

KLÁRA ŠÍPOVÁ, INVESTOR RELATIONS OF CZG:

Ladies and gentlemen, welcome at the analyst conference call in connection with the publication of Q1 2021 financial results of Česká zbrojovka Group. Today's speakers on the call are Mr. Lubomír Kovařík, Chairman of the Board of Directors and President of the company.

LUBOMÍR KOVAŘÍK: Good afternoon, everybody.

And Mr. Jan Drahota, Vice Chairman of the Board of Directors and Group Head of Finance.

JAN DRAHOTA: Good afternoon, everybody, for myself as well.

KLÁRA ŠÍPOVÁ: The format of the call you know very well, we will go through the slides, which are available on our website, and also presented via this application. And afterwards, you will have the opportunity to ask questions in the Q&A session. I would like to ask everybody to mute your phones, at least during the first part of the presentation, and unmute for a Q&A session. And now I would like to hand it over to Mr. Kovařík to kick off the presentation. Thank you.

LUBOMÍR KOVAŘÍK: Oh, thank you so much. So, ladies and gentlemen, I'm very proud to meet you today. Not only for the presentation of q1 results, but for the opportunity to share with you a great information as maybe you know, we fulfilled all regulatory obligations, last week received all necessary permits and successfully completed the acquisition of Colt company. We have fulfilled the next step of our strategy to be dominated prior in our industry business. This week, we start integration process to define synergies on the sales, production, product portfolio, R&D. And BTW, this is the reason why the postponed the planned construction of Little Rock on by three - five years until we finished our integration process with the Colt company. Another very good message for our investors is that we issued the bonds during the q1 2021 in the total amount of 5 billion Czech crowns maturing in 2027. Our group is continuing growing in q1 2021. We achieved sales, 2 billion Czech crowns increase more than 67% compared with the q1 2020 mainly due to high demand for our products, especially in the United States. We achieved a significant better operating profits 334 million Czech crowns and EBITDA 438 million Czech crowns. My colleague Honza will comment these figures in more detail, of course, may I ask for another slide please, perfect. So, during the q1 we sold 137,000 pieces of our product compared to the same period of 2020. This is more than 58% we increased sales both of our categories products by 54%. For the long guns category, and by 70% of the short guns category. The main reason for our sales is high demand for our products, especially United States. Of course, we are comparing with the lower sales with the q1 2020 and your lower sales in q1 2020 was due to lock down we are speaking I think last session about 2020. As I already mentioned, the main driver of our sales was the United States which accounts for about 67% of our sales. We were also successful in the other regions. So, as you can see on the slide on the right side revenue by geography, only the reason for the lower sales in the Czech Republic is the fact that the expected

delivery to the Army of Czech Republic during the June and September this year. I would like to ask my colleague Honza about the continue of the presentation.

JAN DRAHOTA: Okay. Thank you Luboš. So, as Luboš already mentioned, we have behind us quite strong first quarter 2021 in terms of revenues, we grew by more than 63% so our total sales in q1 were in excess of 2,034,000,000 CZK which is really which is which is for us record number, underlying EBITDA from continuous operations grew by more than 117% from 202 million in q1 2020 to 438 million in 2021 q1 2021. Here once again, I would like to emphasize that this is reason this is a result of a very weak q1 in 2020 because we didn't show you to q1 2020 we didn't have a reporting duty there then know that the second half was very strong last year and we can call up quite a bit so once again the low base is making the figures look astonishingly high astonishingly high and the quarter was strong. But you know, it's not it was not like turn around quarter, it's really low base in q1, which is causing part of the optic huge jumps. As far as the operating profit is concerned as the same story, we grew more than 216%. And it's once again caused by the strong operational performance. And same goes for net profit there, you know, who we met last year in first quarter, the net profit was influenced by not only difficulties in logistics and ability to ship products because we had products but we were not able to ship them. But it was also influenced by the fact that there was a revaluation from the FX derivatives. So, the net profit for the first quarter last year was influenced also by this huge jump because this year, and it's the other way around. So, I think that's also important to say here, as far as the margins are concerned, you see that EBITDA margin is well above 20%, which is where we like it and that's where we want to keep it. And this is what we are striving for to have well above 20% EBITDA margin. On this slide, you have two more informations which I believe are important for you and for potential investors or our investors is that first of all figures of Colt holding company for q1 and even though those are not our figures, in a sense, because we became owners only on the 21st of May, it makes sense to show them for you to have an idea of what is the size of the total business together once we are together. So, Colt revenues in q1 were 1.4 billion CZK and EBITDA 320 million CZK obviously, those are US GAAP figures the IFRS reporting in the US will start on the first half. So, for the first half it will be first time but these are figures which show the business of Colt is also strong. And on this slide, you have two more informations and one is about as updated guidance. And now once we know that, that we are owners and we did complete the transaction of Colt, we are able to give guidance for the total business, the entire business. So, which means 12 a month of CZG and seven months of Colt. In terms of revenues, we believe that the revenues will be in the range of 10.34 to 10 point 64 billion CZK and in terms of EBITA it's one point 99 billion to two point 19 billion CZK I mean basically much bigger figures than then last year and this is understandable because of the Colt acquisition.

