

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

**Pre-release on 14 July 2022**

**Wiesloch-Walldorf**

**Dr. Ludwin Monz  
Chief Executive Officer**

**The spoken word counts!**

## **Welcome**

Dear Shareholders, Ladies and Gentlemen,

Welcome to this year's Annual General Meeting of Heidelberger Druckmaschinen AG, which unfortunately has to be held virtually for the third time in succession.

I would now like to take you on a journey through my first three and a half months at HEIDELBERG and describe my view of our company. In countless conversations with managers, employees and partners, in visits to the company's most important locations and, above all, in several meetings with customers, I have gained a picture of what HEIDELBERG is all about, how HEIDELBERG is perceived by its most important stakeholders and what potential the company has.

Ladies and gentlemen, I am certain: HEIDELBERG is one of the leading mechanical engineering companies in Germany and has know-how that is as broad as it is deep, and thus has great potential both in the core business of printing and in related areas. We are supported by highly loyal customers who have witnessed how HEIDELBERG, with its tradition of more than 170 years, has repeatedly shaped the printing industry with new technologies and products.

The HEIDELBERG brand is well known and stands for innovation, excellence, top performance and quality in mechanical engineering - both in hardware and in electronics and software.

## **A strong brand**

This is certainly not often the case in Germany.

Our products inspire with their performance, functionality that is perfectly tailored to customer needs and with tailor-made, innovative as well as creative solutions to the challenges faced by printers.

But this alone is no longer enough today, given the dramatic and dynamic changes in our customers' environment. The competitive pressure on print shops is increasing, they are suffering from the high cost of materials, and recruiting staff presents them with enormous challenges.

The change in the printing industry was initiated by digitalization. That is why HEIDELBERG has been working very intensively on software solutions, digital printing processes and new business models in recent years. In this way, we can address the aforementioned challenges of our customers. A good example of this is consistent and simplified processes in the pressroom. The highly automated control and simple operation of the machines simplifies the complex production process and makes it more productive.

The software not only assists and optimizes the production process, but also simplifies the commercial level. It creates transparency about the profitability of the print shop, integrates the print shop's customers into the processes and provides support for administrative processes that would otherwise have to be carried out manually.

Today, our customers buy much more than just a press. They gain access to a value-added ecosystem: a global and fast service, a comprehensive range of consumables, and easy-to-use digital and data-based services. We can do this because a multitude of sensors in each of the approximately 13,000 installed machines provide several million data points every day. From this wealth of experience, we learn how we can further optimize our products and services for the success of our customers.

Ladies and gentlemen,

So much for my first look at our company. I am pleased that my start at HEIDELBERG coincided with the announcement of an operationally very successful financial year. Our company has successfully mastered the phase of economic recovery and the restoration of stability.

A great deal has also already been done in terms of the strategic and content-related realignment of the company. And yet we are still at the beginning here. By focusing on our profitable core business, however, we now have the financial and balance sheet resources to continue developing the content of our company.

In the meantime, the capital market has very clearly rewarded HEIDELBERG's economic recovery, but also the success of the still quite young business field of electromobility, with a multiplication of the share price. This led to the company's return to the SDAX in December 2021 after an absence of more than one year. However, the general economic conditions have changed significantly in the meantime. In particular, we are feeling the economic consequences

of the war between Russia and Ukraine. This is making itself felt on the capital markets across almost all sectors and is thus not only affecting HEIDELBERG. For example, the DAX sub-index for industrial machinery manufacturers has fallen by over 40 percent since the beginning of the year.

Ladies and gentlemen,

I would now like to present to you the key financials of our past financial year 2021/22, which ended on March 31, 2022. It was a successful year with significant operational progress and the renewed reporting of a substantial net result after taxes and a noticeable strengthening of balance sheet resilience.

