

# QSC AG

## Analyst Day

Hamburg, October 6, 2011

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# AGENDA

- **Growth Strategy 2011 – 2016**  
Dr. Bernd Schlobohm, Founder & CEO
- **Direct Sales Strategy 2011 – 2016**  
Thomas Stoek, Board Member
- **Indirect Sales Strategy 2011 – 2016**  
Arnold Stender, Board Member
- **Q&A**
- **Break**
- **Tour to our Hamburg Data Center**
- **Profitability Strategy 2011 – 2016**  
Jürgen Hermann, CFO
- **Q&A**

# GROWTH STRATEGY 2011 – 2016

Dr. Bernd Schlobohm, Founder & CEO

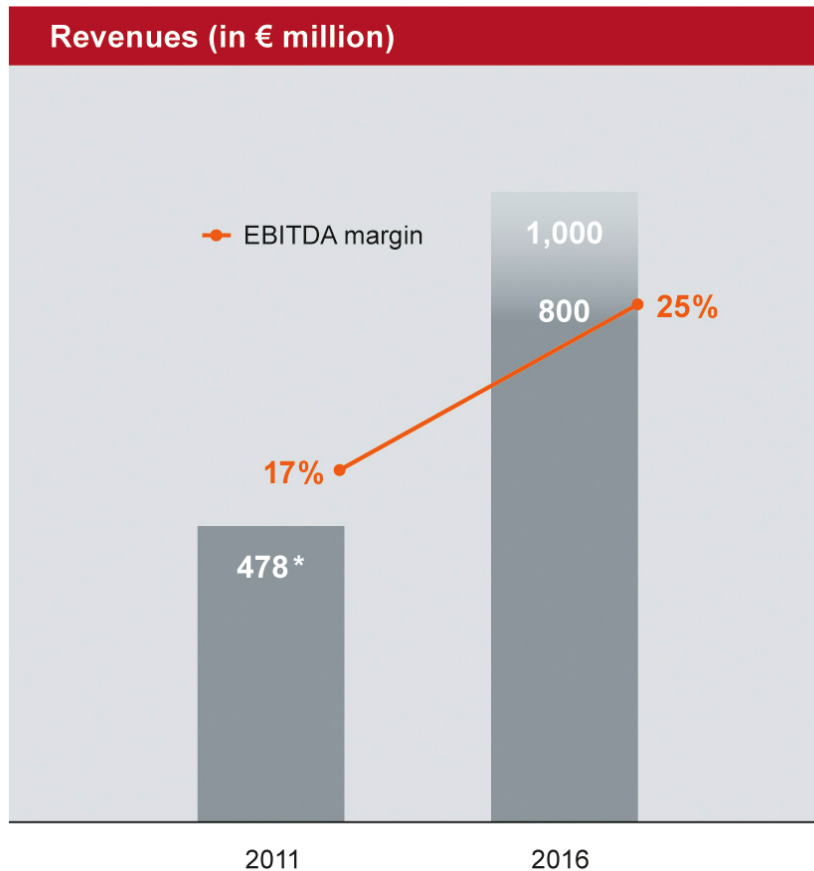
## QSC 2011: A FULL-SERVICE ICT PROVIDER

- Founded 1997 / IPO 2000
- 1,250 employees
- Clear focus on German SMEs (“Mittelstand”)
- Nationwide NGN
- Data centers in Cologne, Hamburg, Munich, Nuremberg
- Broad customer base and strong customer relationships
- Pioneer in the DSL market
- Pioneer in the VoIP market
- Pioneer in the ICT market with
  - IP Partner (Housing / Hosting)
  - INFO AG (Outsourcing / Consulting)

## QSC 2016: THE GERMAN CLOUD PROVIDER

- Clear focus on the German Mittelstand
- Nationwide NGN
- Several data centers in Germany
- Broad customer base and strong customer relationships
- ICT end-to-end services
- Best-in-class ICT security
- Open Access Integrator
- Pioneer in the Cloud market
- German Cloud platform
- Pioneer in the machine-to-machine market (“Internet of Things”)

# GROWTH VISION: QSC WILL DOUBLE ITS REVENUES WITHIN 5 YEARS



In 2011, QSC is a company with

- Revenues of € 478 million\*
- An EBITDA margin of 17%\*
- Free cash flow of € 35 – 45 million

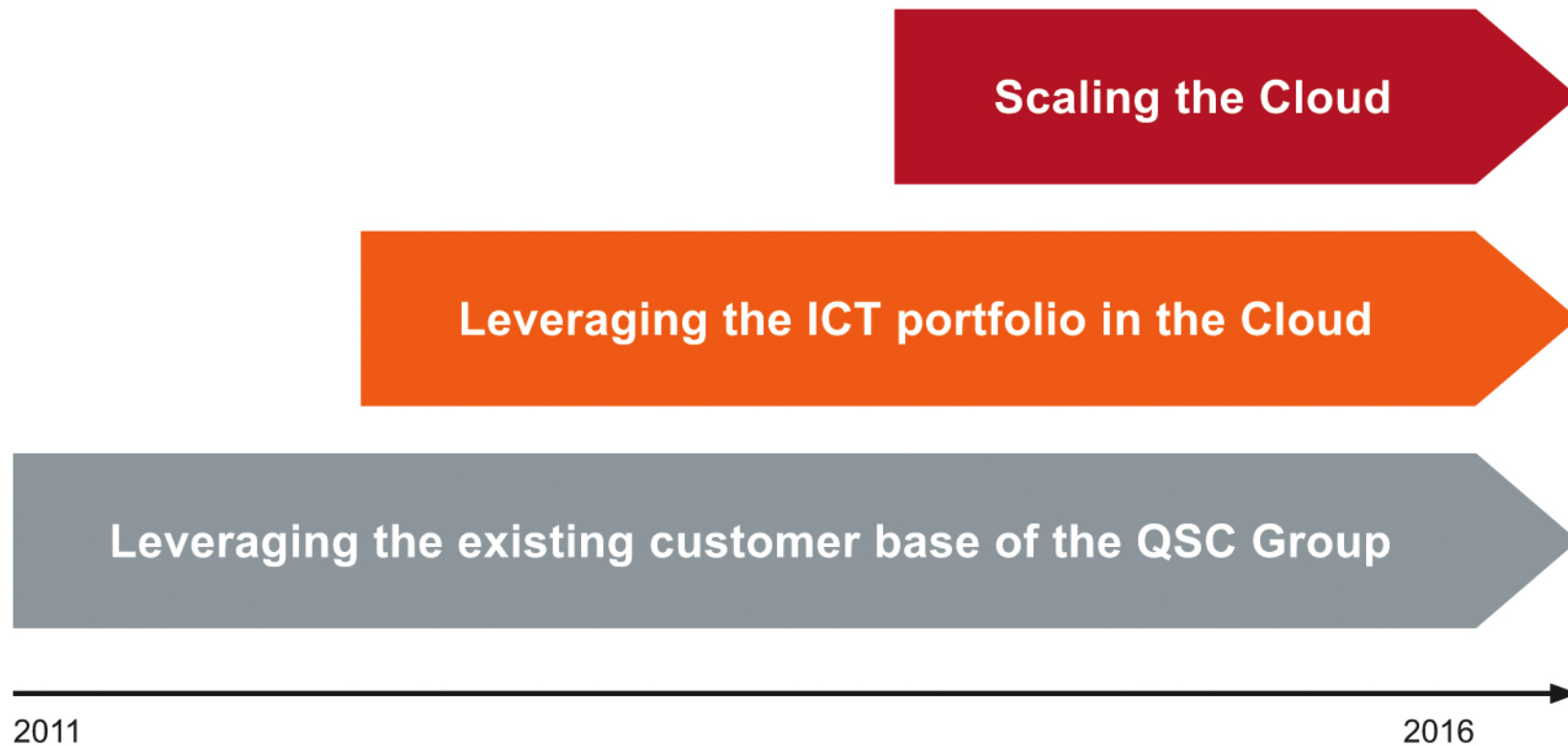
In 2016, QSC will be a company with

- Revenues of € 0.8 – 1.0 billion
- An EBITDA margin of 25%
- Free cash flow of € 120 – 150 million

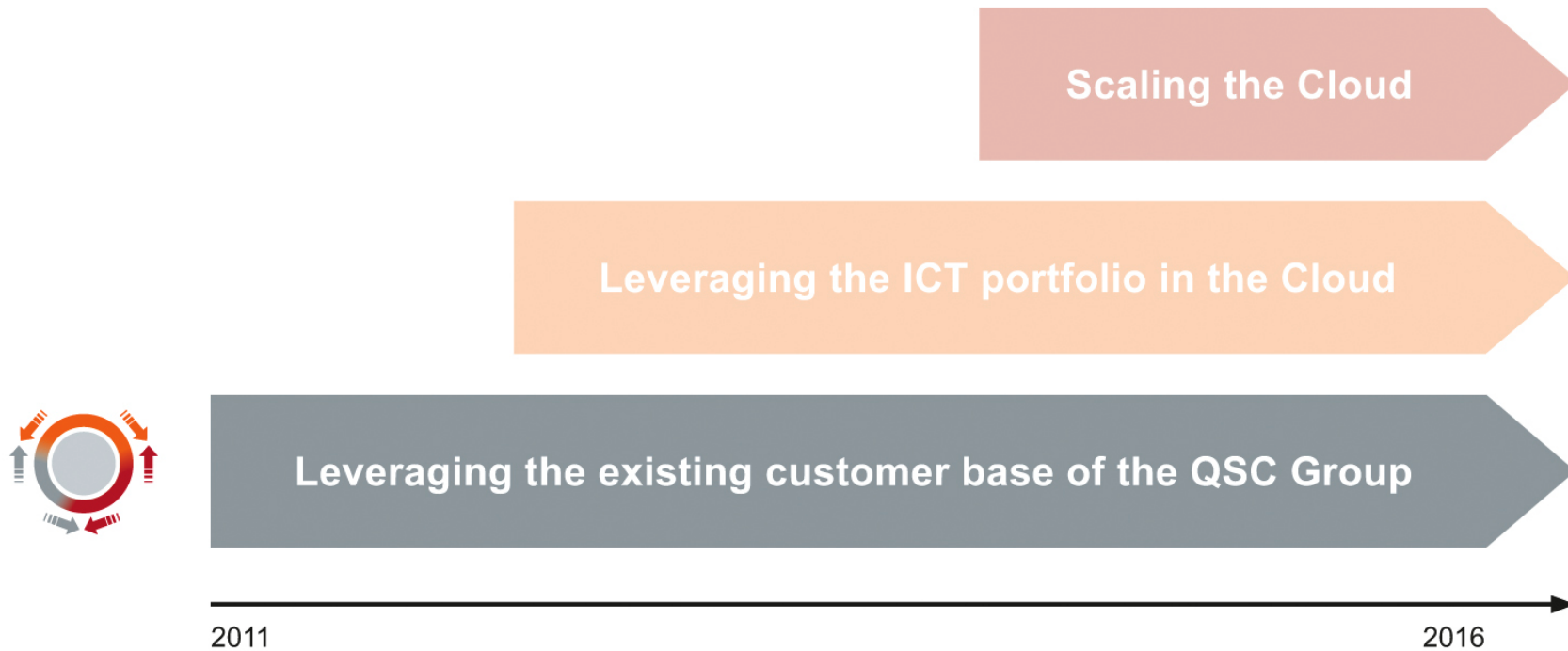
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\* Consensus

# QSC 2016: OUR STRATEGY FOR DOUBLING REVENUES

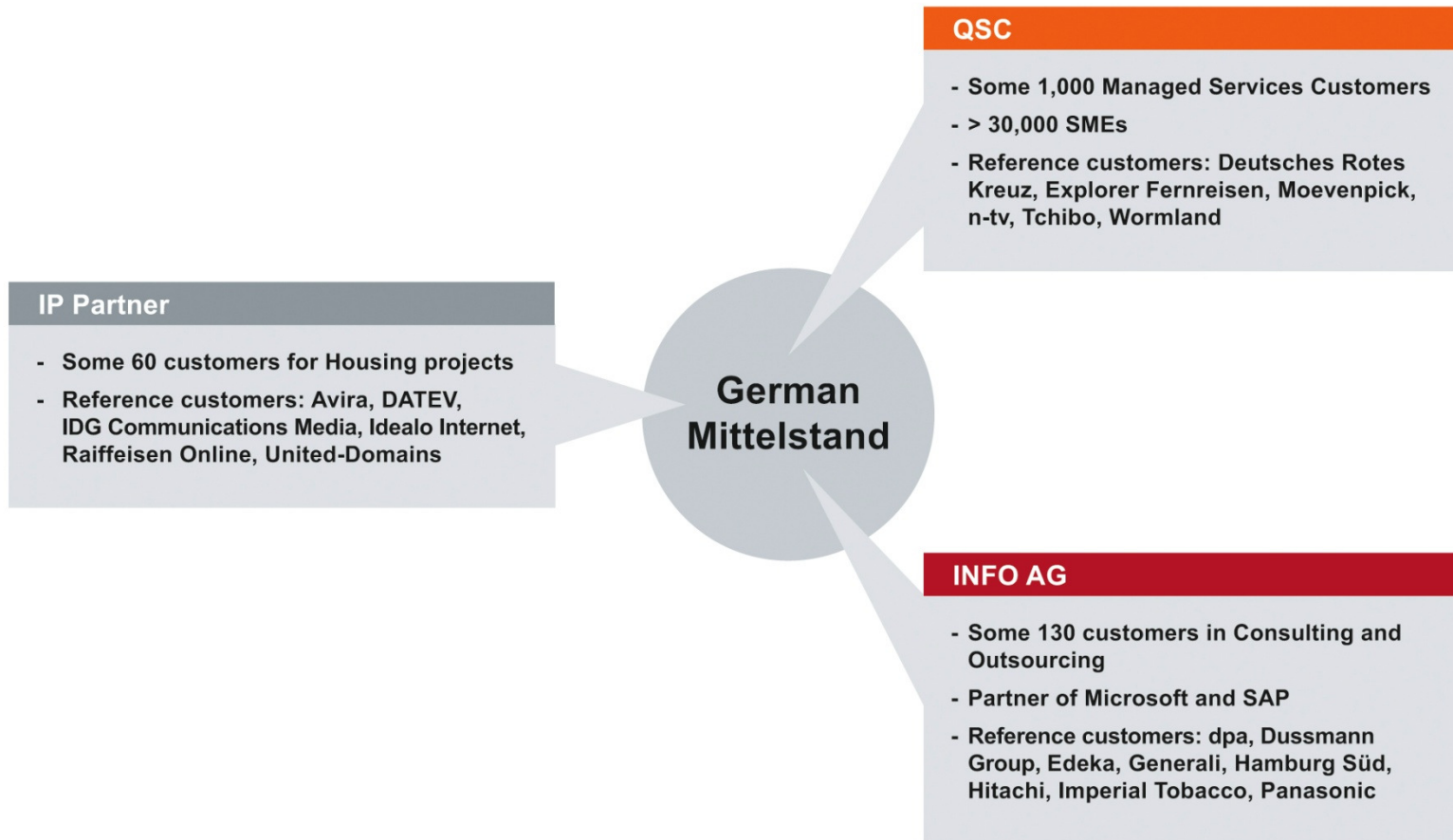


# AGENDA: QSC WILL LEVERAGE ITS EXISTING CUSTOMER BASE

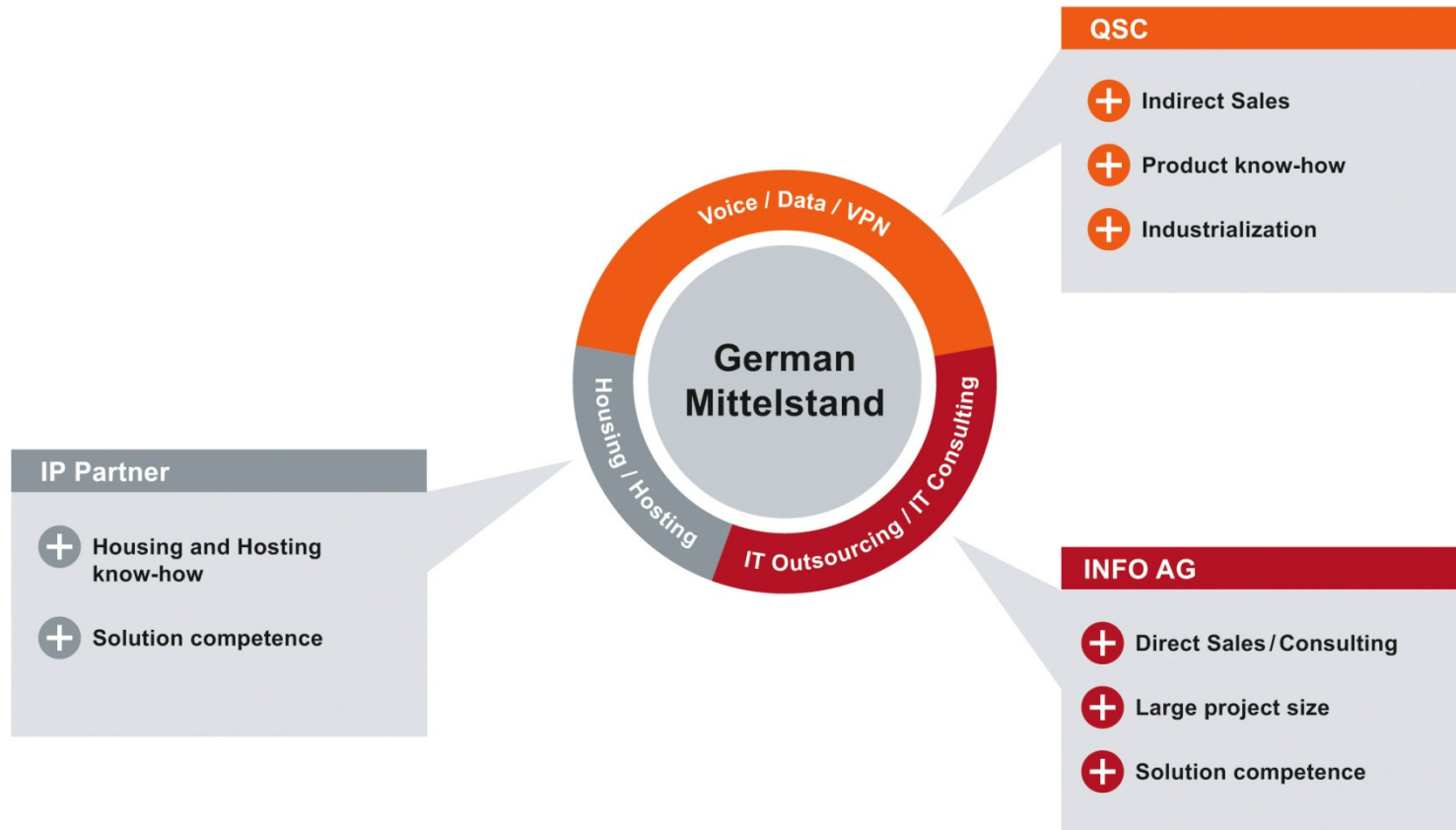




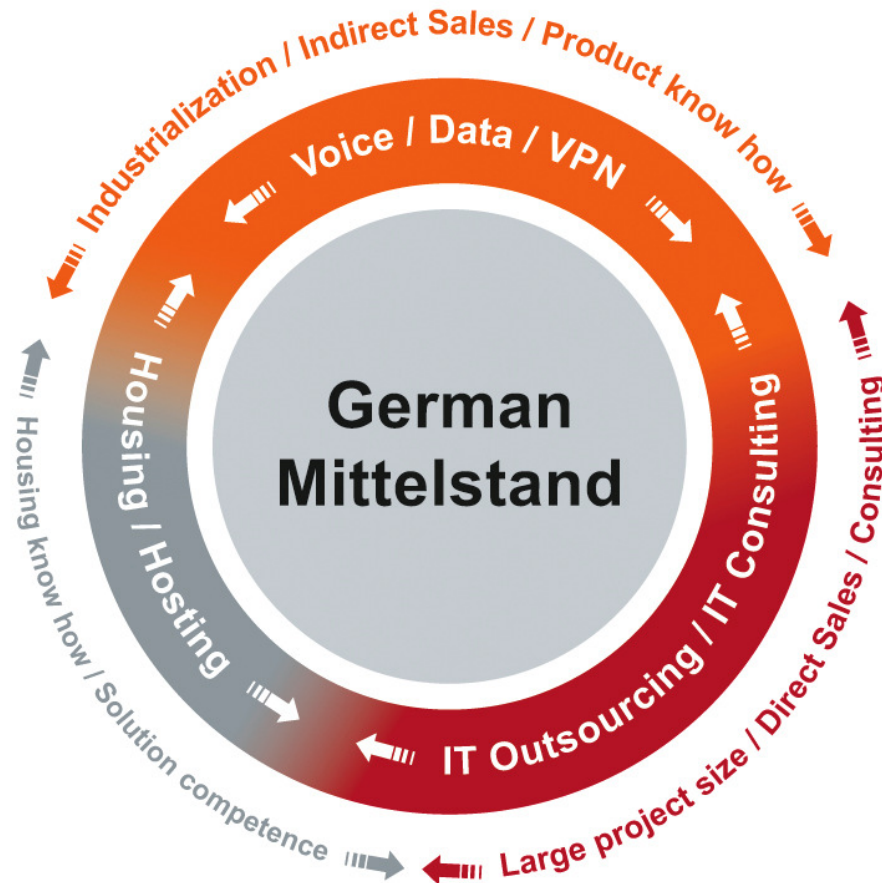
# THE QSC GROUP IS ROOTED IN THE GERMAN MITTELSTAND



