

# QSC AG

## Company Presentation

### Results Q1 2014

Cologne, May 12, 2014

# AGENDA

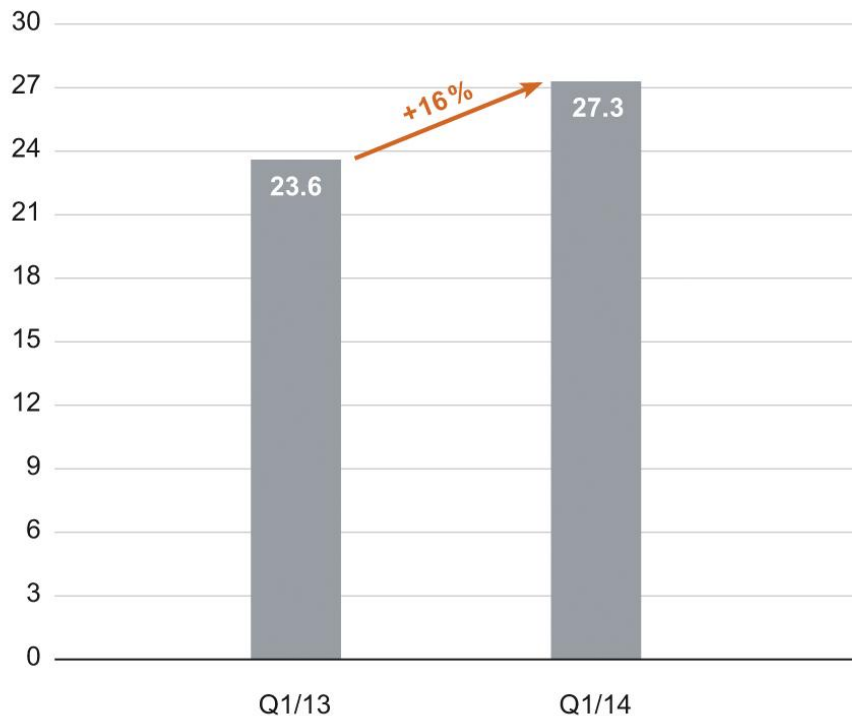
1. Highlights Q1 2014
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# 2014 STARTED AS EXPECTED

- Two-track development of operating business
  - Growth in ICT business
  - Decline in TC revenues
- TC business strained by negative regulatory impact (€ 8 million less in revenues and € 3 million less in EBITDA in 2014)
- Focus on investments in future growth
  - Development budget rose Y-O-Y by 100% to € 2.4 million
  - Acquisition of encryption specialist FTAPI in February 2014

