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 $Saab\ AB\ ({\tt SAABY.SE})$

Q1 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Merton Kaplan

Head-Investor Relations, Saab AB

Good morning and welcome to Saab's Q1 Earnings Presentation. I'm Merton Kaplan, Head of Investor Relations and with me here today in the studio in Stockholm, I have Micael Johansson, our CEO; and Christian Luiga, Saab's CFO and Deputy CEO.

We will start the presentation shortly and we'll continue with a Q&A and you can dial into the conference call to ask your questions live. And for our viewers online, you can send your questions directly to me and I'll try to pick them through the session.

So with those words, I would like to give the word to you, Micael.

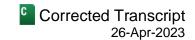
Micael Johansson

Member of the Board, President & Chief Executive Officer, Saab AB

Thank you so much and thank you all for joining us this morning.

I will start this presentation by highlighting a few things that I think were important events during the first quarter. And as you've seen, we've had a really good order intake. So we see a high market interest and we have still a strong support from the portfolios in Dynamics and Surveillance. Looking at that, the main parts, regions that are strong right now is Europe and the US, where many countries are, as you know, increasing the defense spendings and also replenishing their stocks. So those areas are the first areas that to be supported by that of course.

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Then we have started to work on NATO. We have received a Request for Information on a new generation of what we call our bonnet of warning. It is something we, of course, are very strong at with our GlobalEye. So we have proposed that system to be capability within NATO. That, of course, opportunity continues to be discussed going forward, but we have also already received a framework contract on anti-tank weapon, M4, AT4 and Carl-Gustaf and that has led to the first order intake from NSPA, the procurement agency within NATO. So that's a good step in the right direction. And of course, this will be important for us when we get to be a full member in the alliance. This will be a continuous effort to do more business within the NATO common acquisition organization.

During the quarter, we also decided to sign an agreement with Embraer looking at the future opportunities that we have, and that is both on the Gripen side where Embraer will support us, of course, in the next batch of the Gripens in Brazil. And a lot of that work will be done in Brazil since we have established a capability in Brazil. And they will also support us, of course, in the Latin American market going forward to try to penetrate that market with the Gripen aircraft. But we will also support them on the transport capacity side in Sweden, specifically whether KC-390 that is now called C-390, since there is a need for a new transport capacity in our country going forward, and in other country where Embraer needs our support.

Looking important milestones during the quarter, when it comes to performance, of course, the first flight now and we have done a few flights since then with the fourth GlobalEye system that will be delivered next year to UAE has been really successful. So, that is a good business to us and I look forward to the deliveries of the number four and five to UAE. And of course, after that, we have the deliveries to Sweden of two systems.

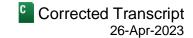
We are looking at capacity increase a lot as we speak and this is of course infrastructure, parallel production lines specifically in the sensor and support weapon area, but that also includes attracting new, good, and skillful people to our company. And as you know, last year we employed more than 1,000 people net into the company. And this year has started really good. So in this quarter, we have more than 500 people coming into the company. It's also as important to retain our skillful people in the company, of course, so we work a lot with that as well. We need all the skillful people definitely in the growth we see. So this is absolutely instrumental to us to continue to grow.

And also, I think it's important to underline that we also introduced new targets of medium term in the period of 2023 to 2027 during our Capital Market (sic) [Markets] (00:04:43) Day in February. And I think that solidifies sort of the growth. We're saying that we would grow on average compounded annual growth rate of 10% during this period, and we will grow more when it comes to increased profitability. And also, we will have at least 70% cash conversion of our margins going forward. So that gives a much better foundation. Now, looking at the market opportunities and the big backlog we have, we think that is a good guidance for how we will look going forward.

If we move in strictly to the numbers then, as I said, we had great order intake this quarter, double the order intake compared to the same quarter last year. So that was mainly driven by Dynamics and Surveillance. And we had one big portion in that order intake was from an undisclosed Western country, including support weapons, Carl-Gustaf, but also RBS 70 and our sensors, Giraffe 1X. So that is a very good start of the year, and we continue to grow and we grew 23% organically this quarter, which gives a very good foundation for the guidance we have for this year of 15%, which I reiterate.

And the EBIT growth is even higher, 42%, which is a great step forward when it comes to profitability. And that is, of course, because of the scale effects we get from growing. And we have a very good cash flow this quarter, mainly because we have good payment milestones with the customer contract, of course, but also because we received the early payments in substantial contracts that we got during the quarter.

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And looking into a little bit more details then when it comes to orders during this quarter, I'm really happy to see that a large portion of this total orders are, actually more than 80%, coming from the international market. Sweden is spending more as well, I'm not saying that, but of course that can vary between the quarters, it looks like. But we are strong in international markets, so it shows that our portfolio is really attractive in the market. One, as I mentioned, was this large order, SEK 8.5 billion roughly, with RBS 70, Carl-Gustaf and Giraffe 1X sensor systems. We also had contracts on the Charlie/Delta version of the Gripen going forward, which is really important. There will be block upgrades of the Gripen C/D that now will be in operation much longer going forward.

And we have this framework contract that I mentioned from the NATO procurement organization, which also led to the first contract for SEK 350 million on support weapons. And we got a couple of others also on the support weapon side, both to Finland NLAW and to Lithuania. So it is a record high order backlog that we have achieved after this quarter. And I must say that the focus is much now to deliver from this backlog. All the defense forces needs their equipments urgently, so we do a lot now to reduce lead times and to make sure that we deliver on our commitments going forward.

