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Saab AB (SAABY.SE)

Capital Markets Day - Day 2

CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION SECTION

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It's the 27th of May, and we're here in Karlskoga in Sweden in one of the dynamics main sites. We have a full program on the agenda for you in the room, but also for our viewers online. So we will continue to talk about Saab's strategic position in the market and how we will capture future growth. We'll talk about investments and we'll talk about our innovation and R&D efforts for future capabilities.

In the program, we'll try to be very efficient on time. We have two Q&A sessions, 20 minutes each and a small, short break in between. And we will try to cut at 11:30 for everyone this live broadcast. So without further ado, I would like to invite Saab's CEO Micael Johansson to the stage.

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Thank you so much and most welcome to our Capital Markets Today and including also for those of you who are online. We will also take all the people here to see our production sites and the test center, which I think is also a bit of touch and feel, which I look forward to.

So if I kick this off, we had to start by looking at what's happening around us. Of course, it defines a lot of how we adapt to the market development and obviously the sort of uncertainty in how countries act today in this sort of rather multipolar world is defining a bit of how we think about things. We, of course, have the European sort of ramp up after decades of underinvestment to refer to and many countries are now politically stating more defense spending of GDP. And we are heading towards a NATO summit in Hague this summer and the expectations are quite high. But we don't really know yet how to look upon that. And maybe it's a bit different of the view on the threat environment depending on where you are in Europe. As we see it, the Nordics, the Baltic States, Poland, Germany have my perception a slightly different view and are sort of ramping up more quickly. So it's not a homogeneous European sort of position on everything when it comes to how much can we and should we spend on defense. The big thing is of course the China is showing a position in the world on technology and security and the US is pivoting towards focusing on China and making sure that they compete with China in all different aspects, which gives us a perception that Europe must take care of our own business to a large extent in our world – in part of the world.

And then, of course, we have the Russian aggression, it's new messages every day. I'm not sure we can sort of expect sort of a quick sort of peace deal or I can be wrong. It can happen tomorrow, of course. I don't know. But it's rhetoric every day and all the aggressions we see lately from the Russian side doesn't give you a perception that there is a big interest for a peace deal from the Russian side. But honestly, we don't know. And how this peace deal and the ceasefire is designed is crucially important to how we view the world going forward. Of

course, we want to have a peace deal where we can help Ukraine rebuild the country, help them create the deterrence going forward, defence capabilities in the country. It cannot be that we end up with a sort of a demilitarized type of Ukraine, which is a completely different story, but that defects the threat environment in our part of the world as well.

EU is incentivizing many countries to do a lot. Going forward, you read all about Rearm Europe and the White Paper. But honestly, the EU perspective is yes, good incentives to safe initiative where you can sort of get under preferential conditions. Borrowing money is one of them, but under certain conditions on collaboration. The other part is sort of some relaxation on the fiscal requirements from the countries, but it's all up to the nation still. We haven't seen the EU coming together with a big European defence industrial program where we put a lot of money in a common fund to do things together. That's still of uncertainly. This is being developed and negotiated as we speak. And we, of course, have many countries now saying that from a political perspective we put security and defence very high on the agenda, which we haven't seen for decades. And we need to think about what capability gaps do we need to fill in the European perspective if we have a US withdrawal to some extent, both when it comes to quantity of things, but also certain capabilities that we have to replace from a European perspective like airborne early warning, like integrated air missile defence systems, long range strike capability, and of course, the intelligence perspective when it comes to space and ISR. So, it's not completely and ISR. So it's not completely clear picture, as you know, all of you, but it's also something we have to adapt to and refer to every day. Looking at the increased defense spending, then one could say that, yes, I think we are only in the beginning of spending. All the political statements, which you see in the bubble. So if you expect us to go from where we were on sort of 1.4% to 1.7%, and this is now name to Europe. So this is not the world, this is nature Europe. And now sort of a 2% to almost plus 2% in many statements in the direction of 3.5% that means from a defense procurement perspective, and that's the numbers we're showing here, that defense procurement material for procurement, not the complete spending that we are probably like 25% sort of on our way if that would be materialized. And then we have assumed that the part of the defense spending related to procurement is going from a numbers like 20-ish-percent, 23% towards now 29%. And we have assumed in these numbers that it will be 30% of the overall defense spending around 2034. So it's a lot of spending still to be done related to many of the capabilities I just mentioned. And I think we still see a long-term growth perspective ahead of us, but still to be defined exactly on what and it's the way to go from political statements, I would say, into capability assessments from the Defense Forces and then and then into acquisitions. That takes still some time. And also the NATO, the perspective on the NATO capability, targets that will be tabled more like this summer for many countries still is something that will be a different set up than before. I mean, it used to be like you have to take care of sort of certain defense systems going by helicopters. You have to do this and you should take care on the underwater domain. Now, I think it will be more capability driven. So the countries have to assess themselves how they fulfill this capabilities that they will take. And it's a big step up. And I think the most likely area to be a huge step up is the, the ammunition and missile capability and the integrated air missile defense systems, which is the gap that we have in Europe today.

So it's a -- it's a substantial growth going forward. When, so what is driving this one going forward? What will happen? How do we view this? Well, of course, it's as I mentioned, the -- the rearming of Europe. I think we have been in an very unusual situation that we took a peace perspective of most of the things for -- for decades now after the sort of the wall fell and we thought that we would have internal peace. That sort of not from a macro perspective, the usual situation. So we have a lot of catch up to do. And it's about scaling up, of course, defense forces and having stockpiles of quantities, but also -- also new capabilities, as I mentioned, where we have a gap. And I think it's more of an urgency perspective in certain states closer to Russia. And that we see in Poland, for example, going almost 4%, 5% already, Baltic states also. It's just sort of a question of how quickly can we get there and will it be sort of the European Union initiatives. Will they all come together to do things, or will it be a coalition of the willing? I sort of I don't really care can be both. But I think it's likely that we will have a number of

states coming together to do things together because we have to collaborate more. If we want to create scale in Europe, we have to make sure that we align requirements and the demand in a way that we don't get too many versions of systems not going forward. I think there's sort of 12 different types of all the artillery grenades now, not compatible with the different launchers. I mean, we can't have it like that going forward. And it's also important for European defence industry that we create scale to be competitive in the global landscape.

Of course, then it's about to support Ukraine. We assume, of course, that we will continue to support Ukraine from a political perspective and that sort of involves defence industry to sort of in some way make them win their war. And when we see a reasonable peace going forward, we assume that Ukraine will be allowed to build its own defense capabilities, its own deterrence, and can work with European defence industries in a structured way to help rebuild that. But that will take a lot of effort there going forward and it's a long term build up, of course. And then there's the perspective of how will US now refocus on the Indo-Pacific and let's sort of how quickly Europe take its own responsibility. I think Europe will trade more and more respect the more we take our own responsibility. Also in the relationship with the US, I think the transatlantic link is super important. We cannot sort of create an economy situation that's impossible. And I think we always need to work with the US and also have industrial relationships. But we need to do much more in Europe.

work with the US and also we have industrial relationships but we need to do much more in Europe. We must reverse this situation from having 70% to 80% spending outside the European perspective and having that demand sort of in the spend more European I think it's a trend that is absolutely something that will be valid going forward. But we have systems, as I mentioned, that will be – take some time to develop and implementing operations in our part of the world.

So if you try to add this up in a sort of simple mathematical way, you can sort of add these boxes together. But then that comes times how big of a portion now will be by European. And that, I think, is the new thing. So if we been on a low coefficient on that earlier, I think it will be a much larger one. So all this combined I think will give us substantial growth going forward and those will be the drivers for this growth. But it's not the Europe sort of in the whole, it will be a little bit different depending where you are in Europe.

So for those of you who do not know so much about Saab, this is more or less my only slide showing exactly the facts. Last year we were SEK 6.4 billion company in revenue and we grew almost 24%. And we've had a couple of years now average growth of 23% and we have a huge backlog to deliver upon. We employ a lot of people, 3000 last year, net up, and we are sort of 6,000 net up, two years roughly, which is substantial. That I think will sort of flatten out a bit because we work in a different way and we will talk more about that, how we sort of optimize and make our production more about that, how we sort of optimize and make our production more sort of automated going forward. We are still in the roughly 30 countries with the focus of a few countries, which we look upon, almost like home countries, which I will come back to. And you know, our five core areas is now worked in four business areas, aeronautics, which is all about them. They are domain of course, and the [indiscernible] program and the new version, ESS version of the system, but also the trainer aircraft T7 And we have a number of initiatives when it comes to sophisticated unmanned capability in their domain. Dynamics, growing a lot younger. We'll talk more about that. But that's what we why we are here this today to show you more sort of tangible things when it comes to the systems and how we manufacture them.

And the ground combatant training and missiles are growing substantially as you know, surveillance, the biggest area today is all about sensor capability, how you connect the systems in terms of AI based C2 it this about passive and active sensors in all domains and also responsibility for the big platform globally. And then we have Saab Kockums which is the naval part of Saab on the platform side surveillance actually to do with the combat management systems on the ships and integrating everything on the ships while Kockums are doing mainly

underwater systems, you know all about the submarines, but also designing surface ships and doing superstructures for surface ships and also having the responsibility for unmanned capability on the surface and under the surface of the sea.

So that's who we are in a nutshell.

So looking forward and strategic direction it should be discussion as well of course. We look upon this in a number of blocks. And, of course, it's about scaling up. It's about sort of making sure we capture the market in a focused way. It's about sort of making sure we're relevant not now only, but also in one, two, three, five years. When it comes to our capabilities and how we embrace new technology and also how we make sure we have the best talent and all the time continuously develop our workforce in terms of competence and how we transform a company from sort of reasonable growth to substantial growth, and how that affects the mindset of our employees and the management of the company. But then we have a cross few things as well that are super important to us, which I will touch upon. And that's the digital transformation that every company is doing digital transformation. But the serious now for us as well in terms of how software defined we will be going forward. And we have employed a Chief Digital Officer who is here today. You have to chat with him later on. I will try to describe what he's doing for us and with us, but it's super important to us for being competitive going forward.

And then, of course, this all has to be sustainable. We will be a sustainability leader in our segment working with defense going forward. So I will give you a few highlights on each block now going forward here. When it comes to growth, we have not only since the war broke out and everyone woke up to sort of spend more capacity. We spend more money on increasing capacity. We actually for a long time, we have been a growth company and that is of course, something that we are proud. Now we have a little bit of a different situation. You know, our mid-term targets, 2023 to 2027 and CAGR 18%, which is very sort of ambitious. And we are delivering upon that, which I'm proud of. So I just wanted to say that this is a continuous growth plan that we will talk a little bit more about and how we are doing this now in terms of scaling production is super important. And this is all about building capacity. It's one part of this. And we do that here in the western part of the world in Carl-Gustaf. Dynamics, we will see some of it today when it comes to our production site. Huge investments in many buildings and production line. But since it's about explosives, it's not sort of one big building. It's many buildings with different parts of the value chain.

