

Control Instruments Group Limited

serving niche markets in the automotive and transportation industries worldwide



**Annual results for the
year ended 31 December 2006**

Cape Town

19 March 2007

- **Introduction**
- **Results 2006**
- **Changing shape of the Group**
- **Conclusion**

- **Massive changes taken place in Group**
- **Benefits of acquisitions outweigh any short-term disruptions**
- **In a position to unlock value for benefit of shareholders**

- **Increase critical mass**
 - “Get Big or Get Out”
 - Reduce dependency on any one area of business
- **Globalise the businesses**
- **Increase development of products in which the Group owns the Intellectual Property**

Strategy 2004 - Why?

Critical mass
Globalisation
Intellectual
Property

- **Intensified competition in all our markets**
 - Driven by globalisation
- **Objective to**
 - Strengthen the Group
 - Create options for the longer-term

Critical mass
Globalisation
Intellectual
Property

- **Identified acquisitions**
- **Invested in development of products and facilities**
- **Funding**
 - Driven by private equity funding model
 - Used borrowings wherever possible
 - Augmented by the issue of shares (to the least extent possible)

“Ask your shareholders to share the pain”

- “CEOs claim that a company that needs to be sorted out should be privately held because public investors would block a restructuring”
- “But it is possible to persuade institutions to back restructuring. An example is Marks and Spencer, ...” Another example is Intel.
- “More executives ought to follow such examples. Too many are eager to let themselves off the hook by dismissing public investors as ingrates whom it is not worth even asking to suffer short-term pain for long-term gain. They have a duty - a fiduciary duty - to try a bit harder.”

“Bravery was required... to turn the companies around in the public gaze... as a result their investors gained the value from restructuring that often goes to private equity firms and executives...”

Critical mass
Globalisation
Intellectual
Property

- **STRETCH TARGET 2007**
 - R150 million PBT, before Group charges

- **Focused on acquisitions and growing the business**
- **Achieved critical mass in core businesses**
- **Internationalised the business**
- **Leveraged the balance sheet**

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Measuring progress: 2006 revenue comparison

	DATE OF ACQUISITION	PRE-ACQUISITION REVENUE	
		FULL YEAR	COMPARITIVE RATIO
		Rm	Rm
Tripmaster	1 Mar	55	46
Sagercy	1 Mar	94	78
Gabriel	5 Sept	296	99
Pi Technology	1 Dec	133	11
		<hr/>	<hr/>
		578	234
CI Group 31 Dec 2005			395
TOTAL			<hr/>
			629
CI Group 31 Dec 2006			<hr/>
Revenue			772
			<hr/>

Measuring progress: 2006 PBIT comparison

	DATE OF ACQUISITION	PRE-ACQUISITION PBIT	
		FULL YEAR	COMPARITIVE RATIO
		Rm	Rm
Tripmaster	1 Mar	2	1.7
Sagercy	1 Mar	21	17.5
Gabriel	5 Sept	13*	4.3
Pi Technology	1 Dec	10	0.8
		<hr/>	<hr/>
		46	24.3
CI Group 31 Dec 2005			27.0
TOTAL			<hr/>
			51.3
CI Group 31 Dec 2006			<hr/>
Normalised operating profit			57.1
			<hr/>

* Before royalties paid

• Revenue	R772 m	increased	95%
• Normalised gross profit	R273 m	increased	68%
• Normalised operating profit	R57 m	increased	57%
• Normalised profit before tax	R38 m	increased	29%
• Normalised earnings per share	40.7 cents	decreased	(4%)
• Net asset value per share	349 cents	increased	67%

Normalised consolidated income statements

	YEAR ENDED 31/12/06 Rm	YEAR ENDED 31/12/05 Rm	VAR %	6 MONTHS ENDED 30/06/05 Rm
Revenue	772	395	95	334
Cost of sales	(499)	(233)	114	(204)
Normalised gross profit	<u>273</u>	<u>162</u>	68	<u>130</u>
Other operating income	27	12	125	7
Expenses	(246)	(142)	73	(105)
Profit from JVs before tax	3	4	(20)	3
Normalised operating profit	<u>57</u>	<u>36</u>	57	<u>35</u>
Finance costs	(19)	(7)	165	(7)
Normalised profit before tax	<u>38</u>	<u>29</u>	29	<u>28</u>

