KRONES
Analyst Conference
2018

September 18, 2018
in Freising

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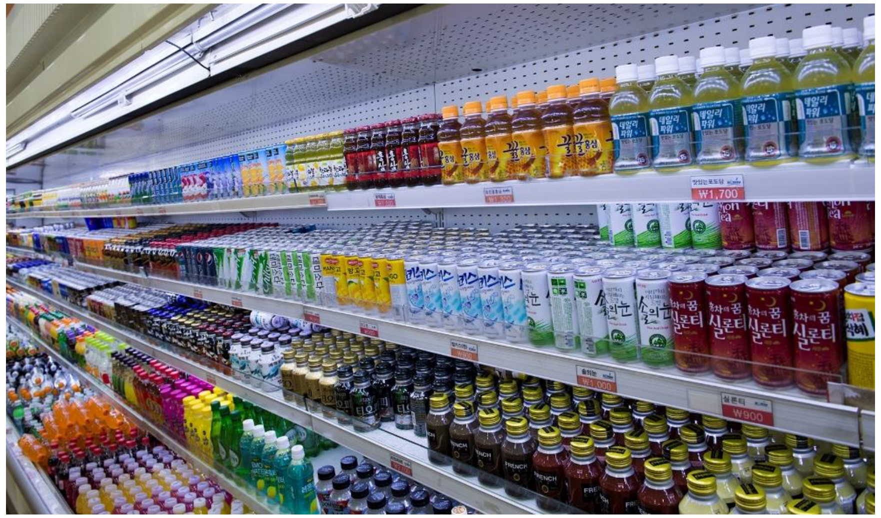
Beverage Market

Market trends – customer related

Focus on and optimising of TCO
- Increasing consolidation influences the beverage industry
- Plant efficiency and energy consumption are a major focus for customers



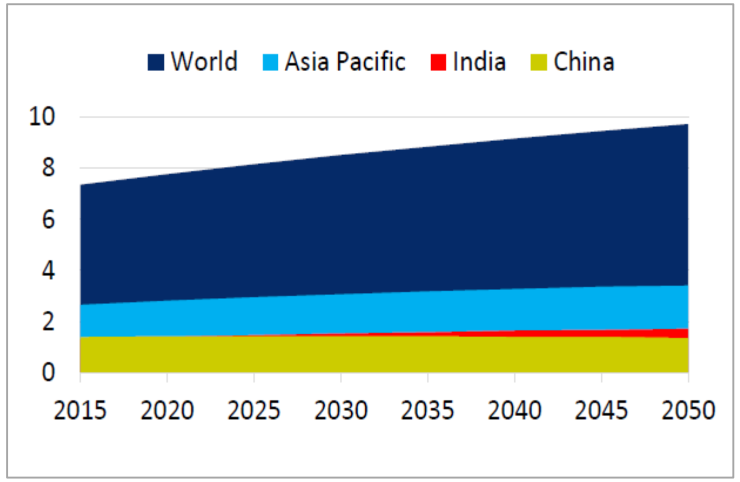
Development in terms of beverages and packaging units
- Premium product vs. low cost product – heterogeneous consumption
- Shorter product life cycle – increasing number of SKUs
- Different beverage categories melt together – pharmaceutical beverages, non-alcoholic beers, milk-mix beverages

Innovations
- Digitalisation
- Flexibility (e.g. direct printing, robotic)
- High speed vs. low speed and flexibility

Reducing costs and increasing flexibility are the main trends in the beverage industry.

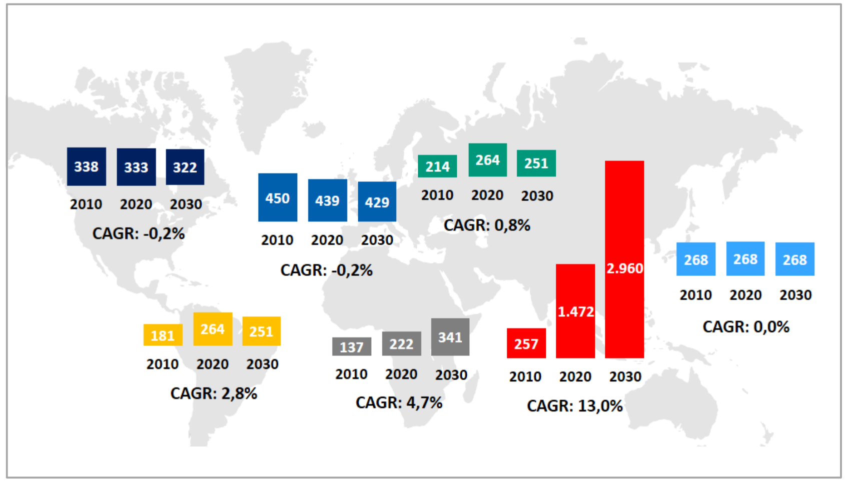
Market – overview

Population growth (UN, 2017)



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

Middle class* 2010-2030 (OECD)



- 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

Rising amount of SKUs

- Bottle sizes are no longer standardized – customers therefore need more machines, retrofits and handling parts

Growth trends for Krones remain stable.

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

Global economic trends give positive signals to the market

Global population and GDP both grow

	Population in bn			GDP in bn USD	
	2018	CAGR % 18/50	2050	2018	CAGR % 18/23
Global	**7.64**	**+0.9%**	**10.3**	**87,505**	**+5%**
Africa	1.29	+2.6%	2.95	2,354	+9%
Asia	4.34	+0.5%	5.03	31,549	+7%
Europe	0.74	-0.4%	0.66	22,896	+4%
North America	0.36	+0.4%	0.41	23,522	+4%
South America	0.65	+0.7%	0.81	4,388	+5%
Middle East	0.25	+1.6%	0.41	2,725	+4%

The growth in population and the increased prosperity offer a solid basis for further growth.

Quellen: UN DESA, IMF

Global economic challenges for the beverage industry

Scarcity of resources / climate change

Changes regarding availability, access and consumption of essential resources (such as water, energy and available space)

Changing legal environments

Increasing protectionism (punitive tariffs, import regulations and embargoes); PET subject to criticism

Digital age

Changing retail landscape (E-Commerce), digitalization or automation of working processes (Factory of the Future, Internet of Things, data security)

Consumer trends

Growing ecological responsibility, increasing health awareness and consumers‘ increasing demand for transparency increase the pressure on politics and industries (sugar tax, commitments by industries, single service delivery etc.)

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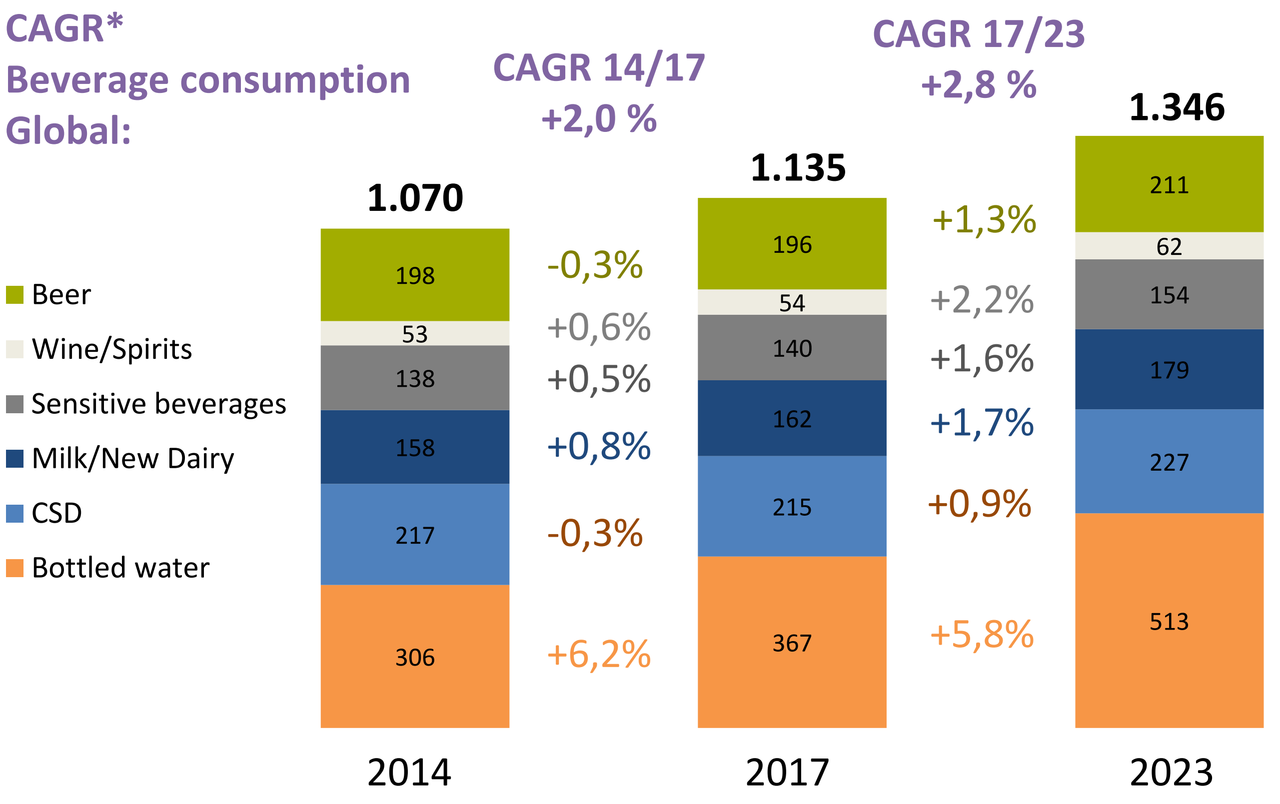
Beverage consumption and market potential

Global beverage consumption by industry
(in bn litre)



Beverage consumption shows increased growth rates; especially in the field of digitalisation and intralogistics.