But we are also building new facilities in the US, as you know, in Grayling, Michigan. And that is going to be a very important part for us to capture that market, but also being able to export from that market. And the same thing for India, also a very big market and a good customer to us on the Carl-Gustaf that we will build things there. Aeronautics is about the great and production capacity. So don't believe for a second we are only focusing on surveillance and dynamics when it comes to investments. We are investing heavily also when it comes to aeronautics side of things and also the Saab Kockums side. So we are expanding our capacity in Linköping and we also have a full-fledged new facility in West Lafayette, Indiana to build a train and aircraft T-7. And in the southern part of Sweden, we have actually opened up another site in to be able to sort of handle the expansion of the production of the submarine side. So it's much of the steel work is going to be done also in [indiscernible] and we have partnered with important sort of UK company like Babcock to make sure that we can build surface ships using that sort of shipyard capability and to export that into the marketplace. So we're doing a lot here, but it's not only about building new buildings and sort of repeating what we've always have done. This is maybe the most important part that we have to do it in a different way. And I wish we could be at several sort of sites at the same time so we could virtually transfer ourselves to other sites because we have a completely automated facility now in Linn shopping, doing the tubes for the weapons systems you saw downstairs yesterday evening, which is we haven't expanded in terms of personnel at all, rather the opposite. So now we can have a completely different pace of building the tubes for our different systems like 84 and Carl-Gustav in a way that we couldn't do before.

So we are doing things like, yes, we have to because of the requirement on delivery times, we are sort of duplicating a bit of we're doing today but adding robotics where we can, but then we rethink everything also. So we redesign certain things to be able to do it completely in an automated way going forward. So we have to do both at the same time because otherwise it takes a while to start a new factory. I mean that's like two or three years and we have to continue to deliver and ramp up capacity. So we have to do this in both ways going forward.

So it's also about redesigning to do automation, but it's also to automate what we can already in existing facilities. Supply chain is probably already in existing facilities. Supply chain is probably the one thing that we see now in the global context that is being much discussions about because it's not only about us as a prime and other primes scaling up and we might have the financial muscles to do that, but the bottlenecks are probably in the supply chain and sometimes we have to help them invest to be able to sort of grow with us, the ecosystem on how we do things that is extremely important. I mean we have to look upon this from a regional perspective, so we try to regionalize this as much as possible to have control of the supply chain and you see that quite a big part of the supply chain is in Sweden still and here we have been lucky to have a big portion of our supply chain around our ground combats and missile perspective. But this includes, of course, indirect procurement also. So this is not only material production, it looks a bit sort of substantial to be so much Swedish if you would look on the material part of it, I think it will be slightly less sort of connected to Sweden, but still it's important to regionalize, which we do in the US, which we do in Sweden. So that may be the biggest sort of step we take. Yes, we do think about redundancy, but honestly, I mean, in certain parts where we have volumes we can afford and have the luxury of having several suppliers to choose from and having them certified and qualified. But in many cases, it's a big step to certify and qualify the new suppliers for all type of product, all type of systems and products. So you can't have that everywhere. But we're looking into that, of course, and then we build honestly a bit more stocked because we need to have the resilience if something happens going forward. So this is an area where we put lots of effort now as we speak.

So let's go to market then. And we just want to underline, we still focus a lot on our main focus areas, which is our domain, the advanced weapons system, sensors, command and control and underwater systems. I'm not saying that they will they will look exactly the same going forward. The technology will develop these areas into having new office. Of course, it will be autonomous systems in many of these areas that we haven't had before. I mean, unmanned intelligent systems that can either work on their own and in this one type of technology setup or an unmanned team. So that's an important part. But we are extremely well-positioned. And I must say, when it comes to our portfolio, I think if you look at defense companies, there are few companies that have the multi-domain potential in actually combining systems and integrating systems the way we have. We have platforms, substantial platforms. We have the products, the important ones and the vertical integration of what we do and we how we have the connectivity in terms of connecting these things to AI base, sea to command and control. So this is extremely good when it comes to the position on the portfolio. And if you look at what happened during the last two years or three years, the market has grown maybe like 9%. I mean, the overall world market like 9% maybe. But our segment is difficult to sort of extract exactly our segments. But that has grown a bit more, maybe 11%, the CAGR over this two years or three years. And we did grow down 23% going forward. The all the data we can find there, you probably have even more data than I have. But we trying we see that there is a continuous growth data we can find there, and you probably have even more data than I have. But we're trying we – we see that there is a continuous growth going forward if you look upon the same segment in the world, still around 9%, 10% growth and we will absolutely grow more than that because we are also in the European perspective having that potential. So that's sort of from the portfolio perspective, a very good position. And if you look at the market perspective, then we focus on, of course, you can divide this in different ways, but we'll tend to look upon it from a NATO European perspective, which is important to us. And we have during the last sort of two years now, 2023, 2024 outpaced our key markets when it comes to that. So if the growth has been a certain number, the grey bar

here, we have grown more. And that is actually true for all the focus markets that we have, including Sweden. But when we have our hubs, what I call the many solves where we build a portion of our capability with everything, where we invest in R&D, where we have marketing of course, but also development of production. That's what we have in the US, Germany, UK and Australia, which still outpace sort of what's – what's happened during these years. Now, looking back 2023 and 2024, so the market growth perspective is also very good for us.

And if you think about the future, then, yeah, I don't know exactly what will happen in the next – in the Hague Summit, but I think everyone is discussing sort of beyond 3%, it could be more. We don't know yet. I will definitely be there to sort of make my perception of an assessment of what's going to happen. And that will mean a substantial sort of CAGR going forward in terms of spend for the countries and we tried earlier in that picture to show what 3.5% means from the defense procurement perspective and the European NATO. The Swedish government have stated 3.5%, which is adding all the time up until 2030, roughly SEK 300 billion, which is substantial. It hasn't been defined yet. In June, I think they will start looking out and telling more specifically exactly what capabilities those money will be spent upon and that's very much connected to our NATO targets that we will get. That is going to take a lot of money, I think, for Sweden to sort of align ourselves and implement the NATO capability targets.

You saw the overall sort of build now from the US perspective, huge spending going forward and even though the debt is rather high in that country, they continue to spend on defense. So we still have a strong position in the US and we are growing in the US. And remember, we have important systems that they depend on us performing also in the US. is much talk about sort of will US allow us to use components and means for the great business and so forth. For me it's sort of not sort of a one way discussion. We also have things that are super important to them, which they use in their defense capabilities going forward. We are going to help train every US fighter pilot going forward. We have sensor systems that makes their sort of big platforms work. If we are not performing, they cannot make it. So we have a number of things in that context which is important to them.

Germany, we have been not lucky. We have been skillfully lucky to sort of involve ourselves in things like taking care of the frigates 1, 2, 3, as they are called, in terms of refurbishing them taking care of the frigates one, two, three, as they are called, in terms of refurbishing them and adding all the new systems that we are a big player now on the naval side in Germany and building sites in Germany to do this both for combat management systems, but also for electronic warfare. So we are in their domain on the Eurofighter with our partner Helsing and the Airbus defense. And we have a huge sort of presence also on the naval side in Germany. UK is also saying they're going to spend more and I mean, Germany just lately last week is really stepping up and talking about sort of 3.5% and maybe even 5%. And you've seen the numbers in Germany, that's huge. It's a big sort of transformation happening in Germany, but also in that country, we're not 100% sure what will this spend be upon. So that's a bit of time that before we see that.

UK maybe not sort of the best economy, but they are also ramping up and the question is more like how far can they go because they really want to ramp up from 2.5% to 3% and maybe beyond. And also Australia where we are selected as the supplier of all combat management systems for the naval ships, so we have more than a 1,000 people in Australia working that as we speak. So extremely well positioned in our markets as well. That's sort of my basic message. On the – you can't do this on your own.

As I've stated before, there must be more collaboration. I ask, want it on the line that we are a collaborative company. We cannot do what we want to do only from a Swedish perspective. We won't even find all the engineers we need in the Swedish perspective to do what we need to do. And we don't have all the capabilities. So we partner of course, because we need we need strength, we need the market penetration, but sometimes also technology, of course that we cannot sort of spend money on developing ourselves completely and that

these are a number of examples of companies we work with. I mean, we have great partnerships also in the grip business, you know, with JKN on the on the engine side, on the missile side, we have extremely good relationships with deal in Germany or NVIDIA. And I must say NVIDIA is probably one role model for how I hope that we will see defense companies evolve over time being more pan-European. My view on consolidation and this fragmentation discussion is probably that, okay, if we can align requirements and demand, if there are some incentives to support us from the EU perspective or coalition of willing countries, you will see partnerships, you will see joint ventures and eventually potentially a bit of consolidation. But that is in my head the way it has to develop. We have fantastic relationships in the US on the Northrop Grumman, for example, on the sensor side, Boeing I mentioned on the train aircraft and Babcock, I mentioned also on the naval side for building ships. And that's not only for the Swedish sort of the new Lulea class. We hope that -- that will be the case. It's also for the export market and we've started to partnering and we have, as you know, a stake with a new tech company and AI company called Helsinki in Germany. We both have an equity stake, a small one in the company, but we have a partnership but on how we use AI agents in our systems going forward. So this is something we've worked very diligently I must say.

On the M&A side, I know this is a busy slide. I want to say a couple of things on this. M&A is a portion of our growth journey. I know we think -- we haven't done a big one for a while, but we have done a few smaller I know we think we haven't done a big one for a while, but we have done a few smaller ones that are super important to us. We do them from a perspective that I that we want to sort of embrace new technology or we need a market position or we can build something of a bigger system together with them. And I the ones you see here we've talked about before, cloud AI is a part of our hub for innovation in the US in California. They are an AI company, which are extremely good blueberry sort of, I would say a test platform type of company where we can test a number of thing, a rapid prototyping type of company we can work with. And this thing is purely a AI and software defined systems. We working now with radio on Exoskeletal Company in Ukraine on sensor technology and defense electronics. And we hope -- we hope we will take the steps to actually work with them more tightly going forward also inside Ukraine. But that depends of course, on the development. We have quite a few sort of things in the pipeline and I wish I could sort of tell you about we are looking at that in this company and some of them are a little bit bigger. But we are roughly sort of working with, depending on where you are in the pipeline 2025ish type of objects and more sort of serious around five sort of objects that we look into more diligently. So I just want to say this is still extremely important to us.

So future capabilities? Well, I think, you know, that our focus here is on the in their domain. It's a lot about the autonomy perspective. And I wouldn't say we will be the company that will build sort of this smaller drones less sophisticated, but we're definitely now developing a new, more sophisticated platform that you can call a collaborative combat aircraft UCAV or a Loyal Wingman and we're doing that within the Swedish sort of investment on future combat air systems. We have our own program and we are also investing in that. Could be a partnership going forward to create the market perspective, super important to us, but we are also of course doing Swarm technology and we launched a ginad project. Apparently the ginad is a certain type of mosquito that I have no clue what it is, but it's -- it is maybe reflecting what we're doing and swarm technology, we're sort of less sophisticated -- we're agnostic when it comes to drones as such. But the important thing is to AI [indiscernible] and how intelligent the swarm can be and how easy it is to use from the operator side. So conscripts must be able to say, go and survey that area, just draw it on the map and the whole system just flies away and performs that. And then, of course, it's still a lot about how do you make sure that you cover everything with sensors? And we have delivered now really compact passive sensors, which we call serious compact. We built a new facility in Finland to manufacture them and they can be on the land side on sort of on the ground side, just on a pole or they can be on a drone in the air domain as well. Then we continue, of course to deliver things they come to UAS systems. And I think you will see sort of how it looks And I think you will see sort of how it looks like a bit when we go to the test center later on. And then it's all about autonomous things under the water and on the on the surface.

So we said in the market, capital market that I think in 2023 that we would increase our spending, embracing new technology with SEK 1 a billion going forward. Now, that is more than doubled in our plan going forward. We spend a lot of money on this now and we have to be relevant. And I think do we have time for a short, short film on the garnered the things you will have a sort of a little bit of a feeling what that this.

