



H&K AG

QUARTERLY REPORT

Results for the  
three-month period  
to March 31, 2023

## About HK

We are a leading defence contractor in the small arms sector of the European NATO defence industry. We design, produce and distribute small arms, including rifles, side arms, fully automatic weapons and grenade launchers, and a variety of other related products. We supply the armed forces of NATO and its allies and many law enforcement agencies. We have been in operation for more than 70 years and have a strong history of design innovation. We have a strong management team and a highly skilled work force. Our brand name, Heckler & Koch, is well respected and our products are widely considered to be of the highest quality.

Our sales strategy remains focussed on so-called "Green Countries"; the "Green Country Strategy" is a self-imposed filter to the member countries of NATO, the EU and the NATO-equivalent countries (Switzerland, New Zealand, Australia, Japan). In addition to these, for countries that are classed as partners by the German government, deliveries may be approved on a case-by-case basis. This "Green Country Strategy" is not only fully in line with the laws, regulations, requirements and restrictions that the German Government has issued for defence exports but goes significantly further. The focus on "Green Countries" since 2016 has stabilised the Group's forecasting and delivery capabilities.

For more information, please visit our web site:

*[www.heckler-koch.com](http://www.heckler-koch.com)*

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## Note regarding forward-looking statements

This report includes forward-looking statements. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes," "estimates," "anticipates," "expects," "intends," "may," "will" or "should" or, in each case, their negative, or other variations or comparable terminology, or by discussions of strategy, plans or intentions. These forward-looking statements include statements that are not statements of historical facts and relate to our current intentions, beliefs or expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which we operate.

By their nature, forward-looking statements involve risk and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate may differ materially from those made in or suggested by the forward-looking statements contained in this report, in statements made by HK representatives in their presentations or in a "Question and Answer" period following such presentations. In addition, even if our results of operations, financial condition and liquidity, and the development of the industry in which we operate are consistent with the forward-looking statements contained in this report, those results or developments may not be indicative of results or developments in subsequent periods.

We undertake no obligation to publicly update or publicly revise any forward-looking statement, whether as a result of new information, future events or otherwise. All written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the above cautionary statements.

# Results as at and for the three-month period ended March 31, 2023

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Chief Executive Officer Dr Jens Bodo Koch and Chief Financial Officer Dr Björn Krönert commented:

Sales in Q1 2023 were €73 million, a decrease of €4 million compared to Q1 2022, but due to a change in product mix the gross profit was in line with Q1 2022. We generated €18 million EBITDA in the quarter, a decrease of €2 million compared to Q1 2022. Cash and cash equivalents fell by €6.3 million during the quarter. The Group continues to generate positive quarterly earnings after tax.

During its session on December 14, 2022, the Budget Committee of the German Parliament approved funds for the successor to the G36 assault rifle. The “System Assault Rifle Bundeswehr”, a new assault rifle from Heckler & Koch GmbH based on the HK416 A8, will replace the G36 as the standard assault rifle for the German Army. The first test weapons will be made available in 2023; series production is planned for 2025. The selection decision was actually made in the Spring of 2021, however review proceedings against the decision initiated by an unsuccessful tenderer delayed the contract signature. The contract was signed in January 2023.

As we commented previously, the Russian invasion of Ukraine in February 2022 has made it clear that the defence industry is crucial when it comes to maintaining and defending democracy, liberty and human rights. This has led to a paradigm shift in Germany. A few days after the beginning of the war, German Chancellor Olaf Scholz announced that a special fund would be set up; this fund together with the annual budget allocations are to be used for necessary investments and armament projects of the German Armed Forces. In addition, he announced that the defence budget would be permanently increased to “more than two percent” of the gross domestic product. Other nations have similar programmes to improve their defence capabilities, in some cases long-standing and also as a result of the current situation. Inflation has started to affect our suppliers and consequently their prices to us; we are able to pass on some of these effects to our customers where we have price escalation clauses in our existing sales contracts and are taking this into account when pricing new contracts.

Q2 2023 Guidance:

In Q2 2023 we currently expect to achieve net sales at a similar level and slightly lower EBITDA compared to Q1 2023. Net working capital is currently expected to be slightly higher than at the end of Q1 2023; the resulting operating cash flow is currently expected to be negative.

As previously reported, as part of the refinancing, to strengthen the Group's equity position, in August 2022 three shareholder loans were converted to hybrid loans totalling €95 million. The necessary steps to enable these three hybrid loans to be converted into legal equity were completed together with a rights issue in Q2. The capital increase from the conversion of these loans together with additional cash contributions was recorded in the commercial register on May 17, 2023.

## Note regarding presentation of financial information

Some financial information in this report has been rounded and, as a result, the totals in this report may vary slightly from the exact arithmetic aggregation of the figures that precede them.

