



# STRATEGIC UPDATE CAPITAL MARKET DAY 2021

Hannes Niederhauser, CEO

11<sup>th</sup> of October 2021



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# HIGH- AND LOWLIGHTS 2021 YTD



## HIGHLIGHTS

- › H1-2021:
  - › Growth of 11.5% in revenues and 12.2% in EBITDA vs H1-2020
- › 30 cent record dividend for 2020
- › Strong order intake of EUR 806 Mio. in H1-2021 continued in Q3
- › 2021: EUR 14 Mio. in share buybacks (currently EUR 42 Mio. spent)
- › Price increases compensate cost of chip crisis

## LOWLIGHTS

- › Strong order intake only partially converted to revenues
  - › Chip shortage: EUR 38.3 Mio. of not delivered orders as of 30/6
  - › Increase to app. EUR 70 Mio. as of 30/9/2021
- › North America weak due to FX, avionics and chip shortage
- › Refrain in 2021 from major acquisitions due to excessive valuations

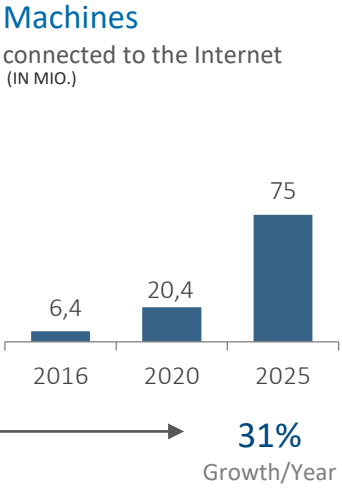


# THE IOT MARKET



In Billions	2020	2025	Growth / yr
IoT devices (in pcs.)	20.4	75	+ 31 %
as of 5G devices (in pcs.)		32	
IoT market (in USD)	1,800	3,000	11%
TAM Industrial IoT (in USD)	25	48	14%

Main competitors in Industrial IoT	Revenue (in USD Bn.)
Advantech	1.8
S&T (as of IoT 1.0)	1.6
Curtiss Wright	1.2
ABB B&R	1.1
Beckhoff	1.0
Top 5 account for	27%



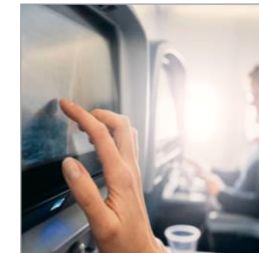
Source: IDC, mgmt est.

# SMART TECHNOLOGY: YOU SEE/USE S&T APPLIANCES EVERY DAY

## VISION 2030



- SMART TRAINS
- SMART CARS
- SMART ENERGY
- SMART FACTORY
- SMART ROBOTS
- SMART MEDICALS
- SMART TRANSPORT
- SMART LOGISTICS
- SMART HOMES
- SMART CITIES
- SMART CONNECTIVITY



Connectivity drives smart IoT devices – 5G bandwidth will be a game changer for IoT and enable 30 Bn. new devices  
With its leading technology and its partnership with Foxconn, S&T will be a leader for high price professional IoT

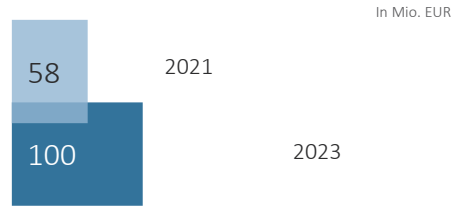
# TECHNOLOGY: CONNECTIVITY DRIVES GROWTH



## IOT SOFTWARE - SUSIETEC

SUSiEtec IoT software framework: Enabling machine learning (AI)

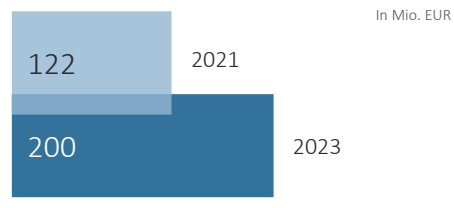
- › Improve software product portfolio: Embedded SW, Soft PLC, TSN (real time networks)
- › EUR 100 Mio. software revenues planned by 2023, triggering add. 250 Mio. IoT products



