

# Colt CZ Group SE

Boosted by M&A

## Buy

Price 09.02.24	CZK 574
12m target	CZK 921
Upside to TP	60.5%
Dividend	CZK 31
Total return	65.8%

**Sector stance**  
Overweight

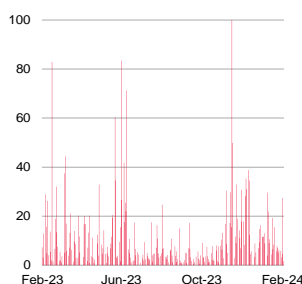
**Investment type**  
Growth story

### 1 year performance



Source: Bloomberg

### Trading volume (in ths of shares)



Source: Bloomberg

### Share data

RIC CZG.PR	Bloom CZG CP
52-week range	518 - 614
Market cap. (CZKb)	20.2
Market cap. (EURb)	0.8
Free float (%)	19
Performance (%) 1m	3m 12m
Share	-0.9 4.0 -1.2
Rel. to PX Index	-1.9 -2.7 -6.3

Source: Bloomberg

### The latest analysis and report:

[https://bit.ly/Colt\\_swissAA\\_EN](https://bit.ly/Colt_swissAA_EN)

[https://bit.ly/Colt\\_2Q23\\_EN](https://bit.ly/Colt_2Q23_EN)

[https://bit.ly/Colt\\_3Q23\\_EN](https://bit.ly/Colt_3Q23_EN)

[https://bit.ly/Colt\\_perrollamSB\\_EN](https://bit.ly/Colt_perrollamSB_EN)

SOCIETE  
GENERALE  
GROUP

**Investment recommendation:** We confirm our Buy rating on Colt CZ Group SE with an upgraded TP of CZK921. Compared to the current market price, this implies a potential upside of +60.5%. The Buy rating remains unchanged. This valuation includes the recent acquisitions of ammunition producers Sellier & Bellot and swissAA. The previous TP was CZK652.

Sales in Colt's main market, the US commercial sector, are weaker than in previous years, even though demand there has returned to pre-crisis levels from elevated levels in the difficult years of 2020 and 2021. However, this decline may be offset by growth in other markets, particularly the Czech Republic, Europe and Canada. We expect strong demand in the European markets in the coming years. In addition, the results for 4Q23, which is the strongest in terms of seasonality, should be at record levels.

**Colt is very active in field of M&A.** In addition to organic growth, acquisitions are another factor behind the company's growth. The recently acquired ammunition manufacturer swissAA, and also notably Sellier & Bellot, will significantly improve Colt's numbers. SwissAA will be consolidated from 2H23 and Sellier & Bellot from around mid-2024. We also expect the acquisitions to add several percentage points to the current 20% margin. With the acquisitions, Colt should also reach its 2025 targets, which seem very ambitious. We expect Colt to continue to play a role in industry consolidation. In addition to ammunition companies, manufacturers of other equipment, such as optics, could also be in Colt's crosshairs. Colt would then be able to meet the total demand for firearms, ammunition and other equipment, all developed and customized.

In addition to its growth story, Colt offers a solid dividend. Last year, it paid CZK30 per share out of 2022 earnings. This represents a gross yield of 5.2% and a payout ratio of 45%. Colt's dividend policy is to pay out 50% of adjusted net income. In our forecasts, we conservatively follow Colt's guidance and assume a payout of half of net income. We expect the dividend to grow modestly. The gross yield could rise to 4%.

We have based our valuation of Colt CZ on a discounted free cash flow model. We estimate the fair value/target price to be CZK921 per share. At our price target, Colt trades at P/E multiples of 21.8x (2024e) and 18.1x (2025e) and EV/EBITDA multiples of 14.1x (2024e) and 10.3x (2025e).

Financial data	2022	2023e	2024e	2025e	Ratios	2022	2023e	2024e	2025e
Revenues (CZK m)	14,590	14,967	19,694	24,246	P/E (x)	8.3	11.2	21.8	18.1
EBITDA margin (%)	23.1	19.6	19.8	21.6	Price/free cash flow (x)	162.3	-151.7	-8.4	12.8
Net income (CZK m)	2,280	2,164	2,031	2,452	Dividend yield (%)	4.5	5.2	3.3	2.3
EPS (CZK)	66.9	61.6	42.2	50.9	Price/book (x)	2.5	3.7	3.7	3.6
Dividend/share (CZK)	25.0	30.0	30.8	21.1	P/S (x)	1.3	2.3	2.3	1.8
Interest cover (x)	12.8	88.4	6.7	6.8	EV/S (x)	1.6	2.7	2.8	2.2
Payout (%)	73.4	45.3	50.0	50.0	EV/EBITDA (x)	6.9	13.1	14.1	10.3
Net debt/equity (%)	0.6	0.7	0.9	0.8	EV/IC (x)	1.6	2.2	2.3	2.2

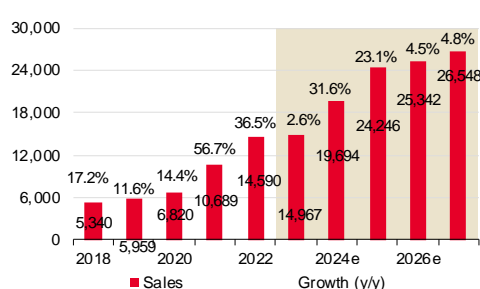


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## Company overview

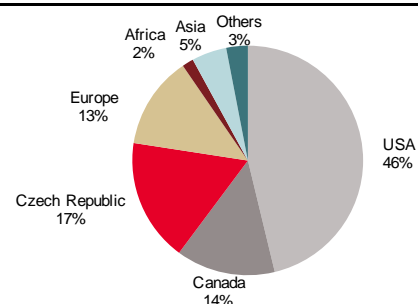
Strengths	Weaknesses
<ul style="list-style-type: none"> <li>Recognized international firearms manufacturer with global reach</li> <li>Strong focus on R&amp;D</li> <li>Highly skilled workforce</li> <li>Attractive financial profile - low debt and strong cash flow generation</li> <li>Diversification in terms of geography and market segments</li> </ul>	<ul style="list-style-type: none"> <li>Any event that would result in a production outage</li> <li>Legislation &amp; Regulation. The manufacture, sale, use, handling, etc. of firearms is subject to strict controls. A change in legislation could adversely affect the functioning of society</li> <li>Quite small free float, liquidity risk</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>Great potential for organic growth</li> <li>Expansion into new markets</li> <li>Increasing market share in the military &amp; law enforcement sector</li> <li>M&amp;A, CZG plans to play a key role in market consolidation</li> <li>One-stop shop potential. Focus on ballistic and tactical equipment and accessories</li> </ul>	<ul style="list-style-type: none"> <li>Highly competitive market. Inability to compete could affect the company's performance</li> <li>Currency risk (FX)</li> <li>Very tight labour market in the Czech Republic. Outflow of highly skilled employees and inability to find new ones</li> </ul>

Revenues (CZKkm)