Certain financial information in this release has been derived from our unaudited, interim, consolidated statements of financial position at March 31, 2023 and 2022 and the related unaudited, interim, consolidated statements of income, comprehensive income, equity and cash flows for the three-month periods ended March 31, 2023 and 2022 prepared in accordance with IFRS, subject only to normal year-end audit adjustments and the absence of notes.

## Attached are our

- Unaudited, Interim, Consolidated Statement of Financial Position
- Unaudited, Interim, Consolidated Income Statement
- Unaudited, Interim, Consolidated Statement of Comprehensive Income
- Unaudited, Interim, Consolidated Statement of Changes in Equity, and
- Unaudited, Interim, Consolidated Statement of Cash Flows

with figures determined according to IFRS as at and for the three-month periods to March 31, 2023 and 2022.

# Unaudited, Interim, Consolidated Statement of Financial Position

(€ millions)	31.03.2023	31.12.2022
Property, plant & equipment	69.3	67.9
Intangible assets - goodwill	5.1	5.1
Intangible assets - other	44.2	43.5
Other investments	2.4	2.4
Deferred tax assets	15.9	16.8
<b>Total non-current assets</b>	<b>137.0</b>	<b>135.7</b>
Inventories	127.5	117.6
Prepayments for inventories	0.6	0.1
Prepayments for other current assets	1.1	0.2
Other deposits	1.2	2.5
Current tax assets	0.8	1.1
Trade receivables	31.5	29.9
Other receivables	4.8	5.3
Cash & cash equivalents	29.6	35.8
<b>Total current assets</b>	<b>197.2</b>	<b>192.5</b>
<b>Total assets</b>	<b>334.2</b>	<b>328.2</b>
<b>Equity</b>		
Share capital	27.6	27.6
Additional paid in capital	53.0	53.0
Other reserves	(9.7)	(9.3)
Consolidated retained earnings	(86.0)	(96.0)
<b>Total equity attributable to H&amp;K AG shareholders</b>	<b>(15.0)</b>	<b>(24.7)</b>
Equity attributable to hybrid capital investors	95.0	95.0
<b>Total equity</b>	<b>80.0</b>	<b>70.3</b>
<b>Liabilities</b>		
Loans & borrowings	97.8	102.4
Lease liabilities	1.1	1.1
Employee defined benefit obligations	44.7	45.1
Provisions	2.4	2.5
Other payables	0.4	0.1
Deferred tax liabilities	24.1	23.9
<b>Total non-current liabilities</b>	<b>170.5</b>	<b>175.0</b>
Loans & borrowings	9.7	4.8
Trade payables	18.2	21.2
Other payables	16.3	13.8
Contract liabilities	17.0	18.7
Derivatives	0.2	1.5
Tax liabilities	10.2	8.3
Other provisions & accruals	12.2	14.6
<b>Total current liabilities</b>	<b>83.7</b>	<b>82.9</b>
<b>Total liabilities</b>	<b>254.2</b>	<b>257.9</b>
<b>Total equity &amp; liabilities</b>	<b>334.2</b>	<b>328.2</b>

# Unaudited, Interim, Consolidated Income Statement For the period January 1 to March 31

(€ millions)	2023	2022
Revenue	73.2	77.5
Cost of sales	(43.6)	(47.1)
<b>Gross profit</b>	<b>29.6</b>	<b>30.4</b>
Research & development expenses	(1.8)	(1.9)
Sales, marketing & distribution expenses	(6.8)	(6.6)
Administration expenses	(5.8)	(4.8)
Other operating income	0.4	0.3
Other operating expenses	(0.2)	(0.3)
Impairment loss on trade receivables, net of reversals	0.0	(0.0)
<b>Results from operating activities</b>	<b>15.5</b>	<b>17.1</b>
Interest income	0.0	0.0
Gains on valuation of derivative financial instruments	1.2	-
Gains on translation of foreign currencies	0.1	1.0
<b>Total financial income</b>	<b>1.4</b>	<b>1.0</b>
Interest expense	(1.7)	(4.2)
Accretion of non-current liabilities	(0.8)	(0.5)
Losses on val'n of other derivative financial instruments	-	(0.4)
Losses on translation of foreign currencies	(1.1)	(0.9)
Other financial expense	(0.0)	(0.0)
<b>Total financial expense</b>	<b>(3.7)</b>	<b>(6.0)</b>
<b>Net financial result</b>	<b>(2.4)</b>	<b>(5.0)</b>
<b>Profit / (loss) before income tax</b>	<b>13.1</b>	<b>12.1</b>
Income tax expense	(3.1)	(4.0)
<b>Profit / (loss) for the period</b>	<b>10.0</b>	<b>8.1</b>
<b>Attributable to the shareholders of H&amp;K AG</b>	<b>10.0</b>	<b>8.1</b>
<b>Earnings per share (€)</b>	<b>0.36</b>	<b>0.29</b>

