

## Strategy: Targets and Measures

We have systematically adapted our Company to dynamically changing conditions in recent years with far-reaching restructuring measures. The portfolio has been transformed for our goal of profitability and cash generation, and geared towards the growth areas of the market. This process is now largely complete. Thus, Heidelberg has laid the foundations for sustainable, profitable growth in financial year 2015/2016. This is reflected in an improved sales and earnings performance, reduced financing costs and therefore a positive after-tax result.

We believe that our sources of growth lie in the area of services, which already represents roughly half of our total sales, and in industrially usable (digital) printing technologies. Our digital printing technology is focused on the customer's need to achieve the increasing demands for flexibility in the field of industrial printing.

Profitable growth on the market for sheet-fed presses, our core business, is barely possible for Heidelberg any more, owing to our high market share, among other things. Here we are concentrating on further improving margins while retaining stable sales. We are advancing the digitization of the entire process of printing, which is

### Heidelberg's path to sustainable profitability

Until 2015: Implementation of restructuring and optimization	Status quo: 2015/2016 Solid foundation laid	Outlook: Sustainable profitable growth
<ul style="list-style-type: none"> <li>→ Adjustment of structures to dynamic market changes               <ul style="list-style-type: none"> <li>→ Restructuring and cost reduction</li> <li>→ Streamlining of structures</li> <li>→ Portfolio optimization with divestments and acquisitions</li> </ul> </li> <li>→ Establishment of a four-field strategy (HDE: sheetfed offset, digital printing, HDS: consumables, service)</li> <li>→ Asset management and net working capital management to finance Group restructuring</li> <li>→ Refinancing to diversify funding framework and optimize maturity profile</li> </ul>	<ul style="list-style-type: none"> <li>→ Strategic reorientation completed</li> <li>→ Solid foundation laid for sustainable growth</li> <li>→ Profitability increased</li> <li>→ Stable financing scalable for future growth</li> <li>→ Continuous optimization of refinancing costs</li> </ul>	<ul style="list-style-type: none"> <li>→ <b>Transformation from a purely technology-oriented to a more customer-oriented company</b></li> <li>→ <b>Strategic focus on growth and profitability:</b> <ul style="list-style-type: none"> <li>→ Expansion in the growth areas of digital, services and software</li> <li>→ Increase share of sales in higher-margin service area to at least 50 percent</li> <li>→ Promote digitalization</li> <li>→ Focus on industrial printers</li> </ul> </li> </ul>
<b>Starting position 2010/2011:</b> Sales: € 2,629 million EBITDA margin: 3.9 percent Losses after taxes: € - 129 million Leverage: 3.4	<b>Key figures 2015/2016:</b> Sales: € 2,512 million EBITDA margin (adjusted for exchange rate effects): 7.8 percent Profit after taxes: € 28 million Leverage: 1.5	<b>Outlook:</b> <ul style="list-style-type: none"> <li>→ Sales growth of up to 4 percent per year to around € 3 billion</li> <li>→ High profitability: EBITDA margin 7 to 10 percent; thus sustained positive after-tax result and leverage less than 2 to finance expansion and optimization of capital structure</li> </ul>

reflected in the increasing autonomy of equipment, software development and a range of smart, performance-enhancing services. Here we see major customer interest and Heidelberg has established an excellent position over the years. Our close global customer contacts built on our broad installed base also help us to achieve greater sales with service and consumables.

Overall, the operational performance of Heidelberg is characterized by the continuous development of the four-field strategy established in 2014 with a strategic focus within the Heidelberg Equipment (HDE) and Heidelberg Services (HDS) segments on:

➤ **HDE**

- **SHEETFED OFFSET:** In a mature but steady market, in sheetfed offset Heidelberg has the strongest position, the largest market share of new presses and the widest installed base. This provides a large base volume of cash-generating core business and allows for growth in the services and consumables business.
- **DIGITALIZATION AND DIGITAL PRINTING:** Medium and long-term profitable growth in hardware, software and consumables (ink).

➤ **HDS**

- **CONSUMABLES:** Starting from a small market share, short-term growth potential both organically and through acquisitions.
- **SERVICE:** Broad installed press base provides short- and medium-term growth potential for new, cloud- and performance-oriented service products.

