



# QUARTERLY STATEMENT

1 January to 31 March 2019

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**QSC** AG

## KEY DATA

€ million	01/01/ – 31/03/ 2019 <sup>1</sup>	01/01/ – 31/03/ 2018
Revenues	87.4	94.1
Cloud	10.6	7.1
Consulting	10.9	9.8
Outsourcing	18.9	23.7
Telecommunications	46.9	53.4
EBITDA	15.9	9.2
Depreciation and amortisation <sup>2</sup>	14.6 <sup>3</sup>	6.8
EBIT	1.3	2.4
Net income (loss)	(0.3)	0.9
Earnings per share <sup>4</sup> (in €)	0.00	0.01
Shareholders' equity	89.9 <sup>5</sup>	90.2 <sup>6</sup>
Long-term liabilities	202.6 <sup>5</sup>	109.3 <sup>6</sup>
Short-term liabilities	86.7 <sup>5</sup>	84.1 <sup>6</sup>
Balance sheet total	379.2 <sup>5</sup>	283.6 <sup>6</sup>
Equity ratio (in %)	23.7 <sup>5</sup>	31.8 <sup>6</sup>
Free cash flow	(4.7) <sup>7</sup>	(0.8)
Liquidity	49.1 <sup>5</sup>	53.6 <sup>6</sup>
Capital expenditure (capex)	4.3 <sup>7</sup>	2.9
Capex ratio (in %)	4.9	3.1
Xetra closing price as of 31 March (in €)	1.24	1.42
Number of shares as of 31 March	124,172,487	124,172,487
Market capitalisation as of 31 March	154.0	176.3
Number of employees as of 31 March	1,278	1,342

<sup>1</sup> First-time application of IFRS 16.

<sup>2</sup> Including non-cash share-based compensation.

<sup>3</sup> Includes an amount of € 8.5 million for depreciation of right-of-use assets (IFRS 16).

<sup>4</sup> Basic and diluted.

<sup>5</sup> As of 31 March 2019.

<sup>6</sup> As of 31 December 2018.

<sup>7</sup> Excluding IFRS 16 effects.

## GROWTH ACCELERATES IN CLOUD BUSINESS

**Cloud revenues surge by 49% to € 10.6 million in first quarter of 2019.** This marks a further acceleration in the rate of growth in the Cloud segment, with its two areas of Cloud Services and Internet of Things (IoT). First-quarter revenues in the previous year rose by 37% to € 7.1 million.

**QSC awarded major order to introduce an SAP multi-cloud environment.** The Company's growth opportunities, particularly in its Cloud business, are underscored by the extension of the term and scope of its contract with the Fressnapf Group. Europe's leading retail chain for pet food and accessories has commissioned QSC to perform services that include migrating its SAP systems and further IT solutions to the cloud.

**Total revenues in line with expectations.** QSC generated total revenues of € 87.4 million in the first quarter of 2019, compared with € 94.1 million in the previous year. Double-digit revenue growth in the Cloud and Consulting segments were offset by expected reductions in the TC and Outsourcing businesses.

**Q-loud's technological competence convinces Huawei.** Among other advances, in its IoT business QSC managed to conclude a contract with Huawei Technologies at the beginning of the year. In future, QSC's Q-loud subsidiary will be operating Huawei's narrowband IoT platform for the European region. Narrowband IoT is a certified mobile radio standard that specialises in networking devices in the Internet of Things.

**Agreement regarding sale of all shares in Plusnet.** The talks underway since autumn 2018 regarding the potential sale of QSC's TC subsidiary led to a purchase agreement in May 2019. EnBW Telekommunikation GmbH is acquiring Plusnet for a purchase price (equity value) of € 229 million. The proceeds from the sale are to be used to repay debt and boost QSC's Cloud and IoT businesses.

"The sale of Plusnet marks the kick-off for faster implementation of our growth strategy in our Cloud and IoT businesses."

Jürgen Hermann, Chief Executive Officer

"QSC began 2019 as expected. Alongside the Cloud business, Consulting also generated significant momentum."

