Koninklijke Brill NV

Half Year Report 2018

23 August, 2018

Brill reports 1% organic revenue growth in H1; announces cost saving initiative

Key Figures (in EUR x million)	2018 H1	2017 H1
Revenues	16.1	16.0
EBITDA	0.7	1.1
Operating profit	0.2	0.8
Profit	0.1	0.4
Profit per share (EUR)	0.08	0.20
Net cash from operating activities	0.6	-0.1
Key Performance Indicators		
Organic Growth (excluding acquisition and currency effects)	1.0%	2.2%
EBITDA Margin	4.4%	7.0%
EBITDA Margin organic development	6.9%	7.0%

NOTE: The information in this report is based on unaudited interim financial statements

Highlights

- Continued success in the Asian market across all product formats
- Good growth in the journal program
- Unexpected weakness in the US and EU impacted Q2 ebook revenue in particular
- Improved cash generation due to improved working capital
- Product and deal pipeline provide opportunities for growth in H2
- Profit improvement plan announced to achieve run rate savings of over EUR 0.6m as of 2020.

Developments in the first half year

Following a first quarter developing in line with expectations, we experienced a slowdown in Q2 in ebook sales in the US and print sales in the EU. In the US, especially one-off sales and third-party sales of ebooks experienced a downturn. We did complete a major ebook sale with a top North American university, rendering the balance of major deals versus last year positive. Title output increased as well as journal issue output. Schöningh & Fink met expectations in H1 and showed satisfactory growth.

In Q2 we completed development on the second stage of brill.com and we are now in the process of migrating subscription and license data to the new platform. We expect to sunset the current Brill online platform in Q4. The back office migration of Schöningh & Fink is nearing completion with the migration to our common ERP system planned in Q3.

Management and Strategy update

Following the Annual General Meeting of 17 May 2018, exactly 335 years after Jordaan Luchtmans established the publishing business that was to become Brill, Herman Pabbruwe stepped down as CEO of the company and the new Executive Committee, consisting of Peter Coebergh (CEO), Olivier de Vlam (CFO | COO) and Jasmin Lange (CPO) took office.

Under new management, Brill will continue to pursue its long-term strategy of expanding market presence, enhancing commercial capabilities and investing in operations. In addition, the Executive Committee defined two strategic imperatives which are required for long-term success; publishing excellence and profit improvement.

Publishing excellence
A reputation for and commitment to publishing excellence has always been key to the sustainability of our business. We operate from a strong belief that Humanities, Social Sciences and International Law are vital scholarly subject areas for addressing today's global issues. This belief motivates us to offer our authors the best possible service and a top class infrastructure to disseminate their research. Brill also wants to support scholars in advocating the relevance of their fields of research and in sourcing the means to finance research and publications. Consequently we support and promote the open access model and continue to invest in our open access service.

Profit improvement
As indicated earlier and following due analysis of Brill's cost structure, the Executive Committee resolved to implement a profit improvement plan during the remainder of 2018 and 2019. The plan will entail actions to improve the gross margin and the operating expense level while continuing to invest in areas strategic to Brill's long-term development. The first wave of initiatives identified aims to achieve a recurring reduction in operating cost cumulating to EUR 0.6m as of 2020, barring changes in business scope or strategy. The company expects one off pre-tax expenditures in 2018 and 2019 of EUR 0.8m in total. The expenditures and savings achieved related to this initiative will be reported separately. Given the one-time nature of the expenditures and Brill's long-term favorable outlook, our dividend policy remains unchanged.

Financial Review
Total H1 revenues showed 1% organic growth versus the prior year:

	Revenue	% growth	% yoy
Total Revenue 2017	**16.0**	**100.0%**	
Print books	-0.2	-1.3%	-3.3%
eBooks	-0.1	-0.9%	-3.2%
Journals	0.4	2.7%	10.1%
PS	0.1	0.4%	10.0%
Other	0.0	0.2%	16.1%
Organic Revenue 2018	**16.2**	**1.0%**	**1.0%**
Acquisitions	0.3	1.7%	0.0%
Currency	-0.4	-2.4%	
Total Revenue 2018	**16.1**	**100.4%**	**100.4%**

Print book revenues underlying decline was 3.3% - slightly worse than expected due to different timing of returns at our US wholesale clients and slower sales in the EU region. *eBook* revenues were impacted by a slowdown in sales intake especially in the US, and by tough comparables from 2017. *Journal* revenues increased because of underlying growth in the portfolio and were further boosted by some timing differences that will equal out in the remainder of the year.

