

Analyst call Transcript: Acquisition of SNC-

Klára Šípová

Good morning, ladies and gentlemen.

I hope you can hear us.

Hello everybody, welcome at the analyst conference call in connection with the announcement which we made this morning.

And this is concerning the acquisition of Synthesia Nitrocellulose which is very tongue twisting word.

So, we are abbreviating SNC and nitrocellulose NC in the presentation.

Just for you to let you know.

Today, I would like to welcome Jan Drahota, the Chairman of the Board of Directors as a speaker at the presentation.

Hello, Jan.

Hello.

Good morning, everyone.

Mrs. Jana Matoušková, the Group Head of Finance.

Hello, Jana.

Hello.

Good morning.

And we have also Mr. Ondřej Palat, our head of M&A, as a speaker to the presentation.

Hello, Ondřej.

Good morning.

The format of the conference call is following. We will go through the presentation slide by slide and afterwards we will move to Q&A session. Please note that this call is being recorded and I would like to ask you to stay muted during this presentation. Now I would like to hand over to Jan Drahota to start.

Jan Drahota:

Thank you, Clara and good morning, everyone again.

So, this is really important day for us as we announced yesterday that yesterday we signed agreements to purchase 51% stake in nitrocellulose and business of Synthesia and also energy business of Synthesia.

So, before we go to ratio to transaction rational, I would like to just give you some headline figures which were already published.

So, first of all, the transaction is to be potentially run in two steps.

At now currently we are buying 51% stake in the business both in nitrocellulose production, but also in in the energy part of the business, which is being also demerged from the original company as we feel it's important part of the of the overall picture for us.

The enterprise value for the whole business is around 22 billion CZK.

And as we are buying 51% stake, the enterprise value for our transaction is around 11.22 billion CZK.

This corresponds to slightly more than 8x 2025 EBITDA.

The transaction is to be paid by two sources.

It's again combination of cash and equity.

So, there is a cash element of 5.45 billion CZK to be paid to Kaprain Chemical and then certain number of shares to be issued as part of the consideration.

This number of shares will be obviously calculated from the from the equity of the of the of the transaction and the share price will be calculated as the 180 days avg. prior to the closing.

So that's still can't think anyway as the result Kaprain and this is maybe I should have started by that.

We are very pleased that we can welcome Kaprain as our you know up new incoming important shareholders.

So Kaprain will become third most important shareholder in our business and also will stay as the minority shareholder in the nitrocellulose and energy businesses of former Synthesia.

So, for us it's a real strategic transaction.

And obviously maybe last point from this, from this slide is that there is a mechanism of call and put options, call options from our side and put options from copyright side, which basically may end up that we will buy in the medium term 100% of the business.

But for now, for next two years minimum it's we are together in the business and running the business together.

We do appreciate know how of cap right in the chemical industry and we believe that it will help us as well as new majority shows of the business to run the business efficiently and they have done great deal of things with the business.

So, it's not the same business in terms of the logic how is being run as it was when it was sold by Agrofert around 18 months ago.

If you go to transaction the most important thing for us, which is the strategic rationale that's why we buy the we buy the business for us.

We see tremendous opportunity by buying this business.

Since we bought Sellier and Bellot, we have been contemplating how to further strengthen our position in the ammunition production and obviously you know farther vertical integration was one of the logical steps.

Obviously, we had more alternatives what we could do and finally we end up to buy the nitrocellulose business of Synthesia that makes more sense.

Because nitrocellulose, this energetic nitrocellulose, is a key input to production of powders which are then used in production of small caliber ammunitions.

So that's connected with the vertical integration by importance as well.

It's energetic nitrocellulose .

This is very important part or input for production of larger caliber ammunition, you know, 155 or tank ammunition and other explosives.

And so, we look at it also as a way to enlarge our economic exposure and strategic exposure towards those segments where we are not currently present in terms of production.

So that's why we thought it does make sense for us to buy this business.

So, and we know already we know that some of our suppliers of powders are customers of Synthesia Nitrate.

So that's, that's, that's very important.

Obviously when we bought Sellier, we thought that we all stated that it's not the first step.

So, this is continuation of this.

We feel that there is more which we still could do in the ammunition production.

