Preliminary results 2021 – Analyst conference call transcript

Moderator:

Good morning all this is Atinc Ozkan from Wood and company and his team. We are pleased to host Česká zbrojovka group, full year 2021 results for today in terms of our presenters from company management we have with us, Mr. Jan Drahota, president, and chairman of Ceska zbrojovka Group Board of Directors, Mr. Dennis Veilleux, CEO of Colt and member of BoD and Mr. Jan Zajíc.

Yeah, sorry, there was some background noise. So, I'm not sure whether all of my presentation was heard. But let me conclude with Mr. Jan Zajíc who is also with us, he is the CEO of main operating subsidiary, Ceska zbrojovka as and CZ group board member. With that short introduction, let me hand it over to Klara Sipova, who will also moderate the q&a session following the management presentation. Klara, the floor is yours.

Klára Šípová:

Thank you. Thank you very much. Gentlemen, welcome on the call, sorry for the interruption during the introduction. And now I would like to pass to Jan Drahota to start the presentation. Afterwards, we will follow with the q&a session. Jan Go ahead, please.

Jan Drahota:

Good morning from my side as well. And once again, I would like to welcome Dennis and Jan from the US, you know, it's a great commitment from their side, because for them, it's really early morning. Okay, so good morning to all. And we are here to discuss today the 2021 preliminary results of the group. So, let's go straight to it. First of all, you have also our regulatory announcements, so I won't repeat the key KPIs. So, in terms of revenues, or maybe I will start with something more. Last year was again, record year for us, for our group. And obviously, it was not only in terms of revenues, but also it was a critical year because we did finalize the acquisition of Colt in the US and Canada. So, our group virtually doubled. So, this is an important milestone in the life of our group. And I would like to thank all the people involved and all our employees for the hard work which they put in and all together, you know, in terms of their daily duties, but also in integration efforts, because it has been a really, you know, wild ride and we are very pleased what we have achieved last year. So, let's go to the figures in terms of revenues on a consolidated basis. And here I would like to remind you that consolidation of our figures contains Colt figures starting 21st of May 2021. So, it's only basically seven months because the real work got started in June because there was an inventory check. So, the revenues went up by almost 87% to 10.7 billion CZK that's the first thing on a pro forma basis. The increase so when we take into account the full year of forecast it would be almost a 90% to 12.8 bn CZK, adjusted EBITDA and I will speak later, what adjustments we recommend to do to EBITDA in order to show normalize performance of the business or underlying performance of the business. The adjusted EBITDA grew almost 50% to 2.2 billion CZK on a consolidated basis and on pro forma basis around almost 83% to 2.7 billion CZK. Adjusted net profit and once again I will I described where we are recommending as adjustment, grew to 1.2 bn CZK or almost 72%. As far as adjusted earnings per share the same story, almost 72% increase a year a year and record level, our stock or our performance and enlargement of the group was well received by the by our investors, we are very pleased by that. And as you probably know, our stock or CZG stock was the best performing stock last year on the Prague Stock Exchange. If you go to next slide, this slide is important because it gives you a bit more flavor about the regional distribution of the business, but also, it also shows our key commercial achievements in 2021. And also, a relative change in in a number of pieces of firearms produced. Okay, so, first of all, regional split. And here, I would say several things, first of all, USA remains the most important market for us. But you see that it's you know, its market share on the overall sales is, let's say approaching the 50%, which we already said was kind of a, let's say normalized 50% was kind of a normalized share on the Group Sales. But then you have three regions, which are fairly or relatively sane, would it be Europe would be Asia would be Africa. And also, Canada, which grew in importance substantially for us, because of the acquisition of Colt and very strong relationship Colt Canada has with the Canadian Armed Forces. So, as you see on the graph, all of the regions grew substantially, you know, some of them, in hundreds of percent on a year basis.

I think what is important on this slide is the discussion of number of pieces produced, overall, the number of pieces produced grew by approximately 35%. So, it's a substantial increase, but you already know that the revenues grew even faster. So that tells you that what we were able to do is, first of all produce higher value-added products. And also, we did adjust our prices as well. So, it's a mix of better product mix, maybe slightly changed pricing, which contributes to the fact that our revenues in CZK grew more than, than 50%, you know, it's a substantial growth a 57% and by the pieces produced about 35%. What you have on this slide is now selected achievements in the commercial side. You know, besides the military and law enforcement achievements, I would mention here, something which is not an event on this slide is that as you all know, we first of all started to deliver under CZ Army frame contract to the Czech army, but also what happened this year and this is in connection with the with the situation Ukraine that this is this agreement, this framework agreement was even enlarged by approximately 50%..

Now, we will discuss you know, on two or three slides a little bit different things than financials because there is more going on in the group general than financial things. First of all, we decided back in October last year in the group board, that we will change the group identity, corporate identity, because we believe that it will better reflect the current situation of the group and it will better show that the two key brands, so it's important for us to reflect and also we believe that it will make our group better understandable. For customers. This change concerns only group corporate identity it doesn't concern corporate identity of the neither CZ that or industries that are Colt, that's important to say here. So, it's, I would say fresh and we are really proud of what we achieved. And if you go to next slide, you also have already one slide present it in the in the new corporate identity. This slide we wanted to have here, because we really this is important, you know, our group enlarged. So, it's important that our, that our people, our employees, and our customers, as well, and also our suppliers and all the stakeholders understand what, what brings us together, okay, so they understand our values, our mission, our vision, and our financial goals. So here, we wanted to have this slide to remind you of what those are. So first of all, we, we confirmed and defined our group vision, as an end, we will, and our aim is to become the recognized undisputed leader of the small arms industry. That's the first thing. Second thing, our mission, obviously, if you have a vision, you have to also know how you're going to achieve it. So, what we are saying is that we are committed to providing innovative and high-quality products that our customers can rely on in any situation here to simplify our future, our current and future emphasis will be on product. So, quality r&d and innovation and quality. So that's basically what it also means. And values, you can read them team spirit integrated responsibility innovation, as such, those words doesn't say everything, if you want to, to understand them better, you know, you can look at our web page, what is important to say here that, for us, values are a really critical thing, because we believe that they help us navigate in difficult situations. So, and also help our teams across the ocean to understand, you know, how the other are we how we are thinking and what our priorities are. So that's, that's critical.

