Klára Šípová:
Ladies and gentlemen, welcome at an analyst conference call in connection with the publication of preliminary results of Česká zbrojovka Group. Today's speakers on the call are Mr. Lubomir Kovařík, president of the company and Chairman of the Board of Directors.

Lubomír Kovařík:
Good afternoon, ladies and gentlemen.

Klára Šípová
And Mr. Jan
Drahota, Group head of finance and vice chairman of the board.

Jan Drahota:
Good afternoon.

Klára Šípová:
The presentation which will be there'll be discussed is available on our website. Please note that the call is being recorded and will be posted on our website subsequently. I would like to ask you to mute your microphone until the start of the q&a session. And now I would like to hand over to Mr. Kovařík to start the presentation.

Lubomír Kovařík:
Thank you so much. So, ladies and gentlemen, let me summarize the economic results of Česká zbrojovka Group for 2020. Definitely, it was great year for our group. CZ group achieved historically record results. The year 2020 was significant from many points of view, the COVID pandemic situation has exposed us to many organizational and other logistical challenges. And I'm glad that we managed it's all successfully. The results of 2020 show that our strategy was right, showed that overall market position of CZ brand and definitely confirm our business model. I would like to thank all of our employees and partners for their commitment of 2020 result. I don't mention the main numbers, of course Honza Drahota will continue in the more detailed information about our economical results. Revenue of the group in 2020 reach 6.6 billion 800 million Czech crowns, which represents on year-on-year increase by 14 %, we reach operational profit of more than 1 billion Czech crowns exactly 1,056,000,000 Czech crowns, which is more than 11% then 2019 result. The number of sold weapons also increased by almost a quarter reaching 467,000 units sold, the main market in terms of revenue for us are United States, revenue in the United States accounted for 66% of the total revenue in 2020 of the group. Last year, we also took several significant steps to support the group´s growth. In May 2020, we bought a minority stake. We bought a minority stake in the Swedish company manufacturing optical mounting solution for weapons called Spuhr i Dalby AB. In October, as you know, we successfully completed a public offering of shares on the Prague Stock Exchange. So, we raised together with bonds funds for further growth, including the acquisition of Colt. If I'm speaking about the acquisition of Colt, this acquisition is currently under review in the United States and investment Canada act in Canada, US anti-monopoly is cleared. Successful negotiation of the Colt acquisition is the reason for postponed or planned construction in Little Rock

from three to five years. I would like to ask you for another slide or next one. Thank you. As I mentioned, we sold 467,000 units. This number is represented by more than 300,000 units shotguns, pistols and 162,000 long guns. From geographic perspective, we generated 66% of revenue from the United States, 30 % from Europe, 15 % from the rest of the world and 5% from the Czech Republic. It was necessary to say that as you know the contract with the army of the Czech Republic was postponed and we expected fulfilment of this contract within 2021 to 2023. I would like to ask Honza about to continue with this presentation.

Jan Drahota:
Thank you Luboš. If we dig deeper or dive deeper into the into the financials, you see that more details on the revenues growth. Revenues grew by 14.6% to 6.8 billion CZK. Luboš already mentioned, I think that what is worth mentioning is that this is perfectly in line with the average growth rate we showed during the IPO for year 2017 - 2019. So, it shows that we are able to maintain the growth trajectory, quite nice growth trajectory of more than 14% growth per annum. If you look at operating profit, on the right-hand side of the slide, you see that operating profit grew by almost 12% to record 1.1 billion 56 million CZK which is a margin of around 15.5%. And once again, this is a record figure for our group and it shows that we are growing and we are going in profitable manner. underlying EBITDA from continued operation, here I will pause for a while we did when we speak about underlying EBITDA from continued operations, we do discuss the EBITDA not taking without getting account or eliminating the gains and losses incurred on the foreign exchange derivatives. So, basically, we took upon your recommendation or feedback from last time. So, we started to show and report underlying EBITDA only. So, we will see that underlying EBITDA from continued operations rose to 1.47 billion CZK which is growth of gain around 12%. And also, what was said today that the Board of Directors proposes a dividend from profits of 2020 of 7.5 CZK per share. I think that what is also worth mentioning in connection with the figures which I just presented, meaning especially profitability figures or operating profit or underlying EBITDA is that we did incur substantial one-off costs connected with the IPO which were banking all the advisor and banking fees. Those accounted to around 120 million CZK. You see it on the on the slide and out of those 120 million CZK 88 were according to IFRS directly to equity, so they didn't influence the bottom line but still 31 million CZK did influence or did increase the cost for services incurred. So, you know if you were to adjust the EBITDA for one off costs, you could increase the reported underlying EBITDA or operating profit by this amount because this we did not deduct those costs from for our calculations. We didn't do these adjustments okay. So, this is just for you to see and it shows that the results are very solid and robust. As we did already for the first time in for the nine months of the year 2020, we are giving you a guidance for the full year. In terms of revenues, we give two sets of numbers. One is on standalone basis. So, for revenues we expect to grow and we expect the growth of revenues to reach a range of 7.1 to 7.4 billion CZK. That's basically as for revenues as for the underlying EBITDA, we speak about 1. 45 to 1. 65 billion. CZK underlying EBITDA, so these are standalone figures for CZ Group

