Koninklijke Brill NV

Half Year Report 2019 - Unaudited

29 August, 2019

BRILL

Brill reports satisfactory growth of revenues and EBITDA in H1

Key Figures (in EUR x thousands)	2019 H1	2018 H1	Change
Revenues	16,769	16,050	4.5%
EBITDA*	1,244	1,071	16.2%
Operating profit*	213	302	
Profit*	58	149	
Profit per share* (EUR)	0.03	0.08	
Net cash from operating activities	1,703	644	
Key Performance Indicators			
Organic growth (excluding acquisition and currency effects)	3.7%	1.0%	
EBITDA margin*	7.4%	6.7%	

NOTE: The information in this report is based on unaudited interim financial statements
** 2018 H1 results restated for IFRS 16 in key figures. Financial statements are not restated.*

Highlights

- Revenue up 4.5%, EBITDA up 16% (after restating 2018 for IFRS 16)
- Solid recovery US eBook and one-off sales in Q2
- Print book sales grew by 3.2%, against market trend
- Journal and eBook sales show a healthy growth
- Gross margin improved from 67.8% in H1 18 to 69%
- Profit improvement plan starts to deliver as planned
- Profit slightly decreased due to higher amortization costs and costs of profit improvement plan
- Improved cash generation due to improved results, better working capital and lower investments
- Brill is cautious about FY outlook due to uncertainties around Brexit and UK based distribution

Developments in the first half year

Following a satisfactory first quarter, we saw a continued solid performance in Q2 across most market and product lines. Book title and journal issue output developed as planned during H1 and sales results were positive, both from new as well as existing customers. The impact of movements in the USD / EUR exchange rate was limited.

In line with our strategy of market expansion, Brill expanded its portfolio with several journals from competitors in H1, amongst which *Contributions to Zoology*, the *Australian Year Book of International Law*, and *Simone de Beauvoir Studies*. Our open access program saw further growth with 20 new fully funded book titles and a successful pilot to crowdfund the *Journal of Jesuit Studies* with six international institutions. In April Brill has successfully launched an innovative platform for critical editions which is setting a new editorial standard for this humanities-specific product type.

Financial review
Total H1 revenues showed a satisfying organic growth versus the prior year:

Revenue growth (in EUR x thousands)	Revenue	% of total growth	Year on year growth
Total revenue 2018	**16,050**	**100.0%**	**100.0%**
Print books	207	1.3%	1.3%
eBooks	275	1.7%	1.7%
Journals	251	1.6%	1.6%
Primary sources	-75	-0.5%	-0.5%
Other	-63	-0.4%	-0.4%
Organic revenue 2019	**16,645**	**3.7%**	**3.7%**
Acquisitions	0	0.0%	0.0%
Currency	125	0.8%	0.8%
Total revenue 2019	**16,769**	**104.5%**	**104.5%**

Print book revenues showed modest growth, especially in Western Europe, which is better than the market trend. eBook revenues were driven by a recovery in the US, and by stronger sales in Western Europe, with the Rest of World mostly flat versus prior year. Journal revenues increased, because of underlying growth in the portfolio and a successful renewal season.

Digital revenue as a percentage of overall revenue increased further to 55% from 54% in 2018. Subscription based revenue remained flat at 41% of total revenue.

Cost of goods sold was slightly above last year due to the higher title output and volume growth, mitigated somewhat by a reduction in platform hosting costs due to the elimination of double running costs which we had in 2018.

Gross margin improved with revenues, and operating expenses are starting to show the effect of our profit improvement plan when adjusting for the earlier announced change in IFRS 16 and some material cost phasing issues. The profit improvement plan is running as planned to deliver a saving of EUR 0.7m in 2019.

The comparison of operating expenses versus H1 2018 is impacted materially by two factors:
- Implementation of IFRS 16 (leases); which is a permanent positive difference versus the past;
- Timing of expenses due to improved accrual processes; which is a negative phasing effect that will even out over the full year.

