

# Francotyp-Postalia Holding AG



Digitalization



Franking



Optimization

**Analyst Conference April 24, 2008, in Frankfurt / Main**

# AGENDA

- **Overview**
- **Financial Statements 2007**
- **Market and Strategy**
- **Re-engineering Programs**
- **Outlook 2008**

# Overview



Digitalization

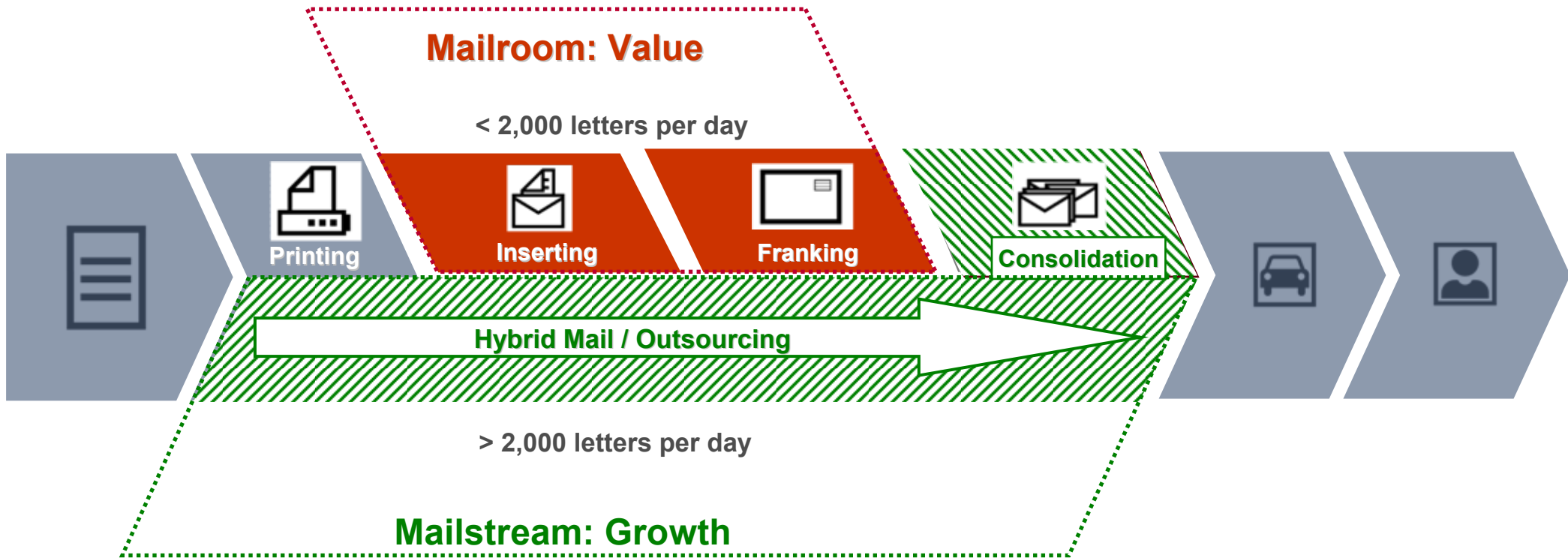


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# The FP Business Model along the Mailstream Value Chain



Extension of the value chain by expanding into Mailstream Services

# FP at a Glance

## Overview

- FP is one of the **world's leading manufacturers of franking machines**
  - #1 Germany (44.6% market share)
  - #1 Austria (47.4% market share)
  - #2 The Netherlands (28.5% market share)
  - #3 Globally (9.4% market share)
- **Worldwide** activities with subsidiaries in Germany, USA, UK, The Netherlands, Canada, Austria, Belgium, Italy, and Singapore
- Large worldwide base of approx. **250,000 customers**
- Strong aftermarket business leading to **63.8% recurring revenues** in Mailroom
- **Mailstream** business with **9 sorting centres** in Germany
- **1,098 employees**, worldwide

## Key Figures

€ million	2006	2007	change %
Revenues	142.9	145.1	+1.5
EBITDA in % of revenue	32.0 22.4	26.3 18.1	-17.8
EBITA	23.2	16.3	-29.7
EBIT	7.0	-1.9	n/a
Net Profit / Loss	-0.3	-2.8	n/a
Operating Cash Flow	18.0	19.4	7.8
Installed Base	263,329	265,501	0.8

