KOENIG & BAUER

Conference Call
Q3 Results 2019
7 November 2019

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we're on it.

Agenda

Highlights

Business performance 9M 2019

Guidance for 2019, focus and mid-term targets until 2023

Highlights

- CorruCUT production start at the prestigious pilot customer Klingele in mid-November, demanding factory acceptance test was very successful at the end of July
- Very good feedback regarding engineering design, printing and die-cutting quality as well as implementation of the operating concept from the global corrugated industry
- Capital Markets Day planned at the Klingele plant in Delmenhorst near Bremen in March 2020

Highlights

- Successful trade fairs FachPack 2019 in Nuremberg and K 2019 in Düsseldorf
- Live presentation of the newly developed Evo XC, an extremely compact and highly productive CI flexo press for flexible packaging printing
- Presentation of the latest generation fully automatic K15 M universal glass decorating machine with 18 processing stations
- Digital Foiling – a new process for foil application on plastic articles unveiled

K 2019 in Düsseldorf

Highlights

- Transfer award from the Steinbeis Foundation for voice-controlled AI solution Kyana, adaptive system with an augmented reality application in our alphaJET coding system
- Future-oriented technology APL-Robotman for tertiary packaging
- After printing, labels can be applied with a collaborative robotic arm to previously unreachable places on the product

Kyana

APL-Robotman

Agenda

Highlights

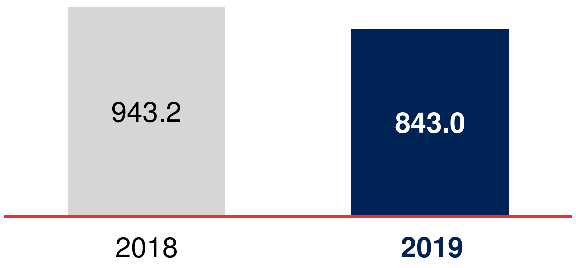
Business performance 9M 2019

Guidance for 2019, focus and mid-term targets until 2023

More challenging market environment for Koenig & Bauer

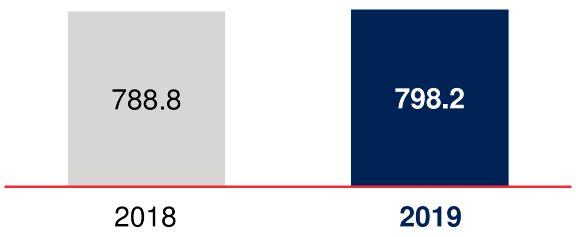
- Increased economic risks and stronger price pressure from some competitors
- Weaker Q3 order intake due to strict pricing discipline
- Order intake of €843m after 9M, prior-year figure was impacted by a major order in security printing
- Revenue slightly above prior year
- Order backlog of €655.7m ensures high capacity utilisation in Q4

Order intake 01.01. - 30.09.



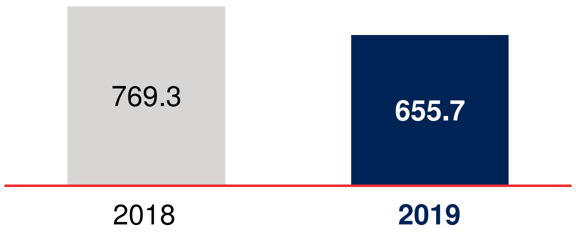
	2018	2019
Q1:	250.9	**276.4**
Q2:	454.4	**296.9**
Q3:	237.9	**269.7**

Revenue 01.01. - 30.09.



	2018	2019
Q1:	217.3	**230.7**
Q2:	297.1	**275.3**
Q3:	274.4	**292.2**

Order backlog 30.09.



