DELIVERING FUTURE

KONTRON
CAPITAL MARKETS DAY

Rolf Schwirz, CEO
Michael Boy, CFO
Jens Wiegand - CTO

Augsburg, May 19, 2015

AGENDA
KONTRON CAPITAL MARKET DAY – MAY 19, 2015

▼

Time:	Topic:	Presenter:
10.30h – 11.00h	Registration & coffee	All
11.00h – 11.30h	Kontron: Financial Recap & Status Quo	Michael Boy - CFO
11.30h – 12.30h	Kontron's strategic way forward: „Delivering Future"	Rolf Schwirz - CEO
12:30h – 13:00h	Q&A Session I.	All
13.00h – 14:00h	Lunch	All
14.00h – 14.45h	Kontron & the megatrends - Strategic implications of "IoT" and "Industry 4.0"	Jens Wiegand - CTO
14:45h – 15:15h	Q&A Session II.	All
15:15h – 15:30h	Closing	Rolf Schwirz - CEO
15:45h	Transfer to Augsburg main station / Munich Airport	All

INTRODUCTION

R. Schwirz

FROM „RESTRUCTURING TO TRANSFORMATION“

RESTRUCTURING PHASE IS COMPLETED

Vision 2015-2018

- New strategic positioning & future roadmap
- To be the #1 trusted advisor of IoT and leader of embedded computing technology

2015

- Finalize cost reductions
- Push sales and gross margin
- Grow profitable businesses
- SAP rollout of first wave

2014

- Selling of non-core business
- Transition to Augsburg and Deggendorf
- 80% of CRP milestones achived
- Development and Validation of Strategy

2013

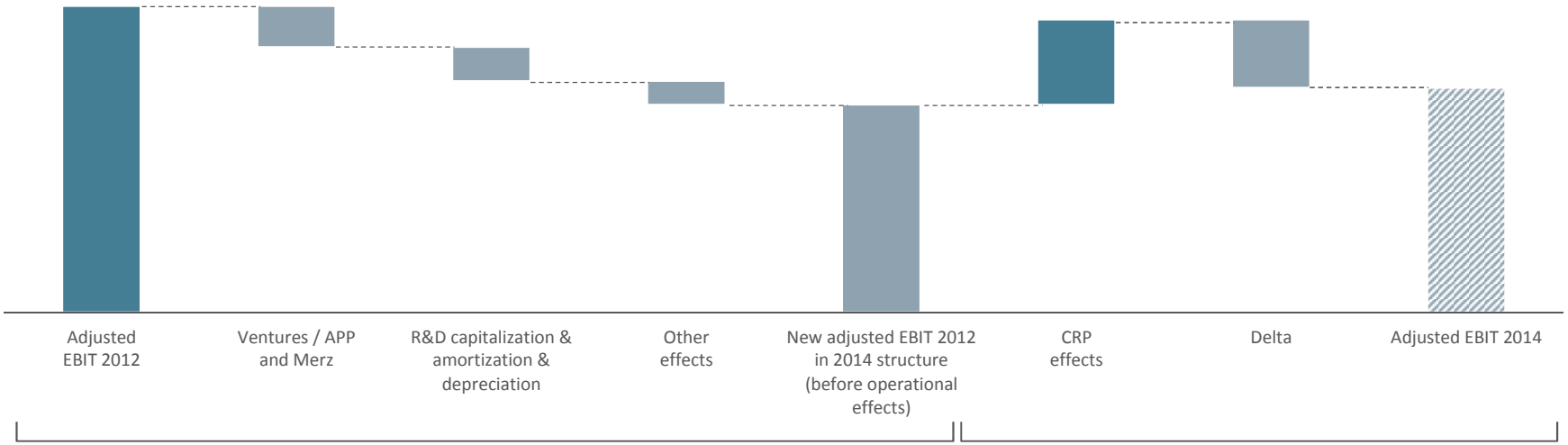
- New organization and Executive Management team
- Restructuring of Kontron
- Implement new reporting system
- Secure financing

KONTRON: FINANCIAL RECAP & STATUS QUO

M. Boy

COMPARISON OF PROFIT & LOSS STATEMENT VS. 2012

Kontron's financial performance since 2012 is analyzed in two steps



1 Structural adjustments

- Adjustments of "ventures" and other de-consolidated entities (AP Parpro and Merz)
- Changes in R&D capitalization and amortization
- Other effects: Change to royalty model, known cost increases (e.g. Kontron Japan)

2 CRP review

- Review of realized CRP effects per Dec 2014
- Identification of counter effects
- Quantification of gap vs. actual adjusted EBIT 2014 ("Delta")

