Dr. Olemotz, CEO:

Ladies and gentlemen, thank you for joining us for the Bechtle AG webcast on the Q1 figures for the current fiscal year. Since we traditionally present our quarterly numbers online, I’m glad I can spare you all the e-mails about an ‘exceptional video or phone conference’ that have become standard nowadays days. Some consistency in these topsy-turvy times. Nevertheless, I’d first like to mention one thing. Our phone conference is usually accompanied by a webcast However, the provider is currently experiencing technical difficulties and this is not possible right now, but may start at some point during the presentation. However, if you wish to follow along with the presentation slides while I talk, the simplest thing I can recommend is going to our website where the presentation is available and can be viewed as a PowerPoint file.

Despite the normality of our audio conference, the Corona pandemic is, of course, a defining challenge for Bechtle and will remain so for the time being, even if only as a backdrop to our very positive figures in the first quarter. Because so far, Bechtle—as you’ve no doubt already seen in the figures—has navigated these difficult times quite well. Today’s presentation follows the usual presentation structure. Our focus will naturally be on business development in the past first quarter and there are a couple of structural points that I would like to cover before the Q&A session. And, of course, we will also be looking at the Bechtle share. Before coming to the current outlook, which is certainly more difficult than ever in current times, I will mention some highlights. But let’s start with business development in the first months of this year. I hope that in the meantime you’ve all been able to access the presentation on our website. I’m beginning on slide 3 of the presentation, that shows revenue development during the first quarter of the current year.

As you can see, despite the pandemic’s increasingly deteriorating effect on our economic backdrop over the quarter, we at Bechtle were able to grow at a strong pace with a group-wide 9.3%. Growth—as you can see in the bar chart—was broadly balanced between the segments. Organic growth, in particular, was nearly level between the segments, with a little over 8% for Systems Integration and 8.5% for E-Commerce. In March in particular, both
segments experienced an unusual peak on account of the high demand for equipment and services to enable remote working, including powerful collaboration tools and platforms—this need was expressed both by our industrial, but in particular by our public-sector clients. In Systems Integration, growth was also spurred by a demand for modern IT architectures that remain an essential foundation to drive the digital transformation, as well as by managed cloud services.

On the next slide, we look at the difference in between revenues in Germany and abroad, seeing a trend that differs from past reports. It will probably come as a surprise to most of you to learn that we experienced far higher domestic growth with 10.6% compared with the respectable 7.3% abroad, year on year. There are two very basic structural reasons for this. Firstly, it has to be said that outside of Germany, earlier and to some extent more drastic measures to combat the Covid-19 pandemic were felt, in the first quarter. A second point that had a stabilising effect to some extent on domestic demand in Germany is that the public sector revenue share—the proportion of our revenues generated from public sector customers—remains lower abroad then domestically. In Germany in particular, this played a critical role in our good first quarter performance. This can also be seen in the strong growth rate of more than 20% that unsurprisingly came from our domestic e-commerce companies. In Systems Integration, the area of infrastructure for public sector customers saw good development. In the first quarter, our direct sales in particular enjoyed very good development over the past weeks and months of the year.

This takes us to the development in earnings. We begin, as usual, by looking at the gross margin, which—as is clear from a glance at slide 5—has sharply risen yoy. Here you can see the first quarters of the last four years. The gross margin on the far right of the chart in blue, rose from 14.2% to a round 15% yoy, which is once again above the Q1 average of 14.6% over the last three years. The main reason for this is the cost of materials, which at 6.5%, rose at a disproportionately lower rate. In addition to the improved sales margin in both our segments, there was also a significant increase in managed services profitability in our Systems Integration & Managed Services segment in particular. This more than com-
pensated for the disproportional rise in personnel costs and also depreciation and amortisation in revenue costs. Moving on from this very positive development of the gross margin, we come to the EBIT, earnings before interest and taxes.

The EBIT in the Systems Integration and Managed Services segment rose—as you can see—by a good 23% to a value of €32.5 million in the first quarter. This was mainly as a result of the successful expansion of our service share and improved profitability, as already mentioned in the context of our gross margin. This led to us achieving a clear increase in the EBIT margin for the Systems Integration segment from 3.4 to 3.8%. In IT E-Commerce, EBIT rose by 1.2% to a value of just over 20 million euros. In pure operating numbers, this segment also showed a very positive development with an increase in earnings of over 10%. This was, however, not sufficient to compensate one adverse effect that we’re indeed experiencing in both segments: In the first quarter, we adjusted all receivables to account for the possible economic reverberations of the corona pandemic. We did this to be prepared for a potentially prolonged, difficult economic situation. We didn’t have any specific reason for doing this other than the overall economic situation. Call it conservative balancing.

