

**QUESTIONS RECEIVED FROM  
EUROPEAN INVESTORS-VEB  
THE EUROPEAN INVESTORS' ASSOCIATION**  
(Vereniging van Effectenbezitters)

Note: Kendrion's answers to the questions raised can be found below in *italics* in red. The answers to questions 8 and 9 as provided by external auditor Deloitte Accountants B.V. can be found below in *italics* and green.

During the virtual annual general meeting of shareholders to be held on 12 April 2021, there will be opportunity for (follow-up) questions using Zoom. This requires you to virtually raise your hand as and when the Chairman of the meeting invites meeting participants to raise questions with respect to the agenda item concerned. Further (technical) instructions on how to raise questions will be given by the Chairman during the meeting.

## Agenda item 2 – Report by the Executive Board and the Supervisory Board

1. With a sales growth ambition of 20 percent per year, China is the key driver of organic growth on a group level. What does Kendrion consider the main threats for achieving these growth levels in China?

**A:** *Main threats to achieving continued 20% per year organic growth are associated with our ability to execute in China:*

*a. Increased visibility and competitive attention*

*In 2016 Kendrion's China operations were much smaller and relatively unknown locally, i.e. operating slightly 'under the radar'. This has changed significantly. China has been growing with around 20% per year over the past four years, and as a result this increased our visibility and strengthened our reputation and brand. This contributes to and accommodates the execution of our growth strategy in China, but at the same time attracts more local and international competitive attention.*

*b. Continuous improvement of local operations*

*As China has grown from around 3% of Kendrion group revenue to around 10% of Kendrion group revenue over the past year, the complexity of our operation in all its elements (e.g. commercial, R&D, production, supply chain, logistics) has increased. It will be important to uphold the strong execution that China has demonstrated over the past years. Continued investment in and continuous improvement of our China operations are conducive thereto.*

2. According to the company, the value of components Kendrion could potentially sell for an EV platform is substantially higher than for traditional cars. Does this imply that margins will be higher for EV components, or are the development and production costs also higher?

**A:** *The higher value of Kendrion products in electrical and hybrid cars does not necessarily translate into higher gross margins. Kendrion does however, aspire to develop products that are more modular and that include more of our own intellectual property to increase our ability to protect against commoditisation and related pressure on price.*

3. Kendrion expects the evolution of car architecture from mechanical engineering to data-oriented vehicles will lead to an increased focus on software, IT, and data (services). Does Kendrion's workforce has the right expertise and capabilities to thrive in this transformation?

**A:** *We are in the middle of a fundamental shift in Automotive towards more actuators that make increased use of embedded electronics and software. The Kendrion group has a dedicated R&D centre in Malente (Germany) that is fully focussed on this. Kendrion has and will continue to invest in the R&D centre, both in terms of capacity (i.e. people) and capabilities.*

4. Cash conversion improved substantially over the last couple of years. Does Kendrion expect higher investments in Property, Plant and Equipment, intangibles, and working capital are required over the next years?

**A:** *Over the last years Kendrion has been able to reduce its working capital investments as a percentage of revenue by for example increasing its stock turnover rate. For the coming years, it is expected that the working capital investments will on average move in line with the revenue development. The disclosed building of a new 28,000 m<sup>2</sup> production facility on Suzhou's renowned industrial park (SIP) in China, is expected to start in 2021 and projected to increase capital investments in 2021 and the first half year of 2022. Regular investments in property plant and equipment and intangibles in 2021 are expected to be in line with the depreciation level of around EUR 25 million.*

### **Agenda item 3 – Remuneration report 2020**

5. Is Kendrion willing to disclose the performance zone (threshold, target and maximum) for each of the 2020 financial targets used for the short-term variable compensation as required by the guidelines of SRD II?

