press release

RHEINMETALL

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Rheinmetall Outlook 2015: Sales growth and earnings upturn expected in both segments

Outlook 2015:

- Group sales set to increase to between €4.8 and €5.0 billion – anticipated EBIT margin of approximately 5%
- Defence plans return to profitability and 3% EBIT margin
- Automotive anticipates increasing EBIT margin of 8%

Fiscal 2014:

- Consolidated sales up 6% to €4,688 million – operating Group earnings of €160 million
- Automotive grew more quickly than the market – record EBIT of €184 million
- Defence result negatively impacted by special items – higher order intake of €2.8 billion
- Dividend proposal of €0.30 per share

For the current fiscal year, the Düsseldorf-based Rheinmetall Group expects sales growth and higher earnings in its two sectors Automotive und Defence. Based on a high order backlog, which reached a new high of €6.9 billion to the end of the year (2013: €6.4 billion), Rheinmetall anticipates increasing consolidated sales for 2015 to between €4.8 billion and €5.0 billion (2014: €4.7 billion). For the Group, improved profitability is expected with an EBIT margin of approximately 5%. In fiscal 2014, the margin for EBIT before special items was 3.4%.

Rheinmetall AG CEO Armin Papperger commented, “Over the last few months, we have been very successful on our markets. As a result, we have laid the foundation for growth in the next few years. We will grow on an organic basis and are focusing fully on improving our operating performance. At Automotive we are very close to achieving the objectives, but of course want to achieve further improvements. And for the Defence business, I am confident that after a year with unusually high non-recurring charges, we will again move well into the black in 2015.”

Consolidated sales up 6% in fiscal 2014

In fiscal 2014, the Rheinmetall Group generated sales of €4,688 million. In comparison to the previous-year figure of €4,417 million, this represents growth of 6%, to which both company sectors contributed.

Operating earnings before interest and taxes declined from €212 million in 2013 to €160 million in 2014. It was thus €10 million higher than the last guidance. The key factors driving this fall in earnings were negative operating factors in the Defence sector, such as the withdrawal of the export license for a training center in Russia. It was not possible to compensate this with higher earnings in the Automotive segment. High negative non-recurring effects in the Defence business also pushed down Group EBIT (after special items) from €121 million in 2013 to €102 million in fiscal 2014. A savings effect of €25 million from the cost efficiency program initiated in 2013 positively impacted the result.

The consolidated figures no longer include the sales and earnings contributions of the German operations of the Automotive sector's Aluminium-Technologie business unit. They were incorporated into a joint venture with the Chinese partner HUAYU Automotive Systems Co. Ltd (Shanghai) and are therefore no longer consolidated. The previous year's figures have been adjusted accordingly.

Despite earnings decline, dividend proposal of €0.30

In fiscal 2014, consolidated earnings after taxes amounted to €21 million, at the level of the previous year (2013: €22 million). Following inclusion of earnings attributable to minority interests, this results in earnings per share of €0.47 (previous year: €0.75).

At the Annual General Meeting on May 12, 2015, the Executive Board and Supervisory Board will propose distributing a dividend of €0.30 per share (2013: €0.40). Rheinmetall is thus continuing its policy of a stable dividend payout.

Defence back on growth track, but with considerable negative effects on earnings

After the sales decline in fiscal 2013, in fiscal 2014 the Defence sector returned to growth in what remained a difficult overall market. In fiscal 2014, the sector generated sales of €2,240 million, compared with €2,155 million in the previous year, equating to growth of approximately 4%. Adjusted for exchange rates, sales moved up by 5%.

The order situation continued to develop in a very pleasing fashion. At €2,812 million, order intake was again well above sales, even though the previous-year figure of €3,339 million – which included a major order for military trucks worth over €1 billion – was not again reached. In terms of value, approximately 60% of new orders in fiscal 2014 were concluded with customers outside Europe. At the end of 2014, the Defence sector's order backlog was €6,516 million, 8% or €466 million higher than the equivalent period of the previous year. This order backlog covers large amounts of the planned organic growth, not only for 2015 but also for subsequent years.