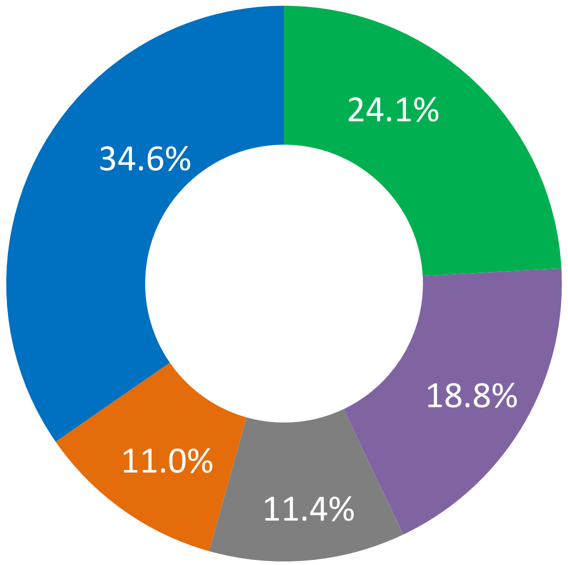
Source: Euromonitor, Krones market potential target figures

*CAGR: Compound Annual Growth Rate

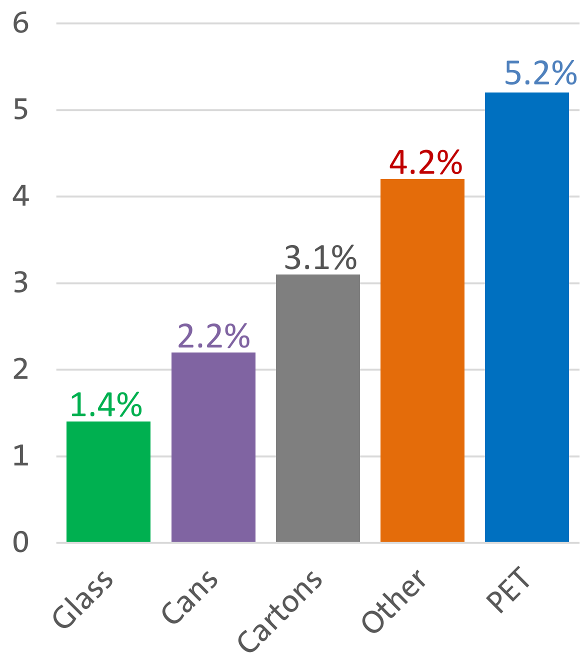
Beverage consumption and market potential

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

Share of packaging types 2017



Average annual growth of packaging types 2017-2020



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PET in the market

Plastics heavily criticised – number of campaigns against use of plastic has increased strongly

EU declares war on plastic waste

Brussels targets single-use plastics in an urgent clean-up plan that aims to make all packaging reusable or recyclable by 2030

- The Guardian, Jan 2018

E.U. Proposes Ban on Some Plastic Items to Reduce Marine Pollution

- The New York Times, Mai 2018

Plastic ban: Maharashtra rolls back complete ban on smaller bottles

The Plastic Bottles Manufacturers' Association met us saying they will ensure a proper buyback mechanism for smaller bottles too…" Ramdas Kadam Minister for Environment.

- The Indian EXPRESS, Apr 2018

Die Verbannung der Plastiktüte kann nur der Anfang sein

- Süddeutsche Zeitung, Jun 2018

Plastic packaging material including PET is globally subject to criticism

Plastics heavily criticised – Krones solutions

Risks

Country-specific ban on plastic

- Kenya as of 2018: Ban on plastic bags
- France as of 2020: Ban on plastic cutlery
- Spain until 2021: Ban on plastic bags (planned)
- Costa Rica as of 2021: Ban on disposable plastic (planned)
- India as of 2022: Ban on disposable plastic (planned)
- Taiwan until 2030: Ban on disposable plastic bags (planned)

Source: The Guardian 2018 , INDEPENDENT 2016, VICBAG 2018, *World Economic Forum 2017, INDEPENDENT 2018, Hong Kong Free Press 2018*

Opportunities

EU measures

As of 2030: Recycling ratio for plastic packaging to be raised to 50%

Coca Cola

Until 2020: 75% of the plastic bottles are to be collected and recycled

DANONE

Until 2020: Use of at least 25% of PET for water bottles

Source: Europäische Strategie für Kunststoffe in der Kreislaufwirtschaft 2018, Coca Cola Sustainability Report 2016, Danone Annual Report 2017

Solutions

Lightweighting

2014/2018: 10.9g / 9.9g – 0.5l - carb. (*Vitaqua*) (approx. 10% savings)

Secondary packaging

VarioPac Pro→ Processing of 25µm film thickness
Dynastretch → Processing of 10µm film thickness

Recycling solutions

2012/2018: 31,500t / 126,000t installed capacity

Plants: Bangladesh, France (2), Japan (4), South Africa, Germany, USA, Netherlands

A more sustainable use of plastic packaging materials is demanded.
KRONES provides solutions with reduced packaging materials and recycling technology.
Governmental or major companies' targets may open up opportunities for KRONES.

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Society – drivers in plastic packaging recycling

Market Situation

Increased pressure from society on plastic material including PET

Stricter Legal Requirements

European Union

- EU commission campaign to ensure ten million tons of recycled plastics find their way into new products by 2025
- New guidance on separate collection and sorting of waste
- All plastics packaging placed on the EU market can be reused or recycled in a cost-effective manner by 2030

Other Countries

Restricted use or ban of PET bottles in Kenya and India

Ever growing awareness of political decision makers

Risks and Chances

Risk

PET related machine sales of KRONES at risk

Chances

- China plastic ban: More than 85% of EU plastic waste was shipped to China
- By 2030, sorting and recycling capacities in the EU will increase fourfold in comparison to 2015
- Focus Plastic Packaging Recycling: PET + Polyolefin

approx. 500 new sorting and recycling plants in the next 15 years

Sources: PlasticsEurope Market Research Group PEMRG and Conversio Market & Strategy GmbH, Data for EU28+NO/CH / EU Commission Plastic Strategy 2030, Brussels, 16.1.2018; The Independent

