

KOENIG & BAUER

Conference Call
Full-Year Results 2018
21 March 2019

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Mathias Dähn, CFO

we're on it.

Agenda

Highlights and strategic milestones in 2018 / main focus in 2019

Business performance & key figures in 2018

Guidance for 2019 and mid-term targets until 2023

Highlights and strategic milestones in 2018

- Record order intake in flexible packaging, expansion of world market share to 9%
- Rise in revenue by around 50% in the last three years in marking and coding
- Since the acquisition of flatbed die-cutter business in 2016, revenue growth of more than 50%
- With good orders in security printing, market leadership held with over 90% world market share
- Market share of 45% in folding carton printing strengthened, pleasing gains in large format
- Service revenue share increased to 25.9%, previous year's figure of 25.6% benefitted from large press relocations
- 150th anniversary of our vocational school, the oldest in the world

Highlights and strategic milestones in 2018

Market entry in folder gluer business

- Acquisition of 80 % of Duran's folder gluer business
- Turkish manufacturer is currently no. 2 in the global market with a share of 6%
- Innovative and customer-oriented Omega folder gluers are one of the leading brands in the global folding carton industry
- With our printing and die-cutting equipment, we can offer complete lines

Planned joint venture with inkjet pioneer Durst

- 50/50 joint venture with Durst, a technology leader in inkjet and very successful in digital printing on ceramics and textiles
- Focus on future-oriented digital printing solutions with added value for customers in the folding carton and corrugated printing markets
- First milestone: producing VariJET press for digital folding carton printing in time for drupa 2020

Main focus in 2019

- Driving revenue and earnings contributions from new and enhanced products
- More even distribution of revenue across the year
- Initiative to strengthen our quality leadership
- Expanding our service share towards 30% in relation to a higher revenue level
- Optimising our entire supply chain for a sustained reduction in delivery times
- Operational and strategic adjustments to the internal production and assembly network to reduce costs and lead times as well as to boost productivity

Agenda

Highlights and strategic milestones in 2018 / main focus in 2019

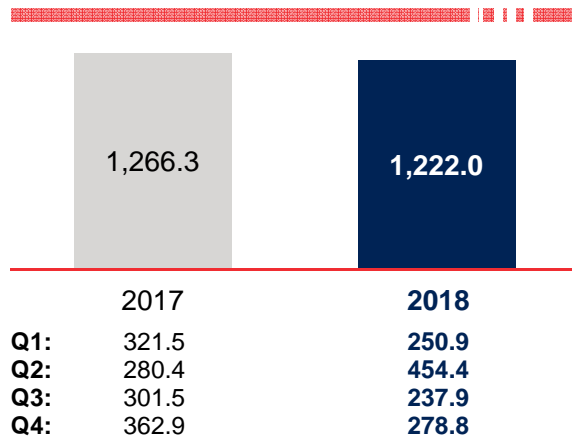
Business performance & key figures in 2018

Guidance for 2019 and mid-term targets until 2023

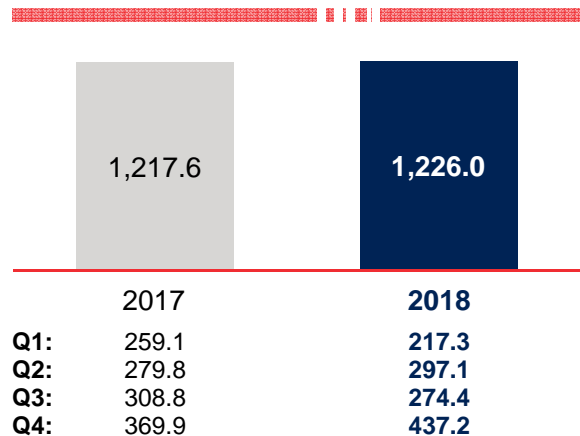
Good order situation in the Koenig & Bauer Group

- Bottlenecks in parts availability and longer lead times dampened new business
- Strong security business and higher orders in packaging printing markets
- Revenue only slightly up on the previous year's figure due to shifts of press deliveries into 2019 as a result of the parts situation
- High order backlog of €610.9m

