



Kitron

Your ambition. Our passion.

Capital Markets Presentation
16 February 2018

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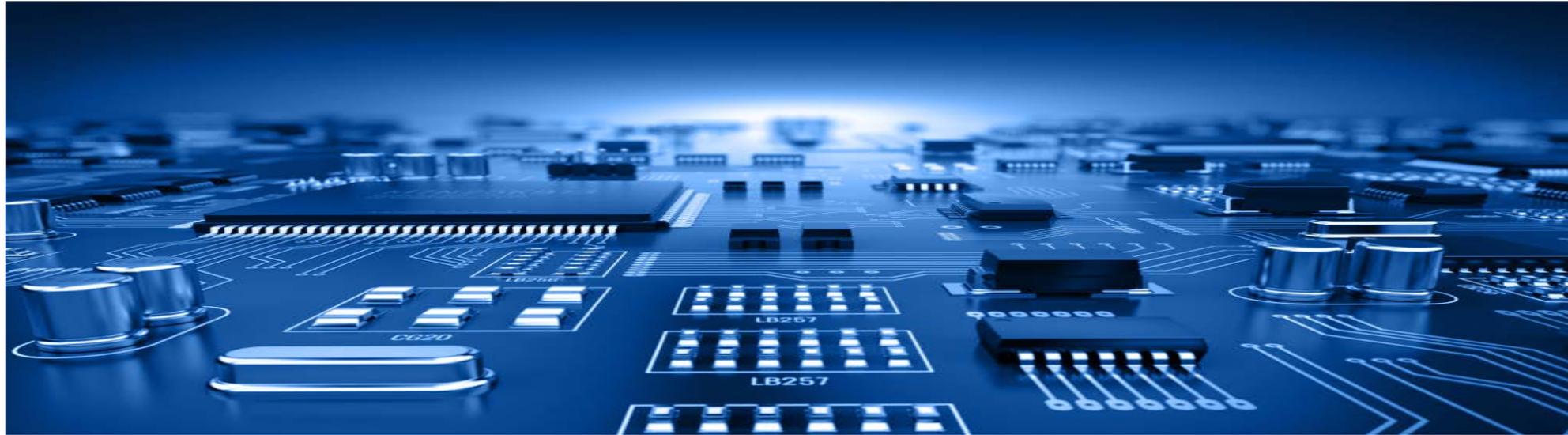
Speakers

Peter Nilsson
Chief Executive Officer

Strategy and Markets
Operations
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Summary



