



CompuGroup Medical SE

*Financial Report
1 January – 31 December 2018
- preliminary and unaudited -*

Synchronizing Healthcare



**CompuGroup
Medical**

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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 2018 results on Friday, 29 March 2019.

Key events and guidance

- + Fourth quarter revenue of EUR 194 million, which corresponds to an organic growth rate of 18 percent.
- + Operating profit (EBITDA) of EUR 51 million and 26 percent operating margin.
- + Full year revenue of EUR 717 million and EBITDA of EUR 182 million, corresponding to 23 percent organic growth and 25 percent operating margin.
- + Successful year and clear Telematics Infrastructure market leader in Germany with accumulated 46,000 orders and 42,000 delivered installations by the end of 2018.
- + CGM gives the following guidance for 2019:
 - + Group revenue is expected to be in the range of EUR 720 million to EUR 750 million.
 - + Group operating income (EBITDA) is expected to be in the range of EUR 190 million to EUR 205 million. (including EUR 15 million effect from IFRS 16)

Financial review

REVENUE

Group revenue in the fourth quarter of 2018 was EUR 194.5 million compared to EUR 163.6 million in the same period in 2017. This represents an increase of 19 percent, of which 18 percent is organic growth.

Group sales for the full year 2018 amounted to EUR 716.7 million, compared to EUR 582.4 million in 2017. This corresponds to an increase of EUR 134.3 million and 23.3 percent. Acquisitions contributed EUR 4.7 million to revenue growth, while the weakening of non-EUR currencies reduced revenue by EUR -5.4 million year-on-year. Organic growth at constant exchange rates was 23.3 percent.

Ambulatory Information Systems (AIS)

In the 2017 Management Report, the expected 2018 full year AIS revenue was forecasted between EUR 453 million and EUR 477 million (including approximately EUR 3 million from acquisitions). The reported revenue outcome of EUR 461.9 million is within this range, reflecting strong growth and the successful first phase of the Telematics Infrastructure roll-out in Germany.

Pharmacy Information Systems (PCS)

In the 2017 Management Report, the expected 2018 full year PCS revenue was forecasted between EUR 107 million and EUR 109 million with only a minor growth contribution from acquisitions. The revenue outcome of EUR 113.0 million is above this range. An important driver behind the strong PCS growth has been tax incentives given to Italian pharmacies to invest in IT products and services during 2018.

Hospital Information Systems (HIS)

In the 2017 Management Report, the expected 2018 full year HIS revenue was forecasted between EUR 98 million and EUR 100 million. The revenue outcome of EUR 101.3 million is above this range with most markets delivering results above expectations. The hospital business is currently dominated by the activities in the DACH region with Germany, Austria and Switzerland currently making up over 70% of the revenue in the segment.

Health Connectivity Services (HCS)

In the 2017 Management Report, the expected 2018 full year Health Connectivity Services revenue was forecasted between EUR 42 million and EUR 44 million). The revenue outcome of EUR 40.4 million is below this range, mainly due to a negative currency effect of EUR -1.1 million and somewhat lower than expected sales to pharmaceutical companies.

Revenue development (including acquisitions and currency effects):

EUR Mio.	01.10.- 31.12.2018	01.10.- 31.12.2017	Change	01.01.- 31.12.2018	01.01.- 31.12.2017	Change
Ambulatory Information Systems	118.8	92.6	28%	461.9	334.1	38%
Pharmacy Information Systems	34.0	29.6	15%	113.0	104.8	8%
Hospital Information Systems	29.7	29.1	2%	101.3	100.8	0%
Health Connectivity Services	11.9	12.5	-4%	40.4	42.5	-5%
Other	0.0	-0.2		0.1	0.2	
SUM	194.4	163.6	19%	716.7	582.4	23%

Profit

Consolidated EBITDA amounted to EUR 51.4 million compared to EUR 36.9 million in the fourth quarter of 2017. This represents an increase of 39 percent. The corresponding fourth quarter operating margin was 26.4 percent compared to 22.5 percent last year.

With a provisional tax calculation, the estimated fourth quarter net income was EUR 25.3 million which is significantly above last year. The estimated fourth quarter 2018 cash net income amounts to EUR 31.3 million and cash net income per share of EUR 0.63.

Full year 2018

Consolidated revenue in 2018 was EUR 716.7 million compared to EUR 582.4 million in 2017. This represents an increase of EUR 134.3 million and 23.1 percent respectively. The organic growth at constant exchange rates was 23.3 percent in 2018.

Consolidated EBITDA in 2018 was EUR 182.3 million compared EUR 128.4 million in 2017. This represents an increase of EUR 53.9 million and 42 percent. The corresponding operating margin improved more than three percentage points to 25.4 percent.

Other events in the quarter

The national roll-out of the Telematics Infrastructure

In June 2018, the federal association of dental practitioners (KZBV), the federal association of practicing physicians (KBV), and the top association of the health insurance funds (GKV-Spitzenverband), agreed on an amendment to the existing financing agreements for the national roll-out with a more gradual decline to reimbursed amounts than what was previously agreed. Also in June, an accreditation was given to a second connector and the company behind (T-Systems) received approval for all components of the TI product chain and started shipping in early September 2018.

