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Saab AB (SAABY.SE)

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MANAGEMENT DISCUSSION SECTION

Merton Kaplan

Head-Investor Relations, Saab AB

Good morning, everybody, and welcome to the presentation of the Third Quarter 2024 Results. I'm Merton Kaplan, Head of Investor Relations. And with me here today, I have our CEO, Micael Johansson; and CFO, Anna Wijkander. Micael and Anna will guide us through the details of the report and we will follow that with a Q&A session.

With that, I hand over the mic to you, Micael.

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

Thank you so much, Merton, and thank you for joining us this morning and we will now go through the third quarter result 2024. And let me start with some highlights. I think the demand is still high in the market, so it's a strong quarter when it comes to order intake. And I think, the demand is long term because if you think about the wake-up call that we had in Europe, many countries had to sort of start building capabilities, replenish stockpiles, continue to support Ukraine, and also, when hopefully the war ends in Ukraine in the preferred manner, we would need to help them to build sovereign capability in Ukraine as well. So this is a sign of a strong sort of demand in the market, of course.

And we have also been able to deliver excellent in our projects right now, on our customer commitments, while we are continuing to build capacity and capability in the company, both through new production lines, new facilities, employing many new employees. And then of course, looking at the products that needs to be sort of now manufacturing high volumes, how to industrialize for more efficient production. So that is what we're working with all the time. And this is a strong quarter in that respect. And also, as we talked about in the second quarter, we had large customer payments in the second half of the year, and this quarter now shows that these payments have sort of come into the company, and we have a strong cash flow in the quarter as well. So those are a few highlights.

So, looking at the numbers, we have an order intake of SEK 21 billion, which is 40-plus percent increase year-over-year, which is excellent. It's probably 71% up on the nine months compared to last year. We still continue to grow 17% organic growth, steady good growth, and 21% in the nine months. And while we're growing, we now see scale effects of that. So we increased our EBIT growth more, which is also our ambition all the time, then the sales growth. And that is a good sign over that, we are growing in a controlled way because growth in this sort of pace is not without pain points. So we are managing that, I think, in a good way. And also the cash flows, as I talked about, is strong in the quarter, SEK 3.2 billion due to large customer payments.

If we look at the order intake as such over the nine months and also during the quarter, quite a big portion of that is international orders, 80% roughly. And that is, of course, a good sign of how attractive our portfolio is in the marketplace. And we have record high order backlog now, SEK 190 billion, and that spreads out in a nice way over the next few years, which Anna is going to talk about a bit later. And we have received orders mainly in the Surveillance and the Dynamics business area. So advanced weapon systems and sensors, and passive and active sensors are really attractive in the marketplace. Examples are a big contract from a Western country, which I can't talk about really, and then more than that.

And then, we have the mobile short-range air defense system where we got the contract from Lithuania in the quarter, and then another contract early in this quarter in October, adding to that roughly the same size, SEK 1.3 billion. And the Swedish customer have placed contracts on us for ground-based air defense systems, including Giraffe 1X radars. So that is the volume type of product now in the surveillance area. And we have several contracts when it comes to combat management systems on the naval side also. So really nice quarter when it comes to order intake.

Looking at the few highlights on the different business area, we are continuing to deliver the new Gripen [ph] Echo (00:04:52) aircraft to Sweden and Brazil, and deliveries have been made in this quarter for both countries. Due to volume increases now, we have a better margin in Aeronautics. So that is increasing in a nice way. But we still have startup costs under absorption because of the low rate production for the T-7, the trainer aircraft in the US. That will correct itself all the time, but we still are burdened by that a bit, I must say, during the next couple of years, I would say, it will take before we get back to sort of really good numbers in Aeronautics. And we have a really nice news from Thailand that they have now selected the Gripen E, and now we're moving into a process of negotiating a contract with them going forward. So that's really nice.

Looking at Dynamics, it's an extremely strong order intake from Dynamics. They are building a record high order backlog, and it's substantial to have almost SEK 80 billion in backlog for Dynamics, and that's also the area where we are building now capacity and investing heavily to make sure that we can continue to meet the demand in marketplace. And this an extreme activity, of course, in all the business units. It's not only ground combat weapons that we're talking about, but also the other business units are growing in a very nice way. We had slightly lower margin, but still sort of on a high level, and that's the mix within the business area depending on where the deliveries on our contracts for ground combat weapons are actually delivered. So that mix will sort of

fluctuate a bit sort of quarter-to-quarter, but we will sort of continue to have a high margin in Dynamics going forward.

A big event, which I will come back to is that, we have now announced we have started now the process of building a new facility for precision weapon systems, ammunitions in US. That I will talk a little bit more about that later. Surveillance also continued good order intake, good demand in the market. As I said on the sensor side, both the passive type of sensors and active type of sensors, including also command and control systems, and all the business units in that business area is growing, and we have higher volumes and we get scale effects. By that, now, the margin is improving. And of course, Surveillance should be sort of in this range just slightly higher going forward, I think, when it comes to margin looking at the portfolio that they have.

