

FLASH NOTE

# Kontron - Buy

Target Price: EUR 26.46 | Close as of 27/03/2024: EUR 22.16

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## FY23 CC highlights - all eyes on Katek integration

**Key takeaways:** 4Q23 result trend shows a continuation of double-digit growth dynamics driven especially by the Software&Solutions business. Profitability on EBITDA/EBIT level was burdened by one-off costs related to the transformation of the IT business to OT business. This showed responsible for missing market and our expectations. Order book increased also double-digit y/y to reach a new record level of EUR 1.7bn. The order pipeline is at EUR 4.1bn. Management provided some insight into synergy potential to be tapped from the Katek acquisition. Especially smart PV charging solutions are said to be a major demand driver going forward, there are already contracts with sizeable OEMs like Porsche or Volkswagen.

**Our view:** *We remain positive about growth dynamics going forward, where Katek will obviously help to exceed the EUR 2bn in revenue level in FY25 at the latest. Profitability-wise, Katek will be dilutive in the coming quarters, even if around 80% of its business generates an EBITDA margin of around 10% (see slides in the FN). Valuation-wise, Kontron remains to be traded at huge discount to peers of about 50% on EV/EBITDA and P/E of 8.3x and 14x, respectively for FY24e, and 5.5x and 10x, respectively for FY25e. Still, while there is no real share price trigger for the short term as we will need to see how the Katek integration progresses, there is attractive growth potential for the mid-term. Management has sound experience in integrating acquisitions swiftly and effectively. We should expect interest rate cuts to have a positive impact on Kontron's share price going forward.*

**Segment view:**

**Europe:** One-offs amounting to EUR 9mn in 4Q23 related to write downs and transformation costs (severance payments) from IT to OT services. Some EUR 1-2mn in one-offs likely to occur in 1H24. IT services already down EUR 46mn y/y in terms of revenue in FY23, OT revenue increased by EUR 20mn. Transformation ongoing. Industrial is doing well, expected to grow from globalization and the higher need of automation in Europe to be globally competitive. Market growth seen from 3Q24 after a slower demand in recent months / quarters. B2B in 4Q/FY23 was 1.03/1.06x. Excluding the transformation from IT to OT, B2B is higher. AI already started enhancing IOT solutions.

**Global (NA&Asia):** Target to grow to 30% of revenue share from 20% currently. This should be driven by cross selling European solutions in North America. No time frame provided. B2B in 4Q/FY23 was 0.86/0.92x

**Software&Solutions:** train communication design wins continue in high dynamics 1Q24 with EUR 130mn. Biggest EBITDA contributor from FY25e.

Defence business: Kontron supplies the US, France, UK and Germany. Kontron supplies communication systems to military. B2B in 4Q/FY23 was 1.42/1.86x

**Guidance FY24:** Revenue of EUR 1.9bn at least, net profit of around EUR 100mn. Guidance already includes full consolidation of Katek as March 1, 2024. 1Q24 will reflect M&A costs of about EUR 3mn that will be covered in FY24 with synergies of EUR 4mn.

**Outlook / indication of FY25:** revenue of EUR 2bn and net profit of EUR 140mn targeted, but no guidance. This guidance is the former mid-term guidance that should be way higher on top line.

**Tax loss** carry forward should help keep effective tax rate at around 10% for the coming 3 years. Recognition of tax assets has increased as net profit grow stronger than previously expected.

**Katek acquisition:** Takeover offer to minorities to be released within 10 days. Delisting planned for end of April, no squeeze out planned for the time being. First combined products to be released towards YE24. Full consolidation from March 1 based on acquisition of 60% stake from majority owner.

**Katek synergies:** EUR 10mn cost synergies, EUR 30mn synergies on gross margins from product / revenue synergies. Some low margin business of Katek will be discontinued. Strong growth expected from PV business, especially from smart charging solutions where revenue is expected to growth 40-50% p.a. in the coming two years from EUR 40mn in revenue in FY23. Kontron is in talks with all major European OEMs, having Porsche, VW, as clients. Other should follow.