Stefan A. Baustert, Chief Financial Officer

## SUMMARY OF FIRST QUARTER OF 2019

### Business Performance

**Start to 2019 financial year in line with expectations.** QSC generated revenues of € 87.4 million in the first quarter of 2019, as against € 94.1 million in the previous year's quarter. Substantially higher Cloud and Consulting revenues were countered by expected reductions in TC and Outsourcing revenues. In the first half of 2018, the Company had still benefited from a temporary rise in demand driven by TC resellers in its international voice termination business.

QSC's earnings and financial performance was also mostly consistent with expectations in the first quarter of 2019. EBITDA amounted to € 15.9 million, compared with € 9.2 million in the previous year, while the free cash flow stood at € -4.7 million, as against € -0.8 million in the first quarter of 2018. The lease standard IFRS 16 was applied for the first time in the opening balance sheet as of 1 January 2019 without adjustment to the comparative information (for further information, please see Pages 118 to 120 of QSC's 2018 Annual Report). As well as extending the balance sheet, this has led above all to a significant increase in the volume of EBITDA and segment contributions reported. The new standard requires operating leases to be capitalised in the balance sheets at lessees and depreciated by analogy with other capital expenditure. All other factors being equal, this results in higher depreciation and interest expenses accompanied by a corresponding reduction in operating expenses.

**Cloud revenues surge by 49%.** The Cloud segment increased its revenues to € 10.6 million in the first quarter of 2019, up from € 7.1 million in the previous year. The segment contribution grew to € 1.2 million, compared with € 0.5 million one year earlier. Excluding IFRS 16 effects, the segment contribution rose slightly to € 0.7 million. This was because QSC responded to strong growth in this area by further expanding its capacities and stepping up its sales activities.

#### Cloud revenues

(€ million)

Q1 / 2019		<b>10.6</b>
Q1 / 2018		<b>7.1</b>

The growth at the beginning of the year was driven in particular by the Company's success in marketing its Cloud Services. QSC is thus acquiring new SME customers and gradually migrating the IT at its existing Outsourcing customers to the cloud. In the first months of 2019, QSC's IoT subsidiary Q-loud focused on expanding its sales and development activities. Among the

companies convinced by its technological prowess was Huawei Technologies, one of the world's leading ICT equipment providers. In future, Q-loud will be operating Huawei's "OceanConnect" narrowband IoT platform in the Europe region. Narrowband IoT is a certified mobile radio standard that specialises in networking devices in the Internet of Things. It is characterised by robust and reliable transmissions, maximum IT security, low electricity consumption and minimal costs.

**Restructuring of Outsourcing business shows initial success.** Outsourcing revenues came to € 18.9 million in the first quarter of 2019, as against € 23.7 million in the previous year. This reduction was due to the expiry of contracts with two major customers, a development announced well in advance. Against this backdrop, the Company reorganised structures in its Outsourcing business and streamlined its cost base. Despite the reduction in revenues – and excluding IFRS 16 effects – this led to an improvement in the segment contribution by € 0.6 million to € 3.2 million. Including IFRS 16 effects, the segment contribution rose to € 5.6 million.

#### Outsourcing revenues

(€ million)



**Consulting revenues up 11%.** Revenues in the Consulting segment amounted to € 10.9 million in the first quarter of 2019, up from € 9.8 million in the previous year. QSC continues to generate the largest share of its revenues with advisory services relating to SAP software and benefits in particular from its all-round expertise in introducing and operating SAP HANA. Responding to high demand, Consulting is further expanding its proprietary capacities and additionally involving external specialists for individual projects. The segment contribution (both including and excluding IFRS 16 effects) therefore came to € 1.1 million in the first quarter of 2019, as against € 2.0 million in the previous year.

