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Saab AB (SAABY.SE)

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MANAGEMENT DISCUSSION SECTION

Merton Kaplan

Head-Investor Relations, Saab AB

Good morning, everyone, and welcome to Saab's First Quarter 2024 Earnings Presentation. With me here today in the studio, I have the company's President and CEO, Micael Johansson; and Chief Financial Officer, Christian Luiga.

Before we start to the presentation, I would like to highlight that you can find this material on the Investor Relations section of the website. And we will, as usual, follow on with a Q&A and take your great questions in that session. Be reminded that you can also send your questions live directly through the webcast to me.

I would like to now turn to you, Micael.

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

Thank you, Merton, and good morning, everyone, and thanks for joining this call for the Q1 report 2024. Let's start by looking at a few highlights of this quarter. In summary, this has been a strong quarter with high interest in the market and big demand. And you can see that in the order intake that is almost SEK 18.5 billion. We also have been managing to grow the business, as you will see later on, 24% during the quarter; which is about high activity in our projects, of course, and we are progressing well with the capacity increases that we are doing.

We have employed more than 700 people net up this quarter and our investments in new infrastructure and capacity is progressing well also of course. Lots of things are happening around us. And in EU, for example, we've seen during the last few weeks now has been a new European defense industry strategy tabled and also a

plan to set up a fund called EDF, European Defence Investment Fund (sic) [Defence Fund] (00:01:58), which will incentivize collaboration in Europe between countries and also companies, of course, to do common acquisition, but also to develop things together. That will be really important to increase the capabilities and deterrence in Europe.

And now finally [ph] eventually (00:02:18) Sweden is part of NATO, and that is, of course, initiating a number of activities in terms of how does that affect the company. Many forums that we can take part in now to look at future capabilities that NATO will be needing. We're looking for the capability targets, which is about what is the Nordic countries going to manage in terms of the Baltic Sea, the Arctic perspective, the surveillance perspective in the Nordic region. And that will also going to affect us as a company going forward. And we have also received contracts from the acquisition authority, NSPA, within NATO already, on the support weapon side and the missile side.

We have had a couple of really important deliveries, many of course, but a couple that I would like to highlight is a delivery to Poland when it comes to an Airborne Early Warning aircraft based on a Saab 340 [indiscernible] (00:03:12) aircraft, already there that we contracted up last year in July. And we have already delivered the first aircraft and soon we will deliver the second aircraft. But we have also early in April delivered a fourth GlobalEye to UAE, very important deliveries. And now, we have delivered four aircrafts within four years' time, which is really excellent. And so, many good things are happening within the company as highlights.

So, number-wise then, as I said, we increased our order intake 9% year-on-year, quarter-to-quarter, which shows that we have a great portfolio in the marketplace. The demand is really high and we are growing to medium size to small orders more. And of course that depends on, sort of, what larger orders we are negotiating, but this is a really good trend and a good foundation for the company. So, the order backlog is also growing, of course now, which creates also a good foundation for continuous growth.

Excellent organic growth of 24%, based of course about – on that we are capable of delivering things from our backlog and we increased our pace in the organization, high project activity, good material inflow. And also, an effect of that, we are progressing well when it comes to capacity increases, both when it comes to employees coming into the company, but also what we do to increase efficiency and also new infrastructures, facilities, parallel production lines, and things like that to be able to get sort of more out of the company continuously.

We are continuing to increase our profitability levels more than our revenue growth, which is really important to us. And as you can see on the cash flow side, this is a quarter where we have been investing quite a lot. And then we have fluctuations between the quarters in Saab, as you know, when it comes to milestone payments. So, this is nothing unusual. We're still confident that we will deliver positive cash flow for the full year. But we've said that during this year, next year, we will be a little bit front-loaded when it comes to investments, and we have to do that to be able to grow the company long-term.

Orders, if we zoom in a bit on orders, we have had a number of really important ones. We had an order from Canada on the RBS 70, SEK 1.7 billion roughly. And we also had a support contract for GlobalEye in UAE, similar size. We got four new Gripen fighters for Hungary, which is really great for that organization, and that has already driven sort of the sales growth in Aeronautics.

We have done a fantastic breakthrough when it comes to electronic warfare together with Airbus defense for the Eurofighters in Germany, where we will equip them with really sophisticated electronic warfare capabilities, 15 of these Eurofighters. And there is more potential, of course, in that. So that's why I say it's a breakthrough. And as I

mentioned, a couple of very important contracts when it comes to the NATO's acquisition organization on Carl-Gustaf but also RBS 70 has now come into the company.

And then, we have started the next-gen discussion on what do we do, sort of, how to complement the Gripen E maybe with unmanned capability in the concept started with Sweden, and what comes beyond the Gripen E as well, of course, which is many decades to come. But this concept study, which includes demonstrations and things like that, is really important to us, of course, connected to the Aeronautics business area.

So, a large portion of the contracts are, of course, from international customers, and you can see how that is divided in the numbers here. Order backlog has increased 19%, so SEK 158 billion now in order backlog.

A few highlights then from each business area and Combitech. As I said, the growth when it comes to revenue in Aeronautics has been really good during the quarter, and it's been driven by all programs. Sweden and Brazil, of course, has really high activity in those Gripen E programs, but also the Hungarian program now with the four new Gripen fighters added to this growth in the quarter. And that drives an improved profitability in Aeronautics.

