

Presseinformation / Press Release

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Koenig & Bauer first-quarter report 2015

Orders up 27% – sales and earnings behind target

- **30% more orders for sheetfed offset and special presses**
- **Low sales of €177.3m given more deliveries in second-half of 2015**
- **Pre-tax loss of €17.7m in first quarter**
- **High net liquidity of €169.2m; Restructuring on track**
- **Shareholders decide on new company structure on 21 May**
- **Outlook: Group sales of over €1bn with EBT margin of up to 2%**

Würzburg. In the words of president and CEO Claus Bolza-Schünemann, Koenig & Bauer's (KBA) financial figures for the first quarter of 2015 still paint "a differentiated picture". Bucking the industry trend, the press manufacturer's group order intake of €306.7m was 27% up on the previous year and order backlog was around €130m higher than at the beginning of the quarter. In contrast, there is still some catching up to do in terms of sales and earnings. At €177.3m group sales were down 16.9% on the prior-year figure. Given the low sales volume this quarter due to the delivery structure and capacity underutilisation at KBA's German web press sites which have now been rescaled, group earnings before taxes (EBT) of –€17.7m were also lower than the prior-year figure of –€12.1m. Nevertheless, the company's management has affirmed its forecast for 2015. Bolza-Schünemann: "KBA will generate far more than 50% of group sales in the second-half of the year with corresponding positive effects on earnings. In light of the solid number of new projects I am confident that we will be able to achieve our group sales target for 2015 of over €1bn with a better EBT than in 2014 and an EBT margin of up to 2% of sales in spite of a weaker Q1 and Q2 this year."

New segment reporting...

For the first time this KBA interim report contains the new break down of the business into the segments sheetfed offset presses (Sheetfed Solutions), digital and web offset presses (Digital & Web Solutions) and special presses (Special Solutions). Companies in security printing belonging to KBA-NotaSys as well as the subsidiaries KBA-MetalPrint, KBA-MePrint, KBA-Metronic, KBA-Kammann and KBA-Flexotecnica active in packaging markets are grouped under Special Solutions.

...and new company structure

More transparency, clear management responsibility and enhanced strategic flexibility are the goals of the new company structure proposal which the AGM will decide upon on 21 May in Würzburg. Accordingly, KBA-Sheetfed Solutions in Radebeul and KBA-Digital & Web Solutions in Würzburg are to be spun-off from the parent as autonomously operating business units. Group-wide production (KBA-Industrial Solutions) and security press activities in Würzburg (KBA-NotaSys) are expected to form further legal entities. These spun-off companies are to have a German legal status of an AG & Co. KG (limited partnership) with the parent as a public limited company and sole general partner. Koenig & Bauer AG as a holding with a management board consisting of three members will take over central and strategic tasks. The other members of the management board will become managing directors of the operating companies. Cross-subsidies between the business units will not be tolerated and KBA will invest the capital available to achieve the long-term higher returns on capital necessary. The new company structure is expected to be implemented from 1 January 2015 retrospectively upon approval by the AGM. The internal organisational structure has been in place for one year.

Lower sales and product mix hit this quarter's results

At €546.7m group order backlog on 31 March was almost €130m higher than at the beginning of the year. Compared to the prior-year quarter low sales, the product mix and capacity underutilisation which has yet to be completely eliminated in the Digital & Web segment hit earnings. The group's gross profit margin fell from 25.4% to 20.6%

and EBIT from –€10.2m to –€16.2m. A net interest loss of €1.5m led to a group pre-tax loss (EBT) this quarter of €17.7m, compared to –€121m the previous year. After deducting taxes, group results on 31 March stood at –€16.9m (2014: –€14m) and earnings per share came to –€1.01 (2014: –€0.85).

At €174.7m order intake after three months in Sheetfed Solutions, KBA's largest segment, was up 30.5% on 2014, while sales of €109.8m remained slightly below the prior-year figure of €111.1m. The book-to-bill ratio triggered a growth in order backlog of 26.7% to €246.6m. This segment's loss of €2.7m was somewhat higher than the prior year (2014: –€1.6m) due to the unfavourable product mix and expenses associated with restructuring the international sales network. In the course of the year earnings will also gradually improve in line with the increase in the number of deliveries.

The volume of new orders in the Digital & Web Solutions segment rose by 5.7% to €27.9m, up from €26.4m in 2014. At €13.3m revenue fell short of the previous year's figure of €41.5m which made a major contribution to the segment's loss of €8.7m. However, savings resulting from the extensive adjustment to capacities and upcoming deliveries will have a positive impact on sales and earnings in the following quarters. Moreover, promising strategic opportunities have opened up for this new segment through addressing new business fields for KBA RotaJET presses and the alliance with HP in the digital corrugated printing market.

Orders in the Special Solutions segment were up 31% to €117.4m. At €63.2m sales this quarter were 8.1% lower than in 2014 (€68.8m). Operating profit in this segment stood at €1.2m compared to the prior-year figure of €4m. KBA anticipates a significant rise in both figures in the third and fourth quarter in particular with the delivery of larger security press orders.

