RENK Group AG

Q3 2026 Earnings Call

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MANAGEMENT PRESENTATION

Operator 00:00:00

Welcome to the RENK Group AG Q3 2026 Conference Call. Please note that the call will be recorded. During today's call, webcast participants will be in a listen-only mode while we conduct the Q&A session. [Operator Instructions] Further instructions will follow at the time of Q&A.

I would now like to turn the call over to Maximilian König, Head of Investor Relations. Please go ahead.

Maximilian König Head of Investor Relations, RENK Group AG 00:00:35

Thank you very much, operator. Good morning and welcome, everyone, to our 9M 2026 results conference call. With me today are our CEO, Dr. Alexander Sagel; and our CFO, Anja Mänz-Siebje. Alexander and Anja guide you through today's presentation. Afterwards, we will open the floor for Q&A.

Let me now hand over to Alexander. Alexander, please go ahead.

Alexander Sagel Chief Executive Officer, RENK Group AG 00:00:59

Yeah, Max, thank you very much. Ladies and gentlemen, also from my side, a very warm welcome, and many thanks for joining today's nine months 2026 conference call. We will try to keep it as short and crisp as possible on such a busy and let me call it dynamic day as of today.

Let me start with a quick personal remark in the beginning. The last weeks were really among the most intense in RENK's recent history. We closed the acquisition of David Brown Defence, we signed the sale of our Slide Bearings business, and we delivered another solid quarter in terms of order intake, execution, and capacity ramp-up. In other words, we are executing our strategy step-by-step exactly as laid out at our Capital Markets Day in 2025.

To be also very clear from the start, including the planned sale of our Slide Bearings in our updated guidance, we continue to target the upper half of the adjusted EBIT range. Having said this, let's move on to page 1 and having a quick look on some recent highlights. Let me start first with the order intake.

After a record first half, the third quarter was once again very solid and marking a new record nine months order intake, confirming the continued strong international demand for land and navy platforms. Related deliveries will further grow our already large installed base, which is the foundation of our long-term and, as you know, highly profitable aftermarket business.

Just a few quick examples of larger Q3 orders is shown on the right-hand side. The two largest ones we have already highlighted in our pre-close call, so I will not go into more details, but we extended our contract with KNDS for the LEOPARD 2 MBT and related family vehicles in the range of approximately €130 million, including deliveries and revenue generation between 2029 and 2032. Also, Patria awarded us with a follow-on order of approximately €30 million for the TRACKX platform. First deliveries will already start in 2027.

Furthermore, the demand for spare parts is increasing, and including new orders of approximately €30 million for Augsburg in Q3. We also concluded the Puma second batch with final drives of approximately €22 million after we have booked transmissions and suspensions of approx. €140 million already during Q1.

Finally, we also signed contracts with the Turkish navy regarding so-called offshore patrol vessels and the so-called Fast Attack program, proving once again the increasing importance of the Turkish customer. Besides the order intake, the consequent execution of our production strategy, as well as our portfolio optimization were in the focus for Q3. Our capacity ramp-up program is in full swing and without any production interruptions. We continue to expand our capacities in Rheine and Augsburg by applying in parallel a set of measures to secure sufficient flexibility in our future capacity allocation.

And finally, major progress on our group portfolio. The successful signing and closing of David Brown Defence, plus the signing of a binding agreement with the Austrian company, Miba, to sell our Slide Bearings business. Let me come back on this later during the presentation.

Ladies and gentlemen, let's move to page 2 for having a quick look on our performance regarding the first nine months. The key message is simple. The first nine months were a proof point for continued profitable growth, as we can see it in the numbers. The order intake remains strong with almost €1.7 billion, mainly driven by our VMS division. The book-to-bill ratio of 1.7 strongly supports our future revenue visibility.

The revenue growth was in line with customer and contract schedules and, in case of the defense segment, driven by customer orders which were contracted approx. two to three years ago. As a consequence, most of our German and European-based revenues we are generating today do not yet reflect orders placed following the NATO commitments agreed in Denmark in 2025. Our adjusted EBIT margin expansion to 16.2% reflects simply operating leverage and efficiency gains, including those supported by our modular production concept. The defense segment contributed with approximately 77% to our group revenue on an LTM basis, still including the Slide Bearings business.

In the third quarter, the defense share was around 80%, which demonstrates the continued shift towards a more defense-focused portfolio and which is consistent with the strategy presented at our Capital Markets Day in November 2025. The aftermarket share also increased to 39% compared to 36% in the year before. While the share can fluctuate from quarter-to-quarter, the recurring nature of aftermarket demand remains an important feature of our business.

Let's move now to page number 3. As just explained before, the defense business is the main growth driver of the group. Defense order intake grew strongly by 51% to approximately €1.4 billion, while revenue increased by 11% to €763 million.

Ladies and gentlemen, let's continue with page 4 and having a look on our total order backlog situation. Despite our ongoing revenue conversion, our fixed order backlog increased further to now around €2.9 billion. Including our frame order backlog of around €1.1 billion, and our soft order backlog of around €3.6 billion, our total order backlog reached a new record of around €7.6 billion or roughly 5.3 times our LTM revenue. This provides a very strong and long-term visibility for our future business.

Let me also again underline our broad regional diversification of our backlog across our international customer base. Together with our strong aftermarket business, this diversification is the core asset of RENK, providing a great deal regarding budget platform or customer risk.

Having said this, let me continue with page 5 and a short recap of our recent M&A activities. In the last few weeks and months, we have taken important steps to further sharpen our strategic portfolio, focus on the core, and consolidation of the noncore activities. The acquisition of David Brown Defence and the planned divestment of Slide Bearings are two complementary milestones of this strategy.

Following the signing in July, we have closed the David Brown Defence acquisition last Monday on November 2. The PMI process is well underway and preparing us to move into execution right after closing. On October 22, we signed a binding agreement to sell our Slide Bearings business to the Austrian company Miba. We expect closing within the next 12 months, subject to the typical regulatory approvals.

As said before, these transactions will further align our portfolio and the deployment of capital with our strategic priorities. The proceeds from the Slide Bearings transaction will increase our financial flexibility in terms of capital allocation with a clear focus on further value and EPS-accretive M&A. We will only execute M&A acquisitions where we see a clear strategic fit and a compelling opportunity to create long-term shareholder value.

Having said this, I would like now to hand over to Anja.

