



Group Management  
Report for the nine  
months  
ended September 30,  
2019

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**intershop<sup>®</sup>**

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# Letter to Our Stockholders

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Dear stockholders and business partners,

The cloud transformation of our business model is progressing. By the end of the year, we will achieve the turnaround in revenue and will see slight overall growth in 2019. The revenue structure has already shifted significantly from one-time license revenue in favor of recurring cloud and subscription revenues.

But transforming to a cloud provider requires more time and resources than we had anticipated. That is why we had to revise our original targets in mid-October. The reason for the delays are setbacks in the competition for new customers. Furthermore, we are still unable to take full advantage of the efficiency gain associated with the high level of automation of cloud solutions, as we also have to meet the commitments of both license and SaaS customers. This means more capacity is tied up than envisaged in our plans.

Together with the Supervisory Board, we have therefore decided to carry out a restructuring and to adjust our plans to the current market conditions. The adjusted forecast for 2020 will be announced at the latest in February 2020 with the provisional figures for 2019.

Regardless of the current strategy review and the resulting measures, we will continue the process of cloud transformation with unchanged conviction and bring it to a successful conclusion. In the future, licensing models will play only a minor role not just at Intershop, but on the whole market for business software. As one of the leading companies in the market for commerce platforms, we are receiving continuous, full approval particularly for our technology, and the cloud conversion ensures this technological leadership. It is the key to positive corporate development and new growth.

Best regards,



Dr. Jochen Wiechen



Markus Klahn

## Key Figures for the Group

in EUR thousand	9-Months 2019*	9-Months 2018	Change
<b>Revenues</b>			
Revenues	23,354	23,921	-2%
Software and Cloud Revenues	11,955	11,775	2%
Services Revenues	11,399	12,146	-6%
Revenues Europe	14,841	17,670	-16%
Revenues USA	5,056	2,787	81%
Revenues Asia/Pacific	3,457	3,464	0%
Cloud order entry	4,826	3,179	52%
<b>Earnings</b>			
Cost of revenues	15,644	14,231	10%
Gross profit	7,710	9,690	-20%
Gross margin	33%	41%	
Operating expenses, operating income	12,344	13,403	-8%
Research and development	3,515	3,508	0%
Sales and marketing	6,478	7,185	-10%
General and administrative	2,511	2,690	-7%
Other operating income/expenses	(160)	20	++
EBIT	(4,634)	(3,713)	-25%
EBIT-Margin	-20%	-16%	
EBITDA	(1,469)	(2,146)	32%
EBITDA margin	-6%	-9%	
Net result	(4,849)	(3,918)	-24%
Earnings per share (EUR)	(0.12)	(0.12)	0%
<b>Net Assets</b>			
Shareholders' equity	17,531	16,460	7%
Equity ratio	62%	63%	
Balance sheet total	28,079	26,178	7%
Noncurrent assets	13,348	10,918	22%
Current assets	14,731	15,260	-3%
Noncurrent liabilities	1,054	1,956	-46%
Current liabilities	9,494	7,762	22%
<b>Financial Position</b>			
Cash and cash equivalents	8,906	9,701	-8%
Net cash operating activities	(1,688)	(2,458)	-31%
Depreciation and amortization	3,165	1,567	102%
Net cash used in investing activities	(2,701)	(2,208)	-22%
Net cash provided by financing activities	6,071	5,476	-11%
<b>Employees</b>			
	336	343	-2%

\* taking into account the new accounting standard IFRS 16

# Group Management Report

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## Business performance during the first nine months of 2019

In the first nine months of 2019, the Intershop Group generated revenues of EUR 23.4 million (prior year: EUR 23.9 million), a decline of 2%. While license and maintenance revenue decreased by 7% to EUR 7.3 million, cloud and subscription revenue increased by 19% to EUR 4.6 million. In addition, the company recorded incoming cloud orders generating EUR 4.8 million (prior year: EUR 3.2 million) in the first nine months. A decline of 6% to EUR 11.4 million was recorded in the service segment. Earnings before interest and taxes (EBIT) amounted to EUR -4.6 million.

### **Cloud transformation is progressing - conversion costs time and resources**

Intershop's complete Commerce-as-a-Service solution (CaaS), which was presented in 2018, offers a comprehensive and efficient standard cloud solution. The transition from a license provider to a provider of B2B commerce platforms in the cloud continues, but requires more time and resources than the Management had previously expected. Overall, the company recorded a significant increase in incoming cloud orders in the first nine months of 2019, but this is below the original plans. The number of new customers was 15 (prior year: 11 new customers), including 9 cloud mandates (prior year: 4 new cloud customers). The share of cloud revenue amounted to 20% in the reporting period (prior year: 16%). The reasons for the delays in the cloud conversion are setbacks in the competition for new customers as well as other capacities tied up to meet the obligations to existing license customers with updates and patches and to support them in system adjustments. At the same time, existing SaaS customers continue to be served, which temporarily results in additional expenses until Intershop has achieved the desired level of automation for all its customers.

