



QUARTERLY STATEMENT

1 January to 31 March 2017

SECURE.
INNOVATIVE.
AT YOUR SIDE.

QSC AG

KEY DATA

All amounts in € million	01/01/ – 31/03/ 2017	01/01/ – 31/03/ 2016
Revenues	88.7	98.9
EBITDA	10.5	9.7
Depreciation / amortisation ¹	7.9	9.1
EBIT	2.6	0.6
Net income (loss)	0.6	(0.1)
Earnings per share ² (in €)	0.01	0.00
Shareholders' equity	87.3 ⁴	86.3 ⁵
Long-term liabilities	158.7 ⁴	159.3 ⁵
Short-term liabilities	63.2 ⁴	59.2 ⁵
Balance sheet total	309.2 ⁴	306.0 ⁵
Equity ratio (in %)	28.2 ⁴	28.2 ⁵
Free cash flow	3.6	(0.8)
Liquidity	70.2 ⁴	67.3 ⁵
Capital expenditure (capex)	4.2	3.6
Capex ratio ³ (in %)	4.7	3.6
Xetra closing price as of 31 March (in €)	1.55	1.13
Number of shares as of 31 March	124,172,487	124,162,487
Market capitalisation as of 31 March	192.5	140.3
Number of employees as of 31 March	1,355	1,409

¹ Including non-cash share-based compensation.

² Basic and diluted.

³ Ratio of capital expenditure to revenues.

⁴ As of 31 March 2017.

⁵ As of 31 December 2016.

QSC BACK IN THE BLACK

Earnings strength significantly boosted. QSC improved all of its key earnings figures in the first quarter of 2017. At € 2.6 million, EBIT quadrupled compared with the first three months of 2016, while EBITDA rose by 8% to € 10.5 million. With consolidated net income of € 0.6 million, as against € -0.1 million in the first quarter of 2016, the Company returned to profitability.

Cloud revenues more than doubled. The successful marketing of the Pure Enterprise Cloud was the key factor leading revenues in the Cloud segment to surge by 117% to € 5.2 million in the first quarter of 2017. By contrast, only a low volume of IoT projects was invoiced at the beginning of the year.

Growth in most promising future areas. Revenues in the three forward-looking business fields of Cloud, Consulting and TC for corporate customers rose year-on-year by 12% to € 38.9 million in the quarter under report. Overall, revenues for the first quarter of 2017 amounted to € 88.7 million, compared with € 98.9 million in the previous year. This development was due above all to a further decline in the TC business with resellers due to regulatory and market factors.

Cooperation with Telefónica Deutschland expanded. In the first quarter, QSC boosted its TC business with corporate customers by expanding its long-term cooperation with Telefónica Deutschland. In future, QSC will also be supplying this partner with SDSL connections for existing and new corporate customers.

Free cash flow improved to € 3.6 million. The positive start to the current financial year is underlined by the marked increase in free cash flow to € 3.6 million, up from € -0.8 million in the previous year's quarter. This growth was driven by the Company's higher earnings strength accompanied by moderate capital expenditure.

"Positioning ourselves as the digitiser to the SME sector and our reorganisation are paying off. We are growing in those areas where we aim to achieve growth and thus boosting our earnings and financial strength."

Jürgen Hermann, Chief Executive Officer

"Our pleasing results and high free cash flow show that QSC is on the right track. In the coming quarters we will continue investing in our future growth and can therefore confirm the outlook we published in early March."

Stefan Baustert, Chief Financial Officer

SUMMARY OF FIRST QUARTER OF 2017

Business performance

Return to profitability. QSC substantially improved its earnings and financial strength in the first quarter of 2017. Based on revenues of € 88.7 million, the Company increased its EBITDA from € 9.7 million in the previous year's quarter to € 10.5 million, and its consolidated net income from € -0.1 million to € 0.6 million. This growth was driven by the improved cost base and the rising share of revenues in the forward-looking business fields of Cloud, Consulting and TC for corporate customers. QSC also significantly improved its free cash flow to € 3.6 million, up from € -0.8 million in the first quarter of 2016.

Cloud revenues more than double. QSC's strongest revenue growth at the beginning of 2017 came once again from the Cloud segment, where revenues surged by 117% to € 5.2 million. At the same time, the Company continued to invest in future growth and hired new staff, with a particular focus on additional cloud specialists. The segment contribution improved slightly to € -0.5 million, as against € -0.8 million in the first quarter of 2016.

Revenues, Cloud

(in € million)

Q1/2017		5.2
Q1/2016		2.4

This growth chiefly resulted from the Company's success in marketing its Pure Enterprise Cloud. QSC is increasingly generating recurring revenues with this modular system of proven cloud technologies, software solutions and service components accompanied by high-performance network and infrastructure services. As well as connecting newly acquired customers to the Pure Enterprise Cloud, the Company is in parallel also migrating existing Outsourcing customers to the new cloud infrastructure.