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[Video Presentation] Autonomous drone swarms gather and deliver accurate real time intelligence on enemy size, precision and equipment being dropped seamlessly to various environments integrated with ground and air units. These drones enable rapid and precise operations, reducing the risk of friendly casualties. High resolution imagery, combined with AI driven analysis, provides commanders with immediate, actionable insights, enabling faster and more precise decision making. Software driven combat capabilities offer unparalleled flexibility and adaptability, allowing continuous updates to counter emerging threats. This dynamic development cycle ensures that the system remains effective and relevant in an ever changing operational environment.

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And the thing is, as I said, that it's not a drone pilot needed or anything like that. We have it in operations already. Conscripts can actually use an iPod to draw sort of a sort of an area which you want to survey. And if something happens, you lose one or two of these drones, they will just reorganize themselves and continue to perform the mission. So it's an intelligence system. It's not flying A to B and then back. It's a completely different setup. Conscious of time, I push on. This is not unimportant. This is really important. And I want to sort of dig into every applicant we have during 2024. I mean, it's fascinating to see that more than 200,000 people actually wanted to have a job at Saab last year and I think it was 74,000 people that applied for a job but Saab this first quarter. That's great to see and that adds lots of important talent to our already fantastic workforce going forward. But the big thing I think now that we are focusing on is the culture of who we are is it's easiest to say for me as a leader of the company and then go and think and go and rethink, have a growth mindset, but that this is not sort of done like this in a week's time. This is a sort of a business where, you know, it's really used to take huge risks.

And that goes not only for us, that goes for our customers side and acquisition authorities, and we have it all the time. So we have to push hard on this. It is actually not possible to grow a company in the way we do without delegating a lot. It cannot be managed from corporate management in detail. We have to find a way of having people taking big responsibilities and they can and they must dare to take decision. They must dare to take risk and fail and try again and drive change all the time. And that is something we work really diligently upon now happening. And I'm really proud of the development so far. Now, the next thing is may be one of the most important thing that we are now in the process of implementing, and that is how shall I put it? I think the business model in our in our type of business will I think the business model in our type of business will change all the time. There will always be platforms, of course, but so much will be software defined, meaning that you have to build your software in a way that we haven't maybe done before in different architecture, but it must be upgradable continuously and you have to start thinking about what you want to give the customer in terms of how much can you do only using software. And that is also sort of a transformation that is substantial. Of course it will be cloud based and it will be sort of we will not focus on sort of the all the nitty gritty details in how you build software, but rather the applications going forward. But to be proactive and actually have something that can deliver a capability where we have invested but we can do a lot of that in software is going to be super important to us going forward.

It must be easier to adopt. It must be something that can change. Do you see the war in Ukraine? I mean, the only the EW battle between sort of how much can be [indiscernible] and how you have to adapt your systems every two weeks. That's something you have to proactively be working on and you can only do it by changing your software if you want to do it quickly. That means that the business model has to change. The customer must sort of support a setup where you yeah, you buy something, but you buy it from a subscription model. Much like you buy your hardware gadget today, you don't expect that to be completely the same the next few months you get software updates, it will be the same in all type of environment going forward.

It will be data driven, it will be AI driven, and we now consolidate this into a direction where we will be much more efficient building software going forward. And if you want to be AI driven, you have to have compute capacity.

And that's why we now are a part investor in the Nvidia setup of all the GPU center in Sweden together with other industries in Sweden. I think that's super important to have a sovereign capability, to have your models being to work with your large language models with lots of data, you have to have compute. Otherwise you lose your AI engineers. That happens because they know what they want to do. But if they don't have the compute, they will not work with us. So this is actually super important.

And that's headed now by Michael, who has done something similar with Saab before and now is doing is not same here. Of course we don't build trucks, but it's going to be the same direction here. Sustainability is we want to be a leader in the sustainability sector, in our defense sector, and that is we take that really seriously and we have divided this into three segments and then into 11 areas, which we measure with KPIs. So we develop all the time. And I want to sort of dig into the details now, but if I mention a few things. So of course the anti-corruption side of things is absolutely zero tolerance. We have launched a completely new training for all employees in our company that we now run, that's one example. On the environmental side, we have, as you may have seen, we now use Saab sustainable fuels for our firefighting capabilities our planes. And we want to use that, you know, the grip. And it's also possible to use with Saab, but it's also production problem on where do you get Saab today. That's more even more difficult for the commercial airlines, of course, industry.

But we go in that direction. And we have reduced our CO2 emissions from the reference year 2020 to now roughly 30% and we're going to be at 42%, 20%, 30%, and then next year, 2050. So that's -- that's a couple of examples which we are running as we speak. And of course, the innovation perspective or what we do is I've touched upon that in terms of how much this will be AI -- AI innovation going forward, which is also part of our sustainability going forward. So this is very, very important to us.

A couple of words on Volta priorities. I mean, I have many priorities, my corporate management knows that. The slide is more busy when we talk about this internally. But if you consolidate to two, three things, it's of course about the delivery to our customers and we have invested to be able to do that. We have a huge backlog. We're doing well, but if you don't deliver to your customers today, you lose the trust immediately because they want. They need it. They need it for building their own defense capabilities and training. Well, they want to use it to donate it to Ukraine. So that is absolutely super important. It's not sort of a flexible environment where you renegotiate everything all the time you have to deliver. And if we cannot only focus on capacity and, and sort of building our capabilities like that, we also need to look into the future of what I talked about in terms of future capabilities is the second most important thing to us. And you need to invest money to be relevant using new technologies in the next few years, and also the transformation about how we work, how much more software defined we will be going forward, but also how much more automated we will be when it comes to production is key to us.

So if we talk about sort of our mid-term targets, I think we have a very high ambition when it comes to the 2023 to 2027 targets, and we are performing accordingly. As we speak, we have, as I hope I have shown you, we have a market that supports continuous growth and I don't think at all it's limited to 2027. It will continue for a long time. We have a number of ongoing investments when it comes to capacity, capability that will support that growth also beyond 2027. But we also have a number of uncertainties around us. And I started this presentation by talking about and it's about NATO, of course, and how much we step up defense spending. It's about the relationships between US and Europe. It's about what actual capabilities will these sort of percentages of GDP spending transform into exactly? And there is still a way to go to understand that completely. But I'm not worried about continuous growth. And so, honestly, when we look at our organic sales growth, which is now, as you know, a 18% CAGR over this time period, 2023 to 2027, I see a strong growth going forward also.

I'm not tabling a number here today in a new sort of time perspective, but I can assure you we will as soon as possible when we think we have more sort of tangible material to look upon, revisit these targets. And probably next year, if I should sort of say something about the time schedule and then the EBIT growth must continue to be better than sales growth does that's absolutely a foundation for us, but also that the generate cash and this is not easy to say, but we are not going to trade off and compromise our investments on R&D and making sure that the capacity we need to have for this growth is there. Because then we will capture market opportunities because customers will go to the ones that can deliver in reasonable lead times. That's the way it is. So that's the way I see our future very promising. And I think we're doing really well in a rather unpredictable sort of world that we have to relate to every day. So the time where we did the business plan one year and then we sort of looked upon it sort of now and then it's over. We think about our strategy every meeting we have in corporate management. So it's a continuous, iterative way of looking on how we adapt to this rather sort of dramatic sort of environment that we have today from a geopolitical side, from a technology side and also, unfortunately, that we have a war in Europe to relate to. So that's my view on where we are and where we going.

And I want now to hand over to Ana, who will be more specific on certain numbers and trends and stuff like that. Thank you.

Unverified Participant

So thank you, Michael, and good morning and so nice to see you all of you here. Some new faces and some of you I have met before. Some of you you know very well and you know our numbers and you have been following us for a long time, but some of you are new. So what I would do now in my presentation, I will try to explain a bit more how the – this ambition and to the strategy and everything that we want to do it and store how that is translated into financial figures, and also give you some highlights on what's important to understand in our business and our financial situation going forward. And, of course, show my ambition or our ambition wouldn't stop to really drive this value creation going forward.

Michael talked about it, but I think it's good to take a standpoint on where we are and where we're heading towards our medium-term targets. We are in a growth journey. As you know, we have taken large steps during the last years and increased our sales growth substantially. And we are building up our order backlog and have a good sales growth rate in all our business areas, which is, of course, enabled by our competitive portfolio, a strong market position and also that we have increased our employee base during these last years. Equally important is that we have converted this sales growth into even higher EBIT growth during these years. And that is fully aligned with our outlook and with our mid-term targets. And how have we been able to do that? We have had an impact of business, positive business mix, but also expanding our sales into more international business and also a impact of operational efficiency and cost efficiencies that we have been driving within the operations.

And then, I will return to that later on. Also, I'm going to go through our profitability model and then you're going to discuss this a bit more. Also cash flow positive, and during the last years, despite that we have been growing and we have also, as you know, already started our investments on a fairly high level. So, we have a positive cash flow and a cash conversion of 64% during this time period. So all in all, progressing well towards our targets. I talked about the business mix and the shift in business mix, and that is something that already has happened actually by looking at our backlog, how it has developed since 2022 in our business areas, you can see a substantial shift and we can see that the dynamics share of our backlog, it has increased substantially and that we see already that when we look into revenue that before in 2022, we were at 20%.

Now dynamics is at 24% of the share of the sales within sub. And this is a trend that we see continue going forward and that's something that Gorgen will elaborate more on when we see his presentation within a short.

Also surveillance, 36%, 35% keeping this is the largest business area within sub and this is something that also going to continue going forward. And surveillance will really play a significant role all going forward. And that is, Carl-Johan is going to show us more about that later on.

Maybe. I just want to emphasize, when we look into the business mix and how it's shifting and how it is going to develop going forward, of course, megadeals such as large group contract, GlobalEye contract could make this shift, this mix change. But and – these contracts are often long contracts and in this mid-term time, we don't see any – so much large impact from that.

If we then talk about our If we then talk about our profitability model. This one we have seen – we have used before, we have shown it externally on our Capital Markets Day a couple of years ago. And this is something that we really work on within the company as well, of course. So what's in it – in the profitability model? The three elements is really that we should have scale on the growth. We should have efficiency and we should work with portfolio and portfolio management. So of course, when we're growing, we should benefit from scale by having higher gross margin and also be able to scale on our operation expenditures, marketing and sales and administration costs. But important to mention is that we really have high ambitions to increase the R&D. So we are not scaling on the R&D.

And both these things, it's also something that is built into our targets. And how are we doing this? I mean, then it's very much about, of course, utilization, maximizing our – on our existing resources when it comes to facilities and tools and also people. We are onboarding people and taking on new people in the group, 3,000 net last year, as we heard, of course, we need to work with our processes for onboarding and things like that to make it efficient – that make it efficient. Also, investing in new technologies such as automation and digitalizations are important things to drive that.

We can see here, the trend is going in the right direction, partly because of the business big, but also that we keep control and we really have focus on growing the gross margin. And that's something that we also work very much on internally to make sure that we can afford our R&D, increased R&D spend that we need to have going forward. Also, what's important to focus on of course, go – to improve this is also to have solid and good business with good margins. And secondly, efficiency is very much about project execution and deliveries and make sure that we have good contract management and optimize our supply chain and reduce lead times and things like that.

So KPIs in that area like on time deliveries and make sure that we execute on a project is something that we measure and that we that we follow. One thing that you can see here, we talked about, I mean, we increased the

number of employees, but we can see the sales per employee is the -- per employee. You have full time equivalent is increasing and we are also increasing the number of these less than be growing.