#### Consulting revenues

(€ million)



**TC business with resellers normalises once again.** QSC's TC revenues of € 46.9 million in the first quarter of 2019 fell short of the previous year's figure of € 53.4 million. This was due in particular to a normalisation of demand in the international termination business with resellers. In the previous year, QSC temporarily benefited from a favourable market constellation in this low-margin business field. The segment contribution rose year-on-year from € 10.3 million to € 14.5 million in the first quarter of 2019. As TC draws on operating leases to a greater extent than other segments, IFRS 16 had a correspondingly greater impact on this segment. Excluding these effects, the segment contribution for the first quarter of 2019 amounted to € 9.4 million.

#### Telecommunications revenues

(€ million)

Q1 / 2019		<u>46.9</u>
Q1 / 2018		<u>53.4</u>

The new opportunities accessed by Plusnet, QSC's TC subsidiary, in the first quarter of 2019 included a contract with MAINGAU Energie. This energy provider with nationwide operations will in future also be offering broadband services to its customers and will be drawing here on Plusnet's full-service offering. This covers all aspects from the provision of basic services to a white-label platform for marketing through to customer services for all services.

#### Events after Quarterly Reporting Date

**Agreement regarding the sale of all shares in Plusnet.** The talks underway since autumn 2018 regarding the potential sale of a majority or all of the shares in the TC subsidiary Plusnet were brought to a successful conclusion in May 2019. On 6 May 2019, EnBW Telekommunikation GmbH, a subsidiary of EnBW Energie Baden-Württemberg AG, entered into an agreement to purchase all the shares in QSC's wholly-owned subsidiary. The purchase price (equity value) amounts to € 229 million. Closing of the transaction is expected to occur in the third quarter of 2019 and is subject to the approval of antitrust authorities and other closing conditions. The proceeds from the sale are to be used to repay debt and boost Cloud and IoT operations. The sale also marks the kick-off for QSC to step up the pace of implementation for the growth strategy in its Cloud and IoT businesses.

## Earnings Performance

**Application of IFRS 16 leads to higher gross profit.** At € 57.7 million, the cost of revenues reported for the first quarter of 2019 fell markedly short of the previous year's figure of € 72.7 million. Alongside the reduction in revenues, this was significantly due to the first-time application of IFRS 16. As a result, gross profit rose to € 29.7 million, up from € 21.4 million in the previous year's quarter.

Sales and marketing expenses amounted to € 7.2 million in the first quarter of 2019, compared with € 6.0 million one year earlier, while general and administrative expenses rose from to € 6.4 million, up from € 6.0 million in the first quarter of 2018.

**EBITDA affected by non-recurring expenses.** The Plusnet sale process currently underway led to non-recurring expenses of € 0.6 million in the past quarter. Together with the year-on-year reduction in revenues, these expenses impacted on EBITDA. Due to the first-time application of IFRS 16, this key figure nevertheless rose from € 9.2 million in the previous year to € 15.9 million. Depreciation and amortisation rose year-on-year from € 6.8 million to € 14.6 million in the first quarter of 2019. This figure includes an amount of € 8.5 million for the depreciation of right-of-use assets in connection with IFRS 16 leases. Like the lower revenues, the significantly higher volume of depreciation and amortisation impacted on operating earnings (EBIT). This key figure came to € 1.3 million in the first quarter of the current year, as against € 2.4 million in the previous year's quarter.

As result of the first-time application of IFRS 16 and associated recognition of lease-related interest expenses, financial expenses rose in arithmetic terms to € -1.9 million, up from € -1.1 million in the first quarter of 2018. Net of taxes on income, this resulted in consolidated net income of € -0.3 million, compared with € 0.9 million in the previous year's period. Excluding IFRS 16 items, QSC would once again have generated positive consolidated net income.

## Financial and Net Asset Position

**Three factors influence free cash flow.** Lower earnings, higher capital expenditure and the normalisation in working capital customary at the beginning of the year – these factors influenced the free cash flow for the first quarter of 2019, which stood at € -4.7 million, as against € -0.8 million in the previous year. QSC calculates this key management figure as the change in net debt before acquisitions and distributions and excluding the impact of first-time application of IFRS 16. The table below shows the relevant parameters at the two balance sheet dates on 31 March 2019 and 31 December 2018.

