



QUARTERLY STATEMENT

1 January to 30 September 2017

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QSC AG

KEY DATA

All amounts in € million	01/07/ – 30/09/ 2017	01/07/ – 30/09/ 2016	01/01/ – 30/09/ 2017	01/01/ – 30/09/ 2016
Revenues	88.9	95.9	264.8	293.9
EBITDA	9.1	9.3	29.3	29.8
Depreciation and amortisation ¹	7.0	8.3	22.8	26.2
EBIT	2.2	1.0	6.5	3.6
Net income (loss)	1.5	(0.1)	2.6	(0.1)
Earnings per share ² (in €)	0.01	0.00	0.02	0.00
Free cash flow	2.3	2.3	8.7	7.8
Capital expenditure (capex)	4.2	7.2	14.0	14.1
Capex ratio ³ (in %)	4.7	7.5	5.3	4.8
Liquidity			58.0 ⁴	67.3 ⁵
Shareholders' equity			86.0 ⁴	86.3 ⁵
Long-term liabilities			148.0 ⁴	159.3 ⁵
Short-term liabilities			56.2 ⁴	60.4 ⁵
Balance sheet total			290.2 ⁴	306.0 ⁵
Equity ratio (in %)			29.6 ⁴	28.2 ⁵
Xetra closing price as of 30 September (in €)			1.86	1.99
Number of shares as of 30 September			124,172,487	124,172,487
Market capitalisation as of 30 September			231.0	247.1
Number of employees as of 30 September			1,355	1,371

¹ Including non-cash share-based compensation.

² Basic and diluted.

³ Ratio of capital expenditure to revenues.

⁴ As of 30 September 2017.

⁵ As of 31 December 2016.

QSC GROWS IN ITS CLOUD BUSINESS AND RAISES ITS FREE CASH FLOW FORECAST

Cloud revenues up 63% to € 19.5 million. QSC was repeatedly successful in marketing its Pure Enterprise Cloud and IoT portfolio in the first nine months of 2017. At the same time, the Company continually expanded its range of services, adding features including, among others, a multi-cloud hub for secure high-speed links to private and public clouds.

Stable TC business with corporate customers. QSC generated revenues of € 68.7 million in this particularly high-margin business field in the first nine months of 2017, as against € 68.6 million in the previous year. In a climate characterised by tough competition, the Company particularly benefited from its IP expertise. Over the past few months, for example, QSC has been awarded several tenders for IP-based virtual networks.

Third consecutive quarter with positive consolidated net income. At € 1.5 million, QSC's consolidated net income for the third quarter of 2017 was once again positive. Consolidated net income for the first nine months now totals € 2.6 million, compared with € -0.1 million in the previous year. Operating earnings (EBIT) also showed marked improvements, with nine-month EBIT rising by 81% to € 6.5 million. At € 29.3 million, EBITDA virtually matched the previous year's figure, and that despite the year-on-year reduction in revenues by € 29.1 million.

Free cash flow improves by 12%. In the first nine months of 2017, QSC increased its free cash flow to € 8.7 million, up from € 7.8 million in the previous year. For the financial year as a whole, the Company now expects to generate free cash flow of between € 10 million and € 11 million. It previously only expected to slightly exceed the previous year's figure of € 8.4 million. QSC has otherwise not amended its forecast and expects to generate revenues of € 355 million to € 365 million and EBITDA of between € 36 million and € 40 million.

QSC boosts business fields. At the end of August, the Management Board decided to strengthen the Telecommunications business by spinning it off into a separate subsidiary. This decision still requires approval by the next Annual General Meeting in July 2018. This step shows how QSC plans to boost the organisation of its business fields and develop them along entrepreneurial lines.

