2024-08-22

Kongsberg Automotive ASA

Poised for an Upswing in a Changing Market

Kongsberg Automotive ASA ("Kongsberg" or "the Company") is a worldwide supplier of automotive components, specializing in two main segments: *Flow Control Systems ("FCS")* and *Driver Control Systems ("DCS")*. Kongsberg's product portfolio includes systems for managing vehicle fluids, enhancing driver control and specialized automotive solutions. Kongsberg is focused on securing long-term contracts lasting from 5 to 10 years, with current customers such as major market actors Volvo and Volkswagen, these contracts are structured with initial high-margin products followed by recurring service and component sales, ensuring stable revenue streams and economies of scale. Furthermore, the Company has sold non-core businesses to streamline operations and focus on key areas to improve efficiency and profitability. Kongsberg is estimated to attain a compounded annual growth rate (CAGR) of 2.8%, between 2023 and 2026. Based on an equally weighted DFC and peer valuation, an implied potential price per share of NOK 2.0 is motivated in a Base scenario.

Acceleration of EV Adoption Drives Market Growth

The global shift toward electric vehicles ("EV:s") and autonomous driving is accelerating, with projections indicating an increase from 40m EVs in 2023 to 145m by 2030, a market Kongsberg is well-positioned to capitalize on with the Company's solution in Driver Control Systems ("DCS"), which enhances vehicle control and Flow Control Systems ("FCS"), ensuring optimal battery performance and longevity in EVs. The Company has a broad customer base, including Volvo and Volkswagen, and is set to continue growing its top line as increased EVs, equipped with both DCS and FCS, are sold. The positive effects of increased EV sales through the customer base have already begun, as the company's revenue from the EV segment increased from NOK 9,388.1m in 2022 to NOK 9,970.4m in 2023, with an estimated increase to NOK 10,212.0m in 2026.

Expansion into the Fluid Application Market

Kongsberg is increasing the focus on fluid management systems, which are crucial for various industrial uses, such as cooling systems for data centers. The global market of industrial pumps is expected to grow from USD 67.8bn in 2023 to USD 108.0bn by 2032, resulting in an annual growth rate of 5.2%. This growth is due to increased industrial activities and the need for efficient fluid handling, which is essential for minimizing downtime and reducing maintenance costs. Analyst Group estimates an increase of Kongsberg's sales from NOK 478.6m in 2023 to NOK 689.9m by 2025 and NOK 1,194.0m by 2028, outpacing the underlying market growth. This is estimated to be driven by Kongsberg's investment in automation technologies and expansion into key markets such as China and India.

Focus on Core-Business Enable Higher Margins

Kongsberg is improving efficiency and profitability by selling non-core businesses, moving production to lower-cost regions, and reducing the number of factories. In 2023, Kongsberg started using automated manufacturing processes and robotics in key production lines to cut labor costs and increase output. These steps are expected to lower production costs by 15.8% by 2026, resulting in an estimated EBITDA margin increase from 1.3% in 2023 to 8.5% by 2026, when Kongsberg is estimated to have completed the integrations of these changes. In tandem with improved EBITDA margin, divestment of non-core businesses is set to reduce CAPEX from 5% in 2023 to 4% from 2024 onwards, with an estimated improvement of free cash flow from NOK -86.6.m in 2023 to NOK 117.7m by 2026.

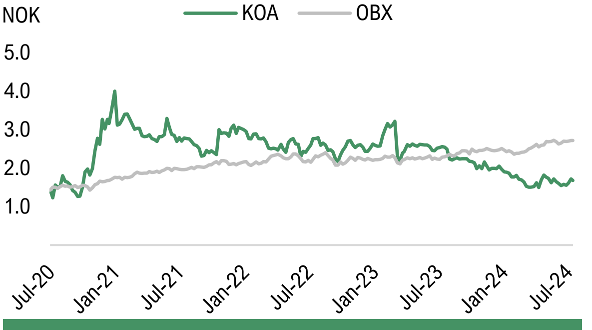
VALUATION RANGE

Bear	Base	Bull
NOK 1.1	NOK 2.0	NOK 3.8

KEY INFORMATION

Share Price (2024-08-21)	1.4
Shares Outstanding	1,055
Market Cap (NOKm)	1,321
Net cash(-)/debt(+) (NOKm)	1,333
Enterprise Value (NOKm)	2,654
List	Oslo Stock Exchange
Quarterly report 3 2024	2024-10-24

SHARE PRICE DEVELOPMENT



OWNERS (THE COMPANY: 2024-08-22)

Morgan Stanley	21.1%
Saxo Bank A/S	4.1%
Nordnet Bank AB	3.6%
Kongsberg Automotive ASA	2.3%
Citibank	1.6%

Estimates (NOKm)	2023A	2024E	2025E	2026E
Revenue	10,088.6	10,206.6	10,420.8	10,795.9
COGS	-4,844.3	-4,705.2	-4,762.3	-4,912.1
Gross Profit	**5,261.3**	**5,501.3**	**5,658.5**	**5,883.8**
Gross Margin	52.1%	53.9%	54.3%	54.5%
Operating Costs	-5,111.7	-4,695.6	-4,794.9	-4,966.5
EBITDA	**150.5**	**806.3**	**917.7**	**954.4**
EBITDA Margin	1.3%	7.9%	8.3%	8.5%
P/S	0.2x	0.2x	0.2x	0.2x
EV/S	0.3x	0.3x	0.3x	0.3x
EV/EBITDA	5.4x	3.5x	3.2x	3.0x
EV/EBIT	-11.3x	6.3x	5.4x	5.1x

Introduction

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About the Company

Kongsberg is a Norway-based global supplier of high-quality automotive components founded in 1957. The Company operates in two main business areas: Driver Control Systems and Flow Control Systems. Kongsberg's business model revolves around long-term partnerships with major automotive and commercial vehicle manufacturers to develop, design, and produce solutions that enhance vehicle performance, comfort, and safety. The Company is active in 19 countries and serves a broad customer base, generating revenue through the sales of both OEM products and aftermarket services. Kongsberg has been listed on the Oslo Stock Exchange under the ticker KOA since 2005.