# QSC + INFO AG + IP PARTNER = THREE COMPANIES WITH REMARKABLE STRENGTHS



# QSC GROUP: BROAD ICT PORTFOLIO SERVES AS A PERFECT BASE FOR UP- AND CROSS-SELLING



# IT OUTSOURCING: A MAIN TRIGGER FOR UP- AND CROSS-SELLING

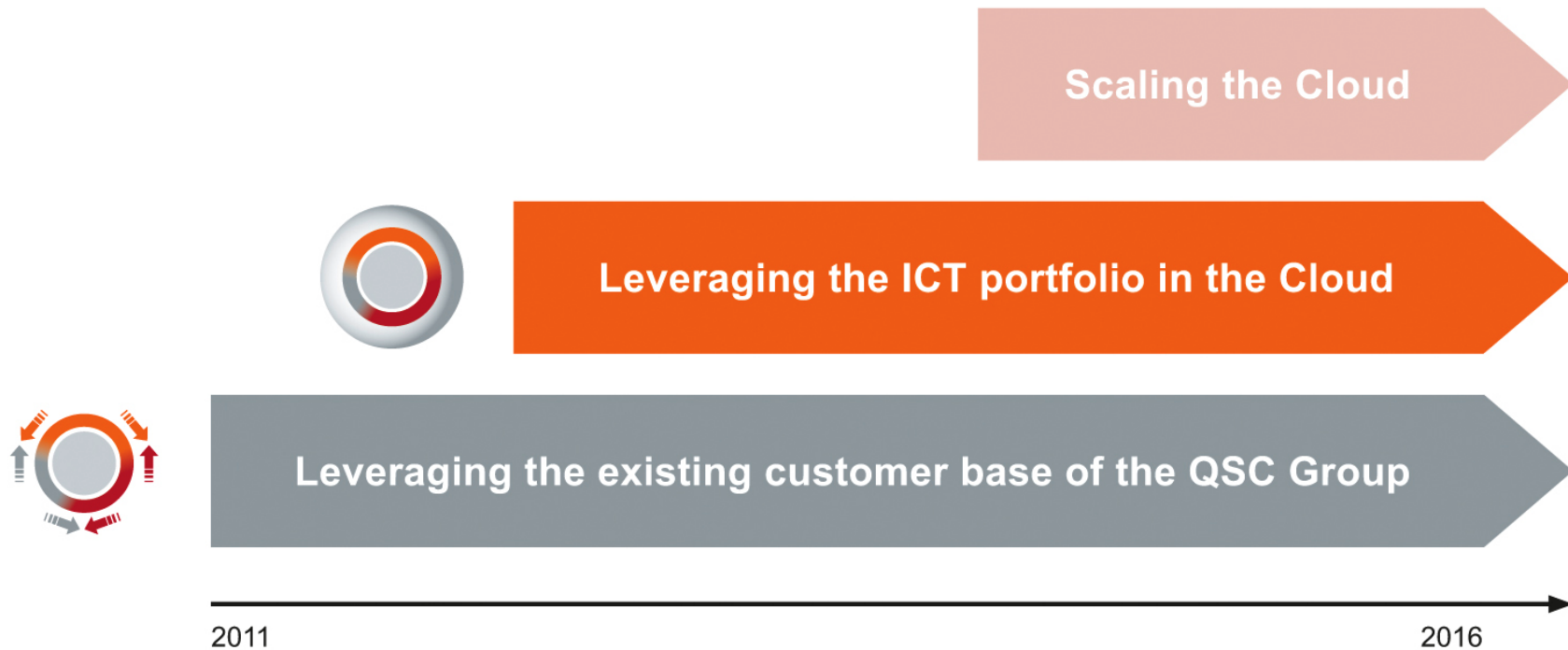


# THREEFOLD SALES STRATEGY FOR TARGETING EXISTING AND NEW CUSTOMERS

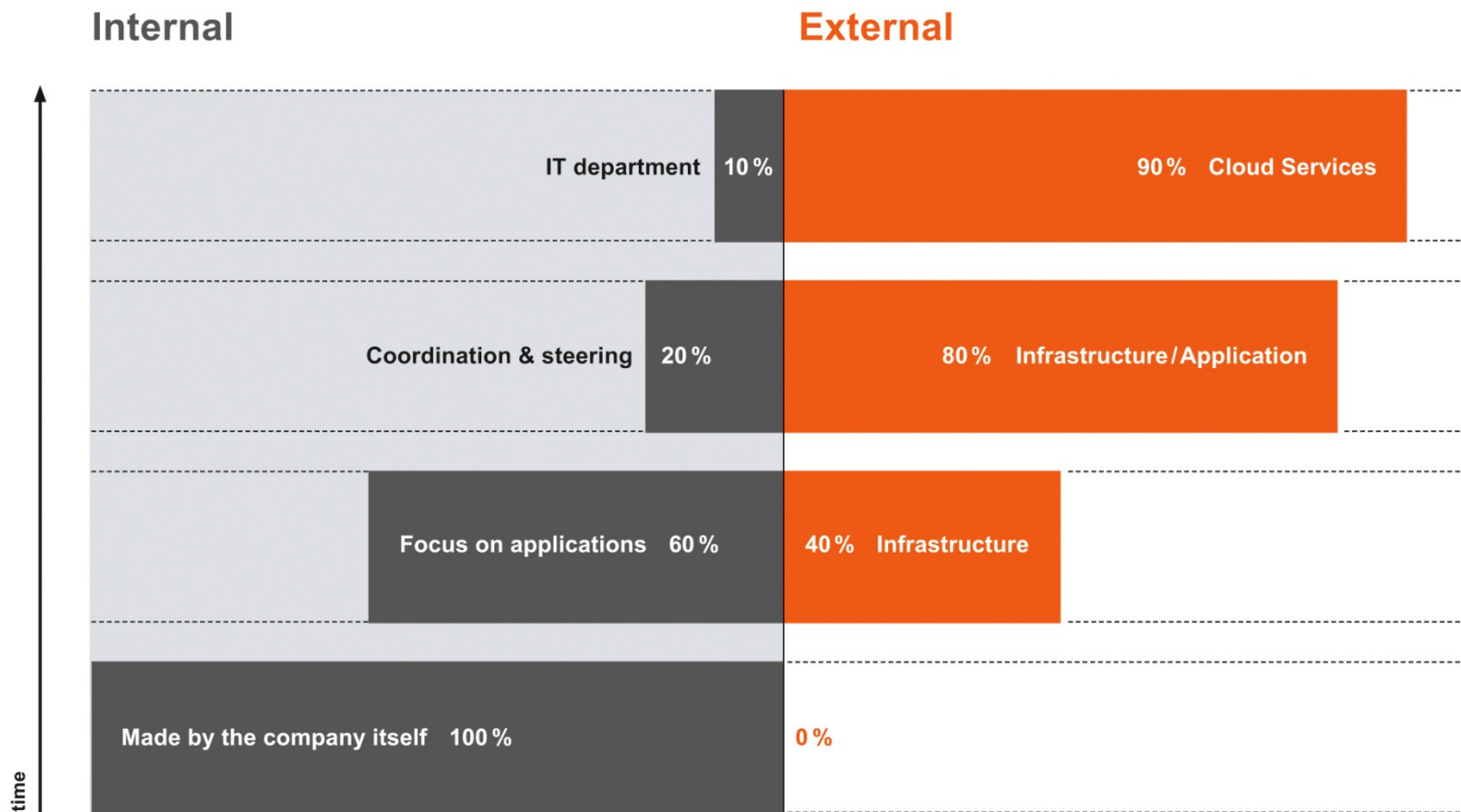


⇒ Segmentation will be adopted according to levers of the sales organization

# AGENDA: QSC WILL OFFER CLOUD SERVICES



# CLOUD COMPUTING: A PARADIGM SHIFT IN THE ENTIRE ICT SECTOR



# CLOUD COMPUTING WILL OPEN UP A TREMENDOUS MARKET OPPORTUNITY...

»Currently, 3 percent of CIOs have the majority of IT running in the Cloud or on SaaS technologies, but over the next four years CIOs expect this number to increase to 43 percent.«

Gartner, January 2011

»The Market for Cloud Computing will explode.«

René Obermann, October 2010

»Cloud Computing in Germany in the B2B Sector will rise from 1.14 bn euro in 2010 to 8.2 bn euro in 2015.«

BITKOM, October 2010

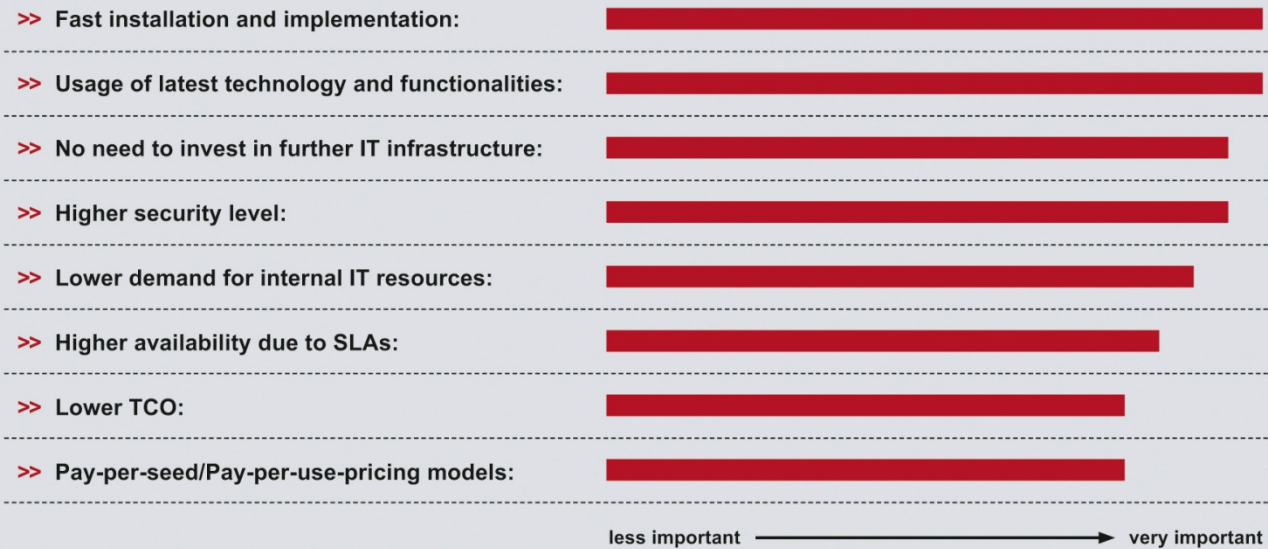
»Telcos Set to Dominate Cloud Market Over Next Two Years.«

cio.com, August 2010

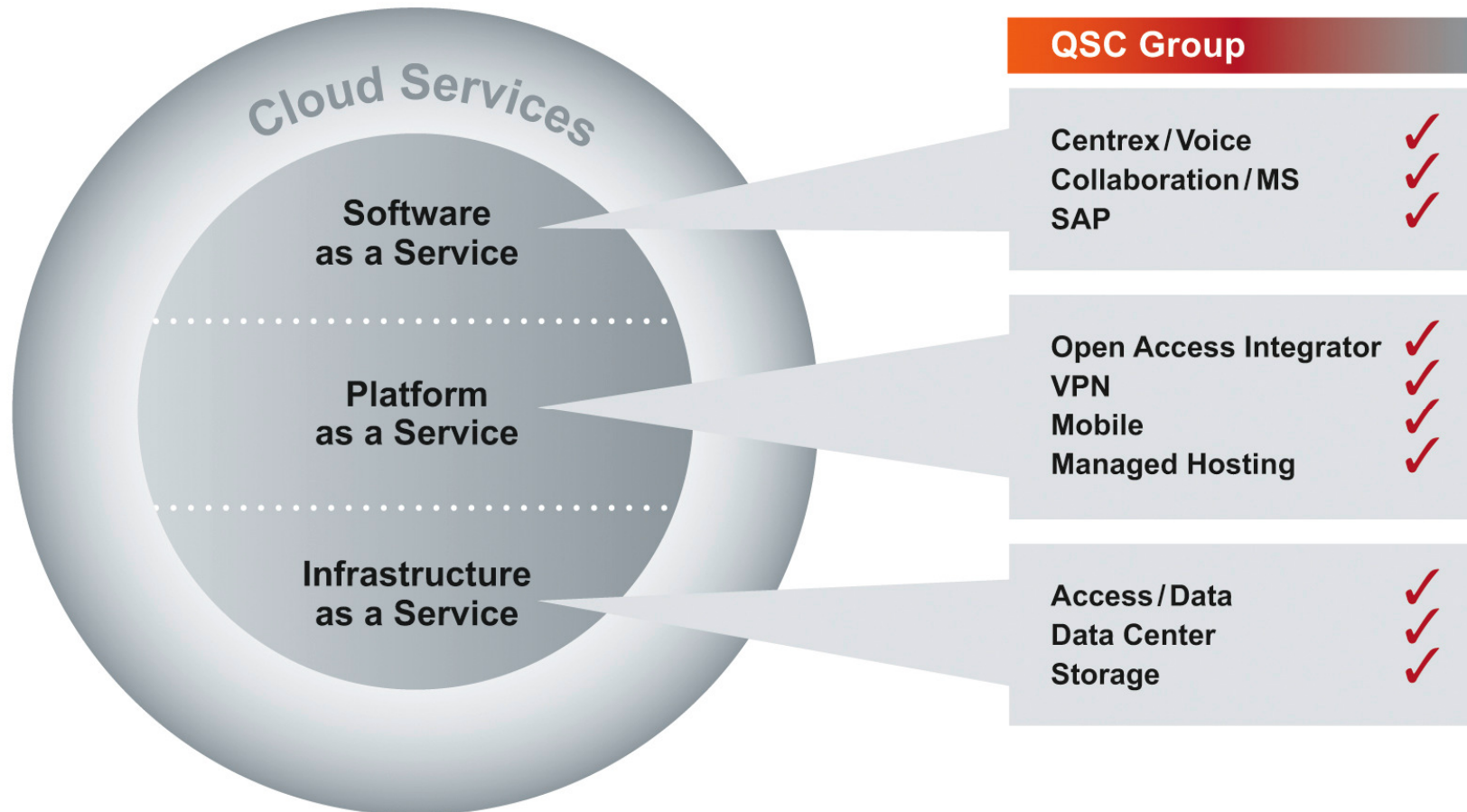


# ... BECAUSE OF MULTIPLE CUSTOMER BENEFITS

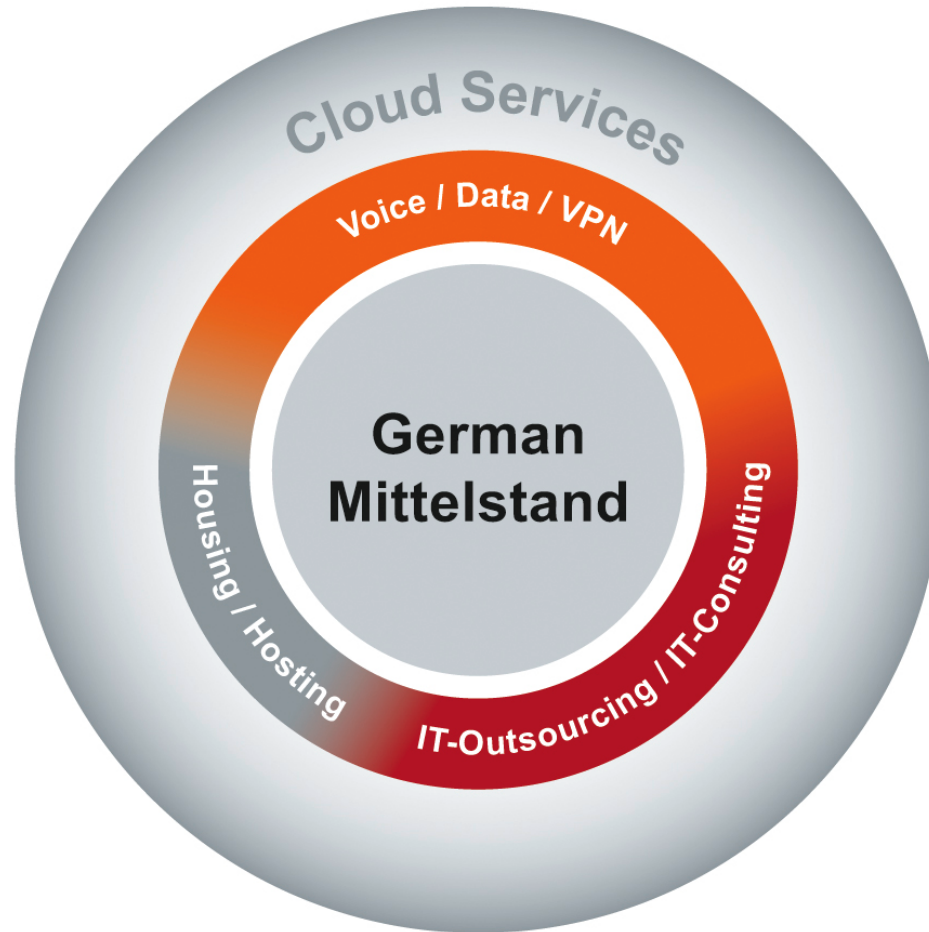
**What are the decisive factors for your company to introduce Cloud Computing?**



# QSC MEETS ALL THE PREREQUISITES FOR TARGETING THE MARKET FOR CLOUD SERVICES...



... AND WILL LEVERAGE ITS PORTFOLIO IN THE CLOUD



# THE 1<sup>st</sup> KEY ADVANTAGE OF QSC: END-TO-END SERVICES OF HIGHEST QUALITY



- QSC offers end-to-end services – from desktop to data center
- Highest service quality is proofed by various customer surveys

# THE 2<sup>nd</sup> KEY ADVANTAGE OF QSC: BEST-IN-CLASS SECURITY



- Based in Germany, QSC complies with the country's strict data protection laws
- QSC has a long tradition of highest security levels
- Many certificates (e.g. TÜV, ISO) prove high quality standards
- Strong company-wide IT security policy
- Dedicated IT security manager with a direct reporting line to the CEO

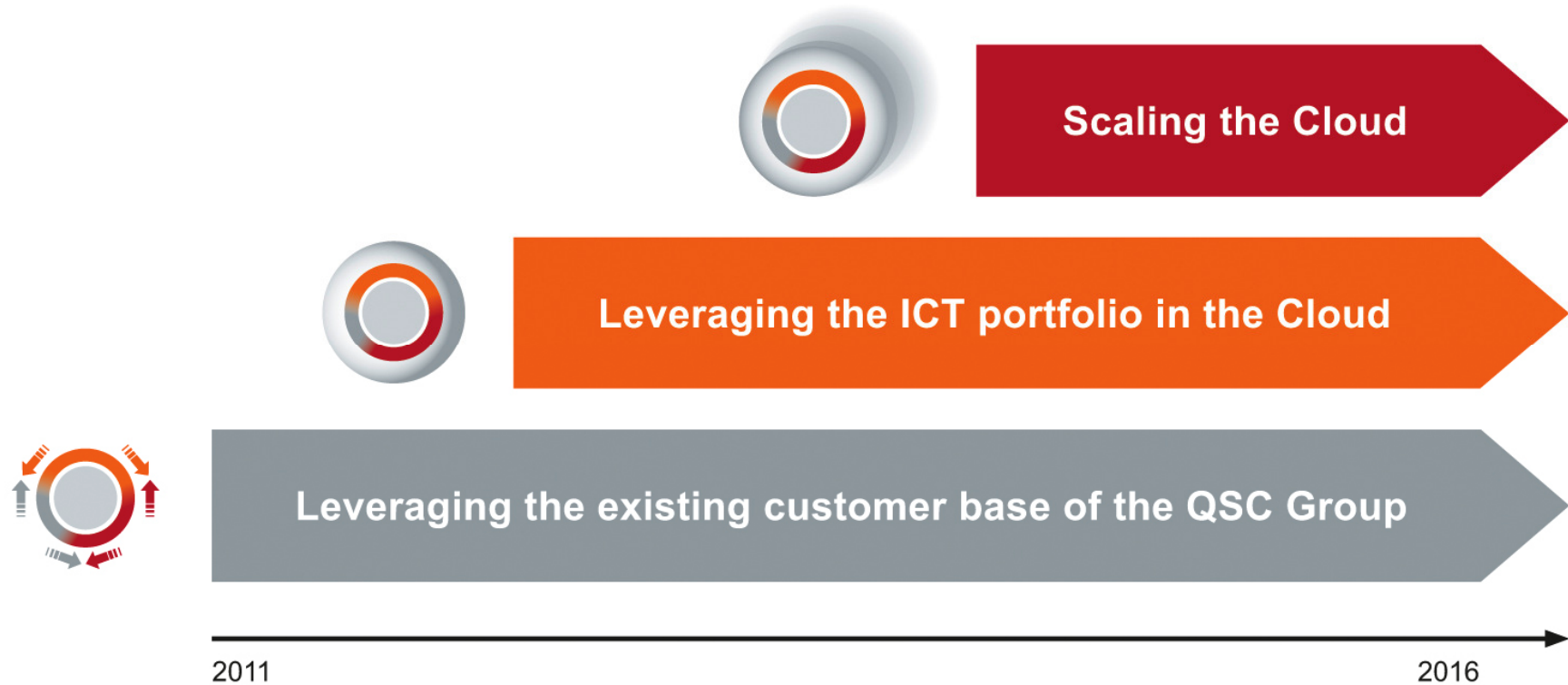
## THE 3<sup>rd</sup> KEY ADVANTAGE OF QSC: TRUSTED PARTNER OF THE GERMAN MITTELSTAND



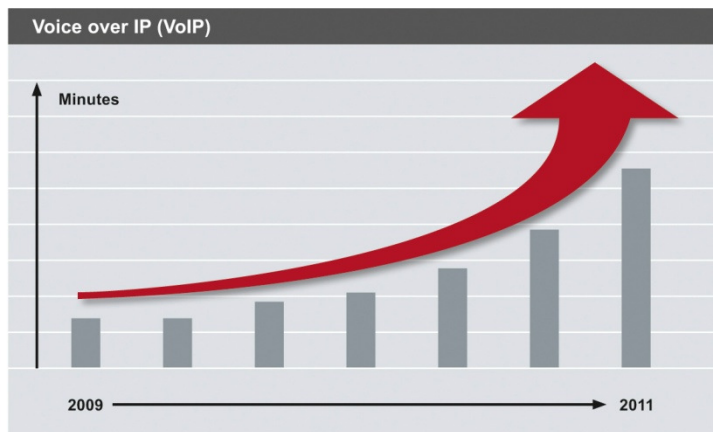
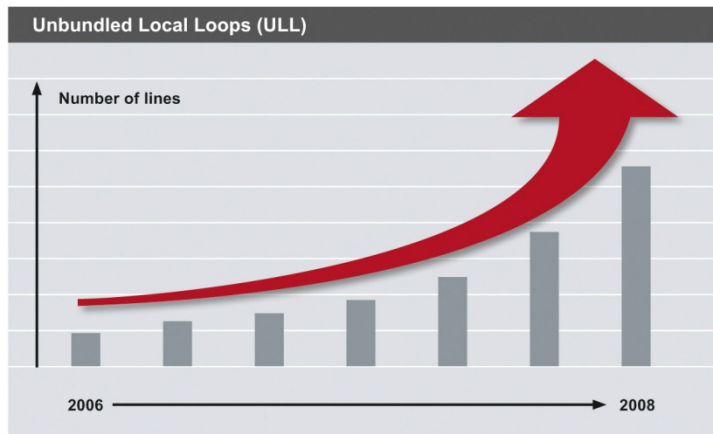
- Since 2000, QSC has established itself as a partner of choice for the German Mittelstand
- QSC focuses on the German market
- All Data centres and offices are based in Germany
- These data centers + NGN are a perfect base for Cloud Services

