



Kitron

Your ambition. Our passion.

Capital
Markets

Day | 2017

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Capital Markets Day 2017

Speakers

Peter Nilsson
Chief Executive Officer

Strategy and Markets
Operations
Break
Financials
Summary
Q&A





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Israel Losada Salvador
Chief Operating Officer

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Cathrin Nylander
Chief Financial Officer

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Growth and margin expansion continue

- Revenue growth continues
- Continued profitability improvement
 - EBIT margin 5.6% (5.3%)
- Order backlog growing
 - Defence gives long-term visibility
- Net working capital
 - Higher capital efficiency
- Low financial gearing
 - NIBD / EBITDA 1.3 (1.6)

NOK mill.

2016 vs 2015

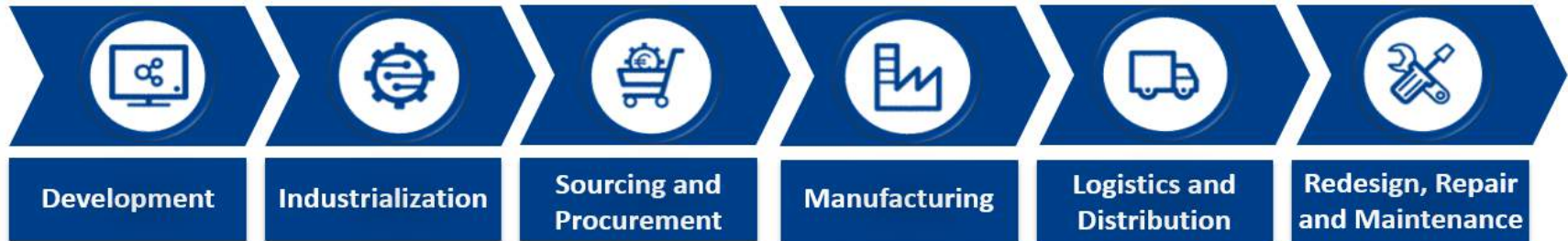
Revenue 2093.0		7.2 %
EBIT 117.8		14.7 %
Order backlog 1019.4		4.5 %
Operating cash flow 108.5		-46.8 %
Net working capital 512.2		0.9 %

The essence of Kitron

Kitron is an **Electronics Manufacturing Services** company.

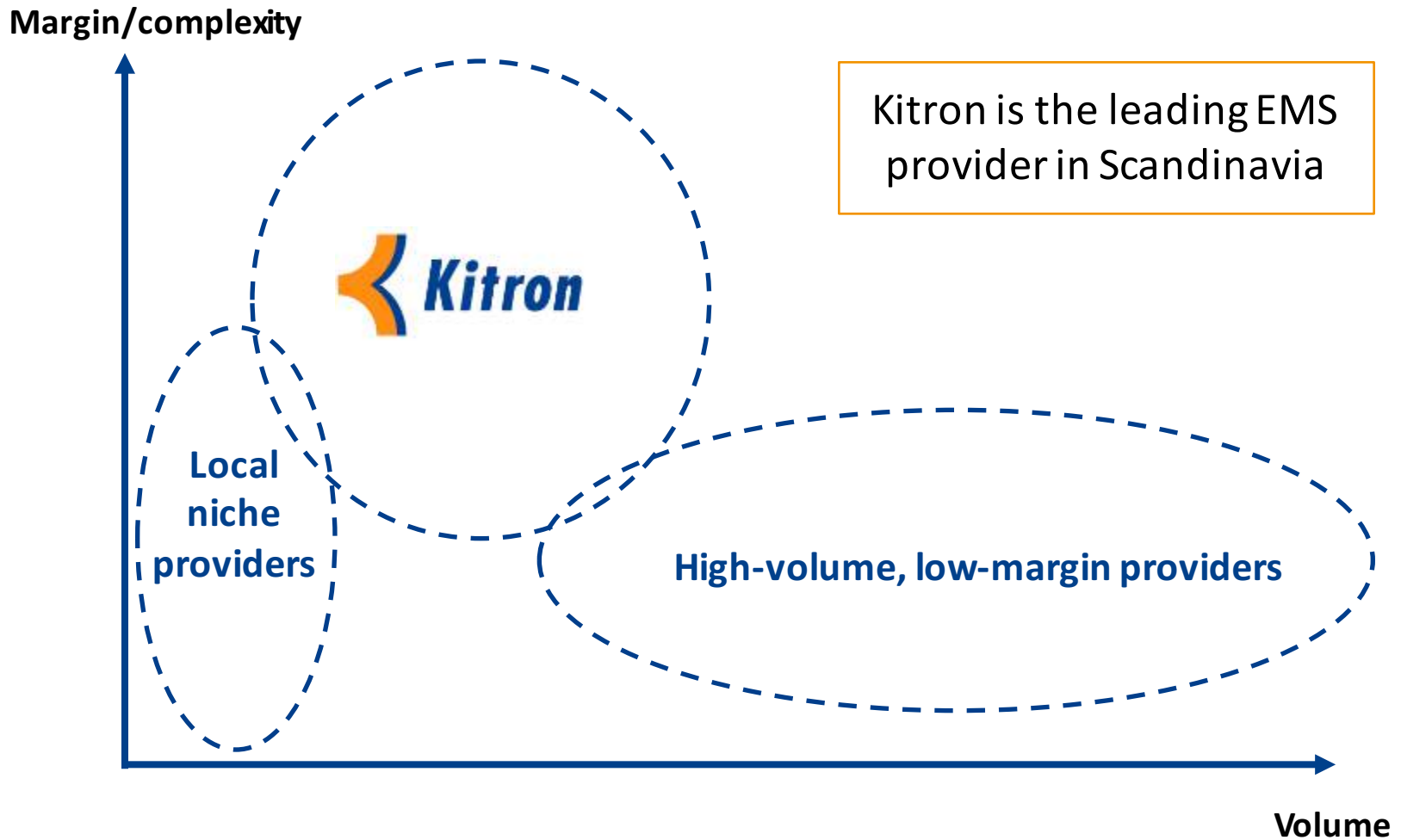
Our customers outsource manufacturing and related services to us.

We deliver improved flexibility, cost efficiency, and innovation power throughout the value chain.



Positioning of Kitron:

Complex, high-margin products



Markets and customers:

High-reliability products for high-value sectors

Energy/
Telecoms



Defence/
Aerospace



Offshore/
Marine



Medical
devices



Industry



NORTHROP GRUMMAN



BOMBARDIER
the evolution of mobility



KONGSBERG



SAAB



AIRBUS



THALES



2016:

Key orders and agreements



Northrop Grumman

- F-35 program
- Sub-assembly for JSF Radar
 - Potential above NOK 500 million
- Sub-assembly for JSF CNI system
 - Potential above NOK 1 billion



Dentsply Sirona

- New supply agreement
- World's largest manufacturer of professional dental products
- Strategically important in German market



Aidon

- 3 years
- More than NOK 100 million
- RF communication modules
- Production at Kaunas



Lockheed Martin

- 2 years
- F-35 program
- Integrated Backplane Assembly
- Low Rate Initial Production program 11



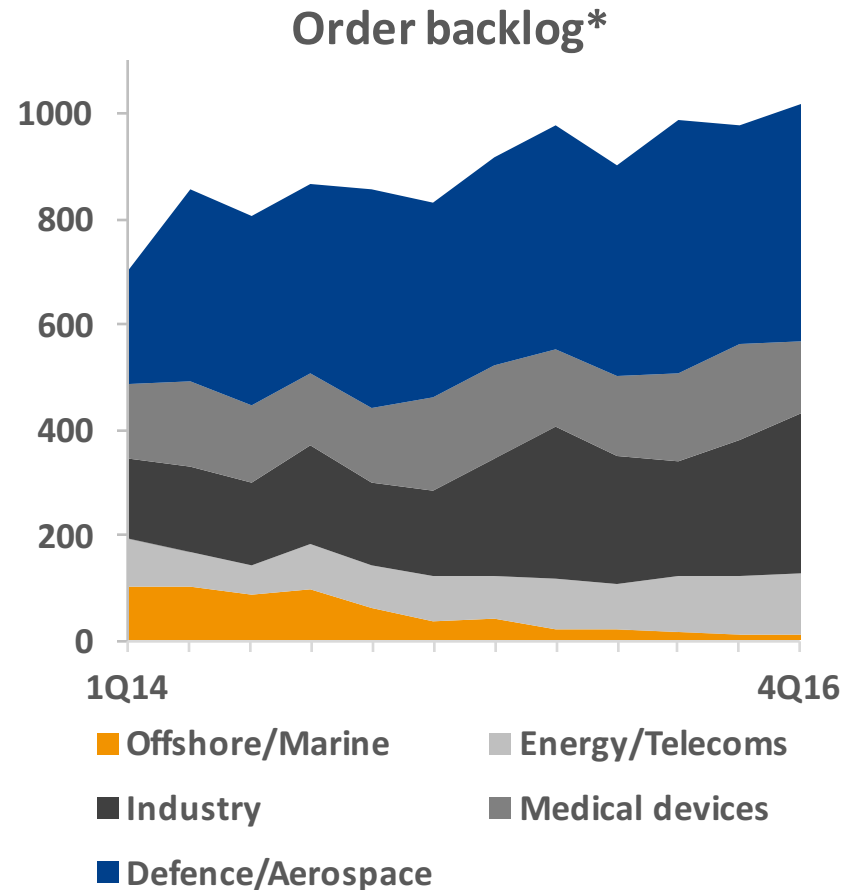
Industrial supplier

- 3 years
- NOK 300 million
- Power and automation technology

Order backlog:

Diversified growth

- Order backlog NOK 1019 million
- Underlying growth 9.2%
- Defence/Aerospace adds visibility, also beyond order backlog horizon
- Industry and Energy/Telecoms particularly strong in 2016
- Growth in Medical devices expected beyond visibility in backlog as new products are approved for ramp-up during 2017
- Decline in Offshore tapering off, but no visible growth in outlook



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

Strategic Agenda

Kitron 2020

Accelerated organic growth

- Existing customers
- New customers
- Life cycle services

Operational improvements

- Capital efficiency
- Flexibility
- Execution
- Innovation

Targeted M&A

- New geographies
- Existing geographies
- Value chain expansion

Strategic Agenda

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Accelerated organic growth:

