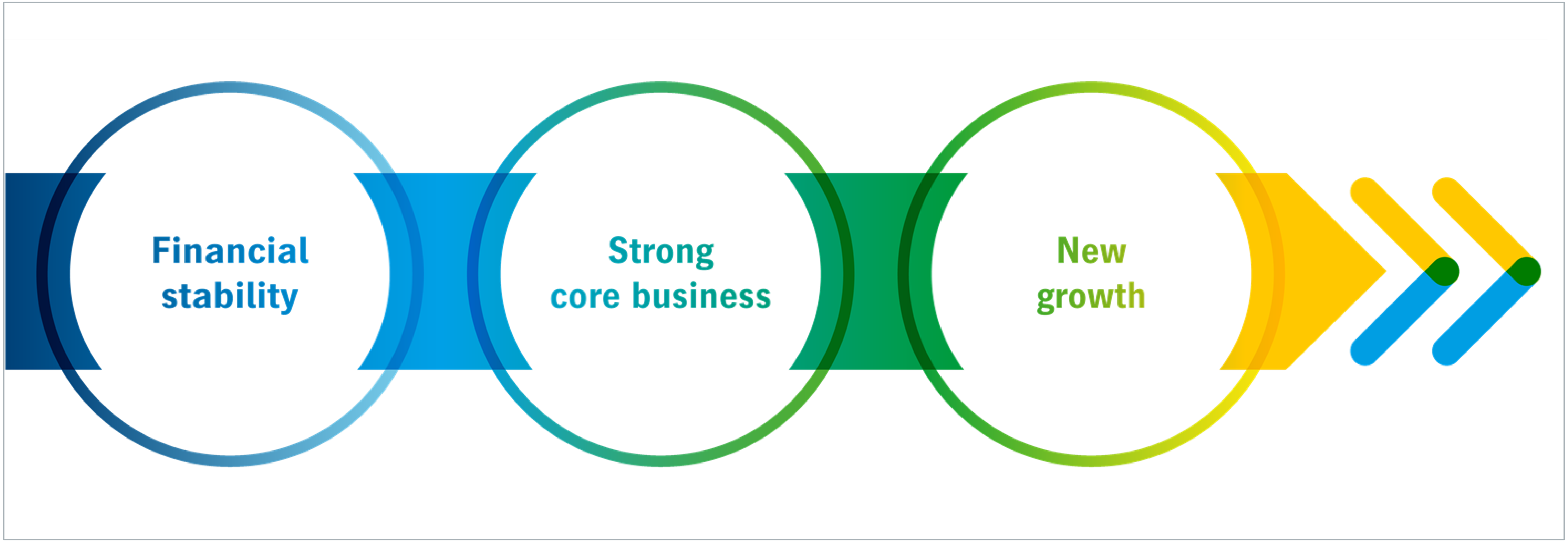
# Financial stability – Strong core business – New growth

**Heidelberger Druckmaschinen AG – Investor presentation**

Marcus A. Wassenberg, CFO | Robin Karpp, Head of IR | December 2020




HEIDELBERG

# Heidelberg.
## Company snapshot.

Technology and market leader with approximately

**41%**

global equipment market share

**#1** World's largest manufacturer of sheetfed offset ("SFO") printing presses

**~ 11,500** employees

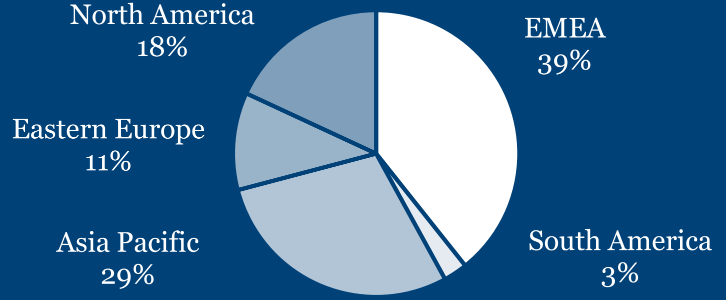
**€2,349m** total sales (FY19/20)

**170** years of tradition – and still today we help define the future trends in our industry thanks to state-of-the-art technologies and innovative business ideas.

Proprietary Sales Organization with presence in more than **170** countries

Reliable and highly innovative partner to the global printing industry

Diversified global reach



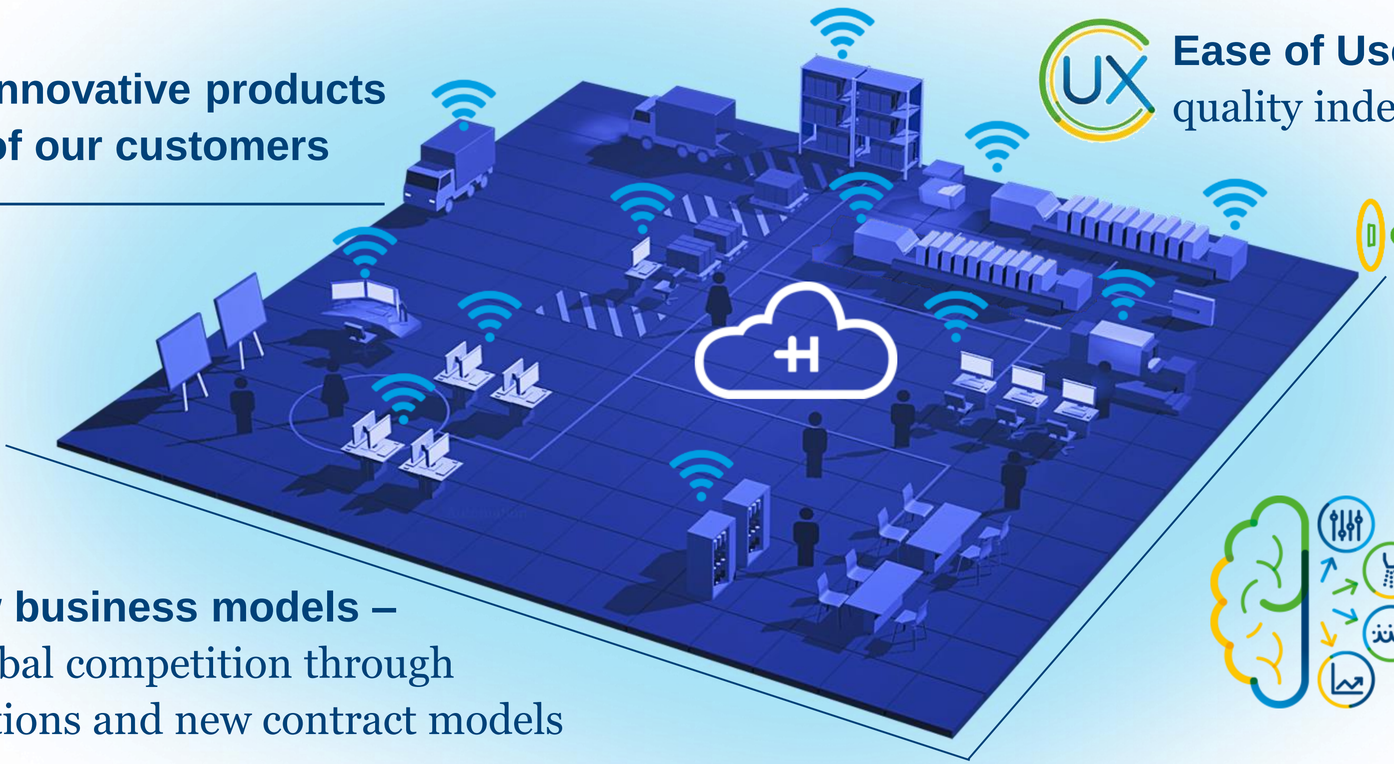

(Incoming orders by region FY 19/20, rounded)

Manufacturing presence mainly in Germany and China.

