

KOENIG & BAUER

Koenig & Bauer AG

at Berenberg Discovery Conference USA

26th October 2017, New York

Mathias Dähn, CFO

we're on it.

Agenda

Highlights Q2 2017

Business performance H1 2017

Guidance for 2017 and mid-term targets for 2017 - 2021

Successful Print China, interpack and METPACK trade fairs

- Print China sales exceeding our expectations
- Strong customer interest in new solution for printing 2-piece beverage cans
- Sales launch of CS MetalCan in 2018 following intensive field tests
- First MetalDecojet sold, a digital press for metal decorating



Print China



METPACK

Service initiative bearing first fruits

- In H1 service revenue increased from €130m to €146m y-o-y
- Service share of revenue expanded from 23% to 27%
- Customized solutions including networked printing factory (KBA 4.0)
- Customer-oriented web shops with many new features



Agenda

Highlights Q2 2017

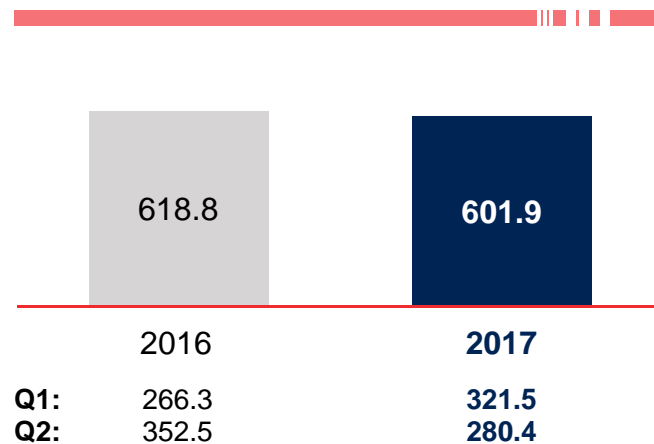
Business performance H1 2017

Guidance for 2017 and mid-term targets for 2017 - 2021

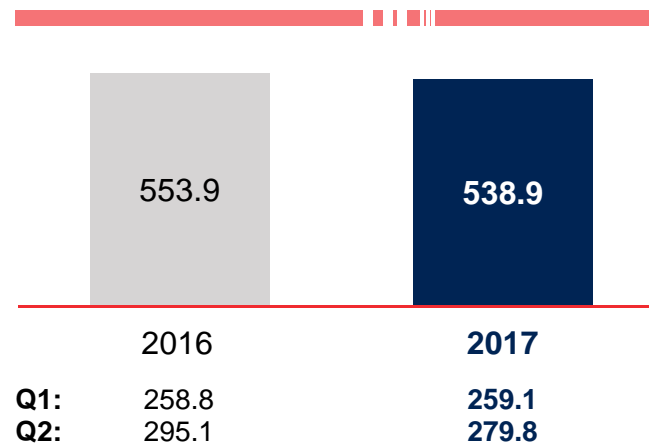
Positive Group business performance

- Sharp gains in orders from packaging markets and service areas
- Prior-year order intake slightly above H1 2017 due to large security press orders
- Revenue slightly below prior year due to more deliveries in H2
- Strong order backlog of €621m

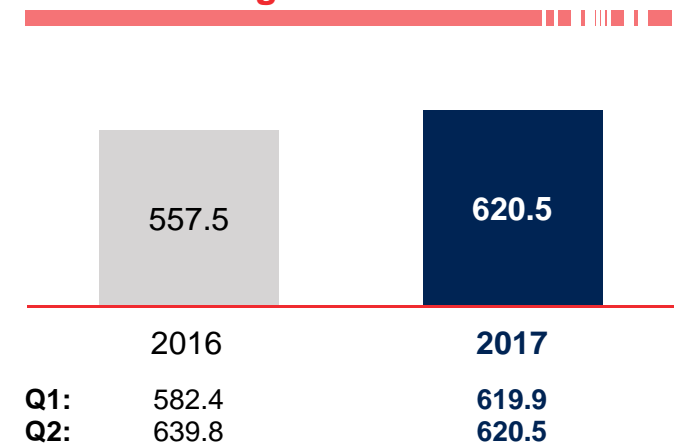
Order intake 01.01. - 30.06.



