



# Acquisition of ESG

Accelerating HENSOLDT's integrated sensor solutions strategy

December 2023

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# Acquisition of ESG Elektroniksystem- und Logistik-GmbH (“ESG”), a leading German defence systems integrator

## Transaction terms

- 100% of ESG for an enterprise value (“EV”) of €675m<sup>(1)</sup> plus an earn-out of up to €55m<sup>(2)</sup>
- Implied EV<sup>(3)</sup>/EBITDA 2024E of ~10x post run-rate cost synergies (~14x pre-synergies)
- The transaction has full support of HENSOLDT’s two key shareholders, the Federal Republic of Germany and Leonardo S.p.A.
- Expected to be completed by H1 2024, subject to certain conditions, including obtaining necessary regulatory approvals

## Compelling strategic rationale

- High growth company – low double-digit annual revenue growth
- Acceleration of sensor solutions strategy by acquiring leading innovation, software engineering and systems integration expertise
- Combination creates advanced capability in integrated sensor solutions for multi-domain operations and battlefield digitalisation

## Attractive value creation<sup>(5)</sup>

- Accretive to revenue growth and FCF<sup>(4)</sup> generation with significant cost (~€19m annual run-rate EBITDA impact) and revenue synergies
- EPS accretive by year 2 including cost synergies only and double-digit accretive by year 4 including cost and revenue synergies
- ROIC<sup>(6)</sup> above WACC by year 4 including cost synergies only and by year 3 including cost and revenue synergies

## Prudent financing

- Planned capital increase from authorized capital of up to 10% of the current share capital with remainder financed by new debt
- The Federal Republic of Germany<sup>(7)</sup> intends to participate in the potential capital increase<sup>(8)</sup>
- 2024 pro forma net leverage expected to be ~2x<sup>(9)</sup>

(1) Including net cash of ~€85m, pensions of ~€80m and IFRS 16 leases of ~€85m

(2) Earn-out based on specific performance targets to 31 December 2024

(3) Including earn-out of €55m

(4) Adjusted pre-tax unlevered FCF (FCF excluding non-recurring effects, interests and taxes)

(5) Financial impact based on EV including earn-out of €55m; Year ‘n’ means n<sup>th</sup> full year after expected closing [ie Year 1 is 2025]

(6) ROIC = Taxed EBIT divided by EV

(7) Indirectly acting through Kreditanstalt für Wiederaufbau (KfW)

(8) Pro rata to their shareholding quota

(9) Net leverage including earn-out of €55m and lease liabilities. Excludes pensions

# ESG snapshot

## Key highlights

- Founded in 1967 and headquartered near Munich, Germany
- ~1,380 highly skilled FTEs including ~800 engineers
- 16 locations in Germany, Netherlands and USA (17% of revenue outside Germany)<sup>(1)</sup>

- ✓ A leading German platform-independent systems integrator for defence and security
- ✓ Trusted partner to the German Armed Forces and international allies
- ✓ Innovation focus on battlefield digitalisation (eg MDO, CESMO, GMN, DaCAS, ADLER)

Note: MDO (Multi-Domain Operations), CESMO (Cooperative Electronic Support Measure Operations), GMN (German Mission Network), DaCAS (Digitally-aided Close Air Support)  
(1) 2022A revenue based on HGB accounting standards















# ESG snapshot (continued)

## Strong growth and cash flow profile (IFRS, €m 2023E)

<b>Pipeline</b>	~€5bn <sup>(1)</sup>	Significant growth opportunity
<b>Revenue</b>	~€330m	Low double-digit annual growth
<b>EBITDA</b>	~14% margin	<1.5% maintenance capex <sup>(2)</sup>

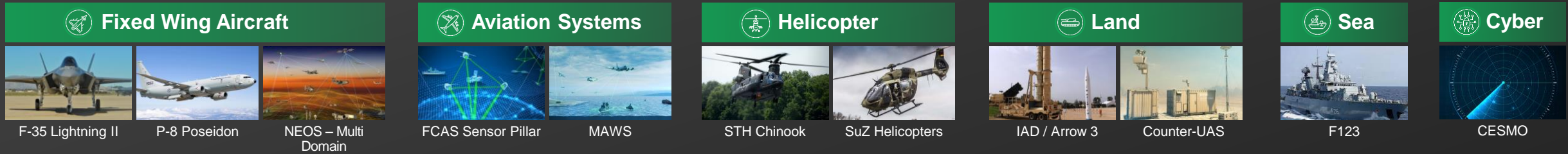
(1) Unweighted pipeline for 2024-28E  
 (2) % of revenue

