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Saab AB (SAABY.SE)

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Merton Kaplan
Head-Investor Relations, Saab AB

Hi, and welcome to Saab's Q2 Earnings Presentation. I'm Merton Kaplan, Head of IR. We're gathered here to go through our presentation and results of the quarter, which was really strong and we'll start again with some slides and then open up for questions. You have the details to the conf-call on the presentation and the press release from this morning.

So, with that, I want to hand over to my CEO, Micael Johansson.

Micael Johansson
President, Chief Executive Officer & Director, Saab AB

Thank you, Merton, and good morning, everyone. Thanks for joining this quarterly report from a – I think a very strong quarter. And I'd like to start with some highlights as I see it from the quarter. And as all of you are aware of, of course, we still have continued geopolitical tensions and we have the war in Ukraine just going on without sort of any real view of how it will end, and hopefully it will end with a ceasefire and a reasonable peace deal. That's all what we want, but we can't really see that's happening right now. And we have had just recently a NATO summit in The Hague and a big step was taken from all of the countries in the alliance to now agree on spending up to 5% on defense going forward, where 3.5% is sort of purely on defense capabilities, and 1.5% is supporting infrastructure for defense buildup.

I think that is an incredibly big step and of course, there will be different sort of schedules for different countries achieving these 5% going forward. Some countries like Sweden is sort of aiming to go quickly into that towards

2030 and other countries is maybe sort of looking at 2035. So we're not sure about the schedules, but there's a lot of sort of spending to increase deterrence from the alliance now.

And also the focus on the European perspective, that Europe has to take a bigger responsibility for our own security and doing more in Europe also from the European defense industrial base is really clear. And the statement from The Hague Summit is super clear: Defense industries have to step up. You have to invest for capacity. We will need more. And there is incredibly strong demand now in the market.

That we see, we had a strong quarter on order intake. I'll come back to that. I think we have a great portfolio, looking at what we can achieve, a mix between sort of important sophisticated platforms like the Gripen fighter and the GlobalEye, but also advanced weapons systems and sensors, as examples of sort of volume things that are needed in the market. And that we've seen in this quarter, specifically on the medium-sized and the small type of contract that we have achieved.

But we are doing a lot of progress also on the key campaigns for the Gripen and GlobalEye, and one example is of course the France declaration of interest now to go into a contract finalization on up to four GlobalEyes, two plus two in an option, which is a very big step to us in the European perspective on the GlobalEye.

We have managed really well now on executing from our backlog, and we had specifically an extremely strong quarter on the Dynamics side, unusually many deliveries, I would say. So, they grew 72% compared to the same quarter last year, which is exceptionally good. But we are actually ramping up our capacity and that's also why we have now, and we will come back to that, we have now upgraded our guidance because we have a strong first half of the year and we see that we can now manage deliveries from our backlog in a good way. So, we've stepped up that to 16% to 20% from 12% to 16%.

We will then continue to build capacity, of course. We have seen some coming into play, and some will come next year as well, the big sort of factories that we're building in India and the US specifically, but also a number of things in Sweden. R&D will always be super important to us and we will never compromise sort of not investing in research and developing. The pace of technology is really high. So, we have to embrace these things to create autonomous capabilities, to use AI, and we are in the process of now creating a new organization, consolidating the way we actually develop software, and also how we use AI going forward. So, many important things happened during the quarter.

Looking at the numbers, as I said, SEK 28 billion roughly is a really good order intake without any sort of really big ones. If you remember last quarter last – same quarter last year, we had two big contracts, SEK 13 billion for ground support weapons to Poland, and another big contract, roughly SEK 8 billion that also was in the Dynamics and the Surveillance area. And without sort of these big ones, we still delivered SEK 28 billion and we have a number of campaigns going that I will come back to, that I hope will sort of also materialize in rather big contracts going forward.

So, this is a really good order intake. Substantial growth, 32% compared to the same quarter last year, and a really good EBIT margin now growing, as we've said, growing more than the top line that we – that is the trend all the time.

Cash flow is better than last year, but still a bit negative. We are confident that we will deliver a positive cash flow also this year, but one has to remember that it's important now, because of the supply chain perspective of all the ecosystem of suppliers that needs to support the primes in growing in this market, that we have to keep some sort of high inventory levels to be sure that we can deliver to our customers.

And then of course, we need to spend money on investing as we've said. We said that we will be a bit front-loaded going forward, but still every year, we will deliver a positive cash flow and that will happen also this year. And this is all based on sort of when we have our payment milestones over the year and how our cash is going out from the investments we're doing on inventory and also on capacity increases. So, a really strong quarter.

A couple of comments on the campaigns and the sort of what we call megadeals, which is really difficult to predict when they will actually be contracted because it always is prime ministers, presidents, or defense ministers in the end will have to sign them and there is a parliamentary process normally in countries to sort of eventually decide. So, that's why it's a bit difficult to say when.

I hope that we will see now – on the Gripen side, we are in negotiations with Thailand, and that hopefully will happen in the next couple of months, that we will sign that one. And then we have been selected by Colombia and going into negotiations also there for 16 to 24 aircraft. We're not sure yet how many they will acquire in the first step. And so, we are selected in two countries, and that's all about sort of finalizing the contract and then that will be sort of going through the parliamentary process for approval.

