

# 2019 Capital Markets Day

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# CHAIRMAN'S WELCOME

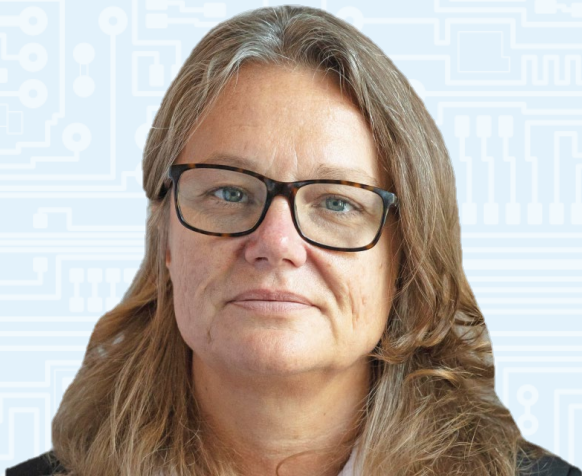
Tuomo Lähdesmäki  
Chairman of the Board

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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

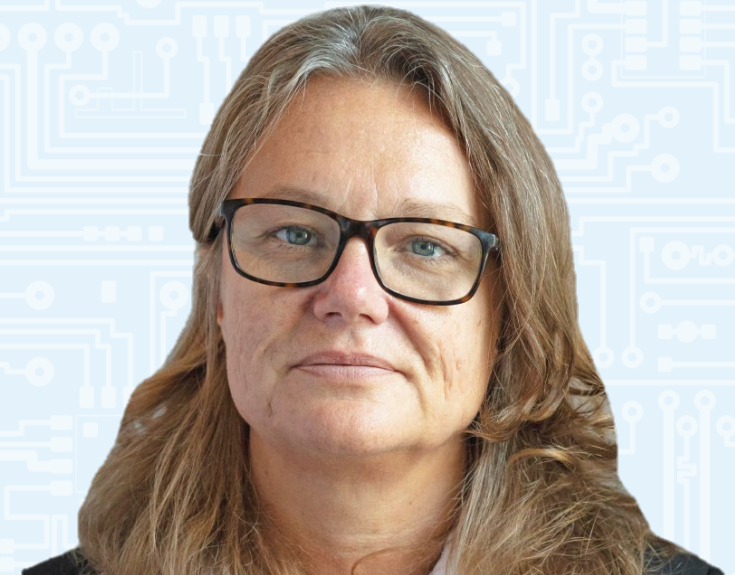




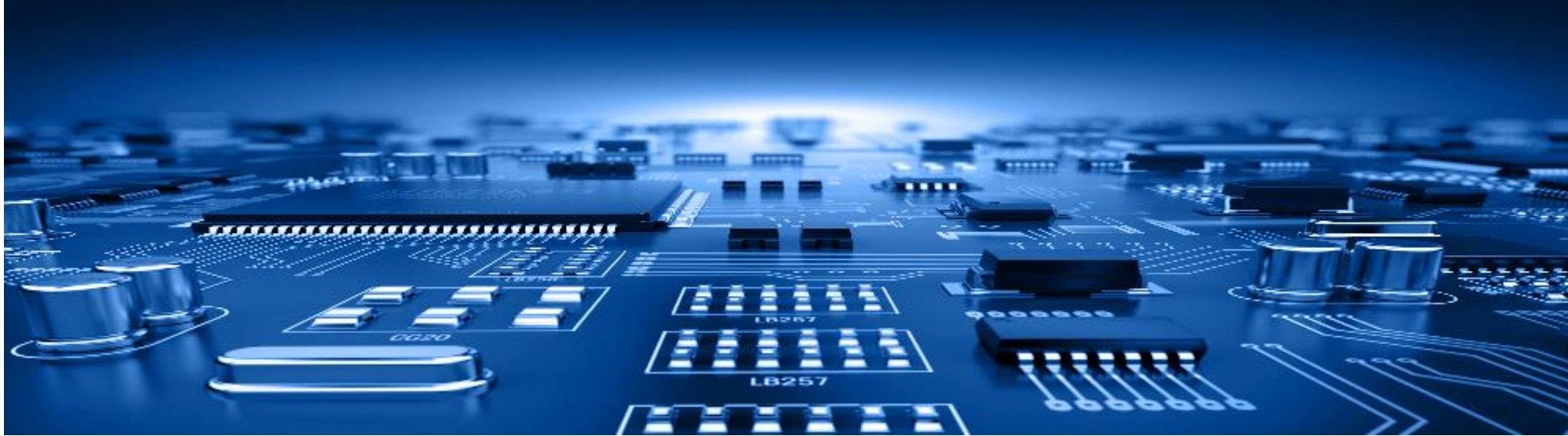
# STRATEGY

Cathrin Nylander  
CFO and acting CEO

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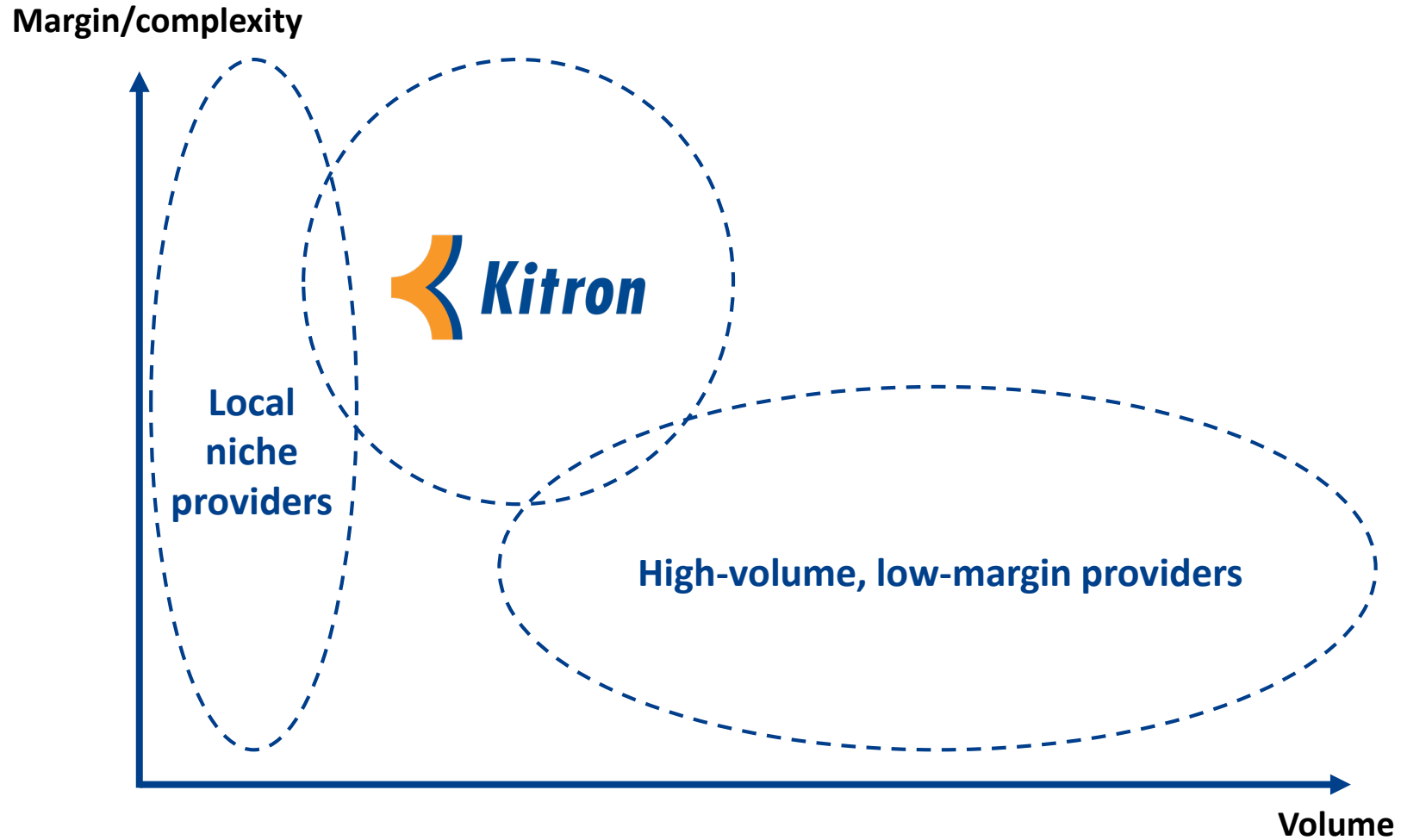
# The essence of Kitron



**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



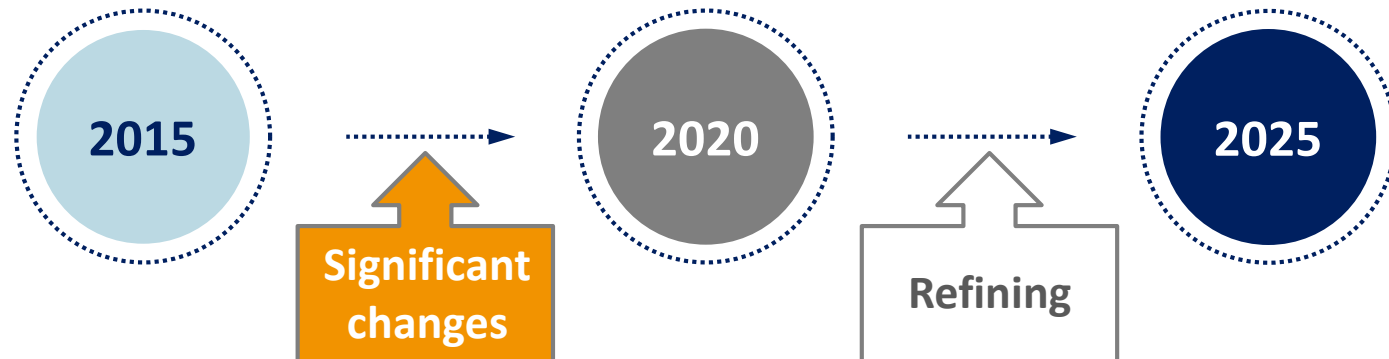
# Kitron on three continents



# Current strategic horizon 2020, now extended to 2025

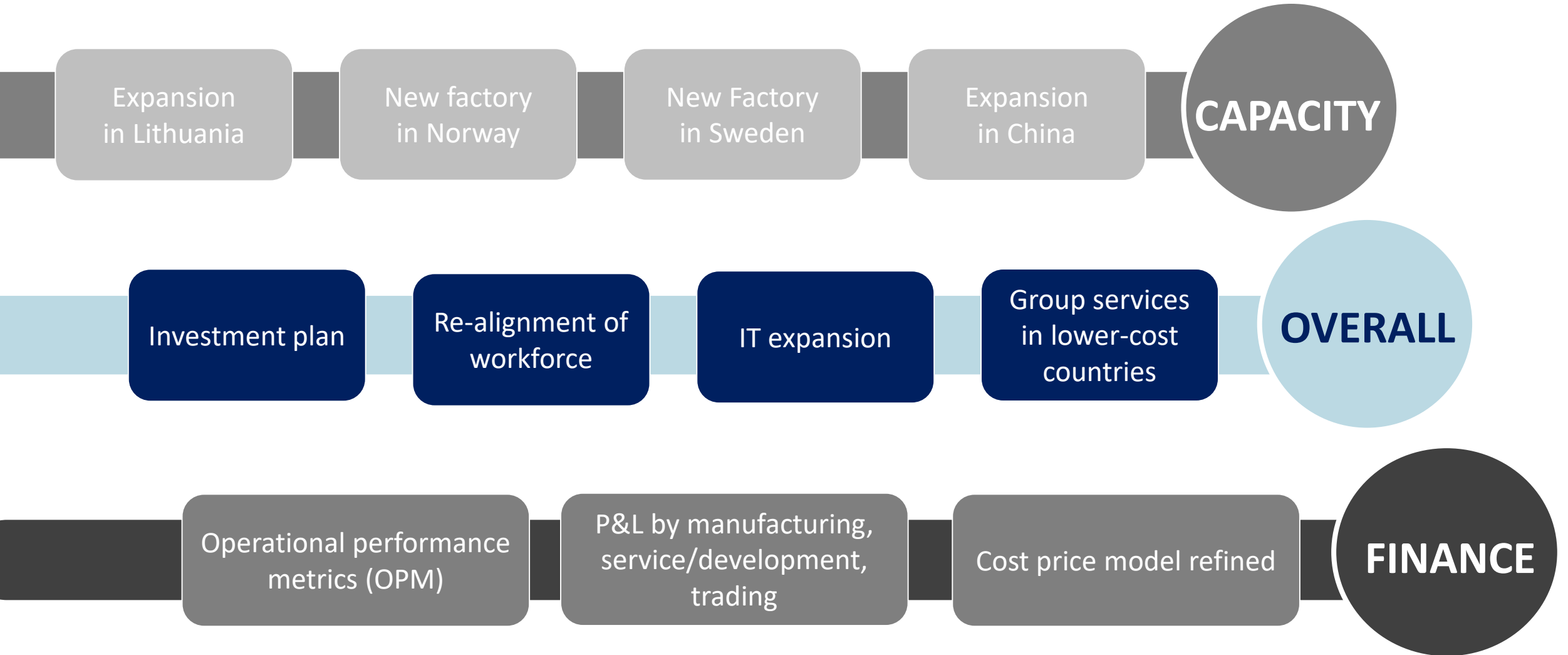
## 2020 strategy set new direction for company