Let’s look now at employee development. There’s nothing very surprising here either. Compared with the first quarter of the 2019 fiscal year, we have clearly experienced large growth, the headcount up by almost 14% or more than 1,400 employees compared to the end of last year. Due to the current situation, of course, employee development was limited to 2.4%. And the increase compared to the same quarter of the previous year—which is nevertheless more significant—is mainly due to new hires and acquisitions in the past fiscal year, meaning that we are currently being rather cautious when it comes to expanding our workforce. It is very pleasing to note that of our 11,768 employees, 660 are trainees and students. Irrespective of the flattening new hire curve if I can put it that way, we are continuing to train in the individual professions we can, and here we are showing no signs of slowing down, but rather continuing to work at increasing the number.

To conclude current business development, we come to some selected figures. This time, we have decided to take a closer look at working capital and cashflow development. These have certainly been influenced to some extent by the current situation, in which these two
parameters are of paramount importance, as we all know. You can see this in the bar chart. At 2.1% working capital showed clear under-average growth compared to revenue. Compared to the end of year 2019, it has even fallen. On the right you can find the corresponding absolute values for the percentage changes. There are two major ones: Firstly, the sharp decline in trade receivables. This is fundamentally a positive signal as this development shows that our receivables management is successful despite the difficult conditions to decrease our capital lockup. The second large change is in inventories, which have risen dramatically. The background here is that as far as possible, we have selectively increased our stock levels in order to ensure ability to deliver. I would like to say here, however, that in our opinion, this is not associated with an increased risk of devaluation because we are only stocking products that are currently in demand and quite difficult to get on the market. In this way, we are trying to maintain our ability to deliver within the bounds of possibility through an increased warehouse capacity. As you can see, trade payables have also contributed to this positive development. Some vendors offered us longer payment terms, which we naturally accepted, even though purely in terms of liquidity we were not forced to.

This can also be seen in the operative cashflow development on the next slide, also compared to Q1 of many years. You can see that the operative cashflow in the first quarter of 2019 was still negative, but now stands at nearly 23 million. A swing of some 45 million and an important sign that even in current times we are succeeding to develop positive, liquid funds from current business. The background is, as with working capital, improvements in trade receivables and payables. As a result, total liquidity as of 31 March was 285 million euros. In addition, there are also agreed lines of credit in the three-digit million range. We have prepared ourselves for this to the extent that we have also converted lines of credit that were promised in the past, but of course still formally conditioned, into actual unconditioned lines of credit. The negotiations with the involved banks went very well. We received excellent conditions and have secured these lines—again without any concrete necessity—at least for the next two to three years to be absolutely on the safe side. So even if the Covid-19 pandemic lasts longer than we currently hope, there is no need to worry about Bechtle’s liquidity.
The development of the Bechtle share, even taking into account some fluctuations, are very pleasing in the period from 31/12/19 and 01/01/20 to 05/05 of the current year. We have developed very well, have had a very strong start to the new year, and even recorded a new all-time high on 11 February of 148.90 euros. Market capitalisation on this day stood at over 6 million euros. And then the Corona shock to the markets caught up even with us, and we fell along with the rest of the market. On 18/03, we even closed at 85.05 euros, but then at the same time bottomed out—as you can see from the chart—and have since then performed very well again, gaining ground and once again clearly outperforming all the relevant indices. Since mid-April, our market capitalisation has remained constant at around 130 euros, which means that it is again well over 5 billion euros. It is probably the case, at least by our interpretation, that the capital market—backed up by many investor meetings that we have held in recent weeks—trusts Bechtle and our business model. It may be the fact that we stuck to our decision, not least because of Bechtle’s outstanding performance in the past fiscal year and the extremely good liquidity situation, a good first quarter as we have just seen, contributed to this positive development, and that the dividend remains unchanged by 20 per cent compared to the previous year. And as a follow-up to the virtual AGM, which will take place at the same time as the physical AGM would have, we will pay a fair dividend of 1.20 euros per share.

Before we come to the outlook for the current year, I would like to highlight some important events from the first quarter. Partly also because they may have been somewhat lost in the confusion surrounding the Corona crisis.

A project that has attracted a lot of attention, which we also reported on at the beginning of the crisis, is a project that we implemented in Saarland, a really important reference project, less so economically as we did not earn much from it. We’ll call it investing in the future. However, it has attracted a great deal of attention over the past weeks and months, particularly among public-sector clients, which, as I have already mentioned, has developed very positively, not least because of the speed with which we succeeded in making the whole of Saarland’s state government video-conferencing-capable within seven hours. A real, let’s call it a showcase project, also for us internally, because specialists from very different technical fields at very different locations have demonstrated in a truly impressive way the power
Bechtle can mobilise when we work together to find a solution to a problem, regardless of the decentralised structure. We also succeeded in presenting the integration and the interface via our own Clouds platform. In several respects, a reference project, a lighthouse project, especially for our public-sector clients.