Anja Mänz-Siebje Chief Financial Officer & Member of the Management Board, RENK Group AG 00:09:51

Thank you, Alexander, and a warm welcome to all of you. Before I start analyzing our nine-month performance, one quick comment on our current M&A activity from finance standpoint. As outlined in our ad hoc communication, we entered into a binding agreement for the sale of the Slide Bearings business to Miba AG from Austria. As a result of that intended sale, the underlying Slide Bearings business will be reported as a discontinued operation in accordance with IFRS 5 beginning in the fourth quarter of 2026. In other words, our year-to-date performance as of September 30 still includes Slide Bearings. The impact on our guidance will be explained later on by Alexander.

Now, let me guide you through our group financials. Order momentum remained very strong, particularly in VMS, as Alexander already elaborated. Complementary to this, revenue growth accelerated to 12.1% in the third quarter, compared with 5.8% for the nine-month period. This shows that the continued production ramp-up is increasingly translating our order book into sales. Adjusted EBIT again grew clearly faster than revenue and the nine-month margin improved by 1 percentage point to 16.2%. The third-quarter margin reached 17.6%, confirming the same positive trend. This development was primarily supported by higher output and improved capacity utilization in VMS, which more than offset the pressure of our industrial businesses.

Let us turn to VMS. VMS continues to demonstrate exceptionally strong growth momentum regarding order intake, reinforcing its position as the group's main growth engine. VMS Augsburg was the primary driver of this development, while RENK America and test systems faced particularly strong prior-year comparators that could not be fully matched. At the same time, third quarter revenue increased by almost 22%, supported by the continued ramp-up in production output. Growth was broad based with both new business and the aftermarket contributing to this positive development. Higher volumes translated into further operating leverage, allowing adjusted EBIT to once again grow faster than revenue.

Turning next to Marine & Industry. Order intake improved significantly in the third quarter, primarily supported by the naval businesses. However, the continued headwinds in industrial demand weighed on both orders and revenue. Adjusted EBIT remained below the prior-year level, although we have considerably narrowed the earnings gap recorded at the beginning of the year. At the same time, lower volumes limit our fixed cost absorption. Additional margin pressure came from a write-off of a paint shop amounting to a low-single-digit million-euro figure.

Conversely, prior year's adjusted EBIT benefited from a positive one-off in the form of an insurance payment also in the range of a low-single-digit million-euro amount. On a reported basis, EBIT was significantly affected by project-related write-offs following the termination of the German F-126 frigate project.

Let's move on to Slide Bearings. Slide Bearings showed a robust third quarter development against a still challenging industrial backdrop. Orders and revenue returned to growth in the quarter, and adjusted EBIT also improved. This contrasts with the weaker first half-year trend. For the nine-month period, however, the adjusted EBIT margin remains below last year. The main reason is a less favorable product mix.

Now, let me briefly comment on our adjusted EBIT bridge with a focus on our adjustments. As indicated earlier in the context of M&I's development, a great chunk of adjustment relates to the terminated F-126 frigate project, roughly accounting for €22.5 million. Underlying write-offs relate to accounts receivable, contract assets, and inventories. Additionally, we had to set up provisions for anticipated project-related costs.

The second biggest effect is due to our M&A activities around the sale of Slide Bearings and the acquisition of David Brown Defence. In total, we are talking about around €13.2 million. The remainder mainly relates to consulting fees attributable to smaller projects, for example, related to the implementation of group-wide process standards. Both the F-126 effect as well as our M&A activities led to the notable decline in reported EBIT.

Looking at net working capital, we see an improvement despite the higher production activity. Inventories increased to support the Q4 ramp-up and upcoming deliveries, particularly within VMS. This was more than offset by lower customer receivables and higher prepayments received, which is driven by timing effects. As a result, net working capital declined relative to revenue.

Finally, turning to cash flow. Free cash flow more than doubled to approximately €53 million in the first nine months. This improvement was supported by strong operating performance and favorable working capital movements. This more than offset higher tax payments, the aforementioned consulting costs, and our continued investment in the production ramp-up. The increase in tax payments from €9 million in Q3 2025 to €51 million in Q3 2026 is primarily attributable to additional tax payments of €21 million resulting from final corporate and trade tax assessments for the years 2023 and 2024.

In addition, mandatory quarterly tax prepayments were increased from Q4 2025 onwards to reflect the group's higher earnings base. Consequently, tax prepayments relating to fiscal year 2026 totaled approximately €23 million by September 30, 2026. The remaining tax payments of around €7 million mainly relate to foreign taxes and withholding taxes. Excluding the €21 million in tax payments relating to prior years, our LTM cash conversion rate improved to 84.8% compared to 80.6% in the prior-year period.

Part of the working capital benefit reflects payment timing and reporting date effects. While the third quarter included several significant cash outflows, including the previously mentioned tax payments and M&A-related expenses, the underlying cash generative strength of the business remains intact.

Reflecting these offsetting effects, the net debt remained broadly stable at €397 million compared to €391 million at the beginning of the year. In that context, let's also turn to leverage. Our net debt to adjusted LTM EBITDA ratio improved to 1.4 times, down from around 1.5 times in the prior-year period. Based on our year-to-date performance and the expected contribution from the fourth quarter, we see good potential for further meaningful increase in free cash flow by year-end.

That concludes my review of the financial. Alexander, back to you for the outlook.

Alexander Sagel Chief Executive Officer, RENK Group AG 00:18:24

Yeah. Thank you, Anja. Ladies and gentlemen, let me now come back for the outlook and a few concluding comments from my side and moving straight to page 16. We updated our 2026 guidance in

context with the announcement of the Slide Bearings sale on October 22. Starting with Q4 2026, Slide Bearings will be reported as a so-called discontinued operation. As a consequence, the new guidance refers to continued operations only. For the updated guidance, we now expect revenues of approximately €1.4 billion and adjusted EBIT between €240 million and €255 million. As already mentioned right in the beginning of this call, let me use this opportunity to confirm again our target to reach the upper half of the adjusted EBIT range, also under the new guidance.

Moving now to page 17 and have a quick look on the order intake situation for the rest of the year. After roughly €1.7 billion order intake during the first nine months of 2026, including Slide Bearings, we are clearly on track towards our defined full-year target to secure approx. €2 billion of order intake in 2026. The Q4 pipeline is again geographically well diversified and tangible.

