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Rheinmetall: Profitable growth at Automotive; Defence doubles order intake

- Group Q1 sales down slightly at €1.260 billion, influenced by currency effects – operating margin remains steady
- Group operating profit for the first quarter of 2018 came to €47 million
- Sales at Automotive grew by 2% to €751 million, with profitability increasing to 8.6%
- Incoming orders at Defence surged from €391 million to €857 million
- Group order backlog over €7 billion
- Guidance for FY 2018 confirmed

Rheinmetall AG began the new financial year with the points set in important procurement programs and a significant increase in order intake. Group growth in the first quarter of 2018 was slower than a year earlier due to supply chain issues and delivery postponements at customer request in Defence.

The Düsseldorf, Germany-based high-tech enterprise confirms its March guidance for fiscal year 2018, and remains on course to achieve sales growth of between 8% and 9%, with an operating margin of around 7%.

As Armin Papperger, chairman of the executive board of Rheinmetall AG, explains, “Our Defence unit’s somewhat weaker start in the new financial year was due first and foremost to projects being delayed by customers for various reasons until the second quarter. In the meantime, though, it’s full speed ahead again, and we’re sticking to our goals for Rheinmetall AG for the current financial year. The points are set for further growth. In light of the massive catching up the armed forces have to do when it comes to procurement, we see excellent opportunities for Defence – both at home and abroad.

Turning in a compelling performance, our Automotive unit continues to generate strong profits and to grow faster than the market. Thanks to our future-oriented technologies, optimized cost structures and global production and distribution network, we’re now extremely well positioned to produce continued profitable growth. Moreover, at Automotive we’re currently expanding our range to include electro-mobility products, underscoring our role as a leading automotive parts supplier.”

Rheinmetall AG posted Group sales of €1.260 billion for the first quarter of 2018, compared to €1.349 billion for the same quarter the previous year. This decline of €89 million – or 6.6% – was due entirely to weaker first quarter sales growth at Defence. Adjusted for currency effects, Group sales trailed the previous year's figure by 3.7%.

Owing to lower sales, EBIT declined from €50 million last year to €47 million. At Group level, however, operating profit margin remained unchanged at 3.7%.

The first quarter witnessed a sharp increase in order intake at Group level, which rose to €1.599 billion. This represents an increase of 40% compared to the first quarter of the previous year, which came to €1.146 billion. At 31 March 2018, the order backlog was €7.251 billion, up from €6.877 billion a year earlier.

Automotive sees growth in all divisions, with a further increase in profitability

In the first quarter of 2018, Rheinmetall Automotive was able to build on its strong showing in 2017. The unit generated sales of €751 million, topping the previous year's figure – €737 million – by 2%. Adjusted for currency effects, the increase was 5%, significantly outpacing the rate of production growth in the global automobile industry. The number of light vehicles (i.e. under 6t) produced in the first quarter of 2018 declined by 0.7%, though output for the entire year is still expected to grow by 1.9%.

The unit's operating profit rose by €3 million or 5% to €65 million. Accordingly, profitability increased once again to 8.6% in the first quarter of 2018, up from 8.4% a year earlier.

All three divisions succeeded in increasing their sales and earnings, resulting in a slightly better EBIT margin.

The demand from carmakers for solutions for reduced emissions continues unabated, meaning that sales of the Mechatronics division in the first quarter of 2018 rose slightly to €429 million, an increase of 1%. Operating profit rose from €43 million to €44 million.

At €254 million, Hardparts division sales during the first quarter of 2018 were up by 2% compared to the same period last year. The division's operating profit improved by 6% to €18 million.

The year got off to an exceptionally successful start for the Aftermarket division. Turnover increased by 11% to €92 million, largely due to sales of the Group's own Kolbenschmidt and Pierburg brand products. Operating profit was up as well, rising from €7 million last year to €8 million in the first quarter of 2018.

Not included in Automotive's sales figures, Rheinmetall's joint venture companies in China once again posted increased revenue in local currency, despite a 3% contraction in the market in the first quarter of 2018.