It is also very pleasing to see that especially in the past weeks and months the partnerships we have with all the major vendors have actually proven their worth. Our newly regained Dell Titanium Black status comes to mind, for one. We are talking about only eleven companies worldwide who have this status, and of these eleven companies, only two are in Germany. It is indeed an extremely exclusive circle and is a great demonstration of how partnerships prove their worth, especially in times of crisis. Something that has been confirmed over the last weeks and months, at least for our major vendor partners and for the relationships, some of which have grown over decades. They are certainly one of the reasons why we were able to get through the first weeks and months of the year comparatively well.

And we weren’t idle on the acquisition front, either. Even though this business will certainly develop rather sluggishly in the current year, we have succeeded in closing two acquisitions. On the one hand, we significantly expanded our Swiss portfolio with the acquisition of Wide Technologies in the networking, data centre, voice and security segments with a focus on the vendor Cisco. It’s a relatively small company there with 20 employees that generates a turnover of around five million Swiss francs. In this respect, too, this is less an investment in growth than in the skills we believe we need to maintain our future growth.

A slightly different kind of acquisition motivated strongly by strategy, but also growth, was that of the CAD specialist, DPS. With their 200 employees, DPS achieves revenues of almost 50 million euros and was in fact the last biggest CAD provider in the DACH region, even in Europe, in terms of SolidWorks—an area we, as you know, have been operating very successfully in for several years. We are therefore significantly reinforcing our position as an expert in SolidWorks products in the DACH region. The company has 14 locations in Germany, three in Austria and two in Switzerland and is therefore a great, regional addition to our CAD business. The company was consolidated in our balance sheet from 1 April, and so was not included in the first quarter’s figures.
Before we turn to the outlook, I’d like to draw your attention to another topic. Not last because sustainability is becoming an increasingly important topic from an investor point of view, I’d like to use this opportunity to mention our Sustainability Report, which is now prepared in accordance with internationally-recognised, comparable standards. We have been preparing a Sustainability Report for many years, even when it was not yet mandatory for listed companies, and so the current result is quite impressive and is published in a digital format at the same time as the Annual Report. So, if you are asked about it by investors now and again—maybe one or two would like to see how we handle the subject—our Sustainability Report is recommended reading. It’s an excellent cross-comparison.

We can now turn to the outlook for what is certain to be not the easiest fiscal year 2020. Of course, absolutely everything is currently being affected by the corona pandemic. The uncertainty we read about is greater than ever. However, we don’t see any need at the moment to change the prognosis we made for the year in March, even though we assume that the second quarter will be noticeably more measured. I don’t think we will be able to maintain the performance levels seen in the first quarter. At this stage, it is still too early to make any more concrete assessments. As a result, it remains to be seen just how measured second quarter performance will look on paper.

Despite this, we expect that our business will gradually normalise during the third quarter, hopefully returning to more normal conditions. Generally speaking, there is no way around digitalising business models. A fact made very clear in the current climate. There are even some people, particularly in industry, who say the current situation will accelerate digitalisation. Whether you agree with that or not, there is one thing that’s certain: The significance of IT and the importance of high-performing information technology has become very apparent to many of our customers, especially as a result of the current crisis, meaning all medium to long-term prospects in terms of the digitalisation of industrial value creation remain intact. For this reason, and buoyed by an excellent first quarter, we are sticking with our objectives for the current fiscal year. We want to once again considerably grow revenue and earnings. In this instance, “considerably” means growth between 5 and 10%. Our first quarter was a significant step towards this and our EBT margin goal which should at least be on par with 2019. We have already reached these objectives with the first quarter results. However, as
I said, this is only the beginning and we are sure to have to fight hard as the year progresses so that we can achieve our objectives.

That concludes the report into the first quarter results. Thank you very much for your attention. I’m looking forward to taking some of your questions....

Operator:
Ladies and gentlemen, we’re now accepting your questions. If you would like to ask a question, please press * and 1. To withdraw your question, please press * and 2. To ask a question, please press * and 1 now. Please allow a moment for the first question.

Operator:
The first question comes from Knut Woller, Baader Bank. Your question, please.

