

## **Analyst conference call – Colt CZ Group SE**

**19 December 2023**

### **Acquisition of Sellier & Bellot**

*Eva Svobodová, External Relations Director:*

Good afternoon, ladies and gentlemen.

Welcome to today's analyst conference call in connection with yesterday's announcement of the acquisition of 100% shares in Sellier & Bellot by our group.

My name is Eva Svobodová. I'm the Head of Communication at called CZ Group covering today for Klára Šípová, who is unfortunately ill.

I would like to welcome today's speaker, Mr. Jan Drahota, CEO and Chairman of the Board of Directors of Colt CZ Group. Hello Jan.

*Jan Drahota, CEO*

Hello.

*Eva Svobodová, External Relations Director:*

Before I hand over to Jan, let's cover out the basic housekeeping rules, please note that this call is being recorded and also please stay muted during the presentation. Obviously, we will open up for Q&A session. With this, let me hand over to you Jan, so you can walk our audience through your presentation.

*Jan Drahota, CEO*

Thank you. OK. Thank you very much Eva and once again wish Klara quick recovery. So, let me start first of all we are doing this kind of presentation for the second time and the first time it was actually two years back when we bought Colt and we use the same structure to give you an overview of what we are doing here.

So as announced we signed yesterday SPA to purchase 100% of Sellier & Bellot and those who are from the Czech Republic probably know the company. I think that for some of you it might be surprising that it's the oldest producer of small caliber ammunition in the world. It was set up in Vlašim and its roots go back to 1825.

So, it will be 200 years old in 1 1/2 years' time.

Obviously, the ammunition or small caliber ammunition is something which fits well to our strategy.

So, you know that we have been discussing that for some time, for some time that a small caliber ammunition in general is in our interest and we acquired to swissAA in summer this year, which is totally different size of the business, totally different orientation of the business.

But it was our first step and now we concluded an acquisition of S&B. We believe there's a great business.

The business is being well run by the management and also, I would say that CBC was a very wise and very let's say attentive shareholder since they acquired a business and the business grew substantially.

It's business which is very efficient and which is highly profitable in the Czech Republic.

The production is in the Czech Republic. So, the headquarter in Vlašim around 600 people and customers around the globe. So again, SB is even more successful with the European military and law enforcement customers.

So, it's present I would say in most of the European countries and obviously globally as well the biggest market is US but then there are really a lot of markets which follow this.

So that's also what is attractive on it for us. If you look at the bottom page or bottom slide part of the page you will see the snapshot on the future performance.

So, you see that the business has been growing.

This is confirming what I said this year and please take into account that the 2023-year results are obviously estimates.

So, it's something which is, well before being audited and checked but we wanted to show you the figures to for you to understand the impact on the group and on the future profile of the group.

So, revenues around CZK 6.6 billion, EBITDA up the more than two billion with margin above 30%.

Roughly 1/3 military and 2/3 commercial market, commercial market exposure or sales SB is very much, let's say, very successful with hunting customers in Europe.

And obviously, because of its high-quality product at a competitive level, it's very successful and it will continue, we believe, to be successful with military and enforcement customers globally. Where do we expect the share of the MLE customers to grow going forward.

If you go to next slide, please, this is the way the transaction is to be implemented.

The consideration is consisting of two parts, one is cash part which is \$350 million equivalent and the second part is equity consideration.

So, what we are saying that post closing CBC Europe which is the seller will become a +/- 27 to 28% shareholder of the group of the combined group.

So, there will be calculation for the final stake but this is what we expect plus, minus. Obviously, a transaction is subject to regulatory approvals this is standard and post-closing CBC will become second most important shareholder of the group.

Important is that we are buying 100% share in SB. Combined group just for you to understand once again where we are, what impact it will have on revenue, EBITDA and also indebtedness.

So, in terms of revenues, you will see that if you look at this year pro forma, the impact on revenues is around 40%, in terms of EBITDA it's 60% plus.

So significant impact of the group.

I would say once again this is kind of a transformative acquisition obviously that is positive impact on the profitability measured by EBITDA margin. Once again SB has a relatively high EBITDA margin which is result of its efficiencies and also ability to keep cost under control and so we do have positive impact on the group EBITDA margin. The net debt will go slightly up on the next year we count it will be still below the bond bonds a covenant of 3.5 times but it'll be higher than two times.

