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CompuGroup Medical AG

# Financial Report

## 1 January - 31 December 2013

*- preliminary and unaudited -*



Synchronizing Healthcare



**CompuGroup  
Medical**

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- 1 Key Events
- 1 Financial Review
- 4 Outlook
- 6 Income Statement
- 7 Statement of Financial Position

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The preliminary results are based on unaudited financial information and on preliminary information reviewed by the management to date. These results remain subject to the completion of the CompuGroup Medical accounting closing process, and approval by the Supervisory Board. The company will provide its audited fourth quarter and full year 2013 results on Thursday, 27 March 2014.

## KEY EVENTS

- + Solid finish to 2013
- + Fourth quarter revenue of EUR 125.6 million, an increase of 6 percent compared to the same period in 2012
- + Operating profit (EBITDA) of EUR 27.9 million, an increase of 14 percent compared to the same period in 2012
- + Fourth quarter operating margin of 22 percent, up from 21 percent last year
- + Full year revenue of EUR 460.0 million and EBITDA of EUR 97.3 million, corresponding to 2 percent growth and 21 percent operating margin
- + CompuGroup Medical offers the following guidance for 2014:
  - + Group revenue is expected to be in the range of EUR 505 million to EUR 515 million
  - + Group operating income (EBITDA) is expected to be in the range of EUR 100 million to EUR 110 million

## FINANCIAL REVIEW

### Revenue

Revenue in the fourth quarter of 2013 was EUR 125.6 million compared to EUR 118.9 million in the same period in 2012. This represents an increase of 6 percent, all of which is growth from acquisitions. The strong EURO in the fourth quarter reduced revenue with EUR 1.6 million compared to last year and organic growth in constant exchange rates was 1 percent.

In the HPS I segment, revenue was EUR 85.5 million compared to EUR 78.4 million in 2012. This corresponds to 9 percent growth. Acquisitions give a 6 percent contribution to growth and organic growth was 3 percent (4 percent at constant exchange rates). Ambulatory Information Systems grew organically with 1 percent, from EUR 65.8 million in 2012 to EUR 66.3 million in 2013. Adjusted for changes in exchange rates, the organic growth was 3 percent. Similar to the first nine months of 2013, it was a relatively weak quarter in the US with revenue of EUR 8.3 million (USD 11.5 million), down from EUR 10.6 million (USD 13.6 million) in the fourth quarter of 2012. The European AIS business had a good quarter with 7 percent organic growth at constant exchange rates.

Fourth quarter revenue in Pharmacy Information Systems (PCS) was EUR 19.1 million compared to EUR 12.6 million in 2012. This represents 52 percent growth, of which 33 percent comes from acquisitions and 15 percent is organic growth. This is a strong finish to the year which shows the effects of a successful EXPOPHARM trade fair in September and the successful launch of new products and services such as the WINAPO® Prescription Scanner and WINAPO® tv to the market.

### HPS I revenue development (including acquisitions and currency effects):

EUR m	01.10-31.12 2013	01.10-31.12 2012	Change	01.01-31.12 2013	01.01-31.12 2012	Change
Ambulatory Information Systems	66.3	65.8	1%	259.1	251.8	3%
Pharmacy Information Systems	19.1	12.6	52%	61.4	53.0	16%
<b>SUM</b>	<b>85.5</b>	<b>78.4</b>	<b>9%</b>	<b>320.4</b>	<b>304.8</b>	<b>5%</b>

In the HPS II segment, the year-on-year contraction in Hospital Information Systems (HIS) was 6 percent going from the fourth quarter 2012 to 2013. Even if the finish to the year was relatively weak compared to last year, it has been a decent year for the hospital business in a relatively slow market for add-on projects for existing customers and new clients.

### HPS II revenue development (including acquisitions and currency effects):

EUR m	01.10-31.12 2013	01.10-31.12 2012	Change	01.01-31.12 2013	01.01-31.12 2012	Change
Hospital Information Systems	23.1	24.5	-6%	81.2	81.2	0%
<b>SUM</b>	<b>23.1</b>	<b>24.5</b>	<b>-6%</b>	<b>81.2</b>	<b>81.2</b>	<b>0%</b>

## Financial Review Continued

In the HCS segment, revenue was EUR 16.9 million compared to EUR 16.6 million in the fourth quarter of 2012. Revenue in Communication & Data remained stable at EUR 7.7 million, lifted by the first time consolidation of revenue from Perikles 20124 Vermögensverwaltung, which has been allocated to this segment. Without this acquisition, the fourth quarter Communication & Data revenue was EUR 5.9 million and organic contraction of -24 percent which is consistent with the development in the first nine months of the year. Workflow & Decision Support is showing a positive development with 4 percent organic growth in the fourth quarter. The business volume in Internet Service Provider remained stable with revenue of EUR 2.6 million.