## Trusted partner

Selected customers	Selected industrial partners
 BUNDESPOLIZEI	 Bundeswehr
 NATO	 OCCAR
 Swiss Army	 EU
 AIRBUS	 BAE SYSTEMS
 BOEING	 Bell Helicopter
 HENSOLDT	 IAI
 LOCKHEED MARTIN	 LEONARDO

# ESG is critical to major platforms and adds to our portfolio

## Selected platforms



## % of Revenue 2022A<sup>(1)</sup>

















Note: Selected platforms: NEOS (Network Enabled Operations Support), FCAS (Future Combat Air System), MAWS (Maritime Airborne Warfare System), STH (Schwerer Transporthubschrauber), SuZ (Systemunterstützungszentrum), IAD (Integrated Air Defence) UAS (Unmanned Air Systems), CESMO (Cooperative Electronic Support Measure Operations)

(1) Based on HGB accounting standards

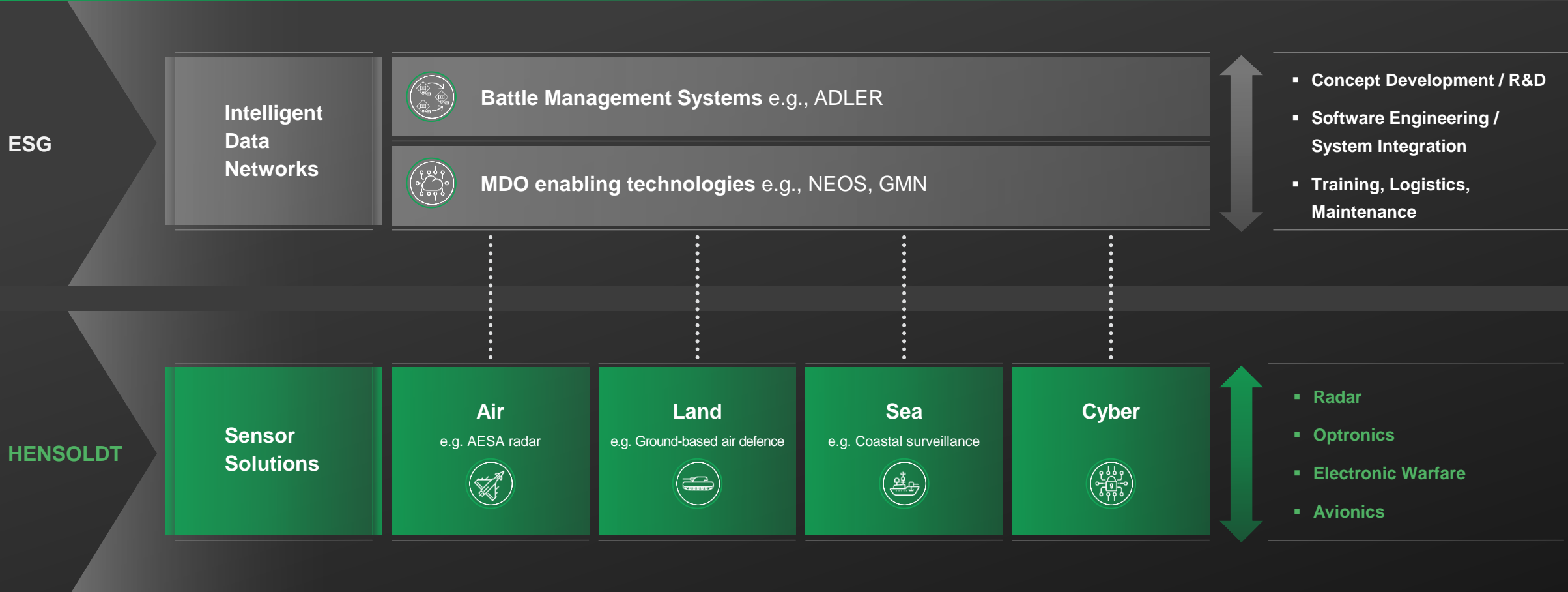
# ESG provides complete solutions and deepens our lifecycle services offering

