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Solid second quarter improves half-year balance sheet – economic uncertainties remain

- **Q2 sales up 9 percent to € 622 million**
- **EBITDA (excluding restructuring result) rises to € 55 million in Q2**
- **Focus on increasing liquidity and safeguarding profitability**
- **Outlook for financial year 2019/2020 remains unchanged**

In the second quarter (July 1 through September 30, 2019), Heidelberger Druckmaschinen AG (Heidelberg) succeeded in almost compensating for the relatively weak start to the year. As a result, sales for the quarter (up 9 percent to € 622 million), EBITDA (excluding restructuring result) (up 28 percent to € 55 million), and incoming orders (up 1 percent to € 648 million) all improved. The main boost to business came from the ongoing digitization of processes (Push-to-Stop technology) in the core business of sheetfed offset printing, which is currently generating higher sales in the United States and China in particular. Digital business models such as subscription are also making a positive contribution, as is the growing proportion of recurring sales from contract business and e-commerce. Subscription business now accounts for over 10 percent of the order backlog, for instance. The medium-term goal at Heidelberg is to significantly reduce the company's exposure to economic fluctuations by generating around a third of total sales from recurring business.

Heidelberg responds to continuing economic uncertainties

However, business in Germany, the United Kingdom and the rest of central Europe remains difficult because of the reluctance to invest caused by the economic situation. Prominent economic research institutions and the Mechanical Engineering Industry Association (VDMA) in Germany remain skeptical about the prospects. Heidelberg will therefore continue to systematically push ahead with the measures already initiated to safeguard profitability and improve liquidity.

“Recent months have shown that our basic strategy is right – the proportion of contract business is growing, an increasing number of customers is making use of our digital solutions in sheetfed offset, and we’re using targeted investments in our core business to safeguard our global market and technology leadership,” said Heidelberg CEO Rainer Hundsdörfer. “The solid progress in the second quarter means we’re confident of achieving the planned sales target for the financial year. The difficult economic climate worldwide is affecting both us and our customers, though, so we’ll be taking a highly systematic approach to implementing the measures initiated to improve our net result and free cash flow in the coming months,” he added.

Cost-efficiency strategies and further streamlining both organizational and management structures at the company are key to securing sustainable results. This includes downsizing the Management Board. Board member Stephan Plenz, Chief Technology Officer and in charge of the Heidelberg Digital Technology segment, will be leaving the company by mutual agreement when his current contract ends in June 2020.

The company is using three main approaches to address the working capital and free cash flow situation, which remains unsatisfactory despite improvements in the second quarter. Firstly, planned investments are being cut by some € 20 million. Secondly, a reduction of around € 50 million in tied-up capital is to be achieved by optimizing throughput times and inventory levels while also improving accounts receivable management. In addition, portfolio adjustments and further structural optimizations are expected to generate around €30 million in cash for the company. Overall, the liquidity potential thus totals some € 100 million.

Improved operational development in second quarter – economic uncertainties remain

Despite the continuing economic uncertainties, especially in central Europe, Heidelberg recorded a significant increase in **sales**, from € 573 million to € 622 million, in the second quarter of financial year 2019/2020 (July 1 to September 30, 2019) (€ 1,124 million for 1H 2019/2020 compared to € 1,114 million for 1H 2018/2019). **Incoming orders** also improved slightly, from € 641 million in the previous year to

€ 648 million (€ 1,263 million for 1 H 2019/2020 compared to € 1,306 million for 1 H 2018/2019). This was mainly due to positive developments in China and North America, while European business was weaker. The **order backlog** increased by around 16 percent, from € 654 million at the end of the previous financial year on March 31, 2019 to € 756 million. This is partly down to the new subscription contracts, which already account for over 10 percent of the order backlog and will be reflected in the sales figures over their respective terms.