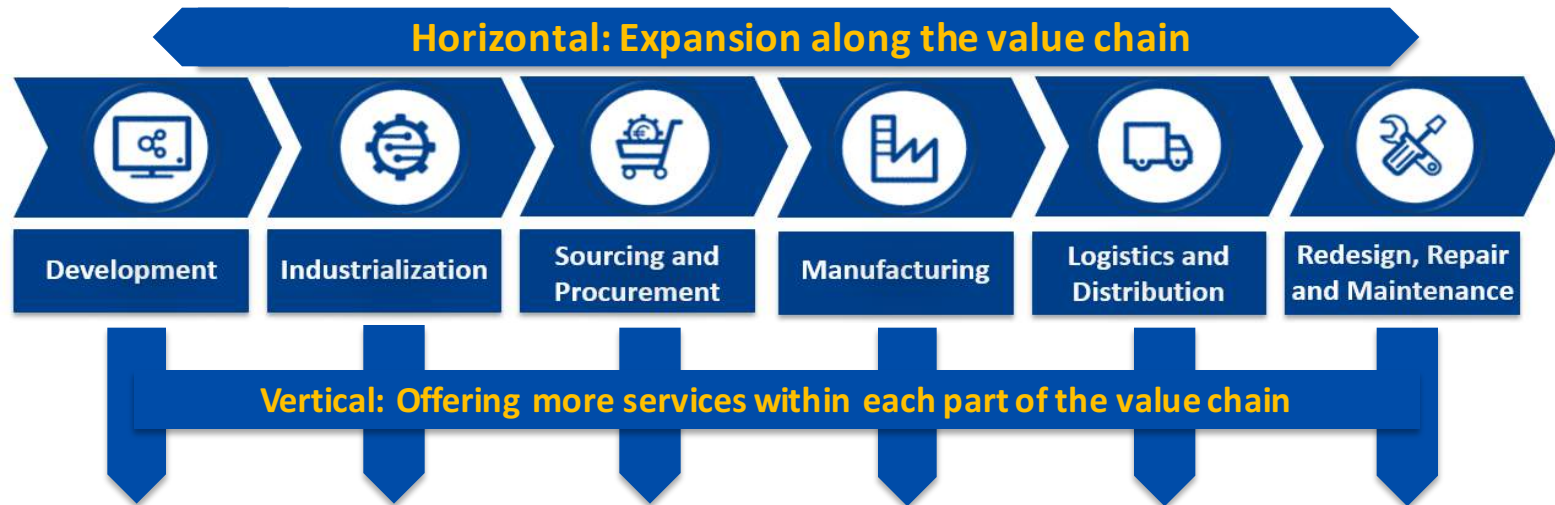
Achieve NOK 3 billion in 2020



Existing customers



- Significant growth potential with present customers base
 - Existing large customers are market leaders.
We see significant growth opportunities going forward.
 - Current market share with customers won during the last years is small.
There is still a lot of potential to grow.

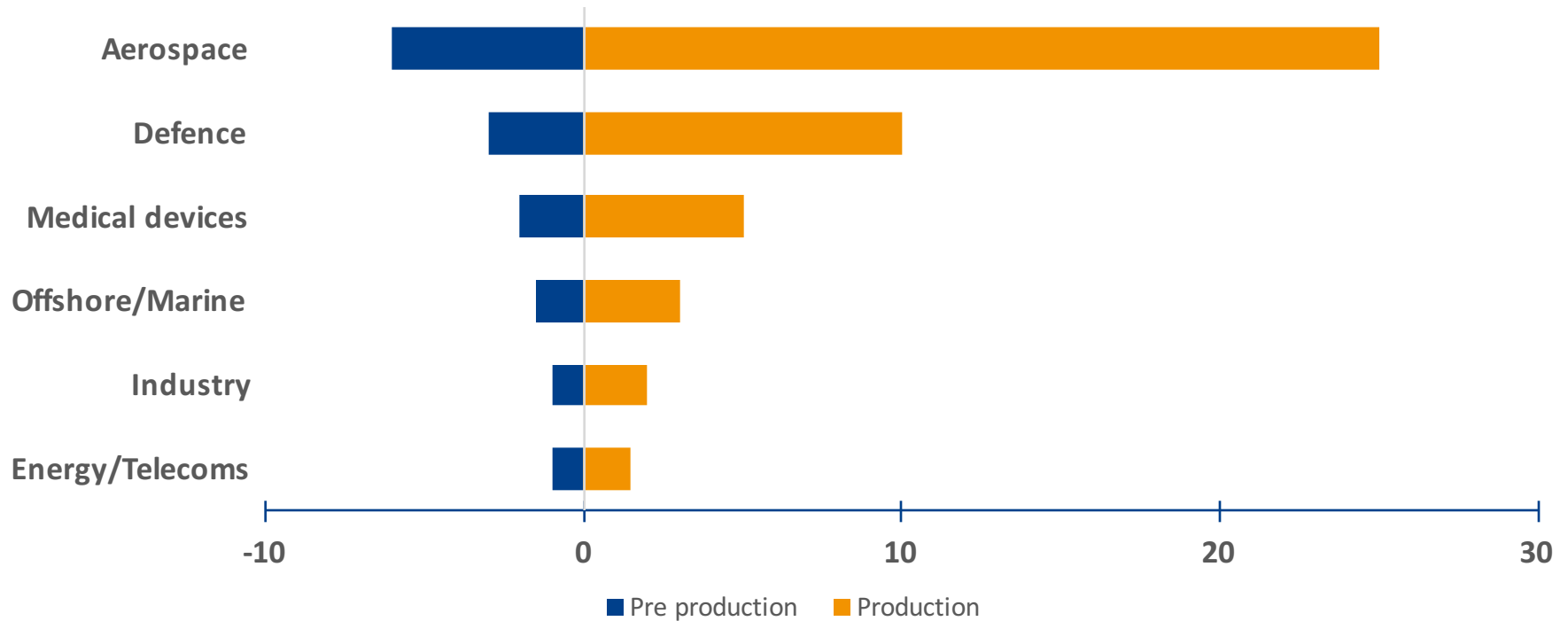


Accelerated organic growth:

Short-term and long-term sectors



Years before and after production starts



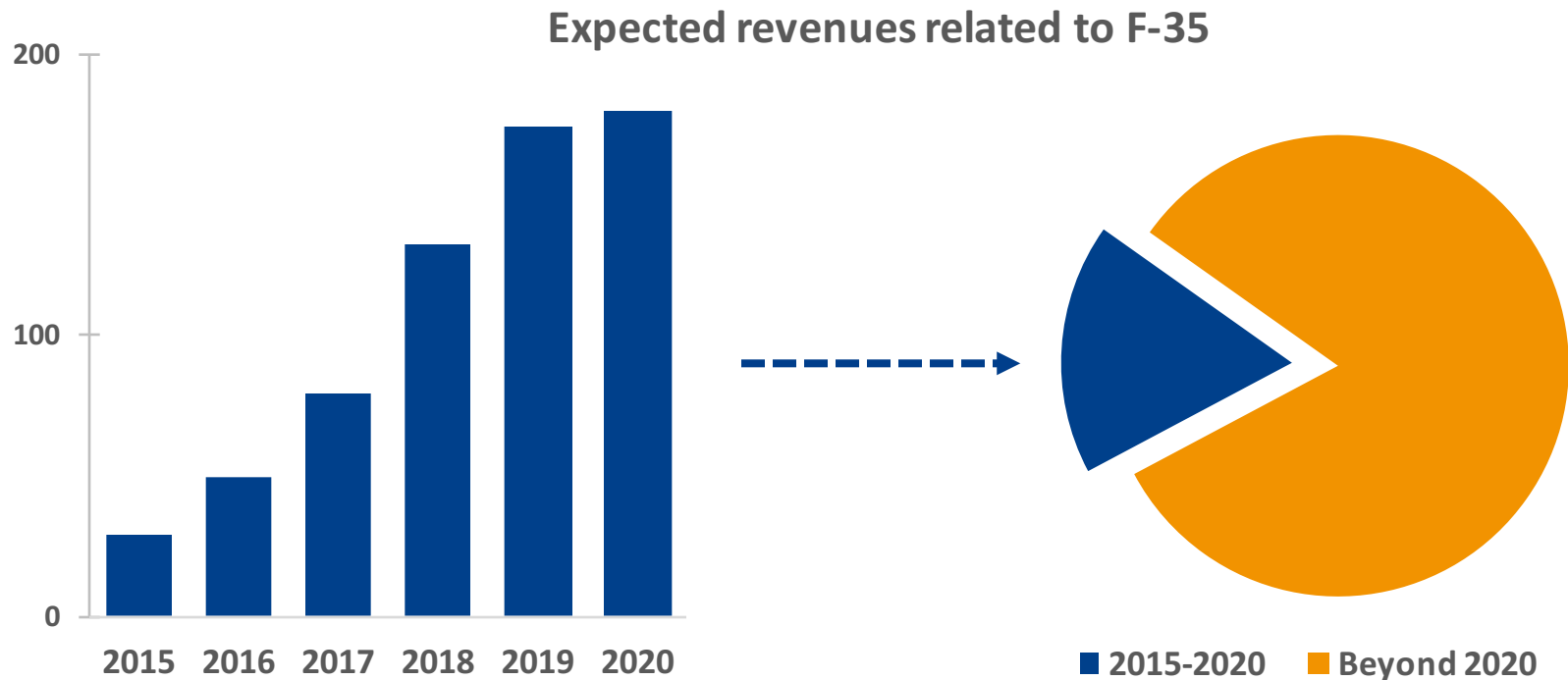
The figures will vary from contract to contract and are only meant to be indicative of the sector differences.