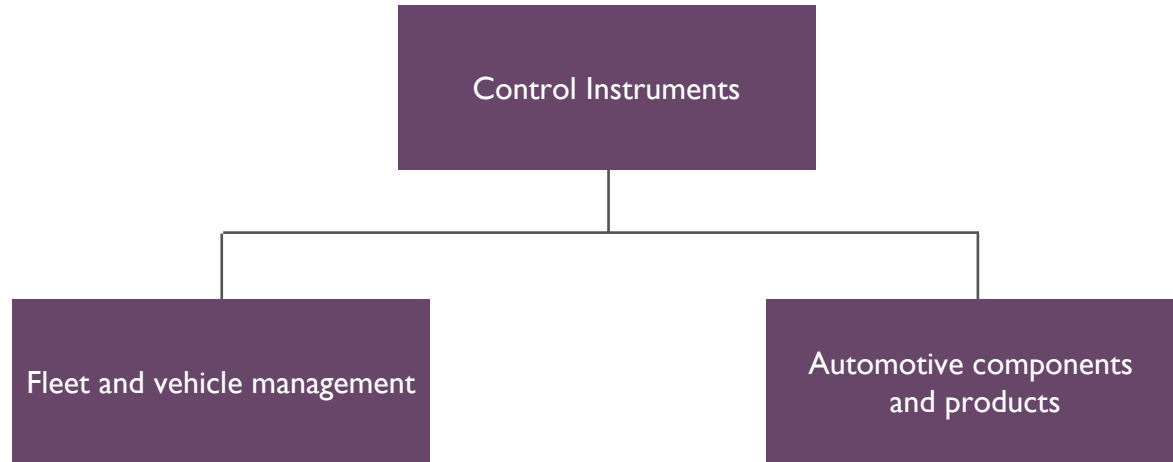
- **Normalised EPS**
 - Aiming to achieve 50 - 55 cents per share
 - Didn't - why?
 - Related to acquisitions
 - Accounting
 - Timing
- **Maintained**
 - Business momentum
 - Customer service levels
 - Market share

- **Operational**
 - Complete integration of acquisitions
 - Working capital management
 - Synergistic efficiencies
(rationalise business resources, e.g. warehouses)
 - Margin management
 - Focus on expenses
- **Group**
 - Optimise structure to unlock value

Changing shape of the Group

- Introduction
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Changing shape of the Group



- **Control Instruments OmniBridge**
 - Designs and develops vehicle and fleet management products
 - Products aimed at full functional fleet management
 - SiemensVDO and Tripmaster brand names
 - Sold and in use in more than 43 countries - on every continent
- **Acquisition**
 - 51% of Tripmaster Incorporated in the USA
- **38% growth in OBC* unit sales during 2006**
 - 2005: 22 800 units
 - 2006: 31 500 units

- **Bureau service**
 - Introduced 2004
 - Annuity based revenue
 - Solid growth
 - December 2005 annualised > R12 m pa
 - December 2006 annualised > R32 m pa