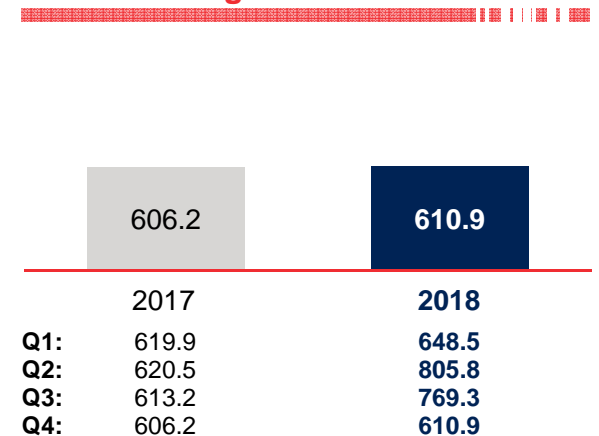
Order intake 01.01. - 31.12.



Revenue 01.01. - 31.12.



Order backlog 31.12.



Highest EBIT in our 201-year history

- Gross profit margin of 29% at a high level
- EBIT climbed from €81.4m to €87.4m
- At 7.1%, EBIT margin reached the guidance for 2018 of around 7%
- High tax expense due to consumption of deferred tax assets on loss carry-forwards, planned growth expenses temporarily reduce capitalisation potential
- Dividend proposal of €1 per share, 25.9% pay-out ratio of Group net profit

	2016	2017	2018
Gross margin	29.7%	30%	29%
EBIT	€62.9m ¹⁾	€81.4m	€87.4m
EPS	€4.98	€4.91	€3.86

1) Adjusted for the non-recurring income
Group figures as per IFRS

Strong financial power and balance sheet

€83.9m:
net liquidity with securities

€350m:
syndicated credit facility

38.5%:
equity ratio

- Average net working capital reduced from 28.9% to 28.2% y-o-y, parts availability in 2018 was major barrier to reducing inventories still further
- Strong increase in cash flows from operating activities to €66.3m
- Free cash flow – as planned – burdened by high investments and payment instalments for external funding of a part of pension provisions
- Guarantee facility of €200m and revolving cash credit facility of €150m with an option to increase it by €50m
- Long-term maturity with one renewal option until December 2024
- Equity increased to €453.4m
- At 36.4% in the previous year, significant step towards target of more than 45%

Group income statement

in €m	2017	2018
Revenue	1,217.6	1,226.0
Cost of sales	-852.1	-870.4
Gross profit	365.5	355.6
Research and development costs	-48.4	-44.3
Distribution costs	-140.9	-138.8
Administrative expenses	-90.1	-94.2
Other income /. expenses	-4.7	9.1
Earnings before interest and taxes (EBIT)	81.4	87.4
Interest result	-2.9	-3.5
Earnings before taxes (EBT)	78.5	83.9
Income tax	2.6	-19.9
Net profit	81.1	64.0

Group cash flow statement

in €m	2017	2018
Earnings before taxes	78.5	83.9
Non-cash transactions	34.9	19.5
Gross cash flow	113.4	103.4
Changes in inventories, receivables, other assets	-74.2	8.7
Changes in provisions and payables	-15.4	-45.8
Cash flows from operating activities	23.8	66.3
Cash flows from investing activities	-83.4	-85.8
Free cash flow	-59.6	-19.5
Cash flows from financing activities	0.9	16.0
Change in funds	-58.7	-3.5
Effect of changes in exchange rates/consolidated companies	-0.9	3.1
Funds at beginning of period	202.0	142.4
Funds at end of period	142.4	142.0