So KPI like that is important for us to track and to measure. And, last portfolio management be able to turn around unprofitable business. And also if they are not fitting into our portfolio, we should also look into if we should divest non-core business.

And what you can see here, this is an area we can see here. This share of sales in this business unit has decreased over the years from being 10% of our sales to 7%. And we have seen turnarounds in some of our areas where we had had problems before.

Like the [indiscernible] structures, commercial business is now much healthier and going forward. Another area where we have also had low or unprofitable business was in these under or in these where we do these combat boats, CB90s very small volumes before. Now we have seen higher demand and then it, it have been a turnaround. Still, we have business units that we are striking a bit with. And that we are working with turnarounds and we know that the profitability will, will come later on. One example of that is in the aeronautics, the T-7 business, for instance. And we also, where we are going to have the profitability will come more when we have this year production option up and running. We also have some issues within the civil portfolio, within surveillance that we're working on and, and getting a turnaround. So to conclude, we are progressing well and the trends in the KPIs are in the right directions and I think we have good plans and actions to our profit to continue our profitable, profitable growth journey.

Next R&D. Michael talked about the importance of R&D and us being future, future proof and future proof our product portfolio. As you can see, we spend substantial amount of R&D, both self-funded and also customer funded, and we are increasing the, the, the amount actually more on a higher level than we increase our revenue. So we are aiming towards SEK 5 billion, SEK 6 billion in 2027. So all in all, we spend 17% of our R&D, 17% of our sales in R&D, if you add both customer funded and internally funded R&D. So that's quite a substantial amount. And we think that is something that's important for us to, to do in order to, to be future proof going forward and really make sure that we have the relevant portfolio. Another thing that we're talking about and why we are also here in the dynamics and really make sure that we have the relevant portfolio. Another thing that we're talking about and why we are also here in the dynamics is talking about our investments. And that is why that is not what we what we think is important also to capture this growth going forward. And we have increased investments levels since 2022, which has really already supported the growth that we're seeing today. And from 2025 to 2027, our annual investments will increase around SEK 6 billion and is going to be in the range of SEK 5 billion to SEK 8 billion And we see the highest investments this year and what we can see is that around 65% of our increased investments is going into the dynamics and the surveillance area. And of course, we are going to do investments in Kockums and Aeronautics as well, but the vast majority is within dynamics and surveillance. And what's so important I mean, what kind of investments are we doing these factories this office is investments in automation. But what really it is about is capacity increase. So looking into the total pie, it's 70% of the investment is related to capacity increase. So, then, you can ask, how can you have a positive cash flow and how are you managing and we want to assure you that we are this is really high on our agenda to working with our cash flow, to working, make sure that we that we deliver positive cash flow and get going through this bridge, you can see from EBIT, despite the strong state which is generating a solid cash flow from our operation, which is a solid strong state which is generating a solid cash flow from our operation, which is a sign of good underlying business health, and we have chosen to invest significantly in R&D and capital expenditure during this growth. This is from 2023 to 2025 and we have around SEK 1.2 billion in capitalized R&D, mainly related to aeronautics in Gripen and T-7 and that's something that we are this capitalized R&D has decreased compared to previous periods as we have expensed more and that is something that is also part of our strategy going forward. So all in all, cash flow

delivered plus SEK 5.6 billion. And if you exclude in looking to the cash flow before investments, it's – I mean, it's SEK 15.5 billion during this period. So, we are really committed to deliver on our cash conversion target. But of course, in a business like this, we need to closely monitor things that are impacting the cash flow. So capital efficiency, it's next on my presentation. This is an area where we've been working for a couple of years now, having a program within Saab. So to see how we can improve our capital efficiency, measuring and having KPIs on that to see that the net working capital in relation to sales is going down even though the amount is increasing. And important things here is really has really been to define KPIs, start measure and also make people accountable understanding their role in how they can drive and improve these matrixes. It's also very much on terms and condition to customers and suppliers make sure that we take good business with cash neutral cash flow neutral contracts. Also inventory management, we are building up inventories to make sure that we can deliver a behavior that we still need to have. We need to make sure that we can deliver super important with the supply chain, but we need to do it in a good way. And we need to make sure that we buy and have stocks where we need to have stocks and make sure that we monitor that closely. Also, part of this this project. And it goes without saying, project execution is key here, of course, to deliver, make sure that we have a good contract and make sure that the contract and the projects are delivered. That is definitely a key area.

Finally, I like to emphasize that we are in a strong financial position, we have a strong balance sheet and are a disciplined approach to capital management, provides us with the flexibility to cease and to cease opportunities going forward. And also what with the current, what we see in the market with this growth. So absolutely important is for us for this going forward, we see these organic investments both in capital expenditures and in R&D at the most strategic use of resources because they will generate the highest return and the best for our business long term. And that is really one that is our top priority. To add on that M&A, it's also an area that we are investigating and looking into as possibilities and we aim to be more active in that area and to by bolt-on acquisitions. But that to buy bolt-on acquisitions. But that is not the vast majority but also a part of our capital that we're going to have as a focus. And last but not least for our shareholders, you can rest assured that we will continue to demand to have a dividend. And we have a policy and that all to do to give a dividend of 20% to 40% of our net income. And that is a policy that we remain. So all-in-all we think that we can leverage on our strong financial position to grow both the company and the shareholder value.

So with that, I would like to conclude my session stating I believe we are in a strong position tracking towards our targets and that we have the right financial and strategic priorities and also that we will be able to leverage on the opportunities going forward.

So with that, I would like to thank you and also Martin we will have now a Q&A together with Micah.

QUESTION AND ANSWER SECTION

A

So great. Thank you very much. Michael. Perfect. So we have 20 minutes. We have to keep the time efficient. And I will, before I open the Q&A session here, I will say let's ask every question to be one at the time. And we have two colleagues here with microphones which will come to you. You get the chance to ask more questions after. So we'll start the first question with [indiscernible] (01:08:47). Do you have a question there?

Q

Thank you. [indiscernible] from Agency Partners. My first question, Rob, limited to that is actually about profitability, and it's not about the profitability that you show to us as investors, but what you think your stakeholders, particularly your customers, regard as being acceptable profits or not acceptable profits? Do you have a lot of discussions with your, I mean, nobody wants to pay too much. But on the other hand, the priority at present is delivery. At what stage do you think profit – the profits that you make will become limited by customer acceptance of that?

A

It's a very difficult thing to judge, of course. And I mean, looking at the times we are in. I think we had this discussion last night. We can – you could say if you are delivering the most capable systems in the market in a certain time, whether it's almost a panic mode because we need them, you're in a war, you can sort of take advantage of that situation. That's not sort of long-term sustainable, I think. So if you look upon the market as such, if you have really excellent systems, you get into now and then a prime position where you negotiate a framework contract with a nation more or less. I mean, we have an enterprise contract in Australia, for example. We have framework contracts connected to our ground combat side to some extent. And then, you must negotiate, you get your contracts and you get certainty but it's also the taxpayers money and you get to a level which allows you to be, of course, double digits and beyond to some extent in certain segments, like we've said, mid-double digits on this dynamic side certain segments, like we've said, made double-digits on this Dynamic side, for example. But that is also a discussion you have with the country. If they want to be with us, we need to get some return profit why? So we can continue to invest. But it's not like you can like in other business segments that you can sort of get the acceptance for like 30% or 40% sort of margins on certain things that I don't think we will see in our business. No one is doing that. Some companies are taking advantage of high profits because there is a certain situation. But if you look upon it generically, over time, we have to make sure that we have a combination of contracts which are sole source framework contracts, and then you are in competitions all the time where you can actually generate a little bit more profit if you are cost efficient. And that's the mix that we have so to say it's not easy to say exactly what is the number that stakeholders will accept is different in different countries a bit. And some countries realize that we have to continue to invest and some, some countries may be a bit lower. And I've always said that on the big programs where you are sort of a strategic supplier to someone, you will never get the high double-digit numbers in competition you can. And in some framework contracts, you would also be in double-digit numbers, but it's maybe the lower double-digit numbers, but you have a certain quantity. It's a very long answer to a very complicated question. We think about this a lot and we think about it in terms of

mix, of course. But I must underline that we do not take sort of advantage of a certain situation in inflate or price is now short-term. We want to be a long-term relationship with our customers.

A

Right. We have another question here from Bjorn so similar.

Q

Yeah. Beyond ask a similar question actually. But I have said a lot that the profitability sits a lot in the contract. And I believe you have changed that. And if you can talk a little bit about how you have changed contract management over the last few years.

A

Well, our contract management is really instrumental to us as a company, of course, in a volatile type of environment as well, where you can't control inflation and you can't really control the strength of currencies and whether you can actually offer something in currency baskets or whether you have to rely on US dollars or I mean, all these things we try to sort of manage in terms of how we contract. So we are not the guys that have to take all that risk that's obvious. The more international you get that's more important that is, of course.

Then the other part of this is not to since, there's less big advance payments and contracts, you have to work really diligently to implement many milestones during the contracts. So you get sort of paid all the time. So you don't sort of have long periods of times, when you have a negative cash flow sort of dip, which used to be the case a number of years ago. So we work diligently to make sure that we have payments according to our spending, so save I put it in simple words and that the milestones mustn't be too difficult to achieve either, and also that they are not connected in a way that you still get long times of not getting paid.

So maybe those are the most important things to work going forward. But then I mentioned new business models that comes into play. Not much yet, but they will where

A

we will deliver sort of an initial capability and then continuously get sort of payment for subscription and the anticipated functionality that we will deliver. So this is changing all the time.

Q

Maybe to add based on that as well, I think just also the awareness, the business mindset, the business focus within the organization Micael talked about also the growth mindset, I think we are in a transformation from that as well, really having very high focus and understanding the complexity in our business, becoming more international company is something that is also that has developed, evaluated and develop during the years.

A

And you have to avoid getting into foreign fixed contracts completely foreign fixed with big risks unless you have substantial [indiscernible] sort of risk portions in the contract. So you can proactively do things not to have the risks actually being put, put being put into reality so that we avoid as well as far as possible. I mean, that that is something that's super important to us, but you're right, content model is changed.

Q

We have a question, we have two questions on the second row here from first with Daniel and [indiscernible]

Q

Hi, Daniel. Hi. Daniel Lee from WCM Investments [indiscernible] Universe Management. Earlier you mentioned the importance of driving accountability and delegating as a business grows. So just kind of a question around, I guess, the culture of operational efficiency and capital efficiency. Like, what are you doing differently now compared to before in the face of this big growth? That's [indiscernible] face that is helping you manage that operational efficiency?

A

Well, I would say that if you look upon a company like us with four business areas and 19, 20 business units, you have to realize that if I simplify it, it didn't used to be the way that we had business units with complete responsibilities in all areas before. So we've gone strongly in that direction, making sure that we have business units that we look upon being sort of the maybe you could say the highest operational level. They have to take care about the customer. They have to take care about the operational efficiency, the – the competence in the business units, and also understanding more the capital efficiency parameter of running a business and also generating cash that in a smaller saw that was more, I would say on business higher level to manage that loss portion of capital efficiency and cash flow and some of the operational efficiency.

Now that's strongly connected to being a business unit head in Saab and that is a big – that's more probably the most tangible example of – of how we've changed the role of a certain sort of leadership level in the organization. But it goes beyond that. Of course, some business units have been because they are at the size of the former business areas. We've implemented product units. We'll also sort of the profitability responsibility and on the product, product portfolio level, so to say. So driving business acumen and having the right leaders at these levels is much more strict now than it used to be five years ago.

