



***Kitron***

Your ambition. Our passion.

# Capital Markets Presentation

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# AGENDA

- Strategy
- Market & Operations
- Financials
- Covid-19
- Summary



**Peter Nilsson**  
President & CEO



**Israel Losada Salvador**  
COO and Sales Director



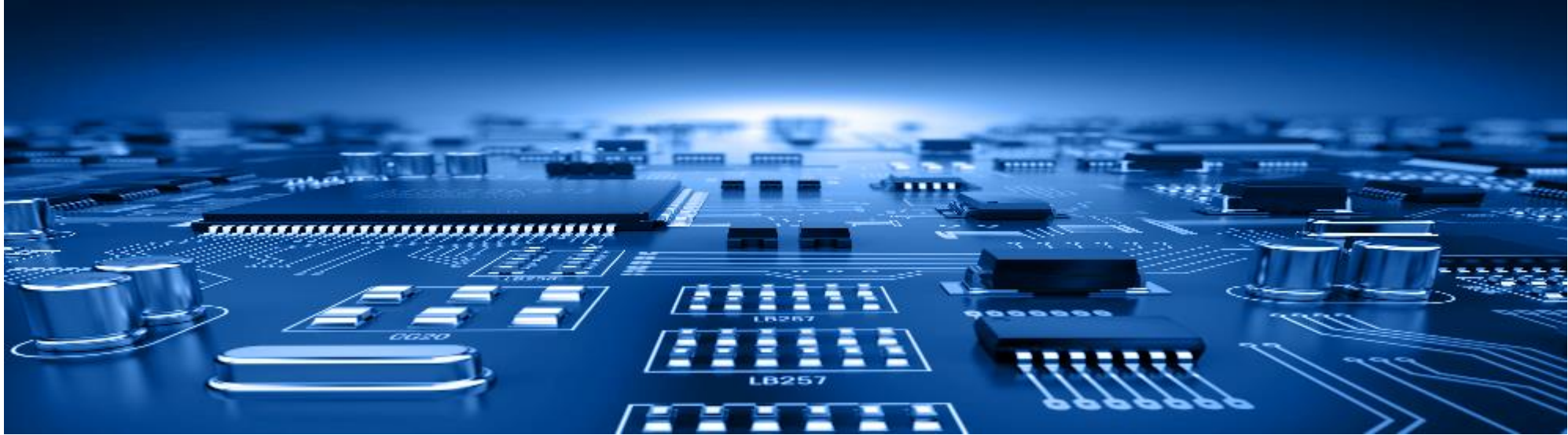
**Cathrin Nylander**  
CFO



# Strategy



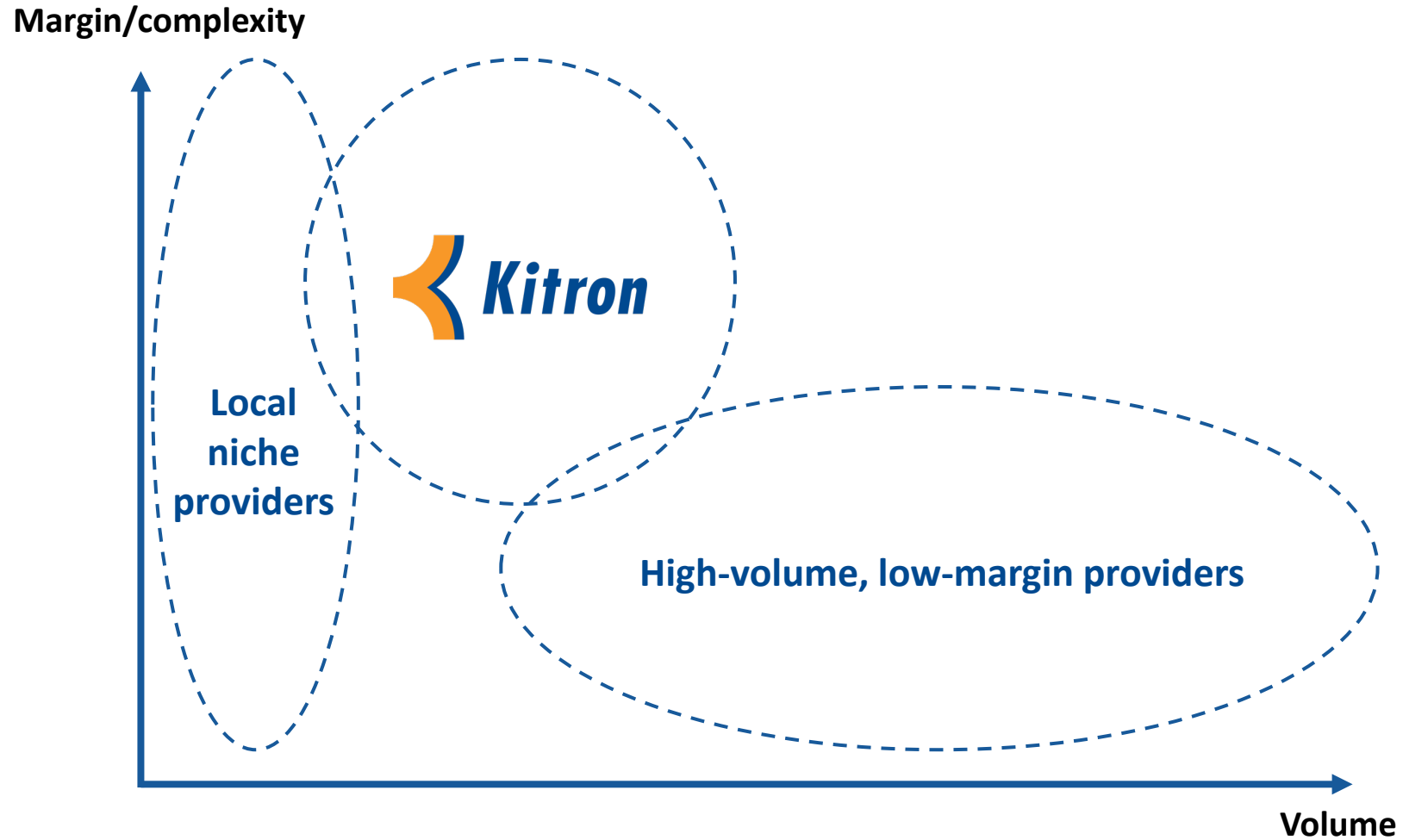
# The essence of Kitron



**Kitron** is a leading Scandinavian **Electronics Manufacturing Services** company, delivering improved flexibility, cost efficiency, and innovation power throughout the value chain.