**Heidelberg a preferred partner for industrial printing**

Now that the strategic framework has been set for a sustained profitable future, Heidelberg is increasingly in a development and transformation process, moving away from being a purely technology-driven company to being a customer-oriented one. The strategic focus for the coming years is therefore on the targeted networking of divisions within this four-field strategy and specific measures for all business units. This should enable the Company to achieve the following targets by 2022:

- **SALES GROWTH:** Up to 4 percent p.a. to a consolidated sales target of € 3 billion through organic and external growth
- Shift in **PORTFOLIO FOCUS** (in terms of sales) to:
  - a minimum of 50 percent services, 50 percent equipment, of which digital rising 10 percent to 20 percent
- Persistently high **PROFITABILITY:** EBITDA margin 7 percent to 10 percent
- Focus on increasing **AFTER-TAX PROFITS**, including by reducing interest expenses
- Continued low debt: leverage <2

**Established system of values as a basis for a successful future**

The strategy and values system are transported by the corporate vision and mission, which guide all the Company's actions.

**Our vision**

We are structuring our portfolio in line with the world market segments that will be attractive in the future. This is the basis for our future growth.

**Our mission**

Heidelberg will uphold its leading position as the printing industry's most reliable partner in the future as well. Given our precise understanding of customers' needs we offer them:

- Efficient and reliable production processes
- Economically optimal, rational investments
- Simple access to all necessary materials

We are more than machines!

**Focus on customer orientation**

To rise to this challenge and to achieve the goal of sustainable profitability, we have implemented a transformation process:

- In line with the right customers and work areas
- With value management in the Company's portfolio
- For on-time performance at all levels

**Listen. Inspire. Deliver.**

LISTEN	INSPIRE	DELIVER
<p><b>We listen to our customers closely</b> in order to understand their needs. But we also listen to each other as we are working together towards a common goal.</p>	<p><b>We want to inspire and impress our customers,</b> anticipate the technology of the future and in doing so surpass customers' expectations. Internally it is crucial that we challenge and motivate each other in order to find new and better paths to our goal.</p>	<p><b>We deliver what we promise.</b> Every customer must be able to see the benefits of our products and actions. With each order we give a personal promise that we naturally keep. But we also have to achieve the targets we define for ourselves. Our own actions, for which we take responsibility, serve the goal of profitability. This requires that we take responsibility and act accordingly.</p>

Heidelberg's customer base has changed dramatically in recent years. What used to be around 200,000 generalists are today roughly 15,000 specialists, whose needs have to be addressed accordingly. Heidelberg generates 80 percent of its sales per year from 3,000 predominantly medium-sized and large customers. We will only be successful here in the future by developing even more from being a technology-driven company to being a customer-oriented one.

#### Cultural change as an internal driver

The change in the system of values is part of a fundamental cultural shift with a stronger **CUSTOMER FOCUS** and the refinement of the culture of innovation at Heidelberg necessary for this. Heidelberg has to provide its customers with the right product at the right time. To achieve this, an awareness of values was established among all our employees. The motto for this is: **LISTEN. INSPIRE. DELIVER.**

#### Strategic measures for achieving goals

Heidelberg is aiming to be industrial printers' preferred partner in the future as well with the combination and networking of its range of presses, service and consumables. Its dynamic portfolio geared towards further growth and profitability, the stronger corporate and innovation culture, its new financial scope and its solid financing form the foundation for the sustainable profitability to which the Company aspires.

The timely and systematic implementation of the business area projects introduced for the Heidelberg Equipment (HDE) and Heidelberg Service (HDS) segments is now the top priority in order to make the business model more robust against cyclical fluctuations in the traditional core business. The next few years will focus on the further improvement of operating margins in all segments.

#### Heidelberg Equipment (HDE)

##### Sheetfed offset: Margin improvements in stagnant market environment

The market volume in the new machinery business in sheetfed offset is stable at around € 2.3 billion p. a. despite pronounced short-term fluctuations in investment behavior due to economic developments. Heidelberg is the market leader in this area with a market share of over 40 percent in new machinery and the largest installed base. Thanks to the adjustment of structures in recent years, the

area can respond more flexibly to fluctuations. The focus is primarily on maintaining the leading market and technology positions, including by increasing networking and digitalization in this market segment. Against this backdrop, the goal for the years ahead is to improve the margin through price increases and reductions in production costs, and to continuously look for further optimization potential. The continuous adjustment of (cost) structures and vertical integration in line with the maturity of these products in the life cycle therefore remain essential.

#### **Raising growth potential in digital with innovative strength of technology partners**

The digitalization of the printing industry, as has already happened in other industries, can no longer be stopped. This will mean enormous growth potential for our Company in the coming years. This will be leveraged organically by expanding innovation leadership in this area. In recent years we therefore shifted half of research resources from offset to digital. As a result, product launches – such as the new “Fire” product series – have been reduced to 15 months from a theoretical product concept to a sellable product.

