# QSC AG

## Company Presentation

Results Q2 2014

Cologne, August 11, 2014

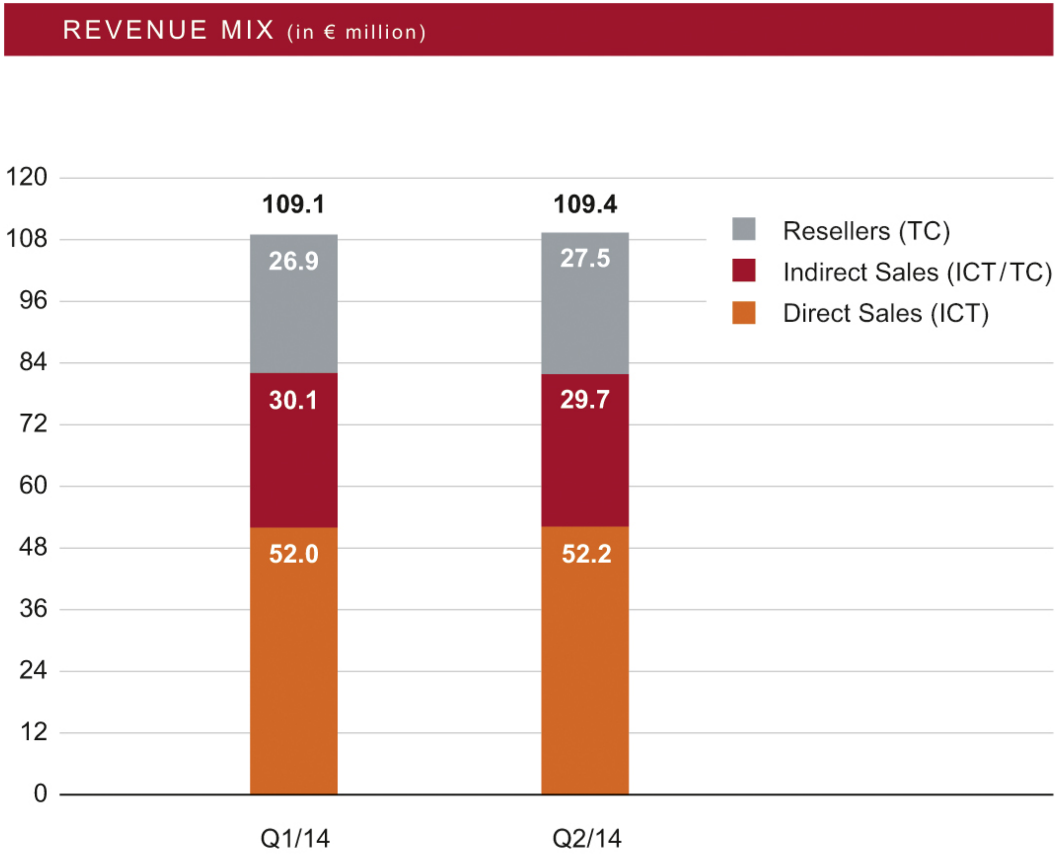
# AGENDA

1. Operating development Q2 2014
2. Financial development Q2 2014
3. Outlook for 2014
4. Questions & Answers

# DISAPPOINTING Q2 2014

- Revenues of € 109.4 million slightly lower than expected
- Shift in revenues in favor of low-margin TC revenues
- Unfavorable revenue mix + one-off effect of € 2 million led to an EBITDA of € 10.5 million in Q2 2014
- Revenue generation with new ICT products is taking more time than expected because of adverse market environment