Accelerated organic growth:

Aerospace: visibility beyond order backlog

- Aerospace characterized by contracts covering 20-25 years
- Example: F-35 strong growth 2015-2020, but more than 80% remains



New customers

Targeted customers

- Targeted customers are larger, growing, profitable customers with demanding requirements
- Leverage our competence, application knowledge and references

Targeted markets

- Focus on selected market sectors
- Utilize our Eastern European base to penetrate German-speaking markets
- Win local business within our sectors in North America and China markets



Target 5% of revenue



Accelerated organic growth:

Road to success in German-speaking markets

- Focused approach in the Defence, Medical and Industrial sectors
- Lead, coordinate and compile customer strategy
- Financial, commercial and contractual account responsibility
- Management of local customer teams at manufacturing sites
- Sales office in Stuttgart covering Germany, Austria and Switzerland



Target NOK 300 million by 2020

Leveraging our competence



- Close to NOK 200 million sales in 2016
- Approaching target of 10%
- Product development and simulation
- Test design and development
- Consultancy and project management
- Component engineering
- Product manufacturability analysis
- Tooling design and manufacturing
- Flexible distribution services
- Aftermarket services

Target 10% of revenues from services

Strategic Agenda

Kitron 2020

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Operational improvements

- Capital efficiency
- Flexibility
- Execution
- Innovation

Targeted M&A

- New geographies
- Existing geographies
- Value chain expansion

Operational improvements

- **Capital efficiency**
 - Return on Operating Capital
Target 25%
- **Flexibility**
 - Time to Market
 - Annual revenue growth 10%
- **Execution**
 - Cost competitiveness and targeted earnings drive Operational Excellence and Lean programs
- **Innovation**
 - Robotics and Automation
 - Additive Manufacturing / 3D printing
 - Augmented Reality

Flexibility

Robust and
adaptive
processes

Execution

Right the
first time,
every time

Innovation

Human creativity
propelled by
technology

Strategic Agenda

Kitron 2020

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- Innovation

Targeted M&A

- New geographies
- Existing geographies
- Value chain expansion

Growth through targeted M&A: Exploring along three axes



Focus on shareholder value:

Strong share performance, increasing dividends

- Market cap 31 December 2014: MNOK 294
- Market cap 31 January 2017: MNOK 1173
- Free float from 30% to 100%
- Included in OSEBX December 2016
- Proposed 2016 dividend: NOK 0.25



Dividend policy 30-60 per cent of ordinary net profit after tax.

Progress on key figures:

2020 strategy

	2014 actual	2015 actual	2016 actual	2017 target	2020 strategy
Revenue NOK million	1751	1952	2093	2150-2350	3000
EBIT margin	1.7%	5.3%	5.6%	5.6-6.4%	7%

2020 strategy

Profitability reaching 7 % - increased focus on profitable growth

Key messages

- Operational improvement on track
- Focus on growth and margin expansion
- Committed to total shareholder return



Impressive window view from administration to manufacturing area at the new Torsvik factory in Sweden!



Capital Markets

Day 2017

Strategy and Markets
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Speaker

Israel Losada Salvador
Chief Operating Officer



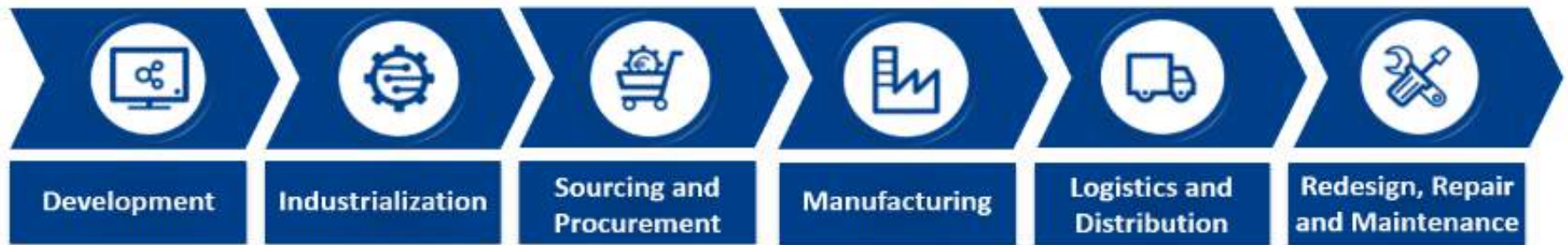
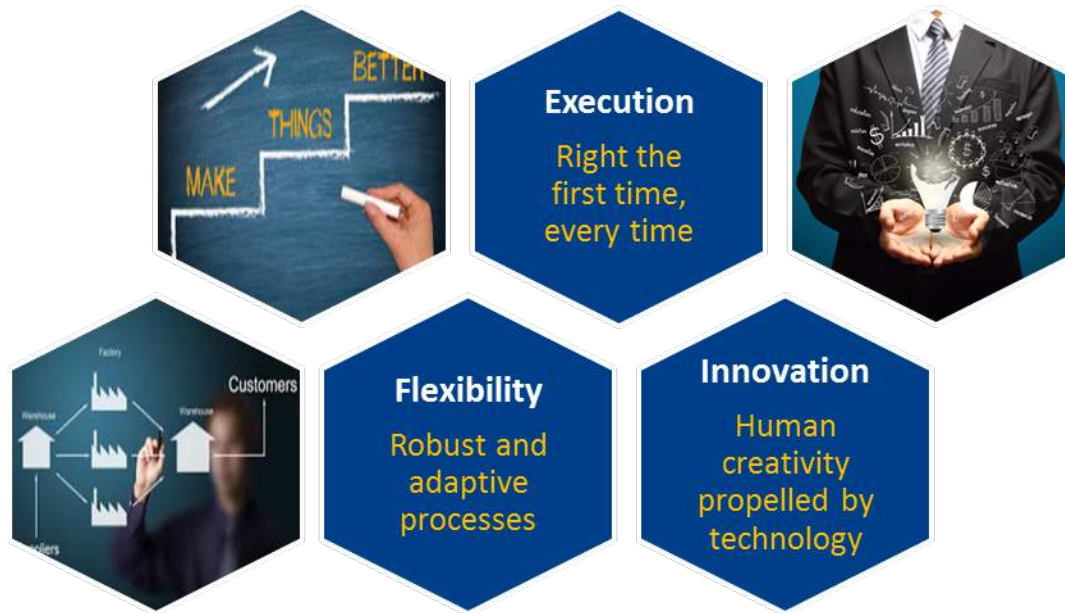
Modern facilities serving demanding customers

- Operations:
 - Norway
 - Lithuania
 - Sweden
 - Germany
 - China
 - United States
- About 1350 employees
- Major upgrades past years
 - Lithuania 2014
 - Norway 2015
 - Sweden 2016



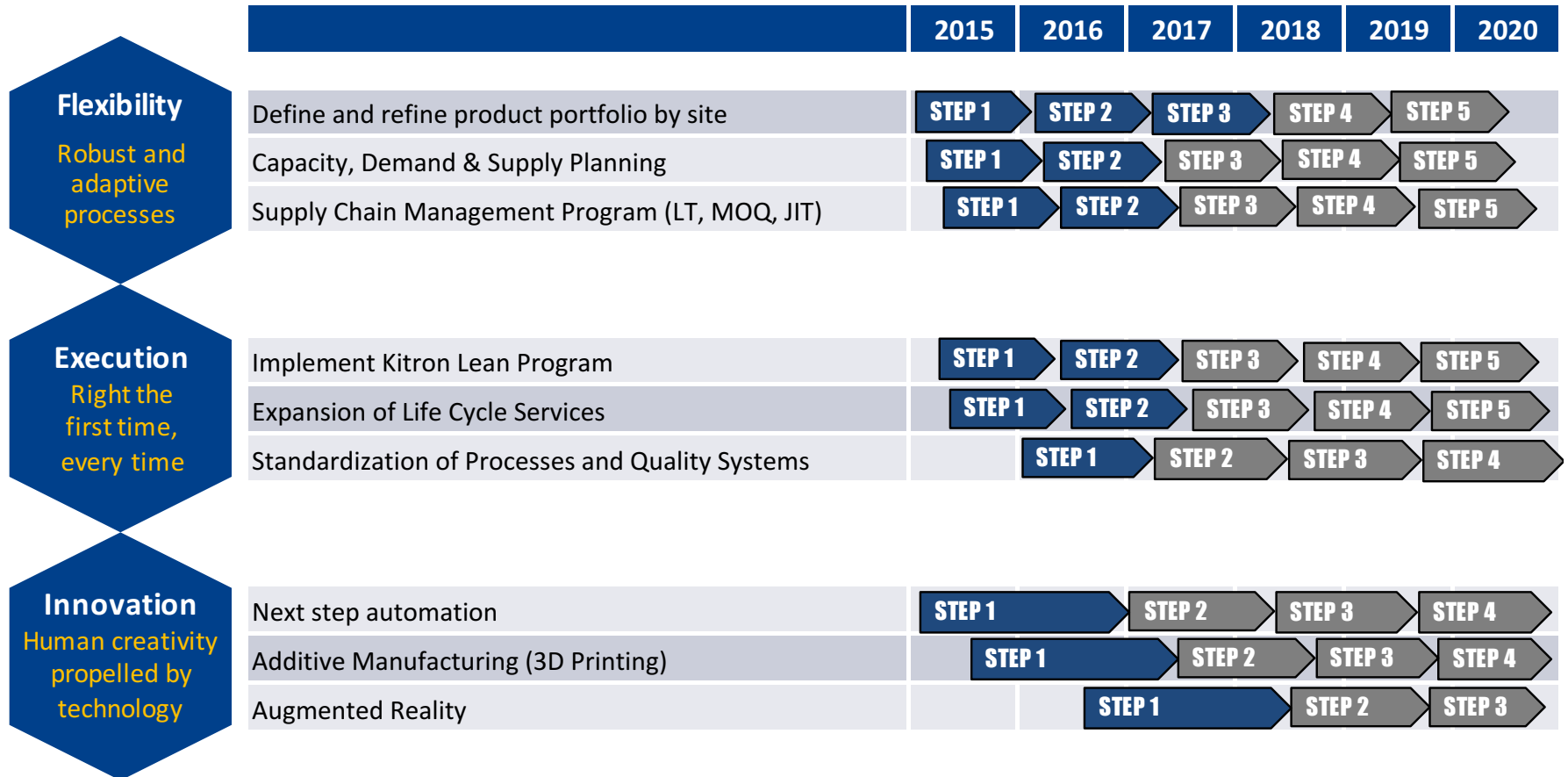
Evolving business model:

Improving our value-adding proposition

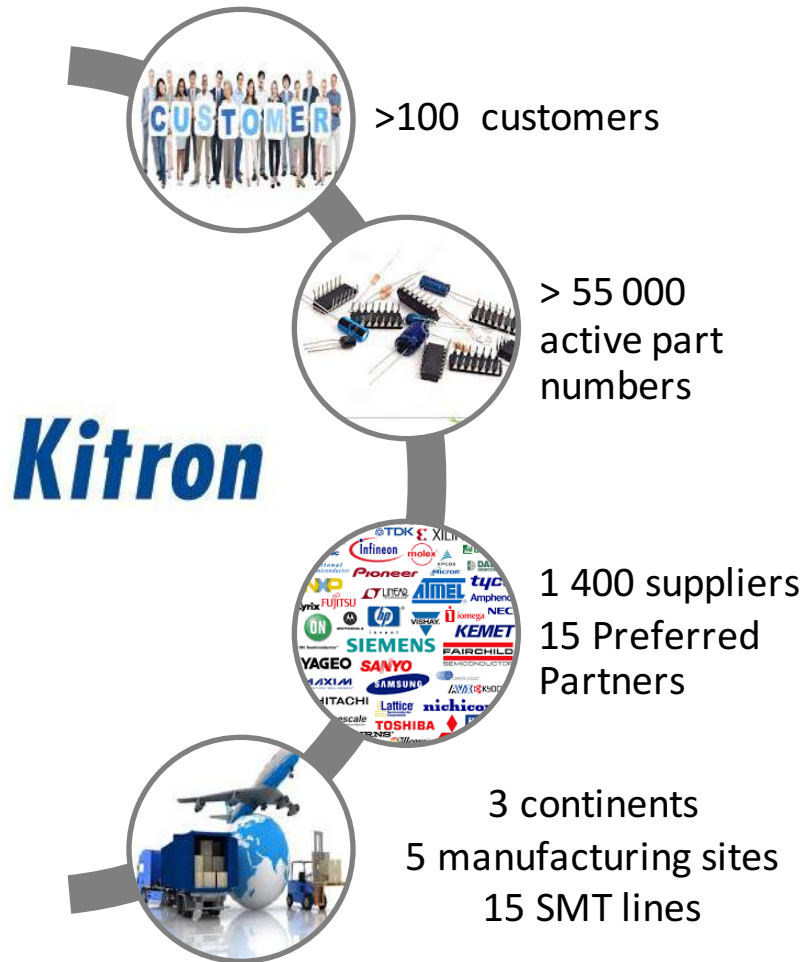


Ensuring success:

Long term systematic approach to improvement



Simplifying complex matters



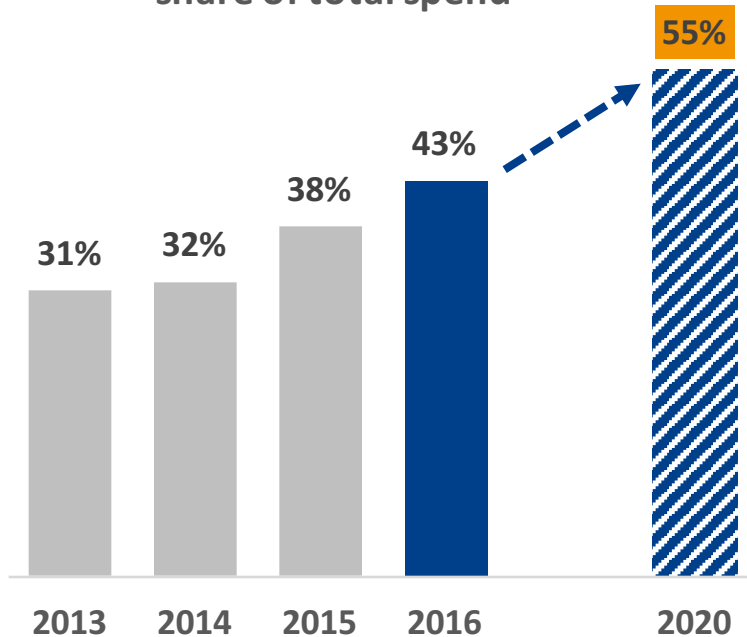
Strategy

- Efficient internal production capabilities supported by strong supply partners
- Built around customers' needs
 - Flexible inventory solutions
 - Savings
 - Transparent real time data
 - Risk management

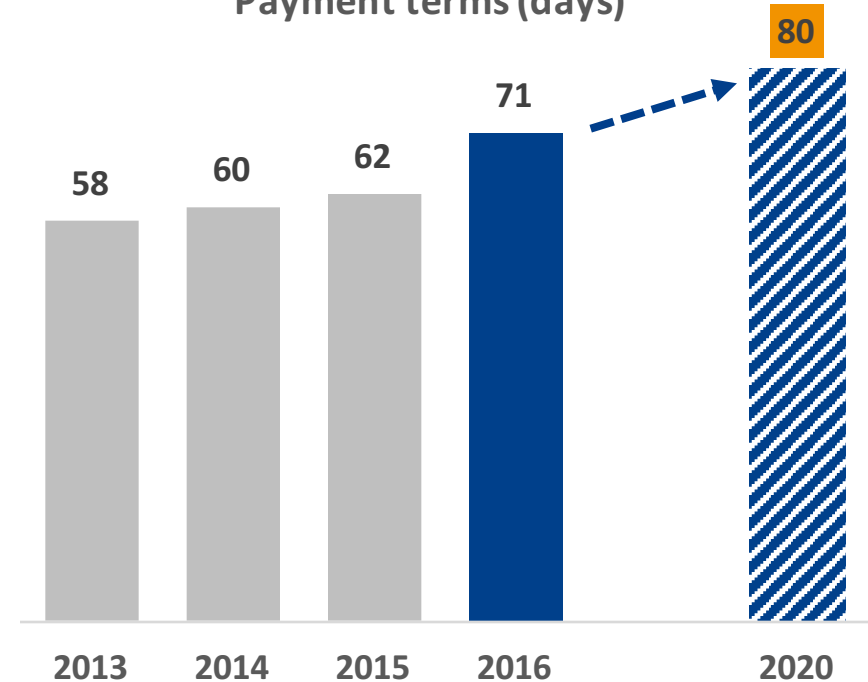
Consolidation brings financial benefits



Preferred Supply Partners
share of total spend



Payment terms (days)



1 day = 6 MNOK

Operational excellence:

Increasing efficiency



Kitron's Lean Road Map

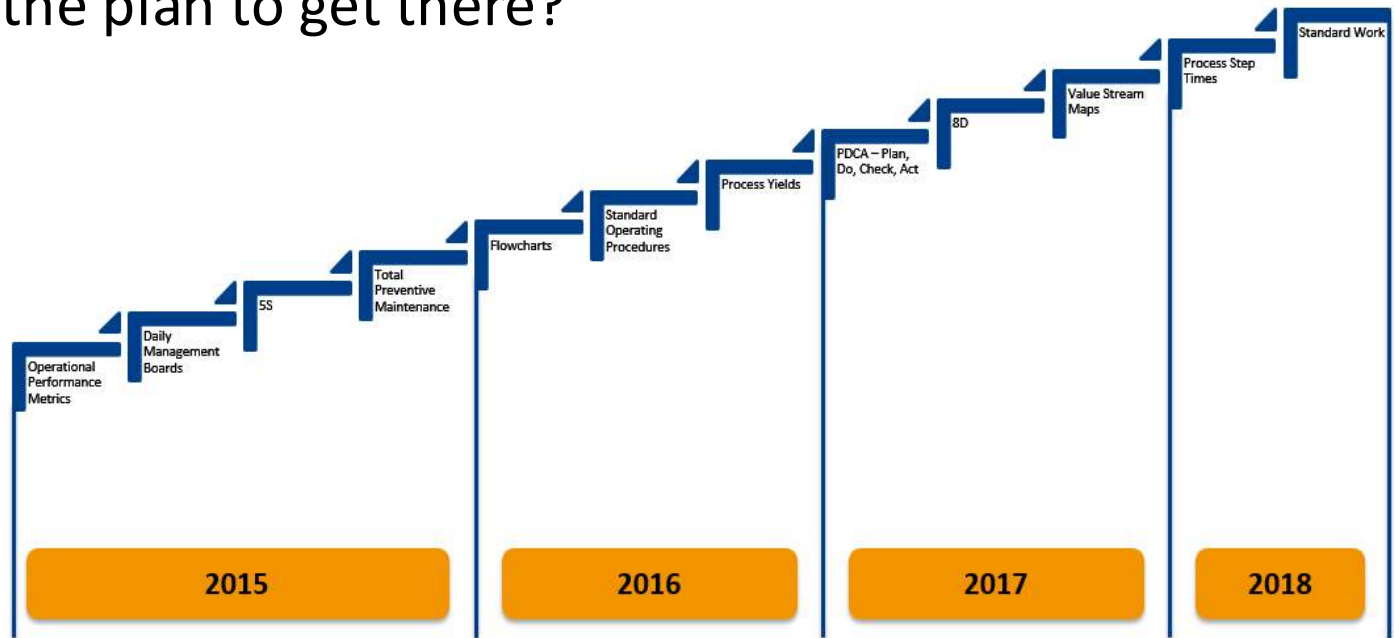
Increasing efficiency



What works?

What needs to be improved?

What's the plan to get there?



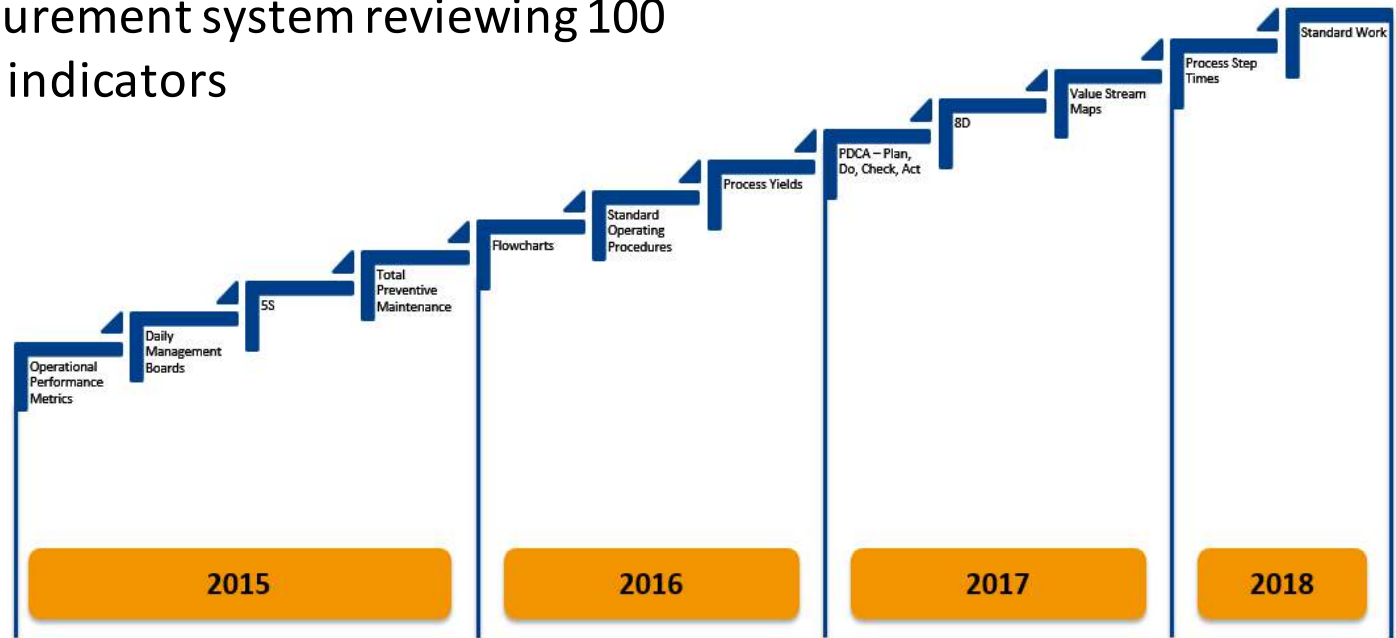
Increasing efficiency



2015

Setting our Operational Excellence Program

- Kitron common processes
- Visualized daily meetings
- Weekly measurement system reviewing 100 performance indicators



