively safe that we get the payments. The only risk that we have is that Karlsruhe which is the depot as you know for the trucks will stop and say okay it's too much for us to get now all that stuff. But at the moment there is no signal for that.

00:41:23 Sebastian Growe

Ok, understood. And the second question I have and I know it's a tough one to ask and even tougher probably to answer. It's around the political process in the US in the upcoming elections. With now Kamala Harris being the frontrunner on the potential presidency job in the US. Do you think there might be any changes as opposed to Biden and then the political outcome being either Kamala Harris or Trump when it comes to the assessment of the Ukraine war. So would you think there is a different impact then on sort of the potential support going forward of the Ukrainian troops and the war against Russia?

00:42:08 Armin Papperger

So first of all I must say nobody knows exactly what's going on and nobody knows who will be the winner if it is President Trump or if it is Kamala Harris now nobody knows about that and I have also no glass ball. The point is what the feedback is, and this is very important first of all for our business in the United States of America. Both parties are really looking forward to work with strong American companies and Rheinmetall USA is a strong American company now. In between we are investing a lot of money, we have a very clear strategy with the government how to grow in the United States and the United States will be over the next years a very very strong key market for us. Because if you see what's coming up, and I believe really that minimum one of these big programs, and there are much more than only these two programs were Rheinmetall is inside, that we are able to win it. And it doesn't matter who is President in the United States. The second point is the help that the United States is doing for Ukraine doesn't impact us because they help out of their own depots. The United States usually is not ordering a lot from us. There are some orders or some money from the United States. But I believe, that's my personal opinion, I believe that the United States of America will take care that Europe will be stable. And the situation we have at the moment because of

the deliveries because there are more and more deliveries at the moment to Ukraine and they have such a lot of equipment at the moment that they could be offensive if you say even across the Russian border. And you have seen maybe the videos or the pictures which are there. There are also a lot of tanks from our side there who take care that they are successful. So this is a point where I believe that business will continue. Second point from my side: The US government very clearly stated that Germany and Europe they should not longer trust that the US is doing everything for them. So that's a very clear signal that everyone gave to the to the German people in parliament and also to the other European side. So without investments it will not work and the pressure from the US will be bigger than it was ever before that Europe is investing the minimum 2%. That's the reason that at the moment people like Minister Pistorius are speaking about 2.5% maybe 3% which I really can not believe but at the end of the day if you ask for 2.5% maybe then you get the 2%. And the third information from your side is I had last week a meeting with Governor Sanders from Arkansas where we have our production line there. She is very near to President Trump or she was very near to him when he were president. And I asked her directly and said okay what is the impact that they will have. First of all he tries for sure to stop the war on one side but on the other side if there is a bad reaction from the Russian side maybe there will be much more help than before and they will then infuse also money. And on the second point I asked what is if a company which has the headquarter in Germany is there a negative impact. And she said as long as you create jobs in the US and as long as you make America great again President Trump will be with you. He will be very friendly to you in this area because you invest in the United States. So I see not a big risk for us in this area but I'm not a politician and at the end of the day nobody knows.

00:46:24 Sebastian Growe

That's much more than I would have hoped for thank you so much.

00:46:28 Armin Papperger

Thank you.

00:46:30 Operator

Next up is Sven Weier from UBS.

00:46:36 Sven Weier

Yeah good afternoon and thanks for taking my questions. The first one for Mr. Papperger please. First time to have you on the call since the Q4 results, so obviously a lot of things happened in the meantime and obviously the CMD last year is even longer ago with your 2026 targets.

00:46:58 Armin Papperger

Yeah, right.

