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Saab AB (SAABY.SE)

Q1 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Merton Kaplan

Head-Investor Relations, Saab AB

Hi and welcome to Saab's Q1 Earnings Presentation. I'm Merton Kaplan, Head of Investor Relations. And with me here in the studio, I have our CEO, Micael Johansson; and CFO, Anna Wijkander. We will, as usual, go through some slides on the business and some financials, and then we'll open up the Q&A session in about roughly 30 minutes.

So, without further ado, I'll pass over to you, Micael.

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

Thank you, Merton, and good morning. And thank you for joining us this morning for the first quarter results. And to sort of introduce this, I think it's been a solid quarter with good momentum in the market, and we have a good order intake, many small- and medium-sized orders, and also a couple of bigger ones from Latvia and Germany. All business areas are growing, which is good, and we increase – we continue to increase our profitability. So, that's sort of a super summary of what's happened this quarter.

But let's look at some highlights. So, as I said, strong customer activity in the market. We have a little bit of a trend that since Europe is now realizing that it has to take a bigger responsibility for its own defense and security. And we need more sovereign capabilities in this continent, we see a trend that the customers want to, sort of, look at what can we get quickly, and what do we need also to invest in going forward to create sovereign capabilities. So, two types of market activities, I would say. What capacity do we have to deliver something quickly, and also, sort of, what are the long-term capabilities that we lack in the European perspective?

So, there is a lot of focus on the European industrial defense base and how we sort of grow that capability. We have a good base of industries in Europe, I must say. But, of course, the dependency on the US is quite strong today, and the tendency is, of course, from the commission side in Brussels to start saying buy more European, invest in more European capabilities. However, I think it's still important to have a good transatlantic link.

I think Saab is very well-positioned with our broad portfolio and Europe sort of outside Sweden is our biggest market. And having a combination of comprehensive, sophisticated platforms like the Gripen fighter, the GlobalEye and submarines, and also the combination of command and control systems, and support weapons, and advanced weapon systems and sensors. It's a very good portfolio now when Europe is stepping up.

We are according to plan when it comes to our capacity ramp up. We have a number of things that must come into play later this year and early next year, both in Sweden in Linköping and in Karlskoga. But also in places like in the US, in Michigan, where we started to build a new facility for production of the support weapons and precision weapons. And also in India, where we also build a facility for support weapons. We opened a facility in UK, Fareham for sensors, and also in Finland for passive sensors. So, a number of things are happening when it comes to capacity ramp up.

And we have also employed net up another 800 people into Saab. It's fantastic to see how attractive we are as an employer, and that we can attract these excellent competencies into Saab because we need them now when we continue to grow.

Looking at the numbers, as I said, slightly above SEK 19 billion, an increase of 4% compared to the first quarter last year. Still a very high level, I'm really pleased with activity in the marketplace. And the good foundation of small- and medium-sized order is a good trend going forward. We have our best first quarter ever when it comes to the level of SEK 15.8 billion in sales. And as I said, all business areas are growing, a very good trend. And we continue to improve our profitability to be higher growth rate, and then, the sales growth rate, which is very good. Cash flow is much better than last first quarter 2024, a couple of billion better.

There is a big variation between the business areas here, and that, sort of, depends on a certain quarter where the milestones would be, and the payment milestones would be, and also the deliveries where they are. So, this quarter, Dynamics have a very good cash flow, and that – which is, sort of, compensated a bit by not such a good cash flow on the other business areas, but that much changed over time, of course, and we are very confident that we will deliver a positive cash flow also 2025.

When it comes to the market, a number of, sort of, big sort of movements have been sort of developing lately. Of course, I mean, the global uncertainty and geopolitical sort of changes that we see is, of course, creating a number of different things when it comes to where the demand would be. And I mentioned earlier that Europe is really having a wake up situation where they realize that you need to spend more, and it's a bit different in different parts of Europe. But all in all, I think it's an alignment about that we need to have our own sovereign capabilities and capacity in Europe.