CEO and Chairman	
CEO	Linda Nyquist-Evenrud
Chairman	Peter Thostrup

Analyst	
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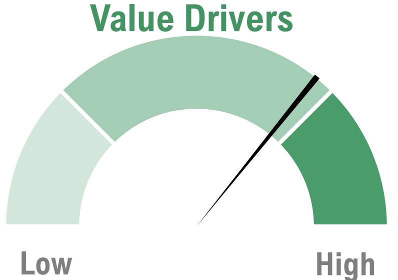
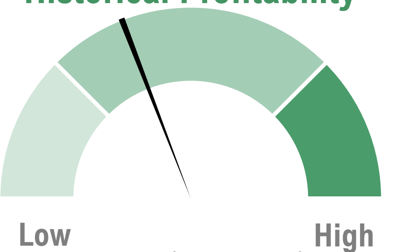
Value Drivers



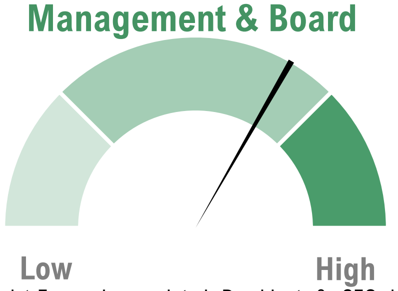
Kongsberg's value drivers include a robust product portfolio and strategic R&D investments to improve and broaden the product offering. In Q2 2024 new contract wins amounted to NOK 8,198.7m during the contracts' lifetime of 4-6 years reflecting strong market demand. The growing demand for EVs is a key factor in market expansion, growing with a CAGR of 20.2% until 2030, where Kongsberg is well-positioned to benefit from the trend through the FCS segment, which ensures optimal battery performance and longevity in EVs and the DCS segment which enhances vehicle control and autonomy.

Historical Profitability



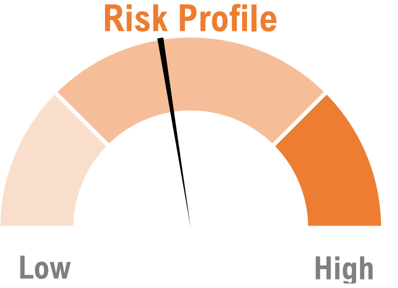
Kongsberg has demonstrated fluctuating profitability over the past five years, with EBITDA margins ranging from -2.7% to 9.5%. The Company experienced a revenue decrease of 20% in 2020 due to the pandemic, followed by a 15% recovery in 2021. However, consistent profitability remains a challenge. This rating is based on historical results and does not consider forward-looking projections.

Management & Board



Linda Nyquist-Evenrud, appointed President & CEO in January 2024, has been with Kongsberg for over 16 years, leading various divisions, including the segment Flow Control System. The management team at Kongsberg has an average of over 20 years of industry experience. The Company's governance practices are solid, with active involvement from the board of directors. Management incentives are aligned with shareholder interests through performance-based compensation; however, insider ownership amounts to just 1.4%.

Risk Profile



Kongsberg has faced financial volatility, showing periods of net losses alongside improvements in gearing ratios. The Company operates in a competitive automotive industry and is exposed to economic cycles and demand fluctuations. Significant future risks include potential revenue decreases due to economic downturns and a projected 25% increase in raw material costs. Additionally, the Company faces risks from regulatory changes and supply chain disruptions.

Investment Thesis

Global EV car Fleet is Projected to Grow From 16.5 to 145 Million By 2030

Strong Underlying Growth in the EV Market

The global shift towards electric vehicles (EVs) is accelerating, with the International Energy Agency (IEA) projecting a rise from 40m EVs in 2023 to 145m by 2030. Kongsberg is well-positioned to benefit from this trend through both the FCS segment, which ensures optimal battery performance and longevity in EVs, and the DCS segment which enhances vehicle control and autonomy. In 2023, Kongsberg acquired Skriverform AS, a Norwegian company specializing in tools for injection molding, to achieve vertical integration while enabling better control of the supply chain. Additionally, the Company has invested significantly in developing new thermal management systems and expanding production capacities to meet the growing demand. These strategic investments include enhancing manufacturing capabilities in Europe and North America, establishing a new R&D center focused on EV technologies while forming strategic partnerships to innovate and improve product offerings Supported by a strong customer base, including major clients like Volvo and Volkswagen, and substantial R&D investments, Kongsberg aims to reach NOK 11.5bn in total revenue by 2028. Given the current growth rate and the underlying demand of the Company's products, Analyst Group estimate revenues will surpass this target, reaching NOK 11.8bn by 2028, with an estimated top-line CAGR of 2.8% until 2026, driven by increasing demand for both the DCS and FCS.