"The TC business still offers considerable growth opportunities. In particular, the new structure we have planned will make it easier to enter into cooperations and acquire participating interests, while also accelerating the implementation of new business models together with partners." **Jürgen Hermann, CEO**

"Our strict spending discipline and moderate capital expenditure have enabled us to raise our free cash flow forecast. It is also pleasing to see that QSC has generated positive earnings for the third consecutive quarter." **Stefan A. Baustert, CFO**

SUMMARY OF THE FIRST 9 MONTHS OF 2017

Business performance

Higher free cash flow and consolidated net income. QSC increased its free cash flow for the first nine months of 2017 by 12% to € 8.7 million. Over the same period, the Company improved its operating earnings (EBIT) by 81% to € 6.5 million and its consolidated net income to € 2.6 million, up from € -0.1 million in the first nine months of 2016. The increased earnings strength was driven in particular by improvements in the Company's cost base, as well as by a lower volume of depreciation and amortisation.

QSC's revenues were largely on budget and amounted to € 264.8 million in the first nine months compared with € 293.9 million in the previous year's period. At € 88.9 million, revenues for the third quarter of 2017 fell short of the previous year's figure of € 95.9 million. As previously announced, however, third-quarter revenues were € 1.7 million ahead of the figure for the second quarter of 2017.

Highly dynamic growth in Cloud business. Revenues in the Cloud segment grew by 63% to € 19.5 million in the first nine months of 2017. QSC generated revenues of € 8.0 million here in the third quarter of 2017 – the highest quarterly figure since this business field was launched. Given the opportunities available in this market, the Company is continuing to invest in future growth and has focused in particular on hiring additional cloud specialists. Notwithstanding the associated outlays, the segment contribution improved to € -0.4 million in the first nine months of 2017, up from € -1.4 million in the previous year's period. The contribution of € 0.5 million generated in the third quarter of 2017 represents the first positive contribution made by this segment to date.

Cloud revenues

(in € million)

9M 2017		19.5
9M 2016		12.0

This substantial growth was driven by the Company's success in marketing its Pure Enterprise Cloud and its Internet-of-Things (IoT) portfolio. With the Pure Enterprise Cloud, QSC is on the one hand succeeding in convincing new customers with the high performance capacity of the modular system of proven cloud technologies, software solutions and service components accompanied by high-performance network and infrastructure services. On the other hand, the migration of existing Outsourcing customers to the new cloud-based infrastructure is also continuing. In parallel to these developments, QSC is also expanding its portfolio. Since August, the Company has offered a multi-cloud hub for secure high-speed connections to private and public clouds. To this end, QSC combines network services including Microsoft Azure ExpressRoute and Amazon Direct Connect. The multi-cloud hub provides real-time access to data and applications and shields the information from the public internet.

In its IoT business, QSC is benefiting in particular from its broad-based approach – its services range from advising customers on how to use networked products through to manufacturing such products and operating IoT platforms. Various SME players are drawing on these services in projects in which, together with QSC's IoT experts, they investigate the opportunities harboured by IoT solutions and smart products. Customers have also shown great interest in the option of embedding these types of innovation in SAP environments and/or multi-cloud solutions. QSC is one of few providers able to offer all the skills needed to implement this kind of project on an in-house basis.

Cloud-based procurement models rather than traditional Outsourcing. Given the ongoing migration of Outsourcing customers to the Pure Enterprise Cloud, the Outsourcing segment's share of total revenues is steadily declining.

In the first nine months of the current financial year, QSC generated Outsourcing revenues of € 77.9 million compared with € 91.3 million in the previous year's period. The segment contribution came to € 15.1 million, as against € 20.9 million in the first nine months of 2016.

Outsourcing revenues

(in € million)



Consulting posts stable performance. The Consulting segment posted revenues of € 30.3 million for the first nine months of 2017, compared with € 30.7 million in the previous year's period. At € 9.5 million, third-quarter revenues fell short of expectations. At € 4.0 million, the segment contribution for the first nine months of the current financial year also fell slightly short of the previous year's figure of € 4.5 million.

