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Koninklijke Brill NV

Half Year Report 2020 - Unaudited

27 August, 2020

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Impact of Covid-19 on Brill revenue mitigated by cost savings

Key Figures (in EUR x thousands)	2020 H1	2019 H1	Change
Revenues	16,215	16,769	-3.3%
EBITDA	1,332	1,244	7.0%
Operating profit	392	213	83.9%
Profit	120	58	107.3%
Profit per share (EUR)	0.06	0.03	107.3%
Key Performance Indicators			
Organic growth (excluding acquisition and currency effects)	-4.2%	3.7%	
EBITDA margin	8.2%	7.4%	

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

Highlights

- Revenue declined 3.3%, mainly due to a 16.8% downturn in print book revenues
- Q1 performance was satisfactory, Covid-19 impacted revenues as of mid-March
- Journal and eBook sales continue to show a healthy growth
- Timely and decisive cost saving actions resulted in higher EBITDA as a buffer for H2
- Strong cash position due to measures implemented by management and growth in subscription portfolio
- Waivers obtained for key banking covenants in 2020, enabling Brill to continue executing on its strategy
- Covid-19 generates continued uncertainty for the remainder of the year

Peter Coebergh, CEO commented:

"We are happy about the performance and the commitment of our staff in the first half of 2020, where we managed to conduct business with our authors, vendors and customers despite the difficulties posed by the Covid-19 pandemic. Continuation of the positive momentum of 2019 in Q1 and organizational discipline enabled us to compensate the revenue decline in Q2. With a robust balance sheet we feel confident that we can withstand the crisis and the ongoing uncertainty around the pandemic and come out as a stronger Brill. We continue to focus on executing our strategy, and invest in publications, people and technology in order to improve our competitive position and show the world that #HumanitiesMatter."

Developments in the first half year

Developments in H1 were strongly influenced by Covid-19. As of mid-March, Brill staff largely worked from home and international travel ceased completely. Although business operations mostly continued as normal and publication output was similar to last year, our trade contacts in the market experienced operational challenges with universities, bookshops and traders being in lockdown for most or all of Q2. This impacted print book sales, but also impeded the closing of large one-off eBook deals, which was particularly visible in the month of June. Normally this is our strongest sales month in the US.

During H1 we also progressed on our strategy to develop Brill into the pre-eminent Open Access publisher in the Humanities. To this end, we successfully closed transformational journal deals with the Dutch and UK consortia, and others are in the pipeline. Open Access output increased from 302 to 364 journal articles and from 37 to 53 books. Open Access billing in the year to date increased from EUR 0.4 million to EUR 0.8 million with some timing benefit of earlier invoicing versus the prior year.

Financial review

Revenue development

Under the current circumstances, management is pleased with the development of revenues in H1. In Q1, we recorded a growth in revenues, driven by the favorable trends from 2019 and growth in subscription income, but as of March, the impact of the crisis was visible, especially in the sale of print books. As of March, the downfall in print books was fully compensated by an increase in eBooks until June; this is the key selling month in the US as the local universities' budget year ends in June. This year we were not able to close any EUR >100 thousand deals in June (impact versus 2019: EUR 0.3 million) but also smaller deals were harder to close. Consequently, June was the only month where we did not see growth in eBooks. For Journals, the deferred income portfolio indicates another year of solid growth for the full year, although H1 revenue recognition is impacted somewhat by temporary differences in the publication schedule.

Revenue by publication format was as follows:

Revenue growth by publication format (EUR thousands)	Revenue H1	% of total growth	YoY growth
Total revenue 2019	**16,769**		
Print books	-1,121	-6.7%	-16.8%
eBooks	501	3.0%	10.9%
Journals	118	0.7%	2.4%
Primary sources	-204	-1.2%	-36.2%
Organic revenue 2020	**16,063**	**-4.2%**	**-4.2%**
Acquisitions	0	0.0%	
Currency	152	0.9%	
Total revenue 2020	**16,215**	**-3.3%**	**-3.3%**

Asia and Middle East and Africa declined faster than the Americas albeit with a smaller financial impact. In Europe we noted a more robust performance in the German market where Brill Deutschland shows healthy growth.

