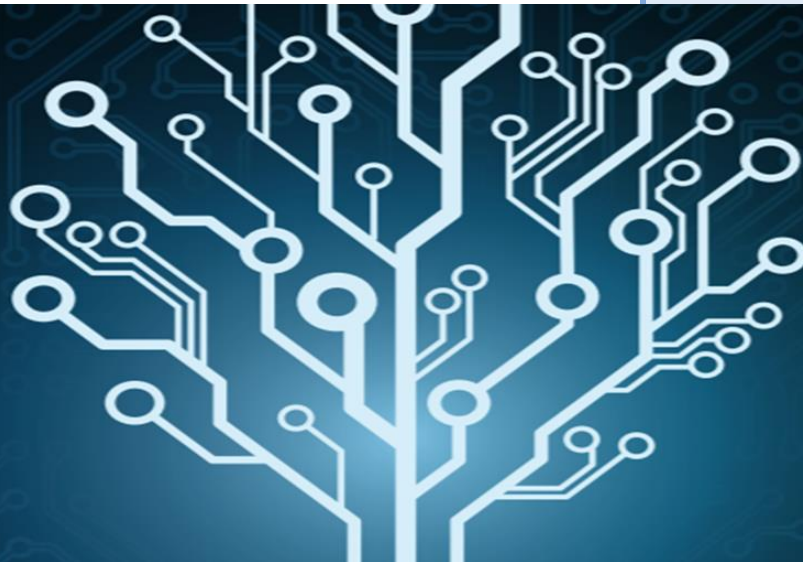


Kontron AG

Austria | Technology | MCap EUR 1,015m

4 January 2023

UPDATE



Disposal of IT services division finalized; Next chapter: Pure play IoT

What's it all about?

Kontron has finalized the sale of significant parts of its IT services business to VINCI Energies S.A. The proceeds of the sale total EUR 392m, and the net cash inflow is increasing Kontron's war chest for further acquisitions in the IoT field. Despite the current market environment, Kontron expects ongoing double-digit growth for its continued operations, and increased EBITDA margin by 2025. We reiterate our BUY recommendation with unchanged PT of EUR 30.00, offering 90% upside.

BUY (BUY)

Target price	EUR 30.00 (30.00)
Current price	EUR 15.70
Up/downside	91.1%

 **ResearchHub**



MAIN AUTHOR

Thomas Wissler

t.wissler@alsterresearch.com
+49 40 309 293-58

IMPORTANT. Please refer to the last page of this report for "Important disclosures" and analyst(s) certifications.

alsterresearch.com

This research is the product of AlsterResearch, which is registered with the BaFin in Germany.

Kontron AG

Austria | Technology | MCap EUR 1,015m | EV EUR 1,101m (2021)

BUY (BUY)

Target price EUR 30.00 (30.00)
Current price EUR 15.70
Up/downside 91.1%

MAIN AUTHOR

Thomas Wissler
t.wissler@alsterresearch.com
+49 40 309 293-58

Disposal of IT services division finalized; Reiterate to BUY

Disposal of IT services business finalized Just in time for the turn of the year, Kontron announces that the closing of the sale of its IT services business to VINCI Energies S.A. has been finalized. In August, Kontron announced that it cut a deal to sell significant parts of its IT services business. Whilst originally Kontron intended to dispose the entire segment, various strategic considerations have led to the disposal only of the operating units in the Czech Republic, Slovakia, Poland, Croatia, Serbia, Albania, Montenegro, Northern Macedonia, Germany and Switzerland. The operating units in Austria, Romania and Hungary still remain with Kontron. Following the granting of antitrust approvals and the organizational processing, the relevant companies will be legally transferred to the buyer with effect from 29 December 2022.

Focusing on the lucrative IoT segment With the disposal, Kontron is following its growth strategy in the technology area based on the Internet of Things (IoT). In fact, the divestment marks another milestone on Kontron's way to becoming a pure IoT player - with significantly higher growth and earnings potential going forward. The proceeds of sale are expected to total EUR 392m of which 65% has been received already in 2022. The net cash inflow is significantly increasing Kontron's war chest for further acquisitions in the IoT field (eAR net cash at year end 2023E: EUR >500m / 50% of market cap).

Upbeat guidance with Q3 results Despite the current market environment, the results of the first nine months published on Nov. 22 coupled with the company's sound order situation led to an upbeat outlook. In essence, Kontron expects ongoing double-digit growth for its continued operations to around EUR 1.1bn in sales for FY22. Operating net income is expected to rise by 16% to around EUR 56m, and the unadjusted figure following gains from the sale of IT services is likely to be even higher – according to the company. Also, Kontron reiterates its mid-term guidance of EUR 2bn in sales and a significantly increased EBITDA margin of 13% by 2025.

BUY case confirmed As highlighted earlier, we welcome the disposal of large parts of Kontron's IT services division. We already deconsolidated sales and earnings in our previous update. Likewise, we have incorporated the cash inflow of the disposal. Note that we have previously planned the entire proceed to be collected in 2022. We have now split the amount according to the above-mentioned cash inflows. We reiterate our BUY recommendation with unchanged PT of EUR 30.00, offering 90% upside.

Kontron AG	2019	2020	2021	2022E	2023E	2024E
Sales	1,123	1,255	1,342	1,109	1,198	1,294
<i>Growth yoy</i>	13.3%	11.7%	6.9%	-17.3%	8.0%	8.0%
EBITDA	112	130	126	112	122	135
EBIT	62	69	63	59	72	85
Net profit	49	56	48	44	55	63
Net debt (net cash)	32	44	65	-350	-521	-574
Net debt/EBITDA	0.3x	0.3x	0.5x	-3.1x	-4.3x	-4.3x
EPS recurring	0.75	0.84	0.74	0.68	0.85	0.98
DPS	0.00	0.30	0.35	0.24	0.30	0.35
<i>Dividend yield</i>	0.0%	1.9%	2.2%	1.5%	1.9%	2.2%
Gross profit margin	37.7%	37.7%	38.1%	37.7%	37.7%	37.7%
EBITDA margin	9.9%	10.4%	9.4%	10.1%	10.2%	10.4%
EBIT margin	5.5%	5.5%	4.7%	5.3%	6.0%	6.6%
ROCE	7.7%	8.3%	7.2%	5.3%	6.3%	7.8%
EV/EBITDA	9.5x	8.3x	8.7x	6.1x	4.2x	3.4x
EV/EBIT	17.3x	15.8x	17.6x	11.6x	7.2x	5.4x
PER	21.1x	18.6x	21.1x	23.0x	18.4x	16.1x
FCF yield	3.2%	10.6%	6.0%	18.6%	5.6%	8.0%