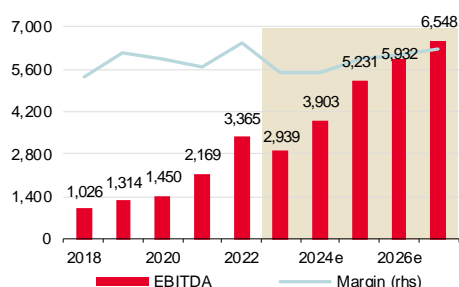


Source: Colt CZ, Economic and Strategy Research, Komerční banka

Geographical breakdown of sales (9M23)

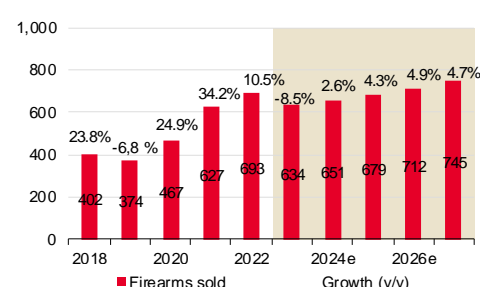


EBITDA (CZKkm)



Source: Colt CZ, Economic and Strategy Research, Komerční banka

Products sold (k units)



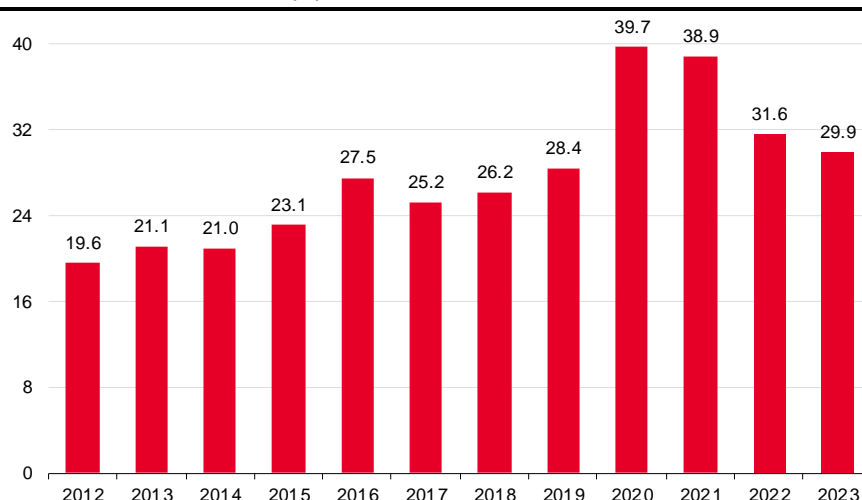
## Trends in the sector

### Demand returned to pre-crisis levels

Demand in the US market has returned to normal levels.

The US commercial market is the most important segment for Colt. The chart shows that in the crunch years of 2020 and 2021, demand literally spiked. This year, it looks like it has returned to more normal levels. Based on last year's data, it fell by 5.5%. However, even this level is considered high. Compared to the pre-crisis year, 2019 is +5.2% higher. This can be verified by examining the number of checks before the actual purchase of a gun in the US, the so-called NICS system. Colt sales in the US are down nearly 20% yoy in 9M23. This means that if we use NICS as a proxy for demand, Colt is losing market share. However, this may be due to a very high comparative base in crisis years.

Demand for small arms in the USA (m)

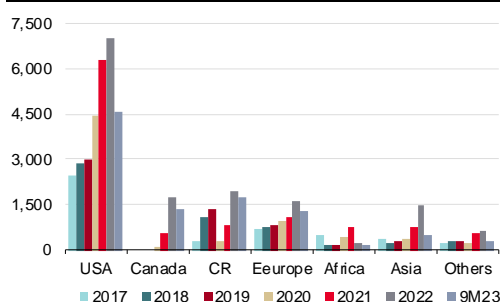


Source: FBI

In some of Colt's other regions, sales showed decent growth.

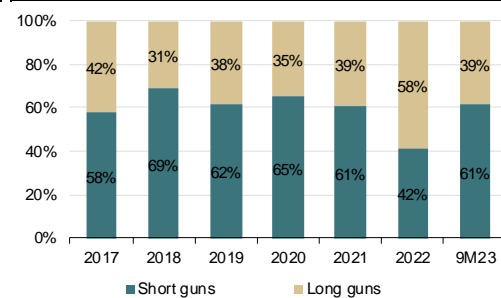
In the Czech Republic, sales increased by +96% in the first nine months, driven by continued deliveries to the Czech Army. Canada also showed a very high growth rate, with sales increasing by +79%. This was due to deliveries to the Ukraine by the Canadian government. European sales (excluding CR) increased by almost +14%. Due to M&LE orders that did not recur this year, sales in Asia decreased by +63%. Africa grew by +112% due to M&LE orders. However, its share of total sales is relatively low (1.6%). In the other world regions, sales decreased by 9%.

Regional distribution of sales (CZKmn)



Source: Colt CZ

Product mix



The charts show the regional distribution of sales and product mix through the lens of the split between short and long firearms in Colt's portfolio. The dominance of the U.S. market is evident (see above).

## Company results

### The year 2023

Reported numbers for 9M23 were down and below estimates.

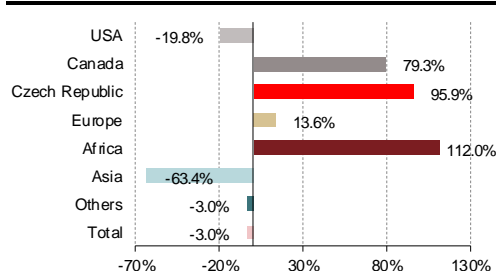
At the end of November, Colt announced its financial results for the 9M23. They were down yoy and missed the market consensus by almost 5.3%. The reason for the disappointment was the weak performance in the US commercial market. The company also revised its full-year guidance.

Decline in U.S. commercial market share.

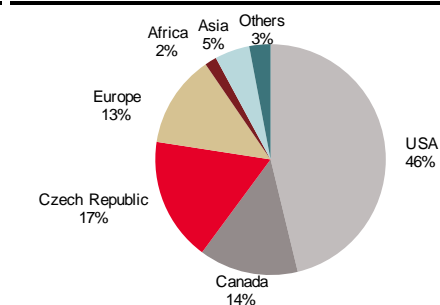
While sales in the U.S. were down 20% yoy, sales in the Czech Republic, Canada and Europe (excluding CR) showed respectable growth of +96%, +79% and +14%, respectively. The common denominator of this growth is demand from the M&LE.

In the first nine months of last year, the US accounted for 46.2% of total revenues. This is down from 55.9% in 9M22. Sales in the Czech Republic increased from 8.6% to 17.3% and in the rest of Europe from 11.1% to 13.0%. Canada also made good progress with 13.9% of the total compared to 7.5% in the previous year. The geographic distribution of returns is shown in the chart below.