Consulting revenues

(in € million)



■ SAP ■ Microsoft

QSC is permanently extending its range of services in its Consulting segment as well. Since the third quarter of 2017, the Company has offered "Process Mining" and draws here on technology from Celonis, the market leader in this area. Celonis technology automatically analyses company processes, such as order or assignment processes, and presents the relevant process chains in easily understood, graphically animated process charts. Experience to date shows that this enables process costs to be reduced by 25% and throughput times to be accelerated by 37%.

TC business with corporate customers generates highest margins. As previously announced, QSC returned to a positive growth course in its telecommunications (TC) business with corporate customers in the third quarter of 2017 and generated revenues of € 23.1 million. Nine-month revenues here came to € 68.7 million, compared with € 68.6 million in the previous year's period. By contrast but nevertheless consistent with expectations, TC revenues with resellers fell over the same period – by € 22.9 million, with almost half of this reduction resulting from stricter regulation in the TC business. Furthermore, this business field has also felt the effects of extremely tough price and crowding-out competition.

Telecommunications revenues

(in € million)



Overall, in its Telecommunications segment QSC generated revenues of € 137.1 million in the first nine months of 2017, as against € 159.9 million in the previous year's period. The high-margin corporate customer business now accounts for a higher share of revenues than the business with resellers. As a result of this, as well as of cost savings, the nine-month segment contribution rose year-on-year by € 1.1 million to € 30.7 million. At 22%, the margin QSC has generated in its TC business in the current financial year is higher than in any other segment.

QSC boosts TC business with separate subsidiary. To enable better use to be made of opportunities in the TC business with corporate customers in particular, at the end of August 2017 the Management Board decided to spin off the TC business into a separate subsidiary. Here, QSC will be pooling its network operations, network services and the entire management of preliminary and end products for corporate customers and resellers, including customer and partner management, and sales and marketing. This decision still requires approval by the next Annual General Meeting in July 2018.

Earnings performance

Gross margin stable at 26%. Cost of revenues fell to € 196.2 million in the first nine months of 2017, as against € 216.3 million in the previous year's period. Gross profit came to € 68.6 million, compared with € 77.7 million in the first nine months of 2016. QSC's gross margin therefore remained unchanged at 26%. Other major expense items also decreased: sales and marketing expenses amounted to € 19.1 million, as against € 24.0 million in the previous year's period, while general and administrative expenses fell from € 23.7 million to € 20.1 million. The organisational restructuring programme had a noticeably positive effect on all expense items.

EBITDA margin improves to 11%. Despite the decline in revenues, QSC's EBITDA for the first nine months of 2017 remained virtually stable at € 29.3 million, as against € 29.8 million in the previous year. This reflects the Company's success in reorganising its structures, as well as the higher share of revenues accounted for by higher-margin business fields such as TC for corporate customers. The EBITDA margin rose by 1 percentage point to 11% in the first nine months of 2017. Year-on-year comparison shows that the quarterly figure also remained virtually stable, with EBITDA of € 9.1 million in the third quarter of 2017 as against € 9.3 million in the previous year's period.

EBIT margin doubles. Depreciation and amortisation fell to € 22.8 million in the first nine months of 2017, down from € 26.2 million in the previous year's period. As a result, EBIT for the 2017 financial year to date surged by 81% to € 6.5 million; the EBIT margin doubled to 2%. The financial result also improved compared with the previous year, as financial expenses fell by € 0.8 million to € -3.4 million following the early repayment of part of the promissory note loan. Consolidated net income rose to € 2.6 million in the first nine months of 2017, up from € -0.1 million in the previous year's period. In the third quarter of 2017, QSC generated consolidated net income of € 1.5 million, compared with € -0.1 million in the previous year's quarter.

Financial and net asset position

Free cash flow rises to € 8.7 million. QSC improved its free cash flow by 12% to € 8.7 million in the first nine months of the current financial year. As in the previous year, in the third quarter of 2017 this key figure amounted to € 2.3 million. The Company calculates its free cash flow as the change in net debt before acquisitions and distributions. The table below shows the relevant parameters at the two balance sheet dates on 30 September 2017 and 31 December 2016.

