

QA session transcript from Kitron ASA CMP 2020-03-18

PN: Peter Nilsson, CEO

CN: Cathrin Nylander, CFO

ILS: Israel Losada Salvador, COO and Sales Director

Q: We have a few questions that have already come in and one of them being: Will you maintain the dividend?

PN: I believe Cathrin addressed this in her part of the presentation, and you're welcome to reiterate your response, Cathrin.

CN: I will do so. The board decided and proposed a dividend on the 12th of February, earlier this year. The company and the board of course follow closely the development of the business and its environment and if there's a need for the company to act, they will do so. The next board meeting is at the end of March.

Q: There is a question about the effect of the weak Norwegian currency. Is that a positive or negative for Kitron?

PN: Again, I'll let you address this, Cathrin.

CN: I would say in general, it's a positive effect on the growth for the group. Of course, we will have growth on the top line. But also our material expense will grow accordingly, and that means that we will need to discuss prices with our customers going forward.

PN: It's important also to recognize that our sales prices are in many different currencies. So not just Norwegian kroner where we would have to do price adjustments. We also sell in dollars and we sell in euros and so forth. So it's not quite as straightforward as translating that everything has to be raised on prices.

Q: There's a question about the offshore segment. How do you see your offshore segment given the recent downturn of the oil price?

PN: We have only a few offshore customers. The volume has been growing substantially over the past few years from an almost non-existent level and I believe currently, in the current budget numbers, the marine and offshore driven by oil and gas is maybe five–six percent of our entire top line for this year. So currently we feel pretty stable on what we have in our budget on which we based our forecast. Earlier on we had some significant upside. So I think we've put them aside so far and come back to that later in the year and see if they're still there. So I feel pretty comfortable on where we are in that segment right now.

Q: Then there is a question about the competitive landscape. Have you seen any significant changes in your competitive landscape during the first months of 2020? If you have seen some, have these changes been driven by M&A activities or by organic operations.

PN: I think I'll throw this question over to Israel and see what he has to say on it.

ILS: No, I wouldn't say that we have seen a dramatic change over the last period of three to six months. We are still meeting the same players in the market. There is still a consolidation in the market. There are some players that are being acquire, smaller ones, some mid sizes, but for the region where we compete and the sectors that we are present in, there hasn't really been a big difference so far.

PN: I tend to agree.

Q: *Then moving back to the financial side. How is the liquidity position, moving forward and what about credit facilities?*

PN: Cathrin.

CN: So we have a long-standing bank agreement with DNB, I have to add in the beginning. And if you look into our credit situation, you will find that we have long term loans that we have taken up, most of them, last year to acquire the American unit with about 166 million. We have a lease liability in IFRS-16 about 116, and in total with the short, it's a little over 135. And then we have long-term debt, which is regular finance lease, so we have a long-term part of 331 million. Then on the short-term part of a financing, we have an overdraft which is a currently 323 million and we have factoring debt of 249. So for units in Norway and Sweden, we have a factoring agreement where we have a factoring for 85 percent of their invoicing, basically. And then we have the short-term part of long-term debt and the lease liabilities. And currently Kitron is running a positive cash flow. I mentioned that we have a positive cash flow going forward. Of course, cash flow will be affected by whether or not our customers will pay on time etcetera and how the demand situation will be monitored. So if everything goes to plan, we have a regular cash flow situation according to plan, however, if the market situation changes the cash situation is obviously the thing to monitor because you can have a good top line and a good revenue, but you can lack cash based on, for instance, customers not paying. I don't believe that they won't, but that might affect us.

Q: *There is another question concerning the same topic: Please could you give some color on discussions with your banks? Have there been in touch? Any concerns from them on your debt level?*

CN: They have been in touch because they are experiencing some other clients increasing their inventory levels and hoarding inventory. And based on our recent experience with the material allocation, we have given them a clear message that we will only buy inventory which is necessary to produce and if we need to buy something, which Peter explained earlier, the companies need to buy it themselves in our books and put it as consigned inventory. So we have no plans. So that was the major discussion. Apart from that, they were comfortable with the situation. Again, I have to say we have a long-standing relationship with DNB. They have been our bank for the last 20 years and those who remember back know that Kitron has been in dire straits many, many years ago and the DNB has stood by us all that time.

Q: *Moving on to a different topic: M&A. The question is can you comment on how the Covid-19 situation will impact your M&A agenda?*

PN: Well, that's pretty easy, right, in the form of: Yes, we continue looking at presentations that are sent to us or opportunities that we identify. However,

we do not proceed into any sort of due diligence meeting, traveling to sites and so forth. So from that perspective, you know, there'll be low M&A activity going forward, other than continuing to analyze and put interesting objects onto our prospect sheet. When it comes to publicly traded companies, you may say, well, why don't you just, now is a buying opportunity, right? I think the evaluations now are extremely difficult based on any publicly traded valuation at this time. So we continue sort of at a lower level. But don't expect to see any big M&A announcement over the next three months.

Q: We can take a couple of more questions that have come in online, and one of them is concerning the supplier situation in light of the Covid-19 situation. Have you changed the supplier purchases composition, for instance moving away from Asian suppliers to increasingly more American or European suppliers?

