

GROUP

QUARTERLY RELEASE

AS AT 30 JUNE 2020

KPS

9 20

A blurred photograph of office workers in a modern building with large glass windows. The year '9 20' is overlaid in large, bold, black font across the center of the image. The workers are in motion, creating a sense of a busy office environment. The background shows a grid of window panes and a polished floor.

KPS – QUARTERLY RELEASE AS AT 30 JUNE 2020

KPS publishes figures on the third quarter 2019/2020 and generates comparatively robust EBITDA amounting to 4.7 million euros

KPS AG IN THE 3RD QUARTER OF 2019/2020

Overview of indicators in accordance with IFRS

In million euros	3rd quarter 2019/2020	3rd quarter 2018/2019	+ / –
Revenues	35.7	44.8	-20.3 %
EBITDA	4.7	5.4	-13.0 %
Operating result (EBIT)	2.5	4.5	-44.4 %
Financial result	-0.1	-0.1	0.0
Earnings before income taxes	2.4	4.4	-45.5 %
Income taxes *	-0.7	-1.5	-53.3 %
Earnings after income taxes	1.7	2.9	-41.4 %
Earnings per share (in euros)	0.05	0.08	-0.03

in Mio. Euro	9M 2019/2020	9M 2018/2019	+ / –
Revenues	129.9	136.0	-4.5 %
EBITDA	17.7	18.7	-5.3 %
Operating result (EBIT)	11.7	16.0	-26.9 %
Financial result	-1.0	-0.2	-0.8
Earnings before income taxes	10.7	15.8	-32.3 %
Income taxes *	-3.1	-5.5	-43.6 %
Earnings after income taxes	7.6	10.3	-26.2 %
Earnings per share (in euros)	0.20	0.28	-0.08

* The tax rate determined for the half-year financial statements as at 31 March 2020 was used to calculate the tax charge for the third quarter of 2019/2020.

BUSINESS PERFORMANCE

KPS with robust EBITDA amounting to 4.7 million euros in the third quarter of 2019/2020

The third quarter of 2019/2020 (1 April to 30 June 2020) was defined by the global Covid-19 crisis and the associated lockdown and social distancing measures. Social and business activities in Europe virtually came to an entire standstill in many countries. The consulting sector was significantly affected by the impacts because the coronavirus pandemic led to a collapse in demand for consultancy services in many sectors.

In this challenging environment, KPS succeeded in performing relatively well and generated robust EBITDA amounting to 4.7 million euros in the past quarter. This corresponds to a fall of 13.0 % compared with the year-earlier period. A positive one-off effect amounting to 1.4 million euros needs to be recognized as a result of first-time application of IFRS 16 (“Leasing”). EBIT amounted to 2.5 million euros (-44.4 % compared with the third quarter of 2018/2019). The positive one-off effect of first-time IFRS 16 application is almost neutralized at EBIT level.

Factors such as the strategic alignment of the KPS Group, its flexible cost structures and the early response by the management of KPS to the pandemic played an important role in generating the robust and comparatively good result during the reporting period under review. The business model of KPS has been directed toward increasing remote delivery of digitalization solutions and significantly reducing the number of consultants operating on site. At the beginning of March, KPS was therefore in a position to adapt processes and organization very quickly and redeploy the consultancy team to work from their home offices. Existing projects were transferred seamlessly to an operational remote mode. Furthermore, the digitalization solutions supplied by KPS are in many cases of such high strategic relevance for its customers that transformation projects already commenced are being continued even in the challenging circumstances presented by the Covid-19 pandemic.

Depending on the project mix, around 40-45 % of the project team are made up of outside or subcontracted consultants. As a consequence, KPS had the flexibility to modify the team of consultants to match the temporary reduction in project demand and significantly reduce the cost of materials compared with the year-earlier period. In addition, the switch to remote and home office working significantly reduced travel costs.

Covid-19 pandemic temporarily leads to project brakes with some customers

The impacts of the Covid-19 pandemic felt by customers of KPS are extremely varied depending on their particular sector. In some cases, customers operating in sectors severely affected by the crisis requested postponements or project breaks. Furthermore, the coronavirus pandemic partly delayed the launch of new projects. As a result of this, sales during the reporting period Q3 2019/2020 fell back by 20.3 % to 35.7 million euros compared with the year-earlier period.

