

Statement Rainer Hundsdörfer, Chief Executive Officer

Friday, October 23, 2020

The spoken word applies!

Greeting

As part of our Innovation Week customer offensive, we presented our innovations in the packaging, label and commercial printing segments online worldwide this week. Ludwig Allgöwer, our Global Head of Sales & Marketing, will give you an overview of this week's event in a moment.

First of all I would like to give you an overview of the following 3 topics and I am looking forward to a lively discussion at the end:

1. Market situation/industry:

Covid-19 presents the world with new challenges. This applies to our industry as well as to Heidelberg.

The pandemic increases the need for change processes, particularly in the printing press industry, which has already been experiencing massive upheaval for around ten years.

The digital transformation of the Group, which Heidelberg initiated a few years ago and has continued to pursue systematically, was and is correspondingly important and correct. And the comprehensive financial stabilization and operational realignment of the Group initiated by Heidelberg in the past fiscal year was and is just as important and right.

Current situation in the industry?

With the Print Media Industry Climate Report, Heidelberg informs its customers about important market developments from a data pool of around 5,000 connected presses worldwide, thereby strengthening their ability to act during the crisis.

Print shops in the packaging and label markets have so far managed to come through the crisis in a very stable manner. They are highly resistant to the crisis and are even growing further compared to the previous year. Customers and suppliers like Heidelberg are even considered to be systemically relevant in these areas.

The reluctance to invest has naturally had a greater impact on the Commercial Printing division due to the lockdown in many countries, as it is highly dependent on advertising spending. However, this market is also picking up again regionally. Once the situation returns to normal, we expect to see a stable print volume again worldwide.

The market development in China in particular gives cause for hope. There, it can be seen that with an easing of the Covid 19 situation, demand for print products will pick up again significantly and quickly, even if this is not yet immediately and directly reflected in printing press investments.

In the other regions of the world, too, we have been experiencing a slight upturn since the summer, which we now need to consolidate further. Here, however, we still have to wait and see what effect the current Corona figures will have.

Basically, there are winners in the crisis who are open to investments in these times. Then there are those who have been hit hard, but who have a plan. They are healthy and can invest. They say: I use this time, when I am 10 or 15 percent short of sales, to reposition myself. And then there are of course those who will have a hard time.

A virus does not change the world, but it is a catalyst that drives change and accelerates the necessary structural change.

That's why when I come to Heidelberg now and assess our activities, I am relatively optimistic. We have been seeing business improve for a few months now.

External industry scenarios also calculate that the print market in general should recover from the Covid-19 effect by 2024 at the latest. The internal analysis of print data from our installed base of presses also shows that the global print volume has increased significantly again since the low point in May.

We are on the way to normalization!

2. Effects/financial situation/stability of Heidelberg:

How does the current situation in the industry affect Heidelberg?

There is one thing I would like to emphasize at the outset: We are in a sound financial position!

2019 was a year of hard work, groundbreaking decisions and far-reaching consequences for us. In November last year, we started work on one of the biggest restructuring projects in Heidelberg's recent history. We analyzed the situation relentlessly and made consistent decisions. At that time, there was no mention of Covid-19.

We have set the course to make Heidelberg's healthy core even better and stronger. And to lay the foundations for future growth.

Our focus is clear: profitability, competitiveness and safeguarding the future.

In March 2020, we launched the implementation of our comprehensive program to safeguard liquidity, streamline structures, and streamline the portfolio across the board and announced appropriate measures.

Ladies and Gentlemen, you are familiar with the content of the program. One message is very important to me today: the comprehensive realignment we launched last November was and is essential if Heidelberg is to achieve sustained profitability and safeguard its future. In view of the drama that Covid-19 has brought to the world and our industry, it is more urgent than ever. What was right before the crisis is even more so in the crisis.

1. We have presented our customers with a portfolio that will enable them to master the current challenges of the market and continue to be successful in the future.