But, still, we have under-absorption in the facility in West Lafayette, Indiana. We have production ongoing, but we don't have full rate production going yet. So that will still be the case for a while. But that will be a good program in the end. But it's good to see that the Gripen programs now is driving an improved profitability in Aeronautics.

We have a few campaigns going, as we talked about a lot, and the main ones that I see right now, apart from the next batch in Brazil, is of course Thailand who needs to replace their F-16 wing. We have Gripens in Thailand and now they're looking at the other sort of – they have a mixed fleet, so they will need to replace the F-16s in Thailand, and that process is ongoing. And also, Philippines are in the process of creating a stronger air force, and that is an important campaign to us. And in Latin America, we are working in Colombia, as you know. So, those are few of the campaigns we are putting effort into.

Dynamics is not a business area that grows a lot this quarter and that is mainly related to fluctuations in deliveries, specifically from ground combat. That will change in quarter two and three, definitely with more output. The training and simulation business is very strong in Dynamics this quarter and continuing to be strong, because of all the troops that needs to be trained now. Defense exercises and defense boosting in many countries requires training and we run complete training centers in many countries, and that's why this is growing.

We have, as you've seen maybe, started now to build a manufacturing capability in India, and that is ongoing as we speak. And we will have output from that next year. And now, we are quite, sort of, soon going to select the state in US where we will also build a new facility for ground support weapon and ground-launched small diameter bomb to manufacture that in the US, but we haven't selected the state yet. We have, as you know, signed a big contract in Poland that we expect to come into effect now in Q2 when the financing part of that contract has been settled. And I look forward to kick that off as well, of course.

In Surveillance, also good order intake and good growth. It's huge interest in all the sensor capabilities and electronic warfare, as I mentioned, in Germany for the Eurofighter, but also on the ground-based radar side. The factory is sort of stepping up and producing more radars, which is really important for this growth.

And I would say that the improvements when it comes to profitability is driven by scale effects and very important delivery, as I mentioned, on the Airborne Early Warning to Poland and UAE. So, Surveillance is also performing well in this quarter and also big demand in the market, of course.

On the naval side, and when it comes to Saab Kockums, we also have great growth. And this is a mix thing that this important to us between surface vessels, support contracts, upgrade contracts, and how much is international and how much is Swedish. And the mix right now is giving us a good growth and also a good increase in profitability. And it's interesting now to see that we have now started the next-gen corvette type of ships for Sweden called the Luleå class. And that is the design phase we're talking about, and that will of course continue to give us growth in the naval business years to come now.

And then, as you know, we moved the underwater capabilities from Dynamics to Saab Kockums because there is synergy effects between what we do unmanned autonomous, between what we do in Saab Kockums and also what we have in this underwater business that used to be part of Dynamics. And they sort of create sort of synergy effects on R&D, but also in the portfolio management and in the marketplace what we offer; for example, to manage surveillance of infrastructure at the bottom of the sea, but also unmanned capabilities underwater, but also on the surface of the water. So, that is a good move and the initiatives have started.

Finally, Combitech, big demand in the defense and security area, both when it comes to the total defense perspective, but also the military defense and helping authorities. So, we have extended the framework agreement with the Swedish FMV to support some equipments that we have been supporting them with for a long time, and now we extended that for two years.

And then, we also have other contracts with the Swedish Civil Aviation Administration on the total defense perspective. And an important one with also Kongsberg for integrated logistic support. So, Combitech is doing well in growing business with authorities and also industries going forward, and we see a good margin level; and we also see a good growth in the Combitech business. And all that is, of course, related to how many employees can we get into that organization and what efficiency can you get from the contracting with different customers. And this business is doing really well now.

A little bit of a deep dive into an interesting initiative that we did actually this week, but I want to highlight the innovation activities that we are doing within Saab. We have in different sites in Sweden, but also this one is in the US, where we acquired CrowdAI, a smallish company with expertise in artificial intelligence. And now, around that, we are building an innovation hub, I would call it, called Skapa. And that will be about naval autonomy. So we have moved one of our combat boat 90s and made that autonomous with software and with different sensors. And now, we are creating use cases and working with customers to create their capability around that.

And so, they will focus on the maritime domain, but much will be about AI and cloud technology; and how that can be also spread to other areas within Saab. We opened a new facility in San Diego just this week. There has been significant interest from research institutions and customers and potential partners to work with us on this. And this is why I mentioned it, because this is a good example of where you actually build demonstrators, build – that you actually use what you have in-house, but you add new technology to them to create new capabilities for the future. So, this is really something I look forward to grow in our company, embracing new technology. So, it's been a great launch this week.

When it comes to sustainability, a big focus area for us. We updated our strategy last year and for 11 areas now. We have short-, medium-, and long-term targets and we have all the initiatives going now to meet our objectives in these areas. It's not only about environment, it's about anticorruption, it's about diversity, it's about technology development, and so many more things. So, I just want to underline how this is important to us, and we want to be an industry leader in our business segment in this area. So, we're putting a lot of effort into it.

