

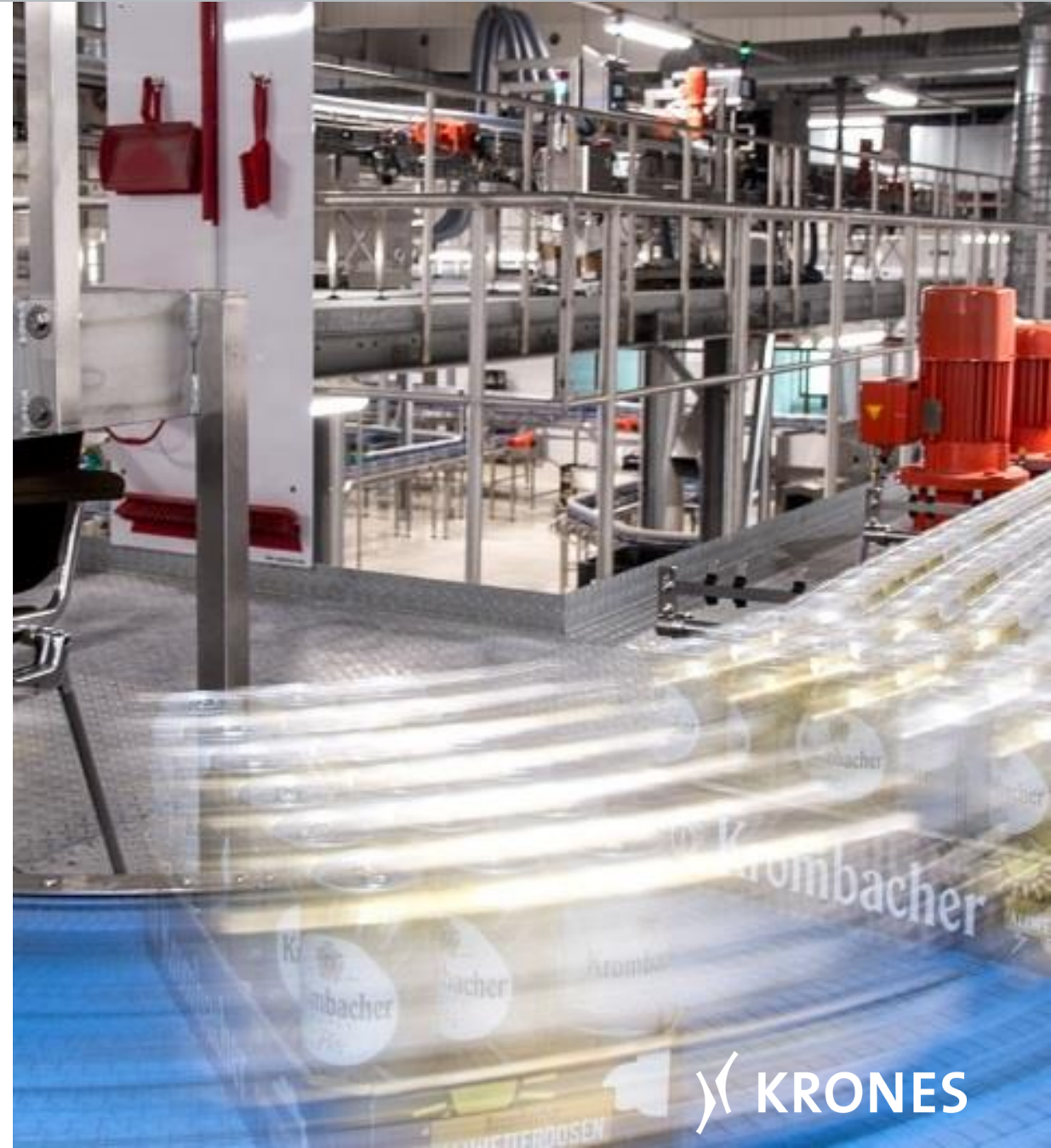


# Press Conference & Analyst Meeting

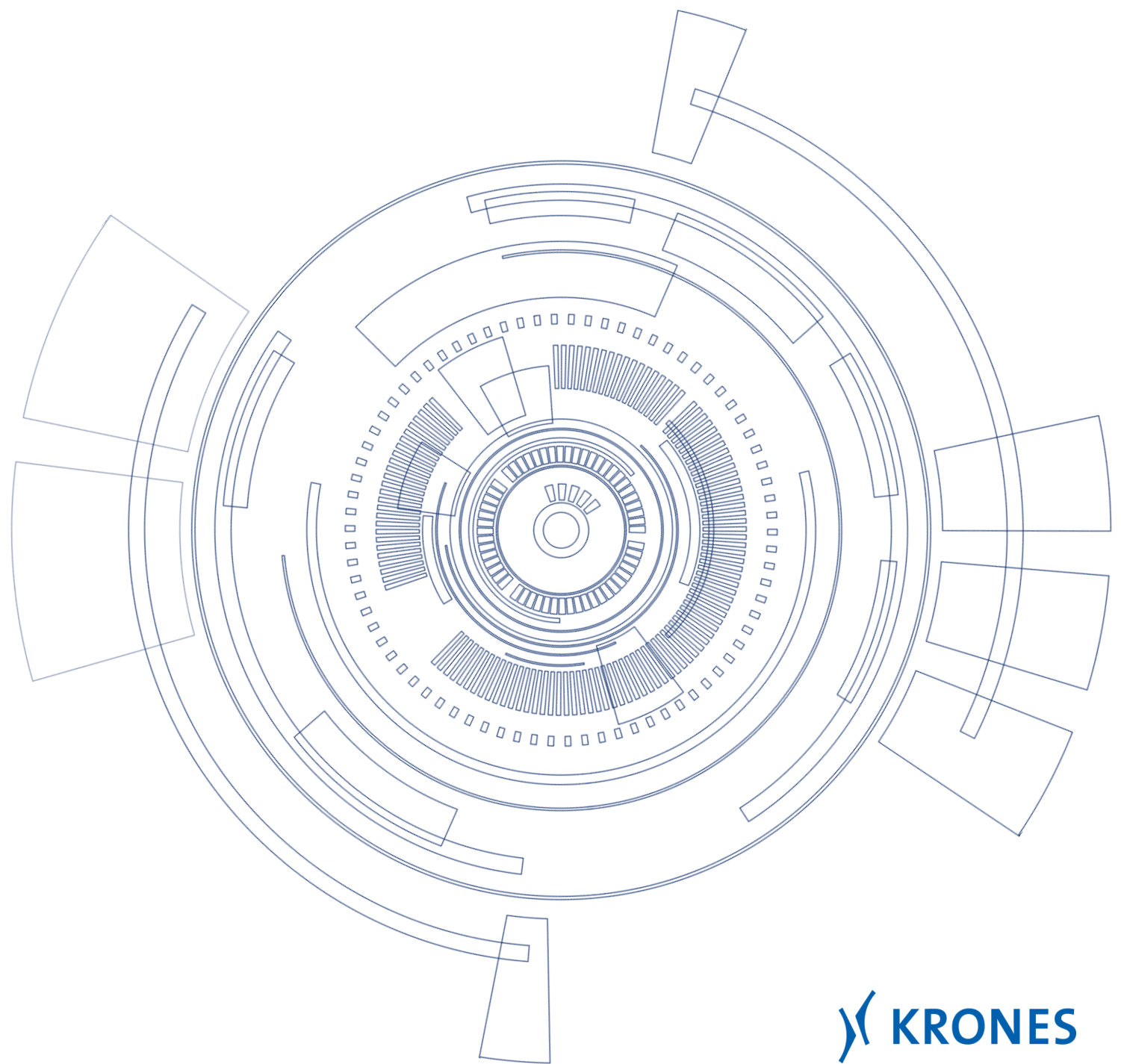
29th of April 2019  
in Munich

## Content

1. Business Environment
2. Beverage Market
3. Financials Q1/2019
4. Outlook 2019
5. Growth & Profitability Drivers
6. Mid-Term Targets
7. Q&A






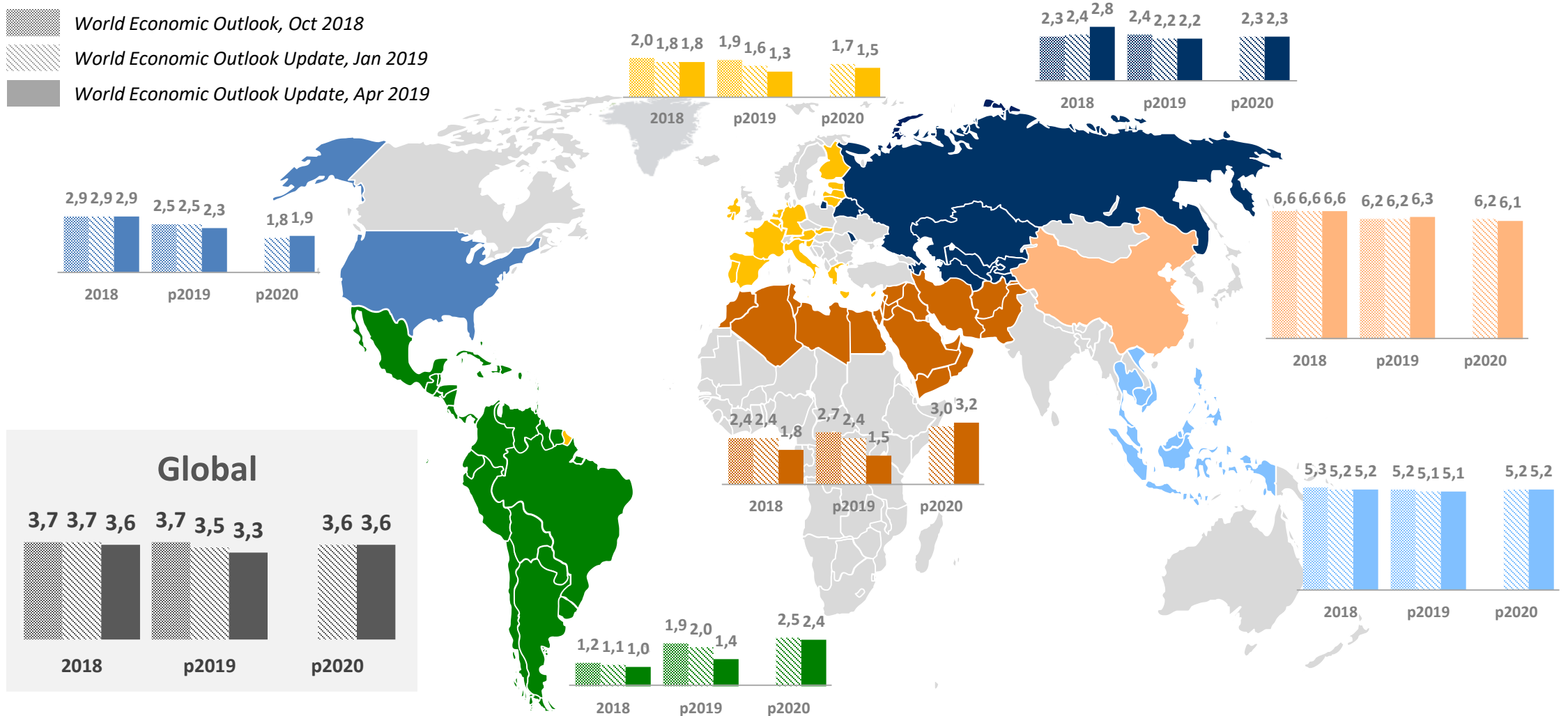
# Business Environment



# Economic Development by Regions

## GDP Development 2017 – 2020

 World Economic Outlook, Oct 2018  
 World Economic Outlook Update, Jan 2019  
 World Economic Outlook Update, Apr 2019



Sources:  
 IMF (2018): World Economic Outlook, October 2018: Challenges to Steady Growth  
 IMF (2019): World Economic Outlook, January 2019: A Weakening Global Expansion  
 IMF (2019): World Economic Outlook, April 2019: Growth Slowdown, Precarious Recovery

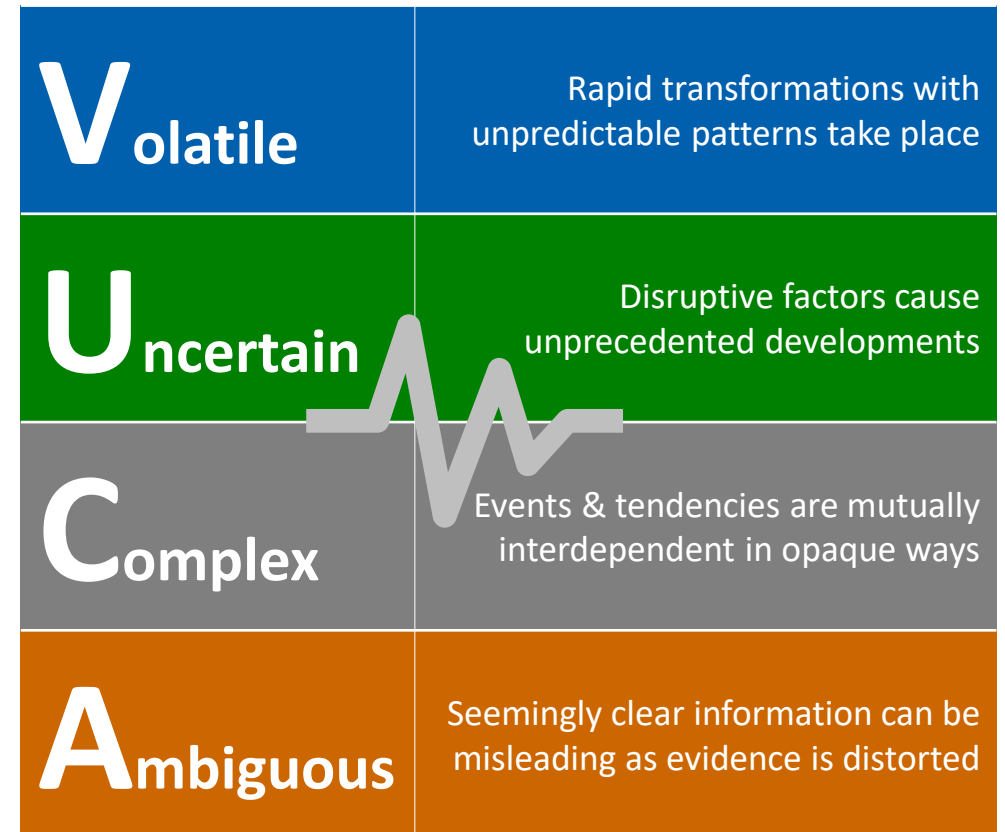
## VUCA World

### Short-term Dynamics

- **Main global macro-economical concern is China**  
Significant slowdown of growth in China coincides with rapidly rising total Chinese debt (corporate & semi-public)

### Further Dynamics

- Trade wars and protectionism
- Brexit
- Worldwide rise of populism
- ...



