



Kitron

Your ambition. Our passion.

Capital Markets Day

Peter Nilsson, CEO
February 11th, 2016

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Agenda and speakers

- Welcome
- Chairman's message
- Strategic overview
- Financials

Break

- Markets
- Operations
- Summary
- Q&A



Tuomo Lähdesmäki
Chairman of the Board



Peter Nilsson
Chief Executive Officer



Tommy P. Storstein
Sales Director



Israel Losada Salvador
Chief Operating Officer



Cathrin Nylander
Chief Financial Officer



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Chairman's message

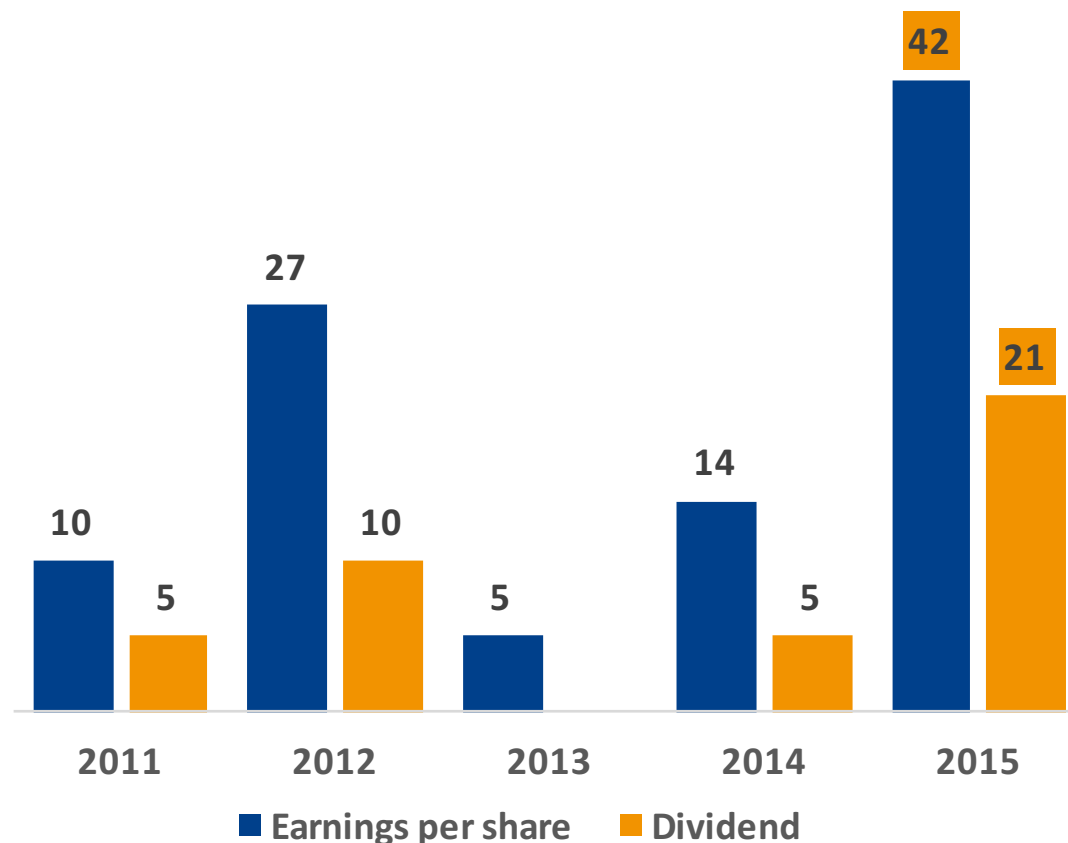
Tuomo Lähdesmäki
Chairman of the Board
February 11th, 2016

Focus on shareholder value:

Adjusted dividend policy

“Kitron’s dividend policy is to pay out an annual dividend between 30 and 60 % of the company’s ordinary net profit after tax. When deciding on the annual payout ratio the company will evaluate the cash requirements and financial flexibility required in the company.”

Earnings and dividends





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Strategic Overview






Peter Nilsson, CEO
February 11th, 2016

Financial highlights full year 2015:

Significantly improved profitability and cash flow

- Double-digit revenue and order growth
- Ongoing margin expansion
- Strong cash flow
- Reduced working capital
- Solid dividend capacity

“Actions are yielding results.”

NOK mill.		2015 vs 2014
Revenue 1951,8		11,4 %
EBIT 102,7		242,0 %
Order backlog 975,6		12,3 %
Operating cash flow 204,1		4384,1 %
Net working capital 507,6		-10,2 %

Brief timeline:

A Scandinavian company with a global footprint



Operations:

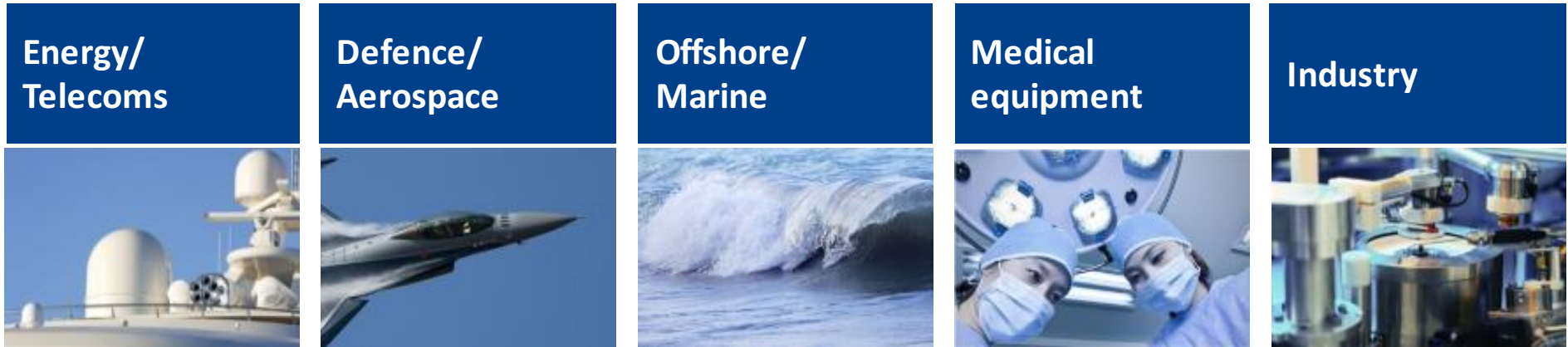
What is it Kitron does?

“Kitron is an **Electronics Manufacturing Services** company. Our customers outsource manufacturing and related services to us to improve flexibility, cost efficiency, accuracy and innovation power throughout the value chain.”



Markets and customers:

High-value sectors with high-reliability products



ABB


DANAHER

LOCKHEED MARTIN

 **COMROD**


VOLVO


Atlas Copco

THALES

 **RHEINMETALL**

MAQUET
GETINGE GROUP

BAE SYSTEMS

FMC Technologies



TOMRA
Helping the world recycle



 **SAAB**

 **AIRBUS**

NORTHROP GRUMMAN

KONGSBERG

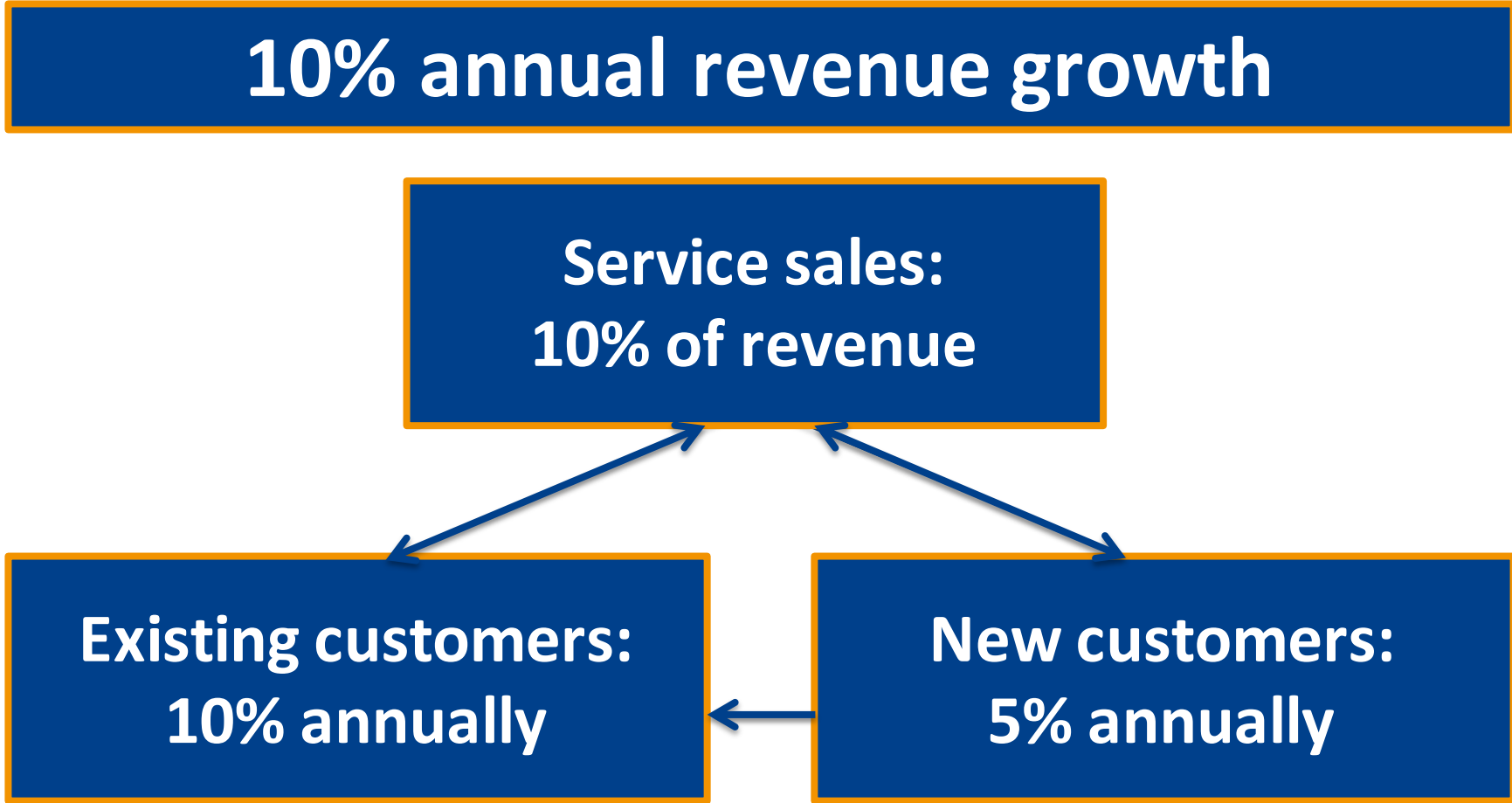
Kitron in the future:

Strategic Agenda

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

Strategic agenda 1:

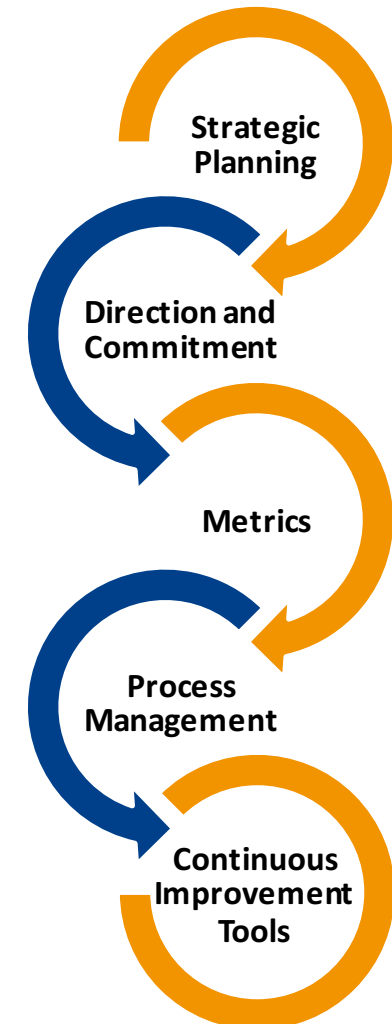
Accelerated organic growth



Strategic agenda 2:

Continued operational improvement

- Kitron Operational Excellence Program
- “A redesign of how we do business. A way of life.”
- A number of projects:
 - Sourcing
 - Production
 - Quality



Strategic agenda 3:

Growth through targeted M&A

Kitron will consider carefully targeted acquisitions in two areas:

Electronic Manufacturing services

- Competence, customers or market complementary to Kitron



Product hardware company

- Competence complementary to Kitron
- Technology of importance to Kitron customers



Focus on shareholder value:

Strong share performance, increasing dividends

- Market cap 31 January 2014: MNOK 311
- Market cap 31 January 2016: MNOK 709
- Dividend for 2014: NOK 0.05
- Proposed dividend for 2015: NOK 0.21



“Kitron’s dividend policy is to pay out an annual dividend between 30 and 60 per cent of the company’s ordinary net profit after tax. When deciding on the annual pay-out ratio the company will evaluate the cash requirements and financial flexibility required in the company.”

