

***Blocking period until the beginning of the speech!***

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

**Thursday 25 July, 2019**

**Congress Center Rosengarten, Mannheim**

**Rainer Hundsdörfer  
CEO**

**The spoken word applies!**

## Slide 0 (title slide)

# Heidelberg goes digital!



Heidelberger Druckmaschinen AG | Annual General Meeting

Rainer Hundsdörfer (CEO) | 25 July 2019





Dear shareholders,  
dear shareholder representatives,  
dear guests,

Thank you for attending the Annual General Meeting of Heidelberger Druckmaschinen AG in such large numbers again. During the next 30 minutes or so, I will inform you about

- how the past financial year developed for Heidelberg,
- how Heidelberg deals with current adversities,
- what our targets are for the current financial year, and
- where we're headed beyond that.

My name is Rainer Hundsdörfer. I have been CEO of Heidelberger Druckmaschinen AG for almost three years. For several *months now we have been in the* most difficult phase of my term in office to date.

This is due in particular to the weak economic development in Germany and other Western European countries. I quote a media article on this: "The concerns about

the German economy are increasing significantly after a disastrous start to spring for many market participants. Exports and production slumped more sharply than at any time in four years due to trade conflicts and a weak global economy." End of quote.

A renowned German economist calls the German production and foreign trade data "creepy". And the Deutsche Bundesbank currently anticipates only 0.6 % economic growth in Germany, compared with 1.6 % growth until recently. It remains to be seen whether we will reach the 0.6 % mark at all.

## Slide 1



You can imagine what this means for our industry: As early as April, the German Mechanical Engineering Industry Association (VDMA) halved its 2019 forecast for production volume from 2% to 1% growth. Three weeks ago, at the beginning of July, the next bad news came in: This time the association reduced its forecast by a further 3 percentage points. The VDMA now expects production of German mechanical and plant engineering companies to fall by 2% this year compared with 2018.

This means that we are currently experiencing a severe recession in the industry. Uncertainty about the further course of the economy is poison for the economy; our customers' investment activities are also slowing significantly. I will explain to you in a moment how this situation will affect the current financial year.

First the review of the past financial year:

## Slide 2

Financial highlights.

**Sales and earnings targets achieved in financial year 2018/19.**



At 2.49 billion euros, sales in fiscal year 2018/19 were almost 3% higher than the 2.42 billion euros of the previous year. Thus, we have achieved our target . The main reasons for the increase in sales were as follows:

- a global economy that was still dynamic in 2018 at the bottom line,
- the successful implementation of new Heidelberg business models, and  
- products,
- and higher demand for printing presses, especially in the offset sector.

Sales per employee rose from 209,000 euros to 216,000 euros - and EBITDA before restructuring costs from 172 million to 180 million euros. This corresponds to a sales margin of 7.2 %. We were thus within the forecast range of 7 to 7.5 %.

The result after taxes, i.e. net profit, increased by 50 % to 21 million euros. However, the net result after taxes in the same period of 2017/18 was burdened by deferred tax expenses due to the US tax reform. Either way, we are pleased that we were profitable for the fourth year in a row after taxes - even though we were far from satisfied with our profitability.

The bottom line here is that we achieved our key performance targets in the 2018/19 financial year. I would like to express my gratitude to all of our approximately 11,500 employees.

Let us now turn briefly to the key balance sheet figures: In financial year 2018/19, the equity ratio rose from 15 % in the previous year to 17 % - mainly as a result of a capital increase and a positive result after taxes. Our goal of increasing the equity ratio to well over 20 % remains unchanged. We are also unable to reach this level at present due to the negative economic environment - despite all our impatience and all the measures we are implementing. I will explain some of these measures to you in a few minutes.

Our net financial debt at financial year-end was at the previous year's level. And the leverage - the ratio of net debt to operating result- was also 1.4, as in the previous year, and thus well below our target of 2. A value below 2 means that we could theoretically pay back our net liabilities (excluding pension obligations) completely from operating profit within just under two years. A value of 1.4 indicates appropriate indebtedness and solid balance sheet quality.