Source: Company data, AlsterResearch



Source: Company data, AlsterResearch

High/low 52 weeks 18.40 / 11.22
Price/Book Ratio 2.4x

Ticker / Symbols

ISIN AT0000A0E9W5
WKN A0X9EJ
Bloomberg KTN:GR

Changes in estimates

		Sales	EBIT	EPS
2022E	old	1.109	59,1	0,68
	Δ	0,0%	0,0%	0,0%
2023E	old	1.198	71,6	0,85
	Δ	0,0%	0,0%	0,0%
2024E	old	1.294	85,2	0,98
	Δ	0,0%	0,0%	0,0%

Key share data

Number of shares: (in m pcs) 64.63
Book value per share: (in EUR) 6.44
Ø trading volume: (12 months) 48,500

Major shareholders

Ennoconn Corporation 26.6%
PPF Group NV 5.1%
Columbia Wanger AM 4.1%
Amiral Gestion 4.1%
Allianz Global Investors 4.0%
Treasury Shares 3.7%
Free Float 52.3%

Company description

Kontron AG (formerly S&T AG) is a supplier of information technology (IT) solutions, specializing in Industry 4.0, embedded computer systems and Internet of Things (IoT) technology. Germany, Austria, Switzerland, France, Eastern Europe and North America are its core markets.

Quarterly table

P&L data	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022
Sales	418.4	294.1	306.5	313.2	428.1	329.7	331.0	262.4
yoy growth in %	13.2%	8.9%	14.1%	5.2%	2.3%	12.1%	8.0%	-16.2%
Gross profit	143.8	120.3	121.0	90.4	148.8	125.6	131.4	90.7
Gross margin in %	34.4%	40.9%	39.5%	28.8%	34.8%	38.1%	39.7%	34.6%
EBITDA	46.4	28.2	30.1	23.0	45.0	29.4	33.1	20.4
EBITDA margin in %	11.1%	9.6%	9.8%	7.3%	10.5%	8.9%	10.0%	7.8%
EBIT	27.1	12.7	13.9	7.4	28.6	14.7	17.7	8.5
EBIT margin in %	6.5%	4.3%	4.5%	2.4%	6.7%	4.5%	5.3%	3.2%
EBT	24.4	10.8	11.5	5.2	22.6	12.3	15.3	6.7
taxes paid	0.2	1.1	1.1	-2.1	4.3	1.1	2.7	0.9
tax rate in %	0.9%	10.4%	9.2%	-40.6%	18.9%	9.2%	17.4%	13.3%
net profit	24.2	10.1	10.4	10.2	17.6	11.6	12.8	8.3
yoy growth in %	20.4%	5.8%	2.9%	-13.8%	-27.2%	14.8%	23.0%	-18.0%
EPS	0.37	0.16	0.16	0.16	0.28	0.18	0.20	0.13

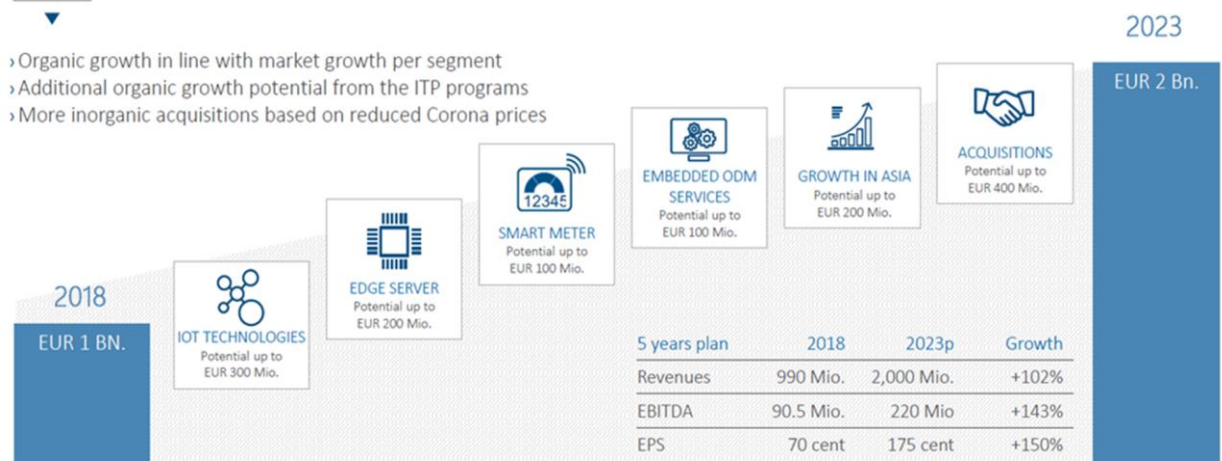
Source: Company data; AlsterResearch; as of Q3 22 excl. IT Services business