## 5G IOT WAN NETWORKS

5G enables WAN networks for machines at high data bandwidth

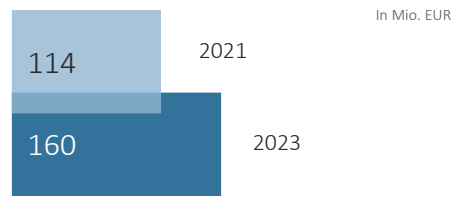
- › Iskratel is specialist for 5G, many synergies with SUSiEtec
- › Build up networks with IoT SW and our edge devices



## TRAIN CONTROL SYSTEMS

Mission critical control systems for highspeed trains

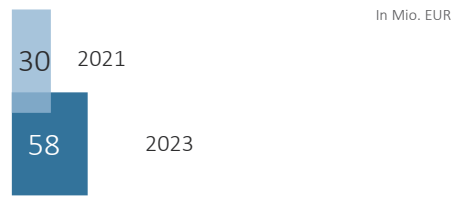
- › New standard FRMCS will accelerate migrations and require 4G/5G
- › Revenue plan of EUR 140 Mio. until 2023



## AUTONOMOUS DRIVING

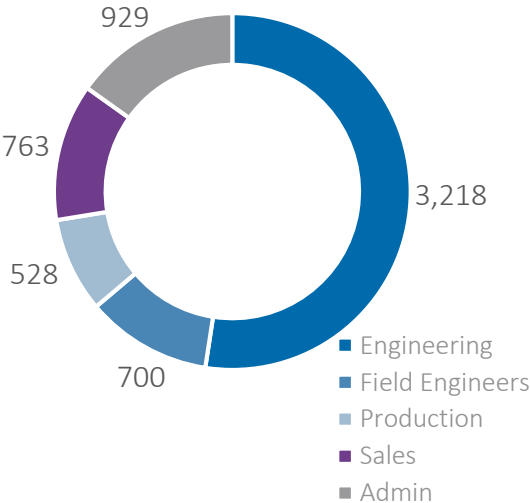
Real Time driving systems for cars, trucks and machines

- › Focus on services and software for niche applications
- › Cooperation with Intel (mobile eye) and Foxconn



## EXCELLENT POOL OF ENGINEERS

- › Cost efficient (40k p.a.) in-house resources in Eastern Europe
- › 2020: EUR 184.1 Mio. R&D costs (14.7% of revenues) as of ~40% paid by customers
- › Total 6,138 employees (30.6.2021)



# GLOBAL CHIP-SHORTAGE UPDATE



## GENERAL DEVELOPMENT & OUTLOOK

- › Lack of investments into expensive chip factories during pandemic
  - › Due to Moore 's law every 4 years new process/factory needed
- › Strongly increasing chip demand driven
  - › Recovery of the industry after end of pandemic
  - › Public economy stimulation programs
  - › Digitalization
  - › Double bookings in the crisis
- › Chip producers increased capacities 11 %- 17% in 2021 -> not enough
- › No severe problems with new, expensive chips
- › Less production volume and allocation for:
  - › Older chip generations with less margins
  - › Power + interface chips e.g. TI, Microchip & LT sold out until Q2/23
- › Outlook:
  - › Crisis predicted to end mainly in 2022
  - › Higher prices during the crisis 2022/2023

## S&T STRATEGY IN THE CHIP CRISIS

- › We redesign products to replace critical chips
- › We increased inventory by EUR 19 Mio. in Q2 - will be even more in Q3
  - › Emergency stock of critical chips
  - › Semi-finished products
- › Less than 50% of our ordered chips are currently allocated to S&T
- › S&T buys the rest on the spot market and accept price increases up to 5 times
- › It is a sellers market:
  - › Oct 1<sup>st</sup> S&T increased all prices by 6%
  - › Jan 1<sup>st</sup> S&T will increase prices again
  - › Temporary price increases (spot market) are paid by the customers
  - › We buy no spot market chips without customer approval to pay
  - › After adaptation to the new situation trend is to increase margins

