



Kendrion
Q1 results and strategic update
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Amsterdam, 3 May 2016



Agenda

- Q1 results
- Kendrion today
- Strategy: Simplify, Focus, Grow
- 2018 targets



Cautionary Note Regarding Forward Looking Statements

Certain statements contained in this presentation constitute forward-looking statements. These statements may include, without limitation, statements concerning future results of operations, the Company's share of new and existing markets, general industry and macro-economic trends and the Company's performance relative thereto and statements preceded by, followed by or including the words "believes", "expects", "anticipates", "will", "may", "could", "should", "intends", "estimate", "plan", "goal", "target", "aim" or similar expressions. These forward-looking statements rely on a number of assumptions concerning future events and are subject to uncertainties and other factors, many of which are outside the Company's control that could cause actual results to differ materially from such statements.

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Q1 results 2016 Summary and key figures



Trading update first quarter 2016

(x EUR 1 million unless otherwise stated)	Q1 2016	Q1 2015	Difference in %
Revenue	111.3	114.4	-3%
EBITDA	12.9	13.1	-2%
EBITA	7.8	8.3	-6%
Net profit	4.7	5.1	-9%
ROS	7.0%	7.3%	

¹ Normalised for non-recurring restructuring costs of EUR 2.7 million (after tax EUR 2.1 million) in Q1 2016

- Mixed market conditions in line with H2 2015
- Significant improvement in revenues (+6%) and operating result compared to Q4 2015 as activity levels in Automotive and Industrial picked up
- Q1 2016 revenue of EUR 111.3 million, 2.7% below a strong Q1 2015 (EUR 114.4 million).
No impact from currency movements
- One-off restructuring costs of EUR 2.7 million in Q1 2016
- Normalised EBITA at EUR 7.8 million, 6% below Q1 2015
- As a result Q1 2016 return on sales reduced from 7.3% to 7.0% (FY 2015: 5.8%)

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Industrial

- Conditions in main industrial markets remain challenging, notably the German machine building market
- However compared to Q4 2015 increase in industrial activity across all industrial market segments
- Revenue 2% down on Q1 2015, but 8% step up in revenue versus Q4 2015

Automotive

- Mixed market conditions, especially for Commercial Vehicles with uncertainty in China and weak US heavy truck market
- Smooth move to serial production of active damping project
- Revenue 3% down on Q1 2015, but 6% step up in revenue versus Q4 2015

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Financial results

- Slight increase in added value margin to 48.7%, with broadly stable raw material prices
- First simplification measures taken towards a more effective and profitable organisation resulting in one-off restructuring costs of EUR 2.7 million in Q1 2016. This will generate EUR 1.7 million savings in 2016 (annualised EUR 3.0 million)
- Further steps will be taken in the coming periods to enhance the group's profitability
- For the year 2016 we expect a one-off cost of EUR 4.0 million (Q1: EUR 2.7 million), with corresponding savings of EUR 3.5 million on a full-year basis
- Personnel costs before one-off restructuring cost were EUR 0.9 million below Q1 2015
- EBITDA amounts to EUR 12.9 million, 2% below Q1 2015
- Depreciation increased by EUR 0.3 million due to the strong 2015 investment programme
- Effective tax rate of 24% slightly higher than Q1 2015 (23%) due to different country mix
- Net profit of EUR 4.7 million (normalised for restructuring costs of EUR 2.1 million after tax) compared to EUR 5.1 million in Q1 2015

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Financial position

- Modest level of investments in first quarter of EUR 3.7 million (depreciation EUR 5.1 million). Investments for the year are expected to be higher than depreciation, largely due to new automotive projects
- Increase in working capital of EUR 9 million due to seasonal effects and the higher activity level in Q1 2016 compared to Q4 2015
- As a result net debt increased by EUR 5.8 million compared to year-end. Compared to Q1 2015 net debt improved by EUR 10 million to EUR 74.9 million
- Strong financial position with solvency of 48% and net debt cover of 1.7
- > EUR 100 million available for acquisitions

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Strategic update – Kendrion today



