

# Kongsberg Automotive

Q4 2020 Earnings Call

February 26, 2021



**KONGSBERG**  
AUTOMOTIVE



# Kongsberg Automotive

## Forward-Looking Statements and Non-IFRS Measures

### Forward-Looking Statements

This presentation contains certain “forward-looking statements”. These statements are based on management’s current expectations and are subject to risks, uncertainty and changes in circumstances, which may cause actual results, performance, financial condition or achievements to differ materially from anticipated results, performance, financial condition or achievements. All statements contained herein that are not clearly historical in nature are forward-looking and the words “anticipate,” “believe,” “expect,” “estimate,” “plan,” and similar expressions are generally intended to identify forward-looking statements. We have no intention and are under no obligation to update or alter (and expressly disclaim any such intention or obligation to do so) our forward-looking statements whether as a result of new information, future events or otherwise, except to the extent required by law. The forward-looking statements in this presentation include statements addressing our future financial condition and operating results. Examples of factors that could cause actual results to differ materially from those described in the forward-looking statements include, among others, business, economic, competitive and regulatory risks, such as conditions affecting demand for products, particularly in the automotive industries; competition and pricing pressure; fluctuations in foreign currency exchange rates and commodity prices; natural disasters and political, economic and military instability in countries in which we operate; developments in the credit markets; future goodwill impairment; compliance with current and future environmental and other laws and regulations; and the possible effects on us of changes in tax laws, tax treaties and other legislation. More detailed information about these and other factors is set forth in the 2020 Kongsberg Automotive Annual Report and the Kongsberg Automotive Quarterly Reports.

### Non-IFRS Measures

Where we have used non-IFRS financial measures, reconciliations to the most comparable IFRS measure are provided, along with a disclosure on the usefulness of the non-IFRS measure, in this presentation.

# Today's presenters



**Norbert Loers**

**Co-CEO, CFO**

*Zurich (Switzerland)*

- 
- > Interim Co-CEO and CFO responsible for Group finance since joining in 2017
  - > 15+ years in executive positions in the automotive industry with deep expertise in finance
  - > Graduated from University of Bonn with a MSc degree in Economics



**Robert Pigg**

**Co-CEO, SVP Off-Highway**

*Wilis (USA)*

- 
- > Interim Co-CEO and SVP Off-Highway responsible for Specialty products segment
  - > 15+ years experience with Kongsberg and Off-Highway segment
  - > Holds a BA in Mechanical Engineering from Auburn University and a BA in Physical Sciences from Freed-Hardeman University





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# Highlights Q4 and FY 2020

## Sales

Best Q4 of the last four years with **sales of ~300 MEUR**

## Adj. EBIT

Best quarterly earnings of the last four years with an **adj. EBIT of 22.5 MEUR** and a **margin of 7.5%**

## Free Cash Flow<sup>1</sup>

Significant improvement compared to prior quarters, **almost breakeven in Q4** – without COVID-19, FY2020 could have been Free Cash Flow positive

## New business wins

**Strong bookings in Q4** after challenging market environment in Q2 & Q3 with continuous **high book-to-bill performance**

## Liquidity

Significant **liquidity reserve of ~200 MEUR** by end of 2020 after successful equity refinancing

1. As defined in APM section in annual report – Free Cash Flow is measured based on sum of cash flow from operating activities, investing activities, financial activities and currency effects on cash (together described as Change in cash), excluding net drawdown/ repayment of debt and proceeds received from capital increase/ purchase of treasury shares.



# Highlights Q4 2020

<b>Sales</b>	<ul style="list-style-type: none"><li>&gt; Q4 2020 sales amounted to 298.5 MEUR, 17.8 MEUR (6.3%) above Q4 2019, including negative currency translation effects of 14.3 MEUR</li><li>&gt; At constant currencies, the YoY growth was around 11.4% which is above the overall market development for the quarter</li></ul>
<b>Adj. EBIT</b>	<ul style="list-style-type: none"><li>&gt; Adj. EBIT in Q4 2020 grew significantly amounting to 22.5 MEUR compared to 15.1 MEUR in Q4 2019, an increase of 48.7% YoY</li></ul>
<b>Free Cash Flow</b>	<ul style="list-style-type: none"><li>&gt; In Q4 2020, Free Cash Flow totaled -3 MEUR continuing the cash flow improvement we have started to show in Q3</li><li>&gt; Operating cash flow improved to 37.0 MEUR from 25.5 MEUR in Q4 2019</li><li>&gt; Currently, Free Cash Flow is expected to turn positive in H1 2021</li></ul>
<b>New business wins</b>	<ul style="list-style-type: none"><li>&gt; Driven by steadily improving order levels throughout the quarter, similar volumes to those of Q4 2019 have been achieved</li><li>&gt; New business wins amounted to 86.7 MEUR on an annualized sales basis, corresponding to 471.3 MEUR of expected lifetime sales during Q4 2020</li><li>&gt; This represents a strong rebound from Q2 and Q3 2020 bookings and totaled in last 12 months expected lifetime sales of 1,346 MEUR</li></ul>
<b>Gearing</b>	<ul style="list-style-type: none"><li>&gt; The adjusted gearing ratio (NIBD/Adj. EBITDA) deteriorated from 3.1x in Q4 2019 to 5.4x in Q4 2020 still impacted by the ongoing COVID-19 pandemic</li></ul>



# Highlights FY 2020

## COVID-19

- > 2020 was a year dominated by the effects of the coronavirus disease (COVID-19) - the virus and a weak start to the year 2020 have impacted the automotive industry heavily
- > However, from Q3 on sales and new business wins rebounded significantly with production levels in Q4 stronger than expected

## Sales

- > In 2020, sales declined by around 16.5% from 1,161 MEUR to 969 MEUR
- > This decline is similar to production volumes reductions in the passenger car and commercial vehicles markets of -16.7% and -2.7%, respectively
- > Most notably in 2020, China sales grew strongly by 36.2%, proving the recognition as a trusted supplier in this regional center of gravity of new automotive entrants and rapid EV adoption

## Performance

- > Although significant attention was on crisis management, improving and developing the business was our key focus
- > 2020 new business wins amounted to more than 282 MEUR based on expected annualized sales, a 14.7% decrease from 2019's 330 MEUR
- > From a lifetime sales perspective, new business bookings of ~1,350 MEUR exceeded normalized annual sales levels securing future growth
- > With these strong new business wins, a strong sales foundation has been built ensuring continued top line growth in the coming years

## Free Cash Flow

- > Free Cash Flow improved by +7 MEUR from a negative FCF of 37 MEUR versus a negative FCF in 2019 of 44 MEUR
- > The negative FCF was caused primarily by the significant decline in revenues of 192 MEUR and related contribution margins

## Liquidity

- > In Q2 2020, a Private Placement capital increase of MNOK 700 (~63 MEUR) was successfully completed.
- > In Q3 2020, a subsequent offering with MNOK 300 (~27 MEUR) was successfully completed.
- > The combination of operational savings, strong improvements in working capital, the capital increases, change in size and terms of the RCF, and the implementation of the receivable securitization program led to a very significant liquidity reserve of 197 MEUR by year-end 2020







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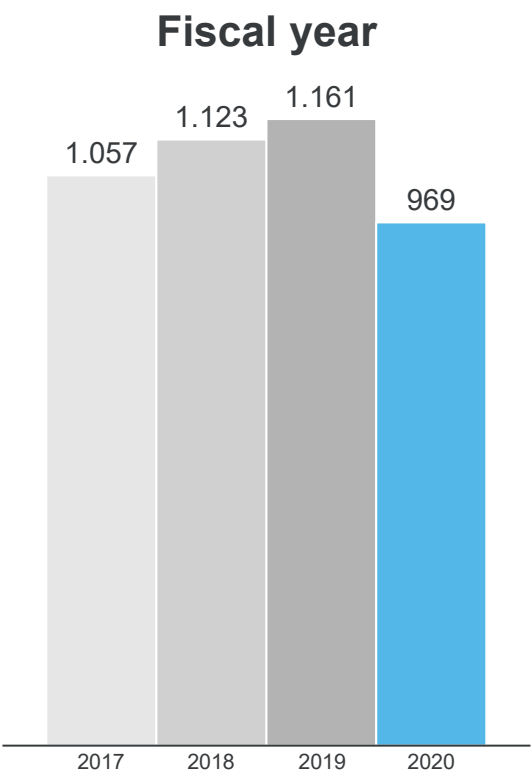
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# Sales: Strong recovery from COVID-19 impact to the best Q4 in the past four years

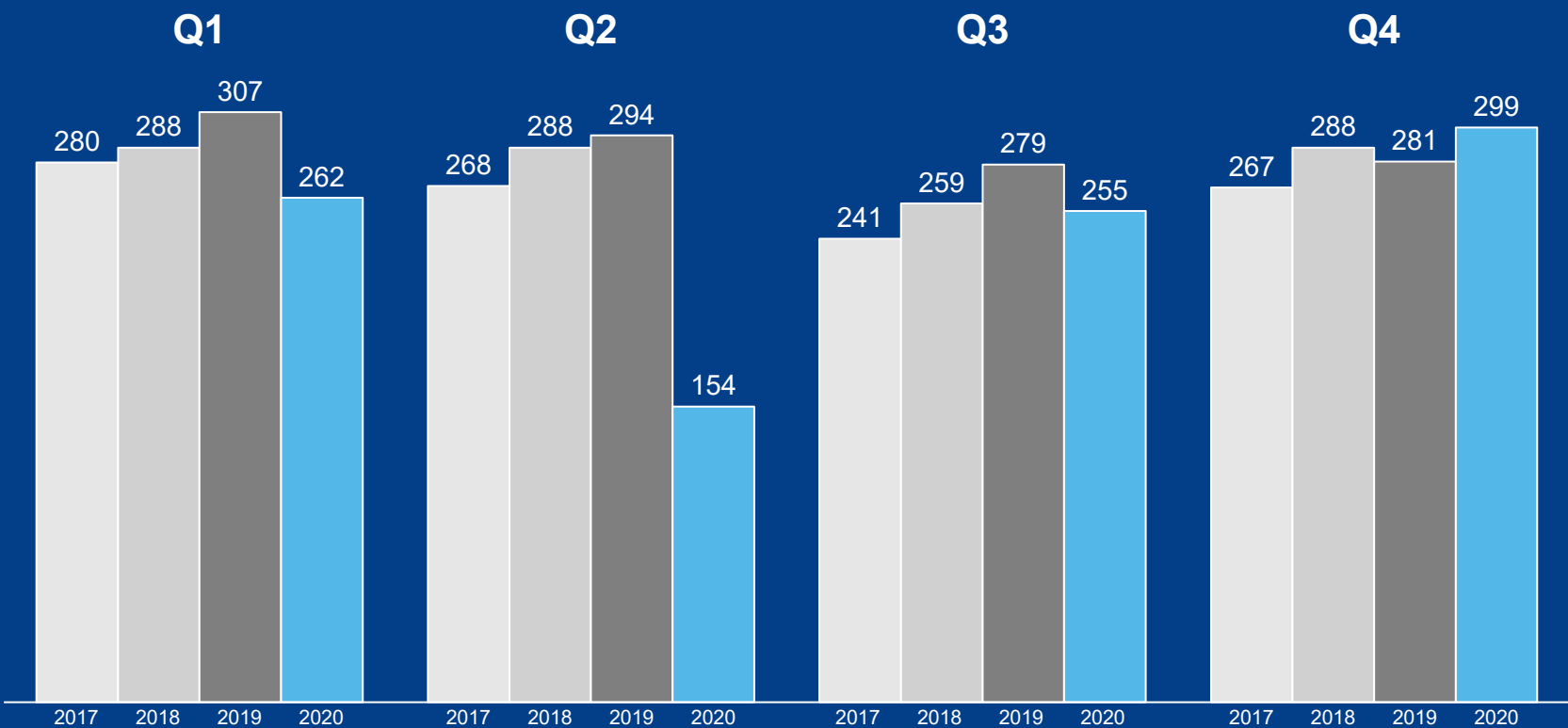
Sales<sup>1</sup>, MEUR



1. 2017 sales includes MEUR 15 relating to Headrest & Armrest (divested in Q2 2017)

