

**Not to be released until the beginning of  
the speech!**

**Speech at the Annual General Meeting of  
Heidelberger Druckmaschinen AG**

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**Congress Center Rosengarten, Mannheim**

**Rainer Hundsdörfer  
CEO**

**The spoken word applies!**

**Slide 1 (title slide):**  
**Data! Fuel of growth**

Dear shareholders,  
Dear shareholder representatives,  
dear guests,

Welcome to the Annual General Meeting of your company.

When I think of the past 2017/2018 financial year, I think of many things that Heidelberger Druckmaschinen was faced with on its way into the digital future:

- challenges
- accomplishments
- and I think of what I said to you here a year ago.

For example, I said: "The continuous changes that have to go into the smallest details at Heidelberg will cost energy and take time. This was true in 2017. It is still true in 2018. And it will continue to be true for the future.

The disruptive change that Heidelberg needs for a successful future - a change in the entire business model in order to transfer the entire company into a digital future - will not take place overnight. Even if the capital market expects to see success across the board sooner rather than later. We understand that. Of course we are impatient too.

But we have to be realistic about the timeline.

In financial year 2017/2018, ladies and gentlemen, the restructuring of Heidelberg made progress. Much progress! It is also making progress in the current financial year. And all of the approximately 11,500 employees of this company can be proud of it. On behalf of the members of the Management Board, I would like to thank them for their tireless efforts.

During the next 40 minutes, I will explain to you exactly what has happened at Heidelberg, why data is the fuel of our growth and what challenges we have had to overcome.

**Slide 2:**  
**Risk vs. Opportunities**

My name is Rainer Hundsdörfer. I have been CEO of Heidelberger Druckmaschinen AG since November 2016. My main task is to drive forward the profound transformation of this traditional company in order to return to growth and profitability. In all business management details that this change involves, it is also always a question of establishing a new way of thinking: Namely

- to reduce the fear of risks among employees
- and to promote the courage to seize new opportunities.

After all, ladies and gentlemen, there are opportunities for growth for us.

Before we look at the past financial year and its implications for the future, I would like to say briefly and as an example, where we were very good at seizing opportunities in 2017/2018:

First of all, I think of our strategic field of technology leadership: Here we can be particularly proud as a team of the level to which we have raised the industrial digital printing machine Primefire in the shortest time!

Second: In the strategic field of digital transformation, a vision becomes reality! I refer to our subscription models announced at the 2017 Annual General Meeting, which will lay the foundation for future growth.

And thirdly, I am thinking of our strategic field of operational excellence: this is increasing and becomes clearly visible, for example, through the imminent relocation of the Research & Development department from Heidelberg to Wiesloch-Walldorf. This move is a very important component in our diverse package of measures for operational excellence.

### **Slide 3:** **Key financial figures 2017/2018**

I will explain in detail why these three examples are so important for our company's future growth. Let us start with the most important financial key figures of the past financial year.

Looking back at 2017/2018, we must bear in mind that this was a post-drupa year. And if, for example, you see incoming orders in a post-drupa year achieving the same level as in the drupa year 2016/2017, then this is a clear signal that our new solutions presented at drupa hit the nerve of our customers.

### **Slide 4:** **Targets achieved: after-tax profit for the third year in succession**

In 2017/2018, incoming orders amounted to around 2.6 billion euros. That is a strong performance! Especially as we achieved this success despite negative currency effects. Incidentally, this order intake includes the first subscription contracts. We signed the first contract of this type at the end of December 2017 - and the development is promising. I will also go into this in more detail later.

Sales in fiscal 2017/2018 were slightly lower than in the year before. There were two main reasons for this: Firstly, we had to deal with strongly negative currency effects. Secondly, we have disposed of high-risk sales, in particular trading activities with remarketed equipment.

These two special effects made up the difference to the previous year's sales: a total of more than 100 million euros. A year ago, I said at this point that 2017/2018 will be a transitional year that Heidelberg will have to afford - and that sales will remain at the previous year's level. This was the case before the aforementioned special effects.

Let us now look at EBITDA, i.e. the operating result: we had promised a margin of at least 7 percent. We achieved 7.1 percent. We maintain our target margin of around 10 percent.