Knut Woller, Baader Bank:
Thank you. Many congratulations on the positive figures even in difficult circumstances. My questions, Dr Olemotz, are: The somewhat more cautious outlook on the second quarter, what is behind this? It was certainly striking, that the service margin was relatively good. I think that perhaps in the second quarter, the expectation was that on-site services could play a role in terms of restrictions resulting from the Covid-19 pandemic. Is that right? Another question: Is it perhaps also a reason that the manufacturers’ ability to deliver is also fundamentally assured, but that there could be delays and that prompts you to take a somewhat more cautious view of the second quarter? I have known your conservatism from you over the years and I appreciate it very much—this buffer that you have built in around receivables, can you quantify its effect in any form,? Thank you.

Dr Thomas Olemotz:
Thank you for your questions. I’ll start with your second question, which isn’t so easy to answer. You all know that according to IFRS, there are no flat-rate value adjustments on receivables. In this respect, I must now include this in my answer. But I am sure you will understand what I want to say. According to the IFRS, there is the option, when conditions change so much, that, to a certain extent, the default or creditworthiness risk changes very
fundamentally in structural terms, so that you can then make these value adjustments. In concrete terms, this means that in order to add an arithmetical value to the whole thing, we have reduced the creditworthiness of all our customers who, according to Krefu, are spread over seven or eight levels, down by one level. We deliberately did not differentiate. We didn’t say “Ok, customer groups from SMEs are going to be particularly at risk in terms of defaulting and we will therefore act there.” No, we didn’t do that, but we have structurally taken down all receivables by one level. In the end, this has led to you making these write-offs in relation to the entire receivables portfolio. And this is not—and this must be emphasised at this point—a blanket value adjustment (between us, even if it may sound like this mechanically). That also means, looking forward, should it turn out that we were too conservative with these assumptions, that we can of course adjust them again if it turns out that we do not have a systematically increased risk of default and the value on which this is based—with a bit of reading, with a bit of arithmetic you’ll be able to calculate it anyway, so I might as well say it—is around 6 million, which is quite significant in terms of a quarterly result, not necessarily in terms of the year, but significant in terms of a quarterly result. As far as the rather subdued outlook for the second quarter is concerned, this is influenced by very different factors. I’ll go off on a small tangent at this point, because I’m sure that many of the other listeners are also interested. The points you have mentioned have played a role, but not as strongly as one might think, especially one. What do I mean by that? What played a role in our cautious outlook? Firstly: Yes, we see that the ability of major manufacturers to deliver is an issue, especially in the second quarter. We certainly got through the first quarter—partly with our own warehousing, partly with intensive use of the distributors—without any significant delivery difficulties, also due to our strong market position. Even though many SMEs were already experiencing problems keeping up with deliveries in March. Bechtle, with its dedicated product groups, did not experience this. The supply chain’s production is in China, and when it runs dry, it will take six to eight weeks to get up and running again. There were also difficulties with container procurement. Containers were not in the right place at the right time, not being in China but still in Rotterdam, to give an example. I would estimate this entails a further delay of around two weeks. If you add all of this up and then calculate back to when there were production difficulties in China, then you’re into our second quarter. So we’re only now, starting in April, feeling the full effect of the production slow-down in China that started in February. And this is a significant reason why we’re being more cautious. Second
point: Of course, there are also certain pull-forward effects for certain IT investments. The at times really strong growth in the first quarter is certainly at the expense of demand in the second quarter for one or the other customer. For example, many companies—just like us at Bechtle—preferred to invest in the network and in data centre infrastructure, because these in turn are essential for setting up high-performance collaboration solutions and thus working from home. When these investments have been made once, of course they aren’t repeated throughout the year as often as we’d like. That is the second reason we are rather cautious about the second quarter. And then of course you also have to see that—regardless of, let’s call it precautions that we have taken, as just mentioned—with regard to possible bad debt losses with a continuing crisis, one or the other customer will of course get into payment difficulties I do not want to rule out the possibility that we will see bankruptcies on a broader scale than before, without having any concrete reason to do so now as far as individual customers are concerned. But the experience of the last decades shows that in phases such as that which we currently find ourselves in, the longer the shutdown continues, the more decisive an effect the crisis may well have. And these three factors were essential and decisive for the particularly conservative guidance for the second quarter. Why am I not mentioning services here, too? Because we—I have emphasised this time and again in the past in individual conversations—we have never really made it an issue in our discussion. In these current times, however, it is turning out to be a huge topic. For the services that we perform, a large proportion is based on time and materials rather than on a service level agreement. This means that at the end of the day only the maintenance of a certain service level, which is defined in the contract, determines whether you can write an invoice—yes or no—and not the physical presence of the employee on site at the customer. And it is precisely these contracts that continue to run virtually unaffected at the moment. And this explains to a large extent the positive development, particularly in the Systems Integration segment, where the services converge and where we are able to maintain this service level remotely and thus continue to invoice. And with every new managed services activity we take on that is not time and material-based, we switch to time and material by default, if agreed with the customer. And we have done this, or we are still in the process of it—this was a major transaction in the course of the integration of the IBM activities—which were quite significant in terms of size. And that’s exactly what counts right now. In good times, of course, this also results in considerable productivity pressure, which we have to achieve,
because of course with every price reduction and with the same service level the pressure increases so that you are actually more productive. But in the times we’re in right now, this calculation basis is far better for service providers than if they only bill for time and material. And if they provide time and material off-premises services for the customer, then they can’t write any invoices. And that is the considerable advantage of our services in the managed services segment, and is very significant. That is why this does apply to on-site services in my outlook for the second quarter.

