Interim statement Q3 2018/2019

HEIDELBERG

INTERIM STATEMENT FOR THE THIRD QUARTER OF 2018/2019

Figures

- Incoming orders after nine months on a par with previous year at € 1,912 million; order backlog remains at a high level of € 804 million as of December 31, 2018, up significantly on previous year
- Sales up slightly year-on-year at € 1,693 million after three quarters
- EBITDA excluding restructuring result € 101 million, EBITDA margin 6 percent
- Net result after taxes € –2 million; pre-tax result slightly positive at € 1 million
- Free cash flow squeezed by investment in new development center and higher inventories caused by ramp-up in digital operations and delivery bottlenecks, amounting to € –120 million after nine months
- Net debt € 350 million, leverage 2.1
- Still on course for annual targets

Facts

- Successful start to subscription model: 22 contracts signed; target of 30 contracts by the end of the financial year
- Primefire series production launched: first presses operational in Germany, Switzerland, the US and China
- Financing structure optimized further: partial repayment of the corporate bond means future interest expense reduction
- Heidelberg Digital Unit founded: e-commerce sales to be increased significantly
- 1,000th Wallbox sold: charging system for electric vehicles now also delivered directly to customers (B2C)
- Innovation center officially opened at Wiesloch-Walldorf production site: most advanced development center in the print media industry goes live with around 1,000 employees

Notes
The segments were reorganized as of April 1, 2018 as part of the digital transformation of the Company. The figures for the 2017/2018 financial year were restated accordingly.

In individual cases, rounding could result in discrepancies concerning the totals and percentages contained in this interim financial report.

Key figures at a glance

Figures in € millions	Q1 to Q3 2017/2018	Q1 to Q3 2018/2019	Q3 2017/2018	Q3 2018/2019
Incoming orders	1,912	1,912	678	606
Order backlog	693	804	693	804
Net sales	1,657	1,693	603	579
EBITDA excluding restructuring result [1)]	105	101	45	39
in percent of sales	6.3	6.0	7.5	6.7
Result of operating activities excluding restructuring result	54	49	27	21
Restructuring result	– 1	– 9	– 1	– 3
Financial result	– 36	– 39	– 11	– 11
Net result before taxes	17	1	15	7
Net result after taxes	– 10	– 2	– 10	4
Equity	345	361	345	361
Net debt [2)]	244	350	244	350
Leverage [3)]	1.3	2.1	1.3	2.1
Cash flow	69	50	35	23
Free cash flow	– 20	– 120	12	– 33
Earnings per share in €	– 0.04	– 0.01	– 0.04	0.01
Number of employees at the end of quarter (excluding trainees)	11,537	11,512	11,537	11,512

1) Result of operating activities before interest, taxes, 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

Overall assessment of business development

Heidelberger Druckmaschinen AG (Heidelberg) has successfully made further progress with the Company's digital transformation in the first three quarters of the current 2018/2019 financial year. 22 contracts have already been signed under the new subscription model as of the end of the reporting period. The goal is for around 30 contracts by the end of the financial year, which will mean sales potential of around € 150 million over the contract period. Under Heidelberg's pay-per-use model, the customer only pays for productive industrial performance, i.e. for the number of printed sheets. The price paid per sheet includes all the equipment, software, all necessary consumables, a comprehensive service geared to availability and consulting to further enhance performance. With this business model, Heidelberg is aiming to become more independent of growth by selling and installing printing capacity alone, and to benefit from recurring revenue in the field of consumables and services and increased customer productivity. A standard subscription model contract runs for five years and generates recurring revenue over the entire term. The customer pays a basic monthly price for an agreed printing volume plus an additional variable component if this is exceeded.

The first Primefire 106 series presses, the industrial digital printing press with inkjet technology for the packaging market, were delivered to customers in Germany, Switzerland, the US and China as planned, and are already producing with high quality and productivity.

Heidelberg resolved a partial cash repayment of its corporate bond of around € 55 million in June 2018. Repayment was effected as of July 18, 2018 and will ease the financial result from the next financial year. Heidelberg is planning to further reduce its financing interest to around € 20 million in the medium term. Thanks to the new syndicated credit facility of around € 320 million maturing in 2023, after the partial repayment of the corporate bond, Heidelberg has a financial framework of around € 725 million for investment in its digital transformation and acquisition activities.