So, we are actively looking at what we could do in the medium calibers or larger calibers.

So that's one of the and obviously ownership of such a strategic asset as nitrocellulose is the key input for production.

We believe that it helps us to position ourselves well in the, in the strategic enlargement of the of the scope which we what we do.

And lastly and this is I think very important for us in terms of the group are we believe that it's also important for Czech Republic and NATO countries.

We feel that by buying the business that we create a more vertically integrated entity with the production in NATO countries, you know, so we believe that this is quite important and not only for us as a company and for our shareholders, but also for Czech Republic and for NATO.

Next steps maybe it's pre-emptive answer next steps.

We still need to close the overall vertical.

So, we believe that propellants / powders is something which does make sense for us to look at whether it's partnering with somebody, whether it's transfer of technology or M&A or whether it's greenfield.

You know, we are exploring that.

I would say that's what we are doing.

We know that it's possible to do even greenfield.

You know, I mean I'm not saying that this is preferred solution, but we know that it's possible because we saw how successful one of our shareholders CBC is in production of powders in Brazil.

So, we know that it's possible to do for ammunition producer to produce its own powder.

So, it's, it's one of the alternatives.

But for us, you know, the message which I want you to or we want you to take out of this meeting is of this call is that it's not last step.

It's one of the steps where which let's say logically fits to our ambition to have fully vertically integrated production of ammunition because it gives us strategic independence and it gives, you know, Czech Republic identity strategic advantage.

You know, in the in the current environment, if you go to next slide, obviously on the previous slide in the in the on, you know, you had on the right hand side of the of the slide, you know the logic why nitrocellulose is or how nitro cells is used or what are the applications on this slide.

You have more comparison to understand what Synthesia is compared to or Synthesia nitrocellulose is the demerge business.

What it is in comparison with the narrow competitors?

Because how we look at it is that there has been a prior reward in Ukraine.

There was quite a big tradition or habit, if I put it this way of using Chinese / Russian used Nitro.

So, this Chinese mostly for production of different powders and exposes.

Obviously, this Ukraine war it's in a way finished.

So now it's more about, you know, in source in, in let's say onshoring, you know, and having the capabilities and capacities inside NATO countries.

So, this is what we believe is important.

And if you compare Synthesia Nitrocellulose with its NATO peers, you see that it's one of the biggest in NATO countries.

You know, bigger is US ammunition factory or U.S. Army nitrocellulose production, which is based in the US and operated by British Aerospace since which is around 50% bigger.

There's yeah, you know, capacity the count will grow by around 15 to 20%.

So, it will be around, let's say 60-70% of the capacity of the US.

Then you have Manuko Eurenco in Europe, which is basically French government owned facility.

And then you have Rheinmetall who has two sides with capacity of around 4000 tons.

And then you have Nammo in Finland.

So, it's a sizable it's top 3, definitely top 3 facility.

It's definitely benchmark producer in terms of efficiency but also benchmark producer in terms of quarry.

You know, the customers of Synthesia are, you know, blue chip customers and, and they have long term relationships.

And, and obviously the nitrocellulose is proven and certified for applications in different fields on this slide.

If you have you have let's say free big, we have points with how nitrocellulose this is used.

Obviously, I did mention already gunpowder.

I did mention different propellants and different explosives.

So that's basically the core of usage of form of, of energetic nitrocellulose is what is important to say that Synthesia Nitrocellulose does not produce only energetic nitrocellulose is it does already also produce industrial nitrocellulose is it's definitely bigger masses, it's less concentrated.

So, it's a different use, but it's also part of the production of the factory.

It also produces oxycellulose, which is tooth in health care's segment.

It's not a huge business, but it's very interesting niche business and high polarity business and it proves the capability of the factory.

And also, it does produce industrial salts and waste acids, the production of Synthesia Nitro.

So, this is nicely vertically integrated.

So basically, you can say and you could, you know, I'm sure that maybe next analyst meeting, you know, will be we might actually think about showing you this site once transaction is consummated.

And maybe next year we shall see.

We will have to discuss internal whether it's feasible because it's still a chemical factory, but you would see if you visited the site that this is nicely vertically integrated.