€ million	31/03/2019	31/12/2018
<b>Liquidity</b>	<b>49.1</b>	<b>53.6</b>
Long-term other financial liabilities	(100.0)	(100.0)
Short-term other financial liabilities	(20.2)	(20.0)
<b>Interest-bearing financial liabilities</b>	<b>(120.2)</b>	<b>(120.0)</b>
<b>Net debt</b>	<b>(71.1)</b>	<b>(66.4)</b>

Liquidity fell by € 4.5 million to € 49.1 million as of 31 March 2019. Interest-bearing financial liabilities rose by € 0.2 million in the first three months of the year to reach € -120.2 million. These developments resulted in net debt of € -71.1 million, compared with € -66.4 million as of 31 December 2018. The free cash flow correspondingly amounted to € -4.7 million.

**Capital expenditure rises to € 4.3 million.** QSC increased its capital expenditure to € 4.3 million in the first quarter of 2019, compared with € 2.9 million one year earlier. Of this total, 39% was customer-related while 48% was channelled into technology and 13% into intangible assets. Capital expenditure continues to be stated net of operating leases also requiring recognition as capital expenditure pursuant to IFRS 16.

**IFRS 16 extends consolidated balance sheet.** Due to the first-time application of IFRS 16, total assets rose from € 283.6 million at the balance sheet date at the end of 2018 to € 379.2 million as of 31 March 2019. On the asset-side of its balance sheet, QSC has reported right-of-use assets of € 103.8 million for the first time as of 31 March 2019. The corresponding items on the liabilities side have been recognized under long-term lease liabilities (€ 93.4 million) and short-term lease liabilities (€ 10.1 million).

Apart from this factor, the main line items in the balance sheet developed in line with expectations. The value of long-term assets, such as property, plant and equipment and other intangible assets, was reduced by depreciation and amortisation. As is customary at the beginning of the year, within short-term assets prepayments rose by € 2.8 million to € 8.5 million while reductions were seen both in trade receivables (€ -3.4 million) and cash and cash equivalents (€ -4.5 million).

Trade payables and other liabilities fell by € 8.2 million to € 49.8 million as of 31 March 2019. Other than this, there were no significant changes in long-term or short-term liabilities. Shareholders' equity remained virtually stable at € 89.9 million, as against € 90.2 million as of 31 December 2018. Due to the higher volume of total assets resulting from the introduction of IFRS 16, the equity ratio amounted to 24% as of 31 March 2019, compared with 32% as of 31 December 2018.

## Outlook

**Business performance in first quarter of 2019 in line with previous forecast.** QSC's business performance in the first quarter of 2019 conformed to expectations and is consistent with the 2019 full-year forecast published at the end of February. According to this, the Company expects to generate revenues of more than € 350 million, EBITDA of more than € 65 million and free cash flow in at least a low single-digit million euro amount. This forecast naturally does not yet account for the agreement reached on 6 May 2019 regarding the sale of all the shares in the TC subsidiary Plusnet. The closing of this transaction is expected to take place in the third quarter of 2019. As already communicated at the end of February 2019 and in the 2018 Annual Report, QSC will update its existing forecast to account for the sale now agreed. The new forecast will be published as soon as the transaction-related effects can be assessed with reasonable certainty.