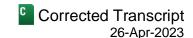
Looking at a couple of things from each business area then. I need to underline Aeronautics is still an area where we have a number of ongoing discussions with potential customers, campaigns. We are discussing extensions with Hungary on the Gripen – on the Gripen program in Hungary, including a few more aircrafts. We are discussing an extension with the Czech Republic. We have a campaign discussion going with Colombia in Latin America and also with the Philippines in Asia on the Gripen Charlie/Delta version. So there are a number of discussions ongoing also on the Gripen side. And then I mentioned the important agreement with Embraer to boost our collaboration in the aerospace area.

One very important thing that we haven't talked so much about is the dual-seater version that have been contracted by Brazil and these aircrafts are now in final stage of sub-assembly and [indiscernible] (00:09:15) there'll be a dual-seater version of the Gripen, the newer version of the Gripen coming out soon and that will be delivered to Brazil in early 2025.

What is sort of affecting our Aeronautics a bit is, of course, that the T-7 is still in a ramp-up situation. And as you've seen in the media, the milestones have moved there in the US to be kicked off in 2025 instead of 2024. We are still manufacturing our aft – parts of these aircraft, but the ramp-up is a bit slower and that will affect profitability until the real sort of production kicks off with the right pace. That will be a profitable program going forward, but that is hampering a bit Aeronautics as we speak.

Dynamics have had an incredibly strong quarter, of course, with an increased sales of 50% roughly from the comparable quarter last year. And that is from their backlog, of course, but they're also attracting new orders. So they had a strong order intake of SEK 9.6 billion this quarter. It is an exceptionally strong quarter, I would say, when it comes to sales. And looking at the profitability going forward, I think we are in a high level, more than 14% within Dynamics, which is a reasonable level, looking at the mix of the portfolio they have and the need in the market is from all parts of their portfolio now, not only from the support weapons side, training and simulation, the signature management, the camouflage nets and also the missile activity, it's also seeing a great sort of demand in the marketplace.

So this area is all about ramping up capacity. And as I've said before, we doubled the capacity before the tragic war in Ukraine started and now we're doubling it again. So we will reach a high level of capacity and redundancy, I must underline, not only in Sweden we double capacity, we also invest in the US, in the UK and also in India to have redundancy and to boost our capacity going forward.



Surveillance is also an area growing, of course, and there's a strong interest in this portfolio. I mean, why Surveillance and Dynamics is so attractive in the marketplace right now is of course you need situation awareness and then you need sensor systems and then you need, of course, deterrence and weapon capability and that is what Dynamics is offering. So it's natural that this is sort of the start of the need for many countries to build capability and also to indirectly continue to support Ukraine. This is the area with such responsibility then for the airborne early warning solution in the NATO context. So they are working hard on that one.

And then we've seen just recently yesterday that Australia has come out with a new defense review which is absolutely in the right areas for what we have in Australia. We have almost 1,000 people in Australia working mainly in the naval domain and they are boosting that as far as I see in the defense review going forward, looking at new naval capabilities. But also more long capability when it comes to sensors and missile capability.

We have also in this area completed a huge program when it comes to supporting airports in South Korea with the air traffic management systems to optimize the flow of air traffic management outside the gates, which is a very important milestone. And as I mentioned, we have just now started to fly the next GlobalEye that will be delivered next year to UAE.

So Kockums had also a very good quarter. We actually see increased market opportunities in the mix now compared to before. We have, of course, a campaign when it comes to the submarines, really important in the Netherlands mainly, but there are some interests in other countries as well. But then on the surface side, the surface vessels, we have interest from Singapore where we already have a program to provide composite superstructures for those combat vessels. But also, we had the upgrade of the Visby corvettes in Sweden and in the future, of course, the new version of the corvettes coming into Sweden. So there is a mix of things supporting the growth but also, of course, as you see the improvement on the EBIT side. Also, the combat boat side of Saab Kockums is having a big interest in the market. So this is a much better picture now than we've seen before when it comes to Saab Kockums.

And I'd also like to comment on Saab Combitech. This is our consultants organization, which is growing a lot now, and it's all about sort of increase the number of employees and skillful engineers to support the market. But it's also, of course, to have sort of very high utilization rates. And this has now driven both the growth and the EBIT improvement, which is on a very good level as we see it right now.

And we've seen new framework contracts coming into place, both on the defense side with the defense forces but also with other authorities in Sweden. So this organization is going absolutely in the right direction as we speak. Very important part of Saab to manage sort of the flow of skillful people between Combitech and Saab, but also working with all the customers in the market to support the digitalization, which is then a competence that we use internally in Saab as well.

When it comes to sustainability, which I've underlined before, it's a very important area to us. During this quarter, we have launched Climate Innovation Call internally using our innovative, skillful employees to come up with skilled solutions and innovative solutions in how we can reduce our carbon footprint in the organization and also in the scopes that we work with our supply chain and our customers and that is generating many good ideas going forward. But we've also launched a new Code of Conduct. New in the sense that we've always had a Code of Conduct, of course, but this is a strengthening one with a broader perspective.

So we talk about how we take care of our people, how we take care of our assets, how we do business with high integrity, how we handle our transparent communication and reporting, and how we actually perform too in our

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operations when it comes to operational excellence. This is a very important guideline, and it supports our values in the company, and everyone should live this Code of Conduct. So I find this incredibly important that we've launched that after 18 months of good work from the organization, having more than 2,000 people looking into and supporting this work.