We are well-positioned to manage that, as I said. On top of that, the commission have tabled a number of initiatives, which is called ReArm Europe. It's both sort of a loan facility, and it's also a relaxation of fiscal requirements from the commission side. But it's all up to the nations whether they want to use these €800 billion to invest in defense going forward. But it's sort of facilitated by the commission. And let's see how many countries now will jump into using these facilities to go even further.

I mean, Sweden took a big step lately also by saying that we will aim for 3.5% and align ourselves with what the NATO summit will decide in June in The Hague. But we're aiming for 3.5%, which is a very big step, of course. That adds another SEK 300 billion over time up till 2034, and 3.5% must be reached then by 2030. So, that is something now that the Swedish system is working. Those money must now be converted into defense capabilities on top of the existing defense bill. And then, it will be acquisitions coming, of course.

I must sort of say that sort of the speed of politicians stating more expenses on the defense side, that must be converted into what are the defense capabilities needed, and then, that comes into acquisition processes is sort of not super quick, but there are movements in expediting these things. But this doesn't happen overnight, so to say, from the political statements. But we still, as I said, we are pleased with the activity in the market as it is right now. But there will be more to come, of course, looking at the spending numbers. And also Sweden announced the spring budget 2025 adding another commitment to be used for our defense material organization, FMV, to commit to another – more money being spent that will then be, sort of, activated during 2026 to 2028.

And then, finally, we have a very important summit, of course, in The Hague in June. And I cannot sort of predict exact numbers on where the spending levels will be set. But, of course, the situation that we see with the number of countries going above 3%, of course, supports the fact that we will see something much higher than today, the 2% floor that we have.

A couple of comments on each business areas from my side then. Aeronautics has been growing from the comparing quarter last year. There's a big interest in the Gripen fighter system, the E/F version. And I mean, last year, we were selected to negotiate the contract with Thailand. We are in the process of doing that as we speak and hopefully finalize that soon. And now, in March, we were selected to negotiate a contract with Colombia. And, hopefully, we can expedite that also in the next number of months, at least during this year, to have that come into play. Those are really good sort of initiatives and a big step now getting more customers on the Gripen E fighter, which is an excellent fighter when it comes to the lifecycle cost and the performance and so forth.

And we have a very high activity across the business units in Aeronautics, and I'm really happy to see now, that the Aerostructures business, which is not a dominating part of Saab, but it has now been transformed into delivering black numbers again, so it's profitable, which has been for quite some time. So, I am pleased to see that. The parts that are still pulling, sort of, the profitability down a bit still is that we have not, sort of, reached the production levels we need to have in our facility around T-7 in Indiana. And when that sort of ramps up, of course, the numbers will look better.

I need to, sort of, also say that there is a currency effect for Aeronautics that has affected in the positive direction the profitability of Aeronautics this quarter. On the group level, it's no effect at all because there is a negative effect, not material, in the other areas. So, all in all, this sort of sums up to nothing, but specifically in Aeronautics, it added to the profitability level this quarter.

Dynamics, as you've seen, a very high demand of the portfolio in the market. Good order intake of SEK 8 billion, and several orders that are, sort of, quite big. An order from Latvia on the RBS 70, which is on the level of SEK 2.1 billion. We had the TAURUS missile, which we are a part of together with MBDA, to deliver – is manufactured in Germany. We have a contract from them on a good level, and also contract on the IRIS-T missile with Diehl. So, good sort of set of contracts.

And we do see that we also expand our business in the US. We had an important contract with the US Marine Corps in the US on our training systems. And we – in this area, really, the capacity expansion is really instrumental to us, and we are working that, and it's progressing according to plan at a very high pace. And we're

following it that diligently to make sure that we have the capacity in place now to keep our lead times to reasonable levels when the demand is so high.

Surveillance have a good interest and strong interest in the sensor business, of course, when it comes to our weapon locating radars like Arthur, and also, the Giraffe radar systems. We have – also we are a part of the CV90, sort of, business with BAE Hägglunds since we have the delivery of the sighting systems and the fire control systems for the CV90s, which is good for us, good collaboration on that side. So that has generated order intake for Surveillance. And we have now started a production facility in Finland in Tampere to now produce many of these sort of series compact, passive electronic warfare sensors that can be used in both the land domain, of course, and then also the naval domain, but also maybe on drones going forward. So, that's a very important product for us, and we have a good backlog on that.

