

QSC AG

Analyst Roundtable

Cologne, December 12, 2013

QSC_{AG}

AGENDA

1. Operational Update
Barbara Stolz – CFO

2. Strategic Update
Juergen Hermann – CEO

3. Presentation of Selected Innovations
 - QSC-WiFi
 - QSC-tengo
 - Q-loud platform
 - Smart Utility & Energy Solutions

4. Impact of Innovations on QSC's Mid-Term Strategy
Juergen Hermann – CEO

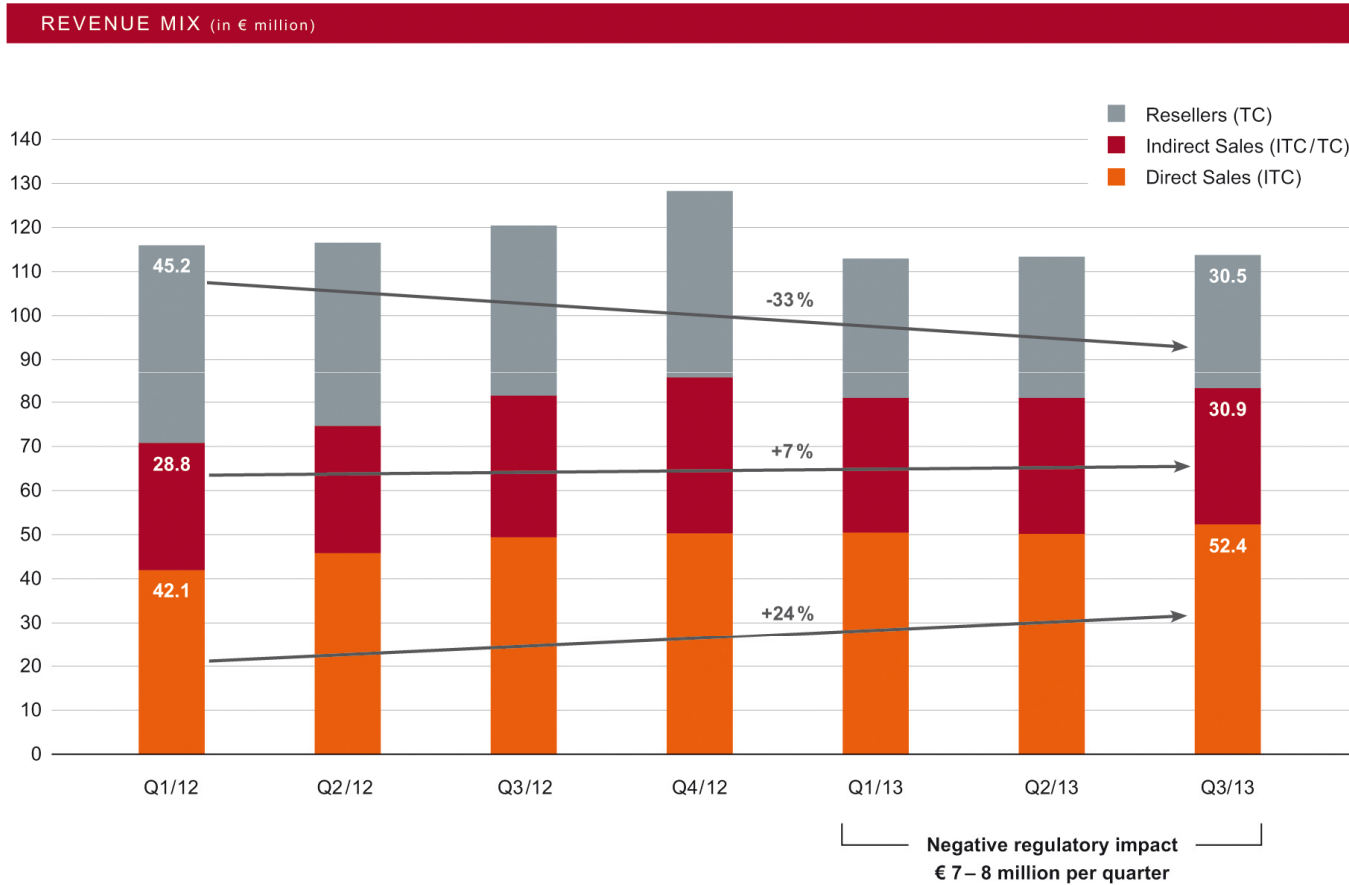
2013: QSC IS WELL ON TRACK TO MEETING ITS GUIDANCE

In € million	Q1-Q3 2012	Q1-Q3 2013	△
• Revenues	353.2	340.3	-3.7%
• Cost of revenues ⁽¹⁾	236.8	226.9	-4.2%
• <i>Gross profit</i>	<i>+116.4</i>	<i>+113.4</i>	<i>-2.6%</i>
• Other operating expenses ⁽¹⁾	60.4	56.0	-7.3%
• <i>EBITDA profit</i>	<i>+56.0</i>	<i>+57.4</i>	<i>+2.5%</i>
• Depreciation	39.6	39.0	-1.5%
• <i>EBIT profit</i>	<i>+16.4</i>	<i>+18.4</i>	<i>+12.2%</i>
• Financial result	-2.9	-2.9	-
• Income taxes	-1.0	-0.5	nm
• <i>Net profit</i>	<i>+12.4</i>	<i>+15.0</i>	<i>+21.0%</i>

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(1) Excluding depreciation and non-cash share-based remuneration

TWO-FOLD DEVELOPMENT: DECREASE IN TC VS. GROWTH IN ICT

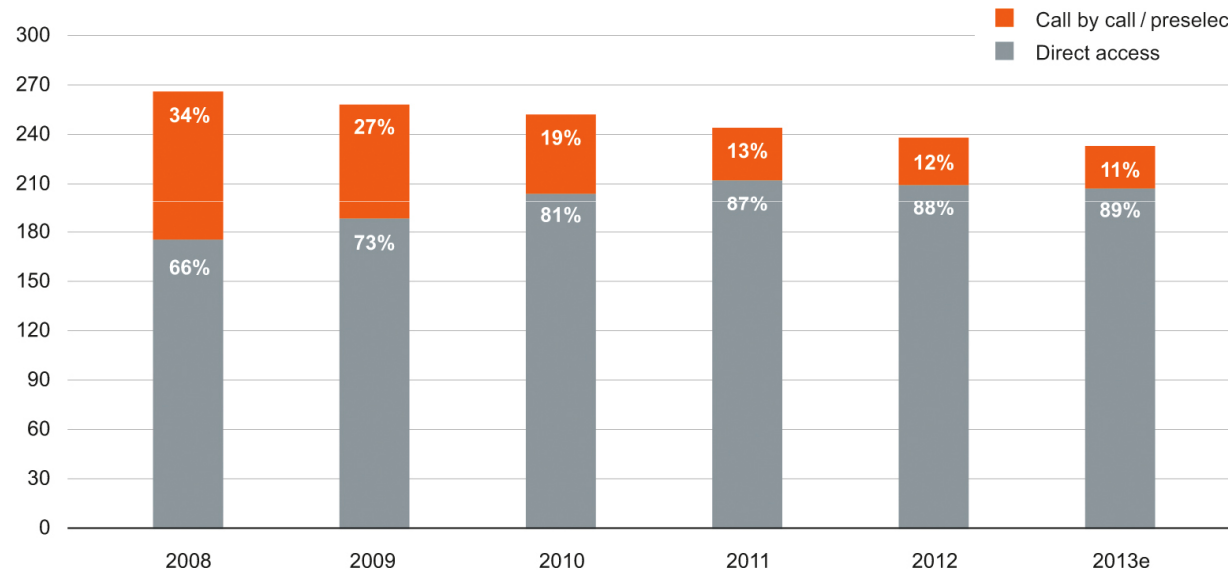


TC BUSINESS IS STRAINED BY TIGHTENED REGULATION ...

- Effective December 1, 2012, the German regulator lowered interconnection fees. This involved three major changes:
 - Lower mobile fees: minus 45 – 47%
 - Lower fixed-line fees: minus 20 – 40%
 - A new structure of fixed-line interconnection fees for altnets
- Effects on QSC in 2013:
 - Around € 7 – 8 million less revenues per quarter (~55% Resellers / ~45% Indirect Sales)
 - Around € 1 million less EBITDA per quarter

... AND A DECLINING MARKET: LEGACY VOICE

VOICE CALL MINUTES PER DAY (FIXED-LINES ONLY)

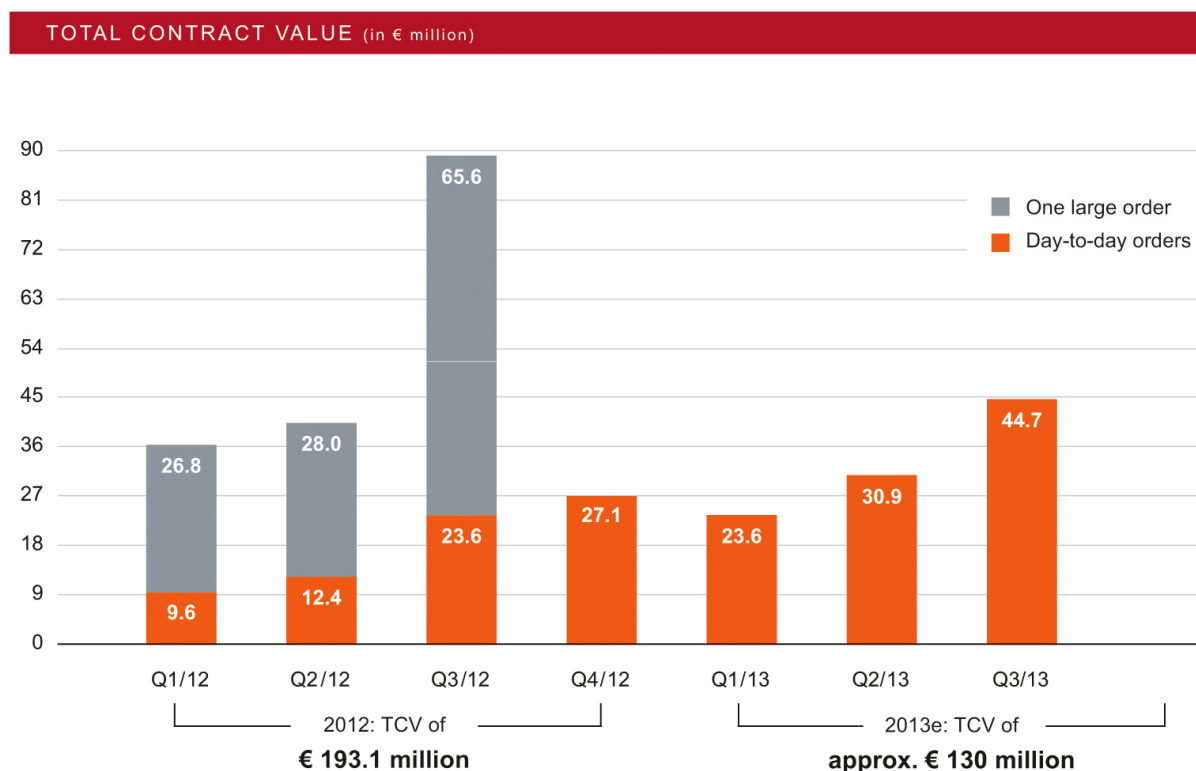


Source: VATM, October 2013

Two major trends

- Increase in mobile calls
- Increase in data-based communication (E-mail, WhatsApp, Facebook etc.)