In October 2018, the German Ministry of Health confirmed its intention to change the deadline for financial sanctions towards doctors and dentists who have not connected to the TI and do not use master data management services (VSDM). The new deadline for installation and the start of VSDM was subsequently changed to 30.06.2019. It remains a requirement that the practice owners must have ordered a TI connection by 31.03.2019 and signed a contract by then.

In November 2018, other providers of TI components (Arvato / Secunet, RISE) also received the necessary certifications and began installations towards the end of 2018.

In summary, CGM remained the only approved supplier of TI connection packages throughout much of 2018. Sales and installation activities continued mostly according to plan, despite the changes made to financing, sanctions and deadlines, and as of 31 December 2018, CGM had accumulated approximately 46,000 orders for the CGM connection package, of which 42,000 were delivered. Out of the 46,000 orders, about 34,000 are from existing CGM primary software customers and 12,000 from the rest of the German market.

Broader distribution model in Germany

The sales and distribution of software and hardware products towards doctors and dentists in Germany, as well as the associated service and support, is today predominantly done through a network of sales and service partners. These sales and service partners are predominantly independent IT system houses that specialize in a product line from CGM and support and sell towards medical and dental practices in their regional environment.

CGM wants to integrate closer with these highly specialized partners and at the same time strengthen the distribution power for new products and services in Germany. This goal shall be reached by selectively taking equity participations in efficient sales and service partners and gradually build CGM's own direct nationwide sales and service network. In December 2018, CGM acquired 95 percent of the business of CoSi Medical IT GmbH (CoSi) through an asset deal. The company is headquartered in Sigmaringen and has a branch in Eching near Munich. Currently, around 1,000 medical practices are serviced in Baden-Württemberg and Bavaria. In addition, CGM increased its stake in Gotthardt Informationssysteme GmbH (GIS) from 28 percent to 100 percent in January 2019 by acquiring all remaining shares. GIS has several branch offices throughout Germany and serves over 6,000 physician practices.

Consolidation of Fablab S.r.l, Italy

In 2017, the merger of Intermedix Italia S.r.l. in Fablab S.r.l., both in Italy, resulted in a de-consolidation from the Group. Because of the lack of control on the closing date, Fablab was considered an associate and valued at equity. As of January 1, 2019, CGM has taken control of Fablab through a change in its governance structure, and the company will be consolidated in the Group as of January 1. Fablab provides communications and data services to pharmaceutical companies in Italy and is reported in the HCS segment.

The primary source of revenue is annual software maintenance and other recurring service fees from existing customers, with an expected amount of EUR 443 million at the beginning of 2019, compared to EUR 418 million in 2018. This corresponds to a 6 percent increase and subscriptions for the Telematics Infrastructure network connections have accelerated recurring revenue growth over the last two years. Similar to 2018, a larger and more dynamic component on top of the recurring revenue is expected also in 2019 as a consequence of the continuing Telematics Infrastructure roll-out.

Total Group revenue is in 2019 expected to be in the range of EUR 720 million to EUR 750 million, corresponding to an organic growth rate of 1-5 percent. The following revenue details are based on the four reporting segments:

- + AIS revenue is expected to be in the range of EUR 464 million to EUR 488 million including a growth contribution of approximately EUR 19 million from acquisitions. This represents a plus-minus flat organic revenue trend in 2019, coming from less expected revenue from the TI rollout, offset by normal organic growth in the rest of the business. This outlook reflects all currently available information and management's forecasts regarding speed of market penetration, market share developments and price evolution related to the further roll-out of the Telematics Infrastructure in Germany in 2019.
- + PCS revenue is expected to be in the range of EUR 109 million to EUR 111 million with only a minor growth contribution from acquisitions. This represents a slightly negative revenue trend in 2019 after the exceptional growth in 2018. Some 2018 opportunities, particularly tax incentives in Italy, will not be repeated in 2019.
- + HIS revenue is expected to be in the range of EUR 104 million to EUR 106 million including a growth contribution of approximately EUR 1 million from acquisitions. The corresponding organic growth rate is 2-4 percent.
- + Revenue in the HCS segment is expected to be in the range of EUR 43 million to EUR 45 million in 2019 including a growth contribution of approximately EUR 3 million from acquisitions. The corresponding organic growth rate is 0-3 percent.

In terms of profitability, the new accounting standard IFRS 16 (leases) is mandatory from January 1st 2019. Based on this new standard, all leases become a finance lease (right-of-use assets) and have to be recognized on-balance. For CGM, the P&L effect for 2019 is expected to be a decrease in operating costs (predominantly office buildings and car leases) by EUR 15 million and thereby an increase in EBITDA also by approximately EUR 15 million. Correspondingly, depreciation will increase with about EUR 14 million and interest expenses by approximately EUR 1 million and there will be no effect on net income. With these effects, operating margin (EBITDA margin) is in 2019 expected to be in the range of 26-27 percent and the corresponding EBITDA is expected to be in the range of EUR 190 million to EUR 205 million.

