

CompuGroup Medical SE

Financial Report

1 January – 31 December 2017

- preliminary and unaudited -



Synchronizing Healthcare



CompuGroup
Medical

+++++

| | |
|---|---------------------------------|
| 1 | Key Events and Guidance |
| 1 | Financial Review |
| 4 | Outlook |
| 5 | Income Statement |
| 6 | Statement of Financial Position |

+++++

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 2017 results on Thursday, 29 March 2018.

KEY EVENTS AND GUIDANCE

- + Fourth quarter revenue of EUR 163.6 million, which corresponds to an organic growth rate of 6 percent.
- + Operating profit (EBITDA) of EUR 37.0 million and 23 percent operating margin.
- + Full year revenue of EUR 582.2 million and EBITDA of EUR 128.6 million, corresponding to 22 percent operating margin.
- + Positive start of the roll-out of the Telematics Infrastructure in Germany with 12,000 orders received in 2017 and 4,700 installations successfully performed in December
- + Non-cash effects from changes in currency exchange rates impacts financial result and cash net income
- + CompuGroup Medical gives the following guidance for 2018:
 - + Group revenue is expected to be in the range of EUR 700 million to EUR 730 million.
 - + Group operating income (EBITDA) is expected to be in the range of EUR 175 million to EUR 190 million.

FINANCIAL REVIEW

Revenue

Group revenue in the fourth quarter of 2017 was EUR 163.6 million compared to EUR 153.7 million in the same period in 2016. This represents an increase of 6 percent, of which practically all is organic growth.

Revenue in Ambulatory Information Systems (AIS) grew 7 percent, of which 5 percent is organic growth. Growth in AIS is driven by the first revenue contributions from the roll-out of the Telematics Infrastructure in Germany whereas some previously recognized project revenue has been reversed following the early cancellation of the ORS-1 project.

In Pharmacy Information Systems, revenue grew 3 percent, of which practically all is organic growth. The organic growth is in line with previous quarters in 2017.

Hospital Information Systems finished the year strongly with 8 percent organic growth in the fourth quarter. For the full year 2017 the progress of the hospital business has been better than expected with 5 percent organic growth.

Communication & Data as well as Workflow & Decision Support finished the year strongly to bring revenue in line with the original full-year outlook. The lower Internet Service Provider revenue in 2017 is a result from less revenue recognized in the ORS-1 project in Germany. Outside this project, the development of the ISP business is normal.

Revenue development (including acquisitions and currency effects):

| EUR m | 01.10.-31.12. 2017 | 01.10.-31.12. 2016 | Change | 01.01.-31.12. 2017 | 01.01.-31.12. 2016 | Change |
|--------------------------------|-----------------------|-----------------------|-----------|-----------------------|-----------------------|-----------|
| Ambulatory Information Systems | 93.8 | 87.8 | 7% | 337.7 | 325.1 | 4% |
| Pharmacy Information Systems | 29.5 | 28.6 | 3% | 104.7 | 97.7 | 7% |
| Hospital Information Systems | 23.3 | 21.5 | 8% | 77.9 | 74.5 | 5% |
| Communication & Data | 7.5 | 7.0 | 7% | 23.0 | 22.3 | 3% |
| Workflow & Decision Support | 6.6 | 5.5 | 20% | 26.7 | 26.8 | 0% |
| Internet Service Provider | 2.8 | 3.1 | -9% | 12.2 | 13.7 | -11% |
| SUM | 163.6 | 153.6 | 6% | 582.2 | 560.1 | 4% |

Financial Review Continued

Profit

Consolidated EBITDA amounted to EUR 37.0 million compared to EUR 36.2 million in the fourth quarter of 2016. This represents an increase of 2 percent. The corresponding fourth quarter operating margin was 22.6 percent compared to 23.5 percent last year.

With a provisional tax calculation, the estimated fourth quarter net income was EUR 12.8 million which is at the same level as last year. The estimated fourth quarter 2017 cash net income amounts to EUR 19.5 million and cash net income per share of EUR 0.40.