Investment case in six charts

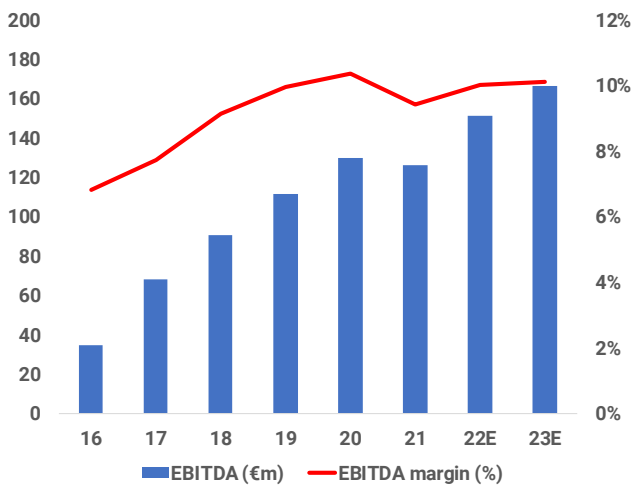
Business units and end markets



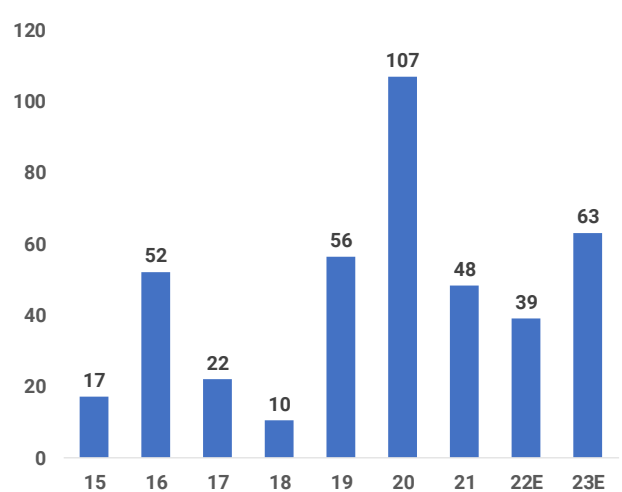
Growth projection until 2023E



EBITDA and margins on an upwards trend



FCF to strengthen going forward



Source: Company data; AlsterResearch

SWOT-Analysis

Strengths

- Strong and strategic partnership with Foxconn
- Offers comprehensive suite of solutions in IT Service business
- Strong presence in DACH and EE countries
- Has diversified clients and is present in multiple geographies, minimising concentration risk

Weaknesses

- A large part of revenue accrues from IT Services segment, which is a low-margin business and has low pricing power
- Lacks a scalable platform
- Avionics, one of its target IoT markets, is witnessing a rough phase due to travel restrictions

Opportunities

- Has a strong presence in medical and transport segments of IoT market, which are expected to grow well
- Has sufficient liquidity and balance sheet strength to undertake acquisitions in current market where valuations are attractive
- Margin expansion, as focus shifts to higher margin IoT segment and proprietary products
- Expanding presence in China, one of the fastest-growing IoT markets

Threats

- A relatively small player in the IoT market and could be hard pressed to defend its turf if a larger player enters its segment
- Dependent on Asia for hardware manufacturing and China for raw material. Geopolitical tension in the area could impair its supply chain
- Aggressive acquisitions could drag company's prospects if not properly synergized

Valuation

DCF Model

The DCF model results in a **fair value of EUR 29.67 per share**:

Top-line growth: We expect Kontron AG to continue benefitting from structural growth. Hence our growth estimates for 2023E-2030E is in the range of 4.0% p.a. The long-term growth rate is set at 2.0%.

EBIT margins. The scalable business model should allow for EBIT margins of 7% by 2023E, which look defendable given high competitive quality based on scale geography and expertise. Accordingly, we model approx. 7% EBIT margins in the long-term.

WACC. The averaged 1-, 3- and 5-year historical equity beta is calculated as 1.00. Unlevering and correcting for mean reversion yields an asset beta of 1.00. Combined with a risk free rate of 2.0% and an equity risk premium of 6.0% this yields cost of equity of 10.3%. With pre-tax cost of borrowing at 5.0%, a tax rate of 25% and target debt/equity of 0.5 this results in a long-term WACC of 8.1%.

DCF (EURm) (except per share data and beta)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	Terminal value
NOPAT	63	70	76	80	86	92	101	104	
Depreciation & amortization	51	49	49	49	50	50	51	52	
Change in working capital	-20	-1	3	2	2	2	2	2	
Chg. in long-term provisions	6	7	5	3	3	3	3	3	
Capex	-42	-45	-48	-49	-50	-52	-54	-55	
Cash flow	57	80	86	85	91	96	104	107	1,791
Present value	53	69	68	62	62	60	60	57	963
WACC	8.2%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%

DCF per share derived from		DCF avg. growth and earnings assumptions	
Total present value	1,455	Planning horizon avg. revenue growth (2023E-2030E)	4.0%
Mid-year adj. total present value	1,512	Terminal value growth (2030E - infinity)	2.0%
Net debt / cash at start of year	-350	Terminal year ROCE	9.0%
Financial assets	74	Terminal year WACC	8.1%
Provisions and off b/s debt	19		
Equity value	1,918		
No. of shares outstanding	64.6		
Discounted cash flow / share upside/(downside)	29.67 / 89.0%		
Share price		Terminal WACC derived from	
	15.70	Cost of borrowing (before taxes)	5.0%
		Long-term tax rate	25%
		Equity beta	1.00
		Unlevered beta (industry or company)	1.00
		Target debt / equity	0.5
		Relevered beta	1.38
		Risk-free rate	2.0%
		Equity risk premium	6.0%
		Cost of equity	10.3%

Sensitivity analysis DCF								
Change in WACC (%-points)		Long term growth					Share of present value	
		0.0%	1.0%	2.0%	3.0%	4.0%		
2.0%		21.6	22.6	23.8	25.3	27.4	2023E-2026E	17.4%
1.0%		23.4	24.7	26.3	28.5	31.5	2027E-2030E	16.5%
0.0%		25.6	27.3	29.6	32.8	37.6	terminal value	66.2%
-1.0%		28.5	30.9	34.4	39.5	47.9		
-2.0%		32.3	35.9	41.3	50.3	67.8		

FCF Yield Model

Due to the fact that companies rarely bear sufficient resemblance to peers in terms of geographical exposure, size or competitive strength and in order to adjust for the pitfalls of weak long-term visibility, an Adjusted Free Cash Flow analysis (Adjusted FCF) has been conducted.

The adjusted Free Cash Flow Yield results in a fair value between EUR 26.82 per share based on 2023E and EUR 34.84 per share on 2027E estimates. **We value Kontron AG on 2023E, which supports the DCF based fair value calculations.**

The main driver of this model is the level of return available to a controlling investor, influenced by the cost of that investors' capital (opportunity costs) and the purchase price – in this case the enterprise value of the company. Here, the adjusted FCF yield is used as a proxy for the required return and is defined as EBITDA less minority interest, taxes and investments required to maintain existing assets (maintenance capex).