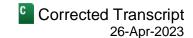
And then, finally, from my side, looking at priorities going forward. As I mentioned, we have a situation with a huge backlog. And even though we're going to really focus on capturing new market opportunities, we also focus a lot on shorting in our lead times and supporting the delivery of the commitments we have in our order backlog. All the defense forces in Europe and the US have no sort of need for deviations or delays that is not on the table. They need the equipment, the systems, the capabilities as quickly as possible, supporting the capability growth in the country. So this is hugely important to us to continue our focus on delivery, which will support our growth, of course, going forward.

And then I mentioned Europe and US and I see a long-term growth when it comes to the defense spending, and I actually see this is just the beginning of the defense spending increase in Europe specifically. This would be a long-term thing to increase the resilience and protect people and societies in the Europe context. And then, of course, I see great possibility when eventually we join NATO as a country. And as I've said, we have already started now to see potential contracts coming in, the framework contract on the support weapons side, and we continue to work other common acquisitions from the NATO perspective. We are inside the fence now, so we can work with the procurement organization. But of course, an important step is to become not only an invitee but also a full member in NATO.

Then I would say that the partner collaborations for future opportunities are important. Looking at EU incentives to get countries and industries to work together to increase capacity in Europe will drive collaborations between industries to support each other, to have more sovereign capabilities within Europe. We mentioned and you've seen the focus on the ammunition side right now, both the 155 millimeter ammunition that's been heavily used in Ukraine, but also on our side, 84 millimeter ammunition that we used on our support weapons side. So, of course, we need to work together to boost this capability, but also in other markets. The collaboration with Embraer, for example, is one thing that I see is a huge potential for us going forward.

And then priority is, of course, to retain our skillful employees and we do a lot of things in that area. We have launched a key program, as we call it, where we create incentives for a big population of the company, employees of the company to get sort of an increased revenue compensation over two to three years' time. Based on that, we set aside a portion of their salaries without they having to invest. So this an incentive program, a new one, we've launched as an example of how important it is to retain people. But then of course, continue to attract people and recruit people in the marketplace. Capacity expansion, people-wise and infrastructure-wise, parallel production lines, both on the sensor side and the support weapons side will be extremely important going forward. And we look at the full ecosystem and supply chain to work with them to make sure that we can support the need in the marketplace.

We have a lot to do here now, as I've talked about before, huge backlog, SEK 133 billion. So we need to deliver. But at the same time, we need to have our best brains also looking into the future. We must continue to invest in new technologies to make sure we're part of the next generation of systems of systems when it comes to the fighter side, so autonomy, manned, unmanned teaming, using AI to digest huge amount of information to work in a new way, using additive manufacturing, to work with connectivity solutions. Those things are as important now as they've ever been. So we continue to invest and we have a number of innovation hubs moving in that direction as we speak. So I am very positive in the – my future look and I reiterate this year's guidance and our more medium term targets that we presented in February.



So with that short version of where we are and where we're going, I will hand over to my CFO, Christian, please.

Christian Carl Peter Luiga

Deputy Chief Executive Officer & Chief Financial Officer, Saab AB

Thank you, Micael, and good morning to everyone on the call. And this is indeed a strong quarter when it comes to all metrics, and we see a very strong demand. And I think that's foremost what I would like to start and actually push a bit for. We had a very strong momentum in 2022, and we see that momentum also coming in now to 2023 with a lift up, an increase in the order intake. The order backlog with the SEK 17 billion in order intake went from SEK 128 billion at the end of the year and now it's up to SEK 133 billion.

And one of the good things for us from a visibility and prediction point of view is, of course, that this came in very early and in the coming years' sales, and that supports the sales growth. Of course, it puts pressure on our capacity and delivery, but it also gives us a good profile for our growth. And we can see that this year's last nine months has increased 18% compared to the same period last year, and next year has actually increased 43%, which also is a boost to the coming growth here in the coming years. So I would say that this profile is even as interesting to look at for a 2024 perspective as it is for 2023 perspective.

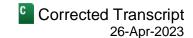
Also interesting, as Micael mentioned, a big portion of these orders came from outside Sweden and gives a better balance of our customer profile and where we are supposed to deliver, but also helps us then to build up our operational and strategic countries that we have outside Sweden.

Taking a quick glance at our income statement, a couple of things I want to comment on and they are also expressed in the side comments here. But the gross margin is slightly down in this quarter and we know that one of the important things for the future in our profitability model is scale and the other thing is actually to build up the gross margin and improve that over time. And this quarter is a bit exceptional, but also something we talked about at the Capital Markets Day that here we can see actually the consequence of Dynamics coming out with a somewhat lower gross margin this year because they had a very favorable mix in 2022, but also we see that Surveillance had a very strong comparison quarter last year, so they will come back during the year and build up a better fundamental for the gross margin. So in my view, nothing to worry about, but it is a somewhat weaker gross margin for the quarter.

The main improvement in EBIT then came from the scale, of course, effects on OpEx. It was a scale in itself and then the sales drove EBIT, but also that we had an increased OpEx that was lower than the increase in sales. If we look at the total OpEx for the corporate, which has been also something we discussed in the past, it was actually down 6% now in this quarter compared to last year if we take out the items affecting comparability. So the run rate for the corporate cost is then not increasing as we are growing the company. Meanwhile, we do increase actually in the R&D and we increase slightly in the marketing and sales, but of course less than the 25%. So that scale effect is very important to understand.