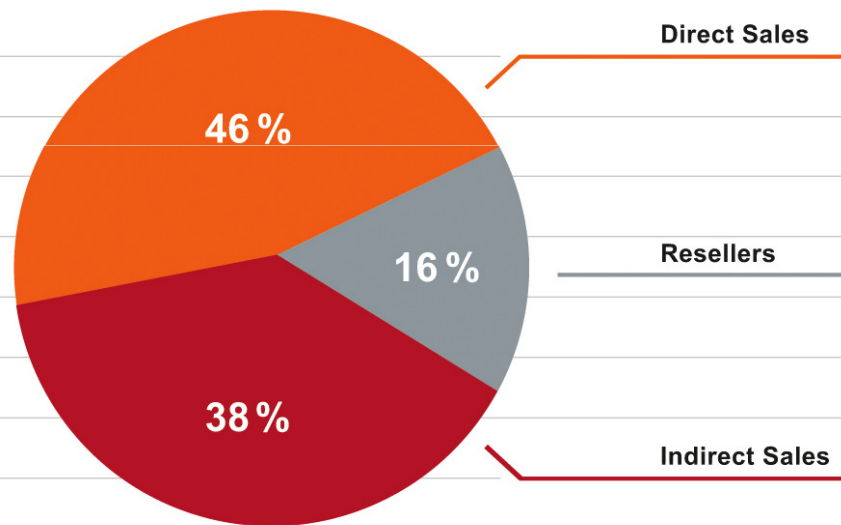
ICT BUSINESS IS BENEFITING FROM LARGE ORDERS WON IN 2012



- Significant increase in day-to-day orders from existing and new customers in 2013
- Total order inflow in 2012 was probably higher than that of 2013
- Large orders helped QSC to outpace the market in 2013

ALL THREE SEGMENTS ARE CONTRIBUTING TO THE PROFIT MARGIN

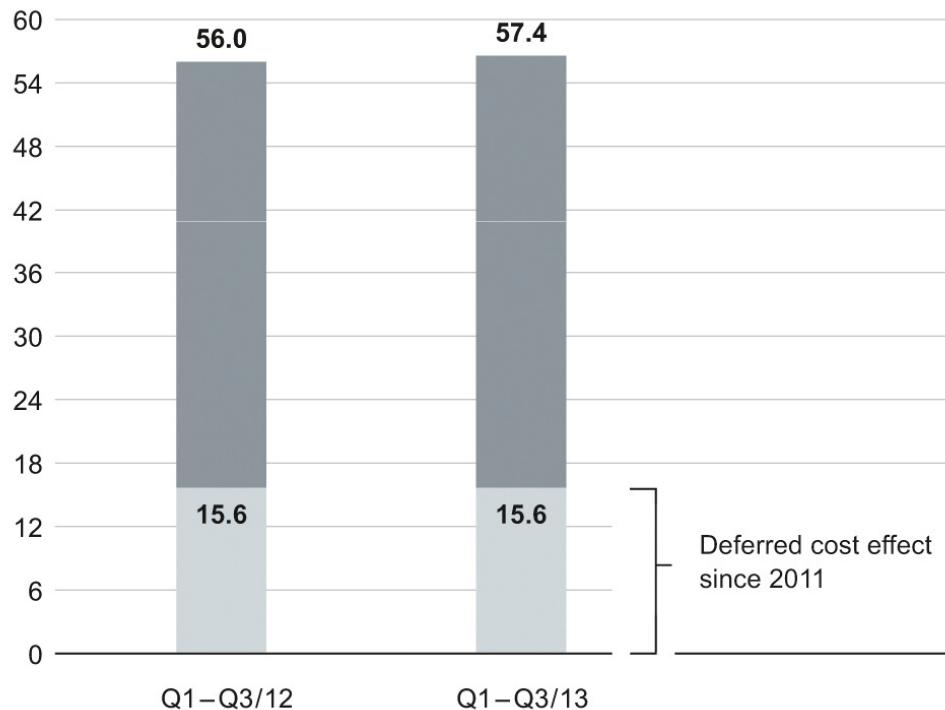
GROSS PROFIT SPLIT (Q1-Q3 2013)



- Lion's share of gross margin of € 113.4 million is provided by Direct and Indirect Sales
- Resellers still bear a significant yet declining portion of QSC's costs
- NGN allows QSC to highly efficiently provide services in very competitive markets such as legacy voice

IN 2013, PROFITABILITY WILL FOR THE LAST TIME BENEFIT FROM THE DEFERRED COST EFFECT

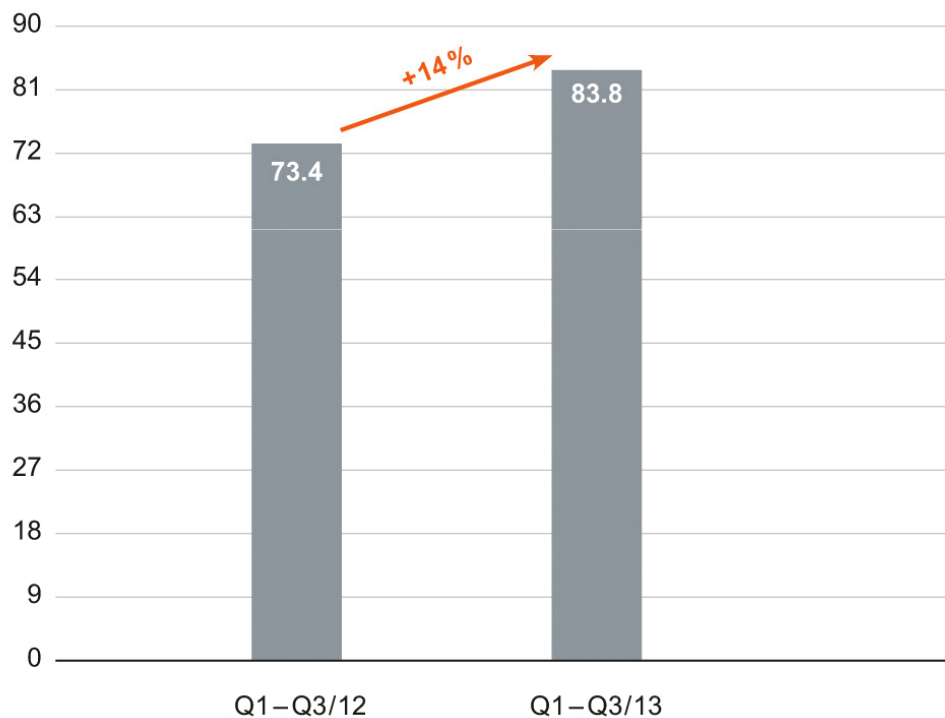
EBITDA (in € million)



- Cost reduction of € 5.2 million per quarter since Q1 2011 due to the premature termination of the Plusnet contract (originally to run through Dec 31, 2013) in late 2010
- QSC used deferred costs to return the payment from TELE2 over the remaining contract period
- This positive effect will stop after Q4 2013, and will be compensated, to some extent, by a network deal (€ 2.5 – € 3.0 million per quarter)

SHORT-TERM PROFITABILITY DRAWBACK: PERSONNEL EXPENSES

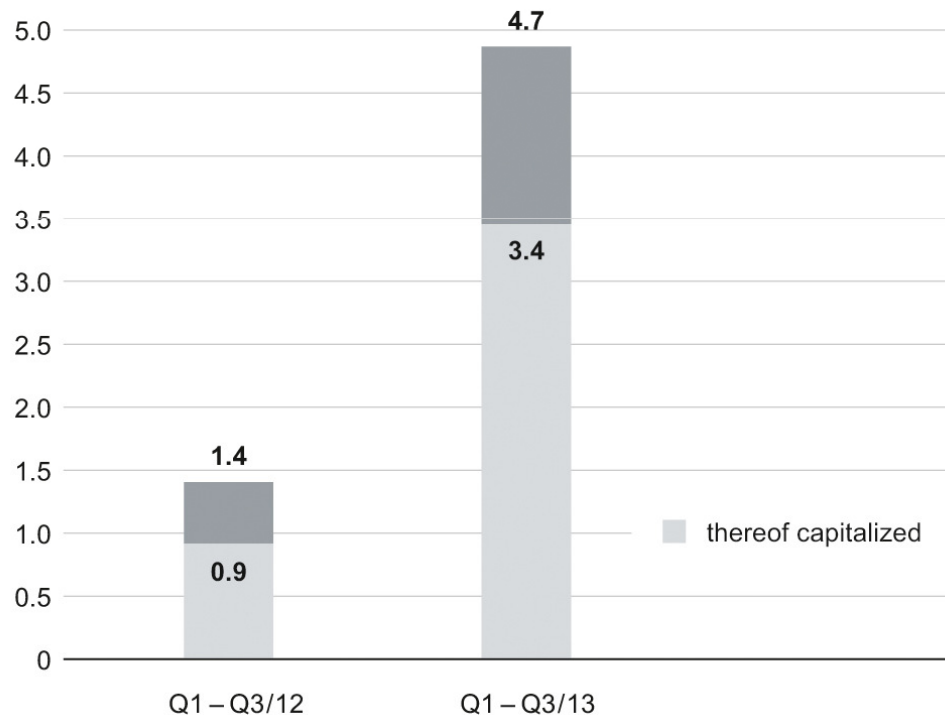
PERSONNEL EXPENSES (in € million)



- Focusing on recruitment since 2012:
 - Outsourcing (+125)
 - Consulting (+59)
 - Development (+46)
- Additional ICT experts are the foundation for growing revenues in people-intensive Outsourcing and Consulting, and progress in R&D