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

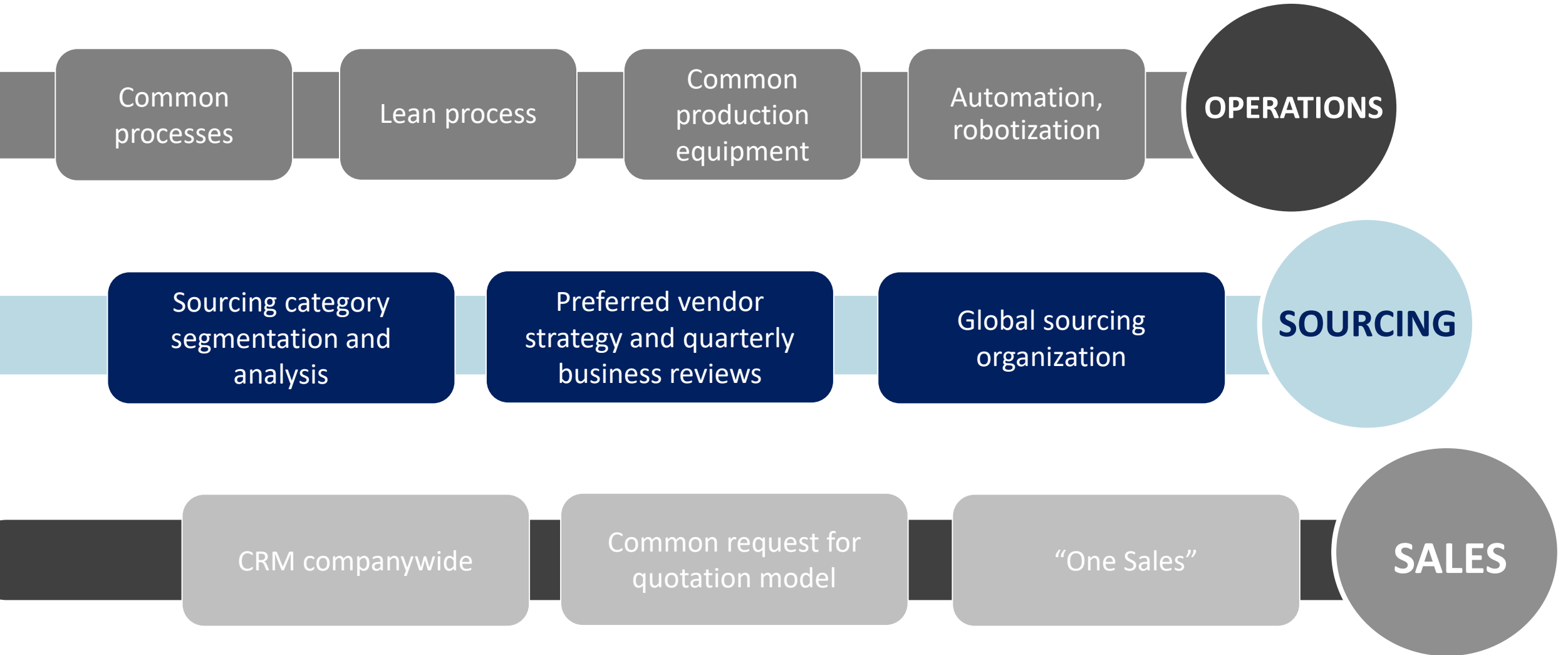




# Path to 2020

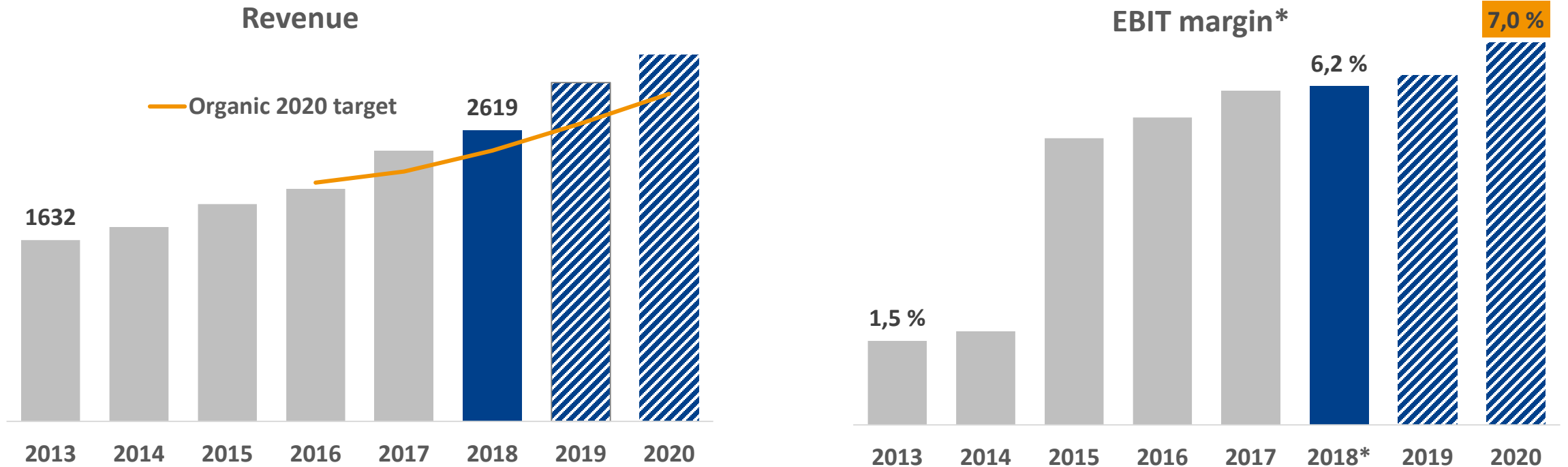


# Path to 2020



# 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



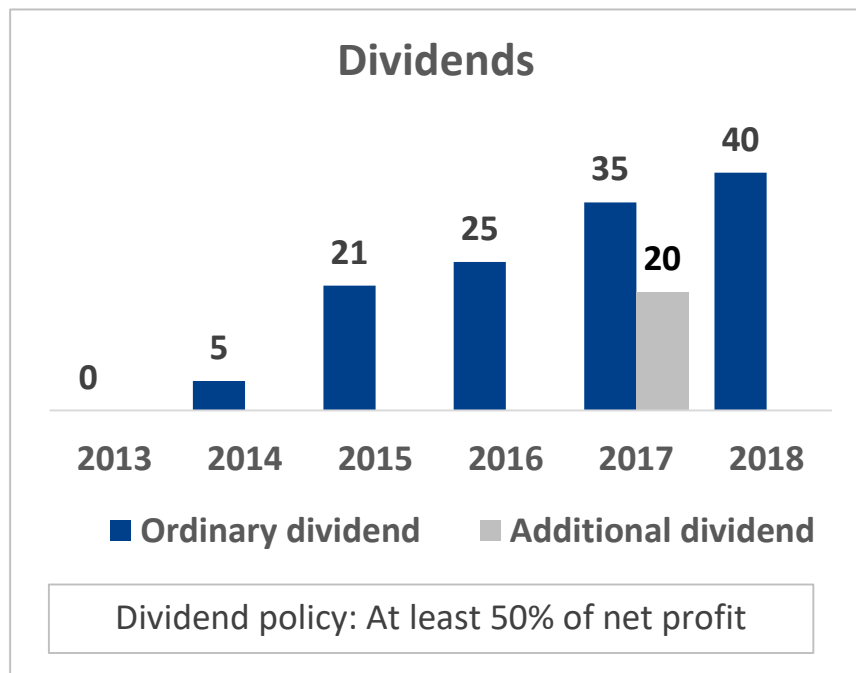
\* Excluding one-offs

## 2019 guidance

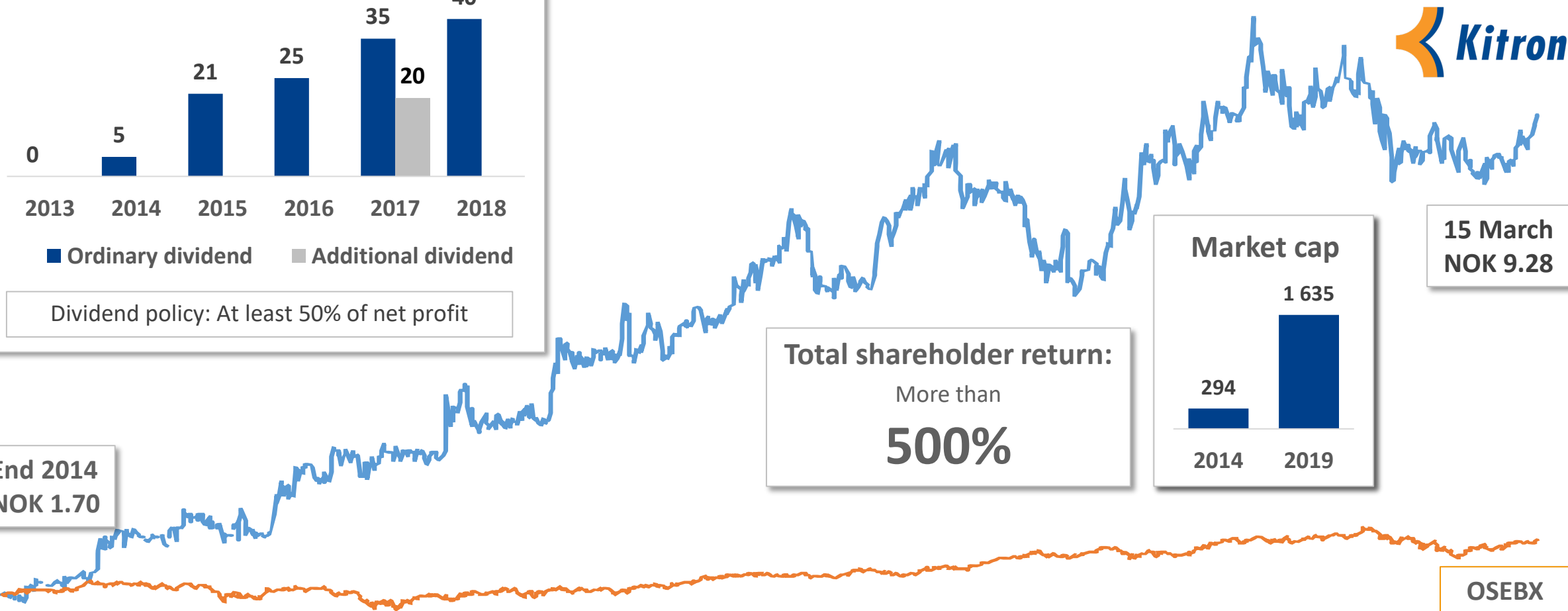
Revenue NOK 2 900 to 3 200 million

EBIT margin 6.2 to 6.6%

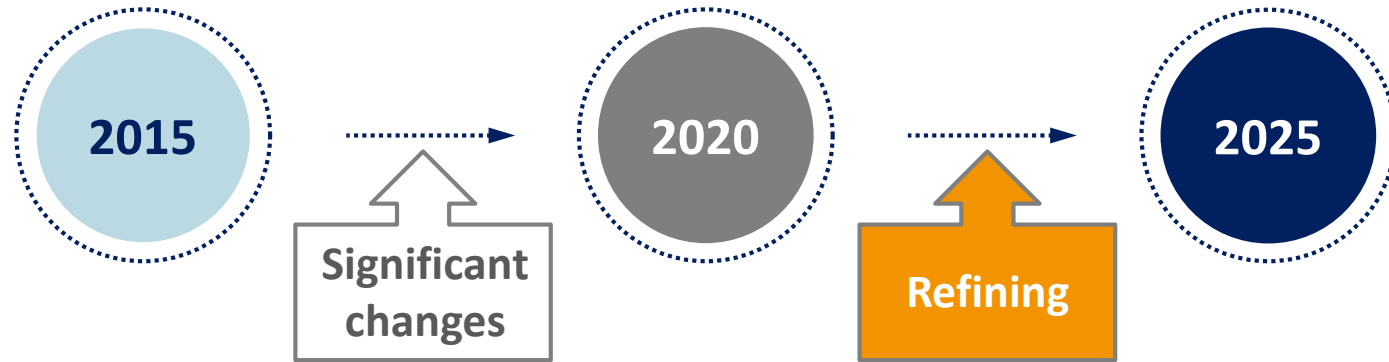
# We have created shareholder value



End 2014  
NOK 1.70



# 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

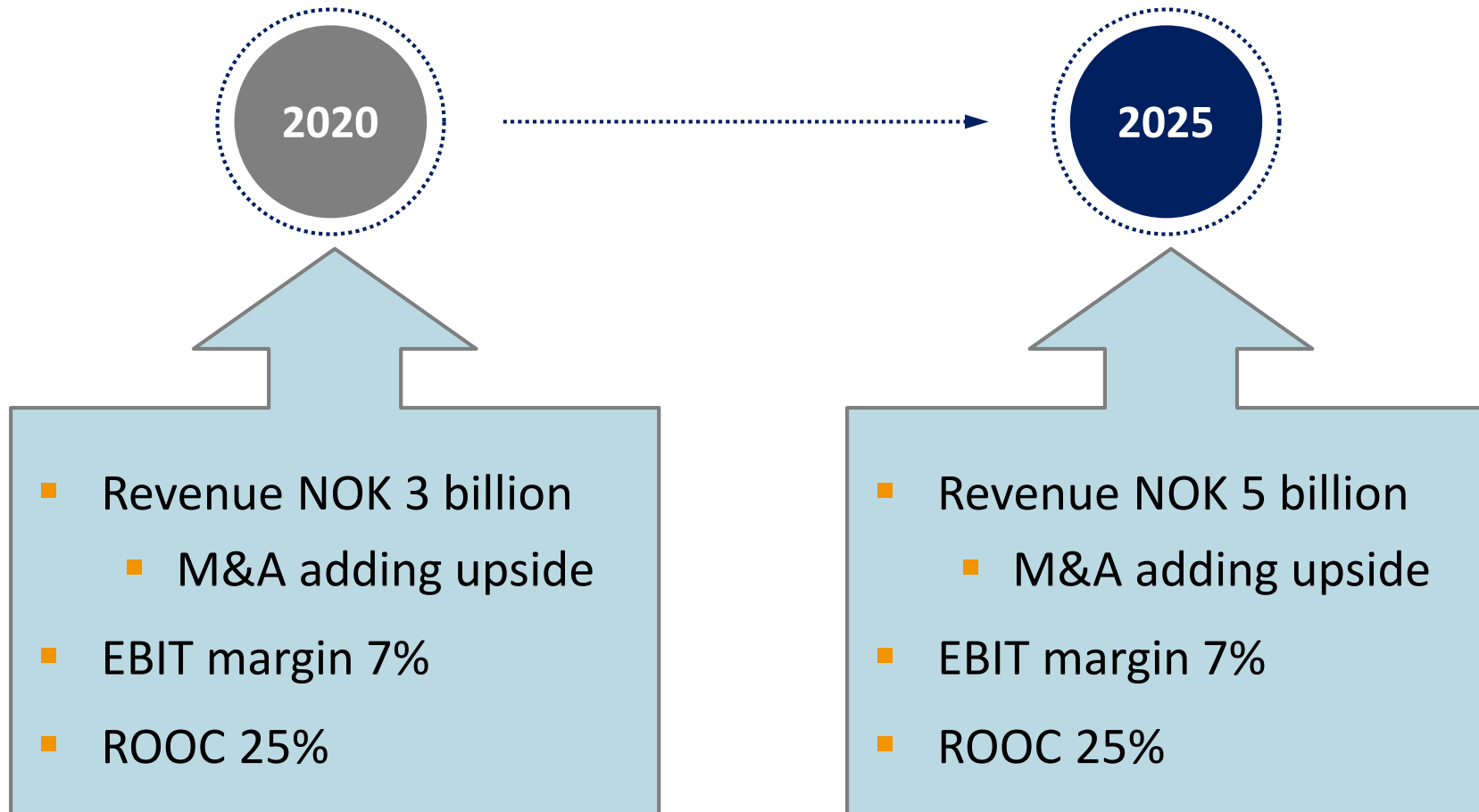
- Capacity expansion
- Operational excellence
- Competence roadmap
- Digitalization
- Technical roadmap

## M&A

- Value chain expansion
- Entering new geographies
- Existing geographies



# Summary: Main financial ambitions





GROWTH

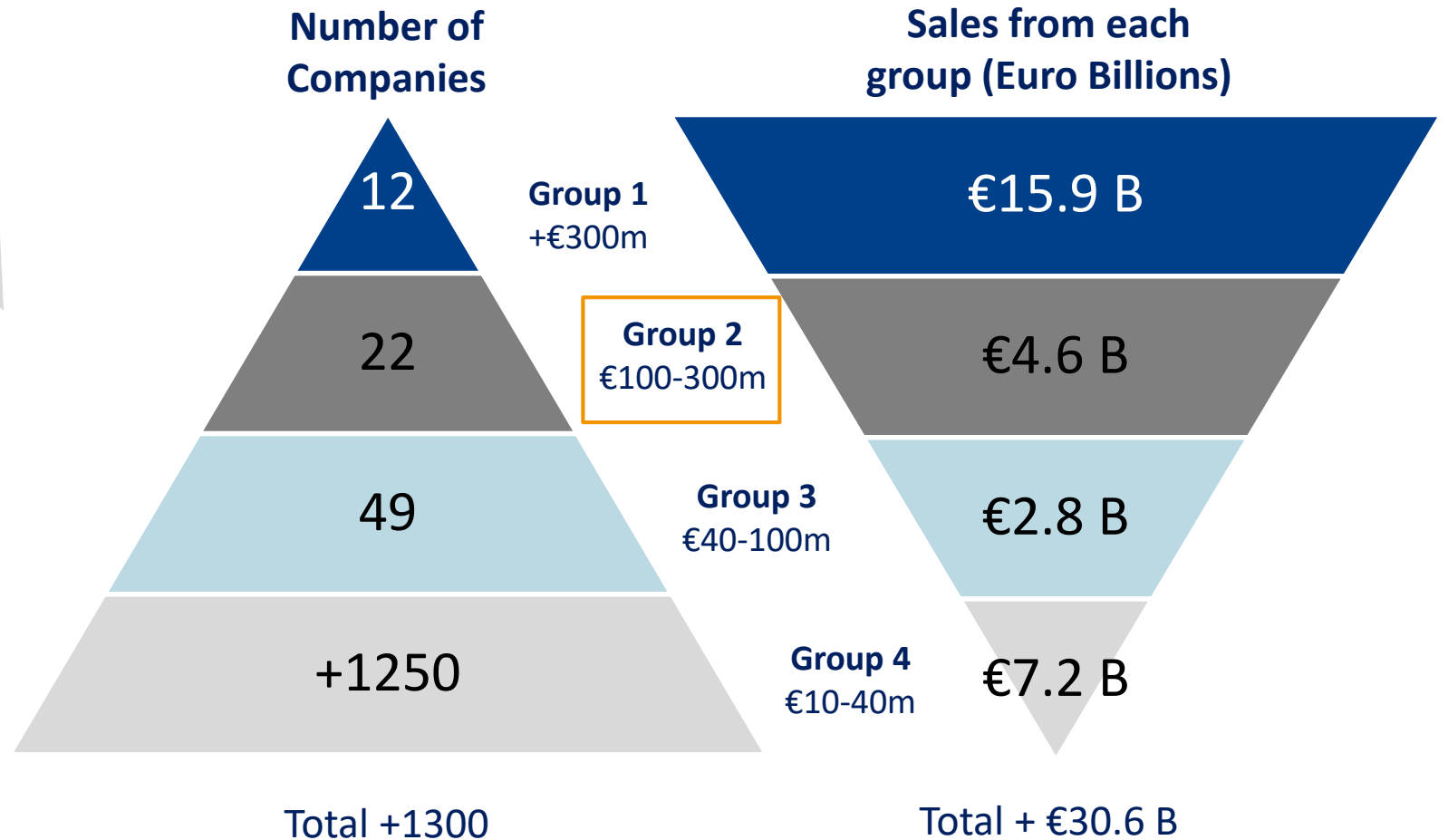
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COO and Sales Director

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# 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



