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Order levels recovering and transformation taking effect – Heidelberg raises target margin for 2020/21

Heidelberg, Germany (ots) -

· EBITDA excluding restructuring result increases after nine months to € 147 million (previous year: € 117 million)

· Demand recovers in China and Europe; incoming orders in December 2020 back up on the previous year for the first time

· Free cash flow in the third quarter clearly positive at € 42 million

· Company's transformation yielding tangible successes

· Earnings target raised for full financial year 2020/21 – EBITDA margin excluding restructuring result expected to be approximately 7 percent

Due to the increasingly tangible successes yielded by the company's transformation, plus growing demand from China and, since the third quarter, from Europe, too, Heidelberger Druckmaschinen AG (Heidelberg) is raising its target operating return for financial year 2020/21 as a whole. Consequently, the company anticipates that its EBITDA margin excluding restructuring result will grow to approximately 7 percent, even though the coronavirus pandemic may lead to a sales decline of around € 450 million to € 500 million compared to the previous year (previous year's sales: € 2,349 million) for the year as a whole. Previously, Heidelberg had anticipated an EBITDA margin that would, at its lowest, equal that of the previous year at 4.3 percent. It is also an encouraging sign for the coming months that print volumes among Heidelberg customers have almost reached the levels of the previous year, with the print volume in the packaging sector even exceeding the previous year's level.

"The successful roll-out of the transformation measures has enabled Heidelberg to achieve a clearly positive operating result, despite the huge pressures caused by COVID-19. When it comes to both our finances and our balance sheet, we have done our homework. Signs of recovery are now emerging on the markets in China and Europe that are important to us. That is why our EBITDA target margin excluding restructuring result is being increased to around 7 percent. The growing interest in our contract business and strong demand for our electromobility charging stations are also grounds to be optimistic about the future," says Heidelberg CEO Rainer Hundsdörfer, commenting on the developments.

Again in the third quarter, the numerous measures of the transformation program launched in March of last year more than compensated for the negative effect on earnings caused by a significant drop in sales due to COVID-19. As a result, after nine months of financial year 2020/21 (April 1 to December 31, 2020), the operating result including effects from the measures that have been implemented was above that of the same period of the previous year. In addition, the period under review saw a slightly positive net result after taxes, and significantly reduced net financial debt.

Strategic milestones secure the future of Heidelberg

In the year under review, Heidelberg reached a number of milestones in its strategy to safeguard the company's future on a sustainable basis, including:

- Reorganizing the company pension scheme in Germany, which bolstered the result and shareholder's equity with earnings of € 73 million.

- Focusing on its core activities and selling the Belgian subsidiary CERM and the Belgian production site for printing chemicals, which made possible a total gain on disposal of € 19 million.

- Discontinuing unprofitable product lines that previously had an adverse effect on the result amounting to approximately € 50 million a year.

- Repaying the corporate bond early, which will disburden the financial result by € 12 million a year.

- Cutting approximately 1,600 jobs worldwide by 2023 (just under 1,000 of which will be cut during this financial year), a move that has been agreed with employee representatives and is being implemented on a socially acceptable basis. Together with additional sustainable savings in material and staff costs, this downsizing is to lead to savings of more than € 170 million for financial year 2022/23.

- Selling property in Wiesloch-Walldorf and the Print Media Academy in Heidelberg for a purchase price totaling more than € 60 million as part of a site and structural optimization strategy.

- Agreeing a production joint venture with Chinese company Masterwork Group, which is creating opportunities in Asia and is offering much better cost efficiency.

- Doubling the production capacity for Heidelberg Wallboxes – the charging stations for electric cars – by April 2021.

The sale of the Gallus Group, which did not go ahead at the end of January 2021 despite there being a valid purchase contract, is clouding the positive picture. However, this is not causing limitations with regard to the results forecast for the current financial year. CFO Marcus A. Wassenberg explains: "All in all, we have made much faster and more successful progress with our company's transformation than previously reported. We have raised more than € 450 million in liquidity, reduced debt by approximately € 260 million, moved away from loss-makers and will reduce costs by more than € 170 million a year on a sustainable basis. We are therefore confident we will return to attractive profitability in the medium term."