We have a very important milestone that we have achieved during the quarter. We have delivered now five systems to UAE for the GlobalEye, and now we are also sort of refurbishing or upgrading, I would say, a couple of these systems that they have been operating for a while. So that's an excellent program for us when you weigh on the GlobalEye. And we have also delivered new generation of the weapon locating radar system, Arthur, to the UK, which also is an extremely important system for locating artillery with high accuracy. And also, that is important going forward for Ukraine, I think, if you look about that type of capability. So good growth quarter-to-quarter in Surveillance, and also a good EBIT growth in this business area.

And then we have Saab Kockums. We have seen an extreme interest now for combat boats in Saab Kockums. I think our shipyard up in the north, the Docksta shipyard is now really building capacity and making sure that they can deliver sort of many more combat boats going forward and also the next generation. And we have very high activity and many programs. So that makes this nice still in Saab Kockums when it comes to surface activities, the underwater activities, which of course mainly the submarines. And then, of course, we have now the new business unit in Saab Kockums where we have invested quite a lot in R&D to build autonomous underwater systems and remotely operated underwater systems, and that is going to be a good business to us going forward.

But it's still burdening a bit the EBIT side of the total of Saab Kockums. And we have already with these systems that we have, which are unmanned, taking part in a NATO exercise and performed really well. So, [ph] mixings of (00:09:42) Kockums is looking nice, and we are still growing this business going forward in a nice way. And we'll improve the margin, of course, going forward when we get through sort of all the R&D efforts that we have in the Underwater Systems connected to unmanned and remotely-operated Underwater Systems.

And then, we have Combitech, who was just a consultant company, and Saab also performing really well, employing people. We have a partnership agreement now with our defense material organization, FMV. They have their own forces now digitalized together with Surveillance and Dynamics, we will help them integrating systems and making sure that everything can be connected and digitalized in the army, and that this, Combitech has a very important part in that.

So the activity is extremely high and the profitability is increasing. And we have a very good step now in the EBIT margin, as you can see, above 10%, which includes then a capital gain of SEK 18 million from the divestment of the Norwegian operations in the quarter.

So that was a few highlights from the business areas and Saab Combitech. And digging down a little bit on what's happening in the US, we have an expansion in the US and we are now more than 1,000 employees.

And if you look at the sales growth from the US operations, we have – of course, we sell things into the US from Sweden still, but we also have sales growth when it comes to the US operations selling from those operations in the US, and that is increasing dramatically 54% year-on-year.

And – but the most important part now, we have sensor capability in Syracuse, New York State. We have training capabilities in Florida. We have underwater capability in Rhode Island. And we are now – and we have the T-7, the trainer aircraft facility in Indiana, West Lafayette.

And now we're going to build a new facility for the munitions capability. We need to build munitions in the US and also precision weapon systems. And we have now won and been selected by the US Army for what we call the Individual Assault Munition Program, which is a tailored version of the AT4, so that will require volume. And we need to have sort of the ecosystem of supply chain in the US. So it's very important to start this facility build now. It will be started this year and will be up and running in 2026, in the beginning of 2026.

We have also been selected by the US Air Force now for the Carl-Gustaf support weapon, which is excellent. So now we have it in all branches more or less in the US, the Army, the Marine Corps, the Air Force and a couple of others. So it's an extremely interesting development. And we have been program of record for a long time.

We are also investing in X hubs in the US. The Skapa accelerator that we have in San Diego is now focusing on unmanned capabilities, surface vehicles and AI. So, we are expanding quite a lot in the US and we're starting to have a really strong position in this country, which, as you know, have a substantial defense budget on a yearly basis. So, it's a very important market to be successful in.

A few words also about the sustainability area, which is really important to us. And we have – as I've said before, we have divided that in focus areas, 11 of them, and we have short-term, medium-term and long-term targets in all of the areas when it comes to sustainability.

We are now implementing an energy strategy to make sure that we are more efficient when it comes to the energy resilience. Looking at the facilities, it's everything from the facilities, as such, how we use ventilation heat in a more sort of efficient way. Another way, so making sure solar panels and so forth to make our facilities much more efficient going forward.

We have such a high activity in the company when it comes to the business, as such, both when it comes to where we are in the world and the business activity, where we have to be to make contracts going forward. But also, how we do test flights on the GlobalEye and the Gripen fighter.

So, we actually have an 8% year-on-year higher CO2 emissions now than we've seen before. But from the starting point 2020, we are still down 70% and we still have the ambition and target to reach the 42% in 2030.

It's not only about environment and emissions, of course. It's also about many other areas. And one important thing that I want to mention is how we've implemented a digital university, you can say. So, it's possible for all the employees to access different type of learning activities digitally in the company on a very high level; university level, of course, but also tutorials.

And we have a target now to make sure that we continuously learn in the company. So, we've set the target of 40 hours per employee and year. And we're tracking that, of course, to make sure that we are always on the edge of what you have to know and skilling development is important to us, of course.

