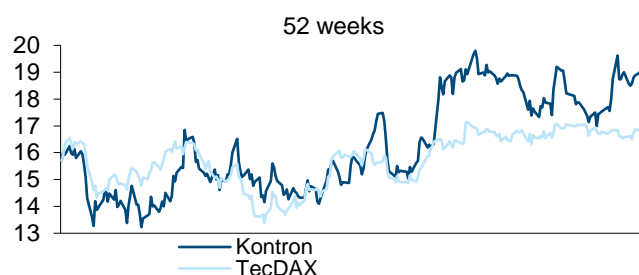


# Kontron

Initiated with Buy

EUR mn	2022	2023e	2024e	2025e
Net sales	1,096.1	1,206.9	1,348.5	1,504.0
EBITDA	70.0	133.0	155.9	182.3
EBIT	-2.0	86.8	110.8	137.4
Net result after min.	232.5	67.9	90.1	108.8
EPS (EUR)	3.65	1.07	1.43	1.72
CEPS (EUR)	4.70	1.79	2.16	2.42
BVPS (EUR)	9.96	9.92	10.80	11.81
Div./share (EUR)	1.00	0.54	0.71	0.86
EV/EBITDA (x)	11.2	7.2	5.8	4.7
P/E (x)	4.2	18.2	13.7	11.3
P/CE (x)	3.3	10.9	9.0	8.0
Dividend Yield	6.5%	2.8%	3.6%	4.4%



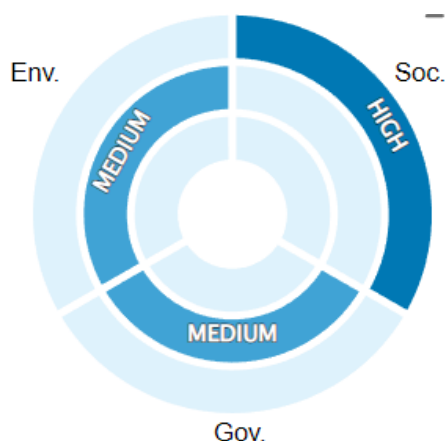
Performance	12M	6M	3M	1M
in EUR	24.2%	23.8%	4.5%	14.6%

Share price (EUR) close as of 25/05/2023	19.5	Reuters	KTN.DE	Free float	66.0%
Number of shares (mn)	64.3	Bloomberg	KTN GY	Shareholders	Ennoconn (27.3%)
Market capitalization (EUR mn)	1,253.0	Div. Ex-date	29/05/23		Management (6.4%)
Enterprise value (EUR mn)	130.4	<b>Target price</b>	<b>24.5</b>	Homepage:	www.kontron.com

## Analyst:

Daniel Lion, CIIA  
+43 (0)5 0100 - 17420  
daniel.lion@erstegroup.com

## Kontron ESG score



Source: Erste Group Research

## IoT – The place to be

We initiate Kontron with Buy rating and a target price of EUR 24.5.

Kontron (former S&T), is a globally leading supplier of embedded solutions and other IoT products, operating in dynamic growth markets. Management aims to double the expected organic double digit growth rate p.a. in the coming years with M&A.

Following the divestment of its IT services business, Kontron has become a pure play IoT provider now looking to prop up its proprietary software and solutions portfolio with acquisitions.

With more than 50% of its workforce being engineers, mostly based in SEE, Kontron aims to translate this cost advantage into shifting its business toward higher value and integrated solutions and expand profitability.

Positive business dynamics with b2b of 1.41x have continued in 1Q23, outpacing peers by focusing on attractive niche / growth markets.

Trading at discounts on EV/EBITDA of about 50% in FY23-25 or 7.2x/5.8x/4.7x, respectively is not justified in our view, even if acquisitions could be dilutive in the short term. Net cash is 15% of MCAP.

## Investment story

### Kontron – a pure IOT play after divestment

Kontron, former S&T, is one of the leading global providers of IoT and embedded IoT solutions. Following the sale of its IT services business in the DACH and CEE regions to Vinci in 2022, S&T has become a pure play IoT solutions company and has been renamed to Kontron. With about 4500 employees in 24 countries, Kontron generated EUR 1.1bn in revenue with a diversified customer base of over 3000 clients. Headquartered in Linz, Austria, and listed on the Frankfurt stock exchange, Kontron is a member of the TecDAX, HDAX and the SDAX.

The product portfolio ranges from **IOT software, embedded solutions to connectivity solutions** for verticals like **Industrial, Transport, Communication, or Medical**

Kontron operates in three divisions: **Europe**, where Kontron claims the No.1 position in Industrial IoT (IIOT), **Global**, reflecting the North American and Asian businesses, and **Software and Services**. Kontron offers a broad IOT portfolio overing connectivity solutions, with proprietary embedded hardware and software solutions for digital automation, for real time communication, and real time data processing. Kontron has in-house electronic manufacturing capacities (ODM) that are also offered to third parties. It can also rely on manufacturing capacities of its major shareholder Foxconn / Ennoconn. Kontron supplies various verticals and niche markets, the largest being IIOT, IOT Software, Transportation and Medical.

### Kontron business segments and verticals it supplies\*



\* incl. I/C revenues | \*\* before HQ-fee distribution

\* Gross revenue forecast for FY23 per segment, including intercompany revenues. Profitability targets are to be seen mid-term (2025e).  
 Source: Company

### Strong growth to double with M&A until 2025

Kontron guides to grow more than 10% in sales in FY23 and at a CAGR23-25 of 12% to EUR ~1.5bn. M&A is aimed to double revenue growth until 2025 to EUR 2bn. In terms of EBITDA, FY23 is guided with an EBITDA margin of 11% at least, which shall increase to 13% at least by FY25 – regardless of acquisitions. **EBITDA CAGR23-25 is guided with 37% excluding M&A and 55% with M&A.** At least two sizeable acquisitions are targeted this year, from seven targets currently under consideration. Netcash and new financial leverage provide about EUR 700mn in immediate funding.

### We rate Kontron Buy

Kontron offers attractive growth, enhanced with M&A, which is a proven USP. CEE based engineers with lower salaries vs Western peers provide cost advantage vs many peers. Management aims to keep capital returns to shareholders at least 50% of EPS, bringing support to the share price in times of weakness. Kontron is valued at 7.2x / 5.8x / 4.7x EV/EBITDA for 2023-25e, which compares to a 10y average of 10x and a discount to peers of about 50%. Such a discount seems well too exaggerated even if we should expect some short term from dilution on profitability level from potentially distressed acquisition targets. We see the additional SBB of more than EUR 75mn (~6% shares) as a means to back the share price in such a scenario.

## Erste Group Research – Company Report

Kontron | Technology Software | Austria

30 May 2023

### Growth at increased profitability continued in 1Q23e

Kontron started the new fiscal year with a 12% y/y top line growth in 1Q23 at an EBITDA margin of 10.7% (+1.1bp) y/y. The depicted ahead of e.g. peer Advantech, which advanced only 7.9% y/y. More remarkable was order intake, which spotted a book-to-bill (B2B) of 1.41x (Advantech: 0.82x). The strong order intake, which was positive in all segments and highest in the Software & Solutions segment (2.33x!), hints at positive business dynamics going forward.

### FY23 guidance lifted with 1Q23 figures

The positive development in the starting quarter has triggered an uptick with regards to FY23 net margin guidance. FY23 guidance is at least 10% top line growth to about EUR 1.2bn at 11% EBITDA margin and new EUR 66mn (previously: EUR 60mn) net profit. Management hinted at some cushion.

#### 2021-2026e: Kontron continued business development\*

EURmn	2021	2022*	2023e	2024e	2025e	2026e	CAGR23-25e
<b>Revenue</b>	<b>1,002.9</b>	<b>1,096.1</b>	<b>1,206.9</b>	<b>1,348.5</b>	<b>1,504.0</b>	<b>1,648.6</b>	<b>11.1%</b>
y/y %		9.3%	10.1%	11.7%	11.5%	9.6%	
<b>Gross profit</b>	<b>358.3</b>	<b>369.5</b>	<b>432.4</b>	<b>492.3</b>	<b>564.3</b>	<b>624.8</b>	
margin %	35.7%	33.7%	35.8%	36.5%	37.5%	37.9%	
EBITDA	90.1	70.0	133.0	155.9	182.3	201.7	
margin %	9.0%	6.4%	11.0%	11.6%	12.1%	12.2%	
<b>adj. EBITDA</b>	<b>90.1</b>	<b>109.6*</b>	<b>133.0</b>	<b>155.9</b>	<b>182.3</b>	<b>201.7</b>	<b>18.5%</b>
margin %	9.0%	10.0%	11.0%	11.6%	12.1%	12.2%	
EBIT	40.1	-2.0	86.8	110.8	137.4	156.3	
margin %	4.0%	-0.2%	7.2%	8.2%	9.1%	9.5%	
Net profit	48.3	232.5	67.9	90.1	108.8	119.4	
margin %	4.8%	21.2%	5.6%	6.7%	7.2%	7.2%	
<b>adj. Net profit</b>	<b>29.7</b>	<b>55.6*</b>	<b>67.9</b>	<b>90.1</b>	<b>108.8</b>	<b>119.4</b>	<b>25.1%</b>
EPS	0.75	3.65	1.07	1.43	1.72	1.89	
DPS	0.35	1.00	0.54	0.71	0.86	0.95	

\* Adjustments relate to disposal of IT Services business aka project "Focus"

Source: Company; Erste Group Research

We believe there is room to positive guidance revisions in the course of the year. On the other hand, Kontron could announce acquisitions any time, which would call for respective adjustments to our model. In our base case we expect the announced acquisitions to be dilutive on profitability level in the short term.

### Full warchest from sale of majority of IT Services business

The strategic sale of the IT Services business in most of its countries allows Kontron to accelerate growth in the more dynamic and profitable IOT space. As of 1Q23 and based on our calculations, Kontron has a war chest of between EUR 500-700mn to be spent in the course of FY23, depending on the financial health of the acquisition target(s) and reflecting on Kontron's current covenants of 3x Netdebt/EBITDA. Kontron's management targets to acquire at least EUR 250mn in revenue in FY23, but only if the price is reasonable. We expect more M&A to come going forward.

### Capital return of up to EUR 150mn in FY23, at least EUR 35mn in FY24

Kontron pays an elevated dividend of EUR 1 per share or EUR 64mn in total for FY22 following the IT Service divestment. (Div ex-date is May 29). A first share-buy-back has already been started with a total volume of up to EUR 10mn (already spent: EUR 8.5mn). Further SBB could be initiated with a total volume of EUR 76mn, summing up to a capital return in FY23 up to EUR 150mn, a yield of 12%. For FY24, Kontron's management aims to return capital of EUR 35mn at least to shareholders, in line with a targeted capital return of 50% of EPS.

**SWOT – Strength, Weakness, Opportunities, Threats**

**Strenght**

- Leading Industrial IoT (IIoT) supplier in Europe
- Globally leading provider of embedded solutions
- Experienced management team with strong track record
- Diversified customer base with more than 3000 clients, the biggest generating only 3% of sales
- Strong M&A track record
- History of meeting / beating management targets
- High level of vertical integration
- Cost advantage from CEE based engineering staff
- Flat organizational structure supports flexibility

**Opportunities**

- M&A helping to grow scale, product offering, market presence
- Business driven by secular digitalization trends in various verticals with strong dynamics
- Core shareholder Ennoconn/Foxconn offers growth oppurtunities in Asia
- Growing business of higher margin / scalable products (IoTaaS, software, profitable niches)
- 5G expected to drive IOT related demand
- Expanding proprietary IOT solutions to new verticals and cross-selling
- Further room to improve ESG scoring and taxation approved revenue

**Weakness**

- Transparency of business structure, but improving
- Majority of business still low margin
- Short reports have created resentments - but all cleared

**Threats**

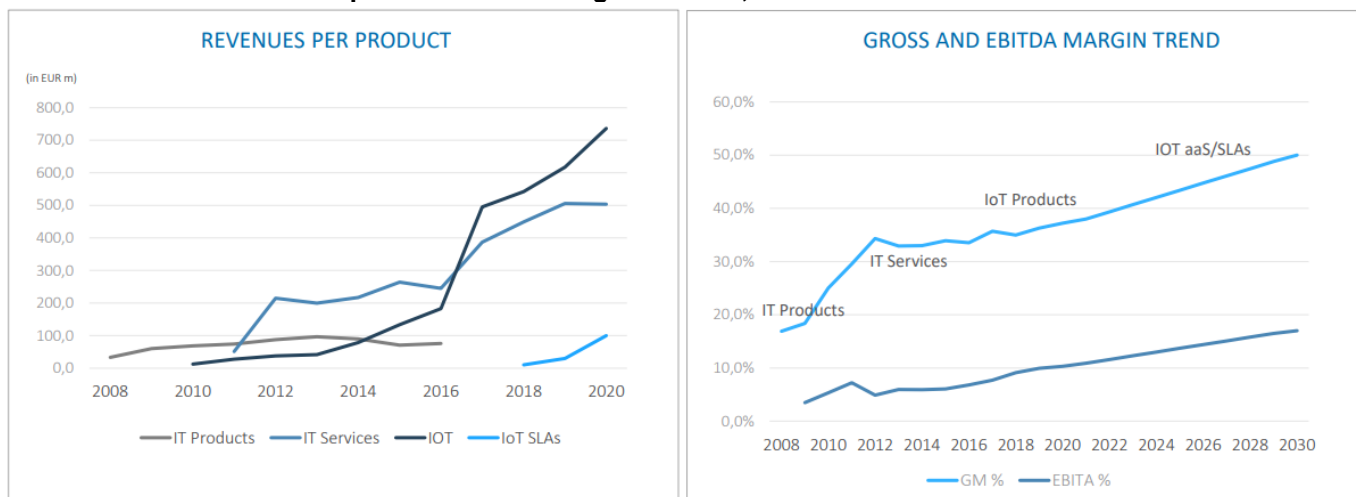
- Lacking engineering ressources (staff) could hamper growth
- Risk of bigger peers entering the niche markets Kontron serves
- Chip shortage continues impacting business, even improving
- Lack of visibility on M&A targets justifies discount on share price

Source: Erste Group Research

**Kontron is also a transformation story**

Kontron is also a transformation story. The divestment of Kontron’s IT Services business marks an important step on the transformation path towards higher valued IOT business, which are scalable and hence more profitable. Going forward Kontron aims to enhance its offering by adding software and services to its hardware offering, offering higher value, full solution offerings to clients. Scalable software products but service level agreements (SLA’s) are also obviously generating higher margins than customer specific, tailor-made embedded solutions. Kontron aims to strengthen its software offering with acquisitions and increasingly cross-sell software solutions to North America and Asia.

**Kontron’s transformation process towards higher valued, scalable business**



Source: Company

**ODM / EMS embedded hardware manufacturing**

Kontron has own manufacturing lines for embedded hardware solutions in five locations - Germany, Austria, Switzerland, Hungary, and via the acquisition of Iskratel also in Slovenia. The portfolio includes proprietary and client-specific products, development and engineering services, modules and systems, as well as production and assembly services for entire devices. The glocalization trend has recently increased demand for European manufacturing capacities especially for small series or prototypes. For higher volume manufacturing Kontron makes use of its close ties with Ennoconn and its dominant shareholder Foxconn (33%). In a partnership, Kontron develops technologies with Foxconn for the Chinese and Asian market – e.g. embedded edge servers.

**Chip-shortage as major short-term headwind fading**

Despite the economic slowdown, the global chip shortage continues to be an issue. While the availability of certain chips improved e.g. CPUs, FPGAs, others remain tight and on allocation e.g. microcontrollers (MCUs) or MOSFETs or simple switches. The respective order backlog suffering from available chips or other components has been reduced to EUR 88mn in 1Q23 from the peak of EUR 127mn in 2Q22. A further reduction to about EUR 40-50mn seems likely until YE23. WC capital should also benefit from further this ongoing reduction. Going forward, chip shortages might become more prominent again as demand for legacy chips is likely to get tighter once economic growth picks up again, as structural shortages have not been resolved.

**Cost inflation is passed on**

Kontron is passing on cost inflation to its clients to a major extent. As of 1Q23, management said it has passed on about 5% of the 6% expected salary inflation for 2023.

**CEE based engineers are about 20% cheaper vs at Western peers**

Kontron employs about 2500 engineers, predominantly located in CEE, which provides cost advantage compared to peers with engineers in Western Europe or North America. Average personal costs per employee were EUR 58k in FY22, which is about 20% below personal costs we found for Western European IT companies.

**M&A – price matters**

Kontron has a clear M&A strategy and has been aiming at generating about 50% of its top line growth rate. With regards to business focus, expanding Kontron's software and services IOT portfolio remains key. The price is always a major criteria and management favors turn-around targets, which is a management USP. One of the turnaround targets would be to lift EBITDA margin of the acquired company to 10% within 2 years. Timing should prove beneficiary for strategic (distressed) acquisitions in an environment of elevated interest rates and a slowing macro picture.

**ESG – easy to be tapped potential to improve scoring**

Clemens Billek joined Kontron in May 2022 as CCO (Chief Compliance Officer; now CFO) in order to prop-up the company's ESG agendas. Major 2030 ESG targets are to half Co2 emissions, lift the share of female employees by 20% vs 2022 and also bring the share of female managers to this level. Taxonomy reporting requirements are to be worked on.

