

RHEINMETALL

Equity Research Report

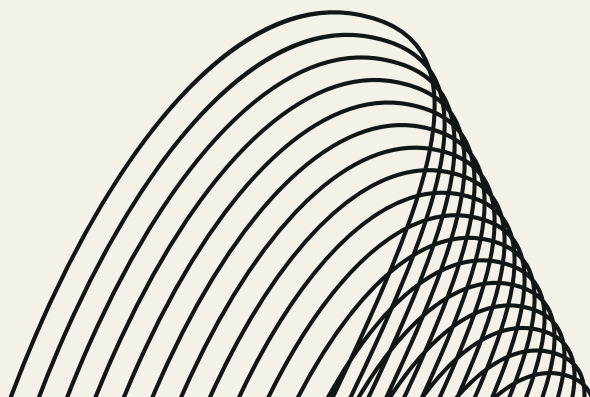
ANALYST:

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RATINGS GUIDE

Label	Implied View
U100	Estimated upside of 100 percent or more
U75	Estimated upside of 75 to 99 percent
U50	Estimated upside of 50 to 74 percent
U25	Estimated upside of 25 to 49 percent
U10	Estimated upside of 10 to 24 percent
NV	Neutral view (movement between minus 10 to plus 10 percent)
D10	Estimated downside of 10 to 24 percent
D25	Estimated downside of 25 to 49 percent
D50	Estimated downside of 50 to 74 percent
D75	Estimated downside of 75 to 99 percent
D100	Estimated downside of 100 percent or more



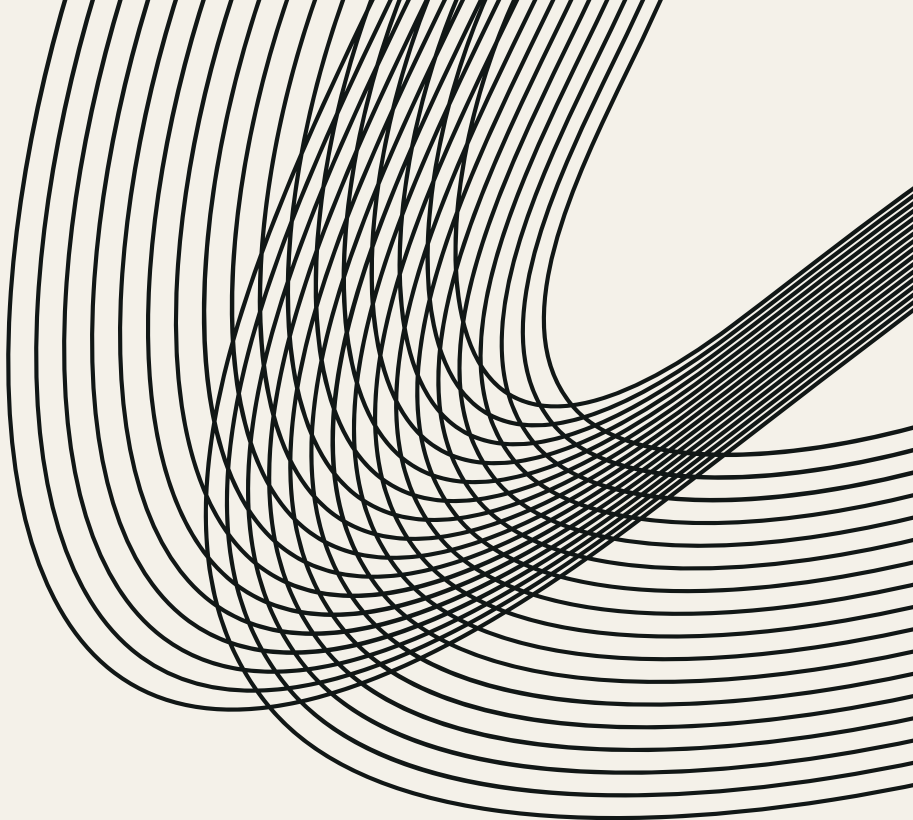


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REPORT SUMMARY

The Thesis:

As global alliances fracture and the threat of conflict grows, Europe is entering a new era of rearmament driven by declining US involvement and an emboldened Russia. In this environment, EU defence has become a strategic safe haven for capital, and Rheinmetall stands out as a structurally advantaged long term beneficiary despite its recent rally.

Valuation View:

I see the stock as currently discounted to fair value, despite the strong rally over the last year. As of writing, the stock sits at 1407EUR, I see it fairly valued at 1600-1800EUR. This is reflected in my DCF assumptions, which I believe are conservative. I believe in continued strong growth prospects through 2030, backed by geopolitical and macroeconomic factors.

Timeframe:

I believe the coming weeks, months and years will see a continued bull run for the stock. I believe that it will continue to outperform the market through 2030.

Catalysts:

Key catalysts include new contract wins, which bolster backlog and affirm Rheinmetall's central role in European rearmament. Further US disengagement from NATO is likely to drive sustained increases in defence spending. Acquisitions and supply chain verticality continue to enhance long term value, while rate cuts from the ECB support efficient expansion through low cost leverage. US market volatility may also push capital into European defence as a perceived safe haven.

Risks:

While Rheinmetall's rerating reflects its growing strategic role in European defence, elevated expectations pose risks if optimism proves premature or overextended. A ceasefire in Ukraine could trigger a short term correction by reducing urgency, but would not reverse the long term defence commitments already underway across Europe. Execution risk is real given high investor confidence, and any contract losses, budget delays or operational missteps could lead to outsized share price reactions. Margin compression over time, driven by rising costs, political scrutiny or disruptive entrants like Anduril, also presents a longer term threat. Broader macro shocks, including fiscal tightening or a revaluation of war beneficiaries, may challenge the pace of upside. However, these risks are more likely to slow the trajectory than invalidate the core thesis, which remains grounded in structural geopolitical and fiscal realignment.

Rating:

Rating of **U25** (estimated upside of 25% to 49%).

THE THESIS

Globalisation is deteriorating, and war is on the rise.

The breakdown in the world order is causing old alliances to change in shape. The United States is reconsidering its role in Europe, and even toying with the idea of removing itself from NATO. This is causing European countries to reassess their ability to defend themselves.

In 2024, a record 22 member countries met NATO's target of spending 2% of their economic output on defence, compared to three Allies in 2014. An emboldened Russia could threaten other European nations, as Ukraine remains the last buffer state between Russia and NATO.

EU countries have been revisiting their defence spending frameworks, renewing longer term commitments to rearmament.

As Trump trade policies cause uncertainty in US stock and bond markets, I believe capital flight will lead to emerging markets, and the well-regulated EU market, as safe havens.

Within the EU market, one of the most attractive macro plays appears to be Defence.

This isn't a revolutionary idea, so why Rheinmetall? The stock has had an incredible 5 year run, gaining 165% in the last year. So can it really run much higher from here? and how much of this is already priced in?

BUSINESS OVERVIEW & COMPETITIVE POSITION

Rheinmetall's Two Major Sectors:

Defence Sector (Vehicle Systems, Weapon & Ammunition, Electronic Solutions):

Strongest revenue contributor. Defence accounted for ~80% of 2024 sales (€9.75B total), driven by Lynx IFVs (Hungary, Australia orders), PzH 2000 howitzers, Skynex/Skyranger air defence systems, and ammunition (artillery shells, propellants).

Growth driver: Geopolitical tensions (Ukraine war, NATO rearmament) led to €55B order backlog (vs. €38B in 2023).

Automotive (Power Systems):

Focus: E-mobility, hydrogen tech, thermal management, actuators.

Power systems sees high cyclical dependency. This segment has lagged Defence due to weak auto demand (especially in Europe). 4.2% operating margin, slightly behind peers.

Together, they make Rheinmetall both a wartime growth stock and a future-proof industrial tech play.

Customers & Market Focus:

Rheinmetall serves two distinct client bases through its Defence and Power Systems divisions. On the Defence side, its primary customers are national governments and military organisations, with a strong focus on NATO-aligned countries. Meanwhile, the Power Systems segment caters to automakers and industrial firms, supplying advanced components and technologies used across various transport and energy applications.

Subsidies / Joint Ventures:

The company has formed several strategic partnerships to enhance market access and manufacturing capabilities. Rheinmetall BAE Systems Land (RBSL), a joint venture with BAE Systems, plays a key role in Rheinmetall's presence in the United Kingdom, particularly through its involvement in the Challenger 3 main battle tank programme. In Spain, Rheinmetall has expanded its ammunition production footprint through the acquisition of Expal, supported by an €8.5 billion framework agreement with the German government aimed at bolstering domestic and allied munitions stockpiles. Additionally, Rheinmetall has entered into a joint venture with Ukraine to establish a new ammunition manufacturing plant. This facility, which involves a low triple-digit million euro investment, is intended to support long-term production resilience and regional defence cooperation.

Core Brands and Intellectual Property

Rheinmetall possesses a broad portfolio of defence-related intellectual property. Its key platforms include the Lynx Infantry Fighting Vehicle (IFV), the Puma IFV (developed in collaboration with Krauss-Maffei Wegmann), and cutting-edge air defence systems such as Skynex and Skyranger. The company is also a leader in ammunition technologies, particularly in modular charge systems and 155mm artillery, where it claims a dominant market position.

In the automotive and industrial domain, Rheinmetall's proprietary technologies include hydrogen valves, electronically controlled coolant pumps, curbside EV charging systems, and advanced lightweight casting solutions. These innovations align with broader trends in electrification and energy efficiency.

Customer Concentration & Retention

Rheinmetall continues to face a degree of customer concentration risk, with the German government accounting for over 30% of the company's total sales in 2024, up from 24% in the previous year. However, this is being actively addressed through geographic diversification. The company has expanded its presence in strategically important markets such as Hungary, Australia, and the United States. These developments are helping to mitigate reliance on any single national customer and broaden Rheinmetall's long-term revenue base.

A key strength lies in Rheinmetall's recurring revenue model, underpinned by multi-year framework agreements with both the German government and the European Union. These agreements not only provide a high level of revenue visibility but also establish a foundation for accelerated growth, particularly in light of ongoing defence modernisation efforts across Europe. Based on current commitments, this revenue stream is expected to remain robust through at least 2030.

Pricing Power:

In the Defence segment, Rheinmetall enjoys strong pricing power, as evidenced by its 15.2% operating margin. This is driven by proprietary technology, such as the Skynex air defence system and the Lynx infantry fighting vehicle, as well as a global environment of elevated defence spending and urgent demand for modernisation. The company positions technological superiority as a key differentiator, allowing it to command premium pricing on contracts.

Conversely, the Power Systems division operates in a more competitive landscape, with tighter margins. Despite this, the company's work in hydrogen systems and e-mobility components has helped secure long-term contracts. These not only offer revenue stability but also align Rheinmetall with broader environmental, social, and governance (ESG) priorities. This strategic alignment supports both client retention and regulatory favourability in an increasingly decarbonised industrial ecosystem.

Market Share & Relative Scale

Rheinmetall holds a leading position in the European defence market, particularly in artillery and ammunition. This dominance was reinforced by the acquisition of Expal, which significantly expanded production capacity and consolidated Rheinmetall's status as the region's top supplier in this segment. The company is also increasing its presence in the United States, most notably through its partnership with Loc Performance, which strengthens its capabilities in land systems. Production of fuselage centre sections for the F-35 fighter jet is scheduled to begin in 2025, marking Rheinmetall's growing role in the global aerospace supply chain and diversifying its operations beyond traditional ground-based platforms.

In contrast, the Power Systems division operates at a smaller scale but maintains a leadership position in targeted niches. Rheinmetall is recognised for its advanced thermal management technologies and specialised hydrogen valves, serving a growing demand for efficient, low-emission mobility solutions. While contributing less to group revenues than Defence, these capabilities position the company as a valued partner in the transition to cleaner transport infrastructure.

Technology-Led Premium Positioning

Rather than competing on cost, Rheinmetall differentiates itself through its emphasis on innovation and technological superiority. The company is investing heavily in autonomous systems, including AI-enabled drones such as the LUNA NG and teleoperated platforms like the HX3 tactical truck. It is also advancing its portfolio of next-generation weapon systems, with ongoing development of the 130mm "Future Gun System" and research into hypersonic ammunition.

Compared to lower-cost suppliers (particularly from China and Russia) Rheinmetall does not aim to be cost-competitive. These suppliers, often subject to different regulatory, quality, and transparency standards, are not direct substitutes in Rheinmetall's primary markets. Instead, the company's ability to command premium pricing is rooted in its intellectual property and technical edge. Systems like Skynex, capable of neutralising drone swarms through networked automation, reinforce Rheinmetall's doctrine of technological supremacy.

Exposure To Consumer Markets

Rheinmetall maintains zero direct exposure to consumer markets, operating exclusively on a business to business and government to government basis. The Defence segment serves national militaries, primarily within NATO and the European Union, positioning the company as a core supplier of mission critical systems. In Power Systems, the client base consists of automotive original equipment manufacturers such as BMW and industrial firms requiring specialised thermal management and energy solutions. This focused business model insulates Rheinmetall from shifts in consumer sentiment and retail demand cycles, while anchoring revenue to long term contracts and institutional budgets.