**=> QSC has all the assets  
to provide the German Cloud**

# AGENDA: QSC WILL OFFER SCALABLE PRODUCTS



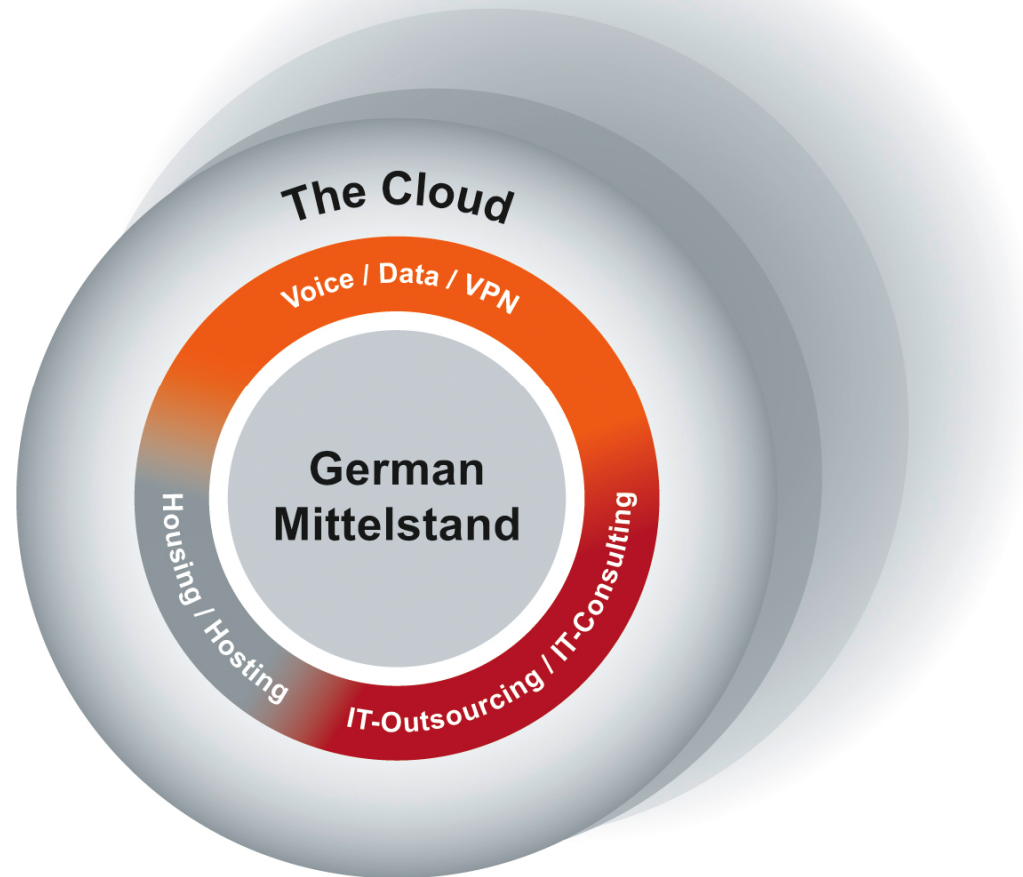
# QSC HAS A LONG TRADITION OF DEVELOPING AND MARKETING SCALABLE PRODUCTS



- QSC knows how to scale products
- QSC knows how to industrialize processes
- QSC knows how to manage a partner channel



# QSC WILL DEVELOP FURTHER SCALABLE PRODUCTS



## QSC IS WORKING ON CLOUD APPLICATIONS FOR HIGHLY ATTRACTIVE MARKETS

- SensorCloud
- O(SC)<sup>2</sup>AR – Open Service Cloud for the Smart Car
- Öko – Energy management

## SENSORCLOUD: READY FOR MARKET IN 2013

- SensorCloud: A highly scalable platform for interconnected sensors and steering applications
- First products for the retail market available from early 2013
- Consortium under the lead of QSC – partner RWTH Aachen University, Cologne University of Applied Sciences ("Fachhochschule Köln"), symmedia GmbH, and the Dillenburger group, supported by the BMWi with a multi-million euro grant

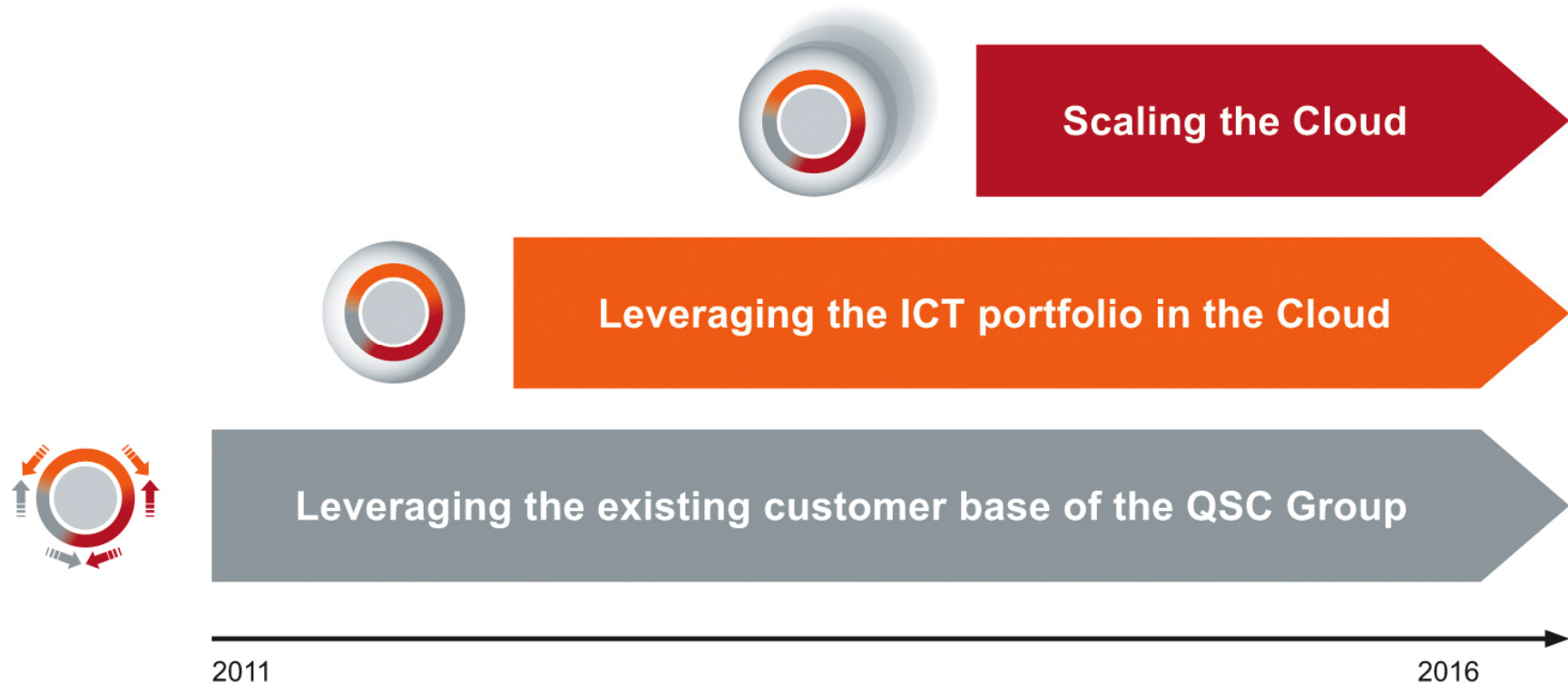
## O(SC)<sup>2</sup> AR – OPEN SERVICE CLOUD FOR THE SMART CAR (CERTIFICATION OF E-CAR EXPECTED IN 2014)

- Objective: Smart Car drives into the Cloud!
- A Communication and Cloud system for integrating electric cars in a SmartGrid and SmartTraffic
- Consortium under the lead of StreetScooter; a cluster to build e-cars at RWTH Aachen University. QSC responsible for Communication and Cloud Services integration.  
Consortium supported by the BMWi with a multi-million euro grant.

## A THIRD VERY INTERESTING MARKET: ENERGY MANAGEMENT

- Energy management for decentralized regenerative power production
- Aim is to cluster different types of regenerative power production for more equalization of production and consumption
- Makes use of QSC real-time Cloud technology
- Based on the technology of the publicly funded SensorCloud and O(SC)<sup>2</sup>AR projects
- First negotiations with large utilities under way

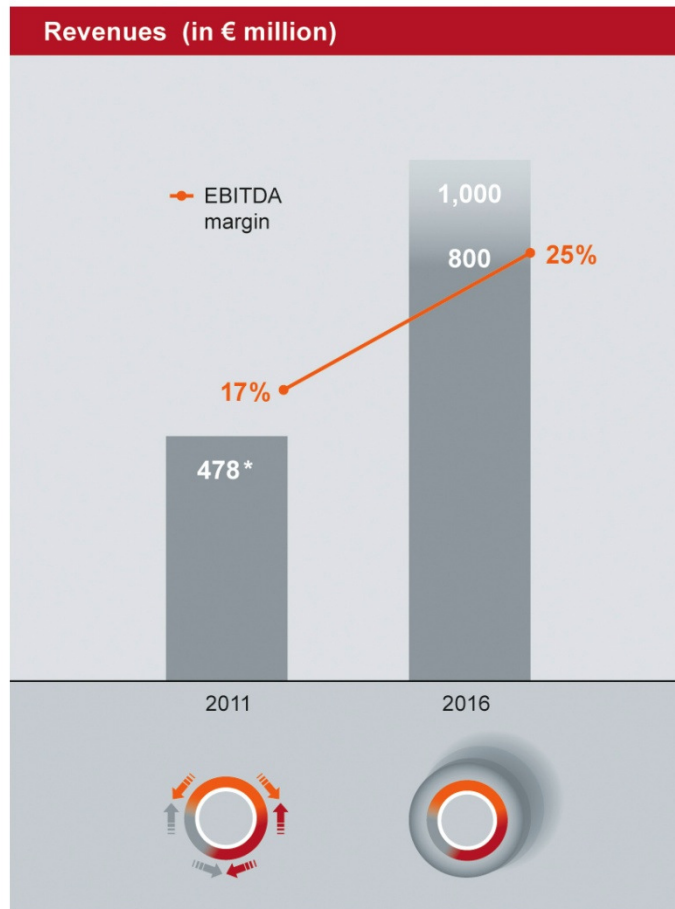
# OUR STRATEGY: QSC WILL BECOME THE GERMAN CLOUD PROVIDER



## KEY TAKEAWAYS: QSC IS IN A PERFECT POSITION...

- **Realizing opportunities in cross- and up-selling**
    - Fast sales integration of INFO AG and IP Partner
    - Joint customer base of more than 30,000 customers in the German Mittelstand
  - **Seizing opportunities in Cloud computing**
    - QSC is in the pole position for targeting the fast-growing market as we have all necessary competencies on board
  - **Profiting from long experience in scaling products and services**
    - QSC is rooted in the TC sector, a sector with a proven track record of automation and industrialization
- ⇒ **QSC will grow its business and focus on profitability and financial strength to generate returns for shareholders**

## ... TO DOUBLE ITS REVENUES WITHIN 5 YEARS



QSC will strengthen its position as a medium-sized ICT provider, and will become **the operator of the German Cloud**

In 2016, QSC will be a company

- Revenues of € 0.8 – 1.0 billion
- An EBITDA margin of 25%
- Free cash flow of € 120 – 150 million



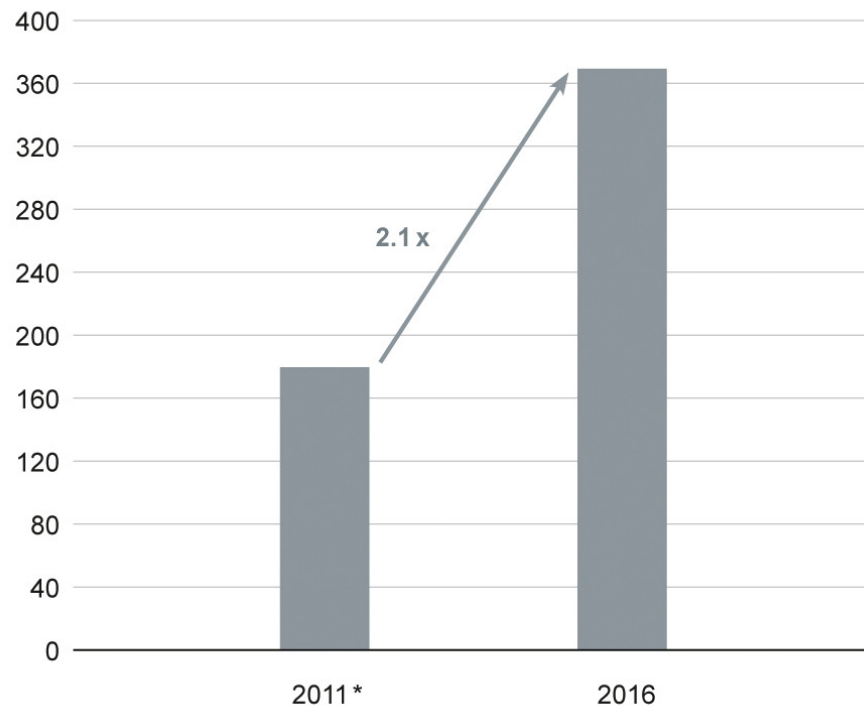
# Direct Sales Strategy 2011 – 2016

Thomas Stoek, Board Member

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# QSC AIMS TO DOUBLE ITS REVENUES FROM DIRECT SALES

DIRECT SALES REVENUES (in € million)



- Growth in Direct Sales will be triggered by:

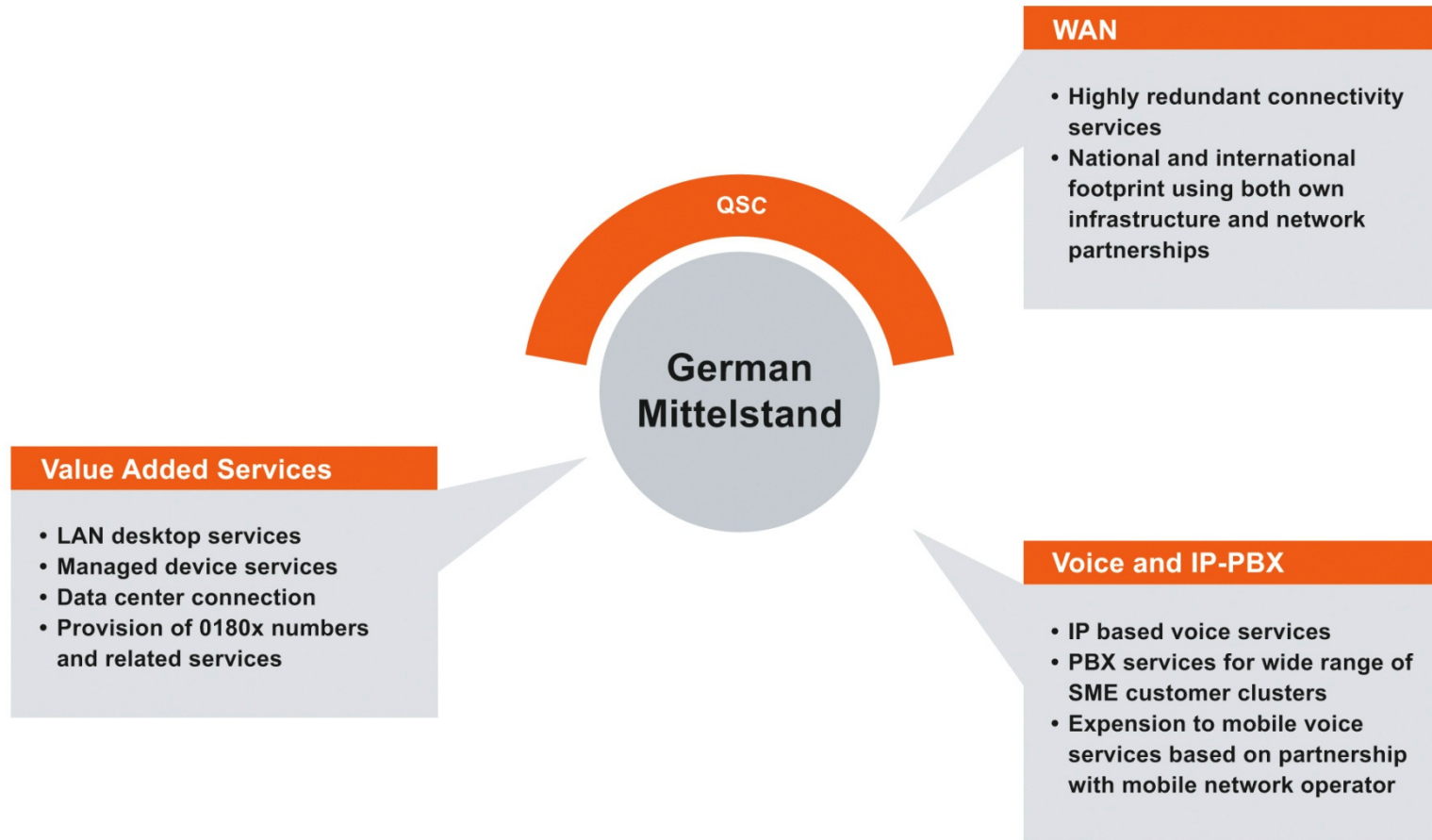


Leveraging the existing customer base

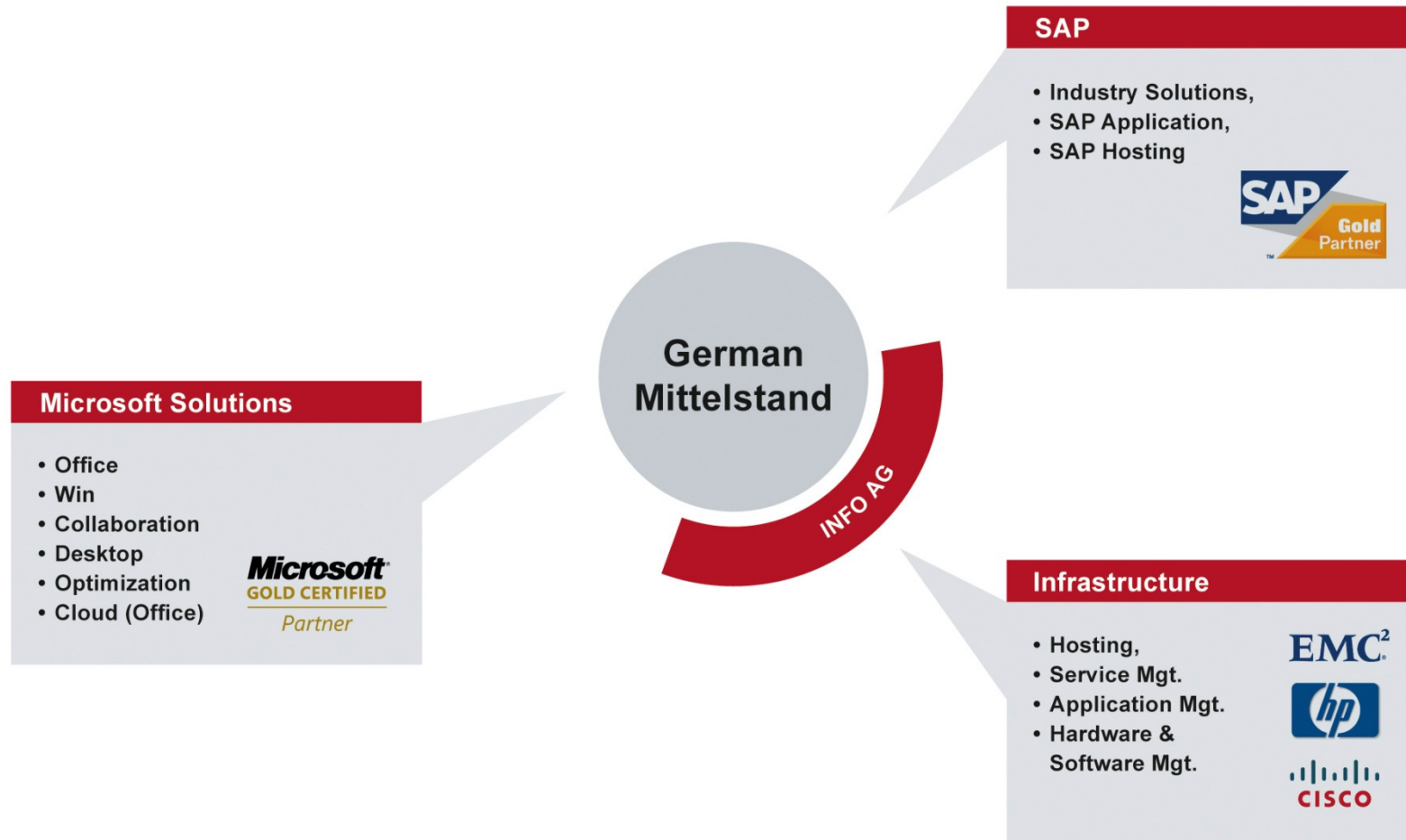


Private Cloud Services

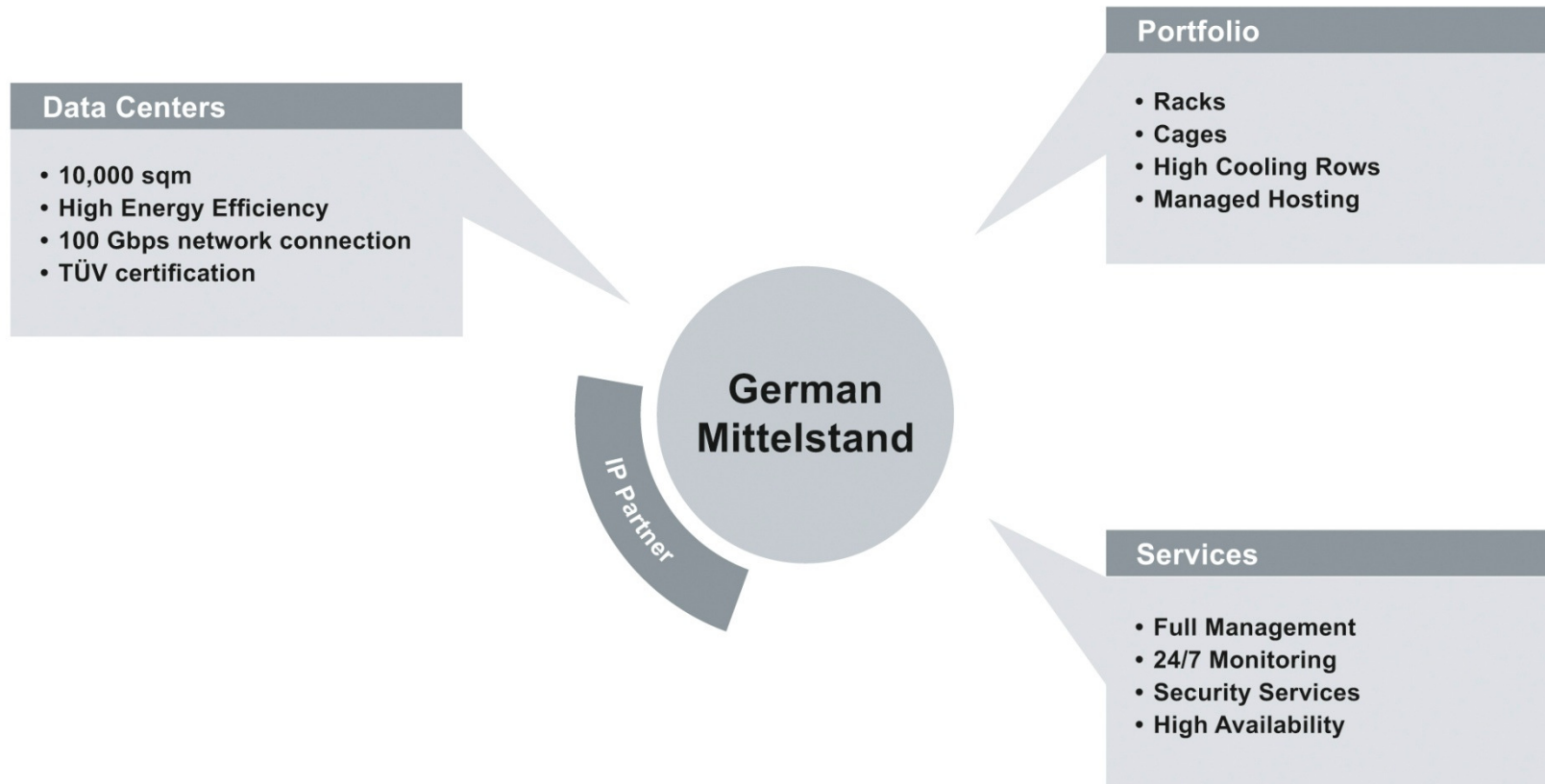
# QSC: A LONG TRADITION OF MANAGED SERVICES



