



Simplify work life. Achieve more.

## Presentation of interim financial results | Q3 2020

# Agenda

1. Highlights
2. Financial Review
3. Markets and Outlook
4. Q&A



**Hans-Petter Mellerud**  
Founder and CEO



**Gunnar Manum**  
CFO

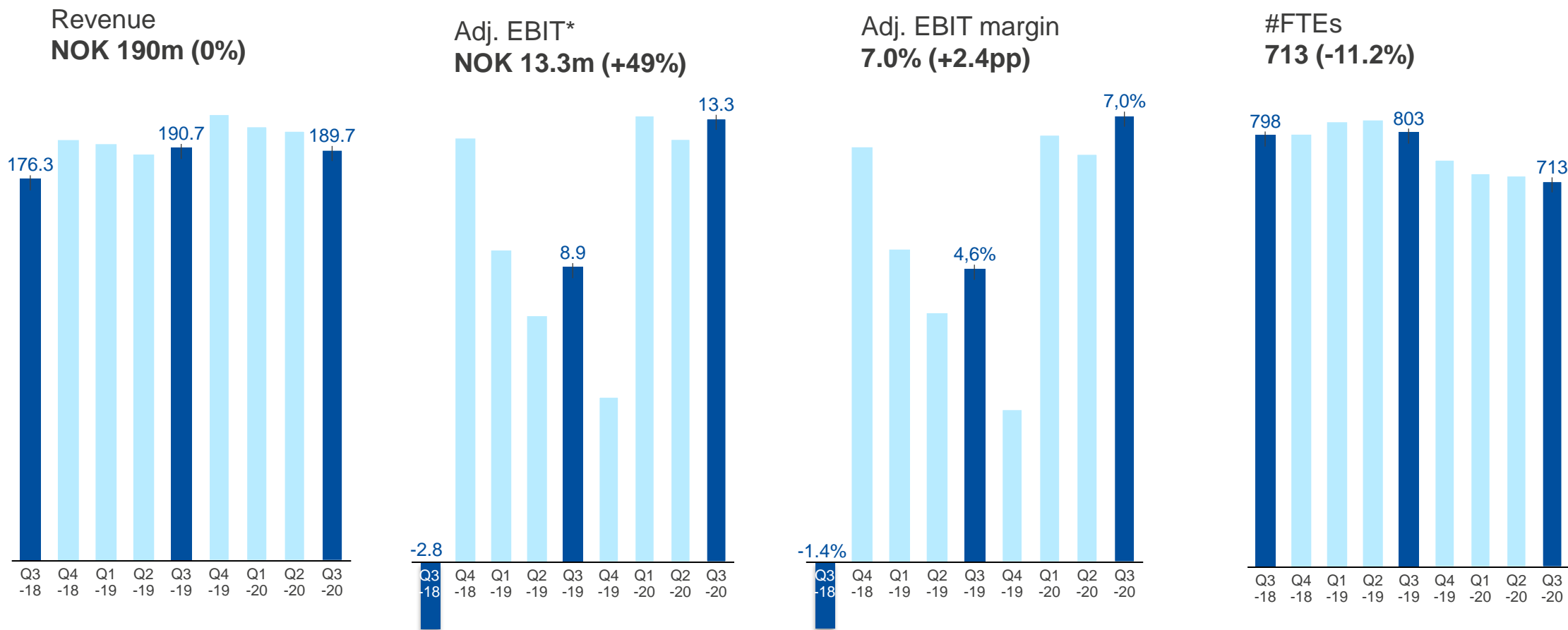
**20**  
years

## Third quarter 2020: Continued EBIT improvement

- #teamZalaris continued weathering the Covid-19 storm **delivering on all customer commitments and maintaining stable revenue levels**
- Strong positive development in EBIT resulting in **all time high Q3 EBIT** since IPO in 2014
- **Signed several new agreements** including a BPO agreement with Danske Bank and our **first platform-based deal with a UK based FTSE250 gaming company**
- Continued strong operating **cash flow almost tripling** from last years level



# Positive margin development continuing during the quarter



\*See Q3 report for definitions of APMs

# European Payroll & HR Solutions that Value People

Zalaris – Local presence with one global platform

- **Zalaris is a leading European provider of Payroll and Human Capital Management Solutions** delivered through Software as a Service, Business Process as a Service, or Consulting delivery models
- Supporting **fully digital processes** for Payroll and Human Capital Management targeting 20-30% cost savings
- **One common multi-country solution** satisfying GDPR requirements combined with competent resources serving complex customers from with **local competence and language**

