

26-Oct-2023

**Saab AB** (SAABY.SE)

Q3 2023 Earnings Call

## CORPORATE PARTICIPANTS

### Merton Kaplan

*Head-Investor Relations, Saab AB*

### Micael Johansson

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

### Christian Carl Peter Luiga

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

---

## OTHER PARTICIPANTS

### Samuel Burgess

*Analyst, Citigroup Global Markets Ltd.*

### Virginia Montorsi

*Analyst, BofA Securities, Inc.*

### Mikael Laséen

*Analyst, Carnegie Investment Bank AB*

### Björn Enarson

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

---

## MANAGEMENT DISCUSSION SECTION

### Merton Kaplan

*Head-Investor Relations, Saab AB*

And welcome to Saab's Third Quarter Presentation. I'm Merton Kaplan, Head of Investor Relations at Saab.

We have a busy morning and a lot to share to you. And we will soon go into a deep dive of our business slides together with my CEO, Micael Johansson here, and also go through the results with our CFO, Christian Luiga.

We will then, as usual, continue with a Q&A session and we'll have a moderate for that. And I will support the moderate as well. And dial in number two, the conf call for your questions is at the back of our interim report and our website. Don't forget that you can also send in your questions to me directly on our stream website.

So with those words, Micael, I'll hand over to you.

---

### Micael Johansson

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

Thank you so much, Merton, and thank you, all, for joining us this morning. And let's jump right into some highlights of the third quarter. I still see a great demand in the markets. European defense industry are working hard, not only Saab to boost capacity and sometimes we have to look at the complete ecosystem on the supply chain to make sure that we cooperate to some extent to make the capacity increase that we need.

Earlier, I think, EU initiatives to do incentives for corporations have been quite evident like EDIRPA, EDF and also now the ASAP suggests, I won't go into the acronyms, but there are incentives in the EU context to boost sort of collaboration and increase capacity as well. But lately, NATO has come out also now since Vilnius summit to talk about Defense Production Action Plan. And that was very much in focus during the beginning of the week now when Sweden hosted the NATO-Industry Forum. So there were lots of discussions from the leadership of NATO

to say that we need more of everything everywhere as quickly as possible. That is basically the sort of the message that is sent to industry.

So, there are initiatives now also from the NATO Alliance perspective to make sure that we create an environment, so we can actually handle the boost of the capacity that we need. But it's not only about sort of here and now. I must underline that the initiatives for the long-term capabilities, three to five years using commercial technologies to do more is also extremely important. So, Saab is continuing to invest lots of money in R&D to be relevant and have state-of-the-art offers in the marketplace also in the long term.

So, the interest in our portfolio, as is right now, is huge. And I can – I think we see that in our order intake also during the quarter. And we're working hard in parallel with that to build up capacity, of course, and that is related to employing employees, adding new fantastic employees to our existing workforce who is doing a fantastic job now to deliver on our customer requirements. And then we are looking also at acquisitions, of course, to boost capacity and also get ourselves more involved with technology.

And during this quarter, we have made two acquisitions that are important for us going forward, and that's BlueBear and also a stake in Helsing in Germany and a partnership agreement with them. So, I would come back to that and what that means for Saab. And then, of course, all the time, we launch new innovative product features in the marketplace. So, lots of intensity around what we do in the market during this third quarter.

When it comes to the numbers, as you've seen, the order intake has been great. It's almost increased 100% year-on-year comparing quarters and that just is a reflection of what I just talked about in terms of intensity in the market and especially on the European side that, as I've said before, the wake-up call that we see from the tragic war in Ukraine is substantial. Many countries are spending much more money on defense and creating resilience for the future.

Also, our growth when it comes to sales is substantial, 31% quarter-to-quarter and 26% year-to-date, the first nine months. EBIT is as we always look at that must grow more than the organic sales and it's doing that, 51% quarter-to-quarter and also 46% year-to-date. Cash flow I would look at this being sort of a quarter where we have, according to plan, made our investment to grow the company. We continue to have inventory to make sure that we can deliver to our customer expectations, but we're not increasing that sort of more proportional with the growth. At the same time, it's connected to sort of timing of customer payments. So I'm confident that we will absolutely meet our outlook on positive cash flow for the year. So the variations of the quarters is not sort of something that I am worried about. This will come back to positive cash flow before the year ends.

And looking at orders as such, we have had many orders, I mean, both large orders, but also medium size orders and smaller orders have increased during the quarter. And we have SEK 46.3 billion now year-to-date, which is an increase of more than 30%. We have got additional important contracts to continue to put more functionality on the Gripen E platform and to streamline the development of the C/D version of Gripen, with the E version going forward.

Very important framework contracts for anti-tank weapons and support weapons with the US. They have extended the framework contract, and that makes it possible to put larger contracts on us going forward, and we got the first one during this quarter.

And we successfully also contracted with Poland airborne early warning aircraft, this time on the Saab 340, with the Erieye System on it, that you could see on this slide, and there's a huge interest for our portfolio when it comes to Poland, very important country to us going forward.

