



Kitron

Your ambition. Our passion.

2019 Capital Markets Day

2019-03-21

Disclaimer

This presentation contains certain forward-looking information and statements. Such forward-looking information and statements are based on the current, estimates and projections of the Company or assumptions based on information currently available to the Company. Such forward-looking information and statements reflect current views with respect to future events and are subject to risks, uncertainties and assumptions. The Company cannot give assurance to the correctness of such information and statements. These forward-looking information and statements can generally be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements sometimes use terminology such as "targets", "believes", "expects", "aims", "assumes", "intends", "plans", "seeks", "will", "may", "anticipates", "would", "could", "continues", "estimate", "milestone" or other words of similar meaning and similar expressions or the negatives thereof.

By their nature, forward-looking information and statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the Company to differ materially from any future results, performance or achievements that may be expressed or implied by the forward-looking information and statements in this presentation. Should one or more of these risks or uncertainties materialize, or should any underlying assumptions prove to be incorrect, the Company's actual financial condition or results of operations could differ materially from that or those described herein as anticipated, believed, estimated or expected.

Any forward-looking information or statements in this presentation speak only as at the date of this presentation. Except as required by the Oslo Stock Exchange rules or applicable law, the Company does not intend, and expressly disclaims any obligation or undertaking, to publicly update, correct or revise any of the information included in this presentation, including forward-looking information and statements, whether to reflect changes in the Company's expectations with regard thereto or as a result of new information, future events, changes in conditions, currency development or circumstances or otherwise on which any statement in this presentation is based.

Given the aforementioned uncertainties, prospective investors are cautioned not to place undue reliance on any of these forward-looking statements.



CHAIRMAN'S WELCOME

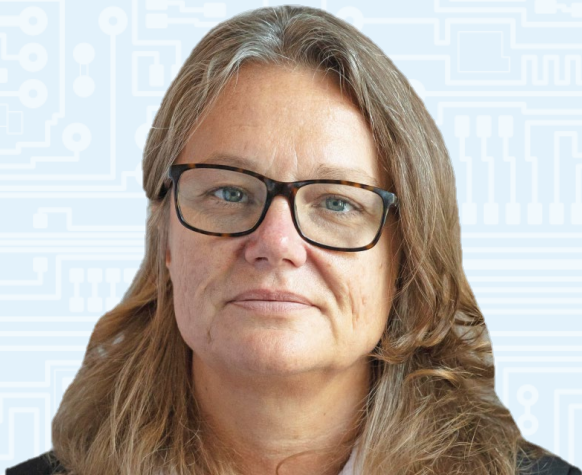
Tuomo Lähdesmäki
Chairman of the Board

Capital
Markets Day
2019



AGENDA

- Strategy
- Growth
- Central and Eastern Europe
- North America
- Operations
- M&A
- Financials
- Summary



Cathrin Nylander
CFO
Acting CEO



Israel Losada Salvador
COO
Sales Director



Mindaugas Sestokas
MD Kitron Lithuania
VP Central Eastern Europe



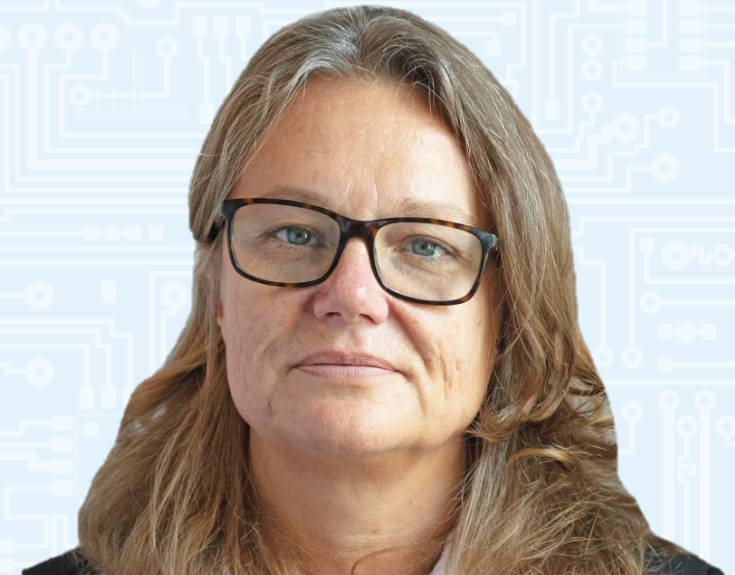
Hans Petter Thomassen
MD Kitron Norway
VP North America



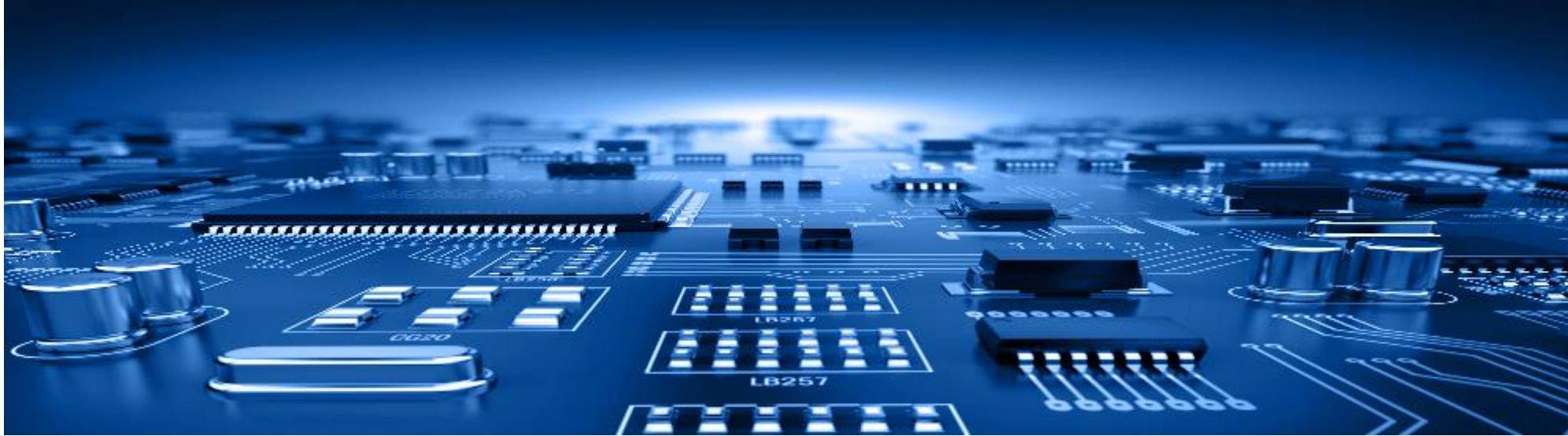
STRATEGY

Cathrin Nylander
CFO and acting CEO

Capital
Markets Day
2019



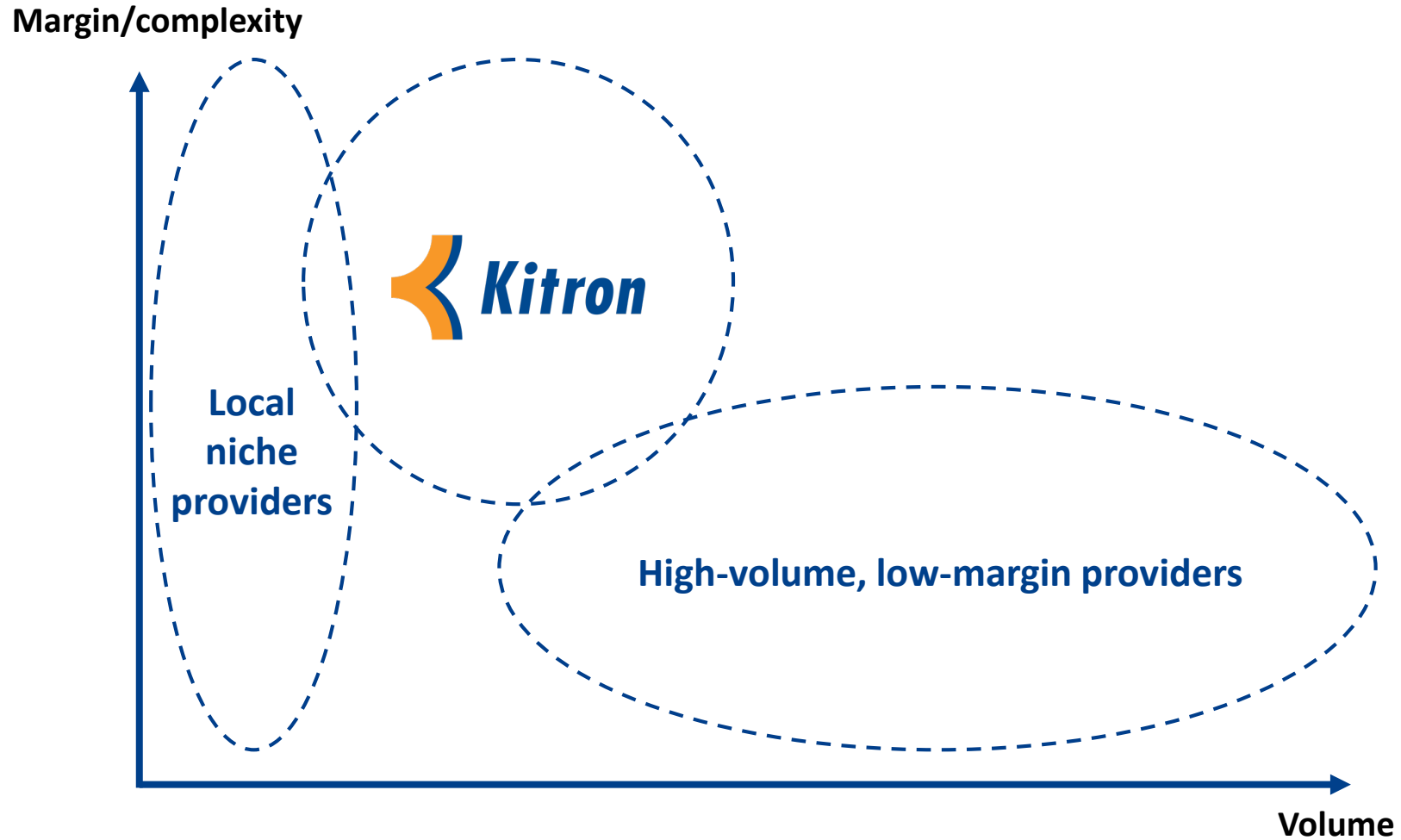
The essence of Kitron



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



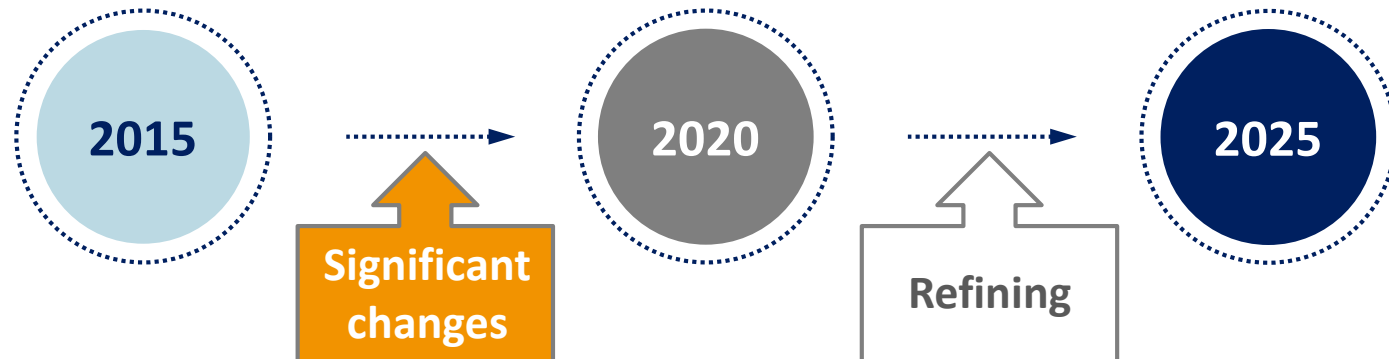
Kitron on three continents



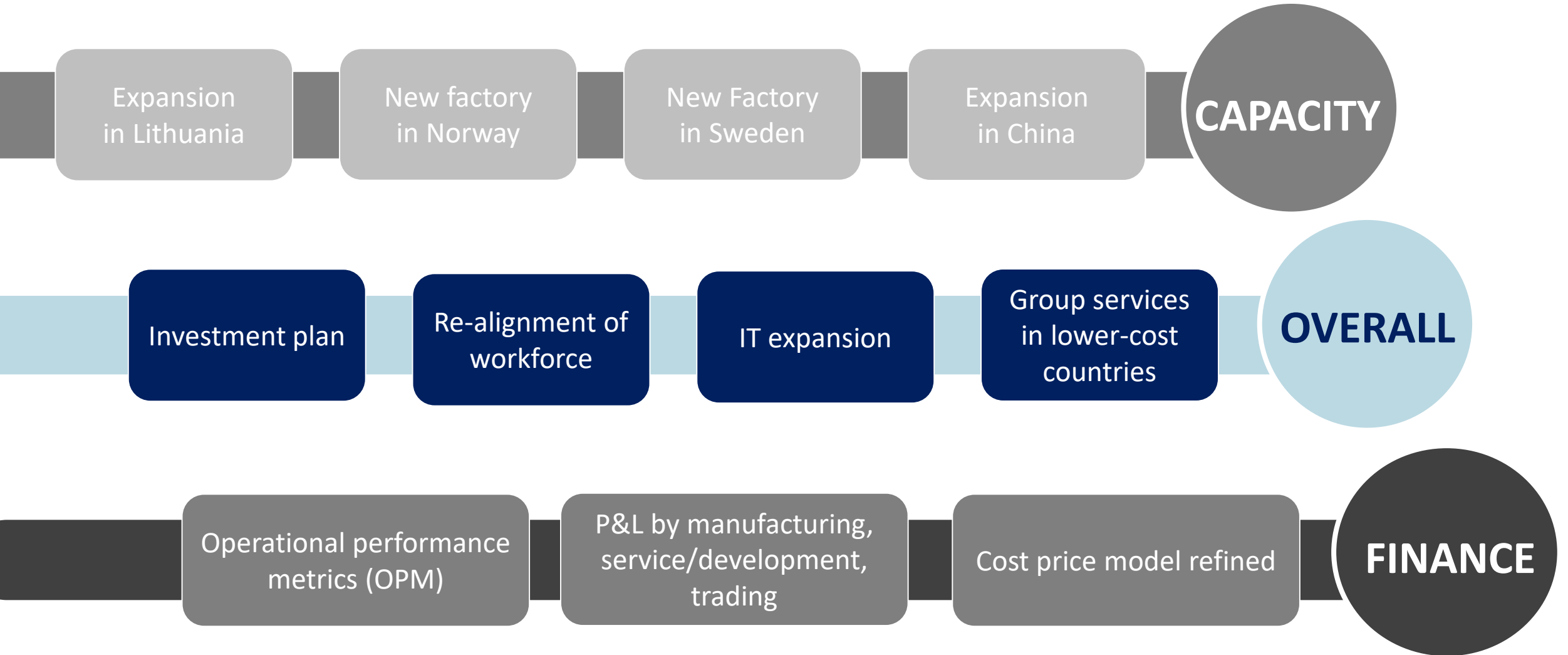
Current strategic horizon 2020, now extended to 2025

2020 strategy set new direction for company

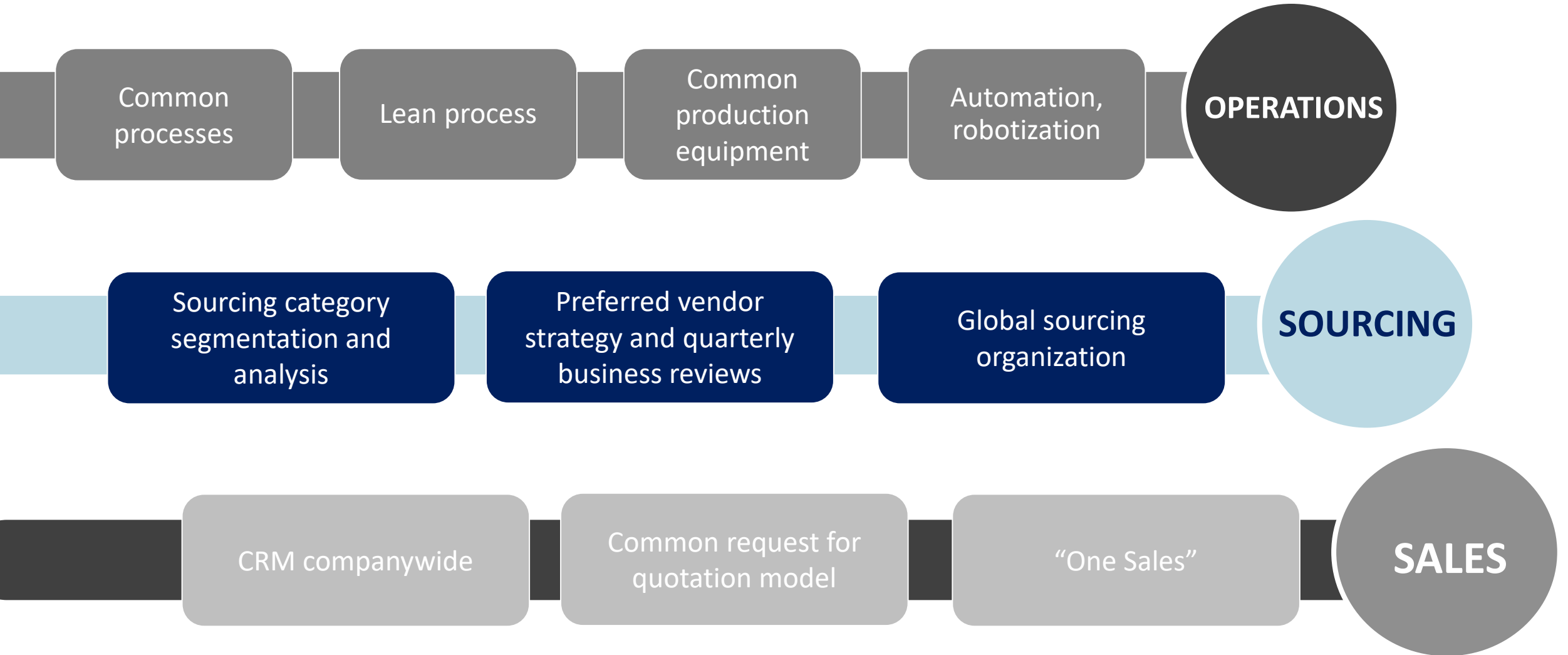
1. Accelerated organic growth
2. Continued operational improvements
3. Growth through targeted M&A