Sales y-o-y development by region (9M23)



Geographical breakdown of sales (9M23)



Source: Colt CZ, Economic and Strategy Research, Komerční banka

**3Q23 / 9M23 results**

CZKm	3Q22	3Q23	y/y	KB	Kons.	9M22	9M23	y/y	KB	Kons.
Revenue	3,171	<b>3,050</b>	-3.8%	3,662	3,662	10,220	<b>9,911</b>	-3.0%	10,522	10,522
EBITDA	421	<b>409</b>	-2.9%	481		2,146	<b>1,707</b>	-20.5%	1,779	
margin	13.3%	<b>13.4%</b>	0.1pps	13.1%		21.0%	<b>17.2%</b>	-3.8pps	16.9%	
EBITDA adj.	546	<b>471</b>	-13.8%	561	566	2,341	<b>1,935</b>	-17.3%	2,025	2,030
margin	17.2%	<b>15.4%</b>	-1.8pps	15.3%	15.5%	22.9%	<b>19.5%</b>	-3.4pps	19.2%	19.3%
EBIT	184	<b>199</b>	8.5%	298	297	1,487	<b>1,124</b>	-24.4%	1,222	1,222
Net profit	223	<b>491</b>	120.2%	243		1,328	<b>1,538</b>	15.8%	1,289	
Net profit adj.	278	<b>284</b>	2.2%	301	370	1,461	<b>1,482</b>	1.5%	1,496	1,565

Source: Colt CZ, Economic and Strategy Research, Komerční banka

Management has revised its FY guidance. Total revenues are expected to reach CZK15.2-15.5bn and EBITDA CZK3.0-3.3bn (previously CZK16.0-16.4bn and CZK3.2-3.4bn, respectively). This is practically the pessimistic version of the original target from the beginning of the year 2023. This is due to the weak performance of the US commercial market and probably also to the postponement of some orders to next year. But it also suggests that in the fourth quarter alone, Colt should achieve revenues of CZK5.4bn and EBITDA of CZK1.7bn. This would imply a very strong 4Q23 result, which should easily exceed the best quarter ever.

**KB's estimates of Colt's results for the full year 2023**

CZKm	2022	2023 (KB est.)	Change
Revenue	14,590	14,968	2.6%
EBITDA	3,365	2,939	-12.7%
margin	23.1%	19.6%	-3.4pps
EBIT	2,199	1,795	-18.4%
Net profit	2,281	2,164	-5.1%

Source: Colt CZ, Economic and Strategy Research, Komerční banka

We estimate that Colt will sell approximately 635k firearms for the full year. Since the beginning of the year, i.e. in the first nine months, the company has already sold 449k products. The total revenue is expected to slightly exceed the level of 2022 by +2.6% and reach CZK15bn. EBITDA, on the other hand, will fall to CZK2.9bn, according to our forecasts. This is a decrease of 12.7% compared to the previous year. Thus, both monitored lines should be slightly below the lower end of the company's guidance.

**M&A activities**

Colt has been very active on the acquisition front. In June 2023, it acquired 100% of the shares of Swiss ammunition manufacturer swissAA Holding AG. It is consolidated as of July 1, 2023.

**Acquisition of ammunition manufacturer Sellier & Bellot**

On Monday, December 18, Colt announced the acquisition of 100% of Sellier & Bellot a.s., a Czech manufacturer of small-caliber ammunition. Colt will acquire control of the company for \$350m in cash and the issuance of new shares. The current owners of S&B will receive a 27-29,91% equity interest in Colt. We estimate that Colt will issue approximately 13 million new shares to CBC. The combined company's debt is estimated to be 2.7x (net debt/EBITDA), well below the 3.5x covenant. The deal is subject to regulatory approval. Completion is expected by the middle of next year.

For this year, S&B is expected to report revenues of CZK6.7bn (+8.9% yoy) and EBITDA of CZK2.1bn (+30.4% yoy). The margin should reach 31.5%, which is significantly better than the expected 20% for Colt itself. We estimate the purchase price at approx. CZK14.7bn (\$350m plus the value of the new shares), which, according to our calculations, represents a multiple of 8.5x (EV/EBITDA). This is slightly higher than the 7.8x multiple for Colt itself. However, we believe the premium is justified given Colt's strong profitability. S&B will increase Colt's margins. The

Active player in M&amp;A. Acquisition of swissAA.

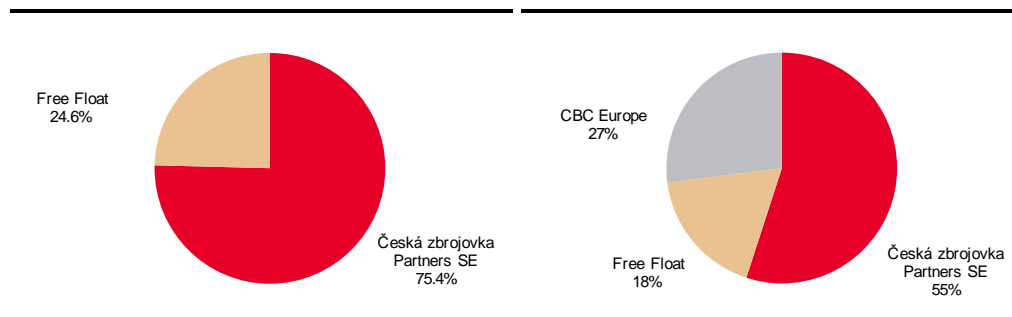
Acquisition of Sellier &amp; Bellot.

new company is also expected to generate significant synergies in several areas. In addition, the production of customized ammunition for Colt's firearms can be estimated. This could be another benefit for Colt.

We would also like to emphasize that Colt is not building anything from scratch or restructuring a company in trouble by acquiring S&B. It has acquired a profitable business whose results and contribution to cash generation will be immediately apparent.

Upon completion of the S&B acquisition and the issuance of new shares to the seller, CBC Europe, Česká zbrojovka Partners SE will remain the majority owner of Colt CZ with an expected stake of approximately 55%. CBC will control 27-29,91% of all shares and the free float will remain at approximately 18%. The total number of Colt CZ shares after completion of the transaction will be approximately 48.2m (currently 35.2m). This is illustrated in the chart below.

**Shareholder structure before the acquisition of ... and after completion of the S&B acquisition**



Source: Colt CZ

The 2025 targets are within reach.

Colt plans to achieve revenues of €1bn (approx. CZK 25bn) and EBITDA of €200m (approx. CZK5bn) in 2025. Colt's target for this year is revenues of CZK15.2-15.5bn and EBITDA of CZK3.0-3.3bn; adding the estimated CZK6.7bn and CZK2.1bn from S&B, Colt would achieve total revenues of CZK22.2bn and EBITDA of CZK5.4bn. It would almost reach its revenue target and even exceed its EBITDA target.

We remain confident that Colt will continue to evaluate any consolidation opportunities in its industry (e.g., optics manufacturers, ammunition manufacturers).

Colt has low debt. It is also able to generate strong cash flow. Cash conversion is high at around 60%.

The above indicates that Colt will continue to be an active player in the M&A..

Colt's offer to merge with Vista was rejected by the management.

