

Analyst call 6M 2025 financial results-transcript

Klára Šípová:

Good morning.

Welcome at the analysis conference call with the in connection with the publication of six months 2025 financial results by Colt CZ group, which were published this morning together with the half year or semiannual report for the first six months of 2025.

We have 25 people today on the call, so it will be busy. I would like to ask you to stay muted during the call and unmute in the Q&A session. You should have the presentation in front of you. It is also available on our website in investor section.

I would like to introduce today's speakers on the call.

It's Mr. Jan Drahota, the Chairman of the Board of Directors. Hello, Jan.

Jan Drahota:

Hello. Good morning, everyone.

It is Mr. Radek Musil, the CEO of Colt CZ Group and Vice Chairman of the Board.

Hello.

Mr. Jan Zajíc, the CEO of CZUB.

Hello, Jan.

Good morning.

And Mrs. Jana Matoušková, Group Head of Finance

Good morning.

Klára Šípová:

Please note that this call is being recorded and I would like to now hand over to Jan Drahota to start the presentation.

Jan Drahota:

OK, good morning, everyone again.

So, let's jump right into it.

We have behind us the first six months of this year and I have to say that these were very busy and full six months and we are proud of what we have achieved and we believe that second-half will be even better as you will see in our presentation.

So, first of all, how we are in, in the key KPIs, revenues up 14% year on year to 11 billion Czech Korunas, just the EBITDA almost 20% up to 3.6 billion Czech Korunas and they just in the profit

around 1 billion.

So kind of flat year on year and EPS down 20% due to mainly due to the higher base of shares related to acquisition of S&B.

On this slide, you have also one important information which is the impact of amortization in relation to the acquisition of S&B, which means that it obviously amortization does not impact EBITDA, it's there, but it does impact net profit slash EPS and amortization in the first half of the year was 300 million Czech Korunas, which equals around 5 Czech Korunas per share.

You know from the past that we were discussing that.

When we think about our net profit, obviously we have to think about it as well taking into account the amortization which is related to the acquisitions or amortization of intangible assets related to purchase price allocation related to the acquisitions.

Also new information on this slide is the LTM figures.

So, you see that on LTM basis last 12 months basis you see that the revenues were 25 billion, 24.5 billion CZK and EBITDA 5.2 billion CZK.

If you go to next slide and here, I mean, I think that I will not be reading obviously the individual points, but there, there are several messages which are important.

First of all, great performance of the ammunition segment.

So, it's connected to, you know, majority of the ammunition segment obviously is serving Bell also great performance of S&B after acquisition.

The company and its teams are really performing well and showing that it was a good move for us to buy them and, and for them to join the group.

So very strong performance of the of the ammunition segment, biggest market being European MLE customers.

Once again very nicely fitting to our legacy business which was which was much more geared towards the US firearm segment.

I would say that it was a disappointing, in my view disappointing H1 but there are different pictures you know, I think that this time we wanted to show you more in more granularity. You know how the segment was in the H1.

First of all, there was 1 outperformer in the H1 which was Colt Canada. We expect this year for Colt Canada to be a record here ever Colt Canada had record first half as well.

Colt Canada is it was the only company which was which was above in terms of year on year performance in firearm segment then CZ and Colt.

So, if I start with CZ performing, I would say not relatively but well on the US commercial market, CZ, we expect the CZ to even grow on the US commercial market even with price increases.

There were some switches or movements of MLE contracts for CZ for the third and fourth quarters. So, we expect full catch up for the full year performance of CZ and we expect CZ to be up against last year in its results. And then there is the last large company in in firearm segment which is Colt WH.

There it was most disappointing, not good performance in the commercial market.

We were slow in the interaction of new models. And also, and this is I think very important for business, there are some, some very nice and big contracts which are still pending and which are being finalized.

And unfortunately, this means that they are deliveries of those contracts are let's say switched or moved to Q3-4 and it has an impact obviously on the performance of the business.

So, commercial market is not good enough in interaction of new models and the military law enforcement market a huge concentration risk.

So large contracts, large contracts which we expect to happen, but they were not, not that they are maybe taking more time than we expected.

Obviously also it's connected with the fact that some of the regions were Colt West Hartford is delivering are in, let's say more fragile, let's say sensitive situation.

You have tariffs.

We have a comment on this slide on the four US tariffs, US tariffs so far, we were able on firearm side to push them through to the customer.

So basically, we are most of the most of the, let's say cost is pushed towards the customer and maybe on or I think we'll have more information about the average or how, how we how we adjusted prices or overall, in, in, in the US.

But the truth is that we were able to push on the tariffs on the customer on CZ side, on S&B side to ammunition side.