And then, we have been rated on the A list when it comes to the Carbon Disclosure Program (sic) [Project] (00:16:49) which is a good step forward. And that just proves that we have a good leadership and transparency and we're doing well in this area.

Then, we have fluctuations. We have decreased our emissions since we started this, and with the base year 2020, with 23%. And we've said we're going to be 42% down 2030, but some years and some quarters depending on how cold it's been and how much we have been flying with our test aircrafts both on the GlobalEye side but also on the Gripen side, it might fluctuate. But all in all, we are having a trend that going in the right direction. But some quarters will be up, and other quarters will be down. That's how it will be going forward. But we're still confident that we will reach the 42% target 2030.

And then, we are upgrading our growth outlook for this year, a few percentages, to 15% to 20%, and that is because we have better visibility now in how we can execute our backlog and we see good signs. Our capacity is increasing in the organization, both when it comes to infrastructure, as I said, and how we manufacture things; but also when it comes to how many employees we can actually get into our operations, and that's been also done really well in this quarter. So, we will grow more, somewhere between 15% and 20% this year, which is really pleasingly to see that we're increasing the pace in the organization.

And finally, you recognize priorities. And of course, they don't change every quarter our priorities. And I just want to, sort of, give a view of that how important EU and NATO initiatives will be that we allocate and spend effort into getting into these programs – into these collaboration programs, and that we spend effort also catching now NATO opportunities going forward.

I think Europe is getting its act together, spending more money together also including member states, of course, separately. So, there is more money being spent over the next 10 years in Europe. The last forecast I saw from January 2023 to January 2024, the projection for the next 10 years increased with \$500 billion. So, there will be lots of growth going forward in this region.

Then, of course, we have to deliver and I'm pleased to see that this quarter has shown that, that we are delivering on our commitments with our customers. That will give us – that's the best way of selling things that you show that you meet your commitments. And that is about increasing capacity, of course; but then, you will also get new contracts. And there is a strong demand out there and we need to catch that of course.

Continue to focus on capacity and production ramp-up, which just now being progressing really well. But it will be as important going forward, including onboarding all our new employees, which I'm happy to see that they will be joining Saab and we are an attractive company today. But we also have excellent employees already in the company that we also need to make sure that they remain in the company and that they have energy to help us grow this company. And they need also upskilling, of course, to some extent.

R&D is not only about capacity, this is about future technologies. And that's why I mentioned this initiative, Skapa, in the US. We have many more things like that, embracing new technologies, connecting to cloud technology, AI, autonomous systems working together with manned systems. So lots of things are happening in that area as well.

And I need to underline that it's not only us growing; we have to make sure that we have an ecosystem of companies joining us in this growth. So, there are sort of weak links which we have to manage. We have to create redundancy. We have to make sure that they can afford to invest, to come with us growing. So, the focus on supply chain and how we manage that and mitigating any risk in that, which we've done really well so far, needs to continue. So, these are our priorities, to name a few, going forward.

With that, I will hand over with an excellent picture in the background to our CFO, Christian Luiga.

Christian Carl Peter Luiga

Deputy Chief Executive Officer & Chief Financial Officer, Saab AB

Thank you, Micael, and – I have my own one today. And it's great to be here today. I love to have this fantastic picture behind here that, as Micael said, illustrates our platform or actually excellence that we have done in the past with our future technology and also the international expansion going into San Diego.

We have a very strong momentum right now. Saab teams around the world are working very hard to deliver and bring up capacity, and we do that well. We continue to report to margin improvement. And we have a very strong financial position. So, that's my summary, in essence.

If we then step into the order and momentum that we have, we see in this quarter, it is orders to the international market that brings up the percentage, which is something we love and like. We are a company that will have an international expansion that is important, not least in Europe, which we also see the result of right now.

The increase of order backlog of 19% is good, and the 24% for the rest of the year is also comforting and give us actually less order to sales that is needed to deliver within our forecast. But what is also very – I'm very happy to see is that we have SEK 50 billion already in the box for next year for that year's sales, which gives a comforting start now for going into 2025, as this is a business, as you also shared, that we need to look at over years and it's a long-term business.

On the financial summary, the reported and the organic sales growth was very close to each other, and it was 50/50 pretty much between how much was currency and how much was M&A related. The gross margin was quite flat, even though sales increased with 24%. And the main reason for that is that Dynamics grew slower than Aeronautics, Surveillance, and Kockums; and Dynamics has the highest margin. So when Dynamics comes back with higher growth during the rest of this year, that will also have a positive impact on the gross margin. As now, we see only a gross income increase, similar then to the sales increase.

On the EBIT side, we do have some effects on OpEx, and I'll come back to them. Financial net, negative SEK 182 million, and here we have around SEK 170 million coming from currency effects on our tender portfolio. So, our financial net, of course, which is positive, shouldn't drive a negative financial net from interest, which it doesn't; it has a slight positive. But the negative SEK 170 million comes from then the tender portfolio.

Very simply put, because I want to explain this, so how does this come out? This is when we have a very close to finalized deal and we do a hedging. And until that is actually closed, we cannot take that into the program as a full hedge; and, therefore, we need to take the fluctuations in the market every day into our income statement. In case, just very pragmatic put this out, if we would close this deal on the 1st of April, that loss will actually result in a profit in the project and vice versa. So this is not something to be scared about, this fluctuation, as long as we sign the tender portfolio, which we only do this on likely very and close to sign the deals.

