KOENIG & BAUER

Group Interim Report Third Quarter 2019

we're on it.

Koenig & Bauer Group in figures

01.01. - 30.09. in €m	2018	**2019**
Order intake	943.2	**843.0**
Revenue	788.8	**798.2**
Order backlog at 30.09.	769.3	**655.7**
Export level in %	87.0	**83.2**
Earnings before interest and taxes (EBIT)	28.6	**5.2**
Earnings before taxes (EBT)	25.4	**1.2**
Net profit	20.4	**1.0**
Balance sheet total at 30.09. (prior year: 31.12.)	1,178.3	**1,246.7**
Equity at 30.09. (prior year: 31.12.)	453.4	**413.3**
Investment in intangible assets, property, plant and equipment	27.4	**48.1**
Depreciation on intangible assets, property, plant and equipment	21.4	**26.8**
Payroll at 30.09.	5,698	**5,816** [1]
- thereof apprentices/trainees	341	**344**
Cash flows from operating activities	50.5	**–124.2**
Earnings per share in €	1.23	**0.05**

[1] including 61 following the consolidation of Koenig & Bauer Duran

As a result of significantly increased economic risks and greater price pressure from competitors, the market environment for Koenig & Bauer has become much more demanding. Generally speaking, price cuts to maintain or expand market share in limited markets, which can at most be subject to macroeconomic fluctuations, are out of the question for us. The only, and in our view, most logical way to deal with fluctuations in demand is the active and fast cost structuring while continuing to work on innovative products which enable customers to realise tangible added value.

The challenging market environment with sometimes massive concessions from the competition was reflected in order intake in the third quarter 2019 as a result of our strict price discipline. The economic framework conditions also mean that individual customer projects are being postponed. With new orders in the Group of €269.7m, order intake was weaker than in prior quarters, particularly at Sheetfed with €131m. With good proceeds of €292.2m in the third quarter (2018: €274.4m), we were able to slightly increase Group revenue as of 30 September 2019 year-over-year. Group EBIT of €5.2m (2018: €28.6m) was primarily impacted by expenses for the growth offensive 2023. Cumulatively for 2019 to 2021, we estimate growth expenses of approximately €50m with a heavier load in the first year. In addition to a declining services business in newspaper printing, unexpected project expenses for a major order in security printing, unplanned quality costs and negative mixed effects burdened earnings. Also in view of the considerable increase in economic risks from trade conflicts and barriers as well as political uncertainties, we have been working intensively in recent months on specific cost reduction programs. The optimisation of the Group-wide production and assembly footprint is a focus in this regard.

For the large market for analogue direct printing on corrugated board which is growing at an above-average rate, we have developed the sheetfed flexo presses CorruCUT and CorruFLEX with a number of unique features. Following a testing phase of the prototype in our plant, the prestigious pilot customer and development partner Klingele has now approved the ordered CorruCUT following a demanding factory acceptance test. The production start of the press in the Klingele production plant in Delmenhorst near Bremen will take place in the next few days. The engineering design, the achieved print quality and production speed as well as implementation of the operating concept convinced not only Klingele, but also generated very positive feedback from visitors from the global corrugated board industry.

Our mature and high-quality RotaJET digital printing platform is focused on decor and flexible packaging printing. Due to increasing indications of a structural transformation in decor printing, we see great revenue and earnings potential for our digital printing solution following recent orders. This applies simultaneously to digital beverage carton printing following the key contract from Tetra Pak. The large-format RotaJET that was ordered will be installed at the Tetra Pak production plant in Denton, Texas/USA. We also made good progress with the other growth projects in 2-piece can, cardboard, flexible packaging, coding and glass direct printing as well as in the postpress area with rotary and flatbed die-cutters as well as folder gluers.

The achievement of our annual targets 2019 – organic revenue growth in the Group of around 4% and an EBIT margin of around 6% – has become significantly more challenging in this demanding market environment with weaker order intake in the third quarter. With the currently high capacity utilisation, target achievement is subject to the scheduled order processing, the booking of expected orders and the timely effect of the cost reduction measures that have been initiated.