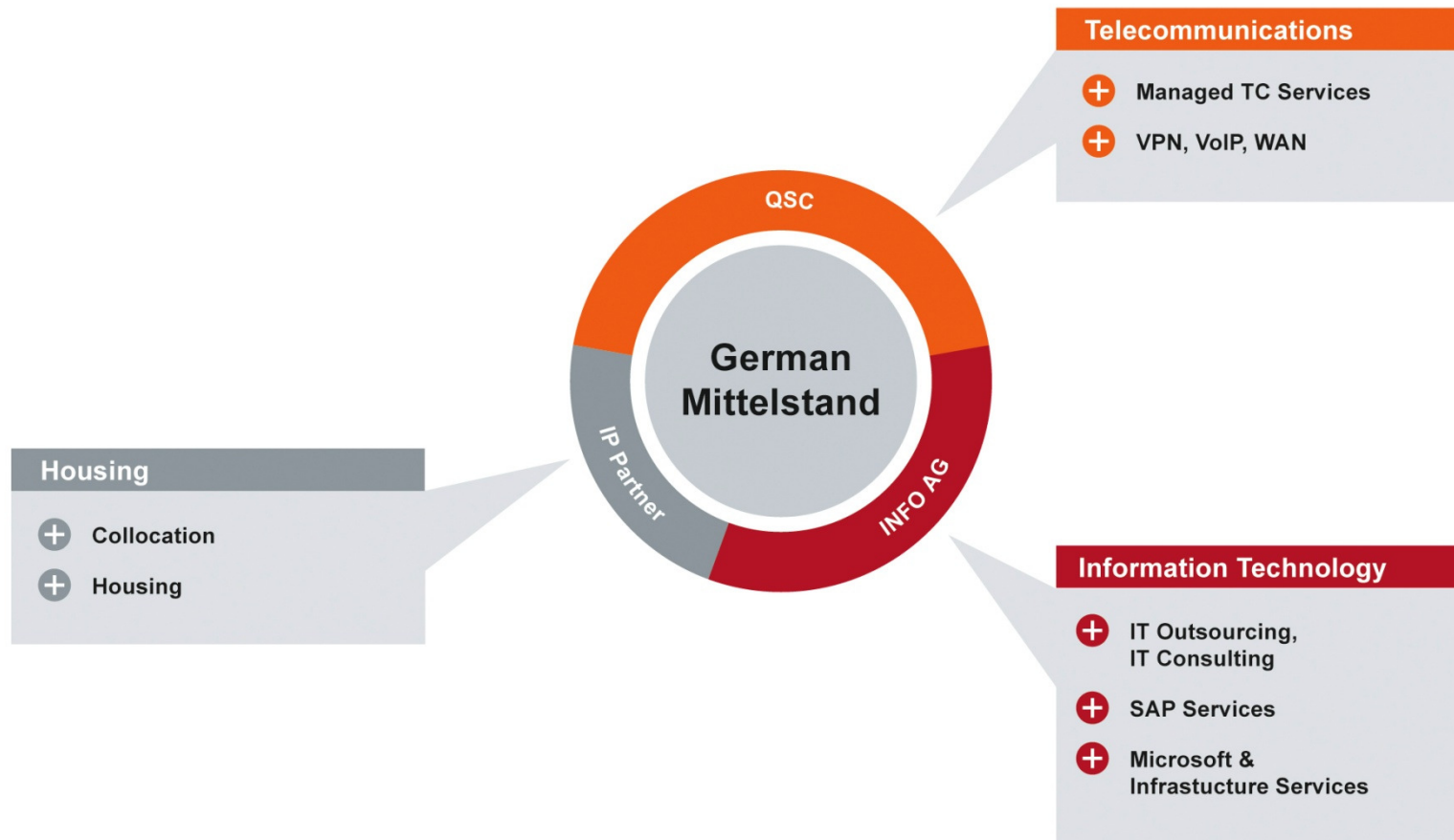
# INFO AG: WELL POSITIONED IN THE CONSULTING AND OUTSOURCING BUSINESS



# IP PARTNER: A FAST GROWING HOUSING AND HOSTING PROVIDER WITH ITS OWN DATA CENTERS

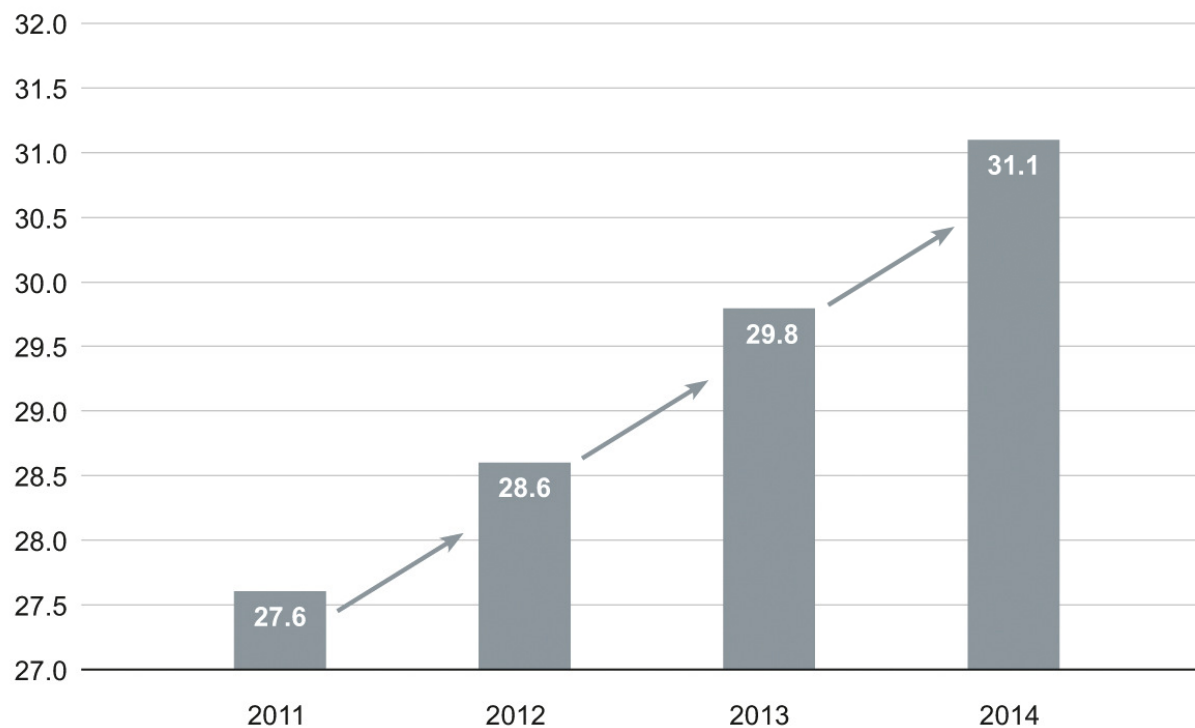


# QSC-GROUP: A FULL-SERVICE ICT PROVIDER WITH HUGE POTENTIAL FOR PROFITABLE GROWTH



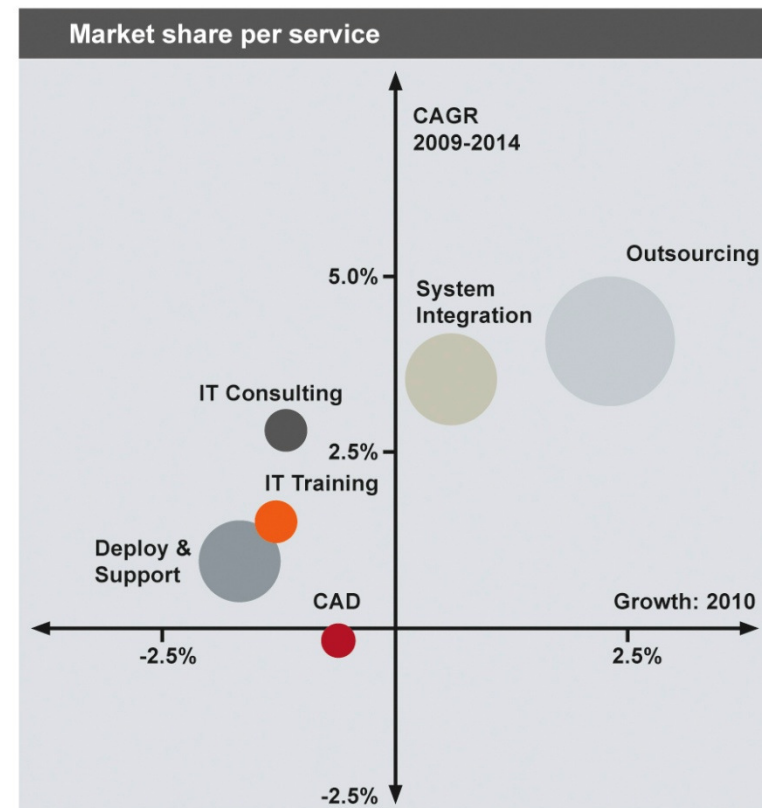
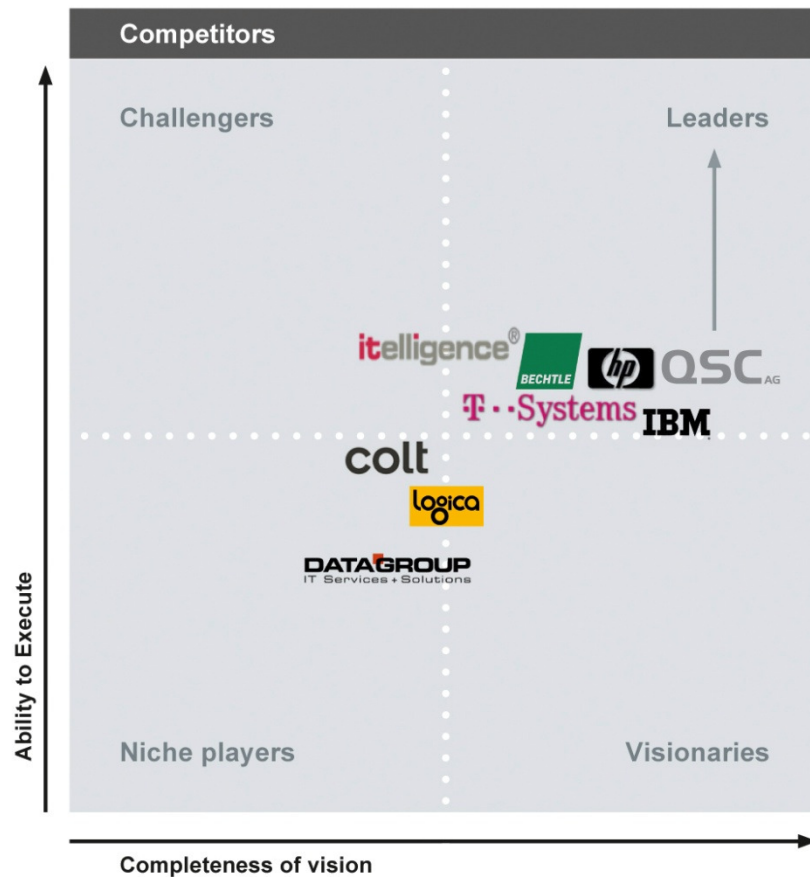
# QSC EXPECTS TO GROW FASTER THAN THE MARKET

IT SERVICES IN GERMANY (in € billion)



Source: IDC

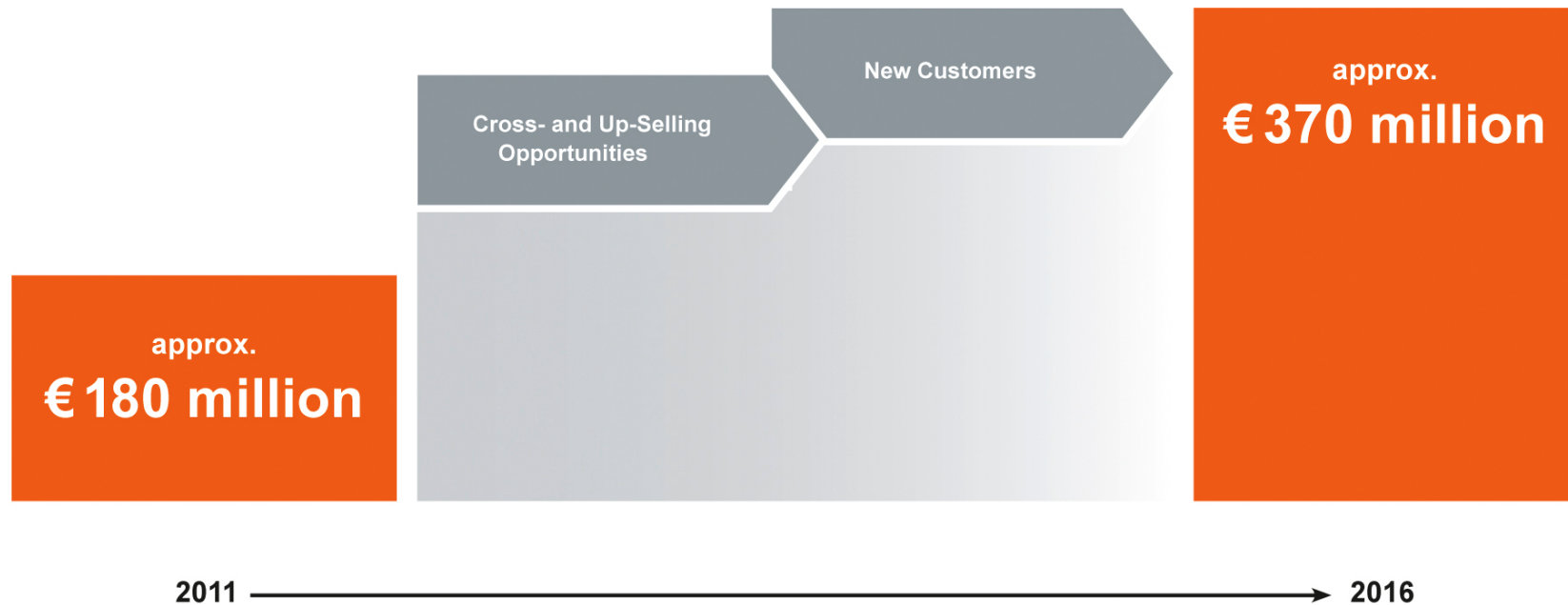
# QSC IS WELL POSITIONED IN AN ATTRACTIVE MARKET



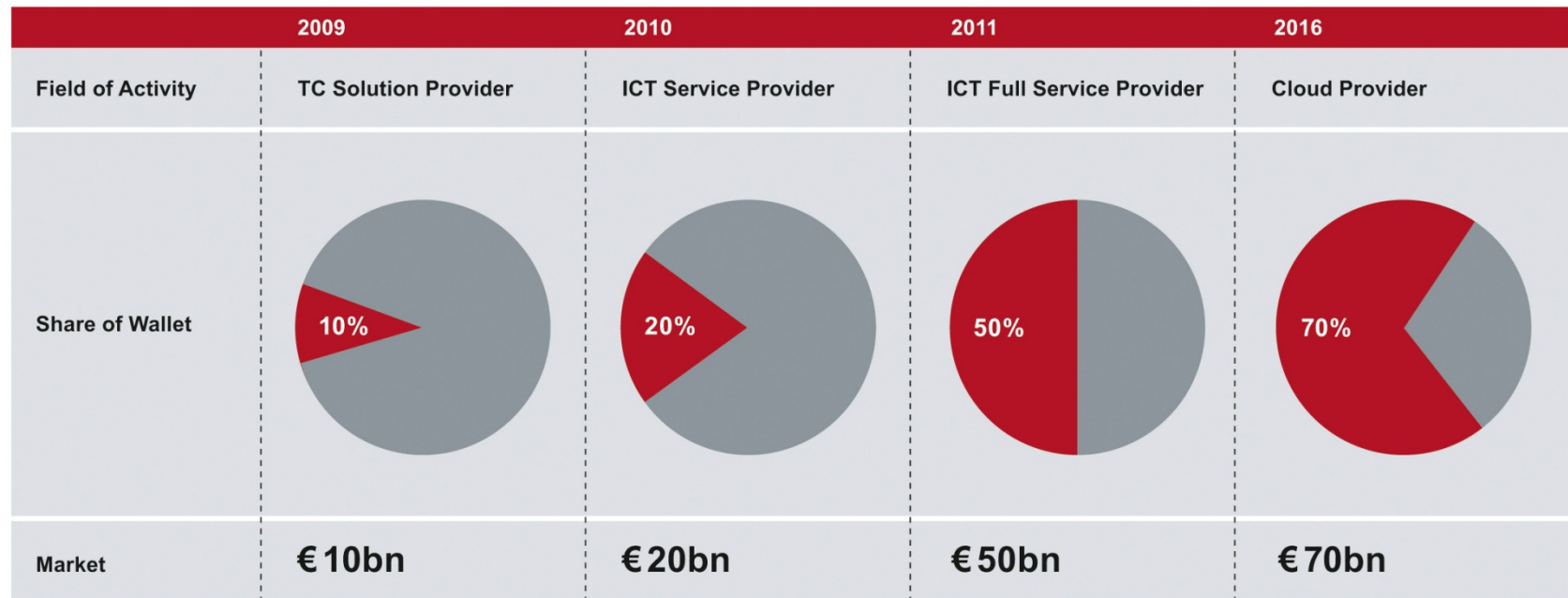
Source: IDC



## TWO MAIN GROWTH DRIVERS IN DIRECT SALES



# FULL-RANGE ICT PORTFOLIO WILL LEAD TO A HIGHER SHARE OF WALLET

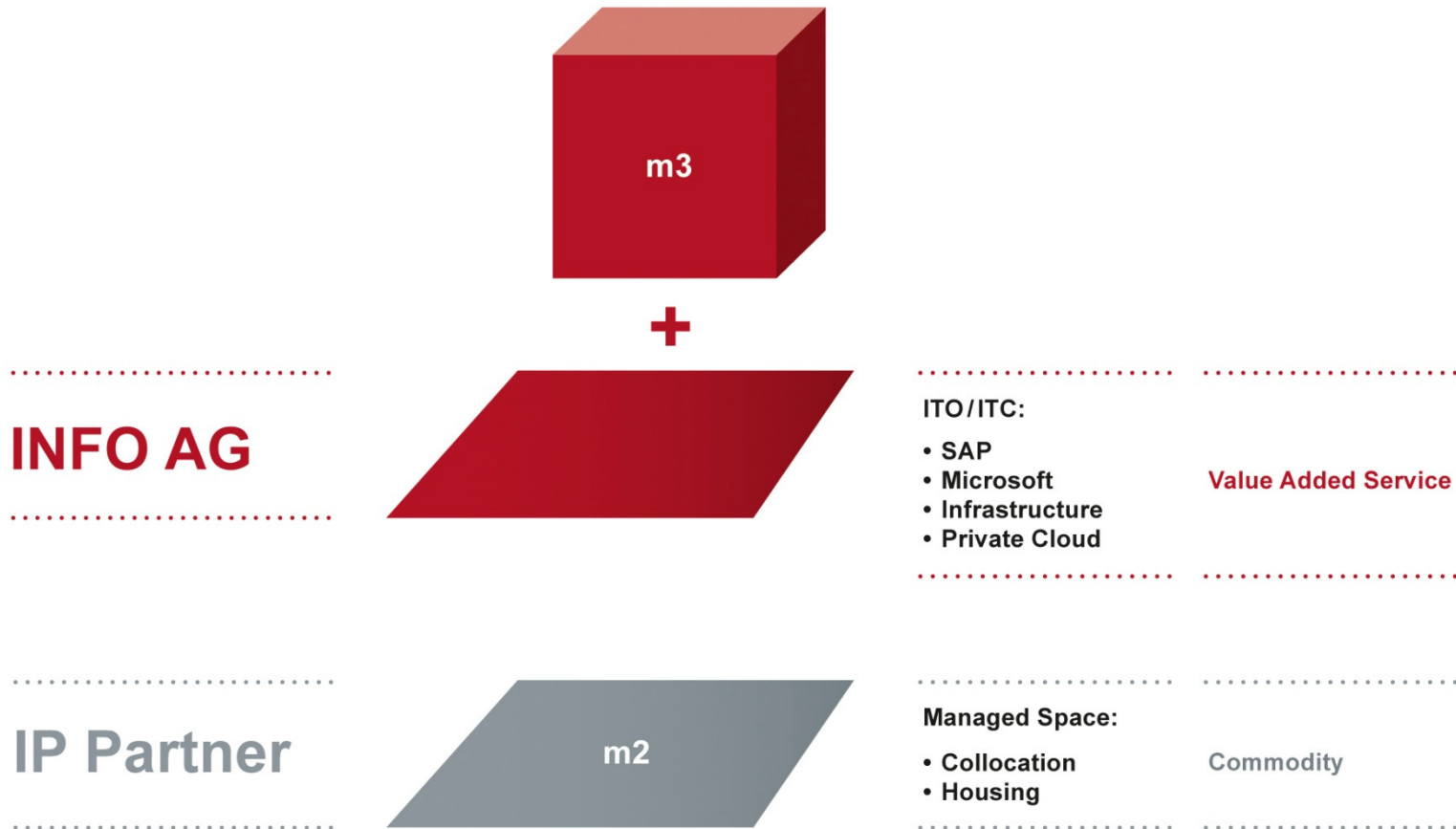


# INFO AG AND QSC ARE A PERFECT COMBINATION FOR UP- AND CROSS-SELLING



➔ Increase of average revenue and customer base!