I mean, we've done this during the quarter, early we have contracted the SIGINT ships to Poland. So, they are an important customer country to us, and they look very favorably upon our portfolio, as I see it.

And also, in the surveillance area, we have many contracts on the radar sensor side and also supporting our systems around the world. So, that area, that business area is doing also really well when it comes to growth and profitability. So the backlog is increasing. It's now 24% up year on year, which is, of course, building credibility and great possibility to continue to grow the company.

A few comments on the four business areas, within Aeronautics, the sales growth is, of course, connected to the Gripen program, and we have very high intensity in the program, both related to Sweden and Brazil, and we have also delivered now – they're actually the first serial type of delivered to FMV which will go in to the Air Force now going forward from FMV, might be confusing since we have already delivered a handful of aircrafts, but those aircrafts have been part of the test flight campaign and this is actually aircrafts now that would go from FMV into the Air Force going forward.

We have done on the commercial side the new agreements with Boeing on the 787 Dreamliner, where we do cargo doors and rescue doors for them. That has not sort of been booked as order intake yet. That is sort of a way of doing that is looking at when the Boeing Dreamliner gets contracts, we also follow with order intake and we do that in a conservative way, of course. So that will happen going forward. And we have several campaigns still when it comes to the Gripen Fighter and specifically, of course, the next batch in Brazil.

The Colombia still contemplating which way to go. We have Peru in Latin America. We have Hungary and so forth and the Philippines. So there are a number of campaigns which we are pursuing on the Gripen side going forward as well, of course, high intensity on that side.

Dynamics, strong order momentum, of course. And we talk a lot about ground combat, which is we're boosting capacity on that side for sure. But I need to underline that other business units within Dynamics are also growing dramatically. So during this quarter it has been mainly training and simulation, tactical support solution, and underwater system that have been driving the growth in Dynamics.

And – but, of course, ground combat is – has a huge potential also going forward. There's no question about that. And we are investing now both in Sweden, as I've talked about before, to increase capacity from Karlskoga but also building a new production facility in India. And we have the ambition also to set up shop, I would say, in the US, but I don't have any material sort of information on that. But that is then the ambition.

So, looking at output on ground combat, I've said that before, if you look back to 2021, I think we – when we reached [ph] 25 (10:21) first quarter somewhere, we have increased our output capacity four times, from only the Karlskoga facility. So it's good momentum in Dynamics, for sure, and they have good profitability levels. And it's always sort of a mix, of course, within Dynamics. So looking at the last year, second quarter, we have an extremely – we had an extremely favorable mix because of a certain contract and now we are back on sort of more normalized levels, I would say.

Surveillance, as I said, also extremely high interest in that portfolio, both on the airborne side when it comes to GlobalEye and airborne early warning with Poland, I mentioned, but also in the ground-based segment in the naval segment. Within Surveillance, we have restructured a bit. Surveillance business area is growing a lot, so we need more focus. And we have now created six business units instead of four within Surveillance to put even more focus on different parts of the business and improving all the time, of course, the operational efficiency.

This contract with Poland, I mentioned, is a very short-term contract in the way that we contracted and we will deliver within months because the aircrafts have been refurbished and they exist. So, that will happen quickly. Those aircrafts would go to Poland shortly. And then we have started our production now in the UK with Giraffe 1X. So we – that's also an important move to make sure that we have redundancy when it comes to productions, so in Fareham, in the UK, in the southern part of UK, we have now production up and running.

So Kockums, well a very big one that we are looking at diligently and following is now our offer that we have made for four submarines to the Netherlands in our partnership with Damen, Damen Shipbuilding. And they – I have no new information that more than that they will evaluate the proposals during this year and come to sort of a selection, I would say, in the first half of next year. That's sort of the basic timing information I have on that.

We have also done, concluded cooperation agreement with Babcock. They are extremely good at shipbuilding and design of ships. And together with them, we're looking at the class of around 100 meters corvettes, [ph] which showed of (13:02) interest in Sweden, of course, and we complement each other because we do superstructure in composites and we do excellent combat system integration and combat management systems and sensor equipments. So, we together can both address the Swedish sort of next gen corvettes, but also the international market.

And we have now just recently on the Finnish side, the Squadron 2020, as that contract is called now started the, mast for that ship is in composites. It has been started in the production of Saab Kockums. And we have a very favorable mix within Saab Kockums today because we have lots of support contracts, and we have surface vessels contracts in-house in combination with the submarine side which give this good growth and also incredibly good sort of profitability increase all the time.

Combitech is also doing well. It is a lot of activities connected to the total defense initiatives within Sweden. Many authorities and agencies or – and companies, for that sake, are doing lots of work now to prepare the civilian part of our defense to be resilient in the whole context. That requires new processes, new ways of working, and maybe doing stock things and IT preparations, which is something Combitech is really good at. And they also had the security side of the company that can work with those aspects of both agencies, authorities, and the civilian market.