€ million	30/09/2017	31/12/2016
Liquidity	58.0	67.3
Liabilities under financing and finance lease arrangements	(0.4)	(1.7)
Liabilities due to banks	(136.4)	(149.4)
Interest-bearing liabilities	(136.8)	(151.1)
Net debt	(78.8)	(83.8)

It can be seen that liquidity decreased by € 9.3 million to € 58.0 million in the first nine months of 2017. Over the same period, QSC reduced its interest-bearing liabilities by € 14.3 million. As a result, net debt fell by € 5.0 million to € 78.8 million as of 30 September 2017.

As the free cash flow presents the financial strength of the operating business, QSC adjusts this figure to exclude outgoing payments for acquisitions and distributions. The distribution of a dividend of € 0.03 at the end of May 2017 led to an outflow of funds of € 3.7 million. This led to a free cash flow of € 8.7 million for the first nine months of 2017.

Capital expenditure at previous year's level. QSC invested a total of € 14.0 million in the first nine months of 2017, as against € 14.1 million in the previous year's period. Of this sum, 65% related to technical equipment and other property, plant and equipment, while 35% was channelled into customer-related investments. Key focuses of investment related to the ongoing modernisation of IT operations and data centres.

Scheduled decrease in long-term assets. Due above all to scheduled depreciation and amortisation, the value of long-term assets stated in the consolidated balance sheet as of 30 September 2017 decreased to € 175.8 million, down from € 185.0 million at the balance sheet date at the end of 2016. Short-term assets were reported at € 114.4 million, compared with € 121.0 million as of 31 December 2016.

Equity ratio rises to 30%. QSC continues to finance itself to a great extent via equity and long-term liabilities with congruent maturities. Equity totalled € 86.0 million as of 30 September 2017, as against € 86.3 million at the end of 2016. The equity ratio rose 2 percentage points to 30%.

Long-term liabilities fell to € 148.0 million as of 30 September 2017, down from € 159.3 million at the end of 2016. In the second quarter of 2017, QSC had made an early repayment in the amount of € 10.0 million of the promissory note loan taken up in 2014. Short-term liabilities came to € 56.2 million, as against € 60.4 million as of 31 December 2016.

Outlook

QSC raises free cash flow forecast. Given the positive development in free cash flow, QSC has raised its full-year forecast for this key figure. The Company now expects to generate free cash flow of between € 10 million and € 11 million. It previously only expected to slightly exceed the previous year's figure of € 8.4 million. QSC has otherwise not amended its forecast and expects to report revenues of € 355 million to € 365 million and EBITDA of between € 36 million and € 40 million.

Further information

About this quarterly statement. 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 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, Internet of Things, Consulting, Telecommunications and Colocation, 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)

	01/07/ – 30/09/ 2017	01/07/ – 30/09/ 2016	01/01/ – 30/09/ 2017	01/01/ – 30/09/ 2016
Net revenues	88,925	95,878	264,816	293,903
Cost of revenues	(66,683)	(70,462)	(196,238)	(216,251)
Gross profit	22,242	25,416	68,578	77,652
Sales and marketing expenses	(6,300)	(8,136)	(19,145)	(24,016)
General and administrative expenses	(6,849)	(7,332)	(20,111)	(23,695)
Depreciation and amortisation				
(including non-cash share-based compensation)	(6,974)	(8,337)	(22,817)	(26,184)
Other operating income	365	574	1,392	1,993
Other operating expenses	(317)	(1,183)	(1,373)	(2,162)
Operating profit (EBIT)	2,167	1,002	6,524	3,588
Financial income	122	32	192	119
Financial expenses	(1,069)	(1,325)	(3,419)	(4,178)
Net income (loss) before income taxes	1,220	(291)	3,297	(471)
Income taxes	286	203	(664)	397
Net income (loss)	1,506	(88)	2,633	(74)
Attribution of net income (loss)				
Owners of the parent company	1,565	(42)	2,808	61
Non-controlling interests	(59)	(46)	(175)	(135)
Earnings per share (basic) in €	0.01	0.00	0.02	0.00
Earnings per share (diluted) in €	0.01	0.00	0.02	0.00