As announced previously, the weaker US dollar during most of H1 had a negative effect on our revenue, dampened somewhat by our hedging policy.

Digital revenue increased as a percentage of overall revenue to 54% from 53% in 2017. Subscription based revenue remained flat at 41% of total revenue.

Cost of goods sold was below last year due to the one-off royalty accrual included in last year's costs. Further structural improvements in CoGS were consumed by temporary parallel running costs of our online platforms (EUR 0.1m).

As communicated in our earlier statements, personnel costs increased mostly due to the growth in staff during 2017, including the acquisition of Sense. As per 30 June, ultimo FTE had increased by 1 versus year end 2017 due to the acquisition of mentis. However versus HY 2017 average FTE increased from 156.3 to 165.6.

Operating expenses increased due to the acquisitions but also due to higher finance support costs, including audit fees.

As a result of the above, EBITDA, Net profit and Earnings Per Share declined compared to H1 2017. The impact of currency and acquisitions is significant; organically EBITDA would have been flat versus 2017.

Balance sheet and cash flow
At the May Annual General meeting, the shareholders adopted the dividend proposal of EUR 1.32 and a special jubilee dividend of EUR 3.00 per share, leading to an adjustment in our capital structure. Furthermore, in Q2 Brill arranged a new package of credit facilities to fund this dividend payout and Brill's future operating and acquisition strategy. As a result, Brills capital structure was further aligned with its long-term balance sheet policy. Shareholder capital decreased, and we took out a long-term loan of EUR 6.5m. Consequently, the solvency rate decreased to 44% (YE 2017: 56%).

Cash flow from operations improved versus last year, despite the lower profitability. This is mainly the result of improved working capital (lower inventory and higher deferred income).

Outlook
Given the mixed developments in the first half, the company is cautious about providing guidance for the full year. On the one hand, it remains difficult to reliably forecast the important Q4 sales. On the other hand we have a good H2 pipeline, both for product releases and sales opportunities. All things considered we expect to achieve limited revenue growth in the full year. This should result in a EBITDA around the 2017 level due to the earlier mentioned higher personnel costs. We also expect that the cost savings initiatives described above may impact Net profit by EUR 0.3m. Combined with the expected increase in amortization charges and the increased financing expenses this would lead to a Net profit and EPS slightly below 2017.

Risk management
No significant changes occurred in the company's assessment of relevant risks since the publication of the annual report 2017.

Responsibility Statement

The Half Year Report 2018 is an accurate account of assets and liabilities, the financial position and the profit of Koninklijke Brill NV and the entities which are included in the consolidation. Also the Half Year Report is an accurate account of the situation on the balance date, the state of affairs during the first half of the fiscal year of Koninklijke Brill NV and that of the entities whose data are included in the Half Year Report and the expected state of affairs. Special attention is paid to investments and to the circumstances on which revenues and profitability depend. Please note that the figures per 30 June, 2018 have not been reviewed nor audited.

The Management Board,
Peter Coebergh
Olivier de Vlam

Consolidated statement of financial position, before appropriation of profit

in thousands of euro's

ASSETS	Notes	30-6-2018 (Unaudited)	31-12-2017 (Audited)
Non-current assets			
Tangible fixed assets		468	488
Intangible assets	6	32,427	31,574
Financial assets		12	12
		32,908	**32,074**
Current assets			
Inventories	7	2,840	3,236
Trade and other receivables		6,489	9,154
Income tax to be received		957	334
Derivative financial instruments	8	66	346
Cash and cash equivalents		-	3,787
		10,352	**16,857**
TOTAL ASSETS		**43,260**	**48,931**
LIABILITIES			
Equity attributable to owners of Koninklijke Brill NV			
Share capital		1,125	1,125
Share premium		343	343
Retained earnings		18,062	23,900
Other reserves		-520	-226
Undistributed profit		148	2,260
		19,158	**27,402**
Non-current liabilities			
Long term loan		6,500	-
Provisions long		45	45
Deferred tax liabilities		3,719	3,775
		10,264	3,820
Current liabilities			
Trade and other payables		6,453	8,787
Deferred income		6,878	8,713
Provisions		100	100
Derivative financial instruments	8	325	105
Bank overdraft		82	-
Tax to be paid		-	4
		13,838	**17,709**
Total liabilities		**24,102**	**21,529**
TOTAL EQUITY AND LIABILITIES		**43,260**	**48,931**