Operator:
The next question is coming from Andreas Wolf, Warburg Research. Your question, please.

Andreas Wolf, Warburg Research:
Good morning, Andreas Wolf, Warburg Research. Great start to the year! I’ve three quick questions regarding what you’ve said. One thing that’s happening in the industry is that current circumstances are leading hardware makers to trim their bonus payments and backend margins. Is this having an impact on you and what are your thoughts on this in general? Second, regarding the SLA’s you’ve discussed, can you tell us how big the share of these SLA-based revenues is compared to Bechtle’s service revenues overall? And finally, looking at April—I’m sure you’ve been on the phone with your warehouse more often recently—has the need for remote workplace solutions gone down significantly in April or is it possible that the surge in demand will extend into the second quarter? Thank you.

Dr Thomas Olemotz:
Thank you, Mr Wolf. Regarding your first question about bonus payments and other funds, no, we’re not experiencing any reductions just yet. That’s quite likely because with a growth of just shy of 10 % we’re on track with our manufacturer agreements. These are pre-corona agreements, so to speak, and that’s why we’re in line with our planning. We’re not seeing any additional pressure on bonus and backend payments. There’s always pressure on bonus and backend payments. In a way, this is inherent to our business model, but we’re not seeing this pressure increase on account of the current situation. This will only happen if we can’t keep up the pace with respect to our top line and have difficulty achieving certain targets. But even then it’s not the end of the story because we have a great standing with many
big-name manufacturers, we talk to them and we always see a certain willingness to make concessions on their end. But to be clear, we’re not seeing any additional pressure on bonus payments and manufacturer funds at this moment. As for the share of SLA-based revenue, we’re in the process of having our ERP extended so we can zoom in on this number, which is quite a complex thing to do, so I can’t give you solid, system-validated numbers on that yet. What I can give you is an educated guess, which is that over 50% of our service revenues are SLA-based. Our non-SLA service agreements are not typically for managed services. For instance, these may be framework agreements that allow customers to tap into a certain work volume, usually in man days, over a certain period of time. This kind of service agreement is typically offered by our systems integrators. They are very common time-and-material-based agreements that play a significant role for their business. Looking at our central activities we’re talking well above 50%. And if I then roughly calculate the weighting of what we have in centralised managed services compared to the decentralised service business, the contracts, which are already SLAs today, should be around 50 percent across the group. As for the April development, it is indeed the case that the product groups that have seen a surge in Q1, namely remote office infrastructure and collaboration solutions, are showing a significant decline. Whether this is an ongoing development remains to be seen, but it would confirm my assumption that we’ve seen certain pull-forward effects in Q1 that we are not going to see in this form in Q2. On the other hand, many of our customers are gradually restoring their production capacities over the second quarter. That’s why I don’t want to go as far as to make any projections for the second quarter based on the developments in April. It’s too early to say if these structural changes will extend into the second quarter. I’m glad to say that too many positive things are happening at our customers to allow for such a projection and also, most of the second quarter is still ahead of us. We mustn’t forget that.

Operator:
The next question is coming from Martin Jungfleisch, Kepler Chevreux. Your question, please.
Martin Jungfleisch, Kepler Chevreux:
Good morning and congratulations on the good results. I have three things on my list: The first one is about the margin: If, in Q2 or Q3, you should see a general decline in your employee’s workload after all, what are some ways for you to cut costs? To what extent would you be able to retain your margin if your growth rate should drop to about 0 %? And does Bechtle benefit from the slightly slower growth compared to 2019, perhaps a higher-margin hardware sales mix and a potential decline in travel costs? That’s my first item.