### Slide 3

Operational highlights.  
**Digital business models successfully introduced.**

Heidelberg's sheetfed offset technology **extends its lead**

World market share for sheetfed offset systems **improved further**

**Significant increase** of sales and market share in China

Productivity of Heidelberg printing systems **increasingly superior**



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At last year's Annual General Meeting, I presented our new subscription model to you. Demand is pleasingly high. With just under 40 contracts, we are on course. More on this later on.

Another operational highlight in the past financial year was that Heidelberg expanded its sales and global market leadership in sheetfed offset printing systems. In the key 70x100 segment, we have expanded our market share from 45 to 48 % and are thus playing a dominant role. The two main drivers of this success are our growth in China, including our local site there, and the superior productivity of our Heidelberg technology. Productivity analyses show that on average Heidelberg sheetfed offset printing systems produce up to 20 % more salable print sheets during their lifecycle than presses from second-ranked competitors.

This is the prerequisite for our new subscription model. That closes the circle. This is why we continue to rely on our innovative strength, which is sold through our performance promise. In the subscription offering, Heidelberg even assumes responsibility for the performance promise of its offering - namely to significantly reduce the total cost of ownership (TCO) for customers. We assume that we will continue to expand our market share through innovative advantages.



This also means, Ladies and Gentlemen, that we will continue to pursue Heidelberg's strategic direction developed in financial year 2017/18 – the company's digital transformation with the slogan "Heidelberg goes digital!" - will basically be maintained even in the currently very difficult phase. This strategic alignment is based on Heidelberg's market and technology leadership as an end-to-end system provider of machines, consumables, software and services. Our worldwide installed machine base provides us with data from around 15,000 digitally networked printing systems. They are the foundation of our digital strategy.

- We continue to focus on technology leadership with the help of our outstanding engineers,
- digital transformation with our new and increasingly successful subscription business model, and
- operational excellence.

The current slump in the mechanical engineering sector is proof that our goal must remain to reduce our dependence on the economy to a large extent. More determined than ever!

## Slide 4

Start of the new financial year.  
**Perceptible cyclical reluctance to invest.**



Significantly accelerated **investment postponements** in June

Declines in quarterly sales and an adverse product mix **reduce profitability**

Sales forecast confirmed, **margin target adjusted**

Increase in inventories for sales volumes in the second half of the year **weighs on free cash flow**

The deteriorating economic conditions, especially in Western Europe, have been clearly reflected in our order books for a few weeks now. Previously, for example in the presentation of the balance sheet for the past financial year at the beginning of June, the trend in our industry still suggested a reduction in growth rather than market weakness. However, it was above all in the course of June that we were hit by a significantly accelerated reluctance to invest on the part of many customers in the form of lower order intake and sales postponements. In the already traditionally weakest quarter of the financial year, Heidelberg therefore only generated sales of 502 million euros. In the first quarter of the previous year it had been 541 million euros.

Despite significantly higher demand in China, incoming orders as of June 30 were also down year-on-year at 615 million euros. This is due in particular to two factors:

- First, demand in our home market of Germany was weaker. In recent years, many printing capacities have been installed here, which - in economically uncertain times - will now continue to operate even when they should actually be replaced.
- Second, we are feeling a base effect: In the prior-year quarter, we had booked a large number of multi-year subscription and service contracts in order intake. In the first quarter of the current year, there were slightly fewer, although this is not to be regarded as a trend, as it continues to be positive overall.

The overall decline in incoming orders is therefore not as pronounced as the figures suggest at first glance. And July gives us hope to date that we will be able to record a good order inflow again.

Nevertheless, the decline in revenues in the first quarter, which took place particularly in areas with high margins for us, had a tangible negative impact on our profitability. EBITDA excluding restructuring result of around 14 million euros -



which includes 4 million euros due to adjustments in accordance with the new accounting guideline IFRS 16 - was around 6 million euros below the previous year's figure.