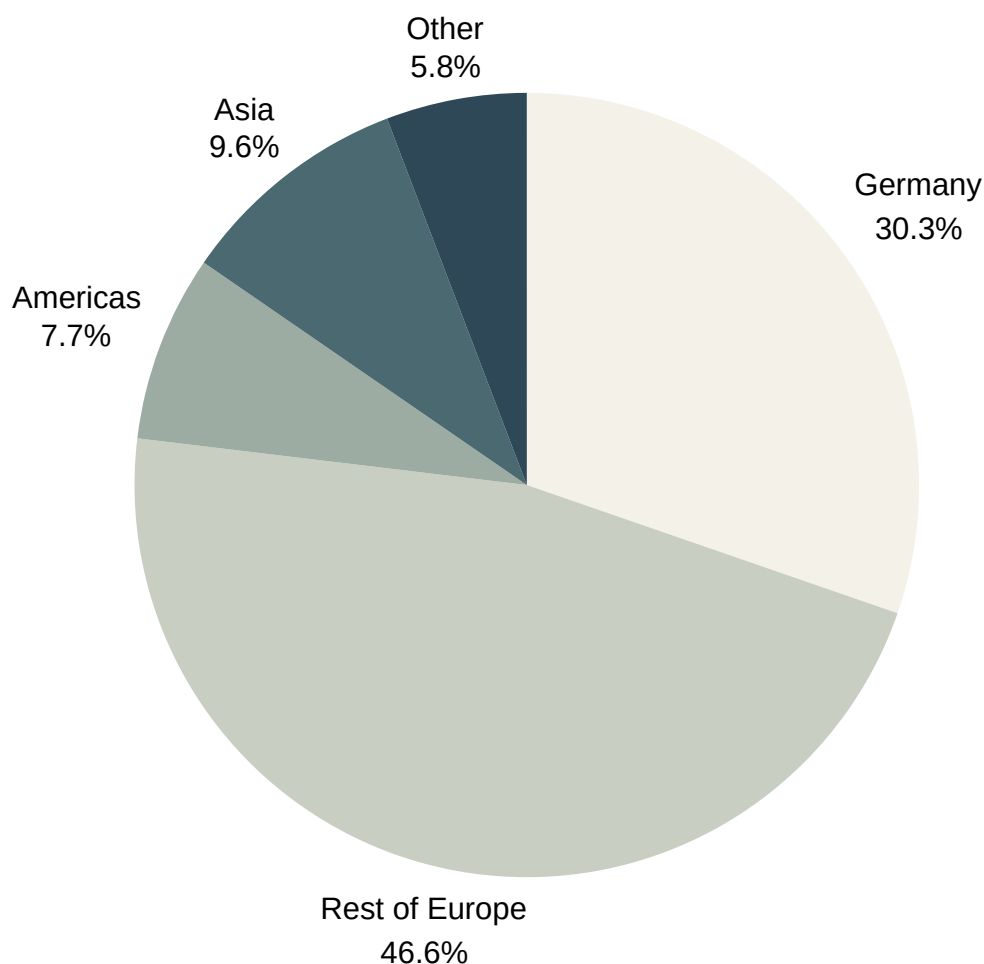
SWOT Analysis

Category	2024 Details
Strengths	<ul style="list-style-type: none"> - IP/tech edge (Skynex, Lynx, D-LBO). - NATO/US/EU as anchor clients (€55B backlog). - Vertical integration (R&D to maintenance).
Weaknesses	<ul style="list-style-type: none"> - Defence reliance (80%+ of sales). - Auto/Power Systems margins (4%) lag peers (e.g., Bosch).
Opportunities	<ul style="list-style-type: none"> - NATO 2% GDP target floor: \$2.5T global defence spend (2024). - Ukraine reconstruction: Rheinmetall JV as long-term hub. - Hydrogen/e-mobility: €650M orders in fuel cells.
Threats	<ul style="list-style-type: none"> - Export bans (e.g., German government disputes). - Some raw material dependencies on countries with human rights violations & political instability (e.g., rare earths for sensors). - Labor shortages: Needs 40,000 FTEs by 2028.

Margin Comparison (2024 Performance VS Peers)

Segment	2024 Op. Margin	Industry Avg.	Notes
Defence	15.2%	10-12%	Skynex/ammo drive premium.
Power Systems	~5%	8-10%	Lagging due to auto sector slump.
Electronic Solutions	12.6%	12.8%	Up from 11.4% YoY

Revenue By Region



Growth drivers:

- Germany - Bundeswehr orders (€3.5B truck deal).
- Europe - Hungary Lynx, Skynex (Austria).
- Americas - Loc Performance boost (US Army contracts). Grew from 5.4% to 7.7% post-Loc acquisition.
- Asia - Indian artillery, Australian IFVs.
- Other - UAE, Saudi ammo sales.

Export Controls

Rheinmetall's exposure to German export regulation remains a significant operational risk. While Germany itself accounted for approximately 30% of sales in 2024, a much larger share of Rheinmetall's business, 69.6% of total sales, depended on export approvals from German authorities. This includes contracts with other nations, where equipment or components manufactured in Germany require formal permission before delivery. As a result, the company's ability to fulfil international defence contracts is tightly linked to German foreign and security policy, and subject to potential delays or denials in politically sensitive cases.

Foreign Exchange Volatility

The company's revenue is mostly denominated in euros, accounting for 77% of total sales. Exposure to the U.S. dollar stands at 8%, which Rheinmetall manages through strategic initiatives such as its partnership with Loc Performance. This collaboration not only enhances the company's presence in the U.S. market but also serves as a natural hedge against currency fluctuations.

Environmental, Social, and Governance Compliance

The implementation of the Corporate Sustainability Reporting Directive (CSRD) by the European Union mandates increased transparency in sustainability reporting. Rheinmetall acknowledges the importance of sustainable business practices and is committed to integrating environmental, social, and governance considerations into its corporate management. While this commitment aligns with the company's values, it also entails additional reporting requirements and associated costs.

Semiconductor Supply Constraints

The global semiconductor shortage poses challenges for Rheinmetall's digital and electronic defence systems, including programs like the Digitalisation of Land-Based Operations (D-LBO) and Skynex. While the company primarily sources critical chips from European and allied suppliers, ongoing restrictions and supply chain disruptions could impact production timelines and costs.

Opportunities In Underpenetrated Markets

Rheinmetall is steadily moving beyond its traditional European strongholds and diversifying into markets where it has historically had limited presence. In Eastern Europe, the company is building new ammunition production facilities in Lithuania and Ukraine, a strategic move aligned with NATO's reinforcement of its eastern border. These plants not only boost supply capacity but also deepen Rheinmetall's integration into regional defence planning.

In the United States, the recent acquisition of Loc Performance opens the door to major programmes like the Common Tactical Truck and XM30, both of which are critical to the modernisation of the US Army's ground vehicle fleet. This gives Rheinmetall a stronger footing in the world's largest defence market.

Meanwhile, outside of the defence segment, the company has carved out a growing niche in hydrogen technologies. With €650 million in fuel cell and electrolyser orders secured from industrial customers, Rheinmetall is positioning itself to benefit from the longer term energy transition. Additionally, the firm's participation in a satellite-based military reconnaissance collaboration suggests early interest in the space defence domain, potentially opening new growth avenues.

Recent Or Pending M&A, Divestitures, Spin-Offs

Recent portfolio adjustments reflect management's clear intent to sharpen Rheinmetall's focus on integrated defence systems and to expand its global footprint through targeted acquisitions and operational divestitures.

The acquisition of Loc Performance in the United States, valued at \$950 million, significantly enhances Rheinmetall's North American positioning. The deal supports onshoring efforts and strengthens the company's ability to compete for high-volume, long-duration defence vehicle contracts in the US market. Complementary acquisitions in Europe, such as Romanian vehicle manufacturer Automecanica Mediaş and Dutch hybrid vehicle start-up REEQ, add regional depth and technological differentiation in the tactical mobility segment.

In the ammunition space, the acquisition of Expal Munitions responds directly to sustained global demand and gives Rheinmetall additional capacity and geographic reach in a critical growth area. Similarly, the pending acquisition of German nitrocellulose producer Hagedorn NC, currently under review by competition authorities, would bolster vertical integration in the munitions supply chain. This move is aimed at improving long term resilience and self sufficiency in strategic materials.

Further broadening its defence services portfolio, Rheinmetall recently acquired Stascheit, a specialist in the detection, analysis, recovery, and disposal of explosive ordnance. This adds niche capability in a growing support segment and complements the group's expanding role in battlefield logistics and sustainment.

On the digital transformation front, Rheinmetall has acquired a majority stake in Blackned, a Bavarian software developer. The acquisition plays into the company's D-LBO (Digitalisation of Land-Based Operations) project and signals an increasing emphasis on secure, decentralised communications and command systems across Rheinmetall's vehicle platforms.

In parallel, the company has expressed interest in acquiring Volkswagen's Osnabrück plant, which is set to wind down operations following an agreement between VW and labour unions. CEO Armin Papperger has publicly stated that the site would be "very suitable" for defence production, though no formal offer has been disclosed. If pursued, this move would align with Rheinmetall's broader efforts to expand domestic industrial capacity and repurpose existing infrastructure to meet growing defence demand.

On the divestment side, the sale of the small-bore piston business to Comitans Capital, along with the exit from Shriram Pistons in India, signals a clear pivot away from legacy combustion engine components. These actions reduce operational complexity and capital intensity in non-core segments while freeing up resources for investment in high-growth defence and alternative energy areas.

Taken together, these recent moves illustrate a clear reallocation of capital towards scalable, high-margin activities in core defence verticals, with increasing emphasis on supply chain control, digital capability, and geographic diversification.

Partnerships, JVs, Strategic Alliances

Rheinmetall has actively pursued strategic collaborations to enhance its technological capabilities and expand its global footprint. In January 2025, the German Federal Cartel Office approved a joint venture between Rheinmetall and Italy's Leonardo S.p.A. This 50-50 partnership aims to develop and manufacture military combat vehicles, including platforms like the Lynx and Main Battle Tanks, targeting both domestic and international markets.

In the realm of advanced weaponry, Rheinmetall has partnered with MBDA Deutschland to develop laser weapon systems for naval drone defence. This collaboration seeks to bring a joint maritime product to market within the next five to six years, addressing emerging threats in naval warfare.

Additionally, Rheinmetall has signed a memorandum of understanding with Honeywell to co-develop vision systems and auxiliary power units for tactical vehicles, aiming to enhance operational readiness and situational awareness.

Rheinmetall's involvement in the European Sky Shield Initiative underscores its commitment to collective European defence. The company has secured orders for its Skyranger 30 mobile air defence systems from countries including Germany, Austria, and Denmark, contributing to a layered air defence network across the continent.

In the United Kingdom, Rheinmetall BAE Systems Land (RBSL), a joint venture with BAE Systems, is leading the upgrade of 148 Challenger 3 Main Battle Tanks under a significant contract with the UK Ministry of Defence.

On the research and development front, Rheinmetall is collaborating with Lockheed Martin to produce centre fuselage sections for the F-35A Lightning II fighter jet. The production facility in Weeze, Germany, is scheduled to commence operations in July 2025, marking a significant step in transatlantic defence cooperation. Furthermore, Rheinmetall has entered into a partnership with Anduril Industries to develop advanced counter-drone systems, integrating artificial intelligence to address the evolving threat of unmanned aerial systems.

In Ukraine, Rheinmetall has established a joint venture to rapidly deploy maintenance and repair hubs, aiming to support the country's defence infrastructure amid ongoing conflicts. The company holds a 51% stake in this partnership, reflecting its commitment to supporting Ukraine's defence capabilities.

These strategic alliances and joint ventures demonstrate Rheinmetall's proactive approach to innovation and its dedication to strengthening defence capabilities through international collaboration.

Research & Development Investment

In 2024, Rheinmetall invested approximately €502 million in research and development, amounting to around 5.7% of its €9.75 billion in annual revenue. This reflects a slight decline from the previous year's 6.9%, primarily because revenue grew more quickly than research and development spending.

The largest share of investment this year went to the Vehicle Systems division, highlighting a strategic push toward modern military vehicle development. In contrast, the Power Systems division had received the majority share in the previous year. Key areas of innovation included new patent applications for autonomous vehicle systems such as the HX3 platform and advanced modular artillery charge technologies.

Integration Of Automation, Artificial Intelligence, & Data Analytics

Rheinmetall is rapidly adopting digital technologies to enhance defence capabilities. In December 2024, the company secured a major contract with the German Army under the Digitalisation of Land Based Operations programme.

This €1.2 billion contract will see Rheinmetall deliver roughly €730 million worth of systems, helping to modernise more than ten thousand combat and support vehicles by 2030.

One of the flagship projects in this space is the LUNA Next Generation unmanned aerial system. This platform offers extended flight endurance exceeding twelve hours, along with real-time surveillance capabilities across distances over one hundred kilometres. The drone uses lightweight carbon fibre reinforced materials and advanced analytics to deliver situational awareness at scale.

These initiatives underscore Rheinmetall's shift toward artificial intelligence enabled warfare systems and its broader commitment to technological leadership within European defence.

Supplier & Inventory Model

Vertical Integration:

Ammunition Production: The acquisition of Expal Systems in Spain has bolstered Rheinmetall's capabilities in propellants and explosives. Additionally, a new artillery ammunition plant is being developed in Baisogala, Lithuania, with operations expected to commence in early 2027. This facility aims to produce 155-millimetre artillery shells, strengthening Lithuania's defence industry and contributing to regional security.