1. STRUCTURAL ADJUSTMENTS

NEW ADJUSTED EBIT 2012 BEFORE OPERATIONAL EFFECTS

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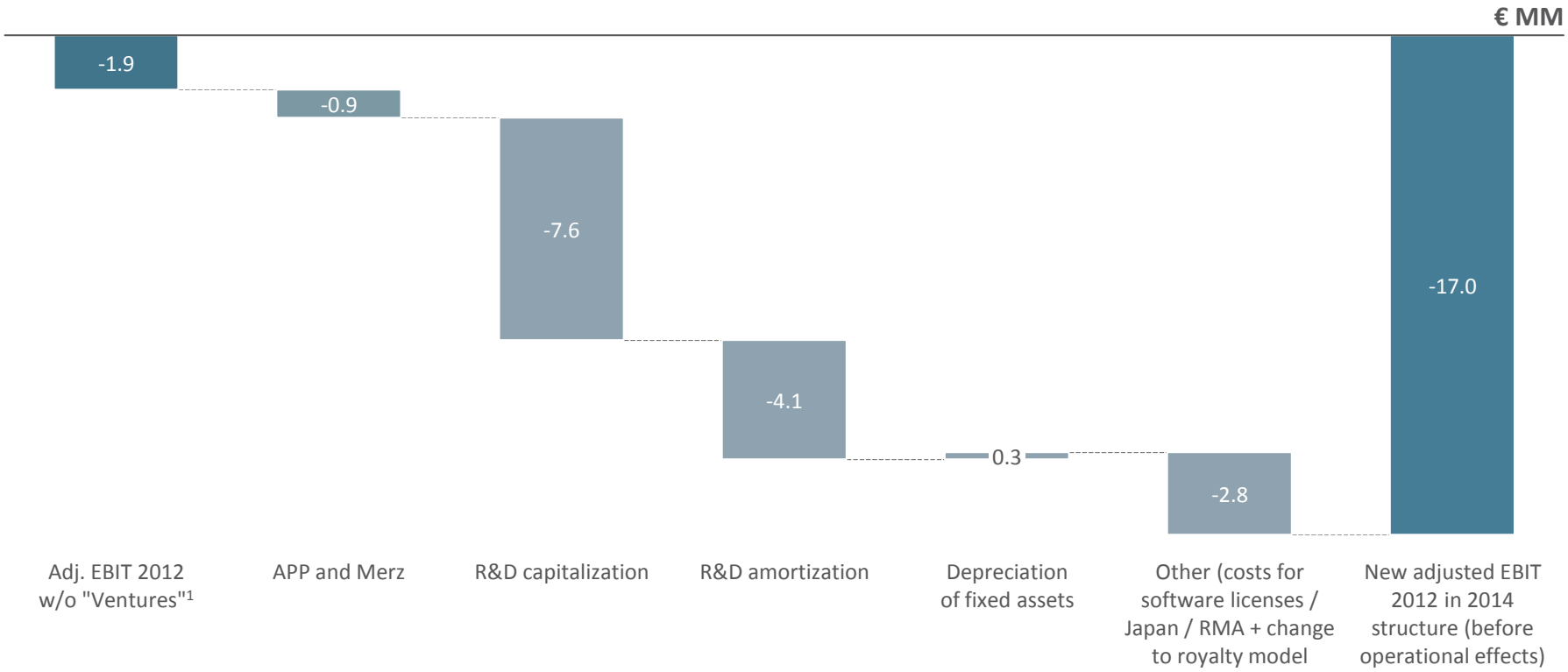
The new adjusted EBIT 2012, which is structurally comparable to 2014, equals -€17.0 MM



Footnote: 1) Ubitronix and RTSoft; contribution of Adjusted EBIT of ventures amounts to + € 1.9 MM (i.e. Adj. EBIT including ventures = 0)

1. STRUCTURAL ADJUSTMENTS

EFFECTS OF COST REDUCTION PROGRAM (CRP)

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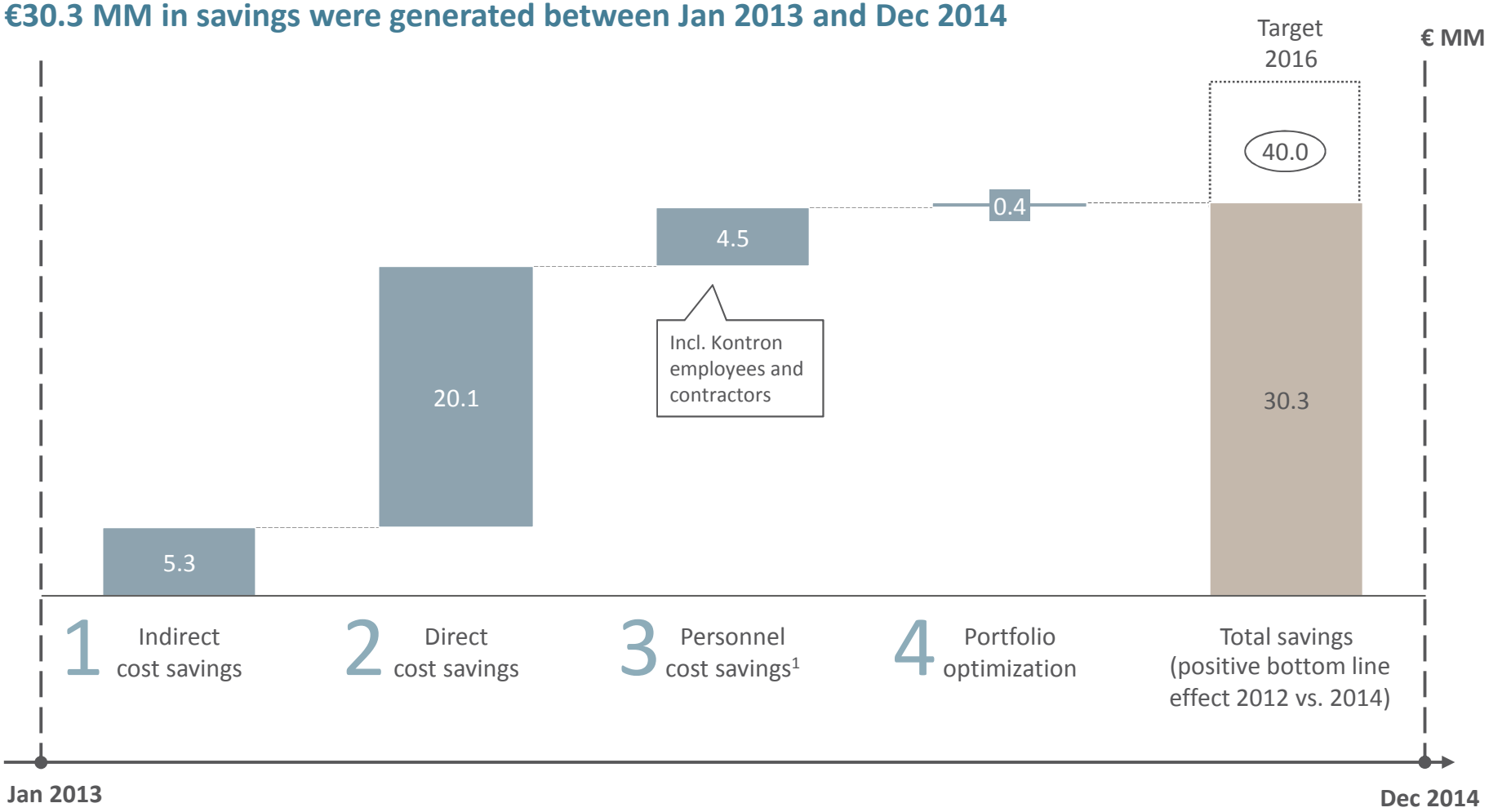
€30.3 MM in savings were generated between Jan 2013 and Dec 2014