2019 Revenue:

**EUR 78  
million**

**800**

Zalaris employees

**> 300,000**

employees served monthly  
through payroll services

**19**

years of experience and  
continuous growth

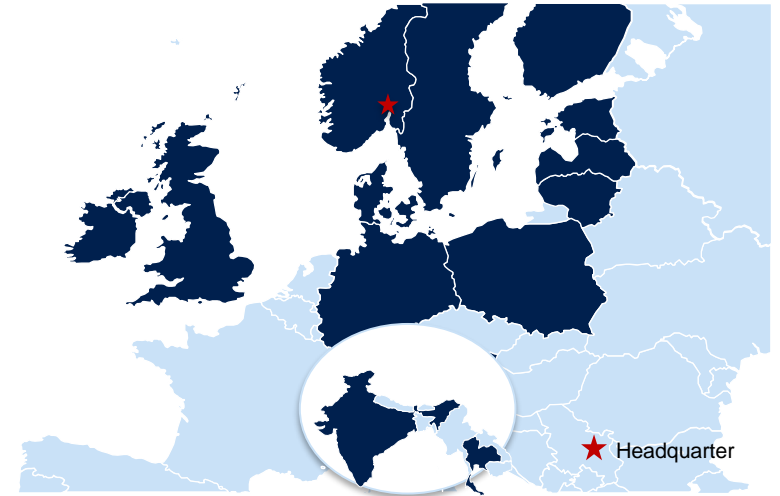
Local service centers in

**12**

countries with top-notch  
expertise in local laws and  
regulations

**> 1,500,000**

employees served monthly  
across all HR solutions



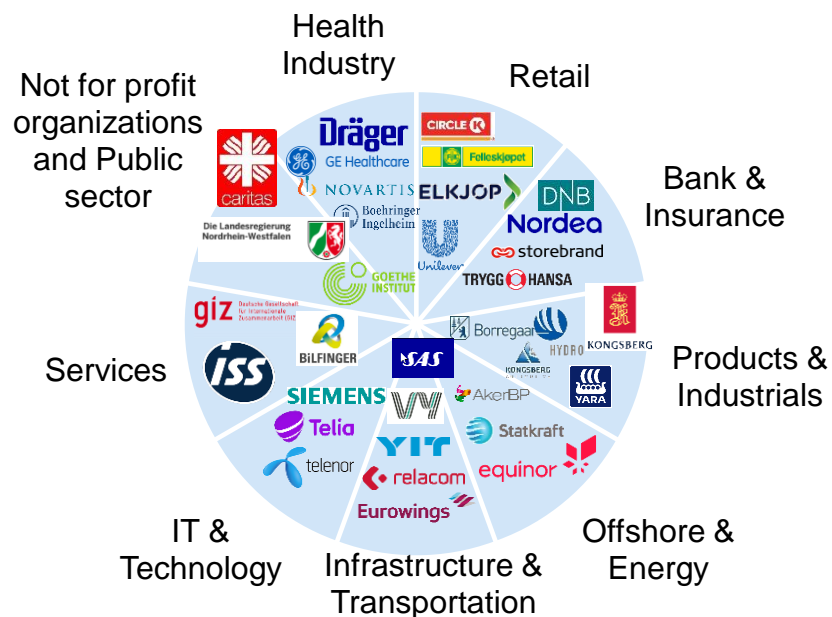
**zalaris**

Managed Services

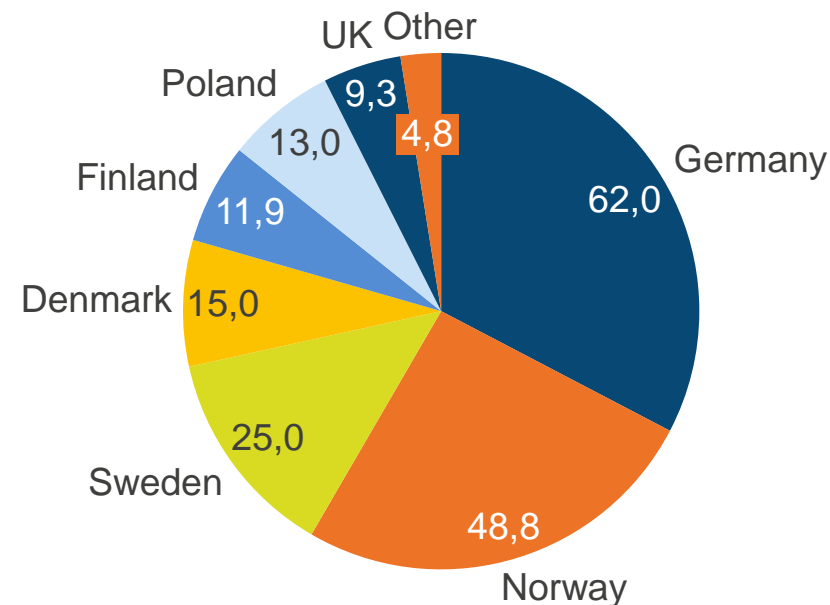
Professional Services

# Diversified customer base with Germany largest market facing unit

Diversified across industries and sectors



Revenue per country Q3 2020 (NOKm)





# Signed several new agreements and expansions

- Several **new BPO contracts and extensions** signed during recent weeks, which will generate recurring revenue from H1 2021
- **Break-through in UK** with multi-country payroll deal with leading software development and gaming operator
- Strengthened position as the **leading supplier of payroll and HR solutions to finance sector** in the Nordics
- **All time high pipeline of BPO opportunities** with **time to close coming down** resulting from Covid-19 original cost cutting and utilisation of video-based meetings



Agreement with Danske Bank for payroll and HR Services cementing our leadership in digitalization of Nordic Bank and Insurance