Intershop continues to receive full approval for its product range. In addition to international industry analysts such as Forrester and Gartner Research, which regularly gives awards to Intershop as a B2B solution provider, the renowned B2B Combine Report also awarded the company with 7 medals from a total of 10 categories. In particular, the functions "Promotions Management", "Sales & Channel Enablement" and "Transaction Management" of the Intershop B2B platform were awarded the "outstanding" rating.

## Revenue Development

In the first nine months of 2019, the Intershop Group generated revenues of EUR 23.4 million, a slight decline of 2% compared to the prior-year period. The decline in sales is mainly due to the strategic transition to the cloud business and the associated shift in sales from license revenues, which are received immediately, to monthly recurring cloud revenues. Looking at the quarterly history, Intershop has so far continuously increased its sales in 2019. In the third quarter, the Group generated revenues of EUR 8.1 million, an increase of 3% compared to the prior-year period. The gradual improvement is encouraging but proved to be weaker than hoped. Key drivers of the positive sales trend are cloud and subscription revenues and service revenues, which were higher at the quarterly level compared to the prior year. Cloud and subscription revenues totaled EUR 1.7 million in the third quarter, an increase of about 22%. In the first nine months, Intershop generated around EUR 4.6 million in this segment, an improvement of 19%.

Service revenues increased by 7% to EUR 4.2 million in the third quarter (Q3/2018: EUR 3.9 million). Service revenues increased by 29% compared to the first quarter of 2019. At EUR 11.4 million, revenue from services over the nine-month period was still 6% lower than in the first nine months of the prior year (EUR 12.1 million). Licensing and maintenance revenues fell 13% quarter-on-quarter to EUR 2.3 million, on a nine-month basis the decline was more moderate at 7% to EUR 7.3 million. Software and cloud revenues accounted for 51% of total revenue in the reporting period (prior year: 49%) and is increasingly shifting from licenses to cloud and subscription. Incoming cloud orders were at the prior-year level of EUR 1.0 million in the third quarter. Cumulative for the first nine months of 2019, incoming cloud orders increased by 52% to EUR 4.8 million (prior year: EUR 3.2 million). The cloud ARR (Annual Recurring Revenue) increased by 31% to EUR 6.4 million at the end of September 2019 (prior year: EUR 4.9 million). After nine months, the New ARR (New Annual Recurring Revenue) amounted to EUR 0.8 million in 2019. Cloud revenues accounted for 20% of total sales (prior year: 16%).

The following table shows the trend in revenue by area (in EUR thousand):

Nine Months ended September 30,	2019	2018	Change
<b>Software and Cloud Revenues</b>	<b>11,955</b>	<b>11,775</b>	<b>2%</b>
<b>Licenses and Maintenance</b>	<b>7,327</b>	<b>7,898</b>	<b>-7%</b>
Licenses	1,314	1,926	-32%
Maintenance	6,013	5,972	1%
<b>Cloud and Subscription</b>	<b>4,628</b>	<b>3,877</b>	<b>19%</b>
<b>Service Revenue</b>	<b>11,399</b>	<b>12,146</b>	<b>-6%</b>
<b>Revenues total</b>	<b>23,354</b>	<b>23,921</b>	<b>-2%</b>

There was a shift in favor of US business activities in the breakdown of regional sales compared to the same period in the prior year. The European market remained by far the dominant business region in the first nine months of the 2019 financial year. Although sales in this region declined by 16% to EUR 14.8 million (prior year: EUR 17.7 million), at 64% (prior year: 74%), it was still significantly above the share of the US market. The revenues generated in the US market increased by 81% to EUR 5.1 million (prior year: EUR 2.8 million), while the share of sales increased to 22% (prior year: 12%). In the Asia-Pacific region, Intershop generated revenues of EUR 3.5 million, as in the prior year, which accounts for 14% of the total revenues.

### Earnings Development

In the course of the transformation process, the first nine months of 2019 were characterized by negative earnings effects. In the reporting period, Intershop recorded overall gross profits of EUR 7.7 million, a decline of 20% compared to the prior-year figure of EUR 9.7 million. The gross margin decreased by eight percentage points to 33%. The decline was due to the considerably lower license revenues, while cloud revenues only increased gradually. Operating expenses fell by 8% to EUR 12.3 million. Marketing and sales costs fell by 10% to EUR 6.5 million. At EUR 3.5 million, costs for research and development were at the prior-year level. Administrative expenses fell by 7% to EUR 2.5 million.

