QSC AG

Company Presentation

Results Q3 2014

Cologne, November 10, 2014

AGENDA

1. **Financial Analysis**

2. Strategic Outlook

3. Questions & Answers

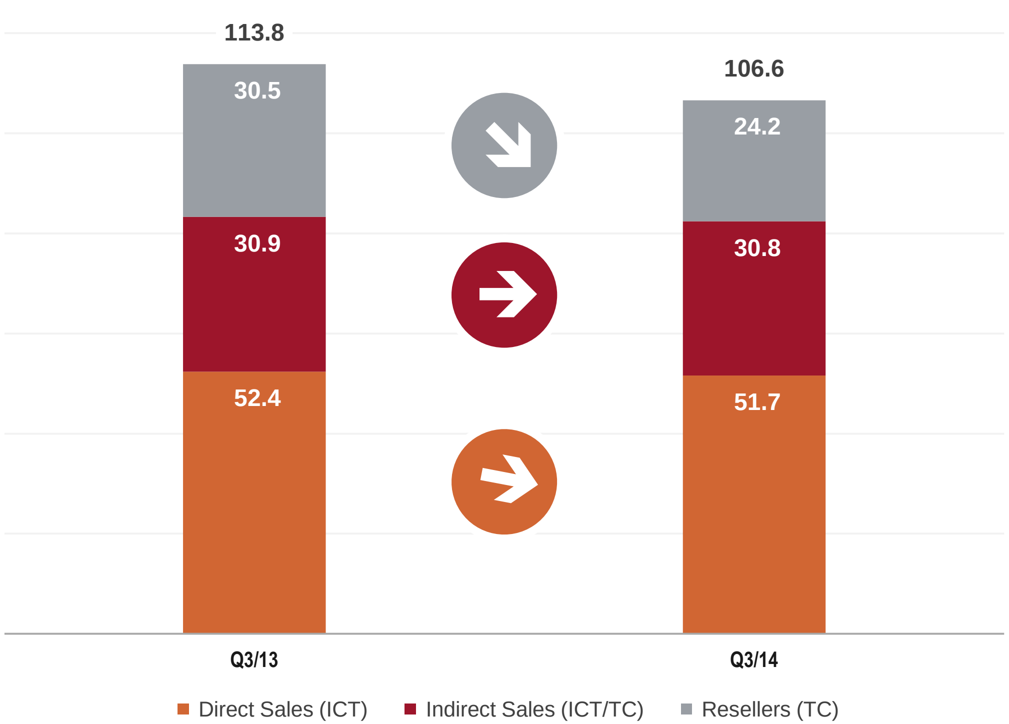
Q3 2014 HAS NOT MET EXPECTATIONS

In € million	Q3 2013	Q3 2014
Revenues	113.8	106.6
Cost of revenues(1)	75.9	80.5
Gross profit	*+37.9*	*+26.1*
Other operating expenses(1)	18.5	17.3
EBITDA profit	*+19.4*	*+8.8*
Depreciation	13.8	12.7
EBIT profit	*+5.5*	*-3.9*
Financial results	-0.9	-1.7
Income taxes	+0.1	-0.6
Net profit	*+4.7*	*-6.2*