Consolidated Balance Sheet

Euro amounts in thousands (€ 000s)

	30/09/2017 (unaudited)	31/12/2016 (audited)
ASSETS		
Long-term assets		
Property, plant and equipment	59,201	62,554
Land and buildings	23,744	24,359
Goodwill	55,568	55,568
Other intangible assets	26,264	30,779
Trade receivables	1,937	2,435
Prepayments	2,600	3,161
Other long-term assets	157	190
Deferred tax assets	6,311	5,926
Long-term assets	175,782	184,972
Short-term assets		
Trade receivables	48,821	45,816
Prepayments	6,169	5,107
Inventories	223	73
Other short-term assets	1,215	1,533
Cash and cash equivalents	57,964	67,336
Subtotal for short-term assets	114,392	119,865
Assets held for sale	-	1,166
Short-term assets	114,392	121,031
TOTAL ASSETS	290,174	306,003

	30/09/2017 (unaudited)	31/12/2016 (audited)
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity		
Issued capital	124,172	124,172
Capital surplus	143,596	143,217
Other capital reserves	(3,088)	(3,493)
Accumulated deficit	(178,140)	(177,223)
Equity attributable to owners of the parent company	86,540	86,673
Non-controlling interests	(500)	(325)
Shareholders' equity	86,040	86,348
Liabilities		
Long-term liabilities		
Long-term liabilities under financing and finance lease arrangements	150	370
Liabilities due to banks	135,202	145,412
Convertible bonds	38	33
Accrued pensions	6,831	7,133
Other provisions	3,054	3,050
Other financial liabilities	2,150	2,525
Deferred tax liabilities	539	775
Long-term liabilities	147,964	159,298
Short-term liabilities		
Trade payables	27,898	24,890
Short-term liabilities under financing and finance lease arrangements	302	1,352
Liabilities due to banks	1,160	4,003
Other provisions	8,076	11,724
Accrued taxes	3,305	2,166
Deferred income	2,279	2,441
Other short-term liabilities	13,150	12,630
Subtotal for short-term liabilities	56,170	59,206
Liabilities associated with assets held for sale	-	1,151
Short-term liabilities	56,170	60,357
Liabilities	204,134	219,655
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	290,174	306,003

Consolidated Statement of Cash Flows (unaudited)

Euro amounts in thousands (€ 000s)

	01/01/ – 30/09/ 2017	01/01/ – 30/09/ 2016
Cash flow from operating activities		
Net income (loss) before income taxes	3,297	(471)
Depreciation and amortisation of long-term assets	22,438	25,773
Other non-cash income and expenses	434	411
Profit (loss) from disposal of fixed assets	15	(3)
Income tax paid	(4,048)	(2,072)
Income tax received	4,088	389
Interest received	837	96
Changes in provisions	(3,476)	(2,257)
Changes in trade receivables	(2,562)	(826)
Changes in trade payables	4,173	4,123
Changes in other assets and liabilities	3,505	4,884
Cash flow from operating activities	28,701	30,047
Cash flow from investing activities		
Purchase of intangible assets	(4,320)	(5,160)
Purchase of property, plant and equipment	(11,661)	(12,978)
Proceeds from sale of property, plant and equipment	32	40
Proceeds from sale of a subsidiary, less liquid funds thereby disposed of	(430)	-
Cash flow from investing activities	(16,379)	(18,098)
Cash flow from financing activities		
Dividends paid	(3,725)	(3,725)
Issuance of convertible bonds	5	4
Proceeds from issuance of common stock	-	17
Repayment of loans	(12,751)	(1,601)
Interest paid	(4,398)	(4,516)
Repayment of liabilities under financing and finance lease arrangements	(1,270)	(2,594)
Cash flow from financing activities	(22,139)	(12,415)
Change in cash and cash equivalents	(9,817)	(466)
Cash and cash equivalents as of 1 January	67,781	73,982
Cash and cash equivalents as of 30 September	57,964	73,516

