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**Saab AB** (SAABY.SE)

Q2 2023 Earnings Call

## CORPORATE PARTICIPANTS

### Merton Kaplan

*Head-Investor Relations, Saab AB*

### Christian Carl Peter Luiga

*Deputy Chief Executive Officer & Chief Financial Officer, Saab AB*

### Micael Johansson

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

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## OTHER PARTICIPANTS

### Samuel Burgess

*Analyst, Citigroup Global Markets Ltd.*

### Virginia Montorsi

*Analyst, BofA Securities, Inc.*

### Björn Enarson

*Analyst, Danske Bank A/S (Sweden)*

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## MANAGEMENT DISCUSSION SECTION

### Merton Kaplan

*Head-Investor Relations, Saab AB*

Good morning and welcome. My name is Merton Kaplan, Head of Investor Relations at Saab. With me here in the studio today, I have Saab's CEO, Micael Johansson; and Saab's CFO, Christian Luiga.

As you know, this morning we reported our Q2 report and we will begin the presentation shortly to go through with the numbers and the highlights in more detail. We will also continue to open the floor for Q&A session afterwards for our viewers online, as well as our analysts that dial in to the call and we'll have more information on that after the presentation. I would also like to remind you that you can send in your questions to me during the presentation through the website link that we provided to you.

So with those remarks, I would like to hand over to you, Micael, to go through the presentation.

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### Micael Johansson

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

Thank you so much, Merton, and thank you for joining us this morning in the middle of the summer. So let me start this by going through a few highlights related to our second quarter. Of course, as we've said, the demand in the market is still high. So, we have a good momentum in orders, I think, SEK 14 billion-plus in the quarter. And even if that was a bit lower than the second quarter last year, one has to be remembered, in that last year we had a big mega deal order on the GlobalEye for Sweden. So, the medium-sized orders have continued to develop really well, and half year is up 23% and amounts to SEK 31 billion. So, I think this will continue for a long time, because many countries are rebuilding the capabilities which they haven't had for a number of years, spending more money on defence. It's tragic that it took a war to make many countries wake up and also, of course, continue to support Ukraine in winning the war is also one of the reasons that we see strong demand in the market.

We have also a good sales development as we have seen, 22% organic growth in the quarter and 23% in the half year, which is of course something we are proud of, that we have managed to sort of grow now and increase capacity.

A few other highlights is, of course, the delivery of the SIGINT ship to Sweden and a very important capability, of course, to be able to listen with sophisticated sensors on a ship. It also shows how qualified we are when it comes to deliver complicated and sophisticated surface ships, and they now take that soon into operation.

There's clear visibility on how attractive we are as a company now for other companies to work with us. An example of that is, of course, the rather new partnership with Boeing on what we call the Ground-Launched Small Diameter Bomb, with a simple acronym, GLSDB, which I think have a great sort of promise into the future on demand side. And that is a very important capability in many countries.

We have been selected in Germany to provide an EW solution for the German Eurofighter, an extremely important contract for us going forward, and that will be done also in partnership with a company called Helsing, which is an expertise company in artificial intelligence. So, we now start to involve artificial intelligence in the mass data fusion, also in our EW solutions going forward.

It's all about building capacity, of course, and making sure that we can support the defence forces around the world. The lead times must be short-term. The demand is high, we have to deliver and we do that really well right now. We have also opened up production now in the UK where we have started to manufacture the Giraffe 1X type of radar, and potentially also we will manufacture the G4A, the Giraffe 4A radars in the UK. So, we have a sensor manufacturing capability in the UK.

Our capacity buildup on the Ground Combat side is continuing in Sweden, of course, sort of boosting our infrastructure and also employing a lot of people, but also setting up capability in India and in the US. I'm really happy to see that so many new employees, talented people have selected to work for Saab. We have an increase of more than 1,000 employees year-to-date and 2,000 in the last 18 months. And to retaining our skillful employees is of course extremely important. But these new ones are also extremely important to continue our growth path – pace into the future. So, it's been very intensive and good quarter.

