



Interim report | Q1 2019

8 May 2019

Presenters and agenda

1. Highlights
2. Financial performance in Q1/19
3. Market update and conclusion



Hans-Petter Mellerud
Founder and CEO



Nina Stemshaug
CFO



Growth in revenues and go live with major clients

- Revenues of NOK 192.4 million and EBIT of NOK 6.5 million or 3.4%.
- Launched several new customers with an annual contract value of approximately NOK 20 million during the quarter.
- Streamlining the organization towards coherent customer offerings and profitability.
- Initiated actions to drive EBIT margin towards historic performance and a recurring target level of 10% ultimo 2019.



Growth in revenues compared to Q1/18

Key figures

NOK million	Q1 2019	
	Q1/19	Q1/18
Revenues	192.4	186.2
Adjusted EBIT ¹	6.5	11.4
Profit for the period	6.2	11.4
EPS (NOK)	0.29	0.56

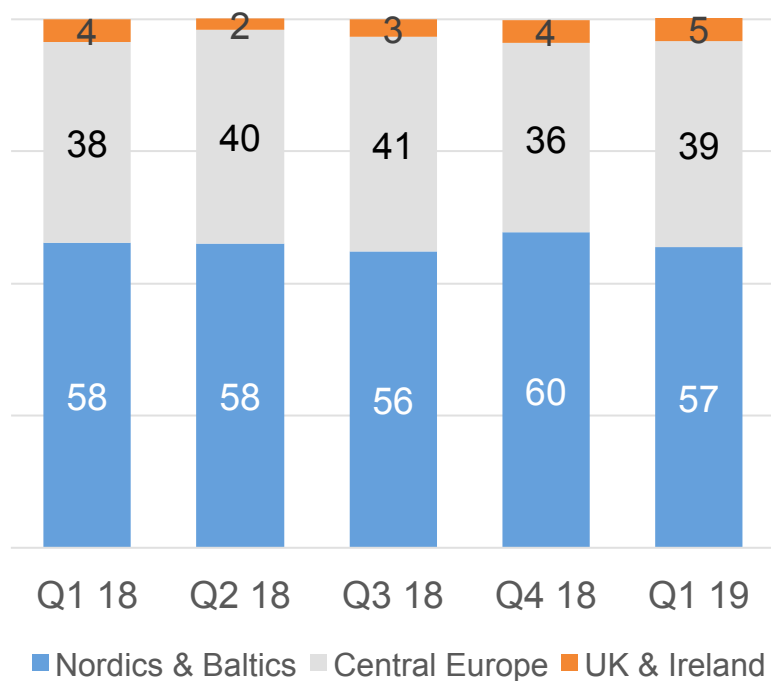
All amounts in NOK unless otherwise specified

¹ EBIT before other costs

- Revenues of 192.4 million, a y-o-y increase of 3.3 percent – driven by growth in the Managed Services segment
- Adjusted EBIT of NOK 6.5 million, down from NOK11.4 million in Q1/18
 - Shortage of consulting capacity in Professional Services led to increased expenses for external services
 - To be mitigated through new hires and more resources allocated to customer-oriented tasks
 - Several group-wide initiatives to reduce costs and increase utilization
- Q1/19 EBIT-margin slightly up Q/Q when adjusting for positive year end assessments in Q4/18

Revenue growth in all geographies Q/Q

Distribution of revenues
by geography (in per cent)



UK & Ireland included after acquisitions in Q4/17

All amounts in NOK unless otherwise specified

Northern Europe

- Slight growth from NOK 107.4 million in Q1/18 to NOK 107.8 million in Q1/19.
- Price reductions in renewed contracts was compensated with an increased scope of deliveries both to new and existing customers.

Central Europe

- Increased by 4.1 NOK million from NOK 70.8 million in Q1/18 to NOK 74.8 million in Q1/19.
- Total growth of 7% compared to Q1/18, due to expanding services to a number of new customers.

UK & Ireland

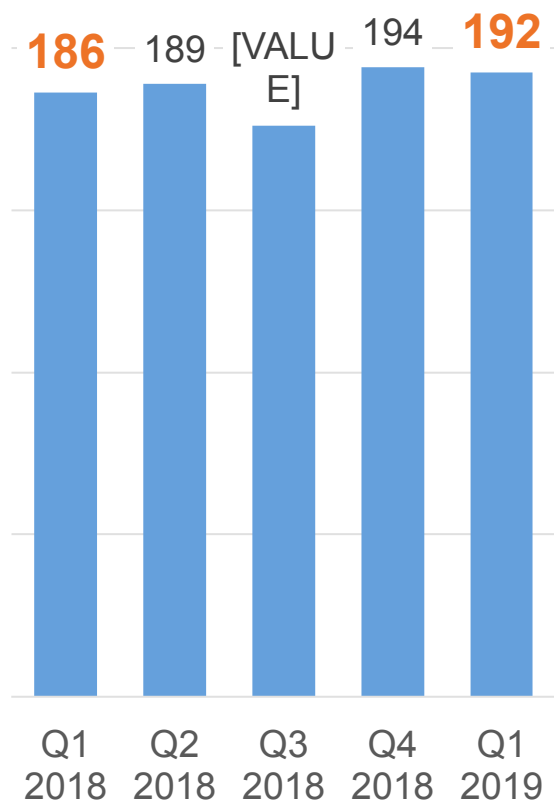
- Strong growth in revenues, from NOK 8.1 million in Q1/18 to NOK 9.7 million in Q1/19.
- Driven by ongoing delivery of significant projects from the UK, accompanied by increased sales closed in Q4/18.