### **Financial year 2021/22 at a glance: Significant recovery compared to previous year**

While the previous year 2020/21 was still heavily impacted by the Covid 19 pandemic, the markets recovered noticeably in 2021/22. We also benefited from this. Order intake increased significantly by 23% to €2.45 billion and sales by 14% to €2.18 billion. The different growth rates of these key figures are primarily attributable to the strong market recovery at the beginning of last year, which was only reflected in rising sales revenues with a time lag over the course of the year due to the usual delivery times.

Our earnings also developed very positively. The EBITDA margin was improved by 230 basis points to 7.3%. This is truly remarkable against the backdrop of the in part massive increases in the cost of materials as well as the full write-downs of all our Russian assets. The increase is due to the successful reduction of structural costs as well as the significantly higher sales volume. At the same time, non-operating income, which was still intended to compensate for the corona-related underutilization of capacity in the previous year, was already significantly reduced in the year under review and replaced by operating income. The operational improvement in EBITDA amounted to more than € 150 million in the past financial year. We were also able to report a significant increase in net result after taxes, which amounted to € 33 million. The improvements in the financial result also had a positive impact here, which was due to the massive reduction in debt.

### **High order backlog forms good foundation for new financial year.**

As a consequence of the strong order intake, the development of our order backlog at the end of the financial year was particularly pleasing. This is an important indicator for the new financial

year. At around €900 million, we achieved the highest level in the last ten years, €260 million more than a year earlier. This means that the ratio of orders on hand to expected sales is also at a record high, which makes us cautiously confident for 2022/23. It is also worth noting that the ratio of equipment sales was even higher, meaning that large parts of our production capacity are being utilized well into the financial year.

### **Order intake and sales increase in all segments**

A look at the development of the segments shows that we were able to make substantial gains in both the Print Solutions segment, i. e. commercial printing, and the Packaging Solutions segment. Incoming orders and sales recovered most strongly in commercial printing in the past financial year. However, customers in this segment were also particularly hard hit by the economic consequences of the Covid 19 pandemic in the previous year. By comparison, packaging and label printing is much less susceptible to economic fluctuations, as packaging is needed for the basic supply of food and pharmaceuticals. This can be seen, for example, in the consistently high volume of printing by customers in this segment during the pandemic. A change in consumer behavior also had a positive impact on the Packaging Solutions segment. Accordingly, there was increased demand for sustainable and paper-based packaging. Overall, the Packaging Solutions segment also recorded a significant increase in key figures compared to the previous year.

Both segments benefited equally from a strong increase in new press business in the past financial year, which was partly due to the successful market launch of the new Speedmaster CX 104 universal press. In regional terms, almost all regions in both segments recorded growth, with the largest contribution coming from Central Europe and Asia.

The development in our dynamically growing area of **electromobility** was outstanding. This is reflected in the performance of the Technology Solutions segment. Here, sales of charging stations for electric vehicles, known as wallboxes, increased by more than 120% to around €50 million in the past financial year. This growth is purely organic and does not yet include the activities acquired from EnBW. In view of the restrictions in the supply chains that were also felt in this business, growth was actually slowed down and would actually have been even higher. This is also weighing on us in the new financial year; we will therefore probably not see the growth rate from the previous year in this financial year. Unlike other market players, our

electromobility business is already profitable despite high expansion and start-up costs. You can also see this in the results of the past financial year in the Technology Solutions segment, despite the initial losses of our industry platform Zaikio.