In addition to the growth and cost reduction projects, there is also a particular focus on the optimisation of liquidity. The currently high investments in the expansion of the demonstration centre in Radebeul, the plant development in Würzburg, the new Kammann facility, the SAP implementation and other IT projects amount to €48.1m as of 30 September 2019. We anticipate lower investment volumes in subsequent years. There was also a substantial one-off effect in addition to high investment payments. Following completion of the self-disclosure proceedings in connection with shortcomings in corruption prevention at the Swiss subsidiary KBA-NotaSys SA, there was an additional burden on cash flow in the first nine months of 2019 due to the CHF30m payment made to the Swiss Office of the Attorney General for the agreed skimming of profits. An additional significant capital lockup resulted from the major Egyptian order in banknote printing through the contract assets realised less prepayments. At the end of September 2019, the resulting cash burden amounted to €31.7m. We anticipate a liquidity relief following completion of the project in the third quarter of 2020.

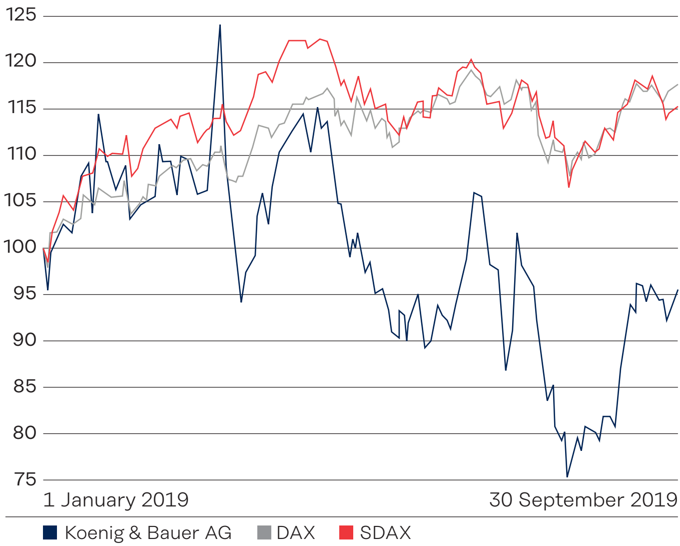
Claus Bolza-Schünemann
President and CEO of Koenig & Bauer AG

Koenig & Bauer shares

Despite the economic slowdown arising from trade conflicts and political developments, by the end of September the DAX had increased by 17.7% as compared with the closing at the end of the prior year. The SDAX increased by 16% in this period. Stock markets were supported by the renewed easing of monetary policy on the part of the central banks. As was the case with other capital goods companies, it was primarily the fear of recession that weighed on the performance of the Koenig & Bauer shares. Following a high for the year of €48.04 on 18 March, the share price decreased to as low as €28.24 on 15 August. As of 30 September, our share price was at €35.86, nearly reaching the price level from the end of 2018.

Koenig & Bauer shares

in %



Group management report

Business performance

In the first three quarters of 2019, the Group achieved an **order intake** of €843m. The prior-year figure of €943.2m benefited from a major order in security printing which is not usual in this scope. **Revenue** in the Group of €798.2m was slightly above the prior-year figure of €788.8m. Strong domestic business reduced the export ratio from 87% to 83.2%. While the share of business in Europe outside Germany of 33.9% remained at the level of the prior year (34.4%), the share contributed by North America narrowed from 15.4% to 13% and the Asia/Pacific region went from 26.9% to 23.8%. Latin America accounted for 12.5% of Group revenue (2018: 10.3%). At €655.7m, **order backlog** as of 30 September was 7.3% higher compared with the beginning of the year (€610.9m), although it was lower year-over-year (€769.3m) as a result of the huge security printing order booked in the second quarter of 2018.

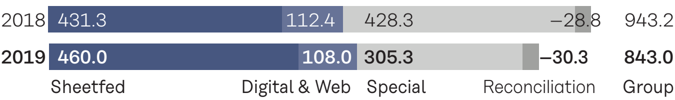
Earnings, finances and assets

Earnings

As a result of the product mix and higher cost of sales, the **gross margin** was 25.3% following 30.1% in the prior year. R&D expenses of €33.1m were below the prior-year figure of €36.7m. While distribution costs increased from €102.6m to €106.1m, administration expenses fell from €73m to €69.7m. Other income and expenses amounted to €12.1m after

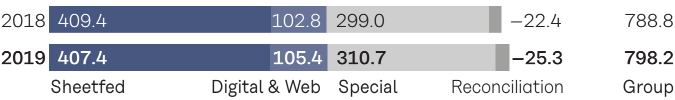
Group order intake

in €m



Group revenue

in €m



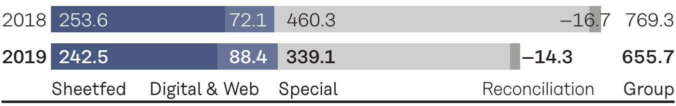
€3.2m in the prior year. This resulted in **EBIT** of €5.2m (2018: €28.6m). The interest result of –€4m (2018: –€3.2m) led to **earnings before taxes** of €1.2m as compared with €25.4m in the previous year. After income taxes, Group **net profit** was €1m (2018: €20.4m). This corresponds to **earnings per share** of €0.05. The prior-year figure was €1.23.