What maybe also and also we did enclose the full year let's say combination even though as I will have to stress that we will own several months of the Colt 2021 performance fully year, pro forma of

the combined group is in terms of revenues 12 point 43 to 12 point 73 billion CZK in terms of revenues and in terms of EBITDA we believe it should be at around two point 43 to two point 63 billion CZK so once again very strong numbers very strong numbers and what we see here when we discuss the guidance we see that the business is very strong we see that there are still many opportunities to enter new markets as well to deliver to current clients and currently the biggest obstacle for us to be able to make more to generate more revenues in terms of CZK or dollars is our ability to produce or ability to source some parts from our suppliers okay. If you go to the next slide. Okay, there are two other measures which we are continuously showing is it's cashflow which is which is basically operating cash flow to somebody can you please switch off your microphones okay sorry. So, but I think CF to EBITDA and capital expenditure so first of all operating cash flow strong and once again, I mean I don't want to you know, you know, on a seasonal basis or quarterly basis, I think that this parameter is really can be skewed by different timing of payment.

For, for working capital items you know like payables or receiving faster some receivables I will not really concentrate on this one but what is what is worth mentioning this year that the business is generating strong cash flow that's for sure. So profitable business and a business which is generating strong cash flow that's this is what is important message I think here second thing as far as the usage of funds or use of cash flow which we are generating in the business and we are still keeping our guidance for capex share on revenues at around five to 7% you see that in the q1 we spent our 116 CZK how we look at it is that we believe that currently with acquisition of Colt we are reviewing we are reviewing those capex needs and this is an important stream for us and we are definitely looking at whether there are potential synergies in these items because obviously, the combined group has bigger purchasing power secondly, in terms of potential capex needs and also in terms of suppliers. So, we are now as Luboš mentioned, although all integrations streams have been working continuously since we, since we acquired since we signed the SPA and they are still doing so and now when they when they can they started to work, because since signing till today, it was only discussions and now those are actually they are implementing and we believe that there are real savings to be made.

And if you go to the next slide, if you go to the next slide here, the financial structure of the group Luboš mentioned that we did manage to issue bonds in q1 2021. We were very pleased by high demand of the investors for the bonds, you know, the demand exceeded the requested volume. So, we finally use the option to issue 5 bn CZK of bonds. So currently, the debt structure is very simple. We have one bonds, one bond maturing next year at the level of CZUB and then we have bonds which are maturing in 2027 in the amount of 5 billion. So very clear structure or financial leverage or debt as far as the relative leverage. So, if you go for a pro forma calculation of leverage, so net debt to EBITA, here we say that at the end of the year, it's around two times, we shall see where we will be with the two businesses as strong as it is now. And as we see now, we will probably be below two times EBITDA. But this is

what we put here because we believe that this is a good guidance for you to understand where we where we want to be. And it also shows one thing it shows that that we have we have flexibility to think how we will take care of the debt at the level of CZUB because if you see that at the end of this year, the net debt is below the current gross debt level quite substantially.

One slightly put here. We wanted to you know, that obviously about what we are proud that this is the acquisition, our share quite outperformed the market in Czech Republic but also our peers in the US it shows that the market believes that the story of CZ and Colt being together is strong and will create a lot of value for our shareholders.

And that's I think it for me.