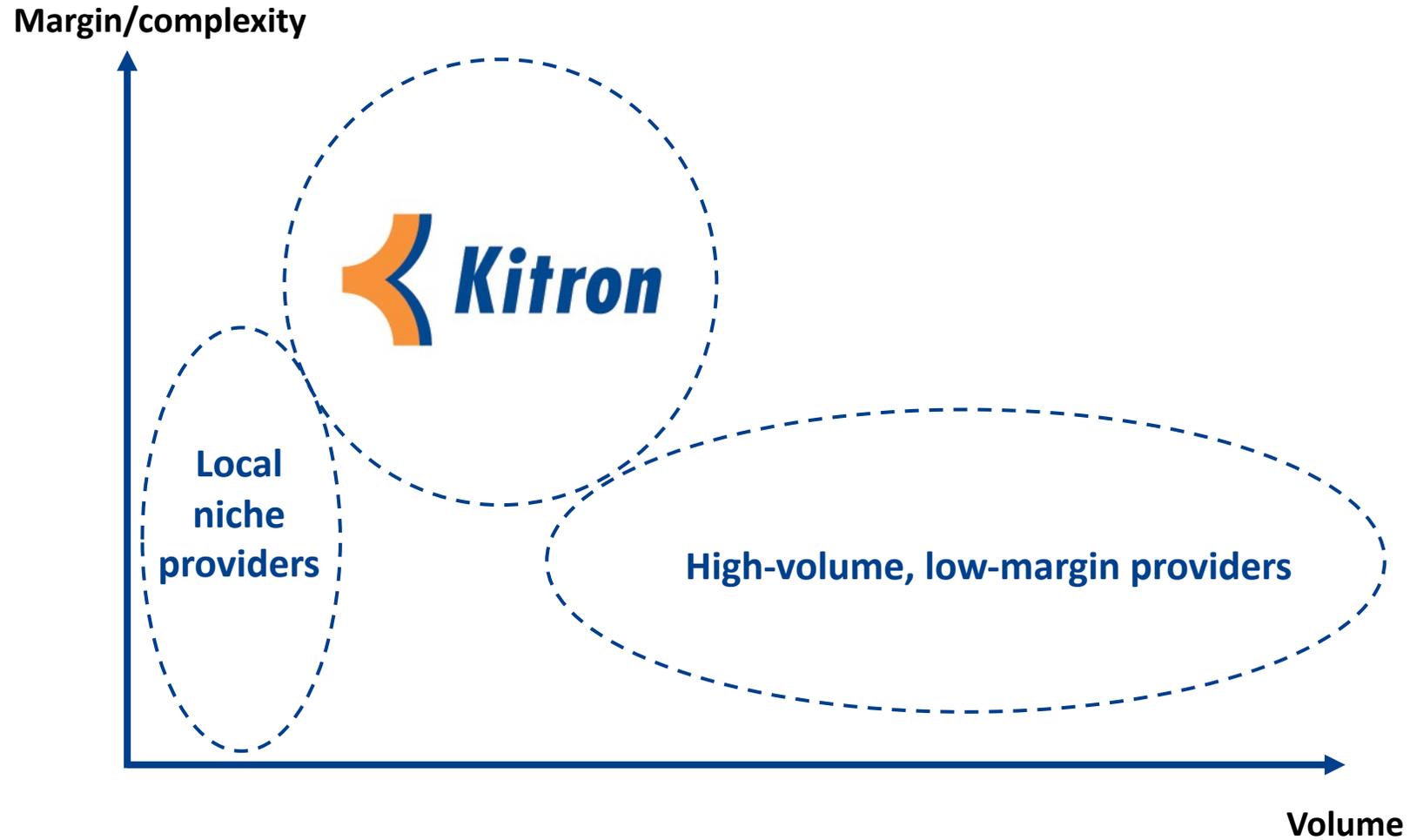
The essence of Kitron



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



Complex, high-margin products, medium volumes



Customers and market sectors



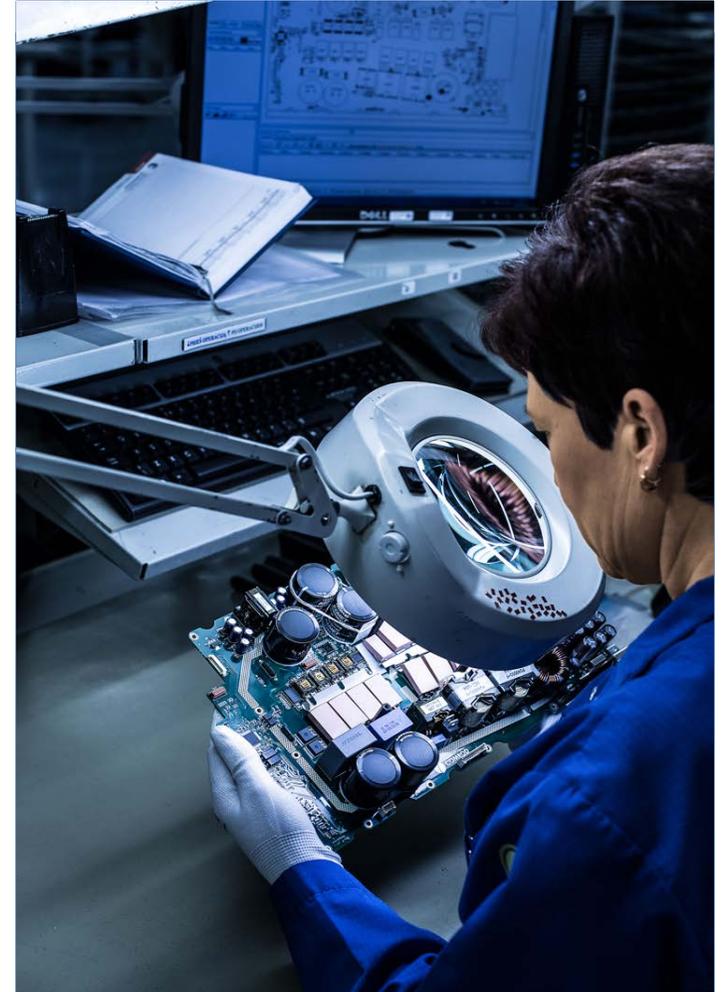
Accomplishments 2014–2017

Operational

- Complete modernization of facilities
- Substantial operational improvements
- Supply chain streamlined
- More employees in lower-cost countries

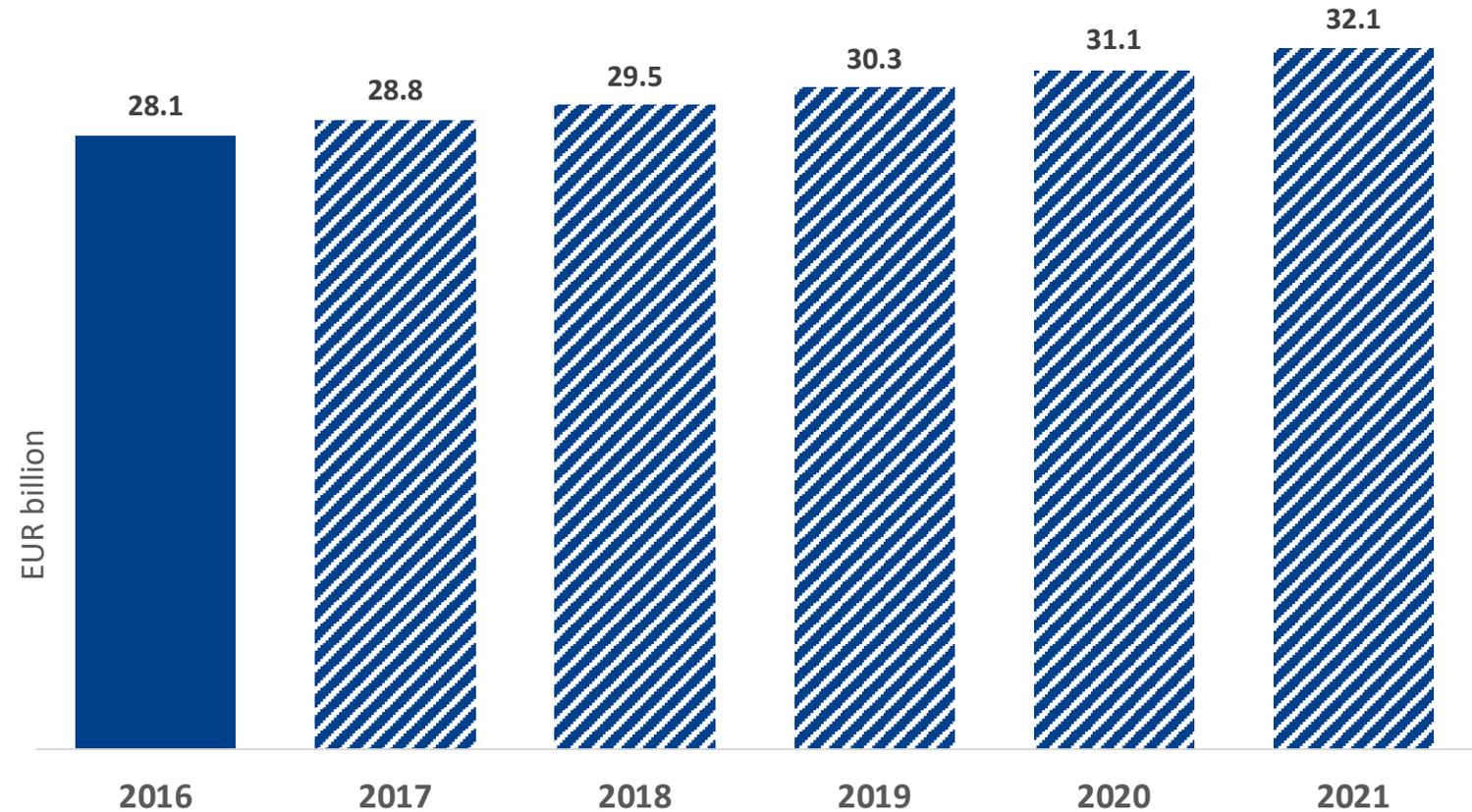
Financial

- Revenue increased from NOK 1751 to NOK 2437 (39%)
- EBIT margin increased from 1.7% to 6.1%
- Updated dividend policy and solid dividends
- Share price increased approximately 300%