When we speak about vision, we also did define, and this is just to remind you a financial target for 2025. And it remains at 1-billion-euro revenues, a minimum EBITDA margin of 20%. So that's basically as far as CZG vision, mission and values. Just an on a new format. ESG, you know, that ESG has been a big topic over last years, and we have been discussing that a lot for us. You know, even before, you know this term was used, we already behave the way as we should be, so as a responsible member of the society and accommodate them. So on this slide, you have, let's say selected points to each of the of the of the segments of the ESG social governance environmental, for us, I would say that what is what is new, and what is what is important to mention is that that is the current situation in Ukraine and basically security situation in the world, it's important to understand that the approach of governments and supranational institutions has changed profoundly. I know that I hope that you follow it well, the latest information, the latest statement or latest report on that was issued, I believe, on Tuesday, this week by European Commission, you can refer to that on the Europass on the pages of European Commission. And basically, the team is that strong resilient and high quality and innovative defense industry is essential to the existence of the of the modern society. So European Commission and the European Union is changing profoundly its view on the defense industry. And actually, there are even statements in the in the latest reports about need to secure private funding for defense industry to make sure that Europe as a whole has a strong defense industry and can you know, face potential future threats and potential future security situations. So that's I think, important point here. So, we believe that it changes the situation substantially. And it's worth mentioning people to next slide. We prepared this one because we think that it is an important one which reminds you that our strategy which we described to you some time ago about moving much more towards the military and law enforcement segment. First of all, obviously now in the current security situation, it's obvious, but also it shows you that we are ready to, to be able to be, let's say, reliable and strong partner to our potential government customers. It shows you, let's say, three different logos and also a set of different products. And the message here is that we have complete offering for government customers in terms of pistols, which is very strong, but also sees that as its own submachine gun platform, Scorpion, and rifle platform, brand new, so you know, that's, that's what we have in Czech Republic, in the name of CZ then Colt US, Colt Canada as the original, let's say creators or original producers of AR 15 platform they have there, they are the most used platform in the NATO countries, you know, wouldn't be important five rifles and CCI plus or C 20 rifle, which is a new HPR hydrogen rifle of Canada. So, in terms of our offering for military and law enforcement customers, we have both, let's say, we have the above the standard platform for rifles, which is the AR 15, or M four m 16. platform, but also, we have our own proprietary platform, so we can fulfill the needs or preferences of any customer. And also in the past, we were we had this we were talking, you know about forum systems, which is our tactical or ballistic gear company. It's not a major part of the group. But I have to say that over last month, for unfortunate reasons, as you know, it's important importance or its activity grew substantially. So obviously, with the current situation, the need, and the demand for ballistics or ballistic materials, as has gone up substantially, and it's great to see that our colleagues in forum are able to discuss with our current or potential customers, how they could help them to face the new security situation. If you go to next slide, back to financials, I already did describe or did mention the KPIs in brief. So here you have you have the financials, you have the two key KPIs, which is the revenues and EBITDA on one slide. And you see the I think that what I would, what I would highlight here is, first of all, CAGR over the last over the last four, four years plus the guidance, which is substantial. So, we'll see CAGR of almost 50% Over the last four years, together with on pro forma basis with Colt revenues, which is which is really, really big. But also, you have you have also the guidance for revenues for the year which we gave to the market, which is CZK 14.4 to 14.8 billion and you'll see that in terms of CAGR, it is it is still an overlap over you know, over five-year period, it's almost 36%. So, the key message on the left side of the slide is first of all we grew in the key parameter in revenue substantially, this is what we already discussed, but also you got a guidance for revenues for year 2022 which is once again, quite robust growth in terms of revenues and EBITA. You ever hear both EBITDA margin and also absolutely EBITDA. I think that we'll go to adjustments, you know, which I suggest to do, but once again, EBITDA in terms of consolidated or adjusted conservatively that wanted to substantially growth, you know, that almost CZK 2.2 billion, in terms of EBITDA margin, above 20%. And, on top of, you know, in together with Colt on pro forma basis, 2.6 billion. And you also have the guidance of 3 to 3.3 billion CZK for this year, which is once again substantial growth and it's driven by what we see is a strong market on both government customers and also commercial market. I suggest now that we go to page 17. Maybe to discuss the adjustments which we suggest doing for the EBITDA. And we believe that the performance of the business speaks for itself. But here this, we suggest that we take into account the acquisition related costs. First of all, it's an inventory step up related and cost of acquisition, basically, when we when you purchase a company, the purchase price allocation. And as part of this exercise, we had we stepped up the value of inventory in Colt. And that's why basically, it negatively influences because the inventory which entered to the new group was revaluated in accordance with the purchase price allocation. Secondly, its cost related to acquisition, you see, here are 144 million CZK. You know, we already discussed it, it's mainly advisors and success fee and then there is a one more inventories provision connected with an impairment of assets of the project in Little Rock and inventory provision related to that as well. If you go back to the presentation to the slides. Let's go to next slide. Net Profit. Here, on this slide, you have several important information for you to understand our financials, first of all, and maybe I will start with the with the right hand side of the slide, which is the dividend per share proposal, you know, that we, that we proposed, the Board of Directors proposal proposes through general meeting for the dividends 25 CZK per share, we beat that this is a dividend payout which reflected the performance of the business performance of the share. And also, the view which we have on the future performance of the business. That's it. If we speak about earnings per share, and profit, obviously, there are it also makes sense to speak about potential adjustments there. First of all, I mean, obviously, we discussed the adjustments in EBITDA. So, I don't think that it makes sense to discuss that much more, but I would raise your attention here to the left-hand side of the left-hand top side of the slide, where you see the impact on the profit. And once again, with the acquisition of Colt with the purchase price allocation, we did allocate substantial part of the purchase price to intangible assets. So, assets which is like brand, you know, customer relationships, stuff like that. And obviously, those intangible assets are amortized, okay? And, you know, my argument is that the depreciation is something which you have to reinvest in the business. Amortization is something which, you know, it's contra intuitive, because