KOENIG & BAUER

Group Interim Report First Half-Year 2020

we’re on it.

Koenig & Bauer Group in figures

01.01. - 30.06. in €m	2019	**2020**
Order intake	573.3	**480.2**
Revenue	506.0	**404.5**
Order backlog at 30.06.	678.2	**609.4**
Export level in %	83.9	**84.9**
Earnings before interest and taxes (EBIT)	0.6	**–40.9**
Earnings before taxes (EBT)	–2.0	**–42.9**
Net loss	–2.4	**–44.2**
Balance sheet total at 30.06. (prior year: 31.12.)	1,343.1	**1,300.2**
Equity at 30.06. (prior year: 31.12.)	460.4	**419.1**
Investment in intangible assets, property, plant and equipment	36.3	**19.4**
Depreciation on intangible assets, property, plant and equipment	17.4	**17.1**
Payroll at 30.06.	5,725	**5,661**
- thereof apprentices/trainees	275	**284**
Cash flows from operating activities	–96.5	**–68.6**
Earnings per share in €	–0.15	**–2.68**

The coronavirus pandemic significantly affected our business figures in the first half of 2020. Travel bans, lockdowns and other restrictions impeded deliveries of our presses to our international customers as well as the worldwide deployment of our assembly staff and service technicians. Work on the large-scale security project in Egypt has been suspended since March and the start-up of the RotaJET systems for digital decor and beverage carton printing has been delayed. In many cases, our service team had only limited access to our customers' packaging printing sites as these are blocked for third parties to ensure a smooth production chain. In addition to the general investment restraint on the part of many customers in the corona crisis, the restrictions described above also led to delays in contract signings. Accordingly, orders came to €480.2m, down 16.2% on the previous year, although this was better than the sector figures for printing presses published by industry association VDMA, which were down 35.6% in the first five months of 2020. At €404.5m, revenue fell short of the previous year by 20.1%. On the cost side, we took massive measures to address the effects of the crisis, introducing short-time working from 1 April 2020 alongside other steps. EBIT improved substantially from –€34.9m in Q1 to –€6m in Q2. A one-off income of €4.2m following the successful resolution of a legal dispute contributed to this improvement. For the first half of the year, EBIT was –€40.9m after €0.6m in the previous year.

Given the current uncertainty surrounding the underlying conditions as a result of the Covid-19 pandemic, it is not possible to make any forecast on the global economy. Accordingly, it is currently not yet possible to issue any revenue and earnings guidance for 2020 for our Group.

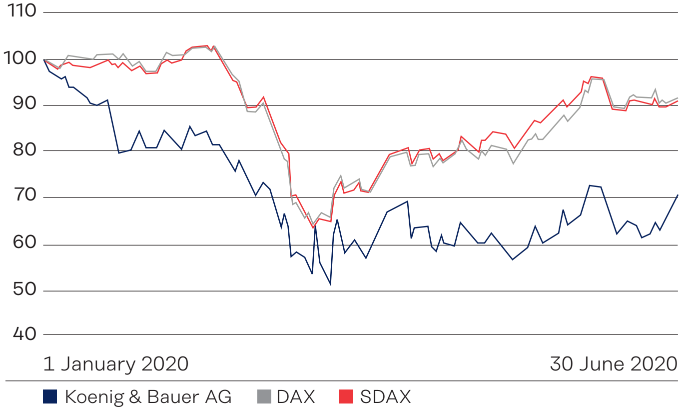
Alongside corona crisis management, we are working intensively on the Performance 2024 efficiency programme, evaluating various scenarios. In addition, improvements in working capital and cash flow are at the top of the agenda together with the strategic focus on packaging printing and digital services. To strengthen our Group's stability and strategic flexibility, the Management Board and the Supervisory Board decided to apply for a flexibly repayable KfW loan with a volume of up to €120m to supplement the existing syndicated credit facilities. Among others, no dividend distributions are permitted during the term of the KfW loan. Following the adoption of the plans to increase the operating profitability and the performance of the Group, we will be reporting in due course on the targets and costs of the Performance 2024 efficiency programme.

