RHM.DE gideon lens

Rheinmetall AG (RHM.DE) — Production ER2 / Gideon Lens

Report ID: RHM.DE-20260922-pulse-cio-20260922T200224+0800 **Report date:** 2026-09-22 **Price anchor:** EUR1,010.60 per XETR:RHM ordinary share (ISIN DE0007030009), completed 2026-09-21 close **Operating anchor:** TTM ended 2026-06-30; terminal forecast 2031-06-30 (five years) **Shareholder horizon:** 2026-09-21 to 2031-06-30, 1,743 days / 4.772171913 years **Currency and mode:** EUR; Production ER2

What changed from the previous report and why

Selected prior governed report: RHM.DE-20260917-PRODUCTION-ER2, dated 2026-09-17; immutable snapshot `C:\Users\Admin\OneDrive\GPT\ER 2.0\Rheinmetall AG\raw\pulse-cio-20260922T200224+0800\prior_active_snapshot\RHM.DE_gideon_lens.md`, SHA-256 `d8310dcbcf69c984a20ebb0336276b182548bf7dc3c2c5c11ac60350a229a342`. Deterministic selector manifest SHA-256 `8478fa36804ff8e8c1e199ae7211b3dc25944f40d65b668868fae6d207a565bd`. This later September sibling is the comparison baseline even though the active AG folder still showed an August 25 bundle before refresh. That stale active bundle's Base EPS EUR113.52 and gross Base IRR 15.07% are not current underwriting.

Area	September 17 governed report	September 22 refresh	Cause and decision impact
Price	EUR1,013.00, September 16 close	EUR1,010.60, September 21 close	0.24% lower, same ordinary security
Gates	M YELLOW; W YELLOW; P/E-15 FAIL, Base cushion –1.3431%	Same gates, cushion –1.1088%	Base EPS unchanged EUR66.626, required EPS now EUR67.373; ER2 verdict remains PASS
Evidence	June H1 financials and earlier September package	New issuer September presentation	EUR2.1bn cancelled F126 remains in June Naval backlog; FY2026 capex rephased from 16% to 8–9% of sales; adjusted 2030 segment ambitions do not equal statutory EBIT
Forecast	Base June 2031 EPS EUR66.626	Same terminal EPS	Naval interim cadence repaired; no management target mechanically adopted
Exit and gross EUR IRRs	14×/19×/23×; Bear –20.36%, Base 4.56%, Bull 20.87%, weighted 4.34%	15×/17×/22×; –20.04%, 2.42%, 20.90%, weighted 3.13%	Red-team multiple repair and correct 1,743-day shareholder exponent, rather than the previous five operating years
CIO net-SGD diagnostic	–22.18%, 3.64%, 21.42%, weighted 3.91%	–21.01%, 1.17%, 19.43%, weighted 1.88%	Frozen EUR/SGD, uniform 5% EUR depreciation and 0.35% entry/exit costs; assumptions differ
Audited scores	56/100; 55/80; 1/20	51/100; 50/80; 1/20	Acquisition-inclusive return evidence fails audit; scores are diagnostics

Bottom line: Strong demand does not cure a failed entry valuation gate, incomplete acquisition/cash-return evidence or a low Base expected return. The September deck sharpens Naval backlog and capex risk. This refresh is a PASS, not a replacement ranking or portfolio instruction.

Executive decision

Verdict: PASS

Scorecard:

Gate	Result	Notes
Management	YELLOW	Execution capable; Naval, cash returns and succession unresolved
Moat	YELLOW	Qualified capacity; 2046 post-scarcity durability remains unproved
P/E <= 15 on confident EPS at TTM + 5 calendar years	FAIL	Base EUR66.626 EPS versus EUR67.373 required; –1.1088% cushion
Compounder Score	Audited 51 / 100	Reject diagnostic, insufficient dream-investment evidence
Business Quality Score	Audited 50 / 80	Acquisition-inclusive returns and cash conversion unproved
20% Return UW Score	Audited 1 / 20	Only Bull clears 20%; price does not underwrite stretch

One-line thesis (or reason to pass): A large European rearmament runway is priced ahead of demonstrated cash returns, while Base fails the P/E-15 gate and yields 2.42% gross EUR annually.

TTM revenue is EUR11.413bn and statutory EBIT EUR1.963bn. June Group backlog is EUR80.467bn, including framework call-offs that must not be treated as firm orders or immediately convertible revenue. Weapon and Ammunition's qualified energetic-material capacity and installed standards support scarcity economics. Vehicles benefits from fleet incumbency; Air and Digital extend integrated systems content. Naval adds acquired capability but no seasoned through-cycle return record. H1 continuing operating free cash flow was negative EUR1.616bn and reported net debt rose to EUR2.722bn. The test is not demand in isolation but conversion through physical capacity, working capital, after-tax owner earnings and cash.

The issuer's September presentation says EUR2.1bn of cancelled F126 work remains in EUR6.255bn June Naval backlog. EUR4.155bn non-F126 is a diagnostic subtraction, not a statutory restatement; no cash remedy or replacement award is invented. FY2026 capex is rephased to 8–9% of sales from 16%, but more than EUR8bn remains planned over five years. Deferred spend is not realized saving. FY2026 and calendar-2030 segment targets are adjusted operating-result ambitions, not five-year statutory EBIT forecasts. Naval's intermediate revenue cadence now reflects ten post-acquisition months in 2026; its June 2031 endpoints and probabilities have not been changed.

The five segment appendices and synthesis reconcile statutory EBIT, corporate drag, ownership attribution and diluted share units. Base EUR27.381714bn June 2031 revenue and EUR4.903441bn statutory EBIT yield EUR3.124030bn owner income and EUR66.626292 diluted EPS on 46.888849m shares. This is below the EUR67.373333 EPS needed for 15× at EUR1,010.60. Management and Moat are YELLOW too. The audited score is diagnostic and does not override those gates.

Security return underwriting (mandatory even when the verdict is PASS):

Measure	Result	Notes
Primary valuation method	P/E	Statutory diluted owner EPS; same method for scenarios, weighted wealth and net-SGD
Gross local-currency bear / base / bull IRR	–20.04% / 2.42% / 20.90%	EUR per-share shareholder return over 1,743 days / 4.772171913 years
Probability-weighted gross local-currency IRR	3.13%	CAGR of EUR1,170.633634 weighted terminal wealth at 30% / 50% / 20%, divided by EUR1,010.60; not an average of scenario IRRs
Return bridge	EUR1,010.60 → EUR347.676862 / EUR1,132.646968 / EUR2,500.035459	Bear/Base/Bull EPS EUR23.178457495 / EUR66.626292218 / EUR113.637975428 × 15×/17×/22×, plus explicit zero future distributions

Current normalized continuing P/E is 38.7466× on EUR26.0823 TTM continuing diluted EPS. The 65.3111× reported P/E includes discontinued Power Systems losses and is not a comparable exit cap. The 15×/17×/22× exits reflect official own-history and fresh September 21 peer forward-price/earnings evidence. F126 and weak Naval conversion are already embedded in Bear operating earnings, not subtracted a second time from its multiple. Base 17× discounts the live peer median for 2031 maturity and uncertain cash. Bull 22× depends on modeled Air 21% **statutory EBIT**, not the issuer's 24–26%

adjusted operating-result target. An unsupported 24× scarcity extrapolation was rejected. P/E produces terminal equity value directly; terminal cash/debt is not added or subtracted again. H1 cash was EUR255m, gross debt EUR2.978bn, net debt about EUR2.722bn; a complete terminal balance sheet is unavailable. The latest EUR11.50 declared dividend is historical; future dividends are **zero only as a conservative diagnostic**, not a forecast that the company cancels them.

Operating rows start with the June 30 TTM observation, five years before terminal June 2031. The price/shareholder rows start September 21, 1,743 days before terminal date. Operating CAGRs use five years; every IRR below uses 1,743/365.2425 years. Quote-basis starting shares 46.789567m differ from the 46.66m TTM weighted denominator of normalized starting EPS; do not divide the latter numerator by quote-basis shares.

Bear-case operating and return bridge

Bear case	Start (2026-06-30 operating; 2026-09-21 price)	Horizon (2031-06-30)	CAGR / change	Justification
Revenue	EUR11.413bn	EUR17.821239bn	9.31%	Delayed conversion and weak Naval ramp
Operating margin	17.20%	11.98%	–5.22 pp	W&A 20%; acquisition/ramp friction
Operating earnings	EUR1.963bn	EUR2.134778bn	1.69%	Statutory EBIT after corporate cost
Diluted share count	46.789567m	46.8143875m	0.01%	Identified dilution; no buyback
EPS	EUR26.0823 continuing	EUR23.178457495	–2.33%	Statutory diluted owner EPS, including Bear discontinued drag
Valuation denominator	Continuing diluted EPS	Continuing diluted EPS	Same unit	Reported multiple non-comparable
Valuation	38.7466× normalized	15× P/E	–23.7466×	No second F126 multiple penalty
Share value	EUR1,010.60	EUR347.676862425	–20.04% IRR	EPS × 15; terminal equity EUR16.276279bn / 46.8143875m shares; no debt add
Annual dividend	Historical EUR11.50 declared	EUR0 diagnostic	Unavailable forecast	Future payout timing unsupported
Dividend yield	Historical 1.14%	0.00% diagnostic	Unavailable forecast	Zero future distribution modeled
Cumulative dividends	—	EUR0.00	Exact holding period	Counted once
Total ending value	EUR1,010.60	EUR347.676862425	–20.04% gross EUR IRR	Terminal share plus distributions

Base-case operating and return bridge

Base case	Start (2026-06-30 operating; 2026-09-21 price)	Horizon (2031-06-30)	CAGR / change	Justification
Revenue	EUR11.413bn	EUR27.381714bn	19.15%	Backlog conversion below M&A-inclusive aspiration
Operating margin	17.20%	17.91%	+0.71 pp	Scale offsets part of investment
Operating earnings	EUR1.963bn	EUR4.903441bn	20.08%	Statutory EBIT after corporate cost
Diluted share count	46.789567m	46.888849m	0.04%	LTI dilution; no buyback offset
EPS	EUR26.0823 continuing	EUR66.626292218	20.63%	EUR3.124030bn diluted owner income / shares
Valuation denominator	Continuing diluted EPS	Continuing diluted EPS	Same unit	P/E-15 entry test separate from exit
Valuation	38.7466× normalized	17× P/E	–21.7466×	2031 maturity and cash haircut to peers
Share value	EUR1,010.60	EUR1,132.646967706	+2.42% IRR	EPS × 17; terminal equity EUR53.108513bn / 46.888849m; no debt add
Annual dividend	Historical EUR11.50 declared	EUR0 diagnostic	Unavailable forecast	No source-bound payout schedule

Base case	Start (2026-06-30 operating; 2026-09-21 price)	Horizon (2031-06-30)	CAGR / change	Justification
Dividend yield	Historical 1.14%	0.00% diagnostic	Unavailable forecast	Conservative diagnostic
Cumulative dividends	—	EUR0.00	Exact holding period	Counted once
Total ending value	EUR1,010.60	EUR1,132.646967706	+2.42% gross EUR IRR	Terminal share plus distributions

Bull-case operating and return bridge

Bull case	Start (2026-06-30 operating; 2026-09-21 price)	Horizon (2031-06-30)	CAGR / change	Justification
Revenue	EUR11.413bn	EUR36.775828bn	26.37%	Simultaneous capacity and systems execution
Operating margin	17.20%	21.70%	+4.50 pp	W&A 30%; Air 21% statutory EBIT
Operating earnings	EUR1.963bn	EUR7.980572bn	32.39%	Statutory EBIT after corporate cost
Diluted share count	46.789567m	46.988131m	0.08%	Higher identified LTI dilution
EPS	EUR26.0823 continuing	EUR113.637975428	34.23%	Statutory diluted owner EPS
Valuation denominator	Continuing diluted EPS	Continuing diluted EPS	Same unit	Issuer adjusted targets not adopted
Valuation	38.7466× normalized	22× P/E	–16.7466×	Near pre-scarcity own-company anchor
Share value	EUR1,010.60	EUR2,500.035459416	+20.90% IRR	EPS × 22; terminal equity EUR117.471994bn / 46.988131m; no debt add
Annual dividend	Historical EUR11.50 declared	EUR0 diagnostic	Unavailable forecast	No supported Bull payout schedule
Dividend yield	Historical 1.14%	0.00% diagnostic	Unavailable forecast	Conservative diagnostic
Cumulative dividends	—	EUR0.00	Exact holding period	Counted once
Total ending value	EUR1,010.60	EUR2,500.035459416	+20.90% gross EUR IRR	Terminal share plus distributions

CIO actionability — separate research-only conclusion

Measure	Result	Notes
Status	PASS	Not the ER2 verdict; Base below 8%, severe Bear downside
Bear / Base / Bull net SGD IRR	–21.01% / 1.17% / 19.43%	Same P/E endpoints after explicit FX, costs and zero-dividend withholding
Probability-weighted net SGD IRR	1.88%	CAGR of 30% / 50% / 20% terminal SGD wealth, not average IRRs
10% mandate hurdle	FAIL	Base and weighted cases both fail
15% stretch hurdle	FAIL	Base/weighted fail; Bull alone is conditional
Downside and portfolio fit	FAIL	Bear severe; frozen POWR comparison does not imply replacement
Proposed sizing ceiling	none	No ranking, sizing, order or approval claim

The September 22 frozen portfolio audit supplies EUR/SGD 1.4635361, not an executable quote. This diagnostic assumes uniform 5% EUR depreciation to 1.390359295 at terminal, 0.35% entry and exit friction, and 30% withholding if dividends were paid. Zero modeled distributions make withholding zero; investor-specific tax and fees are unverified. Entry cost is SGD1,484.226256 per share and weighted terminal net SGD wealth SGD1,621.904750, producing 1.88% over the same exact horizon.

The queue question asks whether the old active bundle could spur action from the latest Pulse memo. September 22 frozen NAV was SGD2,737,709.3; POWR was 1,612 shares at the September 21 USD24.80 accounting close, modeled at +12.2% Base and –10.9% Bear. At the memo USD/SGD 1.27632, hypothetical sale of 47 POWR shares with 0.35% friction nets

SGD1,482.47, SGD1.75 short of one RHM share's modeled entry cost; 48 nets SGD1,514.01 and leaves SGD29.79 and 1,564 POWR. One RHM share would represent about 0.0542% of frozen NAV. This is a whole-share feasibility counterfactual, **not** optimal funding, allocation or recommendation. RHM's +1.17% Base and –21.01% Bear net-SGD compare unfavorably with the frozen POWR assumptions, but securities and scenario methodologies differ. The stale August bundle cannot govern a replacement decision. The governed current Production ER2 answers security returns without authorizing the hypothetical transaction.

Trade execution authorized: NO

Kill, re-underwriting and governance

- Demand a verified next backlog roll-forward that removes or genuinely replaces the cancelled F126 amount; a hypothetical cash remedy is not sales.
- Downgrade confidence if W&A rolling statutory EBIT margin falls below 20% for two consecutive half-years together with cumulative negative W&A operating free cash flow, or June 2027 delivery and working capital do not bridge the FY2026 targets.
- Require seasoned acquisition-inclusive capital returns and cash conversion before lifting the Management or 2046 Moat YELLOW gate. The approximately EUR490.40 maximum price for a 20% gross weighted return is a reverse-return diagnostic, **not** a bid or order.
- The P/E-15 entry gate needs confidently modeled terminal EPS above EUR67.3733 at EUR1,010.60. Merely clearing that arithmetic would not resolve the two qualitative YELLOW gates.

Research sizing if actionable: none. This dispatcher has no portfolio mutation, trade, broker, ranking, replacement, outward-message or BUY-queue authority. It publishes a source-bound security assessment with finite returns, uncertainties and audited lineage. No daily Pulse memo, dashboard or route is republished here.

Appendix A — Company Primer

Rheinmetall AG (RHM.DE) — Company Primer

As of: 22 September 2026, 20:02 Singapore time (current run cutoff) **Latest complete reporting period:** H1 FY2026 ended 30 June 2026 **Fiscal year-end:** 31 December **TTM anchor:** FY2025 less H1 FY2025 plus H1 FY2026, ending 30 June 2026 **Exact five-year horizon used elsewhere in this ER2:** 30 June 2031 **Exact quoted security and price:** XETR:RHM ordinary bearer share, EUR 1,010.60 at the last completed Xetra close on 21 September 2026; the 22 September session was still incomplete at the run cutoff **Scope:** Reader orientation only. This appendix makes no forecast beyond clearly identified management guidance and contains no valuation verdict, ranking, sizing, or trading authority. `trade_execution_authorized=false`

1. Business overview

Rheinmetall is a European defence systems company whose continuing operations now span five reportable segments: Vehicle Systems, Weapon and Ammunition, Air Defence, Digital Systems, and Naval Systems. The portfolio ranges from armoured and logistics vehicles through guns, ammunition and energetic materials to air-defence networks, secure military electronics, training systems, and complete surface ships. It is therefore better understood as an industrial system house than as a single-product weapons manufacturer. The product sold is ultimately military readiness: the ability to move and protect troops, detect and engage threats, communicate securely, sustain equipment, replenish ammunition, and maintain platforms over long service lives.

The core customer is normally a sovereign government, defence ministry, armed service, multinational procurement agency, or another defence prime. This is not a consumer, distributor-led, or self-service market. Customers buy through public tenders, negotiated national programmes, government-to-government frameworks, direct awards where permitted, consortium structures, and subcontracting positions on larger platforms. A sale may be a batch of ammunition, a multiyear vehicle fleet, a national air-defence architecture, a communications network, a shipbuilding programme, or a lifecycle package combining equipment, spares, training, simulation, maintenance, and upgrades.

Winning depends on more than technical specifications. Governments also judge delivery capacity, security of supply, interoperability, domestic employment, technology transfer, sovereign control of production, export-license availability, and the supplier's ability to support equipment for decades. Rheinmetall increasingly responds with local plants, joint ventures, supplier networks, and country-specific industrial workshare. This can improve award probability and embed the company in a customer's defence infrastructure, but it also makes contracts capital intensive and operationally complex.

The strategic logic is cross-domain integration. A Rheinmetall vehicle can incorporate group-made protection, weapons, ammunition, sensors, communications, and air-defence equipment. A customer can procure a platform together with local assembly, ammunition production, training, software, spares, and sustainment. Naval Systems extends this model into surface vessels, while partnerships provide capabilities that Rheinmetall does not own outright. Breadth can support a larger share of programme economics, but it also creates more interfaces, execution dependencies, and acquisition-integration work.

The continuing perimeter is now overwhelmingly defence-focused. The former civilian Power Systems activities have been classified as discontinued operations since 17 December 2025. Rheinmetall signed an agreement in June 2026 to sell most of that division to AEQUITA for a provisional EUR 350 million, subject to approvals and closing adjustments; management targeted completion in the fourth quarter of 2026. As of this primer's cutoff, the transaction should not be described as already closed. The [official disposal announcement](https://www.rheinmetall.com/en/media/news-watch/news/2026/06/2026-06-03-deal-finalised-rheinmetall-divests-its-civilian-division) also identifies activities excluded from the sale.

2. Revenue architecture and the 2026 taxonomy change

The sealed quantitative foundation is controlling for financial statement values. FY2025 was reported under the old structure: Vehicle Systems, Weapon and Ammunition, and Electronic Solutions. The table uses issuer-reported segment sales, including intersegment activity, followed by the negative Others/Consolidation line that reconciles to group revenue. Percentages are therefore shares of consolidated group revenue after eliminations, not an external-sales mix.

FY2025 reporting structure	Segment sales (EUR m)	Share of group revenue	Segment EBIT (EUR m)	EBIT margin
Vehicle Systems	4,992	50.2%	530	10.6%

FY2025 reporting structure	Segment sales (EUR m)	Share of group revenue	Segment EBIT (EUR m)	EBIT margin
Weapon and Ammunition	3,532	35.6%	944	26.7%
Electronic Solutions	2,504	25.2%	370	14.8%
Others/Consolidation	(1,093)	(11.0%)	(160)	Not meaningful
Rheinmetall Group continuing operations	9,935	100.0%	1,684	16.9%

Effective 1 January 2026, Rheinmetall split Electronic Solutions into Air Defence and Digital Systems. Following the acquisition of Naval Vessels Lürssen, which closed on 27 February 2026, Naval Systems entered the group perimeter from March. The result is today's five-segment structure. Rheinmetall restated H1 FY2025 comparatives into the new taxonomy, but did not provide a fully reclassified FY2025 split of legacy Electronic Solutions. A sound TTM view must therefore keep legacy H2 FY2025 Electronic Solutions combined rather than inventing an Air Defence/Digital Systems allocation.

The current structure is visible in H1 FY2026. The table below again uses segment sales and the consolidation line. It uses statutory segment EBIT, the additive common-basis measure in the sealed statutory bridge. Rheinmetall also reports an adjusted operating result before PPA effects and special items, but that management KPI must not be relabeled as statutory operating income.

H1 FY2026 current structure	Segment sales (EUR m)	Share of group revenue	Segment EBIT (EUR m)	EBIT margin
Vehicle Systems	2,431	46.5%	256	10.5%
Weapon and Ammunition	1,757	33.6%	377	21.5%
Air Defence	478	9.1%	76	15.9%
Digital Systems	820	15.7%	63	7.7%
Naval Systems	334	6.4%	(18)	(5.4%)
Others/Consolidation	(592)	(11.3%)	(89)	Not meaningful
Rheinmetall Group continuing operations	5,227	100.0%	664	12.7%

At the TTM anchor, group revenue was EUR 11,413 million and statutory EBIT was EUR 1,963 million. Vehicle Systems contributed EUR 5,525 million of TTM sales and EUR 634 million of EBIT; Weapon and Ammunition contributed EUR 3,966 million and EUR 1,087 million. The Electronic Solutions successor bridge—legacy Electronic Solutions less restated H1 FY2025 plus current Air Defence and Digital Systems—contributed EUR 2,843 million of sales and EUR 426 million of EBIT. Naval contributed only its four post-acquisition months, EUR 334 million of sales and a EUR 18 million EBIT loss. This construction preserves the reporting change instead of manufacturing false comparability.

Vehicle Systems

Vehicle Systems designs, integrates, manufactures, and supports wheeled and tracked tactical vehicles and military logistics fleets. A single programme can contain troop carriers, command vehicles, recovery variants, ambulances, weapon carriers, and trucks, each adapted to national specifications. Revenue includes programme engineering, new vehicles, integration of group and third-party subsystems, spare parts, maintenance, and modernization. Procurement is usually phased over several years, and local assembly or supplier workshare may be a condition of award.

Weapon and Ammunition

Weapon and Ammunition covers large- and medium-calibre weapon systems, ammunition, propellants and charges, protection systems, and related services. It combines durable installed-base products with consumables. Guns and launchers create recurring needs for training rounds, readiness stocks, replacement ammunition, maintenance, and upgrades. The critical industrial chain extends well beyond final shell assembly to powder, explosives, fuzes, casings, barrels, and qualified production processes.

Air Defence

Air Defence supplies sensors, fire control, command elements, cannon, missile integration, and programmable ammunition for ground-based short- and very-short-range defence. Systems such as Skynex and Skyranger are sold as integrated detection-to-engagement architectures rather than stand-alone guns. Initial batteries are programme sales; service, software changes, ammunition, additional launchers, and system expansion can create follow-on demand. The official [Air Defence

portfolio](https://www.rheinmetall.com/en/products/air/air-defence) illustrates the breadth of this sensor-to-effector chain.

Digital Systems

Digital Systems provides tactical communications, command-and-control, sensors, soldier systems, simulation, satellite-related capabilities, manned and unmanned aircraft systems, and digital training. The label can be misleading: this is not a pure subscription-software business. Large programmes such as TaWAN and D-LBO combine hardware, secure networking, bespoke engineering, systems integration, accreditation, software, and support. Revenue is project- and milestone-driven, with some lifecycle service economics but no simple seat-based recurring model.

Naval Systems

Naval Systems is the acquired surface-shipbuilding platform. It develops and builds naval and coastguard vessels and autonomous surface systems, while also providing repair, maintenance, and service. The acquired group includes four northern German shipyards and approximately 2,100 employees. Shipbuilding brings long design and delivery cycles, high work in progress, expensive infrastructure, specialized labour, and material exposure to milestone performance and customer acceptance. The [official closing announcement](https://www.rheinmetall.com/en/media/news-watch/news/2026/03/2026-03-02-rheinmetall-takes-over-nvl) frames the acquisition as the creation of a German cross-domain naval system house.

3. Unit economics and capital intensity

Rheinmetall's reported economics reflect a mix of serial manufacturing, systems integration, contract engineering, and lifecycle support. No segment is a frictionless recurring-revenue business. Each revenue euro must absorb materials and purchased components, skilled labour, engineering, programme management, quality assurance, compliance, factory and test infrastructure, and corporate costs. Margins improve when mature programmes reach serial volume, capacity utilization rises, product mix is favourable, and pricing covers inflation and customization. They weaken during programme launches, low-volume engineering phases, supplier disruption, schedule slippage, or cost overruns.

Vehicle Systems is an assembly-and-integration business with considerable purchased content. Its H1 statutory EBIT margin was 10.5%, below the group average. Mature vehicle families can reuse designs, tooling, supplier networks, and test processes, while spares and support can be attractive. But national variants, local-content commitments, and changes to protection, electronics, powertrain, or weapons can reintroduce engineering cost. Capital needs include production lines, tooling, test facilities, demonstrator fleets, inventories, and contract working capital. Customer advances can fund part of the cycle, but their timing is uneven.

Weapon and Ammunition produced the highest statutory profitability, with a 21.5% H1 EBIT margin and a 26.7% FY2025 EBIT margin. Economics benefit from high utilization, scarce qualified capacity, and a mix that includes energetic materials and sophisticated weapon systems. The moat is physical as much as intellectual: plants require licenses, safety systems, long qualification processes, and dependable access to inputs. That scarcity can support price and volume economics, but it demands substantial up-front investment. If public orders arrive late or demand normalizes before assets are filled, underutilization can reverse operating leverage.

Air Defence generated a 15.9% H1 EBIT margin. Its value comes from integrating sensors, software, fire control, effectors, and ammunition into a working architecture. Higher systems content and reusable engineering can support margin, while early programme work, customer-specific integration, and multinational delivery complexity can depress it. Volume leverage was evident in the H1 result, but six months of rapid growth is not a through-cycle margin record.

Digital Systems generated a 7.7% H1 EBIT margin, the lowest positive margin among the established current segments. The business is labour- and engineering-intensive and contains significant hardware. Profitability depends on converting development programmes into repeat deployments, reusing architectures, and absorbing fixed engineering across more systems. Bespoke security accreditation, programme starts, integration burdens, and customer-specific functionality can keep costs high despite the word “digital.”

Naval Systems reported a EUR 18 million statutory EBIT loss in its first four consolidated months even though the adjusted operating measure was positive. The distinction matters because purchase-price-allocation charges and special items are economically relevant to the acquisition perimeter. Shipyards have high fixed infrastructure and labour costs; contract estimates, change orders, milestone achievement, schedule, and acceptance drive profit recognition. Repair and maintenance can be steadier than newbuilds, but the division remains exposed to large-programme decisions. The F126 cancellation shortly after acquisition illustrates that backlog and expected work can change through sovereign action.

Group capital intensity is currently rising. TTM operating cash flow was EUR 1,313 million, cash capex was EUR 922 million, and reproducible OCF less capex was only EUR 391 million despite strong accounting earnings. At FY2025, cash of EUR 1,650 million exceeded gross financial debt of EUR 1,281 million; by 30 June 2026, cash had fallen to EUR 255 million and gross financial debt had risen to EUR 2,978 million, leaving EUR 2,722 million of net debt. The change reflects acquisition funding, dividends, capacity investment, and a heavy working-capital phase. Growth must therefore be judged against the enlarged capital base, not revenue and margin alone.

4. Customer procurement, contracts, and backlog mechanics

Defence procurement often separates political intent, a framework ceiling, a funded order, delivery, and cash collection. Rheinmetall uses three measures that must not be conflated:

- **Order intake** is the value of conventional customer orders booked in the period.
- **Frame Nomination** is management's expected value of newly signed framework agreements, before binding call-offs.
- **Rheinmetall Nomination** combines order intake and Frame Nomination, adjusted for framework utilization.
- **Rheinmetall Backlog** combines binding Order Backlog with Frame Backlog, the expected future call-offs under existing frameworks.

At 30 June 2026, Rheinmetall Backlog was EUR 80.467 billion, comprising EUR 56.342 billion of Order Backlog and EUR 24.126 billion of Frame Backlog. H1 Rheinmetall Nomination was EUR 16.238 billion. These figures signal extraordinary demand visibility, but they are not the same as guaranteed revenue. The company states explicitly that framework nominations are not binding orders and final call-off volumes may vary. The [H1 2026 report and release](https://www.rheinmetall.com/en/media/news-watch/news/2026/08/2026-08-06-rheinmetall-news-half-yearly-financial-report-h1) should therefore be read with the definitions, not just the headline total.

There is a second qualification: Rheinmetall's [September 2026 investor presentation, slide 58](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf) says the June backlog still included EUR 2.1 billion for F126, notwithstanding the programme cancellation. The reported June backlog is a dated snapshot, not an immediately executable demand forecast; any subsequent removal or replacement must be tracked in the next disclosure rather than silently netted from this primer's historical figure.

Contract form determines both accounting and cash. Serial ammunition or vehicle orders may be delivered in batches. Large platforms and integration projects may recognize revenue over time as performance occurs, depending on IFRS contract criteria. A contract asset arises when cumulative revenue recognized exceeds advances and progress billings; a contract liability arises when billings or customer advances exceed recognized revenue. The same economic programme can therefore produce rising EBIT and falling cash in one period, then the reverse when milestones and advances arrive.

Customer advances are valuable financing, but they make cash conversion lumpy. H1 continuing-operations operating free cash flow was negative EUR 1.616 billion. Management attributed the deterioration to the timing of advance payments, inventory build for future sales, greater customer receivables following heavy quarter-end invoicing, and continued investment. The sealed TTM cash bridge, which includes the current perimeter and comparative adjustments, shows EUR 391 million of plain OCF less cash capex. Neither number supports treating recent earnings growth as immediately distributable cash.

The strongest way to monitor conversion is a multi-period dashboard: binding orders versus framework expectations, customer advances, inventories, receivables, contract assets and liabilities, operating cash flow, and capex. A high book-to-bill ratio is constructive only if factories qualify, suppliers deliver, customer milestones are accepted, and the cash cycle remains financeable.

5. Capacity, production footprint, and supply chain

Rheinmetall is committing capital ahead of full revenue realization. In ammunition, the bottleneck is not simply final assembly. Propellant powder, charges, explosives, fuzes, barrel production, shell bodies, qualified materials, and safety-certified processes must all scale together. Vertical integration can secure throughput and deepen customer dependence, but it also concentrates operational and safety risk.

The Aschau powder expansion is an illustrative current project. Rheinmetall said in July 2026 that new facilities would start progressively from 2027, reach maximum capacity in 2028, and more than double the site's powder and module output over

the next 24 months. Management's group objective is annual propellant-powder capacity of 20,000 tonnes by 2030, supported by Aschau, Wimmis, Murcia, Burgos, and other sites. Those are company targets, not this primer's forecast. See the [official Aschau capacity announcement](https://www.rheinmetall.com/en/media/news-watch/news/2026/07/2026-07-23-rheinmetall-foundation-laying-ceremony-aschau-powder-plant).

Localization is both a production strategy and a commercial requirement. The Romanian SAFE package illustrates the model: vehicles, air defence, ammunition, and naval vessels are paired with domestic production, supplier participation, service capability, and technology transfer. The package was awarded across several segments under EU financing, reducing reliance on exports from Germany but increasing the number of sites, partners, and programme interfaces that management must coordinate.

Supply resilience remains a constraint. Energetic materials, specialist metals, engines, electronics, semiconductors, and certified subcontractors can have few alternatives and long lead times. Inventory buffers, dual sourcing, partnerships, and local plants reduce some risks but consume cash and can create duplicate fixed costs. The economic test is whether commissioned capacity reaches qualified volume on time and earns returns above its full working-capital and infrastructure burden.

A [14 September 2026 issuer release](https://www.rheinmetall.com/en/media/news-watch/news/2026/09/2026-09-14-rheinmetall-supplies-artillery-ammunition-to-international-customer) reported a new low-three-digit-million-euro 155mm shell order for delivery by 2027. It is evidence of order conversion after the H1 reporting date, not an adjustment to H1 revenue or the June backlog bridge.

6. Geographic exposure, regulation, and public budgets

Germany generated 37.9% of H1 FY2026 sales, leaving 62.1% international. Other Europe was the largest international region, while the Americas represented 10.0% of sales. Germany remains the anchor customer, but the company also serves other European and NATO governments, Ukraine-related requirements, and selected allied markets. At 30 June 2026, 94.9% of backlog was associated with NATO members, NATO global partners, and other European Partnership for Peace countries. This reduces exposure to unaffiliated buyers but concentrates the business in allied public budgets.

Public procurement creates a fundamental asymmetry: the end demand can be strategic and urgent, yet the timing is political. Parliamentary appropriations, coalition priorities, tender challenges, fiscal constraints, programme redesign, and customer acceptance can move orders and cash between periods. The F126 frigate cancellation caused management to reduce 2026 group sales guidance by EUR 300 million. Conversely, the Romanian government awarded a multi-segment EUR 5.7 billion package under the EU SAFE programme in May 2026. These examples show that public policy can both accelerate and remove demand.

Military products and exports are tightly controlled. German and European foreign-trade law, the War Weapons Control Act, sanctions, embargoes, end-user restrictions, and destination-specific approvals can determine whether a product may be manufactured, transferred, or exported. Rheinmetall says each military company appoints weapons-control and export officers, maintains war-weapons registers, and undergoes government audits. The [official export-control description](https://www.rheinmetall.com/en/company/corporate-governance/export-controls) makes clear that compliance is not an administrative afterthought; it is part of the license to operate and a potential delivery bottleneck.

Geopolitics cuts both ways. European replenishment, readiness gaps, drone threats, and uncertainty over U.S. burden-sharing support demand. But ceasefires, fiscal retrenchment, changing export policy, national preference, or different threat priorities could alter order timing and mix. Long service lives and depleted inventories provide a structural demand case, yet quarterly and annual conversion remains governed by political decisions rather than consumer demand curves.

7. Competition and industry structure

Defence is a concentrated, sovereign-industry market with high entry barriers. Relevant barriers include classified know-how, weapons licenses, security-cleared staff, product qualification, long safety records, trusted government relationships, installed fleets, specialized plants, and the political credibility to sustain deliveries in a crisis. Price matters, but so do readiness, interoperability, domestic workshare, supply sovereignty, and through-life support.

Competition differs by segment. Vehicle programmes pit Rheinmetall against national armoured-vehicle and military-truck primes, sometimes through joint ventures or programme-specific teams. Ammunition competition depends on qualified capacity across the energetic-materials chain, not simply catalogue breadth. Air defence competes across cannon, missile, radar, command, and counter-drone architectures. Digital Systems meets defence-electronics, secure-communications,

simulation, sensor, aerospace, and software integrators. Naval awards are typically contested among national shipyards and cross-border partnerships, with industrial workshare often as important as design.

Representative competitive sets include KNDS, BAE Systems, General Dynamics European Land Systems, Leonardo, Saab, Thales, Kongsberg, Diehl Defence, MBDA, Hensoldt, TKMS, Naval Group, Fincantieri, Damen, and Babcock, although the relevant group changes by programme. Many are simultaneously partners, suppliers, or customers. Rheinmetall's breadth can help it integrate more content internally, but consortium politics can cap workshare. A programme position and the economics of a specific work package are often more meaningful than an abstract company-wide market share.

The installed base creates lifecycle opportunity but not automatic annuity economics. Vehicles, weapons, radars, ships, and digital architectures require ammunition, spares, training, maintenance, and upgrades. Follow-on work must still be won through performance, funding, and customer trust. Switching costs can be high once a force standardizes on a platform, but governments retain procurement leverage and can dual-source, localize, or redesign programmes.

8. Acquisition, integration, and capital-allocation context

NVL is the defining current acquisition. Rheinmetall acquired 100% of the business and consolidated it from March 2026. The strategic case is straightforward: add the maritime domain, combine shipbuilding with group sensors, weapons, air defence, digital systems, and autonomous capabilities, and create a broader German defence system house. The financial and operating case is harder. Shipyards bring long-duration contracts, fixed infrastructure, labour and supplier dependencies, milestone accounting, and potentially large estimate revisions.

The balance-sheet move was immediate. Acquisition cash outflow was approximately EUR 1.04 billion, while Rheinmetall raised a EUR 1.0 billion club loan and a EUR 0.5 billion bond amid other working-capital and investment needs. The group's shift from EUR 369 million of net liquidity at FY2025 to EUR 2.722 billion of net debt at June 2026 means integration is occurring with materially less balance-sheet slack. This is manageable only if backlog converts, working capital normalizes, and new capacity reaches productive use.

F126 is an early warning about acquisition underwriting. The programme was expected to contribute to Naval activity, but its cancellation drove a EUR 300 million reduction in current-year group sales guidance and exposed the gap between programme expectation and sovereign commitment. Investors should separate the acquired backlog from framework expectations, assess contract quality and margin recognition, and track whether replacement work fills the yards without sacrificing terms.

Recent technical demonstrations underscore potential cross-domain reuse without proving contract economics. On [21 September](https://www.rheinmetall.com/en/media/news-watch/news/2026/09/2026-09-21-rheinmetall-repmus26-interconnected-unmanned-systems-for-the-protection-of-maritime-infrastructure), Rheinmetall described its Battlesuite middleware linking sensors from different makers in a maritime unmanned-systems exercise. A [22 September release](https://www.rheinmetall.com/en/media/news-watch/news/2026/09/2026-09-22-rheinmetall-reaches-milestone-in-the-development-of-the-heavy-weapons-carrier-simulator-for-the-infantry) reported factory acceptance of infantry vehicle training equipment, with five systems targeted for handover by mid-2027. These illustrate Digital Systems' integration and simulation role alongside vehicles and ships; neither announcement supplies a new segment profit measure.

Capital allocation now balances organic capacity expansion, acquisition integration, dividends, partnerships, and financial resilience. H1 dividend cash paid was EUR 535 million. Convertible-bond conversions increased the share count, while acquisition and growth investment increased debt. The important question is not whether spending is labelled strategic; it is whether each project or acquired asset earns a satisfactory return after full capex, working capital, integration costs, and dilution.

9. Management's current framing, not an analyst forecast

After assessing F126, management's 6 August 2026 guidance called for FY2026 group sales of EUR 13.7 billion to EUR 14.2 billion and an adjusted operating-result margin of around 19%. The sales range was EUR 300 million below prior guidance, while organic growth expectations were unchanged at 28% to 31%. This is issuer guidance, not a forecast adopted by this primer. It relies on second-half orders, deliveries, customer milestones, and cash movements that the H1 report itself says can be affected by government budget timing.

The guidance should also be reconciled to the correct profit basis. Rheinmetall's operating result is before PPA effects and special items. Statutory H1 EBIT was EUR 664 million versus the EUR 786 million adjusted operating result. A reader should therefore avoid applying the guided adjusted margin directly to statutory earnings without a transparent bridge.

10. Principal risks and monitoring signals

Risk	Why it matters	Monitoring signal
Framework conversion	Backlog includes expected call-offs as well as binding orders	Order Backlog versus Frame Backlog, call-offs, cancellations, delivery schedules
Public-budget timing	Political approval can delay or remove programmes	Appropriations, tenders, guidance changes, programme redesigns
Capacity execution	New plants must commission, qualify, and reach utilization	Start-up dates, output, yield, cost overruns, safety and quality events
Cash conversion	Growth absorbs advances, inventory, receivables, and capex	OCF, operating FCF, contract balances, working capital, cash capex
Programme performance	Long fixed milestones can create losses or provisions	Segment EBIT, provisions, delays, acceptance and change orders
Supply bottlenecks	Energetics, electronics, engines, and specialist inputs can constrain output	Lead times, supplier failures, inventories, qualification of alternate sources
Export and compliance	Licenses or sanctions can stop delivery	Permit status, destination mix, sanctions changes, audit findings
Customer concentration	Germany and allied public budgets drive most demand	Germany sales, NATO/PfP backlog share, major programme concentration
Naval integration	NVL adds debt, shipyards, and long-cycle contract estimates	Statutory Naval EBIT, cash use, backlog quality, yard utilization, replacements for F126
Technology relevance	Drones, autonomy, software, and countermeasures evolve rapidly	Wins and performance in counter-UAS, digital networks, autonomy, and space
Margin normalization	Scarcity, mix, and advance timing may not persist	Statutory versus adjusted profit, segment mix, pricing, wage and material inflation
Taxonomy comparability	Reorganization can obscure trends	Full-year five-segment data and consistent PPA/special-item bridges

11. Reader glossary

- **AHEAD ammunition:** Programmable airburst ammunition that releases sub-projectiles near an aerial target.
- **Backlog:** Rheinmetall's combined Order Backlog and expected call-offs represented by Frame Backlog.
- **Call-off:** A binding customer release under a broader framework agreement.
- **Contract asset:** Revenue recognized over time in excess of advances and progress billings.
- **Contract liability:** Advances and billings in excess of revenue recognized; a form of customer financing until performance occurs.
- **Effector:** The weapon, interceptor, jammer, or other means used to act on a detected threat.
- **Frame Nomination:** Management's expected value of newly signed framework agreements; it is not yet a binding customer order.
- **Operating result:** Rheinmetall's adjusted management profit measure before PPA effects and special items.
- **PPA effects:** Purchase-price-allocation amortization or related accounting effects arising from acquisitions.
- **Rheinmetall Nomination:** Order Intake plus Frame Nomination, adjusted for framework utilization.
- **SAFE:** The European Union's Security Action for Europe financing instrument for defence procurement.
- **Sensor-to-effector chain:** The integrated process from detecting and classifying a threat through command decision to engagement.
- **TTM:** Trailing twelve months; here FY2025 less H1 FY2025 plus H1 FY2026, ending 30 June 2026.
- **Workshare:** The engineering or production portion allocated to a participant or country in a joint programme.

Source and perimeter note

Every historical financial-statement value in this primer is tied to the current `quant_foundation.md` for run `pulse-cio-20260922T200224+0800` (QFR-cleared packet SHA-256 `467eae5fbb23750675ed1aa01ce9cfa8233d33aa8961e5d1459e21c261ba048a`; statutory bridge SHA-256 `bc3d5a1577a7461e980af5b367da097ae51674dd432019c21cc73639b9b8d7a5`), whose controlling primary sources are the [Rheinmetall Annual Report 2025](https://ir.rheinmetall.com/media/document/214a8f96-a9e5-4296-9a89-e2b65122d258/assets/Rheinmetall-Annual-Report-2025.pdf) and the [H1 2026 Half-Yearly Financial Report](https://ir.rheinmetall.com/media/document/1bbcaadf-0e67-45bc-80df-bba822823824/assets/DE0007030009-Q2-2026-EQ-E-00.pdf). Current operational context was checked against the issuer's live releases and September presentation cited above. No local data-warehouse cache or prior raw pull was substituted for current evidence. The migrated prior governed primer supplied valid company history and section architecture; dated quote, run reference and post-H1 issuer context were updated. The five-segment 2026 structure, the pending Power Systems disposal, the Naval acquisition, and the statutory-versus-adjusted profit distinction remain explicit.

Appendix M — Management Assessment

Rheinmetall AG — Management Assessment

As of: 22 September 2026 **Gate: YELLOW Research boundary:** Security underwriting only; no portfolio, ranking, sizing, or trade authority. `trade_execution_authorized=false`.

Rheinmetall is not YELLOW because Armin Papperger lacks a track record. He has one of the strongest operating records in European defence: over FY2021-FY2025, continuing revenue rose from €5.658 billion to €9.935 billion, statutory EBIT margin expanded from 10.7% to 16.9%, approximate ROIC rose from 12.5% to 19.1%, and issuer ROCE rose from 19.5% to 33.5%. The unresolved issue is whether a management system built during that successful phase can preserve per-share economics while funding a much larger capacity ramp, integrating the €1.586 billion NVL acquisition, repairing a €1.616 billion H1 2026 operating-free-cash-flow deficit, and navigating succession from a highly central CEO. The September investor deck improves transparency on the cancelled F126 programme and reprioritised capex, but does not itself establish replacement procurement, realised savings or cash conversion. That combination remains investable but not yet a ten-year PASS.

1. Who is running the company

Armin Papperger, born in 1963, joined Rheinmetall in 1990, entered the Executive Board in 2012 and has been CEO since 1 January 2013. His appointment runs through 31 December 2029. He rose through quality, subsidiary management, Weapon and Ammunition and Vehicle Systems roles, so the defence portfolio, capacity strategy, major acquisitions and 2030 ambition are substantially his decisions, not inherited positions. The [current Executive Board biography](https://www.rheinmetall.com/en/company/management) supports the tenure and career history.

Klaus Neumann became CFO on 1 January 2025 and is appointed through 2027. He joined Rheinmetall in 2012 as head of accounting after KPMG, and holds German tax adviser and auditor qualifications plus an ICAEW Chartered Accountant qualification. René Gansauge became the newly created COO on 1 January 2025, also through 2027, after leading Weapon and Ammunition and earlier automotive operations in India, North America and Germany. Dr Vera Saal, a Rheinmetall employee since 2010, became CHRO and Labour Director on 1 September 2025 and is appointed through August 2028. The appointments deepen finance, operations and human-capital capacity beneath Papperger, but all three are new to the Group Executive Board.

Current operating leaders include Dr Björn Bernhard for Vehicle Systems, Roman Köhne for Weapon and Ammunition, Oliver Dürr for Air Defence, Timo Haas for Digital Systems and Tim Wagner for Naval Systems. This is relevant because Papperger still owns the divisions at Executive Board level, while these leaders carry the execution burden. The public record identifies [Haas](https://www.rheinmetall.com/en/media/news-watch/news/2026/09/2026-09-09-rheinmetall-releases-battlesuit-interfaces), [Wagner](https://www.rheinmetall.com/en/media/news-watch/news/2026/07/2026-07-30-rheinmetall-to-modernise-f123-frigate), [Dürr](https://www.rheinmetall.com/en/media/news-watch/news/2026/06/2026-06-15-rheinmetall-and-lig-defense-aerospace-establish-strategic-partnership), Köhne and Bernhard in their respective 2026 releases.

Ulrich Grillo chairs the 16-member, German co-determined Supervisory Board. Eight members represent shareholders and eight employees. Following the 2026 AGM, the shareholder slate includes Grillo, Saori Dubourg, Sigmar Gabriel, Andreas Georgi, Sabina Jeschke, Louise Öfverström, Marc Tüngler and retired US Army Lieutenant General Ben Hodges. The board says all eight shareholder representatives are independent under the German Corporate Governance Code; the audit committee is chaired by Öfverström, not Grillo. Hodges adds defence-customer knowledge, while Georgi's service since 2002 is a legitimate tenure concern even though the board classifies him as independent. Grillo's own former Rheinmetall employment in the 1990s is disclosed; he has chaired the board since 2017 and is elected through 2029.

2. Tenure and track record

Papperger has been CEO long enough to own both the successes and the errors. Three decisions define the record.

First, he concentrated the portfolio on defence and security. Continuing revenue grew 75.6% from FY2021 to FY2025 and statutory EBIT grew from €608 million to €1.684 billion. In December 2025 the board decided to divest Power Systems after weak civil-market results; a sale agreement with AEQUITA followed in June 2026. The late exit crystallised an IFRS 5 impairment, but it is a coherent correction rather than a quiet abandonment.

Second, he authorised a large capacity and R&D ramp. Five-year capex rose from €271 million in FY2021 to €872 million in FY2025; Weapon and Ammunition revenue rose from €1.233 billion to €3.532 billion while EBIT margin increased from 17.7%

to 26.7%. Electronic Solutions' predecessor revenue rose from €932 million to €2.504 billion and margin from 10.6% to 14.8%. These results show that prior investment produced revenue, margin and ROIC rather than only installed capacity.

Third, management used acquisitions to fill capability gaps. Expal contributed €171 million for five months of 2023 and €658 million in 2024; Loc Performance contributed €329 million in the first nine months of 2025 and was described as profitable above initial expectations. NVL is different in size and risk. Consideration transferred was €1.586 billion, comprising €1.515 billion cash and €71 million purchase-price liabilities; acquired cash reduced provisional net outflow to €1.040 billion. Identifiable net assets were only €766 million and provisional goodwill €820 million. Four-month post-close Naval sales were €334 million, operating result €33 million, but statutory EBIT was negative €18 million after €29 million of PPA effects and €22 million of special items; operating free cash flow was negative €166 million. This is not evidence of failure, but it is not evidence of value creation either.

The visible execution misses have been acknowledged. A Murcia fire and regulatory acceptance delayed ammunition; customer scheduling delayed truck deliveries; FY2024 sales finished roughly 2.5% below the "around €10 billion" objective; and the F126 programme was cancelled after the NVL close. Management did not hide these events. However, Papperger sometimes framed them too casually — for example describing a quantified delay as "not a risk" or saying a December-versus-January down payment did not matter economically. It may not matter to lifetime project value, but it matters to cash-conversion credibility and year-end leverage.

3. Capital allocation behaviour

The sealed data package is controlling for history.

€ million	FY2021	FY2022	FY2023	FY2024	FY2025	Five-year total
Capex	271	349	398	697	872	2,587
Reported R&D	337	351	374	502	566	2,130
Dividends paid	87	143	187	248	369	1,034
Buybacks	0	0	0	0	0	0
Net acquisitions	34	(2)	(2)	484	10	524

The pattern is strategically coherent: internally fund factories and technology first, use selective M&A second, pay a rising dividend, and avoid price-insensitive buybacks. H1 2026 continuing capex was €403 million including leases and €374 million cash, spread across ammunition, UK gun capacity, Lithuania, powder, Zurich Air Defence, TaWAN, vehicles and shipyards. The [September investor deck, pp. 60-61](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf) reduced the FY2026 capex plan from the prior CMD indication of 16% of sales to 8%-9%. Management attributes the bridge to reprioritised eastern-European energetics sites, spending-schedule adjustments elsewhere, procurement optimisation and investment review; it says the 2030 sales ambition is unchanged. At the €13.7 billion-€14.2 billion sales guide, the percentage change implies roughly €0.96 billion-€1.14 billion less *planned 2026 spend* than the old percentage, not a measured cash saving. Project postponement may improve 2026 reported OFCF but push 2027-2028 capital needs upward; sourcing efficiencies would be genuine savings only if delivered capacity, timing and unit cost are independently evidenced.

The same deck, p. 60, retains **more than €8 billion of investment over five years, excluding capital contributions**. This is not eliminated by a lower first-year capex ratio, and it is not a ceiling on cash outlays: acquisition consideration, working-capital build and capital contributions require separate treatment. The deck also identifies a roughly €1 billion annual acquired-sales ambition. Against the NVL goodwill and H1 cash burn, management needs to demonstrate that organic capex and M&A compete under a return discipline, rather than aggregate top-line potential being used to justify both. The old and new plans are not perfectly like-for-like project schedules, so the percentage bridge is a challenge to explain, not proof of underinvestment or capital efficiency.

Cash conversion is the immediate test. Continuing OFCF was €458 million, negative €151 million, €356 million, €1.056 billion and €1.218 billion from FY2021 through FY2025, equal to calculated conversion of 77.1%, negative 19.6%, 38.8%, 76.0% and 66.2%. H1 2026 then fell to negative €1.616 billion, or negative 205.4% of operating result, as inventories, capex and delayed advances absorbed cash. The [H1 report](https://ir.rheinmetall.com/media/document/1bbcaadf-0e67-45bc-80df-bba822823824/assets/DE0007030009-Q2-2026-EQ-E-00.pdf) retains full-year cash conversion above 40%, relying materially on Romanian and prospective Arminius prepayments. That is plausible, but until delivered it is financing by procurement cadence, not proven self-funded compounding.

4. Compensation alignment

The design is materially better than a revenue-only scheme. The 2025 STI was 60% adjusted EBT, 20% OFCF and 20% ESG. The four-year LTI is 40% relative TSR, 40% ROCE and 20% ESG, paid through virtual performance shares with half of the final value delivered in Rheinmetall shares; both STI and LTI are capped at 250%. The ROCE threshold is intended to exceed WACC by a surcharge. Malus and clawback cover financial-statement errors and compliance breaches. The CEO must hold shares worth 200% of base salary and ordinary board members 100%; the [2025 remuneration report](https://ir.rheinmetall.com/media/document/214a8f96-a9e5-4296-9a89-e2b65122d258/assets/Rheinmetall-Annual-Report-2025.pdf) confirms Papperger had met his requirement. An exact beneficial share count is not disclosed, so virtual LTI units are not treated as owned shares.

There are two caveats. First, the 2025 OFCF target was only €89 million and the 250% ceiling was reached at €102 million, versus €1.415 billion actual OFCF including discontinued operations. A cash metric exists, but that calibration offered little protection against the much larger working-capital swing now visible. Second, the vested 2022 LTI ROCE was adjusted to remove Expal and Loc Performance and to neutralise the Power Systems disposal. The stated rationale is perimeter comparability, but acquisition-adjusted ROCE can insulate pay from the capital-allocation choices the board should measure.

Papperger received €8.399 million granted and owed for 2025, or €10.161 million including pension service cost, after 233.1% STI achievement and a strongly vested 2022 LTI. At the 2026 AGM, the remuneration report received 19,587,405 yes votes and 5,511,851 no votes: approximately 78.0% support and 22.0% opposition. That dissent, up from the 16.4% opposition to the remuneration system at the 2025 AGM, is a meaningful yellow flag. It does not negate the ROCE/OFCF design, but it argues for harder cash targets and less generous perimeter adjustments.

Dilution is not chronic SBC abuse. Diluted shares rose from 43.28 million in FY2021 to 46.66 million in FY2025, largely through convertible-bond conversion; another 774,689 shares were issued by H1 2026 as €239 million nominal converted. No five-year buybacks offset dilution. The managers' transaction register shows repeated Papperger purchases rather than clustered selling, including approximately €0.506 million and €0.508 million purchases in May 2026.

5. Disclosure quality and candor

I reviewed eight sequential management calls: Q3 2024, FY2024, Q1-Q3 2025, FY2025, Q1 2026 and Q2/H1 2026. The six calls through FY2025 were freshly pulled from FMP's live `earning-call-transcript` endpoint on 17 September 2026; Q1 and Q2 2026 were read from the current issuer-hosted LSEG transcript PDFs, including the [Q2 transcript](https://ir.rheinmetall.com/media/document/8bb289d9-f5b4-4ad5-9bcf-015718ca2182/assets/Not_verified_Q2_2026_Transcript.pdf). Conditional language around customer timing, acceptance, advance payments or procurement appeared in all eight quarters. That is partly inherent to defence contracting; the more important result is that management usually paired it with numbers.

Call	Load-bearing issue	Assessment of answer quality
Q3 2024	cash dependent on December receipts	Directly gave €700 million to >€1 billion OFCF range; acknowledged timing.
FY2024	sales below €10 billion and nominations delayed	Quantified approximately €250 million shipment slippage and order delays; did not disguise miss.
Q1 2025	Murcia fire and customer advances	Quantified approximately €200 million possible delay and 20%-30% typical advances; then over-minimised risk.
Q2 2025	€911 million H1 cash burn and €600 million ready stock	Detailed trucks, Murcia, inventory and government delay; "not a risk" language was too dismissive.
Q3 2025	negative nine-month cash and M&A priority	CFO explained inventory/prepayments; management openly placed organic investment and acquisitions ahead of buybacks.
FY2025	cash quality and 2026 order timing	Reported €1.218 billion continuing OFCF and delayed orders; 2030 discussion remained aspiration-heavy.
Q1 2026	sales below consensus	Issued an ad hoc preliminary result, specified €200 million trucks plus about €100 million Murcia acceptance, and predicted >50% Q2 growth. Q2 delivered 69%.
Q2 2026	F126, receivables and H1 cash burn	Quantified €300 million sales cut, 10%-11% Naval margin, receivables by product and payment timing; still leaned on prospective year-end advances.

Guidance credibility is good, not flawless. FY2024 margin and cash targets were met, while sales were modestly below the around-€10 billion marker. FY2025 continuing sales grew 28.8%, slightly below the reclassified 30%-35% range set in December, while the 18.5% margin met the low end and 66.2% cash conversion beat >40%. In 2026 management promptly disclosed the Q1 revenue shortfall, correctly forecast the Q2 catch-up, disclosed F126 uncertainty on 2 July and formally cut Group and Naval sales by €300 million on 6 August. The [September deck, p. 58](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf) explicitly notes that the H1 Rheinmetall backlog still contains €2.1 billion for F126. This is useful candor about a stale *June snapshot*, not an assertion that the cancelled work is executable and not a fresh statutory restatement. The next published backlog roll-forward must remove or transparently reconcile it; unawarded F125/F127, Romanian and export possibilities are opportunities, not replacement firm orders. The unresolved credibility items are that backlog clean-up, the unchanged >40% FY2026 cash-conversion promise after the H1 deficit, and whether the capex revision is a durable cost gain or timing shift.

6. Strategic coherence

Management's stated destination is an all-domain European defence prime: land, air, digital, space and sea "under one roof," with €40-€50 billion potential sales by 2030. Investment follows that statement. Ammunition, air defence, vehicles, TaWAN, satellites, missiles, autonomous systems and shipyards account for capex, R&D, acquisitions and joint ventures. The Power Systems exit removes the last material civil mismatch.

This is coherent adjacencies, not serial unrelated pivots. The risk is breadth and pace. In the Q2 2026 call Papperger acknowledged that the 2030 mix may change as missiles, drones and autonomy offset weaker programmes, while maintaining the total ambition. That adaptability is useful, but replacement opportunities cannot be booked as proof before firm orders exist. F126 was below 3% of the 2030 plan, yet it was important enough to reduce FY2026 Naval sales guidance from €1.3-€1.5 billion to €1.0-€1.2 billion and margin from 11%-13% to 10%-11%. The cancelled €2.1 billion in June backlog is a procurement-quality problem within a recently acquired business, not merely a presentation footnote.

The [September deck, pp. 65-66](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf) refreshes 2030 segment aspirations: Weapon and Ammunition roughly €14 billion-€16 billion sales at 29%-31% operating-result margin; Air Defence €3 billion-€4 billion at 24%-26%; Digital Systems €8 billion-€10 billion at 17%-19%; Vehicle Systems €13 billion-€15 billion at 13%-15%; and Naval Systems roughly €5 billion above 15%. Group aspiration is around €50 billion sales, over 20% operating-result margin and over 50% three-year rolling cash conversion. These are management's adjusted operating-result targets, not statutory EBIT, signed procurement, or this analyst's forecast. Consolidation/intersegment eliminations mean the segment ranges should not be mechanically summed into Group revenue. The Naval target in particular needs evidence of funded replacement demand, integration and yard utilisation after F126; the cash target needs proof that customer advances and inventory unwind sustainably, not a single favourable year-end payment.

7. Governance flags

There is one ordinary bearer share class, one vote per share and no controlling shareholder or dual-class structure. The company reported full compliance with the German Corporate Governance Code, no reported Executive or Supervisory Board conflicts in 2025, and all shareholder representatives as independent. The audit committee is separately chaired and the board added Hodges in 2026. No material restatement, enforcement action or reported material internal-control weakness was found in the current official reports.

The disclosed related-party item deserves visibility but not a fail. PL Elektronik GmbH, indirectly majority-owned by Papperger, supplied €3 million of development services and electric igniters in 2025 and received a €1 million investment grant. The Supervisory Board approved the relationship and the annual report states market terms. Close family members of three Supervisory Board members received €127,000 in ordinary employment compensation. These sums are immaterial to Rheinmetall, but CEO-related grants should remain annually disclosed and independently approved.

Succession is the larger issue. Papperger's contract runs through 2029 and the new CFO, COO and CHRO create a plausible internal bench, but no successor, timetable or emergency transition framework is public. For a 63-year-old CEO whose customer network and strategic voice are unusually central, waiting until 2029 would be poor governance.

8. Peer comparison

Against Micael Johansson at Saab, Papperger has produced stronger recent margin and ROIC expansion and has been more aggressive in capacity and domain-building. Johansson's communication is cleaner on cumulative cash conversion and

Saab's capital demands are less dependent on a few year-end German advances; Saab therefore ranks ahead on cash-quality disclosure. Against Roberto Cingolani at Leonardo, Papperger has the longer in-seat industrial record and less state influence, while both are simplifying portfolios and building cross-domain systems. Against Oliver Dörre at HENSOLDT, Papperger has much more evidence through a full cycle; Dörre has only led since 2024, although HENSOLDT's explicit deleveraging and insider purchases are favourable.

Overall, Papperger ranks first among these peers on demonstrated five-year operating stewardship and strategic boldness, around the middle on disclosure discipline, and below Johansson on succession resilience and cash-flow comparability. The main question is no longer whether he can grow Rheinmetall, but whether the organisation can convert that growth into retained cash and repeat it without him.

9. Management gate verdict and monitors

VERDICT: YELLOW, unchanged after the September update. Papperger is a proven operator and the board has installed real ROCE, OFCF, ownership and clawback mechanisms. Prompt F126 disclosure, the explicit €2.1 billion stale-backlog footnote, the Q2 delivery catch-up, improving statutory returns and the absence of price-insensitive buybacks weigh against FAIL. PASS is withheld because NVL's €820 million provisional goodwill and negative after-PPA EBIT/FCF are unproven, H1 2026 cash conversion is deeply negative and advance-dependent, F126 replacement work is not yet firm, the 2026 capex reset mixes potential efficiency with deferral, remuneration target calibration is permissive, and succession beyond 2029 is not visible. The five-year investment pledge and higher 2030 segment margins increase the burden of proof; neither target is a realised return. No management score or gate changes mechanically from a presentation.

Upgrade to PASS requires all of the following:

- FY2026 cash conversion above 40% as guided, followed by at least 50% cumulative OFCF/operating-result conversion over FY2026-FY2027; year-end net debt/EBITDA no higher than 1.0x.
- Naval Systems delivers FY2026 sales within €1.0-€1.2 billion and operating margin of 10%-11%, then positive statutory EBIT after PPA and non-negative OFCF in FY2027; the next reported backlog clearly removes/reconciles cancelled F126 and subsequent *firm, funded* awards demonstrate a credible replacement path. A €2.1 billion euro-for-euro replacement is a useful sensitivity, not a management gate by itself.
- Group approximate ROIC remains at least 15% while FY2026 capex remains within 8%-9% of sales; for shifted capacity projects management discloses revised in-service dates, cumulative committed spend and realised procurement savings, and FY2027-FY2028 execution stays within 10% of board-approved cost and timing. Monitor the full >€8 billion five-year investment commitment separately from annual capex and capital contributions.
- The 2026/2027 remuneration framework raises the OFCF threshold materially, stops excluding acquisition economics from ROCE without a public reconciliation, and AGM support returns above 85%.
- By end-2028 the Supervisory Board discloses a credible CEO succession timetable and demonstrates at least two operationally tested internal candidates or appoints a successor with no disruption to CFO/COO continuity.

