

# 2017 AGM – Business Update

## Kongsberg Automotive

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# 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 2016 Kongsberg Automotive Annual Report.

### Non-IFRS Measures

Where we have used non-IFRS financial measures, reconciliations to the most comparable IFRS measure are provided in our quarterly and annual filings, along with a disclosure on the usefulness of the non-IFRS measure.



A brief ReCap from our CMD in Nov 2016

# 2016 CMD - Executive Summary

- ▶ **Our structural costs are out of line – we will reduce them**
- ▶ **Our products are competitive from a “feature/function” standpoint. With lower costs, we will be even more competitive which will enable us to grow at a higher rate**
  - **Our Interior and Specialty Products segments have performed reasonably well both from a growth and profitability standpoint**
  - **Our Powertrain and Chassis business is sick and needs fixing**
- ▶ **We will improve our operating model by**
  - **granting more entrepreneurial freedom to our niche businesses.**
  - **centralizing more to tighten control and realize more synergies**
  - **Implementing a Principal Model with centralized headquarter functions**
- ▶ **Within three years, we will achieve EPS levels in excess of NOK 1.50 and EBIT levels in excess of 8%**

# 2016 CMD - Our Vision & Objective

## Short to medium term 2019/2020

- Improve the operational platform and structural set-up of the company to secure financial strength and strategic flexibility
  - Double EBIT margin from 4% to 8%
  - Improve Net Income from €5-20M to €70 Million and deliver EPS of more than NOK 1.50 in 2019
- Create sustainable competitive advantage by strategically position the company for further improvements and profitable growth within KA's core product portfolios

## Our Longer Term Goal

- Become a world class company
- Double digit EBIT margins
- Net Income margins at around 2/3 of EBIT margins
- Free Cash Flow similar to Net Income
- Sustainable annual growth rates above the underlying market.

## Objective

- Create shareholder value

## 2016 CMD - Our Improvement Plan – Three pillars

### Organizational Structure, Centralization

- Operationally reorganize & merge Driveline and On-Highway DCS
- Grant more entrepreneurial freedom to our niche businesses through the creation of a Specialty Products Segment.
- Centralize more to tighten control and realize more synergies
- Implement Principal Model as our operational business structure with centralized headquarter functions

### Improve our Cost Competiveness

- Restructuring
  - Reduce the manufacturing footprint
  - Reduce admin costs
- Fixing the basics
  - Manage Economics properly
  - Improve operational execution
- This will reduce our fixed structural costs and improve earnings fall-through on future growth

### Actively Manage our Portfolio

- Revised structure creates focus and facilitates more appropriate resource allocation

# 2016 CMD - Financial overview - Outlook

## P&L with Restructuring Costs & Benefits

In Mill. Euro	2015	2016	2017	2018	2019
<b>Sales</b>	<b>1.016</b>	<b>979</b>	<b>1.011</b>	<b>1.073</b>	<b>1.171</b>
Operating Costs	-983	-963	-989	-1.008	-1.065
<b>EBIT adj.</b>	<b>52</b>	<b>35</b>	<b>44</b>	<b>89</b>	<b>110</b>
<b>% of sales</b>	<b>5,1%</b>	<b>3,6%</b>	<b>4,3%</b>	<b>8,3%</b>	<b>9,4%</b>
Restructuring & One Off cost		-7	-22	-24	-6
One-off Costs	-20	-11			
<b>EBIT</b>	<b>32</b>	<b>17</b>	<b>22</b>	<b>65</b>	<b>104</b>
<b>% of sales</b>	<b>3,1%</b>	<b>1,7%</b>	<b>2,2%</b>	<b>6,0%</b>	<b>8,9%</b>
Financial Items	-29	9	-9	-8	-7
Profits Before Taxes	4	26	13	57	97
Taxes	-12	-20	-9	-22	-24
In %	-324%	-78%	-73%	-39%	-25%
<b>Net Income</b>	<b>-8</b>	<b>6</b>	<b>3</b>	<b>35</b>	<b>73</b>
<b>EPS (NOK)</b>	<b>-0,19</b>	<b>0,13</b>	<b>0,08</b>	<b>0,77</b>	<b>1,65</b>



How are we doing on our initiatives?

# How are we doing on our initiatives?

## What we said:

## What we have done:

### Organizational Structure, Centralization

- Operationally reorganize & merge Driveline and On-Highway DCS
- Grant more entrepreneurial freedom to our niche businesses through the creation of a Specialty Products Segment.
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- Completed
- Completed – each of our business units in the Specialty Products segment are now independent business units. They are more focused on each of the unique [to each of the BU's] challenges and opportunities
- In progress, our new Swiss headquarter is operational and gaining in substance
- We have taken the first steps towards creating a principal operating model. This will be introduced gradually starting in 2019 driven by system implementations

### Improve our Cost Competitiveness

- Restructuring
  - Reduce the manufacturing footprint
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- Fixing the basics
  - Manage Economics properly
  - Improve operational execution
- This will reduce our fixed structural costs and improve earnings fall-through on future growth



- We have initiated closure processes at three production locations. We expect to close two of these facilities in 2017, one in Q3 and one in Q4. For the third facility, we need to await negotiations with the workers' representatives before we can provide a timing outlook.
- In the short term, this is mainly driven by the restructuring activities. We are having some challenges with increased commodity costs that are mostly offset by slightly favorable volumes.
- Do it right the first time – Activities focusing on project management and launches initiated. The benefits will take some time to materialize due to hiring of personnel and program lead times.

### Actively Manage our Portfolio

- Revised structure creates focus and facilitates more appropriate resource allocation



- We have completed the sale of our NA HR AR business.
- There will be some light pruning of the product portfolio, particularly for very small product-lines manufactured in sites which will be closed. This increases operational focus while being insignificant from a financial standpoint.
- There are very well defined areas of focus within each of the segments and BUs

## Beyond restructuring – focus on growth

Initial priority was to take out cost, as we have not grown, we need to be address growth

- ▶ **In order to generate attractive benefits to our shareholders (and create a more sustainable company), we need to generate profitable growth.**
  - **No one has saved his/her way to prosperity, however, having a competitive cost structure is a requirement for future success.**
  - **Over the next years, organic growth will be generated in all our segments**
    - **Interior will have the strongest growth rates driven by tech and market trends**
    - **followed by Specialty Products driven by more focused initiatives and attractive end markets**
    - **Powertrain & Chassis driven primarily by growth in the truck/AMT area**
  - **In the medium to long term, we also expect some growth to be generated by our New Products area**
    - **We have some exciting new product ideas in this field that have generated initial excitement at our customers.**
  - **The automotive supplier industry is in a phase of consolidation. There will be many acquisitions of smaller players driven by new technologies and the needs for scale**
    - **If the right opportunities become available in the market we will go after acquisitions as long as they make strategic sense and are financially attractive to us. We will only go after opportunities that are accretive to earnings in a short term perspective.**
      - **We will not increase our gearing ratio because of acquisitions.**
      - **This is the rationale for asking our shareholders for a wider authority to issue shares than we have previously asked for**
        - » **These processes go quickly , flexibility is of essence**

# Summary

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- ▶ We are on plan with our restructuring efforts
- ▶ Markets are holding up according to our assumptions from the 2016 CMD
- ▶ We will deliver earnings according to our 2016 CMD outlined financials
- ▶ Last year's CMD was mainly focused on «stop gap» measures associated with cost cutting.
  - The 2017 CMD will provide more details around our medium and long term strategy – especially around growth.