### **Strengthening of balance sheet resilience. Net financial debt reduced.**

In balance sheet and financial terms, HEIDELBERG faced massive challenges before the start of the extensive restructuring measures more than two years ago and in view of the enormous impact of the Corona pandemic. It is therefore all the more remarkable what the Executive Board team, my predecessor Rainer Hundsdörfer and my colleague Marcus Wassenberg, have achieved since then to improve the Group's balance sheet resilience and put us back on a solid financial footing. For example, thanks to the successful repayment of loans and borrowings and the repayment of the outstanding portion of the convertible bond, financial liabilities were further reduced to just €135 million in the past financial year. In the process, net financial debt fell from € 67 million to € – 11 million as a result of the once again positive free cash flow. In addition to the proceeds from the sale of assets no longer required for operations, the free cash flow in the past financial year increased from € 40 million to € 88 million, primarily due to the noticeable improvement in the operating cash flow. HEIDELBERG also made clear progress with its equity ratio, which increased from 5.1% to 11.1% in a twelve-month comparison. In addition to the positive net result after-taxes, this gratifying development is also attributable to the normalization of the pension interest rate. At the end of the financial year, the general interest rate level rose by around 2 percentage points, resulting in a declining pension provision.

Ladies and gentlemen,

My interim conclusion from the analysis of the key financial figures is: Despite headwinds, we have stabilized our leading position in the core market of the printing industry and made ourselves financially fit again to leverage further growth potential for HEIDELBERG in the future.

### **Financial Year 2021/22 Success Factors.**

I would now like to turn to the success factors that have made the strong financial performance possible:

- 1. Packaging printing** - here we have made a major breakthrough with the **introduction of a new printing press with** outstanding features, the Speedmaster CX 104.

2. **Establishing new business models** for generating recurring revenue.
3. The **development of new markets**. Our current example is the business with charging units for electric vehicles, which developed excellently in the year under review.

### **Successful market launch of the new Speedmaster CX 104 press.**

So, let's start with our new product, the Speedmaster CX104.

HEIDELBERG continued to invest in innovation even during the Corona crisis. As a result, we were able to further extend our technological leadership with the introduction of the Speedmaster CX104 printing press.

The new product has been extremely well received by our customers worldwide. This is shown by the extremely positive sales figures. To date, more than 2,000 printing units of the press have been sold in over 40 countries. The variety of models we offer for the Speedmaster CX 104 is particularly appreciated, ranging from presses with 2 to 16 units. We have already sold a total of 37 different models, often as long packaging presses with a large customer-specific component.

We produce the machine in Germany as well as in China. This allows us to have a strong position in the Chinese market as well as in the rest of the world. HEIDELBERG is the only printing press manufacturer that produces locally in China. This allows us to benefit from favorable cost structures and direct market access. This has just paid off in the pandemic.

### **Establish new business models. Increase recurring revenue with subscription.**

I would like to continue with the second success factor, the new business models.

The sale of printing presses is typically a capital goods business. Therefore, press sales are cyclical and dependent on the business cycle, in contrast to recurring sales. Our service business belongs in this category, as does our consumables business.

So, our goal is to expand recurring revenues. This is why HEIDELBERG offers its customers a **subscription model**. While in the classic business model the customer buys the press and pays separately for consumables and services, in the subscription model the customer pays exclusively for a productive industrial service, namely for the number of sheets printed. In the

maximum configuration level, the sheet price covers everything - all the equipment, all the consumables required such as printing plates, inks, coatings, washing agents, blankets, a comprehensive range of services geared to availability, and performance-based consulting services.

The subscription approach offers our customers attractive, consumption-based financing. At the same time, subscription helps print shops to improve their processes and increase their productivity. It relieves them by automating the supply of consumables and organizing logistics.

We started rolling out this model two years ago. In the meantime, around 100 subscription contracts have been concluded. The high flexibility of the approach has proven to be particularly attractive for our customers. The components of consumables, services, software, consulting and training in particular are attracting a great deal of interest.

A good example is the Bertelsmann Printing Group, which has just reaffirmed its partnership with HEIDELBERG and signed two more subscription smart contracts. This includes service and inventory management for selected consumables and spare parts

I would also like to mention that last year we gained a strong **financing partner for the subscription model** through our partnership with the large insurance group Munich Re. This means that the financing of the machines is not a burden on our company.

Meanwhile, the growth of the subscription business is also having an impact on the figures: the share of recurring revenue in the 2021/22 financial year was 13.3% - and this despite the significant recovery in the transaction business.