Vehicle Manufacturing: In December 2024, Rheinmetall completed the acquisition of Loc Performance in the United States, enhancing its manufacturing capabilities for military vehicles. Loc Performance's facilities are equipped to meet the stringent requirements of U.S. Army programs such as the XM30 and Common Tactical Truck. Furthermore, Rheinmetall holds a 72.5% stake in Automecanica Mediaş in Romania, integrating it into its global production network for vehicle manufacturing.

Inventory Management:

As of the end of 2024, Rheinmetall's order backlog reached a record €55 billion, up from €38 billion in the previous year. This surge reflects not only increased demand but also a deliberate strategy to build up inventories, which grew to €3.9 billion from €3.2 billion in 2023. The stockpiling of critical components and materials is designed to prevent supply disruptions, ensure readiness for large scale contracts, and provide certainty for government buyers that Rheinmetall can meet urgent or long lead time defence requirements. The company sees this as an essential element of maintaining reliability and credibility in a tense geopolitical environment.

Talent Strategy & Organisational Agility

Workforce Growth:

Rheinmetall reported a workforce of 29,322 full-time equivalents in 2024, with plans to expand to 40,000 employees by 2028. The company is focusing on recruiting professionals in artificial intelligence, robotics, and hydrogen technologies to support its strategic objectives.

Adaptability in Power Systems

Demonstrating organisational agility, Rheinmetall's Power Systems division has transitioned from traditional piston production to focusing on hydrogen and electric mobility solutions within an 18-month period. This shift aligns with the company's commitment to sustainable industrial solutions.

Strategic Alignment & Performance Metrics

Defence Sector Focus

Rheinmetall continues to prioritise technological superiority in its defence operations, emphasising advancements in artificial intelligence, autonomous systems, and ammunition production to maintain a competitive edge.

Sustainable Industrial Solutions

In the Power Systems division, the company is dedicated to developing sustainable industrial solutions, including hydrogen technology and electric vehicle components, reflecting its commitment to environmental responsibility.

Executive Compensation and ESG Metrics

Rheinmetall has integrated environmental, social, and governance (ESG) criteria into its executive compensation structure. 20% of executive bonuses are linked to achieving targets in carbon dioxide emission reductions and enhancing workforce diversity.

Exposure To Supply Chain Shocks Or Geopolitical Tensions

Hotspots:

- **China:** Cotton linters, essential for nitrocellulose production, are predominantly sourced from China, which supplies over 70% of Europe's cotton lint. This dependency poses a risk if geopolitical tensions disrupt supply chains.
- **Ukraine:** Sales to Ukraine have more than doubled year-on-year. A peace agreement could potentially reduce Ukrainian defence spending, impacting demand for Rheinmetall's products. Conversely, a Russian victory would likely end Rheinmetall's operations in the region.

Mitigation:

- **NATO Warehouses:** Strategic stockpiles in Germany, Poland, and the United States enhance supply chain resilience.
- **Ukraine:** A joint venture in Ukraine facilitates local production, insulating operations from transit risks.
- **Stockpiling:** Rheinmetall has accumulated a three-year supply of cotton linters from China to mitigate potential supply disruptions. Additionally, the company is establishing a new nitrocellulose production plant in Lower Saxony, Germany, to reduce reliance on external sources. This new plant will play a critical role in addressing the global shortage of nitrocellulose, with China accounting for nearly half of the world's supply. Rheinmetall's plant will help ensure stable supply for its ammunition production and reduce the impact of supply chain disruptions.

INDUSTRY LANDSCAPE & MACRO RELEVANCE

Maturity

The company is moving from a stage of growth (NATO rearmament) to hyper-growth, characterised by a €55B backlog and the ongoing Ukraine War. European defence budgets have seen an increase, including a German defence fund of €500B. Morningstar estimates that Rheinmetall will see between €300-400B in captured spending by 2030. An additional development from 2023 is that the European Sky Shield Initiative (ESSI) has 21 nations now participating vs. 15 in 2023.

Revenue Cyclicity

Defence segment: Low to moderate cyclicity. Tied more to political budgets than GDP cycles. Recent shifts show increased multi-year commitments, including the above mentioned German fund and a €150B EU rearmament fund, of which the specific are still being negotiated at the time of writing.

Automotive segment: Cyclical. Sensitive to consumer spending and industrial production, but Rheinmetall is diversifying into non-cyclical markets like commercial/industrial machinery.

A Consolidated Market

The defence market is heavily consolidated. Few EU defence primes, of which Rheinmetall is one. Rheinmetall is growing its share through M&A (e.g. Expal Systems) and strategic production localisation. EU policies are encouraging cross-border cooperation, and the need for competition with the US has caused EU defence contractors to merge. The demand for R&D (i.e. sixth-gen fighters and MBTs like Challenger 3) simply demand bigger players.

Macro Trends & Long-Term Thinking

Long-Term Demand Drivers:

Geopolitical instability, rising defence budgets, and the evolution of warfare are shaping long-term demand for defence-related products and technologies. Notably, the war in Ukraine has been a major catalyst, accelerating defence spending across the EU and NATO. NATO's 2% GDP defence spending target has become a baseline, with several member countries seeking to exceed it, and the US calling for members to aim for a 5% commitment. As NATO and EU rearmament efforts intensify, defence contractors, particularly those with a broad product offering like Rheinmetall, are well-positioned to capitalise on the sustained uptick in demand for military systems and equipment.

Impact Of The Ukraine War:

The war in Ukraine has exposed significant gaps in Western defence capabilities, particularly in terms of ammunition and artillery. The rapid depletion of stockpiles has underscored the need for long-term replenishment strategies to ensure readiness. Rheinmetall has leveraged this opportunity to position itself as a key supplier for NATO and EU forces. Artillery systems and ammunition are highlighted in the company's annual report as two of the largest areas of investment. Rheinmetall plans to scale its production capacity significantly, with a new facility set to produce 200,000 rounds annually, and a broader goal to increase global artillery production from 700,000 shells in 2025 to over 1.1 million by 2027. This expanded capacity will be vital to meeting the surging demand for artillery and ammunition across NATO countries, particularly in the context of prolonged conflict scenarios.

Digitisation & Technological Superiority:

As part of its long-term strategic alignment, Rheinmetall has secured a €3.1B contract with the German Armed Forces to digitise infantry soldier systems, set to last through 2030. This deal highlights the increasing importance of technological advancements and digital capabilities in modern warfare. Rheinmetall is focused on developing solutions that integrate next-generation technology into defence systems, from digitalisation to autonomous systems.

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Next-Generation Defence Systems:

Rheinmetall is actively embracing the trend towards autonomous defence systems and artificial intelligence (AI). In particular, the company is focusing on Unmanned Ground Systems (UGS) and AI-powered systems, which are anticipated to be significant growth areas. The use of AI in autonomous vehicles, surveillance systems, and combat units is expected to revolutionise defence strategies, and Rheinmetall is positioning itself at the forefront of this transition.

Additionally, with the increasing threat of asymmetric warfare—such as low-cost drones destroying high-value military assets—Rheinmetall is directing R&D efforts towards counter-drone technologies. The company's developments in this area include the Skyranger 30 and HX3, both of which aim to plug gaps in current counter-drone capabilities.

Countering Emerging Threats:

The proliferation of low-cost drones, used extensively by both state and non-state actors (such as in the Houthi attacks and the Ukraine war), presents a new challenge for defence contractors. Rheinmetall has responded with an increased focus on counter-drone technologies, incorporating both hard-kill and soft-kill measures into its defence systems. The Skyranger 30, a mobile air defence system, and the HX3, a next-generation unmanned ground system, are integral to Rheinmetall's solution set, addressing the growing threat of aerial drones targeting high-value military assets.

In addition to drones, the rise of hypersonic missile technology presents a significant challenge to traditional missile defence systems. Rheinmetall is not ignoring this emerging threat and is actively working on defence solutions, including high-power laser systems in cooperation with cross-border contractors. These systems offer the potential for intercepting missiles at unprecedented speeds, an essential capability as hypersonic weapons become more prevalent.

ESG Considerations & Technological Adaptation:

As defence spending ramps up, so does the pressure on defence contractors to meet environmental, social, and governance (ESG) expectations. Rheinmetall is aligning its defence and industrial capabilities with sustainability goals, with a strong focus on hydrogen technology and e-mobility solutions within its Power Systems division. This commitment is not only a response to regulatory and consumer expectations but also an acknowledgment of the long-term necessity for greener, more sustainable defence solutions.

In Short:

Rheinmetall is strategically positioned to capitalise on macro trends such as increasing defence spending, the evolution of warfare technology, and the geopolitical instability that continues to shape global security dynamics. With its significant investments in artillery, digital soldier systems, and autonomous defence technologies, Rheinmetall is set to play a central role in NATO and EU rearmament.

Furthermore, its focus on countering emerging threats such as low-cost drones and hypersonic missiles demonstrates its commitment to staying ahead of evolving security challenges. As the defence sector continues to embrace technological advancements, Rheinmetall's investments in next generation systems and its long-term vision for sustainable and autonomous military solutions position the company well for sustained growth in the years ahead.

Interest Rates & Impact On Financing Costs

Firstly, Rheinmetall has two €500 million convertible bond tranches in its capital structure, maturing in 2028 and 2030. Moody's reports that the first convertible bond is actively converting to equity, which will serve to reduce the debt load. At the time there are no known plans for leveraged share buybacks. The ECB cut rates six times in 2024, and there has just been another rate cut as of 17th April 2025 to 2.25% after lagging projections of eurozone growth amid rising trade tensions. This could present attractive conditions for Rheinmetall to raise low-cost debt to fund further investment in this period of sales growth.

Inflationary Pressures & Ability To Pass Through Input Costs

While inflation may erode margins, Rheinmetall, as a government contractor, is better positioned than consumer-focused companies to pass on input cost inflation, given the likelihood of governments committing to higher levels of defence spending.

FX Exposure, Currency Risk, & Commodity Price Risk

The company operates internationally, with 70% of sales generated outside Germany. This global presence subjects Rheinmetall to translational FX risks, as fluctuations in exchange rates can impact the value of foreign-denominated revenues and expenses when consolidated into euros.

The company makes use of derivative financial instruments to hedge this currency risk, such as forward exchange transactions and swaps. The chief currency hedges are the Swiss franc, US dollar, Australian dollar, pound sterling and South African rand.

Regarding commodity prices, the company utilises materials cost escalator agreements with customers to shift most of the price risk onto them. Additionally, the company uses swaps maturing up to 2027.

Customer default risk is practically unheard of in this industry, with worst case scenarios most often being the delay of payment. Even still, the company hedges this risk through pre-payments, credit insurance, and letters of credit. Through the end of 2024, Rheinmetall saw no indications of default risk across the customer structure.

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Labour Markets & Dependence On Skilled Or Low-Cost Labour & Wage Pressures

In total, Rheinmetall employs over 34,000 people with goals of employing 40,000 by 2028. The company saw improvement in workplace rankings, and remains an attractive workplace for high skilled individuals.

The company invests in education and training for employees, and focuses on wellbeing programs to enhance retention of top talent. Competition for skilled workers is fierce, considering the attraction and retention of top talent a priority of HR. This is focused on through the use of performance-based pay, social benefits, training, and promotion opportunities.

The company also increased its marketing efforts, increasing representation at recruitment and trade fairs in Germany. The company's largest age brackets for employees are 30-40 and 50+, with hiring efforts shifting to a focus on attracting younger talent (including having a presence at universities). The company is, perhaps unsurprisingly, less competitive with pay for lower skilled jobs and increasingly competitive for higher skilled positions.

Supply Chain Health: Logistics, Global Trade Bottlenecks, Tariffs, & Localisation Trends

Rheinmetall continues to emphasise vertical integration, with new production facilities underway in Ukraine and Lithuania. One of the more critical components in ammunition production, nitrocellulose (sourced from cotton linters), has become increasingly constrained due to global reliance on Chinese cotton. This exposes the supply chain to both physical bottlenecks and geopolitical risk, which the company is addressing through stockpiling strategies and potential upstream acquisitions.

The implications of renewed tariffs under a possible second Trump administration remain uncertain. However, it is reasonable to assume that Rheinmetall, through its US subsidiary Loc Performance, may seek to pass higher input costs through to customers where contractual terms allow. While this could create margin pressure in the near term, Rheinmetall remains well protected through 2025 due to its significant backlog and existing multi year contracts.

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Key Regulations & Compliance Standards Affecting The Business

Defence contractors within the EU, and specifically Germany, are subject to strict regulatory laws. Additionally, the company adheres to ESG provisions requiring the reduction of vehicle emissions, improving vehicle safety, the promotion of autonomous driving, and innovation in hydrogen. While difficult missions that present technological challenges, it opens up opportunities for funding and subsidies from the German government. In 2024, Rheinmetall acquired a €7.7m subsidy for its hydrogen and electrification projects.

Additionally, there is a 20% ESG-tied compensation package available for the board. More on the board later.