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

REASON 1: REVENUES WERE TOO LOW

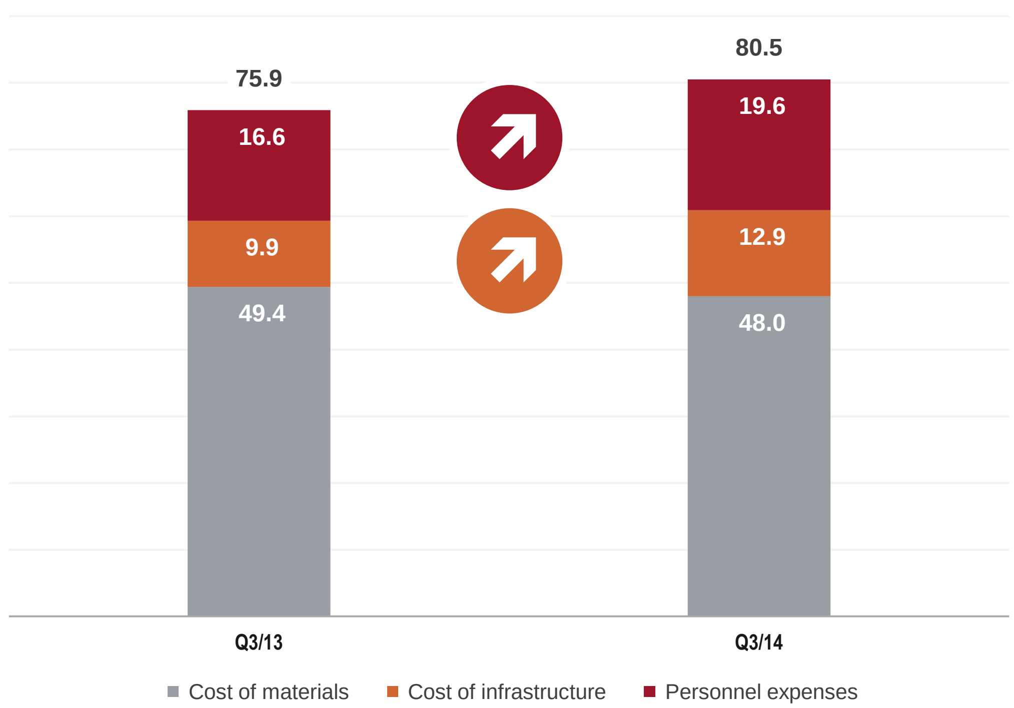
REVENUE MIX (in € million)



- Sharpest decline in **Resellers** since Q1 2013
- Steady development in **Indirect Sales**, but only small impact of new ICT products
- **Direct Sales** did not profit from large orders and revenue mix was unfavorable (higher percentage of low-margin hardware sales)

REASON 2: COST OF REVENUES DO NOT REFLECT REVENUE DEVELOPMENT

COST OF REVENUES (in € million)



- **Direct Sales** in particular has invested in growth and **added ICT experts** in 2013/2014