Footnotes: 1) Recording of personnel savings since Apr 1, 2013

2. CRP REVIEW

RECONCILIATION OF CRP AND P&L EFFECTS

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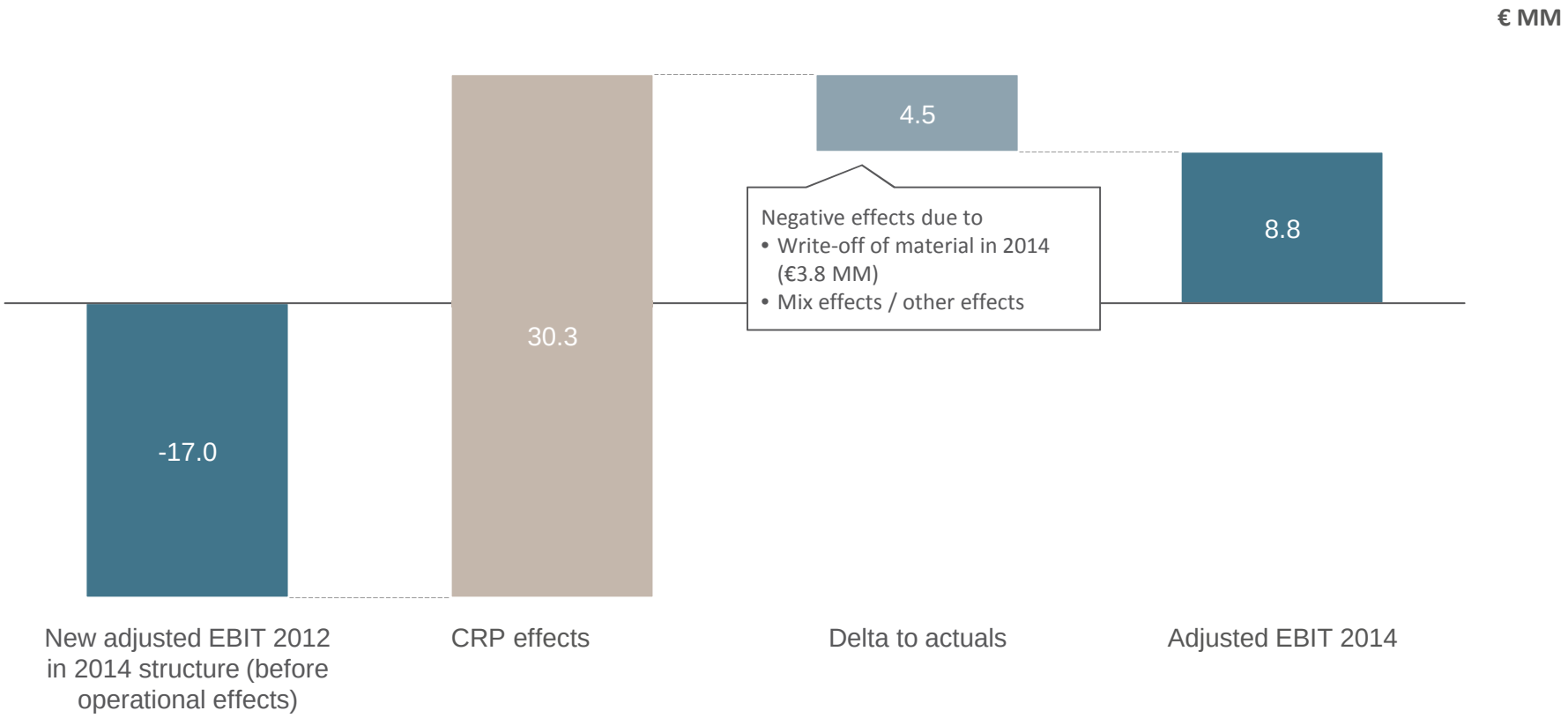
Kontron's operating results can be mostly bridged with the CRP, yet a delta of €4.5 MM remains



