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Saab AB (SAABY.SE)

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MANAGEMENT DISCUSSION SECTION

Merton Kaplan

Head-Investor Relations, Saab AB

Good morning and welcome to Saab's Q4 presentation. I'm Merton Kaplan, Head of Investor Relations. As you saw this morning, we released another strong quarter report. And for those of you who follow us closely, you also see that we are strengthening our growth journey further. So, we have a lot to talk about. And in the studio, I have our CEO, Michael; and CFO, Anna.

So, we'll start with handing over to you, Michael.

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

Thank you, Merton, and thank you for joining us this morning, and to take part of the presentation of the full year report and also the quarter four report, of course. And I will jump right into the numbers.

Looking at sort of the outlook that we had for 2024, where we stated that we will grow between 15% and 20% and that our operating income must grow more than that, and that we will generate positive cash flow over the year. And I think we had a very strong year. We increased our order intake with 24%, almost SEK 100 billion in order intake, SEK 96.8 billion, and also had another strong year for growth, 23.4%, organically 23%, of course. And last year, was, in 2023 was also 21.7%.

So, we have had two consecutive really strong growth years, and we continuously improve our profitability, which means that the EBIT now did grow 33%, and without compromising anything which is related to investments for capacity or focus on research and development, to embrace new technologies, to generate new capabilities in the

medium to long term. And we had a very strong quarter four when it comes to cash flow. So, we delivered a solid SEK 2.5 billion operational cash flow for the full year. So, this was absolutely according to our plans and a very strong year and also a strong quarter.

Highlights for the quarter, I think is, of course, it's a really difficult sort of security landscape to predict what's going to happen going forward. There are geopolitical uncertainties. There are many statements about extending defense spending, both from NATO and from the US and many countries in Europe are extending their defense spending, of course. And there are tensions and stuff like that, which makes it, I think, an unusually difficult time to predict what's going to happen going forward, but we see a strong continued need for defense capabilities, definitely, and a strong market as we see it going forward. But there are many things that are moving around, of course.

And we have seen a quarter now with the order intake, mainly on small and medium sized orders, which shows that we have a strong portfolio. And you can't look at Saab from a quarterly perspective looking at order intake, you need to take sort of a broader perspective over a year or two to see how are we growing our backlog and also that we're generating a book to bill that is higher than 1.

We are continuing our investments to expand capacity and they are moving ahead according to plan. And more will come into play, of course, during this year and next year. We have our facilities in India and US that will come into capacity in 2026.

And step by step, we have things coming into play this year also in Sweden. And this is, we do continuously while we are delivering to our customers. And as you probably saw, the quarter four was really strong when it comes to actual deliveries, which shows that we can do this at the same times as we are investing in capacity.

R&D is truly important to us, which I've talked about many times, and I would come back to a few things that has happened this quarter and last year. That is connected to autonomous systems and our future when it comes to new technologies, because we need to sort of expedite and not be much quicker when it comes to offering new capabilities to our customers. And one of these things we launched now in [indiscernible] (00:09:55), the sort of winter conference with politicians and industry and other agencies in January, which is a small technology concept that I will talk a little bit more about, because that was a thing that came in sort of within a year. We did this together with the defense forces and other agencies like the Defense Research Agency and FMV, which I think is a really, something, which is an achievement. So, it's been an intensive quarter from many perspectives.

And key figures from the quarter then, looking at the order intake, I think it's important to understand that if you compare this to the quarter 2023, quarter four, which was roughly SEK 31 billion, that included sort of an adjustment of contract values and index adjustments, as we call it, of SEK 6 billion, which we don't have this quarter, of course, and you also had the sort of a larger order to an undisclosed country. And this quarter is strong because it's sort of an underlying small and medium-sized order intake. And looking at the whole year, it's 24% up when it comes to order intake. So, I'm really pleased with this quarter as well.

Very strong organic growth this quarter for – because of the many deliveries we had specifically from Dynamics, but also meeting a number of project milestones. And all in all, that generated a 23.4% over the year, which we actually came out and talked about already under [ph] IAS 17 (00:11:33). EBIT margin increased more than revenue, which is all the time, our ambition to make that happen as much as I said without compromising R&D investments and capacity increases. And we had a very strong cash flow quarter, of course, SEK 3.6 billion then leading to what we have said in our guidance that we would have a positive cash flow over the year and a solid one, SEK 2.5 billion.

If you dig in a little bit more into the order intake, it's interesting to see that the international orders now represent quite a big portion of the full year. So, it's above 75% now that is international, which shows that we are actually gaining market shares in quite a few countries, especially the focus countries that we have, but we are proportionately following also the defense spending in Sweden in terms of our position. So, that looks really good.

And the order backlog is extremely strong now, and it is also strong from a margin perspective, because many of the contracts we have in the backlog is related to Dynamics and Surveillance, where we had good margins in the contracts. So, it looks good to continue our journey in terms of growth and also increasing profitability, I would say.

