



QUARTERLY STATEMENT

1 January to 31 March 2016

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QSC AG

KEY DATA

All amounts in € million	01/01/ – 31/03/ 2016	01/01/ – 31/03/ 2015
Revenues	98.9	104.7
EBITDA	9.7	9.1
Depreciation / amortisation ¹	9.1	12.1
EBIT	0.6	(3.0)
Net income (loss)	(0.1)	(3.4)
Earnings per share ² (in €)	0.00	(0.03)
Shareholders' equity	123.8 ⁴	124.2 ⁵
Long-term liabilities	170.3 ⁴	171.0 ⁵
Short-term liabilities	59.3 ⁴	63.3 ⁵
Balance sheet total	353.5 ⁴	358.5 ⁵
Equity ratio (in %)	35.0 ⁴	34.6 ⁵
Free cash flow	(0.8)	(4.4)
Liquidity	71.3 ⁴	74.0 ⁵
Capital expenditure (capex)	3.6	3.5
Capex ratio ³ (in %)	3.6	3.3
Xetra closing price as of 31 March (in €)	1.13	1.95
Number of shares as of 31 March	124,162,487	124,142,487
Market capitalisation as of 31 March	140.3	242.1
Number of employees as of 31 March	1,409	1,666

¹ Including non-cash share-based compensation

² Basic and diluted

³ Ratio of capital expenditure to revenues

⁴ As of 31 March 2016

⁵ As of 31 December 2015

QSC POSTS SUBSTANTIAL EARNINGS GROWTH

Business performance on track. Based on revenues of € 98.9 million, QSC generated EBITDA of € 9.7 million in the first quarter of 2016. The EBITDA margin rose by 1 percentage point year-on-year to 10%.

Positive operating earnings. For the first time in seven quarters, QSC posted an operating profit once again in the past quarter: EBIT came to € 0.6 million in the first quarter of 2016, up from € -3.0 million in the previous year's period.

Cloud revenues virtually double. In its youngest segment, Cloud, QSC increased its revenues to € 2.4 million in the first three months of 2016, up from € 1.3 million in the previous year's period. The Company expects its Cloud business to show substantial growth on a full-year basis as well.

Trailblazing Cloud services. QSC presented its Pure Enterprise Cloud – a full-range cloud-based service offering – to the public at the end of February 2016 and began marketing it to new and existing customers. At the Hannover Messe trade fair in April 2016, the Company also presented its Internet-of-Things (IoT) solutions for smartly and securely networking industrial systems.

Progress with organisational restructuring. QSC had a total of 1,409 employees at the end of March 2016 and thus came significantly closer to its target of reaching a total workforce of around 1,350 employees by the end of the year. While progress was made with reducing staff totals in many areas, the Company also began selectively recruiting cloud experts to boost the high-growth business associated with the Pure Enterprise Cloud.

"QSC can report a good start to the current year. I am very satisfied with the progress made in our Cloud business. The Pure Enterprise Cloud has been positively received by SME companies – and that includes both existing and new customers."

Jürgen Hermann, Chief Executive Officer

"The cost-cutting programme is producing the expected success and sustainably boosting QSC's earnings strength. By the end of the year, we will have completed the current organisational restructuring programme."

Stefan A. Baustert, Chief Financial Officer

SUMMARY OF FIRST QUARTER OF 2016

Business Performance

Positive operating earnings. In 2015, QSC positioned itself as digitiser to the German SME sector and initiated a comprehensive organisational restructuring programme that will be completed by the end of 2016. The measures taken in this context led to an improvement in the Company's earnings position in the first quarter of 2016: EBITDA grew to € 9.7 million, up from € 9.1 million in the previous year's quarter. Due to lower depreciation and amortisation, among other things, EBIT improved to € 0.6 million in the first quarter of this year, up from € -3.0 million in the previous year's quarter.