**Only a handful competitors classify as peers**

The IOT software and embedded computing markets are still very fragmented. There are only few listed competitors that classify as peers for Kontron. Taiwanese Advantech is the biggest listed IoT pure play with revenue of about EUR 2.3bn in FY22. US listed Mercury and Curtiss-Wright are bigger in size, but do not only provide IoT related business and serve primarily the military/defence sector. Kontron would already be next in line if we leave out unlisted German Beckhoff and ABB's B&R segment. Smaller peers are Italian Seco and Eurotech, both generating about EUR 100mn in revenue or Taiwanese Axiomtek and Adlink.



## History

Kontron's (S&T's) history is paved with M&A transactions. Acquisitions but also divestments have been used to speed up the transformation process from an IT services provider to a IoT solutions provider. Eduard Grossnigg, who initiated the success story of the "new S&T" in 2011 by acquiring the company in financial distress after the failed takeover of Swiss IMG in 2006, has retired as Chairman of the SB in 2020 at the age of 70. He has still holds shares directly and indirectly in Kontron. Directly via his 72% ownership in Grosso Holding and indirectly via Grosso Holding's 45% stake in grosso tec. According to bbg, he holds 4.54% of shares outstanding.

2008 Quanmax, a Taipeh listed JV of Quanta Computer (notebook manufacturer) and Kontron, acquired the ailing Austrian computer manufacturers chilliGREEN and Gericom (headquartered in Linz), as well as the brand of MAXDATA.

2010 Quanmax was listed on the German Stock exchange

2011 Quanmax and Grosso Holding acquire defaulting S&T, a listed IT services company with focus on the DACH and CEE regions (i.e. today's IT services division at S&T). Gross Holding is owned by one of the most reputable Austrian restructuring managers, Erhard Grossnigg.

2012 Quanmax and S&T are merged and the new company is named S&T AG. Quanmax already offers first IT and IOT products.

2014 MAXDATA, chilliGREEN and PROWORX brands sold to Omega trade company.

Acquisition of NES (Networked Energy Services Corp) in California, Affair OOO, Russia, ubitronix system solutions GmbH, Austria, marked the entry into the smart energy systems market.

2016 Acquisition of non-Raiffeisen related IT business of Raiffeisen Informatik Group. The acquired portfolio added skills for operating data processing centres, SAP implementation and consulting, and collaboration management software development.

S&T acquired and merged with Kontron, financed by a ~30% capital increase from Taiwanese Ennoconn. Ennoconn is S&T's biggest shareholder holding about 27% of shares. Ennoconn is a subsidiary of Foxconn (Hon Hai Precision), both companies are listed on the Taiwanese stock exchange.

2019 With the takeover of Fujitsu Tech Motherboard S&T expanded to become ODM, vertically expanding its business. Other important acquisitions in 2019 were AIS Automation (IOT Software) Kapsch CarrierCom, Kapsch Public TransportCom. Already in previous years S&T acquired subsidiaries of both former Kapsch entities in CEE countries.

2020 Acquisition of Slovenian 5G provider Iskratel and German IT Services company CITYCOMP. Minority buyout of Kontron (~4%).

2022 Disposal of majority of IT Services business to Vinci's subsidiary Axians for about EUR 400mn. Exposure to Russia significantly reduced, divestment in Belarus, Ukraine and Moldova (finalization in 2023). In 3Q22, Kontron acquired German Lucom providing 5G connectivity solutions for IoT equipment, and Arce Mobility Solutions (former Kapsch Transportation) offering ticketing solutions for public Transport. Lucom and Arce Mobility add about EUR 18mn in revenue @ 13% EBITDA margin on an annual basis.

## IOT Market – the place to be

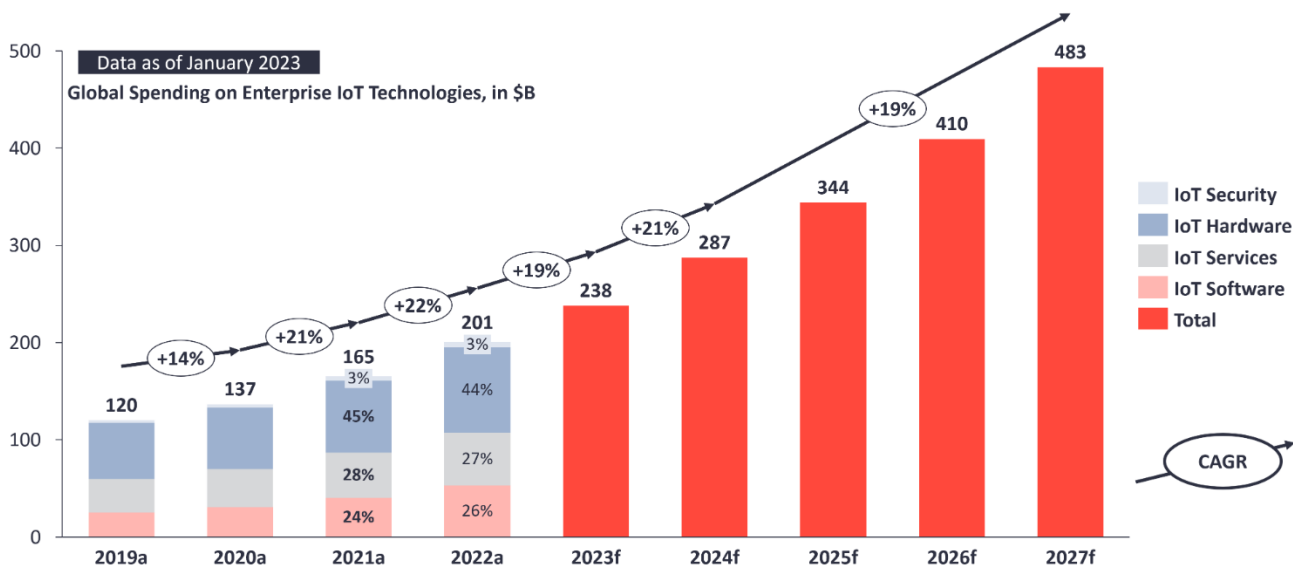
### IOT – the place to be

The IoT market continues to grow double digit, despite macro slowdown. While the consumer space continues to be searching for the 5G “killer application”, industrial and public sectors show increasing demand for real-time, wireless applications aiming to increase efficiency and safety. Both enterprise and public sectors are slow adopters, but technology advancements like new sensors, processors, and improved security concepts help satisfying new use cases, spurring demand dynamics. Cloud computing, AI, machine learning, real-time analytics and monitoring, but also the soon to be launched next generation AR/MR (augmented/mixed reality) hardware are demand drivers for IoT for new embedded solutions, IoT software and software platforms aggregating IoT solutions/applications.

### Enterprise IoT market to grow double digit over many years

The enterprise IoT market is expected to witness double digit growth rates in the coming years, with software, solutions and services outpacing hardware growth. Security and privacy concerns, regulatory and compliance requirements obviously play an ever-increasing role. Industrial IoT (IIoT or Industry 4.0.) is the biggest sector, shows increasing demand for real time analytics (edge computing) and monitoring aiming to increase production efficiency.

### 2019-2027e: Global Enterprise IoT market growth – CAGR22-27e at 19%.



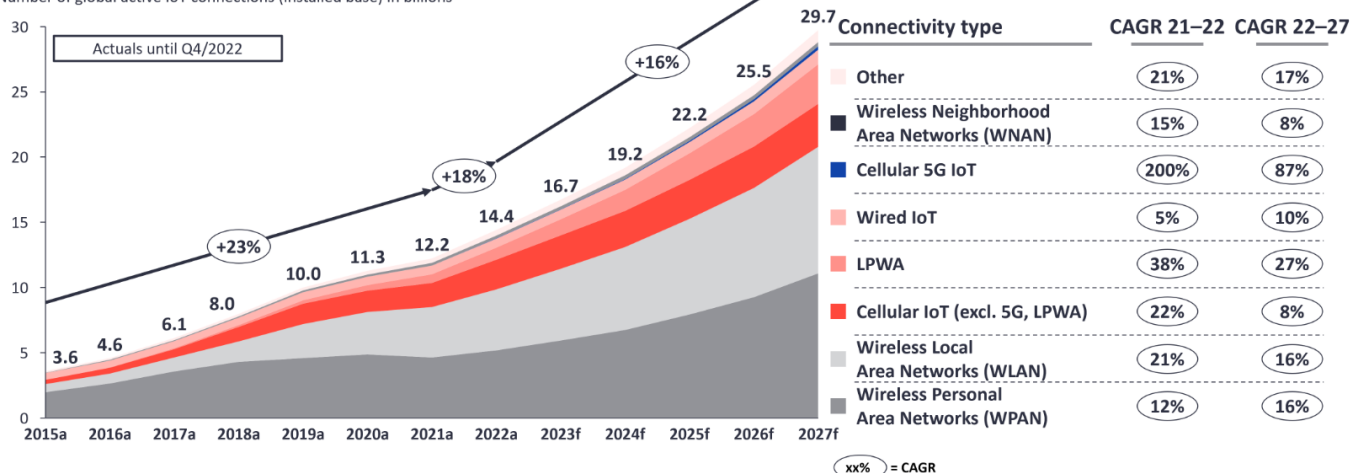
Source: [IoT Analytics](#), Jan 2023

With regards to the communication standard, the biggest growth by far is expected for IoT solutions using 5G. While the number of overall connected IoT devices shall grow at a CAGR of 16% until 2027e, 5G based solutions are seen to almost double every year until 2027e (source: IoT Analytics). Kontron has been extending its portfolio with the acquisitions of Iskratel and Lucom in 2020 and 2022, respectively, in anticipation of the expected demand market development. 5G networks support/enable Time Sensitive Networking (TSN), a real-time communication standard prioritizing signals in a network based on required latency.

While Kontron should clearly benefit from the increasing industrial adoption of 5G, the demand for alternative communication standards offer growth potential as well.

**2015-2027e: Global connected IoT devices growth – CAGR22-27e at 16%**

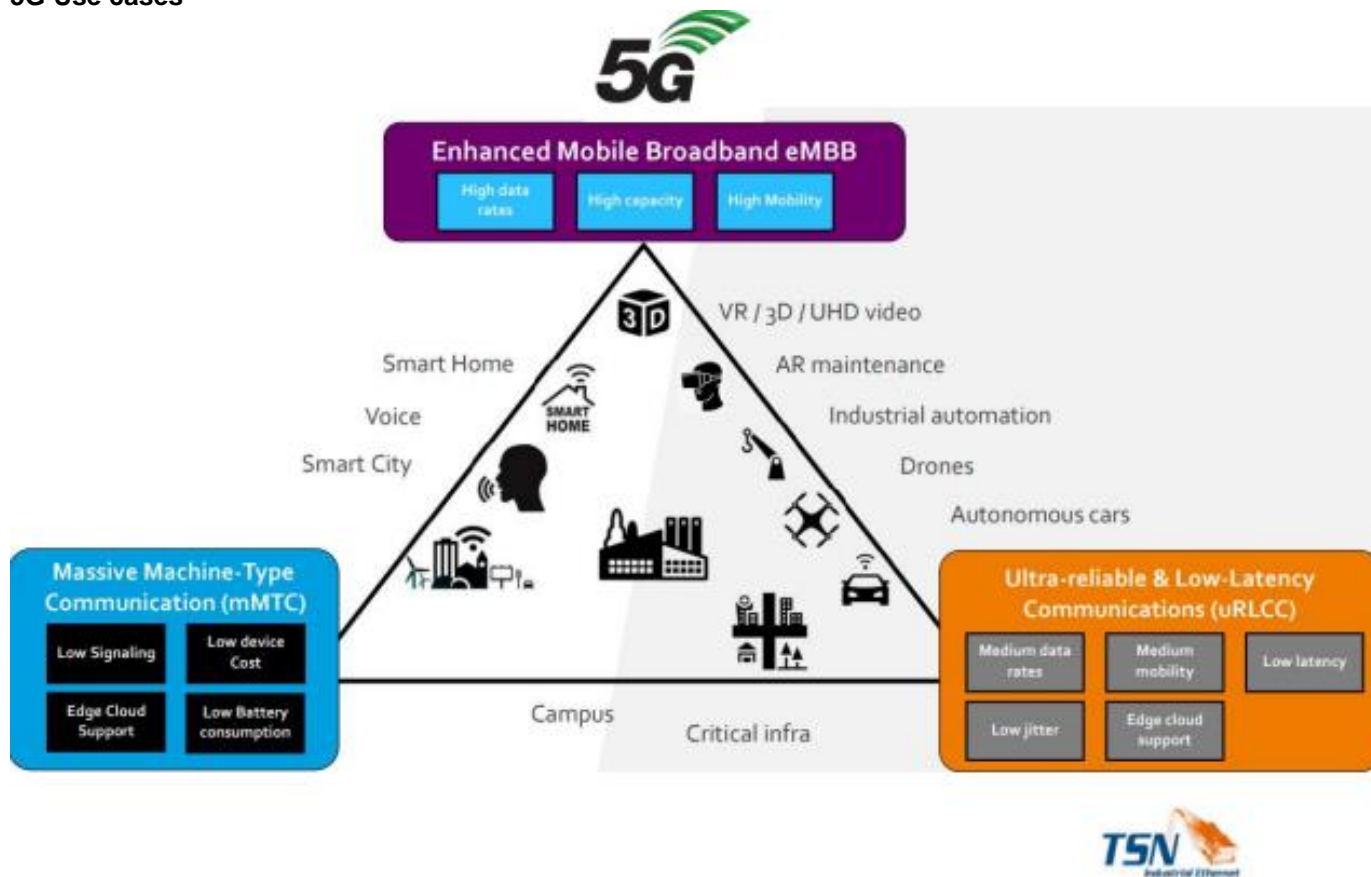
Number of global active IoT connections (installed base) in billions



Source: [IOT Analytics](#), May 2023

Despite the strong growth dynamics for 5G connectivity, we need to bear in mind that the overall share of 5G IoT connections is still very low. On the other hand, this fact offers exactly the preconditions, Kontron is looking for – a niche market. And we should also bear in mind that Kontron offers solutions based on other communication standards as well. The widely used standards are be WiFi, Bloothoth.

**5G Use cases**



Source: Company



Very interesting and promising development is to be expected from LPWAN (Low Power Wide Area Network), which also comprise the LoRaWAN (Long Range Wide Area Network), which are increasingly used for the transportation industry (Rail, Ports, Freight), smart city applications (signal steering, air quality monitoring, smart parking,...), remote devices management or predictive maintenance. . Kontron is a member of the LoRaWAN consortium, but also offers solutions based on all other cellular connectivity standards (including 2G, 3G, 4G, 5G, LTE-M, and NB-IoT), Wifi and Bloothoth as well. Also satellite IoT is gradually gaining traction and is being used by Kontron for its inflight entertainment solutions.

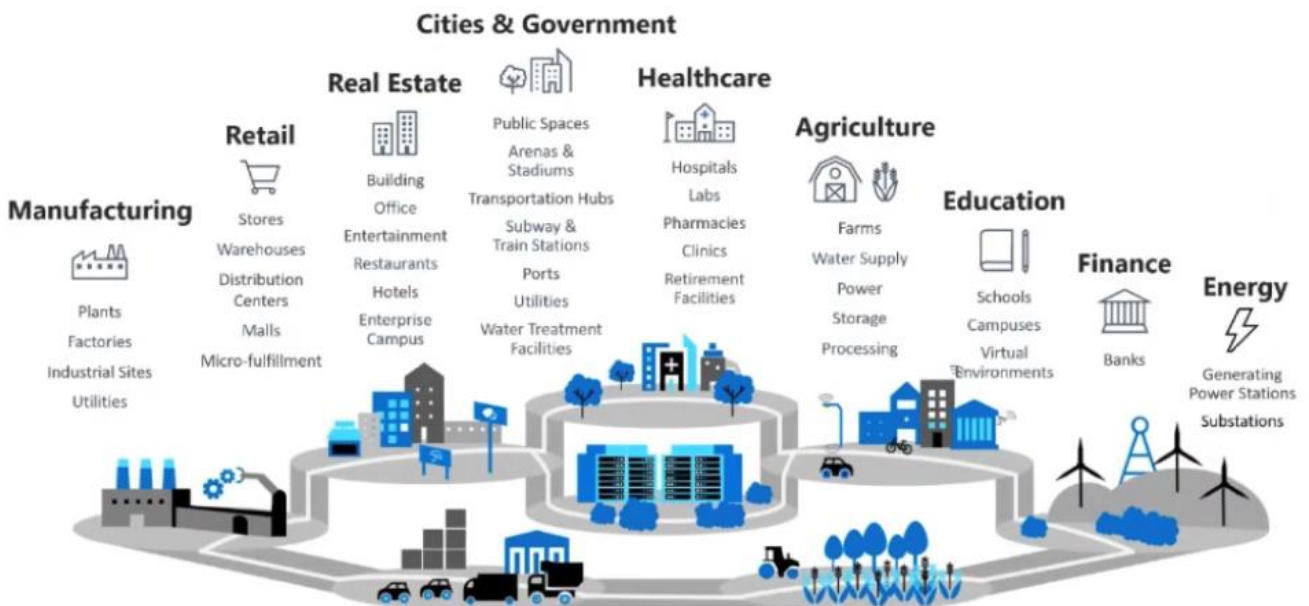
**Connected environments and embedded systems**

An embedded system is a computer system, a combination of a computer processor, computer memory, and input/output peripheral devices—that has a dedicated function within a larger mechanical or electronic system. It is embedded as part of a complete device often including electrical or electronic hardware and mechanical parts. Because an embedded system typically controls physical operations of the machine that it is embedded within, it often has real-time computing constraints. Embedded systems control many devices in common use. In 2009, it was estimated that ninety-eight percent of all microprocessors manufactured were used in embedded systems (source: Wikipedia)

Any connected environment requires many different, combined embedded systems, connected in a specific system. While there are standardized embedded solution, they have to individually designed and manufactured in many cases in order to optimally conduct the specific task and fit into the overall architecture.

