

## ► GROUP

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### Strategy update: Rheinmetall presses ahead with strategic realignment – new corporate structure and updated financial targets

- New structure with five divisions will support the Group's strategic reorientation
- The executive board will run the divisions directly
- Auditing and adjustment of the product spectrum in line with megatrends like digitization and electric vehicles
- Updated financial targets with a focus on sustainable value added

The ONE Rheinmetall strategy programme is entering a new phase: Rheinmetall AG of Düsseldorf is pressing ahead with its systematic transformation into a fully integrated technology group, reorienting its corporate structure in the process.

First and foremost, Rheinmetall is pursuing three strategic goals here.

*First:* reducing the share of automotive components in total Group sales, especially products for internal combustion engines. *Second:* achieving a level of profitability of at least 10% in relation to operating margin in all business units. And *third:* continuous management of the Group's portfolio in pursuit of the first two goals.

The division of the Group into two separate entities, Automotive and Defence, will cease. The intermediate holding company Rheinmetall AG will be dissolved and integrated into the Group structure.

As Armin Papperger, chief executive of Rheinmetall AG, explains: "We're giving Rheinmetall a clear and uniform profile. Merging Automotive and Defence opens up a new and important chapter in the history of our company. The revamped corporate structure gives all of a chance to widen our technological spectrum and expand our position in global markets. As we see it, we're thus well positioned to meet our ambitious medium-term goals for sustained growth and high profitability."

Rheinmetall's new structure encompasses five divisions, all of which will be directly run by the executive board of Rheinmetall AG. This reorganization is especially designed to promote the transfer of technology between individual parts of the Group, and to encourage a sharp focus on futureproof technologies with strong potential for sustained value added.

## ► Key facts

- ▷ ONE Rheinmetall: the former units Automotive and Defence will no longer exist as separate entities
- ▷ The five divisions will be run directly by the Group's executive board
- ▷ Updating of financial targets: sales to reach approx. €8.5 billion in 2025; Groupwide goal for profitability set at ≥ 10%
- ▷ Review of strategic options for the future development of Rheinmetall's former Hardparts division; Goldman Sachs tasked to assist in the process

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The five divisions are Weapon & Ammunition, Electronic Solutions, Vehicle Systems, Sensors & Actuators and Materials & Trade. The former pistons unit will be run as a non-core business, following the Group's announcement in summer 2020 that it would be reviewing strategic options for the future development of the former Hardparts division, especially the small- and large-bore pistons segments.

Rheinmetall has tasked Goldman Sachs to assist it in the process. The initial results are to be submitted in the first half of 2021 for review by the Executive Board of Rheinmetall AG.

In line with the goals of the transformation process and the accompanying expectations for growth, the medium-term financial targets for the Group have been updated. Sales, which came to around €5.8 billion in 2020, are to increase to about €8.5 billion in 2025. In future, the operating margin is to be at least 10%, while operating free cash flow should be in the range of 3% to 5% of sales.

Security technology and electromobility are expected to be particularly strong drivers of growth, and thus to account for a greater share of Group sales. The percentage of sales relating to the internal combustion engine will be adjusted in accordance with the new market parameters. By 2025, security technology is expected to account for approximately 70% of Group sales, as opposed to roughly 63% in 2020. Reliance on the internal combustion engine will continue to decline, contracting from around 30% of total Group sales today to less than 20%. Not least of all, the new division structure takes account of these circumstances.

Moving forward, environmental sustainability will remain an integral part of Group strategy: Rheinmetall AG intends to be CO<sub>2</sub> neutral by 2035. Energy consumption is to be substantially reduced and water use cut by around 10%. Transparency and Environmental Social Governance ratings are to see steady improvement. In future, meeting ESG goals will form part of the compensation policy for upper and middle management, accounting for around 20% of long-term incentives.

***You can access the “Rheinmetall Investor Update 2021” presentation from 4 February 2021 [here](#).***