ZALARIS

– Value people

Interim report | Q2 2019

16 August 2019

Presenter and agenda

1. Highlights
2. Financial performance in Q2/19
3. Market update and conclusion

Hans-Petter Mellerud
Founder and CEO

Profitability initiatives on track

- Revenues of NOK 187.5 million and EBIT of NOK 4.4 million or 2.4%.
- High renewal activity and new customers demonstrates strong market position, solid pipeline for H2/19
- Strengthening sales & marketing to boost revenue growth
- EBIT-improvement program on track to deliver 10% margin ultimo 2019

Stable revenue development in Q2

Key figures

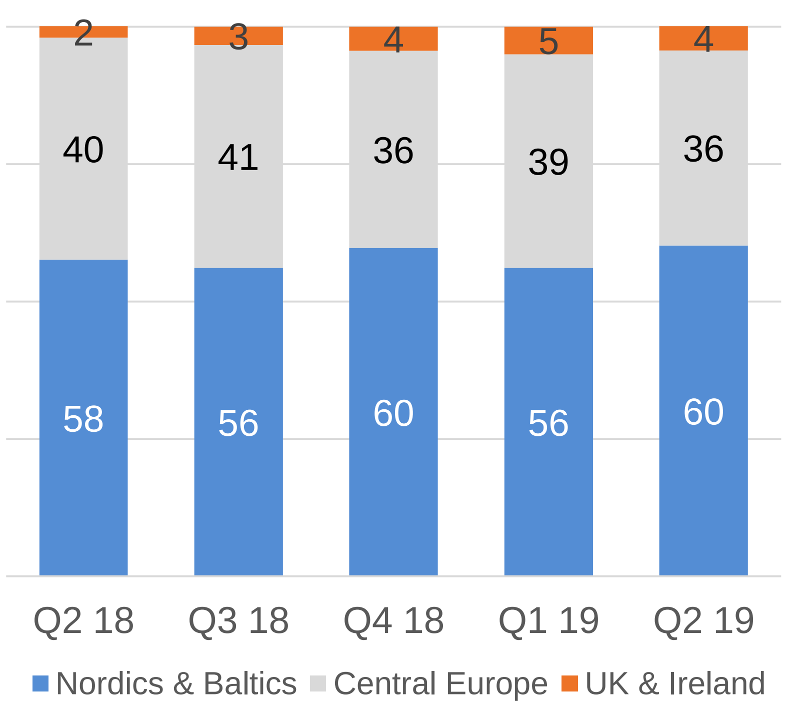
NOK million	Q2 2019 Q2/19	 Q2/18
Revenues	**187.5**	188.8
Adjusted EBIT[1]	**4.4**	1.5
Profit for the period	(3.3)	(1.1)
EPS (NOK)	**(0.16)**	(0.06)

All amounts in NOK unless otherwise specified
[1] EBIT before other costs

- Revenues of 187.5 million, down 0.7% y-o-y
- Adjusted EBIT of NOK 4.4 million, up from NOK 1.5 million in Q2/18
  - Improvement driven by stabilized business post acquisitions
  - Several group-wide initiatives ongoing to reduce costs and increase utilization
- Seasonal variations negatively impact both revenues and profit compared to Q1/19

Renewals confirm strong market position

Distribution of revenues by geography (in per cent)



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Northern Europe

- Increase of 3.7% y-o-y to NOK 112.8 million
- Driven by launch of new customers in Managed Services and annual recognition of project revenue
- Several renewals with key clients in the quarter, confirming strong market position

Central Eastern Europe

- Decreased by NOK 9.7 million y-o-y to NOK 66.5 million in Q2/19.
- Negative impact from fewer consultants in Germany
- Positive recruitment trend in Q2

