

Presseinformation / Press Release

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Annual Report 2016

Koenig & Bauer on a growth and profitability trajectory

- **14% increase in revenue to €1,167m**
- **Growth in service business, market share gains in the growth markets of packaging and digital printing**
- **Solid order intake and high order backlog**
- **Highest profit margin in the company's 199-year history**
- **All segments operating profitably**
- **Increase in equity ratio to 31%**
- **Dividend of €0.50 per share proposed**
- **Guidance for 2017: revenue of up to €1.25bn and an EBIT margin of around 6%**
- **New group targets until 2021 with €70m profit increase**

Würzburg. Backed by a significant increase in revenue and profit, the Koenig & Bauer group largely achieved or even exceeded the medium-term targets that it had issued at the beginning of 2015 with unprecedentedly high margins in 2016. "The profitable growth was generated in existing and new packaging markets, from industrial applications in digital web printing and the continued expansion of service business – despite the absence of any macroeconomic support," said CEO Claus Bolza-Schünemann. "With all segments operating profitably, we were able to achieve a further goal," added CFO Dr Mathias Dähn. "After a decade of declining revenue and unsatisfactory margins, we want our shareholders to receive a fair portion of this success. Accordingly, the management board and the supervisory board will be asking the shareholders to approve a dividend of €0.50 per share at the annual general meeting on 23 May 2017."

Good group business performance

Despite persistently challenging global economic and political conditions, the group recorded robust order intake of €1,149.7m, only slightly shy of the previous year's figure (€1,182.7m). At €557.5m, the order backlog at the end of 2016 remained at a high level (2015: €574.9m). With the revenue structure continuing to shift in favour of the markets of the future, group revenue came to €1,167.1m, 13.9% up on the previous year's figure of €1,025.1m. Driven by growth in the rest of Europe, Northern and Latin America as well as Africa, the export ratio came to 85.5% and was thus slightly up on previous year's already high level (85%). Business in Asia/Pacific was impacted by the softer economy in China.

EBT guidance of up to 5% reached in full

Increased revenue accompanied by improved margins, consistently high capacity utilisation and the sustained reduction of the cost base following the successful completion of restructuring underpinned the increase in profit, which reached the highest level in the Company's 199-year history. Adjusted for non-recurring income, EBIT and EBT climbed to €62.9m and €56.8m, respectively. At 4.9%, the EBT margin guidance of up to 5% was achieved in full. Besides these operating factors, earnings were driven by non-recurring income of €22.4m from the mandatory write-ups of property, plant and equipment and the recognition of deferred tax assets of €7.4m. Group net profit rose more than three-fold to €82.2m (2015: €26.9m), equivalent to earnings per share of €4.98 (2015: €1.62).

Positive earnings momentum continuing for Sheetfed

Thanks to the growth in the packaging market and substantial market share gains, the Sheetfed segment posted a 9.5% increase in revenue to €615m. Despite high fair and development expenses, EBIT climbed from €25.5m to €31.3m, underpinned by the higher revenue in tandem with improved margins, strong capacity utilisation and the growth in service business. After the expected slowdown in post-Drupa business we achieved with a good Q4 an order intake of €569.7m (2015: €663m).

Digital & Web growing in future markets

Driven by growth in service business and in new digital printing applications, Digital & Web performed well, becoming profitable with EBIT of €1.9m despite the strain caused by development expenses. With order intake up 28% to €150.8m, revenue rose by 59% to €156.5m. Koenig & Bauer expects the partnership with HP in the corrugated packaging sector and its own RotaJET series to make a growing contribution to its digital printing business.

Order intake, revenue and profit up in the Special segment

The favourable performance of packaging printing solutions caused order intake to climb to €491.4m (2015: €477.7m). In a competitive environment, we were able to maintain our leading international position in security printing with a market share of over 80%. Revenue grew by 11.6% from €422.9m in the previous year to €472m. Segment profit came to €42.8m, up from €27.7m in 2015.

Stronger balance sheet and financial power

The substantial increase in free cash flow from –€23.7m in the previous year to €2.3m contributed to a rise in liquidity to €202m (31 December 2015: €186.3m). With its ample net liquidity of €168.1m as well as the cash and guarantee facilities of €80m and €237.2m, respectively, Koenig & Bauer has a stable funding base. In addition, sufficient funding is available for intensifying activities in growth markets and for spending on efficient production and IT processes. The solid balance sheet structure was additionally improved with the increase in the equity ratio to 31.1% (2015: 26.5%).

