

28 October 2021

Presentation of interim financial results | Q3 2021



Simplify work life.
Achieve more.



Agenda

- Highlights
- Financial Review
- Markets and Outlook
- Q&A



Hans-Petter Mellerud
Founder and CEO



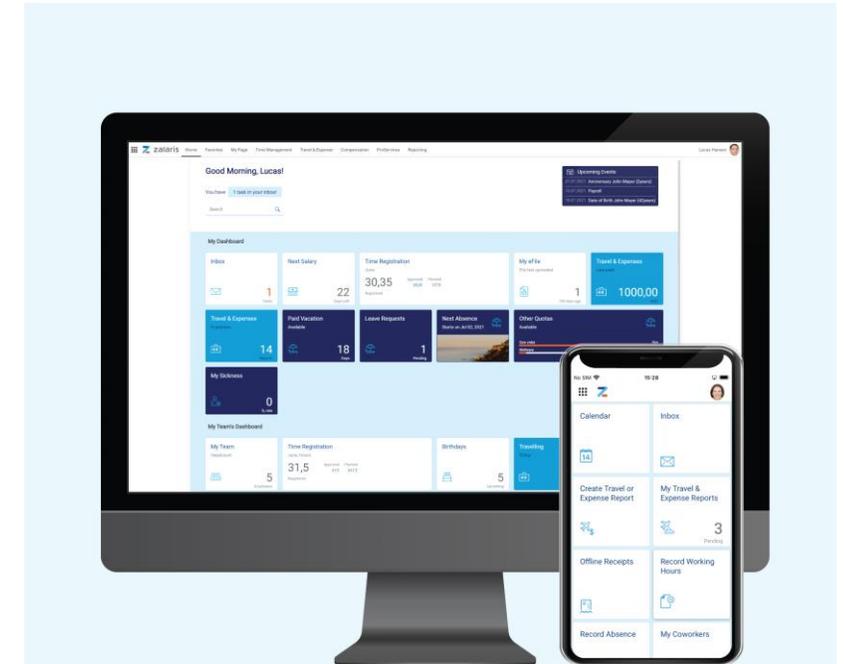
Gunnar Manum
CFO

Third quarter 2021: Higher revenue and EBIT for the quarter

- ✓ Revenue of NOK 195.4 million for Q3 (+3%)
- ✓ Adjusted EBIT of NOK 14.1 million (+6%)
- ✓ Adjusted EBIT margin of 7.2% (+0.2pp)
- ✓ New BPO contracts awarded with expected ARR of NOK 9 million in Q3 and NOK 81 million year-to-date
- ✓ Completed the acquisition of **ba.se service & consulting GmbH (“ba.se”)**, a leading provider of payroll and HR services within the German retail sector, providing a platform for further growth in Germany and Central Europe
- ✓ Cash and cash equivalents of NOK 168.8 million



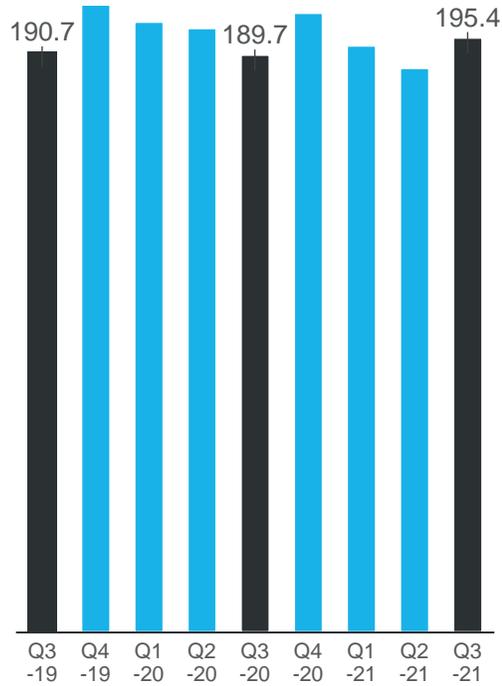
Personnel. Time. Travel. Compensation.



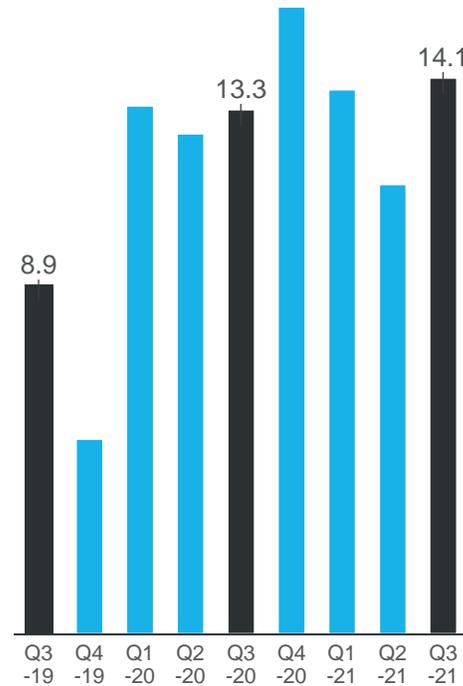
**One-stop
HR platform**

Higher revenue and EBIT for the quarter

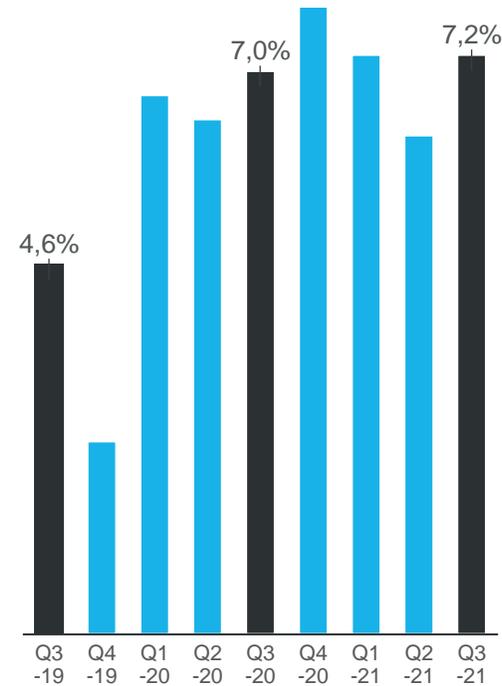
Revenue
NOK 195m (+3.0%)



