

REFINITIV STREETEVENTS

# EDITED TRANSCRIPT

IVSO.ST - Racal Acoustics, Invisio AB (publ) - M&A Call

EVENT DATE/TIME: DECEMBER 22, 2020 / 9:00AM GMT

## CORPORATE PARTICIPANTS

**Lars Højgård Hansen** *Invisio AB (publ) - President & CEO*

## CONFERENCE CALL PARTICIPANTS

**Guy Thornewill**

**Jesper Birch-Jensen** *ABG Sundal Collier Introduce - Analyst*

**Viktor Westman** *Redeye AB, Research Division - Analyst*

**Yiwei Zhou** *SEB, Research Division - Analyst*

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by, and welcome to the INVISIO Investor Presentation. (Operator Instructions)

I must advise that this conference is being recorded today on Tuesday, the 22nd of December 2020.

I would now like to hand the conference over to your speaker today, Lars Højgård Hansen, CEO of INVISIO. Please go ahead.

---

**Lars Højgård Hansen** - *Invisio AB (publ) - President & CEO*

Thank you very much, and welcome all to this telephone conference that was called with short notice on the occasion of our acquisition of Racal Acoustics.

And I will start out on Page 3, just shortly introducing the deal. So INVISIO has signed an agreement to acquire all the shares in Racal Acoustics, which is a U.K.-based global company that designs and manufactures communication and hearing protection systems. In addition to Racal Acoustics Limited, there's also a sales company in the U.S., Racal Acoustics, Inc. that is part of the transaction. Racal Acoustics has sales in the region of about SEK 130 million and with a positive result. And we have paid about USD 20 million, approximately SEK 170 million for the company. And the acquisition is expected to close in the first quarter of 2020.

The seller of Racal Acoustics is U.S. company, TransDigm Group, which is listed on the New York Stock Exchange. TransDigm Group is one of the largest suppliers of components for commercial and military aircraft.

And turning to Page 4. A little more on Racal Acoustics. You are, of course, able to find much more information on their web page. But here's a little brief overview. Racal Acoustics has a very long history, more than 100 years in the design, development and manufacturer of solutions and products for communication and hearing protection in very high noise. They have a broad portfolio of hearing protection and communication headsets for environments, as I said, with high noise and in areas like military vehicles around aircrafts and in other areas where there's high noise. Their customers are found within the military sector, first responders, but also in the aviation sector.

Their sales model differs a little bit from INVISIO since they mainly sell through resellers and partners globally, and they have a global footprint. The company is located just outside London in Harrow and has 55 highly skilled employees within sales and marketing, R&D, operations and finance.

Turning to the next page. Racal Acoustics is a company that we have known for many years and have a good relationship too, since many years. The company was approximately 10 years ago, acquired by the Esterline Group and operated as part of a large corporation for a number of years. About 18 months ago, the Esterline Group was acquired by the TransDigm Group. And at that point in time, Racal Acoustics went back to being

an independent unit under TransDigm. But it was also clear that Racal, being in the business of hearing protection and communication, did not fit in strategically to the portfolio of companies that TransDigm holds since their focus is mainly parts for the aviation and aircraft industry.

So for Racal Acoustics, since beginning of 2019, a restructuring has been taking place with the new management in place. And they have done a really good job in terms of reviewing the product portfolio, adjusting the organization and also initiating a new growth plan that they have been executing on since the early part of 2019.

So we -- turning to the next page, are looking at a company that is really well positioned in the area for highly advanced and rugged hearing protection. On Page 6, you see the latest development, the flagship product, called the RA4000 Magna, which is a really, really advanced headsets, hearing protection solution for high noise vehicles that delivers best-in-class hearing protection, communication [intelligibility] and situational awareness. And it's also a digital system that is customizable and modular and able to upgrade to different mission requirements. So a very advanced with top of the range attenuation and as we have seen, it has already starting to get a foothold in the market that has been sold to customers in Europe already.