So that's big steps and really positive to us. So, even – also in the area of the Gripen fighter production, we need to sort of ramp up capacity going forward.

Then we have campaigns, of course, a number of them going and a couple of them are mentioned here, Philippines and Peru, and there's been lots in media on Peru lately. So, I just want to comment on that to say yes, we have a fantastic offer for Peru. They are still in evaluation phase and we have – they have not selected which type of aircraft they will go for. And hopefully, they will do that shortly. But we are, of course, in that race.

Also, on the GlobalEye side, I see lots of potential. We – as I said, we've signed this declaration of interest from the French side and that is all about now sort of finalizing the small details in the contract and having sort of the French parliamentary taking the decision on acquiring the GlobalEye, and hopefully that will also happen during this year. So, we're looking at the number of months ahead and hopefully seeing a couple of megadeals coming in.

But there is a big interest for GlobalEye in the market from the European and NATO perspective since there is a gap now because the E-3 version of an airborne early warning is not really reliable or available for many countries. We see a window of opportunity to go and sell more of these aircrafts in a number of countries, and we have that interest as we speak.

So, I just want to comment that even though we talk a lot about medium and small type of orders now coming in, there's a lot of effort being put into these rather big campaigns also.

A couple of comments on each business area. We have received contracts on the Gripen side, complementary contracts from the original one in 2013, because of course, you want to add sort of ground support equipment and things that will create high availability of the aircraft. And that's what we have received this quarter. I also want to mention that we had a fantastic sort of [ph] event (00:14:18) flying and we continue to fly, of course, and AI jumped into Gripen E, and one has to remember, we take a production aircraft, a serial aircraft, and put in an AI software agent in the aircraft and – to manage a specific type of mission that we call Beyond Visual Range, that is sort of a complicated air battle, many versus many, where you need really skilled pilots to be seeing the aircrafts at the aggressor side, but also launching your missiles at the right moment.

And this AI agent is fantastic now, being trained like you had a pilot training for 30 years around the clock. Already, this AI agent can do fantastic things in this aircraft. But it shows what kind of architecture we have in this aircraft. No other fighter aircraft could have added sort of a software in a few weeks' time and have it flying, doing what we did. So, that's a fantastic achievement, and that will be something we will see going forward, having AI agents supporting certain types of missions going forward.

We had really good progress on many of the programs in the Aeronautics domain, but we still have under-absorption and a low production rate in the T-7 environment in West Lafayette, Indiana. That will change, as we've said many times, but it will take a couple of years before we're up into sort of the volumes that we want to see. But it will be, long-term, a fantastic business for us since we have hundreds of aircrafts on contract.

Dynamics obviously have had an excellent quarter-to-quarter comparison. I mean, growing 72% is amazing, and they had a really strong delivery period now, unusually good deliveries, as I said. And the capacity buildup is now coming into play in Sweden, of course, but also next year, as I mentioned, in Grayling, Michigan and also in India. So, we are continuing to make sure that we have the capacity to manage the increased demand and we are working hard with the supply chain, of course, to make sure that we have things in inventory to cope with our backlog that we have right now.

You might think that – and Anna will come back to that, that our backlog is sort of reasonably short and that is because a big portion of the backlog is within Dynamics and the lead times on that type of equipment is shorter than sort of the big platform type of contracts. But, of course, it will be refilled all the time because there's – the need in the market is substantial on the equipments that Dynamics have.

Surveillance, also good performance, growing more than 20% year-on-year. We've had also medium-sized and smaller contracts on that side, so it's a good order intake and also good backlog. But the big sort of breakthrough was of course the French GlobalEye decision. And also, we have – taking a decision to ramp up capacity for installations on the GlobalEye. We have to ramp up that capability in Sweden in Linköping, of course, but we need partners on that.

And that's why we signed a cooperation agreement with Sabena Technics in France, and they are excellent in doing these things, and that's good for the whole market since we see more potential for the GlobalEye.

A very important step also on the autonomous side is that we will – we have a collaboration with General Atomics in the US. They make sort of big, autonomous flying vehicles. MQ-9B is one of them, and that one will carry sort of a couple of smaller versions of the prime sensor that we have on the GlobalEye. So, that will be a capability, not as a GlobalEye, but a good capability that can act sort of in a way supporting a GlobalEye in a mission going forward, or fly in swarms by themselves to manage sort of hostile environments going forward.

So, that is something that will come into the market [ph] for mostly (00:18:27) General Atomics going forward from next year. And we have had really sort of good project activities and deliveries also in Surveillance.

In Saab Kockums, we had a great order intake on combat boats. That is a fantastic product that I think will have a great potential. And also, in our shipyard in the northern part of Sweden. We are expanding now dramatically to manage all this demand, but also a couple of other contracts on torpedoes and the upgrades of the Visby corvettes.

On the performance side, we had a launch event of the SIGINT ship in Poland, just showing the performance that we have. This is a similar type of SIGINT ship that Sweden contracted a number of years ago that we have

already delivered, but this is now going really well in Poland. So, there is a couple of them that will be delivered now, and we have put the last version of the Gotland-class submarine in the water, and they are doing sea trials now and that's going really well as well.