In founding the Heidelberg Digital Unit (HDU), Heidelberg has reorganized its e-commerce activities and its digital marketing, and intends to bundle and harmonize its different sales channels to increase its e-commerce sales substantially. The printing presses connected to the cloud and Heidelberg's data and software expertise are the foundation for continuous customer service and, above all, for true value added. The new setup enables the Company to tap into new markets and create new business with customers who have not yet benefited from the solutions offered by Heidelberg.

In Heidelberg Wallbox, the high-performance charging system for electric vehicles, Heidelberg has a product for consumers in its portfolio for the first time. The target group consists of private individuals in addition to companies and local authorities. The product is now also being marketed via online retail platforms and electrical goods wholesalers. The 1,000th Wallbox was already produced and installed with a customer in January.

At the beginning of October 2018, Heidelberg announced the planned takeover of the international MBO Group with a total of approximately 450 staff, and locations in Oppenweiler and Bielefeld, Germany, among others, and a production site in Perifita, Portugal. With this takeover, following the still pending antitrust approval, Heidelberg intends to further expand its offerings in the growing market of post-press operations for digitally printed products. The move will also see the Company gain access to new customers in the pharmaceutical industry and add mailing system offerings to its offset portfolio.

Under the banner "Open for Innovation", the new innovation center (IVZ) at the Wiesloch-Walldorf production site officially opened its doors and went live in December 2018. Following the conversion of a former production hall, the innovation hub is the print media industry's most advanced development center. In launching the new innovation center, Heidelberg is planning to accelerate the digital transformation at print shops and within its own company.

In the context of Heidelberg's digital transformation, the segments, functional responsibilities and the regional market and service organization were restructured at the beginning of the 2018/2019 financial year. The businesses bundled in the previous segments Heidelberg Digital Technology and Digital Business & Services have been restructured into the Heidelberg Digital Technology and Heidelberg Lifecycle Solutions segments. The Heidelberg Financial Services segment will continue to exist unchanged.

Net sales and results of operations
Interim consolidated income statement

Figures in € millions	Q1 to Q3 2017/2018	**Q1 to Q3 2018/2019**
Net sales	**1,657**	**1,693**
Change in inventories/other own work capitalized	139	152
Total operating performance	**1,796**	**1,845**
EBITDA excluding restructuring result	**105**	**101**
Depreciation and amortization excluding depreciation and amortization due to restructuring	51	52
Result of operating activities (EBIT) excluding restructuring result	**54**	**49**
Restructuring result	– 1	– 9
Result of operating activities	**53**	**40**
Financial result	**– 36**	**– 39**
Net result before taxes	**17**	**1**
Taxes on income	27	4
Net result after taxes	**– 10**	**– 2**

- **INCOMING ORDERS** were stable year-on-year after nine months at € 1,912 million. In the third quarter they were down on the high figure for the same quarter of the previous year (€ 678 million) at € 606 million. This was mainly on account of declines in Italy as a result of the end of a subsidy program and uncertainty in the UK over Brexit. Despite a generally good project situation, there was a clear slowdown in new contracts towards the end of the third quarter, leading to orders being postponed until the following quarter.
- **NET SALES** were still higher than the previous year's figure after three quarters at € 1,693 million (previous year: € 1,657 million). Sales for the third quarter amounted to € 579 million in the reporting year (previous year: € 603 million). This was essentially caused by the end of a subsidy program in Italy and the postponement of deliveries until the fourth quarter on account of supply bottlenecks for some product series. Total operating performance climbed slightly as of December 31, 2018.
- Both **EBITDA EXCLUDING RESTRUCTURING RESULT** (€ 101 million; previous year: € 105 million) and **EBIT EXCLUDING RESTRUCTURING RESULT** (€ 49 million; previous year: € 54 million) were down slightly on the previous year's figures. In particular, negative factors included the additional staff costs resulting from the latest collective bargaining agreement, a less favorable product mix and higher development expenses due to lower capitalization.
- The **NET RESULT BEFORE TAXES** was slightly positive at € 1 million after the first three quarters of the year under review (€ 17 million). The **NET RESULT AFTER TAXES** was € – 2 million (previous year: € – 10 million; a one-time, non-cash write-down on deferred tax assets of around € 25 million caused by the US tax reform led to a reduction in the net result after taxes of the same amount in the third quarter of the previous year.)