There was a different strategy.

We were S&B was able to find alternative markets to US to sell its products instead of increasing the price.

US commercial market is still the market which is driven by new products that we discussed several times already in the past.

We know that we know that ammunition segment is a bit different.

So, it's much more commoditized.

So, if S&B is able to find alternative markets, it's a better strategy than to try to fight by price.

Your last information on this slide is, let's say 3 mentions about what happened.

It's much more what what's happening.

But these are three things which are public because our partners decided to be public as well.

So, there are two commercial, commercial things.

CZ signing a new contract with Czech Army, Colt signing contract with Danish Minister of Defence and seven bellow.

And this is important for supply chain think and ability to deliver to its MLE customers signed five year contract with Eurenco French company to get proper answers they need for their MLE customers.

If you go to the next slide breakdown by geography, this is I think very important slide which tells you quite a bit about how the group let's stay changed or overall, you know what is the exposure of the group to different markets.

You see that the largest market for us still is overall is still US, but it's on par with Europe.

And if I put Czech Republic into Europe as well, then Europe is already bigger.

And then obviously followed by our home market in in Canada and we grew a little bit in Asia.

So overall, the shift is related is basically towards Europe and this is related to our shift towards more MLE contracts, especially on the ammunition side.

So, so that's reflected here.

If you go to next slide, margins, last time we showed you for the first time this slide and you have it here again average let's say on average the business as a whole EBITDA margin of 21%, but it differs 20% on ammunition.

So that's the start of the game.

Very small margin on the trading, but this is what we don't expect the margin to be so high. This is trading.

So, this is like kind of side activity, firearms production very much influenced by the very low performance or very little or very contribution of Colt West Harford in H1.

So basically, the margin is very much influenced by that performance easy had a had a better margin than that.

So overall and Colt Canada as well.

So overall I would say as I said, you know we are above 20 but unsatisfactory in firearms.

We expect to catch up in the second-half related to either and especially the MLE contracts which were pushed towards Q3/Q4 to materialize and that would mean catch up in the March. If you go to next slide revenues, I don't think that I should be commenting much.

Obviously, it shows that it's first of all on the firearm side, you know the, the contracts were missing.

So, there is not a fifty 50s played not it's 40:60 and on ammunition side ability of S&B finding alternative markets to US.

So more so higher share of MLE than 50%.

So, which is definitely good and definitely supporting the margin and the and the split of the business commercial.

This slide is important and this is again first time we want; we are showing you number of pieces sold but we give you the how it works with different companies.

So, you see that on CZ side the number of pieces sold is kind of flat.

So basically no, no real change, no real change in terms of numbers.

And you also see that the number of shotguns and guns sold in the US was higher by around not in the US, but overall was higher around 5-6 percent, which tells you that that there is also, you know, good momentum on the US commercial market because it's, it's market where primarily handguns by CZ are sold.

The biggest struggle was slow introduction of new level where models or alternations on the US commercial market.

You know, we had some struggle with some special colors with different calibers and different types.

So that was the biggest struggle we had.

You know that in the first half we also did acquire the VSS company.

We have high hopes and maybe I think we'll give you more generalities on that.

But we have high expectations and from this acquisition because this is a great company, but you have to have the right products to be produced.

You know, you production company does not needs good, good portfolio of products to be produced to be to be good to, to, to be profitable or to, to, to, to, to bring nice, nice economics to it.

So, which was missing in the first half in the US.

If you go to next slide, net profit adjustment net profit here this slide is a bit alternated.

So please, you know, take this it is disclaimer.

We show it together with the, the, the, the lined.

I don't know how you how to say to you know there is a, there is a part of the of the of the pie or of the of the graph which also shows you amortization related to PP purchase price, location of S&B acquisition.

So basically, you see how much it did impact and you will see also that if you didn't have that, we have it obviously that it does have significant influence and the net profit will be up.

So, it's a real net profit in my view.

It's my view only.

It's not economic view, it's not IFRS view.

It's up because this is let's say once again amortization of intangibles related to acquisition.

So that's what you have information here next slide.

Capex there is nothing to really to be commented on Capex we are doing, we are investing you know according to the plans and according to how we feel, what do we feel is correct and we keep our guidance below 5% Capex for the year.

So basically, that's it.

You know there is nothing to be commented significant or more Capex done in Europe.

Obviously, you could argue that acquisition of VSS could be taken as a quasi CapEx or it's definitely new production base for called covers Hartford or West or North America operations overall.

So, so, so this would shift the pie a bit.

But in terms of real Capex, as we as we as we reported majority in the Czech Republic, if you go to the next slide in that nest, this in that nest reflects first of all the already paid out dividend and paid out acquisition of VSS below 3 times.

