

Strategy

Transition from a traditional mechanical engineering company to a high-growth, profitable technology group

Heidelberg's strategy is aimed at continuing its transition from a traditional mechanical engineering company to a technology company – with increasingly diversified end markets – over the coming years. The starting point is the strategic reorientation of the Group that began in March 2020. This includes focusing the Group's core business on the high-growth, profitable areas of packaging printing, China – one of the world's biggest and most promising individual markets – and new digital business models. To this end, Heidelberg streamlined its product portfolio in early 2020, substantially reduced its debt and initiated a workforce reduction of around 2,000 full-time positions, which will be completed by the end of the financial year 2022/2023. All in all, these measures should lead to annual savings of € 170 million compared to financial year 2019/2020 as well as significantly lowering the break-even point.

Focusing and strengthening core business

In its core business, Heidelberg benefits from its strong position as an end-to-end system provider of printing presses using different printing technologies, and of consumables, software and services. One central competitive advantage is the Company's pioneering technological role when it comes to the data-driven automation of printing processes along the entire value chain in offset printing, especially in light of the growing digitization of processes in packaging, label and advertising printing. Close customer ties are achieved by providing partnership-based support throughout the entire lifecycle. Another foundation of future success is the customer-oriented use of the data generated by 13,000 installed printing presses as the basis for our technological ability to make growing use of artificial intelligence.

Alongside its core business, Heidelberg is leveraging additional growth potential by using existing technologies in new markets. In the area of e-mobility, the Company has

already established itself as one of the leading providers of stationary charging systems for home use, and it is significantly expanding these activities by extending its product and solution portfolio in line with the strong growth in demand for hybrid and fully electric vehicles. The Company also has promising concepts for the future when it comes to addressing the megatrends of automation and the platform economy.

By implementing this strategy, the Company expects to substantially improve its operating profitability and generate value for all stakeholders.

Core business focuses on packaging printing, China, and digital business models

Packaging printing benefits from the e-commerce boom and the trend to sustainability

In monetary terms, the global print volume is forecast to increase slightly from around € 380 billion to € 385 billion by 2026. The global packaging and label printing market, in which Heidelberg occupies a leading position, will account for an ever larger share of this figure. Label printing is expected to expand by an average of 3.5 percent annually, from € 28 billion in 2021 to € 34 billion. In this area, Heidelberg will benefit in particular from the digital activities of its Gallus Group subsidiaries. Experts are forecasting annual growth in the packaging print volume of around 2.5 percent, from € 122 billion to € 138 billion in 2026. This development is being driven by growing e-commerce business around the world as well as heightened environmental awareness, which is leading to the use of paper and cardboard instead of plastic packaging, among other things. With a market share of almost 50 percent of all sheetfed offset packaging printing presses sold, Heidelberg is the global market leader and the only provider to offer the complete value chain tailored to customer requirements.

In this market segment, the Company is focusing in particular on automation and connectivity in printing processes and beyond (end-to-end) in order to satisfy the growing performance requirements of its customers. These value-generating services are based on Heidelberg's innovative strength and technology leadership. In turn, this is driven by the Company's extensive research and develop-

ment activities with around 726 employees (see also the “Research and Development” section on pages 35 to 37 of this report). In light of this and the Company’s extremely good position in the high-growth Asian markets, Heidelberg intends to systematically leverage its potential in packaging printing over the coming years.

Harnessing the competitive benefits of a well-established presence in China

Among the Asian markets, China is particularly promising. The sheetfed offset print volume (€ 40 billion in 2021) is expected to see average annual growth of more than 2 percent over the coming years, with packaging printing performing especially well. The aim is to further expand Heidelberg’s leading position in the important 70 x 100 sheetfed offset format, which currently involves a market share of around 50 percent, and to benefit from growth in one of the world’s largest individual print markets. In addition to tailored printing presses aimed primarily at the Asian market, Heidelberg’s strategy in China involves new, digital services for the entire printing press lifecycle. To this end, the capacities that have been in place at the Shanghai site since 2006 have been expanded to more than 550 employees in order to successfully serve the local market and neighboring markets. Heidelberg already supplies customers in more than 40 countries from its plant in Shanghai, with an export rate of about 18 percent. Heidelberg is taking efforts to considerably reduce its dependence on vulnerable global supply chains by increasing the extent to which it is supplied by local providers.

