Koninklijke Brill NV

Half Year Report 2017

24 August, 2017

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Brill reports satisfactory HY1 with organic revenue growth of 2% and total revenue growth of 11%; on track for 2017

Key Figures (in EUR x million)	2017 H1	2016 H1
Revenues	16.0	14.4
EBITDA	1.1	1.7
Operating profit	0.8	1.3
Profit	0.4	0.7
Net cash from operating activities	-1.1	-1.4
Net decrease in cash and cash equivalents	-5.1	-3.8
Earnings per share (EUR)	0.20	0.37

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

Highlights

- 11% growth in revenue, driven by acquisition of Schöningh & Fink (9.0%) and organic growth (2.2%)
- Organic revenue growth was satisfactory considering two major sales deals in H1 2016 (EUR 0.3m)
- Outlook FY 2017: revenue growth greater than 10% including 2-3% organic growth and some EBITDA margin improvement.
- Continuing shift of the portfolio towards digital, subscription based products
- Integration of both Schöningh & Fink and Sense is progressing according to plan
- EBITDA impacted by corporate and acquisition related cost, one time royalty costs, Schöningh & Fink seasonal profile and investments in expanding market presence
- Net cash flow from operating activities improved from EUR -1.4m to EUR -1.1m
- Editorial workflow system fully used for journals and live for processing books in H2; online platform investment on track
- Sales office in Beijing open in August

Developments in the first half year

General

2017 is a transformational year for Brill, with clear progress on all three key strategic initiatives. We are busy integrating our first major acquisition in Germany and we reached agreement on the acquisition of Sense in the Netherlands, which was closed on July 11. These are major steps in our effort to expand our market position. Also, we expanded our market presence by hiring additional sales staff and implementing a digital marketing capability. The presence in Asia with an office in Singapore will be expanded through the opening of a sales office in Beijing in August. Lastly, we completed the development of our editorial workflow system and preparations are ongoing for the launch of our new online publishing platform in Q4. All of these investments will help enable the planned growth.

We continue to see a good reception of our offerings in the main markets we serve; our sales force generated 13% growth in order intake in the US and Europe. Growth in The Middle East, Africa and Asia was impacted by last year's exceptional deals.

Title output, excluding Schöningh & Fink, declined slightly versus last year, but is expected to be in line with 2016 for the full year. Major new titles contributing to H1 growth include *Flavius Josephus Online*, *Rosenne's Law and Practice of the International Court* and the *Brill Reformation Year* eBook collection. For the second half of 2017, title output from the newly acquired program of Sense will add to total title output.

As in 2016, total H1 revenues showed a distinct increase versus the prior year:

(in EUR million)	Revenues	Growth	Contribution to total growth
2016 H1	**14.4**		
Print books	1.2	22.5%	8.4%
eBooks	0.2	4.6%	1.3%
Journals	0.3	5.1%	2.4%
Primary Sources	-0.0	-7.0%	-0.3%
Other	-0.1	-27.9%	-0.6%
2017 H1	**16.0**	**11.2%**	**11.2%**

Print book revenues were boosted by the acquisition of Schöningh & Fink; organic revenues were down by 1.5%. *eBook* revenues showed a healthy growth given last year's one off deals; excluding those deals, eBook revenues grew by 13%. *Journal* revenues increased in line with expectations and were boosted by some timing differences.

The impact of the lower USD exchange rate in Q2 was mitigated by our hedging policy where we hedge both expenses and income on a rolling 12-month basis.

Digital revenue and subscription revenue declined as a percentage of overall revenue due to the consolidation of Schöningh & Fink which has mainly transaction based, print book sales. As a result, digital publications generated 53% of total revenue (H1 2016: 57%) and subscription based revenue was 41% of total revenue (H1 2016: 42%).

Cost of goods sold showed continued underlying improvement in the mix of growing content costs versus efficiency and portfolio improvements. This effect was dampened by one off additional royalty accruals, and as a result Cost of goods sold as a whole grew more than revenues.

Operating expenses increased materially versus last year due to the consolidation of Schöningh & Fink but also due to our planned expansion of the sales & marketing organization, acquisition related expenses, and increased governance and audit expenses.