EBITDA of 17.7 million euros in the first nine months of 2019/2020

In the first nine months of 2019/2020, KPS generated sales of 129.9 million euros (-4.5 % compared with the equivalent year-earlier period). The fall in sales is primarily due to the impact of the coronavirus pandemic, which led to a temporary reduction in demand-related behavior of existing customers and to postponed launches of new projects.

In the nine-month period 2019/2020, EBITDA was 17.7 million euros and consequently 5.3 % below the amount for the year-earlier period. Analysis should take into account that EBITDA includes a one-off positive extraordinary effect in the amount of 3.8 million euros, which is due to first-time application of IFRS 16 (“Leasing”).

EBIT was virtually neutral to the positive one-off effect of IFRS 16 and it came down by 26.9 % to 11.7 million euros.

Award conferred by SAP as a focus partner in the Diamond Initiative and selected as a TOP 3 SAP Partner for Digital Customer Experience worldwide

Once again, KPS earned numerous awards in the third quarter of 2019/2020 and these highlight its power of innovation in digitalization.

Over the course of the third quarter, the SAP Partner Advisory Council recognized KPS as a focus partner delivering particularly significant services in the sectors “Customer” and “Intelligent Spend Management”. Partners are only honored by the Advisory Council if they have provided outstanding services in the categories of Innovation, Expertise, Solutions, Demand Generation and Joint Partner Revenue. At the latest SAP Pinnacle Awards, KPS succeeded in being selected as a TOP 3 Partner out of 20,000 partners worldwide for the strategically important category Digital Customer Experience. KPS also has a long track record as an SAP Gold Partner, SAP Service and Channel Partner and as one of the few Centers of Expertise Partners for SAP Commerce worldwide.

For the seventh year in succession, KPS also succeeded in reaching the Top 10 management consultancies. KPS was ranked in 8th place in the prestigious Lünendonk List drawn up by the market researcher. Finally, the TOP 100 contest recognized KPS AG as one of the most innovative small and mid-sized companies in Germany for the third time in succession in June 2020. In particular, the innovation climate and innovative processes and organization were highlighted in the Innovation Score drawn up for KPS by the Institute for Entrepreneurship and Innovation at the Vienna University of Economics and Business. They were each given the rating of A+.

RESULTS OF OPERATIONS, FINANCIAL POSITION, AND ASSET SITUATION

Results of operations

The third quarter of 2019/2020 was primarily defined by the global spread of the Covid-19 pandemic. The lockdown and social distancing measures associated with the coronavirus pandemic brought economic activity to a standstill in many sectors.

As a result, sales based on the unaudited IFRS consolidated figures fell back by 20.3 % to 35.7 million euros in the third quarter of 2019/2020. The reduction results primarily from the responses of portfolio customers to the coronavirus pandemic. The customers of KPS are impacted by this in a variety of ways. During the third quarter of 2019/2020, some project volumes were temporarily postponed by a number of customers. In a few cases, projects were also temporarily suspended. In addition, the start of new projects was delayed as a result of the pandemic.

During the period under review, EBITDA came down by 13.0% to 4.7 million euros. However, EBITDA in Q3 2019/20 can only be compared to a certain extent with EBITDA from the year-earlier period. EBITDA in the current reporting period includes a one-off positive effect in the amount of 1.4 million euros as a result of first-time application of IFRS 16 (“Leasing”).

At the level of EBIT, the effect of IFRS 16 is almost entirely neutralized owing to depreciation and amortization. In the third quarter of 2019/2020, KPS achieved EBIT amounting to 2.5 million euros (-44.4% compared with the year-earlier period).

KPS launched a comprehensive package of measures in response to the challenges of the Covid-19 pandemic. Alongside a rapid switch to remote and home office solutions, its strategic alignment allowed KPS to adapt capacities to match the situation by reducing outside and subcontracted services, and disproportionately reduce the expenses for outsourced services. Furthermore, the business model facilitated a significant reduction in expenses for travel costs during the course of the quarter under review.

Earnings before income taxes were 2.4 million euros (-45.5 % compared with Q3 2018/2019) and earnings after income taxes amounted to 1.7 million euros (-41.4 % compared with Q3 2018/19).