Net assets

Assets

Figures in € millions	31-Mar-2018	**31-Dec-2018**
Non-current assets	810	840
Inventories	622	774
Trade receivables	370	288
Receivables from sales financing	66	55
Cash and cash equivalents	202	120
Other assets	186	185
Total assets	**2,256**	**2,262**

- Total assets as of December 31, 2018 were slightly higher than as of March 31, 2018, essentially as a result of the rise in non-current assets and inventories. This was countered by the reduction in trade receivables and receivables from sales financing.
- As expected, inventories have increased since March 31, 2018 on account of the higher order and sales volume anticipated in the fourth quarter, the series start-up of the digital portfolio and as a result of delivery bottlenecks.
- Consequently, net working capital rose to € 656 million as of December 31, 2018 (March 31, 2018: € 610 million; December 31, 2017: € 594 million).
- Receivables from sales financing declined due to the repayments received and refinancing on the part of customers.

Equity and liabilities

Figures in € millions	31-Mar-2018	**31-Dec-2018**
Equity	341	361
Provisions	878	832
of which: pension provisions	523	514
Financial liabilities	438	470
Trade payables	237	254
Other equity and liabilities	362	345
Total equity and liabilities	**2,256**	**2,262**

- Essentially as a result of the higher interest rate for German pensions, equity climbed to € 361 million as of December 31, 2018; the equity ratio was therefore around 16 percent. Pension provisions declined accordingly.
- Owing to financing activities for the new innovation center and the rise in net working capital (NWC), financial liabilities have risen as compared to March 31, 2018.
- Net debt currently amounting to € 350 million is financed by basic funding until 2023.
- Leverage (the ratio of net debt to EBITDA excluding restructuring result for the last four quarters) was 2.1 as of the end of the reporting period, but is expected to be below the target of 2 by the end of the financial year.

Financial position

Interim consolidated statement of cash flows

Figures in € millions	Q1 to Q3 2017/2018	**Q1 to Q3 2018/2019**
Net result after taxes	-10	-2
Cash flow	69	50
Other operating changes	-30	-105
of which: net working capital	44	-39
of which: receivables from sales financing	1	11
of which: other	-76	-77
Cash used in investing activities	-59	-65
Free cash flow	-20	-120
in percent of sales	-1.2	-7.1

- Cash flow amounted to € 50 million after the first nine months.
- A net cash outflow of € 105 million was reported in other operating changes after nine months, mainly as a result of the increase in net working capital and planned investments. Free cash flow was clearly negative overall at € -120 million after nine months (previous year: € -20 million).
- The three pillars of our financing portfolio – capital market instruments (corporate bond and convertible bond), the syndicated credit line plus other instruments and promotional loans – are well balanced.
- Heidelberg's credit facilities, which currently total around € 725 million, have balanced diversification and a balanced maturity structure until 2023.

Segments

The segments were reorganized as of April 1, 2018 as part of the digital transformation of the Company. The figures for the 2017/2018 financial year were restated accordingly.

Segment key figures

Figures in € millions	Heidelberg Digital Technology [1]		Heidelberg Lifecycle Solutions [2]		Heidelberg Financial Services		**Heidelberg Group**	
	Q1 to Q3 2017/18	**Q1 to Q3 2018/19**	Q1 to Q3 2017/18	**Q1 to Q3 2018/19**	Q1 to Q3 2017/18	**Q1 to Q3 2018/19**	Q1 to Q3 2017/18	**Q1 to Q3 2018/19**
Incoming orders	1,195	1,122	713	787	4	3	1,912	1,912
Net sales	958	991	696	699	3	3	1,657	1,693
EBITDA excluding restructuring result [3]	17	11	87	88	1	2	105	101
EBIT excluding restructuring result	-22	-28	75	75	1	2	54	49

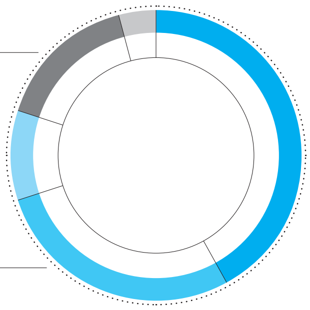
[1] Until March 31, 2018: Heidelberg Digital Technology
[2] Until March 31, 2018: Heidelberg Digital Business & Services
[3] Result of operating activities before interest, taxes, depreciation and amortization, excluding restructuring result

- Sales in the Heidelberg Digital Technology segment rose to € 991 million in the reporting period. Its results were lower than in the previous year on account of higher development costs due to lower capitalization and the less favorable product mix.
- Sales and earnings were on a par with the previous year in the Heidelberg Lifecycle Solutions segment.