### HCS revenue development (including acquisitions and currency effects):

EUR m	01.10-31.12 2013	01.10-31.12 2012	Change	01.01-31.12 2013	01.01-31.12 2012	Change
Communication & Data	7.7	7.7	0%	23.1	29.3	-21%
Workflow & Decision Support	6.6	6.3	4%	24.6	24.9	-1%
Internet Service Provider	2.6	2.6	0%	10.5	10.2	3%
<b>SUM</b>	<b>16.9</b>	<b>16.6</b>	<b>2%</b>	<b>58.2</b>	<b>64.4</b>	<b>-10%</b>

### Profit

Consolidated EBITDA amounted to EUR 27.9 million compared to EUR 24.5 million in the fourth quarter of 2012. This represents an increase of 14 percent. The corresponding fourth quarter operating margin went from 21 percent in 2012 to 22 percent in 2013.

The financial result in the fourth quarter is heavily influenced by the strengthening of the EURO, which leads to non-cash translation losses on group-internal debt totaling EUR 6.0 million. With a provisional tax calculation, the estimated fourth quarter net income was EUR 3,9 million, up from EUR 1.9 million in 2012. The estimated fourth quarter 2013 cash net income amounts to EUR 12.7 million and cash net income per share of EUR 0.26.

### Other events in the quarter

In December, CompuGroup Medical won the tender advertised by the Society for Telematic Applications for the German Health Card (gematik) in a consortium with Booz & Company and KoCo Connector. The tender is for the online rollout of the first level testing for the telematic infrastructure in one of two test regions in Germany. CGM's share of the tender's contract value is approximately 20 million Euros with all material deliveries in 2014 and 2015.

The tender is for the development, construction, operation and provision all components and services (e.g. connector, card terminal & VPN access service) necessary for the connection to the telematic infrastructure for all participating medical professionals (e.g. doctors, dentists, psychotherapists, hospitals). The term „Telematik“ (telematics) is a combination of the German words „Telekommunikation“ (telecommunications) and „Informatik“ (information technology). Telematics is concerned with networking the IT systems of doctor's practices, pharmacies, hospitals and health insurances, thus achieving a cross-sector information exchange. It is a closed network only accessible to those holding a healthcare professional card or a healthcare card.

The telematic infrastructure is designed in such a way that the existing informational limitations of the healthcare sector will be overcome. Medical confidentiality and the right to informational self-determination shall remain intact. The nationwide roll out for this infrastructure is scheduled to commence after thorough testing and a comprehensive evaluation, both of which should be completed in 2016. It will be designed and implemented by gematik, an organization which was founded by the leading health care provider associations as well as the health insurances of the German healthcare sector.

With a successful project, the real upside comes with the full rollout (est. begin 2016) with the opportunity for CGM to sell new eGK-compliant online access products to all existing customers in Germany: ~44,200 doctors offices (69,400 doctors), ~15,000 dentists offices (19,800 dentists), ~4,000 pharmacies (8,000 pharmacists), ~100 hospitals, ~300 rehabilitation centers and ~550 social care institutions. Even more important; the Telematik Infrastructure fits perfectly with CGM's strategy to provide more products and services to its customers, such as eServices, ePrescriptions, eLabOrder, physician networks, online clinical pathways, hosting services etc.

Also in December, a further 12.5 percent of the shares in Lauer-Fischer GmbH were acquired for a cash consideration of EUR 10 million. This transaction leads to a commensurate reduction in purchase price liabilities. After the transaction, CompuGroup Medical owns 100 percent of the shares in Lauer-Fischer. Also in December, a pre-payment for the acquisition of Imagine Group was made with a cash amount of EUR 18 million and the transfer of 105,208 own shares. The acquisition of Imagine Group was completed 16 January 2014.