A

[indiscernible] (01:18:39) The Americans call it sort of budgets and outlays when the budget when the money is allocated and when the money is spent.

budgets [indiscernible] 01:18:41 when the money is allocated [indiscernible] 01:18:42 but so question and a follow up. How much is the delay at the moment between the money being allocated and it being spent? And the second

sort of follow up is when we see a step change going from, say, 2% to 3%, 3.5%. And will that time spent, say, you get an even 01:19:09 [indiscernible]

A

Well, if you look at two sort of levels of this, it's how this system works when it comes to, okay, we take, we take a long-term plan view from a country perspective how much we will spend. But then, you see yearly budgets, of course. And then the acquisition authorities are allowed to commit to spending the next few years and that is, that is sort of more or less following the agreed spending level. So, that is quickly is sort of developing. Then you have the, how quickly is the money allocated in terms of commitment towards the industry that can take a little bit longer because the Defence Forces must sort of define exactly what sort of capabilities they want and what the money must be spent on. And then that transfers sometimes into an acquisition authority that sort of generally speaking, have the commitment to spend the money, but they must work with the defence forces and then it goes into industry and often it's competition. So, it takes a long time before the money actually gets to the contract and start being spent with the industry. That is sort of still the case, even though there are big movements in the direction of working a little bit more in parallel now so that we don't do within serial steps, depends on what area working a little bit more in parallel now, so that we don't do within serial steps depends on what area it is. For example, I want to have more clock – more clear directions, not commitment, but from different countries to say, okay, we're going to focus on this area and then I can sort of prepare myself for capacity investments and then sort of we get shorter lead times. Then you have the US model, which is like, yes, we're going to run this program. But when you contract a company, it's still that you haven't the commitment for all the years. So actually in the US, we don't take the full contract into our order backlog. We take it more or less on a yearly basis, even though the government have said that they will have at least 350 That-7 trainer aircrafts. We absolutely don't have a hold all the contract in that in the books we take sort of the yearly more or less production contracts that we get.

That's the model they use. That's not the same thing in Europe. In Europe, you commit to a contract and the full value goes into order backlog more or less, if I simplify it. So I don't know whether that answer your questions, but it's a lag from 3.5% to we have contracts in industry and getting paid that we the whole system is trying to sort of compress time wise. And then you have different models on how you are allowed to take things into your order backlog depending on which country you're in.

Q

Thank you.

A

Maybe I answered the completely wrong question.

A

We have two questions of this size. So let's start with Erik [indiscernible] .

Q

Thank you. Erik Golrang, SEB. One question is difficult. So it's going to be a stupid one. You showed you talked about swarm drone swarms and you showed some pictures here. I know it was 5 or 10 drones or so. And then we go to China and we see 10,000 drones. Why is that not the relevant comparison? And if it is, how do you compete?

A

No, no, it's a relevant comparison. It's not a stupid question at all. I mean, this system is completely agnostic in terms of how many drones can be in that swarm. I mean, we've shown up to 50 in demonstration so far. And it's about how many can the Swedish defense in the army sort of use in where they put it in operation. You can have 5,000 drones doing the same thing. If you want to have that sort of quantity, it's not a limitation from the AI based command and control and the intelligence in the system and how things self-organize themselves. If you lose a few and all that, absolutely not. So we completely agnostics on the type of drone and also on sort of how many we are focused completely to implement the functionality of this using AI technology.

Someone needs to build a drone so it's not us. There's some production in Sweden, but there's lots of it in Ukraine, but they use millions themselves. So hopefully we can get sort of incomes with these guys to buy lots of drones. But quantity is an important capability as well. So I assume the numbers will grow definitely going forward, but our system is not limited at all.

Q

Henric Hintze here from ABG. So I know you showed a slide with the mix shift in the business dynamics becoming a larger share of sales. But looking at the order backlog, it's been a much bigger shift than on sales. So I was wondering if you could comment a bit more on your reasoning regarding how much and how fast you expand capacity in this area? Is the – what's the reason that you haven't expanded it more? Is it because it's difficult or because you haven't been able to forecast the demand growth here? What's a reasonable order book level that you want to maintain over time? So like, yeah, how much capacity would you need with that level?

A

I, you want to start?

A

You can start and I can add.

A

You can talk about [indiscernible] I just want to say when it comes to the investments and such, how we view the market. Of course, it's this is normally not the type of business that you get sort of 50 year contracts. So that's one aspect of how much do you step up. We, I would say, have taken rather big steps compared to others and not waited for contracts to invest, to have quadruple the output of what we can do this year and fortunately, we started that before the war started because we saw a growth in the market already down. Then it sort of went in a completely different direction, of course, when the war started. I think with the -- I think we need to continue to do

even more and I cannot think of a board meeting out on time when we don't have an investment case for more capacity when it comes to either this automation or a new facility, or we do a lot in this area. I wish we had sort of the 15, 20 year view on what stockpiles do we need in different countries, but that has not been defined to even take the next step and we will continue to assess this, I must say. But it based on the fact that normally this is a few years type of backlog that we're looking, not to 10, 15 years. And looking at that, we've taken huge investments. I would say compare and we're taking market share as well as well. We're number one in the world when it comes to ground combat, I mean, compare and we're taking market share as well -- as well. We're number one in the world when it comes to ground combat. So I mean, we have to make sure that we keep our lead time short.

Q

Owen, I think you answered it very well. And I think I mean, as you said, we have already done a lot of investments in Dynamics. That's the reason why we can grow -- growth already. And what I showed was the investments going forward, really. And so not to mix with the backlog.

A

I must underline one thing, because this is an important question. It's not only about us. It's also about the whole ecosystem that we have around us, making sure that they can grow with us. So you probably read about so that okay. How do we make sure we have production of powder, for example, available to us and that the companies that we work with which we don't have in our sort of we don't have it in our own sort of control because we don't do powder ourselves. We rely on partners. And everyone wants powder now. Triple bass and double bass powder because of the growth around us. So that's one example of how you have to make sure that you bring that these guys with you and that they are investing in the right places. So we can have a resilient supply chain, but there are many examples of that. We have to work rather than sort of only building our new own facilities to do assembly and production of our stuff. We need to have the supply chain in control as well. Some more investments have to be directed towards that in partnerships with them.

Q

She decided outside. Let's go with Michael there.

A

Yeah. [Indiscernible] in the Carnegie. I have a question about the grip and its remains really relevant for you and for your customers. But can you sort of talk to us about GRIP as a growth contributor to as a growth contributor to solve the group medium term and what you're doing in the next iteration cycle area?

A

Absolutely. It's fantastic to talk about that here in Google. You like it, Jurgen, don't you? But no, it's a very relevant question because I mean, the business mix can change rather dramatically in how it looks like. If, as are not pointed out, you get sort of one of these megadeals or a few of them both when it comes to the grip and on the globally, we don't sort of speculate. We run campaigns diligently. It looks good, but you don't know exactly when

you actually get the contracts because it's always political decisions on a very high level. So we don't we don't plan or grow sort of based on that. So it must be with or without sort of a mega thing that's important to say. We have a fantastic foundation in this mix between product oriented sales that are more predictable and also a very nice base on the grip and large platforms. But the way we have a potential in the different campaigns is looks like we are negotiating. It looks very good on Colombia and Thailand as we speak, and also in Brazil that wants to extend the contract with 25%. So that, I hope, comes into play, as I've said this year, most of it on the Global II we have and I must say the on production capacity, of course, we want to of have a production capacity of around 20 bins a year, at least in our factory, only in shipping so we can cope with the growth on the grip inside.

Then we don't know what will happen with Ukraine, its grip and it's all going to be sort of supply to Ukraine. That's a political decision that will have an effect on us. Of course, in Hamas, we need to sort of replace in that case. But that's not to say that that's I can't sort of say anything about that. But there is potential in this direction.

We have a big interest from Peru. It's interest from the Philippines on the grip inside.

And then I know that you're thinking that everyone is questioning whether to continue with F-35s might be going forward. We are open to discussions with anyone that wants to make sweet or sort of do something else than they decided to. But you can't sort of run into conclusions that that would happen that quickly. GlobalEye looks very promising when it comes to the Nordic perspective and the discussions we have with France. But as I said, extremely good campaigns. I'm optimistic, but I cannot sort of commit to exactly when and how many of these will be one, but it will shift the mix of the business if we are successful. So don't believe for a second that we are focusing only on dynamics and surveillance when it comes to grow. We put a lot of effort and aeronautics on the main as well and also on the GlobalEye's, that's for sure.

Unverified Participant

Thank you very much, Michael and Anna. Now it's time to have a short break. So stay tuned. We'll be back at 10:20 again for live. Refreshments downstairs and back 10:20 sharp.

[Break] [Break] [Break] [Break] [Break] [Break] ([Break] [Break]

Gorgen Johansson

Senior Vice President & Head-Dynamics Business, Saab AB

Yes. Welcome back. My name is Gorgen Johansson and I'm Heading the Business Area Dynamics. And I will dive in a bit to what we do in dynamics and talk specifically about our growth journey ahead. You know a lot about our figures and where we are. We are 23% of sub. What sticks out is the order backlog that we now have is SEK 84 billion. I will come into that a bit. The business that has grown significantly in the last year. And that comes from this. We have a fantastic product portfolio that we divide into five business units. The business units, if I start from the left is to ground combat where we have the support weapons, from cargo stuff to 84 to ANLO and our cooperation also with Embraer MBA regarding Akron. What's the fantastic about this portfolio is that we are world leading. No one is producing as much support weapons as we do. And we have on occasions, we have 40 to 50 customers that buys regularly from this portfolio and that has made it possible for us to invest in the portfolio and create a fantastic footprint on the market in support weapons. To missile systems where we have our own products in all of our 70 shorter defense and the anti-ship missiles, our best 15. And then this is built on that we aim to be the nets of sovereignty for Sweden in the missiles combined with working with partners mainly in Europe but also we have a partnership in in US this programs in the missile business are very expensive to run and usually it's collaboration between countries, bilateral or more countries that takes decisions on debt. And that

is an important part for the missiles to be part of the coming both what's happening right now, but also the next-generation. So therefore, for example, the meet your we do with MDA, the Irish team, we do we deal the Taurus with MDA and then the ground around those small diameter bone we do with Boeing. So the mix of being supporting Sweden with working with partners is the key for me in this strategy to work in the missile business. And we have had a significant growth also here in the in the orders for last year in this portfolio. In Barracuda, we may camouflage or signal to management. We are the largest producer of camouflage in the world and that this and skill that I think will grow even quicker now after what we have seen in Ukraine.

It's the obvious is that we have drones everywhere. So you have to hide. And if you are then able to use a camouflage. We have seen very positive effect and let's get that from the Ukrainians. And that has not yet turned out into a large volume from other customers. I think the doctrine will change. I think a lot of customers will buy camouflage, but they're also decoys. And so in the future, in order to be more relevant in the fight. So Barracuda is having an extremely good position. For those who don't know camouflage is much more advanced than than it may look like. And it's also gives the protection and also gives the time to respond in a good way if you are on the battlefield. So I think this could be a fantastic area for us going forward. Training and simulation, we are focused this on live training and preparing the soldiers for what really will happen when they are on the battlefield. We have been very successful so that we have also taken this niche to a world leading position. We are very strong in Europe, but we are also now taking the US Marines in a large contract. So now in the US Marines will go out and train. They will train with our equipment around the world, which will support the, I think also the growth going forward. It is important for the customers to train together. They need to be interoperable with this. So we have find a way with our products that we could then scale the training a lot. And that is what we see now. And when training becomes one of the most important things to prepare now and the effects. We also see from Ukraine is that you need to be very good and quick in training. So training is also an area where we have a very strong position and have, I think, a good future also to grow further on.

