KOENIG & BAUER

Group Interim Report Third Quarter 2020

we're on it.

Koenig & Bauer Group in figures

01.01. - 30.09. in €m	2019	2020
Order intake	843.0	**712.8**
Revenue	798.2	**602.6**
Order backlog at 30.09.	655.7	**643.9**
Export level in %	83.2	**84.1**
Earnings before interest and taxes (EBIT)	5.2	**–102.2**
Earnings before taxes (EBT)	1.2	**–105.9**
Net profit/loss	1.0	**–109.0**
Balance sheet total at 30.09. (prior year: 31.12.)	1,343.1	**1,304.4**
Equity at 30.09. (prior year: 31.12.)	460.4	**340.7**
Investment in intangible assets, property, plant and equipment	48.1	**27.3**
Depreciation on intangible assets, property, plant and equipment	26.8	**25.4**
Payroll at 30.09.	5.816	**5.635**
- thereof apprentices/trainees	344	**339**
Cash flows from operating activities	–124.2	**–47.8**
Earnings per share in €	0.05	**–6.62**

The Covid-19 pandemic, which is worsening again in most countries over the past few weeks, is leaving clear traces on our business, as in many industries. The numerous travel restrictions, some of which have been intensified again, are impeding the global deployment of our assembly staff and service technicians to a considerable extent. In many cases, packaging printers, which are operating at high capacity utilisation for foods, beverages, pharmaceuticals and booming online trade, are not fully accessible to third parties required to ensure smooth production chains. Despite the continued noticeable interest in our innovative printing, finishing and postpress solutions, customers are postponing new investments in view of the uncertainty unleashed by the Covid-19 pandemic. Accordingly, orders came to €232.6m in Q3, down 13.8% on the previous year. At €198.1m, revenue in Q3 fell short of the previous year figure by 32.2%. In addition to the effects of the pandemic, this decline was materially due to the new internal revenue recognition guideline of the Koenig & Bauer AG, which caused a once-only revenue shift of €52.5m to 2021 in the Sheetfed segment.

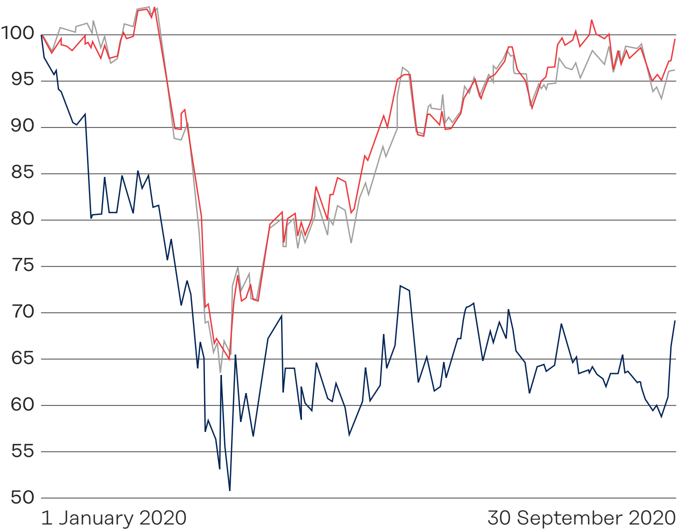
At the end of September, we decided the Performance 2024 programme, which had been enhanced and expanded over the last few months, to strengthen our position as leading supplier in packaging, industrial, security printing and postpress as well as to increase the Group's operating profitability. In addition to boosting efficiency and scaling the Group to the moderate growth expected in the next few years to Group revenue of around €1.3bn after the completion of the four-year programme, it aims to strengthen our competitiveness in the long term. A large number of initiatives are being taken to further develop and systematically expand the proven broad product range in line with market requirements, digitise processes and service offerings and simultaneously reduce manufacturing costs. The focus is on integrated system solutions and on optimising the total cost of ownership (TCO) for customers. In addition to new developments for security printing, we are driving forward investments in direct corrugated board and digital printing and the joint venture with the Durst Group. By continuing and accelerating all innovation processes, product and process developments, annual cost savings of over €100m should increasingly be achieved until 2024. In addition to the ongoing measures such as reducing overtime and temporary staff, a hiring freeze and short-time working, the efficiency programme will affect between 700 and 900 jobs in the Group in the short to medium term. The one-off costs required for the comprehensive package of measures were expensed in Q3 by recognising a provision of €57.6m. In addition, the new revenue recognition guideline mentioned above had a negative effect of €6.3m on EBIT. A positive effect arose from the one-off income of €4.8m from the sale of a real estate asset in Frankenthal. On balance, an EBIT of –€61.3m is reported for Q3. However, EBIT adjusted for one-offs improved substantially from –€34.9m in Q1 and –€10.2m in Q2 (excluding the non-recurring income of €4.2m from the successful resolution of a legal dispute) to –€2.2m in Q3. Despite the lower effects from short-time working compared with Q2, the adjusted EBIT almost reached the break-even threshold in Q3.