ACQUISITION - TRIPMASTER

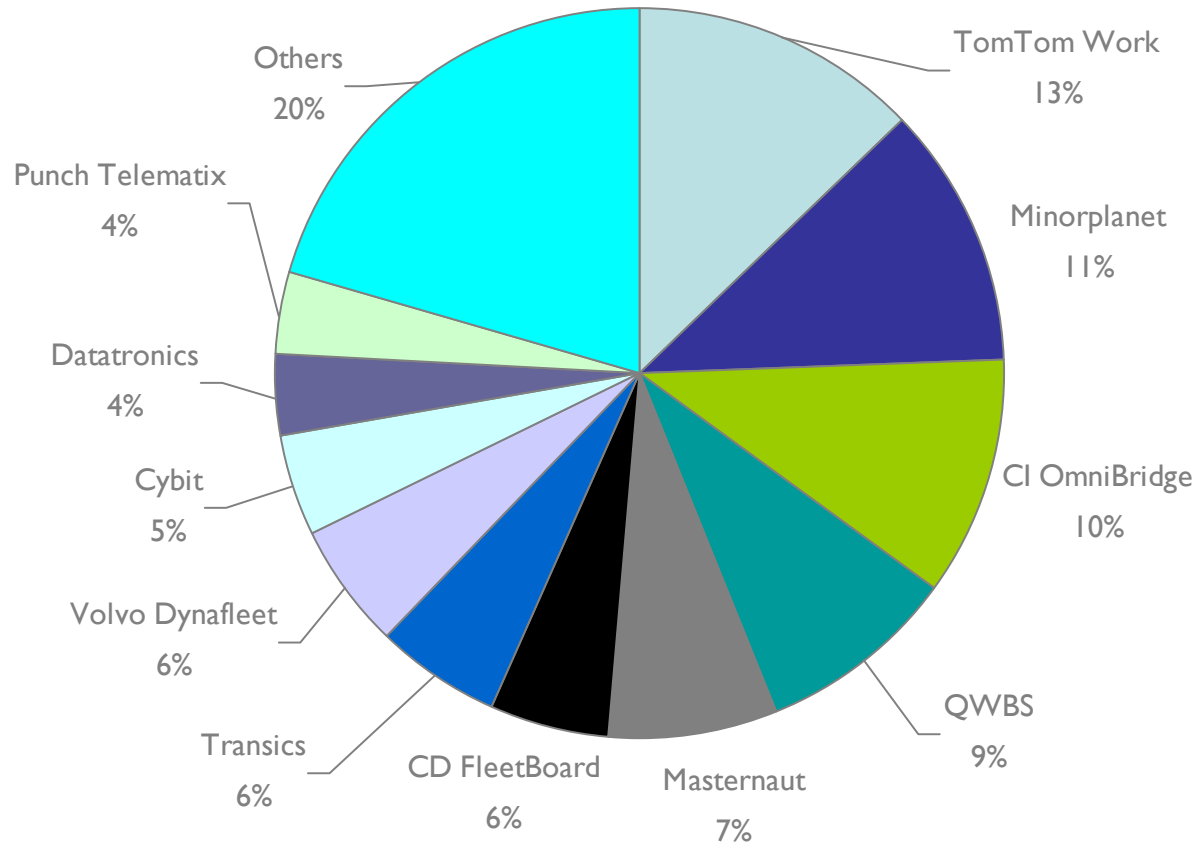
- **Acquisition effective from 1 March 2006**
 - Provided North American distribution network (not previously focused on by SiemensVDO for CI products)
- **Strategy**
 - Sell CI FM products under the Tripmaster brand into North America
 - Engineer additional functionality into CI FM products to sell them into Tripmaster's current market space
- **Operation**
 - First major orders for CI FM products received
 - Sales prospect pipeline increased
 - Achieved 2006 financial objectives

- **Sales of commercial vehicle (CV) fleet management solutions in Europe 2002 - 2006**
 - CV = vehicle > 3.5 tons
- **“Fleet management solutions” include:**
 - “Track and trace”
 - Limited functionality FM devices
 - Full functionality FM device - CI’s market
- **CI OmniBridge included in “others” in Berg Insight Report**
 - CI OmniBridge units taken out of “others” and shown separately
 - Tables and graph on following slides

Sales of CV fleet management solutions in Europe 2002 - 2006

Vendor	Total sales	Market share
	Units	%
TomTom Work	70 000	12.7
Minorplanet	65 000	11.8
CI OmniBridge	57 299	10.4
QWBS	50 000	9.1
Masternaut	40 000	7.3
CD FleetBoard	30 000	5.5
Transics	30 000	5.5
Volvo Dynafleet	30 000	5.5
Cybit	25 000	4.5
Datatronics	20 000	3.6
Punch Telematix	20 000	3.6
Others	112 701	20.5
TOTAL	550 000	100.0

Sales of CV fleet management solutions in Europe 2002 - 2006



Sales of CV fleet management solutions in Europe 2002 - 2006

Geographical region	Commercial vehicles fitted with OBCs	OBC sales vs. vehicle sales	CI OmniBridge	CI OmniBridge sales vs. OBC sales
		%	Units	%
UK and Ireland	280 000	7.0	4 825	1.7
Benelux	70 000	4.0	6 157	8.8
Germany, Switzerland, Austria	60 000	1.5	17 181	28.6
France	60 000	1.0	16 732	27.9
Spain and Portugal	30 000	0.5	7 412	24.7
Nordic countries	30 000	2.0	3 725	12.4
Italy	20 000	0.5	1 267	6.3
TOTAL Western Europe	550 000	2.5	57 299	10.4