European EMS growth picking up

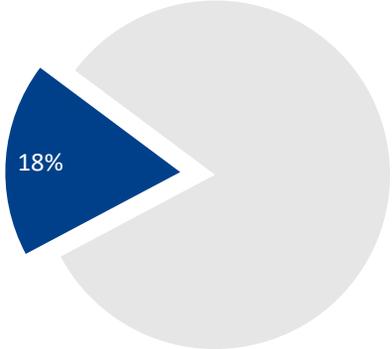
European EMS market



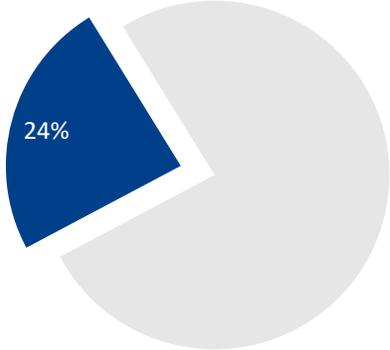
«After a few years of no, or at best, very slow growth, the mood in the European EMS industry is more buoyant in 2017 and the prospects for further growth are good.»

Source: Reed Electronics Research, The European EMS Industry 2016-2021

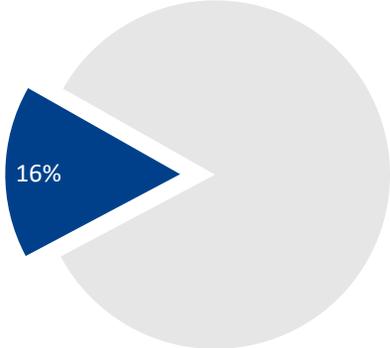
Kitron's sector outlook

Sector	Key products	Market Development	Sales outlook						
 <p>ENERGY/ TELECOMS</p>	<ul style="list-style-type: none">Protection and control systems for power transmissionSmart grid/automatic meter reading systemsPower system relays for energy transmission and distribution	<ul style="list-style-type: none">European EMS revenue EUR 5.8 billion in 2017Expected European growth rate 2.8% 	<ul style="list-style-type: none">Power transmission and smart grid systems are important growth driversShare of Kitron's revenue expected to be little changed in 2020 <div data-bbox="1905 694 2323 799"><p>Expected share of 2020 revenue</p></div>  <table border="1"><caption>Expected share of 2020 revenue</caption><thead><tr><th>Category</th><th>Share</th></tr></thead><tbody><tr><td>Kitron</td><td>18%</td></tr><tr><td>Others</td><td>82%</td></tr></tbody></table>	Category	Share	Kitron	18%	Others	82%
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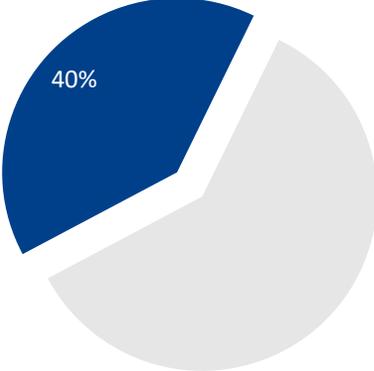
Kitron's sector outlook

Sector	Key products	Market Development	Sales outlook						
 <p>DEFENCE / AEROSPACE</p>	<ul style="list-style-type: none">▪ Defence Avionics▪ Defence Communication▪ Weapon Control Systems▪ Surveillance & Radar Systems	<ul style="list-style-type: none">▪ European EMS revenue EUR 1.3 billion in 2017▪ Expected European growth rate 3.2%▪ Long-term trend reversed since 2015: Defence spending now growing 	<ul style="list-style-type: none">▪ Long processes▪ Growth expected to pick up from 2019 for F35, Gripen E, Missile and Surveillance Systems▪ Share of Kitron's revenue expected to be little changed in 2020 <div data-bbox="1905 694 2328 801"><p>Expected share of 2020 revenue</p><table border="1"><caption>Expected share of 2020 revenue</caption><thead><tr><th>Share</th><th>Percentage</th></tr></thead><tbody><tr><td>Kitron</td><td>24%</td></tr><tr><td>Others</td><td>76%</td></tr></tbody></table></div>	Share	Percentage	Kitron	24%	Others	76%
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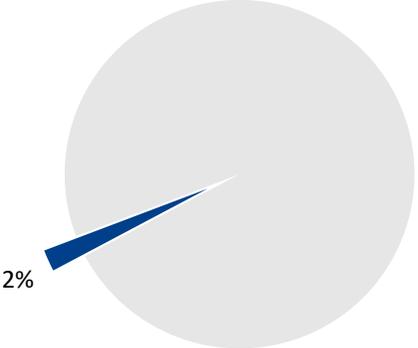
Kitron's sector outlook

Sector	Key products	Market Development	Sales outlook
 <p>MEDICAL DEVICES</p>	<ul style="list-style-type: none">▪ Ultrasound and Cardiology System▪ Respiratory Ventilators▪ Blood Analysis systems▪ Radiology systems	<ul style="list-style-type: none">▪ European EMS revenue EUR 2.4 billion in 2017▪ Expected European growth rate 3.4%▪ Dominated by Western Europe▪ Aging population and diagnostics driving demand 	<ul style="list-style-type: none">▪ Growth expected in-line with market development around 3% per year▪ Expected to be slightly lower share of revenue in 2020 <div data-bbox="1905 694 2328 801"><p>Expected share of 2020 revenue</p></div> 

Kitron's sector outlook

Sector	Key products	Market Development	Sales outlook						
 <p>INDUSTRY</p>	<ul style="list-style-type: none">▪ Vehicle Control Systems▪ Electronic Control Units▪ Central processing Units▪ Drives & Servos for Robotics	<ul style="list-style-type: none">▪ European EMS revenue EUR 3.8 billion in 2017▪ Expected European growth rate 5.3%▪ Faster growth in Eastern Europe 	<ul style="list-style-type: none">▪ Strongest short-term growth driver for Kitron▪ Strong momentum for European manufacturing▪ Lithuania and China▪ Expected to be higher share of Kitron's revenue in 2020 <div data-bbox="1905 694 2321 801">Expected share of 2020 revenue</div>  <table border="1"><caption>Expected share of 2020 revenue</caption><thead><tr><th>Category</th><th>Share</th></tr></thead><tbody><tr><td>Expected</td><td>40%</td></tr><tr><td>Other</td><td>60%</td></tr></tbody></table>	Category	Share	Expected	40%	Other	60%
Category	Share								
Expected	40%								
Other	60%								