The only thing that we are working with, that has – not the only thing we were working with, but something that has great potential is the Underwater Systems business unit with the remotely operated vehicles and autonomous vehicles for the underwater domain mainly. That has great potential, but we still have a couple of contracts that we have to get through the development and certification before that becomes profitable. And that is pulling Saab Kockums as a whole down a bit, but that's really the future of sort of the underwater domain to also have autonomous vehicles in the water.

Combitech is also really performing really well. They have a great growth quarter-to-quarter, year-on-year. And of course, I mean, this total defense perspective that they are working, protecting critical infrastructure, making sure on the cybersecurity side, that there is a good sort of coverage and monitoring and implementation with different agencies and companies, with that type of capability, which is Combitech's really a capable organization doing.

And more and more demand we see in that area for digitalization, cybersecurity and a connection to increasing the deterrence in, and protection of critical infrastructure. It's a new sort of avenue that Combitech is taking market share in. So, we see a great growth for them as well and they are an attractive company to work with. So, they, of course grow people-wise, they grow the revenue as well. So, this is an entity that has grown quite dramatically over the last few years now. So, I'm really pleased with that performance as well.

A couple of highlights also on the sustainability side. I think it's important to realize that we are working hard on making sure that we reduce our CO2 emissions as much as we can and we have a target of 42% 2030 and then being net zero 2050, we have now, compared to the base year 2020, reduced our emissions by 34%. So, we are on a good path doing this and the highlight this quarter is that on our special missions side of aircraft, firefighting for example, or targeting type of aircrafts where we tow things to sort of test things upon.

We have now fueled them with sustainable air fuels and so most of Saab's aircrafts that we are operating now can be operating using sustainable air fuels. It's only that we need production of sustainable air fuels, and that's sort of – for the sort of the market of aviation, that's a big problem as you know.

Everyone is talking about how do we get sort of aviation up – sustainable air fuel production up to a level where it becomes reasonably cheap and so we can transition completely. And also, as you know, the Gripen fighter can also fly on the sustainable air fuel to 100%. So, we are – technically, we're already there. It's just the availability of the fuel that is still not there yet.

I'm really pleased to see, since we are employing still quite a number of really good talents into our company, adding to our fantastic workforce, we see a trend that the share of women employees are increasing, which is really good for the company and also, of course, we have an aim to have more female managers in the company, and that is a very good trend. It's good for the company, it's good for our owners that we're going in that direction.

It just shows the attractiveness of the company. We have now been ranked number one by Universum's ranking on the engineering side, which is fantastic to see. And the portion of women starting to work for us is increasing all the time. I'm really pleased seeing that now going forward.

So, finally, we have, as I mentioned, upgraded our guidance from – on the top line. We are now saying we will be somewhere between 16% to 20% when it comes to growth this year compared to what we've said before, 12% to

16%, and that is, of course, based on the fact that we have performed really well. We've shown to ourselves that we can deliver on our order backlog, and we still see a huge demand in the market.

So, that in combination, have led to that we have taken this step and we continue to say that the EBIT growth will be higher than the top line and we are confident, as I said, that we will deliver positive cash flow as well also this year. It might fluctuate over the quarters as you have seen, and that's based on our milestones for payments, but also that we need to carry some inventory to be sure that we can deliver, but also the capacity increase that is a bit front-loaded. But, for the full year, it will be positive.

So that's sort of an outlook for the full year 2025. And by that, I think I will transfer this to Anna, who will go a little bit deeper into the numbers. So, thank you so far.

Anna Wijkander*Chief Financial Officer, Saab AB*

Thank you, Micael, and good morning, everyone. Yes, as you have heard, we are very pleased to report a strong second quarter. We have the sales growth coming from all our business areas. We have a good EBIT margin of 10% in the quarter, also growing in our business areas, and a cash flow – operational cash flow that has improved from last year, although negative in the quarter. So, I will go into the financials a bit more now in detail.

So, I will start looking into our backlog that has again strengthened this quarter. It's increasing by 8% year-over-year and is now SEK 198 billion. It is Dynamics and Surveillance that is having the largest share of the backlog. 71% of the backlog comes from these business areas, and it's an increase from last year when it was 65%.

We also, in the quarter, have a very solid order intake with a book-to-bill of 1.4 times and this quarter is mostly medium and small orders, and a large share coming from Sweden. It's more than half of our order intake coming from Sweden this quarter, 57%. So, all in all, a good foundation in our backlog – growing our backlog which is a good foundation for our growth going forward.

And what is very visible here in the slide is that you can see that we're growing our backlog to be delivered for three years. That's very much driven from the orders coming, from the small and medium-sized orders coming from Dynamics, and then in the end of the year, it's decreasing a bit, but that has also – a reason for that is also that we are also reevaluating the backlog duration as the projects are being executed during the project. So, all in all, growing our backlog and a good foundation for growth going forward.

Further then, let's look at the sales growth for the group. As we have heard, it's growing very much year-over-year, 30.4% at the group level, and in terms of sales, this is our strongest second quarter ever. And all business areas are growing, including Combitech, and the substantial – most substantial growth is within Dynamics. There we've had an extraordinary unusually strong sales growth driven by lots of deliveries in the quarter, mainly from ground combat, but also from the missiles business.

Surveillance is also growing with 21% year-over-year. Very good project execution across the business area, several business units supporting that growth. So, it's good to see that that's – that we are ramping up and that we are seeing that in our sales growth.