You know that we feel that you know, two to three times net leverage or net debt to EBITDA is, is for us kind of a sweet spot.

And, and it gives us flexibility.

We just finished or we just signed Synthesia acquisition.

We discussed it today a bit as well.

So, you know where we expect the leverage to be after that acquisition, but we are comfortable at these levels.

Synthesia acquisition, we decided to have 3 slides on this today again, even though it's a result day, because we had a lot of questions and we saw a lot of let's say misleading information on the market.

So we thought that it makes sense again to only outline once again the terms, the key terms and also maybe explain a bit the economics and explain the logic of the transaction and also logic of the of the options which are there in order for to hopefully answer all the questions and also maybe explain the story better to the market.

So, first of all, we did acquire the business or we signed the documentation to acquire the business back in August.

We are acquiring 2 assets essentially.

1. asset is Synthesia nitrocellulose business and we also acquired and we acquired 51% in this business and we also acquire 51% in energy business.

We deem energy business to be very important to the nitrocellulose business.

That's why we do it.

You know, we are not trying to build energy conglomerate, but we feel that this is important for us.

It's important for the whole side of Synthesia and we believe that it makes sense to have control over it.

So, we acquired 51% in nitrocellulose and 51% in energy business respective enterprise values 20.6 billion for Czech Korunas for Synthesia nitrocellulose is 1.4 billion for energy business, a transaction multiple around 8.2 times EBIDA.

So, you can say that the EBITDA of the combined business is around 2.7 billion Czech Korunas.

So, it's below our current multiple.

We feel that and we believe that it will happen over time that the market will start to understand that our group is moving from pure firearms ammunition from firearms company to ammunition slash energetic company.

And we believe that it will have positive effects on how we are traded as well.

So, when we look at the peers in the industry, we feel that there is a space for us to do

something there.

But and this is important to say, you know that we are always restraining ourselves from commenting where we should be trading.

We believe that it will be about operational performance which we are able to show to the market and deliver to the market which will drive our value.

It's not about financial engineering and saying that we should be trading 50 times, which means that on that or that we have to have good operational performance.

And then obviously we'll be interesting investment story for our investors.

One of the very strategic areas of the investment is that we are extending our core business to new segments.

Would it be energetics, including potential and in the future, we want to be producing propellants and also maybe larger calibers of ammunition which we are not present at all today or very little white trading.

So that's what we feel is true transformative on the acquisition.

If you go to next slide and this is the new slide, we have not.

Presented in this kind of let's say detail, detail, we also decided this.

So, first of all, the, the, the acquisition is based on a combination of equity and cash.

We said 5.5 billion will be cash and the rest will be paid in equity.

So, as we expect and this is the expectations and this is for out the base case, the, there will be some net debt at the level of the, of the, of the nitrocellulose business at the level at the time of signing.

So, we expect that the, the, the, the expected stock consideration will be around 3.78 CZK.

That's the first thing.

Second thing the number of shares to be issued will be calculated as 180 days weighted volume, volume weighted average price before prior closing.

So as of Monday, it would be 710.

Obviously, we don't know where it will be, maybe higher, it may be lower, but obviously at current levels it will be slightly higher probably.

And this so we would mean that we would issue around 55 million new shares.

So, Kaprain would become a third largest shareholder and it would be, it would have around let's say 8% of, of the of the new capital of the group energy business is full.

A query staying logic for calculation of the equity value, there will be no, we don't expect any debt there.

So, we expect to issue 1,000,000 additional 1,000,000 of shares.

So Kaprain.

So, after that, Kaprain would have around 6,000,000 shares.

So around 9-9.5 percent of capital of the new group of the new capital of the group, which will be increased by the shares issued towards in favor of Kaprain.

That's the first information on this slide.

Take information do put options or put options which will be which are part of the transaction the price at which Kaprain will have ability to put its stake in Synthesia.

And it also says the business for share as an exchange for share of for shares of the group is fixed as of first closing.

So, this 710 as of 15th of September or other price as of closing in the future, let's say in Q4 will be used then for future transactions.

If you go to next slide and this is here, we will explain it here.

So, when we say that Kaprain has a put option for 49% of shares of Nitrocellulose, this business, this put option starts in two years and has validity for 24 months.

So two years, two years past two years, the cash consideration is 3.5 billion and the rest is in shares as we expect, as we expect that the Nitrocellulose business will have where we will

keep at the level of the Nitrocellulose business, the debt, net debt at the level of one to two times EBITDA.

So, 100 to €200 million of EBITDA, we expect the cash consideration to be around 5.3 billion CZK, OK.