So we have – the mix of our Combitech is addressing the market is good. So even if the civil market is slightly slowing down, Combitech's expertise is actually taking market shares in that market. And, of course, we continue to support the Swedish Armed Forces. This is an example of a network and IP infrastructure contract that we have with them. And we are increasing our number of employees within Combitech and the utilization rate is increasing and that drives, of course, the growth and the EBIT.

So a couple of words on how we look at our position when it comes to new capabilities. Even though we as a company, we are really all the time looking at competence improvements and attracting new employees, but also the continuous learning of our fantastic existing workforce. There needs to be cooperations and connections to the ecosystem which have been created as startups more or less to be only focusing on things like AI and autonomous systems and swarm technology and things like that, unmanned surface vessels.

So we have made a couple of acquisitions and those are BlueBear, UK Company focusing on swarm technology with autonomous airborne systems mainly, but also AI enabled systems when it comes to swarm technology. And they have great capabilities that we will use, of course, in our offer going forward when it comes to unmanned

capability, but also the AI sort of AI kernels and capability they have will be integrated in our systems going forward.

CrowdAI is in the US, that's more of an asset acquisition of competence and expertise, people in AI mainly. That will be joining our buildup of [indiscernible] (17:02) in California, outside – or in San Diego, focusing mainly on autonomous surface vessels and naval applications in that area. I mentioned Helsing, I look at that as an acquisition since it's a 5% stake, but it's also a very important partnership. They are excellent in AI capabilities and the need for digesting huge amount of information from our systems and to quickly get an understanding which is a situation awareness understanding what that means to the operator needs AI agent, and they are excellent in that. So, they will be focusing on our sensor systems and command and control systems in our partnership with them to involve AI-enabling agents in our systems going forward.

And then, I mentioned Babcock, I don't need to go into that again. And also in Singapore, we have a good penetration of the market and a great relationship with ST Engineering, both on the radar side, but also related to training and simulation and unmanned systems in that market space. So we're doing a lot to grow our competence going forward, of course, but also working with companies, which have great expertise and also acquiring a few of them. And this is still in our strategy to work that way going forward.

Sustainability is very, very important to us, of course. And the highlights I have for this quarter is that we have the new upcoming regulations on reporting, ESRS will require a much more diligent reporting in this area, and we have already been rated to be really prepared for that. That's what the A+ in the Position Green's ranking means. We have also submitted our net zero 2050 climate targets to SBTi.

And looking at our environmental emissions, the greenhouse gas emissions, we have reduced this year-on-year comparing the quarters with 10%, looking at Scope 1 and 2. But I have to admit that we have a very intensive period when it comes to flight testing, both for the Gripen Aircraft, but also for our GlobalEye. And of course, I will not trade off the sort of the core activities of Saab when delivering airborne platforms to our customers. So we need to sort of balance this with how we measure this going forward and we need to look into the methods of how we report this going forward because we will do flight testing, even though we are much more efficient in that area than we used to be.

And it's really great to see how we have become a very attractive company. I think we have always been that but, if you look at the rankings from Universum or other rankings when it comes to engineers and also young professionals, we are taking big steps in that ranking.

And, I think, that has to do with that we are a great company, we're a high-tech company, but also the purpose of what we do, delivering defense systems to protect the societies and people in different countries, it means something, it has a purpose.

And, unfortunately, that awakening has started from the tragic war in Ukraine, but I don't think that will go away for a long time in many countries now that are boosting the resilience of their societies going forward.

So I just want to mention also that, as you've seen in the report, having the visibility and the insight in our programs and what we can deliver now during the rest of the year, we have upgraded our sales growth for 2023 to be between 19% and 23%, compared to what we said before, 16% to 20%. So, that is a substantial upgrade. I just want to mention that, that is really important to pick up now.

Finally, a few comments on the future from my side. And, I mean, it's a lot on this list. It could be longer than this. But, of course, I mean, still huge potential on the demand side in the markets. So capture a growing market is, of course, really important to us.

Customers are, really, I'm thinking about the NATO-Industry Forum again and what the NATO leadership said. We need more of everything, faster everywhere.

So to find ways of limiting lead times and delivery on time is hugely important to us. And we are working really hard on that now, including the whole supply chain aspect of things. So capacity and production ramp-up is huge, but we can't sort of trade off the R&D investments for future technologies. We have a number of initiatives which are really interesting going forward. On the autonomous vehicle sides, in domains and also connected to AI, of course, and the connectivity between systems going forward.

We will continue to have lots of focus on the supply chain that will never end, I think. It will take time to sort of do the measures in some areas that we need to do redundancy, regionalize it. But still, we're doing a lot of efforts in that area. We've been doing great in this area and also we have some inventory and we need to keep that not sort of huge compared to our revenue growth, but it needs to be an inventory in place to deliver to our customers. So we need to be proactive in how we secure that.

Onboarding and upskilling of employees is a very, very important area to us. We're doing well. I think we have now grown net 1,800 employees the first nine months. We're continuing to employ and of course, an organization needs to be prepared also in how you receive all these great employees to work with our already fantastic employees. But the onboarding side of this is really, really important to create productivity as quickly as possible. And we have a huge effort into that now. And we will continue to employ, definitely. And as I said, integration of acquisitions we made and looking at more acquisitions in certain areas in certain parts of the world will be part of our strategy as it is, and we will continue to do that. So, very, very intensive times, inspiring to help countries to create resilience of the defense forces, and we will work really hard going forward to do that.