In our land segment, we see further significant orders for various armored platforms. You'll find the selection on the right-hand side of this page, for example, we do expect to see contracts for international MBT as well as further MBT-based family vehicles. Also, we expect another batch of K2 orders for main battle tanks and family vehicles for various end customers.

In addition, we do expect contracts for engines for the M88 tank, further spare transmission for the Turkish LEOPARD 2, and a transmission for the German Panzerhaubitze, Trekhaubitze 2000. On the naval side, we do expect further contracts for larger navy programs like the F-128, the former MEKO A200 from TKMS, but also the Turkish TF-2000 Destroyer.

Ladies and gentlemen, finally, we are close to the end of our today's presentation, so let's move on to slide 18 and very briefly look at the key takeaways of today's call. First, strong order intake is driving our future revenue visibility, a very important point. Second, we walk the talk in terms of execution and further margin expansion. Third, the controlled capacity ramp-up is under full speed and supporting future revenue conversion according to customer contracts and delivery schedules, including a set of measures to secure sufficient flexibility in future capacity allocation. By the way, I'm happy to allude to this more on our December 8 strategy update.

We also made major steps to execute our portfolio strategy, and, last but not least, the 2026 guidance is updated based on the intended sale of our Slide Bearings business, while the upper half of the adjusted EBIT range is our clear target.

Before moving into the Q&A, a quick look on our upcoming capital market activities on page 19. Like always, we are very much looking forward to meeting many of you in the coming weeks and months at roadshows, bilaterals, conference, etcetera, etcetera. Some of the key dates are shown on this slide.

Having said this, thank you very much for your attention, and we are now looking forward to your questions.

QUESTION AND ANSWER SESSION

Operator 00:22:21

Ladies and gentlemen, we will now begin our Q&A session. [Operator Instructions] The first question is from Sebastian Growe at BNP Paribas. Please unmute yourself and begin with your question.

Sebastian Growe Analyst, BNP Paribas 00:23:05

Yeah. Hi, Anja, Alex, and Max. Thanks for taking my questions. I hope you can hear me well and that you're all well. So, the first one is around the M&I segment. You mentioned the weakness of the industry business as a driver for the revenue decline here. My question is, how should we think of the lasting impact, and can you comment on how the Marine business has fared year-to-date, both with regard to revenues and margin? So if you could just provide more color around the two sub-activities underneath Marine industry, that would be great. Maybe you can start there and then I have one more generally on order backlog conversion.

Alexander Sagel Chief Executive Officer, RENK Group AG 00:23:42

Sebastian, thank you very much. And we are doing well, and I hope you're doing also well. Covering or starting to answer and respond on your first question. I mean, as we said, the division M&I has three pillars. It's the navy business, predominantly the navy business, it's the industrial business, and it's the aftermarket, which is combining the navy as well as the industry part of this.

What we have seen in 2025 and what we still see during the entire year is a weakness, a general weakness for the civil part of our business, for the industrial business, and this is pretty much in alignment with everything what is GDP related. The Gulf War was not really supporting our industrial business here. So this is an ongoing weakness. Again, we have seen this, I think, over the last, almost 24 months. But, again, my personal comment on this is this weakness or this weak market situation, there will be a moment in time when this market will simply come back. So it's a temporary effect, it's impacting us, and it will also have an impact maybe in the beginning of next year, but it's something what is not in the nature of the business.

On the navy side, we are executing our order intake. We are executing our ramp-up, and we are executing our revenues according to what we have planned. And we have, during 2026, some supplier issues which are temporary. And, for example, we have big housings for our naval transmission or gearboxes, there are cracks in the weld. And if we identify these cracks in the weld parts coming from a supplier, of course, we need to react. But, usually, and this is what we have shown until today, we always can compensate it.

What is interesting, the aftermarket business, especially on the navy side, it's running well, but the aftermarket business on the industry side is, at least for 2026, is and was impacted also from a weak overall constraint situation in many of our customers' industries, so they are just postponing, for example, planned service dates for turbines on whatever industrial application. Does it answer your question, Sebastian?

Sebastian Growe Analyst, BNP Paribas 00:26:07

Yeah. Mostly so. I think my question's simply, if I look at the overall then decline in the business, particularly in the third quarter, my question is simply, is the naval still stable or uptrend in this industry really taking all the kind of decline here?

Alexander Sagel Chief Executive Officer, RENK Group AG 00:26:21

This is pretty much exactly the math behind it. And this is also what we – looking forward, what we will see during 2027 and the years to come. Navy has a different growth CAGR than the civil business. For the civil business, we also see as a kind of outlook for [ph] 2020, a kind of flattish development, maybe towards the end of next year, a slight acceleration. But the growth driver for the entire division is clearly the Navy segment.

Sebastian Growe Analyst, BNP Paribas 00:26:52

Okay. And for completeness, we are talking at this point around 60% navy, 40% industry. Is that kind of the right ballpark numbers in terms of revenue contribution?

Alexander Sagel Chief Executive Officer, RENK Group AG 00:27:00

Absolutely. And the 60% is pretty much still excluding David Brown Defence. So the David Brown Defence, there will be another stronger navy push being injected in this division.

Sebastian Growe Analyst, BNP Paribas 00:27:14

Okay. And then in the interest of time, let's move on to this order backlog conversion, please. I think on the pre-close call, you pointed to clear customer delivery schedules with regards to the backlog. I mean, I was just wondering if we should read this or if there's more to be read into this, i.e., how should we think of your €2.8 billion to €3.2 billion sales target for 2030? And, well, I understand, the Boxer

Arminius program is not necessarily too impactful for RENK. How do you view more generally the risk of delays here?

Alexander Sagel Chief Executive Officer, RENK Group AG 00:27:44

Well, I mean, it's a general question, but going really at the core of our business. Why I'm always referring to our customer contracts and delivery schedules, because this is the basis of our business. And a lot of our business going directly to our primes. If our primes are not performing on one of these platforms, this might cause delays in our revenue generation.

A general comment also here, delays, and maybe even some overpromises on armored platform projects and such for example, the German Boxer program, is, in general, not very helpful in these times. I mean, especially when we have these ongoing discussions about revenue conversion and new tech versus old tech.

If we see on the Boxer program, my personal view, and I always shared it, it's not a delay. I mean, it's a delay, and what I see, this will be somewhere in the first quarter maybe decided and contracted, but it's not a general question mark or even a budget reallocation because someone else has better ideas how to use this money and maybe even ship this money or this budget from the Boxer to new modern warfare-like drones.