SHORT-TERM PROFITABILITY DRAWBACK: DEVELOPMENT EXPENSES

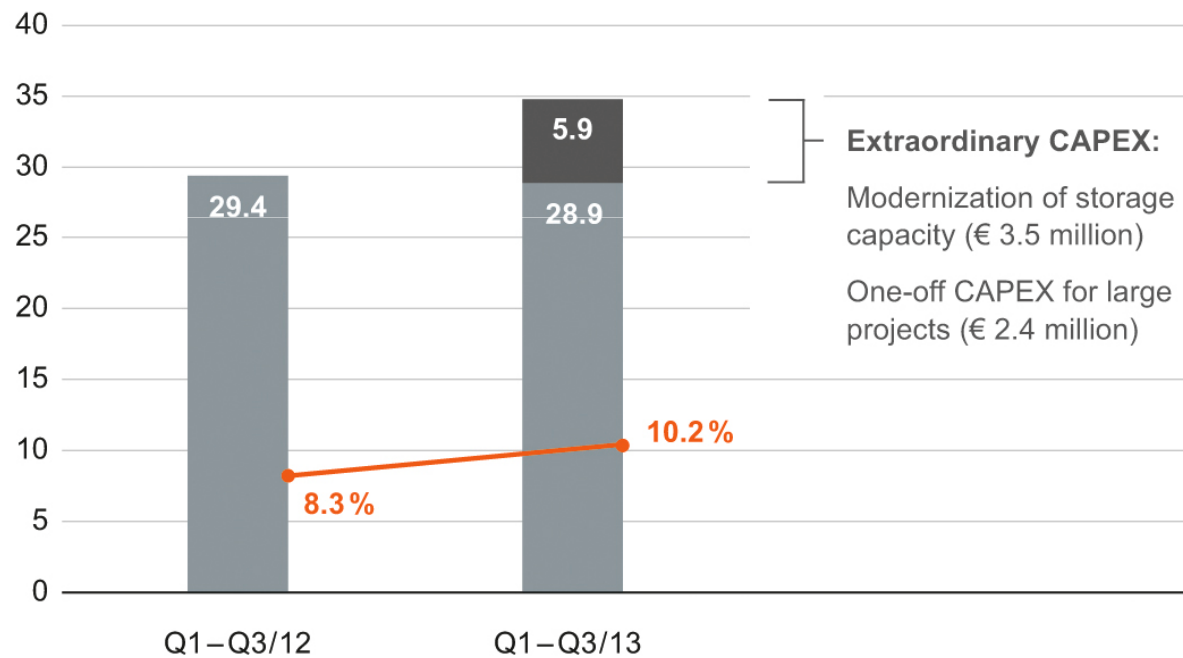
DEVELOPMENT BUDGET (in € million)



- Development budget has risen by more than 200 percent in 2013
- QSC now employs some 50 developers
- Budget for full year 2013 is around € 6 million

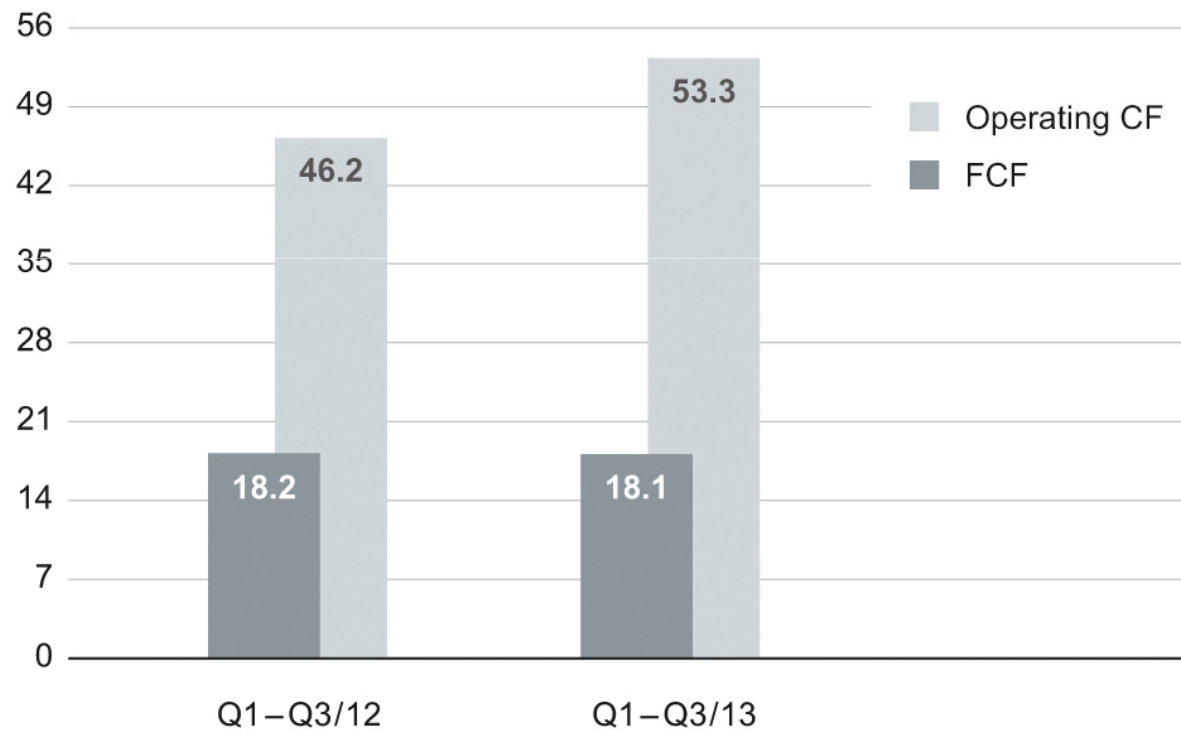
PROFITABILITY DRAWBACK: INVESTMENT IN CUSTOMERS

CAPEX (in € million)



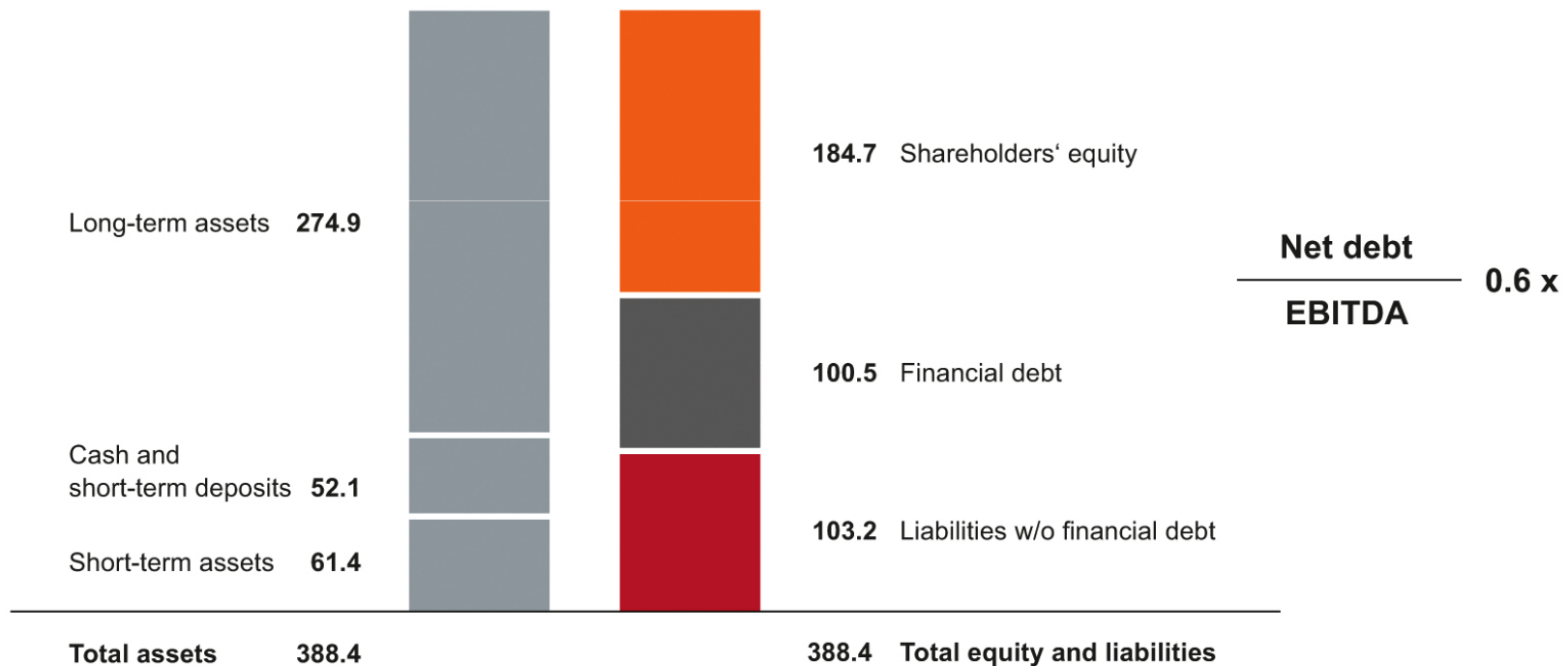
QSC IS EARNING AN ATTRACTIVE FREE CASH FLOW

FREE CASH FLOW (in € million)



QSC IS FINANCED VERY SOLIDLY FOR FURTHER GROWTH IN ICT AND EXPANDING R&D

CONSOLIDATED BALANCE SHEET AS OF SEPT. 30, 2013 (in € million)



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OUR LONG-TERM STRATEGY: FROM TC TO ICT AND THE CLOUD

2009

Cutting-edge TC provider
for business customers
Pioneer in the DSL market
and in the VoIP market