Kitron's sector outlook

Sector	Key products	Market Development	Sales outlook
 <p>OFFSHORE / MARINE</p>	<ul style="list-style-type: none">▪ Subsea control systems▪ Seismic sensors and equipment▪ Wireless sensors▪ Surveillance systems	<ul style="list-style-type: none">▪ Highly dependent on Norwegian offshore market▪ Industry analysts forecast growing investments in 2018 	<ul style="list-style-type: none">▪ Upside potential from very low level▪ Kitron in talks with potential new customers▪ But no material improvement budgeted <p data-bbox="1905 694 2323 801">Expected share of 2020 revenue</p> 

Exploring Eastern European expansion

- Growing demand, especially in Industry market sector
- Calls for expanded capacity in Eastern Europe
- Building on success of Lithuanian operation

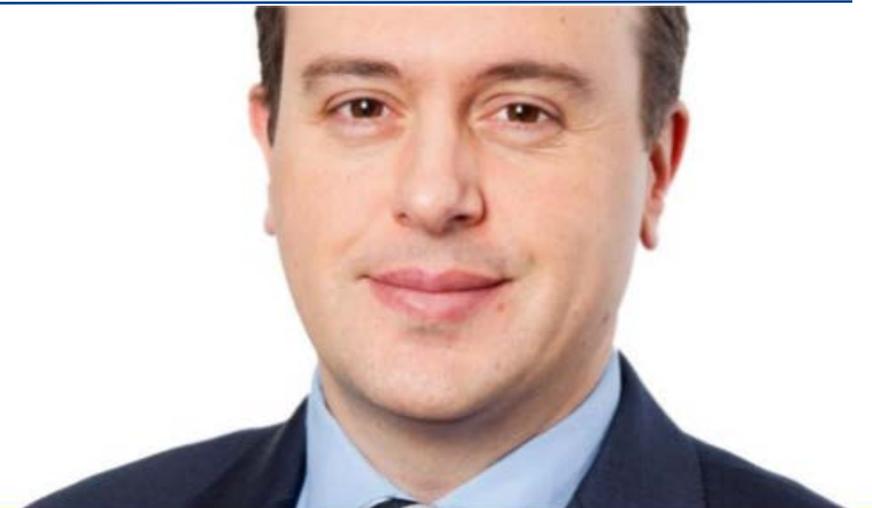


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Speakers

Israel Losada Salvador
COO & Sales Director

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Overview of operations

- Modern highly competitive facilities globally
- Investments in new technology
- Increasingly offering advanced services



3 main topics



Innovation



Automation



Operational excellence

Innovation

- Augmented reality: Combines live view and computer graphics in work instructions
 - Reduce quality defects
 - Support traceability
 - Distance support and training
- Augmented Reality Creator:
Kitron has developed application for creating augmented reality work instructions
 - Live in 2018
- Augmented Reality Work Station:
Taking advantage of ARC instructions
 - Can be used by any operator from day one
- Kitron explores ways to commercialize the technology and has a patent pending.



Automation

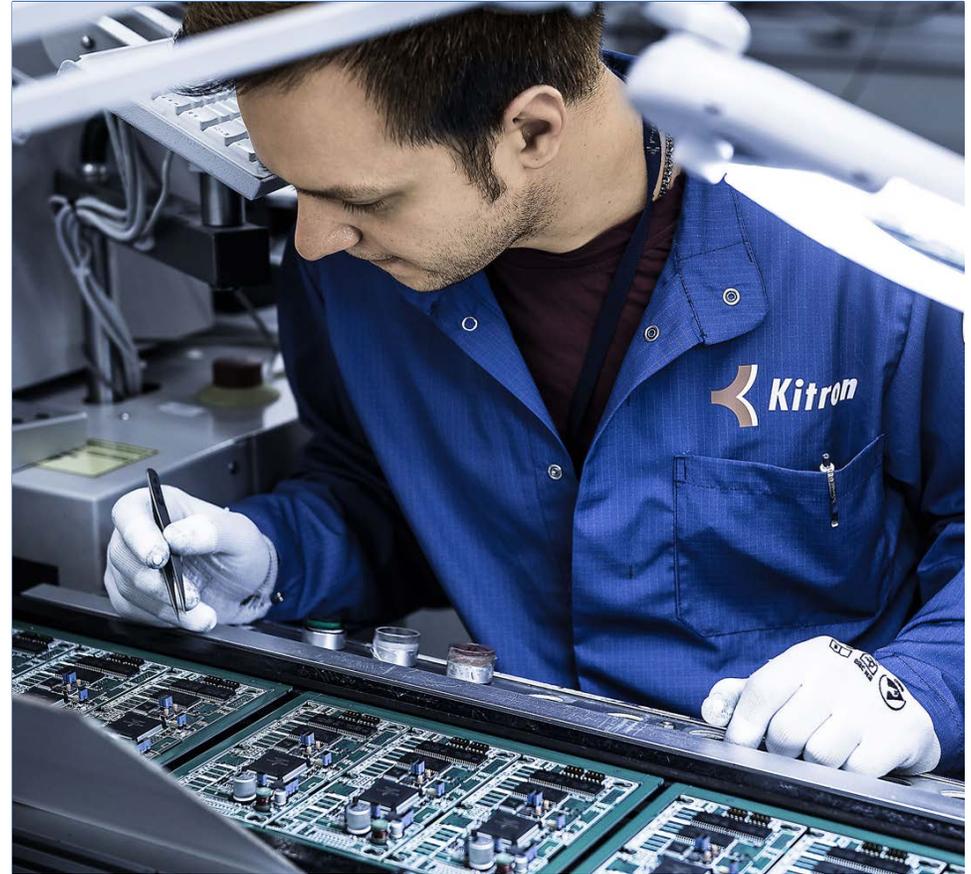
- Target: Products moving independently through production
- Generating real-time data during production process
- Collaborative robots key element
- Fully automated line installed in Kaunas, Lithuania, last autumn
 - Full production from January



Operational excellence

- Has impacted profitability through:
- Reduced cost
- Reduced time to market
- Quick ramp-up to meet demand surge
- Further quality improvement

“Operational Excellence is not something you do on top of your job, it is the way you do your job.”