Kontron is a globally leading provider of embedded solutions. A majority of revenue is currently generated from embedded solutions for various applications and verticals.

**Connected Environments**



Source: Kontron

### What are embedded systems

An embedded system is a combination of computer hardware and software designed for a specific function. Embedded systems always function as part of a complete device -- that's what's meant by the term embedded. Embedded systems may also function within a larger system. The systems can be programmable or have a fixed functionality. They can be linked e.g. to sensors or cameras. Embedded systems can be found in:

- **Industrial Applications** – assembly lines, air-conditioner control, data collection systems
- **Consumer electronics** – mobile phones, game consoles, digital cameras, smart devices
- **Transport – Rail communication, V2X**
- **Processing industry devices**
- **Automobiles** – ABS, A/C control, fuel injection, navigation (no target market of Kontron)
- **Medical equipment** – CT scanners, heartbeat monitors, electrocardiograms, respirators
- **Household appliances** – washing machines, microwaves, refrigerators
- **Airplanes** – navigation systems, guidance systems, GPS, WLAN

### Characteristics of embedded systems

The main characteristic of embedded systems is that they are task-specific.

Additionally, embedded systems can include the following characteristics:

- typically, they consist of hardware, software and firmware (i.e. specific software to operate the device);
- can be embedded in a larger system to perform a specific function, as they are built for specialized tasks within the system, not various tasks;
- can be either microprocessor-based or microcontroller-based -- both are integrated circuits that give the system compute power;
- are often used for sensing and real-time computing in internet of things (IoT) devices, which are devices that are internet-connected and do not require a user to operate;
- can vary in complexity and in function, which affects the type of software, firmware and hardware they use; and
- are often required to perform their function under a time constraint to keep the larger system functioning properly.

Source: [internetofthingsagenda.com](https://internetofthingsagenda.com/); Erste Group Research

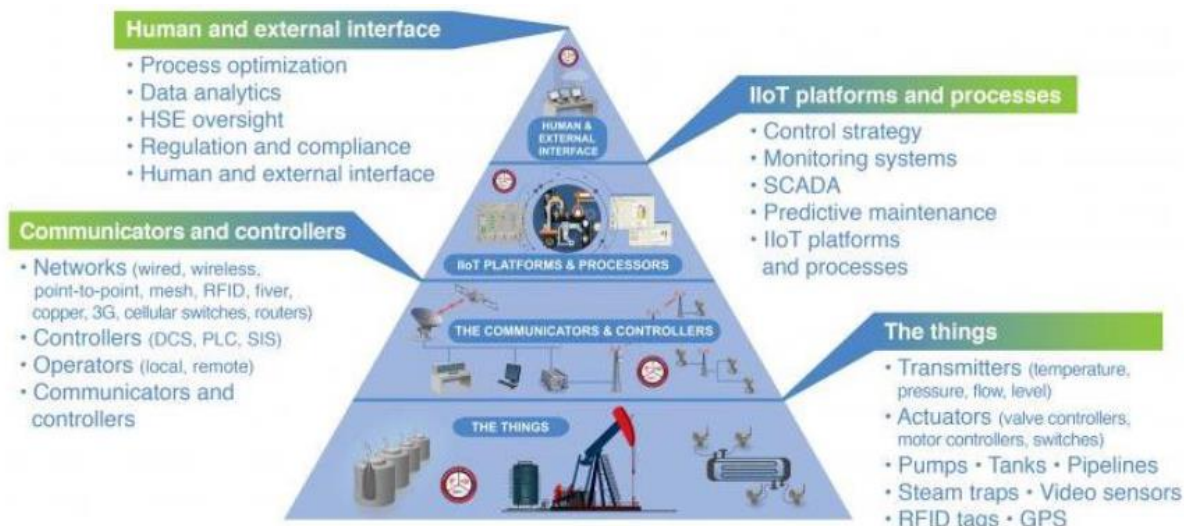
As IoT, the connectivity of things is constantly growing and hence more and more things communicate with each other, demand for embedded solutions constantly increases. While the high degree of customization is a USP of Kontron, the disadvantage is the limited scalability. Kontron aims to enhance its embedded offering with software, additional functionalities, services, in order to grow the added value and profitability of a single solution provided.

### Industrial Internet of Things – Industry 4.0.

Following a simplistic view, all data gathered by connected machines / devices (the Operating Technology or OT level) are then transferred with one of the above depicted wireless (or wired) communication standard into a platform, a middleware which then provides the data end-user systems.

Kontron’s largest vertical end market in the IOT solutions segment is Industrial Automation with about EUR 300mn in revenue. There are several layers of an IT system architecture. Kontron supplies into each of the layers.

**The Industrial Internet of Things – IIOT aka Industry 4.0.**



Source: nanalyze.com

The market landscape for IOT platforms / middleware is very fragmented that has already started to consolidate. Kontron is one of the players on the market.

**IOT Platforms / Middleware – non-exhaustive overview**



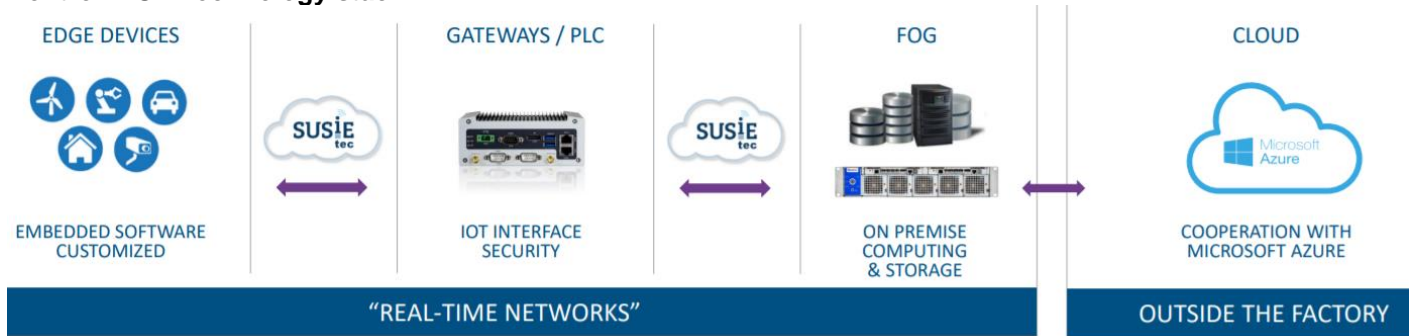
Source: IOT Analytics; April 2023

**Kontron’s IoT Toolset**

The SUSiEtec Solution is a corner stone of Kontron’s IIOT offering as it is a toolset adjustable to the client’s digitalization requirements. It combines software and hardware to a real-time network. Economically interesting is the relation of software and hardware for IIOT applications or networks of 1:2.5 or 1:3. This means that a software revenue of EUR 100mn pulls a related product revenue of some EUR 250-300mn.

The SUSiEtec framework is a development platform mainly used in the verticals industrial automation, semiconductors, avionics, but now also increasingly in transport and medical.

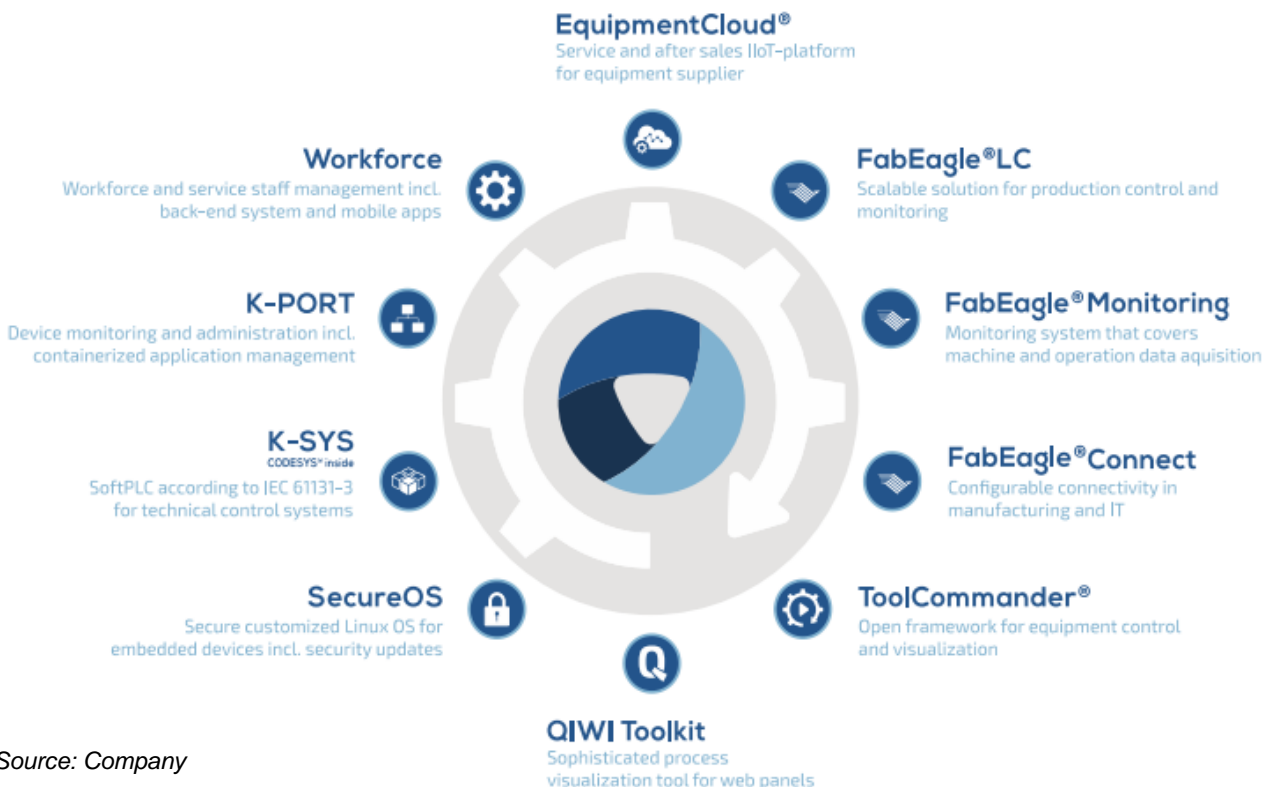
**Kontron: IOT Technology stack**



Source: Company

Other important software solutions in Kontron’s portfolio are the open and hence easy customizable machine controlling software ToolCommander and the IIOT service platform EquipmentCloud, which were acquired with AIS Automation (now AIS Kontron) in 2019. Both solutions are out of the box products, hence standardized and “plug and play” ready. Apart from being ready to be used by customers, these solutions do not require scarce engineering capacity, which is in contrast to the SUSiEtec framework. A major advantage of SusieTec is that it is an open platform that is able to integrate third party solutions easily.

**Kontron: IOT Toolblock – proprietary software**











Source: Company



Among the most prominent SusieTec references (=clients) are companies like Infineon, Aixtron, Mayer Burger, Deutsche Bahn, ÖBB (Austrian Railway company),

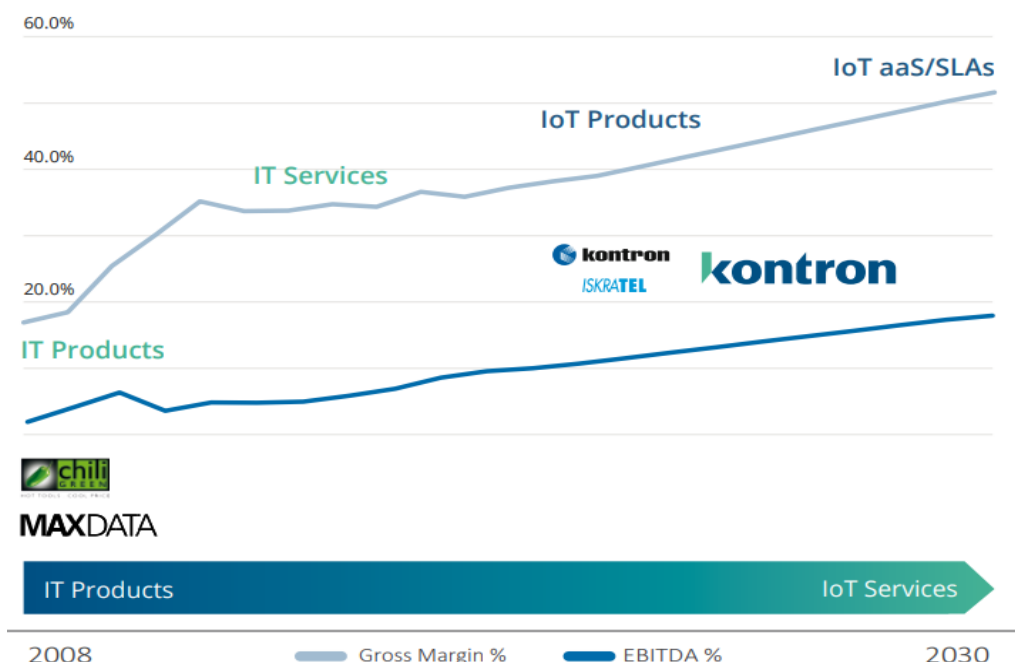
**Most important vertical Industries / IoT solutions provided / currently targeted by Kontron**

 <p><b>susietec</b>   <a href="http://www.susietec.com">www.susietec.com</a></p> <p>Unique IoT toolset: Tailored and scalable combination of software, hardware &amp; expertise for digital transformation.</p>	 <p><b>Smart Automation</b></p> <p>Empower tomorrow's Industrial production and smart automation with a focus on smart factories.</p>	 <p><b>Medical Technologies</b></p> <p>Creating connected healthcare solutions using IoT on Artificial Intelligence.</p>	 <p><b>Public Transport</b></p> <p>Building safe, secure, and smart IoT services for digitalization of public transportation.</p>
 <p><b>Energy Supply</b></p> <p>Enabling smart grid, smart metering and energy efficient, secure solutions for energy suppliers and industrial customers.</p>	 <p><b>Telecommunications</b></p> <p>Digital transformation solutions for telecommunication operators ensuring fast deployments and significant CAPEX reduction.</p>	 <p><b>Aviation</b></p> <p>Added intelligence and connectivity for commercial and business aerospace.</p>	 <p><b>Public Institutions</b></p> <p>As a trusted partner, Kontron Group supports a large number of governmental customers in their digitalization journey.</p>

Source: Company

Kontron's (former S&T's) business evolution in the past 20 years was a story of transformation. Coming from a very hardware dominant business set up in CEE and DACH regions in early years of the twentieth century, generating about EUR 200mn in revenue at (very) low single digit EBIT margins, the ongoing shift towards software and IoTaaS/SLA could surpass EUR 3bn in revenue at an EBITDA margin in the mid teens, at least, towards the end of the decade. M&A will continue to be an integral part of the business story.

**Kontron transformation process towards higher value / margin business**



Source: Company



**Inhouse manufacturing – vertical integration**

Kontron’s **EMS/ODM** (Electronics Manufacturing Services / Original Design Manufacturing) business is used both for designing and manufacturing own products and for satisfying third party demand. Among clients Kontron’s inhouse manufacturing capacities have been gaining in importance following the glocalization trend. About 2/3 of the capacity is used for own products. Main external customers are TGW, Vector, and Gorenje.

Kontron has own manufacturing lines for embedded hardware solutions in five locations - Germany, Austria, Switzerland, Hungary, and via the acquisition of Iskratel also in Slovenia. The portfolio includes proprietary and client-specific products, development and engineering services, modules and systems, as well as production and assembly services for entire devices.

The glocalization trend has increased demand for European manufacturing capacities especially for small series or prototypes. Client proximity is becoming more important as the complexity of the products and its flexibility with regards to client requirements. Kontron can offer the full manufacturing service from the development to manufacturing, including the dedicated software. A big advantage of such designed mainboards or even modules is that they can be upgraded for stronger components like a faster processor / microcontroller or bigger memory when needed, without the need of redesigning the entire motherboard. In order to live up to the increasing internal and third party manufacturing demand, Kontron plans to build a new manufacturing plant in Slovenia.

For higher volume manufacturing Kontron makes use of its close ties with Ennoconn and its dominant shareholder Foxconn (33%). In a partnership, Kontron develops technologies with Foxconn for the Chinese and Asian market – e.g. embedded edge servers. While Foxconn, as the globally leading manufacturer of servers, provides the hardware and is responsible for marketing and distribution, Kontron contributes the (embedded) software and security. In Asia,

**IT Services business**

Kontron disposed a majority of its IT services business (“Project Focus”) to Vinci in August 2022. The disposal covered the IT services business in 10 countries (DE, CH, PL, HR, CZ, SK, RS, MK, ALB, CG) at selling consideration of EUR 392mn.