# UNFAVORABLE REVENUE MIX IN Q2 2014

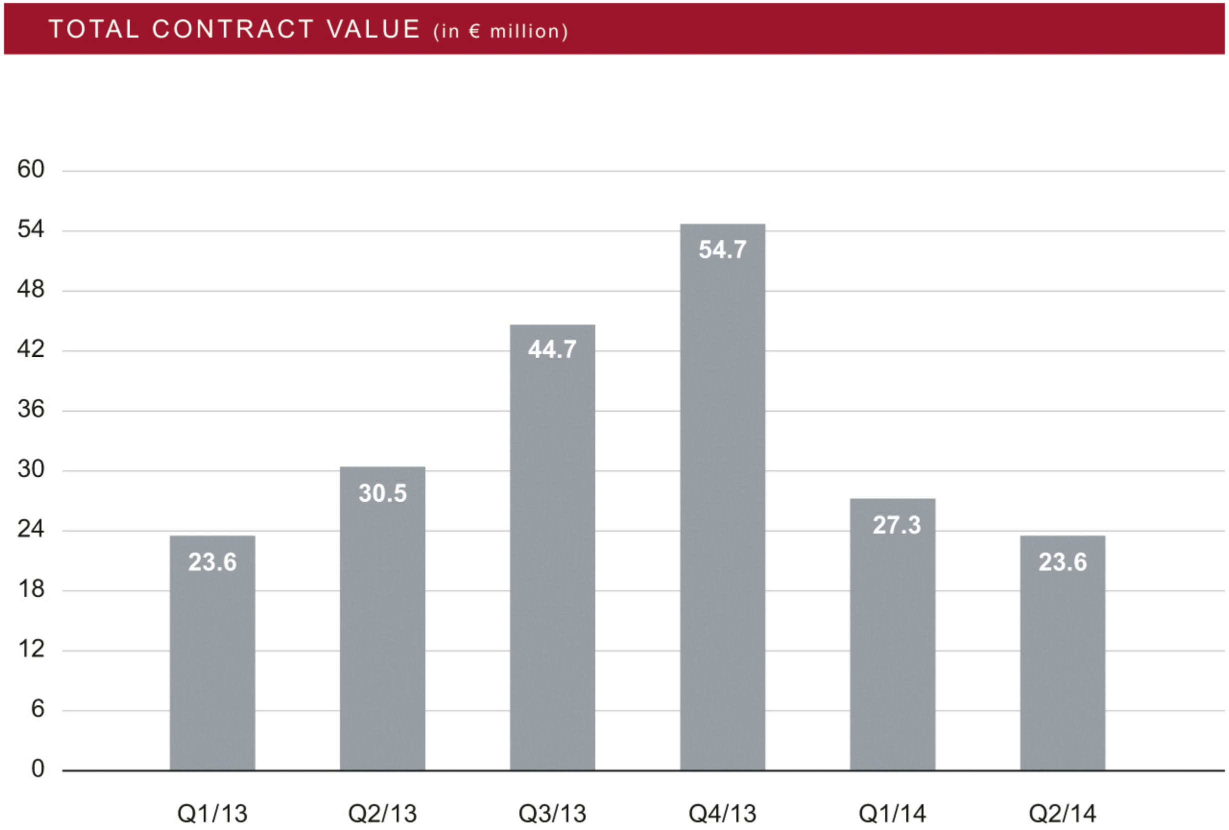



- Direct Sales was hampered by weak IT Consulting business
- Stable Indirect Sales revenues despite
  - negative regulatory impact in TC business
  - lack of revenues with new ICT products
- Resellers managed to generate higher TC revenues than expected

# LACK OF NEW BUSINESS IN IT CONSULTING

- In 2013, IT Consulting made a big step forward and increased its revenues by 13%
  - Tailwind from large outsourcing projects
  - Quick wins in cross-selling
- In 2014, it has slowed down for two reasons
  - No large outsourcing projects so far
  - Due to the heavy workload in 2013, new biz was not the focus

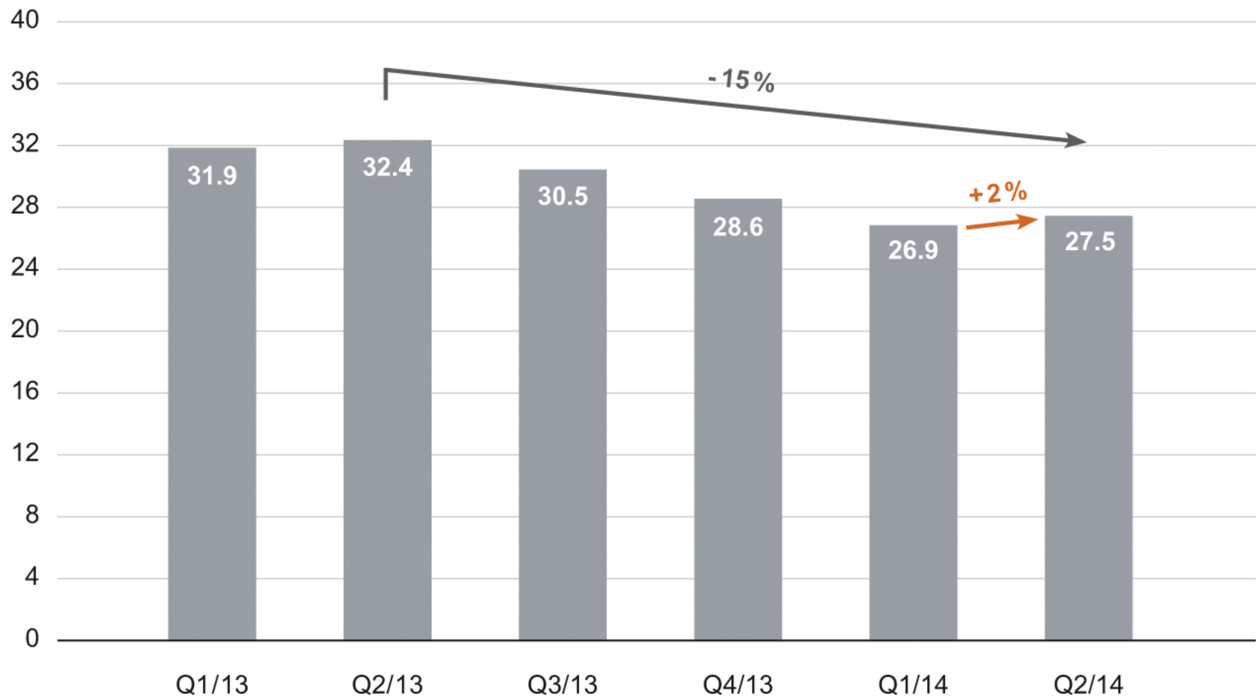
# LACK OF NEW IT CONSULTING BUSINESS HAMPERED ORDER INFLOW IN DIRECT SALES




- TCV of € 50.9 million in H1 2014 from new and existing customers
- QSC expects higher TCV in H2 2014