BRILL

Consolidated income statement and statement of comprehensive income for the six months ended June 30, 2018

in thousands of euro's

	Notes		2018 HY (Unaudited)		2017 HY (Unaudited)
Gross profit					
Revenue	9		16,050		15,993
Costs of goods sold			-5,174		-5,383
			10,876		10,610
Expenses					
Selling and distribution costs	10	-2,961		-2,921	
General and administrative expenses		-7,669		-6,918	
			-10,630		-9,839
Operating profit			246		771
Finance income			17		16
Finance expenses			-61		-278
Profit before tax			202		509
Income tax expense	11		-54		-126
Profit from continued operations attributable to the shareholders of Koninklijke Brill NV			148		383
Other comprehensive income – items that might be reclassified to future profit or loss statements					
Exchange differences on translation of foreign operations		56		-73	
Cash flow hedges		-463		723	
			-408		650
Income tax on other comprehensive income			114		-181
Total comprehensive income for the period attributable to shareholders of Koninklijke Brill NV			-146		852
Earnings per share	12				
Basic/diluted earnings per share for the period Attributable to the shareholders of Koninklijke Brill NV			0.08		0.20

Condensed **Consolidated statement of cash flows for the six months ended June 30, 2018**

in thousands of euro's

	notes	2018 HY (Unaudited)		2017 HY (Unaudited)	
Cash flows from operating activities					
Profit before tax		202		509	
Adjustments for:					
Amortization and Depreciation		2,079		2.043	
Finance costs – net		44		262	
Change in working capital		-1,017		-1,861	
Cash generated from operations		1,308		976	
Interest paid		17		-4	
Income tax paid		-681		-1,135	
		-664		-1,139	
Net cash from operating activities			644		-163
Net cash from investment activities	5		-2,914		-2,444
Cash flow from financing activities					
Dividend paid to company shareholders	13	-8,097		-2,475	
Long term loan		6,500			
Net cash from financing activities			-1,597		-2,475
Net (decrease)/increase in cash and cash equivalents			-3,867		-5,082
Cash and cash equivalents at January 1			3,786		6,304
Exchange differences on cash and cash equivalents			-		1
Cash and cash equivalents at June 30			-81		1,224

Consolidated Interim Statement of Changes in Equity
for the six months ended 30 June, 2018

in thousands of euro's

	notes	Share capital	Share Premium	Retained Earnings	Exchange Difference Reserve	Cash flow Hedge reserve	Unallocated Profit	Total Equity
2018								
At 1 January, 2018 (audited)		1,125	343	23,900	-263	36	2,260	27,401
Profit for the period		-	-	-	-	-	148	148
Other comprehensive income		-	-	-	56	-349	-	-294
Total comprehensive income for the period		-	-	-	56	-349	148	-146
Dividend paid over prior year	12	-	-	-5,623	-	-	-2,474	-8,097
Retained earnings prior year		-	-	-215	-	-	215	-
Total contribution by and distribution to owners		-	-	-5,838	-	-	-2,260	-8,097
At 30 June, 2018 (unaudited)		1,125	343	18,063	-207	-313	148	19,158

	notes	Share capital	Share Premium	Retained Earnings	Exchange Difference Reserve	Cash flow Hedge reserve	Unallocated Profit	Total Equity
2017								
At 1 January, 2017 (audited)		1,125	343	23,577	-147	-161	2,797	27,534
Profit for the period		-	-	-	-	-	383	383
Other comprehensive income		-	-	-	-73	542	-	469
Total comprehensive income for the period		-	-	-	-73	542	383	852
Dividend paid over prior year	12	-	-	-	-	-	-2,474	-2,474
Retained earnings prior year		-	-	323	-	-	-323	-
Total contribution by and distribution to owners		-	-	323	-	-	-2,797	-2,474
At 30 June, 2017 (unaudited)		1,125	343	23,900	-220	381	383	25,912

Notes to the Unaudited Condensed Consolidated interim financial statements

1. Reporting entity

   The condensed consolidated interim financial statements were authorized for issue by the Supervisory Board and Management Board on 23 August, 2018. Koninklijke Brill NV is incorporated in the Netherlands and has its headquarters in the Netherlands. The shares of Koninklijke Brill NV are publicly traded at Euronext in Amsterdam.

