



Interim statement Q1
2019/2020



INTERIM STATEMENT FOR THE FIRST QUARTER OF 2019/2020

Figures

- Incoming orders of € 615 million reflect investment restraint due to worsened economic conditions; order backlog increased slightly year-on-year
- Sales down year-on-year at € 502 million due to economic conditions
- EBITDA excluding restructuring result at € 14 million; EBIT excluding restructuring result at € –10 million
- Net result after taxes € –31 million
- Cash flow at € –4 million; free cash flow at € –83 million
- Net debt rises due in part to the first-time application of IFRS 16 to € 391 million, leverage at 2.1
- Sales forecast confirmed, margin target and forecast for net result after taxes adjusted

Facts

- Expansion of digital business models: demand for contract and subscription offerings continues to develop favorably
- Successful Print China 2019: customers focus on digital packaging printing and Smart Print Shop
- World's first web-to-pack platform for individual folding boxes implemented in China
- Expansion of cloud-based applications: establishment of a new platform for the printing industry
- “Heidelberg Digital Campus of Things” project launched: concept for sustainable and forward-looking development of the Wiesloch-Walldorf production site put forward
- First quarter affected by increasing investment restraint and corresponding sales deferrals due to the economic slowdown, especially at the end of the reporting period

Key figures at a glance

Figures in € millions	Q1 2018/2019	Q1 2019/2020
Incoming orders	665	615
Order backlog	714	730
Net sales	541	502
EBITDA ¹⁾	20	14
in percent of sales	3.7	2.8
Result of operating activities (EBIT) excluding restructuring result	2	-10
Restructuring result	0	-3
Financial result	-16	-13
Net result before taxes	-14	-26
Net result after taxes	-15	-31
Equity	332	295
Net debt ²⁾	278	391 ³⁾
Leverage ⁴⁾	1.4	2.1
Cash flow	3	-4
Free cash flow	-45	-83
Earnings per share in €	-0.05	-0.10
Number of employees at end of quarter (excluding trainees)	11,549	11,459

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⁾ Of which: approximately € 55 million from the first-time application of IFRS 16

⁴⁾ Ratio of net debt to EBITDA excluding restructuring result for the last four quarters

First-time application of IFRS 16

Heidelberger Druckmaschinen AG is applying the financial reporting standard IFRS 16 "Leases" for the first time in the 2019/2020 financial year, which supersedes the former lease accounting standard IAS 17 "Leases". The material effects of the introduction of IFRS 16 are reflected in the increase in both non-current assets (recognition of right-of-

use assets) and financial liabilities (recognition of lease liabilities). In the income statement, depreciation and amortization increase and the financial result deteriorates; these effects are offset by roughly equal increases in EBITDA, so the net result is virtually unchanged. The previous year's figures were not adjusted.

Overall assessment of business development

The business development of Heidelberger Druckmaschinen AG (Heidelberg) in the first quarter (April 1, 2019 to June 30, 2019) of the 2019/2020 financial year was influenced by increasing investment restraint and corresponding sales deferrals due to the economic slowdown, especially at the end of the reporting period. This development chimes with the statements by the industry association VDMA from early July, which lowered its full-year forecast for 2019 to a production drop of 2 percent. Particularly in Germany and parts of Europe and in the business with consumables, Heidelberg was not able to build on the previous year.

Heidelberg has made further progress with the Company's digital transformation in the first quarter of the current 2019/2020 financial year. At the start of the new financial year, the Company successfully presented solutions for digital packaging printing and Heidelberg's Smart Print Shop at Print China in April. Together with a large Chinese folding box producer, the Company also launched the web-to-pack platform "boxuni" and a fully digital production line centered on a Primefire 106 there. Heidelberg is therefore a pioneer in the establishment of a digital, cloud-based ecosystem for the packaging market in the Chinese print media industry.

Furthermore, together with a company specializing in cloud-based management information systems, Heidelberg plans to establish a new industry platform for the printing industry, which will then also be opened up for applications from third-party providers.

The demand for e-commerce, contract and subscription services (service, software and supply contracts for consumables and in the final expansion stage subscription contracts including equipment) continued to develop positively, so Heidelberg is offering additional contract variants. The share of recurring sales has risen compared with the same quarter of the previous year. In the medium term, the share of recurring sales primarily from contract and subscription offerings is set to increase to around one-third of total sales.

In the quarter under review, there was an intensive exchange with the communities of Wiesloch and Walldorf regarding the sustainable and forward-looking development of the largest production site within the production network, Wiesloch-Walldorf, into the "Heidelberg Digital Campus of Things". Extensive infrastructure changes and the efficient use of all resources and synergies at the location are to create a home base for the future growth of Heidelberg and its production network.