Potential For Government Support, Stimulus, Or Industry Subsidies

Rheinmetall is well-positioned to benefit from potential government support, stimulus, or industry subsidies, particularly in areas related to its efforts in sustainability, defence, and innovative technologies. The company remains committed to upholding sustainability as a core pillar of their business, allowing it to drive innovation. Aside from the subsidy mentioned above, the company is continually developing hybridised war machines and developing fuel cell efficiency through their projects based in Neuss, Hartha, and Berlin.

Additionally, Rheinmetall is involved in the HZwoBoost funding project, receiving around €1 million from the German Federal Ministry for Economic Affairs and Climate Action to develop new production techniques for hydrogen recirculation blowers, which improve fuel cell efficiency and longevity.

Risk Of Antitrust Or Industry-Specific Crackdowns

Virtually a non-existent concern. The defence industry is known for a high level of consolidation, where major players often merge or acquire smaller companies to expand their capabilities, streamline operations, or enter new markets. This trend is not typically met with antitrust challenges, as the defence sector is heavily regulated and influenced by national security concerns, which often override traditional competition law.

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Top Competitors. Who Are They? The EU Defence Primes & Their Offerings.
(Reference: Rheinmetall's Market Cap is \$62.12B, EV of \$63.86B, Revenue \$10.10B)

Thales (France)

Market Cap: \$52.97B

Enterprise Value: \$56.37B

Revenue: \$21.31B

Thales is a leading global defence contractor that specialises in aerospace, defence, transportation, and security. It offers advanced technologies in systems for land, air, and naval defence, including radars, communications systems, cybersecurity, and avionics.

Key Offerings:

- Radars and surveillance systems
- Secure communication solutions
- Military aerospace technologies
- Land defence systems (armored vehicles, weapons systems)

BAE Systems (UK)

Market Cap: \$60.33B

Enterprise Value: \$69.36

Revenue: \$32.94B

BAE Systems is one of the largest defence contractors in the world and a major player in the European defence market. It offers a broad range of products, including naval ships, submarines, armored vehicles, and advanced electronics for military use. Close comparable company to Rheinmetall, also have a joint venture in Challenger 3 development.

Key Offerings:

- Naval ships and submarines
- Land defence systems (e.g., CV90, Challenger 2 tanks)
- Electronic warfare systems
- Air defence systems
- Cybersecurity and software for defence applications

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Saab Group (Sweden)

Market Cap: \$23.10B

Enterprise Value: \$20.98B

Revenue: \$5.07B

Saab is a major player in the European defence industry, with a broad portfolio ranging from fighter aircraft to submarine systems and land defence technologies.

Key Offerings:

- Gripen fighter aircraft
- Submarines and naval systems
- Land defence systems
- Surveillance and reconnaissance systems

Leonardo (Italy)

Market Cap: \$25.70B

Enterprise Value: \$29.37B

Revenue: \$18.40B

Leonardo is an Italian defence contractor that focuses on aerospace, defence, and security. It is a key supplier of radar systems, helicopters, and naval platforms.

Key Offerings:

- Land defence systems
- Radar and surveillance systems
- Electronic warfare and avionics
- Naval systems and submarines

Notable Recent Moves By Peers (M&A, Expansion, Innovation)

In February 2024, BAE Systems completed its largest acquisition to date by purchasing Ball Corporation's aerospace division for \$5.6 billion. Additionally, BAE Systems opened an office in Ukraine and signed agreements to cooperate on the repair, spare parts, and production of L119 howitzers within the country, signaling a commitment to support Ukraine's defence infrastructure.

Saab completed the acquisition of U.S.-based CrowdAI, enhancing its capabilities in artificial intelligence and machine learning, which are increasingly important in modern defence systems.

Iveco has targeted an €1.5B valuation for the sale of its defence segment Iveco Defence Vehicles (IDV). IDV and Leonardo are partnered in numerous joint ventures, including one with Rheinmetall for combat ground vehicles. It is possible that Rheinmetall and Leonardo could bid for Iveco, further consolidating European land based systems. IDV boasts an order book of €4B, with around €1.2B in projected net revenues by 2028.

Presence Of Disruptors (e.g. Startups, Low-Cost International Players)

Helsing AI (Germany)

This company is focused primarily on AI powered decision making and autonomous targeting. The company is backed by European and US investors, is partnered with Saab, and working with Bundeswehr. Helsing AI appears more of a future collaborator/enabler than competitor, due to the nature of the business model being to create software solutions to existing platforms produced by defence primes like Rheinmetall. Possible joint ventures or even acquisition down the line.

EDGE Group (UAE)

At its core, EDGE is a vertically integrated defence conglomerate producing UAVs, guided munitions, land vehicles, electronic warfare systems. EDGE serves as a cost-competitive exporter of alternatives to NATO equipment, primarily exporting to Asia and Africa. This makes EDGE a competitor in regions that account for approximately 15.5% of Rheinmetall's revenue, and a suitable alternative to Rheinmetall for budget-conscious customers.

Anduril (US)

This company is characterised by AI-driven autonomous defence systems (UGVs, UAVs, counter-drone systems), manned-unmanned teaming, loitering munitions, counter-UAS, advanced sensor fusion, and autonomous mission execution. The company is private, and has upwards of \$2B in venture capital funding, with an approximate valuation of over \$8.5B. It is becoming something of a Silicon Valley darling.

While Rheinmetall and other primes focus on traditional procurement cycles, Anduril develops modular, software-defined platforms rapidly, often without government design mandates. It treats military technology like a tech startup, with vertical integration from software to platform.

Anduril has contracts with the US DoD, UK MoD, and the Australian Army. The company has a joint venture with Rheinmetall to develop AI-driven counter drone systems, more specifically to bring their Lattice OS and autonomous systems to NATO countries.

Ultimately, Anduril has platform overlap with Rheinmetall in the way of UGVs, counter-UAS, and loitering munitions. Anduril has a significant edge in autonomous command-and-control (C2) and AI-driven systems compared to Rheinmetall.

Anduril is also able to iterate and deploy faster than most EU primes, due in part to the vertical integration and private venture funding. In other words, Anduril is backed by a lot of fast-moving capital and doesn't need to wait for multi-year tenders. Additionally, defence procurement in the EU (and especially in Germany) is bureaucratic, risk-averse, and consensus-driven. Lastly, Germany is especially conservative on exports, which limits the incentive to scale fast-moving defence businesses for broader global sales.

This brings me to the EU's focus on strategic autonomy. US policy is shifting away from the EU and NATO commitments and more towards containing the threat of China. This EU focus on "strategic autonomy" makes them cautious about adopting rapid-fire foreign technologies, and future collaboration with US disruptors like Anduril may be limited if US-EU politics continue along their current trajectory.

FINANCIAL & CREDIT PROFILE

Top-Line Growth

Average annual growth of 16% since 2020.

The majority of Rheinmetall's growth has been organic, fueled by increased demand for defence products, particularly in response to geopolitical developments such as the conflict in Ukraine. The acquisitions of Expal Systems (2023) and Loc Performance (2024) are boosting capabilities. Expal contributed significantly towards the group's 58% increase in Weapon and Ammunition sales, with an operating result of €790M.

Gross margin, EBITDA margin, operating margin – peer comparison (2024)

Company Name	Gross Margin %	EBITDA Margin %	Operating Margin %
Rheinmetall	51.9	18.0	15.2
BAE	12.9	12.4	9.4
Thales	26.1	13.1	8.6
Saab	21.4	10.5	8.5
Leonardo	40.0	10.5	7.9

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Seasonality

Many governments allocate defence budgets on a fiscal year basis, with long procurement cycles often peaking towards the end of the fiscal year. This can lead to a spike in orders for defence-related products in the Q4, and Q1 is typically weak.

Weapons & Ammunition sales show strong seasonality - Q4 is where over 40% of sales are expected.

Pricing Power

Rheinmetall enjoys the privilege of strong pricing power. The company benefits from strong industry consolidation, and specialised unique offerings that allow for better price control. The company's customers are militaries and governments, in a climate of renewed EU rearmament and NATO defence budget spending. Inflation and rising input costs can effect margins, but as previously discussed, the company utilises materials cost escalator agreements with customers to shift most of the price risk onto them.

Net Income & EPS Trend

Year	Net Income (€M)	EPS (€)
2020	-27	-0.62
2021	291	6.72
2022	474	10.92
2023	535	12.32
2024	717	16.51

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Return On Equity (ROE), Return On Capital Employed (ROCE), & Return On Assets (ROA)

Metric	2020	2021	2022	2023	2024
ROA	0%	4.4%	5.93%	5.4%	5.5%
ROE	0%	14.2%	17.93%	17.44%	19.47%
ROCE	11.8%	19.5%	21.4%	21.4%	26.4%

Rheinmetall is no longer just a legacy industrial manufacturer. The company is clearly transitioning into higher-value, higher-margin segments, as shown by its strong and improving capital efficiency. A 19.47% ROE reflects impressive profitability and disciplined capital allocation, while a 26.4% ROCE, well above typical WACC levels for defence firms, signals genuine value creation. These trends position Rheinmetall as a beneficiary of secular geopolitical shifts and regional rearmament, and I believe they support a premium valuation and a justified long-term growth assumption. More on valuation later.

Capital Expenditure Trends & Sustainability

Metric	2020	2021	2022	2023	2024
CapEx	237	271	349	398	732
CapEx YoY Growth	-	+14%	+29%	+14%	+84%
D&A	282	251	249	238	399
CapEx as % of revenues	4.38%	4.79%	5.44%	5.55%	7.51%
CapEx to D&A Ratio	0.84	1.08	1.40	1.67	1.83
FCFF	228	428.3	-165.4	378.3	1028.5

Rheinmetall's capital expenditure profile reflects a company undergoing strategic expansion, driven by structural shifts in European defence priorities. In 2024, CapEx rose by 84% year over year, signalling a significant ramp-up in investment. This growth aligns with the opening of new facilities in Lithuania and Ukraine, as well as a wave of fresh contracts tied to increased defence spending in Germany and across the EU.

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CapEx as a percentage of revenue has steadily increased from 4.4% in 2020 to 7.5% in 2024, underscoring a clear commitment to scaling operations rather than hoarding capital. The CapEx to depreciation and amortisation ratio rose from 0.84 to 1.83 over the same period, indicating that investment is being directed well beyond asset replacement and into real capacity expansion.

These moves are further supported by a growing EU defence framework that encourages regional rearmament and integration. Importantly, the pace of investment appears sustainable, with free cash flow to the firm reaching €1.03 billion in 2024. Strong operating cash generation provides ample support for these growth ambitions, reinforcing the view that Rheinmetall is creating long-term value through disciplined, forward-looking capital allocation.

Free Cash Flow To The Firm (FCFF): Trend & Stability

I use Free Cash Flow to the Firm (FCFF) as a key input because it reflects Rheinmetall's ability to generate real cash after funding operations and reinvestment, regardless of capital structure. For a capital intensive business, this is a more meaningful gauge of value creation than earnings.

The trend tells a clear story. After a dip in 2022, FCFF rebounded strongly to €378 million in 2023 and more than doubled to €1.03 billion in 2024. This sharp recovery highlights the strength of Rheinmetall's cash generation and suggests it is entering a phase of self-funded growth, with the financial headroom to support expansion and strategic flexibility.

FCF Margin & Predictability

2020	2021	2022	2023	2024
4.00%	7.41%	-2.73%	4.81%	10.13%

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2024's double-digit margin points to significant operational efficiency and financial flexibility. Overall, this trend supports my view of improving cash generation ability and emerging scalability as we move into the era of increasing European rearmament.

Working Capital Requirement Changes

2020	2021	2022	2023	2024
27%	29%	25%	23%	15%

WCR as a percentage of sales has been declining steadily, especially with a sharp drop in 2024. That's a very good sign. Rheinmetall is generating more sales per unit of working capital.

A shift in 2024

working capital intensity has gone way down (from 27–29% range to just 15%).

Indicating:

- Better inventory turnover
- Faster receivables collection
- Delayed payments to suppliers (longer payables)
- Leaner operations overall

Lower WCR as % of sales means less cash tied up in the day-to-day business, freeing up more for CapEx, dividends, debt reduction, or other strategic moves.

In other words, Rheinmetall is scaling up revenue without proportionally increasing its need for working capital. This is a hallmark of solid financial management, especially in a capital intensive, project based sector like defence.

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Debt Levels: Gross & Net Debt, Short vs. Long Term

Year	Short-Term Debt (€m)	Long-Term Debt (€m)	Gross Debt (€m)	Net Debt	% Short-Term (€m)
2020	150	873	1,023	(20)	14.7%
2021	215	706	921	(297)	23.4%
2022	454	517	971	275	46.8%
2023	410	1,503	1,913	998	21.4%
2024	552	1,871	2,423	1,170	22.8%

Rheinmetall's rising debt levels between 2022 and 2024 are not just a reflection of general expansion. They are closely linked to strategic acquisitions, particularly the purchase of Expal Systems. To finance this, the company issued a second convertible bond, adding to its gross debt. However, this is not traditional debt in the strictest sense. Convertible bonds blur the line between debt and equity, since they can dilute shareholders rather than burden the company with ongoing interest payments.