2. CRP REVIEW

CRP FOCUS TOPICS (2/2): GROSS MARGIN TRANSITION

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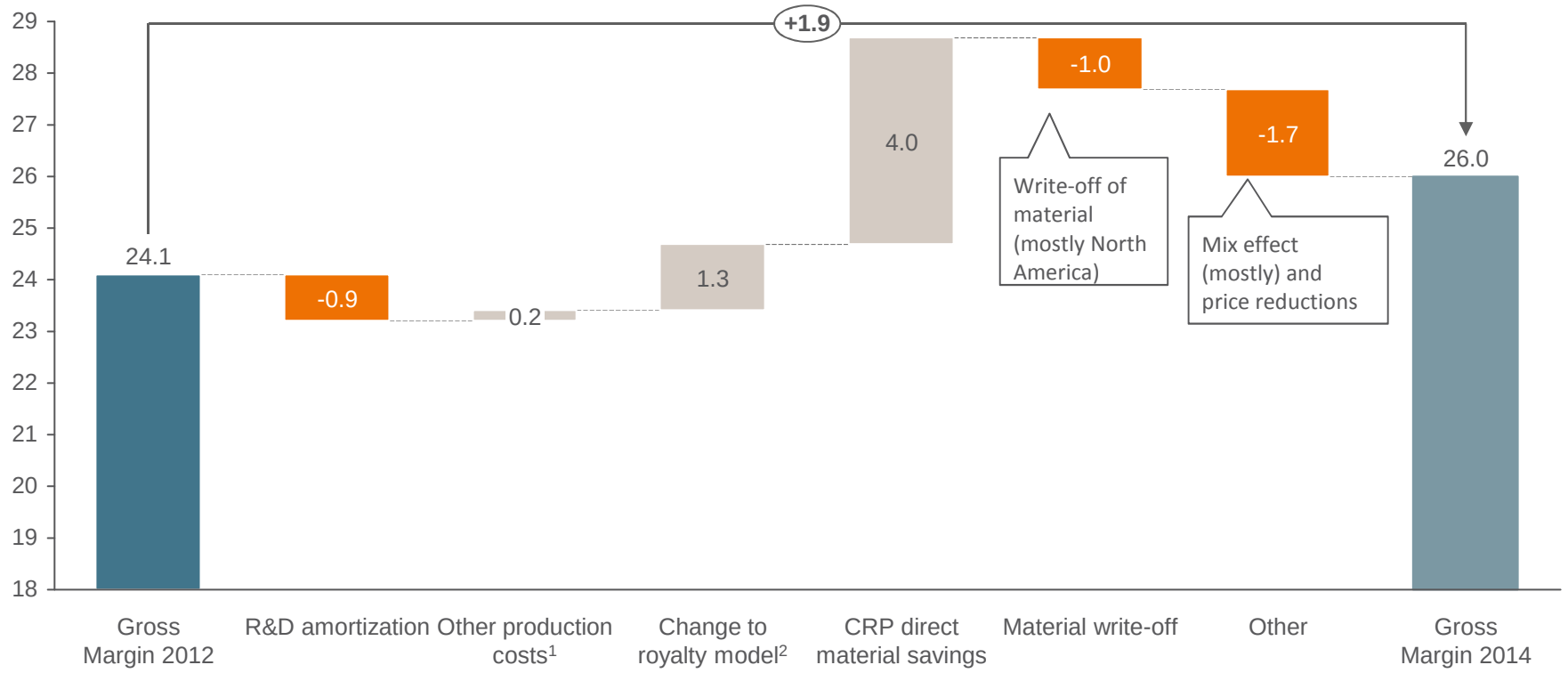
The adjusted gross margin 2012 increased by 1.9 percentage points between 2012 and 2014

Gross margin in % of revenues



OUR STRATEGIC WAY FORWARD: „DELIVERING FUTURE“

R. Schwirz

OUR STRATEGIC WAY FORWARD „DELIVERING FUTURE“

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R. Schwirz

01
THE DIGITAL HYPE

02
MARKET REQUIREMENTS

03
STRATEGIC POSITIONING

A CHANGING WORLD…

PEOPLE LISTENING TO THE POPE IN ROME – **2005**

▼

A CHANGING WORLD…

PEOPLE LISTENING TO THE POPE IN ROME – **2013**

▼

MEGATRENDS IN OUR INDUSTRY

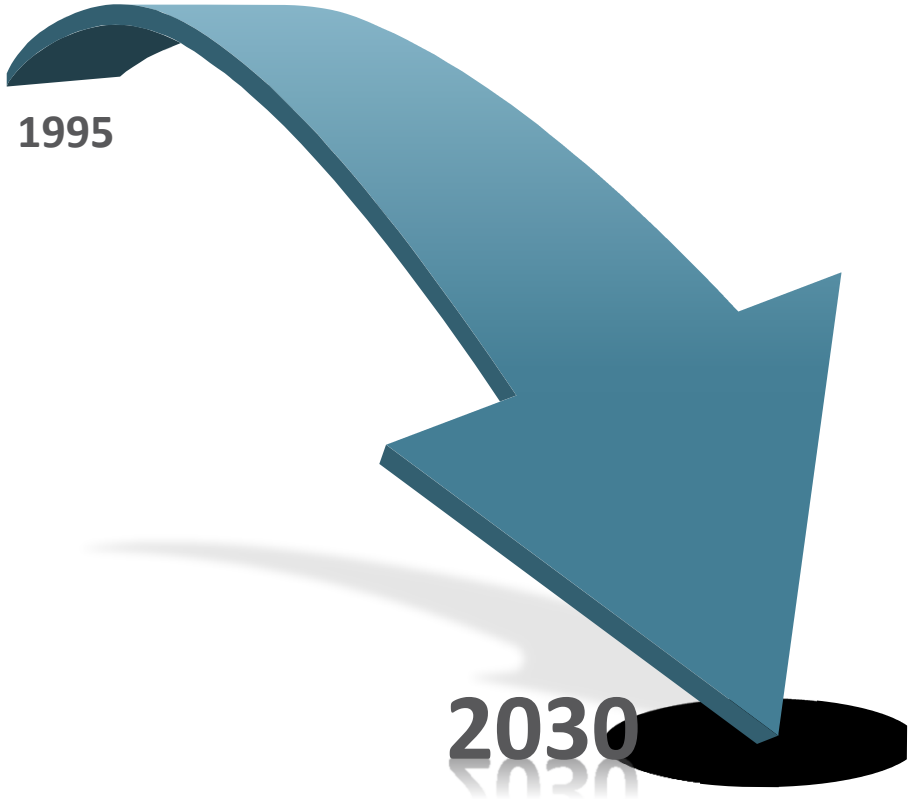
THE “INTERNET OF THINGS”: THE FUTURE AHEAD OF US

