

3M 2023 Colt CZ Group Analyst conference call

Klára Šípová:

Good morning ladies and gentlemen. Welcome at the analyst and management conference call in connection with the publication of q1 2023 financial result of Colt CZ group. Let me introduce today's speakers on the call, Mr. Jan Drahota, Chairman of the Board of Directors and CEO of the company.

JD:

Good morning.

KŠ:

And it is Mr. Jan Zajíc, CEO of CZUB.

JZ:

Good morning. Good morning.

KŠ:

Mr. Zajíc is currently joining from remote location because he's representing us at the at the fair fest or the conference. So maybe connection won't be great. But he's going for it.

The format of the call is following. We will go through the presentation slide by slide. And afterwards you will have the opportunity to ask questions in the q&a session. The call is being recorded. And I would like to ask everybody to stay muted during the presentation. And now I would like to hand over to Jan to kick off the presentation.

JD:

Good morning again, as Clara said Honza is a fair-trade in Brno actually at that so once again, he's connected by phone so he will be as good or his connection will be as good as the service of our, our telecommunication operators. And also, I would like to excuse Dennis Veilleux CEO of Colt who is currently on the West Coast and if you get the time difference, you know, nine hours to do to San Francisco you I hope that you understand he's not taking part because it's it's after just after midnight there. So let's go for it.

First of all, you know over the traditional slide, which gives you a snapshot of the of the first quarter revenues down 15% to 3 billion, adjusted EBITDA 20% to 683 million CZK versus q1 of 2022. Adjusted net profit up to by 9% to 690 CZK for the quarter and EPS also up by around 8% to 20 CZK per share. If I comment at this stage about the quarter, I will say that it was a solid quarter. It was a you know, as we as we put to the to the comments to the to the results our business has changed over the last two years quite significantly. We see bigger and more concentrated mid contracts and deals and a little bit higher or significantly higher seasonality of the business. In case of the of the big contracts is that you must first get them, produce and deliver. And obviously, if

you don't deliver in the timeframe, you know, the revenues and result from it is pushed to other quarter. You know, my other comment is and we did mention it that we expect based on the guidance given at the first conference call in March together with the 2022 results.

And, importantly, we expect that the results and businesses will be significantly picking up at q2 or q3, because we see large deliveries and we will refer to those, no matter no matter what I just said, and how I'm no matter our ambition, which is really high. And we still believe that our management target is to deliver the results, the Group Ambition, as given in the guidance. It was and I checked it, it was it was the second-best quarter in terms of net profit, you know, for the group.

So, I will say that, you know, last year was higher in terms of comparable, but still a solid quarter, I would say.

If you go to next slide. This slide gives you an idea about first of all, geographical split of the revenues. So it gives you a idea about what is the comparison with last year with the same quarter of last year, but also always the full year, because we thought that it's good to give you an idea how to do a geographical split related to both comparable quarter q1 of 2022, but also full year 2022. So, you see that the most important market remains US with around 50, 54% of our sales, followed by Europe, Czech Republic and Canada. So, I would say our home markets in a way, and Asia and then there is the issue in other markets so we are a little bit more of it to our real home markets. And we expect this to be sold but we expect to pick up especially in regions we have high hopes for regions in Asia and in Africa this year. So let's see whether we can we can deliver on those as far as the number of products sold number of firearms sold, you see that the number went down by 25% which is basically a lower a decrease of number of guns sold, or are actually the other way around the higher number the number increase compared to the revenues drop. So you see once again that we are selling more expensive products. It is basically it's so it's more it towards a military or more expensive products. I did mention a comment you know already that we have largest share of larger military contracts, which create a higher fluctuation or swings in the revenues. There is a mention on page 10 about you know, significant content which we are filling for the Canadian government in connection with their donation to the Ukraine, which will be filled in Q 2/ Q 3. So, this will be significant for Canada operations also and this is something which makes sense to mention. CZK EUR is significantly stronger against US especially and EUR and this has impact on EBITDA because as you know that we don't include gains on FX hedging into EBITDA. So, we are in the financial result and you see the financials that that net profit went up against comparable quarter its second best net profit we had as the group for the quarter and it means that it is caused quite significantly by the by the profit on the hedging instruments which are hedging the foreign currency exposure of the group transaction exposure group also, this is coming which hasn't changed from our discussion in March to this year. The US commercial market remains weak in selected segments but, you know, it's

important to say that it's on the selected segments because we see very strong markets in categories of revolvers 1911 and, and also long guns, hunting guns and centerfire and fire. So it's not a market which would be you know, totally falling it's really excited to be connected, especially in polymer frame pistol markets and also basically the market for Scorpion is not there really. I mean it doesn't exist because of the of the legislation changes on treatment of the of the bigger beast or larger pistols so that's basically it.

I already said that the guidance is confirmed, it's confirmed in the three scenarios which we already described during the call for the full year of 2022. And same goes for the EBITDA and revenue. So 15.1- 16.9 billion of revenues and 3.1 to 3.8 billion of EBITDA I did also say already that our management KPIs is to fulfill the group ambition target. So this is what we are striving for. And, needless to say, it's a challenging target and we are doing maximum to get there. So because it's our KPI. I don't think there's anything more to add here. Maybe on the on the that's I would say that there is nothing related to net profit, I already mentioned that net profit is up versus the same quarter of last year. It also mentioned that, you know, I was trying to explain why right how it is possible that net profit is up versus EBIT, it's caused by a positive impact of around 150 million CZK by hedging instruments, and once again, you know, you know, that CZK has appreciated against EUR during the first quarter we are hedged, you know, the, it's you have full visibility on our hedging strategy and hedging positions in the in the annual report. So, you know, and also in note number 11 of our quarterly results, you can look at it. So there is, as I say more detail on that. Also, the GM is voting on the 30 CZK per share, dividend, which, you know, that's which we as a management, expect to be approved, but basically, it's up to up to up to general meeting. And, and also there is written that the adjustments which we did to the net profits are related to ESOP which is what we already discussed in the in the past and then that there was an evaluation of the earnout consideration related to acquisition of Colt. CAPEX nothing specific to mention here we keep the guidance of 5% compared to revenues capex spent this year, and we say that the geographical split will be and we also indicate geographical split for the Q1.

