

# LETTER TO OUR SHAREHOLDERS

## DEAR SHAREHOLDERS,

In the 2020 financial year, significant uncertainty and challenges in connection with the coronavirus pandemic led to a gloomy market environment and a global economic downturn. 2020 was also a challenging year for our Group. The segments particularly influenced by the automotive sector were hit comparatively hard by the impact of the pandemic, particularly as a result of a sharp drop in demand in the second quarter of 2020. It is therefore all the more encouraging for us that we proved our crisis resistance with our diversified investment portfolio and generated revenue of €338.7 million including discontinued operations despite the impact of the pandemic. We are thus only 9% below the previous year's figure of €372.8 million and, in fact, above the forecast we issued in September 2020. Our normalised EBITDA increased by 1.9% to €32.5 million (previous year: €31.9 million) and was also higher than the forecast range of €27 million to €30 million. The 1.0 percentage point increase in our normalised EBITDA margin to 9.6% means we only just underperformed our minimum target return of 10.0% (previous year: 8.6%). We are particularly proud of the fact that we successfully implemented our planned restructuring measures and significantly improved our profitability in these challenging times. We have also optimised our financing structure and reduced net debt even more than in the previous year. The strong free cash flow of €34.2 million reflects the KAP Group's solid financial situation and enables a high level of flexibility for the further implementation of the Group strategy with regard to future growth. We are very satisfied with this resilient performance, which is mainly due to the restructuring measures already implemented and our segments' strong market position in their niche markets. Taking account of the suspension of the dividend last year, the Management Board and Supervisory Board have therefore decided to propose a dividend of €0.75 per share to the Annual General Meeting.

Our segments' business performance was very mixed in the past year. The **engineered products**, **surface technologies** and **precision components** segments, which are particularly involved in the automotive sector, were hit hard by the impact of the COVID-19 pandemic and increased drops in unit sales in the automotive sector, and they performed significantly worse than in the previous year. In the **engineered products** segment, the first successes of the restructuring measures implemented were already evident in a significant improvement in the operating result. The **flexible films** segment also performed very encouragingly and was able to make use of new sales opportunities in the field of medical protective clothing. The **it/services** segment was hardly impacted by the pandemic and continued to grow in line with expectations. The successful sale and planned divestiture of two subsidiaries from our **it/services** segment puts our investment focus on industrial manufacturing companies.

In the past financial year, we already set the initial course towards achieving our medium-term targets. We want to further expand our leading positions in high-growth and high-yield niche markets and become even more profitable. To further develop the segments, in the past financial year we bundled concrete packages of measures in the **Accelerate** strategy programme, which is to be implemented by the end of 2023, taking account of the existing Group strategy. The programme covers six improvement initiatives for the KAP Group: increasing the sales focus, increasing efficiency, securing future prospects, optimising financial leeway, focusing the portfolio and expanding risk management. We will use **Accelerate** to accelerate the restructuring process and transform the KAP Group into a leading and forward-looking industrial holding company with sustainably improved profitability by the end of 2023. The following pages of this Annual Report will present the newly established strategy programme to you in detail.

As of the end of 2021, we will already have reached further important milestones. In the first quarter of 2021, we completed two attractive acquisitions in our **flexible films** segment. The acquisition of AerO Coated Fabrics B.V., a highly specialised extrusion company and manufacturer of thermoplastic composite materials, and the acquisition of all the remaining shares in now Contec GmbH significantly strengthened our competencies in the **flexible films** segment. We also increased the KAP Group's financial flexibility through the sale of our commercial property in Fulda in order to be able to make use of additional attractive investment opportunities in the market within the framework of our strategic alignment. In light of the current crisis, we are also increasingly seeing very attractive acquisition opportunities in the market and are carefully reviewing these.

Against the background of the continuing, albeit reduced, uncertainties in connection with the future course of the coronavirus pandemic, we expect a continuing dynamic economic environment for the 2021 financial year. Taking into account our segments' strong market positioning in attractive niche markets, the sale of subsidiaries in the **it/services** segment and the economic growth forecast by the International Monetary Fund, we expect revenue of between €300 and 330 million with an expected normalised EBITDA of between €27 and 33 million for continuing operations. We have not taken any renewed tightening or extension of the previous infection control measures beyond the first half of 2021 into account in this forecast.

We are maintaining our active role on the capital market and will communicate transparently on current business developments and all measures we plan to take or implement as part of our **Accelerate** programme.

The entire KAP workforce has especially contributed to the good performance in these challenging times. We want to thank you, our employees, for your enormous dedication, your perseverance and your great flexibility. Our approximately 2,700 employees have shown tireless dedication in this historic crisis. We would also like to thank you, our shareholders, for your loyalty. We are on a very good trajectory to a promising future.

Best regards,



Eckehard Forberich  
Member and Spokesman of  
the Management Board



Marten Julius  
CFO