As few examples of orders that we've seen during the quarter, we had an integration contract for an advanced missile on Gripen. We have another contract from Lithuania when it comes to mobile short-range air defense system, RBS 70, and we had multiple orders on the sensor side, both when it comes to the active sensors like the Giraffe systems and also the passive sensors, which is the Sirius system, as we call it.

And we've seen a sort of a revitalization on the combat boat side, both because Sweden is donating combat boats to Ukraine, but we have countries now very interested in the combat boat activities. So, our shipyard up north in Docksta is really expanding as we speak, which is really nice to see.

A few comments on each business area as usual. We have, as you know, I've said that many times, I mean, Surveillance and Dynamics as business areas that have sort of a product-oriented type of portfolio which is generating lots of order intake. And then, we have the megadeal campaigns that we're running and Aeronautics have those, of course, and Gripen has a strong interest. I think we must mention that we're negotiating a contract with Thailand as we speak. We have an interest from Colombia, from Peru, additional sort of Gripens for Brazil. So, there is lots of intensity around the Gripen program as such.

And we had a fantastic sort of exercise, first international exercise we had with the Gripen E in Brazil in November, and it performed fantastically strong, and I think we saw lots of reports about the capability of the aircrafts and availability was also fantastic above 95% during an exercise like that, even though Brazil have only received like eight aircrafts. So, that was amazing to see.

We are putting a lot of effort also in the future concepts, which is more and more people are joining that group now. So, it's not just a few. It's now we're looking at more than 100 people working on the future fighter concept. That it's not only manned, that is also unmanned capability, which I think will be the next step to complement the Gripens going forward. And then, of course, all the time, in the 25th is we need to have sort of a new solution for a possible manned flight. That is what this sort of concept work and demos, and we are doing a lot of – we will fly a number of system over the next few years, which will be unmanned to start with, and I will come back to that.

So, we have seen strong sales growth when it comes to Gripen during the quarter, and both in the Swedish program and the Brazilian program. What is actually affecting the margin in Aeronautics is not underlying programs when it comes to the Gripen. It's the T-7 training aircraft program in the US, which is stretched when it comes to how quickly do we get into the production rate that we need, not to have under-absorption. That will take another couple of years before we sort of see that turning around. We are a bit dependent on when the US Air Force sort of will contract Boeing to sort of really start ramping up production. There will be production ongoing but on a low level until the testing is done with Air Force and Boeing gets the contracts, but we will continue to manufacture and we have a fantastically modern facility in West Lafayette doing this. But this is pushing the margin in Aeronautics down. But the underlying margin I think is really good on the Gripen side.

Dynamics had a fantastic quarter, extremely high interest in many of the parts in Dynamics. Of course, on the support weapon side, both when it comes to what we're doing in the US, in Individual Assault Munition Program, and also the anti-tank weapon. That is really important and also another version of the AT4 Rocket from France, but we also see a lot of interest on the short-range air defense system, but also training and simulation, because many of the defense forces will have to train the forces in a much more intensive way now when they grow into defense than we had seen before. So, that area within Dynamics is growing significantly as well.

And we had a fantastic quarter when it comes to actual deliveries. I mean, part of what we do and saw this so-called percentage of completion when it comes to recognizing revenue and margin. But we also have pure deliveries, which move to sort of hardware to customers. And we had a high delivery rate in this fourth quarter from Dynamics.

So, exceptionally strong profitability, 17.9% for the full year, which is very, very good, of course. And that is based on a mix that we have in dynamics today. And it's very strong order backlog of almost SEK 80 billion.

Surveillance have not only product-related things, as I said before, it also have the GlobalEye and I must mention that we have a number of campaigns going on GlobalEye as well, both in the European perspective, in the Nordics, and in the southern part of Europe, but also in Asia and in the Middle East. So, there is a big interest from – for this capability. And, of course, we're trying to sort of make NATO interested in using this capability as well, since the E3 platform from Boeing is more and more sort of going into a difficult phase in trying to sort of have availability on it. And so, GlobalEye is a really attractive thing going forward.

We're also expanding production when it comes to the Surveillance business. We have [indiscernible] (00:19:08) launched or inaugurated a new facility in UK, Fareham this week, together with the state – Secretary of State of Business and Trade in the UK. So, we have now redundancy capacity when it comes to sensor manufacturing, and we also have built a new facility in Finland for the passive system, which is called Sirius Compact. So, it's very much also expanding in this area.

We have a strong position when it comes to Germany, both on the fighter EW side for the Eurofighter and also naval combat systems for frigates in Germany. So, Germany is becoming a very strong country to us, and it's also in the region, so to say, so the collaboration between industries and between governments, are really strong, which I like to see.

We have had an intensive sort of quarter when it comes to project execution. What's pushing the margin down a bit in Surveillance this quarter is loss provision that we made in the commercial business, a few contract that sort of haven't gone in the direction that we wanted to. And I would say this is not sort of the real core of the Surveillance business, so we need to put a little bit more attention to this, to correct it and make it sort of a viable business going forward. So, that's why, the underlying core business is doing as well as it did last year. And the margin would have been in line with last year, same quarter if it hadn't been for this loss provision.