After taxes, Heidelberg reported a minus of around 31 million euros at the end of June. In the first quarter of the previous year it was only minus 15 million.

What the capital market regards even more critically than the drop in profits is our negative free cash flow of around 80 million euros, which has increased our net financial debt accordingly. The cash outflow in the first quarter of the current financial year was increased above all by a higher capital commitment in net working capital.

Traditionally, in the first six months of a financial year we have to significantly build up our inventories, including unfinished machines, in order to be able to cope with the rising delivery volume, i.e. rising sales, in the second half of the financial year. Also in this financial year, we will not generate a larger portion of our annual sales until the end of the year, which will lead to significant cash inflows and reduce net working capital.

In addition, we have set up a program to significantly reduce the amount of capital tied up, for example through

- optimization of flow times and inventory levels,
- improvements in receivables management,
- and improvements in payment terms.

At present, our tied-up capital is around 50 million euros too high for the current sales level. These 50 million euros reflect our present debt reduction potential - and we will vigorously leverage it.

In addition to the quarterly loss, the low interest rate environment, which has now lasted for years, also weighs on us. As a result of a further adjustment of the actuarial interest rate, which had become necessary to measure our domestic

pension obligations, down by half a percentage point from 2 % to 1.5 %, we had to cope with a reduction of our balance sheet equity to a total of approximately 300 million euros in the first quarter of the financial year. The equity ratio at the end of the quarter was thus around 13 %. At the end of the prior-year quarter in June 2018, the figure had been around 15 %.

Although this has no direct consequences for our financial position and results of operations, it is one reason why the Heidelberg share price and the prices of our bonds have reacted so negatively to our quarterly figures, in addition to the quarterly loss and rising net financial debt. We also had to reduce our profit forecasts for the year as a whole. And then there were the profit warnings from other German machine and plant manufacturers such as Jungheinrich and Dürr, which put pressure on the sector's shares - including ours.

Ladies and Gentlemen, the earnings situation and the development of the Heidelberg share price are a burden for all of us. We are working hard to reverse the current developments.

## Slide 5

Short-term measures.