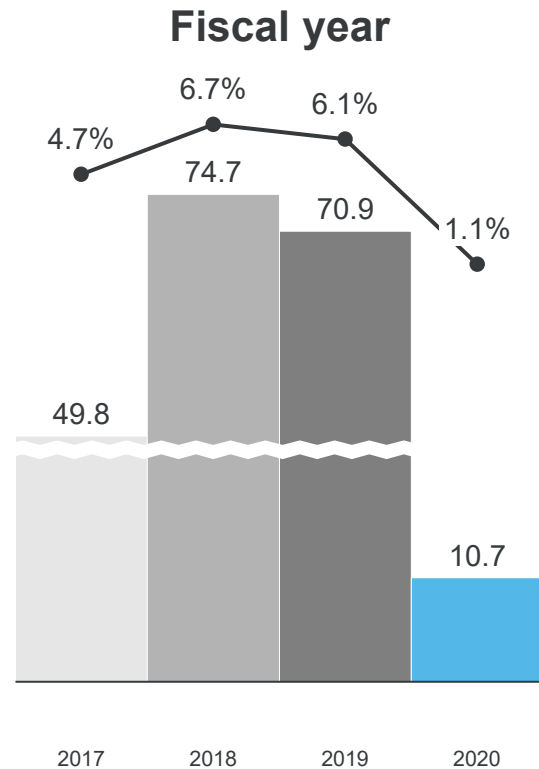


Quarterly sales<sup>1</sup>, MEUR



# Adjusted EBIT: Best quarterly earning in the past four years

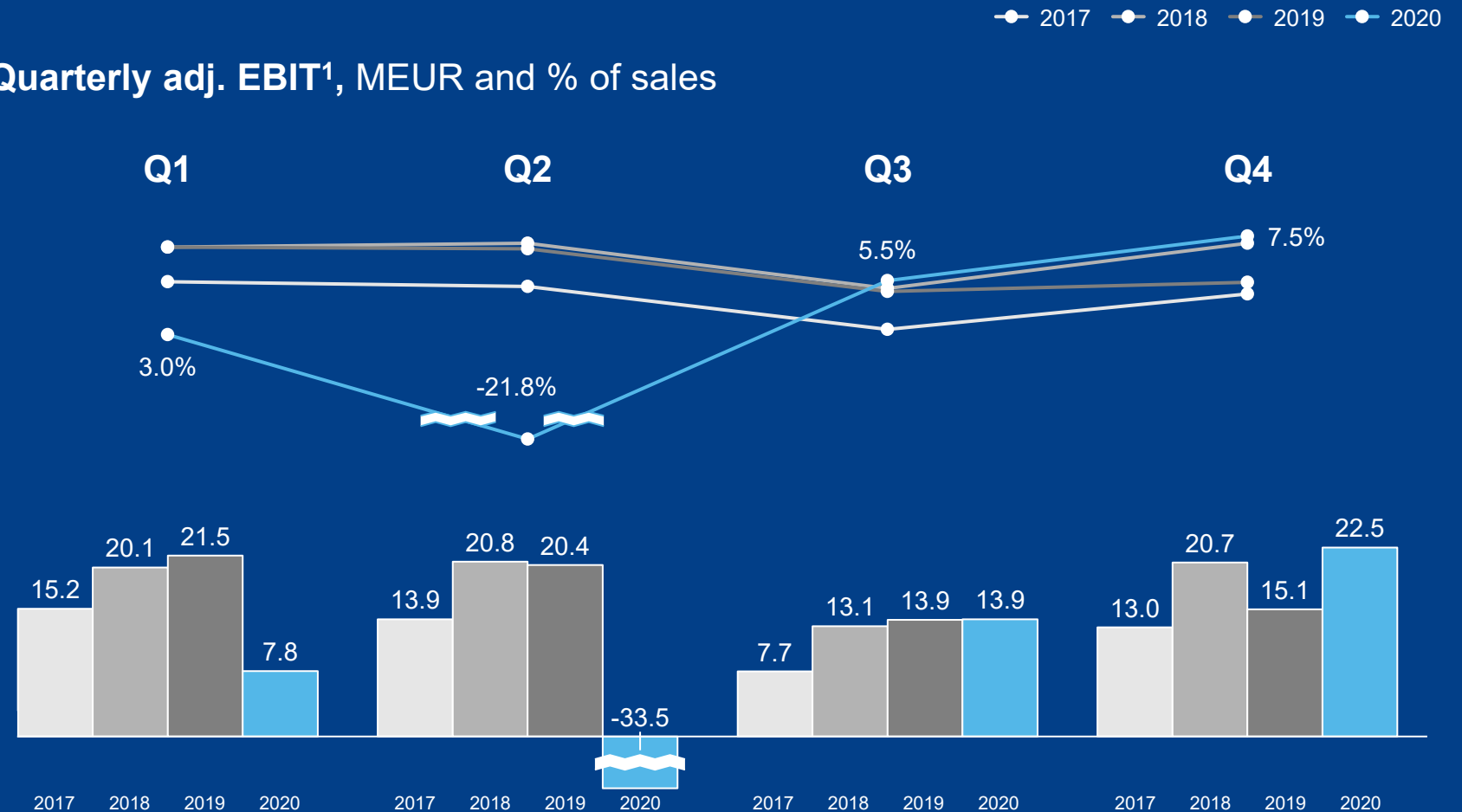
Adj. EBIT<sup>1</sup>, MEUR, % of sales



1. 2017 adj. EBIT includes MEUR 1.8 relating to Headrest & Armrest (divested in Q2 2017)



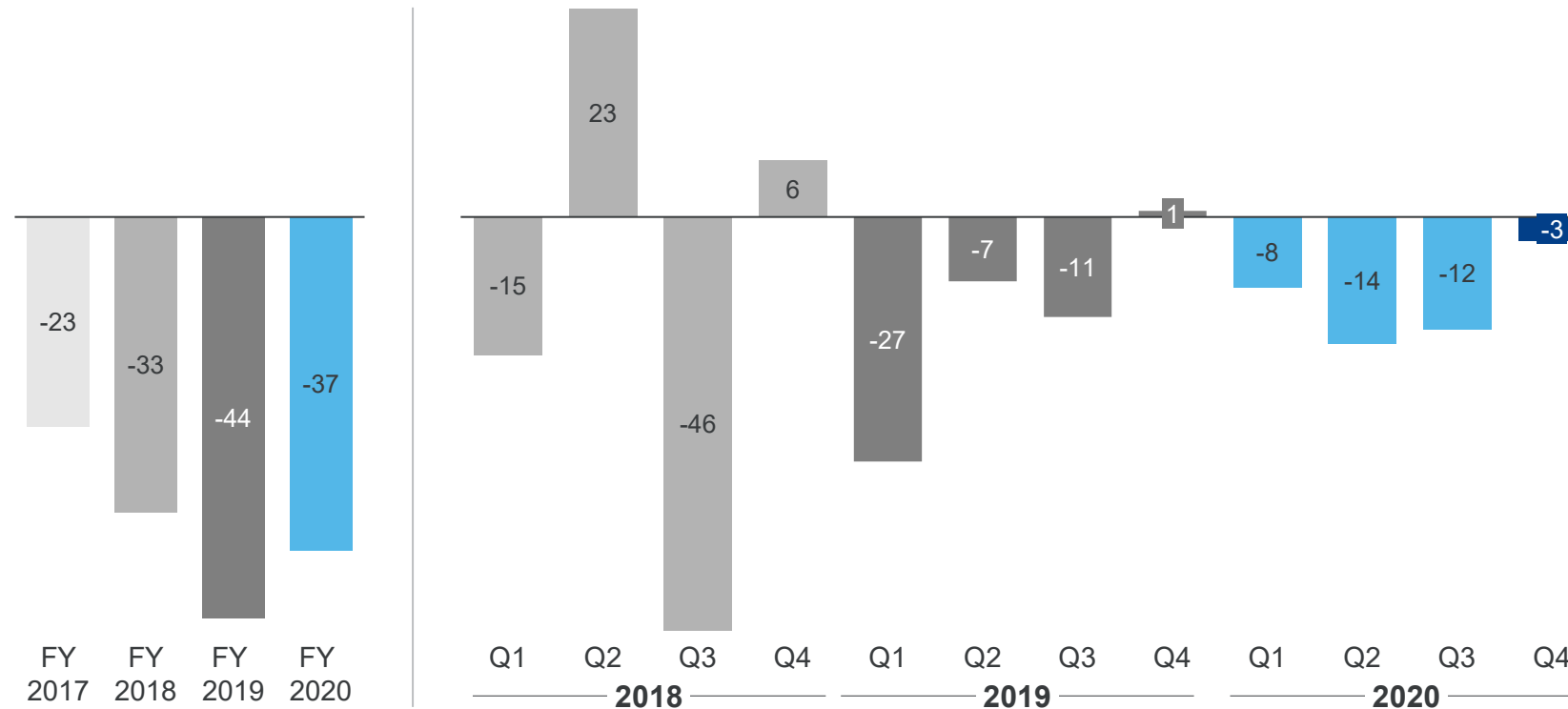
Quarterly adj. EBIT<sup>1</sup>, MEUR and % of sales