So additional around additional six additional 66 million shares are to be issued, maybe a little bit more 6,000,000 shares to be issued.

And same goes for the for the put option on the energy business.

So, energy business is the same logic.

We set the price as of to the as of closing as the first closing.

And then if the put option is exercised, it will be exercised in this logic.

Also, we have a Co option which starts in which starts in four years, yeah and has validity for two years.

So after the put options of Kaprain expire, if they don't, if a Kaprain does not exercise the put options, we will have the right to buy out Kaprain full cash and all cash consideration would be once again based on the net debt.

So this is very important.

Obviously, it's in two or four years' time, so or 3-4 years' time, it's well ahead of us.

But we wanted to let's say clarify all the questions.

So, for me, the only thing which can change the amount of shares potentially issued in favor of Caprine is the indebtedness level at the Synthesia level.

If the indebtedness will be higher, the number of shares will be lower and vice versa.

So that's very important and I hope that this clarifies all the questions which we had and which we saw also on the market.

Obviously, there is third scenario which can happen as well.

You know, I'm not saying that it will happen, if

Neither Kaprain nor us will exercise the option and then we can stay in the partnership kind of forever.

Obviously, we would have to define the rules of the marriage.

But as of today, these two options are in place.

These two sets of options are in place and either side can happen depends obviously on the decision of copyright or decision of us.

If you go to the next slide and this is again a repetition overview already this discussed first of all, on pro forma basis, the, the, the net debt to EBITDA will be well under free the freedom still even after acquisition EBITDA on the combined level EBITDA would be you know to this with the with when I look at our at the mid midpoint of our story, when I, when I, so when I look at midpoint of our, of our if when I look at midpoint of our guidance, you know, the EBITDA would be around 28 billion CZK and revenues would go by about 15%, so around 28%. So that will be the group.

If I, if I look at it on combined or pro forma basis, we shall see when it will be closing.

We expect now to close in Q4.

We shall see obviously because it's not in our hands fully if you go to next slide.

So this was just to clarify Synthesia and I hope that now all is clear and you will be able to communicate or evaluate or communicate well with, with your investors who, how they if they have a question, you know, regarding what can happen in, in this or that scenario.

Our guidance, we have not changed the guidance for the full year.

So, it's still revenues for 25 billion or EBITDA of 5.5 billion CZK +/-10% on both sides.

So, we have full Q3/Q4 ahead of us.

So, you know, it's definitely especially Q4 which will require us, which requires us to deliver.

We see, as I said, there are especially some of the MLE contracts which were, which were still you know, in doubts back in the is the Q1 results.

Now we, we got them or we are much farther than we were.
So, we are confident that we can get there.
But definitely it's, it's, it's a, it's a, it's a, it's a, it's a challenging task.
If you ask me how we, how I feel about it, I feel that we will be rather starting with five this year the in terms of EBITDA than with six.
That's how I feel about it.
So that's, that's, that's, that's information.
But maybe Radek or Jan or Jana can give you more information about what you have when we have a quick Q&A session.
If you go to next slide, I will not be reading this.
This have not has not changed and it has not changed because we didn't know what to change there.
Because obviously some of the things are maybe less important now than they were back in first half of the year, but they are still relevant.
So, first of all, we still have to deliver and have accept and test from some of the MLE customers.
We have to, we have to get some final licenses, you know, some final papers from whoever issues them do have impact on the on the, on both translation and also transactional risk.
So basically, you know, the way we interpret US figures in the Czech Republic proposal, the way the US revenues are, you know, translated to our accounts, obviously we are hedged about the translation is more difficult to hedge.
So, this risk is less hedged tariffs.
So far, we are living with them.
Maybe she'll see how it will be going forward.
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So far, we are able to push them on the customers and maybe more and obviously the question is how the US economy will be doing, how our customer will be doing overall.

So, because we are in different segments, obviously there are distinct segments for commercial on commercial market for CZ and Colt and they behave differently and it also depends on how customers will be.
I think for us, what we feel strongly about is that both brands are still underrepresented in terms of their final point of sales present in, in the US.
It's valid for both brands.
CZ is less known and underrepresented.
Colt is better known but still underrepresented.
So, if you want to buy either Colt or CZ, it's not sure that if you go to your local gun shop in your city that you'll be successful to get it.
So that's, that's the last information on, on this.
So, that's I think for the presentation.
Yes, thank you.
Now obviously, you have time to ask us questions.

Klára Šípová:

Thank you, Jan.
Ladies and gentlemen, if you would like to ask question, please raise your hand in Teams application or speak directly to the phone.
I see the first question coming from Jakub Blaha from Patria Finance.

Please go ahead with your question.