# RESELLERS WITH TEMPORARY HIGHER REVENUES

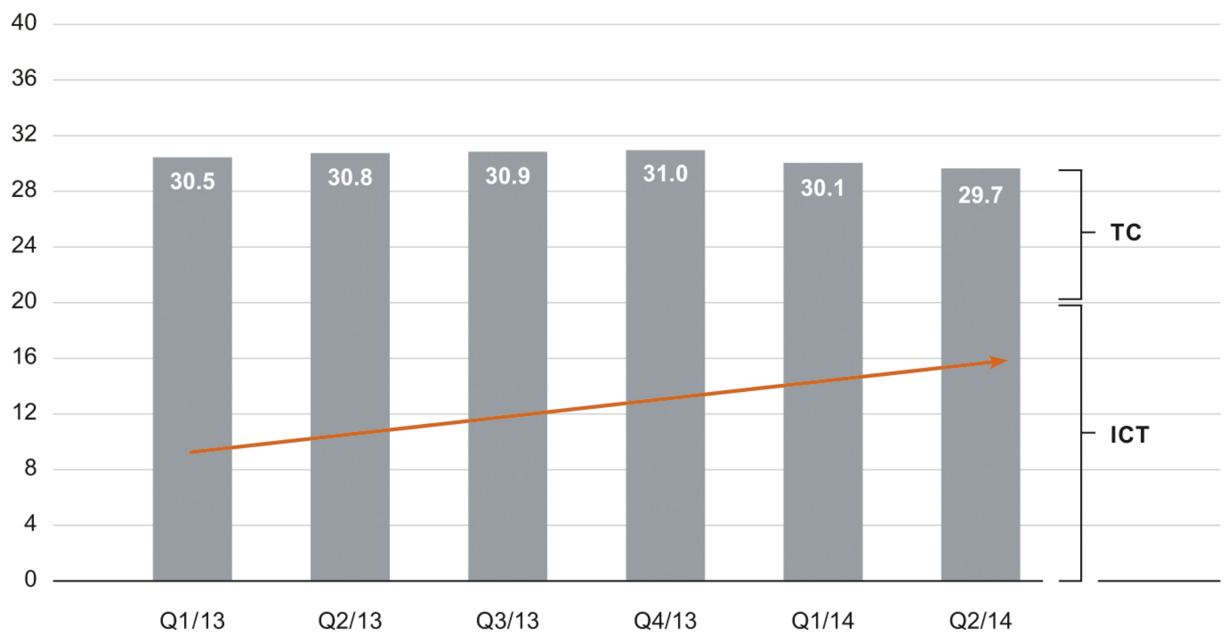
REVENUES, RESELLERS (in € million)




- Legacy business burdened by
  - tough price competition
  - stricter regulation
- Highly efficient NGN helps QSC to generate higher voice revenues temporarily

# INDIRECT SALES BENEFITS FROM LARGE SHARE OF IP-BASED ICT BUSINESS

REVENUES, INDIRECT SALES (in € million)




- Positive development of ICT products
- Surprisingly good development in TC business despite stricter regulation
- Revenues with new ICT products lower than expected

# HUGE INTEREST FOR QSC‘S PRODUCTS FOR THE CLOUD ERA – BUT STILL SMALL REVENUES

- Since 2013, QSC has strengthened its R&D (~60 developers in place) and is now in a position to market a broad portfolio for the Cloud era
- Innovation efforts are highly appreciated by existing and new customers as well as the market
- Nevertheless, sales generation takes time as QSC has to train and certify sales partners
- In addition, adverse market environment hampers revenue generation

# ADVERSE MARKET ENVIRONMENT IN GERMANY

**Cloud Monitor 2014 (BITKOM / KPMG)**

- Setback of growth of Cloud-based products due to ongoing NSA debate
- 13% of companies postpone planned Cloud projects
- 11% terminated projects
- 77% hesitate to use the Cloud for security reasons
- 45% fear a loss of data

⇒ **Adverse market environment delays revenue generation**

# PROMISING INDICATORS FOR GROWING REVENUES WITH ICT PRODUCTS IN COMING QUARTERS

- **Right positioning:** QSC was nominated as a “Cloud Leader” in two categories in June 2014 by Experton Group
- **Right products:** Cloud-based telephone system “IPfonie centraflex” has won a test by Germany’s leading TC magazine “connect”
- **First customers**: Langenfeld in NRW is installing QSC-WiFi
- **First customers**: QSC-tengo sales team won a considerable number of seats in July 2014
- **First partners for the M2M era**: solucon team is working with a German “hidden champion” on an innovative solution to a daily challenge for thousands of mid- and large-sized logistics companies

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# LOWER PROFITABILITY IN Q2 2014

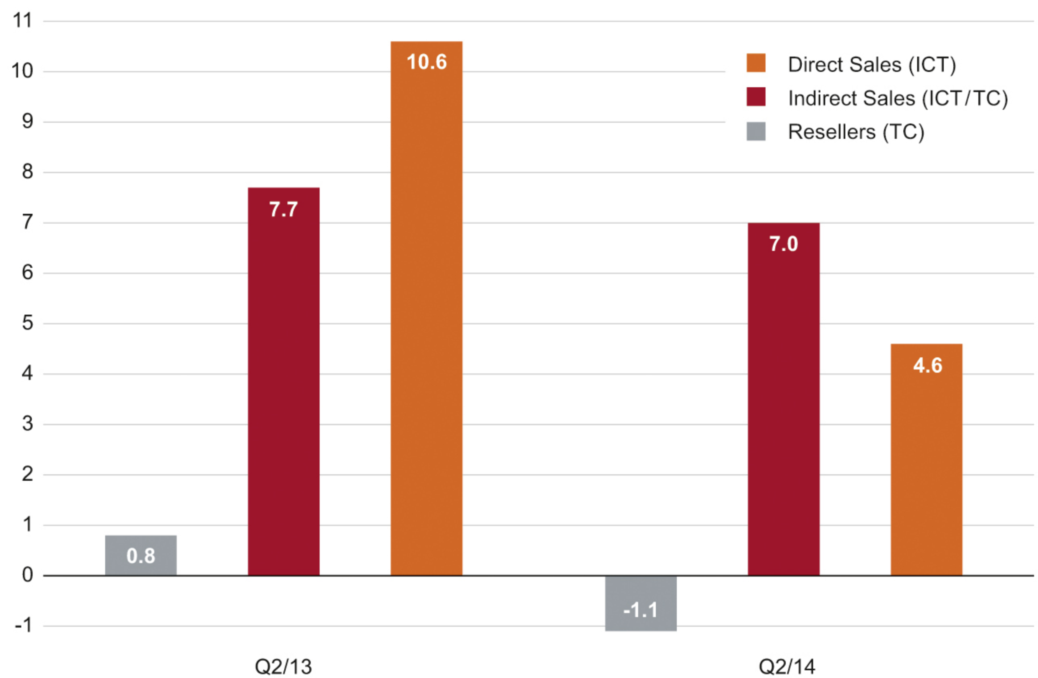
| In € million | Q2 2013 | Q2 2014 |
|---|---|---|
| • Revenues | 113.5 | 109.4 |
| • Cost of Revenues[1] | 75.5 | 81.6 |
| • *Gross profit* | *+37.9* | *+27.8* |
| • Other operating expenses[1] | 18.7 | 17.3 |
| • *EBITDA profit* | *+19.2* | *+10.5* |
| • Depreciation | 12.6 | 12.5 |
| • *EBIT profit* | *+6.6* | *-2.0* |
| • Financial results | -0.9 | -1.6 |
| • Income taxes | -0.5 | -0.3 |
| • *Net profit* | *+5.2* | *-3.9* |