We did have two parallel things coming through this quarter. One was that we had a closure of the MTM divestment that we had announced already last year that now came out with a capital gain of SEK 260 million. And we had a — we looked at the market and the situation we have and part of our minority portfolio and both were these non-public companies and the valuations out there that we see right now in these kind of venture companies, but also the performance overall. We saw that was a reason to make a write-down on that asset value and that net of these two non-item not affecting the comparability actually was only SEK 10 million. So in overall, the reported margin reflects the underlying margin.

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Finally, last year in first quarter, I had to stand here and talk about a non-cash but unrealized results on the short-term investment that hit SEK 110 million in the first quarter negative on our financial net. Therefore, last year our net income was actually growing less than our EBIT. And this year now when we don't have that kind of effect, we actually have a net income growing faster than the EBIT. That said, we also have a somewhat positive impact from the net cash position we have. So instead of paying a net interest that is negative, we actually have a net interest that is positive. So overall then that leads to an EPS growing with 105% and which is of course, very strong.

Sales development, this quarter is strong. We have guided for 15% for the year, but this also gives us a good comfort and boost to believe and feel that our guideline and outlook is in range and we are a growth company and we want to continue to be a growth company. We have been growing 8% over the last three years. We have guided to be growing around 10% over the coming five years and a bit more this year. So this is actually something that is very important for us, but it's also very comforting to see that we deliver on this as it is part of our profitability model, as we talked about before.

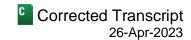
Looking at the regions and these numbers that you see, the 27%, that's actually the rolling 12-month for Sweden, sales to Sweden compared to the rolling 12 months standing one year ago. So how is that rolling? How is that trend going? We try to talk a little bit more about trend and just not the quarters because this is an industry where things doesn't actually happen as fast as in the quarter. And then we can see that the trend is that Sweden is picking up on sales, which is higher than the overall group growth of 13% that we have right now on a rolling 12-month perspective.

But what I think is important in this picture is to say that both, we see sales coming through in most of our business area, but also we see that our strategic markets, US, UK, Germany, Australia is growing faster than we do overall. So the growth on these four countries combined is actually on a 12-month rolling period is 16% compared to our 13% on group. So it's a little bit above and on the quarter, it's actually 40%. So and here, we see that the sales is actually lower on international sales right now than our order intake. That means that over time, we should shift more and more towards higher international sales.

If we look at the EBIT per business area then, we see in this quarter that that everyone except for Aeronautics is contributing to the increase. And just looking at this picture, you see immediately that the locomotive in this quarter for the EBIT growth is Dynamics. But, that said, there are some small locomotives behind as well with Surveillance, Kockums and Combitech that supports the growth. And every business area is important.

Another thing we reflect on internally is that the business units overall are coming up on a high or low – on the low levels that we have had before. We talked about in Surveillance that we have had some low performers before. They are coming up on positive side and delivering positive contribution to the growth of EBIT in the company. And I think that is also very important to understand the stability of the EBIT in the company. Surveillance margin was flat even though the EBIT is growing because of the growth. And as I said before, that is excluding the divestment of MTM, but also they had quite tough comparison numbers last year.

If we look at the cash flow, this quarter was very strong for some of you and for me as well, SEK 3.2 billion in one quarter. If that could continue for every quarter, of course, that would be wonderful. But we had quite high prepayments in this quarter. And meanwhile, trying to look that aside, what happened if we take these away? Well, we were not that far away from where we were last year. We had around SEK 1 billion in inventory that went out and we had that last year as well. The inventory levels, they are relative to COGS increasing slightly, but that is primarily driven by Dynamics where we try actually to build up as much inventory and capacity as we can right now.



Another thing that I think is important to see – look at this picture is the higher investments. We talked about at the Capital Markets Day that we will increase investments over the coming five years. We will try to be frontloading that to actually build up capacity early, so we can support our customers. And in this quarter, we have a SEK 200 million higher investment in equipment and facilities compared to one year ago. And that brings in different examples of both for all the employees that we bring in, but also the new lines that we set up in Dynamics, as Micael mentioned. But we are also exploring things like now we explore to build assembly line in UK for Surveillance. And if that works out well, I think that can be up running within 12 months' time. So we are working fast on trying to find methods to both expand into operational countries but also to expand our capacity quite quickly.

We have a strong balance sheet, as you've seen. And this is something that we are – think this is something with big responsibility, of course, to sit with SEK 5.3 billion in net liquidity. But we do explore M&A. We have an increased investment schedule going forward. And it's difficult to actually see how the market develop in general. So we think this is – it's a good position to have, having this in front of us. That said, we will be very disciplined, and we will be very careful in our approach because it's always important to be that when you handle money.

And finally then, that just to reiterate what Micael said. Our outlook for 2023, we stand by that. And I would just wanted to also then emphasize the medium-term targets that we have set for the coming five years, and that is around 10% on sales growth and that the growth in organic sales growth – the growth on EBIT should be higher than organic sales growth. And that means that the margins should continue to increase. And we have put a sort of a floor on the cash conversion over the cumulative five years to be above 70% of that EBIT that we deliver.