And especially looking at how we employ in the company, we are up net 2,400 people this year. Only in the quarter three, we expanded 750 people net up, and it's fantastic to see how attractive we are as a company. Many wants to work with us and we have also an excellent existing workforce, of course. So, we are now 24,000 employees and another 4,000 consultants working for us.

So, we are expanding quite a lot when it comes to the employment part as well. So, finally, the priorities, they don't change quarter-to-quarter, of course. Not a lot, of course, they shouldn't. But it's very much about capturing market opportunities and making sure that we can deliver on the commitments to our customers.

We put a lot of effort in that, and that needs to go in parallel, of course. The capacity and the production ramp up to sort of meet this demand is incredibly important to us, and I think we're doing that in a really good way and there will be more to come next year when we get new facilities up and running and new production lines up and running, so we can meet an even higher demand using them.

The industrialization part is, of course, important. Some products that wasn't actually designed to be high volume needs to be redesigned to industrialize for production, and we need to automate many parts of the productions to meet the demand. So, a lot of effort is in the industrialization part of the company to create more efficiency.

The other transformation is, of course, how we look at developing software-defined products. The way we develop software is incredibly important and that needs to be transformed a bit as well. To me, more software-defined to have common architectures in the company and to have more of a software factory type of setup in the company, so a lot of focus on that as well.

And while we're growing capacity, of course, the investments in future technologies to embrace those and using them in customer capabilities is very important. That's everything from counter unmanned aerial systems to what we call loitering munitions, connectivity aspects between manned platforms and unmanned platforms. So, we are doing a lot of investments in these areas as well.

Supply chain is still something we have to monitor and work with on a daily basis to make sure that we have resilient supply chains. We've been doing that quite well in a mix, so making sure that we have redundancy in the supply chain where we can, but also to create a better stock inventory to support our demand. But it's a never-ending story. We need to sort of move in different directions all the time to make sure that we are resilient when it comes to supply chain.

And so, I just want to say we work diligently on that every day. And as I mentioned, the big sort of inflow of new fantastic employees into the company is – the implication of that is, of course, that the on-boarding, making sure that they quickly become productive and that they come into the teams and add value to the company is really instrumental to us.

And if you're looking at that we have in the last 20 months now, employed net up 4,500 people. You understand that the onboarding process of people is a big – it's a big effort in the company as we speak. But I'm really pleased with the way we are handling this growth. And I look forward to the future growth as well.

So thank you from my side, then I would like to hand over to our CFO, Anna Wijkander, who will dig a little bit more into the numbers.

Anna Wijkander

Chief Financial Officer, Saab AB

Thank you, Micael, and good morning, everyone. I'm pleased to be here for the first time to present the quarterly report.

And as we have heard, we have a strong quarter this quarter with the strong order intake. We have sales growth continued and EBIT improvement and also positive cash flow. So now, I will dig into more into the details into the financials.

Order intake in the quarter was SEK 21.2 billion, and this was largely driven by international markets, which was 80% of the total bookings this quarter. And the main increase we see in Dynamics where we now have a backlog of SEK 79 billion. The book to bill is also increasing, 1.9 times, and with the rolling 12 – 20% rolling growth of sales, and the backlog increased to SEK 190 billion, which is up 37% year-over-year. And this quarter, we see really that we're further strengthening the duration of our backlog, which is very good for our long-term growth. So we can see that we grow the duration in the years – after four years and after – so 2027 and 2028. But already next year, we have SEK 55 billion in our order backlog to execute on sales as planned.

If you look more into the detailed financial summary for the quarter, the sales growth was 17.5%, organic 17.4%. We have sales growth in all business areas with the strongest growth in Dynamics and Surveillance in the quarter. The gross income increase is driven by the growth, but the gross margin is flat compared to last year and that is mainly because of the business mix that we have in the third quarter with the larger share from Dynamics, but lower margins in that business area.

We also have EBIT growth of 38% in the quarter, and the margins improved to 8.8% compared to last year, 7.5%. And this was supported by the growth, as we had said. But we also had a strong result in Surveillance exceptionally this quarter with some project completions. We also had somewhat lower corporate cost in the quarter. And we also have this positive effect of SEK 18 million from the divestment in Combitech of the Norwegian business that we have divested.

The financial net in the quarter was positive. Now, we have a positive impact there from our revaluation of our tender portfolio due to the strengthened Swedish krona. And with the earnings and improvement – the better finance net, we are having a good net income, development in the quarter increased 48%, and also the EPS growth 48% in the quarter.

When we look at the full nine months, we see the same trend as we did in the quarter on the key parameters. Sales growth, 21%; EBIT growth, 30%. Financial net year-to-date is still negative due to the Swedish krona that was weak in the beginning of the year where we had large impact of the revaluation of the tender portfolio, and also some lease contract that was impacting the negative in the financial net. The tax rate in 2023 was a bit lower. It was at 21.7%. And that was impacted by the divestment that we had of the MTM business. Now we are at 22.3%, which is in the normal range that we have said that we should have our tax rate, around 21% to 23%. And also, year-to-date, we have an EPS uplift of 27%.