The operating result (EBIT) in the third quarter amounted to EUR -0.9 million (prior year: EUR -1.7 million), after nine months there remained a loss of EUR -4.6 million (prior year: EUR -3.7 million). Depreciation and amortization amounted to EUR 3.2 million in the first nine months after EUR 1.6 million in the prior year. The increase is mainly due to the first-time application of IFRS 16 (please refer to the comments in the notes to the consolidated financial statements). The operating result before depreciation and amortization (EBITDA) came to EUR -1.5 million (prior year: EUR -2.1 million), adjusted for IFRS 16, the EBITDA amounts to EUR -2.7 million. The result for the period after taxes amounted to EUR -4.8 million (prior year: EUR -3.9 thousand), which corresponds to earnings per share of EUR -0.12 (prior year: EUR -0.12).

## Net Assets and Financial Position

On the interim balance sheet, date of September 30, 2019 the balance sheet total of the Intershop Group amounted to EUR 28.1 million, EUR 5.4 million higher than at the end of 2018. On the asset side, non-current assets increased by 29% to EUR 13.3 million, in particular due to the addition of rights of use in accordance with IFRS 16 amounting to EUR 2.2 million. Current assets increased by EUR 2.4 million to EUR 14.7 million as a result of the increase in cash and cash equivalents of EUR 1.7 million to EUR 8.9 million and the rise in trade receivables of EUR 0.7 million to EUR 4.6 million. On the liabilities side, equity increased by 28% to EUR 17.5 million compared to year-end 2018, which was mainly due to the two capital increases. The equity ratio was 62% as of September 30, 2019 (December 31, 2018: 60%). Non-current liabilities decreased by 38% to EUR 1.1 million due to scheduled loan repayments. Current liabilities increased due to the first-time recognition of lease liabilities in accordance with IFRS 16 (EUR +1.6 million) as well as higher deferred revenue.

As for the financial position, Intershop generated operating cash flows of EUR -1.7 million (prior year: EUR -2.5 million) in the reporting period. The continuing negative cash flow is primarily due to the result for the period before taxes of EUR -4.8 million. The cash outflow from investing activities amounted to EUR 2.7 million (prior year: cash outflow of EUR 2.2 million). The cash inflow from financing activities amounted to EUR 6.1 million (prior year: cash inflow of EUR 5.5 million) in the first nine months. The cash inflow is mainly attributable to the two cash capital increases. Overall, as of September 30, 2019 cash and cash equivalents stood at EUR 8.9 million.

## Employees

As at September 30, 2019, Intershop had 336 full-time employees around the world (prior year: 343). The following overview shows the breakdown of full-time employees by business unit.

Employees by department*	September 30, 2019	December 31, 2018	September 30, 2018
Technical Departments (Service functions and Research and Development)	255	251	248
Sales and Marketing	45	51	58
General and administrative	36	37	37
	336	339	343

\*based on full time staff, including students and trainees

At the interim balance sheet date, the number of employees in Europe was 283 or 84% of the workforce. In the Asia-Pacific region, there were 34 employees (10%); in the U.S., the share was 6% with 19 employees.

## Outlook

The underlying conditions in the B2C and B2B e-Commerce market continue to be favorable. The main driver is the need to digitize business processes, which is increasingly generating pressure to act, especially among medium-sized companies. The latest market data and surveys also show that more and more companies of all sizes are turning to cloud solutions instead of relying on their own IT infrastructures and resources.

On October 15, 2019, Intershop reported by ad hoc announcement that the Group will not reach its full-year forecast for 2019 or 2020, respectively. Although revenue increased and earnings improved during the first three quarters of 2019, there is not enough momentum, especially for incoming cloud orders, to reach the projected sales targets for 2019 and 2020. Intershop adjusted its outlook based on this assessment. Management now expects slight revenue growth for the whole of 2019 compared to the prior year (previous sales increase of more than 10%) and a negative operating result (EBIT) in the mid-single-digit million euro range (previously slightly negative EBIT).

For the remaining operational targets, Intershop now expects about 25 new customers (previously: 40) and incoming cloud orders of around EUR 13 million (previously: EUR 17 million). The New ARR (New Annual Cloud Revenue) is expected to reach a volume of around EUR 2.5 million (previously: EUR 5 million).

The previous targets for 2020 with sales of EUR 50 million and an EBIT margin of 5% will also not be achieved according to current planning.

The transformation from a licence provider to Commerce as a Service (CaaS) provider, which began in the spring of 2018, has progressed further in recent months. However, the process requires more time and resources than previously expected. The Management Board and Supervisory Board have therefore decided to carry out a restructuring and to adjust the planning to current market conditions. The adjusted forecast for 2020 will be announced at the latest in February 2020 with the provisional figures for 2019. The process of cloud transformation should thus be brought to a successful conclusion, as Management believes that this is the key to positive corporate development and new growth.