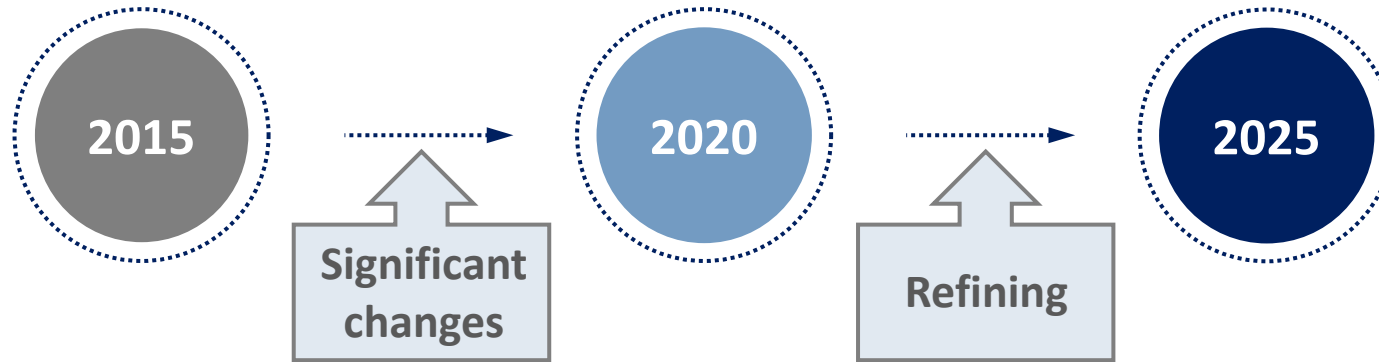
# Complex, high-margin products, medium volumes



# Kitron on three continents



# Strategic Horizon towards 2025



**Overall strategy: Complex, high-margin products, medium volumes**

## Growth

- Growth, existing customers
- Growth, new customers
- Technical services sales

## Operations

- Capacity expansion
- Operational excellence
- Competence roadmap
- Digitalization
- Technical roadmap