After the corona-induced postponement of the drupa trade show until April 2021, we held our first fully virtual trade fair on the dates originally planned for it. Entitled Koenig & Bauer LIVE and held from 16 until 25 June, the event was a complete success. In daily streams, customers and other interested parties were able to find out more about the product innovations, digital applications and new service solutions that we have developed for the sector. The presentation of the new Rapida generation and the new CutPRO die-cutter family as well as a live virtual demonstration of an end-to-end packaging workflow were particular highlights. Further items featured the various parts of our broad range such as digital solutions for packaging and decor printing.

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

Koenig & Bauer shares

in %



Koenig & Bauer shares

Despite the global economic slump in the wake of the corona pandemic, equity markets bounced off their March lows sharply. At the end of June, the DAX and the SDAX were down only 7.1% and 7.8%, respectively, compared with the final trading day in the previous year. In addition to expectations of an economic upswing from 2021 at the latest, equities were driven by the high liquidity in the financial markets as a result of the stimulus programmes implemented by the central banks and governments. 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 €19.85 in Xetra trading on 30 June, thus falling 29% short of the end of 2019. The end markets that we address with the structurally growing packaging and industrial printing are fundamentally intact. This is clearly reflected in the currently high capacity utilisation of packaging printers for foods, beverages, pharmaceuticals and booming online trade.

Group management report

Economic environment

Demand for capital goods has come under massive pressure from the economic uncertainties. According to publications from the German Mechanical and Plant Engineering Association (VDMA), new orders for machinery and equipment declined by 12.5% in real terms in the first five months of 2020 compared with the previous year. Orders for printing presses dropped by 35.6% due to sharp declines in commercial printing and the packaging printers' reluctance to invest.

Business performance

Order intake at Koenig & Bauer developed significantly better than the industry trend in the first half of 2020. At €480.2m, new orders fell short of the previous year's figure of €573.3m by 16.2%. Group **revenue** of €404.5m was 20.1% lower than the previous year's figure of €506m for delivery-related reasons and due to the effects of the pandemic. The share of revenue in the service business widened to 34.2% (2019: 32.3%). The export ratio increased from 83.9% to 84.9%, with the proportion of business coming from Europe excluding Germany decreasing to 30.4% (previous year: 33%).

Whereas the share in revenue contributed by North America rose from 14.3% to 21.3% and Asia/Pacific from 23.4% to 24.4%, the proportion attributable to Latin America and Africa shrank over 2019 from 13.2% to 8.9%. At €609.4m, the **order backlog** as of 30 June was 14.2% up on the beginning of the year (€533.7m) but 10.1% lower than at the end of the first half of 2019 (€678.2m).

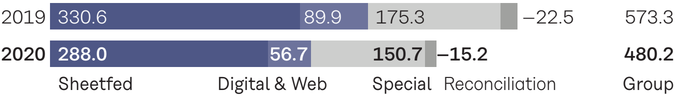
Earnings, finances and assets

Earnings

The low revenue significantly impacted **earnings** development in the first half of the year. However, positive effects arose from reduced personnel costs as a result of short-time working together with a one-off income. The **gross margin** came to 24.5%, following 26.5% in the previous year. At €21.1m, R&D expenses were slightly down on the previous year's figure of €22.5m. In addition, development costs of €5.9m were capitalised (2019: €7.8m). The one-off income of €4.2m following the successful resolution of a legal dispute contributed to the decline in distribution costs from €68.1m to €61m. Administration expenses rose from €43.6m to €55.9m particularly as a result of higher consulting costs and SAP expenses. The previous year's figure was positively influenced by one-off income. Other income and expenses amounted to –€2m after €0.7m in 2019. This resulted in **EBIT** of –€40.9m (2019: €0.6m). The interest result of –€2m (2019: –€2.6m) led to **earnings before taxes** of –€42.9m, compared with –€2m

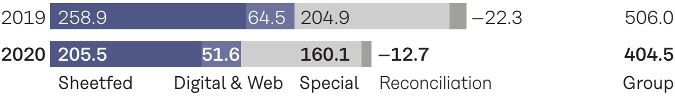
Group order intake

in €m



Group revenue

in €m



in the previous year. After income taxes, **net earnings** came to –€44.2m as of 30 June (2019: –€2.4m), equivalent to **earnings per share** of –€2.68. The prior-year figure was –€0.15.