## Consolidated Balance Sheet

in EUR thousand	September 30, 2019	December 31, 2018
<b>ASSETS</b>		
<b>Noncurrent assets</b>		
Intangible assets	9,801	9,599
Property, plant and equipment	627	658
Rights of use IFRS 16	2,182	0
Other noncurrent assets	27	26
Restricted cash	635	0
Deferred tax assets	76	67
	<b>13,348</b>	<b>10,350</b>
<b>Current assets</b>		
Trade receivables	4,634	3,977
Other receivables and other assets	1,191	1,106
Cash and cash equivalents	8,906	7,224
	<b>14,731</b>	<b>12,307</b>
<b>TOTAL ASSETS</b>	<b>28,079</b>	<b>22,657</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>		
<b>Shareholders' equity</b>		
Subscribed capital	42,582	34,852
Capital reserve	10,724	9,738
Other reserves	(35,775)	(30,944)
	<b>17,531</b>	<b>13,646</b>
<b>Noncurrent liabilities</b>		
Liabilities to banks	375	1,547
Leasing liabilities	595	0
Deferred revenue	84	146
	<b>1,054</b>	<b>1,693</b>
<b>Current liabilities</b>		
Other current provisions	220	261
Liabilities to banks	1,298	1,500
Trade accounts payable	1,481	1,525
Income tax liabilities	19	27
Leasing liabilities	1,612	0
Other current liabilities	2,188	2,268
Deferred revenue	2,676	1,737
	<b>9,494</b>	<b>7,318</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>28,079</b>	<b>22,657</b>

## Consolidated Statement of Comprehensive Income

in EUR thousand	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
<b>Revenues</b>				
Software and Cloud Revenues	3,981	4,021	11,955	11,775
Service Revenues	4,153	3,887	11,399	12,146
	<b>8,134</b>	<b>7,908</b>	<b>23,354</b>	<b>23,921</b>
<b>Cost of revenues</b>				
Cost of revenues - Software and Cloud	(1,871)	(1,678)	(5,776)	(5,018)
Cost of revenues - Services	(3,543)	(3,163)	(9,868)	(9,213)
	<b>(5,414)</b>	<b>(4,841)</b>	<b>(15,644)</b>	<b>(14,231)</b>
Gross profit	2,720	3,067	7,710	9,690
<b>Operating expenses, operating income</b>				
Research and development	(1,036)	(1,080)	(3,515)	(3,508)
Sales and marketing	(1,910)	(2,855)	(6,478)	(7,185)
General and administrative	(789)	(847)	(2,511)	(2,690)
Other operating income	133	38	225	124
Other operating expenses	(9)	(35)	(65)	(144)
	<b>(3,611)</b>	<b>(4,779)</b>	<b>(12,344)</b>	<b>(13,403)</b>
Result from operating activities	(891)	(1,712)	(4,634)	(3,713)
Interest income	1	0	13	4
Interest expense	(36)	(36)	(147)	(122)
<b>Financial result</b>	<b>(35)</b>	<b>(36)</b>	<b>(134)</b>	<b>(118)</b>
Earnings before tax	(926)	(1,748)	(4,768)	(3,831)
Income taxes	(18)	(19)	(81)	(87)
Earnings after tax	(944)	(1,767)	(4,849)	(3,918)
Other comprehensive income:				
Exchange differences on translating foreign operations	15	(23)	17	(53)
<b>Other comprehensive income from exchange differences</b>	<b>15</b>	<b>(23)</b>	<b>17</b>	<b>(53)</b>
<b>Total comprehensive income</b>	<b>(929)</b>	<b>(1,790)</b>	<b>(4,832)</b>	<b>(3,970)</b>
Earnings per share (EUR, basic, diluted)	(0.02)	(0.05)	(0.12)	(0.12)

## Consolidated Statement of Cash Flows

	Nine months ended September 30,	
in EUR thousand	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Earnings before tax	(4,768)	(3,831)
<i>Adjustments to reconcile net profit/loss to cash used in operating activities</i>		
Financial result	134	118
Depreciation and amortization	3,165	1,567
<i>Changes in operating assets and liabilities</i>		
Accounts receivable	(584)	434
Other assets	(77)	(121)
Liabilities and provisions	(234)	(726)
Deferred revenue	848	648
Net cash provided by (used in) operating activities before income tax and interest	(1,516)	(1,911)
Interest received	12	4
Interest paid	(88)	(256)
Income taxes received	0	3
Income taxes paid	(96)	(298)
Net cash provided by (used in) operating activities	(1,688)	(2,458)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Restricted cash	(635)	0
Payments for investments in intangible assets	(1,875)	(1,983)
Proceeds on disposal of equipment	0	2
Purchases of property and equipment	(191)	(227)
Net cash provided by (used in) investing activities	(2,701)	(2,208)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash received from loan	0	1,500
Repayments of loans	(1,375)	(1,125)
Cash received for unregistered stock	8,813	5,133
Expenses of cash received for unregistered stock	(97)	(32)
Payments from the repayment of leasing liabilities	(1,270)	0
Net cash provided by (used in) financing activities	6,071	5,476
Effect of change in exchange rates	0	(58)
Net change in cash and cash equivalents	1,682	752
Cash and cash equivalents, beginning of period	7,224	8,949
Cash and cash equivalents, end of period	8,906	9,701