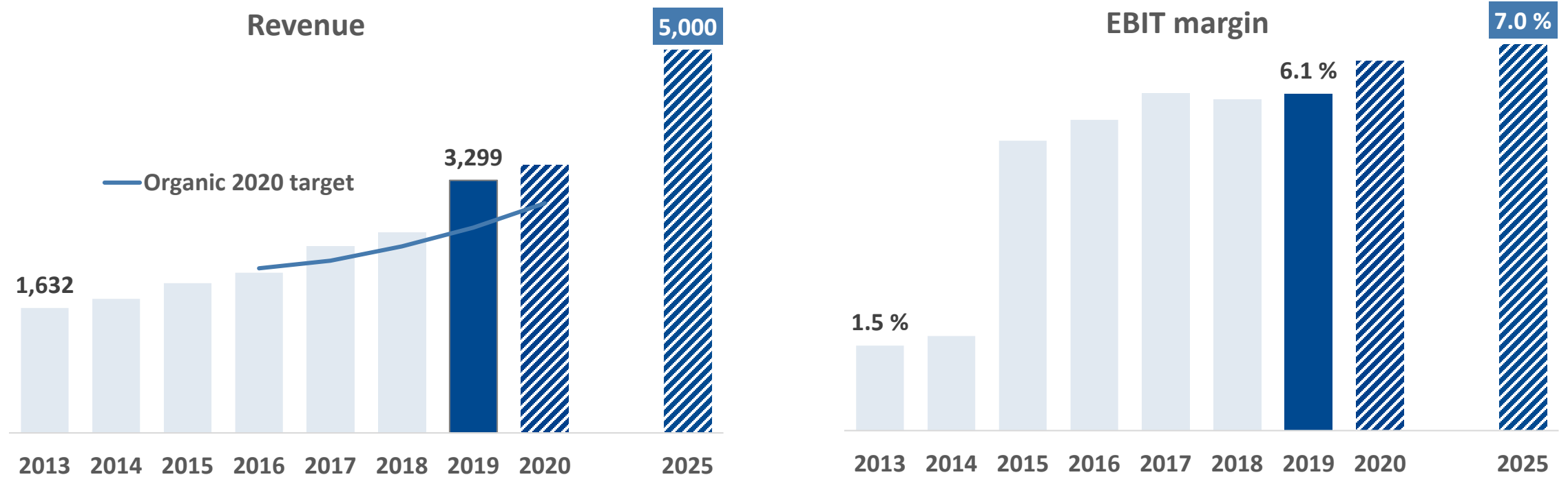
## M&A

- Value chain expansion
- Entering new geographies
- Existing geographies



# Growth and margin improvement on track towards 2025 targets

Organic growth target 2020 of NOK 3 000 million achieved in 2019

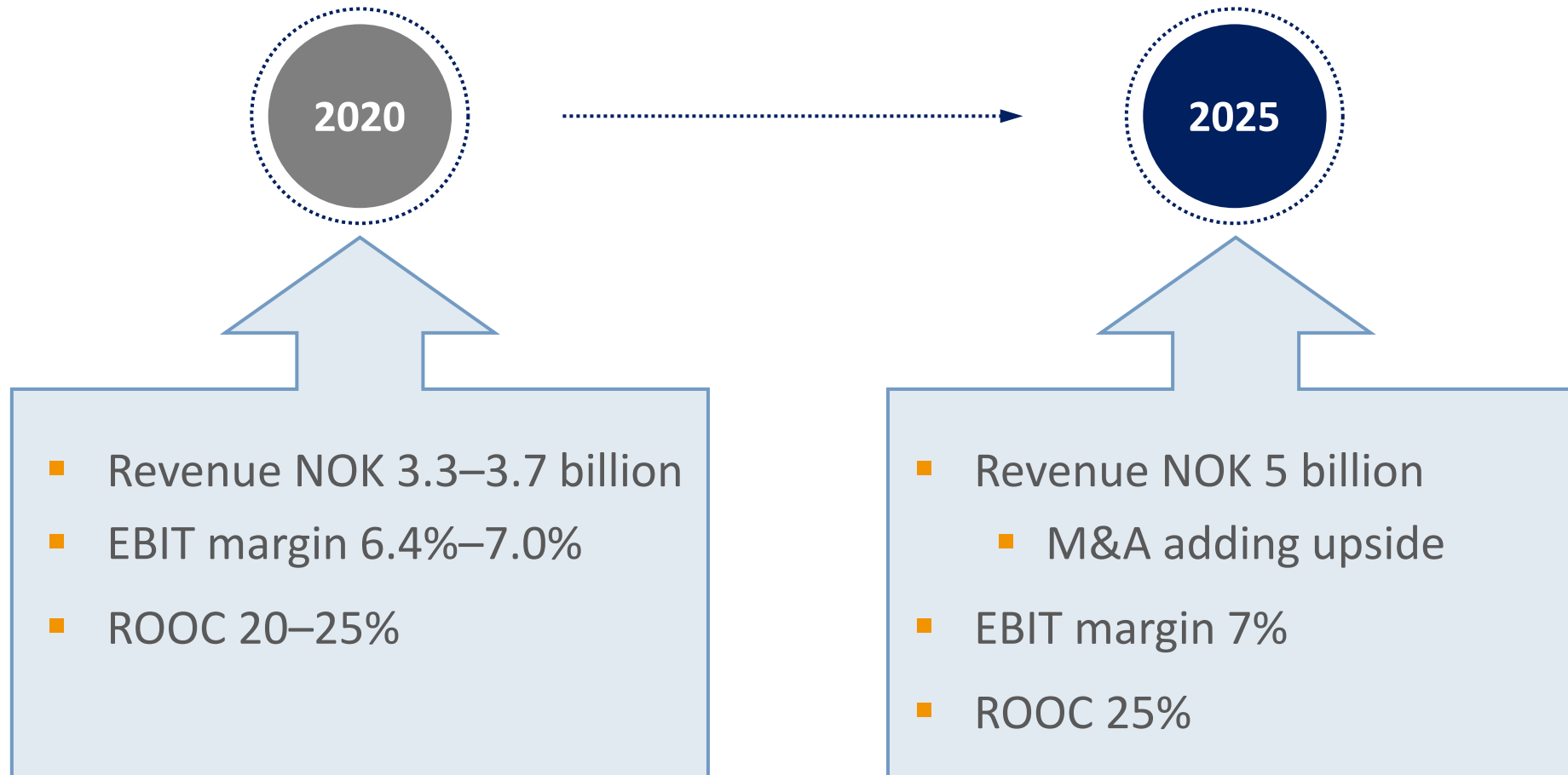


## 2020 guidance

Revenue NOK 3 300 to 3 700 million

EBIT margin 6.4% to 7.0%

# Main financial ambitions



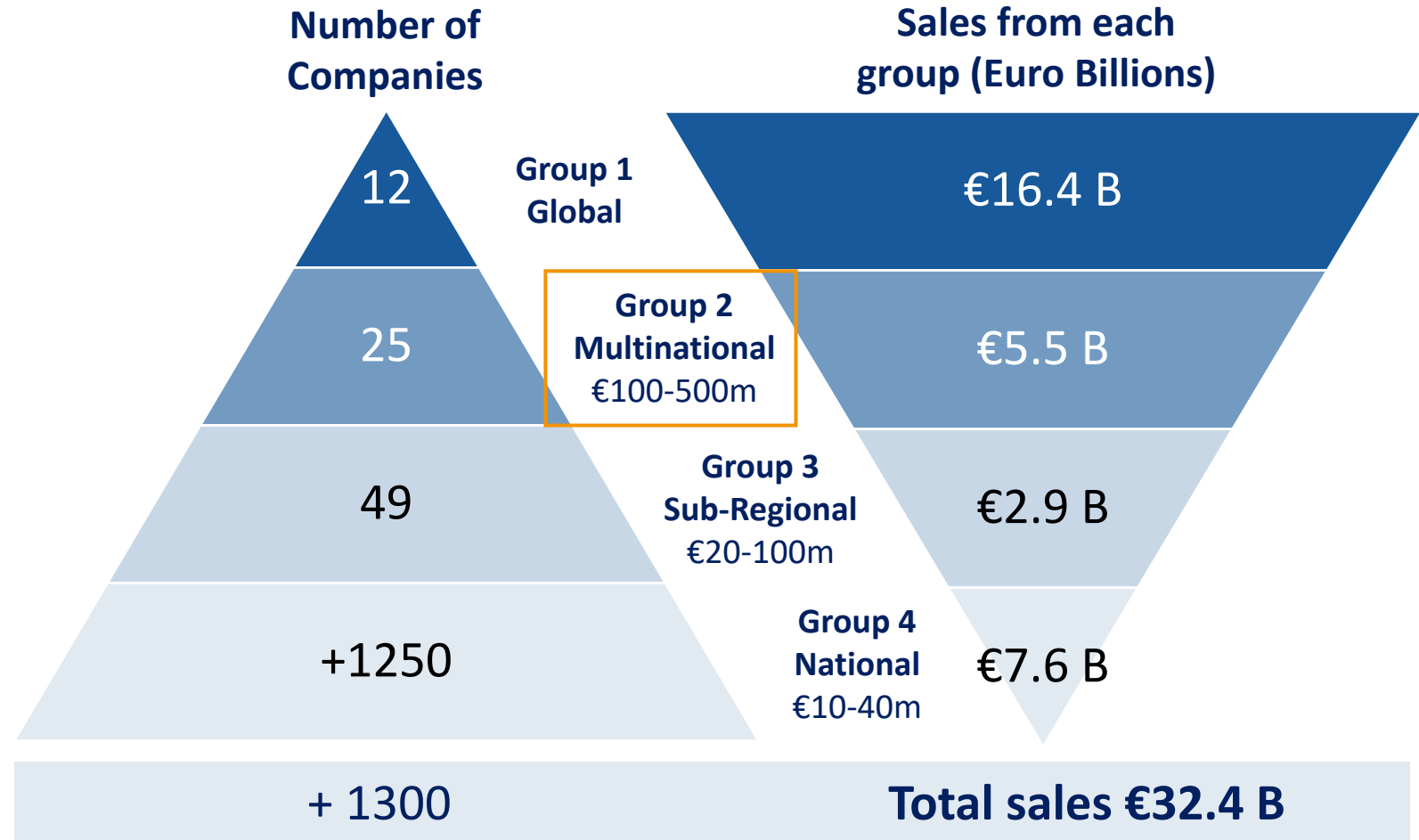
# Market



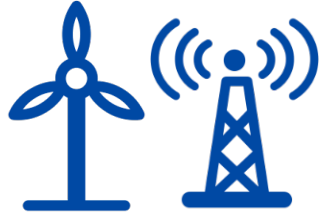
# The European EMS Industry

- A few big players, long tail of small, local firms
- Ongoing consolidation
  - Within Europe
  - Chinese entrants
- Entry barriers driven by defence, aerospace and medical, spreading to other sectors
  - Cyber security
  - Contingency planning

Large market, no meaningful restriction for Kitron.



# Customers and market sectors



ENERGY/TELECOMS

**ABB**

**Advanced Energy** **PCTEL**  
Performance Critical

**Badger Meter**  
**SENSUS**  
a xylem brand

**WESTERMO**

**netinsight**



DEFENCE/AEROSPACE

**LEONARDO**  
**LOCKHEED MARTIN**  
**NORTHROP GRUMMAN**

**BOEING**

**HARRIS**

**HENSOLDT**  
Detect and Protect.  
**ROBOTIC RESEARCH**

**KONGSBERG** **Aimpoint**

**RHEINMETALL**

**SAAB** **THALES**



OFFSHORE/MARINE

**TechnipFMC**

**EATON**



**KONGSBERG**

**magseis**



MEDICAL DEVICES

**MAQUET**  
GETINGE GROUP

**Dentsply Sirona**

**Leica**  
MICROSYSTEMS



**permobil**

**CELLAVISION**



INDUSTRY

**Husqvarna Group**  
**Atlas Copco**

**BOMBARDIER**  
the evolution of mobility

**ABB**  
**Senseair**  
**VOLVO**  
**QMATIC**

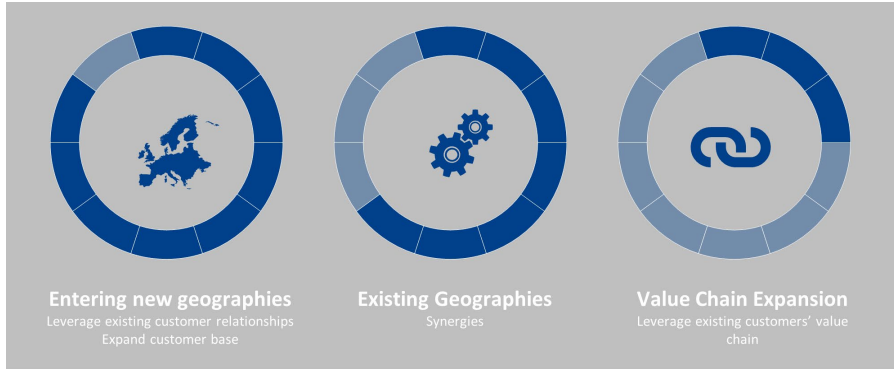




# Operations







	Existing geography	New geography
Existing value chain	More likely	Most likely
Value chain expansion	Likely	Not likely