Revenue by region was as follows:

Revenue growth by region (EUR thousands)	Revenue H1	% of total growth	YoY growth
Total revenue 2019	**16,769**		
Asia Pacific	-249	-1.5%	-13.4%
Americas	-633	-3.8%	-9.4%
Europe	238	1.4%	3.1%
Middle East and Africa	-62	-0.4%	-12.4%
Organic revenue 2020	**16,063**	**-4.2%**	**-4.2%**
Acquisitions	0	0.0%	
Currency	152	0.9%	
Total revenue 2020	**16,215**	**-3.3%**	**-3.3%**

Digital revenue as a percentage of overall revenue increased further to 57% from 55% in 2019. Subscription based revenue increased to 45% of revenue (vs 41% in 2019) as a result of robust renewals but also due to decline in transactional sales.

Cost of goods sold
Underlying cost of goods sold improved versus the prior year, mainly due to the lower cost of Printing On Demand books. Whereas reported costs of EUR 5.5 million exceed 2019 reported costs of EUR 5.2 million, the additional costs incurred relate to a Covid-19 - induced write-off in the product development portfolio (EUR 0.2 million) and an extra addition to the accrual for non-saleable stock (EUR 0.1 million). Lastly, we saw a phasing effect in eBook production expenses (EUR 0.3 million). Consequently, Gross margin at H1 declined from 69% to 66% whereas at an underlying level it was equal to 2019.

Selling, general & administrative expenses declined by EUR 1.0 million; on the one hand because of lower travel, personnel, indirect staff and sales and marketing expenses (EUR 0.8 million); on the other hand we requested and received a grant under the US federal PPP program of USD 0.3 million which was recorded as a negative expense. Credit losses were EUR 0.1 million higher due to two distributors filing for bankruptcy.

In the course of Q3 we expect to complete our 2018-2020 profit improvement plan. The plan was announced in 2018 with an objective to save EUR 0.6 million annually by 2020 against one-off expenditures of EUR 0.8 million. The target was later increased to EUR 0.7 million. For the full year 2020 the impact of realized recurring savings will be over EUR 1 million, with total expenditures from 2018-2020 expected at EUR 0.5 million. Major run-rate savings were realized in the production and typesetting areas (EUR 0.3 million) and in personnel costs (EUR 0.4 million). A range of smaller purchasing related programs make up for the rest.

Balance sheet – Invested Capital
As part of the half year close and given the ongoing scenario building around the impact of Covid-19, management performed an interim analysis of potential trigger events that might lead to an impairment of Brill's intangible assets. In addition to the resilient H1 performance and the solid long-term prospects in the industry we identified no triggering events and we assessed that the headroom in our valuation calculations exceeded the expected mid-term impact of the crisis, so no impairment is required at balance date.

Working capital shows a mixed picture. On the one hand, favorable movements in payables, deferred income, and inventories reduced working capital whereas on the other hand, increases in trade receivables led to unfavorable movements. On the whole though, working capital improved versus the prior year.

Balance sheet - Liquidity and financing
As of the start of the Covid-19 outbreak, management focused on cash preservation in the interest of business continuity and the ability to continue carrying out our strategy. Therefore, the dividend proposal was retracted from the agenda of the Annual General Meeting. Furthermore, management decided to opt for suspending payroll tax in anticipation of the expected settlement of our EUR 1.1 million Corporate Income Tax receivable in H2. Also, we agreed cost reductions in the organization, received a PPP subsidy in the US and we had a great subscription renewal season, with total deferred income at EUR 8.4 million, 12% above the 2019 level of EUR 7.5 million. Due to the delayed Annual General Meeting, payment of bonuses and profit sharing was suspended to July. The total of these events led to an unprecedented high in mid-year cash of EUR 3.6 million vs EUR -0.3 million at H1 2019.

In addition to the favorable cash position, Brill continues to have full access to EUR 7.5 million in Working Capital facility and EUR 7.5 million in acquisition facility. During Q2, despite the robust cash position, management commenced discussions with the Rabobank with an objective to secure adequate headroom in case of a sudden unfavorable turn of Covid-19 driven events. As a result, 2020 debt redemption payments were suspended as of Q2 and the Debt Service and EBITDA covenants were waived in 2020, as well as the clean down obligation for our working capital facility.

We expect that this solid financial foundation suffices to withstand the short-term impact of the crisis and enables Brill to continue to invest for the future development of the Group.

Management update

Following the Annual General Meeting of 25 June 2020, Mr. Steven Perrick stepped down as Chairman of the Supervisory Board which now consists of three members. He was succeeded as chairman by Mr. Robin Hoytema van Konijnenburg. Furthermore, the Management Board rearranged portfolios with Mr. Peter Coebergh taking on the Operations portfolio and Mr. Olivier de Vlam fully focusing on his role as CFO.