# Free Cash Flow: More stabilized FCF compared to previous years, heavily impacted by COVID-19 – almost breakeven in Q4

## Free Cash Flow, MEUR



### Q4 2020 FCF details

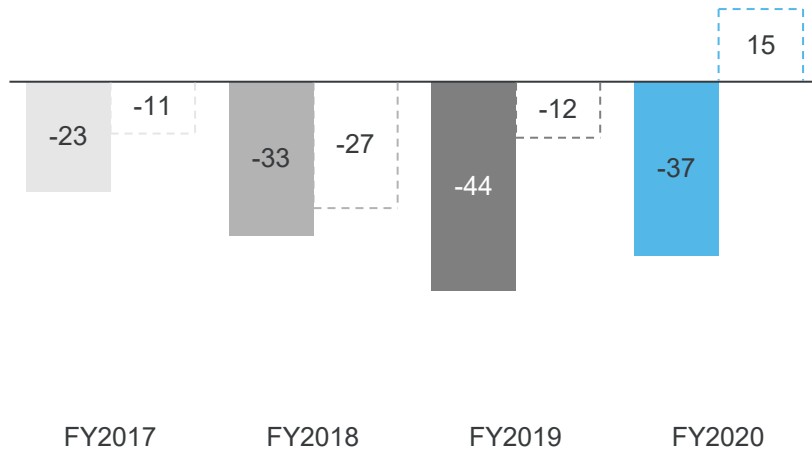
<b>Operating activities</b>	<b>+37</b>
Therein: Overall NWC reduction	+12
<b>Investing activities</b>	<b>-27</b>
Therein: Investments in tangible and intangible assets	-27
<b>Financing cost</b>	<b>-6</b>
Therein: IFRS 16 interest payments	-2
Therein: Repayment of IFRS 16 lease liabilities	-4
<b>FX effects on cash</b>	<b>-7</b>
<b>Total</b>	<b>-3</b>



# Free Cash Flow: Significant improvement compared to prior quarters – without COVID-19 FY2020 could have been FCF positive

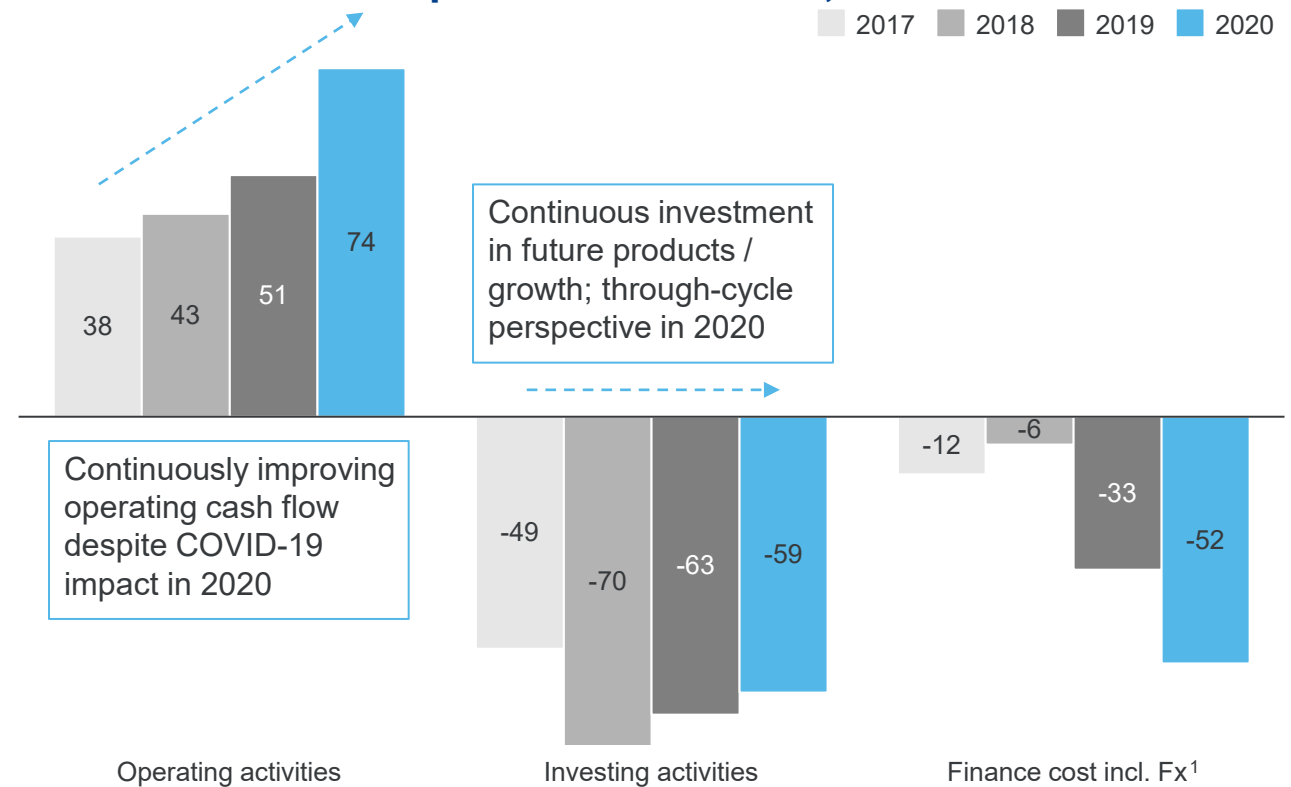
## Free Cash Flow, MEUR

■ Free Cash Flow □ Cash flow from operating and investing activities



## Free Cash Flow component break-down, MEUR

■ 2017 ■ 2018 ■ 2019 ■ 2020



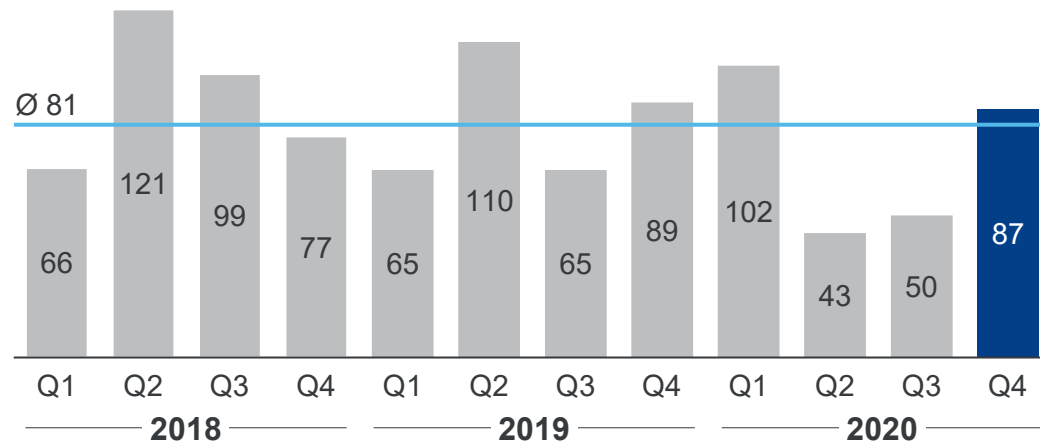
1. Finance cost related to debt services, lease repayments/IFRS16, and realized Fx gains/losses



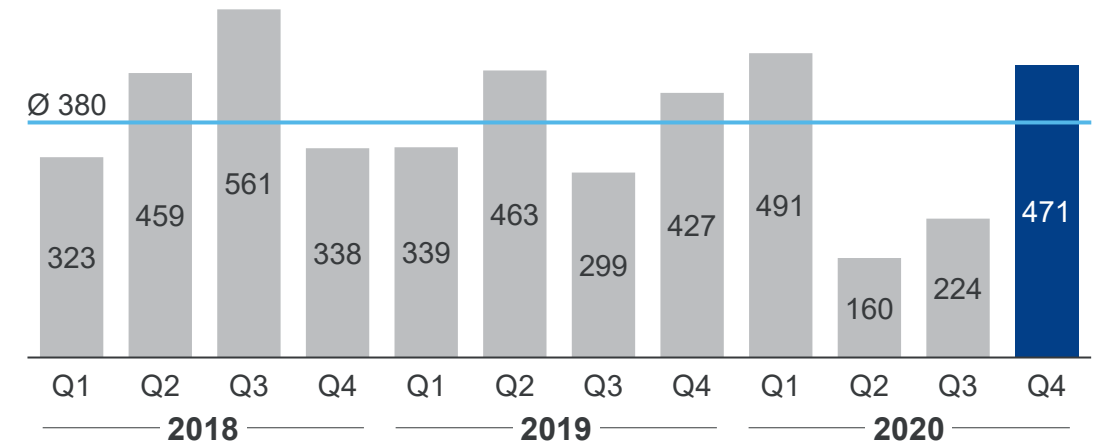


# New business wins: Strong bookings in Q4 after challenging market environment in Q2 & Q3

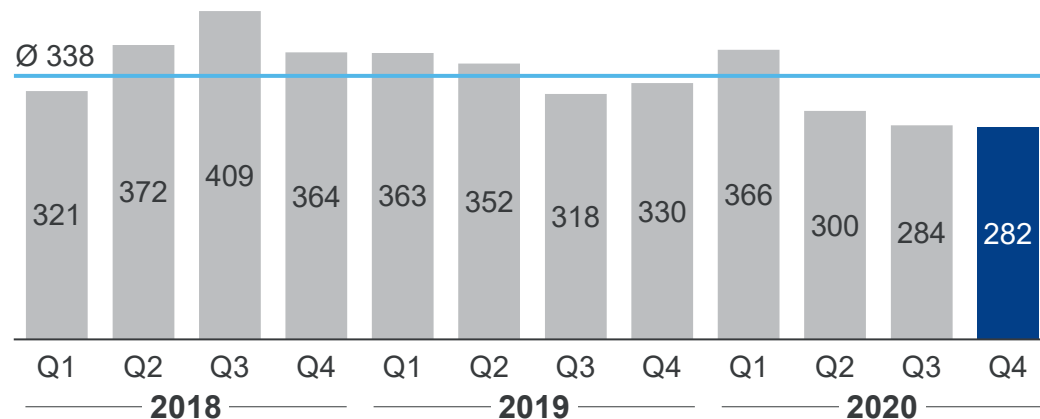
**New business wins per quarter, per annum sales, MEUR**



