Press Information

www.heidelberg.com

Heidelberger Druckmaschinen AG

Postfach 10 29 40
69019 Heidelberg
Germany

Kurfürsten-Anlage 52–60
69115 Heidelberg

Thomas Fichtl

Phone +49 6222 82-67123
Fax +49 6222 82-67129

Thomas.Fichtl@heidelberg.com
www.heidelberg.com

August 6, 2019

Good order situation at start of second quarter

- **Demand for contract and subscription offerings continues to develop favorably – higher share of recurring sales**
- **First quarter affected by reluctance to invest due to economic situation**
- **Seasonal increase in net working capital hits free cash flow**
- **Measures introduced to increase liquidity and safeguard profitability**

Heidelberger Druckmaschinen AG (Heidelberg) has embarked on the second quarter of financial year 2019/2020 with a far better order situation, compensating in part for the weak first quarter in Europe in particular. The company is systematically continuing its digital transformation and expanding its innovative digital business models with a view to significantly reducing its exposure to economic fluctuations and increasing the share of recurring business in the medium to long term. Demand for the contract and subscription offerings that are the main focus of this strategy continued to grow in the first quarter of financial year 2019/2020. The medium-term goal is to increase the share of recurring sales – primarily from contract and subscription business – to around one-third of total sales. With customer demand rising, Heidelberg is expanding its subscription portfolio and is now offering additional contract options. At present, customers are offered a fully inclusive package that combines equipment, services, consumables, and software in one usage-based contract that runs over several years. In the future, however, they will also be able to combine and utilize individual components from this offering over a defined period of time and in line with set standards.

Towards the end of the first quarter in particular, the need for further strategic development of the company was highlighted by the increasing reluctance to invest, especially in western Europe, and associated shifts in sales due to the economic slowdown. Quarterly sales, EBITDA excluding restructuring result, and the net result after taxes, for example, were all down on the corresponding figures for the previous year. In mid-July, Heidelberg adapted its outlook for financial year 2019/2020 as a whole to reflect the changed business expectations.

Measures introduced to increase liquidity and safeguard profitability
Despite an improving order situation at the beginning of the second quarter and continuing positive effects from the successful Print China 2019 trade show, Heidelberg has immediately introduced measures to boost results. These include strategies to make working hours more flexible in the short term – such as working-time accounts and short-time working – and structural projects to achieve a sustained increase in profitability. Heidelberg has also initiated a program to significantly improve the net working capital and free cash flow. This involves closely scrutinizing many of the investments planned for the current financial year and the next, with a view to cutting planned investments by some € 20 million. Optimized lead times and inventory levels as well as better accounts receivable management are also envisaged to reduce the tied-up capital by around € 50 million. In addition, Heidelberg is considering portfolio adjustments, which will involve selling some smaller areas of the company, together with further structural optimizations. Overall, the liquidity potential identified totals some € 100 million.

“The good start to the second quarter means we’re confident of achieving our planned business volume for the financial year. What’s more, the positive impact of the numerous measures we’ve introduced to improve our results and free cash flow will be felt in the second half of the financial year,” said Heidelberg CEO Rainer Hundsdörfer. “In the years ahead, the digital transformation is set to lessen our future exposure to economic fluctuations by increasing the share of recurring business to around one-third of our group sales. We’ve already made significant progress in this respect. Additionally, we are continuously expanding our market share by investing in our core business,” he added.

Operational development in the first quarter affected by economic uncertainty
In the face of growing economic uncertainty, above all in central Europe, **sales** at Heidelberg fell from € 541 million to € 502 million in the first quarter of 2019/2020 (April 1, to June 30, 2019. Despite far higher demand in China following the successful Print China trade show, **incoming orders** of € 615 million as at June 30, 2019 were

down on the previous year's figure (€ 665 million). The **order backlog** increased by around 12 percent, from € 654 million at the end of the previous financial year on March 31, 2019 to € 730 million as at June 30, 2019. This is partly due to the new subscription contracts, which will be reflected in the sales figures over their respective terms.

