

AGM report

RATIONAL AG

WKN 701080 ISIN DE 0007010803

on 8 May 2024 in Augsburg

**New records in anniversary year – revolutionary
new product unveiled**

Agenda

1. Presentation of the adopted annual financial statements for RATIONAL Aktiengesellschaft with management report for RATIONAL Aktiengesellschaft and the approved consolidated financial statements with combined management report, each as of 31 December 2023, as well as the Report by the Supervisory Board
2. Resolution on the appropriation of unappropriated profits
3. Resolution on the formal approval of the acts of the Executive Board for fiscal year 2023
4. Resolution on the formal approval of the acts of the Supervisory Board for fiscal year 2023
5. Resolution on the approval of the remuneration report 2023 for RATIONAL Aktiengesellschaft
6. Election of the auditor for fiscal year 2024
(proposal: Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Munich)
7. Resolution on the amendment to article 13 (4) sentence 3 of the Articles of Association of RATIONAL Aktiengesellschaft (Convocation, venue, participation): record date adjusted in accordance with the German act on financing forward-looking investments (German Financing for the Future Act (*Zukunftsfinanzierungsgesetz*))
8. Election of Supervisory Board members
(proposal: Mr Erich Baumgärtner, Reisch/Landsberg; Dr Johannes Würbser, Munich; Werner Schwind, Dachau; Ms Clarissa Käfer, Munich; Dr Christoph Lintz, Landsberg)

AGM report for RATIONAL AG

As usual, RATIONAL AG had sent out invitations to its General Meeting of Shareholders, which was held in the Schwabenhalle of the Messe Augsburg exhibition centre on 8 May 2024. The event was again attended by a large number of people – around 670 shareholders and guests – who wanted to hear the latest about the successful specialist for the preparation of hot food in commercial kitchens and afterwards enjoy the delicious food prepared in the company's own appliances. Matthias Wahler was there for GSC Research.

The Chairman of the Supervisory Board, Walter Kurtz, opened the meeting at 10 a.m. and said that all the members of the Executive Board and Supervisory Board were present. He then handed the floor to his deputy, Dr Hans Maerz, whom he designated as chair of the meeting, as usual. Notary Thomas Zöpfl from Augsburg took the minutes.

Once the formalities had been explained, Mr Kurtz took the floor again and presented the Report by the Supervisory Board, which had convened for 11 ordinary and 11 internal meetings in fiscal year 2023. Three meetings of the Audit Committee had also taken place. He then invited the Executive Board to speak.

Report by the Executive Board

CEO Dr Peter Stadelmann started off by giving a summary of the different festivities that had marked the 2023 fiscal year as the year of the company's 50th anniversary under the motto "Around tasty food, everyone speaks the same language". They included an Open Day in Landsberg, celebrations in the sales companies abroad and an event hosted for the most important dealers and partners. The final highlight was a ceremony held in Landsberg, which included the Siegfried Meister classical concert and was attended by around 1,800 visitors.

Dr Stadelmann was pleased with the opportunity to celebrate 50 very successful years. He said he was convinced that this was attributable to the uncompromising focus on customers. No other company in the industry has such an extensive network of employees and service partners who look after customers and support them in the use of the cooking systems. The customers' success is the most important outcome for RATIONAL. On this subject, he let one customer speak for himself in a short video in which he expressed his extreme satisfaction with the products and support from RATIONAL.

To ensure that the high level of customer satisfaction is maintained, RATIONAL is continuously working on developing new things and improve existing ones. In this context, the CEO reported on a really revolutionary new development, the iHexagon, which had been unveiled in September 2023 and presented to trade visitors at the Internorga industry trade fair in March 2024. Following the launch of the first combi-steamer in 1976 and the first VarioCookingCenter in 2005, a third product category has now been created.

According to Dr Stadelmann, the iHexagon is the world's first and only cooking system that intelligently combines three types of energy: convection, steam and microwave, making it completely novel. The additional microwave technology enables food to be cooked up to 30 percent faster without compromising on quality. Because of the intelligent combination, the chef does not even need to know which type of energy to use when and for how long. Especially given the shortages of skilled staff in commercial kitchens, the iHexagon offers huge added value.