Risk management

In the Annual Report, management identified a material uncertainty relating to the Covid-19 pandemic. Following assessment of the reported H1 results and the updated arrangements regarding Brill's credit facilities, management no longer sees the situation as a material uncertainty regarding the continuity of the business. However, management stays vigilant in the wake of current developments and remains cautious in operating, investing and financing.

Management prepared contingency plans for the expected effects of the Brexit. We have set up alternative distribution locations and production sites to ensure continuity. At the same time we continue to face issues resulting from the system migration at our global distributor which leads to continuously reduced visibility on key accounting items such as accounts receivable and which limits our ability to control our distributor's management of our accounts receivable. Management is working with the distributor to mitigate the issues.

Outlook

Initial indications from the market at the start of HY2, show that the situation might be normalizing somewhat. However, these signals are different by region and sometimes conflicting. In the short-term, visibility on the restart of normal purchasing cycles at universities is limited. Also, it remains uncertain what the impact of the crisis will be on 2021 renewals of recurring business.

Therefore, Brill currently provides no quantitative outlook on FY performance. If the decline in print book revenues persists and traditional Q4 year-end sales are impacted by Covid-19 as well, we expect a marked decline in revenues and a commensurate impact on profit. Looking ahead, we expect the same long-term trends as usual in the academic markets, providing an attractive arena for Brill to operate and invest.

Responsibility statement
The Half Year Report 2020 is an accurate account of assets and liabilities, the financial position and the profit of Koninklijke Brill NV and the entities which are included in the consolidation. Also the Half Year Report is an accurate account of the situation on the balance date, the state of affairs during the first half of the fiscal year of Koninklijke Brill NV and that of the entities whose data are included in the Half Year Report. Special attention is paid to investments and to the circumstances on which revenues and profitability depend. Please note that the figures per 30 June, 2020 have not been reviewed nor audited by our auditors.

Leiden, 27 August, 2020

The Management Board
Peter Coebergh, CEO
Jasmin Lange, CPO
Olivier de Vlam, CFO

Consolidated statement of financial position
as at 30 June, 2020

in thousands of euro's

ASSETS	Notes	30-6-2020 (Unaudited)	31-12-2019 (Audited)	30-6-2019 (Unaudited)
Non-current assets				
Tangible fixed assets		260	339	367
Right of use assets		1,645	1,914	2,247
Intangible assets	6	33,106	33,366	32,392
Financial assets		112	12	12
		35,123	35,631	35,018
Current assets				
Inventories	7	2,696	3,217	3,444
Trade and other receivables		8,160	10,029	5,608
Income tax to be received		855	1,110	1,119
Cash and cash equivalents		3,570	1,788	0
		15,281	16,144	10,171
TOTAL ASSETS		50,404	51,775	45,189
EQUITY AND LIABILITIES				
Equity attributable to owners of Koninklijke Brill NV				
Share capital		1,125	1,125	1,125
Share premium		343	343	343
Retained earnings		20,154	20,033	17,919
Other reserves		-551	-289	-333
		21,071	21,212	19,054
Non-current liabilities				
Interest bearing loans		3,497	3,765	4,304
Lease liabilities		1,669	1,757	2,214
Deferred tax liabilities		3,524	3,583	3,093
		8,690	9,105	9,611
Current liabilities				
Interest bearing loans		1,124	1,083	1,083
Trade and other payables		10,516	10,785	6,885
Deferred income		8,379	8,851	7,467
Lease liabilities		333	684	546
Provisions		50	50	0
Derivative financial instruments	8	241	5	233
Bank overdraft		0	0	310
		20,643	21,458	16,524
TOTAL EQUITY AND LIABILITIES		50,404	51,775	45,189

Consolidated statement of profit and loss and other comprehensive income for the six months ended 30 June, 2020

	Notes	2020 (Unaudited)	2019 (Unaudited)	2019 FY (Audited)
Gross profit				
Revenue	9	16,215	16,769	37,128
Costs of goods sold		-5,530	-5,196	-11,206
		10,685	11,573	25,922
Expenses				
Selling and distribution costs		-3,281	-3,442	-7,365
General and administrative expenses		-7,012	-7,918	-15,266
Operating profit		392	213	3,291
Exchange result		-122	-36	25
Interest expenses		-110	-99	-209
Profit before income tax		160	78	3,107
Income tax expense	10	-40	-20	-945
Profit from continued operations attributable to the shareholders of Koninklijke Brill NV		120	58	2,162
Other comprehensive income – items that might be reclassified to future profit or loss statements				
Exchange differences on translation of foreign operations		-115	36	131
Cash flow hedges		-237	-105	108
Other comprehensive income, before tax		-352	-69	239
Income tax on other comprehensive income		89	21	-29
Total comprehensive income for the period attributable to shareholders of Koninklijke Brill NV		-143	10	2,372
Earnings per share	11			
Basic/diluted earnings per share for the period attributable to the shareholders of Koninklijke Brill NV		0.06	0.03	1.15