KLÁRA ŠÍPOVÁ: Thank you Jan. And thank you, Lubomír for the presentation. So, we can move to the q&a session. Yes, first question comes from Mr. Pavel Ryska Please go ahead.

PAVEL RYSKA, J&T BANKA: Good afternoon, everyone. Thank you for taking my questions. First of all, congratulations for the very solid results for the first quarter. I have two very short questions. The first one touches the new guidance. I would like to know actually, if it was only the acquisition of Colts that contributed to the new guidance, or if it was also that CZG as it stood before May 21. would increase its guidance if you see what I mean. If you're if the business was so good that you would increase your guidance even if you didn't complete the acquisition of Colt. And the second question is obviously yes, I understand that the very fast rate of growth in the first quarter was also due to the too low comparative level of last year but if you just could, could provide us with more color on the next quarters. So, these rates of growth, they should of course go down, should we expect them to be double digit still in the second or third quarter? Or should it go down very fast and be pretty much maybe flat?

In the second half of the year, of course, now not counting Colt but season as it stood.

LUBOMÍR KOVAŘÍK: Thank you.

JAN DRAHOTA: Yeah. Okay. So first of all, and this is really frank, we are, we are learning how to communicate with the capital market. So, for us, so when we give our guidance, we are trying to be as, let's say, conservative and say, frank as we can be. If you ask me about how we feel about your business now, how we feel about our business today, and how we see the business developing, I can tell you that we are we are quite bullish on both sides of the ball on both sides, we are quite bullish on the side of CZ. So, we believe that the guidance which we I mean, at the first in the first quarter, or when we give you the first guidance, and I think that in the first quarter of I don't know when it was, sorry, I don't recall when we give the guidance for the year now that the date of it, but definitely, at the time, we didn't have so much visibility, and now we see the visibility and the business is very strong. So, I think

that we are very bullish on CZ business. So, knowing that we are executing, you know, we are pushing a bit, you know, you know, to the to the upper level of the guidance. And as far as Colt is concerned, obviously, for us, we are the new owner of the business. So, we are quite cautious about being either too optimistic, or to say, to view to be too precise about it, but what we see is huge opportunities for your brand and for the business as well. So, on both sides, we are optimistic on both sides, we would be very disappointed if the business ended up on our budgets. So, we will be very disappointed because we believe that both businesses, more profitable companies have a huge potential to outperform their relative budgets. And that's basically how we see things. As far as the growth rate for next quarters, you know, on a quarterly basis, it's very, it's always very tricky, because of the basis. So, because of the way base and so it's always tricky to, to try to, to, to give guidance on that one. But for sure what I can tell you that, that our ambitions are and we have been very, very, let's say, we continuously repeated the message that we believe that the growth rate of the business which has been in terms of revenues, and also in terms of profit or profit of indicators like EBITA, the growth rate was in the mid-teens, I will tell you that if 13 14% was, I think it's 3- 4 year average, on the revenues, if the business stays as strong as that is now as we see now, there is no reason to be that the growth should be it should be slower. But once again, it is I mean, we are only in the in the five months of the year. And there is it's a struggle every day to make sure that we execute upon the strategy and we are able to satisfy demands of our clients. And this is our really biggest challenge is really to make sure we produce and we produce in a quality asked and required by our clients.

PAVEL RYSKA: Yeah, thank you. So just to make sure, you know, my first question was because in the morning statement, you said that the new guidance is first because of colt, obviously. And second, because the business was actually doing very well from the start of the year. So, I just wanted to make sure that there were also some organic components to this upgrade of the guidance that it was not only the acquisition of Colt, obviously, but it was also that even if Colt wasn't now within the group, you would still be maybe upgrading your guidance because the business was doing very well. So that was just it.

JAN DRAHOTA: You know, I mean, first quarter is without Colt, and its growth. It's a really big growth. And if you compare it to q4, last year, and this is difficult comparison between quarters because there are seasonalities, it's still it's still it's still a nice growth. So, I think that it's really we are as we see now it's really nice growth and once again, we have still big military and law enforcement contracts to be filled. You know, because as Luboš mentioned Army of Czech Republic and we have other ones which are already signed and being are being produced. So once again, we are confident even on the organic part of the growth so organic part is also strong.

LUBOMÍR KOVAŘÍK: Confirmed.