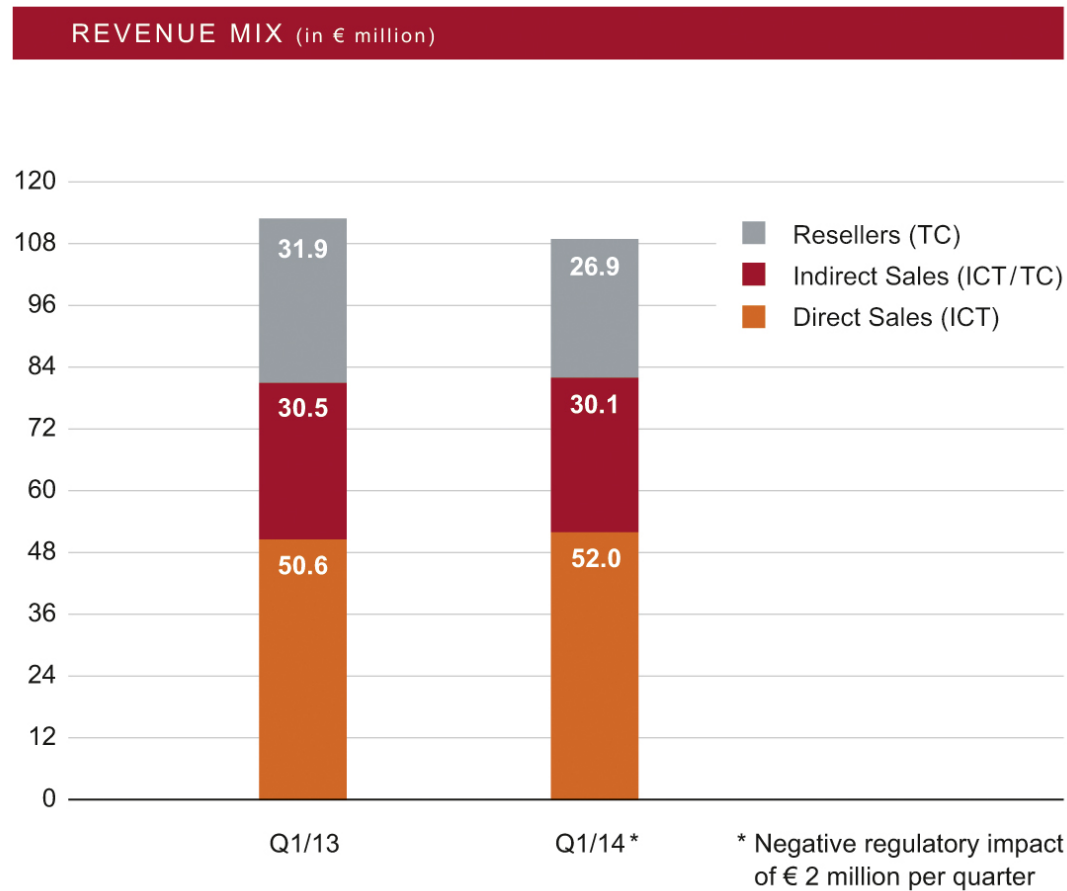
# TOTAL CONTRACT VALUE INCREASED BY 16%

TOTAL CONTRACT VALUE (in € million)



- TCV comprises orders from new as well as existing customers
- Traditionally, TCV in H1 has been lower than in H2

# GROWING TCV FUELS REVENUE GROWTH IN DIRECT SALES



- Direct Sales continued to increase its revenues
- Two-track development in Indirect Sales
  - Positive development of ICT products
  - Decline in TC revenues
- Resellers is suffering from adverse market conditions in TC business

# ADVERSE MARKET CONDITIONS IN TC BUSINESS

- As of November 20, 2013, German regulators lowered the fees for alternative net providers – effects on QSC:
  - Around € 8 million less in revenues in 2014
  - Around € 3 million less in EBITDA in 2014
- Declining demand for OCBC and Preselect offerings
- Ongoing price wars in the markets for legacy voice and increasingly so in ADSL2+
- Altogether, QSC expects a negative effect of
  - Up to € 30 million less in revenues in 2014
  - Some € 10 million less in EBITDA in 2014

# FOCUS ON INNOVATIONS TO STRENGTHEN ICT BUSINESS

- **QSC-tengo:** More than 50 partners certified + launch of online shop for partners
- **solucon:** Unified Communication Services  
=> JOIN Experience, Luxemburg, will integrate cospace in fixed-line and mobile offers

M2M services to meter, regulate and control processes, using the QSC-Box

=> Demo of Secure Cloud Sensor

=> Demo of Secure Cloud Switch

# FOCUS ON INNOVATION – INTEGRATION OF FTAPI

- In February, QSC acquired 51% of FTAPI, an encryption specialist with a range of scalable products in high-security transfer and storage
- The founders will stay on board and will drive further growth
- In April and May 2014, they presented their company at QSC's partner roadshow
- Next milestones:
  - Integration of the FTAPI product range into QSC's portfolio
  - Marketing and sales campaigns
  - Development of further products for specific industries and applications



# FOCUS ON INNOVATIVE BUSINESS CONCEPTS: DATA CENTER CONSTRUCTION



- Attractive business concept with
  - Long-term contracts
  - Sustainable revenues
  - Upgradable customer relationship
- First project with DATEV in Nuremberg
- 2<sup>nd</sup> project with a large industrial player ready for signing