2. Accounting policies and estimates

   The condensed consolidated financial statements for the six months ended 30 June, 2018 have been prepared in accordance with IAS34 'Interim financial reporting'. The condensed consolidated interim financial statement should be read in conjunction with the annual financial statements for the year ended 31 December, 2017, which have been prepared in accordance with IFRS. The condensed consolidated financial statements are presented in accordance with the new standards that became effective as of 1 January, 2018, which do not have a material impact on the consolidated results, financial position or cash flow. All amounts are denominated in thousand EUR (K€), unless otherwise mentioned.

   The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

3. Audit

   The condensed consolidated interim financial statements for the six months ended June 30, 2018 have not been audited nor reviewed by an independent financial auditor.

4. Seasonality

   A significant part of Brill's book program is published in the second half of the year which also means that revenues tilt towards the second half of the year. Although the journals are more equally published throughout the year the number of subscriptions shows a limited growth in the course of the year. In general, most revenue is recorded in the second half of the year. In general the costs develop more equally throughout the year which generally results in a favorable development of the profit in H2.

5. Acquisitions, investments and divestments

   As previously announced Brill acquired mentis Verlag with an effective date of 1 January, 2018. The total purchase price is EUR 0.2 million. As per reporting date the acquired assets added € 57 thousand to the revenue. Effective July 1, 2018 Brill acquired the journal title *Global Governance.* It is expected that the journal will contribute to the revenue and profit in 2018. The final purchase price is subject to working capital adjustments but is expected to be EUR 0.2m.

   The other capital investments made refer to regular content and tangible and intangible fixed assets.

6. <u>Fixed Assets</u>

In the first half of the year, a total amount of K€ 130 was invested in tangible fixed assets and an amount of K€ 180 was invested in software (intangible assets). The remainder of cash spent on investment activities relates to acquisitions made in earlier years.

Total fixed assets developed as follows:

	2018 HY (Unaudited)	31-12-2017 (Audited)
Goodwill and publishing rights	19,289	19,075
Capitalized content	10,068	9,763
Information systems	3,070	2,735
Total intangible fixed assets	**32,427**	**31,573**
Property, plant & equipment	468	488
Financial fixed assets	12	12
Total fixed assets	**32,908**	**32,073**

7. Inventories

Inventories includes physical stock and Work in Progress.

The value of the inventories includes an adjustment for obsolete inventory. In the first six months of the year this provision increased by EUR 189 thousand (2017: EUR 163 thousand).

8. Financial instruments

Fair value	2018 HY (Unaudited)	31-12-2017 (Audited)
Financial assets		
Currency forward agreements	66	346
Financial liabilities		
Forward currency contracts	-325	-105

Hedge accounting

Brill applies cash flow hedging by using synthetic forward currency contracts, generally for a period of 12 months.

Net forward position	Total amount contracts (in USD)		Fair value contracts (in EUR)	
	2018 HY	31-12-2017	2018 HY	31-12-2017
Sell forwards	9,375	9,875	66	346
Purchase forwards	-2,365	-2,550	-325	-105
	7,010	7,325	-259	241

The forward currency contracts used for the cash flow hedge were reviewed at 30 June, 2018 and are considered to be effective. The forward currency contracts eliminate the short term fluctuation in exchange rates of the future sales and expense related cash flows in US dollars.

9. Operating segment information

The publishing activities of Brill are divided into subject matter areas which management considers to be reportable business segments. The segments are:

- **ARC:** Philosophy, Art, Religion and Bible Studies, Theology, Jewish studies, Ancient Near East, Egyptology, Classical Antiquity and Latin literature;
- **HIS:** History, American studies, Slavic and Eurasian studies, Social Sciences and Biology;
- **LAW:** International Law, Human Rights and Humanitarian Law and International Relations;
- **MIA:** Middle Eastern and Islamic studies, African Studies, Education;
- **LLA:** Cultural studies, Language and Linguistics, Literature and Asian studies
- **S&F:** Schöningh & Fink.

