

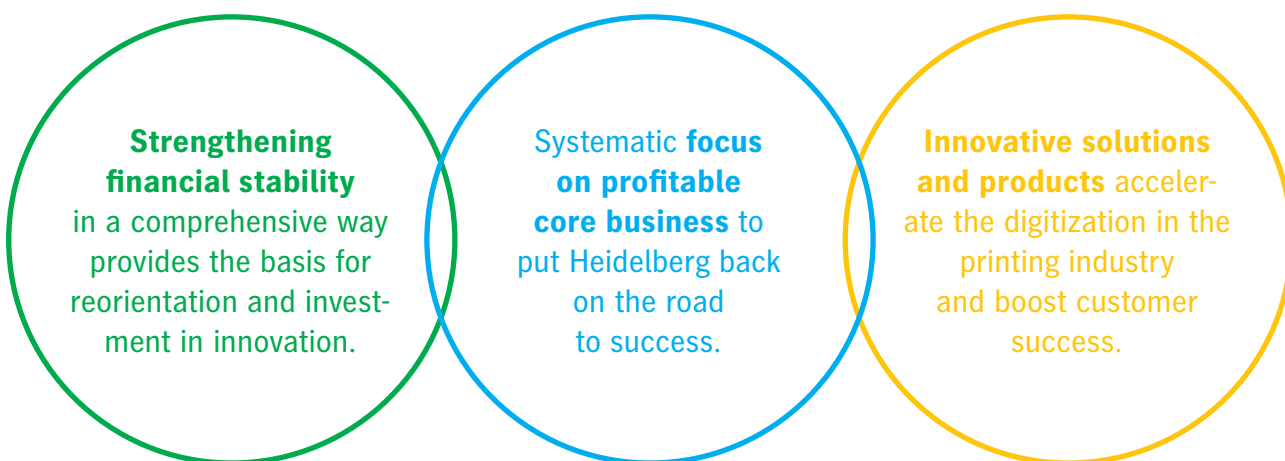
## Strategy

### Reorientation with a focus on profitability, competitiveness and safeguarding the future

With the announcement of a package of measures in March 2020, we initiated a comprehensive strategic reorientation of the Heidelberg Group with a systematic focus on profitability, competitiveness, and safeguarding the future of the Company. Key elements of the future strategy include a focus on profitable core business accompanied by divestment from loss-making activities, as well as integrated solutions with new digital business models. These measures are supported by the adjustment of structural costs at all levels and the optimization of the global production network. Financial stability is the foundation of this reorientation. By retransferring around € 380 million to the Company from the trust assets of Heidelberg Pension-Trust e.V., which was formed in 2005, Heidelberg is significantly increasing its liquidity and improving its financing structure by reducing its liabilities, thereby allowing it to press ahead with its reorientation in a targeted manner.

We are focusing on the expansion of our existing market and technology leadership and the enhancement of the digital agenda that the Company initiated in the financial year 2017/2018. In the future, Heidelberg intends to continue to benefit from its unique position as an end-to-end system provider of printing presses using different printing technologies, consumables, software and services. We see ourselves as a partner to our customers and a technological pioneer when it comes to automating printing processes along the entire value chain in offset printing as well as the growing digitization of processes in packaging, label and advertising printing.

Customer retention will be strengthened by providing support throughout the entire lifecycle. The Company's future operating success will be built on our global installed printing press base, its digital connection and networking, the data it delivers, and our technological ability to make growing use of artificial intelligence. This will enable us to increase our customers' efficiency, profitability and success, particularly in the extremely dynamic and challenging environment at present. Since 2018, we have



also offered usage-dependent contract models that will allow us to grow in line with our customers' output.

Our strategic focus is on the growth potential in the respective market segments and on the profitability of each activity and service. In the financial year 2020/2021, the Company will therefore divest its activities in the area of large-format sheetfed offset printing and the Primefire 106 in digital printing. This will take place via appropriate partnerships or by discontinuing the respective activities. Although these two product ranges have generated sales of around € 50 million in recent years, they have also resulted in losses in the same amount.

### **Focus on profitable core business and digital value creation**

Market forecasts continue to suggest that the total global print volume will remain stable, coming in at around € 415 billion in 2024 (see the "Market and customers" section on pages 26 to 28). In our core business, we serve customers in the areas of packaging, label and commercial printing.

In sheetfed offset printing, we focus on customers' central requirements, enabling them to realize increasingly complex print jobs quickly and with a consistently high level of productivity and quality. Heidelberg offers the comprehensive expertise and digitally connected platforms that will help the printing process evolve from the Smart Print Shop into a smart print media industry. The automation functions established in recent years, like Push-to-Stop and the networking of printing presses, software, consumables and services within the Smart Print Shop, offer the foundation for achieving this. Thanks to new products, the entire supply chain is being fully digitized for the first time via a platform for all of the partners involved. In the process, Heidelberg is also making use of its established partnerships such as the one with MK Masterwork in China. Further processing still offers huge potential for industrialization, networking and robotics, and this is something we are also working on with our partners MK Masterwork and Polar.