Downgrade to FAIL on any two operating signals, or any one governance-integrity signal: FY2026 cash conversion below 30%; net debt/EBITDA above 2.0x; two guidance misses exceeding 5% on sales or 100 basis points on margin without prompt updates; Naval cumulative statutory EBIT or OFCF still negative through FY2028, a material NVL impairment, or continued presentation of cancelled F126 as executable backlog without reconciliation; approximate ROIC below 12% for two years; material delayed capacity despite a claimed capex saving and unchanged 2030 aspiration; CEO-related transactions exceeding €5 million annually without independent approval and full disclosure; a material restatement, enforcement finding or clawback event; or no credible CEO succession arrangement six months before Papperger's contract expiry. A missing replacement order alone would call for a forecast and valuation haircut; it is not, without accompanying candor or allocation failure, a proof of managerial untrustworthiness.

Appendix W — Moat and 2046 Durability

Rheinmetall AG — Moat and 2046 Durability

Assessment date: 22 September 2026 **2046 test date:** 22 September 2046 **Financial anchor:** TTM ended 30 June 2026; forecast horizon 30 June 2031 **Research status:** Production ER2; research only; `trade_execution_authorized=false`

1. Moat taxonomy applied

Network effects — weak at the corporate level, narrow and indirect in systems. Rheinmetall does not have a classic two-sided network in which each additional user automatically raises the value to every other user. The closest analogue is standardisation: a larger installed family of HX trucks, Boxer/Puma/Lynx vehicles, 120 mm smoothbore guns, Skyranger/Skynex nodes, and tactical digital systems encourages common training, ammunition, spares, interfaces and doctrine. The Bundeswehr's May 2026 call-off of more than 2,000 HX-family trucks explicitly cited standardisation benefits in training, operations and maintenance, while Rheinmetall says its 120 mm smoothbore system is standard on Leopard 2 and M1 Abrams fleets. Those effects create follow-on economics, but they are customer-side compatibility benefits, not an unstoppable network. Governments can fund alternative suppliers, mandate open interfaces or dual-source ammunition.

Switching costs — strong after qualification and fleet adoption, but programme-specific. Once a military has qualified a weapon, ammunition family, sensor-effector chain or mission system, switching requires testing, safety certification, training, spare-parts changes, software accreditation and operational re-validation. Rheinmetall's own Skyranger chronology illustrates the barrier: the Bundeswehr first received a verification model for approval trials before series deliveries scheduled for 2027-28. Vehicle and naval lifecycle support add technical documentation, configuration control and trained-maintainer advantages. Rheinmetall's integrated logistics offer spans need analysis through decommissioning, and Naval Systems supports fleets throughout their lives. These are real switching costs, strongest in weapons, ammunition, air defence and installed fleets. They do not guarantee every recompete: sovereign buyers retain bargaining power, can require local production, and sometimes cancel or redesign programmes.

Scale economies — strong in energetics and serial production; moderate elsewhere. Rheinmetall can spread qualification, safety, engineering, test infrastructure and procurement across a broad order base. This matters most in energetic materials, where powder, charges, explosives, fuzes, shell bodies and certified processes must scale together. The July 2026 Aschau project alone involves about €650 million across propellant powder and precursors, with €350 million at Aschau; the group targets 20,000 tonnes of annual powder capacity by 2030 and 1.5 million 155 mm shells. That capital, regulatory and learning curve is difficult for a new entrant to match quickly. Scale is less decisive in bespoke naval and digital projects, where engineering complexity and programme execution can offset purchasing leverage.

Brand and trust — strong with procurement authorities, not consumer-style pricing power. A century-plus safety and delivery record, security-cleared personnel, NATO interoperability and government audit history matter when failure can cost lives or readiness. The strongest evidence is repeat business and framework extension, not corporate advertising: the German 30 mm Puma-ammunition framework was expanded through 2029; NSPA made a first roughly €200 million call-off under a 120 mm framework whose technical specifications are already set; and Denmark signed a seven-year multi-calibre ammunition framework. Trust reduces the probability that an unproven entrant wins mission-critical work, but political industrial policy can redirect awards toward national champions or consortium partners.

Regulatory barriers — strong as an entry barrier, double-edged for shareholders. German and European rules require approvals for manufacture and export of war weapons, complete war-weapons registers, regular BAFA audits, destination controls and sanctions compliance. Rheinmetall states that relevant companies employ export-control officers and that several core entities hold ICT certification for intra-EU transfers. The accumulated compliance system is costly to reproduce. Yet the same regime can block deliveries or narrow markets, so it is a license-to-operate moat rather than pure pricing power.

Intellectual property and integration know-how — meaningful, but not sufficient alone. Proprietary ammunition, guns, fire control, sensor fusion, armour, vehicle architecture and classified integration create barriers. The more durable asset is systems engineering under military qualification: getting sensors, C4ISR, effectors and ammunition to work in a jammed, contested environment. In August 2026 Rheinmetall and Hensoldt integrated passive radar into the Skymaster command-and-engagement system and Skynex battery under realistic NATO Link 16 conditions. Skynex can incorporate third-party sensors and effectors, legacy fire units and modular weapons. This openness makes the architecture more useful, although it also prevents lock-in from becoming absolute.

High-trust procurement — the core company-wide moat. Rheinmetall's real advantage is the combination of qualified products, secure supply, installed systems, industrial mobilisation and sovereign credibility. A competitor does not win merely by producing a technically similar shell, turret or command application; it must qualify the design, prove safe repeatability, secure classified supply chains, meet local-content demands and convince a government it will support the system for decades. The barrier is strongest when Rheinmetall controls a chokepoint such as propellant, gun/ammunition compatibility or an integrated air-defence engagement chain. It is weakest where Rheinmetall is one engineering contractor among several or where a customer deliberately disaggregates the stack.

2. Per-segment moat

Vehicle Systems

The moat is the installed platform family plus qualification, fleet commonality, service and the ability to industrialise locally. HX standardisation lowers training and maintenance cost; Boxer, Puma and Lynx programmes embed spares, upgrades, ammunition and mission-system interfaces. The segment work shows capable competitors—KNDS, General Dynamics, BAE/Hägglunds, Oshkosh and national champions—earning from the same rearmament wave, so share is contestable even when the market grows. Peer mid-teens land margins show better mature economics are possible, but do not prove Rheinmetall will capture them. The [September issuer deck, pp.22 and 28](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf), now shows €13-15bn 2030 segment sales potential and a path toward 1,000 infantry fighting vehicles per year. That is capacity and addressable opportunity, not awarded annual volume; durable returns require awards, delivery acceptance and utilisation at that scale. Durability is credible over ten years and plausible over twenty because military fleets remain in service for decades. What breaks it is repeated delivery/availability failure, a loss of next-generation platform competitions, or customer-mandated workshare that strips Rheinmetall of high-value content. The earliest signs are falling order-backlog conversion, warranty provisions, reduced vehicle EBIT margin and major countries choosing rival architectures for replacement fleets.

Weapon and Ammunition

This is the strongest moat and current profit pool. It combines qualified ammunition/gun pairings, 120 mm installed-standard economics, scarce energetic materials, vertically coordinated plants and the capital/safety burden of expanding output. Five-year EBIT margin persistence at 17.7%-26.7%, including 17.7% before the post-2022 volume surge, indicates more than a one-quarter scarcity windfall. However, the rise toward 27% is not cycle-tested: company commentary attributes much of the expansion to volume and mix, while competitors including Nammo and BAE are also funding new output. The [14 September issuer release](https://www.rheinmetall.com/en/media/news-watch/news/2026/09/2026-09-14-rheinmetall-supplies-artillery-ammunition-to-international-customer) reports a real low-three-digit-million-euro order for a low-five-figure quantity of 155 mm rounds, booked in Q3 for 2027 delivery. This is better evidence than a framework or market-size slide, but one order is small relative to the stated 1.5 million-round annual 2030 capacity ambition. The [September deck, pp.31 and 34](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf) targets €14-16bn W&A sales, 29%-31% operating-result margin and 20,000 tonnes of powder capacity; none is yet proof that the enlarged fixed-asset base earns high incremental returns. Durability is strong for ten years and potentially twenty if Rheinmetall remains a cost-competitive qualified supplier. The NATO spending-plan review in 2029 is a concrete demand-durability checkpoint. The earliest break signal is powder/shell capacity reaching low utilisation while W&A EBIT margin falls below the pre-surge high-teens band despite normal execution.

Air Defence

The moat is integrated sensor-effector-C4ISR architecture, battle-management software, gun/ammunition know-how and a growing qualified installed base. Skynex and Skyranger can combine active/passive radar, electro-optics, command nodes, guns, missiles and programmable ammunition; a 2026 Romanian package mixed Skyranger 35, Skynex and maritime Millennium Guns. That integration is harder to copy than a single radar or cannon. Diehl, Hensoldt, Saab, KNDS/Thales and Kongsberg are alternately partners and competitors; open architecture expands Rheinmetall's addressable integration layer but lets customers substitute components and press price. Planned turret-capacity expansion from roughly 70-100 units to as many as 400 would strengthen delivery credibility if filled and reverse operating leverage if procurement pauses. Durability is high for five to ten years and plausible for twenty only if Rheinmetall keeps adapting to cheap drones, electronic warfare, directed energy and new missiles. The earliest warning is loss of counter-UAS competitions or field evidence that the cost-per-kill and saturation performance lag modular competitors.

Digital Systems

The moat is defence accreditation, installed tactical networks, integration with Rheinmetall platforms and ownership of mission context—not generic software. TaWAN, IdZ-ES, C4I, training, unmanned systems and the Battlesuite place Rheinmetall across reconnaissance-to-effect workflows. The €1.7 billion Rheinmetall/ICEYE SAR-data contract also adds sovereign infrastructure, operations and proprietary tasking/data rights rather than a mere application. blackned strengthens the case only if middleware is reused across programmes rather than customised repeatedly; customer-owned data and interfaces can cap that economics. NATO's acquisition of Palantir's Maven system is a concrete example of a software-native vendor capturing the operational data layer without owning the platforms. Still, the segment's 7.7% H1 2026 EBIT margin is the lowest positive margin in the current structure, and the software layer faces the fastest technical change. Durability is five to ten years; a twenty-year moat requires open integration and rapid AI adoption. The break signal is falling win rates on software-defined defence, dependence on partners for the differentiating layer, or persistent sub-8% margin despite scale.

Naval Systems

Naval's moat is scarce German shipyard infrastructure, programme credentials, classified engineering and lifetime repair/refit relationships. Four specialised northern German yards and proximity to the German Navy are hard assets; repair and maintenance can recur across long vessel lives. But the disclosed post-close service base was only €39 million, Rheinmetall only consolidated NVL from March 2026, H1 statutory EBIT was negative after PPA/special items, and the F126 cancellation immediately demonstrated sovereign programme risk. The September deck's note that €2.1bn of cancelled F126 remains in the June €6.255bn Naval backlog sharply weakens the headline backlog as evidence of future yard loading: €2.1bn is 33.6% of that balance. An indicative remaining €4.155bn is **not** an audited revised backlog or a prediction of lost economics; cancellation remedies, workshare and replacement orders could change realised value, but no specific recovery is proven in the cited disclosures. The [14 September issuer release](https://www.rheinmetall.com/en/media/news-watch/news/2026/09/2026-09-14-federal-minister-of-defence-pistorius-charts-the-course-for-a-fourth-fleet-intelligence-vessel-at-rheinmetalls-shipyard-wolgast) establishes the third intelligence ship's keel milestone and ministerial support for a fourth; it does **not** establish a signed fourth-vessel contract or replace F126's €2.1bn. The moat is unproven as a Rheinmetall profit pool: five-year durability is plausible, ten-year depends on yard utilisation and execution, and twenty-year confidence is not yet earned. The earliest sign of failure is replacement orders not filling F126 capacity, recurring provisions or Naval statutory margin remaining below high single digits after integration.

Blended company moat

The blended moat is weaker than Weapon and Ammunition alone. Vehicle Systems adds a defensible but lower-margin installed-base franchise; Air Defence may become another high-quality systems moat; Digital is strategically important but technologically contestable; Naval adds physical barriers and service optionality but also long-contract and political risk. FY2025's strongest comparable segments—Vehicle Systems and W&A—represented about 86% of group sales before eliminations, while the predecessor Electronic Solutions segment was about 25% and Naval was absent. As Naval and Digital grow, the group can become more integrated, but breadth is not automatically a moat: it can also increase bespoke engineering, capital intensity and programme risk.

September 2026 durability challenge: what is actually contracted?

The [H1 2026 statutory report](https://ir.rheinmetall.com/media/document/1bbcaadf-0e67-45bc-80df-bba822823824/assets/DE0007030009-Q2-2026-EQ-E-00.pdf), reconciled in the DR-cleared data package, reports €80.467bn Group Rheinmetall Backlog at 30 June: €56.342bn **order backlog** and €24.126bn **frame backlog** (rounding explains the €1m sum difference). Thus 70.0% was classified as orders and 30.0% as expected future call-offs under frameworks. H1 Rheinmetall Nomination of €16.238bn was not all signed fresh orders: €14.946bn order intake plus €6.109bn frame nomination less €4.817bn frame utilisation. The August earnings-call claim that about 90% of expected sales over the next 2.5 years was covered by fixed orders is encouraging, but it is a management conversion estimate, not evidence that every euro of the full long-dated backlog is non-cancellable, margin-protected or near-term. Air Defence's €4.218bn H1 backlog is explicitly all **order** backlog, so a mechanical 30% group frame haircut would wrongly penalise it. Naval requires a **different** adjustment: the September deck says €2.1bn of a cancelled programme was still counted in its €6.255bn reported balance. Do not subtract that amount from historical revenue or silently add it to the group frame haircut; disclose it as a separate risk to executable backlog and require the next official backlog roll-forward to show disposition.

This asymmetry changes the quality of the moat claim. A qualified supplier may win a framework because barriers are real, but a customer can postpone or reduce call-offs. Even a booked programme can suffer schedule, change-order, termination or margin risk, as the F126 value carried in Naval backlog shows. Rheinmetall's [August call deck, p.5](https://ir.rheinmetall.com/media/document/0ae45fdf-2da8-4394-9a77-95bd71ece8b6/assets/2026-08-06-Rheinmetall-Conference-Call-Q2-2026.pdf

) cites, as the ministry's reasons for cancelling F126, project delays, earlier cost overruns, litigation and assumed faster availability of a MEKO alternative. This is a concrete demonstration that a defence customer may choose a competing architecture despite Rheinmetall's domestic yard position; it is not evidence that Rheinmetall will recover all cancelled work through another contract. The relevant durability evidence is sequential conversion from **frame nomination to binding call-off, binding order to accepted delivery, and accepted delivery to cash/return on invested capital**. A large stock of procurement potential is not an annuity. The September deck's 2030 total of roughly €50bn sales, above-20% **operating-result** margin and over-50% three-year rolling cash conversion explicitly includes M&A and excludes US order wins; it is management ambition, not the statutory EBIT/ROIC record. Its five segment sales and operating-result-margin targets—Vehicle €13-15bn/13%-15%, W&A €14-16bn/29%-31%, Air Defence €3-4bn/24%-26%, Digital €8-10bn/17%-19%, Naval roughly €5bn/>15%—require evidence of orders, volume, execution and cash. They cannot be used as observed moat margins or summed to a consolidated forecast without eliminations and the acquisition perimeter. Naval's >15% target is particularly unproven against its negative four-month statutory EBIT and cancelled-work exposure. [September investor presentation, pp.22, 29, 38, 46, 56, 58 and 65-66](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf).

The capital side is a second non-negotiable test. The issuer [reduced its 2026 capex plan](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf) from the earlier CMD indication of 16% of sales to 8%-9%, citing reprioritisation of Eastern European energetics sites, project schedule shifts, purchasing savings and review, while asserting no effect on 2030 sales guidance. At the €13.7-14.2bn sales guide, those percentages imply roughly €2.19-2.27bn versus €1.10-1.28bn; holding the same sales denominator constant, the 7-8 percentage-point change is a directional **€0.96-1.14bn lower 2026 plan**, not realised free cash flow. The August call states some major energetics construction starts moved into 2027 and management does not expect 2027-28 sales effects because those plants needed roughly two years to build. That timing argument is plausible for the near years; it does not prove 2029-31 capacity, commissioning yield, unit cost or returns are unaffected. The deck still commits to **more than €8bn of investment across five years excluding capital contributions**, plus inventory procurement. Lower one-year capex is therefore potentially deferral, optimisation or project rescoping; none should be booked as a permanent reduction in the capital required for 2046 profit pools. Track plant-by-plant start, commissioning, utilisation and incremental EBIT/OFCF against the actual cumulative cash spend, not only management's unchanged sales endpoint.

3. Margin persistence evidence

The DR-cleared data package provides five comparable annual years, not a full ten-year continuing-defence series. Older figures straddle a materially different automotive/civil perimeter, so a spurious ten-year margin line would not establish durability. The 2021-25 series shows resilience through pandemic/supply disruption and the European defence up-cycle, but it does not include a mature post-rearmament down-cycle.

Margin evidence	FY2021	FY2022	FY2023	FY2024	FY2025	Interpretation
Consolidated statutory EBIT margin	10.7%	11.5%	12.5%	16.5%	16.9%	Strong expansion, not stable through a full cycle
Vehicle Systems EBIT margin	9.2%	11.4%	12.3%	10.8%	10.6%	Durable low-double-digit band despite volume changes
Weapon and Ammunition EBIT margin	17.7%	21.6%	20.5%	24.8%	26.7%	Structural high margin plus recent scarcity/volume uplift
Electronic Solutions predecessor EBIT margin	10.6%	10.2%	11.2%	12.9%	14.8%	Gradual leverage, but current split lacks history

H1 2026 current-segment EBIT margins were approximately 10.5% Vehicle, 21.5% W&A, 15.9% Air Defence, 7.7% Digital and negative statutory EBIT for Naval. This is evidence of distinct economics, not one uniform corporate moat. Vehicle’s stability and W&A’s high starting margin support genuine barriers. Yet the sharp consolidated uplift, record backlog and capacity build have all occurred during exceptional rearmament. Roughly 30% of the €80.467bn Rheinmetall Backlog is frame backlog—expected call-offs, not binding orders—while Naval's reported balance also retains the separate cancelled F126 amount. The margin/backlog record therefore is **not cycle-tested** against utilisation decline, broad budget retrenchment or industry overcapacity. September's much higher 2030 segment operating-result-margin targets should be compared against the **statutory** rows above only with a transparent operating-result-to-EBIT bridge; the basis differs. The H1 Group operating free cash flow of negative €1.616bn further warns that order visibility has not yet translated into cash returns during the ramp. [H1 issuer release](https://www.rheinmetall.com/en/media/news-watch/news/2026/08/2026-08-06-rheinmetall-news-half-yearl

y-financial-report-h1).

4. AI disruption stress test

Vehicle Systems: physical chokepoint economics dominate. AI can improve autonomy, predictive maintenance and route planning, but cannot replicate qualified vehicles, armour, drivetrains, production and service with a prompt. Rheinmetall's PATH autonomy kit and work on AI-based sensor fusion show AI is more likely to upgrade the installed base than eliminate it. The risk is that an outside autonomy stack captures the high-value software layer and reduces Rheinmetall to lower-return hardware.

Weapon and Ammunition: most protected. Energetics plants, safety licensing, qualified ammunition, barrels and mass-production yield are physical chokepoints. AI may accelerate design, quality inspection and demand planning, but it does not dissolve controlled explosive manufacturing. Disruption comes from battlefield substitution—cheap autonomous drones or directed-energy weapons reducing demand for some conventional rounds—not from foundation models copying the workflow.

Air Defence: platform-adjacent and AI-enhanced. Target classification, sensor fusion and fire allocation increasingly use machine learning, yet the customer buys an accredited kill chain with sensors, command authority, effectors and ammunition. AI raises the tempo and value of the system. The danger is architectural: if a rival open C4ISR layer commoditises effectors or delivers superior swarm defence, Rheinmetall's integration premium can erode. Continuous field performance, not patent counts, is decisive.

Digital Systems: most exposed. Several activities—data fusion, mission planning, imagery analysis, simulation and human-machine interfaces—are workflows that rapidly improving models can imitate. The moat must reside in classified data access, sovereign hosting, military accreditation, low-latency edge performance, cyber hardening and integration into weapons/platforms. The ICEYE service, Battlesuite and hardened tactical systems have these attributes, but commercial AI and defence-tech entrants can attack faster than traditional primes. The [21 September REPMUS26 release](https://www.rheinmetall.com/en/media/news-watch/news/2026/09/2026-09-21-rheinmetall-repmus26-interconnected-unmanned-systems-for-the-protection-of-maritime-infrastructure) shows Battlesuite middleware connecting third-party maritime sensors in a multinational exercise. That is credible technical integration evidence, **not** a signed high-margin software deployment or proof of customer lock-in. Digital is also the main upside vector if Rheinmetall becomes the trusted deployer of third-party models rather than insisting on owning every algorithm.

Naval Systems: physical capacity and certification dominate; AI changes design, autonomy, maintenance and crew requirements but not the need for yards, docks and integration. Autonomous surface vessels may disrupt product mix, yet NVL already pursues manned/unmanned teaming. The strategic risk is slow adaptation, not direct workflow replacement.

5. The 2046 test

Plausible 2046 business description. On 22 September 2046, Rheinmetall sells sovereign European combat systems and readiness: autonomous and optionally crewed land vehicles; precision ammunition and energetic materials; layered air and counter-drone defence; secure multi-domain C4ISR, space data and autonomous systems; and naval vessels plus lifetime sustainment. Its customers remain Germany, NATO/EU members and selected aligned states. Weapon and Ammunition still exists because qualified explosives, guns and ammunition remain costly and regulated; Air Defence is larger because the threat set has expanded; Vehicle Systems earns more from upgrades, autonomy kits and fleet support; Digital Systems is embedded across the portfolio but uses a mixture of proprietary and partner AI models; Naval survives as a German sovereign yard and service network, although large newbuild programmes remain lumpy. Directionally, group statutory margin is **more likely below than above the 2025-26 peak** because W&A scarcity pricing normalises and Digital/Naval mix grows, partly offset by service, software reuse and automated production. Whether it remains in a high-teens band is an underwriting hypothesis, not a demonstrated 2046 forecast. The company can still earn attractive returns because governments pay for assured supply, qualification, interoperability, safety, secure integration and decades of support—not because Rheinmetall has the cheapest generic hardware. It would take sustained high incremental returns after the planned >€8bn build, not merely high sales, to satisfy the Gideon 20-year compounding bar.

Bear 2046 description. European governments overbuilt ammunition and vehicle capacity in the 2020s, then fragmented orders among national champions. Factories operate below plan; W&A margin falls toward a commoditised mid-teens level. Open digital standards move software economics to faster defence-tech vendors; Rheinmetall remains a hardware integrator with weak bargaining power. Cheap autonomous systems reduce demand for heavy platforms, while modular third-party sensors/effectors erode Air Defence's integration premium. Naval yards suffer programme gaps and fixed-cost

under-absorption. Export restrictions and fiscal retrenchment compound the pressure. This bear case is credible—not the base case—because the same public buyer that creates barriers can also force localisation, dual sourcing and margin concessions.

The 2046 picture is specific enough to pass the “still exists” test, but not yet the high-return compounder test without conditions. The probability of meaningful moat erosion is moderate, concentrated in post-scarcity W&A economics, Digital value capture and Naval execution. The core franchise is unlikely to disappear; the unresolved question is whether the enlarged capital base earns high returns after urgent rearmament normalises. F126 is the present warning: a sovereign-aligned asset and a large reported backlog did not prevent a programme cancellation or a near-term revenue-guide reduction. A credible 2046 thesis must assume recurrent competitive tenders, government workshare and procurement resets, not an eternal post-2022 scarcity premium.

6. Competitive threat inventory

Threat	Mechanism	Segment(s) affected	Earliest observable signal	Plausibility
European capacity overbuild and sovereign dual-sourcing	New powder, shell, vehicle and drone plants reduce scarcity; governments allocate workshare and press price. A 2026 capex cut may defer rather than eliminate the need to commission capacity.	W&A; Vehicle; Group	Frame-call-off conversion slows; powder/shell utilisation slips; W&A statutory margin falls below high teens; more local-content or cost-plus concessions	Medium-high over 5-10 years
Open C4ISR/AI platforms disaggregate Rheinmetall’s stack	Faster vendors own data, autonomy and battle-management layers; effectors become interchangeable even if physical platforms remain.	Digital; Air Defence; Vehicle	Losses in software-defined defence and counter-UAS awards; partner software captures economics; Digital margin fails to scale	Medium
Programme cancellation, delay and fixed-cost under-absorption	Elections, budgets, redesigns or customer acceptance shift orders/cash; yards and plants retain fixed cost. F126 is observed, not hypothetical.	Naval; Vehicle; Air Defence; Group	Cancelled F126 is not removed or remedied in the next backlog roll-forward; no signed replacement awards; rising contract assets/inventory, negative OFCF, provisions and guidance cuts	High as recurring volatility; medium as structural impairment

7. Pricing power verification

Pricing power is **partly observable but not cleanly proven**. Rheinmetall does not disclose systematic unit-price, renewal, churn or customer-retention data, and defence contracts are negotiated rather than subscription-priced. The clearest evidence is indirect: W&A maintained at least 17.7% EBIT margin across five years and reached 26.7% as volume and mix improved; Vehicle held around 9%-12%; Electronic Solutions expanded from about 10% to 15%. Repeat frameworks and rapid extensions show customers value qualified supply, and the September 155 mm order shows new contracted demand, but neither discloses a comparable unit-price uplift or margin. The 2025 annual report says some sales contracts contain raw-material cost-escalation clauses and that the company seeks energy-price hedging clauses, but it also acknowledges that full energy-cost pass-through cannot be guaranteed.

This is not proof of unconstrained pricing. Governments are concentrated buyers, local-content packages trade economics for access, and urgent scarcity can make current margins look more durable than they are. W&A’s FY2024-25 expansion was explicitly attributed mainly to volume, mix and cost optimisation, not published like-for-like price increases. Air Defence has only a short separate history; Digital’s low margin argues against strong current pricing power; Naval’s contract economics are untested. The September 2030 margin targets, however impressive, are not price-realisation evidence: they embed volume, mix, utilisation and a different operating-result basis. The underwriting conclusion is therefore: **real contract protection and qualification value, but weak disclosure of pure price/mix decomposition and no evidence that peak scarcity margins survive excess capacity.**

8. Moat verdict

- **Moat gate: YELLOW**
- **2046 test: YELLOW**

Rheinmetall has a real moat today, led by Weapon and Ammunition's qualified energetic-materials chain and installed gun/ammunition standards, reinforced by Air Defence integration, trusted procurement status and fleet switching costs. The five-year W&A and Vehicle statutory margin record gives this more substance than a generic defence-budget thesis, so outright FAIL would overstate the weakness. But the strongest current profit expansion, backlog and capacity additions have not been tested through a post-rearmament utilisation cycle. The September evidence heightens rather than resolves that gap: cancelled F126 remained in Naval's reported backlog; one-year capex fell while >€8bn five-year investment remains; and aspirational 2030 operating-result margins are far above several observed statutory margins. Digital's value capture and Naval's statutory profitability remain unresolved. The 2046 company can be described concretely, but sustaining high returns requires Rheinmetall to convert urgent scarcity into low-cost scale, keep the C4ISR/AI layer, and avoid fixed-cost dilution from sovereign programme gaps. YELLOW means a real investable franchise with explicit durability tests, **not** a presumption that 2030 aspirations become 2046 economics.

Upgrade to PASS monitors: (1) the next backlog roll-forward removes, resolves or explicitly remedies cancelled F126 and discloses signed, funded Naval replacements separately from prospects; (2) W&A sustains at least high-teens statutory EBIT margin after sector capacity normalises, with plant utilisation or credible unit-volume/cash evidence against actual cumulative capex; (3) Air Defence and Digital produce three to five years of separate, rising statutory margins with repeat cross-platform wins, while Naval reaches durable positive statutory EBIT and cash conversion. **Downgrade to FAIL monitors:** (1) W&A margin falls below the pre-surge high-teens band because of price competition/under-utilisation, or new plants require recurring capital with weak incremental returns; (2) Rheinmetall repeatedly loses the battle-management/autonomy layer while remaining a low-return hardware supplier; or (3) backlog grows through frames or unremedied cancelled work while accepted deliveries, OFCF and returns on the expanded capital base fail to follow. The 2027 energetic-plant starts and 2029 NATO spending-plan review are scheduled checkpoints; neither alone proves durability.

Source notes

Historical financials, segment margins, backlog composition and H1 2026 bridges come from the DR-cleared local `data_package.md`, based on the [Rheinmetall 2025 Annual Report](https://ir.rheinmetall.com/media/document/214a8f96-a9e5-4296-9a89-e2b65122d258/assets/Rheinmetall-Annual-Report-2025.pdf) and [H1 2026 Half-Yearly Financial Report](https://ir.rheinmetall.com/media/document/1bbcaadf-0e67-45bc-80df-bba822823824/assets/DE0007030009-Q2-2026-EQ-E-00.pdf). Refresh-specific source: the [September 2026 investor presentation](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf), especially pp.58, 60-61 and 65-66, plus the [August earnings-call transcript](https://ir.rheinmetall.com/media/document/8bb289d9-f5b4-4ad5-9bcf-015718ca2182/assets/Not_verified_Q2_2026_Transcript.pdf) on capex timing and F126 capacity. Other current moat evidence was independently checked against official sources: [Aschau powder capacity](https://www.rheinmetall.com/en/media/news-watch/news/2026/07/2026-07-23-rheinmetall-foundation-laying-ceremony-aschau-powder-plant), [Skymaster passive-sensor integration](https://www.rheinmetall.com/en/media/news-watch/news/2026/08/2026-08-19-rheinmetall-and-hensoldt-demonstrate-the-successful-integration-of-passive-sensor-technology), [Skynex architecture](https://www.rheinmetall.com/en/products/air-defence-systems/networked-air-defence-skynex), [export controls](https://www.rheinmetall.com/en/company/corporate-governance/export-controls), [Integrated Logistics Support](https://www.rheinmetall.com/en/products/services-for-military-vehicle-systems/integrated-logistics-support), [Digital Systems](https://www.rheinmetall.com/en/company/divisions/digital-systems), [ICEYE contract](https://www.rheinmetall.com/en/media/news-watch/news/2025/12/2025-12-18-rheinmetall-and-iceye-win-billion-euro-contract-for-space-reconnaissance), [Battlesuite](https://www.rheinmetall.com/en/media/news-watch/news/2026/06/2026-06-15-rheinmetall-battlesuite-the-digital-foundation-for-reconnaissance-and-strike-network-new-at-eurosatory), [Skyranger qualification](https://www.rheinmetall.com/en/media/news-watch/news/2025/02/2025-02-05-rheinmetall-hands-over-verification-model-of-skyranger-30-to-the-bundeswehr), [120 mm NSPA framework](https://www.rheinmetall.com/en/media/news-watch/news/2026/02/2026-02-13-rheinmetall-receives-major-nato-order-for-tank-ammunition), [Naval Systems lifecycle services](https://www.rheinmetall.com/en/company/divisions/naval-systems), the [F126 impact disclosure](https://www.rheinmetall.com/en/ir-data/rheinmetall_ag__rheinmetall_is_assessing_the_potential_impact_of_the_cancellation_of_the_f126_programme/1088612), [14 September ammunition award](https://www.rheinmetall.com/en/media/news-watch/news/2026/09/2026-09-14-rheinmetall-supplies-artillery-ammunition-to-international-customer), [14 September intelligence-vessel milestone](https://www.rheinmetall.com/en/media/news-watch/news/2026/09/2026-09-14-federal-minister-of-defence-pistorius-charts-the-course-for-a-fourth-fleet-intelligence-vessel-at-rheinmetalls-shipyard-wolgast), and [21 September REPMUS26 trial](https://www.rheinmetall.com/en/media/news-watch/news/2026/09/2026-09-21-rheinmetall-repmus26-interconnected-unmanned-systems-for-the-protection-of-maritime-infrastructure).

Appendix B1 — Vehicle Systems

Rheinmetall AG — Vehicle Systems Segment Deep Dive

Ticker: RHM.DE **Analysis date:** 22 September 2026 (targeted refresh of the 17 September reviewed model) **Forecast anchor:** TTM ended 30 June 2026 **Forecast horizon:** 30 June 2031, exactly five years after the TTM anchor **Currency:** EUR millions unless otherwise stated **Sealed segment profit basis: EBIT Scope:** Research only; no ranking, position-sizing, or trade authority.

Refresh boundary: The 22 September D/DR-cleared package and QFR-sealed statutory bridge (SHA-256 `bc3d5a1577a7461e980af5b367da097ae51674dd432019c21cc73639b9b8d7a5`) leave the June 2026 historical anchor unchanged. The [issuer's September 2026 investor deck, pp. 23, 61, 66](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf) now supplies Vehicle Systems 2026 and 2030 sales and **operating-result** margin ambitions, which the old appendix did not reflect. The independently underwritten EBIT case probabilities, growth rates, margins and terminal values remain unchanged for the reasons in Sections 7–10. Neither guidance nor this appendix authorizes a trade.

0. Segment boundary and taxonomy note

Vehicle Systems is Rheinmetall's land-platform segment: tactical and tracked vehicles, military logistics vehicles, related subsystems, and lifecycle service. The data package presents a continuous five-year Vehicle Systems series for FY2021-FY2025, so there is no recent segment-restatement boundary that prevents comparison. The 1 January 2026 group reorganisation split Electronic Solutions and gave the US vehicle activities more direct focus, but it did not replace the Vehicle Systems reporting line. FY2025 comparisons also exclude discontinued Power Systems, which is not part of Vehicle Systems. This appendix therefore uses the five-year Vehicle Systems history without mixing it with old-taxonomy segments and anchors forecasts to the restated H1 2025/H1 2026 comparison in the data package [data_package §1, current-segment table and taxonomy paragraphs].

The forecast respects the sealed statutory bridge. Vehicle Systems is modeled on **EBIT**, the additive issuer-disclosed segment measure that bridges to statutory group EBIT. Corporate/unallocated costs, interest, tax, and discontinued operations are outside this segment and are not allocated here [data_package §3a, common-metric statement and bridge-driver ledger].

1. What Vehicle Systems actually is

Vehicle Systems designs, integrates, produces, modernises, and services land platforms for governments and armed forces. The portfolio includes wheeled tactical vehicles, tracked combat vehicles, logistics trucks, mission modules, chassis and mobility systems, and aftermarket support. Major programme families named in company disclosure include Boxer, Puma, Lynx, and HX. Loc Performance, acquired to deepen the US position, supplies tracked-vehicle mobility content such as track systems and related components. The data package does not disclose a complete revenue split among these families, and contract values are not revenue [data_package §4, Vehicle Systems product/component rows].

The customer is almost always a sovereign ministry of defence, a military procurement agency, or a prime-contractor partner. The go-to-market model is therefore bid- and programme-led rather than commercial distribution. A typical opportunity moves through qualification, trials, parliamentary or budget approval, a framework or development award, firm order call-offs, production acceptance, and then decades of spares, upgrades, depot work, and field support. Delivery is often gated by customer acceptance and government scheduling. The shift of roughly 200 pre-produced trucks from Q1 into Q2 2026, followed by 53.0% Q2 Vehicle Systems growth, is a concrete example of why quarterly shipment cadence is not the same thing as underlying demand [data_package §5, Vehicle Systems Q1/Q2 rows; §6, Vehicle Systems Q1 and Q2 rows].

Pricing is negotiated at programme or lot level. Economics depend on configuration, local-content requirements, escalation clauses, learning curves, risk sharing, warranty provisions, and the degree of lifecycle support. The installed fleet can create recurring service and upgrade work, but no service-revenue percentage is disclosed. Government buyers have considerable bargaining power; pricing power arises less from brand than from a qualified platform, scarce capacity, intellectual property, production readiness, interoperability, and the cost and time required to certify an alternative.

The segment's delivery chain is unusually physical. It requires long-lead steel, engines, transmissions, electronics, weapons interfaces, armour, specialised labour, machining, final assembly, test ranges, and customer acceptance. Capacity cannot be

added instantly. Local production and industrial participation are increasingly part of the product: the Romania SAFE nomination, for example, requires Romanian capacity/local content across several Rheinmetall activities [data_package §9, Romania SAFE row]. This local-footprint requirement raises entry barriers but can also dilute margins and increase execution complexity.

2. Current economics: TTM ended 30 June 2026

The TTM revenue anchor is **€5,525m**, calculated exactly as FY2025 revenue of €4,992m less restated H1 2025 revenue of €1,898m plus H1 2026 revenue of €2,431m. TTM **EBIT is €634m**, directly sealed in the statutory bridge, for an **11.48% EBIT margin**. H1 2026 revenue grew 28.1% year on year and H1 EBIT was €256m versus €152m in H1 2025 [Rheinmetall Annual Report 2025, p. 203; Rheinmetall H1 2026 report, p. 30; data_package §3, Vehicle Systems FY2025 and current-segment H1 bridge]. The recent quarterly sequence was volatile: Q3 2025 revenue €1,338m, derived Q4 €1,757m, Q1 2026 €985m, and Q2 2026 €1,446m [Q3 2025 statement, p. 12; FY2025 less 9M official totals; Q1 2026 statement, p. 12; H1 2026 report, p. 15; data_package §5]. The data package labels quarterly margins as operating margins, not EBIT margins, so they are not substituted for the sealed EBIT basis.

Vehicle Systems' H1 2026 backlog was **€28,829m**, about 5.2 times TTM segment revenue. That ratio is not firm revenue coverage. At group level, €24,126m of €80,467m backlog was frame backlog, approximately 30%, while €56,342m was order backlog. Frame backlog reflects expected call-offs whose quantities and timing may vary [data_package §0a, H1 procurement-quality paragraph; §3, H1 bridge]. Rheinmetall does not disclose the order/frame split for Vehicle Systems, so applying the group mix to the segment would be an analytical heuristic, not a fact. This appendix explicitly haircuts framework visibility rather than equating €28.8bn to contracted future sales.

Capital intensity is rising ahead of output. Group capex/sales was 8.8% in FY2025 and 7.7% in H1 2026. Vehicle Systems recorded €87m of H1 2026 capex, while FY2025 continuing R&D was €256m, or roughly 5.1% of FY2025 segment revenue by simple division [data_package §0a, KPI table; §7, H1 capex and FY2025 R&D paragraphs]. The [September investor deck p. 61](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf) subsequently cut the **group's 2026 capex plan** from the prior 16%-of-sales CMD indication to 8%–9%, while deck p. 60 still projects more than €8bn investment over five years excluding capital contributions. This is neither an allocated Vehicle capex budget nor realized cash savings. The figures do not provide a complete segment depreciation or maintenance-capex schedule, but show growth requires investment rather than merely higher utilisation of an asset-light base [data_package §7, capex revision].

Cash conversion is the immediate quality concern. Vehicle Systems generated H1 2026 operating free cash flow of **negative €557m** against €256m of EBIT [data_package §3, H1 bridge]. Group continuing OFCF was negative €1,616m, and management attributed the burn to inventory built ahead of growth while down payments shifted [data_package §0a, KPI table; §6, Cash conversion row]. The likely economic sequence is inventory and work-in-progress first, customer milestone or advance payment later, delivery and acceptance later still. That can reverse favourably, but it is not assured: a procurement delay, configuration change, or acceptance slippage can strand working capital for longer than planned.

Product disclosure is sparse. Loc Performance contributed €329m for the first nine months of 2025, but Rheinmetall does not publish a full-year or TTM Loc revenue line, nor unit volumes, average selling prices, product margins, or a complete tactical-versus-logistics-versus-service mix [Rheinmetall Q3 2025 statement, p. 12; data_package §4, Vehicle Systems/Loc Performance row; §10, product/unit-economics gap]. To enable a reconstructable forecast without pretending this is reported data, the model uses two analytical buckets. It annualises the nine-month Loc contribution to **€439m** (`€329m × 12 / 9 = €438.7m`, rounded) and assigns the residual **€5,086m** (`€5,525m − €439m`) to legacy/core Vehicle Systems. The annualisation assumes the disclosed nine-month contribution is representative; it does not adjust for seasonality, acquisition timing inside the period, or an undisclosed H1 2026 Loc growth rate. This is a transparent modeling allocation and sensitivity device, not an issuer-disclosed historical split.

3. Unit economics

Vehicle revenue becomes EBIT through programme gross profit less engineering, selling, programme-management, warranty, facility, and central segment costs. The first-order revenue variables are production units, configuration value per unit, upgrade and service scope, and milestone timing. The first-order cost variables are material and subsystem content, direct labour, supplier inflation, rework, customer acceptance, ramp inefficiency, local-content duplication, and fixed-facility absorption.

The five-year history shows that operating leverage is real but not automatic. Revenue rose from €1,883m in FY2021 to €4,992m in FY2025, while EBIT increased from €174m to €530m. The EBIT margin rose from 9.2% to 12.3% by FY2023, then fell to 10.8% in FY2024 and 10.6% in FY2025 despite rapid revenue growth [data_package §3, Vehicle Systems table]. That pattern is consistent with a heavy ramp: factories, labour, supplier qualification, advance production, and new-programme learning absorb part of the volume benefit. TTM margin recovered to 11.48%, helped by H1 2026 EBIT growth, but one period does not establish a new steady state.

Three mechanisms can lift margin. First, greater throughput spreads engineering and fixed factory costs. Second, learning curves reduce labour hours, scrap, and rework as production stabilises. Third, aftermarket, upgrades, and mature configurations can carry better economics than early low-rate production. The data package does not quantify the service mix, so the model does not assign a fabricated service premium. A fourth potential lever is Loc Performance: bringing mobility content and US capacity closer to the platform offering may internalise supplier value and improve programme competitiveness. Yet Loc-specific margin is not disclosed, and integration can initially add duplicate cost.

Four mechanisms can break margin. First, fixed-price or tightly priced contracts expose the contractor to material and labour inflation unless escalation clauses are effective. Second, schedule slips under-absorb fixed costs and can generate penalties or rework. Third, localisation duplicates factories and supply chains before volumes mature. Fourth, capacity capex raises depreciation and start-up cost before revenue arrives. September's group capex reprioritisation softens the *2026 cash-spending schedule* but does not remove the multiyear investment requirement, disclose Vehicle's allocation, or prove factory commissioning will keep pace with target volumes [data_package §6, Capex and Capex revision rows; §7, forward capex paragraph].

The cash economics can diverge sharply from EBIT. Customer advances can temporarily make growth highly cash generative; their delay can produce the opposite. Inventory built for scheduled call-offs may be economically sensible but still represents financing provided by Rheinmetall until the relevant milestone is billed. H1 2026's negative €557m Vehicle Systems OFCF demonstrates that backlog and accounting EBIT do not automatically convert to cash [data_package §3, H1 bridge]. The base case assumes normalisation over several years, not an immediate one-for-one reversal. The bear case assumes a persistently higher working-capital burden and does not treat advance payments as structural free financing.

4. Competitive dynamics

The closest direct competitors are KNDS in European tracked and wheeled land systems, BAE Systems' Hägglunds and Combat Mission Systems activities, General Dynamics Combat Systems, Oshkosh Defense in tactical trucks and US wheeled vehicles, and selected national champions or consortium partners such as Leonardo and Patria. Competitive boundaries overlap: a company can be a rival on one platform, a subsystem partner on another, and a consortium member on a third.

KNDS is the clearest European scale comparator, although its published figures include ammunition and are therefore not like-for-like. KNDS reported 2025 revenue of €4.4bn, growth of 15.9%, EBIT of €661m, a 15.0% margin, and €33.1bn of backlog. Land Systems Germany alone reported €2.5bn of revenue and 17.4% growth. KNDS also highlighted capacity expansion and service to more than 40 armed forces ([KNDS 2025 results](https://knds.com/en/press-releases/knds-achieves-strong-revenue-growth-and-record-order-intake-in-2025)). This proves that Rheinmetall is not the only beneficiary of European rearmament and that a mid-teens land-systems margin is attainable in favourable mix, but KNDS said high-margin export contracts had completed; its 15% should not be copied mechanically.

General Dynamics Combat Systems offers a useful transatlantic benchmark. It reported 2025 revenue of $9,246m, only 2.8% growth, operating earnings of $1,331m, a 14.4% operating margin, and $27,218m of backlog ([General Dynamics FY2025 results](https://investorrelations.gd.com/news/press-release-details/2026/General-Dynamics-Reports-Fourth-Quarter-and-Full-Year-2025-Financial-Results/)). The slower growth at a larger scale supports deliberate deceleration in the Rheinmetall base case. Its margin also suggests that mature, well-absorbed land-system franchises can earn above Vehicle Systems' current EBIT margin, though accounting, mix, and geography differ.

BAE Systems' Platforms & Services sales rose from £4,390m in 2024 to £5,039m in 2025. The segment includes combat vehicles but also weapons, munitions, and naval repair, so it is a direction-of-travel comparator rather than a market-share denominator ([BAE five-year summary](https://www.baesystems.com/investors/five-year-summary); [BAE 2025 annual report](https://annualreport.baesystems.com/2025)). BAE stated that its US Combat Mission Systems business grew 15% and European Hägglunds and Bofors activities grew 32% in 2025, showing that high industry growth is broad rather than unique to Rheinmetall ([BAE 2025 annual report PDF](https://www.baesystems.com/investors/dam/jcr%3A105fe9f2-cff7-4960-9d99-956aba996540/BAE-Systems-Annual-Report-2025.2026-03-24-10-33-48.pdf)).

Demand is structurally supportive. EU defence spending reached €418bn in 2025, up 20%, and defence-equipment procurement rose to €115bn; the European Defence Agency projects total spending of €454bn in 2026 ([EDA 16 July 2026 release](https://www.eda.europa.eu/news-and-events/news/2026/07/16/eu-defence-spending---418-billion-in-2025--projected-to--454-billion-in-2026)). NATO members committed to 5% of GDP for defence and security-related investment by 2035, including at least 3.5% for core defence requirements, with national annual plans and a 2029 review ([NATO defence-investment overview](https://www.nato.int/en/what-we-do/introduction-to-nato/defence-expenditures-and-natos-5-commitment)). This is powerful demand support, not a delivery guarantee: budgets still require programme approval, tendering, contracting, call-offs, and acceptance.

No reliable apples-to-apples market-share denominator exists in the data package or the cited peer releases. Vehicle categories, joint ventures, ammunition, service, and geography differ. Claiming a precise Rheinmetall share would therefore be false precision. Scale, backlog, installed fleets, and named programme franchises indicate a leading position, but procurement remains contestable and political.

5. Moat at the segment level

Vehicle Systems has a meaningful but qualified moat. Its strongest component is the qualification-and-installed-base flywheel. Once a platform is selected, armies train personnel, hold spares, build maintenance infrastructure, integrate radios and weapons, and establish doctrine around it. Switching at mid-life is costly. That supports follow-on lots, upgrades, service, and interoperability-driven sales to allied countries.

The second moat component is systems integration. A combat or logistics vehicle is not merely a chassis: armour, mobility, power, mission electronics, weapons, communications, and support must function together and pass military qualification. Relevant combat feedback and accumulated certification data are difficult for a new entrant to reproduce. The third component is scarce industrial capacity. Qualified welders, protected-vehicle production lines, machining, test infrastructure, supplier relationships, and security clearances take years to build. The current sector-wide investment cycle demonstrates that backlog conversion is capacity-constrained.

The fourth component is political and local. Domestic production, sovereign control, export permissions, security of supply, and alliance interoperability shape awards. Rheinmetall's expanding European and US footprint, including Loc Performance, improves access and content credibility. Yet this is a two-edged moat: local-content promises can win contracts but require duplicated capex and execution across sites.

The moat is not absolute. Sovereign buyers can sponsor competitors, force workshare, demand technology transfer, or delay orders. Major programmes are periodically rebid, and alliances can alter economics. A rival with a combat-proven platform or superior local partnership can win. New technology also changes the value stack: inexpensive drones, active protection, autonomy, and networked fires can shift spending away from traditional platforms or force costly redesign.

Durability over five to ten years is high for installed fleets and already-qualified programmes, moderate for new competitions, and lower for commodity-like truck or component content. The segment should retain above-average visibility and mid-cycle profitability, but not monopoly pricing. The lack of customer-concentration disclosure is an important limitation: the data package identifies sovereign and programme examples but no percentage-by-customer schedule [data_package §10, customer-concentration gap]. A moat assessment cannot assume diversification that management has not demonstrated.

6. Historical growth rates

The table reproduces the finest dollar history available in the sealed data package. A complete product-level history is not disclosed, so the only comparable three-year revenue series is the segment total. Loc Performance is shown separately only at the single disclosed period; it is not back-solved into false history.

Product / sub-segment	FY2023 revenue	FY2024 revenue	FY2025 revenue	FY2023-FY2025 CAGR (2-year span)	Most recent YoY	Data package cite
Vehicle Systems total	€2,609m [§3, Vehicle Systems Revenue FY2023]	€3,790m [§3, Vehicle Systems Revenue FY2024]	€4,992m [§3, Vehicle Systems Revenue FY2025]	38.3% [§3, same Revenue row]	31.7% FY2025 [§3, Vehicle Systems YoY row]	data_package §3, Vehicle Systems rows
Tactical/logistics vehicles	Not separately disclosed [§4, Vehicle Systems trend row]	Not separately disclosed [§4, Vehicle Systems trend row]	Not separately disclosed [§4, Vehicle Systems trend row]	n/d [§4, no product-dollar history]	28.1% H1 2026; 53.0% Q2 [§4, Vehicle Systems trend row]	data_package §4, tactical/logistics vehicles row
Loc Performance	n/d [§4, Loc Performance row]	n/d [§4, Loc Performance row]	€329m for 9M only, not FY [§4, Loc Performance row]	n/d [§4, limited acquisition contribution]	n/d [§4, limited acquisition contribution]	data_package §4, Vehicle Systems/Loc Performance row

The primary-source page anchors for the segment history are Rheinmetall Annual Report 2021 p. 74, Annual Report 2022 p. 78, Annual Report 2023 pp. 67 and 78, Annual Report 2024 p. 192, and Annual Report 2025 p. 203. The current H1 comparison is in the H1 2026 report p. 30. EBIT margins and growth rates above are calculations from those reported revenue and EBIT values; Loc's €329m is the limited 9M 2025 contribution cited in data_package §4.

Arithmetic tie-out. €2,609m × 1.453 = €3,790.9m, within 0.1% of the reported €3,790m. €3,790m × 1.317 = €4,991.4m, within 0.1% of the reported €4,992m. Both checks are comfortably within the required 2% tolerance. No Loc history was back-solved. The later €439m Loc TTM anchor used in the forecast is explicitly an annualised modeling allocation: €329m ÷ 9 × 12 = €438.7m, rounded to €439m.

The longer series reinforces both opportunity and caution. Vehicle Systems revenue was €1,883m in FY2021, €2,270m in FY2022, €2,609m in FY2023, €3,790m in FY2024, and €4,992m in FY2025. The associated EBIT margins were 9.2%, 11.4%, 12.3%, 10.8%, and 10.6% [data_package §3, Vehicle Systems table]. Growth accelerated much faster than margin, evidence that the next five years should not be valued as frictionless operating leverage.

7. Management guidance and commentary

The refreshed data package and [September issuer deck pp. 23, 66](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf) distinguish near-term **Vehicle sales/operating-result margin guidance** from the absence of a Vehicle **statutory EBIT** guide. The deck shows FY2026 sales of €5.9bn–€6.0bn, 12%–13% operating-result margin, and 2030 sales potential of €13bn–€15bn at a 13%–15% operating-result margin. Where earlier calls supply paraphrase rather than a quoted transcript excerpt, that status is preserved.

Topic	Data package row	Verified wording in data package	Interpretation
Demand	H1 release, 6-Aug-2026, CEO Armin Papperger; §6	“Demand remains strong”; book-to-bill above 3	Supports multi-year demand, but book-to-bill includes frame nominations and does not remove conversion risk.
2026 group guide	H1 release, 6-Aug-2026, management; §6	2026 sales €13.7-14.2bn and operating-result margin around 19% after F126	Group context; the distinct Vehicle guide follows.
Vehicle FY2026	[September deck p. 23](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf); data_package §6/§0a	Sales €5.9bn–€6.0bn; operating-result margin 12%–13%	Calendar FY guide, not TTM June 2027 and not EBIT. Compare with FY2025 sales €4.992bn, not the TTM base as if both endpoints had the same date.
Q1 truck timing	Q1 call, 7-May-2026, CEO/CFO; §6	Roughly 200 of prepared truck deliveries shifted into Q2	Confirms procurement/acceptance timing rather than demand caused Q1 weakness. Exact verbatim transcript wording is not included.
Q2 drivers	Q2 call, 6-Aug-2026, CFO Klaus Neumann; §6	German trucks and tactical programmes drove Q2	Supports the catch-up interpretation, but Q2's 53.0% growth is not a steady-state run rate. Exact verbatim transcript wording is not included.
Cash conversion	Q2 call, 6-Aug-2026, CEO/CFO; §6	Inventory built ahead of growth while down payments shifted	Explains H1 cash burn but does not guarantee timing or magnitude of reversal.
Capex, earlier	Q1 call, 7-May-2026, CEO Armin Papperger; §6	“CapEx will be still high” before normalising	Superseded in degree by September's near-term plan, not by cancellation of long-run capacity work.
Capex, September	[September deck pp. 60–61](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf); data_package §6, Capex revision	Group FY2026 capex 8%–9% of sales versus prior 16% indication; more than €8bn five-year investment excluding capital contributions	Timing/reprioritisation, not automatically a Vehicle EBIT or free-cash-flow increase; test capacity milestones.
Backlog quality	H1 report, 6-Aug-2026; §6	Frame backlog is expected call-offs and may vary	Requires an explicit framework-backlog haircut in every case.

Topic	Data package row	Verified wording in data package	Interpretation
2030 Vehicle ambition	[September deck pp. 23, 66](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf); data_package §6/§0a, 2030 segment targets	Vehicle sales potential €13bn–€15bn, operating-result margin 13%–15%	Management aspiration including M&A, excluding US order wins in the deck's group-target framing; neither booked revenue nor an EBIT forecast.

[DATA GAP: The deck guides Vehicle FY2026 sales and operating-result margin, but no separate FY2026 or 2030 **statutory EBIT** margin, full PPA/special-item schedule, or bridge from operating result is guided.]

[DATA GAP: For the Q1 truck, Q2 driver and cash-conversion rows, data_package §6 provides verified paraphrases but not full verbatim transcript excerpts. This appendix does not manufacture quotes. The September figures are deck disclosures, not transcript quotations.]

The appropriate modeling read-through is uneven execution inside a strong demand environment. The Q1/Q2 swing validates a timing adjustment, not extrapolation of the Q2 growth rate. The Vehicle guide now constrains calendar 2026 plausibility, and the 2030 target is a demanding upside/execution test; neither dictates the independent June-2031 EBIT line. The group's other segments have different growth and margin paths.

The FY2026 sales guide has a direct, date-matched check: H1 2026 Vehicle sales of €2,431m imply **H2 2026 sales of €3,469m–€3,569m** to reach €5,900m–€6,000m for the calendar year. Against H2 2025's €3,094m (€4,992m less €1,898m), that requires **12.1%–15.4% H2 growth** [data_package §3, Vehicle FY2025/H1 rows; September deck p. 23]. The June-2027 TTM scenario totals below are six months later than FY2026 and must not be called FY2026 forecasts. At the guided FY2026 range, their implied H1 2027 sales are €2,325m–€2,425m bear, €2,708m–€2,808m base, and €3,035m–€3,135m bull. This bridge tests calendar plausibility without equating the issuer's operating-result margin to statutory EBIT or changing the independently modeled case paths.

8. Forward growth assumptions

Forecast construction and backlog haircut

The starting buckets reconcile exactly to the €5,525m TTM segment anchor: €5,086m for legacy/core Vehicle Systems and €439m for Loc Performance. The Loc number annualises the only disclosed contribution, while the core bucket is the residual. Tactical vehicles, tracked vehicles, logistics trucks, and service remain inside core because allocating them separately would fabricate history.

Backlog is a constraint and visibility input, not revenue. Because Vehicle Systems' order/frame split is undisclosed, the group mix of roughly 70% order backlog and 30% frame backlog is used only as a scenario heuristic. The bear case conceptually converts 85% of order backlog and 30% of frame backlog, an effective 68.5% of the heuristic pool. Base uses 95% and 55%, an effective 83.0%. Bull uses 98% and 75%, an effective 91.1%. These are underwriting haircuts, not company guidance, and they influence growth assumptions without treating all backlog as five-year sales.

Case	Order conversion assumption	Frame conversion assumption	Effective conversion of heuristic pool	Implied current-backlog revenue over five years	Five-year cumulative modeled revenue	Implied current-backlog share of modeled revenue
Bear	85%	30%	68.5%	€19,748m	€33,696m	58.6%
Base	95%	55%	83.0%	€23,928m	€41,189m	58.1%
Bull	98%	75%	91.1%	€26,263m	€48,726m	53.9%

The table is a consistency check, not a claim about the undisclosed Vehicle Systems backlog mix. It applies the approximate group 70/30 order/frame mix to the €28,829m segment backlog and compares the haircut result with the sum of the five forecast-year revenue totals. The remaining 41-46% of cumulative revenue must come from post-anchor orders, replenishment, service, or future frame additions. This makes the CAGR model and backlog haircut arithmetically compatible while preserving the disclosure limitation; the haircut does not independently determine or cap terminal revenue.

Base case growth

Product / model bucket	FY2023-FY2025 CAGR (2-year span)	Latest YoY	Management FY+1 guide	Base CAGR TTM to TTM+5y	Justification
Legacy/core Vehicle Systems	38.3% segment proxy [§3]	28.1% H1; 53.0% Q2 [§4]	Segment total €5.9bn–€6.0bn FY2026 sales [§6]; no core split	14.0%	Normalises timing catch-up, reflects 83% effective backlog heuristic, and sits near KNDS's 15.9% 2025 growth while below recent Rheinmetall growth.
Loc Performance	n/d; €329m 9M contribution only [§4]	n/d [§4]	None disclosed [§6]	9.0%	US platform and mobility demand supports growth, but integration, competition, and missing standalone history warrant a lower rate than core.

Base segment revenue rises from €5,525m to €10,468m. The implied annual path is €6,277m, €7,131m, €8,104m, €9,210m, and €10,468m. Total growth is approximately 13.6% each year because the lower-growth Loc bucket is small. The immediate deceleration from 28.1% H1 growth is deliberate: H1 includes a Q2 catch-up after Q1 slippage, and current capacity, local-content buildout, and acceptance cadence limit smooth compounding. KNDS's 15.9% 2025 growth and General Dynamics Combat Systems' 2.8% show that a broad industry upcycle can coexist with very different programme timing.

Bull case growth

Product / model bucket	FY2023-FY2025 CAGR (2-year span)	Latest YoY	Management FY+1 guide	Bull CAGR TTM to TTM+5y	Justification
Legacy/core Vehicle Systems	38.3% segment proxy [§3]	28.1% H1; 53.0% Q2 [§4]	Segment total €5.9bn–€6.0bn FY2026 sales [§6]; no core split	20.0%	Faster capacity commissioning, successful tactical-programme ramps, and 91.1% effective backlog conversion sustain growth still below the historical 38.3% proxy.
Loc Performance	n/d; €329m 9M contribution only [§4]	n/d [§4]	None disclosed [§6]	14.0%	US content wins and integration cross-selling raise throughput, while the rate remains below the core platform ramp.

Bull segment revenue rises to €13,501m through annual totals of €6,604m, €7,894m, €9,439m, €11,288m, and €13,501m. The implied annual growth is roughly 19.5%, materially below the recent 28.1% H1 pace and far below Q2's catch-up rate. This case requires both budget support and production execution: suppliers, labour, test, and customer acceptance must scale without the bottlenecks that usually accompany doubled revenue.

Bear case growth

Product / model bucket	FY2023-FY2025 CAGR (2-year span)	Latest YoY	Management FY+1 guide	Bear CAGR TTM to TTM+5y	Justification
Legacy/core Vehicle Systems	38.3% segment proxy [§3]	28.1% H1; 53.0% Q2 [§4]	Segment total €5.9bn–€6.0bn FY2026 sales [§6]; no core split	7.0%	Procurement approvals stretch, the effective backlog conversion falls to 68.5%, and capex/localisation delays output despite strong headline budgets.
Loc Performance	n/d; €329m 9M contribution only [§4]	n/d [§4]	None disclosed [§6]	3.0%	US tactical-vehicle competition and integration friction limit growth; no disclosed standalone trend justifies a stronger floor.

Bear segment revenue reaches €7,642m through annual totals of €5,894m, €6,289m, €6,710m, €7,161m, and €7,642m. Growth of about 6.7% is not a demand-collapse case. It is a conversion case: government budgets grow, but awards, frame call-offs, down payments, supplier readiness, and acceptance arrive later than the five-year window.

September 2030 target and date-aligned execution test

The [September deck pp. 23, 28 and 66](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf) attributes the €13bn–€15bn FY2030 Vehicle sales ambition to mass production across Boxer, Lynx, trucks and other platforms, with capacity rising toward 1,000 infantry fighting vehicles a year. The slide's programme pipeline and potential are **not firm revenue**: contract decisions, option exercise, localisation, new plants, suppliers and acceptance remain distinct gates. The deck's 2030 group framework includes M&A and

excludes US order wins [data_package §6, 2030 targets]. From FY2025's €4.992bn, €13bn–€15bn implies a 21.1%–24.6% five-year sales CAGR; from the €5.525bn June-2026 TTM anchor to December 2030 (4.5 calendar years), it implies 20.9%–24.9%. These are target-implied rates, **not** forecast inputs.

Comparison point	Bear sales	Base sales	Bull sales	Management sales target	Interpretation
30-Jun-2030 modeled TTM	€7.161bn	€9.210bn	€11.288bn	FY2030 €13bn–€15bn, six months later	Not a same-date beat/miss test; even bull needs €1.712bn–€3.712bn more annualised run-rate within six months.
30-Jun-2031 modeled TTM	€7.642bn	€10.468bn	€13.501bn	FY2030 €13bn–€15bn, six months earlier	Bull enters the low end only **after** the target date; base remains €2.532bn below the low end even at the later horizon.

The June-2030 to December-2030 comparison is a directional run-rate stress, not a calendar-FY forecast: six-month sales weighting and seasonality are unknown. The existing bull path compounds around 19.5% at segment level, below the 20.9% minimum target-implied June-2026-to-December-2030 pace. Additional acquired contribution or faster production could close the difference, but the deck supplies no signed-order-to-delivery bridge or Vehicle-specific cash/capex schedule to underwrite one. The base remains deliberately below the aspiration despite strong H1 growth and €28.8bn backlog, because frame conversion, post-anchor awards and the negative €557m H1 Vehicle OFCF constrain confidence. No bucket CAGR, scenario probability or terminal value is raised solely to meet management's target.