**Stabilizing sales and profitability against the trend.**

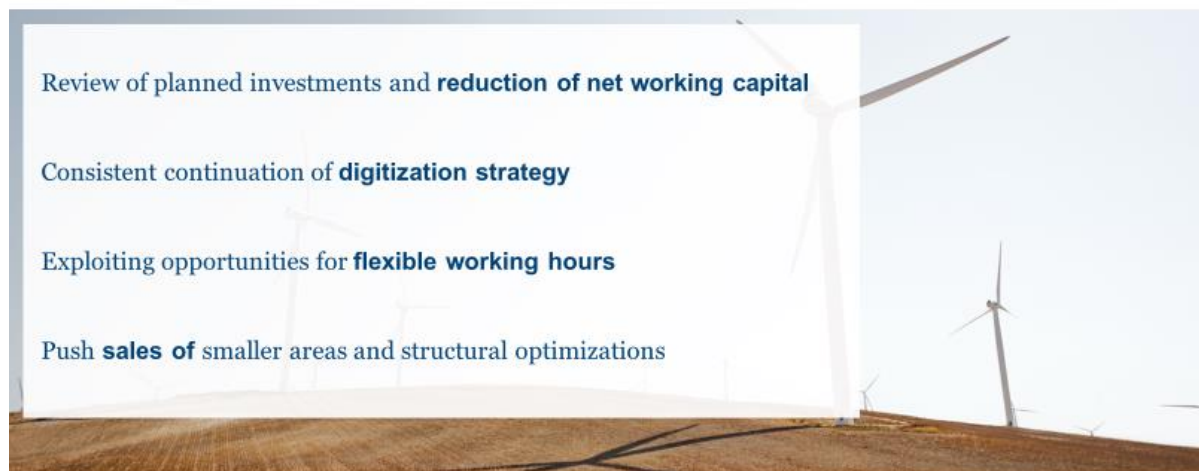


Review of planned investments and **reduction of net working capital**

Consistent continuation of **digitization strategy**

Exploiting opportunities for **flexible working hours**

Push **sales of** smaller areas and structural optimizations



We will counter the burden on earnings with short-term measures and sustainable structural improvements. We are therefore reviewing many of the investments planned for this and the coming financial year. In total, they should not exceed the level of depreciation, i.e. around 20 million less than in the previous year and planned so far - and we will only implement projects,

- that are absolutely essential to operations,
- that will boost sales
- and improve our profitability in the short term.

Investments in new product and solution offerings in line with Heidelberg's consistently continued digital transformation will be implemented as planned.

As another short-term measure we will make use of all the instruments at our disposal to implement more flexible working hours - such as time accounts and short-time work - in order to balance out fluctuations in demand in the best possible way.

I have already mentioned the measures to reduce net working capital. We are also reviewing portfolio adjustments through the sale of smaller business units and further structural optimizations. Here we expect a capital inflow of up to 30 million euros.

At the Annual General Meeting one year ago, I already told you about the idea of a digital campus in Wiesloch. This idea bears the working name "Heidelberg Digital Campus of Things" and includes substantial land conversions at the Wiesloch-Walldorf site. This would allow us to reduce burdens and free up more resources that would allow us to make additional investments in Heidelberg's transformation into a digital company and reduce our net debt.

Let me now summarize the outlook for the current 2019/20 financial year and outline the most important overarching goals:

All in all, for the current financial year 2019/20 we intend to

- achieve sales at the previous year's level - despite the cyclical setbacks. This may sound ambitious, because we expect a decline in sales in new machine business due to the investment postponements of our customers, especially in Western Europe, and the upcoming Brexit in October of this year. However, we intend to partially compensate for this decline with our growth in China and the US. In addition, we will be able to catch up in terms of sales by further expanding our contract business.
- Due to the changed product and country mix, however, we have to calculate with somewhat weaker margins which is why we have left our sales target unchanged, but have adjusted the expected margin range from 7.5 % – 8 % to 6.5 % – 7 %.
- We expect to break even after taxes.
- We will significantly improve our free cash flow. Net working capital measures will contribute up to 50 million euros to this. We are not yet in a position to make a final assessment of how much of the portfolio measures will have an effect this year. In total, as I have explained, we have a liquidity potential of around 100 million euros (investments: 20 million euros, NWC: 50 million euros, portfolio: 30 million euros), which we intend to leverage. We will inform you about the progress.
- Our leverage target, i.e. the ratio of net financial debt to EBITDA, of no more than 2 remains unchanged.

## Slide 6

Financing the future.

The financial framework for the digital future is well-balanced on three pillars.



Heidelberg's financing structure, ladies and gentlemen, remains stable despite all adversities. We further optimized them in the past financial year. The principle of our financing strategy is a balanced diversification of the overall credit line in terms of instruments and maturities. Therefore, our financing portfolio is based on three pillars, namely

- 1.) the capital market instruments 'corporate bond' and 'convertible bond',
- 2.) the syndicated credit line of a consortium of banks, with which we have been working for 15 years in a trustworthy relationship
- 3.) and other financial instruments and promotional loans.

In July 2018, Heidelberg repaid part of its existing corporate bond incash - specifically: 55 million euros. With the syndicated credit line of around 320 million euros newly agreed in March 2018, we are even more flexible financially and can plan with confidence. And we have additional opportunities to accelerate our new digital business models and the newly established subscription business. In short, Heidelberg remains in a solid financial position.

Our long-standing Chief Financial Officer, Dirk Kaliebe, has done a great deal for

the financing framework in recent years and has thus provided the company with flexibility. We owe him our thanks for that.