The focused product range for digital printing is characterized by the printing presses offered in conjunction with renowned partners such as the Japanese manufacturer Ricoh, while activities in the growth area of label printing are also being expanded in a targeted manner.

This is being achieved using the digital label printing press from Gallus (Labelfire), where Heidelberg is benefiting from growth in the global print volume for self-adhesive labels. As the share of this market attributable to digital printing technology is still well below 10 percent, above-average growth rates are anticipated.

In light of the importance of data usage and connecting all the process participants, the further expansion of the software range is another focal area. The Prinect production workflow, the established management information systems for central operations management and the Heidelberg Assistant are key factors in digital cooperation with customers.

All of these activities constitute the strong core of our business, in which we also remain committed to the Smart Print Shop and artificial intelligence. Our aim is to continue to drive the accompanying digital transformation by helping our customers to improve their operating workflows using the right technology.

Heidelberg's innovative strength and technology leadership remain the foundations of this strategic development. In late 2018, the corresponding research and development activities were consolidated at the new innovation center for around 1,000 employees at the Wiesloch-Walldorf site. Future investment will focus on the systematic end-to-end digitization of customer value creation, from order acceptance through to further processing. Further information on our development activities can be found in the "Research and Development" section on pages 36 to 38 of this report.

### **Use of big data and participation in output via expanded product range**

The print market is continuing to consolidate around increasingly large industrialized print shops. To allow them to work as efficiently and productively as possible, we are harnessing the unique data expertise of the more than 13,000 Heidelberg printing presses and around 25,000 Heidelberg Prinect modules for data transfer that have been installed to date. Big data is a central component of the future success of the established Heidelberg Smart Print Shop. This enables the intelligent networking and automation of all components and processes, with the user only having to intervene in the autonomous process chain as required.

With higher utilization meaning that value creation in the industry is increasingly shifting from printing presses to the range of service, software and consumables, Heidelberg is the only provider in the industry to offer its customers the printing press, services, consumables, consulting and software from a single source and on a modular basis, including an all-in contract covering all of these aspects. The data-driven interaction of all coordinated individual components enables a significant improvement in overall system effectiveness and utilization and improved competitiveness for the customer.

Since financial year 2019/2020, we have consolidated the corresponding product range under the name Print Site Contracts, more than 300 of which have been signed in the last 12 months. They offer services throughout the entire lifecycle of printing press operation – on a modular basis for consumables and service (Lifecycle Smart) or in an expanded variant including our Prinect software (Lifecycle Plus). Since late 2017, Heidelberg has also offered a subscription model under which the customer no longer pays for the individual components, but rather for the number of sheets printed on a performance-related basis. This business model guarantees constant, predictable revenue streams for Heidelberg over a longer period irrespective of the volatility of new machinery business, and is directly linked to the growing print production volume and a higher share of wallet, i.e. more value created per order. The automated e-shop that was launched in 2018 currently enables Heidelberg customers in 13 countries to benefit from the intelligent use of data. This digital platform allows printing presses to be automatically provided with the necessary consumables, thereby significantly reducing complexity for the customer. To this end, Heidelberg has launched the Heidelberg Digital Unit, a new center of excellence for digital marketing and e-commerce.

#### **Innovative high-tech applications offer additional sales potential**

Alongside its core business in sheetfed offset and digital printing, Heidelberg is opening up additional business areas thanks to its innovative strength. For example, we have successfully established ourselves in the market for electric vehicle charging systems with the Heidelberg Wallbox, more than 35,000 of which have been shipped to customers in the past two years.

We are also establishing a dedicated business unit for the industrial development, production and sales of printed organic electronics at the Wiesloch-Walldorf site. The introduction of this new technology offers extensive opportunities for Heidelberg as an operator in areas such as sensor printing – not just in small batches but on an industrial scale, kilometer after kilometer in a clean room. The technology and the range of potential services are unparalleled in this form in the world at present. According to specialists, the economic potential for printed sensors is enormous.

#### **Systematic focus on improving profitability – earnings effect of around € 100 million anticipated**

In addition to focusing on its profitable core business, Heidelberg's strategic reorientation encompasses the sustainable adjustment of production and structural costs. This includes a workforce reduction of up to 2,000 jobs worldwide, which may also involve plant closures. The associated measures, which will be implemented in close cooperation with employee representatives and with the greatest possible social responsibility, are not related to the extremely difficult economic situation at present on account of the COVID-19 pandemic. It is not currently possible to quantify the specific impact of the expected global recession in terms of its duration or its consequences for Heidelberg's operating performance. Accordingly, the Management Board reserves the right to take additional measures to secure profitability sustainably and for the long term. Depending on the outcome of the negotiations with the employee representatives and the accounting charges, the non-recurring expenses required to implement the package of measures that have already been announced are estimated at around € 300 million; the vast majority of this figure was recognized in the financial year 2019/2020. The anticipated savings of around € 50 million are expected to have a positive effect from the end of the financial year 2020/2021. All in all, we expect the portfolio and cost efficiency measures to result in sustainable earnings improvements of around € 100 million.