

Strategy

Perspectives: Profitability, competitiveness and safeguarding the future

Heidelberg is systematically pressing ahead with the strategic reorientation it initiated in March 2020 with a focus on profitability, competitiveness and safeguarding the future. The measures that were successfully implemented in the year under review and the measures that have been initiated provide strong foundations for maintaining financial stability even during the COVID-19 pandemic and for focusing on future growth drivers. The latter includes the further development of Heidelberg's profitable core business and the expansion of integrated solutions with new digital business models. The operating break-even point as measured by EBIT, which was € 2.1 billion to € 2.2 billion before the pandemic, is to be reduced sustainably to around € 1.9 billion by the financial year 2022/2023. This will allow net profit and a positive free cash flow to be generated from operating business excluding non-recurring effects. The latter will continue to play a role in the financial year 2020/2021 as well as into 2021/2022 due to ongoing projects.

Heidelberg's digital agenda, which has already been established to a large extent, will remain at the heart of its corporate strategy. In the future, Heidelberg intends to continue to focus on its unique position as a market-leading end-to-end system provider of printing presses using different printing technologies, consumables, software and services. As part of this process, we will strive to ensure that our customers consistently reap the rewards of Heidelberg's pioneering technological role 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.

The necessary customer retention will be achieved by providing close, partnership-based support throughout the entire customer lifecycle. The Company's future operating success will be built on its leading global position with an installed base of more than 13,000 printing presses, the digital connection and networking of these printing presses, the customer-oriented use of the data generated as a result,

and our technological ability to make growing use of artificial intelligence (AI). The past financial year and the extreme impact of COVID-19 have shown that a focus on the customer's individual needs with the aim of improving their efficiency, profitability and success is essential to the survival of the industry as a whole. Moreover, reliable, customer-oriented service is, and remains, an important factor in the success of print shops and companies.

Stable financing as a solid basis for further strategic development

Heidelberg significantly reduced its net debt as of the end of the financial year 2019/2020 and maintained it at a low level in the year under review. In the wake of this important step to secure financial stability, Heidelberg will now take strategic measures to significantly improve the quality of its statement of financial position and, in particular, its equity ratio for the long term. Having further optimized its financing structure and costs with the repayment of the high-yield bond in the past year, Heidelberg is in a position to finance the forthcoming strategic measures from its own resources.

Focus on strong core business and value appreciation with end-to-end solutions

Having streamlined its portfolio in financial year 2019/2020 to eliminate loss-making products and non-core activities, Heidelberg can boast healthy and profitable core business in sheetfed offset printing, which it intends to expand further over the coming years as part of the digital transformation that is taking place. The forecasts for the total global print volume are still subject to uncertainty as the end of the COVID-19 pandemic is not yet in sight and its impact is ongoing. Data analysis from around 5,000 installed Heidelberg printing presses suggests that the print production volume is gradually returning to normal. However, the effects of the crisis are currently expected to persist until 2024. By contrast, the areas of packaging and label printing have benefited even during the pandemic, thanks to the huge growth in online retail. The packaging sector currently accounts for more than half of the sheetfed offset printing presses sold by Heidelberg, and this share is likely to increase in the future. This development is also being driven by heightened environmental aware-

ness and the growing use of paper and cardboard instead of plastic packaging. At the end of 2019 (i.e. prior to the pandemic), Heidelberg's market share in this segment corresponded to around 47 percent of all sheetfed offset packaging printing presses sold. Thanks to its cross-functional innovations, the Company is the only provider in the world to offer the complete value chain including in-house research and development, product management and an end-to-end product range for the various customer requirements.

In sheetfed offset printing, Heidelberg continues to focus on realizing 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 to develop from the Smart Print Shop into a smart print media industry. The established automation functions, 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.

In digital printing, customers are offered printing presses in conjunction with partners like the Japanese manufacturer Ricoh Company, Ltd. Heidelberg is also addressing digital activities in label printing via the Gallus Group subsidiaries in order to benefit from the growth in the print volume for labels. The share of production attributable to digital printing technology is still below 10 percent, but will see significant growth in the future.

In its core business, Heidelberg's innovative strength and technology leadership constitute its key competitive edge. The Company's ambition is reflected in its extensive research and development activities, with around 870 employees and annual R & D expenditure most recently amounting to € 87 million. Future investment will focus on end-to-end digitization, from order acceptance through to further processing. Further information on Heidelberg's development activities can be found in the "Research and Development" section on pages 31 to 33 of this report.