Incoming orders and sales in the first quarter of the 2019/2020 financial year were significantly negatively influenced by the worsened economic conditions and the associated investment restraint and both fell short of the figures for the same quarter of the previous year. Compared to the end of the financial year on March 31, 2019 (€ 654 million), the order backlog increased by around 12 percent to € 730 million as of June 30, 2019. This is also thanks to the new subscription contracts, which will be reflected in sales throughout the term of the respective contracts.

Net sales and results of operations Interim consolidated income statement

Figures in € millions	Q1 2018/2019	Q1 2019/2020
Net sales	541	502
Change in finished goods and work in progress/other own work capitalized	70	84
Total operating performance	611	586
EBITDA excluding restructuring result	20	14
Result of operating activities (EBIT) excluding restructuring result	2	-10
Restructuring result	0	-3
Result of operating activities	2	-13
Financial result	-16	-13
Net result before taxes	-14	-26
Taxes on income	1	5
Net result after taxes	-15	-31

- ▶ Despite considerably higher demand in China, incoming orders in the first quarter of the financial year 2019/2020 amounted to € 615 million, down on the previous year's figure of € 665 million, due to economy-driven investment deferrals in Western Europe.
- ▶ At € 502 million, **NET SALES** were down on the previous year's figure of € 541 million due to the worsened economic conditions and corresponding investment deferrals. This primarily affected the new machinery business and thus the Heidelberg Digital Technology segment.
- ▶ **EBITDA EXCLUDING RESTRUCTURING RESULT** was down on the same quarter of the previous year (€ 20 million) at € 14 million due to the lower volume and a less favorable product mix. The positive effects from the first-time application of IFRS 16 amounted to around € 5 million. **EBIT EXCLUDING RESTRUCTURING RESULT** amounted to € -10 million (same quarter of the previous year: € 2 million). The EBITDA margin excluding restructuring result (including IFRS 16 effect) amounted to 2.8 percent after 3.7 percent in the same quarter of the previous year.

- ▶ The **FINANCIAL RESULT** improved to € -13 million after € -16 million in the same quarter of the previous year.
- ▶ Taking into account taxes on income, the **NET RESULT AFTER TAXES** amounted to € -31 million (same quarter of the previous year: € -15 million).

Net assets

Assets

Figures in € millions	31-Mar-2019	30-Jun-2019
Non-current assets	846	897
Inventories	685	777
Trade receivables	360	283
Receivables from sales financing	60	58
Cash and cash equivalents	215	151
Other assets	163	184
Total assets	2,329	2,350

- ▶ Non-current assets climbed in the quarter under review, essentially as a result of the first-time application of IFRS 16.
- ▶ Due to the expected rise in deliveries and sales in the second half of the financial year and to the planned series launch of the digital portfolio, inventories exceeded the level as of the end of the 2018/2019 financial year. Consequently, net working capital also rose to € 710 million as of June 30, 2019 (June 30, 2018: € 606 million; March 31, 2019: € 684 million).
- ▶ Trade receivables fell to € 283 million as of June 30, 2019, due to seasonal effects (same quarter of the previous year: € 360 million).
- ▶ Cash and cash equivalents decreased primarily as a result of the negative free cash flow.

Equity and liabilities

Figures in € millions	31-Mar-2019	30-Jun-2019
Equity	399	295
Provisions	880	921
of which: pension provisions	582	652
Financial liabilities	465	542
Trade payables	245	221
Other equity and liabilities	340	371
Total equity and liabilities	2,329	2,350

- ▶ Equity decreased due primarily to the significant decline in the interest rate for German pensions (from 2.0 percent as of March 31, 2019 to 1.5 percent as of June 30, 2019) and the loss for the quarter and amounted to € 295 million as of the end of the quarter. The equity ratio was therefore around 13 percent.
- ▶ Due to the decline in the interest rate for German pensions, the pension provisions increased as of the end of the reporting period on June 30, 2019. Overall, provisions increased to around € 921 million.
- ▶ Financial liabilities rose as of the end of the reporting period, essentially as a result of the first-time application of IFRS 16 (approximately € 55 million) and the negative free cash flow. Net debt therefore also increased to € 391 million as of the end of the quarter.
- ▶ Due to seasonal influences and as a result of the first-time application of IFRS 16, leverage rose to 2.1 as of the end of the quarter.