Cloud revenues virtually double. Revenues in Cloud, the youngest segment, rose from € 1.3 million in the previous year's period to € 2.4 million in the first quarter of 2016. The segment contribution improved over the same period by € 1.3 million to € -0.8 million. The growth in the past quarter was driven by the new Pure Enterprise Cloud, as well as by Internet-of-Things (IoT) applications for networking devices and machines on the basis of QSC's proprietary SOLUCON platform.

Revenues, Cloud

(in € million)

Q1/2016		2.4
Q1/2015		1.3

QSC presented its Pure Enterprise Cloud to a wide audience at the end of February 2016. This one-stop range of cloud-based services enables medium-sized companies to procure both standard applications and individually tailored business applications faster, more closely in line with their needs, and from any conceivable end appliances regardless of location. Access and data traffic are handled via QSC's proprietary broadband network. This way, customers benefit from a consistent end-to-end service commitment for all of their cloud-based IT and avoid the security and compatibility risks associated with isolated services. QSC immediately began marketing this service to existing and new customers. In the coming quarters, the Company will continue to focus on selling the Pure Enterprise Cloud – the answer to SME companies' current and future ICT and cloud computing needs.

In its IoT business, QSC offers projects for medium-sized business customers and bespoke products. The IoT Data Broker, for example, enables industrial systems to be smartly and securely networked. Alongside the core software, this product also offers modular functions such as encryption, device and user management, big data, storage, and rule engine. Particularly interesting is the documented programming interface to enable the product to be connected to proprietary systems, or to standardised analytical, ERP, CRM or billing systems.

A further addition to the cloud product portfolio is being marketed online by QSC's fonial subsidiary. Launched at the beginning of January this year, this service enables customers to use a cloud-based telephony system with great flexibility and numerous functionalities.

Growth in Consulting. Revenues in Consulting increased to € 10.0 million in the first quarter of 2016, up from € 9.8 million in the previous year's period. The segment contribution grew disproportionately over the same period, rising from € 1.0 million to € 1.4 million. The corresponding margin thus improved to 14%, as against 10% in the first quarter of 2015.

Revenues, Consulting

(in € million)



QSC generated the predominant share of its Consulting revenues with advisory services relating to SAP software. These revenues grew by 10% to € 8.7 million. The Company acted early to prepare for the technological advance now underway from the R/3 ERP product family to S/4HANA, also by developing its own HANA Competence Centre, and can now build on this foundation to expand its own market position.

Focusing process underway in Outsourcing. Consistent with expectations, revenues in the traditional Outsourcing business decreased from € 36.8 million in the first quarter of 2015 to € 32.1 million in the past quarter. When it comes to outsourcing and taking over ICT services, QSC is relying from this year onwards on its Pure Enterprise Cloud, and thus on the cloud-based provision of the corresponding services. With its new cloud-based portfolio, QSC will also be enabling its existing companies to gradually migrate to industrialised, standardised outsourcing solutions. Revenues in the Outsourcing segment will therefore continue to decline as 2016 progresses. Despite the substantial drop in revenues, the segment contribution of € 7.7 million remained at the previous year's level in the first quarter of 2016.

Revenues, Outsourcing

(in € million)



Growing telecommunications business with corporate customers. QSC defied the market trend and increased its TC revenues with corporate customers by 3% to € 22.4 million in the first quarter of 2016. QSC has operated an All-IP network for many years now and has a clear competitive advantage in terms of its experience and quality. Small and medium-sized companies in particular benefit from the convenient, secure and inexpensive products offered on an IP basis.

TC revenues with resellers, by contrast, continued to decline in a toughly contested market. Overall, revenues in the Telecommunications segment totalled € 54.4 million, as against € 56.8 million in the first quarter of 2015. The segment contribution amounted to € 9.8 million, as against € 11.2 million in the previous year.