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Speakers

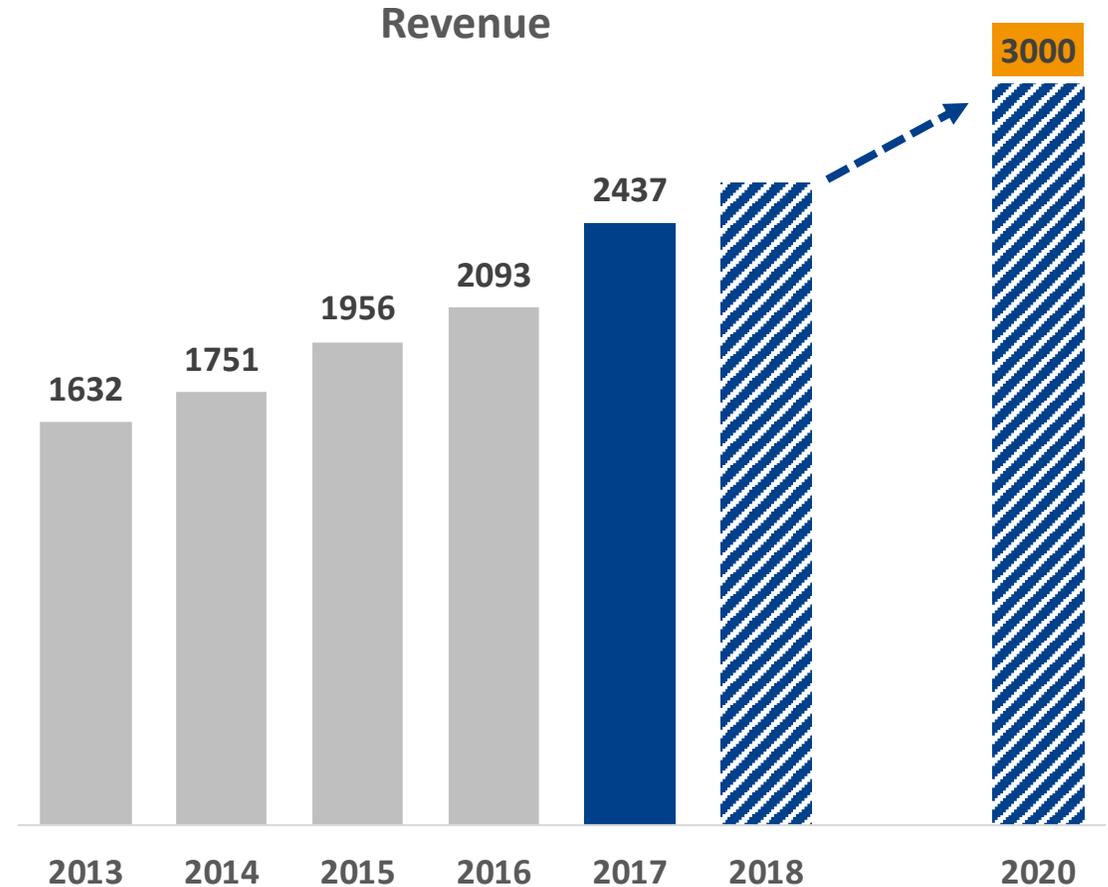
Cathrin Nylander
CFO

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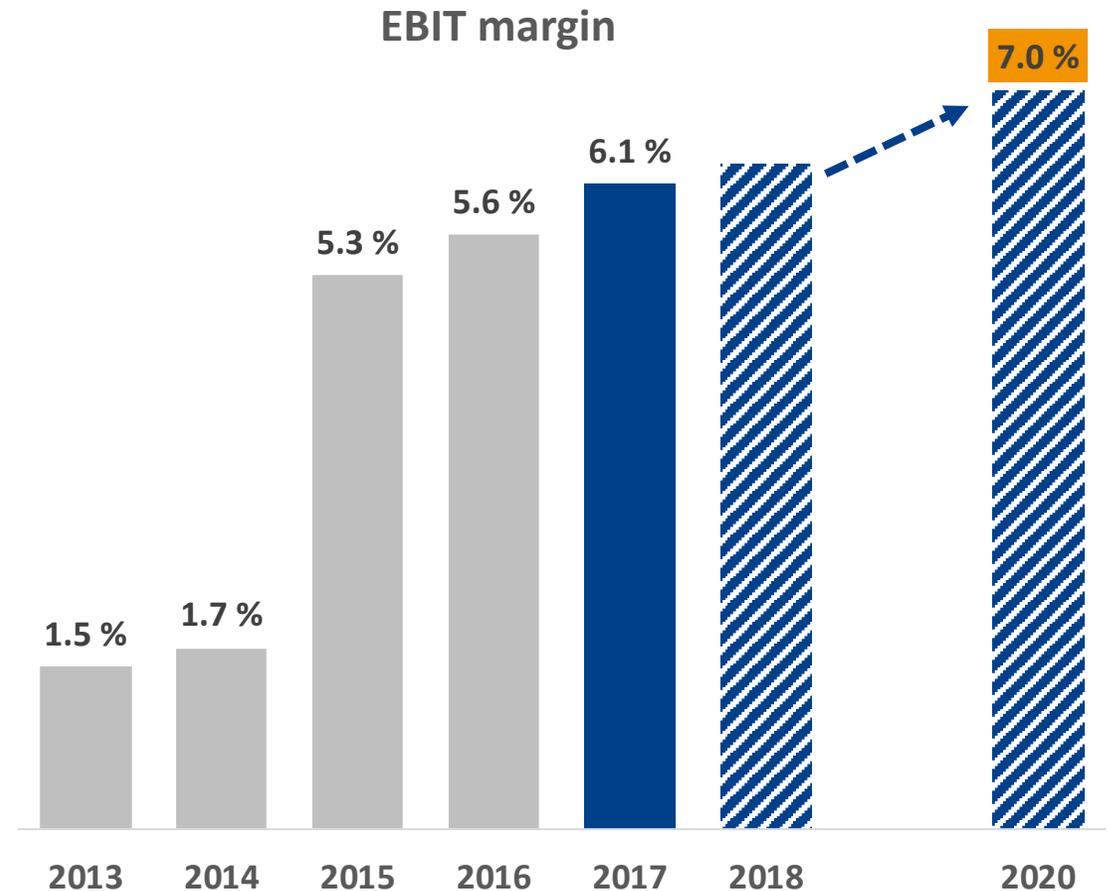
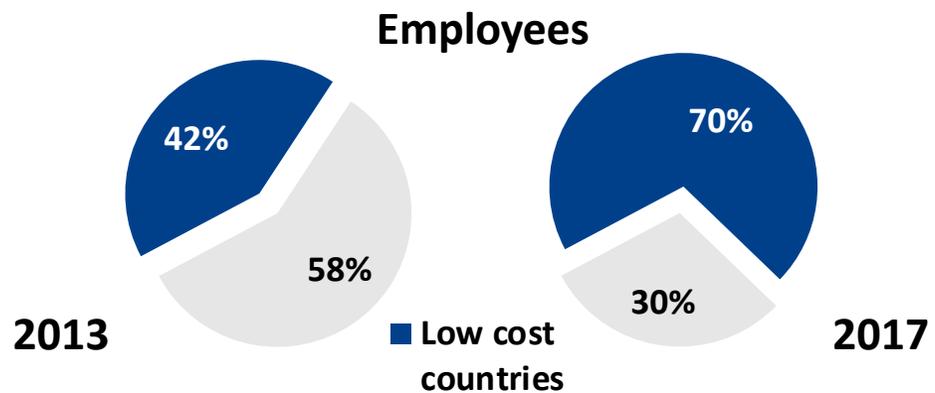
Revenue growth continues