2. We have gained liquidity and financial stability - above all through the transfer of funds from the Heidelberg Pension Trust in the amount of 380 million Euro
3. We have started a comprehensive staff reduction program and further streamlined our structures, thereby significantly reducing our cost base.
4. With a clear focus on the core business, parts of the company have been sold or unprofitable product lines discontinued, which have greatly diluted the operating result in the core business.
5. We repaid our high-yield bond in the amount of EUR 150 million early in September. The financial milestone in the current fiscal year. And of crucial importance for the long-term development of Heidelberg! As a result, there are no more significant loan maturities in the coming years and our net debt has fallen to below EUR 50 million.

All these measures will benefit us in the current market crisis and stabilize our financial position and balance sheet. However, they also lay the foundations for strengthening Heidelberg in the long term and making it sustainably profitable.

On the positive side, we are fighting the crisis with our own resources!

We are doing so on the basis of our strong core business in sheetfed offset printing - and are focusing on systematic digitization and innovative customer solutions.

But it is also clear that we are still in the midst of the transformation and still have a lot to do to further expand our financial stability and achieve our central goal - sustainable profitability.

And to be a strong partner for our customers as usual!

3. Strategic outlook:

The path we have chosen will help Heidelberg to become financially sound and highly efficient in terms of costs.

Our goal is to increase the EBITDA margin to over 10% in financial year 2023.

This is what we are concentrating on.

And in doing so, we are focusing on exactly what our customers need - and what will provide us with appropriate added value. Our profitable core business. This is the path we are taking - consistently in implementation and at high speed. If we maintain this course, we will have a sustainably good future thanks to our strong brand, our profitable core business, our innovative strength and our positioning in growth markets.

Printing remains our core business. With our solutions for sheetfed offset and digital printing, we support our customers in packaging and label printing as well as in commercial printing throughout the entire process - from quotation to invoice. In other words, across the entire value chain, including service, consumables and software.

Heidelberg is currently the only company in the industry that is able to do this worldwide as a technology leader.

Based on the customer's needs, we can put together an offer that perfectly meets their individual requirements.

In doing so, our customers look at the added value of digital offerings for the print process. Because "printing" must be "smart". And Heidelberg offers exactly that. Because with our Smart Print Shop, we digitize printing.

The Smart Print Shop thus forms the backbone of our digital solutions. In the future, we will therefore be systematically continuing to digitize processes, with a focus on operator-independent performance.

The aim is no longer to achieve the highest printing speed, but the most efficient overall process. Increasing productivity is the greatest potential source of earnings for industrial print shops, which is why Heidelberg, as a technology leader, is pressing ahead with digitization of the pressroom.

There are basically two different models: Heidelberg Transaction offers customized individual solutions, while Heidelberg Subscription covers all stages of production on a volume-based basis in the form of a production system. We are confident that we will continue to increase the share of contract business in total sales and thus stabilize sales. We stand by our offer.

I can promise you that Heidelberg is and will remain the driving force and innovation leader in the industry. With a market share of over 40 percent.

Heidelberg is already the largest supplier to packaging printers. In financial year 2019/2020, half of our sheetfed offset press sales were generated in this segment. We sell almost as many printing units for the packaging market alone as our largest competitor overall.

We also enter into long-term partnerships with strong partners. With MK Masterwork, for example, we are adding highly attractive finishing machines to our packaging printing portfolio.

We have cancelled our participation in drupa 2021 due to the worldwide pandemic. However, as part of the "Innovation Week" we presented our customers with a wealth of product innovations under the motto "Unfold your potential", focusing on packaging, labels and commercial printing.

These included a further development of our push-to-stop concept towards autonomous printing, end-to-end solutions and thus the next level of the Smart Print Shop, as well as our ecosystem including the new Zaikio industry platform. But there were also some world premieres: such as the end-to-end solution from prepress to stacked product and MK's new high-performance die cutter, the Mastermatrix 106 CSB.

Let me conclude by summarizing:

Heidelberg's future is not primarily about size and growth at any price, but rather a focus on profitability. This will lay the foundations for us to benefit from a recovery in the markets with our realignment.

Heidelberg is tackling the right things.

On the basis of a strong core business, we are setting ourselves up for sustained profitability - and then we will have a good future.

We are doing our business solidly and prudently - and will concentrate on making money again.

We are and will remain a technology leader.

And as a full-service provider, we are and will remain a strong partner at our customers' side. Also and especially in times like these.

Many thanks.

Important note:

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