At the end of September Dirk Kaliebe will leave our company after more than 20 years. Dear Dirk, on behalf of the Management Board, the executives and all Heidelberg employees, I would like to thank you very much for your great and successful commitment, not least in these difficult years. With "your team" you have created a basis on which we can build. Together with your wife Martina, we wish you the very best for your future professional and, above all, also your private path of life.

Ladies and Gentlemen, in the next few minutes I will explain in more detail our strategy and the positive prospects it offers. With this strategy, we will reduce the cyclicity of our business and also stabilize our cash flows by increasing the proportion of recurring revenues.

But let's start with a project to secure the long-term future of our company.

## Slide 7

The way into the future.

**Heidelberg is building the digital ecosystem of the print media industry.**



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The implementation of digital transformation needs a target image. Our target image



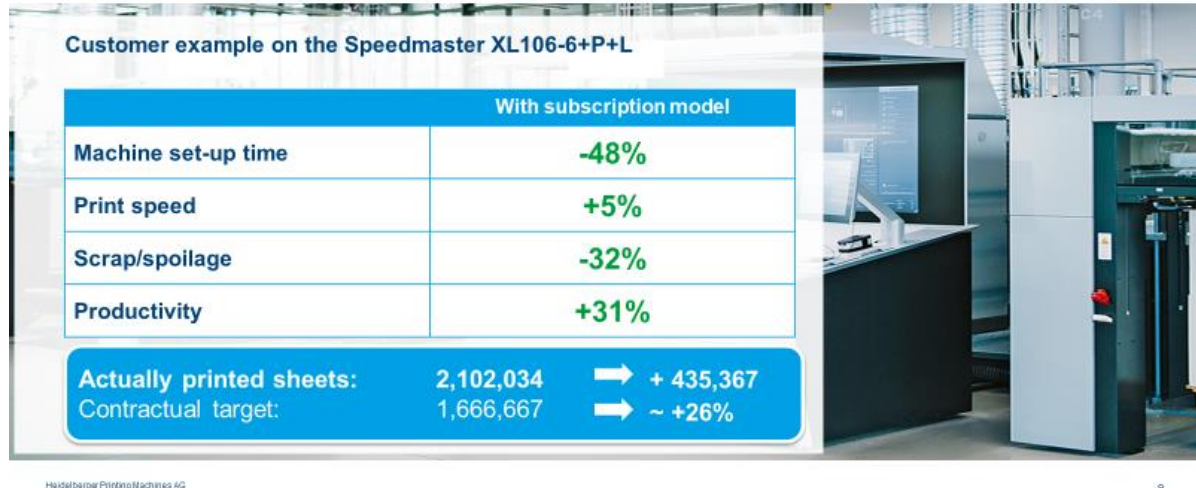
is HEI.OS - Heidelberg Operating System. I'll give you a rough idea of what that means:

- Heidelberg used to manufacture only machines. Heidelberg was a pure product supplier.
- In the year 2000, as a pioneer among printing press manufacturers, we developed the Prinect Smart Print Shop basic software to turn comparatively limited functional presses into intelligent machines.
- Since 2008, we have been networking our intelligent machines in order to continuously improve printing operations and service with the help of production and status data. For this purpose, customers are integrated into the Heidelberg cloud with their unique data treasure. This wealth of data is the prerequisite for the success of our new subscription model.
- The Smart Print Shop is also based on networking and intelligent data evaluation. This includes the Heidelberg Assistant, which customers can use to automatically monitor and plan their production and material supplies. More than 1000 customers are already using the "Heidelberg Assistant" platform, which was launched in 2017 and won the prestigious Digital Leadership Award. And the number of users is increasing continuously.

The future project HEI.OS will offer users everything they need - and all this in a highly convenient way: demand management, supply management, print shop management, resource and waste management, big data and so on. Already next year at drupa we will present first functionalities and first partners.