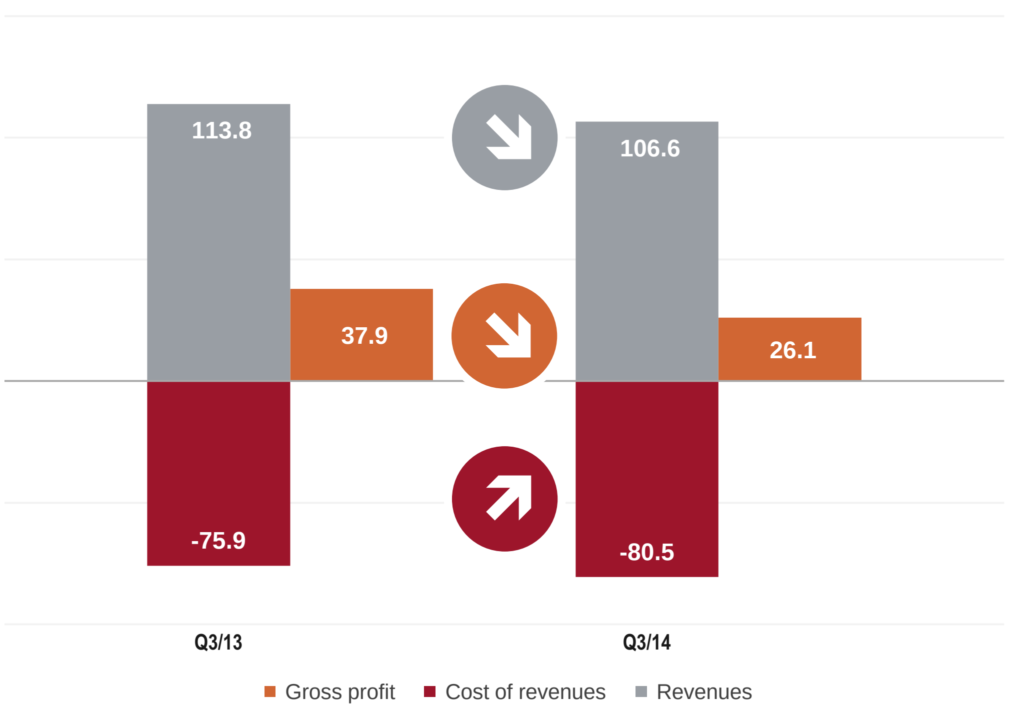
  => rise of personnel expenses

- QSC does not benefit anymore from the **deferred cost effect**

  => rise of costs of infrastructure

THE RESULT: A HUGE DECLINE IN GROSS PROFIT

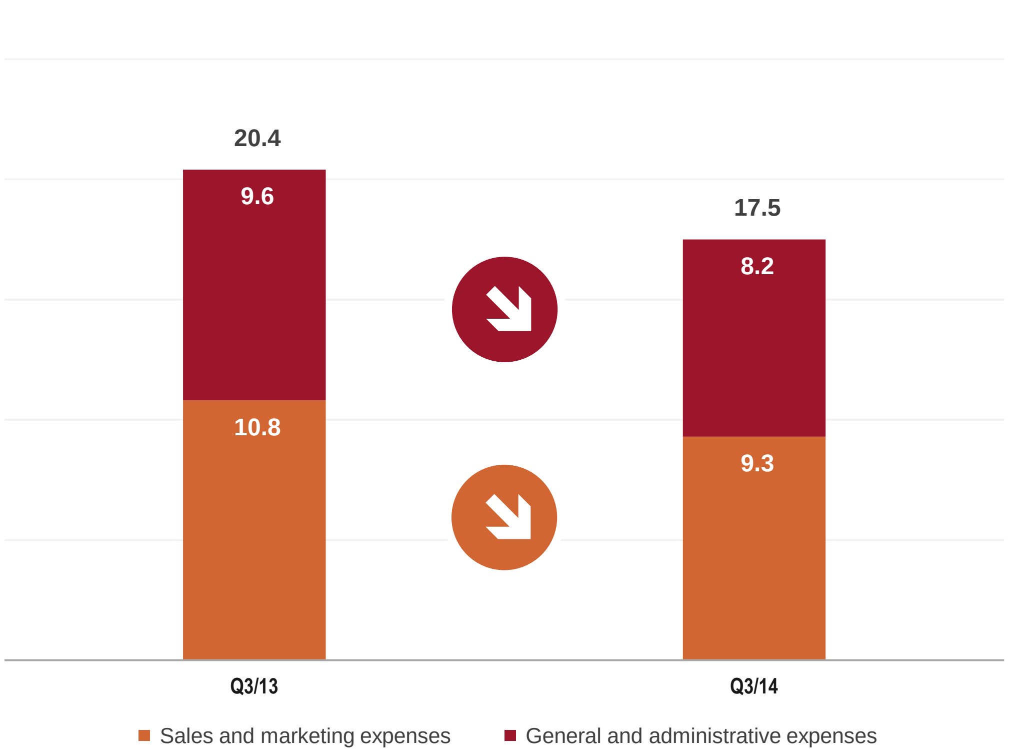
GROSS PROFIT (in € million)



- **Revenues** declined y-o-y by € 7.2 million
- **Cost of revenues** rose at the same time by € 4.6 million
- **Gross profit** decreased by € 11.8 million

LOWER GROSS PROFIT WAS PARTLY COMPENSATED BY LOWER SG&A COSTS

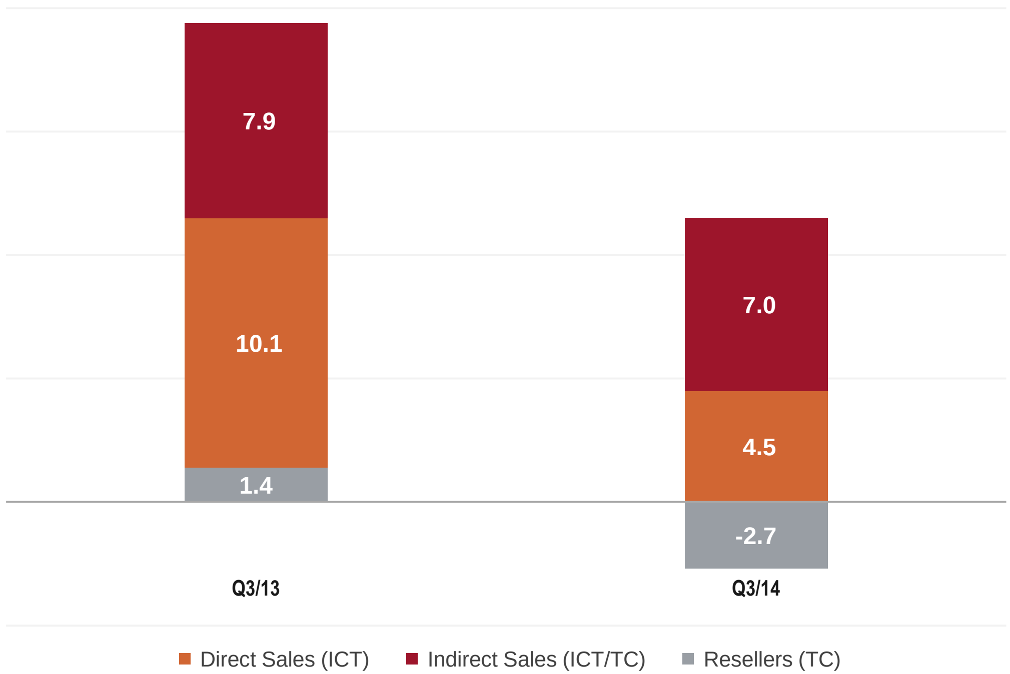
SG&A (in € million)