And looking at the numbers, the key figures that Christian go through in more detail. As I mentioned, we had a strong order intake quarter as well, this quarter, even though I said it was a little bit of a decrease. But that was connected to the GlobalEye contract last year. I'm very pleased with the order intake and the SEK 31.1 billion we have for the first half year is extremely strong. And as I said, an organic growth 22%. And as you've seen, we have also decided now to change our outlook for the growth this year. I will come back to that.

EBIT is growing 44% in the quarter and 43% the half year. And that is of course extremely important as well. On the cash flow side, this is like how it is in Saab and you have sort of a number of outputs in terms of an outflow. I mean when it comes to cash to our suppliers and when that doesn't match with sort of payment milestones from customers, you can have a quarter looking like that. But I mean half year is still positive SEK 1.5 billion and we are confident in that we will deliver a good positive cash flow for the year. So, this is not unusual that it can be like this when it comes to cash flow and so now and then.

Looking at the market fundamentals then, of course, as I said the support to Ukraine's defence remains strong to have them win the war. Many countries are boosting that. To us that means that we delivered to many other countries and I don't know exactly how many defence forces delivers what into the Ukrainian defence. And at the

same time, we have many EU and NATO countries that needs to boost their own defence capabilities to move from a peacetime type of mindset to be prepared for conflict and war and to support the war, to have much more resilience when it comes to stock levels means another thing. This will continue for years to build sort of capabilities in many European countries, I would say, specifically going forward.

And many countries are in the process of establishing new defence planning processes, including our own country, Sweden, which is now having a Defence Committee in play which have delivered the first Security Politics Report. But next year, they will deliver sort of what capabilities do we need them to be coping with the threat environment that we see. So, this is going on in a few countries. And also many initiatives when it comes to how we boost capacity, specifically when it comes to ammunition and missile capabilities. Those are new initiatives within EU called ACEP, which includes things to make sure that we can invest in infrastructure and the joint procurements when it comes to specific ammunitions and missiles, but also to take care of raw materials and the supply chain. And also NATO have decided in Vilnius to initiate the Defence Production Action Plan. All these initiatives are extremely good.

However, I would like to say that the mechanism to actually access these funds and money for a country and industry is not 100% clear yet, but I do support initiatives to help us boost the capacity, of course. And I hope really that now the ratification on the agreement to really join NATO after the very important step we saw in Vilnius will happen soon because, of course, there is potential in being NATO alliance rather than relating to it and being compatible only being inside the alliance is a completely different thing. I see that a very positive thing for Sweden, of course, but also really important for us as an industry. So, I think we will see growth in many years going forward looking at what we're seeing in the marketplace right now.

A few comments on specific contracts done. I mentioned the numbers and orders, and the international part of the orders is 67% during the first half year on the international side and 33% on the Swedish side. And we have a record high over the backlog of SEK 135 billion. And a few examples of contracts that we have signed, as Carl-Gustaf ammunition to Sweden and I appreciate the long-term view now Sweden is taking on the security supply when it comes to ammunition. A little bit of a new trend that we also get sort of contracts that will give us the foundation for deliveries sort of beyond 2025 when it comes to things like ammunition. I think that's really important and a good step by Sweden.

We also are a part of the successful contracts for BAE Hägglunds on CV90s, of course, where we have important systems on that vehicle like sight- and fire control systems, and that was almost SEK 1 billion in order intake. And we've had the largest order ever for our unmanned Sabertooth autonomous underwater vehicle, which is about the new important area of monitoring seabed infrastructure. This would become a very important area going forward. So having unmanned underwater vehicles that can actually take care of the situational awareness underwater, looking at the infrastructure will be important.

A few contracts also in the Gripen development and support to Sweden, both to the CD version and EF version, have also come into play. And then we got a new contract on the Carl-Gustaf for Australia, roughly SEK 400 million for the M4. So examples of important contracts, and in essence, I would say that areas like Dynamics business area and the Surveillance business are still driving sort of the order intake in the marketplace. And the demand for those type of things like support weapons and air defence systems like RBS 70 and sensors like E1X and G4 is really strong.

A couple of comments on each business area then. Aeronautics is growing absolutely quarter-on-quarter. If you look at last year, on par when it comes to EBIT. And I mean, we have a situation where the Gripen contracts are absolutely moving in the right direction, but we're still a bit affected by that we are not really up and running in the

full rate production when it comes to the T-7 and we still have a negative effect of the commercial aerostructures business, which is sort of pulling the EBIT level down a bit.