In 2016, the group workforce increased by 69 to 5,318 employees. In addition to specific recruiting in the expanding service segment and for new applications for the packaging and digital printing markets, 60 employees joined the group with the acquisition of Iberica AG as part of the entry into the growing market for flatbed die-cutters.

Guidance for 2017

“Despite the persistently challenging conditions in the global economy particularly in the light of recent political developments, we are facing 2017, the year of our company’s 200th anniversary, with confidence,” said Claus Bolza-Schünemann. “Should conditions for our global business not significantly deteriorate, we target an organic growth of up to €1.25bn in group revenue and an EBIT margin of around 6% in 2017.”

New group targets for 2017 - 2021

The KBA management board wants to increase group revenue organically by around 4% per year until 2021. More than half of this growth will be generated in packaging printing. Further growth is to be generated by the expansion of the service business in all segments as well as by market share gains. “Our declared aim,” said Dr Mathias Dähn, “is for all business units to contribute to growth in the future. As higher equipment revenue is not expected in security printing, we are exploring further options for growth including strategic partnerships in the banknote life cycle.”

“We don’t want growth at any price. Rather, what we are seeking is profitable growth,” explained Dr. Mathias Dähn. “Depending on global economy, end markets and the necessary investments in growth, the group is targeting an EBIT margin of between 4% and 9% for the period until 2021. An increase of €70m in profit is to be achieved through the optimisation of the security printing business as well as growth in services (around €20m in either case) together with an integrated production network and strategic purchasing (around €15m in either case).”

A further strategic goal entails efforts to strengthen the group’s stability by reducing volatility and risks. Greater earnings stability is to be achieved by lifting the share of revenue from service business to 30%. Starting in 2017, around one third of the pension liabilities will be funded externally in up to five annual steps to reduce risks in the balance sheet arising from longevity and fluctuation in interest rates.

Further targets include a dividend ratio of 15-35% of group net profit, an equity ratio of over 45% and a working capital target corridor of 20-25% of revenue.

The annual report for 2016 is available as a PDF file and can be downloaded at

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

Photo 1:

The Sheetfed segment widened its share of the global market to around 25% for sheetfed offset presses and to substantially more than 60% for large-format presses

Photo 2:

Presented at Drupa and featuring outstanding printing results, the RotaJET L inkjet rotary press is currently being enhanced for new industrial and packaging printing applications

Photo 3:

KBA-MetalPrint has started up the first Mailänder 280 printing and coating line which prints solely aluminium panels used for making booming longcaps for bottles of high-quality spirits

Please note:

This press release contains forward-looking statements that are based on careful assumptions and projections made by the management of Koenig & Bauer AG. Although the management believes that these assumptions and estimates are correct, future actual performance and results may differ for numerous reasons beyond the Company's control. Such reasons may, for example, include changes in economic conditions, exchange rates and the situation in the graphic industry. Koenig & Bauer AG does not warrant or represent that future actual performance and results will be identical to the figures and statements presented in this press release.

Presseinformation / Press Release

Koenig & Bauer Group	31.12.2015 in €m	31.12.2016 in €m	Change
Revenue	1,025.1	1,167.1	+ 13.9%
Sheetfed	561.7	615.0	+ 9.5%
Digital & Web	98.4	156.5	+ 59.0%
Special	422.9	472.0	+ 11.6%
Reconciliation	-57.9	-76.4	
Order intake	1,182.7	1,149.7	- 2.8%
Sheetfed	663.0	569.7	- 14.1%
Digital & Web	117.8	150.8	+ 28.0%
Special	477.7	491.4	+ 2.9%
Reconciliation	-75.8	-62.2	
Order backlog	574.9	557.5	- 3.0%
Sheetfed	282.8	237.5	- 16.0%
Digital & Web	70.3	64.7	- 8.0%
Special	250.1	269.6	+ 7.8%
Reconciliation	-28.3	-14.3	
EBIT	35.9	87.1	
Sheetfed	25.5	31.3	
Digital & Web	-10.9	1.9	
Special	27.7	42.8	
Reconciliation	-6.4	11.1	
Earnings before taxes (EBT)	29.7	81.0	
Group profit	26.9	82.2	
Earnings per share in €	1.62	4.98	
Cash flows from operating activities	-15.3	21.9	
Total assets	976.9	1,085.5	
Equity	258.4	337.8	
Employees (31 December) including apprentices/students	5,249 378	5,318 363	