	2018	2019
Q1:	648.5	**656.6**
Q2:	805.8	**678.2**
Q3:	769.3	**655.7**

Group figures as per IFRS in €m

Earnings impacted by growth expenses and higher costs

- Market-entry and growth-related expenses of ≈ €50m cumulated for 2019 to 2021 with a heavier load in the first year
- Further burdens are declining service business in newspaper printing, unexpected project expenses for major order in security printing, unplanned quality costs and negative mix effects
- EBIT of €5.2m below prior year
- Positive earnings momentum with revenue growth in Q4

	2017	2018	9M 2018	9M 2019
Gross margin	30%	29%	30.1%	25.3%
EBIT	€81.4m	€87.4m	€28.6m	€5.2m
EPS	€4.91	€3.86	€1.23	€0.05

Group figures as per IFRS

Group income statement

in €m	9M 2018	9M 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 ./. 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	-5.0	-0.2
Net profit	**20.4**	**1.0**

Group figures as per IFRS

Group cash flow statement

in €m	9M 2018	9M 2019
Earnings before taxes	25.4	1.2
Non-cash transactions	23.6	29.2
Gross cash flow	**49.0**	**30.4**
Changes in inventories, receivables, 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/consolidated companies	2.9	1.0
Funds at beginning of period	142.4	142.0
Funds at end of period	**123.4**	**50.9**

Group figures as per IFRS

Group balance sheet

Assets in €m	**31.12.2018**	**30.09.2019**
Non-current assets		
Intangible assets and property, plant and equipment	293.0	337.3
Investments/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**
	1,178.3	**1,246.7**

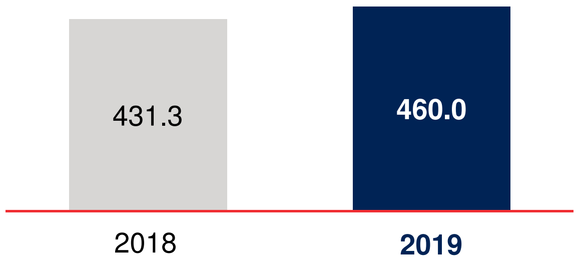
Equity and liabilities in €m	**31.12.2018**	**30.09.2019**
Equity		
Share capital	43.0	43.0
Share premium	87.5	87.5
Reserves	322.0	281.7
Equity attrib. to non-controlling interests	0.9	1.1
	453.4	**413.3**
Non-current liabilities		
Pension provisions	152.6	174.1
Other provisions	20.9	18.9
Bank loans/other financial payables	6.4	13.5
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/other financial payables	142.2	266.2
Other liabilities	147.5	167.9
	510.2	**590.9**
	1,178.3	**1,246.7**

Group figures as per IFRS

6.7% rise in orders in Sheetfed

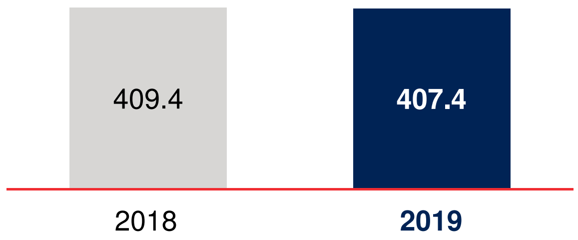
- High order gains in service business and medium format, strong domestic demand
- Q3 order intake weaker due to sometimes massive concessions from competition
- Revenue slightly below prior year
- EBIT burdened by product mix and temporarily higher quality costs
- High capacity utilisation in Q4 due to order backlog of €242.5m

Order intake 01.01. - 30.09.



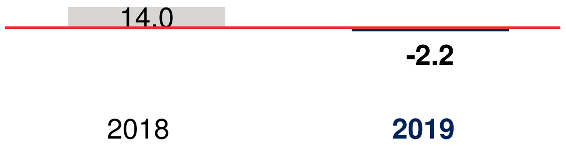
	2018	2019
Q1:	154.3	173.5
Q2:	159.5	155.5
Q3:	117.5	131.0

Revenue 01.01. - 30.09.



	2018	2019
Q1:	111.0	113.0
Q2:	159.8	144.3
Q3:	138.6	150.1

EBIT 01.01. - 30.09.