Fluid Application Segment to Grow With an Estimated CAGR of 25.7% until 2026

Expansion in the Market of Fluid Applications

Kongsberg is expanding its market presence by leveraging the Company's expertise in thermal and fluid management to meet the growing demand for high-performance fluid systems. In 2023, Kongsberg focused on enhancing its presence in key markets like China and India, where rapid industrialization is driving significant growth in the fluid handling systems market. The global industrial pumps market, a critical part of fluid handling systems needed for instance in large data centers, is projected to grow from USD 67.8 bn in 2023 to USD 108.0 bn by 2032, corresponding to a CAGR of 5.2%. By developing more efficient and reliable systems, Kongsberg aim to increase sales from industrial fluid applications from NOK 477.6m in 2023 to NOK 1,194.0m by 2028, given the Company's track record of outperforming the underlying market for the past three years in America, Europe, and China, combined with the Company's large footprint and strong customer base, are both key factors for continued expansion, Analyst Group estimate the segment to grow at a CAGR of 25.7% until 2026. To further support this growth, the Company is expanding its production capabilities, including a new facility in Brześć, Poland, expected to boost the Fluid Transfer Systems segment in Europe by 23.2% over the next four years. Analyst Group estimates that the fluid application will contribute with 32.1% of the total FCS Segment over the next 4 years, contributing NOK 598.2m in 2024 to NOK 1,317.0m in 2028 to the Company's total revenue.

Production Costs are Estimated to be Reduced by 15.8% until 2026

Implementation of Advanced Automation Technologies

To drive margin expansion and improve production efficiency, Kongsberg has and will continue investing in advanced automation technologies. In 2023, the Company began rolling out automated manufacturing processes and robotic systems across key production lines, aiming to reduce labor costs, minimize errors, and increase throughput, which is estimated to cut production costs with 15.8% by 2025. The introduction of automation is expected to improve product quality and consistency, leading to a reduction in warranty and rework costs. These efforts have already contributed to an expansion of the Company's EBIT margin from -5.6% in Q2 2023 to 3.1% in Q2 2024. In addition to automation, Kongsberg is selling off non-core businesses, which showed lower margins compared to the Company's core segments, to improve overall margins and to focus on the core competencies. Hence improved efficiency from automation and divestments is improving free cash flow, with an estimated increase to NOK 117.7m by 2026, from NOK -86.6m in 2023.

Kongsberg Top 20 Customers Account for Approximately 59.2% of the Company's External Products Revenue

Strong Competitive Advantages in a Capital-Intensive Business

Kongsberg has significant competitive advantages due to the Company's extensive experience, robust customer base, and substantial capital investments. With over 60 years in the industry, Kongsberg has developed strong relationships with leading automotive manufacturers, including long-term contracts with major players such as Volvo and Volkswagen and volume purchasing agreements with suppliers. These established partnerships create high entry barriers for new competitors, as Kongsberg's products are deeply integrated into the customers' operations. The capital-intensive nature of the Company's business further solidifies the market position, with significant investments in advanced automation technologies and production facilities, such as the new plant in Brześć, Poland. These investments are essential for meeting the stringent quality and performance standards demanded by the industry. The ability to secure long-term contracts, with the top 20 customers accounting for approximately 59.2% of the Company's external product revenue, highlights the strength of Kongsberg's customer base.

Expansion of Products Portfolio Mitigates Cyclicality by 10.8%

Mitigating Cyclical Business Risks Through Diversification and Innovation

Kongsberg mitigates the risks of the cyclical automotive industry through strategic diversification and innovation, by expanding into high-growth sectors like fluid handling systems, a segment that is estimated to grow at a CAGR of 25.7% until 2028, reducing the reliance on the automotive market of 10.8% by 2028. Kongsberg maintains stable profit margins during economic downturns by optimizing production processes and reducing operational costs, achieved by implementing automation to replace labor-intensive tasks, refining production workflows to increase efficiency and reduce errors, while systematically eliminating wasteful expenditures to ensure that resources are used more effectively. Long-term contracts with major automotive manufacturers like Volvo and Tesla provide a stable revenue stream, while the capital-intensive nature of Kongsberg's business creates high entry barriers for competitors. Furthermore, the Company is set to benefit from the global shift towards electrification and sustainable technologies, focusing on electric vehicle components and advanced fluid management systems. These strategies collectively enable Kongsberg to remain resilient and well-positioned for long-term growth, despite the cyclical nature of the automotive industry.

Market Analysis

Government Incentives are Driving EV Adoption Worlwide

Significant Investments in Electrification Across Major Markets

The global EV market is experiencing robust growth, driven by the transition towards sustainable transportation and stringent emission regulations. The International Energy Agency (IEA) projects that the number of EVs worldwide will increase from 40m in 2023 to 145m by 2030. This growth is underpinned by substantial government incentives and significant investments in EV infrastructure across key regions. In the United States, policies such as the Inflation Reduction Act have catalyzed EV sales, which reached 1.4m units in 2023. Europe remains a critical market for EVs, with nearly 3.2m new registrations in 2023, led by countries such as Germany, France, and the UK, driven by the EU's Green Deal and stringent CO2 targets. Asia, particularly China, is the largest and fastest-growing EV market, accounting for 60.0% of global EV sales in 2023, supported by substantial government subsidies and policies aimed at accelerating EV adoption. Kongsberg is strategically positioned to capitalize on this growth, with a strong global customer base and recent acquisitions improving the product portfolio. The Company's revenue from the DCS segment increased from NOK 4,388.0m in 2022 to NOK 4,678.6m in 2023, driven by strong demand from major clients like Volkswagen and Volvo. This underscores the Company's potential to achieve its ambitious target of NOK 11.5bn in total revenue by 2028, reflecting the positive impact of strategic investments. Given the current growth rate and the underlying demand for the Company's products, Analyst Group estimate revenue will surpass this target, reaching NOK 11.8bn by 2028.