Then, on the tax rate, we have guided around 21% to 23%, and we see now that during the last year we have been within that frame. And so, there's nothing really to report there. And because of this SEK 182 million negative and financial net, the EPS only grows 5% in this quarter.

Going into the development of sales and EBIT and EBITDA, sales is continuing up based on then the growth we have right now, mainly driven then by Aeronautics and Kockums and Surveillance. The growth in the regions are

driven by Europe mainly. If we look at our strategic countries, Germany is growing very strong right now. And portfolio in total of Australia, Germany, UK, and US is growing only just below 20%, but it will fluctuate also quarter-by-quarter there in this group.

The EBITDA margin is a little bit lower the last quarter compared to previous, and that is because that depreciation is growing slower than OpEx right now, the rest of the OpEx portfolio. And in the OpEx portfolio, what is increasing in this quarter? Well, there's three things that drives that in this quarter, one is HR. And I would like to just emphasize that HR increases comes from the recruitment, not from having people onboard. So, as long as we recruit a lot of people, we will need to put effort on both recruiting and onboarding. As long as they are onboard, it's not a higher cost to drive HR in itself.

IT, we are doing the transformation like many others, and that is costing money. But it is also fluctuating quarter-by-quarter. And then, we have consolidated in some minorities that we have acquired. Therefore, they have moved in the income statement up to EBIT, and therefore it looks like we have a higher OpEx, but the income statement in itself is not that much worse; it's actually better, but it goes from the line minority up to OpEx. So, it explains a bit on how the OpEx changes. In essence, I would say, this is not a trend for the medium-term, rather an impact now in quarter one; and, for the year, I don't feel that we have that risk on the scale effects on OpEx.

A little bit – this is a new picture we have added to make sure we actually have also [ph] today (00:28:08) that we have in our quarter report available in our presentation. I want to just point out a couple of things on this one. First is Dynamics, which maybe is a surprise for some people, but not for us. There was a lot of trucks going out from Dynamics in quarter two in April. We are in April right now. And therefore, we know that from quarter two and forward we will have a higher delivery out of Dynamics.

And Dynamics is reporting their revenue recognition more on deliveries than on POC, and the other units are reporting more on POC. So, that's why it becomes a little bit more fluctuating; and, therefore, we'll see very high numbers, and maybe one quarter it will be a little bit lower and this one is a little bit lower. So we feel extremely comfortable that sales growth will come back already in quarter two. And with that, of course, the margin will also come up in Dynamics and that will also – the share of sales and the increased margin will also support the group.

The other thing I want to point out is Kockums, where we reported last year a bit higher numbers, and we talked about the 8% to 10% target which we have on Kockums that they should be on operating margin in that level over time. But they could be higher if they have a good impact. And, right now, they have still a good impact from the surface ship side and international side. But we have added a underwater business that, as you understand then, is negative in the numbers because you have seen how we have restated this.

That underwater business is negative in the quarter, but we have a very clear plan and we see that it's actually going to happen that we move out of the negative territory in the end of this year and into next year. So, it's a very clear path there. I just want to also then emphasize that, that means that we will move back into the 8% to 10% operating margin region, which we have said that Kockums could perform in, where surface ships and international drives higher margin and submarines is a bit lower.

In total, also I want to add to Kockums, to give them a little bit of credit on this combat boat 90. It's been a tough business for Kockums for a couple of years, but now with new orders, they have actually the excellent team up there in Docksta, has moved into positive territory and we have a good backlog. So, it will be hard work and fun only up there for the coming years.

On the cash flow and investments, this quarter should be seen as something that can happen in the line of business we are in, in defense. The working capital is quite negative in this quarter and it could be quite positive. There is a couple of things that drives that. The first thing is that, if you ship out less from Dynamics, the trucks don't come because they go out in April instead; then, the invoicing, [indiscernible] (00:31:26) maximum up-speed of growth will be in April and then it will come a month later. So, actually, delivery pace in Dynamics is driving a higher impact on the inventory.

Then, we also have the customer payments that could shift between quarters. Last year in quarter one, we had from our customer programs, payments in quarter one; and, in this year, we will have them in other quarters. So, that's not something that is strange. That happens in this line of business; and, therefore, we feel quite comfortable with this negative SEK 2 billion without actually compromising on our view of the full year guidance of positive cash flow.

And then, in general, what happens here, which is actually a positive thing and this is what we have said, can we build capacity faster? This will help us to actually drive growth. So, therefore, we actually think it's quite good that the investments are moving from SEK 0.5 billion to SEK 1.0 billion. And that I also can say with better comfort today, because as we explained last year, we have much more granular follow-up and we have much more control of our investment process in Saab; and, therefore, we also keep track that we are really doing what we need to do to bring capacity and nothing else.

Finally, we have also added the return on capital, which is increasing, which I think is also something that is positive, hopefully, for the shareholders, at least that is for me. This is one of the more important thing over time that we return on capital for our shareholders.