2013

Leading ICT provider
for business customers
Pioneer in the Cloud
and M2M-market

2016

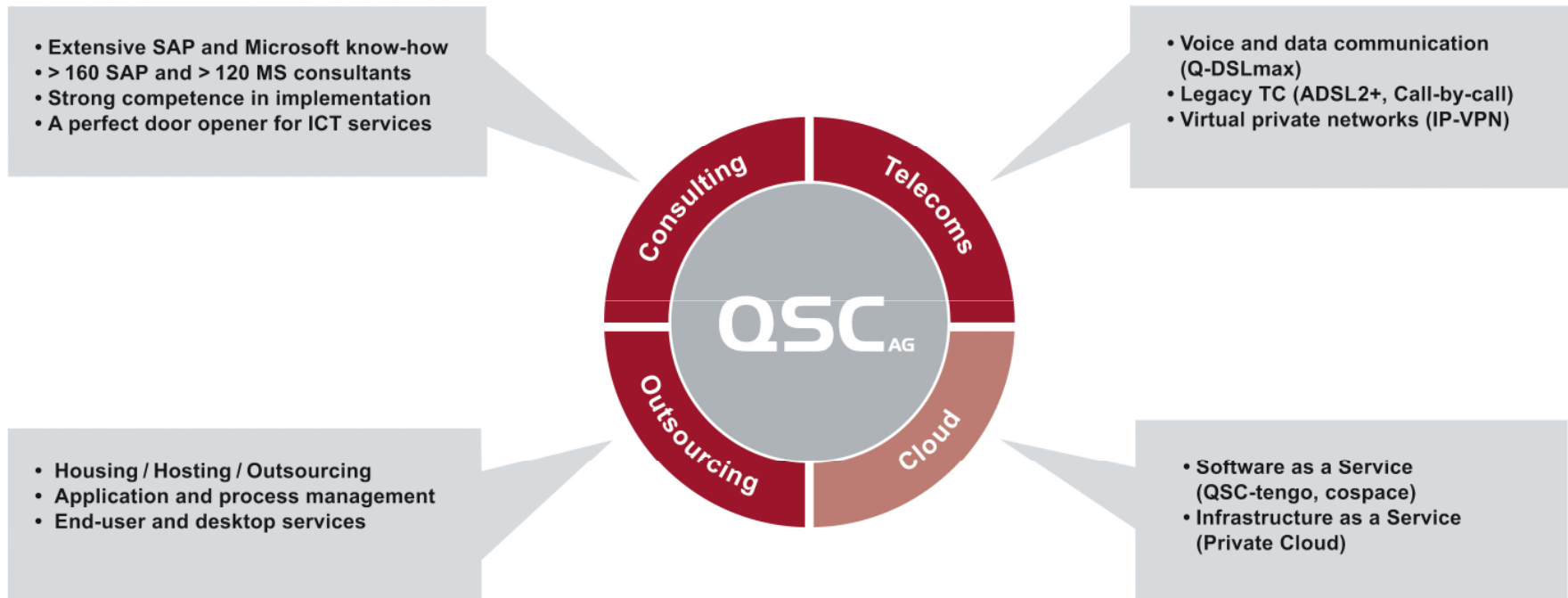
The innovation driver
in the German ICT market
Pioneer in the field of
Cloud services



OUR LONG-TERM STRATEGY: GREAT PROGRESS SINCE 2009

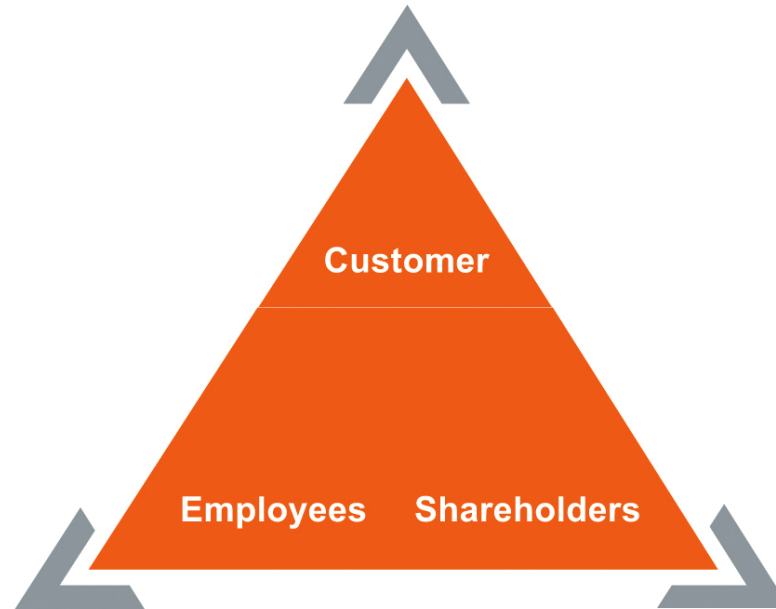


WHERE QSC STANDS TODAY



OUR LONG-TERM GOALS

**QSC is the innovation driver
in the German ICT market and
able to inspire its customers**

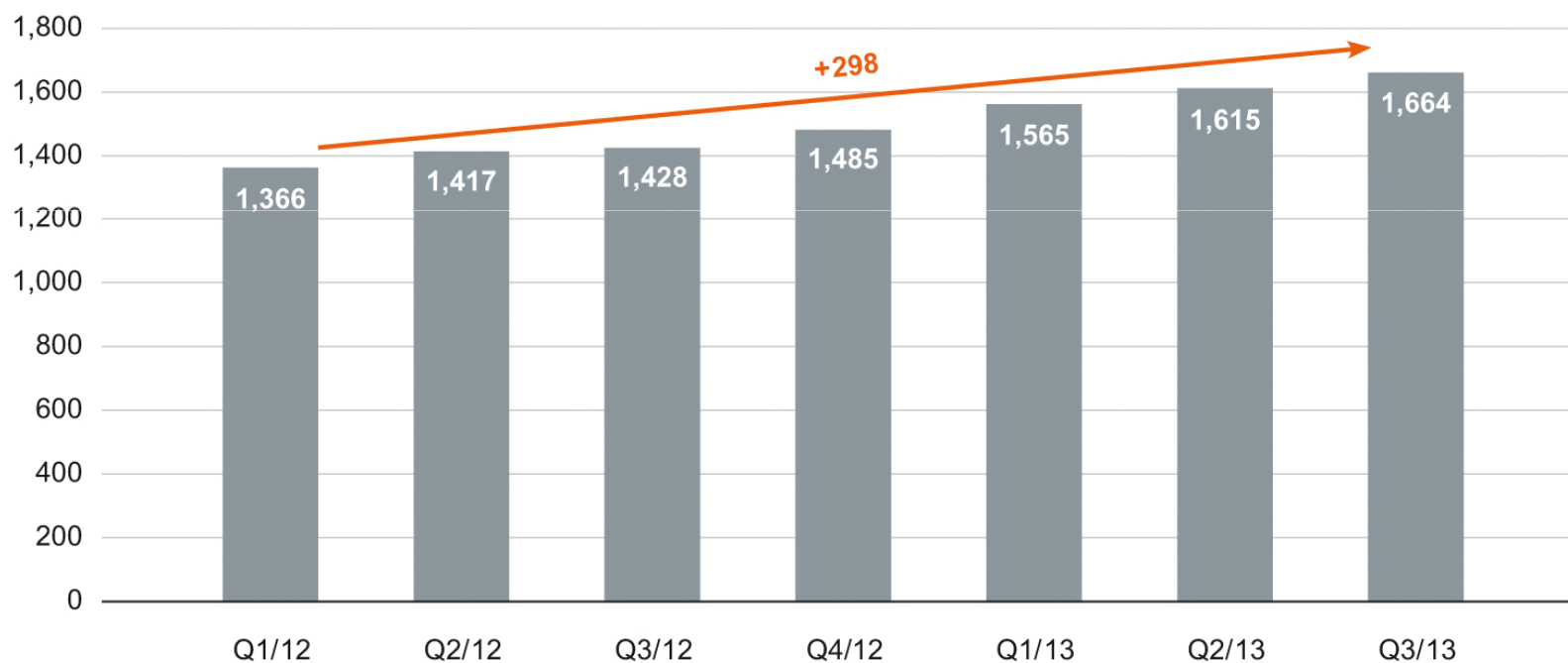


**QSC is an attractive
and safe employer**

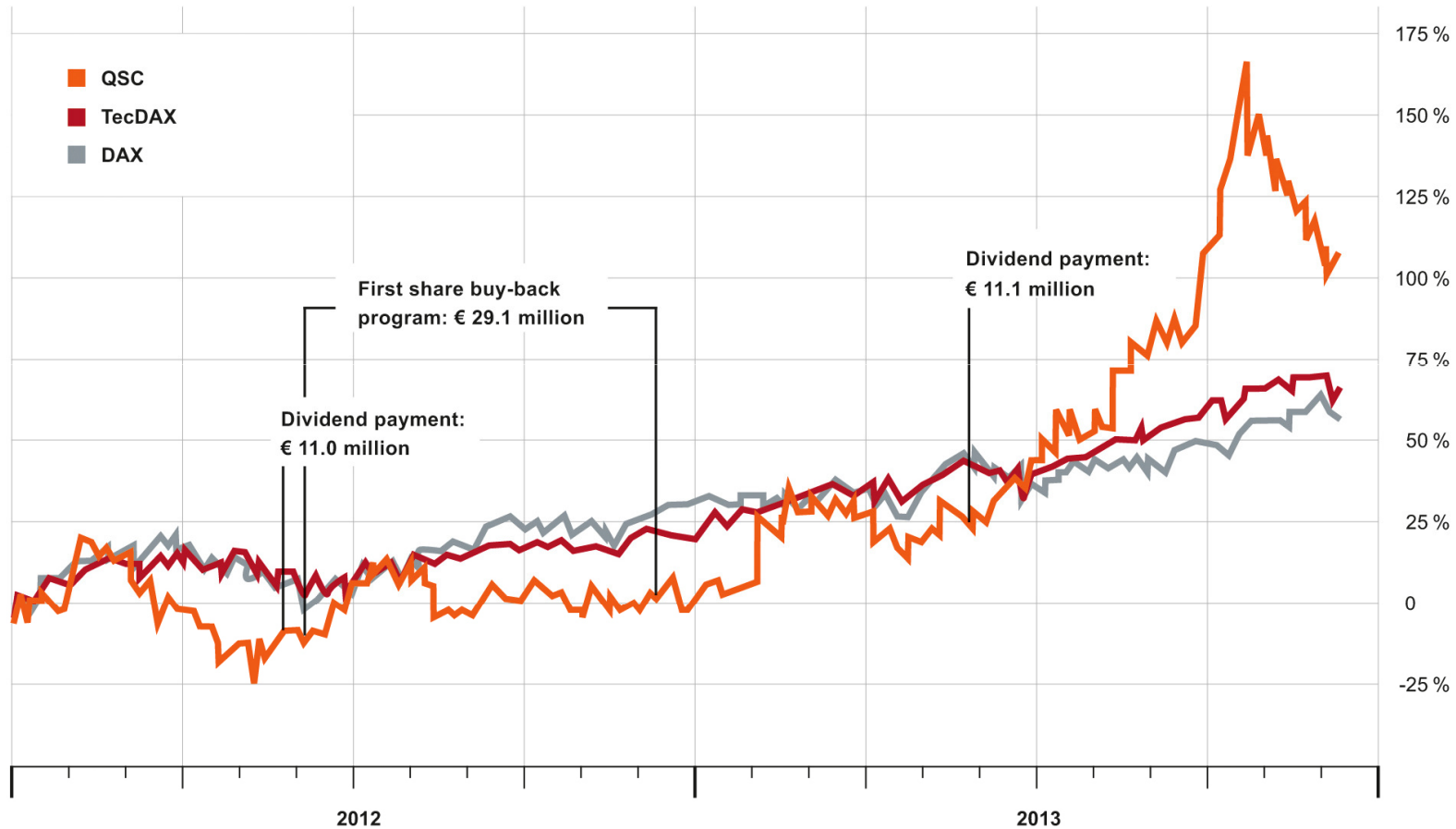
**QSC is financially independent,
creating value and sharing this
added value with its owners**