sometimes you amortize customer relationships over time, but as you know, customer relationship over time makes has higher value. So, but this is, I don't want to dispute the IFRS approach to that, but I just I just mentioned it here. So amortization of intangibles, played a significant part, for the significant part on the on the on the on the net profit, and we can discuss that, but this is not in adjustments, you know, so that's important, but for you to understand better, you know, the real performance, it's also important to understand that there is substantial amortization, which is connected to acquisition. If you go to page number 18, you will see here, the same things as you saw in the adjustment to EBITDA. So, you will see that we have here, the inventory step up, cost of Colt acquisition, impairment of assets related to a project and one-off inventories provision, but also you have your two more items here and this is a bond issued issue related costs. Finally, we did allocate most of the costs to the yield to maturity or cost to maturity. After that is 4 million, they're here. And second, which is important layer is an earnout related costs. This is, for me, a bit counter intuitive, but I will explain it. As you all know, the sellers of the Colt business get potentially up to a little bit more than 1 million additional pieces of CZG shares, okay? So, basically CZG will issue potentially 1 million more than 1 million shares if certain conditions are met as this is a contingent liability according to IFRS this liability or this potential payout or this potential issue of shares, because this is not a payout This is not cash payout, they will issue new shares. So, there is small dilution, but definitely not cause and we have to evaluate it, and as the share price went up since the date of acquisition 21st of May the this causes cost in the p&l. So, obviously, if you take this into account, you have different you can adjust that you should be adjusting your calculation of Net profit by that because this is purely an accounting concept than a real costs, which we will bear because it will issue the shares the par value to the Colt holders. Potential if you go back to the slide, I already did discuss the impact on net profit. Here, if you look at the comments, you'll see that assessment overall the value of the amortization in 2021 per share is around 13 CZK. So, I mean, if you if you take it into account, it would be going closer to 52 EPS closer to 50 CZK per share that to 34-40, which is the adjusted number here, okay. So, this is just to give you also a bit more explanation and flavor to let p go to next slide. Cash flow generation, I mean, as we always say, our business is generating strong cash flow, and we are very pleased about that. And, obviously, obviously, it's reflected in the financial situation of the of the business. I think that on this slide, what is important is the right-hand side, where we discussed was the full capex plan in 2021, but also our view on the capex for 2022. Here, you see that the guidance which we are giving is, is around 5% of revenue, so up to 5%, of revenues in the amount of absolute amount of 720 to 740 CZK. As you know, our depreciation last year was around 280 million CZK. So, this is almost 3x depreciation. So, this is indeed, an expansionary capex. So, it's capex to our capacity to be able to meet customer needs, okay? So, this is important to say here, and the capex is already this year, for the first time, divided, let's say, not obviously, it is divided between Czech Republic and US, but this is also divided in a competitive manner. So that so we had a really good discussion on the board, how we allocate capex on both sides of the Atlantic, you know, that's a great outcome of what we achieved with the acquisition of Colt that now we have two sides of Atlantic, you know, US and Canada together with Czech Republic, discussing the capex and we can allocate the, the investor money, you know, we believe the most efficiently so that's once again, exponentially capex, at the same time, a lot of work been done in the past, because we have, we have some economies, we should have some economies of scale, and we believe that we have done here. And also, what is important to say here, that this is already substantial capex and any capex of this sort requires as well a lot of effort and it is a disciplinary of on its own. So, for us, it's important that we do not overspend or do not waste resources. So, we have to spend in a wise manner in order to expand capacity and expand it in a profitable manner. To go to next slide. Our financial position. You know, we have I think the message from this slide is that first of all, our leverage remains relatively low. Even after acquisition of Colt, our net debt to EBITDA on pro forma basis, it's been 1.5 times EBITDA. As far as second message is that our debt has a, I would say, favorable maturity profile. So, we'll see that we have we have that we have, you know, the debts which were the bonds which were issued to finance the acquisition of Colt maturing 2027, then the new bond issue this year, maturing in 2029. So that's, that's that shows you that we are able to access the capital market, you know, very efficiently. So, the latest issue was a seven-year issue, which was our first seven-year bond, which we did. And as you see, it was priced more competitively than the bond, which we did last year. So, the message here is that we are able to approach longer tenors in terms of financing on the capital market. And at the same time, we were able, and we are able to achieve more competitive prices than, than in the past. So, we believe capital market likes our story and understands our conservative approach to leverage and that's why we are able to, to fund ourselves, you know, at favorable levels. So that's the first thing so that's, that's the bonds which we have done, which we have done this year to, to partially to partially repay the bonds which are originally issued that the level of security so that's the first messenger, I would say second message is and this is connected to, to our strategy. Obviously, this kind of leverage gives us enough space to react in case there is a money opportunity. I mean, simple calculation is that you see that we have more than 3 billion CZK on our hands. So, we have the are able to go quick, quickly potentially if m&a opportunity arises and we asking them as we speak looking at different options. And but at the same time, you know that our appetite is fairly conservative in terms of leverage. Okay, so that's for the financing. Second message, which you have on this slide is the hedging, because we were in the past asked about, how to understand our derivative transaction. So, we did a heavier discussion about two things. First of all interest rate risk. Currently, we have our interest rate exposure is hedged in the amount of excess of 5 billion check uracil more than the net debt and average or melted interest rate in a combination of CZK, euro and USD is all in together with credits practically every hedge we own is around 2.7% per annum. So, I would say favorable in the current interest rate environment. And once again, it's a little bit more than current net exposure. So that's, that's the first message. Second message. As far as the FX is concerned, you have here percentages for the year 2022, in terms of how much exposure is hedge and then both levels. So, we see that there is more than 50% of US exposure hedged at the average rate of 23.75 CZK per dollar, which is something like 5% above current market rate plus minus one kč, and 80% of our expected exposure in Europe. So, at any rate, which is 26.15, once again, from substituent favorable to current-to-current market rate. So once again, it shows you that we keep things, very conservatively, integration. Now, after long monologue from my side, I would like to hand over to Dennis and Jan because they are together in the States now, we have together as we speak in West Hartford, and they will give you more information, more flavor about what's going on in integration.