# 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

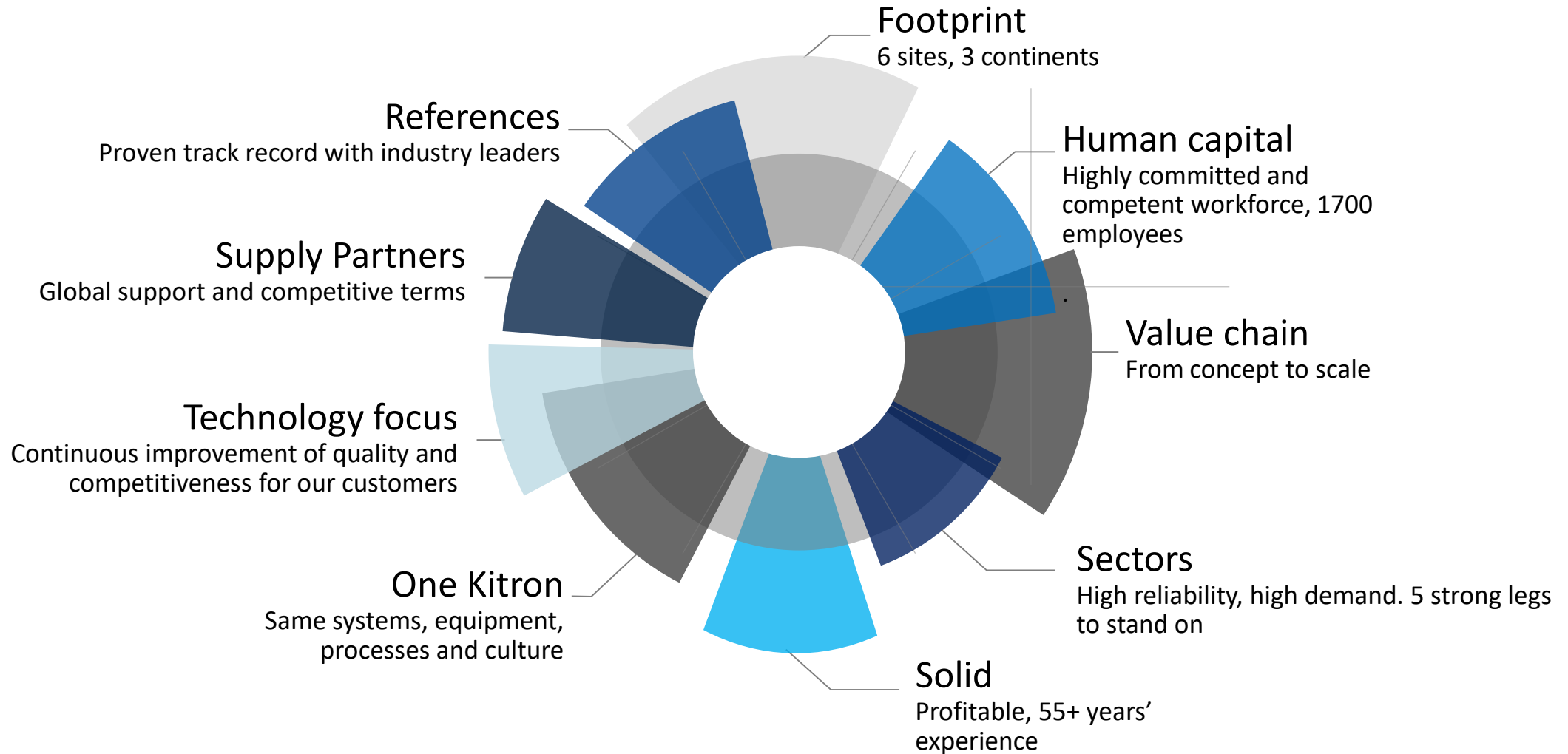


**CUSTOMIZATION**  
More batches, shorter series, more complexity

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

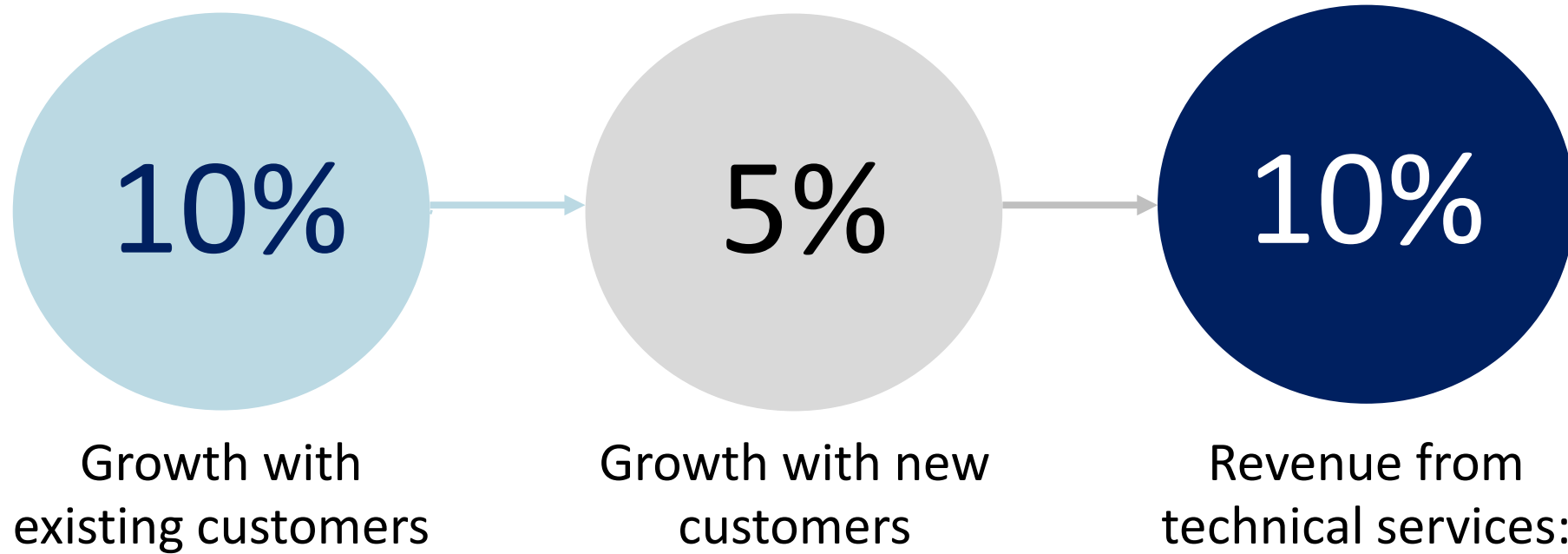
**INCREASED REQUIREMENTS**  
Cyber security, conflict minerals, corporate social responsibility and trade compliance

# Why Kitron...

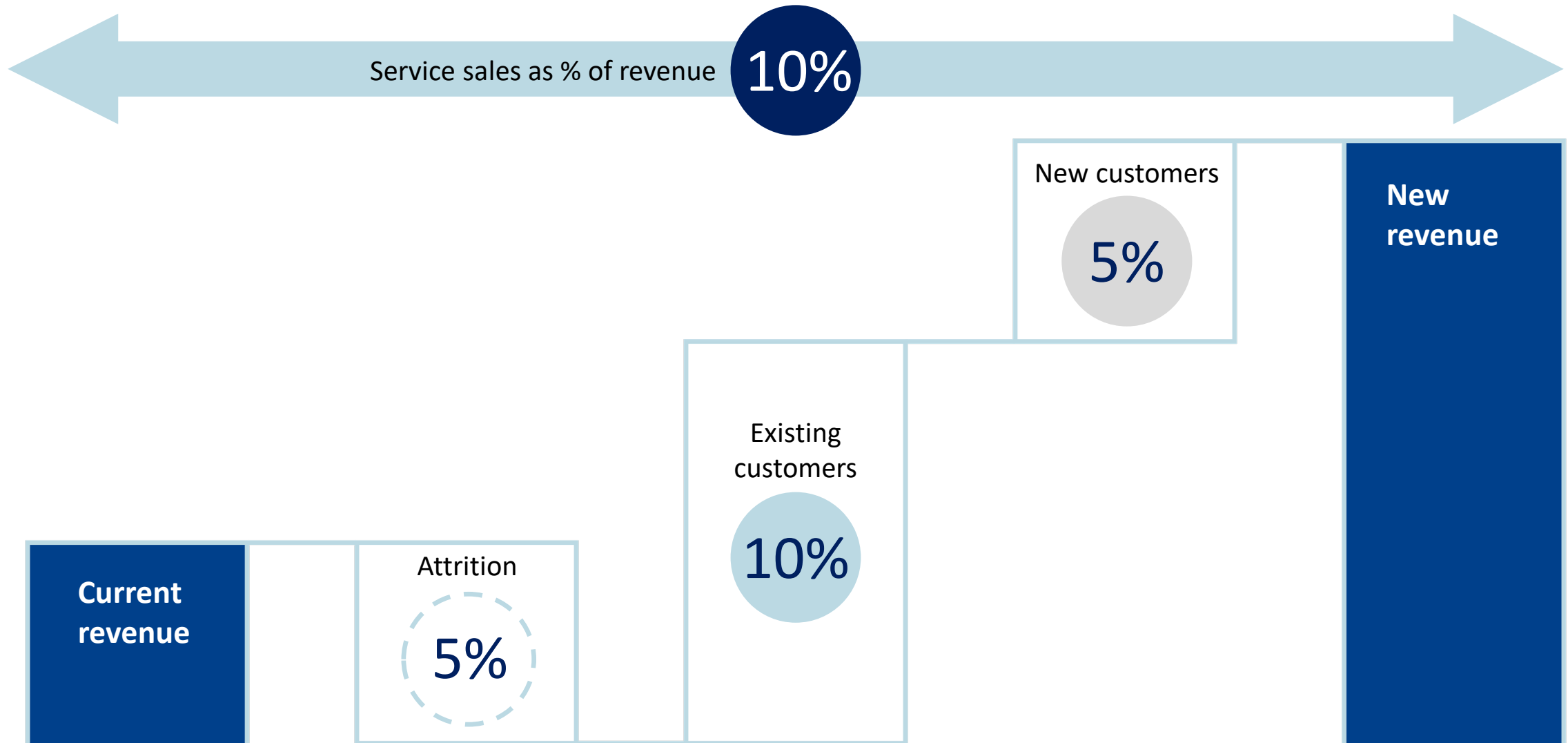




## Summary: Growth strategy



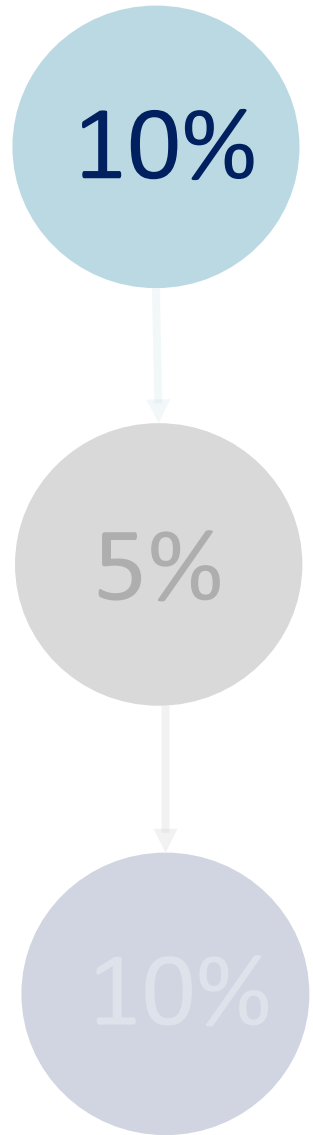
# Kitron Sales Strategy



# Growth with existing customers

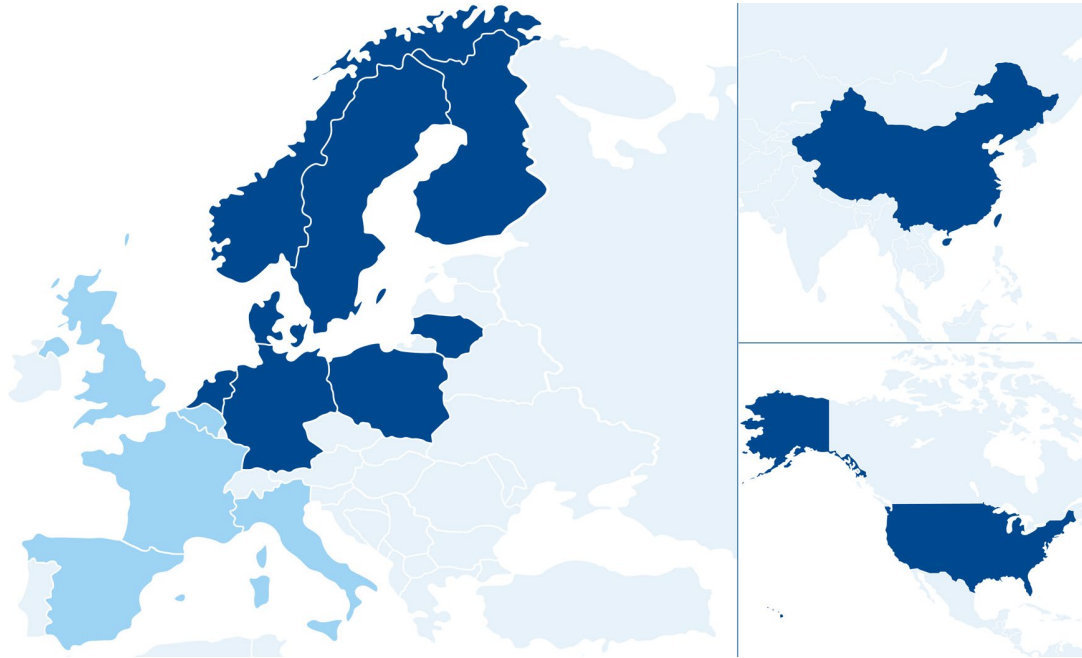
**Existing large customers are market leaders with significant growth opportunities**

- 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

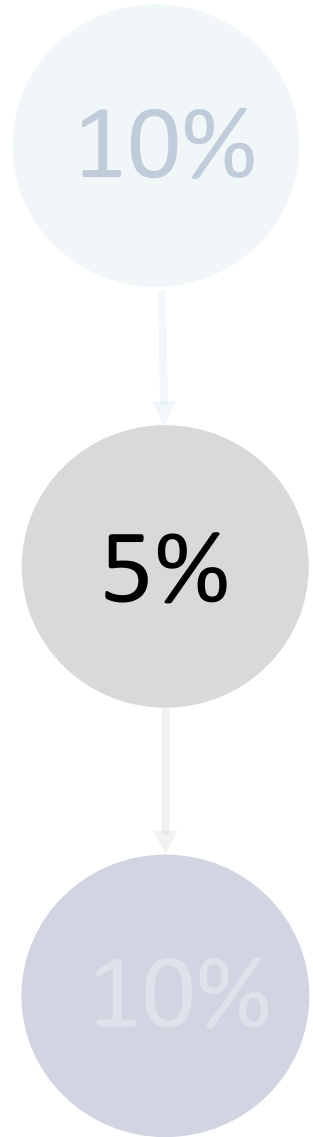


# Growth with new customers

- 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

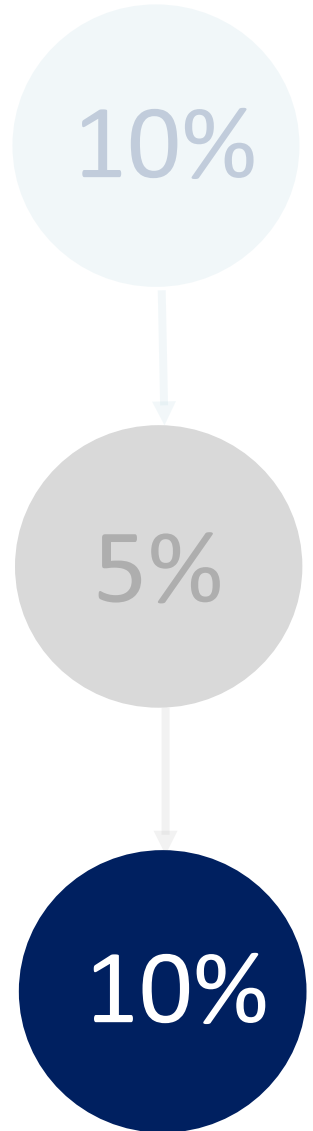


- Priority 1 - Home countries
- Priority 2 – Northern Europe - Finland, Denmark and Netherlands
- Priority 3 - West Europe – Explore new countries (France, Italy, Spain, UK)



# 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**

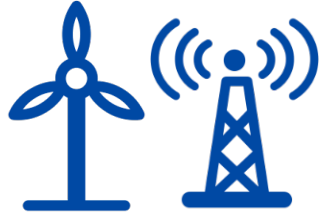




# Our customers: From the bottom of the sea to outer space



# Customers and market sectors



ENERGY/TELECOMS



DEFENCE/AEROSPACE



OFFSHORE/MARINE



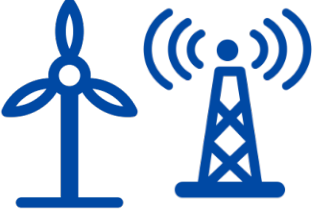




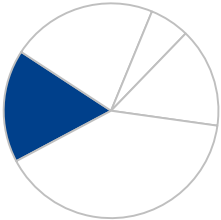
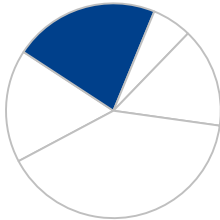
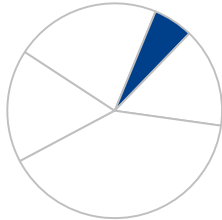
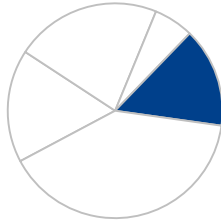
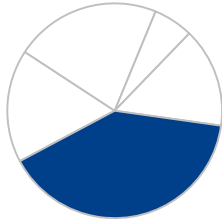
MEDICAL DEVICES