Integrated system solutions for end-to-end performance increase in print shops and greater customer value by digitization

# Our core business.
# The Smart Printshop.


**Innovative products of our customers**



**Ease of Use –** Productivity and quality independent of the operator.

**Push to Stop** „end-to-end“ – from prepress to postpress.

**Artificial intelligence** & the Speedmaster. Continuous process optimization.

**Big Data & new business models –** successful in global competition through data-based solutions and new contract models

**// End-to-end Print shop performance increase by digitization.**

# Starting point.
## We act – clear goal: Raising the share's potential.

| Past 5 years: 2015-2020 | Stable Sales but missing structural growth (5 years 2.3 – 2.5bn €) | EBITDA-Margin 4 -7 % (5 years) | High NWC, high CAPEX, high cash interest | High Net Debt & pension liability, low equity ratio |
|---|---|---|---|---|
| **Actions we'have taken** | **Organize structural growth** | **Sustainably increase profitability** | **Increase cash conversion** | **Significant reduction of debt, change in pension scheme** |

**// Comprehensive transformation launched in challenging market environment**

# Our transformation.
## Financial stability – strong core business – new growth.

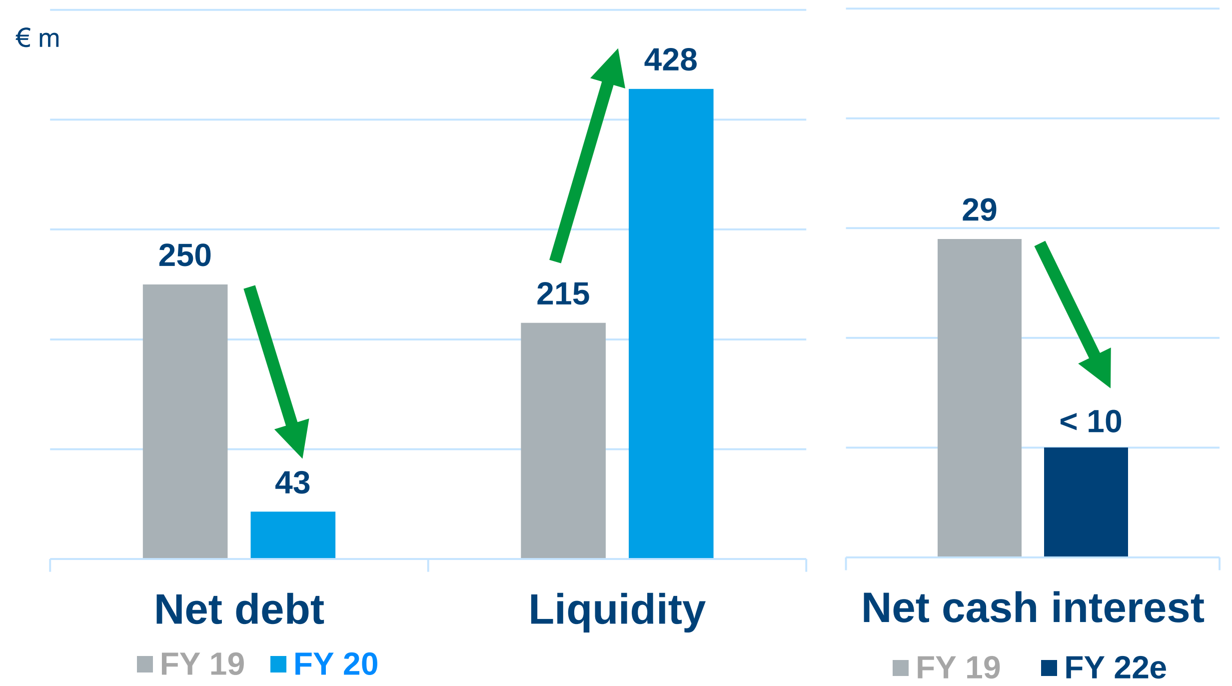

Restructuring/ Turnaround

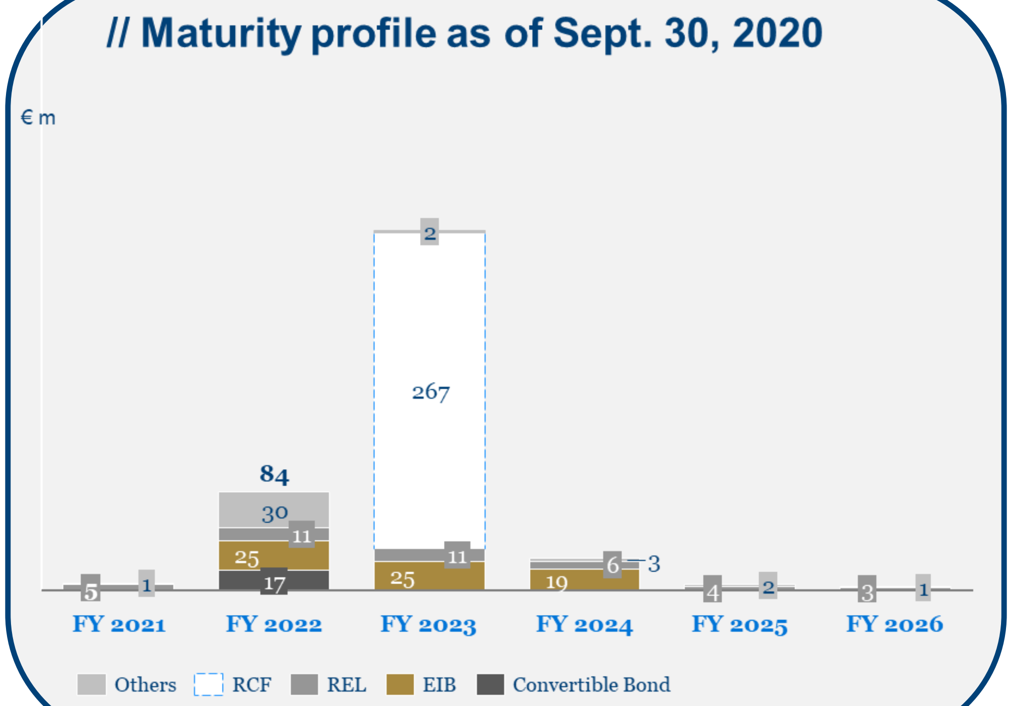
Strengthening & expanding profitability

Future program for new value creation

**// Financial stability as basis for profitability and growth**

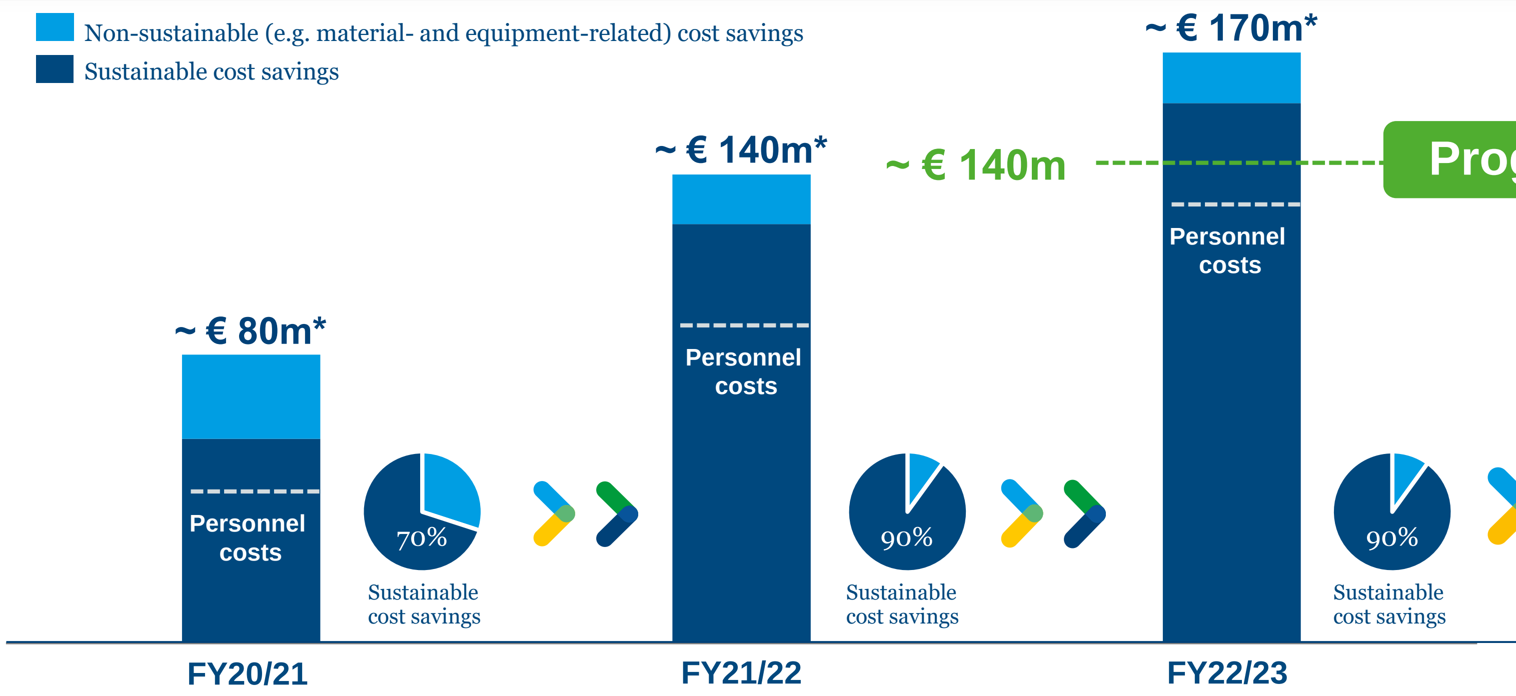
# Financial stability.
## Debt significantly reduced, financial framework stabilized.