00:46:59 Sven Weier

So I was just curious about your updated thinking around those targets that you have given back at the time. A lot of positive developments happened on your order intake and are foreseen to happen in the second half. So I guess you're probably more optimistic on those than you were back at the time. That's the first one, thank you

00:47:21 Armin Papperger

I'm more optimistic. I'm absolutely optimistic about that things because I know first of all all the bookings that we have are really good contracts. And as I always said from Cashflow and also from the profitability it's very fair what the customers are doing with us. Number one. The second point is that I'm very optimistic also about and this was a discussion Mr. Weier that we had also before. Yeah is it possible to have a growth rate of 40% etc etc. I'm very optimistic about that because we booked nearly all. For this year we are fully booked. But the beauty is also for next year and for '26 we are nearly fully booked with the capacities we have at the moment. But we build up our capacities and that is the reason that we continue the growth and not always 40% but I said I can say that it will be over the next years more than 20% minimum per year. So therefore, I'm really optimistic. It's very good for us for the planning. If you go to the factories and you can tell the factories look in '24 we need that capacity 5 days and '26 the other capacities. We have time. Number 3 which is positive is the people are still coming. So you have seen that we hired thousands of peoples. Very good people, young people, talented people, highly motivated people. I'm very happy about that and they are working at the moment really by day and by night to make everything happen. Because they have a very clear task. And the task is and everyone in Rheinmetall understands.

The task is to protect democracy and to protect freedom and that's the reason that the people work hard, harder than ever before in that company. So I agree Mr. Weier, I'm very optimistic.

00:49:29 Sven Weier

Yeah and I think you said in the press release today that you should be adding 2 billion per year. I guess that's going to be probably quite a bit more than that at least for the nearer term years. That's probably fair, right?

00:49:43 Armin Papperger

Yeah we will see, yeah. I'm positive about that but as you know and this is exactly what you don't like: I want to deliver. And therefore I think it's good to say okay the 40% is possible and 20% plus is possible, I'm happy if it is more for sure.

00:50:10 Sven Weier

That's clear thank you for that. Then just following up on Ukraine and your talks about some of the individual potentials there. I was just wondering if you could update us what kind of revenue say direct and indirect related to Ukraine we should be seeing in the current year out of the 10 billion.

00:50:33 Armin Papperger

So in between, we booked orders for the Ukrainian side around nearly 5 billion euro. This is what we will have. It's about 1.2-1.3 billion euro this year for Ukraine the rest is not for Ukraine.

00:51:02 Sven Weier

Ok, thanks. And the last question is just regarding your revenue seasonality. Now I think Q2 was also a bit kind of trying to make it a bit less steep in the second half. Normally Q3 was a much better sales quarter than Q2. But you also have the truck sales in Q3 coming through. So should that kind of delta that we used to have also be the case this year? Or is it flattening a bit because of the Q2 development?

00:51:35 Armin Papperger

No I don't believe that. So the point is that Q2 is good. What we want to do Mr. Weier is that for sure we make higher sales in Q1 and Q2 because we have now a lot in our backlog. But we still, like the years before, in the first half of the year we have about 38% of the sales and the rest will be in the second half. And a real trigger point for sure, and you know that, so we have much better sales for sure. But if you grow 40% you need that also that you have a much better sales in this area. So the beauty is also in the second half and a lot of these products are also then ready or on the way to be ready. So we are very near there for the ammunition side. So also on the ammo side even if there are some millions now in Q2 we only made about 40% of the sales but more than 60% will be in the second half. The profitability is also very high but also in all the other areas. So the second half year will be an excellent half year and I am very relaxed about that because we have for this year all materials in. We have no bottlenecks on personnel. We have a lot of working capital, which helps us. There are finished and semi-finished goods ready so that I see if I look to the delivery plan at the moment that it looks really good for the second half. So that's the reason that our target of around 10 billion is a very fair target and as I said from the profitability I think we are on the upper area of around 15%. Even if we have let me say a civilian business which is not able. I believe that and maybe you have a very good overview about that. But I believe that we are one of the top, maybe the top company in profitability on EBIT growth this year in the world.

00:54:10 Sven Weier

Sounds good Mr. Papperger. Thank you very much.

00:54:12 Armin Papperger

Thank you.

00:54:15 Operator

So next question comes from David Perry from J.P. Morgan

00:54:20 David Perry

Yes, good afternoon Armin and Dagmar. And Armin, I hope you and your family are staying safe. I just want to ask a question, couple of questions on ammunition. When I talk about

Rheinmetall with investors, usually in a positive way, one of the bits of pushback I sometimes get is about the sustainability of ammunition. Clearly, it's doing extremely well at the moment. So I just wonder if you can talk a little bit about both volume and price. If the war in Ukraine was to end, what kind of backlog and visibility do you have for ammunition? That's the volume piece. And then on the price side of it, when you're signing these long-term framework agreements, are you locking in a committed price? And are you confident you can sustain the current pricing that you're getting on ammunition?