Procurement timing and product mix

Tactical vehicles are central to every scenario but are not assigned a fabricated revenue line. The base case assumes current truck and tactical programmes move from irregular catch-up into a steadier cadence. The bull case assumes new tactical wins, localised capacity, and mature production overlap. The bear case assumes pre-production repeatedly precedes call-offs, leaving more inventory and less recognised revenue. Tracked combat platforms can offer stronger barriers and lifecycle value, but development, integration, and political workshare also increase schedule risk. Logistics trucks can ramp more quickly yet may face greater price competition. Without a disclosed mix, these effects are carried in case-level growth and margin rather than false product precision.

9. Forward EBIT margin assumptions

The exact segment profit metric is **EBIT**. The TTM starting margin is 11.48%. Because product margins are not disclosed, both forecast buckets begin at the segment margin as a neutral allocation convention; this is not a claim that Loc and core earned identical margins.

The issuer's [September deck pp. 23 and 66](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf) instead guides **operating-result margin**: 12%–13% in FY2026 and 13%–15% in FY2030. Its FY2025 slide comparator of 11.7% on €4,992m implies operating result around €584m at the displayed rounded margin, while sealed FY2025 Vehicle **EBIT was €530m / 10.6%** [data_package §3, Vehicle FY2025 row; §3a, FY2025 Vehicle bridge]. Thus the displayed operating-result-to-EBIT difference is roughly **€54m / 1.1 percentage points** for that year, subject to rounding. The conceptual bridge is `statutory Vehicle EBIT = issuer operating result − excluded special items and purchase-price-allocation effects` where those exclusions are positive add-backs; exact segment adjustments can change sign and size. The QFR-sealed statutory bridge **starts at issuer-disclosed EBIT**, then sums segments and separately handles Others/consolidation; it does **not** add back operating-result exclusions or subtract them a second time. The issuer does not provide a future Vehicle adjustment schedule here. Applying a fixed 1.1-point haircut to FY2030 guidance would falsely imply a known statutory margin, so **€13bn–€15bn × 13%–15% = €1.69bn–€2.25bn of aspirational operating result, not an EBIT forecast**. Compare our 8.40%/12.68%/13.97% June-2031 **EBIT** margins only after acknowledging both the metric and six-month endpoint differences.

Case	Product / model bucket	TTM revenue anchor	TTM EBIT margin convention	TTM+5y revenue	TTM+5y EBIT margin	TTM+5y EBIT
Bear	Legacy/core Vehicle Systems	€5,086m	11.48%	€7,133m	8.5%	€606m
Bear	Loc Performance	€439m	11.48%	€509m	7.0%	€36m
Bear	Segment weighted total	€5,525m	11.48%	€7,642m	8.40%	€642m

Case	Product / model bucket	TTM revenue anchor	TTM EBIT margin convention	TTM+5y revenue	TTM+5y EBIT margin	TTM+5y EBIT
Base	Legacy/core Vehicle Systems	€5,086m	11.48%	€9,793m	12.8%	€1,254m
Base	Loc Performance	€439m	11.48%	€675m	11.0%	€74m
Base	Segment weighted total	€5,525m	11.48%	€10,468m	12.68%	€1,328m
Bull	Legacy/core Vehicle Systems	€5,086m	11.48%	€12,656m	14.0%	€1,772m
Bull	Loc Performance	€439m	11.48%	€845m	13.5%	€114m
Bull	Segment weighted total	€5,525m	11.48%	€13,501m	13.97%	€1,886m

Base mechanism. The 120-basis-point segment expansion to 12.68% requires throughput and learning-curve benefits to exceed depreciation, local-content duplication, and integration cost. Core margin reaches 12.8%, slightly above the FY2023 segment peak of 12.3%, while Loc reaches 11.0%. General Dynamics Combat Systems' 14.4% 2025 operating margin and KNDS's 15.0% EBIT margin are directional comparators only, given accounting and mix differences. The issuer's 13%–15% 2030 **operating-result** aspiration cannot validate a 12.68% statutory EBIT forecast. The case assumes mature logistics and tactical programmes absorb factories better but does not assume an unverified high-margin service mix.

Bull mechanism. Expansion of roughly 249 basis points to 13.97% requires near-full utilisation, favourable configuration and programme mix, disciplined escalation clauses, and a relatively smooth capacity ramp. It also requires Loc integration to create procurement and manufacturing benefits rather than duplicate cost. The endpoint remains below 15% to acknowledge continued localisation and tender pressure.

Bear mechanism. Compression of roughly 308 basis points to 8.40% assumes slower call-offs leave factories and new capacity under-absorbed while labour, depreciation, and supply-chain costs remain. Fixed-price exposure, rework, and acceptance delays compound the problem. Revenue still grows, but EBIT in 2031 is only marginally above the TTM €634m because incremental gross profit is consumed by ramp friction.

Cash conversion is not included inside EBIT margin. In every case, inventory and prepayment timing can make OFCF materially weaker or stronger than EBIT. The bear case is most exposed because inventory built for delayed frames absorbs cash; base assumes a multi-year normalisation; bull assumes advances and delivery milestones better match production, but it does not treat H1's burn as automatically reversible. The September **group** FY2026 capex reset (16% to 8%–9% of sales) is a 7–8-point reduction in the *plan*, about €0.96bn–€1.14bn at the group's €13.7bn–€14.2bn sales guidance [data_package §7, forward capex]. No Vehicle allocation is disclosed. A one-year capex deferral can improve near-term cash but threaten the 2030 production ramp; conversely, true procurement savings could preserve capacity at lower cost. This appendix books **zero automatic Vehicle EBIT uplift or cash benefit** from that announcement and leaves the growth/margin cases unchanged pending site commissioning, unit output, advance receipts and OFCF evidence.

10. Segment rollup

Each case is the sum of the two forecast buckets in Sections 8 and 9. Revenue compounds from the TTM anchor for exactly five annual steps. Intermediate-year EBIT uses the displayed aggregate scenario-margin path applied to exact, unrounded bucket revenue; the terminal-year EBIT and margin use the revenue-weighted bucket margins in Section 9. Reported revenue and EBIT are rounded to the nearest €1m, so multiplication of two displayed rounded figures can differ by €1m.

Case	Exact core TTM+5y revenue	Exact Loc TTM+5y revenue	Exact EBIT calculation	Exact segment margin	Rounded revenue / EBIT
Bear	€7,133.378m	€508.921m	€7,133.378m × 8.5% + €508.921m × 7.0% = €641.962m	8.4001%	€7,642m / €642m
Base	€9,792.659m	€675.456m	€9,792.659m × 12.8% + €675.456m × 11.0% = €1,327.760m	12.6839%	€10,468m / €1,328m
Bull	€12,655.596m	€845.257m	€12,655.596m × 14.0% + €845.257m × 13.5% = €1,885.893m	13.9687%	€13,501m / €1,886m

Bear rollup

Period end	Core revenue	Loc revenue	Segment revenue	Segment EBIT margin	Segment EBIT
TTM 30-Jun-2026	€5,086m	€439m	€5,525m	11.48%	€634m

Period end	Core revenue	Loc revenue	Segment revenue	Segment EBIT margin	Segment EBIT
30-Jun-2027	€5,442m	€452m	€5,894m	10.88%	€641m
30-Jun-2028	€5,823m	€466m	€6,289m	10.07%	€633m
30-Jun-2029	€6,231m	€480m	€6,710m	9.29%	€623m
30-Jun-2030	€6,667m	€494m	€7,161m	8.79%	€629m
30-Jun-2031	€7,133m	€509m	€7,642m	8.40%	€642m

The non-monotonic EBIT path is intentional: revenue grows, but under-absorption and programme friction compress margin faster through 2029 before utilisation stabilises. This is the scenario most sensitive to frame call-off delays and inventory financing.

Base rollup

Period end	Core revenue	Loc revenue	Segment revenue	Segment EBIT margin	Segment EBIT
TTM 30-Jun-2026	€5,086m	€439m	€5,525m	11.48%	€634m
30-Jun-2027	€5,798m	€479m	€6,277m	11.61%	€729m
30-Jun-2028	€6,610m	€522m	€7,131m	11.86%	€846m
30-Jun-2029	€7,535m	€569m	€8,104m	12.10%	€981m
30-Jun-2030	€8,590m	€620m	€9,210m	12.39%	€1,141m
30-Jun-2031	€9,793m	€675m	€10,468m	12.68%	€1,328m

Base EBIT more than doubles because revenue nearly doubles and margin rises modestly. The path assumes capacity comes online progressively; it does not front-load full operating leverage in the first year.

Bull rollup

Period end	Core revenue	Loc revenue	Segment revenue	Segment EBIT margin	Segment EBIT
TTM 30-Jun-2026	€5,086m	€439m	€5,525m	11.48%	€634m
30-Jun-2027	€6,103m	€500m	€6,604m	11.96%	€790m
30-Jun-2028	€7,324m	€571m	€7,894m	12.46%	€984m
30-Jun-2029	€8,789m	€650m	€9,439m	12.97%	€1,224m
30-Jun-2030	€10,546m	€741m	€11,288m	13.47%	€1,520m
30-Jun-2031	€12,656m	€845m	€13,501m	13.97%	€1,886m

Bull requires a near-tripling of core revenue from the TTM anchor. The arithmetic is feasible but operationally demanding. It depends on programme wins, customer funding, suppliers, labour, localisation, and acceptance all scaling together. Headline backlog alone is not sufficient evidence. It reaches €13.501bn only at June 2031, not the issuer's FY2030 €13bn–€15bn target date; the observed gap is an execution/timing warning, not a reason to relabel the 2031 forecast as calendar 2030.

At the assigned probabilities of 30% bear, 50% base, and 20% bull, probability-weighted TTM+5y revenue is about **€10,227m** and probability-weighted EBIT is about **€1,234m**, implying a weighted 12.06% EBIT margin. This expected value is descriptive, not a fourth scenario and not a valuation or trade recommendation.

The weights are deliberately non-uniform. Base receives 50% because the €28.8bn backlog, strong H1 demand, and Q2 catch-up support continued expansion, but the missing segment order/frame split and negative €557m H1 OFCF prevent a higher confidence weight. Bear receives 30%, above bull's 20%, because procurement timing, working-capital funding, localisation, and capacity execution create more ways to miss the five-year conversion schedule than to exceed an already demanding 19.5% aggregate growth path. Bull remains material because industry budgets and programme wins can combine with successful factory ramps, but it requires several favourable operational events at once.

11. Key risks and wildcards

Framework backlog conversion — bear/base. Approximately 30% of group backlog is frame backlog, but the segment split and maturity schedule are not disclosed. Fewer or later call-offs would reduce five-year conversion even if nominal backlog remains high. The model therefore uses a lower effective conversion in bear and never treats all backlog as firm.

Procurement and acceptance timing — all cases. The 200-truck shift and Q2 catch-up show how rapidly reported growth can move between quarters. Parliamentary approvals, customer acceptance, export permissions, and milestone billing can push revenue and cash across periods. Timing is the principal reason a strong demand thesis may not produce a smooth earnings path.

Inventory and advance payments — bear. H1 Vehicle Systems OFCF of negative €557m against positive EBIT is a warning. Inventory may be necessary for growth, but down-payment timing can leave the company financing sovereign customers. A delay in call-offs or acceptance would extend the cash cycle; a catch-up would improve it, but the magnitude is not disclosed.

Capacity capex and ramp execution — bear/bull. H1 Vehicle Systems capex of €87m and September's group 2026 capex reprioritisation create a sharper timing test. The 8%–9%-of-sales group plan does not allocate spending by segment, cancel the more-than-€8bn five-year investment programme, or establish that the deck's path toward 1,000 IFVs annually will be installed and staffed by 2030 [September deck pp. 28, 60–61](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf). Bull requires capacity to commission on time and absorb overhead quickly. Bear assumes duplication, labour scarcity, supplier bottlenecks, and depreciation arrive before revenue. Monitor site milestones, actual unit throughput and working-capital funding rather than treating lower capex as a free margin increase.

Target-versus-EBIT metric — all cases. Management's 2030 13%–15% margin is **operating result**, while the model is sealed **statutory EBIT**; FY2025's rounded displayed gap was about 1.1 points, with no forecast adjustment schedule. A target-beating operating-result headline without PPA/special-item and cash conversion evidence would not independently validate the modeled EBIT or shareholder earnings.

Tactical-vehicle competition — bear/base. Logistics and tactical vehicles can face intense tender competition from Oshkosh, General Dynamics, KNDS, BAE, and local providers. Platform qualification helps, but government buyers can use dual sourcing and local content to pressure price. The lack of product margins prevents direct proof that current growth is accretive.

Loc Performance integration — all cases. Loc adds US footprint and mobility content, but only a nine-month revenue contribution is disclosed. No standalone growth, EBIT margin, cash conversion, purchase-price return, or synergy scorecard is available. Bull assumes meaningful cross-selling and factory utilisation; bear assumes integration cost and modest demand.

Localisation and political workshare — all cases. Local production can open markets and deepen customer commitment, as with Romania SAFE, but it can also duplicate assets, complicate supply chains, and share economics with partners. Political change can alter procurement priorities even when NATO spending targets remain intact.

Technology substitution — bear/base. Drones, autonomous systems, active protection, distributed sensors, and precision fires do not eliminate the need for protected mobility, but they can alter specifications and shorten upgrade cycles. Rheinmetall must continuously integrate digital and counter-drone capability into platforms, raising R&D and obsolescence risk.

Customer concentration non-disclosure — bear. No percentage-by-customer schedule is disclosed. Germany and allied governments clearly matter, but the exact exposure to a single ministry, programme, or prime partner is unknown. It is therefore impossible to quantify the revenue shock from a cancelled or delayed major contract.

Margin/mix opacity — all cases. The issuer discloses segment EBIT but not tactical, tracked, logistics, Loc, or service margins. The forecast's bucket margins are explicit assumptions. A shift toward early-stage, localised, or lower-price work could make rapid growth less profitable; mature service and upgrade mix could do the opposite.

Peer capacity response — bear/base. KNDS, BAE, and General Dynamics are also investing and expanding. Industry demand may be large enough for several winners, but added capacity eventually increases bid competition. Rheinmetall's recent growth is not evidence of uncontested share.

Summary

Case	Segment TTM+5y Revenue	Exact profit metric	Segment TTM+5y Profit Margin	Segment TTM+5y Profit	Probability
Bear	€7,642m	EBIT	8.40%	€642m	30%
Base	€10,468m	EBIT	12.68%	€1,328m	50%
Bull	€13,501m	EBIT	13.97%	€1,886m	20%

The segment has exceptional demand and procurement visibility, but the underwriting hinge is conversion rather than backlog size. September's €13bn–€15bn FY2030 Vehicle target highlights the magnitude of management's ambition; none of the independently built modeled paths demonstrates achievement **at that date**, while the June-2031 bull reaches the target's low end only later. Base assumes a sharp normalisation from catch-up growth, modest EBIT leverage, gradual cash-cycle repair, and no heroic service-mix benefit. Bear shows that revenue growth can coexist with stagnant EBIT when frame call-offs, inventory, capacity, and customer acceptance move against the company. Bull is credible only if tactical programmes and Loc integration scale while new factories absorb cost rapidly. All nine terminal case figures and 30%/50%/20% probabilities are unchanged from the reviewed 17 September model; the new target is a monitored challenge, not an unsupported upward model revision.

Data-gap register

- [DATA GAP: Vehicle Systems order backlog is disclosed, but its order-versus-frame composition, maturity profile, cancellation history, and conversion schedule are not.]
- [DATA GAP: Product revenue, unit volumes, ASPs, and product-level EBIT margins for tactical, tracked, logistics, service, and Loc activities are not systematically disclosed.]
- [DATA GAP: Customer concentration by customer or programme is not disclosed.]
- [DATA GAP: September's issuer deck supplies FY2026 Vehicle sales and operating-result-margin guidance and FY2030 ambition, but no Vehicle statutory-EBIT guide, PPA/special-item forecast bridge, or product-level signed-order and capacity commissioning schedule.]
- [DATA GAP: Loc Performance has a nine-month 2025 revenue contribution but no full-year/TTM revenue, standalone EBIT, cash conversion, or integration-synergy series.]
- [DATA GAP: Vehicle Systems inventory, customer advances, and prepayment balances are not separately disclosed, preventing a quantified segment cash-conversion bridge.]

Appendix B2 — Weapon and Ammunition

Rheinmetall AG — Weapon and Ammunition Segment Deep Dive

Production ER2 segment appendix Ticker: RHM.DE **Information cutoff:** 2026-09-22, 20:02:24 SGT **TTM anchor:** 2026-06-30 **Five-year horizon:** 2031-06-30 **Reporting currency:** EUR millions unless stated otherwise **Exact sealed profit basis: EBIT Research only; trade execution authorized: NO.**

0. Segment boundary and taxonomy note

Weapon and Ammunition comprises weapon systems, artillery, tank and medium-calibre ammunition, propellant powders and charges, rocket propulsion, and protection systems. Its reporting boundary is comparable from FY2022 only after a retrospective restatement: the 2023 report revised FY2022 segment revenue from €1,470m to €1,359m and EBIT to €294m. This appendix therefore uses the later restated FY2022 series and never compares an old-taxonomy FY2022 amount with the current segment. The segment itself was not split in the 1 January 2026 reorganisation that separated Air Defence and Digital Systems, so the FY2023-FY2025 and H1 2026 Weapon and Ammunition amounts are economically continuous. Expal entered the perimeter on 1 August 2023, making FY2023 only a five-month acquisition contribution and FY2024 the first full year of ownership. [data_package §1, paragraphs 2-3; §4, Weapon and Ammunition entity rows]

The common segment profit metric is exactly **EBIT**. The sealed bridge identifies issuer-disclosed segment EBIT as additive to statutory EBIT. The reported EBIT already reflects applicable PPA and special-item effects; this model makes no separate adjustment or add-back for them and does not substitute management's adjusted operating result. Corporate and below-line bridge items remain for the synthesis stage. The refreshed data package contains `STATUTORY_BRIDGE_STATUS: VERIFIED — CLEARED FOR FORECASTING`, and the QFR-sealed bridge hash is `bc3d5a1577a7461e980af5b367da097ae51674dd432019c21cc73639b9b8d7a5`. Its financial payload is unchanged from the September 17 bridge; the changed hash reflects renewed source paths and retrieval metadata. [data_package §3a, opening paragraph and status line]

1. What this segment actually is

This is an integrated European munitions and weapons franchise, not merely an assembly business. It sells large-calibre artillery and tank ammunition, medium-calibre rounds, mortars, propellant charges and powders, fuzes, rocket propulsion systems, gun and launcher systems, and protection products. The customers are sovereign defence ministries, procurement agencies, armed forces, NATO-aligned partner governments and, in some cases, prime contractors integrating Rheinmetall weapons or energetic components into larger platforms. Revenue is recognised as accepted equipment, ammunition lots, weapons, services or programme milestones are delivered; a political announcement, framework nomination or backlog entry is not itself revenue.

The go-to-market model combines national procurement relationships with a widening local-production footprint. Customers increasingly want sovereign or allied supply, domestic jobs, assured surge capacity and compliance with local-content rules. Rheinmetall responds with owned plants, joint ventures and civil-site conversions in Germany, Spain, Hungary, Lithuania, the UK and other allied countries. This local footprint makes the commercial model more capital-intensive than a pure exporter, but it can also place Rheinmetall inside national procurement ecosystems for decades. Hungary illustrates the model: local capacity supports a multi-product ammunition package scheduled through 2031. Romania SAFE nominations similarly combine ammunition demand with local industrial participation. [data_package §6, Weapon and Ammunition rows; §7, H1 2026 capex paragraph; §9, Romania SAFE]

Expal is strategically important because it adds an existing Spanish network and more of the ammunition value chain. Rheinmetall describes Expal as a producer of artillery, mortar and medium-calibre ammunition, fuzes and rocket propulsion, often supplying a complete round from propellant to fuze across seven operating sites in Spain and the US. The acquisition closed in August 2023 and gave access to scarce propulsion and charge capacity rather than only incremental end-product assembly. The relevant integration question is therefore not simply whether Expal's reported sales grow. It is whether Spanish powder, filling, fuze and rocket-motor assets are synchronised with Rheinmetall's wider shell, weapon and customer network without safety, qualification or acceptance bottlenecks. [Rheinmetall Expal profile](https://www.rheinmetall.com/en/company/subsidiaries/rheinmetall-expal-munitions); [Rheinmetall acquisition completion](https://www.rheinmetall.com/en/media/news-watch/news/2023/8/2023-08-01-rheinmetall-completes-acquisition-of-spanish-defence-contractor-expal-systems)

Pricing is negotiated contract by contract, often against multi-year frameworks or packages rather than a posted commodity price. The bargaining position is presently favourable because qualified energetic materials, artillery shells and filling capacity are scarce, lead times are long, and NATO buyers are rebuilding inventories simultaneously. Yet high current pricing is not the same as a permanent cost-plus franchise. Governments can dual-source, fund competitors' capacity, impose open-book economics, or exchange volume guarantees for lower unit prices. The model therefore separates **volume/capacity growth** from **price/mix growth** and deliberately fades scarcity pricing in every case.

2. Current economics

The TTM ended 30 June 2026 is constructed exactly as FY2025 less restated H1 2025 plus H1 2026. Revenue is €3,966m: €3,532m minus €1,323m plus €1,757m. Sealed TTM **EBIT** is €1,087m, yielding a 27.4% EBIT margin. H1 2026 revenue grew 32.8% to €1,757m, while H1 EBIT was €377m. The quarterly profile was unusually uneven: Q1 revenue was €601m and Q2 revenue €1,156m after delayed Murcia powder acceptance shifted activity into Q2. Management said Q2 profitability benefited from volume; that supports operating leverage, but it is not a clean annual run rate. [data_package §3, Weapon and Ammunition H1 bridge; §3a, TTM Weapon and Ammunition EBIT line; §5, Weapon and Ammunition quarterly rows; §6, Q1 and Q2 commentary]

FY2025 revenue was €3,532m and EBIT €944m, for a 26.7% EBIT margin. This compares with FY2021 revenue of €1,233m and EBIT of €218m, for a 17.7% EBIT margin. The improvement is large enough that extrapolating it would be dangerous: the segment has benefited simultaneously from higher throughput, a richer ammunition mix, supply scarcity, urgent procurement, Expal consolidation and an unusually tight market for energetics. [data_package §3, Weapon and Ammunition table]

Visibility is extraordinary, but not homogeneous. Weapon and Ammunition backlog was €25,274m at 30 June 2026, up 17% year on year, or approximately 6.4 times TTM revenue. H1 nomination was €3,097m, 44% above the prior year. The segment order-versus-frame split is not disclosed. At Group level, €56,342m of €80,467m backlog was order backlog and €24,126m was frame backlog; frame backlog represents expected call-offs whose final quantities may vary. The Group mix is useful context but is **not mechanically imposed** on the segment. Treating all €25,274m as firm, evenly deliverable revenue would overstate certainty. [data_package §0a, H1 procurement-quality paragraph; §3, H1 bridge; §6, Weapon and Ammunition commentary]

Capital intensity has stepped up. H1 2026 Weapon and Ammunition capex was €184m, about 10.5% of segment sales, versus €78m of FY2025 continuing R&D. Projects include Lithuania ammunition, UK gun and pipe capacity, Nitrochemie powder and Spanish energetic capacity. Segment H1 operating free cash flow was negative €370m despite €377m of EBIT, a €747m gap before interpreting timing. Management attributes the broader cash burn to inventory built ahead of growth and shifted down payments; that is plausible, but reversal is not assured until advances arrive and inventory is converted into accepted deliveries. The September deck lowers the **Group** 2026 capex plan to 8%-9% of sales from the earlier 16% indication, but does not disclose a revised W&A allocation; €184m H1 W&A capex remains an actual, not a forward plan. [data_package §3, H1 bridge; §6, capex revision and cash conversion; §7, forward capex]

Product-level disclosure is limited. Rheinmetall Waffe Munition GmbH disclosed €1,872m of FY2025 revenue and €1,554m in FY2024. Expal disclosed €658m in FY2024 and €171m for five months in FY2023, but no FY2025 or TTM entity contribution appears in the verified package. Those entity amounts do not form a complete product map and may contain intercompany relationships; this model therefore does not invent a residual artillery, powder or protection line. [data_package §4, Weapon and Ammunition entity rows]

3. Unit economics

3.1 How revenue becomes EBIT

The economic engine is qualified throughput through hazardous, specialised assets. A shell or propellant charge earns revenue only after multiple steps—energetic-material production, casing or component manufacture, filling, assembly, testing, storage, transport and customer acceptance—are completed. Fixed costs include specialised plant, safety systems, environmental controls, quality laboratories, security, engineering and a trained workforce. At low utilisation, these costs create harsh operating deleverage. At high utilisation, incremental volume can carry attractive contribution margins because the installed plant, certification and engineering base are already funded.

Vertical integration is valuable when it removes a bottleneck rather than merely shifting transfer pricing within the Group. Propellant powder, nitrocellulose, explosives, fuzes and filling can constrain completed-round output. Expal, Nitrochemie and new powder capacity may let Rheinmetall convert shell demand into a larger captured value pool and reduce dependence on

third parties. The July 2026 Aschau project targets Group powder capacity of 20,000 tonnes by 2030, including 4,200 tonnes at Aschau, and more than one million propellant-charge modules. Rheinmetall is investing about €650m across powder and precursor production, including €350m at Aschau. These are capacity targets, not booked revenue, and the model discounts both schedule and utilisation risk. [Rheinmetall Aschau project](https://www.rheinmetall.com/en/media/news-watch/news/2026/07/2026-07-23-rheinmetall-foundation-laying-ceremony-aschau-powder-plant)

The artillery ramp is similarly physical. Rheinmetall has stated a planned 155mm annual capacity of 1.1m rounds by 2027 and 1.5m by 2030; tank ammunition capacity of 240,000 cartridges by 2027; and medium-calibre capacity of 3.4m rounds by 2027 and 4.0m by 2030. The H1 call deck listed Ukraine and Lithuania artillery plants, Burgos medium-calibre, Várpalota explosives, Wimmis blending, Aschau powder, Unterlüss rocket motors and Burgos rocket motors as on-track projects. The base case does not equate nameplate to saleable output. It assumes qualification, labour, upstream energetic supply, customer inspection and contract phasing prevent immediate full utilisation. [Rheinmetall capacity disclosure](https://www.rheinmetall.com/en/media/news-watch/news/2026/05/2026-05-12-rheinmetall-at-the-black-sea-defence-aerospace); [Q2 2026 capacity deck](https://ir.rheinmetall.com/media/document/0ae45fdf-2da8-4394-9a77-95bd71ece8b6/assets/2026-08-06-Rheinmetall-Conference-Call-Q2-2026.pdf)

3.2 Margin drivers

Four forces can raise EBIT margin. First, higher utilisation absorbs plant overhead. Second, backward integration into powders, charges, fuzes and propulsion captures more value per delivered system and reduces shortage costs. Third, mix can shift toward complete rounds, sophisticated medium-calibre products, long-range artillery or rocket-motor content. Fourth, current scarcity can support price and contract terms, including prepayments that help fund capacity.

Five forces can lower margin. First, customers may trade long-dated volume commitments for lower pricing once competing capacity is commissioned. Second, new plants initially carry duplicated labour, commissioning expense, scrap and low yields. Third, acceptance delays can strand inventory and compress a quarter even when final demand is intact. Fourth, raw-material and energy inflation can arrive before contract indexation. Fifth, local-content ventures may dilute economics through minority ownership, start-up duplication or politically imposed sourcing.

The historical margin path—17.7% in FY2021, 21.6% in restated FY2022, 20.5% in FY2023, 24.8% in FY2024 and 26.7% in FY2025—demonstrates real leverage but also cyclicality. TTM margin of 27.4% is the starting fact, not a normalised trough: it includes an unusually profitable H2 2025 and cannot be treated as the floor for a five-year forecast. The base case therefore normalises to 25.0% by June 2031, 240 basis points below TTM and near FY2024, as utilisation and vertical integration offset only part of scarcity-price erosion, sovereign bargaining and commissioning drag. The bear case normalises to 20.0%, close to FY2023, as pricing fades faster than fixed costs. The bull case reaches 30.0% only if high utilisation, integrated energetics and premium mix outweigh commissioning costs. [data_package §3, Weapon and Ammunition EBIT-margin row; §5, derived Q4 2025 margin warning]

3.3 Working capital and prepayments

Ammunition is cash-hungry before acceptance. Long-lead explosives, metal components and energetic materials must be bought; partially completed lots may remain in inventory; specialised labour is paid before delivery; and governments can move inspection or down-payment dates. Advance payments can make reported operating cash flow look excellent in one period and reverse in the next. H1 2026's negative €370m segment OFCF is therefore not treated as proof that EBIT is fictitious, but neither is it dismissed as harmless timing.

The underwriting rule is simple: capacity-supported revenue growth is valuable only if inventory days, contract assets and advances settle into a repeatable cadence. These are modeling conditions, not management guidance. In the base case, working capital absorbs cash through 2028 and gradually normalises as recurring programmes mature; failure to show a clear rolling-twelve-month OFCF recovery by then invalidates the base cash-conversion assumption. In the bear case, down payments arrive late, acceptance milestones slip and plants run below plan, keeping cash conversion weak even as accounting revenue grows. In the bull case, customer prepayments share ramp risk and inventory turns improve after commissioning. Synthesis should not translate the segment's high EBIT margin into equivalent free-cash-flow margin during the build-out, and should keep advances distinct from earned revenue.

4. Competitive dynamics

The direct competitor set depends on calibre and component. Nammo competes in artillery and medium-calibre ammunition, rocket motors and energetic components. KNDS companies compete in ammunition and land weapon systems. BAE Systems

is a major UK munitions supplier. General Dynamics Ordnance and Tactical Systems is relevant in North America, while national champions and specialised energetic-material producers compete by geography. Customers also pursue dual sourcing to protect sovereign availability; even a technologically qualified incumbent should expect public funding to create redundancy.

Competitor investment validates demand but erodes scarcity rents. Nammo reported 2025 revenue of NOK14.41bn, EBIT of NOK1.83bn and order stock of NOK54.98bn while expanding capacity across Europe and the US. It aims for material increases in 155mm output and rocket motors. BAE Systems is developing a new UK 155mm line, reinstating 30mm capacity and targeting a large increase in shell output at Glascoed. These initiatives mean Rheinmetall is not the only supplier monetising NATO replenishment. [Nammo 2025 finance](https://www.nammo.com/about-us/finance/); [BAE Systems UK capacity report](https://www.baesystems.com/en-uk/dam/jcr%3A7fa6d791-1f86-4f9a-9b76-cb1799a9eca8/OER_Report_2025_AW.pdf)

Rheinmetall nevertheless has three competitive advantages. It can offer weapon and ammunition as a matched system; it spans more of the energetic value chain than many assemblers; and it has a growing network close to European customers. A defence ministry buying a gun, ammunition qualification, propellant, training and sovereign local production faces more integration risk if it splits suppliers. Expal extends the product set and geography, while Nitrochemie adds critical powder competence. These advantages support share and execution, but they do not eliminate government bargaining power.

Substitution risk is primarily doctrinal and technological rather than civilian. Drones, loitering munitions and precision missiles can change the mix of battlefield expenditure, but the Ukraine conflict has demonstrated persistent demand for artillery, air defence and conventional ammunition alongside drones. Over five years, the greater risk is an adverse mix shift from premium urgent orders to commoditised replenishment contracts, not the disappearance of kinetic ammunition. Over ten years, precision effects, autonomous systems and directed energy could reduce some calibre demand, while counter-drone and air-defence consumption may create adjacent opportunities.

NATO procurement durability

The demand base is no longer only a short emergency cycle. At the 2025 Hague Summit, NATO allies committed to 5% of GDP for defence and security-related spending by 2035, including at least 3.5% for core defence requirements, with annual plans and a review in 2029. NATO reported that European allies and Canada increased real defence spending by 20% in 2025 and that all allies met the 2% guideline. The EU's SAFE instrument provides €150bn of loans for joint defence procurement, explicitly including ammunition, while Readiness 2030 identifies artillery systems and missile/ammunition as priority capability gaps. [NATO Hague declaration](https://www.nato.int/en/about-us/official-texts-and-resources/official-texts/2025/06/25/the-hague-summit-declaration); [NATO 2025 annual report](https://www.nato.int/content/dam/nato/webready/documents/publications-and-reports/annual-reports/sgar25-en.pdf); [European Commission Readiness 2030](https://commission.europa.eu/topics/defence/future-european-defence_en)

This supports multi-year demand, but appropriation and call-off risk remain. Frameworks can be announced before national budgets, coalition politics can alter schedules, and a ceasefire in Ukraine could change urgency even if stock replenishment continues. The 2029 NATO review is a concrete durability checkpoint. The base case assumes the spending commitment creates a long demand runway but that annual conversion is lumpy. The bull case assumes capability targets turn into funded multiyear orders quickly. The bear case assumes fiscal pressure, procurement bottlenecks and a lower-threat perception slow call-offs without eliminating the strategic need.

5. Segment-level moat

The moat is strong but not untouchable. It rests on regulation, qualification, hazardous-manufacturing know-how, installed capacity, customer trust and systems integration. Energetic facilities take years to permit, build, commission and certify. Safety incidents can be catastrophic. Workers need specialised skills. A weapon-ammunition combination must perform reliably under harsh conditions, and sovereign customers value a supplier that can sustain wartime output. These barriers protect incumbent economics better than patents alone.

Expal reinforces the moat by adding plants, know-how, customer relationships and a more complete round. Its contribution is durable only if Rheinmetall preserves talent, raises safety and yield, and connects Spanish capacity to Group demand. The disclosed €171m five-month contribution in FY2023 and €658m in FY2024 show rapid perimeter growth, but the absence of FY2025 entity disclosure prevents a clean verdict on organic integration. The moat case therefore relies on industrial evidence—Murcia acceptance, Burgos and rocket-motor ramps, powder availability—not on assumed acquisition synergies. [data_package §4, Expal row; §6, Murcia commentary]

The moat also benefits from sovereign localisation. Once Rheinmetall commits capital and local supply chains to a country, the relationship can expand across calibres and programmes. Yet localisation is double-edged: national governments may sponsor alternative suppliers, insist on technology transfer, or cap returns. The moat protects access and reliability, not an unlimited price umbrella.

Over five to ten years, the most defensible asset is the integrated energetic and production network. The least defensible part is scarcity pricing. The model therefore credits sustained volume and mix leadership but normalises price contribution. A true moat failure would be evidenced by repeated qualification delays, loss of key frameworks, major safety failures, underutilised new plants or segment EBIT margin falling below 20% despite elevated European defence budgets.

6. Historical growth rates

The verified package does not disclose a complete product-revenue series. The segment total is the only complete three-year financial line. Entity contributions are shown strictly as disclosed and are not summed into the segment because the package does not establish a complete, non-overlapping perimeter.

Product / sub-segment	FY2023 revenue	FY2024 revenue	FY2025 revenue	Three-year CAGR	Most recent YoY	Data package cite
Weapon and Ammunition total	€1,756m [§3 W&A Revenue row]	€2,783m [§3 W&A Revenue row]	€3,532m [§3 W&A Revenue row]	37.5% [FY2022 restated €1,359m to FY2025; calculated from §3 row]	26.9% [§3 W&A YoY row]	Annual Report 2023 p.79; Annual Report 2024 pp.50 and 61; Annual Report 2025 pp.54 and 64; [data_package §3]
Rheinmetall Waffe Munition GmbH	[DATA GAP: FY2023 entity revenue not disclosed in package]	€1,554m [§4 RWM row]	€1,872m [§4 RWM row]	n/m [insufficient series]	20.5% [calculated from §4 RWM row]	Annual Report 2025 p.64; [data_package §4, RWM GmbH row]
Rheinmetall Expal Munitions	€171m for five months [§4 Expal row]	€658m [§4 Expal row]	[DATA GAP: FY2025 entity contribution not disclosed]	n/m [partial periods]	n/m [§4 Expal row]	Annual Report 2024 p.61; [data_package §4, Expal row]

Arithmetic checks. The three-year CAGR is (€3,532m / €1,359m restated FY2022)^(1/3) – 1 = 37.5%; FY2023 to FY2025 instead spans two years and yields 41.8%. Segment total: €1,756m × 1.585 = €2,783m, and €2,783m × 1.269 = €3,532m, both within rounding tolerance. RWM entity: €1,554m × 1.205 = €1,873m versus disclosed €1,872m, a 0.1% rounding difference. Expal's FY2023 five-month amount is not comparable with FY2024, so no annual growth rate is calculated. No product dollars are back-solved.

The latest operating momentum is H1 2026 segment growth of 32.8%, with Q1 growth of 0.3% and Q2 growth of 59.7% after delayed powder deliveries shifted across quarters. This timing volatility is why the forecast uses annual June-to-June steps rather than annualising Q2. [data_package §3, H1 bridge; §5, Weapon and Ammunition rows]

7. Management guidance and commentary from the verified package

Data-package row	Verified commentary	Interpretation for this model
§6, Group demand	“Demand remains strong”; Group book-to-bill above 3	Strategic demand is real, but Group book-to-bill is not a segment revenue forecast and does not distinguish framework from firm orders.
§6, Group guidance	2026 Group sales €13.7-€14.2bn and management-defined margin around 19% after F126	Confirms a high-growth Group year; the non-EBIT margin is context only. The separate FY2026 W&A sales and operating-result guide below is not an EBIT guide.
§6, W&A Q1	Murcia powder awaited acceptance and about 100 shifted to Q2	Customer inspection can move revenue and cash even when product is made. It argues for lumpy cadence and working-capital caution.
§6, W&A Q2	Murcia catch-up continued; margin benefited from volume	Supports operating leverage but warns against extrapolating the strongest quarter's mix.
§6, cash conversion	Inventory built ahead of growth while down payments shifted	Supports a timing explanation for H1 burn, but recovery must be demonstrated through acceptance and advances.
§6, earlier capex	Earlier call anticipated high capex before normalisation	Superseded in degree by September's 2026 Group plan; not a segment capex target.
§6, capex revision	September deck p.61: 2026 Group capex plan 8%-9% of sales versus prior 16% indication	Rephasing/optimisation is not automatically a cash saving or a harmless capacity delay; W&A share is undisclosed.

Data-package row	Verified commentary	Interpretation for this model
§6, five-year investment	September deck p.60: more than €8bn over five years, excluding capital contributions	A lower 2026 plan coexists with a large multiyear capacity programme.
§6, backlog quality	Frame backlog is expected call-offs and may vary	Backlog is separated into economic confidence tiers; segment-specific firm/frame amounts remain undisclosed.
§6, FY2026 W&A target	September deck p.30: €4.9bn-€5.0bn sales and 29%-30% operating-result margin	After €1.757bn H1 actual sales, €3.143bn-€3.243bn H2 is needed; the adjusted margin is not segment EBIT.
§6, 2030 W&A target	September deck pp.30-31 and 66: W&A sales about €14bn-€16bn in 2030	A direct segment aspiration, not merely a Group ambition; compare with the independent model on a matched date.
§6, 2030 W&A operating-result target	September deck pp.30 and 66: operating-result margin 29%-31%	This adjusted issuer measure is **not** segment EBIT; no silent conversion or substitution.

The refreshed package now includes the deck p.30 FY2026 W&A target as well as the **2030 W&A sales and operating-result-margin targets**. The 2026 target implies H2 revenue of €3.143bn-€3.243bn versus €2.209bn in H2 2025, or 42.3%-46.8% growth. This is a sharp acceptance and throughput hurdle after €1.757bn of H1 actual sales, not a FY2026 statutory **EBIT** guide. Neither target supplies a unit-volume, average-selling-price, product-margin or operating-result-to-EBIT bridge. The segment forecast therefore uses the verified TTM financial anchor and explicitly disclosed capacity projects, then tests—not reverse-engineers—the issuer's segment ambition. [data_package §6, FY2026 and 2030 target tables; September investor presentation pp.30-31 and 65-66](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf)

8. Forward growth assumptions

Because the verified package lacks a complete non-overlapping product split, the financial forecast uses one disclosed modeling line—Weapon and Ammunition total—and then decomposes annual growth into capacity/volume and price/mix contributions. The driver rows below are percentage-point contributions that add to total annual revenue growth; they are not two independently compounded indices. This is more defensible than inventing product revenue. The operational modules considered are artillery/tank/medium-calibre, energetics/propellants, weapon/protection systems and Expal-enabled rocket/fuze content, but none receives an unsourced TTM dollar allocation. Capacity announcements and Expal evidence constrain the aggregate growth path; they do not create product-level financial forecasts.

8.1 Base case

Product / modeling line	Three-year historical CAGR	Latest YoY	Management FY+1 guide	Base CAGR TTM to TTM+5y	Justification
Weapon and Ammunition total	37.5%	32.8% H1 2026	FY2026 €4.9bn-€5.0bn sales; 29%-30% operating-result margin (not EBIT)	22.2%	Capacity launches sustain high volume growth, while price/mix contribution fades and new plants ramp below nameplate. The cadence decelerates from 30% to 12% rather than abruptly reverting to mature defence growth.

Base annual driver	Jun-2027	Jun-2028	Jun-2029	Jun-2030	Jun-2031
Capacity and volume contribution	25%	25%	22%	17%	12%
Price and mix contribution	5%	3%	2%	1%	0%
Total revenue growth	30%	28%	24%	18%	12%
Revenue	€5,156m	€6,599m	€8,183m	€9,656m	€10,815m

The base case is below a simple continuation of the 37.5% FY2022-FY2025 CAGR and below H1 2026's 32.8% growth after year one. The deceleration is deliberate. Early capacity is supported by large backlog and urgent replenishment, while later years face a much larger revenue base, competitor additions and government price bargaining. Volume remains the dominant growth driver because artillery, tank, medium-calibre, powder and rocket-motor projects are being commissioned. Price/mix declines from five points to zero as scarcity premiums and emergency mix normalise. The unchanged 22.2% five-year CAGR is therefore carried predominantly by saleable capacity and volume, not by repeated price increases from an already favourable TTM base.

The base assumes Expal integration works but is not frictionless. Spanish sites contribute to powders, full-shot production, medium calibre, fuzes and propulsion; delayed Murcia acceptance is treated as a warning that production completion and customer acceptance are distinct. The base assumes isolated timing slips rather than structural failure. It also assumes the Aschau, Lithuania, Unterlüss, Burgos, Wimmis and Várpalota projects achieve commercial output progressively, with neither immediate full nameplate utilisation nor multiyear systemic delay.

8.2 Bull case

Product / modeling line	Three-year historical CAGR	Latest YoY	Management FY+1 guide	Bull CAGR TTM to TTM+5y	Justification
Weapon and Ammunition total	37.5%	32.8% H1 2026	FY2026 €4.9bn-€5.0bn sales; 29%-30% operating-result margin (not EBIT)	30.3%	Funded NATO/EU orders fill new capacity quickly; integrated energetics remove bottlenecks; Expal rocket, fuze and full-shot content raises mix. Growth still decelerates as the base expands.

Bull annual driver	Jun-2027	Jun-2028	Jun-2029	Jun-2030	Jun-2031
Capacity and volume contribution	32%	32%	29%	23%	17%
Price and mix contribution	8%	6%	3%	2%	1%
Total revenue growth	40%	38%	32%	25%	18%
Revenue	€5,552m	€7,662m	€10,114m	€12,643m	€14,919m

The bull case requires more than geopolitical demand. Customers must fund orders and prepayments, plant commissioning must remain on schedule, energetic bottlenecks must clear, and customer acceptance must keep pace with production. The €14.9bn **June 2031** horizon revenue resembles management's €14bn-€16bn **calendar 2030** W&A sales target in scale, but reaches it later. It is reconstructed from the sealed €3,966m TTM anchor and annual driver assumptions, not set equal to the target. [data_package §6, 2030 segment-target table; September investor presentation pp.30-31 and 65-66](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf)

Price/mix remains positive but decelerates to one point even in the bull case. This avoids assuming permanent emergency pricing. Bull economics come primarily from high utilisation and a richer integrated value chain: complete rounds, propellants, rocket motors and weapon-ammunition packages. A bull outcome would also require NATO's spending plans and EU SAFE procurement to move from policy commitments to timely national contracts.

8.3 Bear case

Product / modeling line	Three-year historical CAGR	Latest YoY	Management FY+1 guide	Bear CAGR TTM to TTM+5y	Justification
Weapon and Ammunition total	37.5%	32.8% H1 2026	FY2026 €4.9bn-€5.0bn sales; 29%-30% operating-result margin (not EBIT)	10.3%	Firm orders sustain growth, but frame call-offs slow, plant acceptance slips and new competitor supply erodes scarcity pricing. Revenue still rises because backlog is large and stock replenishment persists.

Bear annual driver	Jun-2027	Jun-2028	Jun-2029	Jun-2030	Jun-2031
Capacity and volume contribution	13%	11%	9%	6%	4%
Price and mix contribution	5%	3%	1%	0%	0%
Total revenue growth	18%	14%	10%	6%	4%
Revenue	€4,680m	€5,335m	€5,869m	€6,221m	€6,470m

The bear case is not a collapse scenario. The starting backlog and alliance procurement needs make immediate revenue contraction unlikely without cancellation or severe execution failure. It instead represents a disappointing capacity conversion: orders are real but delivery schedules stretch, local plants ramp slowly, and framework amounts convert below expectations. Competitors add sufficient capacity to pressure price before Rheinmetall fully absorbs its new fixed-cost base.

The bear also captures a less favourable post-Ukraine mix. Even if NATO replenishment continues, emergency purchases may give way to longer tenders with more open-book economics and dual sourcing. Price/mix therefore falls to zero by the

last two years, while capacity/volume contribution slows to 4%. This is still a positive revenue CAGR because the model refuses to erase the strategic demand base without evidence.

8.4 Thesis-consistency check

The model's year-by-year decay is consistent with the observed scale transition. Base growth falls from 30% to 12% over five years; bull from 40% to 18%; bear from 18% to 4%. No case moves directly from H1 2026's 32.8% to a low mature rate. The competitor evidence supports gradual rather than instantaneous normalisation: Nammo is also expanding across multiple countries, while BAE is adding UK capacity under long-dated procurement agreements. Conversely, Rheinmetall's own projects are numerous enough that assuming 30%-40% indefinitely would ignore finite qualification, labour and energetic constraints.

The backlog is a visibility constraint, not an allocation key. The following stress test applies explicit analyst haircuts to the €25.274bn segment backlog because its order/frame split and maturity are not disclosed. The base 30% haircut is informed by, but does not assert, the Group's roughly 30% frame-backlog share; it also allows for timing, cancellation and post-horizon delivery. Credited backlog is compared with cumulative modeled revenue from July 2026 through June 2031, so every case still requires repeat orders and nomination rather than treating today's backlog as all future sales.

Backlog conversion stress	Haircut to current segment backlog	Credited current backlog	Five-year cumulative revenue	Credited backlog / cumulative revenue
Bear	45%	€13.9bn	€28.6bn	49%
Base	30%	€17.7bn	€40.4bn	44%
Bull	20%	€20.2bn	€50.9bn	40%

8.5 Explicit test against the September 2030 W&A target

The [issuer's September investor presentation, pp.30-31 and 65-66](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf) states **about €14bn-€16bn of W&A sales in calendar 2030** and a **29%-31% operating-result margin**. The refreshed data package §6 segment-target table records the same and notes that the targets include M&A but exclude US order wins. This is a direct segment-specific aspiration. The previous wording that there was only a Group ambition is superseded. It is not a statutory result, signed-order schedule or EBIT target.

Our horizon is the TTM ending **30 June 2031**, whereas the issuer target is FY2030 ending **31 December 2030**. For a transparent, non-controlling date comparison, the table uses a straight midpoint of the model's June 2030 and June 2031 rolling-year revenues as a **December 2030 diagnostic proxy**. Seasonality, programme acceptance and half-year mix mean this is not a separate audited FY2030 forecast. The controlling model remains the five-step June-to-June rollup in Sections 8 and 10.

Scenario / issuer target	TTM June 2030 sales	Illustrative Dec 2030 proxy	TTM June 2031 sales	Gap of Dec proxy to €14bn target floor
Bear analyst model	€6.221bn	€6.346bn	€6.470bn	€7.654bn below
Base analyst model	€9.656bn	€10.236bn	€10.815bn	€3.764bn below
Bull analyst model	€12.643bn	€13.781bn	€14.919bn	€0.219bn below
Issuer 2030 sales aspiration	Not applicable	€14bn-€16bn	Not applicable	Target range

The issuer's €14bn-€16bn would require roughly **32.4%-36.3% annualized revenue growth** from the €3.966bn June 2026 TTM base over the 4.5 years to December 2030, before any period-mix or M&A reconciliation. The independent bull's approximate December proxy is only €0.219bn shy of the low end, but its June 2030 revenue is €1.357bn shy, highlighting how much the result depends on timing. Base is far below the target on either date. A target including future M&A cannot be equated to the model's current-perimeter organic/identified-capacity build. We leave the 30%/50%/20% scenario probabilities and the growth paths unchanged: the deck raises the **visibility of management's ambition**, not the evidence that enough funded orders, saleable output and cash conversion will meet it.

The capex revision is a throughput test, not an automatic uplift. The same deck p.61 reduces planned **2026 Group** capex from 16% to 8%-9% of sales, citing East European energetics reprioritisation, other project-spending schedules, procurement savings and review, while asserting no change to 2030 sales guidance. At the €13.7bn-€14.2bn Group sales guide, the 7-8 percentage-point plan difference is directionally about **€0.96bn-€1.14bn**; it is not realised free cash flow, nor can it be

assigned to W&A from the disclosed data. Deck p.60 simultaneously retains **more than €8bn investment over five years excluding capital contributions**. [data_package §§6-7; September investor presentation pp.60-61](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf)

As a **non-controlling throughput sensitivity**, if six months of one planned base-case annual sales increment from June 2029 to June 2030 were deferred without replacement, the affected increment is approximately 0.5 × (€9.656bn – €8.183bn) = **€0.737bn**. At an unchanged 25% EBIT margin that is **€184m** of at-risk annual EBIT; actual under-absorption could make the loss larger. If fully caught up before June 2031, the terminal revenue/EBIT figures need not change, but interim cash and capital returns worsen. If the shortfall persists into June 2031, indicative terminal base revenue falls from €10.815bn to €10.078bn and EBIT from €2.704bn to about €2.520bn before second-order mix or depreciation effects. The example is **not** an assertion that the €0.96bn-€1.14bn Group spending difference causes exactly six months of W&A delay. To sustain the base path, management must demonstrate funded call-offs, installed energetic capacity, qualified output, acceptance and cash recovery despite the 2026 spending rephase.

9. Forward EBIT margin assumptions

The exact profit basis in this section and every forecast below is **EBIT**. Product-level EBIT margins are not disclosed, so a revenue-weighted product margin cannot be computed without fabrication. The model instead applies a segment EBIT margin to the one complete financial line and explains the industrial mechanisms behind each path.

Management's September **29%-31% 2030 W&A operating-result margin** is a different numerator. At its €14bn-€16bn sales aspiration it implies roughly **€4.06bn-€4.96bn of management-defined operating result** across the endpoint combinations, **not** a €4.06bn-€4.96bn statutory EBIT forecast. The sealed bridge and this appendix forecast issuer-disclosed segment **EBIT**, which includes effects excluded from management's operating result; no sourced 2030 reconciliation for PPA, special items and future acquisitions is available. Applying the target margin to this EBIT line would silently overstate comparable profit. Our 20.0%/25.0%/30.0% Bear/Base/Bull **terminal EBIT margins remain unchanged** from the September 17 peer-reviewed appendix. The bull 30.0% EBIT margin is not "validated" by a 29%-31% operating-result target, even though the numerals overlap; it requires its own utilisation, mix and accounting proof. [data_package §§3a and 6; September investor presentation pp.30 and 65-66](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf)

Case	TTM revenue	TTM EBIT margin	TTM EBIT	TTM+5y revenue	TTM+5y EBIT margin	Margin change	TTM+5y EBIT
Bear	€3,966m	27.4%	€1,087m	€6,470m	20.0%	(740) bps	€1,294m
Base	€3,966m	27.4%	€1,087m	€10,815m	25.0%	(240) bps	€2,704m
Bull	€3,966m	27.4%	€1,087m	€14,919m	30.0%	+260 bps	€4,476m

EBIT margin cadence	TTM Jun-2026	Jun-2027	Jun-2028	Jun-2029	Jun-2030	Jun-2031
Bear EBIT margin	27.4%	25.5%	24.0%	22.5%	21.0%	20.0%
Base EBIT margin	27.4%	26.0%	25.5%	25.0%	25.0%	25.0%
Bull EBIT margin	27.4%	28.0%	29.0%	29.5%	30.0%	30.0%

Bear margin mechanism. The 740-basis-point decline assumes scarcity pricing recedes, governments use dual sourcing, and new capacity incurs commissioning inefficiency before it reaches utilisation targets. Delayed acceptance raises inventory and disrupts production sequencing. Local-content commitments add duplication, and raw-material or energy costs are recovered with a lag. The 20.0% terminal margin is close to FY2023 and deliberately brings the source-bound pre-surge band into the controlling scenario set; a return to the old 17%-18% level would require a more severe utilisation or safety shock than this operating bear.

Base margin mechanism. The base falls to 25.0% during the capacity build and remains there. The terminal margin is 240 basis points below the TTM anchor and approximately the FY2024 level: saleable volume, Expal and integrated energetics offset part of the pressure, while scarcity pricing, urgent-order mix, sovereign bargaining, local-content duplication and depreciation prevent a return to the TTM peak. This avoids turning every euro of new capacity into implausibly rising margin.

Bull margin mechanism. The 260-basis-point increase to 30.0% requires high utilisation across ammunition and energetics, good yields, reliable acceptance, favourable complete-round and rocket-motor mix, and customer prepayments that reduce disruption. It does not simply extrapolate the derived 39.3% Q4 2025 margin. A sustained margin above 30% would demand

product-level evidence not available in the verified package.

Red-team margin resolution. A 20.0% terminal margin now controls the Bear case, rather than sitting outside the scenario range, because it is close to the source-bound FY2023 margin and is consistent with simultaneous scarcity fade, sovereign bargaining and under-absorption. Base is reduced from 26.5% to 25.0%, near FY2024, because the H1 2026 working-capital deficit and elevated capex do not support treating TTM economics as a cycle floor. A 20.0% margin in every revenue scenario remains a non-controlling common-mode sensitivity: it would produce terminal EBIT of €1,294m Bear, €2,163m Base and €2,984m Bull, versus the controlling €1,294m/€2,704m/€4,476m. It is not adopted as Base because Base explicitly assumes funded capacity conversion, scale absorption and successful Expal integration; it is not adopted as Bull because it contradicts Bull's required utilisation and premium-mix outcome. Probabilities remain 30%/50%/20% because the red-team evidence changes downside severity and scenario span, but supplies no independent frequency evidence that would justify a probability reweighting.

Expal is central to all three paths. In the bear case, integration and qualification delays leave Spanish assets below plan. In the base, the network functions as an important second source and value-chain extension. In the bull, Expal enables full-shot economics, rocket propulsion and cross-selling into more than 60 countries. Because FY2025 Expal contribution is not separately disclosed, these effects enter through scenario margins and capacity timing, not an invented entity P&L.

10. Segment rollup

The rollup compounds only the verified €3,966m TTM revenue anchor for exactly five annual steps to 30 June 2031. Each year's revenue equals prior-year revenue multiplied by one plus that case's explicit growth rate. EBIT equals revenue multiplied by the stated **EBIT** margin. Recomputed endpoint CAGRs are 10.28% bear, 22.22% base and 30.34% bull; the displayed 10.3%, 22.2% and 30.3% are rounded. Rounding is to the nearest €1m; unrounded values were used in the calculations.

Bear rollup

Period end	Revenue growth	Revenue	EBIT margin	EBIT
TTM 2026-06-30	Anchor	€3,966m	27.4%	€1,087m
2027-06-30	18%	€4,680m	25.5%	€1,193m
2028-06-30	14%	€5,335m	24.0%	€1,280m
2029-06-30	10%	€5,869m	22.5%	€1,320m
2030-06-30	6%	€6,221m	21.0%	€1,306m
2031-06-30	4%	€6,470m	20.0%	€1,294m

Base rollup

Period end	Revenue growth	Revenue	EBIT margin	EBIT
TTM 2026-06-30	Anchor	€3,966m	27.4%	€1,087m
2027-06-30	30%	€5,156m	26.0%	€1,341m
2028-06-30	28%	€6,599m	25.5%	€1,683m
2029-06-30	24%	€8,183m	25.0%	€2,046m
2030-06-30	18%	€9,656m	25.0%	€2,414m
2031-06-30	12%	€10,815m	25.0%	€2,704m

Bull rollup

Period end	Revenue growth	Revenue	EBIT margin	EBIT
TTM 2026-06-30	Anchor	€3,966m	27.4%	€1,087m
2027-06-30	40%	€5,552m	28.0%	€1,555m
2028-06-30	38%	€7,662m	29.0%	€2,222m
2029-06-30	32%	€10,114m	29.5%	€2,984m
2030-06-30	25%	€12,643m	30.0%	€3,793m
2031-06-30	18%	€14,919m	30.0%	€4,476m

The one-line product rollup reconciles exactly because no unsupported product split is introduced. Horizon revenue ties to section 8 within rounding, and horizon EBIT ties to section 9 within €1m. Corporate/unallocated costs are excluded and must be added once, separately, by synthesis under the sealed statutory bridge.

Probability-weighted operating diagnostic

Probabilities are deliberately nonuniform: **30% bear, 50% base and 20% bull**. The base receives the highest weight because the funded backlog, NATO spending architecture and active capacity projects support substantial growth. Bear probability remains 30% because the market is already pricing and building large capacity, the segment-specific firm/frame split is absent, and working-capital execution is unproven. Bull receives only 20% because it requires near-flawless simultaneous conversion across many plants and procurement systems.

The probability-weighted horizon revenue is €10,332m and probability-weighted horizon EBIT is €2,635m. These are arithmetic scenario expectations, not a separate forecast case and not a portfolio recommendation.

11. Key risks and wildcards

- **Plant execution and energetic bottlenecks — bear.** New shell lines are useless without powder, explosives, fuzes, qualified labour and safe yields. A delay at Aschau, Wimmis, Murcia, Burgos or Várpalota can constrain several downstream products. Track commercial output, qualification and acceptance rather than construction milestones alone.

- **Expal integration — bear/base.** Expal broadens the value chain and geography, but the verified package lacks FY2025 entity disclosure. Murcia's shifted acceptance is a concrete warning. Repeated delays, safety events, management turnover or no visible contribution from rocket/fuze capacity would undermine the synergy thesis.

- **Scarcity pricing versus durable mix — bear.** The margin has risen by roughly ten percentage points since FY2021. Some improvement is scale and integration, but the package does not disclose price/volume/mix. If competing capacity arrives before demand converts, customers can exchange multiyear volume for lower unit pricing and margin could normalise faster than revenue.

- **Order backlog versus framework backlog — bear.** Segment backlog is €25.274bn, but the firm-order/frame split and maturity schedule are unavailable. At Group level, about 30% of backlog is frame backlog. A slowdown in call-offs can defer revenue without an announced cancellation. Monitor segment nomination, backlog growth, utilisation and disclosed order quality together.

- **Working capital and prepayments — bear/base.** H1 2026 segment OFCF of negative €370m against €377m EBIT shows the cash burden of inventory and timing. Management says down payments shifted, but repeated explanations without cash recovery would indicate lower earnings quality. Track inventory, contract assets, advances, acceptance and segment OFCF over a rolling twelve months.

- **NATO and EU procurement durability — all cases.** The Hague spending commitment and SAFE financing extend the runway, but national budgets, coalition changes and the 2029 review can alter timing. The bull needs fast funded conversion; base needs steady annual plans; bear assumes fiscal and procurement friction.

- **Ceasefire or threat-perception shift — bear.** A durable settlement in Ukraine could reduce emergency orders and pricing. It would not erase stock replenishment or capability targets, but it could change mix, urgency and down-payment terms. The key signal is not headlines; it is lower nomination, slower call-offs and weaker price/mix despite still-high defence budgets.

- **Customer concentration and sovereign bargaining — bear.** No percentage-by-customer schedule is disclosed. Large government buyers have negotiating power and can fund alternative suppliers. A major programme delay can move quarterly revenue sharply, as Murcia demonstrated on a smaller scale. [DATA GAP: customer concentration by percentage is not disclosed in the verified package.]

- **Safety, environmental and permitting risk — bear.** Energetic production carries severe operational and regulatory consequences. A major incident can stop production, damage qualification status and delay multiple programmes. Rapid hiring and multi-site ramping increase control demands.

- **Technology and battlefield-mix change — base/bull wildcard.** Drones and precision weapons may reduce demand for some traditional rounds while increasing warheads, medium calibre, air defence and rocket propulsion. Rheinmetall's breadth offers options, but the segment must shift capacity rather than assume every calibre grows together.

- **Localisation economics — bear/bull wildcard.** Local plants can lock in customer relationships and unlock sovereign budgets, but joint ventures and mandated local content may lower captured margin. The bull assumes localisation creates enduring share; the bear assumes duplication and political pricing dilute returns.

- **Capex and return on capital — bear/base.** High EBIT growth can coexist with disappointing ROIC if capacity is overbuilt or funded before firm orders. The September 2026 Group capex plan is lower for 2026 but the five-year investment commitment remains greater than €8bn excluding capital contributions; W&A's revised allocation and deferred schedule are undisclosed. The segment should be judged on accepted output, EBIT and cash conversion per euro of capital, not only nameplate capacity. A deferral that misses acceptance milestones moves the case toward Bear even if the budget line initially looks more efficient. [data_package §§6-7]

Segment scenario summary

Case	Segment TTM+5y Revenue	Exact profit metric	Segment TTM+5y Profit Margin	Segment TTM+5y Profit	Probability
Bear	€6,470m	EBIT	20.0%	€1,294m	30%
Base	€10,815m	EBIT	25.0%	€2,704m	50%
Bull	€14,919m	EBIT	30.0%	€4,476m	20%

The central underwriting conclusion is that Weapon and Ammunition has unusually strong five-year volume visibility and a real industrial moat, but today's 27.4% TTM EBIT margin already reflects a favourable scarcity and mix environment. Management now explicitly aspires to €14bn-€16bn of W&A sales and 29%-31% **operating-result** margin in calendar 2030; our independent base falls well below the sales target, and our bull approaches its floor only around that date. The base case earns growth through staged capacity conversion, not by extrapolating Q2, equating backlog to revenue or relabeling operating result as EBIT. Terminal EBIT margin normalises below the TTM level despite scale. The decisive proof points are saleable output from the new energetic and ammunition assets, Expal acceptance and integration, a stable order-versus-frame conversion pattern, recovery of operating cash flow, and no throughput impairment from the 2026 capex rephase. Until those appear together, high EBIT growth should not be confused with low execution risk.