Key messages

- Operational improvement on track
- Clear strategy for revenue and profit growth
- Committed to shareholder value



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Financials

Cathrin Nylander, CFO
February 11th, 2016

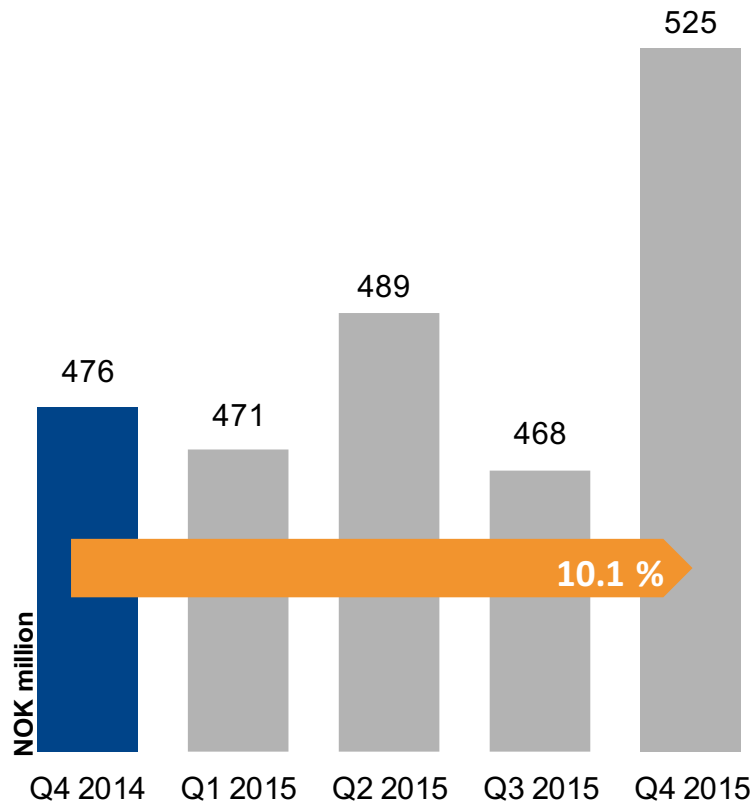
Significantly improved profitability and cash flow

- Double-digit revenue growth in spite of declining revenues in offshore/marine sector
- Continued profitability improvement
 - EBIT margin 5.3%
- Defence orders strengthen future position
- Strong operational cash flow

NOK mill.		2015 vs 2014
Revenue 1951,8		11,4 %
EBIT 102,7		242,0 %
Order backlog 975,6		12,3 %
Operating cash flow 204,1		4384,1 %
Net working capital 507,6		-10,2 %

Revenue Q4:

Strong growth in other sectors offsets decline in Offshore/Marine

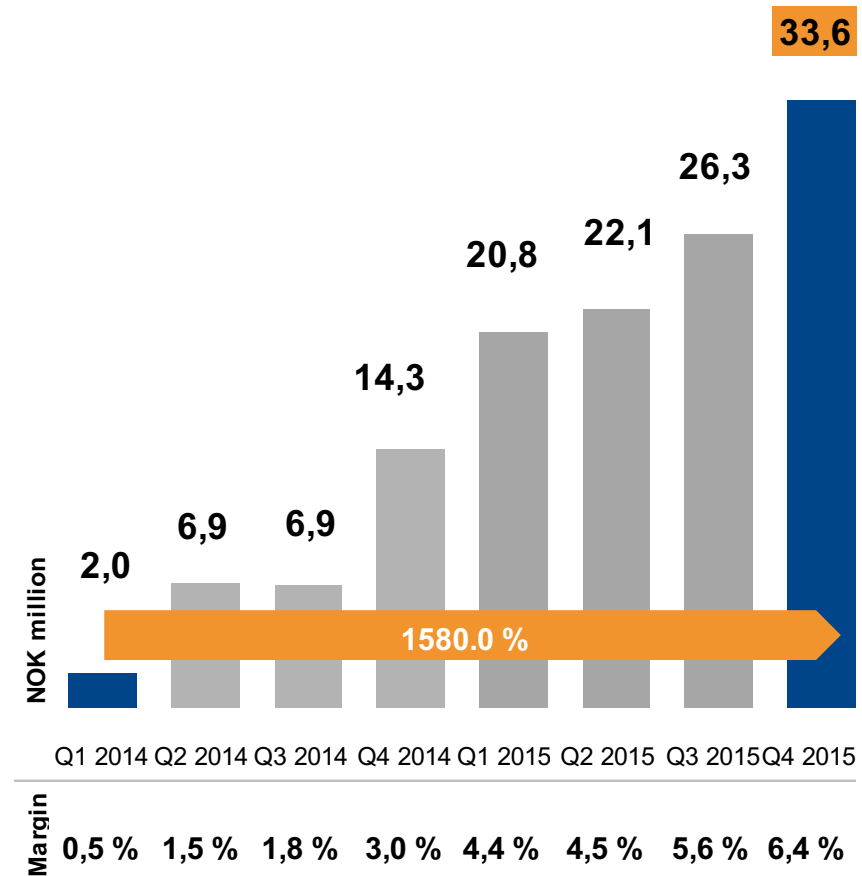


	Q4 2015 vs Q4 2014	Share of total revenue
Offshore/Marine	-27,3 %	6,8 %
Medical equipment	9,5 %	27,7 %
Defence/Aerospace	16,2 %	25,0 %
Energy/Telecoms	28,3 %	13,0 %
Industry	12,2 %	27,5 %

EBIT Q4:

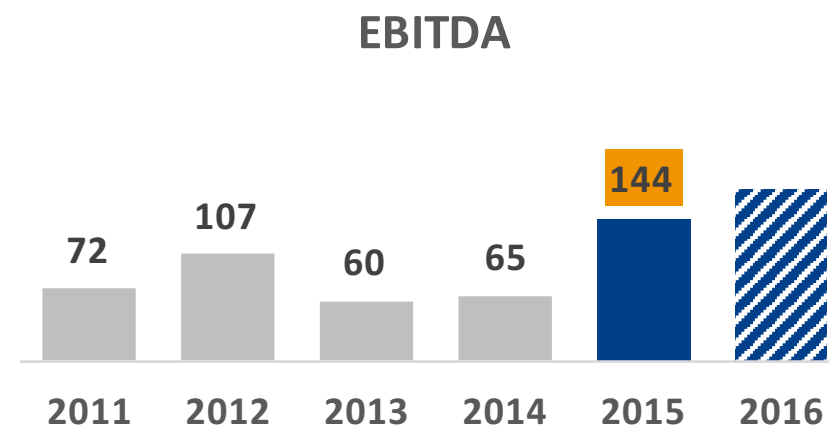
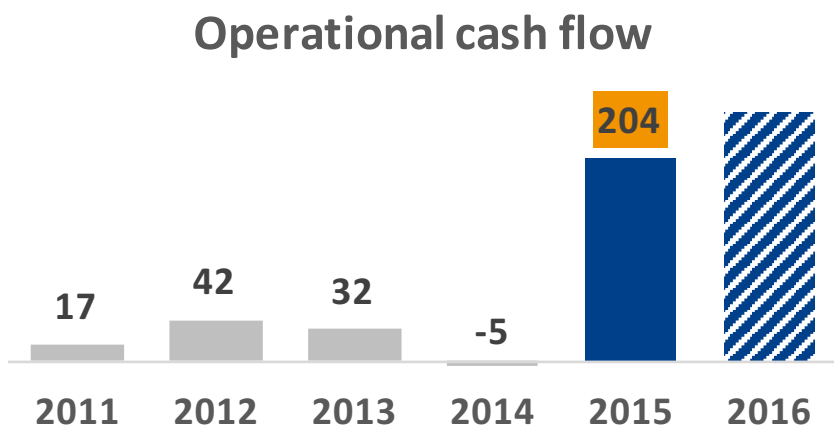
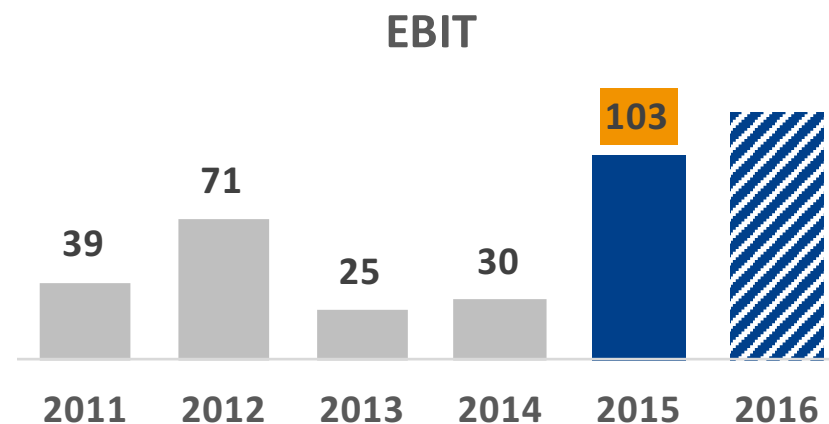
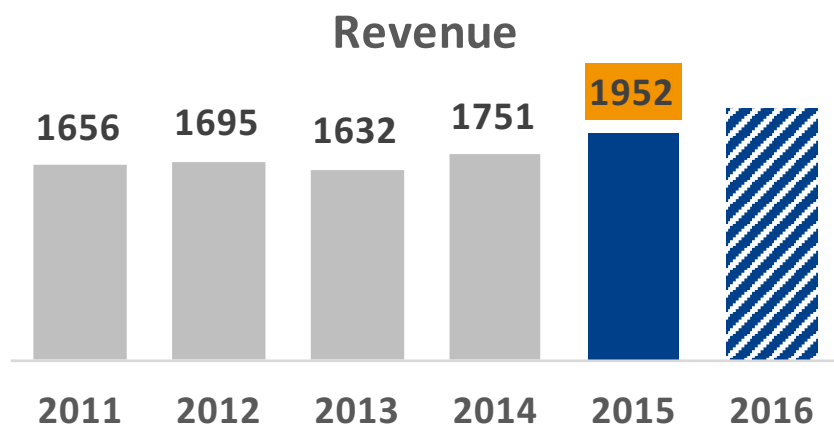
Seventh consecutive quarter of improved profitability

- Improvement in both nominal value and EBIT margin
- Increased sales quarter-on-quarter
- Strong contribution from service sales, both from development and engineering



Historical financials:

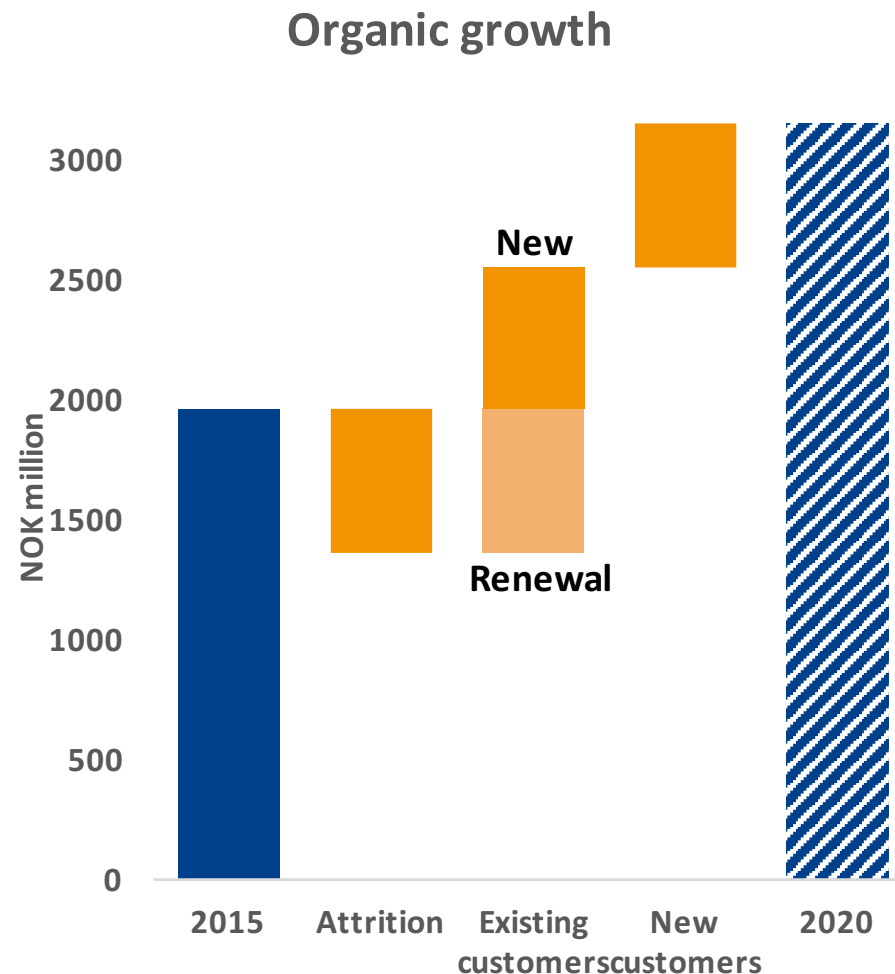
Increasing effect of actions taken



Growth outlook:

Accelerating growth: NOK 3 billion in 2020

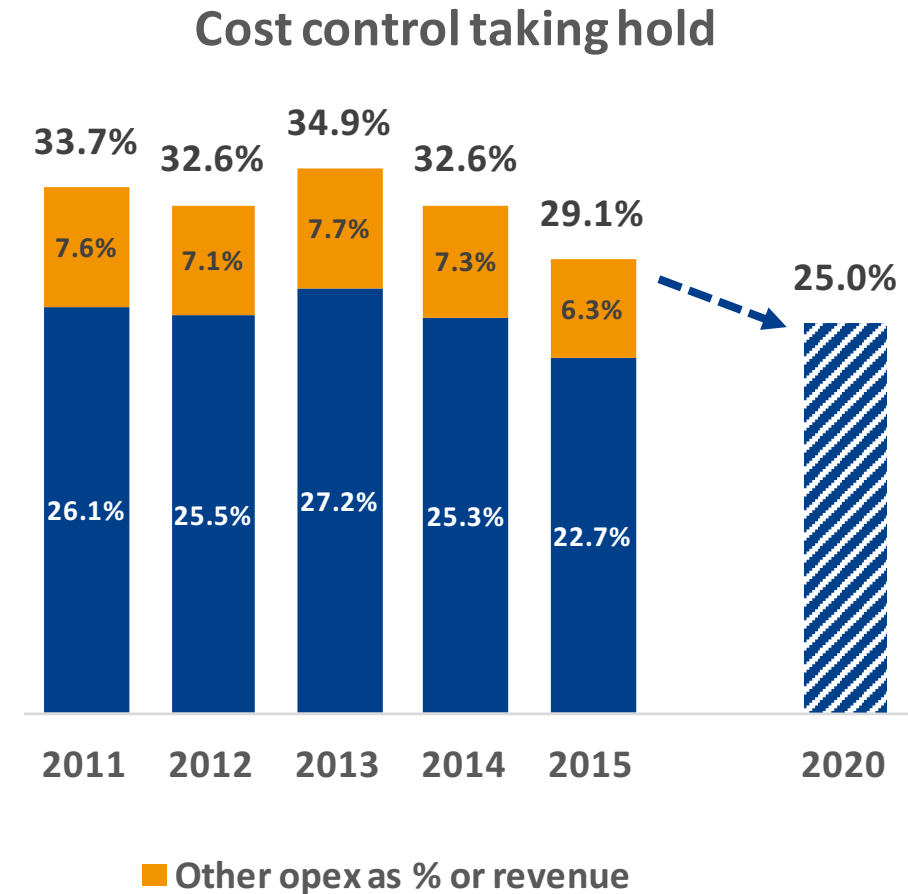
- Focus on existing strengths and segments
- Target annual organic growth of 10%
 - Existing customers
 - New customers
 - Grow service to 10% of revenue
- Organic target 2020: NOK 3 billion
- Explore targeted acquisitions



Cost control:

Ongoing improvements

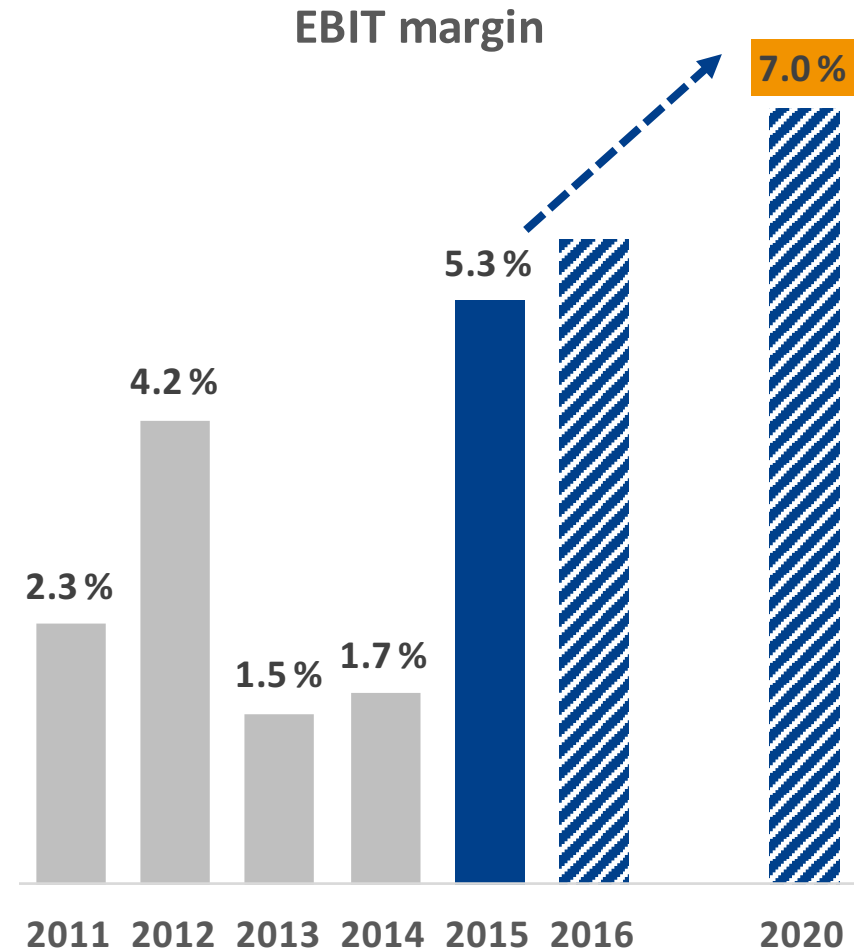
- Combining increased revenue and tight cost control
- Payroll expenses limited by leveraging investments in lower-cost countries
- Key cost-oriented initiatives ongoing:
 - Continue to utilize resources in lower-cost countries
 - Operational improvement program
 - Consolidate sourcing
- Increased service sales will influence cost structure going forward
- Strategic target 25%



Margins:

EBIT target 7% in 2020

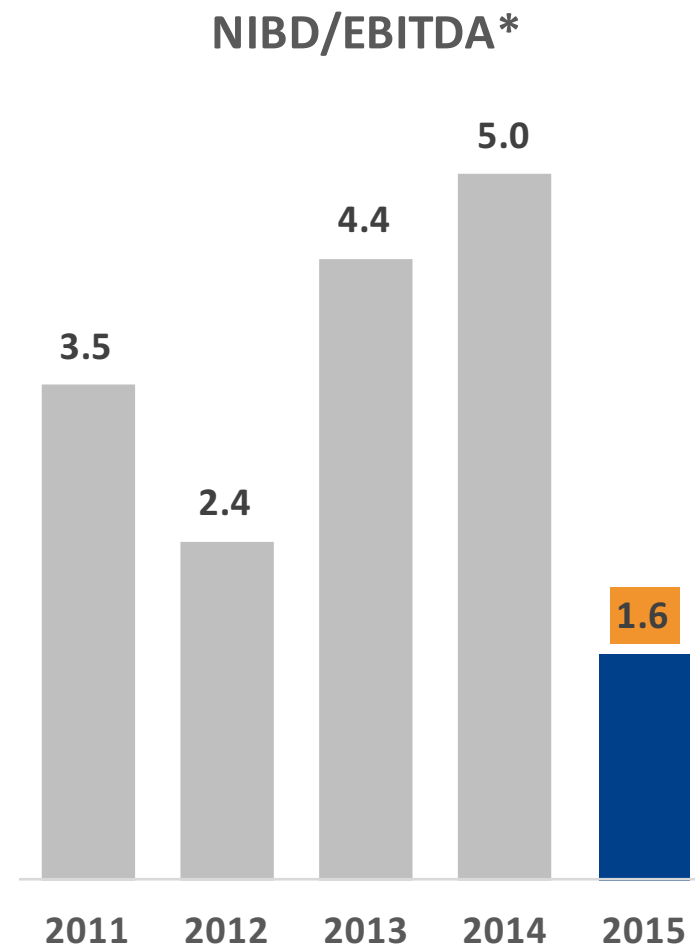
- Operational improvements have taken hold in 2015
- Expect approximately 5–6% margin in 2016
- Expect ongoing margin increases in coming years
- Key elements:
 - Growth
 - Improved operational efficiency
 - Growth of service sales



Balance sheet:

Solid foundation for growth

- Equity ratio 44% (43%)
 - Target range 38% to 48%
- Net interest-bearing debt NOK 226.9 million
- NIBD/EBITDA 1.6 (5.0)
 - Target below 2.5
- Capacity to combine growth and dividend payments
- Stronger profitability and reduction of working capital improves ratios

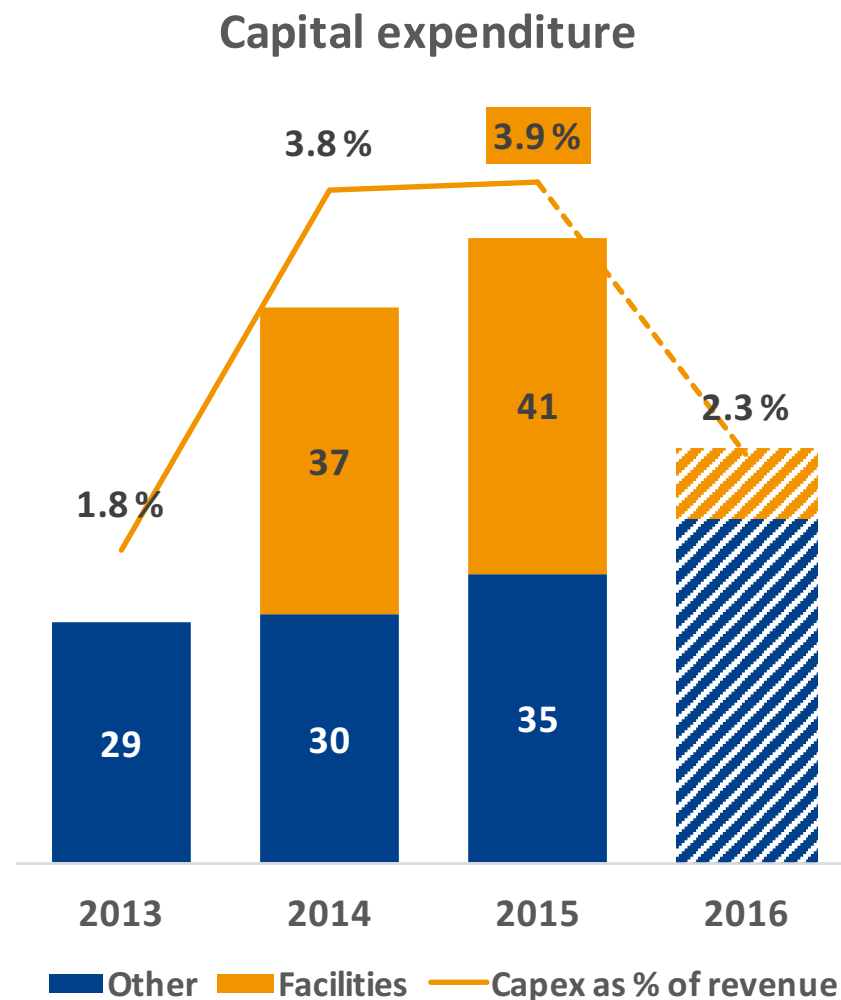


* Net interest-bearing debt divided by earnings before interest, taxes, depreciation and amortization.