AN ATTRACTIVE EMPLOYER: QSC IS ABLE TO WIN TALENT IN A HIGHLY COMPETITIVE MARKET

DEVELOPMENT OF EMPLOYEES



SHAREHOLDERS ARE BENEFITING FROM THE TRANSFORMATION PROCESS



INNOVATION DRIVERS: WHERE QSC STANDS TODAY

- cospace, QSC-tengo and QSC-Analyzer are first examples of QSC's self-developed ICT innovations
- Some 50 employees are focusing on developing new ICT and Cloud products for existing and new markets
- QSC is contributing to several highly promising initiatives:
 - EEBUS – home automation (presentation at IFA 2013)
 - O(SC)²ar – smart car (DHL is testing pilot cars)
 - Virtual power plant – working on the first pilot (FINESCE)

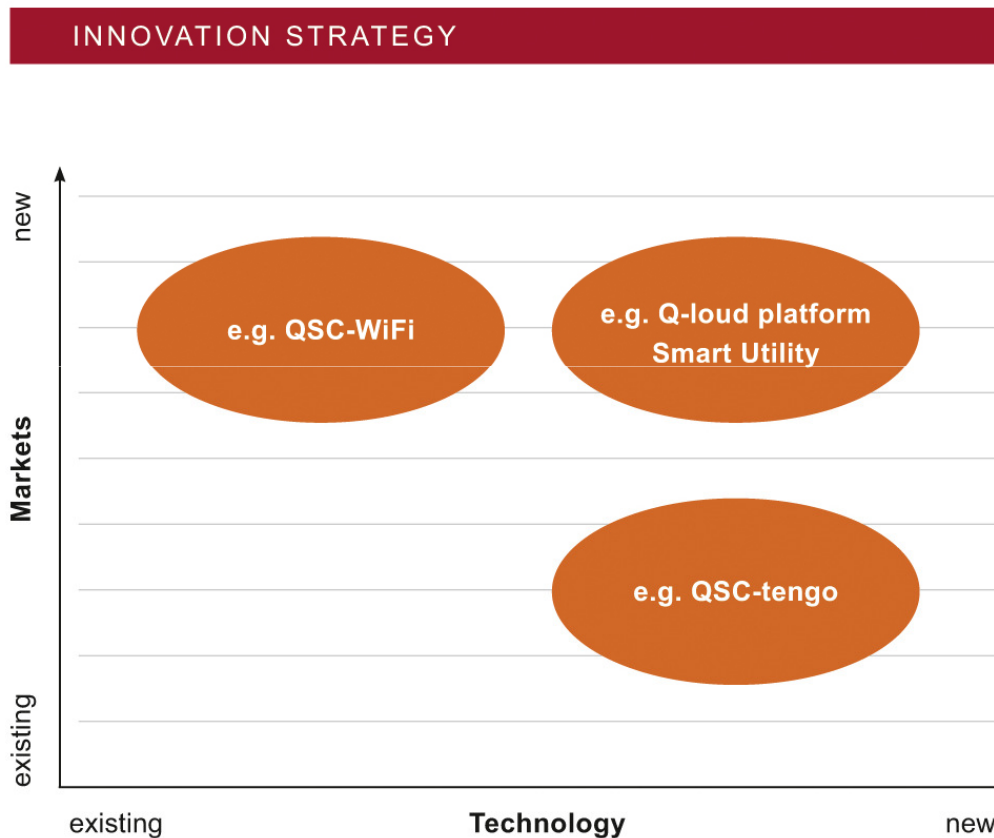
PRECONDITION FOR INNOVATIONS: A FLEXIBLE ORGANIZATION

- Innovations need room for development and fast decisions
 - Innovations need to be driven by people who prefer to work in smaller organizations
 - Innovators need a commercial environment and supervision
 - Innovators need access to sales channels
- ⇒ New QSC organization (since Q3 2013) enables innovations to be driven in dedicated subsidiaries (owned and managed by QSC)
- ⇒ A perfect environment for innovators with an entrepreneurial spirit

PRECONDITION FOR INNOVATIONS: CLOSE AND TRANSPARENT MANAGEMENT

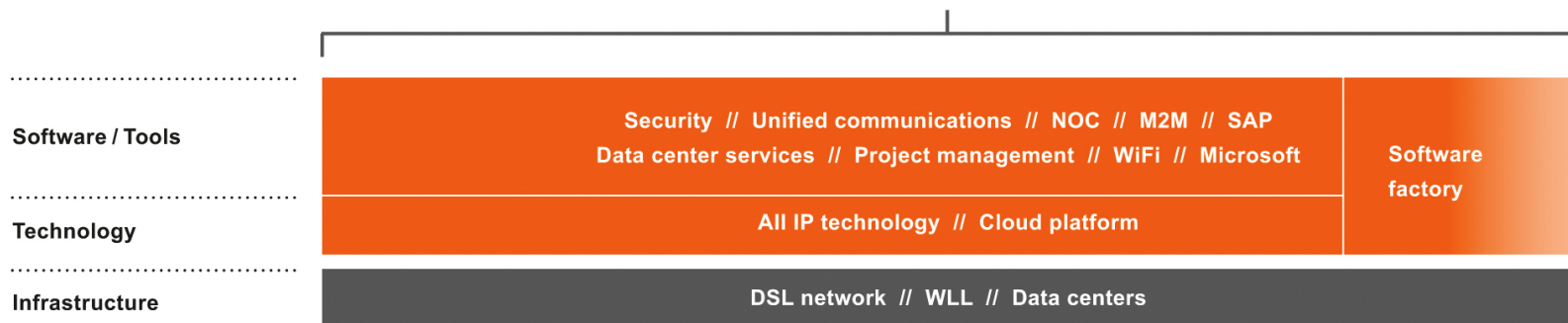
- In 2013, QSC has installed a new innovation management system with
 - Clear responsibilities
 - Defined, measurable goals
 - KPI's for internal controlling and steering
 - Roadmap for each project, including milestones and decision points
- ⇒ New concept will come into effect at the beginning of 2014

HOW QSC WILL FOSTER INNOVATIONS



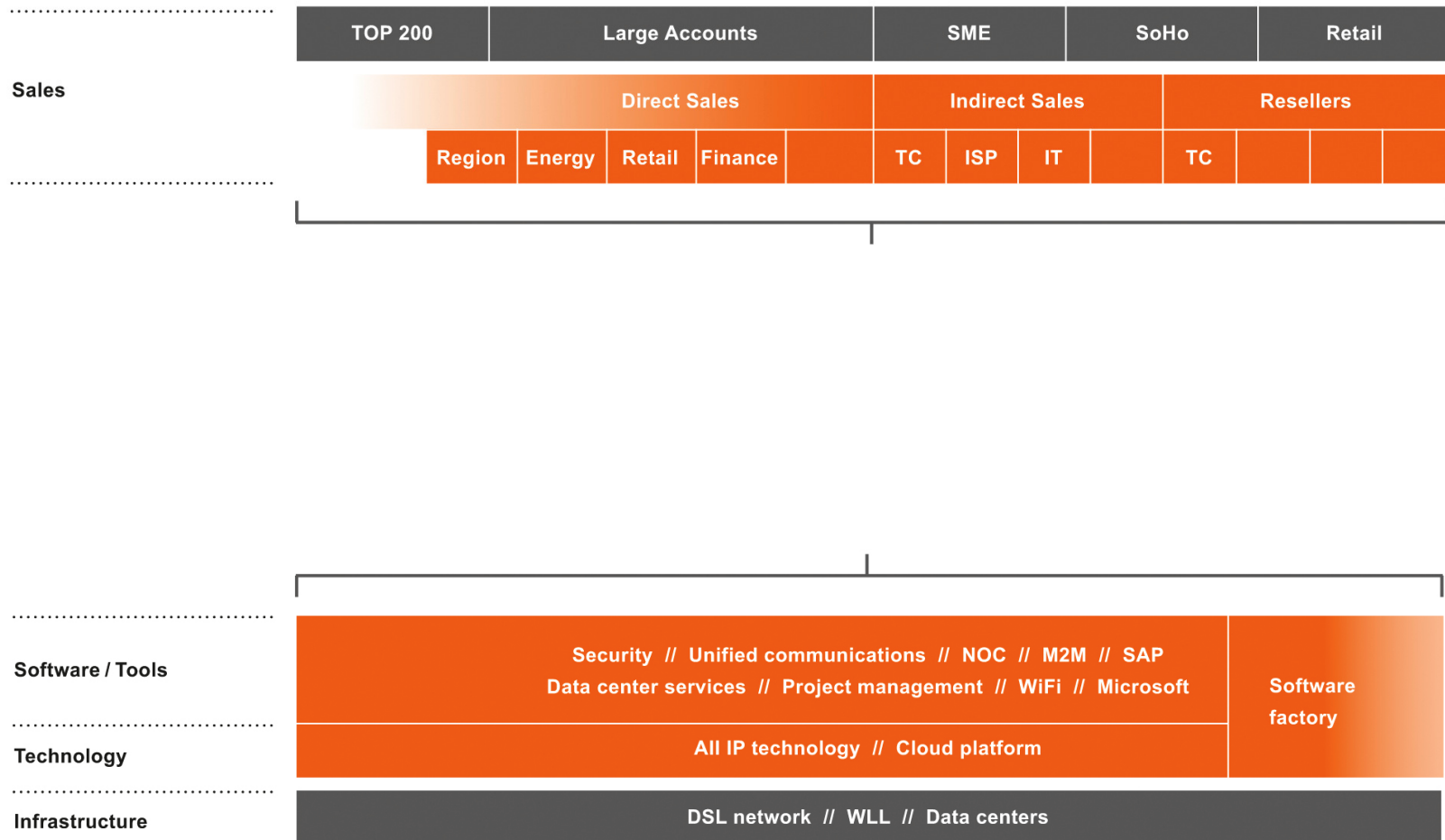
- Developing in-house
- Acquiring leading-edge technology companies
- Winning leading-edge entrepreneurial talent