Solid balance sheet as we talked about. The net debt to EBITDA is strong, it's negative. And so, it's a net positive. And we continue to have a strong balance sheet when it comes to cash and short-term investments. We did pay out the first half of the SEK 6.4 dividend that we announced at the Shareholders' Meeting in April, and the second half will be paid out in October.

In between, we will make a share split of one-to-four. So, on the four shares, you will get 80 öre or SEK 0.80 compared to the then SEK 3.20 on one share before. So it's just math to get there. So, all money will be paid out, but there will be a split in between. So, I just want to highlight that for your information.

Finally, we have then new outlook when it comes to our sales growth. We have then increased that from 12% to 16% to 15% to 20%. Technically, you could also say then that we have moved the floor from 12% to 15%. We have a bit of a challenge, but that we also have had all the time, to figure out how fast can we grow. And so, the range now of 15% to 20% is within the range we believe we have a great potential for.

And the reason why it could be in the lower or upper end of this, as we've always said, is really the capacity and delivery pace that we can make out of this company, which so far, knock on wood, has been very good. We do not change our view on operating income, therefore that the higher than organic sales growth on operating income stands. That means, it's going to be above whatever 15% to 20% mark we reach. And we will deliver positive operational cash flow is our best estimate.

With that, I lead back to you, Morten.

Merton Kaplan

Head-Investor Relations, Saab AB

Thank you very much, Christian, and now we have the time to tune into our Q&A session. So, if you haven't done that yet, you can do that on the links that we provided to you in the reports and press release this morning. So, if we have a moderator, I'm going to invite that person. We do have a couple of guests online already, but I would like to also, as usual, remind you that please take your questions, one or two questions at a time, so we can allow for everyone to come forward with questions. So with that, let's start.

QUESTION AND ANSWER SECTION

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

Samuel Burgess

Analyst, Citigroup Global Markets Ltd.

Q

Morning, guys. Thank you for taking my question. Thank you for the color you've given on Dynamic (sic) [Dynamics] (00:36:44) margin. Just so we have a sense for the full year, should we expect margin to be fairly stable versus the pro forma 2023 margin; obviously adjusted for the loss of the underwater business? And just a second one on Dynamic (sic) [Dynamics] (00:37:01) margin, when we think about training and simulation growing within that business, going forward, should we see that as accretive or dilutive to mix? Thank you.

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

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Well, I mean, you can comment, Christian, but I mean, on the Dynamics side, on the top line side, we said, as I tried to say, alluding to that there will be, as you said even trucks leaving in one of the facilities. And that's true. I mean, the next quarters will be much more of delivery output. So, that will drive volume and there will be good margins there. Exactly what number, I won't sort of guide you on, but it will be good numbers on the bottom line as well.

And when it comes to training and simulation, they actually add very well to net margin on Dynamics because that's profitable business. So, if that grows, Dynamics grows as well. So, that's another portion of Dynamics. You look at ground combat, that is a good growth machine and good profitability machine, but training is similar. So, that is good if training is growing. That's how much I can say.

Christian Carl Peter Luiga

Deputy Chief Executive Officer & Chief Financial Officer, Saab AB

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We did say – so, I can reiterate that is that and that it was before and it's the same conclusion of underwater has been moved, that if there is any potential to the margin in Dynamics, it's upwards as we grow.

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

Yeah. Yeah.

Christian Carl Peter Luiga

Deputy Chief Executive Officer & Chief Financial Officer, Saab AB

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We said that at the quarter four report, so we can restate that very clearly today. Nothing has changed. The potential when they grow now into quarter two to quarter four is that the full year numbers actually rather can go up a bit.

Samuel Burgess

Analyst, Citigroup Global Markets Ltd.



Great. Thank you.

Operator: The next question is from Henric Hintze, ABG Sundal Collier. Please go ahead.

Henric Hintze

Analyst, ABG Sundal Collier AB



Good morning. So, you mentioned as a reason for raising your full year guidance, there are better visibility on deliveries and timing of capacity increases. But just wondering if you could expand a bit on what has changed there and what makes you more confident now?

Micael Johansson

President, Chief Executive Officer & Director, Saab AB



Well, I will say that [indiscernible] (00:39:18) saying that if you add people, you can actually increase pace in your programs, which is absolutely necessary in some programs. And since some of them are POC programs that, will give you more growth and output. But then, of course, its capacity parts which is related to how we work shifts and add more automation into the production of the volume parts of Saab like ground combat and things like that. And that increases, of course, output; all the initiatives we're taking on that side, adding equipment into production.

All the facilities that we also are investing in, both in Linköping and Karlskoga, are of course not up and running all of them yet, but this is not sort of a one-step wise thing. They will be more coming, of course, when we get those facilities in play as well. But other things are happening in our production. Those are examples of things that creates growth, but also included is, of course, how well we can forecast a material flow and how much we have in stock to be sure that we can build and integrate our systems.

And we have better visibility and have been managing the supply chain in a way that we can now forecast growth in a more optimistic view than we could a quarter ago, actually. So, those are a few examples.

Christian Carl Peter Luiga

Deputy Chief Executive Officer & Chief Financial Officer, Saab AB



I just want to reiterate because it is more complex than just thinking that when the building is done, everything is going to go. So, it is people, it is capacity uplift, it is supply chain, it's dependency on partners. And just take an example, if you start a year and they say, well, will the production be up running in August or will it be in October? Well, that depends on the machine that comes in April. And they could take three weeks to test that machine, or they could take eight weeks to test that machine, depending on how well it works out in that testing before we can get going on putting carbon fiber, or whatever, in that line.