only. As you know, we did sign an agreement to purchase 100% stake holding in Colt holdings company. This transaction is currently being under regulatory review, both in Canada and the United States. We still count that it should be completed or implemented in q2 2021. Obviously subject to regulatory approvals. And just to give you an idea, how large the business is to become once Colt is part of the group on a full year basis the 2021 guidance would be 12.5 to 12.8billion CZK in terms of revenues. So, pro-forma combined group of Colt + CZ on a full year basis. Obviously, we will not be owners for full year. And as far as the underlying EBITDA from continued operations, we are talking about 2.35 to 2. 55. billion CZK. So sizable increases in both matrixes in both revenues and EBITA. And it shows that the group is really transforming itself by the acquisition of Colt, and we believe that it not only makes us bigger, but also much stronger than then on our own. If you go to the next slide, I think on this slide, what we want to tell you is how the profitability translated into cash generation. Here, I mean, it's, you know, 120% of ratio operating cash flow versus EBITDA. It's too good to be true, I would say, and it's influenced by two significant things. One is first of all, as you already know, and you already have it in the nine-month figures, that we did manage to collect the large receivable, which was outstanding at the end of 2019. After one military law enforcement customer was in the size of around 35 million Euros, which means that there was a big impact to the cash flow generation and as a first thing, and second thing is also influenced by pre payments from larger military law enforcement contracts, which we received before the end of the year, which were in the amount of around in excess of 300 million CZK, I think, they were slightly shy of 400 mm CZK. So, this is influencing the free cash flow generation because this is because the figure is really high. But still nevertheless, if you subtract those two, it's still super strong cash flow generation and show that the business has very good conversion cycle. As far as the capital expenditures are concerned here, once again, I would like to commend what we are showing here, we are not showing here full cash flow from investment activities, because it will be misleading because we will be showing also here, for example, Spuhr acquisition, but we are showing pure capex spend or pure money spent on capital expenditures related to machinery and our production capacity, 331 million CZK in 2020, which is slightly shy of 5% of revenues. And it's well in line with the guidance of 5 to 7% of revenues spent on capex so that's comment here. As far as the guidance for this metric is concerned, we keep the what we already said in the prospectus in the IPO, that we intend to spend 5 to 7% of revenues on capex, obviously, I think what is important to say here that there are things which are influencing this and those met factors are at one age, our ability to spend the capex, so basically to introduce it and implement it so we don't spend only just for sake of spending. And secondly, as you know, we are currently in the process of regulatory review for acquisition of Colt and obviously, this acquisition will then significantly influence our view on capex, meaning that we will incorporate group view on the capex for both CZ that meaning Czech Republic and USA meaning Colt.

If you go to next slide. As far as the debt structure or leverage of the group is concerned, we like to keep it conservative you know it so we are not too aggressive to leverage. And here the messages, the messages you can take from here are basically twofold. First of all, on the right-hand side of the slide, our debt maturity profile, we did successfully place 5 billion of new bonds two weeks ago, the bonds are due in 2027. So, we can say that we have enough resources to satisfy all our needs, meaning payment for Colt, capex needs, general corporate proposes so that's the first message. Second message is that at the end of last year, the leverage was and I already told you that was around zero times the EBITDA and after implementation of Colt, we expected you know taking into account current profitability or calculating risk current level of profitability. Other things to take into account or other factors, meaning the situation in terms of balance sheet or both company's net debt to EBITDA, or net leverage ratio, we expect to be at around two times EBITDA. So still very conservative level. Yeah, that's basically a comment to this. And this is it for me. So, I think that now, I will, I will hand this over to Klara again, to guide us through questions and answers.