Please now look at the item "Restructuring result" below EBIT. There you can see the costs of the company restructuring.

Below the restructuring result you see the financing result. It has improved - by 8 million euros. This is mainly due to lower interest payments for financing funds. In the medium term, we would like to more than halve interest payments from the original level of around 40 million euros a year to less than 20 million euros. A few days ago, we took another step in this direction by early redemption of part of our expensive corporate bond.

For the third year in a row, we achieved a net result before taxes of more than 30 million euros. 5 percent more than in the previous year, i.e. 39 million euros, were achieved in 2017/2018.

The fact that the net result after taxes was only 14 million euros is due to a non-cash write-down of 25 million euros as a result of the US tax reform. We had reported on this early on. The good news is here: In future, we will benefit from a lower tax burden with our US subsidiary.

Let's turn to the free cash flow: in 2017/2018 it was negative at 8 million euros. However, there is good news behind this: investment in the future. On May 1, 2017, DOCUFY GmbH was taken over as part of our digital growth strategy. This company develops software for technical documentation and visualization along the value chain - and thus fits our new platform strategy. We also acquired a Fujifilm subsidiary in Europe - and thus invested in chemicals for the consumables sector and in the new high-tech campus at the Wiesloch-Walldorf site.

Last but not least you can see the leverage at the bottom of the table. This is the ratio of net debt to operating profit. This ratio is again at 1.4 - well below our target of 2, which means that if it were below 2, we could theoretically pay back our net debt completely from operating earnings within just under two years. This leverage of 1.4 is an indication of adequate debt and good operating performance.

As of March 31, 2018, the order backlog stood at a good 600 million euros. This was almost 110 million more than in the previous year. This was due in part to the new subscription agreements, which in the order backlog apply to a contract term of five years. The good order situation continues - also driven by the new subscription contracts. The first quarter of the new financial year went well.

### **Slide 5:**

#### **Goals achieved: From restructuring to growth financing**

Another positive news is that the financing of future growth is secured in the long term. Our financing framework at the end of the past financial year was almost 760 million euros.

This financing portfolio is well balanced. The net debt of 236 million euros is financed by our basic financing until 2023 and beyond. In March 2018, our syndicated credit line was agreed anew with our banks ahead of schedule. With a volume increased by 100 million euros to 320 million euros and a postponement of maturities from the calendar year 2019 to March 2023, we have provided the company with financial flexibility and long-term planning security.

- This will enable us to further develop new digital business models such as the subscription business.
- In addition, the new framework gives us the opportunity of an early repayment of portions of the 8 percent corporate bond and thereby to further reduce interest costs.
- And we have the option to accelerate the digital transformation with further acquisitions and drive future growth.

Our financial framework contributes to a stable capital structure and an efficient use of resources. And, as I said, we aim to reduce interest costs to below 20 million euros.

### **Slide 6:**

#### **Medium-term targets for 2022**

Ladies and gentlemen, so we have achieved our operating targets for the 2017/2018 financial year. Let us now look into the present and the future.

### **Slide 7:**

#### **Strategic further development of Heidelberg proceeding as planned**

The further development of Heidelberg is proceeding as planned. Let me remind you once again of our three strategic fields of action, namely

- technology and innovation leadership,
- digital transformation and
- operational excellence.

If we continue to work on these fields as we did last year, Heidelberg will become a beacon of the digital industry 4.0. Our high ambitions are reflected in our specific medium-term goals. And we confirm the medium-term targets for 2022 published here in this hall a year ago.

We are firmly convinced that we will then generate additional sales of 500 million euros, or around 3 billion euros in total sales, and an after-tax profit of more than 100 million euros. And this mainly from recurring business or steady sales. It is not just a question of implementing a strategy. We are building a digital Heidelberg. To achieve this, we are changing at all levels: technologically, organizationally and culturally.

### **Slide 8:** **Data from the Heidelberg cloud is the fuel of growth**

Data is the most important fuel for achieving our medium-term goals. Heidelberg has a unique wealth of data in the cloud. I would like to explain briefly what this means:

Heidelberg has already connected 11,000 machines to its data cloud. This means that when our customers switch on their Heidelberg machines, our servers receive data.