So with that, I leave to you, Merton, and the Q&A.

Merton Kaplan

Head-Investor Relations, Saab AB

Great. Thank you, both of you.

So now is the time to have a Q&A. And if you have questions, and now is the time to dial into the conference call. I can – before I hand down to you, moderator, I can see that I have a few on the line, but I will at some point also try to capture the questions that I've received from our online viewers. So I'll hand it over to you, moderator.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] The first question comes from the line of Golrang, Erik with SEB. Please go ahead.

Erik Golrang

Analyst, Skandinaviska Enskilda Banken AB

Thank you. I have two questions. The first one the mix in Dynamics and in Kockums. You said now we've seen a bit of a correction in how favorable the mix is in Dynamics compared to last year, is that correction fully done here in Q1? I realize it will be up to load and other factors coming quarters, but that negative mix drag, is there another step, step-up in that compared to last year or this is it. And then also in Kockums, you talk a lot of course favorably impact from the aftermarket there. Is that a temporary factor or when you look at the order book, would

Micael Johansson

Member of the Board, President & Chief Executive Officer, Saab AB

you expect that to stay? The two mix questions to begin with.

Well, when it comes to Dynamics, I can start and you can fill in, Christian, but I won't guide on the Dynamics, of course, when it comes to margin levels going forward. But the mix in the portfolio, I said that this is a sound margin, a reasonable margin for Dynamics looking at the components in the portfolio that they have. And I don't see an adjustment sort of to this going forward, if I can put it that way, a step or something in another direction. I think this is a sound margin.

On the Saab Kockums side, well, I mean, if we're successful in the marketplace, I mean, two things, I mean, we've seen a sort of a balance now between the international market and the Swedish market and a balance when it comes to portfolios. So I'll try to explain. And I see opportunities that we can continue to do aftermarket business, but also new business on the surface side, but also on our portfolio when it comes to the Combat Boat 90, which means that the balance between submarines and the surface and more product-oriented thing like Combat Boat 90 is a good mix. Exactly how that will look like every quarter is hard to say, but this is a good trend that we have calibrated sort of the portfolio in a good way within – and we see opportunities in Saab Kockums. That much I can say.

Christian Carl Peter Luiga

Deputy Chief Executive Officer & Chief Financial Officer, Saab AB

Just to – a little bit more flavor on Micael's comment, just remember that...

Micael Johansson

Member of the Board, President & Chief Executive Officer, Saab AB

[indiscernible] (00:37:13) need more flavor in my comments, right?

Christian Carl Peter Luiga

Deputy Chief Executive Officer & Chief Financial Officer, Saab AB

Just to remember that the margin in Dynamics may go up and down between the quarters a bit more than in the other actually business areas, because it's less of large projects and more of delivery programs. And therefore it will not sort of be as even as it is in the other business areas.

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Secondly, on Kockums then, well, the exceptional part of Kockums is more the high sales growth, 54%. I don't think we will see that every quarter, but that is more a project-oriented unit. And therefore we have said the margin will have tough times to be above 10%, doesn't mean it can get closer to 10%. So being around 8% to 10% and – is something we have said that is – it should be a target for Kockums and something we will push for over time.

Erik Golrang

Analyst, Skandinaviska Enskilda Banken AB

Thank you. Then another question, a bit more qualitative dimension, you had a large – that SEK 8.5 billion order to an undisclosed Western country customer, I'm just trying to understand, would you also go to some length in really hiding that customer and introduce a new line in the regional order bookings in the report? Given it's an industry that perhaps have struggled a bit with perception in the market previously, what's the reason for the secrecy around that? What are the dynamics leading up to such a decision?

Micael Johansson

Member of the Board, President & Chief Executive Officer, Saab AB

Well, I can't talk much about that. I mean, it's the sensitivity from the customer side that has driven us in this direction. We've been clear on the level of the order, SEK 8.5 billion, that it is support weapons, Carl-Gustaf, it is RBS 70, and it's Giraffe 1X. A good mix and a big order and a big contract, and it's a Western country, so nothing sort of strange around that, but the sensitivity from the customer side is important, and we all know that. That's what I can say, unfortunately.

Erik Golrang

Analyst, Skandinaviska Enskilda Banken AB

Thank you.

Operator: The next question comes from the line of Enarson, Björn with Danske Bank. Please go ahead.

Björn Enarson

Analyst, Danske Bank A/S (Sweden)

Thank you. I have a – first question is on the NATO RFI on airborne early warning. Can you say something more about that? If I'm not wrong, they are using 14 systems today. Do you have some more details to talk about?

Micael Johansson

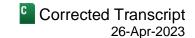
Member of the Board, President & Chief Executive Officer, Saab AB

You're right. I mean, they are trying to replace the capability on what they have today. Exactly how many systems in the end they will acquire, it's not something I can talk about and that's not really specified yet. As I said, this is a Request for Information. We have provided information on how good this is globalized in terms of it's in production, it's short lead times, it's very cost-efficient, it's a fantastic capability and it would reduce the lead time for them to establish a capability a lot. We could be fully operational, in full operations earlier than what they have actually said when they need initial operational capability.

So we have an attractive offer but they have to come back and say exactly how many do they need and when is the actual Request for Information, a sort of a shop quotation coming in. And this is not 100% sort of clear exactly how quickly this process will be, but we have a great offer, obviously, and you know the capacity I have today,



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then how they will go about this long-term whether this will be a combination between manned and unmanned platforms or how they work with this capability, we will see. But this is an important start at least, absolutely.