- Revenue growth continues according to strategy
- Annual trend growth approximately 10%
 - Variations around trend line
- 2020 target of NOK 3 billion looks achievable with some upside potential
- Order backlog NOK 1,306 million (1,019)
- Focus now extended to 2025, exploring activities to continue current growth path

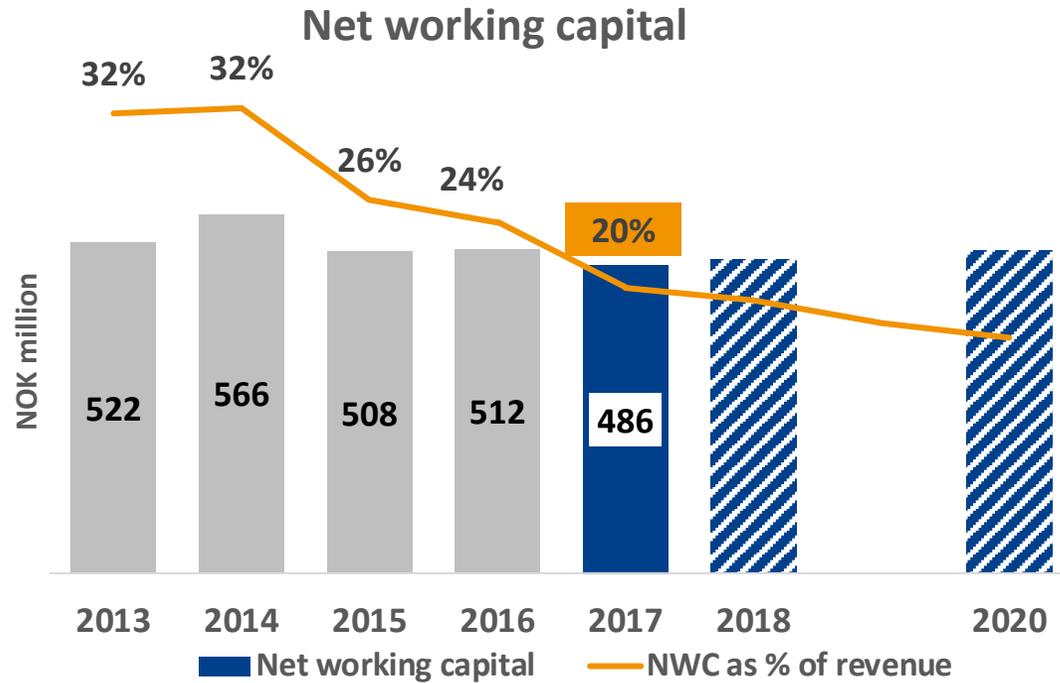


On track for 7% EBIT margin in 2020

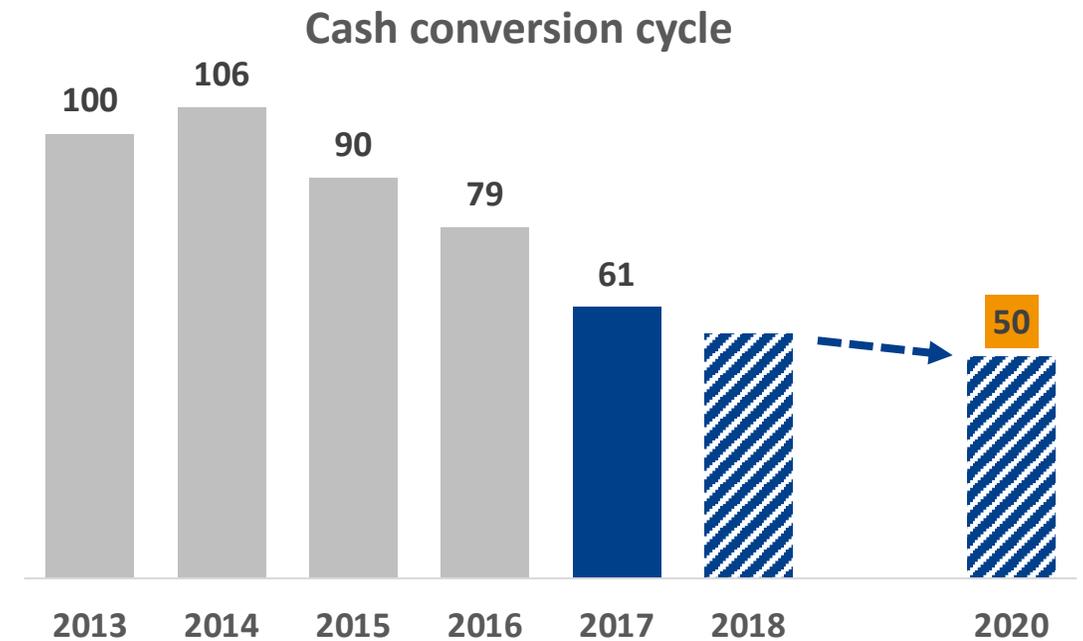
- Operational improvements continued in 2017
- Expect 6.1-6.5% EBIT margin in 2018
- Maintain 2020 target of 7% EBIT margin
- Key elements:
 - Revenue growth
 - Improved operational efficiency
 - Growth of life cycle services
 - Larger share of cost in lower cost countries