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

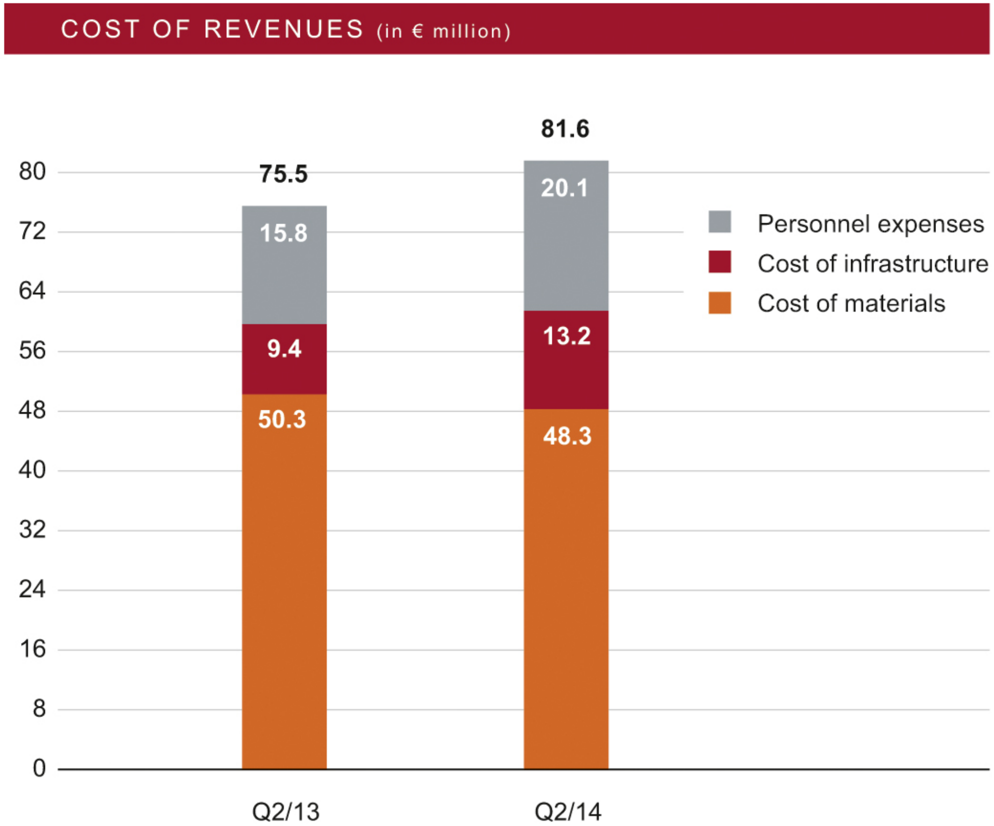
# UNFAVORABLE REVENUE MIX REDUCED PROFITABILITY

SEGMENT EBITDA (in € million)




- Direct Sales experienced a sharp decline in profitability in Q2 2014 due to
  - lower IT Consulting revenues
  - one off-effect of € 2 million
  - higher personal expenses
- Indirect Sales earned an EBITDA margin of 24% despite a lack of revenues with new ICT products
- Resellers incurred a loss in Q2 2014, but still made a significant contribution to covering the infrastructure costs
- Segment EBITDA was also below the figures for Q2 2013 because of the deferred cost effect