So, it basically buys primary inputs and then produces final product out of them.

So basically, it buys ammonia from which it produces concentrated highly concentrated nitric acid and then it buys celluloses and uses water and, and combines it to, to nitrocellulose .

So, it's nicely, I would say integrated business and it does buy, I would say commodities or commodities like products in order to produce highly specialized final product.

Currently, I will repeat it because it's important.

Currently there is a process project of enlarging the capacity.

This year's capacity is around 6000 tons or different grades of energy.

So, this the ambition is to have more capacity and this is intensification of different bottlenecks.

And so, the capacity as I already said should grow to around 7000 tons in 18 months.

Yeah, as plus minus, if we go to next slide at the beginning I did mention the key parameters of the transaction.

So maybe it's of your interest as well to understand what is the impact on our financials.

Obviously, what, what I can show you and why, why we have this slide here is really to show you what is the parameter, what is the size of the enlarged group, what is the pro forma size of the enlarged group.

So, on a pro forma basis, when you look at order on the revenue side and consolidate 100% of revenues, then the revenues will go up, would go up on a pro forma basis around 15% EBITDA, a little bit less than 50 percent, 45%.

So, you see from this you know mathematically you understand that this is the highly profitable business and net leverage will be just below three times would be you know on pro forma basis just below 3x EBITDA at the end of this year of fiscal year.

So, as I said at the beginning, the cash outflow is 5.5 billion Czech Korunas.

So, this is the that's the increase of net debt, direct increase of net debt.

And there will be we expect that Synthesia will have nitrocellulose business will have small, relatively small debt on its own, so around let's say €100 million.

So that's these are the additions to net debt.

And then there is addition on the on the different part of the formula, which is the increase of EBITDA of around 45%.

When we look at the valuation of the business, obviously we for us as I said at the beginning, most important part was the strategy quit.

Do you did we believe or do we believe that it does make strategic sense?

Yes, we do.

If you get it, you know the way you sometimes guys look at it, you know in terms of the accrete accretive transactions, we are currently trading 9-10 times EBITDA, 2025 EBITDA.

So, we are buying below that.

So, it's a creative, you know, from this simple mathematic formula standpoint, we don't know, we don't do acquisitions based on that, that view, but I mentioned it's nevertheless and obviously you know that the producers of different exposes / final product.

So, I'm going to show upstate at much a much higher multiple.

So, we believe that what we are doing is a transaction which is I mean, first of all biggest we have ever done in terms of absolute enterprise value.

That's how it is.

It's even bigger than Sellier & Bellot.

It's a transaction which puts us which slightly enlarges the not slightly enlarges the scope of the group.

I believe that this is a transaction which is transformative for our group and it's transformative not because we get exposure to new business, but also, we have new shareholder in our shoulder structure.

And I actually I'm looking forward to discussions with guys from Kaprain who have proven to be the smart guys doing smart moves.

And I'm actually looking forward to discussions with them, you know, going forward on strategic orientation of our group and what should be next steps in the area which we are now touching to you know, in connection with Nitro services business.

And I think that this is it for the presentation.

Thank you.

And now it's time for your answers or questions.

Klára Šípová:

Ladies and gentlemen, if you would like to ask question, please raise your hand in Teams application or speak directly to the phone.

Ladies and gentlemen, the first question is coming from Atinc Ozkan from Wood and Company.

Atinc, please go ahead.

Atinc Ozkan:

Thank you, Clara and congratulations for the transaction.

Clearly a strategic move on your behalf.

I have two initial questions.

The first one is will Kaprain, have they committed to any lock up given that they will become your third largest shareholder?

That's the first question.

And the second one is regarding the production capacity of CNC.

This looks like a significant operation.

Is it going to suffice your internal needs for gunpowder or will you end up also with some surplus and continue to sell to third parties?

Thank you.

Jan Drahota:

So, first question, simple answer is no, there is no lock up which we discussed on our shares, but it's a strategic partnership.

When we discussed the transaction, we were thinking of both alternatives, you know, paying full cash or equity and it was Kaprain 's decision to take equity in the business.

So basically, they it was a strategic decision of Kaprain to take the to take part of our business.