The 25,000 software modules of our Prinect workflow, with which customers operate their commercial and technical processes, also deliver data to the Heidelberg cloud. We therefore know at all times how efficiently or inefficiently our customers use their Heidelberg systems.

Each Heidelberg printing press delivers more than 10 billion data records per year. Using intelligent algorithms, also known as artificial intelligence, we learn how each individual connected machine "feels". That is, we know,

- whether a machine is in good or bad technical condition,
- when it would stop if we let this happen,
- what we must do to repair failures and damage - before they occur,
- and how well the operator handles the machine.

In addition, we know from the data supplied which consumables the machines consume when and in what quantities - this is also very important for our new business model.

Ladies and gentlemen, you know: Offset printing machines consume a great many

- printing plates,
- paints,
- varnishes,

- blankets,
- and various other printing chemicals.

With the sale of these so-called consumables - an 8 billion euro market per year, by the way - Heidelberg already earns around 450 million euros annually. Nevertheless, there is still a lot of room for improvement. This business is automated with the knowledge from the customer data. And it will grow - to the benefit of us and our customers.

In the past, customers had to set up their Heidelberg presses manually before they could print with them. Printing efficiency was highly dependent on the competence of the press personnel. With "Push-to-Stop", Heidelberg revolutionized the industry at the last drupa 2016 and invented autonomous printing. Push-to-Start, press and it runs was yesterday. Today, the intelligent system automatically optimizes the production and setup sequence, starts the machine and tells the operator what to do (Thermomix principle). And just to interrupt production if necessary, the button is pressed: Push-to-Stop.

The result: over 400 stand-alone presses with Push-to-Stop have been installed since drupa, increasing productivity for our customers by more than 20 percent. This is added value that Heidelberg creates for its customers. And which brings us additional market shares.

### **Slide 9:** **Technological leadership through innovation**

We have much more to offer in our strategic field of growth through innovation and technology leadership.

If we extend our global technology leadership to digital printing systems for industrial packaging printing, our new digital printing press business will enable us to achieve as much as 200 million of the 500 million euro increase in sales planned for 2022. But I would also like to remind you once again of what I said at the 2017 Annual General Meeting: "All this cannot be achieved overnight." Let's take a look at where we are today.

### **Slide 10:** **Technological leadership in digital printing extended**

We promised you, dear shareholders, that we would create added value for our customers. In this context, we essentially score with two systems:

- with the Primefire for digital printing of folding boxes
- and with the Labelfire for digital label printing.

We presented the Primefire to the printing world at drupa 2016. In the meantime, series production has started. The first systems are installed. And we have already sold or reserved around two thirds of the installed base (which we need in order to reach our sales target for this product by 2022). We currently deliver one machine per month. We will gradually grow.

The Labelfire label printing system is already further along. It has already clearly left the initial stage of series production behind it. 15 Labelfire systems are already installed - and customer feedback is exceptionally good. First customers have already ordered their second and third Labelfire. This also contributes to our target of 200 million euros in sales growth with digital products.

So we are fully on course with both systems.

**Slide 11:**  
**Technology leadership leads to increased profitability in the medium term**

Perhaps the most interesting thing about digital printing is that our digital printing machines only work with our ink. That's why we say: Ink is the liquid gold of digital printing! This is also supported by the fact that after 4 to 5 years, sales of ink will sustainably exceed those of printing machines.

Each Primefire in operation consumes between 10,000 and 15,000 liters of ink per year. Perhaps even more - depending on the degree of utilization and range of applications. Maybe you saw the impressive stack of paint buckets in the foyer: We have built that up to show you how much ink a digital press consumes per month. And since one liter of ink costs around 70 euros, ink for digital printing generates new sales and attractive margins for Heidelberg without additional sales effort.

Our current sales are still relatively low because we are just starting to deliver the machines - and ink sales will only increase continuously afterwards. Nevertheless: in the current financial year we will already achieve more than 10 percent of our planned additional turnover with digital printing.