Five-year agreement for implementation and delivery of SuccessFactors for Stadwerke Krefeld in Germany



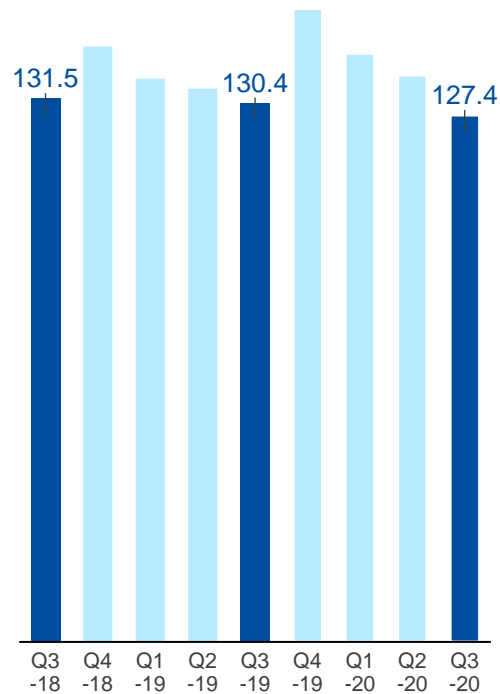
First multi-country payroll on Zalaris platform sold to leading UK FTSE250 software and gaming company



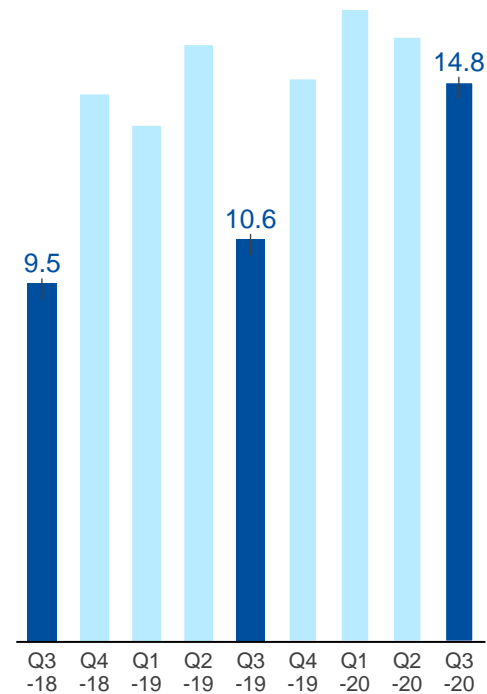
Five-year agreement for multi-country payroll, time and travel with one of the fastest growing IT companies in Scandinavia.

# Significant margin improvement in Managed Services

Revenue  
NOK 127.4m (-2.3%)



EBIT  
NOK 14.8m (+39.6%)

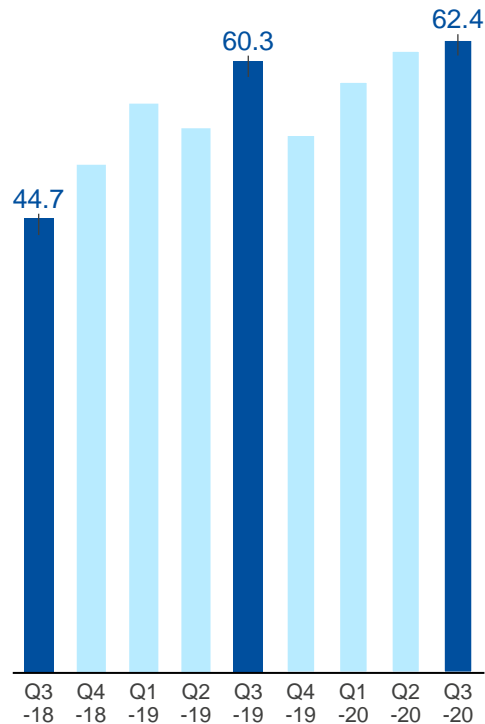


- Only small reduction in revenue compared to Q3 last year despite Covid-19 effects
- **~NOK 3-4 reduction in revenue** due to lower volume of travel expense processing and change orders due to **Covid-19**. Expect to recoup majority post-Covid 19
- **Zero churn** and **> 90%+ recurring revenue**
- Management focus on executing on defined Business Continuity Plan to secure customer deliveries and **further digitalization of our customer facing processes**

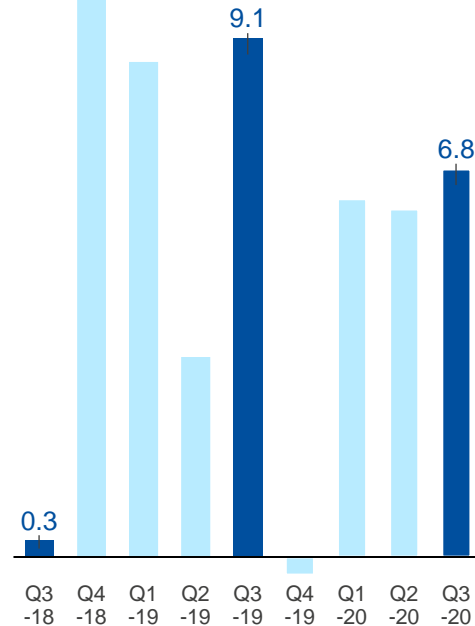


# Grew Professional Services during the quarter

Revenue  
NOK 62.4m (+3.5%)