On the following 2 pages, we have just lifted out a couple of pictures from the homepage, so you get a little feel for the type of products and the width of the product portfolio that the Racal Acoustics have. These are different types of headsets for high noise and vehicle environments to fit under helmets, different type of helmets, some -- the majority with hearing protection, but also certain solutions for use without hearing protection. And there are, of course, much more -- many more details available on their website on these specific product solutions.

So pages 7 and 8 illustrates the width and the current portfolio that Racal Acoustics have, which also include solutions for the type of airports and avionics users as you see with the RA4000 Magna Air on Page 8.

Turning to Page 9. So why have we done this acquisition? Well, we think that it makes perfect sense for us and for Racal Acoustics. For us, it is in line with our growth strategy. It will strengthen our market position with a complementary product offering within high noise. They are in an attractive niche for hearing protection and communication in vehicles. And it will give us a direct access to new customers and prospects that is also relevant to our newly introduced Intercom systems.

So there are many opportunities. And when we look at the 2 companies, we can see that there are opportunities and synergies within all areas, marketing and sales, R&D, operations and even finance where we can benefit from each other. And we, at INVISIO, can definitely benefit from the many years of experience and knowledge that the employees of Racal Acoustics have in their field. So we think that there are -- as an example, we can say that the focus or the majority of Racal Acoustics business have been in Europe and in Commonwealth countries, whereas for INVISIO, we are very strong in the U.S., and we think that combining our sales efforts, as one example, will definitely be able to help grow the business and the sales on both sides. So definitely good opportunities for the 2 companies as one.

Turning to Page 10. Yes, trying to paint the picture, again, of how we complement each other. As you know, INVISIO has traditionally started out in what we call the INVISIO personal system, hearing protection for dismounted users within military and law enforcement, focusing on primarily in-ear hearing protection solution from the beginning, but now also recently, over the year, headset solutions. But primarily for dismounted users. And lately, we have introduced the INVISIO Intercom system that is addressed at mounted users, but as a possible solution for both military and law enforcement customers.

The Racal Acoustics' portfolio, as I said, we believe, is a very good complement because it takes us all the way to also vehicles with high noise in military, first responder and aviation markets, and there will be cross-selling opportunities for the entire portfolio, the Intercom with Racal's products, but also a combination of the dismounted system and the mounted system, where we can see a trend towards customers wanting a one-stop shop, so to speak. So they would like to buy more products from the same supplier as the supplier is then held responsible for the whole system that the customer is implementing. So it is well in line with the global trends we see for our markets. And as I said, we can see synergies across all functions.

As I started out, turning to Page 11, we are expecting the transaction to close in the first quarter. And I would say that at INVISIO, we are very, very excited about this opportunity. As I said, we have known Racal Acoustics as a very strong company with many skilled employees and a good

reputation in the marketplace. And we believe that the 2 companies together will have a bright future as the global market leader for advanced hearing protection and communication solutions. We will, of course, update you further down the road once the transaction is completed and be able to give more details on the 2 businesses going forward.

So that was the initial short introduction of the rationale for this acquisition, and I'm now open to questions, please.

---

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

We have a couple of questions coming through now. Your first comes from the line of Jesper Birch-Jensen of ABG.

---

### Jesper Birch-Jensen - ABG Sundal Collier Introduce - Analyst

And congrats on the acquisition. A couple of questions for me. I was wondering if you could say something about the profitability of Racal. I mean is it similar to INVISIO? Or is it slightly lower due to them selling through partners and resellers? If there's any color you can give there?

---

### Lars Højgård Hansen - Invisio AB (publ) - President & CEO

Yes. I would say that in terms of details, that will have to wait until we close the transaction, also because under TransDigm ownership, Racal Acoustics has a financial year from September to September. So they are in the middle of the annual report. But in general, we can say that due to the fact that they operate on an indirect business model with partners, the gross margin is a little lower than what we have at INVISIO. But this is also how INVISIO operated some years back.

