

What We Learned Sitting Down with Rheinmetall

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Key Takeaways

- Rheinmetall's rapid expansion of automated artillery production highlights how Europe's defense sector is compressing cost curves and accelerating delivery timelines amid an historic rearmament push.
- With €63 billion in backlog and €80 billion in expected new orders, Rheinmetall is positioned to benefit from Germany's massive long-term defense budget ramp and evolving procurement policies like prepayment incentives.
- Investors should view Rheinmetall as a high-leverage play on Europe's defense transformation, where localized production, digital upgrades and U.S. partnerships are redefining margin profiles and strategic positioning.

At WisdomTree, we were fortunate to host a conversation with **Dirk Winkels, Head of Investor Relations at Rheinmetall**,¹ during our WisdomTree Europe Defense webinar in the week of September 12, 2025.² It was an hour that distilled three years of headlines into a simple arc: Europe's defense industry isn't just catching up, it's industrializing at speed, rewiring cash cycles and repricing risk. If you invest in businesses where policy, production and pricing power converge, you want to understand what Rheinmetall is building and what it implies for the broader European rearmament trade.

This is our narrative—half field notes, half investment roadmap.

The Factory That Explains the Cycle

If you want to understand a cycle, start with a plant tour. Rheinmetall's new Unterlüß facility for 155mm artillery shells is the kind of factory that changes spreadsheets. From breaking ground in February 2024 to trial production in mid-2025, it took roughly 15 months, which is fast in any industry, but remarkable in munitions.

What matters isn't only the speed; it's the automation density. Steel bars come in one side, filled shells exit the other, with robots handling most of the manipulating, milling and filling. The target is approximately 350,000 rounds a year with about 120 employees, a scale-to-headcount ratio that reframes unit costs and variability. The company expects to deliver about **150,000 rounds for the German forces in 2026**, and to

be at **full capacity in 2027** once qualification is complete and the full-shot chain—propellants/energetics, shells and fuses—locks in.

That "full shot" phrasing matters. Ammunition is a system, not a part. If energetics lag, shells stack up. If fuses slip, nothing ships. Rheinmetall is aligning those constraints not just in Germany but across a networked footprint, including capacity increases in South Africa and Spain (post-Expal3), new plants underway in Lithuania and Ukraine, and MOUs⁴ in Romania and Bulgaria. That network does two things: it derisks single-site operations and raises European content, which is now a political feature, not a bug.

The investor translation: learning curves are back in European defense manufacturing. Automation and vertical integration compress the cost curve and protect margins if, and when, spot pricing normalizes.

The Backlog Is Getting Harder

Backlog quality is what separates a story from a stock. At the end of June, Rheinmetall's backlog was near €63 billion, roughly **€55 billion** of that in defense. About €32 billion is firm, with the remainder in framework agreements. Historically, those frames were a way for customers, especially Germany, to signal intent without locking in budget. That was yesterday. Winkels expects most frames to convert to hard orders by late 2025/early 2026 as procurement pipelines unclog.

There are two points worth underscoring. First, this isn't a conversation about cancellation risk. The company's experience has skewed the other way, toward oversupply and earlier deliveries rather than deferrals. Second, conversion removes the "quality discount" markets often apply to framed backlogs. When cash flow is a function of signatures rather than headlines, multiples behave differently.

The Cash Cycle Has Quietly Flipped

For years, Germany avoided prepayments. That's changed. To catalyze capacity expansions and fund working capital for the ecosystem, the government now supports **up to around 30% prepayment** tied to capital expenditures and working capital (capex/WC), and **up to around 20%** on orders. Rheinmetall's preference, interestingly, is for steady inflows rather than balance-sheet lodes that sit idle. That's exactly how you would want a scaled prime to behave entering a long ramp-up: avoid cash spikes, stay disciplined keep return on invested capital (ROIC) in view.

The significance is larger than it appears. Prepayment regimes lower the cost of growth for the industry, reduce bottlenecks in energetics and tooling, and pull forward delivery confidence. In macro terms, it's industrial policy learned on the fly. If you de-risk the inputs, you de-friction the output.

Margin Mix: One Engine, then Two

Ammunition is the margin anchor. Backward integration into energetics means Rheinmetall internalizes spreads that others leak. Management continues to point to group margins north of 26% by 2027, an "old guide" that will be updated at the Capital Markets Day in November. But the more interesting part of the conversation was what we think of as the second engine: electronics and digitization.

Over the past two quarters, Rheinmetall has booked roughly **€15 billion** in German digitization/electronics awards and is now converting them into deliveries. That's high intellectual property density and favorable pricing power. It's also the connective tissue for air defense and vehicles: the more you digitize, the more you standardize interfaces and drive lifecycle revenues in MRO,5 upgrades and training.

Add in air defense and tracked/wheeled vehicles, both scaling on volume efficiencies, and you get a margin stack that doesn't rely on one commodity line. One more lever: management signaled the intention to **dispose of civil businesses within roughly six months**, which would lift the group margin profile by removing lower-return segments.