Finances

Despite lower trade receivables and increased customer prepayments, higher inventories and contract assets had a significant impact on **cash flows from operating activities** of –€124.2m (2018: €50.5m). In addition, there was also a burden on operating cash flow due to the CHF30m payment made to the Swiss Office of the Attorney General following completion of the self-disclosure proceedings. After taking the high level of investments into account, **free cash flow** of –€174.2m (2018: –€13.1m) was reported. As of 30 September, **funds** stood at €50.9m (31 December 2018: €142m). Adjusted for bank loans of €174.3m, the net financial position was –€123.4m. Securities of €17.1m can be converted to cash at any time. Contributing to a reduction of equity to €413.3m and the equity ratio to 33.2% (end of 2018: €453.4m and 38.5%, respectively) was the dividend distribution and the equity-burdening increase in pension provisions following the cut in the discount rate for domestic retirement benefits from 1.9% to 0.6%.

Group order backlog

in €m



Group net profit

in €m

Assets

For construction and IT projects, a sum of €48.1m was invested in property, plant and equipment as well as intangible assets (2018: €27.4m). The investments were countered by depreciation of €26.8m (2018: €21.4m). Intangible assets and property, plant and equipment increased from €293m to €337.3m. IFRS 16, which is applicable from 1 January 2019, contributed to this increase through the capitalisation of leases. As a result of the increase in non-current assets from €399.8m to €451.8m and due to higher current assets of €794.9m, the Group **balance sheet total** rose to €1,246.7m (31 December 2018: €1,178.3m).

Segment performance

In addition to the strong services business, more orders for medium-format presses led to growth in order intake at **Sheetfed** of 6.7% to €460m (2018: €431.3m). The new business was weakened in the third quarter by a difficult market environment. Revenue of €407.4m was at the level of the prior year (€409.4m). The good order backlog of €242.5m (2018: €253.6m) ensures continued high capacity utilisation. Due to the product mix and temporarily higher associated quality costs, EBIT of –€2.2m was below the figure from the prior year (€14m).

At **Digital & Web**, order intake of €108m was 3.9% below the prior-year figure of €112.4m. More press sales in newspaper and digital decor printing could not compensate for declining services business in newspaper printing and lower press orders in flexible packaging printing. While revenue increased slightly from €102.8m to €105.4m, order backlog was up significantly from €72.1m to €88.4m. EBIT, burdened by high market-entry and growth-related expenses, was –€15.7m as compared to

–€10.8m in the prior year. We are unsatisfied with earnings development in flexible packaging printing and are taking comprehensive optimisation measures to counter it.

In the **Special** segment, order intake of €305.3m was below the prior-year figure of €428.3m, which was impacted by a major order in security printing. In a highly-competitive environment, we were not able to succeed in all security printing tender awards. Nevertheless, press orders were in line with planning. Following strong metal decorating orders for large-scale machine lines for 3-piece can decorating in recent years, the dynamic demand has calmed recently. By contrast, we were able to achieve significant order growth in glass and hollow container decorating. Revenue was up from €299m to €310.7m. EBIT was at €13.1m after €25.3m in the prior year as a result of the product mix and the unexpected project expenses for the major order in security printing. At a level of €339.1m, order backlog and capacity utilisation are at a high level (2018: €460.3m).

Risk report

The major risks facing our business and the early warning system are described in detail in the annual report 2018 (from page 55). Even though global print production volumes continue to grow, particularly in the packaging sector, economic uncertainties or lower global economic growth could deteriorate the mood of printers and their investment sentiment, at least temporarily. This investment reluctance can lower the sales volume of our products and services and adversely affect our forecasts. We currently do not see any risks that could either individually or cumulatively jeopardise the Koenig & Bauer Group’s going-concern status.

Outlook and opportunities

Global economic risks have increased considerably in the wake of trade conflicts and barriers as well as political uncertainties. Due to our strict price discipline, the sometimes massive concessions from the competition led to weaker order intake in the third quarter of 2019. The achievement of our annual targets 2019 – organic revenue growth in the Group of around 4% and an EBIT margin of around 6% – has become significantly more challenging in this demanding market environment. With the currently high capacity utilisation, target achievement is subject to the scheduled order processing, the booking of expected orders and the timely effect of the cost reduction measures that have been initiated.