EBITDA Development (in EUR x thousands)	2019 H1	2018 H1
EBITDA, as reported		704
Restatement for effect of IFRS 16		367
Restated EBITDA	1,244	1,071
Improved phasing of expenses		-446
EBITDA, like for like	**1,244**	**625**

Operating expenses were impacted also by one-off expenses related to our finance improvement initiative and the temporary replacement of the CFO. Furthermore, we recorded EUR 81k of expenses related to our profit improvement plan.

Balance sheet and cash flow
At the May Annual General Meeting, the shareholders adopted the dividend proposal of EUR 0.85. Brills' capital structure remains well aligned with its long-term balance sheet policy, with a solvency rate at 42.2% (YE 2018: 42.5%).

Cash flow from operating activities improved versus last year, mainly due to improved working capital, higher EBITDA and lower income tax paid.

Management and strategy update
Following the Annual General Meeting of 16 May 2019, Mr. Theo van der Raadt was appointed to the Supervisory Board which now consists of four members. Mrs. Jasmin Lange was appointed to the Management Board, which now has three members. As per 1 September, Mr. Olivier de Vlam will return as CFO from sick leave. Mr. Wim Dikstaal will support the handover during September. Brill is deeply indebted to Mr. Dikstaal for his dedication and contributions during Mr. De Vlam's illness.

During H1 we raised our profile in the market by launching our Humanities Matter campaign along with presenting our mission at industry and customer events. Brill's new mission statement met with positive feedback from all stakeholder groups. Otherwise, we continue to execute on our strategy as communicated in the AGM.

Conversion bearer depositary receipts into registered depositary receipts
In connection with the entry into force on 1 July of the Law on the Conversion of Bearer Shares, the administration conditions of Stichting Administratiekantoor Koninklijke Brill have been changed and the bearer depositary receipts have been converted into registered depositary receipts today after close of stock market.

Risk management
The company's assessment of relevant risks in the publication of the annual report 2018 has been adapted due to the recent Brexit developments. A no-deal Brexit may have a material impact on our operations and financial results, as a large part of our full year stock print book revenue is realized in Q4 and our main distribution partner is based in the UK. Compounding the risk is a system migration currently ongoing at our distribution partner. Brill has prepared a number of Brexit scenarios and will move stock to the continent in order to be able to continue supplying customers with our bestsellers under all circumstances.

Outlook
The company is cautious with providing guidance for the full year as it remains difficult to reliably forecast the important Q4 sales. We have a good H2 pipeline for product releases, deferred income and sales opportunities. Assuming a limited impact of the UK distribution risks, we expect to achieve a modest revenue growth in the full year. This should result in an improved EBITDA and profit before tax, also when correcting for the impact of IFRS 16. We expect the one-time expenses related to the profit improvement plan to be EUR 0.4m. Based on the above assumptions, net profit will decline versus 2018 due to the one-time windfall tax effect in 2018 related to future Dutch corporate income tax rate adjustments.

Responsibility statement
The Half Year Report 2019 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. Special attention is paid to investments and to the circumstances on which revenues and profitability depend. Please note that the figures per 30 June, 2019 have not been reviewed nor audited by our auditors.

Leiden, 29 August 2019

The Management Board
Peter Coebergh, CEO
Wim Dikstaal, CFO a.i.
Jasmin Lange, CPO

Consolidated statement of financial position

in thousands of euro's

	Notes	30-6-2019 (Unaudited)	31-12-2018* (Audited)
ASSETS			
Non-current assets			
Intangible assets	6	32,392	32,785
Right of use assets (IFRS 16 lease)		2,247	-
Tangible fixed assets		367	389
Financial assets		12	12
		35,018	33,186
Current assets			
Inventories	7	3,444	3,465
Trade and other receivables		5,608	9,046
Income tax to be received		1,118	752
Derivative financial instruments	8	-	75
Cash and cash equivalents		-	2,383
		10,171	15,721
TOTAL ASSETS		45,189	48,906
LIABILITIES			
Equity attributable to owners of Koninklijke Brill NV			
Share capital		1,125	1,125
Share premium		343	343
Retained earnings		17,837	19,520
Other reserves		-251	-203
		19,054	20,785
Non-current liabilities			
Interest bearing loans		4,304	4,843
Lease liabilities		2,214	-
Provisions long		-	45
Deferred tax liabilities		3,093	3,093
		9,611	7,981
Current liabilities			
Interest bearing loans		1,083	1,083
Lease liabilities		546	0
Trade and other payables		6,885	10,245
Deferred income		7,467	8,402
Provisions		-	100
Derivative financial instruments	8	233	310
Bank overdraft		310	-
		16,524	20,141
TOTAL EQUITY AND LIABILITIES		45,189	49,906