## Long-Term Global Megatrends

### World Population



- Growth of global population by 80 million people per year
- Strong population growth in Africa, India and Asia/ Pacific (APAC) goes hand in hand with an increase in urbanization

### Middle Class\*



- The middle class in Asia's emerging markets will account for 60% of the global middle class in 2030
- The global industrial and economic center will shift to Asia within the next 15 years

### Urbanization



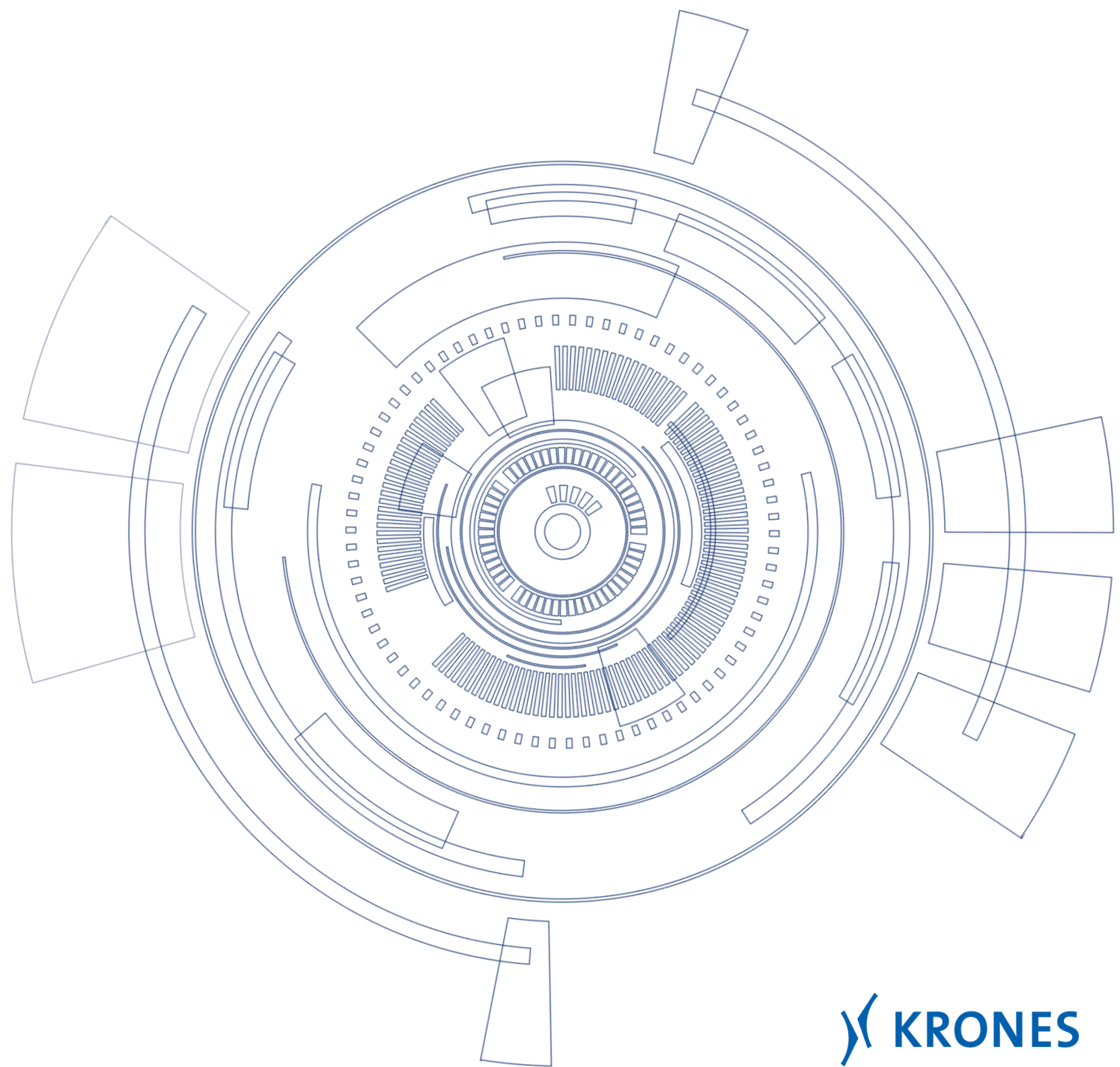
- The total population residing in urban areas is expected to grow by 2.5 billion inhabitants until 2050
- Until 2050, the number of urban dwellers is projected to grow by 416 million in India, by 255 million in China and 189 million in Nigeria

**Growth trends for Krones remain stable!**

\*Definition OECD: Persons with a purchasing power of USD 10 to USD 100 per day

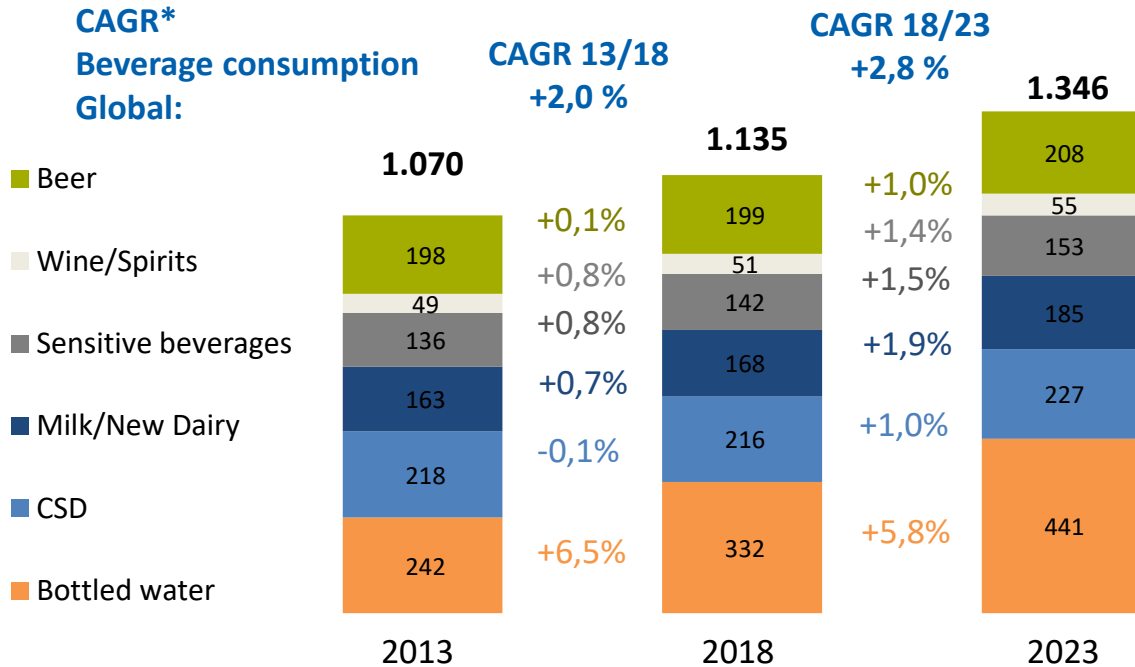
Source: UN, 2017; OECD; UN, 2018

# Beverage Market & PET Focus



## Beverage consumption and market potential

Global beverage consumption by industry  
(in bn liter)



**Global beverage market growth remains robust**

Source: Euromonitor, Kronen market potential target figures | \*CAGR: Compound Annual Growth Rate

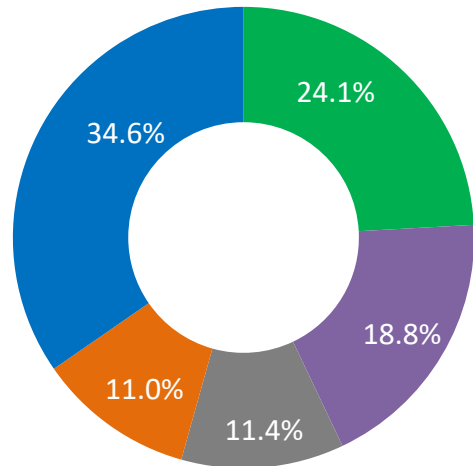




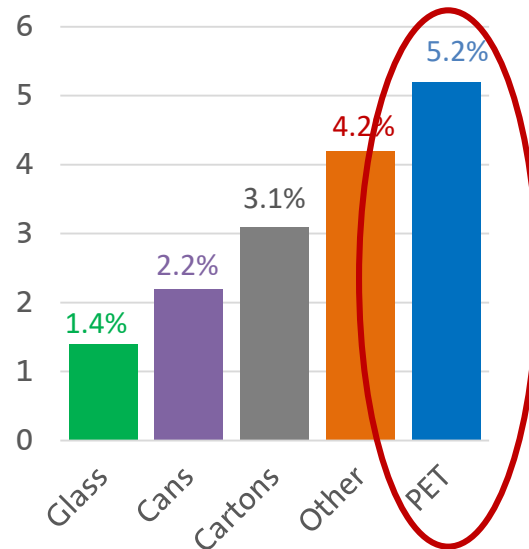
## Beverage consumption and market potential

**Global beverage market** by packaging material  
(based on units filled)

Share of packaging types 2017



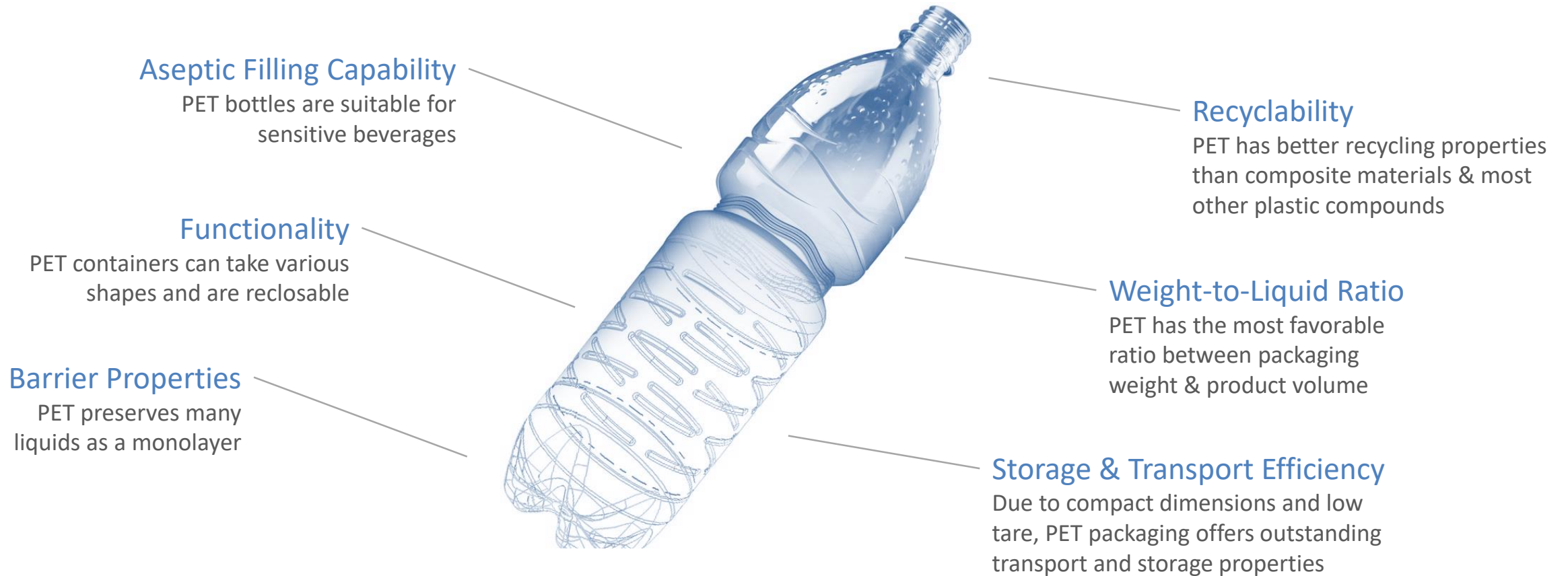
Average annual growth of packaging types 2017-2020