So, let's look at the trends a bit. Rolling 12 months, the compounded average growth rate is now 14% over the last three years. And we have a strong sales growth the last 12 month of 20%. So this is really supported by the fact that we have good growth in all business areas. Year-to-date, we have growth in Aeronautics of 16%, Dynamics 22%, Surveillance 21% and Kockums 34%. On the EBITDA, we are back to the positive trend after this quarterly result. The EBITDA margin in the quarter was 13.9%. And also, we have a positive trend for the margin improvement going up to 8.7%.

Just shortly noteworthy [indiscernible] (00:25:00) on the business area. In Aeronautics, we have solid development both in sales and margin, but a bit weaker cash – negative cash flow due to timing of milestone payments. Strong sales growth in Dynamics, but the mix between business units, mainly Ground Combat impacting, makes the operating income to decrease year-over-year. We have also strong cash flow in the quarter driven by large customer payments in Dynamics, SEK 3.6 billion.

And Surveillance, strong sales growth and operating margin from project completions in this quarter. Kockums impacted as we heard from the underwater business, the negative results and I will say strong performance within Combitech that we should – if we exclude the divestment of the Norwegian business, we have 8.3% operating margin.

And cash flow then in the quarter, as we said, coming strong and positive. As we said in the previous quarter, we had large customer payments and both milestone and advance payments mainly within Dynamics. Year-to-date, though, we are still negative and we are impacted by higher inventories and higher investments, all according to plan to be able to build for our future capabilities. We also have – the investments are increasing compared to last year and that is as we have said, according to our plans, and much of the expansion is coming from Dynamics and Surveillance where we also have the largest growth.

And when it comes to investments, it's something that we closely monitor to be secure, that we invest in the areas where we have our current contacts to be able to ramp up and to deliver. So really, so we secure a good return on investment.

Positive, also to say, that our – to see that our KPIs on the right-hand side is improving year-over-year. We have a solid balance sheet and this year, we have improved also driven by the positive cash flow, and we end the quarter with a net debt of SEK 0.5 billion and net debt to EBITDA, almost zero. We have SEK 10.6 billion in cash position and another SEK 6 billion in undrawn credit facilities.

Important also to say that we have equity to asset ratio that has increased to 38.9%, which is above our target of 30%. So it's important, of course, for us now to have a strong balance sheet to be able to do the growth that we need to do and do the investments and further M&A and things like that that we need to do to grow our portfolio.

Finally, take a look at our outlook and our targets. So as we continue to execute on our strategy, we keep our outlook. We have said that we expect an organic sales growth in this year to be between 15% to 20%. However, we foresee that the growth will be in the upper end of this range for 2024, and we remain confident that we will grow our operating income faster than we grow our sales growth, and also that we will have a positive operational cash flow by the end of 2024.

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

Merton Kaplan

Head-Investor Relations, Saab AB

Thank you very much, Micael, and thank you very much, Anna. So now, we are sharp on time. Without losing that momentum, I would like to open up the floor for Q&A. We have a moderator to help you participate in the conf call. I'll just give details. You may register to get on board to the line through the press release link or in the link on the report. So do that, and you'll get a confirmation to ask questions. We have a lineup now. So the moderator, I would like to hand over to you to take the questions and please ask two questions at a time, so everybody gets the chance to get their questions asked.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from the line of Björn Enarson with Danske Bank. Please go ahead.

Björn Enarson

Analyst, Danske Bank A/S (Sweden)

Q

Yes, hello. I have two questions. First one is on capacity investments that you talk a lot about and a lot of capacity is coming on stream next year. I guess, your capacity increase next year is a little bit dependent on when capacity is coming on stream next year. So if you can elaborate on whether you are likely to meet demand in terms of capacity, 2025 or if 2025 is a little bit of a year between. Second question is on the Swedish defense bill. If you can elaborate a little bit on that and help us understand the different parts there. Thank you.

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

Thank you so much. Well, on the capacity increases, there are several parts in this, of course. I mean, while we are delivering now, we increase our employee workforce and we sort of work shifts and do everything we can to use the facilities and the production that we have to output even much more than we did before. Then step by step next year, but much more towards the end of the year, we will see new production lines coming into play and also automating existing and refurbishing existing lines so they become more efficient.

I mean, exactly in terms of the increases step by step is hard to say. But we've said that if we have double the capacity, we are capable of manufacturing like 200,000-plus munitions as we speak all in all in a mix. We will go towards end of 2025 and early 2026 into a production capacity of 400,000.

And then, in 2016, we will have the Indian facility coming up in play and also the Michigan facility up and running in 2026. So, this will continue for two, three years to come in increasing our capacity. That's how much I can say. And it's everything from sort of the capacity of building tubes for the support weapons, and the munition on the side is also another capacity increases. And right now, we sort of patch our production lines when you can use robotics instead of manual labor. And the automation will continue as well going forward to a large extent so we can create more efficiency.