Kockums. Our Kockums is also doing really well. We have expanding – expanded our facility into Landskrona to do still construction and some important equipment for the submarines in Landskrona to expand capacity. We have also, as you know, we have attached now the other underwater business besides the submarine to some Kockums, the water business, which is unmanned and remotely operated autonomous vehicles to solve Kockums. And that is going to be an important business going forward to protect the underwater critical infrastructure. And we have presented this quarter an autonomous core thing to make sort of vessels autonomous, and you can adapt them in a very smart way.

We launched that sort of in Q4 and we have – we're using that now both in the US and elsewhere. So, we have good executions and it makes things, so Kockums is important to drive both sort of the revenue increase, which has been really good during the year, but also increasing profitability step by step.

Last but not least, so, Combitech expanding more employees, more contracts, several agreements with the Swedish defense, but also connected to the total defense initiatives that we see both from the municipalities and agencies working with that, but also industry to help out on how to support the total defense initiative. So, this is a growing business, very nice development over the quarter to quarter, but also over the year and increasing also profitability. So, I'm really pleased with how Combitech is developing very much then. So, because of more efficiency, but also more employees, which is all about when it comes to consultant business.

Our sustainability efforts are very important to us, and we aim to be a leader in our business segment when it comes to sustainability. We have on the climate side of our sustainability efforts, we have 11 areas which we work when it comes to sustainability, and this climate part is just sort of one of them. But on that side, we have reduced our Scope 1 and 2 emissions, 8.8% in the quarter and 6.4% for the full year, which is absolutely in line with our target when it comes to the Scientific-Based Target (sic) [Science Based Targets] (00:23:45) initiative. So, we're doing well on that side.

We need to work even more, of course, when it comes to how do we cope with the sort of extension of the flight testing and things like that. We need more sort of sustainable airfields going forward. We need to capture more CO2 in different ways to compensate for our flying. So, many initiatives in that direction.

And we had a nice thing showing off sort of drone capability in connection with the COP 16 in Colombia, together with partners. We haven't showed the Triple Helix model, how it can work, and this drone is now sort of collecting vital environmental data. So, that is nice. And we are taking this really seriously with our supply chain as well. So, we have gathered our suppliers to make sure that they support us in our supply chain, to make us sort of more environmentally responsible going forward to achieve our net zero emissions target for 2050. So, this is a very important area that we put a lot of effort into.

Couple of words on sort of the future. There are now many things ongoing. These are just examples, and we, as I mentioned, and I touched upon it, we have now sort of developed what we call an ocean core capability for – to make sort of vessels autonomous like we have this combat boat 90, which we made a version of that is now can be autonomous. And we have demonstrated that both in the US, in our San Diego operations. But you also showed it at one of the exhibitions, and we can sort of – we can actually play with it, I can say, remotely. So, we did that in live from Paris, but the actual boat was in the Baltics. So, this will be super important going forward. Maybe the platform is not so important, those can be of different size, but I would say this, at autonomous kernel is such that we've developed is super important.

In the air, we – as I talked about, we launched a swarming drone capability in Sälen this January, and now, we are supporting the implementation in the Army using this. And the key with this is that there are no need for pilots, let's say, to sort of fly these drones. And there is no limitations to how many there could be in a swarm. Could be few, could be many. You don't have to care about that. And the operator will only tell the swarm to go and do a mission on a very high level, go and surveil this type of area, find this object or counteract that object, and that system will self-organize itself and do with – without sort of intervention from the – for many pilot. So, it's easy to learn and train sort of an operational unit within the defense forces to use it very quickly.

And as I mentioned, in the Aeronautics area, we're doing a lot when it comes to future concept. We will fly unmanned capability of a little bit more sophisticated versions over the years now to come, both this year and next year and the year after that. And that will be, of course, more like collaborative combat aircraft or collaborative surveillance aircraft that will work together with manned capability. So there will be a lot of interesting things to show going forward now for you and for our potential customers.

Now, we have looked now into 2025. And even if I would say there's, as I said in the beginning, there's a situation around us geopolitically and the security landscape is not so easy to predict where we're going, what ambitions level we'll need to have and Europe have and how much we will come together in Europe to do things together. But we see we have a strong order backlog. We see a high demand in the market. And so, we will continue to grow and we've said we'll grow in the range of 12% to 16%, and we will continue to make our EBIT grow further than the sales. So, that much higher organic sales growth on the EBIT side, higher EBIT growth than the organic sales growth, of course, and continuously deliver operational cash flow, positive operational cash flow. This is the ambition level that we have going forward, and I think in connection to that, and Anna will come back to it. We have also reviewed our target levels for the midterm, stepping up from 15% CAGR to 18%, when it comes to growth going forward in the period 2023 to 2027. But Anna will come back to that shortly.

So, by that, I will hand over to Anna, who will dig into the numbers a little bit more deeply. Thank you.

