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H&K AG

QUARTERLY REPORT

Results for the
nine month period
to September 30, 2020

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.

For more information, please visit our web site:

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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 nine month period ended September 30, 2020

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

In Q3, the Group has continued its positive development. Sales in the first nine months of 2020 were €208 million, a 12% increase over the first nine months of 2019; this increase, together with continuing positive effects from the restructuring and process optimisation programmes we initiated in 2018 and 2019, enabled the generation of €40 million EBITDA, 85% higher than that generated in the corresponding period of 2019. As previously reported, in Q1, to ease compliance with certain loan conditions, we received an interest-bearing loan of €15 million from one of our main shareholders. This, together with the profits generated, helped to improve the Group's cash position to €37.6 million despite the high level of net working capital at the quarter-end, which was primarily due to the volume and timing of sales resulting in a higher level of trade receivables than at the 2019 year-end.

In 2020, the Group has continued generating positive earnings after tax and, due to the encouraging order book and the ongoing optimisation programmes, we are positive that we have laid the groundwork so that our organisation could continue this trend. Since 2016 our sales strategy has been focussed on so-called "Green Countries"; the "Green Country Strategy" is a self-imposed filter to countries that share the values in place in Germany, and accepted by a large proportion of society, with regard to law and order, ethics and morals, and system of government and governance. It 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. We deliver principally only to those countries that share, at least to a great extent, German society's values. These are primarily the member countries of NATO and the EU, New Zealand, Australia, Japan and Switzerland. The focus on "Green Countries" has stabilised the Group's forecasting and delivery capabilities and, despite the reduced customer base, our current expectations are that this year the Group could achieve our highest ever sales and, whilst not the best ever, correspondingly positive earnings.

Since Q1 we have been taking proactive measures to reduce the risks to the business from the COVID-19 pandemic, however we have experienced some indirect negative effects, for example authorities or customers having less personnel or adjusted opening hours as an effect of the worldwide lockdown measures making direct dealings somewhat more difficult. Despite this, the pandemic has not had a material effect on our overall results so far with higher US commercial sales more than offsetting lower sales in certain other markets. We currently expect similar effects during Q4. The following guidance for the fourth quarter is based on the current situation, as it is known to us today, and so the actual Q4 2020 results may vary.

Q4/2020 Guidance: Q3/2020 was a particularly good quarter for the Group so in Q4/2020 we currently expect to achieve somewhat lower net sales and lower EBITDA than in Q3/2020. Net working capital is currently expected to be slightly lower than for Q3/2020; the resulting operating cash flow is currently expected to be significantly lower than for Q3/2020. At the beginning of Q4/2020, we made a €10.5 million partial repayment of one of our long-term loans, thereby reducing the Group's interest burden going forward.

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, 2020 and 2019 and the related unaudited, interim, consolidated statements of income, comprehensive income, equity and cash flows for the nine month periods ended September 30, 2020 and 2019 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, 2020 and 2019.

Consolidated Statement of Financial Position

(€ millions)	30.09.2020	31.12.2019
Property, plant & equipment	53.6	50.2
Intangible assets - goodwill	5.1	5.1
Intangible assets - other	39.8	38.2
Other investments	1.6	1.8
Deferred tax assets	14.8	16.2
Total non-current assets	115.0	111.6
Inventories	91.5	90.2
Prepayments for inventories	0.2	0.0
Prepayments for other current assets	0.5	0.4
Other deposits & derivatives	2.7	3.0
Current tax assets	0.1	0.2
Trade receivables	31.9	21.7
Other receivables	1.9	2.0
Cash & cash equivalents	37.6	23.4
Total current assets	166.5	140.8
Total assets	281.5	252.4
Equity		
Share capital	27.6	27.6
Additional paid in capital	53.0	53.0
Other reserves	(19.7)	(19.5)
Consolidated retained earnings	(169.0)	(182.0)
Total equity	(108.1)	(120.9)
Liabilities		
Loans & borrowings	249.8	233.5
Lease liabilities	1.2	1.6
Employee defined benefit obligations	62.9	64.5
Provisions	3.0	3.0
Deferred tax liabilities	21.6	21.2
Total non-current liabilities	338.5	323.8
Trade payables	18.2	21.6
Other payables	11.6	10.9
Contract liabilities	2.6	4.3
Tax liabilities	5.6	1.0
Other provisions & accruals	13.0	11.7
Total current liabilities	51.0	49.5
Total liabilities	389.5	373.3
Total equity & liabilities	281.5	252.4

Consolidated Income Statement

For the period January 1 to September 30

(€ millions)	2020	2019
Revenue	207.5	185.6
Cost of sales	(141.8)	(139.4)
Gross profit	65.7	46.1
Research & development expenses	(3.8)	(3.6)
Sales, marketing & distribution expenses	(16.9)	(16.8)
Administration expenses	(11.7)	(10.9)
Other operating income	1.3	1.7
Other operating expenses	(0.5)	(2.1)
Impairment loss on trade receivables, net of reversals	(1.9)	0.2
Results from operating activities	32.1	14.7
Interest income	0.0	0.0
Gains on valuation of derivative financial instruments	0.3	-
Gains on translation of foreign currencies	1.0	1.8
Total financial income	1.3	1.8
Interest expense	(10.1)	(9.5)
Accretion of non-current liabilities	(1.6)	(1.7)
Losses on val'n of other derivative financial instruments	-	(0.7)
Losses on translation of foreign currencies	(2.5)	(0.1)
Other financial expense	(0.1)	(0.1)
Total financial expense	(14.3)	(12.1)
Net financial result	(13.0)	(10.2)
Profit / (loss) before income tax	19.1	4.5
Income tax expense	(6.1)	(3.2)
Profit / (loss) for the period	13.0	1.3
Attributable to the shareholders of H&K AG	13.0	1.3
Earnings per share (€)	0.47	0.05