Group balance sheet

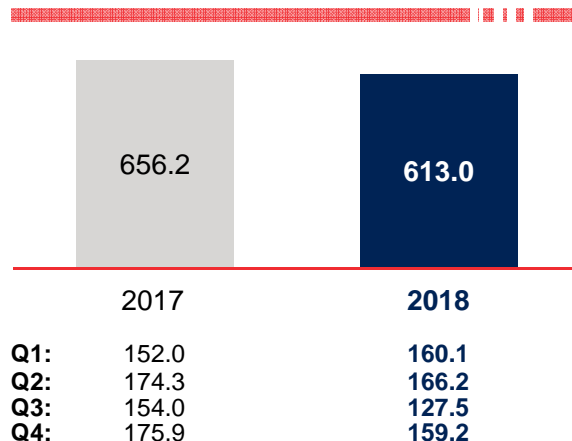
Assets in €m	31.12.2017	31.12.2018
Non-current assets		
Intangible assets and property, plant and equipment	256.3	293.0
Investments/other financial receivables	50.5	26.0
Other assets	1.6	1.3
Deferred tax assets	80.7	79.5
	389.1	399.8
Current assets		
Inventories	254.9	265.7
Trade receivables	308.3	156.0
Other financial receivables	14.2	13.7
Other assets	33.4	184.8
Securities	21.6	16.3
Cash and cash equivalents	142.4	142.0
	774.8	778.5
	1,163.9	1,178.3

Equity and liabilities in €m	31.12.2017	31.12.2018
Equity		
Share capital	43.0	43.0
Share premium	87.5	87.5
Reserves	293.5	322.0
Equity attrib. to non-controlling interests	-	0.9
	424.0	453.4
Non-current liabilities		
Pension provisions	198.4	152.6
Other provisions	27.1	20.9
Bank loans/other financial payables	8.6	6.4
Other liabilities	1.2	0.9
Deferred tax liabilities	26.2	33.9
	261.5	214.7
Current liabilities		
Other provisions	144.6	138.0
Trade payables	72.1	82.5
Bank loans/other financial payables	100.9	142.2
Other liabilities	160.8	147.5
	478.4	510.2
	1,163.9	1,178.3

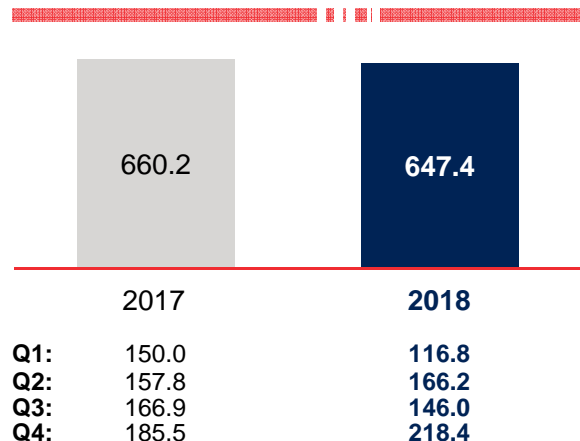
Sheetfed limited by parts availability

- While the project situation is good, bottlenecks in parts availability dampened new business
- Revenue and earnings also affected
- 5.6% EBIT margin, keeping the level achieved despite continued price pressure
- After a subdued Q3, good order intake in the final quarter
- Order backlog of €199.1m below prior year, 2019 starting with good orders

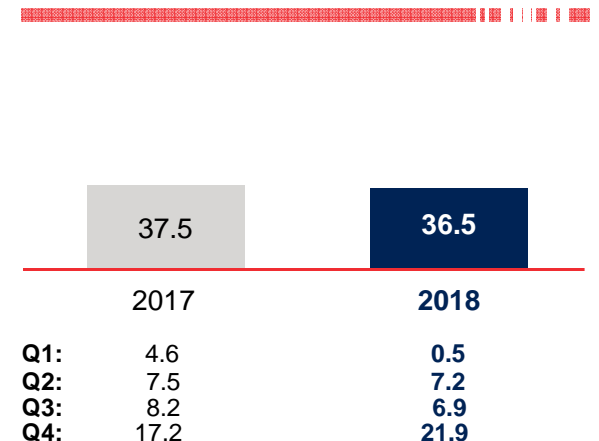
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Revenue 01.01. - 31.12.



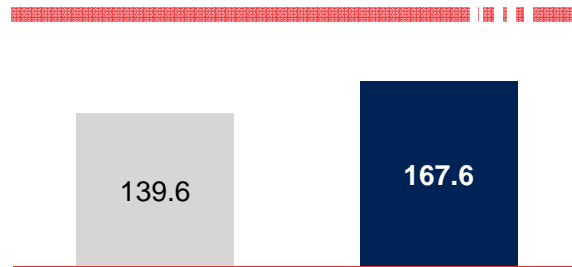
EBIT 01.01. - 31.12.