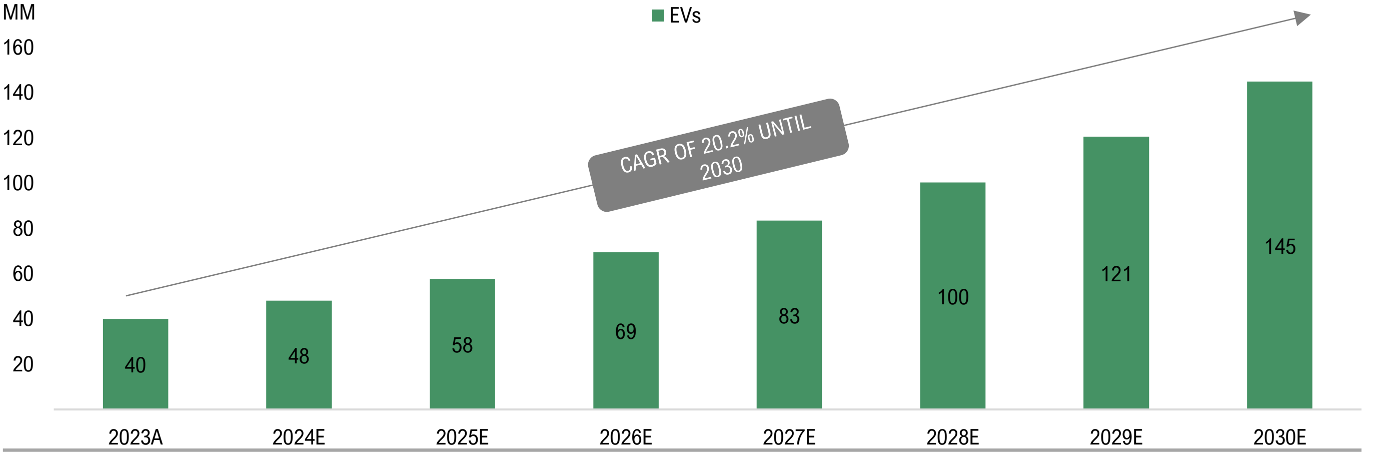
Intense and Extensive Competition

Competitive Landscape and Strategic Positioning in the Automotive Industry

The automotive supply industry is highly competitive, with major companies such as Bosch, Continental, and Magna International leading through innovation and global reach. These companies focus on electric powertrains, autonomous driving systems, and connected vehicle technologies to meet automakers' evolving demands. Kongsberg sets itself apart by investing in expanding electric vehicle component production, acquiring Skriverform AS to improve supply chain efficiency, and developing advanced thermal management systems for EVs. With major clients like Tesla, Ford, and GM, Kongsberg's revenue is diversified, with 45% from Europe, 32% from America, and 10% from China. Commercial vehicles make up 51% of revenue, passenger cars 32%, and the remaining 17% from other segments. By expanding production in Europe and North America, Kongsberg is well-positioned to capitalize on the growing EV market. Continued investments in R&D, along with strategic partnerships, are expected to be key points of the future growth as the EV market grows.

Projections show a CAGR of 20.2% until 2030 for new EVs Needed to Meet Climate Goals

Estimated Number of New EVs produced until 2030



CAGR of 5.2% Industrial Pumps until 2032

Expansion in the Market for Fluid Applications

The industrial pump market, crucial for sectors such as water treatment and chemical processing, is expected to grow significantly due to rapid industrialization and the need for efficient fluid management systems. The global industrial pumps market is projected to expand from USD 67.8bn in 2023 to USD 108.0bn by 2032, at a CAGR of 5.2%. Key markets such as China and India are driving this growth, with increased investments in infrastructure and industrial projects. In America and Europe, the market is supported by infrastructure modernization and stringent environmental regulations promoting energy-efficient solutions. Kongsberg is expanding its presence in the industrial pump market by leveraging its expertise in thermal and fluid management. The Company's sales from industrial fluid applications are expected to increase from NOK 477.6m in 2024 to NOK 1,194.0m by 2028, driven by a strong customer base and strategic investments in production capabilities, including a new facility in Brześć, Poland. This growth is estimated to lead to a CAGR of 25.7% in this segment, contributing significantly to Kongsberg's overall net sales. The Company's extensive experience, robust customer relationships, and strategic investments position Kongsberg well to benefit from the expanding industrial pump market.

Financial Forecast

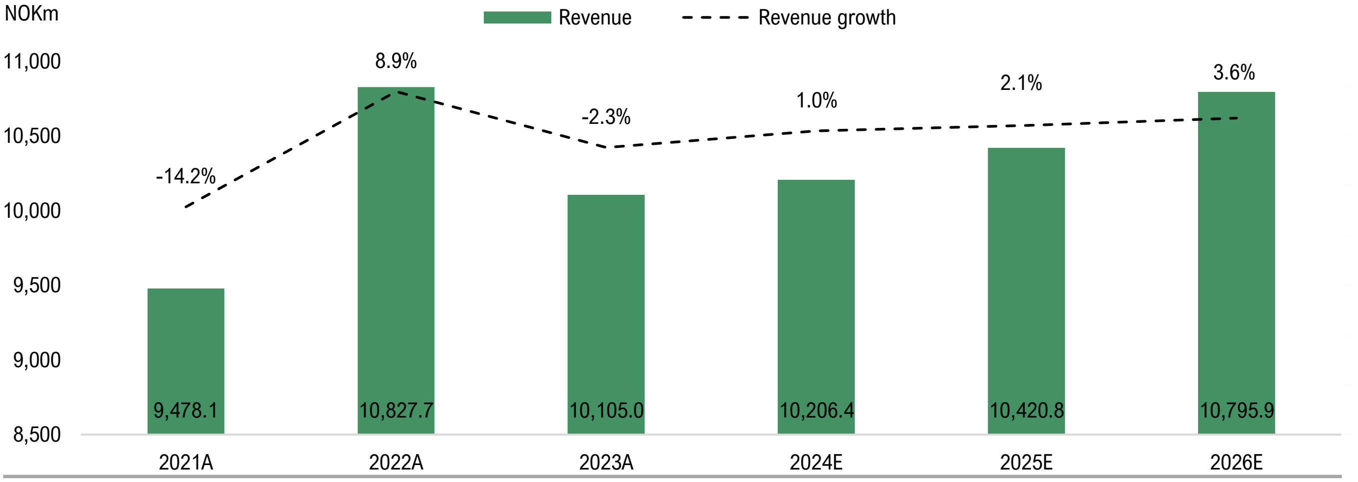
Increasing Demand for EV Components is Estimated to Drive Revenue