The net book gain from the sale amounted to EUR 235mn, the sales multiple based on FY22 figures was 10.6x in terms of EV/EBITDA and 20.7x on P/E level. 85% of the sales price have already been settled, about EUR 60mn are still to be settled – EUR~40mn are due by YE23, EUR 20mn are due mid 2024.

**Project Focus KPI's and sales multiples**

<b>Sold business</b>	<b>FY22</b>	<b>Sales multiples</b>	
Revenue	387.4	1.0	EV/S
Gross profit	141.0		
EBITDA	35.4	10.6	EV/EBITDA
EBIT	22.5	16.7	EV/EBIT
Net profit	19.0	20.7	P/E

Source: Company; Erste Group Research

The remaining IT services business consists of Austria, Hungary and Romania. Moldavia could not be disposed as local authorities blocked the sale. The Moldavian business is now expected to be sold to a local buyer. While Vince was not interested in the IT services business in Hungary and Romania, the sale of the Austrian business failed due to the substantial tax losses carried forward, amounting to some EUR 130mn.

At YE22, the remaining services business accounted for revenue of about EUR 220mn. As this business is generally dilutive to the remaining IoT business, Kontron now aims to discontinue low margin business and try focus increasingly on IoT offerings or Service Level Agreements (SLAs). This will likely lead to a consolidation of the business volume but should help the profitability in Segment Europe going forward.

In the medium term, we expect Kontron to dispose the remaining IT services business in case it cannot be shifted towards IoT or SLAs. Obviously, only after the tax losses carry forward have been absorbed.

### Vertical end markets

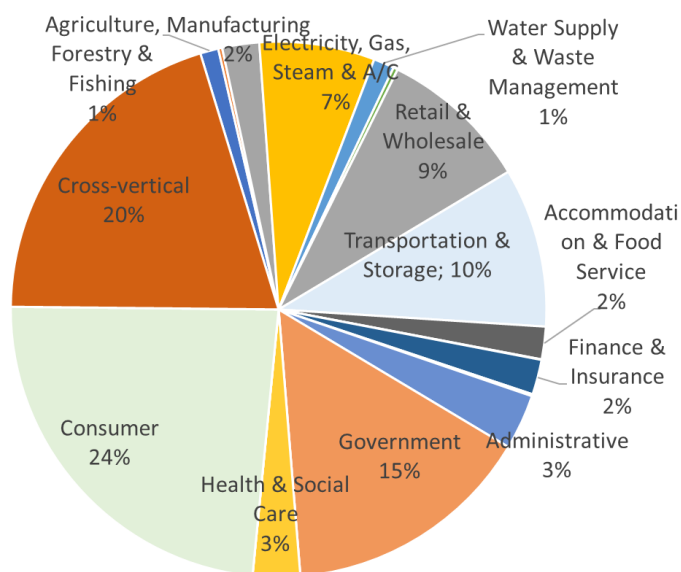
Kontron supplies IOT solutions to different verticals, both into some large IOT markets but also some niche markets. It's largest and hence most important IOT verticals are Industrial Automation, Communication, Transportation, but also Medical, the public sector, aviation, or Energy. Kontron will gradually expand its market reach with cross-selling if opportunities arise or by acquiring companies active in complementary markets / niches. In any case, Kontron prefers less crowded areas, which can also relate to niches within large verticals.

In automotive, e.g., Kontron supplies real-time embedded servers incl. a real time operating system for autonomous driving in heavy agricultural vehicles (Caterpillar, JohnDeere). Real-time solutions are also developed with Intel/MobilEye to enable autonomous driving. Kontron's embedded real time system is certified for level 4 autonomous driving.

From a global perspective, the biggest IOT markets are Consumer (24% of total; USD 66bn in 2023e); Government (15%; USD 47bn), Retail and Wholesale (USD 28bn; 9%) and Electricity, Gas, Steam & A/C (7%; USD 21bn).

### 2023e: Break-down of IOT verticals by global revenue share and expected CAGR Total IOT market revenue at about USD 300bn

IOT revenue ww by vertical USDbn / %	2023e	CAGR23-25	CAGR23-30
Agriculture, Forestry & Fishing	3.2	16.8%	16.1%
Mining & Quarrying	0.7	4.6%	5.8%
Manufacturing	6.5	16.1%	13.8%
Electricity, Gas, Steam & A/C	20.7	13.2%	9.8%
Water Supply & Waste Management	3.4	22.8%	15.4%
Construction	0.8	12.6%	9.1%
Retail & Wholesale	28.2	9.0%	6.1%
Transportation & Storage	29	11.7%	9.6%
Accommodation & Food Service	5.9	12.2%	8.2%
Finance & Insurance	6.2	15.9%	13.1%
Professional, Scientific & Technical	0.3	18.6%	16.2%
Administrative	9.5	18.7%	15.6%
Government	47.4	7.3%	6.7%
Health & Social Care	8	19.4%	16.9%
Consumer	66	20.3%	16.5%
Cross-vertical	57.3	17.8%	12.8%
<b>Total</b>	<b>293.1</b>	<b>12.3%</b>	<b>11.3%</b>
y/y growth	16.5%		



Source: Statista 2023; Erste Group Research

### Segment & divisional split and focus

#### Kontron business segments and verticals it supplies\*

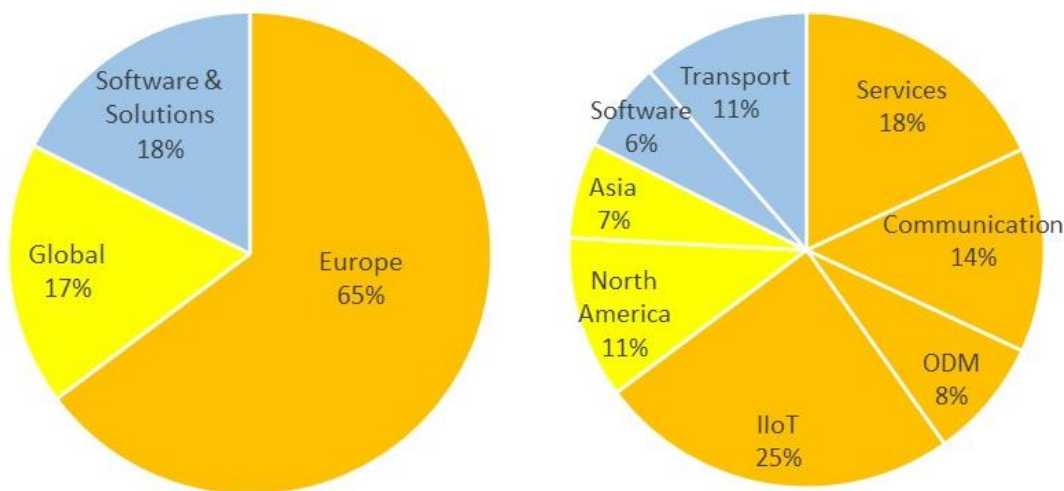
Europe	Global	Software & Solutions
 Industrial  Telecom  Services	 North America  Asia	 Software  Transport
Revenue* FC 2023: EUR 810m	Revenue* FC 2023: EUR 260m	Revenue* FC 2023: EUR 230m
Targets EBITDA** 11%   GM 40%   Growth p.a. 12%	Targets EBITDA** 8%   GM 30%   Growth p.a. 12%	Targets EBITDA** 15%   GM 60%   Growth p.a. 12%

\* incl. I/C revenues | \*\* before HQ-fee distribution

\* Gross revenue forecast, including intercompany revenues for FY23 per segment, is not a guidance. Profitability targets are to be seen mid-term (2025e). FY23 external revenue guidance is about EUR 1.2bn (+10% y/y) at 11% EBITDA margin.  
 Source: Company

Based on FY22, revenue contribution from Europe is about two thirds, while both the Global and Software & Solutions (S&S) segments account for less than 20%. Going forward, By FY26, the S&S segment could have become the biggest segment backed by acquisitions and stronger growth dynamics compared to the other segments. The Global segment is expected to grow in importance, backed by acquisitions. On the other hand, the (IT) services business could be up for sale at a later point in time.

#### FY22: Kontron’s Segment / Divisional revenue split



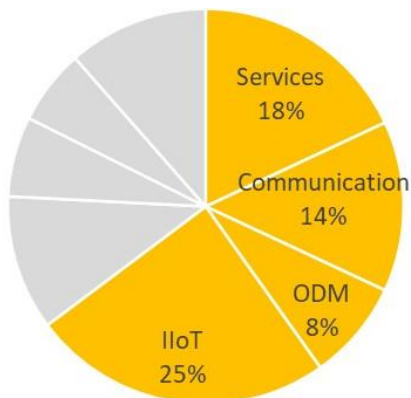
Source: Company; Erste Group Research

Transportation is currently the fastest growth division, spotting a B2B of >2x as of 1Q23, while the software division generates the highest profitability with above 80% gross margin. The biggest division is industrial automation with annual revenue of about EUR 300mn.

Client contracts often call for cross-divisional cooperation, which is then credit to the respective division or at least reflected as inter-company revenue if the entire contract is signed by a single division.

Note: So far, Kontron has not provided final FY22 segment figures, but we have received some rough revenue figures on segment level at the CMD in August 2022 that we have used.

**FY22 revenue% Europe**



Source: Company; EGR

**Segment Europe**

Segment Europe has generated about two thirds of Kontron’s revenue in FY22. It is split in four subdivisions:

- Industrial IoT (IIoT or Industry 4.0)
- Communications – Networking solutions
- ODM – Design & Manufacturing
- Services – IT services business in AT, HU, RO

Segment Europe reflects the following verticals, which are supplied with a combined portfolio of hardware, middleware and services.

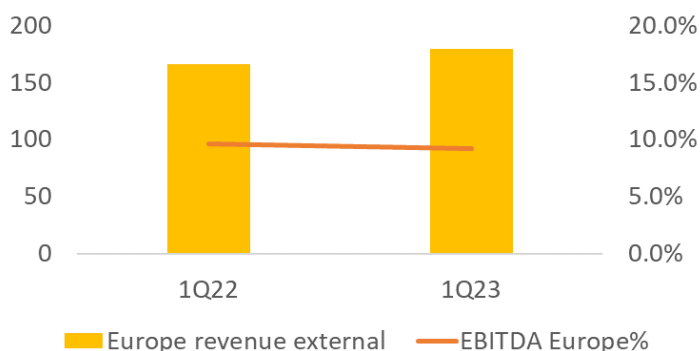
- IIOT
- Medical business – embedded solutions for medical machines (e.g MRT, respirators).
- Connectivity and Communication business
- Smart Energy
- IT Services

The IIoT and Communication segments are the dominant divisions within Segment Europe. Embedded Solutions are the dominant part of the business in these divisions, which show responsible for about EUR 40% of Kontron’s total revenue. IIoT continued to perform well in 1Q23, the 5G related demand in the Communication division has not yet been that strong. Medical has likely decreased following the post-pandemic demand decline. Furthermore, Segment Europe is still impacted most among all segments by component shortages, even if the situation is improving. The overall impacted revenue for to be delivered products once missing components arrive was EUR 88mn (EUR -20mn y/y; EUR -8mn q/q) at the end of 1Q23.

The transformation process following the sale of the IT services business to Vinci is another headwind Not due to the sale, but rather because the IT services business, which is about 20% of Kontron’s overall revenue or about 30% of Segment Europe is being streamlined and some additional costs were booked.

Still, b2b in 1Q23 arrived at 1.11x, with external revenue up 8% y/y tp EUR 180mn. The EBITDA margin was 9.2%, down from 9.6% a year ago. Note that all headquarter costs are reflected in Segment Europe for the time being. Kontron will again an introduce an intersegment cost reimbursement for headquarter costs in the course of the year, as it was the case the past. Assuming a similar cost allocation as was the case prior to the IT services sale, EBITDA margin would likely be higher by more than100bp.

**Segment Europe: 1Q23 vs 1Q22**



Source: Company, Erste Group Research

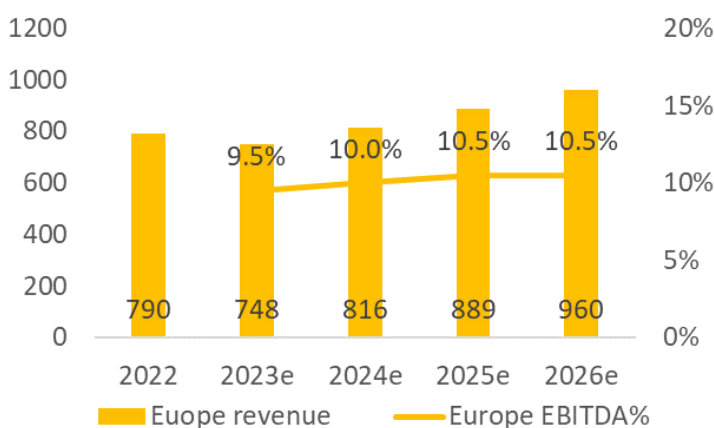


The yet remaining Russian business is reflected in Segment Europe. Kontron has closed down / divested all of its entities in Belarus, Ukraine and the Czech Republic that were not part of the sale to Vinci and started downsizing operations in Russia. Adjusting revenue for these divestments, 1Q23 revenue growth would amount to 12% instead of 8% y/y, as depicted above. The remaining Russian business will be worked off in order to prevent penalty payments, but no new business is said to be contracted. Russian engineers were tried to be shifted to Macedonia and Malaysia in order to keep them in the group.

For FY23, we expect revenue to decline mid-single digit% y/y, even if this does not correspond to the dynamic seen in 1Q23. We assume, though, that the consolidation effect from stopping low margin IT services business will not be compensated by new business and further reduced shortages in the remainder of the year. On the other hand, we expect EBITDA margin to improve somewhat for FY23 from the 9.2% seen in 1Q23.

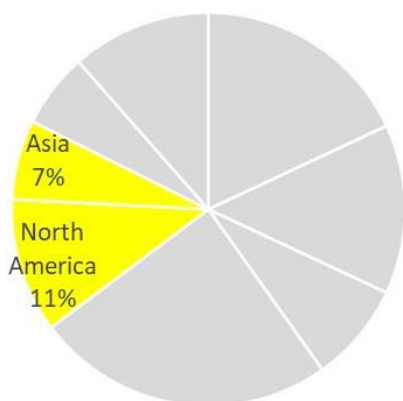
For FY24-FY26 we have assumed a revenue CAGR of 9%, which should have a slightly positive impact on profitability due to the operating leverage.

**2023e-2027e: Segment Europe revenue, profitability estimates**



Source: Erste Group Research

**FY22 revenue% Global**



Source: Company; EGR

**Segment Global**

Segment Global, subsuming the North American and Asian businesses, has generated about 20% of Kontron’s revenue in FY22.

- North America – post pandemic recovery
- Asia – stable growth

Until 2016, Kontron supplied standalone embedded hardware solutions on the NA market to two major customers Nokia Networks and Juniper, contributing about 50% of the overall business. The related contracts ran out in 2020. Now, Kontron supplies new products, but it has taken some time until scale has been built up again.

In general, the North American business relates to Canada and the USA and covers hardware and software solutions for the verticals aviation, communication and transport. KONTRON supplies a range of proprietary products: in-flight entertainment, digital signage solutions for public transport, carrier grade servers for telecommunication companies and real time servers and real time processing for autonomous driving heavy

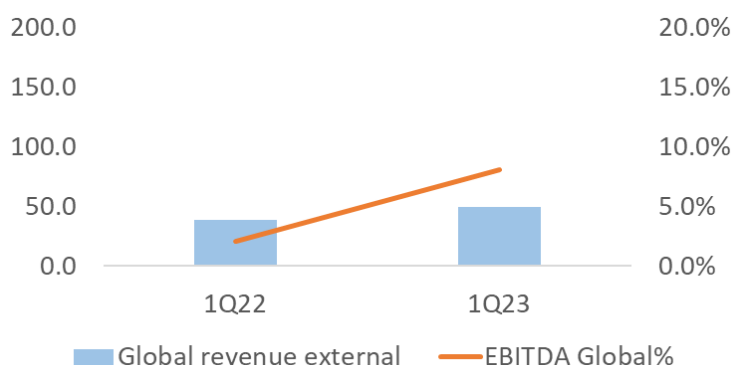
equipment trucks. Kontron’s solution is certified for autonomy level 4. US ride hailing service companies are also among clients for the autonomous driving solution.

Gradually, solutions for industrial automation from cross selling the European portfolio (e.g. digitalizing the monitoring of the baking process of small to medium sized bakeries; embedded solutions for medical) should help further expand business in NA.

Kontron’s Asian business is driven by a close technological cooperation with its majority shareholder Ennoconn/Foxconn and additionally acts as a cross selling hub for Europe. Verticals so far served are IIoT, medical, avionics, and transportation (rail). Consequently, major customers are Foxconn itself, GE, Air China and CRCC (Chinese Railway Construction Company).

The current importance of the avionics demand has become obvious during the pandemic, when the aviation sector has almost stopped investing. Now it seems that not only avionics demand has started to recover, other verticals are now also growing. In 1Q23, revenue has increased 30% y/y, while EBITDA has more than quadrupled. The EBITDA margin of 8% is now finally close to the targeted double digit EBITDA margin management has been aiming for. A B2B of 1.25 in 1Q23 looked promising for the coming quarters.