Jakub Blaha, Patria:

Hello everyone and congratulations for the great results.

So basically, my first question is regarding the bondholders agreed and that actually shift shifted the percentage of Mr.

Holeček from 50 to 30% of the total ownership of the shares.

I'm just asking whether you somehow compute it, how the structure of shareholders will look like after the take over, after the position will be completed.

This is my first question.

And the second question is regarding the position of Synthesia and regarding the whole option, whether it's your primary goal to actually activate this this whole option or whether there is a possibility that in the end you will keep Kaprain as a minority shareholder for like the rest of your operations.

Jan Drahota:

OK, let me take this one.

First of all, show the structure after the first leg.

So, meaning the acquisition of 51% of, Mr. Holeček will go slightly below 50%.

CBC will be also slightly diluted and to around 20 to 21%.

Kaprain will have a little bit less than 10% and it will be free float.

Yeah, so that's it.

So, the, the reason why we changed the bond covenants is because we wanted to have space for potential.

At the same time, myself as a chairman of the board, I have to say that the higher we have free float, the more liquid we are and the more, the more opportunities we have as well.

So, this is the kind of way maybe sometimes it can be, you know, it can be in collusion, you know, these not collusion.

It can be, you know, in contrast, those things, you know, it's because, because if you ask me, I, my ideal world is that we have strong free shareholders as we are now and maybe hard free.

So, I think that we, what we did was, was like looking very way forward, you know, and, and not to, not to be limited by, shareholding, because it should not limit the group.

It should not be kind of a poison pill.

So that's the first thing the current question about whether we want to buy out Kaprain.

Listen, I mean, we just entered into a relationship, you know, I would say that we married only, we signed marriage only one month ago.

And as with all marriages, you create it forever.

So obviously we thought it was appropriate and it was important for Kaprain because they will be in minority to have a way out of the Synthesia of the nonpublic Synthesia to the higher level.

So, to be able to put the shares to us and at the same time we thought it was important that we have a way also to buy them out.

Now as you know Kaprain has quite a deep chemical experience.

You know, they have more chemical experience than only Synthesia, current Synthesia, current big Synthesia where there is also chemical part of it. And we feel that we can do together more in chemical in defense related chemicals than only nitrocellulose. So, it's a marriage. It's a marriage for life for us. And I, I tell you that I feel that any application of put or any application of call will be done in a friendly and communicated way. So that's my expectation. And how it will end up, I don't know because it's in four years' time from our side or for 2 + 2 + 2. So, four years in Kaprain side and six years in our side. So, it's very long for what? But I feel that we are trying to build something together and Kaprain is with us for life. If I put it this way. I mean, maybe I'm not talking for them, but I just feel that they wanted to participate in the story and we shall see how things involve. So, it's difficult to say what will happen in six years' time or 4 + 2 years' time. But this is how we are thinking about it.

Klára Šípová

Ladies and gentlemen.
The next question is coming from Pavel Ryska from J&T Bank.
Pavel, please go ahead.

Pavel Ryska:

Good morning to everybody.
First of all, from my part, I would like to say that I think the announced acquisition of Synthesia and Nitrocellulose again a very good fit for the group, just as I thought this about S&B last year. So, I very much appreciate it.
I have a couple of questions regarding these announced acquisitions.
The first one is operational. If you could please clarify how this business will fit into the whole group, mainly whether the revenues of SNC will be mostly from third parties so that it will produce something which will be bought by other customers or if it is going to fit vertically in your business, meaning that for example SNC will supply a lot of materials into S&B.
So if you could just clarify how this will fit into the business.
Second, I don't know if I got it right from Mr. Drahotka a while ago, he mentioned that you are also thinking about producing large caliber ammunition by which you want to become a competitor, for example of STV group or of CSG here in the region.
So, if, if you are thinking this way for the future, that's the second question.
Third one, and from my perspective, very important one, where do you see the rationale for buying the energy business because that's not really a horizontal fit for the business.
It's probably not a, let's say, a necessary part of your group and given that you have some debt, why the investors should, should, let's say, welcome buying a rather different business in your group.
And very final question, whether you think it is likely that Kaprain will activate or realize the put

option, whether you see it as more than 50% likelihood or if you say we don't know based on your talks so far?

Thank you.

Jan Drahota:

I will start from the end. So, I will take this question.

So, I don't know, I think that from their part, it will be economic decision, right? So I think that they will behave economically and, also, let's say, in view of the relationship, it's, it's once again this vision which you hear in three years' time and many things can happen in three years.

So, I don't know.

And it's, you know, today will be fair to say it's 50:50, but I don't know energy business.