So, it will be around 2.7 times.

But looking at the business and how we expect the business to be performing going forward, what we see on both sides of the business, firearms and ammunition, the net debt/ EBITDA will quite fast go or drop below 2 times which we feel is the appropriate level you know unless there is something going on.

So basically, we see quite significant synergies with our professional customers. So, we'll be able to offer the whole system in terms of firearm and elimination.

So, we think that it makes it makes some of sense.

We also believe that this will even more leverage our Swiss business.

You know that Swiss business is very, it's rather niche business focused on physical ammunition and doing specific ammunition. SB being a really efficient mass producer having being find quite a bit vertically integrated will be a great addition to it.

And I think that we will have, we'll be able to get a lot of synergies out of the partnership or let's say of having these two companies in the group including on the Colt side.

So, increasing power, purchasing power and also what we feel is important is that it will help us also to leverage the competency in the small caliber ammunition with firearms.

So, R&D synergies which we expect to take place and we were discussing them when we presented the Swiss purchase.

And I think that this is this is even more important with SMB because obviously there is even bigger company with bigger let's say R&E capability disabilities.

But in combination with Swiss business, it would be really interesting.

We are very excited about it and what we are excited about is that we will have even more internal competency to think how we develop the Hungary and site of swissAA where we know that there is we are now considering what to do there whether it would be what kind of medium caliber ammunition or what kind of ammunition it will be there done.

There is also expected timeline. Once again, we signed yesterday, we expect the regulator applies to take place.

We believe that we should be closed and the transaction should be closed in H1 2024.

We don't know how long it will take but we are optimistic that this transaction should be approved out very fast.

But we shall see it's beyond our control.

Also, as I said, CBC is to become a second largest shoulder of the group.

It's what I would like to emphasize here. I would like to emphasize that that CBC is to become strategic second largest shareholders of the group.

It's not like something that CBC get the shares and also sell and this is a strategic participation in the business.

And we are very pleased that as it was also announced in the press release that CBC believes in our story, believe that there is a lot of potential for our brands under this umbrella and CBC decided to participate on the on the growth story with us.

So that's for the introduction.

*Eva Svobodová:*

And now if you have any questions, thank you very much, Jan, thank you very much indeed.

Let's open to the questions.

If I can ask you to raise your hand within the team's application or should anyone be connected over the phone, you can speak directly to the phone.

I see the first question coming from Atinc Ozkan from Wood & Company. Please go ahead.

*Atinc Ozkan*

Thank you and good afternoon, all.

Let me first congratulate you for this impressive deal.

It indeed looks transformative.

I have some complimentary questions regarding financial performance of S&B.

Could you share the Nets debt position or net cash position of the company current or the, you know, most recently reported one and whether they were free cash flow positive in the current year?

I read in Czech press that they embark on an ambitious Capex and technology program in 2022.

Is this completed?

Are they operating with enough capacity or full capacity?

I understand 90% of the revenues are it from exports.

If you comment on that front will be very much appreciated.

Thank you.

*Jan Drahota:*

So the net debt is around 1.5 times EBITDA.

You know it may be a bit lower, but it's not significantly leveraged business and when we when we discussed pro forma based it was taking into account this as well.

As far as the investments are concerned, I would say that the management team has plans in mind still invest into the business because SB still believes that it can grow and I think that we look at the story that supports it but the business is generating enough of results / cash flow to take care of everything.

So that's how we look at the business.

And capacity wise I would say that you know they, you know I don't want to speak for management of SB, but they might say that they don't have enough capacity now.

But the truth is that it's really the investments have to be two 222 calibers and capacities, which makes sense in terms of the t product makes, but also in terms of efficiencies, because it's in the future and especially in ammunition, it's about being efficient.

And I think that the current management knows how to do and how to do it really well.

*Atinc Ozkan*

And just one more question from my part, any developments regarding the previous Vista merger bit, we read that it was rejected by the board.

Is this still something going on or should we consider it as something belonging to the past?