So, I believe or this is our understanding that, we are there for a marriage, you know we are in a marriage and we want to live and let's say develop the business together.

So, no lock up but strategic owner.

From Kaprain side as far as the as the capacity is concerned.

So, first of all, and I didn't mention it, I omitted it, it's in the in the presentation return.

The capacity currently obviously is kind of sold out that it's also sold out to some of our suppliers.

But the enlargement we there is enlargement plan which could help, you know, maybe a bit.

Don't forget that we still do not produce our own powder.

So, we will not be using nitrocellulose to produce our own powder.

We have to look at it in a smart way how we can use the additional capacity.

What would be the right application?

And whether we can maybe make right kind of agreement with whoever is the right buyer.

But at this stage, it's not that we want to use the Nitrocellulose to produce powder because we don't, we have yet powder capacity.

It is part of the supply chain.

So, it's important for us because it helps us in the, you know, let's say indirectly.

But currently the production is sold out, you know definitely and enlargement will help us maybe to be more flexible and but if you get if you get our sales, how much we sell, even if you had public capacity today, it would be more than we need.

Atinc Ozkan

OK, just correct me if I am wrong.

So initially this nitrocellulose production will not be used will not help your gun powder you will still procure it from third parties.

But this is basically a lucrative additional business and it will give you the option for in-house vertical integration in future, am I right?

Jan Drahota:

Yes, I mean basically yes, there are maybe more nuances to what you say.

But if I mean if I want to simplify the answer, then you are right.

But there are more nuances to it.

But you are right.

Maybe, there is one more comment there is if there is a shortage of something in the production of explosives, it is energetic nitrocellulose.

So obviously, it does have an impact on our ability in the whole vertical, vertical chain.

Klára Šípová:

Ladies and gentlemen, we are ready to take next, next question.

If you have a question, please raise your hand in Teams application or speak directly to the phone.

I see the next question coming from Peter Bartek from Erste bank.

Peter, please go ahead.

Petr Bartek:

Good morning.

I also congratulations few technical things around the transaction.

If you can confirm that the 22 billion is enterprise value and there should be a depth of, say 2 1/2 billion, so the equity value of the of the transaction is like 19 1/2 billion.

Jan Drahota:

Do I understand it correctly and yes, I mean roughly yes.

And we are currently in the first step buying 51%.

So, this 5 1/2 billion will be from the equity value of 10 billion.

So, like 55%.

Plus, minus, you are right.

Petr Bartek:

And that does not include the energy business?

Jan Drahota:

Yes, 22 billion does include an energy business.

So, when we speak about total enterprise value, it's 22 billion and it does contain also those spun off assets of energy business which will be spanned off.

So basically, it includes spin off nitrocellulose business, but and also spin off energetic business of the of the of Synthesia.

So, it's not additional shares for additional business.

And the all new shares would be taken by Kaprain.

Yeah, that's the financing where shares would be taken by the selling party, right?

I mean, yes, it's part of the consideration.

It's our own shares.

So yes, that's the value of it, let's say 3.5 billion CZK worth of our shares and the share price to be let's say calculated as the 180 days VWAP prior closing.

Petr Bartek

OK, thank you.

Maybe if you can talk a little bit about the business, but who are the customers of the business right now?

What's maybe the exposure to large ammunition producers and to the, you know direct deliveries to Ukraine maybe and how, how, how has the business developed over the last two years?

I know that this is a spin off, but in terms of margins, in terms of growth, yeah until there is any longer-term plan for increasing the production to more than these 77000 tons.

Jan Drahota:

So firstly, I mean we will not be talking we want to be discussing new customers by names, but these are blue chip customers.

Maybe it's more important to say that the order book of the business is, I would say, committed long term or medium-term order book.

So basically, there is a long-term cooperation with volumes specified and pricing from its customers for medium term period.

So, it's not like that the business is that we expect the business to be volatile in terms of financial performance because it's we are in a certain situation where doing not only current sales, but also future.

So basically, there is a good order book which is signed of the business and we don't obviously disclose the split of the large, medium or large caliber and, and powder.

But the truth is, it is a certain sweet spot for producing powder producers and producers of, let's say, large caliber ammunition.