Revenue 01.01. - 30.06.



Order backlog 31.12.16/30.06.17



Group figures as per IFRS in €m

Solid Group earnings

- Gross profit margin of 29.6% at a high level
- €16.3m EBIT in H1 2017, prior-year figure of €20.7m influenced by catch-up effect in Q2 (€4.9m) after completion of a large security project and higher revenue
- Positive earnings momentum with rising revenue in H2

	2015	2016	H1 2016	H1 2017
Gross profit margin	26.8%	29.7%	30.7%	29.6%
EBIT	€35.9m	€62.9m ¹⁾	€20.7m	€16.3m
EPS	€1.62	€4.98	€1.05	€0.93

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

Group income statement

in €m	H1 2016	H1 2017
Revenue	553.9	538.9
Cost of sales	-383.6	-379.5
Gross profit	170.3	159.4
Research and development costs	-28.1	-24.5
Distribution costs	-77.3	-67.9
Administrative expenses	-38.3	-46.0
Other operating income ./ expenses	-5.9	-4.7
Earnings before interest and taxes (EBIT)	20.7	16.3
Interest result	-2.9	-0.4
Earnings before taxes (EBT)	17.8	15.9
Income tax	-0.6	-0.7
Net profit	17.2	15.2

Group figures as per IFRS

Group cash flow statement

in €m	H1 2016	H1 2017
Earnings before taxes	17.8	15.9
Non-cash transactions	23.8	17.8
Gross cash flow	41.6	33.7
Changes in inventories, receivables, other assets	-51.4	-53.8
Changes in provisions and payables	-0.8	0.1
Cash flows from operating activities	-10.6	-20.0
Cash flows from investing activities	-3.8	-45.5
Free cash flow	-14.4	-65.5
Cash flows from financing activities	-1.8	-7.3
Change in funds	-16.2	-72.8
Effect of changes in exchange rates	-1.4	-1.7
Funds at beginning of period	186.3	202.0
Funds at end of period	168.7	127.5

Group figures as per IFRS

Group balance sheet

Assets in €m	31.12.2016	30.06.2017
Non-current assets		
Intangible assets and property, plant and equipment	239.5	240.0
Investments/other financial receivables	15.9	48.1
Other assets	0.1	0.2
Deferred tax assets	64.9	61.2
	320.4	349.5
Current assets		
Inventories	293.4	321.8
Trade receivables	209.0	222.6
Other financial receivables	14.2	16.2
Other assets	26.6	38.1
Securities	19.9	14.7
Cash and cash equivalents	202.0	127.5
	765.1	740.9
	1,085.5	1,090.4

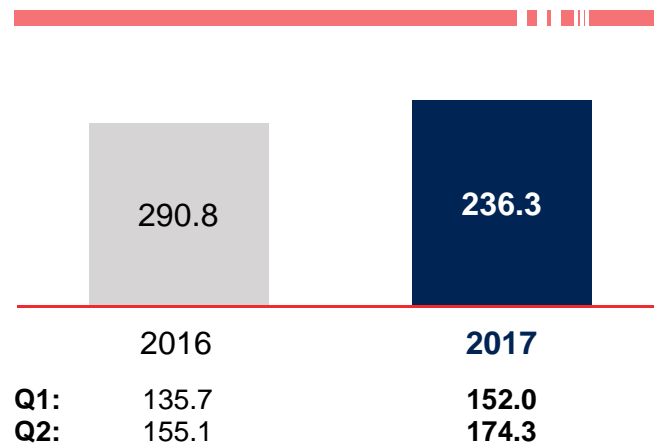
Equity and liabilities in €m	31.12.2016	30.06.2017
Equity		
Share capital	43.0	43.0
Share premium	87.5	87.5
Reserves	206.8	224.4
Equity attrib. to non-controlling interests	0.5	0.6
	337.8	355.5
Non-current liabilities		
Pension provisions	212.5	204.0
Other provisions	23.2	18.7
Bank loans/other financial payables	9.4	9.3
Other liabilities	1.0	1.3
Deferred tax liabilities	22.0	21.6
	268.1	254.9
Current liabilities		
Other provisions	180.5	171.4
Trade payables	59.0	50.1
Bank loans/other financial payables	94.5	93.6
Other liabilities	145.6	164.9
	479.6	480.0
	1,085.5	1,090.4