Process Technology

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Segment Process Technology

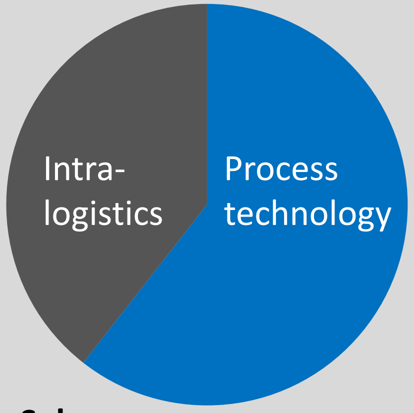
Segment

- Breweries
- Softdrinks
- Spirits
- Dairies
- Components

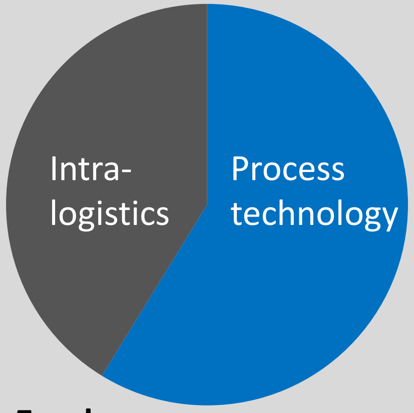
Intralogistics & Digitalization

SYSTEM Logistics SYSKRON

2017: Sales: 600 EURm, EBT margin: -0.7%, 1,512 FTE



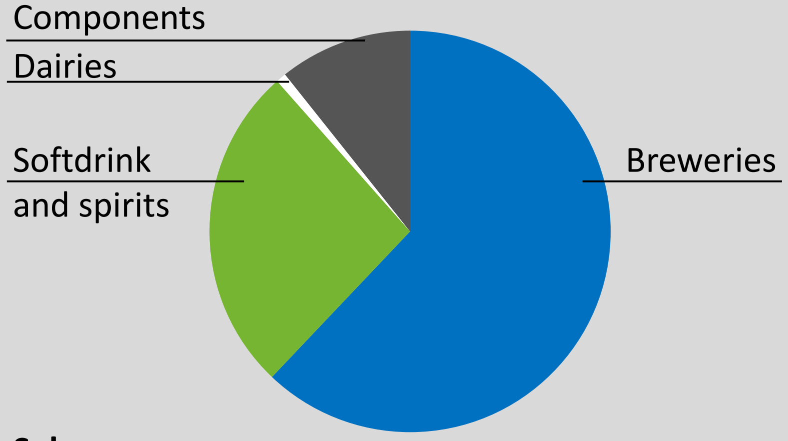
Sales



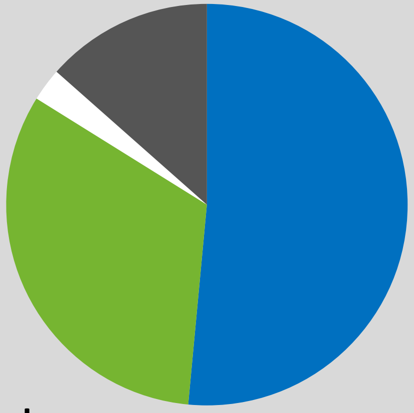
Employees

Process Technology

Breweries	Softdrink and Spirits	Dairies	Units and Components
	KRONES IZUMI TRANS-MARKET A Member of the KRONES Group Javlyn Process Systems A Member of the KRONES Group	MILKRON	EVOGUARD HST KRONES GRUPPE
Turnkey solutions breweries & brewery equipment. Modifications	Turnkey solutions, softdink and spirit. Modifications	Turnkey solutions, dairy industry. Modifications	Units for heat treatment and blending. Components. (homogenizers, valves and pumps)



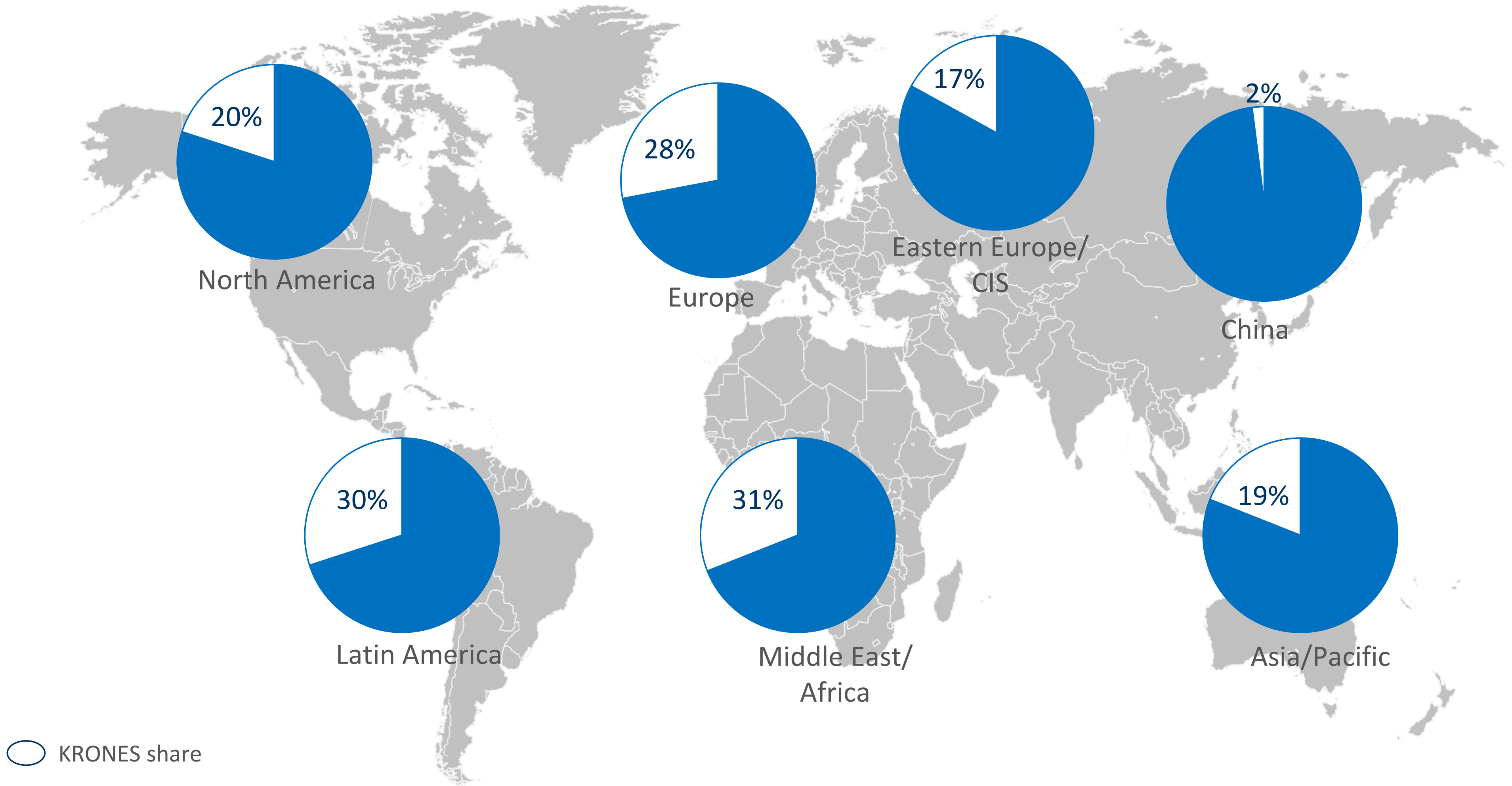
Sales



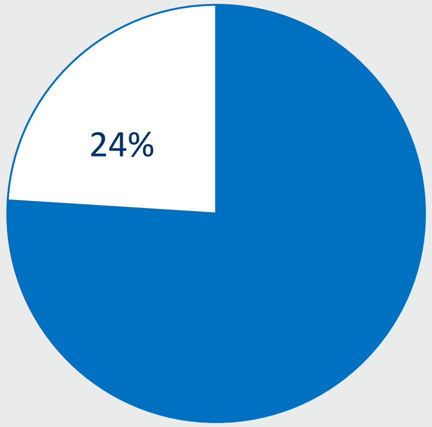
Employees

Process Technology market and competition: Breweries

Market volume vs. KRONES OI group* – Brewery lines
Total volume: approx. +1 EURbn average OI value 2015-2017