Ongoing industry consolidation creates M&A opportunities

- Actively evaluating opportunities
- Revenue range €10–100 million
- Must see potential for same profitability as rest of group
  - But time lag while optimizing to be expected
- Transactions most likely financed through combination of own cash and debt

M&A may add upside to 2025 revenues



# Financials

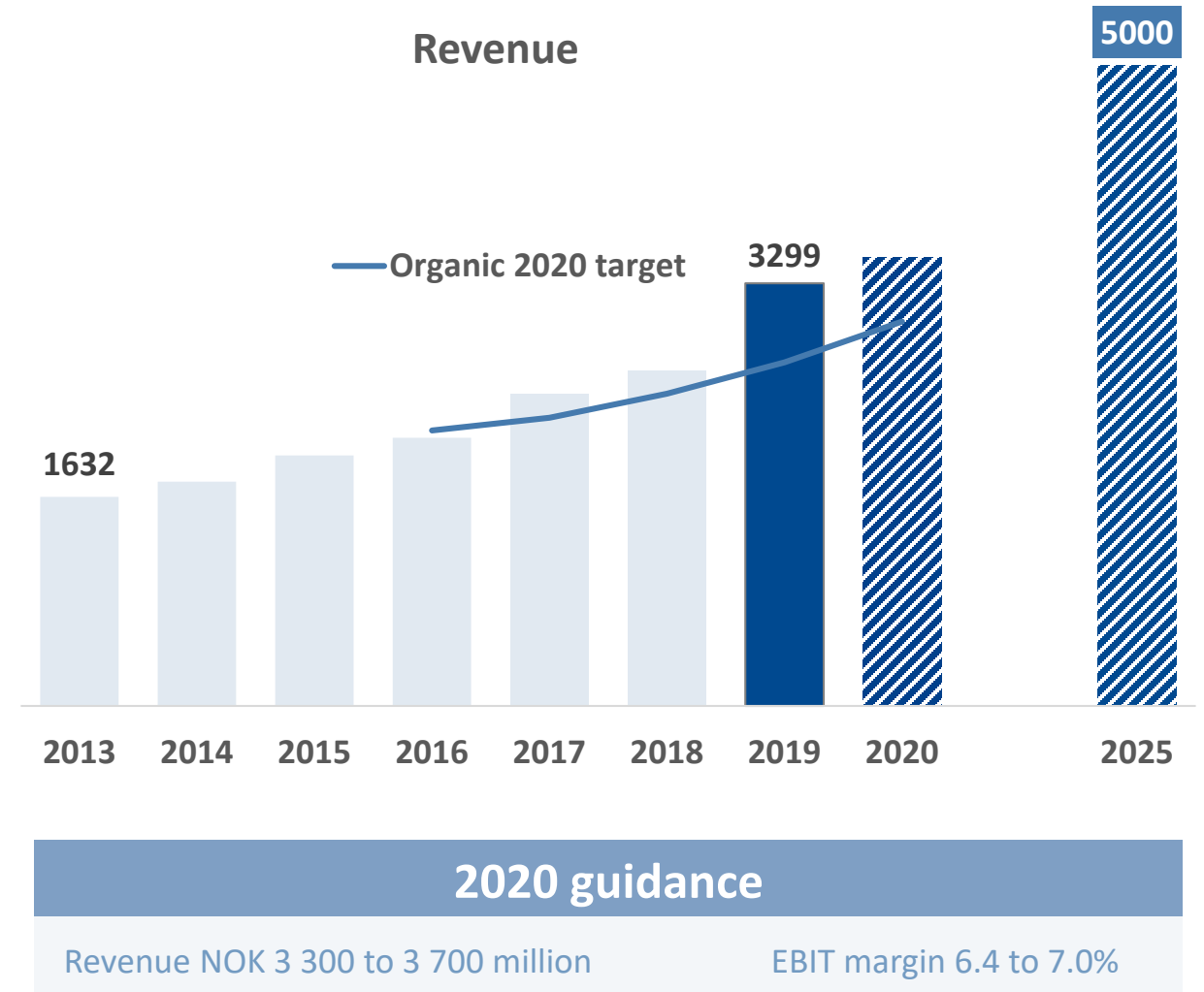
# Growth beyond 2020: “5 in 25”

## 2020

- 2020 Organic growth target of NOK 3 billion achieved in 2019
- Revenue growth continues according to strategy

## 2025

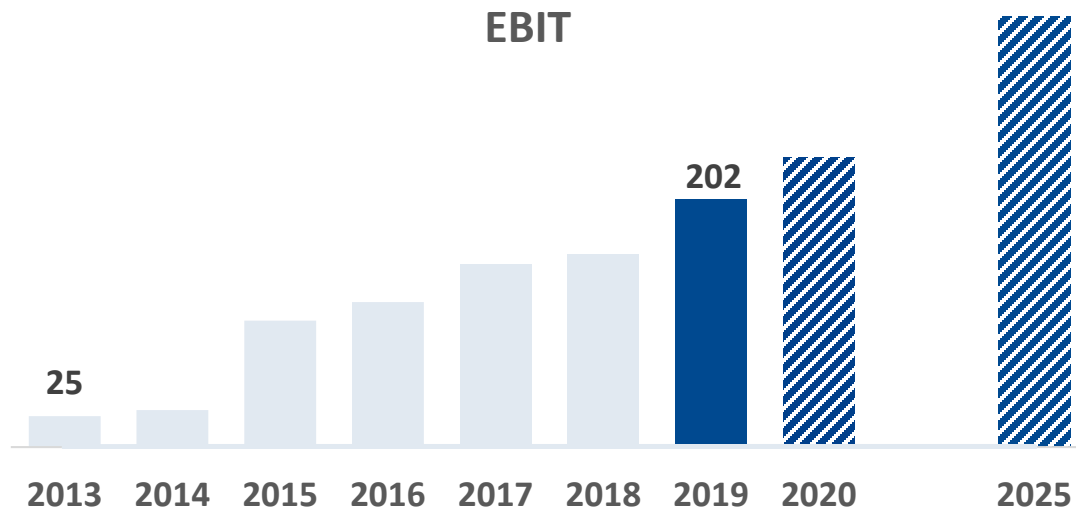
- Organic ambition: NOK 5 billion
- Annual organic trend growth 2020–2025: approximately 10%
- M&A adds potential upside
- Assuming no dramatic macro or currency changes