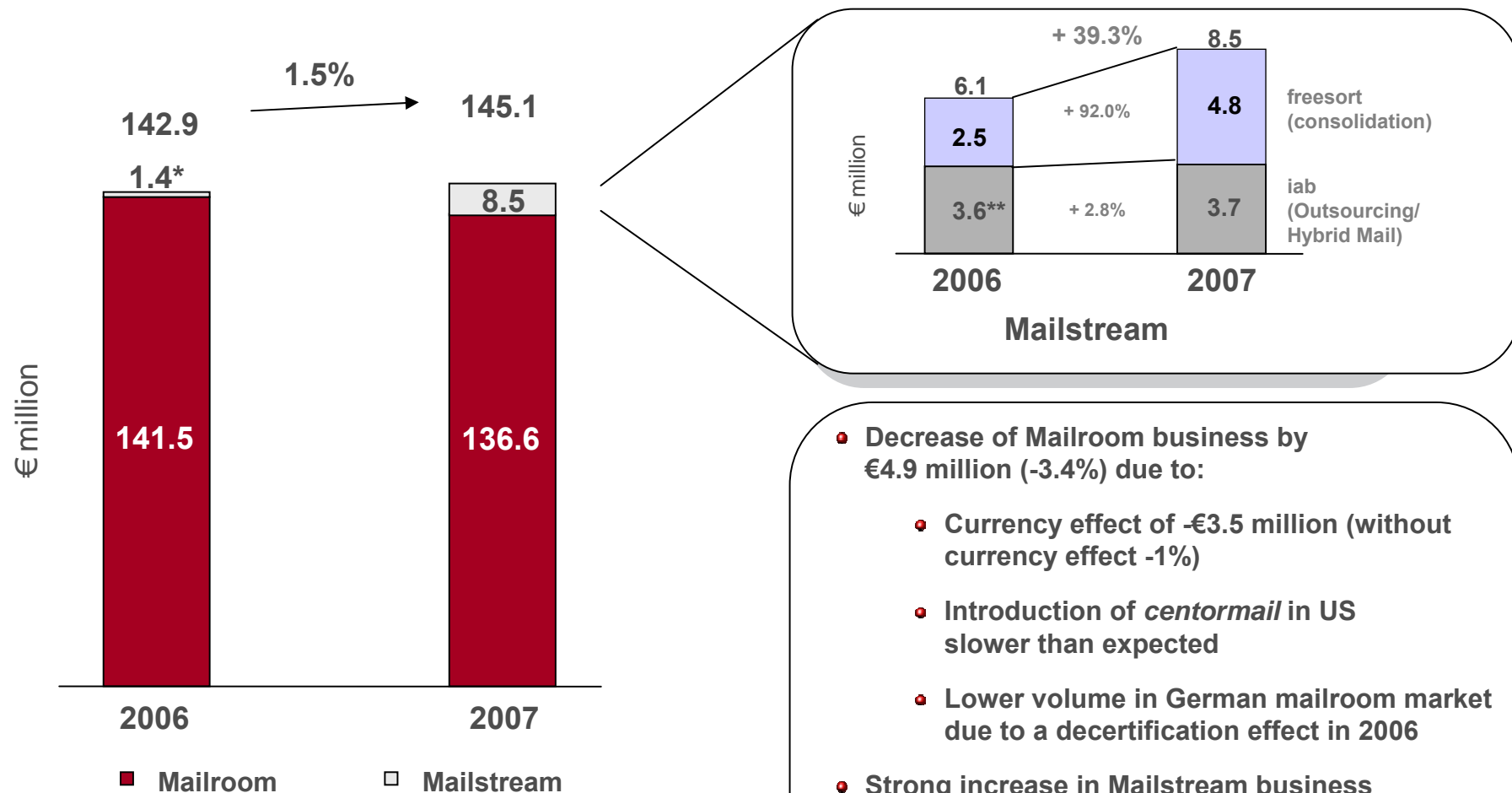
# Highlights 2007

- **FY 2007 not in line with expectations:**
    - Mailroom: Revenues declined by -3.4% (-1.0% adjusted by currency effect)
    - iab: Hybrid Mail contract postponed to 2008
    - Expenses: Expenses increased, leading to reduced profitability (measures have been initiated to improve)
  - **Results we will expand upon:**
    - USA: Organic growth, despite economic downturn
    - Germany: Growth driven by Mailstream business (+39.3%)
    - freesort: Almost doubled revenues (consolidation)
- We have started to vigorously address failures of performance

# Financial Statements 2007



# Moderate Growth of 1.5% in Revenues 2007



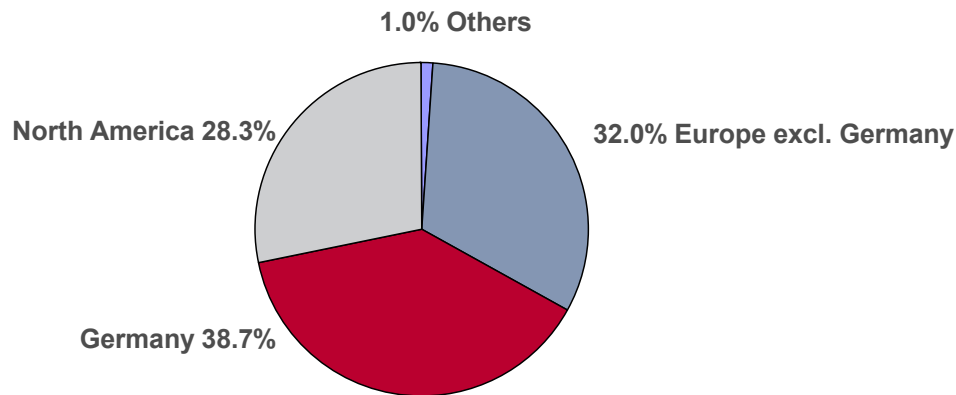
- Decrease of Mailroom business by €4.9 million (-3.4%) due to:
  - Currency effect of -€3.5 million (without currency effect -1%)
  - Introduction of *centormail* in US slower than expected
  - Lower volume in German mailroom market due to a decertification effect in 2006
- Strong increase in Mailstream business by €2.4 million (+39.3%)
  - freesort almost doubled revenues

\*Mailstream business acquired in Nov 2006 => only consolidated for 2 months

\*\*Software deal in 2006 of €0.4 million

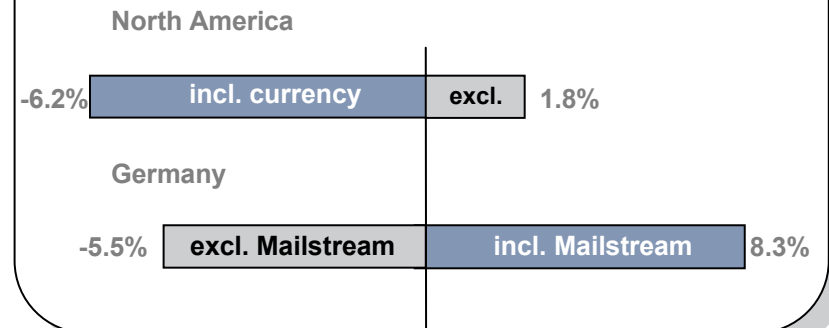
# Revenues by Region

€ million	2006	2007	change %
Germany	51.9	56.2	8.3
Europe excl. Germany	46.2	46.5	0.6
North America	43.7	41.0	-6.2
Others	1.1	1.4	27.3
<b>Total Revenues</b>	<b>142.9</b>	<b>145.1</b>	<b>1.5</b>



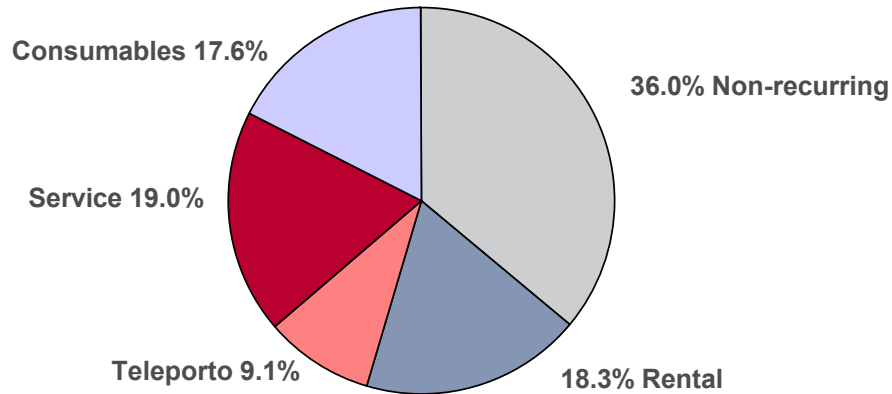
- **Germany:** Growth driven by Mailstream (consolidation and outsourcing). Mailroom (franking and inserting) lower due to special effects in 2006
- **North America:** Gained market share; revenues up +1.8% to USD 54.9 million, excl. currency effects
- **Europe excl. Germany:** Revenues increased to €46.5 million from €46.2 million (+0.6%). UK continues to grow.