	2018	2019
Q1:	0.4	-3.1
Q2:	7.7	1.9
Q3:	5.9	-1.0

Group figures as per IFRS in €m

Slight revenue increase in Digital & Web

- More orders for newspaper and digital decor printing presses could not compensate for lower order intake in the newspaper printing service business and flexible packaging printing
- EBIT heavily burdened by market-entry and growth-related expenses
- Comprehensive optimisation programme in flexible packaging to improve profitability
- Order backlog of €88.4m

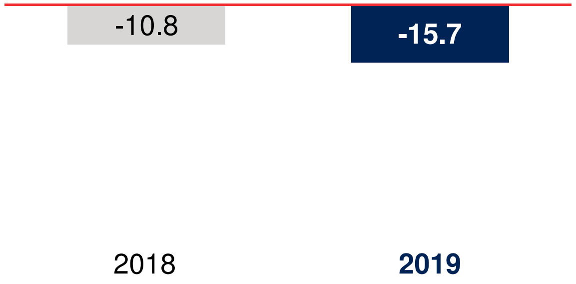
Order intake 01.01. - 30.09.

	2018	2019
Q1:	45.2	**31.9**
Q2:	36.8	**58.0**
Q3:	30.4	**18.1**

Revenue 01.01. - 30.09.

	2018	2019
Q1:	32.5	**32.4**
Q2:	25.6	**32.1**
Q3:	44.7	**40.9**

EBIT 01.01. - 30.09.



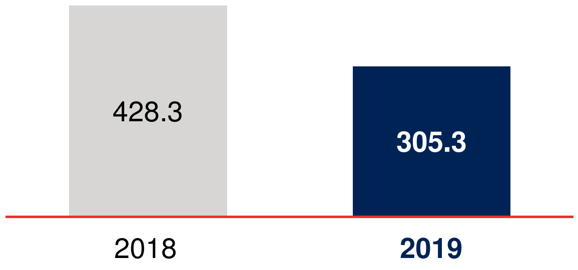
	2018	2019
Q1:	-4.5	**-5.6**
Q2:	-5.4	**-5.5**
Q3:	-0.9	**-4.6**

Group figures as per IFRS in €m

3.9% higher revenue in Special

- Order intake below prior-year figure, which was impacted by a major order in security printing
- New press orders in security printing in line with plan despite order losses
- Demand for large-scale press lines for 3-piece metal decorating has calmed
- Significant order growth in glass and hollow container decorating
- EBIT of €13.1m burdened by product mix and unexpected project expenses for major order
- Order backlog of €339.1m

Order intake 01.01. - 30.09.



	2018	2019
Q1:	58.1	80.0
Q2:	272.1	94.5
Q3:	98.1	130.8

Revenue 01.01. - 30.09.

	2018	2019
Q1:	76.8	92.8
Q2:	119.5	110.8
Q3:	102.7	107.1

EBIT 01.01. - 30.09.

	2018	2019
Q1:	3.8	2.0
Q2:	10.9	4.4
Q3:	10.6	6.7

Group figures as per IFRS in €m

Agenda

Highlights

Business performance 9M 2019

Guidance for 2019, focus and mid-term targets until 2023

Guidance for 2019

- Targets for 2019: organic growth of around 4% in Group revenue and EBIT margin of around 6%
- Margin burden from the growth offensive 2023 included
  (start-up costs of ≈ €50m cumulated for 2019 to 2021 with a heavier load in the first year)
- Target achievement significantly more demanding due to considerably more challenging market environment
- Target achievement subject to scheduled order processing, the booking of the expected orders and the timely effect of initiated cost reduction measures

Current focus

Cost reduction projects

- Possible adverse effects on future order intake due to strict pricing discipline as our answer to sometimes massive concessions from the competition
- Intensive work on specific cost reduction projects such as the optimisation of the Group-wide production and assembly footprint

Growth projects

- Continued work on innovative products which enable customers to realise tangible added value
- Strong revenue and earnings potential, e.g. in corrugated board, digital decor and digital beverage carton printing

Working capital reduction

- Egypt's major order burdens until project completion in Q3 2020 (-€31.7m until 30 September 2019)
- Substantial one-off effect due to paying the agreed profit skimming (CHF30m) following the completion of the self-disclosure proceedings in Switzerland
- Lower investments in the years after the current peak

Mid-term targets until 2023

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

- Growth from packaging printing (Ø 4% annual growth rate in equipment), from service and market share gains
- Additional revenue from new and enhanced products
- Declining service business in newspaper printing medium to long-term

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

- 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

Resilience:
strengthen earnings, financial, balance sheet power

- 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

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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. Koenig & Bauer AG therefore accepts no liability for transactions based upon these projections.

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