# AGENDA

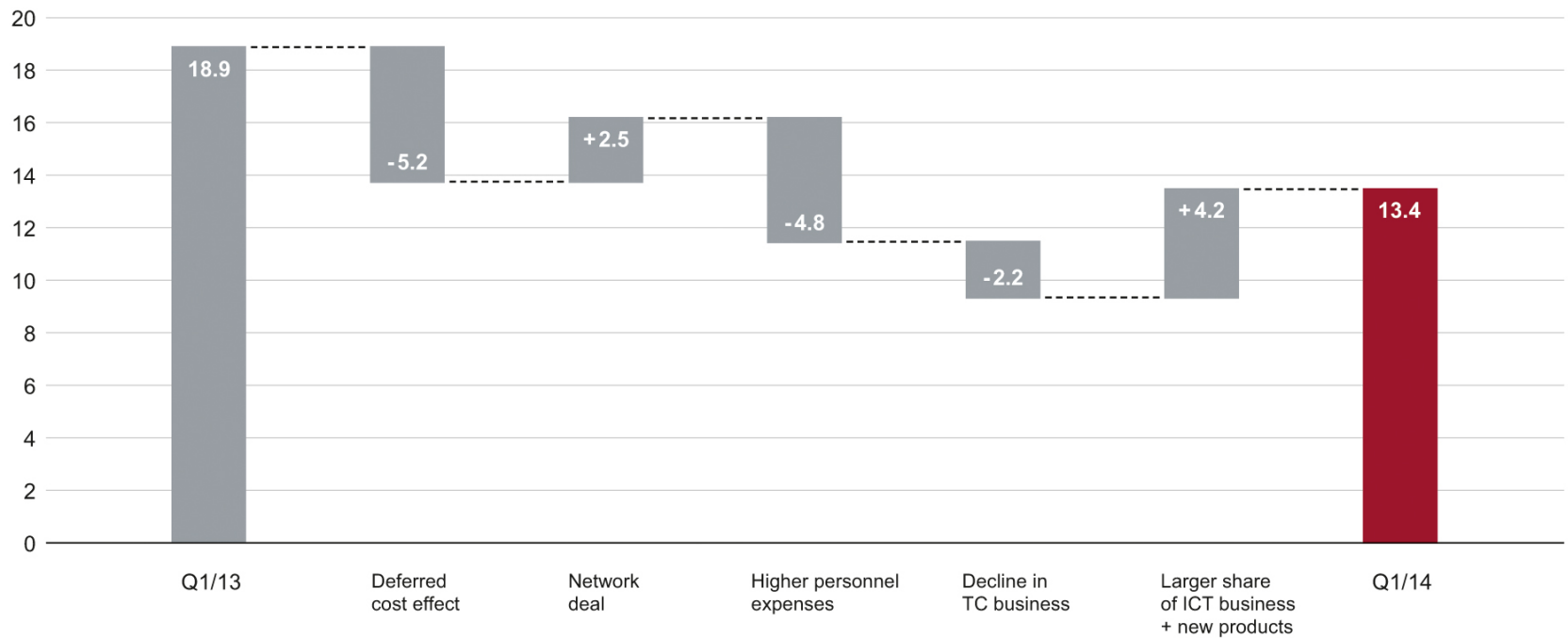
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# Q1 2014 WENT AS EXPECTED

In € million	Q1 2013	Q1 2014
• Revenues	113.0	109.1
• Cost of Revenues <sup>(1)</sup>	75.4	78.9
• <i>Gross profit</i>	<b>+37.6</b>	<b>+30.2</b>
• Other operating expenses <sup>(1)</sup>	18.7	16.8
• <i>EBITDA profit</i>	<b>+18.9</b>	<b>+13.4</b>
• Depreciation	12.6	12.3
• <i>EBIT profit</i>	<b>+6.3</b>	<b>+1.1</b>
• Financial results	-1.0	-1.0
• Income taxes	-0.2	+0.2
• <i>Net profit</i>	<b>+5.1</b>	<b>+0.3</b>

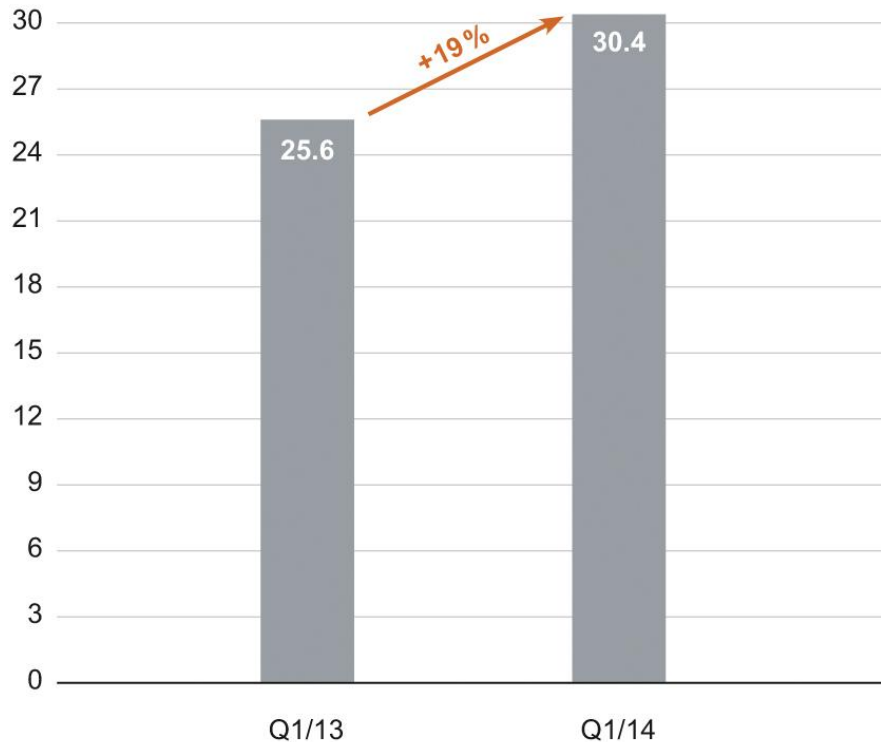
# PROFITABILITY INFLUENCED BY SEVERAL FACTORS