Group figures as per IFRS

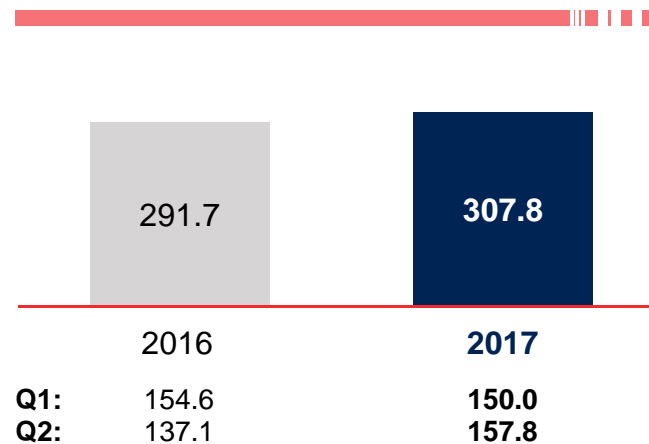
Order intake, revenue and profit up in Sheetfed

- 12% rise in orders, high demand from packaging sector and Print China in May
- 6% more sales y-o-y, order backlog of €256m
- Strong profit increase to €12m due to higher revenue with better margins and lower costs

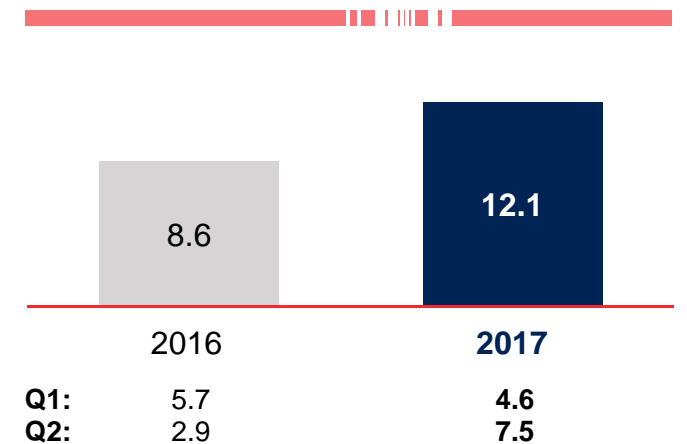
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EBIT 01.01. - 30.06.