So, it's not the way that you can switch everything to 100% to do large caliber or 100% powder.

So, there is a sweet spot in the production mix and further enlargement beyond 7000 tons.

I tell you the so far we feel that proper guys and then the Synthesia guys obviously know better than us in terms of what can be done with the business future, any future enlargements, You know, maybe you know, there could be some further efficiencies We would have to discuss with the management and then we would have to evaluate whether it does make economic sense and what are the constants.

But, but so far this has a capacity of 6000 tons.

Now with an increase to 8-7000 tons.

And it's more about optimizing those bottlenecks than doubling for example.

Yeah, it's so that's, that's basically it.

Petr Bartek:

OK, one more question to the energy business, what's the energy source, what is the fuel for this source?

And is there any plant, you know, Capex in this, in this energy business, you know, replacement of Ignite or something like that?

Jan Drahota:

You know, we signed the SPA yesterday.

So obviously we did our evaluation, but it's maybe a little bit too early, with plans for Capex or for changing of the source of energy.

So, first of all, there is still use of biomass and lignite in the production of energy steam.

You know what is important is the industrial steam and electricity of this as well.

So, it's a source which we thought was important for us.

And at the end of the day, when you look at the current state of, of, of energy business, it's important for the country as well. And in my view and we will see there are discussions on how to make it cleaner, more efficient, and stuff like that.

But a lot of what's already done Kaprain / previous ownership invested substantial amount of money to energy business, energy side of the business.

So, there has been a huge modernization already done.

Going forward, energy business is one of the businesses where, which is most, let's say, vibrant, now more dynamic because of the legislative changes and because of all those green deals and all those changes of the nature of production of electricity.

But what we thought and what is what we believe is important to have its own source and independence because for us, what is important is to make sure that we can produce in a way 24/7 we don't rely on some external supplier to help us with the steam or electricity.

So that's super important for us and in the overall picture of the transaction, it's minor part of consideration.

Klára Šípová

Ladies and gentlemen, if we would like to ask question, please raise your hand in Teams application or speak directly to the phone.

I see the next question coming from Atinc Ozkan again from Wood and Company.

Atinc Ozkan:

Thank you again.

Could you just provide us with some guidance regarding the current revenue mix of the company in terms of nitrocellulose usable for gunpowder and industrial nitrocellulose and oxycellulose?

Jan Drahota:

I would say this way; energetic nitrocellulose is currently the most important part by far part of the business because of the pricing and because of the volumes which are there.

So, in terms of financial impact, most important is energetic part of the business of the nitrocellulose business which is powders and large color producers.

Maybe one thing, but it doesn't mean that we don't think that other applications are not potentially interesting for future.

That's important to say as well.

Yeah, because this is something which is not, which is actually, I would say you could call it Sleeping Beauty, which could be interesting for future.

But for us, the core of the interest is the energetic path of the business.

Obviously energetic nitrocellulose is all the business and the energetic part is always a higher margin business, I guess.

Yes, yes, because, and it's by nature because of lack of capacity.

And basically, you know, the lack of capacity in NATO countries if I put it this way.

And obviously now much, much bigger usage and restocking, you know, will take place for next five years, maybe 10 years.

We shall see.

Klára Šípová

The next question is coming once again from Peter Bartek from Erste bank.

Peter, please go ahead.

Petr Bartek:

Thank you.

One more question to the transaction details.

Actually, what are the conditions for the purchase of the remaining 49% stake is, is that just the put call option after two years or is there anything else?

No, I mean I would say that as usual in such transactions where you buy a majority of the business and you have as a result a minority partner in the business.

Jan Drahota

There is a structure of call and put options in order to make sure that if parties want to exit the position they can.

So, for us obviously put options would be at a level of Kaprain and co-option at level of our group.

At this stage we do not disclose details, but I would say that they are in, in terms of economic parameters, that are in line with what we announced in terms of enterprise value and adjustments.

We are talking about period of approximately 6 years; you know from closing.

So basically, there is a period where Kaprain can exercise and then where we can exercise the right the rights you intend to buy this remaining stake after two years or is it still up to the decision?

And first of all, we would be able to exercise only later because the option starts later.