Dennis:

Thank you, Jan., So obviously, just by the fact that Jan and I are standing next to each other integration is a major focus for us. And this slide represents some of the areas that we've gained significant momentum on, still work to do. But again, significant momentum on cross functional areas, leveraging the work that they're doing in UB and the resources that they have a new beat that complement and uncover some gaps that we may or may not have in the US. That's what we mean on the on the cross functional side. In terms of finance, we've totally centralized the financial function for the North American group was which means Canada, which means Kansas City, CZ USA, and West Hartford. And we're consolidating it at a group level also, in some of the reporting that you'll see, shows that on the sales side, we've also centralized it in the same way that we did on finance. It's done. There's obviously a lot of work to do as we grow as an organization and manufacturing, it's ongoing. It's an area where we're, you know, we've been at it closing in on one year. I think we've made good strides. And, and, you know, as we go forward, we're going to continue to do that working on things that Yan hinted to in earlier in the presentation on our capacity on our flexibility on our scalability, both up and down to respond to the markets and world events. Same goes for r&d. We're on another meeting, actually, with r&d teams this week. It's been an ongoing effort between r&d and product and sales. And there's, you know, the, at the end of the day, our business is made up of people. And the biggest driver of progress is the ability for everybody, all those people that we're talking about to know and work with each other, understand where our strengths are, where are areas that we need to improve our and focus in on at the end of the day, the high level goals that Jan mentioned at the beginning to be, you know, leaders, undisputed leaders in our in our business. And everything that we do in r&d, in manufacturing, in sales in finance, is contributing at some level, to that overall objective. And then supply chain is an area that I don't know that we'll ever be done, I'll say consolidating there or integrating there. Because now that we're a combined business, our ability to understand the benefit of the supply chain from, let's say, Europe and in the rest of the world versus US domestic, the flexibility that it gives us the view that it gives us on different opportunities that you might not see, if you were just to look at one supply chain in isolation gives us in my mind, a, an ability to really leverage diversification and in different opportunities that that may be presented. Also on supply chain, you know it if we have the right balance between internal capabilities and external capabilities, it helps us stay flexible and able to scale up and scale down as I mentioned on the manufacturing, in as Jan mentioned, on the earlier in the presentation on the capex side. So, we're constantly looking at that balance. Thank you.

Dennis, thank you well said, I will just do one example. We are as you know, as I already said, we are here today, our teams in West Hartford and to give you a flavor of really the output of the ole in their integration activities. So straight there are r&d, because we are committed to bring every year a new product and the one of the major outcomes of those days is really to utilize the activity of r&d, which has happened in in in UB in the last month or last days to bring it over to us in order to strengthen their rifles products. So, very concrete outcomes of the integration activities already happened.