INDUSTRY



# Sectors development

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

# Summary: Growth strategy





# CENTRAL AND EASTERN EUROPE

Mindaugas Sestokas

MD Kitron Lithuania

VP Central Eastern Europe

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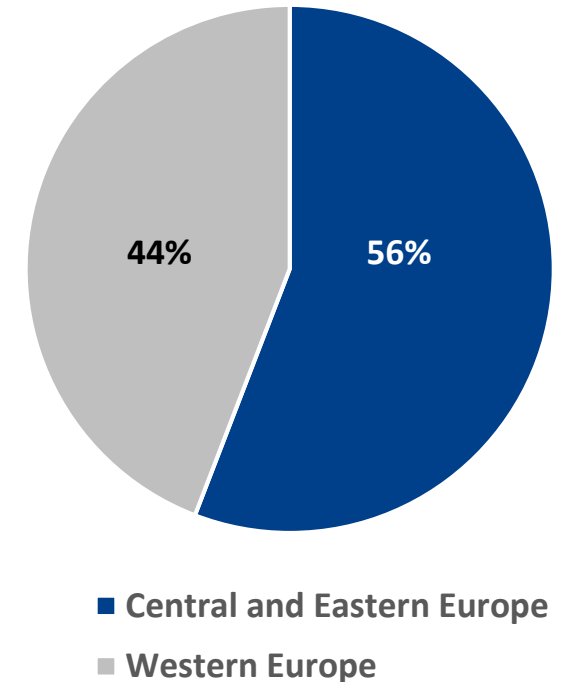




# Central and Eastern European EMS market

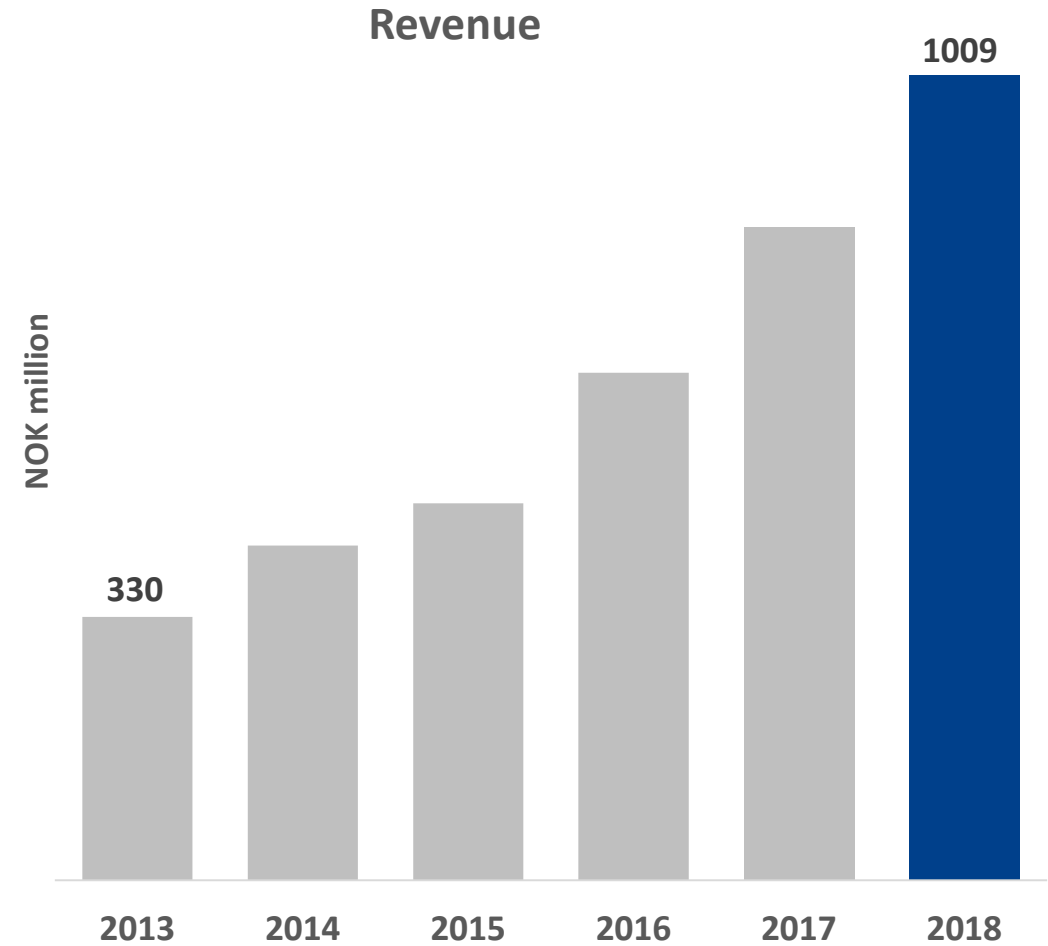
- CEE EMS market has passed Western Europe in size and growth
- Large EMS companies have extensive capabilities in CEE
- Focus on higher-volume products
- Wage levels still substantially below Western Europe
- Some production moved back from Asia
  - Rapid growth of labour costs in Asia
  - Advantage 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+ m<sup>2</sup>
- After planned second phase: up to 15 000 m<sup>2</sup>
- Construction ongoing
- Production expected Q4 2019



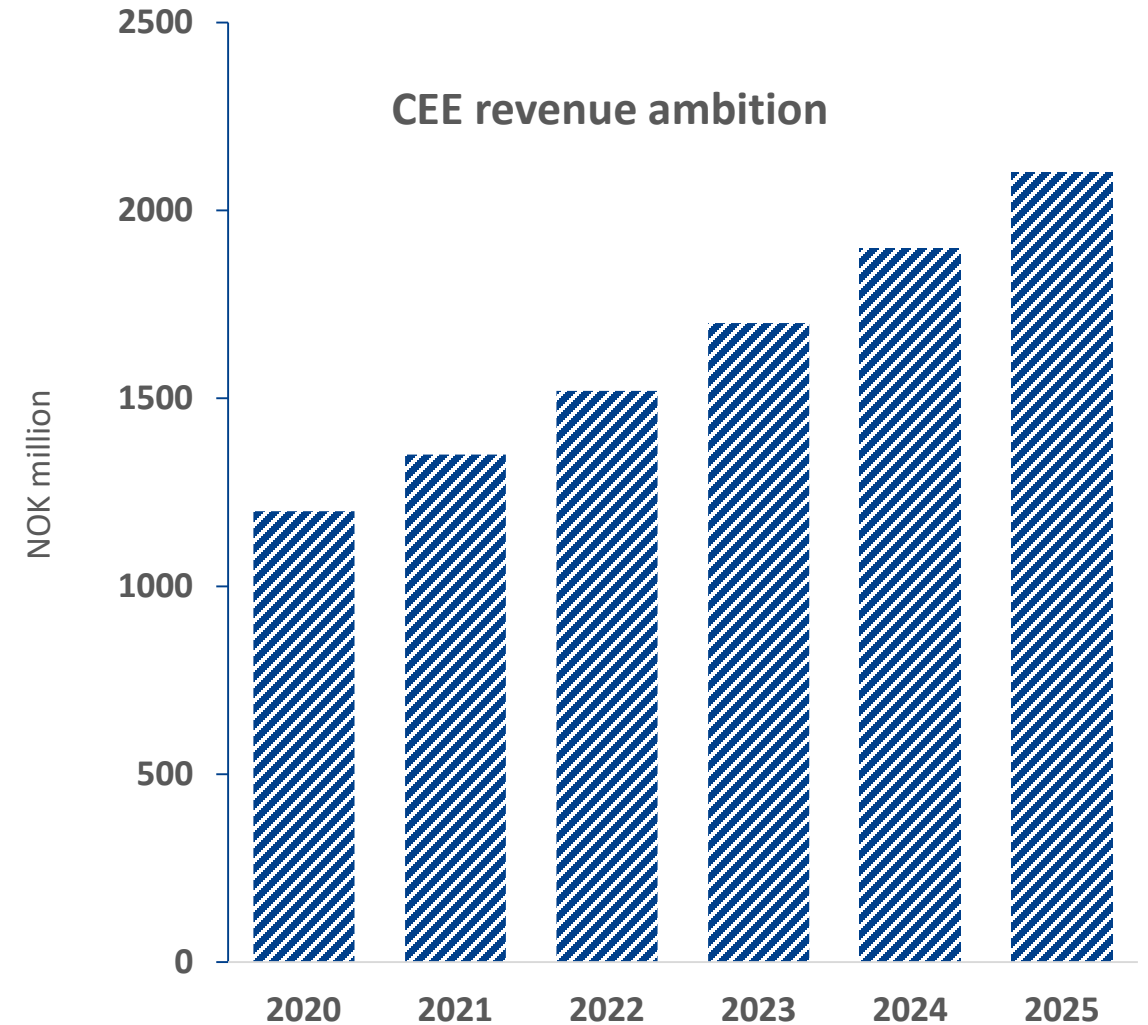
# Strategic rationale

## 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

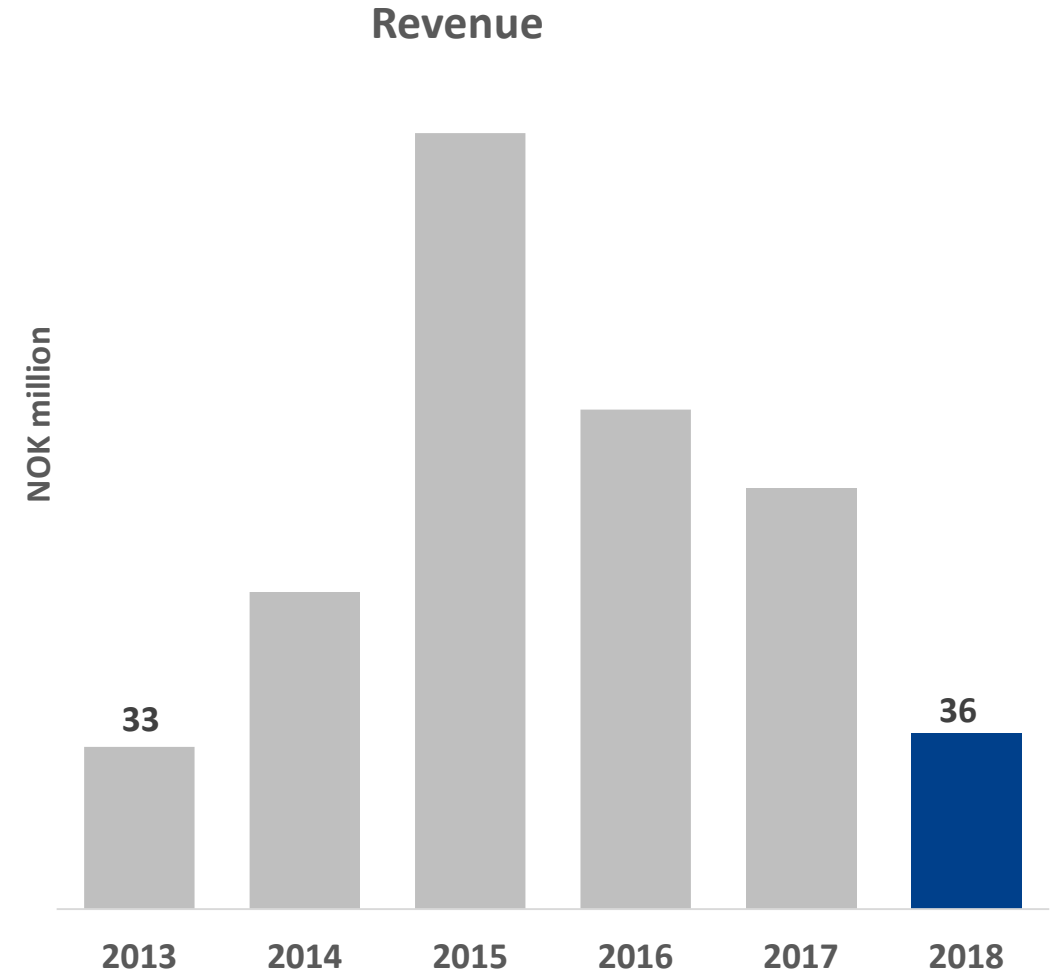
MD Kitron Norway  
VP North America

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# 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





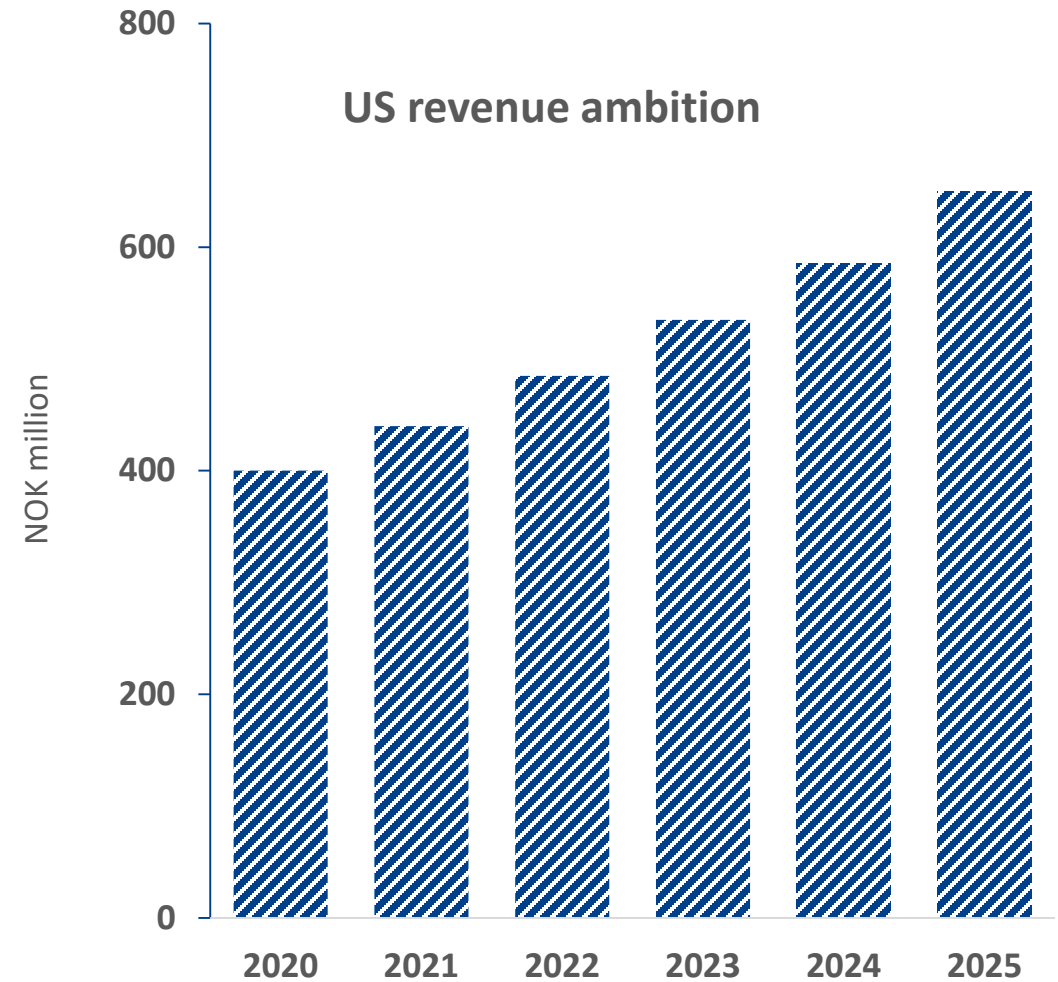
# Strategic rationale

## 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







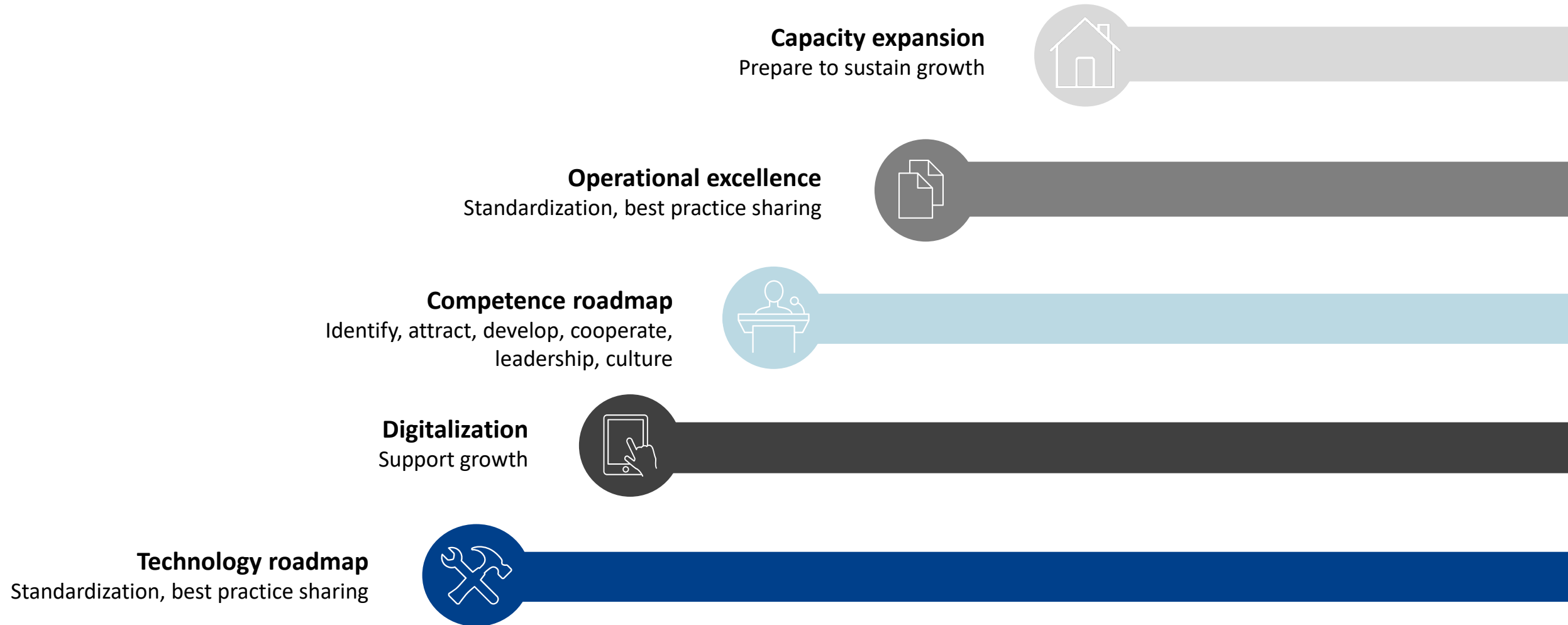
# OPERATIONS

Israel Losada Salvador  
COO and Sales Director

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# Main operational themes for Kitron towards 2025