As a result of the above, EBITDA, Net profit and Earnings Per Share declined compared to H1 2016.

Balance sheet and cash flow
Versus last year, inventories increased due to the addition of the Schöningh & Fink inventory. Receivables decreased as payment patterns of customers improved. The deferred income increased mainly due to the growth of subscription revenue. Net cash from operating activities improved versus last year, but Net cash flow was impacted by higher dividend payment and higher investment activity. The solvency rate decreased slightly to 60.0% (HY 2016: 61.3%).

Outlook
Given the encouraging development in the first half of the year, the company expects total revenue growth for the full year to be above 10% - including organic growth of 2-3% - and some margin improvement. We expect this to result in a commensurate increase of EBITDA and growth of Earnings Per Share. As always, for achievement of this outlook we are heavily dependent on our annual performance on end of year sales. With Schöningh & Fink added, our revenue and profit weighing has become even more tilted towards the second half year.

Risk management
No significant changes occurred in the company's assessment of relevant risks since the publication of the annual report 2016.

Responsibility Statement
The Half Year Report 2017 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, 2017 have not been reviewed nor audited.

Herman A. Pabbruwe
Chief Executive Officer

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Consolidated balance sheet as per June 30, 2017

in thousands of euro's

	Notes	2017 HY (Unaudited)	2016 HY* (Unaudited)	2016 YE* (Audited)
ASSETS				
Non-current assets				
Tangible fixed assets		343	368	303
Intangible assets	6	27,401	25,758	27,241
Financial assets		12	0	0
		27,756	**26,126**	**27,544**
Current assets				
Inventories	7	6,908	6,110	4,990
Trade and other receivables		5,951	6,473	8,002
Income tax to be received		942	525	34
Derivative financial instruments	8	378	0	117
Cash and cash equivalents		1,224	2,462	6,304
		15,403	**15,570**	**19,447**
TOTAL ASSETS		**43,159**	**41,696**	**46,991**
LIABILITIES				
Equity attributable to owners of Koninklijke Brill NV				
Share capital		1,125	1,125	1,125
Share premium		343	343	343
Retained earnings		23,900	23,576	23,577
Other reserves		161	-171	-308
Undistributed profit		383	699	2,797
		25,912	**25,572**	**27,534**
Non-current liabilities				
Deferred tax liabilities		3,714	3,633	3,693
		3,714	**3,633**	**3,693**
Current liabilities				
Trade and other payables		6,655	5,859	6,789
Deferred income		6,797	6,563	8,439
Derivative financial instruments	8	81	69	422
Tax to be paid		0	0	114
		13,533	**12,491**	**15,764**
LIABILITIES		**43,159**	**41,696**	**46,991**

*** comparable 2016 numbers have been restated for the reclassification of capitalized content**

Consolidated income statement and statement of comprehensive income for the six months ended June 30, 2017

in thousands of euro's

	Notes		2017 HY (Unaudited)		2016 HY (Unaudited)
Gross profit					
Revenue	9		15,993		14,373
Costs of goods sold			-5,383		-4,639
			10,610		9,734
Expenses					
Selling and distribution costs	10	-2,921		-2,494	
General and administrative expenses		-6,918		-5,955	
			-9,839		-8,449
Operating profit			771		1,285
Finance income			16		13
Finance expenses			-278		-144
Profit before tax			509		1,154
Income tax expense	11		-126		-287
Profit from continued operations attributable to the shareholders of Koninklijke Brill NV			383		867
Discontinued operations					
Profit/loss after tax for the period from discontinued operations			0		-168
Profit for the period			383		699
Other comprehensive income – items that might be reclassified to future profit or loss statements					
Exchange differences on translation of foreign operations		-73		-12	
Cash flow hedges		723		59	
			650		47
Income tax on other comprehensive income			-181		-15
Total comprehensive income for the period attributable to shareholders of Koninklijke Brill NV			852		731
Earnings per share	12				
Basic/diluted earnings per share for the period Attributable to the shareholders of Koninklijke Brill NV			0.20		0.37

