

Zalaris ASA
Interim report
Second quarter and first half year 2016

Thank you for joining us. The presentation will begin shortly.

Please note:

- Use the provided phone based dial-in instructions for listening to the presentation;
- All attendees will be in muted mode during the presentation;
- We will open up for questions at the end of the presentation. Please formulate your questions in writing using the Messages feature.

Questions related to the interim report may also be directed to ir@zalaris.com

We expect to finish the presentation and open for questions around 09:30.



Interim report | Second quarter and first half year 2016

Oslo, 18 August 2016

Presenters and agenda



**Hans-Petter
Mellerud**
Founder and CEO



Nina Stemshaug
CFO

Agenda

- Recent highlights
- Financial performance in second quarter and first half year of 2016
- HR Outsourcing market
- Outlook

New milestone passed. Further improvements in performance through efficiency initiatives and offshoring

Financial indicators

- Q2/16 revenues was NOK 95 million, up 3.1 % year-on-year, and 6.8 % before extraordinary revenues recorded last year
- EBIT reached NOK 7.1 million, corresponding to a margin of 7.5 %

Key figures

NOK million	Q2 16	Q2 15	2015
Revenues	95.3	92.3 ¹	373.7
Operating profit	7.1	8.8	33.8
Profit for the period	4.5	6.2	23.3
EPS (NOK)	0.21	0.29	1.1

¹ Includes NOK [x] million extraordinary revenues related to termination of a contract

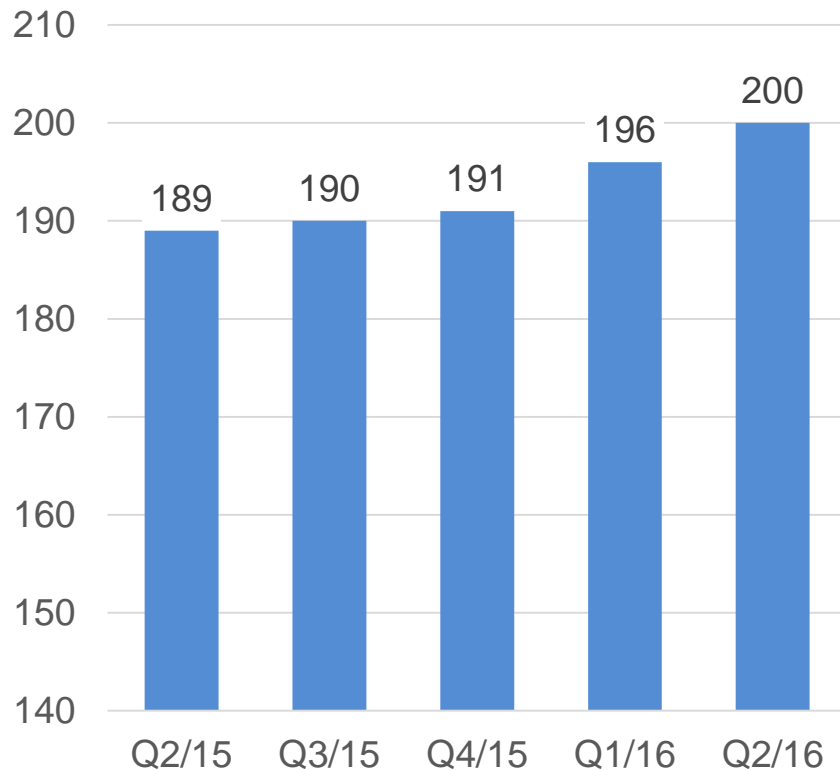
Strategic milestones

- Secured two new contract. With SAS and a *Leading Utility Company* to provide cloud-based services to approx. 6,000 employees in Sweden
- More than 200,000 employees now served by Zalaris, an important milestone passed
- Drive towards increased efficiency and offshoring of production continues – and delivers results
- Strategic shift towards cloud services. This segment now represent 6.8 % of revenues
- Stronger pipeline of opportunities

Operational key performance indicators

Major milestone passed. 200,000 client employees served

Employees served (1000')