My last part is then that we are working close with the Swedish customer as their support partner, but we also have – have some solutions. For example, a medical care solution that we foresee will – will be a good product going forward. So I have five business units that all grow now quite quickly. And the strategy behind this is that we have focused on our specific niches. We have said we will be Number 1 in these specific niches and we have invested quite much on our own to take us to that position, and that is what we will aim for in the future.

The second is that if we are not able to be Number 1, we will join, for example, partnership with Embraer, Boeing to get us to a very strong position and therefore win the business. And the third one is to support our home markets now, and that will also grow as now also, the defense forces grow quickly now in many countries. What we have added now in the last two years is future capabilities. We have started with our strong customer base to see what new capabilities are relevant for us to address to that. And I would show some example of that as well. So we will combine what we have done with also the future now going forward.

When I talk to all my employees, I talk about this. This is our foundation. How we review this. We start with the end customer. So all my employees should know. How should my equipment be used? How much would it cost? How much – in what environment should it be? And so forth. So we are pushing a lot to be customer focused and therefore have relevant solutions for – for our customer.

To be able to be Number 1. We emphasize a lot of our innovations. So we put room for innovation among our engineers, but also cross – across the business area it's not only about the products, it's also about how we produce. How we're having the best processes, how are we effective enough so that we are competitive. So innovation in a broader perspective is pushed through the – the business area.

On top of that, I will have no chance if I don't have the best people and I will come back to that. So I invest a lot in the people and that is so important for me in this growth you only we have. I would take some example using Michael's picture of, of the strategic directions. What we have said right now is that the most important thing is to really deliver what we have promised. If we have this position on the market. We need to deliver what we have promised. So that is what we are. And by that also the capacity increase of course comes because we need to scale up our capacity in order for us to fulfil the large order backlog that we have taken.

So if I dig in a bit to what we have done and in the ground combat business. We are aiming to have the production capacity four times as much up and running in the end of 2025. This has come and I'm extremely glad we started the investments already in June 2022. We haven't received any orders. I was up in the board and say we need to invest because I think the orders will come. And I got that plus positive answer from the board, which was fantastic. So we started this journey already in June 2022, and that was extremely good because it takes two years or three years and now we are heading towards where we could be now in 2025. And you have seen that the orders came. So we have got the orders. So right now I have around 40 construction projects going on. It's everything from building new factories to rebuilding to – to increase the safety. And so, it's a lot of projects going on in many areas. And I will come into some of those. We also then try to change the way we are working because we have now a fantastic chance also to do in another way. And I say it to – to all my MP, if we should do this in the same way as we have done it before, it will not work. So we need to change also how we will do this ramp up and how we will produce so that we build for the future and – and are able then also to drive down the cost and also increase the speed and how quickly we could deliver.

Most of the investment is done here in [indiscernible] (02:03:23) and in [indiscernible] (02:03:25) where it's – is the area where we have the production. It's – it's a huge area and it's focused on ground combat and our own missiles. The area is three kilometers long and 1 kilometer wide. And it's I have marked on the map all ongoing rebuilding and new product – projects that is ongoing. And it's everything from warehouses and the new factories and support facilities and so forth.

So it's a – it's a massive reconstruction going on. I say to my employees, no one will not ever in their careers be in something like this again, even though they are newcomers in the company, they will never see something like this. So it's a fantastic the what we are doing and rebuilding right now. The aim is to have everything in what we have decided now ready and up and running in 2028, where we have also the newest production facilities up where we really push the borders of how we could produce this. A couple of years ago, we made a vertical integration where we bought the two production phone from another Swedish company. That now is something that we have in Linn Shipping. And so since we are in [indiscernible] right now, I thought that I would show you a movie of one of our big investments in how we increase our efficiency, and that is done. So we would show him over here.

[Video Presentation]

Global defense needs are growing rapidly, and so faces an urgent and sustained increase in demand. Meeting that demand isn't just about expanding our workforce. It's about transforming how we work. At Saab we are acting now. We are investing in smarter, more efficient production, automating and industrializing at scale to meet rising volumes with speed and precision. This shift is about more than adding machines. It starts with smarter product design built for automated manufacturing and runs through our entire operation, [Video Presentation]

So this decision, we took then back in 2022 and now it's up and we'll get out the first tubes now before the summer. So it's – it has taken. And it's according to our my time schedule. So it has worked very well. So it's up

and out now, starting. And this was one of the bottlenecks that we saw. We need to increase the capacity in the tubes. So and that is now starting to come into production. So I'm very glad for that.

On the missile business. We are also increasing the capacity.

The missile business is more built on that. I need to have all my suppliers with me. So we have been travelling around a lot to get all agreements, get all visibility to our supplier so they invest. So we have now signed with all big suppliers so that we could deliver on what we are promised regarding, for example, RBS 70 and our RBS 15. That is the major thing to get up the production here as well. Of course, we are optimizing and doing as much as we can as well. It is not so visible, not so many new factories because this is more that we assembled a lot more missiles than we have done before. So the key here is to get the supply chain up and we are ready with all of our big suppliers with this. Is it – is this easy? No, it is not. This is actually quite tough to get everything in order to have the personnel educated, to have all equipments right, and then to have all supply. And it's down to the last small supply to get everything together.

So, of course, we are struggling a bit as well to get everything in order to, to make this happened. But, and we also then use our partnerships to work this happening. But it's going back when to a couple of years ago when we have other challenges. This is, of course, a much more fun to have this challenge to get this ready. But to underline, it's tough to grow this quickly, as we see in all of the business units right now. But we take other steps as well. As Michael mentioned, we have now taking the first steps also to increase the capacity in US. We are in Michigan and it's in a quite small town called Grayling, where we now have taken the steps to build a quite large facility to then final assembly and integrate the shoulder lines weapons and also the precision fire systems. The place is chosen with so that we are close to a area where we – so it's located near Camp Grayling. Camp Grayling is a big test facility so that we also could get the same as we have here in [indiscernible] close to a test facility, which is important for us when we produce what we do here.

So and this is the 10th facility Saab has in US and it will create the foundation for possible growth also going forward for other weapons. And so in US, so this is a major step for us. The first output will go out already, 2026 from this new factory. In the area of future capabilities. As I said, we are talking closely now with – with the customers. How does the demand look like? What are you looking for? One area which we now are looking into quite deep is – is Loitering munition. Loitering munition is something that we have seen and from Ukraine. And a lot of our customers now are coming. So we see in front of us that there will be a family of loitering munitions that we will create. We are – we are doing that in close cooperation now with the customer because it's new also for the customer. So we need to have them on board when we do this. So we are now doing trials and show different types of solutions. And here we come down to how much would it cost? How should it be operated? How should it works? So it's a lot of question that we work very closely now with the customers to get this and to get this ready.

But this is essential for us to complement our current portfolio also with these new capabilities going forward. But we also do things that could have other possible – positive effects. So we are hunting costs and we are hunting lead times and we are looking into how we could produce these more effective. We have taken decision to modularize our 84-millimeter family. And by that, we could have, in this case, a casing which is unified in the future for all our ammunitions. And then we could invest in doing this in a much more efficient method. So we use less material. We reduce the lead-time. We reduce also short the distances and the lots of less scrap. And we reduce the cost. And when Victor, who is responsible for sustainability, this is the perfect case for sustainability. Of course it is. So this has matched together in our efforts also to be more sustainable when we come to our products. So that was a good step for us to see that we could run this.

But then the most important for me as I said now, is to deliver and then also to get all my people with me. So I gather all my people here in Sweden in the beginning of the year to what we call the dynamic stay. So I wanted to share with you a dynamic stay.

[Video Presentation]

So this is one of the keys to get everyone on board. So we had Micael there, we had the supreme commander, and we have also my general from Ukraine there to talk directly to my people. And so that is one of the keys that we have also to drive this right now. So if I then finalize with what I see for the land domain, I think in many countries now this is an area which we have not invested in so much that will be important for them to invest in. I think the demand will be there for at least 10 years. And we are ready. We have a fantastic portfolio and we are also investing in new capabilities for the future. Thank you.

[Video Presentation]

Sorry. I got too excited during your presentation. I finished the water? Yeah, so the last briefing and the last topic, I will give you a little bit more insight into surveillance. Surveillance and dynamics are a little bit of the engines now in the growth of Saab. And we address the growth a little bit different because we have a little bit different foundation for our business. So surveillance, you know the figures, we are the biggest business area within Saab. We are a little bit different because we don't address only sort of the land domain and the land fight that we do systems across domain and you can see the different business units that are represented in the business area. We do everything from airborne early warning, surface sensor solutions, naval combat systems, flight, the core capabilities. This is sensor technology and avionics for fighter systems, grip and others they get the better space solutions. This is where we do multi-domain operations and connecting defense forces in an effective way.

And then the next step will be adding AI to that context to make relevant for the future.

And the last one, Safety and Security Solutions, is also see to systems and solutions, that are more directed towards the civilian domain. So four, no, five – five business units that focus on the military development and one on the civilian side.

And if we look at the development, it's mainly on the – on the military side that we are growing. We had 19% growth last year on top of 27% growth before. We are growing our workforce a lot to be able to cope with the demand. I will explain a little bit more afterwards. But we are not just scaling in our facilities when it comes to production. It's much more engineering content in our deliveries. So different mix in how we scale the workforce.

And also, if we look at the business side of it, we and dynamics both have a very sort of international business dimension to – to our business areas. But on surveillance level, we also have a very big operations dimension that is outside Sweden. All the business units that I have here have international operations and multisite operations in different countries. And I will come back a little bit more on describing why.

But this is maybe what – what do you see as surveillance? When we take a snapshot of – of the press releases we have and it's might not be easy to find the red thread among all the good things you see here, it's about facility, it's about products, it's about AI, it's about corporations. It's about digitizing the army. It's a lot of different activities we do. But if we try just to sue mouth and see what the common threads are in this and we do large system integration projects GlobalEye being one of them. These are extremely complex system integrations that we perform. It's long-term contracts. It's extremely important to have strong contract management, risk management, project management in order to be able to deliver these extremely complex system solutions. Then

we base these integrations on to a very high extent on our product portfolio of scalable sensor systems. And here it's about efficiency and volume. It's a little bit more like what Görgen described on the missile side in scaling up this capability. And there's a very important dynamic between these two first boxes, low system integration. We are good at that because we have good knowledge of the sensor depth and all the interfaces on a lower level.

So we understand what we integrate and that makes us extremely good in integrating complex system solutions. It also makes us extremely competent in integrating third party sensor solutions. So it's not just limited to integrating what we provide and what we define, but also understanding the system integration aspect makes us more competitive on the sensor side, on standalone systems that can scale. We understand what's needed to really integrate these assets into more complex contexts. So these two things really interact internally in our organization. And the last bullet really scales with both of these first two ones, we provide and support solutions to, for example, secure availability of GlobalEye aircrafts at the customer hangars or powered by our approach as to secure that that ground based sensors have an uptime and an availability that the customer demands. And that, of course, also scales with number of systems and number of customers.

So all of these things create the foundation for the business we do. And I will dig into a little bit more of these different aspects. GlobalEye I would say is sort of in well probably in the most obvious system solution and the most prestigious system solution that we provide. This is state-of-the-art technology system solution. It's not that many industries that that can provide this capability in the world. And we are the only one, I would say, and that has the latest technology in production today. And this creates a huge interest.