By contrast, current revenues in the second area of activity in the Cloud segment – the Internet of Things (IoT) portfolio – are mostly project-related. Due to invoicing factors, these revenues were comparatively low at the beginning of 2017. Several projects intended to enhance energy efficiency at medium-sized companies are currently underway. These solutions form one of three key focuses at Q-loud, QSC's IoT subsidiary. The others involve smartification, i.e. full-stack solutions for networking products, and IoT cloud enabling. Smartification is at the centre of the far-reaching cooperation agreed in January 2017 with Schüco, one of the world's leading providers of high-quality window, door and façade systems. Among other services, Q-loud is designing and manufacturing new hardware for the central management and control of Schüco's products and operating a corresponding IoT platform.

Traditional Outsourcing increasingly being replaced by Cloud-based procurement. The ongoing migration of Outsourcing customers to the Pure Enterprise Cloud means that the Outsourcing segment accounts for a continually lower share of total revenues. In the first quarter of 2017, QSC generated revenues of € 26.7 million here compared with € 32.1 million in the previous year's period. The segment contribution totalled € 5.5 million, as against € 7.7 million in the first quarter of 2016.

Revenues, Outsourcing

(in € million)



Consulting revenues set new record. At € 10.7 million, the Consulting segment posted the highest revenues in the Company's history in the first quarter of 2017. Year-on-year, this figure rose by 7%. The segment contribution improved to € 1.5 million, up from € 1.4 million in the previous year's period.

This success was essentially driven by consulting services for SAP software. Revenues here rose to € 9.4 million, up from € 8.7 million in the first quarter of 2016. Here, QSC has benefited in particular from its all-round expertise in deploying the new S/4HANA product family. The e-commerce service provider Hermes Fulfilment GmbH, for example, recently decided to commission QSC to provide its SAP environment. Among other benefits, using HANA technology will enable Hermes to perform rapid data analysis in business warehousing.

Revenues, Consulting

(in € million)



Further growth in high-margin TC business with corporate customers. Thanks to its comprehensive All-IP expertise, QSC once again defied the market trend in the first quarter of 2017 and increased its TC revenues with corporate customers by a further 3% to € 23.0 million. The Company accessed new potential by, among other developments, expanding its long-term cooperation with Telefónica Deutschland. In future, QSC will also be supplying this partner with

SDSL connections for existing and new corporate customers. Consistent with expectations, on the other hand, TC revenues with resellers decreased compared with the previous year's quarter, in this case from € 32.0 million to € 23.2 million. Stricter regulation alone led to an earnings-neutral reduction in revenues by almost € 4 million. This factor was accompanied by the impact of tough price competition. Overall, revenues in the Telecommunications segment came to € 46.2 million, as against € 54.4 million in the first quarter of 2016. Thanks to the significantly higher share of revenues attributable to the high-margin TC business with corporate customers and to cost savings, the segment contribution rose by € 1.2 million to € 11.0 million. At 24%, the margin in the TC business was higher than in any other segment.

Revenues, Telecommunications

(in € million)



Earnings performance

Stable gross margin of 26%. The cost of revenues decreased to € 65.3 million in the first quarter of 2017 compared with € 72.9 million in the previous year's period. Gross profit amounted to € 23.4 million as against € 26.0 million in the first quarter of 2016. QSC thus generated an unchanged gross margin of 26%. The efforts made in the past two years also paid off on the level of other cost items. At € 6.0 million, sales and marketing expenses fell significantly short of the previous year's figure of € 7.9 million, as did general and administrative expenses, which totalled € 6.9 million compared with € 8.4 million in the first quarter of 2016.

EBITDA margin improves to 12%. Despite lower revenues, QSC significantly boosted its earnings strength in the first quarter of 2017. EBITDA rose to € 10.5 million, up from € 9.7 million in the previous year's period. The EBITDA margin increased by 2 percentage points to 12%. Given considerably lower depreciation and amortisation compared with the previous year, EBIT showed an even more marked increase: in the first quarter of 2017, QSC generated operating earnings of € 2.6 million, up from € 0.6 million in the previous year. Earnings before taxes came to € 1.5 million, while consolidated net income amounted to € 0.6 million, compared with € -0.1 million in the first quarter of 2016.

Financial and net asset position

Free cash flow rises to € 3.6 million. Thanks to its greater earnings strength and moderate capital expenditure, QSC increased its free cash flow to € 3.6 million in the first quarter of 2017, up from € -0.8 million in the previous year. The Company calculates this key figure as the change in its net debt before acquisitions and distributions. The table below shows the relevant parameters at the two balance sheet dates on 31 March 2017 and 31 December 2016.