Capex:

Major investment cycle nearing end

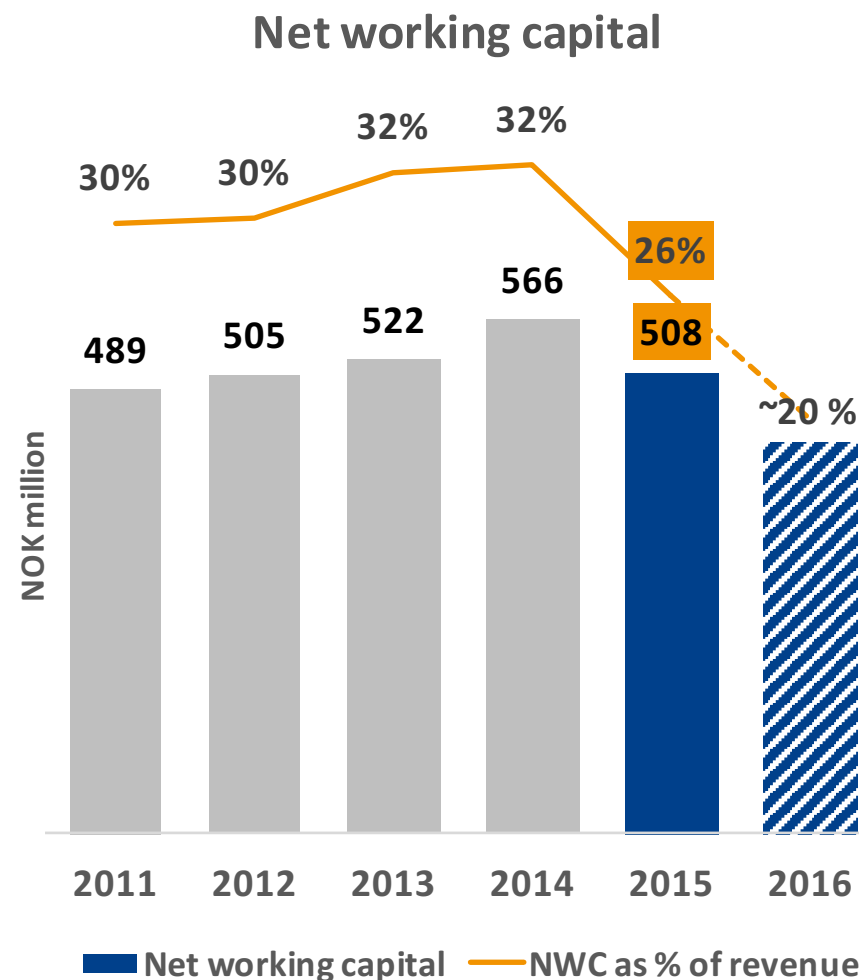
- Major investment cycle: modern, highly competitive facilities
 - Lithuania 2014: NOK 37.0m (facility) and NOK 13m (equipment)
 - Norway 2015: NOK 40.5m (facility) and NOK 7.0m (equipment)
- Will be considerably lower in 2016
 - Despite facility and equipment investments in Sweden
- Expected to remain at lower level



Net working capital:

Major focus area

- Company-wide initiatives launched
- Results started to materialized in 2015
- Improvement expected to continue
- Short- and long-term target:
Approximately 20% of revenue



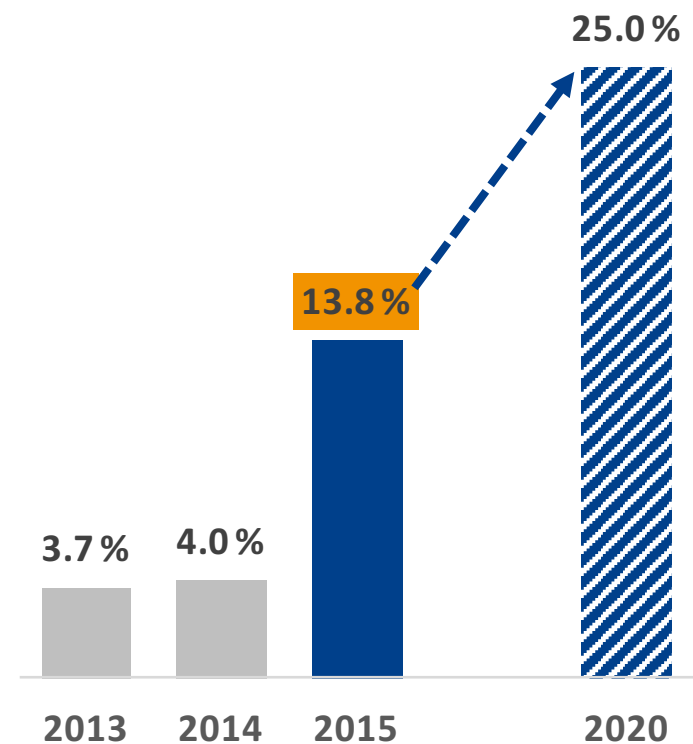
ROOC and CCC:

Improving use of capital

- 2015 increase in return on operating capital primarily due to higher profit
- Improvement expected to continue:
 - Higher profit
 - Lower net working capital
 - Lower capex
- Long-term target 25%

- Cash conversion cycle* is a key metric
- Today: 90 days. Long-term target: 50 days
- Long-term target based on thorough internal analysis and peer comparisons

Return on operating capital



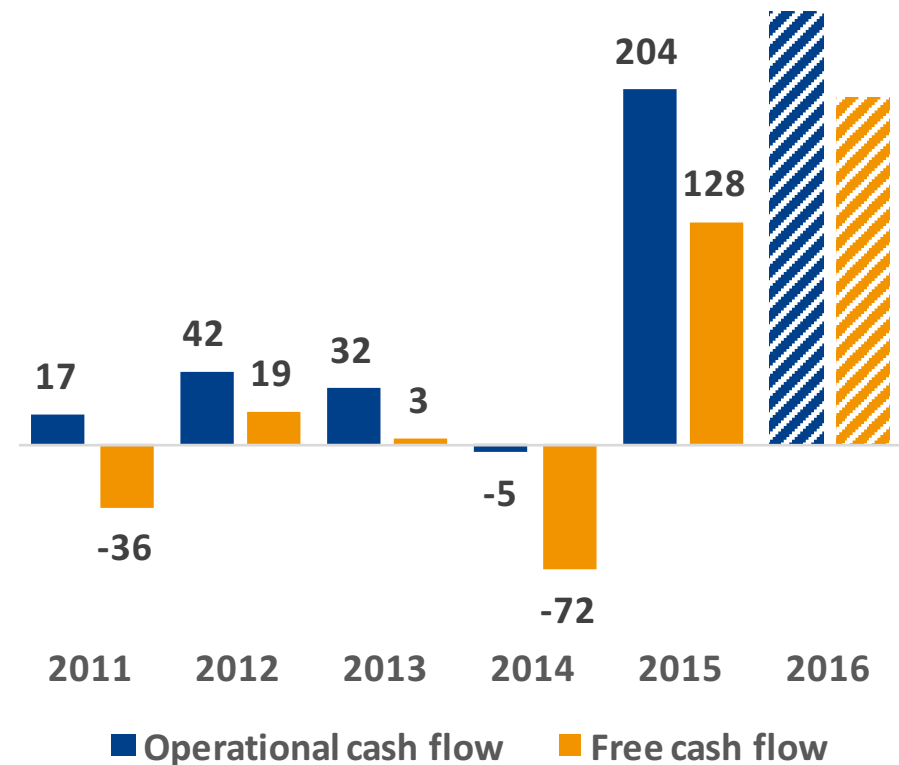
* Days inventory outstanding + days sales outstanding - days payable outstanding.

Cash flow:

Expect solid free cash generation

- Strong improvement in operational cash flow in 2015
- Improvement expected to continue in 2016
- Ongoing profitability improvements
- Focus on working capital
- Lower capex from 2016
- Expect strong cash generation to continue

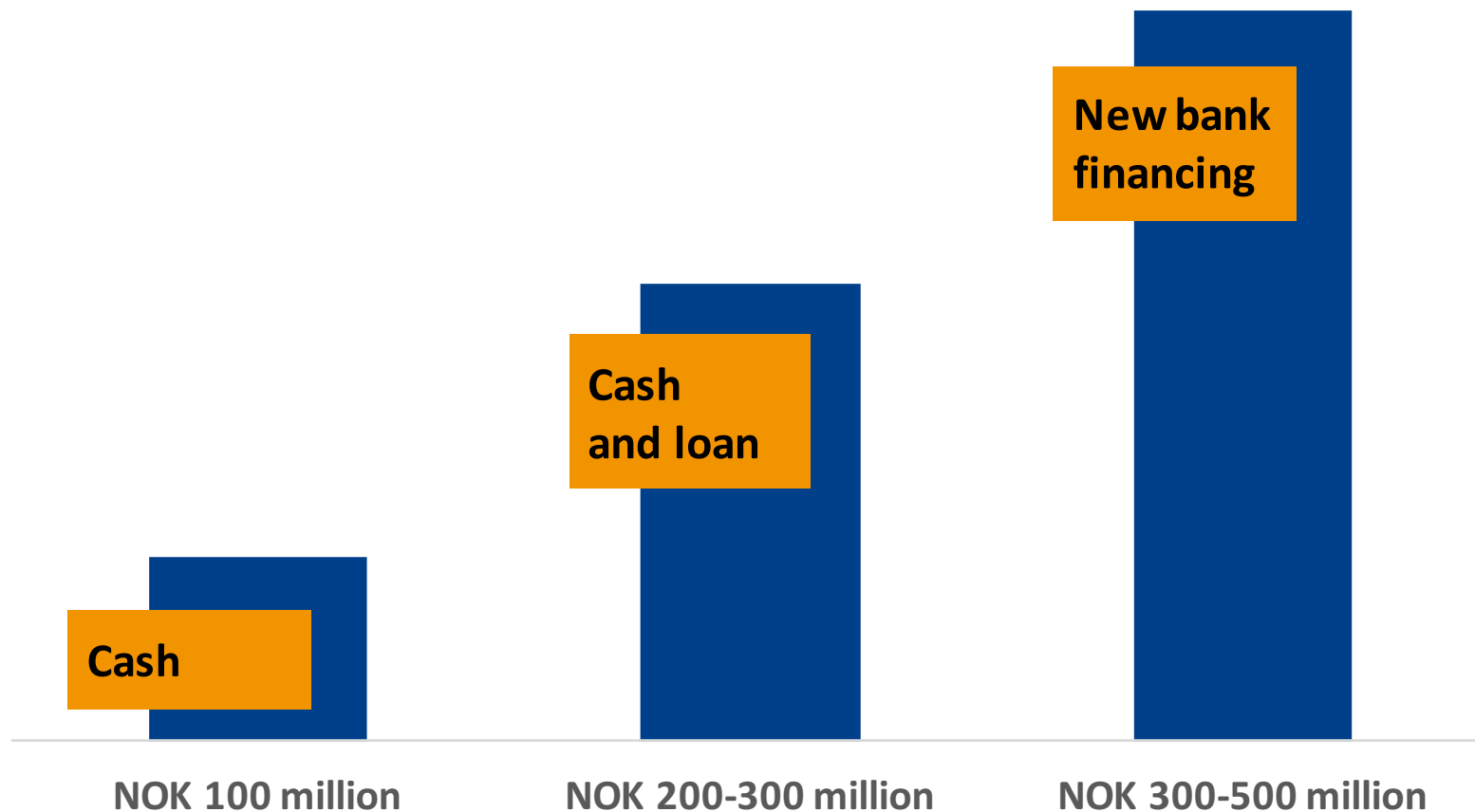
Improved free cash flow*



* Operational cash flow – capex.

