PRESSRELEASE

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Interim report after nine months:

Rheinmetall generates high-margin growth in Defence – Automotive anticipates positive operating result

- Consolidated sales down 7% year on year at €4,0 billion despite automotive market recovering slightly in the third quarter
- Consolidated operating result falls by €92 million after nine months to €170 million – Q3 operating result up on previous year at €101 million
- Defence still performing well: 12% sales upturn in first nine months to €2.5 billion; operating result climbs by €64 million/48% to €197 million
- Automotive still weaker than in previous year on account of crisis: Sales down 27% at €1.5 billion; positive operating result in third quarter reduces operating loss after three quarters to €-12 million
- Upgraded outlook: Automotive now anticipating positive operating result for the year; 2020 margin forecast for Defence raised

The Rheinmetall Group is starting the fiscal year's home stretch with a recovery for its Automotive sector and a stronger performance for its Defence sector.

After the coronavirus pandemic cast a shadow over earnings in the Group's Automotive sector in the first half of 2020, the third quarter saw a return to profitability. Combined with strong margins in the growing Defence sector, in the third quarter the Dusseldorf-based technology group's consolidated operating result thus outperformed the previous year.

Armin Papperger, CEO of Rheinmetall AG: "Our robust business performance is thanks to the strong Defence sector and strict cost management in Automotive. We were fully prepared for our Automotive customers restarting production following the sector-wide shutdown in spring. In Automotive, this meant that we could really pick up the pace again in the third quarter and offset some of the losses brought about by the pandemic. We are now making every effort to continue this course even under the challenging coronavirus circumstances and to bring Automotive's operating result for the year as a whole back into profit."

Armin Papperger: "Defence remains our anchor of stability. We benefit from steady global demand for civilian and military security products. Major orders, like those we received recently in our vehicles business, demonstrate that our technology and highly innovative products ideally position us on global markets. We are increasingly able to boost the margin quality of our Defence projects and bolster profitability with higher business volumes."

High-margin growth in Defence ensures robust Group business performance

Rheinmetall Group sales declined by €315 million or 7.3% year on year to €3,979 million in the first three quarters of 2020. Despite the positive impact the global automotive industry's recovery had on Automotive, particularly in the third

▸ Key facts

Consolidated sales down 7% after three quarters at €4,0 billion

Consolidated operating result totals €170 million, following €262 million in previous year

Automotive: 27% sales decline to €1.5 billion

Defence: Sales rise by 12% to €2.5 billion

Defence increases operating result by 48% to €197 million

Outlook:

Automotive forecasts positive operating result for the year, Defence raises margin forecast

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quarter, consolidated nine-month figures were still shaped by wide performance disparities between the two sectors, especially in the first half of the year.

The Defence sector considerably stepped up business volumes in the reporting period. While Automotive sales came closer to previous year figures in Q3, after nine months they still fell considerably short of the prior year.

The disparate sales performance of the two sectors was also reflected in the operating result after three quarters: Whereas Defence saw a substantial improvement in its operating result in the first nine months, Automotive’s operating result contracted as general economic conditions remained tough. In total, Rheinmetall generated a consolidated operating result of €170 million after three quarters, down from €262 million in the same period of the previous year.

The Group's reported earnings before interest and taxes (EBIT) amounted to €-166 million in the first three quarters of 2020, €435 million lower than in the previous year. As well as the declining operating result, the reduction in EBIT is essentially attributable to negative non-recurring effects totaling €337 million. These include €300 million in impairment recognized in the Automotive sector in the second quarter of 2020. This resulted primarily from the international automotive industry’s drastically reduced production volume on account of the coronavirus crisis in 2020, as well as experts’ expectations of significantly lower growth for passenger cars and light commercial vehicles also in the medium term. In addition, restructuring provisions of €40 million were recognized in the third quarter of 2020. They mainly cover costs for capacity adjustments and production relocations undertaken to optimize the global network of locations in the Hardparts division, as well as costs for the realignment and the new structural orientation regarding the preparation of an entry into new markets of the Mechatronics division. Non-recurring effects totaling €+3 million were also recognized in the Defence sector. These were essentially the net effect of restructuring measures (€-7 million) and a subsequent sales price adjustment in connection with the disposal of the unmanned aerial systems business in fiscal 2012 (€+10 million).

Earnings per share decreased to €-4.43 in the first three quarters (previous year: €3.77). Rheinmetall again generated positive earnings per share of €1.03 in Q3 2020 (same quarter of previous year: €1.33).

Automotive: Sales and income losses on account of pandemic – upwards trend in Q3

The coronavirus pandemic has had a profound impact on production figures in the automotive industry. Globally, the production of light vehicles (vehicles under 6 tons) slumped by 23% year on year in the period from January to September 2020. The Automotive sector generated sales of €1,528 million in the first nine months of 2020, 27%/€571 million below the figure for the same period of the previous year (€2,099 million).

Following an operating result of €-41 million at Automotive in the first half of the year – a result of the crisis – Automotive returned to profitability in the third quarter, reaching €29 million. This puts the operating result for the nine-month period at €-12 million. The prior year figure was €144 million.

The sector’s operating margin decreased to -0.8% (previous year: 6.9%). Strict cost management introduced at an early stage, which focused on staffing, material and administrative costs, helped cushion the negative effects of the pandemic on the sector’s economic performance. Net investment was also cut back substantially to stabilize the liquidity situation, declining by 37% year on year in the first three quarters of 2020.