I think here is simply the fact that we, I mean, the German customer and the primes are not yet done with the contract negotiations. The budget is that the German customer had planned to have this on December 9 to be approved in the German parliament. It's not taking place now. But this is just a shift in the program with, by the way, a minimal impact on RENK.

Looking on RENK and coming back to your question, I think what is key, especially when we look on 2030 and you know this, Sebastian, we have a strong international customer and platform basis. Our exposure, for example to Germany, is in the range of 20%, 25%. Our exposure to single primes independent, which prime you can name now here is not more than 10%. So I think this international and platform-based diversification, and what you have seen during 2026, the ongoing high order momentum driven by international customers, by the way, and markets and not so much by the German customer, plus our aftermarket business is, I think, a very solid and broad foundation, even if you look on our midterm targets.

Sebastian Growe Analyst, BNP Paribas 00:30:32

All right. Thank you very much for that.

Alexander Sagel Chief Executive Officer, RENK Group AG 00:30:36

You're welcome, Sebastian.

Operator 00:30:38

The next question is from Sam Burgess at Goldman Sachs. Please unmute yourself and begin with your question.

Sam Burgess Analyst, Goldman Sachs 00:30:46

Thank you, and good morning, Alexander, Anja, and Max. Firstly, just returning to the VMS adjusted EBIT margin, a strong quarter. Can you just, I think Anja talked about the operating leverage effect there, but it was also a strong quarter for aftermarket contribution. Could you maybe just help us think through which of those two was more important in supporting that margin? And the sustainability of both of those into future quarters? And then, secondly, on M&I, I think at H1, you flagged some M&I deliveries would slip into later quarters. Have those deliveries now come through? Thanks.

Alexander Sagel Chief Executive Officer, RENK Group AG 00:31:31

Hi, Sam. Good morning. I will try, of course, to do my very best to answer your questions. Maybe just first on the VMS side, I think you perfectly summarized it; ongoing through in Q1, Q2, and Q3. We see an improvement of the margin on the VMS division. I mean, compared to last year, we hit the 21%. And I think this is underlying the overall trend that we are on the way, and if we look on 2030 to reach our target margin of 25%.

If you look maybe, and I think this is also a point you are referring on, on the Q4 on the last or on the running quarter, which is for RENK, in this case, super high and back-end loaded. By the way, we will generate more than €500 million of revenues in the single quarter. This is a revenue we have realized, I think, in 2021, 2022 in a full year. This hockey stick effect is not only good and challenging on the other side because we have proven this in 2024, we have proven this in 2025, and that we can make this kind of year-end raise.

But usually, it's also the time and also this year where we have on one side, continued efficiency gains from the rollout and from the impact of the modular production line, as you know, I mean, the modular production line for the assembly is running since 12, 15 months, and it's showing incredible impact on our margin. We rolled out the modular concept during the summertime to our subassembly and spare parts. Also here, we start slowly but steady to see an impact. So, the efficiency gains will increase and continue continuously. But on the other side, and in all fairness, to manage this year-end race, and this is not without having costs, I mean, we will have higher production costs because we will have over time weekend – we will have additional shifts.

And please also keep in mind, we are currently in Germany, and this is Germany-specific in kind of labor dispute with the unions, the so-called IG Metall, there might be some one-, two-day strike impact. We don't know this yet, but this could be, and it could come in the next two weeks. Or what I'm saying is, overall, the continuous improvement of the VMS margin is exactly on track to reach our 25% as a midterm target. For Q4, we will have extraordinary costs in order to manage the expected and planned output. So this was the first question regarding VMS.

I think, no, I think I still owe you on VMS the aftermarket. I mean, aftermarket, we saw during Q3, especially here at VTA in Augsburg, a positive increase and development, like, by the way, during the entire year. And also the aftermarket, which, as you know, Sam, has a higher margin is supporting this margin development overall. And this is – I mean, as we're always saying, it's an essential part of our business and equity story, and this will develop positively in the future.

On the M&I side, what was the question again? I cannot read my own handwriting.

Sam Burgess Analyst, Goldman Sachs 00:35:12

It's about the deliveries from H1, whether it's come through.

Alexander Sagel Chief Executive Officer, RENK Group AG 00:35:15

Yeah. Sorry. I couldn't read my own handwriting because you were asking the question so fast. I mean, as I just said, I think in Q1, we had some supplier issues in US. We had during the summer break some supplier issues, but we are confident with – that during Q4, and we are in the middle of Q4, we can more or less recover this towards the end of the year.

Sam Burgess Analyst, Goldman Sachs 00:35:38

Great. Thank you very much. Really helpful.

Operator 00:35:44

The next question is from George McWhirther from Berenberg. [Operator Instructions]

George McWhirter Analyst, Berenberg 00:35:56

Good morning. Thank you very much for taking my questions. I've got two, please. Firstly, on Israel. Can you just provide an update on the revenue expectation for the country in the year in terms of what you have received year-to-date and what's left in Q4?

And the second question is on, a more broad one on German defense spending in land as to what you expect on the budget for next year, and the next few years and your latest expectations for order quantities for the PzH 2000 and the Boxer, please. Thank you.

Alexander Sagel Chief Executive Officer, RENK Group AG 00:36:35

Well, wonderful. Good morning. Again, it's always a challenge if you listen and write in the same time. So if I'm missing something of your fair questions, please correct me. I think the first point on Israel, I think we always were very clear about the timeline and the strong back-end loading. We are running under full speed production. We are running under full-speed production in order to realize the €80 million up to €100 million of revenues, what we always have communicated.

We got the third export approval, as we also communicated during the last Q3, the last export approval is still missing. We do expect in the next one or two weeks. But according to all our discussions with customers and authorities, we are positive, and this is the reason why we are – still continue to do and to execute our production planning in order to make sure, including delivery, of course, to make sure that we are in this €80 million to €100 million revenue range. From a little bit allocation of the revenue, it's about 60% to 70% is in Q4. So Q4 is in Israel, the quarter, if you want to call it.