▼

Market changing developments

Selection

- By **2030**, **60 %** of the world’s population will access the internet only through mobile broadband at a speed **> 1 GB/s**
- In **2020**, **6,5** connected devices per person
- **90%** of the world’s data were generated in the last **2** years
- Electronic data **x2** every **2** years
- In **2013**, mature economies account for **60%** of the digital universe – in **2020**, emerging countries will account for **60%**
- **75%** of the world’s population will have a personalized health care plan
- Health and wellness will become priority **№ 1** for each of us
- Healthcare expenditures in OECD countries will grow by more than **3x** in **2050**



Source:

- Cisco – Internet of Everything
- SINTEF
- EMC – Digital Universe
- Oliver Wyman – HLS

OUR STRATEGIC WAY FORWARD „DELIVERING FUTURE“

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R. Schwirz

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MARKET TRENDS

THE ECT MARKET IS INFLUENCED BY A NUMBER OF TRENDS, ONE OF WHICH IS “GAME-CHANGING”

Trends:

- **Game-changing trend**
- **More deeply discussed on following pages**

1	**Connected** devices enable IoT	Devices
2	Reduction of **SWaP**[1] – everything becomes smaller	
3	Decreased **time-to-market** by “plug & play” platform solutions comprising HW, SW, and services	Solutions
4	**Software is** more and more the **bottleneck** with regard to time-to-market	
5	**Reduction of R&D** spend in development areas which are not relevant for competitive position strength	Business model
6	Enablement of **new business models** (e.g. services)	
7	Customers invest more and more in **emerging markets**	
8	**Trust** in HW/SW solutions becomes more and more a key concern for customers (and their customers)	Buying behavior/ brand recognition
9	**Trust** in financial & operational stability of ECT suppliers	

1 Size, weight and power

A CHANGING WORLD…

DO YOU KNOW WHAT THAT IS?

▼

Source: IBM

CUSTOMER REQUIREMENTS

THESE ARE THEIR QUESTIONS TO US:

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1. How do you avoid **unauthorized access** to our devices?
2. How to you make the **transfer of data** absolutely secure ?
3. How do you extract **only really important data** from the data transfer?
4. How do you enable **remote access** to devices?
5. How do you ensure your **device software upgrades**?
6. How to ensure that our investment in applications will be **safe**, while hardware platforms **quickly** evolve?
7. How can you guarantee that data conveyed by your devices are delivered in **real-time** (Quality of Service)?
8. How do you enable us to **rapidly develop** and **deploy applications** for our devices?

OUR STRATEGIC WAY FORWARD „DELIVERING FUTURE“

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R. Schwirz

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MARKET OPPORTUNITY

THE CONVERGENCE OF IT AND OT OPENS A HUGE MARKET POTENTIAL FOR ECT PLAYERS

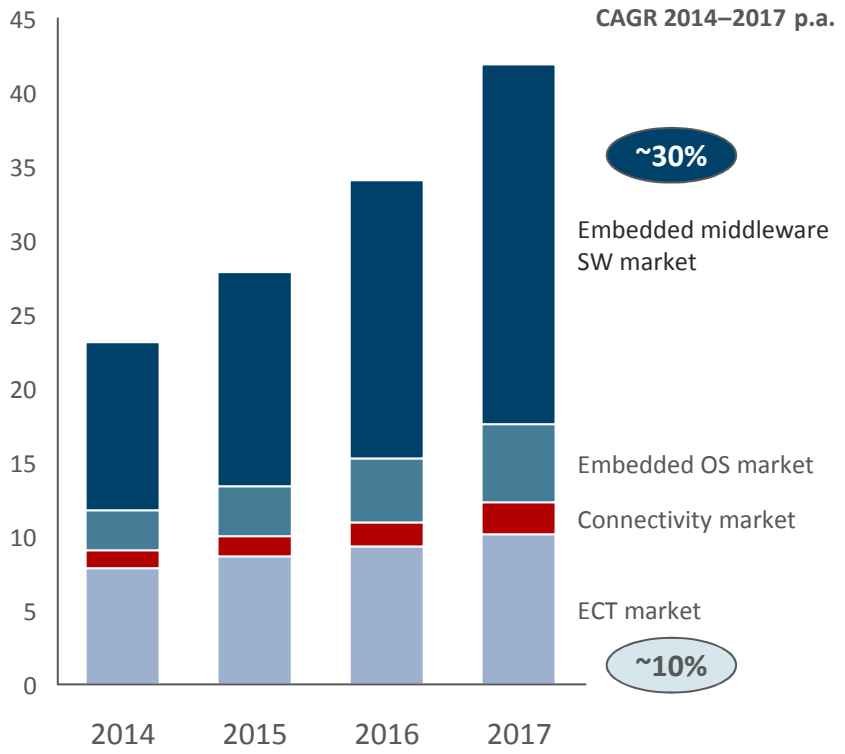
Market-changing developments

Selection

- While the traditional ECT market (Kontron's current market) grows with ~10%, adjacent markets offer better growth opportunities
- Among adjacent markets, the market for embedded middleware software exhibits the strongest growth potential with a CAGR of ~30% p.a.
- Overall, the convergence of IT and OT markets has a huge total market potential for embedded players of more than US$40 bn

Market forecast

2014–2017, in US$ bn



Source: Harbor Research 2014

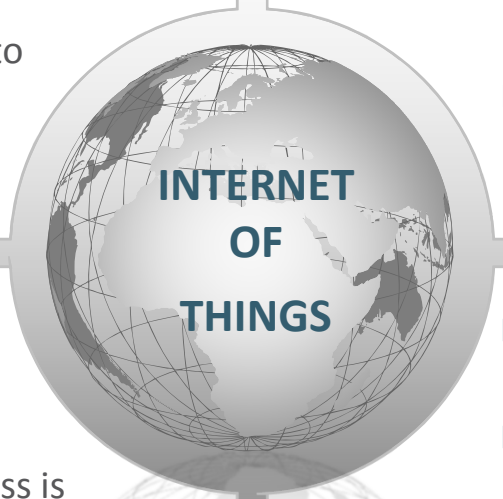
STRATEGIC DIRECTIONS

Standard Products

- Enhanced sales model to push more standard products into the market
- 30% of indirect sales contribution to total revenues are achievable