*Jan Drahota:*

Thank you great question and you know from last conference call that I was quite reserved to give comments on top of what was public.

I would do the same today.

I would say that what is public is public that's what is, is what is known.

So, we send our offer which was disclosed, received an answer which also disclosed and as it is our in our nature, we don't comment ongoing transactions or discussions.

*Eva Svobodová*

The next question goes to Pavel Ryska from J&T Bank.

*Pavel Ryska:*

Good afternoon and also congratulations from my part.

I think this, this is good news for the company and for investors.

It fits very well into your business.

I mean as far as I can judge at this point, I have got couple of questions.

The first one is I read from the announcement that apart from ammunition, S&B also produces some particular parts or components into pistols or long guns.

So, if you can comment on this, what exactly is this?

Because I thought it was only an ammunition maker, but in it was in the press releases that there's also something on top of this.

That's my that's my first question.

My second question is I've seen this list of the export countries for ScB and I would like to ask if there are some concrete government customers that ScB brings you to that means customers that you do not have at this point as Colt.

And 3rd question, is this going to affect anyhow your dividend policy that is to say in order to reduce leverage, do you think you will pay out lower dividends or is the dividend policy untouched?

*Jan Drahota:*

Thank you, Pavel, for great questions.

So to start with your first question, I was actually while you were talking, I was looking at the press release and I don't know whether it was like a translation to check, but the truth is that the core business of S&B is production of ammunition and what is something which is unique on S&B and obviously components for ammunition, so primers production and stuff like that.

This is really it's vertically integrated but what is unique to S&B is that it also produces its own machines for production of ammunition.

I honest I think that what was written is that you know, the ammunition sounds like this component for guns.

So, for me this is ammunition.

So once again the business is ammunition and machines, it's not really the business is not concentrating on machining parts for other producers for, for firearms.

So, but to be honest the machine component of it is really well recognized.

It's really something which is important for production because that's why actually the company is also efficient is that.

It is able to either fine tune or produce their own machines or maintain or upgrade the machines which they buy on the market which and those machines can have let's say better ability in terms of tact and in terms of product efficiencies interactions, so which is important.

As far as the is your question about dividend policy, I mean you know I would say that we have not discussed that, we have not discussed that at all.

And when we look at the at our, we always look at it that the business and we have been transparent on it that the business should serve both should serve all the stakeholders meaning employees, customers, shareholders and creators.

So, we have not discussed at all any alternation to the dividend policy.

So, I don't have any other comment that there is nothing which I could add.

*Pavel Ryska*

There was also my second question which was yes, the particular government customers.

If it brings you new customers.

*Jan Drahota:*

I would say on this one, you know I am on synergies.

I'm always very careful about trying to say that once I supply to 1 customer, I can leverage it so much and I can make more money with other product who are with the legacy customers.

I think it's more possible and probable and you and you and you speak to new customers.

But obviously there is an overlap between the two groups.

So, I think that there is a nice potential to leverage it, but I don't want to be overly optimistic or pessimistic.

I think that it will be up to other people, our sales organizations once we are together to organize the best in order to be as successful as possible.

But you are right, I mean you could suppose that there will be a state where especially now in light of the security of supply and stuff like that will welcome the ability to have the let's say security of supply of the OpenX as well.

What I mean by that is that you know we always look at the firearms as Capex and as OpEx.

So I think that this, this could bring interesting angles, but I don't have anything in I have maybe we have maybe some ideas but this is very premature because we have been you know you know we only signed yesterday and we are not yet able to discuss that in detail together because we are waiting for our quarter approvals.

*Pavel Ryska:*

And maybe one final question has come up my mind.

You mentioned in one of the slides that the US is the biggest country for exports of S&B.

Is it as dominant in the sales of S&B, as the US is dominant now for Colt, is the percentage.

*Jan Drahota:*

I mean I don't know if obviously I don't have the figure for this year, but I think that the figure is around 1/3, you know 35 some of that, it's around 1/3 plus minus.

Yeah, obviously it depends on the year as well but it's there will be around 1/3.

You know S&B is not too active in the US with MLE customers.

So, but in Europe and the rest of the world but I think the display is around 1/3, but it's really much less let's say geared toward that.