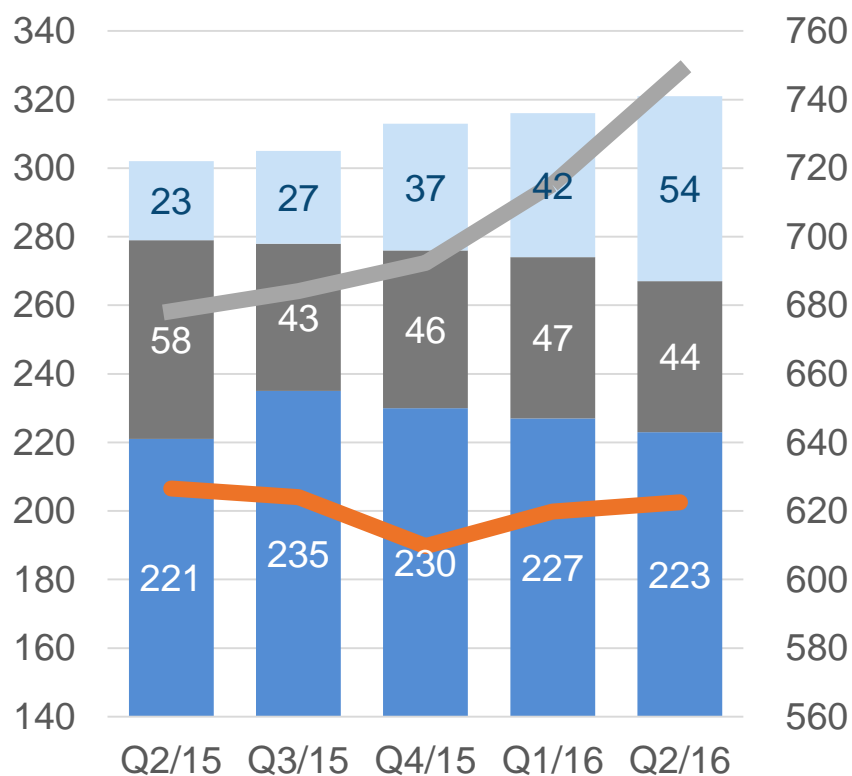


- Number of employees served by Zalaris HR Outsourcing reached 200,000 in the quarter.
- Volume of transaction services delivered up 5.6 per cent compared with Q2/15
- Scope of services provided varies for each customer
- Shift towards cloud-services is overall trend, allowing additional services to be delivered with less people involved

Operational key performance indicators

Efficiency continues to improve

Employees and productivity

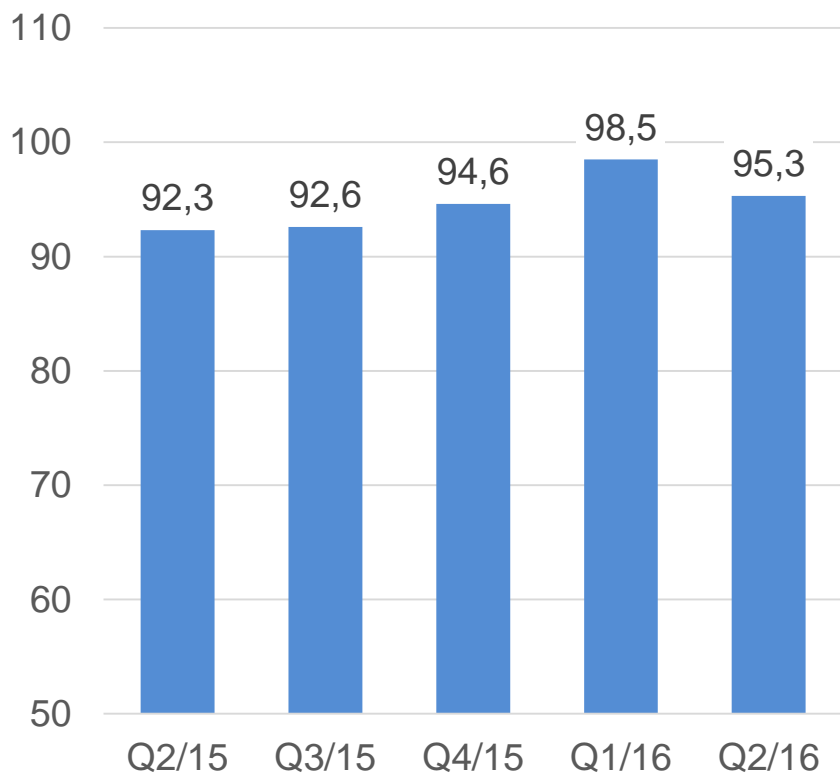


- Productivity continues to improve. Average number of employees served per local and nearshore FTE (full time equivalent) was 748 in Q2/16, up from 678 one year earlier
- Number of offshore FTEs in the Outsourcing unit was 63 at end of Q2/16, up 80 % since October 2015 when we opened our office in Chennai
- Offshore and nearshore employees in the Outsourcing unit represented 32 % of workforce at end of Q2/16