# IMPACT OF GLOBAL CHIP-SHORTAGE ON S&T

## ADJUSTED GUIDANCE FY 2021



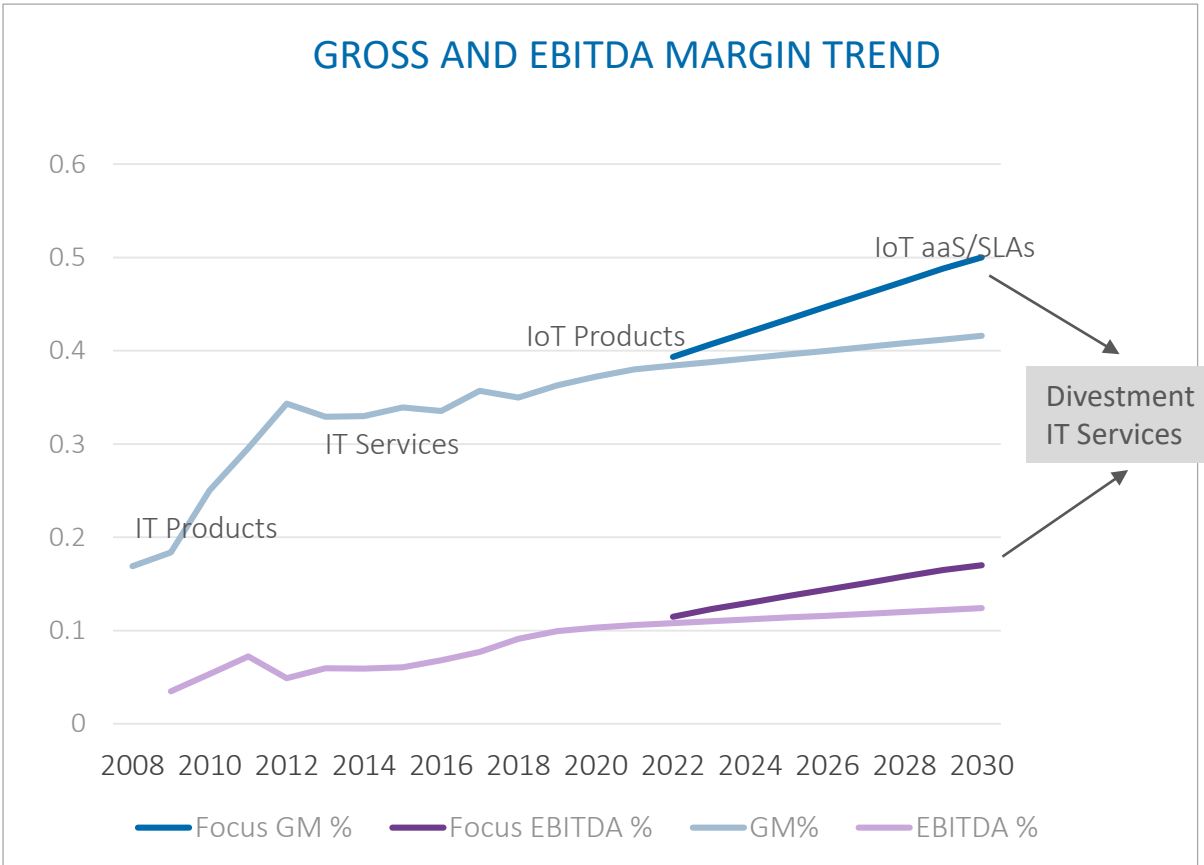
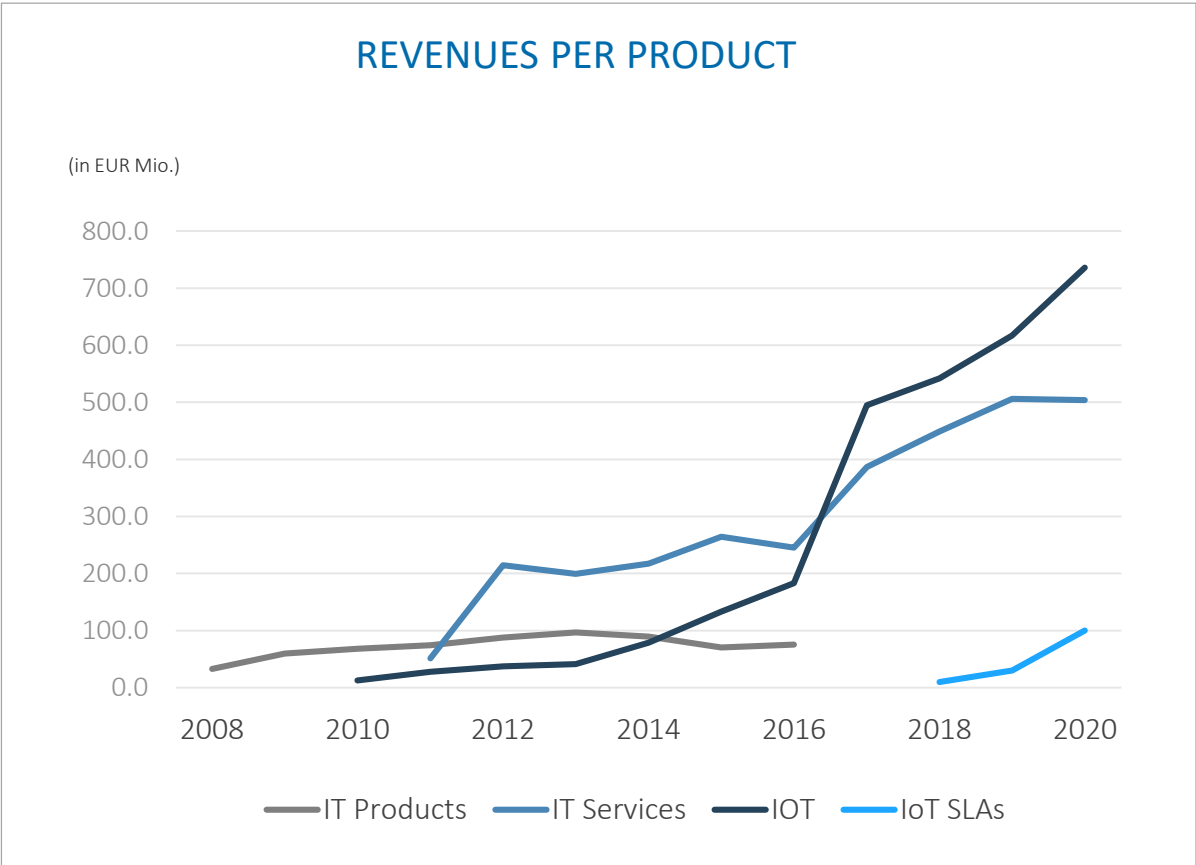
<b>REVENUES</b> (in EUR Mio.)	Q1-21	Q2-21	FY 2021
Delayed shipments	10.2	38.3	40 – 110
Guided revenues	300	334	1,400
Impacted revenues	294 (Act.)	306 (Act.)	1,330 – 1,400
EBITDA in %	9.6%	10.0%	~ 10.0%
EBITDA	28.2	30.1	133 – 140

