



H&K AG

QUARTERLY REPORT

Results for the
nine-month period
to September 30, 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

Analysts, investors, media and others seeking financial and general information, please contact:

Investor Relations

E-mail: info.ir@heckler-koch-de.com

Public Relations

E-mail: presse@heckler-koch-de.com

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 nine-month period ended September 30, 2023

Chief Executive Officer Dr Jens Bodo Koch commented:

As of October 1, 2023, Andreas Schnautz has joined the executive board as Chief Financial Officer (CFO), he replaces Dr Björn Krönert who, as announced in February, did not extend his contract. In addition, Marco Geißinger, previously our Head of Sales, joined the executive board as Chief Sales Officer (CSO).

Sales in the first nine months of 2023 were €215.4 million, a decrease of €10.2 million compared to the first nine months of 2022, with lower sales in the US, due to reduction in military projects and constraints in the commercial market, being partially compensated by higher sales in Germany and France. We generated €41.1 million EBITDA in the same period, a decrease of €20.8 million in comparison to the first nine months of 2022. The reduction in EBITDA was primarily due to lower sales and product mix effects together with higher expenses, including €2.7 million for the retirement of capitalised development costs relating to projects that were cancelled due to changed conditions, and slightly reduced exchange translation effects.

The Group continues to generate positive earnings after tax. Cash and cash equivalents decreased by €21.6 million during the first nine months of 2023, in particular, net cash outflows for higher inventory levels and capex, together with the contractual €5.0 million partial repayment of CFA Facility A loan, were partly compensated for by the net proceeds from the capital increase described below and €1.3 million utilisation of the Facility C overdraft facilities.

In May 2023 H&K AG was able to successfully implement a rights issue and associated debt-equity swap. As part of the capital increase, €95 million hybrid loans from two shareholders were contributed as contributions in kind and thus converted into legal equity of the Company. As a result of the capital increase, the Company's share capital was increased by €7.8 million to €35.5 million by issuing new no-par value bearer shares in the Company with the same dividend rights as all other outstanding ordinary shares of the Company, including full dividend rights for the financial year ended December 31, 2022. In line with an external valuation of the Company, the new shares were priced at €13.40 per share (a 78% increase over the price determined for the 2017 rights issue); €1.00 per share was recognised in share capital and the balance in additional paid in capital. The capital increase was entered in the commercial register on May 17, 2023, and the new shares were included in the existing price fixing on Euronext Access Paris on May 19, 2023.

Overall, the subscription rate for all new shares offered was 99.3%; this significantly exceeded our expectations. We would like to thank our shareholders for their participation in the capital increase and the confidence they have thus shown in the Company. The gross proceeds from the cash capital increase amounted to €10.1 million. The Company intends to use the net proceeds from the capital increase for investments in production facilities and infrastructure at its site in Oberndorf am Neckar. Both the significant improvement in the legal equity base, because of the conversion of the hybrid loans, and the new cash received by the Company will enable the Company in the coming periods to continue on the successful course of recent years.

As described in the 2022 annual accounts, the hybrid lenders' entitlement to interest only applies if the Annual General Meeting ("AGM") of H&K AG resolves to distribute dividends to ordinary shareholders relating to the corresponding business year. The AGM in June 2023 resolved dividends relating to 2022 and consequently the hybrid lenders' entitlements to interest relating to 2022 were also recognised in June 2023. The dividends resolved were paid to shareholders in June 2023 (€1.4 million).

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 Armed Forces. The first test weapons have now been made available; main deliveries are planned to start in 2025. The selection decision was 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.

Guidance:

In Q4 2023, we currently expect to achieve significantly higher net sales and EBITDA than in Q3 2023. Net working capital is currently expected to be at a similar level to the end of Q3 2023; the resulting operating cash flow is currently expected to be positive.

Following the exceptionally good results achieved in our financial year 2022, which benefited from stronger sales in the US military and commercial markets, supported by favourable exchange rates and a high margin product mix, overall, we currently expect our net sales and EBITDA for 2023 to be above those achieved in 2021 (2021 net sales were €290 million and related EBITDA was €58 million).

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 September 30, 2023 and 2022 and the related unaudited, interim, consolidated statements of income, comprehensive income, equity and cash flows for the nine-month periods ended September 30, 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 nine-month periods to September 30, 2023 and 2022.

Unaudited, Interim, Consolidated Statement of Financial Position

(€ millions)	30.09.2023	31.12.2022
Property, plant & equipment	70.6	67.9
Intangible assets - goodwill	5.1	5.1
Intangible assets - other	42.8	43.5
Other investments	2.5	2.4
Deferred tax assets	18.1	16.8
Total non-current assets	139.1	135.7
Inventories	144.5	117.6
Prepayments for inventories	1.0	0.1
Prepayments for other current assets	0.1	0.2
Other deposits	0.2	2.5
Current tax assets	0.2	1.1
Trade receivables	37.2	29.9
Other receivables	5.0	5.3
Cash & cash equivalents	14.2	35.8
Total current assets	202.4	192.5
Total assets	341.5	328.2
Equity		
Share capital	35.5	27.6
Additional paid in capital	148.6	53.0
Other reserves	(9.1)	(9.3)
Consolidated retained earnings	(86.8)	(96.0)
Total equity attributable to H&K AG shareholders	88.2	(24.7)
Equity attributable to hybrid capital investors	9.5	95.0
Total equity	97.7	70.3
Liabilities		
Loans & borrowings	93.2	102.4
Lease liabilities	1.1	1.1
Employee defined benefit obligations	44.1	45.1
Provisions	2.4	2.5
Other payables	1.0	0.1
Deferred tax liabilities	23.8	23.9
Total non-current liabilities	165.7	175.0
Bank overdraft	1.3	-
Loans & borrowings	9.8	4.8
Trade payables	20.8	21.2
Other payables	14.4	13.8
Contract liabilities	10.5	18.7
Derivatives	0.6	1.5
Tax liabilities	7.6	8.3
Other provisions & accruals	13.2	14.6
Total current liabilities	78.1	82.9
Total liabilities	243.8	257.9
Total equity & liabilities	341.5	328.2

