

# CompuGroup Medical AG

Financial Report

1 January - 31 December 2014

- 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 2014 results on Tuesday, 31. March 2015.

## KEY EVENTS

- + Fourth quarter revenue of EUR 141.1 million, an increase of 13 percent compared to the same period in 2013
- + Organic growth of 5 percent
- + Operating profit (EBITDA) of EUR 29.4 million, same level as last year
- + Fourth quarter operating margin of 21 percent
- + Full year revenue of EUR 515.4 million and EBITDA of EUR 97.8 million, corresponding to 12 percent growth and 20 percent operating margin
- + CompuGroup Medical offers the following guidance for 2015:
  - + Group revenue is expected to be in the range of EUR 545 million to EUR 555 million
  - + Group operating income (EBITDA) is expected to be in the range of EUR 115 million to EUR 125 million

## FINANCIAL REVIEW

### Revenue

Revenue in the fourth quarter of 2014 was EUR 141.1 million compared to EUR 125.1 million in the same period in 2013. This represents an increase of 13 percent, of which 5 percent is organic growth.

In the HPS I segment, revenue was EUR 100.4 million compared to EUR 85.5 million in 2013. This represents an increase of 17 percent, of which 6 percent is organic growth. Revenue in Ambulatory Information Systems (AIS) grew at 20 percent, of which 9 percent is organic growth. The European AIS business had a good quarter with 10 percent organic growth. A relatively low amount (EUR 1.0 million) was recognized in the period from the Telematik Infrastructure project in Germany and outside of this, organic growth was 9 percent in Europe. In the United States, revenue was flat year-on-year at EUR 8.9 million (8 percent revenue contraction in local currency; USD 10.4 million vs. USD 11.3 million in 2013).

Fourth quarter revenue in Pharmacy Information Systems (PCS) was EUR 21.1 million compared to EUR 19.2 million in 2013. This represents 10 percent growth, of which 16 percent comes from acquisitions and 6 percent is organic contraction. The organic development is due to a different seasonality of revenue last year caused by the EXPOPHARM trade fair and the special launch of new products and services in the fourth quarter 2013, such as the WINAPO® Prescription Scanner and WINAPO® tv. For the full year 2014, it has been a good year in pharmacy software with 3 percent organic growth.

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

EUR m	01.10-31.12 2014	01.10-31.12 2013	Change	01.01-31.12 2014	01.01-31.12 2013	Change
Ambulatory Information Systems	79.3	66.3	20%	296.5	259.1	14%
Pharmacy Information Systems	21.1	19.2	10%	79.1	61.4	29%
<b>SUM</b>	<b>100.4</b>	<b>85.5</b>	<b>17%</b>	<b>375.6</b>	<b>320.4</b>	<b>17%</b>

In the HPS II segment, the year-on-year growth in Hospital Information Systems (HIS) was 2 percent going from the fourth quarter 2013 to 2014 which represents a relatively good finish to the year for the hospital business.

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

EUR m	01.10-31.12 2014	01.10-31.12 2013	Change	01.01-31.12 2014	01.01-31.12 2013	Change
Hospital Information Systems	23.7	23.1	2%	79.8	81.2	-2%
<b>SUM</b>	<b>23.7</b>	<b>23.1</b>	<b>2%</b>	<b>79.8</b>	<b>81.2</b>	<b>-2%</b>

## Financial Review Continued

In the HCS segment, revenue was EUR 17.3 million compared to EUR 16.4 million in the fourth quarter of 2013. The fourth quarter Communication & Data revenue was EUR 6.4 million and organic contraction of -10 percent which is consistent with the development in the first nine months of the year. Workflow & Decision Support shows a moderate fluctuation with 4 percent contraction in the fourth quarter. The business volume in Internet Service Provider grows strongly at 65 percent year-on-year mostly due to the Telematik Infrastructure pilot project in Germany (EUR 1.5 million recognized in the quarter).

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

EUR m	01.10-31.12 2014	01.10-31.12 2013	Change	01.01-31.12 2014	01.01-31.12 2013	Change
Communication & Data	6.4	7.1	-10%	20.5	22.5	-9%
Workflow & Decision Support	6.4	6.6	-2%	25.2	24.6	3%
Internet Service Provider	4.5	2.7	65%	14.4	10.6	36%
<b>SUM</b>	<b>17.3</b>	<b>16.4</b>	<b>5%</b>	<b>60.1</b>	<b>57.7</b>	<b>4%</b>

### Profit

Consolidated EBITDA amounted to EUR 29.4 million compared to EUR 28.3 million in the fourth quarter of 2013. This represents an increase of 4 percent. The corresponding fourth quarter operating margin was 21 percent.