And then, it may work out to be three weeks instead of eight weeks. And that are a simple, small thing that is everyday life for our people out there in this capacity uplift. You have to remember it's an enormous capacity uplift we're doing right now.

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

All these things come together and making better visibility...

A

Christian Carl Peter Luiga

Deputy Chief Executive Officer & Chief Financial Officer, Saab AB

Yeah. Yeah.

A

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

...in the end and better sort of planning how to get things out to the house. So, yeah, that's a number of things.

A

Henric Hintze

Analyst, ABG Sundal Collier AB

Great. Thank you.

Q

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

Björn Enarson

Analyst, Danske Bank A/S (Sweden)

Thank you. I have a question on Aeronautics. We have previously talked a lot about the civil business and the new contracts and also the T-7 development. As I've understood it, they are both weighing on the margins or actually at loss as we speak. Could you update us again on how you expect those segments to develop and when to start contributing to profitability? And when up and running, are they positive versus divisional margins or dilutive? Thank you.

Q

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

Well, I will say that we have [ph] productionizing (00:42:55) ongoing. If we start with T-7 West Lafayette, we call that low rate initial production. That will probably be the case also through the end of next year, I will say. So, I would sort of look at 2026 from getting into profitable numbers, and that would add to the division margin. And I will say the same, we are improving continuously within the aerostructures business, so it's less loss, but we still have a year to go roughly before we are out of the contracts that we have now renegotiated to be something more profitable that will come into play – correct me, if I'm wrong...

A

Christian Carl Peter Luiga

Deputy Chief Executive Officer & Chief Financial Officer, Saab AB

Quarter four next year.

A

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

...quarter four next year, exactly. So, that's how it looks like.

A

Christian Carl Peter Luiga

Deputy Chief Executive Officer & Chief Financial Officer, Saab AB

A

So, one is not dependent on something else. We already have the contracts and the loss is less in the civil business than in T-7. And T-7 is more to move in this production, which is still a bit uncertain. But it looks very, I mean, promising in early 2026.

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

It will gradually improve under-absorption during next year. But I think forecasting it, it's probably positive from the end of next year.

Christian Carl Peter Luiga

Deputy Chief Executive Officer & Chief Financial Officer, Saab AB

A

Correct.

Björn Enarson

Analyst, Danske Bank A/S (Sweden)

Q

Perfect. Very clear. And then, I mean, you have talked a lot about capacity investments both in people and plants. With the plants that you have and given the market demand is where it is, is it – to get a sense for how long you can basically grow at around these levels as you are growing this year in the years to come?

Christian Carl Peter Luiga

Deputy Chief Executive Officer & Chief Financial Officer, Saab AB

A

Forever.

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

Yeah. I mean, the outlook that we have given, I mean, is 15%...

Björn Enarson

Analyst, Danske Bank A/S (Sweden)

Q

[indiscernible] (00:44:46).

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

...average until, I mean, the timeframe up until 2027, and that's still our view. We reiterate that and what we do in capacity-wise support staff of course. Then, we will see. I mean, the demand is high in the marketplace. And of course, it's about lead times also. You continue to get sort of the orders, the contracts, and then you need to sort of squeeze the lead times. And the capacity is a lot about that, and that's about the growth as well, of course.

But it supports the 15% average and we're fighting to do as quickly as possible to, of course, to do that in a good way. And as you know, we are now soon selecting a state in the US also to build a facility to do these things, to have redundancy between Sweden, India, and US, and that would be excellent going forward. And that hopefully will drive also the demand in those markets because it's sovereign capability that US and India will get. That's as much as I can say.

Christian Carl Peter Luiga

Deputy Chief Executive Officer & Chief Financial Officer, Saab AB

A

The interesting strategic sort of conflict here – is not a conflict, but we – I mean, in nature, it's harder to see going out three to five years how the market will be for us. We need to do what we can on the technology shift and be as good as we are today in a position on the market.

In the same time, we are actually learning every year goes on how to grow, which is also something to bring in for Saab. We will be better in growing in two years' time than we are today. And we are better than we were two years ago. So, that's also something to put into account.

Björn Enarson

Analyst, Danske Bank A/S (Sweden)

Q

Thank you. And on the same topic, if I may, one more question. It is this discussion in Europe and not least in Sweden on supporting the industry in terms of capacity buildouts. Has there been a discussion of guarantees, or certain demand, or perhaps also instead of that, some financial help for building out capacity? Are there anything that you could add to that? I mean, the political will is clearly there, but what is – is something happening that is more tangible?

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

Still discussions, but you're right. I mean, if you want to take big steps – we're taking big steps, we're investing heavily looking at sort of the business case to forecast. But if you really want to realize that and set the sort of the target level on where you have to be when it comes to deterrence and stockpiles and what areas where you have to have production capacity in and critical mass and all that, those things are not really settled in many countries. We have a report coming out today from the defense committee. That will turn into a proposition in the fall, which will sort of decide the level of where we need to go in the next few years.