In 2014, EBIT before special items in the Defence sector, which was considerably negatively impacted by factors which included the withdrawal of the export license for Russia and provisions for potential warranty claims from a naval project in the MENA region, declined to €-9 million (2013: €+60 million). In the Defence sector, negative non-recurring effects not relating to operations amounted to €58 million so that in fiscal 2014 an EBIT of €-67 million was posted for the Defence sector (2013: €+4 million). The special items include the absorption of profits reported in December 2014 from the final settlement of a compliance case at a subsidiary in Bremen, purchase price adjustments from the sale of a product group in 2012, and the planned costs for subsequent measures from the restructuring program initiated in 2013.

Automotive improves sales and achieves record earnings

The Automotive sector with its product range, which is almost fully aligned to the global trend of environmentally friendly mobility and which operates in all important automobile markets, again achieved high growth momentum in fiscal 2014. With sales of €2,448 million, the sector was 8% above the comparable previous-year figure of €2,262 million - adjusted for exchange rates the increase was as much as 10%. The sales upturn was thus considerably higher than global automobile production which gained approximately 3% in 2014. In Europe – which remains the most important market for the sector – a 9% sales increase was achieved, clearly outperforming production growth across the European automobile industry (+3%).

The key factor driving growth with a 13% sales increase was again the Mechatronics division. Its products such as electric pumps and exhaust gas recirculation systems are necessary to meet the regulatory requirements on reducing emissions. The Hardparts division achieved double-digit growth with its Chinese joint ventures. Together with its partner SAIC, it is the largest manufacturer of passenger car pistons and cylinder heads.

Overall the Chinese 50/50 joint ventures of the Automotive sector, whose sales are not consolidated at Rheinmetall, again developed very successfully pushing their sales by 26% to €628 million. The full subsidiaries in China included in consolidation also grew very dynamically, almost doubling their sales in fiscal 2014 to €53 million (2013: €29 million). The growth of automobile production in China was 9% in 2014.

At €184 million the operating result in the sector reached a new record in the 2014 fiscal year, improving against the previous year by €26 million or 17%. The operating margin therefore rose to 7.5% after 7.0% in the previous year.

Outlook 2015

Expected sales growth in both sectors

For the current year of 2015, Rheinmetall expects growth to continue. For fiscal 2015, the Group anticipates sales of between €4.8 billion and €5.0 billion, after €4.7 billion in 2014. As in the previous year, both sectors will contribute to this growth. This positive trend will require stable development of the global automotive sector and the realization of large projects in the Defence sector according to schedule.

On the basis of the relatively high coverage of sales expectations for 2015 with the order backlog at the beginning of the year, the Defence sector anticipates sales growth to between €2.3 billion and €2.4 billion after €2.2 billion in 2014.

Development in the Automotive sector will be determined to a decisive extent by the global automotive industry. Experts currently expect growth of approximately 2.5% in international automotive production in 2015. On this basis, in the Automotive sector after sales for €2.4 billion last year, Rheinmetall anticipates sales for the current fiscal year of 2015 of between €2.5 billion and €2.6 billion.

Improved profitability and results

Against the backdrop of the forecast sales growth, Rheinmetall expects the Group to achieve higher profits in fiscal year 2015. After the Group-wide restructuring measures have been completed and as a result of the improved cost basis in both sectors, an improvement in profitability is also expected. In the Defence sector this trend will be additionally driven by the discontinuation of special effects which negatively and significantly impacted the earnings trend in 2014.

In the Defence sector, Rheinmetall expects a return to profitability and an EBIT margin of 3% for fiscal year 2015. For the Automotive sector, Rheinmetall anticipates achieving the 2015 EBIT margin target with an EBIT margin of 8%. After taking account of holding costs, which we forecast at approximately €20 million, this results in a margin expectation of around 5% at the Group for the current fiscal year.

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