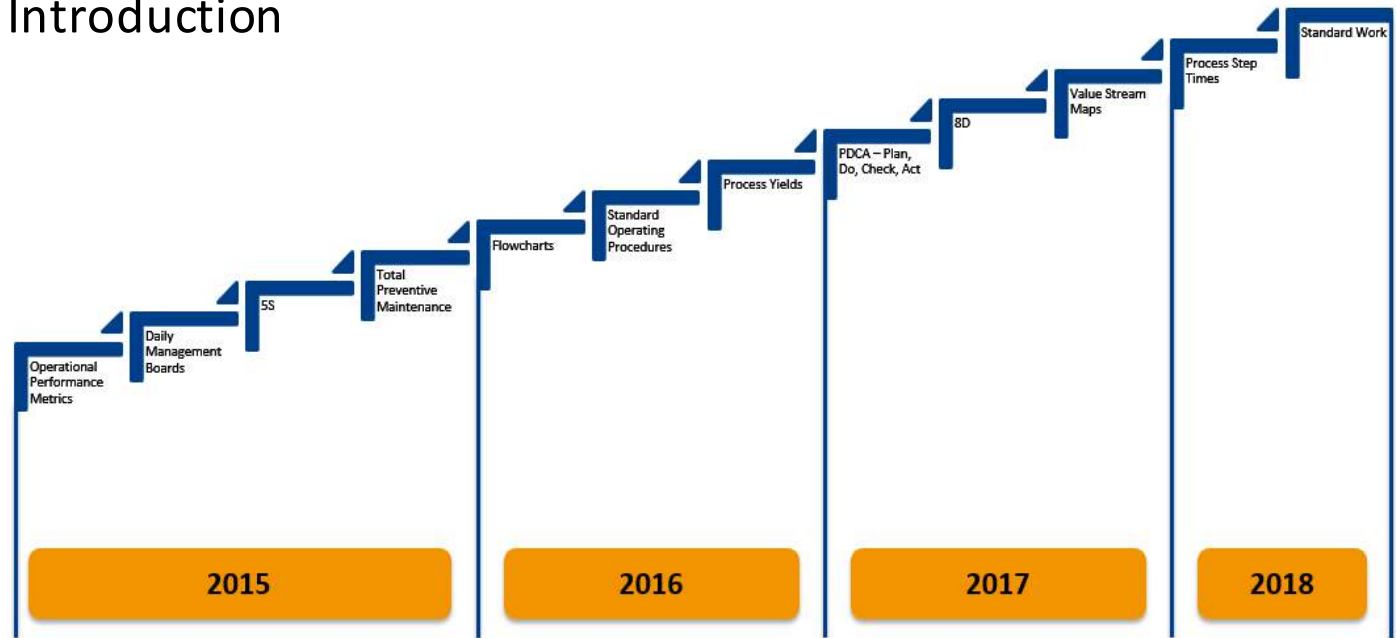
Increasing efficiency



2016

Prepared ourselves for growth

- Test Development
- New site in Sweden
- New Product Introduction



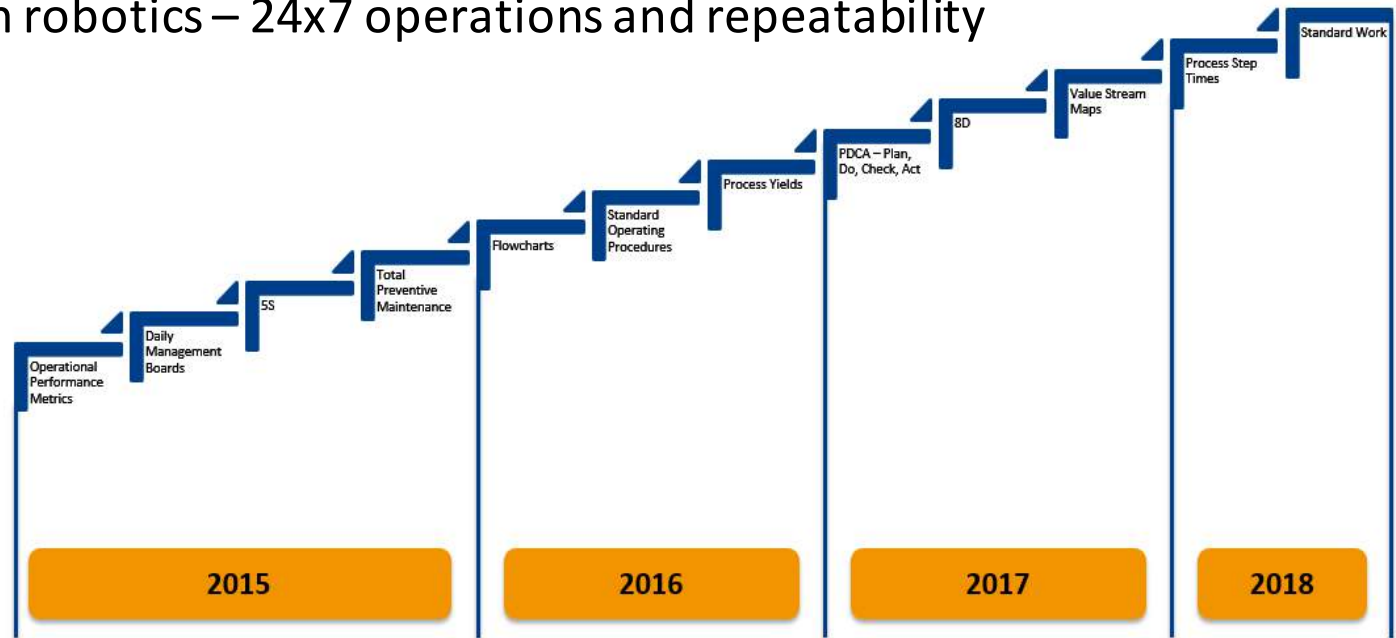
Increasing efficiency



2017

Further improving our processes

- Value stream mapping – eliminating waste
- Project Management – enable us to grow smoothly
- Investment in robotics – 24x7 operations and repeatability



Improving time to market and cost:

Introducing SATS



- Kitron's proprietary test system
- Lower investment cost
 - Only requires an adaptor – pay as you use
 - Frigg: Full version
 - Nanna: Compact version
- Standard system and common libraries
- Ensures common platform between customer and supplier
- Facilitates transfers within Kitron



20 SATS by 2018

75% of our revenue tested with SATS by 2020

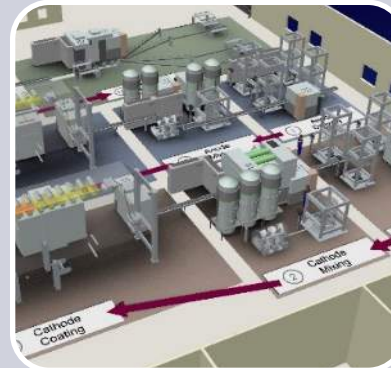
Taking Kitron to the next level



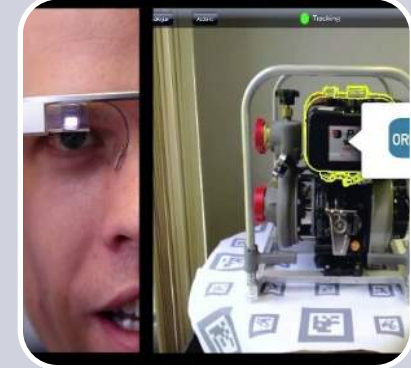
Additive
Manufacturing
(3D printing)



Automation
& Robotics



Virtual
simulation



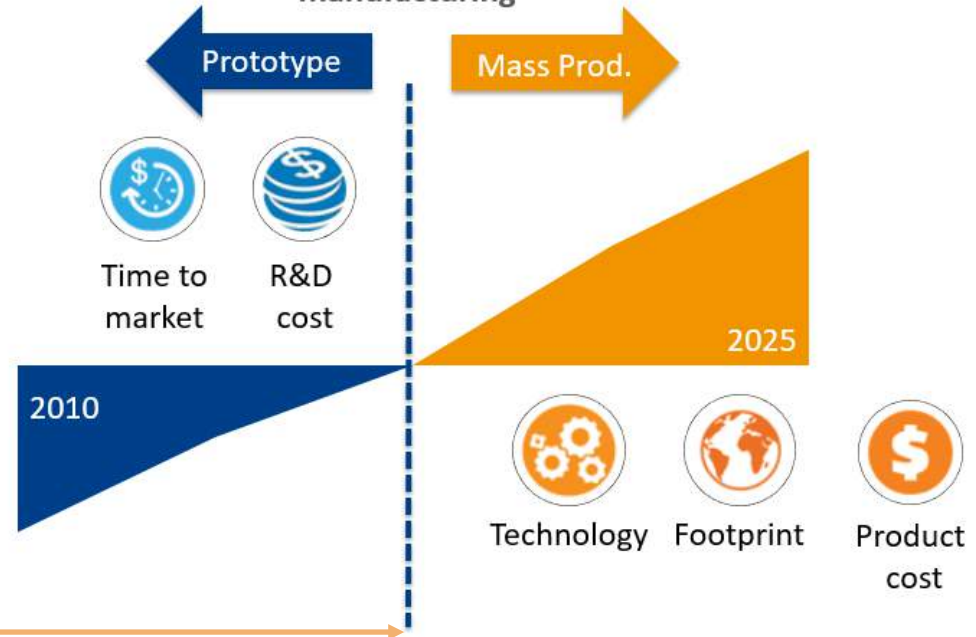
Augmented
reality

Moving to mass production



Advantages of 3D printing over traditional manufacturing

- 3D printing will soon be as cheap and fast and conventional manufacturing methods



Additive manufacturing of composites at all Kitron sites by 2018

Additive manufacturing of metals introduced in 2019

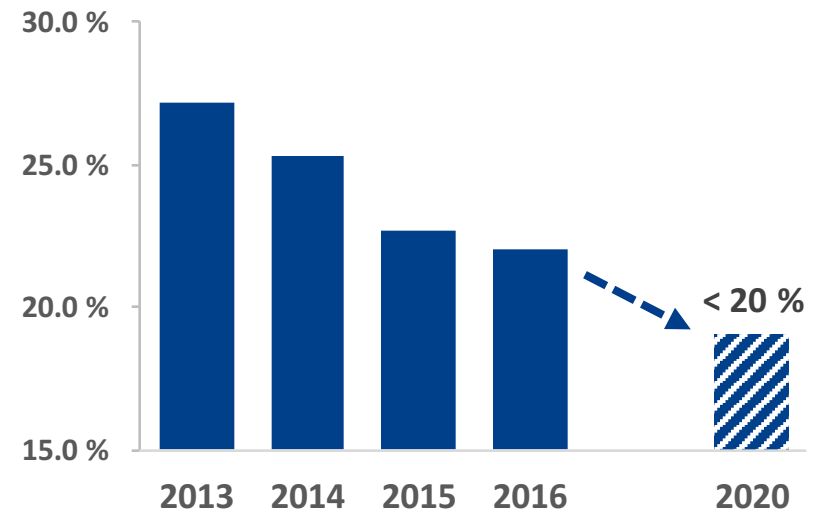
Will drive competitiveness



- Enables cost efficient flexibility
- Facilitates growth



Payroll expense as % of revenue



Manufacturing lines for 2 products fully automated in all sites by 2018
50% of our production lines fully automated by 2020

Virtual simulation:

Identify improvements early

Before we build a new product,
we will first create and
optimize its digital twin.