# MORE REVENUES ON THE SAME SPACE: A HUGE TRIGGER FOR ADDITIONAL REVENUES

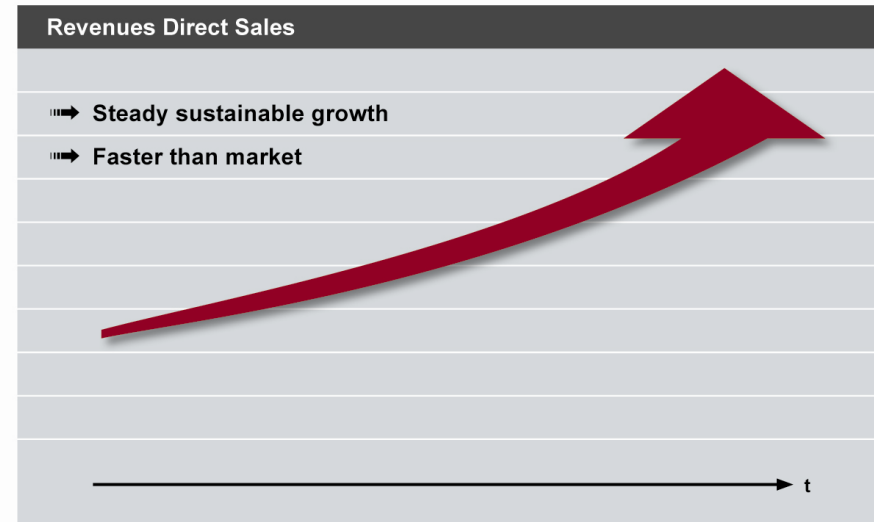


# GROWTH DRIVER NEW BUSINESS: QSC HAS WON CONTRACTS WORTH € 17.4 MILLION WITHIN 6 WEEKS

Industry	Services	Total contract value
Facility	IT Infrastructure Application Management	€ 4,000,000
Gas	IT Infrastructure IT Consulting	€ 9,000,000
Manufacturing	IT Infrastructure SAP	€ 1,900,000
Logistics/Shipping	IT Infrastructure User HelpDesk Services	€ 2,500,000

# KEY TAKEAWAYS: DIRECT SALES EXPECTS STEADY GROWTH

- Direct Sales aims to **double its revenues** in the next five years
- **Two main triggers for growth**
  - Upselling of existing and new services
  - New customers
- **A great start for up-selling**
  - 15 joint projects
  - Total contract value > € 1 million

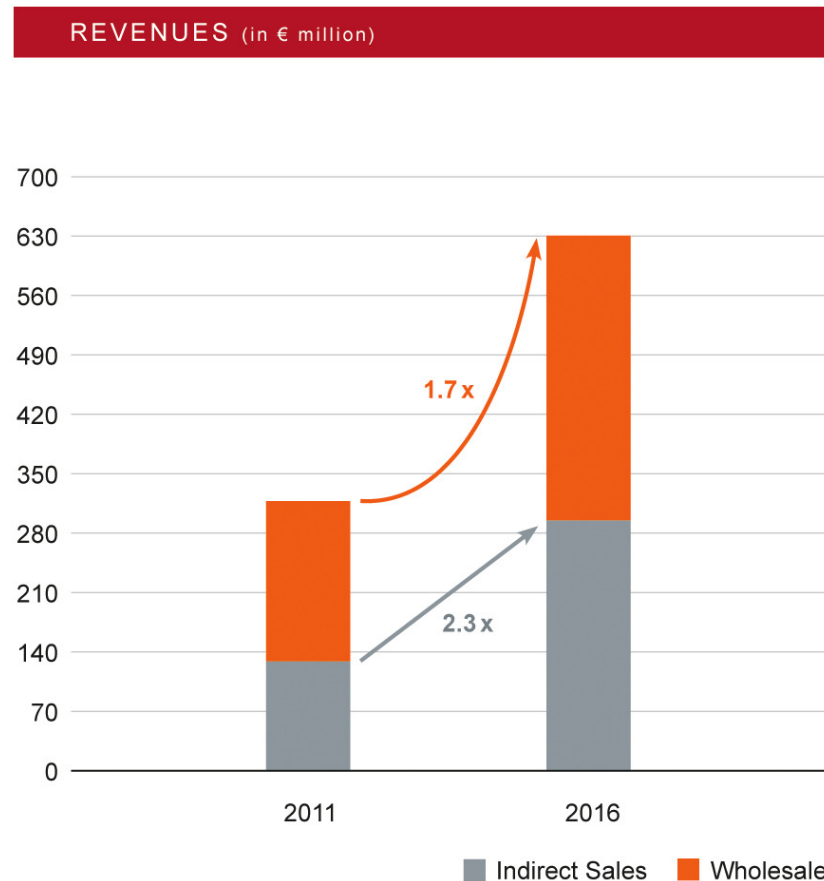


# INDIRECT SALES STRATEGY 2011 – 2016

Arnold Stender, Board Member

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# QSC AIMS TO DOUBLE ITS REVENUES FROM INDIRECT SALES CHANNELS



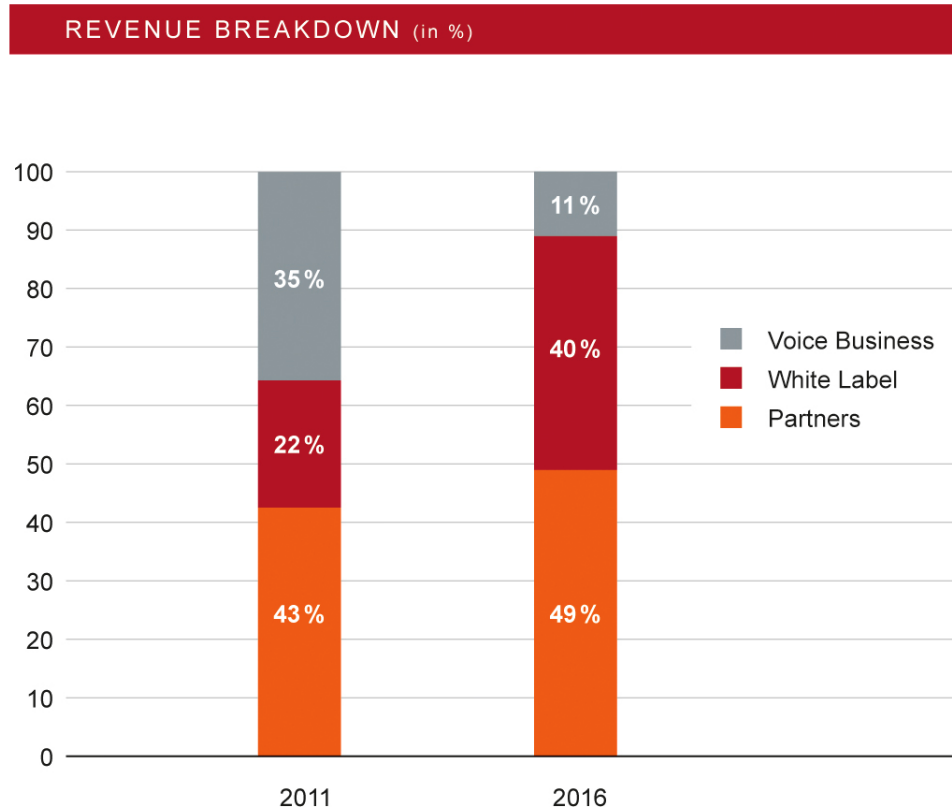
- Growth in Indirect Sales will be triggered by:
  - Leveraging the existing customer base
  - Cloud Services
- Growth in Wholesale will be triggered by:
  - Cloud Services
  - Scaling the Cloud



# STRATEGY FOR INDIRECT SALES BUSINESS

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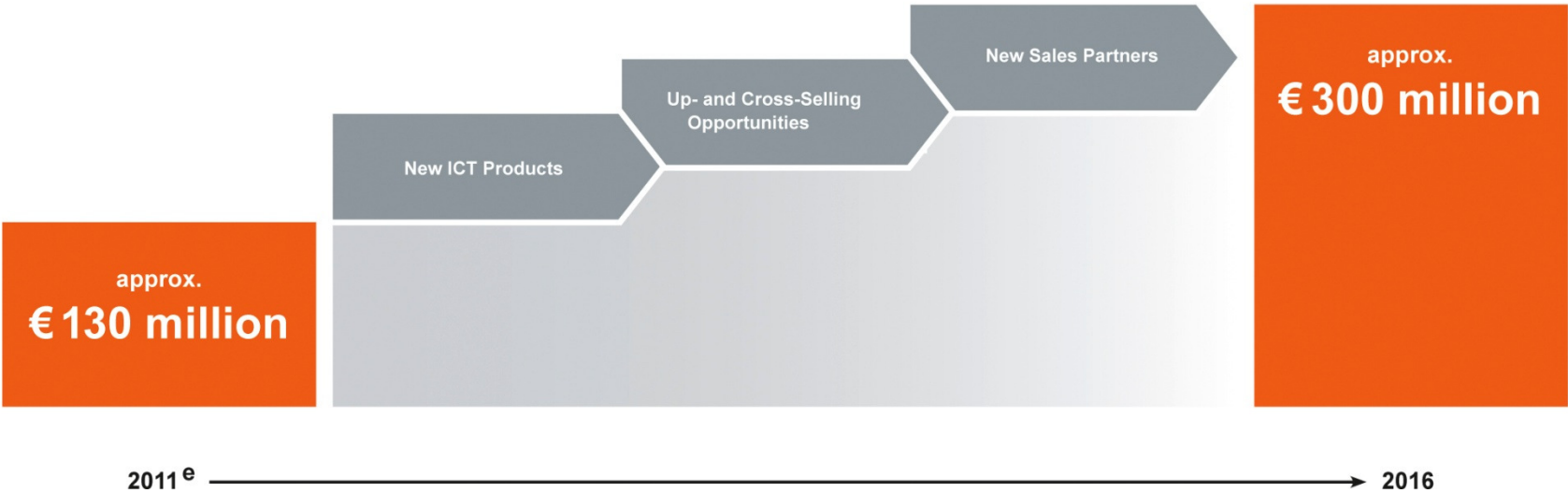
# INDIRECT SALES: RISING RELEVANCE OF PARTNER AND WHITE LABEL CHANNELS



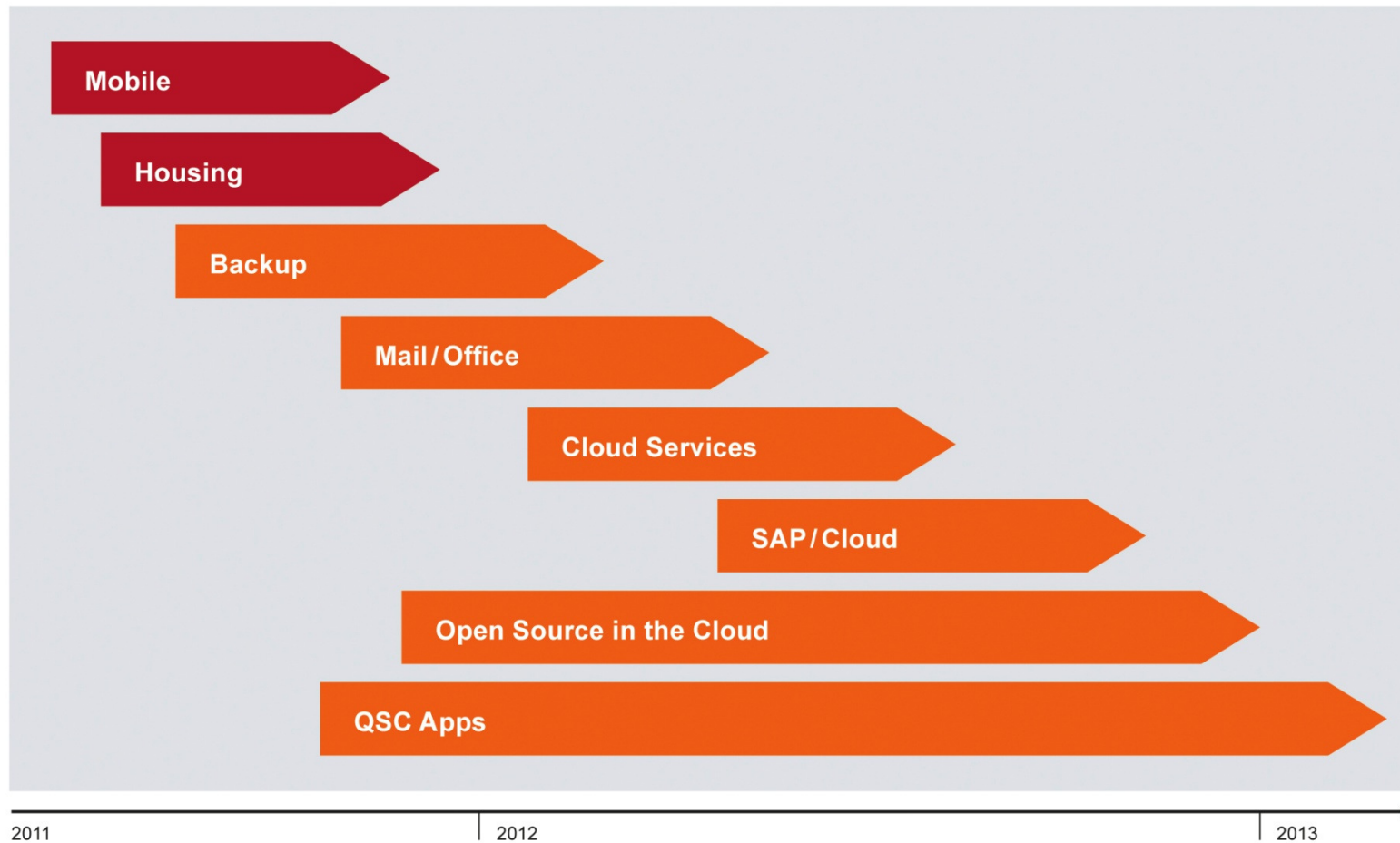
Three main channels:

- Partners:  
QSC with customer relations  
e.g. NouvelleCom, Bluestring
- White Label:  
Resellers / ISPs / Carriers  
with customer relations  
e.g. Avaya, DeTeWe, AT&T
- Voice Business:  
German and foreign carriers  
with customer relations  
e.g. Colt, KPN