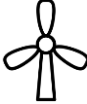





Kendrion today

- Develops, produces and markets high-quality electromagnetic components and sub-systems
- Serves leading businesses within the industrial and automotive sectors
- 2,700 employees across 15 countries worldwide
- Revenue of EUR 442 million in 2015
- Listed on Euronext's Amsterdam Market (KENDR.AS)



Our solutions are used by customers and consumers all over the world

 Fuel efficiency in cars	 Engine cooling systems for commercial vehicles	 Brakes for wind turbines
 Brakes for robotic arms for industrial production lines	 Oxygen mask hatch locks on aeroplanes	 Train door locking systems

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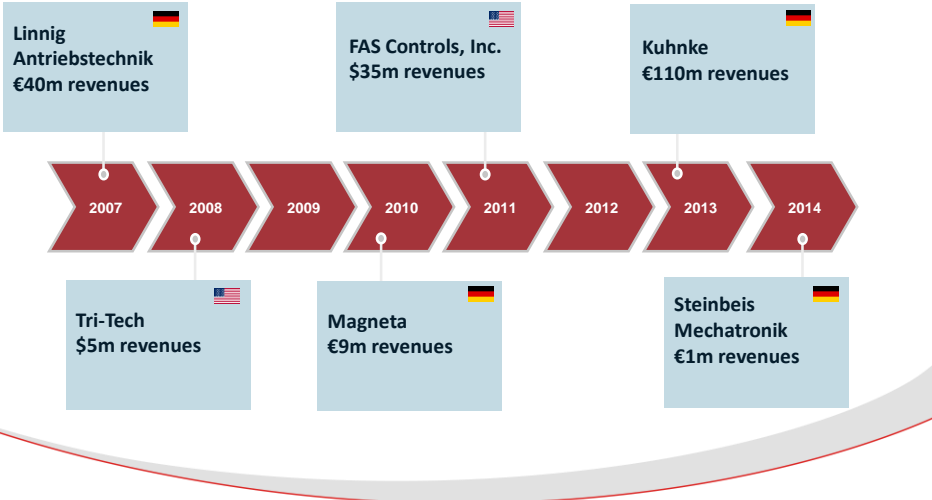
Our activities

	AUTOMOTIVE (66% of revenue in 2015)	INDUSTRIAL (34% of revenue in 2015)
What we do	We develop and manufacture innovative, high-quality electromagnetic components and subsystems for customer-specific applications in the automotive and off-highway vehicle industry	We develop and manufacture innovative, high-quality electromagnetic components and subsystems for industrial markets
Where our products are used	<ul style="list-style-type: none"> • Belt damping systems • Chassis suspension • Engine management • Fuel systems • Human machine interface (HMI) • Hydraulics • Sound systems • Thermal management • Transmission 	<ul style="list-style-type: none"> • Access control systems • Aircraft interiors • Elevator systems • Energy generation and distribution • Industrial appliances • Industrial automation / robotics • Industrial safety systems • Medical equipment • Textile machinery
Who we do it for	<ul style="list-style-type: none"> • Automotive Lighting • Continental • Chrysler • Daimler • Delphi • Hyundai • Stanadyne • TK Bilstein • Volkswagen • Volvo Truck • Wabco • ZF Lemförder 	<ul style="list-style-type: none"> • B/E Aerospace • Bosch Rexroth • Euchner • Fresenius Med. Care • Lancer • Oerlikon • Perkin Elmer • Schindler • Schottel • Schneider Electric • Siemens • Stoll

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A history of successful acquisitions



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1. A strong track record in innovation

World-leading innovation.....