Segment Reporting (unaudited)

Euro amounts in thousands (€ 000s)

	Telecom- munications	Outsourcing	Consulting	Cloud	Consolidated Group
01/07/ – 30/09/2017					
Net revenues	46,441	24,928	9,531	8,025	88,925
Cost of revenues	(33,314)	(18,965)	(8,153)	(6,251)	(66,683)
Gross profit	13,127	5,963	1,378	1,774	22,242
Sales and marketing expenses	(3,285)	(1,390)	(323)	(1,302)	(6,300)
Segment contribution	9,842	4,573	1,055	472	15,942
General and administrative expenses					(6,849)
Depreciation and amortisation (including non-cash share-based compensation)					(6,974)
Other operating income and expenses					48
Operating profit (EBIT)					2,167
Financial income					122
Financial expenses					(1,069)
Net income before income taxes					1,220
Income taxes					286
Net income					1,506

	Telecom- munications	Outsourcing	Consulting	Cloud	Consolidated Group
01/07/ – 30/09/2016					
Net revenues	52,370	27,597	10,286	5,625	95,878
Cost of revenues	(37,755)	(19,890)	(8,423)	(4,394)	(70,462)
Gross profit	14,615	7,707	1,863	1,231	25,416
Sales and marketing expenses	(4,735)	(1,739)	(373)	(1,289)	(8,136)
Segment contribution	9,880	5,968	1,490	(58)	17,280
General and administrative expenses					(7,332)
Depreciation and amortisation (including non-cash share-based compensation)					(8,337)
Other operating income and expenses					(609)
Operating profit (EBIT)					1,002
Financial income					32
Financial expenses					(1,325)
Net loss before income taxes					(291)
Income taxes					203
Net loss					(88)

Segment Reporting (unaudited)

Euro amounts in thousands (€ 000s)

	Telecom- munications	Outsourcing	Consulting	Cloud	Consolidated Group
01/01/ – 30/09/2017					
Net revenues	137,115	77,937	30,264	19,500	264,816
Cost of revenues	(96,289)	(58,679)	(25,488)	(15,782)	(196,238)
Gross profit	40,826	19,258	4,776	3,718	68,578
Sales and marketing expenses	(10,096)	(4,168)	(805)	(4,076)	(19,145)
Segment contribution	30,730	15,090	3,971	(358)	49,433
General and administrative expenses					(20,111)
Depreciation and amortisation (including non-cash share-based compensation)					(22,817)
Other operating income and expenses					19
Operating profit (EBIT)					6,524
Financial income					192
Financial expenses					(3,419)
Net income before income taxes					3,297
Income taxes					(664)
Net income					2,633

	Telecom- munications	Outsourcing	Consulting	Cloud	Consolidated Group
01/01/ – 30/09/2016					
Net revenues	159,903	91,259	30,738	12,003	293,903
Cost of revenues	(116,301)	(64,932)	(25,101)	(9,917)	(216,251)
Gross profit	43,602	26,327	5,637	2,086	77,652
Sales and marketing expenses	(13,972)	(5,449)	(1,159)	(3,436)	(24,016)
Segment contribution	29,630	20,878	4,478	(1,350)	53,636
General and administrative expenses					(23,695)
Depreciation and amortisation (including non-cash share-based compensation)					(26,184)
Other operating income and expenses					(169)
Operating profit (EBIT)					3,588
Financial income					119
Financial expenses					(4,178)
Net loss before income taxes					(471)
Income taxes					397
Net loss					(74)

CALENDAR

2017 Annual Report
29 March 2018

Quarterly Figures
7 May 2018
6 August 2018
12 November 2018

Annual General Meeting
12 July 2018

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