And we have started – we have expanded our capacity when it comes to Giraffe 1X. We opened a facility in Fareham, UK to produce also Giraffes not only in Gothenburg, but also in the UK. And there is a high-activity level in all the business units within Surveillance. The parts that are defense oriented are doing really well, the growth and the profitability on the civilian side of Surveillance is at a lower level. We have this security systems for prisons and our traffic management systems in Surveillance as well. So, there is a sort of a mix of a business. So, we still have some effects on the margin and growth because of these businesses, which we are, of course, working hard to correct.

Kockums then is very high activity level and a very good mix of businesses now on the surface and underwater side, so that the growth has been really good, 14.6%. And this is what we want to have in Saab Kockums, a mix of submarine activities, but also other underwater vehicles that we manufacture. And we have delivered now underwater vehicles to an international customer, which is really good. This is the AUV62, it's an acronym, of course, but this is a vehicle which you use to train your submarines – to find submarines, I mean, anti-submarine warfare training. So, it simulates complete submarine in many different ways. That's a good delivery. And we had important deliveries both on the submarine side and on the surface ships, the sinking ships that we have on contract with Poland.

Also very high level of activity in Combitech. We employ more people, and the more consultants we put in place the more projects we get. So, the activity level is very high. And we have good new contracts and partnerships with the Defence Conscription and Assessment Agency [indiscernible] (00:14:36) and help then with IT security issues. And it's obvious that the new technology areas like autonomy, AI specifically, and security solutions on the cyber side is drawing our competence to contracts in both the commercial civilian market, the agencies in Sweden and the Nordics. And also, we have, of course, lots of contracts with the defense-related agencies. And part of Combitech is also sort of helping Saab, of course, with technical consultancy. So, it's a good, good development on the Combitech side, I think.

On the sustainability area, I want to highlight a few things. If you look upon the part of sustainability, we have three main areas, but we have 11 areas that we follow in detail in terms of metrics. When it comes to the greenhouse emission, greenhouse emission side, we have since we started now, lowered our emissions from the reference base 2020. The last 12 months has led to a decrease by 31%. And one should remember then that our target with SBTi is to reduce 42% until 2030. So, we have a good trend here. We will not, of course, affect – we will not sort of compromise our growth. We get the bigger footprint. We get more contracts. We have to fly more and all of that. So, we have to do a lot more in the areas we can to make sure that we compensate this growth, of course, in the business.

It's also very important when you grow as a company that you keep track of that you train your people correctly, that we don't have injuries in our operations, and we have a good trend now of reducing the frequency rate of injuries and specifically now when we have a growth that is important to underline. And for us, the diversity and the equality issues are really important. And we have an ambition to grow our female base of our employees. And we are now at 26%, which is a good level growing. We have a little bit of a dip on the manager side. When you grow like we are growing, of course, you need a lot more managers as well, and we're still aiming to reach 30% when it comes to women managers. I'm confident we will do that. But we were touching that lately, but we've dropped a bit now. But we will, of course, work hard to get back to that level. So, we have a good development on that side as well.

Yes. And by that, that was a few comments from my side. And by that, I hand over to my CFO, Anna Wijkander.

Anna Wijkander

Chief Financial Officer, Saab AB

Thank you, Micael, and good morning, everyone. Yes, as we've heard, we had a very solid first quarter with sales growth continuing growth in all business areas. The EBIT improvement were also visible in all business areas and also cash flow improvement. So, with that, I will go into more of the details of the financials.

So, starting with our order backlog, it's increasing. Now we have a backlog of SEK 189 billion. That's an increase year-over-year with 19%. And it's also good to see that our international business is increasing. So, 74% of our backlog is now coming from international customers. In the quarter, we have also a book-to-bill of 1.2 times. It's very much driven by Dynamics and Surveillance this quarter with their high order intake. And Dynamics and Surveillance is now representing 72% of our total order backlog, which is an increase from last year as well. Overall, our backlog now corresponds to 2.9 times our rolling 12 months sales.

And looking into how it's growing, we now, compared to last year, have more than around SEK 20 billion in additional sales to convert from our backlog from year three and onwards. So, I think with that, that's a good foundation for our long-term ambition and long-term growth.