Path to 2020

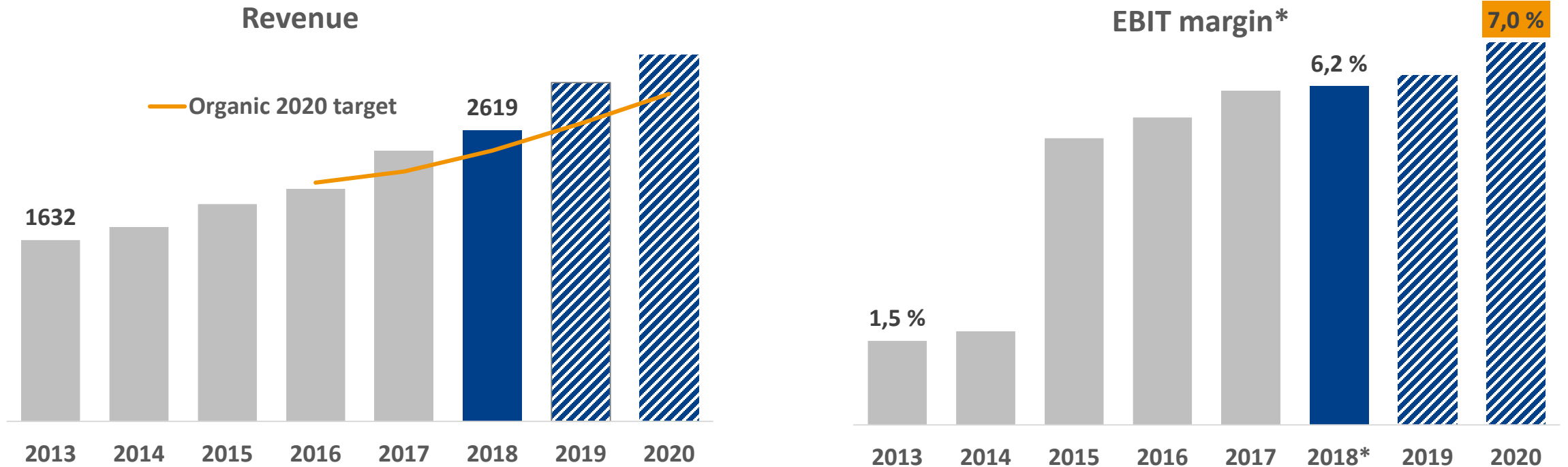


Path to 2020



Growth and margin improvement on track towards 2020 targets

Including API EMS Division we see about 10% upside to 2020 revenue target of NOK 3 billion



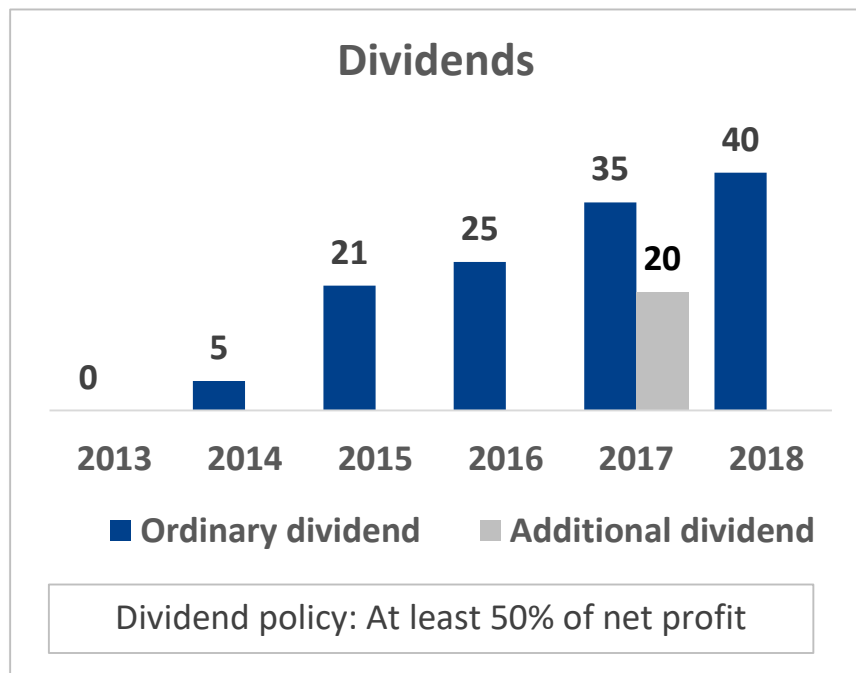
* Excluding one-offs

2019 guidance

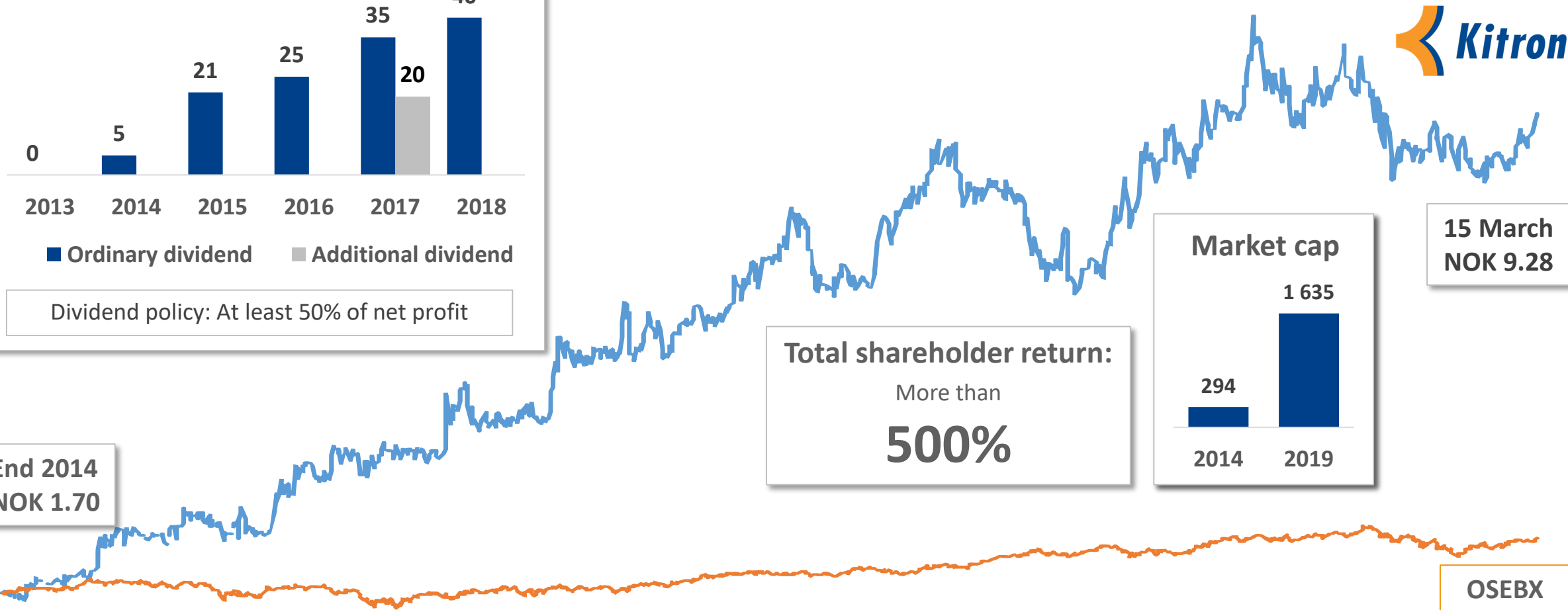
Revenue NOK 2 900 to 3 200 million

EBIT margin 6.2 to 6.6%

We have created shareholder value



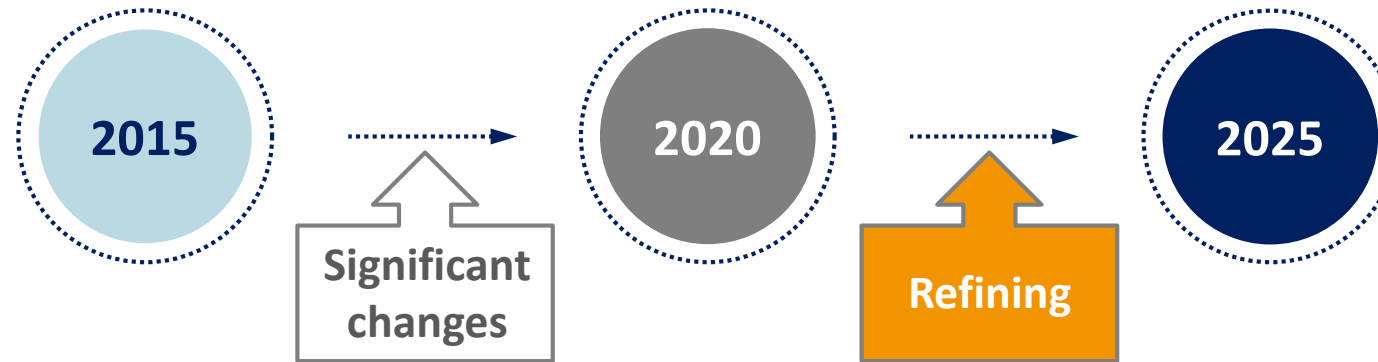
End 2014
NOK 1.70



Total shareholder return:
More than
500%



Towards a new strategic period



Overall strategy the same: Complex, high-margin products, medium volumes

Growth

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

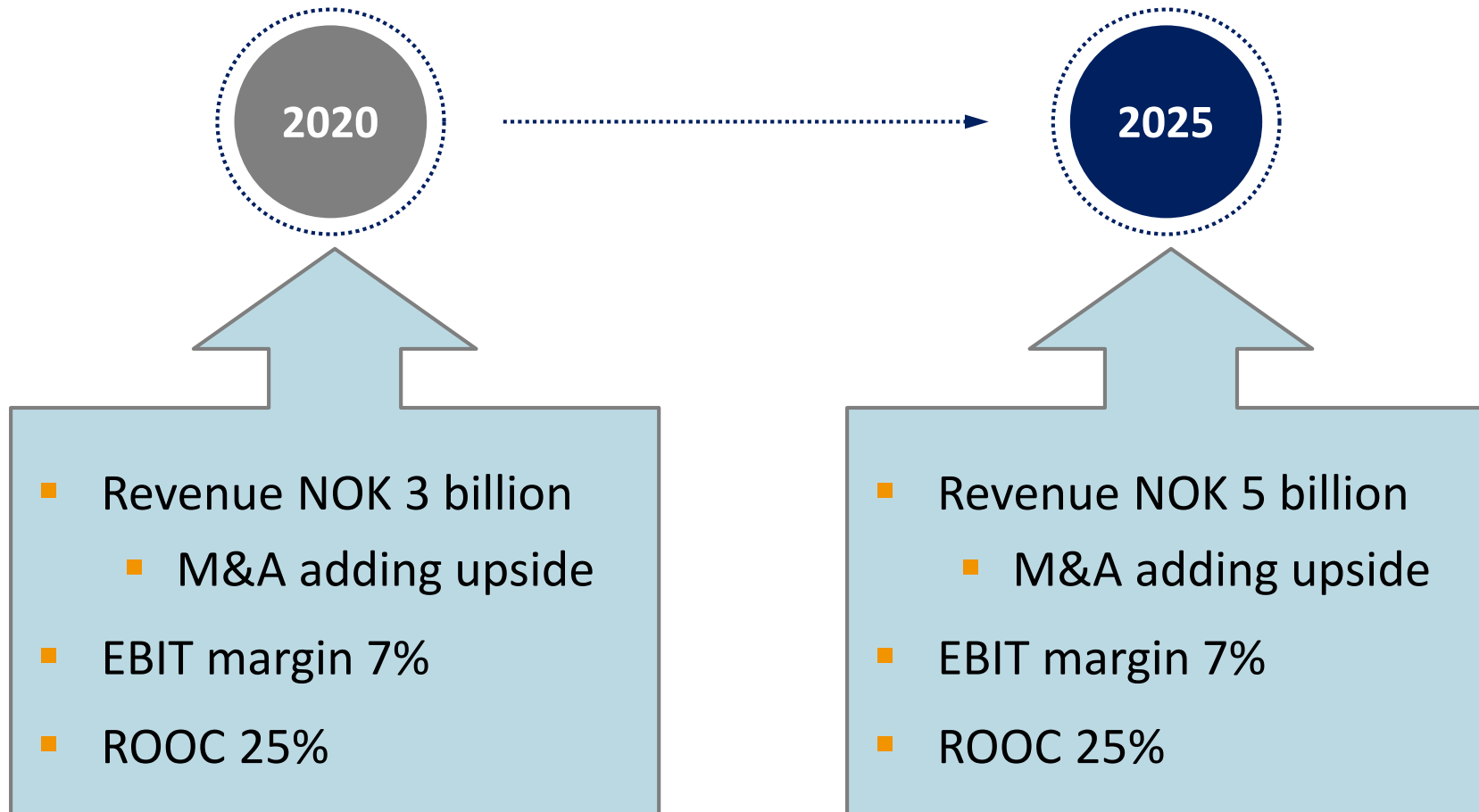
Operations

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

M&A

- Value chain expansion
- Entering new geographies
- Existing geographies

Summary: Main financial ambitions





GROWTH

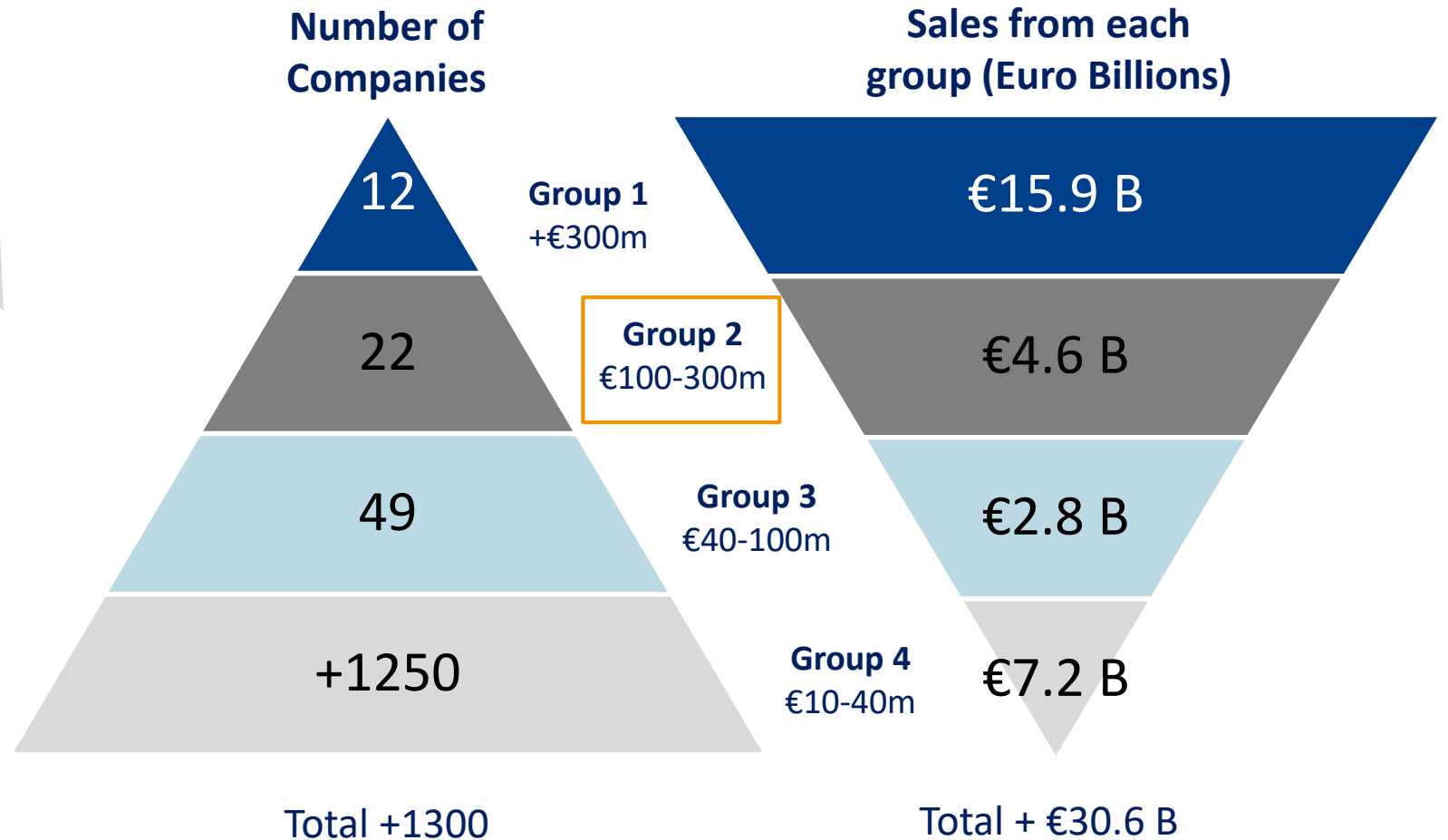
Israel Losada Salvador
COO and Sales Director

Capital
Markets Day
2019



Setting the stage: The European EMS market

- 3% annual growth expected 2017–2022*
- Expect consolidation as companies in Group 2 and 3 seek to increase economies of scope and scale
- Group 4 very fragmented and competitive, some companies being acquired or exiting industry



* Reed Electronics Research,
The European EMS Industry 2017-2022

Trends in the EMS Industry

INDUSTRIAL PARTNERSHIP
EMS broadening service offering and partnering with OEMs and technology providers