- Average number of local FTEs
- Average number of nearshore FTEs
- Average number of offshore total FTEs
- Average number of customer employees served per FTE total (right axis)
- Average number of customer employees served per FTE ex offshore (as previously reported) (right axis)

Comparable Q2/16 revenues increased 6.8 % from last year. Cloud growing in importance

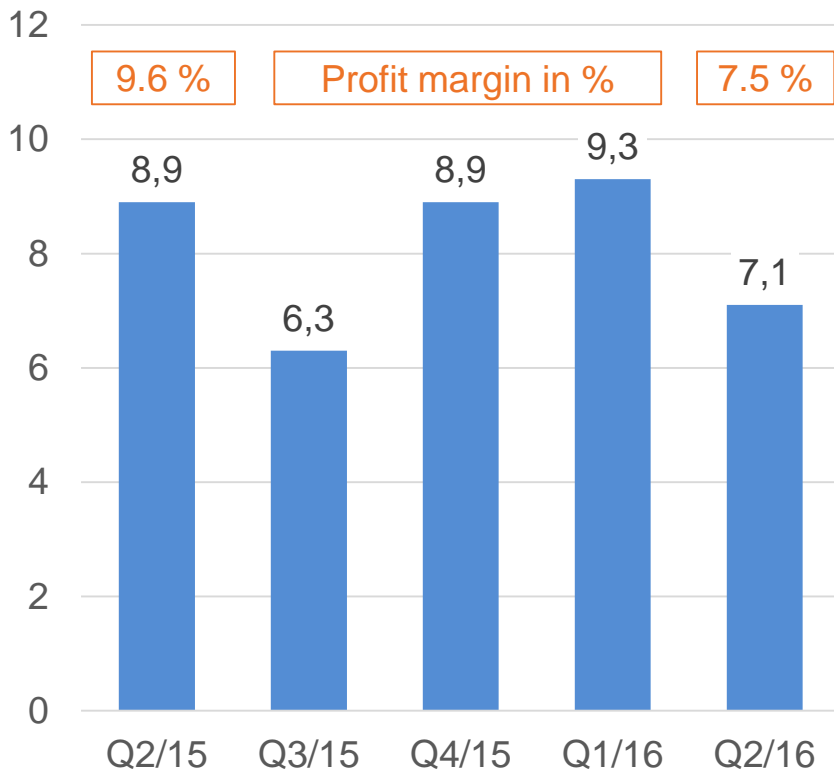
Operating revenues



- HR Outsourcing segment represent 91 % of group revenues. Share declines as Cloud Services grows
- As usual in Q2 and Q3, seasonal variations impact on HR Outsourcing revenues. Last year also marked by extraordinary revenues
- Cloud Services revenues in Q2/16 was 6.4 million, up from 0.8 million year-on-year and 20 % up from Q1/16
- External sales from Consulting was low in Q2/16 as capacity was channeled towards product development and customer implementation projects
- Norway remains the largest contributor with 41 %. Business outside Norway have increased 2 % points since Q2/15

Operating profit slightly reduced. Some temporary costs related to transfer to Chennai and increased licence costs