The operating result in the fourth quarter is influenced by a number of effects from severance payments and other one-off restructuring and integration expenses, one-off expenses related to the Telematik Infrastructure project in Germany as well as the positive gain on the sale of fixed assets from the German hospital business. The net effect from these non-recurring items amounts to approximately zero.

The financial result in the fourth quarter is influenced by the weakening of the EURO, which leads to non-cash translation gains on group-internal debt totaling EUR 8.0 million. With a provisional tax calculation, the estimated fourth quarter net income was EUR 11.3 million, up from EUR 4.7 million in 2013. The estimated fourth quarter 2014 cash net income amounts to EUR 19.1 million and cash net income per share of EUR 0.38.

### Full year 2014

Consolidated revenue in 2014 was EUR 515.4 million compared to EUR 459.6 million in 2013. This represents an increase of EUR 55.8 million and 12 percent respectively. The organic growth was 4 percent in 2014 (5 percent at constant exchange rates).

Consolidated EBITDA in 2014 was unchanged at EUR 97.8 million compared to 2013. The corresponding operating margin was 19.0 percent compared to 21.3 percent in 2013.

### Other events in the quarter

In the final months of 2014, CGM fulfilled all main requirements for testing the German Telematik Infrastructure in the North-West test region. In a preliminary live test, all newly developed components and services necessary for the online use of the electronic health card (eGK) were successfully tested. The first run with an insured master data update for the eGK in conjunction with a health insurance company (VSDM) showed that the components and services developed by the consortium harmonize perfectly. Nine months after the start of the campaign to recruit participants for the largest networking project in the German healthcare system, all contracts for the required 500 care providers have been concluded. Recruiting participants, e. g. regional physicians, dentists, psychotherapists and hospitals, was a main component of the contract awarded to the consortium consisting of CompuGroup Medical, strategy& and KoCo Connector at the end of 2013. All participants in the testing region will now be equipped with the components and services necessary for the use of the eGK. After successful completion of the testing and parallel evaluation during 2015, the Telematik Infrastructure network will be ready for the nationwide connection of all clinics and hospitals in Germany. The Telematic Infrastructure is a long-term growth opportunity for CGM and the pilot project is only the first stage in a transformation to a significantly higher revenue opportunity. With a potential full rollout (est. begin 2016) CGM has the opportunity 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 CGMs strategy to provide more products and services to its customers, such as eServices, ePrescriptions, eLabOrder, physician networks, online clinical pathways, hosting services etc.

In October, CompuGroup Medical Holding Cooperatief UA, a 100 percent subsidiary of CGM AG, completed a transaction to acquire Labelsoft BV based in Zoetermeer/The Netherlands. With this acquisition, CompuGroup Medical has strengthened its position in the Dutch market for primary care software to more than 25 percent of the market share with GPs, and 75 percent of the market share with ambulatory extended care organizations (HAPs). A "HAP" is a regional cooperation between GPs taking care of first line care after normal business hours and during weekends. HAPs are usually located in or close to a hospital. Labelsoft develops software solutions for such HAPs and is, with a 75 percent market share, the market leader in this segment. Labelsoft also has a 5 percent share of the Dutch GP market. In 2013, its total turnover was approx. EUR 3.0 million with an EBITDA margin of 20 percent. Consolidation of Labelsoft began in October 2014.

In December, Systema Deutschland GmbH, a 100 percent subsidiary of CGM AG, completed a transaction to sell a non-strategic part of the German hospital business. CGM's hospital business in Germany is mainly comprised of software for social care institutions (geriatric care, institutions for people with disabilities and child and youth social care organizations), software for rehabilitation clinics and software for acute hospitals (i.e. 'normal' hospitals). In addition, add-on modules have been developed in areas of accounting, controlling and business intelligence software (Rechnungswesen & Controlling – 'REWE') as well as document management software / electronic archiving solutions (Document Management Solutions – 'DMS'). The REWE and DMS modules have also been sold to external (non-healthcare) customers.