By that, I will hand over to our CFO who will deep dive into the numbers.

---

## Christian Carl Peter Luiga

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

Thank you, Micael, and good morning, everyone. And before I start, I just want to frame the financial summary a bit. We have 21,000 employees working extremely hard every day to bring up capacity and deliver on our programs, but also to secure supply chain. And as we do that, we get better visibility of the coming quarter and the coming year.

And in that, we have, during this year, lifted up our guidance of sales, as you know. And the question could be, couldn't we have known this from the beginning? But in this growth and in this dramatic change we are going through, it has been important to understand where we stand before we tell where we're going.

That said, also quarter three is very similar to the nine months and very similar to the second quarter. So, it's a little bit – we're delivering the same story, which may sound boring, but for us, it's extremely strong and very good to actually deliver broadly in line with our expectations where we grow our sales, we grow our EBIT. Cash flow investments are increasing every quarter, as we have said. Meanwhile, customer payments, as we know, will come and go between the quarters a little bit different. And we reiterate our guidelines on the other parameters. So, that's just to summarize where we stand.



And then, looking into some of the parameters, the strong order momentum is fantastic, of course, 39% order intake uplift in the first nine months. Backlog, as Micael said, is up 24%. And I've been talking about filling the different buckets over time and realizing, actually, that that we are filling all of the buckets, in a sense, year two, year three, year four and year – and beyond as we go, and that's how it should be.

One of the stronger things, of course, in – that has changed is that the Dynamics have taken a bigger and bigger part of the backlog. And, in two years' time, they have increased with 10 percentage point of the total backlog to now be equal to Aeronautics and Surveillance of around 30% of the backlog.

And that is, of course, something that will be a fundamental strong piece of the growth story for ground combat and for Dynamics going forward and give us comfort on the buildup in investments we're doing in that area.

And I also – we can see on this picture that the quarter four (sic) [three] (26:53) number of SEK 13.5 billion, if you add that to the nine months' sales, you get to 17% growth. So, we still need some order to sales in the fourth quarter also to meet our guideline that – or the outlook we have given.

If we look at the income statement, I actually will skip the quarter three, as they are very similar and go to the nine months, and we can leave that one for questions. But, looking at the nine months and where we stand, we have an organic sales growth of 26%, 1% is up from currency, so not that much. And we have 0.5% out from M&A and that is mainly the Maritime Traffic Management business that we sold earlier this year.

The gross income has increased 28%, and that's primarily driven by Dynamics and Surveillance. And the gross margin is up a bit. And here we can say that the strong growth and the scale from the strong growth is compensated by a different mix between – within the [ph] BUs, (28:03) business areas, but also between the business areas. And that will also be something we will see maybe coming back over time the other way around as Ground Combat and Dynamics continue to grow.

The EBIT improvement, though, is driven by scale effects, so that gross margin and gross income over the OpEx is driving then an increase of 1% in EBIT margin, which is exactly what we are expecting and driving for to go forward that we have this slow increase of – and steady and stable increase of our margin as we continue to push growth very hard in this company.

A couple of things that stood out last year is also standing up this year, but the opposite direction. Last year we had a big negative effect on our financial net when the interest rates went up in the world, and we had our big portfolio bonds that we have placed our liquidity in had an unrealized negative effect. And now, as we haven't sold those bonds, we get the unrealized positive impact back, so SEK 300 million of the SEK 430 million difference is actually related to those unrealized losses we had last year we now get back on the earnings. So no drama in that. There was no drama last year, so no drama this year.

And we have a bit lower tax rate, but we have guided at the Capital Markets Day we said we will be somewhere between 21% and 23% in tax rate. And we are within that range. And the difference from last year is actually the divestments and capital gains we have had that impacts the tax rate. With that, we increased our EPS 100%, which is always very positive and good. And we will bring that with us as something good.

So the sales development, we continue to grow sales. We talked about that. And I am not going to say so much about this. But sales is up from all business areas and all business areas are driving this. What I would like to say is that the countries, the strategic countries outside North America, UK, Germany, and Australia, they are growing plus 50% in this quarter. So they are growing faster than we are doing on a group level.



The other thing I want to say is that the quarter itself, the third quarter, is going to be a bit stronger this year in relationship to the other quarters. So the share of third quarter of the full year sales will be a bit higher. And that's because we are coming up on a much more steady and full production rate everywhere. And that impacts also the growth rate comparison year-on-year where we will have a weaker growth rate comparison in quarter four and a stronger in quarter three.

If we look at the sales growth then per business area, you can see here that we are growing, as I said, everywhere with quite strong numbers. And in Dynamics and Surveillance, you can – if you look at the yellow bar compared to the white bar, you see that that's where we get the most money out of the sales growth. And so those two bring the biggest impact on the growth of the company.