Finances

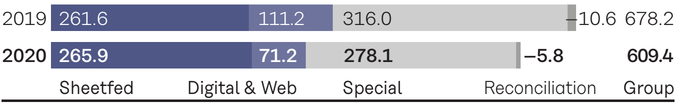
Despite substantially lower trade receivables (–€38.2m) and higher customer prepayments (+€43.7m), the half-year loss and the increase in inventories (+€48.9m) had major impacts on **cash flows from operating activities**, which came to –€68.6m (2019: –€96.5m). In addition, trade payables were reduced by €52.7m. **Free cash flow** improved from –€135.2 in the previous year to –€89m. At the end of the first half of the year, **cash and cash equivalents** stood at €124.4m (31 December 2019: €191m). Adjusted for bank loans of €221.5m (31 December 2019: €199.3m), the net financial position was –€97.1m (year end 2019: –€8.3m).

Assets

In the period under review, a sum of €19.4m (2019: €36.3m) was invested in property, plant and equipment as well as intangible assets, while depreciation stood at €17.1m (2019: €17.4m). On balance, intangible assets and property, plant and equipment rose slightly over the end of 2019 (€361m) to €361.9m. Whereas non-current assets of €489.6m remained at the level at the end of 2019 (€490.8m), current assets decreased substantially from €852.3m to €810.6m. All in all, the Group's **balance sheet total** fell to €1,300.2m (31 December 2019: €1,343.1m).

Group order backlog

in €m



Group net earnings

in €m

The half-year loss was materially responsible for the decline in equity from €460.4m to €419.1m. Accordingly, the equity ratio fell to 32.2% (31 December 2019: 34.3%).

Segment performance

Despite the substantial gains with large-format sheetfed offset presses and folder gluers, order intake in the **Sheetfed** segment declined by 12.9% over the previous year's figure of €330.6m to €288m due to lower orders for medium-format presses. Revenue of €205.5m was 20.6% lower than the previous year's figure (€258.9m) for delivery-related reasons and due to the effects of the pandemic. With the book-to-bill ratio coming to 1.4, order backlog rose from €261.6m to €265.9m. Due to lower revenue, EBIT of –€17.4m was below the previous year (–€1.3m).

Order intake in the **Digital & Web** segment came to €56.7m, down from €89.9m in the previous year, due to lower orders in the web offset press business and for flexible packaging printing. At €51.6m, revenue was down on the previous year (€64.5m). The order backlog contracted from €111.2m to €71.2m. The lower revenue had a significant impact on the EBIT of –€12.1m (2019: –€10.8m).

The decline in order intake in the **Special** segment from €175.3m to €150.7m reflects lower orders for security printing, marking and coding as well as glass direct printing. In metal decorating, there was an increase in new business. Revenue fell from €204.9m to €160.1m. The order backlog

Geographical breakdown of revenue

in %	2019	**2020**
Germany	16.1	15.0
Rest of Europe	33.0	30.4
North America	14.3	21.3
Asia/Pacific	23.4	24.4
Africa/Latin America	13.2	8.9

reached €278.1m after €316m in the previous year. After €6.3m in the previous year, EBIT came to –€10.3m in the first half of 2020 for revenue-related reasons.