FCF yield in EURm	2023E	2024E	2025E	2026E	2027E
EBITDA	122	135	141	146	154
- Maintenance capex	35	36	39	41	43
- Minorities	-1	-1	-1	-1	-1
- tax expenses	8	14	16	16	18
= Adjusted FCF	80	85	88	89	94
Actual Market Cap	1,015	1,015	1,015	1,015	1,015
+ Net debt (cash)	-521	-574	-632	-686	-744
+ Pension provisions	20	22	23	24	25
+ Off B/S financing	0	0	0	0	0
- Financial assets	74	74	74	74	74
- Acc. dividend payments	16	35	58	83	109
<i>EV Reconciliations</i>	-590	-661	-740	-819	-903
= Actual EV'	425	354	275	196	111
Adjusted RW_FCF yield	18.8%	24.0%	32.0%	45.5%	84.7%
base hurdle rate	7.0%	7.0%	7.0%	7.0%	7.0%
ESG adjustment	0.0%	0.0%	0.0%	0.0%	0.0%
adjusted hurdle rate	7.0%	7.0%	7.0%	7.0%	7.0%
Fair EV	1,144	1,215	1,255	1,274	1,349
- <i>EV Reconciliations</i>	-590	-661	-740	-819	-903
Fair Market Cap	1,734	1,876	1,995	2,093	2,252
No. of shares (million)	65	65	65	65	65
FV per share in EUR	26.82	29.03	30.87	32.38	34.84
Premium (-) / discount (+)	70.8%	84.9%	96.6%	106.2%	121.9%

Sensitivity analysis FV

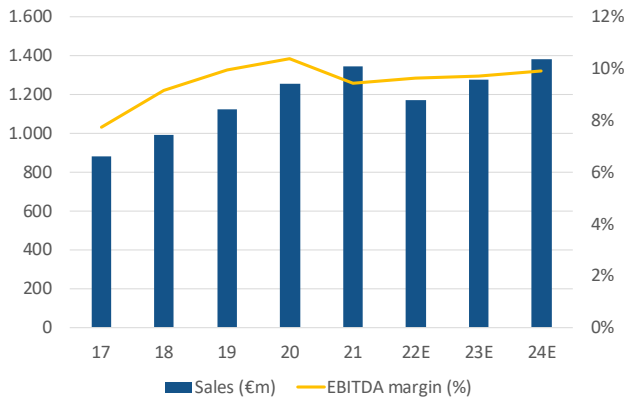
	5.0%	34	37	39	40	43
	6.0%	30	32	34	36	38
Adjusted hurdle rate	7.0%	27	29	31	32	35
	8.0%	25	27	28	30	32
	9.0%	23	25	27	28	30

Source: AlsterResearch

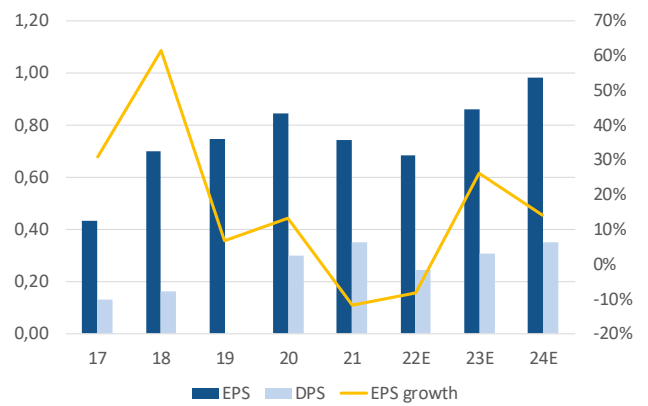
Simply put, the model assumes that investors require companies to generate a minimum return on the investor's purchase price. The required after-tax return equals the model's hurdle rate of 6%. Anything less suggests the stock is expensive; anything more suggests the stock is cheap. **ESG adjustments might be applicable, based on the overall Leeway ESG Score. A high score indicates high awareness for environmental, social or governance issues and thus might lower the overall risk an investment in the company might carry. A low score on the contrary might increase the risk of an investment and might therefore trigger a higher required hurdle rate.**