## EBITDA DEVELOPMENT (in € million)



# QSC HAS TO SHOULDER HIGHER PERSONNEL EXPENSES IN 2014

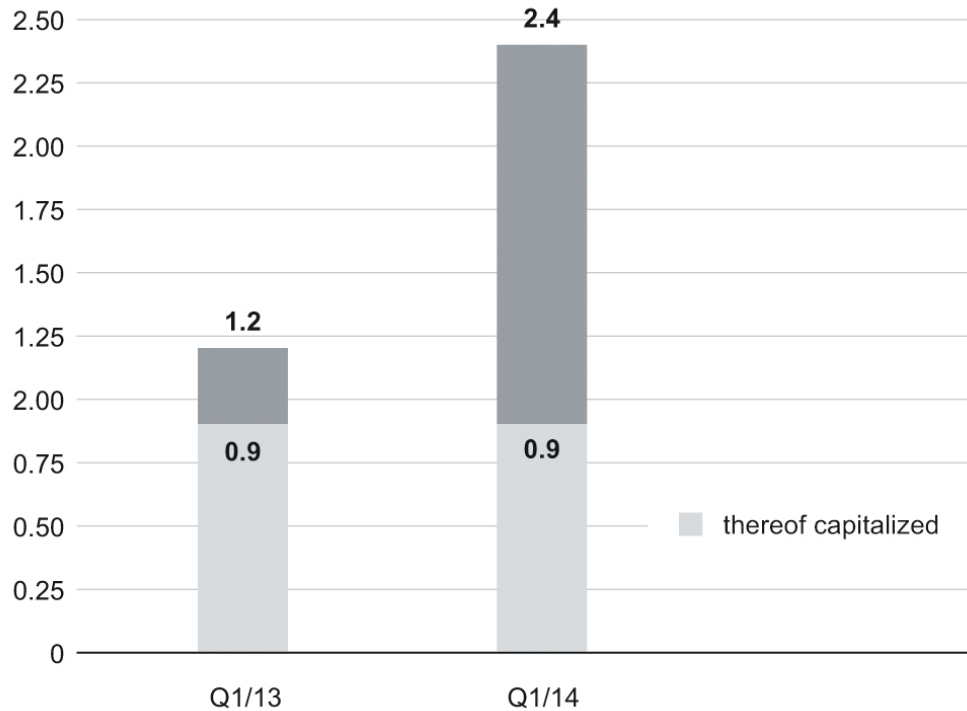
PERSONNEL EXPENSES (in € million)



- During 2013, QSC expanded its workforce by some 200 ICT experts mainly for
  - Growing Outsourcing and Consulting business
  - Extension of development activities
- QSC is now well positioned to drive its operating business in 2014
- In Q1 2014, workforce rose by just 16 people, mainly because of the acquisition of FTAPI

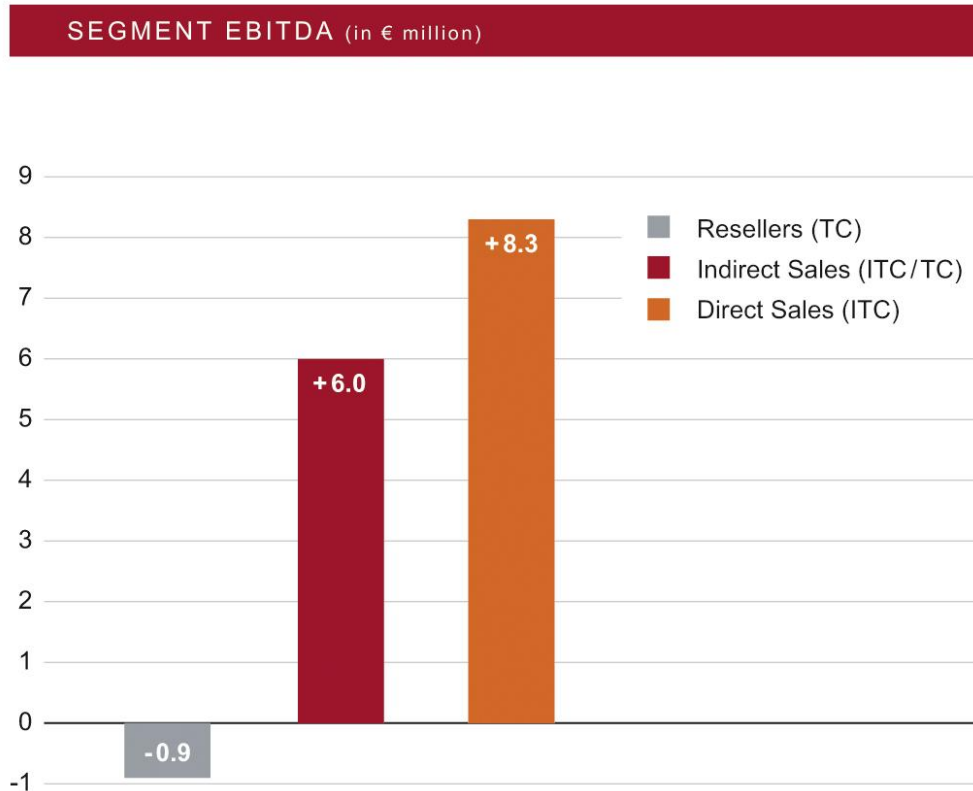
# In 2014, QSC IS INVESTING IN FUTURE GROWTH AND INCREASING ITS DEVELOPMENT BUDGET