Key financials

First quarter 2019

Quarterly revenues

Group revenues
(in NOK million)

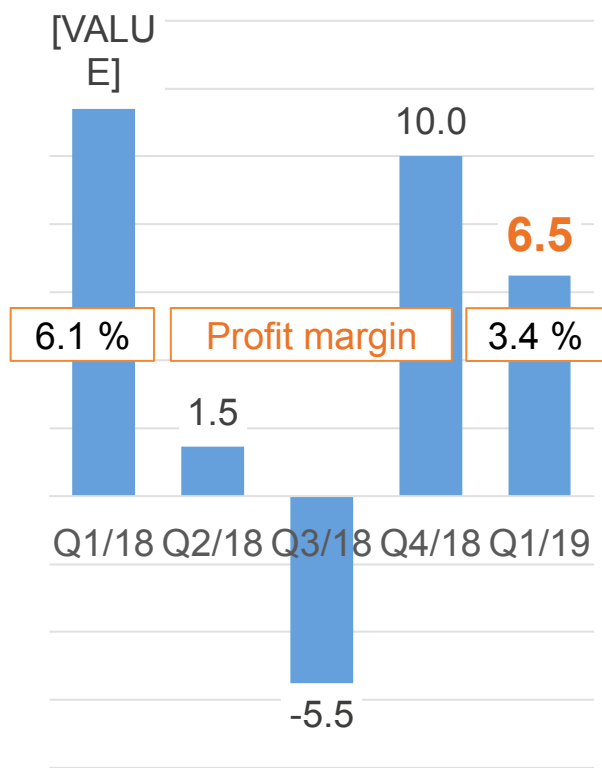


- Revenues for Q1/19 amounted to 192.4 million, higher than Q1/18.
- Year-on-year growth in the quarter was 3.3 % driven by growth in both segments.
- Growth in revenues within all geographies.
- Strong demand for consulting capacity in Central Europe.

All amounts in NOK unless otherwise specified

Group EBIT NOK 6.5 million

Group EBIT
(in NOK million)

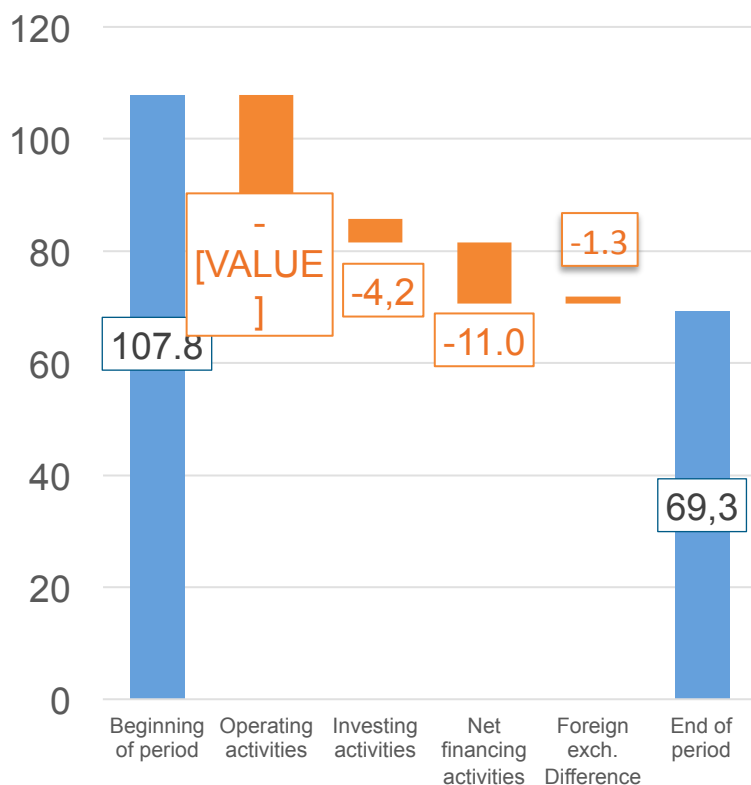


- Group EBIT for the quarter was NOK 6.5 million, compared to NOK 11.4 million in Q1/18.
- Q1/19 was marked by increased expenses for external services compared to Q1/18 – a result of temporary reduction of internal consulting capacity within Professional Services Segment.
- Net financial costs for the quarter were NOK 1.1 million, including a non-cash foreign currency profit of NOK 8.3 million related to debt nominated in euro.
- Total comprehensive income for the quarter was negative by NOK 1.1 million, including a loss of NOK 7.4 million in currency translation differences.

All amounts in NOK unless otherwise specified.

Increase in assets compared to both Q1/18 and Q4/18

Cash and cash flows Q1/19 (in NOK million)



All amounts in NOK unless otherwise specified

Changes in balance sheet and cash flows

- Increase in total assets by NOK 119.4 million since Q1/18 and NOK 30.8 since Q4/18, to NOK 756.4 million at 31 March 2019.
- Equity decreased by NOK 20.0 million and by NOK 3.6 million from Q1/18 and Q4/18
- Cash and cash equivalents were NOK 69.3 million as of the end of Q1/19, down from 107.8 million as of the end of Q4/18.
- Cash balance declined due to negative operating cash flow after investments and interest payments of NOK -26.3 million.
- Net interest bearing debt increased from NOK 270.6 million at the end of the last quarter to NOK 299.0 million due to a negative cash flow for the quarter.