Planned expansion in software, digital connectivity and data management

Heidelberg is also expanding in the area of software so that it can benefit from the growing importance of data usage and connectivity. We intend to increasingly convert our services to SaaS models (software as a service, i.e. contract-based business instead of the sale of licenses).

The Prinect production workflow, the established management information systems for central operations management and the Heidelberg Assistant are key factors in digital connectivity with our customers.

The print market is continuing to consolidate around increasingly large industrialized print shops. Harnessing data expertise is the only way to achieve the greatest possible efficiency and productivity as units steadily increase in size. As the global market leader, Heidelberg can draw upon data from the more than 13,000 printing presses and around 25,000 Heidelberg Prinect modules for data transfer that have been installed to date. In this way, big data will guarantee the future success of the established Heidelberg Smart Print Shop. This enables the intelligent networking and automation of all components and processes, including using artificial intelligence, with the user only having to intervene in the autonomous process chain as required.

Value added for our customers is based on the highest possible utilization and the optimally coordinated provision of the printing press, services, consumables, consulting and software from a single source. Heidelberg is the only provider in the world to offer the desired services on a modular basis or as an all-in contract covering all of these aspects. For customers, the data-driven interaction of all of the individual components enables improved effectiveness and utilization, and hence improved competitiveness.

Growth with lifecycle and subscription services

At Heidelberg, the corresponding contracts are offered under the name Print Site Contracts, more than 700 of which have already been signed. The services provided ideally cover the entire printing press lifecycle – on a modular basis for consumables and service (Lifecycle Smart) or in an expanded variant including the Prinect software (Lifecycle Plus). In addition, Heidelberg customers have already concluded more than 80 subscription contracts under which they no longer pay 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 the sales generated are directly linked to the growing print production volume and a higher share of wallet, i.e. more value created per order. The success of this approach is reflected in the fact that the share of total contract business has increased to 11 percent compared with 5 percent in 2018.

Strategic focus on Asian growth markets with emphasis on China

In light of the sustained growth potential in Asia, and particularly in the Chinese market, Heidelberg is continuing to substantially expand its capacities in the region. At €37 billion (2019), this is the world's largest individual print market, and Heidelberg is aiming to further increase its leading market share in the important 70x100 sheetfed offset format of around 50 percent at present – especially in the area of packaging printing, which is enjoying above-average growth. Around 450 sales and marketing employees demonstrate our proximity to the customer and ensure high availability for print shops. We also intend to increasingly harness cost benefits in procurement and production in the future. Accordingly, we will expand our existing capacities at our production site in Shanghai by around 300 to over 700 employees in total so that we can serve the local and neighboring markets even more effectively. Heidelberg already supplies customers in 40 countries from its Shanghai site with an export rate of almost 20 percent. These ambitions are reinforced by the production joint venture with MK Masterwork that was formed in late 2020, which Heidelberg expects to deliver benefits in the shape of the growing procurement of locally manufactured parts.

Value appreciation through technology transfer for global megatrends like e-mobility

Heidelberg's innovative strength is also reflected in the growth in high-tech applications like its Wallboxes, which are benefiting from megatrends like e-mobility. Heidelberg already generates sales of almost €20 million from charging stations for private households and is one of the leading providers in Germany, with a market share of around 20 percent. Around 45,000 Heidelberg charging stations have already been delivered to customers in recent years. Production capacities were doubled once again in early 2021 and will continue to be expanded in order to meet rising future demand. By forming a dedicated company for e-mobility, Heidelberg intends to accelerate the development of this business and is also open to partnerships in this area.

In addition, the establishment of a dedicated business unit for the industrial development, production and sales of printed organic electronics at the Wiesloch-Walldorf site is progressing at full speed. For Heidelberg, the introduction of this new technology offers huge potential in areas such as sensor printing in clean rooms, from small batches through to industrial-scale production. Heidelberg's technology and service range are outstanding in their field.

Under the Zaikio name, we have also become the first provider to develop a central, open industrial platform for automated supplier and customer management based on state-of-the-art cloud technologies. The first phase allows print shops and suppliers to digitize and optimize their procurement processes. Zaikio's vision is to eventually connect all the relevant systems in the printing industry in order to enable quick and easy data communication. In the near future, Zaikio intends to fully digitize and connect additional key processes between industry participants using web-to-print solutions and workflow tools and with the involvement of additional partners.