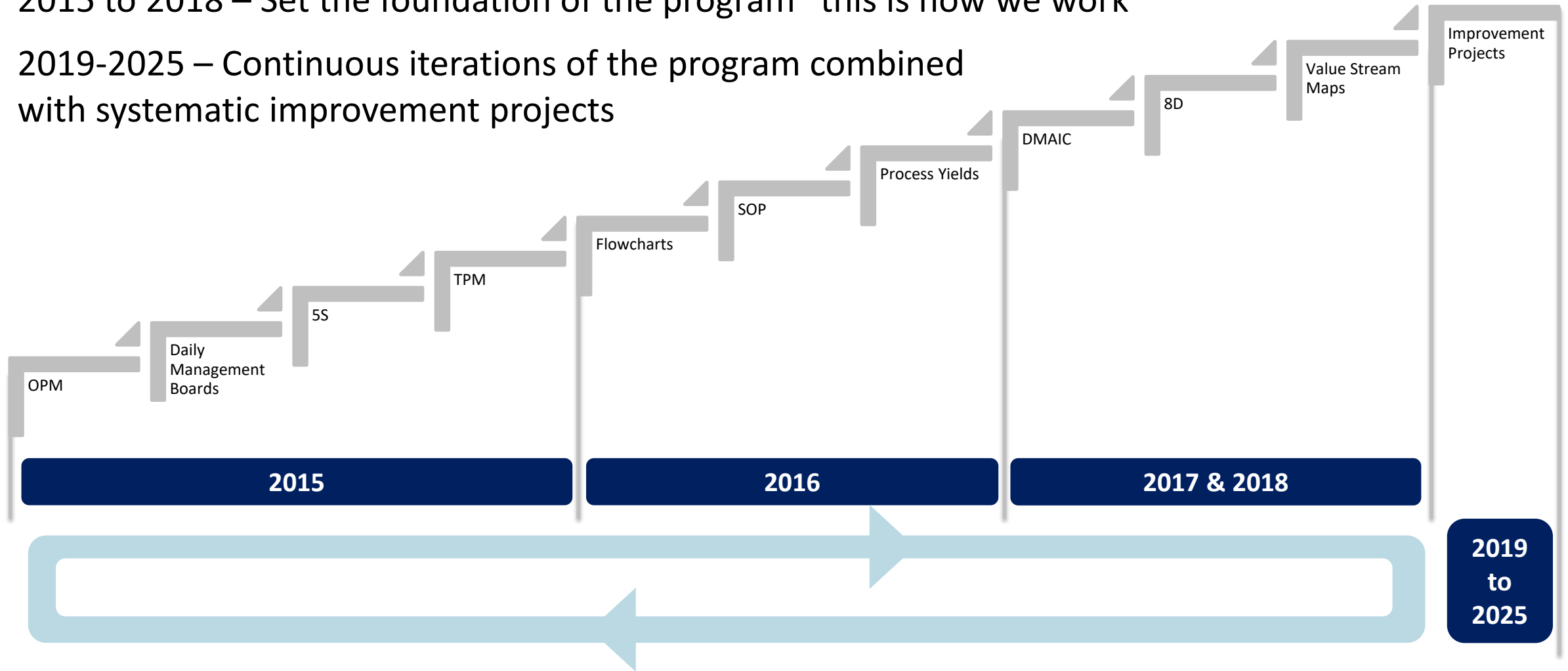
# Capacity expansion towards 2025



- 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

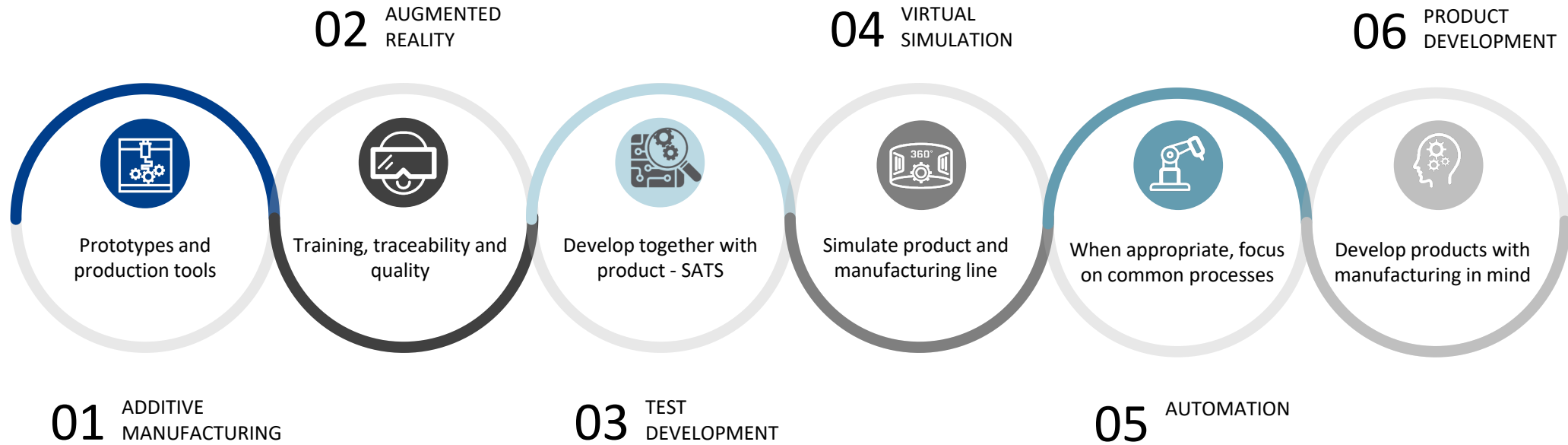


# What does the Kitron factory of 2025 look like?

- 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



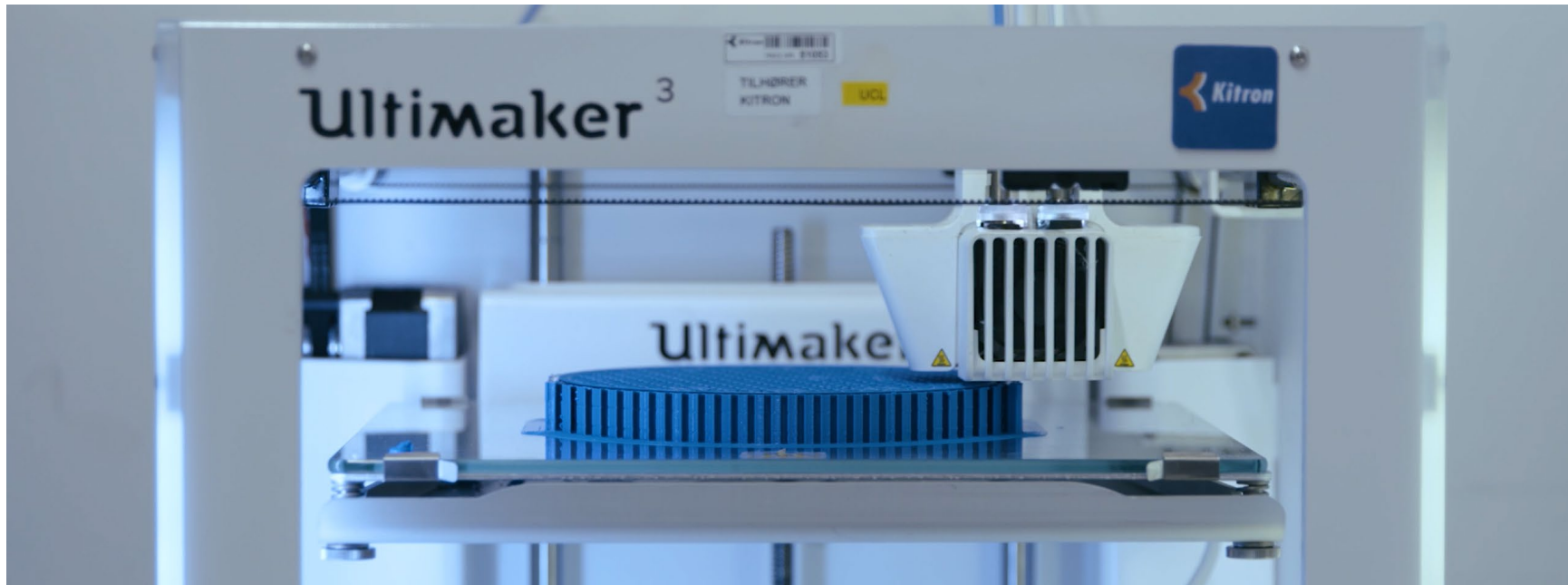
# Technology roadmap



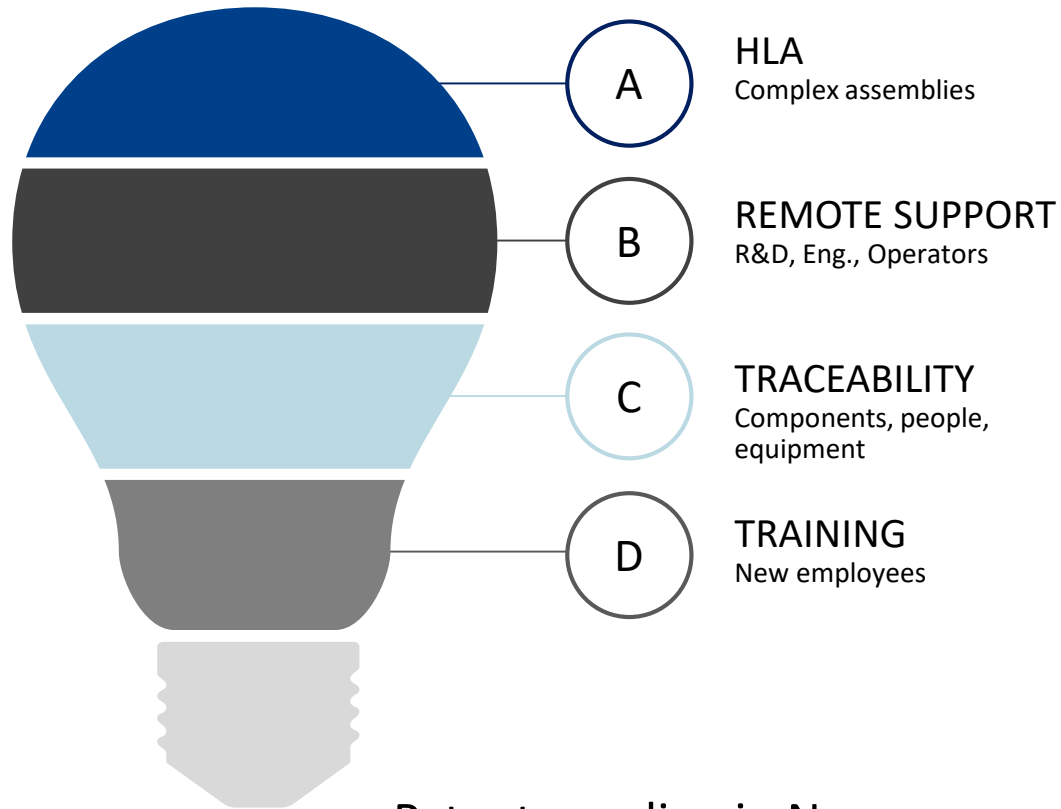


# Additive Manufacturing

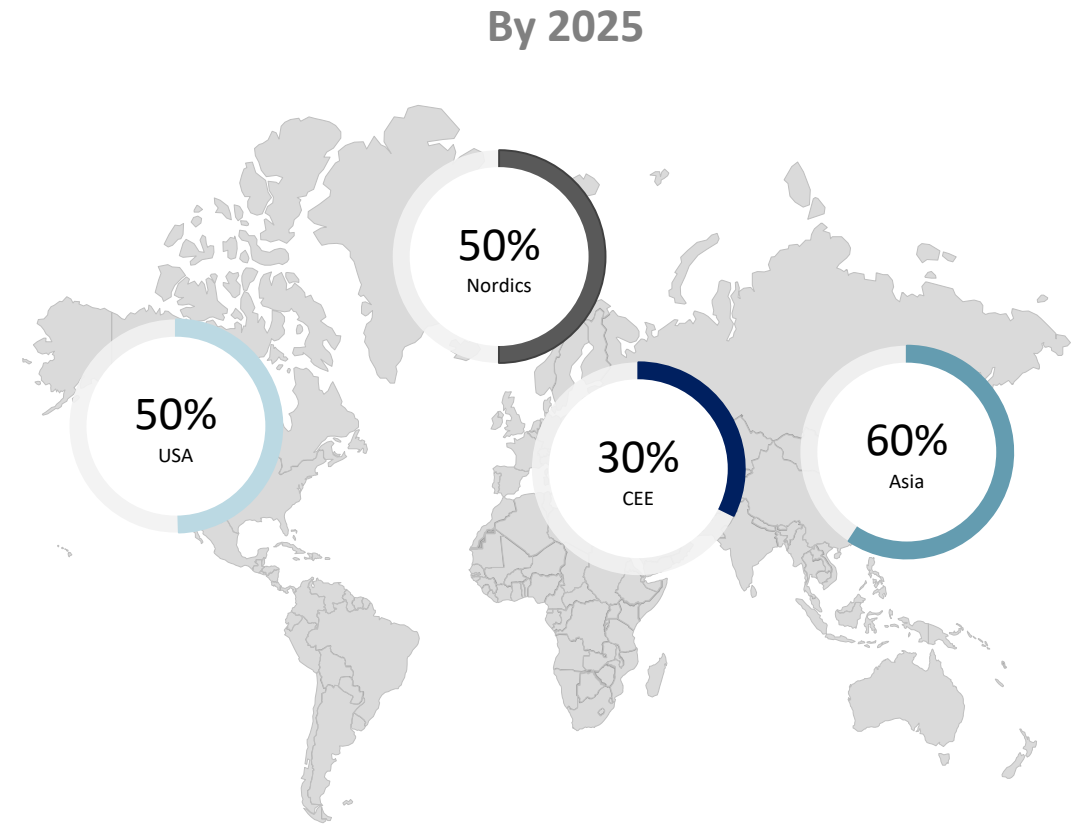
- Increasingly used in mainstream manufacturing. Available at most Kitron's sites
  - Prototypes – reduce time to market and development costs
  - Manufacture our own production equipment – customize our lines



# Augmented Reality



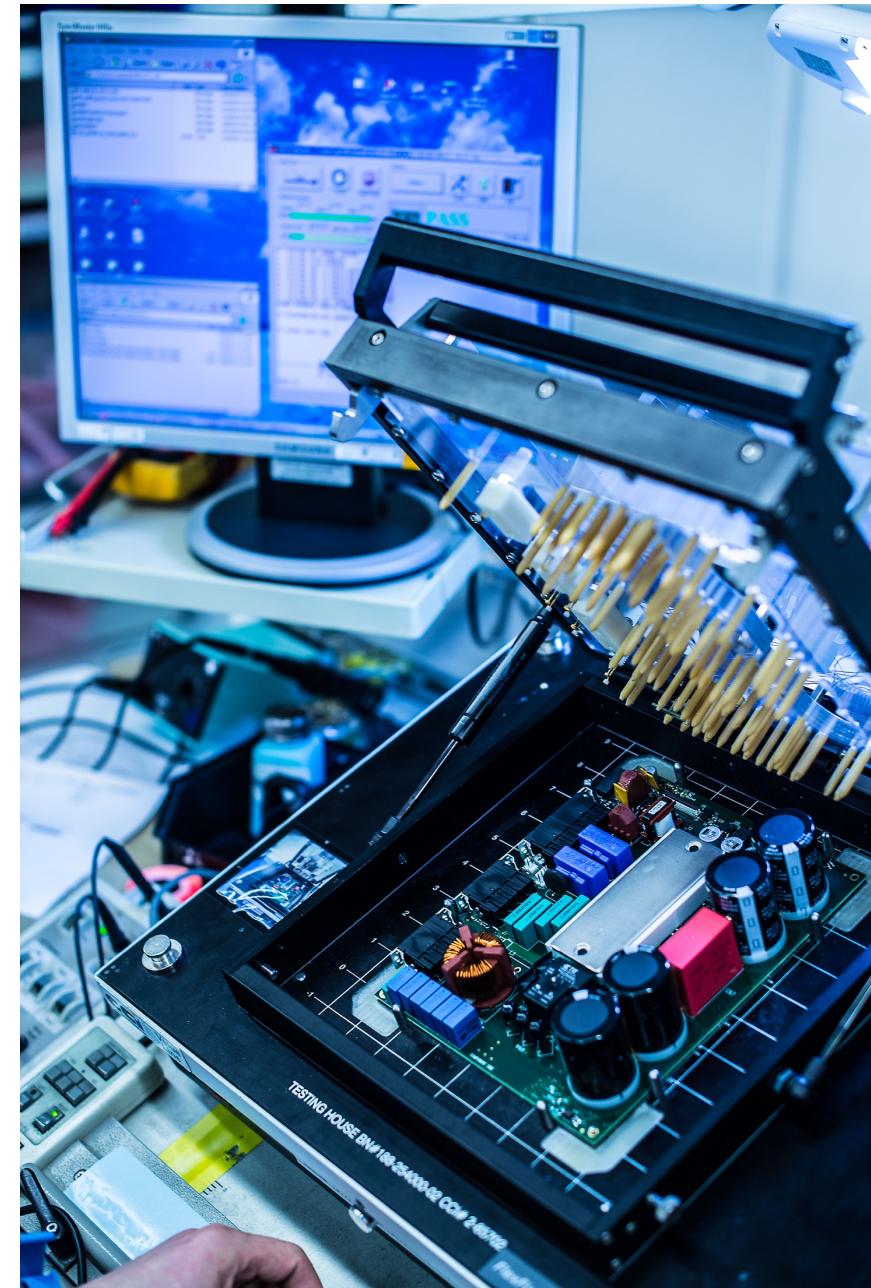
Patent pending in Norway and in process of applying for international patent