Key financials | Business segment

First quarter 2019

*Segment reporting includes
only external revenues and external profit*

Changes in segment reporting

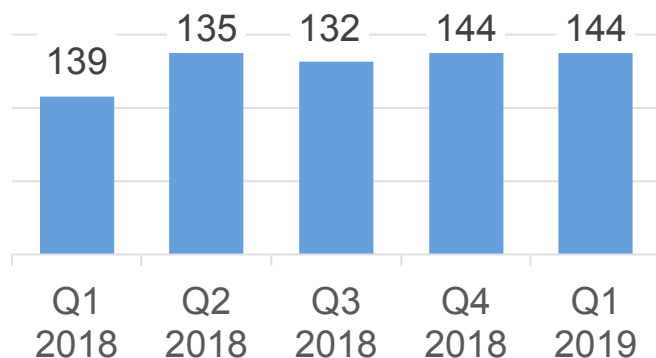
- Change in reporting of business segments from Q1/19 to improve visibility and reflect market trends, overlapping sales
- HR Outsourcing and Cloud Services merged into one segment, **Managed Services**
 - Organized as group wide business to speed growth and adaptation in key markets.
- Consulting renamed to **Professional Services**
 - Visualize recurring nature of revenues and long-term customer relationships in this segment

Growth in both segments

Managed Services

(NOK million)

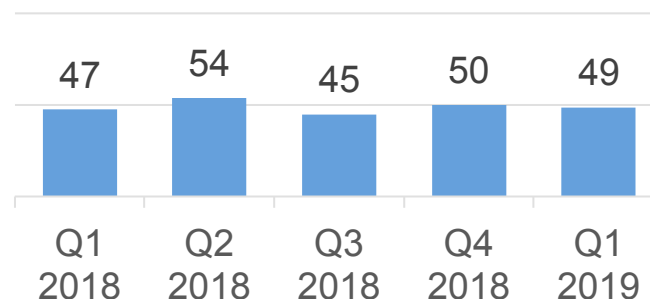
- Represents 75% of Group revenue since start of 2018
- Revenues in Q1/19 amounted to NOK 143.7 million (NOK 138.9 million), a y-o-y growth of 3.5 %.
- Strongest contribution in the quarter from Central Eastern Europe, due to expanded scope of deliveries and price adjustments



Professional Services

(NOK million)

- Increased by NOK 1.4 million to NOK 48.7 million in Q1/19 compared to Q1/18
- Strong growth within Central Eastern Europe.
- Increase for the segment as a whole reflects the continued increase in utilization, especially in the UK.

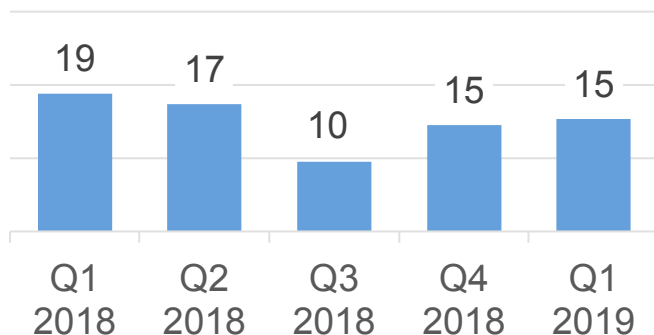


Change in reporting of business segments from Q1/19 to improve visibility and reflect market trends

Managed Services with positive margin trend compared to the last two quarters

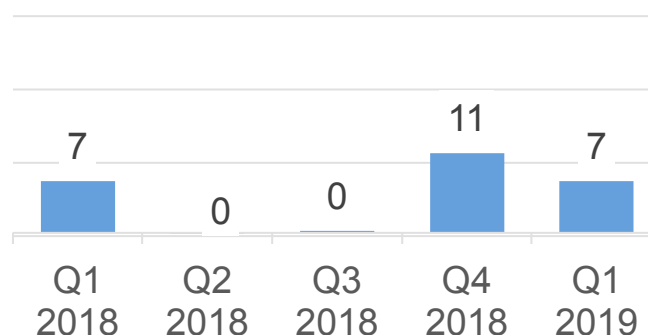
Managed Services (NOK million)

- EBIT of NOK 15.3 million in Q1/19 compared to NOK 18.8 million in Q1/18
- Positive margin trend compared with the two previous quarters



Professional Services (NOK million)