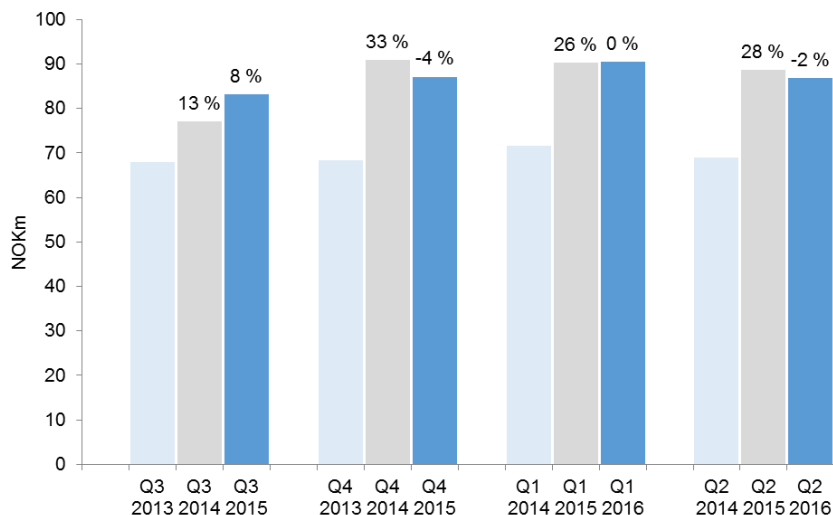
Group operating profit



- Operating profit in Q2 2016 was NOK 7.1 million or 7.5 %. Normal seasonal variations
- Personnel cost share of total costs are gradually declining. 55 % in Q2/16 as result of nearshoring and offshoring.
- Downsizing project progressing as expected with full effect from Q2/17
- Some additional costs incurred in Q2/16 related to transfer of tasks to Chennai
- Licence costs increase as result of growth in Cloud Service segment to NOK 6.5 million in Q2/16
- Net financial items amounted to minus 0.7 million in Q2/16
- Profit after tax was NOK 4.7 million

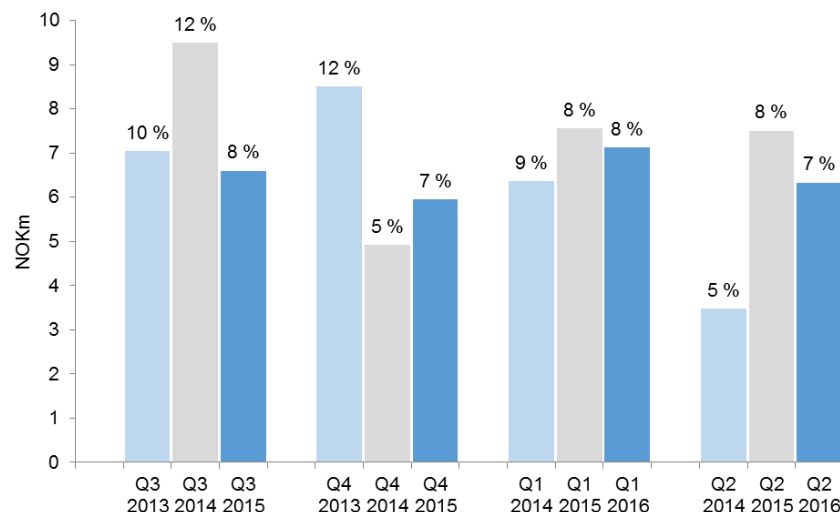
HR Outsourcing segment: Normal seasonal variations, some temporary additional costs

Operating revenues



- HR Outsourcing represent 91 % of group revenues, variations are normal due to seasonality
- Q2 revenues in 2015 included extraordinary termination fee