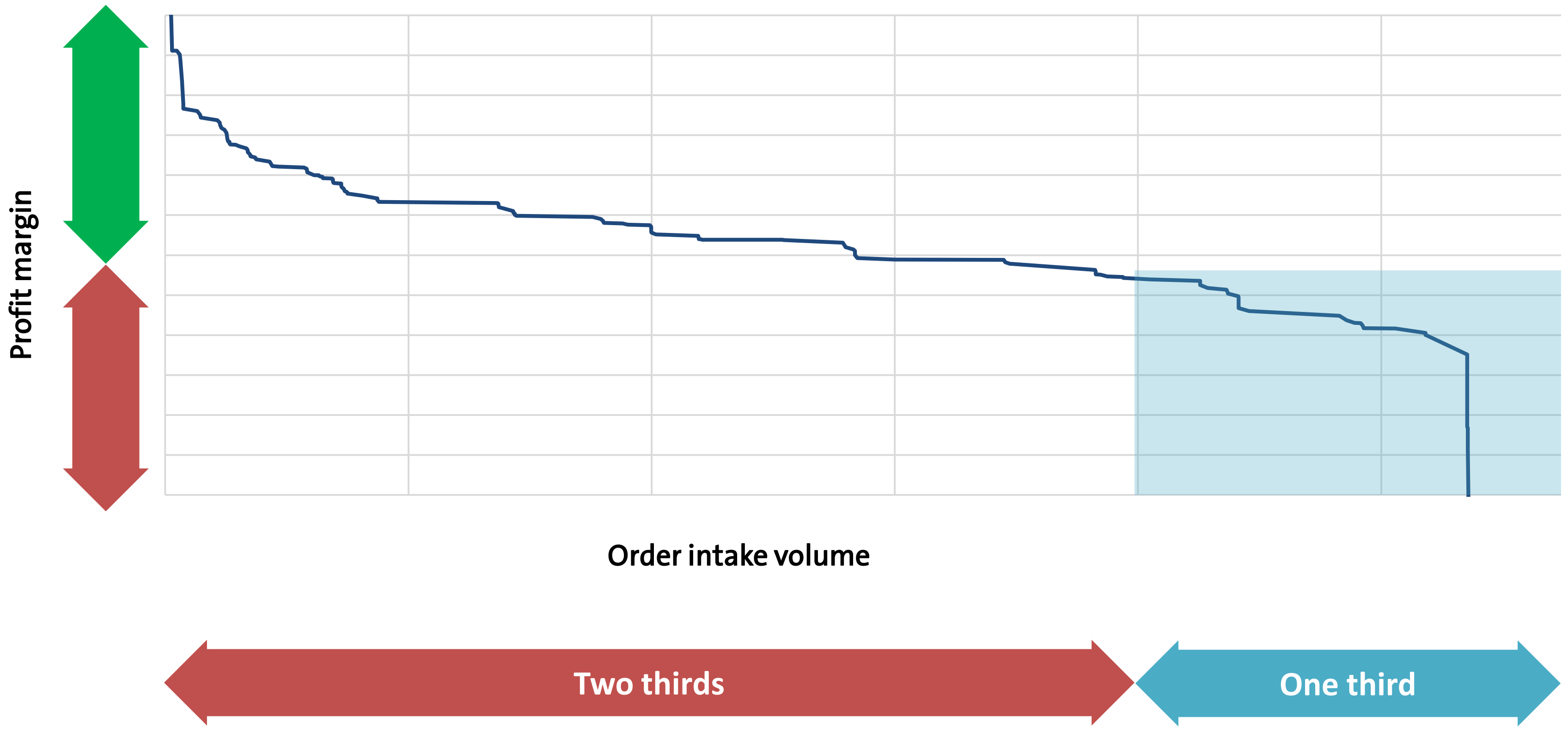
KRONES global market share



Source: Krones Market Intelligence, Euromonitor

Spotlight Breweries – order intake analysis
One third of our order intake volume provides insufficient profit

Order intake volume 2017 by profit margin



Conclusions

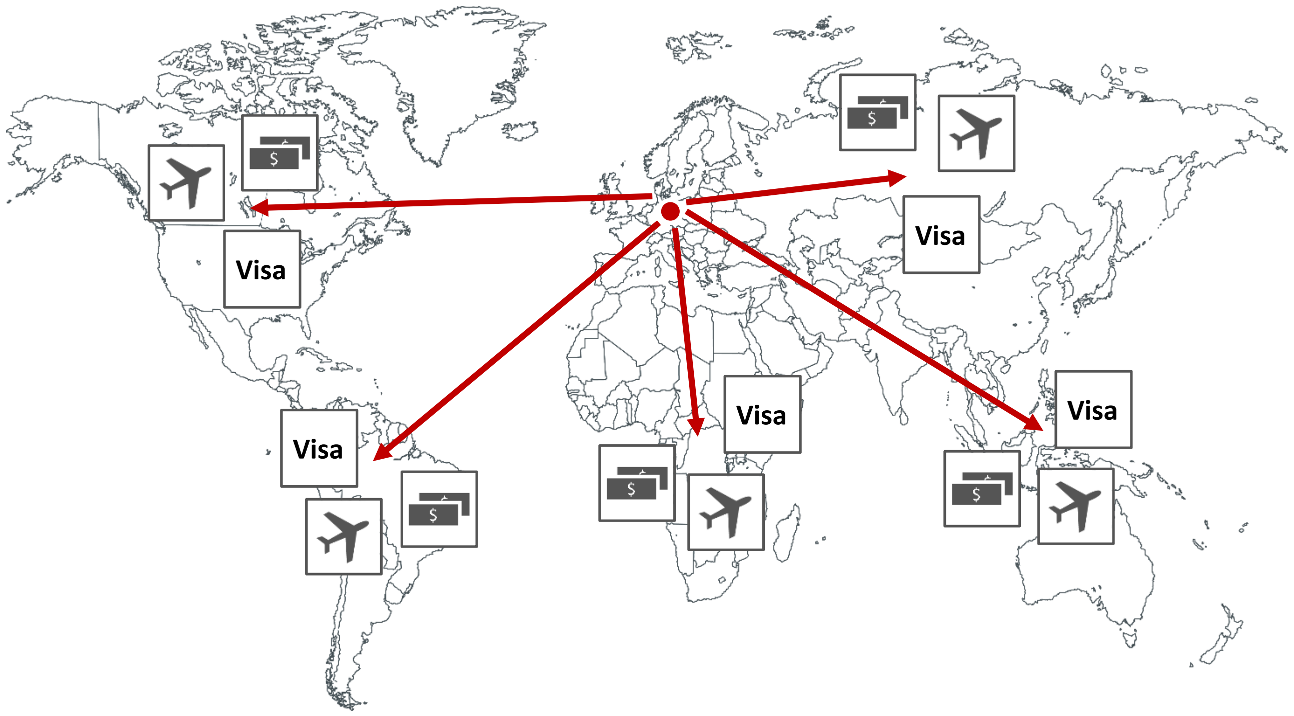
- Currently only two thirds of our volume seem to contribute to a sustainable breweries operation in Germany
- Better selection of order intake
- Reduction of direct (product) costs
- Reduction of sales & admin.-related costs