During 2017, we prepared the carve out of LLA from the publishing unit MIA. LLA is a new unit under separate management focusing on several growth areas which are key to Brill.

In order to make strategic decisions on the allocations of resources the management of Brill reviews the performance of individual segments, focusing on the profitability and potential of the segment.

Segment revenue and results							
Segment	ARC	HIS	LAW	MIA	LLA	S&F	**Total**
Six months ended 30 June, 2018							
Revenue	4,447	3,138	2,847	2,632	1,648	1,338	16,050
EBITDA (see note 14)	631	-150	623	-408	-244	253	705
Six months ended 30 June, 2017							
Revenue	4,635	3,011	2,703	4,354	-	1,290	15,993
EBITDA*)	604	-91	585	-178	-	203	1,123
Segment invested capital							
Segment	ARC	HIS	LAW	MIA	LLA	S&F	**Total**
As at 30 June, 2018	2,338	3,061	11,996	4,694	2,565	26	24,680
As at 31 December, 2017	1,583	2,498	11,721	6,326	-	805	22,932

*) EBITDA calculation aligned with calculation method used in the Annual Report 2017

Reconciliation assets	**2018 HY** (Unaudited)	**31-12-2017** (Audited)
Capital Invested	24,680	22,932
Adjustments		
Current Liabilities	13,838	17,758
Deferred Tax Liabilities	3,719	3,775
Income tax to be received	957	334
Derivative financial instruments	66	346
Cash and cash equivalents	-	3,787
Assets	**43,260**	**48,932**

10. Personnel Expenses

The number of staff employed at Brill increased versus the first half of last year, mainly as a result of staff hired during 2017. Also, to commemorate the 335 year anniversary of the company, Brill staff received a one-time jubilee payment. These effects, combined with CLA driven salary increases are the main causes for the increase in personnel expenses:

	2018 HY (Unaudited)	2017 HY (Unaudited)
Salaries and wages	5,003	4,490
Social security charges	725	717
Costs of defined contribution pension plan	424	428
Costs of other defined contribution plans	127	130
	6,278	5,764
Personnel expenses booked on Work in Progress	-654	-573
Personnel expenses reported as operating costs	5,624	5,191

11. Income taxes

The major components of income tax expense in the condensed consolidated interim statement of comprehensive income are:

Income tax reported in the condensed consolidated interim statement of comprehensive income	2018 HY (Unaudited)	2017 HY (Unaudited)
Current income tax:		
Current income tax charge	52	106
Deferred income tax:		
Relating to origination and reversal of temporary differences	-	20
	52	**126**

12. Earnings per share

Earnings per share	2018 HY (Unaudited)	31-12-2017 (Audited)
Profit for the period ended 30 June, 2017	148	383
Weighted average number of ordinary shares for basic earnings	1,874,444	1,874,444
Basic/Diluted profit per share for the period ended 30 June, 2017 attributable to ordinary shareholders of Koninklijke Brill NV	0,10	0,20

13. Dividends paid

Dividend declared and paid during the period ended 30 June 2018	2018 HY (Unaudited)	31-12-2017 (Audited)
Dividend on ordinary shares for 2017: 432 cents per share (for 2016: 132 cents per share)	8,097	2,474

14. Reconciliation of non-GAAP information

Brill management is of the opinion that an understanding of the company's performance is enhanced by using the Non-GAAP measure EBITDA. In this note this measure is reconciled to GAAP measures.

Brill uses the term EBITDA to evaluate the performance of the total company and the operating segments. EBITDA makes the underlying performance of the businesses more transparent by excluding the depreciation of tangible assets and the amortization and impairments on intangible assets.

Reconciliation of Revenue and profit before tax	2018 HY (Unaudited)	2017 HY (Unaudited)
Revenue	16,050	15,993
Cost of goods sold	-5,174	-5,383
Sales costs	-2,961	-2,921
General and administrative expenses	-7,210	-6,566
EBITDA	705	1,123
Depreciation	-80	-54
Amortization	-379	-298
Operating profit	246	771
Finance income	17	16
Finance expense	-61	-278
Profit before tax	202	509

15. Events after Balance Sheet date

No material events took place after balance sheet date.