Jan Drahota:

Thank you. And once again, Dennis and Jan will be here with us even for q&a. So, you will have an opportunity to ask them further questions. Last slide here is about m&a. I already touched upon that, and I would like to you know, maybe reiterate or repeat what would have been saying for some time. First of all, we are looking at potential further acquisitions. And still, it's when we speak about acquisitions, we are talking about around which are connected. This is what we are doing so it would be a Malaysian optics company atomics. Obviously now with the bigger emphasis or maybe more, you know, really elevated interest from military or government customers, would it be military customers? We believe that the system approach is even more important than it used to be. So, it's in line with what we thought it was the other way forward. And then we believe that we are perfectly positioned to play an important role there. So, we are actively looking at a potential target. And I think change the answer to what we already know you already discussed and tell told you in the past. I think that what is critical to say here that we remain disciplined, okay, so we when we look at acquisitions, we always look at them that they do Are you and then overall and the devaluation and all the assumptions are, I would say favorable to our business and to our investors. So that's maybe a key message here. Maybe, you know, small thing, in terms of the overall business but important for us strategically is that we did we plan to execute a recall option on the father stake or in this pool. You know, it's a relatively smaller business to grow, but it's really high-tech well-respected business. So, we will increase our shareholding to 40% We have been in the business for last two and a half years, we are very pleased go to the origin founders achieved, you know, they are really top player in what they are doing, you know, optic mounts, but also firearms upgrades. And I think that in the current situation, you know, it perfectly complements our offering, I discussed the VF offering of AR 15 or M and for M 16. platform, we have also the brand platform, but Spuhr is has been specializing in upgrades of firearms as well. So, so when we discuss with its customers, we have all the options on table and if somebody wants to do gradual upgrade, and the first upgrade of the upgrade of the feet, first upgrade of the current firearms and then you know by new totally new firearms, we are there as well. And we believe that this is really high value for our customers. So that's how it is. As far as the impact on the on the on the on the on the financials will be in single digit, single digit percentage terms. But what I can tell you that the investment in terms of the return on it has been very favorable to the group and we already did receive one quite substantial dividend last year and as the performance of the business is really good. We can accept expect, expect more. So that's as for the presentation, I believe. And now I hand over to Klara to for questions.

Klara:

Yes, thank you Jan. Now, we will move to q&a session, you have the presentation in front of you. If you want to ask questions, please raise your hand in the Team's application, or simply speaker via phone. I would like to firsthand over to Atinc Ozkan from Wood company to start with first questions. Atinc, please go ahead.

Atinc Ozkan:

Thank you, Clara. And thanks a lot for the detailed presentation to the management. I have a couple of questions. But the first one is regarding your 2022 guidance. I see that the median of the EBITDA margin is around 21 -22 %. This is obviously implying some improvements. And in your press release, you also mentioned cost pressures, continued supply disruptions due to COVID. So, what is going to drive the improved EBITDA margin? In 2022? That's the first question.

Jan Drahota:

Okay, so maybe I will, I will answer that to do that one. Yes, you are right, the world is different than it used to be, unfortunately. And obviously, we started to iron out how the supply chain disruptions can be during the COVID times obviously, the whatever was going on in Ukraine. So that's what I that's our race and obviously, we also see inflation pressure pressures will be prices of energy and price of electricity. So, the message here is first of all twofold. As you know, for us the higher is value added which we put to product is first of all design and production. So, we are not we are not we have electricity or energy is not a major part of our course it's our people and there, we have concluded for successfully concluded collective bargaining in Czech Republic and we are having the same discussions in the US and we believe that we that this should be also accomplished. But to answer your question about improving margins to above 21%. It's about mix. So, when I speak about cost pressures, yes, there exists the economy move that we are able to manage them. Obviously, you manage them in two ways. First of all, you manage them by better supply chain, better efficiencies and maybe combined efforts across the globe. because then is this copy of the gated supply chain or discussion about, you know, we have the ability to tap supply chain both in Europe or outside of us and us, but also but also, it's about product mix, so its product mix. And it's also pricing. So obviously we have to adjust our prices, according to the, to the situation so, so that's basically what has been happening and what has been going on and ultimate will be going on. So, efficiency is on our side, you know, we have to really make sure that we do our best and, and at the same time we have to adjust our product mix and prices. Maybe one thing here. I haven't mentioned it here and we because we didn't do the adjustment here, but I just would like to mention here. As you know, we discussed that already that there was a quite substantial project together with McKenzie. Let's say we didn't see the fruits of waste, especially on our understanding of our customers, but also efficiencies in the production. Last year, the project cost was around in UB, of around, you know, 4 to 5 million euros so substantial. And we didn't do any adjustment to that. So, this is in the cost this year the cost can be they can be similar, but then there is no additional cost to that. So, I just mentioned and because to tell you that we have been doing a lot to understand our Operation Streamline them and make them more efficient. I know that I took longer, but I wanted you to understand, you know, our approach B which is really complete and crystal clear. And if I may, my second question is regarding this very recent change in ESG approach that we are already witnessing post Ukraine European Commission, as well as already some investors are showing signs of more accommodative ESG approach when it comes to defense companies. And as we all know, some of the smaller defense companies access to capital and debt markets were cut off in the past, I think we have seen a remark by even Rheinmetall CEO on that. So going forward to meeting these changes are going to lower your cost of funding and differentiate your sources of funding or your current cost of debt is already optimized after most. issuance. Thank you.

You know, and here, I look at it a way that our story has to be understandable for our financial partners, so investors and creditors, for our portfolio for us to be attractive to them. And we were, so far, we have been so far able to explain our story to debt investors in the Czech Republic. So, we saw all the bond issues were oversubscribed, we are always able to tighten the spread. So, I'm not. So, we will be definitely trust me that anytime we do something more, we will be trying to get even better terms. But we I believe that we were already one of the good names on the on the ballpark and in the Czech Republic, how we see things is that the change in ESG should mean should mean that we will maybe we that we should be the different stocks in general, I'm not I would not try to refer to our own, they should be more attractive to institutional investors as well. So this is what I see that where is the biggest space but once again for us, I refrain from commenting capital market day to day moves and situations because this is what we cannot influence we wait for us to make sure that we do execute our strategy, we do stick to our values and our strategy to make sure that people understand we respect the only as us and we believe that in the long term it will pay off and investors will notice and our stock and our equities will be more attractive to them.