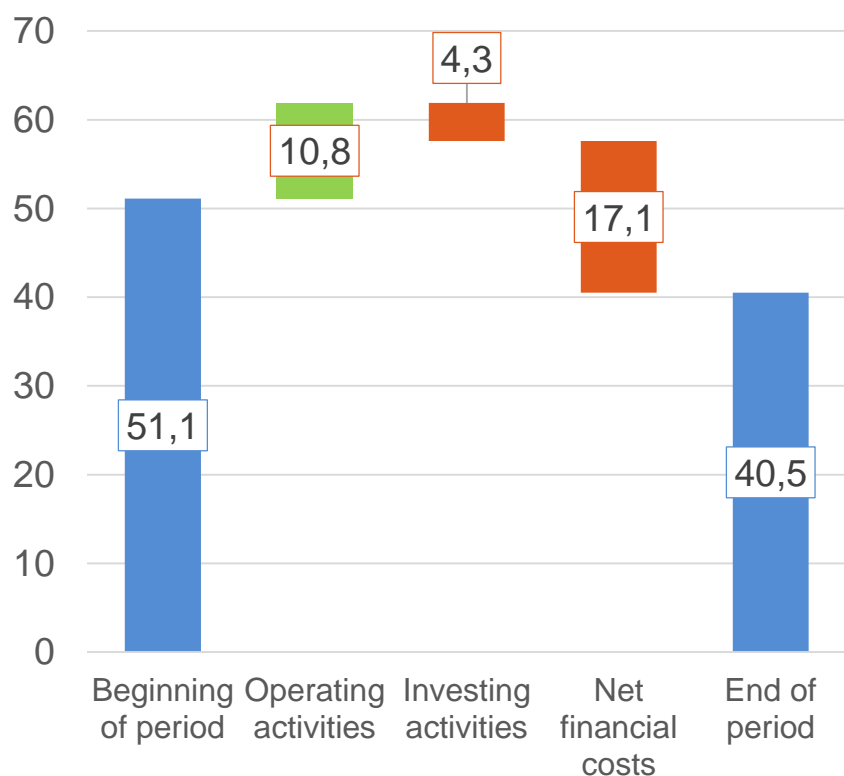
Operating profit and margin



- Personnel costs reflect current excess capacity during build-up and transfer of tasks to Chennai
- Q2 profits in 2015 included NOK 0.6 million extraordinary profit

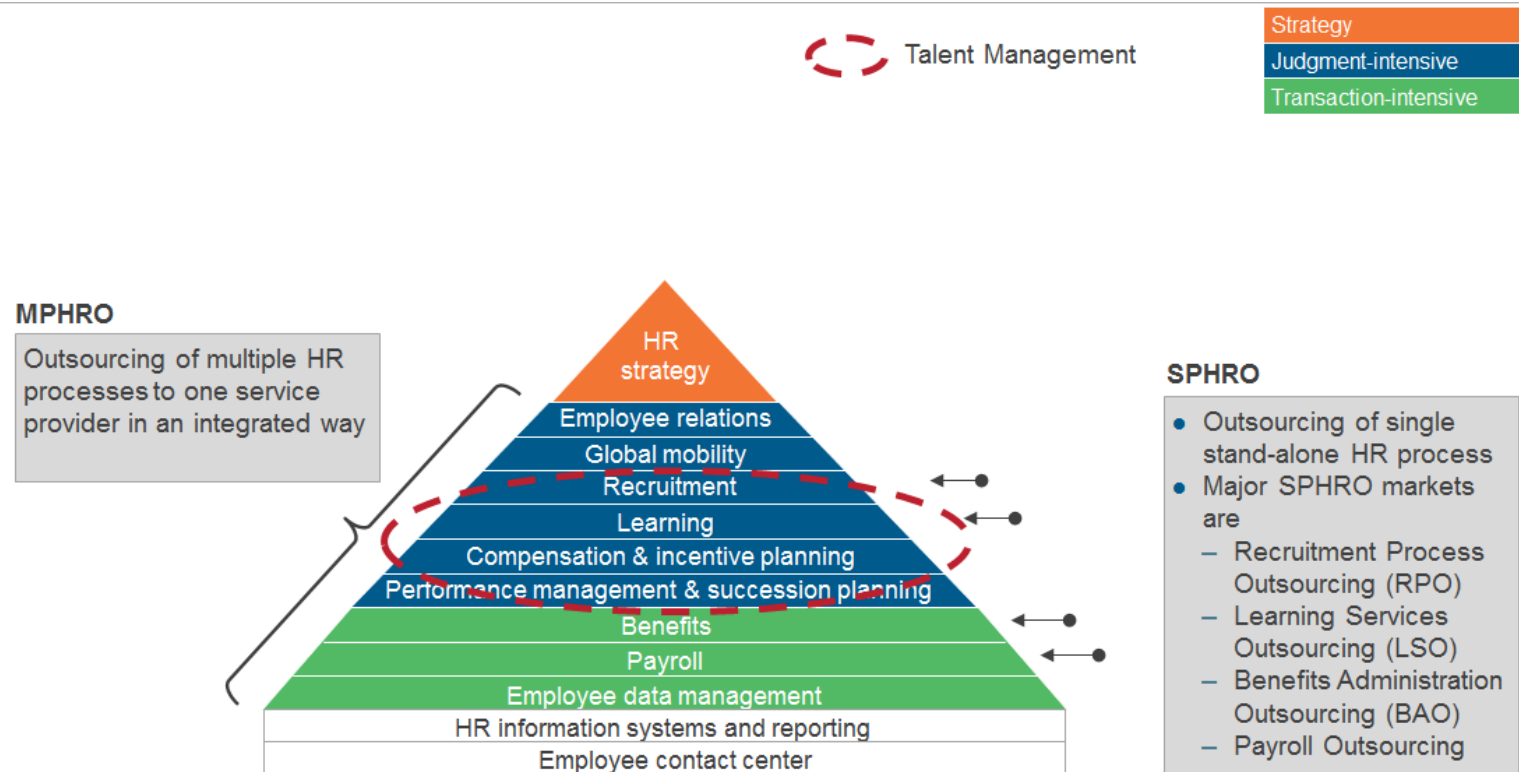
Positive cash flow from operations, strong financial position

