Manz AG
Reutlingen

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2019 Annual General Meeting
Tuesday, July 2, 2019, in Filderstadt

Report of the Managing Board to the Annual General Meeting regarding item 6 of the agenda regarding the authorization to grant subscription rights to members of the Managing Board and to managers of the company and its affiliated companies as part of a performance share plan (Manz Performance Share Plan 2019) and concerning the creation of a Contingent Capital III, and to make amendments to the Articles of Incorporation.

The company has granted members of the Managing Board, members of management at affiliated companies and managers in the company below the Managing Board and managers of affiliated companies below general management a variable compensation component with long-term incentivizing effect. This is intended to promote action in favor of the company among entitled members of the Managing Board and managers, make them loyal to the company and affiliated companies in the long term and ensure consistent compensation in line with market conditions. The Manz Performance Share Plan 2015 resolved by the Annual General Meeting of July 7, 2015 with a scope of up to 115,000 performance shares for the purchase of up to 230,000 company shares has been almost exhausted by issuing performance shares.

To continue ensuring the compensation structure facilitates long-term, multi-year corporate development and be able to continue issuing performance shares in the future, a new Manz Performance Share Plan 2019 should be resolved, with a design and vesting similar to the Manz Performance Share Plan 2015. The Managing Board and Supervisory Board should be able to issue up to 180,000 subscription rights (performance shares) for the purchase of up to 360,000 company shares on this basis. Accordingly, a new Contingent Capital III should also be created.

Point 6 of the agenda of the Annual General Meeting of Manz AG on July 2, 2019 includes a proposal to authorize the Managing Board and, if members of the Managing Board are affected, the Supervisory Board to grant subscription rights (performance shares) to a total of up to 360,000 company shares to members of the Managing Board of the company, members of management in affiliated companies and managers of the company under the Managing Board and managers of affiliated companies under the management. Accordingly, a new Contingent Capital III shall be created and included in the Articles of Incorporation as section 3 paragraph 6.

The formation of the Contingent Capital III in the amount of 360,000.00 euros, corresponding to roughly 4.65 % of the current stock capital, serves to issue new shares in the company, which can transfer these to the beneficiaries if they exercise the performance shares granted to them. The new shares shall only be issued if performance shares are issued to beneficiaries according to the conditions in the Annual General Meeting resolution and they exercise their subscription rights after the end of the waiting period and according to the achievement of targets established in the authorization. According to the provisions of the Joint Stock Corporation Act, the shareholders shall have no subscription rights to the new shares due to the appropriation of the contingent capital.

In contrast to phantom stocks (stock appreciation rights), which are generally serviced through cash payments after the end of the waiting period and achievement of targets, issuing performance shares entitling the bearer to purchase company shares has the advantage that the beneficiaries can decide after the shares are issued whether they want to remain participating shareholders in the company or sell the shares on the market. This tends to expand the shareholder base of the company and increase equity. The company avoids the loss of liquid funds. Personnel expenses related to the performance share plan can be accounted for continuously in the financial reporting of the company – unlike when issuing phantom stocks (stock appreciation rights) – without the influence of interim rate fluctuations.

Typically, performance shares should be issued in annual tranches, which should be of roughly the same size. According to the current plan, the allocation of performance shares to the individual groups of beneficiaries should primarily conform to the allocation of the maximum number to be issued under the authorization. However, the Managing Board and Supervisory Board reserve the right to make a decision each year on the allocation of performance shares and scope of the individual tranches, in consideration of the overall situation of the company. There may also be fluctuations in the annual scope if the number of participating managers and/or share price for the Manz share changes.

Shares shall not be issued from Contingent Capital III before the end of the waiting period of four calendar years after the issue date for the relevant tranche of performance shares. These can only be exercised once the minimum value has been exceeded for at least one of the targets; otherwise the performance shares shall lapse without compensation.

The targets for performance shares consist of the EBITDA margin and growth in corporate value. The EBITDA margin and growth in corporate value success targets are each assigned a weighting of 50 % for measuring the total degree of target attainment.