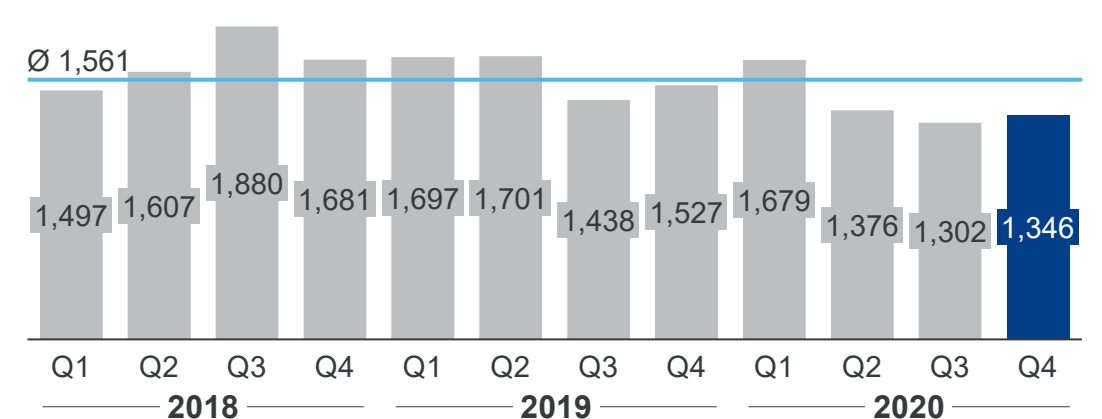
**New business wins per quarter, lifetime sales<sup>1</sup>, MEUR**



**New business wins LTM, per annum sales, MEUR**



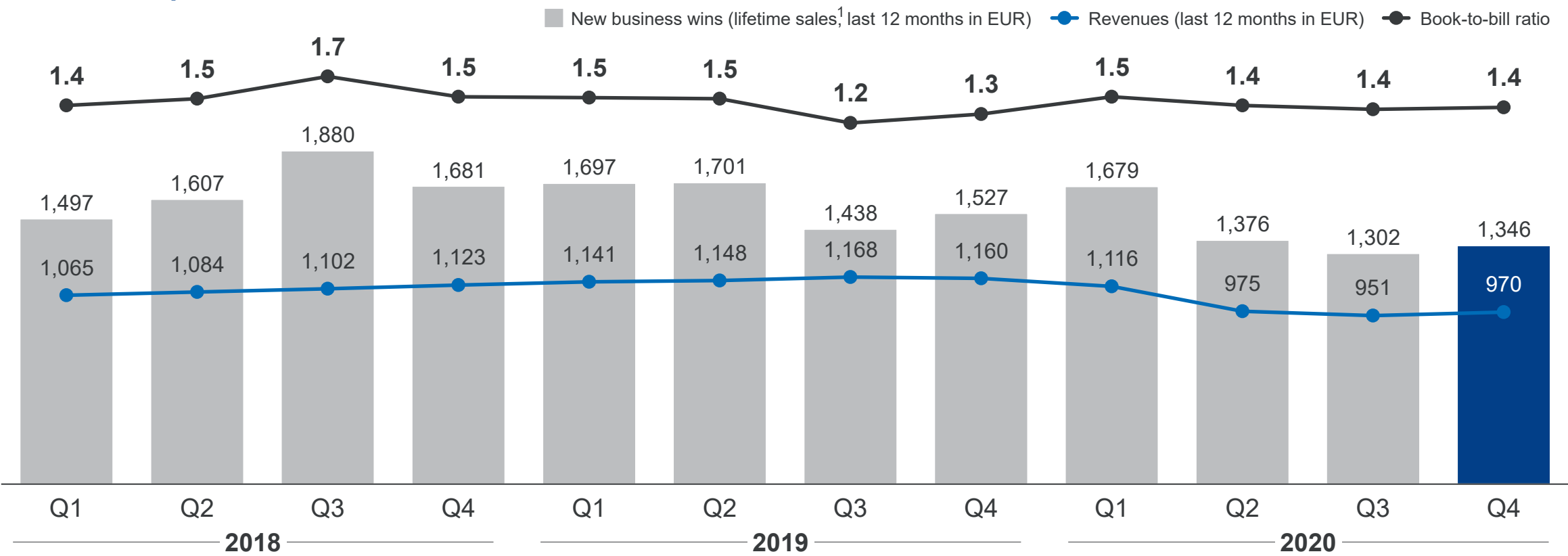
**New business wins LTM, lifetime sales<sup>1</sup>, MEUR**



1. Lifetime sales assumptions are based on IHS and LMC production estimates at the time of the booking

# Book-to-bill performance: High ratio in 2020 despite crisis with booked business volumes exceeding revenues to secure future growth

Book-to-bill performance, MEUR



1. Lifetime sales assumptions are based on IHS and LMC production estimates at the time of the booking





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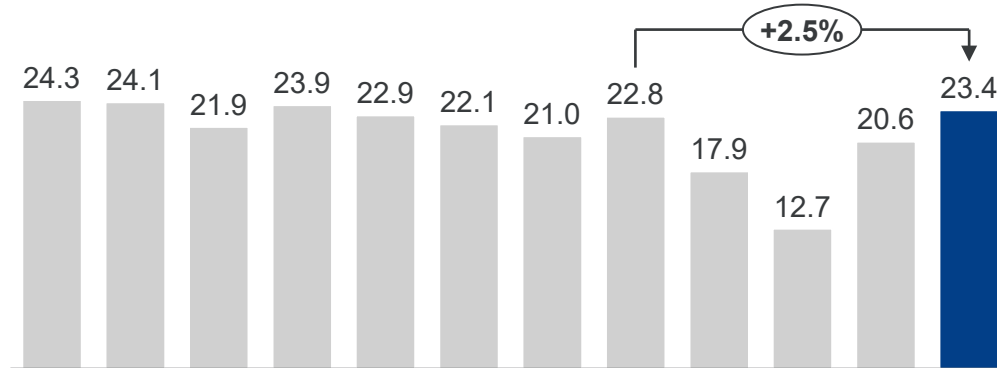
Summary

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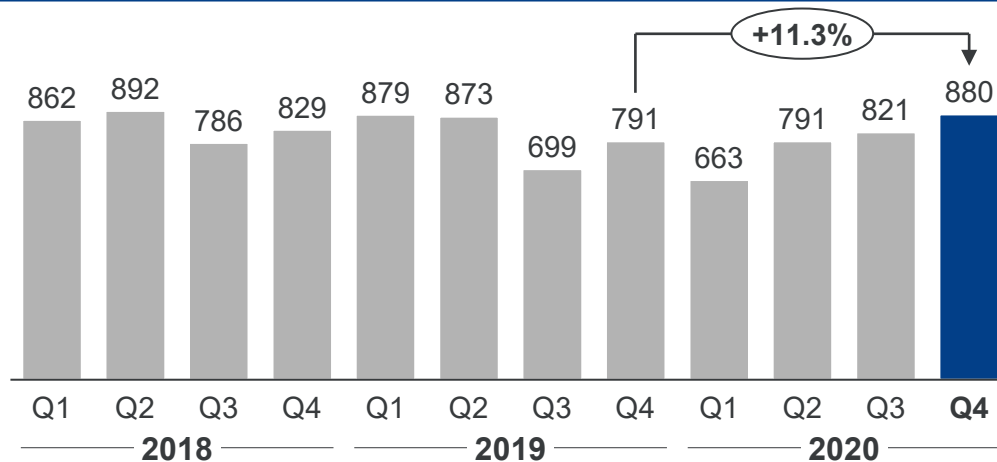
# Market trends: Significant downturn in 2020 – first signs of recovery in Q3 confirmed by further growth in Q4

## Market development

### Global Passenger Car Production, in million units



### Global Truck Production, in thousand units



Region	Q4-20 vs. Q4-19	2020 vs. 2019
China	+5.9%	-4.2%
APAC w/o China	+2.0%	-19.6%
Europe	+1.3%	-21.6%
North America	+0.5%	-20.1%
South America	+0.4%	-31.4%
Rest of World	-11.0%	-15.1%
<b>Total</b>	<b>+2.5%</b>	<b>-16.2%</b>
<b>Total (excl. China)</b>	<b>+0.9%</b>	<b>-20.9%</b>

China	+25.1%	+35.1%
APAC w/o China	+4.6%	-35.6%
Europe	-15.1%	-25.2%
North America	+3.8%	-28.3%
South America	+20.6%	-21.7%
Rest of World	-29.2%	-19.3%
<b>Total</b>	<b>+11.3%</b>	<b>-2.7%</b>
<b>Total (excl. China)</b>	<b>-1.4%</b>	<b>-29.2%</b>





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# Segment highlights

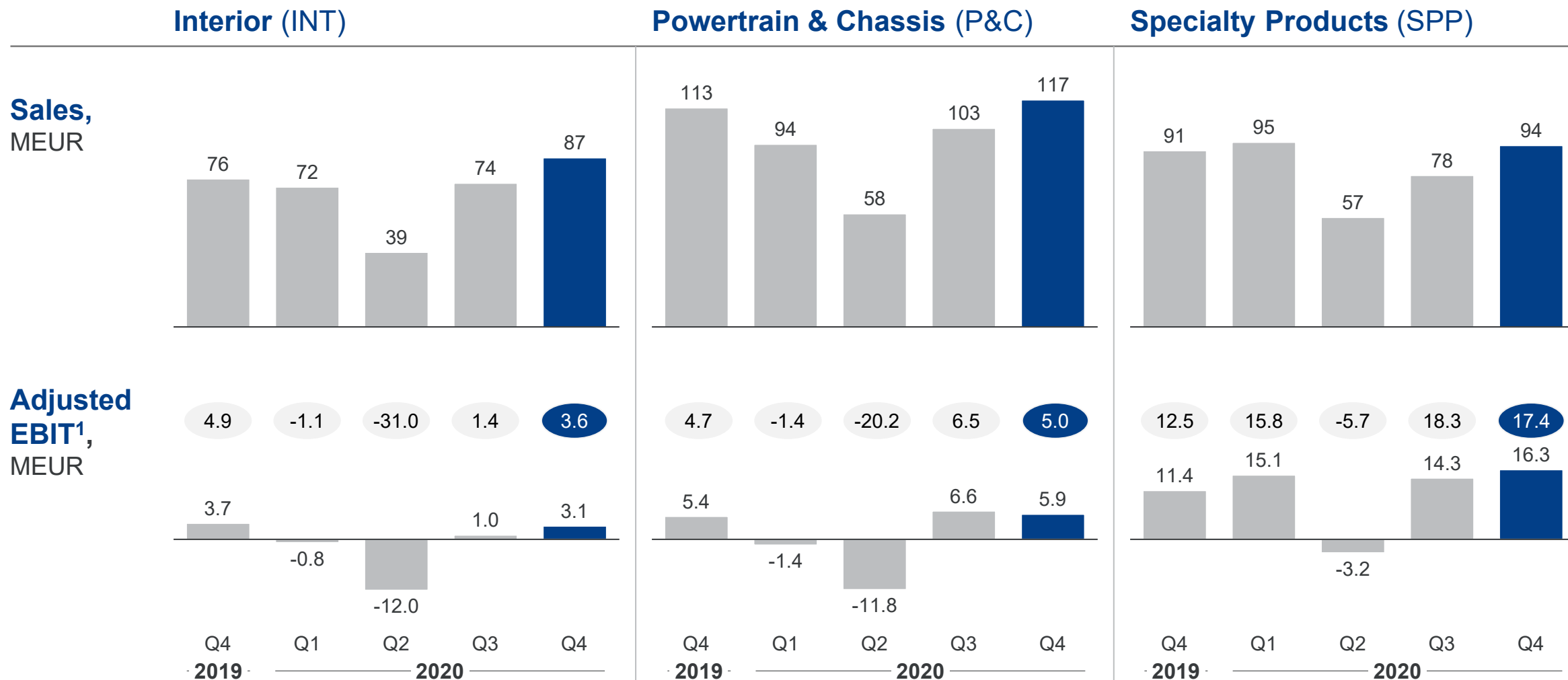
Group financial update

Q&A

# Segment financials:

## Strong recovery in Q4 2020 after COVID-19 shock in Q2 and Q3

% Adj. EBIT margin (%)