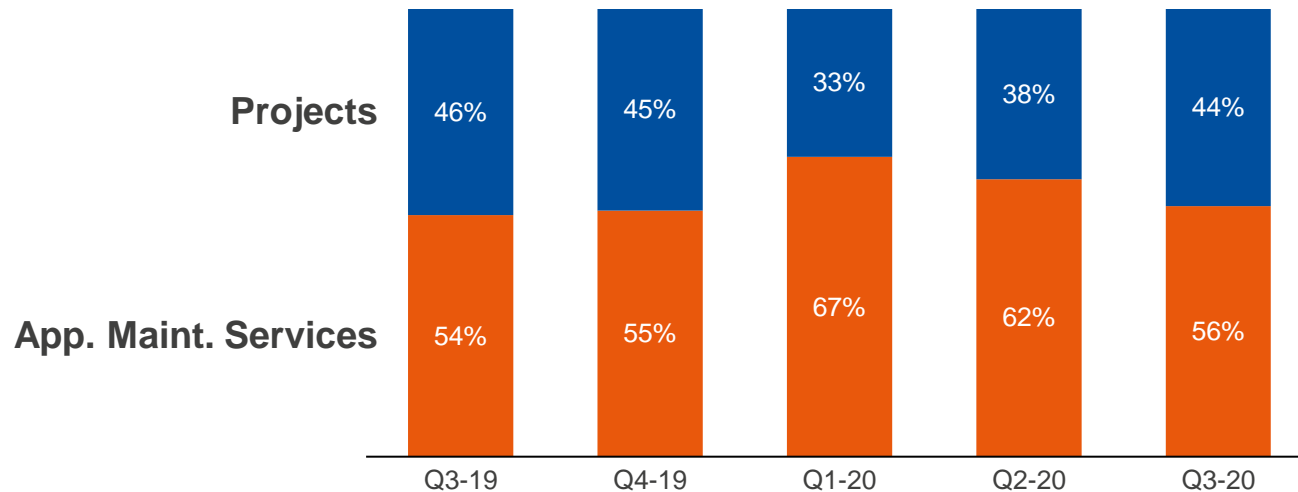
EBIT  
NOK 6.8m (-25.3%)



- Continued **good revenue growth to new and existing customers** in Poland and UK&I
- **Reducing management layer** and reorganization in **German organization** increased agility and opened opportunities for internal candidates
- **Operational efficiency and capacity adjustments** start to **show effects**
- **Approx. 83% of Q3 revenue** was with customers that were also **customers 12 months prior**

# More than 60% of Professional Services revenue is recurring and supports a continuous presence with customers

Distribution of Projects vs  
long term AMS based revenue



- **~60% of Professional Services revenue is recurring** and based on long term agreements and relationships
- Proves valuable in Covid-19 times to **protect utilization of consultants**
- Covid-19 infused uncertainty drives customers buying behavior toward **smaller projects with defined payback with known suppliers\***