Crucially, the first convertible bond is now actively converting into equity, a process driven by bondholders once the share price moved above the conversion price. This reduces net debt over time and increases equity, representing a form of deleveraging through equity issuance rather than cash repayment. Although this results in shareholder dilution, it helps to offset the impact of rising nominal gross debt and highlights that Rheinmetall is managing its capital structure in a deliberate way. By using hybrid instruments to fund growth and choosing not to offset dilution with debt funded share buybacks, the company is preserving financial flexibility while keeping traditional leverage in check.

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Debt/EBITDA, Net Debt/FCF, & Interest Coverage Ratios

Year	Debt/EBITDA Ratio	Net Debt/FCF Ratio	Interest Coverage Ratio
2020	1.50	-0.02	10.0
2021	1.07	-0.28	19.6
2022	0.99	-2.43	22.8
2023	1.59	3.08	8.7
2024	1.38	1.25	10.0

Debt/EBITDA Ratio

In 2020, Rheinmetall had a Debt/EBITDA ratio of 1.50, which was quite reasonable. It means it would take around 1.5 years to repay its debt with its EBITDA. By 2022, the ratio fell to 0.99, indicating that Rheinmetall was in a strong position to pay down debt quickly, as its EBITDA outpaced debt growth. However, from 2023 to 2024, the ratio increases again to 1.59 and 1.38, reflecting a significant rise in debt, linked to strategic acquisitions and expansion activities (such as the acquisition of Expal Systems). This increase indicates that the company is relying more on debt to fuel growth, but the ratio is still within a manageable range

Note: (a portion of the debt is convertible to equity, and is actively converting as of April 2025. As I am calculating with 2024 data, these numbers reflect the debt levels pre conversion.)

Net Debt / Free Cash Flow (FCF) Ratio

Negative ratios in 2020 and 2021 indicate that Rheinmetall was in a net cash position (cash and cash equivalents exceeded net debt)

The ratio spiked to -2.43 in 2022, primarily due to the negative FCF that year. This suggests that despite having more cash than debt in 2021, Rheinmetall faced significant cash outflows.

The ratio jumped to 3.08 in 2023, indicating that the company's net debt increased sharply in relation to its negative FCF. This is a key indicator of financial stress, showing that Rheinmetall was borrowing more than it could generate in cash from operations. In 2024, the ratio improves to 1.25, which is still relatively high but much more manageable than in 2023. This suggests that Rheinmetall has improved its cash generation and reduced the strain on its balance sheet.

Interest Coverage Ratio

In 2020, Rheinmetall had a solid interest coverage ratio of 10.0, meaning it could comfortably cover its interest payments 10 times over with its EBIT.

This ratio improved to 19.6 in 2021 and 22.8 in 2022, reflecting both growing EBIT and relatively low interest costs. It suggests that Rheinmetall was in a strong financial position during these years, easily able to service its debt.

The ratio dropped to 8.7 in 2023, likely due to a significant increase in interest expenses (as seen in the interest expense figure). This drop could be due to higher borrowing costs or interest payments related to new debt.

However, the ratio rebounded to 10.0 in 2024, suggesting that Rheinmetall has managed to stabilise its earnings and interest expenses. It is now back in a safer zone, able to cover interest payments comfortably.

The interest coverage ratio is a key strength for Rheinmetall. While it faced some pressure in 2023, the ratio remained relatively strong over the entire period, indicating that despite increasing debt levels, the company can comfortably service its interest obligations.

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Debt Maturity Schedule & Refinancing Risk

Rheinmetall's debt maturity schedule is well distributed, with major obligations spread between 2025 and 2034. The company has two convertible bond tranches of 500 million euros each, maturing in 2028 and 2030, with the first already actively converting to equity according to Moody's.

This activity reflects bondholder agency, as conversion is typically voluntary and only pursued when the equity value exceeds the conversion threshold. The resulting equity issuance reduces net debt and future refinancing pressure, supporting balance sheet strength without the need for new borrowing.

Approximately 4.1 billion euros in bilateral credit facilities are due in 2025, which creates a short term concentration. However, these facilities are typically used for working capital and are expected to be renewed or refinanced on standard terms.

The 750 million euro syndicated loan facility, which remains undrawn, provides additional liquidity and financial flexibility. Overall, refinancing risk appears limited. Rheinmetall benefits from strong free cash flow generation, high interest coverage, and a substantial cash position.

Its access to diverse funding sources, conservative leverage profile, and supportive investor sentiment all contribute to a low risk of refinancing stress in the near to medium term.

Credit Rating

As of April 2025, Moody's has upgraded Rheinmetall AG's long-term issuer rating from Baa2 to Baa1, maintaining a stable outlook.

The rating change matches my expectation that Rheinmetall will continue to benefit from strong demand in the defence sector, supported by increased defence spending across NATO states. The company's conservative financial policies and strategic focus on defence are expected to sustain its credit profile within the Baa1 rating category.

Cash & Equivalents On Hand

Rheinmetall's cash and cash equivalents have remained robust across the five-year period, reflecting disciplined liquidity management and strong operational performance.

In 2020 and 2021, cash levels hovered around €1 billion, reflecting a net cash position supported by solid free cash flow generation.

In 2022, cash dropped sharply to €545 million, coinciding with a transition into a net debt position. This was the result of increased capital expenditure and working capital build-up to support ramping defence production.

From 2023 to 2024, cash levels recovered to €850 million and then further increased to €1.18 billion in 2024, marking the highest level in the observed period.

This rising trend in 2023–2024 aligns with Rheinmetall's record order intake and operating cash flow improvements, as well as cautious liquidity buffers in response to elevated geopolitical demand and large defence procurement cycles.

The elevated cash balance enhances Rheinmetall's financial flexibility, helping to buffer against refinancing risk, support strategic investments, and manage short-term obligations without strain.

Undrawn Credit Lines Or Revolvers

Rheinmetall has several undrawn credit lines that provide significant liquidity flexibility. One example is the syndicated loan facility of €750 million, maturing in 2028. This facility, provided by 12 banks, is primarily intended as a back-up line for the Commercial Paper Programme.

While it is not actively used, it offers Rheinmetall a buffer of liquidity in case of short-term funding needs, and it could be considered a revolving credit facility depending on the specific terms.

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Additionally, Rheinmetall has access to bilateral credit facilities of approximately €4.1 billion, maturing in 2025. These agreements, with banks and insurance companies, are also likely undrawn and available for liquidity purposes.

They further enhance the company's financial flexibility, reducing refinancing risk and ensuring that sufficient liquidity is available to support ongoing operations and strategic investments.

These undrawn credit lines help Rheinmetall manage potential funding requirements without immediately relying on more expensive or less flexible financing options.

Liquidity Ratios

Year	Current Ratio	Quick Ratio
2020	1.50	0.96
2021	1.49	1.00
2022	1.43	0.89
2023	1.30	0.70
2024	1.21	0.63



Rheinmetall's current and quick ratios have declined steadily from 2020 to 2024, with the current ratio falling from 1.50 to 1.21 and the quick ratio from 0.96 to 0.63. While this suggests tightening short term liquidity, the nature of Rheinmetall's business, which is built around long cycle defence contracts backed by stable government clients, puts this into perspective.

Much of the inventory excluded from the quick ratio is tied to committed production under contracts with minimal counterparty risk and reliable payment structures. As such, the lower quick ratio does not necessarily signal liquidity stress, but rather reflects increased operational activity and investment in fulfilling a record order backlog. In this context, traditional liquidity metrics may understate Rheinmetall's true financial resilience.

Year	Dividend per Share	Net Income	Dividend Payout Ratio %
2020	2.00	-27	30
2021	3.30	291	30
2022	4.30	474	39.2
2023	5.70	535	38.9
2024	8.10	717	39.0

Rheinmetall Dividend Commentary (2020–2024)

Rheinmetall's dividend trajectory over the past five years reflects not only a strong commitment to shareholder returns but also growing financial resilience and earnings momentum. Despite posting a net loss in 2020, the company maintained a dividend of €2.00 per share, underscoring its confidence in long term fundamentals and its ability to navigate short term volatility.

Since then, dividend growth has tracked closely with earnings performance, reinforcing a disciplined yet upwardly geared distribution policy.

In 2021, net income recovered to €291 million, prompting a 65% uplift in the dividend to €3.30 while holding the payout ratio at a conservative 30%.

2022 and 2023 delivered further earnings growth, with dividends rising to €4.30 and €5.70 respectively. The payout ratio was modestly increased to around 39%, signalling room for continued reinvestment alongside enhanced shareholder returns.

The most recent figures for 2024 mark a high point. Net income reached €717 million and the dividend surged to €8.10 per share, Rheinmetall's largest to date, all while keeping the payout ratio consistent at 39%.

Share Buybacks: Strategic Capital Allocation and Valuation Discipline

In 2019, Rheinmetall bought back shares previously held by MAN Truck & Bus in their joint venture, Rheinmetall MAN Military Vehicles (RMMV). This move gave Rheinmetall full ownership of the Tactical Vehicles business unit. The purpose of the buyback was to streamline the business structure and enhance the value of that segment.

While Rheinmetall has authorisation to repurchase up to 10% of its share capital through 2026, no buybacks were made in 2024. Treasury holdings have declined from over 3% in 2015 to just 0.3% as of the end of 2024, indicating no recent offset to dilution.

This restraint reflects a capital allocation strategy prioritising investment and debt repayment over share repurchases. However, the authorisation provides management with strategic flexibility should share-based dilution or undervaluation concerns arise.

In August 2024, the CEO mentioned that a share buyback programme might be considered, although this statement should be met with skepticism. In the defence industry, share buybacks tend to be less common than in other capital-intensive sectors, particularly among European defence primes. Several structural and regulatory factors contribute to this.

Firstly, defence firms, especially those with government contracts or partial state ownership, operate under intense public and political oversight. Share buybacks can be politically sensitive, particularly during times of heightened geopolitical tension or increased defence spending. Redirecting surplus capital toward repurchases may be perceived as prioritising shareholder returns over national security or operational readiness, which is an optics issue that many firms are keen to avoid.

In the EU, governments often play a direct or indirect role in the strategic direction of defence companies, either as customers, regulators, or shareholders. This influence typically favours reinvestment into R&D, industrial capacity, or employment over financial engineering. In some cases, governments may explicitly discourage buybacks in favour of capital spending or dividend stability.

Additionally, EU-listed firms face more stringent corporate governance and ESG frameworks than some of their non-European counterparts. Large-scale buybacks can be seen as contrary to ESG best practice, particularly in industries linked to defence and armaments. This has led many EU firms to adopt more cautious and conservative capital return policies.

Lastly, defence primes must maintain long investment cycles and are often tied to multi-year procurement programmes. Holding cash for flexibility in programme delivery, acquisitions, or capacity expansion is often prioritised over returning capital to shareholders. To round off, I do not believe there is a high likelihood of any meaningfully sized share buyback on the horizon for Rheinmetall.

Debt Repayment & Re-Leveraging Trends

Rheinmetall's capital structure over the past five years reflects a disciplined approach to managing leverage in support of its broader strategic goals. The company has balanced debt reduction with selective releveraging, while maintaining solid coverage and healthy credit metrics throughout the period.

A key development was the €500 million convertible bond issuance, which formed part of a targeted move to raise capital while preserving financial flexibility. A second convertible bond, maturing in 2030, remains outstanding and unconverted. While conversion is ultimately at the discretion of bondholders, the embedded equity option introduces potential for further deleveraging, depending on future market conditions and equity performance.

The company's interest coverage ratio, which ranged from 8.7 to 22.8 between 2020 and 2024, remains strong. While coverage temporarily declined in 2023, it stabilised at 10.0 in 2024, suggesting continued capacity to meet interest obligations with a comfortable margin.

In terms of leverage, the debt to equity ratio rose from 0.35 in 2022 to 0.60 in 2024, reflecting the intentional use of debt to support expansion. Similarly, debt to EBITDA increased from 0.99 to 1.38 over the same period. While this marks a shift toward a more geared capital structure, the levels remain moderate and well within typical investment grade thresholds.

Overall, Rheinmetall's approach to debt has been measured and aligned with underlying profitability. The company has maintained sufficient headroom to absorb fluctuations in earnings or interest costs, while positioning itself to take advantage of long term investment opportunities.

R&D Spend % Of Free Cash Flow

Rheinmetall's R&D funding has been somewhat inconsistent, with sharp swings between years. While the company was able to fund R&D internally in some years (2021, 2024), there were also years (2020, 2022, 2023) where R&D spending was higher than free cash flow, indicating a reliance on external sources of funding.

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Contextually, 2020 saw supply chains wrecked by the pandemic, 2022 saw the announcement of the acquisition of Expal (€1.2B) in a year with negative FCF.

Year	R&D Spend as % of Free Cash Flow
2020	159%
2021	80%
2022	-201%
2023	108%
2024	51%

Capital Allocation and Shareholder Value Creation

Rheinmetall's capital allocation over the past five years reflects the navigation of complex shifts in global defence demand, supply chain resilience, and shareholder expectations. The company's strategic choices signal a clear commitment to long term growth, but also reveal the financial pressures of executing this vision.

Cash Generation and Free Cash Flow Volatility

Operating cash flow has seen strong growth, rising from 453 million euros in 2020 to 1.72 billion euros in 2024. This reflects expanding defence backlogs, pricing power, and operating scale. However, free cash flow has been less stable. Years such as 2022 posted negative free cash flow as capital expenditure and working capital demands surged. These swings suggest that while the business is generating healthy core cash, it remains highly sensitive to capital outlays and the seasonality of inventory cycles.