The short and medium-term measures of the Performance programme will take effect from 2021 to 2024. After implementing the approved cost and structural adjustments, we are still aiming for a return on sales (based on EBIT) of at least 7% in the medium-term. In Q4 2020, the worsening international course of the Covid-19 pandemic is expected to have a negative impact on business performance. For the financial year 2020, we expect Group revenue to reach a figure of between €900m and €950m and a negative EBIT before special items in the mid double-digit million range.

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

Koenig & Bauer shares

in %



Koenig & Bauer AG DAX SDAX

Koenig & Bauer shares

Despite the global economic slump and the high uncertainty in the wake of the corona pandemic, equity markets bounced off their March lows sharply. At the end of September, the SDAX was trading close to the level seen at the end of 2019. The DAX was down only 3.7% on the final day of trading in the previous year. In addition to the economic upswing in China following the sharp decline in the first quarter, the high liquidity in the financial markets as a result of the stimulus programmes implemented by the central banks and governments decisively underpinned the positive performance of the equity markets. The Koenig & Bauer share was unable to recover from the low-for-the-year of €14.42 reached on 23 March to the same extent due to poorer industry assessments. It closed at €19.20 in Xetra trading on 30 September, thus falling 31.3% short of the end of 2019.

Group management report

Business performance

In Q3, the Group achieved an **order intake** of €232.6m (Q3 2019: €269.7m). At €712.8m, new orders in the first three quarters were below the previous year's figure of €843m by 15.4%. However, Koenig & Bauer substantially outperformed the sector as a whole in terms of new business (down 26.8%). Group **revenue** came to €198.1m in Q3, down 32.2% on the previous year's figure of €292.2m, primarily as a result of the new internal revenue recognition guideline with a revenue shift of €52.5m to 2021. Cumulative revenue came to €602.6m in the first nine months of 2020 (2019: €798.2m). The share of revenue in the service business widened to 35.6% (2019: 30.5%). The export ratio increased from 83.2% to 84.1%, with the proportion of business coming from North America growing substantially to 21% (previous year: 13%). The revenue shares generated by Europe excluding Germany (31.8%), Asia-Pacific (22.2%) and Latin America and Africa (9.1%) were lower than in the previous year (33.9%; 23.8%; 12.5%). At €643.9m on 30 September, the **order backlog** was 1.8% down on the end of the third quarter of 2019 (€655.7m).