Condensed **Consolidated statement of cash flows**
for the six months ended June 30, 2017

in thousands of euro's

	notes	2017 HY (Unaudited)		2016 HY (Unaudited)	
Cash flows from operating activities					
Profit before tax from continuing operations		509		1,154	
Profit before tax from discontinued operations		0		-223	
Adjustments for:					
Amortization and Depreciation		352		442	
Finance costs – net		262		131	
Change in working capital		-1,396		-1,187	
Change in provisions		0		-104	
Cash generated from operations			-273		213
Interest paid		-4		-7	
Income tax paid		-1,135		-1,410	
Net cash from operating activities			**-1,139**		**-1,417**
Net cash from investment activities	5		**-1,194**		**-309**
Cash flow from financing activities					
Dividend paid to company shareholders	13	-2,475		-2,324	
Net cash from financing activities			**-2,475**		**-2,324**
Net (decrease)/increase in cash and cash equivalents			-5,082		-3,837
Cash and cash equivalents at January 1, 2017			6,304		6,299
Exchange differences on cash and cash equivalents			1		0
Cash and cash equivalents at June 30, 2017			**1,224**		**2,462**

Consolidated Interim Statement of Changes in Equity
for the six months ended 30 June, 2017
in thousands of euro's

	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		0	0	0	0	0	383	383
Other comprehensive income		0	0	0	-73	542	0	469
Total comprehensive income for the period		0	0	0	-73	542	383	852
Dividend paid over prior year	12	0	0	0	0	0	-2,474	-2,474
Retained earnings prior year		0	0	323	0	0	-323	0
Total contribution by and distribution to owners		0	0	323	0	0	-2,797	-2,474
At 30 June, 2017 (unaudited)		1,125	343	23,900	-220	381	383	25,912

	notes	Share capital	Share Premium	Retained Earnings	Exchange Difference Reserve	Cash flow Hedge reserve	Unallocated Profit	Total Equity
2016								
At 1 January, 2016 (audited)		1,125	343	23,569	-123	-80	2,332	27,166
Profit for the period		0	0	0	0	0	699	699
Other comprehensive income/expense		0	0	0	-12	44	0	32
Total comprehensive income/expense for the period		0	0	0	-12	44	699	731
Dividend to shareholders	12	0	0	0	0	0	-2,324	-2,324
Profit previous year added to retained Earnings		0	0	7	0	0	-7	0
At 30 June, 2016 (unaudited)		1,125	343	23,576	-135	-36	699	25,572

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 Executive Board on 24 August, 2017. 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, 2017 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, 2016, 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, 2017, 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, 2017 have not been audited nor reviewed.

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. The costs develop in general more equally throughout the year which is expected to result in a favorable development of the profit in the rest of the year.

5. Acquisitions, investments and divestments

   In the first six months of 2017 Brill acquired two journal titles: *Israel Journal of Ecology & Evolution* and *Israel Journal of Plant Sciences.* The acquired publications have not yet contributed to the revenue for the period of six months ended 30 June, 2017. It is expected that the journals will contribute to the revenue and profit in 2017.

   As previously announced Brill acquired Schöningh & Fink with an effective date of 1 January, 2017. The total purchase price is 1.1 million.

The fair value of the identifiable in 2017 acquired assets and liabilities is as follows:

	Fair value at date of acquisition
Assets	
Intangible assets (publishing rights)	102
Tangible assets	31
Financial assets	12
Inventory	745
Trade and other receivables	987
Liabilities	
Trade and other payables	-653
Total identifiable assets at fair value	1,224

As per reporting date the acquired assets have added € 1,290 thousand to the revenue.
As per 30 June, 2017 no formal commitments had been made concerning the acquisition of assets. On 11 July, Brill closed and completed the acquisition of Sense.

6. Fixed Assets

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.

As per 1-1-2017, capitalized content is reclassified from inventories to intangible assets, treated in line with IAS 38 (versus IAS 2 prior). Brill expects no material impact on reported results from this reclassification. As before, amortization of content will be recognized in cost of goods sold.

Total fixed assets developed as follows:

	2017 HY	2016 HY
Goodwill and publishing rights	17,142	16,999
Capitalized content	8,452	7,900
Information systems	1,807	859
Total intangible fixed assets	**27,401**	**25,758**
Property, plant & equipment	343	368
Financial fixed assets	12	0
Total fixed assets	**27,756**	**26,126**

7. <u>Inventories</u>
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 € 163 thousand.