CONSOLIDATION
Search for profitable growth, Mergers & Acquisitions rising

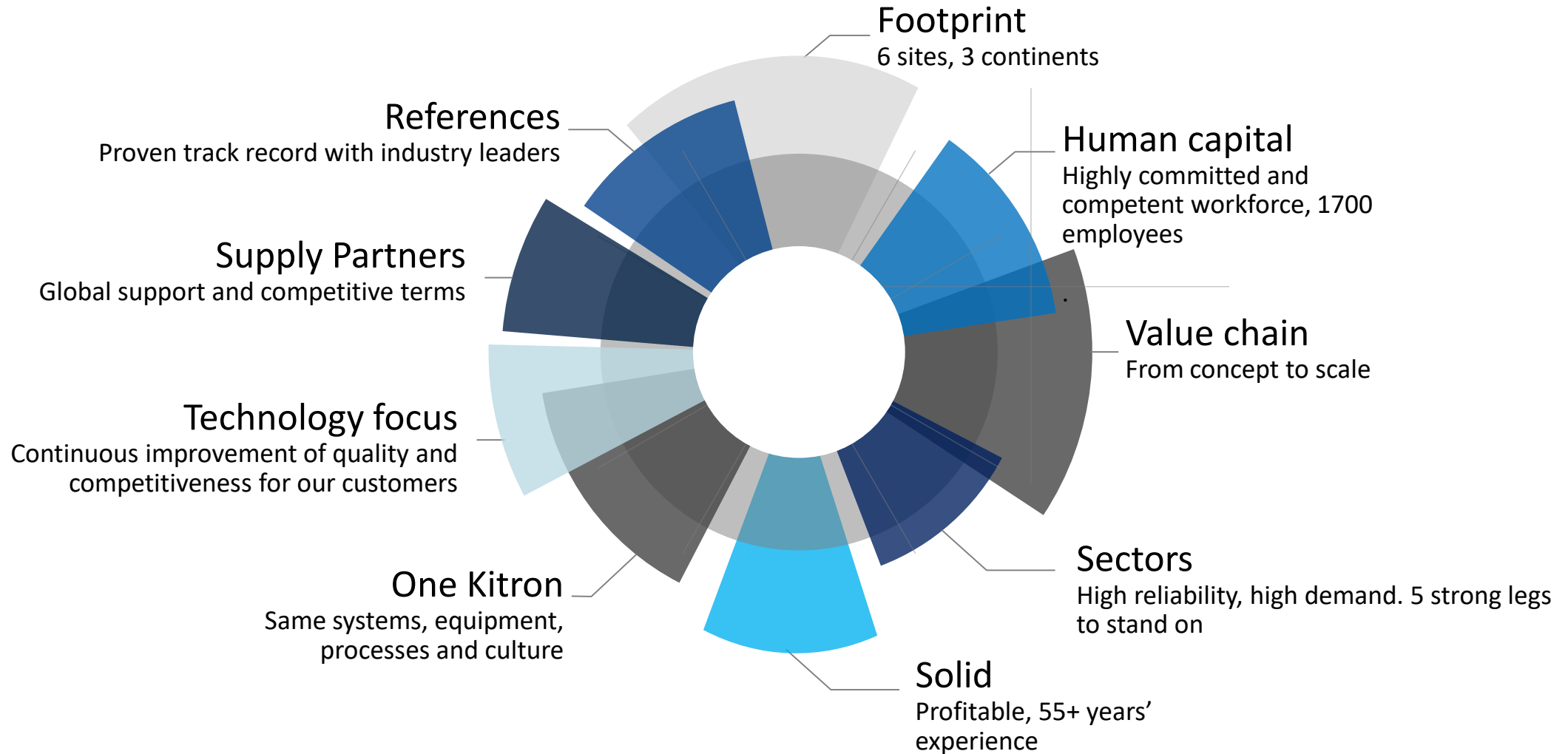


CUSTOMIZATION
More batches, shorter series, more complexity

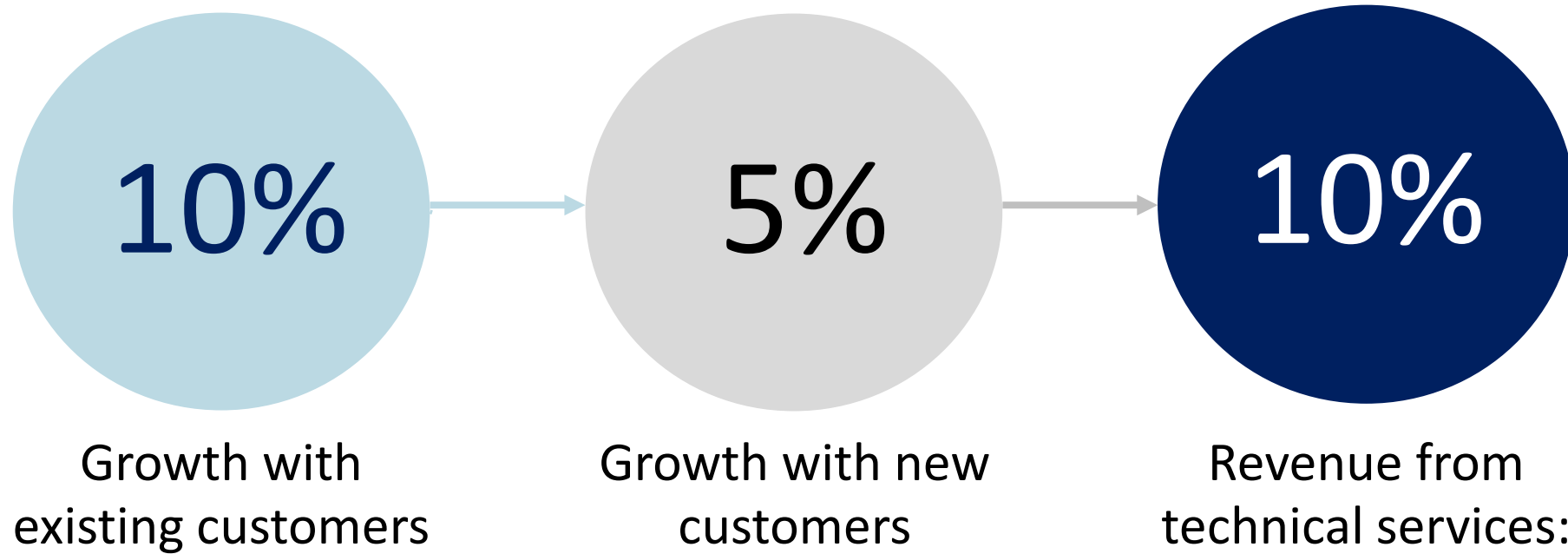
NEARSHORING
Shorter time to market, increased flexibility, NPI closer to customer

INCREASED REQUIREMENTS
Cyber security, conflict minerals, corporate social responsibility and trade compliance

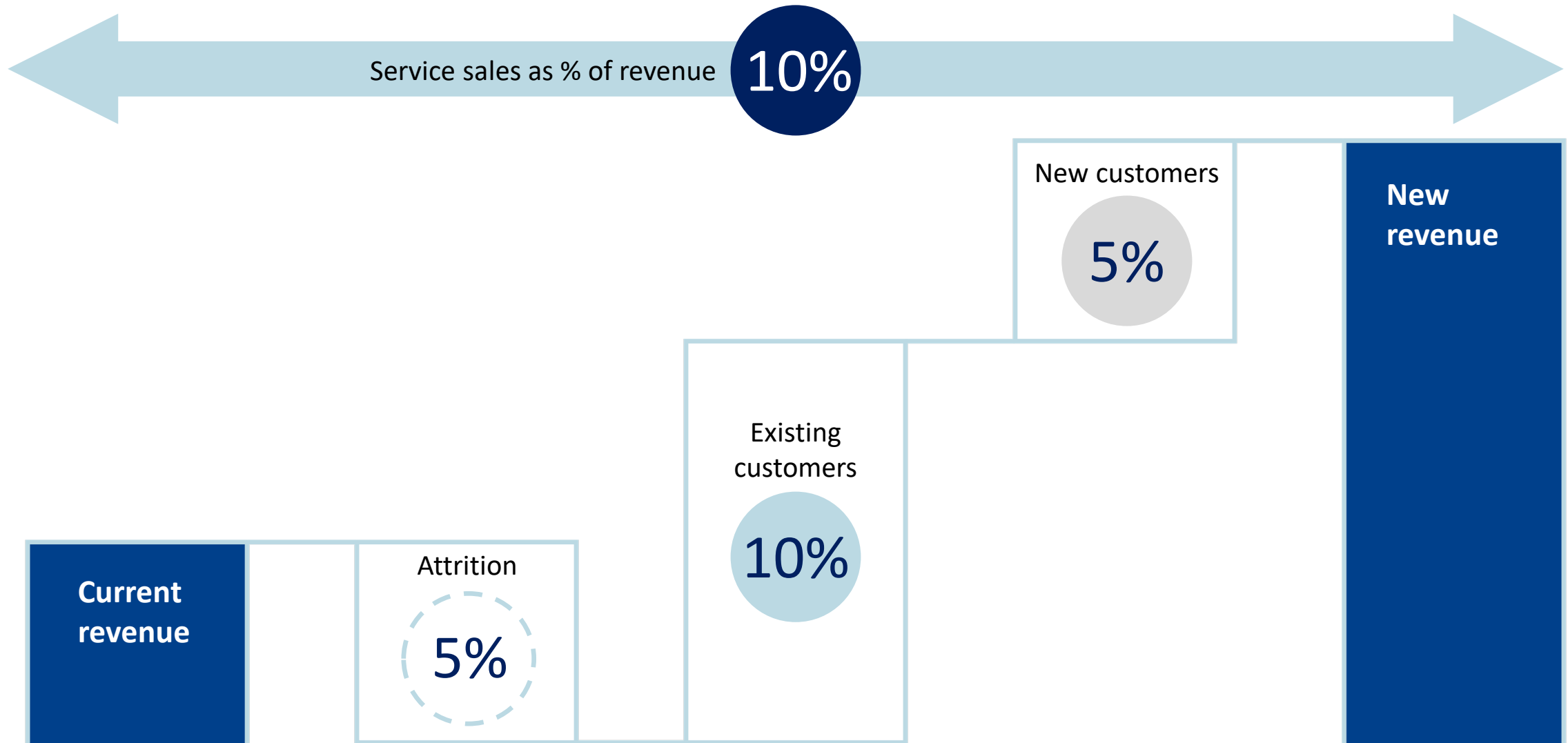
Why Kitron...



Summary: Growth strategy



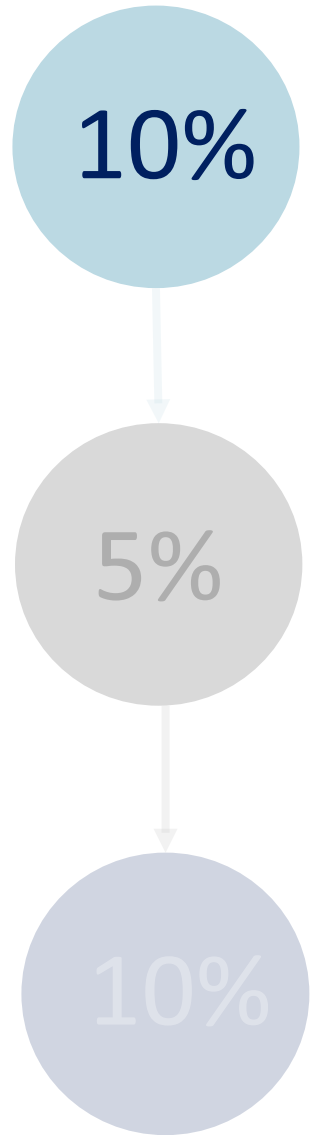
Kitron Sales Strategy



Growth with existing customers

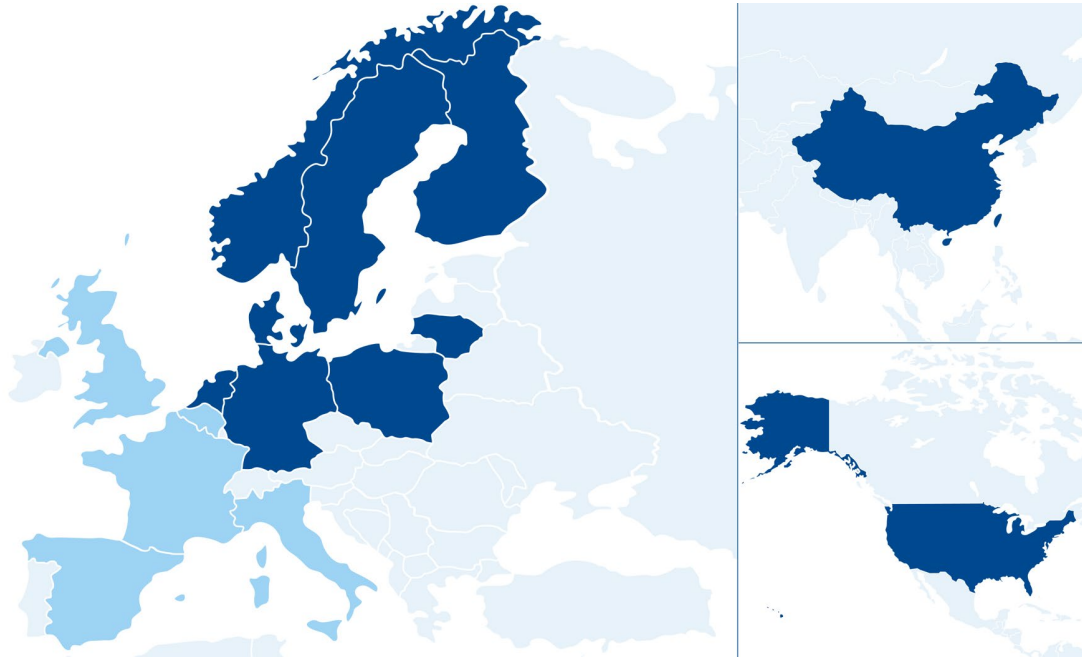
Existing large customers are market leaders with significant growth opportunities

- Focus on winning next generations
- Broaden services provided
- Utilize strong customer relations and strong performance to gain access to other regions and divisions
- Follow our customers

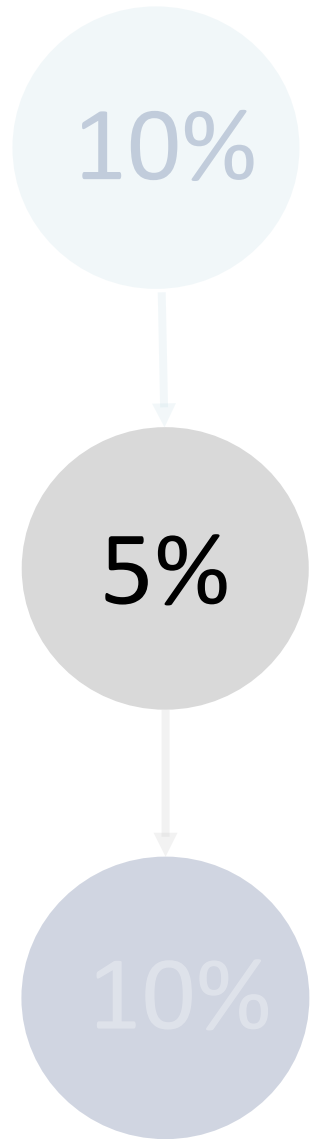


Growth with new customers

- Target customers within our sectors that are larger, growing, profitable customers with demanding requirements
- Leverage our footprint, competence, application knowledge and references
- Focus on strategic geographical regions

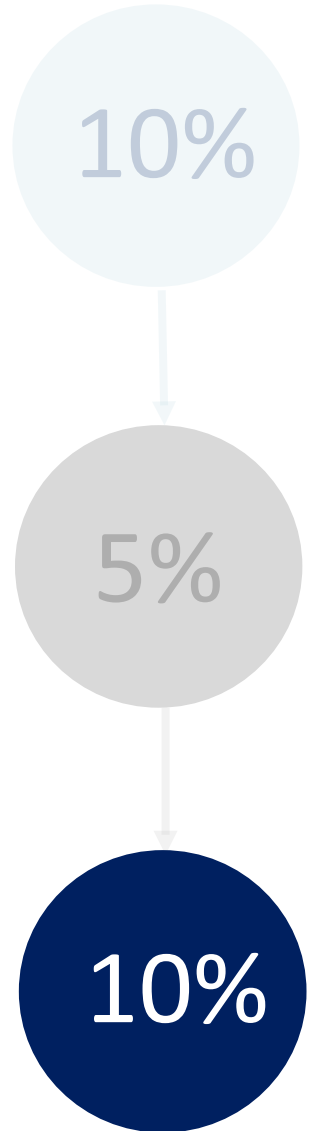


- Priority 1 - Home countries
- Priority 2 – Northern Europe - Finland, Denmark and Netherlands
- Priority 3 - West Europe – Explore new countries (France, Italy, Spain, UK)



Revenue from Technical Services

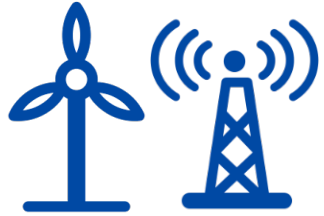
- Extend the range of services we provide – “pushing to the sides”
 - Test development
 - Product development
 - Industrialization
 - Rapid prototypes
 - Simulation
 - Augmented reality
 - Auditing and supplier selection
 - **Product deployment**



Our customers: From the bottom of the sea to outer space



Customers and market sectors



ENERGY/TELECOMS



DEFENCE/AEROSPACE



OFFSHORE/MARINE



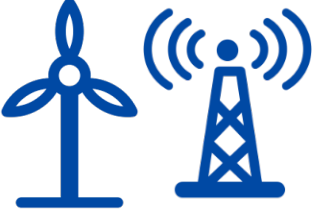




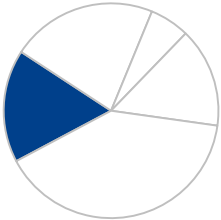
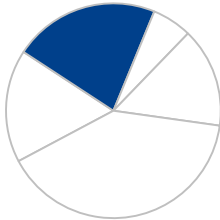
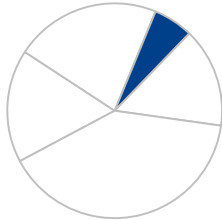
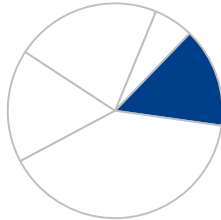
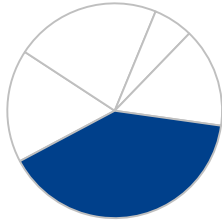
MEDICAL DEVICES



INDUSTRY



Sectors development

 <p>ENERGY/TELECOMS</p>	 <p>DEFENCE/AEROSPACE</p>	 <p>OFFSHORE/MARINE</p>	 <p>MEDICAL DEVICES</p>	 <p>INDUSTRY</p>
Focus				
<ul style="list-style-type: none"> Energy: Specific focus sector Build from existing customers Telecom: Go after the fringes of 5G 	<ul style="list-style-type: none"> Get ahead of the contract Leverage existing customers 	<ul style="list-style-type: none"> Approach oilfield services providers Leverage know-how 	<ul style="list-style-type: none"> Nordic region Take advantage of expertise on applications 	<ul style="list-style-type: none"> Increase Product Deployment offer Increased availability in lower cost countries, Poland
Expected share of 2025 revenue				
				