On the Total Defence Bill, that was stable, I don't think there were many surprises when it comes to how it looks like in comparison with what the defense committee said when they gave the report. Their focus seems to be a lot on sort of the reliability, availability of much of the material that they have acquired in terms of repair materials and spare parts and maintenance and all that, and ammunition and munitions when it comes to the Army. And, of course, we have a great capacity to support that. The other programs are continuing as sort of prepared for. So, we have a lot ongoing on the deliveries. On the Gripen side, we are in a concept program when it comes to what comes to complement the Gripen with potentially unmanned capability and beyond 2050, what comes after that. So, that's sort of in play.

Same thing on the submarine side, the deliveries for the A26 and then, in parallel, comes sort of what do we build after that in terms of the concept program for underwater capability. So, it's in line with what we have seen, I think, to a large extent. What I think will happen is, of course, that the NATO capability targets will become more and more firm during next year, and that might sort of adjust it a bit. So, how do we protect the Baltic Sea specifically?

How do we handle the surveillance capabilities in the Nordic region? And that might twist it a bit, so to say. But all in all, I think it's in line with what the defense committee actually tabled in the defense report earlier this year.

Björn Enarson

Analyst, Danske Bank A/S (Sweden)

Q

Thank you.

Merton Kaplan

Head-Investor Relations, Saab AB

A

Thank you, Björn.

Operator: Our next question comes from Henric Hintze in ABG Sundal Collier. Please go ahead.

Henric Hintze

Analyst, ABG Sundal Collier AB

Q

Hi, this is Henric here. So, I wanted to ask a bit about the Surveillance and Dynamics margins here. So, Surveillance came in a bit stronger this quarter and Dynamics, a bit weaker. You said it was due to mix in Dynamics, some project completions in Surveillance. So, first on Surveillance, did you mean to say that it was maybe a bit higher than the underlying run rate, whatever you would call it due to these completions? And how volatile should we expect the margins to be, particularly in Dynamics since we've seen quite some fluctuations between the quarters now?

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

Well, if I can start, and Anna, you can complement, of course. On the Surveillance side, I mean, that business area is many, many projects, so to say. And the mix of those projects and deliveries in a mix between percentage of completion type of revenue and delivery type of projects, it's a substantial business. We're talking 1,000 projects probably in Surveillance. But it should be – going forward, we always said that it should be double-digit type of margin business area and we're moving in the right direction. Exactly how the mix looks like every quarter can fluctuate a bit, absolutely. But trend wise, it's just going in that direction. That's how much I want to say about that.

Dynamics is not really the same, but they have several business units growing dramatically and generating good margins. Now the mix, so whether it's Ground Combat deliveries a certain quarter or not will, sort of, affect where the margin will be in the mix of the business units. But it will always be on a rather high level as we see. I mean, it might fluctuate a percentage or two or something, but it's not sort of dramatic. And that's what I can say about sort of how the business area has looked like. If you want to add something.

Anna Wijkander

Chief Financial Officer, Saab AB

A

No, I can just fill in. I agree with what you're saying. I think what we can emphasize is really that the importance of looking at us, the trends, improving trends, rather than looking into the details in each quarter because it fluctuates a lot, as we said.

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

Exactly.

Merton Kaplan

Head-Investor Relations, Saab AB

All right. Thank you, Henric.

A

Operator: Our next question comes from Ian Douglas-Pennant in UBS. Please go ahead.

Ian Douglas-Pennant

Analyst, UBS AG (London Branch)

Thanks very much for taking my questions. So, first on the commentary on guidance that you said, you expect the high end of the guidance range. What probability, I guess, is there that you come out the high end of – or, sorry, if you beat the sales growth guidance this year, given the order growth you've got. And also, I wanted to push and see if I could get you to narrow the commentary on the free cash flow guidance being positive in any way. I mean, can you give us some kind of indication of how positive or how close to break even that might be in your estimation?

Q

The second question, I just want to follow up on the previous one on Dynamics margins. I mean, I understand it's very volatile quarter to quarter and the drivers of that. But in the nine months of this year, we've seen it very roughly flat. Given you're running, I would assume, over 100% capacity utilization across this business on average, is there margin upsides? And, I guess, how important can mix here be as you shift towards more exports? Thank you.

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

So, on the guidance of growth, I mean, we make sensitivity analysis and here comes into play, sort of, how much is percentage of completion types of revenues in the quarter to come and how much is actually delivery milestones potentially, sort of, in Ground Combat and other business units. That will give, as I said, sensitivity analysis whether we actually meet those milestones or not. And the best estimate we have with confidence, we are in the upper range of 15% to 20%. But I will not talk about sort of how this sensitivity gap looks like in detail. And I think we will not give you further guidance than that. We will be positive on cash flow and that we – what we said in the second quarter last year have happened now in the third quarter. We got large milestone payments and we said we will have those in the second half of the year, but it will be a positive cash flow. That's all we can say.