// Sufficient free liquidity available to implement the transformation

# Financial stability.
# Restructuring fully on schedule & already with a sustainable impact.



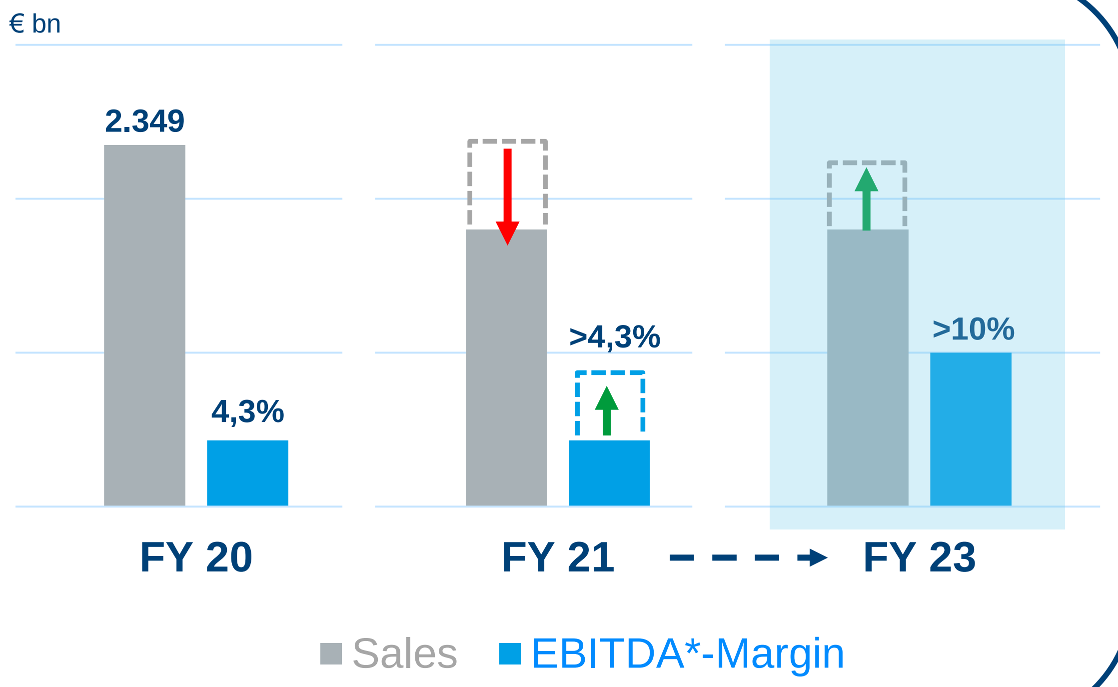

**Program objective**

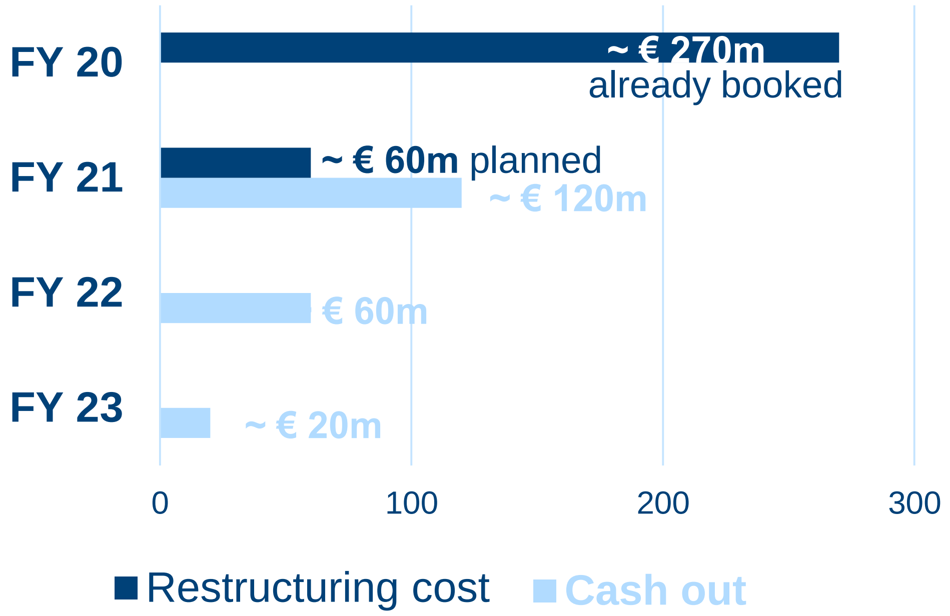
Due to already realized costs savings, **required sales for EBIT break-even** will significantly **decrease to ~ €1,900m in FY 22/23**.

* Expected savings based on the measures defined so far; in €m (status Oct. 2020)