## Consolidated Statement of Shareholders' Equity

in EUR thousand				Other reserves			Total shareholders' equity
Common shares (Number shares)	Subscribed capital	Capital reserve	Conversion reserve	Cumulative profit/ loss	Cumulative currency differences		
<b>Balance, January 1, 2019</b>	<b>34,851,831</b>	<b>34,851</b>	<b>9,738</b>	<b>(93)</b>	<b>(32,827)</b>	<b>1,977</b>	<b>13,646</b>
Total comprehensive income					(4,849)	17	(4,832)
Issue of new shares	7,730,661	7,731	986				8,717
Balance, September 30, 2019	42,582,492	42,582	10,724	(93)	(37,676)	1,994	17,531
<b>Balance, January 1, 2018</b>	<b>31,683,484</b>	<b>31,683</b>	<b>7,806</b>	<b>(93)</b>	<b>(26,085)</b>	<b>2,019</b>	<b>15,330</b>
Total comprehensive income					(3,918)	(53)	(3,971)
Issue of new shares	3,168,347	3,168	1,933				5,100
Balance, September 30, 2018	34,851,831	34,851	9,739	(93)	(30,003)	1,966	16,460

# Notes on the Consolidated Financial Statements as of September 30, 2019

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## General disclosures

This interim report as of September 30, 2019 is unaudited and must be read in conjunction with the consolidated financial statements and the associated notes to the consolidated financial statements for fiscal year 2018. The consolidated financial statements and the notes to the consolidated financial statements are contained in the Company's Annual Report for the fiscal year ended December 31, 2018. The 2018 Annual Report is available on the Company's web site at <https://www.intershop.com/financial-reports>.

## Accounting principles (Compliance statement)

The interim consolidated financial statements of INTERSHOP Communications AG were prepared in accordance with the International Financial Reporting Standards (IFRSs) valid at the balance sheet date, which include standard (IFRS, IAS) adopted by IASB, and the Interpretations (IFRIC, SIC) issued by the International Financial Reporting Interpretations Committee (IFRS IC), as adopted by the EU. The interim consolidated financial statements have been prepared in euros. Unless stated otherwise, all amounts are given as thousands of euros (EUR thousand). Figures are rounded to the nearest thousand and totals may not sum due to rounding.

## Basis of consolidation

The scope of consolidation of the entities of INTERSHOP Communications AG includes, as of September 30, 2019, in addition to the parent company, the subsidiaries Intershop Communications, Inc., Intershop Communications Australia Pty Ltd, Intershop Communications Asia Limited, The Bakery GmbH, Intershop Communications Ventures GmbH, Intershop Communications SARL as well as Intershop Communications LTD.

## Accounting policies

In the preparation of the interim consolidated financial statements, the same accounting and valuation methods were used as for the consolidated financial statements for the financial year 2018 with the exception of the first-time application of the new standard IFRS 16 Leases. The policies used are described in detail on pages 46 to 53 of the 2018 Annual Report. The effects of the first-time application of IFRS 16 are explained in the section "Leases IFRS 16".

## Leases IFRS 16

For the first-time application of IFRS 16, Intershop used the transition method, in which the Company was not required to reassess leases within the meaning of IFRS 16 that already existed before January 1, 2019 (modified retrospective method). The comparative figures of the prior-year periods were not adjusted. With the first-time application of IFRS 16, the Company recognized lease liabilities for leases previously classified as operating leases

under IAS 17. Lease liabilities were assessed at the present value of the remaining lease payments discounted at the incremental borrowing rate. Lease payments include fixed payments or graduated rents. Up to now, Intershop only had operating leases, mainly for leased office space (particularly rental obligations for the building of the company headquarters in Jena) and leased vehicles. The average remaining lease term is 2 years, extension options have not been considered. The discounting of lease payments for leased office space resulted in a weighted average incremental borrowing rate of 2.85% and for leased vehicles of 2.45%. Intershop has made use of the exemptions for short-term leases (up to 12 months) and leases for low-value assets provided in the standard. Payments are recognized as an expense on a straight-line basis.

The following table shows the reconciliation to the lease liabilities in accordance with IFRS 16 as of January 1, 2019:

	(in KEUR)
<b>Obligations from operating leases as of December 31, 2018</b>	<b>4,510</b>
Short-term leases that are recognized as an expense on a straight-line basis	(270)
Leases of low-value assets that are recognized as an expense on a straight-line basis	(60)
Payments for non-leasing components	(982)
Adjustment due to different estimates of contract terms	315
Effect of discounting	(106)
Other	(37)
<b>Lease liabilities recognized on January 1, 2019</b>	<b>3,370</b>

