

FLASH NOTE

Kontron - Buy

Target Price: EUR 26.46 | Close as of 17/01/2024: EUR 22.28

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Kontron to acquire majority in Katek - CC highlights

Key takeaways: Kontron has just announced its largest M&A deal following the IT services sale in late FY22. The acquisition of Katek is aimed to expand Kontron's green energy offering, revenue to more than EUR 2bn and net profit to EUR 140mn of sales in FY25e. See all details further below and more when opening the note.

- Kontron just announced the biggest acquisition so far, as it agrees to buy 59.4% in Katek (KTEK.de) from its major shareholder PRIMEPULSE for EUR 128mn (EUR 15 per share).
- Katek is a German listed company, one of the first movers on green technology - e-mobility and renewables. Katek supplies various industries, having leading OEMs as clients - e.g. Bosch, VW group, Volvo. 3200 employees. Katek also designs and manufactures electronic components for other industries like automotive, connectivity, industrial IOT, aerospace or healthcare.
- Katek is expected to generate EUR 750mn (consensus is at EUR 815mn) in revenue in FY23 and EUR 38mn in adj. EBITDA. In 3Q23 YTD, it had EUR 588mn in revenue, 5.5% EBITDA margin, 1% net margin.
- Kontron aims to launch a takeover bid to all remaining shareholders and delist the company, once all regulatory approvals are received, which is expected by March 2024.
- Based on the EUR 750mn in revenue (management) and on adj. EBITDA of EUR 38mn for FY23, takeover multiples are: EV/Sales of 0.5x and EV/EBITDA of 9.6x (using 3Q23 net debt).
- Subject to regulatory approval, Kontron lifts its FY24 guidance to more than EUR 1.9bn (from EUR 1.4bn) and net profit to above EUR 100mn (from EUR 87mn). For FY25e, Kontron expects EUR 2.2bn in revenue and EUR 140mn in net profit. EBITDA is no longer guided explicitly, but it was mentioned that EBITDA is about 180-200% above net profit, which translates to 12.6-14% in FY25e.
- Kontron announced to discontinue its share buyback program and aims to use part of its treasury shares as acquisition currency.

Further details:

Both companies expect a smooth integration due to similar corporate structure and complementary business offerings. Kontron has been a top 3 customer for Katek (EUR 70mn in revenue), there is also a history of successful M&A deals of both companies / managers.

Katek's CFO will join Kontron's management and become responsible for GreenTech.

Business rational: combination of e-mobility hardware like wallboxes and PV inverters of Katek with connectivity solutions from Kontron to offer smart renewable solutions to the market. Hence, major synergies are on the top line level.

Financials: Kontron aims increase Katek's gross margin by more than 5pp and expects this increase to be similarly accretive through P&L. Kontron aims to finance the acquisition with available credit lines (4-4.5% fixed or 125bp margin) and existing cash. Kontron has already received the EUR 39mn from the escrow (IT services sale to Vinci's IT) in December. Potentially, if allowed, Kontron will offer own shares maybe even at a premium to the cash offering for in the takeover bid to minority shareholders.

The maturing promissory note loan of EUR 140mn in April 2024 is already tackled and various bank offers are on the table.

Organisational structure: Two divisions will be added by integrating Katek into Kontron's organization.

Industrial Segment to include Katek's EMS business. Software and Solutions will be extended by a GreenTech Division to add about EUR 400mn of Katek's revenue. EBITDA margin is seen at 15% EBITDA mid term.

M&A: no more M&A in FY24 - full focus on Katek acquisition. There are interesting players seen as potential targets in the green technology

DPS: Kontron aims to pay a dividend for both FY23 and FY24.

Katek's adjustments are said to relate to some non-operating expenses but mainly to the lucky buy ("badwill") of a M&A transaction in 2023. Synergies of EUR 13mn this year.

Our view: *Positive to see one of the larger acquisitions on the way and to materialize, which should help Kontron meet/exceed its FY25 target of EUR 2bn in revenue and be at around the 13% on EBITDA. The latter looks to be more demanding, as Katek will be dilutive at the beginning (FY23e: EBITDA% at 5.1% in FY23e vs 11% guided for Kontron), but Kontron is very confident to bring up profitability swiftly. Kontron aims to upgrade Katek's products with Kontron's security and connectivity solutions and see Katek's positioning improve its positioning for renewable energy solutions and in the aerospace sector. Katek's global positioning will also strengthen Kontron's presence in North America and Asia. The provided guidance incl. Katek still looks very conservative on top line.*

Valuation: Kontron's new guidance implies a P/E of 14x on FY23 and 10x on FY25 earnings. Obviously, we need to see the margin improvement materialize first. Kontron's management has a strong track record to unlock synergies in acquisitions. We should also be aware that the provided guidance has still material upside. On the other hand it seems that the new guidance implies 100% of Katek, which does not need to materialize as swiftly as so far assumed. We still regard the entire transaction and news as positive.

Please see some important slides from the CC presentation in the note...