- Heavy focus on R&D; invested over EUR 25m in 2015
- More than 250 FTEs in R&D
- Collaborating closely with customers

Year	Investment (EUR m)
2010	10
2011	12
2012	18
2013	22
2014	25
2015	28

... solving critical customer issues

- High pressure valves to reduce fuel consumption in cars
- Sound actuator to solve issues associated with silent electric vehicles
- Circuit breakers in power grids to help safeguard the network and prevent energy wastage

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2. Global manufacturing footprint

- Guaranteed quality - ability to manufacture the same product anywhere in the world
- Long-standing, deep customer relationships
- Reputation for reliability
- Stable, loyal, high-quality employee base



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3. Meeting customer needs

SIEMENS



KUKA

Scale

250 FTEs in Research and Development

Innovation

Market-leading products which allow our customers to differentiate their offering

Quality/Reliability

Standardised quality / best practice everywhere in the world



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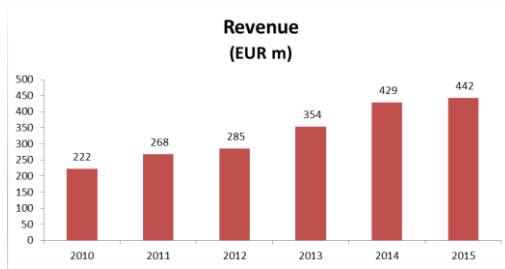


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Strong revenue growth

- Track record of top line growth
- Organic CAGR of 5% since 2010
- Good visibility of revenues

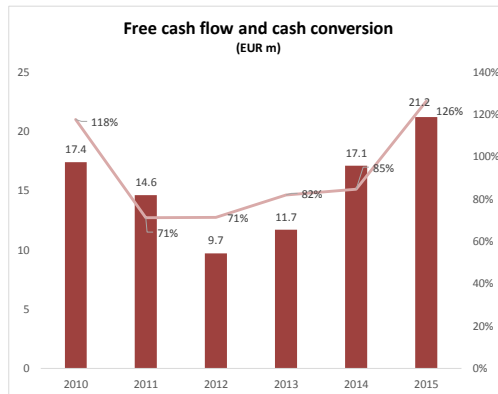


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Strong financial position

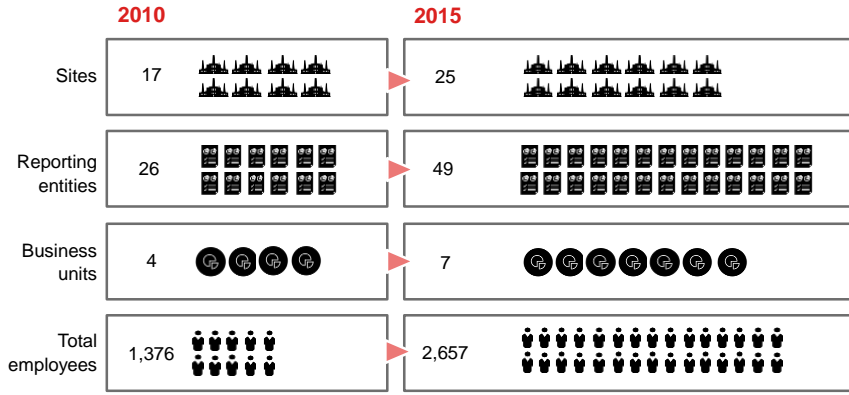
- Highly cash-generative (averaging 92% of net profits over the last five years)
- Healthy balance sheet
 - Solvency rate FY15 50%
 - FY15 net debt cover 1.5x EBITDA



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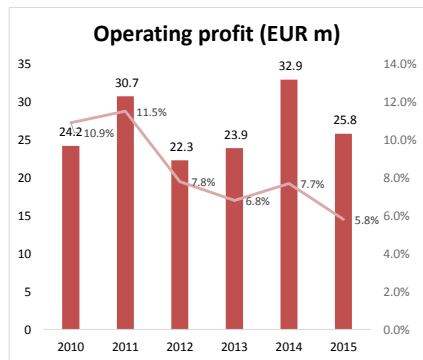
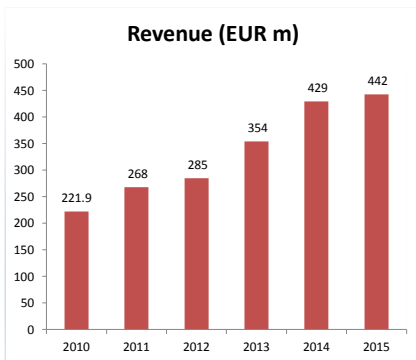
However, growth has introduced complexity