And that is also what we have said earlier, that when we see this demand increasing, we believe and actually the potential is higher in the beginning in Dynamics and Surveillance, and then in Kockums and Aeronautics it will come more over time, both based on the programs we have in place there, but also in the possibility to sell more programs in both the naval side and the fighter side.

If we then take a deep into the EBIT and EBITDA, and first of all, gross income from high volume is income increasing, but the mix effect actually keeps the gross margin flat in the quarter. So this is quarter numbers. And here we can also see that Dynamics, even if it's growing very fast, it doesn't bring that much more EBIT to the table. And that is the phase from both last year where we had an unfavorably good mix in the Dynamics portfolio. And now also where, as Micael said, the lower margin, still good margin, business units are driving the biggest growth in Dynamics. Meanwhile, the higher margin business unit has a bit lower growth. So that is the impact in this quarter for this – as we see here.

Surveillance is the only business area where we said at the Capital Markets Day a guidance on, you can say. We said Surveillance will have a higher margin in 2023 than it had in 2022, and they need to move upwards the chain when it comes to margin. And they are doing that in a very good way. And we can see that throughout the quarters of this year that they're taking steady steps to improve, not only the margin but also the EBIT from the scale effects to get both from the margin side but also from the sales side. So, this is something that we are very happy to see.

So, on the cash flow, first of all, just referencing back to what Micael said, we have a working capital change of SEK 2.7 billion this year, which is not that much more negative than last year but it is there, and SEK 2.6 billion of that is inventory. 90% of that SEK 2.6 billion negative is coming from Dynamics and Surveillance. And the majority of that 90% bucket is coming from Dynamics.

And, of course, when we get this strong order intake in Dynamics and Surveillance, and we have such a pressure on making sure that we can supply and deliver within the next year and two years going forward, we don't hesitate to secure the supply chain early to make sure that's not going to be a problem when we get to the delivery day. So, that has been part of the strategy and is important to make sure that we are not squeezed later on in the production chain.

The other thing on this picture, which we also talked about earlier this year, is that we will increase our investments and we will try to increase them, frontload them because as soon as we get capacity up, we can deliver more. And we have then increased the investments in about SEK 1 billion over the year and more in quarter three than we have done in quarter one and quarter two, which makes sense because we are building up sort of the investment phase.

And with that, we also want to illustrate that Dynamics, Surveillance, and common IT is the main drivers of this increase, which also ties back well to the increase in backlog and orders that we have.

We have a solid balance sheet still. It was a bit lower this quarter than previously, but we have nothing less than a very strong balance sheet, and that remains, and we see that remain also for the next quarter.

Finally, leaving some also room for questions, as I said, we haven't changed the operating income and we haven't changed the cash flow. So, I'll start from the cash flow point as I ended there. We have a negative cash flow in quarter three. It is primarily based on customer payment pattern for the year, not on the investments or the working capital, which is more in line with what we expected. And, therefore, we also see that the positive operational cash flow will come through in quarter four, and it will be based very much on the customer payment side coming in.

And, on the operating income, the growth should be higher than the organic sales growth, and that is to show and visualize that we should improve our margin over time. We haven't set a bar, then it should be meaningful and that it should be balanced with the organic sales growth. So we make sure we actually capture the market now and we also can invest in future technology, and we're doing that in a very good way. So, meanwhile, we increased our internally funded R&D with 20%. We grow also our EBIT margin with 1%. So that's a good way of going forward.

And then, the new organic sales growth, as I started I will also end, we have now better visibility for the last quarter, and we upgrade our 16% to 20%, now to 19% to 23%, which is within that range, we feel then we will land for this year.

And with that, I hand over to you, Merton, and probably a lot of discussions that we need to have.

---

## Merton Kaplan

*Head-Investor Relations, Saab AB*

Thank you, Christian and Micael. Yes. So, we have some time for questions for our audience. So, if you're on the line or listening into the conference call, please dial in to request to ask questions. And I also have a couple of questions, actually, five questions from audiences on the website. So, do we have a moderator to open up the line?

## QUESTION AND ANSWER SECTION

**Operator:** We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Sam Burgess from Citi. Please go ahead.

**Samuel Burgess**

*Analyst, Citigroup Global Markets Ltd.*

Hey, guys. Can you hear me?

Q

**Merton Kaplan**

*Head-Investor Relations, Saab AB*

Yes, we can hear you, Sam. Welcome.

A

**Samuel Burgess**

*Analyst, Citigroup Global Markets Ltd.*

Great. Thanks, guys. Just two questions this morning, if I may. Given your new 2023 sales growth expectation, 19% to 23%, a new order strength that you've just flagged over the next five years, your midterm guide to 10% sales CAGR, which includes the 2023 growth, begin to look relatively comfortable. And on my numbers, you'll get there if you do sort of 7% to 8% annual sales growth. I get that it's a time of significant change for the company. But is that midterm guide now looking a bit too conservative?

Q

And then second question, any update on supply chain will be really welcome. I know in your report you're still flagging certain raw materials and components impacting lead times. You seem to be delivering pretty well at the moment. What's your sense on the direction of travel? Are those bottlenecks now easing? Thanks.