A

When it comes to the margin fluctuations in Dynamics, again, well, I think as we've tried to say, I mean, depending on whether you have large deliveries in a certain quarter with Ground Combat or not, and in the mix with the other business units, it will – some quarters will look really good and some quarters will look good. But it won't fluctuate that much. But as we've said before, this business, yeah, should always be on a midpoint of double-digit margins. That's sort of our ambition level. And further than that, I can't sort of guide you on these things. I think that was all the question, right?

Anna Wijkander

Chief Financial Officer, Saab AB

Yeah.

A

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

Yeah.

A

Merton Kaplan

Head-Investor Relations, Saab AB

All right. Thank you very much, Micael. Could we have the next question, please? Moderator, are you still with us? Let's see.

A

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

Did we lose him?

A

Merton Kaplan

Head-Investor Relations, Saab AB

Okay, let's do that. We're trying to solve the technical issues we have with the moderator. So, I have actually some questions here for you Micael.

A

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

Okay.

A

Merton Kaplan

Head-Investor Relations, Saab AB

From one of our analysts asks a couple of questions, but one of them would be if you could highlight a bit the T-7 training program that you mentioned briefly during the presentation, how is that going to impact Aeronautics sales and EBIT by 2026? And we can come back to some of the questions that he had. Let's start with that one.

A

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

Well, on the trainer aircraft production, I mean, first of all, it's one of the most modern facilities we have for a good flow of aft parts of the aircraft that we manufacture. And we are now on contract for like 35-ish afts. And we will deliver many over the year. And as you know, the basic sort of first framework contract was 350 aircrafts.

A

We still have start-up sort of issues in the flow, which we have to correct and the ecosystem needs to sort of become more flow oriented when it comes to not only us, but the suppliers around it. And we have – but it's a very high intensity now. So it's a bit of start-up issues and also a bit of under absorption because we need more flow in the factory and that – it will take a couple of years before we actually get to the level where we start seeing a [ph] burdening (00:42:30) and effect, I think, on Aeronautics.

But look at this as a franchise program over many years where – I mean, Boeing have estimated that there would be a couple of thousands of these aircrafts out there training pilots around the world and many in the US. So we just need to get through this. And I'm confident in the capabilities such that we have the facilities. So it's not technical problems. It's more like sort of stop and go in production that we need to get the flow going.

Merton Kaplan

Head-Investor Relations, Saab AB

A

Right. Another question that we have on the Gripen campaigns, and Gripen has been shortlisted in a number of countries, including Colombia, Philippines. So how do you see these processes develop and the likeliness of Saab winning these contracts?

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

Well, we happen to see a big interest in the Gripen E aircraft so that's fantastic. And now we have been selected in Thailand, as we know, and we will get into sort of more of a contractual process in that country. In Colombia, we are waiting for some sort of decision on sort of political level to say go and start.

And I can't judge exactly when that will happen and we will see who will be selected. There is an interest from Peru who have sort of now set the budget for 24 aircraft, and they are starting an acquisition process hopefully soon. And then of course, we have Brazil that have both sort of the continuation of the Gripen E program. And we also have a discussion with them on the transport capability for Sweden.

So lots of things going on, on the Gripen side now going forward, which are important to us. So yeah, that's how it looks like. We have a number of intensive campaigns as we speak.

Merton Kaplan

Head-Investor Relations, Saab AB

A

Exciting to hear. So we do have some issues on the phone lines. So I would like to ask those who you are on the list to ask Micael and Anna questions, please send them on the chat, on the webcast. So I have more questions.

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

I hope they can hear us.

Merton Kaplan

Head-Investor Relations, Saab AB

A

Yeah. They hear us.

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

Okay. Good.

Anna Wijkander

Chief Financial Officer, Saab AB

A

Okay.

Merton Kaplan

Head-Investor Relations, Saab AB

A

So, Micael, this question has popped up here a couple of times during the day. Any comments regarding the DoJ subpoena from the US and what can you give us from that?

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

I don't really have any news on that. It was a surprise. We will, of course, collaborate with the authorities and provide information as they request. And we've done that before with the Swedish authorities and Brazilian authorities. And no wrongdoings have emerged from that. And that's where we are and we have confidentiality aspects in this process, so I can't – I will not speculate. I will not say anything about it. We will just go ahead and do what we have to do to support them.

Merton Kaplan

Head-Investor Relations, Saab AB

A

Great. Thanks. I have a question here from a shareholder and asking, what could we expect with regards to the new Swedish corvettes and our JV with Babcock?

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

I hope we will get into the phase of, sort of, setting the design, and we are in the design type of project right now together with Babcock. And hopefully, we will have sort of done that soon now, so that Sweden can continue and start the actual development program for that. It's a very important program, the Luleå class corvettes going forward. But I'm confident that we will now sort of converge on what it has to be in terms of capability. So, we are in the final stages of that.

Merton Kaplan

Head-Investor Relations, Saab AB

A

Okay. Thank you very much. I'm getting informed that we have the line back. So, should we try again to give those names another chance online?

Operator: Our next question over the phone comes from Erik Golrang from SEB. Please go ahead.