Research and development

In addition to customer-specific and increasingly digital service offerings, our research and development activities are concentrating on new developments and product enhancements. With the Rapida 106 X we have launched a new high-performance sheetfed offset press for the medium-format featuring many innovations and a new design. The flagship of our Sheetfed segment received two prestigious awards for its modern design: the iF Design Award and the Red Dot Design Award. The smart operating system with touch panels and Rapida LiveApps and the powerful design language with side panels made of safety glass underscore the potential of this high-end press, which sets new performance standards in industrial printing. To optimise make-ready times, the Rapida 106 X incorporates pioneering and precisely coordinated features. These range from simultaneous plate changing in less than a minute to a multitude of parallel make-ready processes as well as autonomous printing of a whole sequence of jobs with automatic activation of the good-sheet counter (AutoRun). At this level of automation, the Rapida 106 X is a perfect automatic printing system. With an output of 20,000 sheets per hour in perfecting mode, on-the-fly job changes and highly automated plate logistics, it sets the benchmarks in its format class. Artificial intelligence and the use of sensor data from the presses have enabled new

Group payroll at 30 June

offerings for ensuring that the Rapida 106 X operates with ultimate productivity. Data-driven services and digital business processes create the basis for optimising maintenance and achieving higher availability. In the field of postpress solutions, we have built-up a new die-cutting family comprising the CutPRO Q 106 flatbed die-cutter and the CutPRO X 106 rotary die-cutter.

Employees

As of 30 June, the Group had 5,661 employees, 64 fewer than on the same date in the previous year (5,725). This figure includes 284 young people who are doing an apprenticeship or internship. The trainee ratio of 5% reflects the high priority being given to securing young professionals even in times of crisis.

Risk report

The major risks facing our business and the early warning system are described in detail in the annual report 2019 (page 50 onwards). Due to the corona crisis, there are significant risks to the Koenig & Bauer Group's future business development. The restrictions that have been imposed as a result of the pandemic are hampering our ability to fulfil contracts already concluded. In such cases, our contracts generally include appropriate clauses that exclude our liability in cases of force majeure. Similarly, the conclusion of new business is also being hampered or prevented, with corresponding declines in revenue and earnings. Expected project completions are delayed due to the current reluctance of many customers to invest. We cannot yet foresee how the corona crisis will affect the medium and long-term economic environment. Accordingly, we are working intensively on the Performance 2024 efficiency programme and have applied for a KfW loan to supplement the existing syndicated credit facilities. Despite these challenging conditions, we currently do not see any risks that either individually or cumulatively could jeopardise the Koenig & Bauer Group’s going-concern status.

Outlook and opportunities

In view of the high volatility and the great uncertainties surrounding the severity and duration of the coronavirus pandemic and the success of health, economic and monetary policies, the further global economic development is uncertain. The International Monetary Fund lowered its economic forecast again at the end of June and now expects global economic output to shrink by 4.9% in 2020. In April it had been expecting a decline of 3%. Given these uncertain underlying conditions, it is currently not yet possible to issue any revenue and earnings guidance for 2020 for our Group. The Management Board is working intensively on the Performance 2024 efficiency programme to increase the operating profitability. In addition, improvements in working capital and cash flow are at the top of the agenda together with the strategic focus on packaging printing and digital services.

Group balance sheet

Assets

in €m	31.12.2019	**30.06.2020**
Non-current assets		
Intangible assets, property, plant and equipment	361.0	361.9
Investments and other financial receivables	22.5	23.5
Other assets	0.9	0.9
Deferred tax assets	106.4	103.3
	490.8	**489.6**
Current assets		
Inventories	292.6	341.5
Trade receivables	140.6	102.4
Other financial receivables	15.5	25.7
Other assets	207.8	213.9
Securities	4.8	2.7
Cash and cash equivalents	191.0	124.4
	852.3	**810.6**
Balance sheet total	**1,343.1**	**1,300.2**