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



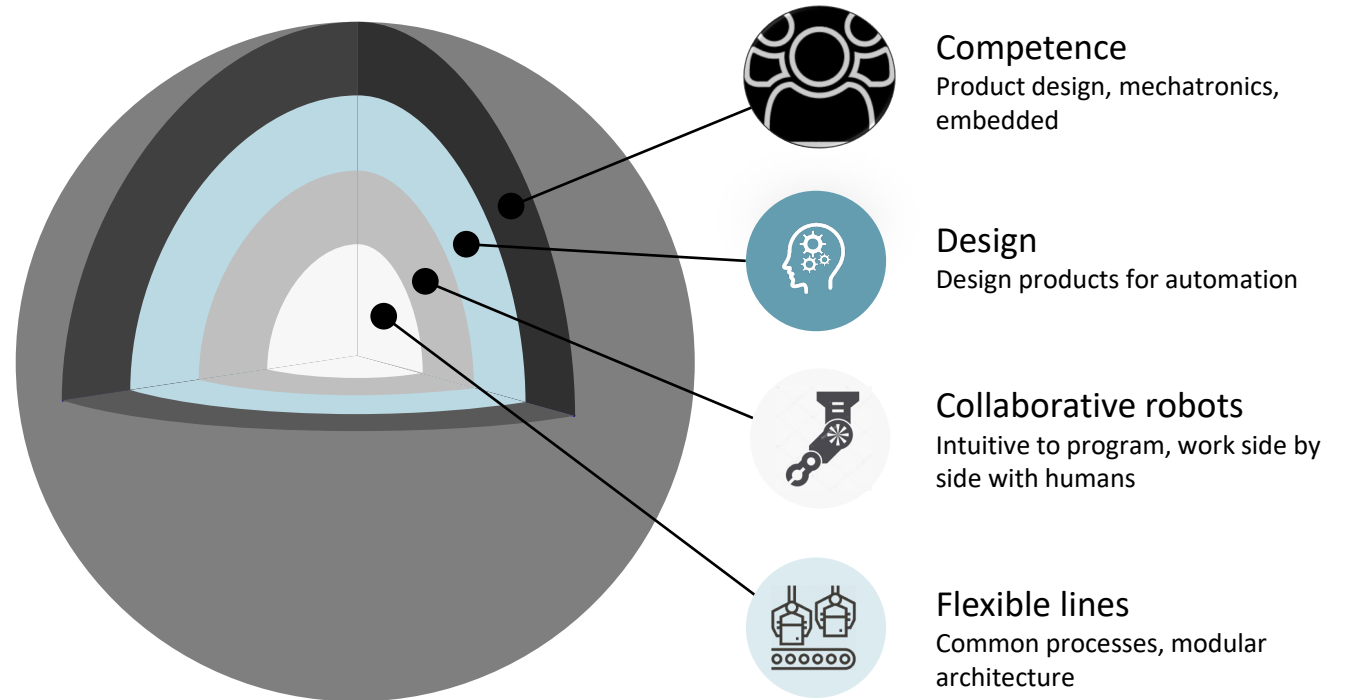
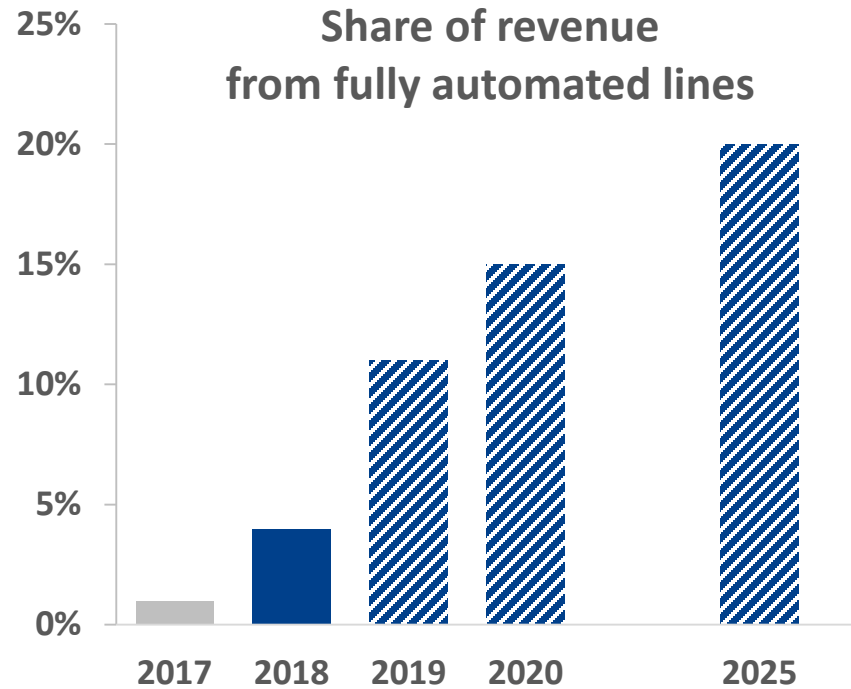
# Virtual Simulation

- 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

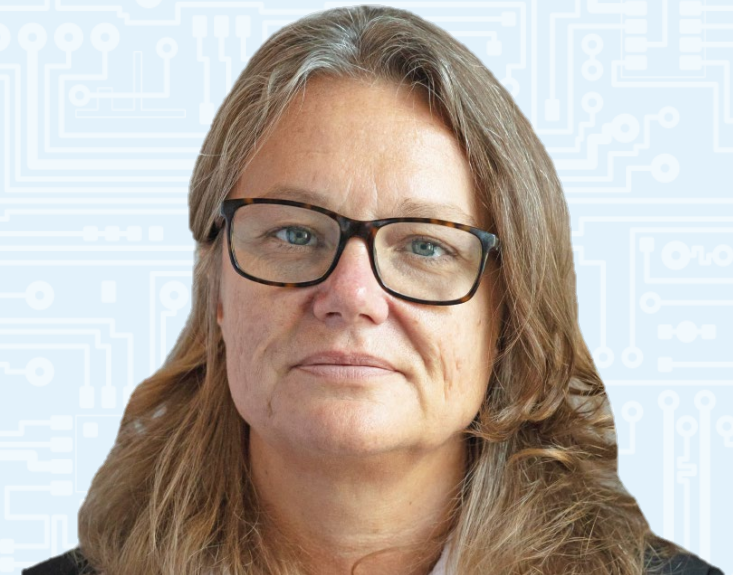
- Ongoing operational excellence initiatives continue
- Expanding capacity through construction and M&A
- Human resources initiatives key to competitive advantage
- Digitalization and technology to increase efficiency and quality



M&A

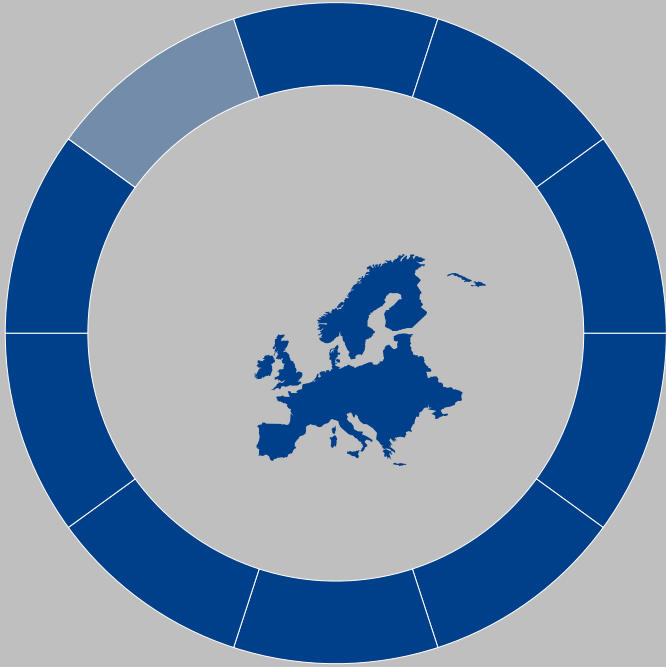
Cathrin Nylander  
CFO and acting CEO

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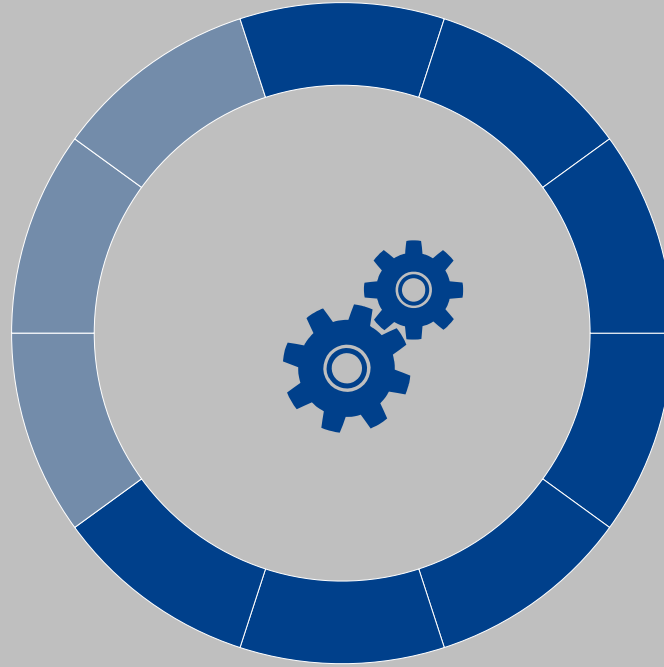




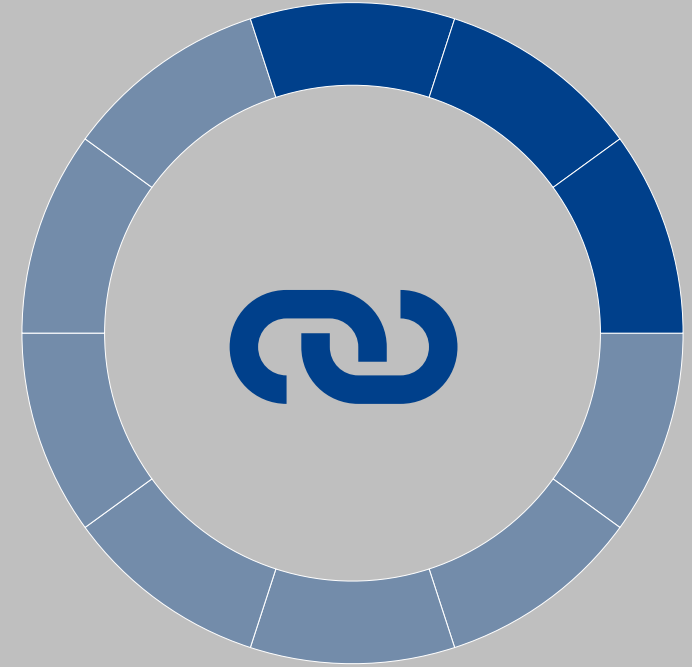
# Exploring M&A along three axes



**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.

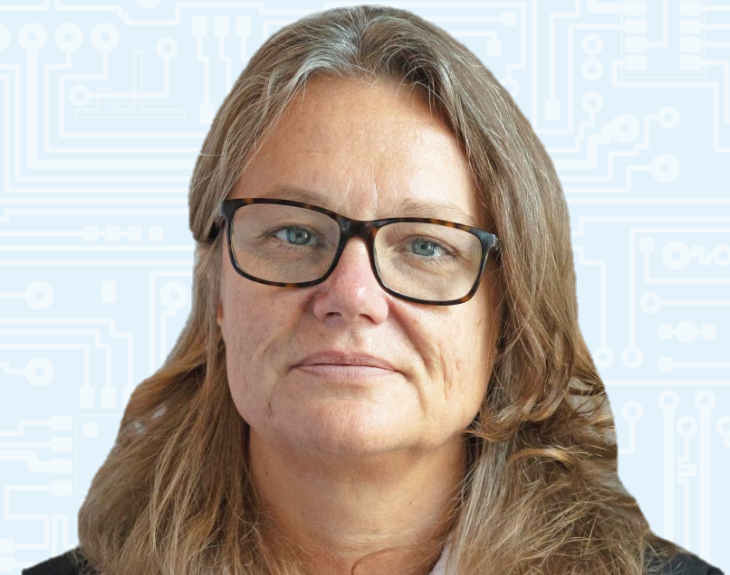
M&A may add upside to 2025 revenues



# FINANCIALS

Cathrin Nylander  
CFO and acting CEO

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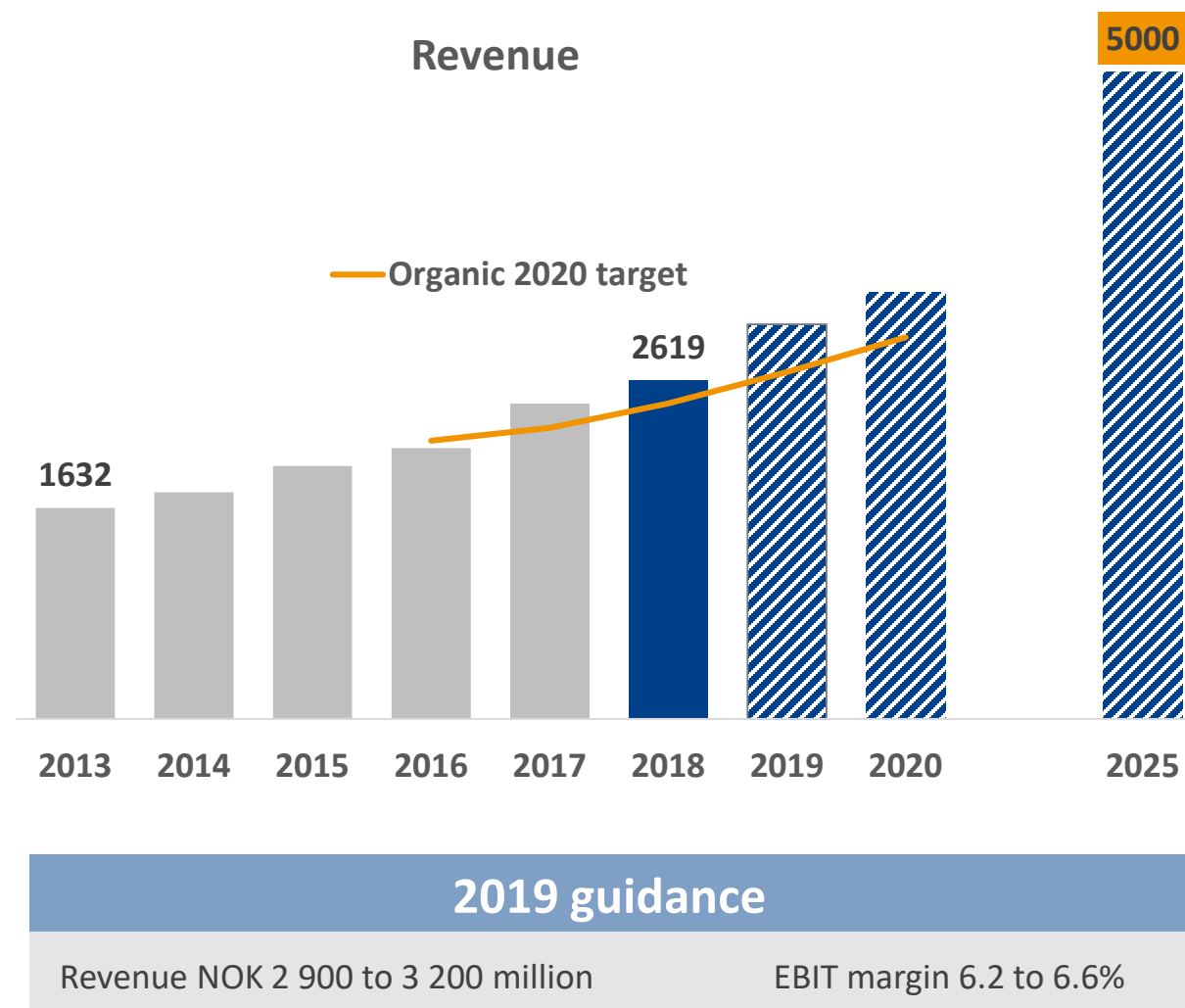
# Growth beyond 2020: “5 in 25”