<b>Revenues Impact</b>	Due EUR 40 to 110 Mio. delayed shipments we adjust revenue guidance 2021 to EUR 1,330 – 1,400 Mio. EUR 40 to 110 Mio. not shipped orders in 2021 will boost Revenues 2022 to catch up backlog
<b>EBITDA Impact</b>	Margins remain at ~ 10% and are not significantly impacted by chip crisis (price increases in sellers market)

Chip crisis impacts mainly the revenues in 2021 but not really the profit margins – for 2022 the delayed shipments will be a tailwind



# BUSINESS MODEL TRANSFORMATION OVER 20 YEARS



In 2011 S&T was an IT Service company, today IoT Products account for 75% of EBITDA, in 2023 IoT products might account for 100%



# PROJECT FOCUS IN EVALUATION

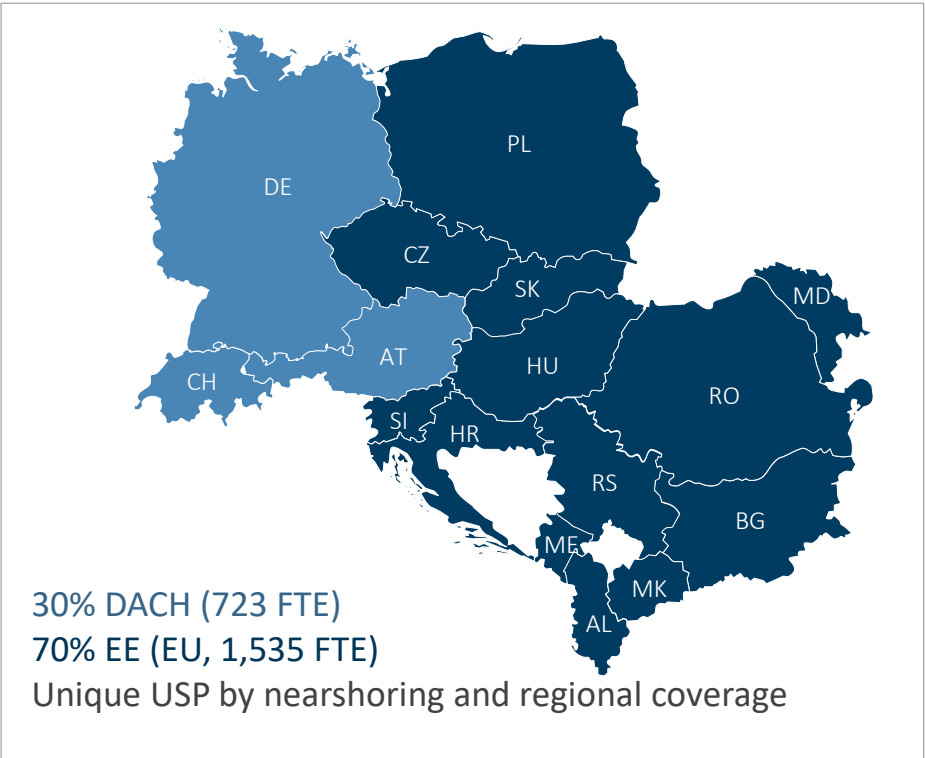
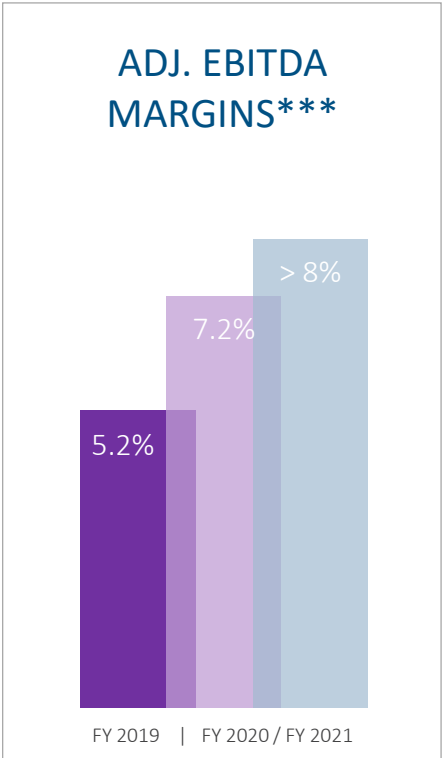
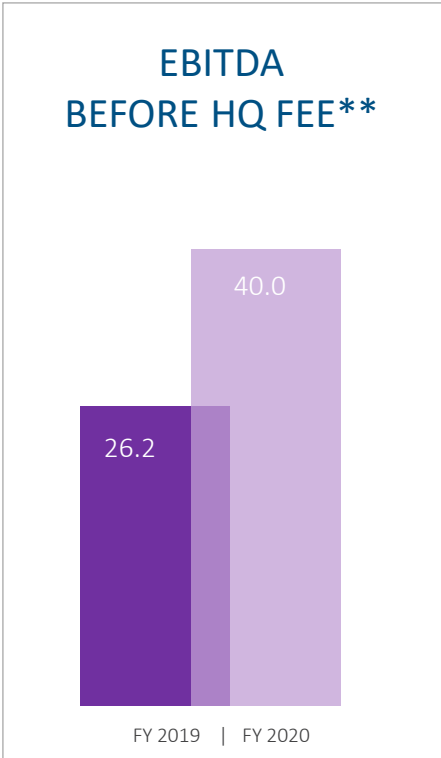
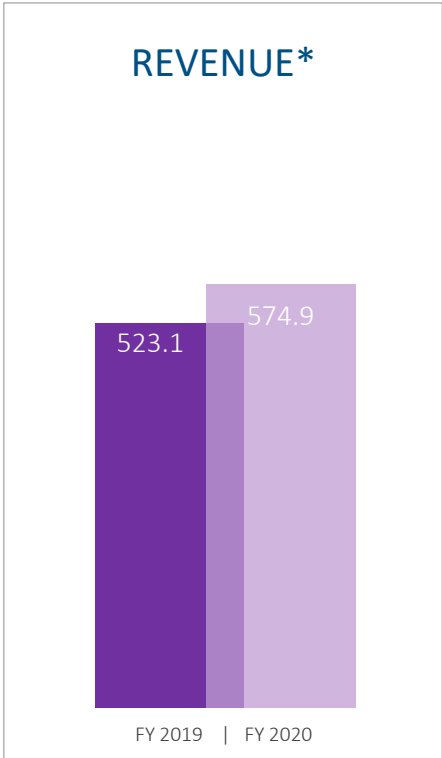
## DIVESTMENT OF IT SERVICES, FOCUS ON IOT SEGMENT