Along with the 3Q23 (November 23, 2023) results, Colt announced a tender offer to Vista Outdoor shareholders. It values Vista at \$30 per share. Vista shareholders would own 55% of the combined company. The merger would consist of \$600m in newly issued shares and \$300m in debt. The new company's leverage would be approximately 1.8x. The potential transaction would most likely be approved by the shareholders of both companies at shareholder meetings. No further details were disclosed on the subsequent conference call. There are a lot of unknowns surrounding this potential transaction. As a reminder, Colt already owns 2.4% of Vista, while the other percentages are controlled by Colt's CEO and majority owner. That's a total of 5.7% of Vista's shares. However, Vista's management has rejected Colt's offer. It continues to recommend the Czechoslovak Group's acquisition of its Sporting Products ammunition division, which the two companies agreed to in mid-October.

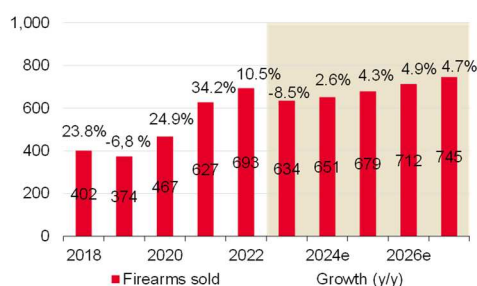
Given the S&B acquisition described above, we don't assign a high probability to a potential Vista deal.

## Long-term forecasts

We expect production to increase.

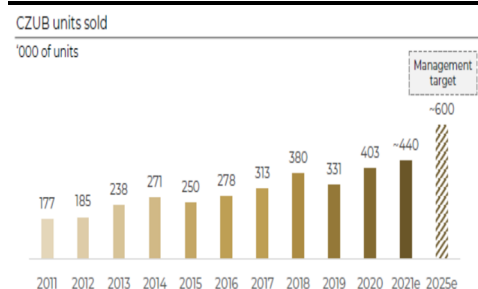
Last year (2022), Colt sold 693k firearms. For 9M23, the company has sold the equivalent of 65% (449k) of last year's total. The slightly weaker pace in the first nine months of this year is likely behind the decline for the full year. While we expect volumes to rise to near-record levels in 4Q23, total 2023 sales should be down 8.5% (635k) yoy. In the 2023-2027 reporting period, we expect the number of firearms sold to exceed 700k, representing a CAGR of +4.1%. Substantial growth was seen in 2021, when Colt was consolidated. Despite a decline in market share in the US commercial market, M&LE contracts in Europe and Canada will be the driving force in the coming years.

Sales volume projections (k units)



Source: Colt CZ, Economic and Strategy Research, Komerční banka

Products sold from the factory in CZUB

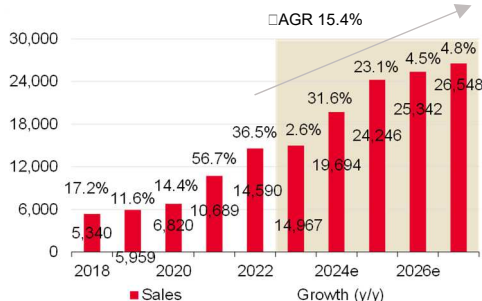


Source: Colt CZ

Total revenues will benefit from last year's acquisition of swissAA and in 2024 acquired S&B.

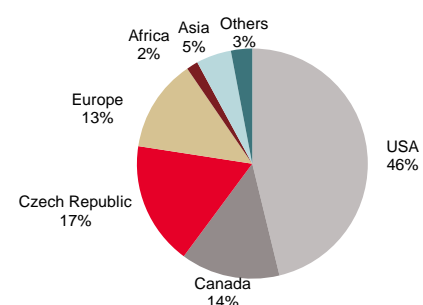
On July 1, ammunition manufacturer swissAA became part of the Colt Group. This should improve the numbers. We estimate that swissAA will contribute about CZK0.5bn to revenues this year. This would bring total revenues to CZK15bn. This implies growth of +2.6% yoy. This year (2024), the new acquisition should contribute just under CZK1bn. In addition to organic growth, there are plans for another acquisition of an ammunition manufacturer, this time Sellier & Bellot. Its consolidation should take place in the middle of the year. It should contribute approximately CZK3.5bn to total sales this year. We expect Colt's sales growth to average +15.4% over the forecast period. This would amount to CZK 26.5bn in 2027. The weaker civilian market in the US should be compensated by revenues from M&LE supplies in Europe, at least in the coming years.

Total sales (CZKbn)



Source: Colt CZ, Economic and Strategy Research, Komerční banka

Geographical breakdown of sales (9M23)



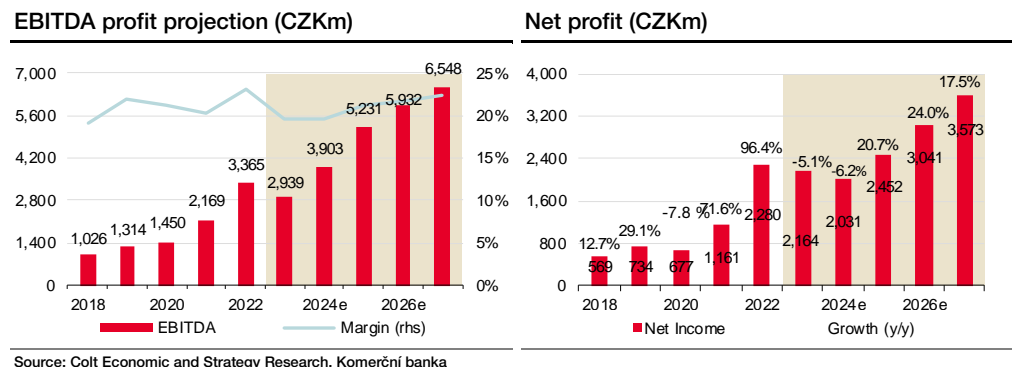
Source: Colt CZ

The EBITDA margin should exceed 20%.

Last year (2023), EBITDA is expected to reach CZK2.9bn (-12.7% yoy) after CZK 3.4 bn in 2022, according to our estimates. The decline is driven by lower firearms sales, especially in the US commercial market, which is a key segment for Colt. We expect EBITDA of CZK6.5bn in 2027.

This corresponds to a CAGR of +22.2% over the forecast period. We estimate the EBITDA margin at 19.6% last year. However, we expect it to grow to almost 25% in the coming years.

Net profit (2023) is expected to be CZK2.2bn (-5.1% yoy). In the last year of the 2023-2027 period, it should reach CZK3.6bn (CAGR +13.4%).



The following tables show our estimates for the individual companies Colt CZ Group SE and Sellier & Bellot. The final table presents our estimates for the new company comprising the two entities.