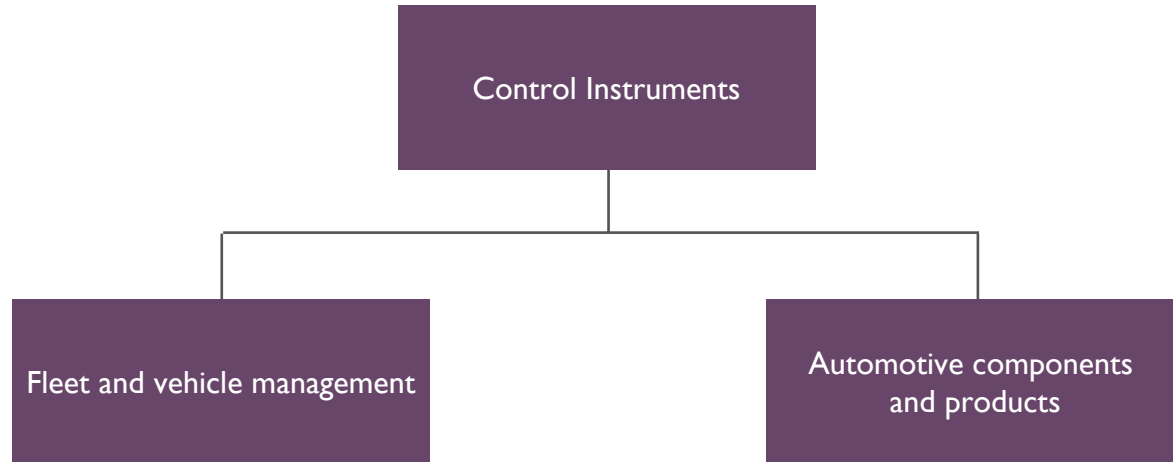
SUMMARY

- **Own all Intellectual Property (IP)**
- **IP tried and tested worldwide**
 - Over 270k units sold around world
- **Global distribution network**
 - Africa Control Instruments
 - USA Control Instruments / Tripmaster
 - Rest of the world SiemensVDO
- **Blue chip**
 - Customers
 - Brand names (SiemensVDO, Tripmaster, Control Instruments)

SUMMARY

- **Business**
 - Growing rapidly
 - Developing worldwide annuity revenue base
 - Full pipeline new products and upgrades - launch within 12 months

Changing shape of the Group



Automotive components and products

- **Grown considerably since 2004**
- **Acquisitions 2005**
 - Autocom
 - TruckLite
 - Dana South Africa
- **Acquisitions 2006**
 - Sagercy (March)
 - Gabriel South Africa (September)
 - Pi Technology, UK, Europe and USA (December)

DESIGN AND MANUFACTURE

- **Product design**
 - South Africa
 - UK
 - USA
- **Manufacture - South Africa**
 - Electronic products
 - Plastic products
 - Shock absorbers
 - Ignition components
 - Cooling products

ACQUISITION - DANA

- **Comprehensive restructuring only commenced H2 2006**
- **Integrated into Control Instruments**

ACQUISITION - SAGERCY

- **Acquisition effective from 1 March 2006**
- **People**
 - CI managing director and financial manager appointed
 - Implemented new management structure
- **Operations**
 - Implementing full OEM quality management system
 - Streamlining production processes

ACQUISITION - GABRIEL

- **Acquired with effect from 5 September 2006**
- **People**
 - Learnt from undertakings given at Dana
 - Immediate restructuring
 - Management rationalised
- **Operation**
 - Integrated sales and marketing
 - Centralised customer management
 - Rationalised customer sales and discount structure
 - Actively pursuing OEM opportunities
- **Factory reorganisation and upgrading commenced**

ACQUISITION - Pi TECHNOLOGY

- **Acquired with effect from 1 December 2006**
- **Business**
 - Electronic design consultancy
 - Long history of working with the major international OEMs
 - > 90 engineers
 - High-grade technical degrees
 - Years of experience
 - Group's engineering skills now situated close to customers
 - Ideally positioned to offer the OEMs a full Tier One solution
 - From design to manufacture

ACQUISITION - Pi TECHNOLOGY

- **People**
 - Rod Forrester appointed CEO
 - Moved CI financial manager from South Africa to the UK
 - Management and reporting structures in place

ACQUISITION - Pi TECHNOLOGY

- **Operation**
 - New orders for design and manufacturing received
 - Impact will flow through to manufacturing from late 2007
 - Engine control unit for OEM
 - Contract won in December 2006
 - Against international incumbent competitor
 - Focus on building future sales pipeline
 - North America
 - Good acceptance from niche customers
 - Increasing size of operation to meet demand

SUMMARY - BRANDED PRODUCTS

- **Basket of quality branded products**
- **High level of technical support and capability**
- **Ability to service major warehouse distributors and command shelf space**
- **Well positioned to meet threat from East**
- **Offer value added proposition in our market segments**

SUMMARY - OEM

- **Competitive in supply of designs and products to small and medium size OEMs**
- **Strong engineering capability in USA, Europe and South Africa**
- **Specialist automotive electronics consultancy business**
- **World-class manufacturing facilities in South Africa**
 - Advanced capabilities, tools and equipment
 - Strategically important to many OEMs due to MIDP program
- **Strong alliances with a number of major Tier One suppliers**

Conclusion

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- **Conclusion**

- **Significantly bigger Group than in 2004**
- **Two internationalised businesses with critical mass**
 - Fleet management
 - Automotive components and products
- **2007**
 - Integrate acquisitions
 - Focus on expenses and working capital management
 - Achieve required levels of profitability and cash flow
 - Unlock value for shareholders

Ask your shareholders to share the pain

By John Gapper

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It is not certain that Luc Vandervelde lost his job last week as chairman of Carrefour because he wanted to lead a buy-out of the French supermarket group. But if that was indeed the reason why the Halley family, which controls Carrefour, forced him out, then bully for them.