EBITDA excluding restructuring result in the quarter under review amounted to around € 55 million (including an IFRS 16 impact of € 4 million). This, too, was significantly up on the unadjusted figure for the previous year of around € 43 million (€ 69 million for 1 H 2019/2020 compared to € 62 million for 1 H 2018/2019). **EBIT excluding restructuring result** totaled € 32 million for the quarter (same quarter of previous year: € 26 million) and € 22 million for the first six months (previous year: € 27 million). The EBITDA margin excluding restructuring result (but including the impact of IFRS 16) was 8.9 percent, following a figure of 7.4 percent for the corresponding quarter of the previous year (6.2 percent for 1 H 2019/2020 compared to 5.5 percent for 1 H 2018/2019). The **financial result** improved from € –12 million in the equivalent quarter of the previous year to € –10 million (€ –23 million for 1 H 2019/2020 compared to € –28 million for 1 H 2018/2019). The **net result after taxes**, including income taxes, was € 14 million for the second quarter (previous year: € 8 million) and € –16 million for the first six months (previous year: € –6 million).

Progress with free cash flow in second quarter
Despite the typical increase in net working capital in the course of the financial year that took place in the second quarter ready for the stronger second half of the year, the company succeeded in significantly reducing the **free cash flow** drain from € –42 million to € –16 million in the reporting period (including the impact of IFRS 16). This resulted in a figure of € –100 million for the first half-year (previous year: € –86 million).

The considerable reduction in both the actuarial interest rate for pensions in Germany and the net loss for the quarter were the main reasons for the lower **equity** of € 244 million at the end of the quarter, which is equivalent to an **equity ratio** of just over 10 percent. As expected, the **net debt** on the reporting date increased to

Press Information

€ 416 million. This was primarily due to IFRS 16 being applied for the first time (€ 59 million) and the negative free cash flow. The **leverage** on the reporting date for the quarter was 2.1.

"Our clear goal is to significantly improve the free cash flow by the end of the financial year, so our unequivocal focus is on increasing profitability, on optimizing net working capital, and on asset management," said Heidelberg CFO Marcus Wassenberg. "The aim of the various measures we have already introduced is to generate additional liquidity of around € 100 million as quickly as possible. At the same time, we are making a conscious effort to further improve cost discipline in all areas of our company with a view to safeguarding profitability in this increasingly difficult economic climate," he added.

Outlook for financial year 2019/2020 remains unchanged
Against the backdrop of the measures introduced, the solid performance in the second quarter, and the assumption that the economic environment will not deteriorate further, Heidelberg confirms its targets for financial year 2019/2020 as a whole, with sales at the same level as in the previous year. The target range for EBITDA excluding restructuring result is 6.5 to 7 percent of sales, and a break-even net result after taxes is expected. The leverage should be below the target value of 2.

Image material, the interim report for the first half 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.

Press Information

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 third quarter of 2019/2020 is February 11, 2020.

Further information:

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Press Information

Heidelberg Group in figures –

1H 2019/20

in € millions	1H 2019/20 (4.1.19–9.30.19)	1H 2018/19 (4.1.18–9.30.18)	Q2 2019/20 (7.1.19–9.30.19)	Q2 2018/19 (7.1. 18–9.30.18)
Net sales	1,124	1,114	622	573
Incoming Orders	1,263	1,306	648	641
Order backlog	756	774	756	774
EBITDA (excl. restructuring result) 1) 3)	69	62	55	43
Operating result (EBIT excl. restructuring result) 3)	22	27	32	26
Restructuring result	–5	–5	–1	–6
Financial result 3)	–23	–28	–10	–12
Net result after taxes	-16	-6	14	8
Free Cashflow 3)	–100	–86	–16	–42
Net debt 2) 3)	416	320	416	320
Equity 3)	244	373	244	373
Equity ratio 3)	10.3%	17.0%	10.3%	17.0%
Headcount	11,471	11,523	11,471	11,523

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

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

3) For the first time in the 2019/2020 financial year, Heidelberger Druckmaschinen Aktiengesellschaft is applying IFRS 16 "Leases", which has replaced IAS 17 "Leases".

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