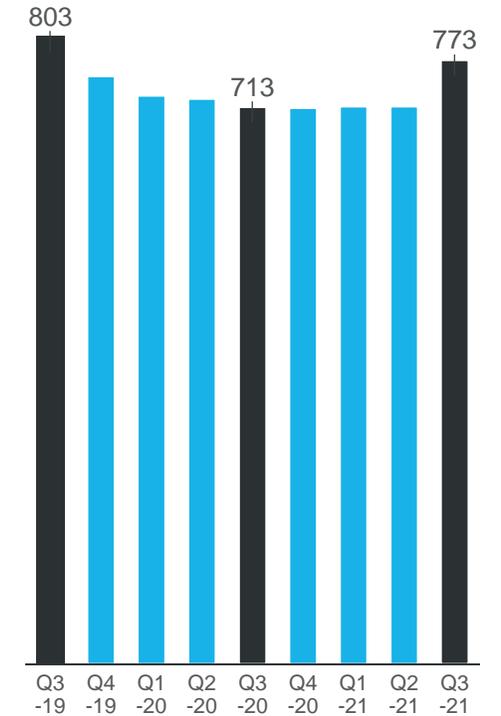
Adj. EBIT*
NOK 14.1m (+6.0%)



Adj. EBIT margin
7.2% (+0.2pp)



#FTEs*
773 (+8.4%)



*See Q3 report for definitions of APMS

Payroll & HR Solutions that Enable Fully Digital Organizations

Zalaris – Local presence with one global IT platform

- ✓ **Zalaris is a leading European provider of Payroll and Human Capital Management Solutions** delivered through Software as a Service, Outsourcing, 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**