Digital business models: a win-win approach for customers and Heidelberg

In light of the growing complexity of print jobs and hence customer orders, data usage and connectivity will be of crucial importance to Heidelberg in the future. As well as offering considerable benefits to our customers in the form of optimal efficiency and productivity, the associated products open up additional sales prospects for Heidelberg. We can draw upon our experience and the data from the around 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 is an essential factor

to make possible that all components and processes are automated, including using artificial intelligence. We are also using an open industry platform to connect all the relevant systems in the printing industry in order to further digitize and standardize both administrative processes, such as in procurement, and production processes.

Heidelberg is the only company in the industry to offer solutions for an optimally coordinated subscription model for printing presses, services, consumables, consulting and software via its global service and sales network. These can be individually scaled, and guarantee constant, predictable revenue streams for Heidelberg over a longer period irrespective of the volatility of new machinery business. Building on long-term service and consumables contracts, the services provided include Prinect software, consulting services and the printing press itself. In its most complete form, the customer no longer pays for the individual components, but rather for the number of sheets printed on a performance-related basis. This means for Heidelberg that sales generation is increasingly linked to the print production volume, which is more stable than the cyclical new machinery business, thereby ensuring higher income from the installed base across the entire printing press lifecycle. Since 2018, Heidelberg has increased the share of total contract business from 5 percent to 13 percent. The new strategic financing partnership with the insurance group Munich Re will provide Heidelberg with new opportunities for scaling from the financial year 2022/2023 onward, thereby allowing it to leverage the market potential of the subscription model even more effectively.

Attractive growth potential outside the core business Successful technology transfer to the growth market of e-mobility

Building on its innovative strength and broad-based expertise, Heidelberg intends to benefit from technology transfer from its core markets to new markets to an even greater extent in the future. Heidelberg’s successful move into the e-mobility market, with growth potential in the comfortable double-digit range, shows that this approach can succeed and offers inspiration for future plans. With a market

share of more than 20 percent, Heidelberg is already one of Germany's leading providers of charging stations for private households, also known as Wallboxes. It has now sold around 130,000 charging units. Capacities at the Wiesloch-Walldorf site had been expanded to five production lines by the end of the financial year 2021/2022. However, growth is currently still being curbed by the tangible difficulties affecting the supply of semiconductors and other materials. The sustained high level of demand for electric vehicles will require the rapid expansion of charging infrastructure also in the coming years. Around 80 percent of the hardware sold in Germany in 2030 is expected to be installed in the home. Heidelberg also intends to grow by expanding internationally. It has entered the Austrian and Swiss markets, and is preparing to do the same in France, Poland and Hungary.

The Company will also continue to expand its product portfolio in the direction of smart charging solutions. In addition to its own product innovations, the Company engages in partnerships and acquisitions. A strategic cooperation with SAP was agreed to this end in late 2021. The SAP e-mobility solution will offer the users and operators of charging stations standardized and scalable cloud-based services that enable fully integrated billing processes,

among other things. Coupled with Heidelberg's charging solutions, this will allow operators to run their charging networks intelligently and establish modern fleet management, for example. In the financial year 2021/2022, Heidelberg also acquired parts of the power company EnBW's charging station technology, thereby expanding its product range to include a publicly authorized and calibrated charging station for public users. The range of products and solutions will also be expanded to include solutions for larger fleets, office buildings and apartment buildings that address issues such as billing, calibrated charging columns and software-based load management.

Additional technology transfers under investigation

Printed and organic electronics is an innovative technology for producing sensors based on conductive inks and functional materials. Heidelberg is investigating application, production and market scenarios together with Heidelberg InnovationLab, the Company's specialized partner for printed organic electronics. For example, the past financial year saw the presentation of new scenarios for printed sensors in automotive applications such as car seats or battery management.