➢ **Lower volume means adjustment of capacities**

Global footprint for breweries set-up

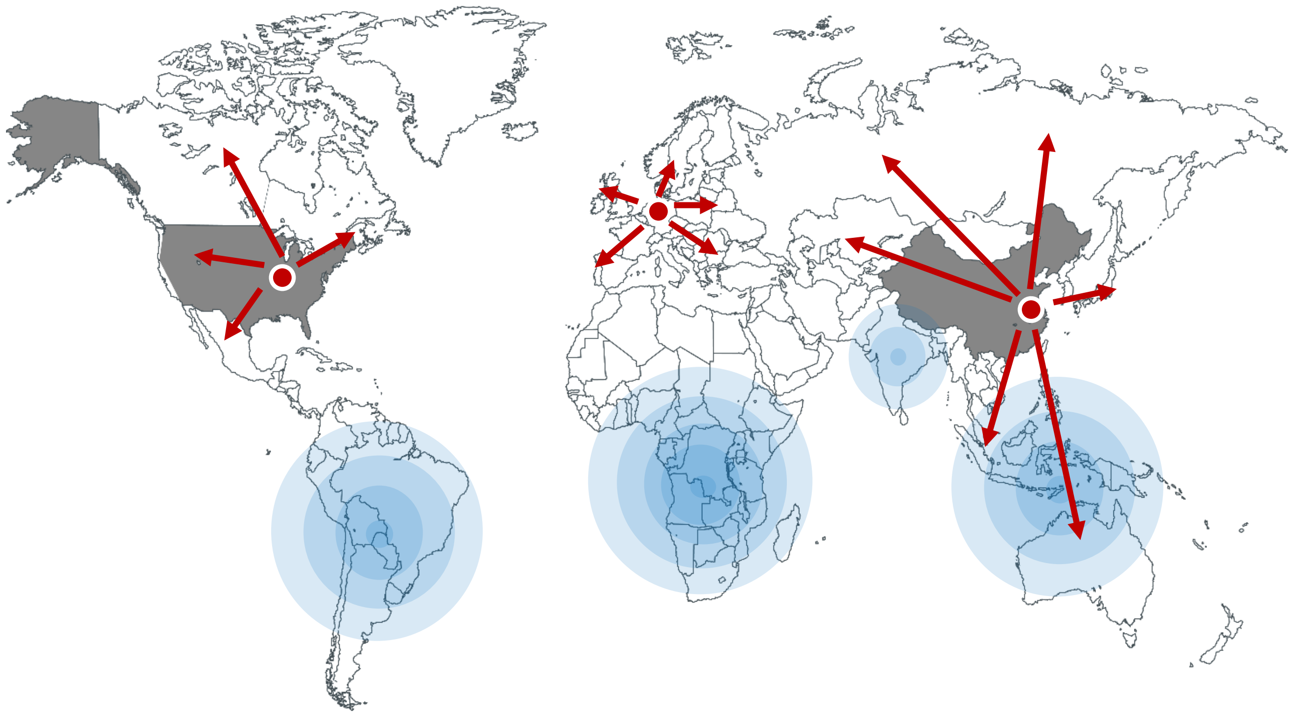
Breweries today

Central organization



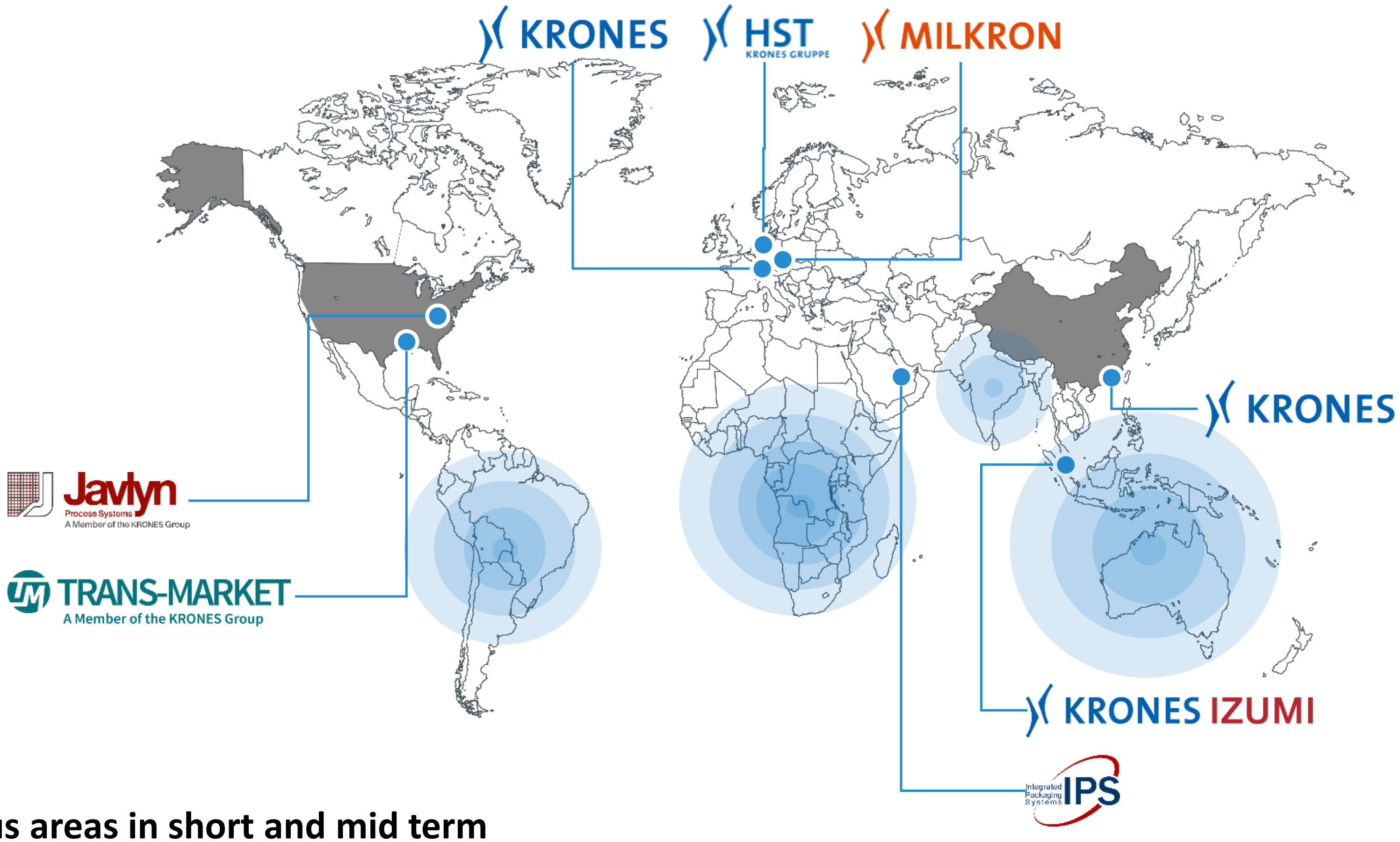
Breweries Blueprint

Decentral organization

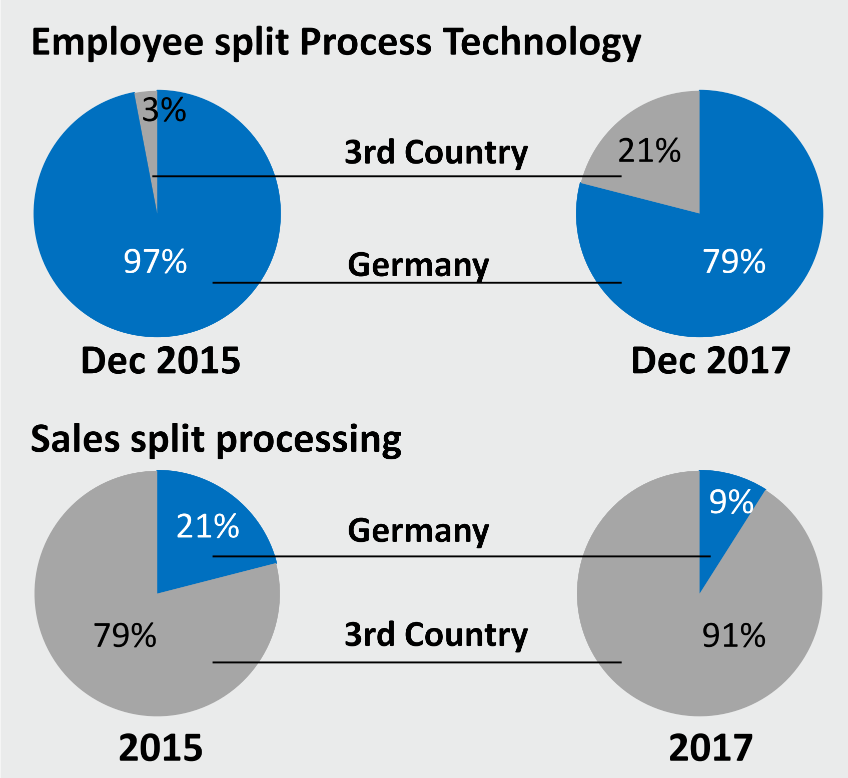


Local structures allow for a closer customer relationship and an improved cost base

Internationalization of Process Technology



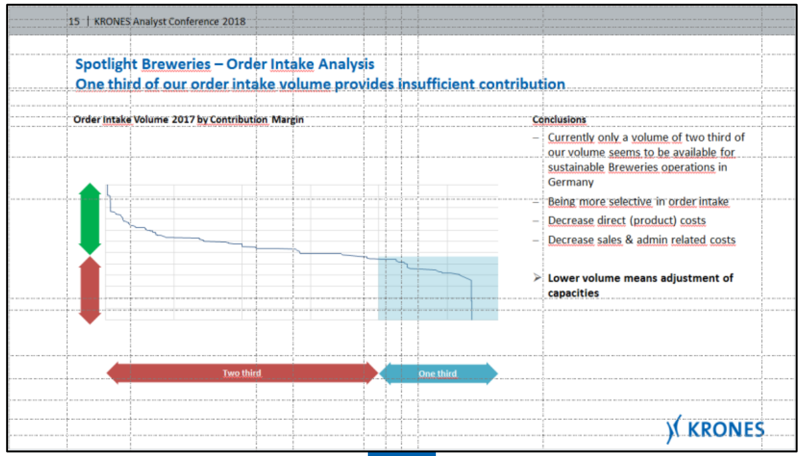
Geographically unbalanced ratio: sales vs. employees

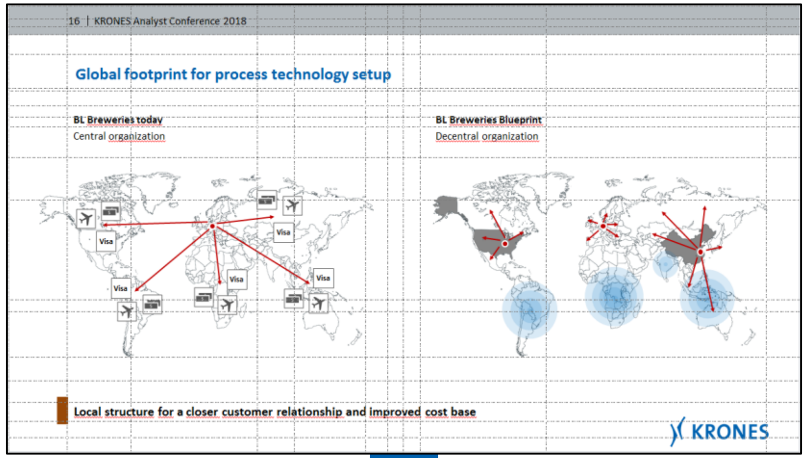


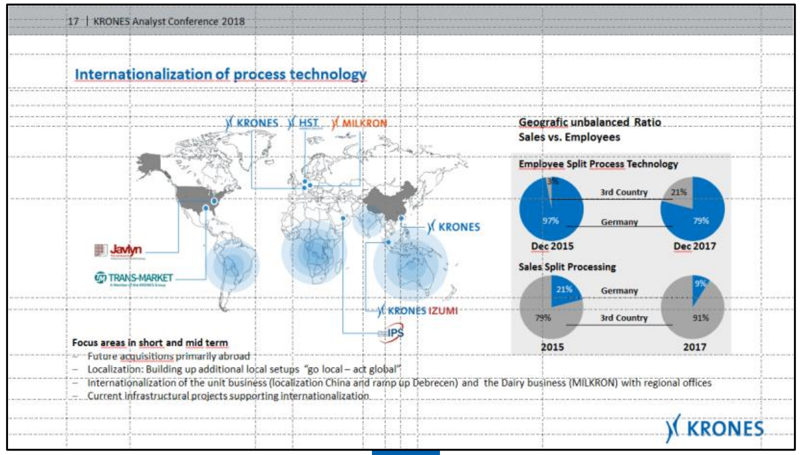
Focus areas in short and mid term

- Future acquisitions primarily abroad
- Localization: Building up additional local set-ups “go local – act global”
- Internationalization of the unit business (localization China and ramp up Debrecen) and the Dairy business (MILKRON) with regional offices
- Current infrastructural projects supporting internationalization