Earnings, finances and assets

Earnings

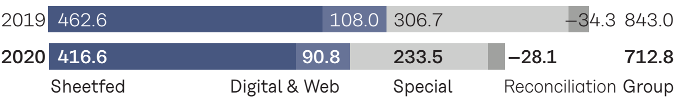
Q3 **earnings** performance was negatively impacted by special items such as the provisions set up for the Performance 2024 programme (€57.6m) and the earnings-related effects of the new revenue recognition guideline (€6.3m). A positive effect arose from the one-off income of €4.8m from the sale of a real estate asset in Frankenthal. Accordingly, the **gross margin** came to 1.3% in Q3, following 23.2% in the previous year. At €9.9m, R&D expenses were at the level of the same quarter of the previous year (€10.6m). In addition, development costs of €2.5m were capitalised in Q3 (2019: €3.7m). At €34.3m, distribution costs fell short of the previous year's figure of €38m, whereas the administrative expenses of €26.4m were slightly higher than in Q3 2019 (€26.1m). Other income and expenses came to €6.8m, down from €11.4m in the previous year. This resulted in **EBIT** of –€61.3m in Q3 (2019: €4.6m). Adjusted for special items, EBIT reached –€2.2m in Q3, thus improving substantially over Q1 (–€34.9m) and Q2 (–€10.2m). After interest result and income taxes, Group **net earnings** came to –€64.8m in Q3 (2019: €3.4m), equivalent to **earnings per share** of –€3.94. The prior-year figure was €0.20. In cumulative terms, EBIT for the first three quarters of 2020 came to –€102.2m (2019: €5.2m), Group net earnings to –€109m (2019: €1m) and earnings per share to –€6.62 (2019: €0.05).

Finances

At €20.8m and €26.9m, respectively, **cash flows from operating activities** and **free cash flow** were in distinctly

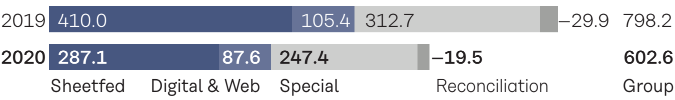
Group order intake

in €m



Group revenue

in €m



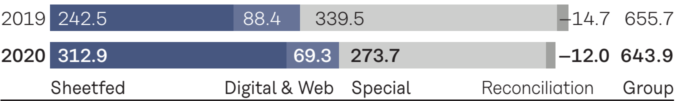
positive territory in Q3, improving significantly over the same quarter of the previous year (–€27.7m and –€39m, respectively). Despite a higher increase in inventories, this positive performance was underpinned by lower receivables and other assets as well as higher customer prepayments. In the first three quarters, there was also a considerable improvement in cash flows from operating activities from –€124.2m in the previous year to –€47.8m and in free cash flow from –€174.2m to –€62.1m. On 30 September, **cash and cash equivalents** stood at €115.9m (31 December 2019: €191m). Adjusted for bank loans, which were reduced from €199.3m to €193.8m, the net financial position was –€77.9m (year end 2019: –€8.3m).

Assets

A sum of €7.9m was invested in property, plant and equipment as well as intangible assets in Q3 (2019: €11.8m). The investments were countered by depreciation of €8.3m (2019: €9.4m). In cumulative terms, investments came to €27.3m (2019: €48.1m) in the first three quarters, while depreciation was €25.4m in the same period (2019: €26.8m). Including the sale of the real estate asset in Frankenthal, intangible assets and property, plant and equipment declined on balance over the end of 2019 (€361m) to €357.2m as of 30 September. While non-current assets of €488.7m remained at the level of the end of 2019 (€490.8m), current assets decreased substantially from €852.3m to €815.7m. All in all, the Group's **balance sheet total** fell to €1,304.4m (31 December 2019: €1,343.1m).

Group order backlog

in €m



Group net profit/loss

in €m

The reduction in equity to €340.7m and in the equity ratio to 26.1% (end of 2019: €460.4m and 34.3%, respectively) was caused by the negative Group net earnings and the increase in pension provisions charged to equity following the cut in the discount rate for domestic retirement benefits from 1.2% to 0.9%.