DEVELOPMENT BUDGET (in € million)



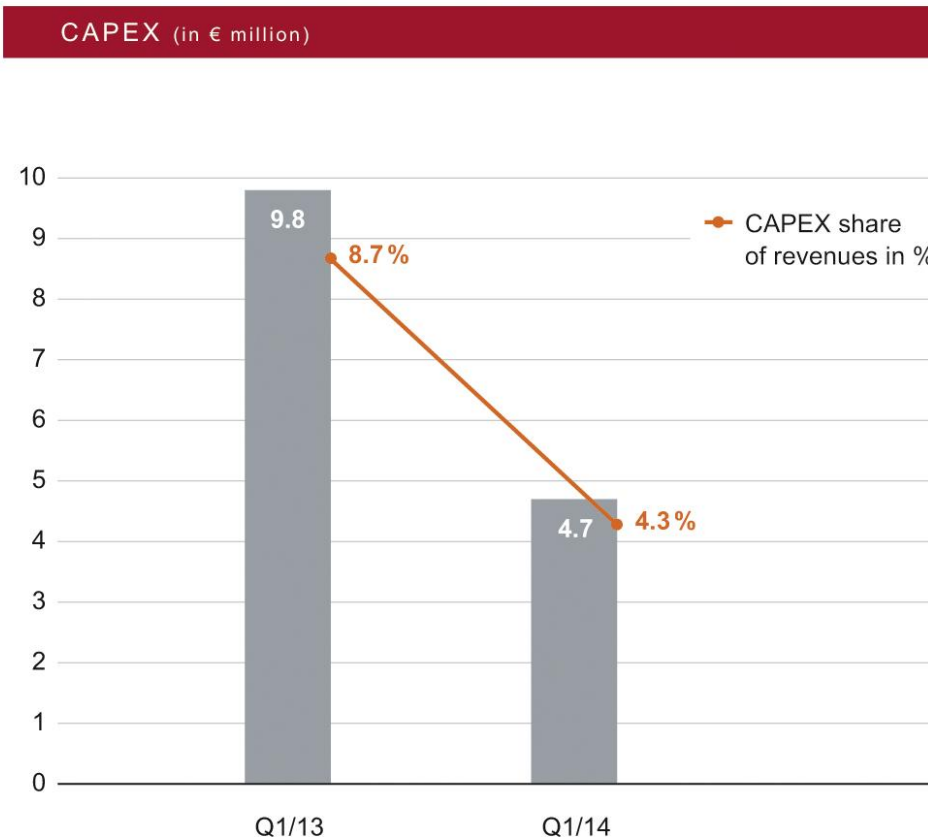
- In 2014, QSC plans to double its development budget to some € 10 million
- Focus on the development of Cloud-based products and services

# HIGHER MARGINS IN ICT BUSINESS ARE STRENGTHENING THE PROFITABILITY



- Direct Sales now earns some 60% of the EBITDA – margin stood at 16% in Q1 2014
- Indirect Sales was able to earn an EBITDA margin of 20%
- Resellers incurred a loss in Q1 2014, but still made a significant contribution to covering the infrastructure costs
- Margins were below the figures for Q1 2013 mainly because of the deferred cost effect