Depreciation of fixed assets is on Group level expected to be approximately EUR 26 million in 2018 (including the effects from IFRS 16) and amortization of intangible assets is expected to be approximately EUR 32 million, of which approximately EUR 26 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 132 million to EUR 147 million.

Overall assessment (guidance)

In summary, CompuGroup Medical gives the following guidance for 2019:

- + Group revenue is expected to be in the range of EUR 720 million to EUR 750 million.
- + Group operating income (EBITDA) is expected to be in the range of EUR 190 million to EUR 205 million.

The foregoing outlook is given as at February 2019 and does not include revenue and costs associated with potential and currently undetermined further acquisitions during 2019. The guidance for the 2019 financial year represents management's current best estimate of the market conditions that will exist in 2019 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 2018

EUR `000	01.10.- 31.12.2018	01.10.- 31.12.2017	01.01.- 31.12.2018	01.01.- 31.12.2017
Continuing operations				
Sales revenue	194,427	163,556	716,673	582,375
Capitalized in-house services	5,004	7,066	18,512	16,806
Other income	4,348	3,394	8,035	10,649
Expenses for goods and services purchased	-40,671	-34,407	-151,395	-107,149
Personnel costs	-75,801	-68,810	-287,211	-269,524
Other expenses	-35,919	-33,947	-122,273	-104,713
Earnings before interest, taxes, depr. and amortization (EBITDA)	51,390	36,851	182,340	128,444
Depreciation of property, plants and tangible assets	-3,146	-2,534	-11,510	-9,147
Earnings before interest, taxes and amortization (EBITA)	48,243	34,317	170,830	119,297
Amortization of intangible assets	-7,793	-7,834	-30,526	-29,228
Earnings before interest and taxes (EBIT)	40,450	26,483	140,304	90,069
Results from associates recognized at equity	231	-427	3	-1,136
Financial income	3,545	1,602	4,902	3,754
Financial expenses	-7,931	-9,425	-18,198	-27,131
Earnings before taxes (EBT)	36,295	18,232	127,010	65,556
Income taxes for the period*	-11,044	-15,198	-40,853	-33,813
Consolidated net income of the period	25,251	3,034	86,157	31,743
Discontinued operations				
Result from Discontinued operations	0	1	0	-61
Consolidated net income of the period	25,251	3,035	86,157	31,682
of which: allocated to parent company	25,568	2,989	86,193	31,250
of which: allocated to minority interests	-317	46	-36	432
Earnings per share				
undiluted (in EUR)	0.52	0.06	1.74	0.63
diluted (in EUR)	0.49	0.06	1.71	0.63

* Provisional tax calculation

Preliminary statement of financial position

as at 31 December 2018

ASSETS

EUR `000	31.12.2018	31.12.2017
Non-current assets		
Intangible assets	538,390	534,608
Property, plant and equipment	83,617	82,812
Interests in affiliates (valued at equity)	11,568	10,734
Other investments	168	172
Trade receivables	1,598	0
Receivables from finance leases*	11,986	11,178
Other financial assets	1,660	1,510
Other non-financial assets	1,200	0
Deferred tax asset	10,156	6,041
	660,343	647,055
Current assets		
Inventory	19,615	12,497
Trade receivables	104,413	110,908
Receivables from finance leases*	5,804	5,197
Contract assets	8,015	
Other financial assets	4,386	2,118
Other non-financial assets	15,612	10,351
Income tax receivables	6,035	6,521
Cash and cash equivalents	25,288	30,362
	189,168	177,954
	849,511	825,009

* In the previous year, receivables from finance leases were posted under trade receivables

SHAREHOLDER EQUITY AND LIABILITIES

EUR '000	31.12.2018	31.12.2017
Shareholder Equity		
Subscribed capital	53,219	53,219
Treasury shares	-45,260	-20,292
Reserves	259,121	201,247
Capital and reserves allocated to the shareholder of the parent company	267,080	234,174
Minority interests	2,122	1,886
	269,202	236,060
Non-current liabilities		
Provision for post-employment benefits and other non-current provisions	25,164	24,806
Liabilities to banks	303,723	318,118
Contract liabilities	8,370	
Purchase price liabilities	3,789	5,321
Other financial liabilities	18,897	9,018
Other non-financial liabilities	0	1,427
Deferred taxes	53,559	48,976
	413,502	407,666
Current liabilities		
Liabilities to banks	4,686	34,241
Contract liabilities	33,945	0
Trade payables	39,294	43,944
Income tax liabilities	11,922	15,261
Provisions	37,222	33,237
Purchase price liabilities	9,486	9,078
Other financial liabilities	11,747	9,063
Other non-financial liabilities	18,505	36,459
	166,807	181,283
	849,511	825,009

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