**Micael Johansson**

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

Well, thank you. On the guidance side, I admit we have a great backlog. We're growing well during this year and we guided with an upgrade. And we [ph] will (40:01) have to come back to look at and reflect upon sort of the mid-term, long-term growth pattern also for 2024, but I'd like to sort of take the end of the year first, and then we will reflect on how we guide things going forward. Of course, we're thinking in about that right now, but I think it's too early to sort of give guidance right now, but more and more confident on the growth pattern as such, absolutely.

A

On the other one, when it comes to supply chain, I would say that we are in a situation where we fortunately in some areas, we were proactive to secure a number of raw materials that everyone is looking at. I can only take the example of munitions and ammunitions. I mean, there are few companies in Europe that can actually support that ecosystem.

We have EURENCO, we have Nammo, and we have Chemring in the UK. I think there is still lots of work to be done to boost their capacity and that must be done as quickly as possible. We find for some time now. But I must say that the – which is the target we're looking at in terms of what it means to go from this peace perspective of things to actually be prepared for a conflict and increase our stockpiles.

That is probably a biggest step than most of us have realized, and it's not clear for nations or the alliance, NATO, for that sake, where we want to go. So, we're doing well right now but, I think, we have to boost investments in the

whole ecosystem. And, mainly, I'm thinking about powder explosives, some raw materials, and we need to start stockpiling those to be able to ramp up even more quickly.

We're doing okay now, but we're diligently working the supply chain. What can I say? We secured as much as we can of the existing capacity to deliver to our customers. We've been doing really well on that and we will do that well going forward as well for the foreseeable future, but more needs to be done.

---

**Christian Carl Peter Luiga**

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

A

Let me just add – we, even if a quarter feels sometimes better, we have to take the stand that every quarter will probably become worse tomorrow and difficult in the world we're living in. So, we cannot relax and we cannot say that there's a trend on better supply chain. If that comes to become true over time, we will see that, but we need to take a stand that it's very difficult.

---

**Micael Johansson**

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

A

Another example of this is, of course, the – now, the tragic conflict we have in the Middle East, with Israel and Hamas. I mean, we have some companies in Israel supporting us in the supply chain. So that's a new avenue now to go and pursue to make sure that they are not disrupted by this and that there are alternatives if needed.

So things are changing so quickly in this world today. So, you have to work this diligently, and we're doing efforts to regionalize, to create redundancy, to invest in our ecosystem to make sure they follow us if they can't do it themselves. All of that is happening at the same time.

---

**Samuel Burgess**

*Analyst, Citigroup Global Markets Ltd.*

Q

Pretty clear. Thanks, guys.

---

**Merton Kaplan**

*Head-Investor Relations, Saab AB*

A

Thank you, Sam.

---

**Operator:** Our first question comes from Virginia Montorsi from Bank of America. Please go ahead.

---

**Virginia Montorsi**

*Analyst, BofA Securities, Inc.*

Q

Good morning, and thank you for taking my question. Just a quick one on orders. Obviously, the order intake in Q3 was very strong. What exactly is driving the stronger-than-expected performance? Meaning, I know you've mentioned you've got better small, medium, and large orders. But is it that customers are asking for a bigger breadth of product? Is it that the quantities are going up? What exactly is driving the big jump? Thank you very much.

---

**Micael Johansson**

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

A

I think one piece of that answer is what the NATO leadership said during this week. We need more of everything, everywhere quicker. So actually it's quite a lot related to quantity because quantity is also quality, if I put it that

way. But it's not only that, but it's volume. And, to me, I wouldn't say we – it's not better than expected from my perspective. We have a huge intensity in the marketplace, but it is a lot of quantity right now. But will be also and there are also already contracts related to what's been the reflections or the lessons learned from how you can do things in Ukraine, which is not only about conventional warfare, but it's also quite innovative in terms of using commercial technology. But it's the order intake volume, I would say, mainly is driven by quantity. Yeah.

---

**Virginia Montorsi**

*Analyst, BofA Securities, Inc.*

Okay. Thank you very much.

Q

---

**Merton Kaplan**

*Head-Investor Relations, Saab AB*

Thank you, Virginia.

A

---

**Operator:** Our next question comes from Mikael Laséen from Carnegie. Please go ahead.

---

**Mikael Laséen**

*Analyst, Carnegie Investment Bank AB*

Yes. Good morning. And, yeah, I have a few questions, and the first one is on the investments. You highlighted you front load coming years' investments, and building up capacity and also the R&D side. Just curious here how we should think about investments [ph] than had an (45:47) R&D to sales and if this is impacting how you're balancing sales growth, cost, and margins.

Q

---

**Micael Johansson**

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

From a sort of generic perspective or more general perspective, I would say, like I always say that to – we will never trade off not being relevant in medium to long term in terms of not investing in R&D, and that's continuing as we speak. We have many initiatives now related to new capability and technology, and we want to drive that a bit further. But we have to sort of absorb that sort of cost, of course, in our growth in our EBIT. So, I'm still saying that EBIT must grow much – EBIT needs to grow more than the sales growth to support our investments in R&D definitely.