Great potential in production



- Live view of a physical environment augmented by computer
- A true value-add device

QUALITY

- Increasing the likelihood that the correct procedure is performed

TRAINING

- Accelerating training of new employees – quick growth

OPERATIONAL EXCELLENCE

- Assessing accuracy and timing of tasks, so they can be improved

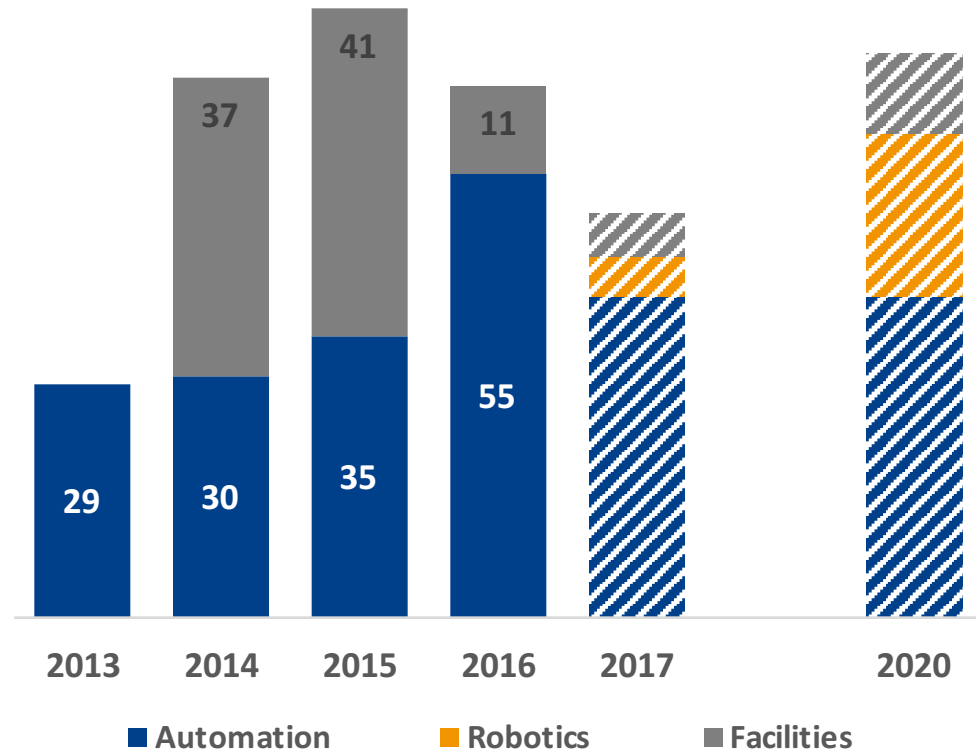


Focus on technology



- Major investment cycle on facilities completed
- Modern, highly competitive facilities
- Shift focus to automation

Capital expenditure



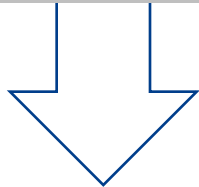
Flexibility, execution and innovation:

From vision to specific goals



Flexibility

Robust and adaptive processes

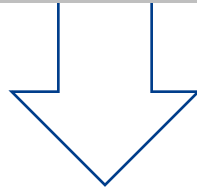


Growth
CAGR 10%



Execution

Right the first time, every time

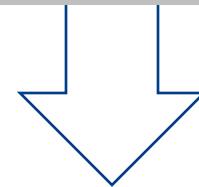


Profitability
7% EBIT margin



Innovation

Creativity propelled by technology



Life cycle services
10% of sales

Key messages

- Preferred partner for high-reliability solutions
- Operational excellence program pays off
- Seamless supply chain means true partnership
- Technical innovation takes us to next level



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Speaker

Cathrin Nylander
Chief Financial Officer

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- Order backlog growing
 - Defence gives long-term visibility
- Net working capital
 - Higher capital efficiency
- Low financial gearing
 - NIBD / EBITDA 1.3 (1.6)

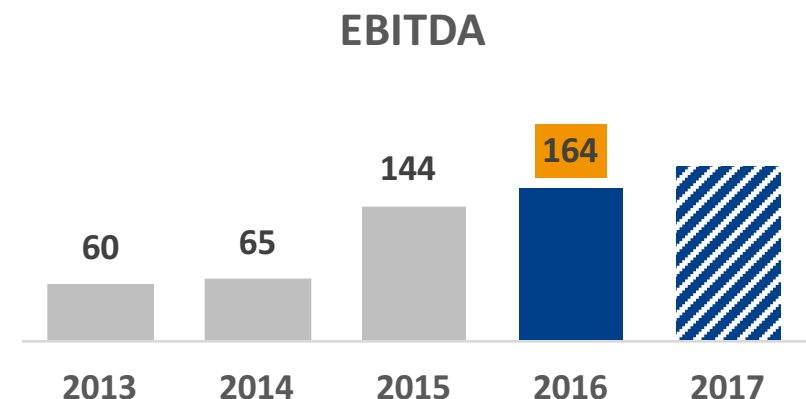
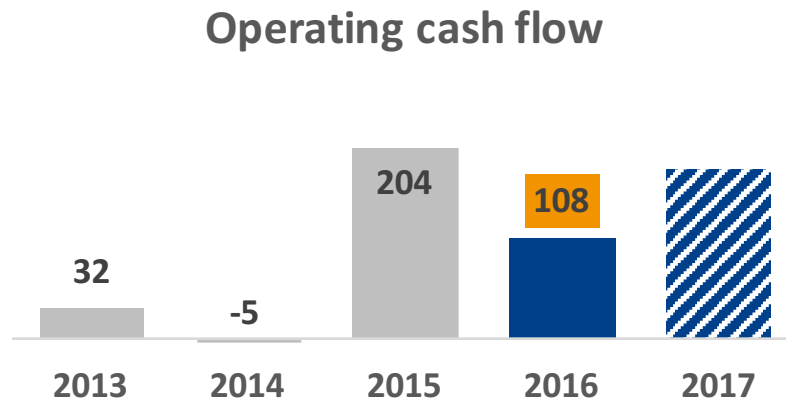
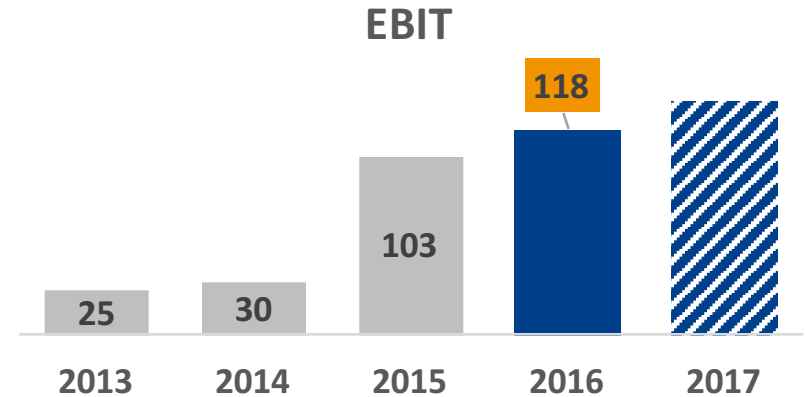
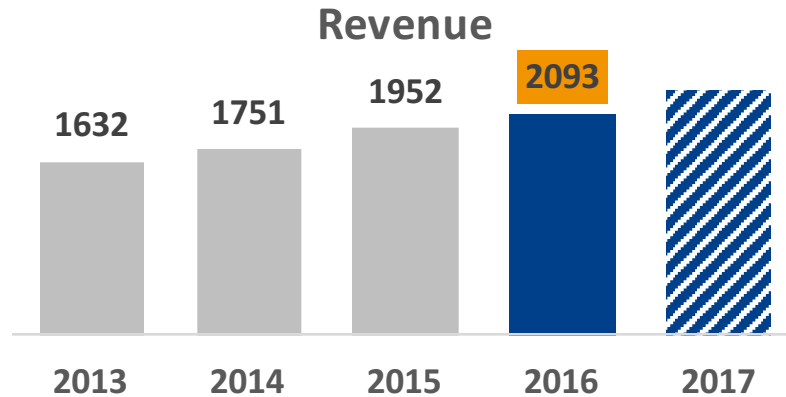
NOK mill.