### **Development of new markets with significant growth. Megatrend e-mobility offers great sales potential.**

This brings me to the third growth driver of the last financial year, our business in new markets for HEIDELBERG. We were able to continue the success story of our electromobility business with impressive growth. This allowed us to continue investing in this business. We have now placed our charging technology under the AMPERFIED product brand. We have now sold 130,000 wallboxes. Our international roll-out is off to a successful start and is initially focusing on the European region and the UK. I will come back to the future development of our electromobility business in a moment. At this point, I'll just say that we worked on expanding our product portfolio last year and also acquired charging technology from EnBW. The partnership



with SAP that we concluded last financial year is also important for the further development of the business.

### **Looking ahead: strategic priorities**

Ladies and gentlemen,

With this I would like to conclude the review and in the following talk about the further development of HEIDELBERG.

The starting point for these considerations is our current position in the market: HEIDELBERG is one of the leading mechanical engineering companies in Germany. Our core business is printing, which offers us growth options in the packaging printing segment. At the same time, we can continue to develop technologically, for example in the area of digitalization. We have very loyal customers, our employees show great enthusiasm for what they do. Their unique know-how in the areas of technology and application form the basis of our success. This in particular opens up another option for us, namely, to expand our business beyond the area of printing and to occupy new markets for us.

In the future, HEIDELBERG will have to strike a balance between the further development of its core printing business on the one hand and the development of new business on the other. Accordingly, we will pursue a two-pronged strategy:

It is our claim that HEIDELBERG will continue to be the technology leader in the printing sector in the future. That is why we continue to invest in the core markets of commercial printing and packaging printing. Our success in the printing sector will provide us with the financial leeway to drive our expansion into new fields as well. Because HEIDELBERG can do even more: we have an enormous breadth and depth of technologies at our disposal. HEIDELBERG has great capabilities in product innovation, industrial production, worldwide sales and service. These capabilities allow us to occupy new business fields. Let me talk about the two strategic thrusts.

First of all, the area of printing. A major challenge facing our customers is the **increasing cost and competitive pressure**. One consequence of this development is the wave of consolidation in the printing market that we have been observing for many years. It is therefore essential to increase the competitiveness of our customers. The most important lever for this is the **productivity** of the production process in the printing plants. HEIDELBERG is very close to this with its products and services.

One lever for more productivity lies in ever more productive machines, be it printing presses or finishing machines. Another lies in the integration of the entire process, from digital preparation to the creation of the printing plates, the printing itself and the multi-step post-processing. Controlling the flow of materials, optimizing machine utilization and minimizing manual intervention are all aspects of the complex control system. HEIDELBERG can support this task "end-to-end" with its software solutions. In addition, we deliver additional customer benefits and productivity gains via our holistic consulting services, for example as part of the subscription offers already mentioned.

A second, probably even greater challenge for our customers is the ever-worsening shortage of skilled workers. Print shops are struggling to recruit and train suitable staff. It is not uncommon for print jobs to be rejected or postponed due to a lack of the necessary personnel. HEIDELBERG addresses these issues through innovations and offers around the **topic of automation**.

HEIDELBERG has also gained a clear competitive advantage here with its fully digitalized "Push-to-Stop" technology. The aim is to drastically simplify and automate machine control.

The "Push-to-Stop" operating philosophy has initiated a paradigm shift in industrial print production. Whereas processes were previously started actively by the operator, this is now done by the machine itself. The operator only interrupts the autonomously running process chain when necessary. This raises the efficiency of print production to a previously unattained level, makes processes easier to plan, and reduces the error rate thanks to continuous process monitoring. All Speedmaster presses are now "push-to-stop" capable and offer navigated printing, intelligent assistance systems and inline color control. In conjunction with automatic plate changing, the presses can even print autonomously.

