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Transformation of Heidelberg already showing effects in first quarter of 2020/2021

- **As expected, sales and incoming orders still significantly impacted by COVID-19 pandemic, but steady signs of recovery discernible**
- **Earnings from restructuring the company pension plans deliver EBITDA excluding restructuring result of € 60 million**
- **Sale of Gallus Group and CERM N.V. expected to yield earnings in mid-double-digit million euro range later in the current financial year**
- **Early repayment of high-yield bond in September to result in sustainable improvement of the financial result**
- **Forecast for financial year 2020/21 unchanged**

In March of this year, Heidelberger Druckmaschinen AG (Heidelberg) launched a transformation program designed to boost profitability, enhance competitiveness, and secure the company's future. Thanks to the consistent and prompt implementation of key measures in this program, the company already generated positive results in the recently concluded first quarter of financial year 2020/2021 (April 1 to June 30, 2020). As a result, it was able to successfully counter the huge operational pressures brought by the COVID-19 pandemic.

Nonetheless, as anticipated, the consequences of the global economic crisis had a considerable impact on sales and incoming orders in the first quarter. For example, at approximately € 330 million, **net sales** were around a third lower than in the same quarter of the previous year (€ 502 million). **Incoming orders** in the first three months dropped by a total of 44 percent to € 346 million (previous year: € 615 million), with a clear improvement recorded in June compared to the previous two months of the quarter. This upward trend also continued through July. Despite the challenging market development,

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Heidelberg achieved **EBITDA excluding restructuring result** of € 60 million (Q1 2019/2020: € 14 million), which was due to earnings of € 73 million generated by restructuring the company pension plans. Consequently, the **net result after taxes** in the quarter was positive, at € 5 million (previous year: € -31 million). Given that **net financial debt** has been reduced to € 122 million (previous year: € 391 million), Heidelberg is in a financially stable position.

Thanks to the comprehensive package of measures in the transformation program, which includes improvements to structures and organization, as well as the divestment of loss-generating business activities and peripheral elements of the portfolio, Heidelberg is on track to improve its profitability by some € 100 million in the medium term.

“As expected, and as across virtually all sectors and particularly the export-oriented mechanical engineering industry, the COVID-19 pandemic had a huge impact on the quarter. The consistent implementation of our transformation program is helping us maintain a stable course through the crisis. From a financial perspective, we are on a solid footing, are continuing to streamline our portfolio, and are already seeing the first positive effects of our cost-efficiency measures. At the same time, we are sensing a gradual recovery on the market and incoming orders are starting to increase again as a result. Our market initiatives are helping us consistently address our customers’ requirements in these challenging times. We are confident we will continue to perform well by having the right offerings and solutions,” says Heidelberg CEO Rainer Hundsdörfer.

The company anticipates further positive effects in the forthcoming quarters from its cost-efficiency measures, along with additional earnings in the mid-double-digit million euro range from its sale of the Gallus Group, which is to be completed in the current calendar year. Heidelberg also sold its Belgian subsidiary CERM N.V. at the end of July as part of a management buyout. CERM specializes in developing management information software for the narrow-web label market, a sector that Heidelberg has pulled out of with the sale of Gallus. This transaction is generating a gain on disposal of approximately € 8 million. Both portfolio measures are helping Heidelberg carry forward its consistent alignment on its profitable core business in sheetfed printing. At the same time, this is further strengthening the company’s balance sheet and financial position, which is directly beneficial in the current market crisis.

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Early repayment of high-yield bond in September to generate a sustainable improvement in financial result

Another important step Heidelberg announced a few weeks ago, as part of its moves to stabilize its financial position, is the early repayment of the high-yield bond (with a coupon of 8 percent p.a.), the term of which was due to run to 2022. The company will settle the remaining sum, amounting to € 150 million including accrued interest, from cash reserves as early as on September 9 this year. The planned early repayment will help the company unburden its financial result by approximately € 12 million per year.

“We are successfully working our way step by step through our transformation program. By focusing on our core business and our measures aimed at delivering added financial stability, we are laying foundations that will safeguard the future of Heidelberg. We have already considerably enhanced our financial stability and the anticipated high revenues from the sale of the Gallus Group and CERM will give us an additional boost. The early repayment of the high-yield bond frees us up from high interest burdens on a sustainable basis, makes us more financially independent, and gives us additional room for maneuver. This helps us in the current economic crisis and with the long-term alignment of Heidelberg,” explains CFO Marcus A. Wassenberg.

Q1 2020/2021 – the financial figures in detail

Due to the economic consequences of the COVID-19 pandemic across all segments and regions, **net sales** in the first quarter of 2020/2021 (April 1 to June 30, 2020) amounted to approximately € 330 million, as announced earlier, down by around one-third on the same quarter of the previous year (€ 502 million). During the first three months, **incoming orders** dropped by 44 percent to € 346 million (previous year: € 615 million). Besides the restrained investment activity caused largely by COVID-19, this disparity is also due to the high level of incoming orders in the previous year, which can be attributed to the China Print trade show. On June 30, the **order backlog** was € 605 million and therefore markedly down on the same quarter of the previous year (€ 730 million). Clear signs of recovery from the effects of the COVID-19 pandemic emerged in the final month of the quarter under review. Compared to May, incoming orders rose by around 27 percent in June. This upward trend in new orders continued into the start of the second quarter in July, with incoming orders surpassing the total for June.