> 1,500,000

employees served monthly across all HR solutions

880

Zalaris employees

> 300,000

employees served monthly through payroll services

20

years of experience and continuous growth

2020 Revenue:

EUR 79 million

Own service centers in

13 Countries

with expertise in local laws and regulations

Together with partners

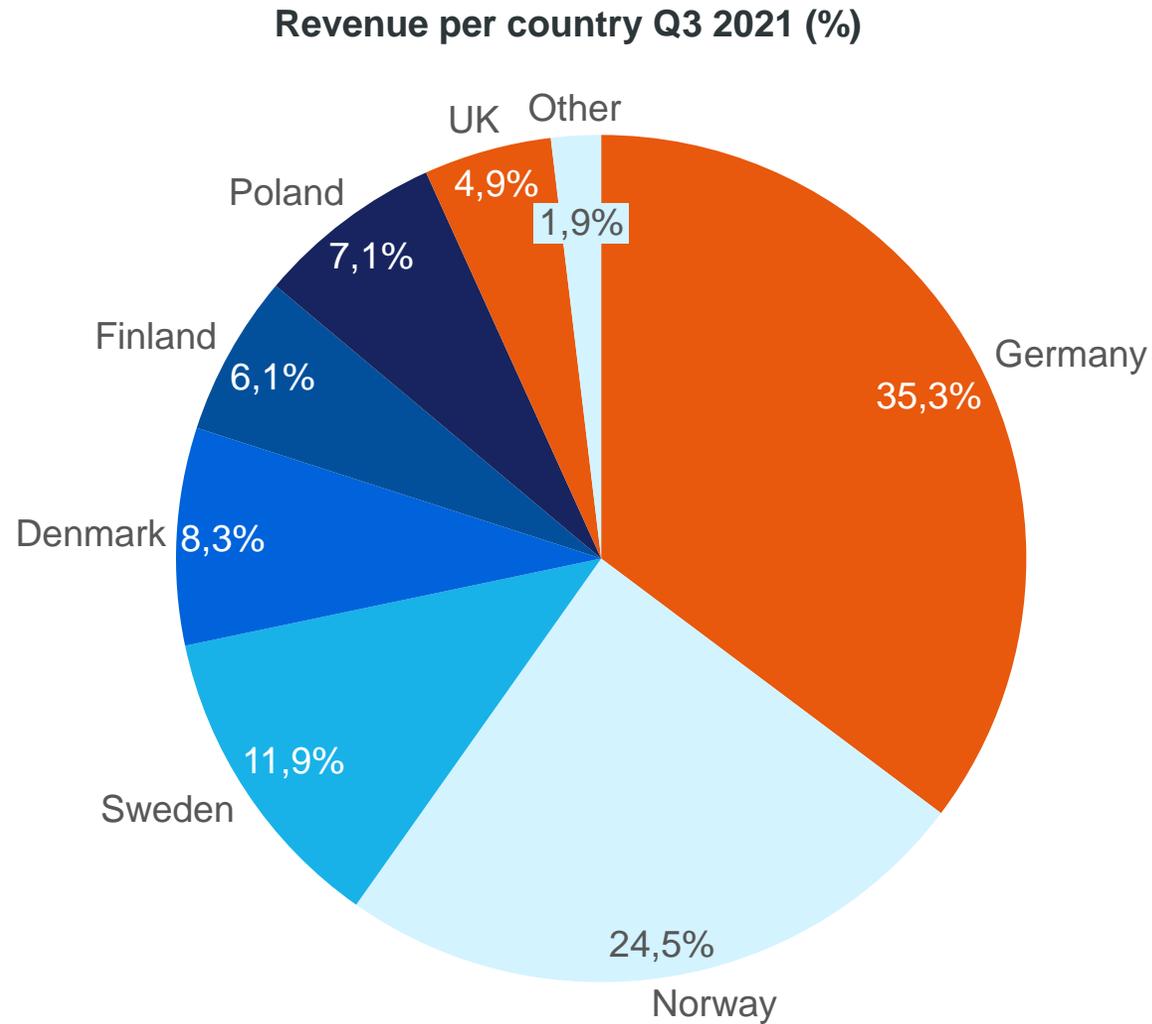
150+ Countries

with expertise in local laws and regulations

 **zalaris**

Managed Services
Professional Services

Significant European player with Germany largest market facing unit



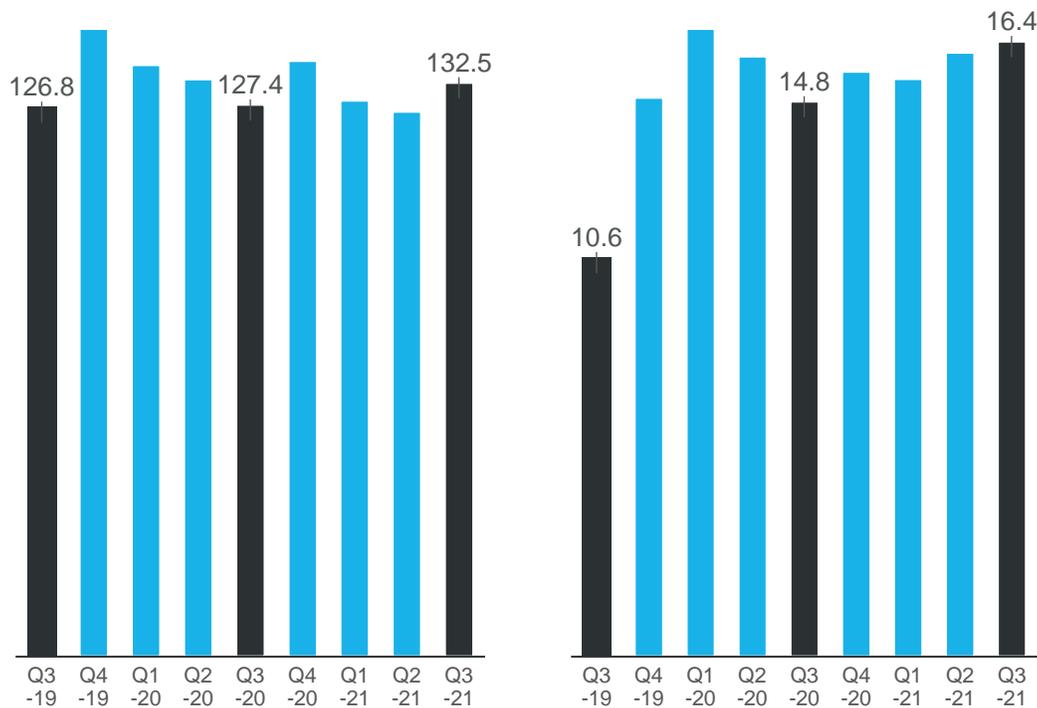
Diversified customer base

BANK, INSURANCE & FINANCIAL SERVICES	HEALTH AND LIFE SCIENCES	INFRASTRUCTURE & TRANSPORTATION
		
IT, TECHNOLOGY & TELECOM	OFFSHORE & ENERGY	PRODUCTS & INDUSTRIALS
		
PUBLIC SERVICES AND OTHER INSTITUTIONS	RETAIL	SERVICE INDUSTRIES
		

Managed Services with all time high new signings currently in the implementation phase with limited revenue recognized

Revenue*
NOK 132.5m (+4.0%)

EBIT
NOK 17.2m (+NOK 2.4m)



- ✓ **Higher revenue** mainly due to the inclusion of ba.se, partly offset by currency movements. Revenue approximately in line with last year when adjusted for these factors
- ✓ **Net new signings** (net of churn) with **annual recurring revenue (ARR)** of **NOK 9m** during the quarter and **NOK 51m YTD**
- ✓ **Churn within historic levels YOY**
- ✓ **Higher EBIT** from higher margins in the Nordic region and the inclusion of ba.se
- ✓ **Top priority** of Zalaris, following the completion of the EBIT improvement program, has been to focus available resources on the sale and implementation of BPO contracts that **will generate ARR long-term**

*~90% recurring revenue based on long-term BPO contracts, while the remaining ~10% relates to change orders

Continued strong development in new signings and pipeline

- ✓ **Several new BPO contracts and extensions signed** during Q3
- ✓ Platform based deals **utilizing existing capacity** with higher incremental margin
- ✓ **Pipeline of BPO opportunities continue developing positively in all geographies** as companies are reevaluating their business continuity plans and cost situation coming from Covid-19



5-year agreement to deliver Payroll and HR services to Sony Entertainment's 1'800+ UK employees



5-year agreement to provide managed payroll services to BLV's 800+ employees in Germany