Cash and cash flows Q2/16



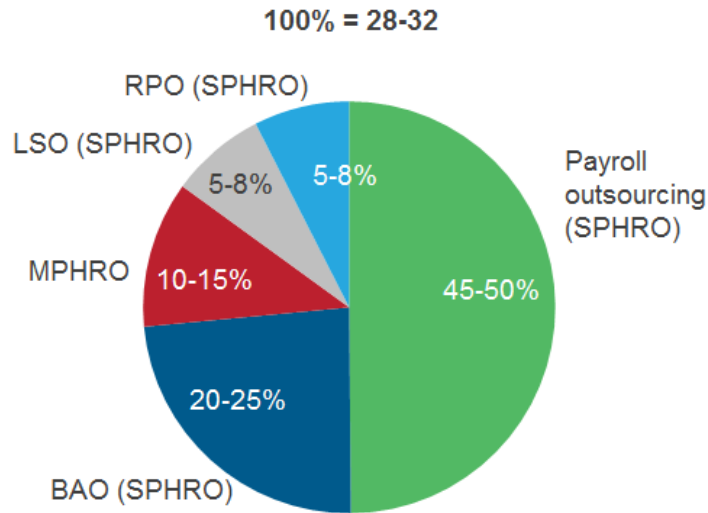
- Cash flow from operations was NOK 10.8 million, reversing build-up of accounts receivables in previous quarter
- Investments in data security and digitalization of service delivery processes
- Net financial costs include NOK 16.2 million dividend paid
- Strong financial position. 47 % equity ratio at end of Q2/16. NOK 1.8 million interest bearing debt

Buyers have two distinct approaches to adopt HR outsourcing – Single-process HRO (SPHRO) and Multi-process HRO (MPHRO)



Payroll outsourcing market is the largest HRO market and consists of two very different markets

HRO market size (2015)
US\$ billion



- HR has traditionally been one of the more outsourced business processes
- But, within the HR outsourcing space, there are distinct markets that have their unique characteristics

Market	Growth	Commoditization
MPHRO		
RPO		
LSO		
BAO		

Payroll



- The large payroll market consists of two very different markets – Single Country Payroll Outsourcing (SCPO) and Multi-Country Payroll Outsourcing (MCPO)

Source: Everest Group (2016)



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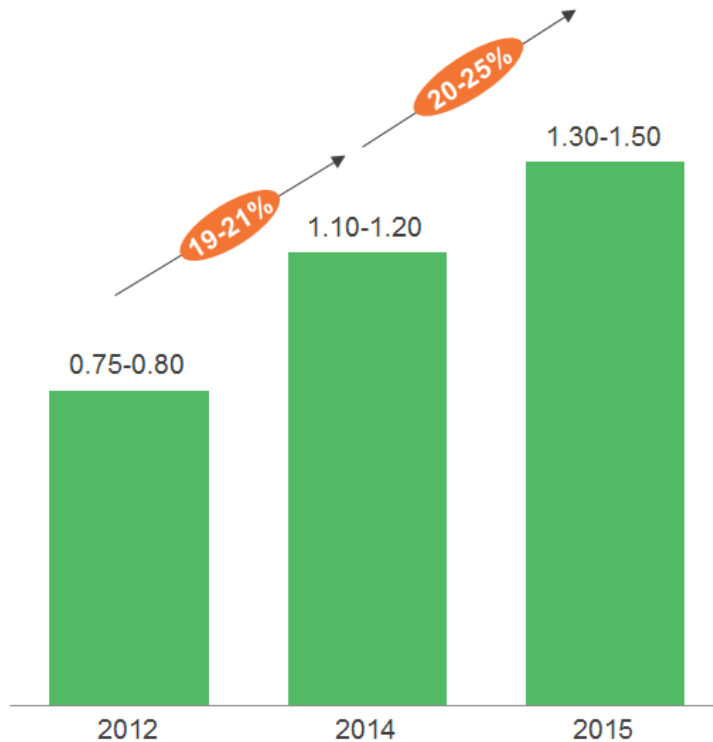
Compared to Single Country Payroll Outsourcing, the Multi Country Payroll Outsourcing market is much more attractive to pursue