*Eva Svobodová*

I see the hand up from Dan Karpíšek, Amundi.

*Dan Karpíšek*

Good afternoon.

Congratulations from my site as well.

I have a couple of questions.

First thing is, is there going to be any lock up for the new shareholder?

Second question would be the sales mix is much less MLE segment and I think that you mentioned in all your strategies that you would like actually to grow this part of the business but this acquisition basically gives you farther from this target if so if you can comment on that.

Third question would be on the source of financing.

I understand cash and your equity but you know the cash is quite substantial portion and as far as I remember from your last earnings report you don't have that much amount on your balance sheet and given you are let's say close to the covenant does it mean that Vista deal is off the table?

*Jan Drahota*

Sorry I have not managed to put everything on paper. So, if I forget something you know you will remind me, please.

So, lock up no lock up but it's because the I think that it was CBC who also wanted to take to have a share in the business.

So, it's not that they that CBC bought the shares as a mean of payment to sell the shares but it's really to become important shareholder in the group.

So, it's so we so that's the best answer I have because we have not discussed the look up at all because we always thought that it's something what CBC wanted to have exposure to our group and wanted to be an important shareholder in the group.

So that's the first thing.

So, and I think that there is a strong reason for that because we I believe that the attraction of our group is strength of our firearms portfolio and overall, the logic of the group as such.

I look at it the way that CBC is the shareholder in the group for life.

Second question and in terms of displayed and lower split and 50% you are right.

But I also said that that we expect the share of MLE grow.

We believe that there is a huge, there will be huge restocking and in Europe especially and globally on the on the professional customer side because of what's going on.

So, we believe that for in, in our view the share of the professional customers will grow and that's so actually the calibers where investments of facility were going in the past were quite a bit focused on the military calibers will it be 556 or 762.

So that's basically second question as far as Vista is concerned, I would say that you know what I said at the beginning of for the question for Vista, I would not derive from that.

You know that's the best one I can tell you.

Now as far as source of funds are concerned, we what we will do is the is the combination of own funds and banking financing.

So, we have a quite a good discussion.

We had a quite a good discussion with the with our banks and also banks who are financing SB to finance the transaction.

So that's how it is and that's it.

*Eva Svobodová:*

I see that Peter Bartek has just raised his hand to go ahead please.

*Petr Bartek:*

Yeah, good afternoon.

Also, congratulations to the deal.

Follow up questions on the capacities and business outlook of SB.

Given the high margins for 2023, expected margins, are they sustainable in your view or is it more like in some kind of you know temporary peak in the cycle.

And in terms of capacities, if you can get us a flavor where the business is like it's 80% of capacities, 90% anything like that and midterm outlook, if you can say a little bit more to that, yes.

*Jan Drahota:*

So as far as the margin is concerned, I would not like to speculate, but what I believe if you look at S&B, it's one of the most efficient producers in the industry and we believe that it will be able to command let's say super margin of the industry.

So, I don't want to speculate where the next year margin will be 32, 33 or 29.

We strongly believe is that SB is well equipped to have the industry leading cost structure and task margin that's the first thing.

Second question about capacities.

I would at this stage I think that I would I think that the appropriate would be that this I would leave hopefully you know for a presentation which would be done by the CEO of the business to give you more detail of the business and stuff like that after closing.

So, once we close, I promise you that we will do quite a detailed discussion and presentation of S&B and I believe that Radek and his team will be the best equipped to guide you through their capacities.

How do you look at the capacities how do you look at the ability of the business and stuff like that.

*Eva Svobodová*

I see for second round Pavel Ryska from J&T, please go ahead.

*Pavel Ryska*

There is one or two additional questions that I have.

One is I have just realized that your new partner CBC they even after selling S&B to you, they still have a lot of businesses in in this segment or some adjacent let's say segments.

So, have you struck any formal agreement with them as concerns potential cooperation, cross selling sales channels where you can help them or they can help you?

*Jan Drahotá:*

Nope, no, we have the only agreement is that what we are discussing now. But obviously S&B, CBC, I mean you know I mean at the end of the day having a significance on the business they are it may show that they are a strategic partner to our business.

