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Rheinmetall on track for profitable growth – Increases in sales and earnings forecast for 2018

Outlook 2018

- Consolidated sales forecast to rise between 8% and 9%
- Consolidated operating margin to increase to around 7%
- Automotive projecting further sales growth of 3% to 4% and operating margin of around 8.5%
- Defence forecasting sales to climb by between 12% and 14% with margin improving to 6.0% to 6.5%

Fiscal 2017

- Consolidated sales up 5% at €5,896 million
- Operating earnings improve 13% to €400 million
- Earnings after taxes rises by €37 million to €252 million
- Operating free cash flow improves significantly from €161 million to €276 million
- Dividend to be raised by 17% to €1.70

The Rheinmetall Group in Düsseldorf is forecasting continued growth in organic sales and a further increase in operating earnings in its Automotive and Defence divisions for fiscal 2018. The technology corporation's annual sales are set to grow organically by 8% to 9% in the current fiscal year.

The operating profit margin forecast for the Group will increase to 7% after 6.8% in fiscal 2017.

Armin Papperger, CEO of Rheinmetall AG, said: "We have every opportunity to continue our growth in sales and earnings. With our presence on key global markets, we are excellently positioned with our two segments and have laid the foundations for further profitable growth. In Automotive we will also have to get used to a mix of drive technologies moving ahead. With our products for reducing consumption and emissions, we are benefiting from rising demand for environmentally friendly mobility. At the same time, we are selectively expanding our e-mobility activities. In Defence, the general trend towards increased security in Germany and abroad will have a positive impact on our business."

Operating earnings and free cash flow up significantly in 2017

The Rheinmetall Group generated sales of €5,896 million in fiscal 2017, an increase of 5% compared to the previous year's figure of €5,602 million. Both segments again contributed to the Group's growth in sales.

The Automotive segment's sales increased by 8% to €2,861 million. The Defence segment reported sales of €3,036 million in the past fiscal year, up 3% on the figure for the previous year. The international share of consolidated sales was unchanged at 76% in fiscal 2017.

The Rheinmetall Group's incoming orders in fiscal 2017 were level with sales at €5,884 million (previous year: €5,720 million). The order backlog was €6,936 million on December 31, 2017 and therefore down slightly year-on-year (€7,114 million).

Operating earnings (EBIT before special items) climbed by 13% to €400 million after €353 million in the previous year. The Group's operating margin rose to 6.8% (previous year: 6.3%).

Including special items of €-15 million, reported EBIT amounted to €385 million. Special items included restructuring costs at two locations (€-24 million) and income from a property sale (€9 million).

At Group level, earnings after taxes amounted to €252 million in the past financial year after €215 million in 2016. Including the earnings attributable to non-controlling interests, earnings per share for 2017 amount to €5.24 (2016: €4.69).

Operating free cash flow has increased as well. It amounted to €276 million for the Group in 2017, significantly higher than the previous year's figure of €161 million.

The Executive Board and Supervisory Board will be proposing a dividend of €1.70 per share at the Annual General Meeting on May 8, 2018, putting the distribution ratio at approximately 32%. A dividend of €1.45 per share was paid in the previous year.

Automotive outpacing the market and maintaining high profitability

Rheinmetall Automotive tangibly increased its business volume in 2017, generating sales of €2,861 million, an increase of €205 million or 8% compared to the previous year. This increase is significantly higher than the growth in the global production of light vehicles of 2.1%.

All three divisions contributed to sales growth. Sales in Mechatronics rose by 9% to €1,621 million in the reporting year thanks to high demand for products that reduce emissions and fuel consumption. Sales by the Hardparts division increased by 5% to €968 million, due in particular to a recovery in demand in large-bore piston business. The Aftermarket division's business expanded by 11% to €359 million.

The contributions to sales made by the segment's three divisions were largely unchanged. Within Automotive, Mechatronics again had the highest share of sales at 55% (previous year: 54%) in fiscal 2017. Hardparts contributed 33% of sales (previous year: 34%) with Aftermarket – as in the previous year – accounting for 12%.

Automotive's operating earnings amounted to €249 million in the past fiscal year, a year-on-year increase of €26 million or 12%. Mechatronics made the strongest contribution to operating earnings at €176 million. With an operating margin of 8.7%, Automotive outperformed the previous year's solid 8.4%.

Including a non-recurring effect of €-22 million for the closure of a piston plant in France, reported EBIT amounted to €227 million.

Automotive's 50/50 joint ventures in China, whose sales are not included in Rheinmetall's consolidated figures, continued to develop well in fiscal 2017. The joint ventures' income increased by 7% in local currency to CNY 6,447 million (2016: CNY 6,037 million), with general production growth in light vehicles in China of around 2%. The wholly owned subsidiaries in China that are included in consolidation enjoyed an even more dynamic performance, with sales surging by 21% in fiscal 2017 to CNY 969 million (2016: CNY 798 million). Translated into euro, the Chinese joint ventures' income rose by 2% from €825 million to €845 million. The sales of the wholly owned subsidiaries expanded by 17% from €109 million to €127 million.

Operating earnings up significantly in Defence

Defence increased its sales by €90 million or 3% to €3,036 million in the reporting period after €2,946 million in the previous year.

The segment reported incoming orders of €2,963 million in the past fiscal year, only slightly below the previous year's high level (2016: €3,050 million).

The order backlog amounted to €6,416 million on December 31, 2017 (2016: €6,656 million). The biggest individual orders in the order backlog are the Land 121 program for Australia (military trucks), Puma infantry fighting vehicles for Germany and parts for the Fuchs vehicles in Algeria, which are in the delivery phase.

The continuing high level of booked business ensures a significant portion of the organic growth planned for Defence in 2018 and beyond.

Defence's earnings have increased significantly. Operating earnings (EBIT before special items) amounted to €174 million in the past fiscal year, soaring by €27 million or 18% as against the previous year. Special items of €-2 million – resulting from the capacity adjustment at a Dutch site – led to reported EBIT of €172 million for the fiscal year.

As in the previous year, the earnings improvement resulted from the positive development in the Weapon and Ammunition and Vehicle Systems divisions. This was thanks in particular to high-margin ammunition sales and continuing good capacity utilization in Vehicle Systems.

The segment's profitability has continued to rise. The operating margin rose by 0.7 percentage points from 5.0% to 5.7%. Operating free cash flow has more than doubled to €238 million (2016: €103 million).

Outlook 2018

Sales growth to continue in both segments

Rheinmetall is forecasting continued growth for the Group in the current fiscal 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 segments are expected to contribute to sales growth.

Sales performance in the Automotive segment is crucially influenced by economic developments on the key automotive markets of Europe, North and South America and Asia.

Based on current expert forecasts for trends in global automotive production this year, which anticipate increases of around 2%, Rheinmetall expects Automotive to achieve sales growth of between 3% and 4%.

Rheinmetall is projecting double-digit sales growth of 12% to 14% in Defence in fiscal 2018. As in the previous year, the sales forecasts for 2018 are largely covered by the relatively high order backlog.

Further earnings improvement forecast in fiscal 2018

Assuming stable economic developments, Rheinmetall anticipates an improvement in operating earnings in absolute terms and an operating margin of around 8.5% in Automotive in fiscal 2018. Rheinmetall is also assuming a further improvement in operating earnings in Defence division in 2018 with an operating margin of between 6.0% and 6.5%.

Taking into account holding costs and low double digit million expenses for realizing and marketing new technologies, the Rheinmetall Group will achieve a margin of 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.