Anna Wijkander

Chief Financial Officer, Saab AB

Thank you, Micael. And good morning, everyone. And as you have heard, we have closed a good quarter and a strong full year continuing on our growth journey. So, improved sales growth, improved EBIT growth, growing EBIT more than our sales growth and also delivering on the positive cash flow. So, you have heard Micael giving you some of the numbers, but I will give you some more details.

So, with that, I start with the backlog. We have now a book to bill of 1.5 times for the full year, building a backlog of SEK 187 billion, which implies an increase of 22% and corresponds to approximately 3 times our sales this year. For 2025, we have SEK 58 billion to convert into sales. That is 90% higher than we were when we entered this year last year. And when it comes to the backlog, it is really Dynamics and Surveillance that makes up the most part of the backlog. They are together 70% of the backlog and in Dynamics, we have SEK 79 billion, which is 5 times their current sales, and Surveillance has SEK 53 billion in their backlog. What's also good to see is that we are strengthening our international business. So, in our current backlog, we have 72% from international business compared to 64% last year.

So, let's look into the more detailed numbers in the fourth quarter. Sales growth was 29.3% organic, double-digit sales growth in all business areas as well as Combitech and strongest growth in Dynamics and Aeronautics this quarter. The gross margin was lower in the quarter, and that was due to mainly the loss provision that we made in the commercial business in Surveillance. And we also had somewhat higher cost in corporate for IT and security during Q4.

EBIT growth and EBIT margin improved to 9.4% in the quarter, supported by the strong sales growth, but also some scaling effects in the operational expenditures. In the quarter, I would also say that we have an item affecting comparability of SEK 40 million, and that is related to a revaluation of an acquisition.

And the financial net is negative and the strong difference between the years and that is due to the strengthened, stronger US dollar. So, we have a revaluation of our tender portfolio from currency impacts there. The tax rate

was also low in the quarter due to that we had possibility to utilize the previously noncapitalized loss carryforwards. And that, thereby, the net income increase, and also, we have an EPS increase.

If we then, Micael has already given you a lot of information about the business areas, so I think for the quarter, what is good to say is that we have had strong sales growth in all business area and we also had a positive cash flow in all business areas except for Kockums. And since we are running a bit late out of time, I think I continue to the next slide instead looking into the financial summary for the full year.

And we have concluded it was a strong year and the organic sales growth came out over 23.4% for the year, and that was higher than what we had previously guided for and what also – why we preannounced the result.

We have a gross income increase from higher sales, a little bit lower due for the full year, and but we see a positive trend in improved gross margin in most of our business areas. EBIT growth of 33% higher than the sales growth came in on 8.9%. And then, we have the same impact on the financial net here for the full year, as I mentioned, for the fourth quarter. And to mention about the tax rate is that we, last year, had a lower – high tax rate due to we had an impact from divestment with the capital gain.

So, if you look, we have guided instead of going to be around 21% to 23% in tax rate, and that we remain that guidance. And to mention also EPS for our shareholders, it's an uplift of 23% on the full year.

I think it's good to just emphasize a bit of our improving sales and EBIT trends. The sales growth trend, the last two years, you can see we have a compounded average growth rate of 23%, and that is really good because this is supported by good growth in all our business areas. And as mentioned earlier, we had really exceptionally strong deliveries and project execution in the fourth quarter, which is seen here in this slide. And looking at EBIT, we can see it's a good trend there as well when it comes to EBIT to earnings and margins. And we grow our EBIT more than our sales growth in the same period. So, 32% in average, compounded average growth rate. And that is really due to, I mean, higher sales, but also, we continue driving our scale and efficiency around our operations.

Also what visible in this slide is that really that the quarters fluctuates, and that both sales and EBIT can vary between the quarters. And that is really reflecting how our business is. So, we should always bear that in mind. The projects [indiscernible] (00:34:58) deliveries can impact the quarters when it comes to both sales EBIT and also, of course, cash flow.

Taking me then into the cash flow and investments. In the quarter, we had a very strong cash flow with SEK 3.6 billion due to large milestone customer payments mainly. We have, and we can see here that the net working capital is, in values, is increasing. However, it's decreasing compared to sales year over year. The investments are higher. We have a large portion of increase in Dynamics and Surveillance due to the ramp-up. And we also are, that is something that we are really monitoring. And we also compared to last year, we see a positive trend when it comes to return on equity, our return on capital employed since we have now increased our profitability, but we also have a higher capital turnover rate that's increased from 1.17 to 1.35.

As mentioned, the strong cash flow in Q4 helps us to further strengthen our balance sheet. So, the net debt to EBITDA has now turned positive – negative, which is positive with a net liquidity position and we continue to have a strong balance sheet when it comes to cash and liquid investments with SEK 13.4 billion compared to last quarter, it was SEK 10.6 billion.

I would also like to mention in this that we have paid out the second installment of our dividend in the fourth quarter amounted to SEK 853 million. And we also, the board has also proposed to increase our dividend for 2024 to SEK 2 from SEK 1.60. That equals a total payment of SEK 1 billion.