**TeleAlarm offer:** Primepuls offered EUR 39mn for Katek's TeleAlarm business (carephone and nurse call systems). Kontron will decide if it will sell this small but profitable business, which does not really reflect core business, based on April numbers.

Consolidated, IFRS (Currency, mn)	Reported			Reported			Expected 4Q 23		Reported vs.			
	4Q 23	4Q 22	3Q 23	y/y	q/q	2023	2022	y/y	Erste	Cons.	Erste	Cons.
Order intake	396	373	356	6.1%	11.3%	1,452	1,363	6.5%				
Order backlog	1686	1460	1655	15.5%	1.9%	1,686	1,460	15.5%				
Order pipeline	4100	3407	3615	20.3%	13.4%	4,100	3,407	20.3%				
<b>Revenue</b>	<b>365.1</b>	<b>308.7</b>	<b>300.0</b>	<b>18.2%</b>	<b>21.7%</b>	<b>1226.0</b>	<b>1063.7</b>	<b>15.3%</b>	<b>379.4</b>	<b>375.5</b>	<b>-3.8%</b>	<b>-3%</b>
Segment Europe	229.4	192.3	194.6	19.3%	17.9%	788.0	691.4	14.0%				
Segment Global	58.3	59.7	49.4	-2.3%	18.0%	207.7	199.0	4.4%				
Segment S&S*	77.4	51.5	56.0	50.3%	38.2%	230.3	173.2	33.0%				
<b>EBITDA</b>	<b>30.2</b>	<b>1.1</b>	<b>34.9</b>	<b>nm</b>	<b>-13.5%</b>	<b>126.0</b>	<b>70.0</b>	<b>80.0%</b>	<b>41.9</b>	<b>38.3</b>	<b>-27.9%</b>	<b>-21%</b>
Segment Europe	10.9	-3.6	23.0	nm	-52.5%	68.6	40.8	68.1%				
Segment Global	5.8	-1.6	4.4	nm	32.7%	19.1	4.1	365.9%				
Segment S&S*	13.4	6.8	7.5	98.3%	78.8%	38.3	25.1	52.6%				
<b>EBIT</b>	<b>18.6</b>	<b>-35.1</b>	<b>25.0</b>	<b>nm</b>	<b>-25.5%</b>	<b>86.5</b>	<b>-2.0</b>	<b>nm</b>	<b>24.9</b>	<b>-</b>	<b>-25.0%</b>	<b>-</b>
<b>Net Profit</b>	<b>23.1</b>	<b>199.7</b>	<b>19.0</b>	<b>-88.4%</b>	<b>21.8%</b>	<b>77.7</b>	<b>232.5</b>	<b>-66.6%</b>	<b>19.0</b>	<b>17.7</b>	<b>21.6%</b>	<b>31%</b>
EBITDA%	8.3%	0.4%	11.6%	7.9pp	-3.4pp	10.3%	6.6%	3.7pp	11.0%	10.2%	-2.77pp	-1.92pp
EBITDA% Europe	4.8%	-1.9%	11.8%	6.6pp	-7.1pp	8.7%	5.9%	2.8pp				
EBITDA% Global	10.0%	-2.7%	8.9%	12.7pp	1.1pp	9.2%	2.1%	7.1pp				
EBITDA% S&S*	17.3%	13.1%	13.4%	4.2pp	3.9pp	16.6%	14.5%	2.1pp				
adj. EBITDA%	10.7%	13.2%	11.6%	-2.5pp	-0.9pp	11.0%	10.3%	0.7pp	11.0%	10.2%	-0.33pp	0.52pp
EBIT%	5.1%	-11.4%	8.3%	16.5pp	-3.2pp	7.1%	-0.2%	7.2pp	6.6%	-	-1.45pp	-