On the German budget, I mean, how should I start? I would like to start with the projects what we have currently from RENK in our planning for next year. And this is something what we always openly share very much. So from our point of view for 2027, we do expect the major contract for the LEOPARD 2 MBT-based family vehicles, especially a larger order of recovery tanks, WiSENT and/or Büffel, and also mine recovery tanks, the so-called Keiler. The second larger order, and this is what we see for 2027, is artillery. Artillery informed from additional tracked howitzers, the Panzerhaubitze 2000, and also from the Boxer RCH. So from a strategic buyer perspective, the German Bundeswehr, according to our estimates, will significantly expand for the future the artillery assistance tracked.

And we what we also do expect, and this is also what we communicated during our half-year call, is that we will have the final decision on the F-127 call. We expect, going back to 2026, and this is part of our order intake, bridge to approx. €2 billion. We do expect this year at the end of this year the F-128. And, of course, as we always discussed, and now it's more or less official, with the news during the latest days, we also see the Boxer program in the first half year 2027 to be in our target list. About the final budget, let's wait until next week. But I'm very positive I do not expect major changes. Did this answer all your questions, George, just to confirm?

George McWhirter Analyst, Berenberg 00:39:55

Yes. That's really helpful. Thank you.

Alexander Sagel Chief Executive Officer, RENK Group AG 00:39:57

Thank you, George.

Operator 00:40:01

The next question is from Marie-Ange Riggio at Morgan Stanley. Please unmute yourself and begin with your question.

Marie-Ange Riggio Analyst, Morgan Stanley 00:40:09

Yeah. Hi. Thanks for taking my question. I have three. The first one is on the Q4 pipeline because you confirmed your €2 billion target for the full year and so the €300 million to €400 million order for Q4. My

question is like, how much it depends on Germany versus other countries, and so how much are you confident to reach this target?

The second one that I just had, because I'm seeing some headline regarding the Boxer contract and your comment, so I just want to confirm that my understanding is the right one. Did you say earlier in this call that the current delay is not the question of German-operated shifts and basically Germany is still very committed to this contract. So I just want to confirm your comment here.

My second question is on your order intake versus your revenue conversion, because it's quite clear that your order intake is growing significantly faster than your revenue. So, can you help us to understand if there is any current bottleneck preventing you to convert this backlog faster? And if not, what is the timing of your backlog conversion?

And the last question is on aftermarkets, because we see the aftermarket that continue to increase in your revenue mix. So, can you probably help us to understand a bit more the demand here versus OE and what are the main differences between margin and gross versus OE? Thank you so much.

Alexander Sagel Chief Executive Officer, RENK Group AG 00:41:43

Wow, Marie. This is a long list. And I'm sure after 50% on the half time, I need to ask you again about the questions. But let's start with the Q4 order intake target. I think what is the key message, and this is also what we talked about on the H1, we are very bullish on this approx. €2 billion target for order intake. And what we have not included here in this target is, of course, the Boxer Arminius. During the Q2 call, we were already quite skeptical. What is not included here is the F1-27. What we have included, of course, is the F-128. And what we also have included, and you see it in the chart, by the way, we still have included in order to make a like-for-like comparison our Slide Bearings business.

From today's point of view, to answer the second half of the first question, the dependency on Germany is pretty much exactly only focused on the F-128. The F-128 is with somewhere on the €70 million, €80 million revenue. The only major program we have in this bridge to reach our target of €2 billion. But from today's point of view, I would be even a little bit more bullish and say, even if we would exclude Slide Bearings, so not making a like-for-like comparison, we would hit the approx. €2 billion target. So the overall order intake situation remains strong.

All right. Confident, I hope I could give you the confidence.

Marie-Ange Riggio Analyst, Morgan Stanley 00:43:30

Sure. Is it on the Boxer [indiscernible] yeah. Thank you.

Alexander Sagel Chief Executive Officer, RENK Group AG 00:43:32

Yeah. Yeah. Yeah, the Boxer. Again, I'd like to repeat, I mean, I'm always saying, and I'm saying this at least since one year, Germany needs to have the Boxer and the Boxer program for the medium-sized for the Militär-Kraftfahrzeuge. This is the reason why Germany has allocated quite a lot of money. And when we talk about the Arminius project, we talk currently about the phase one. There might be, from my point of view, my personal point of view, further opportunities later towards the end of this decade. We are talking about between 4,000 to 5,000, but let's focus, for the time being, on this first batch.

And the German customer had planned to decide and to source it almost 12 months ago. There were delays in the project, there were delays in requirements definition, there were maybe delays in the contract negotiations. I don't know it. I'm not the prime. But as a matter of fact, the German customer, and most likely the contract negotiations, the final negotiations were not that satisfying that this Boxer program could be processed on the December 9 date, which was the schedule from the German customer.

So now, this program is moving into the year 2027, if it comes in Q1 or Q2. Germany has an urgent demand for this kind of capability. So, it's not about any reallocation of budgets to other priorities or it's

a cut in general. It's simply, as a matter of fact, it's a question of timing, contract negotiations, until Germany can approve it in the German parliament, so.

Marie-Ange Riggio Analyst, Morgan Stanley 00:45:25
That's very clear. Thank you so much. The second question was on order intake versus revenue commission.

Maximilian König Head of Investor Relations, RENK Group AG 00:45:33
Bottlenecks.

Alexander Sagel Chief Executive Officer, RENK Group AG 00:45:34
Yeah. I mean, the bottlenecks, as I've just said, we have a growing fixed order backlog. We have a growing frame order backlog. We have a growing total order backlog which includes then soft order backlog. And with each and every contract, we are getting delivery schedules, and this is the guidance and the guideline for our capacity ramp-up. And when we are talking about capacity ramp-up, I mean, you know it, Marie, we are targeting to almost triple our capacity to somewhere 1,900, 2,000 in the year 2030. And this is exactly executed according to the contracted delivery schedules minus a lead time to build up and to install this capacity.

And we are doing this in a very strict, strict and sometimes very prudent way. I mean, we just had in Q3 the major event in our civil plant, in our industrial plant in Rheine by launching inauguration of new machining centers for the land business. We are prudently executing our capacity ramp-up, and for this reason, from today's point of view, and you know me, I gave this position quite a lot of time. We are very confident, and we do not see bottlenecks today in this conversion. But we are doing this conversion to make it really clear exactly according to the delivery dates and the contracts and the contract conditions.

If we could produce and deliver how we want, the work looks different. But this is exactly in line what we discussed and explained last year on our Capital Market Day. Order intake is converted into revenues by good, focused operational excellence on capacity increase, on managing our supply chain, which we do, and, of course, the delivery dates as contracted. There was a last question I think about aftermarket, right, Marie?

