



# *Interim report | Third quarter 2016*

Oslo, 26 October 2016

# Presenters and agenda



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## Agenda

- Recent highlights
- Financial performance in third quarter of 2016
- Cloud HR roadmap
- Outlook

# Revenues continued to grow, mainly in the Cloud segment. Converting leads to requests for proposals (RFPs)

## Financial indicators

- Q3/16 revenues was 97.7 million, up 5.4 % year-on-year.
- EBIT reached 9.2 million, corresponding to a margin of 9.4 %, up from 6.3 million and 6.8 % same quarter last year.

## Key figures

NOK million	Q3 16	Q3 15	YTD16	YTD15
Revenues	97.7	93.6	291.5	279.1
Operating profit	9.2	6.3	25.6	25.0
Profit for the period	6.2	3.9	16.4	17.2
EPS (NOK)	0.32	0.20	0.78	0.83

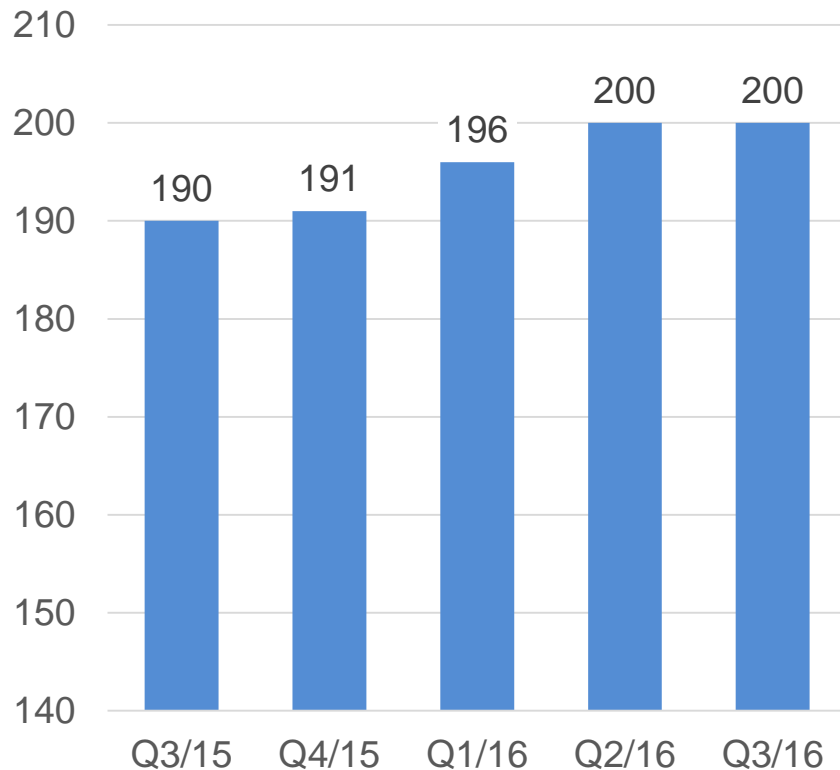
## Strategic milestones

- Revenues continued to grow, despite no significant new contracts
- Growth mainly coming from the Cloud segment, which represented 7 % of group revenues year to date.
- Converting leads to request for proposals, as companies are looking to cut costs and strengthen HR/payroll functions through outsourcing and cloud solutions.
- Celebrated first year in Chennai, India with doubling of employees and reaching 20 % share of productive hours delivered.