Very important milestones in the second quarter when it comes to inaugurate in the Gripen E production line in Brazil. I think this is so important now we have a capability in Brazil for, which is a design center, flight test center and also final assembly and test capability for the Gripen E outside Sweden which will be important for the Latin American market. And also, of course, the next step in Brazil, a very high level delegation took place to inaugurate that and that this incredibly important milestone.

Also now which is a good step on the training aircraft T-7 in the US is that we've had the Air Force flying the T-7 for the first time in the quarter. So, now the test phase from the Air Force perspective takes place, and then we can continue to move forward to the important type certificates for deliveries to the Air Force and also the further acquisitions of the production contracts. And there are a number of campaigns we're running, of course, on the Gripen side, Brazil second step, of course, but also Colombia and the Philippines and Hungary and the Czech Republic are part of our campaign countries for the Gripen. So, lots of intensity in Aeronautics.

Dynamics, very strong growth, of course, and across several business units, not only the support weapons side, but also, for example, training and simulation. Training is so important and we now have more people defending the NATO alliance and also boosting resilience in many countries. You have to have more people training on the equipment, and we have excellent systems to provide doing that, delivering complete training centers to armies, for example.

We have a very good profitability level within Dynamics, a little bit calibrated now in terms of the mix of things that we had last year were extremely favorable. We still have a high profitability level and it will be high in the future as well. But it has lowered a bit from the last quarter and this is about ramping capacity. I mean, we have invested. We're continuing to invest to double it and double it again, including redundancy, and as I mentioned in India and the US. So extremely good development within Dynamics. And, of course, a record high backlog of SEK 42 billion almost in that area.

When it comes to Surveillance, very good development when it comes to growth and EBIT development, and they are moving into the right level of profitability now. We see a very good interest and large interest in the GlobalEye system from several countries. And, of course, we're participating in the common acquisition within the NATO, but also country by country. There are several countries taking an interest in the GlobalEye system apart from Sweden and UAE so far. As I mentioned, the EW solution and establishing EW capability on the Eurofighter in Germany will build capacity in Germany also when it comes to our employees in Germany. And then we have deployed a very important sort of digital tower which you can actually set up for disaster relief campaigns within the military forces to do air traffic control in a very flexible way. It's sort of a remote tower, but more deployable version of it that will be used in many instances.

Saab Kockums is developing fantastically in a mix of good aftermarket contracts and also good activity in the bigger projects like A26 and the surface ships. So that drives growth almost 30%, 27% quarter-on-quarter, and also that drives EBIT in a very good way, improving the EBIT to a very good level, over 100% growth within a quarter-to-quarter.

And there are a number of things happening in this area which are very important. We are, of course, continuing to campaign when it comes to the Netherlands. And soon, I think the competitors are asked to hand in proposals and then the assessments will take place over the next year in the Netherlands. But also Sweden, Australia have now signed up so we can use the submarine technology that we have in Sweden to support the life-of-type

extension of the Collins-class ships, boats, submarines in Australia. And that is a very good step. So, we will build our capability related to submarines even further in Australia going forward.

And apart from the SIGINT ship delivery to Sweden, we also are going to deliver two ships of – with a SIGINT capability to Poland. And we've already, together with the Remontowa shipyard, had the Steel Cutting Ceremony and that project is really moving well ahead as planned.

And I'm really proud to see that Combitech are continuing to grow in increasing the number of consultants, of course, but also continuing to improve the margins. And we are setting up agreements which are important but did win support contract – the technical support contract for the Swedish Army with a potential value of SEK 1.2 billion, which is more of a commitment like a normal project and not only sort of a consultant contract by [indiscernible] (00:18:14). And we also have a similar thing together with BAE Hägglunds, helping them on the CV90 when it comes to safety management, technical project management and some parts of the construction, which is extremely good contracts to have for Combitech. So, this is nice to see.