Marie-Ange Riggio Analyst, Morgan Stanley 00:47:41
Exactly. Thanks so much.

Alexander Sagel Chief Executive Officer, RENK Group AG 00:47:43
Aftermarket spend is also quite often roundabout 60% to 65% in this percentage, 60% of our aftermarket business are spare parts. The rest is MRO, it's service. I think we talked a lot about the margin and profitability, but I would like to refer to our meeting on our CEO strategy update on December 8 because then we will have a deep dive on our aftermarket in regards to segmentation, in regards to margin ranges. And you could expect that the margins of spare parts and MRO are, of course, higher compared to OE business, but also, on December 8, how we see the further growth in this aftermarket segment towards 2030 but also towards 2035. Is this okay for you? Is this...

Marie-Ange Riggio Analyst, Morgan Stanley 00:48:41
Yeah. Perfect. I will wait December 8, then. Thank you so much.

Alexander Sagel Chief Executive Officer, RENK Group AG 00:48:46
All right.

Operator 00:48:49
The next question is from Sven Sauer from Kepler Chevreux. [Operator Instructions]

Sven Sauer Analyst, Kepler Cheuvreux 00:49:04

Hello, everyone. I hope you're all doing well. I have two questions. I'll take them after each other so the writing is not so complicated with the questions. And I think they have already been answered partially anyway. The first one is on the 2026 EBIT guidance. I mean, there were some obviously discussions after you announced the sale of the Slide Bearings business. One could assume or calculate an underlying cut in the EBIT margin. And now, you have basically put that to the previous margin because now you're saying we still expect to be in the upper half of the guidance.

But I'm wondering, you mentioned there are some additional costs in Q4 in the VMS segment, and I guess this is what is offsetting theoretically higher margin due to the David Brown consolidation, right, because it's consolidated as of November. So you have 1.5 months, at least, of EBIT in there, which would be, I guess, €1 million to €2 million or something like that. Is this being offset by the higher costs in Q4 in VMS?

Alexander Sagel Chief Executive Officer, RENK Group AG 00:50:22

Hi, Sven. And this was perfectly slow and steady, so I think I could write everything down. The 2026 guidance, I explained a little bit in the beginning. I mean, first of all, we are standing strong and confirming to have the target in the upper half of this range. What drove us a little bit is on one side is clearly on the VMS segment, and this is what we have seen through the entire year, is an ongoing improvement on our operational leverage, and especially on the efficiency which you could track until now in the margin improvement on the VMS side.

But it's true, and I've alluded before, if you want to make this amount of revenues in the last four quarter, and this is not because we were to dump before to make this output, this is again simply coming from the customer contracts, like, for example, Israel. The extra cost coming from – additional shifts coming from weekend shifts, coming from very expensive Sunday shifts and stuff like this, are more or less not completely offsetting the efficiency improvements. Of course, the efficiency improvements is still higher, but it's the opposite, the full leverage of the efficiency improvements we are not seeing, because simply we have a kind of at least partial offsetting by this temporary Q4 specific, how do you call it, production cost, higher production cost, exactly.

The David Brown Defence, I mean, it's a consolidation, and this is, I mean, to give you a kind of rule of thumb, we are maybe somewhere on the revenue side of approximately €20 million and maybe on the EBIT side in the range of €2 million, €2 million to €3 million, let's see, there are €2 million, and this is part of the guidance or this would be the integrated part of this guidance, but it's from the total magnitude. It's not that relevant, if you compare it, if you talk about, I don't know, in the middle of €240 million to €255 million range, if you talk about €2 million.

But the main driver to make it really clear is coming from efficiency gains on one side, which we see since the introduction of the modular production rate versus this Q4-specific expected and we see it, and we see it already, higher cost because we need to go the extra mile, extra shifts to get it out. Please do not forget we also have a big chunk. The question was before of our Israel business, which is maybe not on the same margin level compared to other customers we are serving here from Augsburg.

And also, we need to keep in mind, and this is specific and special for 2026, it's a labor dispute. It's IG Metall, it's ongoing negotiations. We do not know when and if and to what extent there will be a strike. There is a certain probability that there will be a strike at RENK because RENK is doing, as you know, not that bad. There are other industries, they are much worse, but there could be a strike at RENK. We don't know it yet, but we cannot exclude it or neglect it overall. And please also keep in mind, but this is on the EBIT side, to be honest, rather small impact, our industrial business is not suddenly coming out of the grave and running in Q4 perfectly. We have ongoing the headwind from the market. And I think this is pretty much the overall integral explanation.

Sven Sauer Analyst, Kepler Cheuvreux 00:54:22
That is very helpful and very clear. Thank you for that. My second question is a follow-on quick question from Marie, I think. The Q3 order intake that you announced for the Patria and the LEOPARD 2 transmissions, the one is going to be delivered in 2027 and the other in 2029. And am I understanding this correctly, this is completely due to the primes' delivery schedule because they cannot make it happen to get the transitions delivered for the LEOPARD 2 earlier.

Alexander Sagel Chief Executive Officer, RENK Group AG 00:55:02
There's nothing else to say than on the point. We are executing, and this is sometimes also putting some stress on us because Patria, I mean, with the TRACKX program, to be honest, it's running quite successful. They are accelerating their delivery plan. While on the other side, KNDS, I cannot change it. We booked it in Q4 – no, in Q3, we booked it in Q3 2024, but the delivery date is in the second half of 2029. I cannot change it.

Sven Sauer Analyst, Kepler Cheuvreux 00:55:36
All right. Thank you to everyone. Thanks. Bye-bye.

Alexander Sagel Chief Executive Officer, RENK Group AG 00:55:40
Thanks, Sven.

Operator 00:55:44
The next question is from David Perry at JPMorgan. [Operator Instructions]

David Perry Analyst, J.P. Morgan 00:55:57
Hi, Alexander and Anja. Hope you're well. Two questions, they're not the most exciting, but first one just on your Q4 orders on the list of things you're expecting, are they well balanced by size or is there one particular one that will really make a difference that we should focus on?

The other one is, and this is a boring one, maybe for you, Anja, just these eliminations line when we add up the EBIT numbers for each division and elimination, could you just remind me why it was minus 16% last year? And it looks like it will be a lot lower this year. Do you have a guidance, and can you just tell us what the run rate, what is it and what the run rate will be, I guess, ex-Slide Bearings going forward? Thank you.