## 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

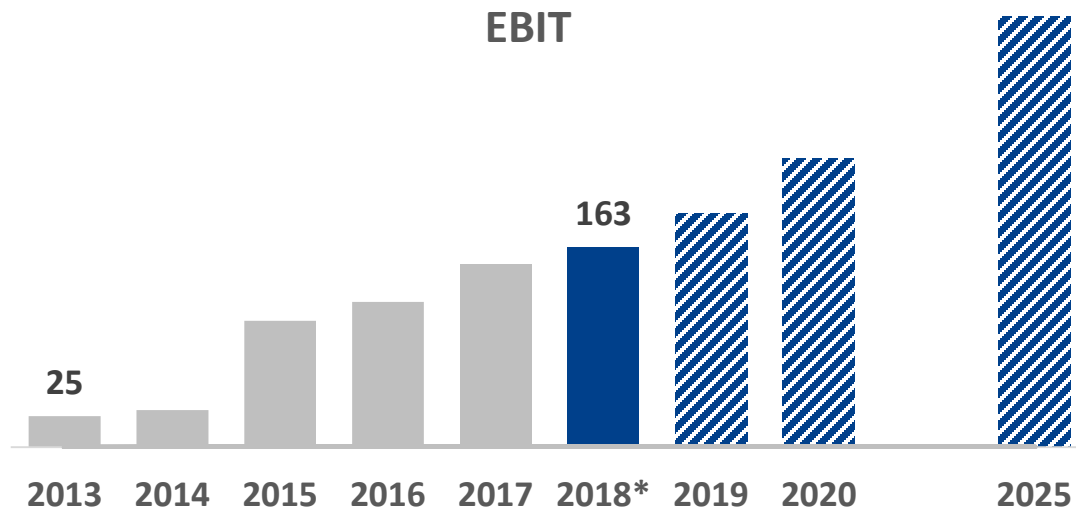
- Organic ambition: NOK 5 billion
- Annual organic trend growth 2020–2025: approximately 10%
- M&A adds potential upside
- Assuming no dramatic macro or currency changes



# EBIT growth continues, margin expected to stabilize

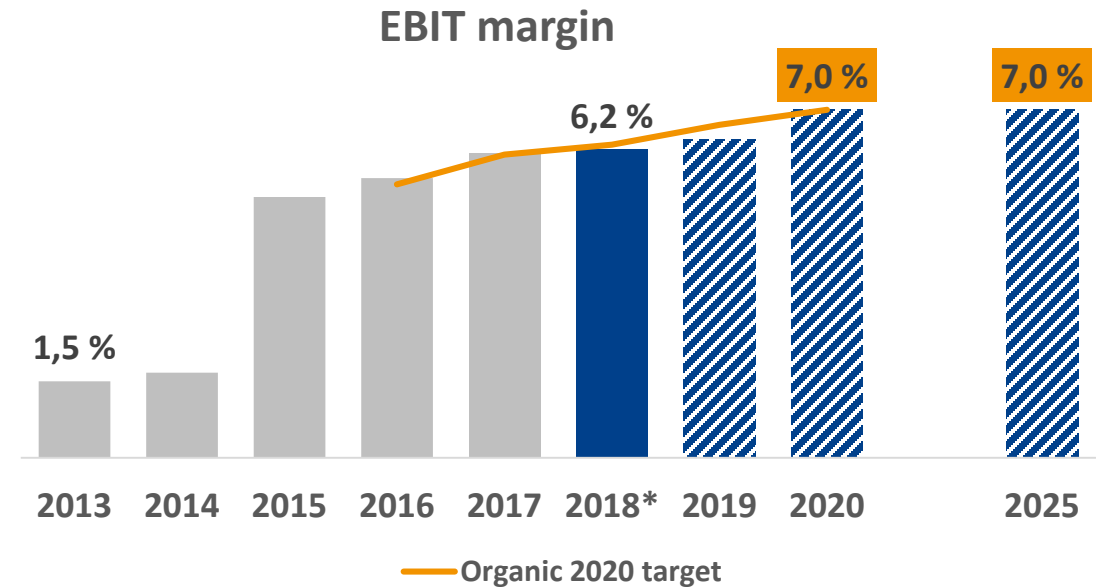
## 2020

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



## 2025

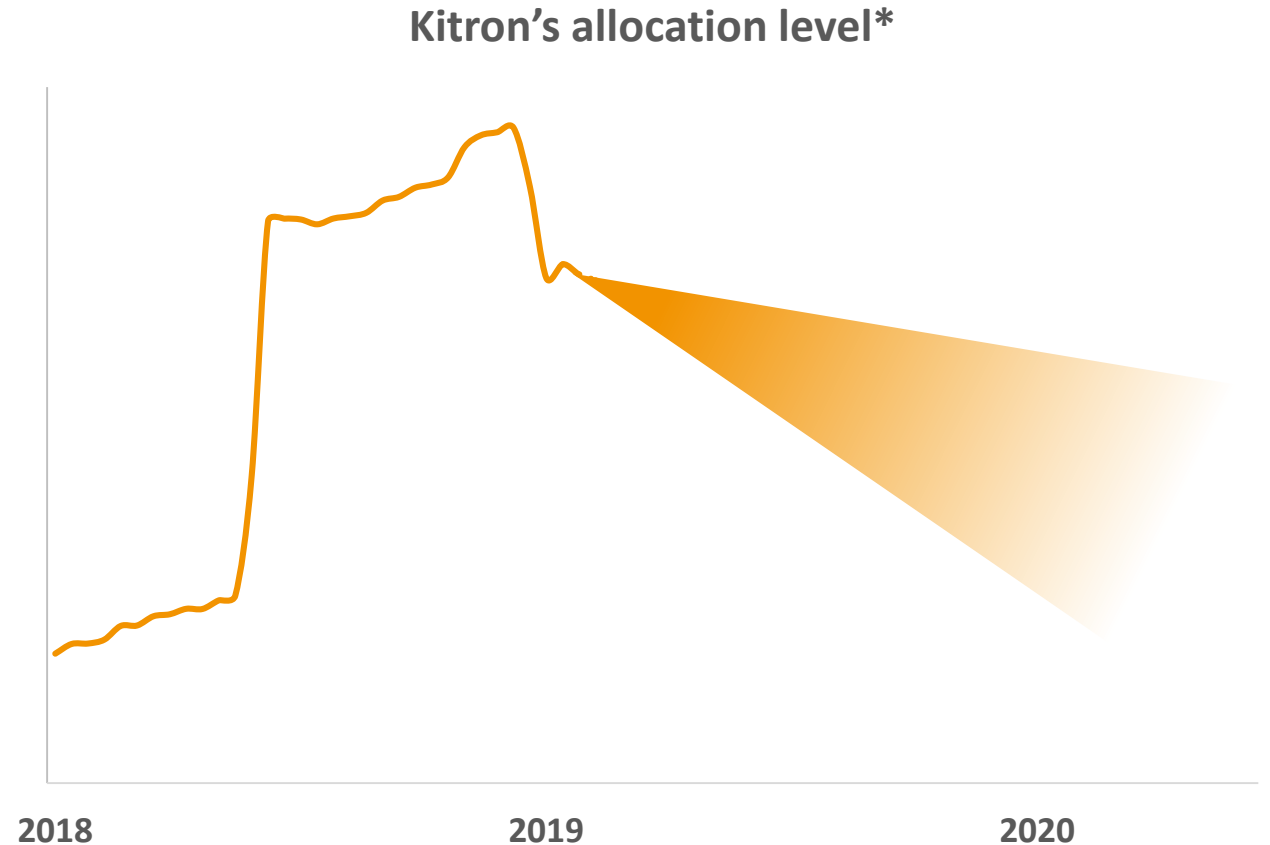
- Target 7% but with an upside ambition
- Acquired businesses or start-ups may temporarily be below margin ambition



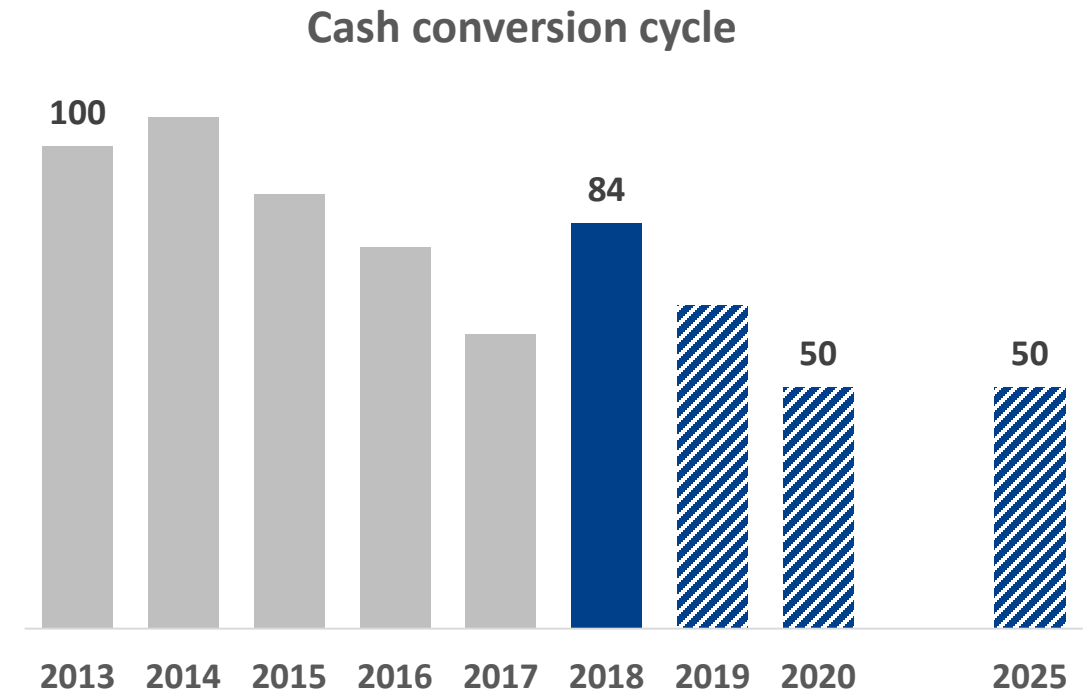
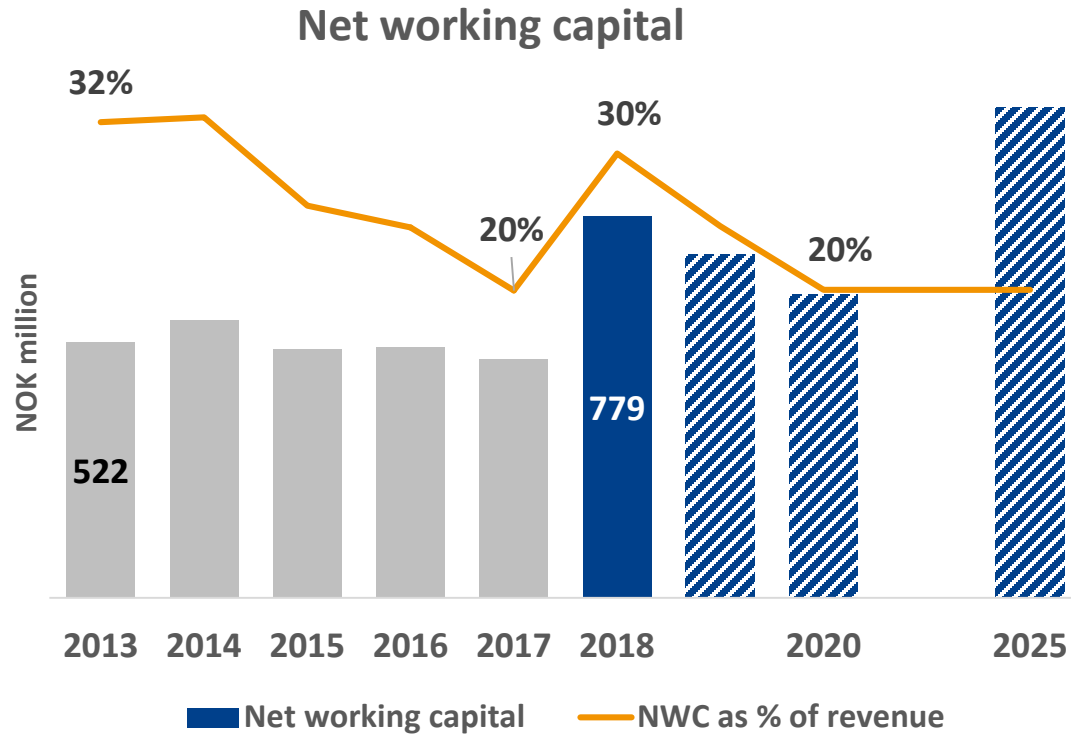


# Component shortages

- 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



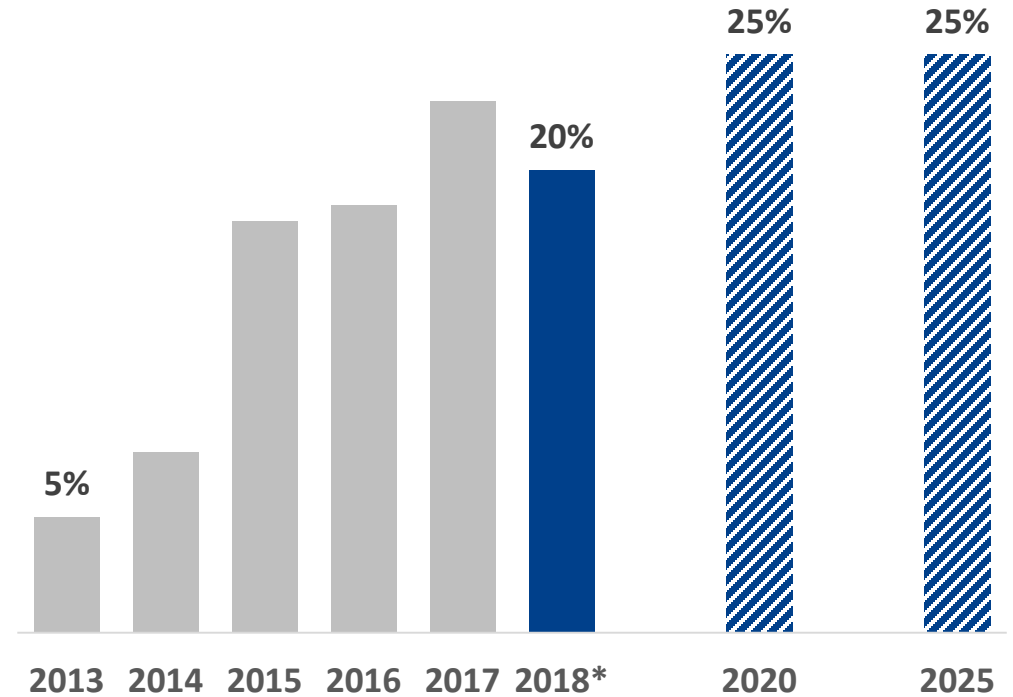
- Target NWC 20% of revenue
- Temporary balance sheet expansion to handle component shortages

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

# Improving return on capital

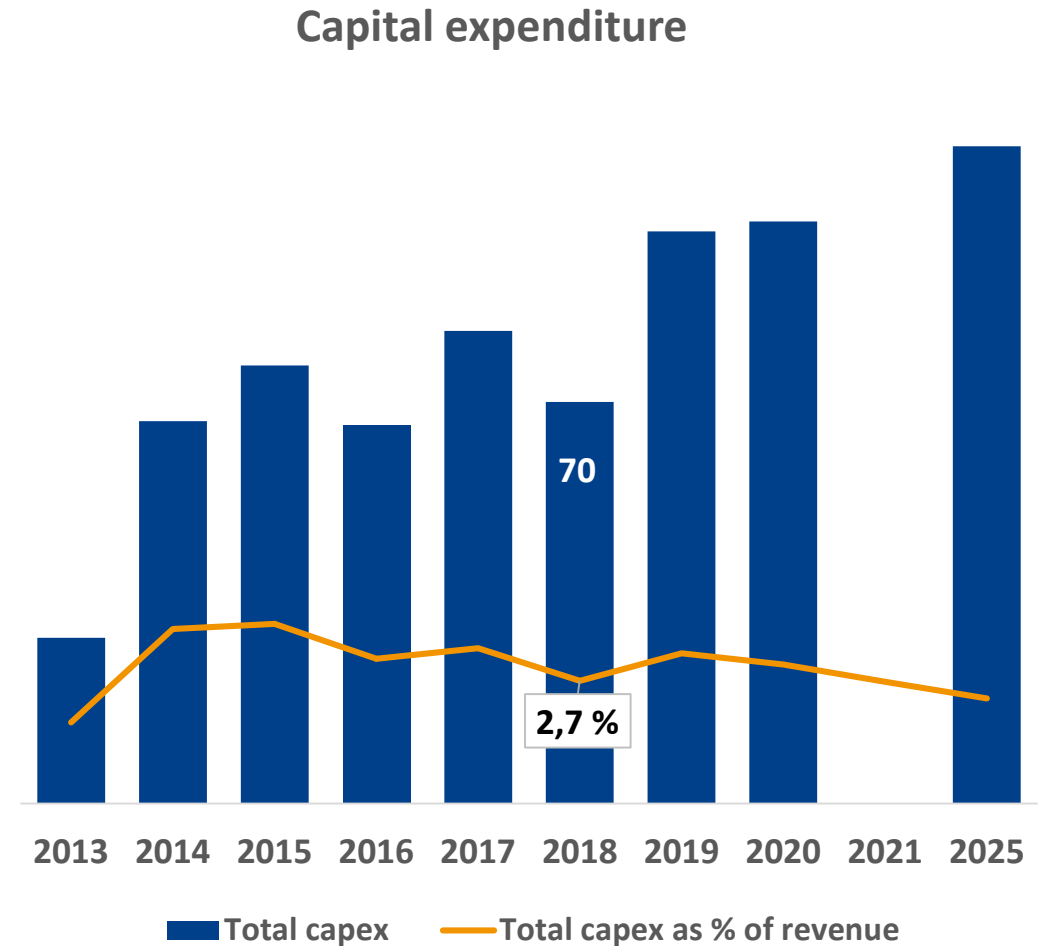
- Higher EBIT, temporary balance sheet expansion
- Improvement expected to continue:
  - Higher profit
  - Capital efficiency
  - Gradual easing of component shortages
- Long-term target 25%