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EBITDA excluding restructuring result was € 60 million (same quarter of previous year: € 14 million). Earnings of € 73 million from the reorganization of the company pension plans for employees in Germany and the use of short-time working helped to counteract the drop in sales. **EBIT excluding restructuring result** was € 40 million (same quarter of previous year: € –10 million). Planned provisions for the realignment of the Group resulted in a restructuring result of € –20 million. Due to a stable financial result and lower taxes, Heidelberg achieved a **net profit after taxes** of € 5 million in the first quarter of the year, compared to a net loss after taxes of € –31 million in the same quarter of the previous year.

Free cash flow improved, net financial debt low

Free cash flow was also better than in the previous year, improving from € –83 million to € –63 million, primarily as a result of inflows from net working capital and the conversion of securities into cash and cash equivalents. Now that debt has been considerably reduced by the retransfer of trust assets of Heidelberg Pension-Trust e.V. at the end of financial year 2019/2020, the company's **net financial debt** of € 122 million is much lower than it was 12 months ago (€ 391 million). The same applies to the ratio of net financial debt to EBITDA excluding restructuring result (**leverage**), which continues to be low at 0.8 (same quarter of previous year: 2.1). By contrast, the equity ratio of 6.3 per cent – which dropped due to a further reduction in actuarial interest rates and despite the quarterly profit – continues to be unsatisfactory and therefore remains a clear focal point for the management team.

Outlook for the current financial year unchanged – high income from portfolio streamlining further strengthens Heidelberg

As the company announced when it published its 2019/2020 Annual Report on June 9, 2020, Heidelberg anticipates that sales in the 2020/2021 financial year will be significantly lower than those of the previous year (€ 2,349 million). Owing to volume effects, the predicted sales decline due to the COVID-19 pandemic will have a significant impact on the EBITDA margin. However, earnings improvements are expected from savings in conjunction with the package of measures, accounting effects and temporary relief from more flexible and shorter working hours. Heidelberg envisages that the sale of the Gallus Group to Swiss packaging company benpac holding and the management buy-out of the Belgian software subsidiary CERM will result in a total gain on disposal in the mid-double-digit million euro range in the forthcoming quarters. Overall, despite the downturn

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in sales, the company is aiming for an EBITDA margin excluding restructuring result that at least matches the previous year's figure. Based on the sales forecast, Heidelberg estimates that the net result after taxes for financial year 2020/2021 will be significantly better than in the previous year but still clearly in the negative range.

In the medium to long term, Heidelberg believes that the comprehensive package of realignment measures will help achieve a sustainable improvement in both the company's profitability moving forward and the financial resources for future growth.

Precise forecasts of how the markets and the sector will develop are currently still difficult due to the COVID-19 pandemic. However, a number of positive trends are emerging. The unique digital networking of its installed machinery gives Heidelberg an excellent overview of capacity utilization in print shops and therefore a reliable indicator for the economic activity of a country. This data clearly shows that business in China – the biggest single market for Heidelberg – is picking up speed and is already surpassing last year's level. Other markets are also showing the first signs of recovery in terms of print volumes, which is cause for cautious optimism as regards the second half of the financial year. Nonetheless, the economic environment is still marred by considerable uncertainty. As part of its transformation program, Heidelberg has put in place targeted market initiatives so that it can quickly benefit with tailor-made customer offerings when business picks up again.

The full quarterly report, image material, and further information about the company are available in the Investor Relations and Press Lounge of Heidelberger Druckmaschinen AG at www.heidelberg.com.

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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 macro-economic 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.

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Key Figures Q1-2020/2021 at a glance

Figures in € millions	Q1 2019/2020	Q1 2020/2021
Incoming orders	615	346
Order backlog	730	605
Net sales	502	330
EBITDA ¹⁾	14	60
in percent of sales	2.8	18.1
Result of operating activities (EBIT) excluding restructuring result	-10	40
Restructuring result	-3	-20
Financial result	-13	-13
Net result before taxes	-26	6
Net result after taxes	-31	5
Equity	295	157
Net debt ²⁾	391	122
Leverage ³⁾	2.1	0.8
Free cash flow	-83	-63
Earnings per share in €	-0.05	0.02
Number of employees at end of quarter (excluding trainees)	11,459	11,103

1) Result of operating activities before interest and taxes and before depreciation and amortization, excluding restructuring result

2) Net total of financial liabilities and cash and cash equivalents and current securities

3) Ratio of net debt to EBITDA excluding restructuring result for the last four quarters