EBITDA excluding restructuring result amounted to around € 14 million (including an IFRS 16 impact in the region of € 5 million). This, too, was down on the unadjusted figure for the previous year of around € 20 million. **EBIT excluding restructuring result** totaled € –10 million (same quarter of previous year: € 2 million). The EBITDA margin excluding restructuring result (but including the impact of IFRS 16) was 2.8 percent, following a figure of 3.7 percent for the corresponding quarter of the previous year. The **financial result** improved from € –16 million in the equivalent quarter of the previous year to € –13 million. The **net result after taxes**, including income taxes, was € –31 million (previous year: € –15 million).

Seasonal increase in net working capital negatively affects free cash flow

The increase in net working capital, which is partly a result of lower customer advance payments due to the lower order intake, the high capacity utilization at the production site in Shanghai, and investments to expand digital business models in the course of the financial year resulted in a negative **free cash flow** of € –83 million (previous year: € –45 million). The considerable reduction in the actuarial interest rate for pensions in Germany and the net loss for the quarter were the main reasons for the lower **equity** of € 295 million at the end of the quarter, which is equivalent to an **equity ratio** of around 13 percent. Higher financial liabilities on the reporting date were primarily due to the first-time application of IFRS 16 (€ 55 million) and the negative free cash flow. The **net financial debt** rose accordingly, amounting to € 391 million at the end of the quarter. The **leverage** on the reporting date for the quarter was 2.1.

"In the short term, our focus is on optimizing the net working capital and on asset management. This will significantly reduce our debt and safeguard both our profitability and our financial stability," said CFO Dirk Kaliebe.

Outlook for financial year 2019/2020

Heidelberg is expecting sales for financial year 2019/2020 as a whole to match the previous year's level. The company anticipates that further stable expansion of its contract business will compensate for the economic slowdown and the associated reluctance to invest in equipment. In the current financial year, Heidelberg is targeting EBITDA excluding restructuring result of between 6.5 and 7 percent of sales, and is expecting to break even after taxes. Even factoring in the higher net financial debt following application of IFRS 16, the leverage is set to remain below the target of 2 previously announced by the company.

Image material, the interim report for the first quarter of financial year 2019/2020, and additional information about the company are available in the Press Lounge of Heidelberger Druckmaschinen AG at www.heidelberg.com.

Heidelberg IR now on Twitter:

Link to the IR Twitter channel: https://twitter.com/Heidelberg_IR
On Twitter under the name: @Heidelberg_IR

Other dates:

The scheduled publication date for the financial statements for the second quarter of 2019/2020 is November 6, 2019.

Press Information

Further information:

Corporate Communications
Thomas Fichtl
Phone: +49 6222 82-67123
Fax: +49 6222 82-67129
E-mail: Thomas.Fichtl@heidelberg.com

Investor Relations
Robin Karpp
Phone: +49 6222 82-67120
Fax: +49 6222 82-99 67120
E-mail: robin.karpp@heidelberg.com

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 macroeconomic 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.

HEIDELBERG

Press Information

Heidelberg Group in figures –

3M 2019/2020

in € millions	3M 2019/20 (4.1.19–6.30.19)	3M 2018/19 (4.1.18–6.30.18)
Net sales	502	541
Incoming Orders	615	665
Order backlog	730	714
EBITDA (excl. restructuring result)[1]	14	20
Operating result (EBIT excl. restructuring result)	–10	2
Restructuring result	–3	0
Financial result	–13	–16
Net result after taxes	–31	–15
Free Cashflow	–83	–45
Net debt[2]	391	278
Equity	295	332
Equity ratio	13.0%	14.7%
Headcount	11,459	11,549

1) Operating result before interest, taxes, depreciation, and amortization, excluding restructuring result

2) Financial liabilities minus liquid assets and short-term securities

In individual cases, rounding could result in discrepancies in the totals and percentages contained in this press release.