M&A:

Financing of potential acquisitions



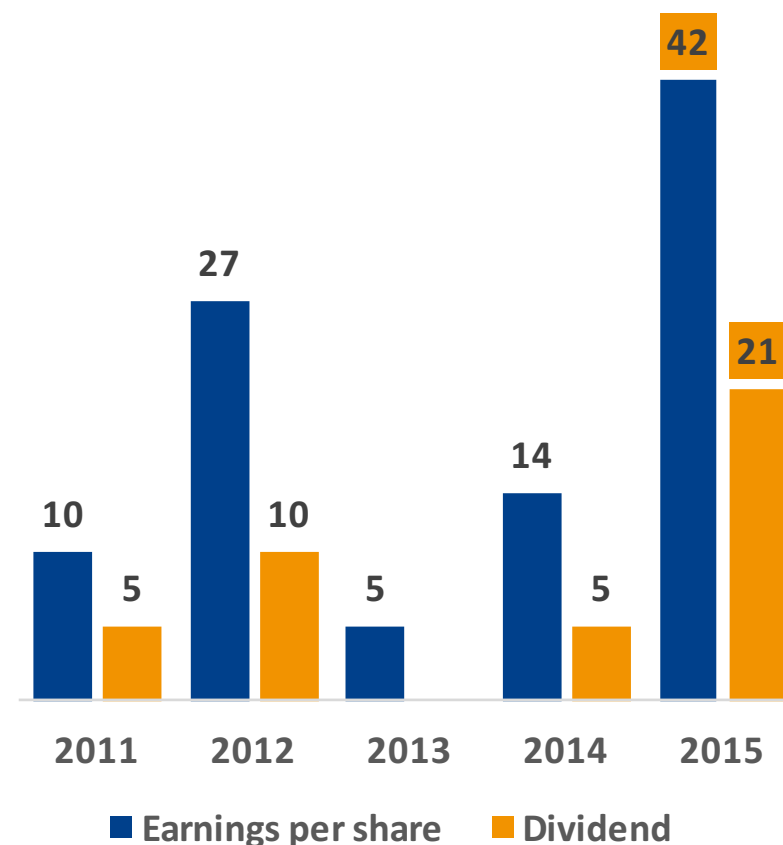
Dividends:

Strong commitment to shareholder value

- Share price up 129% (1.70 – 3.90) in 2015
- Firm dividend policy
- Favorable outlook for dividend capacity
- Proposed 2015 dividend NOK 0,21 per share

“Kitron’s dividend policy is to pay out an annual dividend between 30 and 60 per cent of the company’s ordinary net profit after tax. When deciding on the annual pay-out ratio the company will evaluate the cash requirements and financial flexibility required in the company.”

Earnings and dividends



2016:

Financial targets

- Revenue NOK 2.05-2.25 billion
- EBIT margin 5.3-6.3%
- CCC 80 days
- ROOC 20%
- Dividend 30-60% of net profit

2020:

Long-term strategy

- Revenue NOK 3 billion
- EBIT margin 7%
- CCC 50 days
- ROOC 25%
- Dividend 30-60% of net profit

Key messages

- Better capital management leads to strong cash generation
- Solid balance sheet enables growth
- Focus on shareholder value and dividend



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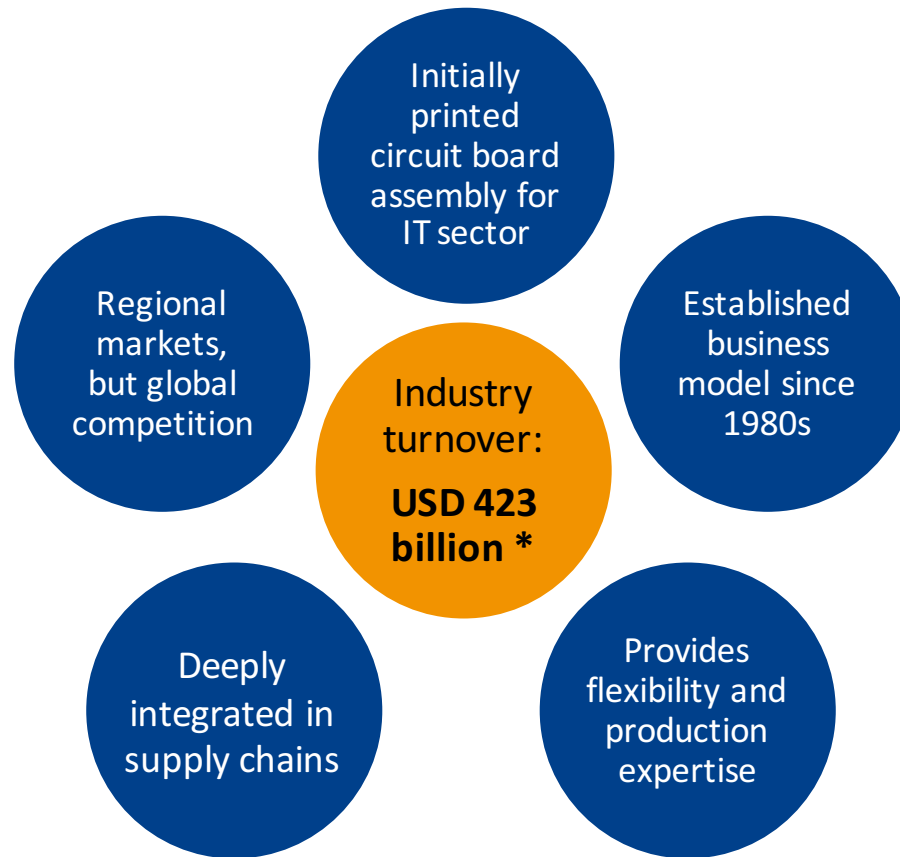
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Markets

Tommy Storstein
Sales Director
February 11th, 2016

Electronics Manufacturing Services (EMS):

Large, well-established market



Increasingly complex market:

Outsourcing, nearshoring or reshoring?

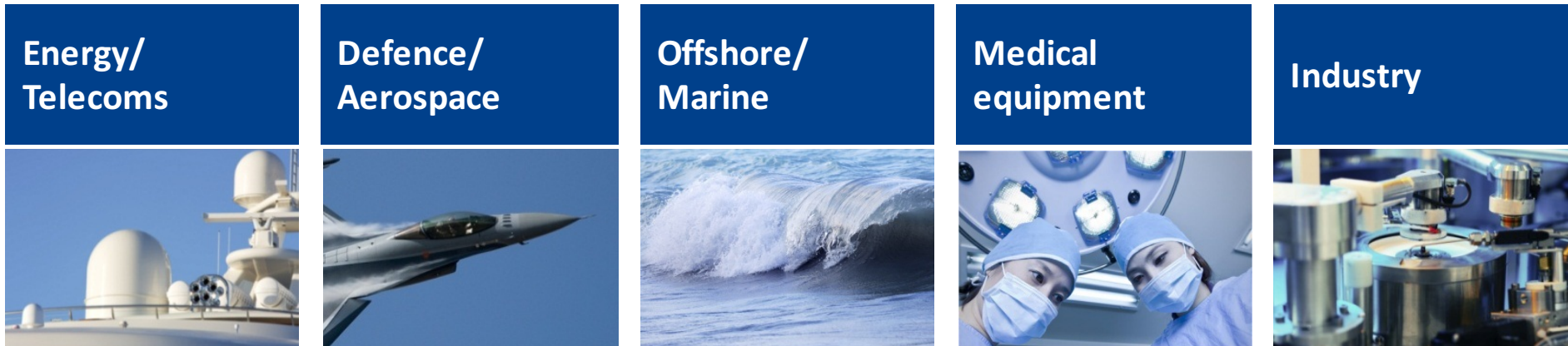
- Outsourcing to Asia due to labor-cost advantage was major growth driver
- Today's picture more complex
 - Increasing labor costs in Asia
 - China moving up value chain
 - Automation changes cost mix
 - Strong growth in Eastern Europe
 - Shorter time-to-market favors nearshoring



Kitron offers a variation of production sites to match customers' preferences, with clear strategic reasoning for each location.

Kitron's offering:

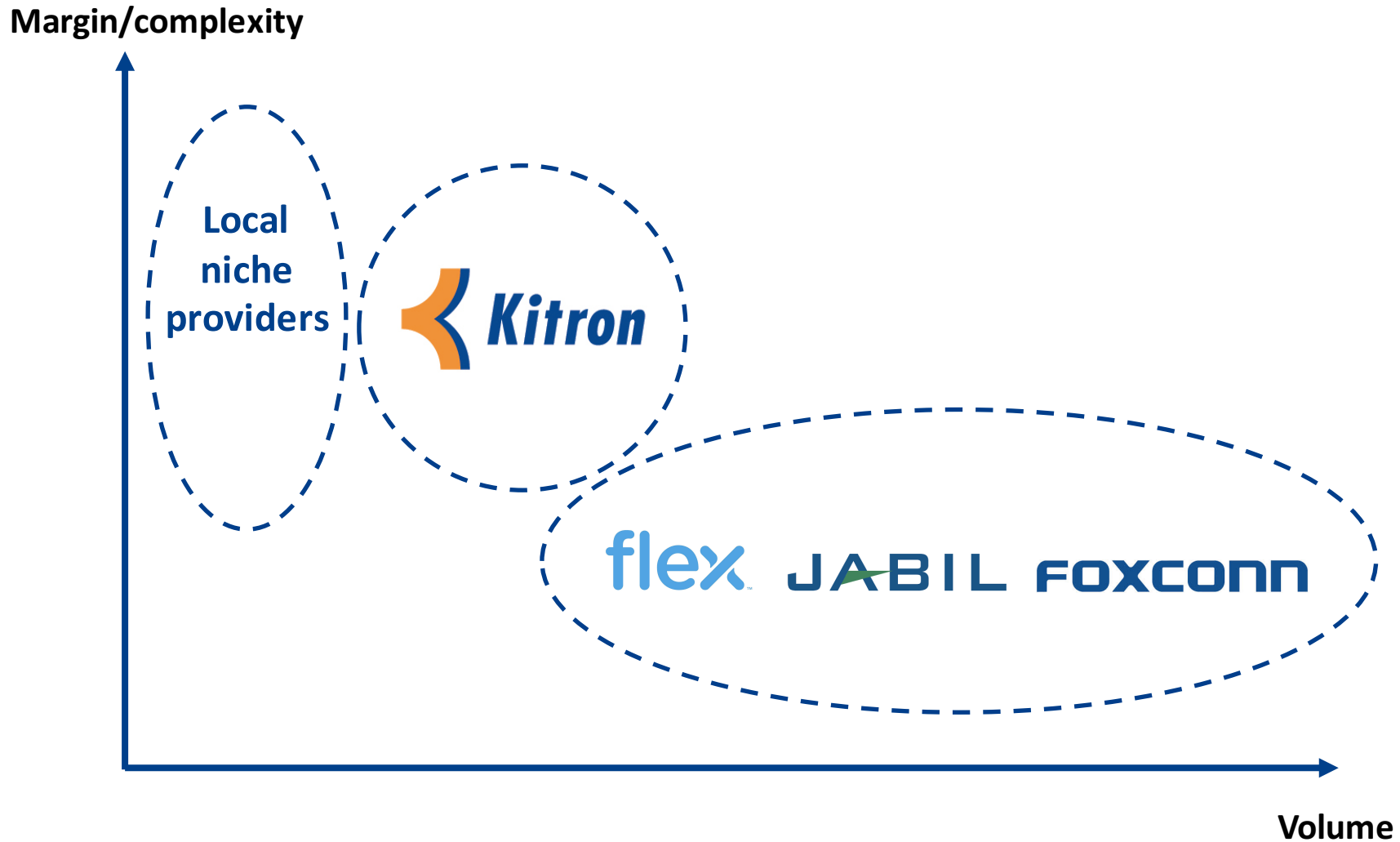
Focused market approach



- High-value sectors with high-reliability products
- Complex and changing customer needs
- Specialized competence-driven company with in-depth application knowledge
- Proximity to customers and markets combined with low-cost alternatives
- Competence and capabilities for a full product-life-cycle support

Positioning of Kitron:

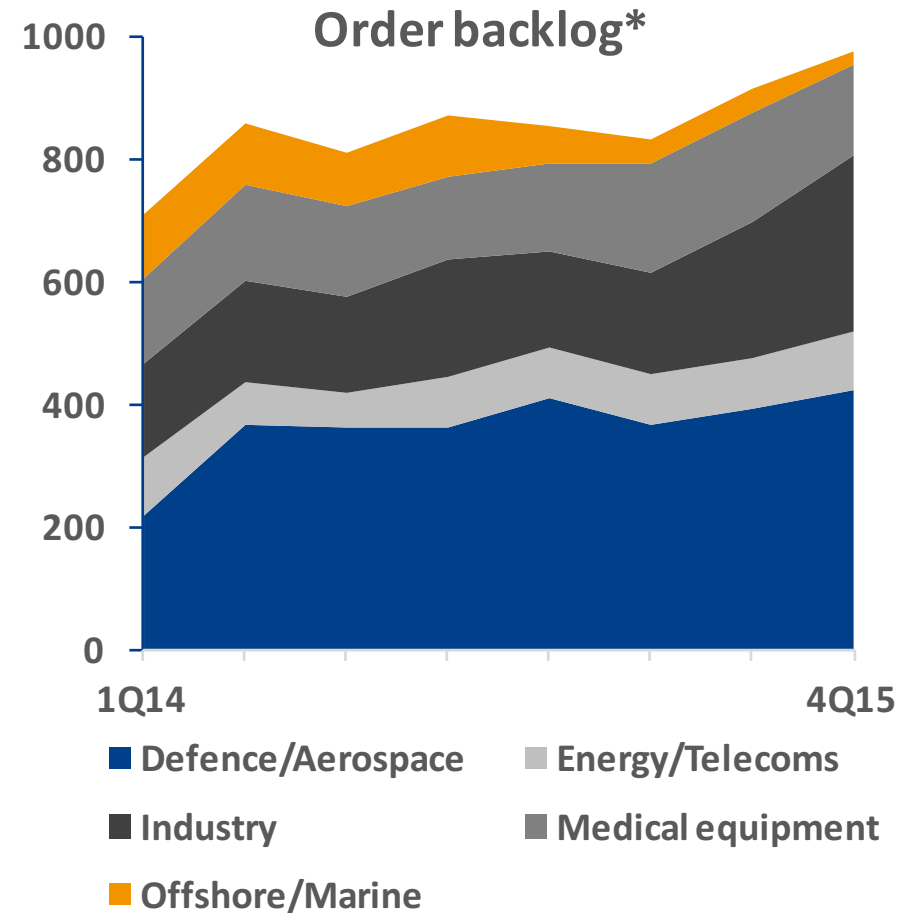
High-reliability products and demanding customers



Order backlog:

Diversified growth

- Order backlog NOK 976 million
- Positive trend in most sectors
- Industry and Defence/Aerospace particularly strong
- Diversification compensates for weakness in offshore
- Increased number of prototypes in Energy and Industrial sectors

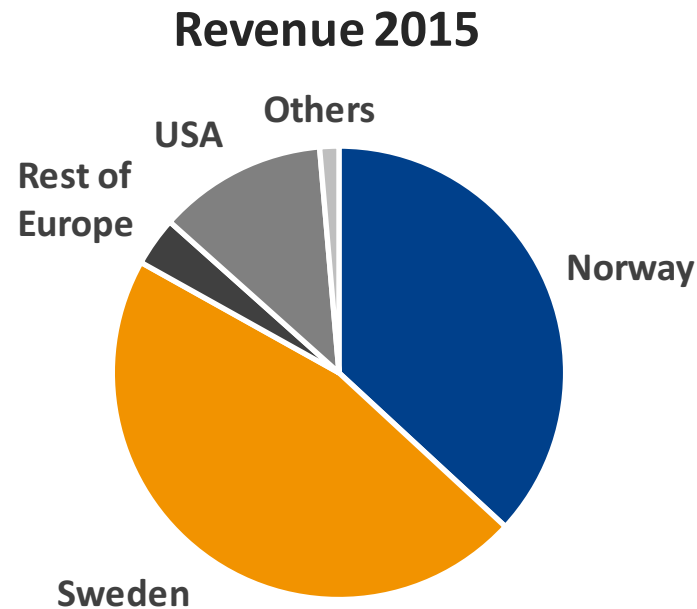


* Figures in NOK million. Definition of order backlog includes firm orders and four-month customer forecast.

Development expectations:

Geographic markets

- Strong position in Norway and Sweden
- Sweden the biggest market in Scandinavia
- Germany 5 times bigger than the Scandinavian market
- Several opportunities in the US



2015:

Key orders won



Northrop Grumman

- 20 years + extensions
- Electronic modules
- Technical services
- Service and repair center



SAAB

- 20 years
- 400 million NOK
- Printed Circuit Board Assembly (PCBA) for avionics
- Military and civil products



Global energy company

- 3 years + 1
- 100 million NOK
- Electronic modules
- Technical services
- Potential business in USA and China



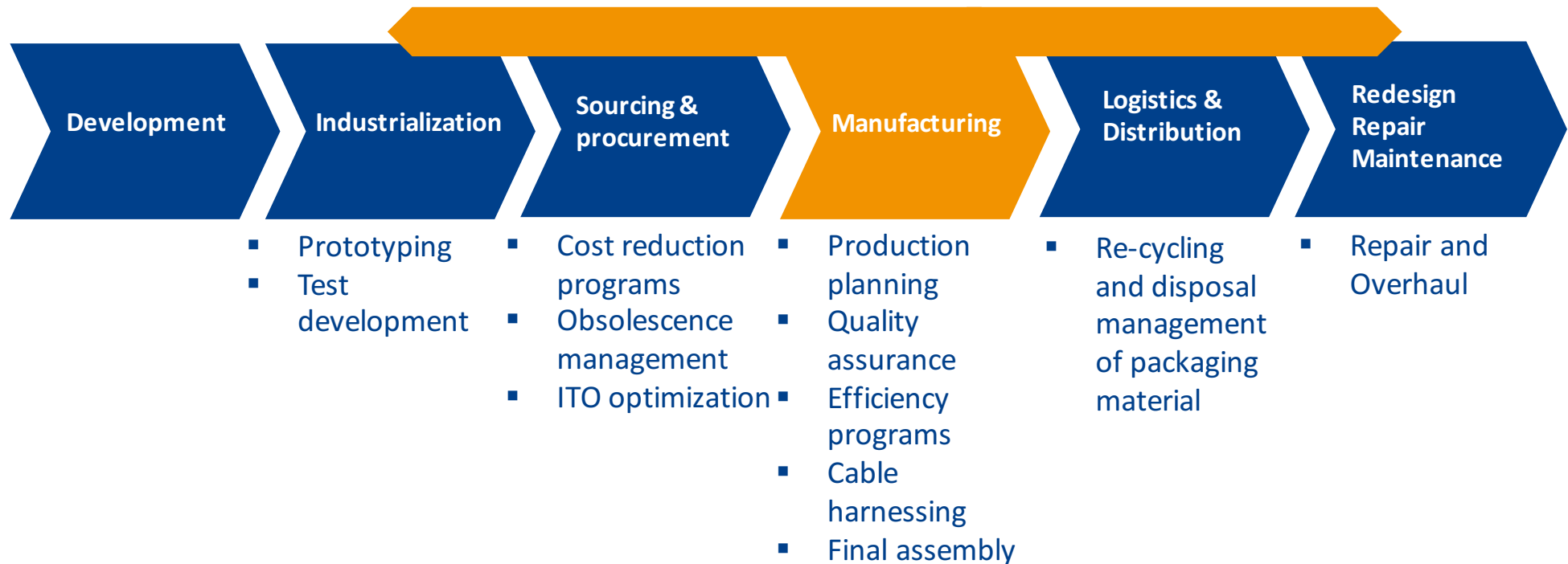
Rheinmetall

- 3 years
- 100 million NOK
- Printed Circuit Board Assembly (PCBA) to final products for defence equipment
- Strategic milestone for our investments in Germany

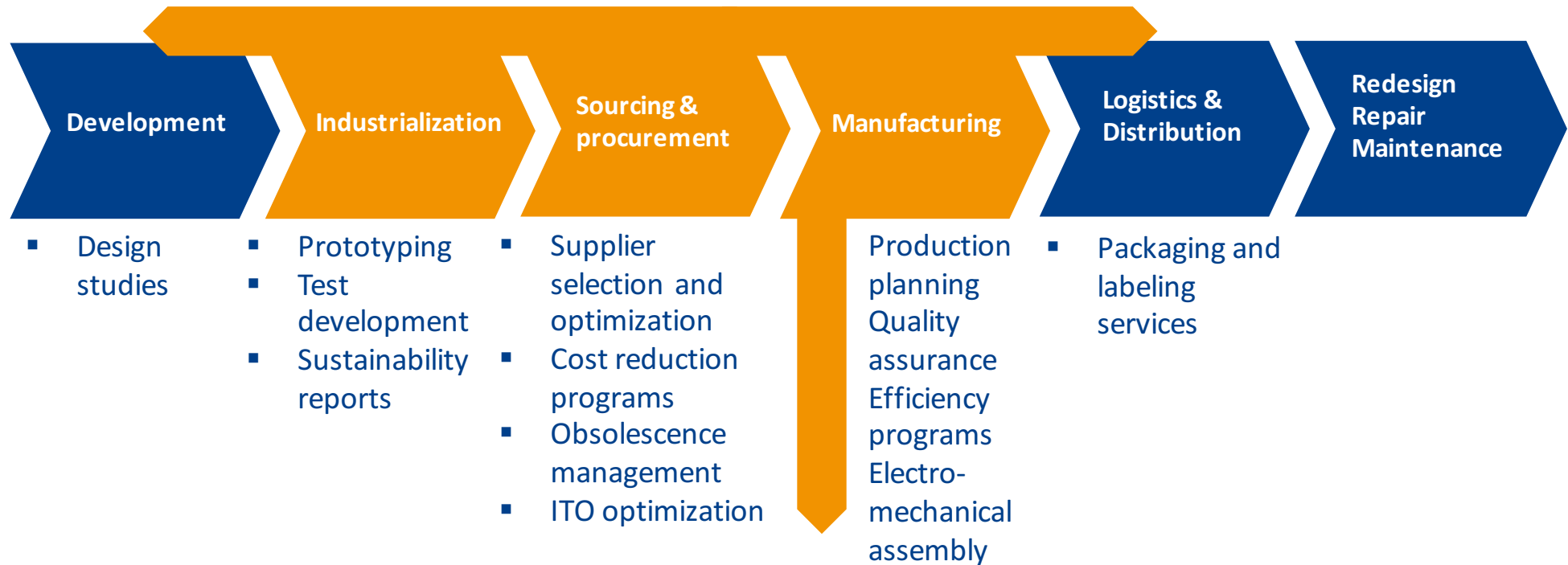
Customer Example:



GE Healthcare

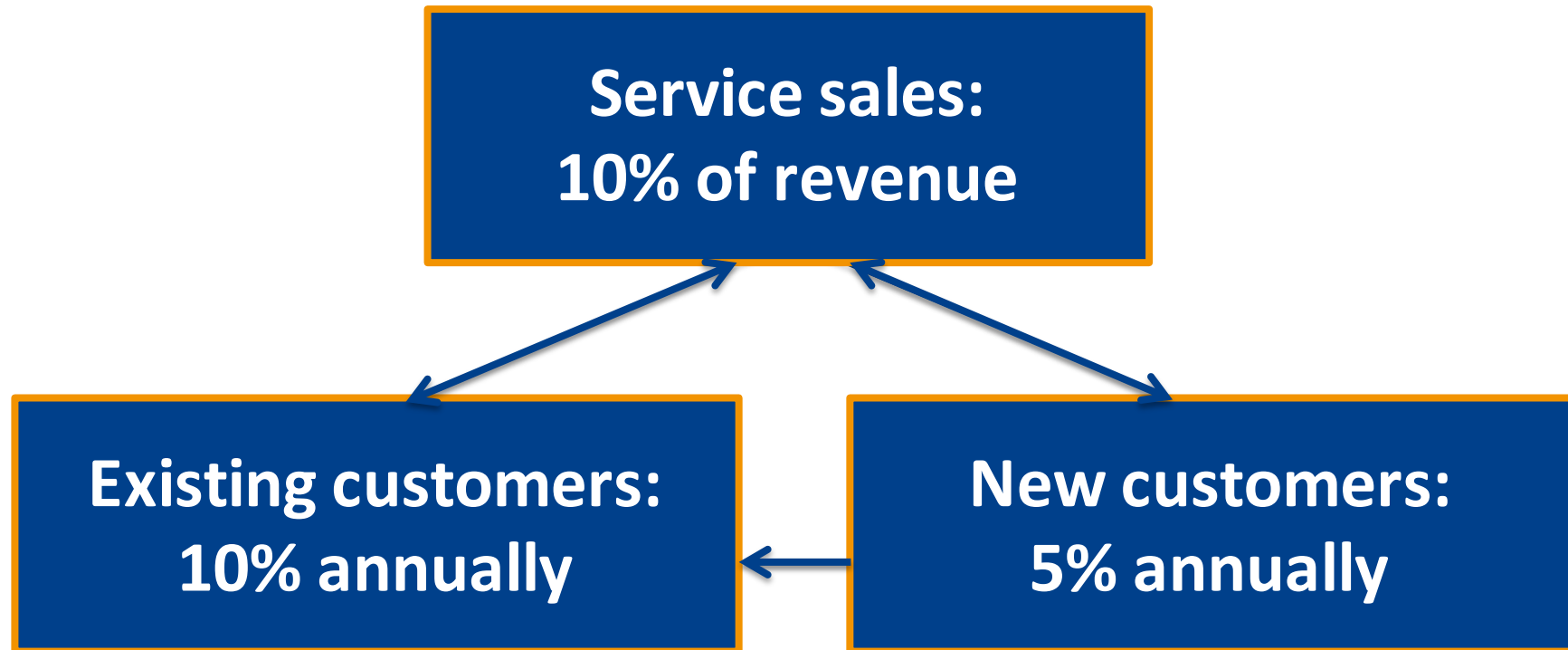


Customer Example:



Sales strategy:

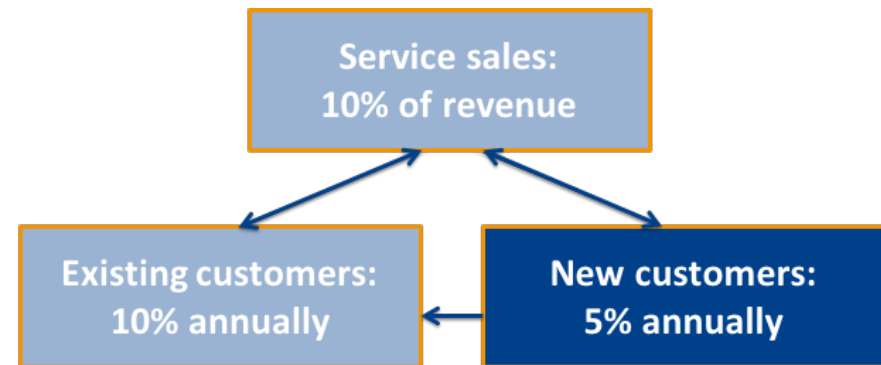
Achieve 10 per cent annual revenue growth



Sales strategy:

New customers

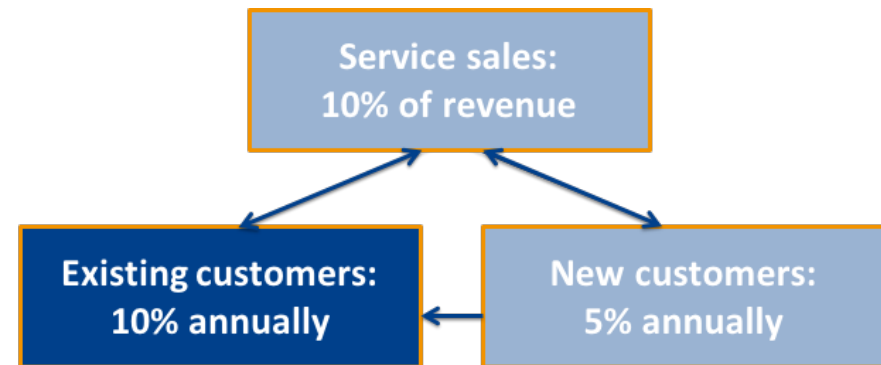
- Focus on selected market sectors
- Leverage competence, application knowledge and references
- Utilize our Eastern European base to penetrate selected European markets
- Target local business within defined sectors in China and the US
- Support Northern European companies in China and the US



Sales strategy:

Existing customers

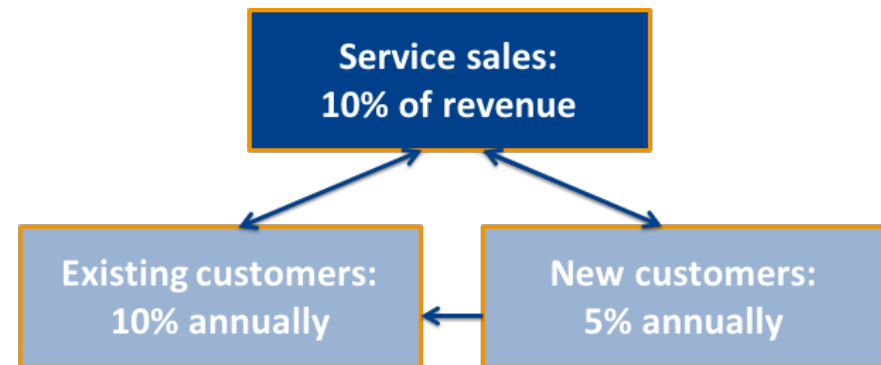
- Win replacement product generations
- Up-sell of services to climb service ladder
- Cross-sell between business units and regions



Sales strategy:

Service sales

- Win prototyping and new product introduction (NPI) services
- Win repair and overhaul
- Target warehouse and distribution services
- Innovate new services to increase revenue streams



Markets:

Strategic targets

- New customers: 5% annually
- Existing customers: 10% annually
- Service sales: 10% of revenue

Markets:

Key messages

- High-reliable products in high-margin sectors
- Positioned for growth and increased profitability
- Clear, credible targets



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Operations

Israel Losada Salvador, COO
February 11th, 2016

Kitron's operations:

Global reach, European strength

- Headquarters:
 - Norway
- Manufacturing:
 - Norway
 - Sweden
 - Lithuania
 - US
 - China
- Sales office:
 - Germany



Kitron's unique value proposition:

What makes us special?



Employees:

Highly competent and motivated

Employees

- Approximately 1200 employees
- Areas of particular expertise, e.g. testing
- Partnership with technical educational institutions
- More than 20,000 hours a year of training, close to 20 hours per employee
- No serious accidents in 2015, absenteeism low and trending lower
- Half of employees female, one third of managers



Customers:

When failure is not an option

Customers



“Kitron specializes in manufacturing products with the highest reliability requirements. This fundamentally shapes our operations.”

Example:

Satellite launching rockets

- Electro-mechanical units for civilian expendable launch vehicles used to place satellites in space
- Aerospace manufacturing demands highest quality standards (AS9100)
- Kitron also involved with the design for manufacturability and test development

Customers



Example:

Ultrasound machines

- Kitron fully manufactures latest generation of premium 4D ultrasound systems
- Printed circuit board assembly, cable harnesses, high level assembly and various functional tests, all of it following medical standards (ISO13485)



Example:

Remote Weapon Stations

- Remotely controlled weapon station for light and medium calibre weapons
- Kitron manufactures the control system
- Manufactured to highest quality standards and put through Highly Accelerated Life Testing (HALT)

Customers



Example:

Control equipment for trains

- Kitron manufactures the Vehicle Control Unit
- Responsible for collecting train usage data in order to define the maintenance program
- Directly related to safety and therefore extremely well tested
- All tests designed by Kitron based on proprietary platform, SATS

Customers

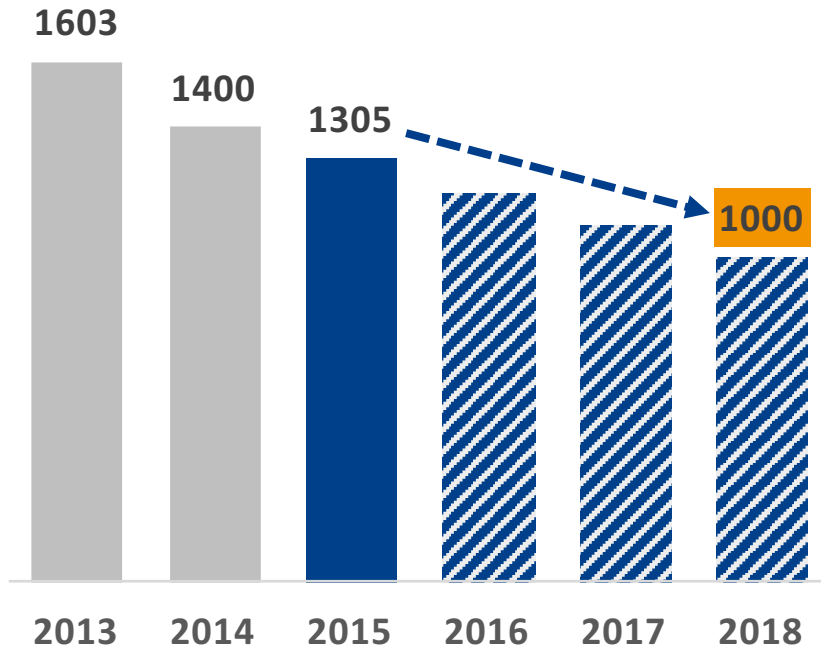


Supply partners:

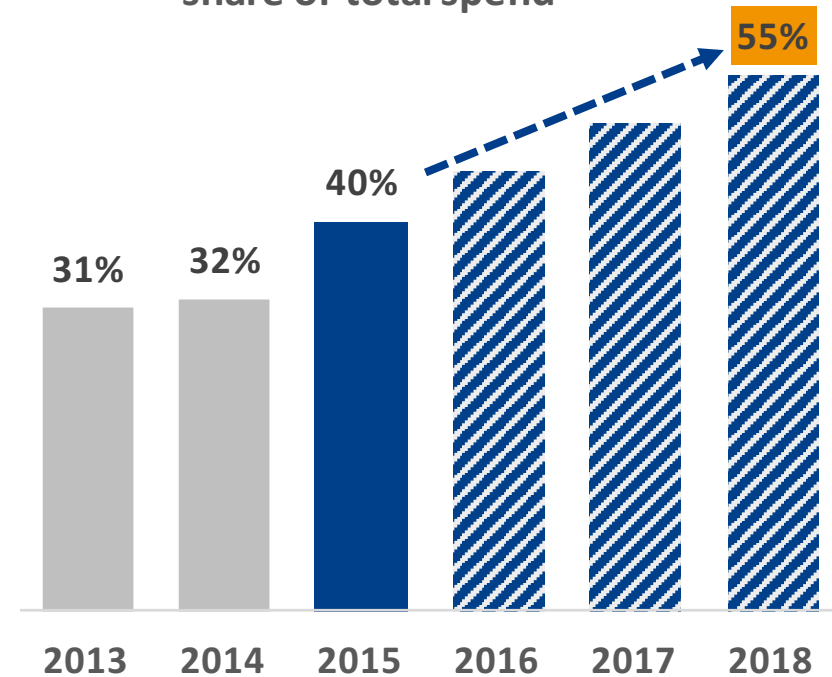
Consolidation and preferred partners



Number of suppliers



Preferred Supply Partners share of total spend



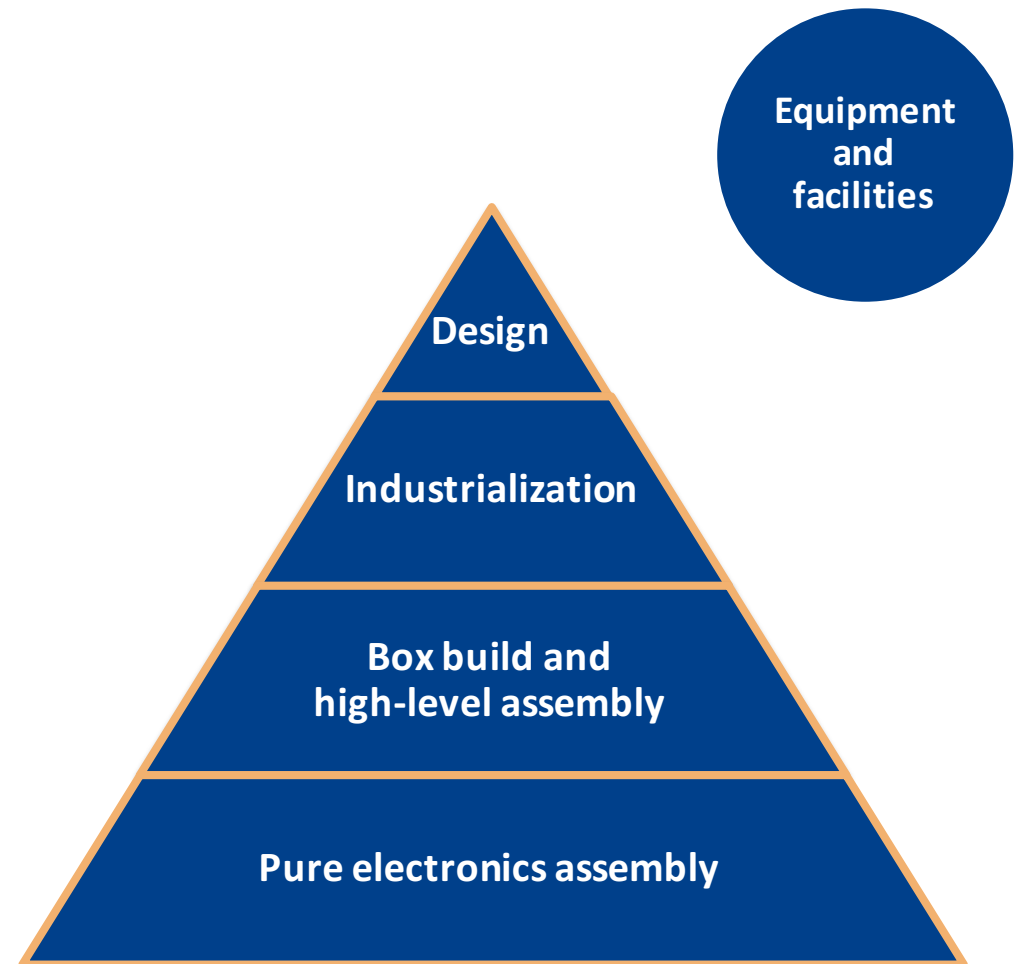
- Reduced cost
- Improved payment terms

- Better on-time supply
- Strengthened quality

Equipment and facilities:

Following the market

- Product life cycle dramatically shorter over last decade
- Large companies with complex products more risk averse:
 - Subcontract value-adding services
 - Demand for increased flexibility

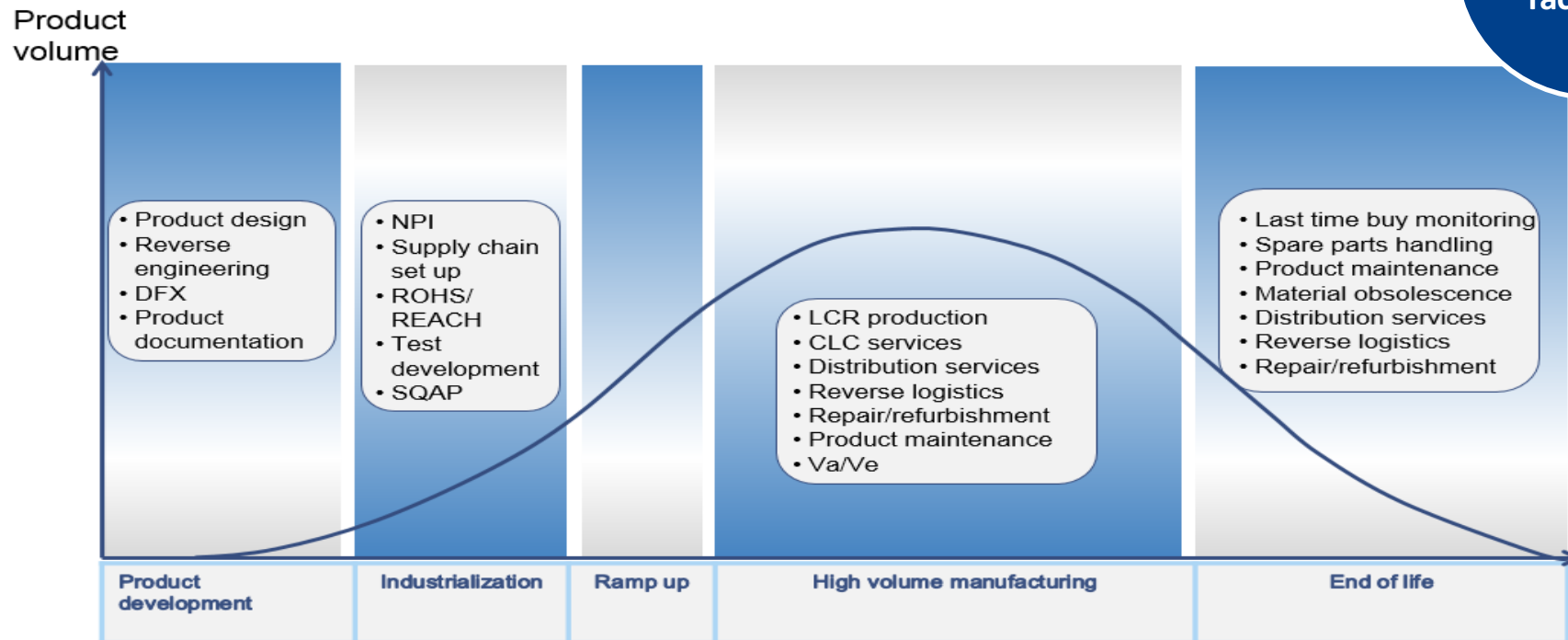


“Moving up the value-adding pyramid is going to be critical to our success.”

Equipment and facilities:

Value add means following entire life cycle

Equipment
and
facilities



- Kitron's success depends on our ability to:
 - introduce new services and technologies
 - move up the value adding pyramid
 - provide services beyond traditional manufacturing

Equipment and facilities:

Major investment cycle nearing end

- Lithuania (2014), Norway (2015), Sweden (2016)
- Foundation in place for offering more advanced services
- Very competitive facilities for foreseeable future

Equipment
and
facilities



Operational excellence:

Comprehensive program started 2015



- Step change for entire organization
- Continuous improvements going forward

	2015	2016	2017	2018
Implement Operational Performance Metrics (OPM)*	STEP 1	STEP 2		
Implement Kitron Lean Program *	STEP 1	STEP 2	STEP 3	STEP 4
New Costing Model (ABC), Standards, reports	STEP 1	STEP 2		
Establish RFQ model, Pricing Models		STEP 1	STEP 2	
Establish LCR* solution to support Sourcing Strategy	STEP 1	STEP 2	STEP 3	STEP 4
ROOC management program	STEP 1	STEP 2	STEP 3	STEP 4
Demand & Supply Planning	STEP 1	STEP 2	STEP 3	
Define and refine product portfolio by site	STEP 1	STEP 2		
Sales and Operational Planning (SOP)	STEP 1	STEP 2		
Establish LCR solution to support IS/IT Strategy		STEP 1	STEP 2	
Supply Chain Management Program (LT, MOQ, JIT...)	STEP 1	STEP 2	STEP 3	STEP 4

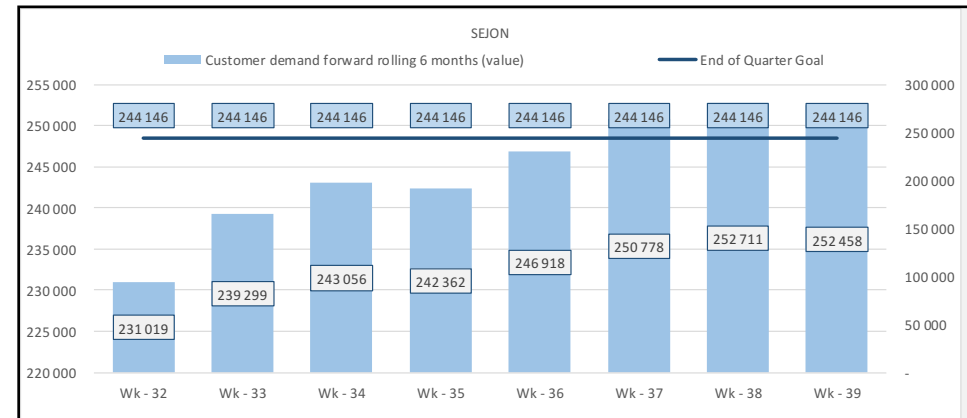
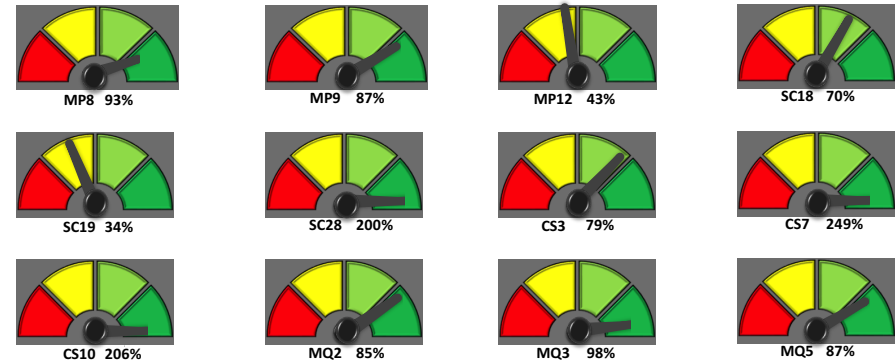
Operational excellence:

Operational Performance Metrics - OPM



- Dashboard with 90+ indicators
 - Customer Care
 - Market
 - Finance
 - Employees and QHSE
 - Supply chain
 - Manufacturing
- Review every week with every site
- Early warning, pre-emptive actions, rapid improvements

 OPERATIONAL PERFORMANCE KPI



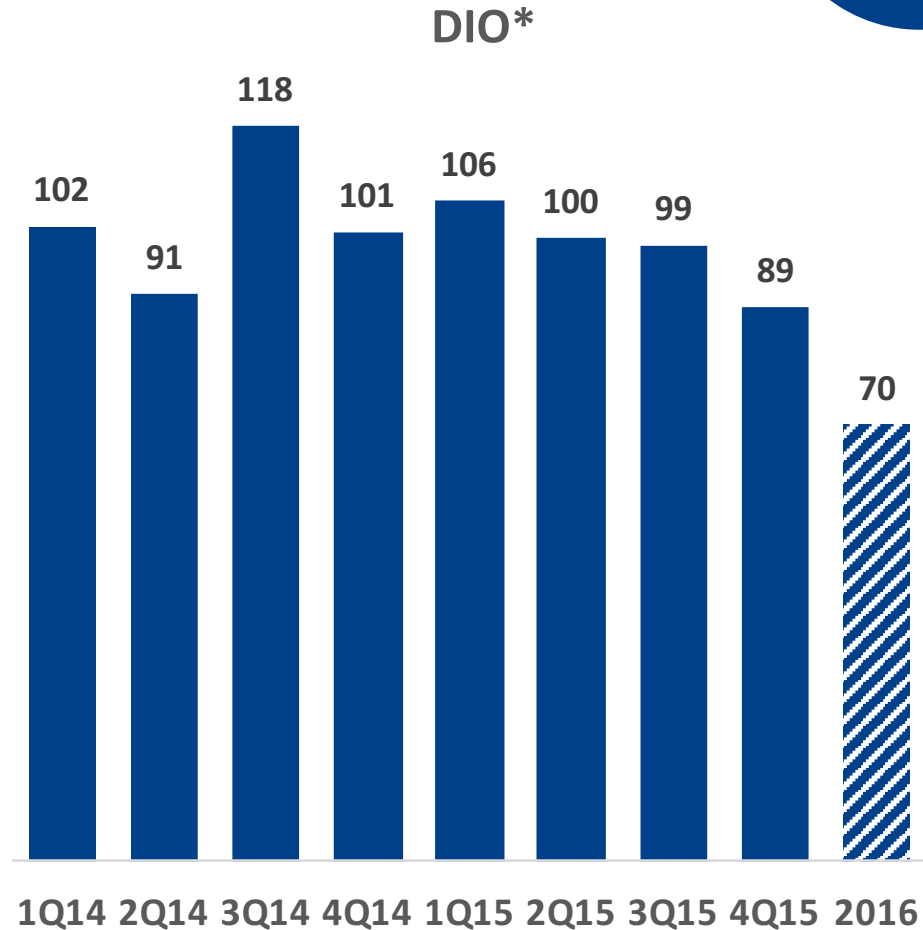
Operational Excellence:

Main focus: Return on Operating Capital



- Inventory – DIO (Days of Inventory Outstanding)
 - From 104 days in 2014 to 50 days by 2020
- Accounts payable
 - Ongoing negotiations of terms
 - Consolidation with preferred partners
 - Positive development

Strategic target
ROOC 25%



* Rolling 3 months DIO at end of quarter.

$$DIO = \frac{365 * Average Inventory}{Cost of Goods Sold}$$

$$ROOC = \frac{Operational Profit}{(Inventory + AR - AP) + Fixed Assets}$$

66

Operations:

Targets

- Reduce cost by 5% annually
- Drive operational excellence to achieve ROOC of 25%
- Enable NOK 1 billion business in Norway, Sweden and Lithuania

Operations:

Key messages

- Preferred partner for high-reliability solutions
- Moving up value-adding pyramid
- Major investment cycle nearing end
- Operational excellence program in force



Kitron

Your ambition. Our passion.

Summary

Peter Nilsson, CEO
February 11th, 2016

Summary:

Long-term strategy

- Revenue NOK 3 billion
- EBIT margin 7%
- Dividend 30-60% of net profit

Summary:

Key messages

- Operational improvements ongoing
- Strong cash generation
- Focused market strategy
- Clear plans for organic growth
- Potential acquisitions
- Focus on shareholder value



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Questions and answers