** 2018 H1 financial statements are **not** restated for IFRS 16*

Consolidated statement of profit and loss and other comprehensive income for the six months ended 30 June 2019

in thousands of euro's

	Notes		2019 (Unaudited)		2018* (Unaudited)
Gross profit					
Revenue	9		16,769		16,050
Costs of goods sold			-5,196		-5,174
			11,574		**10,876**
Expenses					
Selling and distribution costs	10	-3,442		-3,211	
General and administrative expenses		-7,918		-7,419	
			-11,360		-10,630
Operating profit			**213**		**246**
Finance income			-		17
Finance expenses			-135		-61
Profit before tax			78		202
Income tax expense	11		-20		-54
Profit from continued operations attributable to the shareholders of Koninklijke Brill NV			58		148
Other comprehensive income – items that might be reclassified to future profit or loss statements					
Exchange differences on translation of foreign operations		36		56	
Cash flow hedges		-105		-463	
			-69		-408
Income tax on other comprehensive income			21		114
Total comprehensive income for the period attributable to shareholders of Koninklijke Brill NV			10		-146
Earnings per share	12				
Basic/diluted earnings per share for the period Attributable to the shareholders of Koninklijke Brill NV			0.03		0.08

* *2018 H1 financial statements are **not** restated for IFRS 16*

Condensed consolidated statement of cash flows
for the six months ended 30 June, 2019

in thousands of euro's

	notes	2019 (Unaudited)		2018* (Unaudited)	
Cash flows from operating activities					
Profit before tax		78		202	
Adjustments for:					
Amortization and Depreciation including lease assets		2,450		2,079	
Finance costs – net		36		44	
Change in working capital		-377		-1,017	
Cash generated from operations		2,187		1,308	
Interest paid/ received including lease interest		-99		17	
Income tax paid		-385		-681	
		-484		-664	
Net cash from operating activities			**1,703**		**644**
Net cash from investment activities	5		**-1,762**		**-2,914**
Cash flow from financing activities					
Dividend paid to company shareholders	13	-1,602		-8,097	
Interest bearing loan				6,500	
Redemption interest bearing loans		-539		-	
Redemption lease liabilities		-494		-	
Net cash from financing activities			**-2,635**		**-1,597**
Net (decrease)/increase in cash and cash equivalents			-2,693		-3,867
Cash and cash equivalents at January 1			2,383		3,786
Exchange differences on cash and cash equivalents			-		-
Cash and cash equivalents at June 30			**-310**		**-81**

* *2018 H1 financial statements are **not** restated for IFRS 16*

Consolidated interim statement of changes in total equity for the six months ended 30 June, 2019

in thousands of euro's

	notes	Share capital	Share Premium	Retained Earnings	Exchange Difference Reserve	Cash flow Hedge reserve	Total Equity
2019							
At 31 December, 2018 (audited)		1,125	343	19,602	-401	116	20,785
Implementation of IFRS16	2			-139			-139
At 1 January, 2019 (unaudited)		1,125	343	19,463	-401	116	20,646
Profit for the period		-	-	58	-	-	58
Other comprehensive income					36	-84	-48
Total comprehensive income for the period				58	36	-84	10
Dividend paid over prior year	12			-1,602			-1,602
Retained earnings prior year							
Total contribution by and distribution to owners				-1,602			-1,602
At 30 June, 2019 (unaudited)		1,125	343	17,919	-365	32	19,054