Equity and liabilities

in €m	31.12.2019	**30.06.2020**
Equity		
Share capital	43.0	43.0
Share premium	87.5	87.5
Reserves	328.7	287.4
Equity attributable to owners of the Parent	**459.2**	**417.9**
Equity attributable to non-controlling interests	1.2	1.2
	460.4	**419.1**
Liabilities		
Non-current liabilities		
Pension provisions and similar obligations	165.5	159.2
Other provisions	23.7	23.6
Bank loans	0.9	0.7
Other financial payables	31.3	28.6
Other liabilities	6.3	5.9
Deferred tax liabilities	53.2	51.8
	280.9	**269.8**
Current liabilities		
Other provisions	90.0	77.1
Trade payables	110.0	57.3
Bank loans	198.4	220.8
Other financial payables	73.5	82.3
Other liabilities	129.9	173.8
	601.8	**611.3**
Balance sheet total	**1,343.1**	**1,300.2**

Group income statement

01.01. - 30.06. in €m	2019	2020
Revenue	506.0	404.5
Cost of sales	–371.9	–305.4
Gross profit	**134.1**	**99.1**
Research and development costs	–22.5	–21.1
Distribution costs	–68.1	–61.0
Administrative expenses	–43.6	–55.9
Other income and expenses	0.7	–2.0
Earnings before interest and taxes (EBIT)	**0.6**	**–40.9**
Interest result	–2.6	–2.0
Earnings before taxes (EBT)	**–2.0**	**–42.9**
Income tax expense	–0.4	–1.3
Net loss	**–2.4**	**–44.2**
- attributable to owners of the Parent	–2.5	–44.3
- attributable to non-controlling interests	0.1	0.1
Earnings per share (in €, basic/dilutive)	**–0.15**	**–2.68**

01.04. - 30.06. in €m	2019	2020
Revenue	275.3	232.1
Cost of sales	–204.5	–176.9
Gross profit	**70.8**	**55.2**
Research and development costs	–11.3	–10.5
Distribution costs	–35.3	–25.2
Administrative expenses	–21.4	–25.2
Other income and expenses	0.6	–0.3
Earnings before interest and taxes (EBIT)	**3.4**	**–6.0**
Interest result	–1.3	–0.7
Earnings before taxes (EBT)	**2.1**	**–6.7**
Income tax expense	0.4	–0.9
Net profit/loss	**2.5**	**–7.6**
- attributable to owners of the Parent	2.5	–7.6
- attributable to non-controlling interests	–	–
Earnings per share (in €, basic/dilutive)	**0.15**	**–0.46**

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/loss	–	–
Losses recognised directly in equity	–	–
Total comprehensive income	**–**	**–**
Dividend	–	–
Other changes	–	–
30.06.2019	**43.0**	**87.5**
01.01.2020	**43.0**	**87.5**
Net profit/loss	–	–
Profit recognised directly in equity	–	–
Total comprehensive income	**–**	**–**
Other changes	–	–
30.06.2020	**43.0**	**87.5**

Statement of comprehensive Group income

01.01. - 30.06.

in €m	2019	**2020**
Net loss	**–2.4**	**–44.2**
Items, which later will be reclassified to consolidated profit/loss		
Foreign currency translation	0.3	–1.9
Measurement of derivatives	–0.3	0.2
Deferred taxes	0.2	–
	0.2	**–1.7**
Items, which later will not be reclassified to consolidated profit/loss		
Defined benefit plans	–14.0	6.4
Deferred taxes	0.3	–1.7
	–13.7	**4.7**
Profit/losses recognised directly in equity	**–13.5**	**3.0**
Total comprehensive income	**–15.9**	**–41.2**
- attributable to owners of the Parent	–16.0	–41.3
- attributable to non-controlling interests	0.1	0.1

Reserves: Recognised in equity	Reserves: 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**
–	–2.5	–2.5	0.1	–2.4
–13.5	–	–13.5	–	–13.5
–13.5	**–2.5**	**–16.0**	**0.1**	**–15.9**
–	–16.5	–16.5	–	–16.5
–	–0.2	–0.2	0.2	–
–98.1	**387.3**	**419.7**	**1.2**	**420.9**
–99.2	**427.9**	**459.2**	**1.2**	**460.4**
–	–44.3	–44.3	0.1	–44.2
3.0	–	3.0	–	3.0
3.0	**–44.3**	**–41.3**	**0.1**	**–41.2**
–	–	–	–0.1	–0.1
–96.2	**383.6**	**417.9**	**1.2**	**419.1**