On the sustainability side, there are a number of highlights that I want to mention. We, of course, would take a big responsibility to make sure that we can work with our suppliers to make – to find solution to become more sustainable in how we go about things. And we have hosted Supplier Days and many new ideas have come up in that. We also launched an innovation call within the organization and we have now done, selected a number of initiatives connected to how we work with different things, how we can simulate things rather than actually testing things and sort of realize how we can work with energy efficiency with renewables rather than the normal sort of provision of energy and that – those are extremely important measures going forward, because in essence, since we grow we have higher production activity, but we also fly more in terms of testing on aircraft. We have more flights with our firefighters, aircrafts. So, we have to boost our plan when it comes to the reduction plan, a lot to cope with the decrease in CO2 emission, which must be 4.2% per year to reach our targets. But that cannot sort of be on the expense of growing the company. So, we have to do more to sort of reduce our emissions. So quarter-on-quarter, we did have actually an increase in emissions, but we are working hard to boost our impact plan going forward.

So, as I mentioned, we have now because of better visibility and confidence in half to half, the half year, updated our outlook for the growth perspective. So now we say we will reach organic sales growth between 16% and 20%, which I think is very good and strong message. We keep our long-term sales growth target, the compounded annual rate, yearly growth for 10%. We keep our EBIT growth that must be higher than the organic sales growth. And, of course, we keep our views on cash flow to have a good positive cash flow for 2023. So, we have now replaced the former target of around 15% with sales growth that will be between 16% and 20%. That's the basic message.

So finally, looking forward, there are no big surprises, of course, we focus a lot on deliveries and reducing lead times to meet our customer demands in the market, which are extremely high. And these things are needed, as we speak. So, this is the focus right now, to deliver and boost capacity in many areas. But, of course, at the same time, capture the market opportunities, including and, of course, the NATO planning processes and what is going, because NATO are also expanding the defence capabilities in regions, but also capability wise, and of course, we have to be part of that. But then we continue to support all the European countries specifically in their growth path going forward.

So everything is about capacity to build-up and resource onboarding, and I'm happy to see then that we are, as I said, more than 2,000 new employees into the organization on top of our skilled employees that we have since the last 18 months. Managing supply chain and inflation, that's important. I need to underline that the strong

backlog we have had sort of mitigations in terms of contract provisions, in terms of index development and also currency fluctuations.

So those are secure and will not, of course, affect us that much. Not at all, actually, when it comes to inflation and currency movements. However, I mean new contracts, we have to take this into account when we offer new things into the marketplace. And even if it looks a bit better when it comes to the stability in the provision of materials and components and so forth in the supply chain, we have to be on our toes to work really hard with that also, going forward. We've done well so far and it looks a bit generally better in the marketplace, but I think we need to be on top of that going forward as well.

Now, we cannot only sort of do here and now, and my view on that, so must continue to be state-of-the-art in important areas going forward, because there will be new capabilities needed in the marketplace. Everything would be connected and so much information will have to be digested using AI. It is going to be implementing cloud technology in the defence forces. There's going to be new capabilities in terms of sensors and so forth. And we are investing and have many good innovative projects in that direction going forward. It going to be manned, unmanned teaming, autonomous systems in play. So, of course, we have to bring our best engineers also in working on that, which we are doing. To do that in an efficient way, of course, we have to find likeminded partners that where we benefit win-win both of us to do new things in the marketplace. So, the interest in working with Saab has increased dramatically over the last two years, I would say, and we need to benefit from that and take those opportunities.

So, I think that in short was how I view the second quarter. And with that, I will hand over to Christian Luiga my Deputy CEO and CFO.

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## Christian Carl Peter Luiga

*Deputy Chief Executive Officer & Chief Financial Officer, Saab AB*

Thank you, Micael, and good morning everyone. As Micael said, this is a strong quarter. But I like also to say that is pretty much in line with what we expected from the company. So, we expected the first half would be having a higher growth than the second half. We have said that we continuously should improve our EBIT margin and that the cash flow should be positive for the year. But it could be sluggish between the quarters depending on how we are paid and need to pay and build up inventory. So that is really reflected in this quarter as well.