## Slide 8

Subscription model successfully launched on the market.  
**Heidelberg customers realize significant productivity increases.**



And by this time, ladies and gentlemen, we will be several steps ahead with our subscription model, especially for growing industrial customers. The model has been successfully launched on the market. The plus and minus numbers you see here are real numbers for one of our subscription customers. The customer's productivity increased by 31% compared to conventional machine operation. And the environmental effect is also remarkable: the system produced 32% less waste! This corresponds to 90,000 printed sheets per month that would have ended up in the dustbin without the subscription model.

## Slide 9

Modular access to the subscription model.

**Significant expansion of contract business for increased customer flexibility.**



	Free subscription	Software subscription	Service contracts	Lifecycle contracts		Full subscription
Heidelberg ID	✓	✓	✓	✓	✓	✓
Software		✓	✓	✓	✓	✓
Service			✓	✓	✓	✓
Consumables				✓ Pay per piece	✓ Pay per outcome	✓
Equipment						<div>Customer doesn't own equipment</div> <div>Customer owns equipment</div>

In the meantime, we have significantly expanded the subscription model compared to the initial idea. On this screen, you can see the integrated products and services vertically on the left and the subscription contract types horizontally on the top. Subscription contracts for Heidelberg software and service contracts have been added. In addition, we now also offer pure service and supply contracts in the subscription model, so that even customers, who have only recently purchased a machine under the old sales model and do not want to replace it, can participate in order to obtain a subscription contract.

## Slide 10

Subscription model successfully introduced.  
Customer interest in usage-based business models is growing.



On this picture you see the managing director of our Austrian customer Klampfer Druck. Ms. Klampfer says what more and more customers are saying: "After the start of the subscription model in our company, it quickly became clear to me that this model is exactly what we needed." Let's have a closer look at the Universitätsdruckerei Klampfer, ladies and gentlemen.

Subscription contracts such as the one with Klampfer Druck already account for 8% of our order backlog. As a result, we have been able to increase sales of consumer goods in Germany by 10 %. It remains our goal,

- to strengthen the contract and subscription business by means of recurring revenues,
- to expand the added value per customer
- and to significantly reduce Heidelberg's economic dependence.

In the medium term, the share of sales from recurring contract business is to be increased to around one third of total sales and two thirds of lifecycle sales - with significantly higher margins than in the conventional business model and with a constant cash inflow over the term of the contract.

## Slide 11

Cloud-based web-to-pack platform launched in China.

**The market for small and individual editions is growing continuously.**



Another development from which Heidelberg will benefit is the trend towards individualized print products with ever shorter job runs. This trend strengthens the position of digital printing. Heidelberg has had a market share of less than 5% in this segment to date. We intend to increase this share with our innovative digital printing machines, especially for packaging and label printing.

Our digital printing flagship is the Primefire 106 for packaging printing, which has been in series production since mid-2018. Since individualization is gaining in importance in packaging printing, the Primefire is also gaining in importance. An important step that we have taken this financial year with the Primefire is a digital ecosystem for this machine. For Chinese packaging producer Xianjunlong Colour Printing, one of the largest in the Middle Kingdom, we have implemented the world's first web-to-pack platform - called "Boxuni". And a complete digital production line for designing, ordering and printing individual folding cartons.