Growth expenses burden Digital & Web earnings

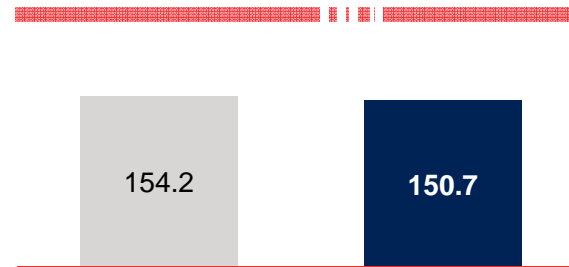
- 20.1% rise in orders due to record order intake for flexible packaging printing and sales successes of the RotaJET digital platform in decor and beverage carton printing
- Slightly lower revenue due to fewer installations of HP presses
- EBIT burdened by market-entry and growth-related expenses for digital, flexible packaging and corrugated printing
- Order backlog increased from €61.5m to €78.4m

Order intake 01.01. - 31.12.



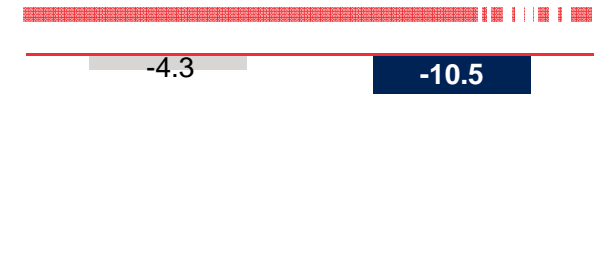
	2017	2018
Q1:	57.7	45.8
Q2:	28.0	38.9
Q3:	25.4	28.0
Q4:	28.5	54.9

Revenue 01.01. - 31.12.



	2017	2018
Q1:	30.4	31.5
Q2:	37.9	24.3
Q3:	44.9	41.9
Q4:	41.0	53.0

EBIT 01.01. - 31.12.

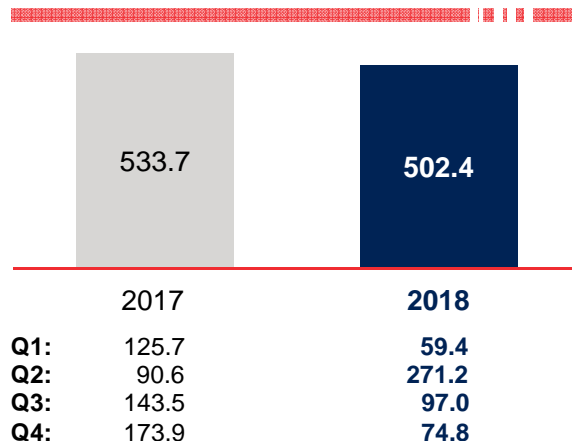


	2017	2018
Q1:	-2.3	-3.9
Q2:	-0.5	-5.2
Q3:	-0.8	-1.5
Q4:	-0.7	0.1

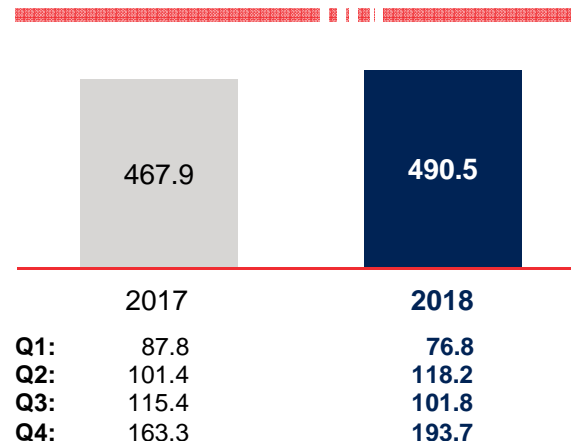
Revenue up in Special

- Large orders in security printing and market share gains in coding
- Order intake below prior year due to lower orders for metal and glass decorating
- 4.8% higher revenue, gains in security printing, coding and glass/hollow container decorating
- Double-digit EBIT margin
- High order backlog of €344.6m