# EBIT growth continues, margin expected to modestly increase, then stabilize

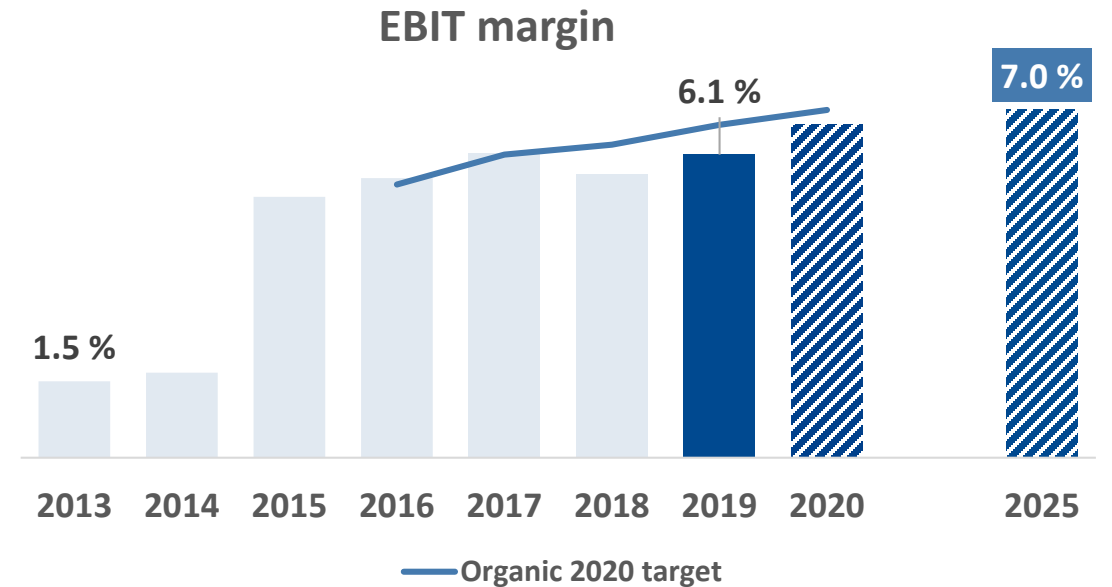
## 2020

- Operational improvement continued
- 2019 affected by Poland startup and ramp-ups of new customers
- Gradually normalised operations in 2020



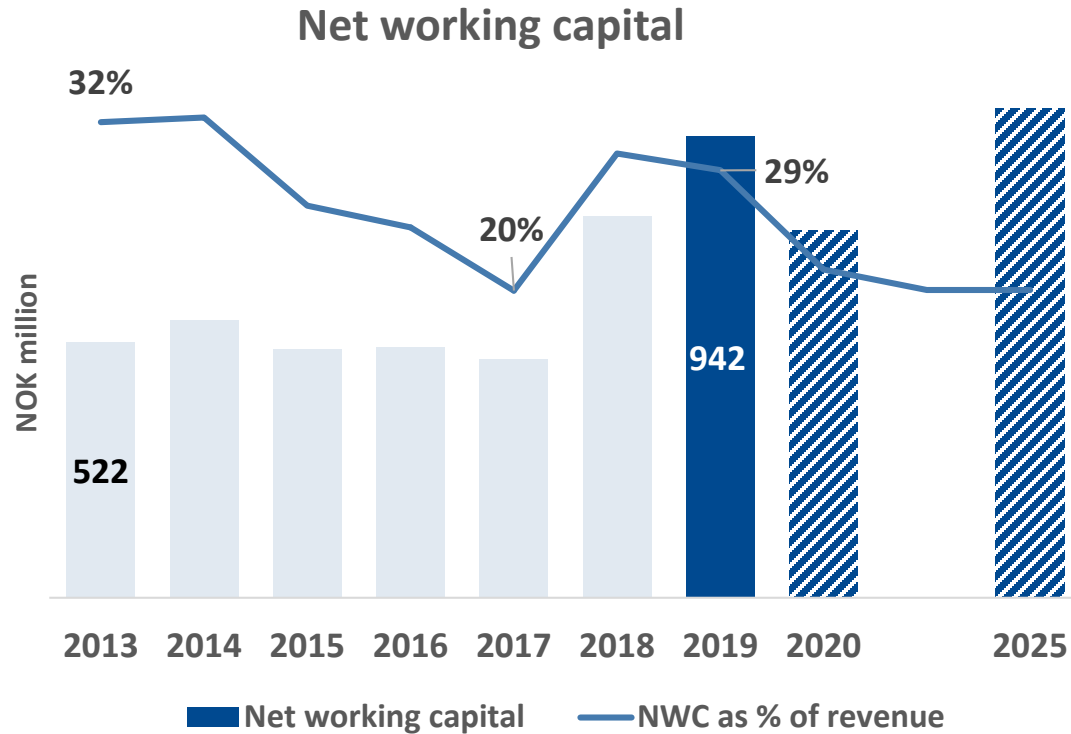
## 2025

- Target 7% but with an upside ambition
- Acquired businesses or start-ups may temporarily be below margin ambition

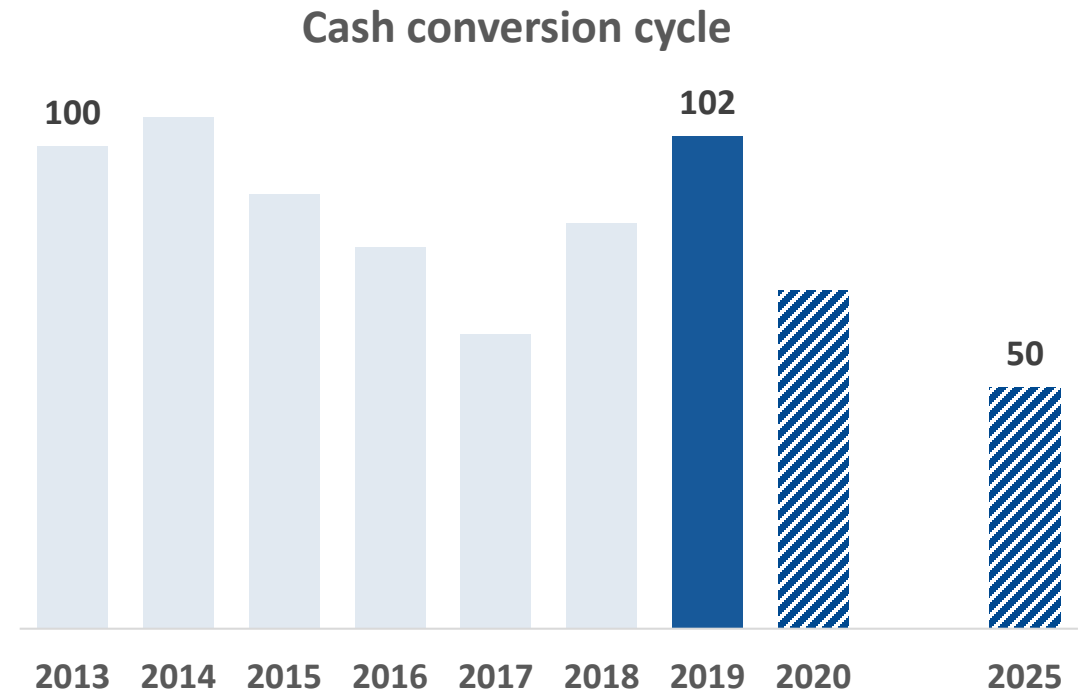




# Capital efficiency: Temporary setback, ambitions maintained



- Target NWC 20% of revenue
- Temporary balance sheet expansion to handle component shortages