Fewer sales in Europe – more in North America

Compared to 2014 an €8.8m decrease in domestic sales to €35.3m raised the export level from 79.3% to 80.1%. Deliveries to other parts of Europe fell to €46.3m. This region's contribution to group sales was below average at 26.1%

(2014: 31%). Business in North America jumped from €24.4m to €30.2m, or 11.4% to 17% of the total. The proportion generated by Asia and the Pacific stood at 28.5%. Given the dip in demand in China the total sales volume of €50.5m in this region was less than the previous year (€64.9m). At €15m revenue attributable to Latin America and Africa came to 8.5% of group sales.

High net liquidity of almost €170m

Cash flows from operating activities improved to –€29.3m (2014: –€51.3m) despite considerable cash outflows for severance payments. A drop in trade receivables and higher customer prepayments contributed to this improvement. Active working capital management cut inventories by around €70m year-on-year. After deducting funds for investing activities, at –€31.1m our free cash flow was also healthier (2014: –€54.4m). Along with ample credit lines, funds at 31 March came to €186m. Less bank loans of €16.8m, net liquidity stood at €169.2m. A further decrease in the discount rate for German pensions contributed significantly towards reducing KBA's equity ratio to 18%.

Payroll down by over 900

At the end of March 2015 there were 5,321 employees on the KBA group payroll, 916 fewer than twelve months earlier (6,237). Excluding apprentices, trainees, employees exempted from their duties and staff on phased retirement schemes the group workforce sank to 4,711. This total is expected to fall to around 4,500 following the completion of the group restructuring programme in 2016. At 6.1% KBA's training rate remains remarkable.

Outlook: Over €1bn in sales and up to 2% EBT margin

With new orders up almost 30% in the first quarter, KBA performed above average as, according to statistics from the VDMA (German Machinery and Plant Manufacturer's Association), over 12% fewer orders for German printing equipment were placed during this period. The positive trend in terms of incoming orders in Sheetfed Solutions continued in April. The success of Print China and the group's strong footing in packaging printing proved to be beneficial. KBA-NotaSys, KBA-Digital & Web, KBA-MetalPrint, KBA-Flexotecnica and other companies also announced a raft of new orders. The

delivery structure at KBA will change substantially in 2015. Its web offset business is contributing less and less to group sales. In contrast, high-volume digital inkjet printing is gaining in importance as KBA-Digital & Web Solutions addresses new applications, such as industrial decor printing. An inkjet web press for the corrugated market co-developed with HP opens up additional opportunities. It is being manufactured in Würzburg and will be unveiled to the industry in the fourth quarter.

Today sheetfed offset presses and related systems generate over 50% of the group's sales. Packaging printers dominate the business of KBA-Sheetfed Solutions and the majority of companies in the Special Solutions segment. In this segment presses and systems for producing banknotes make the largest contribution to the company's sales and earnings. They mainly go to government clients not usually from industrialised countries which makes planning the security press business difficult. Nevertheless, the KBA group's broad line up levels out segment-related fluctuations in demand and facilitates adjustments to market shifts.

As is typical for the industry, the KBA group will once again generate far more than half of its sales in the second-half of the year. The same is true of the security press business. With this in mind, the sales target of over €1bn in 2015 remains realistic. The KBA management board is also targeting an improvement in earnings to an EBT margin of up to 2% given an expected rise in sales.

Disclaimer

The projections contained in this press release 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 the print media industry, may give rise to a different outcome from that projected. KBA therefore accepts no liability for transactions based upon these projections.

The interim report can be downloaded as a PDF file from:

<http://www.kba.com/en/investor-relations/financial-reports/reports-2015/>

Koenig & Bauer-Group	31.03.2014 in €m	31.03.2015 in €m	Change
Revenue	213.4	177.3	- 16.9%
Sheetfed	111.1	109.8	- 1.2%
Digital & Web	41.5	13.3	- 68.0%
Special	68.8	63.2	- 8.1%
Reconciliation	-8.0	-9.0	
Order intake	241.5	306.7	+ 27.0%
Sheetfed	133.9	174.7	+ 30.5%
Digital & Web	26.4	27.9	+ 5.7%
Special	89.6	117.4	+ 31.0%
Reconciliation	-8.4	-13.3	
Order backlog	588.6	546.7	- 7.1%
Sheetfed	194.6	246.6	+ 26.7%
Digital & Web	79.6	65.5	- 17.7%
Special	322.7	249.3	- 22.7%
Reconciliation	-8.3	-14.7	
EBIT	-10.2	-16.2	
Sheetfed	-1.6	-2.7	
Digital & Web	-4.3	-8.7	
Special	4.0	1.2	
Reconciliation	-8.3	-6.0	
Earnings before taxes (EBT)	-12.1	-17.7	
Net loss	-14.0	-16.9	
Earnings per share in €	-0.85	-1.01	
Payroll on 31.03. - thereof apprentices/trainees	6,237 364	5,321 324	

Photo 1:

The solid volume of incoming orders in the Sheetfed Solutions segment continued in April at the extremely successful trade show, Print China

Photo 2:

Presses and systems for producing banknotes are the largest generators of revenue in the Special Solutions segment