Revenue CAGR of 2.8% Until 2026

Kongsberg operates in two primary segments: Drive Control Systems and Flow Control Systems. As of Q2 2024, Drive Control Systems accounted for 45.7% of total revenue, driven by rising demand for EVs and advanced vehicle systems, while Flow Control Systems made up 38.0% and other income 16.3%. Analyst Group estimates that DCS will grow at a CAGR of 4.4% from 2024 to 2026, supported by the shift towards sustainable mobility through increased EV sales. In contrast, FCS is expected to grow at a CAGR of 2.1% during the same period, driven by the need for efficient thermal management in EVs. Investments in R&D and new manufacturing technologies are set to enhance the Company's market position and operational efficiency, with partnerships such as those with Volvo and Volkswagen contributing to 20.6% of top-line growth. In 2023, Kongsberg's revenue reached NOK 10,105.0m, with an LTM revenue of NOK 10,065.4m, the Company is projected to show a CAGR of 2.8% between 2024 - 2026, reaching NOK 11.2b in total net sales.

Revenue is Estimated to Reach NOK 10,795.9m by the Year 2026

Estimated Net Revenue Year 2021-2026



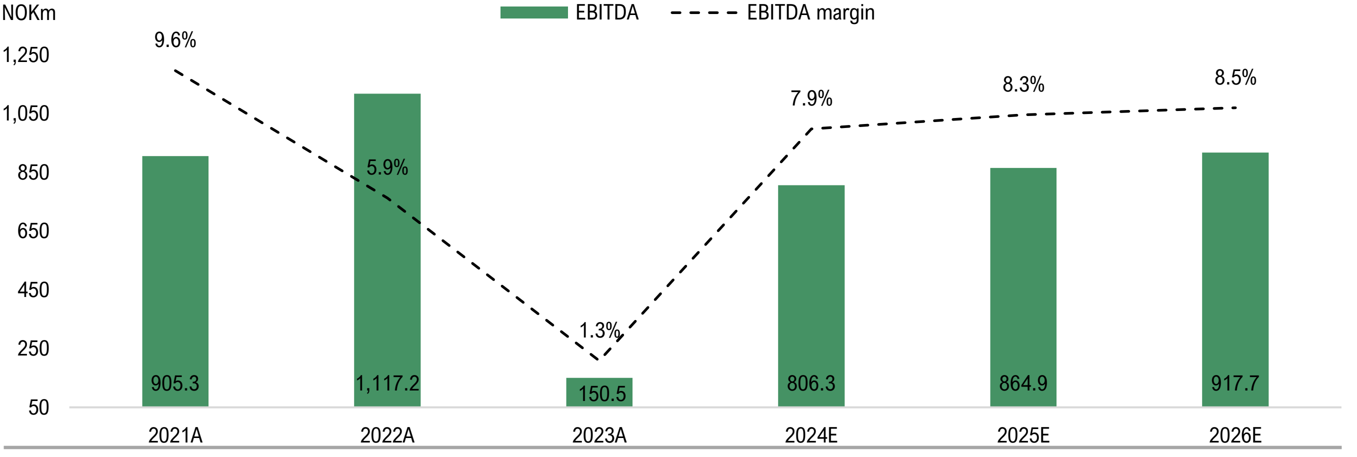
Strategic Investments in EV Segments Expected to Improve EBITDA Margin

EBITDA Margin Recovery at 7.9% in 2024

Kongsberg has shifted its focus to the growing EV market by investing more resources in developing advanced thermal management and flow control systems. Investments in these segments are expected to positively impact the EBITDA margin in 2024. In the DCS and FCS segments, Kongsberg is estimated to capitalize on existing technologies and innovations, reducing COGS from an average of 23.5% of total revenue between 2021-2023 to 19.8% of total revenue by 2024. The core segments in 2023 showed an adjusted EBITDA margin of 18% compared to the total EBITDA margin of 1.3%, highlighting the profitability difference between segments. Consequently, the expansion is estimated to increase the EBITDA margin to 7.9% in 2024, raising EBITDA from NOK 157.6m in 2023 to NOK 806.3m by 2024. In conjunction with divestments of non-core businesses and the relocation of production facilities, the Company is expected to achieve an EBITDA of NOK 917.7m by 2026.

Divestment of Non-Core Businesses and Lower Operational Cost Set to Improve EBITDA Margin

Estimated annual EBITDA and EBITDA margin



Valuation

Peer valuation

Median EV/EBITDA
7.7x 2026

A relative valuation has been performed to determine the potential value of Kongsberg. When selecting comparable companies, the key qualities considered include similar market segments, size, and growth prospects in the automotive and industrial sectors. An EV/EBITDA multiple has been chosen to adjust for capital structure differences and tax, the Company is trading at 2.8x EV/EBITDA 2026, representing a 36.4% discount compared to the peer median of 7.7x EV/EBITDA 2026. Analyst Group is of the opinion that due to the Company's higher debt ratio, lower market capitalization, and lower estimated EBITDA margin, Kongsberg should be trading at a 20% discount to the median average of 7.7x EV/EBITDA, exhibiting both years of net loss and negative free cash flow, further justifying a conservative valuation. At the same time, the Company is estimated to sustain higher growth in EBITDA margin compared to peers and higher gross margin, attributed to the restructuring program and improvements in core segments following the divestment of non-core businesses. Even though Analyst Group recognizes these positive developments, a conservative discount of 20% has been applied.