We have been operating in this market for more than 30 years and we have delivered more than 30 systems to 10 customers around the world. But this is an area where the interest is really picking up, and we need to prepare ourselves to be relevant for the future.

Our planning right now is to be able to deliver up to four systems per year in the 2030 timeframe. This is what we deem to be relevant on the marketplace. If we can't meet those expectations, then we don't have anything to talk about with our customers.

And securing that capacity is about controlling what we sell so that we don't have to redo everything. That's going to be customer adaptations in all of these customer contract stuff we are in discussion with. But we need to have an architecture that we can scale and build on. We need to make sure that we have efficient project execution. But also now what we are doing is making sure that we have the supply chain lined up to support this mission.

So this is very much something that takes time to establish, but we are preparing ourselves to continue the journey on the GlobalEye side. And this is of course a unique capability in the European context right now, which is gathering a lot of attention to this capability that we can provide.

Another area of large integration project is what we do on naval combat systems. This is connecting and integrating all this stuff on a ship that that differentiate a naval military vessel from a ferry, basically. So it's a weapon systems, it's sensors, it's communication, it's navigation equipment. It's integrating all these things into a very complex weapon system. And also here we are good at this because we can provide a lot of sub content ourselves. We do a lot of the sensors and fire control systems. We do C2 systems, but we're not exclusively integrating our own capabilities to execute these contracts. We have large sub supplier content on an overhaul of vessels and sensor deliveries and weapon systems that are getting integrated into these very complex system solutions.

And here is another example of where the engineering content in the delivery and the process of going through a project with the customer is very resource intensive.

A lot of important investments on the product side. But putting a system integration together that is relevant for the customer is a significant portion of our scope, and it's long contracts. And if one, two, three was the contract that we received 2022 so delivery in five years, we are on track on that one. Colombia's the latest contract that was signed this year to pick a timeframe, five years to deliver a capability like this with all the processes of securing and efficient system integration.

Another example of complex system projects. We have a unique capability on fighter EW. The configuration of the grip grip and the emphasis on situational awareness, self-protection and sensor capabilities, which I would, my view at least is uniquely strong on the grip in aircraft and how they have dimension different capabilities on that platform has generated the technology that is unique in the EW area.

This is not the technology that is easy to do, so as an industry just in certain and the other fighter, everything you integrate on a fighter is extremely complex to make it work to. I mean, things like power consumption, cooling, vibration, high-speed maneuver. This is a very complex environment to fit equipment to and especially if you're targeting . This is a very complex environment to fit equipment through. And and especially if you're targeting sort of state of the art, what you can achieve in terms of signal processing and coping with radar signals. In this environment, we have a unique capability. Gripen is the foundation, but we now scaling up for being selected for the Eurofighter upgrade in Germany. We're doing this together with Helsinki. This is an excellent system in generating a lot of data on what's happening around the aircraft and in the combination with Helsinki. And AI we would be able to take what you get out of that data even further steps for the future. It's extremely important capability. That is, I would say, unique as the globally that we can provide in the European context. So that's a few examples on complex system integration projects.

That's one foundation. But we also have a very strong portfolio of scalable products. And these are products that we dimension our production capacity in a completely different way. Here, the lead times, the demand on lead times is much shorter. And on many of these we produce actually to the market and we are defining production targets to meet the demand. And so, for example, the G1X is a very compact radar and uniquely compact when it comes to the capabilities it has the relevant range. It's extremely compact and lightweight and can be easily integrated on the tactical vehicle. You don't need a huge vehicle and it can function on the move, which means that with the world this context off the Ukraine, if you're stationary, you're a target. If you can stay on the move and you can sort of transmit, transmit and sort of show your presence in a controlled way, then you can be ahead of the enemy.

So this is gaining a lot of attraction for many customers. We have delivered more than 100 systems to a lot of different customers. We produce these to stock, but so far we haven't actually been able to stock anything because there has always been a new customer picking up what capacity we have. We are ramping up to 180 systems per year. This is a huge trade up production capacity compared to what we have been delivering historically, where we have calculated 2/10 of radars and we have establishing established production capacity not only in Sweden but also in Fareham in UK to be relevant to more markets, because we believe that now we have an imbalance between supply and demand. But in our business it's important to be on the markets we want to be relevant for the future already now to make sure that when demand and supply are balancing out, we are still relevant provider of capabilities and it's much more software adaptation and integration activities related to these products that needs to be done closer to the customer. Another example of a scalable product, this is something that both developed in our startup in Tampa, and in Finland, we decided to establish ourselves there because they had great competence. We had a decision that let's collect a few coffee tables of engineers in this

environment and let's see what they can do. They come up with a product idea quite rapidly. We said, let's go for it. And now we had the inauguration of the production facility in Finland. We have a capacity of delivering 600 systems per year soon we have customer orders and ramping up towards this capacity. But this is a very compact tactical system. There are similar systems that have lower fidelity on their information that they generate that that also solve similar problems. But we are extremely compact on the high end niche of this market segment. And so a little bit connecting this to our investments and what we do. So on the R&D growth, you can see on the left, we are consuming a large portion of SOPs R&D surveillance is a significant portion of the SEK 2.7 billion that that Micael and Anna were talking about. But what we are doing now is ramping up the foundation to scale our product offering.

Historically, all these products have been stovepipes, but we need to bring stronger synergies to our portfolio. So we are working hard on establishing common platforms across different products to be able to share technology and production investments. And we are also investing to secure new capabilities on our scalable products so that we can release that subscriptions to our customers. And the last component of these investments is TOT to be able to operate with these products on multiple sides so that we can be close to the customer and the market with these different capabilities.

On the other side, you see the ramp up we have done on the CapEx investments from 2022 to 2024 is the access on this. And here it's a dramatic increase in the CapEx investments and the majority of that. I mean, if we go back to 2022, only 3% of our CapEx investments were to create additional capacity. The rest was replacing old investments. We now up at 71% of – of the CapEx being driven by increasing our capacity in Sweden and abroad and meeting these capacity targets that we are targeting to be relevant for the future. And this is not to execute the backlog. This is taking care of the backlog by creating a foundation for where we want to be as a company in the future.

Four Globalize per year for the future at 30 Ericsson systems that's for – for the group and for the Eurofighter 108 G1X 600 Series compacts. That is what we see as the relevant figures right now. And as Michael said, this is something we are revisiting and discussing. Do we need to increase further or is this the level we need to execute on?

One big portion of the CapEx investments are on establishing new sites. I mean, and in every site we have in Sweden, we are too squeezed. We don't have parking lots and we are behind meeting the demand of – of this increase in defense expenditure. So we're doing significant investments now to scale up both in Stockholm, Warsaw, Nostrand and in Gothenburg and [indiscernible] (02:35:09). But apart from that, I talked about the investment to the right in [indiscernible] (02:35:16) production facility and development environment for serious compact, but also a hub where we can do naval C2 systems and support in the development and the integration closer to the customer.

Similar in Adelaide, we have been expanding our facility there. We are developing our naval combat system also there. So that's connected to that capability, same [ph] Imbrium and now in Germany where we are also building a facility to be able to be close to our customer in developing and Tailorizing naval combat systems.

On the left side, you see more on the surface sensor side, the production facility and the integration and development facility for Surface Raiders that we have established in Fareham, UK. And we are producing 50% of our G 1X radars from this facility, 50% from Sweden. So we can cover customer demands from different locations and support closer to the customer.

And on the top left, we have expanded our facilities in the US also to scale with the demand. And we have been eluding to what digital transformation does for our business. And that is extremely relevant for surveillance. I mean, our basic business is to generate data and to process data. That is what we do. So of course, software transformation, digitization and AI will have a profound impact on what we do. And this is very much what we are gearing up to align architectures to make sure that we have the potentially, the potential to scale system solutions more effectively for the future.

One example of that is being able to integrate in a very short timeframe our existing systems to meet new demands in terms of come to US solutions together with our customers. So this is not developing a lot of new products. It's integrating product solutions, but also involving small SMEs to provide unique capabilities into our system concept and being able to iterate these configurations at a high pace. So this is something we have focused very much on, then managed to secure contracts with a Swedish defense force on a on a very short pace where we are delivering and developing these system solutions together because it's something where you need to be extremely close to the customer, but you also need to be open to integrate new solutions, to be relevant. And then other areas that will be hugely important in a European context is, of course, how we integrate now European Integrated our Defense Solutions. We have a role in Sweden, we have the knowledge of integrating complex system solutions and with that foundation we can also be relevant in providing sensors and system solutions in a wider context and similar with Multi-Domain operations being sort of the next level of integration where you're integrating functional chains across traditional sort of stovepipes and platforms will be increasingly important and we are focusing a lot of our future efforts in being relevant in this space as well.

And I have mentioned a little bit on the people dimension of this and the leading change, very much similar to what Jörgen talked about. We have added 2,000 new employees over the last two years. We have actually also added 117 new managers to the organization. This is of course a huge effort when it comes to onboarding and making sure that everyone sort of fits into our business and the way we operate things. But it also providing a lot of energy to the organization, driving the transformation going forward. So finally, if we just summarize surveillance challenges and picking up on the different themes, I mean, foundation for what we do, we need to understand how you integrate systems. And Sweden is sort of our strongest reference when it comes to building that knowledge. But based on that, we need to look for what role we play in Europe and NATO and we need to be multi-domestic going forward and we make investment to be relevant to more places than Sweden. Same as you would again customer delivery and meeting strong demand if we don't grow with our customers, someone else be. And we need to gear up to their expectations. And contracts might be one thing but their needs is actually bigger. We used to have plenty of time and no money. Now we have plenty of order intake and no time. So time is important all the time. And that connects to the capacity and production ramp-up, but also to the workforce. Since we have a lot of engineering content in our deliveries, mitigating supply chain risks. That's the only way we can scale complex system solutions like the GlobalEye Yergin talked about that. R&D investments to be relevant in the future. There's no point in growing. If we're not relevant for the future, then we would just waste everyone's time. And the last one digitization and growth transformation I mean, that is really the foundation we're trying to build this on. We need to scale better we'll recognize that and this is part of the foundation for securing that. Thanks, Matt and everyone.

Unverified Participant

Yeah. Thank you. Thank you. So we're back to our second part of the Q&A is I would like to invite back my colleagues Micael and [ph] Yorgen to the stage for a common Q&A. Right shall we continue where we were? So we have a good a lot of questions. I will start with Tom there.

Q

Thank you. Hi [indiscernible] Securities. I guess primarily toward dynamics but you spoke about the end customer and customer centric focus. How much variation do you see across the different end customers and how much can you move from customized delivery to modularized deliveries?

A

If you look right now, I see a quite strong trend towards that the customers actually would like to buy the same. They are talking about interchangeability now. They haven't talked about that before, meaning that they are looking to be able to use the same ammunition or missiles between the countries. So that will support us in what we do a lot. So I think lots of good signs. Now, if you look at Europe, for example, within they too that customers are moving in this direction. And of course, that will give me more possibilities also to scale up and don't have so much adjustments. So what we have right now. So I see a strong movement that yes.

Q

We move all to [indiscernible] sites such as first. I just wondered whether you could. This is really a question for Karl Johan. And there's two parts. Just one firstly, Sweden has just ordered or is ordering the process of ordering [indiscernible] to 300 right from Talas. Was that a competition you lost or should we see that as part of a rather wider exchange of systems with France by and globally? And then more broadly, the production volumes that you're talking about for the surveillance business. It looks as if some of these products are becoming essentially treatable rather than capital items. Have you got the price or the pricing or the costs right. For the customers to consider them to be addressable.