Full year 2017

Consolidated revenue in 2017 was EUR 582.4 million compared to EUR 560.2 million in 2016. This represents an increase of EUR 22.2 million and 4 percent respectively. The organic growth was 3 percent in 2017.

Consolidated EBITDA in 2017 was EUR 128.6 million compared EUR 125.7 million in 2016. This represents an increase of 2 percent. The corresponding operating margin was 22.1 percent which is the same level as in 2016.

Net financial result decreased from EUR -6.2 million in 2016 to EUR -23.0 million this year due to changes in currency exchange rates which lead to large non-cash translation losses on Group internal debt.

Other events in the quarter

Testing of the Telematics Infrastructure in the Northwest region, Germany (ORS-1 project)

After the successful completion of the VSDM trials in July 2017, the project customer (gematik) announced the decision to prematurely terminate the project and not to continue with the planned testing of Qualified Electronic Signature (QES) and Electronic Communication between Healthcare Providers (KOM-LE). The support and service of the test and reference environment was commissioned until the end of 2018 but the option to run this for another two years was not used. As a result of this cancellation, the contract value was reduced from the initial EUR 31 million to EUR 26 million and correspondingly with lower costs for the remaining project period. The effects from these changes are fully reflected in the 2017 results. All new eHealth services will in the future be developed by the IT industry within the framework of an open market model where gematik is responsible for the approval of such services. The next eHealth services planned for the Telematics Infrastructure are QES, KOM-LE, Emergency Data Management (NFDm) and the Electronic Medication Plan (eMP).

The national roll-out of the Telematics Infrastructure

The construction of the VPN access service to connect customers to the Telematics Infrastructure in Germany was completed in October and received its accreditation from gematik in November. This service is offered from certified high security data centers at primary internet nodes in Frankfurt and Düsseldorf with more than 99.99% operational availability.

In November, CGM received all necessary approvals from gematik and was the first company able to offer the complete chain of required TI components and services to doctors and dentists in Germany. These components and services include the CGM primary software for physicians, dentists and hospitals, as well as the connector, the VPN access service and the stationary e-health card terminal. CGM has also trained and certified more than 500 specialists from CGM's sales and service partners for the installation work.

In December, the final component in the overall network design, the so-called practice or institutional card (Security Module Card Type B - SMC-B) for physicians was given the approval of the Federal Doctors Association (KBV) and gematik. The SMC-B is a SIM card that doctors need to order separately from a provider of their choice. With the SMC-B - comparable to a SIM card in a mobile phone - the practice can connect its TI components to the central network of the Telematics Infrastructure.

After fulfilling all requirements, CGM closed the year 2017 with around 12,000 orders for the TI connection package, of which around 4,700 were installed by 31 December 2017.

New segmentation

To better reflect the evolving portfolio of products and services in CGM, a change in segmentation has been made. Previous reporting segments HPS I, HPS II and HCS have been replaced by four new reporting segments as follows:

- + Ambulatory Information Systems (AIS), including the previous operating segment ISP. The AIS segment also includes TI revenue from doctors and dentists.
- + Pharmacy Information Systems (PCS), including TI revenue from pharmacies.
- + Hospital Information Systems (HIS), including TI revenue from hospitals and social institutions.
- + Health Connectivity Services (HCS), no longer divided into operating segments.

The 2017 Annual Report will include both old and new segment report.

OUTLOOK

The business model of CGM, 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, with an expected amount of EUR 410 million at the beginning of 2018, compared to EUR 392 million in 2017. This corresponds to a 4 percent increase. However, different to prior years, a larger and more dynamic component on top of the recurring revenue is expected in 2018 as a consequence of the further roll-out of the Telematics Infrastructure in Germany.