#### Colt CZ standalone

CZKm	2019	2020	2021	2022	2023e	2024f	2025f	2026f	2027f
Tržby	5,959	6,820	10,689	14,590	14,967	16,164	17,002	17,982	18,980
EBITDA	1,314	1,450	2,169	3,365	2,939	3,155	3,608	3,884	4,243
marže	22.1%	21.3%	20.3%	23.1%	19.6%	19.5%	21.2%	21.6%	22.4%
EBIT	944	1,056	1,011	2,199	1,795	2,048	1,950	2,267	2,689
Čistý zisk	734	677	1,161	2,280	2,164	1,558	1,424	1,699	2,028

Zdroj: Colt CZ, Ekonomický a strategický výzkum, Komerční banka

#### Sellier & Bellot standalone

CZKm	2019	2020	2021	2022	2023e	2024f	2025f	2026f	2027f
Tržby	4,307	4,403	4,869	6,118	6,666	7,059	7,244	7,360	7,568
EBITDA	1,139	1,261	1,147	1,609	2,098	2,142	2,165	2,161	2,195
marže	26.4%	28.6%	23.6%	26.3%	31.5%	30.3%	29.9%	29.4%	29.0%
EBIT	882	978	852	1,304	1,754	1,776	1,781	1,760	1,778
Čistý zisk	770	895	812	1,056	1,435	1,463	1,461	1,433	1,456

Zdroj: S&B, Ekonomický a strategický výzkum, Komerční banka

#### Colt CZ combined with S&B

CZKm	2019	2020	2021	2022	2023e	2024f	2025f	2026f	2027f
Tržby	5,959	6,820	10,689	14,590	14,967	19,694	24,246	25,342	26,548
EBITDA	1,314	1,450	2,169	3,365	2,939	3,903	5,231	5,932	6,548
marže	22.1%	21.3%	20.3%	23.1%	19.6%	19.8%	21.6%	23.4%	24.7%
EBIT	944	1,056	1,011	2,199	1,795	2,612	3,189	3,915	4,577
Čistý zisk	734	677	1,161	2,280	2,164	2,031	2,452	3,041	3,573

Zdroj: Ekonomický a strategický výzkum, Komerční banka

#### Capital expenditure (CAPEX) and leverage

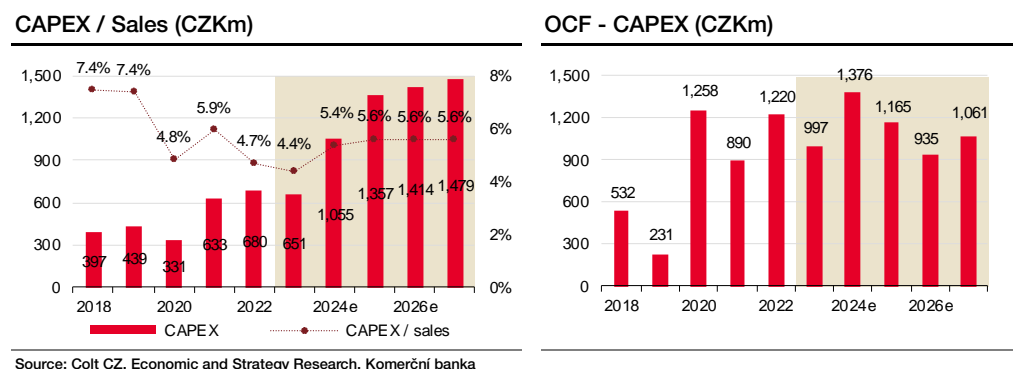
Colt aims to keep capital expenditure (CAPEX) below 5% of total revenue. Last year Colt invested CZK680m or 4.7% of revenue. For 9M23 it has been CZK424m or 4.3%. We expect it to increase to CZK651m by the end of the 2023. This is in line with Colt's target of CZK600-



CAPEX is expected to reach 5-6% of total revenue.

700m or maximum 5.0% of revenues. Colt last year acquired ammunition manufacturer swissAA. The acquisition of Sellier & Bellot is expected to close this year (2024), subject to regulatory approval. We expect CAPEX to be in the range of 5-6% of total sales in the coming years. We expect investments to flow mainly into production upgrades.

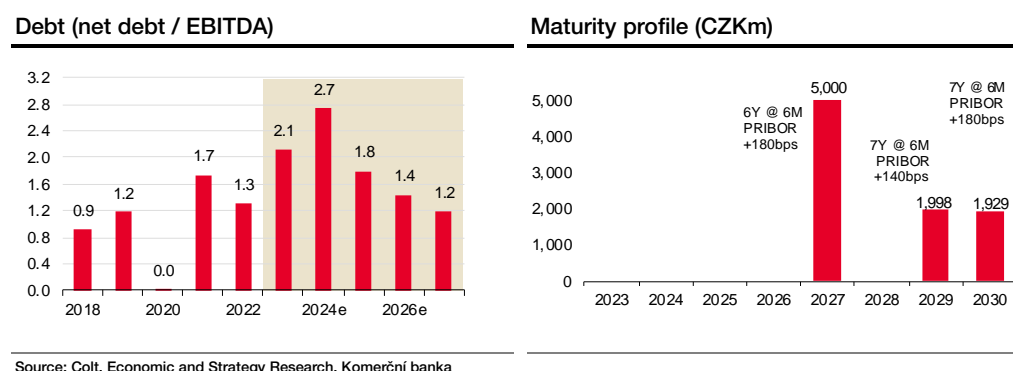
The charts below show CAPEX (left) and its comparison with operating cash flow. The charts show that Colt could generate sufficient cash to execute its capital expenditure plans.



The acquisition of swissAA slightly increased leverage.

Further growth is expected due to the purchase of Sellier & Bellot.

The net debt/EBITDA multiple jumped to 1.7x in 2021 after the Colt acquisition. At the end of last year (2022) it was 1.2x. This year and in the first nine months, it has increased to 1.8x. This is due to the acquisition of the ammunition manufacturer swissAA. By the end of 2023, Colt's management expects debt to be 2.2x. And next year, after the Sellier & Bellot acquisition, it will rise to 2.7x. We think this level is comfortable. Our estimates are for a debt level of 2.1x at the end of 2023 and 2.7x this year. However, given the company's strong cash generation, debt should continue to decline towards 1.2x in the coming years.



## Dividend policy

Colt plans to distribute 50% of profits to shareholders.

Colt's management plans to return 50% of adjusted net profit to shareholders in the form of dividends.

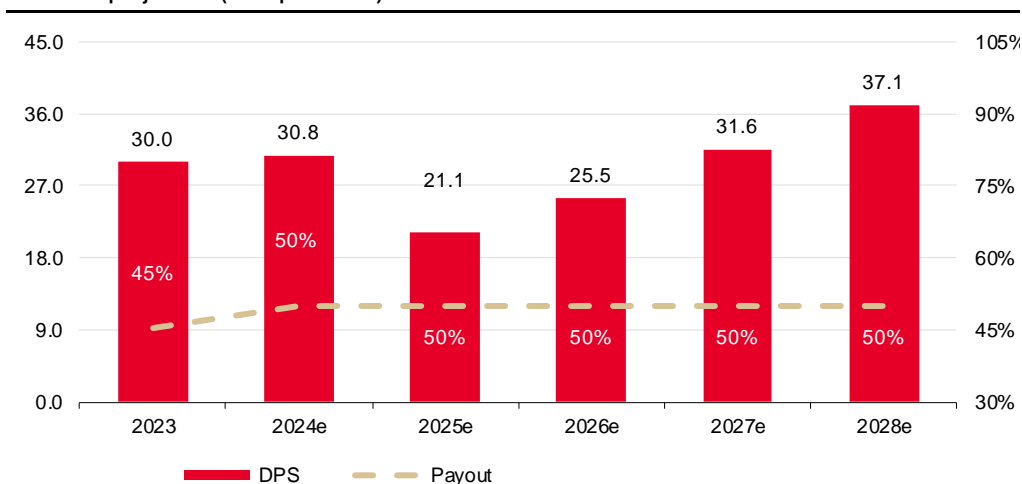
Last year, from previous year's profit (2022), Colt paid out CZK30 per share, representing a payout ratio of 45%.