Summary: Growth strategy





CENTRAL AND EASTERN EUROPE

Mindaugas Sestokas

MD Kitron Lithuania

VP Central Eastern Europe

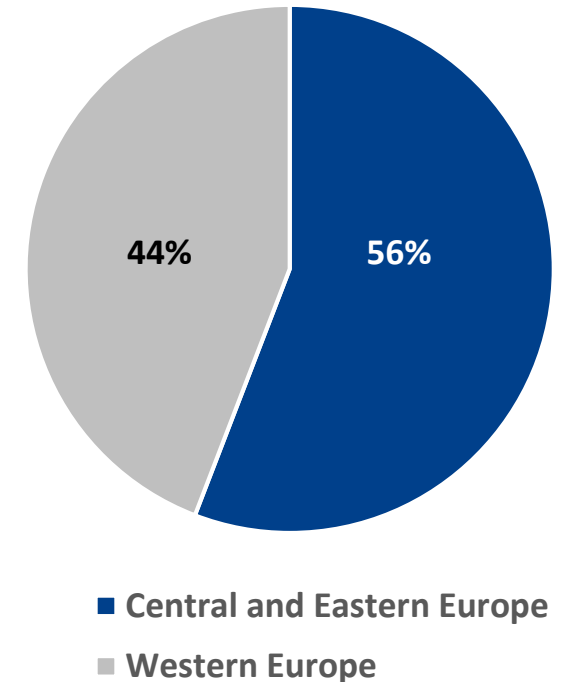
Capital
Markets Day
2019



Central and Eastern European EMS market

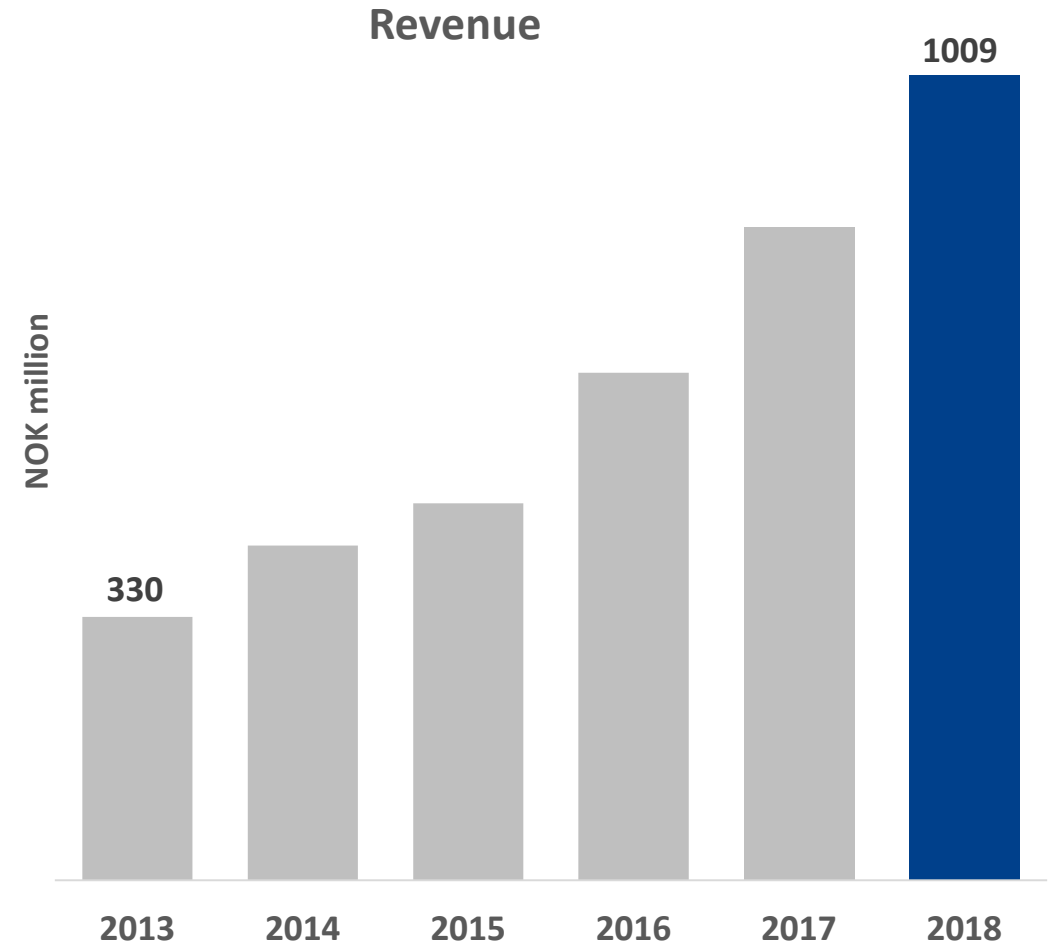
- CEE EMS market has passed Western Europe in size and growth
- Large EMS companies have extensive capabilities in CEE
- Focus on higher-volume products
- Wage levels still substantially below Western Europe
- Some production moved back from Asia
 - Rapid growth of labour costs in Asia
 - Advantage of proximity to European customers
- Advantageous business climate, but variations among individual countries

EMS revenues 2018



Strong growth in Lithuania

- Kitron entered Lithuania in 2001
- Accelerating growth and nearing optimal capacity
- Primary focus: Industry market sector
- About 900 employees
- 13 000 sqm production area
- Kitron's largest business unit



Construction of new facility in Poland

Facts:

- Located in Grudziądz, northern Poland
- Purpose-built for Kitron
- First phase: 8 000+ m²
- After planned second phase: up to 15 000 m²
- Construction ongoing
- Production expected Q4 2019



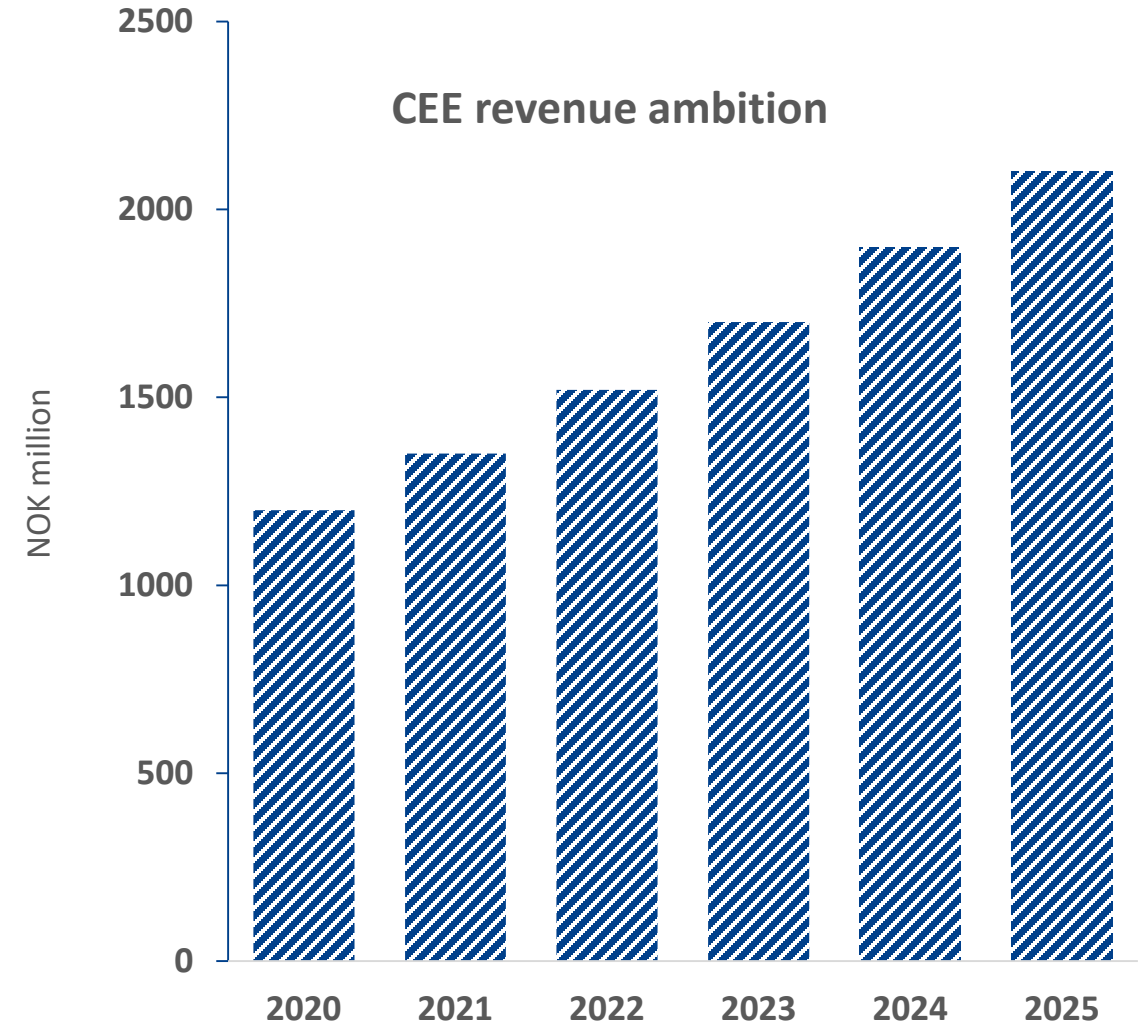
Strategic rationale

Poland

- Facility in Lithuania nearing optimal capacity
- Industry market sector growing strongly
- Country diversification seen as advantage
- Poland: attractive business climate and labour pool, EU and NATO member

Summary: Kitron in CEE – towards 2025

- Building on strong performance in Lithuania
- Production will gradually be moved from Lithuania to new site in Poland
 - To be replaced by new business in Lithuania
- Main focus on Industry market sector
- Production mainly for Western European markets
- Domestic markets offer future potential
- Potential third site, 2023-2024 time frame





NORTH AMERICA

Hans Petter Thomassen

MD Kitron Norway

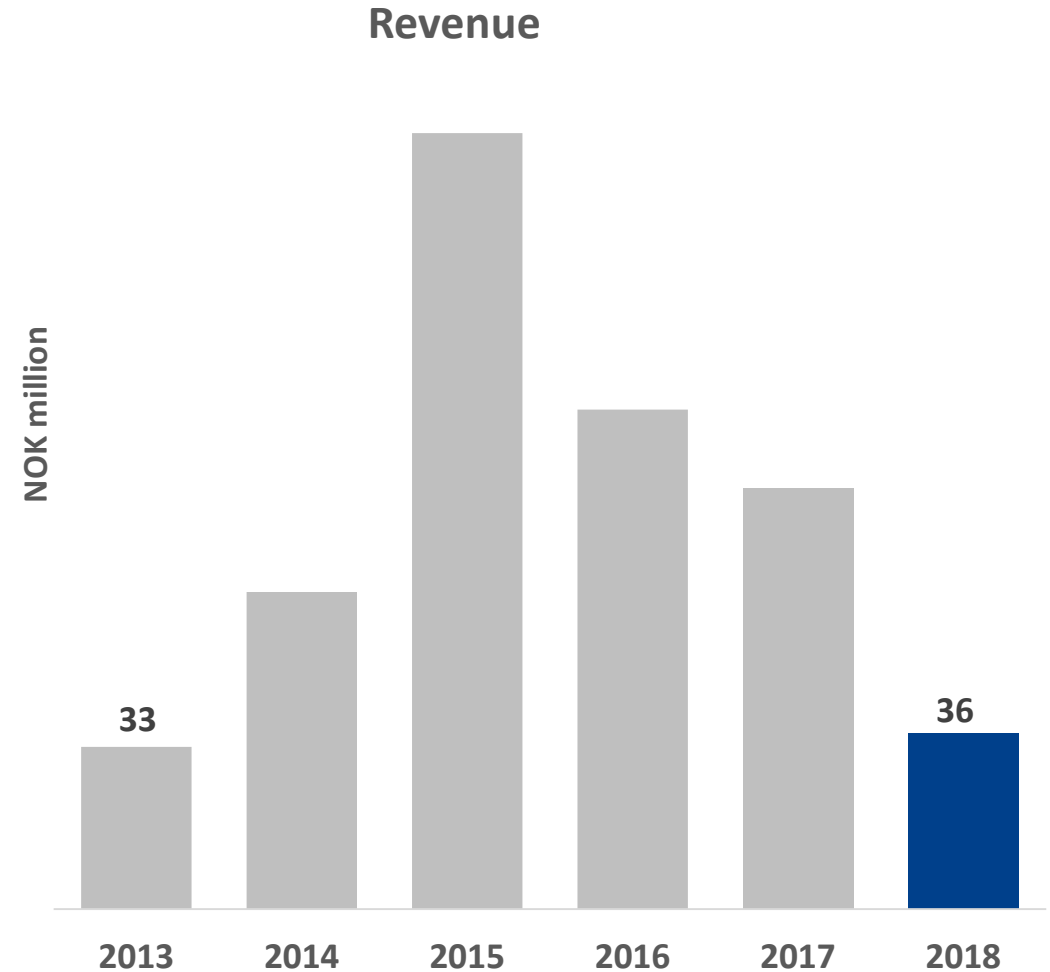
VP North America



Capital Markets Day 2019

Limited US presence so far

- Established foothold in US in 2010
- Located in Johnstown, PA
- Approximately 20 employees
- 1000 sqm production area
- Primary focus: Defence market
- Not reached critical mass, variable profitability



Acquisition of API Technologies' EMS division



Facts:

- Located in Windber, PA
- 15 minutes from Kitron in Johnstown
- Industry and defense hub
- 115 employees at single facility
- Facility footprint 10 000 sqm
- Suitable production equipment and certifications



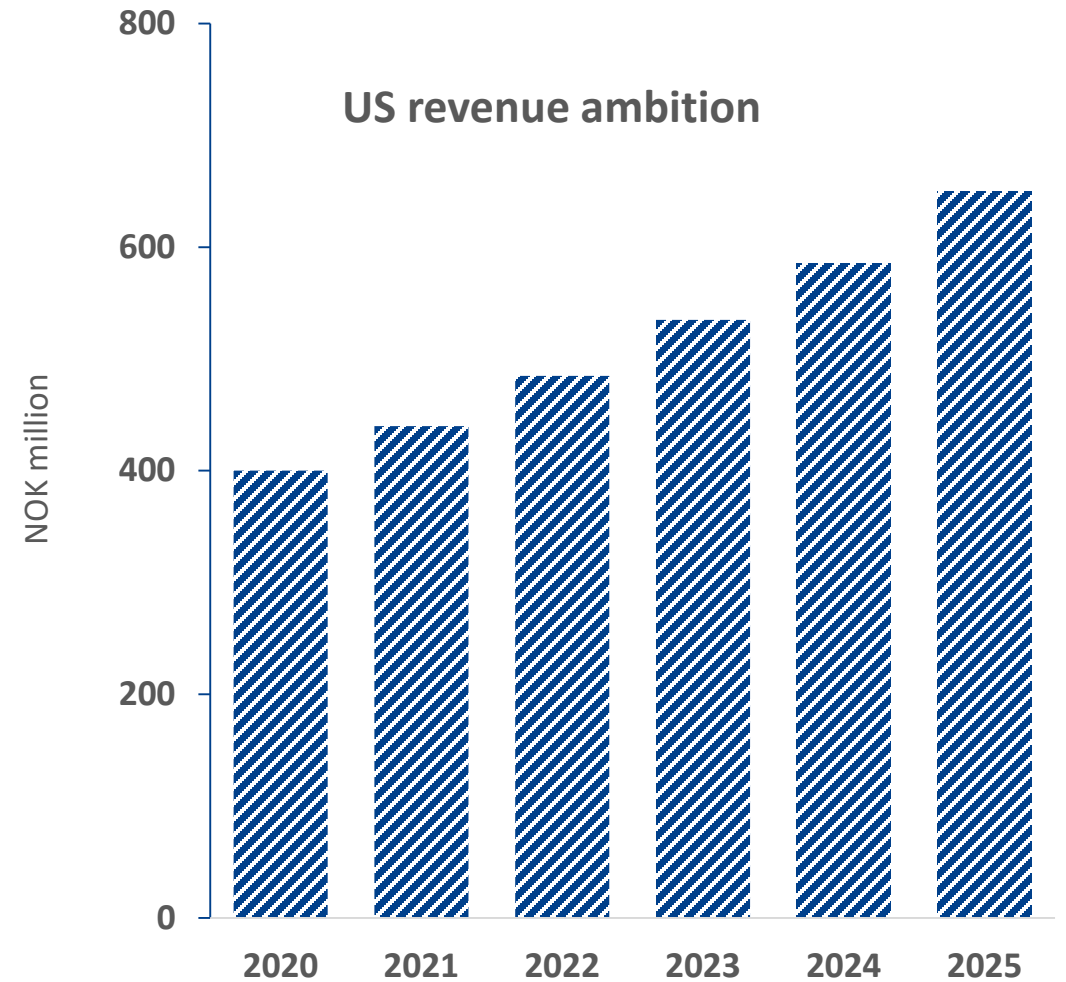
Strategic rationale

Kitron Technologies Inc.