And that probably will be a reiteration because of the NATO now integration and what capability targets we will get from NATO. But I must say that if we want to go further to really do big investments, we need to know as companies and industries that we will not have to sort of go below a critical mass again, dismantling things, let too many people go and all that. So, we have some security in the 10-, 15-year time period, so to say. And then, we can take the bigger investments, and hopefully, we will get sort of European Investment Bank to say they can invest in defense as well, which will bring with them lots of big funds like pension funds.

These things needs to happen, I think. But of course, we're growing a lot today. But you have to set where is the target? We have to realize that we have this aggressive neighbor to the east for decades to come, and it's going be interesting to see this thing. Then, you need long-term commitment. That's a risk-sharing model. I can take risk on the global market, so to say, but I need to know that we need, sort of, to keep certain areas of capacity and stockpiles so we can sustain a higher level of capacity.

Then, you need long-term commitments beyond mandate periods which politicians are looking at.

Björn Enarson

Analyst, Danske Bank A/S (Sweden)

Q

Thank you. And let's get back to the defense committee. I think they have their press conference as we speak.

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

Yeah.

Björn Enarson

Analyst, Danske Bank A/S (Sweden)



Thank you.

Operator: The next question is from Sash Tusa, Agency Partners. Please go ahead.

Sash Tusa

Analyst, Agency Partners LLP



Thank you. Good morning. I've got two slightly detailed questions. The first is on the FX impact on your tender portfolio, and I just wondered whether you could give some color on the sort of period that you are exposed. Are we talking about weeks or months in terms of individual tenders here?

And then, my second question is on stocks. You were very early in the current upturn to start building your stocks up, I think particularly for Dynamics. I just wondered whether you still had the same level of stocks proportionately for your business; or have you actually eaten into your stockpiles, and would it be harder, sort of, to rebuild thereafter?

Christian Carl Peter Luiga

Deputy Chief Executive Officer & Chief Financial Officer, Saab AB



Well, if we take the detailed question on FX, it depends not so much on if it's a week or a month, it depends on how certain we are that this will probably close. So, we could be very certain that this will close, but it needs an approval from some kind of authority that we know will happen most, most, most likely, and therefore, we can take a risk on that. But it's still not signed. So, if that is two months away or one week away, that depends sort of on the highly probability rather.

Secondly, on the stockpile, we have high stock level today, period. And on an average, we do have high stock levels. So, we are quite fully filled in our barns, as I usually say. Then, of course, on specific things that we have issues with, as we have said, we have issues every day on different things, but on average we have a very full stockpile today.

Sash Tusa

Analyst, Agency Partners LLP



Okay. Thank you very much.

Operator: Next question is from Aymeric Poulain, Kepler Cheuvreux. Please go ahead.

Aymeric Poulain

Analyst, Kepler Cheuvreux SA (Switzerland)



Yes. Good morning. Thank you for taking my question. I've got three, if I may. The first is on Aeronautics. And perhaps could you give a bit more detail on the contribution of the Gripen and the recent R&D contract with Sweden and how sustainable the current momentum is for this division [indiscernible] (00:51:50). You gave already some color on the T-7 and the civil activities, but just to get a sense of the new momentum we're starting to see at this division.

The second question is on the Swedish performance. You reported 5% growth. I think inflation in Sweden is around 4%. So, that would mean 1% real growth. Just curious about what it means, especially given the kind of

budget that the country has. Should we expect a massive catch-up later in the year? What would be the normalized rate of growth for Sweden? That is my question.

And last, on the margin performance, the 40 bps, which I think was expected. There's a lot of moving parts, obviously, but would you be able to give an idea of the impact of the various effect, whether it's OpEx, leverage, mix, inflation on the cost side, or the self-inflicted investment cost effect? Thank you.

Christian Carl Peter Luiga

Deputy Chief Executive Officer & Chief Financial Officer, Saab AB

A

I'll try to take the two last questions, and I leave Micael to Aeronautics and sustainability. But I'm not sure I will answer your questions properly, but I'll try. So, on the 5% growth in a quarter, it really doesn't mean anything for us that Sweden only grew 5% in quarter one. You have to look more in a 12-month, maybe 18-month rolling, perspective when you look at Saab sales numbers. And, therefore, in the same way I said that there are strategic countries was actually slightly below 20% this quarter. That's not something to worry about. They were 54% last quarter. So, you need to add this together. And I think that strategic country growth illustrates also how Swedish growth could be one quarter more and one quarter less, depending on what is delivered and what we are doing in the production plant at this moment on POC.

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

If I can add a comment on that because, I mean, if you look at sort of the strategic update that we did in the beginning of the year, we looked upon the different markets, important ones to us, and we have a big portion of the Swedish market that we are following their growth, you would say, proportionately. And we are – so, it's more important to look at that, that we actually get the same market share of the Swedish market going forward, which is what we've seen.

And then, the other countries where we have invested building in mini-Saabs, as I call it, we gain market shares, quite a lot from beyond their growth. So, that's the important trend to look at and that will transfer of course into sales growth going forward.

Christian Carl Peter Luiga

Deputy Chief Executive Officer & Chief Financial Officer, Saab AB

A

Yeah.

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

Just to remind you.