**Segment Global: 1Q23 vs 1Q22**



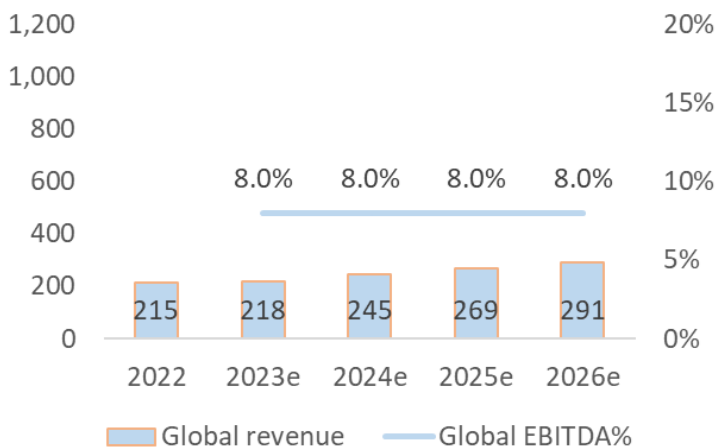
Source: Company, Erste Group Research

Despite to very positive development of the rebounding North American business, management remained cautious on prospects, at least for 2H23 as one medical contracts will be concluded in 2Q23. While we have remained cautious as well with regards to top line growth in FY23e due to a slowing medical demand in general, we assume a revenue CAGR23-25 of 10% as we believe that cross-sell of IIOT solutions from Europe should gain traction going forward.

Profitability-wise (EBITDA%), we keep our margin expectations flat at 8%.

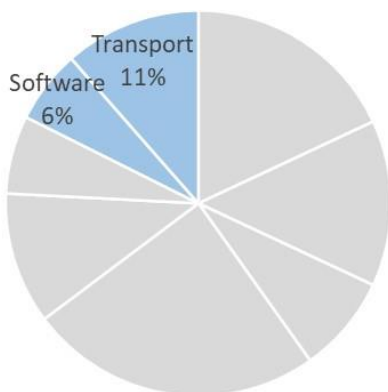
Both in North America and Asia Kontron is having its eyes open for potential acquisition targets, helping to scale up local businesses. So far, North America proved too pricey, but it seems that at least one of the currently screened seven acquisition targets could be in Segment Global.

**2023e-2027e: Segment Global revenue, profitability estimates**



Source: Erste Group Research

**FY22 revenue% S&S**



Source: Company; EGR

**Segment Software and Solutions**

The Software and Solutions (S&S) Segment has generated about 20% of Kontron’s revenue in FY22. The S&S segment is expected to witness the strongest growth among Kontron’s segments, enhance by M&A. Being the highest scalable business, it is already now delivering the highest profitability. It consists of following divisions:

- Proprietary Software solutions
- Transportation business – 5G for railways

Both business divisions have been growing strongly in the past years already. Transportation, which is driven by railway digitalization projects all especially in Europe, was at just 4% overall revenue share three years ago. Demand for communication and safety systems/solutions have been driving demand in the rail transport. Kontron is especially strong on the European market for rail transport, where it holds a market share for the supply of Railway Dedicated Networks (RDN) of more than 50%. The market for RDN is almost a duopoly in Europe, with Nokia and Kontron holding about 80% market share. Nokia has been withdrawing from several markets and it seems that Nokia could be leaving further countries, opening up chances for Kontron to take over. There are other competitors too, like Thales, Atos, Frequentis, or Eurotech.

Railway communication still uses the GSM-R standard, which is based on the 2G/3G communication standard. Achieving the EU’s Green Deal objective for a more efficient railway transport now aims to upgrade railway communication to 4G/5G in the coming years. The newly set up communication standard is called FRMCS – Future Railway Mobile Communication Standard is aimed to shift 30% of road freight to rail or water by 2030, and 50% by 2050 and brings significant improvements for passengers, logistic companies and rail operators alike.

Kontron is one of the main partners in the 5Grail project, which aims to set specifications for the FRMCS system. Other consortium partners include, UIC, SNCF, Deutsche Bahn, Nokia, Alstom and Thales. Furthermore, Kontron is actively involved in the EU-funded 5G-VICTORI project set up for testing 5G solutions in vertical markets.

### Improvements by FRMCS vs GSM-R

Passengers want:	Freight customers want:	Rail operators want:
<ul style="list-style-type: none"> <li>• A seamless, always connected journey</li> <li>• Alignment between online and in-station experiences</li> <li>• Real time alerts</li> <li>• An immersive travel experience</li> </ul>	<ul style="list-style-type: none"> <li>• More visibility and faster time-to delivery</li> <li>• Collaborative logistics</li> <li>• Real-time cargo tracking</li> </ul>	<ul style="list-style-type: none"> <li>• Improved safety</li> <li>• Lower operating costs</li> <li>• Guaranteed security and compliance</li> <li>• More automation and predictive systems</li> <li>• Happier, loyal customers</li> </ul>

Source: Nokia

While the FRMCS standard has just been defined, Kontron is part of the EU funded 5GRAIL pilot consortium that aims to validate the first FRMCS specifications for trackside and on-board use. The 5GRAIL project started in November 2020 and is scheduled for 30 months.

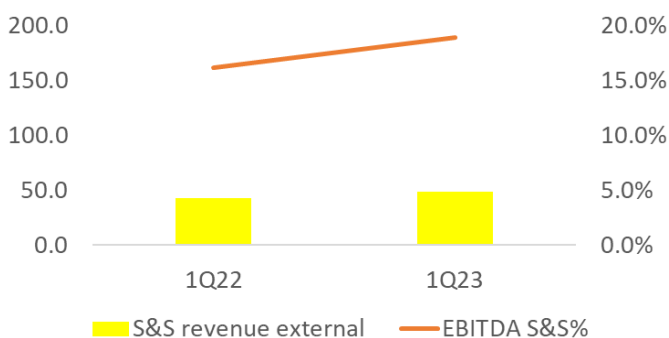
Apart from mission critical network technologies (GSM-R, FRMCS, TETRA, DMR, LTE) Kontron’s technology portfolio also includes mobility solutions, security and IIOT solutions for the digitalization of transport organizations. The acquisition of Iskratel added proprietary solutions enabling 5G communication that improved Kontron’s market offering for communication technologies in the Railway market.

It is expected that the transition to FRMCS will take years. The market value for the transition to FRMCS is estimated at some EUR 3-5bn until 2030, albeit this does not include further investments in the current GSM-R standard, which is also ongoing. Both systems will have to run in parallel for some time to ensure smooth railway operations. Contracts recently awarded in the Transportation segment still relate to GSM-R. Given Kontron’s strong market position in this field it should be a major beneficiary from increasing investments in both standards. Just when reflecting on the investment into FRMCS from 2023-2030 it could add about EUR 150-250mn of business, which compared to EUR 125mn of revenue for this vertical in 2019, if assuming Kontron’s current market share of >50%. KONTRON expects this vertical to grow 20% on average going forward. Apart from Europe, China is also a target market in this field and can be well addressed together with Kontron’s major shareholder Ennoconn/Foxconn.

Kontron either participates as member of a consortium in a tender or directly. In some recent tenders, Kontron teamed up with Siemens and will supply the GSM-R solution. The deployment usually takes 12-18 months, while the operations contract can be signed even for 20 years in some cases.

The S&S Segment has performed well in 1Q23, extraordinarily with regards to order intake following the signing of a sizeable railway order in Slovakia (EUR 40mn). B2B arrived at 2.33x, boding extremely well for dynamic growth in the coming quarters. Revenue was up 14% y/y, EBITDA margin expanded to 19% (+270bp) y/y. Software demand has been driven by connectivity demand.

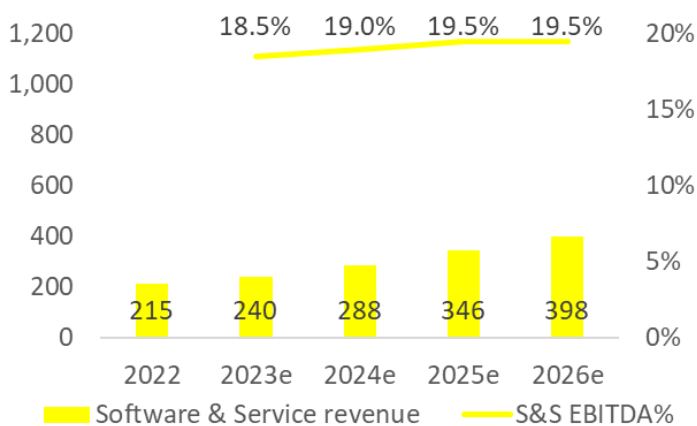
**Segment S&S: 1Q23 vs 1Q22**



Source: Company, Erste Group Research

The S&S segment is the clear growth driver for Kontron, both in terms of revenue as well as on EBITDA level. Such an expectations is backed by the b2b in 1Q23 and market growth dynamics, which should further fuel the order book. While we anticipate a top line growth of 12% for FY23e as it is difficult to assess how quickly the order intake in 1Q23 will translate into topline growth, we expect top line to growth 20% y/y in both FY24 and FY25. Our EBITDA margin assumption could face upside revision potential in light of the estimated business expansion.

**2023e-2027e: Segment S&S revenue, profitability estimate**



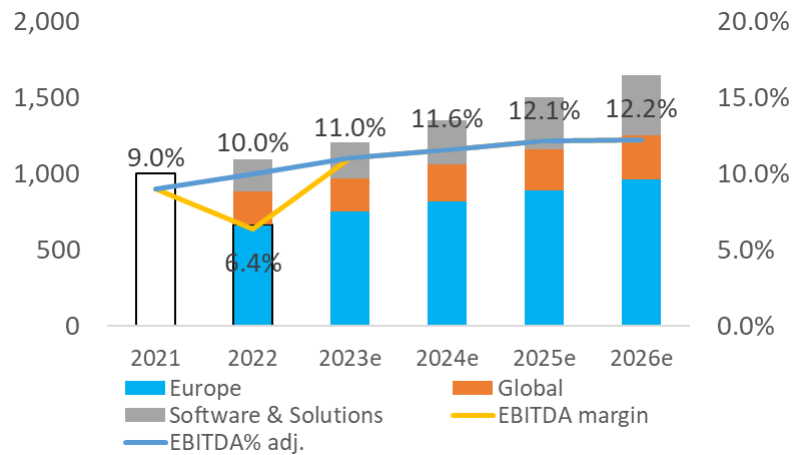
Source: Erste Group Research

In terms of M&A, the S&S Segment should benefit most. Five of the seven currently screened acquisition targets are meant to expand the product portfolio in S&S. Consequently, it does not come as a surprise when Kontron’s management expects the S&S Segment to become the biggest Segment by FY26.

Adding up our bottom up modelling approach per segment, we assume a top line growth of close to 12% in FY23e, and a revenue CAGR23-25e of 11% in order to arrive at EUR 1.5bn. This revenue level is also guided by Kontron for FY25 excluding the impact of acquisitions. With acquisitions, revenue is guided at EUR 2bn in FY25. The guided 13% EBITDA target for FY25 is slightly above our expectation. It is likely though that we will need to incorporate a first acquisition in our model soon.



**2021-2026e: Revenue breakdown by segment and total EBITDA margin**



Source: Company, Erste Group Research

**M&A**

Kontron has a clear M&A strategy has been aiming at generating about 50% of its top line growth rate. With regards to business focus, expanding Kontron’s software and services IOT portfolio remains key.

Opportunistically, if the price is favorable, acquisitions in the IT services segment or IOT America occur as well. As such, bold-on acquisitions but also larger deals are on the agenda and Kontron does not refrain from restructuring cases – on the contrary, management has proved capable of turning around ailing companies after acquiring them in short time.

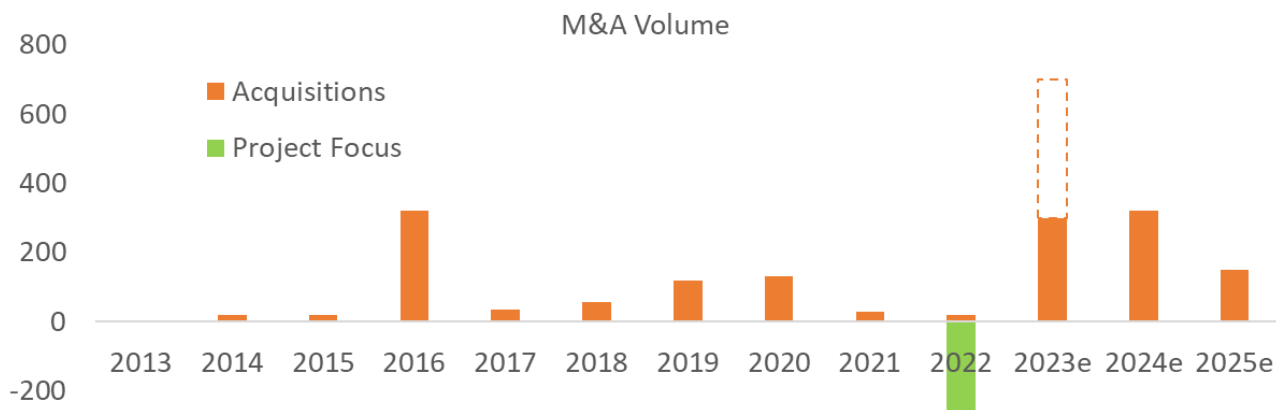
**Kontron’s M&A framework follows the following principles:**

- Turn-around targets at low price of P/S below 0.4x, which burden profitability in year 1 and reach 10% EBITDA margin towards the end of year 2.
- Profitable companies that are value accretive once consolidated at prices capped around Kontron’s valuation or about 9-10x EBITDA.
- In rare cases, Kontron might be willing to acquire companies at multiples beyond the stated if the company offers a perfect strategic fit and a healthy business / balance sheet.
- Regional focus of targets: EU, North America, Asia, no risky countries (e.g. Russia)

Between 2013-2020, S&T (former Kontron) acquired about EUR 700mn in revenue with acquisitions. The biggest transaction was (former) Kontron in 2016 with revenue of EUR 300mn. Kapsch CarrierCom, Kapsch PublicTransporCom, the Fujitsu Industrial Mainboard business in Augsburg und AIS Automation added the larger part of the roughly EUR 115mn revenue added inorganically in 2019. In 2020, Iskratel and Citycomp added some EUR 130mn on an annualized revenue basis.

Kontron targets acquisitions to add at least EUR 250mn and up to EUR 700mn in revenue in 2023. Another at least EUR 250mn of acquired revenue are aimed in 2024. Prices for potential targets have become reasonable recently as interest rates increased and the economic environment weakened. Consequently, 2H23, maybe even early 2024 could prove as a very favorable timing for takeovers, especially for the distressed targets.

**Historic and targeted acquisition volumes**



Source: Company, Erste Group Research

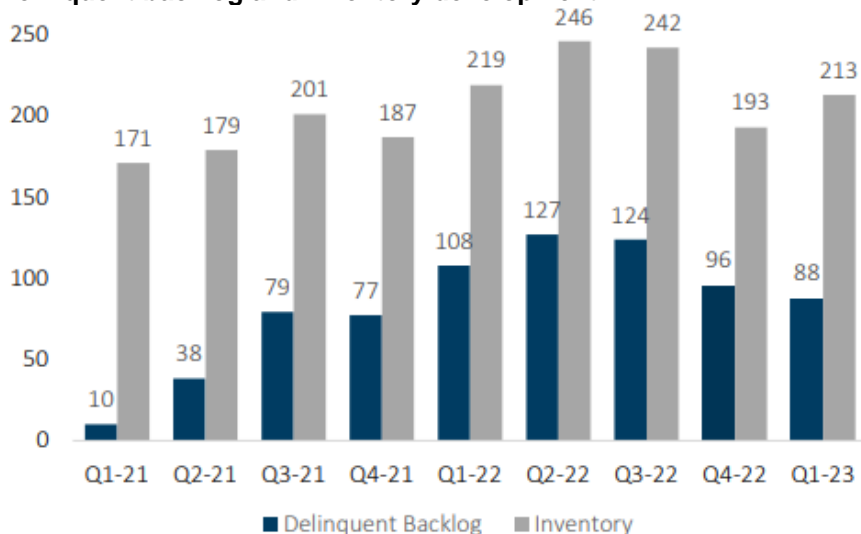
**Full warchest from sale of majority of IT Services business**

The strategic sale of the IT Services business in most of its countries allows Kontron to accelerate growth in the more dynamic and profitable IOT space. As of 1Q23 and based on our calculations, Kontron has a war chest of between EUR 500-700mn to be spent in the course of FY23, depending on the financial health of the acquisition target(s) and reflecting on Kontron’s current covenants of 3x Netdebt/EBITDA. Kontron’s management targets to acquire at least EUR 250mn in revenue in FY23, but only if the price is reasonable. We expect more M&A to come going forward.

**Chip shortage to continue easing...but likely to get worse once economy recovers**

Despite the economic slowdown, the global chip shortage continues to be an issue. While the availability of certain chips improved e.g. CPUs, FPGAs, others remain tight and on allocation e.g. microcontrollers (MCUs) or MOSFETs or simple switches. The respective order backlog suffering from available chips or other components has been reduced to EUR 88mn in 1Q23 from the peak of EUR 127mn in 2Q22. A further reduction to about EUR 40mn seems likely until YE23. WC capital should also benefit from further this ongoing reduction. Going forward, chip shortages might become more prominent again as demand for legacy chips is likely to get tighter once economic growth picks up again, as structural shortages have not been resolved.