Alexander Sagel Chief Executive Officer, RENK Group AG 00:56:47
David, I would like to start. I will hand over to Anja. I hope you are also doing well. I will try to answer your question about the Q4 and the size allocation or the size split between the order intakes. I think it's fair to say that we have, like always, we have once who are larger, we have many, many smaller ones we are, of course, not showing here. But just if you take a list, which is on, I cannot read it well, page whatever. I forgot my glasses. But, anyway, if you take this list, I think the average order size is somewhere between the €50 million to €100 million.

David Perry Analyst, J.P. Morgan 00:57:31
Okay. So there's not one like giant one in there going [indiscernible].

Alexander Sagel Chief Executive Officer, RENK Group AG 00:57:34
No, no, no, no, no. There are some very interesting from a strategic point of view, but I will allude on this when we have booked it.

David Perry Analyst, J.P. Morgan 00:57:45
Okay. Thank you.

Alexander Sagel Chief Executive Officer, RENK Group AG 00:57:47
And having said this, David, or do you have any more questions on this?

David Perry Analyst, J.P. Morgan 00:57:52
No, no. It's just my question for Anja about the eliminations line. What will it be this year and what will it be once – well, I guess for this year, will it be excluding Slide Bearings as well? Just to be clear, you're taking all the Slide Bearings out of the numbers for the whole of 2026 in Q4, is that the correct understanding? The Slide Bearings won't be in revenue and EBIT for 2026?

Anja Mänz-Siebje Chief Financial Officer & Member of the Management Board, RENK Group AG 00:58:18
Exactly. I mean, what we're doing, basically, is we have a discontinued operation. So we're disclosing Slide Bearings separately, so we're still fully consolidating it because we own it. So it will remain in that line. Yeah. Last year, for nine months, we were at €9.6 million. This year, we are roughly €1 million below. The reason why we were so low and also for the 12 months and last year was we were higher, I mean, a little bit higher than expected because we had in last year for the first time, the very first full 12-month impact for the central functions of a listed company, yeah. And therefore, we started some efficiencies. We did all these process improvements and so on. And therefore, we are a little bit lower by this year already for the nine-month period. And, honestly, we will be also a little bit lower for the fully 12 months.

David Perry Analyst, J.P. Morgan 00:59:25
So, what, like, €13 million or something like this?

Anja Mänz-Siebje Chief Financial Officer & Member of the Management Board, RENK Group AG 00:59:29
Not that much. Just a little bit. So if you see...

David Perry Analyst, J.P. Morgan 00:59:33
A little bit higher than that, i.e., more negative, like €14 million, €15 million..

Anja Mänz-Siebje Chief Financial Officer & Member of the Management Board, RENK Group AG 00:59:37
Yeah. Yeah. Exactly. More negative. Yeah. Exactly. So same trend, but less. Yeah.

David Perry Analyst, J.P. Morgan 00:59:42
And what happens then when Slide Bearings is gone? Does that give you any benefit, though? Or does it stay at this kind of minus €15 million?

Anja Mänz-Siebje Chief Financial Officer & Member of the Management Board, RENK Group AG 00:59:52
When Slide Bearings is gone, that will depend on when we get the approval. And we will deconsolidate it, so it's going to be out. But then, obviously, for the year-end, David Brown will be coming in, yeah, but it will be, I would say, roughly same level.

David Perry Analyst, J.P. Morgan 01:00:12
Okay. Can I just add one last one, actually, just a slightly technical one, just for the consensus. On EPS for this year and next year, because Slide Bearings won't be in EBIT, but will you include the discontinued in your EPS or not? In your adjusted net income and your adjusted EPS, i.e., is it EBIT EPS neutral? You're just moving it out of EBIT, but it goes below the line or is it completely out of EPS, so it's like optically, you have lower EPS just from an accounting treatment?

Anja Mänz-Siebje Chief Financial Officer & Member of the Management Board, RENK Group AG 01:00:49
Related to the Slide Bearings division.

David Perry Analyst, J.P. Morgan 01:00:52
Yeah. Yeah. Or to be confirmed?

Anja Mänz-Siebje Chief Financial Officer & Member of the Management Board, RENK Group AG 01:00:54
Yeah. Honestly, let me look that up because this is an IFRS, highly technical questions, and we will get back to you on that.

David Perry Analyst, J.P. Morgan 01:01:04
All right. Thanks.

Anja Mänz-Siebje Chief Financial Officer & Member of the Management Board, RENK Group AG 01:01:06
Yeah. I know we will definitely exclude it from revenues. We will show it as a – in Germany, we say [Foreign Language] so it's thereof. Yeah. And also for the adjusted EBIT line, therefore, I would assume it's also for the net income line, yeah, so then it would be excluding from EPS. But let me please get this confirmed.

David Perry Analyst, J.P. Morgan 01:01:32
Okay. Thank you.

Anja Mänz-Siebje Chief Financial Officer & Member of the Management Board, RENK Group AG 01:01:33
But maybe it could also be that we will basically show both for comparison purposes because as we have seen when we issued the new guidance for continued operations, there was a lot of confusion. So, therefore, we will basically show both with Slide Bearings and without to see what the impact was.

David Perry Analyst, J.P. Morgan 01:01:55
All right. Thank you.

Alexander Sagel Chief Executive Officer, RENK Group AG 01:01:57
Thanks, David.

Operator 01:02:00
The next question is from David Holmes at Bank of America. Please unmute yourself and begin with your question.

David Holmes Analyst, BofA Securities 01:02:05
Hi, guys. Thanks for your time today. A couple of quick ones. So just wanted to come back to the comments you've made around this potential strike in the fourth quarter. You said there's some additional costs associated with that. Is there any risk to revenue delivery associated with potentially happening?

Alexander Sagel Chief Executive Officer, RENK Group AG 01:02:27
Hi, David. Yeah, if there's a strike over one week, there is a risk of deliveries. I mean, that's normal. But we do not expect this impact. So what we do expect as an impact is that there will be maybe one day and if it really goes wrong, these two days to what extent we can compensate these kind of one or two days, we will see at the very end. But we do not expect a major shutdown of our plant for I don't know how many days.

David Holmes Analyst, BofA Securities 01:03:06
Okay. Understood. And then second question is on capital allocation. Alexander, you talked about an ongoing focus on value-creative M&A. I suppose is there any kind of guardrails you can give us on the areas that you would like to focus any further acquisitions on?