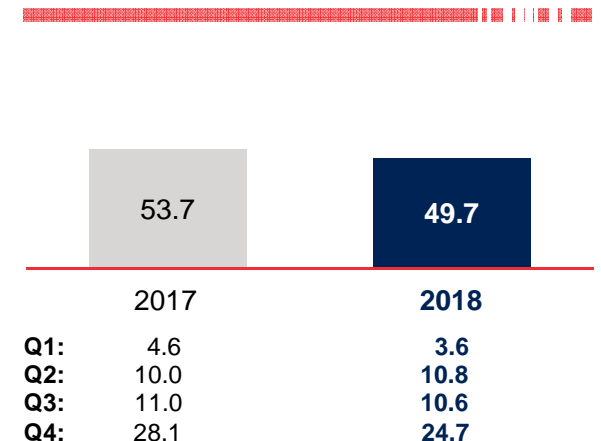
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Group figures as per IFRS in €m

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Guidance for 2019

- Organic growth of up to 4% in Group revenue
- EBIT margin of around 6%
 - annual margin improvement of 0.7% from Group projects for boosting earnings and
 - margin burden from the growth offensive 2023 included
(start-up costs of \approx €50m cumulated for 2019 to 2021 with a heavier load in the first year)
- Good order situation due to increased order backlog at year-end 2018 (y-o-y) and good order intake at the beginning of 2019 in many areas
- With a weak economy, EBIT margin may be up to 2 percentage points lower

Mid-term targets until 2023

Revenue target:
annual growth rate
of \approx 4% p.a. to €1.5bn

Profit target:
7-10% EBIT margin
on Group level

Resilience:
strengthen earnings,
financial, balance sheet
power

- Growth from packaging printing (\emptyset 4% annual growth rate in equipment), from service and market share gains
- Additional revenue from new and enhanced products
- Medium to long-term declining service business in newspaper printing
- Incremental advances in Group projects for boosting earnings
- Increasing revenue in consumer-oriented markets with lower volatility and higher margins
- Compensation of start-up costs from growth offensive 2023
- Targeted service revenue share of 30% to support earnings stability
- $>$ 45% equity ratio, with dividend policy of 15-35% of Group net income
- Average net working capital target range of 20-25 % of revenue

Mid-term targets until 2023

**Favourable
market
environment**

- Structural and above-average growth in the markets addressed
- Annual growth rates of up to 10%
- End markets with a high share in less cyclical sectors such as food, beverages and pharmaceuticals

Growth drivers

- Increasing consumer spending and demand for packaging in the world as well as growing world population
- Long-term trends such as e-commerce with high article-return rates and smaller sizes due to more single-person households
- More sophisticated packaging and more stringent regulations

Mid-term targets until 2023

Current product innovations and enhancements

- CorruCUT, CorruFLEX and CorruJET for corrugated printing
- Compact CI flexo press for flexible packaging
- CS MetalCan for 2-piece beverage can decorating
- Rapida RDC 106 rotary die-cutter, upgrade of flatbed die-cutters
- Additional coding products and software solutions such as Kyana
- High-performance screen printing press for the beer and soft drink bottle market
- Omega-series folder gluer solutions
- RotaJET digital press platform for decor and flexible packaging
- VariJET for digital folding carton printing

Differentiation from competition

- Improved total cost of ownership
- Shorter make-ready times for increasingly frequent job changes
- Greater ease of operation for the printer
- High production output and first-class print quality
- Intelligent quality inspection systems and further USPs

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Disclaimer:

The projections contained in this presentation were founded on data available at the time of issue. While management believes them to be accurate, the impact of external factors beyond its control, such as changes in the economy, exchange rates and in our industry, may give rise to a different outcome from that projected. The outlook contains no meaningful portfolio effects and influences relating to legal and official matters. It also depends on ongoing earnings growth and the absence of disruptive temporary market changes. KBA therefore accepts no liability for transactions based upon these projections.

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we're on it.