KATEK

kontron

Pioneering Green technologies

- › Power electronics (inverters) for solar energy storage systems
- › Charging solutions for electric vehicles



Leading IoT Software technology provider

- › Internet access with Firewall security
- › Remote control and grids
- › Remote maintenance

- › Upgrade GreenTec products
- › Increase Gross Margin > 5%
- › Increase profitability > 5%

Kontron financials – after KATEK acquisition

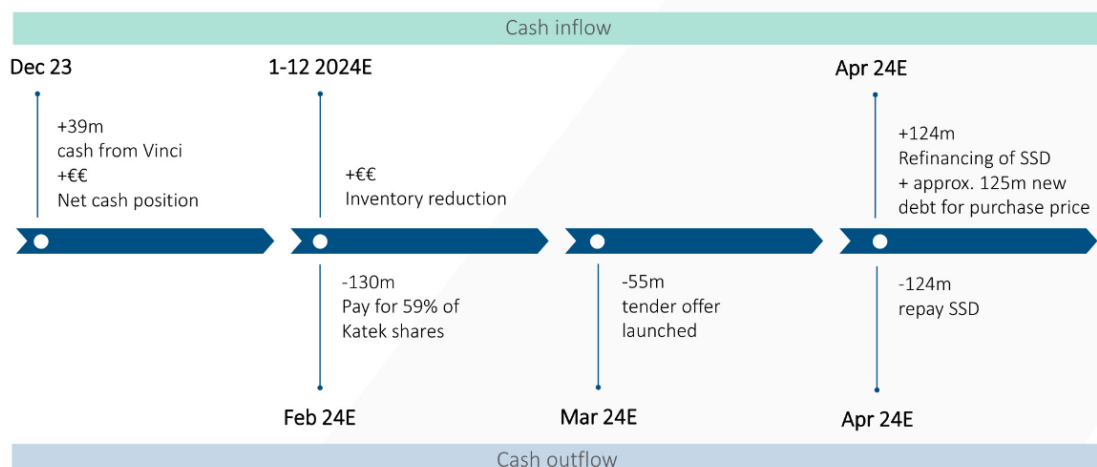
Agenda 2025 will be achieved



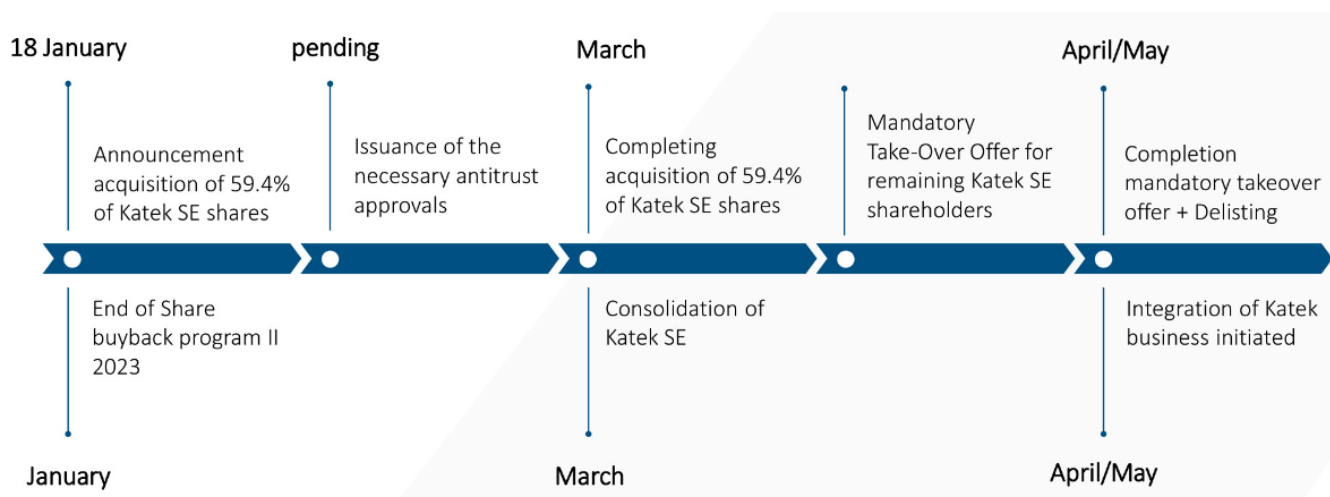
in EUR m	Kontron 2023E	Kontron (incl. Katek) 2024E	Comment
Revenues	1,200	1,900	Agenda 2025 within reach
Gross Margin (in %)	39%	37%	Phase out low margin business to achieve > 40% in 2025
Net profit	>72m	100	39% net profit growth (2024) after 28% in 2023
Employees	Approx. 4,700	Approx. 8,000	Increasing manpower & engineering strength
Equity ratio	39%	37%	2025: Back to 40%
Cash	292 (9/23)	255	Assumptions: no additional share buy backs; Already in place: EUR 130m non-utilized lines
Net cash	>70	-95	<0.75x EBITDA expected, will improve in view of planned inventory reduction

Liquidity and cash development (expected)

Net cash inflow will outweigh net cash outflow in 2024



New Guidance 2024 & Outlook 2025				
(in EUR million)	2024E (excl. M&A) old	2024E (incl. Katek) new	2025target (incl. M&A) old	2025target (incl. Katek) new
Revenue	1,400m	1,900m	2,000m	2,200m
Net Profit	>87m	100m	140m	140m



KATEK products

Strong foothold in green technologies



Electronics manufacturing



Electronic prototyping, production and end-of-life services for complex and fast-moving products

eMobility



Intelligent charging solutions forelectric vehilces (certified automotive supplier)

Renewables/Solar



Hybrid inverters and energy storage systems for solar energy solutions with associated cloud software

Air & Defense



Highly complex products for critical applications, prototyping and low to medium-volume production (ITAR-registered)

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