Segment performance

The **Sheetfed** segment achieved a robust order intake of €128.6m in Q3 (Q3 2019: €132m). Despite the substantial gains with large-format sheetfed offset presses and folder gluers, order intake in the first three quarters declined by 9.9% over the previous year's figure of €462.6m to €416.6m particularly as a result of lower orders for medium- and half-format presses. The revenue shift of €52.5m to 2021 as a result of the new revenue recognition guideline was the main reason for the decline in Q3 revenue from €151.1m to €81.6m. In cumulative terms, revenue for the first nine months came to €287.1m, falling short of the previous year (€410m) by 30%. With the book-to-bill ratio coming to 1.45, order backlog rose from €242.5m to €312.9m. The revenue effect and the provisions recognised for the Performance 2024 programme resulted in EBIT of –€31.7m in Q3 (2019: –€1.5m). At –€49.1m in the first three quarters, it was significantly lower than the previous year's figure of –€2.8m.

Driven by sales successes with RotaJET presses and HP machines, the **Digital & Web** segment achieved encouraging order intake of €34.1m in Q3 (Q3 2019: €18.1m). Order intake in the first three quarters came to €90.8m, down from €108m in the previous year, due to lower orders in the web offset press business and for flexible packaging printing. At €36m in Q3 and €87.6m in the first nine months, revenue was below the previous year's figures of €40.9m and €105.4m, respectively, for pandemic-related reasons. The order backlog contracted from €88.4m to €69.3m. EBIT, which was primarily burdened by the provision for the Performance 2024 programme, came to –€9.2m in Q3 and –€21.3m in the first three quarters (previous year: –€4.3m and –€15.1m, respectively).

Order intake in the **Special** segment of €82.8m in Q3 and €233.5m in the first nine months was below the previous year's figures of €131.4m and €306.7m, respectively. The decline in order intake reflects lower orders for security printing, marking and coding as well as glass decorating. On the other hand, there was an order increase in metal decorating. Revenue of €87.3m was achieved in Q3 (2019: €107.8m). The revenue generated in the first nine months decreased to €247.4m (2019: €312.7m). The order backlog reached €273.7m at the end of September after €339.5m in the previous year. EBIT came to –€25.6m in Q3 and –€35.9m in the first three quarters (previous year: €6.6m and €12.9m, respectively) chiefly as a result of the provisions recognised for the Performance 2024 programme.

Risk report

The major risks facing our business and the early warning system are described in detail in the annual report for 2019 (page 50 onwards). Due to the Covid-19 pandemic we see significant risks to the Koenig & Bauer Group's future business performance. The worldwide restrictions are hampering our ability to fulfil contracts that have already been awarded. For such cases, our contracts generally include appropriate clauses which exclude our liability in the event of force majeure. Similarly, it is becoming more difficult or impossible to gain new business, resulting in corresponding declines in revenue and earnings. Expected project awards are being delayed due to the postponement of investment decisions by our customers. We cannot currently foresee the medium and long-term effects that the corona crisis will have on global economic conditions. We are preparing for all possible scenarios with the initiation of the Performance 2024 programme and the application for a KfW loan. Despite these challenging underlying conditions, we currently do not see any risks that either individually or cumulatively are liable to jeopardise the Koenig & Bauer Group's going-concern status.

Outlook and opportunities

The four-year Performance 2024 programme aims to strengthen our long-term competitiveness with a series of measures. A large number of initiatives are being taken to additionally develop and expand the proven broad product range in line with market requirements, digitise processes and service offerings and simultaneously reduce manufacturing costs. The end markets primarily addressed by Koenig & Bauer, such as the structurally growing packaging and industrial printing, are fundamentally intact. Despite the currently high capacity utilisation of many packaging printers, customers are postponing new investments in view of the uncertainties resulting from the Covid-19 pandemic. In addition to increasing efficiency, the Performance programme also aims to adjust the Group's scale as only moderate revenue growth is projected in the coming years due to the global economic situation and Covid-19, with no return to the pre-crisis level expected in the short term.