This year's payout of CZK30 per share represents a gross yield of 5.2%. In future years, the gross yield could rise to a solid 6%.

While Colt could afford to pay higher dividends given its cash-generating ability, we conservatively expect Colt to maintain its dividend policy after the current acquisitions and pay

50% of earnings in the coming years. However, we are aware that higher debt may affect the ability to pay a dividend.

Dividend projection (CZK per share)



Source: Colt, Economic and Strategy Research, Komerční banka

The ability to pay a dividend can be affected by several factors. These include, for example, M&A. Colt appears to be very active in this area and it is likely that some acquisitions will occur. This, of course, could affect the dividend, as well as factors such as the company's leverage or outlook.

## Valuation

### Peer comparison approach

Colt trades at a premium compared to companies in the sector.

As a complementary method to the Colt valuation, we chose relative comparison. Unfortunately, the number of companies in the same sector is not large. Note that the individual companies in our sample differ substantially from one another, especially in terms of size, **product mix and geographical footprint**. We consider **peer comparison** as a supplementary method.

	P/E	P/E	P/E	P/S	P/S	EV/	EV/	EV/	EV/	EV/	Div.	Div.	Div.
	akt.	2024	2025	akt.	2024	Sales	Sales	EBITDA	EBITDA	EBITDA	výnos	výnos	výnos
	akt.	2024	2025	akt.	2024	akt.	2024	akt.	2024	2025	akt.	2024	2025
Colt CZ Group SE	11.2	21.8	18.1	2.3	2.3	2.7	2.8	13.1	14.1	10.3	5.2	3.3	2.3
Sturm Ruger & Co Inc	13.9	15.9	12.8	1.4	1.4	1.2	1.2	7.4	8.1	6.7	2.5	14.1	2.6
Smith & Wesson Brands Inc	16.4	20.3	14.0	1.2	1.2	1.3	1.3	7.8	9.2	6.7	n/a	n/a	n/a
Taurus Armas SA	7.7	n/a	n/a	0.9	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>SEKTOROVÝ MEDIÁN</b>	<b>13.9</b>	<b>18.1</b>	<b>13.4</b>	<b>1.2</b>	<b>1.3</b>	<b>1.3</b>	<b>1.2</b>	<b>7.6</b>	<b>8.7</b>	<b>6.7</b>	<b>2.5</b>	<b>14.1</b>	<b>2.6</b>
Colt vs sektor	-18.8%	21.0%	34.8%	85.1%	74.8%	112.5%	128.2%	72.3%	62.8%	54.0%	113.8%	-76.3%	-12.4%

Source: Bloomberg, Economic and Strategy Research, Komerční banka

Colt multiples are somewhat higher compared to the closest peers. We believe that this is justified by a healthier financial profile, growth potential, strong cash generation and dividend payment.

### Discounted cash flow

We used the DCF method to value Colt. We set the target price at CZK921.

We used the discounted free cash flow to value Colt. The DCF valuation assumes cost of capital (WACC) in the range of 8.9-7.5% for the respective years in the first phase and 7.5% for the terminal phase. The terminal growth rate is assumed at 2%. Based on the discounted cash flow method presented in the table below, we obtain a valuation for **Colt of CZK921 per share**. This suggests a growth potential of +60.5%.

### Discounted cash flow (DCF) valuation

	2023e	2024e	2025e	2026e	2027e	LT
<b>Calculation of the required rate of return</b>						
<b>WACC</b>	<b>8.9%</b>	<b>8.0%</b>	<b>7.3%</b>	<b>7.3%</b>	<b>7.5%</b>	<b>7.5%</b>
CoE	10.2%	10.1%	9.8%	9.6%	9.6%	9.6%
Premium - liquidity	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Beta	0.748	0.748	0.748	0.748	0.748	0.748
Risk-free	4.2%	4.1%	3.8%	3.6%	3.6%	3.6%
Equity risk premium	4.8%	4.1%	3.8%	3.6%	3.6%	3.6%
Country risk premium	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Cost of debt	7.2%	5.6%	4.2%	3.8%	3.8%	3.8%
<b>Discounted cash flow model (CZKm)</b>						
<b>EBITDA</b>	<b>2,939</b>	<b>3,903</b>	<b>5,231</b>	<b>5,932</b>	<b>6,548</b>	
Taxes paid	-576	-632	-724	-811	-936	
WC change	-1,197	454	308	-50	-117	
CAPEX	-1,380	-9,004	-1,357	-1,414	-1,479	
<b>FCFF</b>	<b>-213</b>	<b>-5,278</b>	<b>3,459</b>	<b>3,658</b>	<b>4,016</b>	
<b>Discounted FCFF</b>	<b>-196</b>	<b>-4,486</b>	<b>2,739</b>	<b>2,700</b>	<b>2,759</b>	
Sum of discounted FCFF	3,516					
Terminal value	51,579					
Long-term growth	2%					
<b>Enterprise value</b>	<b>55,094</b>					
Net debt	10,724					
<b>Equity value</b>	<b>44,370</b>					
<b>Fair value / Target price (CZK)</b>	<b>921</b>					

Source: Economic and Strategy Research, Komerční banka

The chart below shows how our valuation is sensitive to two major factors: the discount rate (WACC) in the terminal phase and the terminal growth rate.

#### Sensitivity analysis of DCF valuation

		WACC				
LT Growth		6.5%	7.0%	7.5%	8.0%	8.5%
	1.0%	921	826	746	678	619
	1.5%	1,035	921	826	746	678
	2.0%	1,174	1,035	<b>921</b>	826	746
	2.5%	1,349	1,174	1,035	921	826
	3.0%	1,574	1,349	1,174	1,035	921

Source: Economic and Strategy Research, Komerční banka

## Risk factors

**Any event that would result in a production outage** would affect the company's operations.

**Rising costs.** The inability to effectively manage costs could have an adverse impact on the company's performance and/or competitiveness. For example, a very tight labour market in the Czech Republic could lead to an unexpected rapid increase in personnel costs.

**Loss of qualified staff.** Colt relies on highly qualified employees. An outflow of its skilled workforce and an inability to replace them could adversely affect the company's future operations.

**FX risk.** A large proportion of sales are generated in USD and EUR.

**Highly competitive market.** As mentioned above, the small arms market remains crowded and highly competitive. An inability to compete in terms of product or price could affect the company's business performance.

**Effects of changes in regulations.** The production, sale, use and handling of firearms is subject to strict controls. An unexpected adverse change in legislation could negatively affect the company's performance.