**Despite ongoing controversies, we anticipate PET to be the strongest growing packaging format**



## Why PET has been and is expected to be successful



**No other packaging material offers the same unique combination of advantages like PET.**

## PET under Scrutiny of Society and Policy Makers



Source: Wikimedia/HugoTagholm under CC-BY-SA-4.0 license

The amount of plastic in the ocean is a lot worse than we thought, study says

*CNN, 16<sup>th</sup> of April 2019*

**Plastic pollution: can the ocean really be cleaned up?**

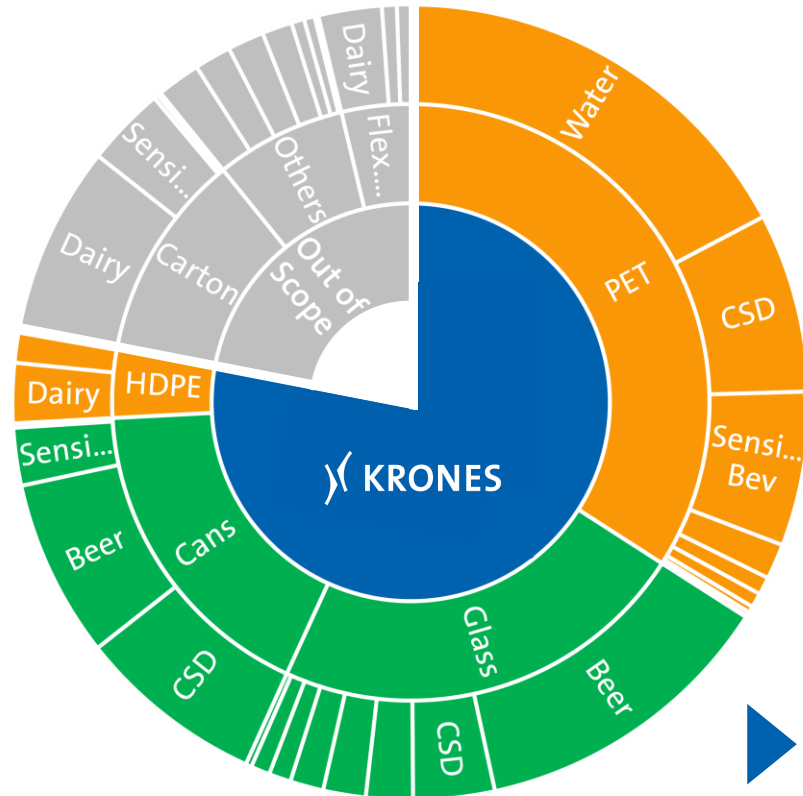
*The Guardian, 21<sup>st</sup> of March 2019*

Plastic in the North Atlantic has tripled since the 1960s

*National Geographic, 16<sup>th</sup> of April 2019*

**The focus of attention is on inappropriate disposal & marine litter – not PET itself.  
It's all about collection & recycling!**

## PET as a Part of Krones' Success



### If the public debate becomes objective, PET growth persists:

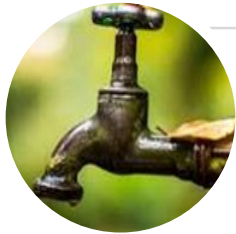
- The contradiction between barrier requirements & biodegradable properties remains unsolved on a commercial scale in terms of alternative packaging material.
- With no functional alternative to PET, policy makers focus on appropriate collection, disposal & recycling. Consequently, regulatory measures aim to reduce the ecological footprint of PET, not the overall sales volume.
- We observe a shift from other plastic compounds and composite materials to PET due to superior recycling characteristics.

Our technological scope covers ~80% of all beverage containers filled.

**We believe in a robust PET market.**

**If PET volumes are converted, they most likely stay within our product scope.**

## Challenges & Opportunities



### Water Scarcity

- Increasing water stress in many developed and emerging markets expected over the next two decades
- Safety and saving of water will become even more crucial in the food & beverage industry



### Sustainable Packaging

- Society and legislators demand sustainable packaging solutions in the food & beverage industry
- The Circular Economy approach requires seamlessly recyclable materials such as PET



### Food & Beverage Waste

- 805 million people worldwide go hungry every year
- 1/3 of all food produced is lost or wasted
- Efficiency in the food supply chain will substantially grow in importance

### Regionalization of Trade

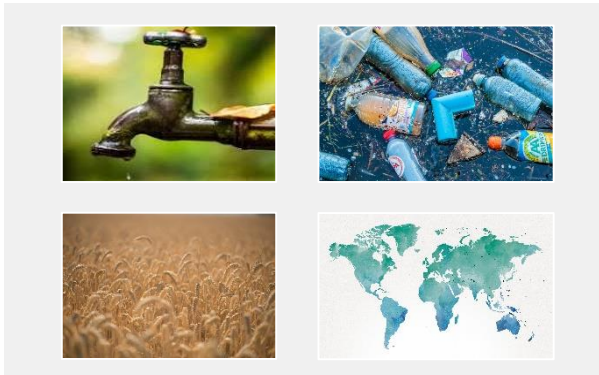
- Globalization is in stagnation seeing a decline in trade intensity of -5.6 p.p. since 2007
- Developing domestic & regional supply chains will lead to more intra-regional trade (especially in emerging markets)



**A rapidly changing world bears several risks and many opportunities for Krones.**

## Customer requirements

### Challenges & Opportunities



- **Water Scarcity**
- **Food & Beverage Waste**
- **Sustainable Packaging**
- **Regionalization of Trade**

### Customer requirements



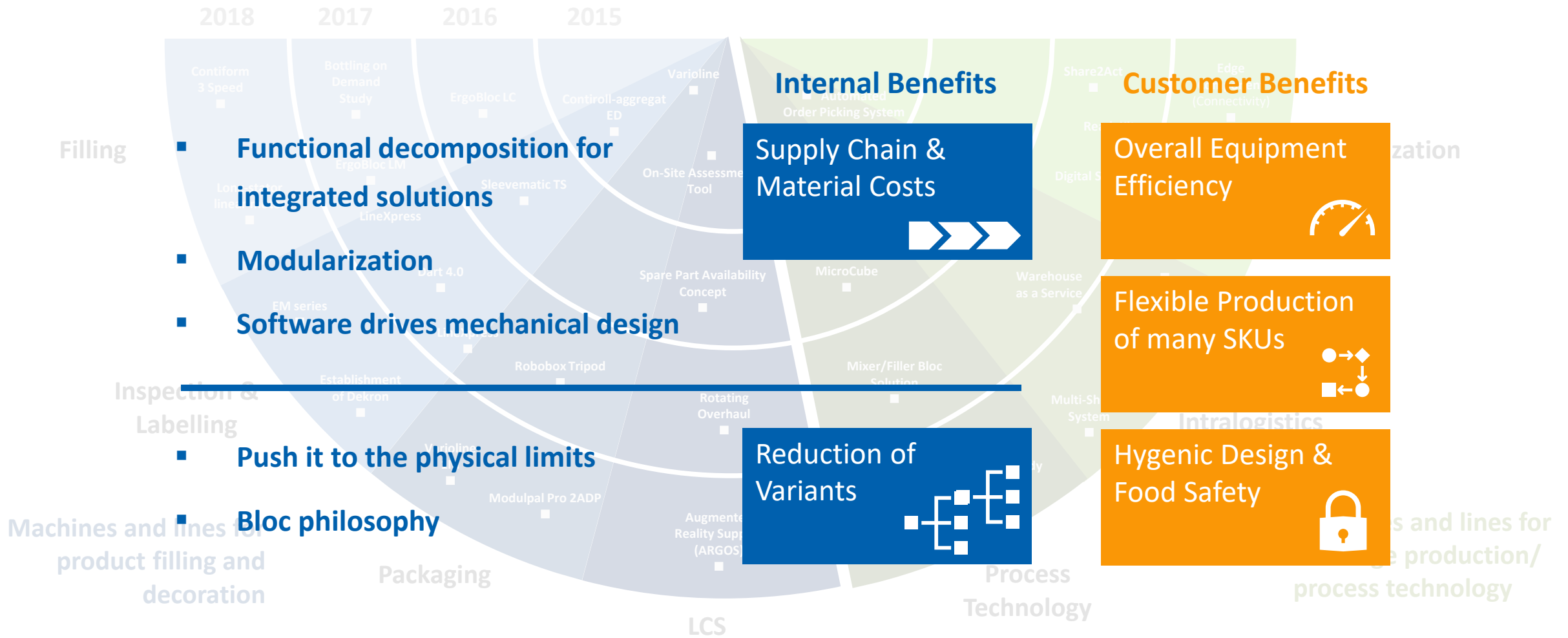
- Water efficiency in production (incl. utilities)
- Zero-waste production
- Recyclability of primary and secondary packaging
- Decentralized supply chains

### Solutions



- Innovative efficiency solutions (e.g. Dosaflex, Brewnomic)
- Circular Economy expertise through Krones recycling division
- Enablers for flexible production facilities (e.g. LineXpress, Varioline)

## Our Principles of Innovation



Innovation is driving the growth & competitiveness of Krones.

## From Customer Requirements to cutting-edge Solutions

### Ergobloc LM



A PET stretch blow moulding, labelling, filling and capping bloc dedicated to the specific needs of Asian customers

→ **The right products to benefit from a growing middle class and urbanization in Asia**

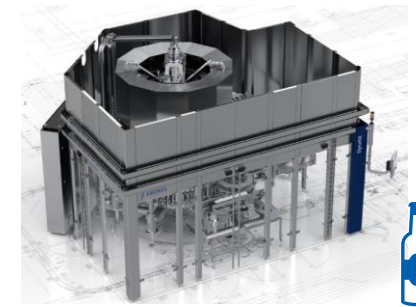
### Contiflow



Processing equipment that suits the requirements of emerging beverage segments such as novel health & recreational drinks

→ **Solutions to participate in the booming functional food & beverage market**

### Dynafill



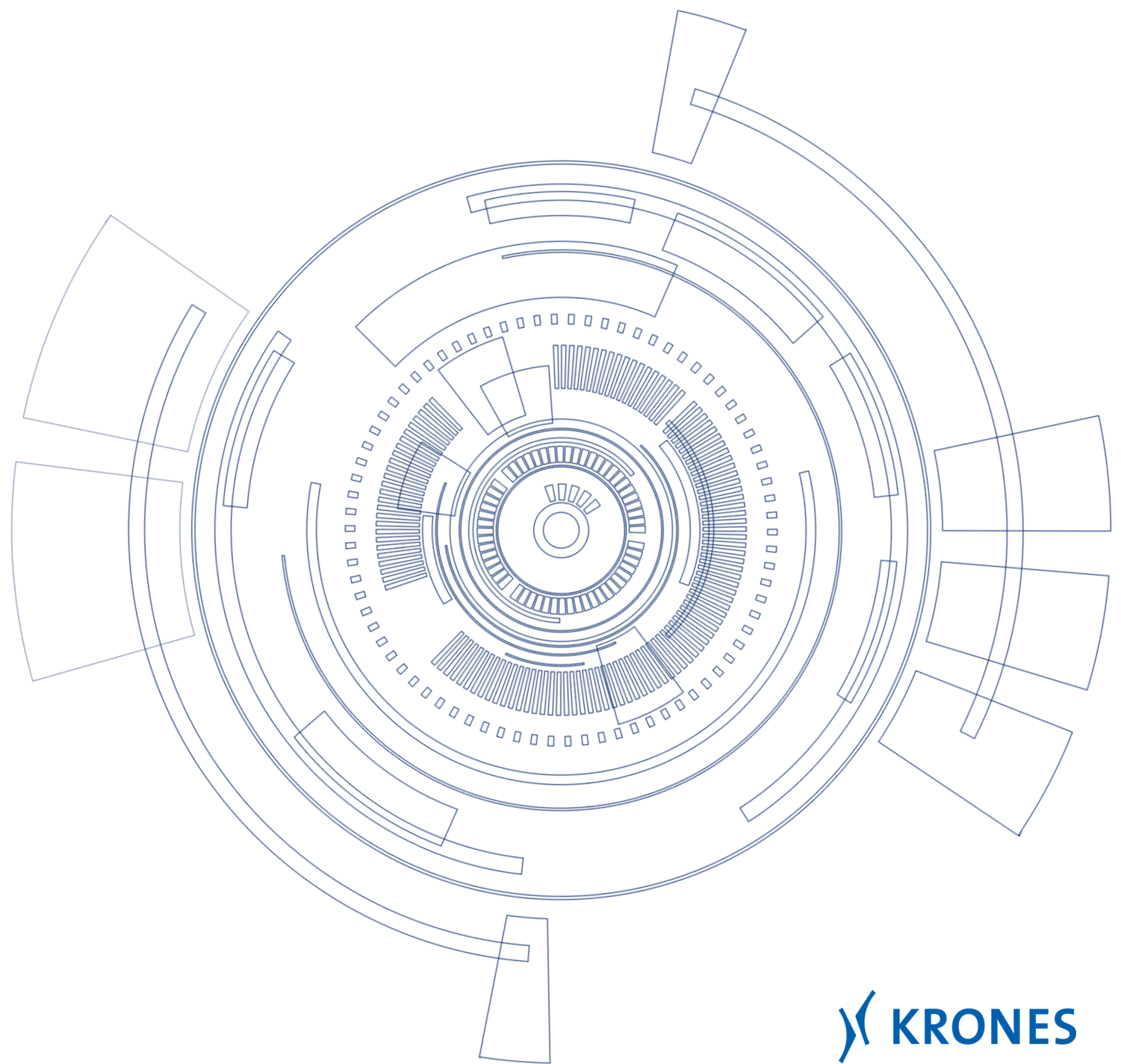
Filling & capping of beer in one revolutionary machine boosting operational efficiency in terms of process, space & CO<sub>2</sub> usage