# QSC INVESTED IN CUSTOMERS AND DEVELOPMENT IN Q1 2014

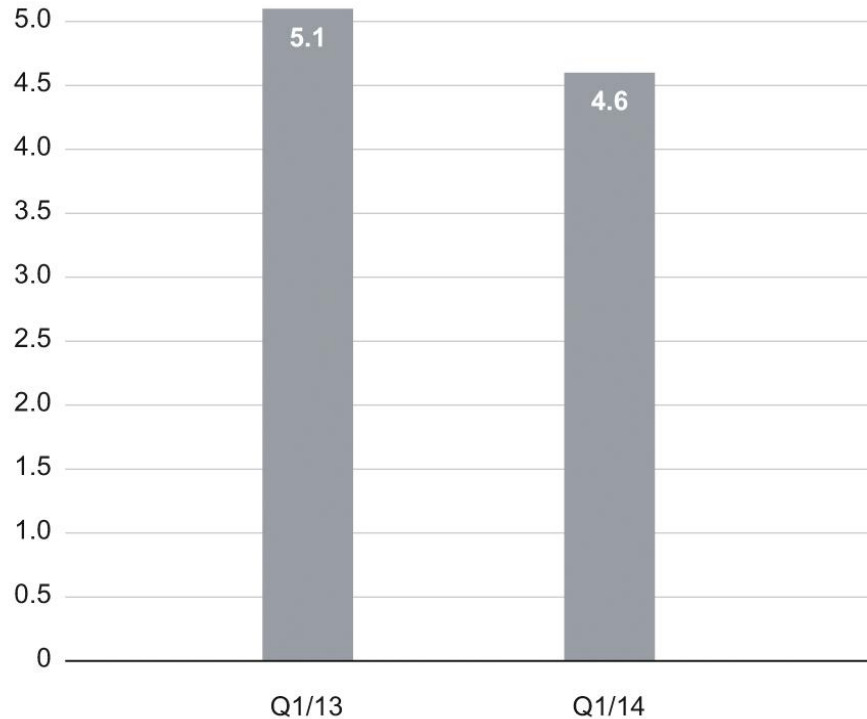


- QSC did not have to shoulder huge investments for new large customers in Q1 2014
- For 2014, QSC expects a CAPEX ratio of between 6–10% of revenues



# MODERATE CAPEX HELPED TO EARN A SUSTAINABLE FREE CASH FLOW

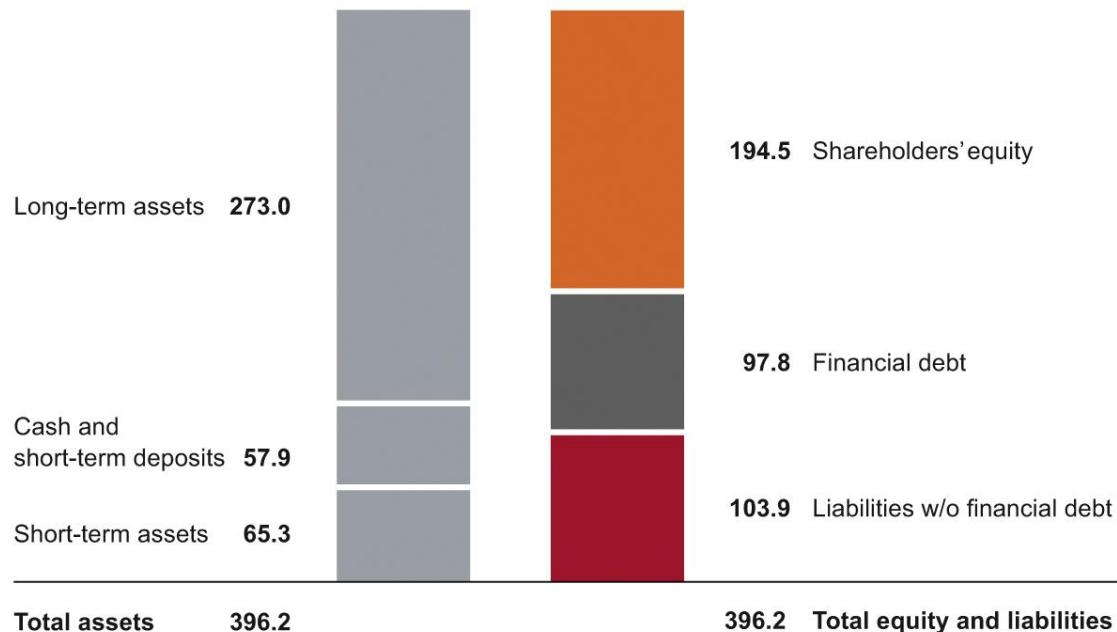
FREE CASH FLOW (in € million)



- Free cash flow results from the change in net debt from operating business
- In Q1 2014, net debt decreased by € 1.0 million
- Further € 3.6 million remains out of consideration as they represent a payment for an acquisition – the purchase of 51% of FTAPI

# IN MAY, QSC PLANS TO OPTIMIZE ITS FINANCING AND TO EXTEND THE MATURITY OF ITS DEBTS

CONSOLIDATED BALANCE SHEET AS OF MARCH 31, 2014 (in € million)