## Selected platforms

	Fixed Wing Aircraft			Aviation Systems		Helicopter		Land		Sea	Cyber
											
Main ESG offering	F-35 Lightning II	P-8 Poseidon	NEOS – Multi Domain	FCAS Sensor Pillar	MAWS	STH Chinook	SuZ Helicopters	IAD / Arrow 3	Counter-UAS	F123	CESMO
 Concept development/ R&D			█								█
 Software engineering/ System integration			█			█		█			█
 Training/ Logistics/ Maintenance	█					█					

Note: Selected platforms: NEOS (Network Enabled Operations Support), FCAS (Future Combat Air System), MAWS (Maritime Airborne Warfare System), STH (Schwerer Transporthubschrauber), SuZ (Systemunterstützungszentrum), IAD (Integrated Air Defence), UAS (Unmanned Air Systems), CESMO (Cooperative Electronic Support Measure Operations)

# ESG transforms our sensor capabilities into integrated solutions for Multi-Domain Operations and battlefield digitalisation



Note: NEOS (Network Enabled Operations Support), GMN (German Mission Network), AESA (Active Electronically Scanned Array)



# ESG accelerates our stated growth strategy

Strong fit with M&A criteria



Access to disruptive technologies



Strengthen key regions and enter new markets



Expanding product portfolio



Creating value / scale from consolidation

ESG



# Compelling strategic rationale for combination

## Attractive business...



State-of-the-art innovation, software engineering and system integration capabilities



Trusted partner to the German Armed Forces and international allies



MDO<sup>(1)</sup> enabler with cross-domain and cross-divisional capabilities



Proven management leading large, highly skilled engineering workforce



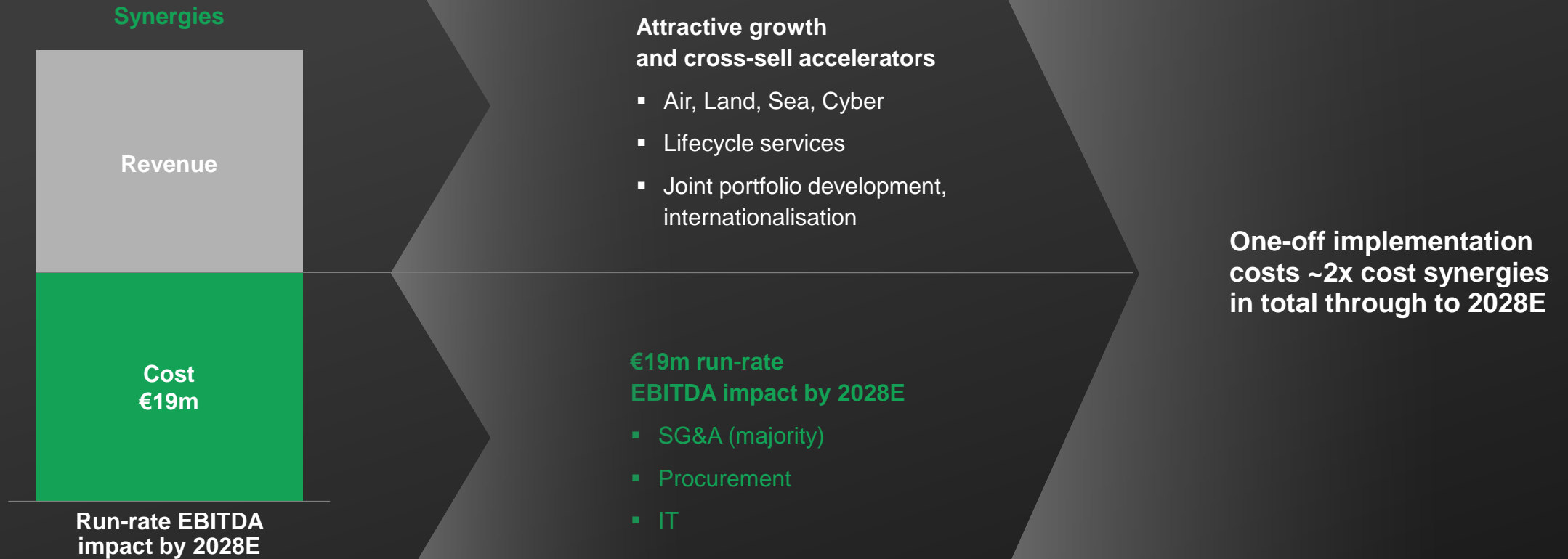
High growth with strong outlook from order backlog and large pipeline