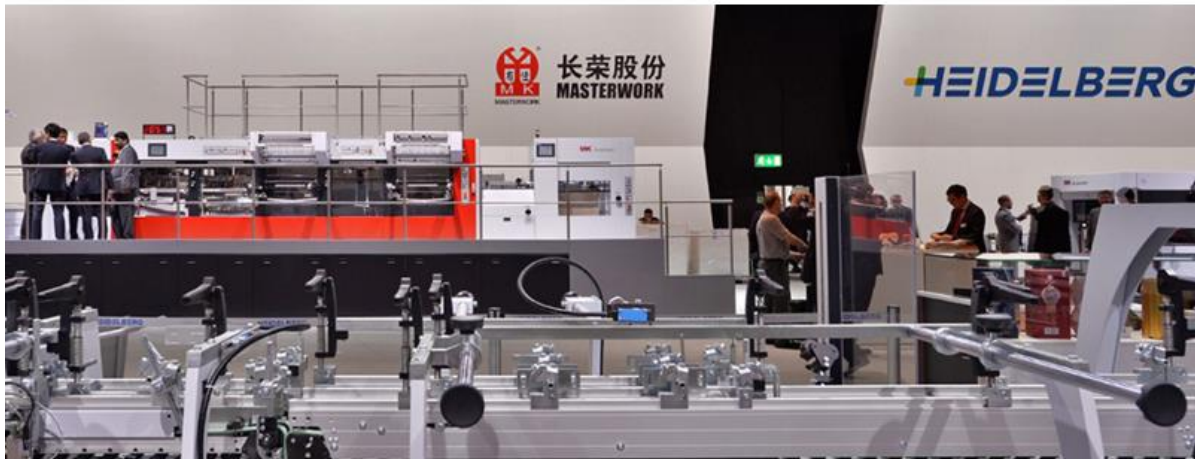
Web-to-Pack is a fundamental philosophy to make your own business and the entire process organization fit for the future in the age of Print 4.0. The "Boxuni" platform links packaging designers, print buyers and print companies and combines Heidelberg's software and technical expertise with Xianjunlong's strong presence in



the Chinese packaging industry. We presented the system at the Print China trade fair in April. The response was excellent.

## Slide 12

Packaging printing in China is on the rise.  
Benefiting from growth with the strategic partner Masterwork.



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To further boost its success in the Chinese packaging printing market, Heidelberg acquired a long-term strategic anchor shareholder from China in March 2019 as part of a capital increase. It is Masterwork Group from Tianjin. We have been cooperating with printing equipment manufacturer Masterwork since 2014 for the mutual benefit of both parties. Masterwork now holds around 8.5% of Heidelberg shares.

Over the next few years, disproportionate growth is expected worldwide in packaging printing. Heidelberg already holds a leading position in Europe and America - and Masterwork is one of the largest Chinese providers of postpress services for packaging. Through our closer ties to Masterwork, we will significantly expand this position in the world's largest packaging market, China, but also in other regions. We are also planning a manufacturing joint venture. This will enable us to significantly increase the proportion of supplier parts that we purchase locally for our Chinese factory. This will also have a positive effect on our net working capital.



## Slide 13

Operational Excellence.

New Innovation Center opened with Prime Minister Kretschmann.



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I mentioned sustainable structural improvements earlier. One of these is our new innovation center. At the official opening on 13 December, Baden-Württemberg's Prime Minister Winfried Kretschmann said: "Chapeau for this lighthouse. The Innovation Center is a living and impressive example of how the digital future is being shaped." We see it the same way.

On a total gross area of 40,000 square meters, around 26,000 square meters of state-of-the-art office space and around 14,000 square meters of laboratory space have now been created. Such a research and development environment right next to assembly accelerates the agility and cultural change of our company.

Our new innovation center is the world's most modern development center in the industry and a key driver of Heidelberg's further digital transformation. It is also the new heart of our company and the future "Heidelberg Digital Campus of Things", which the company will expand step by step.

## Slide 14

Operational Excellence.

Plans for "HEIDELBERG Digital Campus of Things" are making progress.



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I had already mentioned the "Heidelberg Digital Campus of Things" in the first part of my speech and said that I would come back to it in the end. Here we are: On the picture you can see the green area.

Together with the communities of Wiesloch and Walldorf, an intensive exchange is currently taking place regarding a possible design. These considerations include the innovative use of free and vacant buildings and areas as well as new, sustainable jobs at the site. To this end, we would like to transform our Wiesloch-Walldorf site into an industrial park with mixed use, where also external companies can settle permanently. The sustainable and future-oriented development of Wiesloch-Walldorf into the "Heidelberg Digital Campus of Things" is to become the home base for the future growth of Heidelberger Druckmaschinen AG.