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Revenues have grown... but not operating profits



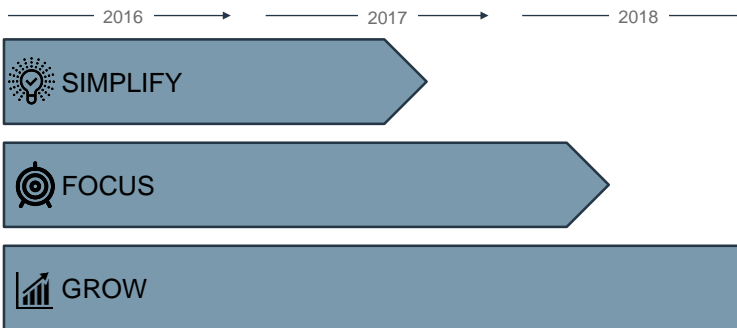
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Introducing our three-year plan

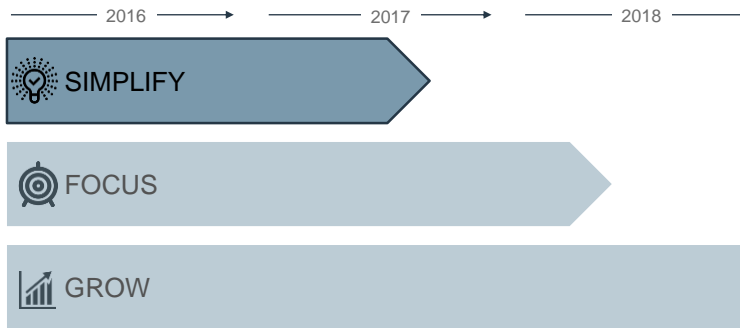


Three-year plan





Three year plan



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Phase 1: Simplify

Reduce costs

- Simplify organisational structure
- Reduce indirect staff
- Evaluate manufacturing footprint
 - Eg. ongoing transfer of manufacturing to lower-cost regions
- By end 2016:
 - Annualised reduction of costs by EUR 3.5m
 - One-off cost in 2016 of approximately EUR 4m

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Phase 1: Simplify New organisational structure

Plan:

- Business units reduced from 7 to 5 (effective 1 Jan 2016)
- Divisional management layer removed (effective 1 March 2016)



Objectives:

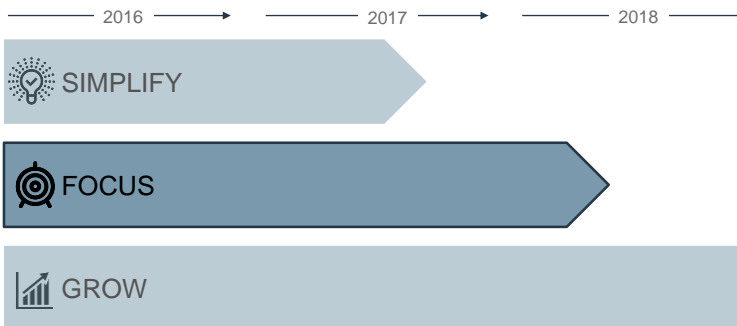
- Speed-up decision-making
- Reduce inward focus
- Better allocation of resources



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Three year plan

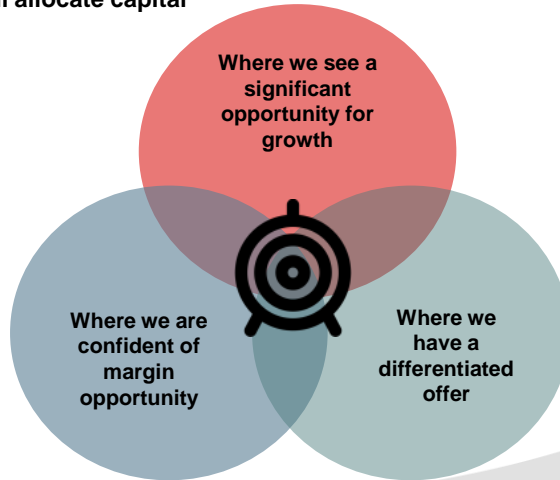


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Phase 2: Focus

How we will allocate capital



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Phase 2: Focus

Example 1 – Expanding focus on Passenger Cars

Why Passenger Cars?