→ **Rejuvenate mature beverage markets by enhancing machine replacement benefits**

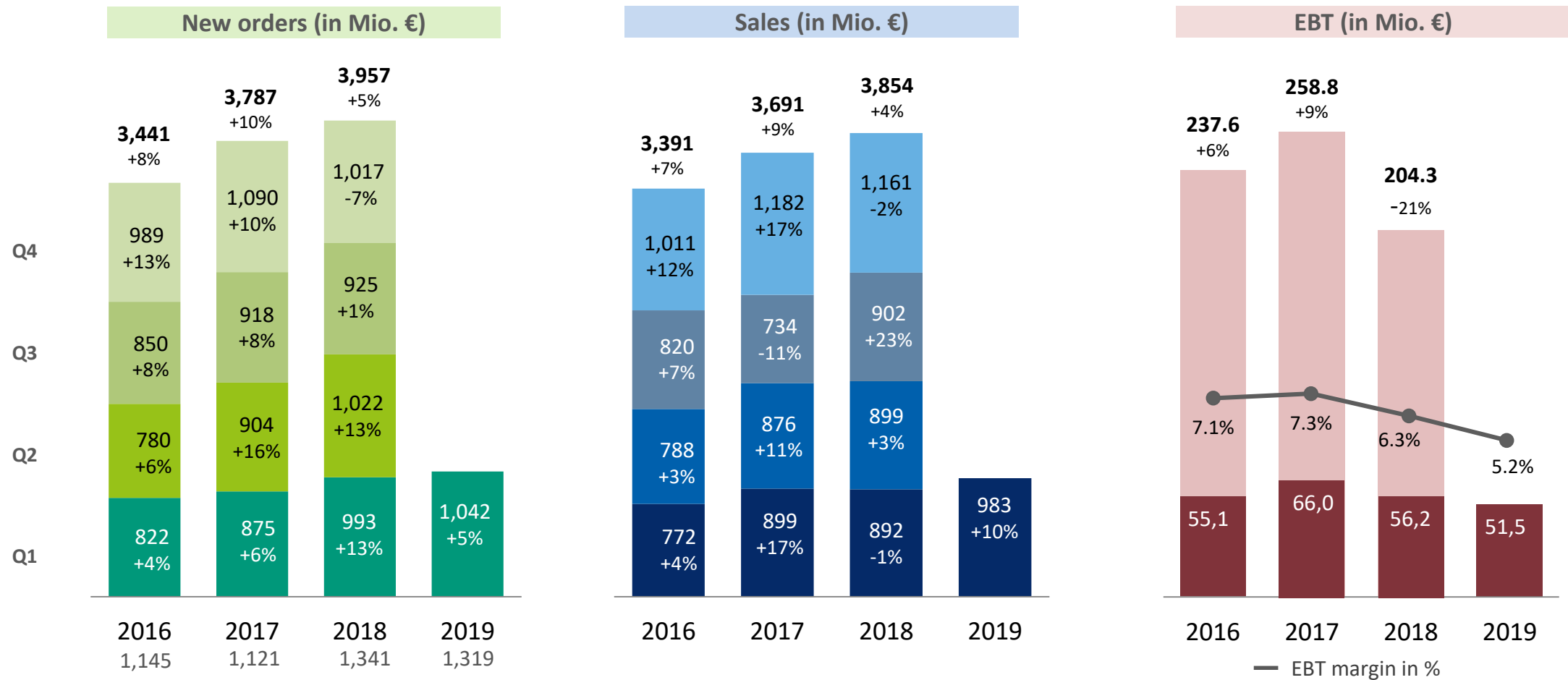
**Krones benefits from megatrends by developing solutions tailored to customer needs.**



# Financials Q1/2019

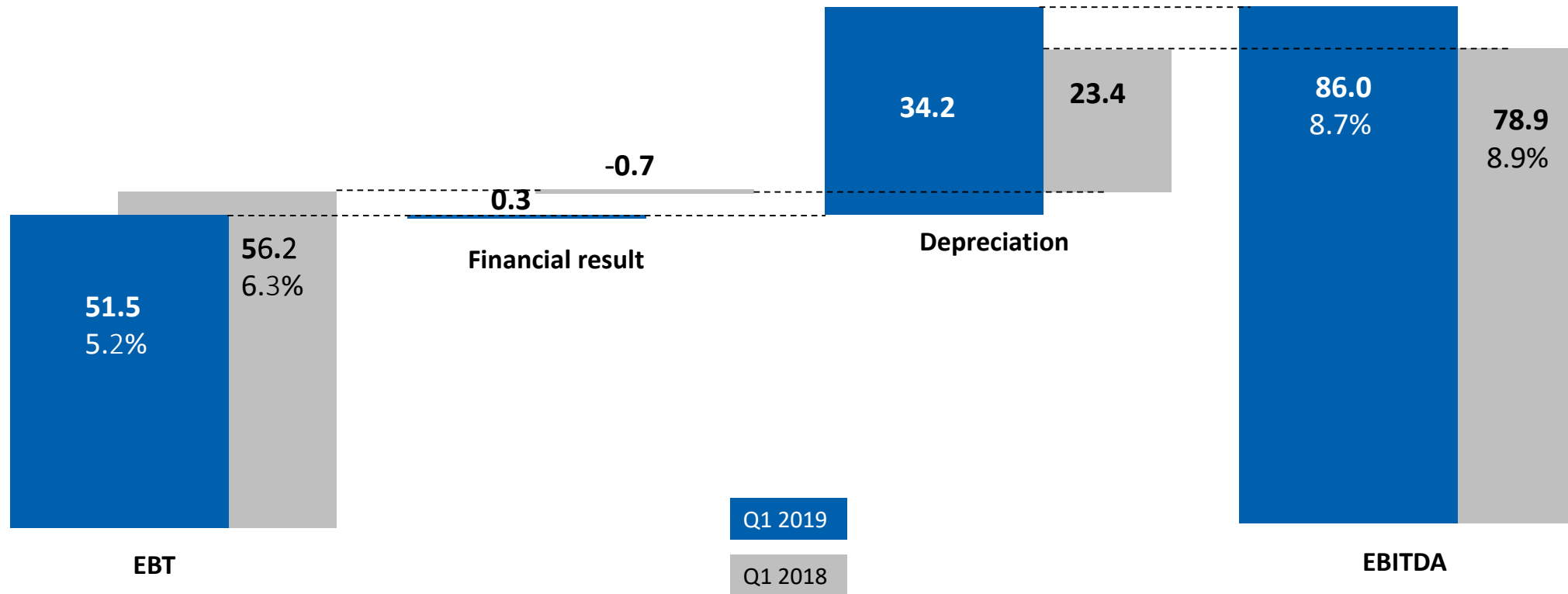


## KRONES Key Figures - EBT Q1 2019 burdened by costs increases and costs for Hungary



Orders on hand at March 31 (€ million)

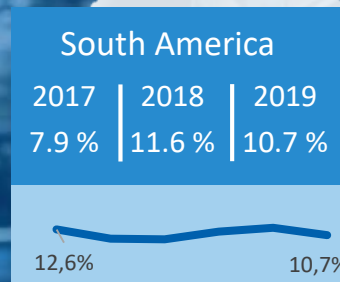
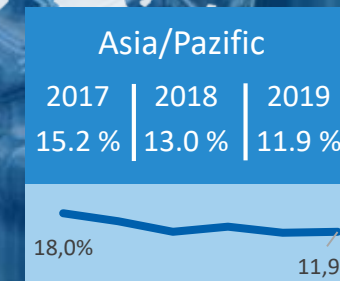
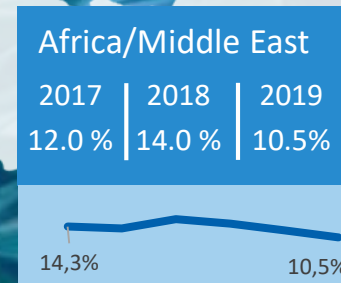
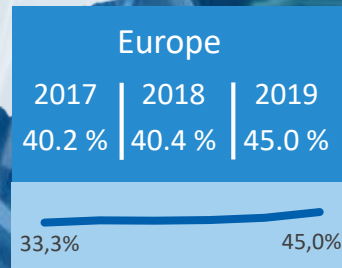
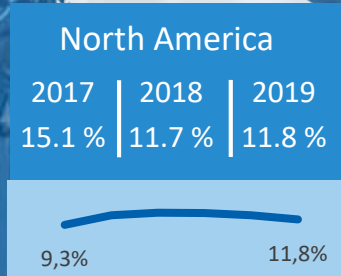
## Reconciliation EBT to EBITDA



EBITDA also influenced by new IFRS 16 “Leases”

## KRONES' revenue split remains constant

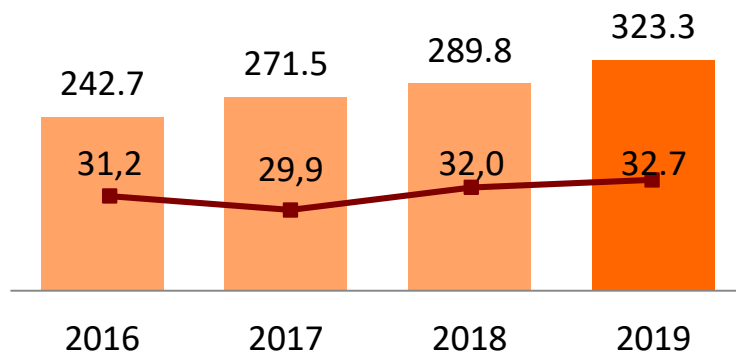
Share of revenue (Q1)



■ Trend covering the last six years

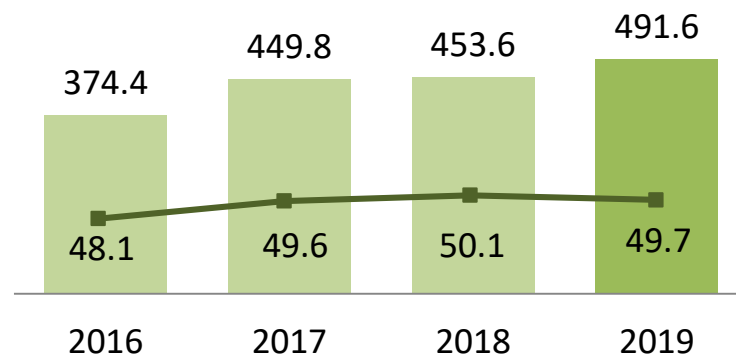
## Personnel and material cost

Personnel cost (€ million) Q1



— Personnel cost to total performance (%)

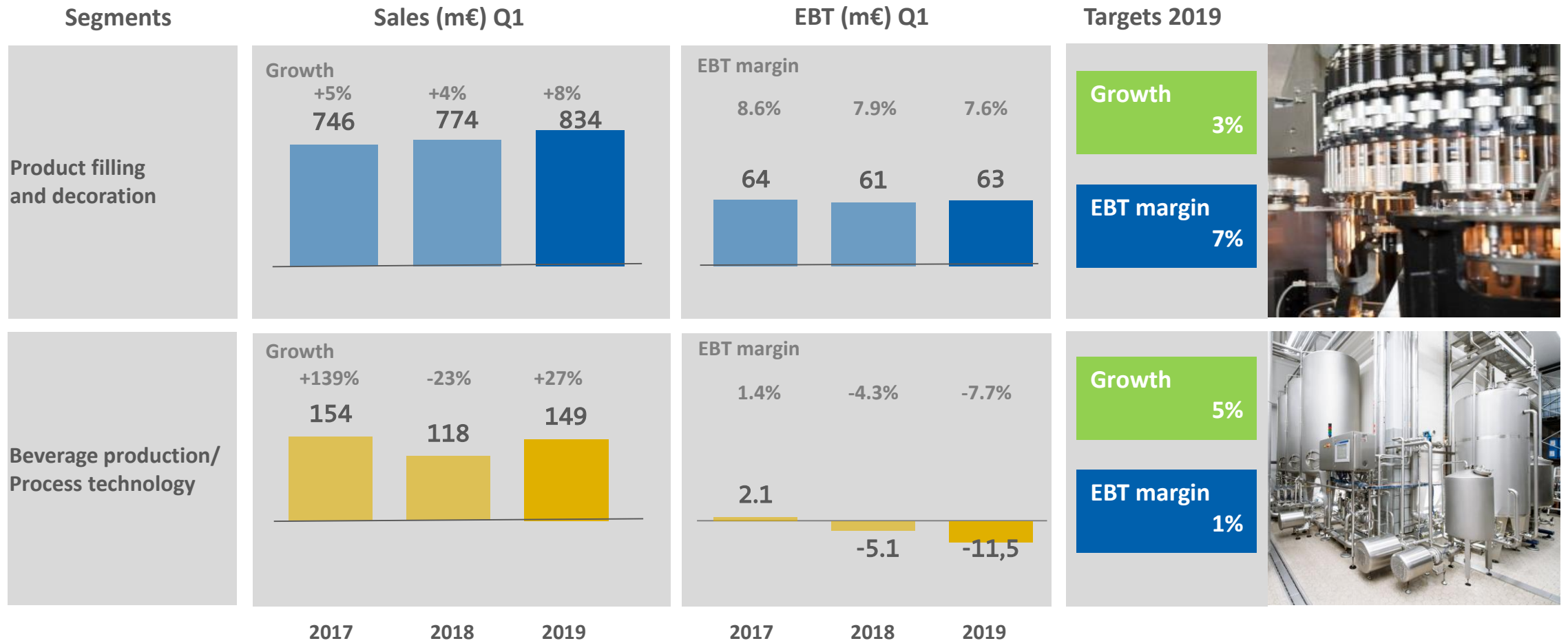
Material cost (€ million) Q1



— Material cost to total performance (%)