But for us it's very important to have the steam, you know, the industrial steam, which is the most important part input from the energy business.

So, it's not about producing electricity aside, but it's, even though we, we consume electricity, but it's much more about industrial steam.

And we'll get it in a bit different way in the, in the big scheme of things, the value of the transaction of the energy for the energy business is relatively small.

But the damage which you had if you didn't have the steam would be enormous.

We need industrial steam, which is being produced by the, by the, by the energy, by the, by the energy company, by power station in, in the side.

So, it's super important to us.

It's super important to other members of the side.

So, we believe that this is a good decision and it's important.

So, it's only natural fit.

And normally, you know, it would be part of the business and it used to be part of the business.

The way Kaprain restructured the former Synthesia business only means that we had to buy it kind of we thought it was important because.

You know, from proper, even from protective reasons, you know, it would not be good if somebody else, if it were by somebody who then maybe would be trying to use the opposition to, to maybe have our life more complicated.

So that's how we feel other calibers large and stuff.

I think that, you know, in life, people say, you know, do things for us before you speak before you speak about them.

So, what I can tell you definitely that every day that we are reevaluating what we can do and how we can strengthen let's say the strategic independence of the Czech Republic.

And obviously with the increased capacity of the of Synthesia and I told this which is due to be increased in 18 months' time.

We will be thinking about how we will use the excess capacity and whether we have partners or a user maybe to enlarge the exposure of our group tools to different segments of the ammunition production including, you know maybe different calibers or larger calibers that we do now.

So that's basically it.

Definitely it's our obligation I would say to consider all the options.

Obviously, we have to be smart because it's totally different ball game to produce a lot of

small calibers where SB for me is the best in the world and large caliber which is a totally different beast.

So, it's really important to stay humble as well and to think smartly about your options.

And 1st question was about vertical integration.

It's more complicated than that.

So, S&B is not direct customer of Synthesia and I don't see all this, but it's indirect obviously, because some of its suppliers are buying from Synthesia and I don't see all this.

So, it's indirect, indirect, immediate indirect vertex integration and medium to medium term to long term.

And we stated it when we discussed that we believe that it's our obligation also and this is for me kind of a base case to have under our umbrella as well as production of propellants.

And so, of, of whether it's, we know, and I said it also last time that it's possible.

We know that CBC has a production of propellant single base powder in, in Brazil.

So, we know that's possible.

We know how much it probably costs.

We know that it's possible.

So, it's on our agenda, you know, and this is, this was clearly one of the reasons why we went to it.

So why we entered to this segment?

So that's, that would be part of it.

So vertical, full vertical integration should be coming and this is on our agenda.

This is what we want to do immediately.

It's not full vertical integration, but it may be a better position to be supplier and also customer of your partner than only a customer.

Pavel Ryska:

OK, thank you very much.

And maybe now a logical follow up.

Can you disclose who are, for example, the major customers of SNC?

Is it, for example, the large caliber production by STV Group or is it its foreign customers?

Who is it most typically?

Jan Drahota:

I don't think that we are ready to do that.

But definitely there is I would say that in general, most of the production is abroad and there is nitrocellulose business that is more complicated than that.

You cannot switch 100% to production to nitrocellulose, which is used for production of powders or 100% switch to production of essence for large caliber.

So, it's mix of very good names and invest very in very in basically friendly locations.

So, NATO countries, companies, but there's definitely exposure to that.

Klára Šípová:

OK, ladies and gentlemen, if you 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 Peter Bartek from Erste Bank.

Peter, please go ahead.

Peter Bartek:

Good morning.

2 questions from my side.

First, if you could tell us what was the organic growth in the ammunition business in the first half of this year, so on the like, for like basis, let's say?

And also, how do you see the margins in the firearms segment going forward?

I calculated it was quite volatile in Q1 and Q2, now it's around 20%.

So, what do you would expect in the second-half of this year?

Thank you.

Radek Musil:

OK, ammunition, we withdraw from the US market some substantial portion of our sales we succeed to find alternatives with better margin.

There's let's say the military business has better margin than civilian and we are moving; we are moving slowly step by step to the military to military business.

And also, we add some again some capacity, some production capacity, but not significant, significant significantly higher.

Let's diminution the fire firearm segments, please.

Jay-Z, if you can start to make your comments and I will add the rest of the world, you name it.

Jan Zajíc:

Well, the quarters are volatile and they're pretty much linked.

What is set there are different margins with the different customers and different regions.

So, for the military is different the Asia, US and so on to make it a shorter answer for the rest of the year, we have significant MLE contracts, we have increased and we do see increased profitability despite the negative situation with the tariffs in the US.