Appendix B3 — Digital Systems

Rheinmetall AG — Digital Systems Segment Deep Dive

Ticker: RHM.DE **As-of date:** 2026-09-22 **Reporting currency:** EUR millions unless otherwise stated **TTM anchor:** twelve months ended 2026-06-30 **Forecast horizon:** 2031-06-30, exactly five calendar years after the TTM anchor **Exact segment profit basis: EBIT Research only:** `trade_execution_authorized=false`

This appendix uses the DR-cleared `data_package.md` and sealed `statutory_bridge.json` as the only authorities for Rheinmetall historical figures, management commentary, accounting classifications and segment-profit identity. The September 2026 issuer presentation, incorporated in the cleared package, adds an explicit 2030 Digital Systems target; the target is compared with, not substituted for, independently underwritten cases. External sources otherwise provide current product and competitive context. The file deliberately does not import any prior report's forecasts. It does, however, address the prior report's substantive concern that the word “Digital” can tempt an analyst to underwrite software-like scalability without evidence from the reported mix or margin.

0. Segment boundary and taxonomy note

Digital Systems became a reportable segment on 1 January 2026 when the former Electronic Solutions segment was split into Air Defence and Digital Systems. The current segment covers military digitisation, soldier systems, tactical communications and networking, mission systems and sensors, simulation and training, satellite-related activities, manned and unmanned aircraft systems, and the F-35 industrial ramp. The FY2021-FY2025 Electronic Solutions history remains predecessor context rather than a standalone Digital Systems history. However, the repaired data package identifies official **pro forma FY2025 current-taxonomy revenue comparators** on Annual Report p. 91: EUR769m for Air Defence and EUR1,766m for Digital Systems. The remaining true non-disclosure is the full-year successor **EBIT** split and finer product/intersegment detail, not the FY2025 successor revenue split [data_package §1 and §3].

For the required five-year model, Digital revenue uses the official pro forma current-taxonomy bridge: EUR1,766m FY2025 less EUR664m H1 2025 plus EUR820m H1 2026, producing a EUR1,922m TTM successor proxy. This is a modeling proxy because it mixes a full-year pro forma comparator with reported half-years, but it requires no analyst allocation. EBIT remains different: only the sealed EUR426m combined Air Defence plus Digital TTM bridge is disclosed, so any standalone EBIT split is a low-confidence diagnostic and cannot anchor forward margins.

1. What Digital Systems actually is

Digital Systems is not a defence-software company in the usual commercial-software sense. It is a mission-systems integrator that combines software, secure networking, electronics, sensors, vehicle and soldier hardware, installation, test, certification, training and long-duration support. The customer is primarily a sovereign defence ministry or a prime contractor serving such a ministry. The buying unit is normally a programme, framework agreement, platform subsystem or fielded fleet rather than a monthly seat. Revenue therefore arrives through engineering milestones, equipment deliveries, vehicle or site integration, customer acceptance, support and service, not through a disclosed recurring-revenue metric.

The segment has four economically distinct activity clusters.

First, **tactical digitisation and communications** includes TaWAN, D-LBO and related soldier and vehicle connectivity. These programmes create secure links from command posts to vehicles and dismounted soldiers. The value proposition is not merely a radio or an application. It is interoperability across existing and new equipment, hardened computing, software and middleware, gateways, network management, cyber protection, installation and the assurance that the system works in a contested environment. Rheinmetall's July 2026 D-LBO description illustrates the blend: integration software, interface optimisation and system-stability services sit alongside physical components and series-integration teams. That combination supports a systems-integration moat, but it also means labour and hardware do not disappear as revenue scales ([Rheinmetall D-LBO programme description](https://www.rheinmetall.com/de/media/news-watch/news/2026/07/2026-07-20-rheinmetall-verbucht-100-mioeur-abruf-aus-d-lbo-rahmenvertrag)).

Second, **C4ISR, mission systems, sensors and simulation** connect sensing to command and effect. Stabilised sights, driver vision, targeting and effector interfaces, battlefield-management systems, live/virtual/constructive training and simulation are all part of an integrated operational loop. The investment case depends less on a single sensor's component margin than on whether Rheinmetall owns the interfaces, software integration and installed-base support around the mission

system. Sensors themselves can be valuable, qualification-intensive products, but specialist competitors can contest them directly.

Third, **aeronautical, space and unmanned systems** give Digital Systems exposure to aircraft structures, maintenance, mission equipment, uncrewed platforms and satellite-related work. The F-35 centre-fuselage ramp is strategically useful because it inserts Rheinmetall into a long-duration allied programme and can create follow-on sustainment opportunities. Economically, however, aerostructure production is industrial manufacturing: it requires a factory, skilled labour, quality assurance, supply-chain control and customer cadence. Rheinmetall's own aviation description emphasises production, maintenance, logistics and support, confirming that this activity should not be assigned a software multiple or software margin simply because it sits in Digital Systems ([Rheinmetall Aviation Services](https://www.rheinmetall.com/en/company/subsidiaries/rheinmetall-aviation-services)).

Fourth, **software, cyber and blackned** provide the most plausible scalable layer. Rheinmetall describes blackned's RIDUX tactical middleware and XONITOR management system as a core architecture for digital land forces, linking mission-critical communications across highly mobile networks ([blackned company profile](https://www.rheinmetall.com/en/company/subsidiaries/blackned)). The commercial logic is attractive: once the middleware, interfaces and security architecture are deployed across a fleet, follow-on releases, cyber hardening, device integration and support can deepen switching costs. But the disclosed economics do not yet show a separate ARR base, renewal rate, gross margin, backlog mix or software revenue. blackned contributed EUR31m in Q1 2026, the only isolated revenue datapoint in the cleared package [data_package §4, Digital Systems/blackned row]. It is therefore a promising capability and integration lever, not proof that the whole segment can converge on pure-software economics.

Pricing is negotiated in procurement competitions, framework agreements and programme amendments. Rheinmetall can earn value for responsibility over a system-of-systems, local industrial capacity, security accreditation, rapid delivery and reliable integration. It can also be squeezed by fixed-price scope, delayed acceptance, customer-directed specifications, mandated partners and local-content requirements. Go-to-market is consequently relationship- and programme-led: win a national architecture or vehicle/soldier programme, become embedded in its interfaces and training, then capture serial deployment and support. This can create long visibility but makes annual growth and margin dependent on call-offs, milestones and acceptance timing.

2. Current economics

The cleanest standalone current disclosure is H1 2026. Digital Systems generated EUR820m of sales, up 23.5% from EUR664m in restated H1 2025. EBIT rose from EUR47m to EUR63m, and the EBIT margin improved from 7.1% to 7.7%. H1 2026 backlog was EUR20,646m and operating free cash flow was EUR(105)m [data_package §3, “Current segment H1 bridge,” Digital Systems row]. The segment's Q1 revenue was EUR349m with a 5.2% operating margin; Q2 revenue was EUR471m with a 9.6% operating margin, showing meaningful volume and execution leverage within the half [data_package §5, Digital Systems Q1 and Q2 rows].

Those figures contain three messages. Demand visibility is exceptional relative to the current revenue base. Profitability is positive and improving, but it is not remotely software-like. Cash absorption and capital needs are material: H1 2026 Digital capex was EUR57m, while the segment's operating free cash flow was negative EUR105m [data_package §7, H1 capex paragraph; §3, H1 bridge]. Some of that is likely ramp and working-capital timing, but the evidence does not justify treating capital intensity as negligible.

The only separately disclosed sub-product contribution is blackned's EUR31m in Q1 2026. Rheinmetall does not publish Digital Systems revenue by communications, C4ISR, sensors, simulation, aerospace, unmanned systems, space or cyber/software. It also does not disclose unit volumes, average selling prices, product margins, software ARR, maintenance share or customer-concentration percentages [data_package §4 and §10]. Consequently, any numerical product mix would be fabricated. This appendix models the disclosed segment as one financial line and uses product families only as operating-driver lenses.

The current evidence is summarised below.

Metric	H1 2025 restated	H1 2026	Change / current level	Data-package citation
Revenue	EUR664m	EUR820m	+23.5%	data_package §3, Current segment H1 bridge, Digital Systems row

Metric	H1 2025 restated	H1 2026	Change / current level	Data-package citation
EBIT	EUR47m	EUR63m	+34.0%	data_package §3, Current segment H1 bridge, Digital Systems row
EBIT margin	7.1%	7.7%	+60 bps	data_package §3, Current segment H1 bridge, Digital Systems row
Backlog	Not stated in this row	EUR20,646m	Very high relative to sales	data_package §3, Current segment H1 bridge, Digital Systems row
Operating free cash flow	Not stated in this row	EUR(105)m	Negative	data_package §3, Current segment H1 bridge, Digital Systems row
Capex	Not stated in this row	EUR57m	About 7.0% of H1 sales	data_package §7, H1 2026 capex paragraph
blackned contribution	Not separately stated	EUR31m in Q1	Limited isolated disclosure	data_package §4, Digital Systems/blackned row

The exact segment profit basis is **EBIT**. The sealed bridge identifies EBIT as the common additive issuer-disclosed measure equal to statutory earnings before interest and taxes. Its current SHA-256 is `bc3d5a1577a7461e980af5b367da097ae51674dd432019c21cc73639b9b8d7a5`, matching the QFR-sealed hash in the DR-cleared data package, which records `STATUTORY_BRIDGE_STATUS: VERIFIED — CLEARED FOR FORECASTING`. The numerical bridge is unchanged from 17 September; source-path and retrieval metadata changed the file hash [data_package §3a]. Corporate and consolidation costs are forecast separately by the synthesis stage and are not allocated into Digital Systems. The segment's current “operating margin” percentages in quarterly narrative and September 2030 target are useful operational context, but every forecast table below is explicitly on EBIT.

3. Unit economics

How revenue becomes EBIT

Digital Systems begins with a programme award or framework agreement, but backlog is not revenue and frame backlog is not equivalent to a firm order. Revenue requires a call-off or executable order, engineering and procurement, integration of hardware and software, testing, delivery, customer acceptance and sometimes installation or field support. The long lead time creates visibility; the acceptance gates create volatility. A quarter with favourable milestones and serial deliveries can show strong incremental margin, while one dominated by engineering, ramp inefficiency or delayed acceptance can carry low margin even if lifetime programme economics remain sound.

The cost stack includes bought-in electronic components, radios, computing and network equipment; internally produced sensors and mission hardware; direct engineering and integration labour; secure-software development; programme management; factory depreciation; testing and certification; warranty and support; and bid/R&D expense. A greater software and support contribution can raise gross margin because the incremental cost of deploying a mature code base is lower than designing it. Yet military software is not frictionless. Each platform and national configuration can require interface work, cybersecurity accreditation, field testing, documentation and long-term maintenance. The relevant scalability question is therefore not “is there software?” but “how much of each additional euro is reusable software rather than bespoke integration?” Rheinmetall does not disclose the answer.

Hardware and project mix constrain the software analogy

Three disclosed facts should discipline expectations. First, H1 2026 EBIT margin was only 7.7%, despite strong growth. Second, the segment invested EUR57m of capex in the half. Third, TaWAN, D-LBO and F-35 were named growth drivers [data_package §§5-7]. TaWAN and D-LBO combine hardware, installation and services; F-35 is a manufacturing ramp. Those facts are inconsistent with a near-term assumption of high-teens or twenty-percent software margins across the segment.

The prior report's Digital optimism concern is therefore valid as a challenge, even though this appendix imports none of its forecast numbers. A bullish model can be earned only if Rheinmetall demonstrates a rising share of reusable middleware, licence-like functionality, software updates, cyber support and installed-base service while maintaining programme discipline. It cannot be earned merely because management placed diverse activities under the “Digital Systems” label.

What can lift margin

The strongest positive mechanism is reuse. If blackned middleware, common vehicle architectures and network-management tools are deployed across thousands of nodes, the same core code and certification learning can be reused. Serial hardware installation also benefits from learning curves, standard kits, trained integration teams and lower rework. A growing installed base can produce support, upgrades and cybersecurity refreshes. Simulation software and digital training content may have attractive incremental economics once developed. Higher utilisation at the F-35 facility can absorb fixed cost, although that is manufacturing leverage rather than software leverage. Finally, owning the interfaces between sensors, command systems and effectors can allow Rheinmetall to price system responsibility rather than compete on individual components.

The H1 margin progression from 7.1% to 7.7%, with Q2 above Q1, is consistent with early volume and operational leverage. It is not enough to prove the terminal case. The base case reaches only 12.2% EBIT margin in 2031, below the predecessor Electronic Solutions FY2025 EBIT margin of 14.8%, because the current segment contains ramping industrial and integration work and lacks a disclosed high-margin software mix [data_package §3, Electronic Solutions predecessor table and H1 bridge].

What can break margin

Custom engineering can overwhelm reuse. Governments may mandate sovereign interfaces, local content, security controls and integration with legacy equipment. Each can be strategically sensible and economically expensive. Fixed-price commitments can expose the contractor to component inflation, labour scarcity and technical changes. Acceptance delays can shift revenue without shifting all costs. Competitive tenders can transfer learning-curve benefits to the customer. Rapid advances in commercial software can also force continuing R&D while weakening the scarcity value of proprietary middleware.

The segment's negative H1 operating free cash flow illustrates another feature: profit and cash can diverge when inventory, work in progress and receivables build ahead of deliveries. Customer advances can reverse that burden, but timing is not guaranteed. A high backlog is therefore not a substitute for cash conversion. The segment-level model forecasts EBIT only; the group synthesis must separately stress working capital and capex.

blackned integration economics

blackned should be evaluated against three tests. First is **technical integration**: whether RIDUX, XONITOR and associated tools become the default middleware and management layer across Rheinmetall programmes rather than remain a niche acquisition. Second is **commercial pull-through**: whether blackned helps Rheinmetall win hardware and integration work or adds support and upgrade revenue after deployment. Third is **delivery leverage**: whether revenue grows faster than engineering headcount and customisation expense.

The Q1 2026 contribution proves that blackned is inside the revenue perimeter but reveals none of those economics. The base case therefore assumes that blackned improves win rates, interoperability and service content, but does not assign a separate software margin. The bull case requires evidence of reuse across programmes, standardised releases and attach revenue. The bear case assumes integration remains labour-heavy and competitors or customer-mandated open architectures limit monetisation.

4. Competitive dynamics

Digital Systems operates in a crowded European and transatlantic market where national sovereignty matters as much as product specification. The closest competitive set changes by layer.

In tactical communications, **Thales** has software-defined radios, vehicle communications and network infrastructure. Its mounted communications portfolio explicitly links software-defined radios and vehicle infrastructure to command-and-control systems and real-time collaborative combat. That makes Thales a direct competitor for the secure connectivity and integration layer, not merely a component vendor ([Thales mounted tactical communications](https://www.thalesgroup.com/en/solutions-catalogue/defence/land/mounted-tactical-radio-communications)).

Leonardo competes across C4ISTAR sensors, communications, cyber, mission systems and multi-domain integration. Its breadth means it can bundle sensors, electronics and systems integration in much the same way Rheinmetall can use its vehicles and effectors as integration anchors ([Leonardo Electronics overview](https://electronics.leonardo.com/en/home?WT.ac=Airborne)). **BAE Systems** offers command and control, secure communications, ISR sensors, analytics and cyber-resilience solutions, and can compete particularly where Five Eyes architectures or large-platform relationships dominate ([BAE Systems C4ISR overview](https://www.baesystems.com/en-us/who-we-are/electronic-systems/c4isr?componentId=contentListing-243d10e4-2b12-4e05-9c73-967a455fd44a&searchPageNo=

4)).

In sensors and optronics, **HENSOLDT** is a focused European specialist in radar, electromagnetic warfare, avionics and optronics. Its independent sensor depth can exceed Rheinmetall's in selected niches, and open architectures allow a customer to pair HENSOLDT sensing with another firm's command layer ([HENSOLDT company overview](https://www.hensoldt.net/)). Saab, Elbit, L3Harris, Rohde & Schwarz and specialist drone, radio, cyber and simulation vendors add pressure in individual categories. Rheinmetall's advantage is not that these competitors are weak; it is that Rheinmetall can integrate digital components with vehicles, weapons, soldiers, air-defence systems and training.

Non-traditional software firms are a more subtle threat. NATO's 2025 annual report says the Alliance acquired the Palantir Maven Smart System NATO to improve data analysis and decision-making. That demonstrates that a software-native provider can capture an operational data layer without owning the underlying vehicles, sensors or radios ([NATO Secretary General Annual Report 2025](https://www.nato.int/content/dam/nato/webready/documents/publications-and-reports/annual-reports/sgar25-en.pdf)). Hyperscalers and AI specialists can likewise supply cloud, data and model layers, while sovereign customers may insist on vendor-neutral APIs. If the command-and-data plane decouples from platform hardware, Rheinmetall could retain integration work but lose the highest-margin software layer.

Pricing power exists where Rheinmetall is already embedded, accredited and accountable for system performance. A customer changing the integrator of a fielded tactical network risks retraining, interface failure, recertification and cyber vulnerability. Pricing power is weaker in competitive hardware, standard computing, radios subject to interoperability requirements and labour-based integration. Procurement authorities can also split awards, mandate industrial participation or demand ownership of interfaces.

Entry barriers are high but not absolute. Security clearances, classified know-how, NATO standards, environmental hardening, electromagnetic compatibility, safety assurance and operational references all slow new entrants. The barrier is strongest at full-fleet integration and weakest at modular software features. AI may lower development costs for analytics and interfaces, but it does not eliminate field validation, cyber hardening or accountable deployment in lethal systems.

5. Segment-level moat

Digital Systems has a credible but not impregnable moat. The first layer is **installed architecture and switching cost**. A tactical network integrated across vehicles, soldier kits, command posts, sensors and effectors is difficult to replace mid-programme. Interfaces, training, doctrine, security accreditation and support processes create a web of dependencies. blackned can deepen that layer if its middleware becomes the reusable connective tissue.

The second layer is **system-of-systems integration**. Rheinmetall owns relevant adjacent assets: vehicles, turrets, weapons, air defence, sensors, training and now naval platforms. That breadth creates test beds and reference platforms. A customer buying an integrated capability can assign one contractor responsibility for performance rather than arbitrate among component suppliers. The moat is strongest when Rheinmetall controls a critical interface and can demonstrate field reliability.

The third layer is **sovereign industrial position**. European rearmament favours suppliers with local engineering, secure facilities, long customer histories and the ability to scale domestic capacity. The German Army's large digitisation programmes provide a home-market anchor. Local position does not guarantee margin, because the same customer has bargaining power and may require work share, but it improves qualification and capture probability.

The fourth layer is **data and lifecycle learning**. Fielded systems create operational feedback, integration knowledge, cyber threat updates and configuration data. If retained and reused responsibly, those assets can improve future releases and support. The moat will erode if data rights sit entirely with customers, interfaces become commoditised, or bespoke configurations prevent reuse.

Durability over five to ten years depends on architecture ownership. NATO's revised AI strategy prioritises interoperability, testing, responsible adoption and AI-ready data; its digital transformation strategy emphasises a digital backbone for multi-domain command and control. These priorities expand demand for the segment's capabilities, but they also favour open standards and rigorous assurance rather than proprietary lock-in alone ([NATO revised AI strategy](https://www.nato.int/en/about-us/official-texts-and-resources/official-texts/2024/07/10/summary-of-natos-revised-artificial-intelligence-ai-strategy?selectedLocale=en); [NATO Digital Transformation Implementation Strategy](https://www.nato.int/cps/en/natohq/official_texts_229247.htm)).

The moat verdict is therefore **moderate and execution-dependent**. Digital Systems is protected by programme incumbency, accreditation and integration breadth. It is not protected from Thales, Leonardo, HENSOLDT, BAE Systems or software-native entrants at every layer. The terminal margin should rise only if the company shows software reuse and lifecycle revenue, not simply backlog growth.

6. Historical growth rates — reproduced from the data package

The required historical table cannot present a three-year standalone Digital Systems series because none exists. The predecessor Electronic Solutions series is shown for context, with the taxonomy break stated in every relevant cell. The official EUR1,766m FY2025 Digital comparator is pro forma under the 2026 taxonomy; it is not a multi-year standalone series.

Product / sub-segment	FY-3 rev	FY-2 rev	FY-1 rev	3-year CAGR	Most recent YoY	Data-package citation
Electronic Solutions predecessor	FY2023 EUR1,318m	FY2024 EUR1,726m	FY2025 EUR2,504m	29.1% from FY2022 EUR1,164m	45.1% in FY2025	data_package §3, Electronic Solutions predecessor table, Revenue and YoY rows
Digital Systems current taxonomy	FY2023 not separately disclosed	FY2024 not separately disclosed	FY2025 EUR1,766m pro forma	Not calculable	+23.5% in H1 2026	data_package §1 and §3, Annual Report p. 91 comparator; Current segment H1 bridge
blackned	Not in disclosed segment series	Not in disclosed segment series	Not separately disclosed	Not calculable	EUR31m contribution in Q1 2026; no comparable growth rate	data_package §4, Digital Systems/blackned row

The predecessor arithmetic is internally consistent: EUR1,318m × 1.310 = approximately EUR1,727m versus EUR1,726m reported, and EUR1,726m × 1.451 = approximately EUR2,504m. Differences are rounding only and remain within 0.1%. The required three-year CAGR uses the FY2022 EUR1,164m base from the data package: `(2,504 / 1,164)^(1/3) - 1 = 29.1%`. A 37.8% result would be the two-year FY2023-FY2025 CAGR and is not labelled as a three-year rate.

The standalone comparable bridge is limited to half years.

Digital Systems comparable	H1 2025 restated	H1 2026	YoY	EBIT	EBIT margin	Data-package citation
Digital Systems total	EUR664m	EUR820m	23.5%	EUR47m to EUR63m	7.1% to 7.7%	data_package §3, Current segment H1 bridge, Digital Systems row
Q1 cadence	EUR301m implied by disclosed comparison	EUR349m	15.9%	Not disclosed on EBIT basis in §5	5.2% operating margin	data_package §5, Digital Systems Q1 row
Q2 cadence	EUR363m implied by disclosed comparison	EUR471m	29.8%	Not disclosed on EBIT basis in §5	9.6% operating margin	data_package §5, Digital Systems Q2 row

Arithmetic tie-out: EUR664m × 1.235 = EUR820.0m, matching disclosed H1 2026 sales after rounding. EUR301m plus EUR363m = EUR664m, and EUR349m plus EUR471m = EUR820m. The Q1 and Q2 prior-period amounts are arithmetic implications of the disclosed current quarter and YoY rows, not separately presented product revenue; no product-level dollars are back-solved.

[DATA GAP: Rheinmetall discloses pro forma FY2025 successor revenue but not successor EBIT. Digital TTM revenue can be bridged as a current-taxonomy proxy; standalone TTM EBIT remains an allocation diagnostic, not reported fact.]

[DATA GAP: No multi-year revenue, ARR, unit-volume, ASP or EBIT-margin series is disclosed for TaWAN, D-LBO, IdZ-ES, sensors, simulation, F-35, unmanned systems, satellite activities or blackned.]

7. Management guidance — from data_package Section 6

The [September issuer deck, pp. 47 and 65–66](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf) gives a **FY2026** Digital Systems target of **EUR2.2bn–EUR2.3bn sales** and **about 12% operating-result margin**, plus an explicit **2030** target of about **EUR8bn–EUR10bn sales** and **17%–19% operating-result margin** [data_package §6, FY2026 and 2030 segment-target tables, Digital Systems rows]. From H1 2026 sales of EUR820m, the FY2026 sales target requires EUR1,380m–EUR1,480m in H2, versus EUR1,102m implied for pro forma H2 2025 (EUR1,766m less EUR664m): approximately 25.2%–34.3% H2 growth. This is a demanding near-term conversion test, not a bridge from operating result to statutory EBIT. The deck's 2030 organization-wide guidance includes M&A and excludes US order wins [data_package §6, 2030 ambition]. The 2030 target is

an aspiration, not an executable-order schedule, acquired-business allocation or statutory EBIT target. The relevant management anchors are below; quoted wording is reproduced only where the cleared package supplied a quote.

Topic	Data-package row	Cleared commentary	Interpretation for Digital Systems
Demand	§6, Group demand; H1 release, 6-Aug-2026, CEO Armin Papperger	“Demand remains strong”; Group book-to-bill above 3	Supports a strong demand environment, but Group book-to-bill is not a Digital conversion rate.
Group 2026 guide	§6, Group guidance; H1 release, 6-Aug-2026, management	2026 sales EUR13.7-EUR14.2bn and margin around 19% after F126	Provides consolidated context only; it does not justify a 19% Digital EBIT margin.
Digital growth drivers	§6, Digital Systems; Q1/Q2 calls, 7-May/6-Aug-2026, CFO Klaus Neumann	TaWAN, blackned and F-35 ramp drove growth	Confirms a blended software, integration and industrial growth engine.
Digital execution	§6, Digital Systems; Q1/Q2 calls, 7-May/6-Aug-2026, CFO Klaus Neumann	Lower-margin execution remains key	Direct warning against software-like margin assumptions.
Digital FY2026 target	§6, September deck p. 47, FY2026 segment-target table, Digital Systems row	Sales EUR2.2bn–EUR2.3bn; about 12% operating-result margin	Requires EUR1.38bn–EUR1.48bn H2 sales; adjusted operating-result margin is not the forecast EBIT margin.
Digital 2030 target	§6, September deck pp. 65–66, 2030 segment-target table, Digital Systems row	Sales about EUR8bn–EUR10bn; operating-result margin 17%–19%	A demanding external calibration, not adopted into the scenario sales/EBIT path; includes M&A in Group guidance.
Capex	§6, Capex; Q1 call, 7-May-2026, CEO Armin Papperger	Earlier commentary anticipated high capex before normalisation	F-35, integration capacity and programme ramps require near-term capital.
Revised 2026 capex	§6, September investor deck p. 61	Group 2026 capex plan 8%–9% of sales versus earlier CMD 16%; no 2030 sales-guidance impact claimed	Reprioritisation and project timing are not realised Digital cost savings; test delivery and capacity milestones.
Backlog quality	§6, Backlog quality	Frame backlog represents expected call-offs and may vary	The EUR20.6bn segment backlog should not be converted mechanically into revenue.
Group ambition	§6, September deck pp. 65–66, 2030 ambition	Group sales about EUR50bn, operating-result margin above 20%	Group ambition and segment target are distinct; neither is mechanically imported into EBIT cases.

The first-half release also identifies TaWAN, D-LBO and the F-35 ramp as the segment's growth drivers [data_package §6, Digital Systems row]. The model recognises those drivers but does not import management's Group or segment ambition into the Digital forecast. The deck adds a potentially important drone/space contribution in 2030 [issuer deck p. 48]; the cleared package still lacks a quantified Digital product-level build or contracted-sales conversion schedule. A target so far above independent cases deserves an explicit challenge, not a disguised uplift to the model.

[DATA GAP: The September deck gives FY2026 and 2030 segment sales and operating-result-margin targets, but no intervening annual revenue cadence, statutory EBIT-margin targets or operating-result-to-EBIT bridge, acquisition contribution by product, software-mix target, backlog-conversion schedule or blackned synergy bridge is included in the DR-cleared package.]

8. Forward growth assumptions — explicit, per disclosed financial line

8.1 TTM current-taxonomy proxy and zero-residual controls

The exact TTM convention is FY2025 minus restated H1 2025 plus H1 2026. Revenue and EBIT require different treatments. Revenue uses issuer-provided pro forma FY2025 successor comparators. EBIT does not: the sealed bridge reports only EUR426m for the combined Air Defence plus Digital Systems TTM line, so the standalone EBIT split remains an explicit low-confidence diagnostic.

The EUR31m difference between audited predecessor revenue and pro forma successor revenue is fully explained by intersegment presentation. FY2025 Electronic Solutions reported EUR2,504m; pro forma Air Defence EUR769m plus Digital EUR1,766m equals EUR2,535m. Pro forma Others/Consolidation is EUR(1,124)m versus audited EUR(1,093)m. The EUR31m increase in gross successor sales is therefore offset by EUR31m more-negative consolidation, leaving Group revenue unchanged. It is not growth, acquisition revenue, a plug or rounding.

Taxonomy / TTM control	Revenue	EBIT	Method / residual
Audited FY2025 Electronic Solutions predecessor	EUR2,504.0m	EUR370.0m	Annual Report p. 203; predecessor presentation
Pro forma FY2025 Air Defence	EUR769.0m	Not disclosed	Annual Report p. 91; 2026-taxonomy comparator
Pro forma FY2025 Digital Systems	EUR1,766.0m	Not disclosed	Annual Report p. 91; 2026-taxonomy comparator
Pro forma successor gross sum	EUR2,535.0m	Not disclosed	EUR769m + EUR1,766m
Gross successor presentation change	EUR31.0m	n/a	EUR2,535m - EUR2,504m
Consolidation presentation change	EUR(31.0)m	n/a	EUR(1,124)m - EUR(1,093)m
FY2025 Group-revenue effect / residual	**EUR0.0m**	**n/a**	**EUR31m gross less EUR31m additional elimination**
Air Defence TTM revenue proxy	EUR952.0m	EUR216.7m diagnostic	EUR769m - EUR295m + EUR478m; EBIT is complementary diagnostic only
Digital Systems TTM proxy	**EUR1,922.0m**	**EUR209.3m diagnostic**	**EUR1,766m - EUR664m + EUR820m; EBIT is allocation-only**
Current-taxonomy Air plus Digital TTM	EUR2,874.0m	EUR426.0m	EUR952m + EUR1,922m; sealed combined EBIT
Air plus Digital sum-back residual	**EUR0.0m**	**EUR0.0m**	**Successor proxies equal the current-taxonomy revenue aggregate and sealed EBIT exactly**
Audited-predecessor-basis TTM gross revenue	EUR2,843.0m	n/a	EUR2,504m - EUR959m + EUR1,298m
Successor-versus-predecessor TTM difference	EUR31.0m	n/a	Same intersegment presentation change; offset in consolidation

The Digital EBIT diagnostic retains the prior midpoint of the two disclosed half-year EBIT shares: H2 2025 predecessor EBIT of EUR287m multiplied by a 50.98% Digital share gives EUR146.3m, plus disclosed H1 2026 Digital EBIT of EUR63m gives EUR209.3m. Air Defence is the EUR216.7m complement, so the EBIT residual is exactly zero. The H1-share endpoints remain EUR193.1m and EUR225.5m for Digital, demonstrating uncertainty; they are not revenue anchors and do not alter scenario sales. The EUR209.3m diagnostic implies a 10.9% margin on the corrected EUR1,922m revenue proxy, but every forward margin continues to start from the separately disclosed H1 2026 Digital EBIT margin of 7.7%.

8.2 Base-case growth assumptions

Because no product revenue bases exist, the only numerically forecastable line is Digital Systems total. The product families are shown as embedded drivers, with numerical CAGRs withheld rather than fabricated.

Product / driver	Historical CAGR	Latest YoY	Management FY+1 guide	Base CAGR TTM to TTM+5y	Justification
Digital Systems total	Standalone n/d; predecessor FY2022-FY2025 29.1%	H1 2026 +23.5%	FY2026 sales EUR2.2bn–EUR2.3bn; ~12% operating-result margin	**12.8%**	Growth decelerates through 16%, 15%, 13%, 11% and 9% as large programmes scale; backlog and NATO digitisation support demand, while call-offs and execution constrain conversion.
Tactical communications / TaWAN / D-LBO	n/d	n/d within segment	Named growth driver only	Embedded in total; not separately quantified	Large German programmes and installed interfaces support growth, offset by milestone timing, hardware content and competition from Thales and others.
C4ISR / sensors / mission systems / simulation	n/d	n/d within segment	No numerical guide	Embedded in total; not separately quantified	Multi-domain demand and integration pull-through are positive, but product mix and standalone economics are undisclosed.
blackned / cyber / software	n/d; EUR31m Q1 contribution only	n/d	Named growth driver only	Embedded in total; not separately quantified	Middleware reuse can outgrow the segment, but ARR, renewals and margin are undisclosed; no separate CAGR is supportable.

Product / driver	Historical CAGR	Latest YoY	Management FY+1 guide	Base CAGR TTM to TTM+5y	Justification
F-35 / aeronautical / space / unmanned	n/d	n/d within segment	F-35 named as growth driver	Embedded in total; not separately quantified	Production ramp supports volume, but industrial cadence, quality and capex prevent a software-style growth assumption.

The base path is intentionally nonuniform. It begins below H1 2026 growth and decelerates as the revenue base expands. The 12.8% five-year CAGR is far below the predecessor's 29.1% FY2022-FY2025 CAGR and below the latest 23.5% H1 growth, reflecting early programme ramps and a small base. Yet it remains above a mature defence-electronics rate because the segment has unusually large backlog, German land-force digitisation and new aerospace capacity. The FY2026 management target is a near-term calendar-year test requiring H2 sales of EUR1.38bn–EUR1.48bn; the first model year instead ends June 2027 and cannot be read as a FY2026 forecast. If FY2026 lands at the EUR2.25bn target midpoint, base June-2027 TTM sales of EUR2,229.5m imply only EUR799.5m H1 2027 sales, 2.5% below H1 2026. This is a deliberately conservative, lumpy-conversion assumption, not smooth growth; stronger H1 2027 delivery would require lifting the first modeled year and reconsidering later growth. Management's much higher 2030 target is a separate M&A-inclusive test in Section 10, not a base-case revenue plug.

8.3 Bull-case growth assumptions

Product / driver	Historical CAGR	Latest YoY	Management FY+1 guide	Bull CAGR TTM to TTM+5y	Justification
Digital Systems total	Standalone n/d; predecessor FY2022-FY2025 29.1%	H1 2026 +23.5%	FY2026 sales EUR2.2bn–EUR2.3bn; ~12% operating-result margin	**16.7%**	22%, 20%, 17%, 14% and 11% annual growth assumes rapid call-offs, clean acceptance, international replication and no major programme loss.
Tactical communications / TaWAN / D-LBO	n/d	n/d within segment	Named growth driver only	Embedded; faster than base	German deployment scales and reference wins translate to allied programmes; standard kits and architecture reuse reduce implementation friction.
C4ISR / sensors / mission systems / simulation	n/d	n/d within segment	No numerical guide	Embedded; faster than base	Rheinmetall converts platform adjacency into integrated mission-system awards and captures more lifecycle support.
blackned / cyber / software	n/d; EUR31m Q1 contribution only	n/d	Named growth driver only	Embedded; materially faster than total	Middleware becomes a common layer across programmes, driving releases, support and integration pull-through without equivalent headcount growth.
F-35 / aeronautical / space / unmanned	n/d	n/d within segment	F-35 named as growth driver	Embedded; faster than base early	Facility utilisation rises cleanly and new aircraft, sustainment or unmanned work supplements the initial production ramp.

The bull case does not extrapolate 23.5% growth for five years. Even with strong demand, annual growth falls to 11% by the terminal year. The required evidence would include disclosed international orders beyond the German programmes, sustained book-to-bill with firm rather than frame backlog, clean F-35 deliveries, blackned deployment across multiple fleets and improving cash conversion. Even this bull is well below management's 2030 scale ambition; a separately evidenced transformative acquisition or order/capacity build would warrant a new scenario rather than a silent assumption change.

8.4 Bear-case growth assumptions

Product / driver	Historical CAGR	Latest YoY	Management FY+1 guide	Bear CAGR TTM to TTM+5y	Justification
Digital Systems total	Standalone n/d; predecessor FY2022-FY2025 29.1%	H1 2026 +23.5%	FY2026 sales EUR2.2bn–EUR2.3bn; ~12% operating-result margin	**4.2%**	8%, 6%, 4%, 2% and 1% annual growth assumes call-off delays, programme slippage, price pressure and weak conversion despite structural demand.

Product / driver	Historical CAGR	Latest YoY	Management FY+1 guide	Bear CAGR TTM to TTM+5y	Justification
Tactical communications / TaWAN / D-LBO	n/d	n/d within segment	Named growth driver only	Embedded; below base	Customer acceptance and fleet-integration bottlenecks slow revenue; mandated interoperability weakens proprietary economics.
C4ISR / sensors / mission systems / simulation	n/d	n/d within segment	No numerical guide	Embedded; below base	Specialist competitors win sensors or command layers and Rheinmetall retains lower-value integration work.
blackned / cyber / software	n/d; EUR31m Q1 contribution only	n/d	Named growth driver only	Embedded; below base	Customisation, cyber assurance and customer data rights prevent reusable-software leverage; talent costs rise.
F-35 / aeronautical / space / unmanned	n/d	n/d within segment	F-35 named as growth driver	Embedded; below base	Manufacturing learning is slower, schedule volatility reduces utilisation and new adjacent work does not materialise.

The bear case still grows because the disclosed backlog and European digital-transformation need make an outright five-year contraction too punitive as a central downside. The damage comes through low conversion and margin: the business becomes a labour- and hardware-heavy integrator with limited software reuse. In the bear, FY2026 can miss management's EUR2.2bn–EUR2.3bn calendar-year sales target; were FY2026 to hit its EUR2.25bn midpoint instead, EUR2,075.8m June-2027 TTM sales would imply H1 2027 of only EUR645.8m, 21.2% below H1 2026. That is a programme-slip downside condition rather than a smooth 8% near-term calendar-year growth prediction.

8.5 AI and autonomy opportunity versus disruption

AI and autonomy are plausible demand vectors, not verified standalone Digital Systems earnings drivers. NATO's strategy calls for AI integration, interoperable systems, testing and evaluation, and trusted data. Digital Systems could apply edge analytics to sensor fusion, target recognition, predictive maintenance, route and mission planning, training simulation, network management and autonomous teaming. Rheinmetall's vehicle, soldier, sensor and effector interfaces may provide useful deployment contexts that a standalone model provider lacks, while blackned's middleware could move data between edge nodes and command layers. None of those possible roles establishes revenue, reuse or margin without disclosed programme economics.

The same shift is disruptive. Foundation models, commercial computer vision, open-source tooling and cloud platforms can shorten development cycles and lower the cost of analytics. Customers may separate the data/AI layer from platform integration to avoid lock-in. Palantir's NATO win shows that a software-native vendor can occupy the decision layer. AI also creates new assurance costs: adversarial robustness, explainability, data provenance, cyber hardening and human control must be tested over the lifecycle. The base case therefore treats AI primarily as a win-rate and functionality enabler, not as a free margin windfall. The bull case requires paid deployment at scale; the bear case assumes value migrates to specialist software vendors while Rheinmetall bears integration responsibility.

The data package contains no standalone Rheinmetall AI/autonomy revenue, order intake, backlog, installed-base, licence, margin or cash-flow series. It also contains no evidence that blackned's EUR31m Q1 contribution was recurring software revenue rather than a broader project contribution. Accordingly, the forecast assigns no separate AI, autonomy or blackned growth rate and no product-specific margin uplift. Any reuse benefit appears only in the scenario-level total growth and EBIT-margin cadence, with the bull requiring future evidence and the bear explicitly allowing value to migrate to third-party software providers.

9. Forward EBIT margin assumptions

The exact profit metric is **EBIT** in every forecast table. The only clean standalone starting EBIT margin is the disclosed H1 2026 Digital EBIT margin of 7.7%. The analytical EBIT allocation implies a 10.9% diagnostic TTM margin on the corrected EUR1,922m revenue proxy, but that number is not used to set any forecast margin because the FY2025 successor EBIT split is a true non-disclosure. Management's approximately 12% FY2026 **operating-result** margin target is adjusted and not a FY2026 statutory EBIT guide [data_package §6, September deck p. 47]. This prevents a favorable H2 allocation or adjusted target from being capitalised as if it were observed EBIT profitability.

Case	Disclosed H1 2026 EBIT margin	TTM+1 EBIT margin	TTM+2	TTM+3	TTM+4	TTM+5 EBIT margin	Mechanism
Bear	7.7%	8.0%	7.8%	7.8%	8.0%	**8.5%**	Bespoke integration, tender pressure, labour and hardware mix offset limited volume leverage.
Base	7.7%	9.5%	10.2%	11.0%	11.7%	**12.2%**	Scale, learning, support and middleware reuse improve EBIT, but industrial and programme work remain material.
Bull	7.7%	10.0%	11.5%	13.0%	14.2%	**15.0%**	Strong utilisation, standardised architectures, blackned reuse and lifecycle content create broad operating leverage.

The base case's terminal 12.2% margin is 450 bps above H1 2026 standalone margin, so the mechanism must be explicit. Approximately half of the improvement is assumed to come from volume and fixed-cost absorption across engineering, facilities and programme management. The balance comes from fewer first-of-type costs, more repeat kits, software reuse and a larger installed-base support contribution. The terminal margin remains below FY2025 Electronic Solutions' 14.8% because Digital includes F-35 industrial work and integration-heavy programmes, and because the predecessor's H2 profitability cannot be confidently assigned to Digital.

The bull case reaches 15.0%, roughly the predecessor FY2025 margin. That is not a claim that Digital becomes SaaS. It assumes Rheinmetall converts an architecture position into repeat releases and support, blackned scales across programmes, factories achieve good utilisation and programme execution is clean. A margin above 15% **on EBIT** would require evidence not currently disclosed, particularly software mix and lifecycle service economics. Management now targets 17%–19% **operating-result margin** in 2030 [data_package §6, September deck p. 66]. This is not a statutory EBIT-margin target: operating result excludes items that can reduce EBIT, including purchase-price-allocation and special-item effects. The package does not provide a 2030 Digital operating-result-to-EBIT bridge, so no basis-equivalent target spread or automatic EBIT uplift is calculated.

The bear case bottoms near 7.8% and recovers to 8.5% as volume grows. It assumes that recent margin improvement proves the segment can remain profitable, but that competition, mandated open interfaces and custom engineering prevent meaningful leverage. A worse outcome is possible if a fixed-price programme incurs charges; such a shock is treated as a risk rather than embedded as a persistent terminal state.

10. Segment rollup — bottoms-up and arithmetically tied

Because no complete product-revenue mix exists, “bottoms-up” here means one disclosed financial perimeter supported by explicit operating-driver assumptions. Product families are not assigned invented starting weights. Revenue compounds from the EUR1,922.0m official-pro-forma-based TTM proxy using nonuniform annual growth rates; EBIT equals revenue multiplied by the exact annual EBIT margin. The TTM proxy EBIT is displayed only as a low-confidence allocation diagnostic and does not set the forward margin path. Each forecast row ties arithmetically.

Bear case rollup

Period ending	Revenue growth	Revenue	EBIT margin	EBIT	Key operating state
TTM 2026-06-30 proxy	n/a	EUR1,922.0m	10.9% diagnostic	EUR209.3m diagnostic	Revenue is official-pro-forma-based; EBIT is allocation-only and not the margin anchor
2027-06-30	8.0%	EUR2,075.8m	8.0%	EUR166.1m	Backlog converts, but margin remains near current execution
2028-06-30	6.0%	EUR2,200.3m	7.8%	EUR171.6m	Call-off and integration delays persist
2029-06-30	4.0%	EUR2,288.3m	7.8%	EUR178.5m	Competition limits price and mix
2030-06-30	2.0%	EUR2,334.1m	8.0%	EUR186.7m	Modest learning offsets weak growth

Period ending	Revenue growth	Revenue	EBIT margin	EBIT	Key operating state
2031-06-30	**1.0%**	**EUR2,357.4m**	**8.5%**	**EUR200.4m**	**Low-growth integrator outcome**

Check: EUR1,922.0m × 1.08 × 1.06 × 1.04 × 1.02 × 1.01 = EUR2,357.4m. EUR2,357.4m × 8.5% = EUR200.4m. The five-year CAGR is 4.2%.

Base case rollup

Period ending	Revenue growth	Revenue	EBIT margin	EBIT	Key operating state
TTM 2026-06-30 proxy	n/a	EUR1,922.0m	10.9% diagnostic	EUR209.3m diagnostic	Revenue is official-pro-forma-based; EBIT is allocation-only and not the margin anchor
2027-06-30	16.0%	EUR2,229.5m	9.5%	EUR211.8m	TaWAN, D-LBO and aerospace ramps; first-year margin normalisation
2028-06-30	15.0%	EUR2,563.9m	10.2%	EUR261.5m	Serial integration and support expand
2029-06-30	13.0%	EUR2,897.3m	11.0%	EUR318.7m	Architecture reuse and utilisation improve
2030-06-30	11.0%	EUR3,216.0m	11.7%	EUR376.3m	International and lifecycle work broaden
2031-06-30	**9.0%**	**EUR3,505.4m**	**12.2%**	**EUR427.7m**	**Balanced hardware, integration and software mix**

Check: EUR1,922.0m × 1.16 × 1.15 × 1.13 × 1.11 × 1.09 = EUR3,505.4m. EUR3,505.4m × 12.2% = EUR427.7m. The five-year CAGR is 12.8%.

Bull case rollup

Period ending	Revenue growth	Revenue	EBIT margin	EBIT	Key operating state
TTM 2026-06-30 proxy	n/a	EUR1,922.0m	10.9% diagnostic	EUR209.3m diagnostic	Revenue is official-pro-forma-based; EBIT is allocation-only and not the margin anchor
2027-06-30	22.0%	EUR2,344.8m	10.0%	EUR234.5m	Rapid programme conversion and clean ramps
2028-06-30	20.0%	EUR2,813.8m	11.5%	EUR323.6m	International replication and higher utilisation
2029-06-30	17.0%	EUR3,292.2m	13.0%	EUR428.0m	blackned and common architecture scale
2030-06-30	14.0%	EUR3,753.1m	14.2%	EUR532.9m	Software and lifecycle mix becomes material
2031-06-30	**11.0%**	**EUR4,165.9m**	**15.0%**	**EUR624.9m**	**High-quality integrated digital franchise**

Check: EUR1,922.0m × 1.22 × 1.20 × 1.17 × 1.14 × 1.11 = EUR4,165.9m. EUR4,165.9m × 15.0% = EUR624.9m. The five-year CAGR is 16.7%.

TTM taxonomy reconciliation audit

Control	Amount	Required equality
Digital Systems current-taxonomy TTM revenue proxy	EUR1,922.0m	EUR1,766m - EUR664m + EUR820m
Air Defence current-taxonomy TTM revenue proxy	EUR952.0m	EUR769m - EUR295m + EUR478m
Air plus Digital current-taxonomy gross revenue	EUR2,874.0m	EUR1,922m + EUR952m; zero residual
Audited-predecessor-basis gross revenue	EUR2,843.0m	EUR2,504m - EUR959m + EUR1,298m
Gross intersegment presentation difference	EUR31.0m	EUR2,874m - EUR2,843m
Additional consolidation elimination	EUR(31.0)m	Exact offset in repaired data package
Net Group-revenue effect	**EUR0.0m**	**No economic or perimeter change**
Full current-taxonomy TTM gross segment revenue	EUR12,699.0m	Vehicle EUR5,525m + W&A EUR3,966m + Air EUR952m + Digital EUR1,922m + Naval EUR334m

Control	Amount	Required equality
TTM Others / consolidation	EUR(1,286.0)m	Pro forma FY2025 EUR(1,124)m less H1 2025 EUR(430)m plus H1 2026 EUR(592)m
Group TTM revenue / residual	**EUR11,413.0m / EUR0.0m**	**EUR12,699m less EUR1,286m equals the data-package Group TTM exactly**
Digital diagnostic TTM EBIT	EUR209.3m	Allocation-only; not margin anchor
Air diagnostic TTM EBIT	EUR216.7m	Complementary allocation-only value
Combined sealed TTM EBIT / residual	**EUR426.0m / EUR0.0m**	**EUR209.3m + EUR216.7m equals sealed bridge**

The repaired revenue evidence removes the prior low/mid/high revenue-allocation sensitivity. The remaining uncertainty is the successor EBIT split and the quality of the forward growth/margin assumptions, not whether Digital receives EUR1,796m, EUR1,843m or EUR1,890m of TTM revenue.

September 2030 target versus independently underwritten cases

Rheinmetall's [September investor deck, pp. 48 and 65–66](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf) explicitly places Digital Systems at about **EUR8bn–EUR10bn 2030 sales** and **17%–19% operating-result margin** [data_package §6, 2030 segment-target table, Digital Systems row]. The deck describes 2030 organization guidance as including M&A but excluding US order wins [data_package §6, 2030 ambition]. The issuer also expects drone and space work to become significant by 2030, but does not provide a division-level acquisition, product-sales, annual call-off or statutory EBIT bridge [data_package §4, §6 and §10]. At the EUR1,922m TTM revenue proxy, reaching the sales target by **FY2030 ending 2030-12-31** would require a roughly **37.3%–44.3% annualized** increase over 4.5 years *if the perimeter were unchanged and growth smooth*; this is only a scale diagnostic, not management's stated CAGR or an organic-growth forecast. Using the official EUR1,766m pro forma FY2025 base instead implies approximately **35.3%–41.4%** over five years, again without resolving M&A contribution.

Case / basis	Revenue at TTM ending 2030-06-30	Shortfall to EUR8bn lower target	EBIT margin at TTM ending 2030-06-30	EBIT at TTM ending 2030-06-30	Comparison limit
Bear underwriting	EUR2,334.1m	EUR5,665.9m / 70.8% of lower target	8.0%	EUR186.7m	Model TTM ends six months before FY2030.
Base underwriting	EUR3,216.0m	EUR4,784.0m / 59.8% of lower target	11.7%	EUR376.3m	No undisclosed acquisition or order conversion inserted.
Bull underwriting	EUR3,753.1m	EUR4,246.9m / 53.1% of lower target	14.2%	EUR532.9m	Bull still needs over 2.1x scale to reach lower target.
Management target	EUR8,000m–EUR10,000m at FY2030, not June TTM	Not an audited actual	17%–19% *operating-result* margin	Not comparable to statutory EBIT	M&A-inclusive ambition; operating-result-to-EBIT bridge unavailable.

The six-month endpoint difference prevents an exact contemporaneous variance; H2 seasonality and as-yet-unannounced M&A could also matter. Nonetheless, even the bull's later **2031-06-30** revenue of EUR4,165.9m remains below the earlier FY2030 EUR8bn lower target. The gap cannot plausibly be dismissed as only six months of timing under the explicit 11% bull terminal-year growth assumption. Conversely, assigning the full management aspiration to a probability-weighted bull would require identifiable financed acquisitions, programme awards, factory and integration throughput, customer acceptance, and an operating-result-to-statutory-EBIT bridge. Neither a 17%–19% EBIT margin nor an EUR1.36bn–EUR1.90bn *EBIT* outcome is implied by applying management's operating-result-margin range to target sales. No such profit conversion enters the forecast.

This is a material **management-target-versus-underwriting divergence**. It is not a newly discovered statutory fact that forces the bear/base/bull arithmetic to management's ambition. The analytical burden for a later re-underwrite is to establish signed non-frame orders and conversion cadence, revenue attributable to M&A versus the existing segment, capital and working-capital sufficiency after the revised 2026 capex schedule, and repeatable operating-result-to-EBIT economics. Until those disclosures exist, the conservatively probability-weighted cases and the sealed combined EBIT bridge remain unchanged; the divergence should be visible to synthesis, valuation preflight and red-team review rather than hidden by the generic phrase “no numerical guide.”

Rollup interpretation

The model does not let backlog dictate revenue. Even the bull terminal revenue is only about one-fifth of H1 2026 segment backlog, but that comparison is not a conversion schedule because backlog includes multiple years and framework exposure.

The base case requires strong execution but does not require management's approximately EUR50bn Group ambition or Digital's EUR8bn–EUR10bn target. The bear case assumes the structural demand survives while economics disappoint.

Scenario probabilities are deliberately nonuniform: **35% bear, 50% base and 15% bull**. The bear weight remains elevated because the standalone TTM EBIT split is estimated, product economics are undisclosed, cash absorption is real and competition is capable. The bull receives only 15% because it requires sustained double-digit growth, clean F-35 and programme execution, international replication and a software/integration mix shift that is not yet evidenced in standalone revenue or margin data. The base carries 50% because current growth, backlog and programme position support expansion, while the EBIT-margin path remains below the predecessor's FY2025 margin.

11. Key risks and wildcards

[Bear/Base/Bull] September target execution and perimeter

The 2030 sales ambition is more than twice the bull case's June 2030 scale and includes M&A, while the stated 17%–19% margin is an operating-result target rather than the EBIT modeled here. A future transformative acquisition or funded drone/space order could invalidate today's conservative revenue perimeter in the positive direction; failed integration, unfunded call-offs or a 2026 capex deferral that postpones throughput would invalidate management's target in the negative direction. Neither direction can be priced as certainty from a slide. Monitor contracted order intake, acquired sales and funding, delivery-capacity milestones, cash conversion, and the eventual operating-result-to-EBIT reconciliation [data_package §6, September deck pp. 61, 65–66].

[Bear] Procurement timing and backlog conversion

The segment's backlog creates visibility but not a delivery calendar. Framework awards may be called off slowly; customer acceptance and integration can shift between periods; budget politics and specifications can change. A nomination spike can be followed by weak intake without indicating immediate demand collapse. The key monitoring metric is not backlog alone but firm order conversion, revenue milestones and cash collection. A persistent gap between revenue growth and operating cash flow would indicate that working capital, acceptance or contract quality is worse than the EBIT model suggests.

[Bear] Software optimism masking hardware and labour intensity

The segment contains real software, but also radios, electronics, sensor hardware, integration teams, F-35 production and customer-specific engineering. If reusable software remains a small share, the terminal margin may stay near high single digits. The kill signal for the base margin thesis would be revenue growth above 10% without sustained EBIT-margin progress toward 10%, accompanied by capex and working capital remaining elevated.

[Bear] Programme execution and fixed-price exposure

First-of-type integration, cybersecurity certification, component shortages and changing specifications can produce overruns. The public package does not disclose contract-type mix or loss provisions by programme. A material charge on TaWAN, D-LBO, F-35 or a large mission-system programme could temporarily drive EBIT below the bear path. The risk is amplified when political urgency compresses schedules.

[Bear/Base] Competition and open architecture

Thales, Leonardo, HENSOLDT, BAE Systems and specialist vendors can win individual layers. NATO interoperability and customer preferences may force open interfaces that reduce lock-in. Open architecture is not purely negative: it can expand the addressable market for a competent integrator. The economic outcome depends on whether Rheinmetall owns the orchestration and support layer or becomes a low-margin installer of third-party technology.

[Bear/Base] blackned integration

blackned can become the common software layer across land programmes, or it can remain a small project business requiring bespoke engineering. The disclosed Q1 contribution is insufficient to decide. Evidence for the base case would include cross-program deployment, recurring support, release cadence, software headcount productivity and segment margin leverage. Acquisition integration problems, staff attrition or customer resistance to proprietary middleware would favour the bear.

[Base/Bull] International replication

The home-market programmes can become reference architectures for allied customers. Replication offers attractive economics if the core software and integration methods are reused. It can also be diluted by local-content obligations and country-specific configurations. The bull case needs repeat wins that preserve Rheinmetall's intellectual property and system responsibility.

[Bull] AI-enabled C4ISR and autonomy

AI can raise the value of sensor fusion, decision support, simulation, network management and autonomous teaming. Rheinmetall's platform adjacency is useful because operational AI needs trusted data and edge deployment. The upside is largest if blackned and Rheinmetall's mission systems become the secure orchestration layer across sensors and effectors. The bull is not justified by demo announcements; it requires certified, paid field deployment and measurable software/service economics.

[Bear] AI and software-native disruption

Commercial software firms can capture the data and decision layer while Rheinmetall supplies hardware and integration. Open-source models and standardised APIs can commoditise some middleware. Cyber vulnerabilities or flawed AI outputs can also create liability and delay acceptance. NATO's responsible-AI requirements strengthen trusted incumbents but add testing and governance cost. The segment must demonstrate that assurance is a monetisable barrier rather than merely overhead.

[Base/Bull] F-35 and aerospace adjacency

The F-35 ramp diversifies Digital Systems and can create a long production and support runway. It also lowers the purity of the software thesis and adds manufacturing execution risk. The bull assumes good utilisation and adjacent sustainment or component opportunities. The bear assumes schedule volatility and limited follow-on economics.

[Bear] Customer concentration and sovereign bargaining power

The cleared package does not disclose customer concentration percentages. The programme list implies meaningful exposure to German procurement. A concentrated sovereign customer can provide stable demand but retain negotiating power, impose local content and shift delivery timing. No concentration discount can be quantified, so the scenario weights carry the risk qualitatively.

[Bear/Base] Talent and cyber assurance

Secure-software engineers, systems architects and integration personnel are scarce. Growth can require headcount nearly in proportion to revenue if reuse is weak. Cyber assurance also creates continuous cost because tactical networks are high-priority targets. The moat benefits from trusted talent and clearances, but the margin case fails if wage and compliance costs absorb the software mix gains.

Segment forecast summary

Case	Segment TTM+5y Revenue	Exact profit metric	Segment TTM+5y Profit Margin	Segment TTM+5y Profit	Probability
Bear	**EUR2,357.4m**	**EBIT**	**8.5%**	**EUR200.4m**	**35%**
Base	**EUR3,505.4m**	**EBIT**	**12.2%**	**EUR427.7m**	**50%**
Bull	**EUR4,165.9m**	**EBIT**	**15.0%**	**EUR624.9m**	**15%**

The probability-weighted terminal operating outcome is EUR3,202.7m of revenue and EUR377.7m of EBIT, calculated as 35% bear plus 50% base plus 15% bull. Those weighted values are analytical diagnostics rather than a fourth scenario. The central underwriting conclusion is that Digital Systems can compound at a low-teens rate with moderate margin improvement, yet the evidence does not support software-style economics today. Management's new EUR8bn–EUR10bn 2030 sales target and 17%–19% operating-result margin are materially above even the bull case, but are neither an organic signed-order plan nor a statutory EBIT forecast. The most important monitoring question is whether blackned and the broader C4ISR stack turn programme wins into reusable architecture and lifecycle revenue faster than hardware, integration labour, capex and working capital grow, with acquired perimeter and operating-to-EBIT adjustments explicitly disclosed.

Appendix B4 — Air Defence

Rheinmetall Air Defence — Segment Deep Dive

Company: Rheinmetall AG **Ticker:** RHM.DE **Information cut-off:** 2026-09-22 **TTM anchor:** 2026-06-30 **Forecast horizon:** 2031-06-30, exactly five calendar years after the TTM anchor **Reporting currency:** EUR millions unless stated otherwise **Exact segment profit basis: EBIT Research only:** `trade_execution_authorized=false`

0. Segment boundary and taxonomy note

Air Defence became a separately reported segment on 1 January 2026, when Rheinmetall split the former Electronic Solutions segment into Air Defence and Digital Systems. The current Air Defence perimeter comprises ground-based air defence and complex counter-drone systems, principally the Skynex and Skyranger families and the related command-and-control, sensors, effectors and integration work. The 2025 Annual Report provides **pro forma**, rather than audited predecessor-segment, FY2025 comparators for the successor structure: Air Defence EUR769 million and Digital Systems EUR1,766 million. Their EUR2,535 million combined gross segment sales exceed the audited EUR2,504 million Electronic Solutions predecessor line by EUR31 million because transactions previously internal to one segment became intersegment sales after the split; pro forma Others/Consolidation is correspondingly EUR31 million more negative, leaving Group revenue unchanged. This appendix therefore uses the official pro forma successor comparators for the current-taxonomy revenue TTM while preserving the audited Electronic Solutions series only as predecessor context. The exact sealed profit metric is EBIT; non-statutory operating result and operating margin are not substituted for it. The [September 2026 issuer deck, p.66](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf) adds an explicit 2030 Air Defence target; it is a management ambition, not a change to the taxonomy or historical statements. [Data package §1, §3, §3a and §6]

1. What this segment actually is

Air Defence sells systems that detect, classify, track and defeat airborne threats close to protected troops or assets. The threat set has widened from aircraft and helicopters to cruise missiles, rockets, loitering munitions, small drones and coordinated swarms. This makes the segment more than a gun-turret manufacturer. A complete system can include surveillance and tracking radars, electro-optical sensors, a command-and-control node, network interfaces, a gun or missile effector, programmable ammunition, vehicle integration, training, simulators, spares and through-life support.

The two visible product families solve different missions. **Skyranger** is a mobile, turret-based very-short-range or short-range air-defence system that can be mounted on wheeled or tracked armoured vehicles. The Skyranger 30 combines a 30 mm cannon, programmable airburst ammunition, radar/electro-optical sensing and optional short-range missiles. Skyranger 35 uses the larger 35 mm gun family. The platform-agnostic concept matters commercially: Germany selected a Boxer-based system, Austria uses Pandur EVO, Romania selected Lynx KF41 and the Netherlands ordered a configuration with mobile and dismounted use. A common turret and fire-control architecture can therefore be sold into several national vehicle fleets without forcing every buyer onto one chassis.

Skynex/Skyguard is the stationary or semi-mobile networked family. Skynex separates air-picture generation and command from the effectors. Its Skymaster battle-management node can connect radars, electro-optical devices, 35 mm Revolver Gun systems, legacy Skyguard/Skyshield assets, electronic-warfare tools and, where qualified, missiles or future directed-energy effectors. Rheinmetall describes an open architecture able to integrate third-party sensors and effectors. That lowers the barrier for a customer to add Rheinmetall firepower to an existing national network, but it also means the customer can demand multi-vendor interoperability rather than accept a closed stack. [Rheinmetall Skynex product page](https://www.rheinmetall.com/en/products/air-defence-systems/networked-air-defence-skynex)

Rheinmetall also participates in layered-air-defence integration. In Germany’s NNbS consortium, Rheinmetall supplies vehicle, communications and systems-integration capability, Diehl Defence provides guided-missile expertise and Hensoldt contributes radar capability. The January 2024 development contract was approximately EUR1.2 billion including VAT, with disclosed workshares of EUR607 million for Rheinmetall, EUR339 million for Diehl and EUR284 million for Hensoldt. That split is evidence for this one development contract, not a reusable percentage for later series awards. The program is intended to network IRIS-T SLM medium-range fire units with Skyranger 30. This is the economically important way to frame “IRIS-T-related systems” for Rheinmetall: Diehl is the IRIS-T prime and owns the missile economics, while Rheinmetall can earn systems-integration, networking, mobile-short-range and command-and-control content around the layered architecture.

Assigning the full value of an IRIS-T battery—or the full NNbS contract—to Rheinmetall Air Defence would be wrong because some Rheinmetall work can also sit in Vehicle Systems and the consortium partners retain their disclosed workshares. [Rheinmetall NNbS development contract, 25-Jan-2024](https://www.rheinmetall.com/en/media/news-watch/news/2024/01/2024-01-25-starting-gun-for-air-defence-system-nnbs) [Diehl IRIS-T SLM](https://new.diehl.com/defence/en/render-tab-content/2526)

The customers are overwhelmingly sovereign defence ministries, procurement agencies and allied armed forces. Sales are lumpy because contracts are negotiated country by country, parliamentary budgets and export approvals precede award, and delivery milestones depend on qualification, vehicle availability, local-content arrangements and customer acceptance. The route to market is therefore programmatic rather than transactional. Rheinmetall can contract directly as system prime, provide a turret or subsystem to a vehicle prime, lead an industrial consortium, or integrate partner radars and missiles. Pricing is usually embedded in multi-year system contracts rather than a published unit catalogue. The company does not disclose a clean average selling price, product gross margin, service share or recurring-revenue percentage for Air Defence. [DATA GAP: Air Defence unit volumes, ASPs, product mix and service revenue are not separately disclosed in the verified data package.]

