



# Interim Statement **Q1 2016/2017**



## INTERIM STATEMENT FOR THE FIRST QUARTER OF 2016/2017

### Figures

- ↪ Incoming orders of € 804 million in the first quarter; order backlog up 67 percent to € 768 million compared with year-end
- ↪ Sales of € 486 million in Q1
- ↪ EBITDA excluding special items slightly positive at € 1 million
- ↪ Result after taxes € -37 million
- ↪ Positive free cash flow of € 6 million
- ↪ Net debt still at low level of € 263 million; leverage below target of 2
- ↪ Firmly on course for annual and medium-term targets

### Facts

- ↪ Heidelberg presented itself at drupa 2016 in Düsseldorf with a successful repositioning under the motto “Simply Smart” and is pressing ahead with the digitization of the industry:
  - ↪ Customers invest in industrial print production and digitization
  - ↪ Digital printing portfolio “Fire” marks the highlight of the trade show – successful global premiere for industrial digital printing
  - ↪ Intelligent automation for offset printing: Heidelberg is shaping the future of industrial print production with its “Push to Stop” philosophy and autonomous printing
  - ↪ Cloud-based service solutions: “Heidelberg Assistant” information and service portal presented
- ↪ Company receives “Digital Leader Award” for innovative software applications
- ↪ Moody’s raises outlook to “positive”, confirms B3 rating

## Key figures at a glance

Figures in € millions	Q1 2015/2016	Q1 2016/2017
Incoming orders	703	804
Order backlog	638	768
Net sales	563	486
EBITDA <sup>1)</sup>	46	1
in percent of sales	8.2	0.2
Result of operating activities <sup>2)</sup>	28	-16
Special items	-15	-3
Financial result	-14	-16
Net result before taxes	-1	-35
Net result after taxes	-4	-37
Equity	337	167
Net debt <sup>3)</sup>	277	263
Leverage <sup>4)</sup>	1.2	1.8
Cash flow	14	-17
Free cash flow	-35	6
Earnings per share in €	-0.02	-0.14
Number of employees at end of quarter (excluding trainees)	11,865	11,523

<sup>1)</sup> Result of operating activities before interest, taxes, depreciation and amortization, excluding special items

<sup>2)</sup> Excluding special items

<sup>3)</sup> Net total of financial liabilities and cash and cash equivalents and current securities

<sup>4)</sup> Ratio of net debt to EBITDA excluding special items for the last four quarters

## Overall assessment of business development

Heidelberger Druckmaschinen Aktiengesellschaft (Heidelberg) started the new financial year 2016/2017 with a successful appearance at drupa in Düsseldorf. Incoming orders in the first quarter (April 1 to June 30, 2016) exceeded € 800 million thanks to the numerous orders concluded during the trade show. As a result, the order backlog increased by 67 percent to € 768 million (March 31, 2016: € 460 million), thereby providing solid foundations for achieving the targets for the current financial year. At € 486 million, sales for the first quarter were in line with expectations.

Under its drupa motto “Simply Smart”, Heidelberg continued to press ahead with the digitization of the industry and its own strategic reorientation. The new products and solutions led to a high level of demand across the entire product range for industrial print production and digitization. Heidelberg's digital printing portfolio, which was presented to the wider public for the first time under the name “Fire”, attracted a great deal of attention from those attending the trade show and enjoyed successful sales in all product categories, allowing the Company to establish itself on the market as a digital printing provider.

Heidelberg is also taking advantage of the opportunities of digitization to initiate a paradigm shift in industrial print production using sheetfed offset printing presses with the concept of autonomous printing. All in all, customer investment behavior served to confirm the shift within the industry towards increased automation and productivity as well as software-based integration.

The backbone of the new services is the Heidelberg Cloud, which is based on the recording and analysis of more than 10,000 networked printing presses and 15,000 Prinect software connections. Heidelberg uses this to offer customers preventive service programs for increasing printing press availability and improving the productivity of their entire print shop. Heidelberg's digitization strategy and the innovative software applications “Heidelberg Assistant” and “View2Connect” were acknowledged by IDG Business Media and Dimension Data Deutschland in the form of the “Digital Leader Award 2016”.