*Pavel Ryska*

And finally, so given that you that you are now already planning like pro forma parameters of the business, can you comment on the potential of like renewed organic growth because it has stalled this this year?

I think most investments most investors or analysts are concerned about the, yeah, organic possibilities.

So, is it changing now with this acquisition?

*Jan Drahotá:*

Maybe one more comment, you know, which is important, I think that I don't want to say for your modeling, but it's important.

First of all, the transaction is structured as a lock box, so, economically the business is, is ours as of 1st of January.

So economically what I mean by that is the accounts are closed as of 1st of January or 31st of December 2023.

So, I mean obviously we will not be owners to owners of the business until it's approved, but this is how the transaction is structured.

And as far as the organic growth is concerned, you know I don't want to let you too much into our kitchen, but we are actually now approving the budget for next year.



So actually, we are having quite good discussions with our management about the growth for next year because we see quite substantial potential growth there.

I'm not able to give you and I will not be giving you any guidance this year, but we believe that we can grow quite a bit.

Don't forget about one thing this year was without trying to judge it for the whole year about nine months.

You know that the first nine months of the year were quite disappointed and I stressed it quite a bit of times for us for a season on the commercial market in the US. We believe that we can and we will come back there. On the contrary we believe that the business will and has to grow because the mindset of the individual companies is and this is probably the most important thing is you know I'm, I'm the group CEO but mindset of Jan Zajíc is the CEO of CZUB, mindset of Dennis Veilleux the CEO of Colt or mindset of Radek of as potential member of the group once it will be approved by authorities is that they have to grow their own businesses.

It's not that they can be stagnating and the group will be growing because it will be buying more businesses.

So, we are still approaching in the way that we build the budget and the business from bottom, yeah.

And obviously when we have discussions with either of the CEOs, we believe that either of the brands can grow.

The question is only execution and the timing but we believe or I cannot believe that the sees that should not be you know much bigger in the US and globally.

I cannot believe that Colt should not be the biggest brand in the road.

I cannot and with the and if I will comment for SB, you know potentially a new member of the group.

I still believe that the business can grow substantially because it has what it has and it has a great management which set up great foundations for the future.

*Pavel Ryska:*

Now you have touched one sentence which you have in these slides which caught my attention which is that you are becoming or you will become the biggest player in in small arms in the world.

So that is to say the in the number of pieces, the biggest producer when you count, when you when you add together ammunition and handguns or how should we understand that exactly.

*Jan Drahotka:*

This is a great question and I tell you and you know I will be totally open with you.

When we had a first management meeting under my leadership two years ago, we discussed, we set up our vision which is to become the recognize a disputed leader of the small arms industry.

And also, we wanted to materialize it a bit for us and for our people to understand where we are going.

We don't think that number of pieces produced is a good guidance because we will never, we will never you know probably be able to beat thousands of this world, you know thousands is producing you know millions of pieces of products.

So, which is not what our brands are able to do because we are in different price points.

So, we set for ourselves a mid-term target which was to reach 1 billion by 2025, €1 billion of revenues by end of 2025 and 200 million of EBITDA minimum.

That's what we set ourselves as a target.

Now obviously the world has changed quite a bit and I think that you know I think that even today with 1 billion of revenues we will still be smaller than Beretta for example after Beretta acquired ammunition Ammotech business last year.

So, this is kind of a guidance, so it's a light you know which we are going after.

You know for us the target is to be is the vision is to be a recognized understood leader and you can measure it many in many layers.

Probably the simplest layer for some of us would be that if the customer speaks about the, if the professional customer speaks about the benchmark product it would be us.

I think that it's not yet the case and I mean custom globally.

So, we want to have a probably said this is the leader.

So, it it's and I think that it's how we look at it and obviously we put ourselves financial targets to support and to understand where we are and to have at least some checkpoint in terms of financial performance where we are going the direction.

It's not perfect answer but I want it to be as transparent and open with you.

*Pavel Ryska:*

I think it helps. And my very final question even if I set aside Vista Outdoor which you are not commenting.

Is the M&A now the M&A process over for you or is there some things let's say smaller for example that you have on your site and you and you maybe want to pursue.