Erik Golrang

Analyst, Skandinaviska Enskilda Banken AB

Q

I'll try again. Can you hear me?

Merton Kaplan

Head-Investor Relations, Saab AB

A

Hi, Erik.

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

Sorry about that. We don't have – I don't have control over the phone line.

Erik Golrang

Analyst, Skandinaviska Enskilda Banken AB

Q

No problem. Two questions then. First one on – well, on the inventories, I guess. And if we think about the part of your portfolio, I guess mainly in Dynamics, where products are being consumed in the war in the Ukraine and we have this debate about the need to refill inventories, I mean, where are we in that? If you – I guess it's very

difficult depending on the specific product. But are we sort of catching up in any way the level of production now or is the inventory depletion slowing down? Have we started to rebuild them in certain areas, even if it's slowly? Could you give any sort of take on where actual production and order levels are relative to the need to rebuild inventories?

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

I think it's an excellent...

A

Erik Golrang

Analyst, Skandinaviska Enskilda Banken AB

Are they still coming down or are they coming up?

Q

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

I think it's an excellent question. I mean, if you look upon the long-term perspective here, in the best of worlds, I would like to see sort of a target level of this is where we want to be when it comes to stock levels and security of supply and that capability we have to sort of implement. We get contract by contract and we have no information about how depleted are the stocks in a certain country or something. We don't know when we deliver large batches of ammunition or something, whether they go directly into the inventory or stockpile of the country or whether they donate that to Ukraine.

A

So, honestly, I don't know in sort of – on the specific in each country and I shouldn't probably, but it would be good if we had a long-term discussion with certain governments on what kind of stockpiles do we need for deterrence levels and what kind of capability is now needed to be able to support that. But I don't know. It's just step-by-step and a good trend when it comes to increasing the volumes and the contracts, as you see, is good. But do I know exactly where the targets are in each country? No, but I see the long-term trend of growth, of course.

Erik Golrang

Analyst, Skandinaviska Enskilda Banken AB

Yeah.

Q

Merton Kaplan

Head-Investor Relations, Saab AB

All right.

A

Erik Golrang

Analyst, Skandinaviska Enskilda Banken AB

Then, on the second question on – I know you don't guide or anything on gross margins, but still if you could sort of give a comment on how happy or unhappy you are with the development of the gross margin and perhaps also from a divisional standpoint without naming specific levels, I mean, is this a level you'd be happy with to drive the earnings growth you predict over the next couple of years? Or do we need gross margin improvement? And what are the general variables impacting it here?

Q

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

You're right, we won't guide you on gross margin. But, of course, gross margin is instrumental to us. We will never be pleased on a certain level. We will improve it because we need to continue to invest in R&D and make sure that we are relevant in one, two, three, five years.

And then the gross margin is really important to us to be able to do that. We have been able to do that to a large extent, but of course, a better gross margin would increase the sort of the room for that, still giving higher profitability margins in the end. But you see the connection is important to us. But I won't guide you where we have our targets outside. But, of course, we have targets.

Erik Golrang

Analyst, Skandinaviska Enskilda Banken AB

Q

Thank you.

Merton Kaplan

Head-Investor Relations, Saab AB

A

All right. Thank you, Erik. Next question?

Operator: The next question comes from Sam Burgess at Citi. Please go ahead.

Samuel Burgess

Analyst, Citigroup Global Markets Ltd.

Q

Hey, morning. Thanks for taking my questions. A couple of big picture ones, actually. I noted that 80% of the order bookings this year have been international and around 60% of sales. I guess, in the context of the recent Draghi report and the aspiration for more European defense integration, are you actively looking for more collaborative programs, and do you think you're likely to grow your footprint in other European nations, is question one. And I've got a second question, but I'll let you go for that one first.

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

Collaborations are extremely important, I think, going forward, and I hope that we will get our act a little bit better together when it comes to European perspective of that, both between countries aligning requirements and us as industry is collaborating. And big important factor in achieving that is, of course, whether countries are prepared to put money in this European defense industrial program based on the European Defence Industrial Strategy as underlay and tabled in the spring. That is not negotiated fully yet, but to create scale, of course, you need to collaborate, and collaboration could lead to joint venture. So, I think, that is what we will see if we come together and put some sort of money in doing things together.

So, collaborations are important, and we have a few today. We have collaborations with Diehl and [ph] BDA (00:51:53) on the missile side, we have an AI collaboration with Helsing. We have a naval collaboration with Babcock. So we have a number of them, and we are always looking at establishing sort of a larger footprint in countries also in Europe, and obviously, countries that are important to us today are like UK, as you know, and Europe and also Germany and Poland. So we're going in that direction, of course, to where we have a big presence when it comes to customer contracts. Of course, we need to collaborate with industry locally, and that

will lead to bigger footprint in the country. So strategy wise, we're going in that direction. You had another question, I think.

Samuel Burgess

Analyst, Citigroup Global Markets Ltd.

Very clear. Thank you.

Q

Merton Kaplan

Head-Investor Relations, Saab AB

There's one more question.