- **Sales and marketing expenses:** lower commissions for sales partners
- **General and administrative expenses:** positive effect of INFO AG merger

HIGHER COST OF REVENUES STRAINED DIRECT SALES, IN PARTICULAR

EBITDA MIX (in € million)



Indirect Sales
(EBITDA margin: 23%)
benefited from high-margin business with IP-based voice and data products

Direct Sales
(EBITDA margin: 9%)
suffered mainly from 3 developments:
- higher personnel expenses
- large amount of low-margin hardware revenues
- margin squeeze in IT Outsourcing

Resellers
(EBITDA margin: -11%)
still cover 39% of QSC's overall network costs

CONCLUSION: QSC HAS TO GENERATE HIGHER REVENUES TO JUSTIFY EXISTING COST BASE

- In Q2 and Q3 2014, revenues were below expectations
- In 2013, QSC invested in future growth and especially in additional manpower to cope with the planned revenue growth
- After a weak Q2 2014, QSC took the first measures:
  - Hiring freeze
  - Rebalancing the workload between internal and external experts
  - Sales push in Direct Sales

⇒ QSC will now step up its efforts to regain customary profitability

AFTER TWO QUARTERS BELOW EXPECTATIONS, QSC HAS TO ADJUST GUIDANCE FOR 2014

QSC now anticipates:

- Revenues of at least € 430 million
- EBITDA of at least € 40 million
- Free cash flow of at least € 6 million or, including a one-off working capital effect, of not more than € -12 million
- Dividend guidance confirmed: at least € 0.10 per share

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AT A GLANCE: MAIN CHALLENGES IN 2014 SO FAR

- **Progress in marketing innovations is too slow**
- **Revenues are too low,** especially in two areas
  - New ICT products
  - Direct Sales
- **Margin pressure in several areas**
  - Legacy TC business
  - IT Outsourcing