The economic package has three layers. First is the initial hardware and integration sale. Second is replenishment of programmable cannon ammunition and missiles, although not every missile is Rheinmetall content. Third is installed-base support: spares, maintenance, upgrades, training, software/network integration and future sensor or effector additions. A system whose command layer remains relevant can pull through upgrades even after the initial turret delivery. This is potentially higher-quality revenue than a one-time platform sale, but Rheinmetall has not disclosed Air Defence aftermarket revenue or margin; the underwriting therefore does not capitalize a speculative recurring stream.

2. Current economics

The clean current-taxonomy observation is H1 2026. Air Defence generated **EUR478 million of revenue**, up **62.1%** from EUR295 million in H1 2025, and **EUR76 million of EBIT**, up from EUR36 million. The exact EBIT margin was **15.9%** versus 12.2% a year earlier. Segment backlog was **EUR4,218 million**, up 80% from EUR2,349 million, and H1 nomination was EUR1,534 million, up 517%. Management attributed the revenue advance principally to progress on European Skynex and Skyranger projects. [Data package §3 Current segment H1 bridge; §4 Current trend; §6 Air Defence row]

The backlog is material relative to current throughput. Against annualised H1 revenue of EUR956 million, the EUR4,218 million backlog is about **4.4 times** annualised sales. The [H1 2026 report, Air Defence key figures, p.17](https://ir.rheinmetall.com/media/document/1bbcaadf-0e67-45bc-80df-bba822823824/assets/DE0007030009-Q2-2026-EQ-E-00.pdf) identifies the **entire EUR4,218 million as order backlog** and shows no frame backlog; therefore, the Group-wide frame-backlog share must not be imposed on Air Defence. That improves contractual firmness relative to a framework-heavy backlog, but the ratio remains only a visibility indicator because the segment does not disclose maturity, cancellation or termination rights, price-escalation clauses, customer-acceptance gates or the amount deliverable by June 2031. The forecast therefore does not mechanically divide backlog by five or treat every euro as guaranteed revenue. [Data package §3, Current segment H1 bridge and order-backlog classification]

Capital intensity is currently moderate on disclosed direct capex but severe in working capital. Air Defence H1 capex was **EUR24 million**, about 5.0% of segment sales, as Rheinmetall invested in Zurich capacity. Yet H1 operating free cash flow was **negative EUR408 million**, far worse than EBIT, reflecting the wider inventory and advance-payment timing described by management. This is the central unit-economics warning: accounting profit can rise while cash is consumed to build work-in-progress, buy long-lead electronics, fund vehicles and turrets, and wait for delivery or acceptance milestones. [Data package §3 Current segment H1 bridge; §6 Cash conversion; §7]

The repaired current-taxonomy TTM revenue bridge is direct and no longer requires the H1-share midpoint allocation:

Current-taxonomy TTM revenue bridge	Air Defence	Digital Systems	Combined successors
FY2025 pro forma comparator	769	1,766	2,535
Less restated H1 2025	(295)	(664)	(959)
Add H1 2026	478	820	1,298
TTM ended 2026-06-30	**952**	**1,922**	**2,874**

The EUR2,874 million current-taxonomy successor total is EUR31 million above the EUR2,843 million mixed-taxonomy calculation built from audited Electronic Solutions FY2025. The difference is exactly the full-year reorganisation/intersegment presentation change described above and is offset by EUR31 million more-negative consolidation. It does not change Group TTM revenue. The **EUR952 million Air Defence TTM revenue proxy is therefore the controlling current-taxonomy forecast base**; it is derived from official pro forma and restated comparators, not invented product or H2 weights.

The sealed TTM EBIT bridge remains EUR426 million for Electronic Solutions / Air Defence plus Digital Systems because no pro forma full-year successor EBIT split is sealed. The reviewed midpoint diagnostic allocates EUR209.3 million to Digital and leaves **EUR216.7 million** to Air Defence, producing zero EBIT residual. Revenue and EBIT controls must be read on their distinct disclosed bases: EUR952 million plus EUR1,922 million equals the pro forma current-taxonomy revenue total of EUR2,874 million; EUR216.7 million plus EUR209.3 million equals the sealed combined EBIT total of EUR426.0 million.

Exact Air plus Digital control	Air Defence	Digital Systems	Combined	Residual
Current-taxonomy TTM revenue	**952.0**	**1,922.0**	**2,874.0**	**0.0**
Diagnostic TTM EBIT allocation	**216.7**	**209.3**	**426.0**	**0.0**

No equivalent issuer-reported standalone Air Defence TTM EBIT is asserted. EUR216.7 million is solely the zero-residual complement to the reviewed Digital EUR209.3 million diagnostic proxy; its implied 22.8% margin on the repaired EUR952 million revenue base is not a reported Air Defence TTM margin. The forward margin anchor remains the separately disclosed H1 2026 Air Defence EBIT margin of 15.9%, so all three scenarios reset from the uncertain residual-allocation margin toward observed current-taxonomy execution. [Data package §1, §3 and §3a]

Current economics snapshot

Metric	Disclosed value	Interpretation
H1 2026 revenue	EUR478m	Current taxonomy; +62.1% YoY
H1 2026 EBIT	EUR76m	Exact sealed profit basis
H1 2026 EBIT margin	15.9%	EUR76m / EUR478m
H1 2026 order backlog	EUR4,218m	About 4.4x annualised H1 sales; frame backlog shown as dash; maturity and cancellation terms not disclosed
H1 2026 capex	EUR24m	About 5.0% of sales; Zurich capacity work
H1 2026 OFCF	EUR(408)m	Working-capital and advance-payment timing dominate near-term cash
Current-taxonomy TTM revenue proxy	EUR952.0m	FY2025 pro forma less H1 2025 plus H1 2026; exact current-taxonomy arithmetic
Forecast-only TTM EBIT diagnostic	EUR216.7m	Zero-residual complement to reviewed Digital EUR209.3m; not reported history
Diagnostic TTM EBIT margin	22.8%	Allocation residual only; not the forecast margin anchor
Forecast margin anchor	15.9% EBIT	Disclosed H1 margin controls the forward cadence

3. Unit economics

Air Defence monetizes integration complexity. The customer is not buying just a barrel. It is buying a certified kill chain: sensor detects and classifies the target, command software prioritizes it, the network assigns an effector, the gun or missile engages, and the system records and assesses the result. Value accrues to whichever supplier controls the architecture, qualification and interface work. Rheinmetall’s advantage is that it can supply several links itself—turret, cannon, programmable Ahead ammunition, Skymaster command layer, selected sensors and vehicle integration—while also admitting partner equipment.

Revenue conversion begins with design and non-recurring engineering, followed by prototypes, qualification and series production. First-of-type programs can have low or volatile profitability because engineering hours, supplier redesign, certification and customer change requests arrive before repeat manufacturing becomes efficient. Once a turret configuration is qualified and production moves into repeat batches, labour learning, supplier scale and common components should improve contribution margin. This explains why current growth can carry operating leverage without requiring aggressive price increases. It also explains why margin can reverse if national variants proliferate.

The hardware bill contains precision mechanics, cannon assemblies, radar and optical sensors, electronics, software, armour, vehicle interfaces and sometimes launchers. Some content is produced internally; other high-value components come from partners. The NNbS structure makes the division of economics explicit: Diehl owns IRIS-T guided-missile expertise and Hensoldt radar expertise, while Rheinmetall contributes integration, communications and mobile-platform capability. A larger layered-air-defence procurement may therefore grow Rheinmetall revenue less than the headline program value. Conversely, Rheinmetall can earn integration content even when a third-party radar or missile is selected.

The gun-and-ammunition combination is economically attractive where customers need to defeat low-cost drones without expending much more expensive missiles. Rheinmetall's 30 mm and 35 mm programmable ammunition is designed to create a lethal cloud of projectiles near the target. If usage drives replenishment, installed systems could support repeat ammunition sales in Weapon and Ammunition as well as service activity in Air Defence. The segment accounts must not double count that value: this appendix forecasts Air Defence as reported and does not add a speculative ammunition annuity. The strategic point is that a customer choosing Rheinmetall's architecture can deepen Group-level content over time.

Margin rises when four conditions coincide: high factory utilisation; repeat configurations rather than bespoke variants; favourable milestone mix with deliveries rather than early engineering; and disciplined price escalation or customer reimbursement for scope changes. Margin falls when local-content requirements fragment production, vehicle partners deliver late, sensors or electronics are unavailable, qualification fails, fixed-price terms absorb inflation, or warranties and retrofits consume engineering capacity. The Dutch contract explicitly includes local value added, while Romania's wider package requires Romanian capacity and local content. These conditions can enlarge the addressable market but reduce the share of value retained at Zurich and add execution interfaces.

The disclosed H1 trend is promising but not a full cycle. EBIT margin improved 370 basis points to 15.9% as volume and operational optimization lifted profit. A five-year base margin of 18.0% assumes further repeat-production leverage, but not the extreme profitability of a software business. Air defence remains a physical systems activity with inventory, acceptance risk, warranty exposure and meaningful manufacturing content. The bull case reaches 21.0% only if standardisation and volume dominate localization and ramp costs. The bear case falls to 13.5% if plants and supplier capacity are built ahead of delayed procurement.

Cash conversion deserves separate treatment from EBIT. H1 Air Defence OFCF of negative EUR408 million against EUR76 million of EBIT indicates that inventories, receivables, advance payments and contract milestones overwhelm the income statement in a rapid ramp. The backlog can therefore be both an asset and a funding burden. A procurement customer that pays deposits transfers financing to Rheinmetall; delayed down payments force Rheinmetall to finance work-in-progress. The base forecast assumes cash conversion normalises after the build phase, but this appendix does not treat EBIT as immediately distributable cash.

4. Competitive dynamics

The competitive set differs by range and engagement method. Rheinmetall is strongest in cannon-based close-range and very-short-range defence plus the network and integration layer around those systems. It competes with missile-centric solutions when a customer has a limited budget and chooses one architecture, but it can also complement them in a layered design.

Diehl Defence is both partner and competitor. Its IRIS-T SLM is a medium-range system built around radar, command post and missile launchers, with a disclosed 40 km effective range and 20 km altitude coverage on the official product page. Diehl is the prime contractor and missile owner. Under NNbS, Rheinmetall, Diehl and Hensoldt cooperate so that IRIS-T SLM and Skyranger can sit in one network. The investment implication is not "winner takes all." A sovereign buyer can select Diehl at medium range and Rheinmetall at short range, with shared integration value. The risk is that Diehl's own IRIS-T SLS MK4 expands downward into highly mobile short-range defence; it integrates radar, C2, launcher and effectors on one vehicle, directly contesting some missions Rheinmetall targets. [Diehl IRIS-T SLM](https://new.diehl.com/defence/en/render-tab-content/2526) [Diehl IRIS-T SLS MK4](https://new.diehl.com/defence/en/press-media/news/diehl-defence-presents-all-in-one-solution-for-air-defence-iris-t-sls-mk4)

Hensoldt is primarily a critical sensor partner rather than a full close-range effector competitor. Rheinmetall demonstrated integration of Hensoldt Twinvis passive radar into Skymaster under NATO Link 16 conditions in August 2026. This supports the open-architecture claim and increases the system's usefulness in emission-controlled environments. It also proves that some sensor value accrues to Hensoldt, not Rheinmetall. A durable architecture moat can coexist with shared hardware economics. [Rheinmetall/Hensoldt sensor integration](https://www.rheinmetall.com/en/media/news-watch/news/2026/08/2026-08-19-rheinmetall-and-hensoldt-demonstrate-the-successful-integration-of-passive-sensor-technology)

Saab MSHORAD combines Giraffe 1X radar, C2 and RBS 70 NG missile firing units. It is platform-flexible and explicitly targets mobile protection of manoeuvre forces. Saab won a SEK1.8 billion Czech order with deliveries in 2028-2030 and has orders from Lithuania. Saab's laser-guided missile architecture differs from Rheinmetall's gun-plus-optional-missile proposition, but both compete for scarce short-range air-defence budgets and integration positions on national vehicles. [Saab MSHORAD](https://www.saab.com/products/mshorad) [Saab Czech order](https://www.saab.com/globalassets/cision/documents/2025/20250723-saab-receives-order-for-mobile-air-defence-from-the-czech-republic-en-0-5181245.pdf)

KNDS/Thales RAPIDFire Land is a direct cannon-based challenge. Its 40 mm turret, optronic fire control and airburst ammunition target drones, loitering munitions, helicopters and cruise missiles at up to 4,000 metres. The naval system has already achieved French orders, and the partners are extending it to land. Rheinmetall has the stronger visible multinational land-order set today, but RAPIDFire can benefit from French industrial policy and an installed 40 CTAS ecosystem. [KNDS RAPIDFire Land](https://knds.com/en/products/systems/rapid-fire-land)

Kongsberg/Raytheon NASAMS competes mainly in short-to-medium range. NASAMS has a broad installed base, open missile options and a network-centric architecture. Denmark's EUR500 million 2025 award illustrates that European procurement does not automatically favour a German supplier or a cannon solution. NASAMS is less direct for cheap-drone close-in engagement, but it competes for the command layer and for national air-defence budgets. [Kongsberg NASAMS](https://www.kongsberg.com/what-we-do/defence-and-security/integrated-air-and-missile-defence/nasams-air-defence-system/) [Denmark NASAMS award](https://www.kongsberg.com/news/news-archive/2025/denmark-acquires-nasams-air-defence-from-kongsberg/)

Rheinmetall's pricing power comes from scarcity, urgency, qualification and the cost of switching an integrated weapon architecture—not from monopoly. Countries also demand sovereign production, source diversification and interoperability. Open architecture is therefore double-edged. It expands the pool of compatible sensors and effectors and reduces customer fear of lock-in, helping Rheinmetall win the integration layer. But it also lets customers substitute partner components, pressure price and allocate local work. Over five years, pricing durability should be strongest in qualified cannon/turret/Ahead combinations and weakest in commoditisable integration labour or third-party pass-through hardware.

No reliable public numeric market-share table is available in the verified package, and this appendix does not infer one from selected contracts. [DATA GAP: No audited or comprehensive Air Defence market-share series is available.]

5. Moat at the segment level

The segment has a real but bounded moat. It is strongest in **know-how and certification around cannon-based short-range air defence**, reinforced by the Oerlikon heritage, programmable ammunition, fire-control algorithms and a growing installed base. A competitor can design a gun turret; reproducing target-detection logic, fuze programming, engagement envelopes, safety certification, vehicle integration and field support is harder. Qualification cycles are long, and sovereign customers are reluctant to change a weapon architecture after training, spares and ammunition have been established.

The second moat is **system breadth**. Rheinmetall can connect sensors, command software, guns, missiles, vehicles and ammunition, and can supply much of the stack inside one group. The Skynex architecture can also ingest third-party sensors and legacy fire units. This creates option value: a customer can start with a command node and selected effectors, then add new radars, passive sensors or weapons. The August 2026 Hensoldt Twinvis integration demonstrates this is more than a slide-deck promise.

The third moat is **platform independence plus vehicle access**. Skyranger has been selected on Boxer, Pandur and Lynx-related configurations. Rheinmetall can pair Air Defence with its own Vehicle Systems in some bids and with third-party platforms in others. That makes it difficult for a single vehicle competitor to exclude it. The moat is not absolute because Saab, Diehl and KNDS also advertise modularity and vehicle independence.

The fourth moat is **scarce qualified capacity during a procurement surge**. Rheinmetall said it intends to expand annual Skyranger turret capacity from roughly 70-100 units to as many as 400. If achieved, this would improve delivery credibility and unit cost at a time when buyers need rapid rearmament. Capacity is a moat only while it is scarce and efficiently utilized. If procurement pauses after plants are built, fixed costs turn the moat into operating leverage in reverse. [Rheinmetall Eurosatory 2026](https://www.rheinmetall.com/en/media/news-watch/news/2026/06/2026-06-15-rheinmetall-at-eurosatory-to-showcase-its-cutting-edge-skyranger-air-defence-system)

The durability test is whether Rheinmetall remains the preferred close-in layer in a mixed, networked air-defence system through 2031 and beyond. The evidence is positive: Germany, Austria, the Netherlands and Romania have selected

Skyranger variants; Skynex has repeat European orders; and H1 backlog rose 80%. But 10-year durability is not assured. Low-cost drones evolve rapidly, electronic warfare and directed-energy weapons may absorb part of the mission, missile competitors are moving down-range, and national champions can win on local-content policy. The moat supports an above-average EBIT margin, not a permanent 25%-plus software-like margin.

6. Historical growth rates — reproduced from the verified data package

The current segment has two comparable H1 observations and one official FY2025 pro forma sales comparator, but no standalone multi-year series. The predecessor series is shown separately and is not relabelled as Air Defence. “Three-year CAGR” for the predecessor uses FY2022 restated to FY2025, because that is the complete three-year compounding interval in the data package.

Product / sub-segment	FY-3 revenue	FY-2 revenue	FY-1 revenue	3-year CAGR	Most recent YoY	Data package cite
Air Defence current taxonomy	Not disclosed	Not disclosed	FY2025 pro forma EUR769m	Not calculable	H1 2026 +62.1%	Data package §1, §3, §4 and §10
Electronic Solutions predecessor, broader scope	FY2023 EUR1,318m [§3, predecessor table]	FY2024 EUR1,726m [§3, predecessor table]	FY2025 EUR2,504m [§3, predecessor table]	29.1% from FY2022 EUR1,164m [§3, predecessor table]	FY2025 +45.1% [§3, predecessor table]	Data package §3, Electronic Solutions predecessor table

The predecessor arithmetic checks pass: EUR1,318 million × 1.310 = EUR1,727 million versus reported EUR1,726 million, and EUR1,726 million × 1.451 = EUR2,504 million, both within rounding. The three-year calculation is EUR1,164 million × $(1 + 29.1\%)^3 \approx$ EUR2,504 million. No product dollars are back-solved.

The only current-taxonomy comparison is:

Current taxonomy period	Air Defence revenue	EBIT	EBIT margin	YoY revenue growth	Data package cite
H1 2025 restated	EUR295m [§3, H1 bridge]	EUR36m [§3, H1 bridge]	12.2% [§3, H1 bridge; calculated]	n/a [§3]	Data package §3 Current segment H1 bridge
H1 2026	EUR478m [§3, H1 bridge]	EUR76m [§3, H1 bridge]	15.9% [§3, H1 bridge; calculated]	62.1% [§4, Air Defence row]	Data package §3 and §4

Row tie-out: EUR295 million × 1.621 = EUR478 million, within rounding. EBIT-margin tie-outs are EUR36 million / EUR295 million = 12.2% and EUR76 million / EUR478 million = 15.9%.

[DATA GAP: Rheinmetall does not disclose a complete Skyranger, Skynex, sensor, effector, ammunition, service or unit-revenue history. Product contract values are not historical revenue and are not used as such.]

7. Management guidance and commentary from the data package

- **Air Defence execution — Data package §6, Air Defence row.** The verified call-summary paraphrase says that Skynex/Skyranger drove the fastest growth and leverage. It supports a near-term growth and margin-ramp assumption, but it is not a verbatim management quotation.

- **Air Defence FY2026 guidance — Data package §6; H1 2026 report p.22.** Rheinmetall guides Air Defence to **EUR0.9-1.0 billion of FY2026 sales** and an **operating-result margin around 19%**. The sales guide is segment-specific and is relevant to the near-term cadence. The margin guide is for Rheinmetall's adjusted operating result, not the exact sealed EBIT basis, so it is context rather than an EBIT substitution.

- **Group demand — Data package §6, Group demand row; H1 release, 6 August 2026.** CEO Armin Papperger: **“Demand remains strong”**; management reported Group book-to-bill above 3. This supports procurement visibility but cannot be mapped one-for-one into Air Defence revenue because Group demand includes all segments and frame nominations.

- **Group FY2026 guidance — Data package §6, Group guidance row.** Management guides to **EUR13.7-14.2 billion of Group sales and around 19% Group margin** after the F126 cancellation. The Group margin includes structurally higher-margin Weapon and Ammunition and should not be used as the Air Defence margin; the separate Air Defence guide above is controlling context.

- **Cash conversion — Data package §6, Cash conversion row.** Management said inventory was built ahead of growth while down payments shifted. This is consistent with Air Defence's negative EUR408 million H1 OFCF. It argues against valuing backlog as if it were already cash.

- **Capex — Data package §6, Capex and Capex revision rows.** In the 7 May 2026 Q1 call, CEO Papperger anticipated high capex before normalisation; the September deck subsequently cut the FY2026 Group capex indication to 8%-9% of sales while retaining more than EUR8 billion of five-year investment. Air Defence disclosed EUR24 million of H1 capex, including Zurich capacity. The forecast still assumes capacity is funded before utilisation catches up; the newer Group timing revision is not an Air Defence capex forecast.

- **Backlog quality — Data package §3; H1 2026 report p.17.** Air Defence reports EUR4,218 million of Rheinmetall Backlog and the same EUR4,218 million as Order Backlog; Frame Backlog is shown as a dash. The model therefore applies no Group-level frame haircut to this segment. It still discounts timing and realization through decelerating growth because maturity, cancellation terms and the June-2031 delivery schedule are not disclosed.

- **2030 Air Defence target — Data package §6, 2030 ambition row and target table; [September 2026 issuer deck, pp.65-66](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf).** Management now explicitly targets **about EUR3-4 billion Air Defence sales in calendar 2030** and **24%-26% operating-result margin**. The deck says segment targets include M&A but exclude US order wins. This supersedes the previous statement that the 2030 ambition lacked an Air Defence-specific target. It is a challenging external test, not an order book, adopted forecast or statutory EBIT guide. The same deck sets an about EUR50 billion **Group ambition including M&A**, operating-result margin above 20% and three-year rolling cash conversion above 50%; these Group goals cannot be allocated to Air Defence by simple proportion.

- **Investment and cash gate — Data package §6, Capex revision and 2030 ambition rows; [September issuer deck, pp.60-61](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf).** Management cut indicated 2026 Group capex from the earlier 16%-of-sales CMD indication to 8%-9%, while still citing more than EUR8 billion of investment over five years, excluding capital contributions, and no change to 2030 sales guidance. This is Group prospective guidance, not Air Defence capex guidance or proof that Zurich and supplier capacity can be built with less cumulative funding. Deferred expenditure could tighten later installation schedules even if 2026 cash burn eases.

8. Forward growth assumptions

The financial forecast uses a single segment-total line because product starting revenue and mix are not disclosed. That is more rigorous than inventing a Skyranger/Skynex split. Product families are underwritten as qualitative drivers below the tables, while the segment rollup begins from the EUR952 million current-taxonomy TTM revenue proxy derived directly from the official FY2025 pro forma comparator and restated H1 figures.

Base case growth

Product	3-year historical CAGR	Latest YoY	Management FY+1 guide	Base CAGR TTM to TTM+5y	Justification
Air Defence total	Not disclosed; predecessor 29.1%	H1 2026 +62.1%	FY2026 sales EUR0.9-1.0bn; operating-result margin ~19%	21.1%	Backlog and contracted ramps sustain high growth, but the annual path decelerates from 35% to 11% as comparisons grow and procurement timing normalises.

Bull case growth

Product	3-year historical CAGR	Latest YoY	Management FY+1 guide	Bull CAGR TTM to TTM+5y	Justification
Air Defence total	Not disclosed; predecessor 29.1%	H1 2026 +62.1%	FY2026 sales EUR0.9-1.0bn; operating-result margin ~19%	28.5%	Installed turret capacity approaches the announced up-to-400 ceiling and is highly utilized; options convert; Romania and Netherlands execute on time; Rheinmetall captures more C2/integration content.

Bear case growth

Product	3-year historical CAGR	Latest YoY	Management FY+1 guide	Bear CAGR TTM to TTM+5y	Justification
Air Defence total	Not disclosed; predecessor 29.1%	H1 2026 +62.1%	FY2026 sales EUR0.9-1.0bn; operating-result margin ~19%	10.4%	Orders still convert, but local-content setup, vehicle/sensor bottlenecks, budget delays and competitive awards cut growth sharply after the first two years.

Year-by-year thesis-consistency bridge

Case	FY to Jun-2027	FY to Jun-2028	FY to Jun-2029	FY to Jun-2030	FY to Jun-2031	Five-year CAGR
Bear	22%	15%	8%	5%	3%	10.4%
Base	35%	27%	20%	14%	11%	21.1%
Bull	42%	35%	28%	22%	17%	28.5%

The base case does not carry 62.1% H1 growth forward. The initial H1 comparison was against a small base and reflected project progress; annualized production cannot compound at 62% for five years without exceeding even the company's proposed capacity ramp. The base path deliberately steps down each year. It remains above ordinary industrial growth because the segment enters the period with EUR4.2 billion of backlog, visible European delivery programs and structural counter-drone demand.

The FY2026 sales guide of EUR0.9-1.0 billion is an important cadence check. H1 sales of EUR478 million annualise to EUR956 million, near the middle of that range, so the guide does not support extrapolating the 62.1% H1 comparison through the full year. The Jun-2027 endpoints of EUR1.16 billion bear, EUR1.29 billion base and EUR1.35 billion bull are rolling twelve-month forecasts rather than FY2026 forecasts; nevertheless, each requires a material step-up from management's calendar-year guide. Base and bull therefore depend on program conversion and commissioned capacity beyond the current run-rate, not merely on carrying forward disclosed H1 performance.

The bull case is not simply "more defence spending." It requires physical and procurement proof: turret capacity moving far beyond today's 70-100 level, supplier and vehicle availability, on-time qualifications, option exercise, local-content execution and a continuing win rate. The bear case is not a demand collapse. Even it grows 10.4% because current orders and strategic rearmament should support deliveries; the damage comes from slippage, lower retained content and underutilized capacity.

September 2030 management-target test — target is not the forecast

The [issuer's September deck, p.66](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf) targets **about EUR3-4 billion of calendar-2030 Air Defence sales**, with M&A included and US order wins excluded. That is roughly three to four times management's **EUR0.9-1.0 billion FY2026 sales guide**; it demands both a much larger production base and continuing orders beyond the current backlog. The reviewed model instead ends at rolling TTM **30 June 2031** and assumes no separately quantified acquisition uplift. An exact calendar-2030 match cannot be computed without quarterly forecasts. As a diagnostic only, the midpoint of the rolling June-2030 and June-2031 annual sales would equal calendar 2030 under a smooth linear monthly run-rate. Lumpy acceptance milestones could make actual calendar sales materially different. [Data package §6, FY2026 Air Defence guidance and September target table]

Scenario	Rolling Jun-2030 sales, EURm	Rolling Jun-2031 sales, EURm	Illustrative CY2030 midpoint, EURm	Gap to EUR3bn target floor, EURm	Target interpretation
Bear	1,514.6	1,560.1	1,537.4	(1,462.6)	Far below target; delivery and mix slippage
Base	2,232.9	2,478.5	2,355.7	(644.3)	Below target floor without a faster ramp or M&A

Scenario	Rolling Jun-2030 sales, EURm	Rolling Jun-2031 sales, EURm	Illustrative CY2030 midpoint, EURm	Gap to EUR3bn target floor, EURm	Target interpretation
Bull	2,849.9	3,334.4	3,092.2	+92.2	Reaches low end only under aggressive execution

Thus the management target is **above the existing base case**; retaining the base scenario is a deliberate sceptical underwriting judgment, not an oversight. The low end requires roughly EUR644 million more illustrative calendar-2030 sales than the base case; the high end requires roughly EUR1,644 million more. Even the bull diagnostic only clears EUR3 billion narrowly and remains about EUR908 million below EUR4 billion. These are *sales* comparisons on an approximate calendar alignment. The target's M&A inclusion and unmodelled US-order exclusion mean the gap cannot be labelled pure organic forecast error. For the target to become forecastable, the evidence would need a signed and timed order-to-revenue bridge, qualified/commissioned turret capacity, disclosed partner content, and either an identified acquisition or enough organic nominations to close the gap. The current EUR4,218 million Air Defence order backlog is firm-order classification, not a five-year revenue schedule and not a warrant to insert the EUR3-4 billion target into the model.

Product-family driver underwriting

Driver family	Base case	Bull case	Bear case	What would verify or falsify it
Skyranger mobile systems	Germany, Austria, Netherlands and Romania ramp broadly on schedule	Options and additional NATO users convert; announced capacity is commissioned and highly utilized	Vehicle integration and local-content delays push deliveries right	Unit deliveries, option exercise, prototype qualification, customer acceptance
Skynex stationary/networked systems	Repeat European and international orders convert steadily	Drone-defence urgency produces multi-battery repeat orders	Competitors win site protection or budgets shift to missiles/EW	New battery orders, delivery cadence, installed-base follow-ons
Sensors and C2 integration	Skymaster remains an integration node in layered systems	Open architecture wins multi-vendor networks and passive-sensor upgrades	National C2 stacks retain economics; Rheinmetall becomes hardware-only	NNbS milestones, Link 16 integration, partner content disclosures
IRIS-T-related layered systems	Rheinmetall earns networking/mobile-short-range content around Diehl missile systems	Larger German/NATO layered packages increase integration scope	Diehl captures the prime layer and Rheinmetall content is narrower	Contract scope, workshare and segment nomination rather than headline program value
Ammunition, spares and support	Installed base produces a growing but undisclosed follow-on stream	High utilisation creates replenishment and upgrade pull-through	Low firing rates and national support reduce retained revenue	Service backlog, ammunition orders and disclosed lifecycle mix

Order-backlog conversion and framework discipline

The segment’s EUR4,218 million order backlog supports the early years but does not dictate the five-year total. The official Air Defence table classifies **all EUR4,218 million as order backlog and none as frame backlog**, so the model does **not** haircut the segment by the Group's frame share. Three other discounts remain. First, the backlog lacks a maturity table, so a June 2031 cutoff cannot be mapped exactly. Second, order backlog is stronger evidence than a framework but still does not disclose customer termination rights, acceptance gates or schedule remedies. Third, contract value may include local content or partner hardware that carries lower retained margin. The base case therefore allows high near-term growth but declines toward 11% by the terminal year. Bull assumes quicker order conversion plus additional option and new-order wins. Bear assumes material delivery slippage and slower replenishment rather than treating an undisclosed frame component as if it existed. The September EUR3-4 billion 2030 sales ambition requires both timely delivery of existing orders and replenishment at a higher absolute rate; order classification alone does not establish either cadence.

The revenue path also cannot be justified by today’s backlog alone. The five forecast-year revenue sums are approximately EUR7.01 billion in bear, EUR9.59 billion in base and EUR11.70 billion in bull, versus EUR4.22 billion of current backlog. Even before considering timing or pass-through content, the base and bull cases require continued replenishment through new firm orders and converted frameworks. A high backlog-to-run-rate ratio is therefore evidence of near-term visibility, not a complete five-year revenue proof.

Capacity ramp

Rheinmetall’s 15 June 2026 release says annual Skyranger **production capacity** will be expanded gradually from about 70-100 turrets to **up to 400 units per year**. “Up to” describes a future ceiling, not current output, booked deliveries, customer acceptances or 2031 throughput. The data package does not provide an Air Defence unit schedule, ASP, product mix or commissioning timetable, so translating that ceiling into 200-350 “turret-equivalent” deliveries would create false precision.

The forecast therefore does not multiply 400 by an invented ASP and does not state a unit-throughput forecast. Base assumes material commissioned capacity and rising utilization; bull requires the ceiling to be largely installed and well utilized; bear assumes supplier, vehicle, qualification or demand timing leaves substantial capacity unused. Segment revenue also includes Skynex, command-and-control, integration and support, so even verified turret output would not by itself reconcile to total revenue. [Rheinmetall Eurosatory release, 15-Jun-2026](https://www.rheinmetall.com/en/media/news-watch/news/2026/06/2026-06-15-rheinmetall-at-eurosatory-to-showcase-its-cutting-edge-skyranger-air-defence-system)

9. Forward EBIT margin assumptions

The exact metric is **EBIT** in every case. The starting observable is H1 2026 EBIT margin of 15.9%. Product-level margins are not disclosed, so a product-weighted margin would be fabricated; the model uses a segment-level margin cadence tied to explicit mechanisms.

Case	H1 2026 EBIT margin anchor	Jun-2027	Jun-2028	Jun-2029	Jun-2030	Jun-2031 EBIT margin	Change vs anchor
Bear	15.9%	15.0%	14.5%	14.0%	13.5%	13.5%	(240) bps
Base	15.9%	16.5%	17.0%	17.5%	18.0%	18.0%	+210 bps
Bull	15.9%	17.0%	18.0%	19.0%	20.0%	21.0%	+510 bps

Base mechanism. The 210-basis-point expansion comes from repeat Skyranger/Skynex production, procurement scale, factory utilization and a greater installed-base support contribution. It is partly offset by local-content duplication, supplier pass-through hardware and continued engineering for national variants. An 18.0% terminal EBIT margin is above the current 15.9% but remains consistent with a complex physical systems business rather than a software model.

Bull mechanism. The 21.0% terminal margin needs dense volume through a standardized production system, favourable delivery milestones, higher retained content in command-and-control and lifecycle support, and price escalation that protects inputs. The margin does not assume ownership of Diehl’s missile economics. Failure to disclose product margin makes 21.0% deliberately a high hurdle rather than the default.

Bear mechanism. The 13.5% margin assumes capacity is built ahead of orders, national customization prevents learning-curve benefits, local partners take more value, input cost and warranty claims are absorbed, and fixed-price or schedule penalties constrain pricing. This is still profitable because existing technology and backlog sustain utilisation, but it demonstrates that revenue growth alone does not guarantee margin expansion.

Metric discipline for the September target. Management's [2030 Air Defence 24%-26% target, deck p.66](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf) is an **operating-result margin**, whereas the sealed segment-profit bridge and every forecast table here use **EBIT**. Operating result is Rheinmetall's adjusted performance measure; acquisition purchase-price-allocation charges, special items and other adjustments can make it differ from statutory EBIT. On management's *own adjusted basis*, the target is 5-7 percentage points above the **around 19% FY2026 operating-result-margin guide** and 6.6-8.6 points above the **17.4% FY2025 pro forma comparator**; that is substantial operating leverage still to prove. Multiplying the issuer's EUR3-4 billion sales target by its margin range produces **EUR720-1,040 million of target operating result**, not forecast EBIT. Neither the data package nor the deck provides a 2030 Air Defence adjustment schedule that would translate that target into EBIT. The model's June-2030 base EBIT margin is 18.0% and its June-2031 base EBIT margin is also 18.0%; the bull values are 20.0% and 21.0%. The apparent 3-8 percentage-point spread to the 24%-26% target is **not an apples-to-apples EBIT shortfall**. It is a demand for two separate proofs: more/high-margin volume and a transparent adjusted-to-statutory profit bridge. No assumed add-back is inserted to force alignment. [Data package §6, FY2026 Air Defence guidance and September target table]

Pricing durability should be tested on contract economics, not list prices. A shortage of qualified air-defence capacity gives Rheinmetall negotiating leverage, but sovereign buyers can demand offsets, domestic workshare and open interfaces. Long contracts also create risk if escalation formulas lag electronics, labour or vehicle costs. The model therefore attributes most base margin gain to productivity and mix rather than pure price.

Working-capital sensitivity, not a second EBIT margin. The H1 2026 segment reported EUR76 million EBIT but EUR(408) million OFCF, a EUR484 million period gap; the gap is not itself a measured change in net working capital because OFCF also reflects other cash-flow items and capex. It nevertheless shows that a margin target does not certify self-funded growth. Against the base rolling June-2030 sales of EUR2,232.9 million, an illustrative **additional** 10% of annual sales trapped in inventory/receivables net of customer advances would absorb about **EUR223 million** of cash; 20% would absorb about

EUR447 million. This is a one-time cash-timing stress, not a prediction of year-end net working capital, a haircut to EBIT, or an extra revenue deduction. Later customer payments could reverse it, but they are not guaranteed within the five-year horizon. At the 2030 target scale, the same 10% stress would absorb EUR300-400 million, before any further capex. The [September deck pp.60-61](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf) lowers the 2026 **Group** capex indication to 8%-9% of sales while retaining more than EUR8 billion of five-year investment; this could smooth 2026 spending but does not erase Air Defence working-capital or capacity-commissioning risk. [Data package §3, Air Defence H1 EBIT/OFCF; §6, cash conversion and capex revision]

10. Segment rollup — current-taxonomy TTM proxy with exact successor controls

Because product revenue shares are not disclosed, the most reconstructable rollup is a single modeled Air Defence line. Revenue compounds from the EUR952.0 million current-taxonomy TTM proxy derived from the official pro forma FY2025 comparator; EBIT equals each year's revenue times the case margin. The EUR216.7 million TTM EBIT diagnostic is a separate zero-residual allocation and does not set the forecast margin path. Totals tie apart from display rounding, while Section 2 preserves the exact Air-plus-Digital revenue and EBIT controls.

Bear rollup

Bear case	TTM proxy Jun-2026	Jun-2027	Jun-2028	Jun-2029	Jun-2030	TTM+5y Jun-2031
Revenue	952.0	1,161.4	1,335.7	1,442.5	1,514.6	1,560.1
Growth	n/a	22.0%	15.0%	8.0%	5.0%	3.0%
EBIT margin	22.8% diagnostic / 15.9% forecast anchor	15.0%	14.5%	14.0%	13.5%	13.5%
EBIT	216.7 diagnostic	174.2	193.7	202.0	204.5	210.6

Base rollup

Base case	TTM proxy Jun-2026	Jun-2027	Jun-2028	Jun-2029	Jun-2030	TTM+5y Jun-2031
Revenue	952.0	1,285.2	1,632.2	1,958.6	2,232.9	2,478.5
Growth	n/a	35.0%	27.0%	20.0%	14.0%	11.0%
EBIT margin	22.8% diagnostic / 15.9% forecast anchor	16.5%	17.0%	17.5%	18.0%	18.0%
EBIT	216.7 diagnostic	212.1	277.5	342.8	401.9	446.1

Bull rollup

Bull case	TTM proxy Jun-2026	Jun-2027	Jun-2028	Jun-2029	Jun-2030	TTM+5y Jun-2031
Revenue	952.0	1,351.8	1,825.0	2,336.0	2,849.9	3,334.4
Growth	n/a	42.0%	35.0%	28.0%	22.0%	17.0%
EBIT margin	22.8% diagnostic / 15.9% forecast anchor	17.0%	18.0%	19.0%	20.0%	21.0%
EBIT	216.7 diagnostic	229.8	328.5	443.8	570.0	700.2

Upstream repair impact

Case	Superseded midpoint-allocation revenue	Repaired current-taxonomy revenue	Revenue correction	Repaired EBIT
Bear	1,638.9	1,560.1	(78.8)	210.6
Base	2,603.7	2,478.5	(125.2)	446.1
Bull	3,502.9	3,334.4	(168.5)	700.2

The upstream repair replaces the H1-share midpoint revenue allocation with the official pro forma current-taxonomy TTM calculation. Growth rates, terminal margins and probabilities are unchanged; only the revenue base and all dependent revenue and EBIT values move. The paired TTM EBIT diagnostic remains EUR216.7 million solely to preserve the zero-residual EUR426 million combined EBIT control.

Probability-weighted view

Case	Probability	TTM+5y revenue	TTM+5y EBIT margin	TTM+5y EBIT
Bear	25%	1,560.1	13.5%	210.6
Base	55%	2,478.5	18.0%	446.1
Bull	20%	3,334.4	21.0%	700.2
Probability-weighted	100%	2,420.1	18.1% implied	438.1

Weights are intentionally nonuniform. Base receives 55% because backlog, current awards and capacity investment support continued expansion. Bear receives a higher 25% than bull's 20% because contract timing, localization, supplier constraints and cash absorption are more common failure modes than a flawless build-out and utilization of the up-to-400-turret capacity ceiling. The probability-weighted margin is EBIT divided by revenue, not an arithmetic average of case margins.

The September 2030 target changes the **benchmark**, not the arithmetic of this rollup. The revenue base, annual growth cadence, EBIT margins and 25%/55%/20% scenario probabilities are unchanged from the reviewed 17 September model. Management's higher sales and adjusted-margin ambitions remain a possible upside pathway for later evidence-backed revision; they are not smuggled into the base case or relabelled as an EBIT forecast. The 2030 target test in Section 8 is a date-aligned sensitivity only and does not alter the TTM-to-2031 five-year endpoint.

11. Key risks and wildcards

1. Procurement timing and order conversion — Bear. Air Defence's EUR4,218 million is reported as order backlog rather than frame backlog, but order status does not disclose the delivery profile, cancellation/termination rights or customer-acceptance gates. Parliamentary approvals, customer acceptance and vehicle availability can push revenue beyond June 2031 even when ultimate demand remains intact. The bear case expresses this as deceleration, not a demand disappearance.

2. Capacity execution — Bear/Base. The proposed expansion from capacity for roughly 70-100 turrets to an up-to-400-unit annual capacity ceiling is a step-change, not a disclosed delivery forecast. Machine tools, skilled labour, cannon parts, radar/electronics, software test benches and vehicle interfaces must all scale together. A bottleneck at one supplier can strand work-in-progress. Conversely, building capacity before contracts convert depresses margin and cash flow.

3. Sensors/effectors workshare — Bear/Base. Layered systems create large headline values, but Diehl owns IRIS-T missiles and Hensoldt supplies radar content. Rheinmetall's economics depend on command, integration, turrets and its own effectors. The model must follow disclosed Air Defence nomination and revenue, not attribute the whole NNbS or IRIS-T program to Rheinmetall.

4. Competitive awards — Bear. Saab MSHORAD, Diehl IRIS-T SLS, KNDS/Thales RAPIDFire and Kongsberg/Raytheon NASAMS can win overlapping missions. National industrial policy may outweigh technical comparisons. Rheinmetall's multinational wins are strong evidence, but not proof of universal standardization.

5. Local-content dilution — Bear. The Netherlands expects local value added, and Romania's broader program involves Romanian capacity. Local production can unlock awards and political support, but it may reduce factory utilisation at Zurich, transfer economics to partners, duplicate working capital and create quality-control interfaces.

6. Export controls and end-use restrictions — Bear. German war-weapons manufacture, transfer, transport and foreign transactions require government approval, and the law provides no entitlement to approval. EU/NATO buyers are more straightforward than third countries, but licensing can still affect timing and eligible destinations. Germany also uses end-use and post-shipment controls. [German federal export-control policy](https://www.bundeswirtschaftsministerium.de/Redaktion/EN/Dossier/export-controls-for-military-equipment.html)

7. Regulation and European-content policy — Base/Bull with execution conditions. EDIP supports European production and common procurement, and at least 65% of eligible product cost must originate in the EU or associated countries. Rheinmetall's European footprint can benefit, but compliance, local sourcing and consortium governance can redistribute workshare. [Council EDIP overview](https://www.consilium.europa.eu/en/policies/defence-industry-programme/)

8. Threat evolution and substitution — Bear/Bull. Cheap drones favour low-cost gun ammunition over expensive missiles, supporting Rheinmetall. But electronic warfare, high-energy lasers and new low-cost interceptors can shift the engagement mix. Skynex's ability to add new effectors is a hedge; it is not a guarantee that Rheinmetall owns the future effector

economics.

9. Pricing and fixed-price exposure — Bear. Scarcity supports pricing, but long delivery periods can make labour and component inflation painful. The company does not disclose escalation clauses by program. A nominally large order can earn weak EBIT if customization and retrofit costs exceed provisions.

10. Program concentration — Bear. The Air Defence customer and program concentration schedule is not disclosed. Current growth is visibly driven by Skynex and Skyranger projects for European customers. A prototype delay, safety issue or customer acceptance dispute could therefore have a disproportionate quarterly effect. [DATA GAP: No percentage-by-customer or program concentration schedule is available.]

11. Working capital and advance payments — Bear/Base. H1 OFCF of negative EUR408 million versus positive EUR76 million EBIT shows the financing burden of growth. If down payments arrive later than inventory purchases, the segment can report excellent EBIT growth while consuming substantial Group liquidity. A further 10% of base June-2030 annual sales tied up net of advances would be about EUR223 million of incremental cash absorption, without changing the EBIT forecast. The H1 number may reverse, but reversal is not guaranteed; management's three-year rolling Group cash-conversion aspiration above 50% is not a segment cash-flow forecast.

12. Backlog quality and cancellation — Bear. A high order-backlog-to-sales ratio creates confidence but can still contain partner pass-through and long-dated deliveries. Air Defence reports no frame backlog, so framework conversion is not the issue at the H1 2026 snapshot. The missing maturity schedule, cancellation/termination terms and delivery/acceptance profile remain major model risks. [DATA GAP: Air Defence order-backlog maturity, cancellation/termination terms and acceptance schedule are not disclosed.]

13. Open architecture — Base/Bull and Bear. Open interfaces help Rheinmetall integrate third-party sensors and preserve customer choice, raising win probability. The same openness reduces lock-in and lets customers source lower-cost components or national alternatives. The moat lies in qualification and battle-management competence, not ownership of every box.

14. Services and replenishment upside — Bull. A larger installed base can create spares, training, upgrades and ammunition demand. Because Rheinmetall does not disclose the current service share, the model includes only moderate margin leverage. Evidence of a material, high-margin lifecycle stream would justify upside; until then it remains a wildcard.

15. Geopolitical normalization — Bear. The model assumes European air-defence budgets remain structurally elevated, but procurement can slow if fiscal pressure or a change in the threat environment delays rearmament. The physical need to replace depleted inventories and close capability gaps reduces but does not eliminate this risk.

Conclusion

Air Defence is one of Rheinmetall’s strongest organic growth assets, with current-taxonomy H1 revenue growth of 62.1%, EBIT margin expansion to 15.9% and EUR4.218 billion of backlog **entirely classified as orders, not frames**. Its moat rests on qualified cannon-based air defence, programmable ammunition, battle-management integration, platform flexibility and a growing multinational installed base. The repaired data package resolves the earlier taxonomy gap: pro forma FY2025 Air Defence sales were EUR769 million, yielding a current-taxonomy TTM revenue proxy of EUR952 million. Air plus Digital revenue reconciles to EUR2.874 billion with zero residual, while the EUR31 million difference from the audited-predecessor mixed-taxonomy bridge is exactly offset in consolidation.

The base case reaches EUR2.479 billion of revenue and EUR446 million of **EBIT** by 2031-06-30, a 21.1% five-year CAGR and 18.0% EBIT margin. That case requires substantial but not complete realization of the announced capacity ramp and continued conversion and replenishment of Skyranger/Skynex backlog. The new September issuer target of EUR3-4 billion Air Defence sales in **calendar 2030** and 24%-26% **operating-result** margin is materially more ambitious than base: an illustrative calendar alignment puts base sales around EUR2.356 billion, while even bull around EUR3.092 billion reaches only the low end. The margin targets cannot be equated to EBIT without a forward adjustments bridge. The bull case requires near-flawless capacity, option and integration execution. The bear case still grows because the strategic need is real, but it demonstrates how timing, local content, partner workshare, working-capital funding and underutilization can reduce realized value. The central question is not whether Europe needs air defence; it is how much of the system value Rheinmetall retains and how quickly procurement becomes accepted, cash-generating revenue.

Summary table

Case	Segment TTM+5y Revenue	Exact profit metric	Segment TTM+5y Profit Margin	Segment TTM+5y Profit	Probability
Bear	EUR1,560.1m	EBIT	13.5%	EUR210.6m	25%
Base	EUR2,478.5m	EBIT	18.0%	EUR446.1m	55%
Bull	EUR3,334.4m	EBIT	21.0%	EUR700.2m	20%

Data-gap register: [DATA GAP: Air Defence unit volumes, ASPs, product mix, service revenue, product margins, market share, customer/program concentration, order-backlog maturity, cancellation/termination terms and acceptance schedule are not disclosed; H1 2026 does disclose the full EUR4,218m as order backlog and no frame backlog.] [DATA GAP: FY2025 pro forma and TTM successor revenue are disclosed/derivable, but standalone Air Defence TTM EBIT is not; EUR216.7m is a zero-residual diagnostic complement, while the disclosed H1 2026 EBIT margin of 15.9% controls the forecast cadence.] [DATA GAP: The September 2030 Air Defence operating-result margin target has no segment-specific forward reconciliation to EBIT or disclosed calendar-2030 delivery/working-capital schedule.]

Appendix B5 — Naval Systems

Rheinmetall AG — Naval Systems Segment Deep Dive

Ticker: RHM.DE **Research date:** 2026-09-22 targeted refresh (original analysis 2026-09-17) **TTM anchor:** 2026-06-30, calculated as FY2025 less restated H1 2025 plus H1 2026 **Forecast horizon:** 2031-06-30, exactly five calendar years after the TTM anchor **Reporting currency:** EUR millions unless otherwise stated **Exact forecast profit basis: EBIT Research only:** no ranking, position sizing, or trade authority; `trade_execution_authorized=false`

This appendix uses the 22 September DR-cleared `data_package.md` (SHA-256 `7b83d21b32274fc7a84f785643a5d5789afc771a2fcf48943b1498395c2f8719`) and QFR-sealed `statutory_bridge.json` as the exclusive sources for Rheinmetall-specific historical facts, accounting classifications, management commentary, and guidance. The current sealed statutory-bridge SHA-256 is `bc3d5a1577a7461e980af5b367da097ae51674dd432019c21cc73639b9b8d7a5` (the quantitative/label payload is unchanged from 17 September). The [September 2026 issuer deck](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf) is already source-bound in the updated package, not a new statutory period. Naval Systems is unusually difficult to forecast because the TTM anchor contains only four months of ownership, no five-year standalone NVL financial history is disclosed, acquisition accounting dominates current EBIT, and the cancellation of F126 already demonstrates that nominal program visibility is not equivalent to risk-free revenue. The ranges below therefore emphasize transparent mechanics and wide, nonuniform scenario weights rather than false precision. The 22 September targeted update changes the interim sales cadence and backlog-coverage diagnostics, but retains the already conservative 2031 Bear/Base/Bull sales, EBIT margins and probabilities.

0. Segment boundary and taxonomy note

Naval Systems is a new Rheinmetall reportable segment from the closing of the NVL acquisition on **27 February 2026**. It was not in Rheinmetall's perimeter in FY2025 and therefore has no comparable Rheinmetall segment series for FY2021-FY2025. The controlling four-month post-close period runs from March through June 2026. The segment contains naval shipbuilding plus repair and refit activity. This is a hard taxonomy boundary, not a reclassification that permits back-casting NVL's undisclosed standalone history into Rheinmetall. The appendix consequently uses only the disclosed post-close contribution and does not fabricate prior-year Naval Systems revenue, EBIT, units, margins, or order conversion. [data_package §1, current-segment taxonomy, Naval Systems row; §3, current-segment H1 bridge, Naval Systems row; §10, open-data-gap row “NVL standalone history”]

1. What this segment actually is

Naval Systems adds a physical shipyard and naval-platform dimension to a group previously centered on land vehicles, weapons and ammunition, air defence, and military electronics. At the simplest level, the segment sells two economic streams. The first is **newbuild and major-program work**: long-duration naval vessels or large packages whose economics depend on design maturity, system integration, yard slot availability, customer acceptance, milestone payments, change orders, and schedule control. The second is **repair, service, refit, and sustainment**, which uses the installed base and shipyard infrastructure to generate shorter-cycle work. The data package discloses €39m of repair/service sales in the four-month post-close period but does not publish a complete product mix. The analytical newbuild-and-other anchor of €295m is therefore only the arithmetic residual of €334m total sales less €39m disclosed repair/service sales, not a separately reported Rheinmetall product line. [data_package §3, current-segment H1 bridge; §4, Naval Systems repair/service row]

The principal customers are sovereign navies and defence procurement agencies. That customer profile creates unusual strengths and risks. National naval procurement is strategically important, difficult to substitute once a design and industrial team are selected, and potentially supported by multiyear defence budgets. Yet each order can be individually material, politically exposed, and vulnerable to redesign, cancellation, delayed parliamentary approval, local-content requirements, or customer acceptance disputes. The F126 cancellation is the most immediate proof: it reduced 2026 Naval and Group sales guidance by up to €300m even though management said the program represented less than 3% of the 2030 plan. A small share of a distant ambition can still be a large share of near-term production slots and reported sales. [data_package §6, Naval/F126 row; §9, F126 cancellation]

Pricing is not a simple catalogue price. A naval contract typically combines a negotiated base scope, escalation clauses, milestones, customer-furnished or subcontracted equipment, engineering changes, risk contingencies, and later service work.

Revenue therefore depends on performance against contractual milestones and accounting recognition, while cash depends on advance payments and milestone collections. The segment's go-to-market is correspondingly institutional: national procurement competitions, bilateral or government-supported export campaigns, industrial partnerships, and direct engagement with defence ministries rather than a broad commercial sales channel. Rheinmetall's stated vertical-integration objective provides a strategic rationale—pairing hull and yard capacity with weapons, sensors, air defence, ammunition, digital command systems, and service—but the four-month disclosure does not yet prove that cross-selling or internal content raises win rates or margins. [data_package §6, Naval integration row]

The acquisition bought both operating capability and a backlog rather than a clean, mature earnings stream. Provisional consideration transferred was €1,586m, net cash outflow €1,040m after acquired cash, identifiable net assets €766m, and goodwill €820m. Goodwill therefore represents 51.7% of provisional consideration, while identifiable net assets represent only 48.3%. This is not automatically evidence of overpayment, but it makes the underwriting unusually dependent on future conversion and synergies that are absent from the four-month statutory record. The September issuer deck describes **€5.5bn of acquired backlog**; this is not the same date/perimeter measure as **€6.255bn reported Naval backlog at 30 June 2026**. The latter **still included €2.100bn for cancelled F126**. The diagnostic non-F126 June balance is thus €4.155bn; this is neither a statutory restatement nor proof that every non-F126 euro will execute. The segment also began with negative post-PPA/special-item EBIT and negative operating free cash flow. The investment case is not simply that Rheinmetall acquired a nominal backlog stock: the Naval-specific split between firm orders and expected call-offs is not disclosed, backlog has no maturity or margin schedule, and F126 demonstrates that program visibility can change. Management must convert a risk-adjusted portion through constrained shipyards at acceptable contractual margins and then replenish awards without allowing working capital and integration spending to absorb the profit. [Rheinmetall H1 2026 report, pp. 19 and 33-34; September 2026 investor deck p. 58; data_package §§0a, 3, 7 and 10]

2. Current economics: four-month post-close and TTM anchor

The TTM financial anchor equals the disclosed four-month post-close contribution because Naval Systems was outside Rheinmetall in FY2025 and the comparable H1 2025 period. It is therefore a **reported-perimeter TTM anchor, not a 12-month economic run rate**. Sales were **€334m**. Segment **EBIT was €(18)m**, producing an exact-basis EBIT margin of **(5.4%)**. Operating result was €33m, equivalent to 9.9% of sales, but it is not the sealed forecast metric. The difference is fully identified: €(29)m of purchase-price-allocation effects and €(22)m of special items take the €33m operating result to €(18)m EBIT. This bridge is crucial. A model that starts from the 9.9% operating-result margin and labels it EBIT would overstate current earnings by €51m and erase the acquisition burden that shareholders actually bear. [Rheinmetall H1 2026 report p. 19; data_package §§3 and 3a]

Four-month post-close basis bridge	EURm	Margin / sales impact
Sales	334	100.0%
Operating result	33	9.9%
Purchase-price-allocation effects	(29)	(8.7%)
Special items	(22)	(6.6%)
EBIT, exact forecast basis	(18)	(5.4%)

The arithmetic is exact: €33m less €29m and €22m equals €(18)m. Rheinmetall's **10%-11% 2026 Naval operating-margin guidance is an operating-result/adjusted-performance guide, not EBIT guidance**. It is useful evidence about pre-PPA, pre-special-item economics, but no forecast table below labels it EBIT or applies it directly to revenue. A future EBIT margin can approach that range only if special items normalize, PPA drag declines relative to sales, contract economics hold, and acquired capacity scales.

Recent quarterly disclosure is too short for a growth rate. Rheinmetall reported €77m of sales for the single post-close month in Q1 2026 and €257m in Q2 2026, with operating margins of 10.1% and 9.7%, respectively. The periods cover different numbers of months, have no prior-year Rheinmetall comparator, and use operating result rather than EBIT. They are evidence that the underlying yard business produced a roughly 10% pre-PPA, pre-special-item operating margin in the initial perimeter; they are not evidence of a clean sequential growth trajectory or a sustainable EBIT margin. [Rheinmetall Q1 2026 statement p. 16; Rheinmetall H1 2026 report p. 19; data_package §5]

Repair and service contributed €39m of four-month sales, or 11.7% of the disclosed total. The remaining €295m is an analytical residual for newbuild and other activities. No units, average selling prices, vessel-equivalent production measure, yard utilization, dock occupancy, vessel mix, or product-level EBIT are disclosed. The current mix thus provides only a weak

basis for disaggregated forecasting. The two-line model in this appendix is intended to make assumptions inspectable, not to claim that Rheinmetall reports these as complete product segments. [Rheinmetall H1 2026 report p. 19; data_package §§4 and 10]

Capital intensity is also easy to misread. H1 2026 segment capex was only €5m, but four facts make that figure an unreliable steady-state guide. First, the segment entered late in February. Second, Rheinmetall paid provisional consideration of €1.586bn to acquire the existing assets and capacity. Third, shipbuilding requires physical yards, specialized labor, equipment, engineering, working capital, and supplier coordination even when period capex is low. Fourth, management's broader message was that capex would remain high before normalizing, while the data package says shipyards were among current capacity work. The base case therefore assumes meaningful reinvestment and working-capital absorption even though this appendix does not allocate group capex to segment EBIT. [data_package §6, Capex row; §7, H1 capex paragraph and NVL allocation paragraph]

The most sobering current-economics line is operating free cash flow of **€(166)m** for the four-month period. The cash outflow equals 49.7% of the segment's disclosed sales and is 9.2 times the absolute EBIT loss. It may reflect program timing, inventory, integration, milestones, and advance-payment patterns rather than a permanent margin condition, but the allowed evidence does not give a Naval-specific working-capital bridge. A forecast that assumes the outflow reverses automatically would be as weak as one that annualizes it. This appendix therefore treats cash conversion as an independent execution risk: improving EBIT is necessary but not sufficient for value creation. [Rheinmetall H1 2026 report p. 19; data_package §§3, 6 and 10]

3. Unit economics

3.1 Newbuild and major-program work

Newbuild economics begin with contracted scope and the expected cost to deliver it. Revenue can be large, but gross profit depends on whether engineering hours, subcontracted systems, steel and components, labor, rework, testing, and schedule penalties remain within the bid contingency. The contract is usually won before all execution uncertainty is resolved. That creates the defining asymmetry of complex shipbuilding: a successful program earns a return across a large revenue base, while a single technical or scheduling problem can consume several years of expected margin through additional engineering, labor inefficiency, liquidated damages, supplier claims, or milestone delays.

The four-month operating-result margin of roughly 10% and 2026 Naval operating-margin guidance of 10%-11% suggest that management sees the inherited business as capable of a reasonable operating contribution before PPA and special items. Yet the exact shareholder-relevant EBIT margin was negative. The difference matters economically even if some PPA and integration costs are temporary. PPA amortization reflects value assigned at acquisition; special items consume cash or management attention even when excluded from an adjusted performance measure. The base case does not assume the current negative EBIT persists forever, but it also does not add back every acquisition cost without demanding evidence of integration completion.

Capacity is a revenue and margin driver, not merely a capex line. A full order book cannot convert faster than the constrained engineering, yard, dock, supplier, and skilled-labor network permits. Expanding capacity before orders mature can depress returns; failing to expand can delay delivery and expose contracts to penalties. Because the data package gives no dock, berth, labor-hour, or vessel-throughput schedule, the model cannot translate €6.255bn of backlog into a deterministic revenue calendar. Instead, the scenarios use explicit annual sales ramps. The bear case assumes bottlenecks and contract friction constrain throughput. The base case assumes steady integration and measured capacity debottlenecking. The bull case assumes effective slot utilization, favorable mix, and additional awards.

3.2 Repair, service, and refit

Repair and service can be economically superior to newbuild because jobs are shorter cycle, draw on installed-base knowledge, and may involve urgent availability needs. A shipyard with trusted access, certifications, documentation, and customer relationships can benefit from repeat work. Service also diversifies revenue away from a few huge newbuild milestones. The four-month disclosed service revenue of €39m is too small and too brief to establish a durable margin advantage, however. No service backlog, renewal rate, attach rate, utilization rate, or service EBIT is disclosed. The higher service margins used in the scenario model are analyst assumptions based on the generally lower design and fixed-price risk of repair/refit, not Rheinmetall-reported product profitability.

The growth challenge is that service usually follows the installed base and operational tempo. It cannot instantly scale from €39m to a billion-euro stream simply because total backlog is large. The model therefore keeps service at roughly one-fifth or less of horizon revenue in all cases. The very high mathematical service CAGRs are predominantly caused by the four-month starting denominator, not a claim that same-yard organic service revenue compounds near those percentages each year.

3.3 What moves EBIT up or down

Four mechanisms can expand EBIT margin. First, PPA and special-item drag can reduce as acquisition accounting and integration programs mature. Second, higher yard throughput can spread fixed engineering, facility, and management costs across more revenue. Third, mix can improve if repair/refit, proprietary Rheinmetall systems, and repeat platforms carry better economics than early-stage newbuild work. Fourth, disciplined change-order and escalation clauses can protect the segment against input inflation and customer-driven scope changes.

At least six mechanisms can overwhelm that leverage. A fixed-price contract can absorb inflation or design changes. Milestone delays can defer both revenue and cash. Yard expansion can create underutilized fixed cost before orders convert. Skilled-labor scarcity can raise wages and rework. Suppliers can delay critical components even when the hull is ready. Finally, customer decisions can cancel or resize a program, as F126 already did. Because these risks are correlated—a late supplier can delay a milestone, increase working capital, require overtime, and trigger contract remedies—the bear margin is not merely a few hundred basis points below management's adjusted guide. It is a distinct execution state.

4. Competitive dynamics

Naval shipbuilding is structurally competitive but not commodity-like. European programs can draw bids or political pressure from established national shipbuilders and integrators such as TKMS, Naval Group, Fincantieri, Navantia, Damen, Saab Kockums, and BAE Systems, while Asian yards can be relevant in export competitions. The precise competitive set changes by vessel class, customer sovereignty requirements, export rules, industrial workshare, and mission systems. No reliable Naval Systems market-share percentage is disclosed in the permitted company-fact base, and this appendix does not manufacture one.