And starting out then with the order and the strong order momentum we have, I think, it's with the SEK 14 billion now in the quarter we still grow. We grow. We started the year at SEK 128 billion in the backlog and then we increased it in quarter one and now increased it again in quarter two to SEK 135 billion, which Micael said is a record high. So, every quarter now we have been doing a record high for a long time. But what is it then behind this? And I think the important thing is to see that first we have them during the last year filled up the first bars in this picture, the year one and year two, and increasing sort of the order to sales that is in the coming few years, and now in this quarter which is very positive is that we are filling up the bar called off the year four, the four years ahead and beyond. And that is also a very important step change. So, we don't only fill up the next year, but we fill up over time. And we do it actually with orders that typically would not come in that range. It is more Dynamics orders coming in also now of the four and they would typically before always year one and year two order and that is going to give us more stability for that business over time.

Another interesting fact, except what's on this page, is that over the last years, if you go back one or two years, not only did we have a much lower backlog, we also had a much more heavy Aeronautics backlog. And today, our backlog, as you could see in the previous pictures that Micael showed, we have around SEK 40 billion both in Surveillance, Dynamics and Aeronautics. So, they actually stand 30% each. And just two years ago, Aeronautics

were closer to 50% of our backlog. And that is a great stability statement for what we look ahead on sales. So, we have a much broader and stable backlog, but we also have a bigger backlog. So, that is two very promising messages for how to keep a lower risk in our delivery, going forward.

If you look at the quarter two, I'm not going to spend so much time on this. I will actually spend a little bit more on the half year, because I think we shouldn't be measured that much on a quarter. We are a long-term company and you have to look more than a quarter to understand what we're doing. But the quarter was very similar to quarter one. We had a growth of 23%. It was a little bit higher in quarter one. And we have an increase in EBITDA margin and we have an increase in EBIT margin that both comes from scale and also from gross margin improvement.

And then notable on this page is that we had a few items affecting comparability and they were two, we had a property divestment and then we had write-down of minority portfolio again, and they were – the minority portfolio write-down was around SEK 24 million. So those two together gives us a small boost of SEK 34 million, which is around 0.2 percentage of the EBIT margin.

And then the other thing, which you remember from last year, we had a heavy impact on our financial net from the re-evaluation of the unrealized bonds that we have placed some more money in. We have a very strong balance sheet, and that was a negative SEK 106 million last year on the quarter. And now it's starting to turn back and it's a plus SEK 22 million. So that net, of course, impacts. In both quarters, non-cash impact, but it's coming back now the loss we had to take before and making our EPS more normalized.

Then looking at the half year, which I think is more interesting then, we have started out with a 24% growth and a 23% organic growth. And it is a healthy balance where we have all business areas are growing. This has led to a 1.1% increase in EBIT margin. Of that 1.1%, 0.6% comes from gross margin improvement. That gross margin improvement is not only that Surveillance and Kockums are driving up their gross margins, it's also from the volume increase, a relative rise from Dynamics and Surveillance becoming bigger part of this group. And this is what we have talked about also at our Capital Markets Day.

The other part then below that is 0.3%, is actually the scale effects from the growth on OpEx. We are growing OpEx less than we are growing sales and we get the scale effects. Meanwhile, we actually do have a pretty stable development of the R&D cost in this period. And then, finally, we have a small part that is then related to the items affecting comparability and that makes up the 1.1%. So that's just to give you a flavor of how you should think about what is driving this EBIT margin growth.

And here again, on the half year, we have a big difference in financial net that when you look at it first time you say what is happening here, but it is really the SEK 209 million that we had to take in the loss last year is now a SEK 26 million plus in this half year. And that makes out the biggest difference between the years. And we are keeping within the tax rate that we also announced around the Capital Markets Day of 21% to 22%, and you can see that we follow that. All in all, we are 93% up on our EPS, which is, of course, very positive.

If we look at the sales development, we are continuing to improve then our rolling 12-month sales. And this is, of course, part of our growth journey. We have been growing 10% over the last three years if you look on a CAGR point of view. And we have said that between 2022 and 2027, we should grow 10% as well in a CAGR amount. So that is actually showing that we are around 10% growth company. We have proven it and we are going to prove it also going forward. What I think is interesting in this picture is the SEK 47 billion, we are now up to SEK 47 billion when it comes to rolling 12 months, and that is an 18% increase compared to 12 months ago, rolling 12-month number.



