Interim Statement on the 1st Quarter of 2020

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DEAR SHAREHOLDERS, EMPLOYEES, PARTNERS AND FRIENDS OF SOFTING,

Despite the impact of the coronavirus crisis, we managed to increase revenue slightly to EUR 20.0 million in the first quarter. EBIT was slightly weaker year-on-year at EUR –0.7 million (previous year: EUR –0.5 million). Operating EBIT – EBIT adjusted for capitalization as well as depreciation and amortization – grew slightly compared to the previous year and broke even (previous year: EUR –0.2 million). This is due to reduced capitalization of own work.

While revenue and EBIT remained stable, orders on hand and incoming orders declined, with incoming orders falling to EUR 21 million (previous year: EUR 24.8 million). Orders on hand fell only slightly to EUR 19.4 million (previous year: EUR 20.5 million). Even if one considers that we were able to record the highest level of first-quarter incoming orders in the previous year, this demonstrates the effects of the global coronavirus crisis.

The Industrial segment started the year with a good order backlog from process manufacturing. We also succeeded in placing our central new products with several key customers in process automation, who will have significant demand for these products for years to come. In factory automation, we and our partners such as Microsoft and Amazon are experiencing increasing demand among our customers to connect existing production lines vertically in the cloud. We consider ourselves to be technological leaders in this area and expect to win tenders from reference projects in the coming months. We are also encouraged by the fact that our US subsidiary OLDI has been reporting positive figures before and during the lockdown in the USA.

The IT Networks business is highly project-driven. Our revenue in this area is significantly lower than in the prior-year period. This business reacts quickly to surges and downturns in demand. It is heavily dependent on the construction and expansion of commercial real estate. Many commercial construction sites are currently inoperative or significantly behind schedule due to economic uncertainty and a lack of foreign workers. This uncertainty is transferred to our customers, who often only buy testing and measuring devices for IT installations when they are commissioned by developers. We are only expecting a recovery of this business towards the middle of the year, which may be more pronounced than usual due to replacement demand.

In the Automotive segment, our major customers remain committed to their development programs. Business with automotive suppliers is currently much more challenging. A combination of technological change, flagging sales and the effects of coronavirus is leading to deep budget cuts in this area. One encouraging development is the very specific opportunities for orders associated with our diagnostics toolset TDX in both Europe and China. Our subsidiary GlobalmatiX is progressing with the expansion of its product portfolio as planned. In addition to continuing projects with manufacturers, leasing companies and major fleet operators, sales efforts are also focusing on telematic service providers (TSPs). Many TSPs are preparing to switch from the old 3G to modern 4G wireless technology, with several thousand new connections still expected during the course of the year.

The current economic situation demonstrates the limits of our business model. In all previous years, our strong diversification in the three largest economic areas – Europe, North America and Asia – has allowed us to offset local slumps by expanding our business in each of our strong regions. This is currently not possible. However, we are already seeing the first signs of a pick-up in demand at our Chinese subsidiary. It could well be that the recovery moves from there across the Asian continent towards the West. However, our key task until then is to ensure that all regions are able to weather the current storm.

We are responding to these challenges rapidly and with a high degree of flexibility. Softing is committed to continuing ongoing projects and developments of major strategic importance. We reacted immediately in other areas by adapting capacities and costs to the new situation, and have since reduced overtime and vacation backlogs. We are also utilizing short-time work to adjust our capacity and retain our employees in the long term.

Our strategy is based on maintaining comprehensive liquidity combined with dynamically adjusting capacities and costs. Although we are currently anticipating a year-on-year decline in revenue and EBIT in the second quarter, we are expecting a recovery in the second half of the year. Despite or perhaps because of the massive restrictions of recent weeks, we are observing a marked urge among our customers to get back up and running again soon. The full year could still spring a positive surprise depending on how pronounced this recovery will be.

We hope that you stay healthy during this time and watch to see how Softing seizes the opportunities presented by this crisis.

Sincerely yours,

Dr. Wolfgang Trier
(Chief Executive Officer)

Interim statement on the 1st quarter of 2020

REPORT ON NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

The officially prescribed measures to contain the COVID-19 pandemic have posed major challenges for citizens and companies, particularly in Europe, the USA and Asia. After thinking about those directly affected by the disease, we soon had to decide how we as a company would meet our obligations to our customers, employees and shareholders in this situation.