THE PLATFORM FOR INNOVATION ALREADY EXISTS

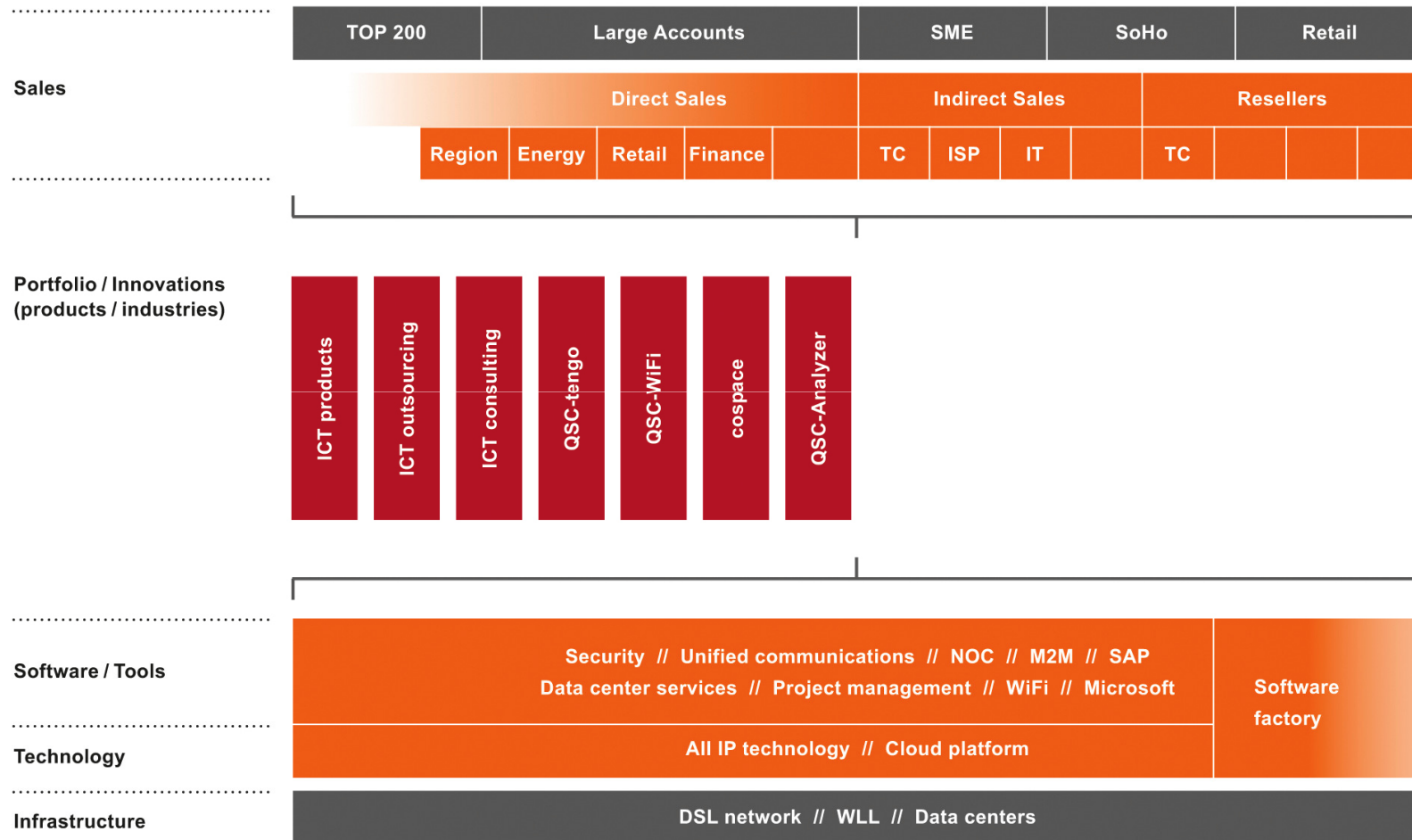


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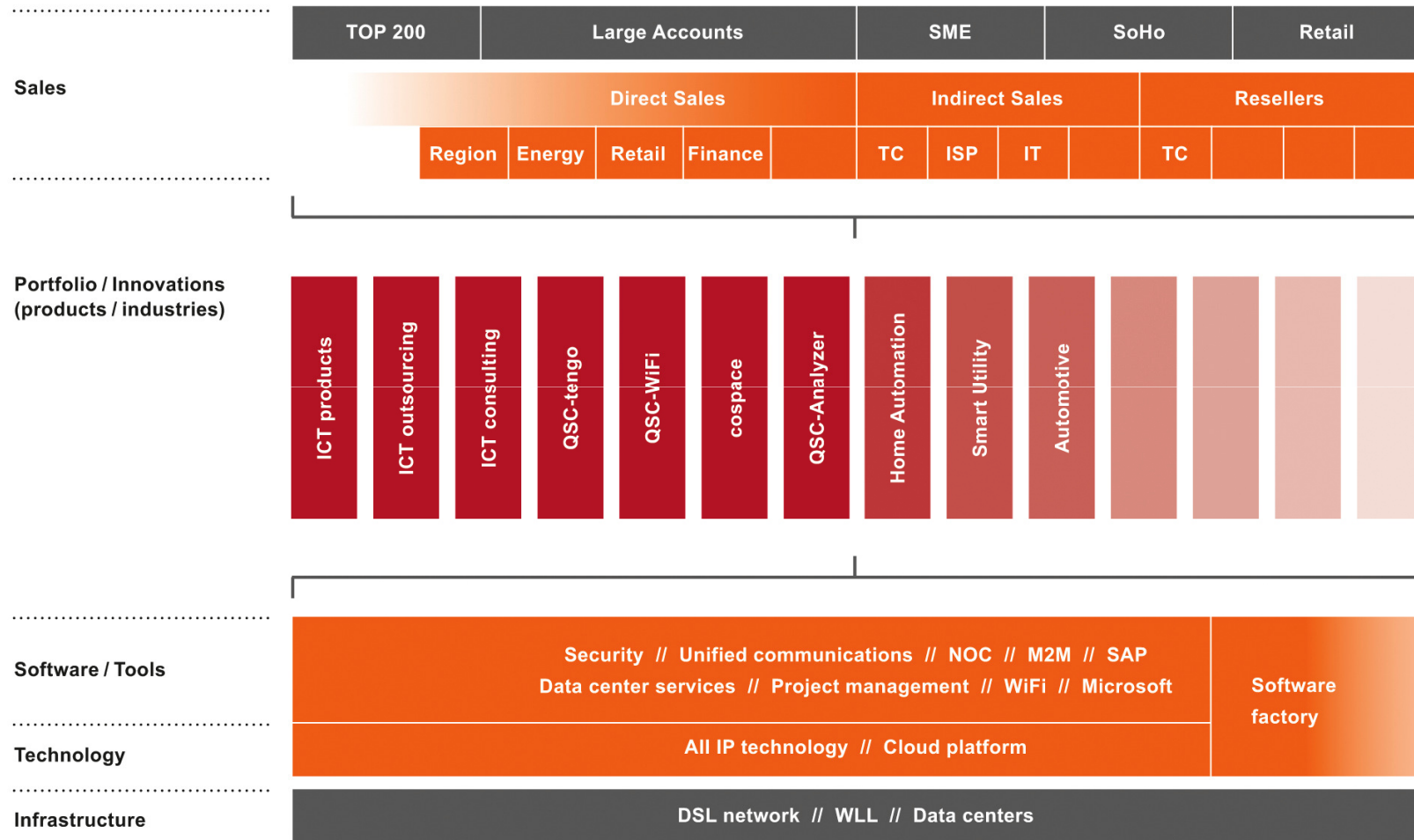
QSC ALSO HAS A STRONG SALES CHANNEL ...