## Changes y-o-y

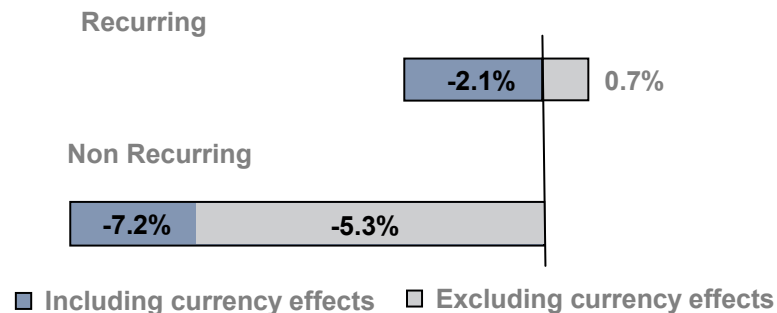


# Mailroom: Strong Recurring Revenues of 63.8%

Revenues 2007: €136.0 million\*



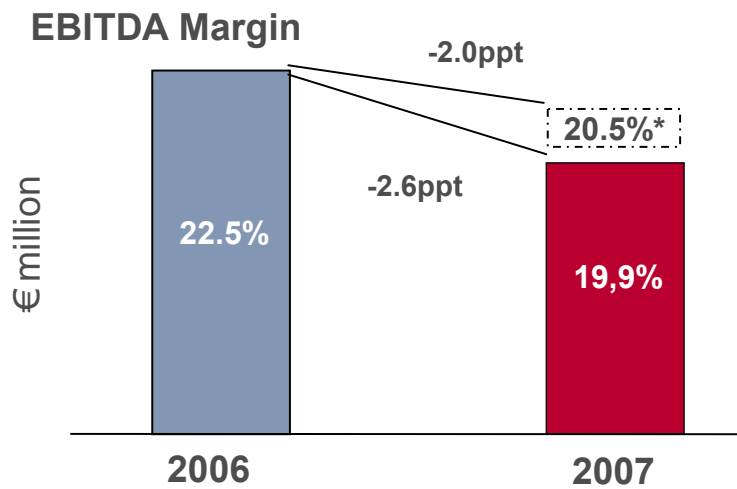
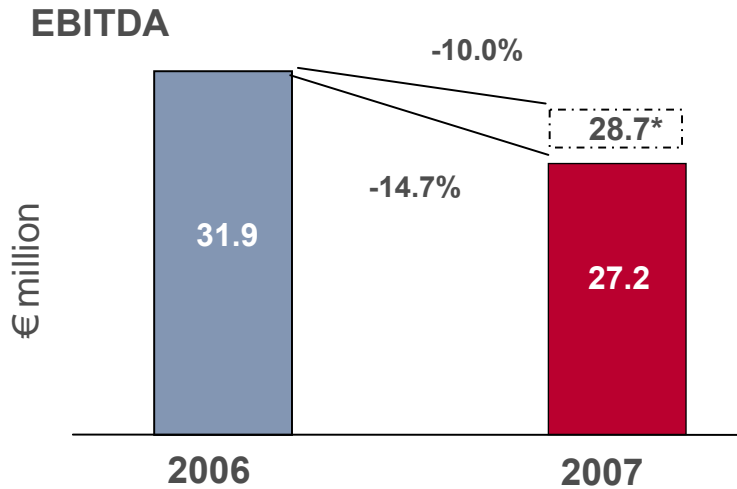
## Changes y-o-y



- Recurring:
  - Stable revenue source with small variation year over year
  - €87.0 million or 63.8% of revenues (2006: €88.9 million or 62.8%)
  - Currency effect of -€2.5 million (thereof -€1.6 million in rental business)
  - Slight organic growth of 0.7% w/o currency effects
  - Trend to more rental business
  - Price pressure in US rental business
- Non-recurring:
  - €49.0 million or 36.2% of revenues (€52.8 million prior year or 37.2%)
  - Currency effect of -€1.0 million
  - Change of product mix towards smaller machines led to decrease in revenues

\* excl. natural hedge effect of €0.6 million

# EBITDA Margin in Mailroom Business Continues to be Over 20%



\* Including currency effect of €1.5 million

- Currency effect €-1.5 million: negative impact because of US-\$ decline
- USA/ CAN €-1.5 million: US decrease of EBITDA margin mainly due to change of product mix and investment into sales channels. CAN slow-down of swap resulting in less units placed and reduced customer base
- Germany €-1.1 million: Mainly due to decertification effect between 2006 and 2007; shifted sales towards smaller machines; price pressure