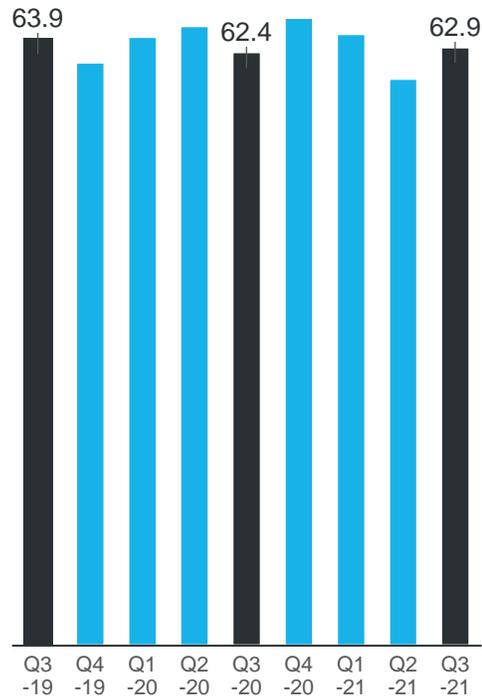
5-year agreement with HÖRMANN Automotive to provide outsourced payroll services for 650+ employees in Germany



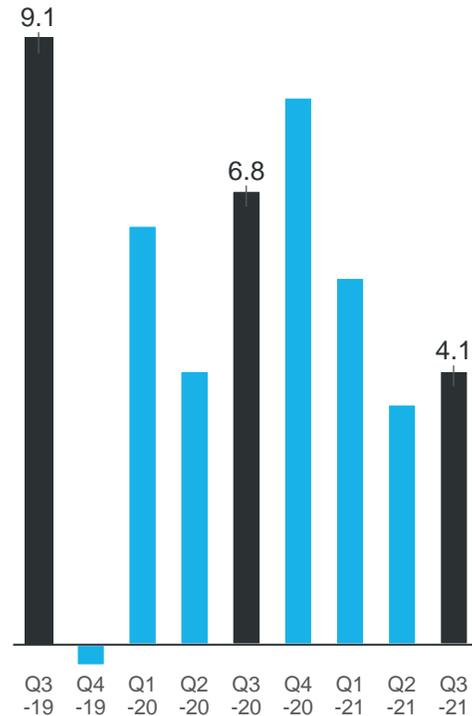
5-year agreement to deliver Payroll, Time and Travel & Expense solutions to Santander's over 1,500 employees in Norway, Sweden, Denmark and Finland.

Professional services delivered revenue growth of 4% when adjusted for currency movements

Revenue
NOK 62.9m (+0.8%)



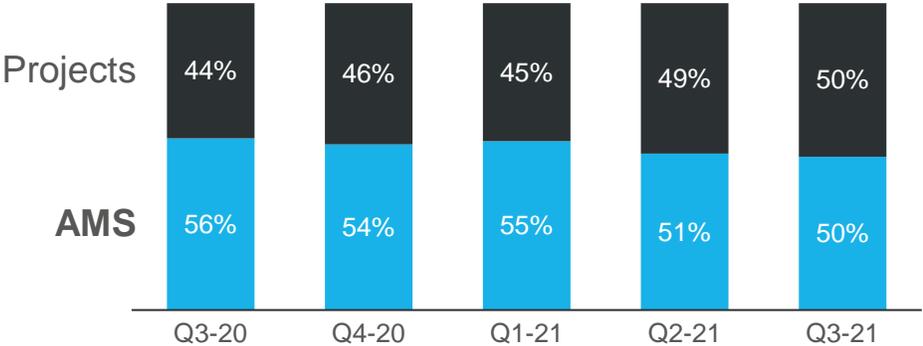
EBIT
NOK 4.1m (-NOK 2.7m)



- ✓ Revenue in Professional Services increased by 4.2% year-on-year when adjusted for negative currency movements (NOK -2.1m)
- ✓ In local currency, revenue in **Poland** grew by ~14% and **Germany** by ~8%, partly offset by a reduction in the UK
- ✓ Short term negative EBIT impact of higher-than-normal use of external consultants in combination with costs for trainee program building new consulting capacity in Germany. Internal resources situation expected to **back to normal from January 2022**

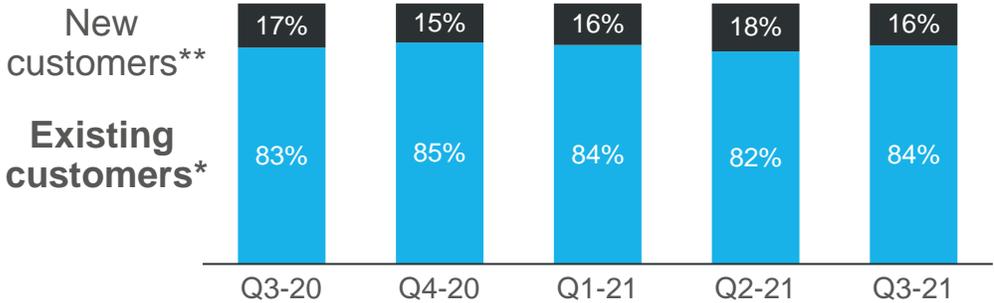
Majority of Professional Services revenue is recurring and supports a continuous presence with customers

Distribution of Projects vs long term AMS based revenue



- ~50 % of Professional Services revenue is recurring, or recurring like, and based on long term agreements and relationships
- ~84 % of Professional Services revenue is from customers that were customers 12 months prior

Revenue customer split



* Customers that were invoiced in the same quarter previous year
 ** New customers since the end of the same quarter previous year