Aeronautics is also growing, and here it's mainly coming from the Gripen program where we have good pace now in working on our deliveries there. Also, Kockums is growing finally, not at a high pace, but 9% almost this quarter, primarily driven by the surface ship business.

So, all in all, we are reporting a strong second quarter and the first half of the year, reporting a sales growth of 21.9%. And as we have heard Micael say, we are raising our guidance for growth from 12% to 16% for the full year now to 16% to 20% 2025. What I think we should also have in mind by looking at this slide and also remember is that we have seasonality and timing factors in our business. So, this was a very strong quarter.

We know that the third quarter is often impacted by seasonal factors and also the sales varies from also the pace where we have in our customer deliveries. So, Dynamics is one example of that where we often see the trend – the changes between quarters.

Going into then looking at our profitability for the second quarter, EBIT growth at the group level was strong, 48.5%, and of course, that is the result of the strong performance that we had in both Dynamics and Surveillance in this quarter. What's also good to see is that the trend is increasing. We have a positive trend, growing up to 9.4%, rolling 12-month, compared to last year where we had at 8.4% EBIT margin.

What we should also mention in the quarter is that we have a positive impact of SEK 105 million on a non-recurring contribution from the minority portfolio, but if we exclude that non-recurring item, we still have an improvement in the EBIT margin.

Looking into Aeronautics, the EBIT margin is decreasing a bit year-over-year and there we had start-up costs for the T-7 program. We're also running several campaigns, so marketing costs are up a bit, and also doing a lot of R&D and starting also depreciation on – or an increased amortization on the Gripen program in particular. So, that's impacting the EBIT in the quarter.

Kockums, also a bit lower year-over-year. Here we have the impact, as Micael mentioned, with the underwater business and the project there where we are in a development phase that we are not yet finalized. So, we are working on that, and we hope to see that improving going forward.

Combitech, not visible here on the slide, but I should mention that we have good performance. We had good growth in Combitech, but the margin was slightly down in the quarter due to – mainly due to calendar impact in – during year-over-year.

Next, the financial summary. In the quarter, I have commented quite a lot on strong – on sales and the EBIT growth. So, I will focus on the other items that I have not yet talked about. Gross margin is declining year-over-year in the quarter, mainly related to somewhat higher corporate costs due to IT security and also these digitalization efforts that we are starting up now within our group – in group.

And then EBITDA was improved, driven by the higher sales volumes. Financial net, like I mentioned as well, slightly negative in the quarter, but less negative than last year due to the krona has been stronger and that we have a more positive impact from our currency hedges related to the tender portfolio than last year. Still negative, though.

Lower tax rate due to decreased share of taxable results from foreign operation. So, all in all, most of our net – gross net income came from improvement from the EBIT and not so much impacted by the other items. That's the financial net or lower tax rate. So, all in all, translated into EPS, that has also increased from SEK 1.85 to SEK 2.83 this quarter, driven by the EBIT growth.

Some words of the summary of the financials for the first half year then. Yes, the organic sales growth, as you have heard, has grown 21.9% with contribution from all business areas. Also, on a year-to-date basis, we have

gross margin improvement, mainly driven from improvements from Dynamics and Surveillance, but slightly offset by some higher corporate costs. So, for the EBIT, it is definitely Dynamics and Surveillance that are the main contributors and also, it's increasing the profitability, and it's also supported by the mix because they are getting a bigger share of the total group sales and EBIT.

So, the margin improved 1 percentage point from 8.6% to 9.6% year-to-date and if we exclude the non-recurring item that we have in Q2, we still would have – would see an improved year-to-date EBIT margin of 9.3%.

We have a huge difference between last year and this year in the financial net, and that is related primarily from the revaluation of the currency hedges that we have in our tender portfolio due to our strengthened Swedish krona. Last year, we had the reversed impact from the – of the – so we have a negative financial net last year. So, the net – with that, the EBIT improvement and the financial net has improved the group net income to 56.6% year-over-year. And also, EPS increased by 58% this year so far.

Next, cash flow. Important to talk about, and I think what we can see here year-to-date, we have a negative cash flow of SEK 1.2 billion for the first half year. We should remember that this is still an improvement compared to last year where we had minus SEK 4.2 billion at the same period. And as Micael said, we are reiterating that we are going to have a positive cash flow for the full year 2025. So that means that we are expecting stronger customer payments in the second half of the year.

I think it's important to elaborate a bit on the cash flow actually. We are in a period where we know that it's important that we increase our capacity and we are doing investment for future growth. And by that, we need also to be able – and we also need to be able to secure that we can deliver on our backlog. So, working capital will be tied up in a period like this and investments are going to increase. So, that's something that we're closely monitoring and working with, but that's something that's – that's the reality that we're – that we are facing.

So – but looking into our cash flow graphs, I think it's important to mention anyway that the cash flow from our operations is positive and SEK 5.1 billion, and is increasing year-over-year, driven by our increased sales and the profitability. And that's a good foundation for our company.

So, with our high growth rate, as I said, the working capital is going to be growing, but – and – but as we deliver in our projects, it will gradually improve because we're going to get paid from our customers and then – by then also lowering our inventories.

In the quarter – in the first year, we have increased our investments as planned, SEK 3.3 billion compared to last year, minus – it was minus SEK 2.2 billion and by that, we deliver a negative cash flow for the full year – for this half year, although improved from last year. What's also positive and I think worth mentioning is that we see that we improve our return on capital during – return on capital employed during the year, as we are increasing our profitability as well as our capital turnover. So, it goes to 15.3% compared to 12.8% last year.