# Operational key performance indicators

## Number of customer employees served still above 200'

Employees served (1000')

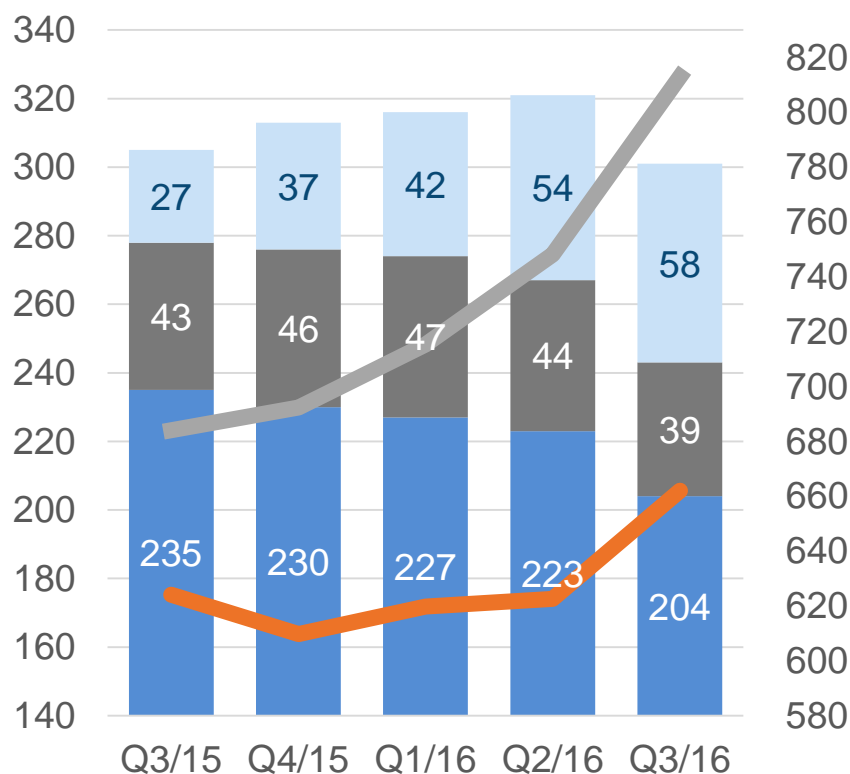


- No new customers online in the quarter. Number of employees served by Zalaris HR Outsourcing in Q3/16 was the same as in the previous quarter.
- Volume of transaction services delivered up 5.3 % compared with Q3/15.
- Increased interest in cloud-services is overall trend, allowing additional services to be delivered with less people involved.

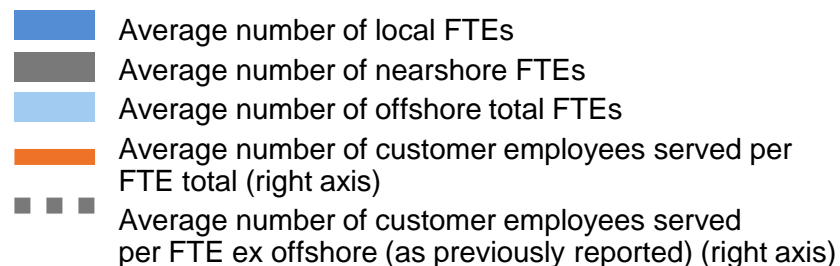
# Operational key performance indicators