- Growth opportunities driven by trends towards emission reductions, safety & comfort and alternative engines
- Strong demand for highly-engineered, high-quality solutions

Why Kendrion?

- Excellent engineering capabilities and track record with major OEMs
- Significantly increased scale has further enhanced our relevance as a key supplier

Plans:

- Dedicate R&D capacity of our Mechatronics Center fully to the Passenger Cars business unit
- Further scale-up R&D and investments in line with current market drivers
- Acquisitions / broader targets for inorganic growth

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Phase 2: Focus

Example 2 – Increasing our focus on China

Why China?

- Currently subscale in China (5% of our business vs around 25% of our market)
- Increasing demand for high-quality engineered solutions, especially from local automotive players

Why Kendrion?

- Locally producing best-in-class solutions
- Proven manufacturing capabilities
- Track record with European OEMs stands us in good stead with Asian customers

Plans:

- Investigate potential for Kendrion to substantially speed-up growth
- Concentrate manufacturing base and expand sales activities
- Lead Chinese operations from China

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Phase 2: Focus

Example 3 – Evaluate Brazil

Background:

- Small subscale facility and no material contribution to our results
- Better growth opportunities in China, India and the USA

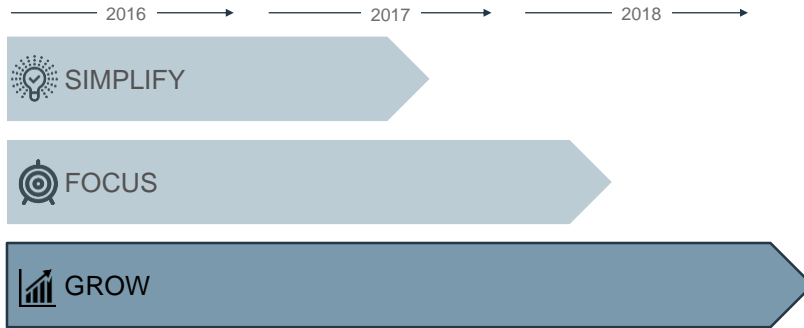
Plans:

- Evaluate the Brazil manufacturing facility
- Investigate potential for an external distributor to serve the market

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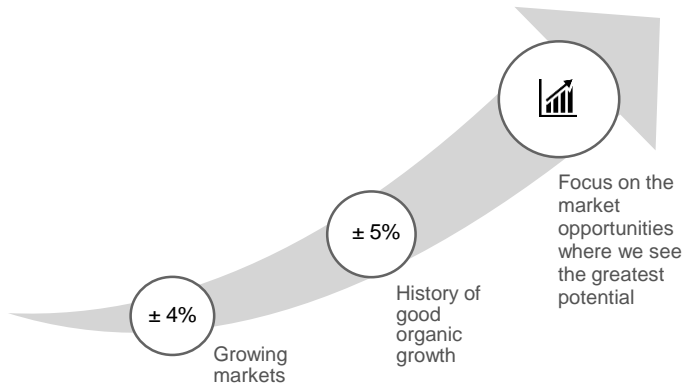
Three year plan



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Phase 3: Grow

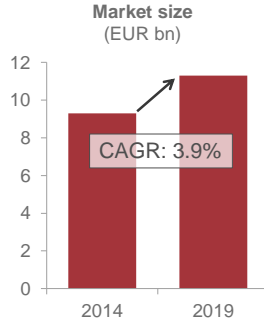


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Phase 3: Grow Automotive market

- Stable growth in global automotive market
- Total market of EUR 9.3 bn in 2014
- Estimated to grow to EUR 11.3 bn by 2019
- Forecast CAGR 2014-2019 of 3.9%
- Kendrion focus market: EUR 2bn (of 2014 total market)