# Increase in Expenses Led to Reduced Profitability

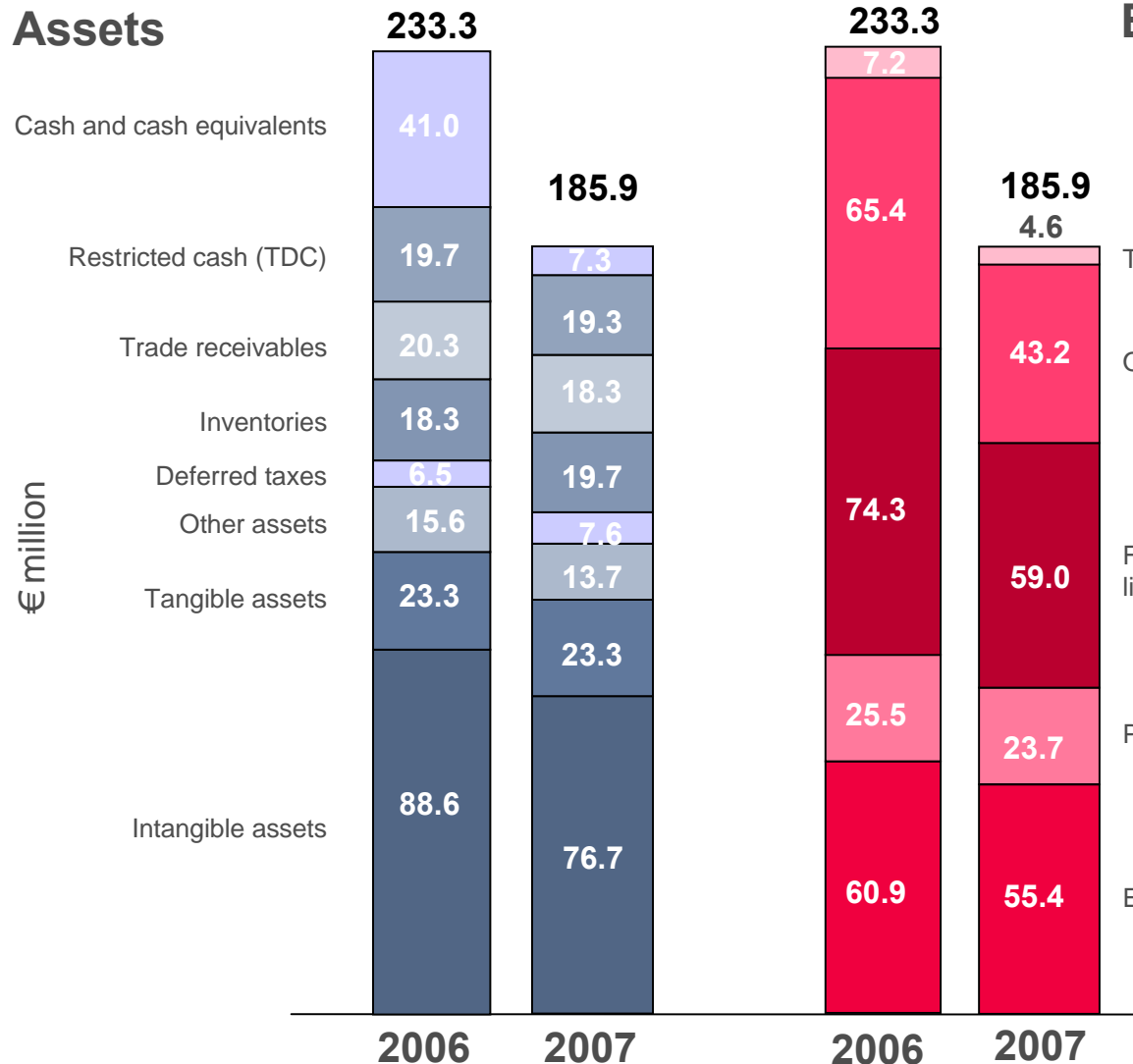
€ million	2006	2007
<b>Revenue</b>	<b>142.9</b>	<b>145.1</b>
Change in inventories	1.3	-1.0
Own work capitalized	11.2	12.1
<b>Total output</b>	<b>155.5</b>	<b>156.3</b>
Material expenses	42.7	45.9
in % of revenue	29.9	31.6
<b>Gross profit</b>	<b>112.8</b>	<b>110.4</b>
Personnel expenses	50.1	54.3
in % of revenue	35.1	37,4
Others	30.7	29.7
<b>EBITDA</b>	<b>32.0</b>	<b>26.3</b>
in % of revenue	22.4	18.1
Depreciation	8.8	9.9
<b>EBITA</b>	<b>23.2</b>	<b>16.3</b>
Amortization	16.2	18.2
<b>EBIT</b>	<b>7.0</b>	<b>-1.9</b>
Interest result	-3.6	-2.6
Tax result	-3.7	+1.7
<b>Net profit/loss</b>	<b>-0.3</b>	<b>-2.8</b>
<b>EPS (EUR)</b>	<b>-0.03</b>	<b>-0.18</b>
<b>EPS adjusted* (€)</b>	<b>0.66</b>	<b>0.71</b>

\* by amortization

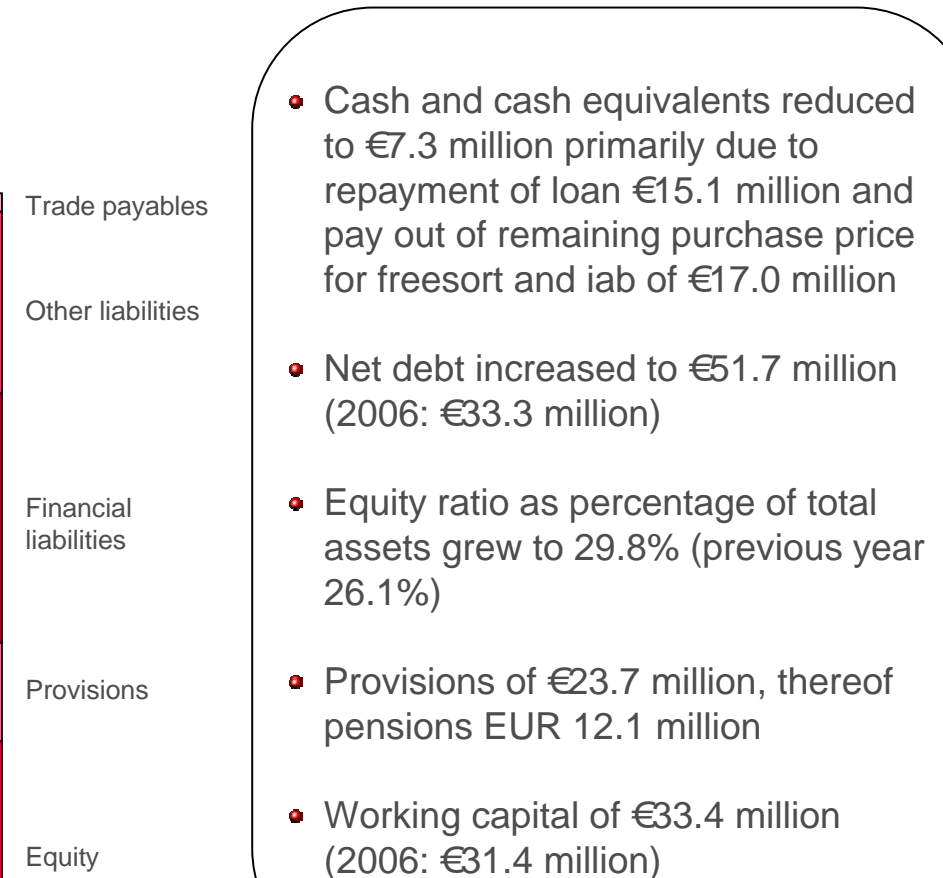
- Own work capitalized
  - Increase in capitalization of R&D costs
- Material expenses:
  - Product mix shifts to more equipment sales
  - High End Inserter business in NL with low margin on equipment but higher margins in the service revenue to come.
- Personnel expenses:
  - Reflection of start-up costs in Mailstream business
  - Expansion of sales organisation
- EBITDA of consolidation and outsourcing business:
  - -€0.9 million, break-even in January 2008; positive for Q1 2008
- Amortization
  - Amortization due to acquisition of FP Group in 2005 and iab/ freesort in 2006, will now decrease year over year
- Income tax rate is expected to be at 30% (after tax reform)
- **A dividend payment of €0.15 per share will be proposed to AGM**