Alexander Sagel Chief Executive Officer, RENK Group AG 01:03:23

Happy to do so. And this is pretty much in accordance to – I mean, this is our M&A strategy we have shared before. I mean, the consolidation, we have pretty much realized a good chunk of this, I think on the land and on the navy side with the acquisition of Cincinnati Gearing Systems and David Brown Defence, we have a market share on the large surface combatant, which is above 50%, really globally leading. So consolidation is more or less achieved.

What is important for us are two main pillars to go forward; aftermarket, and here, we talk about service networks, for example. So M&A targets who are supporting our aftermarket strategy; and second, if you talk about technology, unmanned, here not so much on unmanned ground vehicles, because we do believe also based on our lessons with our partnership with Patria on the TRACKX and on the heavy UGV that with the digitalization of our transmissions and with primes, we can realize this without major acquisition.

But I think it's interesting if you talk about USV or UUSV, because this is attractive, because it's close to our core business, and it's especially attractive when, with this kind of acquisitions some more general and basic technologies are also provided in the range for power electronics, sensors, etcetera, etcetera. So these two pillars, aftermarket, and new tech, and new tech is for us, unmanned, and here, unmanned is focused on underwater or below the water.

David Holmes Analyst, BofA Securities 01:05:07

Got it. If I could squeeze one final one in. I just I noticed you talked about rolling the modular assembly line out to the aftermarket and MRO segment. The question is, would you expect that to be as impactful as it has been on the OEM side from a margin perspective?

Alexander Sagel Chief Executive Officer, RENK Group AG 01:05:28

I think there will be an impact. There will be, for example, hopefully, and this is what we expect, an impact that we need that we have faster delivery times or service times when transmissions are coming to our premises in order to make an MRO service. Today, we take months, to be honest, there, and the customers cannot wait on this. And customers we have abroad, they cannot wait to ship a transmission for weeks and then being here disassembled/assembled and repaired, whatever, the next four weeks. So we do expect over the time a similar kind of impact. Of course, if you go lower in the verticals from the final assembly where you do 35,000 parts, you might have not exactly the same magnitude if you go to the assembly of subsystems, but there will be an impact.

David Holmes Analyst, BofA Securities 01:06:26

Great. Thank you very much.

Alexander Sagel Chief Executive Officer, RENK Group AG 01:06:30

You're welcome.

Operator 01:06:30

The next question is from Joe Orchard at Rothschild & Co. Redburn. Please unmute yourself and begin with your question.

Joe Orchard Analyst, Rothschild & Co Redburn 01:06:38

Hi there. Good morning. I'll finish with just a quick one on cash conversion and free cash flow generation for the year. Conversion was around 70% for the first nine months. Is that sort of the run rate you'd expect for the full year or are there any comments or additional color you can share with us on that? Thank you.

Alexander Sagel Chief Executive Officer, RENK Group AG 01:07:04

Okay. Hi, Joe. I would like to hand over to Anja.

Anja Mänz-Siebje Chief Financial Officer & Member of the Management Board, RENK Group AG 01:07:08
Okay. Thank you. If you look at, let's say, free cash flow, if you take our free cash flow Q4 2025 as a baseline, and if you consider tailwinds which would be related to net working capital developments, what we can see already, and anticipated down payments, yeah, we would actually expect to be at least around the same level in Q4 2026 for the free cash flow as for Q4 2025. However, and that's always the topic what we have been explaining also over the last couple of quarters is, we are always facing the typical cut-off types, what we have. And also for December 31, 2026, we do have David Brown being consolidated fully into these numbers.

Joe Orchard Analyst, Rothschild & Co Redburn 01:08:00
Okay. That's helpful. Thank you very much.

Anja Mänz-Siebje Chief Financial Officer & Member of the Management Board, RENK Group AG 01:08:01
Thank you.

Operator 01:08:02
And the final question is from Christophe Menard at Deutsche Bank. Please unmute yourself and begin with your question.

Christophe Menard Analyst, Deutsche Bank 01:08:10
Yes. Thank you very much for taking my question. I had actually two. The first one is last year at the CMD, you mentioned the German defense outlook in terms of range, in terms of sales. You said it's €1.4 billion to €2.2 billion until 2035. Is there any update to this that you could provide us with? The second question is the David Brown margin outlook. Now you have the keys of David Brown compared to the call we had in July. Any changes of your appreciation of the business opportunities at David Brown margin and also sales outlook? I mean, you mentioned a 12% CAGR. I think it's probably unchanged, but just wanted to check. Thank you.

Alexander Sagel Chief Executive Officer, RENK Group AG 01:09:00
Hello, Christophe. Always a pleasure speaking to you. I mean, I'm trying to answer your first question on my €1 million to €2 million revenue opportunities for the German customer between 2025 and 2035. And this was the chart of last year. And I said it quite a few times this year, from our estimates, and maybe we were a little bit, or you considered us as lowballing, but we are exactly on track. If you see what we have done as order – what we expect for order intake from the German customer for 2026, and what we see for 2027, we will end up maybe in the range of €1 billion order intake in the early first phase of this two-phased approach of the German customer. You remember 2025 up to 2030 is the phase one and up to 2025 is the second phase. So we are calling to our estimates exactly on track. And this is also what I said during the half year one presentation.

The David Brown Defence, yes, we have the keys. We had, by the way, a fantastic opening in day one. You are welcome to visit this plant. You will not see everything because it's confidential and UK eyes only. But anyway, we do expect a similar margin improvement and margin level what we communicated during our call on, when was it, July 3? July 3, yeah, exactly on July 3.

Christophe Menard Analyst, Deutsche Bank 01:10:39
Okay. Thank you very much.

Alexander Sagel Chief Executive Officer, RENK Group AG 01:10:41
Yeah. Thank you very much.

Operator 01:10:43
This concludes the Q&A session. I will now hand back to Maximilian König for closing remarks.

Maximilian König Head of Investor Relations, RENK Group AG 01:10:50

Yeah. Thank you very much for your questions and for taking the time to join us today. Should you have any follow-up questions, the entire RENK IR team will be happy to assist. We look forward to speaking you again soon. Have a great day. Bye-bye.

Operator 01:11:09

This concludes today's call. Thank you, everyone, for joining. You may now disconnect.