The short and medium-term measures of the Performance programme will take effect from 2021 to 2024. In Q4 2020, the worsening international course of the Covid-19 pandemic is expected to have a negative impact on business performance. For the financial year 2020, we expect Group revenue to reach a figure of between €900m and €950m and a negative EBIT before special items in the mid double-digit million range.

After completion of the programme, the Koenig & Bauer Group should achieve a revenue level of around €1.3bn. On the earnings side, after implementing the approved cost and structural adjustments, the management board is still aiming for a return on sales (based on EBIT) of at least 7% in the medium-term and a reduction in working capital requirements to an average of 25% of annual revenue.

Group balance sheet

Assets

in €m	31.12.2019	30.09.2020
Non-current assets		
Intangible assets, property, plant and equipment	361.0	357.2
Investments and other financial receivables	22.5	23.5
Other assets	0.9	0.9
Deferred tax assets	106.4	107.1
	490.8	**488.7**
Current assets		
Inventories	292.6	384.1
Trade receivables	140.6	99.5
Other financial receivables	15.5	22.0
Other assets	207.8	191.9
Securities	4.8	2.3
Cash and cash equivalents	191.0	115.9
	852.3	**815.7**
Balance sheet total	**1,343.1**	**1,304.4**

Equity and liabilities

in €m	31.12.2019	30.09.2020
Equity		
Share capital	43.0	43.0
Share premium	87.5	87.5
Reserves	328.7	208.9
Equity attributable to owners of the Parent	**459.2**	**339.4**
Equity attributable to non-controlling interests	1.2	1.3
	460.4	**340.7**
Liabilities		
Non-current liabilities		
Pension provisions and similar obligations	165.5	175.0
Other provisions	23.7	47.6
Bank loans	0.9	0.7
Other financial payables	31.3	30.9
Other liabilities	6.3	6.1
Deferred tax liabilities	53.2	53.2
	280.9	**313.5**
Current liabilities		
Other provisions	90.0	114.7
Trade payables	110.0	58.1
Bank loans	198.4	193.1
Other financial payables	73.5	80.3
Other liabilities	129.9	204.0
	601.8	**650.2**
Balance sheet total	**1,343.1**	**1,304.4**

Group income statement

01.01. - 30.09. in €m	2019	**2020**
Revenue	798.2	602.6
Cost of sales	–596.2	–501.0
Gross profit	**202.0**	**101.6**
Research and development costs	–33.1	–31.0
Distribution costs	–106.1	–95.3
Administrative expenses	–69.7	–82.3
Other income and expenses	12.1	4.8
Earnings before interest and taxes (EBIT)	**5.2**	**–102.2**
Interest result	–4.0	–3.7
Earnings before taxes (EBT)	**1.2**	**–105.9**
Income tax expense	–0.2	–3.1
Net profit/loss	**1.0**	**–109.0**
- attributable to owners of the Parent	0.9	–109.4
- attributable to non-controlling interests	0.1	0.4
Earnings per share (in €, basic/dilutive)	**0.05**	**–6.62**

Statement of changes in Group equity

in €m	Share capital	Share premium
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**
01.01.2020	**43.0**	**87.5**
Net profit/loss	–	–
Losses recognised directly in equity	–	–
Total comprehensive income	**–**	**–**
Other changes	–	–
30.09.2020	**43.0**	**87.5**

Statement of comprehensive Group income

01.01. - 30.09. in €m	2019	2020
Net profit/loss	**1.0**	**-109.0**
Items, which later will be reclassified to consolidated profit/loss		
Foreign currency translation	1.1	–3.7
Measurement of derivatives	–2.6	0.8
Deferred taxes	0.6	–0.1
	–0.9	**–3.0**
Items, which later will not be reclassified to consolidated profit/loss		
Defined benefit plans	–24.5	–10.0
Deferred taxes	0.9	2.6
	–23.6	**–7.4**
Losses recognised directly in equity	**–24.5**	**–10.4**
Total comprehensive income	**–23.5**	**–119.4**
- attributable to owners of the Parent	–23.6	–119.8
- attributable to non-controlling interests	0.1	0.4