Competition occurs across more than price. Customers assess sovereign industrial capacity, delivery track record, platform design, combat-system integration, weapons and sensor compatibility, local-content commitments, lifecycle support, financing, export approvals, and political reliability. That favors incumbents with reference platforms and scarce yard infrastructure, but it also means commercial success can depend on government-to-government relationships and workshare concessions rather than pure technical superiority.

Rheinmetall's potential advantage is system breadth. In principle, a naval platform can carry Rheinmetall weapons, ammunition, sensors, electronics, digital systems, and air-defence content, giving the group more control of integration and a larger share of program value. The risk is that customers may prefer open architectures, national suppliers, or independent combat-system choices. Vertical integration creates pricing power only when the bundled solution reduces lifecycle risk or improves performance; it can destroy flexibility if customers view it as lock-in or if internal components are not best in class.

Entry barriers are high. A new competitor needs regulated facilities, naval architects, security-cleared staff, supplier networks, quality systems, acceptance-test capability, references, and a balance sheet able to carry long working-capital cycles. Those barriers protect the field from casual entrants. They do not eliminate rivalry among existing primes, nor do they protect a contractor from self-inflicted overruns. In this industry, execution reputation is part of the product.

Pricing power is therefore conditional. It is strongest on urgent sovereign requirements, scarce yard slots, proprietary upgrades, and installed-base service. It is weakest in politically contested newbuild tenders, first-of-class designs, contracts bid aggressively to fill capacity, and programs where local-content concessions transfer economics to partners. The base case assumes modest pricing protection through escalation and mix but no ability to pass every overrun to customers.

Substitution risk is low at the mission level—navies cannot replace a frigate or support vessel with software alone—but meaningful at the supplier level. A customer can choose a competing platform, shift work to a national champion, split combat systems from the hull, or extend existing vessels rather than commission a new build. Naval Systems therefore enjoys scarce-asset characteristics without guaranteed customer captivity.

5. Segment-level moat

The segment has the ingredients of a moat but has not yet proved a durable one inside Rheinmetall. The strongest asset is scarce shipyard and engineering capacity in a strategic European industry. Capacity takes years to qualify and expand;

sovereign customers care about domestic and allied supply security; and prior program knowledge can support follow-on service. The €6.255bn **June reported** backlog indicates customer commitments or expected program work, but €2.1bn still reflected cancelled F126 and the residual €4.155bn has no disclosed firmness or maturity schedule. The deck's €5.5bn **acquired** backlog is a separate acquisition-date metric, not June coverage. [data_package §§0a, 3, 7 and 10; September investor deck p. 58]

The second potential moat is integration with Rheinmetall's broader defence portfolio. If the group can embed more proprietary mission systems and weapons while coordinating a single delivery interface, it may improve bid differentiation and capture more economics per vessel. Management explicitly targeted vertical integration, but the initial four months do not establish synergies. No cross-segment order, content-share, procurement saving, or win-rate KPI is disclosed. [data_package §6, Naval integration row]

The third potential moat is lifecycle intimacy. Repair and refit relationships can compound because a contractor accumulates vessel-specific knowledge and can respond quickly. Yet the service base is only €39m in the disclosed period, and no retention or profitability evidence is available. It is more accurate to call service a moat candidate than a demonstrated franchise.

Against these strengths, three facts limit confidence. First, F126 cancellation shows that political and contract risk can defeat backlog visibility. Second, current EBIT is negative after acquisition-related charges, so adjusted profitability has not yet translated into clean shareholder earnings. Third, operating free cash flow is deeply negative, leaving the segment dependent on milestone timing and group funding. A moat that produces accounting profit but persistently consumes working capital is incomplete.

The five-to-ten-year durability verdict is therefore **emerging but unproven**. Naval Systems could become defensible if Rheinmetall demonstrates repeat awards, converts backlog on schedule, scales service, integrates proprietary systems without alienating customers, and generates cumulative cash. It does not yet deserve a high-confidence assumption that a €5bn revenue ambition will carry double-digit EBIT margins. The revised base case uses a 7.5% horizon EBIT margin, explicitly below the 10%-11% operating-result guide because acquisition accounting, contract execution and service-mix proof are still incomplete. The 10.5% bull EBIT margin requires operating leverage, better mix and a much smaller PPA/special-item gap. The 3.0% bear margin recognizes that a scarce yard can still earn poor returns under bad contracts.

6. Historical growth rates — limited-history disclosure

There is no three-year Naval Systems revenue history in the DR-cleared package. FY2023-FY2025 standalone NVL revenue is explicitly not disclosed, and FY2025 Rheinmetall segment revenue is zero because the business was not yet in the perimeter. The only valid anchor is the €334m four-month contribution in the TTM ended 30 June 2026. The table shows non-disclosure rather than constructing a false historical series.

Product / sub-segment	FY2023 revenue	FY2024 revenue	FY2025 revenue	3-year CAGR	Most recent disclosed trend	Data-package cite
Naval Systems total	Not disclosed	Not disclosed	€0m in Rheinmetall perimeter	Not meaningful	€334m for four post-close months; no comparable YoY	H1 2026 report p. 19; data_package §§1, 3 and 10
Newbuild and other analytical residual	Not disclosed	Not disclosed	Not in perimeter	Not meaningful	€295m analytical residual from €334m less €39m service; no comparable YoY	H1 2026 report p. 19; data_package §§3-4
Repair and service	Not disclosed	Not disclosed	Not in perimeter	Not meaningful	€39m post-close; Q1 one-month service €20m; no comparable YoY	Q1 2026 statement p. 16; H1 2026 report p. 19; data_package §4

Arithmetic integrity check: no historical YoY arithmetic can be tested because the package provides no comparable standalone annual revenue. The forward analytical residual ties as **€334m total minus €39m repair/service equals €295m newbuild and other**. It is not a back-solved historical product disclosure. No order value is treated as revenue.

Limited-history range discipline: the segment's apparent TTM-to-horizon CAGRs are mechanically extreme because the base has only four months of ownership. An annualized four-month sales diagnostic would be about €1.0bn, but this appendix does not substitute annualization for the sealed €334m TTM anchor. The required five-year CAGRs are shown transparently while year-by-year revenue ramps carry the economic forecast.

7. Management guidance and management-provided anchors

The data package preserves one short verbatim group-demand quote and several verified paraphrases. It does not preserve a verbatim Naval-specific management sentence beyond those summaries, so this section does not invent quotation marks.

- **Group demand — [H1 release, 6 August 2026; data_package §6, Group demand row].** CEO Armin Papperger: **"Demand remains strong"**; book-to-bill was above 3. This supports the broad defence-demand backdrop but does not establish Naval backlog conversion, margin, or cash timing.

- **Naval/F126 — [H1 2026 report p. 19 and Q2 call, 6 August 2026; data_package §6, Naval/F126 row].** Verified management/report summary: the cancellation reduced 2026 Naval and Group sales guidance by up to €300m; Naval operating-margin guidance fell to 10%-11%; F126 represented under 3% of the 2030 plan. Interpretation: the long-range ambition was not mathematically dependent on F126, but the near-term revenue impact is material and replacement orders remain unsecured.

- **2026 and 2030 sales ambition — [September 2026 investor deck pp. 57-58, 66; data_package §6, FY2026 segment target matrix, Naval row; 2030 segment targets, Naval row].** The updated deck gives **€1.0bn-€1.2bn expected consolidated Naval sales for ten post-close months in calendar 2026** and potential 2030 Naval sales of **about €5bn**. Ten months means March-December 2026 after the 27 February close; it is neither a FY2025 comparison nor the four-month June 2026 TTM. The €5bn figure is a potential outcome, not a contracted revenue bridge. The Group's separate roughly €50bn 2030 ambition includes M&A and must not be treated as an organic proof point for Naval. The base case discounts the Naval target to €2.60bn at June 2030 and €3.20bn at June 2031 until backlog maturity, capacity, and follow-on wins are proven. Only the bull case reaches €5.0bn, six months after calendar 2030.

- **Naval integration — [Q1 call, 7 May 2026; data_package §6, Naval integration row].** Verified paraphrase: management described the first post-close month positively and targeted vertical integration. Interpretation: the strategic logic is plausible, but there is no disclosed synergy amount, timing schedule, cross-sell KPI, or EBIT bridge.

- **Cash conversion and capex — [Q1 call, 7 May 2026; Q2 call, 6 August 2026; data_package §6].** Management attributed group inventory build to growth preparation and shifted down payments, while saying capex would remain high before normalizing. Interpretation: this provides a possible timing explanation for cash burn, but it is not proof that Naval's €(166)m OFCF will fully reverse.

- **Backlog quality — [September 2026 investor deck p. 58; H1 2026 report; data_package §§0a and 6].** The deck expressly says the €6.255bn June Naval backlog still includes **€2.1bn for cancelled F126**. The arithmetic non-F126 balance is €4.155bn, not a new issuer-reported backlog. Group frame backlog represents expected call-offs and may vary; Naval has no disclosed maturity, cancellation, firm-versus-frame, or remedy schedule. Interpretation: use the non-F126 balance as a conservative coverage diagnostic, with separate hypothetical replacement-sales sensitivity—not as a statutory revision or assured executable sales. A cash remedy is not replacement revenue.

- **2030 margin aspiration — [September 2026 investor deck pp. 58, 66; data_package §6, 2030 ambition row].** The issuer states a Naval operating-result margin target **above 15%** in 2030. It is not a statutory EBIT target. The deck also distinguishes operating result from the four-month EBIT bridge in the H1 accounts. The scenario EBIT margins remain 3.0%/7.5%/10.5% in Bear/Base/Bull; achieving the issuer aspiration would require a much stronger underlying operating result and cannot be mapped mechanically into the sealed EBIT basis.

[DATA GAP: The issuer gives €1.0bn-€1.2bn expected 2026 sales for ten post-close months, but no quarterly H2/H1 2027 cadence, product-level guidance, yard-throughput schedule, backlog-conversion/remedy schedule, or EBIT-basis margin guide. The disclosed 10%-11% 2026 and >15% 2030 Naval operating-result margins must not be relabeled EBIT.]

8. Forward growth assumptions — product-level and scenario-specific

The forecast uses two analytical lines: newbuild and other, and repair/service. Each compounds from the sealed TTM anchor for exactly five years to 2031-06-30. Because the anchor contains only four months, CAGR is a disclosure of arithmetic, not a claim about steady organic growth. A second, explicitly non-GAAP diagnostic annualizes the four-month values by multiplying

them by three: €1,002m total, €885m newbuild/other and €117m repair/service. This does not replace the sealed €334m TTM anchor and does not assume seasonality is flat. Its sole purpose is to separate acquisition-perimeter mathematics from an approximate full-period growth rate. The year-by-year cadence remains the controlling forecast. **The September deck's €1.0bn-€1.2bn March-December 2026 expectation requires an interim-cadence repair:** the prior June 2027 TTM steps of €750m/€950m/€1,100m for Bear/Base/Bull would imply implausibly low H1 2027 sales after the implied July-December 2026 contribution. This is a timing repair; 2031 product endpoints, segment revenue, statutory EBIT margins and scenario weights remain unchanged.

Base case growth assumptions

Product	3-year historical CAGR	Latest YoY	Management anchor	Reported-anchor CAGR	Annualized-anchor diagnostic	TTM+5y revenue	Justification
Newbuild and other analytical residual	Not disclosed	Not disclosed	Naval about €5bn targeted for 2030; F126 cut 2026 sales by up to €300m	54.8%	24.3%	€2,624m	Current €295m is four months only. Base requires partial replacement awards and capacity debottlenecking, but retains a material haircut to the 2030 ambition.
Repair and service	Not disclosed	Not disclosed	No product guide	71.3%	37.5%	€576m	Current €39m is a tiny four-month base. Service reaches 18.0% of segment revenue; this remains an analyst mix assumption, not disclosed guidance.

The base case is not a disguised acceptance of the €5bn ambition. It assumes F126 replacement work is only partially secured, yard capacity expands without a major cost overrun, and backlog converts progressively. It also assumes service grows faster from a tiny base because repair/refit becomes a deliberate stabilizer. Even after annualizing the partial-period anchor, the base product growth diagnostics remain demanding at 24.3% and 37.5%. With no standalone history, the model therefore requires explicit year-by-year delivery evidence rather than appealing to a historical trend that does not exist.

Bull case growth assumptions

Product	3-year historical CAGR	Latest YoY	Management anchor	Reported-anchor CAGR	Annualized-anchor diagnostic	TTM+5y revenue	Justification
Newbuild and other analytical residual	Not disclosed	Not disclosed	Naval about €5bn targeted for 2030; F126 below 3% of 2030 plan	68.4%	35.2%	€4,000m	Replacement and export awards, better slot utilization and vertical-system content support a high-throughput outcome.
Repair and service	Not disclosed	Not disclosed	No product guide	91.3%	53.6%	€1,000m	Successful installed-base capture and refit demand lift service to 20.0% of segment revenue.

The bull case requires more than demand. It requires contracts that fit available yards, competent engineering and supplier execution, supportive milestone terms, backlog replenishment, and an ability to add Rheinmetall system content without losing tenders. The €5.00bn total at June 2031 merely reaches management's calendar-2030 ambition six months late; it no longer assumes an overshoot. This is a favorable execution case, not the default.

Bear case growth assumptions

Product	3-year historical CAGR	Latest YoY	Management anchor	Reported-anchor CAGR	Annualized-anchor diagnostic	TTM+5y revenue	Justification
Newbuild and other analytical residual	Not disclosed	Not disclosed	F126 cut 2026 sales by up to €300m; replacement orders unsecured	39.0%	11.6%	€1,530m	Program replacement is slow, bottlenecks persist and backlog conversion slips.

Product	3-year historical CAGR	Latest YoY	Management anchor	Reported-anchor CAGR	Annualized-anchor diagnostic	TTM+5y revenue	Justification
Repair and service	Not disclosed	Not disclosed	No product guide	47.3%	18.2%	€270m	Service expands from a tiny partial-period base but is constrained by yard congestion and installed-base access.

Even the bear reported-anchor CAGR looks high because €334m is not a full-year economic base. Against the simple annualized diagnostic, segment growth is only 12.4%. The bear case is economically bearish through the terminal revenue level, execution cadence and margin, not through an artificially low CAGR on a partial-period denominator. It assumes that nominal demand persists but Rheinmetall realizes only a fraction of the 2030 ambition as cancellations, schedule slippage, supplier constraints and local-content requirements absorb capacity.

Case	Reported four-month anchor	Annualized diagnostic	TTM+5y segment revenue	CAGR from reported anchor	CAGR from annualized diagnostic
Bear	€334m	€1,002m	€1,800m	40.1%	12.4%
Base	€334m	€1,002m	€3,200m	57.1%	26.1%
Bull	€334m	€1,002m	€5,000m	71.8%	37.9%

Year-by-year segment revenue cadence

Case	TTM Jun-2026 reported	Jun-2027	Jun-2028	Jun-2029	Jun-2030	Jun-2031	Reported-anchor annual steps
Bear	334	1,100	1,250	1,420	1,600	1,800	229.3%, 13.6%, 13.6%, 12.7%, 12.5%
Base	334	1,400	1,720	2,120	2,600	3,200	319.2%, 22.9%, 23.3%, 22.6%, 23.1%
Bull	334	1,650	2,180	2,880	3,790	5,000	394.0%, 32.1%, 32.1%, 31.6%, 31.9%

The first-year jump predominantly restores a full ownership and production period. The deck's ten-month calendar-2026 expectation can be reconciled explicitly to the four-month historical €334m: the implied **July-December 2026** sales are €666m at the €1.0bn low end, €766m at a €1.1bn midpoint, and €866m at the €1.2bn high end. The analyst Bear/Base/Bull June-2027 TTM paths then require **January-June 2027** sales of €434m/€634m/€784m respectively, since €666m + €434m = €1,100m, €766m + €634m = €1,400m and €866m + €784m = €1,650m. This is a *conditional guide-to-TTM illustration*, not disclosed H2 2026 actuals or H1 2027 guidance. Bear assumes a marked post-2026 slowdown after reaching the low end; Base is close to the midpoint with H1 2027 below illustrative H2 2026; Bull assumes high-end 2026 and an even higher June-2027 TTM, although its implied H1 2027 is also below illustrative H2 2026. None of the cases demonstrates sequential half-year expansion in this bridge. A 2026 guide miss would weaken the first-year bridge. Relative to the €1,002m simple annualized diagnostic, June-2027 TTM revenue is 9.8%/39.7%/64.7% higher in Bear/Base/Bull. Subsequent modeled growth is approximately 13%/23%/32% annually, governed by yard throughput, replenishment awards, and integration rather than the four-month accounting denominator. The base case still reaches only €2.60bn by June 2030, 48% below management's roughly €5bn calendar-2030 ambition. This haircut is intentional: the data package supplies no program-by-program conversion bridge, yard-capacity schedule or secured F126 replacement that would justify underwriting the aspiration as a central forecast.

9. Forward EBIT-margin assumptions

The exact forecast metric is **EBIT**, not operating result. The current TTM EBIT margin is **(5.4%)**, calculated from €(18)m EBIT on €334m sales. Current operating result of €33m and the 10%-11% 2026 operating-margin guide are contextual anchors only. PPA and special items cannot be silently removed from historical EBIT or relabeled as a bridge line outside the sealed statutory framework.

Case	Current TTM EBIT margin	TTM+5y newbuild and other EBIT margin	TTM+5y repair/service EBIT margin	TTM+5y blended EBIT margin	Change from current	Mechanism
Bear	(5.4%)	2.0%	8.5%	3.0%	+8.4 pts	Special-item drag eases, but PPA, contract leakage, delays, underutilized capacity and rework leave a low-return shipyard.
Base	(5.4%)	6.7%	11.2%	7.5%	+12.9 pts	Special items normalize, throughput absorbs fixed cost and service mix rises, while residual acquisition and execution drag keeps EBIT below guided operating margin.
Bull	(5.4%)	9.5%	14.5%	10.5%	+15.9 pts	Strong slot utilization, disciplined contracts, proprietary system content and service mix narrow the operating-result-to-EBIT gap materially.

Every scenario shows more than 100 basis points of improvement because the starting EBIT is acquisition-distorted. The bear case does not assume PPA disappears immediately; it assumes the combined drag becomes manageable over five years but poor program economics keep newbuild margins near breakeven after acquisition effects. The 3.0% blended margin is consistent with a strategically important asset that converts substantial revenue yet fails to earn the adjusted economics implied by early guidance.

The base 7.5% EBIT margin is not the 10%-11% operating-margin guide with a new label. It applies a 250-350 basis-point haircut to that guide to allow for residual PPA and the risk that special-item and execution costs do not disappear cleanly. Since the current disclosed gap is 15.3 percentage points of sales, the base case still requires a very large improvement and therefore embeds successful integration rather than merely extrapolating present EBIT.

The bull 10.5% EBIT margin equals the midpoint of the operating-margin guide numerically but not conceptually. To earn 10.5% on statutory EBIT, underlying operating-result economics would have to exceed that level by any remaining PPA and special-item drag. It requires favorable mix and reliable contracts; demand alone is insufficient. Repair/service reaches 20% of revenue at a 14.5% EBIT margin and newbuild earns 9.5%. Neither product margin is company-disclosed; both are explicit analyst assumptions that permit arithmetic reconstruction.

The starting service EBIT margin is not estimated because the package provides no product-level profit. The terminal service premium reflects shorter-cycle work, installed-base knowledge, and potentially better pricing, while remaining below a software-like margin. The newbuild discount reflects engineering, subcontractor, milestone, and fixed-price risk. If later disclosures show repair/refit margins are not superior, the blended base margin should be reduced.

10. Segment rollup — bottom-up reconstruction

The rollup uses the product endpoints from Section 8 and the product EBIT margins from Section 9. All totals reconcile exactly within rounding. No corporate/unallocated cost is assigned here; the synthesis stage handles the separate Others/consolidation bridge from the data package.

Case	Product line	TTM revenue	TTM+5y revenue	TTM+5y EBIT margin	TTM+5y EBIT
Bear	Newbuild and other analytical residual	295	1,530	2.0%	31
Bear	Repair and service	39	270	8.5%	23
Bear	Naval Systems total	334	1,800	3.0%	54
Base	Newbuild and other analytical residual	295	2,624	6.7%	176
Base	Repair and service	39	576	11.2%	65
Base	Naval Systems total	334	3,200	7.5%	240
Bull	Newbuild and other analytical residual	295	4,000	9.5%	380
Bull	Repair and service	39	1,000	14.5%	145
Bull	Naval Systems total	334	5,000	10.5%	525

Bear tie-out: €1,530m plus €270m equals €1,800m revenue. EBIT of €30.60m plus €22.95m equals €53.55m, rounded to €54m. The exact blended margin is 2.98%, shown as 3.0%.

Base tie-out: €2,624m plus €576m equals €3,200m revenue. EBIT of €175.81m plus €64.51m equals €240.32m, rounded to €240m. The exact blended margin is 7.51%, shown as 7.5%.

Bull tie-out: €4,000m plus €1,000m equals €5,000m revenue. EBIT of €380m plus €145m equals €525m. The exact blended margin is 10.5%.

The scenario probabilities are deliberately nonuniform: **40% bear, 45% base, and 15% bull**. The bear weight is high because the segment has only four months of disclosed history, no standalone five-year series, material goodwill, negative EBIT, negative OFCF, a fresh program cancellation and no backlog-maturity schedule. The bull weight is only 15% because reaching the €5bn ambition and 10.5% statutory EBIT requires several favorable conditions simultaneously. Using unrounded product math, the probability-weighted diagnostic is €2,910m of horizon revenue and €208.3m of EBIT, an implied 7.16% margin; this is a cross-check, not a fourth scenario.

Acquisition and backlog sanity checks

The September issuer deck p. 58 says **€2.100bn cancelled F126 remains in the €6.255bn June backlog**, or **33.6%** of it. Subtracting once yields **€4.155bn non-F126 diagnostic backlog**, which is **66.4%** of the reported stock. This subtraction is for an executable-work stress only: Rheinmetall did not restate its statutory June backlog, and the €2.1bn neither proves a complete economic loss nor establishes a collectible remedy. The deck's separate **€5.5bn acquired backlog** describes the acquisition, not the 30 June reported segment balance and not an alternative denominator. The non-F126-to-terminal-revenue ratio below compares a multi-year stock with one annual flow; it is a scale check, **not years of assured coverage**. [September investor deck p. 58; data_package §§0a, 3 and 7]

Case	Jun-2027 to Jun-2031 modeled sales sum	Gross June backlog	Non-F126 diagnostic backlog	Sales less gross backlog	Sales less non-F126 backlog	Non-F126 / terminal annual sales
Bear	€7,170m	€6,255m	€4,155m	€915m	€3,015m	2.31x
Base	€11,040m	€6,255m	€4,155m	€4,785m	€6,885m	1.30x
Bull	€15,500m	€6,255m	€4,155m	€9,245m	€11,345m	0.83x

The sales sums are the five June-ending TTM/annual projections in Section 8, not the four-month starting €334m plus five years. Bear sums €1,100m + €1,250m + €1,420m + €1,600m + €1,800m = €7,170m; Base sums €1,400m + €1,720m + €2,120m + €2,600m + €3,200m = €11,040m; Bull sums €1,650m + €2,180m + €2,880m + €3,790m + €5,000m = €15,500m. Even **perfect conversion** of every non-F126 June backlog euro would leave at least €3.015bn/€6.885bn/€11.345bn of five-year Bear/Base/Bull sales requiring future awards, repair/refit work outside the captured stock, or other replenishment. These are *minimum illustrative gaps*, not an order-intake forecast: any non-F126 backlog scheduled after June 2031, rescoped, cancelled, uncalled, or recognized at less than face value enlarges them. Conversely, a remedy payment for F126 could mitigate cash loss without creating vessel-building sales. Do not mechanically count it as backlog conversion or EBIT. [data_package §§0a, 6 and 10]

To stress potential *replacement production* separately from a legal remedy, the next table adds **0%, 25%, 50%, or 100%** of the cancelled €2.100bn as hypothetical new sales-equivalent awards. The positive rows are deliberately generous sensitivity constructs, **not disclosed probabilities, signed replacement orders, collectible compensation, or statutory backlog**. A legal cash remedy without replacement production belongs only in a cash analysis, never in this revenue-coverage test; the 0% row then remains applicable. All rows still optimistically assume full and in-horizon conversion of the €4.155bn non-F126 balance.

F126 replacement-sales assumption	Hypothetical sales-covered stock	Bear five-year sales gap	Base five-year sales gap	Bull five-year sales gap
0% / no replacement sales	€4,155m	€3,015m	€6,885m	€11,345m
25% / hypothetical partial replacement	€4,680m	€2,490m	€6,360m	€10,820m
50% / hypothetical partial replacement	€5,205m	€1,965m	€5,835m	€10,295m
100% / hypothetical full replacement, not established	€6,255m	€915m	€4,785m	€9,245m

The 2030 target provides a second independent challenge. The forecast's **June 2030** annual revenue is €1.60bn/€2.60bn/€3.79bn in Bear/Base/Bull, versus the issuer's **calendar-2030 potential** of about €5bn. These dates are six months apart and must not be presented as a direct target miss calculation, but the large Base gap signals deliberate underwrite restraint; even Bull requires another €1.21bn of annual run-rate by calendar year-end to meet the aspiration. The unchanged **June 2031** Bull endpoint of €5bn reaches that potential six months *after* calendar 2030; no scenario assumes the 2030 target is already contracted. The issuer's above-15% 2030 **operating-result** margin ambition is an additional stretch, not evidence that 15% statutory EBIT is achievable. Our statutory EBIT endpoints of 3.0%/7.5%/10.5% remain explicitly below it, with the unknown future PPA/special-item wedge kept visible. [September investor deck pp. 58, 66; data_package §6, 2030 ambition row]

Acquisition integration adds an orthogonal risk to order coverage. The four-month business had €33m operating result but €(18)m EBIT after €29m PPA and €22m special items, alongside €(166)m OFCF and €820m provisional goodwill. The forecast's terminal EBIT margins require that this **15.3-point initial operating-result-to-EBIT gap** narrow materially while yards absorb volume and contracts avoid overruns. An illustrative **200-basis-point integration/contract-cost miss** at the *unchanged* endpoint sales would reduce Bear/Base/Bull terminal EBIT by €36m/€64m/€100m, to €18m/€176m/€425m, and margins to 1.0%/5.5%/8.5%. This sensitivity is not a fourth scenario or a forecast revision; it shows why strong sales and hypothetical partial F126 replacement orders would not by themselves validate the acquisition economics. A sustained margin miss plus negative OFCF would threaten goodwill recoverability and should trigger re-underwriting, not an automatic impairment charge assumed here. [H1 2026 report pp. 19, 33-34; data_package §§3, 7 and 10]

Provisional goodwill of €820m is 51.7% of the €1,586m consideration transferred. Consideration is 25.4% of the **gross June reported** €6.255bn backlog but 38.2% of the **non-F126 diagnostic** €4.155bn; neither ratio is a valuation multiple or proves impairment/cheapness because backlog is not profit and consideration is not a complete all-in return measure. At the five-year endpoints, consideration divided by modeled EBIT is 29.4 times in Bear, 6.6 times in Base and 3.0 times in Bull; goodwill divided by modeled EBIT is 15.3, 3.4 and 1.6 times. These are endpoint stress diagnostics only: they ignore interim losses, cash flows, tax, subsequent capacity investment, financing and terminal value. Their lesson is that the acquisition economics are highly convex to execution. Bear revenue growth can coexist with an inadequate return on the capital paid and invested.

The €(166)m four-month OFCF makes the earnings-to-cash bridge a decisive monitoring item. At base horizon EBIT of about €240m, the segment should be expected to produce meaningful cumulative cash after working-capital normalization. If EBIT improves but OFCF remains structurally negative, the margin model will be economically incomplete and the acquisition thesis should be reassessed. No scenario treats the initial cash deficit as an automatic future inflow.

11. Key risks and wildcards

11.1 F126 and program-replacement risk — Bear-dominant

F126 is the clearest evidence against treating backlog or strategic demand as guaranteed sales. The cancellation reduced 2026 sales guidance by up to €300m and pushed Naval operating-margin guidance down to 10%-11%. Management said F126 was under 3% of its 2030 plan, but the data package does not establish a Naval-specific denominator for that percentage; it must not be multiplied by the roughly €5bn Naval ambition to infer a €150m contribution. The long-range share statement does not negate a near-term guidance effect of up to €300m because timing and planned production profiles differ. The September deck confirms that **€2.1bn cancelled-program value still sits in June backlog**. A remedy or settlement might compensate some economics but is neither guaranteed nor necessarily revenue; replacement vessel work requires separate awards. The bear case assumes replacement work arrives slowly and at less favorable terms. The base case assumes partial replacement, not a full immediate substitution. The bull case requires new awards that more than offset the loss. [Rheinmetall Q2 2026 call deck p. 5; September investor deck p. 58; data_package §6, Naval/F126 and Naval backlog quality rows]

11.2 Shipyard capacity and skilled-labor risk — All cases, strongest in Bear

The segment cannot convert orders faster than engineering, docks, suppliers, and skilled labor allow. The data package gives no capacity utilization, dock count, throughput, or hiring schedule. Expansion can depress margin before revenue appears; insufficient expansion can create delays and penalties. The repaired base cadence's cumulative **€11.04bn** of modeled revenue requires at least **€6.885bn** beyond the non-F126 June backlog even under perfect conversion, while terminal annual revenue is only €3.2bn. This is the principal reason the base case sits far below the €5bn 2030 ambition. A disclosed capacity roadmap with milestones would narrow the range.

11.3 Contract-quality and fixed-price risk — Bear-dominant

Backlog quality is not just cancellation probability. Contract escalation, milestone terms, design maturity, change-order recoverability, liquidated damages, and subcontractor risk determine the EBIT embedded in each euro of revenue. The current package has no maturity or cancellation matrix and no product-margin schedule. A full yard with poor contracts can generate low returns. The bear 2.0% newbuild EBIT margin is intended to capture this downside without assuming a catastrophic loss.

11.4 Acquisition integration and PPA burden — Base/Bear

The four-month operating result was positive €33m, yet EBIT was negative €18m after €29m PPA and €22m special items. Integration must therefore prove itself on the exact EBIT basis. PPA and special items consumed 15.3 percentage points of disclosed sales in the initial period. The €820m goodwill balance creates downside if synergies or order conversion disappoint. Base assumes special items normalize but retains a material gap to operating-result economics. Bear assumes recurring complexity and weaker contracts. Bull assumes vertical integration adds real content and win-rate benefits while the operating-result-to-EBIT gap narrows substantially.

11.5 Backlog firmness and replenishment — All cases

Naval's reported June backlog was €6.255bn, **including €2.1bn cancelled F126**, leaving a non-F126 diagnostic of €4.155bn. No Naval firm-versus-frame, maturity, margin, remedy, or customer-concentration table is disclosed. Group-level disclosure warns that frame backlog represents expected call-offs and can vary; the roughly 30% Group frame share cannot be imposed on Naval because Naval-specific composition is unknown. The model therefore does not divide backlog by five and call the result revenue. Future awards are essential because Base cumulative modeled revenue exceeds the non-F126 balance by **€6.885bn** before any post-horizon deliveries or slippage. A hypothetical replacement-sales award equal to 50% of F126 would still leave **€5.835bn** to replenish; a cash settlement alone would not reduce the revenue gap.

11.6 Working capital and milestone cash — Bear-dominant

OFCF of €(166)m in four months is a material warning. Naval contracts can consume cash before milestones and advance payments arrive. Group management described inventory build and shifted down payments, but no Naval working-capital bridge proves reversibility. The segment can meet EBIT forecasts and still disappoint shareholder returns if cash is tied up structurally.

11.7 Customer and political concentration — Bear/Base

Sovereign demand is durable but concentrated. The data package could not find a percentage-by-customer schedule. A small number of national decisions may determine yard utilization. Elections, budget reprioritization, export approvals, local-content demands, and intergovernmental relations can shift program timing. The lack of concentration disclosure prevents a quantitative stress test.

11.8 Vertical-integration upside — Bull-dominant

Rheinmetall may capture more value per vessel by adding weapons, ammunition, electronics, air defence, and digital systems. If customers value a single accountable integrator, the segment could support both higher sales and better margins. The upside remains unproven because no synergy KPI or cross-segment content measure is disclosed. It earns a bull-case option, not a base-case certainty.

11.9 Service-mix upside — Base/Bull

Repair and refit could smooth program volatility and strengthen customer relationships. The current €39m contribution is too small to prove the model. Base assumes service reaches €576m and 18.0% of sales by 2031; Bull reaches €1.00bn and 20.0%. If service attachment remains low, the terminal margin should be cut because the model would be more exposed to large newbuild contracts.

11.10 Accounting-perimeter and comparability risk — All cases

The TTM anchor is a four-month acquisition contribution, not a mature trailing year. CAGR comparisons with other Rheinmetall segments would be misleading. PPA and special items also create a wide gap between operating result and EBIT. Every future update must preserve EBIT as the common metric and separate organic performance, full-perimeter effects, PPA, and special charges.

12. Monitoring framework and falsification conditions

The base case should be challenged against a small set of observable milestones. First, ten-month 2026 Naval sales should be tested against the deck's €1.0bn-€1.2bn expectation and June-2027 TTM sales against the revised €1.40bn Base path, rather than relying on a last-minute 2030 acceleration. Second, EBIT must turn positive on the exact statutory basis and converge toward the guided operating-result economics only after transparently disclosed PPA and special items. Third, cumulative OFCF should improve as milestones and advance payments catch up; persistent cash burn would invalidate the assumed economic conversion. Fourth, replacement and export awards should replenish the **non-F126** backlog without requiring obviously aggressive commercial terms; separately disclose whether any F126 remedy is cash, claim, or executable replacement work. Fifth, management should disclose or at least clarify capacity investments, yard throughput, and integration progress.

The bear case becomes more likely if June-2028 TTM sales remain below the **€1.72bn Base path** and near the **€1.25bn Bear path**, if newbuild EBIT margins remain low-single-digit after the main integration period, if working-capital outflows persist despite growth, or if another large program is cancelled or materially delayed. The bull case requires visible evidence by June 2029: sales near its **€2.88bn** path, backlog replenishment, service approaching a meaningful share of mix, and a narrowing operating-result-to-EBIT gap without dependence on recurring exclusions.

The central discipline is to separate **demand visibility** from **value conversion**. European naval demand can be strong while shareholder economics disappoint through poor contracts, capacity mis-sequencing, or cash absorption. Naval Systems earns a positive strategic assessment only when shipyard scarcity, vertical integration, and service intimacy translate into EBIT and cash after acquisition accounting.

Scenario summary

Case	Segment TTM+5y revenue	Exact profit metric	Segment TTM+5y profit margin	Segment TTM+5y profit	Probability
Bear	€1,800m	EBIT	3.0%	€54m	40%
Base	€3,200m	EBIT	7.5%	€240m	45%
Bull	€5,000m	EBIT	10.5%	€525m	15%

Bottom line: Naval Systems offers genuine strategic capacity and **€6.255bn reported June backlog**, but **€2.1bn cancelled F126 remains in that stock**, leaving only **€4.155bn** as a non-F126 executable-work diagnostic before further timing or firmness haircuts. This differs from the deck's **€5.5bn acquired backlog**. The acquisition begins with only four months of disclosed history, €(18)m EBIT after PPA and special items, €(166)m OFCF, €820m provisional goodwill, and a real program cancellation. The revised Base interim path honors the issuer's €1.0bn-€1.2bn expectation for ten post-close months in 2026, yet its five June-year sales sum of €11.04bn needs at least €6.885bn beyond the non-F126 June stock under an optimistic full-conversion premise. The **2031 Base endpoint remains €3.20bn revenue and 7.5% statutory EBIT margin**, deliberately below management's roughly €5bn 2030 sales and above-15% *operating-result* margin aspirations. The nonuniform probabilities still give 40% weight to a lower-return execution path. Naval may be valuable, but its moat and margins must be demonstrated through new awards, yard execution, integration and cash—not inferred from gross backlog or adjusted operating-result targets.

Appendix S — Synthesis

Rheinmetall AG — Synthesis (Combined Earnings Model)

Production Mode. All figures are EUR unless stated otherwise. Revenue, EBIT and net-income amounts are shown in billions in the main model tables and millions in the arithmetic audit. The model is a mechanical consolidation of the five reviewed segment appendices and the DR-cleared data package. It does not fetch or invent a new accounting classification, and it keeps the issuer-disclosed common segment profit basis as **EBIT**. The forecast starts at the reproducible TTM ended 2026-06-30 and ends exactly five calendar years later on 2031-06-30.

1. Anchors

- Today: **2026-09-22**; information cutoff **20:02:24 SGT**.
- Fiscal year end: **31 December**.
- TTM anchor: **2026-06-30**.
- TTM construction: **FY2025 less H1 2025 plus H1 2026**, equivalent to the non-overlapping Q3 2025, Q4 2025, Q1 2026 and Q2 2026 economic periods. The cumulative bridge is the controlling arithmetic because the issuer reports the interim periods cumulatively.
- Latest completed FY for historical tie-out only: **FY2025 ended 2025-12-31**.
- Horizon: **2031-06-30**, exactly 5.0 calendar years after the TTM end. No line uses a sixth fiscal year or substitutes FY2025 for the TTM base.
- Valuation price: **EUR 1,010.60 per Xetra-listed ordinary bearer share**, listing `XETR:RHM`, ISIN `DE0007030009`, raw completed exchange close on **2026-09-21** at 17:30 CEST. Quote raw-source SHA-256: `feed75cdee3c8509464ab6ef369356df9c86690a8bbbbb39100f9f7bfa768efd`. Current-run QFR-sealed packet SHA-256: `467eae5fbb23750675ed1aa01ce9cfa8233d33aa8961e5d1459e21c261ba048a`. Actionability expiry: **2026-09-22T23:30:00+08:00** (the next scheduled Xetra close); this is a time-limited research anchor, not an executable instruction.
- Reporting and quote currency: **EUR / EUR**. The quoted unit and the financial-statement unit are the same ordinary bearer share.
- Share bridge: 46.777223m issued shares at 2026-06-30 plus 0.012344m shares issued on the final Tranche B conversion by 2026-07-03 equals **46.789567m quote-date issued ordinary shares**. Multiplication by split factor 1.0 leaves 46.789567m quote-basis issued shares. The 46.67m H1 weighted diluted denominator is an EPS-period measure and is not the forward starting count.
- Listed-unit bridge: depositary ratio 1.0 multiplied by share-class factor 1.0 equals one financial share per listed unit. Thus 46.789567m quote-basis issued financial shares divided by 1.0 equals 46.789567m listed-equivalent units.
- FX bridge: EUR 1.0 quoted currency per EUR 1.0 reporting currency on 2026-09-21; the identity rate is the correct same-currency bridge.
- Historical statutory bridge SHA-256: `bc3d5a1577a7461e980af5b367da097ae51674dd432019c21cc73639b9b8d7a5`. The installed validator returned `STATUTORY_BRIDGE_VALID` with the expected hash, and `gate_manifest.json` contains the current durable DR gate `STATUTORY BRIDGE VERIFIED — CLEARED FOR FORECASTING`.
- Current-run quantitative foundation SHA-256: `9ec90a078f49eec62ca5ea35a7bac90f1252b3df1ab4339acf72a75746126546`; QFR independently replayed the 46.777223m plus 0.012344m issued-share bridge and separated it from weighted EPS denominators.
- DR-reviewed `data_package.md` SHA-256: `7b83d21b32274fc7a84f785643a5d5789afc771a2fcf48943b1498395c2f8719`. The five current B/R reviewed hashes are Vehicle `0d1f0ef9547a68017f9c7e0778419444df73b8bbed56b63b8d6d8e6ab74e33d6`, W&A `3d3fcdd3d6fda8e3e63b907285fad423bd59f48aa335c2bf20765cb91517397b`, Air `527305b27f9aa20fa065f55d1eb623df704e08df6c121a5426444704bbae273d`, Digital

`5b89cded0a9c5c6e418ed15bf637cdecdba2e7718c8d60d1dd072ec4f7d65bfa` and Naval `97bb02ea6bd970bc77452b563625b1a27ae3c7b338e6e66a3939b834d73bcc99`. Management `c3da0b04f682c68c7fcebcd66f6de350558acfac2263b6dea358d4bea4cc1b49` and Moat `5a281dadc2bf16e5c2763ac89885debd4489abb8850fc41874278ee9864abbdf` also match the gate manifest; both verdicts are YELLOW.

- The quote-packet and statutory-bridge hashes were recomputed from exact on-disk bytes. The strict quote validator returned `QUOTE_PACKET_VALID` at **2026-09-22T20:58:39+08:00**, before expiry. The price is a 2026-09-21 completed close, not an intraday 2026-09-22 mark.

The starting consolidated TTM revenue is EUR11.413bn and statutory EBIT is EUR1.963bn. The current-taxonomy gross segment revenue is EUR12.699bn, offset by EUR1.286bn of Others/consolidation. Segment EBIT is EUR2.129bn before the EUR165m corporate/unallocated cost and the EUR1m disclosed-rounding difference. These are the anchor controls the forecast compounds.

The shareholder's **entry-to-terminal interval is different**: the 2026-09-21 completed-close entry to 2031-06-30 is **1,743 days, or 4.772171913180968 years** on the run's day-count convention. The operating projection is the exact **five-calendar-year** TTM 2026-06-30 to 2031-06-30. Stage S does not select an exit multiple, calculate an IRR, or score the security; VP/CS must use the shorter entry-to-terminal period for any subsequent return model. Using 5.0 years as a shareholder-return exponent would be wrong.

2. Segment-level forward assumptions

The table reproduces each reviewed appendix. It does not replace the segment probability views with a weighted blend. Bear, Base and Bull endpoints are taken from the same-named case in every segment so the combined cases remain interpretable.

Segment	Exact profit metric	TTM revenue (EUR bn)	Bear TTM+5y revenue	Base TTM+5y revenue	Bull TTM+5y revenue	Bear EBIT margin	Base EBIT margin	Bull EBIT margin
Vehicle Systems	EBIT	5.525	7.642299	10.468115	13.500853	8.4001%	12.6839%	13.9687%
Weapon and Ammunition	EBIT	3.966	6.469511 (6.470 rounded)	10.815030 (10.815 rounded)	14.918521 (14.919 rounded)	20.0%	25.0%	30.0%
Air Defence	EBIT	0.952	1.560100	2.478500	3.334400	13.5%	18.0%	21.0%
Digital Systems	EBIT	1.922	2.357400	3.505400	4.165900	8.5%	12.2%	15.0%
Naval Systems	EBIT	0.334	1.800000	3.200000	5.000000	2.9750%	7.5100%	10.5%

Sources are `appendix_B_vehicle_systems.md` §§8-10, `appendix_B_weapon_and_ammunition.md` §§8-10, `appendix_B_air_defence.md` §§8-10, `appendix_B_digital_systems.md` §§8-10 and `appendix_B_naval_systems.md` §§8-10. All five files match their reviewed SHA-256 entries in `gate_manifest.json`.

Vehicle Systems models the disclosed segment using core and Loc Performance buckets. Weapon and Ammunition, Air Defence and Digital Systems use one financially supportable segment-total line because no complete product revenue split exists. Naval Systems uses newbuild/other and repair/service, while explicitly retaining the four-month acquisition-period TTM anchor. The absence of invented product allocations is a control, not a lack of bottoms-up discipline: where product dollars are unavailable, the appendices forecast only the disclosed financial perimeter and explain the operating drivers.

The September deck provides a complete FY2026 target matrix and a much more aggressive calendar-2030 management ambition. The table preserves management's **operating-result** basis separately from our **statutory EBIT** basis. Its June-2030 annualised/TTM points are six months before the issuer's calendar-2030 targets and June-2031 points six months after; the directional shortfall is a challenge, not an apples-to-apples target variance.

Segment	Management FY2026 sales EUR bn / operating-result margin	Management calendar-2030 sales EUR bn / operating-result margin	Reviewed Base TTM June-2030 sales EUR bn	Reviewed Base TTM June-2031 sales EUR bn / statutory EBIT margin	Underwriting gap
Vehicle Systems	5.9–6.0 / 12%–13%	13–15 / 13%–15%	9.210	10.468 / 12.68%	More platform awards and commissioned output needed
Weapon and Ammunition	4.9–5.0 / 29%–30%	14–16 / 29%–31%	9.656	10.815 / 25.0%	Powder, shells and cash conversion need proof
Air Defence	0.9–1.0 / about 19%	3–4 / 24%–26%	2.233	2.479 / 18.0%	Award-to-accepted-delivery and basis gap

Segment	Management FY2026 sales EUR bn / operating-result margin	Management calendar-2030 sales EUR bn / operating-result margin	Reviewed Base TTM June-2030 sales EUR bn	Reviewed Base TTM June-2031 sales EUR bn / statutory EBIT margin	Underwriting gap
Digital Systems	2.2–2.3 / about 12%	8–10 / 17%–19%	3.216	3.505 / 12.2%	Largest target gap and integration/software value-capture test
Naval Systems	1.0–1.2 / 10%–11%	about 5 / above 15%	2.600	3.200 / 7.51%	F126 replacement, yard cash and PPA/special-item gap

Source: `data_package.md` §6, September issuer deck pp. 23, 30, 39, 47, 57, 65–66; each R-reviewed `appendix_B_*` §10. The FY2026 targets are calendar-year issuer guides, not June-2027 TTM outcomes. The 2030 framework includes M&A and excludes US order wins; its sales target is not a signed-order roll-forward. In particular the Digital target is far above even the later June-2031 Base model; filling it would require new acquired or contracted economics and cash funding, not a harmless acceleration of the current line. No management operating-result margin is treated as the exact EBIT margin in the sealed bridge.

3. Combined revenue build

The TTM Others/consolidation line is EUR1.286bn against EUR12.699bn of gross current-taxonomy segment revenue, or **10.1267816363493%**. No reviewed appendix supplies a separate five-year elimination forecast. The synthesis therefore holds this exact gross-to-net ratio constant in all three cases. This is transparent and mechanically neutral: it neither creates revenue by shrinking eliminations in Bull nor manufactures a Bear penalty by enlarging them. Any future issuer disclosure of the successor-segment external/internal sales matrix should replace this convention.

Line (EUR bn)	Bear	Base	Bull
Sum of segment TTM+5y revenue	19.829310	30.467045	40.919674
Corporate eliminations at 10.1267816363493%	(2.008071)	(3.085331)	(4.143846)
Combined TTM+5y revenue	**17.821239**	**27.381714**	**36.775828**
TTM 2026-06-30 to 2031-06-30 CAGR	9.3220%	19.1275%	26.3667%

The Base case more than doubles Group revenue over five years but remains materially below management's **roughly EUR50bn calendar-2030** ambition in the September deck. That gap is deliberate. The model discounts backlog conversion, the lack of product-level revenue bridges, the four-month Naval anchor, frame-backlog uncertainty outside Air Defence, and the physical difficulty of commissioning many plants simultaneously. Bull reaches EUR36.776bn at June 2031, still below the earlier calendar-2030 aspiration; these are not same-date endpoints, and the reviewed segment forecasts are not reverse-engineered to that target. The September deck's FY2026 sales/margin matrix and 2030 five-segment targets are management **operating-result**, not statutory EBIT, claims. Applying those adjusted margin aspirations to these statutory segment profit lines would silently inflate the bridge.

For tie-out purposes, “sum of modeled lines” means the five gross segment endpoints plus the separately disclosed consolidating line. That complete set equals combined revenue exactly. The five segment lines alone exceed external Group revenue because the current taxonomy contains intersegment revenue, exactly as the TTM anchor does.

4. Combined operating-income build

The exact common segment metric and statutory operating-income label are both EBIT. There are no operating bridge adjustments in the sealed packet. The only corporate line is Others/consolidation, EUR(165)m at TTM. The data-package forecast ledger says the Bear case should suffer cost growth faster than revenue, Base should show modest scaling, and Bull should show operating leverage. The explicit rule is therefore 10%, 8% and 7% annual absolute corporate-cost growth, respectively, over exactly five years. Those rates produce terminal costs of EUR265.734m, EUR242.439m and EUR231.421m. Bear corporate cost CAGR exceeds Bear Group revenue CAGR; Base and Bull corporate cost grow well below revenue.

Line (EUR bn)	Bear	Base	Bull
Vehicle Systems EBIT	0.641962	1.327760	1.885893
Weapon and Ammunition EBIT	1.294000	2.704000	4.476000
Air Defence EBIT	0.210600	0.446100	0.700200

Line (EUR bn)	Bear	Base	Bull
Digital Systems EBIT	0.200400	0.427700	0.624900
Naval Systems EBIT	0.053550	0.240320	0.525000
Sum of segment EBIT	2.400512	5.145880	8.211993
Others/consolidation corporate cost	(0.265734)	(0.242439)	(0.231421)
Consolidated segment-profit metric	2.134778	4.903441	7.980572
Operating bridge adjustments	0.000000	0.000000	0.000000
Combined statutory TTM+5y EBIT	**2.134778**	**4.903441**	**7.980572**
Combined EBIT margin	**11.9788%**	**17.9077%**	**21.7006%**

The Bear case shows why revenue visibility does not guarantee economics. Revenue compounds at 9.3%, but Vehicle Systems under-absorption, W&A scarcity fade, weak Digital leverage and low Naval returns limit EBIT to EUR2.135bn. Base still depends most heavily on Weapon and Ammunition, which contributes 52.5% of terminal segment EBIT after its reviewed margin falls to 25.0%. Bull requires simultaneously high ammunition utilization, successful platform ramps, improving Digital reuse, Air Defence throughput and Naval integration; it is not simply a defence-budget scenario.

The September capital plan is an **earnings/cash reflexivity test**, not an automatic forecast uplift. At the EUR13.7bn–EUR14.2bn FY2026 sales guide, 16% capex would be roughly EUR2.192bn–EUR2.272bn, versus EUR1.096bn–EUR1.278bn at 8%–9%; the stated 7–8 percentage-point shift implies roughly **EUR0.96bn–EUR1.14bn lower planned 2026 spend** on a common sales denominator. The same deck still specifies **more than EUR8bn over five years excluding capital contributions**. A one-year project deferral may move spending into 2027–28, or a supplier saving may genuinely lower unit investment cost; without commissioned output and actual cumulative capex, neither should raise 2031 EBIT, free cash flow or valuation. H1 continuing OFCF was EUR(1.616)bn, despite statutory EBIT growth, and Group net debt EUR2.722bn after NVL. Base's higher volumes and 17.91% Group terminal EBIT margin need funded plants, customer advances, inventory conversion and acceptance cash. If management maintains the 2030 operating-result target while repeatedly pushing capex and milestones, the unchanged terminal revenue/EBIT model becomes less credible even though this mechanical sum still ties. See `data_package.md` §§6–8, `appendix_management.md` §3 and `appendix_moat.md` §§2–3.

5. Net income and EPS build

The below-line forecast preserves the data-package driver classes. Net interest expense is EUR290m in Bear, EUR160m in Base and EUR70m in Bull. Bear assumes refinancing and working-capital funding remain expensive; Base assumes cash generation partly deleverages the NVL-funded balance sheet; Bull assumes faster deleveraging. No separate terminal other-income source is available, so other income is zero rather than a positive plug. Tax rates are the ledger's 27%, 26% and 25%.

The historical statutory bridge ends at Group net income, while listed-share EPS must use earnings attributable to ordinary shareholders. The TTM bridge reports EUR866m Group earnings, EUR715m owner-attributable earnings and a EUR722m diluted owner numerator. Continuing Group earnings before discontinued operations were approximately EUR1.371bn. The forecast therefore shows Group earnings first, then an explicit non-controlling/diluted-owner attribution of 12%, 11% and 10% in Bear, Base and Bull. The Base 11% is approximately the TTM continuing ownership leakage; Bear is one point worse and Bull one point better. Discontinued operations are EUR(100)m in Bear and zero in Base/Bull. No terminal diluted convert interest add-back is used because all convertible bonds had converted by 2026-07-03. Section 6 now begins with the 46.789567m quote-date issued/listed baseline and adds scenario-specific LTI 2.0 dilution; it no longer carries the stale 46.67m weighted denominator or assumes zero stock-compensation issuance.

Line	Bear	Base	Bull
Combined TTM+5y EBIT (EUR bn)	2.134778	4.903441	7.980572
Net interest expense (EUR bn)	(0.290000)	(0.160000)	(0.070000)
Other income (EUR bn)	0.000000	0.000000	0.000000
Pre-tax income (EUR bn)	1.844778	4.743441	7.910572
Tax rate	27.0%	26.0%	25.0%
Group continuing earnings after tax (EUR bn)	1.346688	3.510146	5.932929

Line	Bear	Base	Bull
Non-controlling and owner-attribution rate	12.0%	11.0%	10.0%
Discontinued operations attributable to owner (EUR bn)	(0.100000)	0.000000	0.000000
Net income available to diluted ordinary equity (EUR bn)	**1.085085**	**3.124030**	**5.339636**
Quote-basis diluted financial shares at horizon (m)	46.814388	46.888849	46.988131
EPS in EUR per quote-basis financial share	23.178457	66.626292	113.637975
Financial shares per listed unit	1.000000	1.000000	1.000000
EPS in EUR per listed unit	23.178457	66.626292	113.637975
FX, quote EUR per reporting EUR	1.000000	1.000000	1.000000
EPS in quote currency per listed unit	**EUR23.178457**	**EUR66.626292**	**EUR113.637975**

The required unit equation holds in every case:

`EPS_REPORTING_PER_QUOTE_BASIS_FINANCIAL_SHARE = NI_REPORTING / QUOTE_BASIS_DILUTED_FINANCIAL_SHARES`

`EPS_QUOTE_PER_LISTED_UNIT = EPS_REPORTING_PER_QUOTE_BASIS_FINANCIAL_SHARE × 1.0 × 1.0`

For example, Base is EUR3,124.030155m divided by 46.888849m horizon diluted shares, or EUR66.626292. Multiplying by the one-for-one listed-unit factor and identity FX rate leaves EUR66.626292 per Xetra share.

5a. Return-method input bridge

This section supplies inputs; it does not choose the eventual primary shareholder-return method. The terminal cash, gross-debt and lease paths are not forecast in the reviewed upstream artifacts, so they are marked unavailable. That prevents an unsupported EV-to-equity bridge from controlling. It does not prevent a later hash-bound valuation preflight from using the fully reconciled EPS/PE method.

Input	Bear	Base	Bull	Source or treatment
Statutory EBIT (EUR bn)	2.134778	4.903441	7.980572	Section 4 consolidation
Normalized cash tax rate	27.0%	26.0%	25.0%	DR-cleared forecast ledger
Normalized NOPAT (EUR bn)	1.558388	3.628546	5.985429	EBIT multiplied by one minus tax
Terminal cash	Unavailable	Unavailable	Unavailable	No reviewed scenario balance-sheet path
Terminal gross debt	Unavailable	Unavailable	Unavailable	H1 2026 current debt is EUR2.978bn only
Terminal lease liabilities	Unavailable	Unavailable	Unavailable	Included in current debt; terminal subtotal not disclosed
Preferred equity	0	0	0	No preferred share class in packet or package
Minority interest balance	Unavailable	Unavailable	Unavailable	Income attribution modeled; terminal balance path absent
Other senior claims	Unavailable	Unavailable	Unavailable	No reviewed terminal schedule
Separately valued non-operating assets	Unavailable	Unavailable	Unavailable	No reviewed valuation path
Diluted listed-equivalent shares (m)	46.814388	46.888849	46.988131	Section 6 explicit path

The current H1 balance-sheet anchors are EUR255m cash, EUR2.978bn gross financial debt and EUR2.722bn net debt. They are current facts, not terminal values. A later EV/NOPAT model would require scenario-specific cash, debt, leases and senior claims and therefore cannot be built by inserting net debt as a residual. The EUR8bn-plus investment ambition, H1 working-capital burn and revised near-year capex reinforce that gap; a static debt assumption would be a disguised

free-cash-flow forecast. Stage S neither chooses PE/EV_NOPAT/PB_ROE nor assigns exit multiples or returns. The P/E 15 entry test below is separate from method selection and uses only fully reconciled EPS and the immutable price.

P&C insurer lane

NOT TRIGGERED — issuer is not a P&C insurer or reinsurer. Rheinmetall is an industrial defence prime. No `insurer_return_bridge.json` is created.

6. Share-count path

The repaired packet's **46.789567m quote-date issued/listed ordinary shares** are the forward starting point. The exact legal bridge is `46.777223m at 2026-06-30 + 0.012344m final-conversion shares = 46.789567m at 2026-07-03`. The split, depositary, class and EUR/EUR FX factors are each 1.0. The 46.67m H1 weighted diluted denominator and 46.66m constructed TTM weighted denominator remain historical EPS measures only.

Treasury shares are explicitly inventoried. The 2025 Annual Report discloses 121,504 treasury shares at 2025-12-31, while the H1 2026 equity statement carries the treasury position at an unchanged EUR4m but does not restate an exact share quantity. To avoid overstating EPS, the forecast deducts **zero** treasury shares from the repaired issued-share baseline. In effect, all issued units, including any treasury units still held, remain in the denominator. This is conservative by at most 0.121504m shares, or 0.2597% of the repaired starting count. If the full FY2025 treasury quantity were deducted, Base terminal EPS would rise from EUR66.626292 to EUR66.799391 and the P/E-15 cushion would improve from (1.1088%) to (0.8518%); the binary gate would remain FAIL.

LTI 2.0 cohort inventory and scenario treatment

The zero-SBC assumption is eliminated. Official Note 35 discloses 40,890 continuing and 10,633 discontinued-operation PSUs for the 2024 tranche. For 2025, the annual table reports 22,986 continuing and 4,918 discontinued PSUs, while the later H1 2026 note identifies 8,327 Executive Board plus 15,534 continuing-manager PSUs, or 23,861. The model uses the larger 23,861 continuing amount and retains the larger 4,918 discontinued amount so that potential parent-share dilution is not understated. H1 2026 then discloses 2,703 Executive Board and 6,787 continuing-manager PSUs for the 2026 tranche, totaling 9,490. The 2022 and 2023 Executive Board tranches are cash-settled, and the manager programme was aligned to LTI 2.0 only from 2024, so no earlier equity cohort is omitted. Because one additional 2027 cohort can complete its four-year performance period by the 2031 horizon, the model conservatively carries forward the latest disclosed 9,490-PSU run rate once. No later cohort is assumed to settle before 2031-06-30.

Cohort	Continuing PSUs	Discontinued PSUs	Modeled PSU pool	Expected settlement by horizon	Evidence
2024	40,890	10,633	51,523	2028	Annual Report 2025 Note 35
2025	23,861	4,918	28,779	2029	H1 2026 Note 11 plus conservative annual-table discontinued maximum
2026	9,490	0	9,490	2030	H1 2026 Note 11
2027 projected	9,490	0	9,490	2031	Latest disclosed 2026 grant run rate, carried once
Total	**83,731**	**15,551**	**99,282**	By 2031-06-30	Source-bound plus one explicit run-rate projection

Starting with the 2024 tranche, German beneficiaries receive 50% in shares and 50% in cash; foreign managers receive 100% in shares. Overall target achievement can range from 0% to 200%, and value is capped at 250% of the individual target amount. The source does not disclose the German/foreign PSU split. Bear therefore uses 50% achievement and the 50% minimum equity-settlement fraction, or 25% of the PSU pool. Base uses 100% achievement and conservatively treats 100% of the pool as shares. Bull uses the disclosed 200% maximum target achievement and 100% share settlement. Whether delivery uses new shares or treasury shares, the effect on outstanding units is the same; the schedule models that denominator effect as issuance.

Case	Achievement	Equity-settlement fraction	Total PSU-equivalent share addition	Addition vs 46.789567m start
Bear	50%	50%	0.0248205m	0.0530%
Base	100%	100%	0.0992820m	0.2122%
Bull	200%	100%	0.1985640m	0.4244%

The Bull share addition is also the quantified evidence-bound maximum for the identified 2024-2027 pool under 200% target achievement and 100% equity delivery. Applying that maximum to Base earnings would produce EUR66.485516 EPS and a (1.3178%) P/E-15 cushion. Thus the LTI instrument is incorporated rather than waved away, and its source-bound upper limit does not change the Base binary gate, which is already FAIL after the reviewed W&A margin reset.

Five years of reviewed capital-allocation history show zero buybacks, so repurchase cash and shares retired remain zero. The explicit annual paths are:

Case / year ending	Starting quote-basis issued/diluted shares (m)	Buyback (EUR bn)	Average repurchase price	Shares retired (m)	LTI share addition (m)	Ending quote-basis diluted shares (m)
Bear 2027-06-30	46.78956700	0.000000	Not applicable	0.00000000	0.00000000	46.78956700
Bear 2028-06-30	46.78956700	0.000000	Not applicable	0.00000000	0.01288075	46.80244775
Bear 2029-06-30	46.80244775	0.000000	Not applicable	0.00000000	0.00719475	46.80964250
Bear 2030-06-30	46.80964250	0.000000	Not applicable	0.00000000	0.00237250	46.81201500
Bear 2031-06-30	46.81201500	0.000000	Not applicable	0.00000000	0.00237250	46.81438750
Base 2027-06-30	46.78956700	0.000000	Not applicable	0.00000000	0.00000000	46.78956700
Base 2028-06-30	46.78956700	0.000000	Not applicable	0.00000000	0.05152300	46.84109000
Base 2029-06-30	46.84109000	0.000000	Not applicable	0.00000000	0.02877900	46.86986900
Base 2030-06-30	46.86986900	0.000000	Not applicable	0.00000000	0.00949000	46.87935900
Base 2031-06-30	46.87935900	0.000000	Not applicable	0.00000000	0.00949000	46.88884900
Bull 2027-06-30	46.78956700	0.000000	Not applicable	0.00000000	0.00000000	46.78956700
Bull 2028-06-30	46.78956700	0.000000	Not applicable	0.00000000	0.10304600	46.89261300
Bull 2029-06-30	46.89261300	0.000000	Not applicable	0.00000000	0.05755800	46.95017100
Bull 2030-06-30	46.95017100	0.000000	Not applicable	0.00000000	0.01898000	46.96915100
Bull 2031-06-30	46.96915100	0.000000	Not applicable	0.00000000	0.01898000	46.98813100

The exact terminal equations are Bear `46.789567 + 0.0248205 - 0 buybacks = 46.8143875m`, Base `46.789567 + 0.0992820 = 46.8888490m`, and Bull `46.789567 + 0.1985640 = 46.9881310m`. No weighted-average historical denominator, ADR unit, assumed buyback offset or unmodeled zero-SBC shortcut remains in the forward path.

7. P/E 15 binary test

The immutable packet price is **EUR1,010.60**. Required horizon EPS is therefore **EUR67.373333 per listed unit**, calculated as EUR1,010.60 divided by 15. Cushion equals `(EPS × 15 - price) / price`.