2016 vs 2015

Revenue 2093.0		7.2 %
EBIT 117.8		14.7 %
Order backlog 1019.4		4.5 %
Operating cash flow 108.5		-46.8 %
Net working capital 512.2		0.9 %

Historical financials:

Growth, margin expansion and solid cash flow

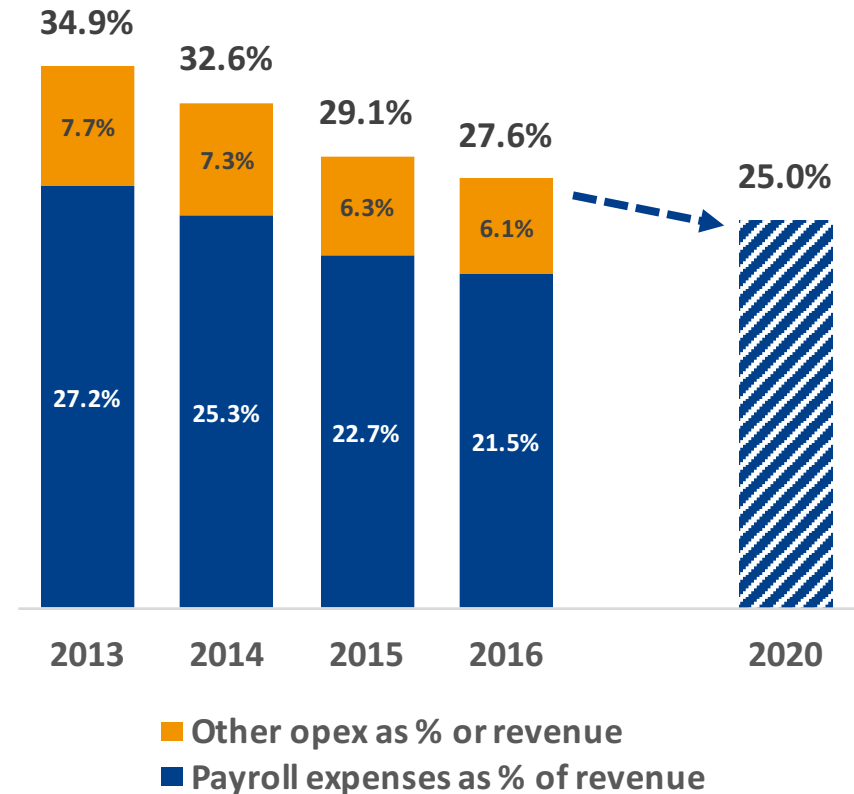


Cost control:

Progress continues

- Combining growth and tight cost control improves operational expenses in % of Revenue
- Investments in low cost countries reduce payroll expenses as % of revenue
- Closing in on strategic ambition of < 25%

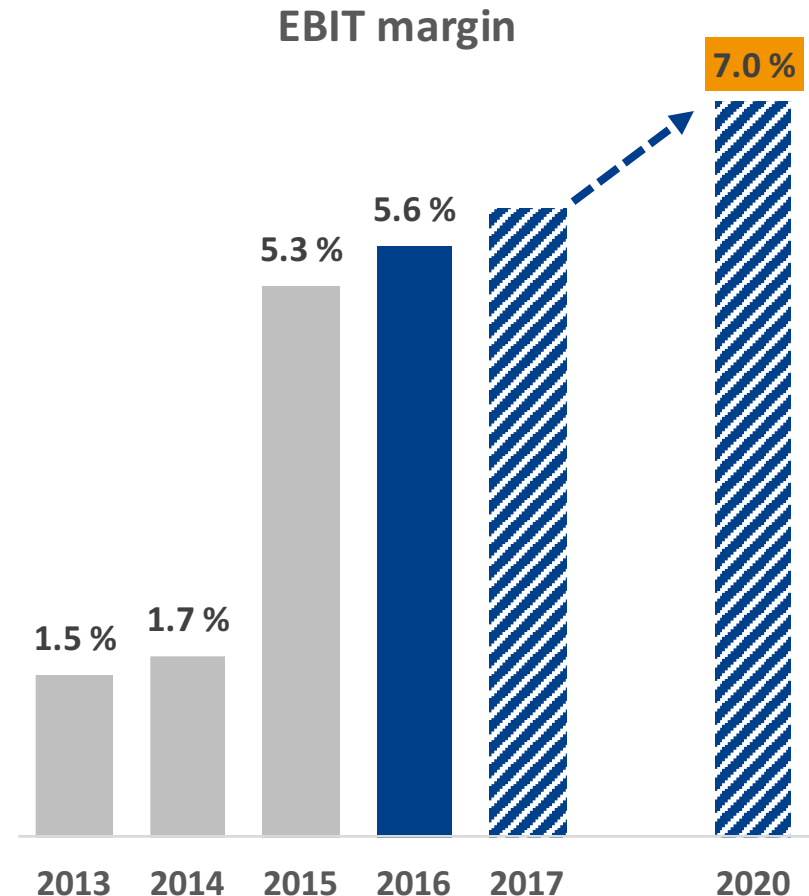
Cost control taking hold



Margins:

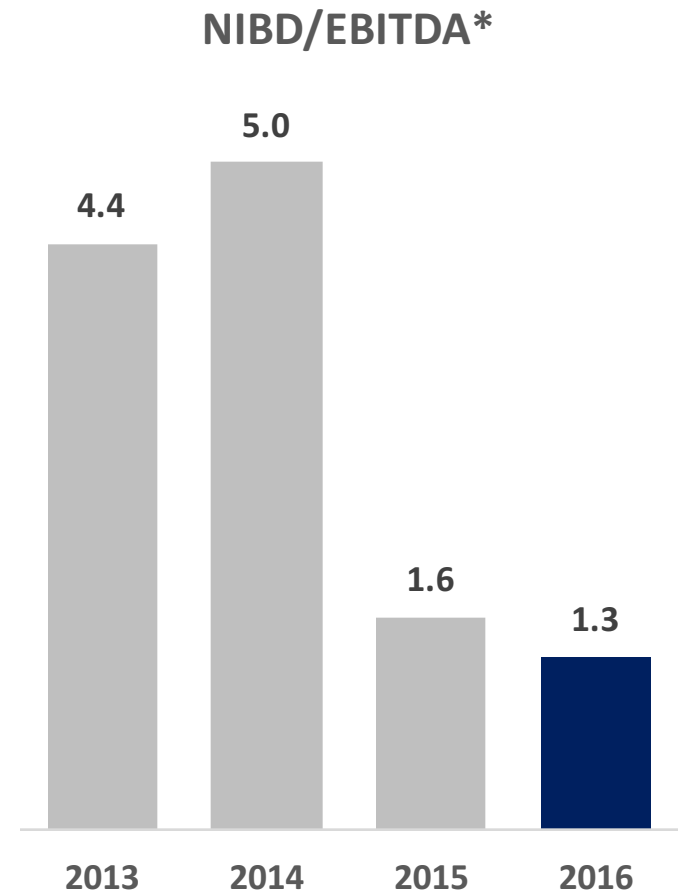
EBIT target 7% in 2020

- Operational improvements continued in 2016
- Expect 5.6-6.4% EBIT margin in 2017
- Expect further margin improvement in coming years targeting 7%
- Key elements:
 - Revenue growth
 - Improved operational efficiency
 - Growth of life cycle services



Low gearing

- Net interest-bearing debt NOK 216 million (227)
- NIBD/EBITDA 1.3 (1.6)
 - Target below 2.5
- Equity ratio 43% (44%)
- Solid platform for organic growth, acquisitions and dividends

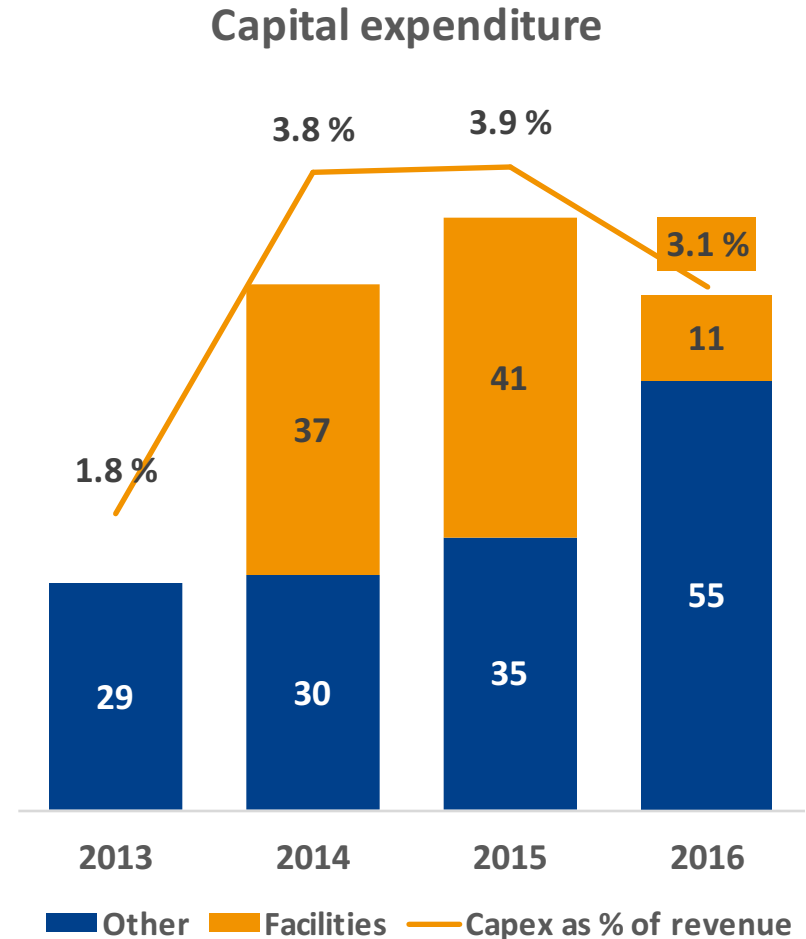


* Net interest-bearing debt divided by earnings before interest, taxes, depreciation and amortization.

