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16/07/2019 - GBC management interview with Peter Arnoth, CEO of cyan AG

„We remain committed to our strategy of being a highly-profitable growth company.“

Company: cyan AG^{5a,11}

ISIN: DE000A2E4SV8

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** catalogue of potential conflicts of interests on page 4*

On July 10, 2019 cyan AG announced the successful completion of a cash capital increase with a volume of approximately 25.0 million euro (gross proceeds). GBC conducted an interview with CEO Peter Arnoth on the completed capital measure.

GBC: Mr. Arnoth, despite a successful capital increase in which you were able to raise 25 million euros last week, the share price is currently below the issue price of 28 euros for the capital increase. One reason could be that shareholders are wondering why cyan needs capital at all after the IPO a year ago, a capital increase in October last year and simultaneously high profitability.

Mr. Arnoth: The current capital increase is a very important milestone in our success story. The IPO proceeds had been used to purchase the remaining 49% of our operating subsidiary, and the capital increase in October had been used for the acquisition of I-New. So far, we have had virtually no external capital for our operating business, which we have financed entirely from cash flow. Now, thanks to the just completed capital increase, we can act even faster, more flexibly and more opportunistically than before in terms of our growth opportunities. In addition, a strong balance sheet is very important in winning customers, because large corporations enter into a long-term partnership with us and want to be sure that their technology supplier also has the necessary financial stability.

GBC: But shouldn't you have enough cash flow with your profitable business model?

Mr. Arnoth: Indeed, we have a very profitable business model, but as CEO you cannot go to the extreme in terms of liquidity and risk. Now with 25 million euros of free capital, we can be even more active when it comes to winning new customers, building up the sales and support team, etc. We also want to invest significantly more in research and development. Our industry is changing fast, and we want to be the best not only today, but tomorrow as well.

GBC: Will profitability suffer because you might dramatically increase costs?

Mr. Arnoth: We don't want to increase costs dramatically, we want to invest wisely. We are in the process of drawing up a detailed business plan for the next two years and carefully considering what effects we expect from which investments. And, of course, not all 25 million euros are earmarked for investments. We have left ourselves a good buffer for strategic acquisitions, and the example of I-New shows that we have so far had a good hand for acquisitions. We remain committed to our strategy of being a highly-profitable growth company.

GBC: Approx. 40% of cyan is owned by your pre-IPO anchor investors. They have concluded a renewed lock up agreement with you, but also with Berenberg Bank. Can you please explain that in more detail?

Mr. Arnoth: On April 1 of this year, 12 months after the IPO, the IPO lock-up for our pre-IPO anchor investors had expired. Some banks then approached us fearing uncontrolled supply of shares, which is why our anchor shareholders were immediately prepared to sign a new, voluntary 12-month lock-up with the company, as they are long term, committed investors. As part of the current capital increase, our anchor shareholders have now also declared an additional lock-up towards Berenberg Bank, which accompanied the capital increase. This lock-up vis-à-vis Berenberg applies parallel to the existing lock-up vis-à-vis the company.

GBC: It was criticised that your anchor shareholders would have sold shares in the capital increase despite this lock-up if there had been sufficient demand.

Mr. Arnoth: It was a frequently expressed wish of new potential investors that the free float and liquidity of the cyan share should be improved. This was an argument for an additional secondary placement in case of corresponding demand. The lock-up agreement with the company provides that the Supervisory Board may approve a sale if there is a corresponding demand for the shares and the sale does not burden the market. But even if the anchor shareholders had sold, they would have retained the majority of their shares by far - with or without a sale they are still the largest investor group.

And by the way, our anchor shareholders have contributed a great deal to the success of cyan, especially in the course of the I-New acquisition and also in the acquisition of new customers. Nevertheless, it must be clear to us as a company that in the end they are financial investors who sometimes sell shares in order to have liquidity for other investments.

It was completely lost in the discussion that my colleagues on the Executive Board and I bought a significant number of shares for a total of approx. EUR 5.5 million a few weeks before the capital increase by exercising options and now after the capital increase on the market.

GBC: Last year, you only achieved your guidance through special effects and were somewhat behind in your operating business.

Mr. Arnoth: The I-New acquisition was an extreme gain for cyan, so I wouldn't book it all under special effects. But of course you're right about the balance sheet. From a management point of view, we can't split into two, and the months we had to invest in I-New were missing in the rest of the business. Nevertheless, it was just the right decision and I-New has brought us enormously forward. Without I-New, Orange would certainly not

have chosen us as its partner - simply because of the size of the company at that time.

GBC: Some investors criticize your figures for being too opaque.

Mr. Arnoth: I can't agree with that. We are listed in the scale segment and already offer significantly more transparency than required by law. But we are self-critical and naturally want to become even more transparent. For this reason, we plan to up-list to the Prime Standard in 2020 with all the associated requirements.

GBC: Is everything going according to plan this year or are there delays?

Mr. Arnoth: For me, there are only two KPIs that are important: How many contracts do we have, and when do these customers start generating revenue? We can see from T-Mobile Austria how powerful and sustainable revenues are as soon as a customer rolls out our product. The signing of the contract with Orange was of course the jackpot, and I expect Orange to roll out in the first country by the end of the year. In addition, we have been able to report further new customers such as Wirecard and Telecom Argentina in recent weeks.

What can always happen in the B2B2C business is that a customer like Orange simply starts a roll-out 3 months later. We cannot control this, and in a telecommunications group's understanding of time it is not even seen as a delay. The important thing is to get them started. But I don't see any delays at the moment.

GBC: Can you quantify the potential with Orange more precisely?

Mr. Arnoth: Our current planning envisions that in 2021, building on our existing customer base and above all on our partnership with Orange, we will at least triple annual revenue compared to 2018 to over 60 million euros. Should Orange be even faster in the roll-out, which I can well imagine, this value could also be exceeded, especially in combination with our newly gained liquidity and the associated additional growth.

GBC: How does it generally look on the customer front? At the IPO, you had communicated a pipeline of almost 50 potential customers.

Mr. Arnoth: On the customer front it looks very good, we now have about 100 leads in progress. Especially the validation by Orange helps us a lot - there is hardly a better reference. Telecom Argentina and Wirecard are already very positive results. And I am confident that we will be able to present further successes in the second half of the year.

GBC: Mr. Arnoth, thank you for the interview.

ANNEX

I.

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