Christian Carl Peter Luiga

Deputy Chief Executive Officer & Chief Financial Officer, Saab AB

A

Yeah. And I'll make a very simple example as usual. If the guys down in Karlskoga is working on the SIGINT ship for Poland this quarter, and next quarter they actually step over and work on the Swedish ships to do supporting them, there will be a lot of Swedish sales next quarter and a lot of Polish sales this quarter. So, it's very hard to just judge from a quarter on that percentage. And we try to be most efficient in just how we produce things.

On the impacts on the currencies and on the inflation, I try to read in that, of course, we will probably then – our sales growth will be impacted by the effect of the inflation as we have a lot of inflation coverage in our contracts.

So, if inflation goes up, we will move that to the customer. And therefore, if inflation is 2%, we will have 2% added on; and if it's 5%, it will be 5% added on, because we have around 80% of our contracts sort of hedged in that sense in our customer contracts. So, if that was what you meant, I didn't really understand, but that's the answer to maybe your question.

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

And on the Aeronautics side, finally – or do you want to sort of follow up on that?

Aymeric Poulain

Analyst, Kepler Cheuvreux SA (Switzerland)

Q

No, just, what would be the level of inflation pass-through effect on the top line at the moment?

Christian Carl Peter Luiga

Deputy Chief Executive Officer & Chief Financial Officer, Saab AB

A

No. I'd say we have pretty much around 80% coverage on our contracts. But it doesn't say if we are a little bit better hedged or less hedged sometimes, because these indexes are very different. There's not one package that Saab uses. It's actually different package that customer demands and we negotiate. And we have probably over 150 variance of how the inflation coverage is made between our customers.

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

Quickly on Aeronautics side, I mean, the Gripen programs for Sweden and Brazil will continue, of course, to create momentum in Aeronautics. And also, a sustainable important part of our business will be this new concept thing that it's not just sort of paperwork, it's of course simulations, it will be demonstrators be flying and all that. So, that will be a sustainable business for years to come. So, that's an important addition to Aeronautics to sort of create this good trend.

The Hungary case, yes, it was sort of a little bit of a peak in quarter one because we had something to recognize as revenue already. And then, of course, it will be more a normal development of that program going forward.

Aymeric Poulain

Analyst, Kepler Cheuvreux SA (Switzerland)

Q

Good.

Merton Kaplan

Head-Investor Relations, Saab AB

A

Are you happy with that, Aymeric?

Aymeric Poulain

Analyst, Kepler Cheuvreux SA (Switzerland)

Q

Yeah. Thank you. Thank you.

Merton Kaplan

Head-Investor Relations, Saab AB

A

I think we have literally less than two minutes left. And we do have one more question, perhaps two, on the line. So, please let's invite them as well.

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

We will answer quick.

Operator: Next question from – sorry.

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

Go ahead.

Operator: Next question from Tom Guinchard, Pareto Securities. Please go ahead.

Tom Guinchard

Analyst, Pareto Securities AB

Q

Thank you. Two quick ones for me. Can you just provide a split on the working capital changes here per business area; and then comment a bit on the supply chain risks that you see moving forward and how you're mitigating them?

Christian Carl Peter Luiga

Deputy Chief Executive Officer & Chief Financial Officer, Saab AB

A

Okay. So, first of all, which we also wrote in report. In Aeronautics, it's more on the payment side from customer, where does the Swedish and Brazilian customer pay in which quarter this year. On the inventory side, it is more Surveillance, but primarily Dynamics because we had lower sales out. Therefore, the stuff is still in inventory before trucks comes and picks it up and makes the delivery.

And the other one was on supply chain [indiscernible] (00:58:39).

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

Supply chain, it's a mix of things. I mean, you have the largest suppliers of important subsystems that needs to perform, of course, and that is being managed more on a strategic level. And then, of course, you build stocks on things like powder, which we've been successful of doing, and that still looks good. You have some other raw materials, of course, that are important to us. Components looks a bit better now in terms of supply. So, that's one reason we can grow the training and simulation business in a good way.

But I mean, this is something we have to manage all the times, and we do have initiatives to make sure that where we can create redundancy, we will. Where we can maybe in-source something, we might. Things like that are happening all the time. But when you're growing like we're doing now, 24%, which is fantastic, you have to be sure that you bring with your supply chain.

And looking at where we're going this year, 15% to 20%, that's so incredibly important because we have to have them with us. And so far so good. But I'm just saying, we put a lot of effort to making sure that they are also performing as we are. That's all I can say. But it's not sort of one specific weak link that I can point out right now.

Tom Guinchard

Analyst, Pareto Securities AB

All right. Thank you.



Merton Kaplan

Head-Investor Relations, Saab AB

All right. With that, Micael [indiscernible] (00:59:58) thank you very much, and thanks for listening in to this quarter. Would you like to say anything, Micael?

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

Thanks for listening in and thanks for good questions, and we have a very strong quarter behind us. Have a nice weekend.

Christian Carl Peter Luiga

Deputy Chief Executive Officer & Chief Financial Officer, Saab AB

And looking good for the year.

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

Thank you so much.

Christian Carl Peter Luiga

Deputy Chief Executive Officer & Chief Financial Officer, Saab AB

Yeah. Thank you.

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