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Rheinmetall in the first nine months: Growth in sales and earnings – Strong Defence sector offsets downturn in Automotive

- Consolidated sales rise 3.1% in first three quarters to €4,294 million
- Consolidated operating earnings improve 3.9% to €262 million
- Automotive characterized by weak market environment: sales decline by 4.6% to €2,099 million – operating margin 6.9%
- Defence sales rise by 11.8% to €2,198 million, operating earnings almost double to €134 million; operating margin widens from 3.8% to 6.1%
- Group order backlog still at high level of €9.2 billion
- Earnings per share rise 5.0% to €3.77
- Sales outlook adjusted downwards due to weaker automotive economy
- Group forecast for operating margin confirmed at 8%

With sales growth and a further improvement in consolidated operating earnings, the Düsseldorf technology group Rheinmetall AG is on the home stretch for fiscal 2019. Thanks above all to the strong Defence sector, the Group's business performance in the first nine months of the fiscal year remains robust despite the consistently weak state of the automotive industry. The Group's Defence sector more than compensated for the downturn in Automotive with a strong increase in sales and significantly higher profitability.

Armin Papperger, CEO of Rheinmetall AG said: “Our Defence sector is performing splendidly with its impressive sales and earnings development. We are benefiting from the backlog of demand in military procurement in a number of countries and from rising budgets, particularly in Germany. We hold a promising position on many growth markets and in key major projects. We have been unable to escape the downbeat economic situation in Automotive, though we are still putting up robust profitability figures thanks to rapid cost adjustments. The fact that our pioneering technologies and global network of locations give us a footing on key markets is helping us out. Our solutions for reducing emissions and fuel consumption in cars and for alternative drive technologies mean that we have a handle on key fields that will continue to be in demand moving ahead.”

Consolidated sales rose by €130 million or 3.1% year-on-year to €4,294 million in the first three quarters of 2019. Sales were up by 2.1% after adjustment for currency effects.

The Group's sales increase related entirely to the significant growth in the Defence sector, where sales were €232 million higher in the first three quarters. By contrast, sales in the Automotive sector were €100 million lower than the previous year's figure owing to the declining trend in global automotive production.

Operating earnings rose by €10 million or 3.9% to €262 million in the first nine months of 2019 as against €252 million in the same period of the previous year.

The two sectors are making similar contributions to the Group's earnings. While operating earnings in the Defence sector increased by €59 million to €134 million, the Automotive sector fell short of the previous year's figure by €49 million with operating earnings of €144 million.

The consolidated operating margin is unchanged year-on-year at 6.1% in the reporting period.

Earnings per share rose by 5.0% from €3.59 to €3.77 in the first nine months.

The order backlog is at the same high level as in the previous year. Rheinmetall had orders worth €9,183 million on its books as of September 30, 2019 compared with €9,315 million as of September 30, 2018.

Automotive: Weak automotive industry influences sales and earnings

The Automotive sector was unable to escape the ongoing decline in the international automotive industry. At €2,099 million in the first nine months of 2019, the division's sales fell short of the figure for the same period of the previous year by 4.6% (adjusted for currency effects: 5.4%). However, sales were therefore slightly better overall than global production of light vehicles, which was down by 6.0% in the first three quarters of 2019.

Operating earnings contracted by €49 million year-on-year to €144 million (previous year: €193 million) in the reporting period, resulting in an operating margin of 6.9% after 8.8% in the previous year.

Sales in the Mechatronics division declined by €67 million or 5.4% as against the previous year to €1,166 million in the first three quarters of 2019. This essentially results from passenger car diesel business, which remains soft. Operating earnings amounted to €92 million for the first nine months of 2019 after €128 million in the same period of the previous year. In addition to negative effects from the decline in sales, earnings were squeezed by the necessary outlay for new customer projects.

The Hardparts division generated sales of €731 million in the first nine months of 2019, a year-on-year reduction of €24 million or 3.1%. This development resulting primarily from weaker truck business and declining sales with products for industrial applications. At €29 million, operating earnings were down on the previous year's figure of €50 million. The development in earnings was influenced by declining sales and difficult product ramp-ups.