Reported earnings before interest and taxes (EBIT), which also include the non-recurring effects resulting from impairment and restructuring measures, came to €-352 million after the first nine months of the year, also well below the previous year figure of €146 million.

Sales in the Mechatronics division were particularly affected by the sharp decline in the production of passenger cars and trucks in all relevant sales markets. In the first nine months of 2020, sales fell by €329 million/28% year on year to €838 million. The operating result amounted to €6 million for the period from January to September 2020 after €92 million in the same period of the previous year.

At €506 million, sales in the Hardparts division were €225 million/31% lower than the figure for the first three quarters of 2019. The operating result in the reporting period came to €-32 million, remaining well below the previous year’s figure of €29 million. The earnings contributions by joint ventures accounted for using the equity method declined on account of a significant €13 million sales decrease to €5 million (previous year: €18 million).

In the Aftermarket division, sales performance in the first three quarters of 2020 was affected by the partial closure of repair shops and less travel overall. Sales fell by €20 million/7.6% against the previous year to €249 million. The operating result amounted to €15 million, down €10 million year on year due to lower business volumes and the first-time allocation of micro mobility activities to the Aftermarket division (previous year: €25 million).

Spurred on by the ongoing recovery of Chinese automotive production, sales generated by joint ventures in China – which are not included in the sales figures for the Automotive sector – were almost on par with previous year figures in 2020. At €655 million, sales in the first three quarters of 2020 were down 9.4% on the previous year's figure of €722 million. Earnings after taxes in the reporting period came to €28 million, after €32 million in the previous year.

Sales by the German joint venture KS HUAYU AluTech Group weakened in the first three quarters of 2020 on account of the pandemic. Sales came to €138 million, 27% lower than in the previous year. Earnings after taxes also remained considerably lower than in the previous year at €-15 million (previous year: €-2 million).

Defence: Growth in all three divisions – operating margin rises to 8.1%

Rheinmetall Defence boosted sales from €2,198 million in the previous year to €2,450 million in the first three quarters 2020. This represents sales growth of 12%/€252 million and is being driven by all three divisions in the sector.

The operating result strengthened substantially against the previous year, coming to €197 million after the end of the first three quarters of 2020 – a rise of €64 million (48%). The operating margin thus improved to 8.1% in the first nine months of 2020 after 6.1% in the same period of the previous year. Taking into account total non-recurring effects of €+3 million, reported earnings before interest and taxes (EBIT) amounted to €200 million, also up on the previous year's figure of €132 million.

The Defence sector generated an order intake of €1,960 million in the first nine months of 2020, falling 11% short of the €2,201 million achieved in the previous year. However, the order intake does not yet include the major order to supply Lynx infantry fighting vehicles to Hungarian armed forces worth well over €2 billion that was signed in September 2020. The order backlog after the end of the first three quarters came to €9,754 million, 12% above the level in the previous year and thus remaining high (previous year: €8,689 million).

The Weapon and Ammunition division generated sales of €668 million in the first nine months of 2020. This represents an increase of €87 million/15% compared with the previous year. The operating result in the first nine months of 2020 totaled €29 million, exceeding the previous year’s figure of €9 million by €20 million. The division’s sales and earnings growth was driven chiefly by large supplies of munition and additional sales in connection with medical protective equipment, which is also allocated to this area.

The Electronic Solutions division saw a €20 million/3.4% year-on-year upturn in its sales to €604 million. The division generated an operating result of €53 million, a rise of €6 million on the prior-year figure (previous year: €47 million).

The Vehicle Systems Division increased its sales by €145 million or 12% in the first three quarters of 2020 to €1,324 million (previous year: €1,179 million). The operating result picked up by €42 million year on year to €122 million. One key successful order in the division was a framework agreement concluded to supply the German armed forces with up to 4,000 swap body trucks.

Outlook for fiscal 2020

Defence earnings outlook raised,
Automotive anticipates positive operating result

Rheinmetall still does not expect the coronavirus crisis to have any material impact on the Defence sector's business performance in 2020. Accordingly, sales growth of around 6% after adjusting for currency effects is expected for the Defence sector. The operating margin, which was last forecast to be around 10%, is now being raised to between 10% and 11%.

Based on performance in the first nine months of fiscal 2020 and provided there is no second lockdown that shuts down international automotive production again before the end of the year, Rheinmetall anticipates a sales decline of between 20% and 23% in the Automotive sector (adjusted for currency effects). Automotive's operating result outlook, which was estimated at between €-30 million and break-even at the half-year mark, has improved thanks to the market recovery that begun in the second half of 2020: As things stand at present, a positive operating result of between €10 million and €20 million is expected in the Automotive sector.

For the Group, Rheinmetall is anticipating a decline in sales between 6% and 7%, adjusted for currency effects, and – taking into account holding costs – a positive operating margin between 6% and 6.5%.

Forward-looking statements and projections

This publication includes forward-looking statements. These statements are based on Rheinmetall AG's current estimates and projections and information available at this stage. Forward-looking statements are not a guarantee of future performance. They depend on a number of factors, include various risks and uncertainties and are based on assumptions that may prove to be incorrect. Rheinmetall is under no obligation to update the forward-looking statements in this publication.