1. Excluding restructuring costs and impairment in Q2 2020, see details in the quarterly report

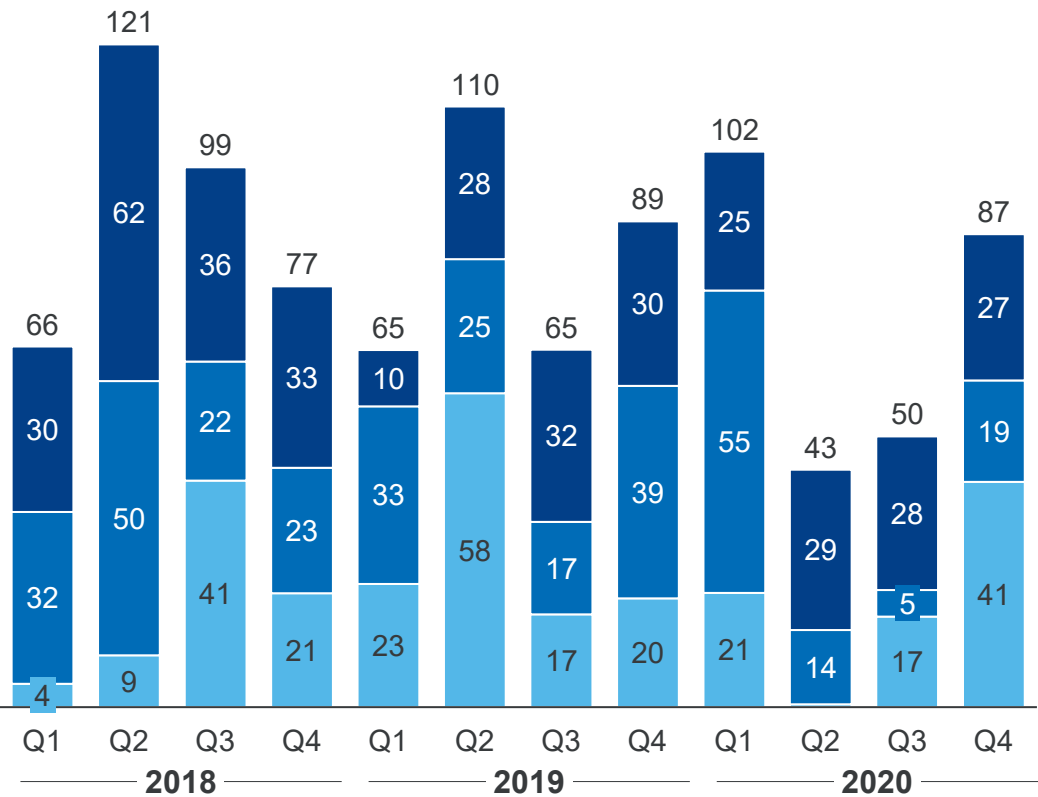




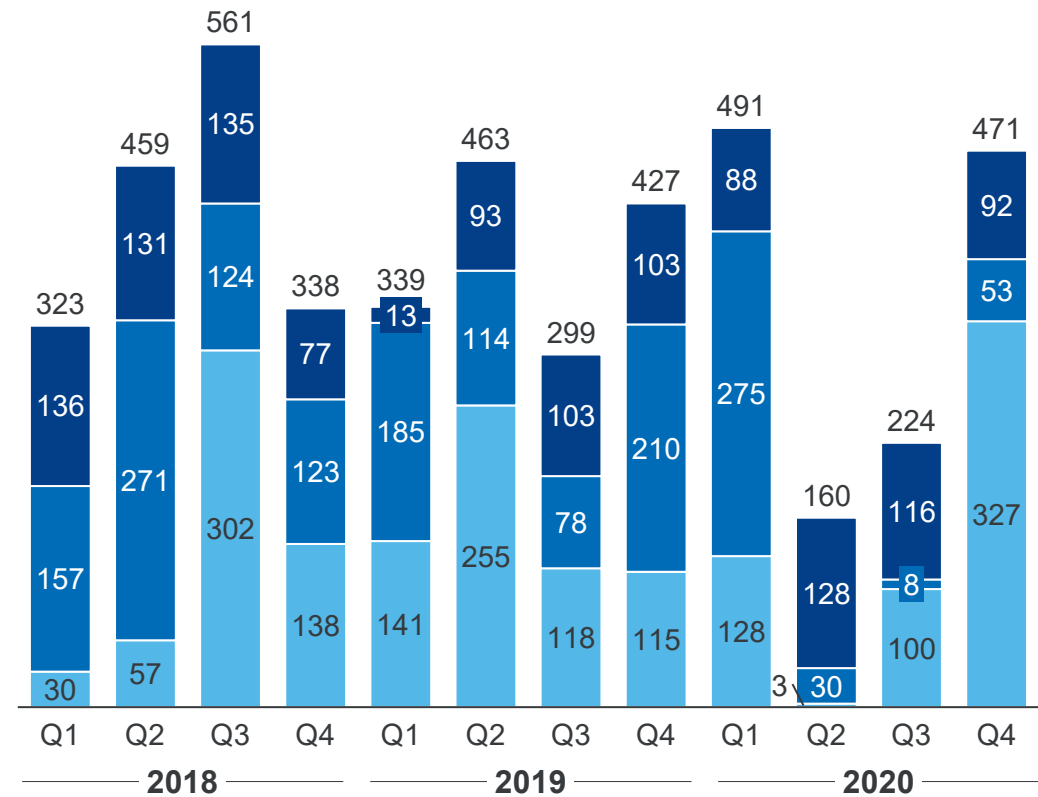
# New business wins per segment: Return to pre-COVID-19 levels in Q4 securing future growth

■ SPP
 ■ P&C
 ■ INT

New business wins per quarter, per annum sales, MEUR



New business wins per quarter, lifetime sales<sup>1</sup>, MEUR

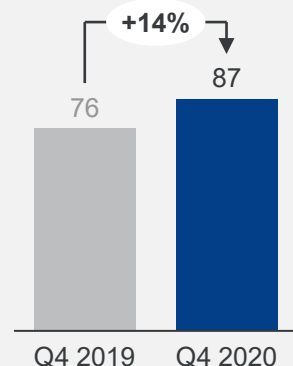


1. Lifetime sales assumptions are based on IHS and LMC production estimates at the time of the bookings

# Interior (INT) segment: Strong top line performance and new business wins

% Adj. EBIT margin (%)

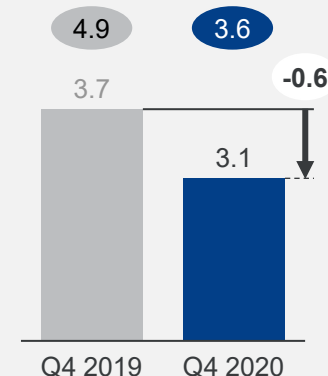
## Sales, MEUR



The Interior segment consists of two business units: Interior Comfort Systems (ICS) and Light Duty Cables (LDC).

Revenues in Q4 2020 showed an increase of MEUR 11.0 despite negative translation effect of MEUR 4.5. This was mainly due to the ICS strong performance especially in North America and China due to production ramp up and a gain in market share.

## Adj. EBIT, MEUR



Adj. EBIT in Q4 decreased in % of sales and in absolute values compared to Q4 2019.

The positive effects of operational improvements and strict cost controls were offset by one-time costs and supply chain stress.

The global supply crisis for electronic components already impacted Interior's cost by about MEUR 0.5 in Q4.

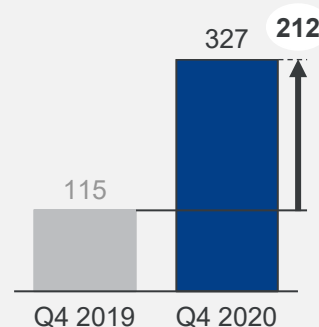
## Operations

In Q4 2020, Interior continued to focus on controlling variable and fixed costs and implementing further operational improvements as we have ramped up production to above pre-COVID levels.

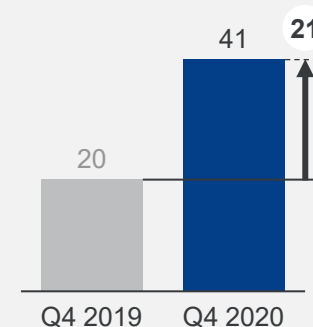
Since the Q4 2020 global demand has surged, Interior has faced major supply issues relating electronic components. We will continue to see these issues well into 2021.

## New business wins, MEUR

### Lifetime sales



### Annualized sales



Interior had strong Q4 bookings.

Combined, contracts amount to MEUR 41.3 in annualized sales or MEUR 326.9 in expected lifetime sales.

ICS was awarded two large contracts for seat support: one with a major premium European OEM and one with a major US OEM. These programs total MEUR 17.0 and MEUR 11.6 in expected annualized sales and MEUR 153.3 and MEUR 80.9 in expected lifetime sales.

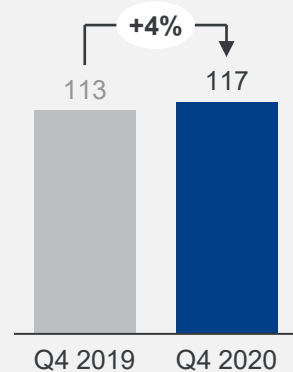


# Powertrain and Chassis (P&C) segment:

## Improved sales and adj. EBIT performance and lower new bookings

% Adj. EBIT margin (%)

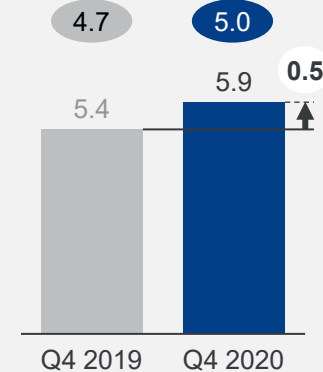
### Sales, MEUR



The Powertrain and Chassis segment consists of two business units: On-Highway (ONH) and Driveline (DRL).