Revenues, Telecommunications

(in € million)



Progress in reducing costs. The cost-cutting programme impacted positively across all segments in the first quarter of 2016. One core component of this programme involves downsizing the workforce by around 350 employees to around 1,350 employees by the end of 2016. Following a reduction in the workforce by a further 45 employees in the past quarter, QSC still had 1,409 employees as of 31 March 2016. While the Company made progress with these staff cuts in many areas, it also began selectively recruiting cloud experts to boost the fast-growing business associated with the Pure Enterprise Cloud. QSC's transformation into the digitiser of the SME sector is thus progressing apace.

Earnings Performance

Stable gross margin. Cost of revenues totalled € 72.9 million in the first quarter of 2016, compared with € 77.6 million in the previous year's period. Consistent with the expected reduction in revenues, gross profit also decreased to € 26.0 million, down from € 27.1 million in the first quarter of 2015. The gross margin nevertheless remained stable at 26%. At € 7.9 million, sales and marketing expenses fell short of the previous year's figure of € 9.3 million. Like in the first quarter of 2015, general administrative expenses came to € 8.4 million.

EBITDA margin rises to 10%. Notwithstanding the reduction in revenues, the successful implementation of the cost-cutting programme made it possible to increase EBITDA to € 9.7 million in the first quarter of 2016, up from € 9.1 million in the previous year's quarter. The EBITDA margin rose by 1 percentage point to 10%. As planned, depreciation and amortisation fell significantly to € 9.1 million. As a result, QSC generated an operating profit once again for the first time in seven quarters. EBIT came to € 0.6 million, as against € -3.0 million in the first quarter of 2015. Consolidated net income therefore showed a marked improvement to € -0.1 million, up from € -3.4 million in the equivalent period in the previous year.

Financial and Net Asset Position

Improvement in free cash flow. The free cash flow increased to € -0.8 million in the first quarter of 2016, up from € -4.4 million in the previous year. The Company calculates this key management figure as the change in net debt before acquisitions and distributions. The table below shows the amounts of all parameters at the two balance sheet dates on 31 March 2016 and 31 December 2015.

€ million	31/03/2016	31/12/2015
Liquidity	71.3	74.0
Liabilities under financing and finance lease arrangements	(2.8)	(4.5)
Liabilities due to banks	(157.8)	(158.0)
Interest-bearing liabilities	(160.6)	(162.5)
Net debt	(89.3)	(88.5)

It can be seen that liquidity decreased by € 2.7 million to € 71.3 million in the first quarter of 2016. Interest-bearing liabilities reduced by € 1.9 million to € -160.6 million. As a result, net debt showed a slight increase of € 0.8 million to € -89.3 million as of 31 March 2016.

Capital expenditure for cloud infrastructure. Alongside the improvement in the Company's operating earnings, the pleasing development in the free cash flow was also due to capital expenditure remaining at a moderate level. This expenditure showed only a slight increase to € 3.6 million in the first quarter of 2016, as against € 3.5 million in the previous year. The largest share of this expenditure involved expanding QSC's proprietary infrastructure, particularly in view of the market launch of the Pure Enterprise Cloud.

Depreciation reduces value of property, plant and equipment. The reduction in total assets from € 358.5 million at the balance sheet date at the end of 2015 to € 353.5 million as of 31 March 2016 was mainly due to scheduled depreciation of property, plant and equipment on the asset side and to lower short-term liabilities on the equity and liabilities side of the balance sheet. The value of long-term assets decreased to € 220.0 million, down from € 224.7 million as of 31 December 2015. Short-term liabilities fell to € 59.3 million as of 31 March 2016, as against € 63.3 million at the 2015 balance sheet date.

Solid equity ratio of 35%. QSC continues to finance itself largely from equity and with long-term liabilities with congruent maturities. At € 123.8 million, shareholders' equity as of 31 March 2016 corresponds to an equity ratio of 35%. Long-term liabilities totalled € 170.3 million as of 31 March 2016. At € 155.7 million, most of these liabilities were due to banks. QSC took up a promissory note loan of € 150 million with a term of 5 and 7 years and favourable conditions in 2014.