With our growth offensive 2023, we want to actively make use of market opportunities currently presented in the corrugated board, cardboard, flexible packaging, 2-piece can, coding, glass direct and decor printing as well as in the postpress area for sustainably profitable growth. The influence of the volatile security printing business will subside with the higher share of packaging in Group revenue. With web offset presses for newspaper and commercial printing, we anticipate further declines in the service business due to increased machine shut downs and printshop closings.

Group balance sheet

Assets in €m	31.12.2018	30.09.2019
Non-current assets		
Intangible assets, property, plant and equipment	293.0	337.3
Investments and other financial receivables	26.0	30.1
Other assets	1.3	1.0
Deferred tax assets	79.5	83.4
	399.8	**451.8**
Current assets		
Inventories	265.7	384.5
Trade receivables	156.0	105.8
Other financial receivables	13.7	17.6
Other assets	184.8	219.0
Securities	16.3	17.1
Cash and cash equivalents	142.0	50.9
	778.5	**794.9**
Balance sheet total	**1,178.3**	**1,246.7**

Equity and liabilities in €m	31.12.2018	30.09.2019
Equity		
Share capital	43.0	43.0
Share premium	87.5	87.5
Reserves	322.0	281.7
Equity attributable to owners of the Parent	**452.5**	**412.2**
Equity attributable to non-controlling interests	0.9	1.1
	453.4	**413.3**
Liabilities		
Non-current liabilities		
Pension provisions and similar obligations	152.6	174.1
Other provisions	20.9	18.9
Bank loans	1.0	0.3
Other financial payables	5.4	13.2
Other liabilities	0.9	0.6
Deferred tax liabilities	33.9	35.4
	214.7	**242.5**
Current liabilities		
Other provisions	138.0	82.5
Trade payables	82.5	74.3
Bank loans	73.4	174.0
Other financial payables	68.8	92.2
Other liabilities	147.5	167.9
	510.2	**590.9**
Balance sheet total	**1,178.3**	**1,246.7**

Group income statement

01.01. - 30.09. in €m	2018	**2019**
Revenue	788.8	798.2
Cost of sales	–551.1	–596.2
Gross profit	**237.7**	**202.0**
Research and development costs	–36.7	–33.1
Distribution costs	–102.6	–106.1
Administrative expenses	–73.0	–69.7
Other income and expenses	3.2	12.1
Earnings before interest and taxes (EBIT)	**28.6**	**5.2**
Interest result	–3.2	–4.0
Earnings before taxes (EBT)	**25.4**	**1.2**
Income tax expense	–5.0	–0.2
Net profit	**20.4**	**1.0**
- attributable to owners of the Parent	20.3	0.9
- attributable to non-controlling interests	0.1	0.1
Earnings per share (in €, basic/dilutive)	**1.23**	**0.05**

Statement of changes in Group equity

in €m	Share capital	Share premium
31.12.2017	**43.0**	**87.5**
Amendments in accordance with IFRS 9	–	–
Amendments in accordance with IFRS 15	–	–
01.01.2018	**43.0**	**87.5**
Net profit	–	–
Losses recognised directly in equity	–	–
Total comprehensive income	**–**	**–**
Dividend	–	–
Other changes	–	–
30.09.2018	**43.0**	**87.5**
31.12.2018	**43.0**	**87.5**
Amendments in accordance with IFRS 16	–	–
01.01.2019	**43.0**	**87.5**
Net profit	–	–
Losses recognised directly in equity	–	–
Total comprehensive income	**–**	**–**
Dividend	–	–
Other changes	–	–
30.09.2019	**43.0**	**87.5**

Statement of comprehensive Group income

01.01. - 30.09. in €m	2018	**2019**
Net profit	**20.4**	**1.0**
Items, which later will be reclassified to consolidated profit/loss		
Foreign currency translation	0.2	1.1
Measurement of derivatives	–3.6	–2.6
Deferred taxes	0.6	0.6
	–2.8	**–0.9**
Items, which later will not be reclassified to consolidated profit/loss		
Defined benefit plans	–7.5	–24.5
Deferred taxes	2.1	0.9
	–5.4	**–23.6**
Losses recognised directly in equity	**–8.2**	**–24.5**
Total comprehensive income	**12.2**	**–23.5**
- attributable to owners of the Parent	12.1	–23.6
- attributable to non-controlling interests	0.1	0.1