If Mr Vandervelde knew of ways to increase the value of Carrefour that had not been tried, why on earth did he not implement them? He was, after all, not a consultant nor a passer-by but the chairman. As the boss, he had an obligation to investors to do his best by them.

The same question applies to Stefano Pessina, deputy chairman of Alliance Boots and its biggest shareholder. Mr Pessina's £9.7bn bid for the company on Friday, with the backing of Kohlberg Kravis Roberts, comes only seven months after the merger of Boots with Alliance UniChem. He has hardly arrived in the Boots boardroom and already he wants to be alone.

Many chairmen and chief executives have taken to making bids for their companies backed by private equity funds such as KKR and Blackstone. They must believe that there is hidden value that is not fully reflected in their share prices. Assuming that they are not simply neglecting their duties to shareholders, why do they think privacy will help?

They could simply be optimists. According to a study published last week, many chief financial officers think their CEOs are unrealistically optimistic. Most chief executives argue, and probably believe, that the market undervalues their companies. Natural ebullience could make them willing to pay more for their companies than other investors. The flaw in this is that the eventual aim of leveraged buy-outs is to return companies to the market through initial public offerings. The opinion of cheerful chief executives on how much their companies are worth is ultimately irrelevant: the stock market will be the judge.

A second possibility is that a new capital structure will increase the companies' value. Mario Levis, a professor at Cass Business School, estimates that the higher ratio of debt to equity following a typical leveraged buy-out can reduce a company's cost of capital sufficiently to raise its value by about 10 per cent.

But leverage eventually falls at the same hurdle as optimism. When the company returns to the stock market, its level of debt reverts to normal and the leverage premium goes. Something more has to have happened while it was privately held to justify a higher valuation on its reappearance.

This gets us back to the original question. If chief executives of publicly held companies lead buy-outs, they must believe there is potential for their companies to perform better. If so, why are they not making such changes, rather than waiting until they own more equity?

Chief executives and private equity firms have an answer to this. They say it is very hard to undertake big restructurings of companies while they are publicly quoted. Such changes lead to volatility in revenues and profits that unnerves investors and to a fall in the companies' shares. The pressure to meet short-term earnings expectations is intense.

On this view, the value arbitrage between public and private ownership is caused by differing time horizons. A company that needs to be sorted out should be privately held because public institutions will act against their long-term interests by blocking a restructuring. The company should only go public again once the changes are over and order is restored.

There is something to this. A chief executive who delivers volatile earnings rather than stable revenue growth often comes under pressure from analysts. His or her life may well be easier if the company expands slowly and steadily rather than rapidly and erratically.

But it is possible to persuade institutions to back restructuring. An example is Marks and Spencer, whose investors rejected a private equity bid from Philip Green, the entrepreneur, in 2004 and instead supported Stuart Rose as chief executive to restructure the company while it remained in public ownership.

Or take the story of how Gordon Moore and Andy Grove resolved to pull Intel out of making memory chips - its main product - in 1985 and focus on microprocessors. The two agreed that any new CEO brought in by Intel's board would do this and Grove said to Moore: "Why shouldn't you and I walk out the door, come back, and do it ourselves?"

Private equity funds now have so much to invest, and such easy access to debt, that the incentives for executives have become skewed. Not only is it likely to be easier for them to restructure in private but they will gain far more financially. In this climate, it takes a noble soul to reject private equity's blandishments and stick with the owners.

Bravery was required on the part of Mr Rose and Intel's leaders to turn their companies around in the public gaze but they did so. As a result, their investors gained the value from restructuring that often goes to private equity firms and executives who lead management buy-outs. Instead of retreating into private ownership, they persuaded their investors to back them.

More executives ought to follow such examples. Too many are eager to let themselves off the hook by dismissing public investors as ingrates whom it is not worth even asking to suffer short-term pain for long-term gain. They have a duty - a fiduciary duty - to try a bit harder.

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