Peer valuation(MNOK)	Market Data		Financials				Valuation
	LTM		2026E			LTM	2026E
Company name	Mcap	EV	EBITDA margin	EBITDA growth 23A' - 26E'	Gross Margin	Netdebt / EBITDA	EV/EBITDA
Nokian Renkaat	13,181	13,594	8.7%	10.7%	24.9%	4.2x	5.0x
Relais Group	2,856	4,567	16.5%	5.7%	45.2%	3.1x	7.2x
Hexagon Purus	2,355	3,846	5.7%	93.8%	32.0%	3.9x	11.3x
VBG Group	13,006	13,237	16.5%	1.6%	31.7%	0.3x	10.6x
Kitron	7,563	8,969	9.8%	1.0%	32.7%	1.6x	8.3x
Conentric	6,978	7,676	16.1%	2.2%	30.8%	0.7x	7.7x
Bulten	1,576	2,914	9.2%	0.2%	19.0%	2.5x	4.3x
Average	6,788	7,829	11.8%	16.5%	30.9%	2.3x	7.8x
Median	6,978	7,676	9.8%	2.2%	31.7%	2.5x	7.7x
Kongsberg Automotive	1,321	2,654	8.5%	7.2%	54.5%	2.9x	2.8x

DFC summary	
WACC	12.0%
PV of forecasted FCF(NOKm)	1,773
PV of terminal value(NOKm)	2,025
Enterprise value(NOKm)	3,797
Equity value per share(NOK)	1.9

DCF valuation

A relative valuation is complemented by a discounted cash flow analysis (DCF). The DCF consists of an explicit forecast period until 2026, a normalized period between 2027-2034, and a terminal period. During the explicit forecast period, Kongsberg is expected to show an organic CAGR in net revenue of 2.8%. The EBIT margin is estimated to improve from -2.4% in 2023 to 5% in 2027. In the normalization period of 2027-2034, the Company is expected to maintain an EBIT margin of 4.5%. The terminal period is projected to have a growth rate of 2.0%. Analyst Group estimates that ongoing investments will be required for growth, but these will gradually decrease from 4.5% of revenue in 2024 to 4.0% in 2027. Depreciation and amortization are expected to remain stable at 3.5% of revenue. Therefore, the FCF margin is estimated to increase from 0.1% to 5.1% by 2034. The DCF valuation implies a potential price per share of NOK 1.9 and supports the implied equity value of the peer valuation.

Perpetual Growth Rate

WACC	1.95	1.0%	1.5%	**2.0%**	2.5%	3.0%
	11.0%	2.2	2.3	2.4	2.6	2.7
	11.5%	2.0	2.1	2.2	2.3	2.4
	12.0%	1.8	1.9	**1.9**	2.0	2.1
	12.5%	1.6	1.7	1.7	1.8	1.9
	13.0%	1.4	1.5	1.6	1.6	1.7

Valuation Base Scenario

NOK **2.0**
Base Scenario

Kongsberg's relatively smaller size and historical volatility in EBITDA are somewhat offset by a projected revenue growth of 2.8%, by applying a 20.0% discount results in a multiple of 6.2x EV/EBITDA for the estimates of 2026. Additionally, it is estimated that the Company will generate free cash flow starting in 2024, with a current net cash position of NOK -913.3m as of Q2 2024. Through divestments of non-core business and relocating of production facilities the Company is expected to achieve an EBITDA of NOK 917.7m in 2026. By applying the target multiple of 6.6x EV/EBITDA, on 2026's estimated EBITDA of NOK 917.7m, this results in a potential price per share of NOK 2.0 in a Base scenario, based on a relative valuation. The DCF model, using the same variables and a WACC of 12.0%, supports a potential price per share of NOK 1.9. With an equally weighted valuation of the relative valuation and DCF, the derived potential price implies NOK 2.0 in a Base scenario.