Dr Thomas Olemotz:
Let me start with the question how we can manage costs when the workload goes down. The same way other companies do it, too. We’re also prepared. In certain cases we’ve already switched to state-subsidised short-time work [Kurzarbeit] and decided that we’ll raise the statutory compensation to 90 %. At some of our locations, employees are in fact already returning to their regular schedules. This is the case at one of our companies, for instance, that is delivering managed services to Daimler, and as Daimler is picking up production again, so are we. It’s a staggered process, if you will. While some locations are going into Kurzarbeit, others are coming back from it. For the group as a whole, the numbers over the past weeks and months are not yet playing a significant role. If, going forward, the workload in service delivery and administration—we’ll have to keep the back office in mind, too—should see a significant shift in gear, then Kurzarbeit is the instrument we’ll use. It’s one way we can save payroll costs despite our extra contribution. About sustaining our excellent Q1 margin, I don’t believe we could do that in a zero-growth scenario. On the other hand, we’re seeing this enormous increase in public-sector demand that I mentioned earlier, which does go some way in helping us. The same goes for advanced services. This is because our customers have just surfed through the first wave. Internally, we’ve illustrated the stages of the crisis with four waves. The first one was headlined ‘Stay Productive’. Our customers had to get ready to get going with their people working from home. The second wave, and that’s the one that’s rolling around us right now, is labelled ‘Stay Alive’. Many of our customers are literally fighting a battle to do just that. Wave number three will come under the heading ‘Optimise’, and, finally, number four will, once again, be ‘Expand’. The way we see it we’re somewhere between waves one and two. In this stage, the need for advanced services is very high as the hustle and bustle of the first weeks and months of the years has in some
cases led to IT structures that are anything but efficient. Everyone was just rushing to keep the boat afloat. Now there are collaboration platforms that are not properly embedded into networks, or available capacities are scaled too small. While IT investments were made early, they were not properly aligned with existing data centre infrastructures. From our vantage point it looks like this is all happening now, after the fact. This explains, at least to some extent, the increase in service requirements. Circling back to the margin, I do not believe we can keep it up if we do not grow at all. At the same time, given this unusual demand for services, I do not think that the dip in our margin that we'll see in such a scenario would be as big as it would be in normal times.

**Martin Jungfleisch, Kepler Chevreux:**
Thank you! My second question is, to what extent does the crisis differ in terms of its impact on smaller and bigger projects and companies? Is there a difference as it pertains to investments by SMEs and larger enterprise?

**Dr Thomas Olemotz:**
No, there isn’t, because the crisis does indeed have Germany’s entire economy in its grip. It’s repercussions are staggered, which is helping as it spreads out problems over a greater space of time. We’ve seen many major OEMs, in particular in the automotive industry, which have put their budgets on ice very early on because of the shutdowns. This is very noticeable here in southwest Germany. While they were stepping on the brakes, many SMEs kept going. But they, too, have come to a halt eventually. Now the big OEMs are gradually returning from their shuttered state. SMEs are still in it, so even as businesses are relaxing we’re still seeing this same time offset. So the time factor aside, we can’t see any structural differences there. The only truly significant structural development we’ve experienced in Q1 is the soaring demand from public-sector clients. We’ve seen orders that significantly exceeded those of 2019, and when we say ‘significant’ we don’t mean 10 %, we’re playing in a different ballpark. In fact, they were so big that we started to worry—not very typically Bechtle—if we’d be able to translate orders into revenues, given the extended delivery times. As you know, 90 % of our orders turn into revenues in a matter of 24 hours. On account of the mentioned supply chain bottlenecks, this process has been dragging on for longer than that. And then, of course, there’s always the risk that when you tell your customer it’ll take
you seven weeks to deliver, they’ll say ‘thanks but no thanks’. The good news is that, as strange as this may sound, right now no-one can deliver. So our customers are left with no choice. Quite the opposite is true: We can tell our customers that if they won’t take our goods in seven weeks’ time, someone else will. And that’s why we have largely succeeded in keeping orders despite the long time it takes us to actually deliver on them; the vast majority of our customers have not cancelled their orders.

**Martin Jungfleisch, Kepler Chevreux:**
And my final quick question is about how Bechtle Clouds has performed in Q1. Is your profitability there in line with your expectations, and who’s the driving force? Is it AWS, Google, or more like Microsoft Azure?

**Dr Thomas Olemotz:**
Bechtle Clouds is developing in line with our planning. But this isn’t reflected in the numbers yet. Our cloud platform has played a decisive role in integrating collaborative platforms for our customers, so we’re very pleased with how our managed cloud services have developed in Q1. YTD, our projected revenues are significantly about our actual 2019 outcome. YTD we’re also seeing an increase in the number of seats which is 30 % up from the end of last year, and agreements went up some 20 %. It’s an above-average growth in the cloud environment, which we will eventually also see in profitability. If our cloud business continues to develop as it has YTD, we may even be able to break even a year ahead of plan.