\*) Gartner research

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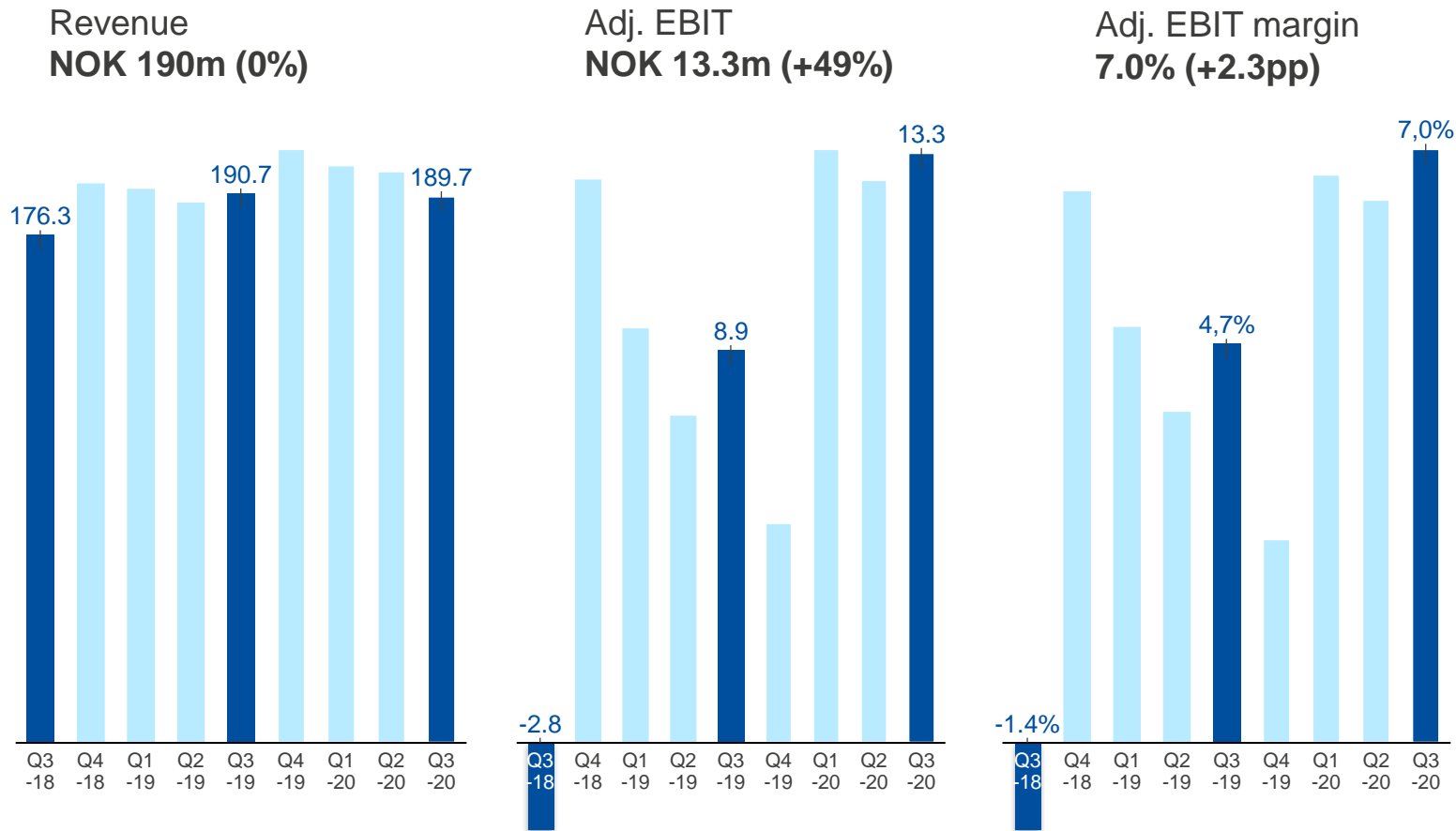
**Hans-Petter Mellerud**  
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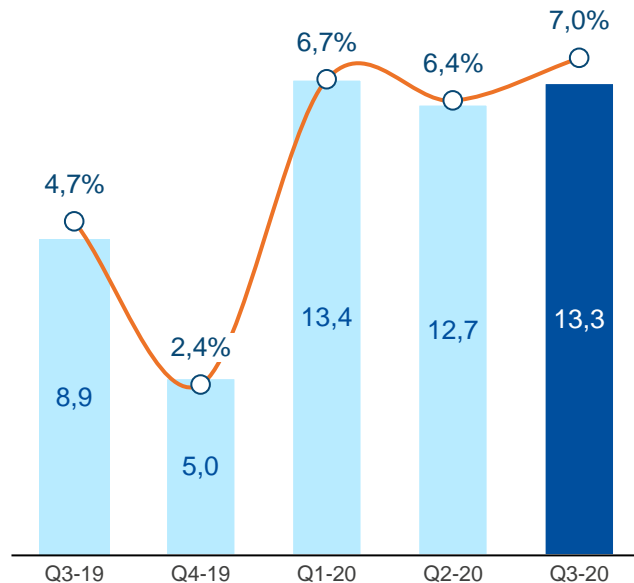
## Stable revenue y-o-y



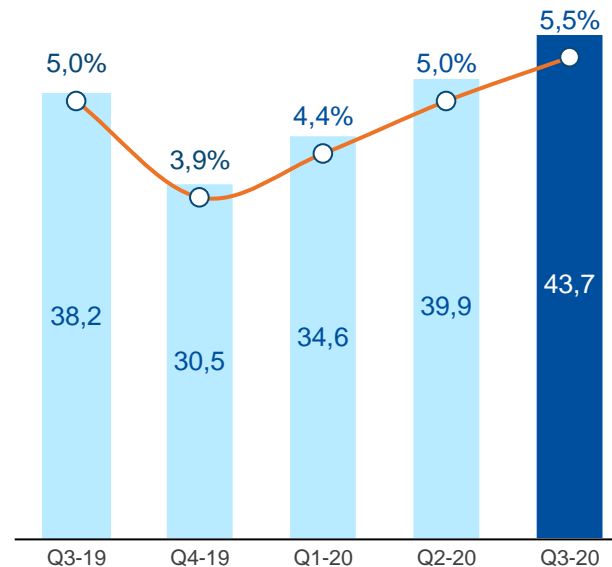
- **Revenue for the quarter approx. in line with Q3 last year**, with some lower volumes (e.g. travel expense processing and change orders) and less project revenue within Professional Services in Germany offset by appreciation of e.g. EUR against NOK
- **Stable recurring revenue** within Managed Services, except for lower travel expense processing, and no churn
- Efficiency improvements and cost reduction initiatives gradually impacting EBIT margin positively
- **Adj. EBIT increased by 49%** compared to last year

# EBIT margins gradually improving

Adj. EBIT (NOKm) and margin (%), quarterly



Adj. EBIT (NOKm) and margin (%), LTM



- **Adj. EBIT increased by 49.4%** compared to last year
- **Adj. EBIT margin (%) increased by 2.3 percentage points** compared to last year
- Efficiency improvements and cost reduction initiatives gradually impacting EBIT margin positively
- Underlying **cost base reduced by ~NOK 42m (-9%) year-to-date 2020** compared to last year