Improved capital efficiency



- Lower NWC as % of revenue due to inventory efficiency and improved payment terms
- Target of <20% achieved in 2017

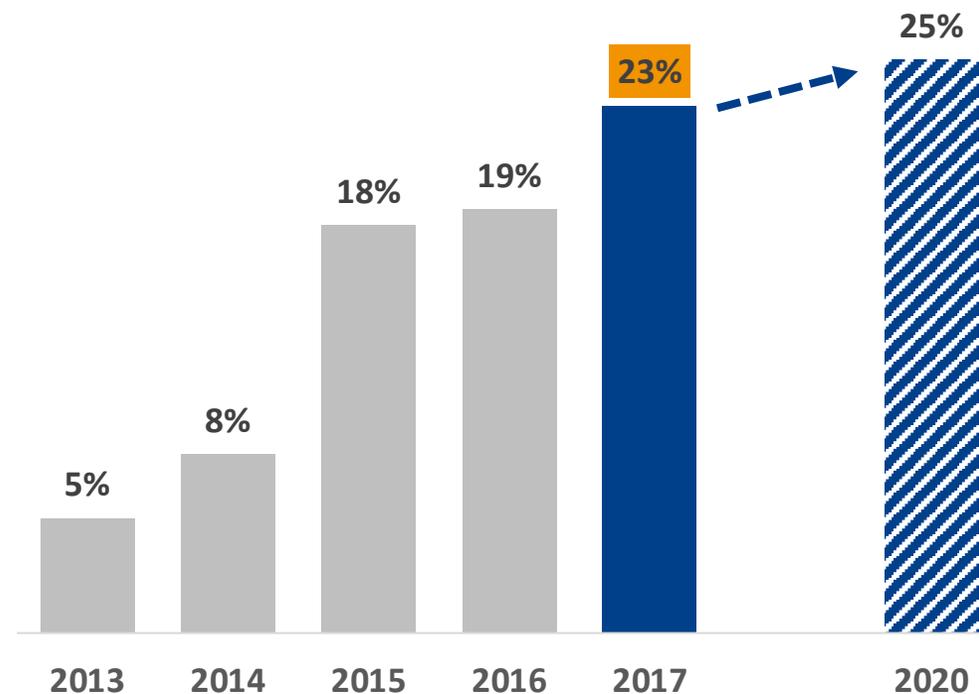


- Cash conversion cycle is a key metric
- Target 50 days

Improving return on capital

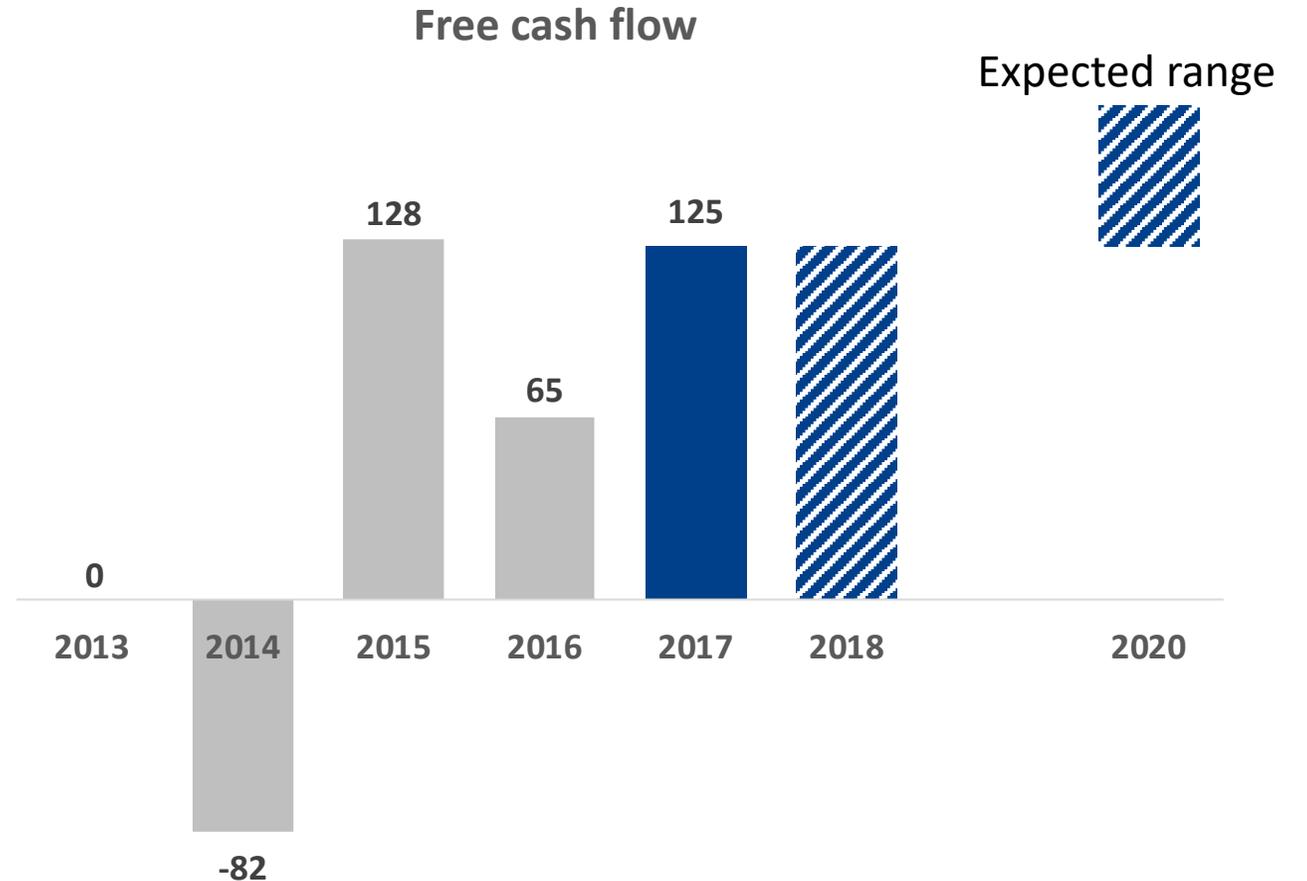
- Increase in return on operating capital due to higher EBIT and disciplined use of capital
- Improvement expected to continue:
 - Higher profit
 - Capital efficiency
- Long-term target 25%