Thank you very much.

And once again, if you would like to ask questions, please raise your hand in the team's application. Currently, I don't see any questions coming. So, if someone would like to ask directly, please go ahead. Yes. And it's Mr. Peter Bartek from ČS. Peter, please go ahead.

Petr Bartek:

Good morning. Can you hear me well?

Okay. So, congratulations to the results and to the guidance. I will be coming to the m&a approach, what fields are you looking at? Is it ammunition or some additions of new products in small firearms or something else? And maybe, as we talked about the good, good access to capital markets?

Would you be in favor of big acquisitions, which would also require fresh equity capital. So, it's first question.

In terms of your guidance for this year, it implies 14% increase in revenues compared to pro forma. Also, if you could elaborate on the key sources of the expected increase, whether it's military, law enforcement customers, what to expect from the civilian market in the US and maybe regionally. If you cannot provide a little bit split. Your guidance is actually the guidance anxious, relatively narrow, 3 percent of revenue. So, it looks that you are quite confident with your revenues outlook.

Jan Drahota:

First of all, m&a, I believe that I said it, you know, I said it during the presentation, but to repeat, yes, we are looking at, let's say, complementary products to what we have, so would it be ammunition or ticks, or electronics, and it's a, I know, it's fairly wide. But that's, that's how arrays, so and for us, definitely the focus. If you speak about optics, optoelectronics, or ammunition, it's much more professional customers, so many turnovers more customers than the than the commercial market. So that's, that's, that's what that's how it is.

Access to capital market or ability to potential issue shares, I would say that if there is a transaction, if there were a transaction where there would ever be a need to issue shares, we would have to discuss that with our shareholders. So, I mean, it will be part of the I mean, we will be it really, it's not, it's not possible to say in front in advance, because we don't have anything to be approved or anything to disclose where this discount off would be, would be required. But as you know, already in the past, we did use equity as part of the consideration. It was definitely beneficial to both sellers, and also our, our current or past shareholders. So, because the market appreciated well, so it's possible, but we would have to have a deal for that on the table. And we can view normally we do not comment on my own ongoing names, but we don't have anything to disclose at this stage.

As far as the guidance is concerned, I mean, we gave the guidance, which was our understanding of the situation as it is, you know, so, we believe we are we are confident that we should be able to get to the guidance, obviously, the world is fluid and the situation is fluid and but what we need the DR or the of the diverse brand, that diverse portfolio products, strong brands, diverse portfolio of customers to be able to, to achieve from what we when we put ourselves as our is our internal targets and what did he gave you as a as a guidance, but I would, I would maybe ask Dennis and JAN to comment more, you know, how they look at the markets in their respective

I'll start maybe with the US domestic market, you know, 2020 and 2021, we record years for us in for the industry in the US domestic market. And so now 2022 we see some softening in the overall US domestic market, but in particular, and especially on rifles, the style rifles, military style, defense style products. But the story that we started to tell and will continue to tell sort of good news, bad news is our penetration into the market, the US domestic market is low. So even this year, although we have a declining market, we anticipate to grab some market share our products other than the rifles, which are softening our products, or revolvers or steel pistols. Some of the other commercial products for CZ in the US market are actually very strong in doing well. So, so we that's how that's how we anticipate for this to be a good year. Even it's in a declining overall market. Our positioning and increased market share is what's driving our forecast to do better this year.

Okay, let me quickly comment on the rest of the rest of the word. So, as already stated, we have a white portfolio, product portfolio and two strong brands and we are serving over 90 countries which really helps in those in very good flexibility. So, if there is a market where we could see softening, we are easily able to replace to deliver to the to the other market so, so I also do confirm that the Sales Forecast is achievable. And is we do see those in real, real, real numbers, what I'd like to add, we also launching out the coming to launch every year, a new product. So, for example, the latest one, the CZ 600, which is centerfire rifle, and we also do see a huge support from those, the new products to be sold. So, the combination of product, strong brands, and, and a wide customer portfolio really allows us to, to forecast for the figures you could see.

Yes, thank you. Thank you. And Dennis, maybe quick comment here.

You know, quick comment here. You see here that the especially in Europe, European customers are more concerned about security, maybe then the overseas customers so for us they are the biggest challenge is to make sure that we produce the quantity and desire to make to our customers. So that's the biggest challenge which we have, it's not to sell but it's really to produce the right split cost and quantity to ship to our clients. So that's an important message here for us. And this challenge has been with us and may and now we need to be able to face it better with the with the flexibility of production across the ocean.

Petr Bartek:

Thank you very much maybe one additional question. Last time you provided your target for CZ factory output is it possible to provide something similar for Colt I understand that its production was about 200,000 pieces.

Jan Drahota:

We have not provided we didn't provide the split in terms of pieces per factory. I mean, last year we had a sneak peek for foresee that so maybe for next presentation, we will prepare a sneak peek for or let's say more details about Colt but what we've done is said you know the capacity is scalable also because the organization overall production is a bit different so it is much more it's more scalable production in West Hartford in the US then demand in the Czech Republic that's the key message and obviously the number of pieces produced very much depends on the Mac side so but what I can tell you know now that the capacity for rifles meaning for military grade rifles is much higher in the States than then in the in the Czech Republic. Yeah, that's also message which I can say maybe Honza or Dennis would confirm that this is the situation because that's because the DNA or original DNA of the of the factory in his heart was much more geared towards the assault towards the metal rifles.