Now, let's look into – more into the sales growth development, both for the group and for the business areas. We have good growth that we have had for the last two years. We have been growing for more than 20% each year the last two years. And this first quarter, we grow 11.3%, of which the majority was organic. It was 10.9% organic, had a small impact from an M&A or an acquisition of a minority company in Q1 2024 impacting.

Growth in all business areas, where the highest growth is seen in Dynamics and where we have grown 20% this quarter. Very high project activity, several deliveries, and the main growth is coming from ground combat and missile systems.

Also, Aeronautics is growing 12%. Also good pace of project activities and across the business units and also an improvement in the commercial business in the former Aerostructures business that's impacting. Good to see Kockums growth also double digit, 14.6%, delivering good product execution and also important milestones in the key programs that we heard Micael talked about earlier.

Surveillance, a little bit lower growth rate, however, it's a growth, around 6%. Overall, good activity level, but the timing from variations in project mix and project completions varies between the quarter. And also in this quarter, we have some negative impact from our – from the civil side of the business impacting both the sales, actually, and the profitability. And, finally, Combitech is also growing good this quarter, driven by higher number of

consultants in projects. So, they grow 13%. So, with that, all in all, good start of the year. And as we said before, this is our highest sales in Q1 ever.

Further down, EBIT and EBIT-margin, both on group and on business areas. I'm pleased to report that we now have – that we grow our EBIT 22% year-over-year, and we have an improvement from 8.4% in Q1 2024 to 9.2% this quarter. As you can see then, per business areas, Aeronautics show very good profitability this quarter. But please note then that we have this currency impact due to phasing of purchases in US dollars that we had in this quarter. However, in the other business areas, we had some minor currency impacts going on. The other directions on group level, we don't have any impact on the EBIT.

The Dynamics margin goes up from 14% to 14.7% compared to last year, very much driven by sales, volume increase, and scale by that. As mentioned on the previous slide, Surveillance showed slight EBIT margin improvement and were impacted by this civil business that we talked about earlier. And in Kockums, the margin improvement was a result of successful project completions, and mainly related to deliveries to international customers. I also, before finishing talking about EBIT, want to highlight that we see – I mean the EBIT is fluctuating. So, we are going – we are going to have different EBIT margin levels depending on the mix in each quarter, even also going forward.

Next, a quick look at our income statement, and I will – I've talked already about sales and EBIT. So, I just mentioned the things that we have not been focusing so much on already. Good to see a gross margin improvement across coming up 1.8 percentage point driven by good projects execution and project completions. Then going down to the financial net, it's very strong this quarter, and that is positive, and that's related to our hedges that we have in our tender portfolio that this positively impact, it's a revaluation impact since the Swedish krona has strengthened. And if you compare to last year, the same quarter, we had the opposite impact with the krona that was weaker.

A bit lower tax rate due to lower share of taxable results from foreign operations. And our net income was finally – was improved both by from EBIT but also from the positive financial net. And then, finally, for our shareholders, the EPS improved substantially, 64% going to SEK 2.35 from SEK 1.43.

Cash flow then. It's an improvement from last year, as we heard, going from minus SEK 2 billion last year in Q1 to now minus SEK 14 million, to be exact, in operation of cash flow and that is despite that the investments are increasing. As you can see, to the right here in the picture, Dynamics is really the one business area contributing to the operational cash flow this quarter, driven by high customer payments. And in the other business areas, we have the timing of customer payments that were not so beneficial for us that offset that impact.

We also had, as planned, increased investments, SEK 1.6 billion. And that will continue to increase according to plan to support our ongoing capacity ramp-up and position us for future growth. We also have higher levels of inventories supporting our growth, and also make sure that we have our ability to deliver in our projects. However, return on equity, return on capital employed is also positive trend driven by this profitability increase, but also driven by higher capital turnover. So, just a final remark on this is, I mean, also the same as goes with EBIT. Our cash flow will vary between the quarters. So – but we remain confident that we will have a positive cash flow for the end of this year, as we have guided on.