Asset situation

The balance sheet total increased by 19.7 % or 28.0 million euros to 170.2 million euros as at 30 June 2020 by comparison with the balance sheet date of 30 September 2019. The increase in the balance sheet total is primarily due to first-time application of IFRS 16 (“Leasing”). On the basis of IFRS 16, rights-of-use from leasing agreements amounting to 29.4 million euros had to be capitalized as assets for the first time (balance sheet date 30 September 2019: 0 million euros).

Particularly as a result of first-time application of IFRS 16, non-current assets increased by 35.1 % or by 29.7 million euros to 114.4 million euros. Current assets eased slightly downward by 1.8 million euros to 55.9 million euros as at 30 June 2020.

Financial position

Equity increased by 7.5 million euros from 64.2 million euros as at 30 September 2019 to 71.8 million euros on 30 June 2020. The equity ratio fell back from 45.2 % to 42.2 %.

Non-current liabilities increased from 24.1 million euros to 45.0 million euros essentially owing to first-time application of IFRS 16 (“Leasing”). On the reporting date of 30 June 2020, current liabilities amounted to 53.5 million euros (balance sheet date 30 September 2019: 53.9 million euros).

As at the balance sheet date on 30 June 2020, financial liabilities to banks amounted to 20.9 million euros. This represented an increase of 3.5 million euros compared with the balance sheet date of 30 September 2019 (17.4 million euros).

At the end of the third quarter of 2019/2020, cash and cash equivalents eased upward slightly by 0.9 million euros to 10.8 million euros compared with the balance sheet date 30 September 2019.

EVENTS AFTER THE END OF THE REPORTING PERIOD

No events occurred after the end of the reporting period which exerted a significant influence on the results of operations, asset situation or financial position.

OPPORTUNITIES AND RISK REPORT

Over the short term, the opportunities and risks of KPS have been significantly defined by the global Covid-19 pandemic. All economic research institutes and multinational organizations expect a dramatic negative impact on economic activity as a result of the global coronavirus pandemic with unemployment figures rising sharply. Initial data published on the position of the economy confirm these anxieties. It is therefore not possible to exclude the possibility of additional negative impacts in the demand-related behavior of existing and potential customers for services provided by the KPS Group. The COVID-19 pandemic therefore represents a short-term risk for the development of sales and profits at the KPS Group.

Detailed information on the presentation and assessment of additional individual risks is included in the comprehensive report provided in the Annual Report 2018/2019. Since then, there have been no significant changes relating to the impacts resulting from Covid-19.

OUTLOOK 2019/2020

The Executive Board and the Supervisory Board of KPS AG assess the overall situation as positive, although the position is currently affected by the COVID-19 pandemic. This could lead to uncertainties in regard to demand-related behavior of portfolio customers and potential new customers.

The Executive Board and the Supervisory Board consider KPS to be in an excellent position to meet the challenges of the future. Driving forces for this outstanding position include in particular the continuing internationalization of the group of companies and the increased innovative power with respect to digitalization solutions. KPS also has a sound financial structure and robust results of operations.

Furthermore, KPS has a workforce of committed and highly qualified employees who make a significant contribution to the success of the company. Ultimately, the COVID-19 pandemic could accelerate the trend toward digitalization and this has the potential to give rise to new opportunities for KPS.

Owing to the ongoing high levels of uncertainty in regard to the demand-related behavior of existing and potential new customers for services provided by KPS, the Executive Board and the Supervisory Board are continuing to refrain from issuing a forecast for the current business year.

The assumptions and estimates made in this section are based on facts and forecasts known today about the future economic and business developments. If these economic developments and framework conditions result in bigger changes that are not foreseeable from today's perspective, there is a risk that the assumptions and estimates made here may have to be revised in future.

Unterföhring, 24 July 2020

KPS AG
The Executive Board

INVESTOR RELATIONS

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ABOUT KPS

KPS is Europe's leading partner for companies who require a radical realignment of their business model to fulfil their customer requirements and simultaneously wish to implement innovative digital processes and technologies in their business. KPS provides everything, from strategy consulting to industry-specific process chains and the implementation of the latest technology. KPS's team advises companies end-to-end and integrates merchandise management, B2B and B2C e-commerce with marketing and sales processes. In a digital world with the customer in focus, the ability to implement projects rapidly is a significant competitive advantage. The KPS Rapid-Transformation® method accelerates projects by up to 50 percent. The experience and industry knowledge KPS consultants possess ensures the success of every project. With around 1,100 consultants in 9 countries, KPS is continuously expanding its global market position via cutting edge projects in digital and technological change.