**A:** *The 2020 remuneration report included in the 2020 annual integrated report contains extensive information regarding the four components of the remuneration for members of the Executive Board. Relevant to the 2020 short-term financial performance criteria, detailed disclosure is provided about – amongst others – the rationale underlying the selection of the 2020 financial performance criteria (made prior to the outbreak of the COVID-19 crisis) and the assessment of the actual performance against these financial performance criteria, including the adjustments made and that reduced the total amount of the pay-out under the 2020 short-term financial performance criteria by 15%. Moreover, the remuneration report provides a breakdown of the score/pay-out per individual financial performance criterion, set-off against the short-term incentive target amount as well as the annual gross base salary of the Executive Board members.*

### **Agenda item 4 – 2020 financial statements**

6. Kendrion assumes average annual growth rates in the first five years between 7 percent and 11 percent for the goodwill impairment test. This seems aggressive for a company that has been (organically) in decline of the past years. How confident is Kendrion that it is able to live up to the optimistic assumptions?

**A:** *The growth rates are in line with the Kendrion's mid-term organic growth target of on average 5%, based on the pre COVID-19 revenue level of 2019. Assuming a gradual return of economic activity post COVID-19, we feel confident in our ability to reach this target. The confidence is fuelled by the amount of new business wins in the last years and increasing interest for our product platforms targeted to the ACES in Automotive, our continuing expansion in China, and our strong position in Industrial Brake markets where we target a number of above average growth markets such as robotics, wind-power and intra logistic.*

7. How does Kendrion assess the auditor's remarks made in a key audit matter with respect to the assumptions concerning sales, operating profit, and the cost of capital that are used in the impairment test of the goodwill for the automotive business?

**A:** *Kendrion assesses the assumptions used in the goodwill impairment calculations with respect to the Automotive cash generating unit as realistic. Based on the audit procedures performed on Kendrion's budget, mid-term plan, the WACC and the methodologies used, the external auditor deemed the assumptions used acceptable and the disclosure in the 2020 annual integrated report sufficient. The disclosures in the 2020 annual integrated report include a sensitivity to changes in the assumptions which reveal that any reasonable change to the assumptions would not require an impairment.*

Questions for the external auditor Deloitte:

8. The auditor considers the anticipated revenue growth and improvement in EBITDA 'ambitious'. Can the auditor give arguments leading to this conclusion and elaborate on the discussions with management on this matter?

**A:** *In evaluating the impairment analysis prepared by Kendrion, Deloitte Accountants, amongst others, looked at the historical performance of Kendrion and independent market studies relating to the Automotive industry. The combination of these two, together with Kendrion's assumptions, has led to the observation as mentioned in Deloitte Accountants' key audit matter. Deloitte Accountants discussed Kendrion's plans extensively with all relevant persons within the organization, looked for supportive evidence (for example signed (long term) contracts, historical performance, and independent market studies around the expected outlook). Deloitte Accountants also performed sensitivity testing whereby alternative scenarios were used. These alternative scenarios did also not result in an impairment.*

9. Deloitte's internal valuation experts use a higher WACC for Kendrion's Automotive CGU. Could Deloitte explain what WACC percentage is used by the internal experts, how this number is build-up (i.e. beta, risk premium, risk-free rate), and how each component compares to the assumptions made by the management of Kendrion?

**A:** *In determining the WACC, both Kendrion and Deloitte Accountants' internal valuation specialist used the same components (beta, risk premium, risk free rate, etc.). Difference in the numeric outcome of the WACC is mainly driven by the company specific risk premium in which we differed from each other by approx. 1%. Disclosure note 2 of the financial statement provides more information on the sensitivity of these assumptions.*

#### **Agenda item 7 – Composition Supervisory Board**

10. What have been the considerations for appointing an external candidate as chairman immediately after his initial appointment?

**A:** *Mr. Henk ten Hove who commenced his second term as a member of the Supervisory Board in 2016, previously announced that he would step down upon expiry of his second term. After this announcement, the Supervisory Board started a thorough selection process for a new Supervisory Board member and Chairman. The Supervisory Board and the Executive Board are pleased that Frits van Hout accepted the nomination for appointment. Frits van Hout is a seasoned professional with relevant international experience and expertise. With his extensive experience and expertise, he is considered the best candidate for the position of new Supervisory Board member and Chairman. Van Hout will as a new member and Chairman contribute to Kendrion's continued journey towards achievement of its strategic objectives.*

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