Finally, then, our financial position and our balance sheet, a few words on that. I think we have a solid balance sheet and we can see that we have cash in liquid – cash and liquid investments totaling SEK 10.7 billion in June. Our net liquidity position is positive in the quarter, amounting to almost SEK 700 million, and it showed an improvement year-over-year.

It was, as we can see, a bit lower than last quarter and that is, of course, a fact of that we have higher investments and also more working capital – more money tied up in working capital. Also, in this quarter, we paid a dividend of SEK 537 million for our shareholders.

In the quarter, we have also – we have also signed a new revolving credit of SEK 6 billion. So that's also something that's strengthening our financial flexibility in a situation now where we're growing, so that's good. The net debt to EBITDA is also having healthy levels, and we have a solid equity to asset ratio of 37.7%. So, all in all, a solid balance sheet, I would say.

So, with that, I end my presentation and hand over to you, Merton.

Merton Kaplan

Head-Investor Relations, Saab AB

Thank you very much, Anna. And thank you very much, Micael. So, without losing time, we have quite a lot lined up here in terms of the conference call and analysts ready to ask questions. So, I will start to hand over to you, operator, but I also want to say that please keep your questions short and a maximum two questions and then we'll break [indiscernible] (00:39:02) to get some [indiscernible] (00:39:04). So, operator [indiscernible] (00:39:07).

QUESTION AND ANSWER SECTION

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

Henric Hintze

Analyst, ABG Sundal Collier AB

Hi, this is Henric ABG. So, first of all, I just – would just like you to clarify on the Dynamics margin. Here you mentioned that it's very strong in the quarter, of course. Do you still stick to the view you've expressed previously that over time this should be a slightly above mid-teens margin segment?

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

No, absolutely I think that that business and the mix they have, it will fluctuate a bit over the quarters as we've seen. But it should absolutely be the sort of mid double-digit numbers all the time if you look at a long period of time. Absolutely.

It depends a bit on sort of how many sort of [ph] frame (00:40:32) agreements where we have sort of locked in customers for a long time in a mix with competition contracts that we get in the order book over time, but definitely in the mid double-digit numbers as we've said before. I have no new view on that.

Henric Hintze

Analyst, ABG Sundal Collier AB

Okay, great. Thank you. And a second one from me then as well. There was some news during the quarter that the US put the AUKUS pact with Australia on hold. Could you mention anything on how this might impact your Australian submarine business?

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

Well, actually, the Australian submarine business is mainly supporting together with the Australian submarine company, ASC, the now existing Collins-class submarine business, and that's not a big part of our Australian operations today, but of course we're doing that. How it will effect sort of the upgrade of the Collins class submarines is not super clear yet.

How far they will go in terms of if they get a gap in the AUKUS program, to get nuclear-powered submarines into Australia, and depending on that, our business might grow on the submarine side in Australia, but it's just a few percentages [ph] overdue (00:41:50) in Australia today. The main portion is combat management systems for all the surface ships, but of course, we look into being supporting Australia if they want to upgrade the Collins class, but I have no clear view if that will change because of any delays or something, or if the AUKUS programs will change. But, again, it's not a big portion of the Australian business.

Henric Hintze*Analyst, ABG Sundal Collier AB*

Yeah. Okay. Thank you.

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

Carlos Iranzo Peris*Analyst, Merrill Lynch International*

Hi, guys. Good morning and thanks for taking my questions. I have two, if I may. The first one, obviously, things have been progressing better than you expected in the first half of 2025. So, why don't you reassess the 2027 guidance? And then on order intake, any color for the second half of the year in terms of what do you expect on Dynamics and on Surveillance ex GlobalEye? Thank you.

Micael Johansson*President, Chief Executive Officer & Director, Saab AB*

Thank you. Well, I mean, when it comes to sort of the midterm targets, we had the Capital Market Day not so long ago, and we said that we will continuously assess that, and we will have to come back on that in 2026. And that's still my view. We don't want to take sort of that step right now, and that's sort of only based on sort of a continuous assessment. But, of course, when we get into the second of the last year that we've given midterm targets on, I think we will have to roll that and sort of give new guidance on that.

So, that's will happen then. I have no new view today from the Capital Market Day.

On the – what's the second one?

Merton Kaplan*Head-Investor Relations, Saab AB*

Order intake.

Micael Johansson*President, Chief Executive Officer & Director, Saab AB*

Order intake, yeah. Order intake, I sort of – there is still a big demand in the market on what Dynamics is doing, that portion of our portfolio, but it's also exactly how that will look long term, I am sure it will refill sort of the order backlog. They have 84 in the backlog today. It will be – continuously be a big demand on that side. What we're

looking at order intake-wise, which I hope will happen as I mentioned, is of course, that we will get through these negotiations on a couple of megadeals, so we'll get the mix of that into the order intake over the year.

So, I'm positive, but I don't want to give a guidance on the order intake specifically. But we have a strong demand in the market obviously, and everything boils down to everyone is spending in more European content, new NATO targets, capability targets for all the countries. So, of course, there's high intensity in the market and I think we are really competitive with a good portfolio. But I'm not going to say a number now.