## Efficiency continues to improve

### HR Outsourcing Employees and productivity

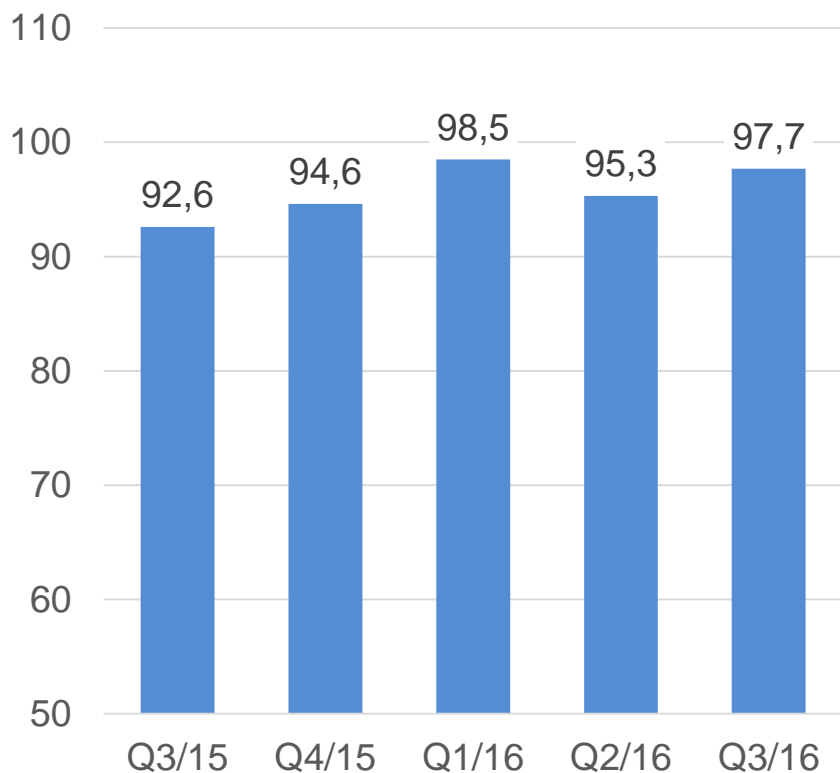


- Productivity continued to improve. Average number of employees served per FTE (full time equivalent) within HR Outsourcing was 662 in Q3/16.
- Improved efficiency is a result of the ongoing down-sizing project. Full effect expected in Q2/17.
- Offshore and nearshore employees in the HR Outsourcing unit was 32 % of workforce at end of Q3/16.
- Group headcount was 452 at end of Q3, stable in total, but marked shift towards offshore



## Q3/16 revenues increased 5.4 % year-on-year. Cloud growing in importance

### Operating revenues

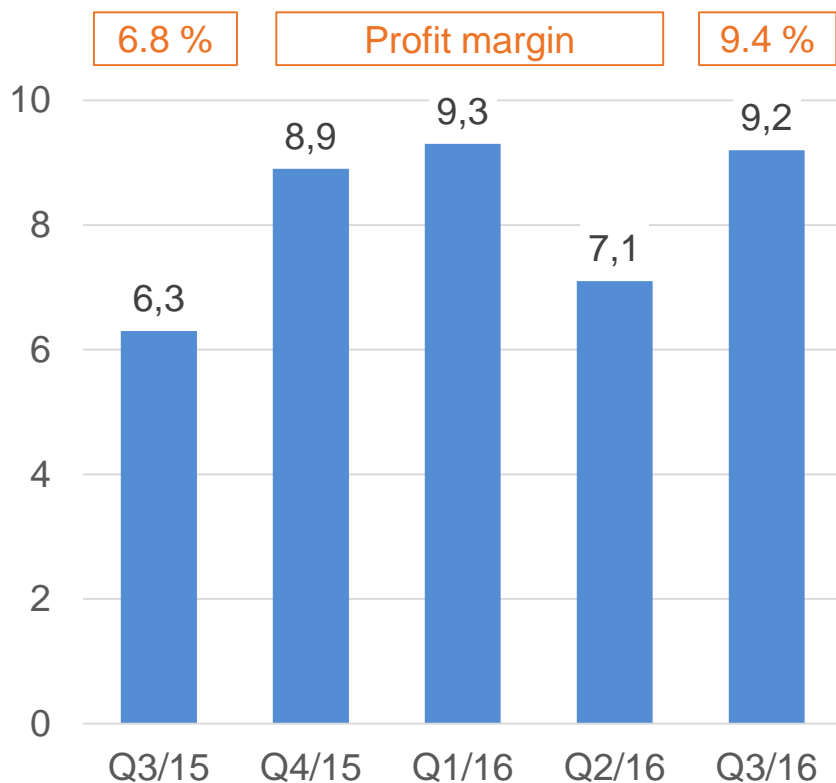


- Group revenues reached 97.7 million in Q3/16, up from 92.6 million same quarter last year.
- Cloud Services revenues in Q3/16 was 9.4 million, an increase of 51 % since Q3 last year.
- HR Outsourcing segment represented 87.7 % of group revenues. Its share of group revenues declines as Cloud Services grows.
- Norway remains the largest contributor with 44 %. Baltics and Poland increased revenue by 3 percentage points, a result of continued expansion outside the Nordics.