Total Group revenue is in 2018 expected to be in the range of EUR 700 million to EUR 730 million, corresponding to an organic growth rate of 20-25 percent. The following revenue details are based on the four new reporting segments:

- + AIS revenue is expected to be in the range of EUR 471 million to EUR 495 million including a growth contribution of approximately EUR 3 million from acquisitions. The corresponding growth rate is 34-41 percent, of which most all is organic growth. This outlook reflects all currently available information related to the further roll-out of the Telematics Infrastructure in Germany in 2018.
- + PCS revenue is expected to be in the range of EUR 106 million to EUR 108 million with only a minor growth contribution from acquisitions. This corresponds to an organic growth rate of 1-3 percent.
- + HIS revenue is expected to be in the range of EUR 74 million to EUR 76 million, which is a small contraction compared to last year. Some opportunities in 2017 will not repeat in 2018 and a change to customer contract structures will reduce pass-through revenue from 3rd party software with approximately EUR 3 million in 2018.
- + Revenue in the HCS segment is expected to be in the range of EUR 49 million to EUR 51 million in 2018, corresponding to a flat revenue development.

In terms of profitability, 2018 is expected to be a year of margin expansion relative to 2017. Operating margin (EBITDA margin) is expected to be in the range of 25-26 percent and the corresponding EBITDA is expected to be in the range of EUR 175 million to EUR 190 million.

Depreciation of fixed assets is on Group level expected to be approximately EUR 10 million in 2018 and amortization of intangible assets is expected to be approximately EUR 30 million, of which approximately EUR 24 million will come from amortization of purchase price allocations related to past acquisitions. The corresponding Group earnings before interest and tax (EBIT) is in 2018 expected to be in the range of EUR 135 million to EUR 150 million.

Overall assessment (guidance)

In summary, CompuGroup Medical gives the following guidance for 2018:

- + Group revenue is expected to be in the range of EUR 700 million to EUR 730 million.
- + Group operating income (EBITDA) is expected to be in the range of EUR 175 million to EUR 190 million.

The foregoing outlook is given as at February 2018 and does not include revenue and costs associated with potential and currently undetermined further acquisitions during 2018. The guidance for the 2018 financial year represents management's current best estimate of the market conditions that will exist in 2018 and how the business segments of CompuGroup Medical will perform in this environment.

PRELIMINARY INCOME STATEMENT

for the reporting period of 1 January - 31 December 2017

| | 01.10.-31.12. 2017 EUR '000 | 01.10.-31.12. 2016 EUR '000 | 01.01.-31.12. 2017 EUR '000 | 01.01.-31.12. 2016 EUR '000 |
|--|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Continuing operations | | | | |
| Sales revenue | 163,568 | 153,689 | 582,387 | 560,195 |
| Capitalized in-house services | 7,066 | 3,499 | 16,806 | 10,318 |
| Other income | 1,954 | 1,508 | 9,209 | 7,930 |
| Expenses for goods and services purchased | -35,513 | -31,109 | -108,255 | -104,361 |
| Personnel costs | -69,258 | -67,455 | -269,972 | -260,083 |
| Other expenses | -30,860 | -23,948 | -101,625 | -88,332 |
| Earnings before interest, taxes, depr. and amortization (EBITDA) | 36,957 | 36,184 | 128,550 | 125,667 |
| Depreciation of property, plants and tangible assets | -2,825 | -2,638 | -9,437 | -8,423 |
| Earnings before interest, taxes and amortization (EBITA) | 34,133 | 33,546 | 119,113 | 117,244 |
| Amortization of intangible assets | -8,635 | -9,813 | -30,029 | -35,400 |
| Earnings before interest and taxes (EBIT) | 25,498 | 23,733 | 89,084 | 81,844 |
| Results from associates recognized at equity | -491 | -741 | -1,200 | -1,409 |
| Financial income | 1,298 | 5,193 | 3,450 | 8,086 |
| Financial expenses | -8,747 | -3,296 | -26,453 | -14,308 |
| Earnings before taxes (EBT) | 17,557 | 24,888 | 64,881 | 74,213 |
| Income taxes for the period | -4,742 | -12,396 | -23,357 | -29,743 |
| Consolidated net income of the period | 12,815 | 12,493 | 41,524 | 44,470 |
| Discontinued operations | | | | |
| Result from Discontinued operations | | | -62 | |
| Consolidated net income of the period | 12,815 | 12,493 | 41,462 | 44,470 |
| of which: allocated to parent company | 13,021 | 12,483 | 41,283 | 44,530 |
| of which: allocated to minority interests | -206 | 10 | 179 | -60 |
| Earnings per share | | | | |
| undiluted (in EUR) | 0.26 | 0.26 | 0.83 | 0.90 |
| diluted (in EUR) | 0.26 | 0.26 | 0.83 | 0.90 |
| Further information of the company: | | | | |
| Cash net income (EUR) * | 19,541 | 22,249 | 67,991 | 76,698 |
| Cash net income * per share (EUR) | 0.40 | 0.44 | 1.37 | 1.54 |