# Consolidated Balance Sheet: Key Figures for 2007

## Assets



## Equity and liabilities



- Cash and cash equivalents reduced to €7.3 million primarily due to repayment of loan €15.1 million and pay out of remaining purchase price for freesort and iab of €17.0 million
- Net debt increased to €51.7 million (2006: €33.3 million)
- Equity ratio as percentage of total assets grew to 29.8% (previous year 26.1%)
- Provisions of €23.7 million, thereof pensions EUR 12.1 million
- Working capital of €33.4 million (2006: €31.4 million)

# Strong Cash Flow from Operating Activities

€ million	2006	2007	change %
Cash flow from operating activities	18.0	19.4	7.8
Cash flow from investing activities	-16.0	-17.4	-8.1
Free cash flow	2.0	2.1	5.0
Cash flow from corporate acquisitions	-9.7	-17.0	-75.3
Cash flow from financing activities*	46.7	-18.7	n/a
Cash and cash equivalents	41.0	7.3	-82.2

Thereof:  
 R&D -€5.8 million (Cost savings planned due to restructuring)  
 Rental -€6.3 million  
 Tangible assets -€3.7 million  
 Intangible assets -€1.6 million

Thereof:  
 freesort -€14.3 million  
 iab -€2.5 million  
 Others -€0.2 million

Thereof:  
 Repayment of loans -€15.1 million  
 IPO costs of -€1.5 million and -€0.5 million share-buy-back program

\* incl. currency effect of €-1.6 million (prior year €0.1 million)

# Market and Strategy



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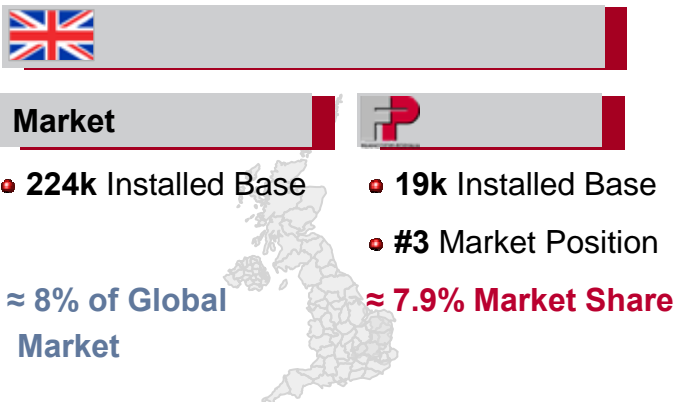
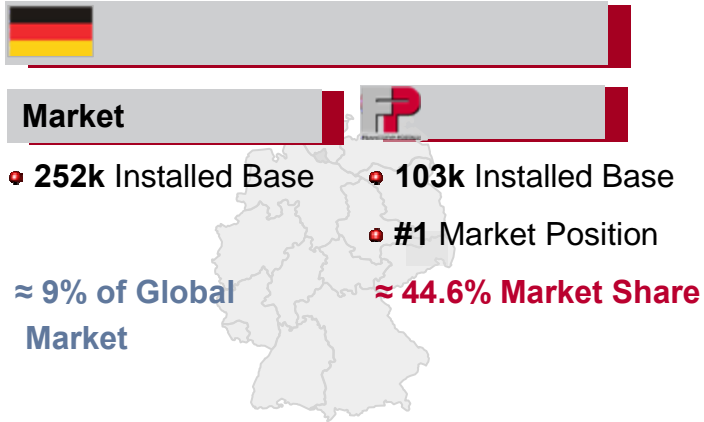


Franking



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# Market Leader for Franking Machines in Germany and Excellent Positioning in Key Target Markets (as of Dec 2007)

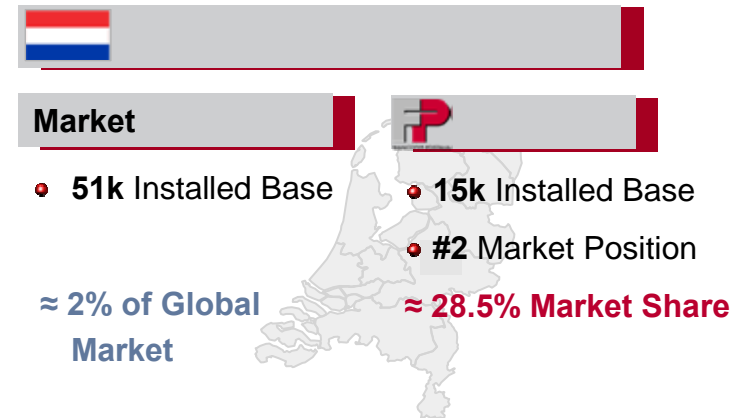
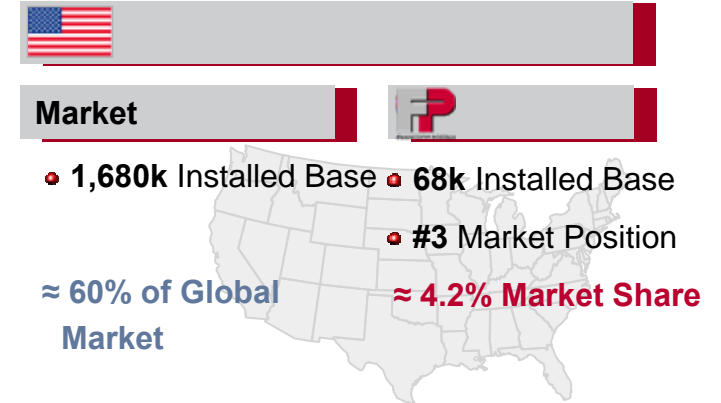


**Global Market Franking Machines**

- Installed base: 2.8m

**FP Market Share Franking Machines**

- 9.4% global market share
- 265k Installed base
- Installed base > 80 countries worldwide
- Covering 80% of the global FM market



