

QUARTERLY STATEMENT

1 July to 30 September 2019

SECURE.
INNOVATIVE.
AT YOUR SIDE.

QSC AG

QSC AT A GLANCE



Revenues € 32.3 million

Key figures for the third quarter of 2019 – the first quarter after the sale of our TC subsidiary Plusnet.

€ million	01/07/ – 30/09/ 2019
Revenues	32.3
EBITDA	(2.2)
Depreciation and amortisation ^{1, 2}	4.1
EBIT	(6.3)
Net income	(2.6)
Earnings per share ³ (in €)	(0.02)
Capital expenditure ⁴	0.9
Free cash flow	(11.8)
Net liquidity ⁵	70.1
Shareholders' equity ⁵	190.6
Equity ratio (in %)	76.1
Xetra closing price ⁵ (in €)	1.25
Number of shares ⁵	124,172,487
Market capitalisation ⁵	155.2
Number of employees ⁵	896

¹ Including non-cash share-based compensation.

² Including depreciation of right-of-use assets (IFRS 16).

³ Diluted and basic.

⁴ Not accounting for IFRS 16.

⁵ As of 30 September 2019.

QSC ON GROWTH COURSE

Revenues grow by 7%

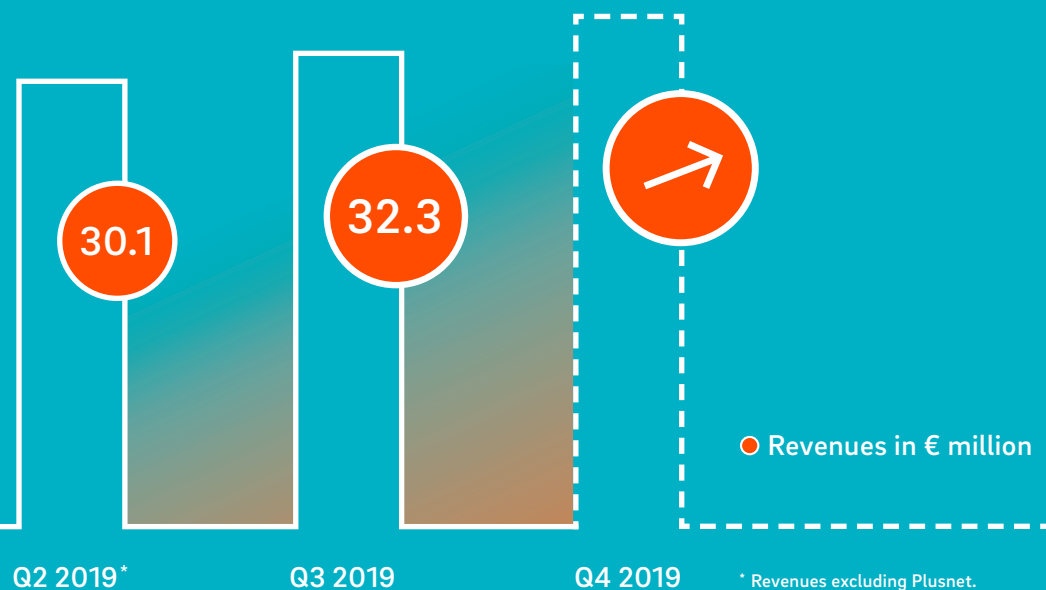
As previously announced, in the first quarter since the sale of its TC subsidiary Plusnet, QSC became a growth company once again. Revenues for the third quarter of 2019 rose to € 32.3 million, up from € 30.1 million* in the previous quarter.

Cloud business grows by 24%

Revenues in the Cloud segment, with its Cloud Services and IoT activities, surged quarter on quarter by 24% to € 10.2 million. This highly dynamic performance was also due in part to services provided to existing customers.

IoT platform for Techem

QSC's IoT subsidiary Q-loud will be developing and operating one of Germany's largest energy-sector IoT platforms for the energy-related services provider Techem. This new service is based on the extensive IoT platform internally developed by Q-loud and already in place.



SUMMARY OF THE THIRD QUARTER OF 2019

Business Performance

New strategy shows initial success. The sale of the telecommunications subsidiary Plusnet as of 30 June 2019 marks the beginning of a new era: QSC's attractive business portfolio of Cloud, SAP and IoT services has returned the Company to its growth course. Revenues for the third quarter of 2019 rose to € 32.3 million, up 7% on the figure for the second quarter (excluding Plusnet revenues).