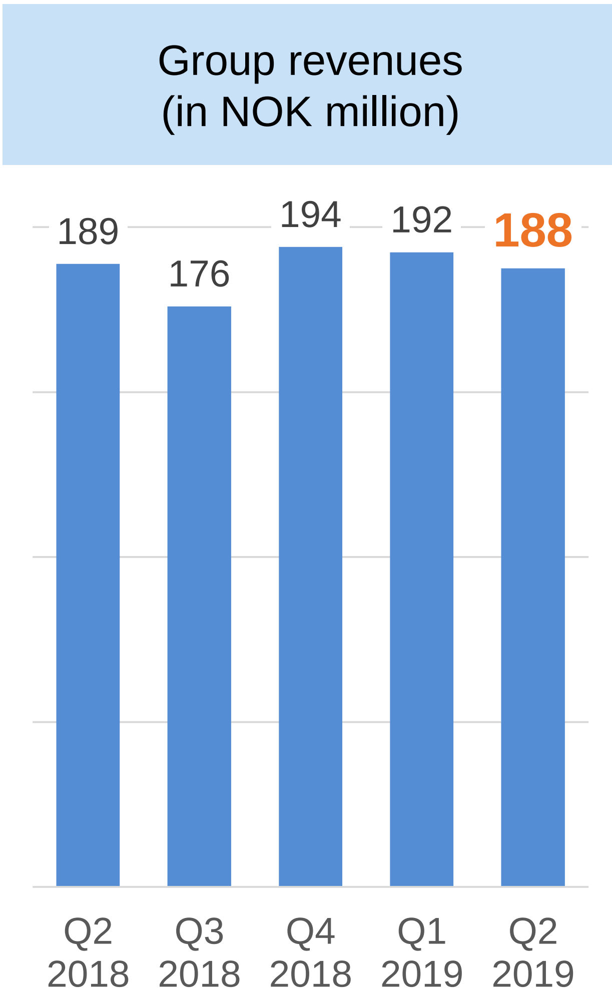
UK & Ireland

- Continued strong growth in revenues, from NOK 3.9 million in Q2/18 to NOK 8.2 million in Q2/19.
- Increased utilization and materialization of positive pipeline trend
- Signed new contract with The Barden Corporation Ltd.

Key financials

Second quarter 2019

Quarterly revenues

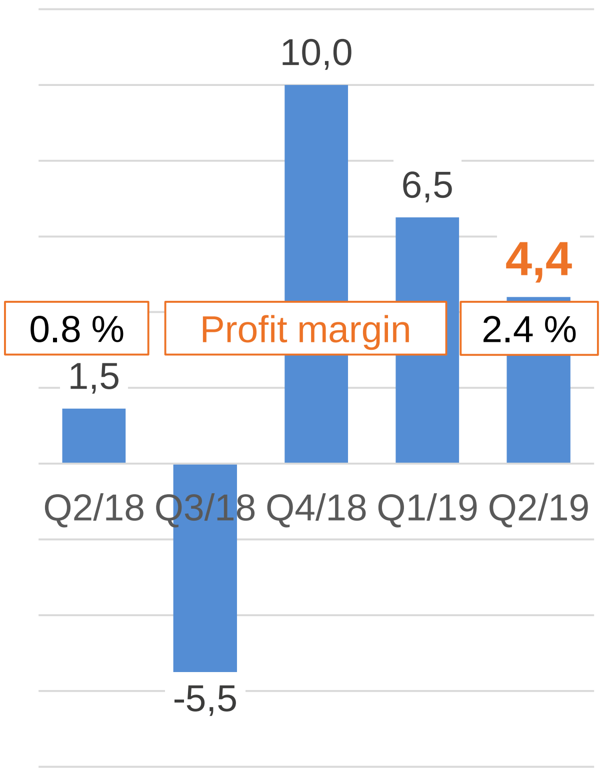


All amounts in NOK unless otherwise specified

- Revenues for Q2/19 amounted to 187.5 million, slightly down from Q2/18
- Renewals of key contracts with price reductions impact y-o-y growth rate
  - Ensures long term recurring revenue
  - Possibilities for increased scope of work
- Increasing efforts in sales & marketing to capitalize on strong market demand

Group EBIT NOK 4.4 million

Group EBIT
(in NOK million)