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

PRELIMINARY STATEMENT OF FINANCIAL POSITION

as at 31 December 2017

ASSETS

| | 31.12.2017 EUR '000 | 31.12.2016 EUR '000 |
|---|------------------------|------------------------|
| Non-current assets | | |
| Intangible assets | 537,065 | 538,191 |
| Tangible assets | 82,589 | 73,851 |
| Financial assets | | |
| Investments in Associates and Joint Ventures | 11,199 | 4,580 |
| Other participations | 97 | 168 |
| Trade receivables | 13,156 | 12,162 |
| Other financial assets | 1,599 | 845 |
| Derivative financial instruments | 0 | 0 |
| Deferred taxes | 10,019 | 7,668 |
| | 655,724 | 637,465 |
| Current assets | | |
| Inventories | 10,726 | 5,271 |
| Trade receivables | 116,921 | 116,750 |
| Other financial assets | 2,108 | 1,837 |
| Other non-financial assets | 10,510 | 13,700 |
| Income tax claims | 6,470 | 3,904 |
| Securities (recognized as profit of loss at fair value) | 0 | 0 |
| Cash and cash equivalents | 30,514 | 27,756 |
| | 177,248 | 169,218 |
| Assets of disposal group classified as held for sale | 0 | 1,222 |
| | 832,972 | 807,905 |

SHAREHOLDER EQUITY AND LIABILITIES

| | 31.12.2017 EUR '000 | 31.12.2016 EUR '000 |
|---|------------------------|------------------------|
| Shareholder Equity | | |
| Subscribed capital | 53,219 | 53,219 |
| Treasury shares | -20,292 | -20,292 |
| Reserves | 210,609 | 184,903 |
| Capital and reserves allocated to the shareholder of the parent company | 243,536 | 217,830 |
| Minority interests | 1,002 | 823 |
| | 244,538 | 218,653 |
| Long-term liabilities | | |
| Provision for post-employment benefits and other non-current provisions | 25,412 | 23,936 |
| Liabilities to banks | 318,118 | 316,122 |
| Purchase price liabilities | 7,800 | 3,512 |
| Other financial liabilities | 8,786 | 12,468 |
| Other non-financial liabilities | 1,430 | 2,839 |
| Derivative financial instruments | 0 | 0 |
| Deferred taxes | 48,197 | 49,548 |
| | 409,744 | 408,425 |
| Current liabilities | | |
| Liabilities to banks | 34,251 | 42,073 |
| Trade payables | 39,826 | 31,381 |
| Income tax liabilities | 15,076 | 16,067 |
| Provisions | 33,310 | 29,795 |
| Purchase price liabilities | 8,611 | 10,535 |
| Derivative financial instruments | 0 | 0 |
| Other financial liabilities | 8,474 | 11,429 |
| Other non-financial liabilities | 39,143 | 39,547 |
| | 178,691 | 180,827 |
| Liabilities associated directly with non-current assets qualified as held for sale | 0 | 0 |
| | 832,972 | 807,905 |

CompuGroup Medical SE
Maria Trost 21
56070 Koblenz
Germany

Synchronizing Healthcare



**CompuGroup
Medical**