00:55:24 Armin Papperger

Yeah. David, first of all, David, thank you for your questions. I'm good. I'm fine. And as you and all the other guys here on the phone, we fight for freedom and democracy and nobody can stop me in that way.

So the second point is the volume. The volume for '24, '25, and '26 is fixed. Nobody can change it. So we are fully booked. There is a situation at the moment that in some areas, we have, for example, for the artillery, some extra capacities because the ramp-up curve are really, really working well. The people are really working very, very well in this area. And then we have, for example, another 10,000 round artillery. So we go to the customers and I, after one day, this center around or sold. So this is, at the moment, really, really good.

So what I can say is that the growth rate will be up to 2026 is fix up to '28, '29, it's relatively safe. And the reason for that is because of the frame contracts, the restocking, which at the moment is on a level of zero because all the ammunition is going to Ukraine. And we know the figures. We know the numbers that they need for their stocks.

And so therefore, as I said, up to '26, it's done. '27, '28 is relatively safe. The price is fixed. There are no other negotiations. If it is with Spain, if it is with Netherlands, if it is with Germany, the price is fixed, and our price is very, very fair. Maybe you have -- you heard about this deal. Also, it's not a secret from the Czech government to give artillery ammunition, and you maybe also heard that they try to double the prices of the ammunition. If they double the prices of ammunition, then this old ammunition would have a higher price, nearly double the price in our new ammunition.

So we have a very, very fair price. All customers are telling us this also. And in some areas, as I told you, we are 20%, 30% cheaper than the others. But it's profitable, it's good, and we want

to be fair to our customers because you meet the customer always twice. So therefore, volume is, for me, a very, very safe thing.

And it's not only artillery ammunition, which is the biggest driver. Also this frame contract for tank ammunition. There are a lot of nations that are looking now for tanks. If you look, the Italian -- if Italy is growing up the fleet now, they need all new ammunitions. If you look for the export markets where we are on medium caliber, also the same like in the -- so the ammunition business for me is, yes, up nearly and nearly up the end of this decade for me, a very, very safe business.

And the effect, the leverage effect over the next years, because we are in '26 and then later in '27, also with tank and medium caliber ammunition in full range production. There is still a leverage effect so that the profitability over the next years will still grow. So we are not at the end. We are at the beginning of the super cycle. We are not at the end of the super cycle. Is that fair, David?

00:59:13 David Perry

Well it's a very robust answer. So thank you.

00:59:15 Armin Papperger

You are welcome

00:59:21 Operator

So next up is George McWhirter from Berenberg.

00:59:29 George McWhirter

Two more on the ammunition side, please. So firstly, could you share your expected sizes of those ammunition contracts you expecting H2 for propulsion fuses, projectiles, and barrels, please? And the second one relates to the Bundeswehr ammunition contracts, in particular framework contracts. Are you expecting an extension or enlargement of 155-millimeter or medium-caliber framework contracts in the potential coming months?

01:00:06 Armin Papperger

Yes, on the ammunition side, as I said before, we made in the first half, less than 40% of the sales -- and we will make in the second half about 60% of our sales on ammunition. So this is

an effect, first of all, not only on sales, but also on fixed cost side, so the profitability in the second half will be much better than in the first half, yes, because the leverage effect is there. And we speak about big figures.

And as Dagmar has give you an overview about the ammunition sales in Q2. So the weapon and ammunition business on Q2 was 692 million in the first half, and this have it not in my mind, I need now my team here, what was in the first half, the sales? It was nearly 1.1 billion, so you can calculate by yourself that the end of the year we will go to a level of nearly 2.4 billion, 2.5 billion in that area. Profitability is going up. So for me, very clear tick in a box.

Second point, weapons. The weapons are also very profitable because, here, we also have a leverage effect in this area. Because we produced over the years up to 70 weapon systems, if it is artillery or if it is a tank, and the price of a weapon system is around 1.5 million, 1.6 million euro, now we grow up to 270 weapon systems. And my expectation is that a lot of weapon systems we will produce for the new tanks.