## Development Sales and EBT per Segment Q1

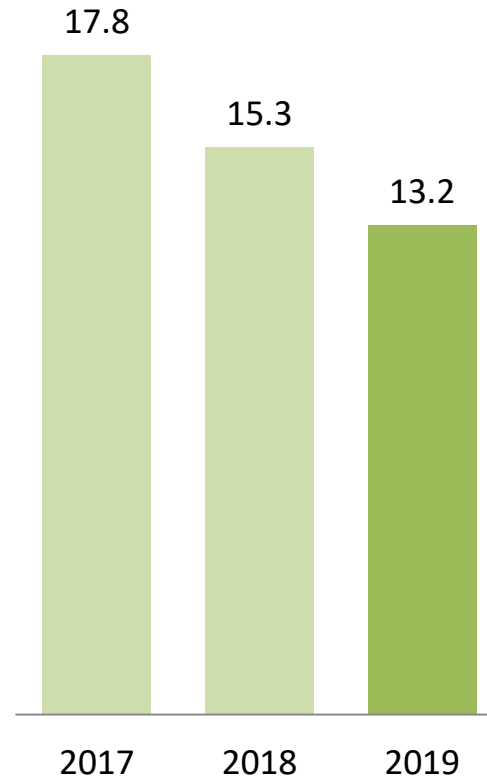


## Working capital ratio reduced

Working capital\* in %  
of revenue (Q1)



ROCE\* in % (Q1)



\*LTM (Last Twelve Months)

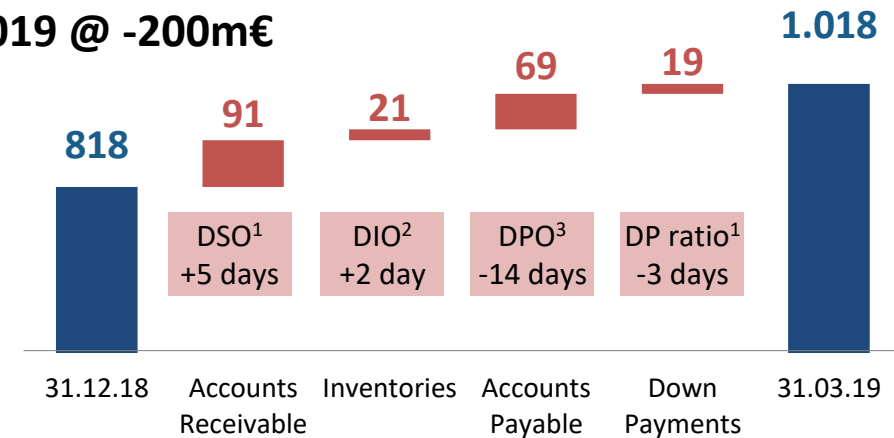


## Higher working capital and investments caused lower free cash flow

| Q1 (€ million)                              | 2019   | 2018  |
|---|--------|-------|
| Earnings before taxes                       | 51.5   | 56.2  |
| +/- Other non-cash changes                  | +106.2 | +92.2 |
| +/- Changes in Working Capital              | -200.1 | -93.2 |
| +/- Changes in other assets and liabilities | -47.8  | -39.4 |
| Cash flow from operating activities         | -90.2  | 15.8  |
| +/- Capex                                   | -46.6  | -27.4 |
| +/- M&A activities                          | -1.9   | -3.2  |
| +/- Other                                   | +2.1   | +0.7  |
| Free cash flow                              | -136.6 | -14.1 |
| +/- Financing activities                    | +75.2  | +50.4 |
| +/- Others                                  | 0.0    | +0.5  |
| Net change in cash                          | -61.4  | 36.8  |
| Cash at the end of the period               | 157.4  | 218.8 |

### Working capital development Q1 vs. Q4 (€ million)

2019 @ -200m€



2018 @ -93m€



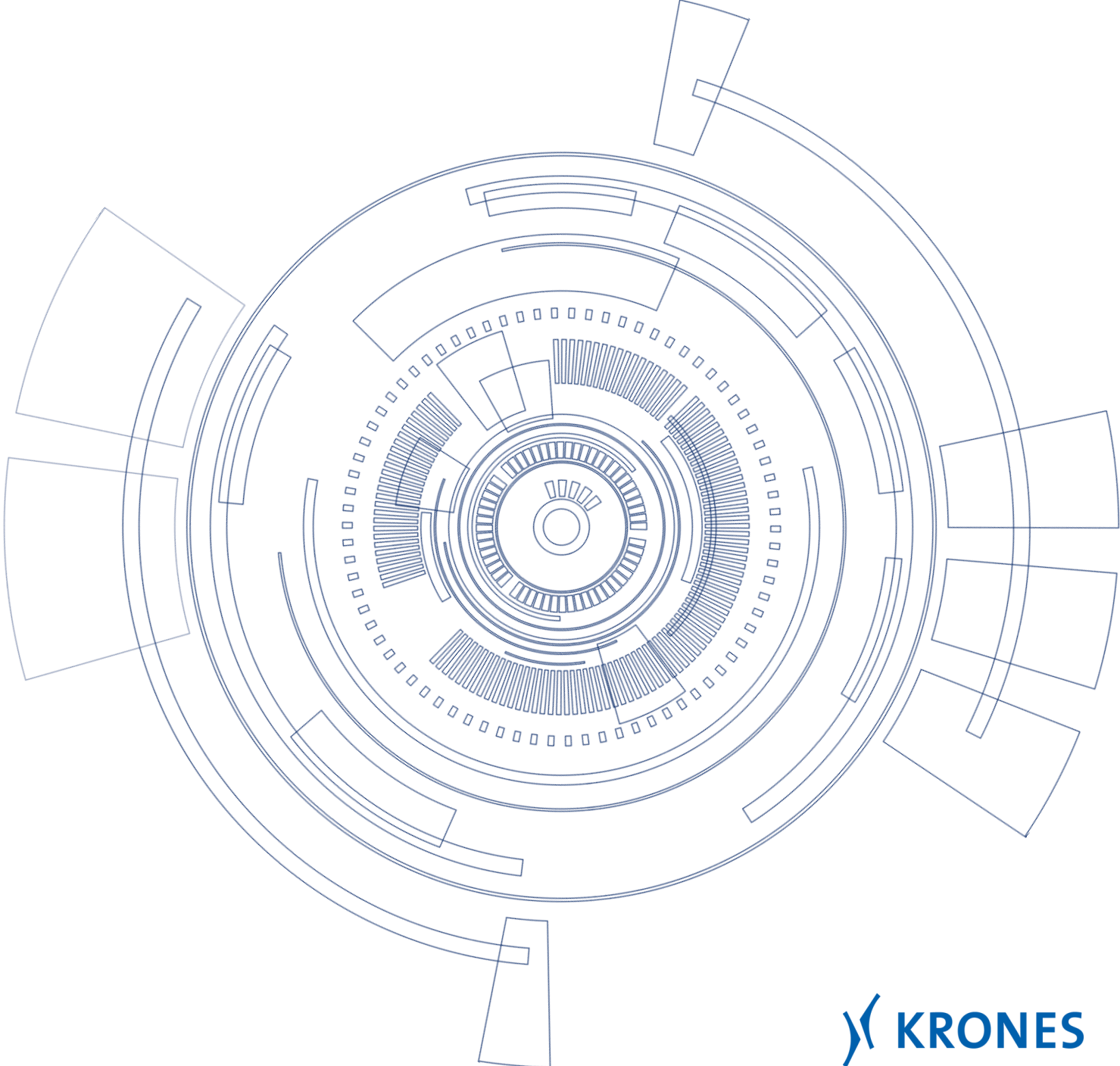
1 Based on revenue

2 Based on COGS

3 Based on Goods and Services purchased



# Outlook 2019



## Krones targets 2019

Revenue growth

3%

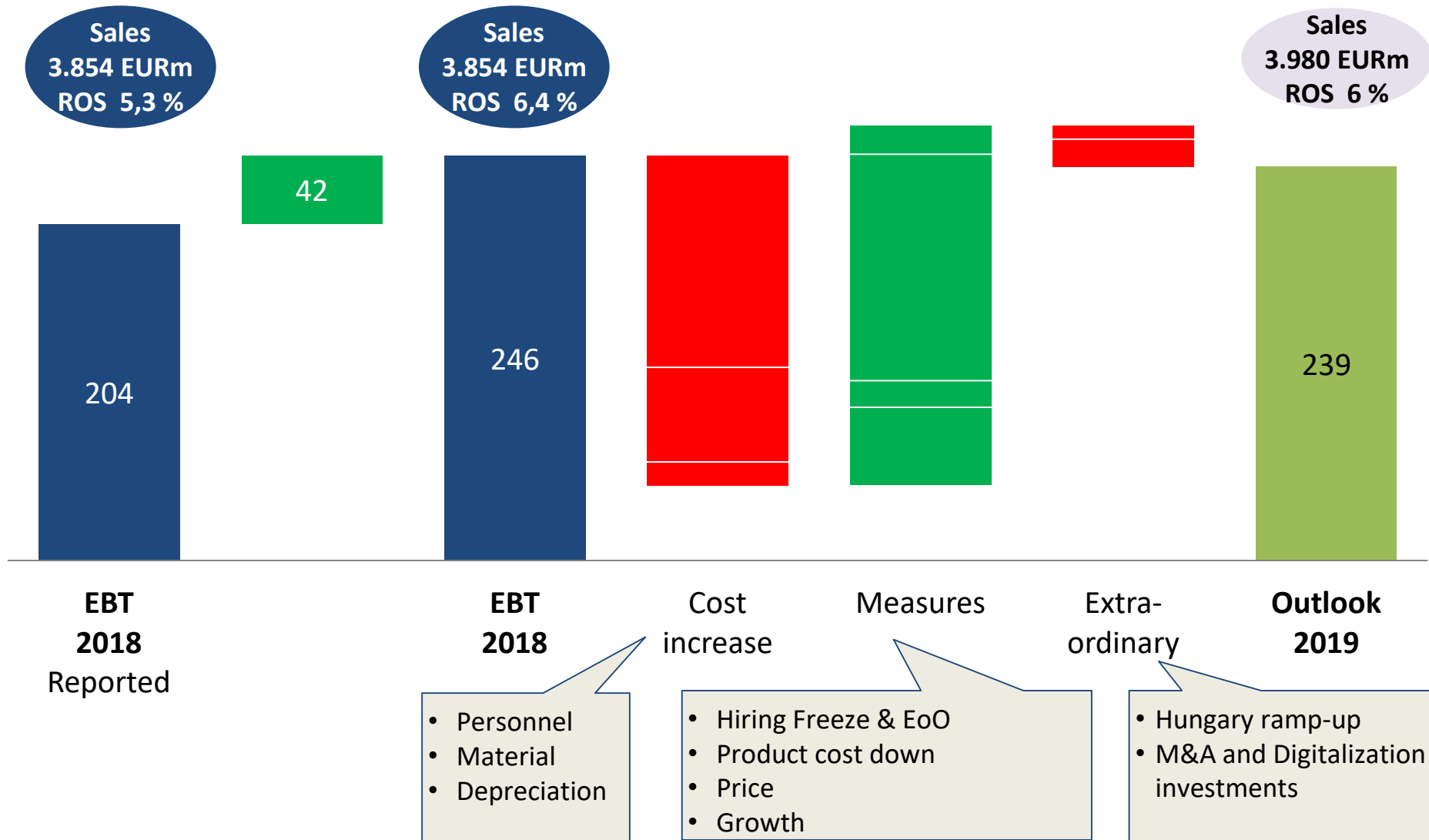
EBT margin

6%

Working Capital

26%

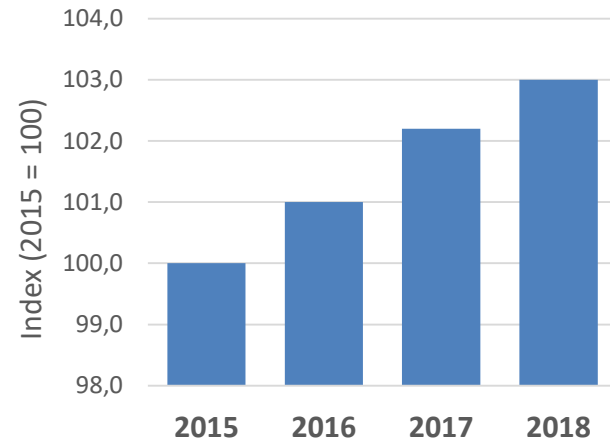
## Outlook 2019 – Overcoming challenges on the cost side with stringent measures



## Material Costs – Continuous pressure

### Big picture Germany

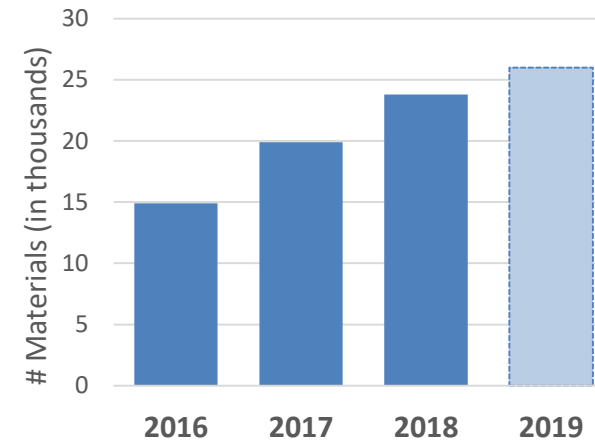
Price Index for Industrial Goods excl. Energy  
Source: Deutsche Bundesbank