All products were developed 15-20 years ago in traditional 'client-server' architecture and in native Microsoft Windows technology. This legacy technology is coming to an end and CGM is already far advanced in a new product generation written in Java/HTML5 and based on web technology (G3) for the primary applications in social care, acute hospitals and rehabilitation clinics. For the add-on modules REWE and DMS, however, a next generation product development is not planned and instead, a sale of these product areas was made to a strategic buyer (also a related entity) in December 2014. Beginning in 2015, the new product owner of REWE and DMS will maintain the current products in a relatively long perspective and in parallel develop a new product generation based on web-technology to offer the CGM customers when they gradually migrate to the new technology (G3) product generation with their primary software. In 2014, the REWE/DMS business contributed revenue of approx. EUR 5.0 million with an EBITDA of approximately EUR 1.4 million. Deconsolidation of the REWE/DMS business began in January 2015.

### Post-balance sheet events

In January 2015, the 100 percent owned subsidiary of CGM AG, CGM South Africa Pty Ltd, completed a transaction to acquire all shares in MedEDI Pty Ltd ("MedEDI"). The primary business activities of MedEDI are development, sale and support of MedEDI Practice Management Application software as well as bill switching to Medical Insurers (electronic bill transfer and associated services) in South Africa. The company also sells complimentary products such as Electronic Health Records to its customers. MedEDI operates from office locations in Margate (headquarter), Pretoria and Cape Town. Through this acquisition, CGM has considerably strengthened its market position in South Africa. The total turnover of MedEDI was in 2014 approximately EUR 6 million with an EBITDA of approximately EUR 2 million. Consolidation of MedEDI began in January 2015.

## 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, with an expected amount of EUR 352 million at the beginning of 2015, compared to EUR 336 million in 2014. This corresponds to a 5 percent increase.

Total Group revenue is in 2015 expected to be in the range of EUR 545 million to EUR 555 million, corresponding to a growth rate of 6-8 percent. Acquisitions and divestitures completed to date are expected to give a growth contribution of EUR 18 million and organic growth is expected to be 2-4 percent.

Revenue in the HPS I segment is expected to be in the range of EUR 411 million to EUR 417 million, corresponding to a growth rate of 9-11 percent. Acquisitions completed to date are expected to give a growth contribution of approximately EUR 23 million and organic growth is expected to be 3-5 percent. AIS revenue is expected to be in the range of EUR 320 million to EUR 325 million in 2015. Acquisitions in AIS completed to date are expected to give a growth contribution of approximately EUR 13 million and organic growth is expected to be 3-5 percent. PCS revenue is expected to be in the range of EUR 91 million to EUR 92 million. Acquisitions in PCS completed to date are expected to give a growth contribution of approximately EUR 10 million and organic growth is expected to be 2-4 percent.

Revenue in the HPS II segment is expected to be in the range of EUR 73 million to EUR 75 million, corresponding to a contraction of 6-8 percent. The divestiture of the REWE/DMS product areas in Germany is expected to reduce revenue with approximately EUR 5 million in 2015 and the corresponding organic growth is expected to be around zero.

Revenue in the HCS segment is expected to be in the range of EUR 61 million to EUR 63 million in 2015. This corresponds to 2-5 percent growth, all of which is organic growth. Revenue within Communication & Data is expected to be in the range of EUR 20 million to EUR 21 million, Workflow & Decision Support in the range of EUR 26 million to EUR 27 million and Internet Service Provider to be approximately EUR 15 million.

In terms of profitability, the investments and extra expenses carried during 2014 have created a more efficient cost base leading into the new year. Therefore, 2015 is expected to be a year of margin expansion relative to 2014 with operating margin (EBITDA margin) expected to be in the range of 21-23 percent.

### Overall assessment (guidance)

In summary, CompuGroup Medical offers the following guidance for 2015:

- + Group revenue is expected to be in the range of EUR 545 million to EUR 555 million.
- + Group operating income (EBITDA) is expected to be in the range of EUR 115 million to EUR 125 million.

The foregoing outlook does not include revenue and costs associated with potential and currently undetermined further acquisitions during 2015.