	Single country payroll outsourcing (SCPO)	Multi-country payroll outsourcing (MCPO)
Market maturity and growth	<ul style="list-style-type: none">• A mature market that is already well penetrated in most of the geographies	<ul style="list-style-type: none">• A fast emerging market with significant head room for growth
Value perception	<ul style="list-style-type: none">• Perceived as a commodity services• Buying decisions primarily based on cost	<ul style="list-style-type: none">• Perceived as a specialized service• Buying decisions based on a combination of cost, quality, and expertise considerations
Client stickiness	<ul style="list-style-type: none">• Low due to relative ease to switch	<ul style="list-style-type: none">• High due to difficulty in switching
Ease of replication	<ul style="list-style-type: none">• Easier to replicate	<ul style="list-style-type: none">• Difficult to replicate
Competition	<ul style="list-style-type: none">• Highly competitive market	<ul style="list-style-type: none">• Competition still getting defined as alternate models/providers emerge

The Multi Country Payroll Outsourcing market has grown rapidly at a CAGR of 20-25% from 2014 to 2015 to reach US\$ 1.3 - 1.5 billion

Market size of MCPO
US\$ billion

X% CAGR



- While the market has seen strong adoption by Multi-National Corporations (MNCs) of all sizes, MCPO adoption by small-sized companies (spread across just two to five countries) is higher. The rapid growth in the number of new small multi-national companies spread across a few countries is also contributing to the overall growth of MCPO

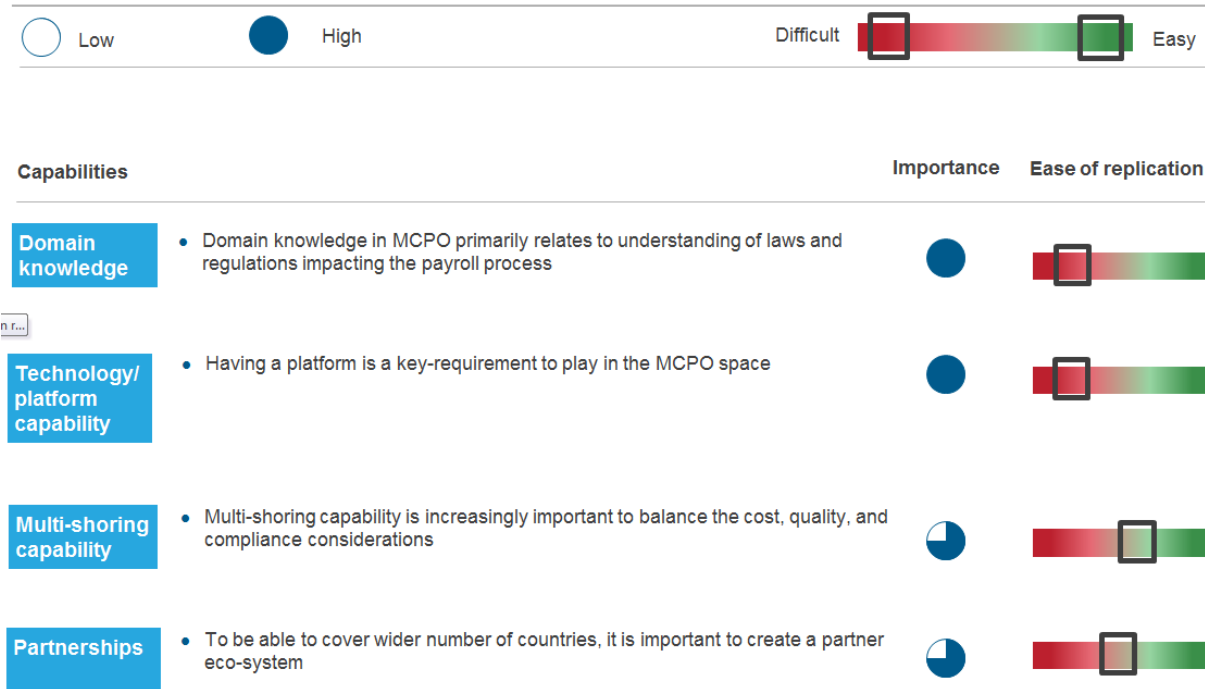
Note: Small firms – less than 3,000 employees; Mid-sized firms – 3,000-15,000 employees; Large firms – more than 15,000 employees
Source: Everest Group (2016)