Minimizing risk is our top priority

Due to COVID-19 developments, we would like to inform you that we will do everything we can to ensure an orderly course of business with the same high quality in this situation over the coming weeks and months.

We are technically and organizationally prepared for this situation and can be reached by our customers via the usual contact details and at the normal times. We are doing our part to contain the spread of the virus and taking great care to align ourselves with the decisions and recommendations made by the relevant federal and state authorities. As a socially responsible company, the health and safety of our employees is a matter very close to our hearts, which is why we have taken all necessary protective measures.

To ensure that there are no delivery bottlenecks, we began to increase our stock and that of our suppliers at an early stage. Although we do not yet know in detail how the current situation will be reflected in our results – at least temporarily –, we are taking all necessary steps to prepare for our economic recovery after the pandemic.

Despite negative signals from all markets, Softing succeeded in increasing revenue slightly in the first three months of 2020 (+2.0%). The Industrial segment grew revenue by a very healthy 8.1% in the first quarter, with operating EBIT remaining stable.

The performance of the Automotive segment was slightly negative in the first quarter, showing a drop in revenue of 3.8%. Business development with GlobalmatiX AG products is proceeding according to plan. The Sales team continues to make new contacts, even during the crisis.

The IT Networks segment is most severely affected by the COVID-19 crisis, at least in the short term. This is equally true of the markets in Europe, the USA and Asia. IT Networks revenue is primarily project-driven. Although it rises quickly in strong periods, it falls just as quickly in weak times. Many of our resellers are currently having hardly any contact with their end customers. Revenue dropped by 22.4% in the first quarter compared to the prior-year quarter. Sales of proprietary products suffered from the crisis to the same extent as distribution products. However, new in-house product lines are in the pipeline and will bolster the recovery we expect in the second half of the year.

Overall, the Softing Group grew its revenue marginally to EUR 20.0 million in the first three months of 2020 (previous year: EUR 19.6 million). Revenue in the Industrial segment rose considerably from EUR 13.4 million to a strong EUR 14.4 million. In the Automotive segment, however, revenue decreased slightly from EUR 4.0 million to EUR 3.9 million. IT Networks generated revenue of EUR 1.7 million, compared with EUR 2.2 million in the previous year.

The Group's EBITDA fell slightly from EUR 1.4 million in the first three months to EUR 1.3 million, resulting in an EBITDA margin of around 6.5% (previous year: 7.1%).

EBIT in the Industrial segment decreased slightly from EUR 0.6 million to EUR 0.5 million, while operating EBIT remained steady at EUR 1.0 million. EBIT in the Automotive segment increased from EUR –0.9 million to EUR –0.5 million, while operating EBIT improved from EUR –1.0 million to EUR –0.4 million. Forward-looking investments made, for example, by the acquired company GlobalmatiX AG, which is in the process of being expanded, depressed earnings in this segment by EUR 0.6 million. The IT Networks segment posted negative EBIT of EUR –0.6 million after EUR –0.2 million in the previous year. Operating EBIT came in at EUR –0.6 million (previous year: EUR –0.1 million).

The Group's operating EBIT (EBIT adjusted for capitalized development services and amortization on these as well as effects from purchase price allocation) in the reporting period totaled EUR 0.0 million (previous year: EUR –0.2 million). The Group's EBIT fell to EUR –0.7 million after EUR –0.5 million in the previous year.

The consolidated loss for the period after the first three months of 2020 came to EUR –0.5 million (previous year: EUR –0.3 million).

Capital expenditure on property, plant, and equipment was insignificant and comprised replacements. The Group's financial position remains healthy. Cash and cash equivalents amounted to EUR 11.2 million on 31 March 2020, while current trade receivables also totaled EUR 11.2 million. The Group also has access to credit lines of around EUR 10.0 million that have already been agreed but not yet drawn down.

This supply of funds shows that the Group has a solid financing base for medium-term financial planning during the crisis.

RESEARCH AND PRODUCT DEVELOPMENT

In the first three months of 2020, Softing capitalized a total of EUR 0.7 million (previous year: EUR 0.9 million) for the development of new products, with services to build the business of IT Networks and GlobalmatiX playing a significant role. Other significant amounts for the enhancement of existing products were expensed.