- Need to build US presence faster than organic growth at current site would allow
- Footprint and available capacity close to current location
- Quickly creates scale and credibility
- Certified and operating within Kitron sectors
- Broadens customer base
- Potential for operational improvements

Summary: Kitron in the US – towards 2025

- API acquisition: From marginal foothold to credible presence with broader customer base
- Main focus on Defence market sector
- Operational improvements
- Optimization of resource utilization between the entities
- Growth ambitions in line with overall group





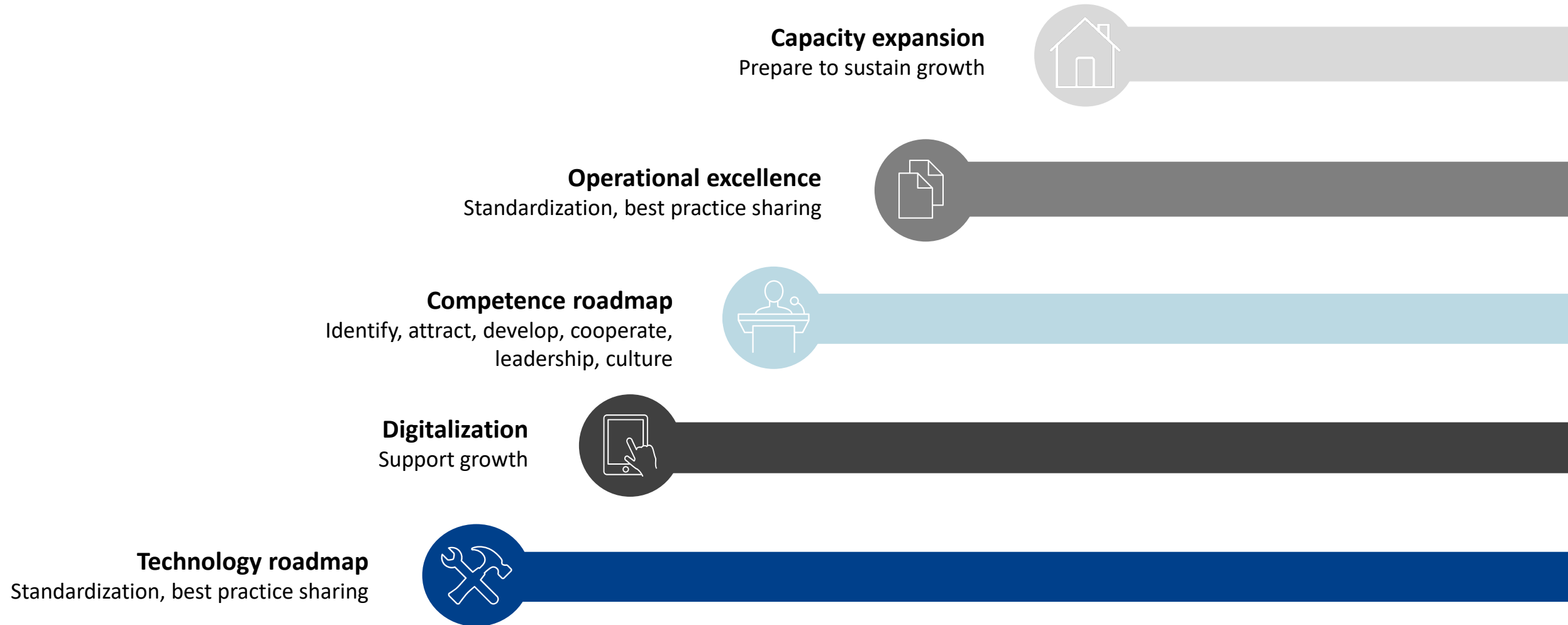
OPERATIONS

Israel Losada Salvador
COO and Sales Director

Capital
Markets Day
2019



Main operational themes for Kitron towards 2025



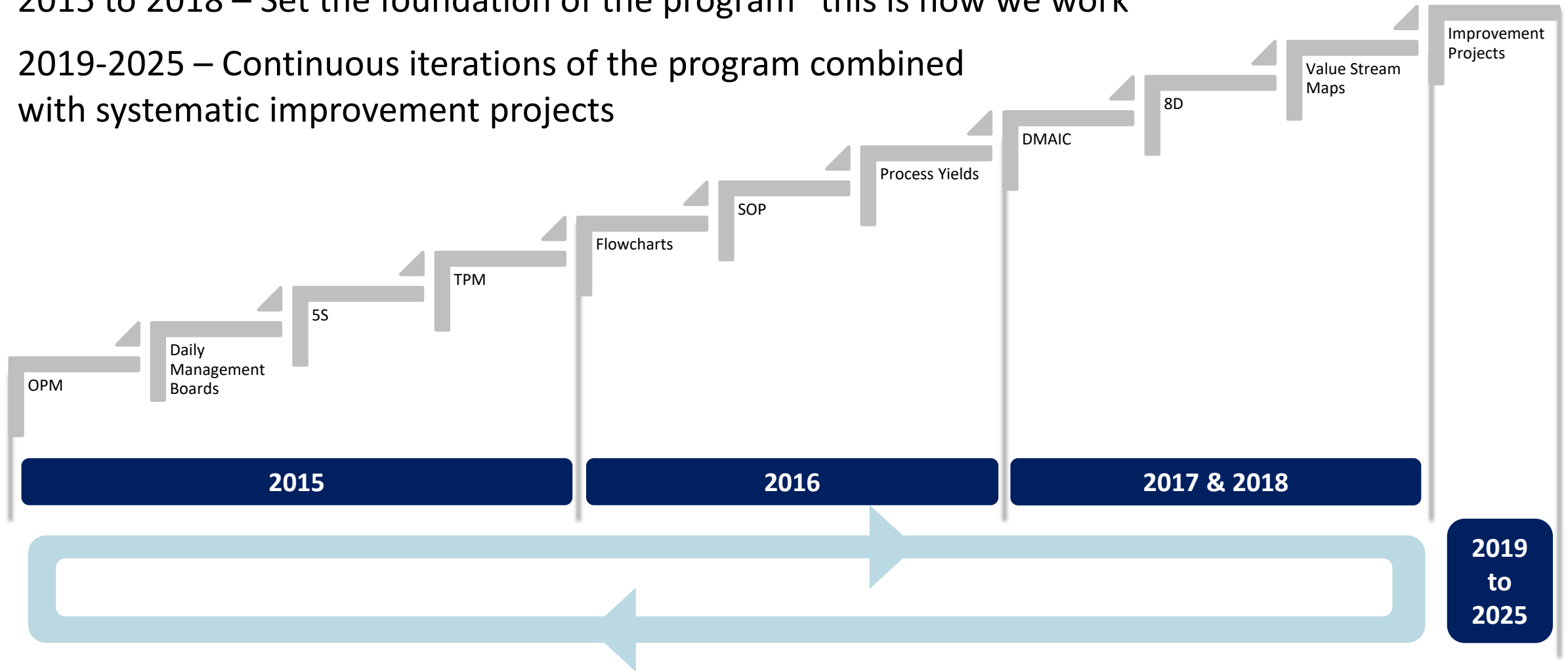
Capacity expansion towards 2025



- Potential third site in Eastern Europe
- Potential new site in Asia
- NOK 500–1000 revenue per factory
- Preferably one site per country

Operational excellence - Lean

- 2015 to 2018 – Set the foundation of the program “this is how we work”
- 2019-2025 – Continuous iterations of the program combined with systematic improvement projects



Competence Roadmap



IDENTIFY COMPETENCE NEEDS

Based on company strategy, market, technology, laws and regulations



EMPLOYER BRANDING

Further develop ability to attract required competence externally



COMPETENCE DEVELOPMENT

Intensify development of workforce and management, share learning when possible, enable internal mobility



EXCHANGE COMPETENCE

Collaboration with schools, universities and networks



LEADERSHIP & CULTURE

Foster customer focus, trust, innovation, competence development and collaboration

One Kitron

Digitalization

- Purchase to pay
 - Structured and coherent digitalization of entire process from purchase of raw material to customer invoice
- Services E-commerce
 - Making services available on the website for customers to order
- Customer connectivity
 - Making more information available to customers in real time
- Supporting processes
 - Human resources initiatives key to staying competitive

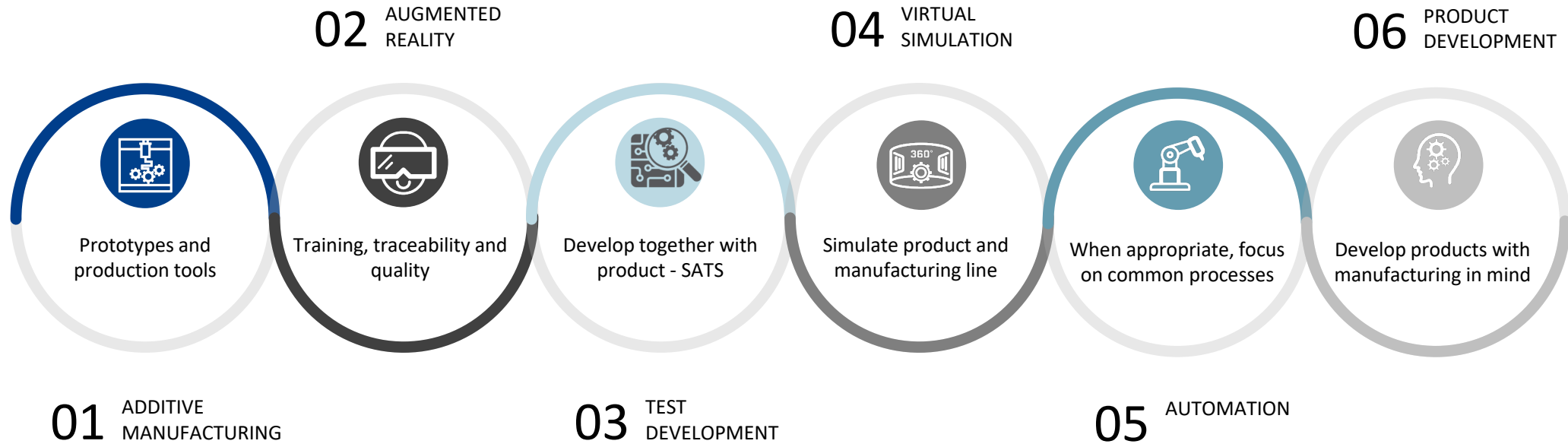


What does the Kitron factory of 2025 look like?

- Some products moving independently through production
- Large amounts of real-time data generated during production process
- Flexible production lines
- Collaborative robots key element
- Highly technically competent workforce
- Simulation tools part of product development and industrialization
- Automated auxiliary processes: procurement, planning, order intake

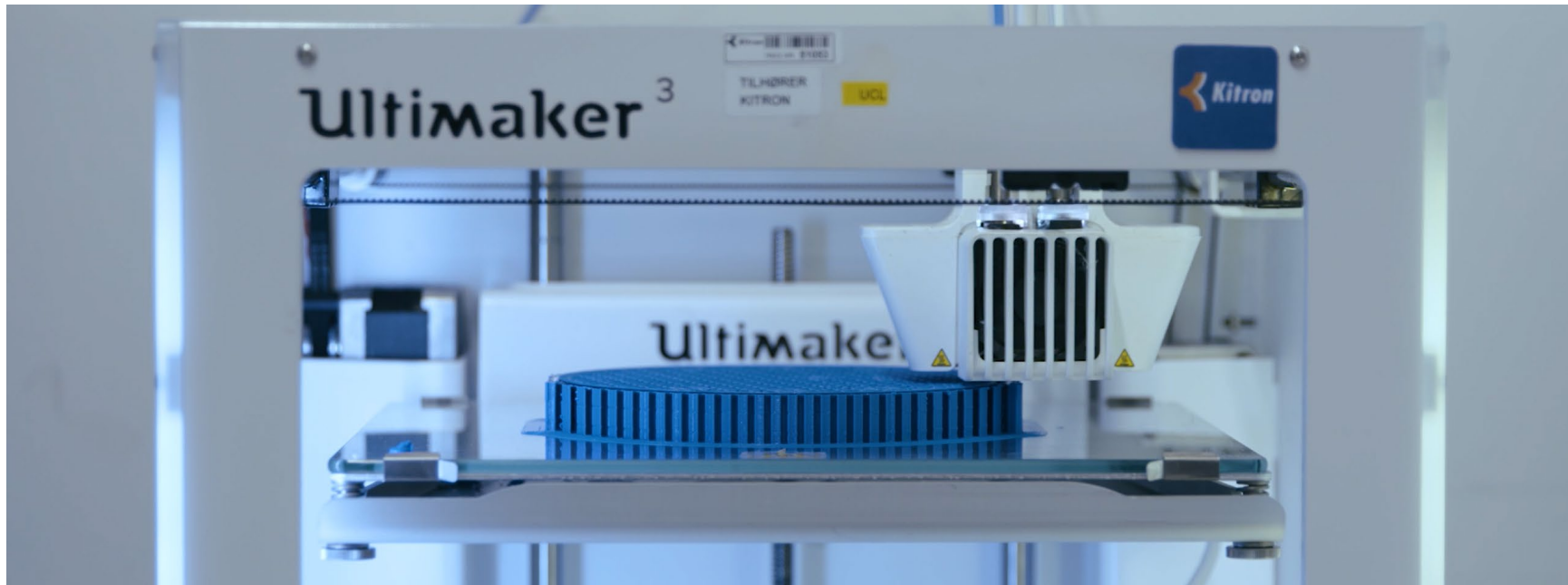


Technology roadmap

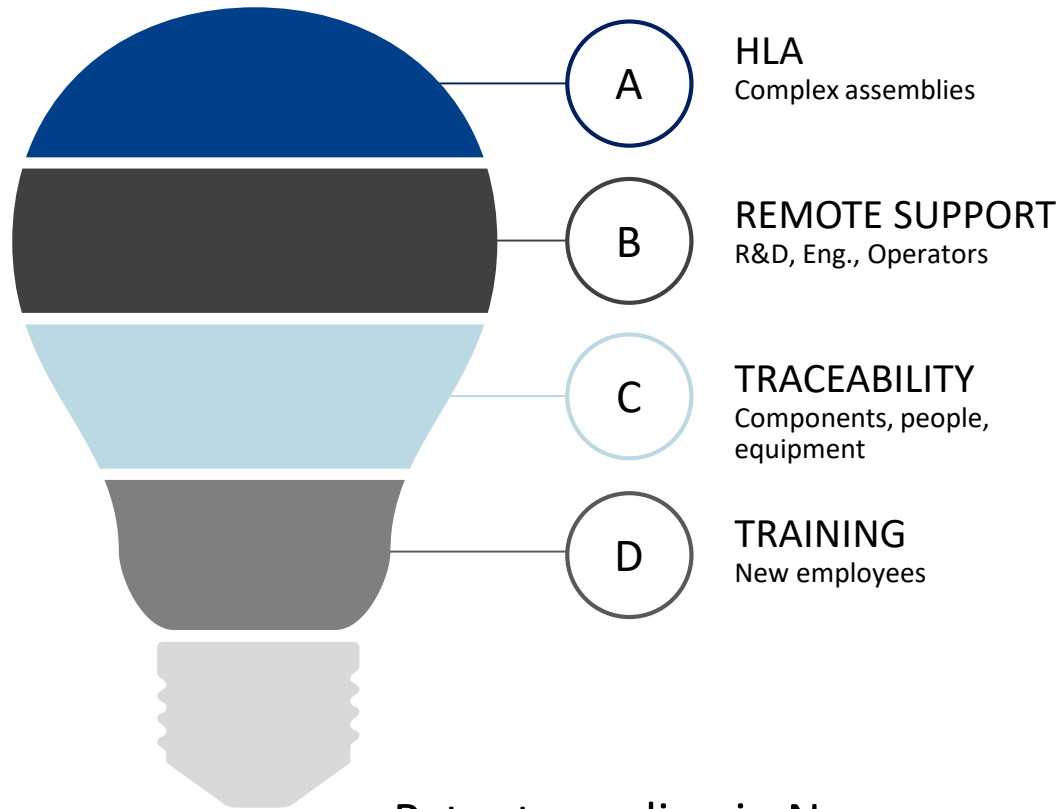


Additive Manufacturing

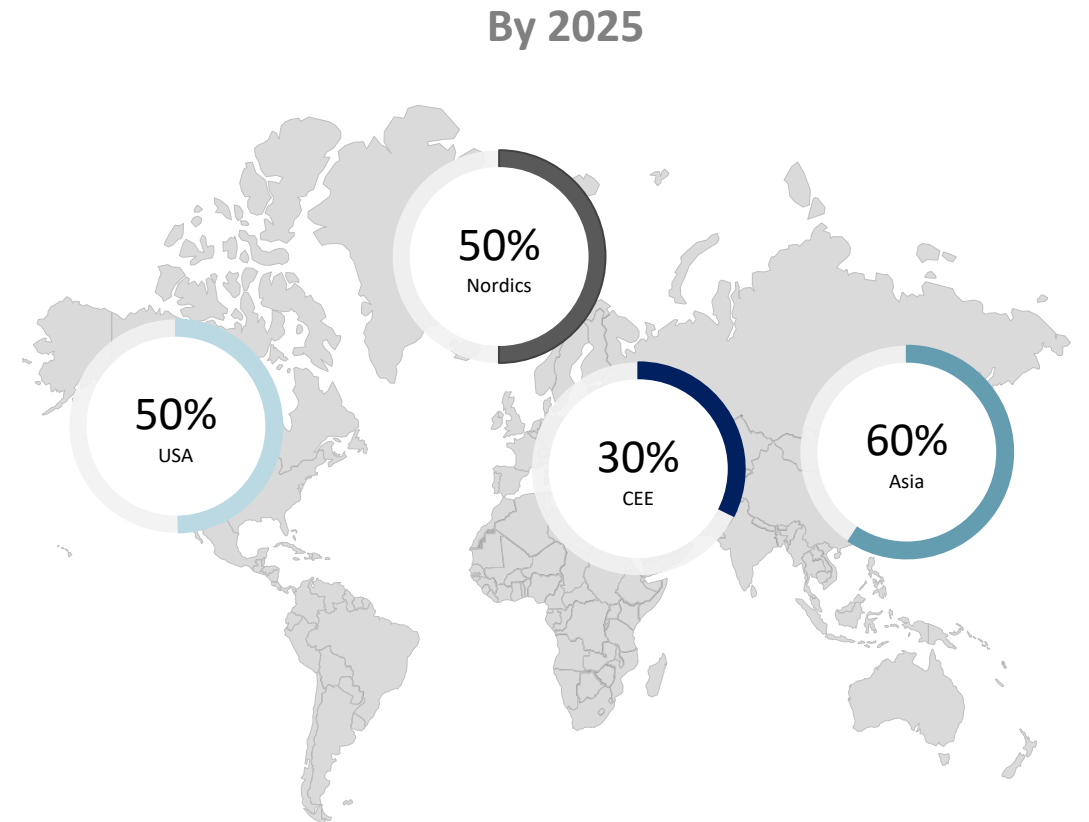
- Increasingly used in mainstream manufacturing. Available at most Kitron's sites
 - Prototypes – reduce time to market and development costs
 - Manufacture our own production equipment – customize our lines



Augmented Reality



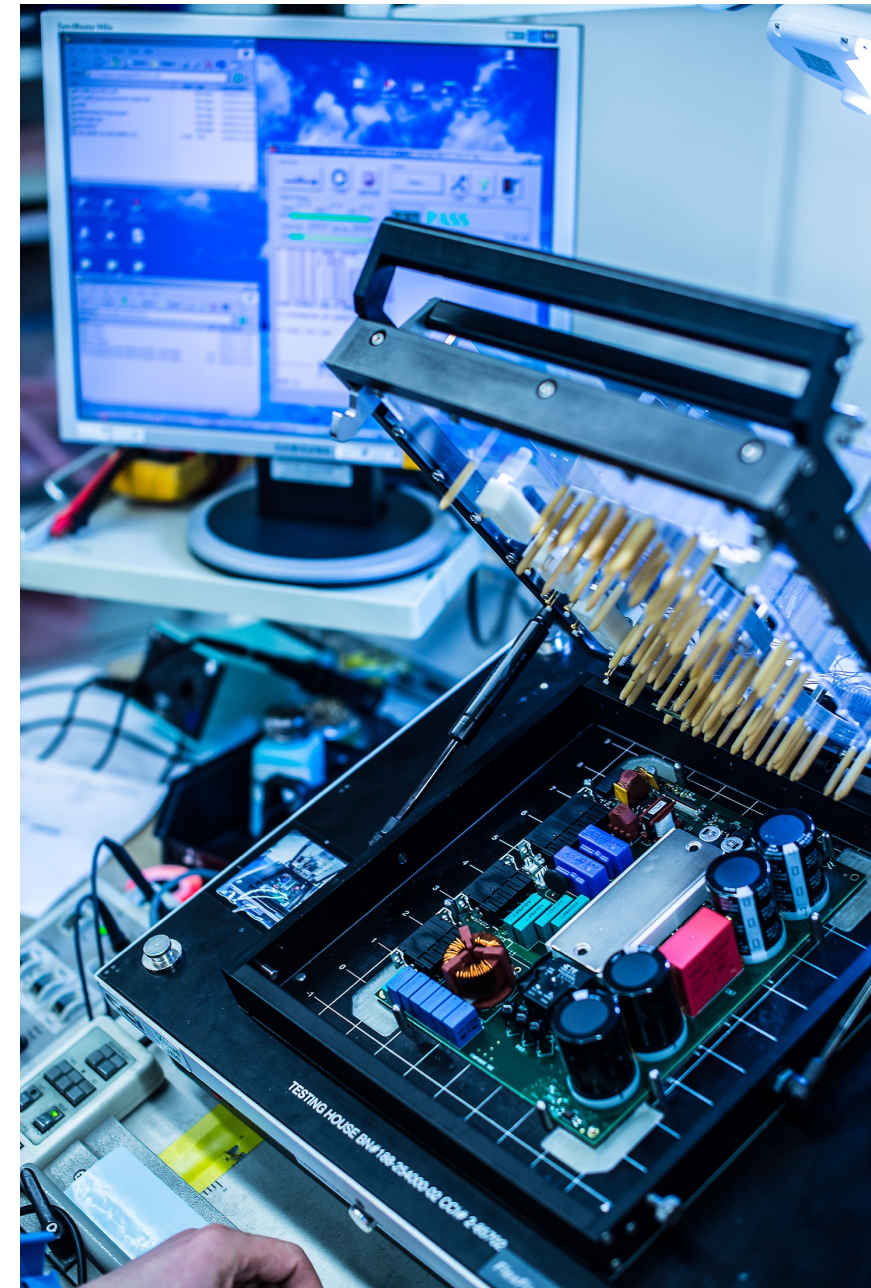
Patent pending in Norway and in process of applying for international patent