Björn Enarson

Analyst, Danske Bank A/S (Sweden)

And the timeframe is – can you say something about the timeframe? When we should expect to hear some more news on this?

Micael Johansson

Member of the Board, President & Chief Executive Officer, Saab AB

I'm not sure I can do that. I think we are offering the best schedules we have, which is before they actually have stated when they need initial operational capability. But that is maybe because they see that it's impossible to get the initial operational capability early from other competitors, but we have a very attractive offer in that place.

So if they move ahead according to our schedule, they need to go ahead quite quickly on deciding this. But if they want to sort of evaluate this in more detail, it might take a bit longer. But this is a continuous campaign and let's see when we can be more open on where we are in this. I don't really know right now, but it's an important campaign to us, of course.

Björn Enarson

Analyst, Danske Bank A/S (Sweden)

Yes. I understand. And on Surveillance, I have a question on their profitability. I mean, you were taking during the last many years quite a lot of investments and you are now delivering and you have taken new orders, et cetera. Could you say something on – shouldn't we at some point see a little bit of a leap in terms of profitability for this area?

Micael Johansson

Member of the Board, President & Chief Executive Officer, Saab AB

I agree. Surveillance should be two-digit profitability business area definitely. And we've done a few things to turn a couple of sort of things in the portfolio around. And that is now heading in the right direction. So I look favorably upon them increasing profitability going forward. You're right, they should be higher. I'm not going to say exactly when this is going to reach that level, but they are going in the right direction.

Christian Carl Peter Luiga

Deputy Chief Executive Officer & Chief Financial Officer, Saab AB

And we actually said at the Capital Markets Day that the Surveillance operation should already show signs of improvement in 2023. So – and how much we will come back to and that's why also I wanted to say before that the quarter one was not sort of typical for how we see 2023.

Micael Johansson

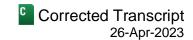
Member of the Board, President & Chief Executive Officer, Saab AB

Right.

Björn Enarson

Analyst, Danske Bank A/S (Sweden)

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Perfect. And then last question on the T-7, you touched upon it and we read about the delays. Is there anything that you can do or, I mean, is this fully reflected in the current profitability of the business area right now or will it get worse from the T-7 part before it get better or is it more stable at the low level?

Micael Johansson

Member of the Board, President & Chief Executive Officer, Saab AB

I would say that when we sort of continue – we will continue our low rate initial production of the aft aircrafts and it will mean that when we get that up and running, even if it's low, sort of a low rate, it will improve rather than going in the wrong direction. But it's not taking us as quickly into full rate production as we thought, of course, and that will be needed to really make this profit – really the profitable business that we expect, but it won't go in the wrong direction, it will go in the right direction, the longer we continue also to do low rate production which we do right now.

Björn Enarson

Analyst, Danske Bank A/S (Sweden)

Thank you.

Micael Johansson

Member of the Board, President & Chief Executive Officer, Saab AB

Okay.

Operator: The next question comes from the line of Burgess, Sam with Citigroup. Please go ahead.

Samuel Burgess

Analyst, Citigroup Global Markets Ltd.

Hi, guys. Good morning and thanks for taking my question. I just wanted to ask one on corporate costs. I know that the higher corporate costs were mainly related to write-downs in the minority portfolio and minus those write-downs, corporate costs would have been actually significantly lower at around SEK 150 million, which is lower than Q1 2022. How should we think about those costs for the remainder of the year? And it sounds like some of those specific issues which were causing an expansion in corporate cost last year might have begun to ease off a bit. If you could comment on that, that'll be great.

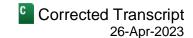
Christian Carl Peter Luiga

Deputy Chief Executive Officer & Chief Financial Officer, Saab AB

Well, that's true, even though I mean, we had an increase in IT expenditure last year and that was one of the reasons for an increased cost last year. And now we are at a level where we actually, as you say, spend the same type of cost. It doesn't continue to increase. Secondly, which I can't control, was actually that the share price went up quite heavily, and that impacted our cost for our share programs to our employees. And if that happens again, of course, we will have more cost. And so those things.

And also finally, we said that some of those costs we had last year, we will actually push out into the business areas and they will take care of them. If we increase something like in IT and then we push them out into the business, then that will float into their margin, which has also happened. So the margin in the business areas reflect part of that. But overall, that's how we manage things. We may start up a program on IT that is very important for all the business areas. Then we move it in to sort of a more shared model and it's handled by all of the business areas together. So this should be a more normalized cost level for the group.

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Samuel Burgess

Analyst, Citigroup Global Markets Ltd.

Thanks. That's very clear. And just a quick second, if I may. Given the volume of orders you have and the urgency which some of those are required, are there any supply chain frictions that you can see emerging at this point?

Micael Johansson

Member of the Board, President & Chief Executive Officer, Saab AB

I have great respect for supply chain and the ecosystem as such, but we fortunately, we have secured quite a lot of material and explosives and powder and the semiconductors and raw material for sort of the foreseeable future. But to sort of take a next step beyond the sort of the doubling of the capacity that we're doing now, we need more investments also in the ecosystem, definitely. And as you are aware, when it comes to everyone needs explosives, some powder to do 155 millimeter ammunition and we need it for 84 millimeter ammunition, so some countries may have to come together sort of to invest in this going forward to make this long term a higher level of resilience and security of supply.