# THREE WAYS TO INCREASE REVENUES FROM INDIRECT SALES

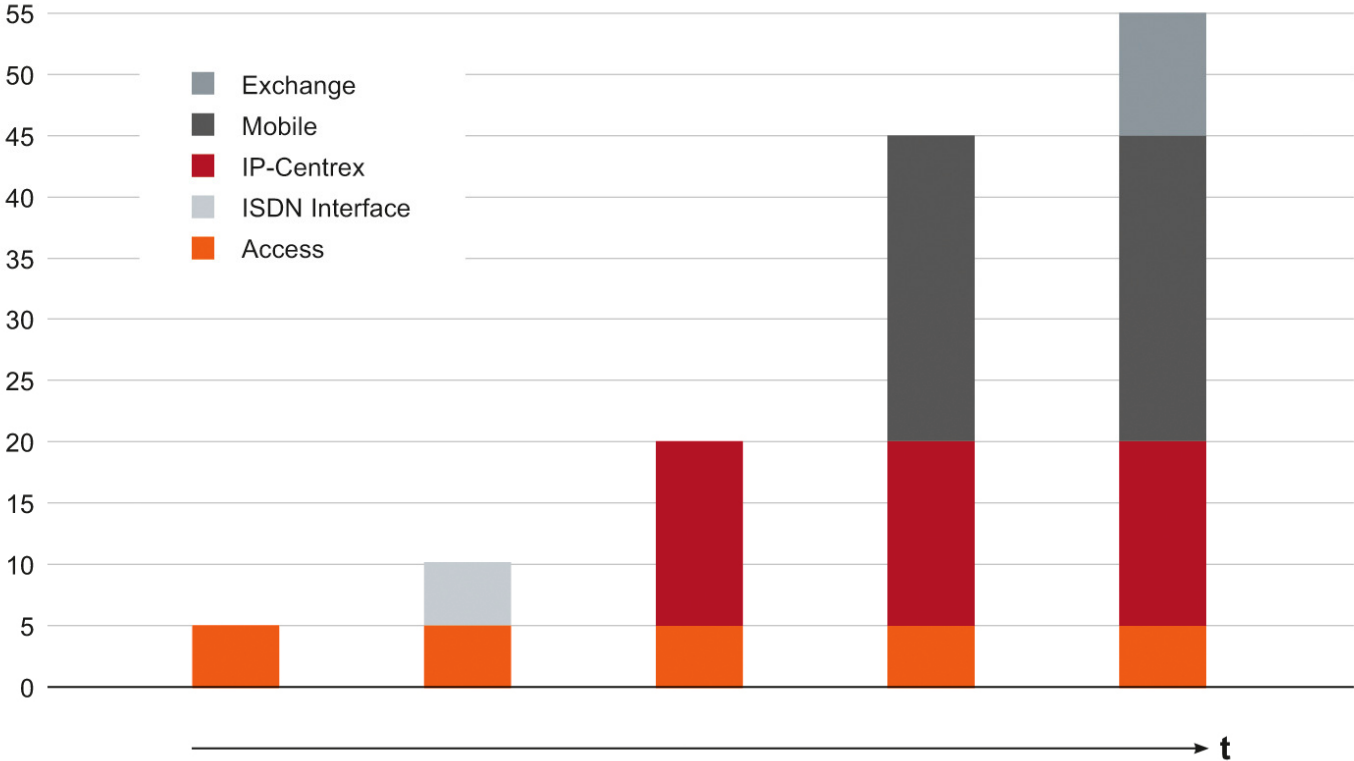


# CLOUD SERVICES AND MORE: NEW QSC PRODUCTS IN H2 2011 AND 2012

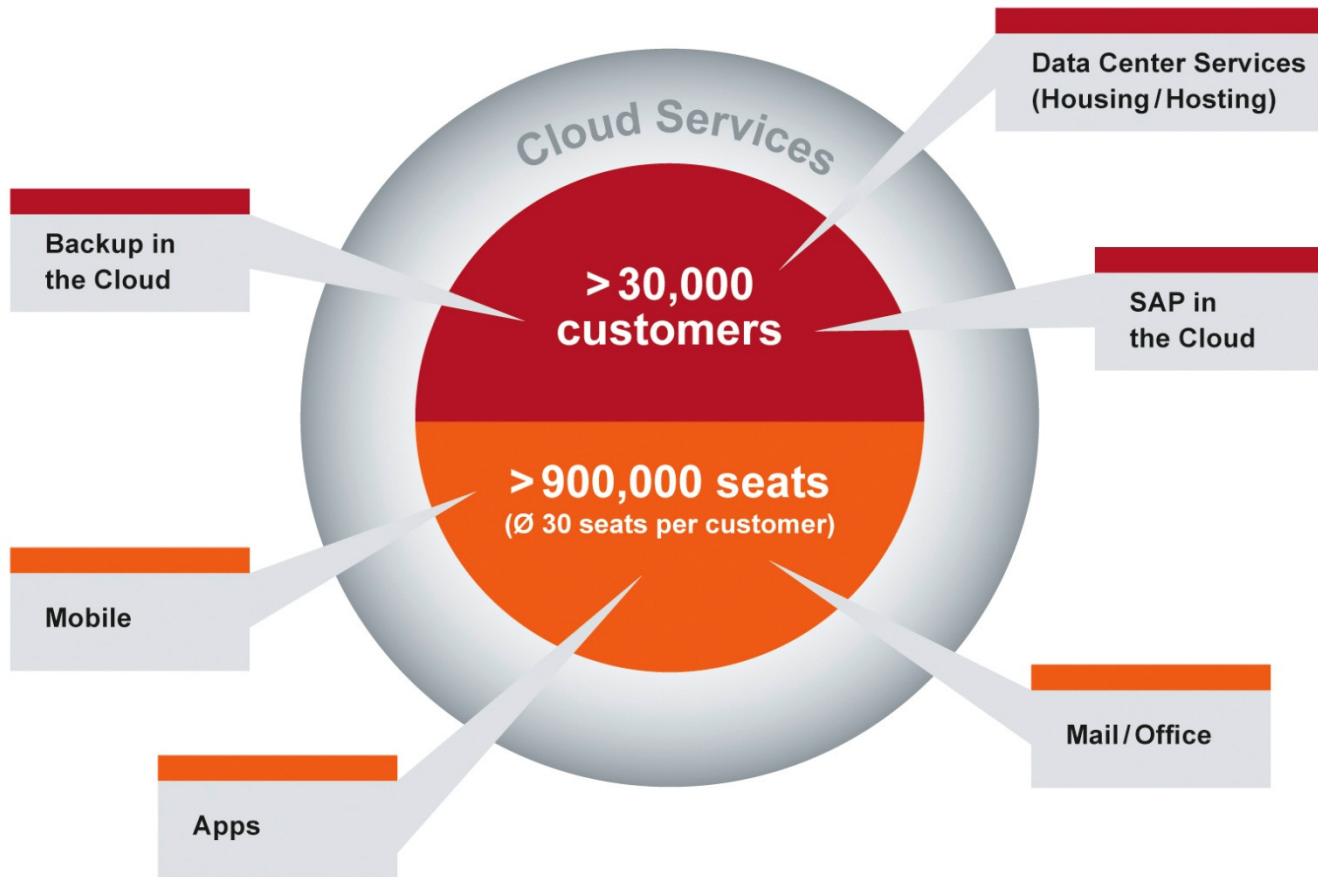


# NEW PRODUCTS WILL ACCELERATE UP- AND CROSS-SELLING

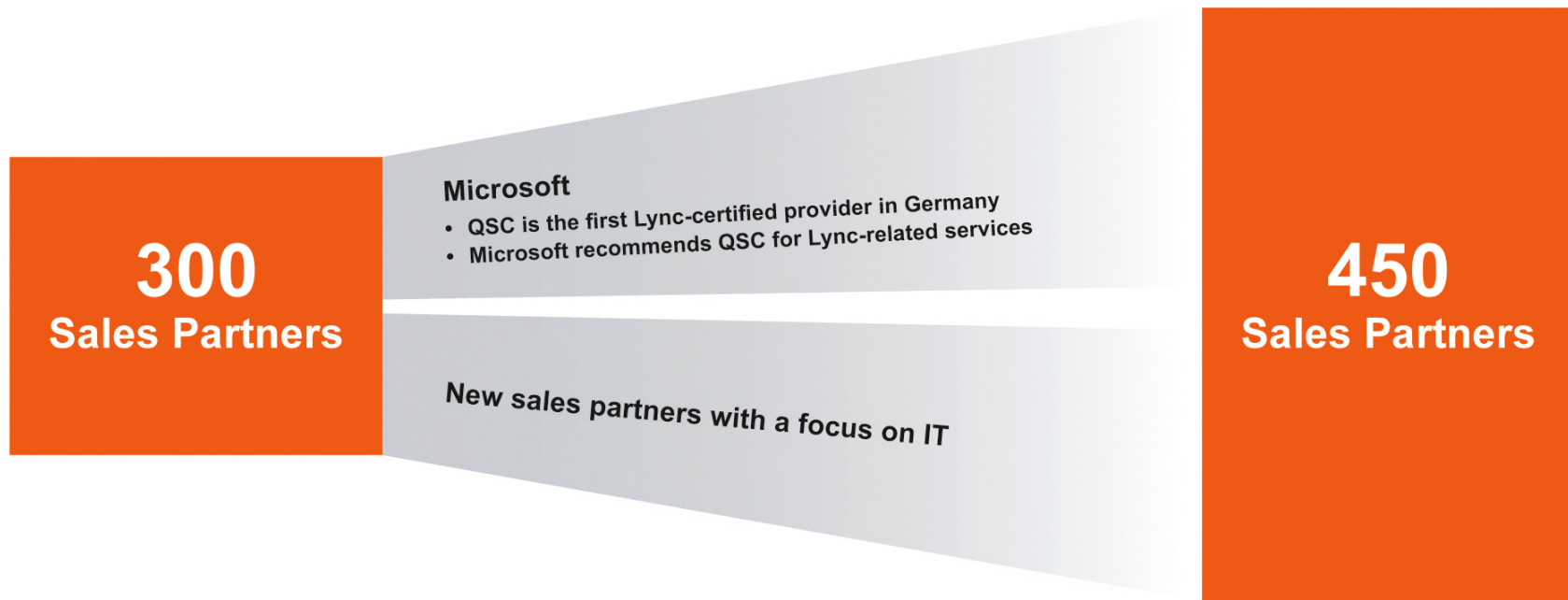
EXAMPLE OF UPSELLING OPPORTUNITIES (ARPU in €)



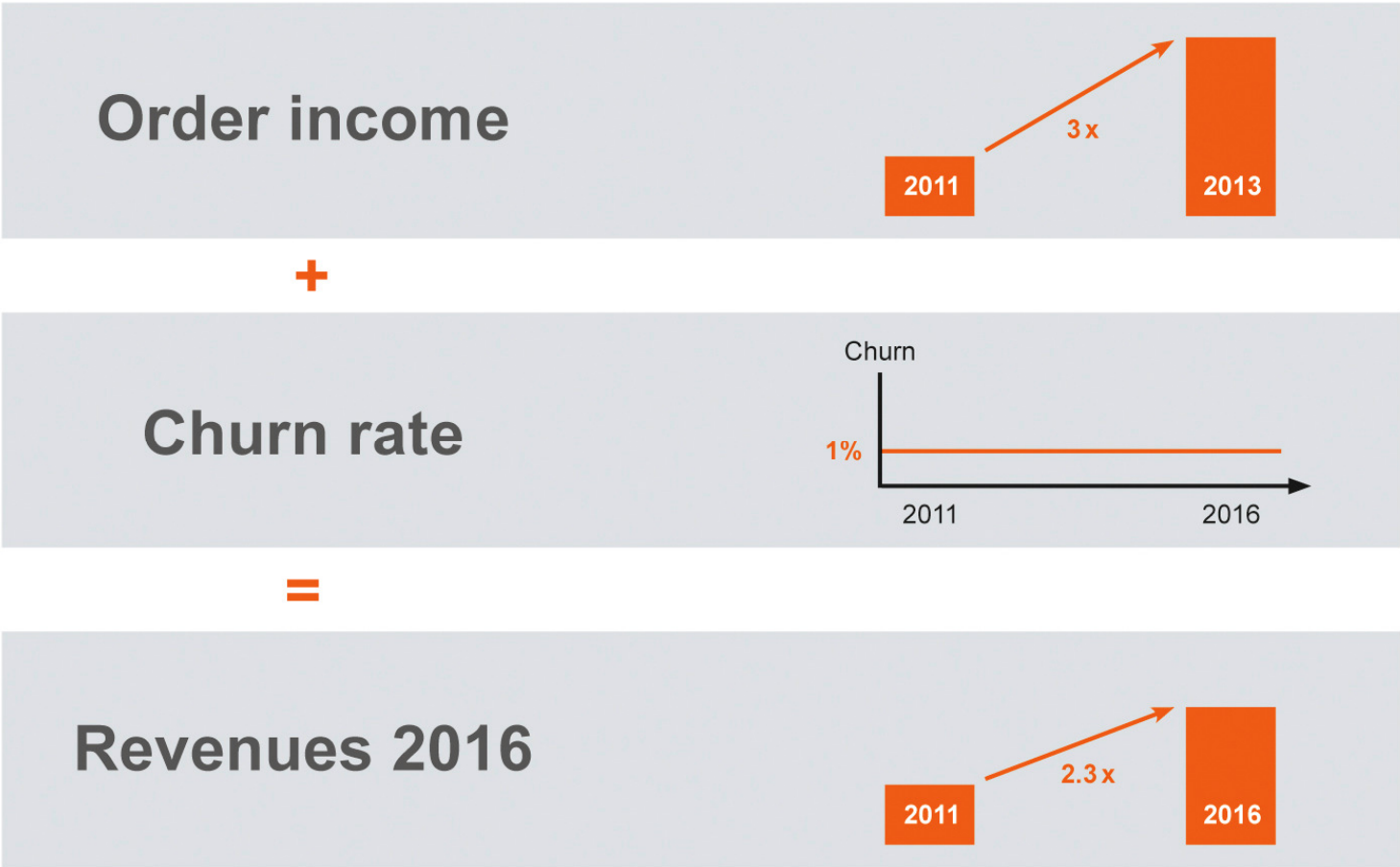
# TREMENDOUS UPSELLING POTENTIAL FROM CLOUD SERVICES



# QSC WILL BROADEN ITS SALES CHANNEL AND WIN MORE SALES PARTNERS WITH AN IT BACKGROUND



# THE THREE WAYS TO INCREASE REVENUES WILL ENABLE QSC TO MORE THAN DOUBLE ITS REVENUES

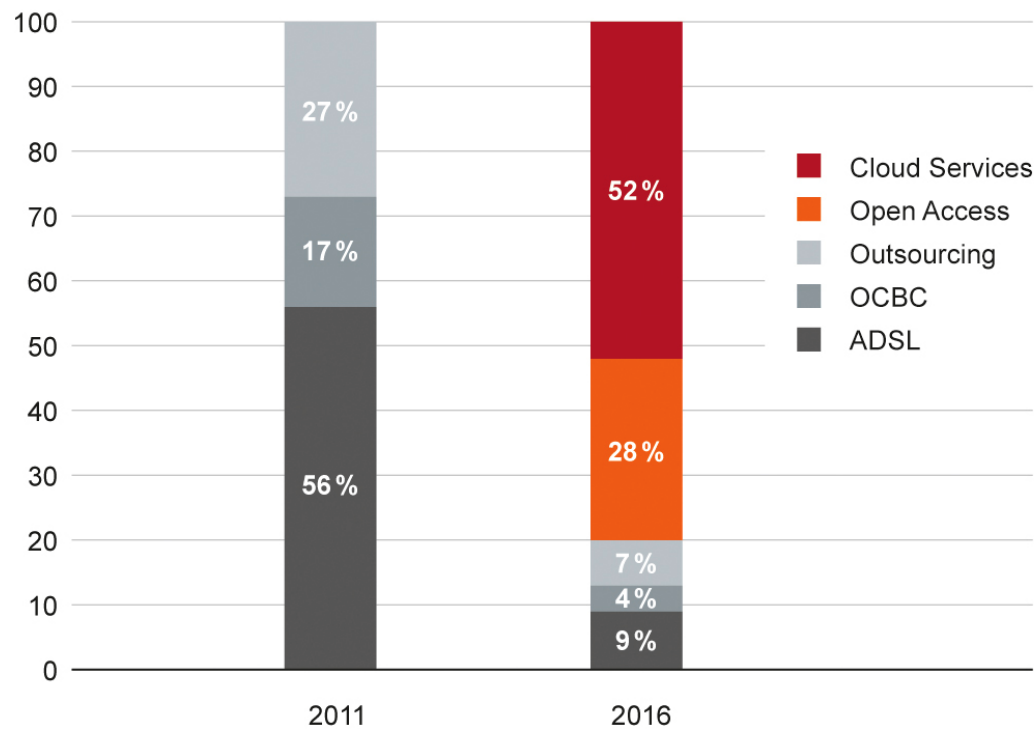




# STRATEGY FOR WHOLESALE BUSINESS

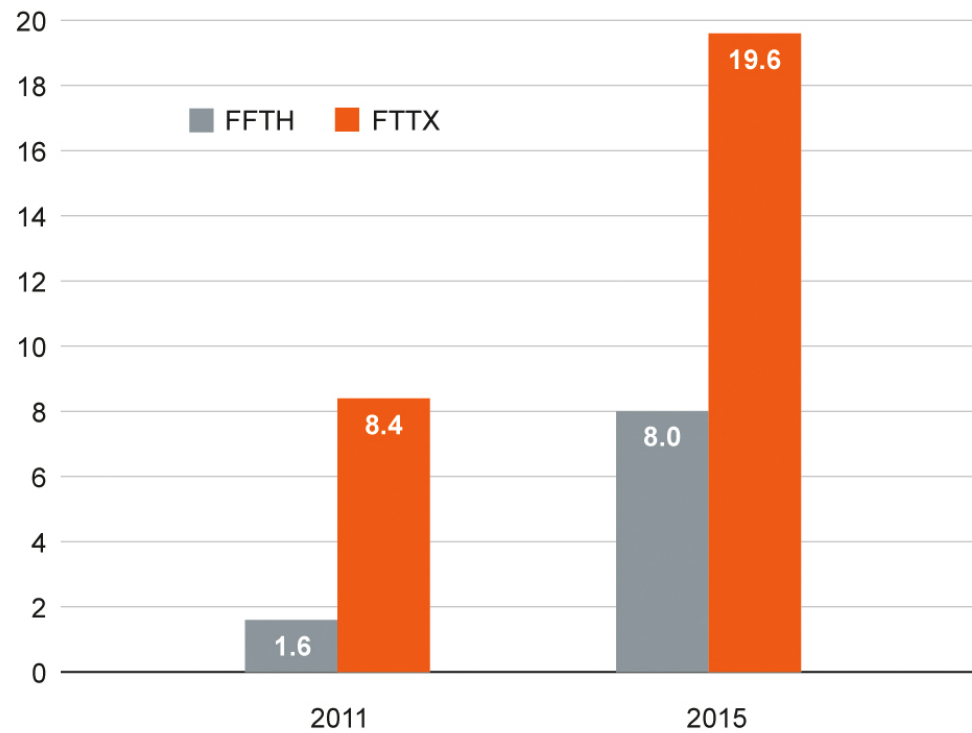
# WHOLESALE: OPEN ACCESS AND CLOUD SERVICES WILL DRIVE GROWTH

REVENUE BREAKDOWN (in %)



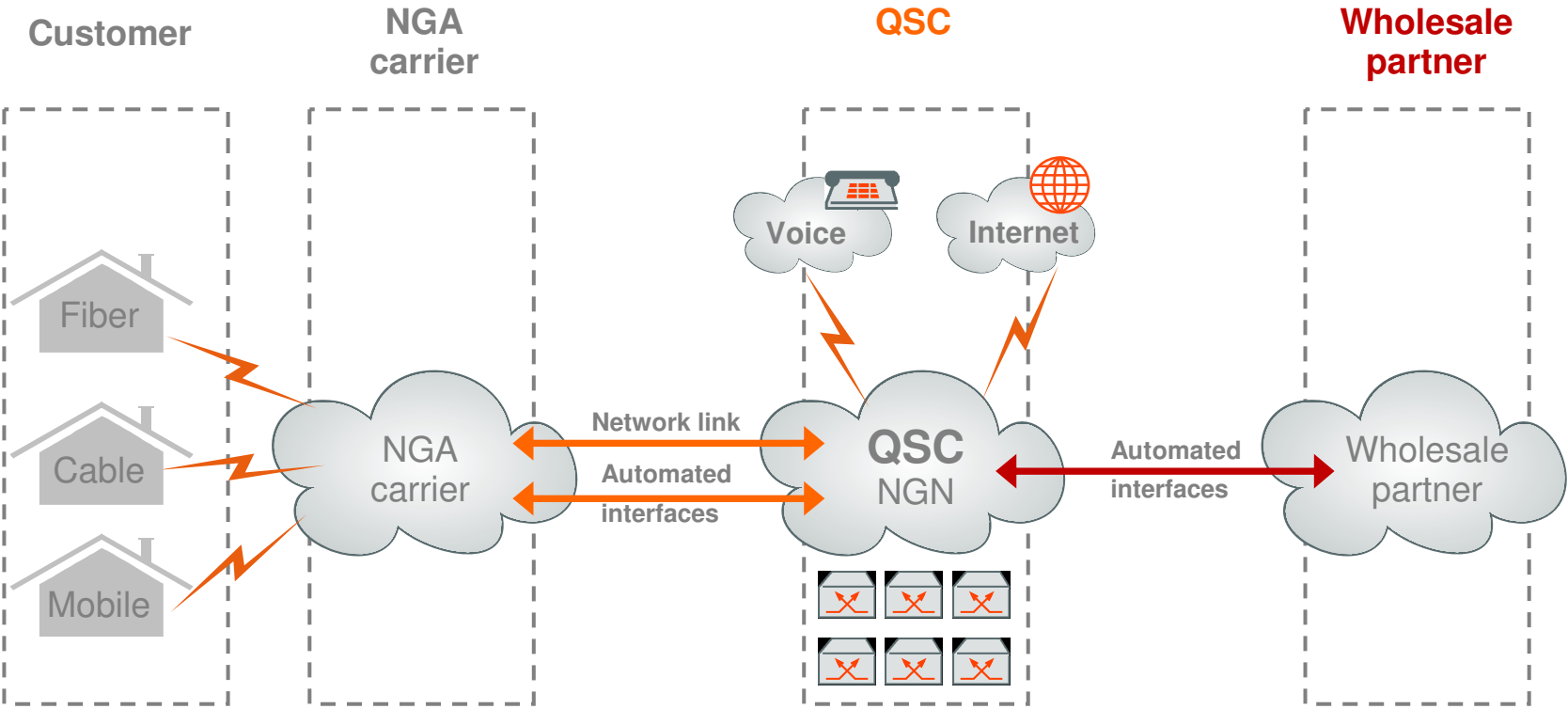
# FIRST GROWTH OPPORTUNITY: OPEN ACCESS

HOMES PASSED BY FIBER (households in million)



Source: Arthur D. Little, Exane BNP Paribas estimates, March 2011

# QSC HAS LAUNCHED THE FIRST NATIONWIDE OPEN ACCESS PLATFORM IN GERMANY



## THE EARLY LAUNCH IS PAYING OFF

- In 2010, QSC started Open Access business with two partners
    - Leipzig-based HL komm as the **first infrastructure provider**
    - **1&1 Internet AG** as the **first provider**
  - In 2011, QSC has become a partner in a unique pilot project for Next Generation Access in Berlin
    - Partners: **Vattenfall, Ericsson and degewo** (residential property company)
- ⇒ As QSC acts as a **neutral integrator of networks and services**, the company is in a **pole position** to participate in the **growth of FTTx business**

## QSC WILL COMMERCIALIZE ITS POLE POSITION

- Assumption: In five years' time, about 500,000 households will have been equipped with fiber via QSC
- Internal processes are the same as ADSL processes, and therefore well-established
- QSC has broad experience in automated systems
- The systems are up and running
- Many years of loyal partnerships with several service providers
- No competition from NGA providers and residential customer brands
- QSC is fast & flexible

# SECOND GROWTH OPPORTUNITY: CLOUD SERVICES

- **Trusted Cloud (SensorCloud) is a perfect toolbox** for further services:
  - Home automation
  - Smart metering
  - Smart grids
  - ...
- **QSC is well positioned** to offer **Cloud Services**
  - Close contact with utility companies (e.g. Vattenfall, RWE)
  - Close contact with residential customer providers (freenet, 1&1)
  - QSC will offer a German Cloud platform (hosted in Germany under German law)
  - QSC has broad experience in designing and marketing innovative products & solutions

# HOME AUTOMATION IS OF GREAT INTEREST

»13 millions germans are interested in intelligent home networking.«

facit research, 2011

»Intelligent home networking is the future of living.«

VDE, 2011

»... the market for "Smart Home" applications in Germany will grow from currently about € two billion to € 2.9 billion in 2015 and € 19 billion in the year 2025.«

VDE, 2011



## HOME AUTOMATION: QSC IS WELL POSITIONED

- **Trusted Cloud platform** & German high-end data centers will serve as a perfect base
- Home automation is closely associated with the use of sensors and actuators – here **QSC currently collects experiences**
- QSC is a **network specialist** and (thanks to close co-operation with e.g. RWTH Aachen) **able to develop intelligent interfaces**
- QSC is perceived as a **reliable vendor**
- QSC is an **innovative company** & experienced in occupying market niches

# SMART METERING IS A HUGE OPPORTUNITY

»Frost & Sullivan forecasts a growth of 26 percent in Europe.«

Frost & Sullivan, 2011

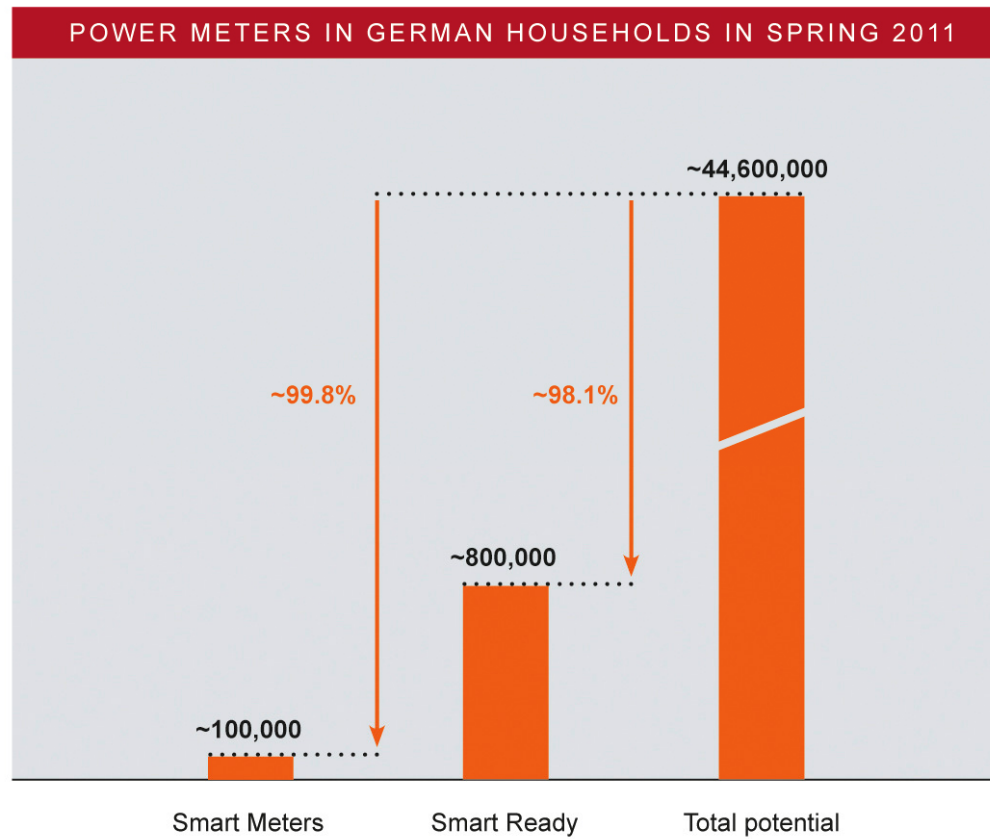
»Market penetration of at least 50% in 2015.«

A.T. Kearney, 2011

»Once the smart meters and communication networks are in place, we expect to see additional investment on the customer side of the meter in home energy management and smart building technologies as well as on the utility side of the meter in distribution management and distribution automation.«

IDC, 2011

# DAWN OF THE GERMAN SMART METERING MARKET



Source: Arthur D. Little, 2011

## SMART METERING: QSC IS WELL POSITIONED

- QSC has broad experience in **integrating different (data) networks** (e.g. German Open Access platform)
- QSC **owns a NGN** and employs many highly **qualified data networks specialists**
- QSC is able to **store huge amount of data** in its own high-end data centers (and can guarantee highest data security)
- QSC will be **able to develop interfaces** thanks to its own growing team of IT developers and the co-operation with different universities (e.g. RWTH Aachen)