# Unaudited, Interim, Consolidated Statement of Profit or Loss and Other Comprehensive Income

## For the period January 1 to March 31

(€ millions)	2023	2022
<b>Profit / (loss) for the period</b>	<b>10.0</b>	<b>8.1</b>
<b>Other comprehensive income</b>		
DBO actuarial gains / (losses)	-	-
Related deferred tax	-	-
<b>Items that will never be reclassified to profit or loss</b>	<b>-</b>	<b>-</b>
Forex translation differences for foreign operations	(0.3)	0.2
<b>Items that are or may be reclassified to profit or loss</b>	<b>(0.3)</b>	<b>0.2</b>
<b>Other comprehensive income / (expense), net of tax</b>	<b>(0.3)</b>	<b>0.2</b>
<b>Total comprehensive income for the period</b>	<b>9.7</b>	<b>8.3</b>
<b>Attributable to the shareholders of H&amp;K AG</b>	<b>9.7</b>	<b>8.3</b>

# Unaudited, Interim, Consolidated Statement of Changes in Equity

## For the period January 1, 2022 to March 31, 2023

(€ millions)	Share Capital	Additional Paid in Capital	Translation Reserve	Reserve for Defined Benefit Obligations	Consolidated Retained Earnings	Shareholders' Equity	Equity Attributable to Hybrid Capital Investors	Total Equity
<b>As of 01.01.2022</b>	27.6	53.0	0.1	(19.4)	(146.7)	(85.3)	-	(85.3)
Total recognised income & expense	-	-	0.2	-	8.1	8.3	-	8.3
<b>As of 31.03.2022</b>	27.6	53.0	0.3	(19.4)	(138.6)	(77.0)	-	(77.0)
Total recognised income & expense	-	-	0.9	-	7.9	8.8	-	8.8
<b>As of 30.06.2022</b>	27.6	53.0	1.2	(19.4)	(130.7)	(68.2)	-	(68.2)
Conversion of loans to Hybrid Capital	-	-	-	-	-	-	95.0	95.0
Total recognised income & expense	-	-	0.9	-	13.2	14.1	-	14.1
<b>As of 30.09.2022</b>	27.6	53.0	2.1	(19.4)	(117.5)	(54.1)	95.0	40.9
Total recognised income & expense	-	-	(1.8)	9.7	21.5	29.4	-	29.4
<b>As of 31.12.2022</b>	27.6	53.0	0.3	(9.6)	(96.0)	(24.7)	95.0	70.3
Total recognised income & expense	-	-	(0.3)	-	10.0	9.7	-	9.7
<b>As of 31.03.2023</b>	27.6	53.0	(0.0)	(9.6)	(86.0)	(15.0)	95.0	80.0



# Unaudited, Interim, Consolidated Statement of Cash Flows

## For the period January 1 to March 31

(€ millions)	2023	2022
<b>Cash flows from operating activities</b>		
Profit / (loss) for the period	10.0	8.1
Adjustments for:		
Depreciation of property, plant & equipment	2.1	2.1
Amortisation of intangible assets	0.6	0.9
Net interest expense	2.6	4.6
Change in fair value of derivatives	(1.2)	0.4
(Gain) / loss on disposal of property, plant & equipment	(0.0)	(0.0)
Income tax expense	3.1	4.0
	17.3	20.1
Change in inventories	(10.4)	(3.4)
Change in trade & other receivables	(1.5)	(2.6)
Change in prepayments	(1.4)	0.1
Change in trade & other payables	(1.7)	(6.4)
Change in provisions & employees' defined benefits	(3.2)	0.7
	(1.1)	8.5
Income tax paid	0.0	(1.1)
<b>Net cash flows due to operating activities</b>	<b>(1.1)</b>	<b>7.5</b>
<b>Cash flows from investing activities</b>		
Interest received	0.0	0.0
Proceeds from sale of property, plant & equipment	0.0	0.0
Acq'n of property, plant, equipment and intangibles	(4.1)	(1.6)
Investments in other financial assets	0.0	-
Movement in deposits with terms >3 months	1.4	0.8
Capitalised development expenditure	(1.1)	(1.3)
<b>Net cash flows due to investing activities</b>	<b>(3.7)</b>	<b>(2.0)</b>
<b>Cash flows from financing activities</b>		
Interest paid	(1.3)	(1.5)
Repayment of lease liabilities	(0.1)	(0.1)
<b>Net cash flows due to financing activities</b>	<b>(1.4)</b>	<b>(1.6)</b>
<b>Net cashflows</b>	<b>(6.2)</b>	<b>3.8</b>
Cash & cash equivalents at 1st January	35.8	46.5
Effect of exchange rate fluctuations on cash held	(0.1)	0.1
<b>Cash &amp; cash equivalents at March 31</b>	<b>29.6</b>	<b>50.4</b>