Solutions that address our customers' challenges are the best guarantee for future growth in the printing sector. Packaging printing in particular is an attractive segment for innovations, because demand is increasing here. We will consciously develop this segment further with innovations.

In addition, as mentioned above, for the printing business as a whole, a continued increase in recurring revenues will ensure stability and rising profitability.

This brings me to the second strategic thrust, the development of new markets.

### **Looking ahead: HEIDELBERG opens up new markets.**

It is our declared goal to continue the success story of our electromobility business. Here you can see the growth curve of sales of charging boxes from quarter to quarter. The business currently consists of wallboxes, which are particularly suitable for equipping homes. We will expand our product range at the end of the financial year with smart and networkable devices that represent an attractive solution for apartment buildings. Important requirements are an authorization system for access to the charging station and a billable logging of electricity consumption. We also want to expand our offering to supply entire charging parks and to be able to manage vehicle fleets. The software cooperation with SAP agreed at the end of 2021 will also contribute to this. For example, the SAP electromobility solution will enable billing processes to be integrated with corporate ERP systems so that the consumption of company vehicles can be billed. And finally, in addition to our offering for private customers, we also want to establish ourselves as a provider of public solutions. Among other things, the purchase of parts of EnBW's charging station technology has contributed to this.

Naturally, we are interested in expanding our activities in the area of new business fields beyond charging technology. We are actively looking for interesting and suitable growth areas and technological applications. At present, however, it is still too early to be able to report on results.

### **Looking ahead: Outlook 2022/23**

#### **Activities in sustainability management intensified. Climate neutral by 2030.**

When looking ahead, one topic must not be missing: sustainability. Not least the increasingly noticeable climate change, environmental pollution, water shortages or the galloping consumption of raw materials remind us that responsible action by all players, including industrial companies, is necessary to stop or at least slow down the sometimes-dramatic developments.

HEIDELBERG is aware of its social responsibility. We have set ourselves the goal of becoming climate-neutral by 2030. To achieve this, we will significantly reduce our energy consumption and accelerate the expansion of our own electricity production. We are gradually converting our sites to the purchase of green electricity, reducing CO<sub>2</sub> emissions and offsetting unavoidable emissions with emissions certificates. HEIDELBERG already offers products with CO<sub>2</sub>-neutral production. Here, unavoidable emissions are compensated with certificates.

The development of our largest production site in Wiesloch-Walldorf should also be seen in this context. We introduced measures to optimize space in the financial year before last. The effect is already clearly visible, as natural gas consumption was reduced by more than 20 percent in the past financial year. We will leverage further potential by modernizing the infrastructure over the next few years and further reducing energy consumption with holistic energy concepts. For example, a potential analysis for our largest assembly hall at the Wiesloch-Walldorf site, which has an area of approximately 72,000 m<sup>2</sup>, has revealed concrete starting points for reducing the hall's heating requirements by up to 60 percent. In addition, we want to expand our own power generation in the future, for example through photovoltaic systems.

Ladies and gentlemen,

I would now like to turn to our expectations for HEIDELBERG's economic development in the new financial year 2022/2023. As mentioned, the company's financial recovery in the last two years has created good conditions for positive development. The good order situation makes us optimistic, while the fragile global economic situation and the challenging political situation call for caution. In particular, the further development of the war between Russia and Ukraine and the related economic effects remain incalculable. We have had to largely discontinue business in Russia itself now that almost all of HEIDELBERG's products and spare parts are covered by the export restrictions imposed by the European Union in connection with the sanctions against Russia.

**Opportunities and risks: To be balanced in the new financial year 2022/23.**

Our outlook for the 2022/2023 financial year takes into account the opportunities and risks for HEIDELBERG that can be assessed at the time of the forecast. In addition to the high order backlog already mentioned, this also includes the fact that we have already been able to implement a higher price level to pass on our cost increases. In addition, the transformation program initiated in 2020 will result in a further significant reduction in our structural costs in the current financial year and thus improve our profitability.