If we look at the sales per business area, we see that, which I think is then supporting my statement on the income statement, we see that Dynamics and Surveillance, if you look at the absolute bar, they are the ones driving the sales growth in numbers. I also talked about in quarter one where we had no growth in Aeronautics that they would come back with some growth this year. They will be much lower than the other business areas, but they will have growth also this year and quarter two we see that they have taken that step into growth for the year.

Encouraging to see also, as Micael said, that Kockums is growing, is a lot of aftermarket and a lot of production right now. But I also have mentioned that the 40% is difficult to handle over time for Kockums, because it is a small shipyard, but it is a very excellent shipyard. But they are having a little bit lower growth than this quarter as a result of that.

EBIT and EBIT margin, I mean, here we can see something for the quarter where Surveillance is actually the locomotive this quarter. Last quarter, Dynamics was the locomotive. Now Surveillance is the locomotive for driving the EBITDA 44% growth that we have in the group. And if you look at the half year, Dynamics would be positive as well. So, I think this is a supportive picture to how this group is developing. And we are then taking the steps upwards steadily on the EBITDA and the EBIT margin as we go.

R&D increases, as I said, and they increased to 19%, not exactly as much as the sales growth, but we are lifting it up and they are, of course, more even over the year than the sales growth will be. Cash flow, I thought – I actually think Micael presented it in a very good way. In quarter one, we had a lot of prepayments and then in the second quarter we had less prepayments, but we also had to pay suppliers for what we then were ordered and got prepaid for and that has even out. On top of that, we also have a working capital that is quite flat actually year-on-year. So, the storyline here is that the prepayments, the new contracts, they compensate them for the increased inventory we have in general and the more payments we have to suppliers. And that makes a very small number as you see, 0.1% for the half year.

Then we have an increase in our investments and the increase in tangible assets by itself is just above SEK 400 million. And this is what we have talked about. We will be trying to be more front and heavy on our investments and we will have to invest for higher capacity over the coming years. And the SEK 400 million increase really comes from Surveillance and Dynamics. They come from production and facility build-up and they come from IT investments that we do to improve further our security in our IT systems, but also handle the growth that we have and the future demands from our customer. So that is really the cash flow story.

So how does this sum up in our balance sheet? We remain on a positive net cash position. We have a strong balance sheet and we have also a good equity asset ratio. So, we have a very solid position, which we think is good going forward, both when we're going to have to handle our growth, but also that we looked on M&A, very disciplined and carefully but we look at doing future M&As to support our strategy in becoming excellent thing within our core areas.

Finally, the outlook. Micael has as explained that we now have increased then the organic sales growth from around 15% to 16% to 20%. And that uplift is then reported today. But the other two parts are not affected.

Operating income growth, of course, that needs to be higher than 16% to 20% compared to before higher than 15% for the year. And that's something we believe in and reiterate and then we're going to have a positive cash flow for the year.

So with that, I hand back to you, Merton.

## Merton Kaplan

*Head-Investor Relations, Saab AB*

Thank you very much, Christian. So, we are – we have about – we have a bit more than 20 minutes and we're about to open the floor for a Q&A session. And before I hand back to our moderator, I would like to remind you that you should – or recommend you to ask two questions at a time, so everyone gets the chance to ask their questions over these 20 minutes. I can already see that we have a few on the line, so 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 is from Sam Burgess of Citi. Please go ahead.

### Samuel Burgess

*Analyst, Citigroup Global Markets Ltd.*

Q

Hey. Good morning, guys. It's Sam Burgess from Citi here. Two questions, if I may. Firstly, you mentioned Sweden's possible admission to NATO. Do you think this now makes the likelihood of NATO selecting GlobalEye [indiscernible] (00:38:14) more likely? And if you could just give any other color around whether this would make you more eligible for kind of sensitive contracts within the alliance?

And then the second question maybe for Christian on the corporate costs, excluding the items obviously affecting comparability, could you just give us a little bit more granularity on what the key costs are right now and whether we might expect any of these to moderate in the second half? Thank you.