- Continued price increase for industrial products in Germany

### Krones

Price Increases of Krones Suppliers  
Source: Intern

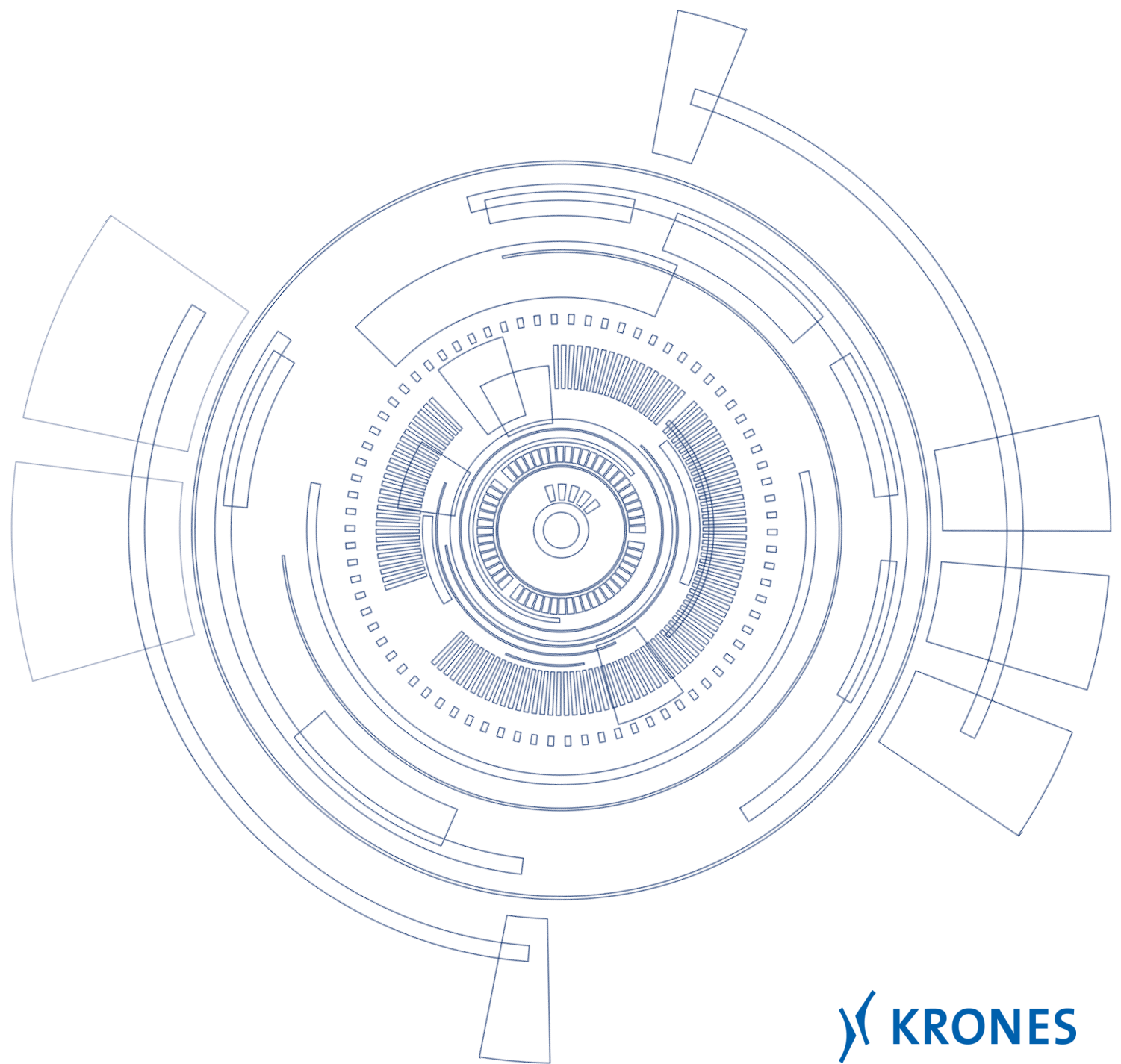


- Significant portion of KRONES sourcing volume hit by price increases

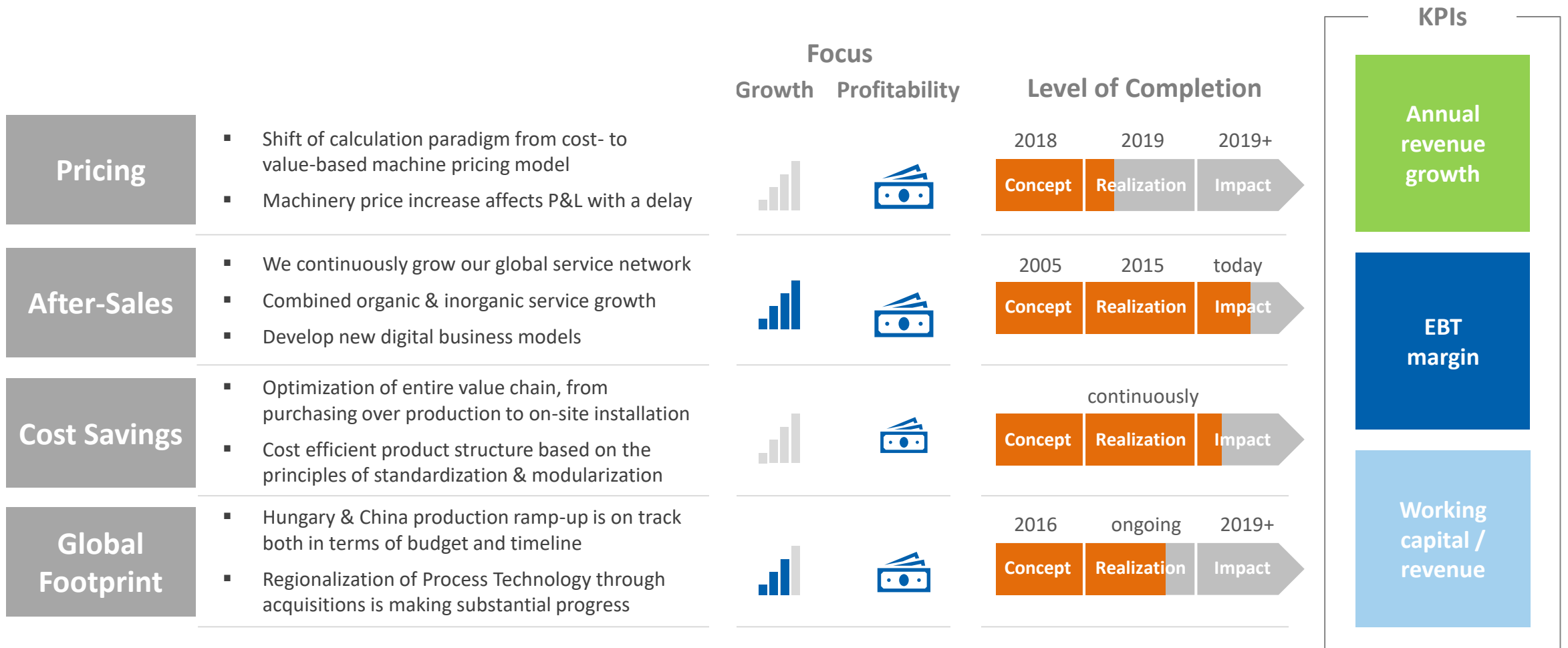
- Increasing and ongoing pressure from supplier side
- High increase in personnel cost and record high utilization in 2018 drive supplier prices
- Trend expected to continue in 2019

**Significant change of approach for KRONES required**

# Growth & Profitability Drivers

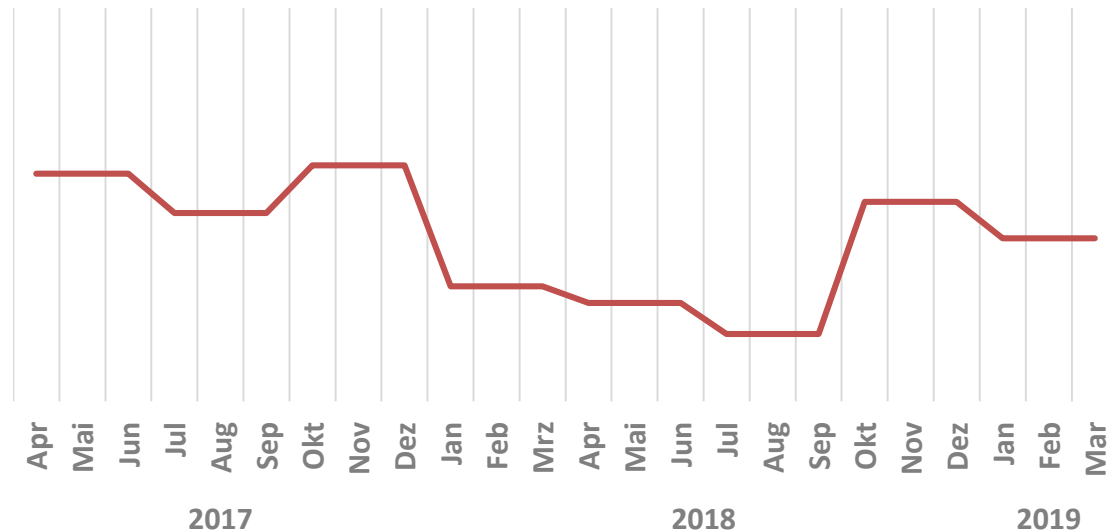


## Growth & Profitability Drivers



## Pricing – Turnaround required

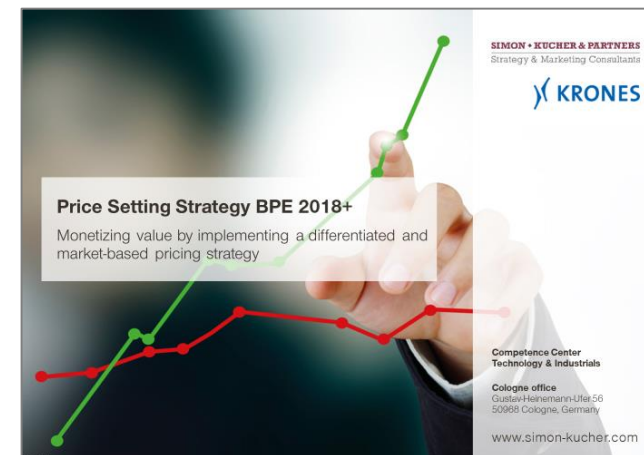
### KRONES Price development (Index BPE, quarterly average)



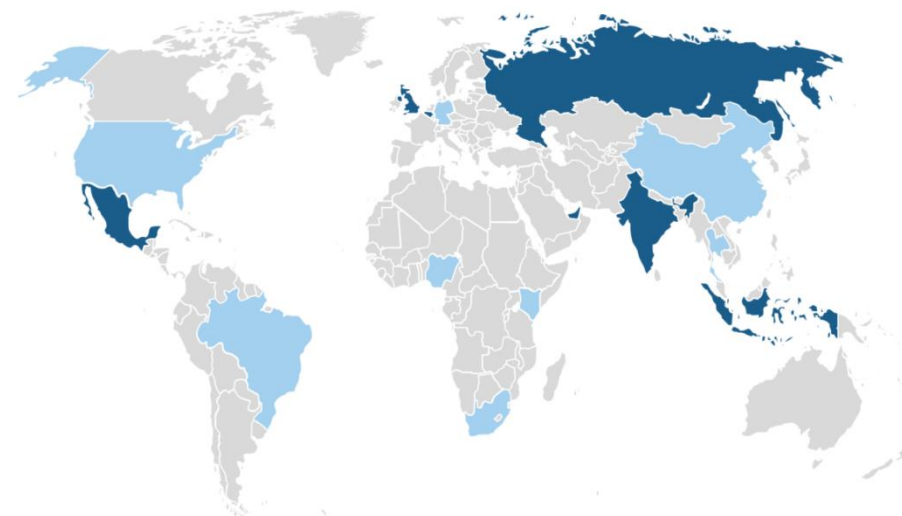
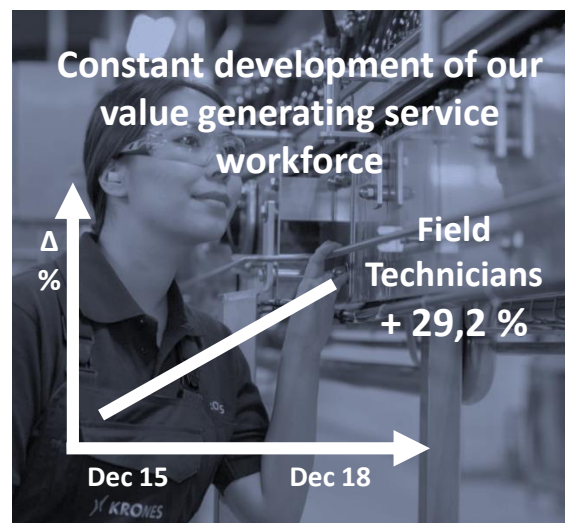
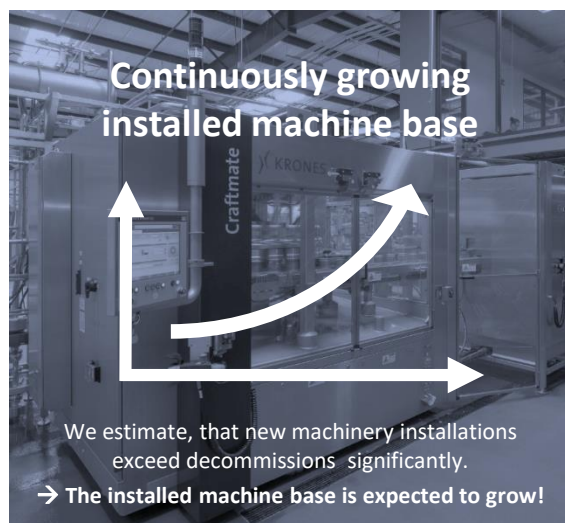
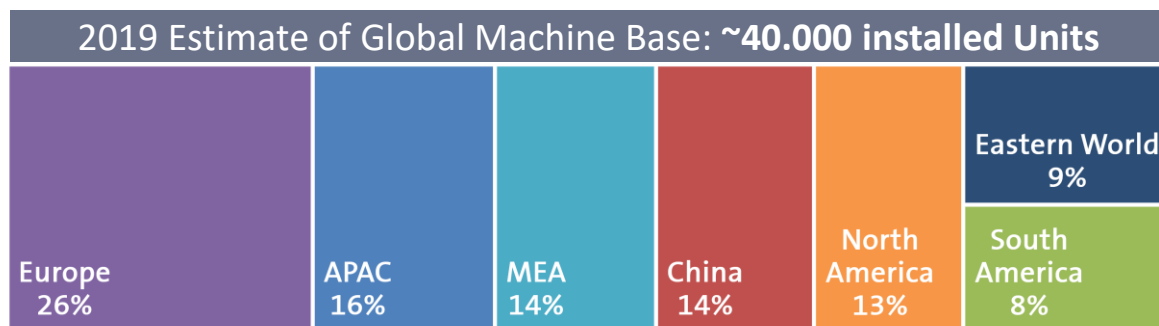
- Constantly increasing pressure on KRONES pricing since 2017
- Action required in Q2 2018: Price increase communicated May 1, 2018
- Current price level still below 2017, price improvement so far not sufficient to cover cost increases