And we believe that over time, we, together with Racal Acoustics, will be able to expand the footprint of the company to both include selling through partners, but also selling more direct in many countries through the sales -- combined sales efforts that we have. So again, this is how INVISIO has also evolved. So we believe we can see the same development over time here.

---

### Jesper Birch-Jensen - ABG Sundal Collier Introduce - Analyst

Got you. And also just to confirm, so Racal hasn't really been a competitor towards -- competitor to INVISIO earlier, if I take it, you haven't really been competing for the same tenders and so on. Is that correct?

---

### Lars Højgård Hansen - Invisio AB (publ) - President & CEO

Not recently. In the early days, say, in the early days when Racal was owned by Esterline, we were competitors because at that point, they were also in the dismantled arena. They were also selling solutions for the dismantled soldiers. But over the last years, they have refocused and have gone back to their roots, so to speak, and have focused on really solutions for high noise environments and for vehicles. So today, I would say we are not -- we don't see each other as direct competitors. We are complementary.

---

### Jesper Birch-Jensen - ABG Sundal Collier Introduce - Analyst

And lastly, I mean, since Racal has talked or (inaudible) on the vehicles and the -- and I was wondering, are there opportunities for integrating their solutions with the Intercom and so on? What do you see in terms of potential?

**Lars Højgård Hansen** - Invisio AB (publ) - President & CEO

Yes. Absolutely. I think that, of course, when we -- one of the opportunities we see is that, for instance, when we are out now promoting our portable Intercom system, as we have said many times, our first effort on the Intercom system is to sell our portable solution. But we also know that further down the road, we will have opportunities to sell our Intercom system also for mounting in different types of vehicles. And there, there will be situations where a high noise headset is needed or the same customer that is buying our Intercom, also have other needs.

And as I said, many customers today are looking for one-stop shop, so to speak. So they want one supplier to be able to help them with their different types of communication needs. And they want to make sure that everything they buy is interoperable and works in all environments. And for instance, the RA4000 Magna headsets that Racal Acoustics have is perfect for the drivers of vehicles and those that are really in the high noise environments. And these are products that we do not have today. So a good fit.

---

**Operator**

(Operator Instructions)

Your next question comes from the line of Viktor Westman.

---

**Viktor Westman** - Redeye AB, Research Division - Analyst

Hello? Can you hear me?

---

**Lars Højgård Hansen** - Invisio AB (publ) - President & CEO

Yes. Hi, Viktor.

---

**Viktor Westman** - Redeye AB, Research Division - Analyst

Yes, good. Sorry. I want to ask -- I noticed that you pay like 10% of what Esterline paid for Racal. So I just wanted to ask how -- if you can say something how sales have developed over the 10 -- last 10 years, have a major turnover in sales as well? Are they starting to see some growth recently on the top line?

---

**Lars Højgård Hansen** - Invisio AB (publ) - President & CEO

Yes. As I say, the company has gone through a restructuring and being part of a large corporation, I think, was not the right home for a company like Racal Acoustics. And certain restructuring activities has been going on also when they were owned by Esterline. So I think the first sort of turn was for them to be part of TransDigm, where they were able to really come back into the light and focus on their own business and what they do best and just sort of design their own future and destiny. And that they have -- that journey, they have started about 18 months ago. And we believe that we will be able to work together and hopefully accelerate that journey together.

Regarding price, I think that TransDigm has been also focused on finding the right home for Racal Acoustics because they realized that being a large supplier of airline parts, Racal Acoustics was not going to be a -- from a strategy point of view, not a relevant part of the TransDigm company portfolio over time. So it made sense to try to find the right home for Racal, so to speak. So this is the rationale from their side.

---

**Viktor Westman** - Redeye AB, Research Division - Analyst

Yes. And can you say something -- I noticed an interesting quote in the press release that you 2 companies share the same business DNA. Can you just expand a little bit on that? It was not your quote, it was from Racal, but maybe you can tell us your perspective.