EMPLOYEES

As of March 31, 2020, the Softing Group had 404 employees (previous year: 405). No stock options were issued to employees in the reporting period.

RISKS AND OPPORTUNITIES FOR THE COMPANY'S FUTURE DEVELOPMENT

As of the reporting date of March 31, 2020, the Company's risk and opportunity structure had not deviated significantly from the description in the consolidated financial statements for the year ended December 31, 2019. Material changes are also not expected for the remaining nine months of 2020. For more detailed information, we refer to the Group Management Report in the 2019 Annual Report, page 10 et seq. New risks relating to the COVID-19 crisis are currently being reviewed on an almost daily basis and acted on at short notice as required. This affects the global business activities of the entire Group, in close cooperation with the Executive Board and the management of the individual units.

OUTLOOK

We are currently confirming the Group's guidance for 2020 published in the management report of the 2019 Annual Report (p. 31). Overall, we continue to anticipate a slight increase in both revenue and incoming orders for the 2020 financial year.

We expect EBIT and operating EBIT to be in line with the previous year. The above revenue and EBIT planning assumes a global economic recovery in the second half of 2020. The earliest update to the forecast will be published in the half-yearly report, as the economic uncertainty associated with the coronavirus crisis will make it impossible to issue specific statements before that.

EVENTS AFTER THE REPORTING PERIOD

The share buyback program announced by Softing AG in an ad hoc disclosure on April 3, 2020, starts on April 15, 2020 and is to be completed no later than April 30, 2021. A bank has been instructed to buy back a maximum of 90,000 Company shares, with the buyback being limited to either that number of shares or to a total purchase price of EUR 500,000. The acquired shares are to be used primarily as acquisition currency. The Executive Board is thus exercising the authorization granted by the Annual General Meeting dated May 4, 2016 to repurchase treasury shares in accordance with Section 71 (1) no. 8 of the German Stock Corporation Act (Aktiengesetz – AktG).

GENERAL ACCOUNTING POLICIES

The consolidated financial statements of Softing AG as of December 31, 2019 were prepared in accordance with the International Financial Reporting Standards (IFRSs) and the guidance of the International Accounting Standards Board (IASB) applicable at the reporting date. The quarterly management statement as of March 31, 2020, which was prepared on the basis of International Accounting Standard (IAS) 34 „Interim Financial Reporting“, does not contain all of the required information in accordance with the requirements for the presentation of the annual report and should be read in conjunction with the consolidated financial statements of Softing AG as of December 31, 2019. In general, the same accounting policies were applied in the quarterly management statement as of March 31, 2020 as in the consolidated financial statements for the 2019 financial year. This quarterly management statement was prepared without an auditor’s review.

CHANGES IN THE BASIS OF CONSOLIDATION

As of March 31, 2020, no changes occurred in the basis of consolidation of Softing AG compared to December 31, 2019.

KEY FIGURES FOR THE 1ST QUARTER OF 2020

All figures in EUR million	Quarterly management statement 1/2020	Quarterly management statement 1/2019
Incoming orders	21.0	24.8
Orders on hand	19.4	20.5
Revenue	20.0	19.6
EBITDA	1.3	1.4
EBIT	–0.7	–0.5
EBIT (operating)	0.0	–0.2
Net profit/loss for the period	–0.5	–0.3
Earnings per share in EUR (operating)	–0.06	–0.03

Consolidated Income Statement and Consolidated Statement of Comprehensive Income

from January 1 to March 31, 2020

EUR thousand	1.1.2020 - 31.3.2020	1.1.2019 - 31.3.2019
Revenue	**20,035**	**19,609**
Other own work capitalized	687	895
Other operating income	249	223
Operating income	**20,971**	**20,727**
Cost of materials / cost of purchased services	–9,204	–8,683
Staff costs	–8,278	–8,272
Depreciation and amortization of property, plant and equipment, right-of-use assets and intangible assets	–1,978	–1,859
thereof depreciation / amortization due to purchase price allocation	–513	–504
thereof depreciation due to accounting for right-of-use-assets	–335	–399
Other operating expenses	–2,196	–2,391
Operating expenses	**–21,657**	**–21,205**
Profit / loss from operations (EBIT)	**–686**	**–478**
Interest expense	–50	–36
Interest expense from lease accounting	–33	–45
Other finance income/finance costs	359	319
Earnings before income taxes	**–410**	**–240**
Income taxes	–112	–45
Consolidated profit	**–522**	**–285**
Consolidated profit attributable to:		
Shareholders of Softing AG	–536	–284
Non-controlling interests	14	–1
Consolidated profit	**–522**	**–285**
Earnings per share (basic = diluted)	–0.06	–0.06
Average number of shares outstanding (basic)	9,105,381	9,105,381