A

On the first, it's actually a question to the Swedish Defense Force on their strategy in securing supply. But as I understand it, they want to make sure that they have redundancy in providing the most sort of the larger systems and they are ramping up their need a little bit faster. So they are looking at finding different solutions to regain the sensor chain capabilities. So and yes, I mean, we would have to invest a lot to meet that demand. So sharing among Europe, our ability to meet the demand is probably something we need to accept and embrace.

Otherwise it's going to be difficult to grow with all of the customers. But the second question we there yeah, our customers are accepting the prices for our system when it comes to sort of see them as exposable. I would say yes but we need to constantly challenge our cost base to be able to support the growing numbers that we foresee for the future. I think we're going to see denser sensor and networks going forward. That would be the way to cope with this situation. And I think that will challenge us on the cost side at some stage. But right now I think we have very good price performance capabilities that we can provide. So that's not a limitation right now.

performance capabilities that we can provide. So that's not the limitation right now.

Q

Right. We have a questionnaire.

Q

Yes. Yeah. Erik Golrang, SEB. And I'll try two questions, because that didn't pick up if the one question rule will stay long. So I guess it wasn't. But first on, on capacity and dynamics, you meant, you mentioned, you showed the four times figure by the end of this year, but then we have the US and India coming on top of that. And then also the [indiscernible] expansion was 2028 finished. So when it's all done, we're all with them in terms of capacity expansion.

A

We haven't gone out with any figures more than we will be on fourth time's. The last steps if we take an example high up in the [indiscernible] we are investing in a new facility where we will produce much more efficient, meaning less personnel and so forth. That will not increase the volume that much, but we will make it more efficient. So what we see in the end up to 2028 is that the investment goes. Now we're building very fast and do it in the same way. Then the next wave will be more efficiency driven. So and we haven't gone off and it's if we take the [indiscernible] if I'm open about that, I mean, it depends on what type of ammunition you do. We have gone out with this four times and that is a general on average, depending on and you know now since yesterday evening, everything about the ammunitions, some ammunitions are much more complex, take longer time. So therefore, it's hard to exactly say the amount of ammunition. So we haven't gone out, but we are roughly in the end of this year now four times. Then we will turn this into more efficiency investments going forward. That also then of course, would give us more opportunities to produce That also then of course, will give us more opportunities to produce even, even more. But we haven't gone off of that yet.

Q

Thanks. And then the second question on GlobalEye, there were some big words on the slide that were with the with the market potential. So what is the addressable market, you think, for GlobalEye?

A

That's an extremely difficult question to answer because it's so political when it comes to or the decision. But I mean, there is no NATO needs to replace new countries needs to get this capability because it is really a game changer when it comes to your ability to control air assets. So our interpretation of what's needed is for us to ramp-up our delivery capacity to four systems per year, that that is how we interpret it. And if we need to scale it up even further, we will make those decisions. But if we can't deliver 4 per year, then we will not be able to support the customer discussions we will have leading up to contracts that's our assessment right now.

A

I mean, thought that if I may, I can't be here sitting completely silent. I am – I'm just kidding. No but I want to add that, I mean, some time ago, not that long ago, we sort of looked upon the addressable market when it comes to a system like GlobalEye has okay US will pick sort of these areas. And NATO will be obviously you see and that was sort of our view and we, we picked the other countries like Sweden and maybe a Nordic country and some countries maybe in Asia, Middle East and sort of okay, that was it. But that is not the same thing. But it's still hard to judge sort of how quickly will Europe move forward to go in to build the European NATO to pillar in the way that

go in to build the European NATO pillar in the way that there's more contribution in kind from different countries to build a complete NATO European perspective. And will it be an opening to actually get into AFSC, as it's called, the new NATO capability because US is focusing on establishing that capability. And the lead time to do that is sort of way beyond 2035. So that gives sort of a window of opportunity in the European perspective. Earlier we would have said that's US. Now I'm not so sure anymore. We have a bigger addressable market. Also looking at the US perspective of the world.

A

Right. We have a question on the front.

Q

Yeah. thank you. May be primarily to [indiscernible] but to whoever can answer. But on government guarantees, et cetera. I mean, we talked about a lot about that quarters ago and less now. And it is a little bit the contradiction between the need to take commercial investment decisions. But then also you have the government potential guarantees in the background. Is that still very important? I mean, demand is super strong for foreseeable future. Or would you like to see those kind of guarantees or level some of the stockpiles, et cetera, et cetera?

A

I mean, of course, we would like to have longer contracts that is more visible to also take the next steps in the investing. Now we have on our own risk taking quite large investments. But if we should take the next step, I would urge the countries or the governments to go together and say, yes, we need these levels, because otherwise I think the risk profile will get too high. And so I mean, in the future, to take the next steps, I foresee and most likely there will be also now targets in each country. How much should they have in their stores, what is their war stocks and so forth? And that will create the foundation for them to take the next step of also having this longer production contract. And that will make industry not there not not only me, but other industries as well a possibility to make a business case on that.

A

But based on that, I think that's super important. Yes, we discussed sort of taking the next step the paradigm shift needs sort of some sort of long-term commitment. And that's still a valid discussion, of course, is about, okay, what stockpile levels would we want to have in different European countries? That builds a business case but then is also a long-term sustainable premium that you have to be able to pay also in time so that you will not continue to manufacture the volumes that we see today. But still, it's important to have a ramp-up capability if needed that. So that we will have to be sort of sure that we are an agreement with our own customers, other countries, that we're not going to dismantle this again. We will never go beyond sort of a below, I mean, critical mass in terms of continuous production to have the ramp-up capability. Those kinds of discussions, muscles to take place. Then you can talk about, okay, security supply in terms of powder factories, if you're going to build a powder factory in different parts of Europe, I assume that those those sort of consortiums or whatever you see want to have a commitment long-term that there will be actually continuous production, but that's more of the supply chain. Those things are still important. But you're right, we don't sort of talk every day about that. But long-term commitments and understanding the levels, the objectives we'll be going more clearly is super important for us Michael and Carp, you had I think you've talked about more collaboration across Europe and you've talked

about air defense being a priority and you've got the European Sky Shield Initiative, 22 different countries, how do you negotiate, frankly, you know, who does the integration, who does the missiles, et cetera, how do you cut that [indiscernible] NATO sovereign capability versus European Collaboration.

A

It's not easy. Absolutely not. I think what it takes because there is no federal level that can decide. I mean, obviously not. I think countries has to come forward and say, okay, we want to take the lead to this and we're supported by our industry. We can go with Sweden to say we want to take the lead in a certain area and then we create the consortium to do it. It has to be done that way and that is the negotiation, sort of workshop negotiation based on your capabilities but someone has to step forward to say, okay, we want to take the lead, our industry will take the lead, and we create a consortium around that. The difficult thing is not to have everyone contributing actually in terms of we need some share of this in 27 EU countries or in 23 NATO European countries, it can't work like that. It must be based on who has the capabilities today and the Coalition are willing and then we can sort of sell to all the countries but this is still something EU is battling with and whether in this -- with the incentives have to govern this, if they launch a flagship projects, how will they decide who will lead, they can't. It must be based on some countries step up and say we want to take the lead and then they have to sort it. And then industry will follow all. We can create the bridge as industries which we've done also. We and anybody could, for example, step forward and say we can take the systems integration lead for the integrate the red misunderstand system. We don't provide all the products, we involve other industries as well, but together we can actually take the lead. They must work like that. And then then countries must accept that or not. So, so but this is a not that must be sort of yeah managed that way I think. Thank you.

A

We have another question there.

A

We're not the United States of Europe. I mean, it's obviously not.

Q

Thank you. One question, and this, I guess, ties back to the questions previously on what level of profitability customers would allow and contract structures and so on. And you have the side where you show so 30% EBIT growth on I think it was 22% sales growth, which is, you know, it's it's good, but it's, it's quite limited margin expansion. And then you have that you have scale initiatives, portfolio management, efficiency initiatives and is it -- if we think about all those factors and still relatively limited modern expansion, is there a it would imply that pricing doesn't cover cost inflation fully? And if that equation stays the same and we look ahead and we now have that figure where internally funded R&D will increase as a share of sales. So it will accelerate the margin headwind from internally funded R&D. Will we see even less margin expansion on growth going forward compared to what we've seen?

A

You're talking about top level now.

A

Yeah.

A

So yeah, first of all, I think we have to look at the backlog sort of development and what that implies in terms of potential margins in those new contracts, which will balance out sort of legacy contract stuff may not sort of be the highest margin contracts. So that's one way of sort of continuously improving our margin. And then we still have to see or we still haven't seen the full scale effect of certain sort of investments that we've made. And Juergen talked about sort of automation to a large extent that will of course give a big push to a scale effect on margin development going forward. We are we strongly believe that we can continue to invest in R&D and still continue to generate better margins than the sales growth going forward, but we will not trade off sort of not being relevant, embracing new technologies. So we can do both. We must do both going forward.

Then, then we have still efficiency measures, as we talked about to some extent across the company, which we haven't really come into play yet. What Michael is doing on the software side, for example, will of course have a big effect where our new systems are being developed and to some legacy systems when it comes to architecture, how we look at software development, creating the guardrails and how to do that. Then I have also recruited a chief operating officer Eva Karlsson who will start in August. And while I am saying that delegation is super important around the business, if you want to grow a company like this. Yes, that's true. But we have still a number of measures to do sort of within which guardrails are you allowed to sort of run your business. And we have too many guardrails so ERP system, DevOps environments, of IT initiatives which must be sort of aligned and Eva's sort of role is to to sort of implement that across the company, which always makes also would make this company more efficient going forward. So I'm optimistic on how we can continue from these different perspectives to continuously improve our margins. That's sort of the areas I would pick on, which is going to important. We haven't seen all of this come into play here. Backlog, efficiency, software, scale from automation, I mean, that's potential.

Q

Yeah.

Q

Thank you. I think we're running out of time.

A

There's another one up there.

Q

And let's have the last questions fast.

A

You are [indiscernible]

Q

Thank you so much.

A

Yeah. Thank you so much. Micael [indiscernible] again I just wanted to follow up on that last one from a different angle maybe. And I mean, you have presented a chance for R&D and for CapEx and you have talked about working capital development since relatively stable in the slide pact. And just wondering how sort of confident you are in the cash conversion targets of 60% and how that is sort of balancing the margin, in fact what is required in terms of margin improvement had to achieve 60% cash conversion.

A

Yeah. [indiscernible]

A

You may be want to...

A

Yeah. Maybe I can, I can now, I mean that this we are confident that we are going to have, our reach our cash conversion target. That's what we have communicated and that's what we are working on. But with that said, as I mentioned, of course, it's important for us for to make sure that we deliver according to our plans so we don't tie up too much capital in the working capital. So there are lots of the deliveries on our contract, which is really main focus to make sure that we the deliveries on account, I will say, is really main focus to make sure that we, that we delivered on that as well.

Unverified Participant

And, and the set up in the backlog of the contracts that we have received in terms of payments as opposed to an important part of, in sort of full selling the cash promotion target. But again, I mean you see that we invest heavily but we said it must be about 60% now. And that is of course our assessment, our investigations, our evaluations

have been in all of these things where gold contracts in a backlog. We do 03:01:32 [indiscernible] on the capital efficiency part and that will generate still while doing R&D investments, this type of cash conversion profile going forward. So, we feel confident about that honestly.

Unverified Participant

Thank you very much. Michael. I'll now call [indiscernible] 03:01:54 Thank you and our viewers online for listening in. And we have, by here, ended the day session of our Capital Markets Day.

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