Financial Review

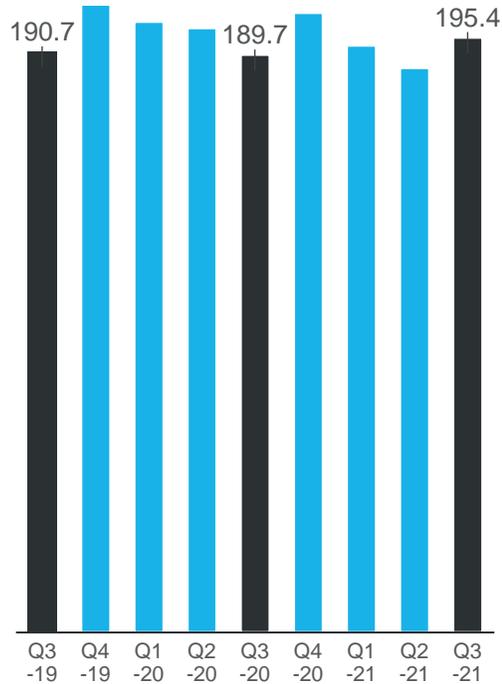


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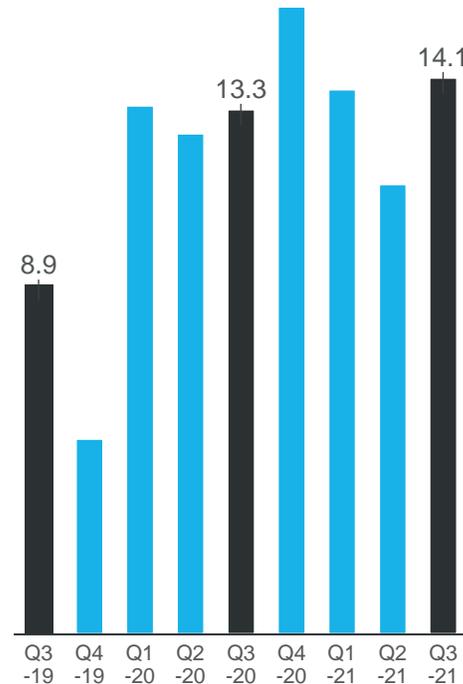


Higher revenue and EBIT for the quarter

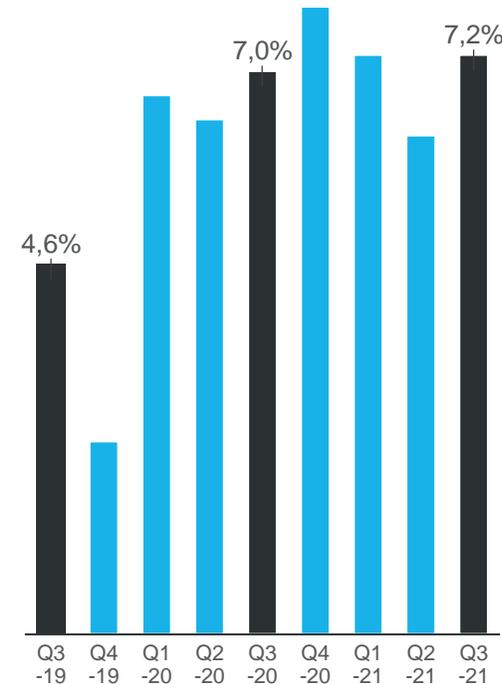
Revenue
NOK 195m (+3.0%)



Adj. EBIT*
NOK 14.1m (+6.0%)



Adj. EBIT margin
7.2% (+0.2pp)

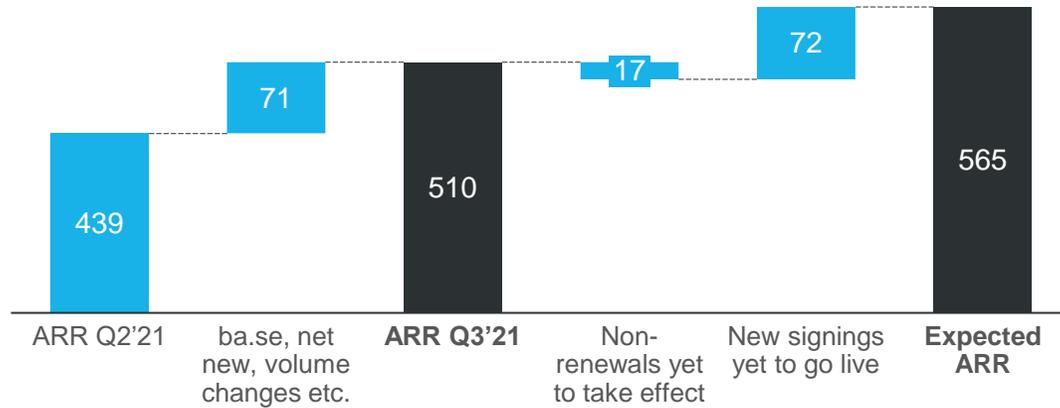


- ✓ **Higher revenue** (+NOK 5.7m) for the quarter vs. last year, mainly due to inclusion of ba.se, partly offset by currency movements
- ✓ Positive revenue growth within Professional Services in Germany and Poland with a revenue increase of 14% and 8% respectively YoY (in local currency)
- ✓ Revenue in NE in approximately in line with last year, when adjusted for currency movements