---

**Lars Højgård Hansen** - Invisio AB (publ) - President & CEO

Yes, I think what the CEO of Racal Acoustics mean is that we have -- both companies have a long history of being really concerned with people that work in high noise environments and wanting to protect these young men and women that work in those environments and work with advanced technologies. I think we have -- what we share is a DNA in terms of listening to the customers, trying to develop solutions that really make sense. But also a strong company, people being proud of working at both INVISIO and Racal Acoustics.

So you see people with many years of tenure with the companies, having worked there for 15 or 20 years and really knowing the industry, but also being very, very proud of what they do and the customers they serve. And I think that DNA, the 2 companies serve. Also things like INVISIO's values of teamwork, innovation and passion is something that we can see also with Racal Acoustics. So that's a good fit.

---

**Viktor Westman** - Redeye AB, Research Division - Analyst

Great. And is there anything -- are there any products in their product offering that are a bit overlapping with what you would do and that might not -- might be discontinued. I saw one product, for instance, I think it was wrapped or it looked a bit similar to what you do? Is there anything in the product, but largely very, very complementary, I would say.

---

**Lars Højgård Hansen** - Invisio AB (publ) - President & CEO

Largely, very complementary. And you can, of course, say that Racal having -- Racal Acoustics having been in the business for many more years than we have, they, of course, have a broader portfolio. And they also have products that are everything from brand new, like the Magna 4000, but also products that have been in the market for years. And we have to remember that the vehicle market is also maybe a little more conservative than the dismounted market. The cycles are longer and therefore, some of the products actually live for quite a considerable amount of years once you have them introduced. So I think the portfolio they have today has been reviewed, and this is consisting of products that they are selling to customers today. So whether there is a small element of overlap on certain products, this is what we will be looking at going forward. But again, many of them -- most of the products are related to existing customer relationships.

---

**Viktor Westman** - Redeye AB, Research Division - Analyst

Yes. And I assume you will keep Racal brand as well.

---

**Lars Højgård Hansen** - Invisio AB (publ) - President & CEO

Yes.

---

**Viktor Westman** - Redeye AB, Research Division - Analyst

And just last one for me then. What are their largest customers, you would say?

**Lars Højgård Hansen** - Invisio AB (publ) - President & CEO

I will not mention any names at this point, but I would say that they work with well-known large system-integrating companies, radio manufacturers, some of those that we also know well, but in other areas. So they have been focused on working with these system integrators and radio manufacturers more towards vehicle solutions and not so much towards dismounted solution. So it is a well-known large companies that they work with.

---

**Operator**

Your next question comes from the line of Guy Thornewill with Pie Funds.

---

**Guy Thornewill**

Yes. Just 2 or 3 for me, please. Firstly, on the price, given what's happening in the aerospace market, aviation market generally with COVID, have you been able to get a sort of lucky buy here in terms of, say, the TransDigm needed the money and so you've got a good price? Can you sort of give any indication about that? Yes, that would be the first one.

---

**Lars Højgård Hansen** - Invisio AB (publ) - President & CEO

I think -- I mean, whether the price is good or bad, is something you will only see some years down the line. I think that we have -- what we have -- what we saw is that the opportunity is here now, and we have agreed on this price as being fair for all parties. Of course, there's an element of uncertainty right now with the pandemic going on and so on. But I think we all believe that the world will, at some point in time, return to normal. And therefore, whatever there might be short term, is going to be resolved. So I think the price is fair for all parties. And in the long run, I will be a little yes -- saying that I think this is a good deal for us. And when we talk again, 5 years from now, you will probably agree with me.

---

**Guy Thornewill**

Okay. Were there other bidders? Was it a sort of a competitive process?

---

**Lars Højgård Hansen** - Invisio AB (publ) - President & CEO

No. There wasn't. This was a direct process where we had a direct dialogue with TransDigm and I think right from the start, it was very clear also from Racal Acoustics' perspective that the match with INVISIO was really, really good, and it would be difficult to find a better match, both for Racal Acoustics, but also for INVISIO. As I've said many times, when you and others have asked me about acquisitions in our industry. I've always said that there are not many, there's only a select few. It's not an acquisition industry. And -- but I would definitely say that Racal Acoustics is one of the few that we have been looking at previously, and one of the few that makes sense for us.