The new strategy unveiled in May 2019 has been successfully launched and is being consistently implemented further, be it with regard to expanding QSC's network of strong partners, developing innovations and pursuing a value-adding acquisition policy. At the beginning of November, QSC acquired a stake in aiXbrain GmbH. This Aachen-based company is a pioneer when it comes to using artificial intelligence (AI) in industry; its self-learning software increases flexibility in industrial production.

The information in this Quarterly Statement focuses on comparing the second and third quarters of 2019 and does not consider the revenues generated by Plusnet through to 30 June 2019. Comparison of total revenues – or with the previous year's figures – would cloud any understanding of the current operating business performance. The TC business pooled at Plusnet traditionally accounted for well over half of QSC's revenues and costs. This being so, we have also not provided any year-on-year comparison of the cost and earnings figures in this Quarterly Statement. These disclosures can be found in the interim consolidated financial statements from Page 9 onwards.

Cloud revenues surge by 24%. Operations in the Cloud segment, with its Cloud Services and IoT activities, progressed in line with expectations in the third quarter of 2019. Revenues rose to € 10.2 million, up from € 8.2 million in the previous quarter. Like other segment revenue figures, this figure for the first time includes services provided to the former subsidiary Plusnet, whose customers continue to procure IT services from QSC in individual cases.

Cloud revenues

(€ million)



The strength of our Cloud Services performance is underlined by the fact that our portfolio was singled out no fewer than three times by ISG in summer 2019. According to this consultancy, we are one of the providers with the most attractive range of services and greatest competi-

* Revenues excluding Plusnet.

tiveness in the categories of Managed Services, Managed Hosting and Colocation. The performance capacity of our IoT subsidiary Q-loud also convinced the energy-related services provider Techem in the past quarter. For this company, QSC will now be developing and operating what is one of Germany's largest IoT platforms in the energy sector.

Outsourcing revenues stabilise. At € 7.0 million, the Outsourcing revenues reported for the third quarter are only slightly lower than the figure of € 7.3 million for the second quarter of 2019. In the past nearly two years, QSC successfully extended all of its contracts with regard to their terms and in some cases to their scope as well.

Outsourcing revenues

(€ million)



Demand for SAP S/4HANA services drives developments in Consulting. Compared with the second quarter of 2019, revenues in the Consulting segment rose by 5% to € 10.6 million. The largest share of these revenues is generated with consulting services relating to SAP software, and here in particular the introduction and operation of S/4HANA. QSC's expertise in SAP was a key factor in the decision by the heating metering services specialist BRUNATA-METRONA Hürth to commission us in the third quarter of 2019 with the application management for all its SAP applications.

Consulting revenues

(€ million)



A new partnership with the software company Basis Technologies is also opening up additional opportunities for the Consulting business. Thanks to the solutions offered by this new partner, our experts will be able to implement migrations to SAP S/4HANA and release updates on a more automated and thus inexpensive basis.

* Revenues excluding Plusnet.

Colocation business benefits from long-term contracts. Following the Plusnet sale, the Telecommunications segment contains the Colocation business relating to data centre services. Revenues here came to € 4.6 million in the third quarter, as against € 4.5 million in the second quarter of 2019. The stability of this business field is underlined by the extension in July 2019 of the colocation contract with DATEV for another ten years. We have provided this specialist in software solutions for tax advisors, auditors and lawyers with a proprietary data centre since 2011.

Colocation revenues

(€ million)

QIII / 2019		4.6
QII / 2019*		4.5

CFO Stefan Baustert to leave QSC following completion of transformation. For QSC, the sale of the Plusnet telecommunications subsidiary marked the final major step in its transformation from an ICT provider to a Cloud, SAP and IoT service provider. Now that this process is complete, based on mutual agreement Stefan Baustert (63) will be leaving the Company at the end of 2019. Baustert has been responsible for finance, personnel, central procurement and investor relations since January 2015. By implementing a companywide restructuring and efficiency programme, he returned QSC to profitability and laid the foundation for its future profitable growth. The Supervisory Board is extraordinarily grateful to Stefan Baustert for this. Baustert will be succeeded as of 1 January 2020 by Christoph Reif (39) acting as plenipotentiary. Reif has headed the overall finance department since 2013 and is already a member of the management.

Earnings Performance

Good cost base for scalable growth. The cost of revenues amounted to € 27.9 million in the third quarter of 2019. Following the Plusnet sale, half of this line item involves personnel expenses. The existing cost base is a solid foundation for the revenue growth expected in the years ahead. Additional revenues will not be accompanied by corresponding increases in costs. This will enable scalable growth.

Sales and marketing expenses amounted to € 3.0 million in the third quarter of 2019, while general and administrative expenses totalled € 4.9 million. It should be noted that administrative expenses are countered by other operating income of € 1.5 million that chiefly results from the contractually agreed provision of administrative services for Plusnet.