## Financial statements - annual

### Profit and loss account

CZKm	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
<b>INCOME STATEMENT</b>										
Sales	5,340	5,959	6,820	10,689	14,590	14,967	19,694	24,246	25,342	26,548
Other Operating Income	49	102	68	62	133	109	643	989	1,120	1,155
Changes in Inventories of Finished Goods and Works in Proc	2	52	-380	167	521	982	636	571	634	711
Own Work Capitalized	104	105	124	140	152	166	819	1,207	1,374	1,544
Raw Materials and Consumables Used	-2,491	-2,886	-2,736	-5,113	-7,326	-8,395	-11,074	-13,653	-14,240	-14,897
Services	-814	-820	-1,095	-1,765	-1,769	-1,900	-2,352	-2,282	-2,473	-2,487
Personnel Costs	-1,046	-1,081	-1,299	-2,088	-2,889	-3,042	-3,898	-4,632	-4,770	-4,911
Depreciation and Amortization	-365	-371	-393	-790	-910	-835	-884	-1,415	-1,359	-1,313
Other Operating Expenses	-118	-117	-123	-190	-238	-256	-972	-1,842	-1,713	-1,772
<b>Operating Profit</b>	<b>661</b>	<b>944</b>	<b>1,056</b>	<b>1,011</b>	<b>2,199</b>	<b>1,795</b>	<b>2,612</b>	<b>3,189</b>	<b>3,915</b>	<b>4,577</b>
Interest Income	13	17	17	50	440	717	120	94	117	132
Interest Expense	-47	-86	-77	-205	-612	-737	-510	-564	-573	-582
Other Financial Income	247	74	1	32	173	379	469	615	592	601
Other Financial Expenses	-160	-88	-66	-169	-134	-59	-376	-511	-507	-504
Others, net	0	52	-80	211	290	468	0	0	0	0
Pre-tax	714	912	851	932	2,356	2,562	2,315	2,822	3,544	4,224
<b>Profit for the Period</b>	<b>569</b>	<b>734</b>	<b>677</b>	<b>1,161</b>	<b>2,280</b>	<b>2,164</b>	<b>2,031</b>	<b>2,452</b>	<b>3,041</b>	<b>3,573</b>
<b>EBITDA</b>	<b>1,026</b>	<b>1,314</b>	<b>1,450</b>	<b>2,169</b>	<b>3,365</b>	<b>2,939</b>	<b>3,903</b>	<b>5,231</b>	<b>5,932</b>	<b>6,548</b>

<b>BALANCE SHEET</b>										
Total Non-Current Assets	3,361	3,174	3,948	9,057	10,248	11,518	18,902	18,197	17,618	17,155
Total Current Assets	4,125	4,375	4,829	7,957	9,255	10,298	10,323	11,445	12,594	13,725
<b>Total Assets</b>	<b>7,486</b>	<b>7,549</b>	<b>8,776</b>	<b>17,013</b>	<b>19,504</b>	<b>21,817</b>	<b>29,225</b>	<b>29,641</b>	<b>30,213</b>	<b>30,880</b>
<b>Total Equity</b>	<b>3,309</b>	<b>3,469</b>	<b>4,523</b>	<b>5,242</b>	<b>7,681</b>	<b>8,689</b>	<b>12,068</b>	<b>12,298</b>	<b>12,526</b>	<b>12,865</b>
Total Non-Current Liabilities	2,673	2,584	2,926	6,892	8,338	10,424	13,419	13,528	13,650	13,783
Total Current Liabilities	1,504	1,496	1,328	4,879	3,484	2,704	3,738	3,815	4,037	4,232
<b>Total Liabilities</b>	<b>4,176</b>	<b>4,080</b>	<b>4,254</b>	<b>11,771</b>	<b>11,822</b>	<b>13,128</b>	<b>17,157</b>	<b>17,343</b>	<b>17,687</b>	<b>18,015</b>
<b>Total Liabilities and Equity</b>	<b>7,486</b>	<b>7,549</b>	<b>8,776</b>	<b>17,013</b>	<b>19,504</b>	<b>21,817</b>	<b>29,225</b>	<b>29,641</b>	<b>30,213</b>	<b>30,880</b>

<b>CASH FLOW</b>										
Profit before tax	752	932	851	932	2,356	2,562	1,724	1,537	1,865	2,294
Depreciation	407	413	393	790	910	835	884	1,415	1,359	1,313
Other non-cash items	-50	95	180	226	1,330	43	391	456	442	436
Change in working capital	40	-679	456	-128	-2,115	-1,197	454	308	-50	-117
Interest paid, net	-28	-59	-79	-39	-127	-20	-390	-471	-456	-450
Income tax paid	-191	-198	-214	-257	-454	-576	-632	-724	-811	-936
<b>Net cash flow from operating activities</b>	<b>929</b>	<b>505</b>	<b>1,588</b>	<b>1,523</b>	<b>1,900</b>	<b>1,648</b>	<b>2,432</b>	<b>2,522</b>	<b>2,349</b>	<b>2,540</b>
<b>Cash flow from investing activities</b>	<b>-386</b>	<b>-435</b>	<b>-399</b>	<b>-4,978</b>	<b>-1,484</b>	<b>-1,222</b>	<b>-8,251</b>	<b>-658</b>	<b>-765</b>	<b>-876</b>
Dividends paid	-260	-574	-332	-261	-843	-1,034	-1,082	-1,015	-1,226	-1,521
<b>Cash flow from financing activities</b>	<b>479</b>	<b>-610</b>	<b>364</b>	<b>4,670</b>	<b>-1,164</b>	<b>-228</b>	<b>4,377</b>	<b>-492</b>	<b>-638</b>	<b>-770</b>
Change in cash	1,022	-540	1,553	1,215	-748	197	-1,442	1,372	946	894

Source: Colt, Economic and Strategy Research, Komerční banka

**Financial data**

	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
<b>RATIOS (%)</b>										
EBITDA margin	19.2	22.1	21.3	20.3	23.1	19.6	19.8	21.6	23.4	24.7
Operating margin	12.4	15.8	15.5	9.5	15.1	12.0	13.3	13.2	15.4	17.2
Net margin	10.6	12.3	9.9	10.9	15.6	14.5	10.3	10.1	12.0	13.5
EBIT/Interest (x)	19.4	13.7	17.8	6.5	12.8	88.4	6.7	6.8	8.6	10.2
Net debt/Equity (x)	0.3	0.4	0.0	0.7	0.6	0.7	0.9	0.8	0.7	0.6
Net debt/EBITDA (x)	0.9	1.2	0.0	1.7	1.3	2.1	2.7	1.8	1.4	1.2
ROE	17.3	21.2	15.0	22.2	29.7	24.9	16.8	19.9	24.3	27.8
ROA	7.6	9.7	7.7	6.8	11.7	9.9	6.9	8.3	10.1	11.6
ROCE	1.5	1.5	2.0	1.0	1.1	1.0	1.0	1.0	1.1	1.1
Dividend payout	50.5	98.5	44.7	37.4	73.4	45.3	50.0	50.0	50.0	50.0
<b>DATA PER SHARE (CZK)</b>										
EPS	19.1	24.6	20.7	34.4	66.9	61.6	42.2	50.9	63.1	74.2
Book value	110.0	115.9	138.2	155.4	225.2	247.1	250.5	255.3	260.0	267.1
Free cash flow	16.1	5.5	41.7	34.1	3.4	-6.1	-109.6	71.8	75.9	83.4
Gross dividend	8.5	18.8	11.0	7.5	25.0	30.0	30.8	21.1	25.5	31.6
<b>MARKET VALUATION</b>										
P/E (x)			14.2	14.8	8.3	11.2	21.8	18.1	14.6	12.4
Price/Operating cash flow (x)			6.0	11.3	9.9	19.6	18.2	17.6	18.9	17.5
Price/free cash flow (x)			7.0	14.9	162.3	-151.7	-8.4	12.8	12.1	11.0
Price/book value (x)			2.1	3.3	2.5	3.7	3.7	3.6	3.5	3.4
Price/sales (x)			1.4	1.6	1.3	2.3	2.3	1.8	1.8	1.7
Dividend yield (%)			3.7	1.5	4.5	5.2	3.3	2.3	2.8	3.4
EV/revenues (x)			1.4	2.0	1.6	2.7	2.8	2.2	2.1	2.0
EV/EBITDA (x)			6.6	9.6	6.9	13.1	14.1	10.3	8.9	8.0
EV/IC (x)			1.4	2.0	1.6	2.2	2.3	2.2	2.2	2.1