- QSC has traditionally been financed very solidly with a net debt to EBITDA ratio of 0.5x
- Main source of external financing is a syndicated loan of up to € 140 million until September 2016
- In May 2014, QSC will most probably sign a promissory note loan to optimize debt structure:
  - Amount: € 150 million
  - Term: 5–7 years

# PROMISSORY NOTE LOAN WILL BROADEN THE FINANCIAL LATITUDE OF QSC

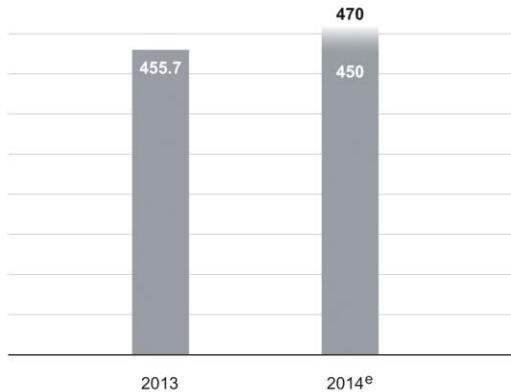
- QSC will use the promissory note loan to
    - Redeem parts of the syndicated loan
    - Invest in future growth
    - Payback a factoring contract of the former INFO AG in the amount of € 11 million on an optional basis
  - Payback was not planned in early 2014. It would be disclosed separately, as the amount stems from an acquisition and merely represents a new structure of debts
- ⇒ QSC is now very well financed to implement its growth strategy

# AGENDA

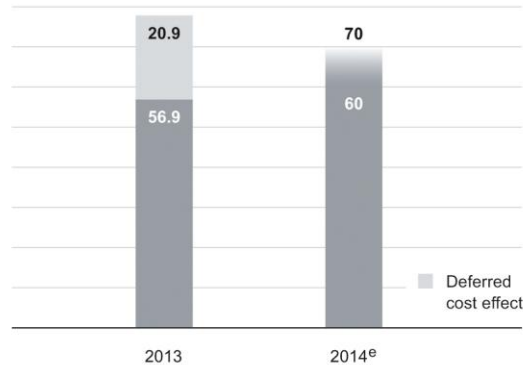
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# QSC CONFIRMS GUIDANCE FOR 2014

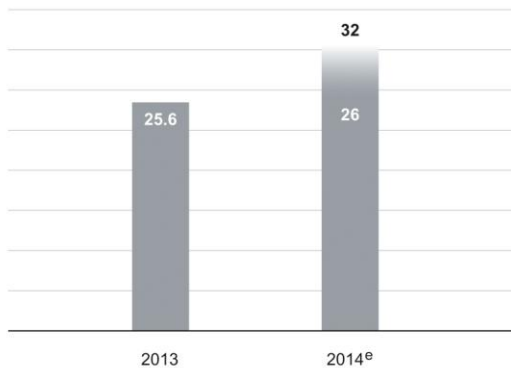
REVENUES (in € million)



EBITDA (in € million)



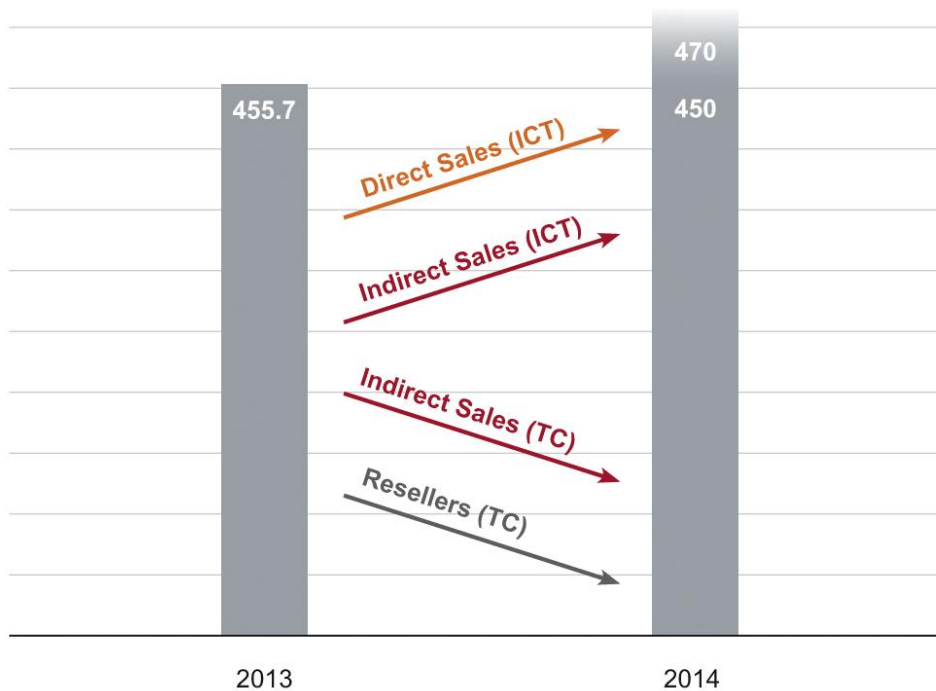
FREE CASH FLOW (in € million)