* Revenues excluding Plusnet.

Earnings consistent with expectations. EBITDA amounted to € -2.2 million in the third quarter of 2019. Depreciation and amortization for the same period totalled € 4.1 million and included an amount of € 1.2 million for the depreciation of right-of-use assets for leases recognised pursuant to IFRS 16. Operating earnings (EBIT) came to € -6.3 million. A positive tax item of € 3.9 million mainly due to effects relating to the Plusnet transaction was recognised in the third quarter of 2019. Consolidated net income amounted to € -2.6 million in the third quarter of 2019.

Earnings Performance by Segment

Colocation and Consulting generate highest segment contributions. The stable Colocation business generated a segment contribution of € 1.0 million in the third quarter of 2019. This corresponds to a margin of 22%. Consulting achieved a segment contribution of € 0.4 million. Notwithstanding substantial capital expenditure made on future growth, the margin in this segment came to 4%. Capacities are also being continually expanded in the Cloud business. The segment contribution here amounted to € 0.2 million in the third quarter of 2019. The Outsourcing segment concluded the third quarter of 2019 with a slight loss of € -0.1 million.

Financial and Net Asset Position

Plusnet sale shapes free cash flow in third quarter of 2019. Consistent with the respective budgets, further substantial payments were incurred in the wake of the Plusnet transaction in the third quarter of 2019. These related above all to transaction and consulting expenses, as well as to performance-related commission payments. The free cash flow therefore came to € -11.8 million. This figure results from the comparison of net liquidity as of 30 June 2019 (€ 81.9 million) with the figure as of 30 September 2019 (€ 70.1 million). QSC traditionally calculates its free cash flow from this change in net liquidity/debt before acquisitions and distributions.

Low capital expenditure requirements. Following the Plusnet sale, capital expenditure in the third quarter of 2019 – not accounting for IFRS 16 – was limited to € 0.9 million and was predominantly channelled into technical equipment. Looking ahead to the coming quarters, we expect capital expenditure requirements to average around € 2 million per quarter.

Plusnet sale changes consolidated balance sheet. Upon the deconsolidation of Plusnet, the volume of long-term assets already fell substantially as of 30 June 2019. Due to further depreciation and amortisation, this figure decreased to € 134.8 million as of 30 September 2019, as against € 166.6 million as of 31 December 2018. By contrast, short-term assets rose slightly to € 115.7 million, compared with € 114.9 million at the end of 2018. Within this category, higher cash and cash equivalents were countered by a lower volume of trade receivables.

Equity ratio of 76%. On the equity and liabilities side of the balance sheet, the Plusnet sale, which generated a high one-off volume of consolidated net income, has sustainably boosted the Company's equity base. Accordingly, the equity of € 190.6 million reported as of 30 September 2019 was more than twice as high as at the end of 2018 (€ 90.1 million). By contrast, long-term liabilities fell from € 109.3 million as of 31 December 2018 to € 20.1 million at the current reporting date, while short-term liabilities dropped to € 39.7 million, down from € 82.1 million at the end of 2018. This massive reduction was due above all to the complete repayment of all liabilities due to banks. Our Company is now free of debt.

Outlook

Forecast confirmed. Following the closing of the Plusnet sale, on 1 July 2019 we updated our full-year forecast for the 2019 financial year. According to this forecast, which includes contributions from Plusnet for the first-half of 2019, we expect to generate revenues of more than € 235 million, EBITDA of more than € 140 million and free cash flow of more than € 130 million. Following the third-quarter of 2019, in which our business performance was in line with expectations, this forecast remains valid without amendment.

Further Information

About this quarterly statement. This quarterly statement should be read in conjunction with the 2018 Annual Report and the 2019 Half-Year Report, both of which can be found at www.qsc.de/en/investor-relations/ir-publications. Unless they are historic facts, all disclosures in this quarterly statement 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 and enabling its customers to enhance their business processes and business models with the utmost flexibility and efficiency. QSC has longstanding technological and application expertise in the fields of Cloud and Colocation, SAP and the Internet of Things. Its extensive service portfolio provides exactly what SME players need as they move into the digital age: from standardised pay-as-you-use services through to individualised full-range solutions for the retail, manufacturing and energy sectors. All services offer end-to-end quality and high security. QSC bases its relationships with customers on an entrepreneurial approach, a service-driven mindset and a desire to forge mutually beneficial partnerships. QSC AG is based in Cologne and has around 900 employees at locations throughout Germany.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Income (unaudited)