Dennis:

Thank you Jan I think I confirm that our ability to manufacture more military rifles is high, we have a lot of upward mobility on and scalability on being able to supply that product that everyone knows that the in particular the Colt M for rifle is has an installed base around the world. And also, we are a major supplier for the US, US Army and US government agencies in general, both here in the United States and into Canada, we also have the Canada facility. And I consider our or production capability and capacity and ability to scale in both directions to be also available for Canada. So as the US government and as the Canadian government continue to you know, let's say move product to support the effort over in Ukraine. You know, we're able to we will be able to as required backfill all that inventory that they move if they were to call on us and ask us to react on the other side. You know, the other products I mentioned earlier that are driving this year's p&l and this year's growth revolvers. We have increased production on revolvers. I will say that, and we have increased production on steel pistols and we still have the ability to continue to increase one of the things that we're very careful about doing is chasing a market. And so, we look at directionally how the markets moving, we adjust the production.

According to the, let's say, it is increasing because the overall markets increasing, but not to try to get every last piece because we also want to be flexible. In the event that we get a big rifle order in the event that the market changes in the other direction. So, we try to find that balance. And I mentioned earlier, sort of the good news, bad news about our call it our lack of penetration into the, into the commercial or US domestic market as a positive thing, because we're able to now come back at some pent-up demand and grab some market share from some of our competitors. But also, when we when you think about our story, in our US manufacturing capability, we're sort of an asset light, so we have a much broader manufacturing footprint here than we do in UB, where they have a lot of machines in the factory, we have more suppliers, less machines, less internal machining, we still have significant we have a 300,000 square foot facility with significant amount of equipment in it. But we have a lot of room to bring in new equipment to expand existing production lines, the key to we think the key to our future is new products, we have the ability to build those out and grow as the business grows.

Komerční banka, Bob Trampota:

the first question comes to you, and it's concerning the dividend payout, which is significantly higher than last year 72% Out of the net profit instead of the previously paid 1/3. And do you believe that this high payout will continue in the next years?

Jan Drahota:

I will say that we look at the dividend as something or we treat it the way that we believe that as the business grows, you know, you know, dividends will be going up and down, we should it should be it should be an honest sustained. So, that's why obviously, I cannot comment for dividend for 2022 It will be really premature. But definitely when we when we discount the dividend for last year, we had we taken this into a we had this kind of consideration in our in our minds. So, you are right, it's relatively higher than the minimum 1/3. But don't forget that the origin decision of the board was minimum was mean was minimum 1/3 of the was minimum 1/3 of the of the of the net profit or so. So, so, it's higher and if you take into account take into account the amortization, which I did discuss the amortization related to price purchase price allocation, and you will see the payout is already at around 50% They are so slightly higher than 50%. So, I would say that we believe that this is a sustainable you know approach we will discuss to give more clarity on the board whether we want to redefine the payout we will discuss that we have not really found the original motion. But we believe that this is this is a fair, fairly decent dividend which reflects the operational performance, the outlook and also the price of the share or the performance of the share on the market. So that's the answer to this question.

The second question from KB is what costs estimate for the rebranding of the company. If you can disclose that.

Jan Drahota:

Yes, we can disclose that. But once again, we did say that it's only group okay to rebranding, so it's not connected. It's not basically it's not concerning the individual brands and they don't have to rebrand the products and everything. So, these are relatively minor costs. And if you speak about we will be speaking in the CZK will be you know small millions you know, or maybe one 2 million you know, I don't have the full and my buddies this is a really like minor amount in the overall scheme of things because it only concern So, it only concerns to group corporate identity. Not the corporate identity of individual brands.

KB: And a third question from KB, which would probably go to the directors of the operation, companies.

Do expect demand from Africa and Asia to continue in 2022 going forward further, or the high demand or high sales into African and Asian countries that are only related to 2021?

Jan Zajíc:

Thank you, Clara very quickly. For both regions, we still see a high demand for 2022 as well. So, there's a little bit more on the military and law enforcement, but as well as a good base for commercial. So, we do come from Asia and Africa grows. Here obviously, maybe coming here, obviously, the older you know, in especially Africa, these are bigger contracts, this is not you know, ongoing business because the commercial market is very small, and basically nonexistent in many countries there. So basically, there is digital twin battery, but as Jan said, you know, we see a big demand and big potential there. That's definitely the message.

And the last question from KB, do you plan equity increase offering shares offering to finance the to purchase additional stake of Spuhr.

That is a small investment and actually we will find it for proceeds from dividends which we receive from the from the company. So, there is no net basis, you know, the if you if you take this single case, this will be paid by the dividends from the company because as I said, the dividends were relatively on the performance of the business is relatively strong. And so that's that's how we will be done.

Pavel Ryska, J&T Bank:

Good morning. I'm not sure if you can hear me at the moment, we can hear you. Well. Oh, thank you. I'll have a couple more questions as well. The first one and a very current one. If the current changes in the geopolitical situation Europe result in additional demand for your products or let's say from the armies of EU or NATO member states, what could be the reaction of CZG given that already last year, you said that you were at the maximum of your capacity in the Czech factory? Could it be that you shift some of the production aims for the civilian market to the MLE or is it that you will increase prices or if you if you could provide more color on how he could deal with this situation? And my second question is, I think it might be a little bit of a headache for analysts to project the financial result in your P&L. So, I just wanted to ask given that last year, we you had a smaller financial loss in the p&l which resulted probably from some other financial income, is it the same this year that we could expect, or should we expect rather financial loss that that you had the year before in 2020?