	Reserves				
	Recognised in equity	Other	**Equity attr. to owners of the Parent**	Equity attr. to non-controlling interests	**Total**
	–84.6	**406.6**	**452.5**	**0.9**	**453.4**
	–	–0.1	–0.1	–	–0.1
	–84.6	**406.5**	**452.4**	**0.9**	**453.3**
	–	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	0.2	–
	–109.1	**390.8**	**412.2**	**1.1**	**413.3**
	–99.2	**427.9**	**459.2**	**1.2**	**460.4**
	–	–109.4	–109.4	0.4	–109.0
	–10.4	–	–10.4	–	–10.4
	–10.4	**–109.4**	**–119.8**	**0.4**	**–119.4**
	–	–	–	–0.3	–0.3
	–109.6	**318.5**	**339.4**	**1.3**	**340.7**

Group cash flow statement

01.01. - 30.09. in €m	2019	**2020**
Earnings before taxes (EBT)	1.2	–105.9
Non-cash transactions	29.2	24.9
Gross cash flow	**30.4**	**–81.0**
Changes in inventories, receivables and other assets	–96.2	–45.3
Changes in provisions and payables	–58.4	78.5
Cash flows from operating activities	**–124.2**	**–47.8**
Cash flows from investing activities	**–50.0**	**–14.3**
Free cash flow	**–174.2**	**–62.1**
Cash flows from financing activities	**82.1**	**–10.3**
Change in funds	**–92.1**	**–72.4**
Effect of changes in exchange rates	1.0	–2.7
Funds at beginning of period	142.0	191.0
Funds at end of period	**50.9**	**115.9**

Notes to the interim accounts to 30 September 2020

1 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.

Due to a change in estimates, revenue for standardised new or used machines is recognised at the time of readiness for operation. Previously, the transfer of control took place upon delivery of the machine, provided that the assembly portion was not significant.

The interim accounts conform to IAS 34.

2 Special items

The Performance 2024 efficiency programme was developed to strengthen the Company's position as leading supplier in packaging, industrial, security printing and postpress and to increase operating profitability. Provisions of €56.7m were made for measures connected to the planned increase in competitiveness.

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 2020, the production service providers are no longer allocated to the Reconciliation but are now spread across the segments according to their activities. The previous year's figures have been adjusted accordingly. The change in revenue recognition led to a reduction in revenue of €52.5m in the Sheetfed segment in fiscal year 2020.

01.01. - 30.09.					Capital	
	Revenue		EBIT		investments	
in €m	2019	**2020**	2019	**2020**	2019	**2020**
Segments						
Sheetfed	410.0	287.1	–2.8	–49.1	12.8	11.5
Digital & Web	105.4	87.6	–15.1	–21.3	6.3	2.6
Special	312.7	247.4	12.9	–35.9	9.9	7.9
Reconciliation	–29.9	–19.5	10.2	4.1	19.1	5.3
Group	**798.2**	**602.6**	**5.2**	**–102.2**	**48.1**	**27.3**

4.2 Geographical breakdown of revenue

01.01. - 30.09.		
in €m	2019	**2020**
Germany	134.2	96.0
Rest of Europe	270.7	191.7
North America	104.0	126.2
Asia/Pacific	189.5	133.7
Africa/Latin America	99.8	55.0
Revenue	**798.2**	**602.6**

Key financial dates

Annual Report 2020
24 March 2021

Interim report on 1st quarter 2021
4 May 2021

Koenig & Bauer Annual General Meeting
11 May 2021

Interim report on 2nd quarter 2021
29 July 2021

Interim report on 3rd quarter 2021
28 October 2021

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