Consolidated profit	**–522**	**–285**
Items that will not be reclassified to consolidated profit or loss		
Currency translation differences		
Changes in unrealized gains / losses	392	229
Tax effect	–101	–64
Currency translation differences in total	**291**	**165**
Other comprehensive income	**291**	**165**
Total consolidated comprehensive income for the period	**–231**	**–120**
Total consolidated comprehensive income for the period attributable to:		
Shareholders of Softing AG	–245	–119
Non-controlling interests	14	–1
Total comprehensive income for the period	**–231**	**–120**

Consolidated Statement of Assets, Equity and Liabilities

as of March 31, 2020 and December 31, 2019

Assets

EUR thousand	31.3.2020	31.12.2019
Non-current assets		
Goodwill	18,312	18,124
Other intangible assets	44,324	44,291
Equity investments	1,500	1,500
Property, plant and equipment	6,049	5,949
Deferred tax assets	769	787
Non-current assets, total	**70,954**	**70,651**
Current assets		
Inventories	12,901	12,596
Trade receivables	11,243	15,380
Contract assets	955	533
Current income tax assets	1,896	1,864
Cash and cash equivalents	11,221	14,917
Current assets	955	855
Current assets, total	**39,171**	**46,145**
Total assets	**110,125**	**116,796**

Equity and liabilities

EUR thousand	31.3.2020	31.12.2019
Equity		
Subscribed capital	9,105	9,105
Capital reserves	31,111	31,111
Retained earnings	28,874	29,119
Equity attributable to shareholders of Softing AG	69,090	69,335
Non-controlling interests	283	269
Equity, total	**69,373**	**69,604**
Non-current liabilities		
Pensions	2,977	3,085
Long-term borrowings	14,006	14,006
Other non-current financial liabilities	2,379	2,259
Deferred tax liabilities	6,190	6,160
Non-current liabilities, total	**25,552**	**25,510**
Current liabilities		
Trade payables	4,585	6,476
Contract liabilities	2,367	2,641
Provisions	100	101
Income tax liabilities	1,313	1,255
Short-term borrowings	262	1,581
Other current financial liabilities	5,020	7,691
Current non-financial liabilities	1,553	1,937
Current liabilities, total	**15,200**	**21,682**
Total equity and liabilities	**110,125**	**116,796**

Consolidated Statement of Cash Flows

from January 1 to March 31, 2020

EUR thousand	1.1.2020 - 31.3.2020	1.1.2019 - 31.3.2019
Cash flows from operating activities		
Profit (before tax)	–410	–240
Depreciation, amortization and impairment losses on fixed assets	1,978	1,852
Other non-cash transactions	–593	–349
Cash flows for the period	**975**	**1,263**
Interest expense	83	82
Change in other provisions and accrued liabilities	–1	49
Change in inventories	–305	–988
Change in trade receivables	3,715	2,233
Changes in financial receivables and other assets	–72	–438
Change in trade payables	–1,891	–1,007
Changes in financial and non-financial liabilities and other liabilities	–3,096	–769
Income taxes paid	–42	–127
Cash flows from operating activities	**–634**	**298**
Cash paid for investments in internally generated intangible assets	–438	–300
Changes in Right of Use assets (first application of IFRS 16)	–953	–1,207
Cash flows from investing activities	**–1,391**	**–1,507**
Repayment of lease liabilities	–316	–446
Cash repayment of bank loans	–1,320	–251
Interest from lease accounting	–33	–45
Interest paid	–50	–37
Cash flows from financing activities	**–1,719**	**–779**
Net change in funds	–3,744	–1,988
Effects of exchange rate changes on cash and cash equivalents	48	45
Cash and cash equivalents at the beginning of the period	14,917	9,682
Cash and cash equivalents at the end of the period	**11,221**	**7,739**

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