Source: Colt, Economic and Strategy Research, Komerční banka



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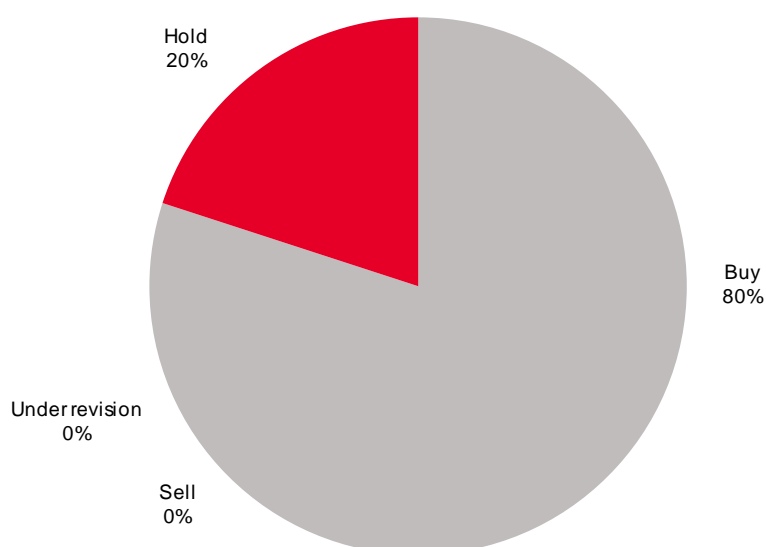
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The chart below shows the structure of the grades of valid investment recommendations of KB Economic and Strategic Research equity analysts (8 recommendations).

#### Investment recommendations of KB Equity Research



Source: economic and strategic research, Komerční banka

#### KB Equity Research recommendations for a 12-month horizon

**BUY:** estimated total return of 15% or more over the next 12 months

**HOLD:** estimated total return of 0 to 15% over the next 12 months

**SELL:** estimated total return of less than 0% over the next 12 months.

Total shareholder return means the estimated share price appreciation plus any estimated cash dividends, including any income from extraordinary dividends paid in the following 12 months. The specific recommendation is determined by the estimated total return stated above at the time the share coverage commences or the recommendation is changed. In the interim, price movements or other market situations may occur that may imply a different recommendation. Such interim deviations from the original recommendation are possible but are subject to review by KB Equity Research.

**Overview of recommendations published by KB and relationships with particular issuers**

	CEZ	Colt CZ Group SE	Kofola	MONETA Money Bank	Philip Morris CR	Avast	O2 CR
<b>Overview of last investment research and recommendations related to stocks of particular issuers</b>							
Recommendation	Buy	Buy	Buy	Buy	Hold	End	End
Target price	CZK1,034	CZK921	CZK313	CZK102.8	CZK18,349	of coverage	of coverage
Date	07.09.2023	09.02.2024	29.05.2023	19.10.2023	03.03.2023	07.09.2022	25.02.2022
Price on the day of the publication	CZK923	CZK574	CZK244	CZK84	CZK17,200	CZK205.1	CZK270
Investment horizon	12 months	12 months	12 months	12 months	12 months		
Author	B. Trampota	B. Trampota	B. Trampota	B. Trampota	B. Trampota		
<b>Overview of investment researches and recommendations for last 12M (quarterly)</b>							
Recommendation	Buy	Buy	Buy	Buy	Buy	Buy	Buy
Target Price	CZK1,393	CZK652	CZK381	CZK104.6	CZK18,183	GBp600	CZK362
Date	07.06.2022	16.12.2022	12.05.2022	05.09.2022	11.02.2022	11.02.2021	26.03.2021
Recommendation	In revision	Buy	In revision	Buy	Buy	Buy	Buy
Target Price	In revision	CZK645	In revision	CZK109.7	CZK16,512	GBp466	CZK293
Date	10.05.2022	17.01.2022	15.02.2022	31.08.2021	20.11.2020	30.08.2019	08.01.2020
Recommendation	Buy	In revision	Buy	In revision	Buy	In revision	Buy
Target Price	CZK905	In revision	CZK367	In revision	CZK18,308	In revision	CZK298
Date	10.12.2021	31.03.2021	12.01.2021	07.05.2021	03.12.2018	14.08.2019	12.12.2018
Recommendation	Buy	Buy	In revision	Buy	Buy	Buy	Hold
Target Price	CZK621	CZK357	In revision	CZK97	CZK17,546	GBp342	CZK270
Date	23.07.2020	27.11.2020	26.11.2020	29.10.2019	22.08.2017	15.06.2018	18.08.2017
Valuation methods	DFCF	DFCF	DFCF	DFCF DDM ERM	DDM	DFCF	DFCF DDM
Frequency of rec. (per year)	once	once	once	once	once	once	once
Direct or indirect share (5% or more) of the issuer of the registered capital of KB	no	no	no	no	no	no	no
Other significant financial interest of KB and/or its linked persons in the issuer	no	no	no	no	no	no	no
KB direct or indirect share (0.5% or more) of the registered capital of the issuer.	no	no	no	no	no	no	no
Author's direct or indirect share (0.5% or more) of the registered capital of the issuer.	no	no	no	no	no	no	no
Signific. fin. interest in the issuer of the persons partic. in elaboration of inv. research and rec.	no	no	no	no	no	no	no
<b>Relationships of Komerční banka with particular issuers</b>							
KB Management or co- management of public offerings in the past 12 month	no	yes	no	no	no	no	no
Agreements or contractual relations for providing investment services with the issuer	KB can have concluded agreements with the issuer for providing investment services. This information is protected by bank secret and could not be disclosed.						
Agreement with the issuer on production and dissemination of the research	no	no	no	no	no	no	no
KB market making for common stocks of the issuer	no	no	no	no	no	no	no

Note: DFCF – Discounted free cash flow model, DDM – Discounted dividend model, ERM – Excess return model

Source: Economic &amp; Strategy Research, Komerční banka