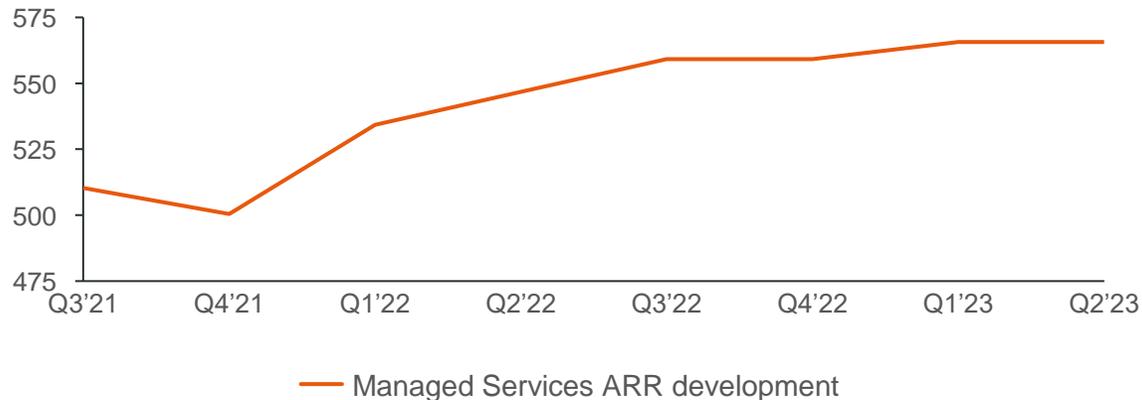
*See Q3 report for definitions of APMs

Significant ARR build-up YTD in Managed Services through new BPO contracts

Expected ARR* in MS (NOKm)



Expected ARR evolution over time based on signed contracts (NOKm)

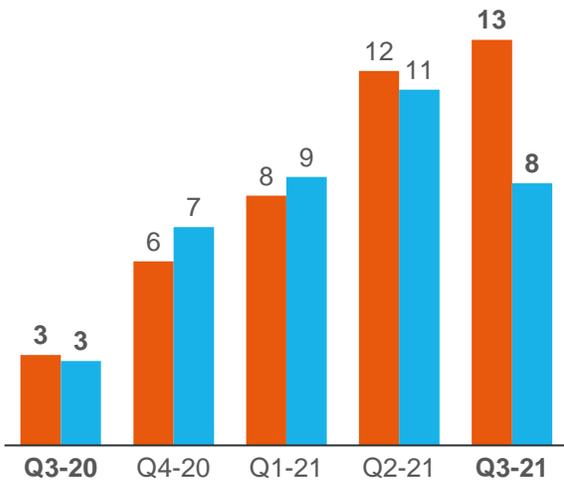


- ✓ High sales activity within Managed Services, resulting in a continued build-up of future ARR through several new BPO agreements and extensions during the second quarter
- ✓ Total new BPO contracts awarded year-to-date have expected ARR of NOK 81 million (net ARR NOK 53 million), when fully implemented.
- ✓ The pipeline remains strong and the conversion to actual BPO contracts is expected to continue, which should increase the expected ARR for MS further
- ✓ New BPO contracts won as of 30 September 2021, and revenue from ba.se, represents an expected increase in total annual revenue for Zalaris of >10% over the next 12 months

*The ARR for the current quarter is an estimate calculated by annualising the actual recurring revenue for the quarter, for customers at the end of the quarter. Please refer to the APMs section of the interim financial report for further details.

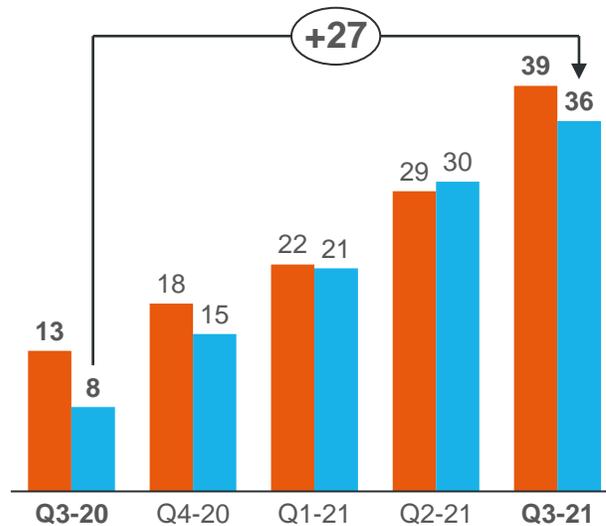
Significant increased investment in future revenue through transformation projects for new BPO contracts

Deferred revenue and employee hours capitalised, quarterly (NOKm)



Deferred costs (orange) Deferred revenue (blue)

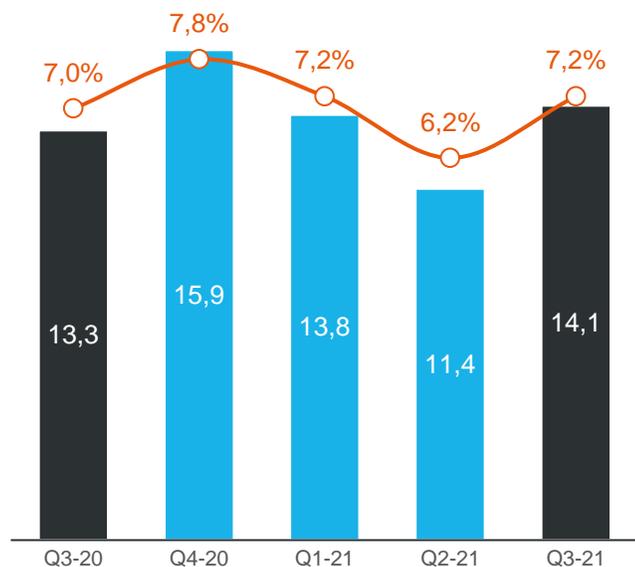
Deferred revenue and employee hours capitalised, LTM (NOKm)