But right now, we're doing fine. But let's see what's happening going forward, it's a sort of only started in terms of defense spending as I think. We work with this still...

Samuel Burgess

Analyst, Citigroup Global Markets Ltd.

Thanks very much.

Micael Johansson

Member of the Board, President & Chief Executive Officer, Saab AB

...every day to manage our supply chain. It's redundancy. It's regionalization. It is efficiency measures and investments, of course, every day, this is an important part to work with.

Merton Kaplan

Head-Investor Relations, Saab AB

Thank you, Sam. We have three more on the line. So, we have to rush. So, we have time for two.

Operator: Yes. The next question comes from the line of Tusa, Sash with Agency Partners. Please go ahead.

Sash Tusa

Analyst, Agency Partners LLP

It's Sash Tusa from Agency Partners. Good morning. I just wondered whether I could just get a tiny bit more clarity, actually, about the nature of the Kockums aftermarket at the moment. Do you include in that the upgrade of the additional Gotland-class boat as an aftermarket activity? Or is that really a large project? And then sort of moving further abroad, you have had business in Asia and you've been looking for work in Australia as part of the Collins-class extension. Are those still contributing to the very strong aftermarket performance in the first quarter?

Micael Johansson

Member of the Board, President & Chief Executive Officer, Saab AB

I don't classify the upgrade of the Gotland-class submarines as being sort of aftermarket, that's sort of a project on its own as A26 sort of the submarine project. And I'm not saying this is only aftermarket. I don't sort of want to

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quote it like that. Of course, the sustainability and the support context are important. We have those as well and that will be sustainable over time and growing. But we have important contracts with Singapore on the multi-role combat vessels where we are supplying the full design and we have opportunities to go in for that sort of composite superstructures on those ships. And then we have things coming up in Sweden when it comes to, as I said, the Visby corvette upgrades, you can call that aftermarket, but it's quite a substantial project and then the new one which is only in the design phase then this the new versions of the corvettes. And there are a couple of other things in international market.

So it's a mix of support but also specific projects, but the mix of not having only sort of to be reliant upon Swedish programs, but more have international programs and the mix between surface and subsurface, it is a sound mix which gives the business a growth perspective and increased profitability. So I don't think you should sort of look upon it as it's only as aftermarket versus sort of new projects, not at all.

Australia, of course, we have an interest in providing support and taking a part in the Collins upgrade program, but that has not really started yet more than from a study perspective. We are involved in that, absolutely, but it's not a big volume yet for us. That is a potential going forward for us.

Sash Tusa

Analyst, Agency Partners LLP

Great. Thank you very much.

Operator: The next question comes from the line of Montorsi, Virginia with Bank of America. Please go ahead.

Virginia Montorsi

Analyst, BofA Securities, Inc.

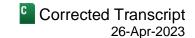
Hi. Good morning, everybody. It's Virginia from Bank of America. I won't take up too much of your time. Two quick questions for me. The first one would be on cash flow given how strong it was in Q1. How should we think about phasing across 2023? Meaning do we expect or should we expect any sort of other major down payments? Are you going to burn through the cash throughout the end of the year? Basically, how should we think about the phasing on cash? And then on Surveillance and Kockums, kind of the same thing, how should we think about the phasing of margins this time around across Q2, Q3 and Q4? I know, in Surveillance, you mentioned margins are going to pick up progressively, but is there any more color you can give us on the phasing of the profitability of these two divisions? Thank you.

Micael Johansson

Member of the Board, President & Chief Executive Officer, Saab AB

Well, I think, as we've talked about margin wise, along guide on business areas, but Surveillance should go and improve in the right direction, of course, and that will happen during 2023, as we have said before. We talked about that during the Capital Market (sic) [Markets] (00:52:42) Day. And if we continue to be successful on the mix of contracts in Saab Kockums, even though, as Christian mentioned, the revenue increase is a bit sort of exceptional in Q1. So every quarter might not have sort of the favorable mix of things leading to this high margin, but they are going in the right direction as well, if you look upon the full year. That's much I can say.

Cash flow-wise, it's been an exceptional quarter as we said. If we are successful on the pipeline that we work with, of course, there is potential to get new sort of down-payments on these contracts, but those contracts are not finalized yet. So it's difficult to speculate on that. So I won't go further than to say that this will continue to be a positive year when it comes to cash flow, and we'll do everything we can to make sure that we get more down-



payments on the contracts we receive, so we can continue to invest. But we need to invest also. We need to also secure, as we talked about raw material and the explosives and powder and sorts. So there is also cash going out, doing that.

I don't know if you want to put some more flavor on that.

Christian Carl Peter Luiga

Deputy Chief Executive Officer & Chief Financial Officer, Saab AB

A

Yeah, I just want to – yeah, I think I have – but just on the cash flow then the – I mean, we strive actually to have quite an inflow that follows the outflow on our larger projects but sometimes the customer wants to have a prepayment or sometimes we forced to have a prepayment because of all the risk sharing, the guarantees and all these things. So in general, we actually try to have a phasing that is better. So we don't strive for big prepayments because we usually have to pay for that to the customer because they're government in guarantees and other stuff.

So if we do things right, we get a lot of more orders, but we still have a more normal phasing of the cash flow. And then of course, we stand by our target of positive cash flow for this year but more important for the next five years to cumulative, we see that we should be above 70% of the EBIT. And that is a more important thing to think about than a specific quarter, I would say.