- › Our Vision 2030 targets EBITDA > 15% and GROSS MARGIN > 50%
  - › We need to adjust our business model and focus on higher growth/margin IoT market to achieve it
  - › Currently there is a seller's market -> good timing to do it now
- › Project Focus evaluates to separate IT Services and IoT Segments
- › We appointed investment advisor GCA Altium to support us throughout the process
- › Internal carve-out of IT Services segment is in progress and needs to be done anyway
- › Tax structure of the transaction in evaluation
- › 2 brand strategy going forward: S&T AG (Services) and Kontron AG (IoT)

Schedule: we plan (if we do it) to sign mid 2022 and to close in 2022

# IT SERVICES SEGMENT 2020



Not complete IT Services Segment in scope, details will be defined within evaluation process in Q4 2021  
IT services is in good shape, 2021: we will achieve EBITDA > 8% in FY 2021 -> expected proceeds EUR 550 – 700 Mio. (~ 12 EBITDA multiple)

\* 3<sup>rd</sup> Party revenue including intercompany revenue  
 \*\* EBITDA before charged management fees from S&T AG (part of IT Services Segment); EBITDA after management fees: MEUR 49.6 (FY 2020), MEUR 34.1 (FY 2019)  
 \*\*\* HQ-fee adjusted EBITDA in % of external revenue

## IMPACT OF PROJECT FOCUS (IF IT HAPPENS)



Cash	Significant increase of cash to > EUR 800 Mio.
Equity	Significant increase of equity ratio > 50%
Use of proceeds	Priority 1: 60% for M&A in IoT Solutions field Priority 2: EUR 200 Mio. for further share buy backs and/or special dividend
Revenues	<b>It is our target to compensate all sold IT Services revenues with IoT business</b> We plan to replace in 2023 all deconsolidated IT Service revenues by newly acquired IoT revenues
Acquisition pipeline	We have 3 targets with revenues > EUR 500 Mio. and 4 targets > EUR 100 Mio. in the pipeline → in 2022 we expect one major closing Price of targets in most cases lower as IT Services divestment due to focus on distressed targets
EBITDA	<b>It is our target to increase EBITDA margins long-term to &gt; 15%</b> Short-term 2023: EBITDA margins will be diluted with acquisitions but will stay > 10%
Agenda 2023	EUR 2 Bn. of revenues will take longer (~ FY 2025) but profitability will be higher
Vision 2030	Project Focus is a major step to achieve pure IoT company with EBITDA margins > 15%