- Dividend of € 0.10 is the minimum amount for fiscal 2014
- QSC expects a stronger H2 2014 due to
  - Launch of innovative products
  - Nature of the Consulting business, in particular

# TWO-TRACK REVENUE DEVELOPMENT

SEGMENT REVENUES (in € million)



- Direct Sales will continue to grow
- Indirect sales: Rising ICT revenues with existing and new products vs. lower TC revenues
- Resellers has to face a further decline in TC revenues due to adverse market conditions

# ONGOING FOCUS ON INVESTMENTS IN GROWTH

- QSC's innovation strategy is built on three pillars
  - Developing in-house
  - Acquiring leading-edge technology companies
  - Winning leading-edge entrepreneurial talent
- Promising start to 2014 with the acquisition of FTAPI and progress in current projects
- In 2014, QSC expects a big step forward in developing and launching Cloud-based products and services
- In 2015, QSC intends to start reaping the fruits of having become the innovation driver in the German ICT and Cloud market

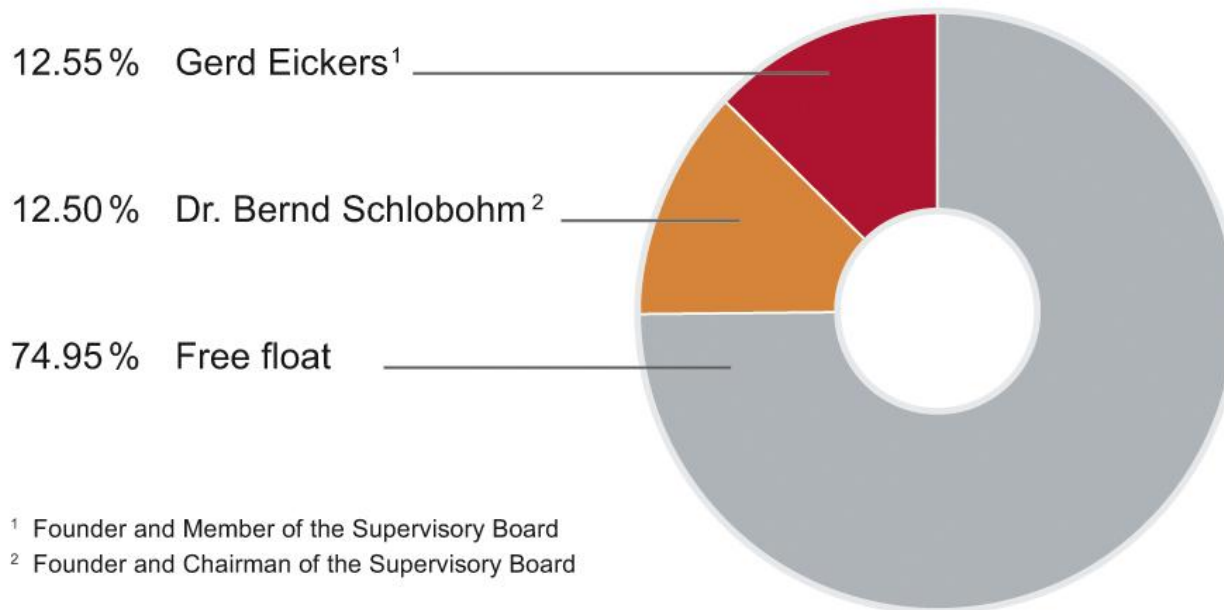
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# SHAREHOLDER STRUCTURE AFTER THE TWO FOUNDERS HAVE BOUGHT ADDITIONAL SHARES

## SHAREHOLDER STRUCTURE



<sup>1</sup> Founder and Member of the Supervisory Board

<sup>2</sup> Founder and Chairman of the Supervisory Board

As of April 30, 2014

# FINANCIAL CALENDAR

May 28, 2014	Annual Shareholders Meeting
August 11, 2014	Publication of Quarterly Report II/2014
November 10, 2014	Publication of Quarterly Report III/2014

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A complete list of the risks, uncertainties and other factors facing us can be found in our public reports and filings with the U.S. Securities and Exchange Commission.

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