But it will, you know, honestly speaking and I don't want to speak for our partners in Kaprain.

We shall see because we are, as I said at the beginning, we entered the long-term partnership with Kaprain and we shall see what will be the optimal strategy of ownership of this business.

You know, I can at this stage I can imagine both, both alternatives.

So, we exercising, exercising the call to 100%.

I can imagine Kaprain exercising its boots to exit and get to the group level and no or not own anything in this in the nitrocellulose business but also have a stake at the group level.

And I can imagine that we live there in this, you know, symbiosis for longer period of time.

But currently there is a scheme in place in order to make sure that there are ways to take care of future situations, meaning call and put options.

So, the options start in two years and they expire in six years.

You know there is a for even though yes we have not disclosed yet the details of those.

I mean I think that for the maybe for the filing of for the general meeting you also have to do more.

But at this I mean I think for you to understand best is to look at it the way that that this is that there is a way for us to get 200% ownership and also wait for Kaprain to get out of the position if they wish to.

So, they have a put option and we have a co-option.

Klára Šípová

Ladies and gentlemen, we are ready to take your next question.

I see no more questions coming from analysts.

So maybe we will give a chance to media.

I see the next question coming from Mr. Lopatka from Reuters.

Jan, please go ahead.

Jan Lopatka:

Hello, thanks very much for the presentation and for the analyst questions as well, which makes seem that as you last answered is it's not clear that the transaction will end up in cold having 100% interest in the end because that's from my understood from the press release, it looked a little bit like it was a 2 step purchase which would end up in 100%.

But I understand it not necessarily will be that way.

So, I seem to understand that now and thanks for that explanation.

Jan Drahota:

So, it's maybe I will, I will correct it.

It's up to our discretion because we have a co-option for that.

So, it's our discretion whether we own 100% and obviously it's also Kaprain discussion whether they exercise the put option.

So, it's maybe more complicated formula than simple forward purchase of the rest of the shares.

Just and just to clarify, in the initial phase when you're taking now 51% that means and the equity part of the overall valuation is around 19 point something 19.3 something in CZK.

So right now, we will be paying about 3 1/2 billion in stock and about 5.5 or 5.8 billion in cash.

Jan Lopatka:

Can you just repeat those numbers?

I did not understand them perfectly before.

Jan Drahota:

I believe that in the press series and in this presentation that is quite clearly written that the cash there is a basically specified the cash part of it, which is 5.5 billion, OK.

The rest and they're basically, so you will have you have enterprise value which is fixed 22 billion.

Then you have to obviously look whether what is the net debt as of closing at the level of the company or the two divested merge businesses and you will have equity value whether it's 19.5, whether it's 19.7, you know that's something that's we will see obviously.

And but, and from that you will calculate 51% and you will deduct 5.5 billion of cash payment and the rest will be shares and the shares number of shares will be calculated as 180 days VWAP prior to closing.

So basically, you will have more unknowns, but all of them are very transparent and simple to calculate.

Klára Šípová:

I see the next question coming once again from Peter Bartek from Erste bank.

Peter, go ahead, please.

Petr Bartek:

Sorry, last question, I promise the in terms of Capex of SNC, I think that you, you don't have the detail overview, but in general would say my tenants Capex fall into the your, your general 5% of revenues number and how much of the of the capacity increases or the invested and how much remains?

Jan Drahota:

Great question.

And the most important thing will be how much will be invested as of closing because we are still counting to closing obviously.

So, I don't have to figure out, but you know, rule of thumb and the capacity investment is not a, let's say it's, it's a significant investment, but not like groundbreaking into overall picture of the transaction.

So, too quick reaction, yes, when we now say that our Capex is let's say up to 5% of revenues, I would say that we are in this range, we are below this.

We are basically visiting this range.

We are up to this figure.

And when we think about capacity enhancement, as I said, it will depend on when we close, if we close as we export expect to close, then I think that maybe third of the of the capacity increase will be already paid or executed.

But we shall see.

It really does depend also on the suppliers, obviously.

Just to make clear, SNC itself you would see with maintenance Capex needs below, let's say 5% of revenues.

We don't expect the Capex to be basically above what we give as a target or as a guidance for the whole group.