Klára Šípová:
Thank you, Jan. And thank you Lubomir for the presentation. Again, I would like to ask everybody to mute microphones. If you're not speaking, we are hearing some background noise, baby related noise. So, I don't know who that is. But, please. So now we can move to q&a session. You can ask questions if you raise hand via Teams application, or you can simply speak directly if you are connected via telephone. And the first question comes from Jan Raška.

Pavel Ryska, J&T:
Good afternoon, everyone. So just to make sure you hear me at the moment. Yes, we can hear you. Perfect. Okay, great. So, I'll start. So first of all, congratulations on the good results. And thank you for the change in the EBITDA use for the presentation, I think it's helpful, I see the underlying EBITDA. I have a couple of questions; I will start with your outlook for growth for this year. So just to understand the expected growth in revenues, you're expecting some single digit growth, given that you commented last year that you were almost at full capacity in terms of production? So, if you could comment on how you're going to achieve the growth, is it by price increases? Or is it that you have found additional capacity to produce. Or is it the acquisitions that you that you made last year? And my second question touches the acquisition of Colt, if you could a little comment on the margins, because it seems that the combined EBITDA margin will be a little lower. And if you're expecting some synergies from, from the acquisition and finally, what do you expect the split between civilian and public sector sales to be after you acquired Colt? So that's it, thank you.

Jan Drahota:
Okay, maybe from the last question and we said it, when we did announce the signing of the documentation, we acquired Colt we expect or the pro forma estimate of the split between military and law enforcement customers and civilian market customers will be around equal. So basically, those two companies fit and complement each other very well. So, whereas CZ has majority of customers in the commercial market, Colt has it the other way around. So, the

combined group would have held even split of sales to both commercial and military customers. That's the first thing as far as the synergies are concerned, obviously, we believe that the group will be much stronger. Together, the two companies will be much stronger today together in the in the group and then on its own, that's for sure. We believe that there are enormous synergies in r&D, in the area of customers, especially because of strong credentials of CZ in r&d and Colt in a MLE market, you know, Colt is benchmark there. So, we knew that there will be synergies, but to give you an overview on how we did approach to transaction, we approach to the way that we were analysing and pricing the target on a standalone basis. So, we believe that there will be synergies explored, and both managements of both companies are working hard or will be working hard to find those and monetize those. And we believe that it's really a huge space to explore. And we believe that we can play a strong role. As far as, as your first question was about?

Pavel Ryska:
The first question was about the how do you mean to achieve the goal, okay. If it is prices or the amount of guns produced?

Jan Drahota:
That's a very good question, and the answer is not simple. First of all, as you know, we are investing more than depreciation every year. So basically, our capacity is gradually growing. And we approach the market the way that it's not only about pieces sold, but it's also about structure of pieces sold, meaning high value, higher price and higher value added, obviously. So, we expect to grow because of the mix, mainly, that's it and, and but also pieces, because maybe what would be good to say at the beginning, what we see today is strong market across the globe, you know, we are oversold, or we are not able to meet the demand from across the globe. It's not only Czech Republic, it's not only United States, it's everywhere. So, we see very strong market for a very strong demand for our products, globally. So that's why we said to our guidance, that the biggest risk, we see our ability to meet the demand because that's really what is limiting our ability to meet demand. Expect to grow, what we show you as a guidance is something which we believe is reasonable. And, and we stand behind it. And as far as the ability to produce, we believe that we are able to make it so. So, I mean it's combination of product mix and ability to grow is more pieces. So that's basically it. But nothing yet calculated from acquisition of Colt and stuff like that. This is still standalone, if we are talking about standalone business without any synergies coming from acquisition of Colt.

Pavel Ryska:
Okay, thank you. Thank you very much.

Klára Šípová
Yes, thank you. We still cannot connect with Mr. Raška. Maybe he will send us his questions via email and I can read them. But we have Mr. Petr Bartek from Česká spořitelna, Peter go ahead.