Levers to increase profitability







Selective approach & cost reduction

Localization of brewery business

Further acquisitions and localization of remaining PT business

Higher profitability

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Hungary

Greenfield plant of KRONES Hungary is going to have manufacturing and assembly of individual machines and components, with main volume in conveyor technology

Product portfolio

Units
CIP, mixer

Bottle Carrier

Pasteurizers,
Crate washers

Checkmat

Conveyors
MultiCo, SynCo,
PalCo, AirCo

Key facts

- Investment: approx. 75 €m
- Around 500 co-workers / temporary workers currently employed in Germany
- Approx. 500 new jobs created in Debrecen
- Production ramp-up middle of 2019

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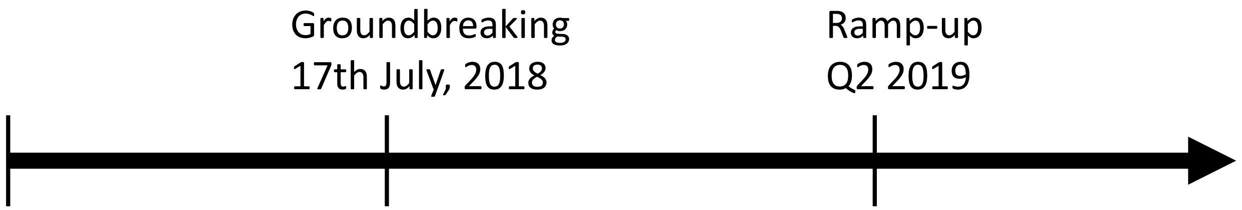
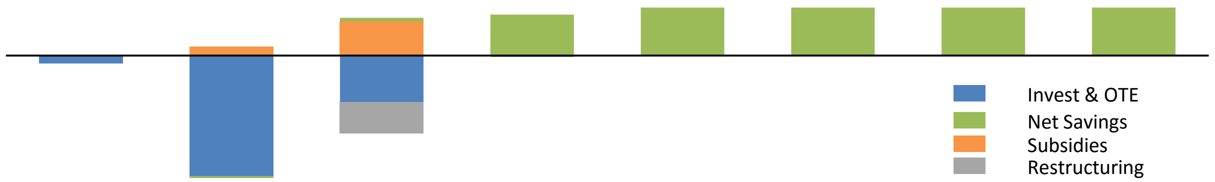
Overall project on time and within budget, currently already strong focus on HR recruitment in Hungary

Project / Ramp-up status

- Groundbreaking ceremony on 17th of July, 2018 started the construction phase
- Overall project within time schedule and within budget
- Emphasis on selecting, contracting and training of new employees in Debrecen





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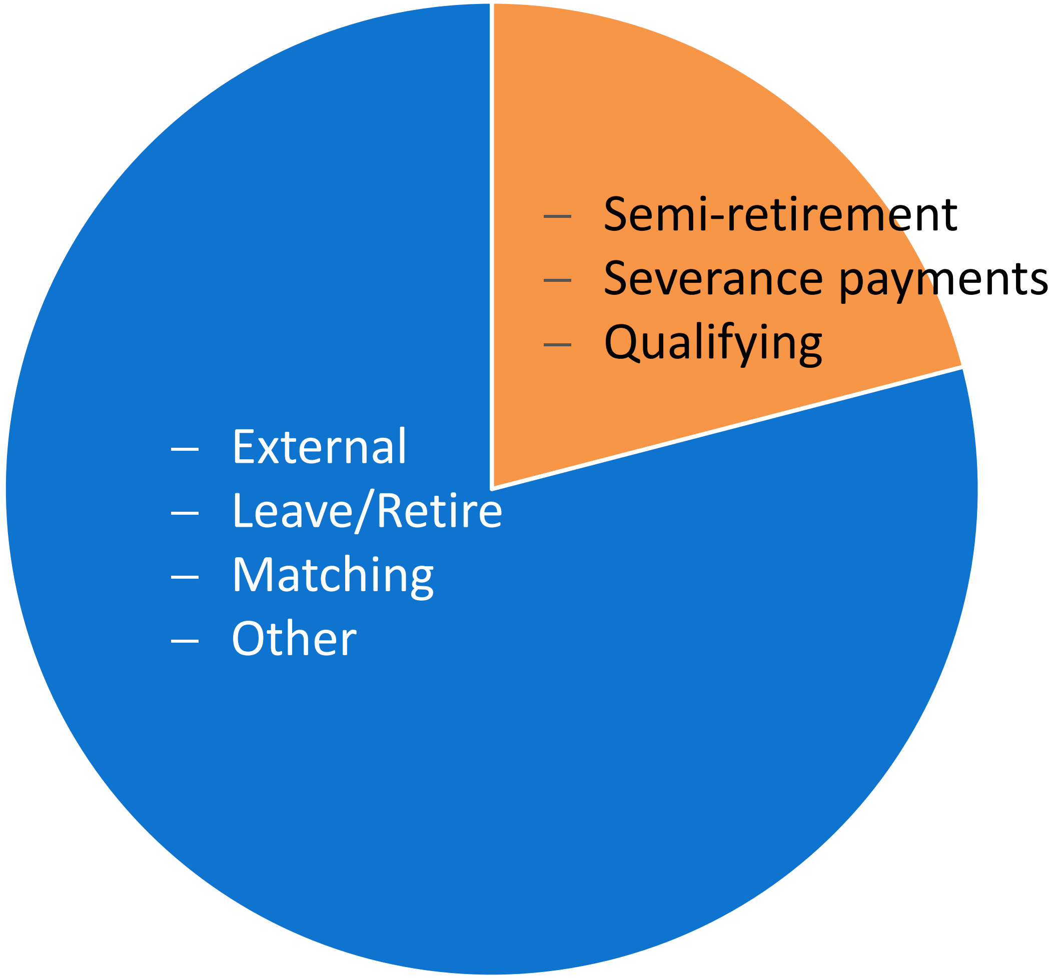
Restructuring costs currently estimated at a small double digit EURm

Impacted employees and potential measures



€

Additional costs for semi-retirement and settlement payments will reduce EBT in 2018