Carlos Iranzo Peris*Analyst, Merrill Lynch International*

Understood. Thanks for the color.

Merton Kaplan*Head-Investor Relations, Saab AB*

Thank you, Carlos.

Operator: We now have a question from the line of Yassin Moktadir from UBS. Please go ahead.

Yassin Moktadir*Analyst, UBS AG (London Branch)*

Hi, all. Thank you very much for taking my question. Yassin Moktadir here from UBS. If I could turn back to the Dynamics division, please. As you mentioned, there were an unusual number of deliveries in the quarter and as you continue to build out capacity there through the year and into the next, could you maybe provide some color on how you were able to achieve such a strong result this quarter, please? Thank you.

Micael Johansson*President, Chief Executive Officer & Director, Saab AB*

No, I mean, what we're doing in Dynamics is, apart from sort of doing a couple of – or a number of big investments, building a factory in India and a new factory in the US for support weapons and sort of precision weapons which will come into play then sort of during 2026, we are also, of course, automating as much as we can now.

In the Swedish perspective, we just opened the facility in Linköping, which is a completely autonomous facility when it comes to manufacturing parts of the support weapons, which we did completely manual before. And that of course improves both quality and pace. Then we employ new fantastic people, so we [ph] paralyze (00:46:05) the production lines in our existing facilities. I mean, if you would see sort the – all the facility improvements and buildings that we're doing in the Karlskoga area, it's amazing how many sort of property things is ongoing to boost the capacity there.

So, you could say that we're sort of doubling – we are improving our existing way of manufacturing things at the same times as we are investing in automating the same things going forward. And that now is – that is sort of an evidence now of this quarter is that that comes into play. We are executing on our backlog in a good way. There will be more to come, but there is a whole host of things that we're doing to boost that capacity both in Sweden and internationally.

A

Anna Wijkander

Chief Financial Officer, Saab AB

Just maybe I should – I can add to that a bit, that I mean, it was also so that we had several customer deliveries planned for that period so that we – it was extremely high number of deliveries already planned. So, when looking into the next quarter, there might not be so many deliveries planned in the quarter.

A

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

It fluctuates between the quarters.

A

Anna Wijkander

Chief Financial Officer, Saab AB

It fluctuates, so...

A

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

That is for sure.

A

Anna Wijkander

Chief Financial Officer, Saab AB

So...

A

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

But over the year, it's a good sort of performance definitely.

A

Anna Wijkander

Chief Financial Officer, Saab AB

Yeah, yeah, definitely.

Q

Yassin Moktadir

Analyst, UBS AG (London Branch)

Thank you very much.

A

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

Thank you.

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

Q

Tom Guinchard

Analyst, Pareto Securities AB

Thank you. A question on order intake and capacity investments. So, are you seeing any increased sort of competition in Dynamics and Surveillance, and are you investing at a fast-enough pace to meet demand and order intake moving forward? Are you comfortable with the current levels?

A**Micael Johansson***President, Chief Executive Officer & Director, Saab AB*

I think we are really forward-leaning in terms of investing to meet capacity both when it comes to making sure that we can catch as much as we can from our sub suppliers while they are also ramping up. That's an important part and that's why we're building some inventory. And then of course, the capacities I mentioned before, in terms of production facilities is also coming into play according to plan in a very good way. We are prepared to invest for the demand going forward and we've taken proactive steps, and I think we're looking at this all the time. When it comes to competition in this area, of course there's competition, but we have a very strong position.

I mean, we are number one in the world when it comes to the support weapons from Dynamics and we are really also good at the sensor side on the Surveillance side. But, again, we are investing in R&D to make sure that we will be state-of-the-art also in these areas going forward, both when it comes to managing all the information around it, but it's using sort of AI, but also investing in continuous improvements of our support weapons capability.

So, we really – we'll never compromise sort of the long-term perspective how we must be competitive with sort of only building capacity for here and now. I must underline that again.

Q**Tom Guinchard***Analyst, Pareto Securities AB*

Perfect. Thank you. And just a quick question on the GlobalEye in France. Are you seeing any ripple effects in customer discussions here for the GlobalEye or within Surveillance in general?

A**Micael Johansson***President, Chief Executive Officer & Director, Saab AB*

Yeah, I would say so. It's absolutely an interest in the European perspective from a few countries. I don't want to be too specific, but in the Nordic region I can say, but also in other European countries, there is an interest in GlobalEye. But not only Europe, also in the Pacific region, there is an interest.

Because there's a – I tried to say that, there is a little – sort of a window of opportunity because we have something that is really capable in production today, and there is a gap because of the E-3 version of the AWACS is sort of going out of lifetime, so to say, and we can catch a bit of that market. So, yes, there are discussions, but I don't want to sort of predict how quickly they will sort of materialize into contracts.

What will happen, of course, we are in a number of campaigns right now. South Korea is one. France is, of course, something that is very far ahead and that I hope will be signed now in the next few months. So, I'm very positive about – positive about this capability and the performance of this going forward. I am.

Q**Tom Guinchard***Analyst, Pareto Securities AB*

Perfect. Thank you.

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

Q**Sash Tusa***Analyst, Agency Partners LLP*

Thanks very much indeed. Good morning. I've got two questions on Gripen. And the first is a sort of fairly broad question, but it's about where you are in terms of the maturity of the production process. You said before – I mean, this was before the pandemic and therefore clearly a very long time ago, but I think as a company, you thought that your learning curve for Gripen E would be far better than the Gripen C/D.