The outlook for 2015 represents management's best estimate of the market conditions that will exist in 2015 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 2014

	01.10-31.12 2014 EUR '000	01.10-31.12 2013 EUR '000	01.01-31.12 2014 EUR '000	01.01-31.12 2013 EUR '000
<b>Continuing operations</b>				
Sales revenue	141,146	125,079	515,391	459,555
Capitalized in-house services	2,224	3,465	9,541	9,651
Other income	10,215	1,171	12,721	2,512
Expenses for goods and services purchased	-28,113	-22,257	-99,232	-79,352
Personnel costs	-65,962	-53,975	-248,171	-214,942
Other expenses	-30,121	-25,156	-92,412	-79,649
Earnings before interest, taxes, depr. and amortization (EBITDA)	29,389	28,326	97,839	97,776
Depreciation of property, plants and tangible assets	-2,063	-1,765	-7,883	-7,373
Earnings before interest, taxes and amortization (EBITA)	27,326	26,560	89,956	90,403
Amortization of intangible assets	-8,583	-10,132	-32,794	-33,575
Earnings before interest and taxes (EBIT)	18,743	16,429	57,162	56,828
Results from associates recognized at equity	-633	-28	19	-20
Financial income	1,100	2,484	11,672	4,319
Financial expenses	-504	-9,531	-19,147	-25,918
Earnings before taxes (EBT)	18,707	9,354	49,706	35,208
Taxes on income of the period**	-7,610	-3,932	-16,931	-13,033
Consolidated net income of the period from continuing operations**	11,096	5,422	32,775	22,176
<b>Discontinued operations</b>				
Profit for the period from discontinued operations	200	-717	59	-457
Consolidated net income of the period**	11,296	4,705	32,834	21,719
of which: allocated to parent company**	10,483	5,886	32,679	23,148
of which: allocated to minority interests**	503	-1,181	-155	-1,429
<b>Earnings per share</b>				
undiluted (in EUR)**	0.23	0.13	0.66	0.48
diluted (in EUR)**	0.23	0.13	0.66	0.48
<b>Additional information:</b>				
Cash net income (EUR) * / **	19,134	13,859	62,647	51,663
Cash net income per share (EUR) * / **	0.38	0.28	1.26	1.04

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

\*\* All values for 2014 are based on a provisional tax calculation. Actual tax rates are subject to change.

# PRELIMINARY STATEMENT OF FINANCIAL POSITION

as at 31 December 2014

## ASSETS

	31.12.2014 EUR '000	adjusted 31.12.2013 EUR '000
<b>Non-current assets</b>		
Intangible assets	522,215	486,149
Tangible assets	61,619	61,224
Financial assets		
Interests in affiliates (valued as equity)	1,624	637
Other Investments	140	130
Trade receivables	9,153	8,915
Other financial assets	2,153	1,831
Derivative financial instruments	0	6,056
Deferred taxes	1,709	1,764
	<b>598,614</b>	<b>566,706</b>
<b>Current assets</b>		
Inventories	5,706	4,185
Trade receivables	96,226	75,861
Other financial assets	4,268	3,223
Other non-financial assets	7,880	8,771
Income tax claims	5,541	8,547
Securities (recognized as profit of loss as fair value)	104	165
Cash and cash equivalents	21,387	23,453
	<b>141,111</b>	<b>124,205</b>
Assets of disposal group classified as held for sale	0	381
	<b>739,724</b>	<b>691,292</b>



## SHAREHOLDER EQUITY AND LIABILITIES

	31.12.2014 EUR '000	adjusted 31.12.2013 EUR '000
<b>Shareholder Equity</b>		
Subscribed capital	53,219	53,219
Treasury shares	-20,292	-20,292
Reserves	160,626	155,842
Capital and reserves allocated to the shareholder of the parent company	193,553	188,769
Minority interests	-1,070	-4,102
	<b>192,483</b>	<b>184,667</b>
<b>Long-term liabilities</b>		
Pension provision	13,562	10,500
Liabilities to banks	335,344	278,109
Purchase price liabilities	2,923	2,573
Other financial liabilities	8,050	1,396
Other non-financial liabilities	3,898	3,082
Derivative financial instruments	4,763	7,852
Deferred taxes	42,577	47,603
	<b>411,115</b>	<b>351,114</b>
<b>Current liabilities</b>		
Liabilities to banks	21,005	43,559
Trade payables	26,423	23,076
Income tax liabilities	8,496	14,645
Provisions	30,639	24,172
Purchase price liabilities	9,679	9,394
Other financial liabilities	10,368	6,315
Other non-financial liabilities	29,516	34,147
	<b>136,126</b>	<b>155,308</b>
Liabilities associated directly with non-current assets qualified as held for sale	0	203
	<b>739,724</b>	<b>691,292</b>

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