Return on operating capital



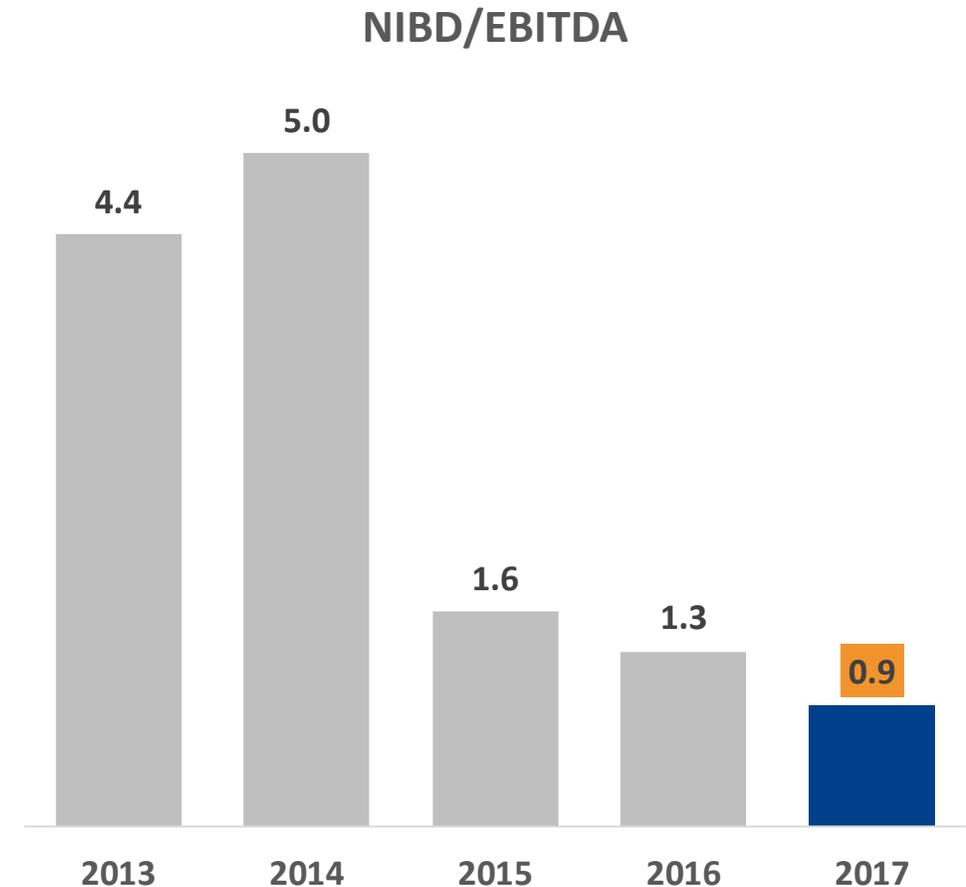
Strong free cash flow

- Strong operating cash flow
- Major investment cycle on facilities completed
- Expect average annual capex of 2-3% of revenue
- Investments will focus on automation and robotization
- Expand capacity in Eastern Europe
- Will invest to remain competitive in high-margin sectors



Strong balance sheet with low gearing

- Net interest-bearing debt NOK 175 million (216)
- NIBD/EBITDA 0.9 (1.3)
 - Target below 2.5
- Net gearing 0.26 (0.37)
- Equity ratio 43% (43%)
- Solid platform for organic growth, acquisitions and dividends



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

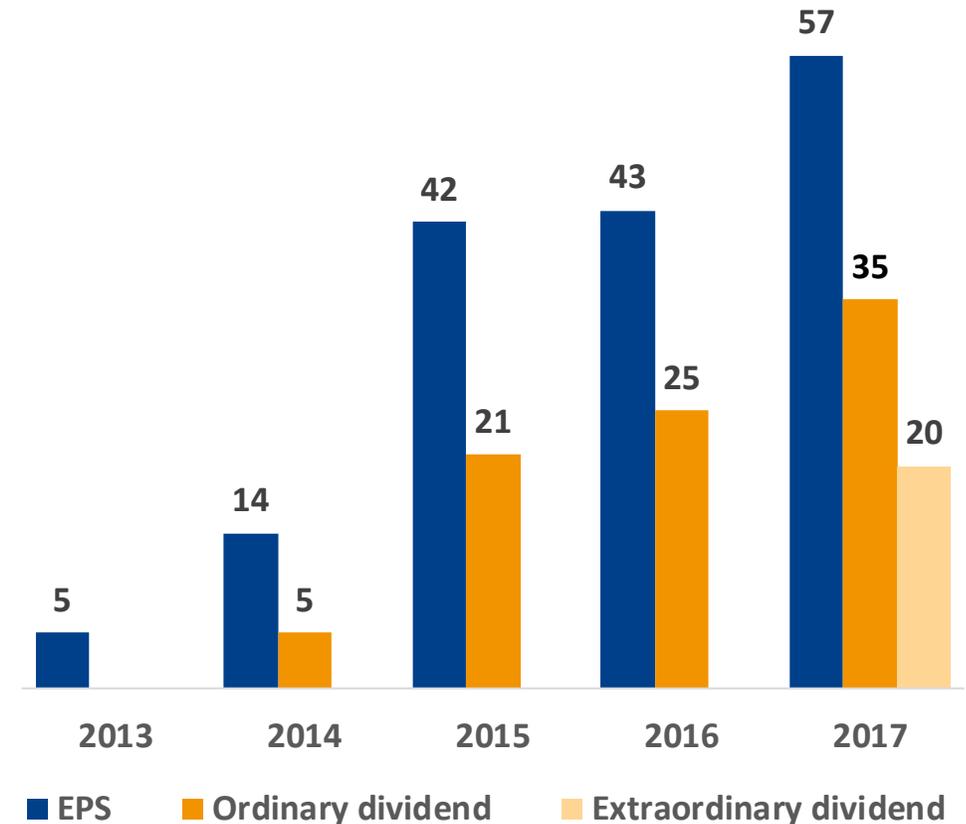
Strong dividend capacity

- Free cash flow underpinning favourable dividend outlook
- Proposed for 2017:
 - Ordinary dividend NOK 0.35 per share
 - Extraordinary dividend NOK 0.20 per share
- Extraordinary dividend due to clearly improved cash flow

Adjusted dividend policy

“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



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Summary

- On track towards 2020 strategic ambitions
- Much stronger operational platform
- Investing in robots and automation
- Innovations add upside to growth and margins
- Exploring Eastern European expansion

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