And also frame contracts with Germany, other countries who have a lot of that systems. But the lessons learned, which is coming now out is that all the countries who have our barrels, they are looking to have also some extra barrels in the depot because they don't want to go into a situation that war is coming up. They fire. They fire 6,000, 7,000 rounds, and they are missing barrels. So yes, I expect that a lot of other contracts are coming.

But here, it's also fine with the contracts we have at the moment. We are great. And I must say that we are looking also for some extra capacities. And there is an opportunity at the moment to build up capacities also in UK and in Italy for a barrel and gun production especially for the large caliber.

Is that okay for you, George?

01:03:23 George McWhirter

Yes that is really clear. Thank you very much.

01:03:26 Armin Papperger

Thank you.

01:03:29 Operator

So next up is Sash Tusa from Agency Partners.

01:03:35 Sash Tusa

I've got a question specifically about GMARS. Your billions, possibly up to 7 billion of sales. And just how you see that splitting between the missiles themselves and the launches. And then specifically on the missiles, what capacity do you need to be able to produce or license produce those missiles in Europe? And how much do you think that would cost?

01:04:09 Armin Papperger

Yeah. So the biggest piece, Sash is, for sure, the missiles. So we build up at the moment a capacity, starting point of 3,000 and then we want to go up to 5,000 missiles per year. And you know the prices. Yes, do you know the prices of these missiles?

01:04:31 Sash Tusa

It is over 100,000?

01:04:33 Armin Papperger

How much?

01:04:35 Sash Tusa

The US is paying over 100,000 a round.

01:04:38 Armin Papperger

Yes, it's between 200,000 and 500,000. It depends which country it is. These are the prices where we are. So what we are in discussions at the moment, and it's not only -- and we want to be -- we want to produce not only one type of missiles and especially of rocket motors. We want to be a center of competence for rocket motors. That is the reason that we are investing strong in that area. So 3,000 to 5,000 rocket motors will be produced, and it can be on the GMARS side, but it can be also on the PULS side, whatever. So we have a flexible production line.

So it depends which government makes which decision. So we are in discussion also to say, okay, because there are not enough capacities in the United States, there are very long time to wait for missiles that we are a production center also for Lockheed for the motors and for

the final assembly from the European side, but also open, and as you know, we do that in Spain to have a contract with the Israelis on the PULS missile.

So this 3,000 minimum, but between 3,000 and 5,000 missile capacity. This is the main trigger point for these sales. And now we make a combination. Sometimes we are not producing the whole missile, sometimes we're only producing the rocket motor, but we believe that this between 3,000 and 5,000 missiles or rocket motors is the minimum that we can make. And if you count that up, the big bunch is ammunition for sure.

01:06:45 Sash Tusa

And just to be clear it sounds if you want to or you may have two separate manufacturing areas for PULS in Spain and for GMLRS in Germany. What are the set up costs that you require for that or how much of that is additional to capacity and capability you already have?

01:07:08 Armin Papperger

So the investment that we have to do in Spain is a relatively small investment because we have a rocket motor production and we have factories where we can assembly. And we are experienced also in Rheinmetal Expal on different other rockets and missiles that we do also for the Spanish government. So the investment that we have to do there is a relatively small investment which is less than 50 million euro. In Unterlüß the investment will be higher because we after Werk Niedersachsen where we produce the 200,000 rounds of artillery. We have a new equipment where we produce these missiles and with all the mixers and all the other things that we have at the moment the first and with the civils etc. etc we are in an area of around 100 million.

01:08:13 Sash Tusa

Great, thank you very much.

01:08:15 Armin Papperger

Thank you.

01:08:18 Operator

So next question is from Marie-Agnes Riggio from Morgan Stanley

01:08:25 Marie-Agnes Riggio

I just would like to come back on your collaboration with Lockheed Martin. So we understood that you are doing an expansion about the technology you are offering to Lockheed Martin. I understand that the contribution to your sales from the F-35 come late '20s, given you are currently building the facilities. What about the other technology that you are mentioning on your slide? Could we see any sales contribution anytime soon from that? So that's the first question, and I will do one by one.