We have – remain our strong financial position and leaving this quarter with a net liquidity position. So, net debt EBITDA continued to be negative, which indicates a positive net position. So, our balance sheet is robust, SEK 12.7 billion in liquid investments. And we also have a stronger equity-to-asset ratio of 37.8%. And, finally, at our annual general meeting, in the meeting decided to have a dividend of SEK 2. It's an increase from SEK 1.6 per

share, and that is a total payment of SEK 1 billion this year. And it will be paid, likewise, like last year in two installments, the first now here in April.

So, with that, I hand over to you, Micael, to conclude.

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

Okay. Thank you. So, we – I just want to underline that we will reiterate our outlook for 2025. Of course, there are uncertainties geopolitically, and we don't know really where the tariffs are going to, sort of, end up in terms of negotiations. However, I want to, sort of, proactively mention that I think we are a bit more resilient in our type of the business when it comes to tariffs in the way that we do regionalize our supply chains. We are, to a large extent, covered in contracts on financial things that we kind of control ourselves. We do not have a big hub somewhere that provides all the components to many of our systems. We are, sort of, dispersed when it comes to our hubs. And I do think we carry a bit more stock than sort of many other businesses, so we are a bit more resilient.

Trade wars are never good, of course, and eventually, it will, of course, affect our business as well. However, the most interesting aspect of this is that there are sort of reciprocal defense agreements with many countries, including our country, with the US that sort of stipulates actually that sort of tariffs, and these things shouldn't sort of come into play on the defense side. However, we don't know how they will be – how they will – what kind of precedence they have in sort of the statements and the decisions that's been taken by the US. So, that's uncertain.

Of course, geopolitical also situation is unbelievably difficult to predict. I just want to say that I do think that Europe has a way to go before we have created our own sovereign capabilities before we are back to, sort of, having a deterrence level that we need to have an unpredictable neighbor to the east. So, even though I really hope that we will get a reasonable ceasefire, and then a peace deal on Ukraine, we will have to continue to build our defense capabilities, and that, I think, the political leadership in Europe also realizes. And NATO is also pushing that, of course, going forward.

So, in essence, I think we can underline and just reiterate our organic sales growth for this year, 12% to 16%. We have a long-term ambition of 18% of – in the period of 2023 to 2027 average. And our growth on the EBIT side should be higher than the organic sales growth. And, again, we will – we're not a quarterly type of business. We will continue to generate positive cash flows year by year going forward, definitely.

So, by that, I guess I hand over to Merton to, sort of, highlight an upcoming Capital Market Day, which I will attend, of course.

Merton Kaplan

Head-Investor Relations, Saab AB

Thank you very much, Micael and Anna, for a great summary. So, before we move into the Q&A, I want to make a couple of statements on the upcoming event on the 26th and 27th in Karlskoga here in Sweden. So, we have gone out with a press release on this. And I want to remind our viewers and our investors and shareholders to register if you have not done so. Seats are limited, and we will secure them and get back to you by latest on the 2nd of May. So, don't forget that.

So, without losing the time we have, actually, we're actually spot on time. So, I will actually move straight to the Q&A and open this up. Before I hand over to the moderator, I want to just briefly also – you will have the conference call dial-in links on the back of the report or the press release from this morning. So, if you want to ask questions, you can dial in and the moderators will put you on the line. We have a few online already and we will take those questions first. And then we also have some questions from the website that you can post to us in real time, and we'll get to pick them up. And one final thing, please do ask your questions, two questions at a time, so you will leave room for everyone to participate.

With that, I'll give the word to you, moderator.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] The first question comes from Henric Hintze from ABG Sundal Collier. Please go ahead.

Henric Hintze

Analyst, ABG Sundal Collier AB

Q

Hi. Good morning. This is Henric at ABG. As a first, a sort of, higher-level question, I was just wondering if we could get your view on how you think your ability to maintain your share of the Swedish defense budget is, given its relative focus on strengthening ground capabilities, and your relatively larger focus on the air and naval domains here.