So, for CZ worldwide, I do expect for the second-half of the year slightly better EBITDA or margins than we are reaching right now for our first half.

Peter Bartek:

OK, maybe I would, I would still repeat my first question.

I was asking about the organic revenue development in the ammunition business.

You said today you have slightly higher capacity, so it means slightly higher revenues or should I understand it this way?

Jan Drahota:

Because there is the past let's say 20 years, there are the ongoing activities for increasing capacity, adding more and more machines and alongside with this continuously acquiring new, new markets.

Yes, maybe, maybe I will add, you know, the on S&B side, the year on year growth on for the six months is around 20%.

But important thing is and this is what Radek said, S&B growth is driven is, is a profitable growth.

It's not that S&B is growing in, in an unprofitable way.

So, you cannot, you could expect that the, the, the, the margin on EBITDA side.

It's it, it, it, it will be in line or maybe even better, you know, that's basically it.

Thank you.

Klára Šípová

I see the next question coming from Pavel Ryska, J&T.

Pavel, please go ahead.

Pavel Ryska:

Thank you, Clara.

Again, I have two additional questions which are very different from the previous ones.

You officially started, I think it was back in July, your share buyback program for the for the first time.

And I just want to ask for an update whether the share buyback has been active, whether the number of both shares, whether it is material, let's say within the framework that you gave within the total number that you remain.

And also, whether the share buyback is activated when there are dips in the share price or whether it works, let's say continually regardless of how, how the share price is doing.

So that's, that's my first question.

I'll have a second one then.

Jan Drahota:

Yeah, I will answer that one.

The amount which we bought so far is negligible, is negligible from overall amount and is negligible is negligible from the overall amount.

So that's basically it.

We look at it the way that we feel that and this is actually the rules, but we look at it as well like this, we are here to make money for our shareholders.

We are not here to, to at all influence or, or to, to, to influence as little as possible according to the rules, the, the share price development.

So, we sent the rules to our broker who does it and, and he respects those rules.

But the amount which we bought so far is, is very low.

Pavel Ryska:

But so, the mechanism is it that, and some companies, for example, in the US have it that they use, use the share buyback when there are drops in the share price, which from the, from the point of view of capital allocation is effective.

Or is it that it works, let's say, regardless of this and let's say it works continually day by day by some amount.

Jan Drahota:

I would say we, you know, that the first description you gave me was in my view, too opportunistic and would be too, let's say directional.
But we are close to the first one, then to the second one, you know, so don't expect us to, you know, to, to how would I put it to try to ride the waves, you know, either way.
And definitely, we feel that and, and we discussed that as well.
You know, we are also prior closing with Kaprain and I don't know how.
So, we have to also make sure that what we do is economically advantageous to our shareholders, right.
So, so, so that's, that's how it is.
And, and I believe that amounts which we have already bought are public.
It's a public information because we did, we did give the information to the market aides.
Once again, it's negligible so far, but the program is active and it will fulfill it in full amount.
We have still I think nine months to complete it.

Pavel Ryska:

OK, thank you.
And my last question after the first quarter you in your presentation you presented your vision for 2030 and there were revenues and EBITDA.
And when we compute the EBITDA margin which comes out of these two numbers, it gives us 20%.
And now I'm thinking last year you acquired SB, which is running at margins much higher than 20% rather 30.
Now you're acquiring Synthesia Nitrocellulose, which as I understand has also much higher margins.
But for 20-30, you are projecting EBITDA margin of 20%.
So if you have acquired 2 businesses which would support the margins, it does it follow from this that you expect from the, let's say the, the, the base firearm business, you expect it to have so such low margins that it all together gives us only 20%.

Jan Drahota:

I know it's a kind of like an audacious question, but I have to ask, you see me, I'm laughing because I don't know how to react to that because obviously everything what you say is correct but not correct.
So, what I want to say by that is that when we think about us, about our business, we think about it, that 20% EBITDA margin is the minimum margin obviously.
And when we thought about Ambition for year 2030 as we did about Ambition 2025 back in 2021, we thought, we thought 20% is the minimum reset.
We want to double again.
So, 2,400,000,000.
Now you could argue and this is what you did that now you know the with this acquisition together with Synthesia, we might have EBITDA margin which will be you know approaching another 30% and 20%.
So, you might say, you know you will be then just distributing value and I can assure that we will do everything not to do that.
So, So what we put our you know what we put on the table is what we want to reach, what we what we want to reach by both organic growth and M&A.
And for us when we think about our business ammunition, the firearms business, we require

from the firearms business overall 20% plus EBITDA margin.

So, so if we were successful enough organically with our assumption for growth, then obviously the potential margin should be bigger because now we have outliers there in terms of let's say 50 or even more higher EBITDA margin of 50%, higher than 20 to 30% margin or higher than that.