01:09:05 Armin Papperger

So yeah, if you have a look to the portfolio that we had on our Lockheed page, I can give some details now on the point. So the F-35 contracts, the first contracts will come now. And you're absolutely right. That is year-by-year bookings, which are coming there. We have a very small ramp-up curve. And then only the few pledges will be on the level between 500 million, 600 million per year if the ramp-up curve is done.

The GMARS side and I call it not -- if you only speak about Locket corporation, we stay on the GMARS side, we need about 16, 17 months to build up the rocket motor production and let me say, after 20, 24 months after two years, we will see the first sales in that area. The laser weapon, I see the potential maybe in three years to start in that area because there are huge qualification programs if we do something in that area. Simulation and Training, two years. SHORAD is a decision especially from the United States of America. What we are implementing and what they want to implement qualification is a long time for that starting point three to four years.

Aeronautics systems is earlier. So here we can do immediately something because we have capacities, and we can do aeronautic service and other things also for Lockheed or Sikorsky immediately because of the capacities that we have. Is that okay?

01:10:56 Marie-Agnes Riggio

Yeah, very clear. Just a quick follow-up on that. In terms of ramping up, I could imagine that it would be very small, like pricing that you are talking about two or three years' time to see that in sales. It would be very small at the beginning and like in 10 years' time much higher. Is it like this that we have to see?

01:11:19 Armin Papperger

Yeah. It's not so small because we will have a ramp-up curve, and I'll give you an example for that, what the ramp-up curve is. So we will be ready, April next year with our factory in Unterlüß for artillery. So if we are ready, and we have a total capacity of 200,000. So in the second half of next year, we still want to produce 50,000 to 60,000 rounds.

And then the next year, nearly full capacity, maybe 150,000 and then 200,000 rounds. So you need usually in a ramp-up curve 1.5 or 2 years, but it's not so small if you make 2/3 of the planned sales. I push the people. Yes, we have no time to wait. We have to make it happen now.

01:12:07 Marie Agnes Riggio

Yeah. Okay. Okay. Very clear. And last question on my side, more about capital allocation. So we have seen your current leverage at 1 times is very -- it's below your threshold at 3 times. So you clearly still have some room for capital allocation. So I have two questions there is, first, where do you see opportunities for M&A? And second, what are your main priorities in terms of capital allocation right now?

01:12:35 Armin Papperger

So M&A, we see opportunities. So we are under way to buy a company which makes about 100 million sales in South Africa. And the reason that we buy this company, so we gave a press release two days, I think, two, three days ago for that. And the point is that we buy that because this is the last missing point that we have to build chemical plants for powder and other things to do. Let me say, the mixers, the chemical stuff they are able to do, and this is a vertical integration. Otherwise, we have to go to other companies.

But we will book over the next years between 300 million and 400 million euro vertical integrated into that company only from Rheinmetall, no other things. And we are looking for acquisitions in the United States of America because of these big programs. But it's not at the moment time to speak about the details on that thing, but we are on a good way.

And there are some smaller things where we are looking for. So M&A is one thing which is important for us, and we want to invest into the right things, the same that we did on Expal.

And we were, I think, over the last years, really successful in doing that areas and also to implement it into the Rheinmetall Group.

So on the other side, for sure, we have a lot of cash over the next years. And from the cash side, there are different opportunities. But I think this is something, Dagmar, you should say where we want to go.

01:14:22 Dagmar Steinert

Yeah, looking at our cash potential for the next years, besides M&A, of course, we will increase our CapEx in absolute numbers. but that's covered by our cash flow potential. And of course, we think about our shareholders. We will increase our dividend as our operating result will increase. And one of the -- more or less last exit, of course, is always a share buyback program where we got the approval from the general assembly.

01:15:03 Armin Papperger

So we are open for everything about that. And it depends how much money we have on the cash. We don't want to be a bank. And at the moment, with this pretty nice cost that we have, I would like to buy back shares, a lot of them. So this is very, very clear because I think there is still more in

01:15:20 Marie-Agnes Riggio

Ok perfect, very clear thank you so much.

01:15:23 Armin Papperger

Pleasure.

01:15:26 Operator

So next question comes from Dario Dickmann from HSBC

01:15:33 Dario Dickmann

I've got a question about the ammunition capacities and potential additional increases. So it looks like every capacity increase is linked to single country projects, see Lithuania also Germany with a big frame contract. Are there any countries where you see additional

potential, especially like for example the UK, which is going to buy RCH155, or do you see any other country looking to expand capacities in their own country?