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Capital Expenditure and Capacity Expansion

Capital expenditure has more than tripled since 2020, climbing to 732 million euros in 2024. Much of this is tied to new production sites, supply chain verticality, and capacity investments across Europe and the United States. This level of investment shows confidence in long term demand, but also implies that capital intensity may remain high, particularly as Rheinmetall balances ammunition and vehicle production growth.

R&D Investment and Internal Funding Capacity

Research and development spending has been remarkably consistent, averaging above 340 million euros and reaching over 500 million euros in 2024. In most years, R&D outpaced free cash flow, indicating the use of external funding to support innovation. This is not necessarily a weakness, but it does reflect how closely linked the firm's technology strategy is to broader balance sheet capacity. The relationship between R&D and free cash flow appears erratic to me, with no clear trend.

Dividends and Shareholder Distributions

Dividend per share has steadily increased each year, reflecting confidence and a willingness to return cash to shareholders even as capital needs rose. The payout ratio remained healthy, within a 30% to 39% range. Rheinmetall has not pursued share buybacks, which in hindsight may have been a disciplined choice given the sharp rise in the share price, and the regulatory / optics concerns previously mentioned. Retaining capital has allowed the company to fund expansion and maintain flexibility, especially during more volatile cash flow periods.

Balance Sheet and Debt Trends

Debt levels have risen, particularly after 2022. Net debt moved from a negative position in 2020 and 2021 to over 1.2 billion euros by 2024. The issuance of a 500 million euro convertible bond, now converted into equity, softened the impact on leverage metrics.

Interest coverage remains solid and debt to EBITDA ratios are still within a manageable range. The firm has not overextended itself, but the upward shift in net debt relative to free cash flow (especially in 2023) signals a temporary funding strain during periods of high investment.

Working Capital and Supply Chain Efficiency

Working capital requirements have remained high, but WCR as a percentage of sales fell from nearly 30% in earlier years to 15% in 2024. This is a promising sign that some of the pressures from stockpiling and inventory growth are easing. Rheinmetall's push for vertical integration through acquisitions, including efforts to bring inputs like nitrocellulose in house, also supports better control over future working capital intensity.

Market Valuation and Investor Sentiment

Rheinmetall's share price has risen more than twentyfold over the past five years. Current valuation metrics, including a forward P/E of 48 and EV to EBITDA of over 36, reflect extremely high investor expectations. This level of optimism can amplify the risk of missteps, especially if cash generation does not scale with earnings or if capital intensity remains elevated.

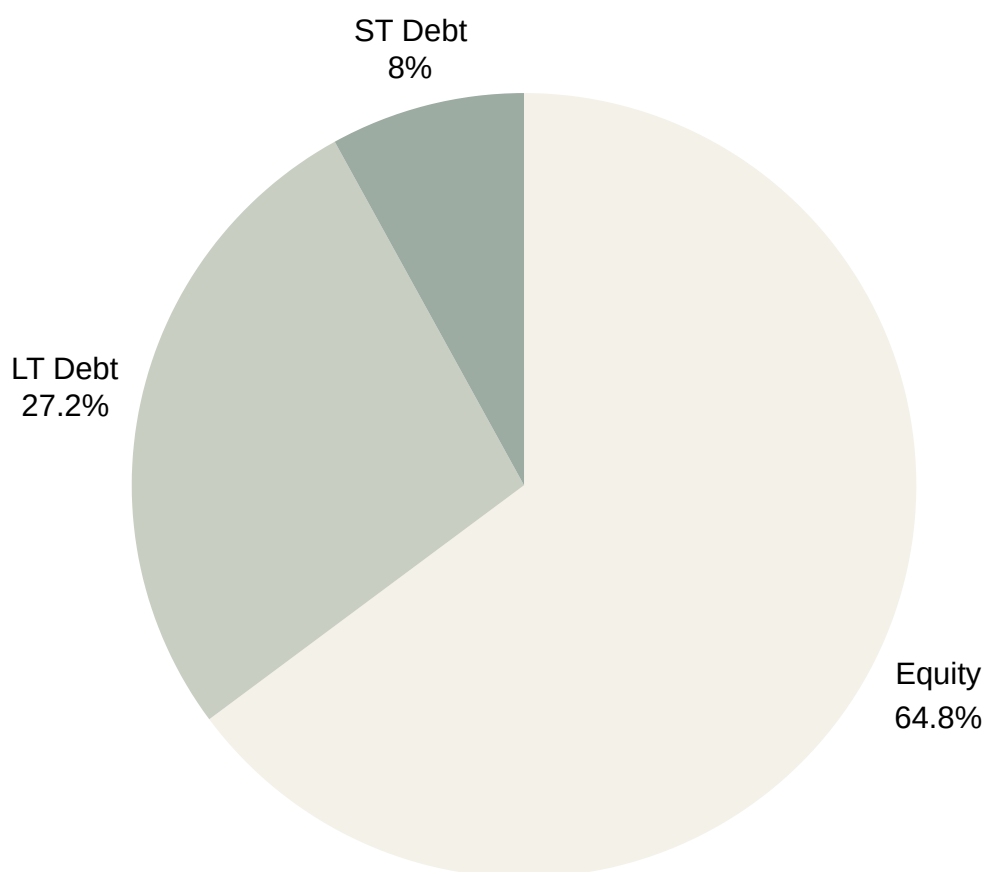
Often beyond the limits of free cash flow, the business has shown a strong appetite for investment in production capacity, research, and vertical integration. The firm has avoided excessive financial leverage and appears to be investing ahead of long term demand rather than chasing short term performance. Future value creation will depend on whether these investments yield durable returns and whether management can sustain this pace without putting excess strain on cash or debt.

Capital Structure & Dilution Risk:

The first convertible bond is in the process of converting to equity. In recent weeks, the stock fell about 9%, but this happened in the build-up to Trump's Liberation Day tariff announcement. The news cycle was dominated by uncertainty, and many stocks tumbled. It is possible that Rheinmetall stock fell due to the dilution (assumed ~7%), and the stock price falling to a similar level could support my assumption. The second bond could be converted at any point in the coming years, but there's no telling as of now.

Additional consideration regarding bond conversion, bonds can **partially convert to equity depending on the agreement. The exact terms of the convertible bond agreements are not public knowledge.*

Capital Structure Chart (2025 Equity data, 2024 Annual Report debt figures NOT accounting for bond conversion)



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VALUATION ANALYSIS

Multiple Data

Company	EV/EBITDA (TTM)	EV/EBITDA (FWD)	P/E Ratio (TTM)	P/B (TTM)	FCF Yield (2024)
Rheinmetall	37.4	30.8	90.14	17.24	3.54%
BAE	19.06	13.76	28.36	4.70	6.09%
Leonardo	17.29	12.71	26.57	3.17	4.94%
Thales	22.46	15.29	56.80	7.59	6.43%
Saab	40.09	23.93	65.38	7.63	1.54%

Rheinmetall's updated EV to EBITDA multiple of 37.4 trailing and 30.8 forward places it at the top of the peer group. On a trailing basis, it is just behind Saab, but it is well ahead of everyone else on a forward basis. This premium suggests that the market sees Rheinmetall as a focused, scalable defence play that is highly sensitive to rising military budgets in Europe.

This premium valuation reflects strong confidence in Rheinmetall's ability to sustain solid EBITDA growth, largely driven by order momentum, capacity expansion, and favourable geopolitical factors, particularly as European countries increase defence spending to meet NATO's 2% GDP target.

That said, such a high forward multiple comes with risks. There is little room for disappointment. The company will need to continue executing and show solid margin growth to justify the optimism currently priced in. Risks such as supply chain issues, raw material shortages, or further geopolitical shocks could complicate matters.

Overall, while the premium is understandable given Rheinmetall's strong growth prospects and its position in high-demand sectors, the company will need to deliver on its growth story to keep investors on side and avoid any major pullbacks in valuation.

Rheinmetall: Average Of Key Multiples Over Time (EV/EBITDA, P/E, etc.)

Year	EV/EBITDA	P/E	P/B
2020	5.4	14.2	2.1
2021	6.9	10.4	1.8
2022	11	21	3.1
2023	14.7	24.6	4.2
2024	37.2	79.1	15.7

The data shows a clear and steep valuation re rating over time. These elevated multiples reflect strong investor optimism and very high expectations now priced into the shares.

Simply, Rheinmetall is currently trading at a significant premium to its historical valuation multiples. While headline metrics like EV to EBITDA and P/E suggest a stretched valuation, my discounted cash flow model incorporating my growth assumptions points to 20% with more conservative inputs, and 41% upside with the higher assumptions.

The market may still be undervaluing the full extent of Rheinmetall's forward growth trajectory, particularly if European defence spending continues to accelerate as expected and the company avoids major supply chain disruptions or operational shocks.

What Drove Past Re-Ratings Or De-Ratings?

March 2023 saw Rheinmetall added to the DAX. Inclusion in major indexes typically leads to increased analyst coverage, greater visibility, and often mandatory buying from index-tracking funds. This boosts liquidity, broadens the shareholder base, and can lead to multiple expansion as the stock becomes more institutionally owned and closely followed. The resulting re rating reflects not just fundamentals but also enhanced market perception.

Additionally, geopolitical tailwinds have played a large factor in re ratings. The most obvious driver has been the sharp rise in European defence budgets following Russia's invasion of Ukraine in 2022. Rheinmetall, as a key supplier to NATO-aligned nations, was re rated as investors priced in structural and sustained demand growth for its defence products.



Input	Assumption
Risk-free rate	2.50%
Market risk premium	5.50%
Beta (from Bloomberg)	0.66
Market Capitalisation	66,070 million
Corporate tax rate	30.00%
Unleveraged beta (b)*	0.653
Beta of debt	0.10
Cost of debt	3.05%
Leveraged beta	0.659
Cost of equity (CAPM)	6.12%
Perpetuity growth rate	2.00%
Weighted Average Cost of Capital (WACC)	6.06%

As for the higher assumption bull case, the DCF model implies a fair value of EUR 1830 per share, suggesting upside of around 41% relative to the current market price of EUR 1300. The valuation is supported by strong long term cash flow visibility and a stable growth outlook, reflected in the discount rate and perpetuity growth rate assumptions. That said, the implied upside relies on consistent execution and continued order momentum to support elevated EBITDA margins and capital discipline.

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MANAGEMENT & INSIDER ACTIVITY

Overview Of Key Executives (CEO, CFO, COO): Tenure, Background, Track Record

CEO: Armin Papperger.

CEO since January 2013; with Rheinmetall since 1990. Papperger is an engineering graduate. He began in quality management within Rheinmetall's Defence sector, progressing through various leadership roles, including Managing Director of Defence subsidiaries and head of the Weapon and Munitions division. Under Papperger's leadership, Rheinmetall has significantly expanded, securing major contracts, including a €20 billion order from Italy and substantial deals with the German army. Over the last 5 years, Rheinmetall's share price has ballooned by over 2385%.

CFO: Klaus Neumann.

Appointed CFO effective January 1, 2025; with Rheinmetall since 2012.

Prior to joining Rheinmetall, Neumann was a Senior Audit Manager at KPMG. He joined Rheinmetall as Senior Director Accounting and has been instrumental in financial reporting and IT transformation initiatives. Neumann's appointment as CFO follows his successful tenure as Head of Accounting, where he played a key role in financial reporting and IT transformation, considered central to realising Rheinmetall's growth opportunities.

COO: René Gansauge.

Appointed COO effective January 1, 2025; with Rheinmetall since 2005. Gansauge holds a diploma in Industrial Engineering. Gansauge began his career in the controlling department of Rheinmetall's automotive division. He has held various leadership roles, including Managing Director of KSPG India, President of Pierburg US, LLC, and CEO of the Sensors and Actuators division. As COO, Gansauge is tasked with driving the alignment, optimisation, and activation of production and organisational processes across the company, leveraging his operational management experience in both military and civilian sectors.

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Management Characterisation

Rheinmetall's leadership is operator-led rather than finance-led. All three key executives have deep operational or engineering backgrounds, with extensive internal tenure and direct involvement in the firm's defence or automotive segments. Their experience suggests a strong bias toward execution, product development, and internal process control rather than financial engineering or capital markets positioning.

The team is composed of industry veterans, not outsider "change agents." Each member has spent over a decade within Rheinmetall (or longer in related sectors), having progressed through operational and divisional roles. This internal promotion track reflects continuity, deep institutional knowledge, and a high degree of cultural alignment with Rheinmetall's industrial base.

Leadership is long-tenured at the top. Papperger has been CEO since 2013, while both Neumann and Gansauge have been with the firm since at least the early 2010s. The only recent changes relate to role formalisation, with Neumann and Gansauge both formally joining the executive board in 2025, rather than outside turnover. The overall leadership structure supports stability and long-term strategic continuity, albeit with limited external disruption or new perspectives.

Leadership Sentiment

Rheinmetall's leadership, under CEO Armin Papperger, has garnered significant attention for its proactive stance in the defence industry. Papperger's assertive communication and strategic initiatives have positioned the company as a central player in Europe's rearmament efforts.

Investor sentiment towards Rheinmetall remains positive, with the company's share price experiencing substantial growth over the past five years. Analysts have noted the company's strong operating free cash flow and confident messaging from management regarding future targets.