## Further Information

**About this report.** This document should be read in conjunction with the 2018 Annual Report, which can be found at [www.qsc.de/en/investor-relations/ir-publications](http://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 digitalising the German SME sector. With decades of experience and expertise in its Cloud, Internet of Things, Consulting, Telecommunications and Colocation businesses, QSC accompanies its customers securely into the digital age. The cloud-based provision of all services offers increased speed, flexibility, and 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/ 2019	01/01/ – 31/03/ 2018
<b>Net revenues</b>	<b>87,395</b>	<b>94,079</b>
Cost of revenues	(57,738)	(72,684)
<b>Gross profit</b>	<b>29,657</b>	<b>21,395</b>
Sales and marketing expenses	(7,217)	(6,009)
General and administrative expenses	(6,368)	(5,971)
Depreciation and amortisation (including non-cash share-based compensation)	(14,558)	(6,837)
Other operating income	313	281
Other operating expenses	(483)	(479)
<b>Operating earnings (EBIT)</b>	<b>1,344</b>	<b>2,380</b>
Financial income	8	72
Financial expenses	(1,853)	(1,079)
<b>Net income (loss) before income taxes</b>	<b>(501)</b>	<b>1,373</b>
Income taxes	196	(521)
<b>Net income (loss)</b>	<b>(305)</b>	<b>852</b>
<b>Attribution of net income</b>		
Owners of the parent company	(273)	916
Non-controlling interests	(32)	(64)
Earnings per share (basic) in €	0.00	0.01
Earnings per share (diluted) in €	0.00	0.01

## Consolidated Balance Sheet

Euro amounts in thousands (€ 000s)

	31/03/2019 (unaudited)	31/12/2018 (audited)
<b>ASSETS</b>		
<b>Long-term assets</b>		
Property, plant and equipment	49,190	50,211
Land and buildings	22,086	22,291
Goodwill	55,568	55,568
Right-of-use assets	103,762	-
Other intangible assets	23,022	24,411
Trade receivables	1,710	1,953
Prepayments	2,994	3,353
Other long-term assets	397	430
Deferred tax assets	8,557	8,417
<b>Long-term assets</b>	<b>267,286</b>	<b>166,634</b>
<b>Short-term assets</b>		
Trade receivables	52,653	56,057
Prepayments	8,478	5,657
Inventories	493	670
Other short-term assets	1,097	959
Cash and cash equivalents	49,149	53,618
<b>Short-term assets</b>	<b>111,870</b>	<b>116,961</b>
<b>TOTAL ASSETS</b>	<b>379,156</b>	<b>283,595</b>

	31/03/2019 (unaudited)	31/12/2018 (audited)
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>		
<b>Shareholders' equity</b>		
Issued capital	124,172	124,172
Capital surplus	144,161	144,119
Other capital reserves	(1,516)	(1,531)
Accumulated deficit	(176,092)	(175,819)
<b>Equity attributable to owners of the parent company</b>	<b>90,725</b>	<b>90,941</b>
Non-controlling interests	(812)	(780)
<b>Shareholders' equity</b>	<b>89,913</b>	<b>90,161</b>
<b>Liabilities</b>		
<b>Long-term liabilities</b>		
Lease liabilities	93,414	-
Other financial liabilities	100,036	100,036
Accrued pensions	5,410	5,545
Other provisions	2,922	2,922
Trade payables and other liabilities	469	454
Deferred tax liabilities	327	352
<b>Long-term liabilities</b>	<b>202,578</b>	<b>109,309</b>
<b>Short-term liabilities</b>		
Trade payables and other liabilities	49,840	58,042
Lease liabilities	10,102	-
Other financial liabilities	20,235	20,013
Other provisions	2,300	2,655
Accrued taxes	1,607	1,631
Deferred income	2,581	1,784
<b>Short-term liabilities</b>	<b>86,665</b>	<b>84,125</b>
<b>Liabilities</b>	<b>289,243</b>	<b>193,434</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>379,156</b>	<b>283,595</b>

## Consolidated Statement of Cash Flows (unaudited)

Euro amounts in thousands (€ 000s)