Financials in six charts

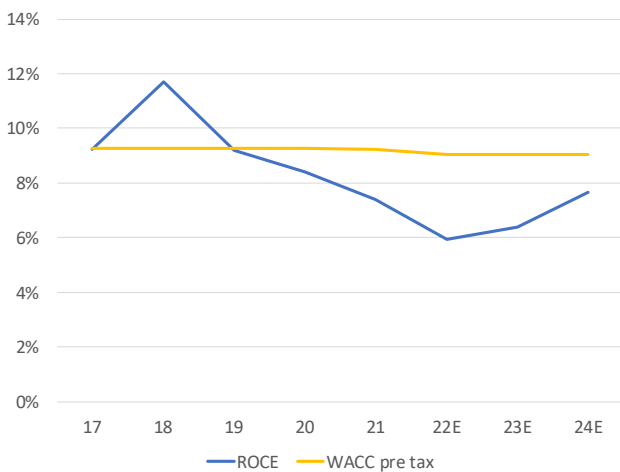
Sales vs. EBITDA margin development



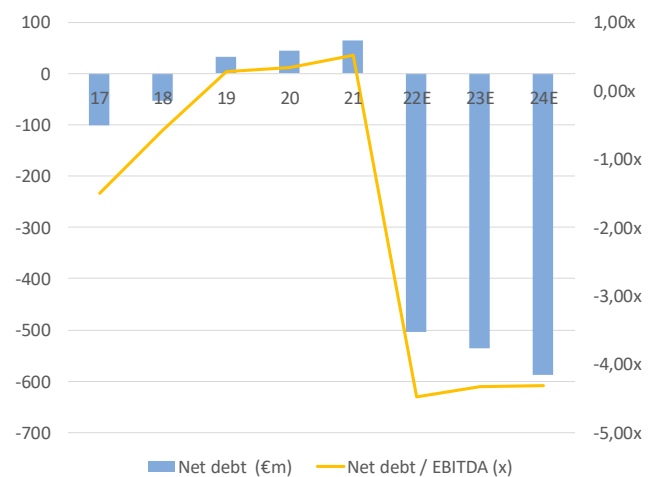
EPS, DPS in EUR & yoy EPS growth



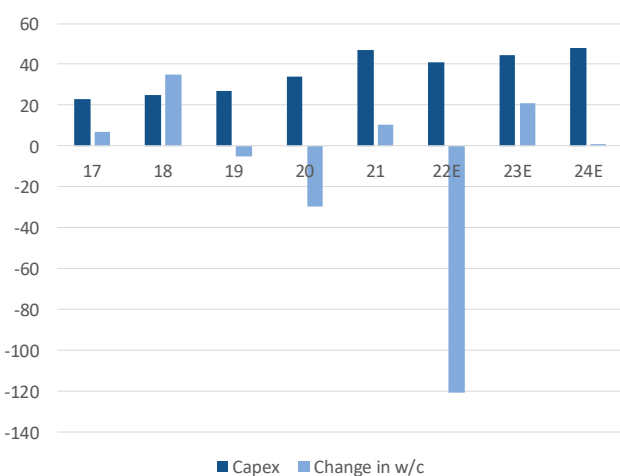
ROCE vs. WACC (pre tax)



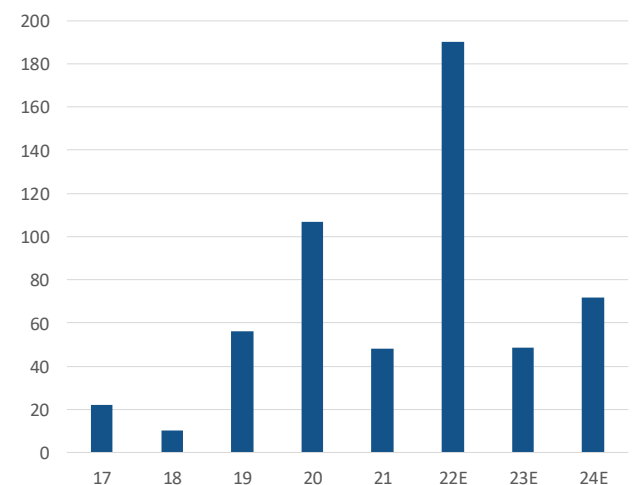
Net debt and net debt/EBITDA



Capex & chg in w/c requirements in EURm



Free Cash Flow in EURm



Financials

Profit and loss (EURm)	2019	2020	2021	2022E	2023E	2024E
Net sales	1,123	1,255	1,342	1,109	1,198	1,294
Sales growth	13.3%	11.7%	6.9%	-17.3%	8.0%	8.0%
Change in finished goods and work-in-process	16	18	21	0	0	0
Total sales	1,138	1,272	1,363	1,109	1,198	1,294
Material expenses	715	799	852	691	746	806
Gross profit	423	473	512	418	452	488
Other operating income	8	9	14	6	6	6
Personnel expenses	245	273	314	240	258	276
Other operating expenses	74	79	85	72	78	84
EBITDA	112	130	126	112	122	135
Depreciation	50	31	35	33	35	36
EBITA	62	99	92	79	88	98
Amortisation of goodwill and intangible assets	0	31	29	20	16	13
EBIT	62	69	63	59	72	85
Financial result	-8	-8	-8	-9	-9	-9
Recurring pretax income from continuing operations	54	61	54	50	63	76
Extraordinary income/loss	0	0	0	0	0	0
Earnings before taxes	54	61	54	50	63	76
Taxes	5	6	5	7	8	14
Net income from continuing operations	50	55	49	44	54	62
Result from discontinued operations (net of tax)	0	0	0	0	0	0
Net income	50	55	49	44	54	62
Minority interest	-0	1	-1	0	1	1
Net profit (reported)	49	56	48	44	55	63
Average number of shares	65.87	66.00	64.96	64.63	64.63	64.63
EPS reported	0.75	0.84	0.74	0.68	0.85	0.98

Profit and loss (common size)	2019	2020	2021	2022E	2023E	2024E
Net sales	100%	100%	100%	100%	100%	100%
Change in finished goods and work-in-process	1%	1%	2%	0%	0%	0%
Total sales	101%	101%	102%	100%	100%	100%
Material expenses	64%	64%	63%	62%	62%	62%
Gross profit	38%	38%	38%	38%	38%	38%
Other operating income	1%	1%	1%	1%	1%	1%
Personnel expenses	22%	22%	23%	22%	22%	21%
Other operating expenses	7%	6%	6%	7%	7%	7%
EBITDA	10%	10%	9%	10%	10%	10%
Depreciation	4%	2%	3%	3%	3%	3%
EBITA	6%	8%	7%	7%	7%	8%
Amortisation of goodwill and intangible assets	0%	2%	2%	2%	1%	1%
EBIT	6%	5%	5%	5%	6%	7%
Financial result	-1%	-1%	-1%	-1%	-1%	-1%
Recurring pretax income from continuing operations	5%	5%	4%	5%	5%	6%
Extraordinary income/loss	0%	0%	0%	0%	0%	0%
Earnings before taxes	5%	5%	4%	5%	5%	6%
Taxes	0%	0%	0%	1%	1%	1%
Net income from continuing operations	4%	4%	4%	4%	5%	5%
Result from discontinued operations (net of tax)	0%	0%	0%	0%	0%	0%
Net income	4%	4%	4%	4%	5%	5%
Minority interest	-0%	0%	-0%	0%	0%	0%
Net profit (reported)	4%	4%	4%	4%	5%	5%