Revenues in Q4 2020 showed an increase of MEUR 4.1 despite a negative translation effect of MEUR 4.8. This was mainly due to the market share gain in both Passenger Car and Commercial Vehicles in China.

### Adj. EBIT, MEUR



Higher profitability is driven by efficient control of variable and fixed costs in European and American plants. However, this was partially offset by a warranty charge of about MEUR 5.0.

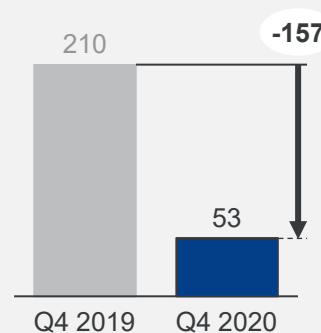
### Operations

All plant operation are “back to normal” at normalizing volumes; we are benefiting from the operational improvement plans achieved in 2019 and the cost controls implemented earlier this year.

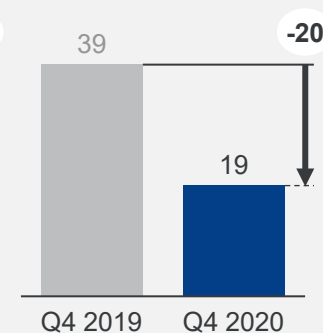
With the Q4 2020 global demand ramping up, we have faced supply issues relating resin, steel, and electronic components. We will continue to see these issues well into 2021.

### New business wins, MEUR

#### Lifetime sales



#### Annualized sales



Again, P&C new business wins were heavily impacted by COVID-19.

Within the quarter, P&C was awarded a contract with a major US OEM. This program totals MEUR 4.3 in expected annualized sales and MEUR 25.7 in expected lifetime sales.

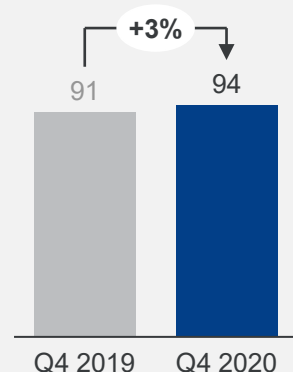




# Specialty Products (SPP) segment: Crisis-resistant segment with strong sales and margins

% Adj. EBIT margin (%)

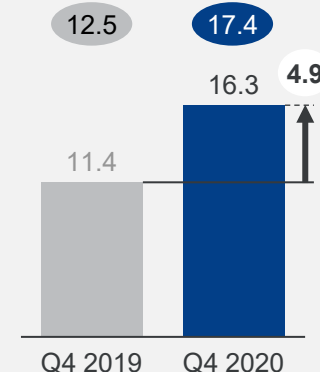
## Sales, MEUR



The Specialty Products segment consists of three business units: Couplings (COU), Fluid Transfer Systems (FTS) and Off-Highway (OFH).

Revenues in Q4 2020 showed an increase of MEUR 2.7 despite a negative translation effect of MEUR 5.0. This was driven by a strong performance from the Couplings group.

## Adj. EBIT, MEUR



The YoY increase of MEUR 4.9 is driven by positive operational efficiency and positive effects from brass and resin raw material pricing.

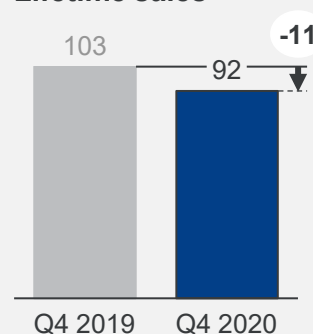
## Operations

All plant operation are “back to normal” and we are benefiting from the operational improvements and cost control measures put in place earlier in 2020.

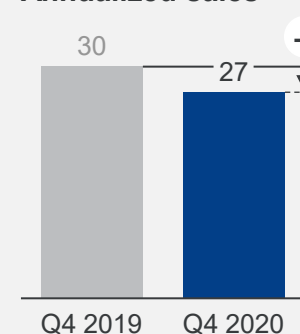
With the Q4 2020 global demand ramping up, we have faced supply issues relating resin and electronic components. We will continue to see these issues well into 2021.

## New business wins, MEUR

### Lifetime sales



### Annualized sales



The segment achieved good levels of new business wins.

Within the quarter, Couplings was awarded a contract with a major European Truck OEM. This program totals MEUR 6.1 in expected annualized sales and MEUR 43.0 in expected lifetime sales.

Likewise, Off-Highway secured three contracts with major construction OEMs. These program total MEUR 5.4 in expected annualized sales and MEUR 16.2 in expected lifetime sales.





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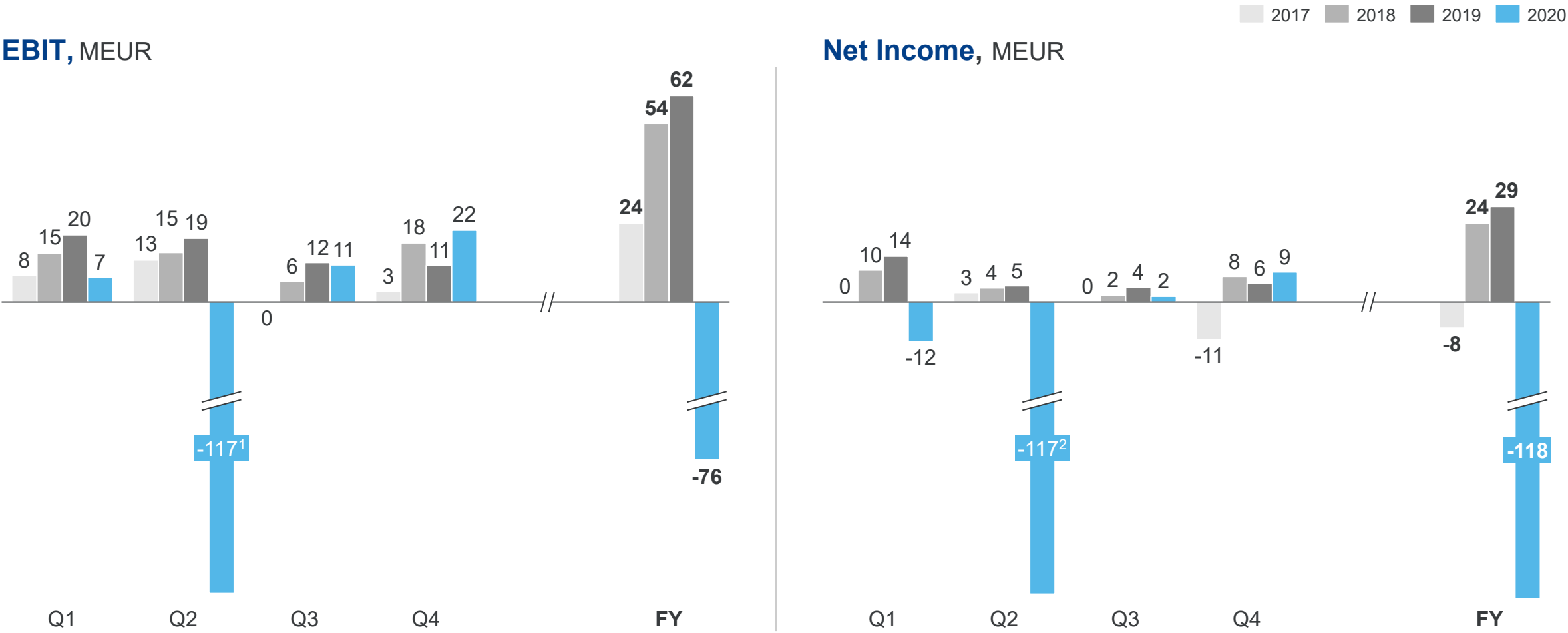
Segment highlights