Outlook

QSC confirms 2016 forecast. The start to the new financial year developed as planned and QSC can therefore confirm the forecast published at the end of February. In 2016, the Company expects to generate revenues of between € 380 million and € 390 million and positive free cash flow. Given the one-off costs incurred to expand the Pure Enterprise Cloud and for the personnel restructuring measures still underway, the Company expects to generate EBITDA in a range of € 34 million to € 38 million. This figure includes one-off costs in a medium single-digit million euro range for the restructuring measures. These costs will predominantly be incurred in the second half of the year. By the end of the year, the organisational restructuring programme will have been completed.

Further Information

About this report. This document meets the new requirements for quarterly statements pursuant to § 51a of the Stock Exchange Regulations of the Frankfurt Stock Exchange. This amended form of presentation will be used in future for reporting on the first and third quarters of the financial year. This document should be read in conjunction with the 2015 Annual Report, which can be found at www.qsc.de/en/investor-relations/ir-publications/. Unless they are historic facts, all disclosures in this report constitute forward-looking statements. These are based on current expectations and forecasts concerning future events and may therefore change over time.

About the company. QSC AG is digitising the German SME sector. With decades of experience and expertise in the areas of Cloud, Consulting, Outsourcing, and Telecommunications, QSC accompanies its customers securely into the digital age. Today already, cloud-based procurement models offer increased speed, flexibility, and full service availability. The Company's TÜV and ISO-certified data centres in Germany and its nationwide All-IP network form the basis for maximum end-to-end quality and security. QSC's customers benefit from one-stop innovative products and services that are marketed both directly and via partners.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Income (unaudited)

Euro amounts in thousands (€ 000s)

	01/01/ – 31/03/ 2016	01/01/ – 31/03/ 2015
Net revenues	98,864	104,709
Cost of revenues	(72,890)	(77,618)
Gross profit	25,974	27,091
Sales and marketing expenses	(7,939)	(9,283)
General and administrative expenses	(8,389)	(8,414)
Depreciation/amortisation (including non-cash share-based compensation)	(9,098)	(12,116)
Other operating income	550	294
Other operating expenses	(472)	(580)
Operating profit (EBIT)	626	(3,008)
Financial income	50	90
Financial expenses	(1,594)	(1,505)
Net income (loss) before income taxes	(918)	(4,423)
Income taxes	775	1,053
Net income (loss)	(143)	(3,370)
Earnings per share (basic) in €	0.00	(0.03)
Earnings per share (diluted) in €	0.00	(0.03)

Consolidated Balance Sheet

Euro amounts in thousands (€ 000s)

	31/03/2016 (unaudited)	31/12/2015 (audited)
ASSETS		
Long-term assets		
Property, plant and equipment	59,626	62,392
Land and buildings	24,940	25,152
Goodwill	67,077	67,077
Other intangible assets	39,047	41,411
Trade receivables	3,817	4,583
Prepayments	4,184	3,608
Other long-term assets	176	292
Deferred tax assets	21,127	20,207
Long-term assets	219,994	224,722
Short-term assets		
Trade receivables	53,145	48,704
Prepayments	6,888	3,712
Inventories	901	884
Other short-term assets	1,196	6,521
Cash and cash equivalents	71,344	73,982
Short-term assets	133,474	133,803
TOTAL ASSETS	353,468	358,525

	31/03/2016 (unaudited)	31/12/2015 (audited)
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity		
Issued capital	124,162	124,162
Capital surplus	142,852	142,702
Other capital reserves	(3,353)	(2,996)
Accumulated deficit	(139,830)	(139,673)
Shareholders' equity	123,831	124,195
Liabilities		
Long-term liabilities		
Long-term liabilities under financing and finance lease arrangements	687	1,722
Liabilities due to banks	155,671	155,830
Convertible bonds	28	27
Accrued pensions	6,575	6,693
Other provisions	1,645	1,642
Other long-term financial liabilities	4,609	3,879
Deferred tax liabilities	1,099	1,204
Long-term liabilities	170,314	170,997
Short-term liabilities		
Trade payables	33,653	30,596
Short-term liabilities under financing and finance lease arrangements	2,141	2,761
Liabilities due to banks	2,148	2,140
Other provisions	5,936	8,368
Accrued taxes	355	381
Deferred income	3,815	4,020
Other short-term liabilities	11,275	15,067
Short-term liabilities	59,323	63,333
Liabilities	229,637	234,330
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	353,468	358,525