Virginia Montorsi

Analyst, BofA Securities, Inc.



Thank you. That's very clear. Maybe just one follow-up on what you were saying on ammunition. And forgive me if I have missed this, but do you produce both the 155-millimeter as well as the 84-millimeter? And have you ever disclosed what percentage of your sales that is? The last question for me. Thank you.

Micael Johansson

Δ

Member of the Board, President & Chief Executive Officer, Saab AB

We do not produce 155-millimeter ammunition in our country. That is BAE Bofors doing that. And – but we do produce, of course, 84-millimeter ammunition. And it's just that sort of both of these ammunition types needs sometimes same sorts of the raw material in them. So, of course, we have to make sure that we have the capacity and ecosystem supply chain to handle that. We have not disclosed how much is ammunition and how much is weapons as such coming out of our support weapons capability. But, I mean, we have the capacity looking at units, could be weapons, could be ammunitions to sort of output at least 200,000 a year from that facility today. So that's where we are, and we're doubling that as we speak.

Merton Kaplan

Head-Investor Relations, Saab AB

Thank you.

Virginia Montorsi

Analyst, BofA Securities, Inc.

Thank you. Very clear.

Merton Kaplan

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Q1 2023 Earnings Call I believe we have one more on the line. So let's go ahead and invite Carnegie. **Operator:** The last question is from Laséen, Mikael with Carnegie. Please go ahead. Mikael Laséen Analyst, Carnegie Investment Bank AB Yeah. Thanks. I have a question on the underlying order intake. It was the strongest number I've seen. Is this, I mean, a reflection of the market situation, or did you have an unusually strong start to the year? Just to understand the factoring in the business. Micael Johansson Member of the Board, President & Chief Executive Officer, Saab AB All I can say it's a high interest in the market, specifically in Europe and the US. And we are continuing to capture those market opportunities. Definitely, there will be more to come because of the needs to replenish stock levels and many countries indirectly continuing, of course, to support Ukraine. But exactly when these contracts come into play, that is incredibly difficult to predict. But we had a good start of the year, and I see more coming. That's what I can say. But it's not easy to say which quarter and exactly when. I mean, that's the way it is in our business. Mikael Laséen Analyst, Carnegie Investment Bank AB Yeah. [indiscernible] (00:57:41)... Micael Johansson Member of the Board, President & Chief Executive Officer, Saab AB But I can say that what is important is, of course, that when we have established framework on track set, it is a good thing because then you can continuously use those to place new contracts without having long negotiations like the one we have with the NATO now, with NSPA, like the one we have in Sweden, which is also including a few other countries around Sweden, so that they're supporting, of course, order intake in a more sort of quick way, if I put it that way. Mikael Laséen Analyst, Carnegie Investment Bank AB Okay. Got it. I'm just curious also about the Gripen project activity. Quite an important thought, of course. Can you say something why you have a lower activity? Is this a temporary thing in this quarter... Micael Johansson Member of the Board, President & Chief Executive Officer, Saab AB It's just... Mikael Laséen Analyst, Carnegie Investment Bank AB

...or how we should think about the Aeronautics situation?

Micael Johansson

Member of the Board, President & Chief Executive Officer, Saab AB

But this is a PUC type of project, percentage of completion. And some quarters you add sort of all the activities together, it's higher than normally or not. It's not because we have few people involved. It's most often about how much material we actually get into and assemble in the system. That can vary between the quarters. So that's why we say that this quarter was not huge on material, sort of added value activities which led to a slightly lower sales level. So it's not sort of something dramatic. This varies between the quarters.

Christian Carl Peter Luiga Deputy Chief Executive Officer & Chief Financial Officer, Saab AB	A
This is not a signal on delivery time or production, right, or anything?	
Micael Johansson Member of the Board, President & Chief Executive Officer, Saab AB No, no.	A
Christian Carl Peter Luiga Deputy Chief Executive Officer & Chief Financial Officer, Saab AB	A
Exactly on the same. We are just where we should be.	
Micael Johansson Member of the Board, President & Chief Executive Officer, Saab AB Yeah.	A
Mikael Laséen Analyst, Carnegie Investment Bank AB Okay, excellent. Thanks.	Q
Okay, excellent. Thanks.	
Merton Kaplan Head-Investor Relations, Saab AB	A
Thank you, Mikael.	
And I believe we have – we're running out of time. And that was the last question. W	ould you like to say anything?
Micael Johansson Member of the Board, President & Chief Executive Officer, Saab AB	A
You have 20 questions on the line.	
Merton Kaplan Head-Investor Relations, Saab AB	A
Yeah, we have. We did receive a couple of questions but I think they have been covered to the couple of the couple	ered more or less.
Micael Johansson Member of the Board, President & Chief Executive Officer, Saab AB Okay. Okay.	A

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Merton Kaplan

Head-Investor Relations, Saab AB

So I'll give the last 30 seconds to you, Micael, to recap.

A

Micael Johansson

Member of the Board, President & Chief Executive Officer, Saab AB

No, thank you all for asking good questions. And I'm really pleased to see a strong quarter behind us and really confident about the year to come now. So thank you again. And I see you in Q2.

Christian Carl Peter Luiga

Deputy Chief Executive Officer & Chief Financial Officer, Saab AB

Thank you.

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