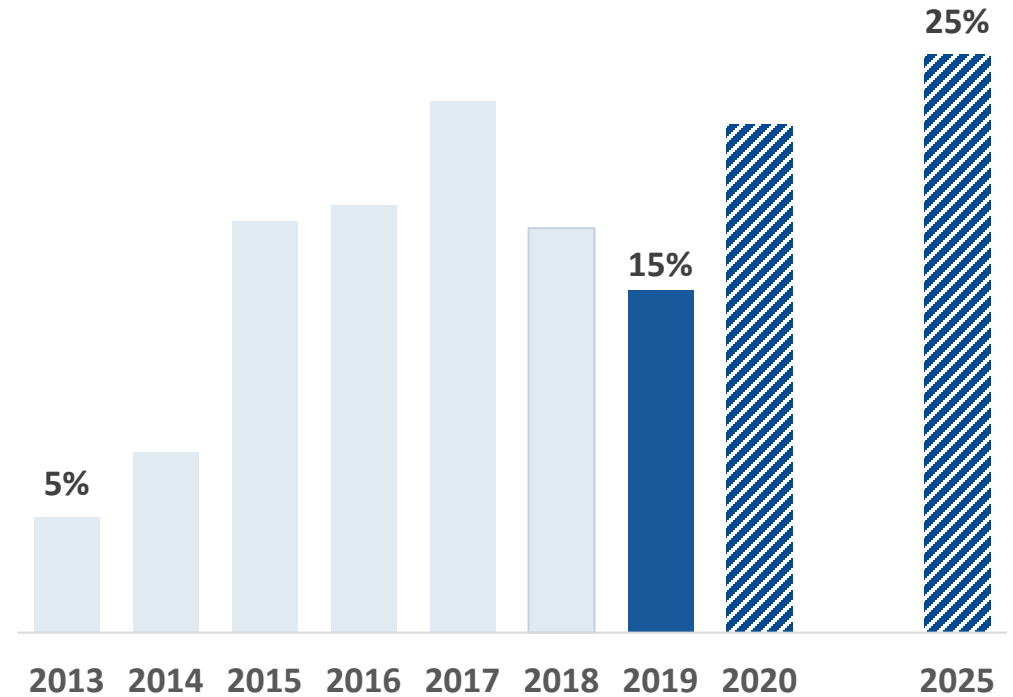


- Cash conversion cycle key metric, target 50 days
- Temporary balance sheet expansion to handle component shortages

# Improving return on capital

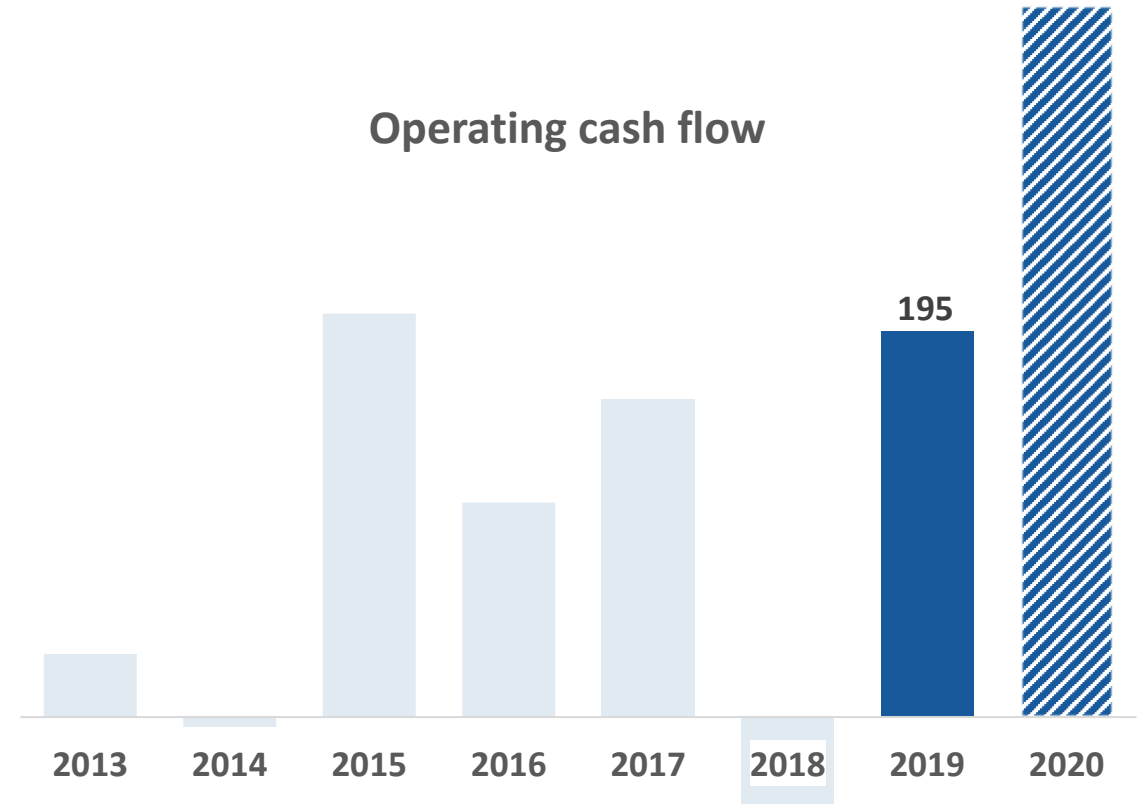
- Higher EBIT, temporary balance sheet expansion
- Improvement expected to continue:
  - Higher profit
  - Capital efficiency
- IFRS 16 affects ROOC negatively in 2019 with approximately 1.5 %-points
- Long-term target 25%

Return on operating capital



# Cash flow rebounding, normal capex stable as percentage of revenue

- Strong underlying operating cash flow trend
- Temporary increase of inventory to handle component shortages starting in 2018 and continued into 2019
- Normal capex expected to be approximately 2-3% of revenue



Capex (MNOK)	Operating cash flow							
	2013	2014	2015	2016	2017	2018	2019	2020
Normal	29	67	76	66	82	70	59	60
Poland							51	
US acquisition							138	