It is important for Heidelberg to occupy this market quickly and to build up a broad base of installed machines that consume ink. Recurring sales of ink will increase exponentially. And that's the attractive part of the digital printing business.

So we have reached a point where we are moving from the investment phase to the absorption phase. From now on we will work out the return on invest.

**Slide 12:**  
**Digital transformation**



Let us now turn to the second of our three strategic areas: growth through digital transformation. The main objective here is to transfer the entire business model, i.e. the entire company, into a digital future.

The focus is on customer benefit-oriented business model innovations in all areas: Equipment, software, services and consumables.

Digital transformation means: networking and integration

- of the customer's processes,
- of the customer with us
- of the customer with his customers and
- increasing productivity for our customers through digital business models over the life cycle of the printing systems.

### Slide 13:

#### **Growth by a new disruptive business model**

The most important news in the strategy field of digital transformation is that customers are accepting the subscription model more positively than we had hoped. It is a disruption in our industry - a completely new revenue model! Let me explain briefly:

In the new digital business model, the sheet price to be invoiced includes

- the entire equipment,
- all necessary consumables such as printing plates, inks, varnishes, detergents, blankets and
- a comprehensive range of services geared to availability.

The motivation behind the new business model is to generate growth from the life cycle of Heidelberg presses, during which we participate in the growth of our customers' print products. The value and volume of print products continue to grow worldwide year after year, but not the number of presses sold. More is being printed on fewer and fewer machines. Therefore, growth from one-off machine sales alone is increasingly a thing of the past.

And why is the subscription model so well received?

- Because we can prove to our customers that we can get even more out of the printing systems with our process knowledge. The basis for this is our unique data treasure, as I have already explained.
- The subscription model will also work because it will reduce our customers' printing costs. With our help, customers can print more sheets at lower costs.
- And our customers get more flexibility with less capital commitment.

After we publicly introduced the 2017 subscription model, the skeptics asked: "Why should customers switch to this model?" Our answers back then are now also

practice: because we are driving up print productivity and creating a real win-win situation for us and our customers.

The first Heidelberg customers are already feeling these benefits. So far, more than 20 customers have signed subscription contracts - the first shortly before Christmas 2017 - and we have identified more than 600 customers who would benefit from this business model. We are currently negotiating with around 100 of them. We would like to have concluded 30 subscription agreements by the end of the current financial year.

30 subscription contracts: Maybe that doesn't sound like much to you yet. But it is a very promising start, because we have only just started to market the model. Today, we are practically where SAP was a few years ago with its software subscription models. SAP is now very successful with them. But even SAP had to be patient and took time - also to expand the corresponding organization. Our global presence is our strength, so we already have the best prerequisites to be successful.

Other industries such as engine manufacturers are also successfully implementing the data-driven model. They no longer sell engines, but the use or the operating hours including wear and maintenance. Our model goes even further, we also sell the fuel, i.e. the consumables.

By the way: the first 30 contracts alone have a sales potential of around 1 million euros per contract per year - or a total of around 150 million euros over the 5-year contract term.

The printing professionals you see on the picture are top managers of our first subscription customer Weig. The Weig Group produces and prints around 700,000 tons of different folding boxboard cartons annually. After Weig explained the subscription model, the owner Mr. Weig said: "Finally, Heidelberg offers something like this". In the meantime we have installed the first machine at Weig that produces under subscription and for which we receive monthly payments.

And let's not forget the following: Many of the 20 subscription customers would not have bought a Heidelberg press without this new business and productivity model. And certainly, no consumables.

This means that we can not only expand our consumables business, but also increase our market share in printing presses without price competition.

#### Slide 14:

#### **Digital transformation with high potential for results**

This graphic shows the leverage of the subscription model for Heidelberg: Our sales of consumables increase continuously with the number of contracts. The recurring turnover per contract averages around 1 million euros per year. If we manage to

conclude around 250 subscription agreements by 2022, we will also achieve a steady turnover of around 250 million euros from the new business model.

And with every sheet that our customer prints with our help, not only our sales of consumables increase, but also the machine margin improves. With our subscription model, we achieve 70 percent more sales and significantly better margins than with the mere sale of printing presses.