8. <u>Financial instruments</u>

Fair value	2017 HY (Unaudited)	2016 YE (Audited)
Financial assets		
Currency forward agreements	377	117
Financial liabilities		
Forward currency contracts	-81	-422

Hedge accounting
Brill only makes use of cash flow hedging by using synthetic forward currency contracts.

Net forward position	Total amount contracts (in USD)		Fair value contracts (in EUR)	
	30-6-2017	31-12-2016	30-6-2017	31-12-2016
Sell forwards	9,950	9,700	377	-422
Purchase forwards	-2,540	-2,390	-81	117
	7,410	7,310	296	-305

The forward currency contracts used for the cash flow hedge were reviewed at 30 June, 2017 and are considered to be effective. The forward currency contracts eliminate the fluctuation in exchange rates of the future sales and expense related cash flows in US dollars.

9. <u>Operating segment information</u>
The publishing activities of Brill are divided into subject matter areas which management considers to be reportable business segments. The segments are:

- **ARC:** Philosophy (including philosophy and ethics), Art, Religion and Bible Studies, Theology, Jewish studies, Ancient Near East, Egyptology, Classical Antiquity and Latin literature;
- **HIS:** History (including medieval, early modern and modern history, history of warfare, history of science, book history and history of cartography), American studies, Slavic and Eurasian studies, Social Sciences and Biology;
- **LAW:** International Law, Human Rights and Humanitarian Law and International Relations;
- **MIA:** Africa, Cultural studies, Language and Linguistics, Literature, Middle Eastern and Islamic studies 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						
Segment	ARC	HIS	LAW	MIA	S&F	**Total**
Six months ended 30 June, 2017						
Revenue	4,635	3,011	2,703	4,354	1,290	15,993
EBITDA (see note 13)	543	214	92	594	-320	1,123
Six months ended 30 June, 2016						
Revenue	4,449	3,046	2,693	4,185	0	**14,373**
EBITDA	879	110	416	249	0	**1,654**
Segment invested capital						
Segment	ARC	HIS	LAW	MIA	S&F	**Total**
As at 30 June, 2017	2,672	3,528	10,198	5,945	1,025	23,368
As at 30 June, 2016	2,912	3,454	10,202	6,017	0	**22,585**

Reconciliation assets	**30 June, 2017**	30 June, 2016
Capital Invested	23,368	22,585
Adjustments		
Current Liabilities	13,533	12,491
Deferred Tax Liabilities	3,714	3,633
Income tax to be received	942	525
Derivative financial instruments	378	0
Cash and cash equivalents	1,224	2,462
Assets	**43,159**	**41,696**

10. Personnel Expenses

The number of staff employed at Brill increased Schöningh & Fink. This is the main cause for the increase in personnel expenses:

	2017 HY	2016 HY
Salaries and wages	4,490	4,064
Social security charges	717	593
Costs of defined contribution pension plan	428	442
Costs of other defined contribution plans	130	135
	5,764	**5,235**
Personnel expenses booked on Work in Progress	-573	-594
Personnel expenses reported as operating costs	**5,191**	**4,641**

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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	2017 HY	2016 HY
Current income tax:		
Current income tax charge	106	262
Deferred income tax:		
Relating to origination and reversal of temporary differences	20	25
	126	287

12. Earnings per share

Earnings per share	2017 HY	2016 HY
Profit for the period ended 30 June, 2017	383	699
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	0,20	0.37

13. Dividends paid

Declared and paid during the period ended 30 June, 2017	2017 HY	2016 HY
Dividend on ordinary shares: declared dividend over 2016 132 cents (over 2015: 124 cents)	2,474	2,324

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 measures 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	2017 HY	2016 HY
Revenue	15,993	14,373
Cost of goods sold	-5,383	-4,639
Sales costs	-2,921	-2,494
General and administrative expenses	-6,566	-5,586
EBITDA	**1,123**	**1,654**
Depreciation	-298	-292
Amortization	-54	-77
Operating profit	771	1,285
Finance income	16	13
Finance expense	-278	-144
Profit before tax	509	1,154

15. Events after Balance Sheet date

On 11 July, Brill closed and completed the acquisition of Sense.