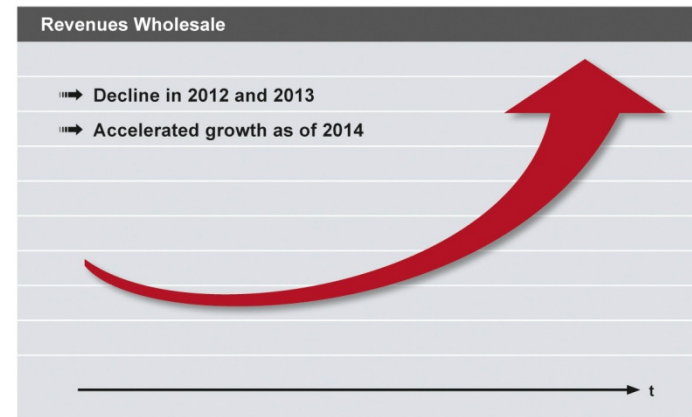
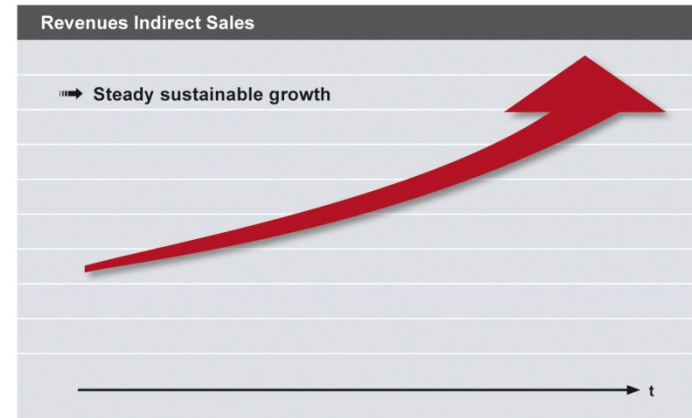
# A CLEAR STRATEGY TO INCREASE REVENUES IN INDIRECT SALES AND WHOLESALE BUSINESS

- **Indirect Sales**

- Define new products
- Increase ARPU
- Find new partners

- **Wholesale**

- Open Access
  - Portfolio for fiber companies
- Cloud Services
  - Develop products for home automation
  - Develop products for Smart metering



# PROFITABILITY STRATEGY 2011 – 2016

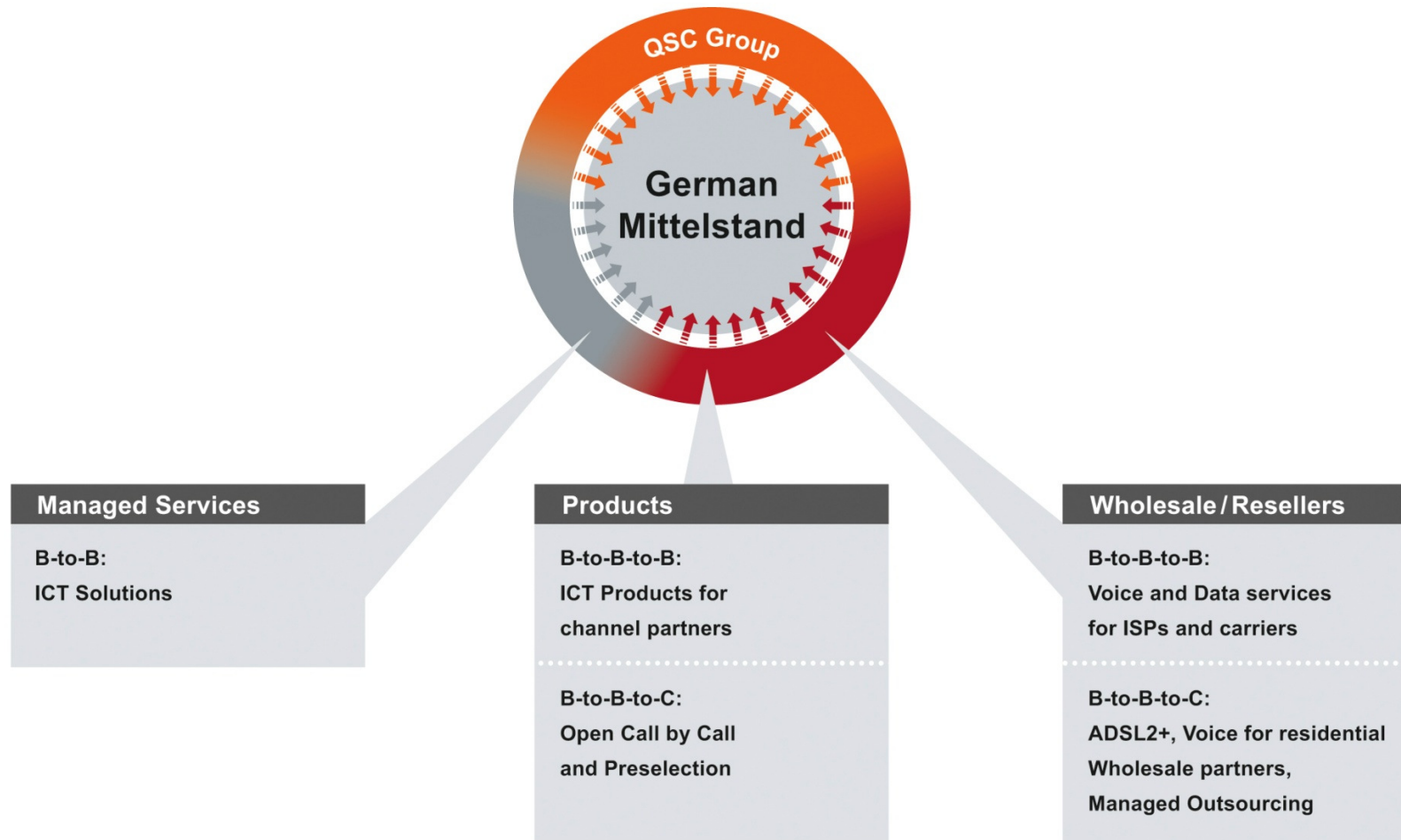
Jürgen Hermann, CFO

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# STEERING LOGIC AND MANAGEMENT REPORTING NECESSIATE NEW SEGMENTATION

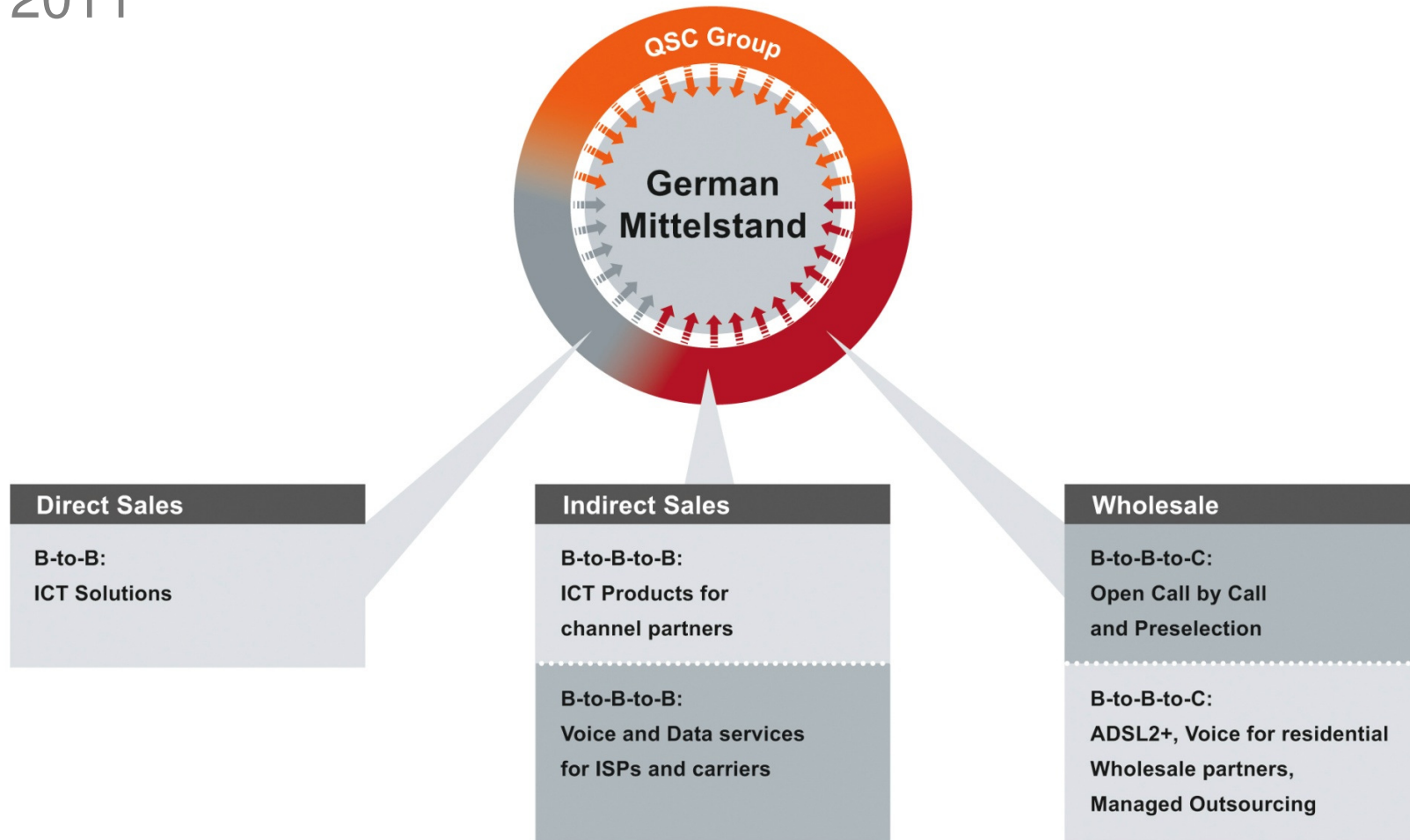


# CURRENT SEGMENTATION



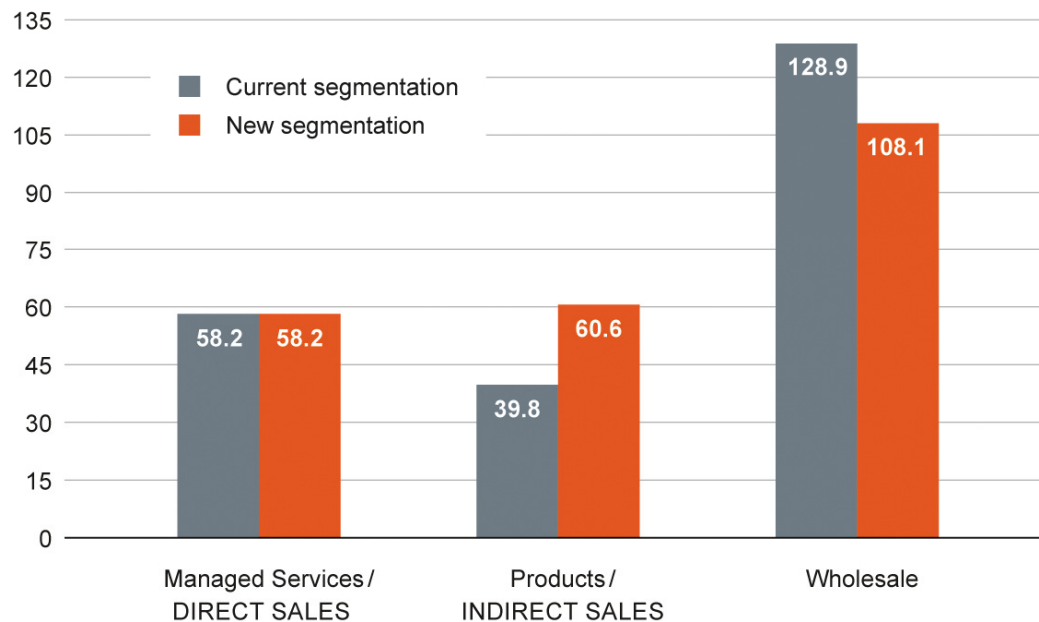


# NEW SEGMENTATION – FIRST-TIME ADOPTION FOR 2011



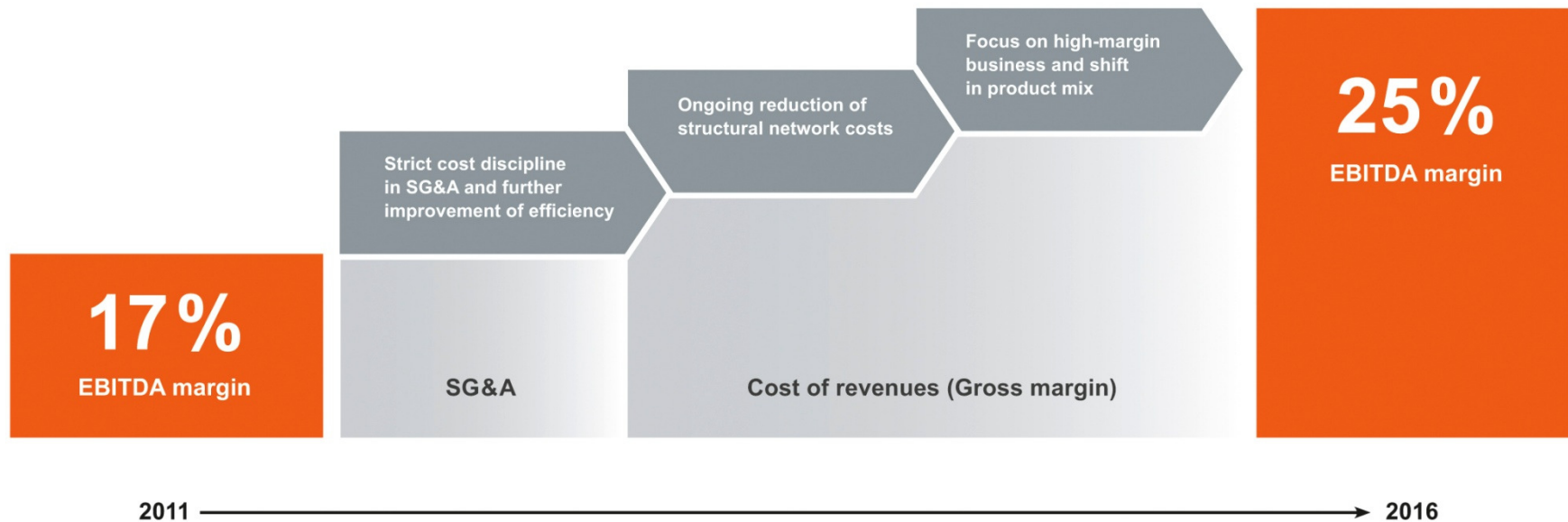
# NEW SEGMENTATION WILL STRENGTHEN THE INDIRECT SALES BUSINESS

SEGMENT REVENUES FOR THE FIRST SIX MONTHS 2011 (in € million)

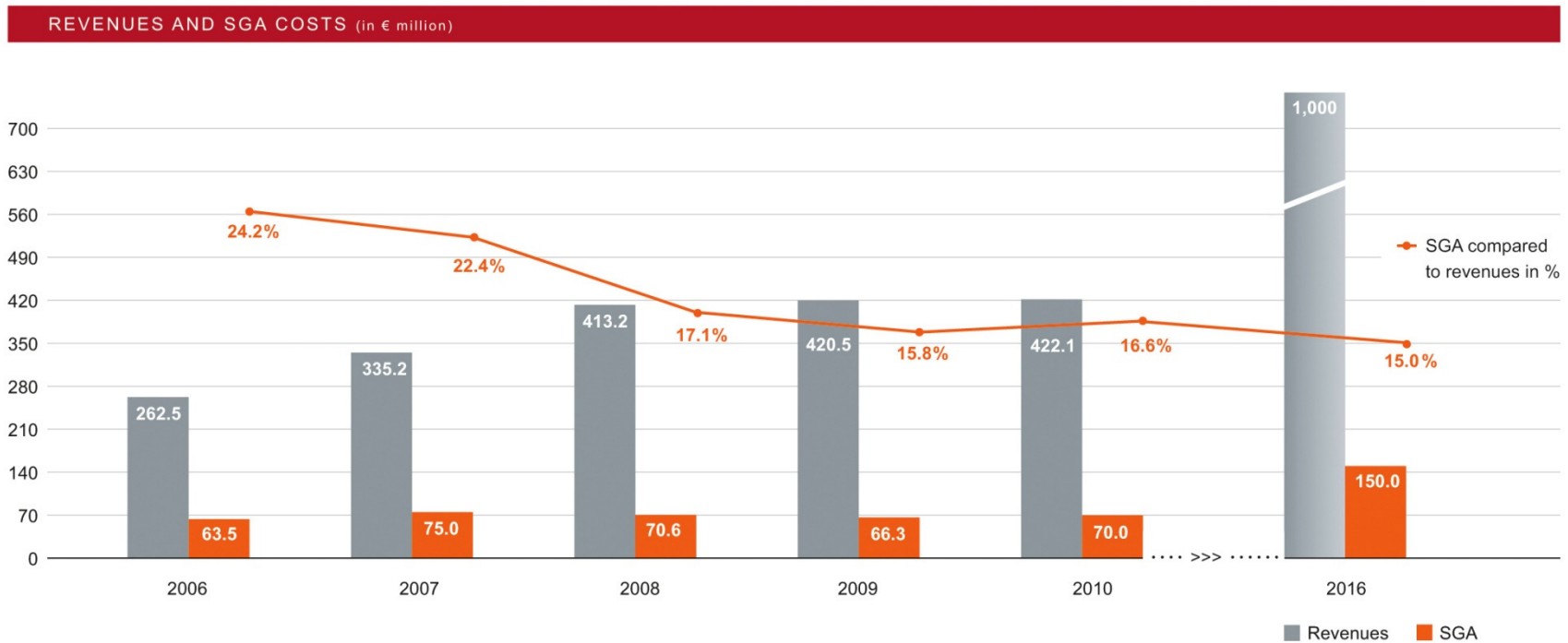


- Managed Services / Direct Sales not affected by new segmentation
- Products / Indirect Sales will benefit because of the inclusion of the B2B2B business

# THREE LEVERS TO IMPROVE EBITDA MARGIN TO 25%



# FIRST LEVER: QSC IS CHARACTERIZED BY STRICT COST DISCIPLINE



# COST OF REVENUES INCLUDE DIRECT AND INDIRECT COST OF REVENUES

**P + L statements FY 2010** (in € million)

Revenues	422.1
<b>Cost of revenues</b>	<b>-273.6</b>
Gross profit	148.5

**Disclosures of P + L statements** (in € million)

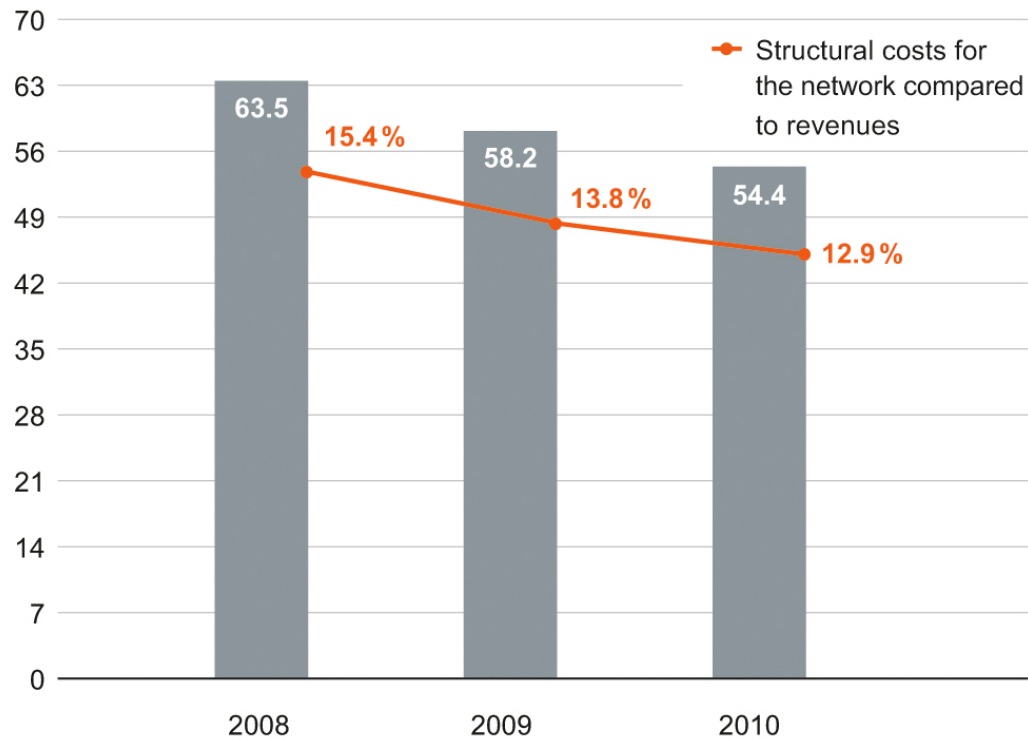
Direct cost of revenues	206.7	Lever 3
Building, operation and maintenance of the network	54.4	Lever 2
<hr style="border-top: 1px dotted black;"/>		
Personnel expenses	12.5	
<b>Cost of revenues</b>	<b>273.6</b>	