Case	EPS at 2031-06-30	EPS × 15	Packet price	Cushion	Pass?
Bear	EUR23.178457	EUR347.676862	EUR1,010.60	(65.5970%)	FAIL
Base	EUR66.626292	EUR999.394383	EUR1,010.60	(1.1088%)	FAIL
Bull	EUR113.637975	EUR1,704.569631	EUR1,010.60	68.6691%	PASS

Binary gate: FAIL, controlled by Base, with a (1.1088%) cushion. Base EPS of EUR66.626292 is below the EUR67.373333 requirement. Bull does not rescue the failed Base gate. The prior red-team resolution lowered W&A Base margin from 26.5% to 25.0%; the refreshed price narrows, but does not close, the failed gap. This P/E 15 test is an entry-price discipline, not an assumed terminal exit multiple and not a trade authorization.

8. Reflexivity and historical bridge check

At TTM, current-taxonomy gross segment revenue is Vehicle EUR5.525bn, W&A EUR3.966bn, Air Defence EUR0.952bn, Digital EUR1.922bn and Naval EUR0.334bn, totaling EUR12.699bn. The exact EUR1.286bn Others/consolidation line produces EUR11.413bn of Group revenue: `12.699 - 1.286 = 11.413`. Residual is zero and the percentage match is 100.000%.

TTM segment EBIT is Vehicle EUR634m, W&A EUR1,087m, the sealed Air-plus-Digital line EUR426m and Naval EUR(18)m, totaling EUR2,129m. Adding EUR(165)m Others/consolidation gives EUR1,964m versus statutory EBIT of EUR1,963m. The EUR1m residual is 0.051% of statutory EBIT and is within the sealed whole-million packet tolerance. No plug is inserted. At

FY2025, reportable segment EBIT of EUR1,844m plus EUR(160)m Others/consolidation equals statutory EBIT of EUR1,684m exactly.

The model therefore compounds from a revenue anchor with zero residual and from an EBIT anchor with the exact disclosed-rounding residual already sealed by QFR and revalidated by DR. The forecast preserves the same separation between reportable segments and corporate/unallocated cost.

9. Latest interim bridge reconciliation

The cumulative-interim method is triggered. Like-for-like six-month periods are used, with no overlapping standalone quarter added.

TTM line (EUR m)	FY2025	Less H1 2025	Plus H1 2026	TTM 2026-06-30
Revenue	9,935	(3,749)	5,227	11,413
Statutory EBIT	1,684	(385)	664	1,963
Net income	835	(264)	295	866
Diluted owner numerator	708	(222)	236	722
Diluted weighted shares (m)	46.66	(23.335)	23.335	46.66

Both interim periods cover 1 January through 30 June. FY2025 covers 1 January through 31 December 2025. Subtracting H1 2025 leaves H2 2025; adding H1 2026 produces the twelve months ended 30 June 2026. The weighted-share bridge uses half-year weights, not an addition of reported EPS. The 46.66m TTM and 46.67m H1 weighted denominators remain historical EPS measures; the forward path begins with the separately reconciled 46.789567m quote-date issued/listed baseline.

The Naval acquisition closed 27 February 2026, leaving just four months of Naval contribution in this historical TTM. Its June-2027 modeled *rolling twelve-month* sales now read EUR1.100bn/EUR1.400bn/EUR1.650bn in Bear/Base/Bull after the R-reviewed cadence repair, rather than the obsolete EUR0.750bn/EUR0.950bn/EUR1.100bn. This does **not** insert missing pre-acquisition revenue into the sealed TTM, change any terminal June-2031 product endpoint, or substitute the 2026 ten-month calendar guide for a reported period. The September FY2026 Naval guide of EUR1.0bn–EUR1.2bn implies July–December 2026 EUR0.666bn–EUR0.866bn after the disclosed four-month EUR0.334bn; illustrative H1 2027 implied by the reviewed June-2027 TTM is EUR0.434bn/EUR0.634bn/EUR0.784bn using low/mid/high guide endpoints respectively. These are conditional decompositions, not management's half-year guidance. The 2026 guide and forecast endpoint dates must not be conflated.

10. Sensitivity — variables that matter

The sensitivity holds every other Base input constant, including the repaired 46.888849m Base terminal denominator unless share count itself is varied. Vehicle revenue uses the Base aggregate CAGR implied by EUR5.525bn to EUR10.468114bn, then moves that CAGR by 200 basis points. W&A margin moves by 200 basis points on unchanged terminal revenue. Share count moves by 5%, and tax moves by 300 basis points.

Variable change from Base	Horizon EPS	EPS change	P/E 15 cushion	Gate at EUR1,010.60?
Vehicle Systems revenue CAGR minus 200 bps	EUR65.041845	(EUR1.584447)	(3.4606%)	FAIL
Vehicle Systems revenue CAGR plus 200 bps	EUR68.326301	EUR1.700009	1.4145%	PASS
W&A EBIT margin minus 200 bps	EUR63.588146	(EUR3.038146)	(5.6182%)	FAIL
W&A EBIT margin plus 200 bps	EUR69.664438	EUR3.038146	3.4006%	PASS
W&A common-mode margin of 20%	EUR59.030927	(EUR7.595366)	(12.3824%)	FAIL
Diluted shares minus 5%	EUR70.132939	EUR3.506647	4.0960%	PASS
Diluted shares plus 5%	EUR63.453612	(EUR3.172681)	(5.8179%)	FAIL
Tax rate minus 300 bps to 23%	EUR69.327358	EUR2.701066	2.9003%	PASS
Tax rate plus 300 bps to 29%	EUR63.925226	(EUR2.701066)	(5.1179%)	FAIL
Maximum identified LTI issuance at Base earnings	EUR66.485516	(EUR0.140776)	(1.3178%)	FAIL

The dominant variable is W&A terminal margin, followed by share count and tax. W&A contributes 52.5% of Base terminal segment EBIT; moving its terminal margin from the reviewed 25.0% Base to the red-team common-mode 20.0% takes EPS to EUR59.03. Conversely, a 200-basis-point W&A upside is enough to restore a pass. Vehicle growth matters less at the requested perturbation because Vehicle's terminal EBIT margin is far below W&A's. Base now fails before any sensitivity, so positive movement in one of these drivers is required to restore the gate.

Kill criteria should therefore focus on evidence that W&A economics are normalizing faster than scale benefits arrive, or that equity issuance resumes without a proportionate earnings contribution. A sustained W&A EBIT margin below the mid-20s, continuing negative segment cash conversion, or a new dilutive financing would warrant immediate model repair.

11. Combined earnings summary

Case	Revenue (EUR bn)	EBIT (EUR bn)	EBIT margin	Net income to diluted equity (EUR bn)	EPS (EUR per listed unit)	Probability	EPS × 15	Versus EUR1,010.60
Bear	17.821239	2.134778	11.9788%	1.085085	23.178457	30%	347.676862	(65.5970%)
Base	27.381714	4.903441	17.9077%	3.124030	66.626292	50%	999.394383	(1.1088%)
Bull	36.775828	7.980572	21.7006%	5.339636	113.637975	20%	1,704.569631	68.6691%
Probability-weighted EPS	26.392394	4.688268	17.7637% implied	2.955468	62.994278	100%	944.914177	(6.4997%)

Probabilities are **30% Bear, 50% Base and 20% Bull**. Base receives half the weight because a large current backlog, strong demand and active capacity investment support sustained growth, while Bear remains more likely than Bull because procurement timing, working-capital absorption, local-content duplication, Naval integration and capacity commissioning create more failure modes than a simultaneous upside outcome across five segments. The **EUR80.467bn H1 Group Rheinmetall Backlog** is not all executable: EUR24.126bn is frame backlog and Naval's EUR6.255bn reported stock includes the separately cancelled EUR2.1bn F126. These are not simply additive deductions because of their different bases and risk types. W&A retains its reviewed 30/50/20 weights because the prior red-team resolution changed downside severity and scenario margins, not independently evidenced scenario frequency. The probability-weighted row sums each scenario value times its probability; it is not a fourth operating case or a probability-weighted shareholder return. Probability-weighted EPS is EUR62.994278, below the EUR67.373333 P/E 15 requirement, consistent with the failed Base binary gate.

Tie-out checks

1. Reported-financial and statutory-bridge tie-out — PASS

FY2025: `530 + 944 + 370 - 160 = 1,684` EURm statutory EBIT, exact. TTM: `634 + 1,087 + 426 - 18 - 165 = 1,964` EURm versus EUR1,963m reported, a EUR1m disclosed-rounding residual within the sealed tolerance. TTM revenue: `5,525 + 3,966 + 952 + 1,922 + 334 - 1,286 = 11,413` EURm, exact. The TTM revenue variance is 0.000%; the EBIT variance is 0.051%, both within 2%. Sources: `data_package.md` §§2, 3 and 3a; `statutory_bridge.json` periods 0 and 1.

2. NI, shares, listed unit and FX equal EPS — PASS

Bear: `1,085.085290840m / 46.8143875m × 1.0 × 1.0 = EUR23.178457495`. Base: `3,124.030155222m / 46.8888490m × 1.0 × 1.0 = EUR66.626292218`. Bull: `5,339.636075993m / 46.9881310m × 1.0 × 1.0 = EUR113.637975428`. The financial-share, listed-unit and quote-currency values are identical because the sealed unit and FX factors are one.

3. Segment sum tie-out at horizon — PASS

Including the separately disclosed consolidating line, Bear is `19.829310 - 2.008071 = 17.821239`, Base is `30.467045 - 3.085331 = 27.381714`, and Bull is `40.919674 - 4.143846 = 36.775828` EURbn. Combined revenue divided by the sum of all modeled lines, including consolidation, is 100.000% in every case. The difference between gross segment revenue and external Group revenue is named and is not a residual.

4. Product-to-segment rollup — PASS

Vehicle Bear is `7,133.378 + 508.921 = 7,642.299`; Base is `9,792.659 + 675.456 = 10,468.115`; Bull is `12,655.596 + 845.257 = 13,500.853` EURm. Naval Bear is `1,530 + 270 = 1,800`; Base is `2,624 + 576 =`

3,200; Bull is 4,000 + 1,000 = 5,000 EURm. W&A, Air Defence and Digital each use one disclosed financial line, so the product-to-segment rollup is one-to-one. All reviewed appendix residuals are zero or display rounding below 1%.

5. Weighted margin check — PASS

Vehicle Bear is (7,133.378 × 8.5% + 508.921 × 7.0%) / 7,642.299 = 8.4001%; Base is (9,792.659 × 12.8% + 675.456 × 11.0%) / 10,468.115 = 12.6839%; Bull is (12,655.596 × 14.0% + 845.257 × 13.5%) / 13,500.853 = 13.9687%. Naval Bear is (1,530 × 2.0% + 270 × 8.5%) / 1,800 = 2.9750%; Base is (2,624 × 6.7% + 576 × 11.2%) / 3,200 = 7.5100%; Bull is (4,000 × 9.5% + 1,000 × 14.5%) / 5,000 = 10.5000%. One-line segments are not multi-product triggers. Every applicable difference is below 1 percentage point.

6. Share count and security-unit path — PASS

Issued shares reconcile as 46.777223m at 2026-06-30 + 0.012344m final conversion = 46.789567m quote-date issued/listed units; split, depositary and class factors are each 1.0. The five-year paths are 46.789567 + 0.0248205 LTI - 0 retirements = 46.8143875m Bear, 46.789567 + 0.0992820 = 46.8888490m Base, and 46.789567 + 0.1985640 = 46.9881310m Bull. The exact H1 treasury quantity is unavailable, so the forecast conservatively deducts none and proves the known FY2025 0.121504m balance immaterial. No ADR units, zero-SBC assumption or assumed buyback offset is used.

7. Growth plausibility — PASS

Vehicle Base aggregate CAGR is 13.63%, below 1.2 times its 38.3% recent core proxy. W&A Base is 22.22%, below 1.2 times its 41.8% three-year rate. Air Base is 21.1%, below 1.2 times the 29.1% predecessor rate. Digital Base is 12.8%, also below that predecessor threshold. Naval lacks a comparable historical series because the TTM anchor contains four post-close months; its appendix explicitly discloses both the reported-anchor 57.1% CAGR and a 26.1% annualized-anchor diagnostic, with the **repaired** EUR1.400bn Base June-2027 TTM step, a conditional ten-month-guidance decomposition and a major haircut to management's EUR5bn ambition. The special Naval justification is explicit rather than hidden. This is an exception with quantified evidence, not a claim that a 57.1% organic CAGR has a historical track record.

8. Historical arithmetic and exact five-year compounding — PASS

Vehicle examples: 5,086 × 1.14^5 = 9,792.659 and 439 × 1.09^5 = 675.456 EURm in Base. W&A Base: 3,966 × 1.30 × 1.28 × 1.24 × 1.18 × 1.12 = 10,815.030. Air Base: 952 × 1.35 × 1.27 × 1.20 × 1.14 × 1.11 = 2,478.5 within display rounding. Digital Base: 1,922 × 1.16 × 1.15 × 1.13 × 1.11 × 1.09 = 3,505.4 within display rounding. Naval uses the **reviewed repaired nonuniform annual path**: Bear 334 → 1,100 → 1,250 → 1,420 → 1,600 → 1,800, Base 334 → 1,400 → 1,720 → 2,120 → 2,600 → 3,200, Bull 334 → 1,650 → 2,180 → 2,880 → 3,790 → 5,000 EURm at consecutive June TTM dates. Its Base reported-anchor CAGR of 57.1% reproduces the EUR3.200bn endpoint within rounding over exactly five years. The same check was performed for Bear and Bull, with all terminal differences below 1%. An annualised partial-acquisition diagnostic does not replace the sealed EUR334m historical anchor.

9. Recency anchor — PASS with quantified primary-source step-change evidence

Base first-forward-year gross segment revenue is 6,277 + 5,156 + 1,285.2 + 2,229.5 + 1,400 = 16,347.7 EURm. Applying the exact 10.1267816363493% consolidation ratio gives **EUR14,692.204m**, **28.73% above** TTM Group revenue of EUR11,413m. This exceeds the ordinary 10% recency band and is **3.47% above the upper EUR14.2bn calendar-FY2026 guide** at a June-2027 rolling endpoint six months later. It is not a close guide match: the inherited 0.62% statement used Naval's obsolete EUR950m step. The reviewed appendices provide quantified primary-source grounds for an exception: September FY2026 Naval ten-month sales guidance of EUR1.0bn–EUR1.2bn against just EUR334m in the sealed four-month TTM, conditional June-2027 Naval TTM of EUR1.4bn, management's Group guide, W&A/Air Defence capacity and order backlogs, and H1 book-to-bill above three. The precise six-month bridge between calendar-FY2026 guidance and the June-2027 rolling estimate remains an **execution requirement**, not reported fact. If H2 2026 deliveries, Naval replacement awards, acceptance, customer advances and capacity commissioning miss, this recency exception must be removed and the first-year and terminal forecasts re-underwritten. This is a quantified, source-conditioned PASS under check 9, not evidence that the step has already occurred.

10. Period and horizon integrity — PASS

The TTM bridge is exactly `FY2025 - H1 2025 + H1 2026`; both H1 periods cover 1 January through 30 June, and no quarterly value overlaps the cumulative bridge. Every forward table begins at 2026-06-30 and ends at 2031-06-30, exactly five calendar years. All displayed terminal CAGRs refer to those dates; the September issuer's 2026 and 2030 calendar targets are distinctly labeled and not substituted into a June TTM. FY2025 is used only for the historical sanity check. Naval's partial-period acquisition base is retained and explicitly explained rather than silently annualized into the official TTM. The separate investment holding period from the quote's 2026-09-21 close to 2031-06-30 is 1,743 days / 4.772171913180968 years; Stage S computes no return and does not publish a 5.0-year shareholder IRR.

11. Valuation, unit bridge, hashes and probability arithmetic — PASS

Exact packet-byte SHA-256 recomputation matched `467eae5fbb23750675ed1aa01ce9cfa8233d33aa8961e5d1459e21c261ba048a`; statutory-bridge recomputation matched `bc3d5a1577a7461e980af5b367da097ae51674dd432019c21cc73639b9b8d7a5`. Both installed validators passed against these expected hashes; all reviewed upstream appendix hashes matched `gate_manifest.json`. Listing `XETR:RHM`, ordinary bearer share, raw completed close EUR1,010.60, split 1.0, depositary/class 1.0/1.0, quoted listed-unit equivalence 1.0 and dated EUR/EUR FX 1.0 match Section 1 and packet. Bear `23.178457495 × 15 = 347.676862430`; Base `66.626292218 × 15 = 999.394383264`; Bull `113.637975428 × 15 = 1,704.569631422`. Probabilities sum to `30% + 50% + 20% = 100%`. Probability-weighted EPS is `23.178457495 × 30% + 66.626292218 × 50% + 113.637975428 × 20% = 62.994278443`. The Base cushion is `(999.394383264 / 1,010.60) - 1 = (1.1088%)`, and Base controls the binary FAIL result. The packet expires 2026-09-22 23:30 SGT; later use requires QF/QFR refresh rather than stale-price recycling.

Synthesis conclusion

Rheinmetall's combined model clears all statutory, unit, period, segment and probability checks. Terminal Bear/Base/Bull revenue is EUR17.821239bn, EUR27.381714bn and EUR36.775828bn; EBIT is EUR2.134778bn, EUR4.903441bn and EUR7.980572bn; net income available to diluted ordinary equity is EUR1.085085bn, EUR3.124030bn and EUR5.339636bn; diluted shares are 46.814388m, 46.888849m and 46.988131m; and EPS is EUR23.178457, EUR66.626292 and EUR113.637975. Probabilities are 30%, 50% and 20%.

The Base case fails the P/E 15 gate by **1.1088%**. Probability-weighted EPS also fails. The reviewed W&A margin repair remains decision-changing: Base W&A terminal EBIT is EUR2.704bn, reducing consolidated Base EPS below the refreshed **EUR67.373333** requirement. The current Naval cadence repair changes the first-year recency stress and the five-year sales/cash execution challenge but **not** terminal revenue, EBIT, owner NI, diluted shares, EPS or the P/E binary gate. An operating projection from June 2026 to June 2031 cannot be substituted for the 1,743-day shareholder holding period beginning with the September 2026 quote. The synthesis is arithmetically clear but does not clear the entry-price hurdle. It chooses no exit multiple, computes no shareholder IRR or score, authorizes no trade and supplies no portfolio sizing.

SYNTHESIS CLEARED — 11/11 TIE-OUTS PASSED

Appendix CS — Compounder Score

Rheinmetall AG (RHM.DE) — Compounder Score and Shareholder-Return Underwriting

Production CS stage, 22 September 2026. XETR:RHM ordinary bearer share, ISIN DE0007030009; EUR reporting and quote currency; fiscal year ends 31 December. Current price EUR1,010.60 is the completed 21 September Xetra close, and the sealed quote expires 22 September 23:30 SGT. Quote-date issued/listed shares are 46.789567m, so equity market value is EUR47.286bn. Market value plus H1 net debt gives an indicative EUR50.008bn, but NCI and other claim balances are not complete, so this is not a valuation-grade enterprise value or a PE adjustment. This is research, not a trade or allocation instruction.

1. Executive Verdict

Compounder Score 56/100; Business Quality Score 55/80; 20% Return Underwriting Score 1/20. Score-implied classification: Reject. The diagnostic score does not override the separate ER2 BUY/WATCH/PASS gates. The price fails the independent P/E-at-15-on-FY+5-EPS entry gate by 1.11% in Base. A real defence moat and large production runway do not offset unproven incremental cash returns and a Base gross EUR return of 2.42%.

The repaired VP artifact locked primary method **P/E**, the continuing statutory diluted EPS comparator and 15x/17x/22x Bear/Base/Bull exits before this rerun. It corrected round-1 red-team objections: the Bull Air Defence statutory EBIT margin is 21%, not management's unbridged 24–26% adjusted operating-result ambition; F126 risk already in Bear EPS must not also drive a punitive multiple; Base 2031 maturity warrants a haircut. Reported 65.31x P/E includes discontinued Power Systems losses and is non-comparable; 38.75x continuing P/E is the normalized current diagnostic. Neither determined the exits. The shares include post-entry LTI dilution and the pre-entry final convertible settlement. PE includes financing and ordinary attribution in EPS; terminal net debt is **not** separately deducted. H1 net debt EUR2.722bn is disclosed only as balance-sheet context.

The operating forecast is 30 June 2026 to 30 June 2031 (five calendar years). Shareholders entering at the 21 September 2026 close hold **1,743 days / 4.772171913180968 years** to 30 June 2031. All shareholder IRRs below use the latter interval. The 30/50/20 probabilities apply to terminal wealth before the CAGR, never to an average of scenario IRRs.

2. Data Source Map

Input	Controlling source and period	Treatment
Price, shares, unit/FX	QFR-sealed quote_packet.json, 21 September 2026; official conversion evidence	EUR/EUR listed ordinary 1:1; 46.789567m post-conversion starting shares
Income, balance sheet, cash flow	Official FY2025 Annual Report and H1 2026 interim; quant_foundation.md and statutory_bridge.json	FY2025 - H1 2025 + H1 2026 TTM; official controls over FMP
Segment forecast	Five current R-reviewed appendix_B files; appendix_synthesis.md	Statutory EBIT, 30 June 2031 endpoints and LTI dilution
Normalized denominator and exits	Repaired and cleared valuation_preflight.json, SHA-256 bound below	P/E; 15x/17x/22x locked independently of returns
SBC and governance	FY2025/H1 2026 remuneration notes; appendix_management.md	99,282 target LTI PSUs explicitly stress diluted shares
Backlog, TAM, competitors	Issuer H1 report, September 2026 investor deck; appendix_moat.md; VP peer packet	EUR80.467bn June backlog, EUR2.1bn cancelled F126 within Naval; peers denominator-matched
Portfolio/SGD context	Frozen 22 September Pulse reconciliation and practical CIO memo	NAV/POWR counterfactual only; no ranking, sizing or trade action

Binding hashes: VP `688e6d9a183e4612ed6823641f5a9532ab687f612a978e164ab6feb25816f085`; synthesis `da482ccd52651c2a7b2583c3ca8389b52d8475cccbecea17c08594024743fbd3`; quote `467eae5fbb23750675ed1aa01ce9cfa8233d33aa8961e5d1459e21c261ba048a`; statutory `bc3d5a1577a7461e980af5b367da097ae51674dd432019c21cc73639b9b8d7a5`; portfolio reconciliation `f928ade0379dc524a08ca789e0ceb9fc9181112c54dfbde4e59dd622b20537e5`. The strict VP validator with evidence-file checking passed. The current official PDF and issuer-deck hashes are listed inside VP's source bindings. The previous 17 September CS used EUR1,013, a five-year shareholder exponent and 14x/19x/23x exits and is not a return

source for this stage.

3. Key Financial and Quality Metrics

Metric	Observed evidence	Underwriting consequence
FY2021–FY2025 continuing revenue	EUR5.658bn to EUR9.935bn	15.1% four-year CAGR; five-year comparable continuing series unavailable
FY2025 statutory EBIT margin	16.9%	TTM June 2026 17.20%; not a perpetuity margin
Approximate ROIC	FY2025 19.1%; five-observation median 14.8%	Issuer 33.5% ROCE uses a different PPA/capital basis
Incremental-return proxy	FY2022–2025 24.61%; FY2021–2025 27.13%	Total-capital proxy includes acquisitions; formula-complete ROIIC unavailable
FY2021–2025 operating FCF / approximate NOPAT	78.02% aggregate	Volatile; FY2022 OFCF negative
TTM OCF less capex	EUR391m; 0.83% market-cap yield	Continuing OFCF EUR233m, ~0.49% yield
H1 2026 continuing OFCF	EUR(1.616)bn	Inventory, NVL and customer-advance timing strain self-funding
H1 2026 net debt	EUR2.722bn	Financing risk disclosed, not subtracted after PE
FY2025 dividend	EUR11.50/share	Historical 1.14% price yield; future path unmodelled
SBC / revenue and FCF	Not separately disclosed	LTI share dilution modeled; score withholds clean-SBC credit

NOPAT is statutory EBIT times one minus the period tax rate; it is not the selected valuation denominator. Approximate ROIC includes goodwill and leased/financed capital where disclosed; the issuer's adjusted ROCE cannot be substituted. The FY2022–25 incremental proxy divides NOPAT change by average-invested-capital change, not the complete net-capex + non-cash working-capital + R&D + acquisition-spend reinvestment schedule. Organic versus acquisition-inclusive ROIIC therefore cannot be cleanly separated, and five-/ten-year cells that lack comparable continuing perimeter remain unavailable rather than extrapolated. The operating-margin, FCF and share-history rows above are sourced to the current official-source quant foundation and data package, with prior CS computations reused only where the underlying periods and formulas are unchanged.

4. Rubric Scorecard

Category	Score	Maximum	Basis
Incremental returns on capital	14	25	1A–1F = 2/4/3/2/1/2; improved, not elite, cash conversion weak
Reinvestment runway	17	20	2A–2F = 5/4/4/2/2/0; huge demand, capital efficiency unproven
Durability of moat	11	15	3A–3F = 3/2/2/2/1/1; W&A qualification strong; 2046 YELLOW
Accounting and financial quality	6	10	4A–4F = 1/1/1/1/1/1; explicit statutory bridge, adverse cash/SBC visibility
Capital allocation	7	10	5A–5F = 2/1/1/1/1/1; rational priorities, NVL and pay calibration unresolved
Price and 20% return underwriting	1	20	6A–6F = 0/0/0/1/0/0; only Bull clears stretch hurdle
Business Quality Score	**55/80**	**80**	Strong assets, unproven long-cycle cash ROIIC
Compounder Score	**56/100**	**100**	Reject under diagnostic rubric

The quality subscore is retained because no newer reviewed evidence resolves the historical ROIIC, cash-conversion, NVL or 2046-moat weaknesses. The one-point valuation subscore is not a mechanical punishment for the repaired 17x Base exit: it recognizes a finite but very remote reverse-return path. The P/E multiple is scored *after* VP selection. The normalized current 38.75x and terminal 17x are not evidence of expansion; nevertheless, VP marks overall current-to-terminal denominator comparability false, so a strict no-expansion classification is not cleared. The Base 2.42% gross return also fails the 20% hurdle. A lower exit multiple by itself does not earn 6B's full credit when the hurdle fails.

5. ROIIC and Reinvestment Analysis

The FY2021–25 NOPAT proxy rose from about EUR451m to EUR1.260bn while average invested capital rose from about EUR3.604bn to EUR6.584bn, yielding (1.260–0.451)/(6.584–3.604) ≈27.13% over four years. The FY2022–25 three-year proxy is 24.61%. This supports returns above a plausible cost of capital but does not clear a >35% elite ROIIC band. NVL's EUR1.586bn provisional consideration and EUR820m goodwill have not yet generated seasoned statutory or cash returns. Four months of Naval produced EUR334m sales, EUR(18)m statutory EBIT and EUR(166)m OFCF. Acquisition-inclusive value creation is a forecast, not observed proof.

FY2021–25 issuer OFCF totaled EUR3.026bn against about EUR3.878bn calculated NOPAT, or 78.02% aggregate conversion. FY2022 was negative, current TTM OCF-minus-capex is EUR391m and H1 continuing OFCF is EUR(1.616)bn. Company-wide SBC is not separately available; treating unobserved SBC as zero would overstate economic conversion. The model instead dilutes 46.789567m quote-date shares by 0.0248205m/0.099282m/0.198564m in Bear/Base/Bull, reaching the VP-locked share counts. The plan for >EUR8bn of five-year investment excludes capital contributions and the 2026 capex rephase may merely move cash requirements into later years. Reinvestment rate, fully adjusted lease/R&D ROIC and organic ROIIC remain insufficiently evidenced.

6. Runway Analysis

June Group Rheinmetall Backlog was EUR80.467bn, split EUR56.342bn orders and EUR24.126bn frames. Approximately 30% therefore requires future call-offs rather than already representing hard orders. Air Defence's disclosed EUR4.218bn backlog is all orders, so a uniform frame haircut would be wrong. Separately, cancelled F126 still contributed EUR2.1bn to the June Naval balance; subtract it from an *executable-work diagnostic*, not from historical statutory revenue or again from the frame share. Base terminal Group revenue EUR27.382bn implies 19.13% five-year TTM growth but still depends on funded plant commissioning, customer acceptance and cash. The September roughly EUR50bn calendar-2030 aspiration includes M&A and adjusted operating-result margins; it is not our June-2031 statutory forecast.

7. Moat Analysis

Weapon and Ammunition has safety/regulatory assets, qualified powder and ammunition/gun pairings; Vehicle Systems has fleet integration and installed-service switching costs; Air Defence can reuse validated sensor-command-effector architecture. These advantages are not identical across Digital and Naval. Procurement concentration gives the state bargaining power and long acceptance/payment cycles. The independent moat and 2046 durability gates remain YELLOW: Rheinmetall plausibly remains a sovereign European defence prime in 2046, but high incremental returns after rearmament scarcity, open digital competition and large shipyard projects are unproven. F126 is observed evidence that a domestic yard and a large reported backlog do not prevent cancellation.

8. Accounting and Capital Allocation Analysis

The current statutory bridge ties segment EBIT through corporate costs, pretax earnings and Group net income; 2026 taxonomy offsets do not create extra Group revenue. Continuing statutory EPS strips only the discontinued Power Systems loss for *denominator comparability*, while retaining PPA, special items and the relevant diluted numerator. The Bear terminal EPS includes a EUR100m discontinued drag. H1 Group equity EUR5.769bn is not relabelled parent common book; EV/NOPAT and P/B-ROE lack their required terminal claim or common-equity bridges and VP rejected them. Debt interest, NCI leakage and diluted shares are already in PE earnings; subtracting the EUR2.722bn current net debt again would double count.

Management's proven FY2021–25 expansion, straightforward F126 disclosure and rational capacity-first capital allocation merit credit. Yet Naval integration, cash dependence on advances, EUR820m NVL goodwill, 2026 capex reprioritization and CEO succession remain open. Compensation uses ROCE/OFCF and clawbacks, but unusually lenient FY2025 OFCF target calibration and roughly 22% AGM opposition weaken the owner-alignment score. The management gate is YELLOW, not PASS.

9. 20% Return Underwriting

Primary valuation method: P/E. All figures per XETR ordinary share unless noted. Terminal statutory diluted EPS times VP-locked exit P/E gives terminal equity value. Explicit future distributions are zero because the reviewed model has no scenario payout schedule; FY2025 EUR11.50 was historical. This is a zero-distribution diagnostic, not an assumption that the board cancels the dividend. No terminal net-cash/debt adjustment is made. The 30/50/20 weights and exact 1,743-day holding period govern all four returns.

Case	Probability	2031 diluted EPS	Exit P/E	Terminal share value	Cumulative distributions	Terminal wealth	Gross EUR IRR
Bear	30%	EUR23.18	15x	EUR347.68	EUR0.00	EUR347.68	-20.04%
Base	50%	EUR66.63	17x	EUR1,132.65	EUR0.00	EUR1,132.65	2.42%
Bull	20%	EUR113.64	22x	EUR2,500.04	EUR0.00	EUR2,500.04	20.90%
Probability weighted	**100%**	—	—	—	—	**EUR1,170.63**	**3.13%**

Expected terminal EUR wealth = 0.30×347.67686242500 + 0.50×1132.64696770600 + 0.20×2500.03545941600 = 1170.6336344637000. Its CAGR from EUR1010.60 is 3.13%, not the weighted average of IRRs. At 20% gross, required terminal wealth is EUR2412.380517/share; using the same P/E method and probabilities, maximum diagnostic buy price is EUR490.40. Base alone requires terminal EPS EUR141.90 at 17x versus modeled EUR66.63. This is a reverse-return diagnostic, **not** a proposed order or purchase price.

Valuation integrity: TTM reported owner diluted EPS EUR722m / 46.66m = EUR15.473639 and raw current P/E 65.3111x. Continuing diluted owner EPS EUR1,217m / 46.66m = EUR26.082297 and normalized current P/E 38.7466x. The reported denominator includes EUR506m discontinued loss; it is not comparable to the terminal continuing denominator and was not used to cap exits. Repaired VP's 15x Bear is near the issuer's 2020 14.60x and only 8.4% below the fresh 16.37x peer low; its EUR23.18 EPS already absorbs W&A, Naval and EUR100m discontinued stress, so F126 is not penalized twice. The 17x Base is between low US-prime peers LMT 16.37x and NOC 17.29x, below the 18.37x peer median for 2031 maturity, capital needs and cash uncertainty. The 22x Bull tracks own 2023 22.04x, not an unbridged 26% Air statutory margin: the Bull model has 21% Air EBIT and 26.37% five-year Group revenue growth. The excessive-optimism challenge rejects a higher scarcity premium without demonstrated cash; the excessive-bearishness challenge rejects a trough Bear or peer-low Bull despite surviving/growing earnings. These exits were fixed by VP before IRRs and score.

The next three tables use EUR billions for revenue/EBIT, million shares for share count and EUR per listed share otherwise. Operating start values are the 30 June 2026 TTM; entry valuation is the 21 September 2026 completed close. Operating CAGRs span exactly five calendar years, while shareholder IRRs span 1,743 days. They are gross EUR underwriting; the net-SGD overlay follows.

Bear-case operating and return bridge

Bear case	Start (2026-06-30 TTM / 2026-09-21 price)	Horizon (2031-06-30)	CAGR / change	Justification
Revenue	EUR11.413bn	EUR17.821239bn	9.32%	Delayed awards, W&A scarcity fade and weak Naval replacement despite acquired scale
Operating margin	17.20%	11.98%	-5.22 pp	W&A to 20%, under-absorbed Vehicle/Naval and faster corporate cost growth
Operating earnings	EUR1.963bn	EUR2.134778bn	1.69%	Group statutory EBIT = segment EBIT less explicit Others/corporate cost
Diluted share count	46.789567m quote-date issued	46.8143875m	0.01%	Final convert settled before entry; VP-locked LTI dilution, no assumed buyback
EPS	EUR26.082297 normalized continuing	EUR23.178457495 diluted	-2.33%	Statutory ordinary EPS after interest, tax and NCI; Bear retains EUR100m discontinued drag
Valuation denominator	EUR15.473639 reported; EUR26.082297 normalized	Terminal statutory diluted EPS	raw not comparable; continuing diagnostic	EUR506m discontinued TTM loss excluded only for comparable current P/E
Valuation	65.3111x reported; 38.7466x normalized P/E	15x P/E	-23.75x vs normalized	VP-locked historical/peer evidence and scenario maturity/cash adjustment
Share value	EUR1010.60 market price	EUR23.178457495 × 15x = EUR347.676862425	—	PE terminal EPS times exit multiple; no net-cash/debt adjustment
Annual dividend	EUR11.50 latest FY2025 declared	EUR0.00 diagnostic	not a payout forecast	Historical paid dividend only; no reviewed scenario annual payout path

Bear case	Start (2026-06-30 TTM / 2026-09-21 price)	Horizon (2031-06-30)	CAGR / change	Justification
Dividend yield	1.14% historical	0.00% diagnostic	-1.14 pp	Annual dividend divided by endpoint share value; no modeled future distribution
Cumulative dividends	—	EUR0.00	cumulative over 1,743 days	Source-bound zero-distribution diagnostic; no double count
Total ending value	EUR1010.60	EUR347.676862425	-20.04% gross EUR IRR	Terminal share value plus EUR0 distributions; exact holding exponent 4.772171913180968

Base-case operating and return bridge

Base case	Start (2026-06-30 TTM / 2026-09-21 price)	Horizon (2031-06-30)	CAGR / change	Justification
Revenue	EUR11.413bn	EUR27.381714bn	19.13%	Funded W&A and Vehicle ramps with discounts to management's adjusted 2030 aspiration
Operating margin	17.20%	17.91%	+0.71 pp	W&A 25%, Air/Digital leverage and gradually profitable Naval
Operating earnings	EUR1.963bn	EUR4.903441bn	20.09%	Group statutory EBIT = segment EBIT less explicit Others/corporate cost
Diluted share count	46.789567m quote-date issued	46.8888490m	0.04%	Final convert settled before entry; VP-locked LTI dilution, no assumed buyback
EPS	EUR26.082297 normalized continuing	EUR66.626292218 diluted	20.63%	Statutory ordinary EPS after interest, tax and NCI; Bear retains EUR100m discontinued drag
Valuation denominator	EUR15.473639 reported; EUR26.082297 normalized	Terminal statutory diluted EPS	raw not comparable; continuing diagnostic	EUR506m discontinued TTM loss excluded only for comparable current P/E
Valuation	65.3111x reported; 38.7466x normalized P/E	17x P/E	-21.75x vs normalized	VP-locked historical/peer evidence and scenario maturity/cash adjustment
Share value	EUR1010.60 market price	EUR66.626292218 × 17x = EUR1132.646967706	—	PE terminal EPS times exit multiple; no net-cash/debt adjustment
Annual dividend	EUR11.50 latest FY2025 declared	EUR0.00 diagnostic	not a payout forecast	Historical paid dividend only; no reviewed scenario annual payout path
Dividend yield	1.14% historical	0.00% diagnostic	-1.14 pp	Annual dividend divided by endpoint share value; no modeled future distribution
Cumulative dividends	—	EUR0.00	cumulative over 1,743 days	Source-bound zero-distribution diagnostic; no double count
Total ending value	EUR1010.60	EUR1132.646967706	2.42% gross EUR IRR	Terminal share value plus EUR0 distributions; exact holding exponent 4.772171913180968

Bull-case operating and return bridge

Bull case	Start (2026-06-30 TTM / 2026-09-21 price)	Horizon (2031-06-30)	CAGR / change	Justification
Revenue	EUR11.413bn	EUR36.775828bn	26.37%	Simultaneous plant commissioning, accepted deliveries and higher W&A/Air utilisation
Operating margin	17.20%	21.70%	+4.50 pp	W&A 30%, Air 21%, Naval 10.5% statutory, strong scale leverage

Bull case	Start (2026-06-30 TTM / 2026-09-21 price)	Horizon (2031-06-30)	CAGR / change	Justification
Operating earnings	EUR1.963bn	EUR7.980572bn	32.38%	Group statutory EBIT = segment EBIT less explicit Others/corporate cost
Diluted share count	46.789567m quote-date issued	46.9881310m	0.08%	Final convert settled before entry; VP-locked LTI dilution, no assumed buyback
EPS	EUR26.082297 normalized continuing	EUR113.637975428 diluted	34.23%	Statutory ordinary EPS after interest, tax and NCI; Bear retains EUR100m discontinued drag
Valuation denominator	EUR15.473639 reported; EUR26.082297 normalized	Terminal statutory diluted EPS	raw not comparable; continuing diagnostic	EUR506m discontinued TTM loss excluded only for comparable current P/E
Valuation	65.3111x reported; 38.7466x normalized P/E	22x P/E	-16.75x vs normalized	VP-locked historical/peer evidence and scenario maturity/cash adjustment
Share value	EUR1010.60 market price	EUR113.637975428 × 22x = EUR2500.035459416	—	PE terminal EPS times exit multiple; no net-cash/debt adjustment
Annual dividend	EUR11.50 latest FY2025 declared	EUR0.00 diagnostic	not a payout forecast	Historical paid dividend only; no reviewed scenario annual payout path
Dividend yield	1.14% historical	0.00% diagnostic	-1.14 pp	Annual dividend divided by endpoint share value; no modeled future distribution
Cumulative dividends	—	EUR0.00	cumulative over 1,743 days	Source-bound zero-distribution diagnostic; no double count
Total ending value	EUR1010.60	EUR2500.035459416	20.90% gross EUR IRR	Terminal share value plus EUR0 distributions; exact holding exponent 4.772171913180968

Net-SGD security diagnostic and CIO classification

The frozen 22 September broker reconciliation reports EUR/SGD 1.4635361; this is an accounting FX anchor, not an executable conversion quote. Assume EUR weakens 5% versus SGD by exit, giving 1.390359295 SGD/EUR in **each** Bear, Base and Bull. A uniform adverse currency stress isolates company earnings/valuation dispersion: no source supports correlating EUR/SGD with Rheinmetall's scenario EPS. It is deliberately not an FX forecast. Assume 0.35% entry cost and 0.35% exit cost, inclusive of illustrative commission/spread/FX friction. Assume a 30% withholding haircut on *any* modeled dividend; the zero-distribution diagnostic makes actual modeled withholding zero. Investor-specific account/treaty/capital-gains tax is not verified and no tax exemption is claimed. The net-SGD entry outlay is SGD1484.226256199/share; each exit converts exactly the same PE terminal wealth after exit cost and FX. This is an assumption-bound security diagnostic, not a realized-tax estimate.

Case	Terminal SGD/EUR FX	Net terminal SGD wealth/share	Net-SGD annualized IRR
Bear	1.390359295	SGD481.70	-21.01%
Base	1.390359295	SGD1,569.27	1.17%
Bull	1.390359295	SGD3,463.78	19.43%
Probability weighted	**same 0.95× entry FX**	**SGD1,621.90**	**1.88%**

The weighted net-SGD result is CAGR of weighted net terminal SGD wealth, not an average of scenario IRRs. Bear/Base/Bull are -21.01%/1.17%/19.43%; weighted is 1.88%. The security-level CIO status is **PASS**, because Base and weighted outcomes miss the owner's 10–15% annualized SGD-after-cost mandate, and the Bear is severe. This classification does not rank or size RHM versus a held security. The latest frozen portfolio NAV is SGD2.7377m; POWR remains 1,612 shares at USD24.8 accounting close with modeled 12.2% Base and -10.9% Bear. Those are counterfactual context only; no swap, funding source, order or proposed allocation is authorized. Portfolio fit and sizing are unassessed in this CS stage. The portfolio's -8% intervention and -12% hard-review drawdown thresholds remain owner review conditions, not automatic actions.

10. Hard Veto Checklist

Test	Result	Evidence
ROIIC below capital cost without recovery	Pass / bounded	24.61% three-year invested-capital proxy, not formula-complete
Artificially tiny capital base	Pass	Average capital rose to EUR6.584bn; goodwill included
Persistent external finance	Watch	H1 net debt EUR2.722bn and EUR(1.616)bn continuing OFCF
Dilution without per-share value	Watch	Convert settled pre-entry; LTI dilution explicitly modeled
Acquisition returns opaque	Watch	NVL EUR820m goodwill, negative early EBIT/OFCF
Structural FCF lag	Watch	Five-year aggregate 78%, latest cash deterioration significant
Concentration/cycle/sovereign risk	Watch	F126 cancelled; 30% Group frame backlog
20% depends on multiple expansion	Watch / no 20% case	17x Base below normalized current 38.75x, but full comparability not cleared and return only 2.42%
Flawless execution priced in	Fail	Only Bull earns 20%; Base and weighted returns far below hurdle
Moat cannot be articulated	Pass / qualified	W&A qualification and systems integration clear; 2046 gate YELLOW
Accounting/governance integrity	Watch	Statutory bridge clear; succession and pay calibration unresolved
Balance-sheet wipeout	Pass / monitor	No current insolvency case, but working-capital/NVL leverage rose

11. Final Decision

Score-implied **Reject** is driven by a 20% return hard veto and sub-70 total, not by a claim that the business lacks assets or that a production ER2 verdict mechanically follows. The independent Management and Moat gates remain YELLOW; the separate P/E-15 gate fails in Base. Downstream CSA and current-run red team must audit this stage before any published main report can call the score audited. A price/earnings reset, formula-complete acquisition-inclusive ROIIC, sustained Naval statutory EBIT/OFCF, a backlog roll-forward clearing F126 and demonstrated cash after >EUR8bn investment could alter the assessment. New evidence affecting VP's method, denominator, dilution or exits requires a fresh VP rather than a CS-only multiple change.

Compounder Score note: **56/100 - quality runway is real but unproven cash returns and weak entry economics keep the diagnostic at Reject.** Business Quality Score note: **55/80 - procurement moats and growth offset by incomplete acquisition-inclusive ROIIC, H1 cash burn, NVL and YELLOW management/moat gates.** 20% Return UW Score note: **1/20 - Base 2.42%, Bear -20.04%, Bull 20.90%, weighted 3.13% gross EUR; only Bull clears 20%.**

12. Machine-Readable JSON

The complete full-precision model is `C:\Users\Admin\OneDrive\GPT\ER 2.0\Rheinmetall AG\compounder_score.json`. It records the sealed VP and upstream hashes, all three PE shareholder wealth bridges, exact horizon and probability weighting, no-double-count checks, explicit SGD costs/FX/withholding assumptions, net-SGD results, score category subscores, limitations and no-action flags. Visible net-SGD IRRs above are rendered to exactly two decimal places.

Appendix CSA — Scoring Audit

Rheinmetall AG (RHM.DE) — Repaired Valuation Scoring Audit

Analysis date: 2026-09-22. Run `pulse-cio-20260922T200224+0800`. This is the same CSA worker's full re-audit after the round-one red team exposed foundational exit-multiple concerns and VP repaired them. The former 12x/18x/24x model is archived and **is not an input** to this audited return. This is security research, not a trade, portfolio ranking, funding, replacement or sizing instruction. Trade execution authorized: **NO**. The frozen Xetra ordinary-share close is EUR1,010.60 on September 21, 2026; the operating TTM ends June 30, 2026 and terminal operating date is June 30, 2031. The exact shareholder interval is 1,743 days, 4.772171913180968 years under the 365.2425-day convention, not the five-year TTM operating projection span.

1. Original vs Audited Scores

Item	Current CS original	CSA audited	Reason
Business Quality Score / 80	55/80	**50/80**	Partial ROIIC, incomplete acquisition and cash-return evidence
Valuation / 20% Return UW Score / 20	1/20	**1/20**	Repaired return bridge valid, Base far below 20%
Total Score / 100	56/100	**51/100**	Sum of separately audited quality and valuation components
Classification	Reject	**Reject**	Below 70/100 and hard veto 9 persists

The new CS Markdown and JSON agree on scores, probabilities, EPS, exit multiples and returns. The round-one CSA had already reduced 55/80 quality to 50/80; none of the VP repairs supplied missing acquisition-inclusive ROIIC, a seasoned NVL cash record, a company-wide SBC series or a new moat conclusion. Reconsidering every category therefore **preserves** those five evidence-based reductions. The 20% stretch score is a diagnostic and cannot be traded against the owner's distinct 10–15% after-cost SGD mandate or the independent ER2 gates.

The current input hashes, recomputed from exact bytes, are `valuation_preflight.json` SHA-256 `688e6d9a183e4612ed6823641f5a9532ab687f612a978e164ab6feb25816f085`, `appendix_compounder_score.md` SHA-256 `e12be63fc5206f465cfa33cd2f677292cbf0bb098757e13e3205fb6840cc3e35`, and `compounder_score.json` SHA-256 `caff64956646d2409dec40b1720b941b5aa3012ce99fd47edbde9160b599f2c1`. The VP validator with `--check-evidence-files` returned `VALUATION_PREFLIGHT_VALID` against the current exact hash. VP says `CLEARED`, all five foundations passed, zero blockers. CS copied its method `PE`, normalized EPS denominator, share/dilution treatments and **15x Bear / 17x Base / 22x Bull** exit P/Es without modification. The archived round-one preflight hash is not used here.

2. Score Reductions and Reasons

Rubric / evidence status	CS	Audited	Action
1A ROIC, partly supported	2/5	2/5	Preserve; five-observation median approximate ROIC 14.8%
1B ROIIC, partly supported	4/8	**2/8**	Reduce; calculated endpoint proxy is not full net reinvestment
1C ROIIC trend, partly supported	3/3	**2/3**	Reduce; changing acquisition/perimeter and no clean five-year series
1D unit economics, partly supported	2/3	2/3	Preserve; W&A scale real, Naval cash unproved
1E cash conversion, supported low score	1/3	1/3	Preserve; five annual observations plus adverse H1
1F accounting artifact, partly supported	2/3	2/3	Preserve; statutory bridge, goodwill/PPA caveats
2A–2F reinvestment runway, mixed	17/20	**16/20**	Reduce 2D from 2 to 1; cross-segment repeatability not proved
3A–3F moat, partly supported	11/15	11/15	Preserve; qualified assets, 2046 gate YELLOW

Rubric / evidence status	CS	Audited	Action
4A–4F financial quality, partly supported	6/10	6/10	Preserve; cash/SBC/leverage limitations already charged
5A–5F capital allocation, mixed	7/10	**6/10**	Reduce 5B from 1 to 0; acquisition-inclusive cash returns absent
6A–6F price/return, calculated	1/20	1/20	Preserve 0/0/0/1/0/0; finite reverse return remains remote

The approximate ROIC series uses statutory EBIT after observed effective tax divided by average FMP invested capital. FY2021–25 annual percentages are 12.5%, 14.8%, 14.2%, 15.7% and 19.1%; the median is 14.8%, not the issuer's adjusted 33.5% ROCE. The FY2022–25 endpoint proxy of incremental NOPAT over incremental *average stock* of invested capital is 24.61%; FY2021–25 is 27.13% over **four**, not five, elapsed years. This is a sourced calculation, so 1B does not have to be zero under the uncalculated-ROIIC rule. But it does not fully account for acquisitions, net capex, working-capital flows, leases, R&D treatment or timing of capital employed. Two points are cautious evidentiary credit, **not** a declaration that actual ROIIC is the rubric's 8–15% bracket. Category 1 at 11/25 and Category 5 at 6/10 are capped until an acquisition-inclusive invested-cash schedule can be observed. The 24.61% three-year proxy versus 27.13% longer proxy also makes full 1C stability credit unearned.

Repeatability 2D is the second downgrade. Ammunition and Vehicle expansion have an observed record, but Naval is a new large acquisition: EUR1.586bn provisional consideration, EUR820m goodwill, four months EUR334m sales, EUR(18)m statutory EBIT and EUR(166)m OFCF. F126 cancellation after the purchase reinforces execution risk. The EUR80.467bn June backlog comprises EUR56.342bn firm orders and EUR24.126bn frames, while EUR2.1bn cancelled F126 remains embedded in the Naval stock. The frames and cancelled amount must not be subtracted twice from the same backlog balance. Official orders and procurement appropriations support runway credit independently of management's ~EUR50bn 2030 aspiration, which includes M&A and adjusted profit measures and is **not** our 2031 statutory forecast. Acquisition discipline 5B gets zero until acquired returns can be measured against acquisition cash and goodwill. Other capital-allocation points survive narrowly because historical internal investment scaled, while compensation's ROCE/OFCF design is qualified by lenient 2025 cash-target calibration and ~22% AGM opposition. No max-scored qualitative subcategory relies mainly on management TAM claims; the 60% cap would apply if it did.

3. Unsupported Claims

The evidence does not support formula-complete five-year organic or acquisition-inclusive ROIIC, a normalized reinvestment rate, or a comparable 10-year continuing-perimeter invested-capital series. FY2021–25 15.11% continuing revenue CAGR is four elapsed years between five observations. Company-wide SBC expense as a percentage of revenue and FCF is unavailable, not zero. The model does correctly add LTI diluted listed-equivalent shares: from 46.789567m quote-date issued shares to 46.8143875m/46.888849m/46.988131m terminal Bear/Base/Bull. The 99,282 target PSU inventory includes one explicit projected 2027 cohort; known dilution is not silently cancelled with a hypothetical buyback. A historical FY2025 EUR11.50 dividend cannot be projected as guaranteed future cash during >EUR8bn planned investment. The return model's zero future distributions are explicitly a conservative diagnostic, not a prediction that the board cancels payouts.

The frozen EUR/SGD entry rate 1.4635361 comes from the same-run portfolio reconciliation file, whose exact hash rechecks as `f928ade0379dc524a08ca789e0ceb9fc9181112c54dfbde4e59dd622b20537e5`. It is an IBKR accounting conversion anchor, **not** an executable FX quote. Terminal 1.390359295 is a uniform 5% EUR depreciation stress across all three security cases, not an empirical forecast. Actual account-level fees, treaty withholding, capital-gain treatment and FX execution remain unverified. There is no supported 2031 cash/debt/lease/NCI path to convert enterprise value into equity, so EV/NOPAT is properly rejected rather than used as a second method.

4. Calculation Errors and Repaired Return Replay

No material arithmetic error remains in CS's repaired P/E bridge. Current raw diluted ordinary EPS is EUR722m / 46.66m = EUR15.4736390913, and EUR1,010.60 / that figure gives reported 65.3110747922x. Current continuing diluted owner EPS is EUR1,217m / 46.66m = EUR26.0822974711, yielding normalized 38.7465866886x. Discontinued Power Systems losses make raw/current and terminal continuing denominators materially different; raw 65.31x is disclosure only and was not used to cap or select an exit. The normalized current denominator retains PPA, special items and historical if-converted IAS33 treatment. Terminal earnings use the 2031 diluted listed-share schedule and statutory owner EPS; Bear also includes EUR100m continued discontinued drag. This supports an economically aligned continuing comparison while recognizing

exact period/perimeter equality is false.

Case	Weight	Terminal diluted EPS, EUR	Locked P/E	EPS × P/E = EUR wealth	Gross EUR IRR
Bear	30%	23.178457495	15x	347.676862425	-20.0359774097%
Base	50%	66.626292218	17x	1,132.646967706	2.4178927368%
Bull	20%	113.637975428	22x	2,500.035459416	20.9008398329%

Distributions are EUR0 in each case, so terminal share value equals shareholder wealth. Weighted wealth is `0.30×347.676862425 + 0.50×1132.646967706 + 0.20×2500.035459416 = EUR1170.6336344637`. CAGR from EUR1,010.60 over 4.772171913180968 years is **3.1283130523773295%**. Arithmetic weighting of the three IRRs instead gives –**0.6216788879%** and is rejected. At 20% gross, required terminal wealth is EUR2,412.38051700679/share and method-matched weighted maximum diagnostic price is EUR490.4045371983434. Base alone requires EUR141.9047362945 terminal EPS at 17x versus EUR66.626292218 modeled; modeled Base annual EPS growth from the EUR26.0823 normalized continuing current anchor is materially less than the reverse hurdle. The diagnostic maximum price is not a proposed bid, ranking or replacement.

The P/E product already incorporates financing costs, owner/NCI earnings leakage and dilution into per-share EPS. No H1 EUR2.722bn net debt is subtracted **again** after EPS×P/E, no separately unsupported cash or Naval goodwill is appended, and EUR0 distributions are not counted twice. The operating cross-check NOPAT is statutory EBIT times one minus scenario tax: Bear EUR2.134778bn×73%=EUR1.558388bn, Base EUR4.903441bn×74%=EUR3.628546bn, Bull EUR7.980572bn×75%=EUR5.985429bn, allowing minor displayed-rounding differences. NOPAT does not control an EV method. Parent-common P/B-ROE is likewise not the natural method for this industrial company and has no complete roll-forward.

Case	Terminal FX, SGD/EUR	Net terminal SGD wealth/share	Net-SGD CAGR
Bear	1.390359295	481.7038721784	-21.01%
Base	1.390359295	1,569.2744876653	1.17%
Bull	1.390359295	3,463.7817224427	19.43%
Probability weighted	1.390359295	1,621.9047499747	1.88%

Entry outlay is `1010.60×1.4635361×1.0035 = SGD1484.22625619931`. Each terminal SGD value is **the identical P/E terminal EUR wealth** multiplied by 1.390359295 and 0.9965 exit-cost factor. Weighted terminal SGD wealth is 1621.9047499747307; CAGR on common entry outlay is 1.8762366342127468%. Arithmetic weighted net IRRs would be –1.8282268151%, an invalid shortcut. A 30% illustrative dividend withholding rate causes no modeled deduction because dividends are zero. This is a bounded, assumption-dependent net-SGD diagnostic, not an assertion of actual investor after-tax proceeds. Every visible net-SGD IRR here uses exactly two decimal places.

Economic coherence of revised exit multiples

The repair addresses the *specific* material red-team faults rather than merely changing outputs. The prior Bear 12x combined weak EPS with a 27% discount to the lowest fresh peer despite still-positive EUR23.18 EPS and 9.32% modeled revenue CAGR. Revised Bear **15x** sits near own 2020 14.60x and only 8.4% below the fresh 16.37x low peer. The cancelled F126 contract, weaker W&A margin and EUR100m discontinued burden already lower Bear EPS; no second full F126 remedy-loss assumption is loaded into its multiple. Excessive-bearishness challenge therefore rejects a 9x trough or the former 12x without a new persistent impairment or financing shock. Excessive-optimism challenge rejects giving a still-cash-stressed Bear the 18.37x peer median.

Base **17x** lies between September 21 / FY2027 direct recomputed LMT 16.37x and NOC 17.29x, and 1.37x below the six-peer median 18.37x. The additional discount against the peer-forward anchor is economic: the exit is 2031, not FY2027, and H1 continuing OFCF EUR(1.616)bn, >EUR8bn multi-year investment, government concentration and NVL integration are not yet converted into reliable cash. An even lower 16x would treat RHM's modeled 19.13% five-year revenue CAGR as no better than a mature US prime; 18–19x would require stronger conversion and backlog-quality proof. Thus both overly bearish and overly optimistic comparisons were run, without selecting 17x to manipulate a score, desired IRR or the separate P/E-15 entry gate.

Bull **22x** is almost identical to issuer official-source 2023 continuing 22.04x, above the six-peer 18.37x median for a successfully realized growth case but well below Saab 32.29x and Rheinmetall's 2024–25 scarcity P/Es. Crucially, the model's

Bull Air Defence **statutory EBIT margin is 21%**, not the issuer deck's 24–26% *adjusted operating-result* aspiration; no undisclosed adjusted-to-statutory bridge is smuggled into exit support. Bull also needs Group 26.37% five-year revenue CAGR, W&A 30% statutory EBIT margin, Naval 10.5% statutory EBIT margin, funded contract acceptance and restored cash conversion. A 24x or 30x–38x scarcity multiple would over-credit those unproven conditions; forcing 17–18x on a fully realized Bull would ignore exceptional verified growth. A 21x Bull would yield only about 19.73% gross EUR annualized, demonstrating how fragile its lone 20% pass is. This sensitivity is a warning, not a CSA-selected replacement multiple.

The historical own official continuing 2020–25 P/E observations are 14.60x, 9.19x, 17.23x, 22.04x, 37.02x and 70.03x, median 19.63x. The four pre-scarcity 2020–23 median is about 15.92x; the 2024–25 spike cannot be treated as a permanent 2031 price. Direct price/FY2027 EPS replays for six peers yield about 16.37x–32.29x, median 18.37x. Peers' FY2027 forecast denominator and RHM's 2031 terminal statutory EPS are not identical dates/mixes, so VP explicitly adjusts for horizon, cash and quality. The native FMP ratios were not relabeled as continuing P/E or parent-common P/B. Repaired exits are independently evidence-anchored, pass both directional challenges, and are locked before this CSA arithmetic.

Round-one to repaired-model change

The prior 12x/18x/24x case had 4.177009% weighted gross EUR and 2.912200% weighted net SGD. Repaired 15x/17x/22x improves Bear annualized gross from −23.69% to −20.04% by removing double-punitive multiple severity, while Base falls 3.65% to 2.42% and Bull 23.13% to 20.90% as the maturity and adjusted/statutory mistakes are corrected. Weighted gross falls to **3.13%** and weighted net-SGD to **1.88%**. The quality evidence, score-implied Reject and CIO security-level PASS conclusion do not improve. A favorable Bear revision does not compensate for weaker Base/Bull expected wealth; scenario IRRs are not averaged.

5. Missing Data and Audit Blockers

CSA return, method, denominator, FX and revised multiple audit: cleared, with no present foundational blocker. The current `appendix_red_team.md` is explicitly the *round-one* objection record and still describes old 12x/18x/24x inputs. Its material objections motivated the VP repair but cannot itself serve as the required independent rerun of new 15x/17x/22x. **Publication remains blocked pending fresh RT classification** of the repaired exact VP/CS/CSA artifacts; if RT finds a new material objection, VP and/or CS must be repaired and CSA rerun. This distinction is important: a valid VP hash and this CSA cannot self-clear RT.

The most important unresolved economic evidence is acquisition-inclusive ROIIC and cash realization after the >EUR8bn plan, not a return arithmetic residual. Other missing inputs include observed NVL post-close cash and return history, an organic/reinvested-capital schedule, company-wide SBC burden, a reviewed scenario dividend schedule, and account-specific FX/tax/frictions. Scenario weights 30/50/20 are analyst assumptions rather than calibrated frequencies. A no-distribution case can be underwritten as a conservative diagnostic, but should not be marketed as an expected total-return payout forecast. The quote packet's actionability expiry is September 22, 2026 at 23:30 SGT; any later executable context needs refreshed quote and gates.

6. Hard-Veto and Threshold Test Audit

Business Quality Score **50/80** is below required 65/80. Total **51/100** is below both the 70/100 Reject cutoff and 80/100 investable threshold. Valuation / 20% Return UW Score **1/20** is below 15/20. Incremental-return plus runway subtotal is 11+16=27/45, below 35/45. Base gross EUR 2.42% is far below 20%; Bear −20.04% is far below acceptable 8–10%. Hard veto 9 remains: only a Bull-like outcome clears 20% at today's price, and Bull's cushion over 20% is thin. The current normalized multiple is not a raw-denominator cap; lack of strict current-to-terminal denominator identity means the no-expansion condition does not become an affirmative investable gate merely because 17x is numerically below 38.75x.

7. Final 20% Hurdle Pass/Fail

FAIL. Bear, Base and probability-weighted terminal-wealth CAGR fail 20%; Bull alone reaches 20.90% gross EUR. Weighted 1.88% net-SGD also misses the separate 10–15% CIO mandate under disclosed FX/cost assumptions. No portfolio position, funding source, order or allocation follows from that research conclusion.

8. Dream Business / Dream Investment Classification

Neither, under the strict Gideon diagnostic today. Qualification-heavy ammunition, vehicles and air defence may be excellent assets. But a 2046 superior-return duration, durable acquisition-inclusive ROIIC and self-funded scaling have not

been demonstrated; the entry price gives poor Base and expected security returns. The single largest reason is weak current-price economics layered on an unproven cash return from the enlarged capital/acquisition program.

9. Stage 7 Scorecard Notes

Compounder Score note: **51/100 — credible defence runway, but incomplete cash/ROIIC proof and weak entry returns imply Reject.** Business Quality Score note: **50/80 — qualified assets and orders earn credit; Naval acquisition economics and self-funding remain unproved.** 20% Return UW Score note: **1/20 — Base 2.42%, weighted 3.13% gross EUR; only a fragile Bull clears 20%.**

10. Auditor JSON

The companion `compounder_score_audit.json` preserves full precision for gross EUR and net-SGD returns, current input SHA-256s, the repaired multiple integrity object, audited subscores, the fresh-RT publication condition and non-authorization flags. The visible net-SGD returns in this appendix are rendered to exactly two decimal places.

Appendix RT — Red Team

Rheinmetall AG (RHM.DE) — Fresh Production ER2 Red Team

Run: `pulse-cio-20260922T200224+0800`; information cutoff 22 September 2026, 20:02:24 SGT. **Return-model objection status:** `MATERIAL_RESOLVED`**.** This is the same RT worker's fresh challenge of the repaired VP/CS/CSA chain, not a restatement of the superseded 12x/18x/24x case. I have not changed their numbers or the synthesis, traded, ranked, sized or selected a portfolio funding source. The business remains an interesting conditional franchise, but the entry-price and shareholder-return case still fail.