€ million	31/03/2017	31/12/2016
Liquidity	70.2	67.3
Liabilities under financing and finance lease arrangements	(0.7)	(1.7)
Liabilities due to banks	(149.7)	(149.4)
Interest-bearing liabilities	(150.4)	(151.1)
Net debt	(80.2)	(83.8)

Liquidity grew by € 2.9 million to € 70.2 million as of 31 March 2017. Over the three-month period, interest-bearing financial liabilities decreased by € 0.7 million to € -150.4 million. This led net debt to fall by € 3.6 million to € -80.2 million as of 31 March 2017.

Moderate capital expenditure of € 4.2 million. Alongside the higher earnings strength, the factors driving the marked rise in free cash flow also included the moderate level of capital expenditure in the first quarter of 2017. This came to € 4.2 million, as against € 3.6 million in the previous year, and was mainly channelled into further expanding the Cloud infrastructure. For the financial year as a whole, QSC still expects capital expenditure of up to € 30 million.

Depreciation reduces value of property, plant and equipment. Due above all to depreciation and amortisation, the value of long-term assets in the consolidated balance sheet decreased to € 180.3 million as of 31 March 2017, down from € 185.0 million at the balance sheet date at the end of 2016. By contrast, the value of short-term assets increased to € 128.9 million, up from € 121.0 million as of 31 December 2016. Among other factors, this was due to increased volumes of cash and cash equivalents and trade receivables.

Equity ratio remains stable at 28%. QSC continues to finance itself largely from equity and long-term liabilities with congruent maturities. At € 87.3 million, shareholders' equity as of 31 March 2017 – up from € 86.3 million at the end of 2016 – results in an unchanged equity ratio of 28%. Long-term liabilities totalled € 158.7 million as of 31 March 2017, as against € 159.3 million at the balance sheet date at the end of 2016.

At € 145.3 million, these chiefly involve liabilities due to banks. In 2014, QSC had taken up a promissory note bond on favourable conditions with a term of 5 and 7 years. Due to higher trade payables, short-term liabilities rose from € 60.4 million at the end of 2016 to € 63.2 million as of 31 March 2017.

Outlook

QSC confirms 2017 forecast. In the quarters ahead, QSC will continue to focus on those business fields in which it expects to generate growth in future – and here above all on the Cloud segment, as well as on Consulting and its TC business with corporate customers. The Company still expects to see the highest growth rates in its Cloud segment, with its two main activities of Pure Enterprise Cloud and IoT. Overall, in the current financial year QSC expects to generate revenues of between € 355 million and € 365 million, and EBITDA of € 36 million to € 40 million. Any stronger revenue performance will be prevented above all by the TC business with resellers. Due to market and regulatory factors, QSC expects revenues to decline by around € 25 million. This factor will be accompanied by an expected reduction in revenues in the traditional Outsourcing business. Irrespective of these developments, the Company has budgeted a free cash flow figure slightly ahead of the previous year's figure of € 8.4 million.

Further information

About this report. This document should be read in conjunction with the 2016 Annual Report, which can be found at www.qsc.de/en/investor-relations/ir-publications/. Unless they are historical 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, Internet of Things, Consulting 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/ 2017	01/01/ – 31/03/ 2016
Net revenues	88,731	98,864
Cost of revenues	(65,315)	(72,890)
Gross profit	23,416	25,974
Sales and marketing expenses	(5,972)	(7,939)
General and administrative expenses	(6,850)	(8,389)
Depreciation and amortisation (including non-cash share-based compensation)	(7,880)	(9,098)
Other operating income	659	550
Other operating expenses	(743)	(472)
Operating profit (EBIT)	2,630	626
Financial income	47	50
Financial expenses	(1,184)	(1,594)
Net income (loss) before income taxes	1,493	(918)
Income taxes	(858)	775
Net income (loss)	635	(143)
Attribution of net income (loss)		
Owners of the parent company	693	(98)
Non-controlling interests	(58)	(45)
Earnings per share (basic) in €	0.01	0.00
Earnings per share (diluted) in €	0.01	0.00

Consolidated Balance Sheet

Euro amounts in thousands (€ 000s)

	31/03/2017 (unaudited)	31/12/2016 (audited)
ASSETS		
Long-term assets		
Property, plant and equipment	60,793	62,554
Land and buildings	24,154	24,359
Goodwill	55,568	55,568
Other intangible assets	29,193	30,779
Trade receivables	1,707	2,435
Prepayments	3,103	3,161
Other long-term assets	175	190
Deferred tax assets	5,649	5,926
Long-term assets	180,342	184,972
Short-term assets		
Trade receivables	47,607	45,816
Prepayments	7,439	5,107
Inventories	281	73
Other short-term assets	3,348	1,533
Cash and cash equivalents	70,194	67,336
Subtotal for short-term assets	128,869	119,865
Assets held for sale	-	1,166
Short-term assets	128,869	121,031
TOTAL ASSETS	309,211	306,003