Regions
Sales by region

Figures in € millions	Q1 to Q3 2017/2018	**Q1 to Q3 2018/2019**
EMEA	732	716
Asia/Pacific	434	474
Eastern Europe	167	163
North America	282	279
South America	42	61
Heidelberg Group	**1,657**	**1,693**

Q1 to Q3 2018/2019
Share of Heidelberg Group sales (in parentheses: previous year)



- EMEA was still the strongest region with a share of sales of around 42 percent. In the third quarter of the current 2018/2019 financial year in particular, it was impacted by postponed sales on account of supply bottlenecks and declines in Italy as a result of the end of a subsidy program.
- China reported slight increases in sales.
- The US market maintained its sales level in the current financial year but experienced minor decreases in the third quarter.

Conditions and outlook

In the third quarter of the 2018/2019 financial year, uncertainties in relation to Brexit and the risk of the widening international trade conflict intensified due to the protectionist measures by the US and the associated negative effects on the global economy. Furthermore, the ECB and trade associations are expecting an economic slowdown.

Overall, however, there were no fundamental changes in the assessment of the risks and opportunities of the Heidelberg Group as of December 31, 2018 compared to the presentation in the 2017/2018 Annual Report.

The outlook for the current financial year and the medium-term forecast are unchanged and can be found on pages 52/53 of the 2017/2018 Annual Report.

Supplementary report

Masterwork Group Co., Ltd., the Chinese manufacturer of die-cutters and hot-foil embossing machines and long-standing sales partner of Heidelberg, is to obtain around 8.5 percent of the share capital of Heidelberger Druckmaschinen AG under a cash capital increase from authorized capital excluding shareholder subscription rights. Subject to approval by the relevant bodies on both sides and the Chinese authorities, the capital measure should provisionally take place by the end of the first calendar quarter of 2019. The issue price of the new shares is set to be € 2.68. If the market price significantly outstrips the envisaged issue price, this will be renegotiated in line with statutory requirements. The proposed capital increase provides the opportunity for Heidelberg to acquire a further strategic anchor shareholder with a long-term investment horizon who is looking to intensify and expand the long-standing successful partnership between the two companies.

Financial section
Interim consolidated income statement

Figures in € millions	1-Apr-2017 to 31-Dec-2017	**1-Apr-2018 to 31-Dec-2018**	1-Oct-2017 to 31-Dec-2017	**1-Oct-2018 to 31-Dec-2018**
Net sales	1,657	1,693	603	579
Change in inventories	108	126	11	42
Other own work capitalized	31	26	10	9
Total operating performance	**1,796**	**1,845**	**624**	**630**
Other operating income	59	59	16	21
Cost of materials	809	850	284	295
Staff costs	643	663	216	217
Depreciation and amortization	51	53	18	18
Other operating expenses	299	298	96	102
Result of operating activities [1)]	**53**	**40**	**26**	**18**
Financial income	3	4	1	1
Financial expenses	39	43	12	12
Financial result	**– 36**	**– 39**	**– 11**	**– 11**
Net result before taxes	**17**	**1**	**15**	**7**
Taxes on income	27	4	25	3
Net result after taxes	**– 10**	**– 2**	**– 10**	**5**
Basic earnings per share according to IAS 33 (in € per share)	**– 0.04**	**– 0.01**	**– 0.04**	**0.01**
Diluted earnings per share according to IAS 33 (in € per share)	**–0.04**	**– 0.01**	**– 0.04**	**0.01**

[1)] Result of operating activities excluding restructuring result: € 49 million (April 1, 2017 to December 31, 2017: € 54 million)

Restructuring result (€ – 9 million; April 1, 2017 to December 31, 2017: € – 1 million) = restructuring income (€ 6 million; April 1, 2017 to December 31, 2017: € 1 million) less restructuring expenses (€ 15 million; April 1, 2016 to December 31, 2016: € 2 million)