Working capital

How Krones will achieve its growth targets

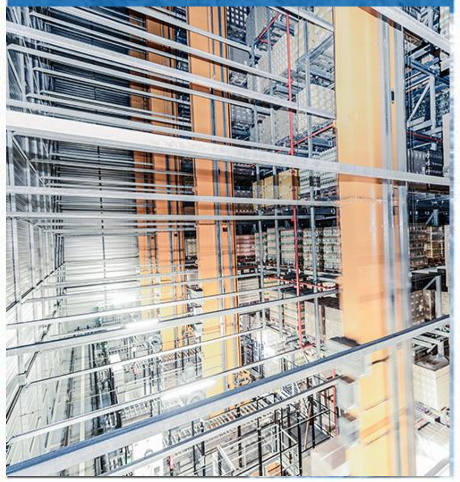
Working capital

Balanced down payments

Receivables

Inventories

Payables



22% Working capital/revenue

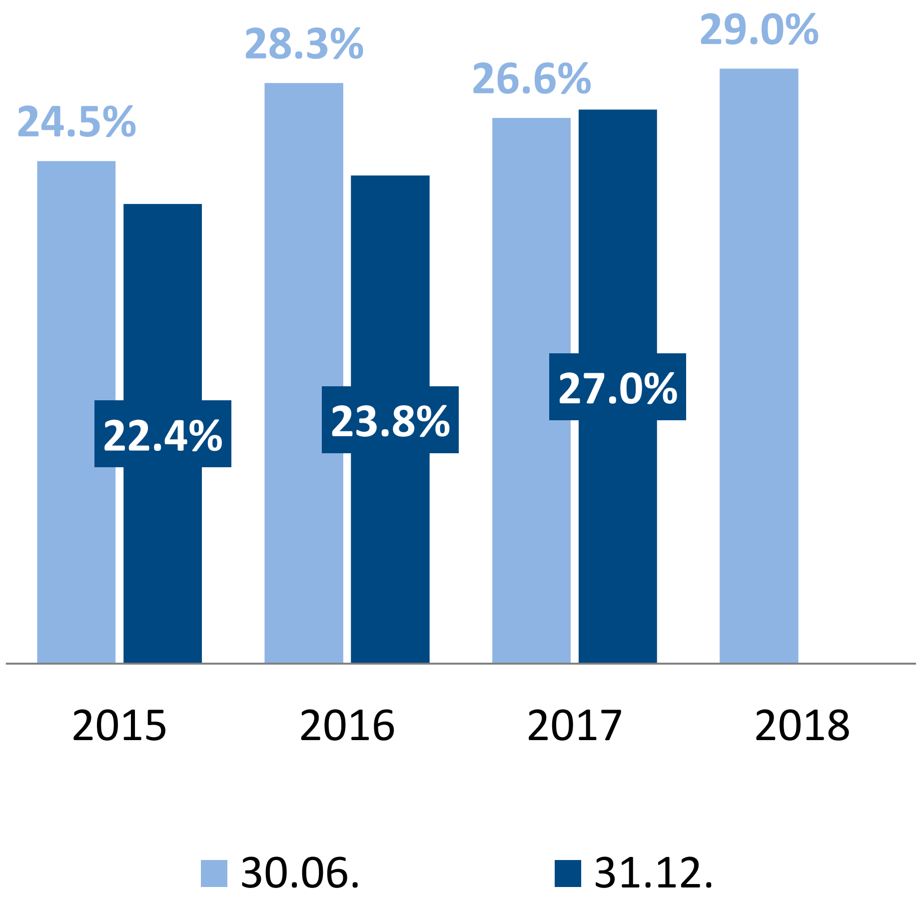
TARGETS 2020

Revenue growth	7%
EBT margin	8%
Working capital	22%

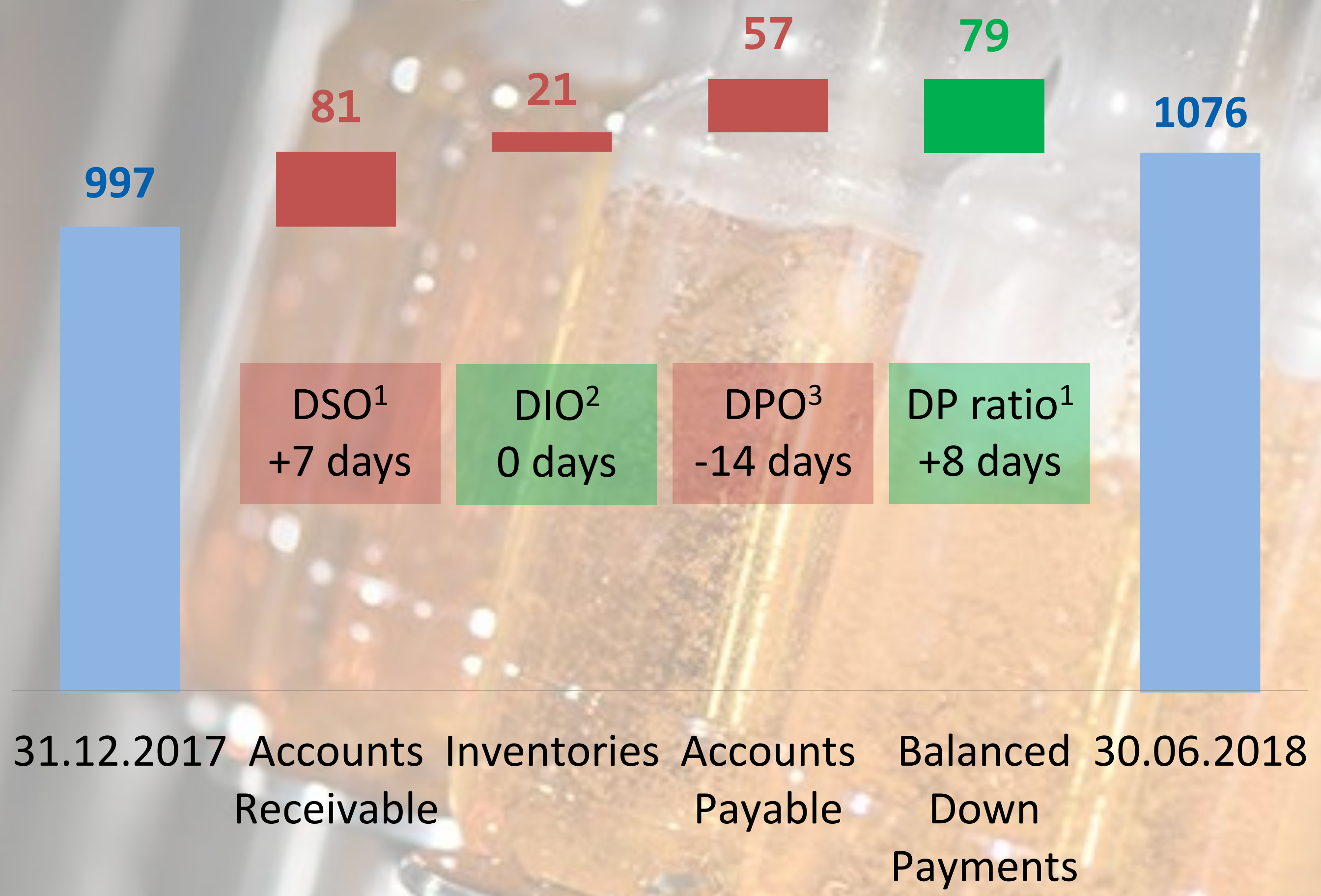
Working capital development

Mid-term Target 22%

Working capital ratio



Working capital (€ million)



1 Based on revenue
2 Based on COGS
3 Based on Goods and Services purchased

How we want to achieve our working capital target of 22%

	Receivables	DSO	Inventories	DIO
Short-term	▪ Focus and inter-nationalization of cash collection approach ▪ Faster finalization of customer projects (especially installation on-site)	e.g.: We close our sites 3 days faster -30 EURm	▪ Disposition parameters optimized ▪ Improvement of standard contracts (latest dates) ▪ Modular design	e.g.: Decreased level of service and optimized disposition -11 EURm
Medium-term	▪ Group wide software-based collection approach to be implemented ▪ Improve payment terms	e.g.: customers pay 1 week earlier or we invoice 1 week faster -70 EURm	▪ Consignment warehouses ▪ Modular design ▪ “Global footprint”: production near to the market	e.g.: Potential consignment warehouses 2018 -3 EURm

How we want to achieve our working capital target of 22%

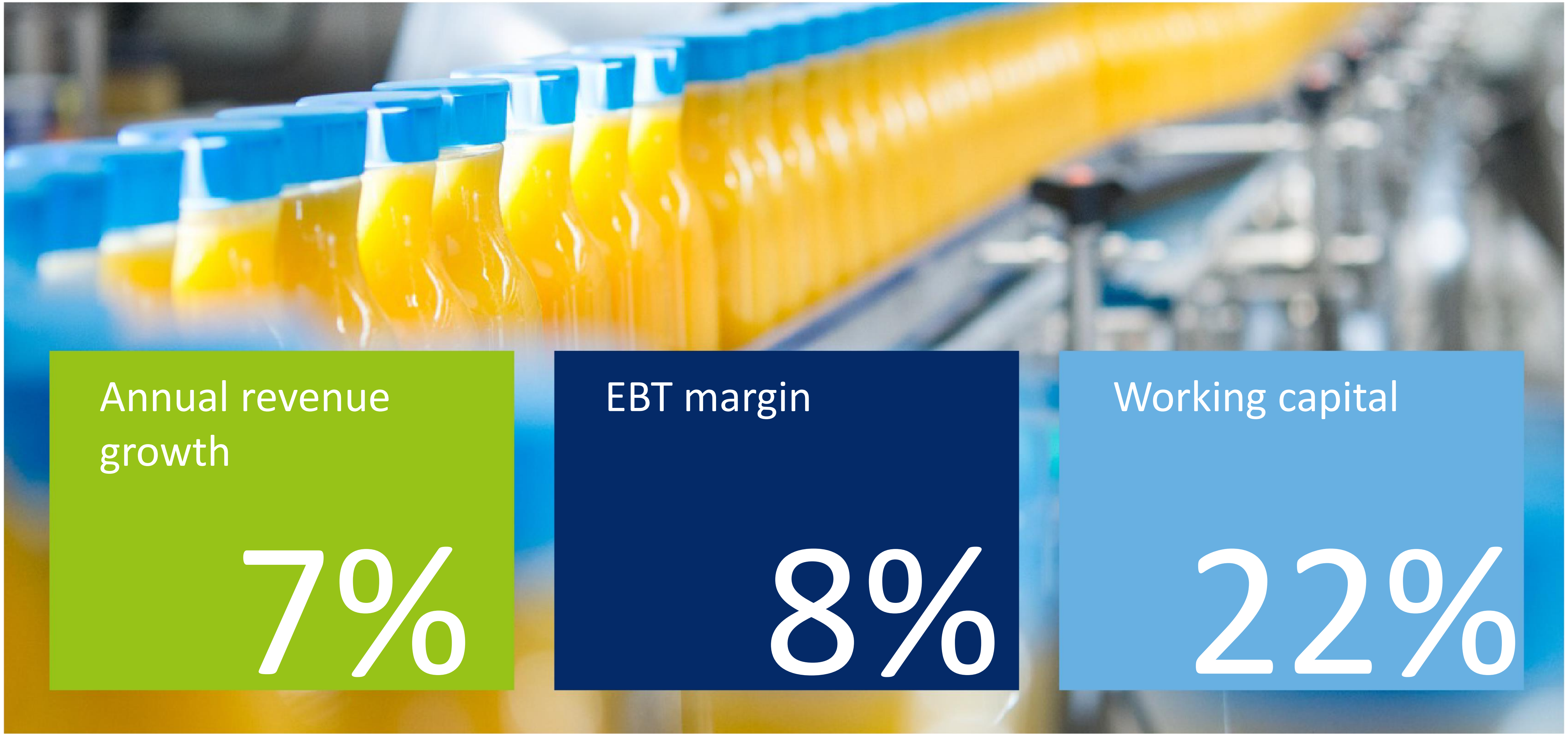
	Payables DPO		Pre-payments DPR	
Short-term	▪ Prolongation of payment terms ▪ "Hand over" project-related payment terms → supplier	e.g.: We pay our suppliers 2 weeks later +70 EURm	▪ More and higher pre-payments from customers	e.g.: Always have 30% cash at start of production +120 EURm
Medium-term	▪ "Early payment" → discount ▪ "Global footprint": localized supplier base		▪ Improve payment terms of customers	