### **Full year 2013**

In summary, 2013 was a year with two distinct halves: a relatively weak first six months followed by a strong second half and finish to the year. In terms of segments and geographical markets, it was also a mixed picture with good organic growth and strong development in the high margin European AIS business, a solid year in the HIS business, but weakness in the US and lower than expected revenue in the Communication & Data segment.

Consolidated revenue in 2013 was EUR 460.0 million compared to EUR 450.6 million in 2012. This represents an increase of EUR 9.5 million and 2 percent respectively. The growth is driven by acquisitions and there was no material organic growth in 2013.

Consolidated EBITDA in 2013 amounted to EUR 97.3 million compared to EUR 104.8 million in 2012. This represents a decrease of EUR 7.5 million and 7 percent respectively. The corresponding operating margin was 21 percent compared to 23 percent in 2012.

The revenue and EBITDA figures for 2013 are according to the revised outlook presented in August 2013.

## OUTLOOK

The business model of CompuGroup Medical, with a large installed base of loyal customers, gives a relatively high degree of visibility for future revenue and earnings. The primary source of revenue is annual software maintenance and other recurring service fees from existing customers, which amounts to EUR 336 million at the beginning of 2014, compared to EUR 308 million at the beginning of 2013. This corresponds to a 9 percent increase.

Total Group revenue in 2014 is expected to be in the range of EUR 505 million to EUR 515 million, corresponding to a growth rate of 10-12 percent. Acquisitions completed to date are expected to give a 7 percent growth contribution and organic growth is expected to be 3-5 percent.

Revenue in Ambulatory Information Systems, including the first time consolidation of revenue from the vision4health, Imagine Group, Tekne and Neurone acquisitions, is expected to be in the range of EUR 294 million to EUR 300 million in 2014. Organic growth in Europe is expected to be 6-9 percent, driven by new value-added products and services sold to existing customers and the Telematik Infrastruktur project in Germany. In the United States, a flat year-on-year revenue development is expected due to a transition to a more subscription based business model and the ending of some legacy product lines. In Pharmacy Information Systems, organic growth is expected to be 2-4 percent. Including the first time consolidation of the Studiofarma and Qualità in Farmacia acquisitions, total revenue is expected to be in the range of EUR 73 million to EUR 74 million in 2014.

Revenue in Hospital Information Systems is expected to be in the range of EUR 80 million to EUR 82 million, corresponding to a flat year-on-year development. The slowly growing market for add-on projects for existing customers and new clients experienced during 2013 is expected to continue also in 2014.

Within Communication & Data, revenue contraction as experienced over the last 5 years is expected to continue also in 2014, this year at around 10 percent, and expected Communication & Data revenue of approximately EUR 21 million in 2014. Declining revenue in Communication & Data comes both from regulatory pressure and changing priorities within pharmaceutical producers which is the main customer group. The positive developments experienced in Workflow & Decision Support towards the end of 2013 are expected to continue in 2014 and this business area is expected to grow organically about 8-10 percent with revenue in the range of EUR 26 million to EUR 27 million in 2014. Internet Service Provider revenue is expected to grow organically at around 4-6 percent with revenue reaching approximately EUR 11 million in 2014.

In terms of profitability, 2014 is expected to be a year of investment with no margin expansion relative to 2013. Operating margin (EBITDA margin) is expected to be in the range of 20-21 percent and will be influenced by:

- + Integration of several newly acquired companies which also may incur certain one-off restructuring expenses. Such potential charges give a wider range of profit outcomes in 2014 relative to a more normal year
- + Investments in product and service line expansion related to the Telematik Infrastruktur project in Germany. Making this project a success is critical for the future growth prospects of CGM and the company will invest what it takes to ensure a successful outcome of this transformational initiative
- + Continued high R&D investments in the G3 HIS 'fast-track' and G3 AIS projects. Completing the first R&D cycle and bringing this Group-wide technology platform to the market during 2014 is a key foundation for growth and efficient operating structures in the future
- + Continued investments in product and service improvements, sales and marketing in the United States. No material operating profit is expected from this market in 2014 and any further progress on revenue will be re-invested in growth initiatives
- + Direct expenses related to the roll-out of a single group-wide fully standardized ERP, CRM and CPM system. This solution will greatly increase group-wide transparency and control and enhance the ability to standardize workflows and performance management across the group in the future

Depreciation of fixed assets is on Group level expected to be approximately EUR 8 million in 2014 and amortization of intangible assets is expected to be approximately EUR 34 million, of which EUR 30 million will come from amortization of purchase price allocations related to past acquisitions. The corresponding Group earnings before interest and tax (EBIT) is in 2014 expected to be in the range of EUR 58 million to EUR 68 million.