Interim consolidated statement of financial position as of December 31, 2018

Assets

Figures in € millions	31-Mar-2018	**31-Dec-2018**
Non-current assets		
Intangible assets	263	280
Property, plant and equipment	526	545
Investment property	9	8
Financial assets	12	7
Receivables from sales financing	38	29
Other receivables and other assets	25	14
Deferred tax assets	66	71
	939	954
Current assets		
Inventories	622	774
Receivables from sales financing	28	26
Trade receivables	370	288
Other receivables and other assets	87	91
Income tax assets	8	9
Cash and cash equivalents	202	120
	1,317	1,308
Total assets	**2,256**	**2,262**

Equity and liabilities

Figures in € millions	31-Mar-2018	**31-Dec-2018**
Equity		
Issued capital	713	713
Capital reserves, retained earnings and other reserves	– 386	– 350
Net result after taxes	14	– 2
	341	361
Non-current liabilities		
Provisions for pensions and similar obligations	523	514
Other provisions	142	140
Financial liabilities	403	392
Other liabilities	32	35
Deferred tax liabilities	6	5
	1,106	1,086
Current liabilities		
Other provisions	213	178
Financial liabilities	35	78
Trade payables	237	254
Income tax liabilities	3	4
Other liabilities	321	301
	809	815
Total equity and liabilities	**2,256**	**2,262**

Interim consolidated statement of cash flows as of December 31, 2018

Figures in € millions	1-Apr-2017 to 31-Dec-2017	**1-Apr-2018 to 31-Dec-2018**
Net result after taxes	– 10	– 2
Depreciation, amortization, write-downs and write-ups [1]	51	53
Change in pension provisions	6	6
Change in deferred tax assets/deferred tax liabilities/tax provisions	21	– 6
Result from disposals	1	– 1
Cash flow	**69**	**50**
Change in inventories	– 120	– 149
Change in sales financing	1	11
Change in trade receivables/payables	96	105
Change in other provisions	– 41	– 40
Change in other items of the statement of financial position	34	– 32
Other operating changes	**– 30**	**– 105**
Cash generated by operating activities	**39**	**– 55**
Intangible assets/property, plant and equipment/investment property		
Investments	– 73	– 89
Income from disposals	5	14
Financial assets/company acquisitions		
Investments	– 14	0
Income from disposals	0	0
Cash investment	23	10
Cash used in investing activities	**– 59**	**– 65**
Change in financial liabilities	– 14	37
Cash used in financing activities	**– 14**	**37**
Net change in cash and cash equivalents	**– 34**	**– 83**
Cash and cash equivalents at the beginning of the reporting period	**218**	**202**
Changes in the scope of consolidation	1	1
Currency adjustments	– 6	0
Net change in cash and cash equivalents	– 34	– 83
Cash and cash equivalents at the end of the reporting period	**179**	**120**
Cash generated by operating activities	39	– 55
Cash used in investing activities	– 59	– 65
Free cash flow	**– 20**	**– 120**

[1] Relates to intangible assets, property, plant and equipment, investment property and financial assets

Financial calendar 2018/2019

June 6, 2019	Press Conference, Annual Analysts' and Investors' Conference
July 25, 2019	Annual General Meeting

Subject to change.

This report was published on February 7, 2019.

Important note
This interim statement contains forward-looking statements based on assumptions and estimates by the management of Heidelberger Druckmaschinen Aktiengesellschaft. Even though the management is of the opinion that these assumptions and estimates are accurate, the actual future development and results may deviate substantially from these forward-looking statements due to various factors, such as changes in the overall economic situation, exchange and interest rates, and changes within the print media industry. Heidelberger Druckmaschinen Aktiengesellschaft provides no guarantee and assumes no liability for future development and results deviating from the assumptions and estimates made in this interim announcement. Heidelberg neither intends nor assumes any obligation to update the assumptions and estimates made in this interim announcement to reflect events or developments occurring after the publication of this interim announcement.

In individual cases, rounding could result in discrepancies concerning the totals and percentages contained in this interim announcement.

This report is a translation of the official German interim statement of Heidelberger Druckmaschinen Aktiengesellschaft.
The Company disclaims responsibility for any misunderstanding or misinterpretation due to this translation.

Contact

Investor Relations
Tel. +49-6222-82 67120
investorrelations@heidelberg.com

Publishing information

Heidelberger Druckmaschinen
Aktiengesellschaft
Kurfürsten-Anlage 52–60
69115 Heidelberg
Germany
www.heidelberg.com