In the first three quarters, sales in the Aftermarket division of €269 million were €12 million or 4.2% lower than the previous year. Reductions in sales were mainly reported in North Africa, the Middle East and Western Europe. Operative earnings were kept stable year-on-year at €25 million (previous year: €26 million), thanks above all to cost-cutting measures and an advantageous product mix.

The Chinese joint ventures not included in the Automotive sector's sales figures achieved significant growth of 9.2% to €722 million in the first nine months of 2019 (previous year: €661 million). Adjusted for acquisitions, sales growth at the joint ventures still amounts to 5.0%. This clearly outperformed the Chinese automotive market, where light vehicle production decreased by 12% in the first nine months of 2019. Earnings after taxes amounted to €32 million for the nine months of 2019 (previous year: €30 million).

Defence: Strong rise in sales and operating earnings, profitability rises to 6.1%

The Defence sector achieved significant sales growth of 11.8% or €232 million in the first three quarters. Sales climbed to €2,198 million after €1,966 million in the same period of the previous year. Growth was 10.6% after adjustment for currency effects and acquisitions.

The Defence sector achieved a substantial earnings improvement in connection with this sales growth. Defence reported operating earnings of €134 million after three quarters, an increase of around 80% or €59 million compared to the prior-year figure of €75 million.

Hence, the improvement in the operating margin was particularly significant, rising to 6.1% in the first nine months of 2019 after 3.8% in the same period of the previous year.

The Defence sector reported an order intake of €2,201 million in the first three quarters of 2019. This is a reduction of 51% compared to the prior-year figure, though this had been influenced by the largest single order in the company's history, namely the Australian order worth more than €2 billion for Boxer vehicles.

Sales in the Weapon and Ammunition division fell marginally by €3 million or 5% in the first nine months to €581 million. The division's sales development is being slowed by a lack of export licenses and production downtime resulting from a plant accident in South Africa. Operating earnings declined by €5 million to €9 million.

The Electronic Solutions division reported an increase in sales of €92 million or 19% to €585 million. A key factor driving this sales growth is the "Future Soldier" systems currently being delivered to the German armed forces. Operating earnings improved by €35 million to €47 million.

The Vehicle Systems Division increased its sales significantly by €112 million or 10% year-on-year in the first three quarters of 2019. Operating earnings rose by €16 million to €80 million. In particular, the rise in earnings was caused by positive volume effects in the logistics vehicle segment (trucks).

Outlook for Automotive adjusted in line with market developments – Group forecast for operating margin confirmed

Owing to the downturn in global automotive production, for fiscal 2019 the Rheinmetall Group currently expects sales growth to be weaker than previously forecast.

Based on around €6.1 billion in fiscal 2018, the Rheinmetall Group's annual sales are expected to grow – organically and before currency effects – by slightly more than 1% in the current fiscal year. The Group had previously been forecasting sales growth of 4%.

In the Defence sector, sales are set to expand – organically and before currency effects – by around 9%. This is at the lower end of the original forecast range of a sales increase between 9% and 11%, with outstanding export licenses at two foreign subsidiaries resulting in lower sales.

However, experts' forecasts for future global automotive production have deteriorated since July 2019. The experts at IHS Markit have since lowered their forecast for 2019 to a production downturn of -5.8%. Rheinmetall assumes that global automotive production will not recover in the fourth quarter of 2019, and is projecting a drop in production worldwide of between 6% and 7% for the year as a whole. In light of this, Rheinmetall is forecasting that sales in the Automotive sector will decrease by around 7% in 2019, having previously anticipated a reduction of between 2% and 3%.

Based on these market expectations for automotive business and the new sales forecast derived from them, Rheinmetall is projecting an operating margin of around 6.5% in the Automotive sector in 2019, slightly lowering its previous forecast of around 7%.

In the Defence sector, Rheinmetall is forecasting a further improvement in operating earnings in fiscal 2019 and that the operating margin will rise to slightly above 9.5%. This marks a further improvement compared to the end of the first half of 2019, when the forecast had been raised to 9%.

Taking holding costs into account, the Rheinmetall Group's forecast for the consolidated operating margin for 2019 as a whole is unchanged at around 8%.

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.