PN: I'd say it's a longer process to change suppliers, because you know, most of our products tend to have some pretty high restriction on you. We're talking about the defense, aerospace or medical products. They are qualified, with the entire supply chain being qualified. So the strategy in the past few months now has been: Let's qualify additional suppliers and have multiple sources in more regions. So, we're looking at Europe right now. Asia is up and running. China is up and running, pretty much every manufacturing facility we're in touch with, we're getting parts from as we should. So Asia and China specifically is currently not a problem. We're not seeing problems in Europe, but I would be surprised if that remained unchanged in regard to, you know, how the virus is spreading in Europe and how quickly things are changing on the market with potential shutdowns. So I think it's important, you know, even though our strategy has been regional supply for the regional market, I think from an upstream supply chain perspective, we're changing our thinking and discussing much more with our customers that we need to qualify multiple sources in different regions as a business contingency plan. So that's where we are on that issue.

Q: Okay, we'll do one more question. This concerns the cost side. You mentioned maybe needing to make some cost adjustment. Please, could you give some color here? What would you do?

PN: I mean, it's not that difficult for us. You know, we've been through multiple changes in demand over the past years, from the financial crisis on through very low oil price in 2012-2013 and really a disappearing market in Norway when it comes to manufacturing for the oil and gas market, and so forth. So we continuously do adjustments to our manufacturing staff. In Lithuania we're used to doing this seasonally, right? Our head count in Lithuania over the past four, five years has varied seasonally from 500 employees to almost a thousand employees, depending on where we are in the season. So we're used to working this way and doing this. We've also been through restructuring programs in Norway and Sweden, so we're fairly acquainted with how to do that. What's different here, though, is right now things look pretty good. At some sites we're actually bringing on more people because demand is high. Now, that could be short term. We don't know. We don't know how the world will change. So in order to prepare ourselves and our organizations to be able to handle any radical change or dramatic change in demand that may come it's good to prepare and think through what we need to be doing. So that's why we have now a business contingency plan where we're looking at: A site should be able to manage 30 to 40 percent reduction in demand and still provide a profit, still be able to run the business, and that's the scenario each site has to prepare for. Now, I would be extremely surprised if the overall demand for Kitron were to be reduced that

much, especially since significant portions of our demand is from defense, aerospace and medical devices, where we're actually seeing a strong trajectory on the demand for those.

Q: We'll do a couple more questions before we wrap up, and continuing on the demand side, but within the medical devices, there's a question: You see increased demand in medical devices. Can you be a bit more specific? What sub-sector do you see increased demand from?

PN: I think, you know, anyone who follows the news sees that what many countries and governments are lacking is equipment to aid in respiratory illness. So anything that manages, you know, the respiratory, so ventilation equipment is what, we call it respiration, I think in Swedish and Norwegian, and we call it ventilation type equipment in English. I hate to comment any more specifically on what customers this is. And then also other supporting type equipment that monitors patients, that helps diagnose other side conditions from contracting this virus, that type of equipment, diagnostic equipment, ultrasound equipment, things like that.

Q: Then we'll do a final question. This concerns Kitron compared to other EMS suppliers. Is Kitron better set up to handle the Covid-19 situation versus key competitors, and why?

PN: I hate to comment on what key competitors are doing, and I really won't comment on what activities they are doing because I'm not looking, really, at what they're doing. I'm focused on running Kitron and securing our operations. However, in general, if you're more geared towards consumer products or industry, business-to-business, with industry, you might be more vulnerable on the demand side. If you're more geared towards medical devices that are used in a situation like we are now where there's a global demand increase for those types of products, and where governments are going in with money to acquire those types of products, I think you're in a better position. Just from, you know, basically from the get-go deciding what market sectors do you want to be active in and what type of products in those market sectors do you go after? I think that Kitron may have a leg up on some competitors there. But, really, I don't want to comment on what competitors are doing or not doing.

Q: I think we'll end the questions there. Peter, do you want to say a couple of final words?

PN: I'd like to thank everybody for listening in and participating on today's call. We were initially, obviously, looking to give you a deeper update on our strategy. But again, you know, with what's going on now, you sort of halt some of the activities that we do towards our strategy. So it makes us rethink, not in a bad way, you know. You always take an opportunity to make the best of every situation, and we've always within Kitron sort of had it in the back of our heads to have strong business contingency planning and training for this. This is an opportunity that allows us to expand that even further. So I feel pretty confident on where we are and where we're heading. Now, of course almost anything can happen in the market situation. But again, it's important to remember that whatever goes on will have an end and it will tend to be shorter rather than longer-term. So that's our thinking, and that's how we run our business.

I see a quick question here. How much are you exposed to highly affected sectors such as airline aviation and automotive? Not very much at all. I do believe we deliver some subcomponents to both Airbus and Boeing, but in the big picture, you know, I'm not even sure you can measure it as 1



percent or so. So that's the effect. We're not the big supplier. We hardly deliver anything directly to any of the big automotive manufacturers. We're more into the second tier suppliers where we provide services and development and prototypes, which tend to be higher margin and tend to continue on now, but not part of any volume reduction. I mean, I saw yesterday also that, or this morning, that one of the major suppliers in, or manufacturers, in Germany shut down temporarily. So no effect on Kitron from that.

So again, thank you so much for participating in our call and please if you have any follow-up questions, you know how to get in touch with us, and we'll be happy to respond to any questions you may have. Thank you so much and talk to you soon on our Q1 presentation in late April. Thank you so much! Bye!