Euro amounts in thousands (€ 000s)

	01/07/ – 30/09/ 2019	01/07/ – 30/09/ 2018 (adjusted)	01/01/ – 30/09/ 2019	01/01/ – 30/09/ 2018 (adjusted)
Net revenues	32,332	89,376	204,921	275,217
Cost of revenues	(27,885)	(66,413)	(147,817)	(207,587)
Gross profit	4,447	22,963	57,104	67,630
Sales and marketing expenses	(2,957)	(7,357)	(18,624)	(21,129)
General and administrative expenses	(4,916)	(7,000)	(28,047)	(19,393)
Depreciation and amortisation				
(including non-cash share-based compensation)	(4,096)	(6,767)	(33,113)	(20,362)
Other operating income	1,470	1,048	137,649	1,628
Other operating expenses	(262)	(589)	(4,452)	(1,439)
Operating profit (EBIT)	(6,314)	2,298	110,517	6,935
Financial income	19	19	41	111
Financial expenses	(200)	(1,132)	(6,010)	(3,297)
Net income before income taxes	(6,495)	1,185	104,548	3,749
Income taxes	3,870	(863)	(1,379)	(2,128)
Net income	(2,625)	322	103,169	1,621
Attribution of net income				
Owners of the parent company	(2,625)	379	103,245	1,805
Non-controlling interests	-	(57)	(76)	(184)
Earnings per share (basic) in €	(0.02)	0.00	0.83	0.01
Earnings per share (diluted) in €	(0.02)	0.00	0.83	0.01

Consolidated Balance Sheet

Euro amounts in thousands (€ 000s)

	30/09/2019 (unaudited)	31/12/2018 (adjusted)
ASSETS		
Long-term assets		
Property, plant and equipment	31,269	50,211
Land and buildings	21,697	22,291
Goodwill	32,537	55,568
Right-of-use assets	18,113	-
Other intangible assets	16,738	24,411
Trade receivables	1,648	1,953
Prepayments	1,851	3,353
Other long-term assets	2,390	430
Deferred tax assets	8,511	8,417
Long-term assets	134,754	166,634
Short-term assets		
Trade receivables	38,956	53,822
Prepayments	4,475	5,828
Inventories	348	670
Other short-term assets	1,781	959
Cash and cash equivalents	70,105	53,618
Short-term assets	115,665	114,897
TOTAL ASSETS	250,419	281,531

	30/09/2019 (unaudited)	31/12/2018 (adjusted)
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity		
Issued capital	124,172	124,172
Capital surplus	144,111	144,119
Other capital reserves	(1,271)	(1,531)
Accumulated deficit	(76,363)	(175,883)
Equity attributable to owners of the parent company	190,649	90,877
Non-controlling interests	-	(780)
Shareholders' equity	190,649	90,097
Liabilities		
Long-term liabilities		
Lease liabilities	14,421	-
Other financial liabilities	29	100,036
Accrued pensions	4,994	5,545
Other provisions	440	2,922
Trade payables and other liabilities	100	454
Deferred tax liabilities	129	352
Long-term liabilities	20,113	109,309
Short-term liabilities		
Trade payables and other liabilities	26,598	56,042
Lease liabilities	5,012	-
Other financial liabilities	-	20,013
Other provisions	6,002	2,655
Accrued taxes	1,623	1,631
Deferred income	422	1,784
Short-term liabilities	39,657	82,125
Liabilities	59,770	191,434
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	250,419	281,531

Consolidated Statement of Cash Flows (unaudited)

Euro amounts in thousands (€ 000s)

	01/01/ – 30/09/ 2019	01/01/ – 30/09/ 2018 (adjusted)
Cash flow from operating activities		
Net income before income taxes	104,548	3,749
Depreciation and amortisation of long-term assets	15,110	20,072
Depreciation of right-of-use assets (IFRS 16)	18,010	-
Other non-cash income and expenses	60	753
Profit from sale of subsidiaries	(135,253)	-
Loss (gains) on disposals of assets	237	(26)
Income tax paid	(1,421)	(1,641)
Income tax received	57	10
Interest received	8	85
Interest paid in connection with leases (IFRS 16)	(2,091)	-
Net financial expenses	5,969	3,186
Changes in provisions	314	(6,025)
Changes in trade receivables	7,532	2,353
Changes in trade payables	(34,263)	2,203
Changes in other assets and liabilities	4,492	(1,770)
Cash flow from operating activities	(16,691)	22,949
Cash flow from investing activities		
Purchase of intangible assets	(3,976)	(5,794)
Purchase of property, plant and equipment	(7,106)	(7,545)
Proceeds from sale of property, plant and equipment	-	92
Proceeds from sale of a subsidiary, less liquid funds thereby disposed of	185,813	-
Cash flow from investing activities	174,731	(13,247)
Cash flow from financing activities		
Dividends paid	(3,725)	(3,725)
Repayment of convertible bonds	(6)	(1)
Proceeds from loan to former subsidiary	3,430	-
Taking up of loans	23,000	-
Repayment of loans	(142,000)	(5,912)
Interest paid	(5,021)	(3,129)
Payments for redemption of lease liabilities (IFRS 16) (2018: Repayment of liabilities under financing and finance lease arrangements)	(17,231)	(220)
Cash flow from financing activities	(141,553)	(12,987)
Change in cash and cash equivalents	16,487	(3,285)
Cash and cash equivalents as of 1 January	53,618	61,881
Cash and cash equivalents as of 30 September	70,105	58,596