So, 5% maybe slightly lower, but it's, if I put it this way, let's put it that 5% is now communicated for the group.

And I think that this is well within that and that would already include also the capacity increase.

So, I don't know, financed over of the remaining one year or something like that.

Yeah, I mean you make the question a bit more complicated because you were asking about maintaining Capex and now you enlarge it by the now you enlarge it by the by the increase of capacity Capex.

So, in my hat, the enlargement of capacity Capex would be slightly higher, but it's not like X times higher, OK, if I put this way, it's the slight increase of capacity as I as I maybe I was not clear enough.

It's not like building parallel line to do current production, but it's more cleaning the bottlenecks, so enlarging bottlenecks.

So, it's basically specific, specific parts of the production in optimization in terms of Capex in order to have higher capacities.

That's why even if the capacity increases by only 50 and maybe 20%, not 50%, it would be higher than 5%.

But it's not like once again times higher, you know, several times higher.

Klára Šípová:

I see the next question coming from Hospodarské Noviny from Mr. Ehl

Please go ahead with your question.

Martin Ehl:

Thank you very much and thank you for all the information.

I would have a question looking into a little bit of the future because Synthesia is integrated quite closely with state owned exposure.

Basically, exposure is depending on the either energy business or our little services business of Synthesia.

And as, as you were speaking about the next possible steps going from greenfield to acquisitions, I would like to know a little bit more about your way of thinking about, for example, if you would be interested to buy exposure and if there will be such an opportunity, because it would be the easiest way how to, how to gain the powder cap, powder production capacity or if exposure is totally out of your future plans.

We will have a change of the government, of course, in Czech Republic.

So, we don't know what the next government will have the plans.

But exposure has its own problems internal.

But given the, the, the way how it is connected with Synthesia, I think we cannot somehow omit the topic.

Jan Drahota:

So, first of all, you are right that it used to be one company, you know, not long time ago.

So obviously it is because these two companies are like twins.

So it's very much interconnected and very much living together in the same, you know, site as far as our considerations are, I would say that and you know it and we always answer the same way that we don't comment, you know, our current future or other M&A plans.

Obviously when we think about whether it's better to do our own greenfield or whether it makes sense to have a cooperation, joint venture, partnership, transfer of technology, whatever it is, we'll be, we'll be looking at it in a very simple way.

We will be looking at what makes sense for our show, for the company, and what makes sense for our shareholders.

And, and you know, then obviously for us an angle where how we look at things is also what makes sense for the Czech Republic.

But you know as a company, as a publicly quoted company, we'll be always looking at it from a shareholder's perspective .

And you know, and that's it what I can tell you for it now on, on this topic now we don't give more comments on any opportunities in any situation.

Klára Šípová

If you would like to ask question, please raise your hand in Teams application or speak directly to the phone.

Ladies and gentlemen, are there any further questions to this conference call?

Yes, Mr. Šebesta analyst from a trading platform, please go ahead.

Filip Šebesta:

Yeah, hi guys.

Good morning and congrats on your transaction.

I was just maybe curious if you can share if the bot shares by the ongoing buyback program will be used in this transaction and also if you can share the level of EBITDA margin of SNC business?

Thanks.

Jan Drahota:

So, buyback shares, we did communicate how much we already bought and, and buyback basically we still have time to complete the buyback.

So, there is nothing which I can tell you more, but it's minor if even if you use the, the, the buyback shares, it's a small part or minor part of the business of, of the overall over of the overall consideration.

So, yeah, it's nothing which would make economic impact on the transaction.

As far as the margins are concerned, they are higher than the margins of our traditional businesses.

And you see that it's only 20% or up to 15-20% increase of revenues and 45% increase of EBITDA.

So, it's a bit more profitable business than our business because of its nature.

Yeah, once you have the full capacity running for one year, once we have all the efficiencies you know taken to place and now, they are company is running at full capacity, then you make nice margin because it's nature of the business.

Klára Šípová:

Ladies and gentlemen, I see no more questions coming.

So, this was a very nice conference call.

Thank you, Jan, for your presentation.

Thank you all for all your questions.

And if you would like to ask any further questions, you can always send us an e-mail.

Thank you very much and have a good day.