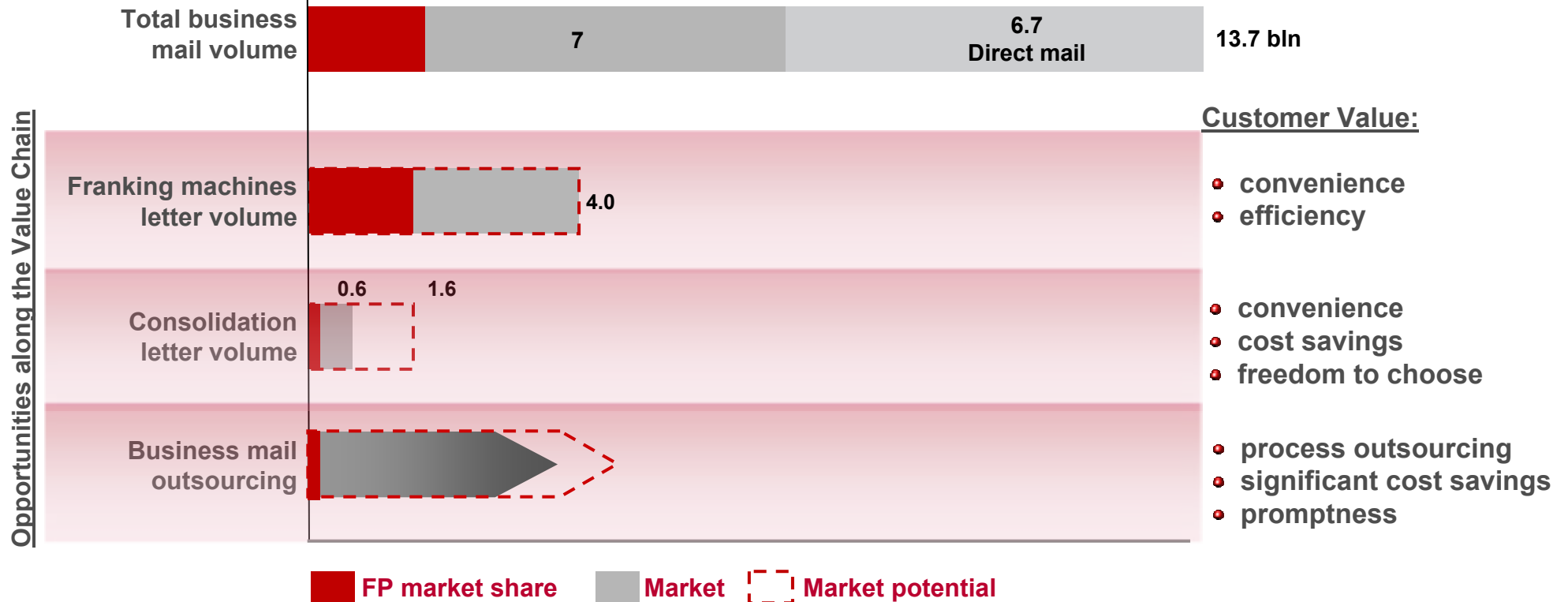
FP's large base of franking machines constitutes a base for further growth

# FP is Uniquely Positioned to Seize the Opportunities Presented by the Liberalising Postal Markets

The Liberalisation Opportunity

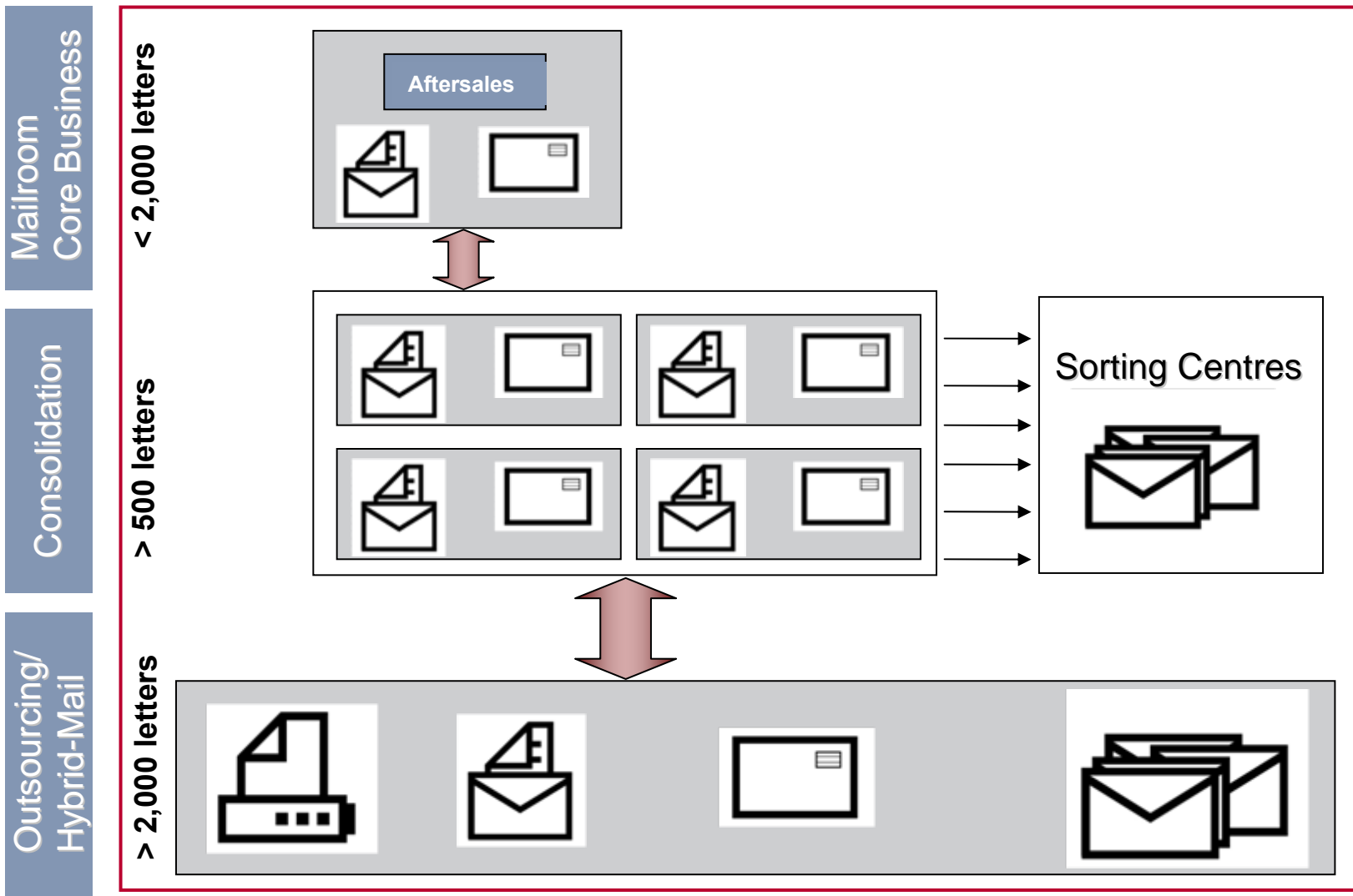


Example: Germany - letters p/a [bln]