The first-time application of IFRS 16 resulted in the following effects as of January 1, 2019: The capitalization of the rights of use increased fixed assets by EUR 3,370 thousand as of January 1, 2019 (thereof EUR 3,262 thousand for leased office space and EUR 108 thousand for leased vehicles) and in return liabilities due to the booking of lease liabilities by EUR 3,370 thousand (thereof for leased office space EUR 3,262 thousand and EUR 108 thousand for leased vehicles). As of the interim balance sheet date of September 30, 2019, the rights of use decreased to EUR 2,182 thousand. As of September 30, the lease liabilities amounted to EUR 2,207 thousand, of which EUR 595 thousand related to long-term lease liabilities and EUR 1,612 thousand to current lease liabilities. For the first nine months of 2019, expenses of EUR 1,238 thousand were recorded for depreciation of the rights of use and EUR 58 thousand interest expense for lease liabilities. In the statement of comprehensive income, the application of IFRS 16 resulted in other operating income of EUR 32 thousand for the first nine months, as a "notional" rental expense of EUR 1,270 thousand is offset by depreciation of EUR 1,238 thousand. The application of IFRS 16 increased interest expenses by EUR 58 thousand, and resulted in deferred tax income of EUR 8 thousand. In the cash flow statement, the application of IFRS 16 shifts the cash flow from operating activities to cash flow from financing activities, as the payments for the repayment portion of the lease liability are presented in cash flow from financing activities (EUR 1,270 thousand for the first nine months of 2019).

## Equity

The change in equity of INTERSHOP Communications AG is shown in the consolidated statement of changes in equity. As at September 30, 2019, the subscribed capital increased by EUR 7,730,661 to EUR 42,582,492 and is divided into 42,582,492 non-par value bearer shares. The change is the result of two capital increases from Authorized Capital.

The Management Board of INTERSHOP Communications AG, with the consent of the Supervisory Board, resolved on January 9, 2019 to increase the capital, making partial use of the Authorized Capital II with subscription rights for shareholders at a ratio of 8:1 at a subscription price of EUR 1.14. The capital increase with subscription rights was successful and a total of 4,356,478 new shares were allocated. The capital increase became effective upon registration in the commercial register (*Handelsregister*) at the Jena Local Court (*Amtsgericht*) on February 14, 2019. Subscribed capital increased at this time by EUR 4,356,478 to EUR 39,208,309. Authorized Capital II decreased by EUR 4,356,478 from EUR 9,500,000 to EUR 5,143,522.

The Annual Stockholders' Meeting on May 29, 2019 resolved to cancel Authorized Capital I in the amount of EUR 3,167,653 and Authorized Capital II in the amount of EUR 5,143,522 and to create a new Authorized Capital I in the amount of EUR 12,000,000. Accordingly, the Management Board is authorized, subject to approval by the Supervisory Board, to increase the share capital once or multiple times by a total of up to EUR 12,000,000 against cash contributions and/or contributions in kind, by issuing new no-par value bearer shares. The Management Board's authorization is valid until June 7, 2024. The Management Board is authorized, subject to approval of the Supervisory Board, to exclude the stockholders' subscription rights in certain cases. The new Approved Capital I was entered in the commercial register on June 7, 2019.

On June 25, 2019, the Management Board of the Company, with the consent of the Supervisory Board, resolved to increase capital utilizing Authorized Capital, excluding the subscription right of shareholders, by issuing 3,374,183 new no-par value bearer shares. The placement price for the new shares amounted to EUR 1.14 per share. The capital increase was entered in the Commercial Register on July 5, 2019. The share capital increased from EUR 39,208,309 to EUR 42,582,492. Authorized Capital decreased to EUR 8,625,817.

## Earnings per share

The calculation of basic and diluted earnings per share is based on the following data:

In EUR thousand	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Basis for calculating basic and diluted earnings per share (earnings after tax)	(944)	(1,767)	(4,849)	(3,918)
Weighted average number of ordinary shares (in thousand)	42,395	34,852	39,561	32,872
<b>Earnings per share (basic/diluted) (in EUR)</b>	<b>(0.02)</b>	<b>(0.05)</b>	<b>(0.12)</b>	<b>(0.12)</b>

If the diluted earnings reduce the loss per share or increase the earnings per share, an adjustment is made to the amount of basic earnings per share (antidilutive effect) in accordance with IAS 33.43. If a basic result and diluted result are the same, this may be disclosed in one row as per IAS 33.67.