*Jan Drahotka:*

Yeah great question and I will try to form a good answer.

So, for us you know as in any business you know you are always you want to grow and you are looking at opportunities.

OK, important to say that we want to keep and we will keep our discipline and we want to keep and will keep our focus.

So I cannot say that it's the last M&A which we are doing but I can what I can say that it's we will always any opportunity we are evaluating in line whether it makes sense for the group and you know still that when we are discussing when we have been discussing M&A, we also mentioned that we think that we it would we have optics and some Optronic capability in the group it will help us as well.

So, I would say that it's not the last one it's I don't think that we close our heads but once again without anything we'll be looking in a very, very disciplined way for what I want to make sure and this is the basic for everything on the group level.

We can think about M&A and potential growth in an organic way or non-organic way only when the underlying business is doing fine, when we know that the people who are responsible for underlying business are doing their job well and we can look you know be beyond our organization.

So that's the best answer I can give you.

But once again we will and we have been and we will be disciplined.

Pavel Ryska

Thank you very much and that's all from me and a happy New Year to Colt CZ.

*Eva Svobodová:*

I see Atinc's hand is back up.

Atinc Ozkan:

Yeah, I was going to skip but don't know when is going to be the next time I'll be benefiting from your wisdom.

So, my question is now looking into the product range of the combined entity with S&B you have in ammunitions from 9mm to 12.7mm including, if I am not wrong, swissAA you have firearms.

Metal frame, polymer pistols, shotguns, hunting rifles, assault rifles and sniper rifles and I think also 40mm grenade launcher.

You have optronics to me for the MLE segment, the natural move is going to the medium caliber E 20mm to 40mm segment, at least on ammunition side.

Maybe not on gun production side, but is this something you are considering as an option or is it definitely a no-go area due to more you know, technical difficulties and entry barriers?

So that's the first question.

And the second one is, I noticed that S&B is also producing its own primers.

I guess that was not the case for swissAA.

Would he agree that there will be a cost synergy for swissAA, i.e. will there be able to use the primers produced by S&B for their own ammunition production?

Thank you.

*Jan Drahota:*

OK So what I would say that even today swissAA is doing some respected customers 40mm for example grenades so low velocity so that's so and also hand grenades and also a non-lethal thing.

So that's actually done in Hungary and Switzerland.

So, so we are doing but we're it's not as big as we as our ambition is.

And so yes this is something which we which we consider which we like and actually we are working on it also on product side and we will have a product to introduce and discuss in this area very soon.

It's definitely not this kind of transaction but we have quite an interesting product which you introduce I would say either by the end of this year or the beginning of next year which is really something which is which is bigger maybe I mean which is above everything what we are doing now.

So that's so I can I can confirm that we are thinking in terms of small arms this are they are going to let's say even medium velocity grenades and stuff like that that's also that makes sense and also obviously it always makes sense choose the right segment and as far as the as the as the cooperation between the S&B and the and the as we say hey my comment is that you know once the transaction is closed I think that the teams have to discuss what they can do together you know my helicopter hope that our view would be yes you know there has to be big you know operational and cost synergies between the two companies but you know who am I to say that it has to be management of S&B and Swiss guys to discuss where and how they could extract most values and what products and what customers and what technologies and what parts they can cooperate on.

So, I but my natural reaction would be that that this this could be a good synergy there because that is really not an overlap.

And once again Swiss say is in areas where S&B is actually not present yet.

So that's I think something with this important and don't forget about one thing which is compared to the overall business minor thing, but I think it's important because you can it also tells you that that we are developing this capability.

We have this cooperation in the Czech Republic with Rheinmetall on the grenades for the Czech army.

Yeah, I mean once again, it's not financially biggest project of the group, but it's important for us because of the customer, because of the partner.

So, I think that those will be around which where I think that we have to discuss and think whether we can do more than we are doing now.

And I also wish the entire team a Happy New Year and Merry Christmas.

*Eva Svobodová:*

So with this, let me thank Jan for the presentation of for taking all these questions.

Many thanks to all of you for participating in this call.

And yes, let us, let us wish you Merry Christmas and a Happy New Year.

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