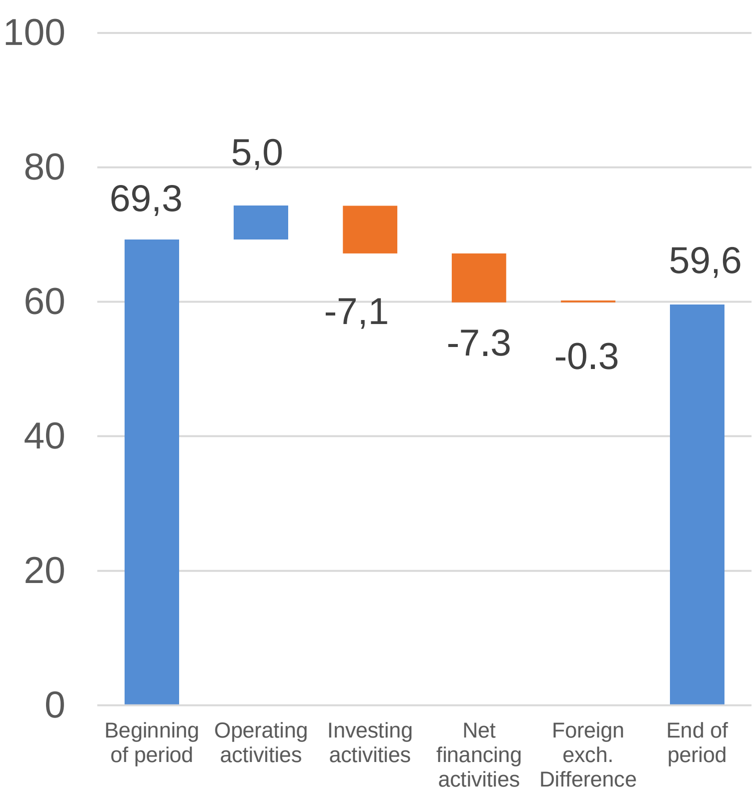


- Group EBIT for the quarter was NOK 4.4 million, compared to NOK 1.5 million in Q2/18.
- Increased profitability y-o-y despite lower revenues, as combined business post-acquisitions stabilizes
- EBIT and EBIT-margin for H1/19 amounted to NOK 10.9 million (12.8) and 2.9% (3.4%) respectively

All amounts in NOK unless otherwise specified.

Ongoing investments impact cash flow

Cash and cash flows Q2/19 (in NOK million)



All amounts in NOK unless otherwise specified

Changes in balance sheet and cash flows

- Increase in total assets by NOK 96.4 million y-o-y to NOK 724.8 million at 30 June 2019, mainly due to Q3/18 refinancing
- Equity decreased by NOK 5.5 million y-o-y to NOK 100 million, driven by share buy-back program and currency effects
- Cash and cash equivalents were NOK 59.6 million as of the end of Q2/19, up from NOK 32.8 million in Q2/18
- Cash balance declined due to investments of NOK 7.1 million mainly related to improved product functionality
- Net interest-bearing debt increased by NOK 94.1 million y-o-y to NOK 308.7 million due to Q3/18 refinancing and negative cash flow in H1/19.