**Overall assessment (guidance)**

In summary, CompuGroup Medical offers the following guidance for 2014:

- + Group revenue is expected to be in the range of EUR 505 million to EUR 515 million.
- + Group operating income (EBITDA) is expected to be in the range of EUR 100 million to EUR 110 million.

The foregoing guidance does not include revenue and costs associated with potential and currently undetermined further acquisitions during 2014.

The outlook for 2014 represents management's best estimate of the market conditions that will exist in 2014 and how the business segments of CompuGroup Medical will perform in this environment.

## PRELIMINARY INCOME STATEMENT

as at 31 December 2013

	01.10-31.12 2013 EUR '000	01.10-31.12 2012 EUR '000	01.01-31.12 2013 EUR '000	01.01-31.12 2012 EUR '000
Sales revenue	125,560	118,931	460,036	450,582
Other operating expenses	-97,702	-94,423	-362,728	-345,755
Earnings before interest, taxes, depr. and amortization (EBITDA)	27,858	24,508	97,308	104,827
Amortization of intangible assets, depreciation on property, plant and equipment	-12,003	-11,741	-41,053	-40,799
Earnings before interest and taxes (EBIT)	15,855	12,767	56,255	64,028
Net financial result	-9,584	-4,192	-24,129	-15,781
Earnings before taxes (EBT)	6,271	8,575	32,126	48,247
Taxes on income for the period **	-2,353	-6,644	-11,454	-17,951
Consolidated net income for the period **	3,918	1,931	20,672	30,296
Earnings per share **				
undiluted (EUR) **	0.08	0.04	0.43	0.61
diluted (EUR) **	0.08	0.04	0.43	0.61
Cash net income (EUR)* / **	12,743	10,398	50,642	59,960
Cash net income per share (EUR)* / **	0.26	0.20	1.02	1.20

\* Cash net income: net income before minority interests plus amortization on intangible assets except amortization on in-house capitalized software.

\*\* All values for 2013 are based on a provisional tax calculation. Actual tax rates are subject to change.



## PRELIMINARY STATEMENT OF FINANCIAL POSITION

for the reporting period of 1 January - 31 December 2013

### ASSETS

	31.12.2013 EUR '000	31.12.2012 EUR '000
<b>Non-current assets</b>		
Intangible assets	459,555	455,812
Tangible assets	62,251	60,196
Financial assets	767	774
Deferred taxes and other non-current assets	28,775	27,464
	<b>551,348</b>	<b>544,246</b>
<b>Current assets</b>		
Inventories	4,299	3,317
Other current assets	109,906	84,603
Securities (recognized as profit of loss at fair value)	167	165
Cash and cash equivalents	23,267	18,953
	<b>137,639</b>	<b>107,038</b>
<b>Non-current assets qualified as held for sale</b>	<b>0</b>	<b>0</b>
	<b>688,987</b>	<b>651,284</b>

### SHAREHOLDER EQUITY AND LIABILITIES

	31.12.2013 EUR '000	31.12.2012 EUR '000
<b>Shareholder equity</b>		
Subscribed capital	53,219	53,219
Treasury shares	-18,903	-20,903
Other Equity	150,555	147,091
	<b>184,871</b>	<b>179,407</b>
<b>Long-term liabilities</b>		
Pension provision	10,147	10,880
Liabilities to banks	277,951	222,733
Purchase price liabilities	3,575	602
Deferred taxes and other long-term liabilities	60,721	64,154
	<b>352,394</b>	<b>298,369</b>
<b>Current liabilities</b>		
Liabilities to banks	43,644	46,580
Purchase price liabilities	8,673	29,038
Other current liabilities	99,405	97,890
	<b>151,722</b>	<b>173,508</b>
<b>Liabilities associated directly with non-current assets qualified as held for sale</b>	<b>0</b>	<b>0</b>
	<b>688,987</b>	<b>651,284</b>

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