**// The restructuring is showing success – headcount reduction fully scheduled until FY 22/23**

# Financial stability.
# Program is financed entirely from internal resources.



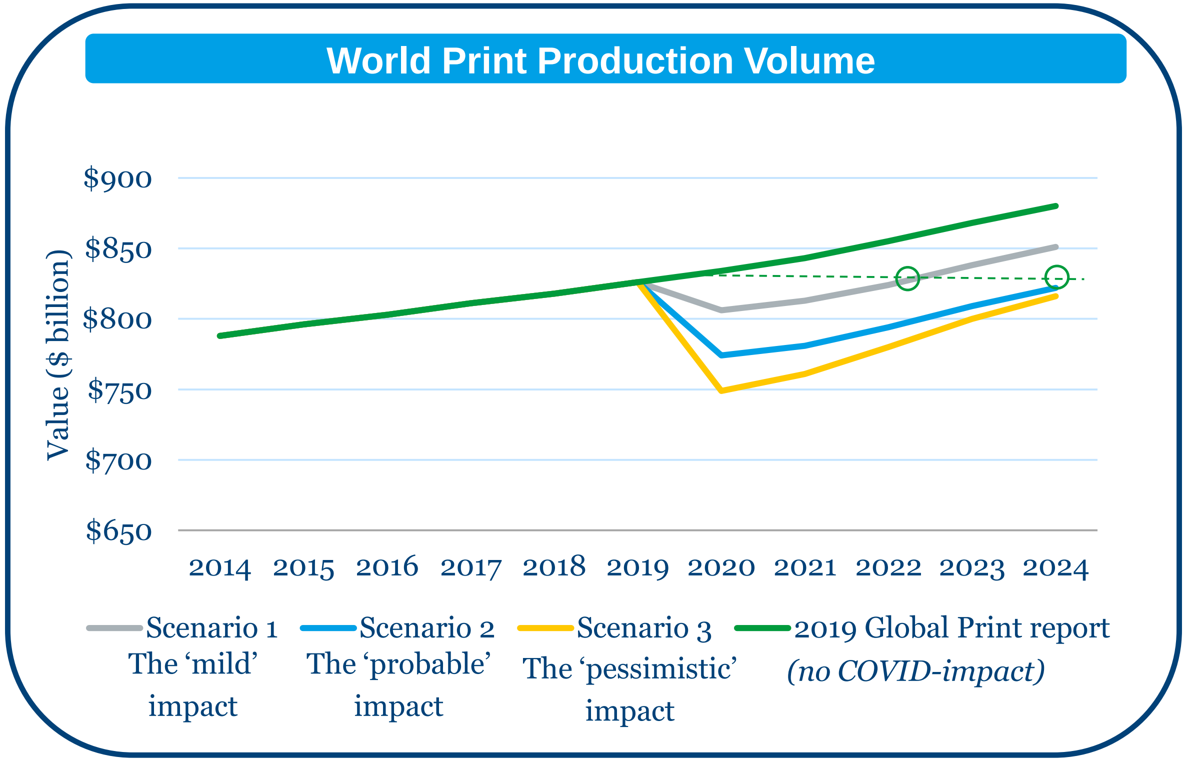

**// Double-digit EBITDA*-margin in FY 23 targeted, top-line recovery up to pre-covid level expected**

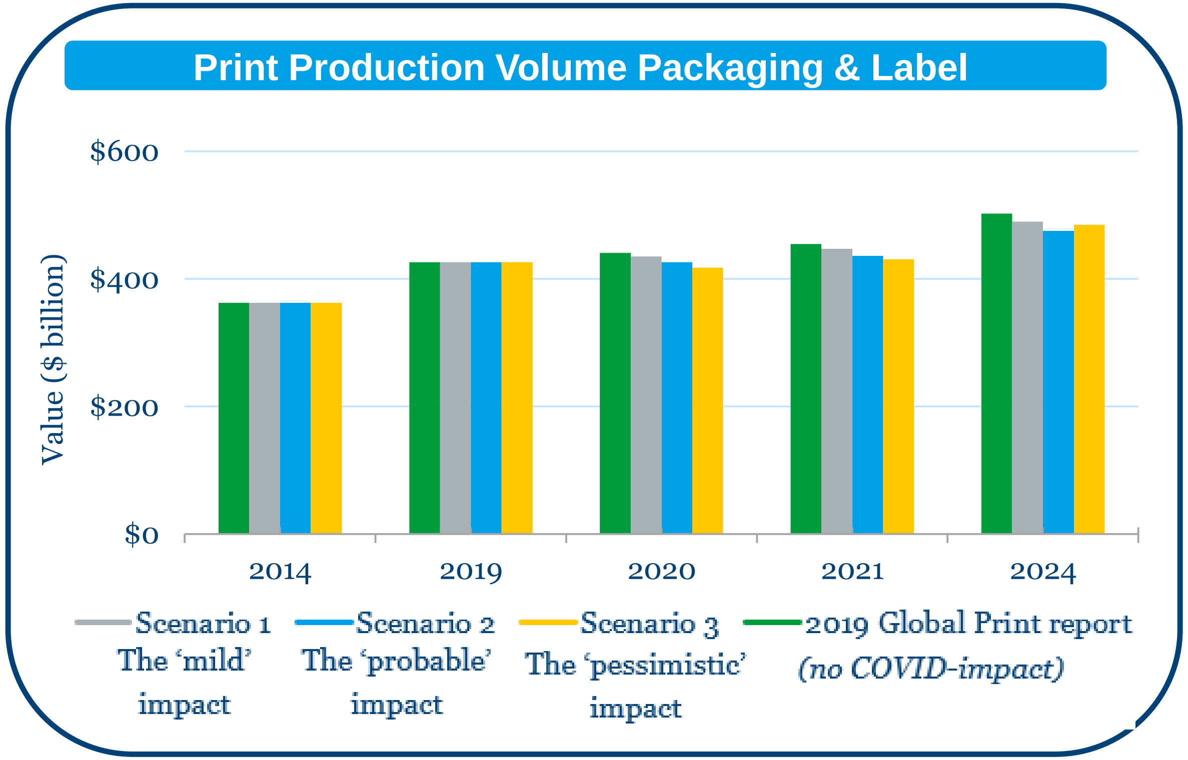
*EBITDA excluding effects of restructuring

Strong core business.

# Print market recovery after Covid-19: Three scenarios.

## // PIRA Market scenarios post covid



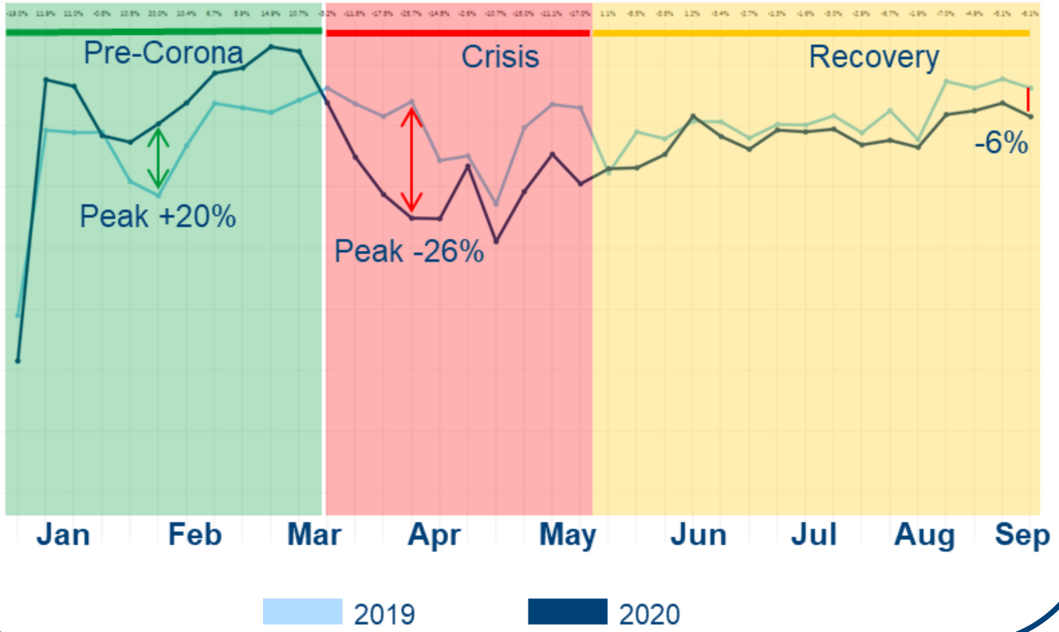




**// Overall market will continue to feel Covid-19-effects until 2024 – packaging and label without slump and further growth**

# Strong core business.
# Packaging and label printers with boom during the crisis.

**// Heidelberg PMI Climate Report – Data from ~5,000 installations evaluated worldwide**

**World Print Production Volume**




**Print Production Volume Packaging & Label**


**// Based on the current Heidelberg database, the global print volume is approaching normalization**

# Strong core business. Overview.
## Supporting recovery of the core business.

**A**

### // Packaging

Expansion of the strong market position in the growing packaging market


**B**

### // New business models

New contract models for growing demand for pay-per-use models

**C**

### // Growth market China

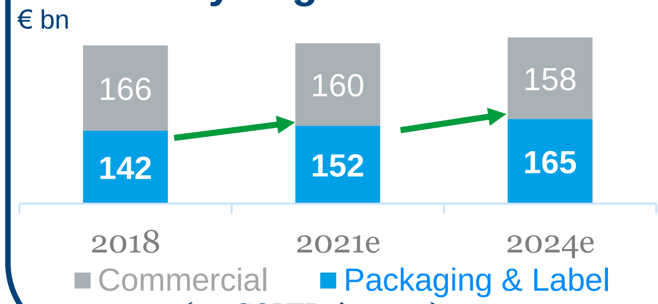
Stronger presence in the Chinese growth market and higher share of value added to improve margins


**// The market offers potential despite consolidation – as market leader we can benefit**

# Strong core business. Packaging.
# Packaging printing more than half of SFO* machine sales.

A

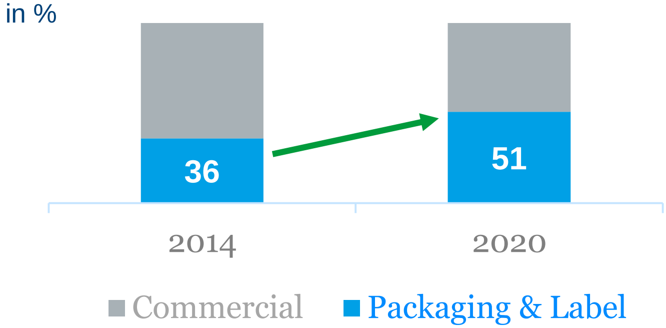
## // Development of the global PPV by segment




*Source: HDM est. - Sept. 2019, industry statistics, PIRA, Jakkoo Pöyry, Primir (GAMIS), Global Insight*

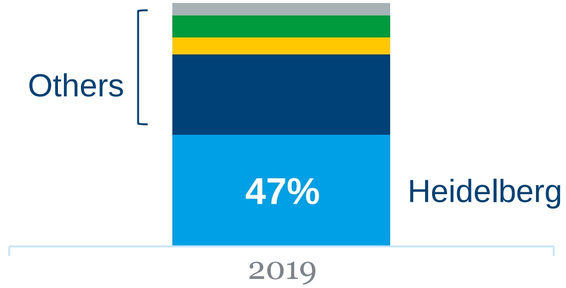
*(no COVID-impact)*

## // Share of SFO* machine sales




* SFO = Sheetfed Offset

## // Market share in Packaging printing (SFO* printing units)




- HDM benefits from **growing e-commerce market** (~15% growth y-o-y in next years), additional push from COVID-19