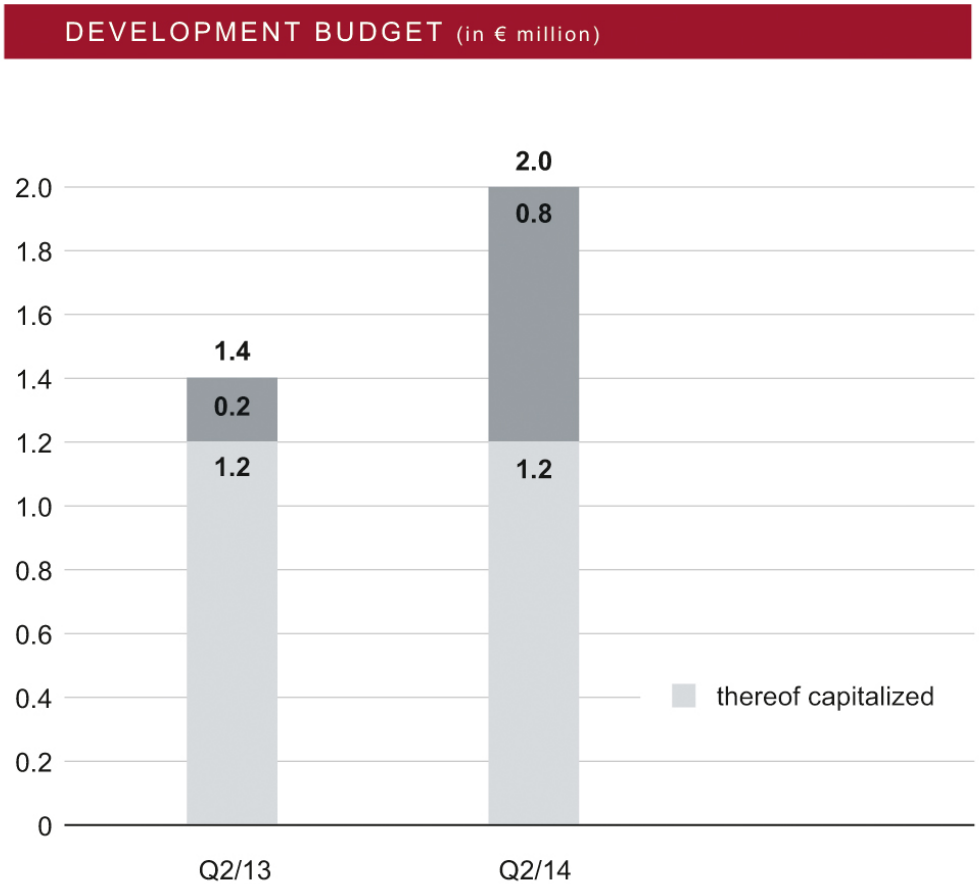
# MAIN COST DRIVER: COST OF REVENUES




### Main factors

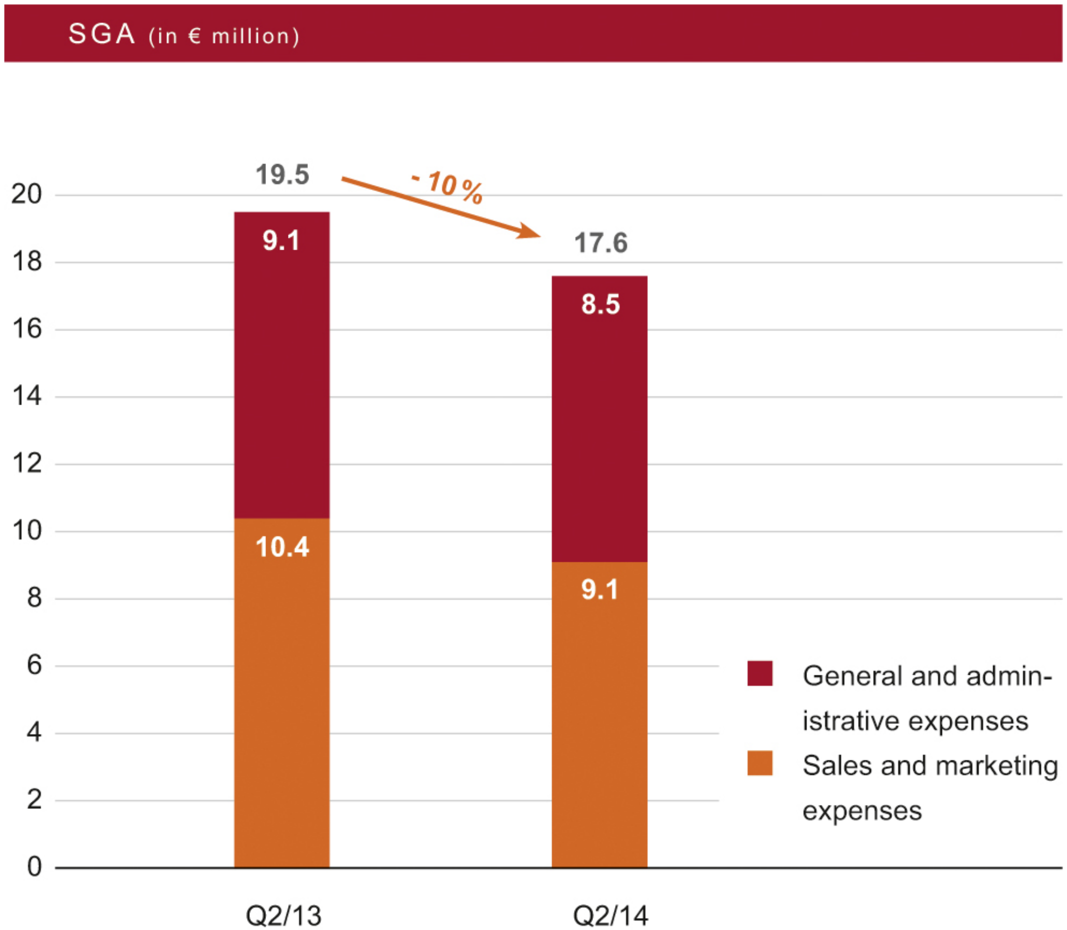
- Deferred cost effect
  (nearly € 5 million per quarter)
- One-off effect of € 2 million stemming from stabilization/ optimization of IT operations following an internal quality review. This effect increased cost of infrastructure
- Higher personnel expenses, especially in Direct Sales