---

**Guy Thornewill**

Okay, great. And secondly, can I try and push you a little bit more on the margin? Well, probably more operating margin. But has -- I know you can't give detail yet, and there's an issue with the reporting schedule of the seller. But historically, can you say, has Racal been profitable at least, but even before or after the restructuring? And can you give any indication of sort of EBITDA or EBIT margins historically, please?

---

**Lars Højgård Hansen** - Invisio AB (publ) - President & CEO

I don't have all those numbers going back because -- and I also think that it's sometimes difficult to get the correct picture when you are part of a huge group of companies, and you're not really handing out your numbers separately as a listed company and as we are. So for me, that is not so

relevant. I think that, as I said, the business in itself operates a little different, but it operates in the way that we also did some years back when we were smaller, and we were selling primarily through resellers and partners. And therefore, the gross margin is lower than what we have at INVISIO.

But we believe that, as I said, there are ample opportunities for us to continue with the customers they have and then add also direct sales opportunities with our sales team and the contacts that we have. So that's one opportunity. And then that automatically will also influence the EBIT margins, which I'm positive. And I think also, what we haven't said is that there's definitely opportunities on the operations side, on the purchasing side, the fact that the 2 companies combined will have a higher volume when we negotiate on manufacturing and component pricing and everything. So once we start working together, we will have opportunities to also reduce the operation -- costs on the operations side.

---

**Guy Thornewill**

Okay, okay. So you've really evaluated it from a financial point of view based on the gross margins of the products. That's how you've been looking at it. Is that right?

---

**Lars Højgård Hansen** - Invisio AB (publ) - President & CEO

Yes. Yes.

---

**Guy Thornewill**

Okay. Okay, fine. And then lastly for me, how much of an element of like spare parts revenue or kind of recurring revenues, would you say that Racal has at the moment?

---

**Lars Højgård Hansen** - Invisio AB (publ) - President & CEO

If I look at their business model, they have a considerably higher amount of recurring business than we have, also due to the fact that they address the vehicle market. So there is a different operating model, sometimes of being able to not only upgrade products but also to repair products and to have a more recurring business model. So a larger share of their revenue is recurring compared to what we see on the dismantled market.

---

**Operator**

(Operator Instructions)

Your next question comes from the line of Yiwei Zhou of SEB.

---

**Yiwei Zhou** - SEB, Research Division - Analyst

Actually, most of the questions have been answered. Maybe 2 or 3 more here. Firstly, we know it was actually owned by Esterline. Lars, could you give us an indication how much of their sales come from the Esterline products? And has the sales been terminated?

---

**Lars Højgård Hansen** - Invisio AB (publ) - President & CEO

I -- if I understand your correct way, I -- none of their sales is related to Esterline. They were operating as a company in the Esterline Group under -- in one of their divisions. So -- but there were no sale to Esterline as a customer, as far as I know.



**Yiwei Zhou** - SEB, Research Division - Analyst

Okay, okay. Because we know Esterline, they also have their own sort of in-the-ear headsets product for the soldiers?

---

**Lars Højgård Hansen** - Invisio AB (publ) - President & CEO

No. No, they don't. They used to. I mean, many years ago, Esterline did have. But that was the -- when Racal Acoustics was owned by Esterline, they changed name to Esterline. So they were not using the Racal Acoustics brand for years there. But today, Esterline -- when Racal Acoustics became part of TransDigm, Esterline had no business within our field.

---

**Yiwei Zhou** - SEB, Research Division - Analyst

Okay. And you mentioned there is R&D synergy. Could you please elaborate a bit here?