## Net sales and results of operations

### Interim consolidated income statement

Figures in € millions	1-Apr-2015 to 30-Jun-2015	1-Apr-2016 to 30-Jun-2016
Net sales	563	486
Change in inventories/other own work capitalized	39	104
<b>Total operating performance</b>	<b>602</b>	<b>590</b>
Other operating income	36	19
Cost of materials	287	288
Staff costs	196	219
Depreciation and amortization	18	17
Other operating expenses	109	101
Special items	15	3
<b>Result of operating activities</b>	<b>13</b>	<b>-19</b>
Financial income	3	3
Financial expenses	17	19
<b>Financial result</b>	<b>-14</b>	<b>-16</b>
<b>Net result before taxes</b>	<b>-1</b>	<b>-35</b>
Taxes on income	3	2
<b>Net result after taxes</b>	<b>-4</b>	<b>-37</b>

- At € 486 million, SALES were in line with forecasts; a reduced order backlog ahead of the drupa trade show at the start of the financial year had the anticipated impact on sales.
- A large number of orders for innovative printing presses with longer delivery times will result in corresponding sales in the subsequent quarters.
- Earnings for the first quarter of 2016/2017 were adversely affected by the lack of profit contributions due to the lower sales volume, trade show costs of around € 10 million and higher staff costs as a result of collective wage and working time increases. This meant that EBITDA excluding special items totaled € 1 million (previous year: € 46 million), while EBIT excluding special items amounted to € -16 million (previous year: € 28 million).
- In the previous year, Q1 earnings contained a positive effect of around € 19 million from the reversal in profit or loss of the negative difference from the first-time consolidation of the European acquisition Printing Systems Group.
- The FINANCIAL RESULT includes expenses of around € 2 million for the early repayment of the 2011 corporate bond.
- As a result of the aforementioned factors and taking into account taxes on income, the NET RESULT AFTER TAXES was in line with expectations at € -37 million.

## Net assets

### Interim consolidated statement of financial position as of June 30, 2016

#### Assets

Figures in € millions	31-Mar-2016	30-Jun-2016
Non-current assets	724	728
Inventories	607	691
Trade receivables	361	274
Receivables from sales financing	65	61
Cash and cash equivalents	215	157
Other assets	230	217
<b>Total assets</b>	<b>2,202</b>	<b>2,128</b>

- Total assets as of June 30, 2016 were lower than at March 31, 2016, primarily due to the repayment in full of the 2011 corporate bond.
- As expected, inventories increased compared with March 31, 2016 in order to cover the higher sales volumes that are anticipated in the coming quarters.
- Receivables from sales financing declined again due to the repayments received and refinancing on the part of customers.
- Thanks to systematic and sustainable asset and net working capital management, the Company further reduced its net working capital to € 638 million as of June 30, 2016.

#### Equity and liabilities

Figures in € millions	31-Mar-2016	30-Jun-2016
Equity	287	167
Provisions	930	984
of which: pension provisions	534	625
Financial liabilities	496	420
Trade payables	179	197
Other equity and liabilities	310	360
<b>Total equity and liabilities</b>	<b>2,202</b>	<b>2,128</b>

- Equity decreased as against the end of the previous financial year on March 31, 2016, amounting to € 167 million as of July 30, 2016. This was due primarily to the reduction in the domestic pension discount rate from 2.4 percent to 2.0 percent, as well as to the the negative net result after taxes.
- This resulted in an equity ratio of around 8 percent as of June 30, 2016.
- The reduction in the domestic pension discount rate led to a significant increase in pension provisions.
- Financial liabilities declined substantially following the repayment in full of the 2011 corporate bond. The first tranche of the development loan agreed with the European Investment Bank in March 2016 was drawn down in the first quarter of 2016/2017 in the amount of around € 50 million.
- Net debt, which currently amounts to € 263 million, is financed by basic funding beyond 2022.
- Leverage (the ratio of net debt to EBITDA excluding special items for the last four quarters) was again maintained at below the target level of 2.

## Financial position

### Interim consolidated statement of cash flows

Figures in € millions	1-Apr-2015 to 30-Jun-2015	1-Apr-2016 to 30-Jun-2016
Net result after taxes	-4	-37
Cash flow	14	-17
Other operating changes	-32	29
of which: net working capital	62	57
of which: receivables from sales financing	4	4
of which: other	-98	-32
Cash used in investing activities	-17	-6
Free cash flow	-35	6
in percent of sales	-6.2	1.2

- Despite payments for portfolio optimization of around € 8 million and prepayment penalties for the early repayment of the 2011 corporate bond, the free cash flow for the first quarter of 2016/2017 was moderately positive.
- The three pillars of our financing portfolio – corporate bonds, the syndicated credit line and other instruments such as convertible bonds and EIB loans – are well-balanced.
- Heidelberg's credit facilities, which currently total around € 730 million, have balanced diversification and a balanced maturity structure to 2024.
- In July 2016, Moody's raised its rating outlook from “stable” to “positive” and confirmed its B3 rating. This move was prompted by Heidelberg's improved key financial indicators and more stable business model.