01:16:18 Armin Papperger

Yeah. Do you mean that if they produce then or if other producers are building up capacities in the country or what do you mean? Or do you mean frame contract?

01:16:32 Dario Dickmann

Yeah, that they give frame contracts and ask you to build up capacity in their own country.

01:16:39 Armin Papperger

Yeah. There are a lot of discussions that we have at the moment. As you know, our capacity is and after the last deal now with Ukraine, we are growing up to more than 1.1 million rounds artillery. On the tank ammunition, we are in discussions at the moment with also United Kingdom because United Kingdom needs also for the Challenger fleet a full pack of ammunition because they change from the rifled guns to the smoothbore gun, as you know. So we have a frame contract with Netherlands.

We will have very sure a frame contract with Italy. We are on the way to sign a frame contract with Romania. So if you see there are a lot of countries which are looking for where you will see now we signed, I can say it, because I think tomorrow, whatever it will be in the press release also, a new contract for tanks in Czech Republic. All of them need ammunition. And if I said before, if Italy, for example, is buying these vehicles without ammunitions this week, it makes no -- yes, no sense.

So therefore, the minimum, let me say, storage they need is always speak always about EUR2 billion, EUR3 billion for the first lots, which are coming up. And yes, we are on the way to sign much more so -- but the other Estonia is looking. So Estonia is looking now to go together with Lithuania, if we can do something together in this area. So I am tomorrow in Poland, yes, I must not say more about that. So this is -- there are huge opportunities for sure, and a lot of countries are coming in at the moment to us.

And I think there is also one reason because we deliver. We are able to be very fast to build up these capacities we deliver. And maybe the Ukrainian message was the last one, yes. And

I believe that the Ukrainian factory will be not the last that we build up there. There is more opportunities. Is that good for you, Dario?

01:19:05 Dario Dickmann

Yeah, that's good. And are you already delivering to K9 users?

01:19:11 Armin Papperger

They are looking for that. Also, I must think about. Yes, I think it is -- it is in some areas. But usually, the K9 people like to do it by themselves, the South Koreans want to deliver by themselves. At the moment, I think that they're also running out of capacities.

So some of the countries are looking for that, but I must say it's not huge. Maybe it can be huge very soon.

01:19:44 Dario Dickmann

Great. And maybe this last question on the DIEHL and Nammo contract. My understanding is that they signed a similar frame contract to yours but way more expensive. But are there any differences in product types or is it basically the same type of ammunitions?

01:20:06 Armin Papperger

They are very similar ammunition about that. So about pricing of our competitors I don't speak. You have to speak with the German government about that. And the other thing is that I think they have to build up the capacities and in the plan, if I understood it right, they have to deliver the first 200,000 rounds up to the year 2030.

01:20:39 Dario Dickmann

Ok great.

01:20:40 Armin Papperger

We deliver 1.1 million per year.

01:20:48 Dario Dickmann

That's it from my side, thank you very much.

01:20:50 Armin Papperger

Ok, thank you.

01:20:52 Operator

So I would like to check if there are any further questions. If so, please press 9 followed by the star key on your telephone keypad now. Ok next one comes from Virginia Montorsi from Bank of America.

01:12:15 Virginia Montorsi

Good afternoon, just one quick question on my side. On the slide, I think slide 14, on the operational free cash flow. Is the building block called Other basically just PDP? Just a clarification. And if not is there anything else we should be considering? Thank you.

01:21:31 Dagmar Steinert

Well Others in the working capital? That's mainly down payments, prepayments from customers.

01:21:40 Virginia Montorsi

Ok thank you very much

01:21:42 Dagmar Steinert

You're welcome.

01:21:50 Operator

Ok I will ok thank you

01:21:56 Armin Papperger

No more questions?

01:21:58 Operator

No.

01:21:59 Armin Papperger

Ok thank you very much for your time. It's always a pleasure to speak with you, to discuss with you and I really hope that we could give you a good overview about the opportunities and about Rheinmetall. Thank you for supporting us, all the best, stay safe and healthy. Bye bye.