# Profit rebounded after seasonal variations and reduced personnel costs

## Group operating profit<sup>1</sup>

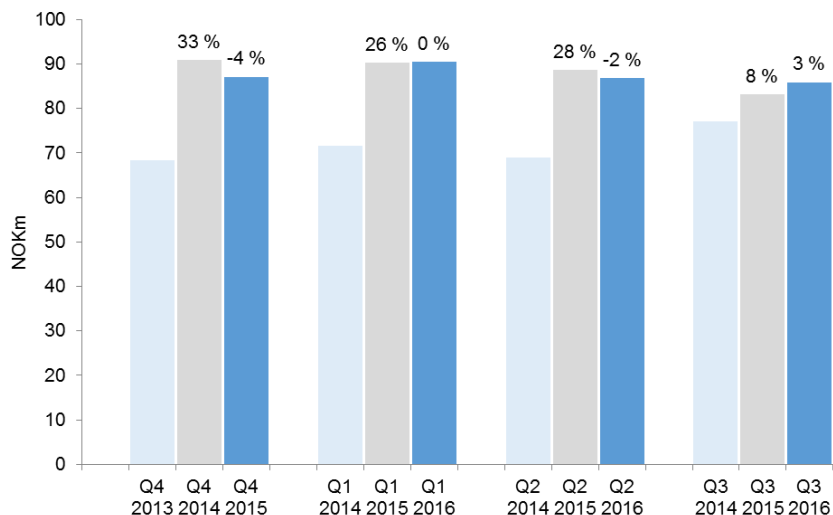


<sup>1</sup> Excluding one-off costs

- Operating profit rebounded after seasonal variations in Q2. Significantly improvement from Q3/15.
- Personnel cost reduced 0.9 million from Q2/16 as downsizing project has resulted in reduced FTE count. Personnel costs share of total cost was 53 % in Q3/16, down from 56.1 %.
- License costs continued to increase as result of growth in Cloud Service segment to NOK 9.7 million in Q3/16.
- Net financial items amounted to minus 0.6 million in Q3/16.
- Profit after tax was NOK 6.2 million.

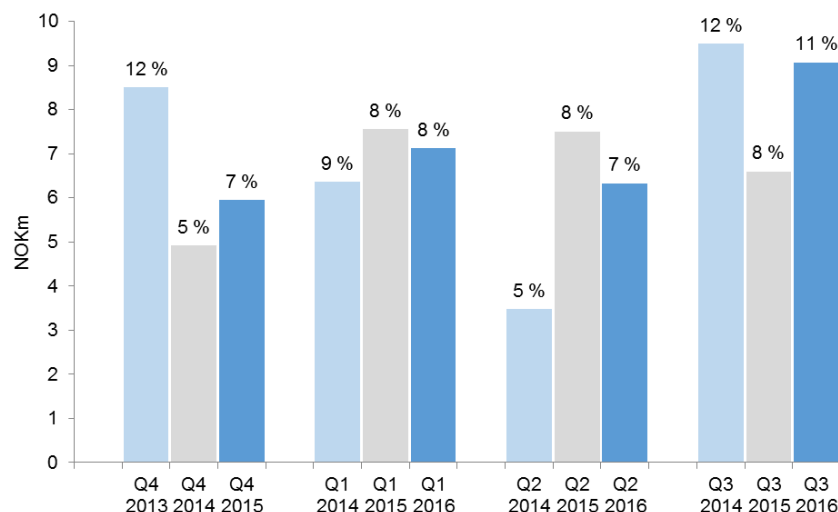
# HR Outsourcing segment: Growth in profit and margin compared with both previous quarter and last year

## Operating revenues



- Revenues in Q3/16 was 85.8 million, up 3 % y-o-y as new customers have come online in Sweden, Baltics and Poland.
- Quarterly variations are normal due to seasonality.