Last, a few words about our updated medium-term targets. We have updated medium-term targets because we have, as you have seen, we have had a strong sales growth in 2024. We have also updated our outlook and the sales growth for 2025, and we look into our best estimates for until 2027 for sales growth. We update now our sales growth target to be around 18% compounded average growth rate, for this period 2023 to 2027.

And as we bring forward significant increased investment to be able to run this capacity increase and to make sure that we can leverage on this growth potential, we have decreased our cash conversion target now amounting to exceeds average of 60% cash conversion during this period. Previously, it was 70%. And also, we keep our ambition to scale. So, we are guiding – we are having updated our targets on an EBIT growth that should be higher than organic sales growth also for the medium-term period.

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

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

So, I just want to conclude on a couple of things which are important to us, just to sort of summarize what are the priorities going forward. And of course, it's a lot about delivering to our customers with the strong backlog we have, increasing our efficiency and have the capacity going forward to meet the demand. Because I see a strong demand in the market going forward. So, we have, as Anna was saying, moved forward and increased our investments to manage capacity, even though we invested heavily before. So, that is important and really good for the company going forward.

Then, of course, when it comes to innovation, it is truly important not to only think about here and now, but also think about the coming sort of innovations that we have to provide to the market. And this is all about leveraging the way you can develop software, of course, your data architecture and how you use AI in your systems going forward. And we have so many initiatives both when it comes to our innovation hubs but also in our existing business units that is working this as we speak.

Specifically important, I think, when it comes to software design is to make sure that we get more synergies as sort of common architectures and using common tools to even go further when it comes to how quickly we can design our software. And software designs, design systems, software-defined systems, will be key to us going forward. We're already there. The swarm technology and offer that we showed, and I talked about earlier is really software-defined. So, these three areas, I would say, I would like to underline, this is where we put our efforts going forward and we're going to continue to grow the company as we have said. We're going to not compromise the investments to be stronger going forward when it comes to these things, but we are going to continue to also improve our profitability and grow that more than the sales level all the time and, all the time, generate positive cash flow. So, this is a mix of things, but I think we are really on the right track with the company as we see it today.

Last, I thought I had another one. I just want to mention that I like to sort of launch now save the date thing. We will go a little bit deeper into a few areas in our Capital Markets Day, and we are getting, we will try and have that now in Karlskoga to look a little bit more into the Dynamics business, but we will talk about more, of course, and that will be May 26, 27, 2025. We will come back with invitations, of course, but I just wanted to make a note of this.

Thank you.

Merton Kaplan

Head-Investor Relations, Saab AB

Perfect. Thank you very much. We have now come to the stage of giving the word to our audience. And I can already see from our online website that we have lots of engaged listeners with very good questions, and we have also a few of our analysts on the live call. So, I will start with our analysts. We have a couple of them, and I'm going to hand over immediately to our moderator to operate the Q&A session.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] The first question is from the line of Henric Hintze with ABG Sundal Collier. Please go ahead.

Henric Hintze

Analyst, ABG Sundal Collier AB

Q

Thank you. This is Henric here of ABG. So, first I just wanted to ask the Q4 order intake now marked the weakest quarter of the year despite Q4 typically being the strongest seasonally. So, I'm just wondering how we should interpret this. What do you think drove the shift in seasonality there and how should we view 2025 order intake in light of this?

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

So, I can reiterate what I said. I mean, first of all, you have to look at sort of a longer period of time because it's a mix of large orders, midsize orders and smaller orders over a year. This quarter, there was sort of many small and midsize orders and not really a big sort of mega order included, which we had a little bit of, if you compare the quarter to quarter 2023 to 2024, but you also have the sort of the reevaluation of the contract level in a certain contracts that's sort of an index sort of adjustment, which we had in 2023, which was SEK 6 billion, which we don't have this quarter. But I mean, the full year is almost SEK 100 billion and a 24% increase in order intake. It will be sort of a little bit volatile over the quarters, because we can't really know exactly when the bigger contracts will be sort of finalized. So, this is the way we look at it. And I am really pleased with the period of 2024. I mean, that's almost all-time high when it comes to order intake. So, I think I don't – even though quarters are important, and I'm really pleased with this quarter and how we actually penetrated the market, but I would look at a sort of a longer period of time, and that is really looking good for 2024.

And 2025, I see still a really high demand in the market of many things. And of course, I mean, when I said the geopolitical tensions and the security landscape, you have to be sort of judging what's happening around us. What I mean by that is, okay, where is NATO going in terms of spending? It will be more, but how much more? Where is Europe going to go when it comes to collaborative sort of efforts and flagship projects in the European Defense Industrial Program, different countries are spending more or less going forward. So, all of this, we have the judge together, but we are over a period of time, growing, target-wise, 18%. So, of course, it's a high demand in the market, but you have to look a little bit less into one specific quarter again. Lengthy answer, sorry.