---

**Lars Højgård Hansen** - Invisio AB (publ) - President & CEO

I think the synergy is to the extent that as I say, our team has been largely focusing on the dismounted type of systems, including our in-ear headset solutions, and our Intercom and so forth. That has been our focus. This is where we have our competencies, our network of suppliers and components and so on. Whereas, Racal has many, many years of experience with being -- or developing solutions for vehicles. They have a lot of knowledge of what happens in a vehicle, what types of issues and challenges and things you need to know when you are in a vehicle and also being able to make products that are really rugged and then fits well within vehicles.

So I think there's a lot we can learn between the 2 companies. And then as a baseline for both companies, there is, of course, a lot of knowledge around acoustics and the DSP technologies and Racal is also well entrenched with certain technologies for vehicles like active noise reduction, ANR, that we do not have in our products today. And most of the Racal products for vehicles includes ANR that you all know from your products when you fly and so on. But for this use, for military vehicles, the implementation of the active noise reduction is a little bit different. So that's good, I would say, synergies. And when we mean synergies, we don't mean reducing, we mean actually opportunities in terms of cross opportunities between the companies.

---

**Yiwei Zhou** - SEB, Research Division - Analyst

Great. And then my third question here. Just looking at the geographic presence look like now you have much more sales and more recurring sales from the Europe. Would you consider to build up your own sales force in different European countries? Or you still going for the distribution partners?

---

**Lars Højgård Hansen** - Invisio AB (publ) - President & CEO

I think this will be country specific. And this is also -- now we will be, of course, adding the Racal Acoustics' sales team to the total team. So we will have -- as we have today, we have a foundation with a sales organization that we have a group that focuses on large programs and tenders. We have certain people that are focused on our Intercom solution. We have some that are more focused on the law enforcement. And then we have a large number of our sales team focusing on the opportunities within the military dismounted. But I think it will be, as we have done all along, it will be country by country. We will see what makes sense. Should we have our own presence? Should we work with a partner? Of course, it is also relevant that now we, as Racal Acoustics, have a very good and strong presence in the U.K.. We, of course, have a very strong foothold now in the U.K.

But we will still work with our key partners around the world as we have done and try to find out what makes most sense in each country. There's also, again, a difference between -- it's not necessarily the same organizations that are buying the 2 types of products. So within a certain country, there might be one sales -- or sorry, one purchasing organization for dismounted solutions and another one for mounted solutions. So yes.

---

**Yiwei Zhou** - SEB, Research Division - Analyst

Okay. And how about the U.S., do you see your current sales organize? Is this enough for addressing the sales opportunity?

---

**Lars Højgård Hansen** - Invisio AB (publ) - President & CEO

Yes, I think so. And I think, as I said initially, Racal Acoustics have been very strong in Europe and, of course, in the U.K. and we have -- they are also present in the U.S., but we have a stronger presence in the U.S. than they have. And we definitely have many more salespeople in the U.S. So we look forward to working with them. And adjusting our structure for the U.S. to be able to address that market with Racal Acoustics' products in a broader way than what they have been able to do so far. So there should be good opportunities for us in the U.S.

---

**Yiwei Zhou** - SEB, Research Division - Analyst

Okay, great. Last question. Does Racal has their own manufacturing?

---

**Lars Højgård Hansen** - Invisio AB (publ) - President & CEO

Yes, to some extent, but -- so it's a combination of some people in their own manufacturing in the U.K., where they also focus on some of the service and repair contracts that they have, which is done in-house, but then they -- all volume manufacturing are done externally in the same way that we do.

---

**Operator**

There are no further questions at this time.

---

**Lars Højgård Hansen** - Invisio AB (publ) - President & CEO

All right. So then I would just thank you all for calling in this morning. And as I said, we are very excited about this acquisition, and we look forward to continue to update you as we go along. So from the Racal Acoustics and INVISIO team, we wish you all Merry Christmas and Happy New Year, and stay safe.

---

**Operator**

That does conclude our conference for today. Thank you all for participating.

---

**DISCLAIMER**

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2020, Refinitiv. All Rights Reserved.