OEM Business

- Kontron needs reduced lead times and a lower-cost production in its boards and modules business
- Strategic partnership in Asia needed



Services & Maintenance Business

- We strive for a 40%-plus gross margin, as is possible in the Maintenance /Services business
- The target audience for this business is Kontron's entire installed base

Growth focus on Asia

- 30% YoY revenue growth rate in Asia is achievable
- Opening of new state-of-the-art facility for production, R&D, offices and storage in China

KONTRON & THE MEGATRENDS - STRATEGIC IMPLICATIONS OF “IoT” AND “INDUSTRY 4.0”

J. Wiegand

“IoT” - A MARKET DISRUPTER

NEW SUCCESS REQUIRES MARKET DISRUPTION!

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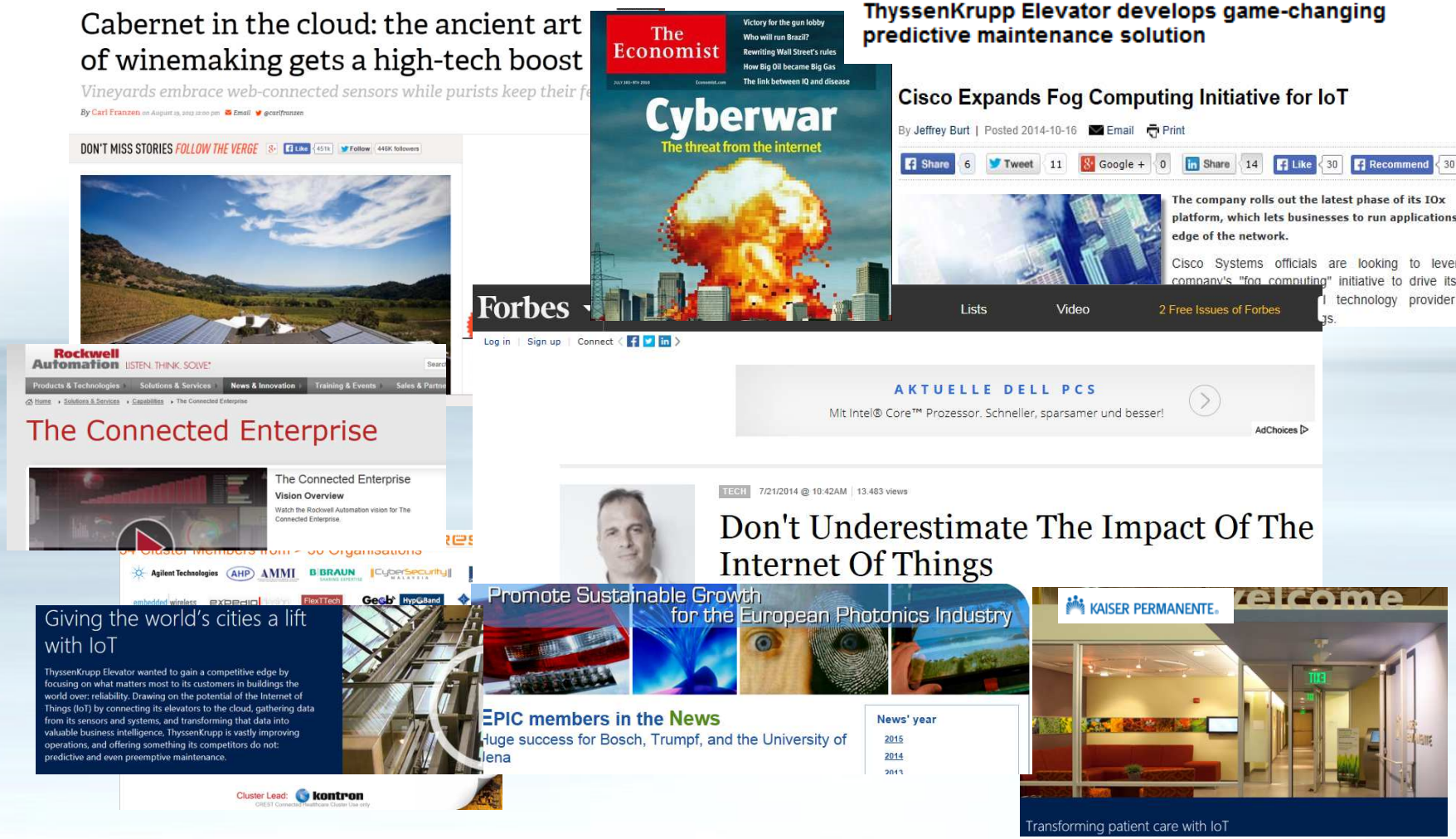