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

Okay. I can start. No, I think we have a very good position to continue to be a big portion of what the Swedish defense spending is. I don't know the exact number, but I think, on average, we've been at 40% roughly of the procurement budget that they have. And I see no reason why we shouldn't be able to continue that at least. Then it depends, of course, on whether they intend to do any megadeals on more fighters or submarines, which I don't know yet. But on the land side, of course, we have plenty to offer in terms of both the sensor capability, the command and control side of things, the missile side of things, and also support weapons. Of course, even though we do not do, sort of, the CV90, so that type of stuff, we have plenty to offer in the land domain, definitely. So, I'm not concerned about that. I think we have a very good portfolio to support that going forward.

Henric Hintze

Analyst, ABG Sundal Collier AB

Q

All right. Very good. And one more for me then. Could you maybe tell us a bit more about what drove the strength in Kockums this quarter? And also, the sales grew 15% year-on-year, but the order backlog is down 21%. Can you say anything about the outlook for orders in this segment, and what is needed to keep up sales, given the shrinking order backlog?

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

So, what is important for Saab Kockums is that we have a good mix of, first of all, Swedish and international contracts, which we do have on the surface side specifically, and also, on the, sort of, more unmanned underwater sort of vehicle side of the business. The submarine side is, of course, very Swedish today, even

though I really hope that we will get a partnership with someone to expand that. The growth in Saab Kockums is about that mix to have international contracts, which we have been really successful on, with the superstructures that we do, with the design of ships that we do, and then a mix of support business together with development and production. So, it's all about that, that's been quite successful lately, and we will try to support that going forward. They have been developing that business very well, so I'm pleased with that.

Henric Hintze

Analyst, ABG Sundal Collier AB

All right. Thank you very much.

Q

Operator: The next question comes from Björn Enarson from Danske Bank. Please go ahead.

Björn Enarson

Analyst, Danske Bank A/S (Sweden)

Thank you. I got two questions. First, would it be possible to certify Gripen for nuclear weapons? And second one is on your order backlog duration in 2023 and 2024. Year two orders were indicating 20% to 40% growth. And now it looks like it's 6%. Is that something we should think about when looking at 2026 invoicing? Thank you.

Q

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

I cannot comment on the first question, actually. I mean, there is no intentions, no initiatives in that direction. We never got the question in that direction. So, it's really speculative. And so, I try – I think I refrain from, sort of, trying to get any – into any direction on that. If that happens, we'll – it's very political question also, of course. So, it's really nothing we, up to now, have even considered. And so, let's see what happens in the future. I can't say more than that.

A

Anna, you want to comment on the backlog?

Anna Wijkander

Chief Financial Officer, Saab AB

Yeah, I can comment on the backlog. [ph] I would think (00:36:57) what we can say, I mean, we reiterate that we're going to grow our company 2023 to 2027, and have an average growth rate of 18%. So, given that way, we don't give any guidance really on the 2026 year in specific. But we have a strong backlog that we are executing on, and are confirmed to grow our company.

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Björn Enarson

Analyst, Danske Bank A/S (Sweden)

Thank you.

Q

Operator: The next question comes from Erik Golrang from SEB. Please go ahead.

Erik Golrang

Analyst, Skandinaviska Enskilda Banken AB

Thank you. Two questions then. First one is on anything you can say about the potential timing in terms of actually signing Gripen deals with Thailand and Colombia. And then, secondly, a bit more conceptually, I mean,

Q

you set your current targets prior to the Munich Security Conference. Is there any other way to think of them, then that they are too cautious, given the development since? Thank you.

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

When it comes to – I hear myself now.

Merton Kaplan

Head-Investor Relations, Saab AB

A

Can you mute the – your line, Erik?

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

It's fine, I think. Okay. So, when it comes to Thailand and Colombia, I think we were a bit further ahead with Thailand when it comes – I think we are a bit further ahead when it comes to negotiation with Thailand. Exactly when, but I think I – my ambition is still that we will finalize these contracts this year, as we've said before. And, I mean, it was in March that we were selected by Colombia to negotiate that contract. And we are in the process of doing that as well, of course.

And there are many things in place, but you have to – you have to sort of get all the documents in place and all that. But we're working hard on that in both campaigns. And this is sort of a this-year type of objective that we have, of course. But it's also about the other party, of course. But that's my view as of now.