## ...Even stronger together

- Highly complementary expansion of integrated sensor solutions offering
- Transformed innovation capacity for battlefield digitalisation and MDO<sup>(1)</sup>
- Attractive combined positioning for future defence programmes
- Significant cost and revenue synergies
- Great cultural fit with shared vision for accelerated profitable growth

<sup>(1)</sup> Multi-Domain Operations

# Significant value creation potential

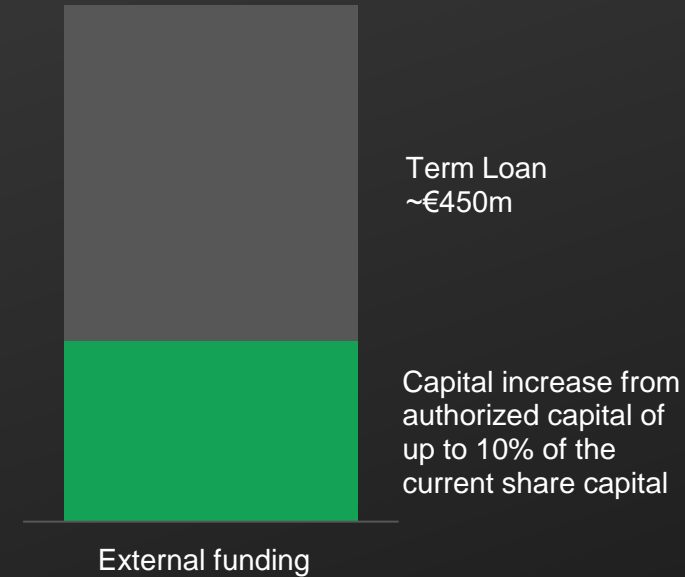


# Financially accretive with prudent financing

## Financial impact<sup>(1)</sup>

- ✓ Accretive to revenue growth
- ✓ Accretive to FCF<sup>(2)</sup> generation
- ✓ EPS accretive by year 2 including cost synergies only and double-digit accretive by year 4 including cost and revenue synergies
- ✓ ROIC<sup>(3)</sup> above WACC by year 4 including cost synergies only and by year 3 including cost and revenue synergies
- ✓ Support from key shareholders<sup>(4)</sup>

## Financing considerations



**2024E pro forma net leverage expected to be ~2x<sup>(5)</sup>**

(1) Financial impact based on EV including earn-out of €55m; Year 'n' means n<sup>th</sup> full year after expected closing [ie Year 1 is 2025]; EV includes net cash of ~€85m, pensions of ~€80m and IFRS 16 leases of ~€85m

(2) Adjusted pre-tax unlevered FCF (FCF excluding non-recurring effects, interests and taxes)

(3) ROIC = Taxed EBIT divided by EV

(4) The Federal Republic of Germany indirectly acting through Kreditanstalt für Wiederaufbau (KfW) intends to participate pro rata to its shareholding quota

(5) Net leverage including full earn out payment and lease liabilities. Excludes pensions

# Highly complementary acquisition with attractive value creation



Compelling strategic rationale



Strong team and additional defence talent



Significant cost and revenue synergies



Financially accretive



Prudent financing

Acquisition of ESG  
accelerates HENSOLDT's  
integrated sensor  
solutions strategy

*“Together we make  
the difference  
for a safer tomorrow”*



# HENSOLDT

## Q&A session

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