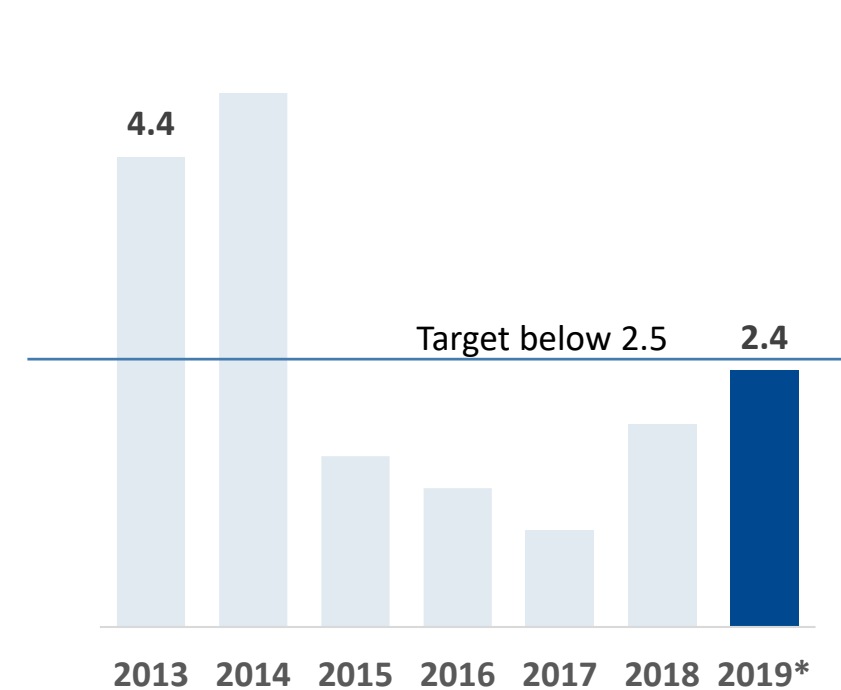


# Solid financial platform

- Net interest-bearing debt NOK 784 million
  - NOK 650 million excl. IFRS 16
- NIBD/EBITDA 2.8
  - 2.4 excl. IFRS16
- Net gearing 1.1
  - 0.9 excl. IFRS16
- Equity ratio 31% (37%)
- ROE 18% (16%)
- Covenants on Equity % and NIBD/EBITDA

<b>Cash &amp; cash equivalents</b>	<b>204</b>
Long term debt to credit institutions	166
<i>Lease Liability IFRS16</i>	116
Long term debt - Financial leasing	50
<b>Long term financing</b>	<b>331</b>
Debt to credit institutions	323
<i>Factoring debt</i>	249
Lease Liability IFRS16	18
Short term part of long term debt	67
<b>Short term financing</b>	<b>657</b>
<b>Interest bearing debt</b>	<b>988</b>
<b>Net Interest bearing debt</b>	<b>784</b>
<b>Net Interest bearing debt excl IFRS</b>	<b>650</b>

## NIBD/EBITDA



\* Adjusted for IFRS16 effects

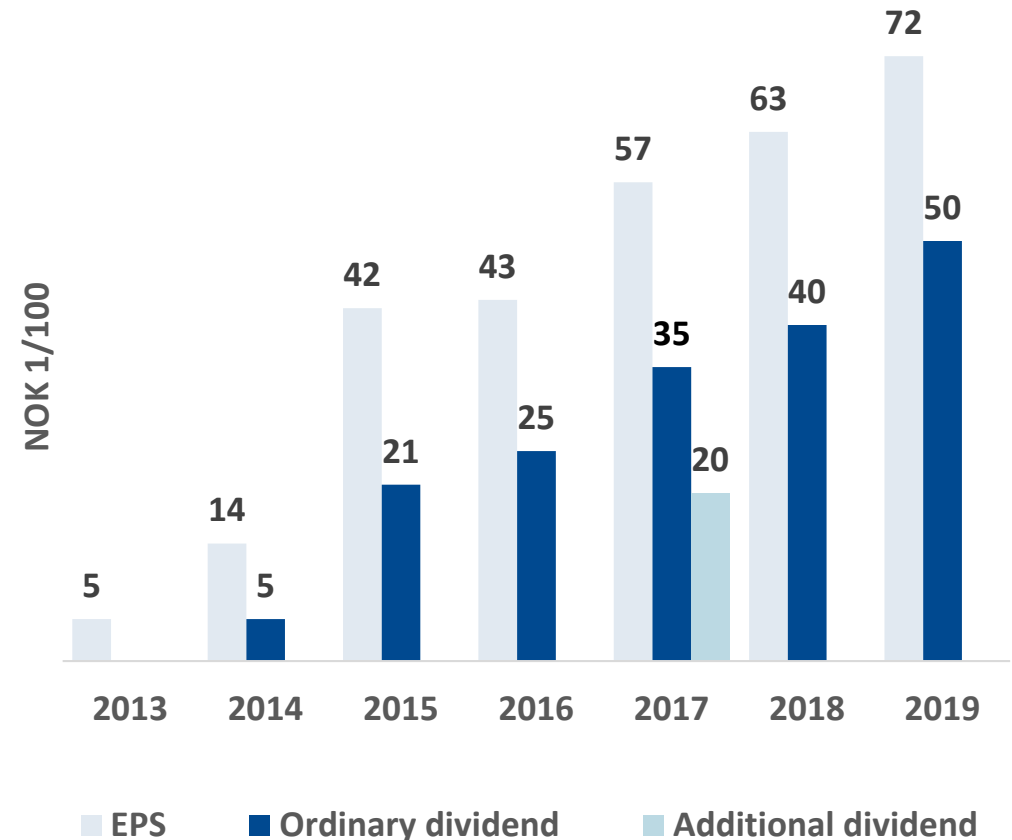
Net interest-bearing debt divided by earnings before interest, taxes, depreciation and amortization.

# Strong dividend history

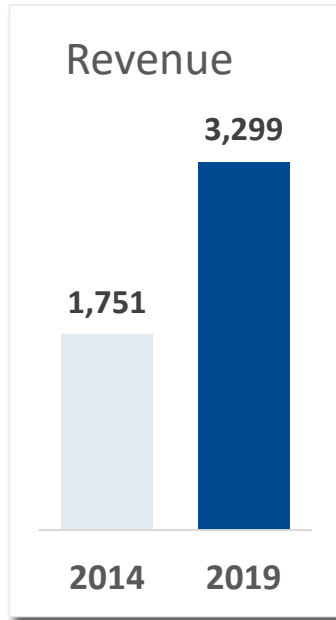
- Strong commitment to dividends
- Proposed for 2019:
  - Ordinary dividend NOK 0.50 per share

“Kitron’s dividend policy is to pay out an annual dividend of at least 50 % of the company’s consolidated net profit before non-recurring items. When deciding on the annual dividend the company will take into account the company’s financial position, investment plans as well as the needed financial flexibility to provide for sustainable growth.”