As the CEO demonstrated, the team had spent around ten years working on the development of the iHexagon. To integrate another source energy into an appliance is not a straightforward matter. A large number of challenges had to be overcome in the process. Ultimately, the development was successful and the iHexagon became the talk of the trade fair – much to the Executive Board's delight. Customers who saw the appliance being demonstrated were impressed, and initial purchase commitments were made straight away. The iHexagon is best suited for customers who need even greater flexibility and want to produce large quantities of top-quality food quickly.

Another innovation presented by Dr Stadelmann was the iCareSystem AutoDose to optimise the cleaning process. With this system, cleaner and descaler are stored in cartridges inside the appliance and released automatically in the correct dosage. As a result, cleaning is no longer something the cooking staff has to

take care of, and it is even easier to keep the appliance hygienically clean. RATIONAL was awarded the Future Prize for the iCareSystem AutoDose at Internorga.

In the CEO's view, it takes constant investment to remain innovative. The construction of a new plant in Wittenheim, where up to 25,000 iVario appliances a year are to be manufactured in future, is scheduled to be completed this year. In China, a locally manufactured entry-level combi-steamer is to be launched in the second half of 2025, which will be priced below currently available models. Investments are being made in the refurbishment of a production site to this end.

Dr Stadelmann also mentioned that the employees, who are managed according to the tried and tested "entrepreneur in the company" (U.i.U.) concept at RATIONAL, accounted for a significant portion of the company's success. In the past year, the number of employees worldwide increased to 2,554 (2022: 2,401). RATIONAL does a lot to boost the company's attractiveness as an employer. That includes an above-average salary increase that was implemented last year to cushion the effects of inflation. In addition, an extraordinary payment was made in the anniversary year. Staff turnover was 6 percent worldwide in 2023, another record low.

At this point, CFO Jörg Walter took the floor to present details of the financial performance. In his presentation, he revealed that, after jumping above the 1 billion euro mark for the first time in the previous year, consolidated sales revenues had gone up by a further 10 percent, to a new record of 1.126 billion euros (2022: 1.022 billion euros). After two years of exceptionally high rates of expansion following the coronavirus crisis, this had brought RATIONAL back to a normal pace of growth. Factors contributing to the rise in sales revenues, with sales volumes remaining at the same high level, were in particular price increases to offset higher purchasing prices as well as a favourable regional mix.

The CFO was pleased to report that orders on hand had eased significantly. After orders had regularly totalled around 70 million euros and most appliances had been delivered within one to two weeks in the past, the difficult supply situation for commodities and components drove orders on hand as far as 430 million euros at their peak in the second quarter of 2022.

Mr Walter explained that, once the supply situation had eased, it took until the third quarter of 2023 to work through this mountain of orders. As the diagram he displayed demonstrated, new orders and sales revenues are now approximately at the same level. Most recently, orders on hand had stabilised at the new level of 120 million euros, and this is a critical factor for customers, as this is the only way to promise and meet the short delivery times to which they are accustomed.

However, the situation is different for each product group. The CFO explained that the iVario ceased to be affected by supply restrictions as early as in 2022, and that is why the high level of orders on hand could already be translated into sales revenues at the time. This led to a 57 percent jump in sales revenues in fiscal year 2022 and puts into perspective the 8 percent decline in sales revenues from 128 million euros to 118 million euros in fiscal year 2023. Mr Walter has not identified any change in the iVario's prospects of success in the market. The iCombi, on the other hand, recorded sales revenue growth of 13 percent in 2023, from 895 million euros to 1,008 million euros.

Analysed by region, Europe remains RATIONAL's most important market, accounting for more than 50 percent. However, market penetration is already high here and growth rates are therefore low. In Europe (excluding Germany), sales revenues increased by 5 percent, while in Germany alone, they declined by 3 percent from the high level of the previous year. In North and Latin America, sales revenues climbed by 18 percent, and the highest rate of expansion, 24 percent, was recorded in Asia. In China alone, a major order helped the growth rate accelerate to as much as 38 percent.