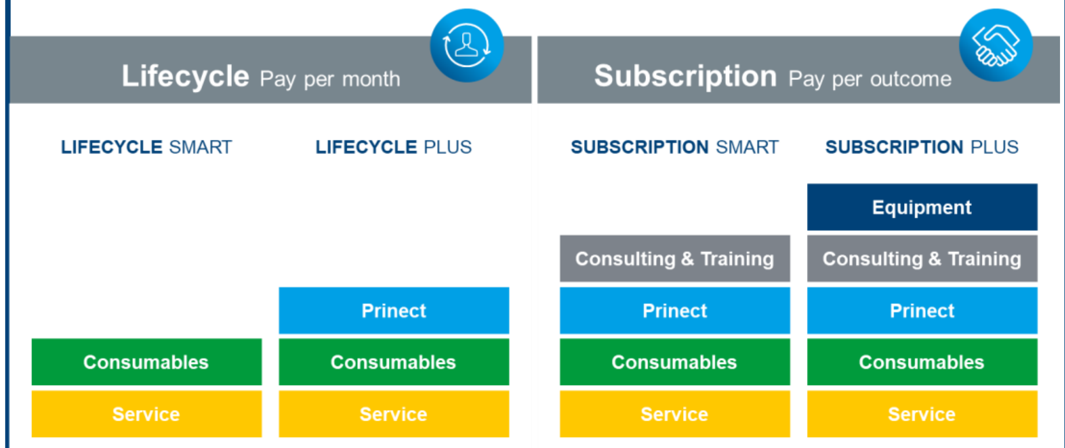
- Increasing environmental awareness, causing plastics packaging to lose share and **demand in paper packaging to increase**

- HDM only player offering **full value chain,** including R&D and product management. Provides end-to-end view on **customer value proposition** and **cross-functional innovations**

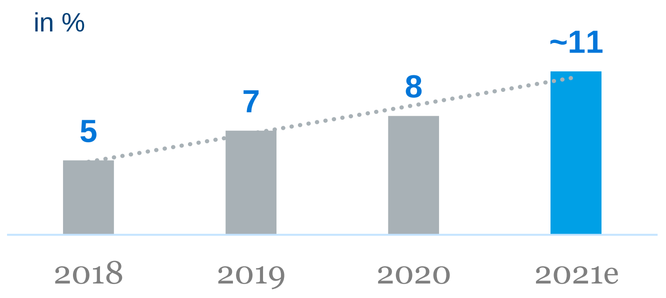
**// Heidelberg is the largest supplier to packaging printers**

# Strong core business. New business models.
# Share of recurring revenue steadily increasing.

B




## // Share of recurring contract business of Group sales




## // ~350 Lifecycle contracts

## // ~70 Subscription contracts

## // Opportunities

**>10,000**
Addressable HDM assets in installed base

**+37%**
Increase in service revenue per machine ('18-'20)

**+14%p**
Recurring revenue share of total lifecycle rev. since FY18

Improved **offering & sales push**

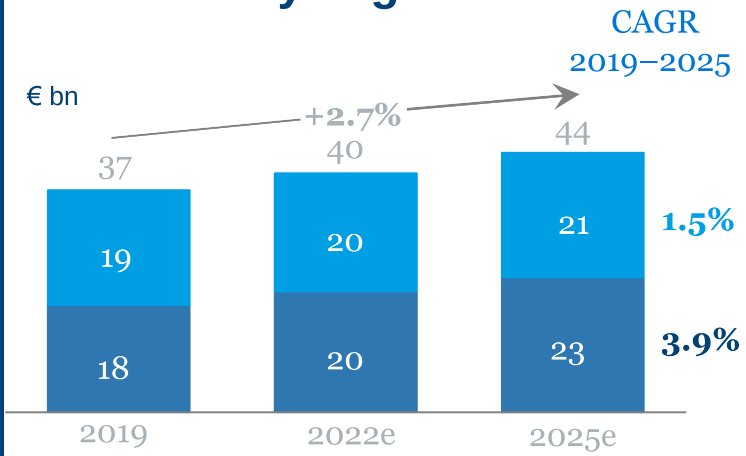
**// Subscription Plus presses showed up to 15% higher print volumes in the shut-down phase than comparable presses.**

# Strong core business. Growth market China.

# Strong market leader with ~ 50% share and further increasing footprint.

C

## // Development of China's PPV by segment




*(estimates without COVID-impact)*

*Source: Heidelberg estimate – September 2020, industry statistics, PIRA, Jakkoo Pöyry, Primir (GAMIS), Global Insight*

## // Printing volume constantly above prior year

**€37Bn** PPV in 2019[1]

**50%+** 2020 SFO market share in both packaging & commercial

**>2.5%** Annual PPV growth between 2019 – 2025

**40%+** Margin improvement (FY16-20) with additional operational initiatives in the pipeline

- China is **largest print market** worldwide with stable HDM market share in both packaging & commercial SFO segments over the last 5 years
- Higher growth rates in packaging & label market with expected ~+4% p.a. between 2019 to 2025e
- Further **shift of production** to China envisioned to leverage economies of scale and increase local sourcing
- JV with MK Masterwork for parts production to be established in China. With the JV, HDM will boost competitiveness in China, especially through the **increasing purchase of local parts**

1. For technologies addressable by HDM, i.e., SFO for commercial, packaging & label and publishing & others; Digital Print for commercial only 2. FY20 – FY25. Source: Company information

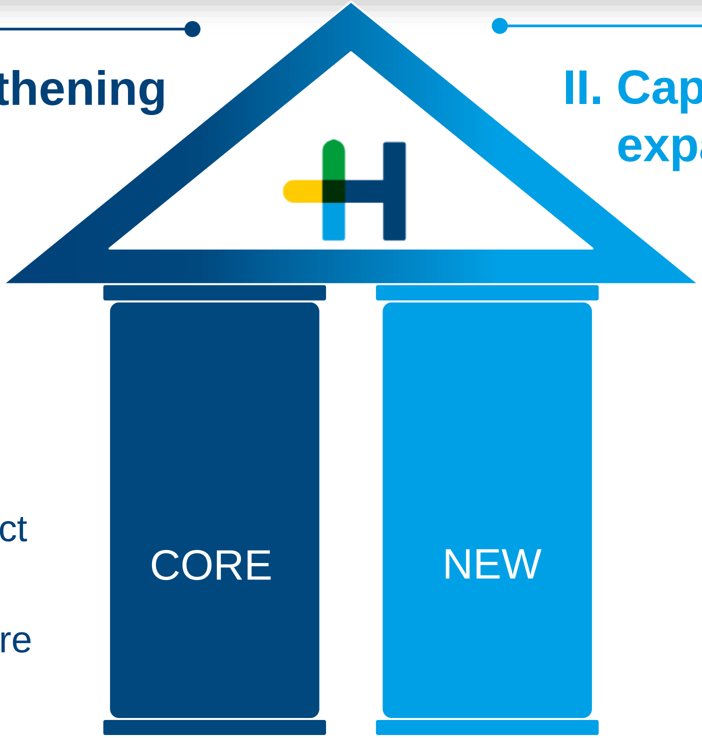
**// Chinese market is relatively stable even in the crisis – with big market potential**

# New growth: Two directions of current strategy process

# **Strengthen our core business & expand into new growth areas**

## I. Improving profitability and strengthening core business

- Leverage leading position in attractive markets with clear focus on **most promising segments:**
  - China
  - Packaging
  - New business models in recurring contract business
- **Leverage market potentials** in sustainable core business and realize full value of core software offering




## II. Capture value within own entities and expand into new growth areas

- Crystalize full value **potential in existing adjacent businesses**
  - Expand HDM's well established **e-mobility** business model
  - Exploit potential in **printed electronics**
- **Expand into new businesses** leveraging HDM's strengths,
  -> **First indications by end of FY 21**

**// Based on a strong profitability we will invest in new sustainable growth areas**

# Key Investment Highlights.

## **Increase equity value for our shareholders.**

HDM has secured financial turnaround, is well on track with restructuring program and will thus **significantly improve profitability**.