A

Samuel Burgess

Analyst, Citigroup Global Markets Ltd.

Yes. Thanks. The second one was just, you're investing in capacity ramp-ups and growing very quickly. But there's also digitalization, workforce recruitment. Just taking a step back and looking at your mid-term operating cash conversion target of 70%, since you set that target you've seen demand grow massively. Do you still feel very confident in meeting that target, and what would you say are kind of key risks to that target?

Q

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

I think cash conversion is very important, but we will also do our best to make sure that the return on investment for the company to grow and take market positions is instrumental to us. And we will, of course, always be sure that we generate positive cash flow and good cash flow for the business. But we look at that all the time, and when and if we have sort of a second view on that, what's best for the company, we will come back and talk about that. But I don't have a second opinion on that right now. But you're right, we will do everything we can to sort of meet the demand by capacity increases. And then if that affects our view of the long term-target on cash conversion, we will discuss that with you as soon as we have looked at that a little bit more long term.

A

Samuel Burgess

Analyst, Citigroup Global Markets Ltd.

Great. Thanks very much.

Q

Merton Kaplan

Head-Investor Relations, Saab AB

Thank you, Sam. We have 5 minutes left. So, let's take the following questions a bit more faster. I think, Sash, you're on the line for the next one.

A

Sash Tusa

Analyst, Agency Partners LLP

Great. Thank you very much indeed. I've got three questions. First of all, how long do you expect Underwater Systems to continue to burden the margins of Kockums? And what are the things that will change at Underwater Systems that should improve its margins? And then second question, I'm slightly confused by the messaging on Surveillance margins. You said that you had some completions in the third quarter, which would tend to suggest that margins should be good then. But I think, earlier on, you also said that the margins that you have or you expect to have in the backlog are higher than the margins you're currently doing. Could you just confirm that that's actually the case?

Q

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

When it comes to the underwater business, when you are in a sort of intensive R&D phase, and you move into more of a delivery phase, of course, which is normal in the project, the burden will ease, so to say. We need to get through a few R&D issues and exactly how long that will take, a few more quarters, I would say. That's sort of my perspective of things, but that will not be in one step. It's different programs I'm talking about. We have programs in the US that needs, that goes into high volume production. The EMAP program, which is a sort of a once-off anti-submarine warfare training target type of production, and it's high volume on those. When that goes up, ramps up in production, things will improve. We have the same thing on the remotely operated vehicles, which is the electrical version of it.

And we are also ramping up when it comes to the AUV62, which is also more sophisticated and submarine warfare type of training target and minehunter type of thing. So it's more that step into more of production than R&D that will sort of ease the burden. The margins in Surveillance, well, I think, what I'm saying is that, the mix of that portfolio, everything from command and control systems to sensors, passive and active, and the large type of business like GlobalEye and the mix of sort of the more product-oriented business, is a business that should have a trend towards the double-digit margin. That's what we've said all the time. And then, in a mix of things in a quarter, it can fluctuate a bit, of course, if you're successful in certain projects, and then you can have a burden in others. That's why I mentioned, it's like a thousand project type of business today, the Surveillance business. But what the important sort of information is that, you have sort of a backlog supporting a better margin going forward. That's all I can say.

Sash Tusa

Analyst, Agency Partners LLP

Q

That's great. Thank you.

Merton Kaplan

Head-Investor Relations, Saab AB

A

Thank you, Sash. Let's have the next question, please.

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

Carlos Iranzo Peris

Analyst, Bank of America Securities

Q

Hey, guys. Thanks for taking my questions. The first one is on the Dynamics order intake, which has been supportive by two large orders. But then one, maybe if you could provide some color on the smaller orders that also drove growth in Q3. And then the second one, in terms of hiring almost 24,000 employees as of September, do you have any number or any target in mind when it comes to hiring in 2025?

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

When it comes to the Dynamics order intake, I am not sure I got the question 100%, but I mean, the detail, it's the support and missile type of area, which is growing. That much I can say. But on top of that, every army needs to train a lot more intensive right now. So the combat training centers that, we have a great training and simulation capability as well that is growing a lot more than we anticipated a few years ago. So that is also growing a lot going forward. So all of the areas are growing, I must say. But then they are different in terms of how they look

revenue wise. Some of them are sort of delivery of revenue and some of them are POC. But we see growth in all areas. When it comes to employing people, I think that we will continue to attract and employ people, but I think we will work a lot more with automation going forward, and be more efficient when it comes to software development. So I think, it will flatten out a bit, and it will not just continue to grow maybe on this level as we've seen during 2023 and 2024. But we will grow, but not at the same pace, I would say. That's as much as I can say.

Carlos Iranzo Peris

Analyst, Bank of America Securities



Thank you.

Merton Kaplan

Head-Investor Relations, Saab AB

Thank you, Carlos. Thank you, Micael, and thank you, Anna. We're short of time now, so we have to close this session. Thank you for your strong interest in Saab.

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

Thank you so much for joining this morning. Thank you.

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