Financial position

Interim consolidated statement of cash flows

Figures in € millions	Q1 2018/2019	Q1 2019/2020
Net result after taxes	-15	-31
Cash flow	3	-4
Other operating changes	-35	-62
of which: net working capital	8	-30
of which: receivables from sales financing	4	1
of which: other	-47	-34
Cash used in investing activities	-13	-17
Free cash flow	-45	-83
in percent of sales	-8.3	-16.5

- ▶ Cash flow amounted to € -4 million (same quarter of the previous year: € 3 million).
- ▶ There was net cash outflow of € -62 million in other operating changes due primarily to the increase in net working capital and seasonal staff payments.
- ▶ Cash used in investing activities amounted to € -17 million in the quarter under review. In the reporting period, we invested in particular in digital projects, the establishment of new business models and the acquisition of a smaller company from the software sector.
- ▶ In total, free cash flow was significantly negative in the first quarter of 2019/2020 at € -83 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 € 710 million, have balanced diversification and a balanced maturity structure until 2023. The net financial debt of € 336 million (excluding approximately € 55 million from the first-time application of IFRS 16) is thus funded in the medium to long term.

Segments

Segment key figures

Figures in € millions	Heidelberg Digital Technology		Heidelberg Lifecycle Solutions		Heidelberg Financial Services		Heidelberg Group	
	Q1 2018/2019	Q1 2019/2020	Q1 2018/2019	Q1 2019/2020	Q1 2018/2019	Q1 2019/2020	Q1 2018/2019	Q1 2019/2020
Incoming orders	387	373	277	241	1	1	665	615
Sales	314	278	226	223	1	1	541	502
EBITDA excluding restructuring result ¹⁾	-3	-7	22	20	1	1	20	14
EBIT excluding restructuring result	-16	-25	17	14	1	0	2	-10

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

► The investment restraint due to the worsened economic outlook predominantly affected the **HEIDELBERG DIGITAL TECHNOLOGY** segment. The lower sales, a less favorable product mix, and lower capitalization of development costs reduced the margin and earnings, so EBITDA excluding restructuring result came to € -7 million (same quarter of the previous year: € -3 million).

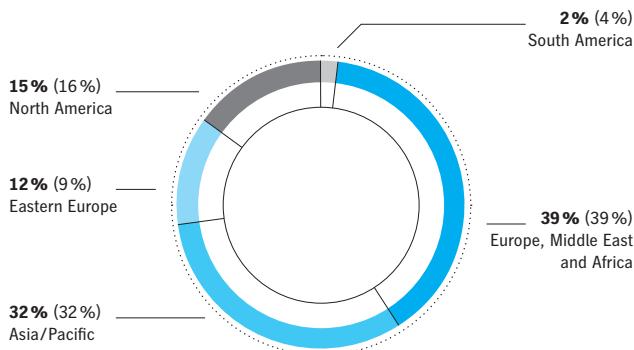
► Sales and earnings in the **HEIDELBERG LIFECYCLE SOLUTIONS** segment were marginally below the level of the same quarter of the previous year.

Regions

Sales by region

Figures in € millions	Q1 2018/2019	Q1 2019/2020
EMEA	211	194
Asia/Pacific	172	160
Eastern Europe	49	59
North America	89	77
South America	20	12
Heidelberg Group	541	502

Q1 2019/2020
Share of Heidelberg Group sales (in parentheses: previous year)



- In the **EMEA** region and especially in Germany and Central Europe, the investment restraint and corresponding deferrals due to the economic slowdown made a particular impact on sales.
- The picture in the **ASIA/PACIFIC** region was mixed: While Japan and Singapore significantly increased sales and China came close to the previous year's figure, sales in many smaller markets declined compared with the same quarter of the previous year.
- Higher sales of sheetfed offset printing presses in Southeastern Europe considerably increased the **EASTERN EUROPE** region's sales in the quarter under review.

- The **NORTH AMERICA** region failed to achieve the previous year's sales level; the US in particular was unable to repeat the good result of the same quarter of the previous year.
- In the **SOUTH AMERICA** region, there was considerable restraint and therefore a sales decline due to the difficult political, economic and financial environment.

Outlook

As communicated in an ad hoc announcement on July 17, 2019, the Company is adjusting the outlook for the operating result in the current 2019/2020 financial year and assumes a target margin for EBITDA excluding restructuring result in a range from 6.5 to 7 percent of sales (previously 7.5 to 8.0 percent). This is due to increasing investment restraint due to the worsened economic conditions and a less favorable product mix in the 2019/2020 financial year. The Heidelberg Digital Technology segment is now expected to achieve an EBITDA margin excluding restructuring result of 2.0 percent to 3.0 percent; an EBITDA margin excluding restructuring result of 13.5 percent to 14.0 percent is still being envisaged for the Heidelberg Lifecycle Solutions segment. The Heidelberg Financial Services segment is expected to continue to make a positive contribution to EBITDA. For the 2019/2020 financial year as a whole, Heidelberg continues to expect sales at the level of the previous year. Despite the economic slowdown and the associated reluctance to invest in the equipment business, compensation is expected from a further stable expansion of the contract business. The Company expects to break even after taxes, having previously targeted a net result after taxes at the previous year's level.

The other parts of the forecast for the current 2019/2020 financial year remain unchanged and can be found on pages 52/53 of the 2018/2019 Annual Report.