Source: Bundesnetzagentur, FP estimates

# Combination and Cross-selling of FP Services Optimize Customer's Mailstream



ALB-DONAU-KREIS 

KKH Die Kaufmännische 

250,000 customers worldwide

BUNDESVERWALTUNGSAMT 

Bundesanzeiger Verlag 

Deutsche Rentenversicherung Rheinland 

~ 1,400 customers

DKB Deutsche Kreditbank AG  Postbank  Gd 

SWKBank  Aktienbank  axel springer 

SAP SI  AXTELM ZUFALL  ZUFALL  BAUER 

customers:  
200 outsourcing  
300 Print&Mail

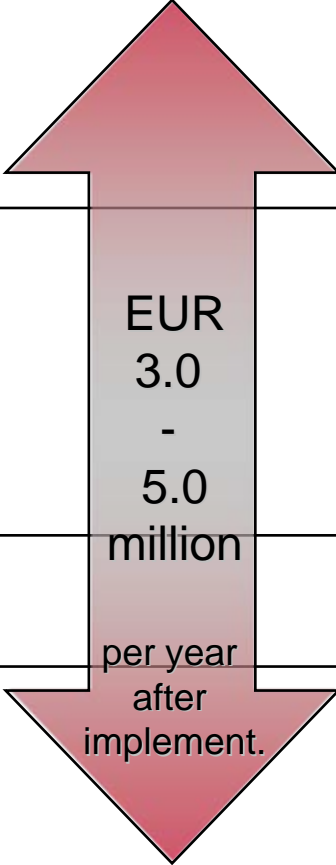
# FP is Changing Fast to Increase Revenue and Profitability

	<u>Mailroom</u> Inserting / Franking ➤ Value	<u>Mailstream</u> Consolidation / Outsourcing ➤ Growth
Business Drivers Market Trends	<ul style="list-style-type: none"> <li>Individualization and branding of mail supports demand for small franking equipment</li> <li>Decertification as windows of opportunities: Phase IV decertification US; 2D barcode in Sweden</li> <li>Postage meter demand in new markets (e.g. emerging markets like China, India, Russia)</li> </ul>	<ul style="list-style-type: none"> <li>Digitalization of mail and documents</li> <li>Growth potentials in Mailstream businesses through liberalisation</li> <li>Efficiency and cost savings potentials support trend for consolidation and outsourcing</li> </ul>
Strategy to Leverage Business Opportunities	<ul style="list-style-type: none"> <li>Materialize growth opportunities in target markets, e.g. USA, Sweden, Belgium – India, Russia, China</li> <li>Utilize large installed base as key leverage for value added services and cross-selling opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Integration of Mailroom &amp; Mailstream business to leverage synergies and utilize customer base for cross-selling</li> <li>Customer-focused organisation and customized services</li> </ul>
Measures to Improve Profitability (short term)	<ul style="list-style-type: none"> <li>Realignment of sales force and services D, NL, US, UK</li> <li><u>Process Reengineering in:</u> <ul style="list-style-type: none"> <li>R &amp; D</li> <li>Supply Chain Management</li> <li>Administration</li> <li>Organizational performance (MOVE project)</li> </ul> </li> <li>Launch premium product <i>centormail</i> in further countries</li> </ul>	<ul style="list-style-type: none"> <li>Acquisition of new customers and letter volume by investments into sales force and extended sales activities</li> <li>Higher utilization rate of installed consolidation infrastructure will significantly enhance margins</li> </ul>

# Reengineering Programs



# Measures to Improve 'Mailroom' Profitability (Short Term)

Topic	Measures & Effect	Timeline (finalization)	EBITDA Impact
Research & Development	<ul style="list-style-type: none"> <li>• Increase effectiveness by focusing on core competencies (<i>"do what we are good at, outsource what makes sense"</i>)</li> <li>• Innovation management: Restructure and adjust to market needs (e.g. Product Management as interface)</li> <li>• Reduce expenses/headcount by approx. 20%</li> </ul>	<ul style="list-style-type: none"> <li>• end of 2008</li> </ul>	 <p>EUR 3.0 - 5.0 million per year after implement.</p>
Supply Chain Optimization	<ul style="list-style-type: none"> <li>• Implementation of an IT-supported, integral approach for the "Order Management Process" (order entry – production – warehouse – logistics)</li> <li>• Reduce inventories and warehouse capacities by up to 25%, worldwide</li> <li>• Save up to 20% processing costs in the production- and delivery process</li> </ul>	<ul style="list-style-type: none"> <li>• Germany</li> <li>• NL / UK: 2008</li> <li>• US/CAN: 2009</li> </ul>	
Streamline Administration	<ul style="list-style-type: none"> <li>• Simplify administrative processes and reduce overhead headcount for non-value adding work</li> </ul>	<ul style="list-style-type: none"> <li>• end of 2008</li> </ul>	
MOVE Project	<ul style="list-style-type: none"> <li>• Enable change management and cultural change:               <ul style="list-style-type: none"> <li>• Closer to market</li> <li>• More efficient</li> </ul> </li> <li>• Implement new clear strategy and direction into operation</li> <li>• Building international teams; best practice</li> <li>• Improve steering and support by headquarters</li> </ul>	<ul style="list-style-type: none"> <li>• 2008</li> </ul>	

# Measures to Drive Sales and Revenues in Key Markets

Topic	Measures & Effect
Germany	<ul style="list-style-type: none"> <li>• <u>Mailroom:</u> Major restructuring of sales &amp; service organization to improve effectiveness: reset dealer structure and purchase of distribution network. Defend / grow our market leader position in all segments</li> <li>• <u>Mailstream:</u> Expand our sales force to acquire more customers. Utilize existing capacities to grow revenues and margins. Maximize degree of utilization of sorting centres.</li> </ul>
USA	<ul style="list-style-type: none"> <li>• Full focus on “Battle Plan” to harvest from the Phase IV Decertification and gain market share</li> <li>• Emphasize on the most powerful sales channels and strengthen our power to compete, esp. also in vertical markets (SME customers)</li> <li>• Develop new services to prepare for “the day after” decertification</li> </ul>
UK	<ul style="list-style-type: none"> <li>• open new sales channels to overcome the growth limitations of the current (franchising) distribution structure</li> </ul>
The Netherlands	<ul style="list-style-type: none"> <li>• Maintain market position</li> <li>• Streamline the organization after “NetSet” boom in 2007 has leveled off</li> </ul>