### Micael Johansson

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

A

Thank you for those questions. I'll start by trying to sort of give a little bit more flavor on the NATO ratification. And, of course, when it looks – when it comes to – when we became an invitee as a country, we also as an industry saw that we were invited to many more NATO forums to discuss the need of new NATO capabilities and how to boost capacity and what have you. And seeing a little bit more about the overall defence planning. However, as I said, it's not the same thing being compatible and we settle into many NATO countries today. They use our systems, they are compatible, but in the NATO structure. So, it's not about that really, relating and being compatible to NATO, but being NATO is, of course, a different thing.

You alluded to it. It comes to can we then be part of supporting capability development in the command and control area, the sensitive areas like EW, which we haven't been able to access before, all the MSPA acquisitions, of course, comes into play. And, of course, I mean if we're not part of NATO, I think I see there's a real uphill to be able to provide a very important capability like airborne early warning and control being inside the alliance. This, of course, makes that more a level playing field, I would say, but we still have to be very competitive. So, it's hard to quantify exactly what it means, but I think it's a very positive step.

And as I've said many times, I mean, you can't set a point to Sweden or the Swedish industry to be non-reliable long-term, because we're not part of an alliance. This will mean that we're committed to alliance long-term and

that includes industry. So, of course, still being competitive, we have better chances to support growth and NATO capabilities. So that's how I would sort of phrase it.

**Christian Carl Peter Luiga**

*Deputy Chief Executive Officer & Chief Financial Officer, Saab AB*

A

And on the corporate cost, some good well spotted and something I should probably have commented on. The quarter if you extract the sort of items affecting comparability on the corporate cost, we were at SEK 150 million in quarter one and SEK 120 million around-ish in quarter two. And quarter two is actually impacted of timing of cost. So, you should think more about being closer to the quarter one than the quarter two number when you're thinking for the rest of the year.

**Samuel Burgess**

*Analyst, Citigroup Global Markets Ltd.*

Q

Great. Thank you, guys.

**Operator:** The next question is from Björn Enarson of Danske Bank. Please go ahead.

**Björn Enarson**

*Analyst, Danske Bank A/S (Sweden)*

Q

Yeah. Thank you. I have a question on Surveillance, which had a super strong quarter, obviously, and I guess we've talked about this for quite many years that Surveillance is or should be a – definitely a contributor to a group EBIT margins. Are there anything you would like to add here in terms of the profitability situation on Surveillance, or are they on the roadmap towards the more normal and higher profitability level, or are there anything extraordinary that is quite strong in this quarter? Thank you.

**Micael Johansson**

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

A

I can start by saying that I think absolutely they are, Björn, both growing and improving profitability, and we don't guide on business area level, but they can do more, that's my view. And this is not sort of something extraordinary that has happened, of course, looking at Surveillance for this quarter. So, I think they're on the right track. And it means that we're doing better in the sensor side. We're doing better on the command and control side. And then the whole lot of Surveillance actually moves in the right direction.

**Björn Enarson**

*Analyst, Danske Bank A/S (Sweden)*

Q

And as a follow-up...

**Micael Johansson**

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

A

I can just reiterate what we mentioned at the Capital Markets Day. I mean, we have said that both Surveillance and Dynamics should be two business areas that should be above 10% margin. And we said also that we expect that Surveillance will show that they are starting that journey already in 2023 and you will be able to see that. And then, of course, just to not get sort of too triggered on a certain number, like in our other business areas and this is why I said it's very hard to look at a specific quarter. It will improve in Surveillance this year, but a quarter one and a quarter two and a quarter three and a quarter four could go up and down a little bit in between. Meanwhile, it does that we should have an improvement over the year.

**Björn Enarson**

*Analyst, Danske Bank A/S (Sweden)*

Q

Thank you. And just if you can give a short comment on where you are on your two GlobalEye contracts right now, I mean, UAE have come quite long, but maybe some details there. And Swedish contracts, this is brand new and how that will ramp, et cetera? Thank you.

**Micael Johansson**

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

A

Well, on the UAE side, we will – we are now sort of doing the flight evaluation on the fourth system, which will be – and the fifth system is sort of moving into that later this year. So, they will be delivered now next year to UAE, which is good. And our Swedish program is doing really well. And they will come after that, of course, in deliveries. So, we are doing really well in that project.

**Björn Enarson**

*Analyst, Danske Bank A/S (Sweden)*

Q

Thank you.