Consolidated EBIT improved by 17 percent, from 238 million euros to 277 million euros, likewise setting a new record. The EBIT margin edged up from 23.2 percent to 24.6 percent, a rise Mr Walter attributed mainly to the increase in sales revenues. In addition, the gross margin went up to 56.7 percent (2022: 55.3 percent), benefiting on the one hand from the price increases, while lower purchase prices also had some effect. Operating costs climbed slightly more slowly than sales revenues.

The CFO was also very satisfied with the balance sheet ratios, which had remained very solid. On the back of the profit generated, equity was up significantly, at 739 million euros (2022: 676 million euros), and with total assets of 967 million euros (2022: 899 million euros), this resulted in a high equity ratio of 76.4 percent (2022: 75.2 percent). The liquidity situation was likewise very comfortable. Including short-term deposits, cash and cash equivalents totalled 400 million euros.

Mr Walter then turned to the encouraging performance of RATIONAL shares, whose price had risen by a factor of 35 since the company's IPO in March 2000. Shareholders who had invested at the time have been able to enjoy a considerable return of 18 percent a year. In the 2023 calendar year alone, the share price picked up by 26 percent, thus significantly outperforming the benchmark indices. Share price performance accelerated in particular after lifting the year-end guidance when the third-quarter figures were published and after announcing the iHexagon.

The fact that the shares were at times not included in the MDAX did not hold back share performance. Mr Walter explained that the exclusion was attributable to the fact that, based on the regulations, Dr Maerz, Deputy Chairman of the Supervisory Board and Chairman of the Audit Committee at the same time, is no longer considered independent because of his long period in office. Following the election of a new Supervisory Board and his departure from the body, all index criteria were met again. Mr Walter expects the shares to be readmitted to the MDAX in June this year.

The CFO then went on to present the dividend proposal. In general, the company's dividend policy is to distribute around 70 percent of earnings. Last year's dividend was 13.50 euros, although that included a special payment of 2.50 euros to compensate for the previous coronavirus-related dividend reduction, which had taken the ratio to 83 percent. This year there is to be a regular distribution of 13.50 euros. In relation to earnings per share of 18.98 euros (2023: 16.33 euros), this is a distribution ratio of 71 percent.

Mr Walter also indicated that the start into the current year 2024 had been successful. In the first quarter, sales revenues rose to 286 million euros (2023: 282 million euros), a slight increase of 1 percent from the high prior-year figure, which had still been impacted by the reduction in orders on hand. Especially the iVario was back on the growth path, with sales revenues up by 7 percent. Broken down by region, double digit increases in sales revenues in North America and Asia offset the decline in Europe.

EBIT expanded faster than sales revenues in the first three months of 2024, up 7 percent to 71 million euros (2023: 67 million euros). This was mainly attributable to an improvement in the gross margin to 58.5 percent (2023: 55.7 percent) on the back of easing purchase prices. The EBIT margin was 24.8 percent (2023: 23.5 percent), thereby even exceeding the pre-pandemic 2019 figure.

The Executive Board expects this trend to continue for the remainder of the year. Fiscal 2024 is forecast to become a completely normal year again. Sales volumes and sales revenues are projected to grow in the mid- to high single-digit percentage range, with EBIT expanding in line with sales revenues. The margin is anticipated to be kept at the good level of the previous year.

Mr Walter remains optimistic about the future. The long-term trend towards more out-of-home catering is set to continue amid worldwide population growth. In addition, the industry faces major challenges, given the persistent shortages of skilled staff and rising energy costs and food prices. RATIONAL offers the right products, which put customers in a better position to deal with these challenges. Overall, due to its worldwide presence, RATIONAL enjoys an excellent position in this attractive market.

General discussion

Dr Günther Hausmann, who represents the German Society for the Protection of Securities Holders (DSW), offered his congratulations on the once again excellent results, which were in turn reflected in the share price. Shareholders can also look forward to another attractive dividend. He said he could not understand that, despite the sustained positive performance of the business, a number of analysts were issuing sell recommendations for the shares.