	31/03/2017 (unaudited)	31/12/2016 (audited)
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity		
Issued capital	124,172	124,172
Capital surplus	143,353	143,217
Other capital reserves	(3,296)	(3,493)
Accumulated deficit	(176,530)	(177,223)
Equity attributable to owners of the parent company	87,699	86,673
Non-controlling interests	(383)	(325)
Shareholders' equity	87,316	86,348
Liabilities		
Long-term liabilities		
Long-term liabilities under financing and finance lease arrangements	298	370
Liabilities due to banks	145,342	145,412
Convertible bonds	36	33
Accrued pensions	7,002	7,133
Other provisions	3,052	3,050
Other financial liabilities	2,452	2,525
Deferred tax liabilities	539	775
Long-term liabilities	158,721	159,298
Short-term liabilities		
Trade payables	29,819	24,890
Short-term liabilities under financing and finance lease arrangements	389	1,352
Liabilities due to banks	4,407	4,003
Other provisions	10,336	11,724
Accrued taxes	3,101	2,166
Deferred income	2,706	2,441
Other short-term liabilities	12,416	12,630
Subtotal for short-term liabilities	63,174	59,206
Liabilities associated with assets held for sale	-	1,151
Short-term liabilities	63,174	60,357
Liabilities	221,895	219,655
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	309,211	306,003

Consolidated Statement of Cash Flows (unaudited)

Euro amounts in thousands (€ 000s)

	01/01/ – 31/03/ 2017	01/01/ – 31/03/ 2016
Cash flow from operating activities		
Net income (loss) before income taxes	1,493	(918)
Depreciation and amortisation of long-term assets	7,744	8,948
Other non-cash income and expenses	59	150
Profit (loss) from disposal of long-term assets	(23)	26
Income tax paid	(2,602)	(1,895)
Income tax received	92	388
Interest received	55	43
Changes in provisions	(1,062)	(2,573)
Changes in trade receivables	(987)	(3,675)
Changes in trade payables	5,468	7,589
Changes in other assets and liabilities	(623)	995
Cash flow from operating activities	9,614	9,078
Cash flow from investing activities		
Purchase of intangible assets	(1,278)	(2,759)
Purchase of property, plant and equipment	(3,894)	(5,420)
Proceeds from sale of property, plant and equipment	7	3
Disposal of a subsidiary less cash and cash equivalents thereby disposed	(430)	-
Cash flow from investing activities	(5,595)	(8,176)
Cash flow from financing activities		
Issuance of convertible bonds	3	1
Repayment of loans	(247)	(151)
Interest paid	(327)	(1,381)
Changes in advance payments relating to financing activities	-	(354)
Repayment of liabilities under financing and finance lease arrangements	(1,035)	(1,655)
Cash flow from financing activities	(1,606)	(3,540)
Change in cash and cash equivalents	2,413	(2,638)
Cash and cash equivalents as of 1 January	67,781	73,982
Cash and cash equivalents as of 31 March	70,194	71,344

Segment Reporting (unaudited)

Euro amounts in thousands (€ 000s)

	Telecom- munications	Outsourcing	Consulting	Cloud	Consolidated Group
01/01/ – 31/03/2017					
Net revenues	46,163	26,665	10,700	5,203	88,731
Cost of revenues	(31,861)	(19,980)	(9,016)	(4,458)	(65,315)
Gross profit	14,302	6,685	1,684	745	23,416
Sales and marketing expenses	(3,278)	(1,225)	(175)	(1,294)	(5,972)
Segment contribution	11,024	5,460	1,509	(549)	17,444
General and administrative expenses					(6,850)
Depreciation and amortisation (including non-cash share-based compensation)					(7,880)
Other operating income and expenses					(84)
Operating profit (EBIT)					2,630
Financial income					47
Financial expenses					(1,184)
Net income before income taxes					1,493
Income taxes					(858)
Net income					635

	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 and amortisation (including non-cash share-based compensation)					(9,098)
Other operating income and expenses					78
Operating profit (EBIT)					626
Financial income					50
Financial expenses					(1,594)
Net loss before income taxes					(918)
Income taxes					775
Net loss					(143)

CALENDAR

Annual General Meeting
24 May 2017

Quarterly figures
7 August 2017
6 November 2017

CONTACT

QSC AG
Arne Thull
Head of Investor Relations
Mathias-Brüggen-Strasse 55
50829 Cologne
T +49 221 669-8724
F +49 221 669-8009
invest@qsc.de
www.qsc.de