Percentage of products manufactured by Kitron with the support of AR per region

Test development

- Capable of designing tests to verify product functionality in sectors with very little room for error
- Developed a proprietary test platform called SATS – Standard Automated Test System
 - Reduces investment cost
 - Easy to transfer products across Kitron sites
- SATS – focus on developing a fully automated version to integrate in our lines

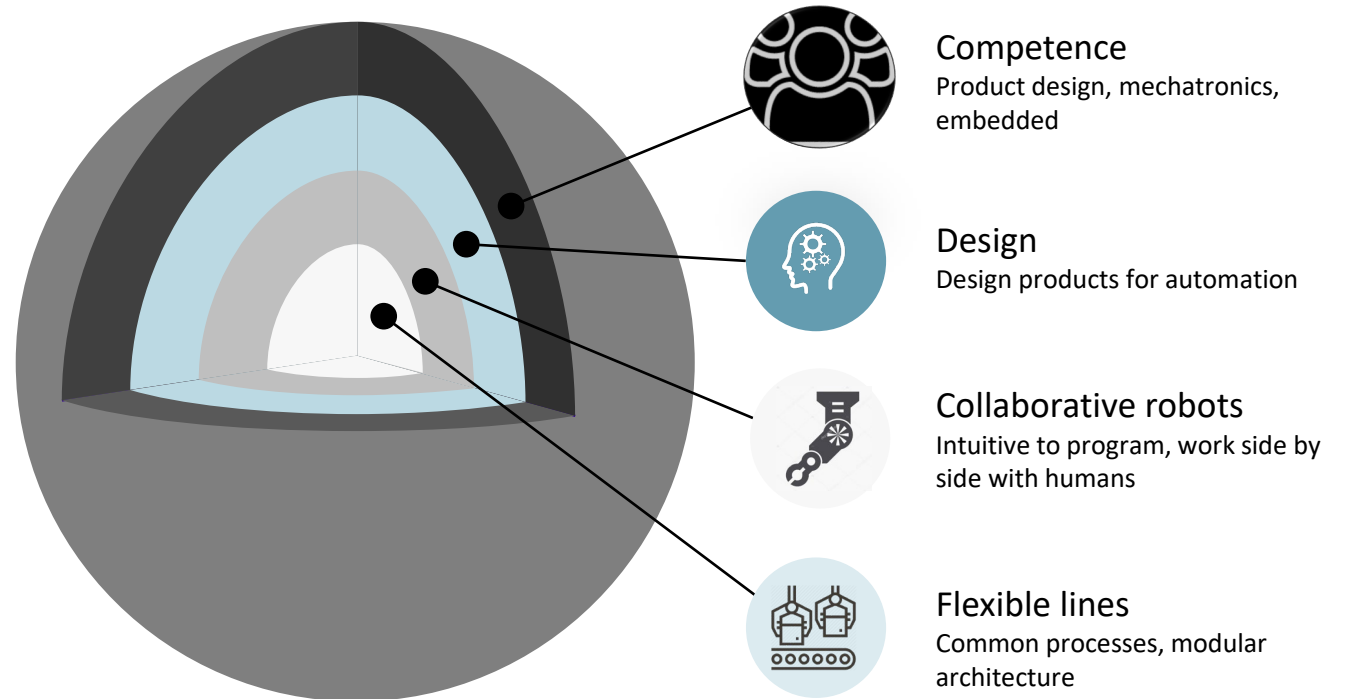
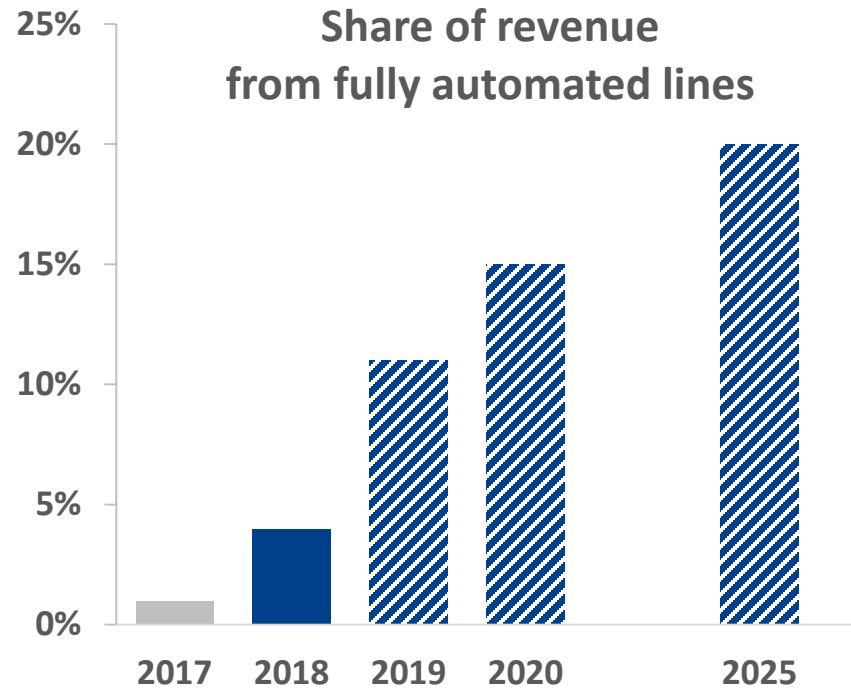


Virtual Simulation

- Before we build a new product, we will first create and optimize its digital twin using a software model
- We also simulate how the production line will work, including robots.



Automation



Product development

- Traditionally: Support customers by improving manufacturability and testability of products
- Now: Support customers from concept to volume
- Focus on products where we have extensive manufacturing experience



Continuous improvements

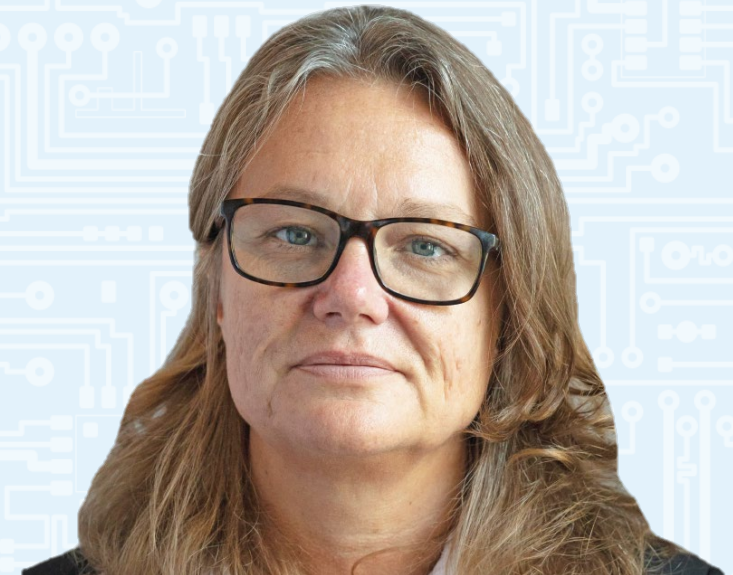
- Ongoing operational excellence initiatives continue
- Expanding capacity through construction and M&A
- Human resources initiatives key to competitive advantage
- Digitalization and technology to increase efficiency and quality



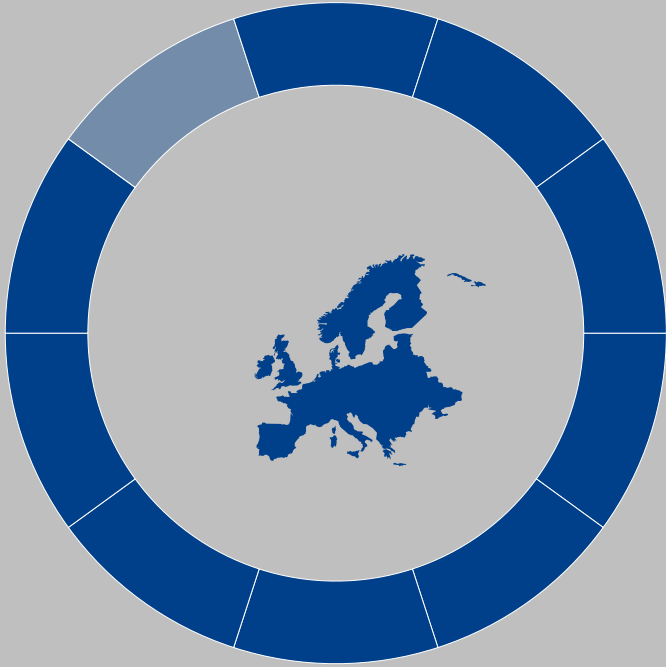
M&A

Cathrin Nylander
CFO and acting CEO

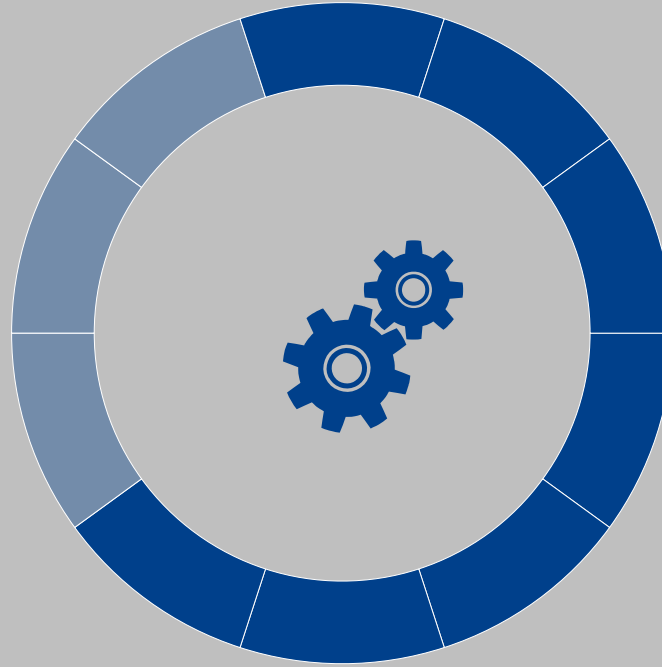
Capital
Markets Day
2019



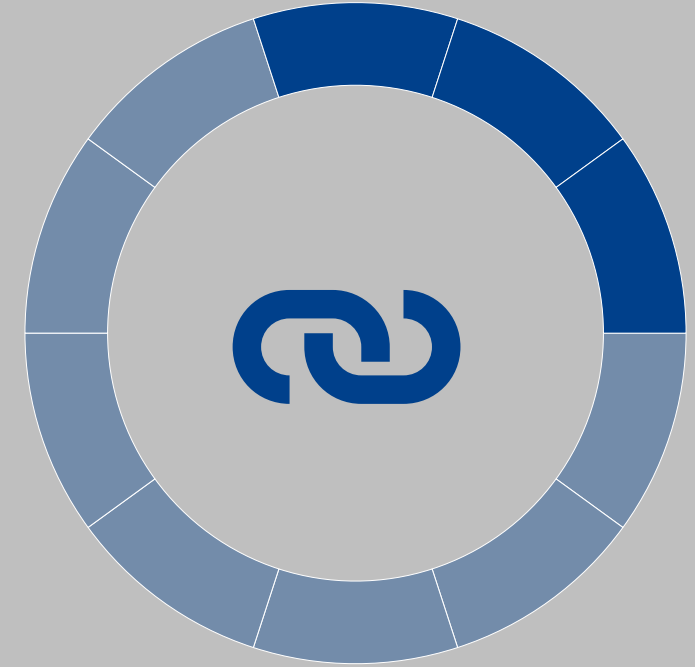
Exploring M&A along three axes



Entering new geographies
Leverage existing customer relationships
Expand customer base



Existing Geographies
Synergies



Value Chain Expansion
Leverage existing customers' value chain

Likelihood of M&A activities



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

Ongoing industry consolidation creates M&A opportunities

M&A adds upside to future revenues

- 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

Acquisition of API business completed

(2019-02-15) Kitron has completed the acquisition of the EMS division of API Technologies Corp., substantially strengthening its position in the US market.

The transaction is completed according to the terms set out in the stock exchange announcement on 30 November 2018, including all necessary governmental approvals. Kitron will consolidate the acquired business effective today.

"This acquisition is a step change for Kitron in the US market and comes in response to customer demand for a more substantial presence in this important market," said Cathrin Nylander, CFO and acting CEO of Kitron.

The acquired business is focused on defence, aerospace, medical/industrial, and communications/consumer, and it is well aligned with Kitron's overall strategy. It is located in Windber, Pennsylvania, close to Kitron's current US facility in Johnstown, Pennsylvania, with 115 employees operating a total of six production lines and a facility of approximately 10 000 square meters. Total revenues in 2017 amounted to approximately USD 30 million.

"We know the API business well, and the process from the announcement until closing has further strengthened our confidence in this transaction, which we believe is a win-win proposition: We gain critical mass in the US market and the Windber facility finds a better home in a group with EMS as its core business. We expect the unit generate an operating profit on a stand-alone basis going forward and see substantial potential for further profitability improvements when it becomes part of the Kitron group," said Hans Petter Thomassen, Vice President North America.

The purchase price to be paid, after certain post-signing adjustments, is USD 14.8 million, subject to post-closing adjustments, if any.

Kitron expects the transaction to be earnings neutral in 2019 and earnings enhancing in 2020 and beyond.

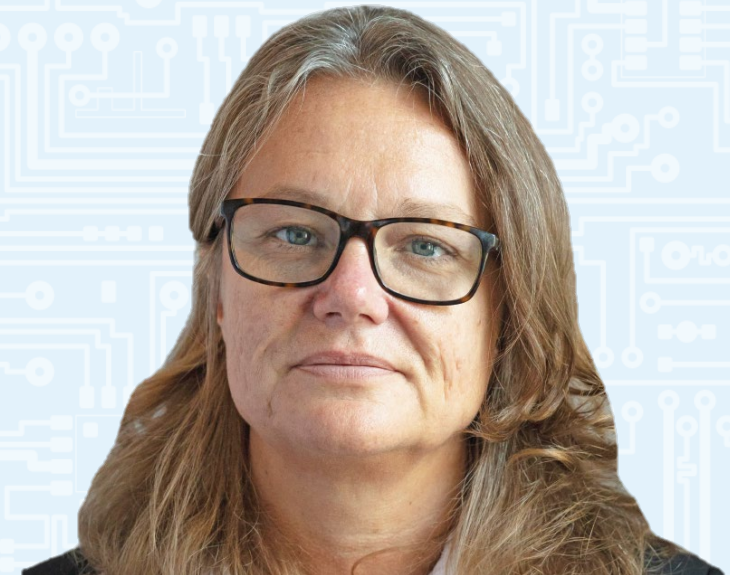
M&A may add upside to 2025 revenues



FINANCIALS

Cathrin Nylander
CFO and acting CEO

Capital
Markets Day
2019



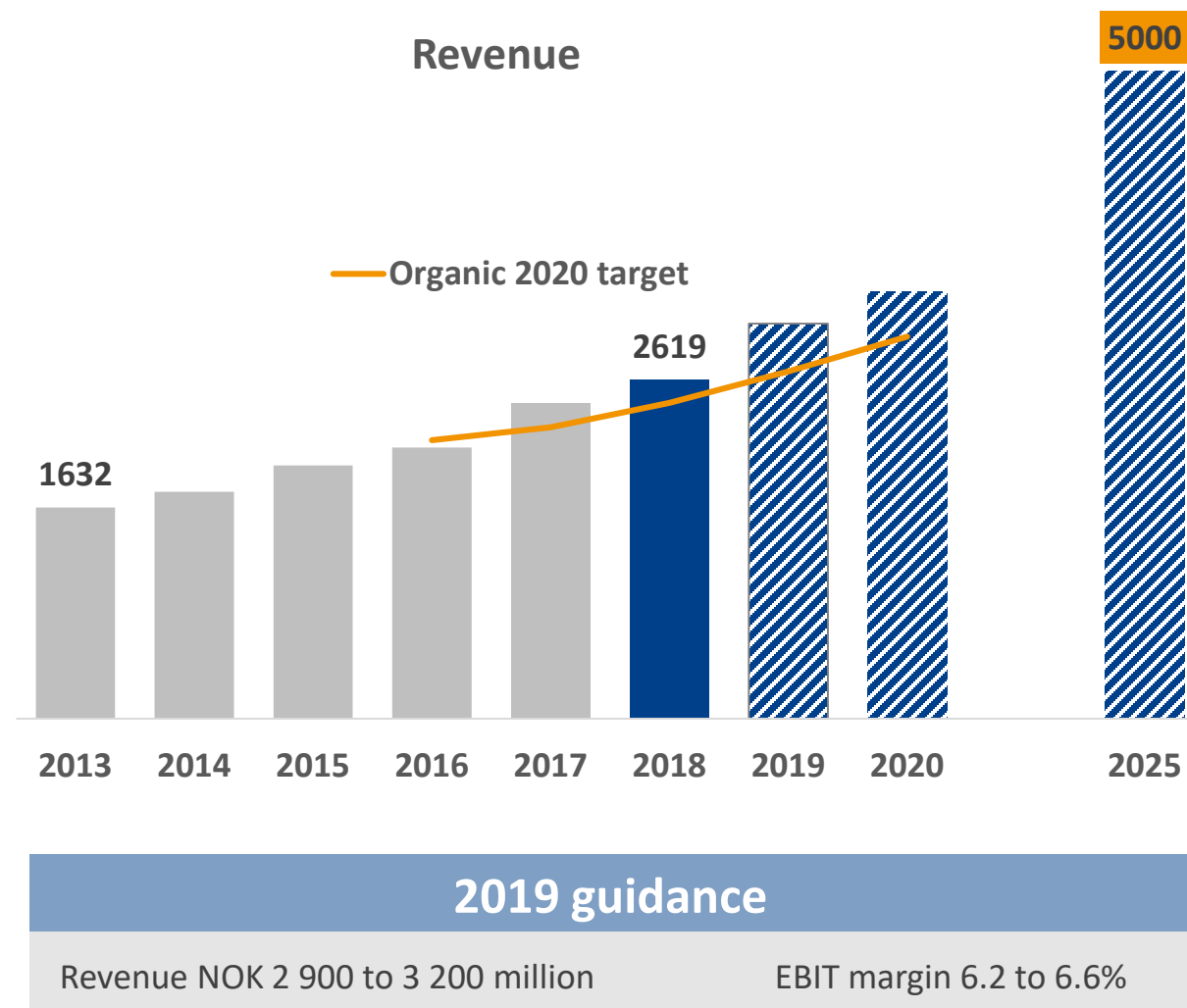
Growth beyond 2020: “5 in 25”