HDM will secure profitability by **supporting topline recovery in its core segments** and will leverage further potential.

HDM will detect and expand in **new fields of growth** outside core business.

HDM will **leverage potentials** in its core markets:

- HDM is **market leader in Chinese market** (#1 globally) with strong growth outlook esp. in packaging.
- HDM **Packaging** is in #1 position globally in folding boxes – only player with offering across all steps in the value chain.
- HDM is only player with **recurring lifecycle offering** – from "classic" service contracts to outcome-based solutions.

# Financial calendar 2020/2021.

**February 10, 2021** → Publication of Third Quarter Figures FY 2020/2021

**June 9, 2021** → Publication of the Final Figures FY 2020/2021; Analysts' and Investors' Conference, Press Conference

**July 23, 2021** → Annual General Meeting for FY 2020/2021

- Dates may be subject to changes -

# Disclaimer

This 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 presentation.

# Back-up

# E-Mobility.

## Proof of concept already established – steps taken to substantially scale up the business

### // Market opportunities

**>30 M**
Battery-based electric vehicles by 2030 in Europe

**20%+**
Market share for new installations of private charging points (GER)

**~20%**
Annual growth in private & semi-public EV charging points in EUR (20-25)

Clear
**Growth Plan**

- Rapid increase of electric vehicles expected in coming years
- Trend to continue well beyond 2025 with very limited impact from hydrogen or other technologies
- Accelerating demand for charging infrastructure – both in private and semi-public space
- Strong brand: test winner in ADAC (German Automobile Club with more than 20M members) wallbox test
- Current production capacity of ~1,000 wallboxes per week fully sold out – demand exceeding capacity (i.e., production fully booked out until April 2021)
- For its e-mobility business HDM is assessing different business models and expansions, including further partnerships

HDM with strong position in the German private wallbox market – capacity to be doubled in early 2021 – further significant opportunities to further scale up

# Half-year-figures FY 20/21.
## Successful implementation of the transformation.

- **Incoming orders** down by ~ 32 % yoy due to pandemic – considerable signs of recovery in Q2, especially in new machinery business.
- **Order backlog** in Q2 increased to € 627m compared with March 31, 2020 (€ 612 m).
- **Sales** down approx. 28 % yoy; gradual improvement due to better order situation.
- **EBITDA** excl. restructuring result up by 41 % yoy. Sales-decline was offset by measures from Transformation program and personnel cost reduction, incl. use of short-time work.
- **Restructuring result** in connection with adjustment of personnel capacity at international sites.
- **Financial result** increased mainly due to higher interest expense for pensions and from expenses for the valuation of securities.
- Balanced **Earnings before taxes.**
- **Free cash flow** negative but improved significantly yoy.
- **Leverage** at 1.2 as of Sept 30, 2020 still on low level.

| € m | 6m 19/20 | 6m 20/21 | *Δ PY* |
|---|---|---|---|
| **Incoming orders** | 1,263 | **864** | *-32%* |
| **Sales** | 1,124 | **805** | *-28%* |
| **EBITDA** excl. restructuring result | 69 | **97** | *+28* |
| **EBIT** excl. restructuring result | 22 | **57** | *+35* |
| Restructuring result | -5 | -30 | *-25* |
| Financial result | -23 | -27 | *-4* |
| EBT | -6 | 0 | *+6* |
| **Net result after taxes** | -16 | **-9** | *+7* |
| **Free cash flow** | -100 | **-52** | *+48* |
| **Leverage** | 2.1 | **1.2** | |

# Half-year-figures FY 20/21.

## Net debt on low level – equity ratio burdened by interest rates.

| > Assets<br>Figures in mEUR | FY 2020<br>30-09-2019 | FY 2020<br>31-03-2020 | FY 2021<br>30-09-2020 |
|---|---|---|---|
| **Fixed assets** | **896** | **953** | **914** |
| **Current assets** | **1.389** | **1.532** | **1.060** |
| thereof inventories | 785 | 660 | 1 596 |
| thereof trade receivables | 288 | 299 | 209 |
| thereof receivables from customer financing | 56 | 43 | 42 |
| thereof cash and cash equivalents | 170 | 428 | 2 102 |
| **Deferred tax assets, prepaid expenses, other** | **85** | **118** | **211** |
| thereof deferred tax assets | 75 | 69 | 61 |
| thereof income tax liabilities | 9 | 16 | 16 |
| **Total assets** | **2.370** | **2.603** | **2.184** |

| > Equity and liabilities<br>Figures in mEUR | FY 2020<br>30-09-2019 | FY 2020<br>31-03-2020 | FY 2021<br>30-09-2020 |
|---|---|---|---|
| **Equity** | **244** | **202** | 3 **115** |
| **Provisions** | **939** | **1.338** | **1.294** |
| thereof provisions for pensions | 727 | 986 | 4 978 |
| **Other liabilities** | **1.121** | **995** | **712** |
| thereof financial liabilities | 586 | 471 | 259 |
| thereof contractual liabilities | 195 | 173 | 160 |
| thereof trade payables | 204 | 212 | 136 |
| thereof other payables | 132 | 134 | 110 |
| **Income tax liabilities** | **67** | **67** | **63** |
| **Total equity and liabilities** | **2.370** | **2.603** | **2.184** |
| Equity ratio | 10% | 8% | 5% |
| Net debt | 416 | 43 | 5 157 |

(1) **Net working capital** lowered to € 572m as of Sept 30, 2020 (Sept 30, 2019: € 744m; March 31, 2020: € 645m).

(2) **Cash and cash equivalents** decreased largely due to the early cash repayment of the corporate bond.

(3) **Equity** impacted by another reduction in discount rate on pensions (domestic from 1.8% at March 31, 2020 to 1.4% at Sept. 30,2020).

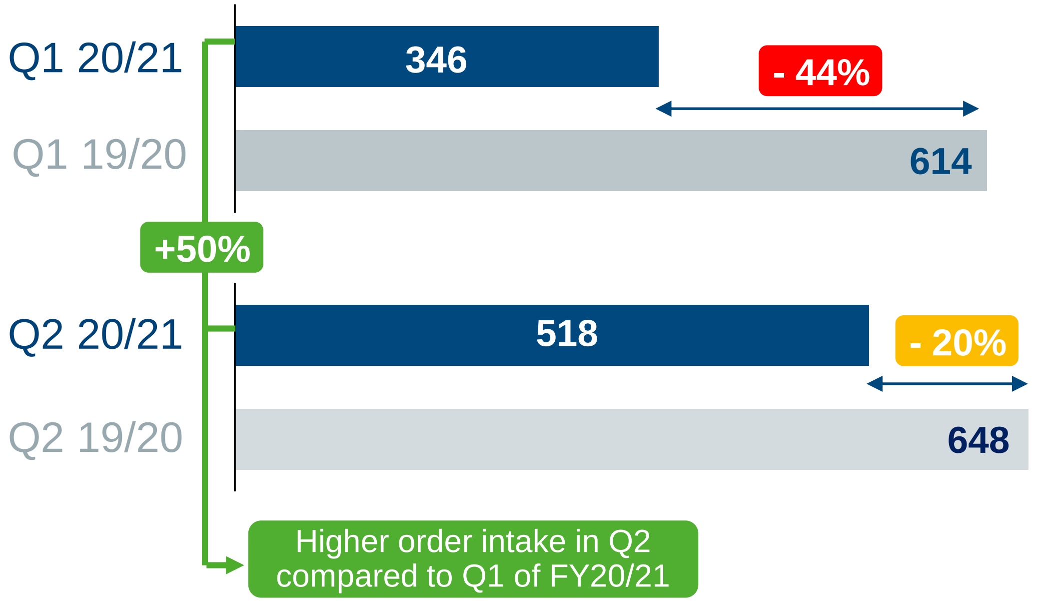
(4) Despite the reduction in the domestic interest rate, **pension provisions** declined slightly to € 978m due to the reorganization of the company's pension scheme.

(5) **Net debt** down to € 157m compared to prior year due to return transfer of trust assets and early repayment of debt.