## Operating profit and margin

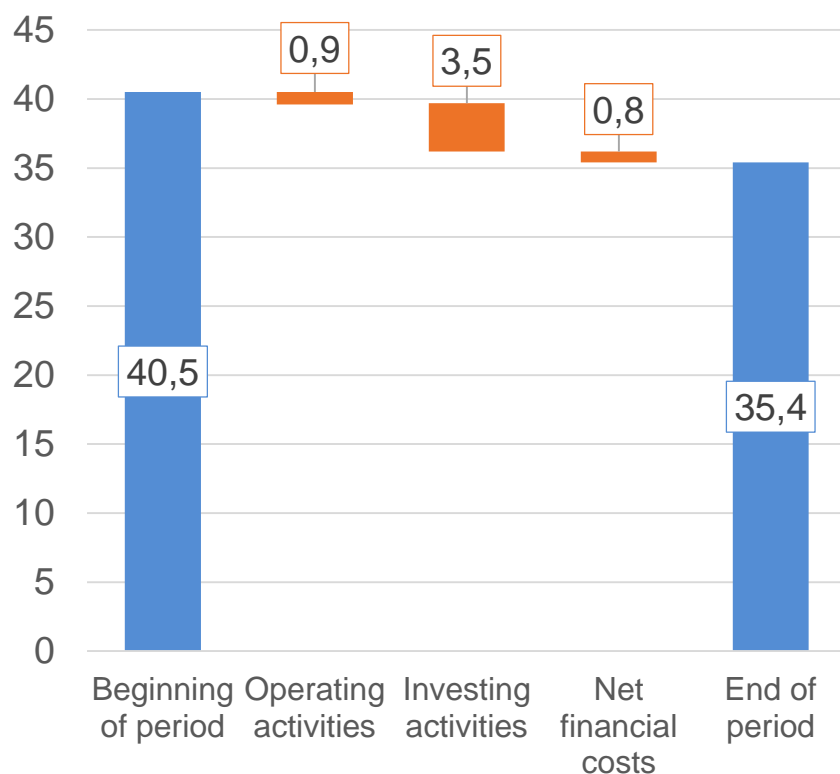


- Profit reached 9.2 million in Q3/16, highest profit and margin since Q3/14.
- Driven by effects of the downsizing project and shift towards offshoring.