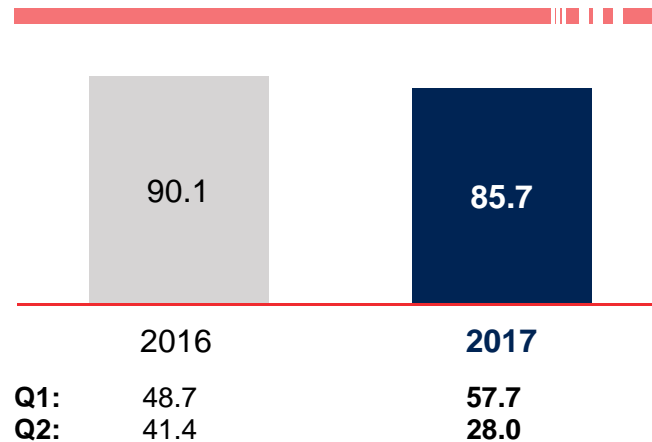


Group figures as per IFRS in €m

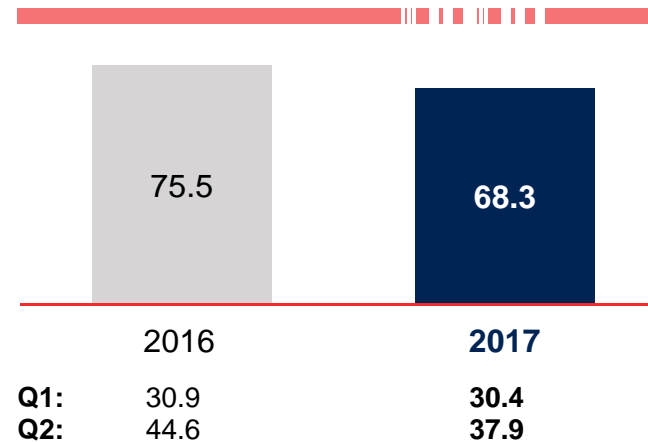
Digital & Web invests in future markets

- Solid order intake of €86m, good order backlog of €94m
- Service business and digital corrugating printing are major revenue sources
- EBIT influenced by KBA-Flexotecnica (-€3.1m), optimizations target speeding up growth in flexible packaging
- Clear earnings improvement in Digital & Web without the flexo activities

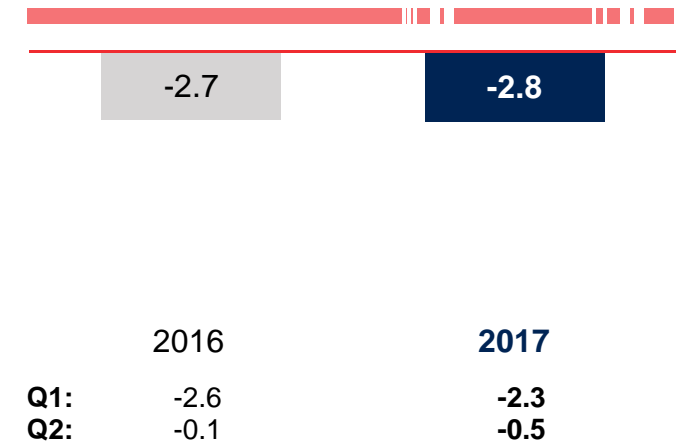
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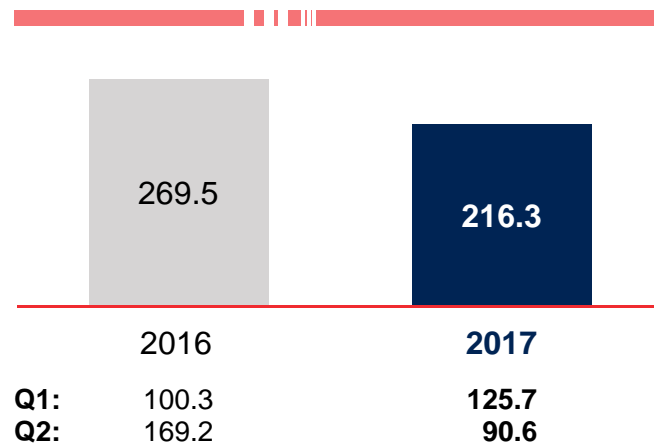


Group figures as per IFRS in €m

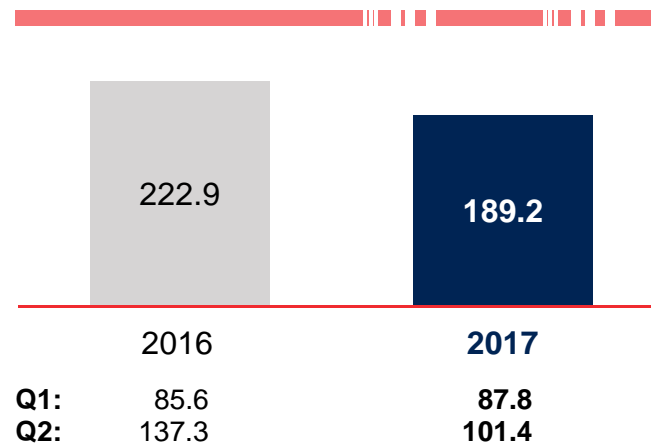
Strong EBIT margin of 7.7% in Special

- Gains in orders for metal, glass/hollow container decorating and coding systems
- Prior-year order intake and revenue above H1 2017 due to large security press orders
- Order backlog of €285m, promising projects in security printing
- Prior-year EBIT with strong catch-up effect of €4.9m from security printing