Key financials | Business segment

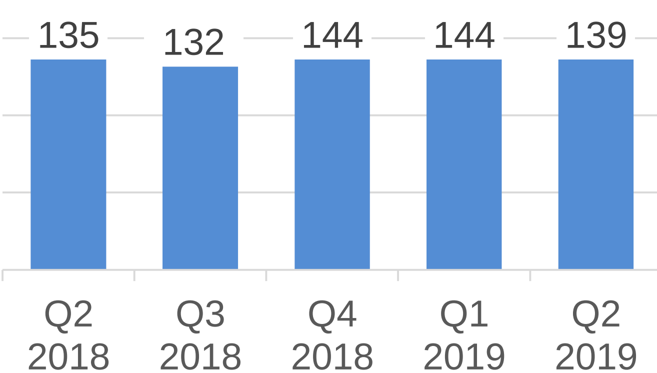
Second quarter 2019

Segment reporting includes
only external revenues and external profit

Varying performance across segments

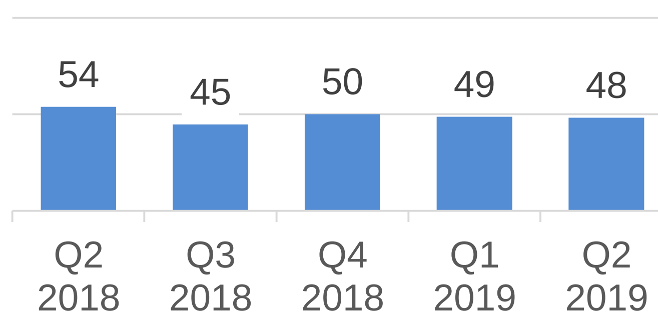
Managed Services
(NOK million)

- Revenues in Q2/19 amounted to NOK 139.4 million, a y-o-y growth of 3.2 %.
- Growth reflects increased number of employees served at existing customers in Northern Europe region
- Positive effect from full launch of new BPO customers like Aker BP, DNB and Statkraft



Professional Services
(NOK million)

- Decreased by NOK 5.6 million y-o-y to NOK 48.2 million in Q2/19
- Decline mainly driven by fewer consultants in Germany
- Consulting capacity in UK improved utilization and increased revenues compared to previous year



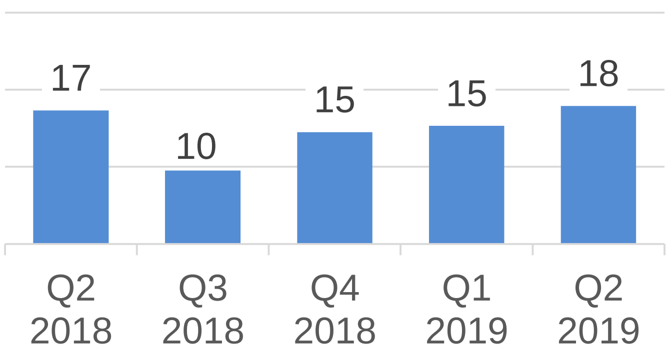
Change in reporting of business segments from Q1/19 to improve visibility and reflect market trends

Adjusted EBIT by segment

Increased utilization drives EBIT-improvement

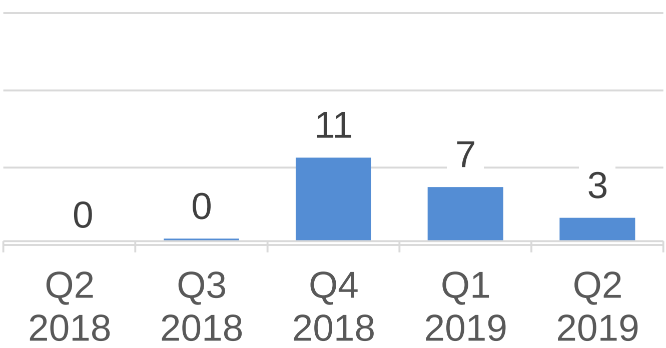
Managed Services
(NOK million)

- EBIT of NOK 17.9 million in Q2/19 in line with same quarter last year
- Positive nominal EBIT-trend in last four quarters
- Increased utilization of offshore resources for Northern Europe and Central Eastern Europe



Professional Services
(NOK million)

- The EBIT was NOK 3.0 million, up from negative NOK 0.1 million in the same quarter last year
- Improvement driven by increased utilization of consulting capacity for the group



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

Update on EBIT improvement program and concluding remarks

EBIT improvement program starting to show results

- **EBIT-improvement program launched in Q1 presentation**
  - Targeting return to pre-acquisition EBIT-margin run rate of 10% going into 2020
  - Reduce monthly costs by NOK 4.7 million compared to Q1 baseline

- **Key sources of improvements:**
  - Cost synergy realization from acquisitions addressing both operational efficiency and overhead costs
  - Organizational simplification
  - Increased utilization of near and offshore capabilities
  - Converting internal focused capacity to market facing