Segment Reporting (unaudited)

Euro amounts in thousands (€ 000s)

	Telecom- munications	Outsourcing	Consulting	Cloud	Consolidated Group
01/07/ – 30/09/2019					
Net revenues	4,624	6,965	10,569	10,174	32,332
Cost of revenues	(3,486)	(6,109)	(9,607)	(8,683)	(27,885)
Gross profit	1,138	856	962	1,491	4,447
Sales and marketing expenses	(105)	(992)	(549)	(1,311)	(2,957)
Segment contribution	1,033	(136)	413	180	1,490
General and administrative expenses					(4,916)
Depreciation and amortisation (including non-cash share-based compensation)					(4,096)
Other operating income and expenses					1,208
Operating profit (EBIT)					(6,314)
Financial income					19
Financial expenses					(200)
Net income before income taxes					(6,495)
Income taxes					3,870
Net income					(2,625)

	Telecom- munications	Outsourcing	Consulting	Cloud (adjusted)	Consolidated Group
01/07/ – 30/09/2018					
Net revenues	48,085	22,367	9,846	9,078	89,376
Cost of revenues	(35,512)	(18,012)	(7,932)	(4,957)	(66,413)
Gross profit	12,573	4,355	1,914	4,121	22,963
Sales and marketing expenses	(3,645)	(1,497)	(405)	(1,810)	(7,357)
Segment contribution	8,928	2,858	1,509	2,311	15,606
General and administrative expenses					(7,000)
Depreciation and amortisation (including non-cash share-based compensation)					(6,767)
Other operating income and expenses					459
Operating profit (EBIT)					2,298
Financial income					19
Financial expenses					(1,132)
Net income before income taxes					1,185
Income taxes					(863)
Net income					322

Segment Reporting (unaudited)

Euro amounts in thousands (€ 000s)

	Telecom- munications	Outsourcing	Consulting	Cloud	Consolidated Group
01/01/ – 30/09/2019					
Net revenues	98,930	42,862	32,070	31,059	204,921
Cost of revenues	(64,026)	(30,667)	(28,539)	(24,585)	(147,817)
Gross profit	34,904	12,195	3,531	6,474	57,104
Sales and marketing expenses	(6,443)	(5,650)	(1,543)	(4,988)	(18,624)
Segment contribution	28,461	6,545	1,988	1,486	38,480
General and administrative expenses					(28,047)
Depreciation and amortisation (including non-cash share-based compensation)					(33,113)
Other operating income and expenses					133,197
Operating profit (EBIT)					110,517
Financial income					41
Financial expenses					(6,010)
Net income before income taxes					104,548
Income taxes					(1,379)
Net income					103,169

	Telecom- munications	Outsourcing	Consulting	Cloud (adjusted)	Consolidated Group
01/01/ – 30/09/2018					
Net revenues	151,918	69,945	29,029	24,325	275,217
Cost of revenues	(111,734)	(56,987)	(23,324)	(15,542)	(207,587)
Gross profit	40,184	12,958	5,705	8,783	67,630
Sales and marketing expenses	(11,487)	(4,099)	(868)	(4,675)	(21,129)
Segment contribution	28,697	8,859	4,837	4,108	46,501
General and administrative expenses					(19,393)
Depreciation and amortisation (including non-cash share-based compensation)					(20,362)
Other operating income and expenses					189
Operating profit (EBIT)					6,935
Financial income					111
Financial expenses					(3,297)
Net income before income taxes					3,749
Income taxes					(2,128)
Net income					1,621

CALENDAR

2019 Annual Report

30 March 2020

Quarterly Figures

11 May 2020

10 August 2020

9 November 2020

Annual General Meeting

20 May 2020

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Please note that the German-language original of
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