Investor sentiment towards Rheinmetall remains positive, with the company's share price experiencing substantial growth over the past five years. Analysts have noted the company's strong operating free cash flow and confident messaging from management regarding future targets. Analyst consensus forecasts strong EPS growth, with annual growth estimates of continued outperformance of the S&P 500 index.

Earnings calls have reflected an optimistic tone, with management highlighting record growth and a significant increase in order backlog. Expectations for continued revenue growth remain high.

Board Independence and Structure

The Supervisory Board comprises 16 members: eight shareholder representatives and eight employee representatives, adhering to the German Co-Determination Act (MitbestG). This structure ensures a blend of perspectives, with at least 30% of members being women and at least 30% being men. The board is chaired by Ulrich Grillo, a seasoned industry leader with a tenure since 2016.

Board Committees

The Supervisory Board has established several committees to oversee specific areas:

- **Audit Committee:** Chaired by Louise Öfverström, focusing on financial reporting and compliance.
- **Strategy, Technology, and ESG Committee:** Involving members like Ulrich Grillo, addressing long-term strategic planning and sustainability initiatives.
- **Mediation Committee:** Formed according to Section 27 (3) MitbestG, this committee submits candidate slates for Executive Board membership if initial votes do not achieve the required majority.

Ultimately, Rheinmetall's board structure adheres closely to German corporate governance standards, with a dual board model and an equal split between shareholder and employee representatives as required under the Co-Determination Act. While this format can limit the proportion of purely independent directors, the company compensates with a diverse and experienced group of external members, including figures with deep expertise in technology, industry, and public policy.

While the co-determination model inherently differs from Anglo-American norms of independence, Rheinmetall's board demonstrates a balanced and competent structure with sufficient independence to challenge management and guide long term strategy. The mix of technical, financial, and policy expertise suggests a continued strong governance framework aligned with stakeholder interests.

Dual-Class Shares or Entrenched Voting Control

Rheinmetall does not operate with dual-class shares or entrenched voting control mechanisms. The company adheres to the standard German corporate governance structure, which is based on a one share, one vote principle. This is in line with the country's Co-Determination Act, which ensures employee participation in board decisions but does not grant disproportionate voting power to specific classes of shareholders.

Rheinmetall's governance structure places a focus on fairness and representation, with its Supervisory Board and Executive Board both contributing to strategic decisions, without any concentration of voting power in a particular group.

ESG or diversity disclosures if relevant

Hydrogen and Fuel Cell Initiatives

Rheinmetall is actively advancing its hydrogen strategy, aligning with Germany's national hydrogen and fuel cell initiative. The company has secured significant contracts for fuel cell components, including hydrogen recirculation blowers and cathode valves, with a projected sales potential ranging from €150 million to €220 million.

These components are pivotal in enhancing the efficiency of fuel cells for various applications, including mobility and stationary systems. Rheinmetall is also a partner in the Hydrogen Innovation and Technology Centre in Duisburg, focusing on the development and industrialisation of hydrogen technologies. The company is establishing a high-performance technology and industrialisation centre for mobile and stationary hydrogen applications at its Neuss site, further emphasising its commitment to sustainable energy solutions

Hybrid Military Vehicles

Rheinmetall is integrating hybrid technology into its military vehicles, exemplified by the Ermine modular hybrid vehicle family. This initiative aims to enhance operational efficiency and reduce environmental impact, aligning with broader sustainability goals within the defence sector.

Executive Compensation Linked to ESG Goals

In line with European trends, Rheinmetall has incorporated ESG metrics into its executive compensation framework. The remuneration system, effective from January 2024, includes short-term and long-term variable components tied to ESG performance indicators. The company targets ESG goals in short-term variable remuneration with a weighting of 20%. Additionally, as previously mentioned, The Supervisory Board organises its work through five committees, one of which is the Strategy, Technology, and ESG Committee.

Recent Proxy Fights, Governance Controversies, Or Shareholder Proposals

Rheinmetall has not been involved in any recent proxy fights or significant governance controversies. The company's Annual General Meeting (AGM) held on May 14, 2024, proceeded without any shareholder proposals or contentious votes, and all resolutions were approved with substantial majorities.

Executive Board Remuneration System

Rheinmetall's executive remuneration framework is structured to align management incentives with the company's long term performance, shareholder interests, and sustainability goals.

The short term incentive (STI) includes financial and ESG targets, with the Supervisory Board allowed to apply a discretionary adjustment of up to 20% in response to extraordinary external events, though general market conditions do not qualify.

The long term incentive (LTI) is structured as a performance share plan based on a four year period, tied to three equally weighted metrics: relative total shareholder return (rTSR), return on capital employed (ROCE), and ESG criteria. Payouts under the LTI are capped at 250% of the target amount, and 50% is settled in shares to reinforce ownership alignment.

In exceptional predefined cases such as M&A activity or changes in accounting standards, adjustments to ROCE and ESG outcomes may be made, but routine market fluctuations are excluded.

A strict share ownership guideline requires executive board members to build and maintain a shareholding equal to 200% (Chairman) or 100% (ordinary members) of annual gross salary. Severance payments are capped at two years' remuneration, and no special change of control provisions are in place.

Maximum annual compensation is set at 10.5 million euros for the Chairman and 4.25 million euros for ordinary members. The Supervisory Board reviews the remuneration system at least every two years, incorporating both internal benchmarking and horizontal comparisons with peer companies to ensure competitiveness and proportionality



Are Incentives Aligned With Shareholders?

The inclusion of both financial and ESG targets in the short term incentive encourages balanced performance that reflects profitability and sustainability. The performance share based long term incentive is particularly shareholder friendly, as it ties executive rewards to relative total shareholder return (rTSR), a direct measure of how shareholders fare compared to peers.

The additional metrics (ROCE and ESG targets) reinforce capital efficiency and responsible governance, both of which are increasingly valued by institutional investors. Capping payouts at 250% and mandating 50% to be paid in shares also helps align management with long term share price performance. Share ownership guidelines further strengthen this alignment, ensuring executives have meaningful skin in the game.

The system also incorporates prudent governance features that protect shareholders. Clawback clauses and caps on severance ensure accountability and limit excessive payouts. While the Supervisory Board retains discretion over a portion of STI outcomes, this is constrained to extraordinary events and excludes general market developments, which protects the integrity of performance based pay. Moreover, regular reviews and peer benchmarking of the remuneration framework ensure that it remains competitive and proportional, without leading to unnecessary shareholder dilution or cost inflation.

Stock-Based Compensation: Dilutive Or Well-Structured?

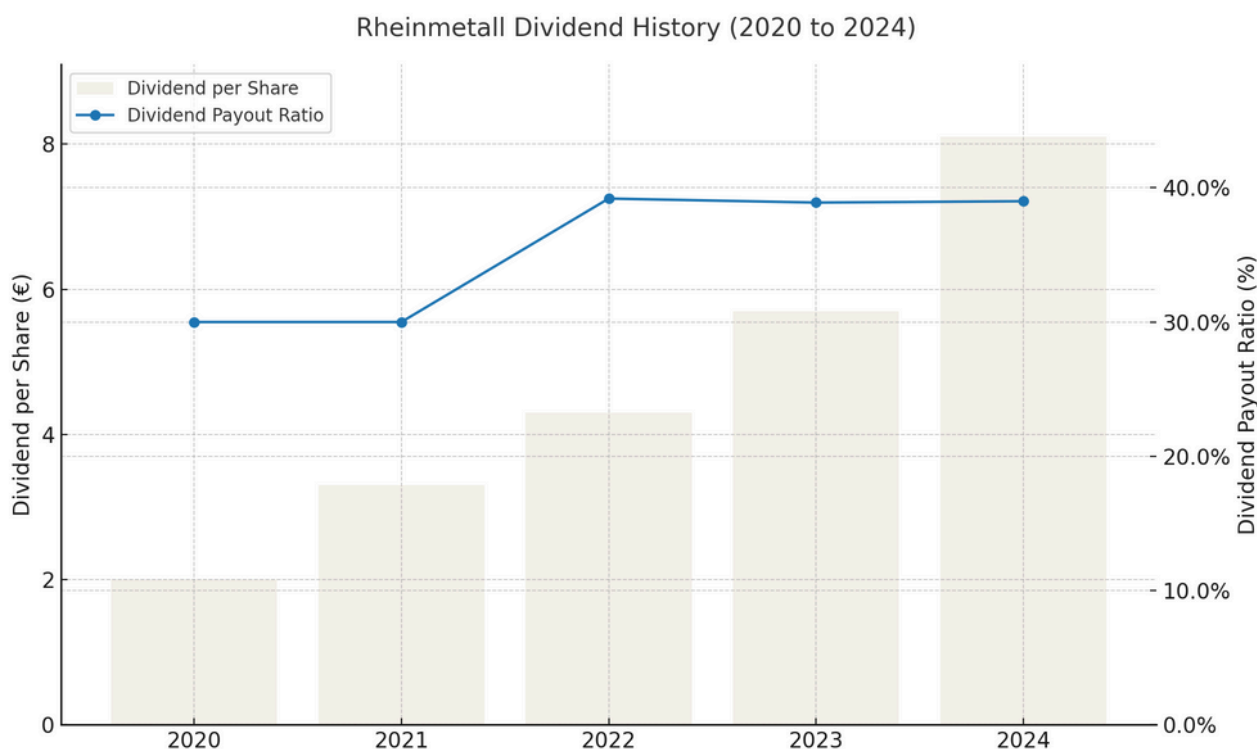
Rheinmetall's stock-based compensation appears to be well structured rather than excessively dilutive. The performance share plan (PSP) grants are not only capped but also contingent on achieving specific multi year targets tied to rTSR, ROCE, and ESG goals. These metrics ensure that shares are only awarded when there is demonstrable long term value creation, rather than for meeting easily attainable benchmarks. Additionally, the payout cap of 250% and mandatory share deferral rules add layers of discipline, preventing windfall gains and encouraging executives to stay invested in the company's sustained performance.

From a dilution standpoint, Rheinmetall exercises restraint. The company does not rely heavily on issuing new shares to fund compensation, and the programme is periodically assessed for market competitiveness and shareholder fairness. Shareholding requirements for executives also support alignment without requiring an ever increasing number of shares to be issued. While any stock based plan carries some potential for dilution, Rheinmetall's current structure appears to balance this risk carefully against the need to incentivise management. Overall, the approach is responsible and shareholder considerate.

Dividend History

From 2020 to 2024, the company has shown a clear commitment to returning capital to shareholders through a growing dividend. Even during the disruption caused by the pandemic in 2020, when net income was negative, management maintained a dividend payout. This suggests a confident and long term approach to shareholder returns. Since then, the dividend per share has more than quadrupled, rising from €2 in 2020 to €8.1 in 2024. This increase has moved in line with earnings growth, indicating the policy is both sustainable and grounded in performance.

The dividend payout ratio has remained steady, ranging from 30 to 39% throughout the period. This suggests management is striking a careful balance between reinvesting in the business and returning value to shareholders. The consistency of this approach, even as net income rebounded sharply after 2020, supports the idea that dividends are being managed with discipline rather than as a short term reaction. Overall, this history points to a stable and responsible capital return strategy.



Signs Of Overconfidence Or Conservatism?

We absolutely could be seeing signs of overconfidence. Rheinmetall is ramping up production capabilities, eyeing acquisitions, and setting optimistic targets. CEO Armin Papperger recently said that he expects the order book to balloon by 450% amid heightened defence spending. That would bring orders up to around €300 billion. It's a high target, but in my opinion it is achievable. Over 60% of European NATO members' defence imports during our observed period of 2020 to 2024 came from American companies. This is likely to change in the coming years, supporting Papperger's claim.

NOTES ON KEY RISKS & OPPORTUNITIES

Risk of Multiple Compression

Rheinmetall is currently trading at historically elevated valuation multiples, particularly on a P/E and EV/EBITDA basis. While I believe the earnings trajectory supports continued long-term appreciation, the current macro environment has bid up defence equities substantially. If we see a shift in investor focus, whether through macro rotation, easing geopolitical tensions or sector devaluation, valuation multiples may contract. However, I believe this risk is mitigated by sustained earnings growth and long-cycle defence demand, which may help anchor valuations at a higher plateau than pre-2022 levels.

Interest Rate Sensitivity

Rheinmetall is well positioned to benefit from falling interest rates. As a capital intensive company with rising demand, particularly in the defence segment, lower borrowing costs provide a valuable opportunity to fund expansion. The ECB's recent rate cut to 2.25% strengthens the outlook for companies that are ready to deploy capital effectively.

Rheinmetall has already raised funds through convertible bonds, which suggests that management is comfortable using financial tools to support growth. With lower interest rates now in place, the company has an attractive opportunity to increase its debt capacity in order to finance new production facilities, pursue strategic acquisitions and expand research and development. These actions can support its rapid growth while keeping the cost of capital under control.

If current demand trends remain strong, using debt in this way could be highly beneficial. Defence contracts typically offer high margins and long term visibility, making leverage more efficient and potentially more rewarding in this context.

It is worth noting that the automotive division, although less central, is more sensitive to economic cycles. Any increase in debt must be balanced carefully in case that side of the business experiences a slowdown.