**Operator:**
The next question is coming from Wolfgang Specht, Bankhaus Lampe. Your question, please.

**Wolfgang Specht, Bankhaus Lampe:**
Good morning. It’s pretty much all been answered, so I’d just like to ask about your remarketing business. Is that still completely dry? Secondly, are customers asking you to renegotiate conditions or has that not been on the agenda yet? And finally, headcount. Are you still planning some moderate build up and is that even possible given the current circumstances?
Dr Thomas Olemotz:
Remarketing is one of our business areas that, understandably, developed quite well in Q1. Some trivia that might be interesting here is, one of our customers had been planning for a long time to swap 1,500 workstations. Coincidentally, this happened in Q1; we bought back, refurbished and resold their old equipment— to precisely this customer. They were buying back their own products to have some stock to equip employees working from home. Projects like that are fun to do, but of course given the size of our group as a whole they don’t make a real difference. Still we were able to make a good deal here and there. The fact of the matter is, that remarketing has been put on the back burner, as you said, because the influx from the primary market is increasingly running dry. Right now, customers hesitate to tinker with their existing infrastructure when they don’t have rock-solid guarantees. So that’s why we’ve seen a spike in Q1 in this area. I expect it will level out again over the course of the year, because of the mentioned correlations. As far as customers wishing to renegotiate are concerned, no, that hasn’t been the case yet. That’s because right now availability beats all almost all other considerations. By the second half of Q1, we were one of very few players in the market who were still able to deliver almost the entire portfolio. No longer within three days, perhaps not even within a week or even two. But we were able to deliver and give customers a concrete date. In a situation like this, customers don’t tend to renegotiate. They are merely glad someone’s able to meet their demand. So at least in these past weeks and months, renegotiations did not play a serious role. There have been renegotiations, or at least attempts to renegotiate, about payment terms. There have been a number of customers approaching our sales units asking to extend them. When you look at DSO development in Q1, you can see that we’ve been able to stick with our terms quite well. This might become more difficult as the year progresses. We might even see a situation where we’ll find ourselves accommodating customers to help them with their perspective. That’s why it’s been so important—despite that fact that we have no liquidity bottlenecks whatsoever and are building on our strong Q1 cash flow—that we’ve secured unconditional lines of credit to give us some room to breathe. And if we do in fact see a v-shaped recovery, it might just happen that business will start humming again in Q4, perhaps even in the second half of Q3. And then it will be important that our liquidity can support the growth; think advance financing. This has also played a role in our considerations to wear a belt and braces when it comes to liquidity. Finally, your question about headcount: We’re sticking to our goals. It’s a fact
that employees don't tend to jump ship in a situation like this. We've see the number of applications go down quite a bit, but that's really just down to the current situation. I don't believe that this is a lasting development in the mid to long term. Rather, I think that, as the crisis relaxes its grip, the labour market, too, will normalise. That's the reasoning behind the moderate year-end growth I've presented. I don't think this will apply to the year as a whole; in fact, I believe we'll see a gradual increase in the second half of the year. Perhaps not on par with last year, because catching up on a whole six months is not likely going to happen in the second half of the year. And quite frankly, that's not a priority for us right now, with costs in mind, but our headcount targets in the medium to long run remain unchanged.

Operator:
The next question is coming from Alina Köhler, Hauck & Aufhäuser. Your question, please.

Alina Köhler, Hauck & Aufhäuser:
Good morning, I have another question about managed services contributing to the positive earnings development. What is the share of sales or earnings and how strong was the growth in this area?

Dr Thomas Olemotz:
Unchanged at around 15 per cent, both centrally and decentrally. We are distinctive in that we not only produce our managed services centrally, but also decentrally. I mentioned earlier that we are currently in the process of programming a corresponding ERP module so that we can better capture this with more validity in the future. That's why I have to leave it at that best guess for now. It's not the case that the revenue share has greatly risen due to the situation mentioned. We simply have a relative shift because of the significantly "weaker" growth of the previous year, where we still enjoyed more than 20 per cent. And of course, the IBM transaction that you are all aware of was in the second quarter. This means that in the first quarter, especially in this environment, we have a not inconsiderable effect from the previous year. I ask you to take this into consideration, too. This explains to some extent the disproportionately high increase in the service business. This is no longer the case from 1/4 because the consolidation of IBM activities took place on 1/4/19.
Operator:
The next question is coming from Florian Treitsch, Commerzbank. Your question, please.