Source: Company data; AlsterResearch

Balance sheet (EURm)	2019	2020	2021	2022E	2023E	2024E
Intangible assets (exl. Goodwill)	100	103	104	84	68	55
Goodwill	194	199	208	208	208	208
Property, plant and equipment	100	135	133	138	146	155
Financial assets	62	69	74	74	74	74
FIXED ASSETS	457	506	519	505	496	492
Inventories	147	160	187	134	145	157
Accounts receivable	239	228	265	213	230	248
Other current assets	21	25	26	26	26	26
Liquid assets	322	286	308	550	691	644
Deferred taxes	0	0	0	0	0	0
Deferred charges and prepaid expenses	39	43	47	22	36	45
CURRENT ASSETS	769	741	833	945	1,127	1,120
TOTAL ASSETS	1,226	1,247	1,352	1,450	1,624	1,612
SHAREHOLDERS EQUITY	373	404	419	839	878	921
MINORITY INTEREST	12	5	5	5	5	5
Long-term debt	267	264	277	200	100	0
Provisions for pensions and similar obligations	20	22	21	19	20	22
Other provisions	45	68	49	61	66	71
Non-current liabilities	332	354	348	280	186	93
short-term liabilities to banks	86	66	95	0	70	70
Accounts payable	205	210	270	220	237	256
Advance payments received on orders	61	72	87	69	74	80
Other liabilities (incl. from lease and rental contracts)	109	86	76	133	144	155
Deferred taxes	13	13	13	13	13	13
Deferred income	34	37	40	37	24	26
Current liabilities	509	483	581	471	562	601
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	1,226	1,247	1,352	1,595	1,632	1,620

Balance sheet (common size)	2019	2020	2021	2022E	2023E	2024E
Intangible assets (excl. Goodwill)	8%	8%	8%	6%	4%	3%
Goodwill	16%	16%	15%	14%	13%	13%
Property, plant and equipment	8%	11%	10%	10%	9%	10%
Financial assets	5%	5%	5%	5%	5%	5%
FIXED ASSETS	37%	41%	38%	35%	31%	31%
Inventories	12%	13%	14%	9%	9%	10%
Accounts receivable	20%	18%	20%	15%	14%	15%
Other current assets	2%	2%	2%	2%	2%	2%
Liquid assets	26%	23%	23%	38%	43%	40%
Deferred taxes	0%	0%	0%	0%	0%	0%
Deferred charges and prepaid expenses	3%	3%	3%	2%	2%	3%
CURRENT ASSETS	63%	59%	62%	65%	69%	69%
TOTAL ASSETS	100%	100%	100%	100%	100%	100%
SHAREHOLDERS EQUITY	30%	32%	31%	58%	54%	57%
MINORITY INTEREST	1%	0%	0%	0%	0%	0%
Long-term debt	22%	21%	21%	14%	6%	0%
Provisions for pensions and similar obligations	2%	2%	2%	1%	1%	1%
Other provisions	4%	5%	4%	4%	4%	4%
Non-current liabilities	27%	28%	26%	19%	11%	6%
short-term liabilities to banks	7%	5%	7%	0%	4%	4%
Accounts payable	17%	17%	20%	15%	15%	16%
Advance payments received on orders	5%	6%	6%	5%	5%	5%
Other liabilities (incl. from lease and rental contracts)	9%	7%	6%	9%	9%	10%
Deferred taxes	1%	1%	1%	1%	1%	1%
Deferred income	3%	3%	3%	3%	1%	2%
Current liabilities	42%	39%	43%	32%	35%	37%
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	100%	100%	100%	110%	100%	100%

Source: Company data; AlsterResearch

Cash flow statement (EURm)	2019	2020	2021	2022E	2023E	2024E
Net profit/loss	54	61	54	44	54	62
Depreciation of fixed assets (incl. leases)	50	61	64	33	35	36
Amortisation of goodwill	0	0	0	0	0	0
Amortisation of intangible assets	0	0	0	20	16	13
Others	-26	-11	-12	9	6	7
Cash flow from operations before changes in w/c	79	111	106	106	111	119
Increase/decrease in inventory	-1	9	-26	53	-11	-12
Increase/decrease in accounts receivable	43	47	-41	53	-17	-18
Increase/decrease in accounts payable	-30	-2	69	-50	18	19
Increase/decrease in other w/c positions	-6	-24	-13	61	-10	10
Increase/decrease in working capital	5	30	-11	116	-20	-1
Cash flow from operating activities	83	141	95	222	91	118
CAPEX	-27	-34	-47	-39	-42	-45
Payments for acquisitions	-27	-41	-16	0	0	0
Financial investments	-4	-3	-7	0	0	0
Income from asset disposals	2	1	4	255	137	0
Cash flow from investing activities	-56	-77	-66	216	95	-45
Cash flow before financing	28	64	29	438	186	72
Increase/decrease in debt position	128	-41	29	-173	-30	-100
Purchase of own shares	-15	-12	-21	0	0	0
Capital measures	0	1	0	0	0	0
Dividends paid	-11	0	-20	-23	-16	-20
Others	-19	-14	-9	0	0	0
Effects of exchange rate changes on cash	1	-8	4	0	0	0
Cash flow from financing activities	85	-74	-16	-195	-46	-120
Increase/decrease in liquid assets	113	-10	13	242	140	-47
Liquid assets at end of period	265	255	268	510	651	604

Source: Company data; AlsterResearch

Regional sales split (EURm)	2019	2020	2021	2022E	2023E	2024E
Domestic	103	103	108	89	97	104
Europe (ex domestic)	601	785	865	715	773	834
The Americas	0	122	98	81	88	95
Asia	0	42	54	45	48	52
Rest of World	419	204	216	179	193	208
Total sales	1,123	1,255	1,342	1,109	1,198	1,294

Regional sales split (common size)	2019	2020	2021	2022E	2023E	2024E
Domestic	9.2%	8.2%	8.1%	8.1%	8.1%	8.1%
Europe (ex domestic)	53.5%	62.5%	64.5%	64.5%	64.5%	64.5%
The Americas	0.0%	9.7%	7.3%	7.3%	7.3%	7.3%
Asia	0.0%	3.3%	4.0%	4.0%	4.0%	4.0%
Rest of World	37.3%	16.2%	16.1%	16.1%	16.1%	16.1%
Total sales	100%	100%	100%	100%	100%	100%