# Group financial update

Q&A

# EBIT & Net Income: Full-year profitability heavily impacted by COVID-19 market shock and impairment loss in Q2



1. Includes impairment losses of MEUR 82.7  
2. Impacted by impairment losses of MEUR 77.4 (net of tax)

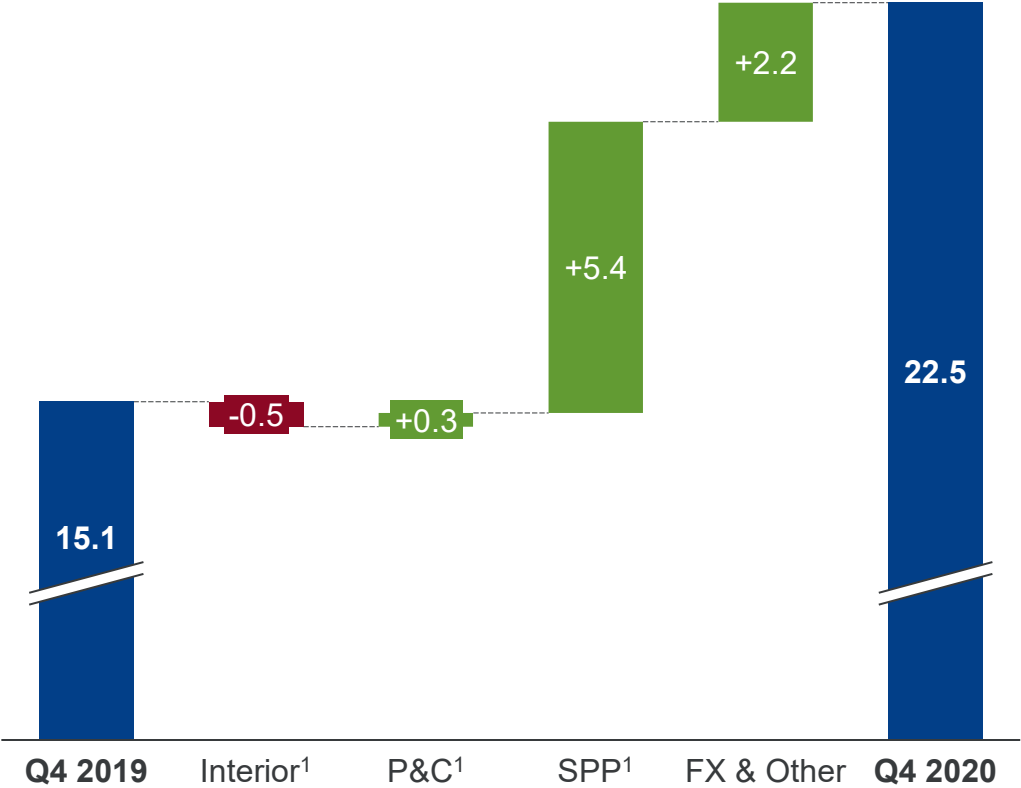


# Q4 2020 sales and adj. EBIT: Improved sales performance across segments reflected in adj. EBIT compared to Q4 2019

Sales, MEUR



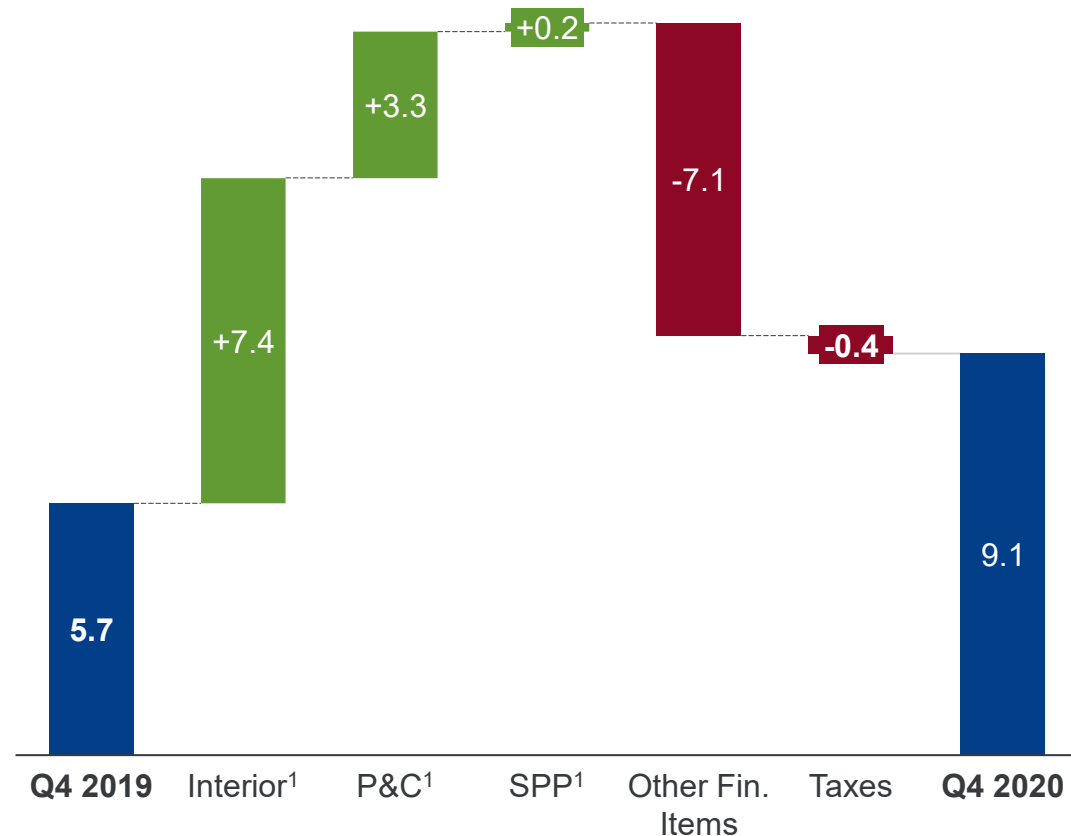
Adj. EBIT, MEUR



1. Variances excluding FX translation effects

# Q4 2020 Net Income: Improvement due to higher adj. EBIT

## Net Income development, MEUR



1. Variances excluding FX translation effects

## Group

- > Best Q Sales in the last 4 years contributed to the adj. EBIT higher by MEUR 7.4 compared to Q4 2019

## Interest

- > The interest expenses in Q4 2020 remained at the same level as in Q4 2019 (MEUR 5.4 in Q4 2020 vs. MEUR 5.6 in Q4 2019)

## Other financial items

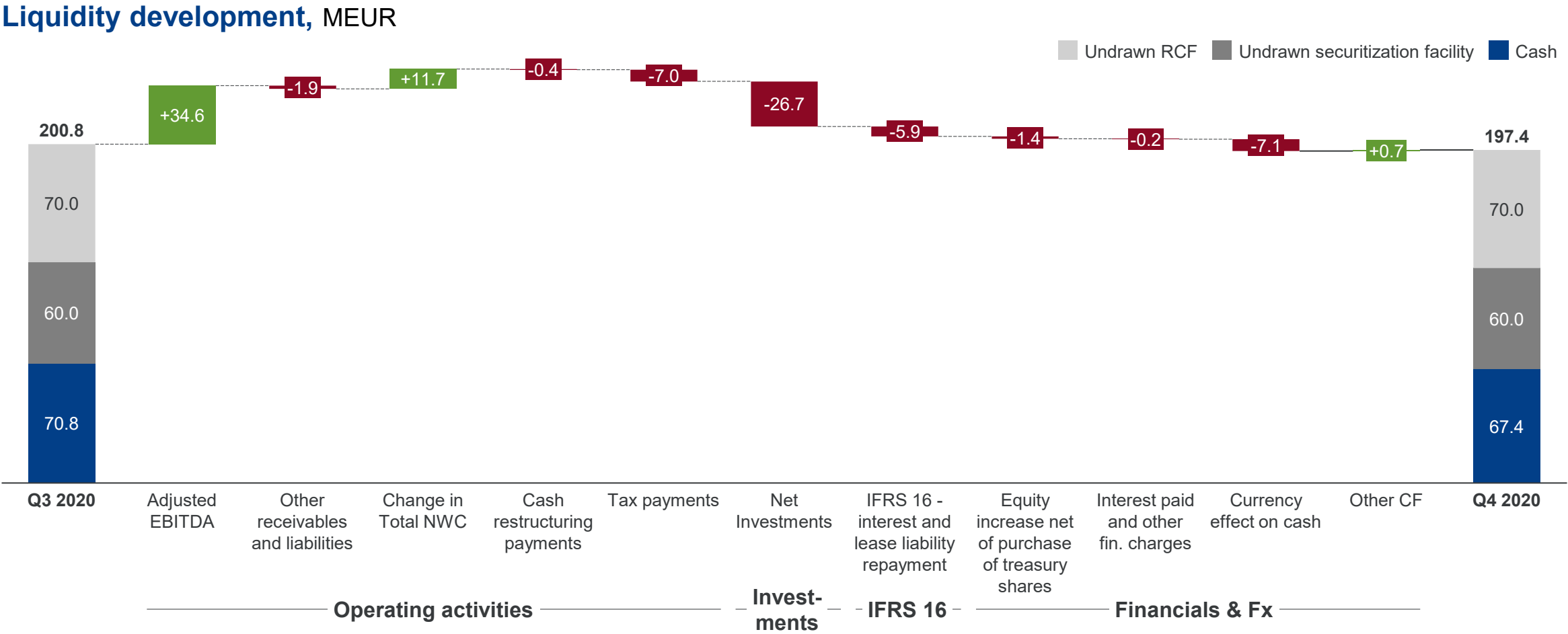
- > Mainly due to net FX effects (net loss of MEUR 5.7 in Q4 2020 vs. net gain of MEUR 0.6 in Q4 2019) and Account Receivables Securitization expenses of MEUR 0.5 in Q4 2020 other financial items negatively impact Net Income in Q4 2020

## Taxes

- > Tax expense in Q4 2020 amounted to MEUR 0.3 compared to tax income of MEUR 0.1 in Q4 2019. Any tax expense related to the positive result in Q4 2020 was offset by deferred tax income on future deductible differences and losses



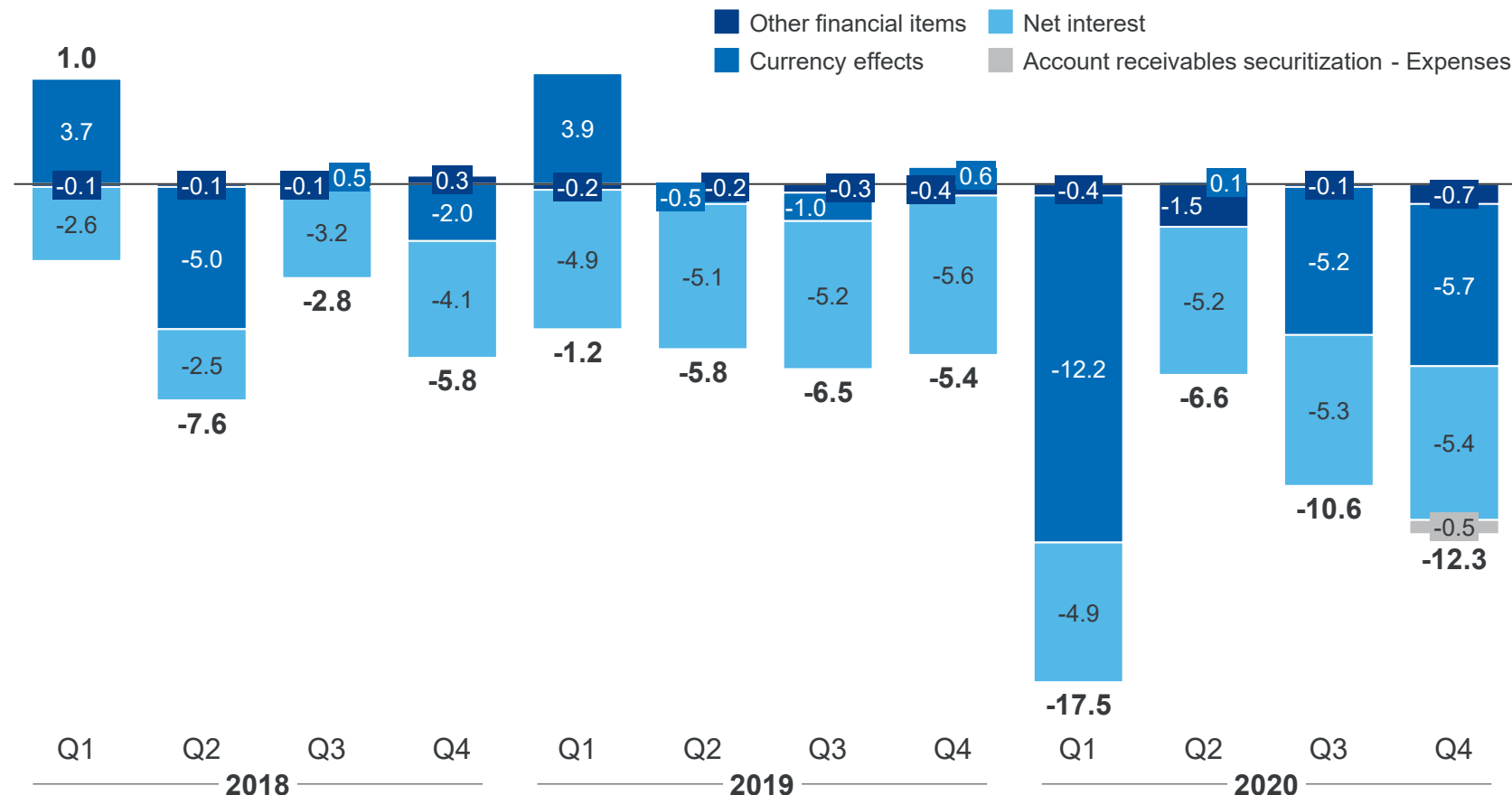
# Liquidity development: Significant liquidity reserve of 197 MEUR by year-end 2020 with cash, RCF, and securitization facility