And the best thing about this business model is: only Heidelberg can do it! Only Heidelberg has the necessary basis:

- The data and connectivity to optimize processes at the customer's print shop and to scale the business model.
- A functioning consumables business with the required expert knowledge and the indispensable global presence and logistics.

With this, our growth target on the strategic field of digital transformation would be achieved. We consider this to be more realistic than ever.

### **Slide 15:**

#### **Digital transformation leads to growth outside of print**

The digital transformation is also generating growth outside the printing industry at Heidelberg. This development should bring us additional sales of around 50 million euros by 2022. These are in addition to the 250 million euros growth through digital transformation already mentioned. We benefit from know-how and technologies that are already available at Heidelberg.

A few years ago we started to market our software know-how in other industries. As part of our Heidelberg Digital Platforms division, we have built such platforms. This division offers IT solutions for the digitization and automation of processes in the

- development,
- industrialization,
- production and
- in service

of high-tech products.

As already mentioned at the beginning: As part of our digital growth strategy, we acquired DOCUFY GmbH, Bamberg, on May 1, 2017. The growth rates in our software business are in double figures.

We are also proud of our entry into the megatrend of e-mobility. Heidelberg has been developing charging technology for electric cars for car manufacturers and automotive suppliers for years. A few months ago, we entered this market as an independent brand with our "Heidelberg Wallbox Home Eco" charging station and have already sold almost 500 units. We sell the Wallbox via Internet retailers such as Amazon (top product: under the search term Wallbox, the Heidelberg system is already in first place) and electronics stores as well as via stationary stores such as

DIY stores and car accessories dealers. Although this business is still small, it has great potential and makes us visible to new target groups. Unfortunately, we have to be patient here too. After all, electric mobility does not develop overnight either.

### **Slide 16:** **Operational excellence**

Let us now turn to operational excellence. This term covers a large number of projects with which we improve our efficiency in our daily work. To this end we question

- processes,
- structures,
- locations,
- terms and conditions of purchase and sale, and, and, and.

There are no taboos.

Through operational excellence, we aim to increase efficiency potential by at least 50 million euros by 2022. Here, too, we are on a successful path.

### **Slide 17:** **Operational excellence: cultural change and structural cost reduction**

When we talk about operational excellence, we must also talk about cultural change and structural cost reductions. We can achieve both, for example, through a leaner organization that also entails a reduction in management levels. This makes our structures more permeable and reduces structural costs. Among other things, around 50 management positions are available. In 2 to 3 years we will have built a completely new organization that is lean, agile and powerful.

Another very important and clearly visible step towards increasing operational excellence and cultural change is the relocation of our Research & Development department from Heidelberg to the main plant in Wiesloch-Walldorf. This means that development is moving into the center of the action - exactly between the customer centers and the factory!

### **Slide 18:** **Operational excellence: Development moves to the factory**

Here you can see the redesign of the 35,000 square meter former assembly hall 10 in Wiesloch-Walldorf. This is the new location for our approximately 1,000 research and development employees. It will provide a state-of-the-art working environment reminiscent of Silicon Valley and promote modern, agile working methods. In good summer weather, our developers will even be able to develop in the open air in the future. This development center, unique in our industry, will not only increase

efficiency but also create a new culture. It also saves us around 10 million euros in structural costs per year. From mid-September to Christmas this year, the 1,000 research and development employees will move in here.

In total, all the real estate reorganizations in the context of the new location concept in the region after the transition phase will bring us a double-digit million euro reduction in structural costs. They therefore make a significant contribution to the 50 million euros we want to save through operational excellence.

Ladies and gentlemen, let's come to the change of culture. The old Heidelberger Druckmaschinen AG wanted to do everything on its own for too long. That was good in the past, because it all came down to engineering know-how. But in the digital age we need to network, share knowledge and cooperate much more than before. Otherwise the transition from an old-economy group to a digital pioneer in our industry will take too long.

This applies in particular to the Internet. Heidelberg is certainly not yet an Internet company. The Internet is extremely important for us - for example in the digital distribution of consumables.