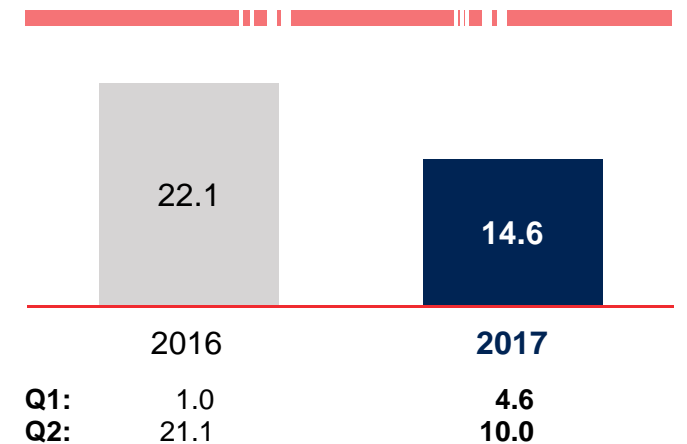
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Group figures as per IFRS in €m

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Business performance H1 2017

Guidance for 2017 and mid-term targets for 2017 - 2021

Guidance and targets for 2017

- Organic growth of up to €1.25bn in Group revenue
- EBIT margin of around 6%
- Further revenue and market share gains in packaging and digital printing
- Next growth step in service business
- Start of external funding of pensions liabilities to reduce longevity risks
(≈ €65m over 5 years, in H1 2017: €32.4m)

Targets for 2017 - 2021

Revenue:
target organic growth rate
of $\approx 4\%$ p.a.

Profits:
target 4-9% EBIT margin
on Group level

Resilience:
reduce volatility and risks

- New equipment in packaging printing expected to grow at $\approx 4\%$, 70% of revenues in packaging will give a base growth rate of $\approx 2,8\%$
- Further growth to come from expanding service revenues in all divisions as well as from market share growth
- Evaluation of strategic options in security printing to create growth, as equipment revenue increase is limited
- $\approx \text{€}70\text{m}$ profit increase through the optimization of security printing business and growth in service business ($\approx \text{€}20\text{m}$ each) together with an integrated production network and strategic purchasing ($\approx \text{€}15\text{m}$ each)
- Depending on global macro, end markets and growth-related spending, margin base EBIT with almost no interest paid
- Targeted service revenue share of 30% to support earnings stability
- $>45\%$ equity ratio, with dividend policy of 15-35% of Group net income
- Net working capital target range of 20-25 % of revenue



Backup

Long-term trends

**Sustainable growth
in packaging and
industrial printing**

**No substitution
risk through
digitisation**

**Digital
printing as
growth option**

- Global lift: growing global population, more people are moving to the middle class, higher per capita income
- Demographic change: increasing life expectancy, urbanization and shrinking average household size, higher variety of packaging sizes
- Home shopping: booming online shopping and deliveries, high returned-goods ratios, unboxing becomes part of the shopping and brand experience
- Brand acceleration: product and production cycles are getting shorter and shorter, more product variants, packaging as brand messenger
- Democratic change: higher prospects for prosperity due to increasing economic freedom for people across the world
- Personalization: people want individualized products – from sneakers to wallpaper and flooring

Focus on profitable growth

Focus 2014: restructuring and clean-up

- Termination or successful redesign of all loss-making businesses
- Comprehensive restructuring including heavy cost-cutting
- Introduction of strong corporate governance: accountable management, no cross-subsidies, zero tolerance for loss-makers