Condensed consolidated statement of cash flows for the six months ended 30 June, 2020

in thousands of euro's	notes	2020 (Unaudited)	2019 (Unaudited)	2019 FY (Audited)
Cash flows from operating activities				
Profit before tax		160	78	3,107
Adjustments for:				
Amortization and Depreciation including lease assets		645	2,450	1,804
Amortization Content		1,367	0	2,819
Finance costs – net		122	36	184
Change in working capital		1,651	-377	286
Change in long term provisions				-45
Cash generated from operations		**3,945**	**2,187**	**8,192**
Interest paid/ received including lease interest		-110	-99	-209
Income tax paid		256	-384	-717
Net cash from operating activities		**4,091**	**1,704**	**7,266**
Net cash from investment activities	5, 6	**-1,809**	**-1,762**	**-4,560**
Cash flow from financing activities				
Dividend paid to company shareholders	12	0	-1,602	-1,593
Redemption interest bearing loans		-230	-539	-1,078
Redemption lease liabilities		-307	-494	-629
New leasing arrangements		37	0	0
Net cash from financing activities		-500	**-2,635**	**-3,300**
Net cash flow		**1,782**	**-2,693**	**-595**
Cash and cash equivalents at January 1		1,788	2,383	2,383
Net cash Flow		1,782	-2,693	-595
Cash and cash equivalents at June 30 and December 31st		**3,570**	-310	1,788

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Consolidated interim statement of changes in total equity for the six months ended 30 June, 2020

in thousands of euro's	notes	Share Capital	Share Premium	Retained Earnings	Currency Translation Reserve	Currency Hedge Reserve	Total Equity
At 1 January, 2020		1,125	343	20,033	-293	4	21,212
Profit for the period		0	0	120	0	0	120
Other Comprehensive income		0	0	0	-86	-176	-262
Total comprehensive income for the period		0	0	121	-86	-176	-141
Total contribution by and distribution to owners		0	0	0	0	0	0
Balance as per 30 June, 2020		1,125	343	20,154	-379	-172	21,071
2019							
At 31 December, 2018		1,125	343	19,602	-401	116	20,785
Implementation of IFRS16				-137			-137
At 1 January, 2019		1,125	343	19,465	-401	116	20,648
Profit for the period		0	0	58	0	0	58
Other comprehensive income		0	0	0	36	-84	-48
Total comprehensive income for the period		0	0	58	36	-84	10
Dividend paid over prior year	12	0	0	-1,604	0	0	-1,604
Retained earnings prior year		0	0	0	0	0	0
Total contribution by and distribution to owners		0	0	-1,604	0	0	-1,604
At 30 June, 2019 (unaudited)		1,125	343	17,919	-365	32	19,054

Notes to the Unaudited Condensed Consolidated interim financial statements

1. Reporting entity
   The condensed consolidated interim financial statements were authorized for issue by the Supervisory Board and Management Board on 27 August, 2020. Koninklijke Brill NV is incorporated in the Netherlands and has its headquarters in the Netherlands. Its registered depository receipts are publicly traded at Euronext in Amsterdam.

2. Accounting policies and estimates
   Effective 1 January 2020, Brill ceased the use of hedge accounting in preparing its financial statements. There are no other changes in the basis of preparation of Brill's financial statements.

3. Audit
   The condensed consolidated interim financial statements for the six months ended June 30, 2020 have not been audited nor reviewed by an independent financial auditor.

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

5. Acquisitions, investments and divestments
   Brill did not do any corporate business acquisitions in HY1 2020. In Germany, Brill acquired two smaller publishing lists with transaction value of less than EUR 0.1 million. Furthermore, Brill purchased 2.4% of the shares in the French startup Jus Mundi, for a total of EUR 0.1 million.

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

6. Fixed Assets
   In the first half of the year, a total amount of nil was invested in tangible fixed assets (2019: EUR 53 thousand) and an amount of EUR 180 thousand (2019: EUR 233 thousand) was invested in information systems (intangible assets).