Note that the 2019 income tax figure has changed slightly compared with our Q3 2019 report due to a deferred tax adjustment relating to the effects from implementing IFRS 16 as at January 1, 2019.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the period January 1 to September 30

(€ millions)	2020	2019
Profit / (loss) for the period	13.0	1.3
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)	(0.4)
Items that are or may be reclassified to profit or loss	(0.2)	(0.4)
Other comprehensive income / (expense), net of tax	(0.2)	(0.4)
Total comprehensive income for the period	12.8	1.0
Attributable to the shareholders of H&K AG	12.8	1.0

Note that the 2019 income tax figure and consequently also the total comprehensive income for the period have changed slightly compared with our Q3 2019 report due to a deferred tax adjustment relating to the effects from implementing IFRS 16 as at January 1, 2019.

Consolidated Statement of Changes in Equity

For the period January 1, 2019 to September 30, 2020

(€ millions)	Share Capital	Additional Paid in Capital	Translation Reserve	Reserve for Defined Benefit Obligations	Consolidated Retained Earnings	Shareholders' Equity
As of 01.01.2019	27.6	53.0	(0.5)	(15.5)	(183.4)	(118.7)
Effects of IFRS 16 implementation	-	-	-	-	(0.2)	(0.2)
Total recognised income & expense	-	-	(0.0)	-	(1.3)	(1.3)
As of 31.03.2019	27.6	53.0	(0.5)	(15.5)	(184.9)	(120.2)
Total recognised income & expense	-	-	(0.0)	-	1.7	1.7
As of 30.06.2019	27.6	53.0	(0.5)	(15.5)	(183.2)	(118.5)
Total recognised income & expense	-	-	(0.3)	-	0.9	0.6
As of 30.09.2019	27.6	53.0	(0.9)	(15.5)	(182.3)	(117.9)
Total recognised income & expense	-	-	0.4	(3.6)	0.3	(2.9)
As of 31.12.2019	27.6	53.0	(0.5)	(19.0)	(182.0)	(120.9)
Total recognised income & expense	-	-	(0.3)	-	4.3	3.9
As of 31.03.2020	27.6	53.0	(0.8)	(19.0)	(177.7)	(116.9)
Total recognised income & expense	-	-	(0.1)	-	3.4	3.3
As of 30.06.2020	27.6	53.0	(0.9)	(19.0)	(174.4)	(113.6)
Total recognised income & expense	-	-	0.2	-	5.4	5.5
As of 30.09.2020	27.6	53.0	(0.7)	(19.0)	(169.0)	(108.1)

Note that the 2019 income tax figure and consequently also the total recognised income and expense for the period have changed slightly compared with our Q3 2019 report due to a deferred tax adjustment relating to the effects from implementing IFRS 16 as at January 1, 2019.

Consolidated Statement of Cash Flows

For the period January 1 to September 30

(€ millions)	2020	2019
Cash flows from operating activities		
Profit / (loss) for the period	13.0	1.3
Adjustments for:		
Depreciation	5.5	4.7
Amortisation of intangible assets	2.4	2.1
(Reversal of) impairment losses on intangible assets	0.6	-
Net interest expense	11.8	11.3
Change in fair value of derivatives	(0.3)	0.7
(Gain) / loss on disposal of property, plant & equipment	0.0	0.0
Income tax expense	6.1	3.2
	39.2	23.3
Change in inventories	(1.8)	6.2
Change in trade & other receivables	(10.8)	(1.0)
Change in prepayments	(0.4)	0.7
Change in trade & other payables	(1.8)	(13.5)
Change in provisions & employees' defined benefits	(0.9)	(3.7)
	23.5	12.0
Income tax paid	0.2	(1.8)
Net cash from / (used in) operating activities	23.7	10.2
Cash flows from investing activities		
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	(9.9)	(6.4)
Movement in deposits with terms >3 months	0.7	12.1
Capitalised development expenditure	(4.2)	(4.1)
Net cash from / (used in) investing activities	(13.4)	1.7
Cash flows from financing activities		
Proceeds from loans	15.0	-
Repayment of loans	(1.5)	-
Interest paid	(9.1)	(9.9)
Repayment of lease liabilities	(0.3)	(0.3)
Net cash from / (used in) financing activities	4.1	(10.2)
Net cashflows	14.5	1.6
Cash & cash equivalents at 1st January	23.4	22.3
Effect of exchange rate fluctuations on cash held	(0.3)	0.1
Cash & cash equivalents at period end	37.6	24.0

Note: the format has been changed compared to the Q3 2019 report: movements in deposits with terms > 3 months are now included in investment activities whereas in the Q3 2019 report these were a reconciling item at the end of the cash flow statement; note also that the 2019 income tax expense figure has changed slightly compared with our Q3 2019 report due to a deferred tax adjustment relating to the effects from implementing IFRS 16 as at January 1, 2019.