**Delinquent backlog and inventory development**



Source: Company

## Strategy & Financials

Kontron has started well into FY23, business grew in all segments. Order intake was very positive, with b2b above 1x in each segment. Overall order intake in 1Q23 was EUR 391mn, a b2b of 1.41x. Order book stood at EUR 1,573mn (+8% q/q; no comparable disclosed for 1Q22). This development stands in contrast to Kontron's biggest peer Advantech, which reported a b2b 0.82 for 1Q23, hence significantly below 1. Market intelligence units also hinted at some slowdown in IoT market activity, which does not lead to cancellations of projects but to delays implementing existing contract.

### 2021-2026e: Kontron's historic and estimated development

EURmn	2021	2022*	2023e	2024e	2025e	2026e	CAGR23-25e
<b>Revenue</b>	<b>1,002.9</b>	<b>1,096.1</b>	<b>1,206.9</b>	<b>1,348.5</b>	<b>1,504.0</b>	<b>1,648.6</b>	<b>11.1%</b>
y/y %		9.3%	10.1%	11.7%	11.5%	9.6%	
<b>Gross profit</b>	<b>358.3</b>	<b>369.5</b>	<b>432.4</b>	<b>492.3</b>	<b>564.3</b>	<b>624.8</b>	
margin %	35.7%	33.7%	35.8%	36.5%	37.5%	37.9%	
EBITDA	90.1	70.0	133.0	155.9	182.3	201.7	
margin %	9.0%	6.4%	11.0%	11.6%	12.1%	12.2%	
<b>adj. EBITDA</b>	<b>90.1</b>	<b>109.6*</b>	<b>133.0</b>	<b>155.9</b>	<b>182.3</b>	<b>201.7</b>	<b>18.5%</b>
margin %	9.0%	10.0%	11.0%	11.6%	12.1%	12.2%	
EBIT	40.1	-2.0	86.8	110.8	137.4	156.3	
margin %	4.0%	-0.2%	7.2%	8.2%	9.1%	9.5%	
Net profit	48.3	232.5	67.9	90.1	108.8	119.4	
margin %	4.8%	21.2%	5.6%	6.7%	7.2%	7.2%	
<b>adj. Net profit</b>	<b>29.7</b>	<b>55.6*</b>	<b>67.9</b>	<b>90.1</b>	<b>108.8</b>	<b>119.4</b>	<b>25.1%</b>
EPS	0.75	3.65	1.07	1.43	1.72	1.89	
DPS	0.35	1.00	0.54	0.71	0.86	0.95	

Note: FY21 and FY22 reflect the disposal of Project Focus as discontinued operations, the adjusted figures exclude the book gain and costs related to the sale that were included in the continuing business

Source: Company; Erste Group Research

### Capital returns

**Share buy-back:** Kontron earmarks about 50% of EPS for capital returns. Been. Since 2019 until today, Kontron has bought back shares for EUR 55mn and paid out dividends amounting to EUR 116mn.

For 2023, Kontron earmarked up to EUR 150mn in capital returns, thereof EUR 64mn as dividend (DPS EUR 1.00; Div-ex date: 29.5.2023). A first SBB for 2023 was announced in February, capped with 1% of outstanding shares or EUR 10mn in volume. So far, shares for EUR 8.5mn or 0.72% of shares outstanding have been bought back in FY23. This also reflects the current amount of treasury shares held by Kontron. A capital return at the maximum level of EUR 150mn would yield about 12% at the current share price of EUR 19.5.

For FY24, Kontron announced to return at least EUR 35mn to shareholders. Based on our estimates, such a volume would reflect about 50% of EPS. Especially in light of the announced acquisition(s), which could be dilutive on profitability level in the short term in case the target is distressed, the SBB policy should act as a support to the share price.

Treasury shares are either used for MSOP, alternatively they could be cancelled. At a higher share price Kontron might also use the shares as acquisition currency. In mid-2022, Kontron cancelled 2.5mn shares.

### **Debt Structure and covenants**

With a net cash position of EUR 185mn as of 1Q23, the debt structure currently only plays a role with regards to the upcoming acquisitions. Balance sheet and liquidity KPI's are obviously currently at best, with an equity ratio of 48%.

All tranches of the promissory note loan have a total volume of EUR 167.5mn. The tranches were issued in April 2019 (EUR 160mn) and March 2021 (EUR 7.5mn). Tranches with fixed interest rate conditions amount to EUR 92.5mn, the remaining tranches are variable (6m EURIBOR+100 or 120bp). EUR 121mn are due for repayment on April 2024.

There are covenants related to the promissory note loan. An equity ratio of below 30% triggers a call option for the creditor, while there is an agreed margin step-up by 50bp in case net debt (incl. IFRS 16) / EBITDA surpasses 3x at the ultimo of any business year.

There are also covenants for bridge loans, which are either comparable to the covenants for the PNL or are set slightly differently (25% and 2.5x, respectively).

In FY22, Kontron's respective kpi's had an ample room to these covenants. This is not surprising given the sale of the IT services business to Vinci and the obtained cash inflow. The covenants might become more interesting when calculating the financing room for upcoming acquisitions.

Using the above mentioned covenants for calculating this years room to increase debt for targeted acquisitions, we arrive at

Going forward we would expect Kontron to continue buying back shares at least as long its share price does not exceed EUR 22.5, which translates into an EV/EBITDA multiple of 10x (historic average). Consequently, we expect there to be a new buy back program announced, potentially already later this year or early next year.

Apart from the buyback, Kontron is also authorized to conduct a conditional capital increase of up to EUR 2mn for servicing stock options and warrants offered to employees. There are 2mn warrants that can be exercised at the end of 2024 at the earliest if the share price exceeds EUR 32.86.

### **Tax losses carried forward**

Kontron has about EUR 55mn (thereof EUR 44mn for indefinite use) tax losses carried forward that could be used as a tax shield in the years to come. Currently, the recognized deferred tax asset is EUR 29mn. Most of these deferred tax assets were acquired with ailing companies and are hence usable especially in Austria, Germany, Benelux, Canada. In our model we have therefore incorporated an effective tax rate of 13% instead of the statutory rate of 24% (new tax rate as of Jan 1, 2023) in 2023. In the years thereafter, we gradually moved towards the 23% (new tax rate as of Jan 1, 2024) reflected in 2027ff.

## ESG

As Erste Group Research, we have defined a score card and an algorithm to provide a transparent assessment of a company’s ESG profile. Each input factor as well as the respective scores are benchmarked to the largest peers in the respective business segment. In case of Technology, we reflect on 125 peers. As not all peers have published data for each KPI yet, the rank of Kontron and the number of provided inputs can be seen for every quantitative input (e.g. 6<sup>th</sup>/78 = ranked 6<sup>th</sup> from 78 inputs).

The basis for our calculations can be seen in the score card below. Our intention is not to provide another ESG score, but rather how a score is derived and how to put certain ESG related aspects into context. This means that, apart from providing the score card, we will highlight a few aspects that we believe are worth considering by looking behind the qualitative or quantitative factors.

We need to be aware that ESG assessments are a work in progress and standardization is still far away, as we have already described in one of our recent [CEE Equity Strategies \(p.19&20\)](#). The devil is in the detail when we want to compare apples with apples. This applies to both the qualitative and quantitative factors determining partial and total ESG scores.

One aspect, which is also described in the [CEE Equity Strategy](#), is the absence of a clear taxonomy. In general, the EU taxonomy is, not surprisingly, the most explicit, when compared to US or Asian taxonomies. In order to harmonize / standardize sustainability reporting, the EC aims to introduce a Corporate Sustainability Reporting Directive (CSRD) that will apply to all publicly listed companies except for micro-enterprises as of Jan 1, 2026. The Non-Financial Reporting Directive (NFRD), also expected to come into effect by the end of this year, will also provide a framework intended to standardize certain ESG related KPIs and show how and to what extent activities need to be aligned in order to be environmentally sustainable according to the EU taxonomy.

### Kontron’s ESG score card assessed by Erste Group

Total Score 4Q22: 50.4 Points	
Vs. Sector Average: +11%	
Environment: 43 Pts. (+11%) <span>Medium</span>	
Energy Use per Rev./Sales	27.1 <span>Green</span> 43rd/104
Greenhouse Gases per Rev./Sales	13.1 <span>Red</span> 55th/101
Water Use per Rev./Sales	125.8 <span>Red</span> 40th/72
Waste Generated per Rev./Sales	162.6 <span>Red</span> 69th/69
<ul style="list-style-type: none"> <li><span style="color: red;">✗</span> Biodiversity Policy</li> <li><span style="color: green;">✓</span> Emissions Reduction Policy</li> <li><span style="color: green;">✓</span> Environmental Management Team Policy</li> <li><span style="color: red;">✗</span> ESG Report Audit</li> <li><span style="color: green;">✓</span> Green Buildings Policy</li> <li><span style="color: green;">✓</span> Policy Energy Efficiency</li> <li><span style="color: green;">✓</span> Policy Environmental Supply Chain</li> <li><span style="color: red;">✗</span> Sustainable Packaging Policy</li> <li><span style="color: green;">✓</span> Waste Reduction Initiatives</li> <li><span style="color: green;">✓</span> Water Efficiency Target</li> </ul>	
Social: 58 Pts. (+23%) <span>High</span>	
Total Incident Rate Employees	21 <span>Red</span> 46th/46
Accidents Rate per 1000 Employees	4.7 <span>Red</span> 25th/26
Employee Turnover	13% <span>Red</span> 24th/45
Female Executives	0.2% <span>Red</span> 94th/132
Women on Board	40% <span>Green</span> 18th/132
<ul style="list-style-type: none"> <li><span style="color: green;">✓</span> Equal Opportunity Policy</li> <li><span style="color: green;">✓</span> Fair Remuneration Policy</li> <li><span style="color: green;">✓</span> Health and Safety Policy</li> <li><span style="color: green;">✓</span> Anti-Bribery and Corruption Policy</li> <li><span style="color: green;">✓</span> Business Ethics Policy</li> <li><span style="color: green;">✓</span> CSR/Sustainability Committee</li> <li><span style="color: red;">✗</span> Employee CSR Training</li> <li><span style="color: green;">✓</span> Employee Protection/ Whistle Blower Policy</li> <li><span style="color: green;">✓</span> Training Policy</li> </ul>	
Governance: 52 Pts. (-0%) <span>Medium</span>	
Board Meeting Attendance	100% <span>Green</span> 1st/116
Independent Directors	40% <span>Red</span> 117th/131
Number of Board Meetings per Year	10 <span>Green</span> 33rd/127
Non-Executive Directors on Board	- (131)
Nomination Committee Independence	67% <span>Red</span> 106th/124
Executive Changes per Year	2 <span>Red</span> 79th/128
Audit Committee Meetings per Year	2 <span>Red</span> 126th/126
Audit Committee Independence	67% <span>Red</span> 115th/124
Years Auditor Employed	1 <span>Green</span> 1st/126
<ul style="list-style-type: none"> <li><span style="color: green;">✓</span> Executive Compensation Linked to ESG</li> <li><span style="color: green;">✓</span> Audit Committee Management Independence</li> <li><span style="color: red;">✗</span> CEO-Chairman Separation</li> <li><span style="color: green;">✓</span> Independent Chairperson</li> </ul>	



Source: Erste Group Research, Bloomberg

Kontron has been increasing its focus on improving ESG related KPIs and reporting. A three-step plan was introduced in 2021 and 50% of the management mid-term incentive for 2023 is based on raising the ESG rating to at least BBB from B (based on MSCI). The other 50% are based



on the EBITDA development. Kontron instated an ESG officer two years ago and hired Clemens Billek (now CFO, CCO) helping to improve ESG requirements across the group.

**ESG targets** are the following:

<p><b>ACHIEVEMENTS 2021</b></p> <ul style="list-style-type: none"> <li>› MSCI Rating increased </li> <li>› UN Global Compact joined and 9 SDG's identified we support </li> <li>› Education Kontron Leadership Academy (focus on female employees) Data Security Training Focus</li> <li>› Employee Survey – conducted among approx. 5,000 employees</li> </ul>	<p><b>OUTLOOK &amp; TARGETS</b></p> <ul style="list-style-type: none"> <li>› Increasing interest of sustainable investors to be met</li> <li>› Customers and Investors – CO<sub>2</sub> disclosure requests more often</li> <li>› Making our data easily accessible and transparent to our diverse stakeholder groups will become increasingly important</li> <li>› Carbon Disclosure Project experience ✓</li> <li>› EU Taxonomy requirements expected to be extended  </li> <li>› Implementation of scope I and II to be achieved until 2023</li> <li>› Kontron's Green Products – communicating our products better</li> </ul>
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**Kontron: ESG improvement & goals until 2023**



Source: Company

**Green taxonomy targets:**

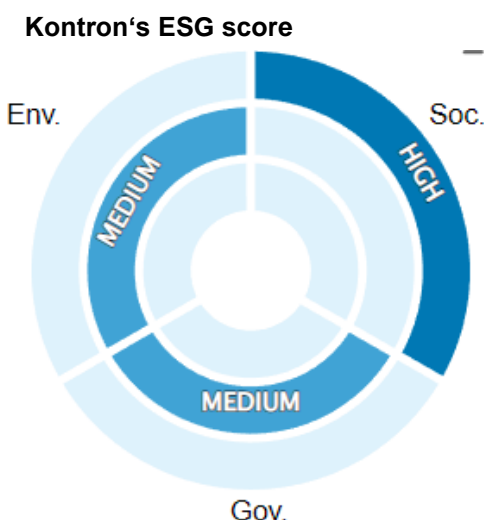
- + Key objective is to develop innovative products and solutions with low energy consumption, enabling resource-conserving manufacturing.
- + Kontron supplies IOT solutions into the railway sector, improving safety and travel experience (higher connectivity speeds for mobile use). On the other hand, same applies to the aviation sector, even if the business share of the latter is currently very small (ca. EUR 20mn p.a.)
- + Kontron's Russian subsidiary RTSoft, which has supplied various solutions to nuclear power plants in the past, has been divested.
- + The Russia business has been substantially reduced and will fade out as no new contracts are signed.
- + Kontron will fulfill the documentation requirements to have taxonomy eligible revenue accepted in 2023. So far, only eligibility has been evaluated.

- Kontron’s revenue share from the betting sector was at about EUR 7mn or below 0.5% of revenue. Novomatic (betting terminals) has now been gained as new client, but unlikely to see gaming related revenue to jump significantly.

**Indicators in accordance with EU taxonomy**

IN %	TAXONOMY-ALIGNED	TAXONOMY-ELIGIBLE	NOT TAXONOMY-ELIGIBLE
Revenue	0.0%	61.7%	38.3%
CapEx	0.0%	56.8%	43.2%
OpEx	0.0%	67.5%	32.5%

Source: Company AR 2022, p 203



Source: Erste Group Research

Overall, Kontron’s scores ahead of peers, based on our assessment. The overall score of 50 (+11%) indicates that Kontron scores 10% better than the average overall score from its technology peers. Looking below the headline score, the sub-sectors reflect Kontron’s efforts to improve its transparency (E +11%, S +23%, G +/-0%). Leaving aside the recent changes in the BOD, Kontron would have outperformed also on Governance level, at least slightly.

- **E** – Kontron has started measuring CO2, water consumption, and waste generated for 2022. Energy consumption has been reduced by about 20% in 2022 y/y. Kontron is committed to reduce its footprint for consumption of resources and reduce waste as it has adhered to several EU Directives (e.g. WEEE, RoHs, REACH, Dodd-Frank Wall Street Reform Act, Consumer Protection Act).
- **E** – Electricity used at some Austrian sites comes exclusively from renewable energy sources.
- **E** – Kontron has been growing PV systems for generating parts of its energy needs at some sites in Austria.
- **E** – The vehicle fleet shall gradually increase the share of electromobility. By YE2022, 7.9% of 900 company cars were electric. This share compares to 1.5% of 1200 company cars by YE2020.
- **S** – Incident and Accident rates are only high compared to technology companies in our peer group, low compared to industrials. It might not be fair to compare this figure with semiconductor or software companies. However, Kontron benefits from this comparison when comparing water use (high water use of semiconductor companies).
- **S** – Women on Board: 40% of women relate to SB, which consists of six members. BOD consists of five male members. There is one woman in the extended (B -1 level) management board.
- **S, E** – Kontron subscribed to the 10 principles of UN Global Compact.

## Transparency – Compliance: Initiatives of CCO since August 2022

- › New CoC addressing also environmental and HR matters ✓
- › New CoC for Suppliers to ensure compliance with future supply chain regulation ✓
- › New acquisition DD guidelines with strong focus on compliance matters ✓
  - › UBOs
  - › Suppliers    Avoidance of issues with PePs/Sanctions
  - › Customers
  
- › Internal Audit focus on compliance questions relating to ✓
  - › Documentation
  - › Customers
  - › Suppliers
  
- › Enhanced training program for staff initiated ✓

Strengthen market trust & preparing for the next growth phase

*Source: Company*

## Peers

We have tried to pick pure IoT plays in our peer group, but have not managed in every case and hence comparability is not fully given to some of them in our view. Advantech (Taiwan) clearly seems to be the best comparable in terms of business set up, SECO and Eurotech (both Italian) also make sense to look at. Both of them. In case of the US incumbents, Curtiss-Wright, PTC, and Mercury Systems, we believe that the strong military focus (Curtiss & Mercury) leads to uncorrelated demand patterns and also margins. PTC is a provider of an IoT platform, which rather classifies them as a software company, which is also reflected in the highest multiples. Unfortunately, Bloomberg (nor Reuters) provide multiples for all of them.