Valuation

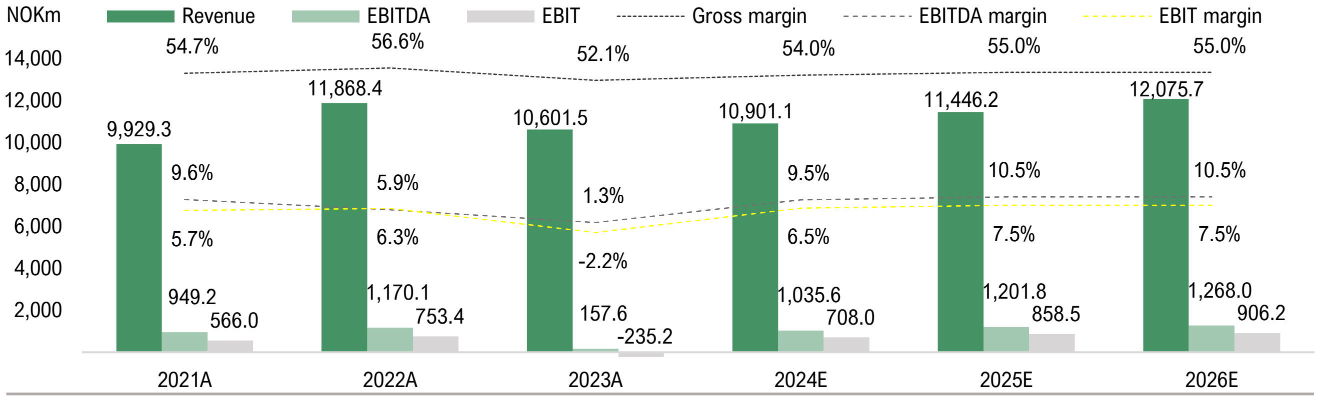
Valuation Bull Scenario

NOK 3.8
Bull Scenario

In a Bull scenario, the demand for Kongsberg's technology increases due to the growing adaptation of electric vehicles and stricter emission regulations, leading to a revenue CAGR of 4.4% until 2026. The Company's restructuring programs are successful, improving operational efficiency and increasing the EBITDA margin to 10.5% by 2026. By leveraging Kongsberg's strong position with suppliers due to long-term contracts and volume purchasing agreements, the Company is estimated to improve the gross margin to historical levels of 55.1% by 2026. The Company's focus on advanced automation and strategic acquisitions further improves the market presence, enabling Kongsberg to meet the rising demand for high-performance automotive components. This growth outlook is supported by the Company's financial improvements in Q2 2024, ongoing strategic initiatives, and by applying a target EV/EBITDA multiple of 7.7x on the estimated EBITDA of NOK 1,268.0m in 2026, a share price of NOK 3.8 is implied in a Bull scenario.

The Company is Estimated to Reach an EBITDA Margin of 10.5% in a Bull Scenario

Estimated Revenue, EBITDA, EBIT, Gross margin, EBITDA margin, and EBIT margin from 2021 to 2026 in a Bull Scenario



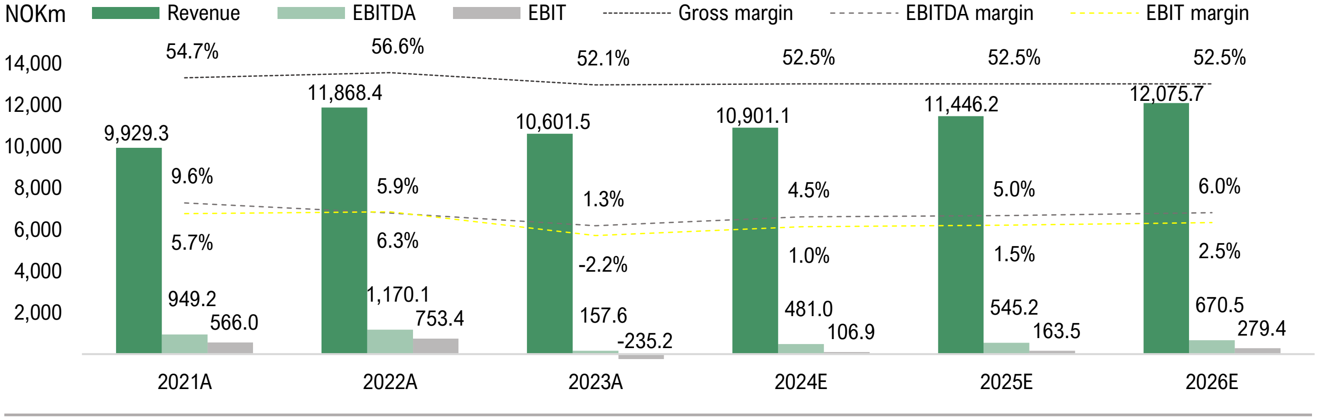
Valuation Bear Scenario

NOK 1.1
Bear Scenario

In a Bear scenario, Kongsberg faces significant challenges, including declining demand in the American and European markets, driven by economic slowdowns and increased competition, resulting in a revenue CAGR of 2.1%, with the Drive Control Segment experiencing deficient demand. Efforts to streamline operations through the sale of non-core businesses and relocation of production facilities fail to significantly improve profitability, increasing the EBITDA margin to only 6.0% by 2026. Despite restructuring efforts, cost savings and operational efficiencies are not fully realized, while the competitive landscape is further comprised by the rise of emerging technologies and low-cost manufacturers, putting additional pressure on Kongsberg's market share. Political and economic uncertainties, such as potential trade restrictions or economic slowdowns in key markets, add to the challenges, while difficulties in maintaining supplier relationships lead to higher procurement costs and reduced gross margins. Strategic initiatives, including advanced automation technologies, do not yield the expected cost reductions, and implementation costs are higher than anticipated. Customer losses due to heightened competition and slower-than-expected growth in new markets negatively impact performance. In this challenging environment, applying a conservative EV/EBITDA multiple of 5.2, which represents a 35% discount compared to the peer median of 7.7x EV/EBITDA, and an estimated EBITDA of NOK 671.0m in 2026, justifies an implied share price of NOK 1.1 in a Bear scenario.

The Company is Estimated to Reach an EBITDA Margin of 6.0% in a Bear Scenario

Estimated Revenue, EBITDA, EBIT, Gross margin, EBITDA margin, and EBIT margin from 2021 to 2026 in a Bear Scenario



Appendix: Base Scenario

Base scenario, NOKm	2021A	2022A	2023A	2024E	2025E	2026E	2027E
Net revenue	9,478	10,324	10,088	10,206	10,421	10,796	11,228
Other income	0	504	17	0	0	0	0
Total revenue	**9,478**	**10,828**	**10,105**	**10,206**	**10,421**	**10,796**	**11,228**
COGS	-4,293	-4,923	-4,844	-4,705	-4,762	-4,912	-5,109
Gross profit	**5,185**	**5,905**	**5,261**	**5,501**	**5,658**	**5,884**	**6,119**
Gross margin	54.7%	52.3%	52.0%	53.9%	54.3%	54.5%	54.5%
Other operating expenses	-1,625	-1,886	-1,783	-1,735	-1,772	-1,835	-1,909
Other external costs	0	-15	-308	0	0	0	0
Personnel costs	-2,655	-2,888	-3,020	-2,960	-3,022	-3,131	-3,256
EBITDA	**905**	**1,117**	**150**	**806**	**865**	**918**	**954**
EBITDA-margin	9.6%	5.9%	1.3%	7.9%	8.3%	8.5%	8.5%
D&A	-366	-398	-375	-365	-365	-378	-449
EBIT	**539**	**719**	**-225**	**442**	**500**	**540**	**505**
EBIT-margin	5.7%	2.1%	-2.4%	4.3%	4.8%	5.0%	4.5%
Net financial	-108	-192	-296	-269	-280	-229	-253
EBT	**431**	**528**	**-521**	**172**	**220**	**311**	**252**
EBT-margin	4.5%	0.2%	-5.3%	1.7%	2.1%	2.9%	2.2%
Tax expense	-108	-291	-153	-177	-262	-274	-65
	323	**237**	**-674**	**-5**	**-42**	**37**	**186**
Net margin	3.4%	-2.6%	-6.8%	0.0%	-0.4%	0.3%	1.7%