Henric Hintze

Analyst, ABG Sundal Collier AB

Q

No problem. Thank you for that. And one second question for me then. You pointed out that start-up costs for the production in the T-7 program were the primary cause of the weak Aeronautics margin. How long do you expect this situation to continue? Were there any other negative effects on the margin in the segment?

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

No, that's absolutely the most sort of dominating factor why it's pushed down a bit. And I think we will see sort of a – was sort of an effect on the margin from that under-absorption this year and another couple of years. But we will be better and better, but I think really profitable, will take a few years. So, you've seen on the US side that they are planning for a milestone 2026 Q2 and then things will start ramping up, so to say. But we will see a couple of years still with a bit of a load from that operations. The underlying on the Gripen side, they're absolutely okay on the levels that we can expect from big contracts like that, and we're going in the right directions on the Aerostructures side as well. On the commercial airline business, which has been also dragging us down, it's still not sort of fantastic margins, but we are going in the right directions. And we have gotten rid of all the currency effects that we had been sort of working with for the last few years. We recovered that sort of last year. But in essence, it's the T-7.

Henric Hintze

Analyst, ABG Sundal Collier AB

Q

All right. Thank you very much for that.

Operator: The next question is from the line of Yassin Moktadir with UBS. Please go ahead.

Ian Douglas-Pennant

Analyst, UBS AG (London Branch)

Q

Hi. Yeah. I'm guessing you can hear me. It's Ian Douglas-Pennant at UBS. Can I just check?

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

Yeah, yeah. We can hear.

Ian Douglas-Pennant

Analyst, UBS AG (London Branch)

Q

Okay. Thanks. I've come up under Yassine's name, but that's fine. Thanks for taking my question. So, firstly, could you – it seems there's an element of kind of conservatism in the guidance that you provide. We've got loosely worded margin guidance and cash flow guidance for this year. You have not increased in your implied sales growth guidance for the remaining period in the 2023 to 2027 that we haven't had. We're still looking at kind of in the mid-teens, kind of range implied.

Do you – is this – like why – where does this conservatism come from? Are you nervous about something in particular? Do you see a large amount of uncertainty? I mean, it seems with this level of orders, you should have pretty good insight into pretty good confidence on how things are going to pan out. So, maybe if you could just help us understand why the guidance is loose, where that high uncertainty comes from?

And then, secondly, on the Dynamics business in particular, margins in Q4 were extremely strong and indeed over the whole of the year. Is there some one-off there that we should think about or should we view 17% to 18% margins for the full year here as the new run rate? Thanks.

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

Well, first of all, I don't think we are vague about our guidance and sort of losing our ways of guiding. We had sort of a similar guidance when we went into 2024. We upgraded that, yes, over the year. And I think looking at what we have in our backlog and how we see the demand in the market, I think is a reasonable way of saying that 12% to 16% is actually quite the growth perspective. And growing a company 18%, which is our target over this period, it's also substantial. So, I'm not sure that that would be an uncertainty and we have delivered on our guidance. So, I don't really see it that way. And we have, as I said, we need to increase our profitability step by step, but never compromise, saying what we need to do to make sure that we have the capacity and the capability by investing in R&D. And I think we're doing that in a constructive way right now.

So, it's – we're doing all the things that are good for the company every year and also for the future. So, I don't see where the vagueness is. It's not something specific that worries me or something. I just want to say that the crystal ball of where NATO is going and sort of where Europe is going on sort of collaborative sort of flagship projects are not super clear yet, but countries are spending a lot when it comes to defense, and that's why I see a demand in the market. Then, there might be, on top of that, things happening that would be sort of even increasing more sort of the capacity need if all the countries went 30%, you can calculate yourself what that would mean sort of in terms of spending, but we're not there yet. We have a summit in Hague in the summer. And that will sort of be very interesting to see where the ambition level will be put when it comes to targets.

When it comes to Dynamics, there will be sort of volatility over the quarters when it comes to when the deliveries are timed from that business area. I've said, and I won't change that, it should be sort of mid-double-digit numbers. That would be sort of the ambition level all the time for Dynamics. Then it will be about the mix from year to year. It's been an extremely good quarter, very good year. And but – and it should be on mid-double-digit numbers all the time. That's what we've said before, and that's – I stick to that, depending on how the mix looks like during quarters and the year.

Anna Wijkander

Chief Financial Officer, Saab AB

A

And just maybe I can add a little bit, in the gross margin, it's really from deliveries in Dynamics that we had high margins. So, it was not a one-off situation. It's really just about the mix.

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

And as you've seen, we have SEK 8 billion in backlog in Dynamics. So, of course, they have plenty of deliveries going forward.

Merton Kaplan

Head-Investor Relations, Saab AB

A

All right. Thank you very much, Ian.

Ian Douglas-Pennant

Analyst, UBS AG (London Branch)

Q

Thanks very much.

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

Thank you.

A

Operator: The next question comes from the line of Sam Burgess with Citi. Please go ahead.

Samuel Burgess

Analyst, Citigroup Global Markets Ltd.