Unaudited, Interim, Consolidated Income Statement For the period January 1 to September 30

(€ millions)	2023	2022
Revenue	215.4	225.6
Cost of sales	(138.7)	(133.2)
Gross profit	76.7	92.4
Research & development expenses	(8.2)	(5.2)
Sales, marketing & distribution expenses	(20.4)	(20.2)
Administration expenses	(15.8)	(15.7)
Other operating income	0.8	1.8
Other operating expenses	(0.7)	(0.3)
Impairment loss on trade receivables, net of reversals	0.1	0.4
Results from operating activities	32.4	53.2
Interest income	0.1	0.0
Gains on valuation of derivative financial instruments	0.9	-
Gains on translation of foreign currencies	1.6	5.3
Total financial income	2.7	5.4
Interest expense	(5.7)	(9.3)
Accretion of non-current liabilities	(2.4)	(1.5)
Losses on val'n of other derivative financial instruments	-	(4.8)
Losses on translation of foreign currencies	(1.8)	(4.2)
Other financial expense	(0.1)	(0.1)
Total financial expense	(10.1)	(19.9)
Net financial result	(7.4)	(14.5)
Profit / (loss) before income tax	25.0	38.7
Income tax expense	(4.9)	(9.5)
Profit / (loss) for the period	20.1	29.1
Attributable to:		
H&K AG shareholders	10.6	29.1
H&K AG hybrid capital investors	9.5	-
Earnings per share (€) *	0.30	0.82
* all periods adjusted to include dividend rights of new shares issued in May 2023		
Weighted average number of shares with dividend rights for the period	35,482,784	35,482,784

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

For the period January 1 to September 30

(€ millions)	2023	2022
Profit / (loss) for the period	20.1	29.1
Other comprehensive income		
DBO actuarial gains / (losses)	-	-
Related deferred tax	-	-
Items that will never be reclassified to profit or loss	-	-
Forex translation differences for foreign operations	0.2	2.0
Items that are or may be reclassified to profit or loss	0.2	2.0
Other comprehensive income / (expense), net of tax	0.2	2.0
Total comprehensive income for the period	20.4	31.1
Attributable to:		
H&K AG shareholders	10.9	31.1
H&K AG hybrid capital investors	9.5	-

Unaudited, Interim, Consolidated Statement of Changes in Equity

For the period January 1, 2022 to September 30, 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
As of 01.01.2022	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
As of 31.03.2022	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
As of 30.06.2022	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
As of 30.09.2022	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
As of 31.12.2022	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
As of 31.03.2023	27.6	53.0	(0.0)	(9.6)	(86.0)	(15.0)	95.0	80.0
Issue of new shares	7.8	95.6	-	-	-	103.4	(95.0)	8.4
Total recognised income & expense	-	-	0.1	-	(2.0)	(1.8)	9.5	7.7
Dividends declared	-	-	-	-	(1.4)	(1.4)	-	(1.4)
As of 30.06.2023	35.5	148.6	0.1	(9.6)	(89.4)	85.2	9.5	94.7
Total recognised income & expense	-	-	0.4	-	2.5	3.0	-	3.0
As of 30.09.2023	35.5	148.6	0.6	(9.6)	(86.8)	88.2	9.5	97.7

Unaudited, Interim, Consolidated Statement of Cash Flows

For the period January 1 to September 30

(€ millions)	2023	2022
Cash flows from operating activities		
Profit / (loss) for the period	20.1	29.1
Adjustments for:		
Depreciation of property, plant & equipment	6.7	6.5
Amortisation of intangible assets	1.9	2.3
(Reversal of) impairment losses on intangible assets	2.7	-
Net interest expense	8.1	10.8
Change in fair value of derivatives	(0.9)	4.8
(Gain) / loss on disposal of property, plant & equipment	(0.0)	(0.0)
Income tax expense	4.9	9.5
	43.5	63.0
Change in inventories	(26.4)	(16.2)
Change in trade & other receivables	(7.3)	0.9
Change in prepayments	(0.7)	0.1
Change in trade & other payables	(8.9)	(10.7)
Change in provisions & employees' defined benefits	(3.8)	(1.7)
	(3.7)	35.3
Income tax paid	(5.4)	(4.2)
Net cash flows due to operating activities	(9.1)	31.0
Cash flows from investing activities		
Interest received	0.2	0.0
Proceeds from sale of property, plant & equipment	0.0	0.0
Acq'n of property, plant, equipment and intangibles	(10.2)	(5.6)
Investments in other financial assets	(0.0)	-
Movement in deposits with terms >3 months	2.2	7.1
Capitalised development expenditure	(2.8)	(3.9)
Net cash flows due to investing activities	(10.5)	(2.2)
Cash flows from financing activities		
Proceeds from issue of new shares	7.8	-
Proceeds from loans & overdrafts	1.3	50.0
Payment of transaction costs	-	(4.8)
Repayment of loans	(5.0)	(80.0)
Interest paid	(4.5)	(8.2)
Repayment of lease liabilities	(0.3)	(0.3)
Dividends paid	(1.4)	-
Net cash flows due to financing activities	(2.1)	(43.3)
Net cashflows	(21.8)	(14.5)
Cash & cash equivalents at 1st January	35.8	46.5
Effect of exchange rate fluctuations on cash held	0.1	0.8
Cash & cash equivalents at September 30	14.2	32.8