Profitability-wise, Kontron lags behind most of the depicted peers, except for Eurotech, which was loss making in FY22. We believe that Kontron has a too high share of low margin business especially in relation to its high share of engineers. Going forward, Kontron should be able to close this profitability gap as its most profitable business is the most dynamic in growth terms.

In growth terms, Kontron is already more competitive. If we bear in mind that growth should be accelerate with M&A, it should be among the top players in the list. On the other hand, we acknowledge that it is rather likely that Kontron's acquisition will further dilute profitability in the short term, before synergies can be tapped.

### Growth KPI's Kontron vs peers

	Revenue growth 23- 25	EBITDA growth 23- 25	EPS growth 23- 25
ADVANTECH CO LTD	6.6%	7.6%	7.3%
CURTISS-WRIGHT CORP	4.0%	2.6%	9.2%
EUROTECH SPA	22.4%	64.9%	
ADLINK TECHNOLOGY INC			
SECO SPA	24.5%	34.9%	53.3%
AXIOMTEK CO LTD			
MERCURY SYSTEMS INC	11.6%	21.0%	
PTC INC	10.3%	25.2%	16.6%
AAEON TECHNOLOGY INC			
QUECTEL WIRELESS SOLUTIONS	26.2%	24.9%	26.0%
<b>Kontron</b>	<b>11.1%</b>	<b>18.5%</b>	<b>25.1%</b>

Source: Bloomberg; Erste Group Research

Finally, we believe that a discount of almost 50% on EBIT and EBITDA is too much.

## Valuation

We have determined our 12-month target price based on a DCF valuation, but used a multiple comparison to cross-check and reflect the outcome. Acquisitions are not reflected by no means in our DCF, albeit it would be justified in our view to somewhat increase risk metrics used to calculate the WACC. In the end, we believe every shareholder should apply his/her individual risk premium / discount in such a case.

For our DCF we have applied the following assumptions:

- RFR of 3.2% and 3.0% for the detailed period and TV, respectively.
  - Beta of 1.5 and 1.3, respectively.
  - WACC and COE of 12.3 in the detailed period, due to net cash position
  - WACC in TV at 10.0, COE of 10.7 (90% equity ratio TV)
  - EBIT margin perpetuity of 7.5% compares to an average EBIT margin of 8.7% in the detailed forecast period --> potential to increase
  - TV value growth of 3%, owed to the long term growth trend in the sector and elevated RFR assumptions
- ➔ We arrive at a 12-month target price of EUR 24.5, translating into a Buy recommendation due to upside > 20%.

### Multiple comparison

Peers	MarketC (EURmn)	P/E			EV/EBITDA			EV/EBIT		
		2023e	2024e	2025e	2023e	2024e	2025e	2023e	2024e	2025e
ADVANTECH CO LTD	9,440	27.2x	24.8x	22.0x	19.8x	18.1x	16.2x	21.5x	19.5x	17.5x
CURTISS-WRIGHT CORP	5,686	18.0x	16.6x	15.3x	12.3x	11.6x	11.2x	15.6x	14.4x	13.6x
EUROTECH SPA	107	17.7x	8.5x	7.2x	10.2x	5.8x	4.4x	18.4x	8.3x	6.1x
ADLINK TECHNOLOGY INC	414	-	-	-	-	-	-	-	-	-
SECO SPA	615	25.8x	17.2x	12.6x	13.4x	10.1x	7.7x	22.3x	14.3x	10.0x
AXIOMTEK CO LTD	220	12.1x	-	-	-	-	-	9.6x	-	-
MERCURY SYSTEMS INC	2,141	19.8x	15.0x	12.2x	13.6x	-	8.9x	37.4x	26.2x	17.2x
PTC INC	14,439	30.0x	25.0x	20.9x	22.2x	19.2x	15.1x	22.3x	19.4x	17.1x
AAEON TECHNOLOGY INC	498	-	-	-	-	-	-	-	-	-
QUECTEL WIRELESS SOL	1,887	17.0x	12.5x	10.3x	12.4x	9.4x	7.9x	17.8x	12.9x	274.0x
<b>MEDIAN broader peers</b>		<b>18.9x</b>	<b>16.6x</b>	<b>12.6x</b>	<b>13.4x</b>	<b>10.9x</b>	<b>8.9x</b>	<b>20.0x</b>	<b>14.4x</b>	<b>17.1x</b>
Kontron	1253.0	18.2x	13.7x	11.3x	7.2x	5.8x	4.7x	11.1x	8.2x	6.2x
prem. / disc median		-3.6%	-17.5%	-10.2%	-46.1%	-46.3%	-47.6%	-44.5%	-43.0%	-63.7%
Peers	Share price	P/B			ROE			Dividend yield		
		2023e	2024e	2025e	2023e	2024e	2025e	2023e	2024e	2025e
ADVANTECH CO LTD	12.1	6.7x	6.1x	5.4x	25.0%	25.3%	26.2%	2.7%	2.9%	3.2%
CURTISS-WRIGHT CORP	148.3	2.7x	2.4x	2.2x	16.3%	16.9%	16.8%	0.5%	0.5%	0.5%
EUROTECH SPA	3.0	1.0x	0.9x	0.8x	5.4%	10.4%	11.0%	-	-	-
ADLINK TECHNOLOGY INC	1.9	-	-	-	-	-	-	-	-	-
SECO SPA	4.7	2.1x	1.9x	1.6x	7.5%	10.2%	13.4%	0.0%	0.0%	-
AXIOMTEK CO LTD	2.4	1.9x	-	-	17.0%	-	-	4.0%	-	-
MERCURY SYSTEMS INC	36.8	1.3x	1.2x	-	5.6%	9.1%	-	-	-	-
PTC INC	122.0	5.0x	4.7x	-	17.5%	17.9%	18.0%	0.0%	0.0%	0.0%
AAEON TECHNOLOGY INC	3.3	-	-	-	-	-	-	-	-	-
QUECTEL WIRELESS SOL	10.0	3.0x	2.4x	2.2x	18.7%	20.6%	21.1%	1.4%	2.3%	2.9%
<b>MEDIAN broader peers</b>		<b>2.4x</b>	<b>2.4x</b>	<b>2.2x</b>	<b>16.7%</b>	<b>16.9%</b>	<b>17.4%</b>	<b>1.0%</b>	<b>0.5%</b>	<b>1.7%</b>
Kontron	19.5	2.0x	1.8x	1.6x	10.7%	13.7%	15.1%	2.8%	3.6%	4.4%
prem. / disc median		-18.0%	-25.8%	-24.8%	-36%	-18.9%	-13.0%	nm	nm	nm
<b>Per Kontron share (EUR) 2023e</b>		<b>26.8</b>								
<b>Per Kontron share (EUR) 2024e</b>			<b>27.8</b>							
<b>Per Kontron share (EUR) 2025e</b>				<b>30.4</b>						
Period weight		40%	50%	10%						
<b>NPV as of May 2023 EUR</b>		<b>27.7</b>								
Cost of Equity		12.3%								
<b>NPV as of May 2024 EUR</b>		<b>31.1</b>								

Source: Bloomberg, Erste Group Research

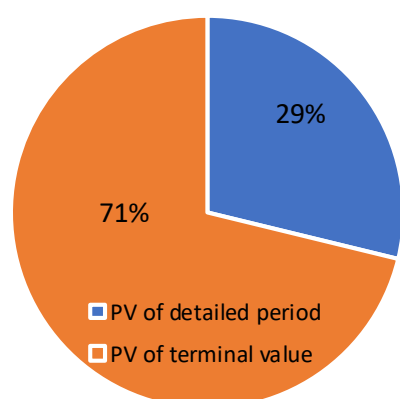
## WACC calculation

	2023e	2024e	2025e	2026e	2027e	NY / TV
Risk free rate	3.2%	3.2%	3.2%	3.2%	3.2%	3.0%
Equity risk premium	6.1%	6.1%	6.1%	6.1%	6.1%	5.9%
Beta	1.5	1.5	1.5	1.5	1.5	1.3
<b>Cost of equity</b>	<b>12.3%</b>	<b>12.3%</b>	<b>12.3%</b>	<b>12.3%</b>	<b>12.3%</b>	<b>10.7%</b>
Cost of debt	5.7%	5.7%	5.7%	5.7%	5.7%	5.5%
Effective tax rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
<b>After-tax cost of debt</b>	<b>4.3%</b>	<b>4.3%</b>	<b>4.3%</b>	<b>4.3%</b>	<b>4.3%</b>	<b>4.1%</b>
Equity weight	100%	100%	100%	100%	100%	90%
<b>WACC</b>	<b>12.3%</b>	<b>12.3%</b>	<b>12.3%</b>	<b>12.3%</b>	<b>12.3%</b>	<b>10.0%</b>

## DCF valuation

(EUR mn)	2023e	2024e	2025e	2026e	2027e	NY / TV
<i>Sales growth</i>	10.1%	11.7%	11.5%	9.6%	6.4%	3.0%
EBIT	86.8	110.8	137.4	156.3	169.8	135.5
<i>EBIT margin</i>	7.2%	8.2%	9.1%	9.5%	9.7%	7.5%
<i>Tax rate</i>	13.0%	15.0%	18.0%	22.0%	23.0%	25.0%
Taxes on EBIT	-11.3	-16.6	-24.7	-34.4	-39.1	-33.9
<b>NOPLAT</b>	<b>75.6</b>	<b>94.2</b>	<b>112.7</b>	<b>121.9</b>	<b>130.8</b>	<b>101.6</b>
+ Depreciation	46.2	45.1	44.9	45.3	46.0	50.0
<i>Capital expenditures / Depreciation</i>	78.4%	89.7%	97.9%	103.8%	106.2%	100.0%
+/- Change in working capital	-11.7	-16.5	-20.9	-13.2	-9.6	-2.6
<i>Chg. working capital / chg. Sales</i>	-10.6%	-11.6%	-13.4%	-9.1%	-9.1%	-5.0%
- Capital expenditures	-36.2	-40.5	-44.0	-47.0	-48.9	-50.0
<b>Free cash flow to the firm</b>	<b>73.8</b>	<b>82.3</b>	<b>92.7</b>	<b>107.1</b>	<b>118.3</b>	<b>99.0</b>
<i>Terminal value growth</i>						3.0%
Terminal value						1,456.9
Discounted free cash flow - Dec 31 2022	65.7	65.3	65.5	67.3	66.3	816.2
<b>Enterprise value - Dec 31 2022</b>	<b>1,146.4</b>					
Minorities	1.8					
Non-operating assets	0.0					
Net debt	-192.9					
Other effects	0.0					
<b>Equity value - Dec 31 2022</b>	<b>1,337.5</b>					
Diluted number of shares outstanding (mn)	64.4					
Cost of equity	12.3%					
<b>12M target price per share (EUR)</b>	<b>24.5</b>					
Current share price (EUR)	19.5					
<i>Up/Downside</i>	25.7%					

## Enterprise value breakdown



## Sensitivity (per share)

	Terminal value EBIT margin				
	6.5%	7.0%	7.5%	8.0%	8.5%
9.0%	24.6	25.8	27.0	28.2	29.4
9.5%	23.4	24.5	25.6	26.7	27.8
10.0%	22.4	23.5	<b>24.5</b>	25.5	26.5
10.5%	21.6	22.5	23.5	24.4	25.4
11.0%	20.8	21.7	22.6	23.5	24.4

	Terminal value growth				
	2.00%	2.50%	3.00%	3.50%	4.00%
9.0%	24.3	25.6	27.0	28.7	30.7
9.5%	23.4	24.4	25.6	27.1	28.7
10.0%	22.5	23.4	<b>24.5</b>	25.7	27.1
10.5%	21.7	22.6	23.5	24.6	25.8
11.0%	21.1	21.8	22.6	23.6	24.6



## Appendix

### Management team



Source: Company

### Board of Directors

**Hannes Niederhauser** (CEO) joined the company in 2011 as CEO. Following his studies in electrical engineering at the Graz University of Technology, the Austrian-born manager worked as a developer of microchips and in the embedded computer segment. Prior he has been the main shareholder and CEO of Kontron AG from 1999 to 2007, which became the world's largest provider in the field of embedded computing.

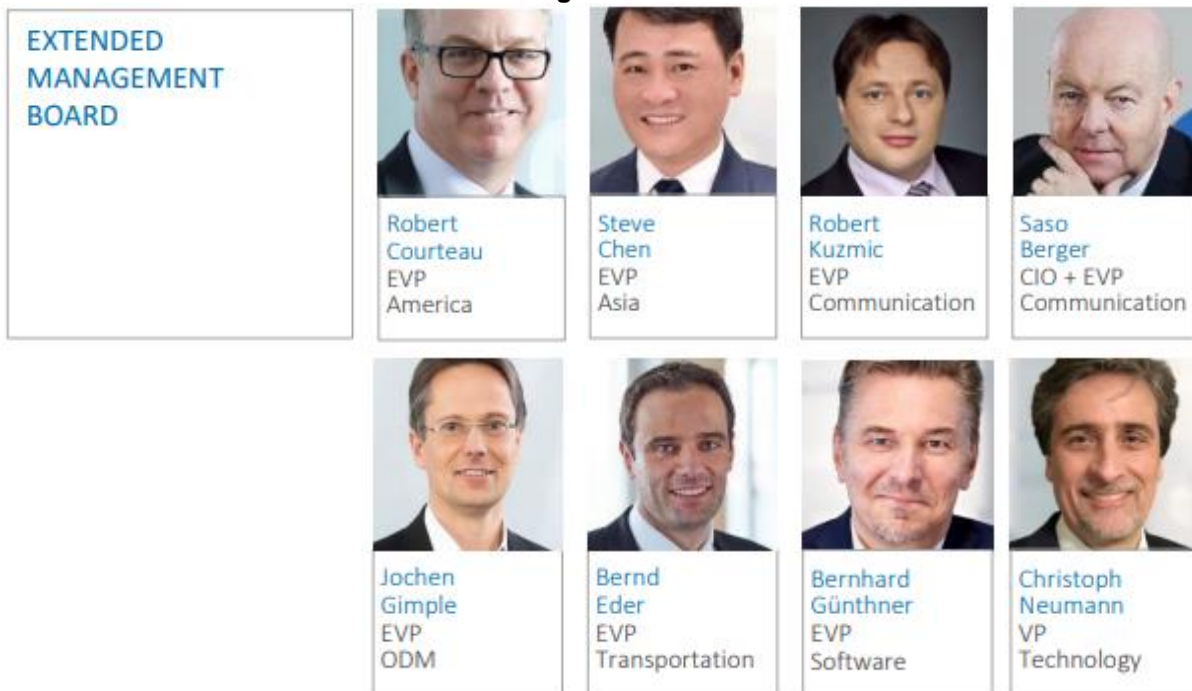
**Clemens Billek** (CFO, CCO) joined S&T's BOD in May 2022 as Chief Compliance Officer, taking over the CFO position a few months later. Clemens Billek has worked for various capital market related positions in Austria (Austrian stock exchange supervisory authority, Austrian Takeover Commission, international investment bank). He has extensive professional experience in the fields of compliance, legal and IR at listed companies and in the field of digitalization respectively as the founder of a telemedicine platform.

**Peter Sturz** (COO) has been with S&T since 2007 and became member of the management board in 2008, before that he managed the Adriatic Region. Sturz began his career at Allgemeine Bausparkasse as a member of the board responsible for Sales, Marketing and IT. Before joining S&T he was as member of the managing board of CSC-Austria with responsibilities for Austria and Central Europe.

**Michael Riegert (COO IoT Europe)** Following various management positions at S&T and Kontron, Michael Riegert became COO in December 2021. He has been working in the embedded industry for more than 25 years. Prior to joining S&T in 2017 as EVP for the APAC & Americas regions, he held a management position in Pena/Adlink. He also served as managing director for Kontron Transportation in 2019.

The extended Management Board is presented in the graph below. Zelko Puljic (from Iskratel) and Jochen Gimple (VP Manufacturing - ODM) were the latest two to join the team in 2020, following the acquisitions Iskratel and the increased focus on providing ODM (Original Device Manufacturing) to third parties.

**Extended Management Board – Board minus 1**



Source: Company

**Supervisory Board**

**Claudia Badstöber** holds a degree in Business Administration and worked as admitted tax consultant and auditor for a renowned audit firm for many years. She later joined Group convert, one of the leading real estate companies in Austria, and acted CFO with a focus on group accounting, taxes, controlling, risk management and capital markets. From 2011 until 2019, Claudia Badstöber led the finance division at Liechtensteinische Landesbank (Österreich) AG (former Semper Constantia Privatbank Aktiengesellschaft) and served as member of the supervisory board of two companies during this period. In 2019, the financial expert joined the Austro Holding and grosso holding Groups, where she holds positions as managing director in several companies of the Group.

**Bernhard Chwatal** is an experienced consultant whose services are focused on restructuring. He is managing director and owner of Cablerunner International (installation of glass fiber grids) and Global Health (biotech). He is currently presiding over these companies' growth. Bernhard Chwatal lead managed the restructuring of Flora Apotheken Genossenschaft, of the Hoffmann Group, of Anker Brot and of CEE Immobilien Dev AG.