Figures for the first nine months of financial year 2020/21 – order levels looking increasingly good

Although the market environment is still challenging, there were further signs of recovery for Heidelberg during the third quarter. While the Chinese market had already reached almost pre-crisis levels, business started to get back to normal levels in Europe, too. After nine months of 2020/21 (April 1, 2020 to December 31, 2020), **sales** were at € 1,289 million and therefore still approximately 24 percent below the same period of the previous year (€ 1,690 million). At € 1,421 million, **incoming orders** were 25 percent below the previous year (€ 1,900 million). However, the shortfall was lower in the third quarter, at just 12 percent, and, in the month of December, incoming orders were back above the previous year's figure for the first time in this financial year. The **order backlog** rose by € 55 million compared with the previous quarter, reaching € 682 million.

In a year-on-year comparison, **EBITDA excluding restructuring result** increased from € 117 million to € 147 million, despite lower sales. On the one hand, the cost situation was improved by short-time working (which continued to drop in the quarter under review) and cost savings from the transformation measures that were implemented, which amounted to approximately € 60 million after three quarters. On the other hand, earnings of € 73 million from reorganizing the pension plans for employees in Germany as well as from the sale of the Belgian subsidiary CERM (approx. € 8 million) and the Belgian production site for printing chemicals (around € 11 million) also had a positive impact. In the third quarter, EBITDA excluding restructuring result was € 50 million and the EBITDA margin excluding restructuring result was 10.4 percent. After nine months, **EBIT excluding restructuring result** was € 88 million and therefore also substantially higher than the previous year (€ 46 million). On the whole, expenses for transformation measures led to a restructuring result of € –38 million (previous year: € –8 million). After factoring in slightly higher financial expenses, Heidelberg achieved a slight **net profit after taxes** of € 3 million, having recorded a loss of € –10 million in the previous year.

Free cash flow in the third quarter clearly positive at € 42 million

Due to the conversion of securities into cash and cash equivalents and inflows from the aforementioned portfolio measures and improvements in net working capital, **free cash flow** was improved in the period under review by € 63 million to € –10 million. A positive figure of € 42 million was achieved in the third quarter. Following the comprehensive debt relief measures, **net financial debt** is € 127 million and thus € 262 million below the comparable figure from the previous year. Against this backdrop, **leverage** (the ratio of net financial debt to EBITDA excluding restructuring result from the last four quarters) dropped to just 1.0 (previous year: 1.9). Despite the slightly positive net profit after taxes, the further significant reduction in actuarial interest rates for the valuation of pension obligations in Germany meant that the **equity ratio** as per IFRS dropped to 2.6 percent, which Heidelberg considers to be unsatisfactory. However, the parent company still has a solid equity ratio of around 26 percent in its financial statement prepared on the basis of German commercial law.

Forecast raised for profitability in financial year 2020/21 as a whole

Given the recent noticeable improvement in the order situation in many regions, increasing savings as part of the transformation program, and the income generated from asset management and accounting measures, Heidelberg is clearly raising its forecast for the EBITDA margin excluding restructuring result for financial year 2020/21 as a whole. Despite the anticipated COVID 19-related decline in sales of around € 450 million to € 500 million compared with the previous year (€ 2,349 million), the Company now expects a significant improvement in the EBITDA margin

excluding restructuring result to around 7 percent. Previously the Company had targeted an EBITDA margin excluding restructuring result of at least the same level as the previous year (4.3 percent). The outlook is being adjusted despite the fact that the planned sale of the Gallus Group will not be completed. In financial year 2020 / 2021, Heidelberg continues to expect a significantly improved, but once again negative, after-tax result as against the previous year, and a rise in leverage starting from a low level.

The 2020/21 nine-month report, image material, and further information about the company are available in the Investor Relations and Press Lounge of Heidelberger Druckmaschinen AG at www.heidelberg.com.

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Important note:

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