⇒ These challenges prevented QSC from reaching its ambitious goals

HOW QSC AIMS TO MASTER THE CHALLENGES: 5 KEY TOPICS

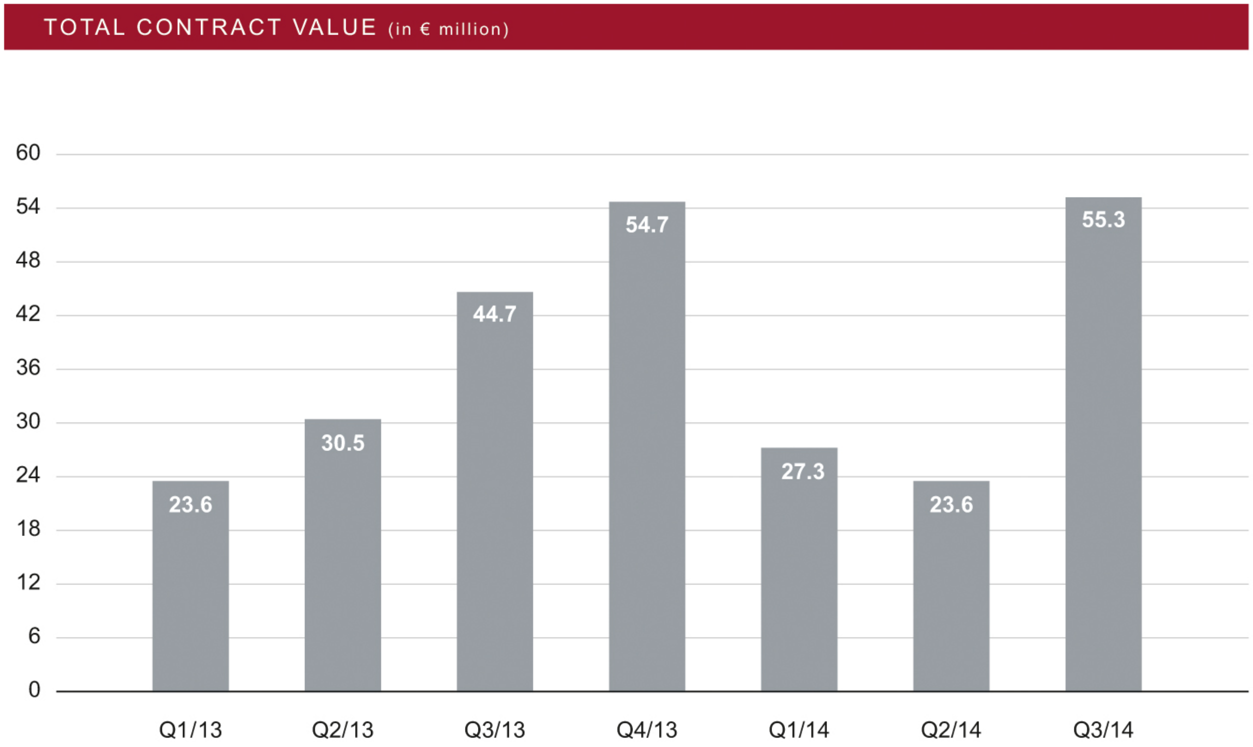
Growth	• New sales channels for new ICT products • Sales push in Direct Sales
Savings	• Streamlining the organization • Action plan to regain profitability
Acquisitions	• Acquisitions to strengthen innovation activities and core business

A SALES PUSH FOR NEW ICT PRODUCTS

- **3 challenges hinder marketing of new ICT products**
  - Traditional sales channels do not meet expectations
  - Addressing SOHOs and Resellers with regard to Cloud products
  - Mid-size companies hesitant about entering the Cloud era

- **1st response:** establishment of dedicated sales capacities for new ICT products
  - Direct Sales reps
  - Telesales
- **2nd response**: enhancement of Online marketing and cooperations with large resellers
- **3rd response:** onboarding teams for the Cloud era

SALES PUSH IN DIRECT SALES HAS ALREADY LED TO AN UPSWING IN TCV



- **Upswing is driven by existing customers** such as BEB Erdgas and Errol: early extension of framework agreement for a further 48 months
- **New biz: Dussmann Group** has contracted QSC to introduce SAP HCM human resources solution

STREAMLINING THE ORGANIZATION: THE “CLARITY“ PROJECT

- In summer 2014, QSC started a program to raise efficiency
- Main topics
  - Rebalancing the workload between internal and external experts
  - Optimizing the pool of suppliers and the purchasing processes (supplier management)
  - Raising the efficiency of internal processes and structures
- QSC will now extend this program and expects visible progress during the course of 2015

NEXT STEP:
AN ACTION PLAN TO REGAIN PROFITABILITY

- November/December 2014: comprehensive status quo analysis
  - All cost positions are being scrutinized
  - Mid-term program to industrialize IT operations
  - Analysis of outsourcing opportunities to improve cost structure
- End of January 2015: integration into guidance and presentation

ACQUISITIONS: TWO FOCUS AREAS

- QSC is well financed to acquire 1-2 further companies to
  - strengthen core business and to realize economies of scale
  - support innovation progress
- Opportunities in core business
  - High margins in Indirect Sales underline potential of IP-based TC business
  - Strengthening of Consulting business to be competitive for larger projects and to staff these projects with internal capacities
- Opportunities in new business
  - QSC is positioned as a full-service ICT provider for the Cloud era
  - Start-ups and established players can help to extend the portfolio

SUMMARY: IN THE COMING MONTHS, QSC IS SETTING THE COURSE TO REGAIN ITS STRENGTH

- Course of business in 2014 has been disappointing so far
- QSC made mistakes and learned its lessons
- Comprehensive action taken in the areas of growth and efficiency
- Acquisitions can support and accelerate the change
- There is no doubt concerning the growth opportunities of the Cloud market and of QSC

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