Capex:

Major investment cycle nearing end

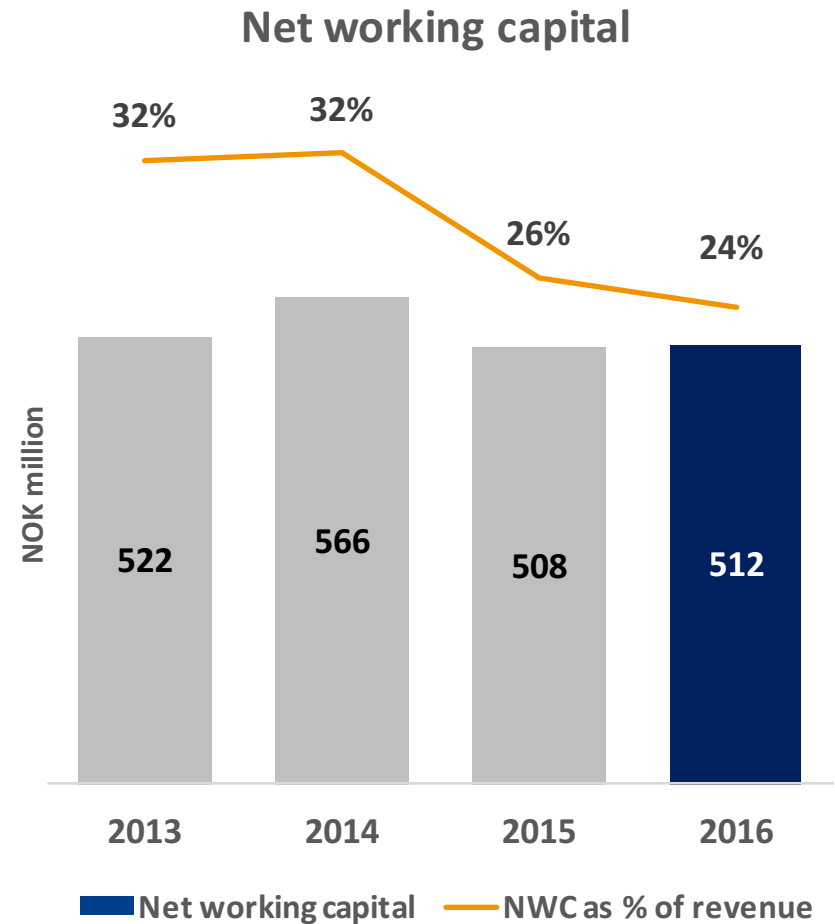
- Major investment cycle: modern, highly competitive facilities
 - Lithuania 2014: NOK 37.0m (facility) and NOK 13m (equipment)
 - Norway 2015: NOK 40.5m (facility) and NOK 7.0m (equipment)
 - Sweden 2016: NOK 10,7 (facility) and NOK 13.5 (equipment)
- 4 surface mount lines in 2016
- In the future CapEx will trend lower to the level of around 2 – 2,5 % of revenue
- But will invest to remain competitive in high-margin sectors
- CapEx partly financed by leasing



Net working capital:

Continued downwards trend

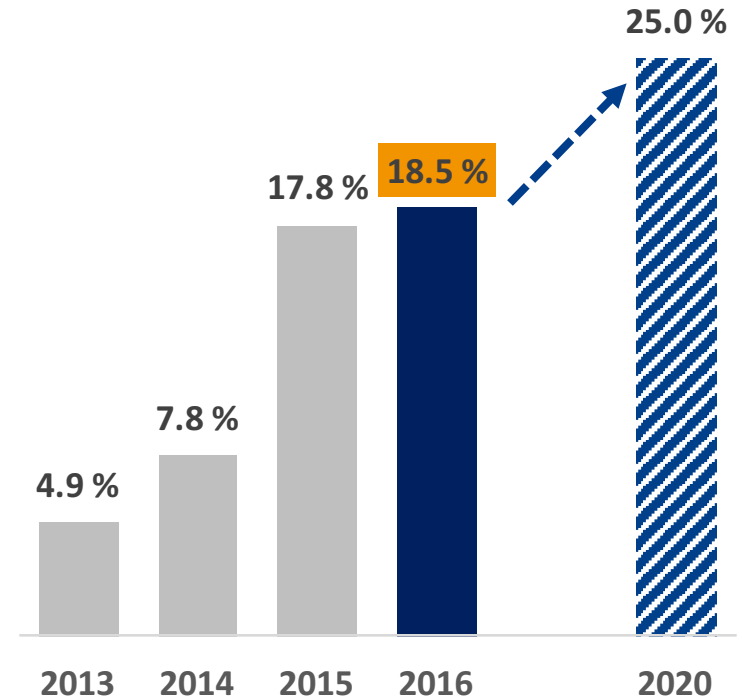
- Ongoing effort to lower ratio of NWC to revenue as sales are growing
 - Increase inventory efficiency
 - Improve payment terms with suppliers
- Target: < 20% of revenue



Improving use of capital

- 2016 increase in return on operating capital primarily due to higher EBIT
- Improvement expected to continue:
 - Higher profit
 - Capital efficiency
- Long-term target 25%
- Cash conversion cycle is a key metric:
 - 2015: 90 days
 - 2016: 79 days
 - 2017 target: <70 days
 - Long-term target: 50 days

Return on operating capital

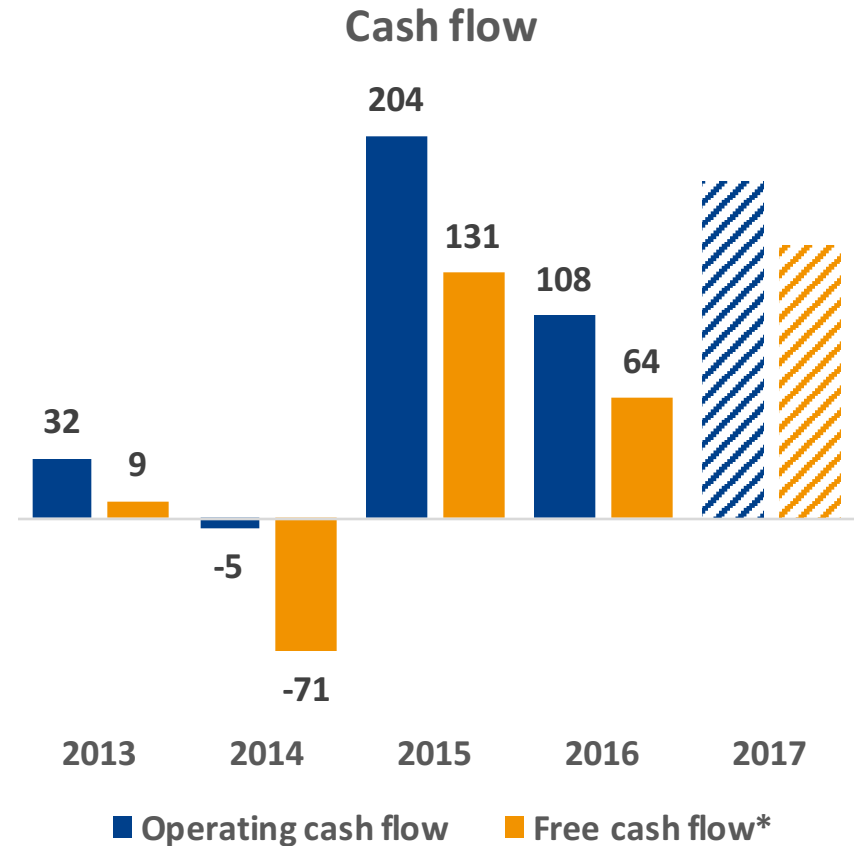


- Cash Conversion Cycle (CCC) = Days inventory outstanding + days sales outstanding - days payable outstanding.
- Return On Operating Capital (ROOC) = $\text{EBIT} / (\text{Intangible and tangible fixed assets} + \text{Inventory} + \text{Trade receivables} - \text{Trade payables})$

Cash flow:

Solid free cash generation

- Operating cash flow in line with EBITDA going forward
- Operating cash flow and free cash flow to increase in 2017
- Strong cash generation to continue



* Operational cash flow – capex.

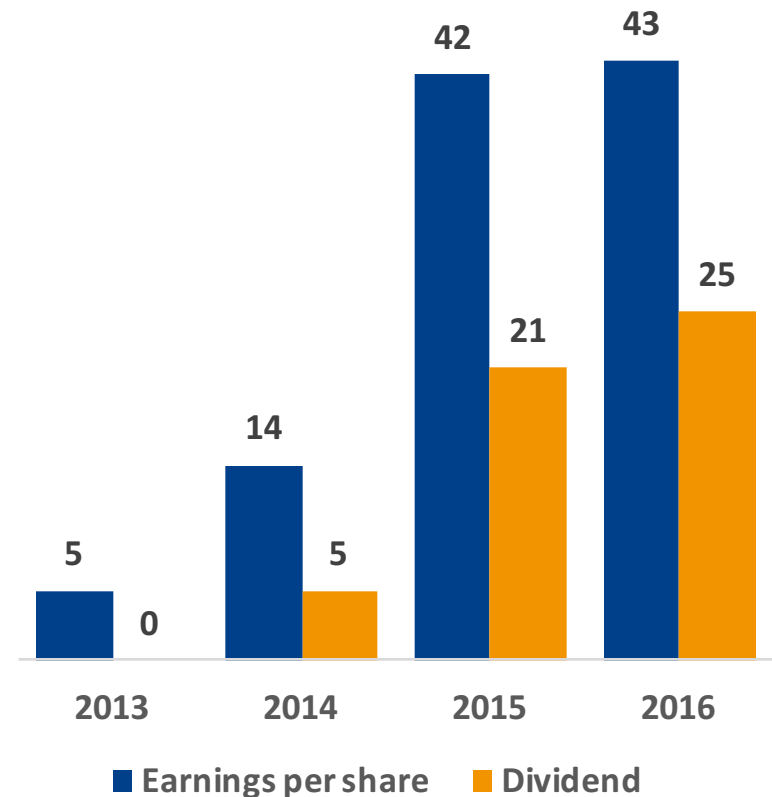
Dividends:

Strong commitment to total shareholder return

- Share price 2016 6.03, 55% increase from 2015
- Total shareholder return ~250% from 2014
- Firm dividend policy
- Favorable outlook for dividend pay out
- Proposed 2016 dividend NOK 0.25 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



What we said, what we did, what we aim for

	2014	2015	2016 target	2016 actual	2017 Target
Revenue NOK million	1751	1952	2050-2250	2093	2150-2350
EBIT margin	1.7%	5.3%	5.3-6.3%	5.6%	5.6-6.4%
Return on operating capital (R3)	7.8%	17.8%	20%	18.5%	20%
Cash Conversion Cycle (R3) Days	106	90	80	79	< 70

Key messages

- Better capital management leads to strong cash generation
- Solid balance sheet enables growth
- Focus on Total Shareholder Return

Capital Markets Day 2017

Speakers

Peter Nilsson
Chief Executive Officer

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Summary

A clear path for
growth and profitability.



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Questions and answers

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.

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 %

(Last 3 months Operating profit (EBIT))*4 / (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/ (Annualised Direct Costs/Trade Payables)

Days of Inventory Outstanding R3

360/ ((Last 3 months Direct Costs *4) / (Last 3 months Trade Payables/3))

Days of Receivables Outstanding

360/ (Annualised Revenue/Trade Receivables)

Days of Receivables Outstanding R3

360/ ((Last 3 months Revenue*4)/(Last 3 months Trade Receivables/3))

Days of Payables outstanding

360/ ((Annualised Cost of Material + Annualised other operational expenses) / Trade Receivables)

Days of Payables Outstanding (R3)

360/ (((Last 3 months (Cost of Material + other operational expenses)*4) / (Last 3 months Trade Receivables)/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)