A

And then, we look diligently upon the trade offer. How much do we need to have in inventory, for example, to actually deliver things that needs to be delivered within the short timeframes like 18 months, 12 months to 18 months.

Investments are also related to things like property and the IT and security. And because, I mean, we have – we work with things that needs to be protected both physically and IT – on the IT side. And that is a continuous effort to increase, to make – take security measures to make sure that we handle that diligently as well.

I mean, we're building a new facility in Australia, that's a huge investment. We're doing a lot of things in Karlskoga, property-wise, to make sure that we have more warehouses and production lines. So those things are part of our investments. As Christian said, Dynamics and Surveillance are – they're driving the investments today.

---

**Christian Carl Peter Luiga**

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

A

Just to confirm something, I think you're thinking about, Micael, that, as we said already in the CMD and, Micael, now reinforced that we will have scale effects, but we don't seek scale effects on R&D, that's what we need to continue. On the investments, we also said we have an investment plan that we have now set out to actually handle the 10% CAGR growth for the medium term. And, of course, if we would come back and see that that would change, we may also have to come back and see if the investments need to change, but that's how they were linked together.

And so, if we come back with a better story, we may also have to invest more, which is quite natural. And in that also question, I just want to reaffirm that, based on what we're doing now and what you're seeing in the numbers, we still have a strong belief that the 70% cash conversion will hold for this medium-term period.

---

**Mikael Laséen**

*Analyst, Carnegie Investment Bank AB*

Q

Okay. Got it. And a couple of question also on the – a couple of segments here and, first of all, on Kockums, you had a really good margin this quarter, and you mentioned a few things high activity, material purchases and favorable mix. And just wondering how we should think about the EBIT margin for Kockums, if this is a temporary high margin, or what happens if you would have a more normal mix and maybe the effect of the material side?

---

**Micael Johansson**

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

A

Well, again, we normally – we don't guide on business area level. But, I mean, this is a good mix of things we're doing at Kockums. And this is the – the focus of the business is, of course, to have support contracts, which are good contracts from a profitability or margin perspective and also some surface vessel contracts in combination with the submarine contracts. And that mix should then lead to a reasonable level of margin. And we've been working that for quite a few years now to get that to a good level. And now we are at a good level.

And I hope that we can, from contracts now, keep the mix to be like where it is right now at least. And that's our aim, but, I mean, that's not the promise. I mean, the contracts I talked about, the support contracts and the refurbishment contracts and the surface vessels are quite short-term sometimes. So, we need to fill that order backlog all the time to keep this mix. That's how I see.

---

**Christian Carl Peter Luiga**

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

A

And based on the model, what we have said before, we haven't changed our view just because of this quarter. It's good that Aeronautics and Kockums will have difficulties to pass 10%. Meanwhile, Dynamics and Surveillance should be above 10%. So, that's sort of what we have said and the only guidance we have given. But that said, that doesn't mean for a certain period that you could, of course, do even better.

---

**Mikael Laséen**

*Analyst, Carnegie Investment Bank AB*

Q

Okay. That's clear. That's it from me. Thanks.

---

**Merton Kaplan**

*Head-Investor Relations, Saab AB*

A

Thank you, Mikael. Do we have one more question from the line, and then I'll head in – dive into our online questions? Let's take the question on the line.



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

**Björn Enarson**

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

Q

Yeah. Thank you. I have an online question also, you can ignore that one. It's been answered. But I have another one on the Gripen E order that you reported now during the quarter. It was quite big. And if you can talk a little bit to what kind of features that's relates to and perhaps, more importantly, is that order having anything to do with the production pace or time of delivery to Sweden? Is it more to that order than just new features? Thank you.

**Micael Johansson**

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

A

Well, I don't want to go too much into capabilities on the fighter itself, but there are areas like, on the sensor side, recce, comms some parts related to EW. But it's also – and that's important functionalities.

I think it's important to understand that we have a completely new situation around us now, that means that we cannot, what we thought from the beginning, just convert sort of from the C/D version of the Gripen into the E version in a way that where we are sort of get a dip in capability from the Air Force perspective. So, now we have to do both.

So, the C/D version, as you've seen earlier, will be upgraded in blocks and the E version will continuously be incrementally upgraded also with blocks, and this has to be done in a schedule that makes sense for the end user to receive and manage the capacity and for us to deliver the capacity.

So, it is related to how you handle both systems all the time, including how we deliver the systems, but it's also involving new functionality, and that whole package ended up being SEK 5.8 billion, where we have taken SEK 4 billion in to the books as we speak. And there will be additional then SEK 1.8 billion recognized going forward.

**Björn Enarson**

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

Q

Okay. Thank you. And how prepared are you or what's your capacity if there is a increasingly likely decision in Sweden to send Gripen fighters to Ukraine?