... AND A HUGE PRODUCT PORTFOLIO



QSC IS WORKING NONSTOP TO FILL THE GAPS



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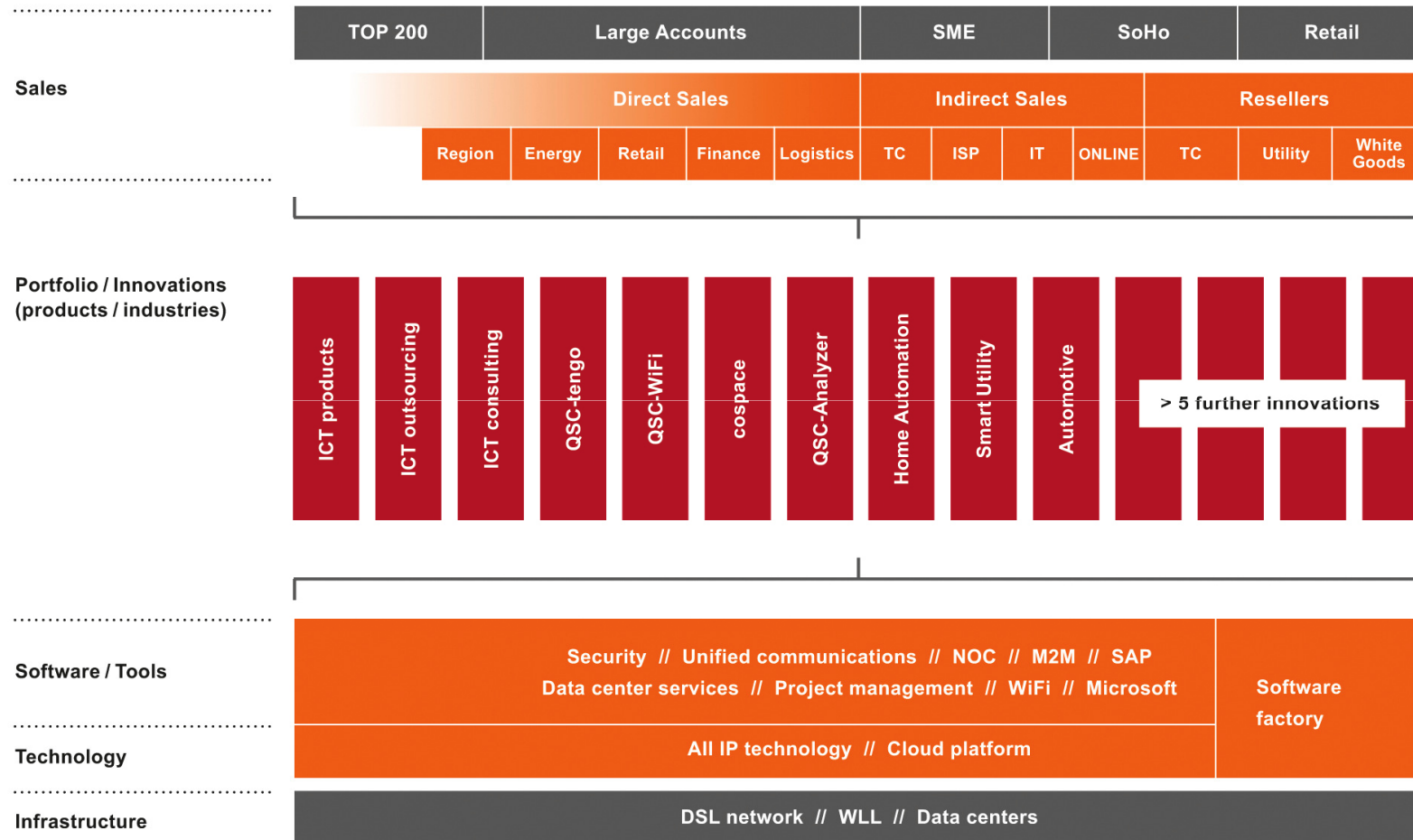
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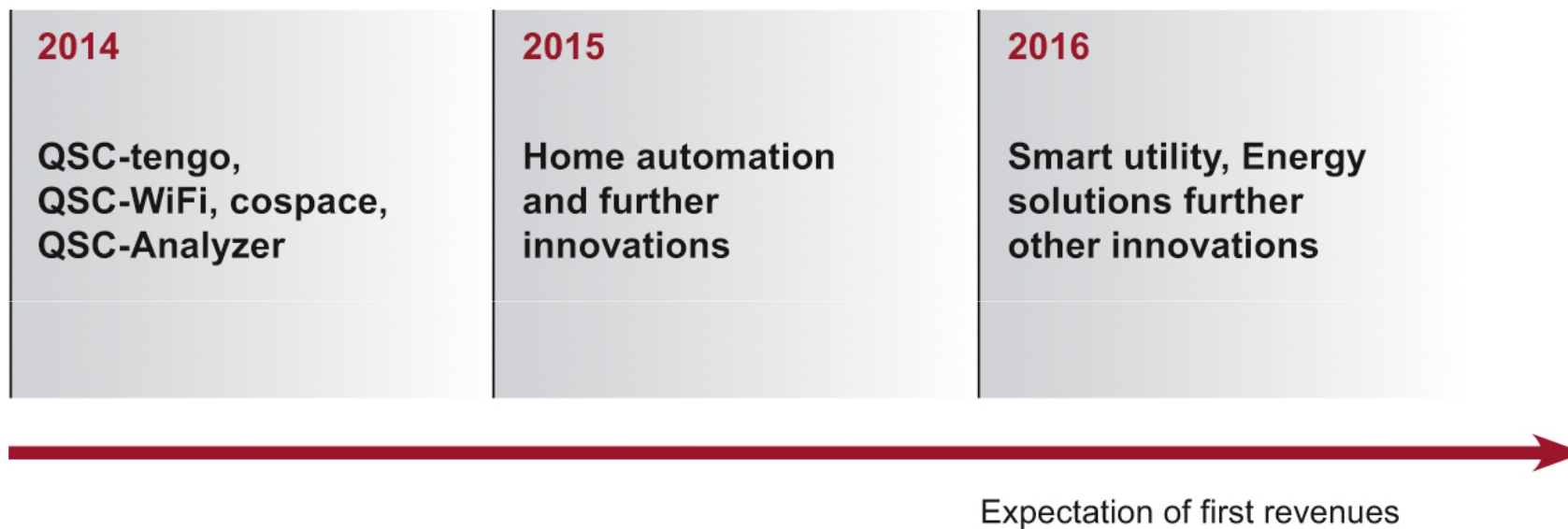
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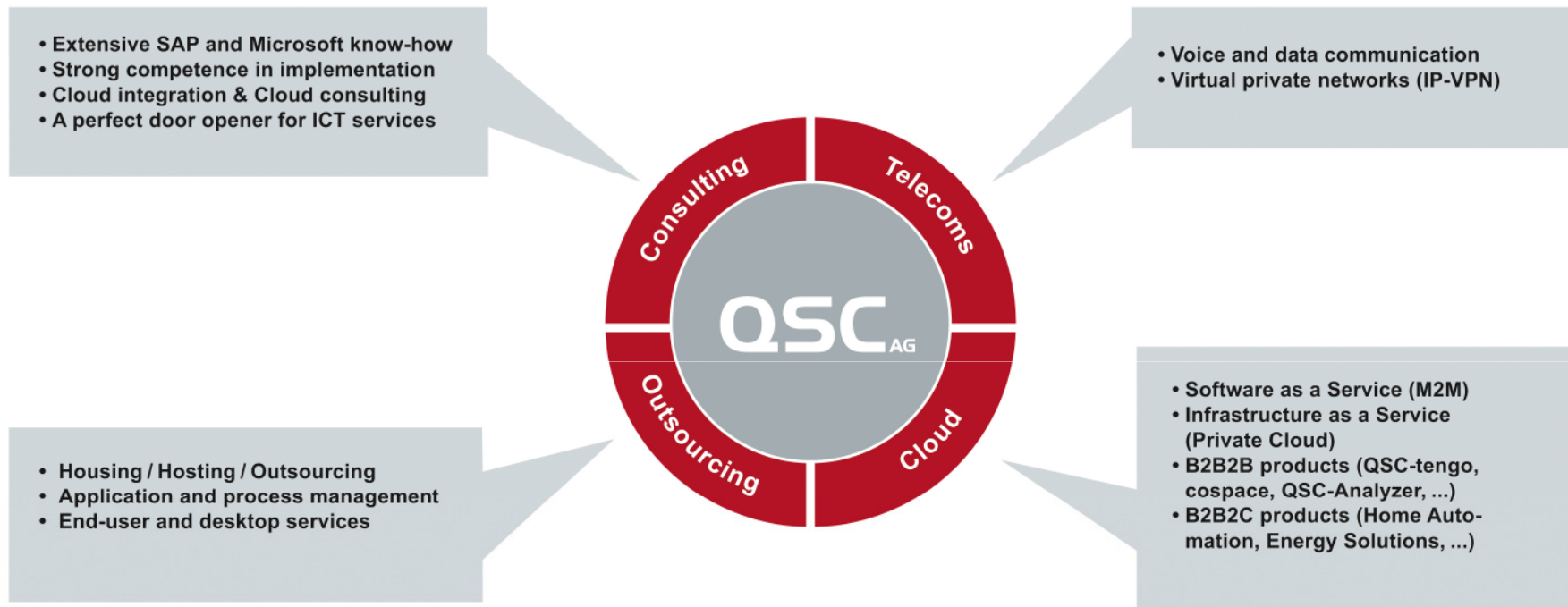
QSC WILL BECOME AN INNOVATION DRIVER



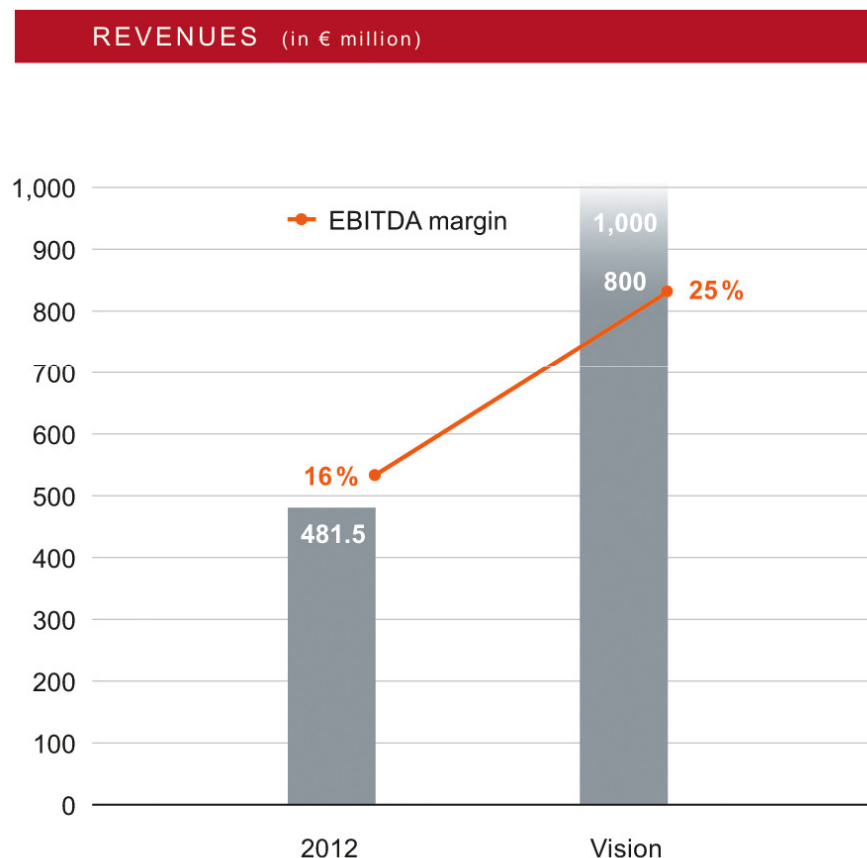
THE ROADMAP TO BECOMING AN INNOVATION DRIVER



WHERE QSC WILL STAND TOMORROW



INNOVATIONS WILL ALLOW QSC TO BRING ITS VISION TO LIFE



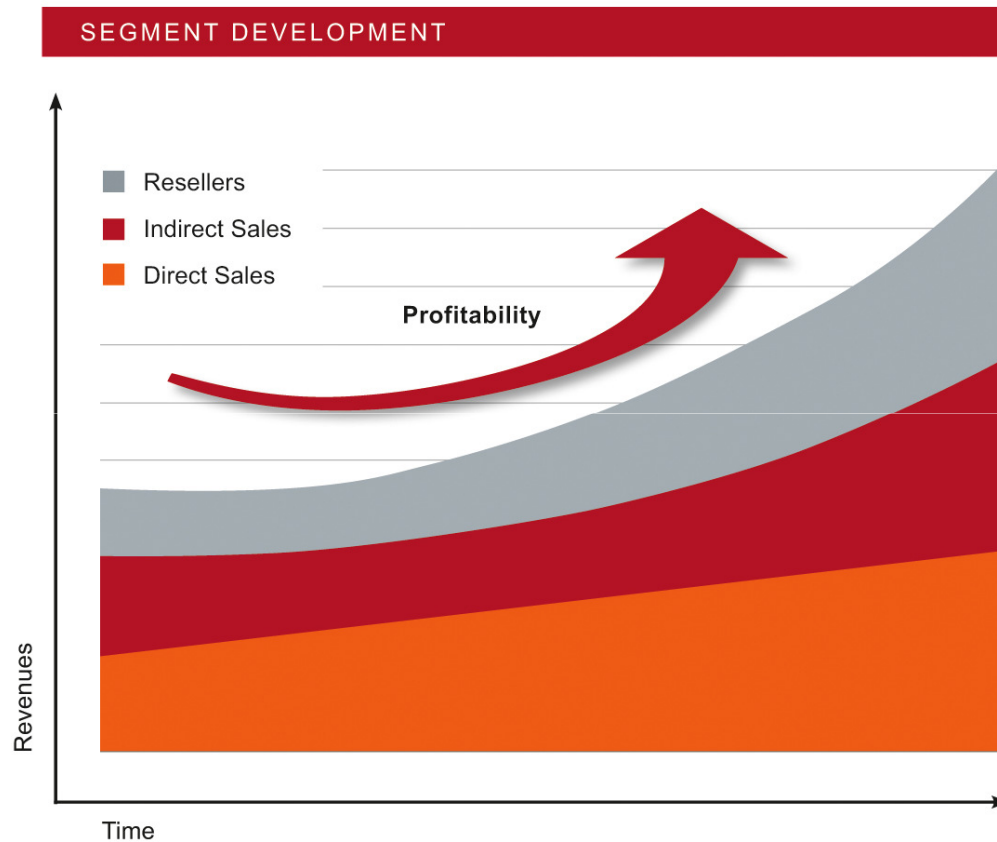
QSC will become a company with

- Revenues of € 0.8 – € 1.0 billion
- An EBITDA margin of 25%
- Free cash flow of € 120 – € 150 million