## Segment Reporting

Three months ended September 30, 2019					
	Europe	U.S.A	Asia/ Pacific	Consoli- dation	Group
in EUR thousand					
<b>Revenues from external customers</b>					
<b>Software and Cloud Revenue</b>	<b>2,665</b>	<b>659</b>	<b>657</b>	<b>0</b>	<b>3,981</b>
<b>Licenses and Maintenance</b>	<b>1,985</b>	<b>163</b>	<b>179</b>	<b>0</b>	<b>2,327</b>
Licenses	307	26	0	0	333
Maintenance	1,678	137	179	0	1,994
<b>Cloud and Subscription</b>	<b>680</b>	<b>496</b>	<b>478</b>	<b>0</b>	<b>1,654</b>
<b>Service Revenue</b>	<b>2,241</b>	<b>1,391</b>	<b>521</b>	<b>0</b>	<b>4,153</b>
<b>Total revenues from external customers</b>	<b>4,906</b>	<b>2,050</b>	<b>1,178</b>	<b>0</b>	<b>8,134</b>
Intersegment revenues	647	0	0	(647)	0
<b>Total revenues</b>	<b>5,553</b>	<b>2,050</b>	<b>1,178</b>	<b>(647)</b>	<b>8,134</b>
<b>Result from operating activities</b>	<b>(500)</b>	<b>(265)</b>	<b>(126)</b>	<b>0</b>	<b>(891)</b>
<b>Financial result</b>					<b>(35)</b>
<b>Earnings before tax</b>					<b>(926)</b>
<b>Income taxes</b>					<b>(18)</b>
<b>Earnings after tax</b>					<b>(944)</b>

Three months ended September 30, 2018					
	Europe	U.S.A	Asia/ Pacific	Consoli- dation	Group
in EUR thousand					
<b>Revenues from external customers</b>					
<b>Software and Cloud Revenue</b>	<b>2,986</b>	<b>427</b>	<b>608</b>	<b>0</b>	<b>4,021</b>
<b>Licenses and Maintenance</b>	<b>2,340</b>	<b>162</b>	<b>161</b>	<b>0</b>	<b>2,663</b>
Licenses	628	2	0	0	630
Maintenance	1,712	160	161	0	2,033
<b>Cloud and Subscription</b>	<b>646</b>	<b>265</b>	<b>447</b>	<b>0</b>	<b>1,358</b>
<b>Service Revenue</b>	<b>3,033</b>	<b>292</b>	<b>562</b>	<b>0</b>	<b>3,887</b>
<b>Total revenues from external customers</b>	<b>6,019</b>	<b>719</b>	<b>1,170</b>	<b>0</b>	<b>7,908</b>
Intersegment revenues	19	0	4	(23)	0
<b>Total revenues</b>	<b>6,038</b>	<b>719</b>	<b>1,174</b>	<b>(23)</b>	<b>7,908</b>
<b>Result from operating activities</b>	<b>(1,316)</b>	<b>(274)</b>	<b>(122)</b>	<b>0</b>	<b>(1,712)</b>
<b>Financial result</b>					<b>(36)</b>
<b>Earnings before tax</b>					<b>(1,748)</b>
<b>Income taxes</b>					<b>(19)</b>
<b>Earnings after tax</b>					<b>(1,767)</b>



Nine months ended September 30, 2019					
in EUR thousand	Europe	U.S.A	Asia/ Pacific	Consoli- dation	Group
<b>Revenues from external customers</b>					
<b>Software and Cloud Revenue</b>	<b>8,353</b>	<b>1,689</b>	<b>1,913</b>	<b>0</b>	<b>11,955</b>
<b>Licenses and Maintenance</b>	<b>6,341</b>	<b>438</b>	<b>548</b>	<b>0</b>	<b>7,327</b>
Licenses	1,288	26	0	0	1,314
Maintenance	5,053	412	548	0	6,013
<b>Cloud and Subscription</b>	<b>2,012</b>	<b>1,251</b>	<b>1,365</b>	<b>0</b>	<b>4,628</b>
<b>Service Revenue</b>	<b>6,488</b>	<b>3,367</b>	<b>1,544</b>	<b>0</b>	<b>11,399</b>
<b>Total revenues from external customers</b>	<b>14,841</b>	<b>5,056</b>	<b>3,457</b>	<b>0</b>	<b>23,354</b>
Intersegment revenues	1,258	0	4	(1,262)	0
<b>Total revenues</b>	<b>16,099</b>	<b>5,056</b>	<b>3,461</b>	<b>(1,262)</b>	<b>23,354</b>
<b>Result from operating activities</b>	<b>(2,946)</b>	<b>(1,003)</b>	<b>(685)</b>	<b>0</b>	<b>(4,634)</b>
<b>Financial result</b>					<b>(134)</b>
<b>Earnings before tax</b>					<b>(4,768)</b>
<b>Income taxes</b>					<b>(81)</b>
<b>Earnings after tax</b>					<b>(4,849)</b>