	notes	Share capital	Share Premium	Retained Earnings	Exchange Difference Reserve	Cash flow Hedge reserve	Total Equity
2018							
At 1 January, 2018 (audited)		1,125	343	26,160	-263	36	27,401
Profit for the period		-	-	148	-	-	148
Other comprehensive income		-	-	-	56	-349	-294
Total comprehensive income for the period		-	-	148	56	-349	-146
Dividend paid over prior year	12	-	-	-8,087	-	-	-8,097
Retained earnings prior year		-	-	-	-	-	-
Total contribution by and distribution to owners		-	-	-8,097	-	-	-8,097
At 30 June, 2018 (unaudited)*		1,125	343	18,210	-207	-313	19,158

** 2018 H1 financial statements are **not** restated for IFRS 16*

Notes to the Unaudited Condensed Consolidated interim financial statements

1. <u>Reporting entity</u>
   The condensed consolidated interim financial statements were authorized for issue by the Supervisory Board and Management Board on 29 August, 2019. Koninklijke Brill NV is incorporated in the Netherlands and has its headquarters in the Netherlands. The certificates of shares of Koninklijke Brill NV are publicly traded at Euronext in Amsterdam.

2. <u>Accounting policies and estimates</u>
   IFRS 16 which became effective on January 1, 2019 is the new standard on lease accounting and results in almost all operating leases being recognized in the consolidated statement of financial position, as the distinction between operating and finance leases is no longer applicable to lessees. IFRS 16 results in presentation changes in the consolidated statement of profit or loss and the statement of financial position.

   Under IFRS16, an asset (the right to use the leased item) and a financial liability (a liability for discounted future lease installments) are recognized in the consolidated statement of financial position.

   In addition, key metrics like EBITDA change as rent expense is replaced by depreciation of the right-of-use asset and interest expense on the lease liability, and typically total lease expenses are higher in the earlier years of a lease and lower in later years.

   Transition to IFRS 16
   Brill has adopted IFRS 16 using the 'modified retrospective approach'. This means that Brill has not prepared a restated consolidated statement of financial position at 1 January, 2018 and that in the 2019 interim financial statements the comparatives are not restated.
   Brill elected to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4, for example the lease agreements for our offices and for lease cars provided to personnel. Brill has therefore not applied the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

   Brill elected to use the exemption proposed by the standard on lease contracts for which the underlying asset is of low value. Brill has leases of certain office equipment (i.e. personal computers, printing and photocopying machines) that are considered to be low value.
   Brill has not elected to use the exemption proposed by the standard on short-term leases (i.e. leases with a lease term of 12 months or less).

The above is reconciled as followed:

	1-1-2019 (Unaudited)
Changes in assets	
Recognition of right-of-use assets	2,732
Changes in non-current assets	**2,732**
Changes in other receivables	-24
Changes in current assets	-24
Changes in total assets	**2,708**
Changes in equity and liabilities	
Changes in equity	**-139**
Change in non-current lease liabilities	2,292
Changes in non-current liabilities	**2,292**
Change in current lease liabilities	754
Change in lease payables in Trade and other payables	-199
Changes in current liabilities	**555**
Change in equity and liabilities at 1 January, 2019	**2,708**

Change in other receivables and Trade and other payables relate to the release of lease incentives and corresponding tax position.

The total of current and non-current lease liabilities as at 1 January, 2019 can be reconciled to the operating lease commitments as of 31 December, 2018 as follows:

	1-1-2019 (Unaudited)
Operating lease commitments as at 31 December, 2018	**3,280**
Weighted average incremental borrowing rate as at 1 January, 2019	3.4%
Discounted operating lease commitments at 1 January, 2019	**3,046**
Lease liabilities as at 1 January, 2019	**3,046**

3. Audit

   The condensed consolidated interim financial statements for the six months ended June 30, 2019 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

   Brill did not do any acquisitions in HY1 2019.