However, the exchange rate had a distinctly negative impact on earnings. Once the currency effects are taken into account, sales for the first quarter of 2018 remained unchanged from the previous year's figure at €218 million. Operating profit rose from €16 million last year to €17 million in the first quarter of 2018.

Defence: Fresh orders set the stage for future growth

At €509 million, first quarter sales at Defence fell by €103 million or 17% from the previous year's comparatively high figure of €612 million. Adjusted for currency effects, the decline amounts to 14%. To a substantial degree, this was due to the postponement of individual deliveries.

Compared to last year, EBIT declined from -€10 million to -€13 million.

Incoming orders more than doubled in the first three months of 2018, laying the groundwork for robust future growth at Rheinmetall Defence. Large-volume contracts pushed order intake up to €857 million, an increase of €466 million compared to last year's figure (2017: 391 million).

As a result, Defence's order backlog rose to €6.740 billion, up from €6.402 billion a year earlier.

Compared to the robust figure achieved in the first quarter of 2017, sales of the Weapon and Ammunition division fell by €52 million to €139 million. Delayed export licences due to the slow formation of a new German government and delivery postponements requested by customers put a significant damper on sales during the first quarter on 2018. At the same time, however, the volume of incoming orders at the division nearly tripled from €207 million last year to €617 million. Operating profit for the first quarter of 2018 came to -€19 million, following a balanced result the previous year.

During the first three months of the year, the Vehicle Systems division continued to expand its international footprint, reaching major milestones in two globally significant procurement projects. Final negotiations are now underway in Australia on the delivery of over 200 Boxer vehicles. Just recently, the United Kingdom announced that it would be re-joining the European Boxer procurement programme.

Compared to the previous year's figure, the division's sales for the period under review were lower due to delayed truck deliveries resulting from capacity problems in the supply chain. Sales contracted to €297 million compared to €350 million a year earlier. Thanks to a favourable product mix and lower costs, operating profit improved to €11 million.

At €126 million, sales of the Electronic Solutions division missed the previous year's total by €12 million; on the other hand, operating profit improved from -€4 million to -€1 million. Among other things, this stronger result is due to cost savings.

OUTLOOK UNCHANGED:

Sales will continue to grow in both units of the Group

Rheinmetall expects to see growth in the Group continue during the current financial year. Rheinmetall AG's annual sales are set to rise organically by 8% to 9% in the current fiscal year based on €5.9 billion in 2017. Both components of the Group are expected to contribute to sales growth.

At Automotive, business trends in major markets in Europe, North and South America and Asia will have a decisive influence on sales. Based on current expert forecasts for automobile production in 2018, which point to a growth rate of around 2%, Rheinmetall expects sales at Automotive to expand by 3% or 4% this year.

For Defence, Rheinmetall is projecting an increase in sales of 12% to 14% for the 2018 financial year. Just as in the preceding year, the relatively high existing order backlog underpins this sales forecast to a large degree.

The guidance is based on the assumption that exchange rates will not change materially from their current level for the remainder of the 2018 financial year.

Further improvement in earnings expected for the 2018 financial year

Given steady economic growth, Rheinmetall expects to see an absolute improvement in operating profit at Automotive for the 2018 financial year, with an EBIT margin of around 8.5%. At Defence as well, Rheinmetall anticipates a further improvement in operating profit in 2018, with an operating margin in the region 6.0% to 6.5%.

For the Rheinmetall Group as a whole – taking into account holding company costs and factoring in expenditure on developing and marketing new technologies in the low double-digit euro millions, the operating margin will be around 7%.

Forward-looking statements and forecasts

This press release contains forward-looking statements. These statements are based on Rheinmetall AG's current estimates and forecasts and the information available at the time. Forward-looking statements should not be understood as a guarantee of the future developments and results mentioned in this press release. Rather, they depend on a number of factors, involve various risks and imponderables, and are based on assumptions that may not prove to be accurate. Rheinmetall is under no obligation to update the forward-looking statements made in this press release.