Nine months ended September 30, 2018					
in EUR thousand	Europe	U.S.A	Asia/ Pacific	Consoli- dation	Group
<b>Revenues from external customers</b>					
<b>Software and Cloud Revenue</b>	<b>8,567</b>	<b>1,379</b>	<b>1,829</b>	<b>0</b>	<b>11,775</b>
<b>Licenses and Maintenance</b>	<b>6,784</b>	<b>612</b>	<b>502</b>	<b>0</b>	<b>7,898</b>
Licenses	1,769	151	6	0	1,926
Maintenance	5,015	461	496	0	5,972
<b>Cloud and Subscription</b>	<b>1,783</b>	<b>767</b>	<b>1,327</b>	<b>0</b>	<b>3,877</b>
<b>Service Revenue</b>	<b>9,103</b>	<b>1,408</b>	<b>1,635</b>	<b>0</b>	<b>12,146</b>
<b>Total revenues from external customers</b>	<b>17,670</b>	<b>2,787</b>	<b>3,464</b>	<b>0</b>	<b>23,921</b>
Intersegment revenues	44	0	12	(56)	0
<b>Total revenues</b>	<b>17,714</b>	<b>2,787</b>	<b>3,476</b>	<b>(56)</b>	<b>23,921</b>
<b>Result from operating activities</b>	<b>(2,780)</b>	<b>(529)</b>	<b>(404)</b>	<b>0</b>	<b>(3,713)</b>
<b>Financial result</b>					<b>(118)</b>
<b>Earnings before tax</b>					<b>(3,831)</b>
<b>Income taxes</b>					<b>(87)</b>
<b>Earnings after tax</b>					<b>(3,918)</b>

## Directors' holdings and Securities transactions subject to reporting requirements

As of September 30, 2019, the company's executive body members held the following number of Intershop ordinary bearer shares:

Name	Function	Shares
Christian Oecking	Chairman of the Supervisory Board	40,272
Ulrich Prädel	Vice Chairman of the Supervisory Board	12,686
Univ.-Prof. Dr. Louis Velthuis	Member of the Supervisory Board	16,799
Dr. Jochen Wiechen	CEO of the Board of Management	107,983
Markus Klahn	Member of the Board of Management	34,099

In the first nine months of 2019, the members of the company's executive bodies completed the following securities transactions involving Intershop non-par bearer shares:

Name	Date	Type of transaction	Amount	Total value (EUR)
Christian Oecking	02/14/2019	Exercised subscription rights	20,272	23,110
Ulrich Prädel	02/14/2019	Exercised subscription rights	4,686	5,342
Univ.-Prof. Dr. Louis Velthuis	02/14/2019	Exercised subscription rights	6,799	7,751
Dr. Jochen Wiechen	02/14/2019	Exercised subscription rights	17,983	20,501
Markus Klahn	02/14/2019	Exercised subscription rights	3,788	4,318

## Events subsequent to the balance sheet date

On October 15, 2019, Intershop reported by ad hoc announcement that the Group will not reach its full-year forecast for 2019 or 2020, respectively. Although revenue increased and earnings improved during the first three quarters of 2019, there is not enough momentum, especially for incoming cloud orders, to reach the projected sales targets for 2019 and 2020. Intershop adjusted its outlook based on this assessment. Management now expects slight revenue growth for the whole of 2019 compared to the prior year (previous sales increase of more than 10%) and a negative operating result (EBIT) in the mid-single-digit million euro range (previously slightly negative EBIT). Against the background of this development, the previous targets for 2020 (revenues of EUR 50 million and an EBIT margin of 5%) will not be reached. The adjusted forecast for 2020 will be announced no later than February 2020, when the company will also announce the preliminary figures for 2019.

On October 28, 2019, the Management Board and the Supervisory Board adopted a restructuring program, which includes (i) various cost reduction measures, (ii) the proposal of a simplified capital reduction to the extraordinary General Meeting and (iii) the planning of financing measures for 2020. The program is the completion of the transformation into a cloud provider and the basis for the future business. Shareholder Value Management AG and Shareholder Value Beteiligungen AG support the restructuring program as anchor shareholders.

# Intershop-Shares

Stock Market Data on Intershop Shares	
ISIN	DE000A0EPUH1
WKN	A0EPUH
Stock market symbol	ISH2
Admission segment	Prime standard/Regulated market
Sector	Software
Membership of Deutsche Börse indices	CDAX, Prime All Share, Technology All Share

Key figures for Intershop shares		9M 2019	2018	9M 2018
Closing price <sup>1</sup>	in EUR	1.17	1.35	1.69
Number of shares outstanding (end of period)	in million shares	42.58	34.85	34.85
Market capitalization	in EUR million	49.82	47.05	58.90
Earnings per share	in EUR	(0.12)	(0.20)	(0.12)
Cashflow per share	in EUR	(0.04)	(0.12)	(0.07)
Carrying amount per share	in EUR	0.41	0.39	0.47
Average trading volume per day <sup>2</sup>	Number	29,723	34,442	38,224
Free float	in %	51	62	62

<sup>1</sup> Basis: Xetra

<sup>2</sup> Basis: all stock exchanges

## Contact

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This interim report contains forward-looking statements regarding future events or the future financial and operational performance of Intershop, actual events or results may differ materially from the results presented in these forward-looking statements or from the results expected according to these statements, risks and uncertainties that could lead to such differences include Intershop's limited operating history, the limited predictability of revenues and expenses, and potential fluctuations in revenues and operating results, significant dependence on large individual customer orders, customer trends, the level of competition, seasonal fluctuations, risks relating to electronic security, possible state regulation, and the general economic situation.