On the risk side, first of all the ongoing Corona pandemic in China should be mentioned. The lockdown recently imposed by the Chinese government affected both our customers and our production site near Shanghai. It cannot be ruled out that such a scenario could recur in the future. In the meantime, the lockdown has ended, and we can produce again. However, the imponderables - also with regard to the global supply chains - remain, particularly with a view to

the winter half-year. Further increases in material and energy prices represent a further risk. These in turn could lead to rising personnel costs. As described, however, we are confident that we will be able to pass on a good portion of these cost increases to our customers.

Ladies and gentlemen, let me summarize as follows: Despite the uncertainties I have mentioned, we are cautiously optimistic about the new financial year, but we must keep a close eye on the currently constantly changing framework conditions and their effects.

**Outlook: further improvement in sales and earnings expected. Prerequisite: stable global economy.**

In total, this means that we expect revenues to increase to around €2.3 billion, while the EBITDA margin is expected to rise to at least 8% after 7.3% in the past year. We have based our forecast for the financial year on the current growth forecasts for the global economy at the time of the forecast and take into account the opportunities and risks mentioned.

Even though we will not report on this in detail until August 10, i. e. in just under three weeks, I can already say today that business has continued to develop stably in the new financial year. This is despite the weeks-long shutdown in the Shanghai region in China due to the pandemic and the resulting temporary closure of our site there. The good news, as I just mentioned, is that the situation in China has eased noticeably now that the lockdown has ended, and we have been able to resume production.

Against the backdrop of these developments and assuming that the general conditions do not deteriorate further, we confirm the forecasts we made in June for the full year 2022/23.

### **Key takeaways**

Ladies and gentlemen,

This brings me to the end of what I have to say today, and I would like to summarize three central statements once again:

1. HEIDELBERG had an extremely successful financial year 2021/22, managing to significantly increase revenue, improve operating profitability, strengthen equity and reduce debt.

2. On the basis of our improved financial position, we will press ahead with the strategic development of HEIDELBERG. In doing so, we are pursuing a two-pronged strategy: on the one hand, we are strengthening our position in the core market of printing, and on the other hand, we are expanding our new business in technologically related areas.
3. We are starting the new financial year 2022/23 with a high order backlog. Assuming stable global economic development, we expect growth, an improvement in our EBITDA margin and an improved net result after taxes.

Finally, I would like to take this opportunity to say thank you:

Thank you, dear shareholders, for your trust in our company. I stand for a long-term and future-oriented development of HEIDELBERG, for the systematic creation of sustainable value. We will continue on the course of economic stabilization and strategic realignment of HEIDELBERG. I would be pleased if you as shareholders would continue to support us in this.

Thanks to our customers for their close partnership and loyalty. HEIDELBERG stands for innovation, excellence, top performance and quality in mechanical engineering. We want to continue to contribute to your success with our products and services.

And I would also like to thank our approximately 10,000 employees for their great commitment to HEIDELBERG. Without you, the great progress of the past year would not have been possible.

I would also like to express my sincere thanks to the management and the members of the Supervisory Board for their excellent and trusting cooperation. Their commitment is a central pillar for the Management Board.

I am looking forward to the future and to raising the potential of HEIDELBERG together with the team.

Thank you for your attention, and I will now turn it back to the Chair of the meeting, Dr. Sonnenschein, and I look forward to

your questions in a moment.

**Important note:**

This press release contains forward-looking statements based on assumptions and estimations by the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft. Even though the Management Board is of the opinion that those assumptions and estimations are realistic, the actual future development and results may deviate substantially from these forward-looking statements due to various factors, such as changes in the macro-economic situation, in the exchange rates, in the interest rates, and in the print media industry. Heidelberger Druckmaschinen Aktiengesellschaft gives no warranty and does not assume liability for any damages in case the future development and the projected results do not correspond with the forward-looking statements contained in this press release.