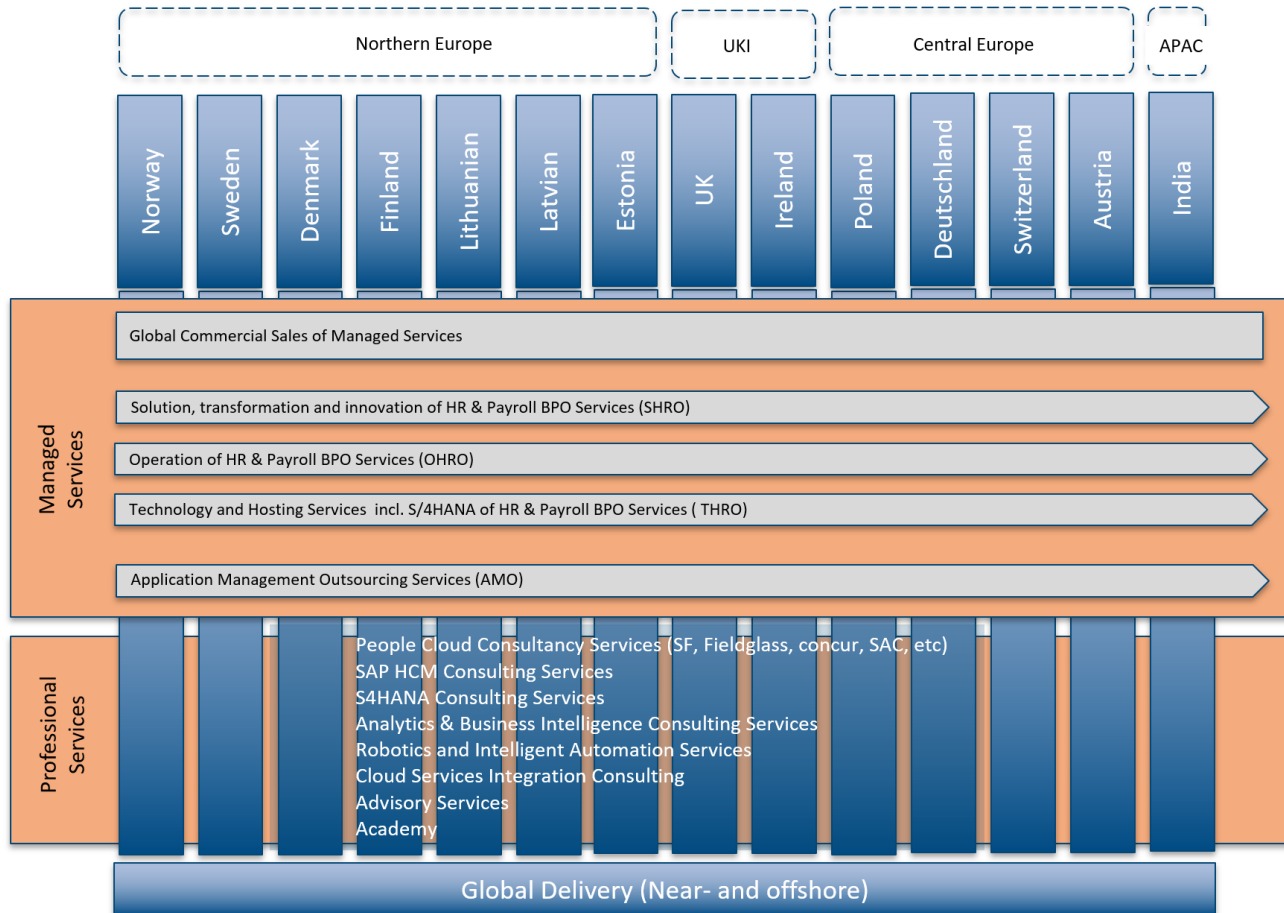
- The EBIT of NOK 7.0 million was at the same level as Q1/18.
- Increased use of freelancers due to internal capacity issues resulted in increased personnel costs



Change in reporting of business segments from Q1/19 to improve visibility and reflect market trends

Market update and concluding remarks

Streamlined organization with goal of focusing on customer needs, addressing multi country growth ambition and reducing overhead



Centrally managed support functions:

- F&A
- HR
- IT and Infrastructure
- Marketing and Communications

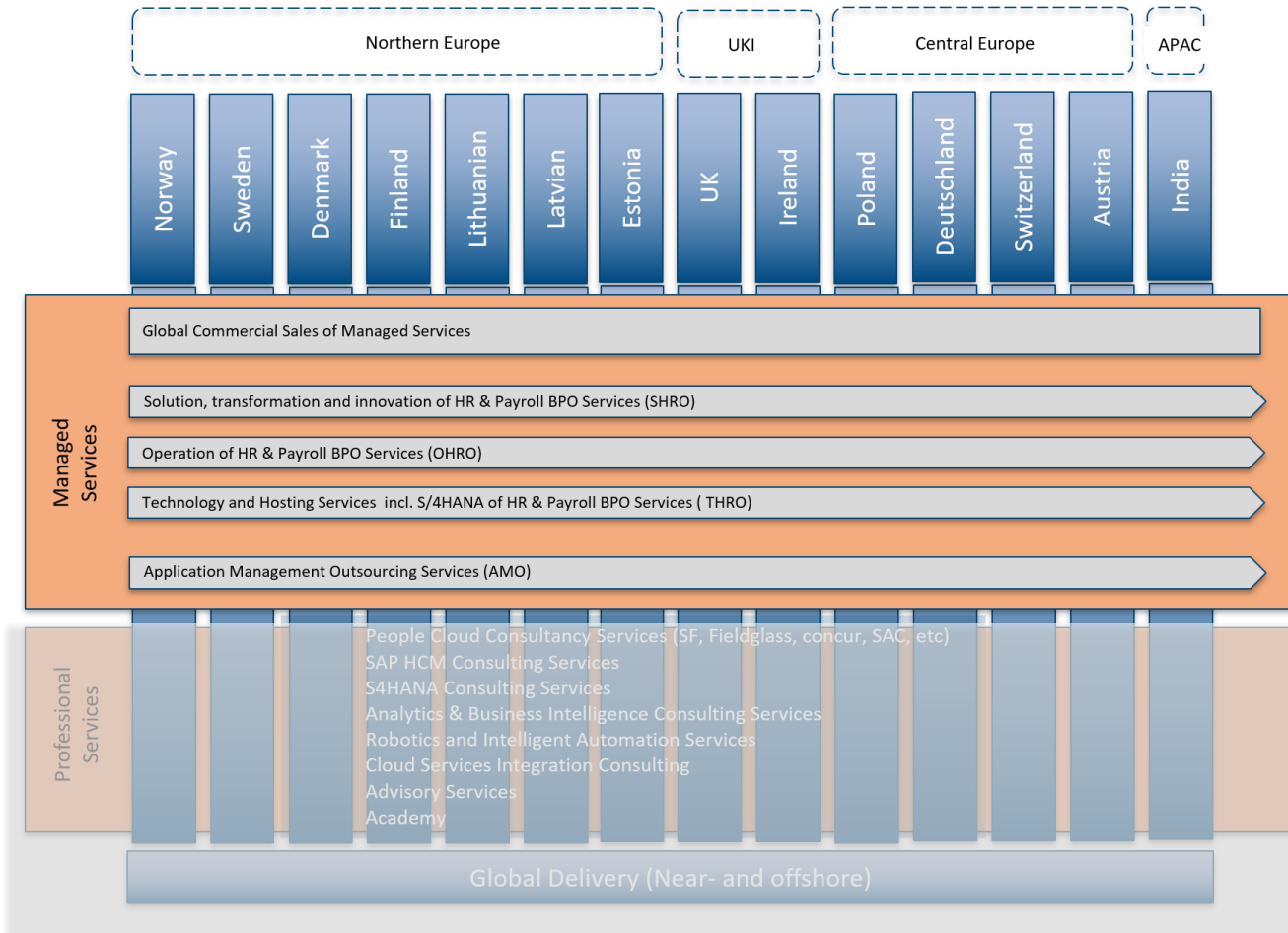
Group organization for Managed Services

Professional Services to define balance between Local and Group

Entrepreneurial country managers and profit center heads focusing on local markets and sales

Consolidating existing three segments to two from Q1 2019 with goal of creating increased transparency including visualizing recurring nature of Professional Services business

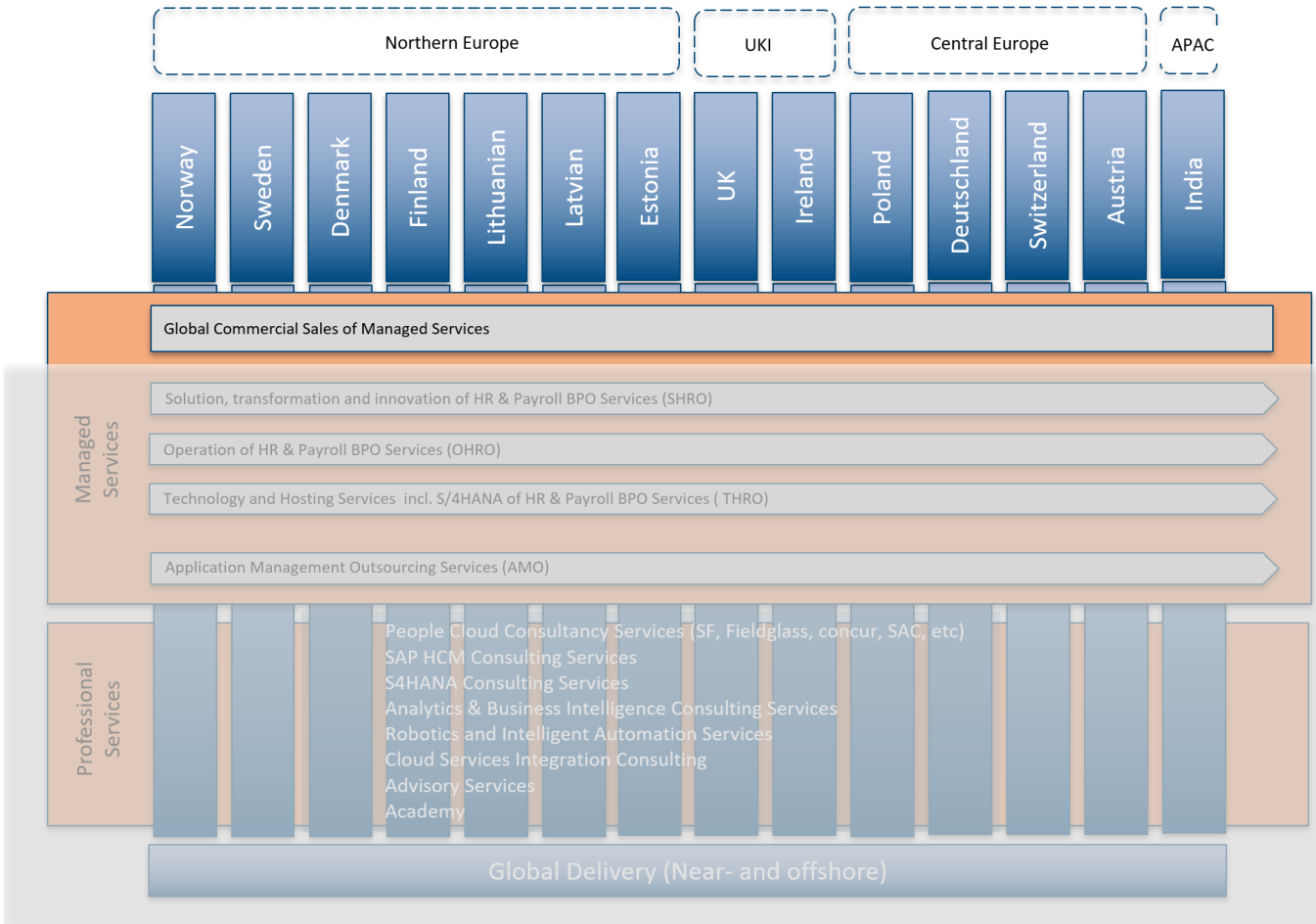
Streamlined organization with goal of focusing on customer needs, addressing multi country growth ambition and reducing overhead