Direct

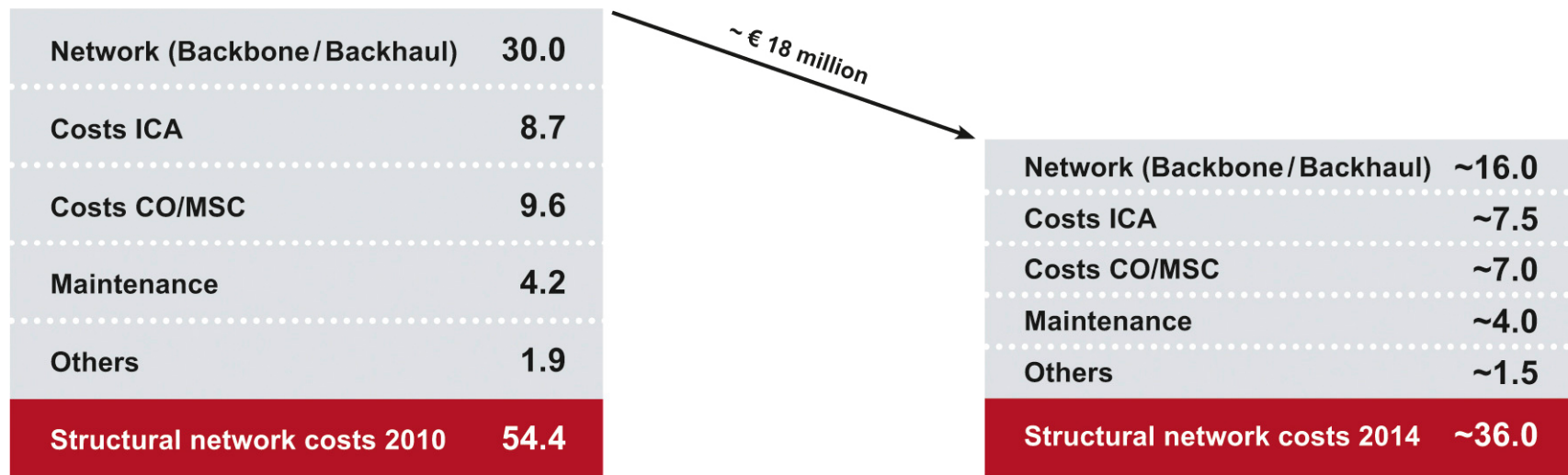
Indirect

# SECOND LEVER: ONGOING REDUCTION OF STRUCTURAL NETWORK COSTS

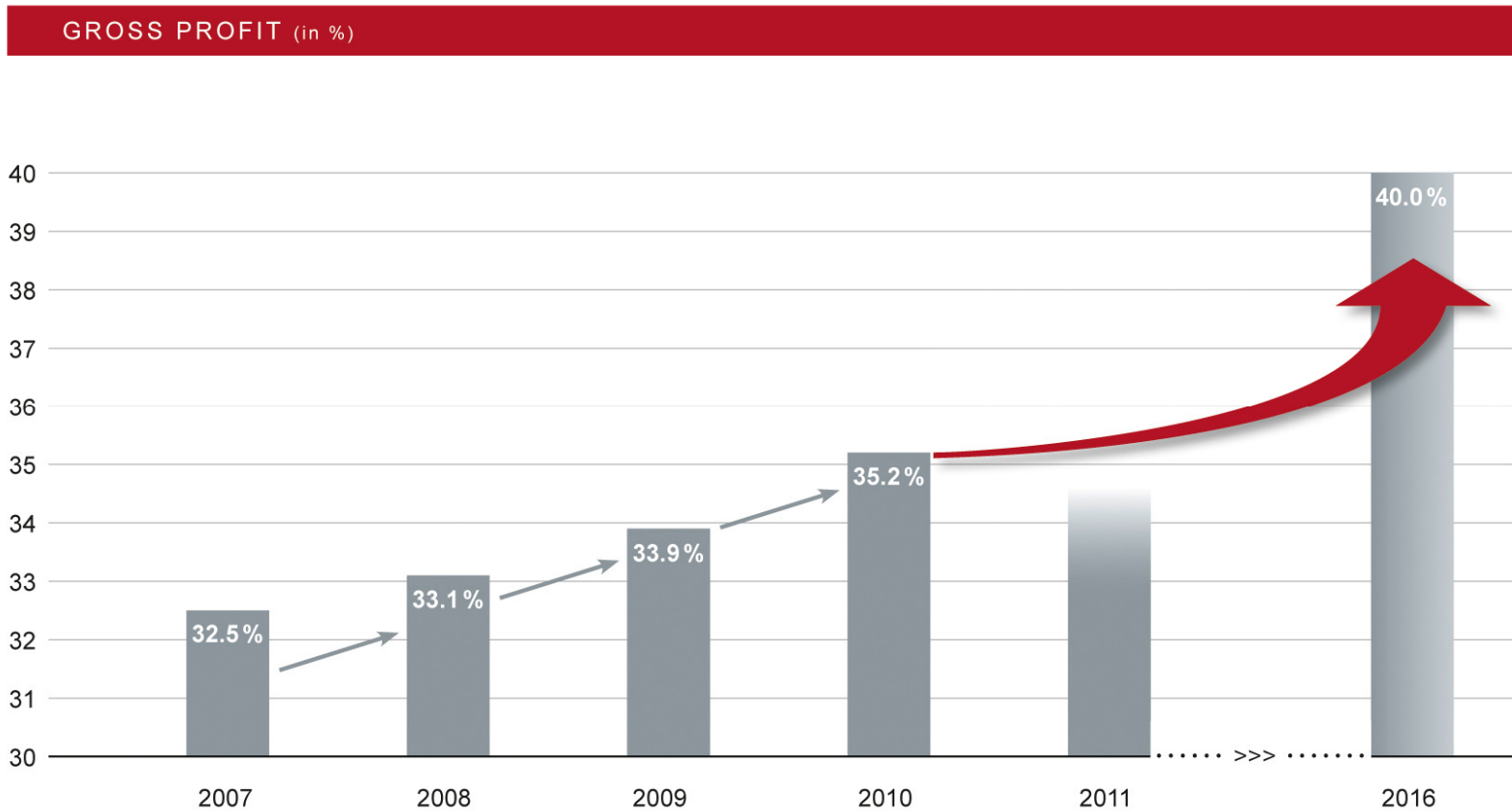
STRUCTURAL NETWORK COSTS (in € million)



# SECOND LEVER: FURTHER ROOM FOR IMPROVING STRUCTURAL NETWORK COSTS



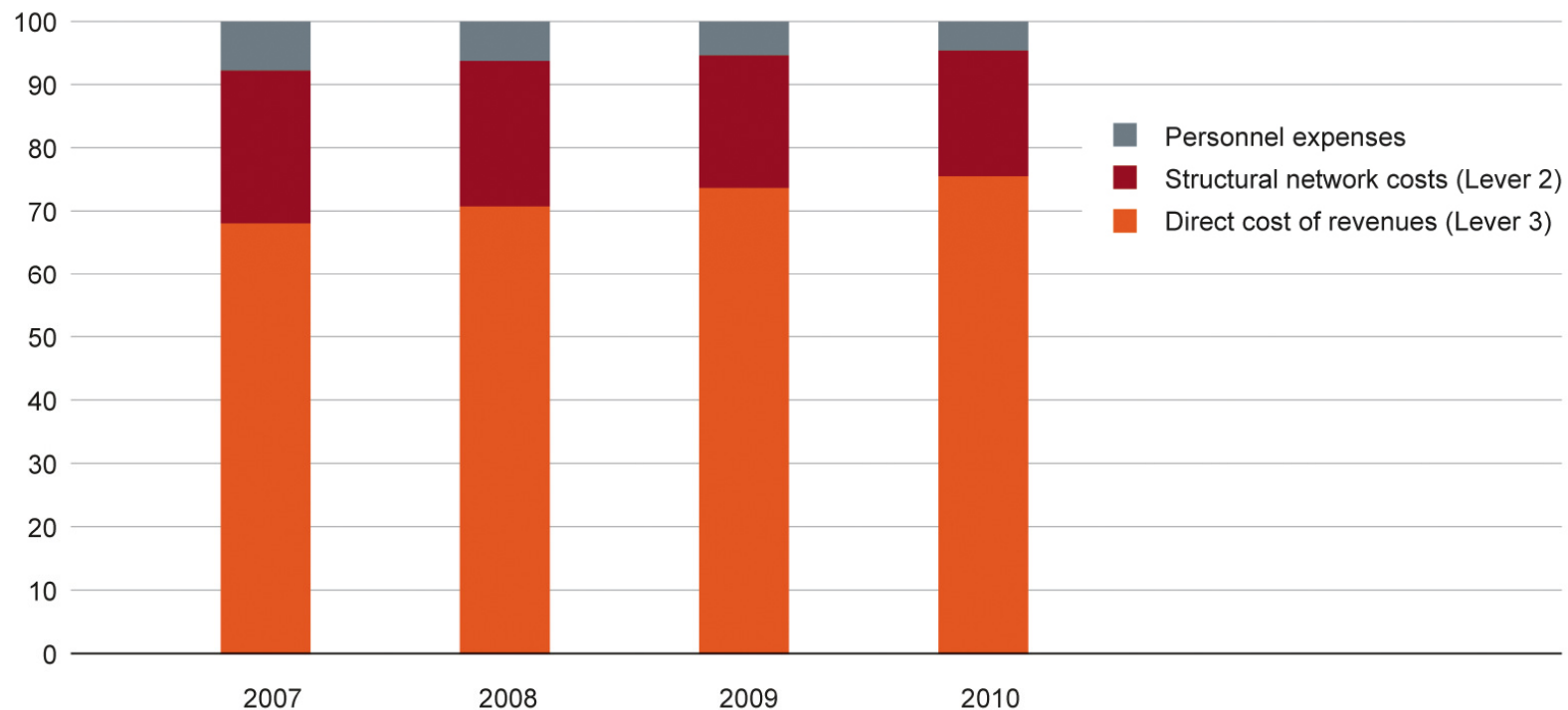
# SECOND AND THIRD LEVER: QSC IS ABLE TO INCREASE ITS GROSS PROFIT STEP BY STEP



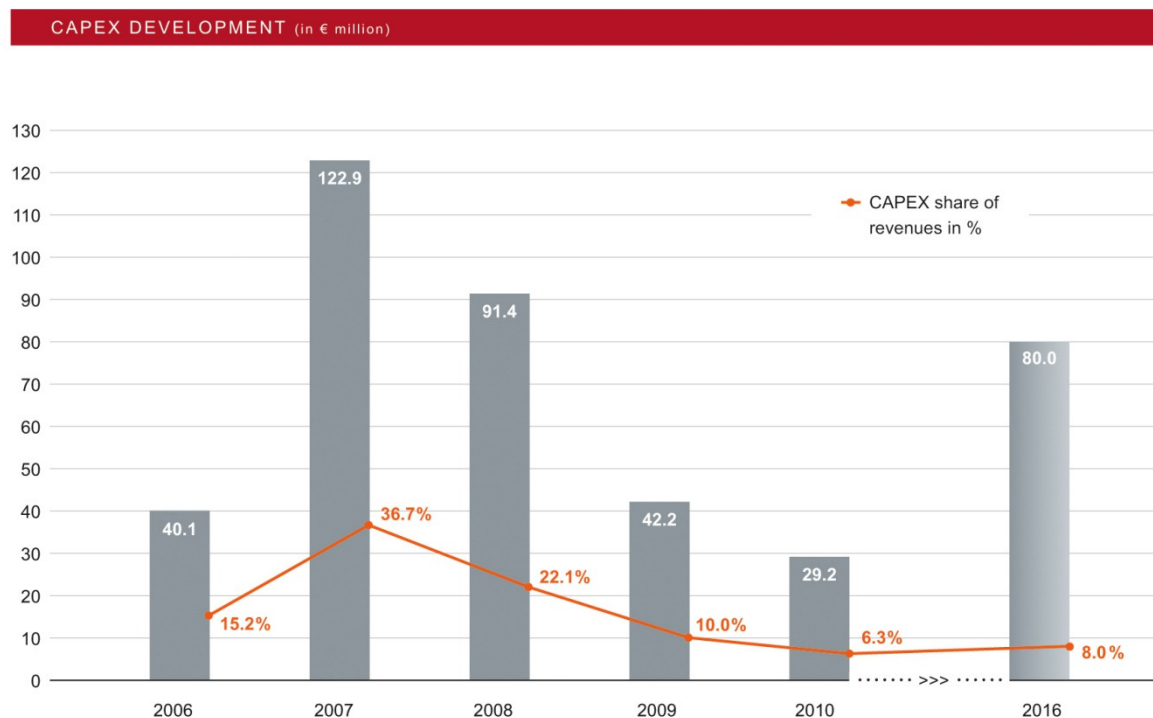


# “WEIGHT” OF STRUCTURAL NETWORK COSTS WILL DECREASE DUE TO PROFITABLE GROWTH

STRUCTURE OF COST OF REVENUES EXCLUDING DEPRECIATION (in %)

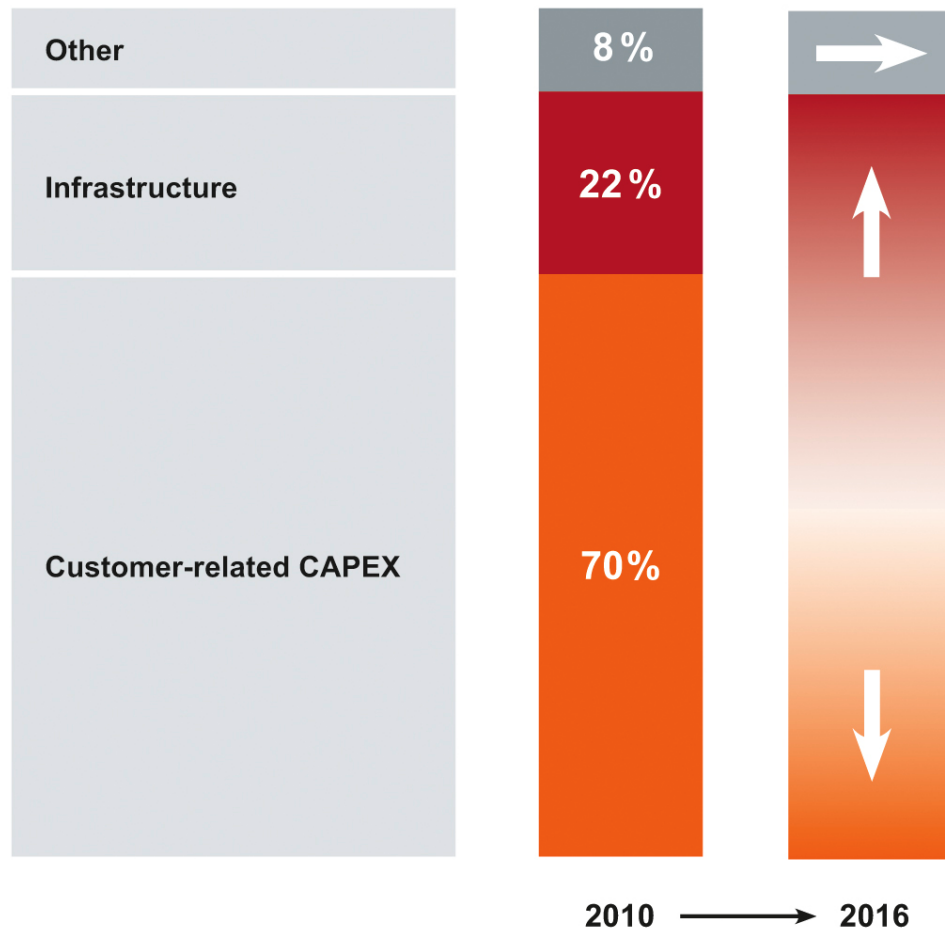


# PROFITABLE GROWTH AND ALSO LOW CAPEX STRONGLY BACK RISING FREE CASH FLOW



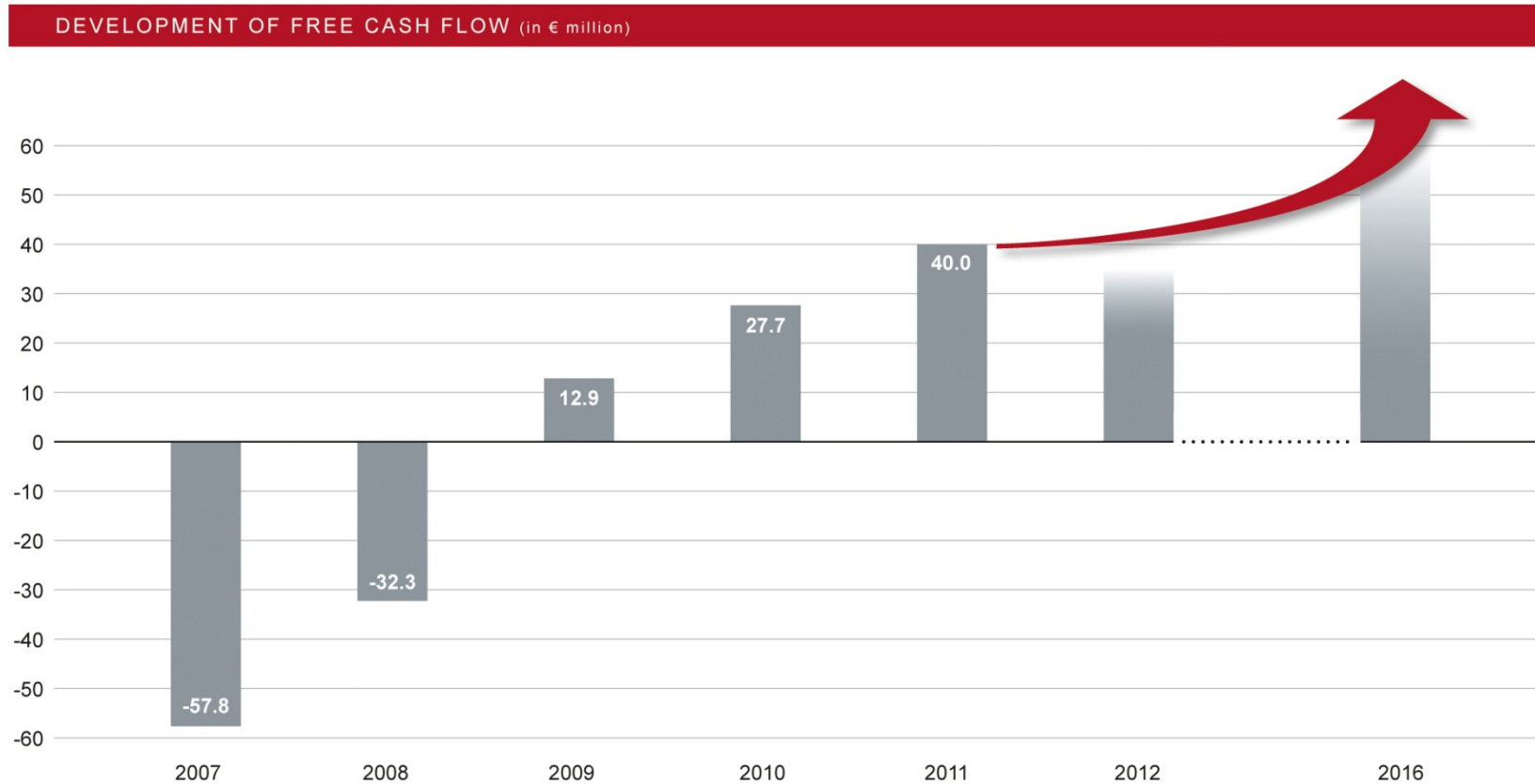
- QSC targets to invest 8% of revenues per year
- Percentage can vary between 6-10%, mainly due to investments in new data centers

# CAPEX STRUCTURE WILL CHANGE – BUT OVERALL QSC WILL CONTINUE TO INVEST 8% OF REVENUES



- Bulk of infrastructure investments will be made in Housing and Outsourcing
- Lower relevance of TC business will lead to declining customer-related CAPEX

# HIGHER EBITDA AND LOW CAPEX WILL LEAD TO HIGHER FREE CASH FLOW IN THE YEARS TO COME

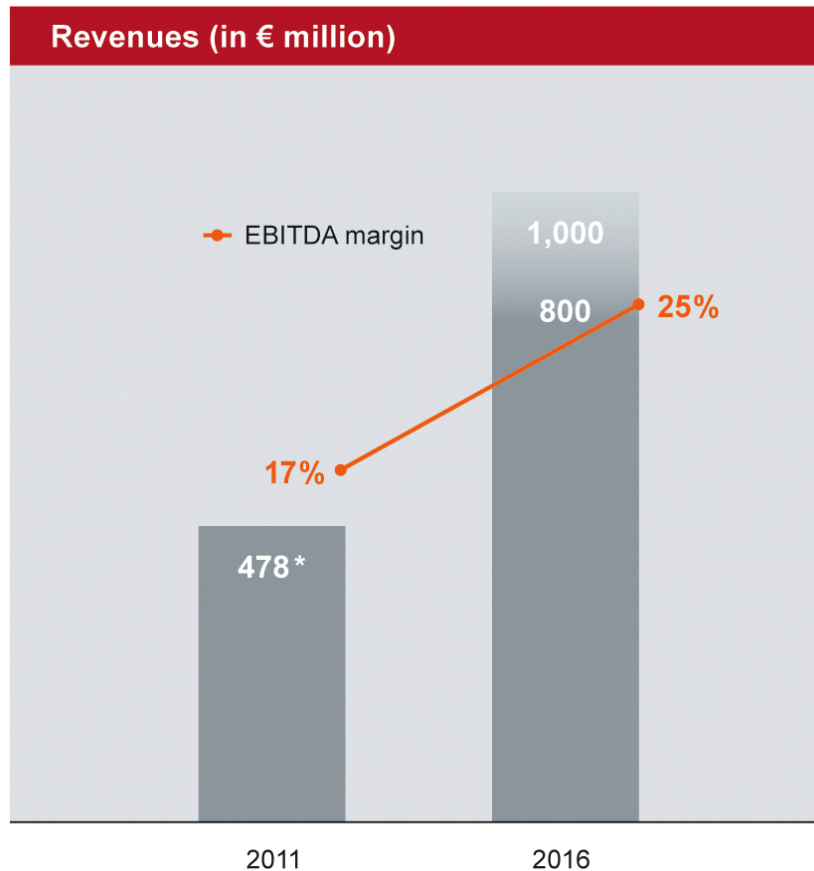


## AT A GLANCE: QSC IN 2016

(in € million)

<b>Net revenues</b>	<b>800</b>	<b>–</b>	<b>1,000</b>	
<b>Cost of revenues</b>	<b>480</b>	<b>–</b>	<b>600</b>	
<b>Gross profit</b>	<b>320</b>	<b>–</b>	<b>400</b>	<b>(40%)</b>
<b>SG&amp;A</b>	<b>120</b>	<b>–</b>	<b>150</b>	
<b>EBITDA</b>	<b>200</b>	<b>–</b>	<b>250</b>	<b>(25%)</b>
<b>CAPEX = depreciation</b>	<b>64</b>	<b>–</b>	<b>80</b>	
<b>Tax</b>	<b>16</b>	<b>–</b>	<b>20</b>	
<b>Free cash flow</b>	<b>120</b>	<b>–</b>	<b>150</b>	<b>(15%)</b>

# QSC HAS SET ITSELF VERY AMBITIOUS BUT REALISTIC GOALS



In 2016, QSC will be a company with

- Revenues of € 0.8 – 1.0 billion
- An EBITDA margin of 25%
- Free cash flow of € 120 – 150 million

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\* Consensus

## QUESTIONS & ANSWERS

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