If you go to next slide. I think here, nothing really changed significantly on the indebtedness. What we did? You know, first of all, it's well below 1.5 times. And what we did is that we did back in, in May or last week, actually, we did execute issue of a of a new bond new seven-year bond with the maturity in 2030 180 above PRIBOR, it was a I looked at it, are we approaching as opportunistic issue. You know, you know, we had demand from Africa from investors. So, so we did use it. We I mean, you know, that we count, and this is one of the comments, maybe the question will be around it, but I may be the answer or we will say our opinion on that layer, we count and we will close some or we will do some m&a activity this year. So, it might be as low to use for that. You know, I'm a bit frustrated that I'm not able to describe you anything today for m&a, but things are taking a bit more time but I believe or I hope that we will be able to discuss something I noticed sooner or later. I will not comment on the slide. I mean here first of all, in this slide, we have covered in more detail about Canada support

for Ukraine where they are donating our products so they are buying products from us. And once again, our product was used as a gift to them by the by the Czech president till this time. President Peter Pavel So that's it, I believe for the presentation. Now, you know, we are ready to answer your questions.

KŠ:

Ladies and gentlemen, if you would like to ask questions, please raise your hand in the team's application, or simply speak to the microphone.

BBG:

Hi, I'm Deanna from Bloomberg, I have a question. Why do you think demand the US dropped earlier this year? Was there a one off? Or do you see this as a longer-term trend? Do you think it's possible we'll see more production halls as we did earlier this year? Or do you expect to produce a full capacity for the rest of 2023?

JD:

Thank you. I will lead to I will let the young to answer for the second part of the question. But it's not that demand dropped. The first quarter like that there was a significant drop of demand in the first quarter of this year. It's as I said, you know, US commercial market remains, you know, compared to the history, a strong market, it's a bigger market than it used to be. And second thing is, it's weaker on selected segments of the market. it remains strong in, in revolver there's, you know, 1911, and long guns, would it be hunting centerfire rifles and, and it's weaker in in expert, especially in polymer frame pistols. So this market grew the most it exploded during the, during the COVID 2021-2022. And it cooled down. So it's not overall, it's not overall weakness of the market. And, and, but it's, and it's, but it's, it's certain segments, maybe one more comment before I hand out and to Jan, it's also it's different for brands, we see very strong demand for the products, which Colt produce, which is as I said, revenue-wise, where we have actually record back orders. And but because CZUB is more wide, I mean it has full range of products, you know, obviously, there are segments which are affected more because Colt is not present in the segments, which are affected. I would say that's basically the easy answer, but I will let you Jan comment his view on the production and institution.

JZ:

Hello, thank you, I will continue with the unjust set, the demand is, is not well balanced. Now, I would say that there is a very strong demand for rifles for example, for a military product, and the curve for a polymer pistols. So basically, what we do see is that we have certain product segments with a strong demand and a weaker. That's why we also reacted with adjustment of the of the headcount. That's one of the reasons but a more important reason why we are doing so is that we'd like to really keep the profitability and productivity of the company. And we have done a lot of measures during the last two to three years, we have invested heavily into the production to increase the productivity to increase efficiency, quality and speed. And we are really, right now we are usually utilizing this which we have done and the money invested. That's why

we can now produce the same amount of the guns with the less people. So, our primary target is to keep profit profitability of the company. And with these regards, we balance, demand and production. So, it's I would say it's a natural step after seeing the benefits of huge investments we have done in our factory. So, and it's not topic for this year or next year, whether we will do that again. We will do that when is needed. So, once we invest in it, for example, robotization or digitalization, and we do and we will see that again, the profit, the productivity is higher, we will react on those. So, I would say it's really the natural entrepreneurs behavior what we do to get money back from the investments

KŠ:

Thank you. any follow up questions from Bloomberg? Was it? Was it okay for you?

BBG:

Thank you. That's good. Thank you.

KŠ:

Okay, great. Thank you. The next question is coming from Jan Raschka from FIO banca.

Raška:

Good morning. Army contract with Canadian government seems to be very interesting. According to information of Canadian newspapers, Canadian media, the value of the contract is 59 million Canadian dollars. Can you confirm this this amount? Thank you.

JD:

You know, we, we decided or not decided, but we prefer to comment the way the Canadian Prime Minister did comment and he didn't speak about volume he spoke about the number of units. So, so if you please, you know, we have to accept this answer because we don't want to comment on absolute amount because this would not be fair to our customer in this case, which is Canadian government.

KŠ:

Thank you. I don't see any further questions and the team's application, may be media would like to play some questions. Colleagues from Reuters. Maybe.

Reuters:

Now as Jason, no, I think we've covered the topics I wanted to ask about. Thank you.

JD:

Perfect. Thank you. I'm off to this to the United States. It was a pleasure and hopefully you were able to speak too soon. Thank you.

Thank you. Bye bye.