Johannes Weber from the German Association for the Protection of Capital Investors (SdK) also started off with congratulations. He remarked that, after breaking through the 1 billion euro mark, sales revenues had continued to rise sharply, profit had increased even faster, and the positive trend was continuing. He was impressed that there was no sign of RATIONAL being affected by the global crises. The SdK spokesman also specifically welcomed the anniversary bonus paid to employee as a token of appreciation.

Dr Hausmann shared the CEO's assessment that the iHexagon was a very exciting new development, although he also expressed concern that it could be regarded as competition to the iCombi and there could be a certain amount of cannibalisation. He was interested in this context in the pricing and useful lives of the appliances.

CSMO Markus Paschmann gave an assurance that the products would not compete with each other.

Instead, he saw the iHexagon as complementing the product portfolio, and that was why it was presented as a separate category. There is no doubt some overlap, but the iHexagon can do more, especially when it comes to heating food quickly. In a commercial kitchen, it will presumably replace two to three appliances. Although the iHexagon costs about twice as much as the iCombi Pro of a comparable size, it gives customers a considerable financial advantage.

According to Mr Paschmann, the appliances officially have a useful life of ten to twelve years. There are, however, many appliances that have been in use for significantly longer, and service and spare parts continue to be available for these as well. Of course the iCombi, the company's centrepiece, will continue to be enhanced and optimised.

Furthermore, Dr Hausmann was interested in an assessment of the opportunities in China, where RATIONAL is making massive investments. CTO Dr Martin Hermann was able to dispel his concern that a Chinese company owned an equity interest in the subsidiary there by stating that it was a wholly owned subsidiary of RATIONAL AG, which had long had a presence in China through a sales company.

Mr Paschmann added that China currently accounted for around 5.5 percent of consolidated sales revenues. The market is growing dynamically, and especially cost-effective appliances are experiencing massive growth. However, the iCombi in its current form is positioned at a higher level. This is why the intention is to close the gap between this appliance and low-price providers. The product developed there is in the medium range. It has been optimised specifically for Chinese food and provides a useful addition. Mr Paschmann believes that, with this product, sustained double-digit growth will be possible in China.

Both investor protection representatives wanted to know how it was possible to achieve the encouraging increase of 10 percent in sales revenues in fiscal year 2023 even though sales volumes had been largely flat. Dr Stadelmann explained that around 80 percent of the rise was attributable to the price increases. In addition, higher non-appliance sales revenues, such as from cleaners, service and accessories, account for a small proportion.

Dr Hausmann was not impressed by the 3 percent decline in sales revenues in Germany in fiscal year 2023. In the first quarter of 2024, sales revenues went down by as much as 17 percent. He wanted to know the reason for this unsatisfactory performance in the home market.

In his response, Mr Paschmann referred to the enormous effect from processing the high orders on hand. In Germany, the first quarter of 2023, to which the latest figure was being compared, had still been majorly affected. This is why the Executive Board regards this decline in sales revenues as a statistical outlier. It does not believe that the long-term growth path, which is in the low single-digit percentage range, is at risk. No market share is being lost either.

Mr Weber said he was impressed by the very comfortable liquidity. He wanted to know how much cash was actually needed for day-to-day operations. Mr Walter explained that the company should always have enough cash so it is ready for unforeseen events and growth can be financed from its own resources. He estimated that the buffer required for this purpose was roughly 100 million euros. Including the 150 million euros to be distributed as dividend, the total required was around 250 million euros.

Mr Weber also queried the strategy for foreign currency hedging. Here the CFO informed the meeting that this issue was increasingly gaining importance, seeing that sales revenues outside Europe were expanding at a faster rate. RATIONAL pursues a clearly defined hedging strategy. Natural hedging is used as far as possible. Otherwise, between 50 and 80 percent of the currency risk is hedged with forward exchange contracts and options.

The SdK representative identified as a potential problem that it may not be possible to attract enough skilled professionals to Landsberg. In reply, Dr Stadelmann was able to state that RATIONAL was fortunate to be known as an attractive employer and employee satisfaction was high. Last year, at any rate, the workforce had expanded by 153 employees. Most of that happened in sales so that even more customers can be visited and won over. In Germany alone, 84 employees were recruited.