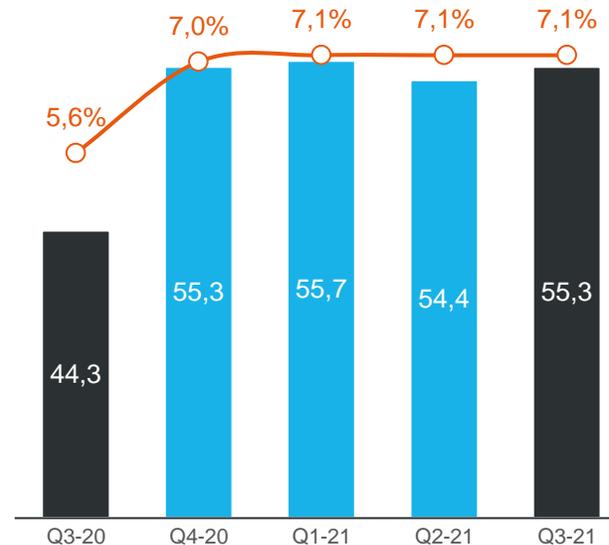
- Significant potential **revenue generating capacity utilised on implementing new BPO contracts**, which will generate recurring revenue from go-live date
- Amount of **revenue deferred increased by NOK 20m YTD** compared to last year – represents ~3.5% of total revenue YTD
- The amount of **revenue deferred Q3 LTM NOK 35.5m** (NOK 8.1m)
- Value of employee hours capitalised in Q3 LTM NOK 38.9m vs. NOK 13.0m last year
- Will be recognised over the contract period, from the go-live date

Higher EBIT and margin – margins expected to improve with scale

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



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



- ✓ EBIT and EBIT margin higher YoY
- ✓ Increased EBIT and EBIT margin in NE, through operational improvements resulting in improved customer margins, and higher utilisation as resources as being used on new customer projects
- ✓ Lower EBIT in Germany, partly due to temporary use of external consultants within PS in Germany and ramp-up for new BPO contracts in MS
- ✓ Significant MS activity in Germany, and new MS contracts, and normalized PS capacity by year-end, will improve margins in that region
- ✓ Gradual increase in EBIT margin for the group expected in line with increased revenue, as new signed BPO contracts go live