# Condensed Profit and Loss

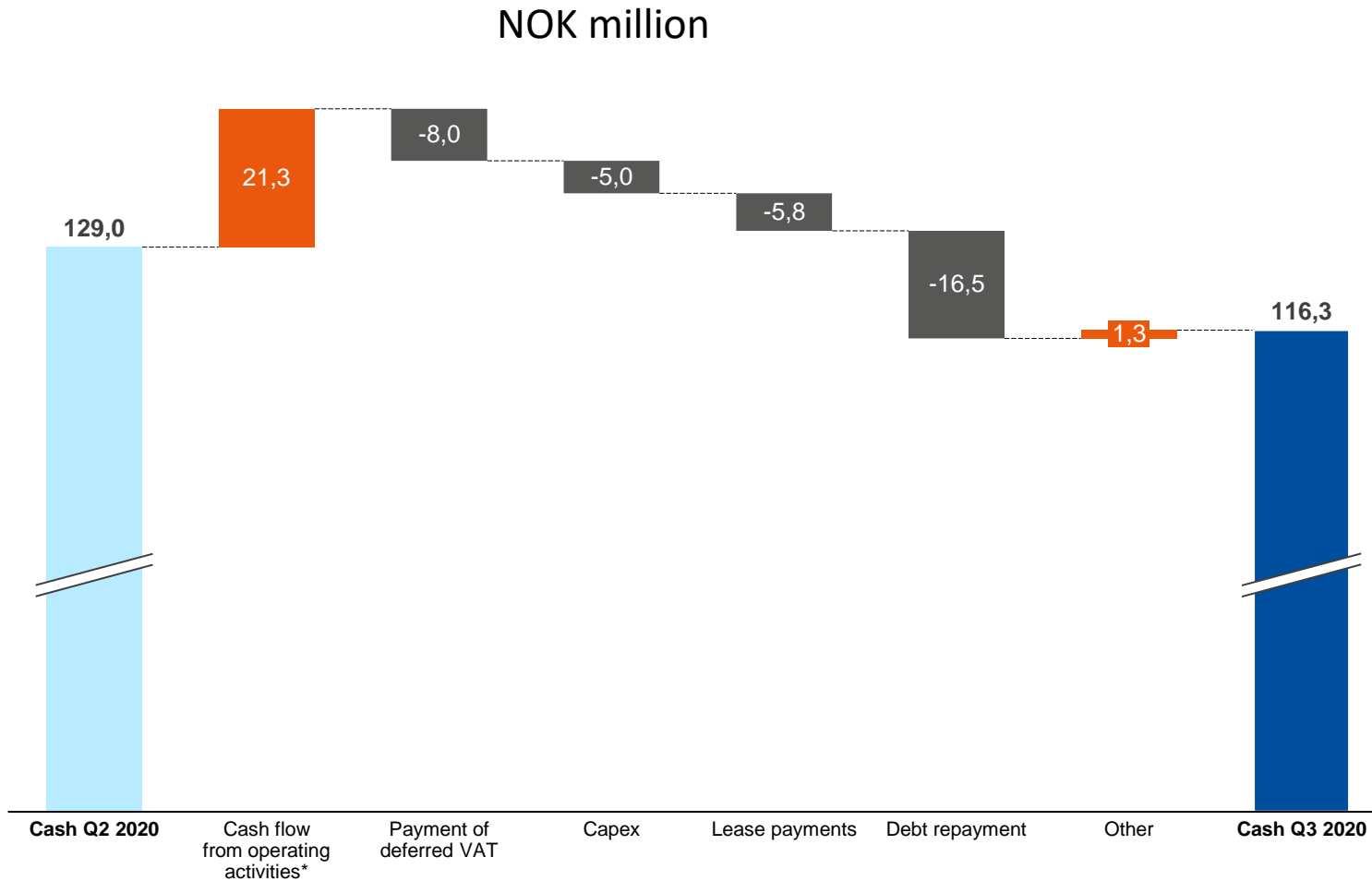
(NOK 1 000)	2020 Jul-Sep	2019 Jul-Sep	2020 Jan-Sep	2019 Jan-Sep	2019 Jan-Dec
<b>Revenue</b>	<b>189 748</b>	<b>190 672</b>	<b>588 804</b>	<b>570 571</b>	<b>776 792</b>
License costs	18 337	15 238	51 572	44 070	67 981
Personnel expenses	99 439	106 765	324 149	321 245	438 543
Other operating expenses	41 672	40 053	122 613	122 469	166 887
Amortization implementation costs customer projects	8 772	10 747	26 314	27 758	36 606
Depreciation, amortization and impairments	12 355	13 094	38 166	39 359	52 684
<b>EBIT</b>	<b>9 172</b>	<b>4 776</b>	<b>25 990</b>	<b>15 671</b>	<b>14 091</b>
Adjustment items	4 110	4 094	13 373	9 573	16 149
<b>Adjusted EBIT*</b>	<b>13 282</b>	<b>8 870</b>	<b>39 363</b>	<b>25 244</b>	<b>30 240</b>
Adjusted EBIT margin %	7,0 %	4,7 %	6,7 %	4,4 %	3,9 %
Net financial income/(expense)	(12 287)	(14 100)	(64 498)	(21 672)	(24 051)
Profit/(loss) before tax	(3 115)	(9 324)	(38 508)	(6 001)	(9 960)
Income tax expense	1 363	2 682	10 625	2 299	2 950
<b>Profit/(loss) for the period</b>	<b>(1 752)</b>	<b>(6 642)</b>	<b>(27 883)</b>	<b>(3 702)</b>	<b>(7 010)</b>
Basic earnings per share (NOK)	(0,09)	(0,34)	(1,42)	(0,19)	(0,36)