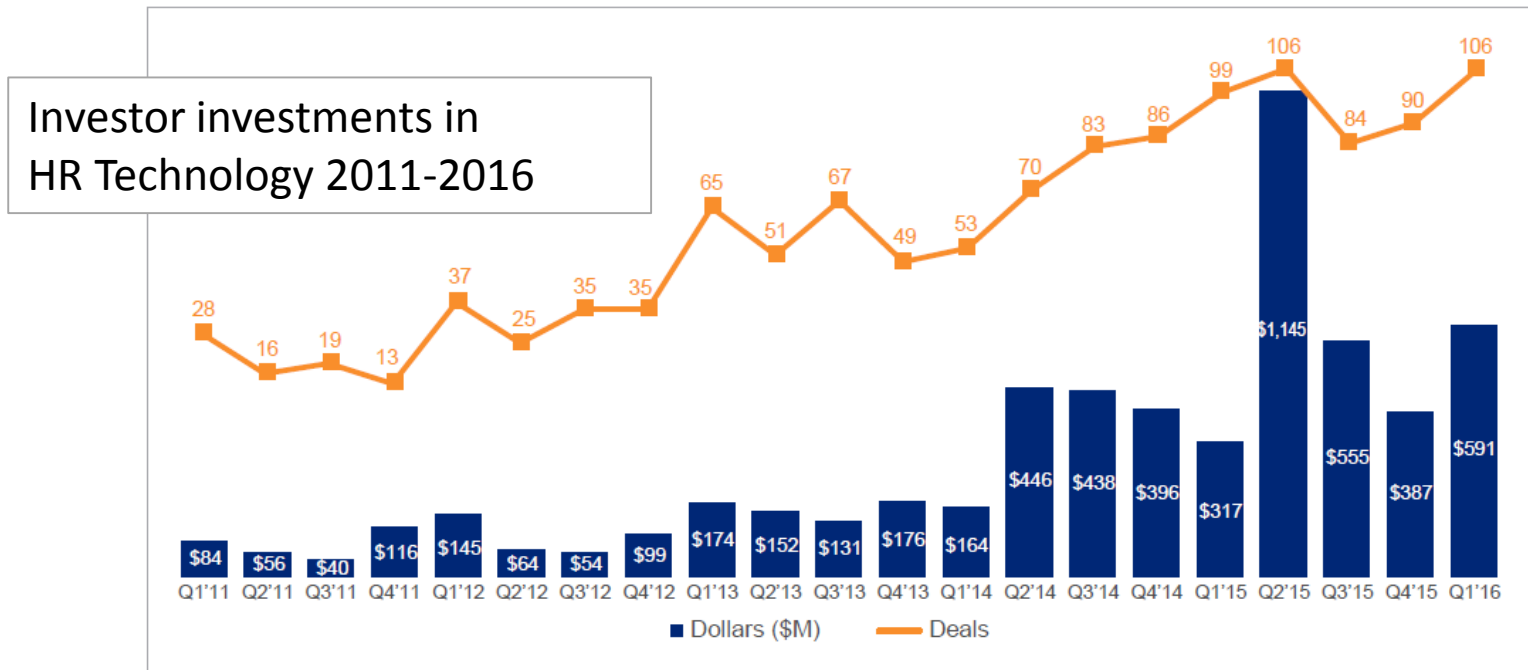
# Positive cash flow from operations, strong financial position

## Cash and cash flows Q3/16



- Cash flow from operations was negative 0.9 million as accounts receivables increased.
- Investments mainly related to implementation of new functionality, features and systems for cloud and mobile solutions and data security.
- Strong financial position: 54 % equity ratio at end of Q2/16.
- Interest bearing debt was 1.8 million at end of Q3/16.

# Investments in HR technology companies grew 60 % during 2015



Source: CB Insights, 2016.

«According to CB Insights, Investors plunged \$2.4 billion into HR tech vendors during 2015, a 60 percent increase from the prior. This amazing investment growth—much of which went into new integrated human resource management system (HRMS) platforms for the mid-market—illustrates the level of disruption and change hitting the industry». - Joe Bersin

Source: Bersin by Deloitte 2016

# “The HR technology market is undergoing one of the most disruptive years it has seen this decade” – Joe Bersin

## Joe Bersin 2016:

1. **Consumerized HR Technology:** Think Employee Tools, Not HR Tools
2. The “**Appification**” of Everything: Mobile Apps as a New HR Platform
3. **Emergence of ERP Providers** in Expanding Talent Management Segment
4. **Built-for-the-Cloud Providers** Redefine HR Functions
5. New Software Categories: **Feedback, Engagement,** and Culture Management
6. **The Reinvention of Performance and Goal Management** with Feedback and Check-ins
7. **Learning Experience Middleware:** Integrating Content from Everywhere
8. Growth of **Predictive Analytics:** The Value from New Vendors and Solutions
9. Technology Services Continue, Despite Escalation of Cloud Computing
10. Pace of Innovation Accelerating, but Engagement Still Critical