I also want to, sort of, highlight something, which has been surfaced this morning, about that Colombia wouldn't sort of pay us until many years ahead. I just want to underline the fact that it's normal that we have a financing offer supported by SEK and EKN in Sweden with a loan and a guarantee type of setup. That doesn't mean that we, as a company, we will get paid, of course, when we deliver our stuff to Colombia according to that plan. But Colombia can use the financing scheme to defer their payments a bit into the future. So, we don't sort of conflict what's happening to us with what a financing scheme means. I just wanted to underline that.

When it comes to the growth side of things, we, of course, monitor this all the time. As of now, we stick to our – this year guidance of 12% to 16%. Let's see how quickly the European perspective changes in terms of transforming the statements of spending of GDP from the political side into defense capabilities that must be defined by the defense forces that must move into acquisitions. That sort of process is not super quick. There have been improvements, absolutely, also in our country. But it still takes some time before sort of this spending decision moves into actual contract. And then, of course, we have to execute on these contracts. So, we will look at this going forward, but it's too early to say how that will happen – how that will develop. But no question, there's a, sort of, focus on raising the level of, as I talked about before, the European defense capabilities and capacity as a trend.

Operator: The next question comes from Tom Guinchard from Pareto. Please go ahead.

Tom Guinchard

Analyst, Pareto Securities AB

Q

Thank you. I was wondering if you could give us a sort of split on the margin improvements in Aeronautics. You said half was currency driven. How about Aerostructures, T-7, and Gripen production? Can you give any split on that?

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

Not in detail, of course, since we don't sort of guide or comment each and every business unit in detail. I think we can, sort of, make general comments that we're happy now that we have positive numbers on Aerostructures. And an increased revenue on that side is not, sort of, the biggest part of Aeronautics or so, but it's good. It's not sort of pulling us down. We're still not out of the, sort of, negative under absorption situation we have with T-7. But, of course, we're working hard to get to that as quickly as possible. And that will be, I will underline, again, a good contribution when we sort of get to the ramp up of sort of the T-7. So, that is pulling it down a bit.

The Gripen side is a high-activity level, and it's a good business. And then – so that's how it looks like. And then we have a services business also, you mustn't forget about that, supporting the GlobalEye, also the support side of things, which is, of course, positive in terms of how they contribute. That's, sort of, the general picture of Aeronautics.

Tom Guinchard

Analyst, Pareto Securities AB

Q

Sure.

Operator: The next question comes from Aymeric Poulain from Kepler Cheuvreux. Please go ahead.

Aymeric Poulain

Analyst, Kepler Cheuvreux SA (Switzerland)

Q

Yes, good morning. Thank you for taking my questions. My question's a bit of a follow-up of a previous one on the speed at which some of the increase in defense spending impact your sales now that Sweden has announced it's going to 3.5% by the end of the decade. How quickly – I mean, we already see some impact in the Q1. So, how quickly do you see that translate into higher sales up and above the 18% organic growth CAGR you were projecting before that announcement? And on the supply side, you made a bet at the start of the war in Ukraine by frontloading a bit the Dynamics capacity to capture the opportunity. Are you ready to do the same now or are you going to be like some of your peers, perhaps a bit more cautious and waiting for orders to actually be confirmed before adding the necessary capacity? That would be the first question on the growth target.

And the second would be more on M&A. I think last call, you mentioned a few opportunities you were looking at. But since then, valuations have moved quite a lot. So, does that change your view on M&A for 2025?

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

Okay. I think that's sort of three questions, but okay. I'll answer them. I think one should be – of course, the new sort of statement on another SEK 300 billion added to the Defense bill up until the period of 2034 in Sweden, and reaching 3.5% of spending in 2030 has not affected Q1. Definitely not. This is sort of backlog things that we have. The one important thing one should look upon in the statements from Sweden today and how quickly that will sort of transform into contracts through, sort of, add the defense capabilities, it's a little bit hard to say right now. I think we will see more of that, sort of, in the mid of this year when they will start talking or in September rather, when they start talking about the budget for 2026, and what, sort of, capability they will need. That's, I think, where it will be a bit more clarified where this additional money will be devoted to.