**Operator:** The next question is from Virginia Montorsi of Bank of America Merrill Lynch. Please go ahead.

**Virginia Montorsi**

*Analyst, BofA Securities, Inc.*

Q

Hi. Good morning and thanks for taking my question. Just a quick one for me. If I think about the 10% CAGR that you've got as a guide for the next five years, more or less, how should I think about phasing, meaning 2024 versus the remaining part of the time? Anything specific we should keep in mind over the medium-term? Thank you.

**Micael Johansson**

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

A

Well, I think we are confident, as we've said before, that we will do compounded annual growth of 10% and then we will have to come back guiding year-by-year going forward. And as we've seen this year, the confidence in how our planning exactly looks like when it comes to things like material supply, which is needed to make the milestones in the project and by that increasing the road and also specific deliveries, it takes a while into year before you realize that we are confident and actually delivering things on certain points in time that will actually make us reach those growth targets. We'll have to do the same thing next year again, look at that year specifically. I'm not sort of ready to comment exactly on which year will give what over the next four, five years. But we are confident on the guiding we've done. We will have to come back to that sort of every year, I would say. I don't know if you want to add something.

**Christian Carl Peter Luiga**

*Deputy Chief Executive Officer & Chief Financial Officer, Saab AB*

A

I would even dare to say it's more likely that you have a sliding curve than you have a bathtub. So that's just to guide you. I mean, and that's sort of part of also when we start now higher, we already started and guided 16% to 20% this year, and we have – that's part of the 10% journey, of course. So then it must be going down in some way. And it's probably – it's not problem that we will have a sliding curve, then we will have a bathtub.

**Virginia Montorsi**

*Analyst, BofA Securities, Inc.*

Q

Okay. Thank you very much. Very clear.

**Merton Kaplan**

*Head-Investor Relations, Saab AB*

A

Thank you, Virginia. May I also pop in here, because we have a few questions from our viewers. And one of our analysts have sent me some questions, and I think I'm going to read the question to both of you and you can decide. So, we mentioned previously back in the Capital Markets Day about M&A being an optionality in our growth. So could you give us some color on the pipeline, potential size of deals and your views on the valuation of those types of companies, given the defence environment we are in right now? And a follow-up on that is how do we see on our non-core assets going forward?

**Micael Johansson**

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

A

Well, I think, one, it's important to have a strong balance sheet definitely, and a great liquidity position absolutely. But definitely right, a portion of the growth ambition that we have includes M&A opportunities. I'm not going to talk about sizes or exactly when, but of course, we have a pipeline when it comes to important countries like the UK, the US. And we also look at maybe Germany, but it sort of really sort of key markets to us where we build capability, which I call min-Saabs. That's where we're looking and it's all about opportunities and valuation. But I can't say more than that right now on that side. That's what how it is.

**Merton Kaplan**

*Head-Investor Relations, Saab AB*

A

Non-core assets. And the question was here on the follow-up, for instance our civil business, side of the business and the aerostructures units being non-core or core. How do we?

**Micael Johansson**

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

A

We continue – continuously to monitor sort of how we optimize our portfolio definitely. We still have a few crossroad decisions to make and we have to do that in a diligent way, so we get the best out of it. So, we're doing both, looking at acquisitions but also how do we move forward in optimizing the portfolio. I can't say exactly what and when. You've seen the Maritime Traffic Management being divested now and that's sort of the key things we're looking at. They might be coming some more, but we'll come back to that when it happens.

**Merton Kaplan**

*Head-Investor Relations, Saab AB*

A

Thank you. Moderator, do we have more questions on the line?

**Operator:** Mr. Kaplan, at the moment, we don't have any other participants register for questions.

**Merton Kaplan**

*Head-Investor Relations, Saab AB*

Thank you. Then I think everything was super clear this quarter.

## Micael Johansson

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

Very good. I hope it was. Happy summer. Yeah. Thank you so much and have a great summer if you're in this part of the world and also in another part of the world, of course. Looking forward to see you again next quarter. Thank you.

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## Christian Carl Peter Luiga

*Deputy Chief Executive Officer & Chief Financial Officer, Saab AB*

Thank you.

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