Progress of innovations will decide whether QSC will be able to reach the vision already in 2016

Innovations are the key to higher margins and financial strength

INNOVATIONS WILL LEAD TO RISING REVENUES



Key developments:

- Direct Sales will grow faster than the market
- Indirect Sales will start to benefit from new ICT products in 2014
- Resellers will start to benefit from new products for mass markets in 2015
- Indirect sales and Resellers hampered by legacy business in 2014 and 2015

SALES ORGANIZATION WELL-POSITIONED FOR ACHIEVING GROWTH

- Direct Sales

- Close relationships with Outsourcing / Managed Services customers
- Strong industry expertise (Energy, Finance, Retail ... more to come)
- Consulting serves as a perfect door opener

- Indirect Sales

- Strong customer base (30,000 SMEs in Germany)
- Network of some 450 ICT partners
- 2013/2014: Selection of suitable partners, training and certification

- Resellers

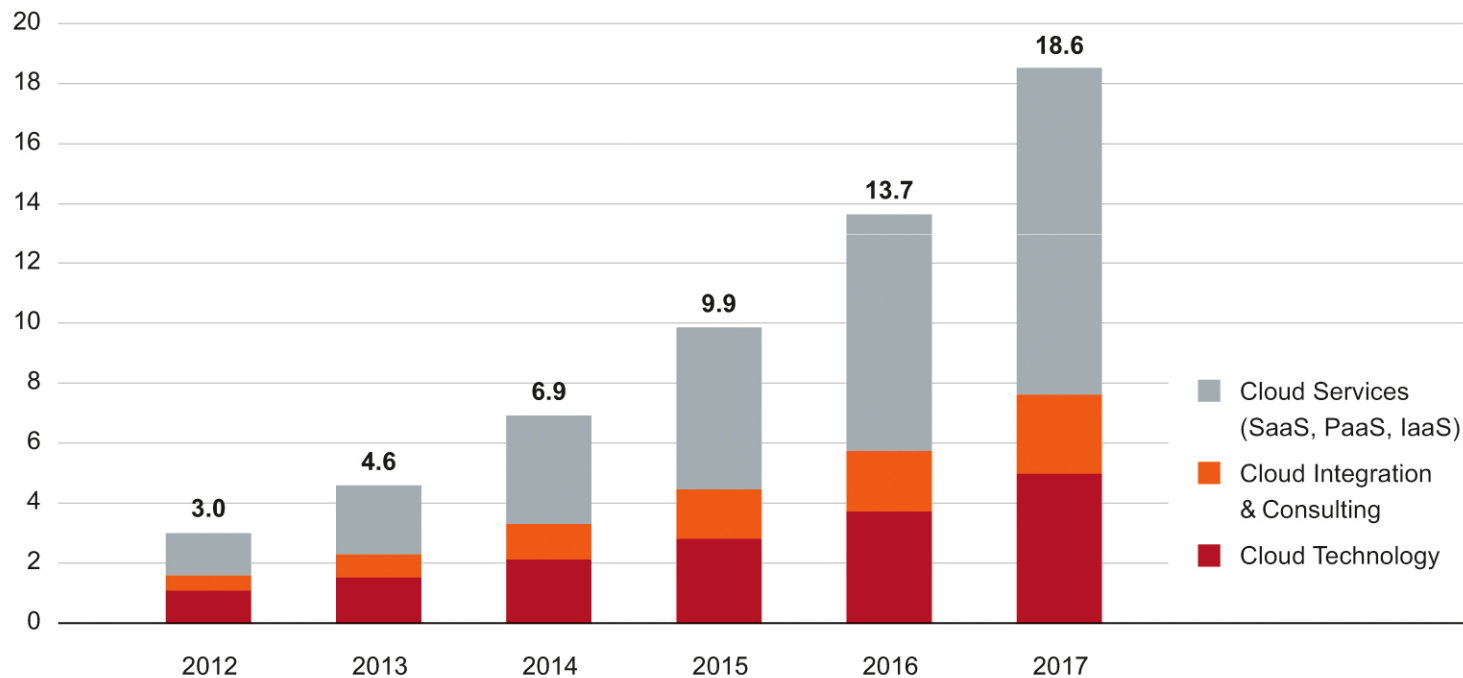
- Long-term relationships with strong ICT brands
- Strong experience in launching and marketing B2B2C products
- Involvement in several development partnerships with leading industry players

M&A STRATEGY WILL HELP TO ACCELERATE GROWTH

- All ICT players use acquisitions to broaden their innovation pipeline and to win additional talent
- In the past, QSC has proven its ability to find suitable targets and to integrate them smoothly
- In 2014 and beyond, QSC will focus on small- and mid-sized companies with outstanding innovations and/or industry expertise
- Full take-overs are possible as is the acquisition of significant stakes and partnerships

TAILWIND FROM THE MARKET: THE ERA OF B2B CLOUD COMPUTING HAS JUST BEGUN

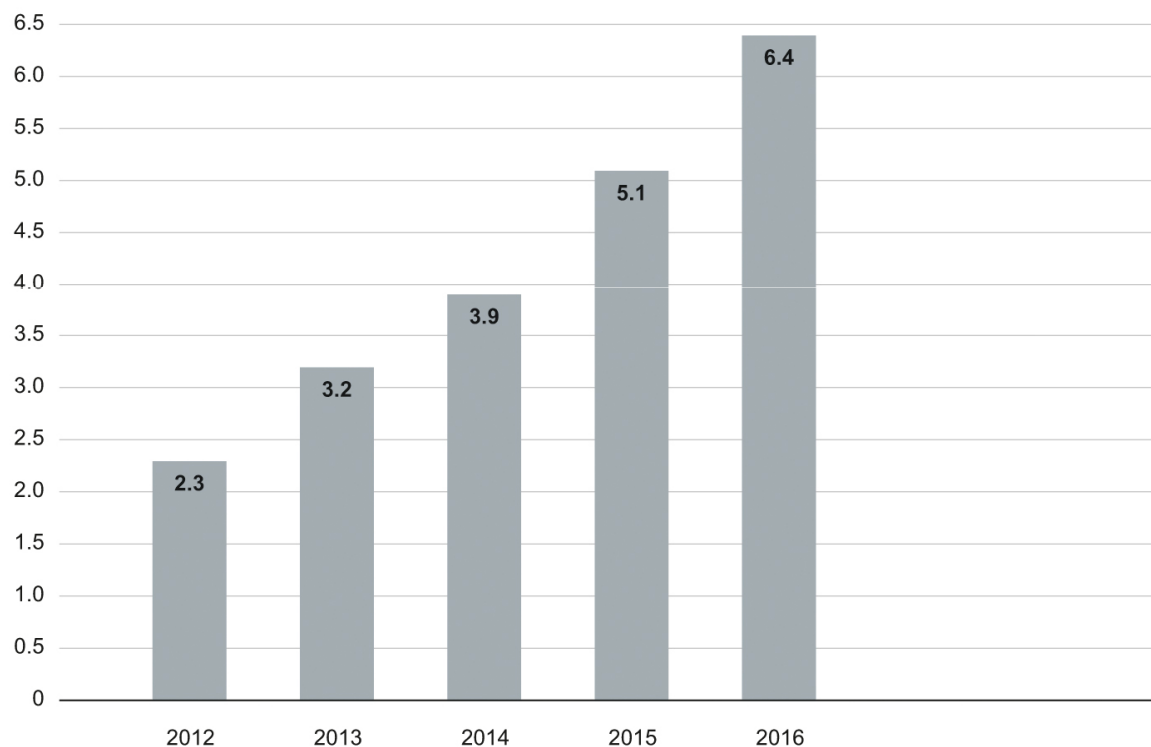
THE GERMAN B2B MARKET FOR CLOUD COMPUTING (in € billion)



Source: Experton Group 2013

TAILWIND: RESIDENTIAL CUSTOMERS WILL ADOPT CLOUD SERVICES AS WELL

THE GERMAN B2C MARKET FOR CLOUD COMPUTING (in € billion)



DIGITAL DISRUPTION: MOST INDUSTRIES WILL EXPERIENCE FUNDAMENTAL CHANGE

- One third of the companies in Germany expects a significant change in their business model by 2020 (KPMG 2013)
- Massive changes in industries such as music and tourism are only the beginning
- ICT and Cloud Services will be at the heart of most business models – Industry 4.0 will become a reality
- Companies will need ICT and Cloud partners to
 - Operate their ICT (Outsourcing, Cloud)
 - Digitize their processes (Consulting, Cloud)
 - Fulfill their customers' expectations (Cloud)
("interaction wherever and whenever they want")

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⇒ **QSC will become a preferred partner for the German Mittelstand**

QSC IS ON A GOOD WAY TO REALIZING ITS LONG-TERM GOALS AND ITS VISION

- QSC has a highly attractive innovation pipeline for fast-growing markets
- Launch of innovations will open up the opportunity to earn fast-growing revenues
- Higher share of self-developed products will boost profitability in addition to ongoing automation and standardization of existing business
- In 2013, QSC has finished its transformation process and built an organization “QSC 2.0”
- In 2014, QSC will invest strongly in future growth and innovations
- In 2015, “QSC 2.0” will start to reap the fruits of having become the innovation driver in the German ICT and Cloud market

CONTACT

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