- **Significant improvement** in adj. **EBIT margin** (%) compared to last year – 7.0% vs. 4.7%
- **EBIT improvement program** has resulted in a ~10% lower cost base (NOK 15.1m) YoY, however this has been partly offset by less costs being capitalised to customer projects and currency movements
- **Unrealised currency loss of NOK 5.2m**, relating the EUR 35m bond loan and other foreign currency denominated items

\* Items excluded from adjusted EBIT Q3 2020: restructuring costs (NOK 0.8m), share-based payments (NOK 0.6m) and amortization of excess values on acquisitions (NOK 2.7m). (see definition of adj. EBITDA under APMs in Q3 2020 Report)



# Positive operating cash flow during the quarter



- **Operating cash flow for the quarter of NOK 21.3m**, before a payment of deferred VAT (Covid-19 relief) of NOK 8.0m
- **Repayment of interest-bearing debt** in German subsidiary of **NOK 16.5m**
- **Cash balance** at 30 September 2020 is **NOK 51.5m higher than last year**, after repayment of debt (Q3'19: NOK 64.8m)

\* Cash flow from operating activities per cash flow = NOK 13.3m (NOK 21.3m less NOK 8.0m in deferred VAT)

# Condensed Balance Sheet

(NOK 1 000)	2020 30.Sep	2019 30.Sep	2019 31.Dec
Fixed and intangible assets	356 428	362 994	354 184
Trade accounts receivable	132 225	151 377	148 614
Customer projects assets	82 441	95 970	88 808
Cash and cash equivalents	116 251	64 812	82 448
Other assets	36 337	33 968	38 984
<b>Total assets</b>	<b>723 683</b>	<b>709 122</b>	<b>713 038</b>
Equity	108 100	101 552	92 166
Interest-bearing loans and borrowings	396 956	375 860	369 058
Lease liabilities	28 444	40 488	35 635
Customer projects liabilities	49 702	57 480	55 740
Other liabilities	140 481	133 743	160 440
<b>Total equity and liabilities</b>	<b>723 683</b>	<b>709 122</b>	<b>713 038</b>

- **Cash** and cash equivalents of **NOK 116.3m**
- Lease liabilities relate to right-of-use assets, and primarily rental contracts for premises (IFRS 16)
- **Net interest-bearing debt** of NOK 280.7m, marginally higher than last quarter due to currency movements
- As communicated in Q2, based on the current financial performance of the Company the Board will propose a dividend of minimum NOK 0.5 per share for 2020

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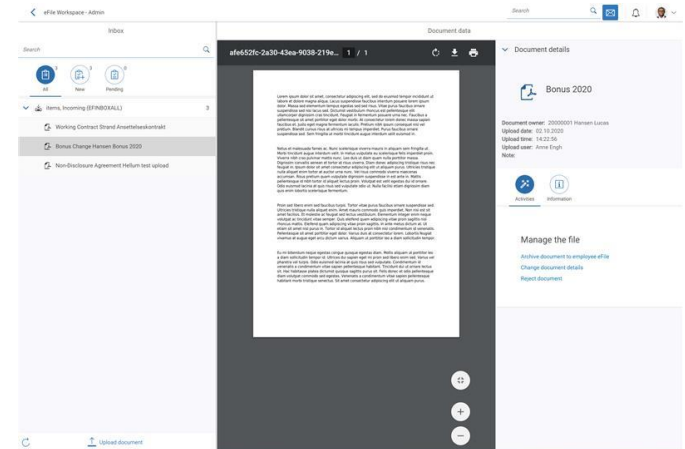
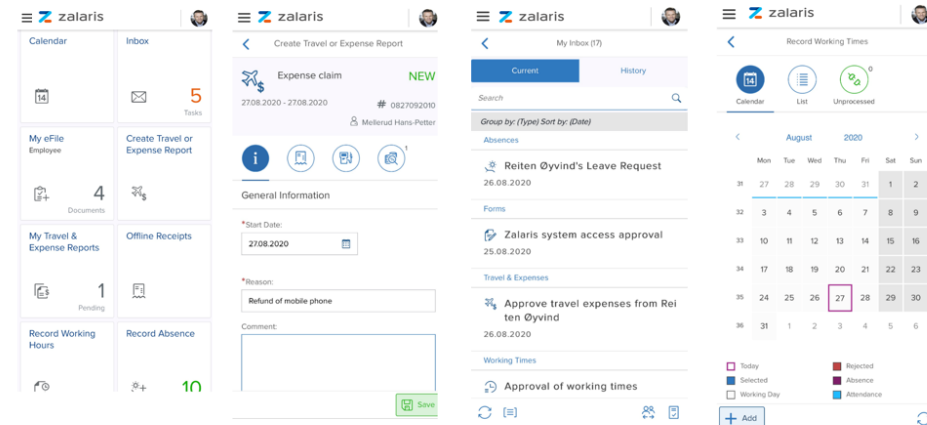