Total fixed assets developed as follows:

	2020 HY (Unaudited)	31-12-2019 (Audited)
Goodwill and publishing rights	19,339	19,314
Capitalized content	11,645	11,394
Information systems	1,902	2,411
Other	220	247
Total intangible fixed assets	**33,106**	**33,366**
Right-of-use assets	1,645	1,914
Property, plant & equipment	260	339
Financial fixed assets	112	12
Total fixed assets	**35,123**	**35,631**

7. Inventories

Inventories includes physical stock and Work in Progress.

The value of the inventories includes an adjustment for obsolete inventory. In the first six months of the year this provision increased by EUR 139 thousand (2019 HY: EUR 189 thousand).

8. Financial instruments

Fair value	2020 HY (Unaudited)	31-12-2019 (Audited)
Financial liabilities		
Currency forward agreements	221	0
Interest rate swap	20	4

Hedging

Brill applies hedging by using synthetic forward currency contracts, generally for a period of 12 months. The forward currency contracts eliminate the short-term fluctuation and part of the midterm fluctuation in exchange rates of the future sales and expense related cash flows in US dollars.

Additionally the interest rate risk on Brill's long-term loan is eliminated by using an interest rate swap which covers the full amount to maturity of the loan.

Net forward position	Total amount contracts			Fair value contracts (in EUR)	
	Currency	2020 HY (Unaudited)	31-12-2019 (audited)	2020 HY (Unaudited)	31-12-2019 (audited)
Sell forwards (current liabilities)	USD	8,530	0	221	0
Interest rate swap	EUR	4,604	5,146	20	4
Net				241	4

9. Operating segment information

The publishing activities of Brill are divided into six business segments, known as publishing units, which management considers to be reportable business segments. The segments are:

- **ARC:** Philosophy, Art History, Biblical and Religious Studies, Theology, Jewish Studies, Ancient Near East, Egyptology, Classical Studies;
- **HIS**: History, American Studies, International Relations; Social Sciences including Educational Studies, Book History, Cartography and Biology;
- **LAW**: International Law, Human Rights and Humanitarian Law;
- **MIA:** Middle East and Islamic Studies, African Studies;
- **LLA**: Literature and Cultural Studies, Language and Linguistics and Asian Studies;
- **SFm:** Schöningh, Fink and mentis, the imprints joined under the umbrella of Brill Deutschland.

Brill Management primarily uses revenue and direct EBITDA contribution to assess the contribution of the business segments.

Segment revenue and results								
Publishing unit	ARC	HIS	LAW	LLA	MIA	S&F	Group	**Total**
Revenue								
Six months ended 30 June, 2020	4,499	3,518	2,514	1,946	2,202	1,536	0	**16,215**
Six months ended 30 June, 2019	5,001	3,497	2,900	1,952	2,166	1,253	0	**16,769**
EBITDA Contribution								
Six months ended 30 June, 2020	2,548	1,594	1,481	635	1,103	820	-6,849	**1,332**
Six months ended 30 June, 2019	2,837	1,653	1,587	712	1,102	743	-7,390	**1,244**

10. 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	2020 HY (Unaudited)	2019 HY (Unaudited)
Current income tax:		
Current income tax charge	40	20

11. Earnings per share

Earnings per share	2020 HY (Unaudited)	2019 HY (Unaudited)
Profit for the period ended 30 June	120	58
Weighted average number of ordinary shares for basic earnings	1,874,444	1,874,444
Basic/Diluted profit per share for the period ended 30 June attributable to ordinary shareholders of Koninklijke Brill NV	0.06	0.03

12. Dividends paid

Dividend declared and paid during the period ended 30 June, 2019	2020 HY (Unaudited)	31-12-2019 (Audited)
Dividend on ordinary shares for 2019: 0 cents per share (for 2018: 85 cents per share)	0	1,593

13. 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. 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. In this note, EBITDA is reconciled to Operating profit.

Reconciliation of Revenue and profit before tax	2020 HY (Unaudited)	2019 HY (Unaudited)	2019 FY (Unaudited)
Revenue	16,215	16,769	37,128
Cost of goods sold	-5,530	-5,196	-11,206
Selling & distribution costs	-3,281	-3,442	-7,365
General & administrative costs *)	-6,072	-6,887	-13,373
EBITDA	**1,332**	**1,244**	**5,184**
Profit improvement plan	0	-81	-85
Depreciation and Amortization	-940	-950	-1,808
Operating profit	**392**	**213**	**3,291**

*) excl. depreciation, amortization and cost related to the profit improvement plan

14. Events after Balance Sheet date

No material events took place after balance sheet date.