2020

- Revenue growth continues according to strategy
- Annual trend growth approximately 10%
- Organic growth above target of NOK 3 billion
- Including API EMS division we see about 10% upside to 2020 target

2025

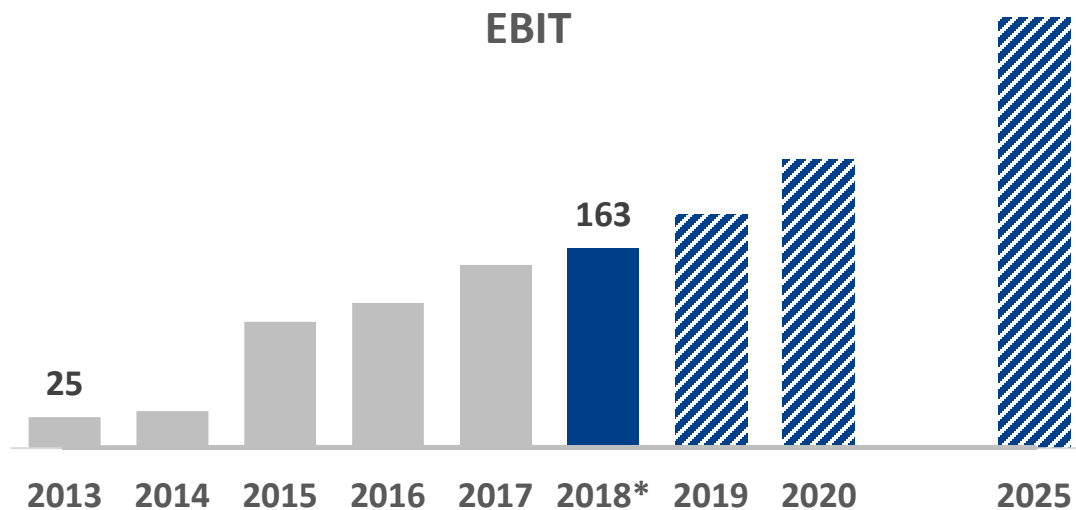
- Organic ambition: NOK 5 billion
- Annual organic trend growth 2020–2025: approximately 10%
- M&A adds potential upside
- Assuming no dramatic macro or currency changes



EBIT growth continues, margin expected to stabilize

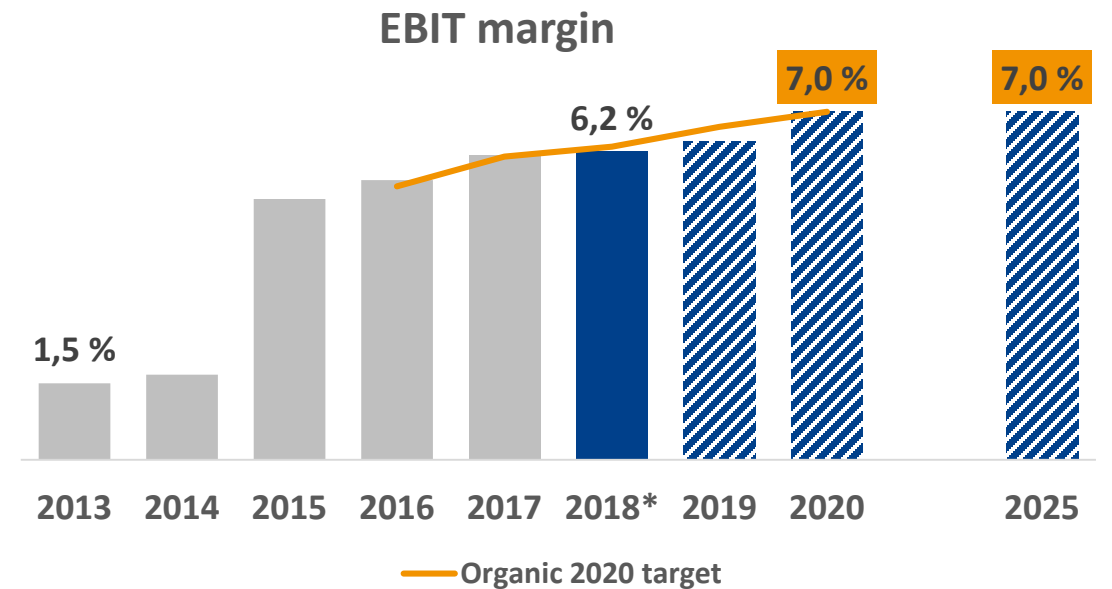
2020

- Operational improvements continued in 2018
 - Component shortages challenging
- Maintain target of 7% EBIT margin for current business



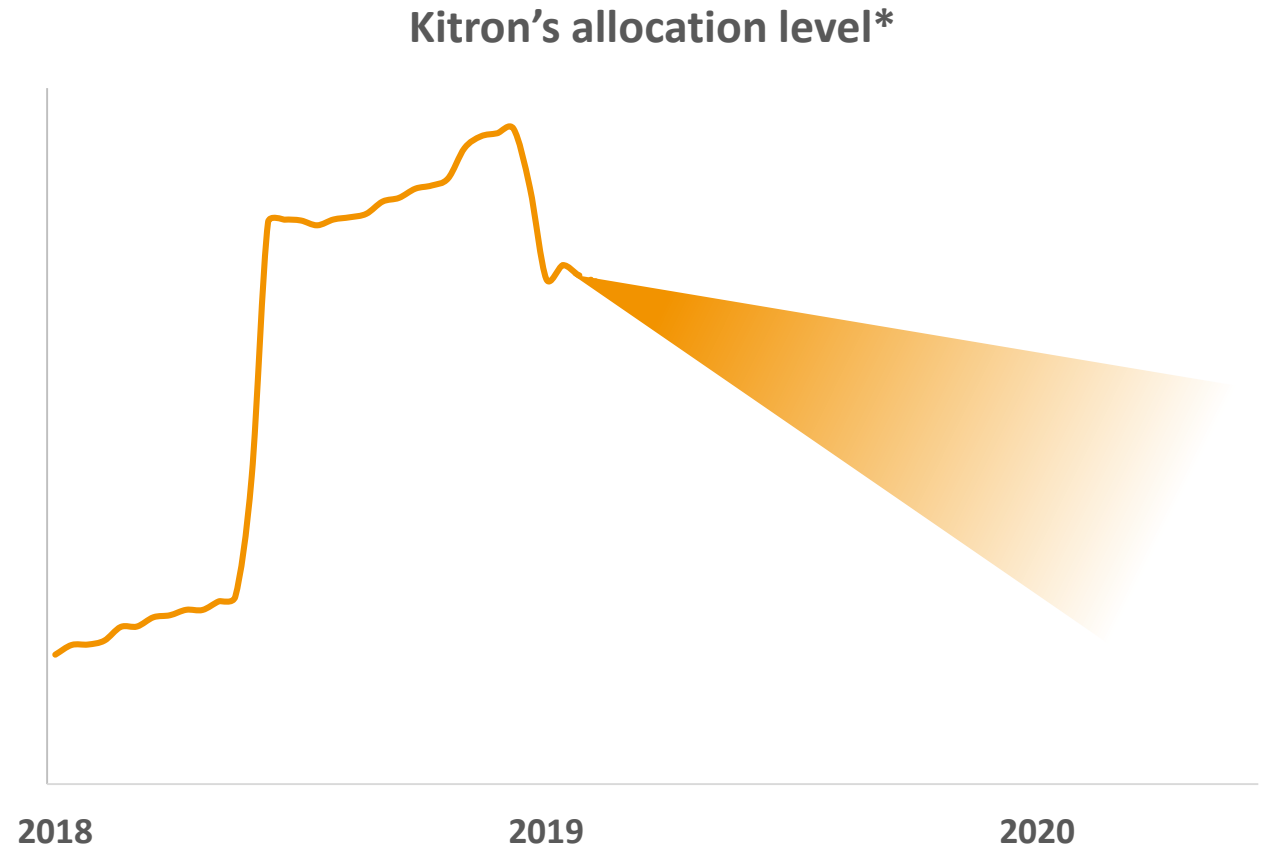
2025

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

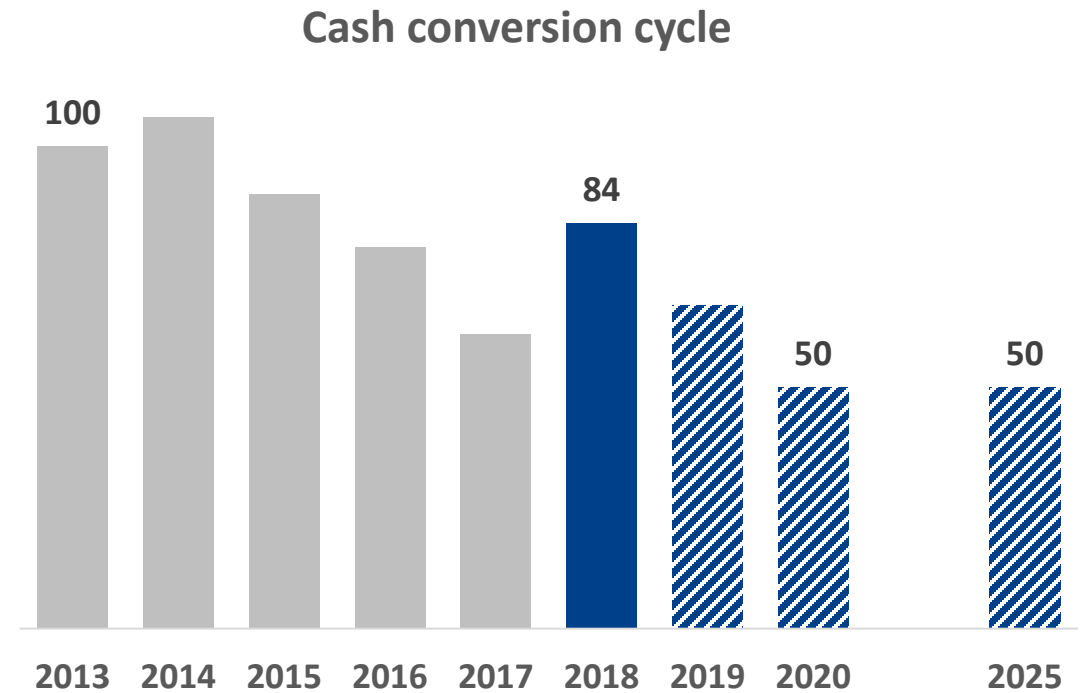
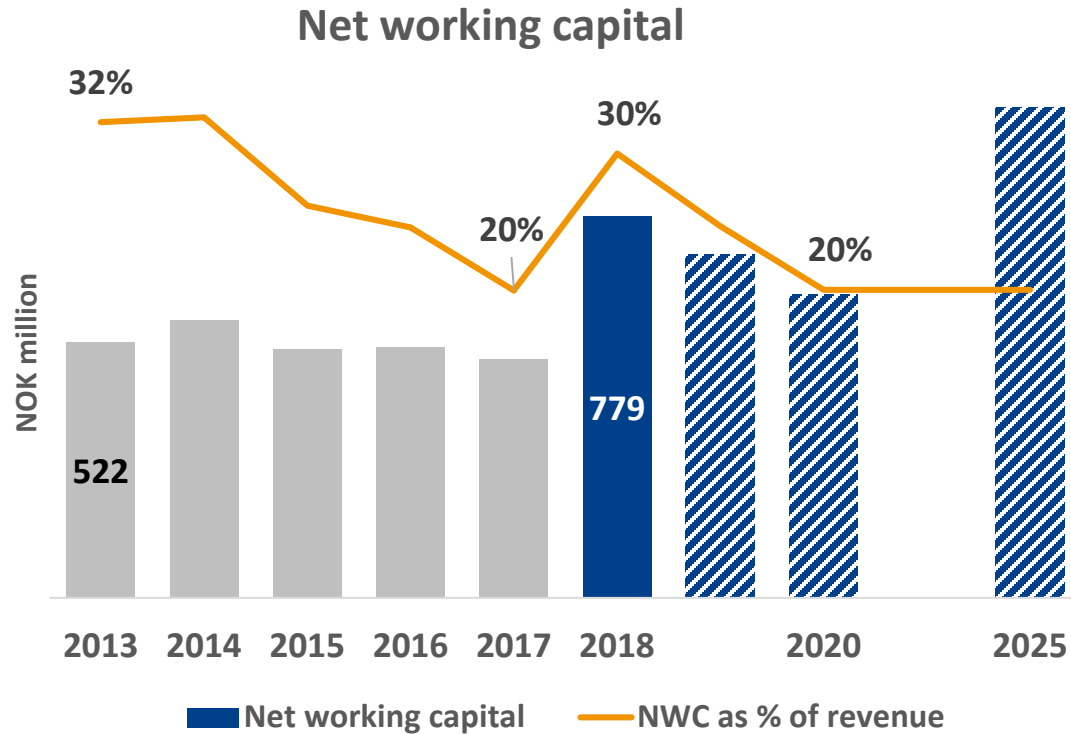


Component shortages

- Temporary build-up of component inventory has successfully protected interests of customers and Kitron
- The allocation issue has stabilized
- Number of shortages decreasing
- Inventory levels at distributors are rising (for some sub-commodities)
- Kitron has ended extraordinary procurement of components except for specific products



Capital efficiency: Temporary setback, ambitions maintained



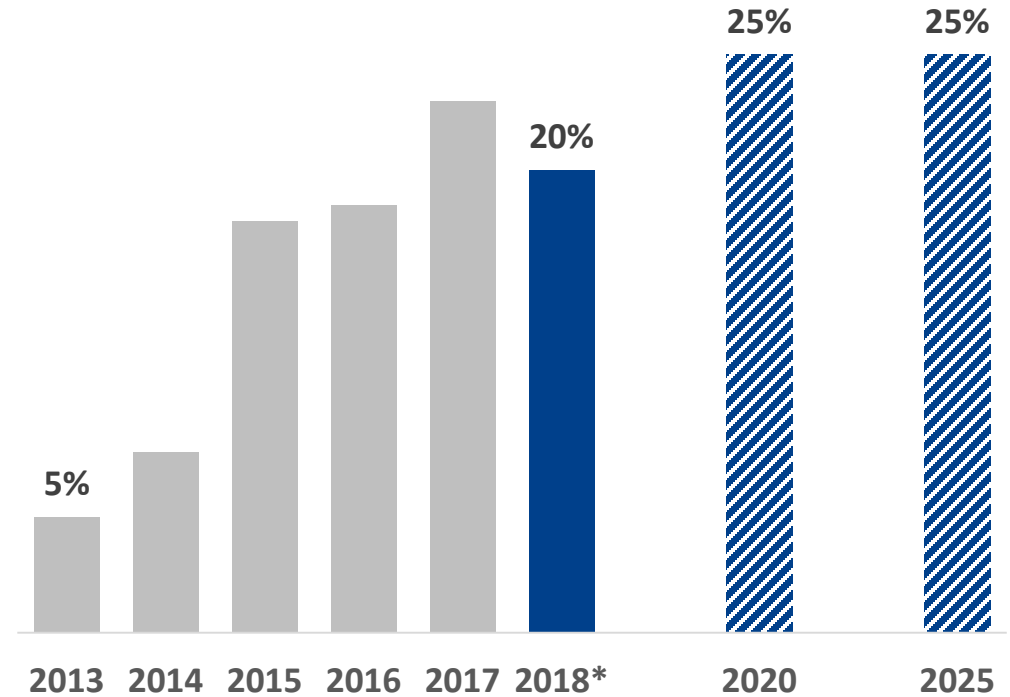
- Target NWC 20% of revenue
- Temporary balance sheet expansion to handle component shortages

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

Improving return on capital

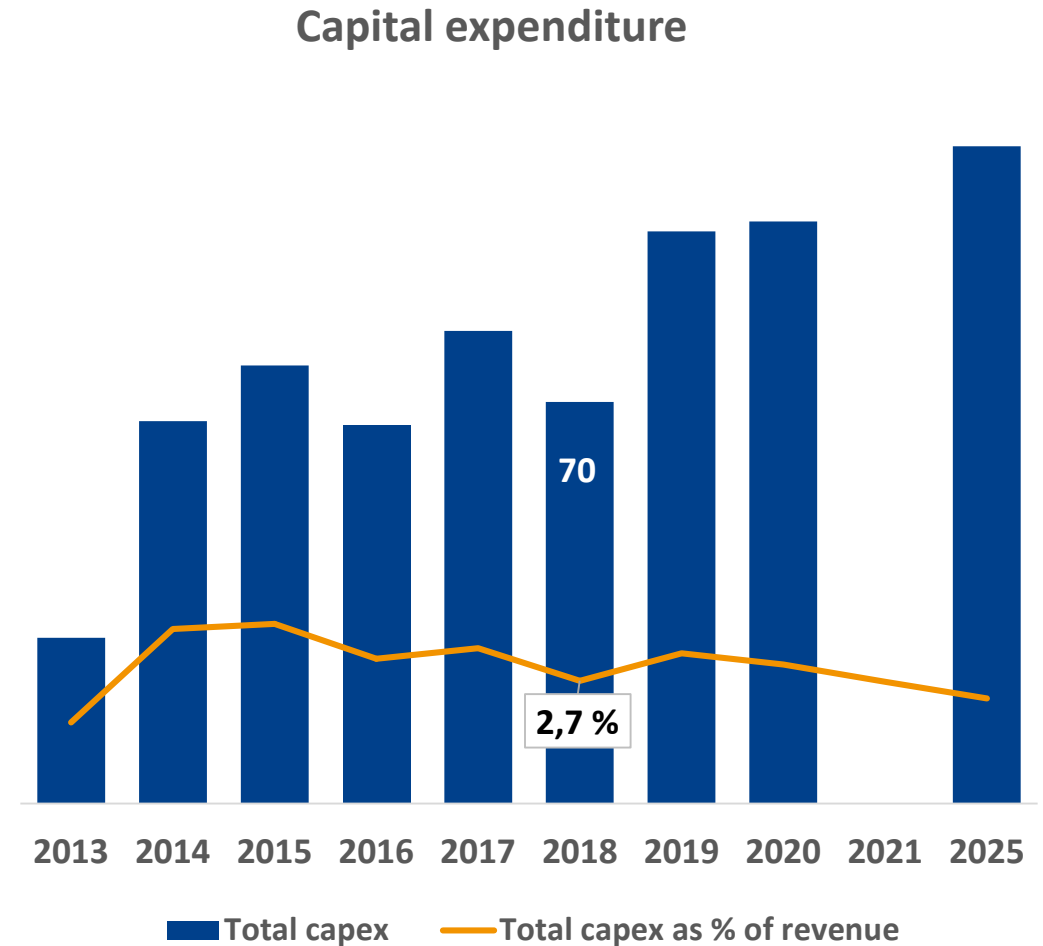
- Higher EBIT, temporary balance sheet expansion
- Improvement expected to continue:
 - Higher profit
 - Capital efficiency
 - Gradual easing of component shortages
- Long-term target 25%