### Pricing 2019

- Top priority for 2019
- Extensive initiative covering
  - ▶ Bottling & Packaging
  - ▶ Processing Technologies
- External support for long term pricing strategy



## After-Sales Service – Sustainable Growth



■ New Centers since 2017

■ Existing Centers prior to 2017

Our centers offer the full scope of services, trainings & spare part supply and serve as regional hubs

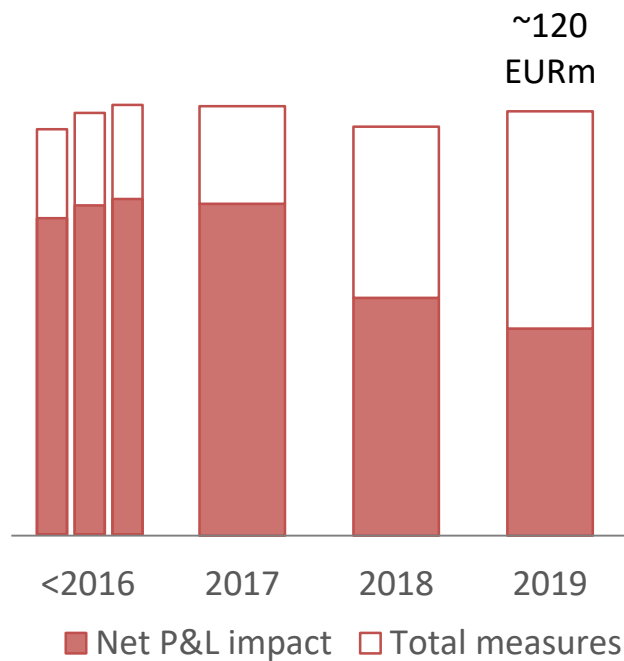
Over 50 further subsidiaries & representations cover every corner of the world

**A continuously growing installed machine base is the solid fundament for sustainable growth of our service business!**



## Cost Savings – Successful history but diminishing returns

### KRONES Cost saving initiatives



- Successful history of implemented cost savings

### Targets 2019

#### Core Modules

|                       |  |
|-----------------------|--|
| Sourcing              | <ul style="list-style-type: none"> <li>• Development alternative suppliers (Dual, BCC/LCC, ...)</li> <li>• New tools &amp; methods</li> <li>• ...</li> </ul>                     |
| Production efficiency | <ul style="list-style-type: none"> <li>• Factory of the Future</li> <li>• Rationalization investments</li> <li>• ...</li> </ul>  |
| Project execution     | <ul style="list-style-type: none"> <li>• New tools: E.g. Remote support, Q-Gate Process</li> <li>• Cost engineering</li> <li>• Qualification strategy</li> <li>• ....</li> </ul> |

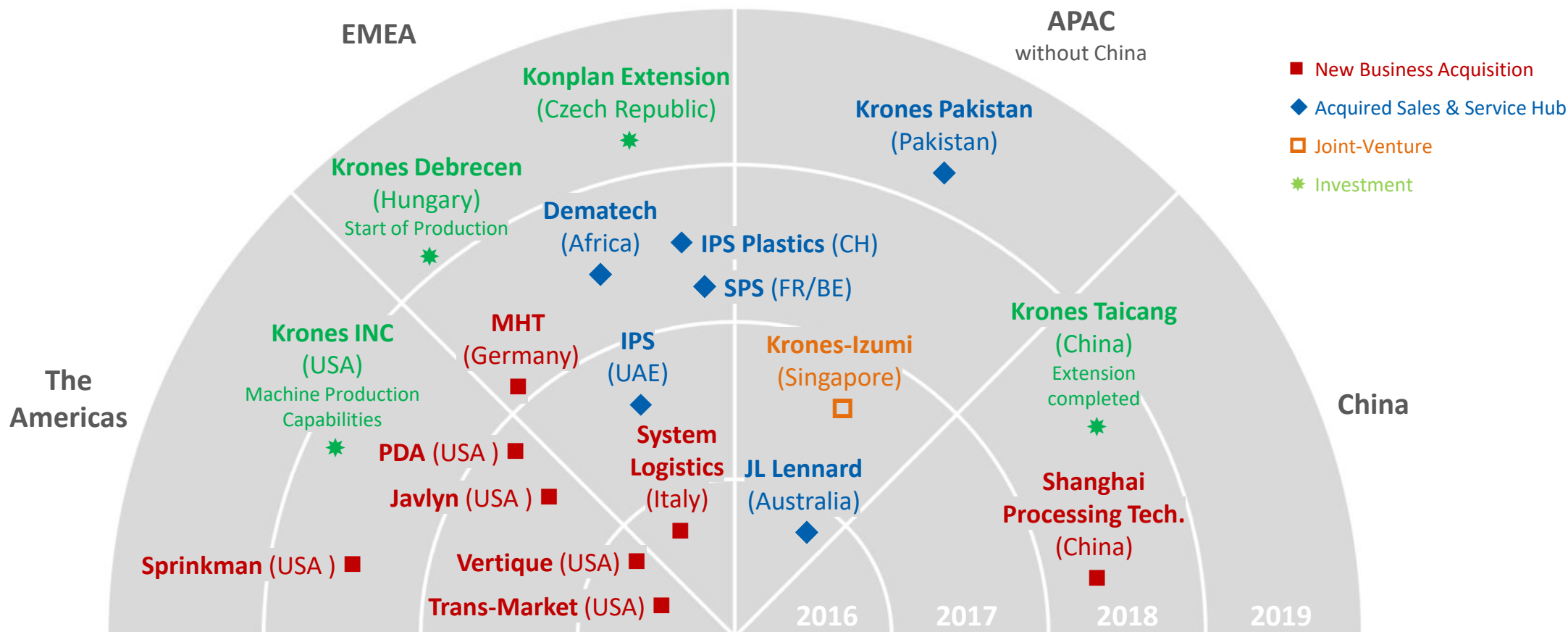
- Dedicated teams and setup for each module

- Intensified product cost down initiative running
- Covering the full value chain
- Significant net savings achieved
- Higher cost increases and higher effort required lead to decreasing net P&L impact
- Additional measures implemented:
  - Long-term: Global Footprint
  - Short term: Hiring Freeze & EoO (Set-up optimization and alignment)

## Global Markets & Customers require Krones' Global Footprint



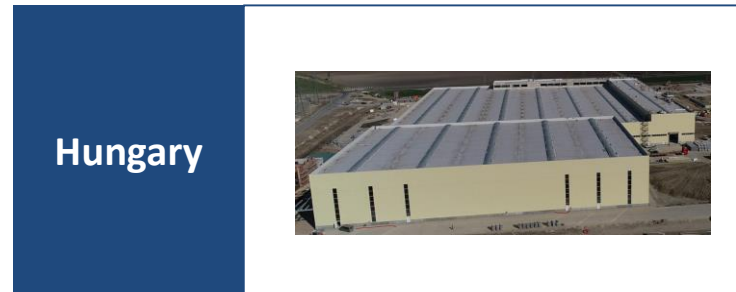
## Global Footprint – Successful Track Record



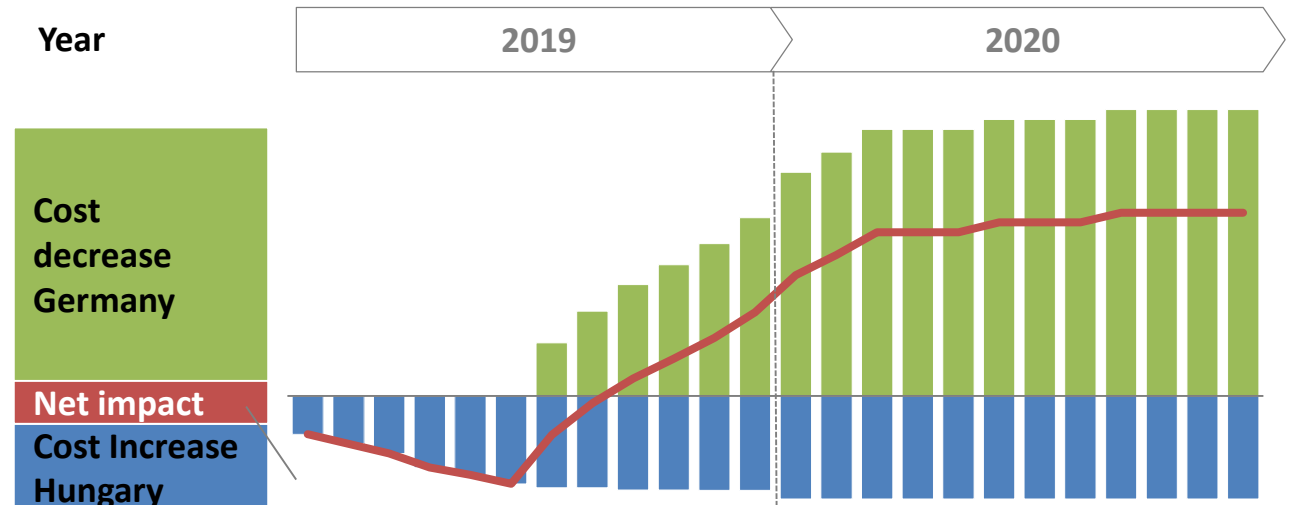
Global Footprint implementation is on track both organically and through M&A.



## Global Footprint – Krones Hungary



### Payback schedule KRONES Hungary (example personnel cost)



- Ramp up of KRONES Hungary with negative impact in 2019 scheduled: Approx. 7 EURm
- Main reason is time overlap between ramp-up Debrecen plant and ramp-down German operations
- 2018 restructuring charges required to finance one-time cost for Germany ramp-down in 2019