“IoT” DRIVES NEW TECHNOLOGY CHALLENGES

FOR KONTRON AND ITS CUSTOMERS

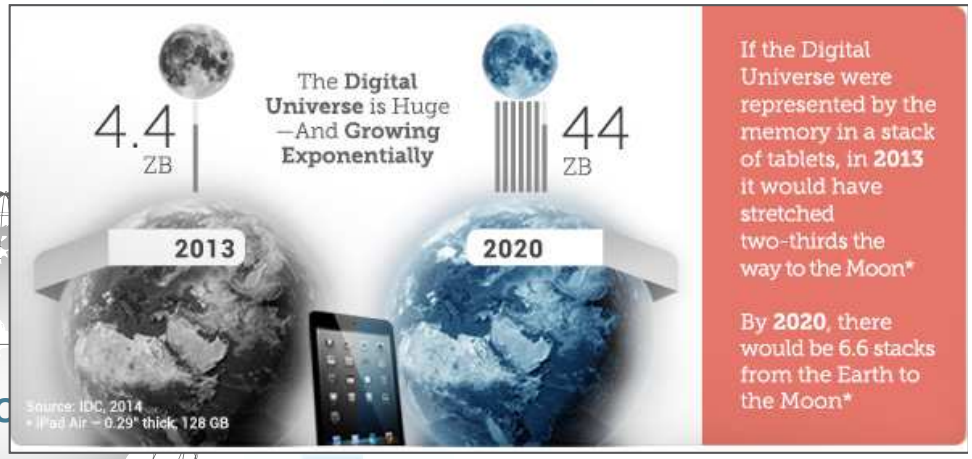
▼

RELIABILITY

	Information Technology (IT)	Operational Technology (OT)
Context	Business/financial processes	Physical processes
Lifecycle	<10 years	5–30 years
System availability	99% – 99.9%	99.99% – 99.999999%
Topology	Centralized (general purpose)	Distributed (specialized, fragmented)
Risk	Information disclosure, financial loss	Injuries, environment, financial
Main concern	Confidentiality and integrity of data	Availability of system, privac of systems
Manageability	Lights out management	Service engineers

DATABILITY

(YoY ~ 40%)



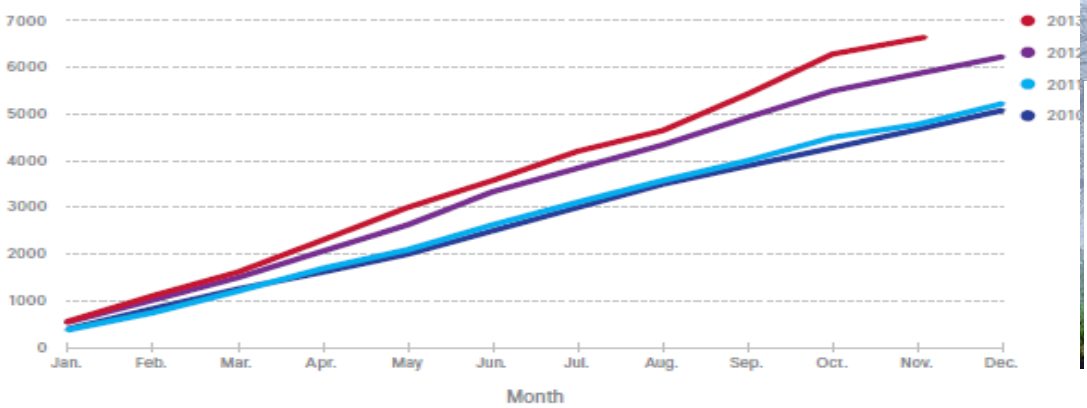
SECURITY VULNERABILITIES

(YoY ~ 20%)

MANAGEABILITY

FIGURE 3

Cumulative Annual Alert Totals, 2010–2013



IoT: Out Of The Cloud & Into The Fog

Cloud computing architectures won't be able to handle the communication demands of the Internet of Things. The future is in fog computing.

“IoT”– BUSINESS CHALLENGES AND OPPORTUNITIES

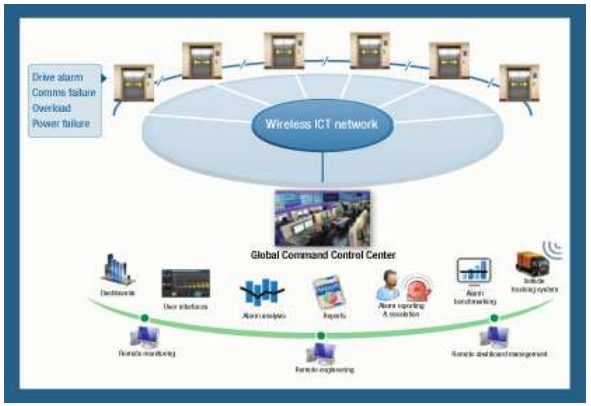
IMPLICATIONS FOR KONTRON’S CUSTOMERS

OPPORTUNITY	PROTECTION & PREDICTABILITY	TOTAL COST OF OWNERSHIP (TCO)
▶ Drive new sustainable business models based on data-centric platforms ▶ Be first in the market with new innovative IoT platforms ▶ Monetize data and apps by enabling pay-per-use	▶ Protection of liability issues, driven by vulnerability of systems ▶ Protect against TTR risk by reducing IoT/software complexity ▶ Make the OPEX challenge an opportunity (predictive maintenance)	▶ Complexity to manage the population, deployment, lifecycle of all connected devices ▶ Plan for the unplanned or unknown (Security, Analytics) ▶ How to increase productivity (production yield etc.)

IoT - READY

“IoT”– USE CASE

ELEVATOR CONTROL / PREDICTIVE MAINTENANCE



CHALLENGE	TCO SAVINGS / REDUCTIONS	BENEFIT
▶ 102-story One World Trade Center, height 1776feet	▶ Maintenance Cost: 25% - 30%	▶ Increased availability
▶ 3.5M people carried / year	▶ Breakdown reductions: 70% - 75%	▶ Enable preemptive corrective actions
▶ 23 Miles/h = 60sec bottom to top	▶ Downtime reductions: 35% - 45%	▶ Decrease goods and labor cost
▶ ~1M door cycles / elevator / year in public buildings	▶ Yield increase: 20% - 25%	▶ Higher quality and environmental safety
	▶ ROI: up to factor 10	▶ Customer satisfaction & value

Sources: http://www1.eere.energy.gov; http://www.gesoftware.com/predictive-maintenance.pdf; MSFT; http://www.emlelevators.co.nz; http://www.facilitiesnet.com