# PROFITABILITY REDUCED BY HIGHER DEVELOPMENT EXPENSES




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

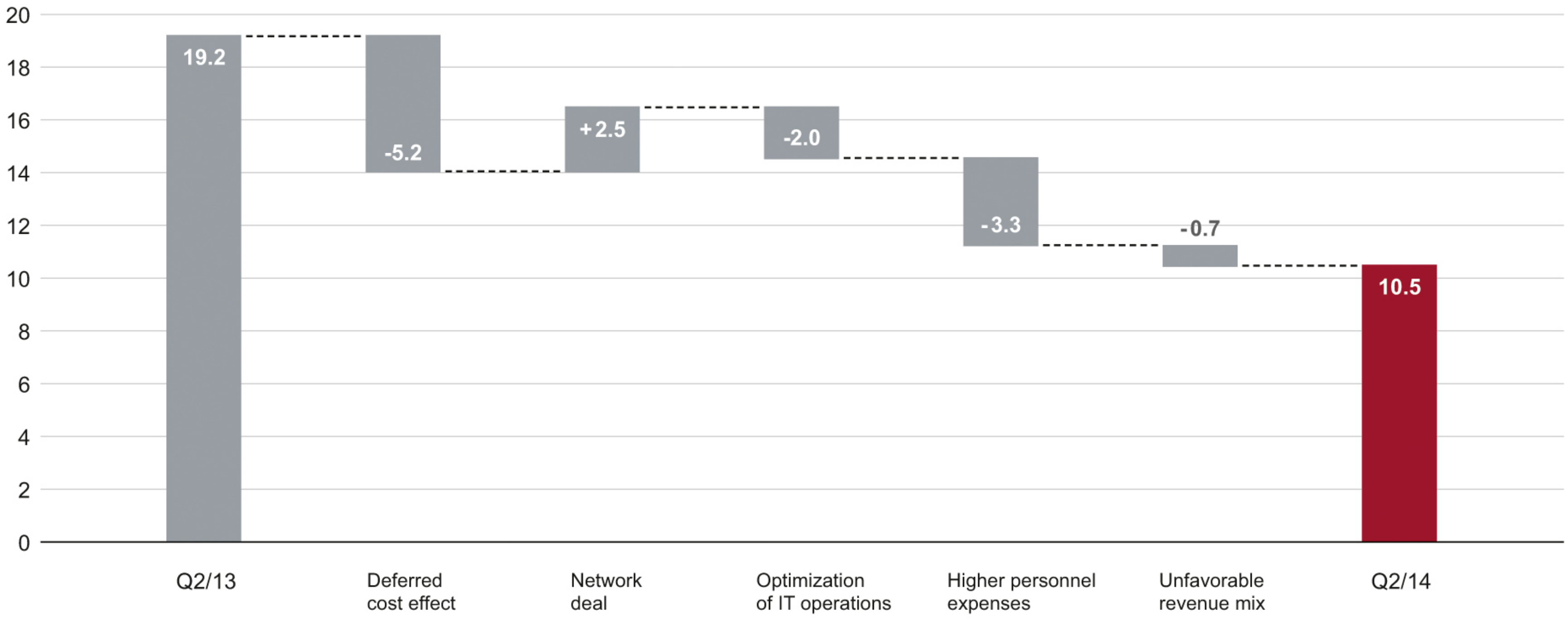
# PROFITABILITY SUPPORTED BY LEAN SGA




- Sales and marketing expenses benefit from
  - rising share of Direct Sales
  - increasing online sales
- General and administrative expenses benefit from
  - INFO AG merger
  - strict cost discipline

# AT A GLANCE: IMPACTS ON PROFITABILITY IN Q2 2014

EBITDA DEVELOPMENT (in € million)

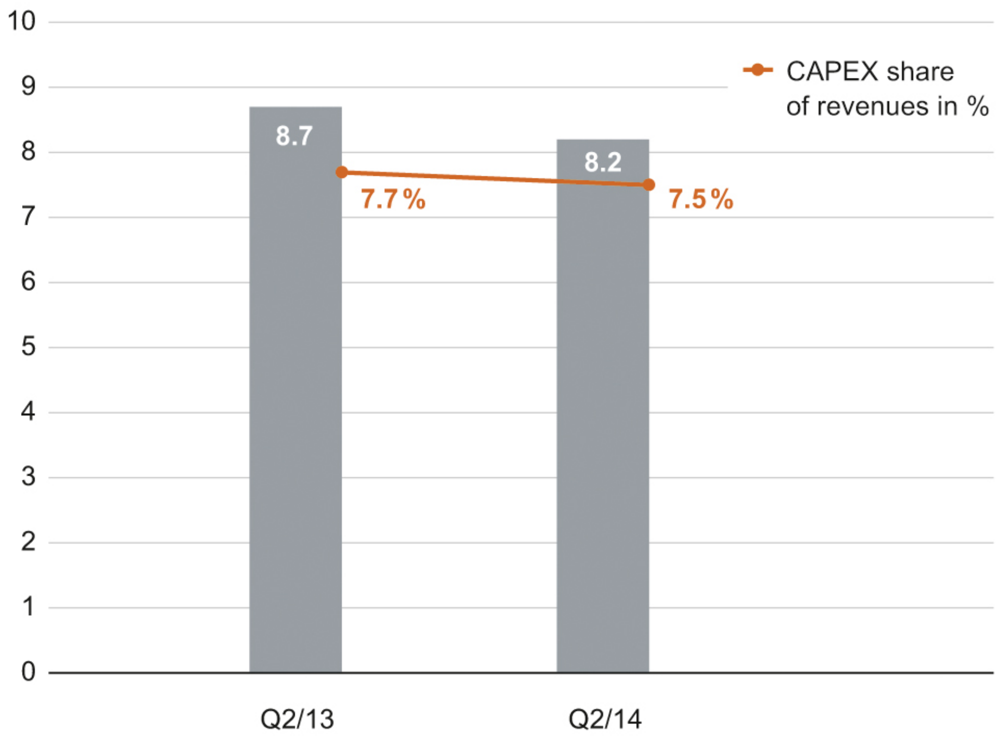


# “CLARITY” WILL HELP TO BOOST PROFITABILITY

- Due to the unsatisfying level of profitability in Q2 2014, QSC has started a program to raise efficiency
- Program “Clarity” will be connected with an ongoing change management program to improve the collaboration between business units and locations
- In HR, QSC has shifted the focus – reallocation has become more important than recruiting
- 1st positive effect: Number of employees rose by only 7 in Q2 2014