Source: Company data; AlsterResearch

Ratios	2019	2020	2021	2022E	2023E	2024E
Per share data						
Earnings per share reported	0.75	0.84	0.74	0.68	0.85	0.98
Cash flow per share	0.51	1.66	0.93	2.91	0.87	1.26
Book value per share	5.66	6.12	6.44	12.99	13.59	14.25
Dividend per share	0.00	0.30	0.35	0.24	0.30	0.35
Valuation						
P/E	21.1x	18.6x	21.1x	23.0x	18.4x	16.1x
P/CF	30.9x	9.4x	16.8x	5.4x	18.0x	12.5x
P/BV	2.8x	2.6x	2.4x	1.2x	1.2x	1.1x
Dividend yield (%)	0.0%	1.9%	2.2%	1.5%	1.9%	2.2%
FCF yield (%)	3.2%	10.6%	6.0%	18.6%	5.6%	8.0%
EV/Sales	0.9x	0.9x	0.8x	0.6x	0.4x	0.4x
EV/EBITDA	9.5x	8.3x	8.7x	6.1x	4.2x	3.4x
EV/EBIT	17.3x	15.8x	17.6x	11.6x	7.2x	5.4x
Income statement (EURm)						
Sales	1,123	1,255	1,342	1,109	1,198	1,294
yoy chg in %	13.3%	11.7%	6.9%	-17.3%	8.0%	8.0%
Gross profit	423	473	512	418	452	488
Gross margin in %	37.7%	37.7%	38.1%	37.7%	37.7%	37.7%
EBITDA	112	130	126	112	122	135
EBITDA margin in %	9.9%	10.4%	9.4%	10.1%	10.2%	10.4%
EBIT	62	69	63	59	72	85
EBIT margin in %	5.5%	5.5%	4.7%	5.3%	6.0%	6.6%
Net profit	49	56	48	44	55	63
Cash flow statement (EURm)						
CF from operations	83	141	95	222	91	118
Capex	-27	-34	-47	-39	-42	-45
Maintenance Capex	50	31	35	33	35	36
Free cash flow	56	107	48	183	49	72
Balance sheet (EURm)						
Intangible assets	295	302	312	293	277	264
Tangible assets	100	135	133	138	146	155
Shareholders' equity	373	404	419	839	878	921
Pension provisions	20	22	21	19	20	22
Liabilities and provisions	418	420	443	280	256	163
Net financial debt	32	44	65	-350	-521	-574
w/c requirements	120	106	96	59	63	69
Ratios						
ROE	13.3%	13.5%	11.7%	5.2%	6.2%	6.8%
ROCE	7.7%	8.3%	7.2%	5.3%	6.3%	7.8%
Net gearing	8.5%	10.9%	15.4%	-41.7%	-59.3%	-62.3%
Net debt / EBITDA	0.3x	0.3x	0.5x	-3.1x	-4.3x	-4.3x

Source: Company data; AlsterResearch

Conflict of interests

Disclosures regarding research publications of SRH AlsterResearch AG pursuant to section 85 of the German Securities Trading Act (WpHG) and distributed in the UK under an EEA branch passport, subject to the FCA requirements on research recommendation disclosures. It is essential that any research recommendation is fairly presented and discloses interests of indicates relevant conflicts of interest. Pursuant to section 85 of the German Securities Trading Act (WpHG) a research report has to point out possible conflicts of interest in connection with the analyzed company. Further to this, under the FCA's rules on research recommendations, any conflicts of interest in connection with the recommendation must be disclosed. A conflict of interest is presumed to exist in particular if SRH AlsterResearch AG

- (1) or its affiliate(s) (either in its own right or as part of a consortium) within the past twelve months, acquired the financial instruments of the analyzed company,
- (2) has entered into an agreement on the production of the research report with the analyzed company,
- (3) or its affiliate(s) has, within the past twelve months, been party to an agreement on the provision of investment banking services with the analyzed company or have received services or a promise of services under the term of such an agreement,
- (4) or its affiliate(s) holds a) 5% or more of the share capital of the analyzed company, or b) the analyzed company holds 5% or more of the share capital of SRH AlsterResearch AG or its affiliate(s),
- (5) or its affiliate(s) holds a net long (a) or a net short (b) position of 0.5% of the outstanding share capital of the analyzed company or derivatives thereof,
- (6) or its affiliate(s) is a market maker or liquidity provider in the financial instruments of the issuer,
- (7) or the analyst has any other significant financial interests relating to the analyzed company such as, for example, exercising mandates in the interest of the analyzed company or a significant conflict of interest with respect to the issuer,
- (8) The research report has been made available to the company prior to its publication. Thereafter, only factual changes have been made to the report.

Conflicts of interest that existed at the time when this research report was published:

Company	Disclosure
Kontron AG	2

Important disclosures

1. General Information/Liabilities This research report has been produced for the information purposes of institutional investors only, and is not in any way a personal recommendation, offer or solicitation to buy or sell the financial instruments mentioned herein. The document is confidential and is made available by SRH AlsterResearch AG, exclusively to selected recipients [in DE, GB, FR, CH, US, UK, Scandinavia, and Benelux or, in individual cases, also in other countries]. A distribution to private investors in the sense of the German Securities Trading Act (WpHG) is excluded. It is not allowed to pass the research report on to persons other than the intended recipient without the permission of SRH AlsterResearch AG. Reproduction of this document, in whole or in part, is not permitted without prior permission SRH AlsterResearch AG. All rights reserved. Under no circumstances shall SRH AlsterResearch AG, any of its employees involved in the preparation, have any liability for possible errors or incompleteness of the information included in this research report – neither in relation to indirect or direct nor consequential damages. Liability for damages arising either directly or as a consequence of the use of information, opinions and estimates is also excluded. Past performance of a financial instrument is not necessarily indicative of future performance.

2. Responsibilities This research report was prepared by the research analyst named on the front page (the "Producer"). The Producer is solely responsible for the views and estimates expressed in this report. The report has been prepared independently. The content of the research report was not influenced by the issuer of the analyzed financial instrument at any time. It may be possible that parts of the research report were handed out to the issuer for information purposes prior to the publication without any major amendments being made thereafter.

3. Organizational Requirements SRH AlsterResearch AG took internal organizational and regulative precautions to avoid or accordingly disclose possible conflicts of interest in connection with the preparation and distribution of the research report. All members of AlsterResearch AG involved in the preparation of the research report are subject to internal compliance regulations. No part of the Producer's compensation is directly or indirectly related to the preparation of this financial analysis. In case a research analyst or a closely related person is confronted with a conflict of interest, the research analyst is restricted from covering this company.