So – but what's important also that this year now in the spring budget, our defense material organization, FMV, got sort of the right to commit to another SEK 25 billion in spending, which where the money will flow in 2026, 2027, and 2028. But just to contract quickly things that we need, that's a big step, and that can affect the year, of course, at least on order intake side. So, that's one of the comments I have.

We are still – on the Dynamics side, we are forward leaning and investing according to the demand that we see, and we will continue to do that as quickly as possible. We are continuing to invest much more this year than we did last year on the capacity side because we see the demand in the missile, and the ground combat, and also in the training and simulation business is very high. So, we will continue to be forward leaning, and we're trying to figure out the market. And I think the European side of the market will be strong. So, that's how I see that.

M&A is super important to us, but it's unfortunately not a very quick process. We have a number of candidates we're looking into. But I cannot sort of predict exactly how that will sort of transpire into outcomes and when exactly. I can't do that today. But I just want to sort of assure you that this is an important part also, not only organically growing, but also doing M&A.

Aymeric Poulain

Analyst, Kepler Cheuvreux SA (Switzerland)

Thank you.

Q

Merton Kaplan

Head-Investor Relations, Saab AB

Great. Thank you. We have one final question. Please go ahead.

A

Operator: Right. The next question comes from Carlos Iranzo Peris from Bank of America. Please go ahead.

Carlos Iranzo Peris

Analyst, Bank of America

Hi, guys. Good morning and thanks for taking my questions. If I may follow-up on Aeronautics, if you can give more color on the commercial side of the business. Just wonder if profitability has improved because of higher volumes or better pricing. And then, is this a positive one-off of this quarter or do you actually expect a commercial business in Aeronautics to be profitable going forward? Thank you.

Q

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

Again, we don't guide on business unit level, but I can, sort of, comment on a couple of things. We were affected by sort of – or locked in by currency contracts and hedging contracts that was not favorable to us. We are out of those contracts, which is good for us. We have also renegotiated contracts with both Airbus and Boeing, which gives us a much better position. And those things should sort of create a better future for that business. That's what this is all about. This is not only that we grew our revenue, and by that, we got sort of to black numbers. We also have sort of better contracts now in our portfolio, in our backlog. So, we have taken, sort of, a number of actions to correct a number of things in that business.

A

Anna Wijkander

Chief Financial Officer, Saab AB

But we should also remember that it's just a small share of the Aeronautics business.

A

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

Absolutely. Absolutely.

A

Anna Wijkander

Chief Financial Officer, Saab AB

So – but it's good to see these positive signs and positive business.

A

Merton Kaplan

Head-Investor Relations, Saab AB

Is that okay? Yeah, I think that was okay for Carlos. We have a bit more time. I actually have two or three questions from the viewers, which are really good. And one is for you, Anna, and one for you, Micael, that we haven't covered yet. And we have [ph] Lenny here, Murray, (00:47:46) asking about the strong cash flow in Dynamics. Could you explain a bit more what was the driver behind that?

A

Anna Wijkander

Chief Financial Officer, Saab AB

In this quarter, it was really driven by high customer payments that we received in the quarter. So, that had that huge impact, SEK 5 billion.

A

Merton Kaplan

Head-Investor Relations, Saab AB

Good. And then, Micael, on the – do you have – on the fighter campaigns, what is your expectation on the fighter decisions in Peru is one question he's asking you.

A

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

No, we are, of course, campaigning to be having the best offer in Peru as well. We have given them an offer, and they are evaluating as we speak. So, I think we should have good chance, but I cannot predict what they will select, of course. But we are treating that campaign as very important to us. And, of course, it helps that we are now – we are both in Brazil and we are negotiating in Colombia. So, it creates a good Latin American sort of hub and footprint. I hope we will be successful, but I don't know yet. We are offering the best we have.

A

Merton Kaplan

Head-Investor Relations, Saab AB

Okay. Great. I think those were the main questions. I think we have covered more.

Anna Wijkander

Chief Financial Officer, Saab AB

Okay.

Merton Kaplan

Head-Investor Relations, Saab AB

We can, with those words and answers, conclude this Q&A call.

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

Thank you all for joining us.

Anna Wijkander

Chief Financial Officer, Saab AB

Thank you.

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