Florian Treisch, Commerzbank:
Good morning. I have two concluding questions. Firstly about the public sector. You strongly emphasised how strong the sector was in Q1. Certainly also because the public sector was probably never considered a paragon when it comes to ensuring modern IT architectures. How resilient is this strong Q1 demand? Do you think that this also had more of a pull-forward effect because you had to act quickly? Do you think the sector will have a kind of special boom in the next few quarters? Perhaps you can remind me how much of the revenue is generated in this sector. My second question is: You at least sound very optimistic about seeing a normalised world again around September. You seem to subscribe to the idea of a V-shaped recovery. My question is where does your confidence come from? When I look at your three reasons for the weakness in Q2, we can say that supply chain bottlenecks won’t be a problem after the summer holidays. I agree. My question is just why should there suddenly be no more insolvencies? Why should these pull-forward effects in Q1 not also apply in Q3 and Q4? Are there reasons and arguments as to why you are able to be so optimistic so soon?

Dr Thomas Olemotz:
Let’s start with your second question. Firstly, I would like to say right off, that I am by no means an economic expert. There are many better-informed people who can form some sort of recovery scenarios based on deep-founded economic analyses named after letters of the alphabet. That’s not how I went about it. I must always take two things into account when making statements about the future. Firstly, how are the framework conditions developing, or how could they develop? And how can I condition the company with regard to the future? I would ask you to always keep this in mind. And this doesn’t mean that we are going forward with unfounded forced optimism. But it’s not the case that this scenario—you called it V-shaped—in my opinion is significantly more likely than a U or an L or whatever else is being speculated on. That’s not the case. I believe, however—and it’s not just a gut feeling, but more of an entrepreneurial feeling, which may not be right, of course—that if the pandemic continues to develop virologically in the way it currently is, we will recover more
quickly than the most pessimistic scenarios currently suggest, despite the upheavals we will all see. Why? Firstly: You are right, of course, we will see a rise in insolvencies. Secondly: Yes, you are right, we will experience an above average number of unemployed across the year. But for one, we know that huge economic programmes have been adopted. And I also believe that these weren’t the last ones to be announced, both in Germany and around the world, especially within Europe. Now it depends on which economics school you belong to. It doesn’t really matter whether these programmes are short or long-term, because we are talking about the current year, and I do believe that we will see corresponding effects from these programmes in the current year. And effects in this case means demand effects, also with regard to IT investments. And that leads me to the first question. Public-sector customers account for over 30% of the group’s revenue. And in Germany, we saw an even more significant increase in the revenue share to just under 34%. With the large numbers we are talking about, this is already a significant amount. And I also assume that throughout the year—now I’m back to the topic of economic stimulus programmes—we will see valid demand there. At least if, if the lessons learned from the acute crisis are actually implemented. When it becomes clear that the digital pact will not be implemented in schools as has been attempted in recent years. When it becomes clear that an increasing digitalisation of public administration is important to keep public life running even during a shutdown. If these lessons are not suddenly forgotten just because there is supposedly a relaxation, then I think we can assume that the corresponding demand impulses are also sustainable in our case. And both these factors, together with a certain recovery in the industry, lead me to believe that, at Bechtle, we are currently tending towards a V. And to a certain extent, of course, I also have to give the employees some perspective. You can’t just say to 12,000 people, “Okay, for the next six months, maybe even twelve months, things will continue as they are right now.” We can’t do that. We are now really going full steam ahead again. At the end of last week we gave the all-clear to start moving away from working from home as default. Currently everyone who possibly can is working for Bechtle from home. At times we have had 10,000 employees working from home and 35,000 video conferences per month. We have now said that we will start gradually returning to the office while complying with labour law requirements. Previously, workers needed a good reason to be in the office, whereas going forward, they will need good reasons not to be in the office. As always, there are many good reasons. I assume that we will not quickly ramp up to 100% but rather will plateau out
at somewhere like 50 - 60%. This is also part of the belief that the economy will perhaps recover faster than we believe at the moment in the crisis situation. But again, I could be completely wrong.

**Operator:**
There are no more questions.

**Dr Thomas Olemotz:**
Ladies and gentlemen, I would like to thank you for your interest. You will have noticed that I may have gone off on tangents on some points, more than I usually do in these conferences. The reason for this is that I am very well aware that both us here and you all are currently having to do your jobs with a great deal of uncertainty. Hopefully I've succeeded in reassuring you on some points and given you a bit more security in these continuing uncertain times. I really hope I've managed to do so. I would like to conclude by thanking you all for your interest and the animated discussion. I hope you all have a great weekend—stay healthy!

**Operator:**
Ladies and gentlemen, this concludes our conference call. Thank you for taking part in our conference and have a good day.