Financial metrics Base scenario	2021A	2022A	2023A	2024E	2025E	2026E	2027E
EV/EBITDA	6.1x	3.0x	18.3x	6.3x	5.5x	4.5x	4.4x
EV/EBIT	12.1x	4.7x	-12.3x	28.1x	18.4x	10.8x	10.5x

Appendix: Bull Scenario

Bull Scenario, NOKm	2021A	2022A	2023A	2024E	2025E	2026E	2027E
Net revenue	9,927	10,813	10,566	10,901	11,446	12,076	12,680
Other income	0	528	18	0	0	0	0
Total revenue	**9,927**	**11,341**	**10,584**	**10,901**	**11,446**	**12,076**	**12,680**
COGS	-4,497	-5,156	-5,073	-5,015	-5,151	-5,434	-5,706
Gross profit	**5,430**	**6,185**	**5,510**	**5,887**	**6,295**	**6,642**	**6,974**
Gross margin	54.7%	52.3%	52.0%	54.0%	55.0%	55.0%	55.0%
Other operating expenses	-1,701	-1,975	-1,867	-1,799	-1,889	-1,992	-2,092
Other external costs	0	-16	-322	0	0	0	0
Personnel costs	-2,781	-3,024	-3,163	-3,052	-3,205	-3,381	-3,550
EBITDA	**948**	**1,170**	**158**	**1,036**	**1,202**	**1,268**	**1,331**
EBITDA-margin	9.6%	5.9%	1.3%	9.5%	10.5%	10.5%	10.5%
D&A	-383	-417	-393	-327	-343	-362	-380
EBIT	**565**	**753**	**-235**	**709**	**858**	**906**	**951**
EBIT-margin	5.7%	2.1%	-2.4%	6.5%	7.5%	7.5%	7.5%
Net financial	-113	-201	-310	-273	-286	-302	-317
EBT	**451**	**553**	**-546**	**436**	**572**	**604**	**634**
EBT-margin	4.5%	0.2%	-5.3%	4.0%	5.0%	5.0%	5.0%
Tax expense	-113	-304	-160	-96	-126	-133	-139
	338	**248**	**-706**	**340**	**446**	**471**	**495**
Net margin	3.4%	-2.6%	-6.8%	3.1%	3.9%	3.9%	3.9%

Financial Metrics Bull Scenario	2021A	2022A	2023A	2024E	2025E	2026E	2027E
EV/EBITDA	6.1x	3.0x	18.3x	2.9x	2.5x	2.4x	2.3x
EV/EBIT	12.1x	4.7x	-12.3x	4.2x	3.5x	3.3x	3.2x

Appendix: Bear Scenario

Bear Scenario, NOKm	2021A	2022A	2023A	2024E	2025E	2026E	2027E
Net revenue	9,927	10,813	10,566	10,689	10,903	11,176	11,455
Other income	0	528	18	0	0	0	0
Total revenue	**9,927**	**11,341**	**10,584**	**10,689**	**10,903**	**11,176**	**11,455**
COGS	-4,497	-5,156	-5,073	-5,077	-5,179	-5,309	-5,441
Gross profit	**5,430**	**6,185**	**5,510**	**5,612**	**5,724**	**5,867**	**6,014**
Gross margin	54.7%	52.3%	52.0%	52.5%	52.5%	52.5%	52.5%
Other operating expenses	-1,701	-1,975	-1,867	-2,031	-2,017	-2,012	-2,062
Other external costs	0	-16	-322	0	0	0	0
Personnel costs	-2,781	-3,024	-3,163	-3,100	-3,162	-3,185	-3,265
EBITDA	**948**	**1,170**	**158**	**481**	**545**	**671**	**687**
EBITDA-margin	9.6%	5.9%	1.3%	4.5%	5.0%	6.0%	6.0%
D&A	-383	-417	-393	-374	-382	-391	-401
EBIT	**565**	**753**	**-235**	**107**	**164**	**279**	**286**
EBIT-margin	5.7%	2.1%	-2.4%	1.0%	1.5%	2.5%	2.5%
Net financial	-113	-201	-310	-235	-240	-246	-252
EBT	**451**	**553**	**-546**	**-128**	**-76**	**34**	**34**
EBT-margin	4.5%	0.2%	-5.3%	-1.2%	-0.7%	0.3%	0.3%
Tax expense	-113	-304	-160	0	0	7	8
	338	**248**	**-706**	**-128**	**-76**	**41**	**42**
Net margin	3.4%	-2.6%	-6.8%	-1.2%	-0.7%	0.4%	0.4%

Financial Metrics Bear Scenario	2021A	2022A	2023A	2024E	2025E	2026E	2027E
EV/EBITDA	6.1x	3.0x	18.3x	6.3x	5.5x	4.5x	4.4x
EV/EBIT	12.1x	4.7x	-12.3x	28.1x	18.4x	10.8x	10.5x

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