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CFO

**20**  
years

# Productizing existing solutions to better scale value of investments in own HR Technology IP as customers increasingly are moving solutions to the cloud

Solution	Included in BPO services	Sold on a standalone basis
<b>EasyHR</b> – digital forms and workflows	✓	Opportunity
<b>Workforce Management</b> – Time, Attendance and Work schedule	✓	Opportunity
<b>Travel and Business Expense processing</b>	✓	Opportunity
<b>Compensation visualization</b> and pay slip	✓	Opportunity
<b>eFile</b> digital personnel archive	✓	✓



## Organizing solution offering into unit to better visualize potential and develop scalable distribution channels independent of our existing offerings

### Target market: SAP customers

- SuccessFactors Employee Central users: 4'000 and growing fast
- SAP Payroll users: 10'000 and still growing paying more than 100 mill people on a global basis

### Distribution channels

- Zalaris Professional Services
- SAP App store
- SAP Partners

### Revenue potential

- EUR 0,5 – 7 per employee per month depending on volume functionality chosen

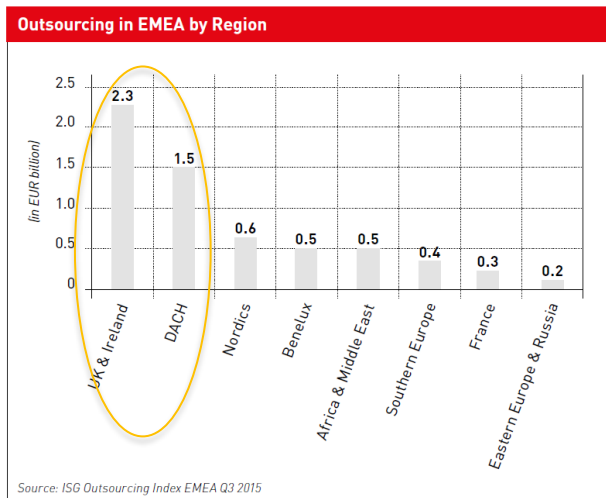
- *“The global human capital management market (HCM) market size stood at USD 15,04 Billion in 2018 and is projected to reach **USD 30,55 Billion** by 2026, exhibiting a **CAGR of 9,4%** during the forecast period” according to Fortune Insights*

## Selling our first platform multi-country deal in the UK leads the way of realizing the potential of having access to a market 7x that of the Nordics



First multi-country payroll on Zalaris platform sold to leading UK FTSE250 software and gaming company

- **Strengthened Central Sales Function** to more effectively support payroll and HR outsourcing sales to large accounts in UKI, Germany and Poland
- **Reorganization of German organization** including clarifying responsibility for sales and strengthening sales function
- Continue focus on **converting existing customers to recurring revenue streams**
- Continue focus on customer satisfaction increasing the **Net Promoting Customers**





## Landmark deal with Stadtwerke Krefeld visualizes the potential in the German market cooperating with SAP

- City of **Krefeld** is **one of the first wins** together with SAP in the sector
- **Stadtwerke Krefeldt** GmbH employees approximately **3'000 employees** serving the city with energy and water services
- Approx. **400 similar entities** in Germany employing more
- The German **municipality sector** employs more than **2,5 million employees** of which more than **850K are employed in entities** organized as **companies like Stadtwerke Krefeld**



Five-year agreement for implementation and delivery of SuccessFactors for Stadtwerke Krefeld in Germany

## Q3 exemplifying #BestingOurselves

- **Continue improving margins** towards our communicated **10% target** through organizational simplification, increased productivity, automation and utilization of our near- and offshore assets
- **Deliver our 20<sup>th</sup> year of uninterrupted growth** through expanding relationships with existing customers, explore new verticals, commercialization of existing IP, and focus on core products and services combined with improved efficiency of marketing and sales
- **Grow Managed Services** through **scaling existing solutions into Central Europe, UKI and Ireland** and see increased demand and faster sales cycles as a result of the Covid-19 and openness to use digital communication channels
- Explore **non-organic growth** options
- Creating more **Net Promoting Customers** - and **Employees**



# Support #teamZalarisNorseman raising funds to combat cancer in support of #AktivMotKreft and #5KYourWay



The sponsorship of #teamZalaris for Norseman supports key Zalaris' values – Aiming High and Team Spirit!

Together, our four-member team will help to raise funds for Aktiv mot Kreft and 5K Your Way and participate in the race for Norseman 2021

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**20**  
years



“

We simplify HR and payroll administration, and empower you with useful information so that you can invest more in people.

**Thank you!**

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[Hans-Petter.Mellerud@zalaris.com](mailto:Hans-Petter.Mellerud@zalaris.com)