Return on operating capital



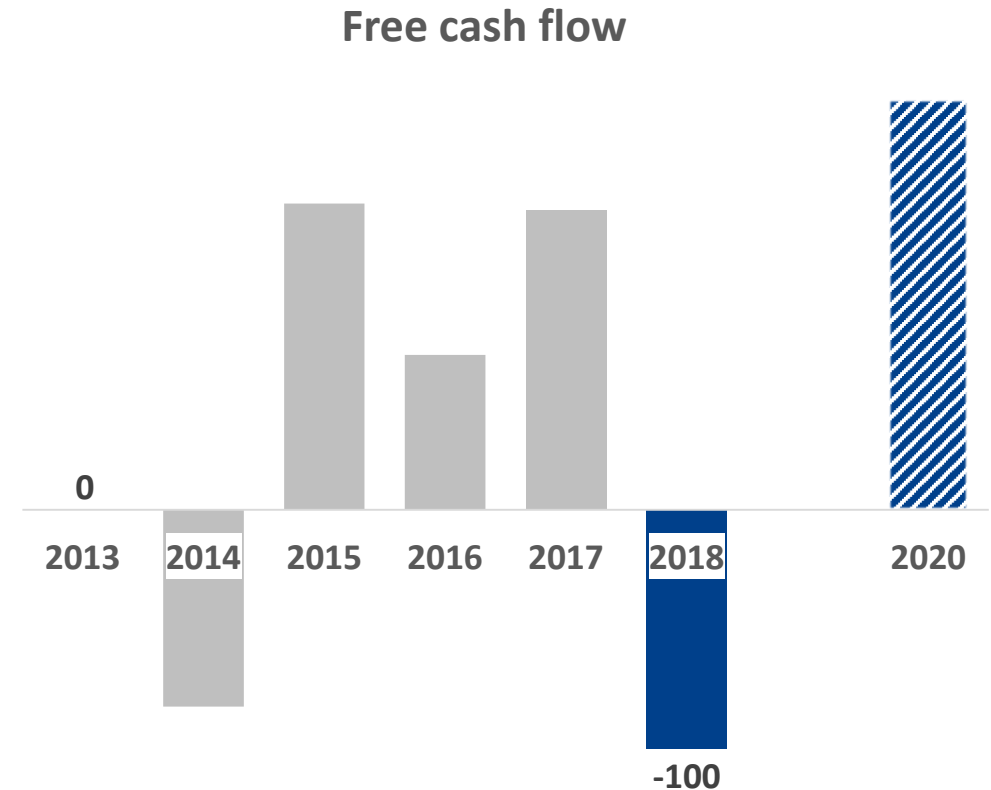
Stable capex as percentage of revenue

- Expect average annual capex approximately 3% of revenue
- Investments will focus on automation and robotization
- New facility in Poland
- Will invest to remain competitive in high-margin sectors



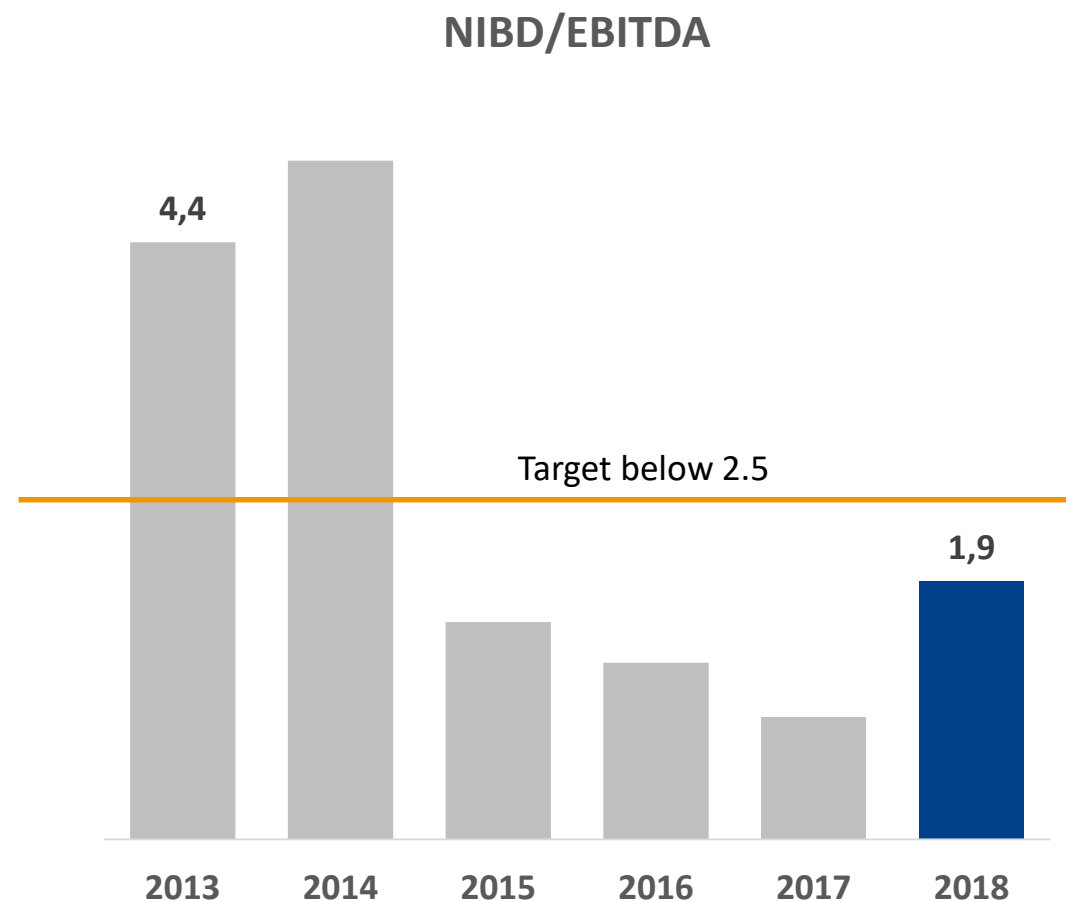
Free cash flow expected to rebound

- Strong underlying operating cash flow trend
- Temporary increase of inventory to handle component shortages
 - Expected to be reversed
- Capex stable as percentage of revenue
- Cash flow from operations will over time approach EBITDA level



Solid platform for organic growth, acquisitions and dividends

- Net interest-bearing debt NOK 396 million (175)
 - Expected to decrease in 2019
- NIBD/EBITDA 1.9 (0.9)
 - Target below 2.5
- Net gearing 0.57 (0.26)
- Equity ratio 37% (43%)
- Future ratios will be affected by IFRS 16

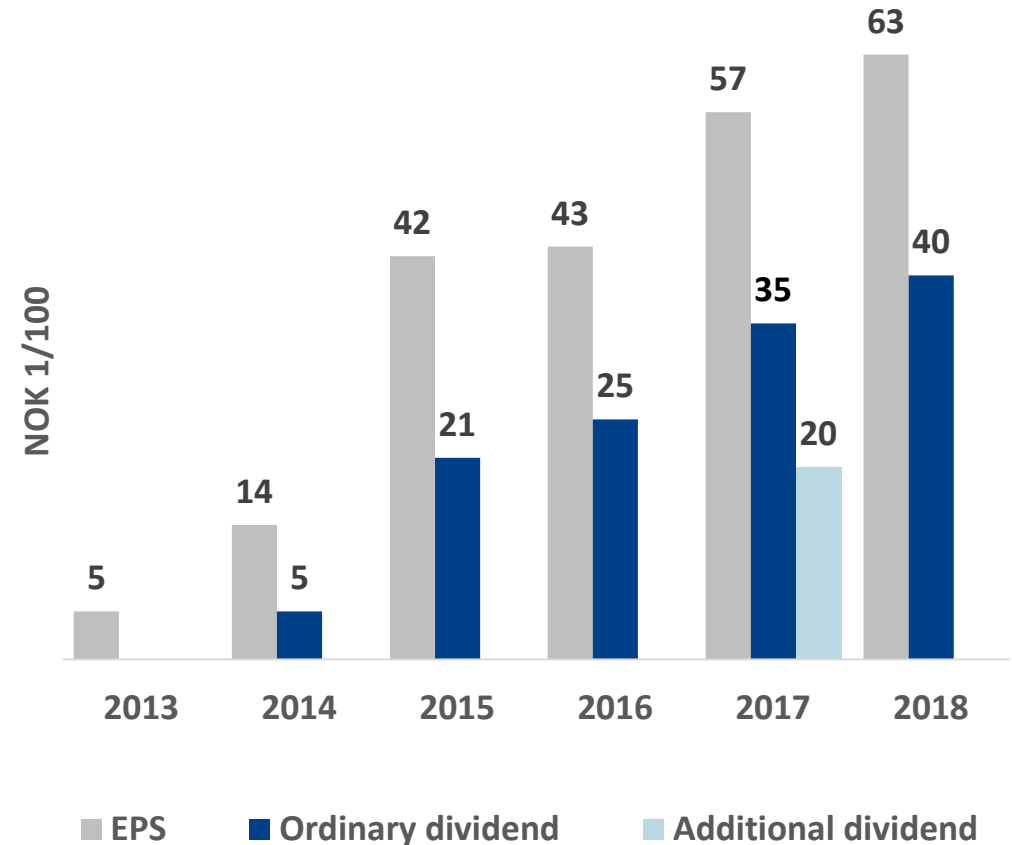


Strong dividend capacity

- Strong commitment to dividends
- Free cash flow underpinning dividend outlook
- Proposed for 2018:
 - Ordinary dividend NOK 0.40 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 company’s financial position, investment plans as well as the needed financial flexibility to provide for sustainable growth.”

Earnings and dividends



Main financial ambitions

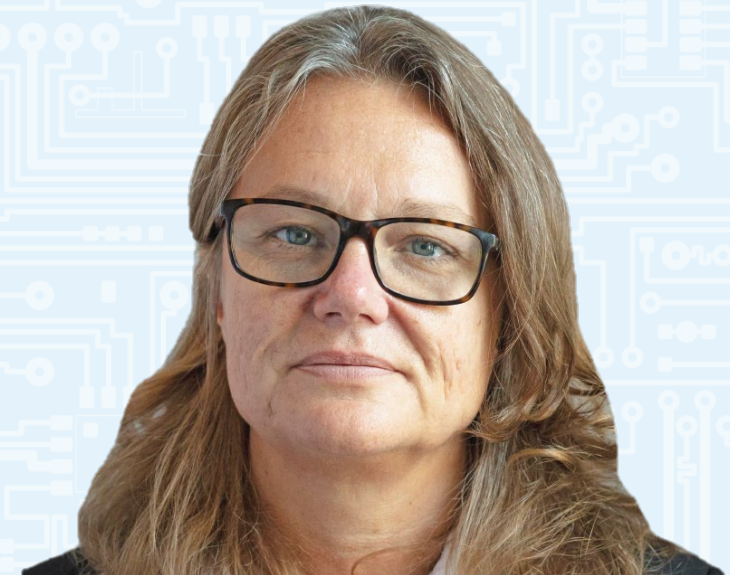
- Revenue NOK 5 billion
 - M&A may add upside
- EBIT margin 7%
- ROOC 25%



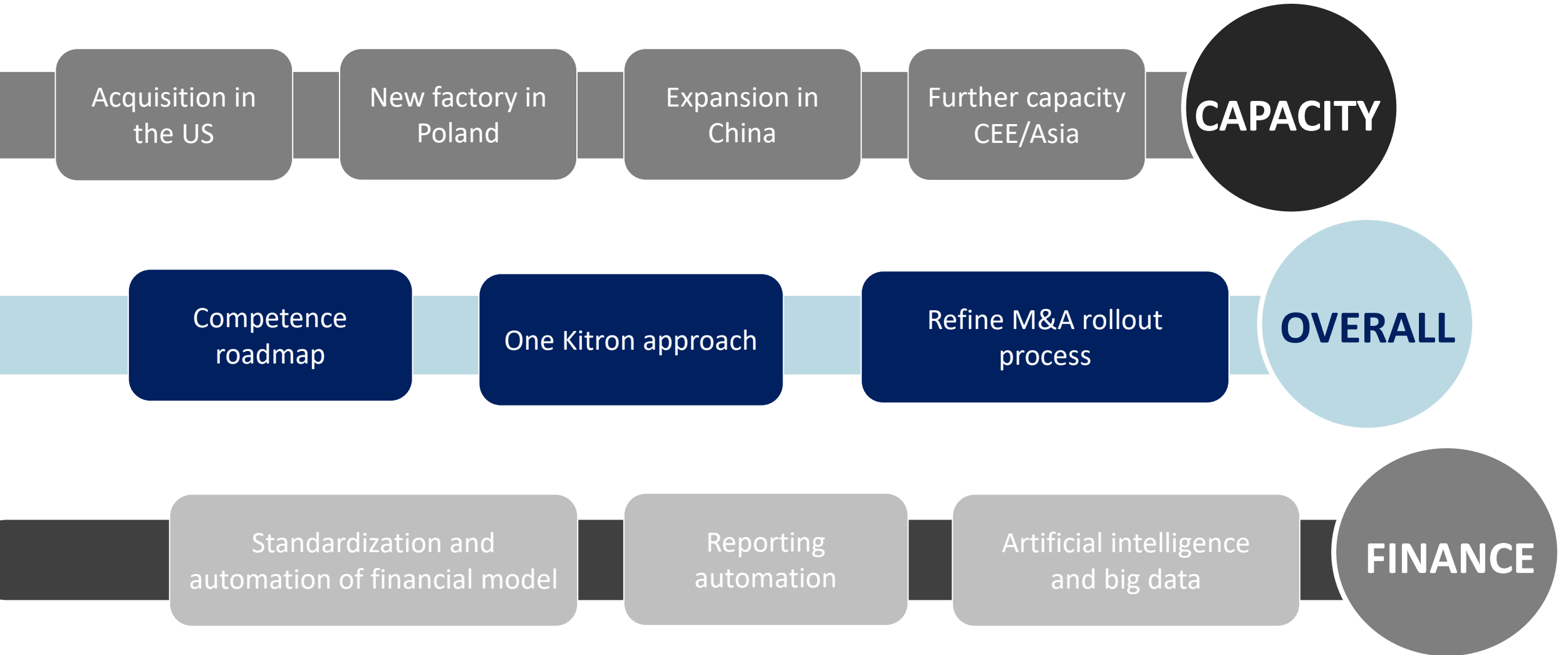
SUMMARY

Cathrin Nylander
CFO and acting CEO

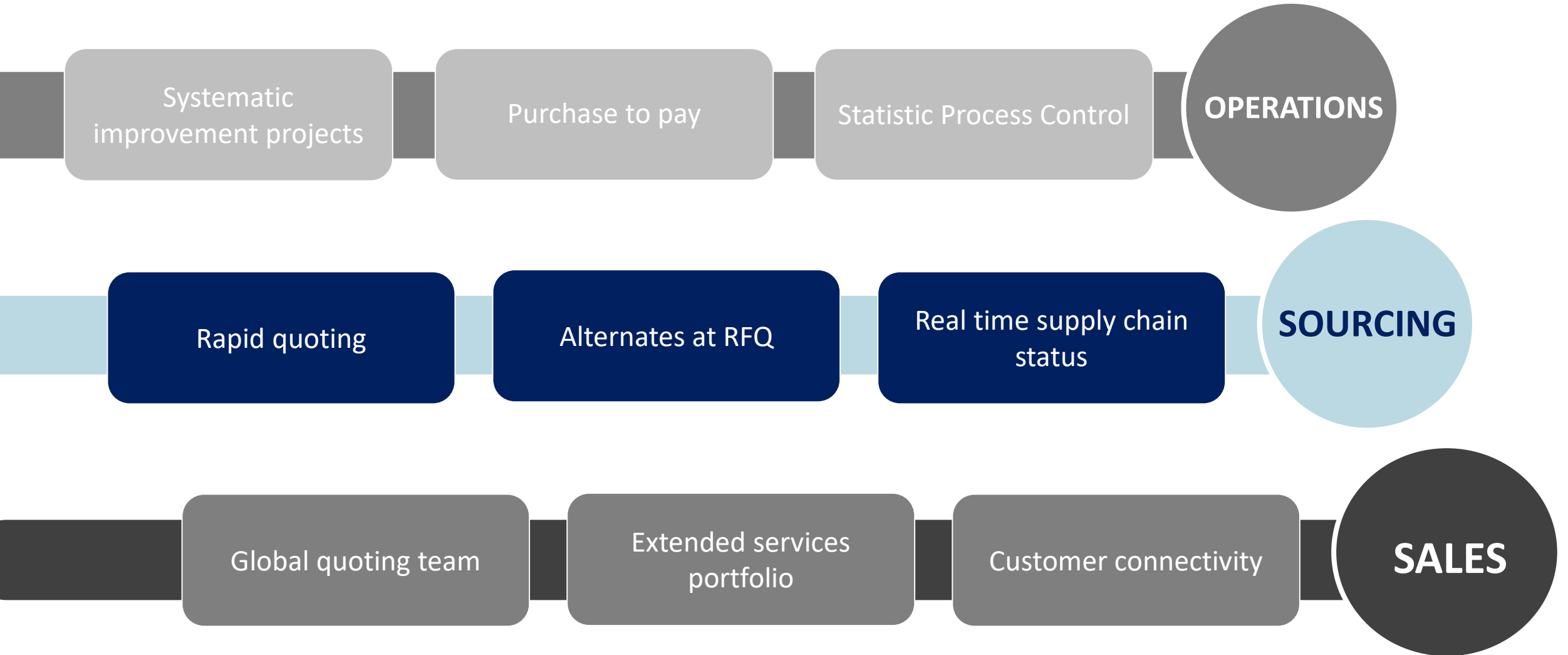
Capital
Markets Day
2019



Path to 2025



Path to 2025



On a steady course forward

- On track towards 2020 strategic ambitions
- New strategy set for 2025
- Building on and refining current strategy



Questions and Answers

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