Group cash flow statement

01.01. - 30.06. in €m	2019	**2020**
Earnings before taxes (EBT)	–2.0	–42.9
Non-cash transactions	17.8	20.8
Gross cash flow	**15.8**	**–22.1**
Changes in inventories, receivables and other assets	–78.9	–31.7
Changes in provisions and payables	–33.4	–14.8
Cash flows from operating activities	**–96.5**	**–68.6**
Cash flows from investing activities	**–38.7**	**–20.4**
Free cash flow	**–135.2**	**–89.0**
Cash flows from financing activities	**67.2**	**23.3**
Change in funds	**–68.0**	**–65.7**
Effect of changes in exchange rates	–	–0.9
Funds at beginning of period	142.0	191.0
Funds at end of period	**74.0**	**124.4**

Notes to the interim accounts to 30 June 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.

The interim accounts conform to IAS 34.

2 Consolidated companies and consolidation principles

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

3 Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group in the remaining months of the year.

Würzburg, 29 July 2020
Management Board

Claus Bolza-Schünemann
President and CEO

Dr Stephen M. Kimmich

Christoph Müller

Dr Andreas Pleßke

Ralf Sammeck

Michael Ulverich

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.

01.01. - 30.06.	Revenue		EBIT		Capital investments	
in €m	2019	**2020**	2019	**2020**	2019	**2020**
Segments						
Sheetfed	258.9	205.5	–1.3	–17.4	10.6	9.1
Digital & Web	64.5	51.6	–10.8	–12.1	4.5	1.8
Special	204.9	160.1	6.3	–10.3	7.9	5.1
Reconciliation	–22.3	–12.7	6.4	–1.1	13.3	3.4
Group	**506.0**	**404.5**	**0.6**	**–40.9**	**36.3**	**19.4**

4.2 Geographical breakdown of revenue

01.01. - 30.06. in €m	2019	**2020**
Germany	81.3	60.9
Rest of Europe	167.3	122.9
North America	72.2	86.1
Asia/Pacific	118.5	98.6
Africa/Latin America	66.7	36.0
Revenue	**506.0**	**404.5**

5 Earnings per share

01.01. - 30.06. in €	2019	**2020**
Earnings per share	–0.15	–2.68

Basic earnings per share were calculated in accordance with IAS 33 by dividing the net income attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period (16,524,783 no-par shares, previous year: 16,524,783 no-par shares).

6 Balance sheet

6.1 Intangible assets, property, plant and equipment

in €m	Purchase or manufacturing cost	Accumulated depreciation	Carrying amount
Intangible assets	164.3	48.9	115.4
Property, plant and equipment	661.4	415.8	245.6
Total at 31.12.2019	**825.7**	**464.7**	**361.0**
Intangible assets	171.5	50.7	120.8
Property, plant and equipment	669.0	427.9	241.1
Total at 30.06.2020	**840.5**	**478.6**	**361.9**

Investment in property, plant and equipment totaling €11.5m (first half-year 2019: €23.1m) primarily refers to assets under construction and additions of other facilities, factory and office equipment.

6.2 Inventories

in €m	31.12.2019	**30.06.2020**
Raw materials, consumables and supplies	120.7	119.1
Work in progress	162.0	209.6
Finished goods and products	9.9	12.8
	292.6	**341.5**

6.3 Liabilities

At €881.1m, **current and non-current liabilities** were on a par with the previous year (31.12.2019: €882.7m). The decline in trade payables of €52.7m and lower other provisions of €13m could be fully compensated by an increase in customer prepayments of €43.7m and higher bank loans of €22.2m.

Key financial dates

Interim report on 3rd quarter 2020
11 November 2020

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