**Yolanda Wu** has over 30 years of experience in finance. Her expertise is in capital markets and derivatives markets with a focus on corporate governance, risk management, internal control, auditing and accounting standards. Currently, Yolanda Wu is the Chief Financial Officer of Ennoconn Corporation and a Supervisory Board Member at Marketech International Corporation. Previously, she served as a director of the Financial Supervision Commission (FSC) in Taiwan and London and as an auditor.

**Joe Fijak** currently holds the position of Global Executive Vice President at Ennoconn Corporation. Joe has built excellent relationships within the high-

tech industry with numerous Tier 1 global customers, suppliers and investment partners executive management teams. He brings more than 40 years in the electronics distribution, OEM and contract manufacturing industry to the table. Before joining Foxconn, Joe worked as Executive Vice President of American Industrial Systems, Inc. as well as for Fortune 500 high-tech global distributor Avnet Electronics and Sanmia Corporation. Originally from Chicago, Joe Fijak is an accomplished business leader, frequent keynote speaker at top industry conferences and has served on numerous technology company and industry boards..

**Steve Chu** holds a degree in electrical engineering. He worked for Foxconn from 2002 – 2011. Subsequent to that, he was appointed CEO of Ennoconn Corporation, which, under his leadership, was listed on the Taiwan Stock Exchange. In addition to his work for Ennoconn, Steve Chu is CEO of Goldtek Technology, and Member of the Board at Ennoconn International Investment Co., Ltd. Chu also serves on the boards of EnnoMech Precision Co., Ltd. and of CASwell, Inc.

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<b>Income Statement</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023e</b>	<b>2024e</b>	<b>2025e</b>
(IAS, EUR mn, 31/12)	31/12/2020	31/12/2021	31/12/2022	31/12/2023	31/12/2024	31/12/2025
<b>Net sales</b>	<b>1,254.80</b>	<b>1,002.94</b>	<b>1,096.10</b>	<b>1,206.90</b>	<b>1,348.51</b>	<b>1,504.04</b>
Invent. changes + capitalized costs	17.60	21.22	23.39	24.47	25.97	27.52
<b>Total revenues</b>	<b>1,272.41</b>	<b>1,024.16</b>	<b>1,119.49</b>	<b>1,231.37</b>	<b>1,374.48</b>	<b>1,531.56</b>
Other operating revenues	8.76	14.61	19.65	18.10	17.53	16.54
Material costs	-799.05	-644.66	-726.64	-774.49	-856.23	-939.73
Personnel costs	-273.25	-237.57	-258.76	-290.91	-318.42	-341.61
Other operating expenses	-78.83	-66.47	-83.75	-51.07	-61.46	-84.42
<b>EBITDA</b>	<b>130.04</b>	<b>90.07</b>	<b>69.99</b>	<b>133.01</b>	<b>155.91</b>	<b>182.34</b>
Depreciation/amortization	-61.47	-50.01	-72.01	-46.16	-45.12	-44.92
<b>EBIT</b>	<b>68.58</b>	<b>40.06</b>	<b>-2.02</b>	<b>86.85</b>	<b>110.79</b>	<b>137.42</b>
Financial result	-7.89	-7.62	-8.64	-8.39	-4.26	-4.08
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
<b>EBT</b>	<b>60.69</b>	<b>32.44</b>	<b>-10.65</b>	<b>78.46</b>	<b>106.54</b>	<b>133.34</b>
Income taxes	-6.07	-1.99	-2.18	-10.20	-15.98	-24.00
Result from discontinued operations	0.00	18.51	244.71	0.00	0.00	0.00
Minorities and cost of hybrid capital	0.99	-0.70	0.58	-0.34	-0.45	-0.55
<b>Net result after minorities</b>	<b>55.61</b>	<b>48.26</b>	<b>232.46</b>	<b>67.92</b>	<b>90.10</b>	<b>108.79</b>
<b>Balance Sheet</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023e</b>	<b>2024e</b>	<b>2025e</b>
(IAS, EUR mn, 31/12)						
Intangible assets	302.28	312.46	261.84	256.57	253.91	252.69
Tangible assets	135.12	132.54	95.48	90.79	88.79	89.08
Financial assets	31.95	33.81	21.74	24.95	27.85	29.71
<b>Total fixed assets</b>	<b>469.34</b>	<b>478.80</b>	<b>379.05</b>	<b>372.31</b>	<b>370.55</b>	<b>371.49</b>
Inventories	159.86	187.35	192.63	168.97	188.79	210.57
Receivables and other current assets	288.70	329.39	264.04	287.66	328.15	373.52
Other assets	36.62	40.18	33.05	34.57	36.70	40.93
Cash and cash equivalents	292.12	316.41	572.09	576.25	508.79	567.71
<b>Total current assets</b>	<b>777.28</b>	<b>873.33</b>	<b>1,061.81</b>	<b>1,067.44</b>	<b>1,062.42</b>	<b>1,192.72</b>
<b>TOTAL ASSETS</b>	<b>1,246.63</b>	<b>1,352.13</b>	<b>1,440.86</b>	<b>1,439.75</b>	<b>1,432.97</b>	<b>1,564.21</b>
<b>Shareholders'equity</b>	<b>404.04</b>	<b>418.56</b>	<b>633.84</b>	<b>631.15</b>	<b>687.35</b>	<b>751.51</b>
<b>Minorities</b>	<b>5.43</b>	<b>4.71</b>	<b>1.83</b>	<b>2.17</b>	<b>2.63</b>	<b>3.17</b>
<b>Hybrid capital and other reserves</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Pension and other LT personnel accruals</b>	<b>23.80</b>	<b>23.53</b>	<b>18.70</b>	<b>19.29</b>	<b>21.56</b>	<b>24.04</b>
<b>LT provisions</b>	<b>3.05</b>	<b>1.52</b>	<b>1.19</b>	<b>1.22</b>	<b>1.37</b>	<b>1.53</b>
Interest-bearing LT debts	296.71	292.46	221.48	220.21	96.21	96.21
Other LT liabilities	30.26	30.65	11.26	104.06	116.27	129.68
<b>Total long-term liabilities</b>	<b>326.96</b>	<b>323.11</b>	<b>232.74</b>	<b>324.28</b>	<b>212.49</b>	<b>225.90</b>
Interest-bearing ST debts	89.30	120.03	150.68	69.98	69.98	69.98
Other ST liabilities	394.05	460.68	401.89	391.66	437.61	488.08
<b>Total short-term liabilities</b>	<b>483.35</b>	<b>580.71</b>	<b>552.57</b>	<b>461.63</b>	<b>507.59</b>	<b>558.06</b>
<b>TOTAL LIAB. , EQUITY</b>	<b>1,246.63</b>	<b>1,352.13</b>	<b>1,440.86</b>	<b>1,439.75</b>	<b>1,432.97</b>	<b>1,564.21</b>
<b>Cash Flow Statement</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023e</b>	<b>2024e</b>	<b>2025e</b>
(IAS, EUR mn, 31/12)						
Cash flow from operating activities	140.81	95.28	44.44	284.45	175.61	152.18
Cash flow from investing activities	-77.18	-66.32	143.67	-32.89	-38.89	-42.25
Cash flow from financing activities	-85.94	-18.63	-47.28	-163.07	-164.18	-50.99
<b>CHANGE IN CASH , CASH EQU.</b>	<b>-30.38</b>	<b>14.60</b>	<b>141.25</b>	<b>88.49</b>	<b>-27.46</b>	<b>58.93</b>
<b>Margins &amp; Ratios</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023e</b>	<b>2024e</b>	<b>2025e</b>
Sales growth	11.7%	-20.1%	9.3%	10.1%	11.7%	11.5%
EBITDA margin	10.2%	8.8%	6.3%	10.8%	11.3%	11.9%
EBIT margin	5.4%	3.9%	-0.2%	7.1%	8.1%	9.0%
Net profit margin	4.3%	3.0%	-1.1%	5.5%	6.6%	7.1%
ROE	14.3%	11.7%	44.2%	10.7%	13.7%	15.1%
ROCE	11.6%	6.8%	-0.5%	16.5%	20.1%	23.2%
Equity ratio	32.8%	31.3%	44.1%	44.0%	48.1%	48.2%
Net debt	105.8	107.0	-192.9	-278.5	-332.8	-389.2
Working capital	257.3	252.4	476.2	571.2	518.1	593.7
Capital employed	548.5	562.4	455.2	460.1	474.9	496.7
Inventory turnover	4.1	2.9	3.0	4.3	4.8	4.7

Source: Company data, Erste Group estimates

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**Group Research**

<b>Head of Group Research</b> Friedrich Mostböck, CEFA®, CESGA®	+43 (0)5 0100 11902	<b>Institutional Equity Sales Czech Republic</b> Head: Michal Rizek Pavel Krabicka Martin Hlavlan Jiri Feres	+420 224 995 537 +420 224 995 411 +420 224 995 551 +420 224 995 554
<b>CEE Macro/Fixed Income Research</b> Head: Juraj Kotian (Macro/Fl) Katarzyna Rzentarzewska (Fixed income) Jakub Cery (Fixed income)	+43 (0)5 0100 17357 +43 (0)5 0100 17356 +43 (0)5 0100 17384	<b>Institutional Equity Sales Hungary</b> Levente Nándori Balázs Zánkay Krisztián Kandik	+361 235 5141 +361 235 5156 +361 235 5140
<b>Croatia/Serbia</b> Alen Kovac (Head) Mate Jelić Ivana Rogic	+385 72 37 1383 +385 72 37 1443 +385 72 37 2419	<b>Institutional Equity Sales Poland</b> Jacek Jakub Langer (Head) Tomasz Galanciak Wojciech Wysocki Przemyslaw Nowosad Grzegorz Stepien	+48 22 257 5711 +48 22 257 5715 +48 22 257 5714 +48 22 257 5712 +48 22 257 5713
<b>Czech Republic</b> David Navratil (Head) Jiri Polansky Michal Skorepa	+420 956 765 439 +420 956 765 192 +420 956 765 172	<b>Institutional Equity Sales Romania</b> Liviu George Avram	+40 3735 16569
<b>Hungary</b> Órsolya Nyeste János Nagy	+361 268 4428 +361 272 5115	<b>Group Markets Retail and Agency Business</b> Head: Christian Reiss	+43 (0)5 0100 84012
<b>Romania</b> Ciprian Dascalu (Head) Eugen Sinca Dorina Ilasco Vlad Nicolae Ionita	+40 3735 10108 +40 3735 10435 +40 3735 10436 +40 7867 15618	<b>Markets Retail Sales AT</b> Head: Markus Kaller	+43 (0)5 0100 84239
<b>Slovakia</b> Mária Valachyova (Head) Matej Hornak	+421 2 4862 4185 +421 902 213 591	<b>Group Markets Execution</b> Head: Kurt Gerhold	+43 (0)5 0100 84232
<b>Major Markets &amp; Credit Research</b> Head: Gudrun Egger, CEFA® Ralf Burchert, CEFA® (Sub-Sovereigns & Agencies) Hans Engel (Global Equities) Margarita Grushanina (Austria, Quant Analyst) Peter Kaufmann, CFA® (Corporate Bonds) Heiko Langer (Financials & Covered Bonds) Stephan Lingnau (Global Equities) Carmen Riefler-Kowarsch (Financials & Covered Bonds) Rainer Singer (Euro, US) Bernadett Povazsai-Römhild, CEFA®, CESGA® (Corporate Bonds) Elena Staelov, CIAA® (Corporate Bonds) Gerald Walek, CFA® (Euro, CHF)	+43 (0)5 0100 11909 +43 (0)5 0100 16314 +43 (0)5 0100 19835 +43 (0)5 0100 11957 +43 (0)5 0100 11183 +43 (0)5 0100 85509 +43 (0)5 0100 16574 +43 (0)5 0100 19632 +43 (0)5 0100 17331 +43 (0)5 0100 17203 +43 (0)5 0100 19641 +43 (0)5 0100 16360	<b>Retail &amp; Sparkassen Sales</b> Head: Uwe Kolar	+43 (0)5 0100 83214
<b>CEE Equity Research</b> Head: Henning Eßkuchen Daniel Lion, CIAA® (Technology, Ind. Goods&Services) Michael Marschallinger, CFA® Nora Nagy (Telecom) Christoph Schultes, MBA, CIAA® (Real Estate) Thomas Unger, CFA® (Banks, Insurance) Vladimira Urbankova, MBA (Pharma) Martina Valenta, MBA	+43 (0)5 0100 19634 +43 (0)5 0100 17420 +43 (0)5 0100 17906 +43 (0)5 0100 17416 +43 (0)5 0100 11523 +43 (0)5 0100 17344 +43 (0)5 0100 17343 +43 (0)5 0100 11913	<b>Corporate Treasury Production Distribution</b> Head: Martina Kranzl-Carvell	+43 (0)5 0100 84147
<b>Croatia/Serbia</b> Mladen Dodig (Head) Boris Pevalek, CFA® Marko Plastic Matej Pretkovic Iva Tomic Bruno Barbic Davor Spoljar, CFA®	+381 11 22 09178 +385 99 237 2201 +385 99 237 5191 +385 99 237 7519 +385 99 237 1662 +385 99 237 1041 +385 72 37 2825	<b>Group Securities Markets</b> Head: Thomas Einramhof	+43 (0)50100 84432
<b>Czech Republic</b> Petr Bartek (Head, Utilities) Jan Safranek	+420 956 765 227 +420 956 765 218	<b>Institutional Distribution Core</b> Head: Jürgen Niemeier	+49 (0)30 8105800 5503
<b>Hungary</b> József Miró (Head) András Nagy Tamás Pletser, CFA®	+361 235 5131 +361 235 5132 +361 235 5135	<b>Institutional Distribution DACH+</b> Head: Marc Friebertshäuser Bernd Bollhof Andreas Goll Mathias Gindele Ulrich Inhofner Sven Kienzle Rene Klasen Christopher Lampe-Traupe Michael Schmotz Klaus Vosseler	+49 (0)711 810400 5540 +49 (0)30 8105800 5525 +49 (0)711 810400 5561 +49 (0)711 810400 5562 +43 (0)5 0100 85544 +49 (0)711 810400 5541 +49 (0)30 8105800 5521 +49 (0)30 8105800 5523 +43 (0)5 0100 85542 +49 (0)711 810400 5560
<b>Poland</b> Cezary Bernatek (Head) Piotr Bogusz Łukasz Jańczak Krzysztof Kawa Jakub Szkopek	+48 22 257 5751 +48 22 257 5755 +48 22 257 5754 +48 22 257 5752 +48 22 257 5753	<b>Slovakia</b> Šarlota Šipulová Monika Směliková	+421 2 4862 5619 +421 2 4862 5629
<b>Romania</b> Caius Rapanu	+40 3735 10441	<b>Institutional Distribution CEE &amp; Insti AM CZ</b> Head: Antun Burić Jaromir Malak	+385 (0)7237 2439 +43 (0)5 0100 84254
<b>Group Institutional &amp; Retail Sales</b>		<b>Czech Republic</b> Head: Ondřej Čech Milan Bartoš Jan Porvich	+420 2 2499 5577 +420 2 2499 5562 +420 2 2499 5566
<b>Group Institutional Equity Sales</b> Head: Michal Rizek	+420 224 995 537	<b>Croatia</b> Head: Antun Burić Zvonimir Tukač Natalija Zujic	+385 (0)7237 2439 +385 (0)7237 1787 +385 (0)7237 1638
<b>Cash Equity Sales</b> Werner Fuerst Viktória Kubalcova Thomas Schneidhofer Oliver Schuster	+43 (0)5 0100 83121 +43 (0)5 0100 83124 +43 (0)5 0100 83120 +43 (0)5 0100 83119	<b>Hungary</b> Head: Peter Csizmadia Gábor Bálint Ádám Szőnyi	+36 1 237 8211 +36 1 237 8205 +36 1 237 8213
<b>Institutional Equity Sales Croatia</b> Matija Tkalicanac	+385 72 37 21 14	<b>Romania and Bulgaria</b> Head: Octavian Florin Munteanu	+40 746128914
		<b>Institutional Asset Management Czech Republic</b> Head: Petr Holeček Petra Maděrová Martin Peřina David Petráček Blanca Weinerová Petr Valenta	+420 956 765 453 +420 956 765 178 +420 956 765 106 +420 956 765 809 +420 956 765 317 +420 956 765 140
		<b>Group Fixed Income Securities Markets</b> Head: Goran Hobljaj	+43 (0)50100 84403
		<b>FISM Flow</b> Head: Gorjan Hobljaj Margit Hraschek Bernd Thaler Ciprian Mitu Christian Kienesberger Zsuzsanna Toth	+43 (0)5 0100 84403 +43 (0)5 0100 84117 +43 (0)5 0100 84119 +43 (0)5 0100 85612 +43 (0)5 0100 84323 +36-1-237 8209
		<b>Poland:</b> Pawel Kielek Michal Jarmakowicz	+48 22 538 6223 +43 50100 85611

## **Erste Group Research – Company Report**

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### **Company description**

Kontron, headquartered in Linz, Austria, and listed on the Frankfurt stock exchange is a member of the TECDEX and the MDAX. Kontron was S&T previously and was renamed Kontron after the sale of the IT services business. Now Kontron is a IOT pureplay and one of the leading global providers of embedded IoT solutions in Europe, but also active in North America and Asia. With more than half of its 4500 employees being engineers, Kontron supplies a diversified customer base of over 3000 clients. S&T operates in three divisions: Europe, Global, which also reflects the North American and Asian businesses, and Software and Services.



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Kontron | Technology Software | Austria  
30 May 2023

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