## Joe Bersin 2017:

1. The Accelerating Revolution of **Performance Management**
2. An Explosion in **Real-Time Engagement Evaluation**—And Its Intersection with Performance and Feedback
3. The Explosion of Growth in **People Analytics**
4. The Continuing Explosion and Evolution of the **Learning Market**
5. A New Landscape for **Talent Acquisition**
6. Growth in **Contingent Workforce Management**, Gig Work, and Part-Time Work Environments
7. The Growth of **Team Management Tools** and Their Merger with HR Tools
8. The Explosion of **Wellness and Fitness Apps**—And Their Potential Merger with Employee Engagement
9. **Digital HR:** Self-Service, Artificial Intelligence, and Robotic Process Automation

# Many still challenge if public cloud solutions are ready to handle complexity and mission criticality of payroll and transactional HR

- **Local tariff agreements and complex worktime practices** complicated to fit into standardized cloud practices
- What happens if your **payroll solution is unavailable** at pay date?
- What is your **cloud provider's capacity to support you in case of a disruptive event?**

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## Computing

### Massive Internet Outage Could Be a Sign of Things to Come

Hackers have shown how they could take down the Internet.

by Jamie Condliffe    October 21, 2016

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**On Friday morning, large swaths of the** U.S. experienced a major Internet outage—and it was the kind of large-scale takedown of which security expert Bruce Schneier recently foretold.



The outage, which appears to have mainly affected the U.S. and predominantly the East coast, **began at around 7:10 a.m. ET on Friday.** Among the sites that suffered were Twitter, Reddit, Spotify, the *New York Times*, and even our own. (Update: A second attack hit Dyn at 11:59

# Zalaris support customers realizing their Cloud HR Roadmap

## Current situation:

- **On premise solution** as SAP HCM for payroll, time, travel and talent management
- Employee requests handled by **telephone and e-mail**
- **Transaction focus** - producing correct payroll and meeting deadlines

## Wanted solution:

- Integrated **Cloud solution** for talent management
- Organize HR as **shared service**
- Focus on **strategic HR**



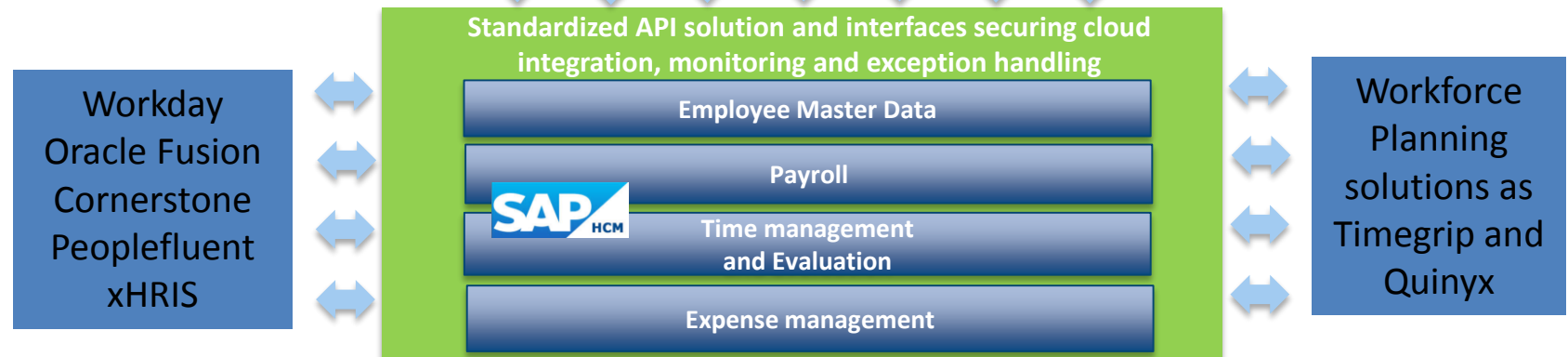
## Issues to be addressed:

- How to **realize business case** if need to maintain own infrastructure for payroll, time and travel processes as not perceived ready for public cloud?
- How to set up **integrations** between public cloud and my mission critical time and payroll processes and to ensure these working over time?
- What do to with my **transaction processing staff**?