Focus 2015 - 2016: increased profitability

- Unprecedented margin targets set at the beginning of 2015, largely achieved or exceeded already in 2016
- Main strategic focus on packaging and industrial printing

Focus 2017 - 2021: growth in all businesses

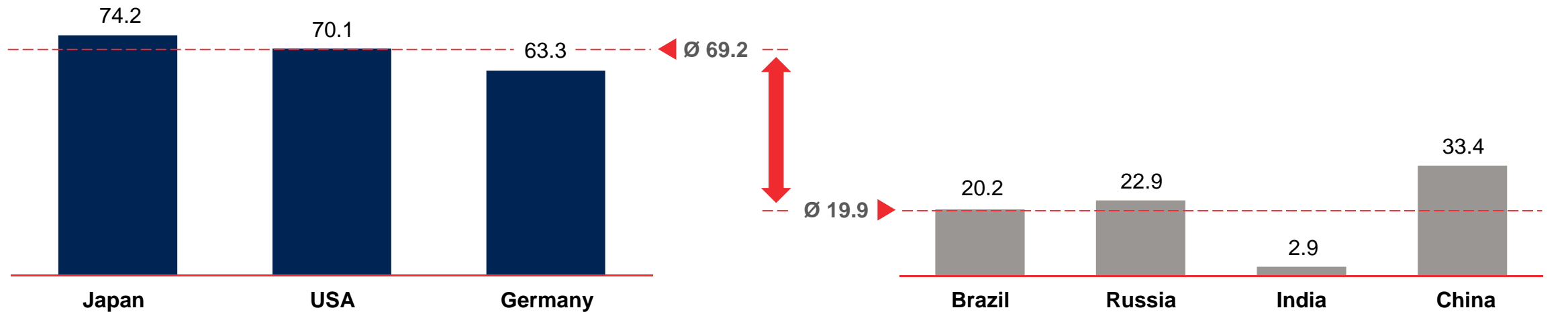
- Based on this solid groundwork and after a decade of revenue decline, the company will now adopt growth in all business fields as the center pillar of its endeavors
- All businesses should contribute to the intended growth

KBA is focusing on the growing packaging market

Global packaging volume CAGR +4%

- Global GDP +3.5%, world population +1.1% to +1.5%
- Trend towards sophisticated packaging, booming online retail with high returned-goods ratios, smaller sizes due to more single-person households and increasing legal regulations as additional drivers
- 80% of growth expected from Asia

Annual packaging consumption per capita in kilo



Source: Smithers Pira

Biggest potential in flexible packaging, corrugated and cardboard

Above-average growth on high market volumes

- Different growth rates in the various packaging markets
- Highest growth rates and market volume in flexible packaging, corrugated board and cardboard
- Attractive end-user industries (40% outer and transport packaging, 30% food, 10% drinks and 10% healthcare/cosmetics)

CAGR growth rates 2015-2020 in %



Source: Smithers Pira

Expansion steps in cardboard and flexible packaging

Cardboard packaging

- International market and technology leader with highly complex, tailored sheetfed presses
- Global market share of 45%
- New industrial digital sheetfed press VariJET 106 targets folding carton market
- Combines inkjet printing strengths with traditional inline finishing



Flexible packaging

- Entry into the big press market 3½ years ago by acquiring Flexotecnica
- Sophisticated technology for film printing
- Global market share rose to 6% through more extensive use of KBA sales network
- Optimisations at KBA-Flexotecnica target speeding up growth in flexible packaging