## Global Footprint – Impressions from Hungary & China

### Debrecen, Hungary



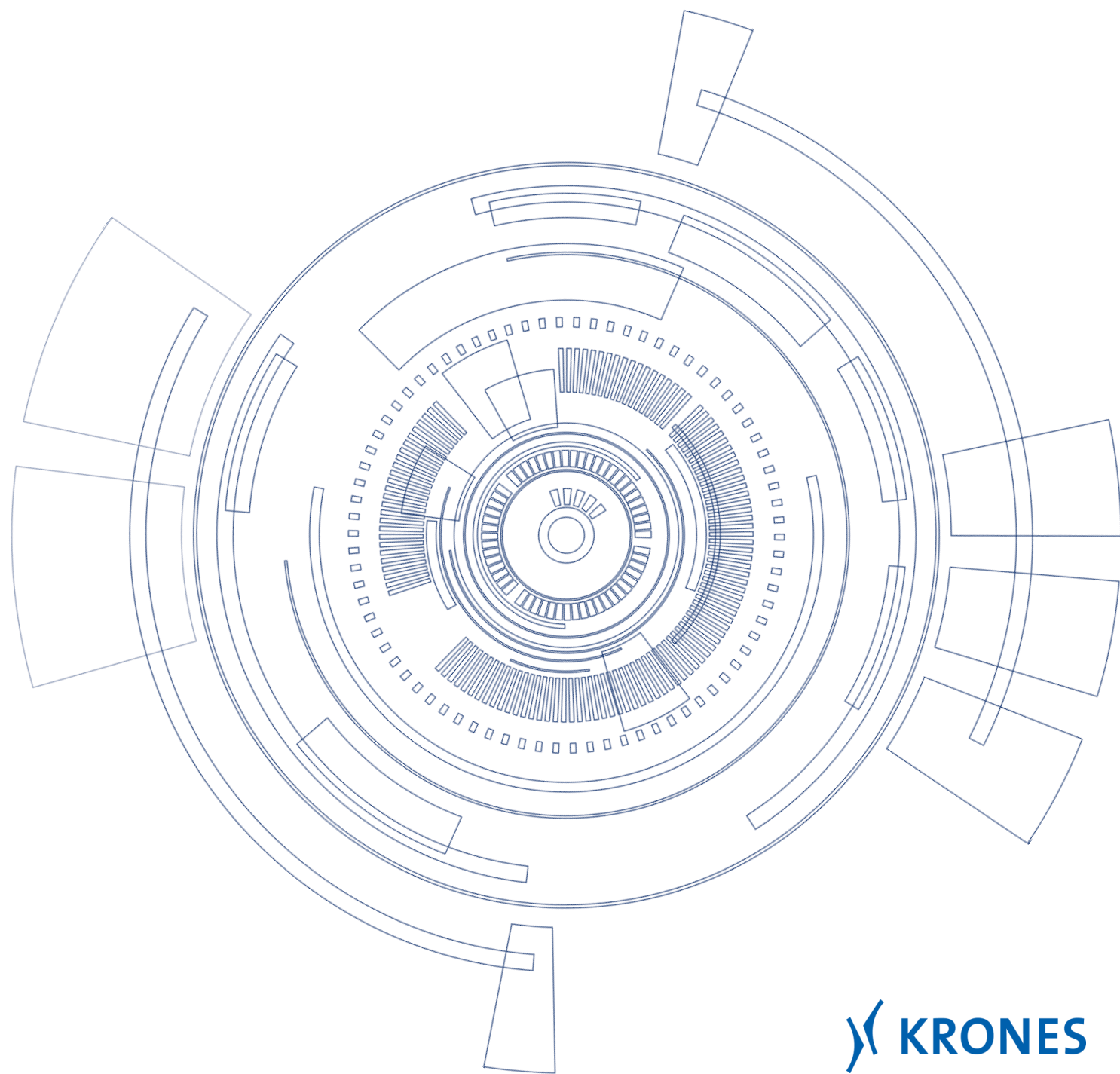
**37.800m<sup>2</sup> building / 150.000m<sup>2</sup> plot size**

### Taicang, China

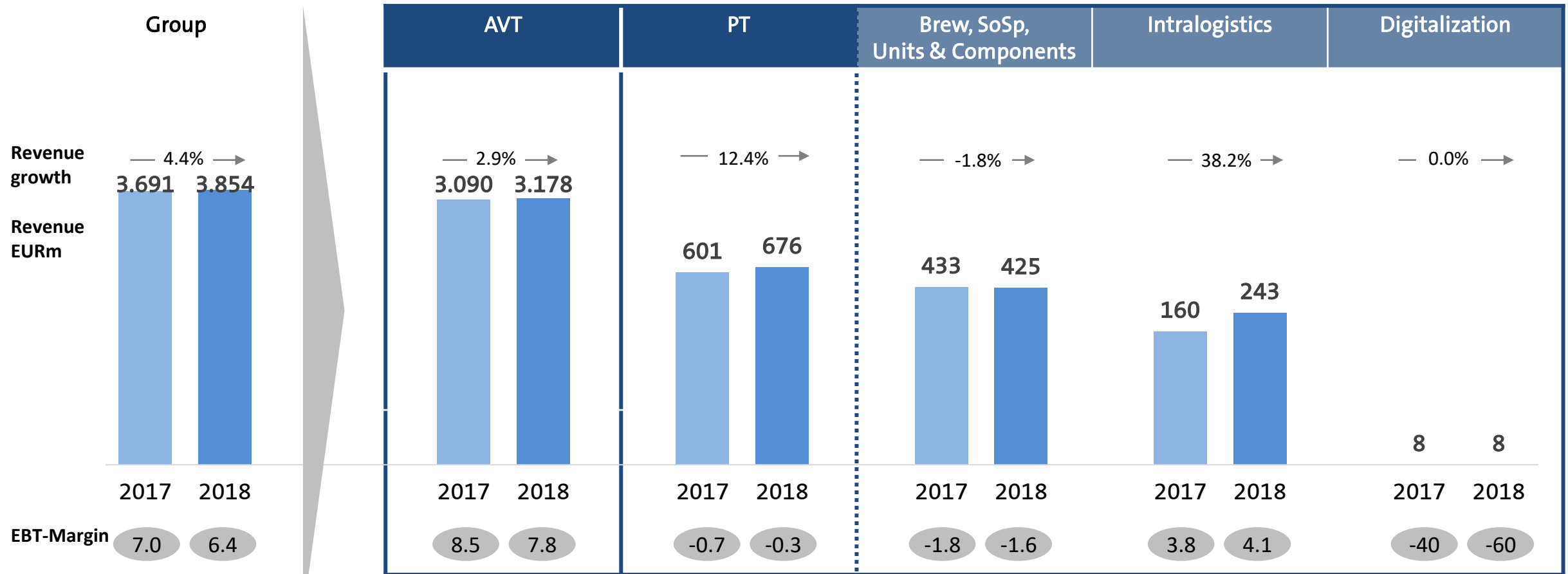


**23.400m<sup>2</sup> Production & Logistics + 6.700m<sup>2</sup> Engineering & Admin**

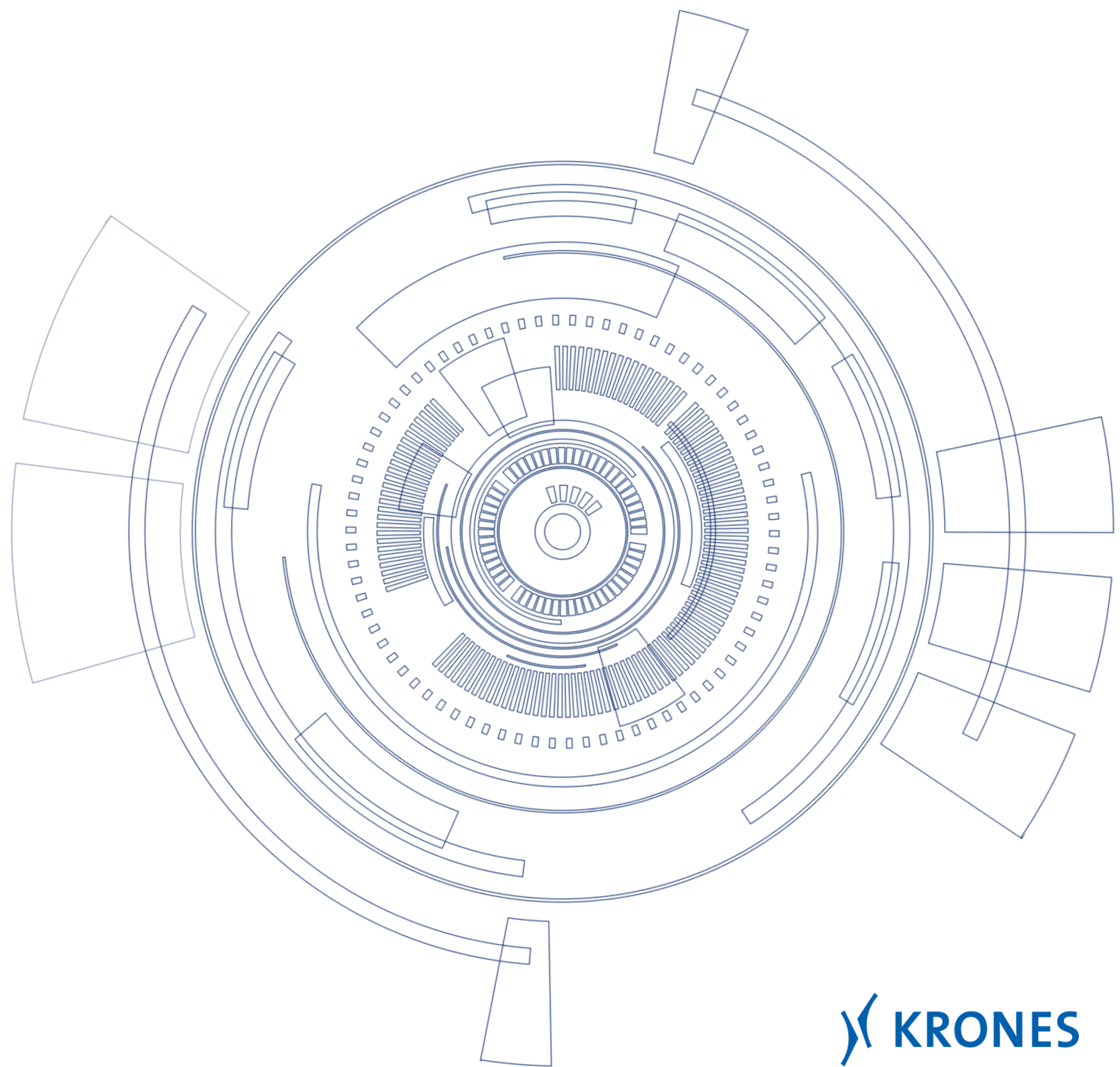
**Focus  
Process Technology**



## Split of Process Technology Segment – further influence from Intralogistics



# Mid-Term Targets

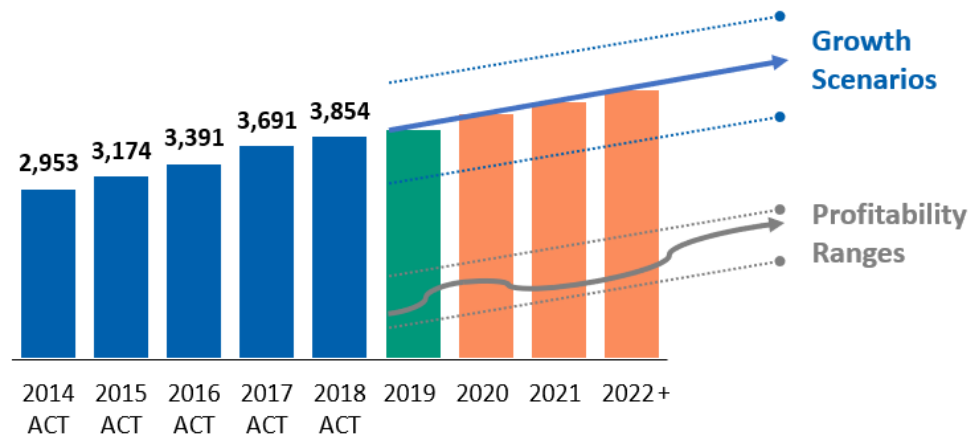




## Mid-Term Plan

### In the VUCA World our outlook has to be build on scenarios

|                   |  |
|-------------------|--|
| <b>V</b> olatile  | Rapid transformations with unpredictable patterns take place           |
| <b>U</b> ncertain | Disruptive factors cause unprecedented developments                    |
| <b>C</b> omplex   | Events & tendencies are mutually interdependent in opaque ways         |
| <b>A</b> mbiguous | Seemingly clear information can be misleading as evidence is distorted |



#### Mid-term Targets

Annual revenue growth \*

**3-5%**

EBT margin

**6-8%**

Working capital / revenue

**22-24%**

\* Without M&A Effects

#### Key Factors influencing our Achievement of Targets

- Markets: Given the macro-economical uncertainty, we assume a highly volatile business environment.
- Price: Fast adaptation of price increases to a certain extent depends on market & competition.
- Footprint: Implementation of significant structural measures requires a favorable global setting.
- Overheads: Stringent management of overhead may be challenged by externally driven complexity.
- ...

## Questions and answers



Thank you  
for your attention!

## *Financial calendar 2019*

|                  |  |
|------------------|--|
| April 29, 2019   | Analyst Meeting and<br>Quarterly Statement as per March 31                   |
| June 05, 2019    | Annual General Meeting   |
| July 25, 2019    | Conference Call Group Q2 2019 and<br>Interim Report as per June 30           |
| October 24, 2019 | Conference Call Group Q3 2019 and<br>Quarterly Statement as per September 30 |



Olaf Scholz  
Head of Investor Relations

KRONES AG  
Böhmerwaldstrasse 5  
93073 Neutraubling  
Germany

Phone           +49 9401 70-1169  
Fax               +49 9401 70-911169

## Disclaimer

This investor presentation contains forward-looking statements that are based on current estimates, forecasts and assumptions made by KRONES AG management to the best of its knowledge and other information currently available to KRONES AG.

The forward-looking statements of this presentation are by their very nature subject to various known and unknown risks, uncertainties and other factors, the non-occurrence or occurrence of which could cause material differences in future results of operations, financial situation, development or performance of KRONES AG. Factors that could cause such differences include but are not limited to changes in political, business, economic and competitive environment, effects of future legal and legislative issues, fiscal, and other regulatory measures, foreign exchange rate fluctuations, interest rates, the availability of financing, developments in raw material and personnel costs, launches of competing products or services, poor acceptance of new products or services, and changes in business strategy.

KRONES AG does not intend and does not assume any liability whatsoever to publicly update or revise any forward-looking statements or other information contained in this presentation as a result of new information, future events or otherwise. No representation or warranty, express or implied, is made by KRONES AG and/or its management with respect to the fairness, completeness, correctness, reasonableness, or accuracy of any information, facts, expectations or opinions contained herein. Neither KRONES AG nor any of its affiliates, representatives or advisors shall have any liability whatsoever (in negligence or otherwise) for any losses or damages arising from any use of this presentation or its content or otherwise arising in connection with the statements given herein.