PAVEL RYSKA: Okay, thank you maybe the very last question you touched seasonality now, I'm not sure if you stated it during the the previous conference calls, but now also after the acquisition would you expect in terms of seasonality should there be a really pronounced seasonality in your business or should it be let's say very comparable all the quarters?

JAN DRAHOTA: This is a difficult one but the one thing in seasonality is that for example, that is 2 weak at least in the Czech Republic that is 2 weak companywide holiday in July This gives a bit of seasonality to July right because you produce only half of the time for example, Pavel Ryska: December is December

JAN DRAHOTA: Yes. So, there is there is this also happens in in December so there are spikes in in production and then you know when you go to the factory you know you're in Peru. So, this is it and as far as the seasonal on the market is concerned, it depends you know commercial market is maybe less seasonal than then then the military and law enforcement market which is more one-off products or one-off contracts bigger contracts so, it's this one I will not be able to give you an answer which you will be satisfied with honestly speaking.

LUBOMÍR KOVAŘÍK: But definitely law enforcement markets and more sensitive portions we are speaking about the deliveries to part deliveries of this year June and September this it could be kind of sensibility.

PAVEL RYSKA: Okay, thanks.

KLÁRA ŠÍPOVÁ: Thank you. Our next question comes from Daniel Gladiš from Vltava funds. Please go ahead.

DANIEL GLADIŠ: Good afternoon, you issued approximately 1 million shares for a part of the payment to Colt which I assume they went to the seller. So, I have two questions now please, one, is there any lock up on these shares? And number two, are you thinking about increasing the free float of the company even further to make it more attractive to institutional investors please?

JAN DRAHOTA: yes and yes.

No, I mean, lock up obviously there is a lock up and our ambition is to I mean as we already said several times our ambition is to create a long term relationship with markets with investors with capital market investors so obviously we want to increase the liquidity of the of the of the share and this will definitely and it will probably mean that the or it will it should accompany the higher free float so for us it's something that we are discussing thinking and making strategy about to make sure that the share is there is there really something which is attractive to any investor you know, would it be Czech or international investor and our story is now very global you know, our operations Czech Republic is very small part of our overall sales and a part of production it's really we are a global company in terms of sales.

DANIEL GLADIŠ: And can you tell us how long is the lockup

for the Colt seller when they can come with the shares to the market if they want to?

JAN DRAHOTA: I think that we did announce it in the I believe that it was part of the documentation. And it's still October this year, October this year. And but I would say that as I mentioned during the during the presentation of the of the transaction, we you know, we are very happy that the sellers of the original investors of Colt like the potential upside of the story of CZ together so I think that there will you know, I cannot speak for them, you know, whether or not they will, on how long they will keep the shares but lock up is to October.

DANIEL GLADIŠ: Okay, thank you.

KLÁRA ŠÍPOVÁ: Thank you. Next question comes from Jan Raška. FIO banka.

JAN RAŠKA: Good afternoon, Jan Raška, Fio banka. I have some questions about contract with Czech army. You mentioned that the start of deliveries in the second half of the year. So, can we expect if I understand it correctly that we can expect the start from the start the start of deliveries from the third quarter? And what contribution to revenues do you expect from the contract this year? And the second question, on the last call you mentioned that the main part of this army contract should be realized between the period 2021-2023 Is it still right this period?

LUBOMÍR KOVAŘÍK: Okay. I will start with the second question. Yes, this is still right, the expected most of the deliveries will be during the 2021-2023 and the second one and we expected that the turnover or sales from this year will be approximately 500 million Czech crowns.

JAN RAŠKA: Okay, thank you.

KLÁRA ŠÍPOVÁ Fantastic. Do we have any other questions, please? Mr. Petr Bartek, Česká spořitelna. Peter, please go ahead.

PETR BÁRTEK: Good afternoon. Also, congratulations to the great result. I would have two questions. So first is regarding the production volumes which are arriving at very, very nice rate, So, the obvious question is whether you already have supplies from Hungarian partner, on maybe a bit broadly, what portion of volumes comes from our partner, partners, or contractors? And the second, if you could elaborate a little bit on the US civilian market, what is the latest development, what You see there, also in terms of competition, and in terms of the legislation if you see any developments which would be interesting, potentially for your company, also speaking about Colt not only CZG. Thank you.