- **Status: Underlying cost development in Q2 shows promising trend**
  - 14% of cost-cutting target realized in Q2
  - 40% by ultimo Q3
  - 70% ultimo Q4
  - 100% by Q1/20

Analyzing 1H performance visualizes five key focus areas for improvement initiatives and potential for scaling our business

YTD 2019	Managed Services (MS)					Professional Services (PS)					Total MS+PS
	NE	CEE	UK&I	APAC & NOZH	Total	NE	CEE	UK&I	APAC & NOZH	Total	
Revenues	218 665	56 557	7 567	293	283 082	1 696	84 766	10 306	50	96 818	379 899
Contribution from Operations [1]	53 905	4 908	1 053	1 200	61 066	1 804	20 213	4 490	-380	26 127	87 193
as % of revenues	*25 %*	*9 %*	*14 %*	*410 %*	*22 %*	*106 %*	*24 %*	*44 %*		*27 %*	*23 %*
Allocated Regional and Country Overhead [2]	-17 393	-9 195	-1 504	223	-27 870	-135	-13 918	- 2 049		-16 101	-43 971
as % of revenues	*8 %*	*16 %*	*20 %*	*-76 %*	*10 %*	*8 %*	*16 %*	*20 %*		*17 %*	*12 %*
Segment EBIT	**36 512**	**-4 288**	**-452**	**1 423**	**33 196**	**1 669**	**6 296**	**2 441**	**-380**	**10 026**	**43 221**
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Group overhead											
Operating expenses											18 038
as % of revenues											*4,7 %*
Depreciation and amortization of items not directly attributable or allocated to customer projects											14 289
as % of revenues											*3,8 %*
Sum Group Overhead											**32 327**
EBIT											**10 894**

Variable

Fixed/semi fixed

[1] Contribution from Operations includes all revenues and costs that can directly be attributed to the segment including segment management.

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1) Improve and stabilize overall Managed Services Operating Margins

- Operate Managed Services as a global organization
- Consolidate service centers to strategic locations
- Establish partner model to grow into new small volume geographies
- Introduce Zalaris 4.0 Operating model
- Increased use of Near and Offshore

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2) Improve CEE - Managed Services to deliver margins in line with the NE business

- Consolidate German BPO and AMO services to Leipzig
- Consolidate two SAP hosting centers to one, based on the Zalaris SAP Cloud platform
- Utilize Offshore capabilities
- Renegotiated contracts and pricing with certain key customers
- Drive operational efficiencies trough process improvements and Robotic Process Automation

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3) Reduce CEE Regional and Country Overhead

- Move Finance and Accounting functions to Group Shared Service functions and rightsize local Controlling team
- Consolidate 6 legal entities to 2 (one per country) with corresponding simplification of structures and reduced administrative incl. audit costs
- Focus product and service portfolio with goal of increasing market facing capacity

Analyzing 1H performance visualizes five key focus areas for improvement initiatives and potential for scaling our business

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4) Increase revenue in the CEE Professional Services

- Operate Professional Services as global business unit maximizing available capacity
- Strengthen recruiting effort and build on recent success of recruiting 12 new consultants
- Increase prices
- Utilize PS capability and support offshore
- Continue digitize and optimize internal processes

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5) Reduce Group Overhead

- Consolidate group functions to head office and near/offshore locations
- Reduce external costs through clean-up and renegotiation with supplier pool
- Reduce travel costs through increased use of digital alternatives and the implementation of a global travel procurement solution
- Continue digitize and optimize internal processes

Concluding remarks

On track for profitability improvement and continued growth

- The key priority for Zalaris in 2019 remains to return to margin-levels from before the 2017-acquisitions.
- On track with cost-cutting initiatives to reach consistent 10% adjusted EBIT going into 2020
- Increasing sales & marketing efforts to capitalize on continued strong demand for IT outsourcing in core markets and boost growth
- Zalaris currently expects to achieve moderate revenue growth y-o-y in 2019 and full effect of cost-cutting program from Q1/20

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We open for questions

Thank you!

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