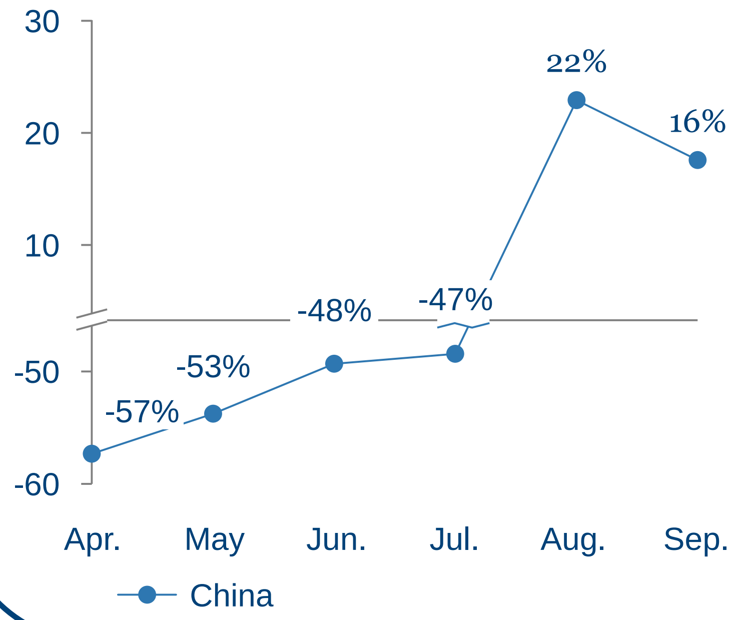
# Half-year-figures FY 20/21.

## Market with visible recovery – steady upward trend in incoming orders.

### // Order intake (per quarter)




### // Incoming orders YoY-change per month FY20-21 (%)




- **Incoming orders in China** in recent months indicate market recovery and **illustrate potential recovery scenario** after COVID-19 lockdown in other regions

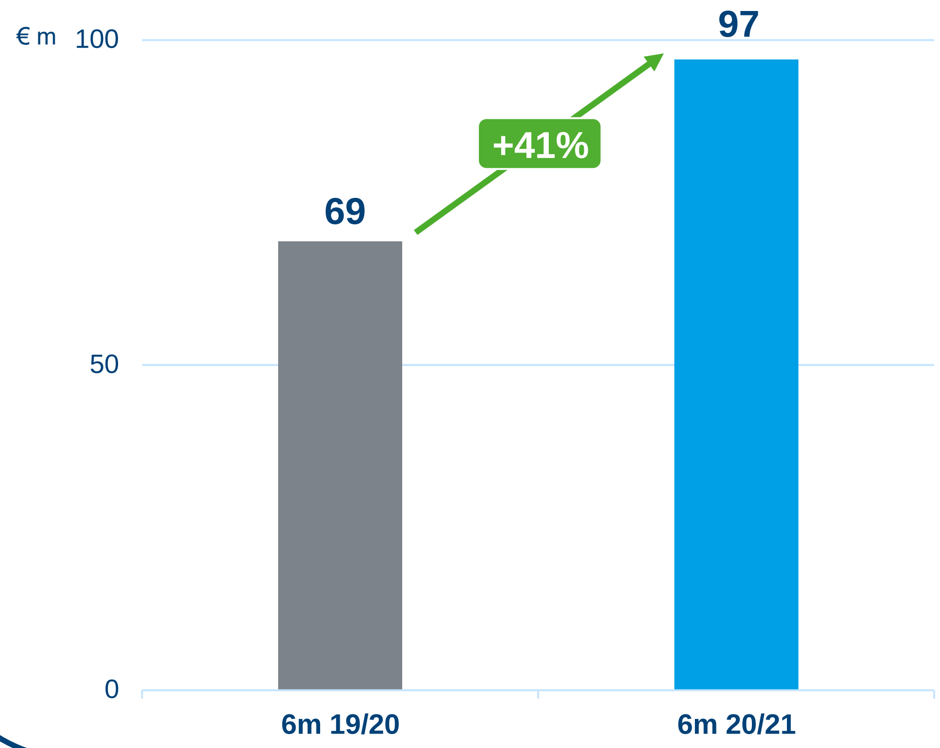
**// Incoming orders have bottomed out in the first quarter – the trend has been pointing continuously upwards in Q2.**

# Half-year-figures FY 20/21.
## Program has delivered – significant effects to the 6m result FY 20/21.

### // Main factors impacting earnings:

- (-) Volume and margin (**approx. € 160m**)
- (+) Savings from Transformation program (**approx. € 45m**)
- (+) Short-time work & similar int. programs (**approx. € 70m**)
- (+) Restructuring company pension scheme (**approx. € 73m**)
- (+) Selling of CERM (**approx. € 8m**)

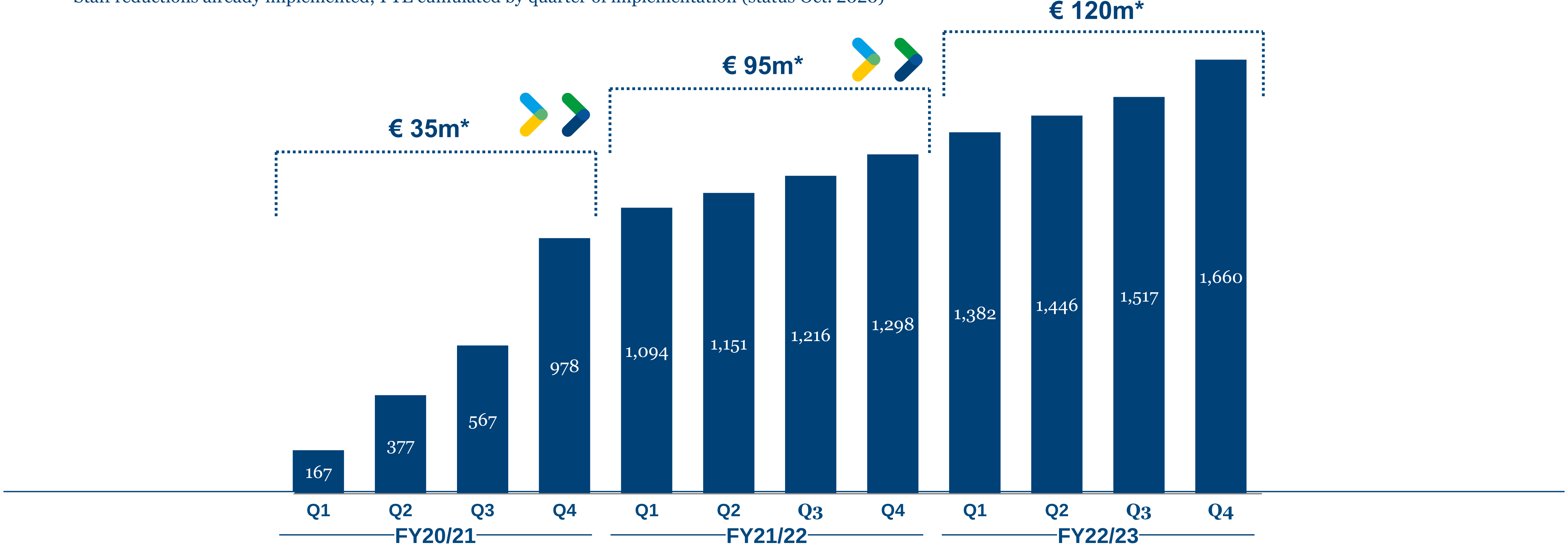
### // EBITDA excl. restructuring result



# Transformation program.
# **Headcount reduction scheduled until FY 22/23.**

## // Personnel measures

Staff reductions already implemented; FTE cumulated by quarter of implementation (status Oct. 2020)

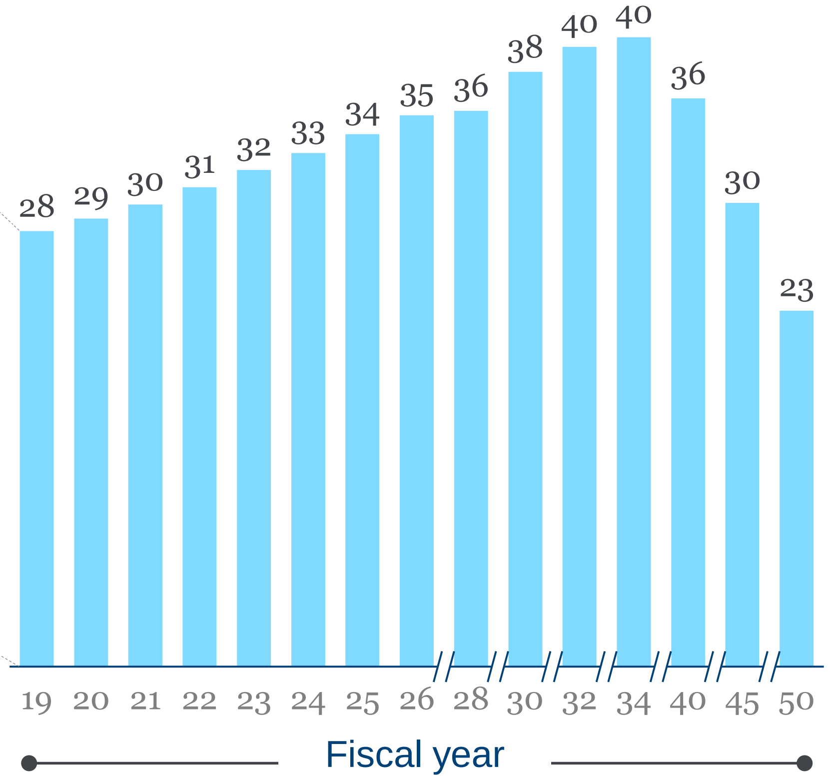



* Expected personnel cost savings based on the measures defined so far in m€ (status Oct. 2020)