Reserves Recognised in equity	 Other	**Equity attr. to owners of the Parent**	Equity attr. to non-controlling interests	**Total**
–64.4	**357.9**	**424.0**	**–**	**424.0**
–2.9	3.4	0.5	–	0.5
–	-4.0	–4.0	–	–4.0
–67.3	**357.3**	**420.5**	**–**	**420.5**
–	20.3	20.3	0.1	20.4
–8.2	–	–8.2	–	–8.2
–8.2	**20.3**	**12.1**	**0.1**	**12.2**
–	–14.9	–14.9	–	–14.9
–	0.7	0.7	0.3	1.0
–75.5	**363.4**	**418.4**	**0.4**	**418.8**
–84.6	**406.6**	**452.5**	**0.9**	**453.4**
–	–0.3	–0.3	–	–0.3
–84.6	**406.3**	**452.2**	**0.9**	**453.1**
–	0.9	0.9	0.1	1.0
–24.5	–	–24.5	–	–24.5
–24.5	**0.9**	**–23.6**	**0.1**	**–23.5**
–	–16.4	–16.4	–0.1	–16.5
–	–	–	0.2	0.2
–109.1	**390.8**	**412.2**	**1.1**	**413.3**

Group cash flow statement

01.01. - 30.09. in €m	2018	**2019**
Earnings before taxes (EBT)	25.4	1.2
Non-cash transactions	23.6	29.2
Gross cash flow	**49.0**	**30.4**
Changes in inventories, receivables and other assets	19.9	–96.2
Changes in provisions and payables	–18.4	–58.4
Cash flows from operating activities	**50.5**	**–124.2**
Cash flows from investing activities	**-63.6**	**–50.0**
Free cash flow	**–13.1**	**–174.2**
Cash flows from financing activities	**–8.8**	**82.1**
Change in funds	**–21.9**	**–92.1**
Effect of changes in exchange rates and consolidated companies	2.9	1.0
Funds at beginning of period	142.4	142.0
Funds at end of period	**123.4**	**50.9**

Notes to the interim accounts to 30 September 2019

1 New standards

The implementation of **IFRS 16 - Leases**, which is mandatory from January 1, 2019, impacted accounting and measurement practices for 2019.

Under IFRS 16, the lessee recognises its right to use the underlying item as an asset and its payment obligation as a liability. Simplification options are available for short-term leases and leases of low-value assets.

As of January 1, 2019, the first-time application of this IFRS caused intangible assets, property, plant and equipment to increase by €23.3m and leasing liabilities by €23.6m. Reserves dropped by €0.3m.

The new standard was applied using the modified retrospective method; the figures for the previous year were not restated.

2 Accounting policies

This interim report for the Koenig & Bauer Group is based on international financial reporting standards (IFRS). The consolidated financial statements were prepared in accordance with the standards valid on that date, as issued by the International Accounting Standards Board (IASB), London, and all binding interpretations by the International Financial Reporting Interpretation Committee (IFRIC), with due regard for EU directives.

The interim accounts conform to IAS 34.

3 Consolidated companies and consolidation principles

There were no changes in our consolidated companies and consolidation principles.

4 Segment information

4.1 Business segments

As of 2019, the domestic and foreign subsidiaries that mostly offer sales and service functions for several segments are no longer allocated to the Sheetfed segment but are now spread across the segments according to their activities. The previous year's figures have been adjusted accordingly.

01.01. - 30.09.	Revenue		EBIT		Capital investments	
in €m	2018	**2019**	2018	**2019**	2018	**2019**
Segments						
Sheetfed	409.4	407.4	14.0	–2.2	11.4	12.8
Digital & Web	102.8	105.4	–10.8	–15.7	5.8	6.3
Special	299.0	310.7	25.3	13.1	3.4	9.9
Reconciliation	–22.4	–25.3	0.1	10.0	6.8	19.1
Group	**788.8**	**798.2**	**28.6**	**5.2**	**27.4**	**48.1**

4.2 Geographical breakdown of revenue

01.01. - 30.09.		
in €m	2018	**2019**
Germany	102.5	134.2
Rest of Europe	271.6	270.7
North America	121.6	104.0
Asia/Pacific	211.9	189.5
Africa/Latin America	81.2	99.8
Revenue	**788.8**	**798.2**

Key financial dates

Annual Report 2019
19 March 2020

Interim report on 1st quarter 2020
7 May 2020

Koenig & Bauer Annual General Meeting
19 May 2020
Vogel Convention Center, Würzburg

Interim report on 2nd quarter 2020
29 July 2020

Interim report on 3rd quarter 2020
11 November 2020

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