I think the numbers that you put out at the time was the learning curve would be 30 aircraft versus 200. Is that still where you are in terms of the cost curve for production of the aircraft? And then following on from that, how long roughly does it take you to build a Gripen E? And what should we think of as being the time scale for a new customer that orders before you can actually bring those – deliver those aircraft for them in service? Thank you.

Micael Johansson*President, Chief Executive Officer & Director, Saab AB***A**

That was actually three questions, but that is fine. That is fine. If I start to...

Sash Tusa*Analyst, Agency Partners LLP***Q**

Well, I had to.

Micael Johansson*President, Chief Executive Officer & Director, Saab AB***A**

I mean, when it comes to production...

Sash Tusa*Analyst, Agency Partners LLP***Q**

[indiscernible] (00:51:59).

Micael Johansson*President, Chief Executive Officer & Director, Saab AB***A**

If I start with the manufacturing perspective, yes, I still claim that we have a much better learning curve because of the way we have implemented this from design, development and production in a seamless way, and also because of the architecture of the aircraft as such, where we have done tremendous things when it comes to the software architecture of it. It makes it easier to sort of certify it and get it out of the house.

And the – and – but we need to ramp up also production. I mean, it's also about sort of getting the whole supply chain to support that. So, we will – we will take steps and we need to take sort of a step also on the production of these aircrafts. We didn't have to go that far lately, but now we have a big interest in the market, so it will be a ramp-up in that area also of course.

And when it comes to the question of...

Merton Kaplan*Head-Investor Relations, Saab AB***A**

How long it takes to produce.

Micael Johansson*President, Chief Executive Officer & Director, Saab AB***A**

How long it takes to produce an aircraft, I mean, you – it's hard to say. I mean, it's not so interesting to sort of start from a white sheet of paper and then starting ordering things from the suppliers and how long will that take? We normally – we will aim for at least a production rate of 20 aircrafts a year. That's one way of looking upon it. And if you are a customer today and you want to order this aircraft, we have sort of roughly, between – depending on sort of the configuration and the whole system, between two to three years in lead time. That's sort of rough numbers.



Great. Thank you very much.

Merton Kaplan*Head-Investor Relations, Saab AB*

Thank you very much, Sash. Operator, I would like to do one more question from the line, and perhaps Mikael Laséen, if he's available, as he has stated. And then I will do some questions from online viewers, because we have a few that we have to capture there. We'll have one more question from the line, please.

Operator: Yes. So, the last question comes from the line of Afonso Osorio from Barclays. Please go ahead.

Afonso Osorio*Analyst, Barclays Capital Securities Ltd.*

Thank you. Thank you for letting me in into this call. I just have one final one following up from Carlos' question on the outlook. Micael, you and I, we discussed this recently in terms of the outlook, in terms of the timings of the order. We had the NATO Summit recently has [indiscernible] (00:54:31) target to 2035. Just wondering your assumptions in the short term for the 16% to 20% and what kind of needs to happen to reach either side of that range?

And then longer term, obviously, you said before that an acceleration in orders from 2027 and revenue coming from 2027. So I know you're not going to update us in terms of your 2027 targets, but just broad view as to when you're going to talk a bit more about that. Is that 2026. Would that be FY 2025 results for an update on the medium-term targets? And would those be due 2030, or would it be a three-year view to 2029? Thank you.

Micael Johansson*President, Chief Executive Officer & Director, Saab AB*

I mean, honestly, on the last one, we haven't really concluded that, but that we will have to roll it a number of years going forward. And exactly when we will step out and talk about midterm targets, I don't honestly know. But it's – I mean, it's not – it wouldn't be a surprise to me if we will have to say something about that when we report the full year 2025, or a little bit later, but sort of earliest at that occasion.

When it comes to 2027 – I mean, when it comes to the first question about – what was that, order intake?

Afonso Osorio*Analyst, Barclays Capital Securities Ltd.*

No, it was the outlook in terms of the 16% to the – the organic range, 16% to 20%, and the assumptions to reach either side of that.

A**Micael Johansson***President, Chief Executive Officer & Director, Saab AB*

Yeah. But I mean, that range is – as we said, I mean, we have delivered a strong first half year. We have – we've shown that we are capable of delivering from the backlog as such, and that's almost SEK 200 billion today. So, we are more confident now also seeing what deliveries we have during the half year, that all that taken into account gives us confidence in that we will be in that range and not in the 12% to 16%, but rather in the 16% to 20%. So, that all comes together.

And of course, the majority of that is from the backlog definitely. A small portion of it will be from sort of sales and new orders, but that is not substantial in the way that it will sort of risk any of our deliveries in that range. So I'm confident that we can make that definitely.

Merton Kaplan*Head-Investor Relations, Saab AB*

And the 2027 and beyond, do you have anything to mention?

A**Micael Johansson***President, Chief Executive Officer & Director, Saab AB*

As I said earlier, 2027 and beyond when it comes to the market, I mean, we still need to see now how the – how different countries will have a schedule to fulfill the 5% sort of ramp-up and also how they will implement the NATO capability targets that's been given now to all the alliance's countries. That will look a bit different in different countries, and we have a reasonable view of that, and of course, we – I'm confident, for example, that sort of the rather short backlog that we have in the Dynamics area will be refilled all the time, because there's a huge need for sort of investing in new stockpiles in different countries, and also continuing to support Ukraine, and then the own buildup of the sovereign country, and on top of that, the capability targets.