Return on operating capital



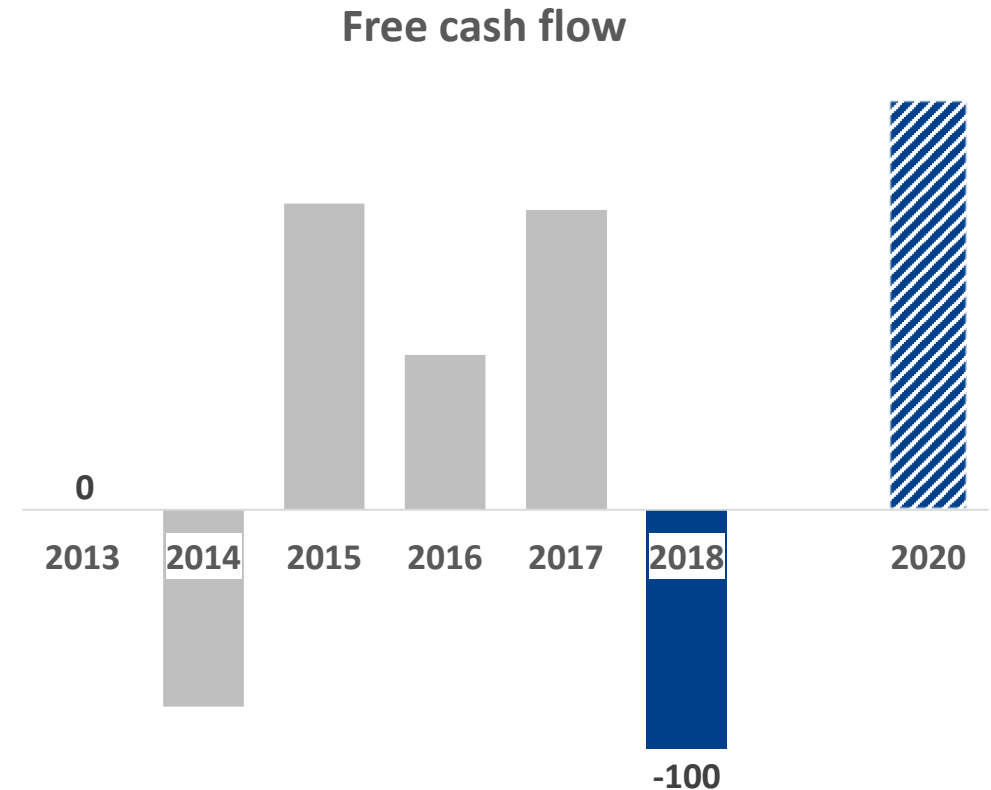
# Stable capex as percentage of revenue

- 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



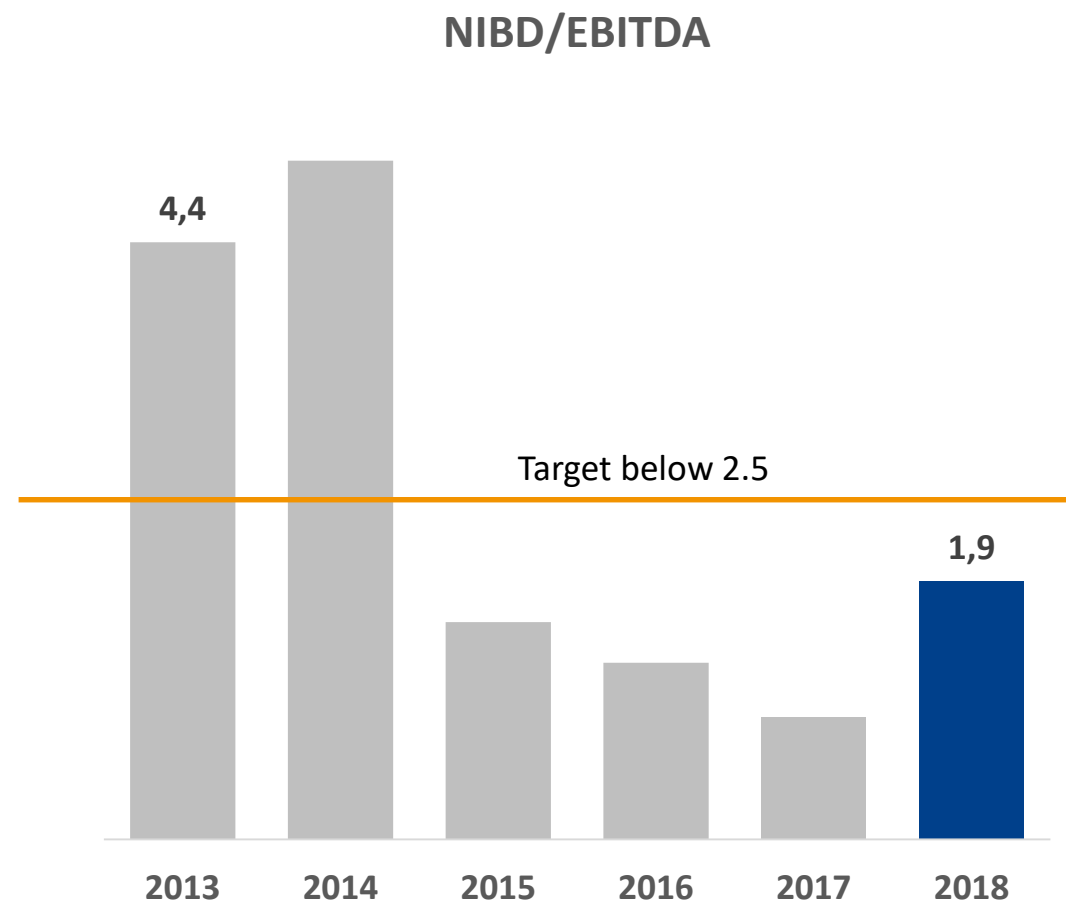
# Free cash flow expected to rebound

- 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



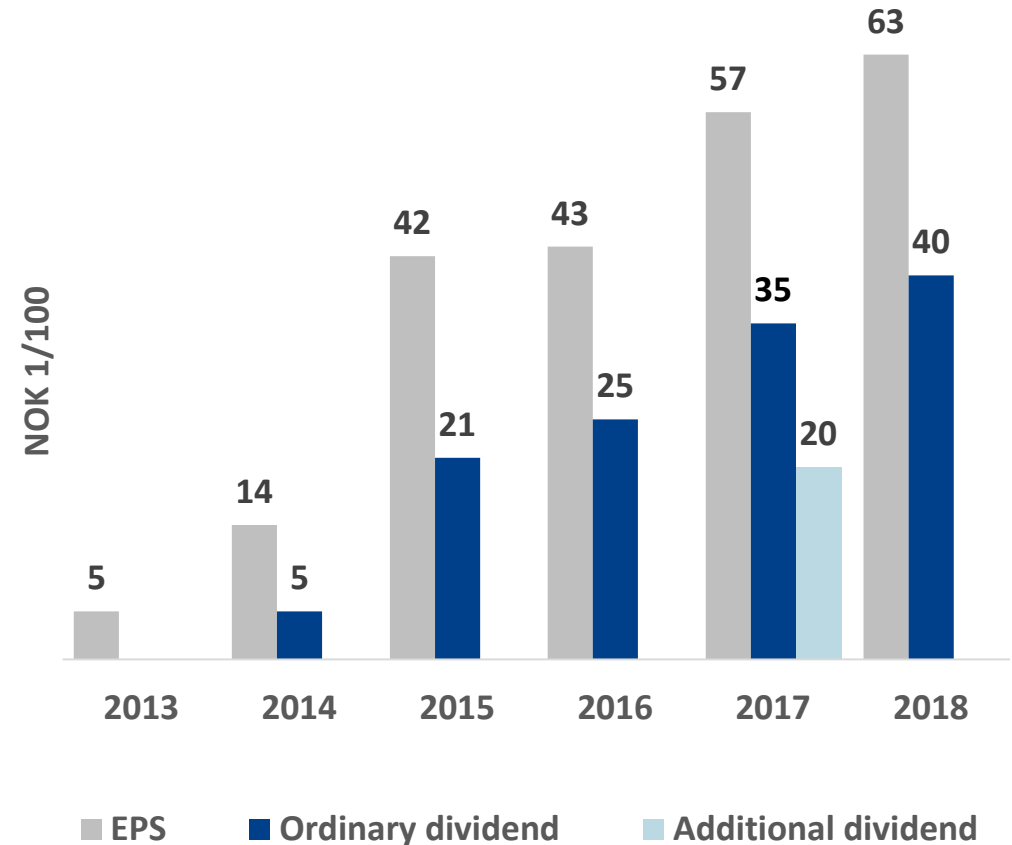


# Strong dividend capacity

- 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

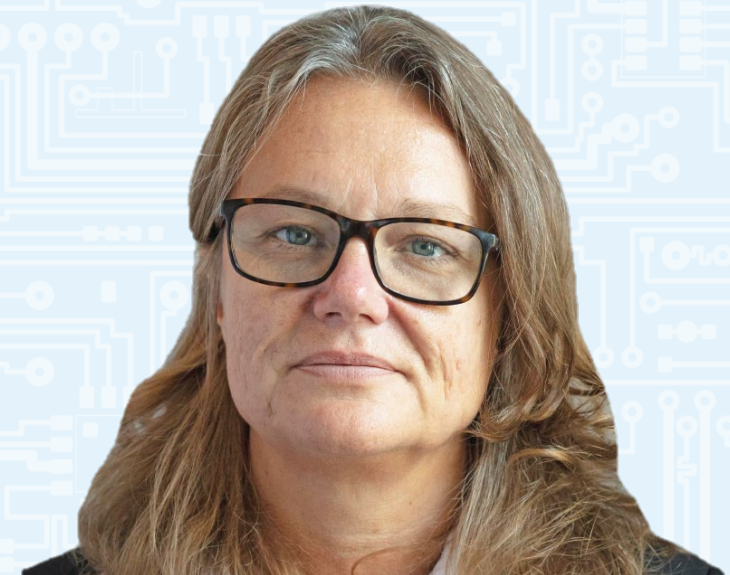
- Revenue NOK 5 billion
  - M&A may add upside
- EBIT margin 7%
- ROOC 25%



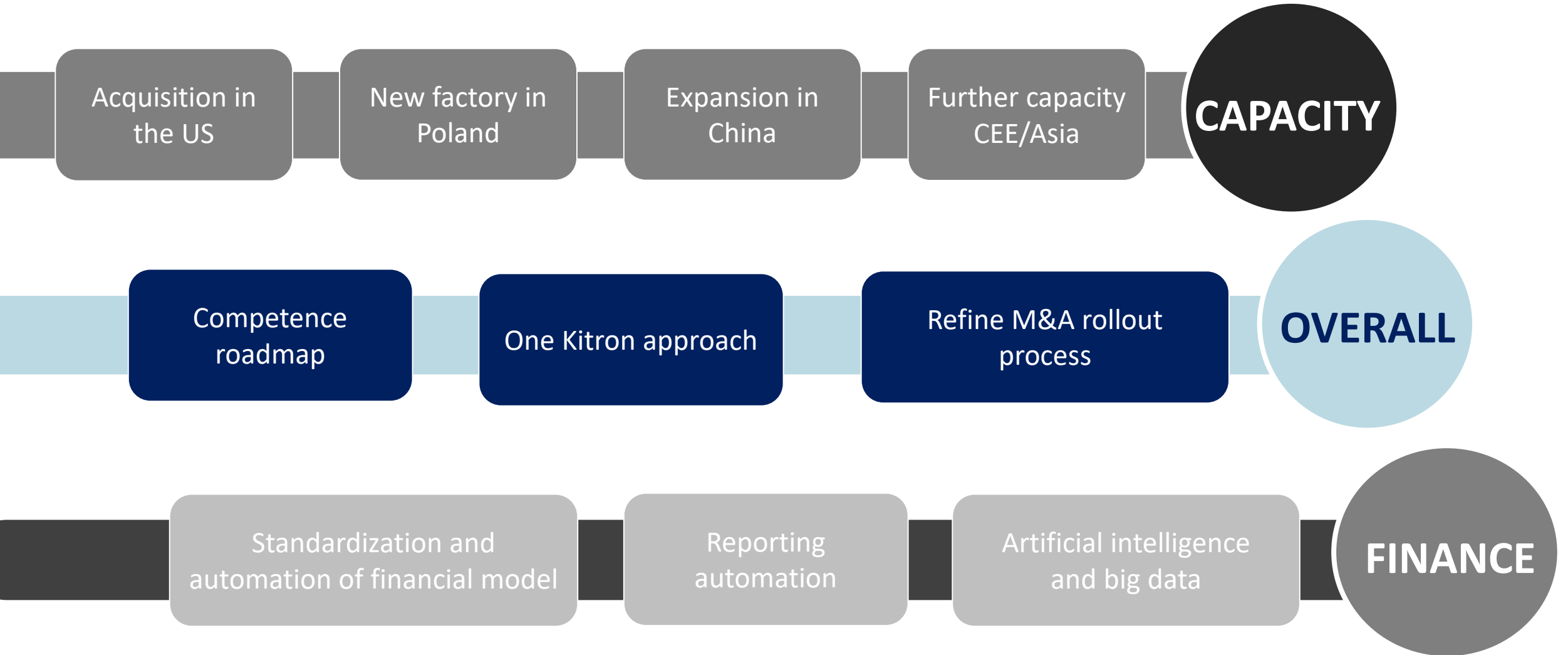
# SUMMARY

Cathrin Nylander  
CFO and acting CEO

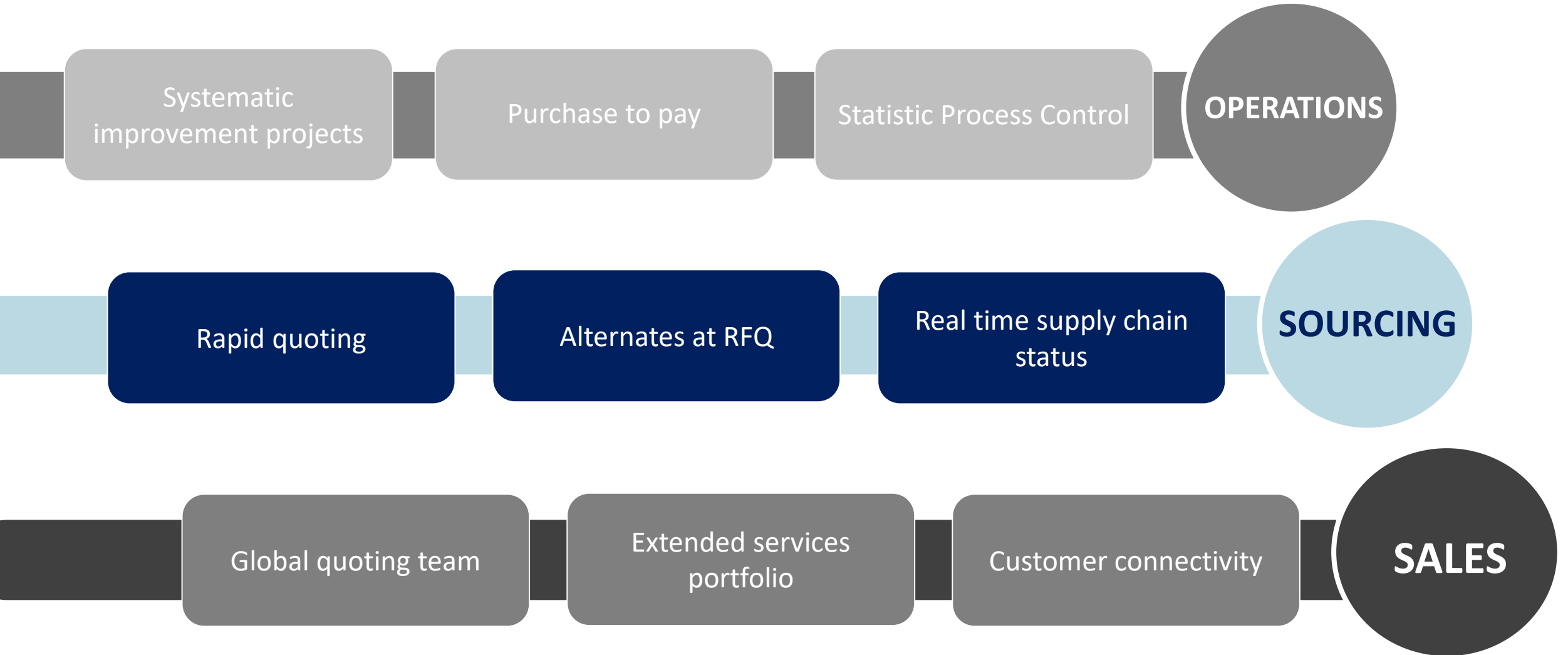
Capital  
Markets Day  
2019



# 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