There is an “objective,” a “minimum value” and a “maximum value” for each target. The objective defines the value at which the degree of target attainment for the respective performance target is 100 %. The minimum value designates the lower limit of the target corridor, at or below which the degree of target attainment for the respective performance target is 0%. The maximum value defines the value at or above which the degree of target attainment is 200 %.

The EBITDA margin target relates to the average value of the EBITDA margin according to the group financial statements of the company during the performance period for the EBITDA margin target, which includes a period of four fiscal years from the start of the fiscal year in which the performance shares are issued. The minimum value is an EBITDA margin of 5 %. The objective is an EBITDA margin of 10 %. The maximum value for the EBITDA margin target is reached with an EBITDA margin of 15 %.

The growth in corporate value indicates the percentage of increase in the value of the company. The performance period for the growth in corporate value target covers a period of at least four calendar years beginning at the start of the issuing period, in which the performance shares are granted, and ending with the expiration of the vesting period. The corporate value is considered the market capitalization of the company. The minimum value is a 0 % growth in corporate value. The objective is a 20 % growth in corporate value. The maximum value for the development of the enterprise value target is attained if this value reaches 30 %.

The “degree of overall target attainment” for the particular tranche corresponds to the average of the degrees of target attainment achieved for both targets. The ability to exercise the performance shares is staggered based on the overall degree of target achievement, in that the performance shares issued to beneficiaries in a tranche are multiplied by the overall degree of target achievement. Therefore, each performance share can entitle the holder to purchase up to two shares in the company.

The opportunity associated with the performance shares is limited by a cap: the number of performance shares to be serviced is reduced if and insofar as the value of the shares to be issued at the end of the waiting period exceeds 300 % of the assignment value of the performance shares issued to beneficiaries in the relevant tranche. Furthermore, the authorization provides a right to the Supervisory Board or Managing Board to limit the vesting of performance shares at its discretion in case of extraordinary developments. Reasons for doing so may include, for instance, corporate takeovers, sales of parts of the company, increases of hidden reserves or external influences that would result in windfall profits.

Beneficiaries can exercise eligible performance shares within an exercise period of three months. This shall start when both the group financial statement for the last fiscal year has been approved before the end of the waiting period for the relevant tranche and the waiting period is expired. The exercise price the beneficiary is to pay to the company for the purchase of each share as a result of exercising performance shares, corresponds to the respective, lowest issue price required by law (section 9, paragraph 1 AktG), currently 1.00 euro.

The company would like to have a high level of flexibility in implementing the performance share plan. Therefore, it reserves the right to deliver its own existing shares which it holds or purchases for this purpose instead of issuing new shares from the Contingent Capital III, or to pay out the respective value of the shares to be issued, minus the exercise price. Payment of the settlement amount will result in an outflow of funds, but will also avoid dilution through the issue of new shares and unreasonably high administrative costs if only a small amount are exercised. Issuing new shares will also be avoided if performance shares are serviced with the company's own shares, which can be preferable in a favorable rate situation. To do so, company shareholders must be excluded from subscription rights to the company's own shares.

The Managing Board and Supervisory Board should be authorized to establish further details on issuing and fulfilling performance shares, issuing shares from the contingent capital and other planning conditions, including how to handle performance shares if beneficiaries have left their service or work relationship with the company or its affiliated at the end of the waiting period due to a termination or cancellation agreement. Since the performance share plan also serves to increase manager loyalty to the company, the intention is to make the exercise of performance shares in case of termination or if a cancellation agreement is concluded conditional on the shares being eligible for exercise at the time the service or employment relationship ends. However, the Supervisory Board and Managing Board would like to be able to decide in a flexible manner when to allow exceptions.

Under the Manz Performance Share Plan 2019, managers should be geared towards thinking about the long-term development of the Manz Group through long-term variable compensation components assessed over a multi-year term. The Managing Board and Supervisory Board are convinced that the suggested authorization to issue performance shares to members of the Managing Board, members of the management of affiliated companies and to company managers below the Managing Board and managers of affiliated companies below management are especially well suited to encourage long-term performance among managers in the Manz Group, and to therefore contribute to sustainably increasing corporate value in the interest of the company and its shareholders.

Reutlingen, May 2019

Manz AG
The Managing Board