Overall, I view the ECB's rate cut as supportive of Rheinmetall's short and medium term growth strategy. The macro environment now allows the company to pursue expansion more aggressively with less financial pressure and a reduced need for equity dilution.

Inflation

Inflation typically presents a risk to companies with weak pricing power or high exposure to volatile input costs. Rising prices can squeeze margins, particularly for firms that are unable to pass cost increases on to customers. However, this concern is far less pressing for defence contractors like Rheinmetall.

Rheinmetall operates in a sector where pricing power is structurally strong. Most of its major contracts are with governments, often involving long term agreements that include built-in price adjustments or cost escalation clauses. Defence spending is considered non-discretionary by many states, especially in the current geopolitical climate. This reduces the pressure to compete on price and protects margins even during periods of elevated inflation.

In an environment where the European Central Bank has cut interest rates, inflation risks may rise over time. Lower rates stimulate borrowing, investment and consumer spending, which can contribute to upward pressure on prices. If inflation picks up, central banks may eventually reverse course, raising rates to stabilise prices. However, this is a gradual process and unlikely to catch firms like Rheinmetall off guard.

For Rheinmetall, moderate inflation could actually support its growth. As input costs rise, so too might the nominal value of defence contracts. Governments facing inflationary pressures may increase their defence budgets in real terms to maintain purchasing power. With Rheinmetall already securing multi year contracts and expanding its order book, the company is well placed to navigate a changing price environment.

In short, inflation is not a major risk to the investment case. The company has pricing power, contractual protections and strong relationships with clients that shield it from typical inflationary pressures. Unless inflation becomes extreme and disorderly, it is unlikely to disrupt Rheinmetall's growth path.

Regulatory and Legal Risks

Defence companies are routinely exposed to a range of regulatory and legal risks. These may include restrictions on arms exports, new taxes on military production, licensing requirements or political pressure related to environmental, social or ethical concerns. Additionally, the rapid development of artificial intelligence in warfare has triggered discussions around the legal status and oversight of autonomous systems, which may lead to future regulation.

However, not all companies are equally exposed to these risks. Some larger legacy defence contractors, particularly in the United States and the United Kingdom, are burdened by slower decision making and institutional inertia. These firms are often tied to outdated systems or development cycles shaped by cold war doctrine, and they may struggle to pivot in response to modern conflict dynamics.

By contrast, Rheinmetall appears to be well positioned to adapt. European rearmament is unfolding in real-time, shaped by the tactical realities of the Ukraine war. The lessons are clear and brutal. Recent data suggests that drones account for around 70% of casualties in that conflict. These are low cost, rapidly produced systems capable of disabling vehicles worth millions. This shift challenges the relevance of legacy equipment and demands a new approach to procurement and innovation.

Rheinmetall stands out among its peers as one of the few firms with the flexibility and strategic intent to absorb these lessons and redirect investment accordingly. The company has already taken steps to expand production in areas aligned with current battlefield demands, including ammunition, mobile platforms and air defence systems.

Overall, although legal and regulatory changes remain a concern in the defence sector, Rheinmetall appears better positioned than many of its global peers to adjust and evolve.

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Supply Chain Risk and Political Exposure

Supply chain resilience is a growing concern across the defence sector, particularly as tensions rise between major powers and the global economy becomes increasingly fragmented. Key raw materials, especially those with dual use applications, are now subject to greater scrutiny and political control. One example is nitrocellulose, a critical compound used in ammunition and propellants. A significant portion of global nitrocellulose supply originates in China, which introduces a clear vulnerability for European manufacturers.

Rheinmetall has taken concrete steps to mitigate this exposure. In addition to stockpiling reserves of key inputs, the company has acquired Hagedorn NC, a domestic German producer of nitrocellulose. This acquisition strengthens Rheinmetall's control over a key material and reduces reliance on politically sensitive jurisdictions. In doing so, the company has moved ahead of many peers who continue to depend on imports for critical inputs.

In a sector where delays in materials can lead to mission failure or lost contracts, this kind of foresight is a clear competitive advantage. The pandemic exposed the fragility of global supply chains, and recent geopolitical tensions have underlined the risk of depending on politically sensitive trade routes. China remains a key concern, but an increasingly isolationist United States has also introduced uncertainty around future cooperation and exports. Rheinmetall's efforts to localise and secure its supply chain reflect a lesson learned from these disruptions and show a broader pattern of strategic thinking that supports long term growth and resilience under geopolitical pressure.

The Narrative & What The Market Believes

Rheinmetall is not a hidden gem or an overlooked small cap. It is a high profile, actively traded stock in a highly consolidated sector with strong institutional coverage. That said, despite its visibility, I believe there is still a meaningful discount to fair value. This is not a typical value trap. The company has strong fundamentals, a growing order book, and a strategic position that is uniquely reinforced by macroeconomic and geopolitical conditions.

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The market has, to a large extent, correctly identified Rheinmetall as an outlier among defence primes. Its agility, ability to scale, and proactive response to emerging forms of warfare set it apart from more bloated or politically constrained peers. The company is seen as a core component of European rearmament, and investor confidence reflects that narrative.

In periods of market turbulence, especially when confidence in the United States economy or political direction falters, capital often seeks alternative safe havens. Rheinmetall could serve that role within the European equity landscape. With growing independence in European defence policy, greater regional investment and strong domestic contracts, the company offers a credible and relatively de-risked opportunity to gain exposure to a sector that remains structurally supported.

In short, this is a rare case where the market seems to understand the story, yet the valuation still offers upside. The narrative is aligned, the outlook is strong and the long term thesis remains intact.

CONCLUSION

Rating:
U25

The market is entering a period of heightened volatility and uncertainty. In the broader context, the global landscape has been shifting towards a breakdown in peace and an escalation of conflict. With increased EU and NATO defence spending, these factors are likely to drive equity returns, positioning EU defence primes as safe havens for capital inflows from regions grappling with instability.

In this environment, I view Rheinmetall as a secure and effective vehicle for capital returns over the next five years.

While a potential deterioration in EU-Ukraine relations could impact Rheinmetall, I believe defence commitments across the EU will either remain stable or grow. It's difficult to envisage any substantial reduction in these commitments.

Meanwhile, the US's diminishing defence focus on Europe, as it pivots towards China and eases its stance on Russia, is compelling NATO members in the EU to strengthen their own defence capabilities, consistently increasing their budgets.

In my view, betting on the continued fragmentation of global peace and stability is a prudent strategy.

Rheinmetall offers an efficient way to capitalise on this trend. I do not consider the share price to be overvalued. I remain cautious about potential dilution from the remaining convertible bond, though I consider this risk to be asymmetric to the potential reward, with the upside far outweighing the downside.

Expected Timeframe for the Thesis

While short term catalysts continue to support the stock, I believe the core investment thesis will play out over a longer horizon. Barring any sudden reversal in geopolitical priorities, 2025 should be another strong year for Rheinmetall. However, my conviction is firmly anchored in a multi year outlook, with 2030 serving as a reasonable marker for the full maturity of this cycle.

Forecasting geopolitics beyond a few years is inherently difficult. The pace and unpredictability of global developments make rigid projections unreliable. Still, the observable trend points towards sustained and possibly escalating European rearmament. As the United States continues its strategic pivot towards China and softens its focus on Russia, the pressure on Europe to develop independent defence capacity is likely to intensify.

Rheinmetall is a direct beneficiary of this shift. Its production footprint, proven delivery record and expanding role in European supply chains position it to compound value steadily over the medium to long term. For that reason, I see Rheinmetall not just as a short term opportunity, but as a potential 5 year compounder, with the thesis remaining intact through to the end of the decade.

Near Term and Medium Term Catalysts

New contract announcements remain a key driver. The company has demonstrated consistent success in securing high value deals across Europe and increasingly from NATO-aligned partners. Each new award not only boosts the order backlog but also strengthens investor confidence in Rheinmetall's role in the rearmament cycle.

Escalation in Ukraine or further military destabilisation along NATO's eastern flank would immediately reinforce the urgency of defence spending. Rheinmetall, already involved in supplying and rebuilding Ukrainian military capabilities, would likely see increased demand.

A continued strategic detachment of the United States from NATO would force European governments to accelerate self-reliance. Any political developments, whether through elections or policy signals, that suggest reduced US support would likely translate into higher defence budgets across Europe.

Further acquisitions around vertical integration would enhance both margins and supply chain security. These deals often act as value enhancers, especially when financed attractively.

Market turbulence in the United States will likely lead to further rotation of capital into European equities. In this context, defence becomes a relatively safe play, with Rheinmetall one of the few liquid, large cap names to gain exposure to a sector seen as increasingly indispensable.

Additional rate cuts by the ECB or dovish signals from European central banks would reduce the cost of capital, allowing Rheinmetall to fund expansion and acquisition with favourable debt terms. This is especially relevant for a firm in a phase of rapid scale up and infrastructure buildout.

Invalidating The Thesis

Rheinmetall has already experienced a substantial rerating, with sentiment broadly aligned around its role in European rearmament. This is no longer an under the radar idea. The risk here is that investors may have priced in too much, too quickly. In a gold rush scenario, even companies with strong fundamentals can face pullbacks if future optimism is already baked into the share price. That said, while enthusiasm is high, Rheinmetall's earnings and order flow continue to support its valuation, and the macro thesis still feels early in terms of execution timelines.

Perhaps the most immediate and visible risk to the share price is a ceasefire or peace agreement between Russia and Ukraine. A meaningful shift in geopolitical tone, even if temporary, could deflate sentiment and cause a sharp short term correction in the stock. While this is a real risk, the structural drivers of Rheinmetall's growth remain intact. A ceasefire does not erase the military threat posed by Russia, nor does it reverse Europe's recent awakening to its strategic vulnerability. It may pause some urgency, but the direction of travel for European defence spending is still upwards. Any de-escalation is more likely to delay rather than dismantle the rearmament cycle.

Rheinmetall is priced for continued operational excellence. If it begins to lose contracts to peers, fails to deliver on existing agreements, or if there is any reversal or stall in public defence budgets, the stock could suffer. The company is a clear beneficiary of investor optimism around European defence, and with that comes higher expectations. When sentiment is elevated, any misstep is punished more severely. As Rheinmetall becomes more prominent on the global stage, it will be held to a higher standard and its execution risk rises accordingly.

Over the long term, elevated margins tend to attract scrutiny, competition or both. While the defence sector in Europe is highly consolidated, profit margins may still narrow due to rising costs, political pressure or shifts in procurement models. New defence players (especially nimble, tech-forward disruptors like Anduril) represent wildcard competition that could force legacy primes to innovate faster and spend more on R&D. This could weigh on margins or stretch return profiles. That said, Rheinmetall's aggressive vertical integration and growing involvement in autonomous systems, AI and drone warfare suggest it is moving quickly enough to remain ahead of the curve.

A broader market reset or sovereign debt pressures in Europe could also undermine the thesis. If fiscal constraints begin to squeeze defence spending, or if political coalitions shift against military expansion, long term spending projections may fall short. Similarly, a sudden macro revaluation of high multiple equities, particularly those viewed as war driven beneficiaries, could create volatility. However, Rheinmetall's scale, backlog and diversified revenue base provide some insulation, especially compared to newer or less established names in the sector.



Thesis invalidation is always a risk. That said, each of these scenarios would likely delay or dampen the upside rather than destroy the case entirely. The long term drivers of this stock are tied to real geopolitical shifts and structural fiscal commitments. As long as those forces continue to develop, any setbacks may present more of a buying opportunity than a reason to exit.

Valuation Range

While valuation is always a matter of assumptions, I have based mine on a forward looking DCF framework aligned with realistic revenue growth and margin trajectories. These are my own inputs and I fully expect some to challenge them. That said, even after the recent bull run, I continue to see a meaningful discount to current fair value.

My base case suggests a valuation range of **€1600 to €1800** per share, implying further upside from current levels. This puts Rheinmetall at a **U25** on my ratings scale, with an estimated upside of **25% to 49%**. This range accounts for strong fundamentals, long term demand visibility, and operational execution, while also factoring in a margin of safety for macro risks and geopolitical volatility.

Some dilution risk from the convertible bond issuance may already be priced in or partially neutralised, which supports the case for upside re-rating. Looking ahead, the most immediate catalyst, or shock, may come from developments in Ukraine peace talks. A temporary ceasefire may create a pullback, but I believe the structural thesis remains intact.

In parallel, the evolving stance of the United States, which appears increasingly reluctant to underwrite European defence, is likely to place more pressure on NATO members to step up spending. That will only strengthen buy-side demand for European defence equities like Rheinmetall.

The setup into 2025 remains favourable. I continue to see significant upside potential in the medium term, with the stock well positioned to benefit from macro, fiscal, and geopolitical tailwinds.

CLOSING REMARKS.

Full disclosure: I am not invested in this stock. I was not paid for this analysis by any individual or party.

This equity analysis report does not constitute financial advice.

It is intended purely for informational and educational purposes and should not be interpreted as a recommendation to buy or sell any asset.

I am not authorised by the Financial Conduct Authority (FCA) to provide regulated financial services.

My primary sources for this report have been official Rheinmetall financial disclosures such as annual reports, as well as credit analysis from Moody's. I have performed my own calculations from data where needed, and in other instances I have aggregated data from online sources.

Please view this report as general commentary, and always consider consulting a licensed professional before making investment decisions.

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