Consolidated Statement of Cash Flows (unaudited)

Euro amounts in thousands (€ 000s)

	01/01/ – 31/03/ 2016	01/01/ – 31/03/ 2015
Cash flow from operating activities		
Net income (loss) before income taxes	(918)	(4,423)
Depreciation and amortisation of fixed assets	8,948	11,952
Non-cash share-based compensation	150	164
Loss from disposal of fixed assets	26	4
Income tax paid	(1,895)	(737)
Income tax received	388	-
Interest received	43	102
Changes in provisions	(2,573)	(2,131)
Changes in trade receivables	(3,675)	2,661
Changes in trade payables	7,589	(2,425)
Changes in other assets and liabilities	995	(230)
Cash flow from operating activities	9,078	4,937
Cash flow from investing activities		
Purchase of intangible assets	(2,759)	(3,839)
Purchase of property, plant and equipment	(5,420)	(5,521)
Proceeds from sale of property, plant and equipment	3	-
Cash flow from investing activities	(8,176)	(9,360)
Cash flow from financing activities		
Issuance of convertible bonds	1	1
Repayment of loans	(151)	(118)
Interest paid	(1,381)	(1,184)
Changes in advance payments relating to financing activities	(354)	(90)
Repayment of liabilities under financing and finance lease arrangements	(1,655)	(1,863)
Cash flow from financing activities	(3,540)	(3,254)
Change in cash and cash equivalents	(2,638)	(7,677)
Cash and cash equivalents as of 1 January	73,982	87,803
Cash and cash equivalents as of 31 March	71,344	80,126

Segment Reporting (unaudited)

Euro amounts in thousands (€ 000s)

	Telecom- munications	Outsourcing	Consulting	Cloud	Consolidated Group
01/01/ – 31/03/2016					
Net revenues	54,437	32,102	9,950	2,375	98,864
Cost of revenues	(39,914)	(22,497)	(8,156)	(2,323)	(72,890)
Gross profit	14,523	9,605	1,794	52	25,974
Sales and marketing expenses	(4,683)	(1,946)	(432)	(878)	(7,939)
Segment contribution	9,840	7,659	1,362	(826)	18,035
General and administrative expenses					(8,389)
Depreciation/amortisation (including non-cash share-based compensation)					(9,098)
Other operating income					78
Operating profit (EBIT)					626
Financial income					50
Financial expenses					(1,594)
Net income (loss) before income taxes					(918)
Income taxes					775
Net income (loss)					(143)
01/01/ – 31/03/2015					
Net revenues	56,817	36,808	9,815	1,269	104,709
Cost of revenues	(41,150)	(26,106)	(8,355)	(2,007)	(77,618)
Gross profit	15,667	10,702	1,460	738	27,091
Sales and marketing expenses	(4,513)	(2,973)	(458)	(1,339)	(9,283)
Segment contribution	11,154	7,729	1,002	(2,077)	17,808
General and administrative expenses					(8,414)
Depreciation/amortisation (including non-cash share-based compensation)					(12,116)
Other operating income					(286)
Operating profit (EBIT)					(3,008)
Financial income					90
Financial expenses					(1,505)
Net income (loss) before income taxes					(4,423)
Income taxes					1,053
Net income (loss)					(3,370)

CALENDAR

Annual Shareholders' Meeting

25 May 2016

Quarterly Figures

8 August 2016

14 November 2016

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