Richard E. Schiørn

Executive Vice President Solution &
Delivery - Global Managed Services

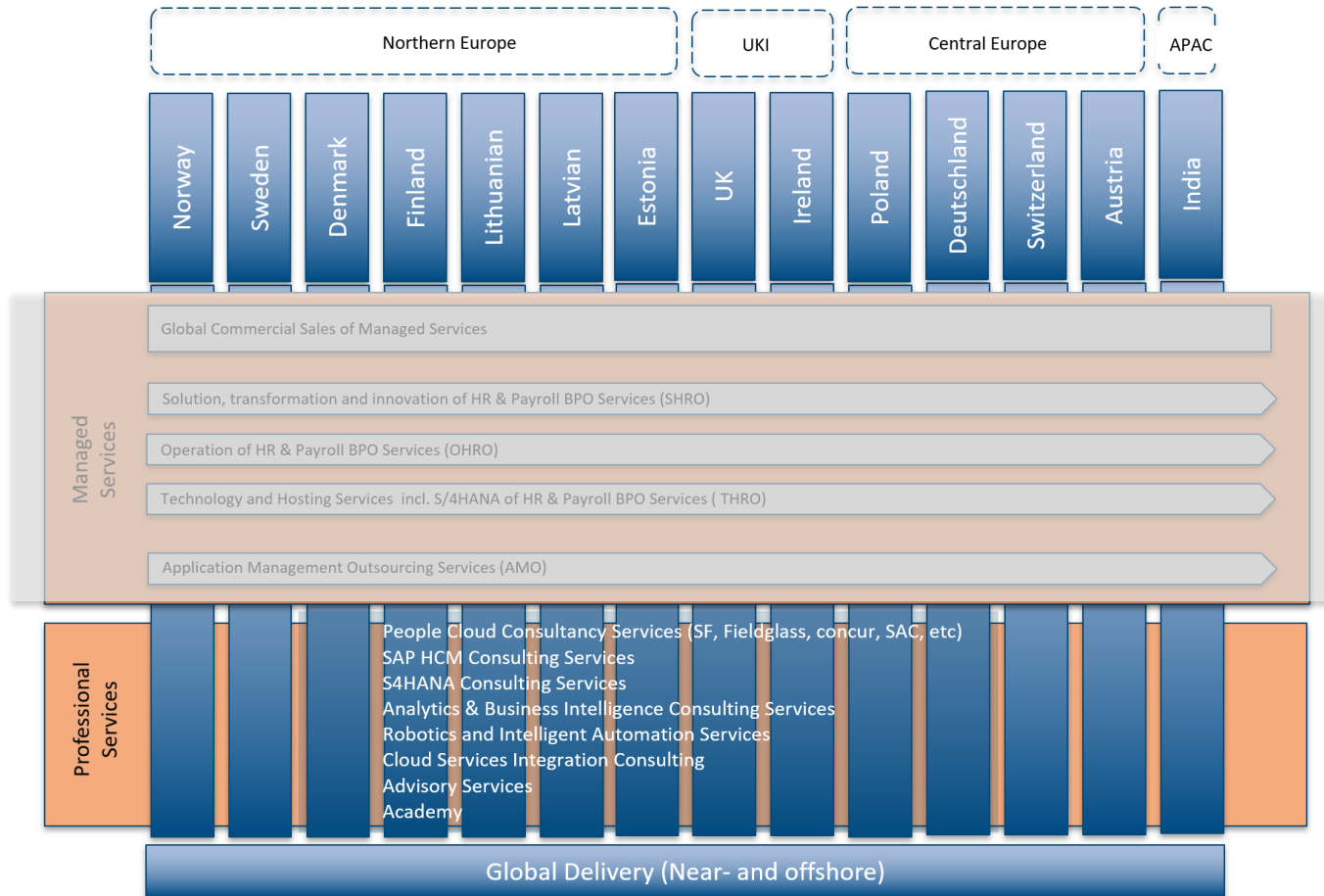
Streamlined organization with goal of focusing on customer needs, addressing multi country growth ambition and reducing overhead



Øyvind Reiten

Executive Vice President Business
Development - Global Managed Services

Streamlined organization with goal of focusing on customer needs, addressing multi country growth ambition and reducing overhead