# Zalaris core BPO payroll services enable customers to take advantage of Cloud services and provides mission critical disruption insurance



## High frequency synchronization of mission critical data



# Concluding remarks: Revenues and profits rebound as requests for proposals take off

- **Revenues continued to grow** despite no significant new contracts in the quarter. Cloud segment main source for growth
- **Converting leads to request for proposals**, as companies cut costs and strengthen HR/payroll functions through outsourcing and cloud solutions
- **Profits and margin increase** as downsizing project delivers results and shift towards offshoring of services continues
- **Reached targeted 20 %** of productive hours delivered from our offshore service center in Chennai, India
- **Seeking organic growth** in our home market and exploring other opportunities elsewhere where Zalaris' scalable business model would fit well
- **Well positioned** to capitalize on HR technology trends with secure infrastructure, flexibility of integration and mobile first strategy



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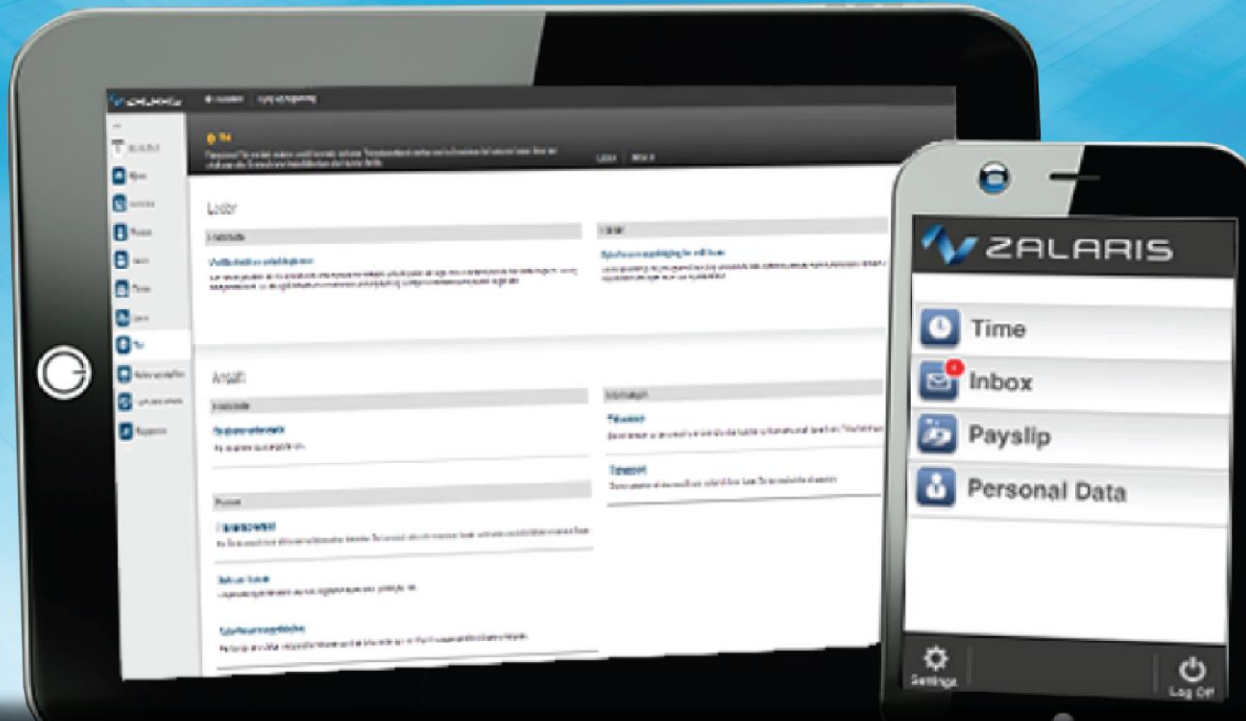
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*Questions?*



*Thank you!*

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