4. Information Concerning the Methods of Valuation/Update The determination of the fair value per share, i.e. the price target, and the resultant rating is done on the basis of the adjusted free cash flow (adj. FCF) method and on the basis of the discounted cash flow – DCF model. Furthermore, a peer group comparison is made. The adj. FCF method is based on the assumption that investors purchase assets only at a price (enterprise value) at which the operating cash flow return after taxes on this investment exceeds their opportunity costs in the form of a hurdle rate. The operating cash flow is calculated as EBITDA less maintenance capex and taxes. Within the framework of the DCF approach, the future free cash flows are calculated initially on the basis of a fictitious capital structure of 100% equity, i.e. interest and repayments on debt capital are not factored in initially. The adjustment towards the actual capital structure is done by discounting the calculated free cash flows with the weighted average cost of capital (WACC), which takes into account both the cost of equity capital and the cost of debt. After discounting, the calculated total enterprise value is reduced by the interest-bearing debt capital in order to arrive at the equity value. Detailed information on the valuation principles and methods used and the underlying assumptions can be found at <https://www.alsterresearch.com>.

SRH AlsterResearch AG uses the following three-step rating system for the analyzed companies:

- **Buy:** Sustainable upside potential of more than 10% within 12 months
- **Sell:** Sustainable downside potential of more than 10% within 12 months.
- **Hold:** Upside/downside potential is limited. No immediate catalyst visible.

NB: The ratings of SRH AlsterResearch AG are not based on a performance that is expected to be "relative" to the market.

The decision on the choice of the financial instruments analyzed in this document was solely made by SRH AlsterResearch AG. The opinions and estimates in this research report are subject to change without notice. It is within the discretion of SRH AlsterResearch AG whether and when it publishes an update to this research report, but in general updates are created on a regular basis, after 6 months at the latest. A sensitivity analysis is included and published in company's initial studies.

5. Date and time of first publication of the financial analysis
4-Jan-23 09:47:47

6. Risk information

- Stock exchange investments and investments in companies (shares) are always speculative and involve the risk of total loss.
- This is particularly true in respect of investments in companies which are not established and/or small and have no established business or corporate assets.
- Share prices may fluctuate significantly. This is particularly true for shares with low liquidity (market breadth). Even small orders can have a significant impact on the share price.
- In the case of shares in narrow markets, it may also happen that there is no or very little actual trading there and that published prices are not based on actual trading but have only been provided by a stockbroker.
- In such markets a shareholder cannot expect to find a buyer for his shares at all and/or at reasonable prices. In such narrow markets there is a very high possibility of manipulating prices and in such markets there are often considerable price fluctuations.
- An investment in shares with low liquidity and low market capitalization is therefore highly speculative and represents a very high risk.
- There is no regulated market for unlisted shares and securities and a sale is not possible or only possible on an individual basis.

7. Major Sources of Information Part of the information required for this research report was made available by the issuer of the financial instrument. Furthermore, this report is based on publicly available sources (such as, for example, Bloomberg, Reuters, VWD-Trader and the relevant daily press) believed to be reliable. SRH AlsterResearch AG has checked the information for plausibility but not for accuracy or completeness.

8. Competent Supervisory Authority SRH AlsterResearch AG are under supervision of the BaFin – German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht), Graurheindorfer Straße 108, 53117 Bonn and Marie-Curie-Straße 24 – 28, 60439 Frankfurt a.M. This document is distributed in the UK under a MiFID EEA branch passport and in compliance with the applicable FCA requirements.

9. Specific Comments for Recipients Outside of Germany This research report is subject to the law of the Federal Republic of Germany. The distribution of this information to other states in particular to the USA, Canada, Australia and Japan may be restricted or prohibited by the laws applicable within this state.

10. Miscellaneous According to Article 4(1) No. i of the delegated regulation 2016/958 supplementing regulation 596/2014 of the European Parliament, further information regarding investment recommendations of the last 12 months are published free of charge under <https://www.alsterresearch.com>.

Contacts

SRH AlsterResearch AG
Himmelstr. 9
22299 Hamburg

Tel: +49 40 309 293-52
E-Mail: info@alsterresearch.com

Team Assistant

HANNAH GABERT
Team Assistant
Tel: +49 40 309 293-53
E-Mail: h.gabert@alsterresearch.com

Sales

MARKUS KÖNIG-WEISS
Head of Sales
Tel: +49 40 309 293-52
E-Mail: mkw@alsterresearch.com

mwb fairtrade Wertpapierhandelsbank AG
Rottenbacher Straße 28
82166 Gräfelfing

Tel: +49 89 85852-0
Fax: +49 89 85852-505
E-Mail: info@mwbfairtrade.com

Our research can be found under

Research

HARALD HOF
Senior Analyst
Tel: +49 40 309 293-52
E-Mail: h.hof@alsterresearch.com

LEVENT YILMAZ
Senior Analyst
Tel: +49 40 309 293-52
E-Mail: l.yilmaz@alsterresearch.com

KATHARINA SCHLÖTER
Analyst
Tel: +49 40 309 293-52
E-Mail: k.schloeter@alsterresearch.com

THOMAS WISSLER
Senior Analyst
Tel: +49 40 309 293-58
E-Mail: t.wissler@alsterresearch.com

DR. OLIVER WOJAHN, CFA
Senior Analyst
Tel: +49 40 309 293-55
E-Mail: o.wojahn@alsterresearch.com

ALEXANDER ZIENKOWICZ
Senior Analyst
Tel: +49 40 309 293-56
E-Mail: a.zienkowicz@alsterresearch.com

Equity Capital Markets / Trading

KAI JORDAN
Member of the Board
Tel: +49 40 36 0995-22
E-Mail: kjordan@mwbfairtrade.com

ALEXANDER DEUSS
Head of Institutional Sales
Tel: +49 40 36 0995- 22
E-Mail: adeuss@mwbfairtrade.com

SASCHA GUENON
Head of Designated Sponsoring
Tel: +49 40 360 995 - 23
E-Mail: sguenon@mwbfairtrade.com



RESEARCH HUB	www.research-hub.de
BLOOMBERG	www.bloomberg.com
FACTSET	www.factset.com
THOMSON REUTERS / REFINITIV	www.refinitiv.com
CAPITALIQ	www.capitaliq.com