# Net financial items: Slight decrease due to currency effects

## Net financial items, MEUR



## Currency effects

The currency effects in Q4 2020 are made up of:

- > realized currency loss of MEUR 1.4
- > unrealized currency loss of MEUR 4.3

## Interest

The main elements were the IFRS16 interest of MEUR 1.6 and accrued interest for the bond and RCF of MEUR 3.7

## Account receivables securitization – Expenses

This position includes expenses related to AR Securitization such as Commitment fees, Administrator fees, Servicing fees and so on

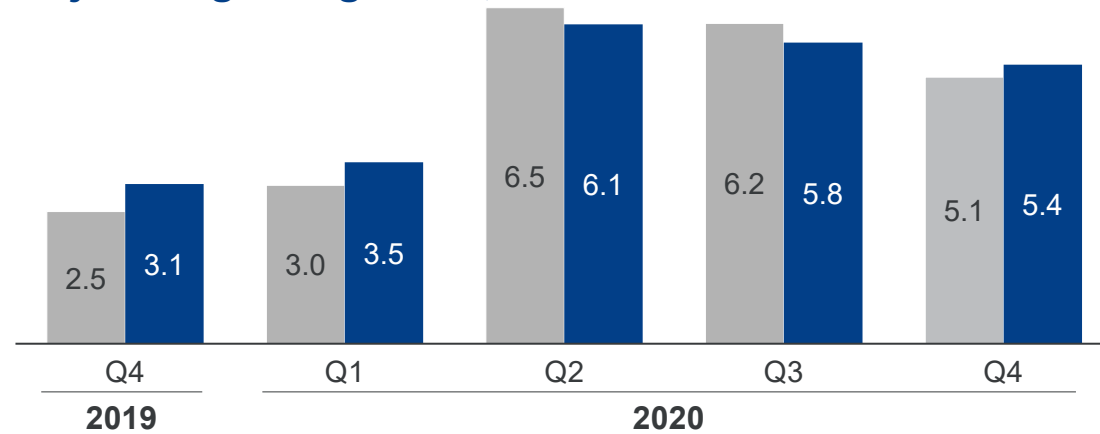


# Financial ratios:

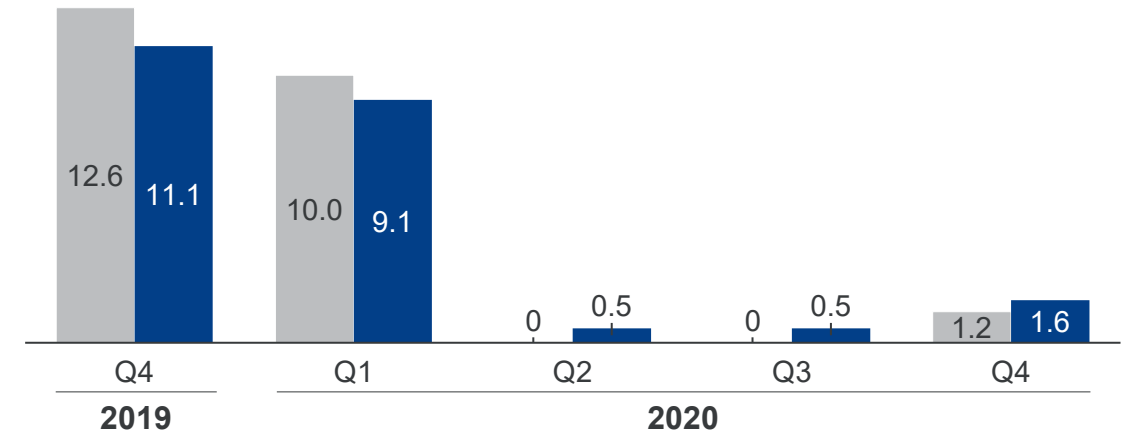
## Recovered from COVID-19 shock, yet mostly still below Q4 2019 levels

■ Excl. IFRS 16 effect ■ Incl. IFRS 16 effect

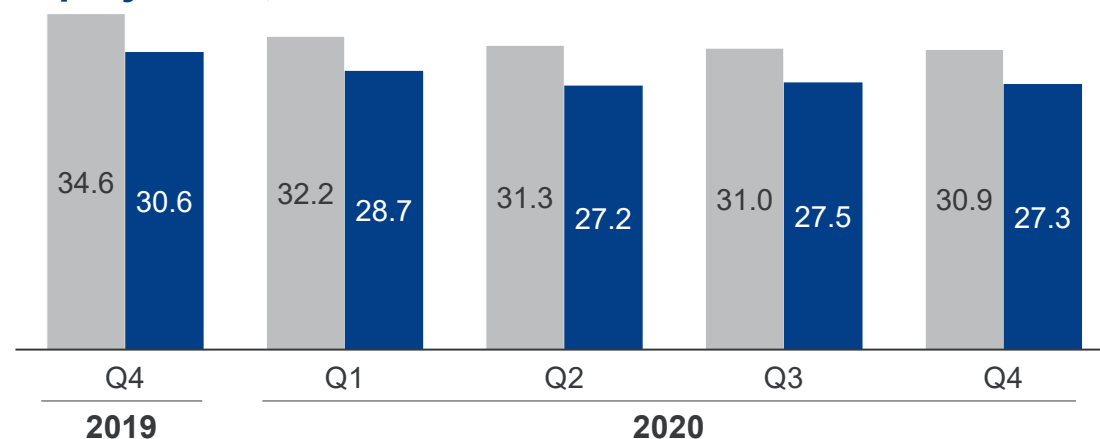
**Adjusted gearing ratio<sup>1</sup>, NIBD<sup>2</sup>/EBITDA, LTM**



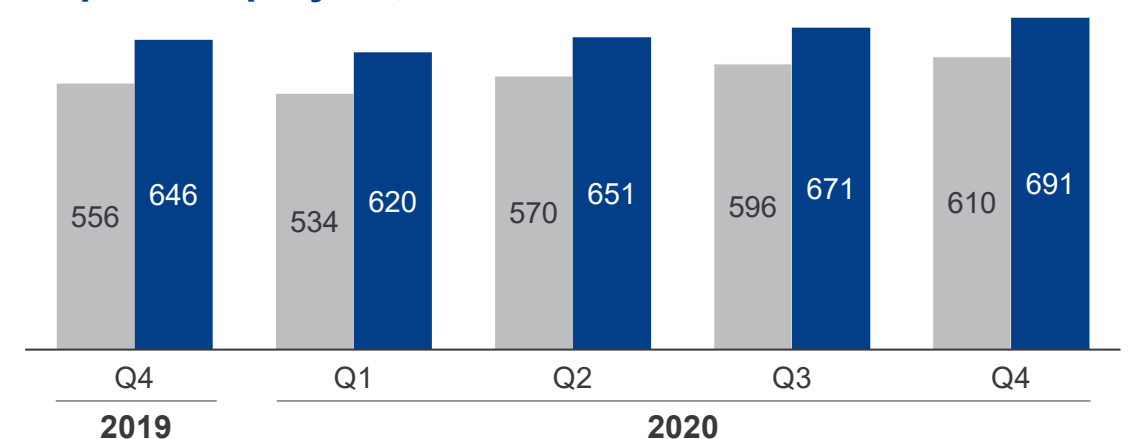
**Adjusted ROCE<sup>1</sup>, %, LTM**



**Equity Ratio, %**



**Capital Employed<sup>3</sup>, MEUR**



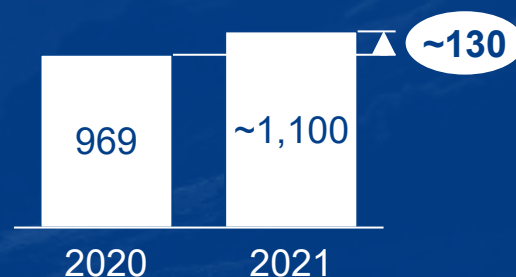
1. Excluding restructuring costs; 2. Net interest bearing debt; 3. Capital employed at quarter end

# Outlook 2021

These forward-looking statements are based on several key assumptions incl.:

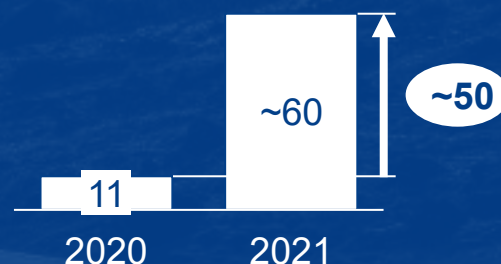
- > FX rates
- > Market demand
- > Electronics availability

## Sales



- > Defend strong position and build on our strong book-to-bill ratio in all segments incl. EV-related products, OFH & electronics
- > Further expand our global customer base and continue to gain market shares

## Adj. EBIT



- > Further build on operational improvements and stability achieved in the last years and continue to improve overall profitability
- > Effectively manage increasing shortages of electronics components while keeping additional costs to a minimum

## Free Cash Flow<sup>1</sup>



- > Generate cash with a positive Free Cash Flow in H1 2021 and in each following half-year
- > Capitalize on effective working capital mgmt. and realize CapEx efficiency improvements
- > Harvest cash generation from prior investments in restructuring, products, and growth

1. As defined in APM section in annual report – Free Cash Flow is measured based on sum of cash flow from operating activities, investing activities, financial activities and currency effects on cash (together described as Change in cash), excluding net drawdown/ repayment of debt and proceeds received from capital increase/ purchase of treasury shares.





An aerial photograph of a winding asphalt road that curves through a dense, green forest. The road is light-colored and has white lane markings. The surrounding forest is thick and covers the entire landscape. The image is overlaid with a semi-transparent blue filter.

## Content

Executive summary

Financial highlights

Market summary

Segment highlights

Group financial update



## Q&A





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