Great. Thank you, Micael and Anna. First question, at the end of January, you announced you've done some reorganization of the business, delegating more responsibility to the business areas. Could you just talk us through what motivated those changes? Is this about more agility for the business areas or about greater accountability on cash management? Any color there would be helpful?

Q

And then, just the second question is around that Surveillance provision. Do you think that program issue is now fully contained? And can you just help us quantify the risk of further provisions? Any color, again, would be helpful.

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

Well, when it comes to the changes sort of connected to group management and giving in business area more sort of a responsibility, I would say, to the strategy work when it comes to core areas. Well, that is because we growing as a company and we need to focus our strategy on these core areas, including, of course, how we use new technology. There will be corporate sort of cross things that will be added to the strategy going forward, but it doesn't sort of, I think, it's difficult to run it completely top down. So, it will be more of a bottom-up way to complement three things added to the strategy going forward. That's why we're doing that change.

A

And then, again, also the growth of the company and the focus on operational efficiency makes it's important to me to have sort of the, I can lean on someone that's done sort of the operational excellence work in a broader perspective going forward. That's why, we've recruited Eva Karlsson that will join us in a few months from Dometic. So, it's mainly the growth and how we are changing as a company and you have to sort of be agile in the corporate management and also in – on what levels do you actually put the performance management. And you're right. I mean, performance management is on BA level, but also very strongly on the business unit level, below the business area. So, we will put even more efforts into that going forward.

The other question was – I'm sorry?

Merton Kaplan

Head-Investor Relations, Saab AB

Surveillance.

A

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

Surveillance, yeah. Of course, we make loss provisions like that because we think that's what's needed to sort of resolve the problem and the underlying margin is fine and in line with last year so to say. So, it would have been

A

on the same level. Apart from that, I can't say more than that. We don't take it step by step, we try to resolve the problem, and that's sort of it. That's how we do it.

Samuel Burgess

Analyst, Citigroup Global Markets Ltd.

Okay. Thank you very much.

Q

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

Thank you.

A

Operator: The next question is from the line of Erik Golrang with SEB. Please go ahead.

Erik Golrang

Analyst, Skandinaviska Enskilda Banken AB

Thank you. I have two questions. First one is a return to the margin discussion in Aeronautics, just to understand it a bit better. So, profitability ex-T-7, was that – did that improve or was stable year-on-year? And did the drag from T-7, did that increase compared to last year? Trying to sort out how the margin is developing outside of T-7.

And then, the second question is, if you have anything new to share regarding the Department of Justice and the situation with the request for information there? Thank you.

Q

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

I would say that the effect of the T-7 is a little bit higher this last year than earlier. It will improve going forward step by step. I think the margin on the Gripen side is sort of on par with what has – it has been. I always say that the Aeronautics business, when you're sort of not sort of affected by this T-7 thing should be sort of high-single digit numbers. So, the underlying margin is fine, so to say.

But there has been no real sort of development of substance on the underlying margin, but in neither in sort of, not in a negative way, absolutely not. If you go in some direction, it's going slightly minor in the positive direction. But the T-7 has been a little bit more affecting the margin 2024 than earlier. But we are confident that it will now turn into a better situation going forward step by step. But it will take a while before we are really showing nice black numbers, so to say.

A

Erik Golrang

Analyst, Skandinaviska Enskilda Banken AB

Okay. Thank you.

Q

Merton Kaplan

Head-Investor Relations, Saab AB

And the DOJ?

A

Erik Golrang

Analyst, Skandinaviska Enskilda Banken AB

And then, the DOJ?

Q

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

Yeah. I'm sorry. My memory seems to be a bit vague here, but yeah, DOJ, of course, we are collaborating and we have delivered now sort of the first batches of information that they have asked for. But I have no new sort of view of how long this will take or sort of what the end game is or something like that. We are collaborating, giving them what they need and that's what it is. It will take some time, I think, it normally takes a while, but I have no further information on that really.

Erik Golrang

Analyst, Skandinaviska Enskilda Banken AB

Q

Okay. Thank you.

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

Thank you.

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

Tom Guinchard

Analyst, Pareto Securities AB

Q

Thank you. I was just wondering if you can help us a bit on the cash flow distribution here for 2025. 2024 was tilted towards the second half – 2024 was tilted towards the second half of the year. What's your outlook for 2025?

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

But we don't guide on sort of when will we have sort of a good cash flow in which quarter and sort of what areas. That is too much of a difficult sort of prediction to make. Of course, we know exactly where our milestones for payments are, and then, we have our deliveries that will generate cash quickly as well. We are, and then, we have our investments, of course, that will affect exactly when and how these things will pop out in the quarters, and we are saying we're going to continue to deliver positive cash flow. And over this 2023 to 2027 period, this will be sort of in the range of above 60%, and that's what we're trying to achieve. But we will not compromise on what's good for the company going forward, of course.

But to give detail exactly about sort of when and how this will be tabled over the quarters, it's not sort of something we can go into. So, you have to be sort of reassured that we work in cash flow really diligently and our balance sheet, and we will generate continuously positive cash flow year by year.