LUBOMÍR KOVAŘÍK: I would like to start with the second question.

JAN DRAHOTA: Okay. So as far as our subcontractors, we don't give split of how much we buy from subcontractors and how much we produce. But I can assure you that we are still a majority of the

products which we sell is measured vast majority of the products which you sell is from our internal from our production, obviously we are continuously cooperating with our, our, our suppliers, and worldwide, not only in Czech Republic, Hungary, and also US, and but we don't disclose individual plate or for new suppliers. And as far as the US commercial market is concerned, you know, the market is probably a bit not growing as fast as it was last year or she was, you know, 60 70% this year, it's slower, but we still see let's say huge unfulfilled demand gap for our products or substantial demand gap for our products, we will always say supply gap from our side or demand excess from the side of our customers for our product. So, in the US the remaining demand for our products, accumulated demand for our growth and our ability to meet it, we are in deficit there in in terms of our ability to supply the market because the backlog there is huge. And same goes for Colt actually, they also have quite substantial backlog even for commercial market

LUBOMÍR KOVAŘÍK: Only is no information as to what Honza said this demand for a product is not only from USA, this is from the global.

JAN DRAHOTA: Yeah, yeah. Yeah. So huge as I said, backlog is quite substantial. Obviously, the quality of the back log differs, you know, US market is softer quality than any other market because it's a much more opportunistic market, but still the it's huge for our products in simple products. And as far as the as the legislation is concerned, you know, I mean, we are not in a position to comment on legislation, the political debate is there and we and we respect and we believe that the Second Amendment is something that is what is critical to the US and to the rights of the US citizens and it is how we look at it

PETR BÁRTEK: Thank you maybe follow up questions in terms of the production actually key question was whether in Hungary the capacities are already up and running whether there is a good cooperation and follow up to the legislation or maybe if you could elaborate a little bit on the potential impact on your sales from online or if it was abolished and that is a ban on online sales.

JAN DRAHOTA: First of all, we don't sell firearms online in the US. So, for us, it only parts or stuff like that. So, it's really not something which is which concerns products, we don't sell online firearms. I don't I don't know whether it's even possible but definitely we are not in this market for sure. And once again, and once again, our partners in Hungary we have very strong very good relationship.

And we continue to improve their let's say, let's increase and improve their ability to meet our needs. But there is still quite a nice room to grow and to grow the that's a potential relationship from supplier from Czech Republic to be maybe even more supply from Hungary. And this is continuous process, but we don't disclose figures for those for those currencies or relationships.

KLÁRA ŠÍPOVÁ: Thank you, Peter. Do we have any other questions? Yes, Jan Raška, Fio banka. Please go ahead.



JAN RAŠKA: Yeah, I have a question. The acquisition of Colt is approved. You mentioned revenues and EBITDA of Colt for the first quarter. Can you give us any other details about Colt? I mean, for example, annual production, annual capex, or annual depreciation and amortization?

JAN DRAHOTA: This is a very good question. And actually, we are planning to do a, I think that somewhere in the summer, we will probably do a more focused presentation of what it is as the group together, I think that it makes sense to give you a better idea of the group together as and maybe, for you to be able to better understand what it is, because this acquisition of Colt, Colt Canada, I mean, and because of the I mean, because of the Colt Canada, being part of the exclusive supplier of Canadian Army, you know, it's a really a huge change for the group. And this is something which is profound. And I think that, we are still here to appreciate it. And I think that it makes sense for you to do a more detailed presentation for you guys and for investors to understand what it is what it means for the group. So, please be patient there. And we will, we will come back to you. And we will, I think that will be even before the half year report, we will probably do a bit more, let's say on what it is Colt CZ together and what is could bring and how it can influence the different metrics group, you know, would it be sales, capex to sales would it be other stuff. And other items.

JAN RAŠKA: Okay, thank you.

KLÁRA ŠÍPOVÁ: Very good. I don't see any other questions. Or maybe someone from the phone participants would like to ask. So, there are no more questions.

Jan, Luboš, thank you very much for the presentation. Thanks, everybody for participating. And do not hesitate to send us email if you if you have any additional questions later on.

LUBOMÍR KOVAŘÍK: Thanks, thank you so much. Pleasure to be with you today.