Financial section

Interim consolidated income statement

Figures in € millions	1-Apr-2018 to 30-Jun-2018	1-Apr-2019 to 30-Jun-2019
Net sales	541	502
Change in inventories	62	82
Other own work capitalized	8	2
Total operating performance	611	586
Other operating income	19	13
Cost of materials	283	270
Staff costs	233	233
Depreciation and amortization	18	24
Other operating expenses	94	85
Result of operating activities¹⁾	2	-13
Financial income	2	1
Financial expenses	18	14
Financial result	-16	-13
Net result before taxes	-14	-26
Taxes on income	1	5
Net result after taxes	-15	-31
Basic earnings per share according to IAS 33 (in € per share)	-0.05	-0.10
Diluted earnings per share according to IAS 33 (in € per share)	-0.05	-0.10

¹⁾ Result of operating activities excluding restructuring result: € -10 million (April 1, 2018 to June 30, 2018: € 2 million)

Restructuring result (€ -3 million; April 1, 2018 to June 30, 2018: € 0 million) = restructuring income (€ 1 million; April 1, 2018 to June 30, 2018: € 3 million) less restructuring expenses (€ 4 million; April 1, 2018 to June 30, 2018: € 3 million).

Interim consolidated statement of financial position as of June 30, 2019

Assets

	31-Mar-2019	30-Jun-2019
Figures in € millions		
Non-current assets		
Intangible assets	271	268
Property, plant and equipment	560	610
Investment property	8	8
Financial assets	7	11
Receivables from sales financing	30	32
Other receivables and other assets	8	8
Deferred tax assets	76	73
	<u>960</u>	<u>1.009</u>
Current assets		
Inventories	685	777
Receivables from sales financing	29	26
Trade receivables	360	283
Other receivables and other assets	71	93
Income tax assets	8	9
Cash and cash equivalents	215	151
	<u>1,369</u>	<u>1,339</u>
Assets held for sale	0	1
Total assets	<u>2,329</u>	<u>2,350</u>

Equity and liabilities

	31-Mar-2019	30-Jun-2019
Figures in € millions		
Equity		
Issued capital	779	779
Capital reserves, retained earnings and other reserves	-401	-453
Net result after taxes	21	-31
	<u>399</u>	<u>295</u>
Non-current liabilities		
Provisions for pensions and similar obligations	582	652
Other provisions	99	98
Financial liabilities	366	449
Contractual liabilities	31	20
Other liabilities	12	12
Deferred tax liabilities	5	4
	<u>1,095</u>	<u>1,235</u>
Current liabilities		
Other provisions	199	171
Financial liabilities	99	93
Trade payables	245	221
Income tax liabilities	4	5
Contractual liabilities	156	177
Other liabilities	131	153
	<u>834</u>	<u>820</u>
Total equity and liabilities	<u>2,329</u>	<u>2,350</u>

Interim consolidated statement of cash flows as of June 30, 2019

Figures in € millions	1-Apr-2018 to 30-Jun-2018	1-Apr-2019 to 30-Jun-2019
Net result after taxes	-15	-31
Depreciation and amortization/write-downs/reversals ¹⁾	18	24
Change in pension provisions	2	3
Change in deferred tax assets/deferred tax liabilities/tax provisions	-2	0
Result from disposals	0	0
Cash flow	3	-4
Change in inventories	-68	-96
Change in sales financing	4	1
Change in trade receivables/payables	76	52
Change in other provisions	-36	-27
Change in other items of the statement of financial position	-11	8
Other operating changes	-35	-62
Cash used in operating activities	-32	-66
Intangible assets/property, plant and equipment/investment property		
Investments	-25	-16
Income from disposals	2	2
Financial assets/company acquisitions		
Investments	0	-3
Cash investment	10	0
Cash used in investing activities	-13	-17
Change in financial liabilities	46	21
Cash generated by financing activities	46	21
Net change in cash and cash equivalents	1	-62
Cash and cash equivalents at the beginning of the reporting period	202	215
Changes in the scope of consolidation	1	0
Currency adjustments	0	-2
Net change in cash and cash equivalents	1	-62
Cash and cash equivalents at the end of the reporting period	204	151
 Cash used in operating activities	 -32	 -66
Cash used in investing activities	-13	-17
Free cash flow	-45	-83

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

Financial calendar 2019/2020

- | | |
|--------------------------|--|
| November 6, 2019 | → Publication of Half-Year Figures 2019/2020 |
| February 11, 2020 | → Publication of Third Quarter Figures 2019/2020 |
| June 9, 2020 | → Press Conference, Annual Analyst and Investor Conference |
| July 23, 2020 | → Annual General Meeting |

Subject to change

This interim statement was published on August 6, 2019.

Important note

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

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

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

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