Current situation and targets

Krones targets 2018

Annual revenue growth	EBT margin	Working capital
6%	7.0%	28%

Our targets through 2020



Annual revenue growth

7%

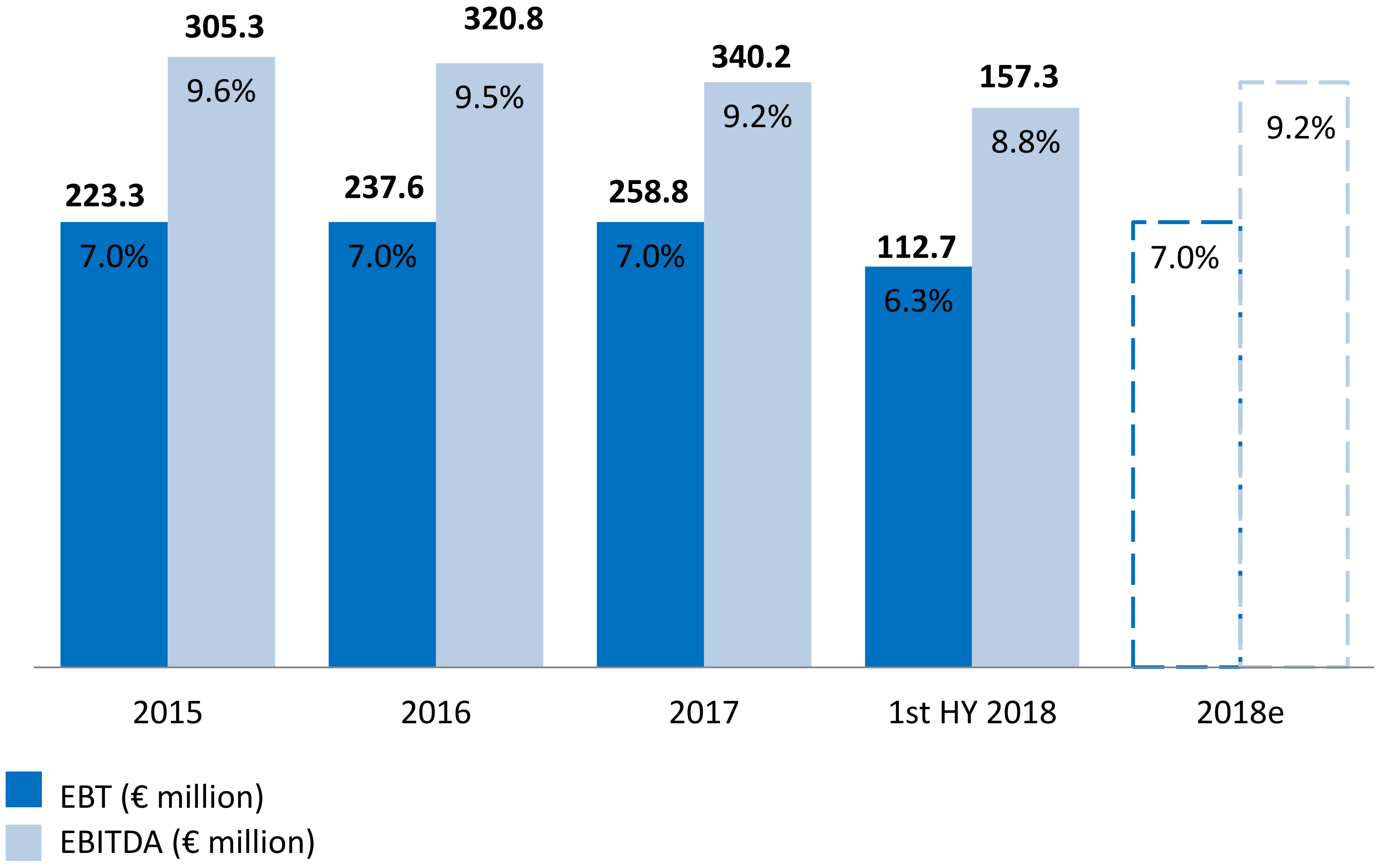
EBT margin

8%

Working capital

22%

EBT and EBITDA

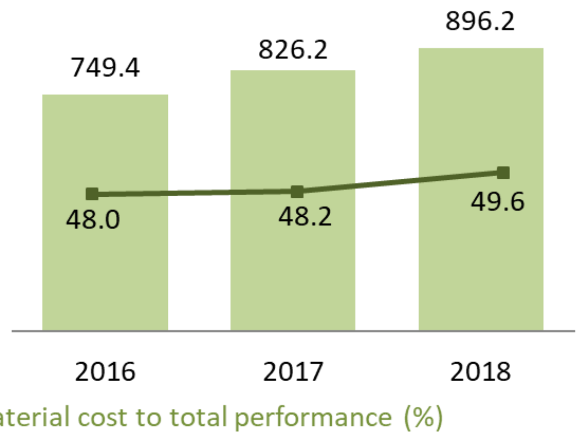


- EBITDA as a key figure is independent from M&A and PPA transactions to better reflect the cash relevant performance
- Common key figure at the capital market, making comparisons in the capital markets easier

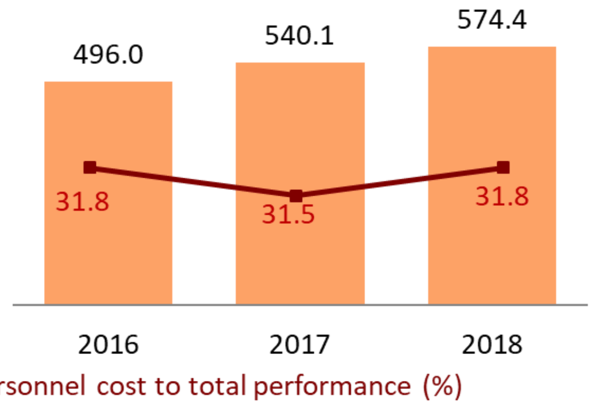
High cost pressure requires price increase and additional measures

Krones has raised prices on all machines for bottling and packaging equipment and for process technology by 4.5% on average for quotations since May 1, 2018 and is also adjusting its payment terms.

Material cost 1st HY (€ million)



Personnel cost 1st HY (€ million)



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Questions and answers

Thank you

for your attention!

Financial calendar 2018/2019

October 25, 2018	Conference Call Group Q3 2018 and Quarterly Statement as per September 30
February 21, 2019	Conference Call Preliminary Figures 2018
March 21, 2019	Annual Report 2018
April 30, 2019	Conference Call Group Q1 2019 and Quarterly Statement as per March 31
June 05, 2019	Annual General Meeting
July 25, 2019	Conference Call Group Q2 2019 and Interim Report as per June 30
October 24, 2018	Conference Call Group Q3 2019 and Quarterly Statement as per September 30

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