But I think the time that we are still five years before 20-30.

And if you ask me today, and that's my sincere answer, whether I feel this is a challenging target, I think it is, whether I feel it's achievable target, I think it is and whether I think that that we will achieve it, I believe we can.

But I think you know, I cannot give you split by different companies or different businesses and different business lines.

It would be too, too much.

So.

So this is good news what you are saying and it we could then say that in your vision 2030, the presented EBITDA is rather the minimum EBITDA relative to the revenues and not the not the average or medium EBITDA.

If I, if I get it right, what you are what you are saying, OK, no, we look at simply we say 2 billion 400, this is what we think we should, where we should be and it's basically our standard.

If I put this is our gold standard, maybe gold standard and obviously you always want to be better than standard, you want to be better than that, but this is gold standard.

I mean, obviously if he told you we want to be 2 billion and 200 million, you would say that we are crazy.

You want to grow without margin.

So, this is not it.

This is what we set ourselves as a, as a target maybe light which here which we are following. But obviously things can be different and also light under which management performance will be evaluated.

But you know, future can be different and obviously it can be much better.

Obviously at SNC, the EBITDA margins are or have been historically running at what rate more or less historically it was the, the, the margins were lower.

Obviously, they were like, I think that they were not, they were double digit, but not about in teens rather than in 20 plus margins.

You know, obviously now the business has changed substantially because of the systematic shift in the world, right?

You know, I mean, three years ago prior to war, the, the, the, the, some of the segments of the ammunition market like large caliber where hundreds of millions of EUR per year and now there are billions of Europe area.

So, we see it does have influence on, on the supply chain and so it did have influence on the margin of the business.

So for us, when we think about it, when we think about it going forward, you know, when we when we did our investment decision, we thought that the margin will probably stabilize, will probably go lower to maybe levels which are closer to S&B business than closer to current, let's say higher margins.

But the true face that this was the best case scenario where we feel that world will be in a good situation and we will not be in a in the in the state of even more difficult to deal with, let's say security situation in Europe especially.

Pavel Ryska:

Thank you very much.

And very last question from my part.

Like one or two weeks ago there was this killing of Charlie Kirk in the US and what I saw the share price of let's say some of your competitors in the US such as Smith and Wesson and Sturm Ruger, it showed up immediately after that maybe in an expectation of, I don't know, riots in the US or something like that.

Are you seeing at the moment better sales on the US market like I mean in the last days or in the last two weeks or is it still the same, let's say slow soft market that there has been for the last couple of quarters?

Jan Drahota:

Well, any of the top project's situation obviously will bring the uncertainty and also a higher demand.

We also sort of sort of certain reaction on that.

However, we do not assume that it will be really kicking significantly.

As I said before, we are continuing in our I mean day on day business keeping growth efficiency.

So, I wouldn't say that that it will change our thoughts about the next three to six months. Anyway, if there is a higher growth, we are fully ready.

Pavel Ryska:

OK, Thank you very much for all the answers to my questions.

Thank you very much.

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.

Yes, Peter Bartek, next question from Peter Bartek from Erste.

Please go ahead.

Peter Bartek:

Thank you for my last question again, completely different from the previous ones regarding the effects of the USD significantly weakening against Euro against CZK.

So maybe if you if you have some thoughts about the impact in the second-half.

And actually, looking at your contracts or in your revenues in Asia, Africa, and rest of the world outside Europe and US, these revenues are mostly contracted in the USD or in local currencies or how does it look?

Thank you.

Jan Drahota:

Well, it's contracted as a that's the mix and let's say it's related to same as a previous to first half of just half the year.

So if is it from Colt it's in the US dollars and if is it from the CZ, it's either in Euro or partially, partially in, in U.S. dollars, but mainly in Europe euro.

But it your question, the result is reflected in the guidance we have provided.

So that's our forecast of the next end of the year.

So, if the USD stays at current levels 1.18, it would be still comfortable with the guidance.
Yeah, I'm not sure I understood what you were asking for.
If the current FX rate of the USD stays at current levels 1.18 to euro, let's say if then you would be still comfortable with the guidance, right?
Yeah, yeah.
When we when we, when we calculated the forecast, we use the expected average of a fixed rate U.S. dollars again CZK and it is already reflected.

Thank you.

Klára Šípová:

Ladies and gentlemen, if you would like to raise question, please raise your hand in Teams application or speak directly to the phone.
At this moment, I see no more questions coming to the floor.
It was a very nice over one hour conference call.
If you have any additional questions afterwards, please send us an e-mail or call us directly.