In digital printing Heidelberg is focusing on its core competence and collaboration with world-leading technology partners. Thus, the Company has been working on the development of new products with Ricoh since 2011 and Fujifilm since fall 2013. In 2014 we boosted our position with the full acquisition of Swiss company Gallus Holding in digital label printing and the acquisition of a multi-channel publishing software manufacturer. The goal is to generate more than 10 percent of sales from digital activities in the medium term.

#### **Heidelberg Services (HDS)**

In recent years, thanks in part to acquisitions, Heidelberg has made progress in its efforts to strengthen the less cyclical Heidelberg Services (HDS) segment, which essentially consists of the two working areas Services and Consumables. Following the acquisition of PSG in the spring of 2015, the sales split between HDS and HDE is almost equal.

The **SERVICES** area remains stable at a high level. The market volume for service, maintenance and spare parts is relatively constant at €1.3 billion annually. In this area the Company benefits from the fact that more than 50 percent of the addressable market is based on Heidelberg machin-

ery. Growth potential in this higher-margin business mainly lies in the global service and logistics network, the integration of independent providers into this network and increased value added for customers (performance-based services).

While the global print volume remains relatively constant at around €400 billion per year in total, individual areas such as packing are still seeing increases. The development of the **CONSUMABLES** area is closely related to this and, given that Heidelberg still has a small market share, the low capital commitment and the fragmented manufacturer base, is the most interesting growth area within the industry in the short term. As in the recent past, Heidelberg is constantly searching the market for interesting and suitable acquisition targets that will also contribute to increased profitability.

#### **Established track record in the successful integration of acquired companies**

In addition to leveraging organic growth potential generated in particular by strengthening the innovation pipeline and the research and development area, Heidelberg has established a successful track record in integrating acquired companies in recent years. Besides the full takeover of the Gallus Group already mentioned to expand the digital offering in label printing, the position in consumables was strengthened by the acquisitions of the British-Dutch Hi-Tech Coatings, the European PSG Group and the Belgian BluePrint Products in printing chemicals with a future increase in sales of more than €100 million in total.

In the future we also plan to expand the Company's portfolio with external growth in the areas of services and digital. The Company is focusing on access to complementary services or technologies to ensure rapid integration into existing infrastructures.

### Financial freedom enables future growth

Despite substantial investment in growth areas and in research and development, in recent years Heidelberg has been able to safeguard its financial stability and liquidity in the long term. Through the diversification of financial instruments, the extension of the term structure, the improvement of financing costs and the reorganization of occupational pensions, it has managed to establish a sound basis for the planned growth and a sustained positive post-tax result. With asset and net working capital management, the ratio of net debt to operating earnings (EBITDA) was kept below the target of 2 as of the end of the financial year 2015/2016 during the Group's restructuring.

A strategic (financing) partner was recently found in the European Investment Bank (EIB). With a development loan of € 100 million, EIB is supporting Heidelberg's research and development activities at attractive terms, especially with regard to digitalization and the expansion of the digital printing portfolio. The 2011 corporate bond will be repaid in full ahead of schedule at the beginning of the financial year 2016/2017. This will further reduce the financing costs of the Company significantly once again.

### Heidelberg actively shaping the future of print

As the industry environment continues to change rapidly, printers must continuously boost their own efficiency and respond ever more quickly and more flexibly to the global requirements of end customers. The goal is to shape the digitalization of one's own business model and involve print contractors in this process. Heidelberg is driving the digitalization of the industry and further expanding the growth segments of packaging, digital and services.

On the one hand, customers expect us to maintain the competitiveness of the "bread-and-butter" business of printing with maximum efficiency and flexibility. But they also demand innovative business models and pioneering printing applications. What counts today is relieving customers of routine tasks so that they can take care of their core activities and develop new business ideas as well. And it is important to look at customers and their needs individually, rather than lumped together. If a partner to the printing industry wants to be able to secure such successful companies as customers, it must be able to offer a complete "Smart Print Shop". This means the integration of

digital and offset printing in addition to the necessary software so that any order can even be managed using a tablet in the future. And even if a defect does occur, it is ideally resolved by the service team online immediately and smartly from anywhere in the world. This is the future of the printing industry.

Under the motto "Simply Smart", Heidelberg is introducing the digitalized future of the industry at drupa 2016 in Düsseldorf. The focus will firstly be on integrating offset customers' entire value chains with the possibilities and growing offerings of the digital domain and on automating them in order to increase the competitive capability of print shops. As such, these systems will work more and more autonomously in the future with the right services. Secondly, new digital printing offerings (software and the new "Fire" family) will target advanced business models for customers. Heidelberg delivers "smart" products and services that are presented under the headings "Smart Print Shop", "Smart Services" and "Smart Collaboration".