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As Zalaris from the onset has been designed to deliver Multi Country Payroll Outsourcing – we are well positioned for continued success in this market

Relative importance of capabilities to succeed in MCPO



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Local language service centers and payroll consultants in country that we operates



One common SAP based system supporting 50+ country payroll legislations



Local service centers, nearshore in Baltics and offshore in Chennai



Development need to expand MCPO outside Nordics, Baltics and Poland



Concluding remarks: Good first half of 2016

- **Short-term topline growth below target**, but demand remains strong for Zalaris services
- **Signed new agreements with three new large blue chip customers in H1** with a total of 8,000 employees
- **Serving more than 200 000 client employees**, and have further strengthened our sales and marketing organization to add more.
- **Continuing driving towards nearshore and offshoring.** While this transition results in increasing of resource costs during a project period consolidation of service centers in the Nordic are expected to result in savings and improved margins from 3Q 2016 with full effect in first half of 2017.
- **Seeking organic growth** in our home market and exploring other opportunities elsewhere where Zalaris' scalable business model would fit well

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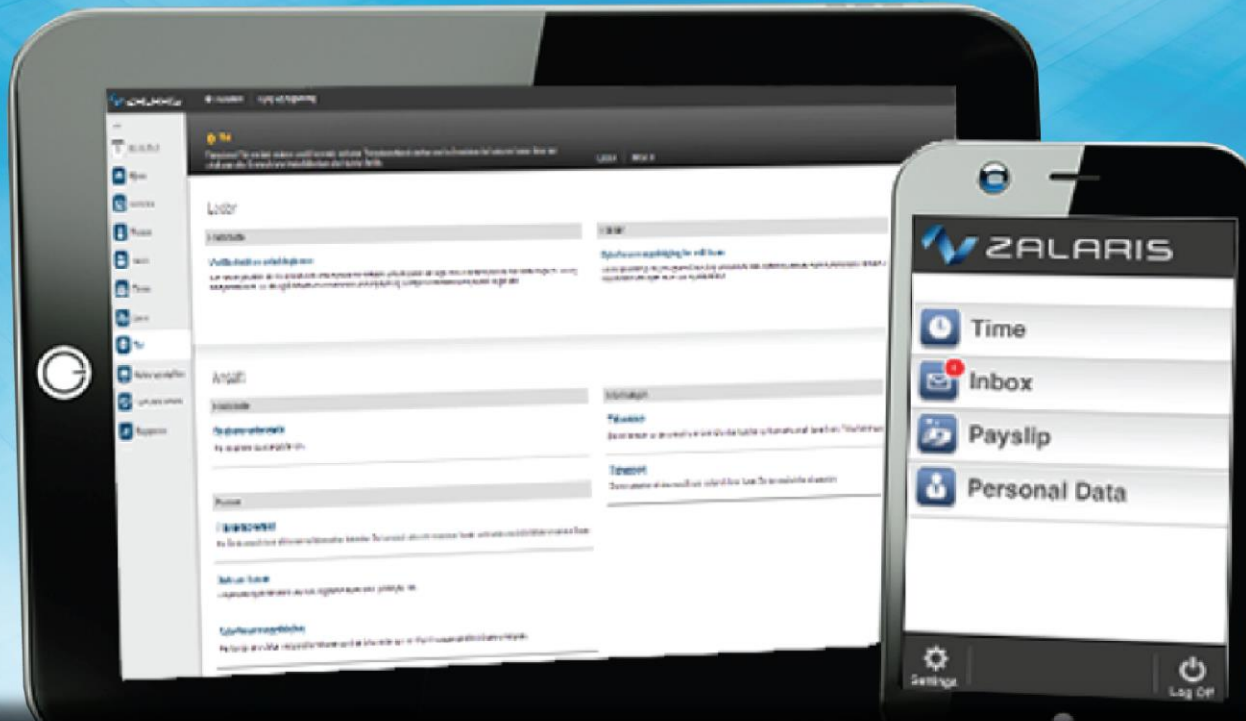
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Questions?



Thank you!

Hans-Petter Mellerud
CEO & Founder
hans-petter.mellerud@zalaris.com

Nina Stemshaug
CFO
nina.stemshaug@zalaris.com

Zalaris HR Services AS
PO Box 1053
NO-0218 Oslo
Tel: +47 4000 3300
www.zalaris.com