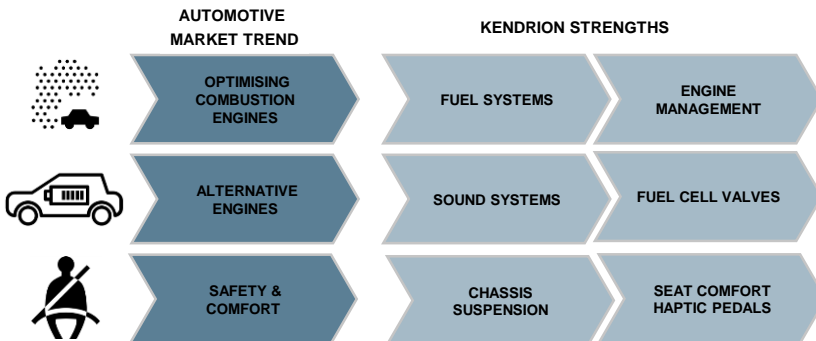


Source: Kendrion; Roland Berger

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Phase 3: Grow Addressing the themes which play to our strengths

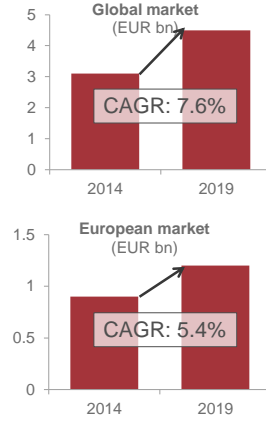


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Phase 3: Grow Industrial market

- Highly-fragmented and heavily localised, mostly European industrial market
- Global market:
 - EUR 3.2 bn in 2014, estimated to grow to EUR 4.6 bn by 2019
 - Forecast CAGR 2014-2019 of 7.6%
- European market:
 - EUR 0.9 bn in 2014, estimated to grow to EUR 1.2 bn by 2019
 - Forecast CAGR 2014-2019 of 5.4%
- Kendrion focus market: EUR 1 bn

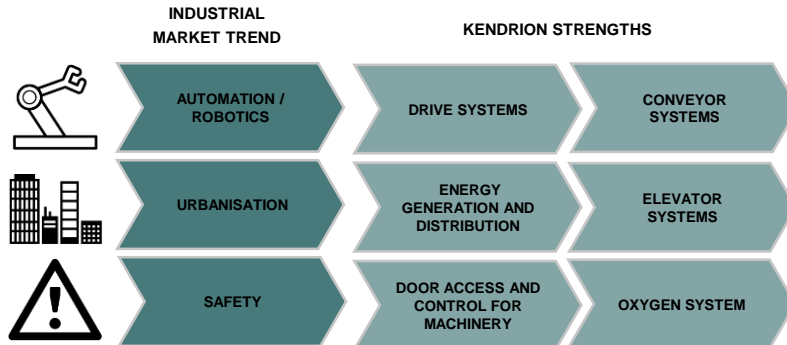


Source: Kendrion; Roland Berger

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Phase 3: Grow Addressing the themes which play to our strengths



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Acquisitions

- Continue to form part of the broader growth plan
- Seek opportunities in Industrial and Automotive markets
- Healthy balance sheet supports further deals

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2018 targets



Financial targets

- EBITA margin of 10% as of the end of 2018
- Expected organic growth until FY 2018 broadly in line with average historical organic growth of 5%
- Dividend policy maintained – pay out ratio of 35-50% of net profit

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Summary

- 1. Simplify organisation to increase decision-making and reduce cost**
 - Annualised run rate reduction of EUR 3.5m
 - One-off cost in 2016 of approximately EUR 4m
- 2. Focus on profitable growth**
 - EBITA margin target of 10% as of the end of 2018
 - Expected organic growth until FY 2018 broadly in line with average historical organic growth of 5%
- 3. Longer-term growth measures take effect in 2018 and beyond**
 - Prioritising markets where Kendrion's speed and precision can meet customer demand for enhanced safety, efficiency and comfort

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