Source: Company Data, Erste Group Research; \*Software & Solutions

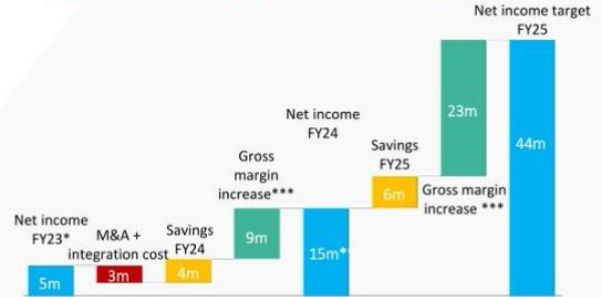
## Katek integration

Jan 18	Signing: 60% in Katek for EUR 129m	✓
March	Closing & consolidation	✓
March	EUR 125m acquisition loan	✓
Mid April	EUR 15/share tender offer launched	
May	Tender offer completed & delisting	
Q2 2024	Integration completed	
Q4 2024	New product line incl. software	
2025	Group Gross Margin of 40%	
2025/26	Potentially Squeeze out	

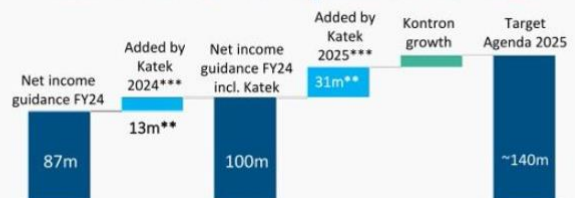
→ Katek is a game changer for increasing profit and revenues by 40% until 2025



### Road to Net Income improvement Katek



### Road to Net income improvement Kontron



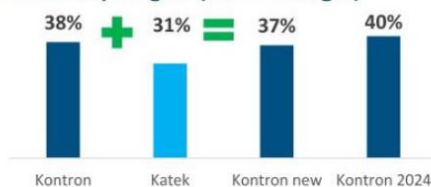
\* Katek consensus \*\* Minorities remaining \*\*\* Based on Kontron technology

## Investment Rationale: Complementary solutions

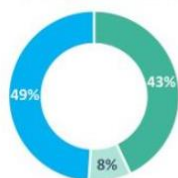
Transforming Green Technologies with IoT software



### Product Synergies (Gross Margin)



### Katek: Revenue share



### EBITDA share



### EBITDA margin

2.1%  
10.2%  
9.1%

GreenTec Aerospace Manufacturing services

### Major product synergies (EUR 32m)

- › Add Kontron IoT Software = security, grid control, remote maintenance
- › Katek solar inverters + Kontron SW = smart IoT solar inverter
- › Katek EV chargers + Kontron SW = smart IoT EV charger

→ Increase gross margin by 5% (EUR 32m)

### Limited Cost synergies (EUR 10m) – no major layoffs

- › Benefitting from favorable financing terms of Kontron
- › Only one stock exchange listing
- › Administrative cost savings

→ Katek generated 2023 82% of its EBITDA in solutions with EBITDA margin of approx. 10%

## Strong brainpower for unique industry solutions

3,600 engineers (incl. Katek)



### Software for all IoT end devices

- High margins and long-term service contracts

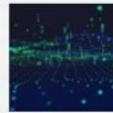
#### Basic IoT software



- ✓ KontronOS (highest security standard, remote maintenance, remote control)
- ✓ Kontron Grid connects up to 1mn devices to smart grids
- Target install on all Kontron and other IoT devices => "Windows for machines"

#### Artificial Intelligence

- ✓ HAILO chips for customized scalable applications
- ✓ Video surveillance, defect detection, robotics
- ✓ Target get IoT applications smarter and simpler to operate



### Smart solutions for vertical markets

- High margins and long-term service contracts

#### Mission-critical control systems for high-speed trains

- ✓ European Train Control System Level 3
- ✓ New standard FRMCS will accelerate migration and requires 5G



#### GreenTec with IoT software

- ✓ Solar systems connected to the IoT grid (smart home)
- ✓ Smart e-mobility chargers connected to the grid



#### Aerospace and defense

- ✓ Mission critical
- ✓ VPX - highest performance for defense
- ✓ SGOS installed in 4,000 planes



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<b>Reduce</b>	-10% < target price < 0%
<b>Sell</b>	< -10% from target price

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