# Transformation program.
## Pension obligations with low financing costs compared to ordinary debt.

### // Net debt (€M)


### // Repayment profile
(annual pension payments HDM Germany €M)*

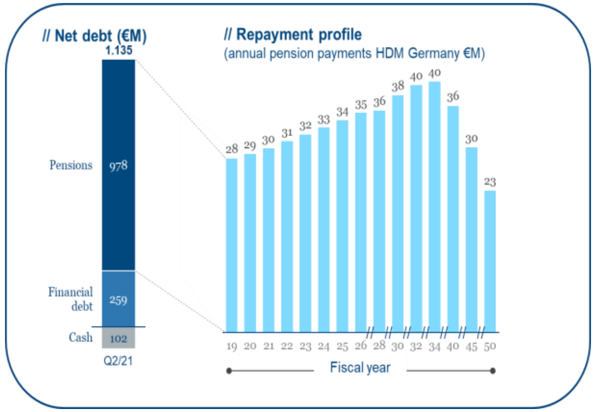



- **~90% of HDM's net debt** is due to on-balance sheet **pension obligations**
- Based on HDM's demographics, **pension payments will gradually increase by €10M** to ~€40M p.a. in FY32-35 and decrease thereafter
- **Thus, annual cash-out** for pensions (incl. interest and repayment component) ranges around **3-4% p.a.** relative to total obligations
- Hence, **financing costs are comparably low**

* Estimated pension payments of German entities

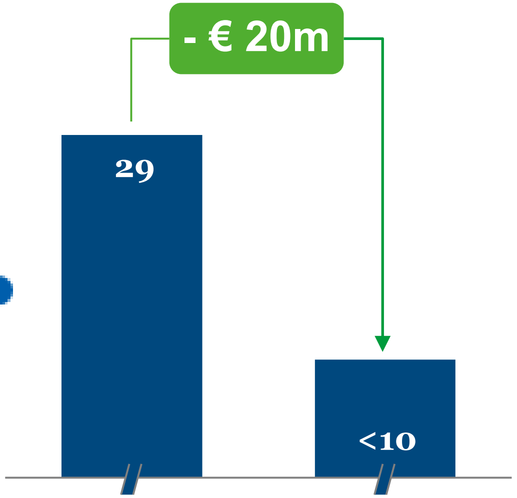
# Transformation program.
## Stronger cash generation overcompensates increase in pension payments.

### // Yearly pension payments will peak around 2035[1]



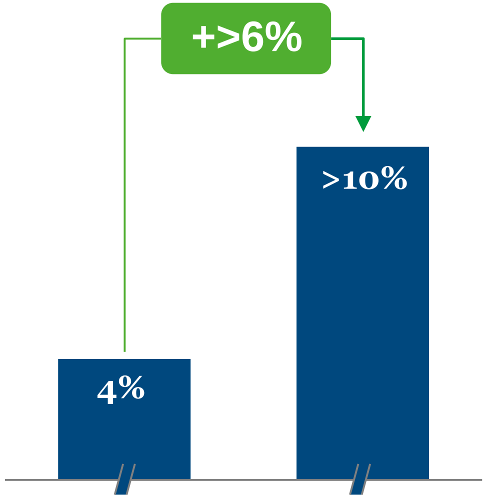

Based on underlying demographics, pension payments will increase until FY35

### // Reduced interest costs[2]
(Net cash interest in €M)



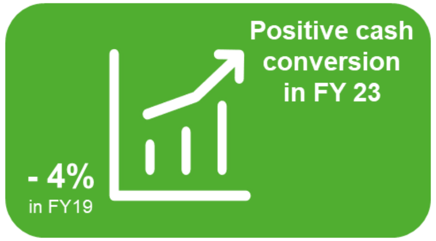

Rightsizing of CTA enables significant reduction of debt and interest payments

### // Financing the transformation
(Targeted EBITDA[3]-Margin in %)




The retransfer of pension assets finances the transformation and the cost saving program

### // Improved cash conversion

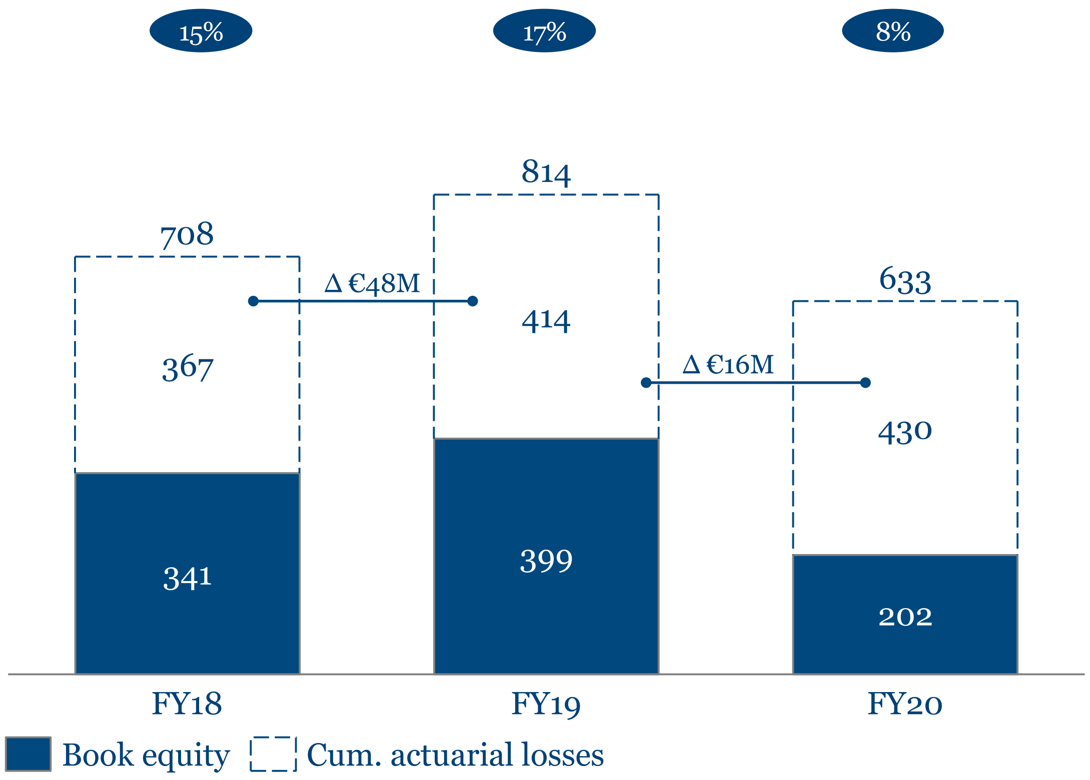



1. Estimated pension payments of German entities 2. Estimated, based on maturity and amortization of existing financing instruments 3. EBITDA excl. restructuring result

**// Consequently cash conversion can be significantly increased despite increasing pension payments.**

# Equity.
## Large proportion of recent equity development driven by actuarial losses.

### Equity FY18 to FY20 (€M, equity ratio in %)




- Valuation of pension obligations primarily driven by **actuarial interest** as discount rate
- Since 2017, the **actuarial interest rate is constantly decreasing**, leading to **higher pension obligations** and cumulating actuarial losses[1] from pension revaluations
- **Without actuarial losses**, book equity would amount to **€633M** as of FY20
- As of today, a **0.1% deviation in actuarial interest** corresponds with **actuarial losses/gains of ~€16M**

1. Recorded in other comprehensive income