Mr Weber's question about a general assessment of Germany as a location for business and production was answered by Mr Wiedemann. He is aware that many companies relocate because of the very high costs, since the location is no longer attractive. But because of RATIONAL's small extent of vertical integration, the company is less affected by this. Instead he attaches importance to the high qualification levels of employees in Landsberg, as they ensure a high level of product quality. However, the fact cannot be concealed that policymakers and increasingly excessive bureaucracy are chipping away at Germany as a location.

When prompted about other plans for locations abroad, Mr Wiedemann elaborated that the focus in this regard was currently on the Chinese market. In addition, there have for a while been regular reviews to determine whether production in North America could make sense. So far, the outcome has always been that this is not the case. The products for the United States continue to be manufactured in Landsberg.

Voting

Before going into voting, Dr Maerz provided information on current attendance. A total of 10,253,979 shares were represented at the General Meeting of Shareholders. In relation to the total share capital of 11,370,000 euros, divided into the same number of shares, this was equivalent to a ratio of 90.18 percent. All resolutions were passed with large majorities.

In particular, these were the dividend of 13.50 euros (agenda item 2), formal approval of the acts of the Executive Board (agenda item 3) and Supervisory Board (agenda item 4), approval of the remuneration report (agenda item 5), the appointment of Deloitte GmbH as auditor of the financial statements (agenda item 6), the amendments to the Articles of Association in accordance with the Zukunftsfinanzierungsgesetz (German Financing for the Future Act) (agenda item 7) and the election of a new Supervisory Board (agenda item 8).

The new candidates for the Supervisory Board had introduced themselves personally before the vote. The meeting ended after about three hours.

Summary

RATIONAL AG concluded the 2023 anniversary year with new records. After jumping above the 1 billion euro mark for the first time in the previous year, sales revenues went up by a further 10 percent to over 1.1 billion euros. This means that the specialist for the preparation of hot food in commercial kitchens has returned to a normal pace of growth. Orders on hand, which had at times swelled significantly due to disrupted supply chains, has now been brought back to a normal level.

Consolidated EBIT increased by 17 percent to 277 million euros, hence also setting a new record. The margin went up to 24.6 percent (2022: 23.2 percent), while earnings per share improved to 18.98 euros (2022: 16.33 euros). In line with the long-term dividend policy, under which around 70 percent of profit is to be distributed, the General Meeting of Shareholders resolved a dividend of 13.50 euros. Even at the current share price of 790 euros, this still represents a basic yield of 1.7 percent.

It can, moreover, be assumed that profit and dividend will rise further in future years. Although market penetration is already high in Europe and growth is therefore low, the regions of North America, Latin America and Asia are recording impressive increases. China is powering ahead with growth well into double digits. From the middle of 2025 onwards, a locally manufactured entry-level model of a combi-steamer will additionally be launched there, which is tailored specifically to the Chinese market and will unlock further potential.

Moreover, a really revolutionary new product, the iHexagon, was unveiled recently. It is the world's first and only cooking system that intelligently combines three types of energy: convection, steam and microwave. Given the persistent shortages of skilled staff in commercial kitchens, in particular, it thus offers huge added value. It has been very well received by customers to whom it has already been presented. The iHexagon will therefore also open up major growth opportunities.

The RATIONAL success story will continue to be written. The long-term trend towards more out-of-home catering is set to continue amid worldwide population growth. Moreover, the persistent shortages of skilled staff are pushing customers to opting for better kitchen equipment, and RATIONAL is very well positioned in this attractive market. It is true, at their current price of 790 euros and a price-earnings ratio of around 35, the shares are not really a bargain. But with a longer-term horizon, an investment should still be worth it.

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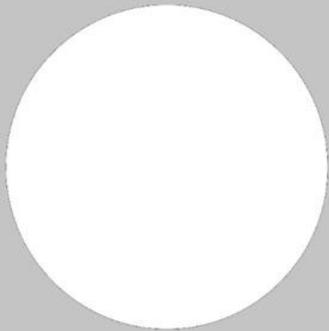
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