Jan Drahota:

Thank you, I will start with the financial cost and then I will let Dennis any comment on our flexibility. So first of all, you know, and we did I think that we are listening to your questions, you know our analysts. So we are listening and we are trying to live as much as forever as possible about how we approach situations so that's why we gave you the information about the average effects rate hedged and also average interested in hedge overall, it's big effects, you know, it's impossible to predict because it has many factors, but the key factor is always effects right. So, if the effect size moves, you know, the check room depreciate against the euro dollar, the revenues will be higher, and maybe we may be losing money on hygiene. So, it may be reflected in the financial part of the p&l or and vice versa with the check on appreciate. We have less revenues, maybe, maybe less operating performance, and then there will be financial results. So, it’s difficult to predict because nobody knows what the effect size will be. So which domain is the biggest impact because the group at the end of the day is very much exposed US business is made many dollars so it's okay but CZ business as a as a dominant share of exports or foreign currency receivables on its own it's only 10. So, it's really difficult and I cannot give you any better than us the average rates which we gave you and then try to model it according to the exchange rate which will be on the market and it goes nicely. In last year figures we sold it was nicely correlating the top line with the with the effects. I will quit answer to the quick intro to the question about capacity and then then Dennis will continue.

Obviously, the current situation is changing view of governments on things. And their immediate impact. Were we together with Czech government, for example, are supplying some products to you to Ukraine, and also governments of US, Canada of supplying them as well. So, there is definitely there will be, you know, somebody's talking business potentially. And, and overall, the situation changed, obviously, globally, not only EU or NATO, but globally in terms of understanding what security means and what it is. And then I let her and maybe one more thing, do not forget that you have two capacities and two platforms as well. So, both sees that brand platform for rifles and more mm forum 16 For iPhone, and five in the US or Canada. So, we can play with it, but I will let the Jan and Dennis to give you more flavor to that. Yeah.

Dennis:

Let me start with varicosities as you could see, we invest in end up between four and 5 million a year. So means the capacity increase, at least minimum till 2025 will continue. So, we are already working on a new machine video cooperation with a suppliers, I mean to also be flexible. And back to your questions concerning the situation in Ukraine and related let me say defense demand, yes, we do have a signals that we have signals from the from the mid sector that we'd like to or we should supply more many great products, especially in the rifles. So, the current activities are exactly as you mentioned, to increase as quickly as possible. The rifles, rifles products, the there is a combination of basically two things you mentioned, to develop new suppliers to help us with those and, and also to do the shifts within the portfolio. So, to allow us to bring more Emory products to the market already this year. So, we do see some of the softening, let's say demand, so the switch or a shift will be possible. So, the target is to have an increase in in a marry in arrivals as soon as possible. But we do see that we will hit something already in the second half of the year. And the rest for 2023.

I think that Honza said it correctly, I think that the only the only thing which I can say here that we are, we discussed that in ESG. We are aware of our three critical roles in the in the, in helping the government to provide security and build security for ally for Czech Republic, but also allies. So definitely, we are in touch with our customers and trying to and aligning our capacity in order to be done in Canada. And if it takes that we will prioritize medical products. It's even possible because we I mean; we are aware of that. So that's the last comment. So, we are in touch with our customers and communicating outlined the capacity in order to meet potential requests.

Okay, thank you very much. Maybe one last additional question. Speaking of the Spuhr Dalby increasing stake that you mentioned earlier, did I get it right that you said that this further acquisition will be done through shear issue on the part of CZG? Or will it be in cash and in case if not getting cash? Is it 10s of millions of CZK or hundreds just to get a glimpse of how big it is.

Jan Drahota:

Great. No, we will not. We will not issue any shares to purchase to finance the purchase because it's like I said it's not a major acquisition it's in and I also said that we will actually not use any new cash because we have received some, some dividends and we expect to receive more dividends from Adobe. And we will use those dividends, which is a stake. So basically, there'll be no money generated outside of the business. So um, and it's 10s of millions, or 10s of billions of CZK. So, it's not a major thing. But the business is doing very well, I would say it has huge potential, huge potential.

Great, thanks for the question. So, if anybody would like to ask additional questions, management, we already one and a half hour on the call. So please raise your hands or via the team's application or speak directly to the microphone.

Can you hear me? Yes. I would like to ask you, once again, our production division wants to bloat the facility. And what is your plans for the future? Regarding increasing lodging? We didn't hear this very well, was the question concerning production capacity in UB and the development of the capacity going forward?

I will quickly comment it it's higher than the last year and what already uninstalled. I mentioned it's very dependent on the product portfolio product mix. If we produce more rifles less pistols or vice versa, it really depends. So, what I would say, and that's why I wouldn't like to comment whether we produce such or such amount. But the target for as I mentioned already, in massage capacity. At least at the end of the 2025 is minimum 10% A year rolls on a capacity.

Great. Do we have any other questions from the audience? Okay, it looks like we have no more questions. We had the nice, almost one-and-a-half-hour conference call with great questions today. Thank you very much. Also, you asking such great questions. And if you would like to ask any other questions, please get in touch with us or with the analyst on the call. Or you can arrange a meeting with our management in the next upcoming days. So please get in touch with us. And thank you very much for participating. Thank you.