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

6. Fixed Assets

In the first half of the year, a total amount of EUR 53k was invested in tangible fixed assets and an amount of EUR 233k was invested in information systems (intangible assets).

Total fixed assets developed as follows:

	2019 HY (Unaudited)	31-12-2018 (Audited)
Goodwill and publishing rights, trade names, imprints and licenses	19,405	19,468
Capitalized content	10,146	10,228
Information systems	2,842	3,089
Total intangible fixed assets	**32,392**	**32,785**
Right-of-use assets	2,247	
Property, plant & equipment	367	389
Financial fixed assets	12	12
Total fixed assets	**35,018**	**33,186**

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 32k (2018: EUR 189K).

8. Financial instruments

Fair value	2019 HY (Unaudited)	31-12-2018 (Audited)
Financial assets		
Currency forward agreements	0	75
Financial liabilities		
Forward currency contracts	-233	-310

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)	
	2019 HY	31-12-2018	2019 HY	31-12-2018
Sell forwards	2,400	9,875	-16	75
Purchase forwards	-860	-2,550	-217	-310
	1,540	7,325	-233	-235

The forward currency contracts used for the cash flow hedge were reviewed at 30 June, 2019 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;
- **LLA:** Cultural studies, Language and Linguistics, Literature and Asian studies;
- **S&F:** Schöningh & Fink.

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							
Publishing unit	LAW	MIA	LLA	HIS	ARC	S&F	**Total**
Six months ended 30 June, 2019							
Revenue	2,900	2,166	1,952	3,497	5,001	1,254	16,769
EBITDA (see note 14)	363	187	-114	175	723	-89	1,244
Six months ended 30 June, 2018							
Revenue	2,847	2,632	1,648	3,138	4,447	1,338	16,050
EBITDA	623	-408	-244	-150	631	253	705
EBITDA restated for IFRS 16	674	-370	-210	-89	718	349	1,072
Segment invested capital							
As at 30 June, 2019	12,163	553	4,651	4,629	3,627	1,080	26,704
As at 31 December, 2018	10,724	1,576	4,101	2,994	3,198	952	23,546

As per 1 January, 2019 management decided to transfer the Education publishing list from MIA to HIS.

10. Expenses

Selling & distribution expenses
Our sales expenses are impacted materially by improved accrual processes that resulted in a negative phasing effect that will even out over the full year (see also page 2). Excluding this effect, selling & distribution expenses are in line with the first half year of 2018.

General & administrative expenses
The H1 2019 G&A expenses were also impacted by the improved accrual processes mentioned above. Finance costs increased due to ongoing costs for temporary staff, related to the absence of the CFO and the ongoing quality improvement efforts. Furthermore, G&A expenses increased due to lower capitalization of personnel costs and the costs for the profit improvement plan.

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	2019 HY (Unaudited)	2018 HY (Unaudited)
Current income tax:		
Current income tax charge	20	52

12. Earnings per share

Earnings per share	2019 HY (Unaudited)	2018 HY (Unaudited)
Profit for the period ended 30 June	58	148
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 attributable to ordinary shareholders of Koninklijke Brill NV	0.03	0.08

13. Dividends paid

Dividend declared and paid during the period ended 30 June, 2019	2019 HY (Unaudited)	31-12-2018 (Audited)
Dividend on ordinary shares for 2018: 85 cents per share (for 2017: 432 cents per share)	1,602	8,097

14. <u>Reconciliation of non-GAAP information</u>

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	2019 HY	2018 HY
	(Unaudited)	(Unaudited)
Revenue	16,769	16,050
Cost of goods sold	-5,196	-5,174
Sales costs	-3,442	-3,211
General and administrative expenses	-6,887	-6,960
EBITDA	**1,244**	705
Depreciation tangible assets	-75	-80
Depreciation right of use assets	-332	0
Amortization intangible assets	-543	-379
Operating profit	**294**	**246**
Reorganization costs	-81	
Finance income	-	17
Finance expense	-135	-61
Profit before tax	78	202

15. <u>Events after Balance Sheet date</u>

No material events took place after balance sheet date.