# Outlook 2008 and Key Investment Highlights



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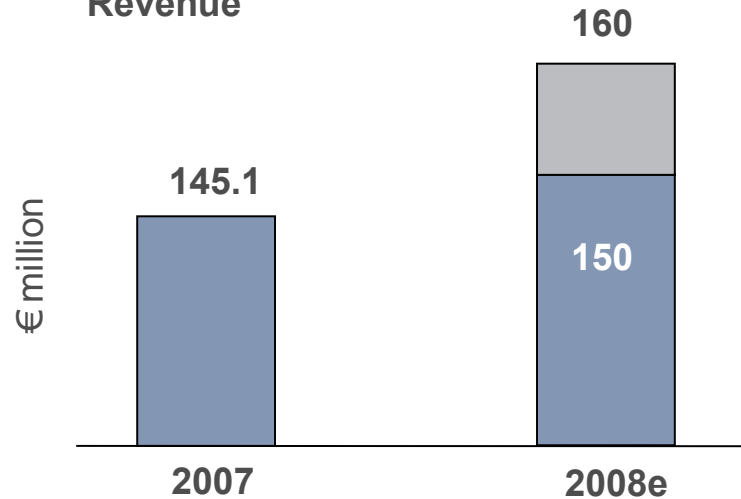
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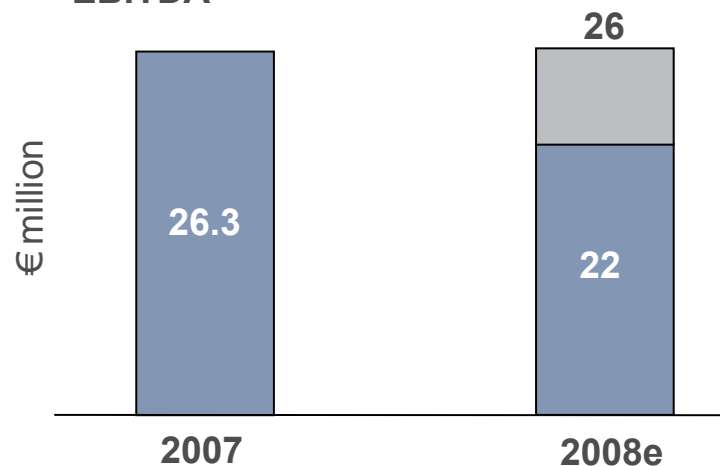
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# Outlook

## Revenue



## EBITDA



### Upside Potentials (Revenues):

- Decertification in US
- Improved sales activities in Germany as a result of ongoing restructuring
- Introduction of the Teleporto Data Center (TDC) Italy

### Extraordinary Influences reducing Margin:

- Currency fluctuation USD/ CAD
- Restructuring Cost
- Lower sales and after sales margin due to price pressure
- Product upgrade costs in the US

# Key Investment Highlights

## Francotyp-Postalia

- The market leader for franking machines in Germany (>44%), with growing market share in the US and UK markets
- The leading provider in the fast growing Mailstream market in Germany
- Can draw upon an installed base of 265,000 units across 250,000 customers, opening up cross selling potential for new Mailstream services
- Generates stable cash flows from more than 60% recurring revenues
- Benefits from high entry barriers in core business
- Owns in-depth know-how for international Hybrid-mail solutions

## Our future builds upon

- An excellent sales force becoming even more powerful with new approaches
- Significant potentials for productivity improvement through process reengineering in operational areas
- A new management team under the leadership of a new CEO to manage the change and quickly realize margin potential

# Appendix



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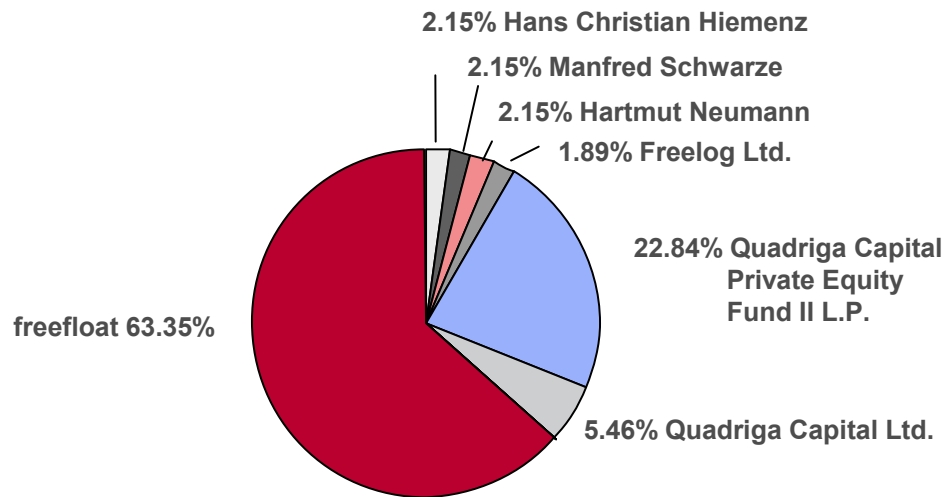


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# Shareholder Structure



## Freefloat

J O Hambro Capital Management Limited	9.35%
Richelieu Finance Gestion Privée	9.12%
INVESCO UK Limited	5.11%
Financiere de L'Echiquier	5.11%
KAIROS Investment Management Ltd.	3.01%
Treasury shares	2.52%

# Financial Calendar

- Q1 Results 2008                      May 29, 2008 – Conference Call
- Annual General Meeting              June 18, 2008 – Ludwig Erhard Haus, Berlin
- H1 Results 2008                        August 28, 2008 – Conference Call
- Q3 Results 2008                        November 27, 2008 – Conference Call

**Thank you for your attention!**

**We will now answer your questions.**

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# Disclaimer

This report contains forward-looking statements on the business development of the Francotyp-Postalia Group. These statements are based on assumptions relating to the development of the economic and legal environment in individual countries and economic regions, which we have made on the basis of the information available to us and which we consider to be realistic at the time of going to press. The estimates given entail a degree of risk, and the actual developments may differ from those forecast. Consequently, any unexpected fall in demand or economic stagnation in our key sales markets, such as Western Europe (and especially Germany) or in the USA, UK, or Canada, and Singapore will have a corresponding impact on the development of our business. The same applies in the event of a significant shift in current exchange rates relative to the US dollar, sterling, Canadian dollars, Singapore dollars. In addition, expected business development may vary if the assessments of value-enhancing factors and risks presented in the 2007 Annual Report develop in a way other than we are currently expecting.