The development of the "Heidelberg Digital Campus of Things" would be started in the course of the redensification together with the planned extension of the existing production hall 12, a car park and a service port. We expect this project phase to be completed by the end of 2022.

## Slide 15

Heidelberg goes digital.  
**Becoming more independent of cyclical fluctuations.**



Ladies and gentlemen, we now come to the end of my remarks. Let's sum it up again:

We are sticking to our strategy of consistent digitization with the goal of achieving greater independence from economic fluctuations - even if the noticeable slowdown in economic growth and the resulting difficult industry environment do not make progress any easier. The economic downturn shows once again how important a more robust business model is for Heidelberg.

Despite all adversities, we are striving for a stable sales development.

We are winning more and more customers for our contract business such as the subscription model. As announced, we are revolutionizing our industry step by step. The more subscription customers there are, the larger the share of contract business becomes, the less cyclical Heidelberg will become.

Digital printing is the growth segment in our market. We are particularly well positioned here with our Primefire. Customers have recently started to invest extremely cautiously due to the general economic conditions, which is normal in



such times. The opportunities are enormous, because this technology has the potential for disruption.

And I have just updated you on our progress in Operational Excellence. We will press ahead with the measures at full speed. Short-term top priorities are cost savings and the reduction of net working capital as an antidote to the consequences of a possible further economic downturn.

## Slide 16

### Heidelberg goes digital!

Heidelberger Druckmaschinen AG | Annual General Meeting

Rainer Hundsdörfer (CEO) | 25 July 2019





Ladies and Gentlemen,

In the short term, we must stabilize the Heidelberg business and keep our finances under control. In the medium term, we want the company to generate sustainable and profitable growth. Our vision is to build the leading ecosystem for the global print media industry. To achieve this, we must continue to improve every day - especially now during the economic downturn.

We will persevere, even if circumstances do not make things easier for us. We will remain courageous, even if this currently requires additional strength. And you, dear shareholders, can rest assured that the entire Management Board will continue to do everything in its power to reward your confidence in our transformation process.

Thank you very much.

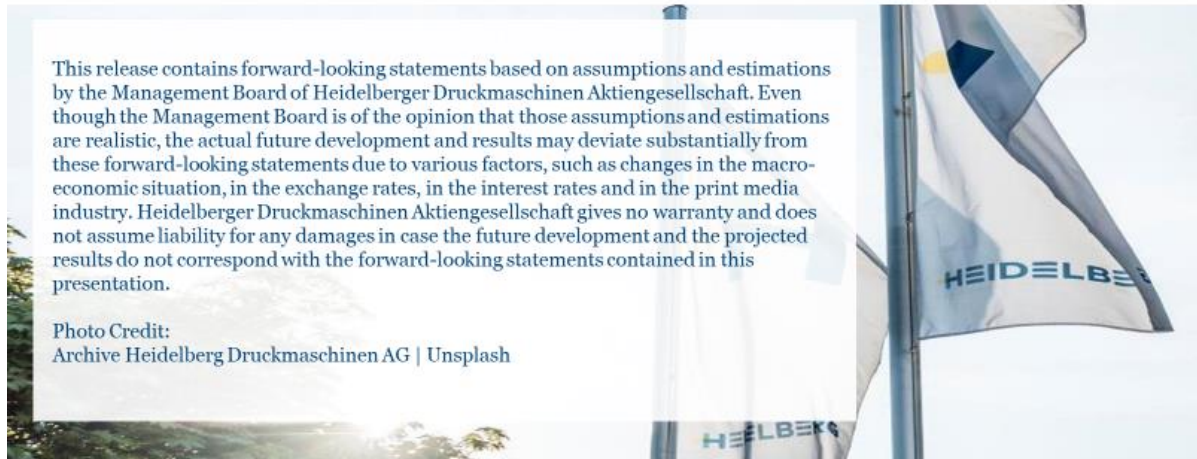
## Slide 17

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