#### **Slide 19:**

#### **Cultural change: External Internet expertise complements our product know-how**

This brings me to the first tenant on our high-tech campus. It is a start-up within our company: the new Heidelberg Digital Unit. The establishment of this competence center for digital marketing and e-commerce in May of this year was another milestone in our digital transformation. The HDU will be the digital Internet service provider of our global sales organization.

We founded and organized the HDU with the Munich-based iq! GmbH - within just 3 months. The Internet of Things knowledge of this partner combined with Heidelberg's product know-how will boost our e-commerce sales of currently around 120 million euros much faster than if we continued here alone.

#### **Slide 20**

#### **Outlook for financial year 2018/2019 and medium-term targets**

Ladies and gentlemen, let us once again summarize what awaits us in the coming months and years.

On the plus side for the current 2018/19 financial year are

- the ramp-up of the digital printing systems. I mentioned the Primefire and the Labelfire as highlights earlier.

- The subscription model gets off to a more noticeable start with each new customer. Think of the potential I showed you graphically earlier.

Together, these two points will initially only contribute relatively little to sales and earnings, as planned, and will increase significantly in the medium term.

- Due to our new subscription business model, a stronger e-commerce business and digital platforms, the increase in sales of consumables will have further positive effects on the income statement.

### **Slide 21:**

#### **Outlook: New strategy having an increasingly positive effect**

Burdening factors are:

- The higher wage agreement reached by IG Metall in Germany, the effects of which we must compensate with additional measures.
- In addition, the depreciation and amortization of capitalized research and development projects begins. These depreciations and amortizations are not cash-effective, but an accounting expense.
- And we expect higher tax payments in some foreign markets because we are doing well there - for example in China - but cannot claim tax-reducing loss carryforwards as in Germany.

All in all, we expect moderate sales growth for the 2018/2019 financial year as a whole. Excluding restructuring expenses, the EBITDA margin should be between 7 and 7.5 percent of sales. Net income should also increase moderately.

As already mentioned, the beginning has been made: The first quarter got off to a good start. Details will be published on August 7th.

We regret that the capital market was very impatient about the short-term outlook following the annual press conference in June. Two-thirds of the analysts following us continue to recommend Heidelberg shares as a buy. However, the price was initially unable to hold its own against short-term speculators, so the short selling rate rose to around 12 per cent. The average target price of the analysts is EUR 3.25, which is well above the current price level. We want the share price to follow the successful Heidelberg path again - and are working hard to achieve this.

Of course, we will continue to do everything in our power to increase our equity ratio to over 20 percent. To achieve this, we need sustainable growth and increasing profitability in the coming years. Both are the prerequisites for being able to pay dividends again.

### **Slide 22:**

#### **Outlook: Medium-term targets for 2022 firmly in view**

And as I said, it remains the same: Group sales are to increase by 500 million euros to around 3 billion euros by 2022. EBITDA is expected to grow to 250 to 300 million euros - and net income to over 100 million euros.

**Slide 23:**  
**Data! Fuel of growth**

Ladies and gentlemen, I have been with Heidelberg for one and a half years now. And I haven't regretted a minute.

My goal is sustainable growth for Heidelberg. This company must once again become a beacon of German industry! The likelihood of achieving this increases every day we drive digital transformation.

It takes courage.

It takes perseverance.

It takes patience.

And power.

You can rest assured that I will continue to pursue the path taken by this company and its opportunities with all my might. I am only satisfied when Heidelberg has achieved sustained growth and thus good profitability. And I am counting on you, dear shareholders, and on your continued support for our necessary process of change.

Thank you very much.

This speech manuscript is not intended for publication.

**Important notice:**

This statement contains forward-looking statements based on assumptions and estimates made by the management of Heidelberger Druckmaschinen Aktiengesellschaft. Although management is of the opinion that these assumptions and estimates are correct, future actual developments and future actual results may differ significantly from these assumptions and estimates due to a variety of factors. These factors may include, for example, changes in the overall economic situation, exchange rates and interest rates, as well as changes within the graphic arts industry. Heidelberger Druckmaschinen Aktiengesellschaft gives no guarantee and accepts no liability that future developments and the actual results achieved in the future will correspond to the assumptions and estimates expressed in this press release.

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