Twin-track entry into future market of corrugated board

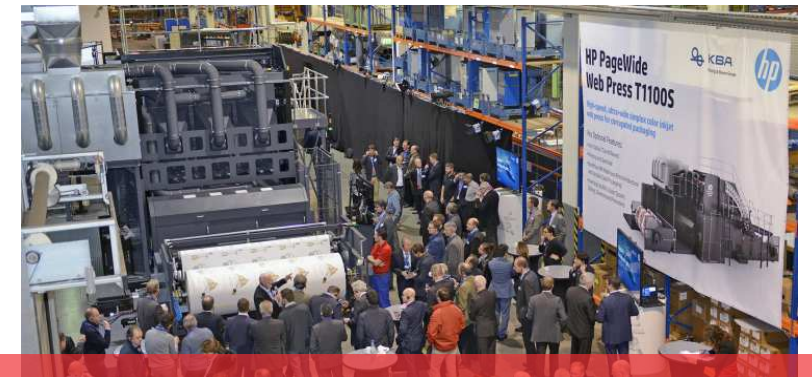
Direct corrugated printing

- Re-entry into direct corrugated printing with the flexo presses CorruCut/CorruFlex
- New generation of sheetfed flexo presses for direct corrugated printing developed
- Analogue print processes dominate with a market share of around 95%



Digital pre-prints of corrugated liners

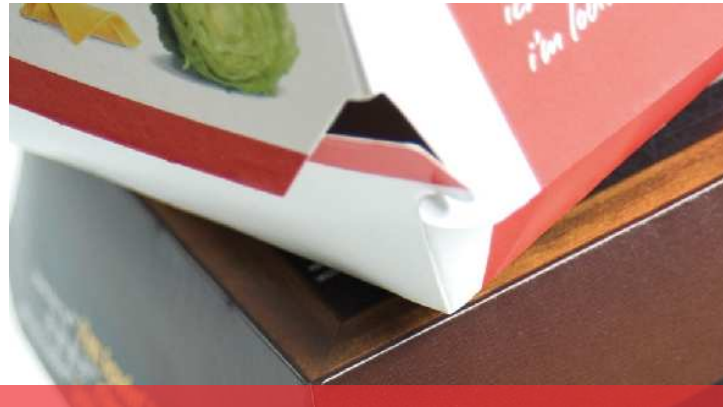
- Promising partnership with HP
- More flexibility in formats and run lengths
- World's largest inkjet printing press HP T1100S with paper width of 2.8m
- Particularly successful after being launched in December 2015



Successful entry into the growing die-cutter market

Flatbed and rotary die-cutters

- Flatbed die-cutters for heavy cardboard and corrugated making good progress
- Order intake, revenue, EBIT in H1 at KBA-Iberica well above expectations
- Internally developed inline rotary die-cutter sets benchmarks, already several sales
- Good growth opportunities in the die-cutter market



Expansion steps with new products/markets

Metal decorating

- Global leading supplier for 3-piece cans
- Strong customer interest in new solution for printing 2-piece beverage cans
- Sales launch of CS MetalCan in 2018 following intensive field tests
- First MetalDecojet sold, a digital press for metal decorating



Glass/hollow container decorating

- Entry into glass direct decoration through acquiring Kammann in summer 2013
- International market leader for the direct decoration of premium glass containers for cosmetics, perfume, spirits
- Newly developed hybrid solutions with digital, screen-printing and hot-stamping



Expansion steps with new products/markets

Marking and coding systems

- Growing KBA-Metronic offers coding and marking solutions for all industries, special focus on future markets in Asia
- Technologies include inkjet, laser, hot stamping, thermal transfer
- Newly developed betaJET xenio for marking difficult surfaces and materials made from plastic, glass, metal and even silicon with a high resolution



Growth focus also on industrial applications / service business

New applications and markets

- Primary focus on industrial applications such as digital decor printing of furniture, floors
- Visible future prospects for digital applications with huge potential, however depending on printers propensity to switch process

Expand service business

- Integrated management of sales/service network across all Group units
- Targeted expansion in growth markets Asia, Africa and Latin America
- Expand service offerings with customized solutions

High customer satisfaction as leading principle

- Strong customer competitiveness through tailor-made, innovative solutions with premium quality and convincing service
- Optimization of all relevant internal processes
- Improved customer loyalty with sinking complexity costs

Growth focus also on industrial applications

Own digital platform with our KBA RotaJET

- Addressing a wide range of applications such as industrial, packaging, commercial and publication printing
- Several installations in digital decor and book printing
- Currently enhancing the systems for new applications in industrial and packaging printing



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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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