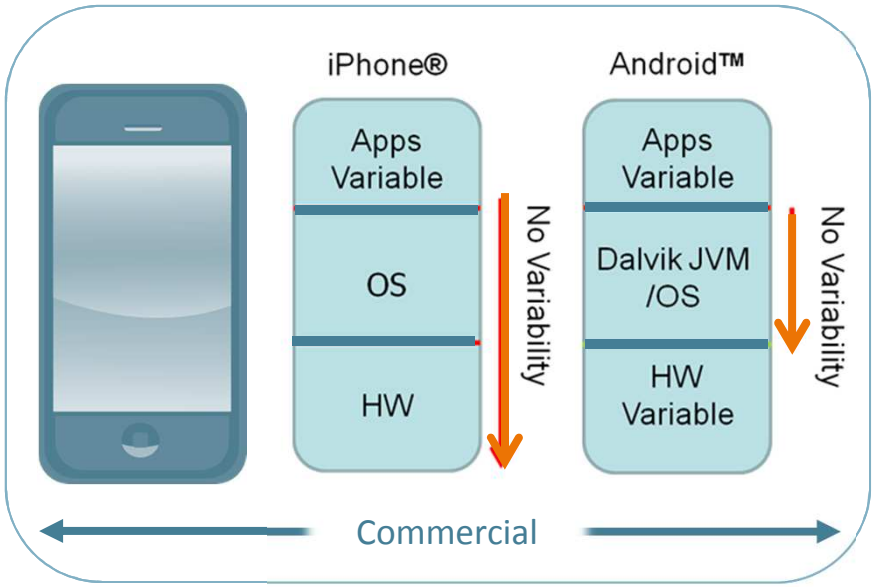
“IoT”– HOW TO MAKE IT HAPPEN

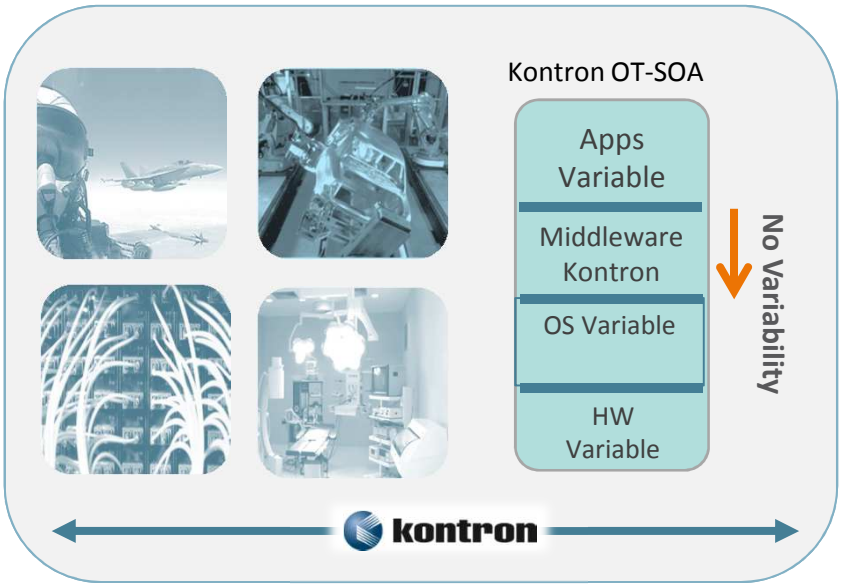
“WHAT APPLE DID WITH THE IPHONE – WE DO FOR EMBEDDED.”

▼

We need a smartphone application and portability concept to Kontron’s BU and standard solutions, while enabling variability to all segments of the architecture BUT:

- Platform approach will enable reusability across different verticals / BUs
- Middleware framework owned by Kontron
- IP (Intellectual Property Centric) to make Software part of Kontron’s platforms
- Customer and partner centric





PLATFORMS

TO LEVERAGE IoT-COMMONALITY ACROSS MANY USE CASES

DATABILITY

SECURITY

MANAGEABILITY

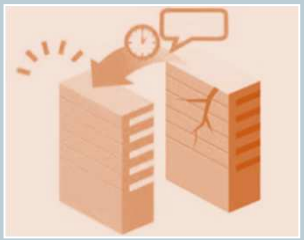
AGILITY

Transform data to actionable information

AGILITY

Flexibility and speed to stay ahead of business needs

HIGH AVAILABILITY



Always-on

HIGH PERFORMANCE

Delivers quickly

DESIGNED FOR YOU

Meeting Expectations

Engineered for ever changing business needs

MANAGEABILITY

Predictability and anywhere access

DEVICE

Networked for data collection

SOFTWARE

The glue of the network

SERVICES

Increased opportunities

Designed for Service Evolution

SECURITY

Multi-layered approach

INTEGRITY

Strong Principles

INTRUSION

Defending Assets

SAFETY

Real Peace of Mind

Protect and Build Trust

DATABILITY

Provides the opportunity to create more and new business models

ANALYTICS

Data wealth

APPS AND UPDATES

Anywhere, Seamless & Automatic

CONNECTIVITY AND SENSORS

Collect & send data

Transform data to actions

“IoT” – MECHANICS OF SOFTWARE MONETIZATION

IMPLICATIONS FOR KONTRON’S CUSTOMERS

SW License models	Impact	Benefit
Monetization happens proportionally to the problem	Same IP is a proportion of the hardware price per shipped unit	Increase GM of Kontron’s products and systems
Mix of perpetual licenses or subscriptions to get technology access	One-off or recurring revenue stream enabling front-loaded cash flow	Blends back-loaded hardware cash flow with early SW monetization
Customization, consulting and integration services are high margin services	Product enablement services shift to early monetization and stickiness of business	Opens huge service opportunity for Kontron
Software is an IP and people’s business without need for working capital	When blended with hardware centric business model, EBIT will be positively affected	Higher EBIT Margins

IoT – READY BUSINESS

SESSION CLOSING

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Thanks for your participation