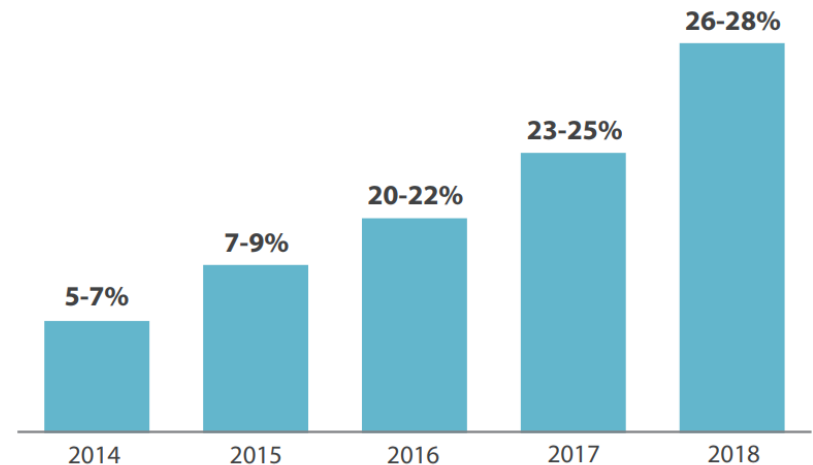


Harald Goetsch

Executive Vice President Central Europe

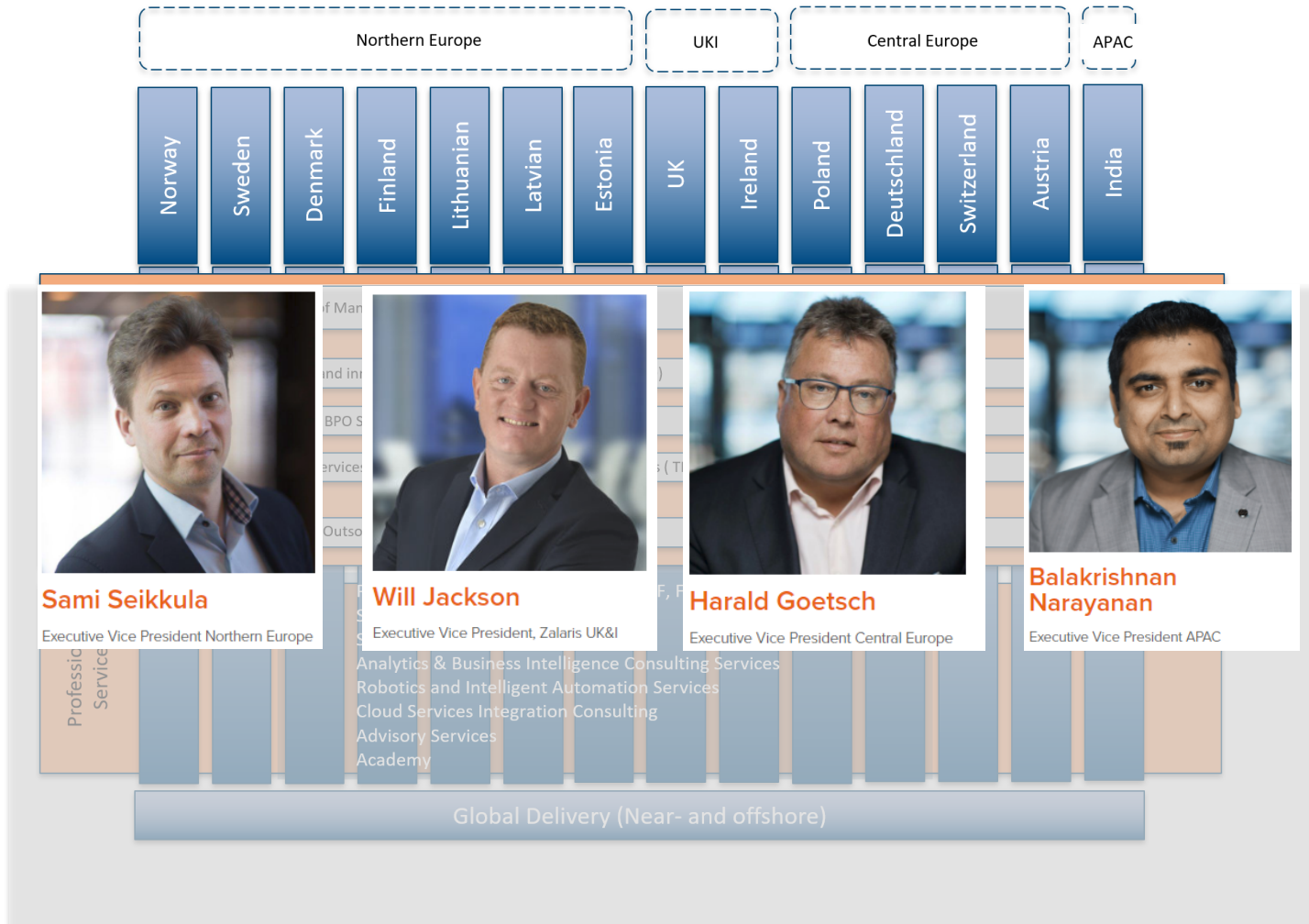
Developing Professional Services capabilities for the HR service providers are vital for successful implementations of better solutions

- The demand after advisory services such as Zalaris' have grown 20 % in five years
- Solutions and services for all kind of employees in all kind of ages demand competence and capacity
- Digital transformation consulting:
 - Pre- implementation services
 - Implementation services
 - Post-implementation services
- Traditional HR consulting
 - Define and improve performance in employee engagement and retention
 - Root cause analysis of attrition, attrition prediction, and prevention
 - Employee Value Proposition (EVP) creation, content creation, and communication