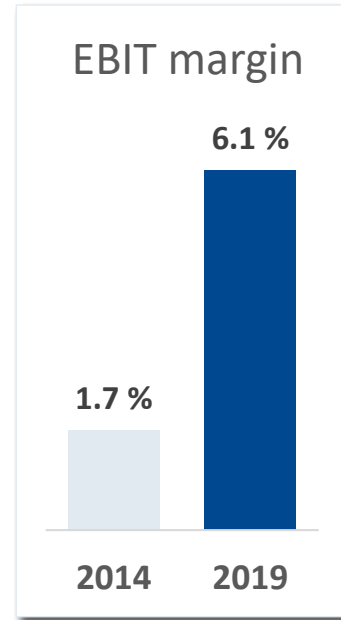
Earnings and dividends



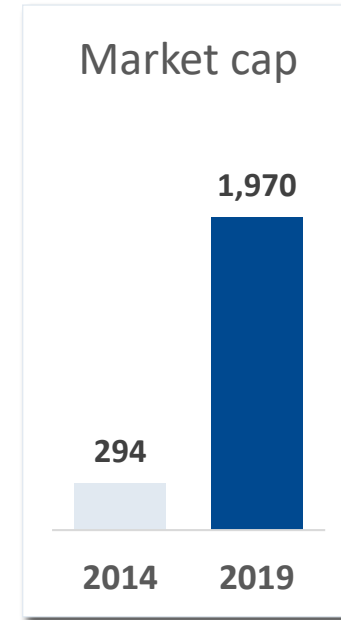
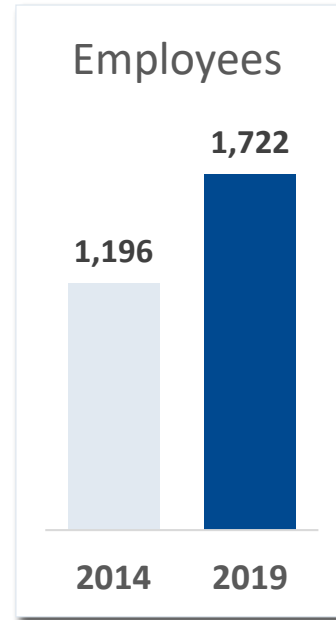
# Then 2014 and now 2019



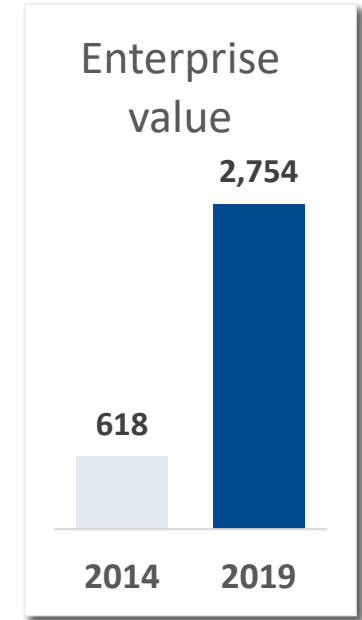
CAGR 14%



CAGR 46%\*



CAGR 46%



CAGR 38%

\* Measured as EBIT growth in NOK.

Financial figures in NOK million. Market cap and enterprise value at year end. Employees are full-time equivalents at year end.



## Covid-19 situation

# Covid-19 situation

- We are following international and national advice from the health organisations and authorities
- To date, no knowledge of Kitron's employees worldwide have been infected
- We're asking all of our employees, to take appropriate preventative measures. This includes keeping safety distance between people, regular and consistent use of hand sanitizer and disinfecting spray and wipes, and increased cleaning and sanitizing for all company facilities.
- All employees that can do their work from home are doing so, the purpose is to minimize the exposure of our blue-collar workers
- Visitors will not be allowed to access Kitron facilities (exception needs Managing Director approval)
- And finally, any employee who does not feel well is to stay at home, get well, and avoid interacting with other people

# Covid-19 situation

- All our factories are up and running without constraints to capacity
- We have been working closely with our suppliers to avoid any mayor disruption to our operations
  - All tier-1 suppliers in China have re-started operations, gradually increasing capacity.
  - So far no major disruption to supply chain outside China
  - Kitron is preparing for some component allocations moving forward
- Demand situation supports current guiding
  - Demand consist of Firm orders and 12 months forecast from customers



# Covid-19 situation

- **Going forward**

- Demand fluctuations

- Kitron continuously makes capacity adjustments based on demand fluctuations but are now preparing for significantly larger fluctuations, if they should occur
- Customers are asked to convert forecast to fixed and firm orders
- We see strengthening within the demand of the Medical devices sector

- Supply chain

- Customers are asked to place firm orders for immediate purchase of allocated materials
- Supply chain is continuously monitored

So far, demand supports current revenue outlook for 2020, but Covid-19 adds uncertainty

# Summary

## Progressing on path set out towards 2025

- Maintain strategy and financial ambitions for 2025
- Several growth opportunities identified
- So far, demand supports current revenue outlook for 2020, but Covid-19 adds uncertainty



Thank You!



# Appendix

# Appendix: Definition of alternative performance measures

## Order backlog

All firm orders and 4 months of committed customers forecast at revenue value as at balance sheet date.

## Foreign exchange effects

Group consolidation restated with exchange rates as comparable period the previous year. Change in volume or balance calculated with the same exchange rates for the both periods are defined as underlying growth. Change based on the change in exchange rates are defined as foreign exchange effects. The sum of underlying growth and foreign exchange effects represent the total change between the periods.

## EBITDA

Operating profit (EBIT) + Depreciation and Impairments

## EBIT

Operating profit

## EBIT margin (%)

Operating profit (EBIT) / Revenue

## Net working capital

Inventory + Accounts Receivable – Accounts Payable

## Operating capital

Other intangible assets + Tangible fixed assets + Net working capital

## Return on operating capital (ROOC) %

Annualised Operating profit (EBIT) / Operating Capital

## Return on operating capital (ROOC) R3 %

$(\text{Last 3 months Operating profit (EBIT)}) * 4 / (\text{Last 3 months Operating Capital} / 3)$

## Direct Cost

Cost of material + Direct wages (subset of personnel expenses only to include personnel directly involved in production)

## Days of Inventory Outstanding

$360 / (\text{Annualised Direct Costs} / \text{Inventory})$

## Days of Inventory Outstanding R3

$360 / ((\text{Last 3 months Direct Costs} * 4) / (\text{Last 3 months Inventory} / 3))$

## Days of Receivables Outstanding

$360 / (\text{Annualised Revenue} / \text{Trade Receivables})$

## Days of Receivables Outstanding R3

$360 / (((\text{Last 3 months Revenue} * 4) / (\text{Last 3 months Trade Receivables} / 3)))$

## Days of Payables outstanding

$360 / ((\text{Annualised Cost of Material} + \text{Annualised other operational expenses}) / \text{Trade Payables})$

## Days of Payables Outstanding (R3)

$360 / (((\text{Last 3 months (Cost of Material} + \text{other operational expenses}) * 4) / (\text{Last 3 months Trade Payables} / 3)))$

## Cash conversion cycle (CCC)

Days of inventory outstanding + Days of receivables outstanding – Days of payables outstanding

## Cash conversion cycle (CCC) R3

Days of inventory outstanding (R3) + Days of receivables outstanding (R3) – Days of payables outstanding (R3)

## Net Interest-bearing debt

- Cash and cash equivalents + Loans (Non- current liabilities) + Loans (Current liabilities)

## Interest-bearing debt

Loans (Non- current liabilities) + Loans (Current liabilities)

## Net gearing

Net Interest-bearing debt / Equity

## Free Cash flow

Net Cash Flow from operating activities – Cash flows from acquisition of tangible fixed assets – Cash flows from acquisition of other intangible assets

## Equity ratio

Total Equity / Total Assets

## EPS

Earnings Per Share