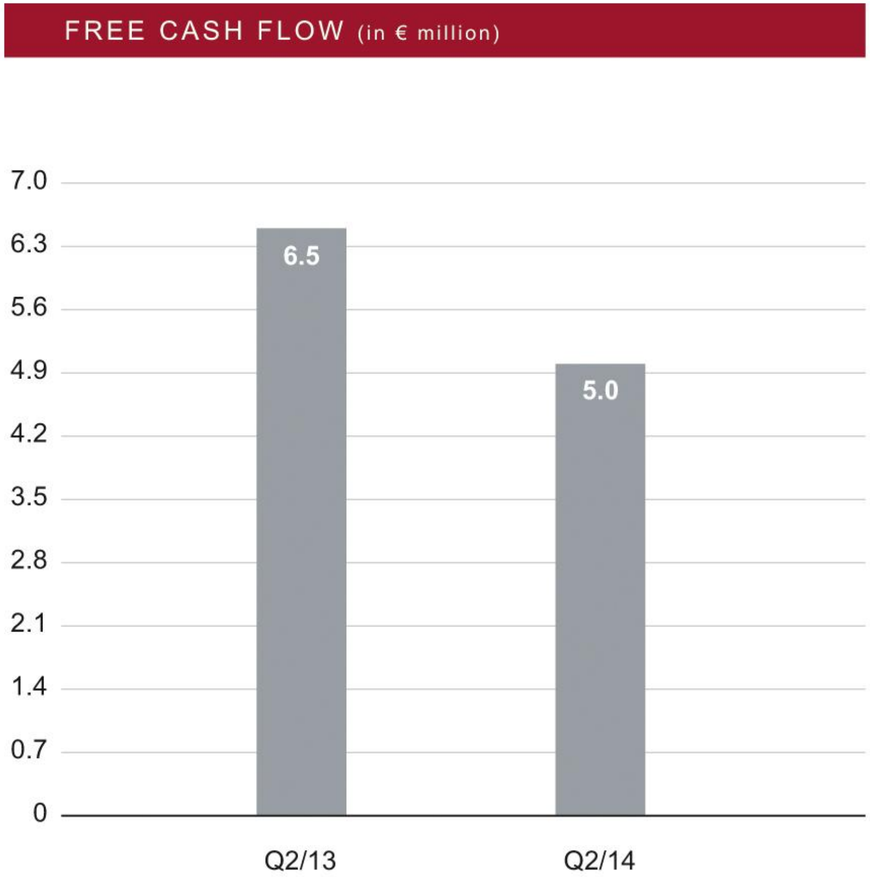
# STABLE LEVEL OF INVESTMENTS

CAPEX (in € million)




- For 2014, QSC now expects a CAPEX ratio of around 8% of revenues

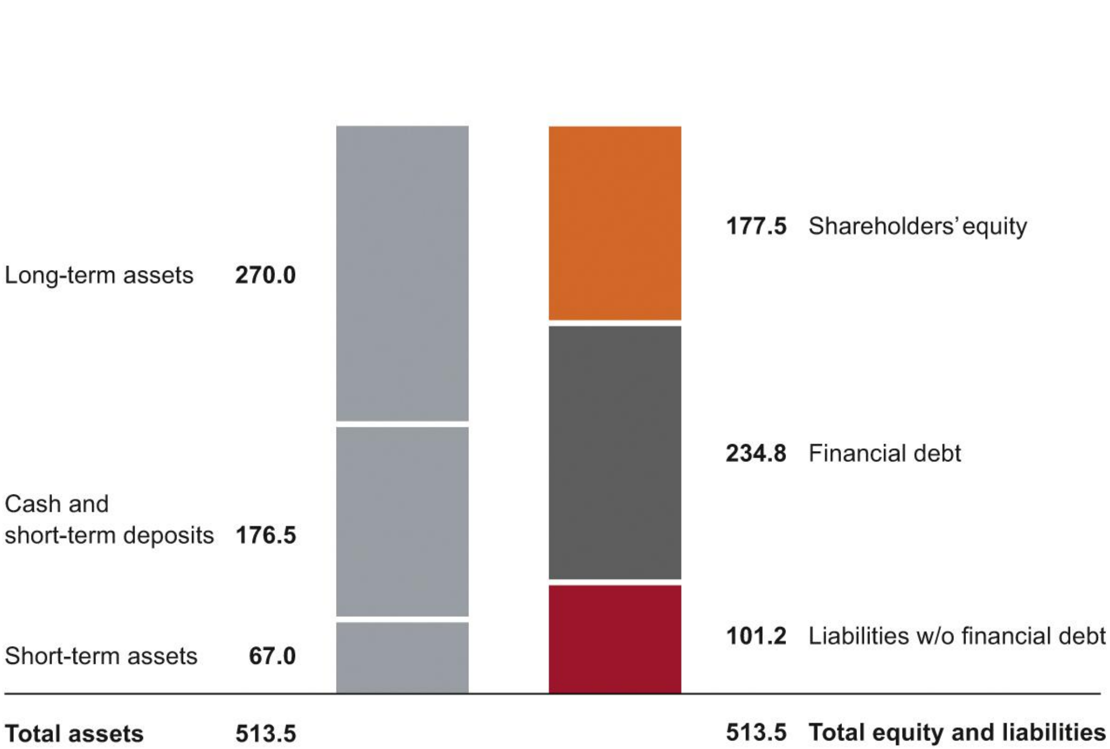
# MODERATE CAPEX HELPED TO EARN A SUSTAINABLE FREE CASH FLOW




- Free cash flow results from the change in net debt from operating business
- In Q2 2014, net debt increased by € 18.4 million because of two factors outside of operating business
  - Payment of the dividend (€ 12.4 million)
  - Redemption of factoring of the former INFO AG (€ 11.0 million)