# M&A STRATEGY (ADJUSTED IN CASE OF PROJECT FOCUS)

## M&A IS A CORE COMPETENCE OF S&T

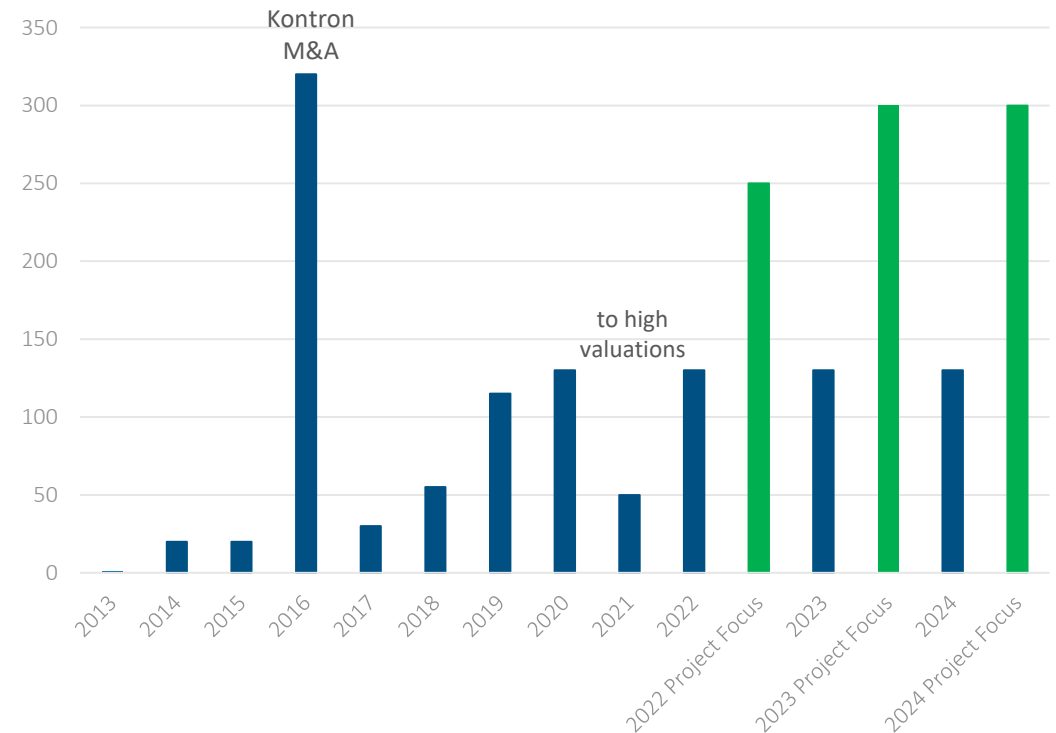
- › Half of growth by M&A, half by organic growth
- › In case of Focus: accelerate acquisitions to compensate for divested biz
- › Key synergies:
  - › Cross-sell IoT Software to new customers
  - › Benefit from S&Ts efficient R&D: ~3700 FTE @ 40k/y cost
- › Sufficient cash – EUR 350 Mio. cash (in case of Focus > EUR 900 Mio. including unused credit lines, treasury shares and strong cash flow)
- › 2021 less acquisitions, S&T did not participate in excessive valuations
- › 2022: focus on bigger tickets (> EUR 500 Mio. of Revenues), avoid to compete private equity (focus on high synergies and restructuring cases) = lower valuations

## S&T M&A TARGETS

- › Restructuring situations at low price (60% of Rev) but high synergies
- › EBITDA Dilution in year 1 but achieve 10% EBITDA in year 2
- › Focus: IoT in Europe, strengthen SW technology, no risky countries
- › Regional Focus: IoT Europe; go global in USA and China, no risky country

## M&A VOLUME

(in EUR Mio.)



Project Focus helps us to a) acquire bigger tickets b) take a global IoT approach c) up the value chain technology wise





# SUMMARY CAPITAL MARKET DAY 2021

Hannes Niederhauser, CEO

11<sup>th</sup> of October 2021



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# SUMMARY – WHAT MAKES S&T INTERESTING?

## VISION 2030



### DISRUPTIVE EVENTS AHEAD

- › Digitalization will change the world
  - › Smart applications - S&T everywhere
- › 5G connectivity will enable lots of new IOT applications
  - › Big data bandwidth accessible all over the planet
- › Project Focus will be a major step ahead in S&Ts IOT strategy
  - › Clear focus on IoT globally



### INTERESTING INVESTMENT STORY

- › Experience in successful acquisitions and restructurings
- › Clearly focused IoT Player, special dividend and share buy back policy after potential Project Focus
- › Strive for continuous Governance and ESG improvements

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