Petr Bártek, Erste:

Good afternoon. Also, congratulations to the very strong results. And if you can comment little bit more in detail about the particular markets and whether you experienced any changes in market dynamics in the US civilian market, or is it still the same? Also, in q4, you had quite a nice increase in Western Europe, in the EU. So, if it does reflect some initial results from the new sales team, which you have in Western Europe. Maybe if you can comment how the market looks like after the closure of the factory of SIG Hauer, and in terms of the deliveries for the Czech army, should we expect the majority of this contract to be fulfilled in the next year? Or what would be the timing? And also what do you think about the potential magazine in the US it will have any impact on you? Positive short term negative long term?

Lubomír Kovařík:
Okay thank you maybe I will stop is the army of the Czech Republic, we expect that the fulfilment of the frame contract the total value of the frame contract is 2.3 billion Czech crowns as approximately 40,000 pieces, we expect the fulfilment will start year. And we have always received order from the army of the Czech Republic and we will continue from this year to next year and to 2023 definitely this is information about the army of the Czech Republic. Now at the moment, the situation of the Ministry of Defence or department of defence is much more clear because as you know, the government of the Czech Republic increase or maybe give the rest 5 billion CZK to the budget of the army of the Czech Republic, it means that all planned project will be realized. Information about the US Army or about the US market, as you know, they are not so strong is the position of the civilian version of the assault rifle is the high-capacity magazine, this is just about the 10s or hundreds pieces. We don't expect any big influence to the discussion, which are now at the moment in the US.

Petr Bartek:
Question about the European sales and the US market in general.

Lubomír Kovařík:
Okay, just information about this exam where this information is correct. We see this something as an interest of the European government to find a producer from the European Union market, not from the United States market. Definitely this is connected with the policy from US. And we expected that to the participation of the European tenders, it will be necessary to be as a European proper producer.

Jan Drahota:
Yes, maybe to add to Western Europe, I would say that you have to look at it away. And we did comment in the in the figures for nine months. And it was also for six months and mentioned in the perspective of Europe Western Europe was closed at the beginning of last year because of COVID. And obviously, what we see is that what pays off is that we have a much more intensive discussion with our Western European distributors on commercial side as well. And what we see is that there is quite a nice demand for our products in Western European markets, especially pistols and rimfire rifles. We are very competitive on the side of sporting pistols, so these are,

you know, or steel frame pistols. So, these are very competitive and we believe that and we still see back orders not fulfilled. So we still see strong demand, which continued from last year. So that's basically it.

Petr Bartek:
A follow up question also. So, the increase in Western Europe is partly a kind of pent-up demand or fulfilment of the demand from previous quarters? It's my link to the civilian market or to law enforcement?

Jan Drahota:
Yes, the majority it will be in the in the civilian market. So, all the markets are individual markets, which we serve in the Western Europe are growing, or most of them are growing in terms of the commercial market. And obviously MLE market the bigger things are taking more time. So, it would be premature to say that we have more initiative on Western Europe and it starts to bring its roots because it's really a long-term process. But we know already that because we spend much more time with our customers, with some of our customers locally, our team in Germany, it breakthroughs because we can, we can first of all, adjust or we can offer terms including your pricing terms, which are I would say suitable for the market. And what it means is that there are products where we have higher pricing power as we already discuss, and they are products where we have lower pricing power. And we are able to take this into account and then have sound commercial budget policy, which at the end of the day helps our bottom line.

Maybe one more comment to US commercial market, discussion about assault rifles, high-capacity magazines, as Alice Poluchova is not here today in our head of US, our president of US I think what makes sense to say that first of all we are used and, in some markets, it's already applied that only that high-capacity magazines are not possible to be sold. So, we are used to that. So, this is not the problem. We are not present in the AR 15 platform we are not present there. Our brands are sold in hundreds of pieces. And the only product which could be bucketed is a scorpion but because we have such a wide range of products and you saw on the slide from Luboš that the biggest growth for us was on the hand guns, pistols. So, and those are not being discussed at all. So, what I want to say is that and we emphasized it several times, diversification of our product mix gives us a strong belief that we have, that we are able to know better and basically monetize and any market changes and situations.

Klára Šípová
Thank you. And we have a question from Mr. Pavel Ryska.

Pavel Ryska:
Yes, thank you. Actually, I thought of one more question. Um, so this year, I'm thinking about, especially the US market after the growth last year, which you wrote was almost 50% growth last year. So, should we understand it in the way that still the revenues in the United States will be growing even from these levels? or will there be some, let's say slight drop or normalization in the United

States, and the other regions will compensate for this? That's, what I'm curious about.