The Ceasefire Question, and the Stockpile Reality

The hardest investor question is always the counterfactual. What if there's a ceasefire in Ukraine? Winkels was cautious on the politics and blunt on the economics: Rheinmetall's base case was never war-demand, it was NATO6 re-equipment. A ceasefire doesn't end the cycle; it rephases it.

Ukraine's own stated needs are instructive: 3–4 million rounds a year in wartime; **roughly 1.5 million a year** in "peacetime" for a decade to rebuild deterrent stocks. That shapes the product mix into fewer emergency consumables at the margin, more air defense, MRO, training and digitization, but it does not collapse volumes. In parallel, Europe is trying to emancipate its defense capability, particularly after the NATO summit in June and given the shifting U.S. policy backdrop. The near-term is for stockpiles and vehicles; the 2030s are for new capabilities.

We think investors should model this as a two-act cycle: (1) 2025–2029 "close the gap" orders that convert quickly and show up in cash; (2) 2030s capability builds that structurally raise the baseline. That's duration, not a sugar high.

Budgets, Bottlenecks and Berlin's Big Number

Europe's rearmament is not happening at one speed, but Germany matters most for scale. After a messy budget process and late government formation, Berlin now looks set to approve the 2025 budget and lay out financial planning through 2029. The headline to internalize is the preparations for roughly **€350 billion of equipment outlays** over the next years, more than three times the initial "special fund." Rheinmetall expects approximately €80 billion of additional orders over the next 12 months, with the first wave arriving in Q4 2025 and continuing through H1 2026.

Budgets are intent; bottlenecks are reality. The reason Unterlöß matters is because it tackles the binding constraints head-on: energetics capacity, automation and qualification. The reason the broader footprint matters is that policy now favors European content. If you can make it inside the European Union (EU), you should, economically, politically and logistically. That is a clear tailwind for incumbents with capital discipline and supply-chain depth.

The Partnership That Shrinks Time

One of the smarter ways to gain capability is to buy time. Rheinmetall and Lockheed Martin plan a rocket and missile "center of excellence" at Unterlüß, with Rheinmetall contributing rocket motors and warheads and Lockheed bringing the systems and electronics. Initial candidates include ATACMS7 and Hellfire, both subject to U.S. government approvals.

This is the blueprint for European rearmament in microcosm: localize production to keep taxpayer euros at home, shorten development cycles by partnering where it's cheaper to leverage existing IP than to reinvent, and build the industrial base where you expect decades of sustainment. If approvals land on schedule, this is a second high-margin lane for Rheinmetall and a tell for how Europe will onshore other capabilities.

What We're Watching Next

- **Capital Markets Day (November):** Management has telegraphed an update to the 2027 margin guide. If civil disposals advance on schedule, the uplift should be evident. We'd focus on the electronics/digitization runway as that's where consensus is thinnest and valuation upside is most leveraged.
- **Energetics and full-shot cadence:** Any sign of slippage in propellant/explosives capacity will ripple through volumes. The measure here isn't press releases, it's acceptance certificates and deliveries. If frame-to-firm conversion proceeds as expected, you'll see it in backlog composition and cash.
- **U.S.government approvals for the missile joint venture (JV):** Timelines matter for 2026–2027 revenue mix. Slower approvals don't break the thesis; they shift it into 2027–2028. We'd fade overreactions to timing noise unless there's a change in the approval probability itself.
- **Berlin's administrative plumbing:** The intent is clear; execution is bureaucratic. We expect phase shifts, not cancellations. If anything, slips extend the window where pricing power persists because stockpiles stay below targets longer.

The Story in a Sentence

Europe isn't simply spending more; it's manufacturing differently. Automation is flattening cost curves, prepayments are greasing cash cycles and policy is rewarding local content. Rheinmetall is at the intersection of those three trends, and that's why the company matters as a bellwether for the broader cycle.

Closing Thought

There is a temptation to treat defense as a binary: war up, peace down. That's not what this looks like. This looks like a continent moving from inventory neglect to inventory doctrine, with factories and financing finally aligned to deliver it. When that happens, the best question isn't whether the cycle persists. It's **who captures the operating leverage** as it does. After this conversation, we think Rheinmetall has made a strong case that it will.

1 As of 9/22/25, Rheinmetall was a 10.82% weight in the WisdomTree Europe Defense Fund (WDEF). Holdings subject to change.

2 The source, unless otherwise noted, for everything mentioned in this article is a conversation that was recorded and transcribed between WisdomTree and Rheinmetall that occurred on 9/12/25.

3 Expal is a Spanish defense company that Rheinmetall acquired in 2023.

4 An MOU is a memorandum of understanding. It's a formal but non-binding agreement between two or more parties that outlines their mutual intentions, cooperation areas and future commitments.

5 MRO stands for maintenance, repair and overhaul.

6 Refers to North Atlantic Treaty Organization.

7 ATACMS stands for Army Tactical Missile System. It is a U.S.-made, long-range, precision-guided surface-to-surface missile system, designed and produced by Lockheed Martin.

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