**Micael Johansson**

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

A

We are prepared, definitely. And, of course, we look into potential scenarios of involving that in terms of how we can support actual potential delivery. This is a political decision. I must underline that again. And we can just prepare for sort of different scenarios. And we will support it, to do it as in the best way we can, most efficient way we can, if they take a positive decision. And in that scenario, of course, as sort of a secondary effect, then how do we quickly, in that case, provide more capability to the Swedish Air Force?

So – but it's too early to sort of go into the details around it. We are definitely managing the situation and preparing for it, and we will go all in to support the Swedish state if they take a positive decision. So, it's not something we start working with. If they take a positive decision, we are preparing diligently for that potential decision.

**Björn Enarson**

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

Q

Great. And last question on the Boeing extension. Can you talk a little bit about that? I mean, you've had your issues with the Boeing and the Airbus contracts, and I guess you have been discussing whether to exit it or not. But now you're extending the contract. I guess, this means a different kind of profitability otherwise, you would not be there or- can you touch upon that? Thank you.

**Micael Johansson**

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

A

The answer to that is yes. It's a better contract to us. We haven't recognized any of this yet. I just want to underline that. We will do that according to policy we have, looking at how their 787 Dreamliners are pursued in the market, and then we take a conservative look at that, and then we recognize order intake as we go. But that hasn't started – connected to the new contract. But it is a better contract.

**Christian Carl Peter Luiga**

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

A

But as you all know, we have had a loss in this line of business and we still have. And what we have said is that if we don't get a better balance where we also can make money and, meanwhile, the customer makes money, therefore, I mean, find an agreement on that level, we will not pursue that because it's not possible over time. And now we have found an agreement that actually fits that balance, which is good and positive.

**Björn Enarson**

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

Q

And when will you [indiscernible] (56:03) work on this new contract?

**Micael Johansson**

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

A

That is an extension from after 2025 and forward.

**Björn Enarson**

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

Q

Thank you. That's all.

**Merton Kaplan**

*Head-Investor Relations, Saab AB*

A

Thank you for dialing in, Björn. Do we have more questions online or, sorry, on the line, conf call?

I have a few here, so we could cover the last three, four minutes, Micael and Christian. I think, Sash – we can start with Sash from London. He is wondering regarding the sales growth outlook, the new outlook this year, what's the nature of that mix in our growth? Is it very short term? Is it high share of short-term deliveries that is driving this growth this year? Or is it more recurring businesses that would continue onwards in the mix?

**Christian Carl Peter Luiga**

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

A

I think it's more the latter. I mean, we haven't sort of got a bunch of new orders in quarter three that we're now delivering out in quarter four. We have a better visibility on how we can actually get things out that we already

have in our order book and also how we can use – utilize the capacity we have in an even better way to get more things out of products. And that is what's leading to this increase in visibility, but also in increase in sales growth.

**Merton Kaplan**

*Head-Investor Relations, Saab AB*

A

Perfect. Thank you. We have also a question from Aymeric from Cheuvreux. He is asking about the turnaround of Aeronautics and how we see the timeline there in Aeronautics and the Gripen, particular the Gripen and the US trainer jet deliveries and impact on the margin.

**Micael Johansson**

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

A

A very important part of improving the margins within Aeronautics is connected to getting sort of volume into the facility we have in West Lafayette, Indiana, because we have set everything up. We have employees working there, but the volumes and the flow of aft parts of our T-7A aircrafts are – that volume and that pace is not high enough yet.

And as you know, I think, the US Air Force have said that the Milestone C, which means that, okay, now we start real production with Boeing, and then Boeing will flow that down to us will not be until quarter one 2025. However, we and Boeing have started anyway and we are covered, but the pace is not high enough. But we have to be prepared. So, that is the one most important thing, not to have under absorption that we have right now in the T-7A facility in West Lafayette, I would say.

Then, of course, it would be beneficial to add more contracts on the Gripen side to the existing backlog. That can also improve the margin. But those two are the most important things, I think.

**Merton Kaplan**

*Head-Investor Relations, Saab AB*

A

Final question, I have around one minute, also from Aymeric and he's wondering about [indiscernible] (59:18) view on 2024. We don't have a guidance for that. But how would you view 2024 on the back of the Swedish defense budget that's been public and our ongoing backlog that we have?

**Micael Johansson**

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

A

I think it's important to see what the defense committee now and the defense bill will say in April 26, I think. Because this year, in June, they came out with an [ph] alarmistic (59:51) view of the security situation, which now is now being worked upon in terms of what capabilities do we need to meet that. And our supreme commander is putting in his material to that analysis now in November 6. And then, there will be an analysis and investigation, and they will present in 2024 then, April.

What – how it must look like in terms of which capabilities, which growth do we need, and do we need to change our budgets going forward for the defense, that is the most important thing when it comes to Sweden, I think, to understand. But we have, of course, a growth already now from the extensions they are doing in the budget. But that is the big thing, I think, in 2024.

**Merton Kaplan**

*Head-Investor Relations, Saab AB*

Perfect. Thank you very much and for listening and dialing in.

## Micael Johansson

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

Thank you all for joining us today. Look forward to the next quarter.

### Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2023 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.