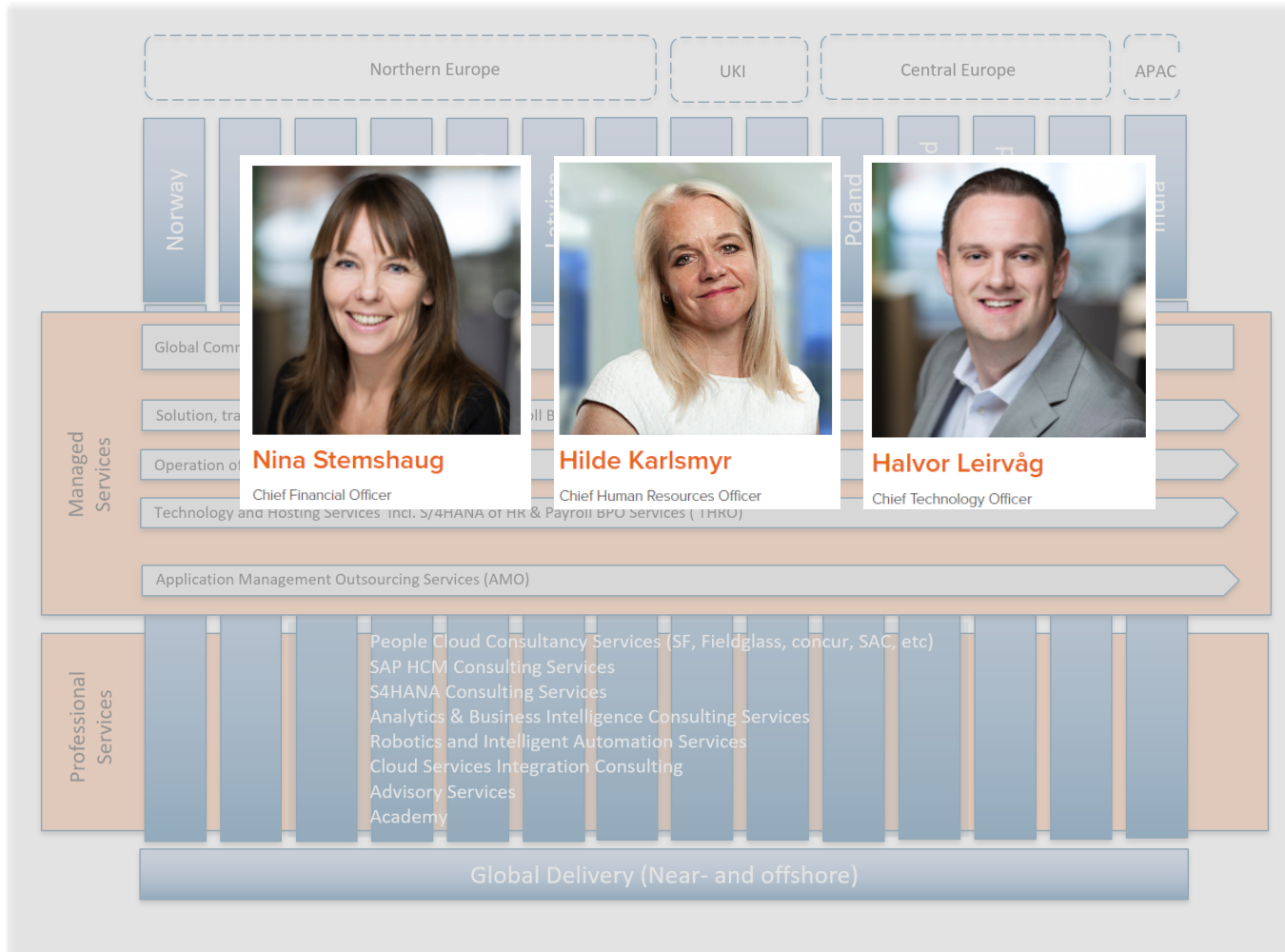


Adoption of Advisory Services in MPHRO Deals (Percentage of New Deals)

Streamlined organization with goal of focusing on customer needs, addressing multi country growth ambition and reducing overhead



Streamlined organization with goal of focusing on customer needs, addressing multi country growth ambition and reducing overhead



Centrally managed support functions:

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Group organization for Managed Services

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Road to higher margins

Zalaris remains a growth company in mindset and structure.

However, our key priority for 2019 is to return to margin-levels from before the 2017-acquisitions (delivering consistent 10% adjusted EBIT) ultimo FY 2019

- Target of reducing monthly costs with approx. NOK 4,7 mill. of which 75% in the operating organization and 25% head office costs
- Key initiatives with estimated distribution of effects as % of total:
 - Centralizing support functions as Finance, HR and IT to accelerate process improvements, synergy realization and cost reductions resulting in:
 - Reduced personnel costs - 50%
 - Reduced IT costs – 16%
 - Reducing costs for external advisors – 6%
 - Converting internal resource usage to market facing capacity - 12 %
 - Increasing offshore capability utilization - 12%
 - Reducing non customer facing travel costs – 4%
- In addition, we target:
 - Higher incremental margin and lower sales cost through focusing sales efforts to improve scale utilization
 - Medium term benefits from intelligent automation and digitization initiatives

A plan to reclaim margins

- The key priority for Zalaris in 2019 is returning to margin-levels from before the 2017-acquisitions.
- Target of consistent 10% adjusted EBIT ultimo FY2019
- Several initiatives to increase efficiency and reduce costs, including centralizing of support functions and increased offshore capability utilization

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We open for questions



Thank you!

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