1. Frozen repaired return bridge and exact audit boundary

The operating forecast starts with the TTM ended 30 June 2026 and ends 30 June 2031, five calendar years later. Shareholder entry is the completed 21 September 2026 Xetra close of **€1,010.60 per ordinary share**; the entry-to-terminal interval is **1,743 days, or 4.772171913180968 years**. Applying five years to shareholder IRR would misstate it. The statutory synthesis passed 11/11 tie-outs, and Management and Moat remain YELLOW. The repaired `valuation_preflight.json` is `CLEARED` with five passed foundations, zero blockers and exact SHA-256 `688e6d9a183e4612ed6823641f5a9532ab687f612a978e164ab6feb25816f085`; the evidence-file validator returns `VALUATION_PREFLIGHT_VALID`. CS Markdown/JSON hashes are `e12be63fc5206f465cfa33cd2f677292cbf0bb098757e13e3205fb6840cc3e35` and `caff64956646d2409dec40b1720b941b5aa3012ce99fd47edbde9160b599f2c1`. CSA Markdown/JSON hashes are `52a527ed4755d98847cc2fc5536127602c2bd9775829c87dc13f69eddb0cc496` and `a0e843b5fbdd2a864968add4f419427c91a4cc5e8882837081d0cc32c6dcbac9`. CSA binds those exact CS and VP hashes; there is no predecessor VP mixed into this return.

The sole primary method remains **P/E**. Bear/Base/Bull probability weights are 30%/50%/20%; exit multiples are now **15x/17x/22x** on scenario statutory diluted EPS **€23.178457495/€66.626292218/€113.637975428**. They yield terminal value and shareholder wealth of **€347.676862425/€1,132.646967706/€2,500.035459416** per share, with zero *modeled* future distributions and no separately appended net cash/debt. The resulting gross EUR IRRs, independently replayed, are –**20.035977%/2.417893%/20.900840%**. The 30/50/20 weighted terminal wealth is **€1,170.6336344637** and its own CAGR is **3.128313%**, not an arithmetic average of scenario IRRs. Same-method net-SGD returns are –**21.01%/1.17%/19.43%/1.88% weighted**, using the audited 5% adverse EUR/SGD assumption and 0.35% entry/exit costs. The audited scores remain **51/100, 50/80 and 1/20**. Base and weighted returns do not clear either the diagnostic 20% gross stretch or the owner's separate 10–15% after-cost SGD mandate; only Bull narrowly clears the former. The security-level CIO classification is PASS, not an order.

The most serious attack is economic, not a hash or multiplication error. A large order book and extraordinary adjusted targets do not prove that the enlarged asset base will convert accepted systems into statutory profit and cash through 2031, much less preserve a premium exit multiple. Conversely, assuming all cancelled F126 work has no remedy or that a profitable Bear franchise deserves a distressed trough multiple would be as unjustified as crediting management's ambitions wholesale. I test both sides below under the frozen PE bridge.

2. Single most fragile operating assumption: Naval replacement and absorption

The fragile line is Naval Systems Base **€2.624bn newbuild/other plus €0.576bn repair/service revenue**, with **7.51% statutory EBIT margin** on €3.2bn June-2031 sales. It requires €240.32m statutory EBIT even though the first four acquired months delivered €334m sales, **€(18)m EBIT** and **€(166)m operating free cash flow**. The €33m adjusted operating result for that period was reduced by €29m PPA and €22m special items to statutory EBIT. The reviewed Naval appendix rightly treats the four-month TTM as a partial acquisition perimeter, not a normal-year organic CAGR; its first June-2027 rolling-year revenue is €1.4bn in Base. But no five-year standalone history, contract-maturity table, product margin series or signed F126 replacement program validates the later ~23% annual steps. The [H1 statutory report](https://ir.rheinmetall.com/media/document/1bbcaadf-0e67-45bc-80df-bba822823824/assets/DE0007030009-Q2-2026-EQ-E-00.pdf) supports the current cash and EBIT anchor, not the future integration margin.

The hash-bound [September issuer deck, p.58](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf) footnote says **€2.1bn cancelled F126 remains in Naval's June backlog**. Against €6.255bn reported backlog, that is 33.6%, leaving a **€4.155bn non-F126**

executable-work diagnostic, not a restated statutory order balance and not proof a legal remedy is worthless. Even full in-horizon conversion of that diagnostic stock would leave **€6.885bn** of the Base five-year €11.040bn Naval sales sum dependent on later awards, service and replenishment. A cash remedy could protect some economic value without creating vessel sales. Conversely, new contracts demand yards, skills, suppliers and milestone cash. The deck's approximately €5bn Naval 2030 sales potential and above-15% adjusted operating-result margin are not audited statutory EBIT forecasts; Base June-2030 rolling sales are €2.6bn. The gap is a genuine haircut but not self-validating.

Quantify the isolated miss rather than treating every concern as a blocker: a **200-basis-point** Naval margin shortfall at unchanged €3.2bn Base sales removes €64m EBIT; at 26% tax, 89% ordinary attribution and 46.888849m diluted shares, EPS falls about **€0.90** from €66.63 to €65.73. At the locked 17x, Base gross EUR IRR falls by only about **0.28 percentage points**. **Objection classification:** `IMMATERIAL` for that one margin perturbation. A *coupled* failure in replacement awards, margin and cash could be worse, but the evidence does not support inventing a €2.1bn terminal sales subtraction or a zero-recovery remedy. The reviewed B/S schedules already disclose the uncertainty; no new return-bridge defect follows from this isolated sensitivity.

3. Most likely optimistic Stage 5 number and strongest bear brief

Separately from Naval, the **€2.704bn Base Weapon and Ammunition terminal EBIT** is the Stage 5 number most likely to be revised down. It is 52.5% of modeled terminal segment EBIT, based on €10.815bn sales at a **25% statutory EBIT margin**. The current TTM W&A margin is 27.4%, but Q4 2025 adjusted operating margin reached 39.3% with mix/reimbursement effects; Q1 2026 sales growth was only 0.3%, then Q2 rebounded 59.7% after Murcia acceptance catch-up. H1 W&A produced **€377m EBIT and €(370)m OFCF**. Customer acceptance and cash timing make a scarcity-period profit rate less bankable than a headline backlog suggests. The forecast has already lowered prior Base 26.5% to 25%, while Bear uses 20%; that is real downside recognition, not proof the central margin will hold. The issuer's 2030 29–31% W&A target is *adjusted operating result*, not the sealed statutory EBIT measure.

The synthesis §10 same-earnings sensitivity is decisive. Moving W&A Base EBIT margin from 25% to **20%** takes Base EPS from **€66.6263 to €59.0309**. At repaired 17x, terminal wealth becomes approximately **€1,003.53** and gross EUR IRR −**0.15%**, a **2.57-point** reduction from 2.42%. Holding the other two scenario wealth values and 30/50/20 weights fixed lowers probability-weighted gross IRR from 3.13% to about **1.91%**. This common-mode stress is material as a possible operating outcome; it is `MATERIAL_RESOLVED` **as a present model objection** because the reviewed synthesis and W&A appendix explicitly show the 20% Bear margin, the Base sensitivity and adverse cash history. There is not yet evidence that 20% must replace 25% in Base while the current-quarter margin and funded demand remain stronger. A future sustained 20% observation would reopen B/S and then VP/CS/CSA; RT cannot change the Base weight or margin speculatively.

The strongest short-seller case: Rheinmetall and European customers invest for a demand spike, but acceptance delays, domestic workshare and lower utilization eat the scarcity margin while inventory and contract assets consume cash. W&A shifts from a 25% Base terminal margin toward 20%, Naval reports backlog that still contains cancelled F126 and earns little statutory profit, and Air/Vehicle accept contracts at lower retained content. Within the next four reporting periods, adjusted operating income continues to look attractive but statutory EBIT, segment OFCF and net debt reveal that the €8bn-plus build earns weak incremental cash returns. The observable evidence would be two W&A half-years below a 20% statutory margin together with negative cumulative W&A OFCF, and a Naval backlog roll-forward without a distinct F126 remedy or funded replacement.

4. Cross-examining three current management claims

First, the [August H1 release](https://ir.rheinmetall.com/media/document/b89b5f8d-55d8-4c82-84c9-e39323fd4bc9/assets/2026-08-06-Rheinmetall-News-Half-Yearly-Financial-Report-H1.pdf) quotes CEO Armin Papperger that “Demand remains strong” and reports book-to-bill above three. But **€24.126bn of €80.467bn Group backlog was frame backlog** at June 2026; frames are expected call-offs, not all delivered firm orders. Cancelled F126 remained in the Naval stock. The first falsification is a reported backlog increase without subsequent firm call-offs, accepted deliveries or a clean F126 removal/remedy ledger. Do not subtract both frame backlog and F126 as independent losses without checking overlap and perimeter.

Second, the [September deck, p.30](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf) guides FY2026 W&A sales **€4.9bn–€5.0bn** at **29%–30% adjusted operating-result margin**. After H1 sales of €1.757bn, the H2 sales requirement is **€3.143bn–€3.243bn**. The Q2 Murcia catch-up proves some timing can reverse but cannot certify that H2 acceptance, product mix and receipts all arrive. A guide miss or a wider adjusted-to-statutory gap alongside negative OFCF would test the claim first. The 2030 W&A margin

target likewise cannot be copied into a statutory EBIT exit denominator.

Third, deck p.61 cuts the FY2026 capex plan from **16% to 8%–9% of sales** yet says “No impact on 2030 sales guidance.” On €13.7bn–€14.2bn guided FY2026 sales, that is roughly **€0.96bn–€1.14bn** less planned 2026 spend on a common denominator. Page 60 still states **more than €8bn of investment over five years**, excluding capital contributions. Reprioritized eastern-European energetics, schedule adjustments and procurement savings are different mechanisms: deferral can make 2026 OFCF look better while pushing plant output and spending into 2027–28; genuine procurement gains would reduce invested capital without delaying capacity. No site-level commissioned-output or cost schedule distinguishes them yet. H1 continuing OFCF was **€(1.616)bn** and Group net debt **€2.722bn** in the [statutory report](https://ir.rheinmetall.com/media/document/1bbcaadf-0e67-45bc-80df-bba822823824/assets/DE0007030009-Q2-2026-EQ-E-00.pdf). The first test is whether actual cumulative capex, commissioning and accepted sales arrive together. **Objection classification:** `MATERIAL_RESOLVED` as a disclosed capex/revenue reflexivity risk already in S, VP and the multiple haircuts; the one-year capex plan is not inserted as cash savings, EBIT uplift or a new asset value.

5. Recency, dilution and economic denominator checks

The most recent quarter is Q2 2026. The TTM is correctly reconstructed as FY2025 less H1 2025 plus H1 2026, avoiding double counting: sales **€9.935bn** − **€3.749bn + €5.227bn = €11.413bn**; statutory EBIT **€1.684bn** − **€0.385bn + €0.664bn = €1.963bn**. The Q1 pause and Q2 catch-up make simple annualization hazardous, and the 2025 predecessor Electronic Solutions quarters are not falsely declared audited Air and Digital quarters. The reviewed Naval first-year rolling-sales schedule has been repaired to €1.10bn/€1.40bn/€1.65bn Bear/Base/Bull rather than a too-low path inconsistent with the issuer's ten-month 2026 guide. **Objection classification:** `MATERIAL_RESOLVED` for the earlier acquisition-perimeter cadence issue; reported four-month revenue was not silently tripled into statutory TTM.

Quote-date issued ordinary shares are **46.789567m**, including the final 12,344-share conversion, versus the historical **46.66m TTM weighted diluted EPS denominator**. Horizon diluted shares of **46.8143875m/46.888849m/46.988131m** include scenario LTI 2.0 settlement and no unsupported buyback offset, consistent with zero five-year historical repurchases. The maximum identified LTI stress in S §10 changes Base EPS by about **€0.14**, not a 2-point shareholder IRR. **Objection classification:** `IMMATERIAL` for known LTI and treasury-share sensitivity. An unannounced acquisition equity raise is not a present instrument and cannot be fabricated into this run; if announced, VP must reopen the claim perimeter.

The raw current P/E is **65.3111x** on €15.473639 reported diluted TTM EPS, distorted by roughly €506m discontinued Power Systems loss. Continuing diluted owner EPS is **€1,217m / 46.66m = €26.082297**, giving **38.7466x normalized current P/E**. PPA, special items and the historical if-converted IAS 33 numerator remain in the comparable diagnostic, and the terminal denominator is scenario statutory diluted owner EPS. Bear retains €100m discontinued drag; its current/terminal perimeter is therefore not literally identical. VP says raw and terminal denominators are not comparable and never uses 65.31x as an exit cap; nor does it infer that 38.75x remains earned in 2031. Native provider ratios were not relabeled as a different denominator. **Objection classification:** `MATERIAL_RESOLVED` for the prior denominator problem. The PE product already includes financing and NCI leakage through owner EPS: adding H1 net debt again after EPS × PE would double count it. EV/NOPAT would require an unavailable 2031 cash/debt/lease/claim bridge. **Objection classification:** `MATERIAL_RESOLVED` for primary-method and terminal-claim consistency.

6. Two-sided valuation challenge of the repaired 15x/17x/22x

Base, excessive optimism. VP now anchors 17x to September 21 price/FY2027 EPS for six peers: the range is **16.37x–32.29x**, median **18.37x**. It explicitly puts Base between Lockheed Martin's 16.37x and Northrop Grumman's 17.29x, **1.37x below the peer median** for the later 2031 maturity, H1 cash burn, sovereign concentration, NVL and the >€8bn build. That is a much more legible haircut than the superseded 18x, which sat only 0.37x below a FY2027 peer median despite a 2031 exit. Own 2020–25 continuing P/Es of 14.60x/9.19x/17.23x/22.04x/37.02x/70.03x have median 19.63x, but the pre-scarcity 2020–23 median is only about **15.92x**; VP no longer uses the scarcity-inflated full median to rationalize near-peer Base. A **16x sensitivity** at unchanged Base EPS yields €1,066.02 terminal wealth and **1.1250%** IRR, **1.293 points** below the audited 17x Base: meaningful for a decision, but under the formal 2-point scenario threshold. A **15x** sensitivity would lower Base IRR to about −**0.23%**, exceeding 2 points, yet requires treating the modeled **19.13% five-year Group revenue CAGR** and 17.91% terminal statutory EBIT margin as if they deserve a discount below the lowest fresh prime peer. That is a *possible future failure scenario*, not a source-supported same-earnings Base correction at this cutoff. The risk is already tested through Bear EPS and 15x Bear PE. **Objection classification:** `MATERIAL_RESOLVED`**.** VP's 17x judgment remains contestable, but no current evidence establishes a ≥2-point same-Base correction rather than changing the operating case itself.

Bull, excessive optimism and the former Air error. The exact repaired VP field `exit_multiple_evidence.scenario_multiples.bull.company_adjustment` now states **Air Defence 21% statutory EBIT margin**, not the issuer's **24%–26% calendar-2030 adjusted operating-result target**; it explicitly rejects the undisclosed adjusted-to-statutory conversion. S and the Air appendix show €700.2m EBIT on €3.3344bn Bull Air revenue, or 21%. Thus the earlier “Air 26%” necessary-condition premise has been removed *before* CS and CSA, not patched narratively afterward. Bull **22x** is close to Rheinmetall's own 2023 continuing **22.04x**, above the fresh 18.37x peer median only for a realized 26.37% five-year Group revenue CAGR, W&A 30% statutory margin, Naval 10.5% statutory margin and restored cash conversion. It is well below Saab's 32.29x FY2027 forward PE and the issuer's 2024–25 scarcity ratios. A **21x same-method sensitivity** yields €2,386.40 terminal wealth and **19.7280%** gross EUR IRR, so the *only* 20% pass is fragile. But that is **1.173 points** below audited Bull, not a formal 2-point material correction, and a 20x exit would require evidence that the realized Bull growth/cash still merits a discount to own pre-scarcity 22.04x. **Objection classification:** `MATERIAL_RESOLVED` for the former foundational Air premise and excessive Bull premium; `IMMATERIAL` for the one-turn 21x stretch-test sensitivity under the return-model threshold. The 20% score remains only **1/20**, not an affirmative underwriting pass.

Bear, excessive bearishness. Repaired **15x** is near own 2020 continuing 14.60x and only 8.4% below the fresh 16.37x peer low, while Bear EPS stays positive **€23.18** and Group revenue still compounds **9.32%**. The PE applies to stressed EPS with 20% W&A margin, weak Naval conversion and €100m discontinued drag already inside the earnings path. The **€2.1bn F126 backlog cancellation is not a second terminal PE deduction, a presumed €2.1bn cash loss or a separately added remedy asset**. A 12x PE would reduce Bear wealth from €347.68 to €278.14 and IRR from −**20.04% to** −**23.69%**, a 3.65-point hit; without a new persistent financing or franchise impairment, that repeats punishment already in the scenario EPS. Conversely, an 18x peer-median Bear is not justified amid still-negative H1 cash and Naval uncertainty. A possible F126 legal remedy could improve cash but cannot be assumed collectible. **Objection classification:** `MATERIAL_RESOLVED` for the previous double-punitive Bear exit and F126 treatment; the repaired 15x is neither a distressed wipeout nor an unearned peer-median rescue.

7. Distribution, probability and the 20% claim

The [September deck, p.60](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf) records the FY2025 €11.50 dividend and management's intention to increase it, but there is no reviewed five-year *scenario* payout schedule against the >€8bn investment program. CS labels **zero future distributions** a conservative diagnostic, not a prediction that all dividends cease. Four hypothetical unchanged €11.50 payments would add €46 to Bear terminal wealth, moving its IRR to about −**17.93%**, more than two points above the audited zero-payout Bear. That is a deliberately non-controlling bound: payment dates, future board decisions, financing and net-SGD withholding are unresolved. **Objection classification:** `MATERIAL_RESOLVED` under the method contract's expressly permitted, clearly labelled zero-distribution diagnostic. The final report must not market the zero-payout IRR as a fully expected dividend-inclusive total return. A sourced distribution schedule would require CS/CSA arithmetic re-audit, not a covert PE change.

The Group 30/50/20 weights remain subjective frequencies. Changing them merely because Naval's segment appendix uses 40/45/15 would conflate segment and Group probability spaces. **Objection classification:** `IMMATERIAL` as a present methodological issue; the audited weighted return is correctly a CAGR of scenario wealth. The score-derived “Bull alone clears 20%” claim is arithmetically true at 22x, but fragile: 21x Bull would fail by roughly 0.27 points. The substantive verdict is stronger than that threshold: Base gross 2.42%, weighted gross 3.13%, and weighted net-SGD **1.88%** are nowhere near the required returns. Acquisition-inclusive ROIIC, cash conversion and 2046 durability are still not proven, explaining the audited **51/100, 50/80 and 1/20** scores. A narrow Bull win is not a BUY case and does not override CIO PASS.

8. Observable kill signal and final conviction

Exit/re-underwrite signal: if W&A statutory EBIT margin falls **below 20% for two consecutive half-year reports** *and* cumulative W&A operating free cash flow for those half-years is negative, the 25% Base terminal margin should no longer be treated as the central case. Rebuild W&A, S, VP, CS and CSA before any security conclusion. At the next formal Naval backlog roll-forward, require separate disclosure of F126 removal, enforceable remedy or signed funded replacement; if €2.1bn remains undifferentiated and Naval EBIT/OFCF stay negative through the next full-year report, re-underwrite NVL and its capital return. These are measurable thesis conditions, not automatic trade instructions.

Conviction: the repaired return model survives this fresh red team as an assumption-bound diagnostic. The prior material defects—Air's adjusted-versus-statutory margin in Bull, too-thin Base 2031 peer haircut, and double-punitive Bear/F126

multiple—were incorporated into hash-bound VP **15x/17x/22x** and exact CS/CSA reruns. No new source-supported denominator, method, claim or ≥2-point unmodeled return correction is established. **Aggregate** `RETURN_MODEL_OBJECTION_STATUS: MATERIAL_RESOLVED`**.** The investment thesis still fails at this price: the Base P/E-15 gate needs €67.373 EPS versus modeled €66.626, and the repaired Base/weighted shareholder returns are too weak. The strongest prospective break remains W&A cash-adjusted margin durability plus Naval replacement and capital absorption; YELLOW management and moat are monitoring states, not proof that the 2030 adjusted aspirations become 2031 statutory earnings or 2046 superior returns.

Primary sources: [Rheinmetall H1 2026 report](https://ir.rheinmetall.com/media/document/1bbcaadf-0e67-45bc-80df-bba822823824/assets/DE0007030009-Q2-2026-EQ-E-00.pdf), [August H1 release](https://ir.rheinmetall.com/media/document/b89b5f8d-55d8-4c82-84c9-e39323fd4bc9/assets/2026-08-06-Rheinmetall-News-Half-Yearly-Financial-Report-H1.pdf), [September investor deck](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf) and [F126 impact disclosure](https://www.rheinmetall.com/en/ir-data/rheinmetall_ag__rheinmetall_is_assessing_the_potential_impact_of_the_cancellation_of_the_f126_programme/1088612). The deck's archived run copy has SHA-256 `24eb1efde161bb5cdaa637eb444a3bb9dae4c14e94535b0a4b40281b8ff76202`; the public deck timed out twice on this rerun, so the exact archived issuer PDF controlled page verification. All forecasts and multiples remain the repaired reviewed workdir artifacts, not new post-cutoff estimates.

Appendix D — Data Package

Rheinmetall AG (RHM.DE) — Production ER2 Data Package

Run ID: `pulse-cio-20260922T200224+0800` (production refresh of 17 September governed D package) As-of date: 2026-09-22 (Asia/Singapore); information cutoff 20:02:24 SGT Reporting currency and scale: EUR millions unless stated otherwise Fiscal year-end: 31 December Latest complete period: H1 FY2026 ended 2026-06-30 TTM: FY2025 less restated H1 FY2025 plus H1 FY2026 Forecast horizon: 2031-06-30, exactly five years after the TTM anchor Research only; `trade_execution_authorized=false`.

Live FMP is the standardized-data starting point; controlling official Rheinmetall IFRS reports override every foreign-issuer conflict. Annual/quarterly FMP product segmentation remains empty, and D's live Q2 FY26 FMP transcript call returned `[]`. Official sources therefore control segment, backlog, nomination, cash-conversion, taxonomy and acquisition data. QF/QFR fresh pulls are archived under `C:\Users\Admin\OneDrive\GPT\ER 2.0\Rheinmetall AG\raw\pulse-cio-20260922T200224+0800`; D's independent live refetches are in its d subfolder. The old 17 September D source records remain preserved with their original paths and hashes in `source_manifest.json` as prior-run provenance, not as a replacement for current live fetches. The [issuer publications index](https://www.rheinmetall.com/en/investor-relations/publications/financial-publications-and-presentations) still identifies H1 2026 as the latest complete statement; the [September investor deck](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf) is guidance/context, not a new statutory period.

0a. Industry classification and disclosure inventory

Rheinmetall is a German defence prime and systems integrator spanning military vehicles, weapons and ammunition, ground-based air defence, military digitalisation/electronics and naval shipbuilding. It reports under IFRS and publishes annual, half-yearly and quarterly statements. The controlling current sources are the [2025 Annual Report](https://ir.rheinmetall.com/media/document/214a8f96-a9e5-4296-9a89-e2b65122d258/assets/Rheinmetall-Annual-Report-2025.pdf), [Q1 2026 statement](https://ir.rheinmetall.com/media/document/c6e71f23-7138-4cfb-8152-6348c33602e8/assets/DE0007030009-Q1-2026-EQ-E-00.pdf), [H1 2026 report](https://ir.rheinmetall.com/media/document/1bbcaadf-0e67-45bc-80df-bba822823824/assets/DE0007030009-Q2-2026-EQ-E-00.pdf), and [H1 2026 release](https://ir.rheinmetall.com/media/document/b89b5f8d-55d8-4c82-84c9-e39323fd4bc9/assets/2026-08-06-Rheinmetall-News-Half-Yearly-Financial-Report-H1.pdf).

QF/QFR live-fetched FMP `/stable/income-statement`, `/balance-sheet-statement`, `/cash-flow-statement`, `/key-metrics`, `/profile`, completed-session price history and annual/quarterly product segmentation on 2026-09-22. D independently refetched annual income and product segmentation, both byte-identical to QF. D's live Q2 FY26 FMP transcript returned `[]`, so the issuer-hosted [6 August call transcript](https://ir.rheinmetall.com/media/document/8bb289d9-f5b4-4ad5-9bcf-015718ca2182/assets/Not_verified_Q2_2026_Transcript.pdf) controls. Annual/quarterly FMP product segmentation is empty. The official reports contain richer tables: segment sales, EBIT, operating result, nomination, frame nomination/utilisation, order intake, frame/order backlog, capex, operating free cash flow, employees, R&D, geography and acquisition/PPA information. The prior-run FMP ratios/geography attempts remain historical provenance, not fresh 22 September pulls.

The 17 September package searched Annual Reports 2021-2025; Q3 2025 statement; Q1/H1 2026 statements; Q1/Q2 2026 call presentations and transcripts; FY2025 and Q3 2025 transcripts; 2025 Capital Markets Day; Executive Board and governance pages; and releases on NVL, F126, Romania SAFE and Power Systems. This run independently fetched FY2025, H1 2026, the 6 August H1 release and call transcript, and the September investor deck, and checked the live publications index. Search terms included `segment sales`, `EBIT`, `operating result`, `nomination`, `frame backlog`, `order backlog`, `book-to-bill`, `customer`, `units`, `service revenue`, `capacity`, `capex`, `OFCF`, `working capital`, `inventory`, `advance payment`, `PPA`, `F126`, `NVL`, and `succession`.

Dataset / table family	Official source searched	Search terms / table	Years available	Included?	Exclusion reason	Downstream relevance
Segment economics	Annual Reports; Q1/H1 2026	Segment report, sales, EBIT	FY2021-FY2025; H1 2025/2026	Yes	None	Segment forecasts; bridge
Procurement visibility	Annual Reports; call decks	Nomination, order and frame backlog	FY2022-FY2025; H1 2026	Yes	FY2021 predates KPI	Moat; conversion

Dataset / table family	Official source searched	Search terms / table	Years available	Included?	Exclusion reason	Downstream relevance
Cash conversion	Annual Reports; Q3 2025; H1 2026	OFCF, CCR, working capital	FY2021-FY2025; H1 2026	Yes	None	Cash quality
Capital and R&D	Annual Reports; H1 2026	capex, R&D, investment ratio	FY2021-FY2025; H1 2026	Yes	Older R&D includes civil business	ROIC; durability
Product/unit economics	Same sources	units, ASP, product revenue/margin	Sparse	Partly	No systematic table	Forecast limits
Customer concentration	Same sources	major customer, concentration	Country/program examples	No	No percentage table found	Risk gap
Governance/succession	Annual Report; governance pages	appointment, contract, code	Current	Yes	No post-2029 CEO successor	Management gate
Updated backlog/capex/segment targets	September 2026 investor deck pp.23, 30, 39, 47, 57-58, 60-61, 65-66	F126 backlog, capex, FY2026 and 2030 segment sales/operating-margin targets	H1 2026 / 2026e / 2030e	Yes	Not statutory actuals	Backlog sensitivity; investment and segment forecast tests

KPI family	FY2021	FY2022	FY2023	FY2024	FY2025	H1 2026 / 30-Jun	Source
Rheinmetall Nomination	n/d	9,500	19,881	24,335	26,448	16,238 YTD	Annual Report p.3; H1 p.12
Rheinmetall Backlog	n/d	26,572	38,290	46,943	63,761	80,467	Same
Order Backlog	n/d	15,089	21,977	30,728	40,847	56,342	Same
Frame Backlog	n/d	3,427	7,931	16,215	22,914	24,126	Same
OFCF, continuing	458	(151)	356	1,056	1,218	(1,616)	Annual Report; H1 p.13
Cash conversion rate	77.1% calc.	(19.6%) calc.	38.8%	76.0%	66.2%	(205.4%)	OFCF / operating result
Capex / sales	4.8%	5.4%	5.5%	9.0%	8.8%	7.7%	Annual Report; H1 p.14

H1 procurement quality: EUR16,238m nomination equals EUR14,946m order intake plus EUR6,109m frame nomination less EUR4,817m frame utilisation. Of EUR80,467m backlog, EUR56,342m was order backlog and EUR24,126m frame backlog. NATO members, global partners and other European NATO partners were 94.9% of both nomination and backlog. Frame backlog represents expected call-offs; final quantities and revenue can vary. It is not equivalent to a firm order.

The [September investor deck p.58](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf) clarifies that June 2026 Rheinmetall backlog **still includes EUR2.1bn for F126** despite the cancellation. This is about 2.6% of Group backlog and 33.6% of Naval's EUR6.255bn reported backlog. Do not regard the full reported backlog as remaining executable demand or subtract it again from statutory historicals; use a distinct cancellation/contract-remedy sensitivity. Deck p.61 changes the 2026 capex plan from the earlier CMD 16%-of-sales indication to 8%-9%, citing reprioritised East European energetics sites, project-spending schedules, procurement savings and detailed review, while asserting no impact on 2030 sales guidance. This is prospective capital guidance, not a revision to H1 cash flow or the historical bridge.

1. Reporting structure and taxonomy

Effective 1 January 2026, Electronic Solutions split into Air Defence and Digital Systems. Naval Systems became a segment when the NVL acquisition closed on 27 February 2026. The five current segments are:

Current segment	Scope	FY2025 revenue	FY2025 share of Group sales	Taxonomy note
Vehicle Systems	Tactical/tracked vehicles, logistics and service	4,992	50.2%	Five-year series available
Weapon and Ammunition	Weapons, ammunition, propellants and protection	3,532	35.6%	Uses FY2022 restatement
Air Defence	Skynex, Skyranger, ground/drone defence	769 pro forma	7.7%	2026-taxonomy comparator
Digital Systems	Military digitalisation, soldier, aircraft/space systems	1,766 pro forma	17.8%	2026-taxonomy comparator
Naval Systems	Shipbuilding and repair/refit	0 in Rheinmetall FY2025	0.0%	Acquired 27-Feb-2026

The audited FY2025 predecessor segment was Electronic Solutions: EUR2,504m segment sales, comprising EUR1,898m external and EUR606m internal sales; audited Others/Consolidation was EUR(1,093)m. The [2025 Annual Report, p. 91](https://ir.rheinmetall.com/media/document/214a8f96-a9e5-4296-9a89-e2b65122d258/assets/Rheinmetall-Annual-Report-2025.pdf) separately labels the successor amounts as **pro forma**: Air Defence EUR769m and Digital Systems EUR1,766m, or EUR2,535m combined. It also gives pro forma 2025 non-divisional units and consolidation of EUR(1,124)m. The EUR31m increase in gross successor segment sales is therefore exactly offset by EUR31m more-negative consolidation, leaving Group sales unchanged at EUR9,935m. This is a reorganisation/intersegment presentation effect, not a perimeter, acquisition-timing, rounding or Group-revenue change. The paired H1 2025 tables identify the mechanism: Electronic Solutions originally reported EUR738m external and EUR206m internal sales, while the recast Air Defence plus Digital Systems figures retain EUR738m external sales but report EUR221m internal sales. Transactions that were within one predecessor segment became intersegment sales when it was split and are eliminated in consolidation. Rheinmetall does not disclose the full-year EUR31m by transaction, product, direction or successor segment, so no finer allocation is supportable.

FY2022 was retrospectively reclassified in the 2023 report: Weapon and Ammunition sales moved from EUR1,470m to EUR1,359m and Electronic Solutions from EUR1,063m to EUR1,164m; operating results were restated to EUR297m and EUR121m. This package uses the later comparable series. FY2025 reporting also classifies Power Systems as discontinued and restates FY2024. H1 2025 comparisons use the restated H1 2026 report, not the original broader perimeter.

H1 2026 geography: Germany EUR1,983m, Other Europe EUR2,195m, Americas EUR524m, Asia/Near East EUR259m, Other EUR265m. Germany was 37.9%; international sales were 62.1%. No clean geography-by-current-segment matrix is disclosed.

2. Consolidated historicals

Official IFRS figures control. Statutory operating income is issuer-reported `Earnings before interest and taxes (EBIT)`, not adjusted `Operating result`. Capex and operating free cash flow use issuer definitions.

Metric	FY2021	FY2022	FY2023	FY2024	FY2025	Source
Revenue (EUR bn)	5.658	6.410	7.176	7.715	9.935	Annual Report 2025 p.3
Statutory EBIT (EUR bn)	0.608	0.738	0.897	1.270	1.684	Official segment/statutory reports
EBIT margin	10.7%	11.5%	12.5%	16.5%	16.9%	Calculated
Earnings after tax (EUR bn)	0.332	0.540	0.586	0.808	0.835	Annual Report 2025 p.3
Diluted EPS, total (EUR)	6.72	10.94	12.07	15.96	15.16	Annual Report 2025 p.3
Diluted shares (m)	43.28	43.36	46.34	46.66	46.66	Live FMP denominator check
Capex (EUR bn)	0.271	0.349	0.398	0.697	0.872	Annual Report 2025 p.3
Operating FCF (EUR bn)	0.419	(0.175)	0.344	1.023	1.415	Annual Report 2025 p.3
Approx. ROIC	12.5%	14.8%	14.2%	15.7%	19.1%	NOPAT / average FMP invested capital
Issuer ROCE	19.5%	21.4%	21.4%	25.7%	33.5%	Annual Report 2025 p.3

ROIC uses statutory EBIT times one minus effective tax rate over average beginning/end FMP invested capital. Tax rates were 25.8%, 25.7%, 22.7%, 27.1%, 25.2%; average invested capital was EUR3.604bn, EUR3.694bn, EUR4.530bn, EUR5.895bn and EUR6.584bn. This differs from issuer ROCE, which uses EBIT before PPA over average capital employed. Perimeter changes make the ROIC series directional rather than perfectly comparable.

FMP mismatches are preserved. FY2025 FMP `operatingIncome` was EUR1,702m and `ebit` EUR1,688m versus official EBIT EUR1,684m. FMP FY2025 `netIncome` was EUR696m versus official EUR835m because of discontinued/NCI mapping. FMP FY2024 revenue was EUR9,751m, retaining the old perimeter, versus official restated continuing revenue EUR7,715m. FMP FY2024 capex was EUR732m versus official EUR697m. Official sources control.

3. Segment historicals

The exact sealed profit basis is **EBIT**. These tables do not use non-statutory operating result as a substitute.

Vehicle Systems	FY2021	FY2022	FY2023	FY2024	FY2025	Source
Revenue	1,883	2,270	2,609	3,790	4,992	Annual Reports 2021-2025
YoY growth	n/a	20.6%	14.9%	45.3%	31.7%	Calculated
EBIT	174	258	321	410	530	Issuer segment reports
EBIT margin	9.2%	11.4%	12.3%	10.8%	10.6%	Calculated

Weapon and Ammunition	FY2021	FY2022 restated	FY2023	FY2024	FY2025	Source
Revenue	1,233	1,359	1,756	2,783	3,532	Annual Reports
YoY growth	n/a	10.2%	29.2%	58.5%	26.9%	Calculated
EBIT	218	294	360	689	944	Issuer segment reports
EBIT margin	17.7%	21.6%	20.5%	24.8%	26.7%	Calculated

Electronic Solutions predecessor	FY2021	FY2022 restated	FY2023	FY2024	FY2025	Source
Revenue	932	1,164	1,318	1,726	2,504	Annual Reports
YoY growth	n/a	24.9%	13.2%	31.0%	45.1%	Calculated
EBIT	99	119	147	223	370	Issuer segment reports
EBIT margin	10.6%	10.2%	11.2%	12.9%	14.8%	Calculated

Air Defence and Digital Systems lack a separate five-year series, but the 2025 Annual Report supplies current-taxonomy pro forma FY2025 comparators. The predecessor and successor presentations reconcile as follows; all values are official, not plugs.

FY2025 presentation basis	Vehicle	W&A	Electronic Solutions	Air Defence	Digital Systems	Others / consolidation	Group
Audited predecessor segment report, Annual Report p. 203	4,992	3,532	2,504	n/a	n/a	(1,093)	9,935
Pro forma 2026 taxonomy, Annual Report p. 91	4,992	3,532	n/a	769	1,766	(1,124)	9,935
Reorganisation presentation change	-	-	(2,504)	769	1,766	(31)	-

For the TTM allocation proxy, use the official pro forma successor comparators consistently rather than adding EUR769m and EUR1,766m to the audited EUR2,504m predecessor line. The current-taxonomy arithmetic is Air Defence EUR769m - EUR295m + EUR478m = **EUR952m**, and Digital Systems EUR1,766m - EUR664m + EUR820m = **EUR1,922m**, for EUR2,874m combined. The matching Others/Consolidation proxy is EUR(1,124)m - EUR(430)m + EUR(592)m = **EUR(1,286)m**, so the full segment build reconciles exactly to Group TTM sales of EUR11,413m. Using the audited predecessor basis alone would produce EUR2,843m for the combined line and omit the offsetting EUR31m intersegment/consolidation reclassification. This affects segment allocation only; it does not change Group TTM sales or the sealed combined EBIT bridge in Section 3a. Naval Systems entered the perimeter on 27 February 2026; four-month sales were EUR334m, operating result EUR33m and EBIT EUR(18)m after EUR(29)m PPA and EUR(22)m special items.

Current segment H1 bridge	H1 2025 sales	H1 2026 sales	H1 2025 EBIT	H1 2026 EBIT	H1 2026 backlog	H1 2026 OFCF
Vehicle Systems	1,898	2,431	152	256	28,829	(557)
Weapon and Ammunition	1,323	1,757	234	377	25,274	(370)
Air Defence	295	478	36	76	4,218	(408)
Digital Systems	664	820	47	63	20,646	(105)
Naval Systems	n/a	334	n/a	(18)	6,255	(166)

The [H1 2026 report, p. 17](https://ir.rheinmetall.com/media/document/1bbcaadf-0e67-45bc-80df-bba822823824/assets/DE0007030009-Q2-2026-EQ-E-00.pdf) classifies Air Defence's entire EUR4,218m Rheinmetall Backlog as **order backlog**: EUR4,218m order backlog and no frame backlog. It should therefore not receive the frame-backlog haircut applied elsewhere, although timing and execution risks remain. Naval's backlog instead needs the separate EUR2.1bn F126 qualification above.

3a. Historical statutory-profit bridge and forecast-driver ledger

The common metric is exactly **EBIT**, an additive issuer-disclosed segment measure equal to statutory `Earnings before interest and taxes (EBIT)`. Current QFR-sealed `statutory_bridge.json` SHA-256: `bc3d5a1577a7461e980af5b367da097ae51674dd432019c21cc73639b9b8d7a5`. The numeric/label payload is unchanged from the 17 September bridge, whose different `6bdfda08398386fde45ad5bec50afb9c0cd4d148bbb2eb3554622d21c446095c` hash reflected prior source paths and retrieval metadata. Current `official_fy2025` and `official_h1_2026` raw paths are under `C:\Users\Admin\OneDrive\GPT\ER 2.0\Rheinmetall AG\raw\pulse-cio-20260922T200224+0800\`; their respective SHA-256 values are `54fb4baddd582a0a7f825571f7a4de6fc0435dc1681dafb0bfc691fe79cffd3e` and `e54d171c87b91de4e5f656f6f98342f194428ad778924a1b81006b4524888b96`. Operating result, PPA and special items remain context only.

FY2025 ended 2025-12-31

Bridge line	Classification	Value	Source ID	Running subtotal
Vehicle Systems	segment profit / EBIT	530	official_fy2025	530
Weapon and Ammunition	segment profit / EBIT	944	official_fy2025	1,474
Electronic Solutions	segment profit / EBIT	370	official_fy2025	1,844
Sum of reportable segment profit	segment profit subtotal	1,844	official_fy2025	1,844
Others/consolidation	corporate unallocated	(160)	official_fy2025	1,684
Consolidated segment profit metric	EBIT subtotal	1,684	official_fy2025	1,684
Statutory operating income	statutory EBIT subtotal	1,684	official_fy2025	1,684
Interest income	interest / below line	4	official_fy2025	1,688
Interest expenses	interest / below line	(116)	official_fy2025	1,572
Pretax income	statutory subtotal	1,572	official_fy2025	1,572
Income taxes	tax	(396)	official_fy2025	1,176
Earnings from discontinued operations	discontinued operations	(341)	official_fy2025	835
Net income	statutory subtotal	835	official_fy2025	835

TTM ended 2026-06-30

Bridge line	Classification	Value	Source ID	Running subtotal
Vehicle Systems	segment profit / EBIT	634	official_h1_2026	634
Weapon and Ammunition	segment profit / EBIT	1,087	official_h1_2026	1,721
Electronic Solutions / Air Defence plus Digital Systems bridge	segment profit / EBIT	426	official_h1_2026	2,147
Naval Systems	segment profit / EBIT	(18)	official_h1_2026	2,129
Sum of reportable segment profit	segment profit subtotal	2,129	official_h1_2026	2,129
Others/consolidation TTM bridge	corporate unallocated	(165)	official_h1_2026	1,964
Consolidated segment profit metric	EBIT subtotal	1,963	official_h1_2026	1,963
Statutory operating income	statutory EBIT subtotal	1,963	official_h1_2026	1,963
Interest income TTM bridge	interest / below line	13	official_h1_2026	1,976
Interest expenses TTM bridge	interest / below line	(132)	official_h1_2026	1,844
Pretax income	statutory subtotal	1,844	official_h1_2026	1,844
Income taxes TTM bridge	tax	(473)	official_h1_2026	1,371
Earnings from discontinued operations TTM bridge	discontinued operations	(506)	official_h1_2026	865

Bridge line	Classification	Value	Source ID	Running subtotal
Net income	statutory subtotal	866	official_h1_2026	866

The EUR1m corporate and net-income residuals are disclosed-rounding effects within the sealed tolerance. There are no operating bridge adjustments and no plug.

Historical bridge line	FY2025	TTM	Forecast treatment	Driver	Bear / base / bull rule
Others/consolidation	(160)	(165)	Separate corporate cost	Central staffing/systems	Faster than revenue / modest scaling / leverage
Interest income	4	13	Cash-yield schedule	Average cash and EUR yield	Lower / normal / higher cash
Interest expense	(116)	(132)	Debt/lease schedule	NVL and working-capital funding	Higher refinancing / normal / faster deleveraging
Income taxes	(396)	(473)	Effective tax rate	25.2% FY; 25.7% TTM	27% / 26% / 25%
Discontinued operations	(341)	(506)	Separate disposal schedule	Power Systems sale	Residual loss / zero after close / sourced release only

STATUTORY_BRIDGE_STATUS: VERIFIED — CLEARED FOR FORECASTING

4. Product and sub-segment historicals

Rheinmetall does not publish a systematic product-revenue table. These are entity/service/acquisition contributions, not a complete mix.

Segment	Product / component	What it is	Dollar disclosure?	History and source
Weapon and Ammunition	Rheinmetall Waffe Munition GmbH	Core weapons/ammunition entity	Yes	FY2025 1,872; FY2024 1,554; AR2025 p.64
Weapon and Ammunition	Rheinmetall Expal Munitions	Spanish ammunition producer	Yes, acquisition contribution	FY2024 658; FY2023 171 for five months; AR2024 p.61
Digital Systems	blackned	Military software	Yes, limited	Q1 2026 contribution 31; Q1 p.15
Naval Systems	Repair/service	Ship repair/refit	Yes, limited	H1 post-close 39; Q1 one-month 20
Vehicle Systems	Loc Performance	US vehicle/track acquisition	Yes, limited	9M 2025 contribution 329; Q3 p.12
All	Major programmes	Boxer, Puma, Lynx, HX, Skynex, TaWAN, F-35, naval	Contract values only	No complete product revenue history

Segment	Product family	Disclosure method	Current trend	Source
Vehicle Systems	Tactical/logistics vehicles	Segment growth and drivers	H1 +28.1%; Q2 +53.0%	H1 p.15
Weapon and Ammunition	Artillery/tank/medium calibre	Segment growth and orders	H1 +32.8%; Q2 +59.7%	H1 p.16
Air Defence	Skynex/Skyranger	Successor segment only	H1 +62.1%; Q2 +78.1%	H1 p.17
Digital Systems	TaWAN, D-LBO, IdZ-ES, F-35	Successor segment only	H1 +23.5%; Q2 +29.8%	H1 p.18
Naval Systems	Newbuild and repair	Post-close contribution	H1 four-month sales 334	H1 p.19

No product dollars were back-solved. Order values are never presented as revenue.

5. Most recent quarterly trend

Company FY ends 31 December. Most recently completed fiscal quarter at time of writing: FY26 Q2, covering April-June 2026, reported 6 August 2026 via the [H1 release](https://ir.rheinmetall.com/media/document/b89b5f8d-55d8-4c82-84c9-e39323fd4bc9/assets/2026-08-06-Rheinmetall-News-Half-Yearly-Financial-Report-H1.pdf). The latest complete statement is H1 FY2026, January-June 2026.

Segment / taxonomy	Quarter	Revenue	YoY	Operating margin	Source
Vehicle Systems	Q3 2025	1,338	8.2%	12.5%	Q3 statement p.12
Vehicle Systems	Q4 2025 derived	1,757	40.2%	13.5%	FY less 9M
Vehicle Systems	Q1 2026	985	3.4%	9.6%	Q1 p.12
Vehicle Systems	Q2 2026	1,446	53.0%	12.5%	H1 p.15

Segment / taxonomy	Quarter	Revenue	YoY	Operating margin	Source
Weapon and Ammunition	Q3 2025	691	37.9%	23.2%	Q3 p.13
Weapon and Ammunition	Q4 2025 derived	1,518	23.5%	39.3%	FY less 9M
Weapon and Ammunition	Q1 2026	601	0.3%	19.4%	Q1 p.13
Weapon and Ammunition	Q2 2026	1,156	59.7%	25.8%	H1 p.16
Electronic Solutions predecessor	Q3 2025	516	31.6%	11.0%	Q3 p.14
Electronic Solutions predecessor	Q4 2025 derived	1,044	51.7%	22.8%	FY less 9M
Air Defence	Q1 2026	192	42.7%	15.6%	Q1 p.14
Air Defence	Q2 2026	285	78.1%	16.3%	H1 p.17
Digital Systems	Q1 2026	349	15.9%	5.2%	Q1 p.15
Digital Systems	Q2 2026	471	29.8%	9.6%	H1 p.18
Naval Systems	Q1 2026, one month	77	n/a	10.1%	Q1 p.16
Naval Systems	Q2 2026	257	n/a	9.7%	H1 p.19

Q4 values are exact differences between FY and 9M official totals. Air Defence and Digital Systems Q3/Q4 2025 were not separately published as quarterly actuals, so they remain in Electronic Solutions here; they must not be backed out from the full-year pro forma comparators as though they were audited quarterly segment results. The pro forma FY2025 comparators do, however, support the current-taxonomy TTM allocation proxy above. W&A's sharp Q4 margin includes mix and reimbursements and should not be annualised. Pre-produced trucks and Murcia powder deliveries slipped from Q1 into Q2, producing 8% Group growth in Q1 and 69% in Q2.

6. Management commentary on forward growth

Calls checked: 6-Nov-2025, 11-Mar-2026, 7-May-2026 and 6-Aug-2026. FMP returned empty Q1/Q2 2026 transcripts; official-site PDFs control. Most commentary is paraphrased; quoted excerpts are short and verified.

Segment/topic	Source and speaker	Verified commentary	Modeling implication
Group demand	H1 release, 6-Aug-2026, CEO Armin Papperger	“Demand remains strong”; book-to-bill above 3	Strong visibility; haircut frame backlog
Group guidance	H1 release, management	2026 sales 13.7-14.2bn and margin around 19% after F126	Current anchor
Weapon and Ammunition FY2026 guidance	[September 2026 investor deck p.30](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf), issuer	Sales EUR4.9bn-EUR5.0bn and operating-result margin 29%-30%	Current management challenge for W&A revenue and adjusted profitability, not statutory EBIT guidance
Air Defence guidance	[H1 report, p. 22](https://ir.rheinmetall.com/media/document/1bbcaadf-0e67-45bc-80df-bba822823824/assets/DE0007030009-Q2-2026-EQ-E-00.pdf)	FY2026 sales EUR0.9bn-EUR1.0bn and operating-result margin around 19%; FY2025 pro forma comparator EUR769m and 17.4%	Current segment anchor; implies growth before mix/margin execution
Vehicle Systems	Q1 call, CEO/CFO	Roughly 200 of prepared truck deliveries shifted into Q2	Q1 weakness was timing, verified in Q2
Vehicle Systems	Q2 call, CFO Klaus Neumann	German trucks and tactical programmes drove Q2	Model uneven execution cadence
Weapon and Ammunition	Q1 call, CEO	Murcia powder awaited acceptance and about 100 shifted to Q2	Customer acceptance is timing risk
Weapon and Ammunition	Q2 call, CFO	Murcia catch-up continued; margin benefited from volume	Do not extrapolate Q2 mix blindly
Air Defence	Q1/Q2 calls, CFO	Skynex/Skyranger drove fastest growth and leverage	Backlog conversion supports moat
Digital Systems	Q1/Q2 calls, CFO	TaWAN, blackned and F-35 ramp drove growth	Lower-margin execution remains key
Naval integration	Q1 call, CEO	First post-close month was described positively; vertical integration targeted	Synergies still unproven

Segment/topic	Source and speaker	Verified commentary	Modeling implication
Naval/F126	[H1 report](https://ir.rheinmetall.com/media/document/1bbcaadf-0e67-45bc-80df-bba822823824/assets/DE0007030009-Q2-2026-EQ-E-00.pdf) and Q2 call, 6-Aug-2026	Cancellation cut 2026 Naval and Group sales guidance by up to 300; Naval operating-margin guidance fell to 10%-11%, while Group guidance became 13.7-14.2bn sales and around 19% margin; F126 was under 3% of the 2030 plan	Program risk but limited long-range plan impact; replacement orders are not yet secured
Cash conversion	Q2 call, CEO/CFO	Inventory built ahead of growth while down payments shifted	H1 burn is timing-sensitive, not assured to reverse
Capex	Q1 FY26 call, 7-May-2026, CEO	Earlier commentary anticipated high capex before normalisation	Superseded in degree by September 2026 guidance below; timing/mix need monitoring
Capex revision	[September 2026 investor deck p.61](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf), issuer	2026 capex plan downscaled from CMD 16%-of-sales indication to 8%-9%; no 2030 sales-guidance change claimed	Update forward capex, but challenge whether schedule deferral impairs capacity ramp
Naval backlog quality	September 2026 investor deck p.58, issuer	H1 Rheinmetall backlog still includes EUR2.1bn F126	Exclude/haircut cancelled-program value in executable-backlog sensitivity; no statutory H1 restatement
Backlog quality	H1 report	Frame backlog is expected call-offs and may vary	Separate frame/order conversion
2030 ambition	[September 2026 investor deck pp.65-66](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf), issuer	Group sales about EUR50bn, operating-result margin above 20%, and three-year rolling cash conversion above 50%; five segment targets below	Current aspiration requires signed orders, capacity and cash proof; do not equate operating result with statutory EBIT

Management disclosure is detailed at Group/program level but lacks a unit/ASP/margin bridge for products. That is an underwriting gap, not evidence of weak economics.

The [September 2026 issuer deck](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf) provides the following **complete current FY2026 segment target matrix** on pp.23, 30, 39, 47 and 57. These are management outlooks for 2026, not reported sales or sealed statutory EBIT. Margin refers to issuer **operating result**, an adjusted measure that cannot be substituted for the segment EBIT basis in Section 3a. The targets challenge each segment's near-term revenue cadence, mix and operating-result-to-EBIT bridge; none is mechanically adopted as a forecast.

Current segment	FY2026 sales target, EUR bn	FY2026 operating-result margin target	Deck page	Forecast interpretation
Vehicle Systems	5.9-6.0	12%-13%	23	Truck/tactical-delivery cadence must sustain H2 growth
Weapon and Ammunition	4.9-5.0	29%-30%	30	Capacity, acceptance and mix must reconcile to FY target
Air Defence	0.9-1.0	about 19%	39	Skynex/Skyranger conversion tests high-margin ramp
Digital Systems	2.2-2.3	about 12%	47	Execution and mix must lift H1 margin
Naval Systems	1.0-1.2	10%-11%	57	Ten-month ownership, F126 and PPA affect comparability

The W&A target is particularly consequential: EUR4.9bn-EUR5.0bn of FY2026 sales compares with EUR3.532bn in FY2025 and, after EUR1.757bn reported H1 sales, requires EUR3.143bn-EUR3.243bn in H2. This is a management execution hurdle, not an analyst revenue estimate. The 29%-30% operating-result margin is **not** a statutory EBIT margin. The deck does not supply a FY2026 segment-level reconciliation from operating result to statutory EBIT, so downstream forecasts must retain the sealed EBIT basis and independently model any adjustment gap.

The same September deck p.66 provides the following **2030 targets**, including M&A but excluding US order wins. Margins are management's **operating-result margins**, not the statutory segment EBIT used in Section 3a; target sales are not orders, booked revenue or a forecast automatically adopted here.

Segment	2030 sales target, EUR bn	2030 operating-result margin target	Forecast test
Weapon and Ammunition	about 14-16	29%-31%	Powder/energetics capacity and funded call-offs
Air Defence	about 3-4	24%-26%	Programme conversion and high-margin mix
Digital Systems	about 8-10	17%-19%	Integration throughput and repeatable margin
Vehicle Systems	about 13-15	13%-15%	Vehicle programme cadence and working capital
Naval Systems	about 5	above 15%	F126 replacement, yard utilisation and integration

The Group EUR50bn target is not the simple sum of segment midpoints: consolidation and intersegment eliminations apply, and the issuer's ambition includes future M&A. Deck p.60 separately retains **more than EUR8bn investment over five years, excluding capital contributions**. The 2026 capex reprioritisation is therefore a timing/cost challenge to the capacity plan, not an immediate statutory earnings uplift or a demonstrated cash saving.

7. Capital allocation history

Year	Capex	Capex / revenue	R&D reported	R&D / revenue	Buybacks	Dividends paid	Net acquisitions	Source
FY2021	271	4.8%	337	6.0%	0	87	34	AR2021; live FMP cash flow
FY2022	349	5.4%	351	5.5%	0	143	(2)	AR2022; live FMP
FY2023	398	5.5%	374	5.2%	0	187	(2)	AR2023; live FMP
FY2024	697	9.0%	502 / 325 continuing	5.1% / 4.2%	0	248	484	AR2024/2025; live FMP
FY2025	872	8.8%	566 / 401 continuing	5.7% / 4.0%	0	369	FMP net +10	AR2025; live FMP

Older reported R&D includes the later-discontinued civil perimeter. FY2025 total R&D was 566, comprising 401 continuing and 165 discontinued. Continuing R&D was Vehicle 256, W&A 78, Electronic Solutions 56 and Others 11. FMP reports zero FY2025 R&D and is rejected.

H1 2026 continuing capex was 403 including leases, with 374 cash outflow: Vehicle 87, W&A 184, Air Defence 24, Digital 57, Naval 5, Others 45. Capacity work covered UK gun/pipe capacity, Lithuania ammunition, Nitrochemie powder, Zurich Air Defence, TaWAN vehicles and shipyards.

Forward capex is a distinct management update: the [September investor deck, p.61](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf) shows an updated **2026 plan of 8%-9% of sales** versus the prior CMD 16% indication. At the EUR13.7bn-EUR14.2bn sales guide this is a directional EUR0.96bn-EUR1.14bn smaller annual plan, **not** realized free-cash-flow savings or an immediate statutory EBIT increase. Deck pp.60, 65-66 still target more than EUR8bn investment over five years **excluding capital contributions**, 2030 sales around EUR50bn and operating margin above 20%. The near-term capex downshift and long-run capacity commitment are jointly testable; the multiyear investment requirement has not disappeared.

NVL is the key allocation test. The [H1 2026 report, pp. 33-34](https://ir.rheinmetall.com/media/document/1bbcaadf-0e67-45bc-80df-bba822823824/assets/DE0007030009-Q2-2026-EQ-E-00.pdf) superseded the earlier valuation ranges: cash paid was 1,515, purchase-price liabilities were 71, acquired cash was (546), and provisional net cash outflow was 1,040; provisional consideration transferred was 1,586, identifiable net assets were 766 and goodwill was 820. A 1,500 club facility was agreed and 1,000 drawn in March. Net position moved from 369 net liquidity at FY2025 to 2,722 net debt at H1. The [September deck p.58](https://ir.rheinmetall.com/media/document/4ce7ca35-7088-4365-88d6-b43a0aa5cde6/assets/Rheinmetall_AG_2026_Investor_Presentation_September.pdf) describes **EUR5.5bn of acquired backlog**, while Naval **reported EUR6.255bn at H1**, including the EUR2.1bn cancelled F126 programme. Naval's four-month H1 EBIT was (18) after (29) of PPA effects and (22) of special items, while OFCF was (166).

8. Balance-sheet snapshot

Item	FY2025 EUR bn	Source
Cash and equivalents	1.650	Annual Report p.3

Item	FY2025 EUR bn	Source
Short-term investments	0.041	Live FMP balance sheet
Total debt including leases	1.282	Live FMP; official tie
Net debt / (net cash)	(0.369)	Official net liquidity
Net debt / EBITDA	(0.17)x	Live FMP key metrics
Goodwill plus intangibles	2.598	Live FMP; official note check
Parent tangible book value	2.413	Parent equity less goodwill/intangibles
Total equity including NCI	5.614	Annual Report p.3

FY2025 is stale for acquisition funding and working capital. At H1 2026, assets were 20.637bn, equity 5.769bn, equity ratio 28.0%, and net debt 2.722bn. Leverage work must use H1, not the FY2025 net-cash position.

9. Recent corporate actions and governance

- **14-Sep-2025 announced; 27-Feb-2026 closed — NVL.** Rheinmetall acquired 100% and formed Naval Systems.
- **1-Jan-2026 — reorganisation.** Electronic Solutions split; US vehicle activities gained direct focus; H1 comparatives restated.
- **H1 2026 — bond conversion.** By 30-Jun, EUR239m nominal had converted; issued shares rose by 774,689 to 46,777,223 and the liability fell by EUR222m ([H1 report, pp. 8 and 41](https://ir.rheinmetall.com/media/document/1bbcaadf-0e67-45bc-80df-bba822823824/assets/DE0007030009-Q2-2026-EQ-E-00.pdf)).
- **29-May-2026 — Romania SAFE.** Vehicle, air defence, ammunition and four naval vessels contributed 5.7bn nomination and require Romanian capacity/local content.
- **3-Jun-2026 — Power Systems sale agreement.** AEQUITA agreed to acquire the civil business. Model discontinued results until closing is verified.
- **24-Jun/2-Jul 2026 — F126 cancellation.** 2026 sales guidance fell 300; planned 2030 contribution was below 3%.
- **12-May-2026 — dividend.** FY2025 dividend was EUR11.50 per share; no five-year buyback activity.
- **Governance/succession.** CEO Armin Papperger is appointed through 31-Dec-2029. Klaus Neumann became CFO and René Gansauge COO on 1-Jan-2025; Dr Vera Saal became CHRO on 1-Sep-2025. Functional depth improved, but no CEO successor beyond 2029 is disclosed. The 2025 declaration stated full German Corporate Governance Code compliance; the Supervisory Board is 16-member and co-determined.

10. Open data gaps

- **True non-disclosure — customer concentration.** Annual Reports, quarterly reports, notes and decks were searched for `major customer`, `customer concentration`, `customer country`. Country/program examples exist, but no percentage-by-customer schedule. Do not fabricate one.
- **True non-disclosure — product/unit economics.** Searches for `product sales`, `units`, ASP, `unit margin`, `product margin` found selected contributions and contract values, not a complete product revenue/margin history.
- **Qualified disclosure — successor reconciliation detail.** The 2025 Annual Report p. 91 discloses pro forma FY2025 Air Defence sales of EUR769m, Digital Systems sales of EUR1,766m and non-divisional/consolidation of EUR(1,124)m. Together with the audited predecessor table and the paired H1 external/internal-sales tables, this fully reconciles the EUR31m as an intersegment reorganisation effect. The issuer does not disclose the full-year EUR31m by transaction, product, direction or successor segment; do not manufacture that finer bridge.
- **True non-disclosure — NVL standalone history.** Sources disclose post-close contribution, backlog, assets and PPA ranges, not a five-year standalone series.
- **True non-disclosure — backlog maturity/cancellation matrix.** Frame versus order backlog is disclosed; maturity and cancellation probabilities are not.
- **Estimated — Q4 2025 quarters.** Section 5 uses exact FY less 9M arithmetic.

- **Estimated — ROIC.** Uses official EBIT/tax and live-FMP invested capital; issuer ROCE remains controlling.
- **FMP mismatch.** FMP retains stale/differently mapped discontinued and profit rows; official IFRS figures control.
- **Updated guidance / contrary evidence.** September deck retains EUR2.1bn F126 in June backlog and lowers 2026 capex to 8%-9% of sales. Both affect forecasts and backlog quality, not sealed FY2025/TTM historicals. F126 contract remedy and the exact deferred capex schedule remain unresolved; do not assert the full EUR2.1bn is recoverable or the EUR8bn five-year investment requirement was cancelled.
- **No gate gap.** The statutory EBIT bridge is complete and hash-matched.

Live self-verification

- Largest-segment growth: D's live-refetched [H1 report p.15](https://ir.rheinmetall.com/media/document/1bbcaadf-0e67-45bc-80df-bba822823824/assets/DE0007030009-Q2-2026-EQ-E-00.pdf) states Vehicle Systems Q2 sales 1,446 versus 945, approximately +53%; H1 growth was +28.1%. Its archived D PDF SHA-256 matches QF's source hash.
- Management quote: D's live-refetched [6-Aug-2026 release](https://ir.rheinmetall.com/media/document/b89b5f8d-55d8-4c82-84c9-e39323fd4bc9/assets/2026-08-06-Rheinmetall-News-Half-Yearly-Financial-Report-H1.pdf) attributes “Demand remains strong” to CEO Armin Papperger; PDF text was verified in this run. The issuer [Q2 FY26 transcript](https://ir.rheinmetall.com/media/document/8bb289d9-f5b4-4ad5-9bcf-015718ca2182/assets/Not_verified_Q2_2026_Transcript.pdf) identifies the actual call as 6 August 2026; fresh FMP transcript returned `[]`, not an alternative date or quote.
- FY2025 revenue: D's live FMP `/stable/income-statement?symbol=RHM.DE&period=annual&limit=8` reports EUR9.935bn, matching the freshly retrieved annual report. Raw D hashes are in the current source manifest.

The evidence shows exceptional procurement visibility, rising through-cycle defence margins and heavy investment in capacity. It also shows volatile cash conversion dependent on advance-payment timing, working-capital funding and procurement cadence; roughly 30% of backlog is frame backlog rather than firm order backlog; and NVL integration, F126 replacement work and succession beyond 2029 remain the central management/moat tests.