Tom Guinchard

Analyst, Pareto Securities AB

Q

All right. Thanks. And on the CB90. And is that primarily Sweden or are you seeing high interest abroad as well?

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

No, there is interest from quite a few countries, both in Europe and, of course, in Ukraine and also in Latin America. So, it's a revitalized this type of business. And we also do in the next version to Sweden now sort of a

slightly larger type of Combat Boat 90 that will be part of the portfolio coming forward. So, I'm just pleased to see now that we have substantial work and a good backlog in that shipyard, which we had a little bit of less work in before. But now, it's really going well. I think that affects the numbers, of course, for that business in a very positive direction.

Tom Guinchard

Analyst, Pareto Securities AB

Q

Great. Perfect. Thank you.

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

Thank you.

Merton Kaplan

Head-Investor Relations, Saab AB

A

We have one more analyst on the line. Let's try to capture that one, and we have some questions from the online viewers as well.

Operator: Thank you. The next question is from the line of Sash Tusa with Agency Partners London. Please go ahead.

Sash Tusa

Analyst, Agency Partners LLP

Q

Thank you very much indeed. Good morning. I've just got two questions. One, to drill down on the Surveillance charges, could you confirm whether this was in the remote towers business or not? And do you think that the problems with whatever this commercial product is reflects, is it a competition issue or is it a technical issue that you've had internally? And therefore, just how much – how confident can you be that this is a business that it's worth continuing to trade in?

And then, my second question is actually about on corporate costs, which were – appeared to be very, very high in the fourth quarter of SEK 570 million. Just could you explain what drove this increase and what we should think of as being a run rate for corporate costs across a full year going forward? Thank you.

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

So, on the civilian commercial side of the business, I don't want to go too much into detail, but it's much more related to what we call the civil security type of business. The projects that we have on also dispatch systems and command and control for different sort of things in society. It's not so much related to the air traffic management side, that as much as I can say about that. It's the other part of the commercial business, not the traffic management side.

On corporate costs, maybe Anna, you can...

Anna Wijkander

Chief Financial Officer, Saab AB

A

Yeah, I can handle that. In the corporate cost, we had an increase in security and IT cost that was really facing our cost, I would say, it was an increased cost that came in in the fourth quarter. Should not be seen as the run rate that you should extrapolate for the full year, but we are going to have increased costs for security and things like that going forward. I think that's good to mention, and also, we're growing our company. So, there could be increased cost in corporate, but this level in this quarter, we had an increased cost that came in in particular this quarter.

Sash Tusa

Analyst, Agency Partners LLP

Q

Just to be clear, I mean, we shouldn't necessarily think that this is the corporate costs are going to stay at SEK 1 billion a year or is SEK 1 billion a year about the right the right level overall, even if they don't necessarily phase quite in the same way that they did in 2024? That was a SEK 100 million to SEK 200 million, SEK 100 million and then SEK 600 million?

Anna Wijkander

Chief Financial Officer, Saab AB

A

I think I – maybe, I shouldn't go into the details of that, because there are so many things in the corporate that both minority interest in our portfolios going in there as well, so...

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

But it's fair to say that when it comes to the security and aspects of protecting our business and sites, no, it's not sort of being – going to be very contained. These are investments that we've had, we need to do when we move to new sites, when we build new facilities, when we improve our safety around those sites, for example, which we've taken investments to do, it's an absolutely necessary thing, but it's not sort of a thing that will be every quarter going forward on that side. So, it's sort of a bit sort of 2024-ish, but there will be some increase in costs, but not sort of on this level. That's much we can say.

Sash Tusa

Analyst, Agency Partners LLP

Q

Okay. Thank you.

Merton Kaplan

Head-Investor Relations, Saab AB

A

Thank you very much. We have two minutes, so I want to allow to take some time or one minute from very, very nice encouraging questions from our audience outside. And actually, I want to pick up one from Aymeric Poulain from Kepler, because he covered something we didn't cover today. We are growing, and we're focused on organic growth, which is very good and it looks good. However, what is the status of our M&A pipeline, and we've been a bit quiet there. So, could we elaborate a bit on the capital strategy on M&A going forward?

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

A

No, it's absolutely an essential part of our growth journey, and I hope we'll not have to be too silent on that going forward, but we have to also conclude our discussions on certain cases we're running right now. And before they are – before they are sort of finalized, we can't comment upon it, of course, but you're right, it's part of the growth journey. And we have a handful of cases we're looking into as we speak, and that's as much as I can say.

Merton Kaplan

Head-Investor Relations, Saab AB

All right, perfect. I think with that, we can end the Q&A session, and we'll get back to you if we didn't answer any of your questions online. So, a final word from both...

Micael Johansson

President, Chief Executive Officer & Director, Saab AB

Thanks you so much for your good questions and listening into us. After a very good year that we have, I'm really pleased with the company and all our employees that have supported us, and I look forward to a great future. And don't forget about now the Capital Market Day in May. Thank you so much.

Anna Wijkander

Chief Financial Officer, Saab AB

Thank you.

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