## Segments

### Segment key figures

Figures in € millions	Heidelberg Equipment		Heidelberg Services		Heidelberg Financial Services		Heidelberg Group	
	Q1 2015/16	Q1 2016/17	Q1 2015/16	Q1 2016/17	Q1 2015/16	Q1 2016/17	Q1 2015/16	Q1 2016/17
Incoming orders	403	490	298	313	2	1	703	804
Sales	277	215	284	270	2	1	563	486
EBITDA <sup>1)</sup>	8	-14	36	15	1	0	46	1
EBIT <sup>2)</sup>	-4	-26	31	10	1	0	28	-16

<sup>1)</sup> Result of operating activities before interest, taxes, depreciation and amortization, excluding special items

<sup>2)</sup> Excluding special items

- New printing press orders on the back of the trade show led to an increase in incoming orders in the Heidelberg Equipment segment in particular, but the Heidelberg Services segment also enjoyed trade-show-related growth.
- Restrained investment activity ahead of the drupa trade show led to a drop in net sales and operating result in the Heidelberg Equipment and the Heidelberg Services segments. As anticipated, the two

segments are still below their target margins (HDE target: EBITDA margin of 4 to 6 percent; HDS target: EBITDA margin of 9 to 11 percent).

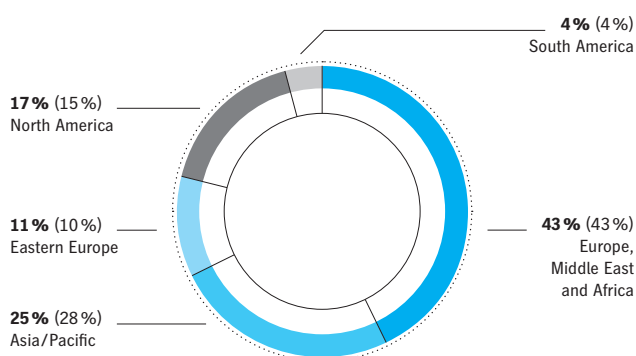
- In the same quarter of the previous year, the segment results included a proportionate positive effect from the reversal in profit or loss of the negative difference from the first-time consolidation of the European acquisition Printing Systems Group totaling around € 19 million.

## Regions

### Sales by region

Figures in € millions	Q1 2015/2016	Q1 2016/2017
EMEA	244	208
Asia/Pacific	155	120
Eastern Europe	58	52
North America	84	83
South America	23	22
<b>Heidelberg Group</b>	<b>563</b>	<b>486</b>

#### Q1 2016/2017



- ▢ Restrained investment activity ahead of the drupa trade show was observable in Western Europe in particular.
- ▢ The slowdown in growth momentum in China is reflected in falling incoming orders and sales.

## Conditions and outlook

In the quarter under review, the United Kingdom voted to leave the European Union. The extent to which the consequences of this decision will adversely affect growth in the British economy and the EU as a whole is not yet foreseeable. The investment behavior of British customers at the drupa trade show, which took place prior to the referendum, was encouraging. The impact on the Company's future development cannot be assessed at present.

The unchanged forecast for the current financial year and a medium-term outlook can be found on page 59 of the 2015/2016 Annual Report. Heidelberg is still firmly on course to achieve the targets it has set itself.

## Supplementary report

- ▢ On July 22, 2016, Chief Executive Officer Dr. Gerold Linzbach informed the Supervisory Board that he does not intend to extend his contract beyond its scheduled expiry at the end of August 2017. He will remain available to the Company until the end of his contractual term in order to ensure a smooth transition.
- ▢ The Annual General Meeting on July 28, 2016 elected Ms. Karen Heumann as a member of the Supervisory Board.
- ▢ Edwin Eichler stepped down from the Supervisory Board effective July 31, 2016.

## Financial calendar 2016/2017

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- November 9, 2016**    ↪ Publication of Half-Year Figures 2016/2017
- February 9, 2017**    ↪ Publication of Third Quarter Figures 2016/2017
- June 8, 2017**        ↪ Press Conference, Annual Analysts' and Investors' Conference
- July 27, 2017**        ↪ Annual General Meeting

Subject to change.

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This interim statement was published on August 10, 2016.

### Important note

This interim statement contains forward-looking statements based on assumptions and estimates by the management of Heidelberger Druckmaschinen Aktiengesellschaft. Even though the management is of the opinion that these assumptions and estimates are accurate, the actual future development and results may deviate substantially from these forward-looking statements due to various factors, such as changes in the overall economic situation, exchange and interest rates, and changes within the print media industry. Heidelberger Druckmaschinen Aktiengesellschaft provides no guarantee and assumes no liability for future development and results deviating from the assumptions and estimates made in this interim announcement. Heidelberg neither intends nor assumes any obligation to update the assumptions and estimates made in this interim announcement to reflect events or developments occurring after the publication of this interim announcement.

In individual cases, rounding could result in discrepancies concerning the totals and percentages contained in this interim announcement.

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