	01/01/ – 31/03/ 2019	01/01/ – 31/03/ 2018
<b>Cash flow from operating activities</b>		
Net income (loss) before income taxes	(501)	1,373
Depreciation and amortisation of long-term assets	5,973	6,745
Depreciation of right-of-use assets (IFRS 16)	8,543	-
Other non-cash income and expenses	393	325
Gains from disposal of long-term assets	235	(5)
Income tax paid	(160)	(105)
Income tax received	-	9
Interest received	4	65
Interest paid in connection with leases (IFRS 16)	(974)	-
Net financial expenses	1,845	1,007
Changes in provisions	(490)	(2,995)
Changes in trade receivables	3,296	1,260
Changes in trade payables	(5,417)	1,164
Changes in other assets and liabilities	(3,024)	(5,705)
<b>Cash flow from operating activities</b>	<b>9,723</b>	<b>3,138</b>
<b>Cash flow from investing activities</b>		
Purchase of intangible assets	(1,802)	(1,382)
Purchase of property, plant and equipment	(2,765)	(1,839)
<b>Cash flow from investing activities</b>	<b>(4,567)</b>	<b>(3,221)</b>
<b>Cash flow from financing activities</b>		
Repayment of financial loans	-	(142)
Interest paid	(486)	(233)
Payments for redemption of lease liabilities (IFRS 16)	(9,139)	-
<b>Cash flow from financing activities</b>	<b>(9,625)</b>	<b>(375)</b>
<b>Change in cash and cash equivalents</b>	<b>(4,469)</b>	<b>(458)</b>
Cash and cash equivalents as of 1 January	53,618	61,881
<b>Cash and cash equivalents as of 31 March</b>	<b>49,149</b>	<b>61,423</b>

## Segment Reporting (unaudited)

Euro amounts in thousands (€ 000s)

	Telecom- munications	Outsourcing	Consulting	Cloud	Consolidated Group
<b>01/01/ – 31/03/2019</b>					
<b>Net revenues</b>	<b>46,888</b>	<b>18,941</b>	<b>10,927</b>	<b>10,639</b>	<b>87,395</b>
Cost of revenues	(29,205)	(11,508)	(9,336)	(7,689)	(57,738)
<b>Gross profit</b>	<b>17,683</b>	<b>7,433</b>	<b>1,591</b>	<b>2,950</b>	<b>29,657</b>
Sales and marketing expenses	(3,158)	(1,808)	(511)	(1,740)	(7,217)
<b>Segment contribution</b>	<b>14,525</b>	<b>5,625</b>	<b>1,080</b>	<b>1,210</b>	<b>22,440</b>
General and administrative expenses					(6,368)
Depreciation and amortisation (including non-cash share-based compensation)					(14,558)
Other operating income and expenses					(170)
<b>Operating earnings (EBIT)</b>					<b>1,344</b>
Financial income					8
Financial expenses					(1,853)
<b>Net loss before income taxes</b>					<b>(501)</b>
Income taxes					196
<b>Net loss</b>					<b>(305)</b>

	Telecom- munications	Outsourcing	Consulting	Cloud	Consolidated Group
<b>01/01/ – 31/03/2018</b>					
<b>Net revenues</b>	<b>53,402</b>	<b>23,725</b>	<b>9,827</b>	<b>7,125</b>	<b>94,079</b>
Cost of revenues	(39,445)	(20,156)	(7,717)	(5,366)	(72,684)
<b>Gross profit</b>	<b>13,957</b>	<b>3,569</b>	<b>2,110</b>	<b>1,759</b>	<b>21,395</b>
Sales and marketing expenses	(3,656)	(1,010)	(92)	(1,251)	(6,009)
<b>Segment contribution</b>	<b>10,301</b>	<b>2,559</b>	<b>2,018</b>	<b>508</b>	<b>15,386</b>
General and administrative expenses					(5,971)
Depreciation and amortisation (including non-cash share-based compensation)					(6,837)
Other operating income and expenses					(198)
<b>Operating earnings (EBIT)</b>					<b>2,380</b>
Financial income					72
Financial expenses					(1,079)
<b>Net income before income taxes</b>					<b>1,373</b>
Income taxes					(521)
<b>Net income</b>					<b>852</b>

## CALENDAR

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**Annual General Meeting**  
29 May 2019

**Quarterly Report Q2 2019**  
5 August 2019

**Quarterly Statement Q3 2019**  
11 November 2019

## CONTACT

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