Jan Drahota:
Okay. We don't like to go down on any market as the first thing, no matter what market it is, you know, it's not in our DNA to say that we will go down so this is it, because we still believe that the markets, in general are underserved with CZ product. That is what we believe in, the market which we can address, obviously. As far as US market is concerned, it's as strong as ever. And, what we see and as I said, you know, it's across the board, it's for, four all products. And our ability to grow in the US is once again, only limited by our capacity to produce, okay. So, without giving you guidance for individual market, we believe that there is a huge room for us to grow in the US market still, you know, even though we grew by 50%, last year, but the market is as strong as ever still as strong as ever. And the level of backorders, we have never had such as such a high level of backorders, in the US, the backorders are a little bit less firmed. And then what is let's say customary in Europe, you know, they are not as firm, but meaning that the wholesalers and distributors are putting orders, you know, and they are cancellable, by the by the level which we have is aa I said record and it's much higher than the last year sales overall, you know, so it's really enormous.

Pavel Ryska:
Thanks.

Klára Šípová
And next question again from Petr Bártek, ČS:

Petr Bártek:
Again, if you could give us a some flavour on how you expect the group will look like after the takeover of Colt, in terms of capital intensity, if the share on revenues, five to 7% is something that you would expect also after the completion of this acquisition or do you want to invest more in Colt and production growth? And also, in terms of the working capital, if the working capital intensity will be the same? Or does Colt use this different business model with more suppliers? So less working capital requirements or how does this look like? And back to 2020, you had very spectacular working capital development. Can you tell us what is the amount of this large prepayment for the military contract? What level of inventories she would expect going forward? Whether this level which you have now is sustainable? Should we expect an increase?

Jan Drahota:
I think it's at the end of the day it is simple. As far as the working capital is concerned. It's a good question. Not an easy answer. Because here this year or last year, we probably would be able to reach even lower levels of working capital would there not be our effort to make sure that we have secure enough let's say capacity, meaning that we were maybe stockpiling some materials and parts to make sure that that our production is not interrupted by maybe some suppliers and stuff like that. So basically, what we were able to do is that we shifted from finished products, which may be

because we have currently basically no free available, finished products on stock to raw materials and parts, which we have so we created a little bit of security, it's a security stocks, you know, if I put it this way. So that's the first thing as far as the capex intensity going forward, you know, for the combined group, first of all, we will get it away that our experts are and will be discussing with Colt management in both Canada and US about the capital and capital expenditure needs. For us, we are as CZ, we are quite vertically integrated company, US model is a bit more supplier based. And we will be evaluating what it makes sense what is the best for the business going forward for us. So, what we know is that we are in both Canada and United States for a long time. And definitely we are committed to investment in the factories. And we believe that the five to 7% range, or let's say five to 7% of our revenues gives us enough space and room to manoeuvre. So, we don't expect we don't think that we have to increase this figure, we think that it will be well suited for us to execute the plans. And once again, this is about ability not only to spend to execute but implement to capex needed. So, we have to make sure that the capex which we do make sense. And then the machinery or we have in place is well used and has high usage rate. So that's basically it. And for your question for pre payments, in pre payments, you know, it's not one customer only in pre payments. We have currently and I say that we have currently, at the end of 2019, we have around 100 million of pre payments, at the end of 2020, we have around 400 million of prepayments. So basically, there is an increase of around 300 million or pre payments from our customers. It's not one customer, it's more customers. So that's also important to say here. Maybe for as far as working capital, we push and we make sure we push our management to work hard on working capital optimization, but there is a certain limit, because you want to make sure that you can produce. So, you have to have certain security stock, you know, in order to make sure that you I mean, it may be more expensive to cut production than to have working capital.

Petr Bártek:
As far as I understand this level as a percentage of revenues is also sustainable?

Jan Drahota: Yeah. Yes, I think the more we grow, the more flexible the more aggressive we should be the more efficient we should be, obviously, but there are limits to it, as I said. Thank you.

Klára Šípová
Great. I'm currently we have no other questions recorded on the screen. If someone would like to speak via telephone, please go ahead. No. So I think this will be the end of the Q&A session. Thank you very much for joining the presentation. Thank you Lubomir and Jan for taking your time speaking to analysts and investors. And if you have any other questions, please do not hesitate to call us or send us an email. Thank you very much.