So, I'm confident that there is huge need in the market, but it's – exactly how each country will implement it is not 100% clear yet, but it's a work in progress to see how the defense forces are doing the capability plans for the countries, and we are following in that diligently.

But, the need in the market is tremendous and I tried to say that being in Hague during the summit, I mean, the clear message was, okay, now we've stated what we want to do, make sure US industries and especially in the European defense industrial base start ramping up capacity because the need will be huge. So, I'm not worried about sort of 2027 and beyond, but I won't say a number on that side either.

A**Merton Kaplan***Head-Investor Relations, Saab AB*

Thank you.

Q**Afonso Osorio***Analyst, Barclays Capital Securities Ltd.*

That was very clear. Thank you very much for your help. I appreciate it.

A**Merton Kaplan***Head-Investor Relations, Saab AB*

Thank you Afonso.

A**Micael Johansson***President, Chief Executive Officer & Director, Saab AB*

Thanks.

A**Merton Kaplan***Head-Investor Relations, Saab AB*

I will flip in here. We have a couple of more minutes. Micael, we have Björn Enarson from Danske asking this question again connected to a bit to NATO, but here from a Swedish perspective. So, what do you expect Sweden to take actions based on the new capability targets that has been decided?

A**Micael Johansson***President, Chief Executive Officer & Director, Saab AB*

No, I think Sweden will take sort of immediate actions to sort of – not revisit, but sort of add to the defense bill that we have and implement – implementing these capability targets in that plan, so to say. And that's not really 100% done yet, but it's work in progress as I understand. And we have already stated as a country that we want to go quickly towards the 3.5% sort of pure defense spending to 2030.

And that's what I'm looking into and what I see, and I think it will be lots of air defense systems and it will be lots about protecting the Baltic Sea and critical infrastructure. It will be a lot about sort of the mobility of forces sort of east to west – west to east. So, I am confident that – it's rather high paced in the Swedish system, and I think our position in this region is super important to NATO. So, there is a high pace around the sort of Nordic countries as a whole, I would say. But Sweden is taking this really seriously, my view.

A**Merton Kaplan***Head-Investor Relations, Saab AB*

Thank you. I have one question here from [ph] Niklas (01:00:02), and we didn't talk about that much in this quarter. A bit on the US strategy. We hear – obviously, we have a lot of tech companies in the US like Anduril, a lot of companies focusing on AI and defense here. And then you have also a US perspective on buying US defense equipment. But how is your US strategy and do you think that we can compete in the US in these domains, unmanned UAV, etcetera?

A**Micael Johansson***President, Chief Executive Officer & Director, Saab AB*

No, definitely. I – we are putting a lot of effort growing our US business, and we are doing good in the US. We have a huge manufacturing capability in West Lafayette for the trainer aircraft. Hundreds of them will be built there together with Boeing. We have a great sensor capability and underwater capability in Syracuse and Rhode Island, and we are already involved in underwater autonomous capability for anti-submarine warfare training from our Rhode Island facility.

So, we are absolutely competitive and – but we have to be US. We have to be perceived as being completely US, which we are in the US. We are running our operations under a special security arrangement, and we continue to do that and invest in that market because it's a huge market. So, it's definitely a focus for us to be competitive in that market. I have a good sort of feeling about sort of the underwater capability, autonomous underwater capability that is needed in the US which we have started now to deliver to our customers.

A

Merton Kaplan

Head-Investor Relations, Saab AB

Thank you. A question to Anna here, M&As. Can you give us an update? And there's lots of questions on that.

A

Anna Wijkander

Chief Financial Officer, Saab AB

[indiscernible] (01:01:49) we talked a bit about when we had the Capital Markets Day, and that's part of our strategy, in our growth strategy to really grow via M&As, both in – to achieve a new technology in our core area. So that's definitely on the agenda. So, I can't give you any update more on the details, but it's part of our agenda.

A

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

Just a comment on that from my side. It's super important, as Anna is saying, from a strategic perspective, not only to grow organically. M&A is something that might sort of come from also the European perspective that we have to do more in Europe and create scale. It might start with joint ventures to create scale and doing things together to handle all the need, and that might lead to sort of acquisitions.

But, of course, we have a funnel of companies, objects – companies we're looking at, but the pace of that must increase because I think that's necessary for us to capture more of the market. So, it's super important.

Merton Kaplan

Head-Investor Relations, Saab AB

Great. Thank you. We have two minutes and I think – actually, one minute, so I want to actually hand back to you again to thank you for a fantastic quarter from my side as well. So maybe [indiscernible] (01:03:00).

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

Well, it's been a great quarter and a good half year. And we are pushing on to keep sort of making sure that we are long term really competitive by investing in new technology and creating new capabilities as well as building new capacity, of course, for the existing portfolio, and making sure that we manage our capital in a good way and have a return on capital employed that is increasing all the time. That's really important to us and I think we're managing that well.

And the whole market is growing, and I don't think we have seen all the effects of the NATO Summit decisions yet that will come into play going forward. So, I look forward to the future, so to say, and I wish you all a great summer to start with.

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