# PROMISSORY NOTE LOAN HAS CHANGED STRUCTURE OF THE BALANCE SHEET

CONSOLIDATED BALANCE SHEET AS OF JUNE 30, 2014 (in € million)




- In May 2014, QSC signed a promissory note loan to optimize debt structure:
  - Amount: € 150 million
  - Term: 5–7 years
- Promissory note loan led to an increase in financial debts and liquidity
- QSC has used parts of cash inflow to redeem factoring of former INFO AG
- In August 2014, QSC will pay back parts of the existing syndicated loan

# QSC IS FINANCED SOLIDLY AND WILL WORK ON IMPROVING ITS PROFITABILITY IN H2 2014 AND BEYOND

- Thanks to the promissory note loan, QSC is now able to
  - implement its growth strategy
  - finance further investments in future growth
  - acquire additional smaller ICT players
- After an unsatisfying Q2 2014, QSC has started several initiatives to raise profitability
- Better revenue mix and higher revenues with high-margin ICT products will help to increase profitability in H2 2014 disproportionately

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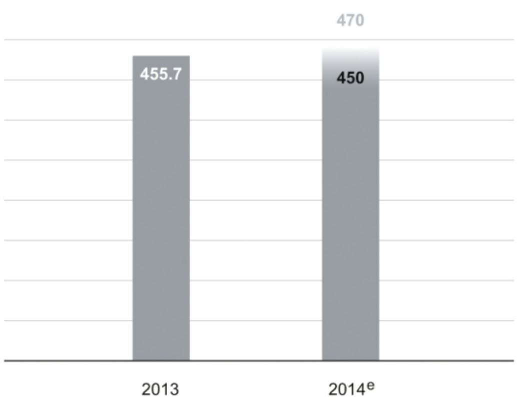
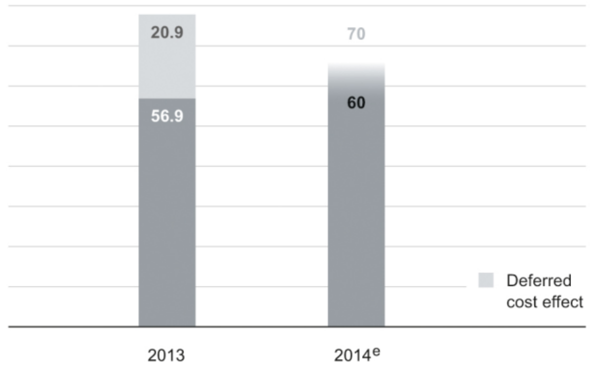
# QSC NARROWS GUIDANCE FOR 2014

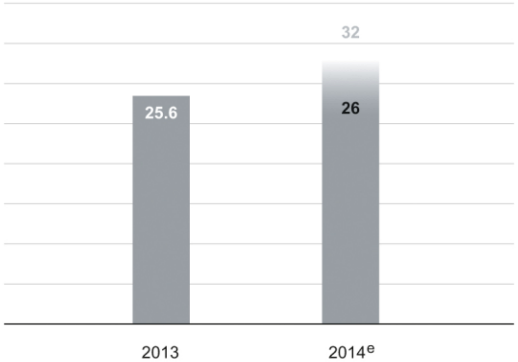
REVENUES (in € million)




EBITDA (in € million)




FREE CASH FLOW (in € million)




- QSC expects a stronger H2 2014 due to
  - launch of innovative products
  - higher IT Consulting revenues
- QSC aims to pay a dividend of minimum € 0.10 per share for fiscal 2014

# HOW QSC WILL REACT TO UNSATISFYING Q2 2014

- **Increase in Direct Sales** in H2 2014, especially through growth in project business and sales push in IT Consulting
- **Focus on efficiency** supported by the start of the “Clarity” program and reallocating instead of recruiting ICT experts
- **Big step forward in revenue generation** in ICT and Cloud business after the summer break
- **Acquisition of additional companies** (start-ups as well as more established ICT players)
- **No change in strategy**: QSC is well-positioned and financed to execute its mid-term growth strategy

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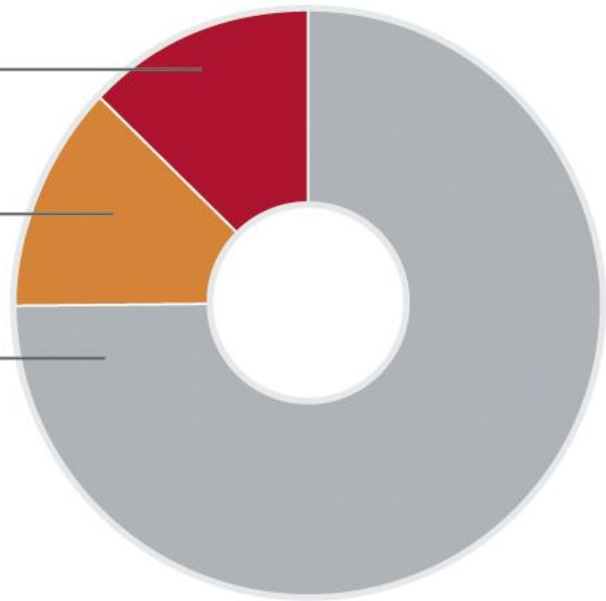
# SHAREHOLDER STRUCTURE AFTER THE TWO FOUNDERS HAVE BOUGHT ADDITIONAL SHARES

## SHAREHOLDER STRUCTURE

12.55 % Gerd Eickers[1]

12.50 % Dr. Bernd Schlobohm[2]

74.95 % Free float



[1] Founder and Member of the Supervisory Board
[2] Founder and Chairman of the Supervisory Board

As of July 31, 2014

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paulrobertlloyd.com/2009/06/social_media_icons

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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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