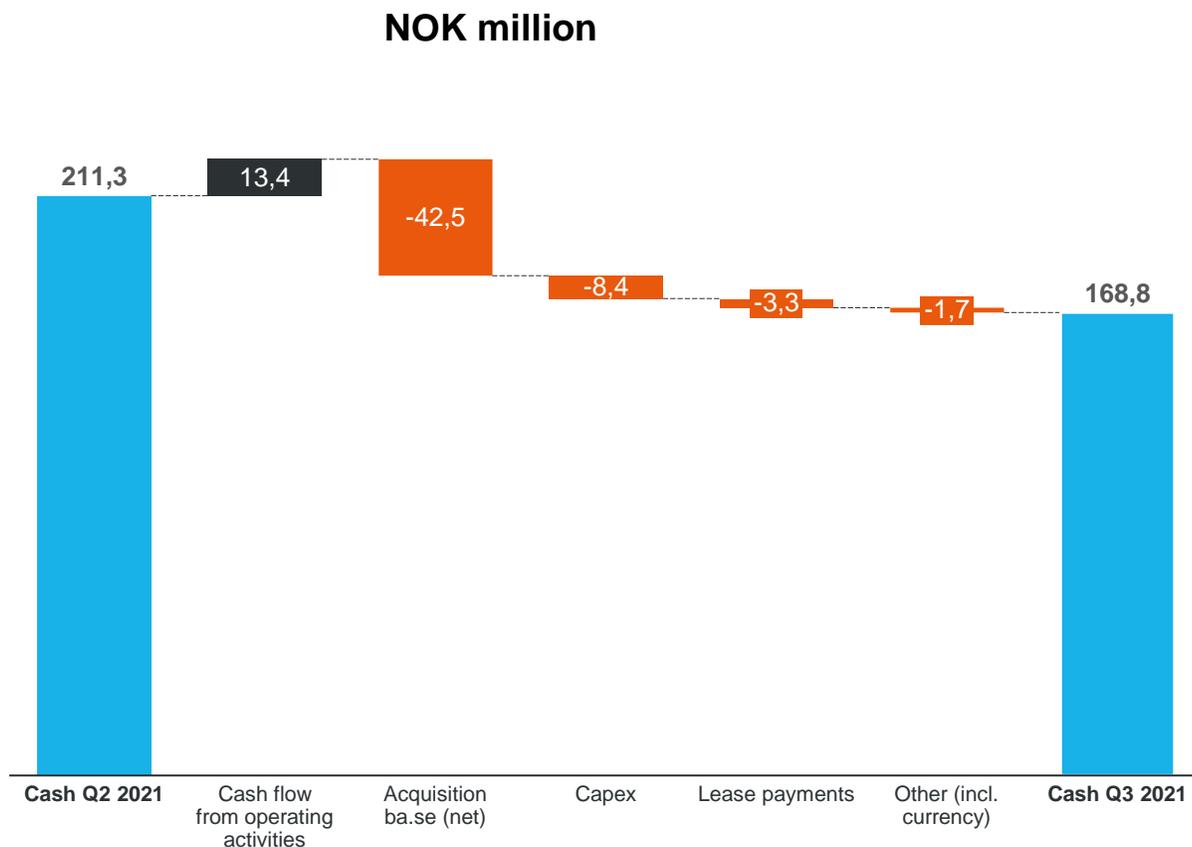
Condensed Profit and Loss

	2021	2020	2021	2020	2020
(NOK 1 000)	Jul-Sep	Jul-Sep	Jan-Sep	Jan-Sep	Jan-Dec
Revenue	195 376	189 748	573 570	588 804	792 326
License costs	17 200	18 337	48 962	51 572	72 517
Personnel expenses	98 730	99 439	303 753	324 149	430 733
Other operating expenses	51 676	41 672	142 399	122 612	167 138
Amortization implementation costs customer projects	7 338	8 772	21 017	26 314	34 666
Depreciation, amortization and impairments	12 683	12 355	36 324	38 166	49 849
EBIT	7 749	9 172	21 114	25 990	37 423
Adjustment items	6 389	4 110	18 232	13 373	17 767
Adjusted EBIT*	14 138	13 282	39 346	39 363	55 190
Adjusted EBIT margin %	7,2%	7,0%	6,9%	6,7%	7,0%
Net financial income/(expense)	(6 729)	(12 287)	(7 648)	(64 498)	(50 813)
Profit/(loss) before tax	1 020	(3 115)	13 466	(38 508)	(13 390)
Income tax expense	(357)	1 363	(1 744)	10 625	4 405
Profit/(loss) for the period	663	(1 752)	11 722	(27 883)	(8 985)
Basic earnings per share (NOK)	0,03	(0,09)	0,56	(1,42)	(0,46)

- ✓ ~7% lower personnel expenses for the quarter YoY, when adj. for higher employee option expenses (+NOK 2m) and the inclusion of ba.se (+NOK 4.6m)
- ✓ Increased other op. exp. from external m&a costs (+NOK 0.8m), use of external SAP consultants (+NOK 5.9m), and inclusion of ba.se (+NOK 3.5m)

* Items excluded from adjusted EBIT Q3 2021: external m&a costs (NOK 0.8m), share-based payments (NOK 2.6m) and amortization of excess values on acquisitions (NOK 3.0m). (see definition of adj. EBITDA under APMs in Q3 2021 Report)

Positive cash flow from operations during the quarter and strong cash position



- ✓ **Cash balance** at 30 September of **NOK 169m**
- ✓ Positive **cash flow from operations** of **NOK 13.4m** in line with last year
- ✓ Initial cash payment for **acquisition of ba.se** of **NOK 42.5m**, net of cash acquired
- ✓ **Net interest-bearing debt** of **NOK 198.1m** vs. NOK 154.4m at the end of previous quarter.

Markets and Outlook



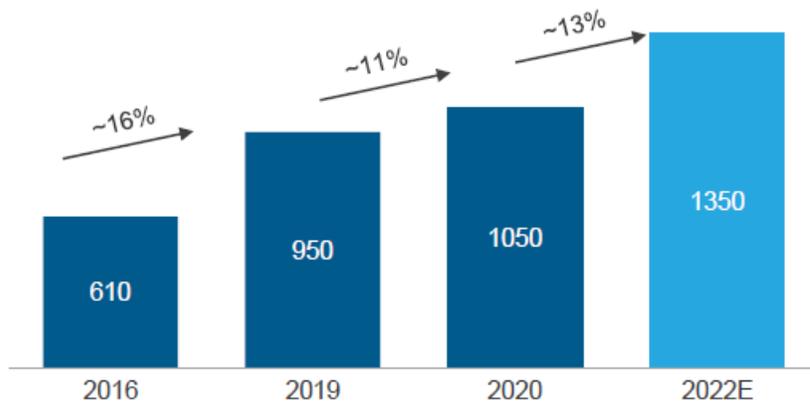
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European multi country payroll and multi process HR outsourcing markets are growing at healthy rates

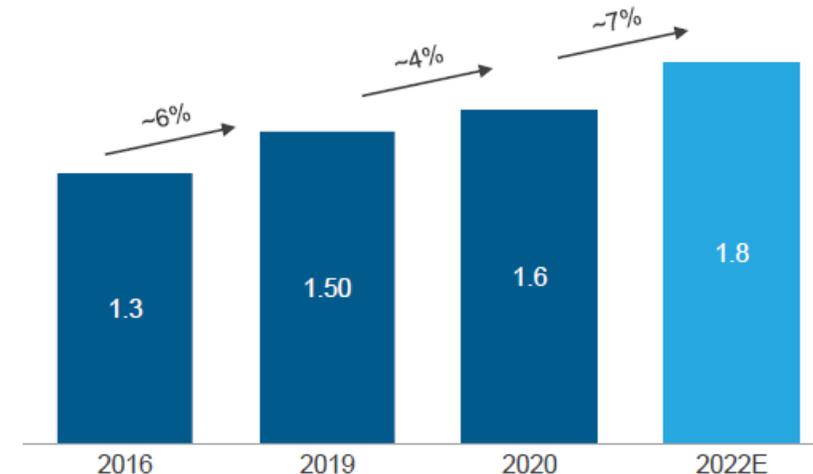
Europe and UK MPCO market size
US\$ million

Multi-Country Payroll Outsourcing



Europe and UK MPHRO market size
US\$ billion

Multi Process HR Outsourcing



- MCPO growth in the region is showing signs of recovery due to demand for secure and integrated payroll solutions that help manage compliance complexity
- The need for better employee experience (EX), upskilling and retaining talent, and supporting hybrid workforce models would be key growth drivers in the post-pandemic recovery period for MPHRO



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Trend shift and strong sales in Germany and UK as the Zalaris brand is increasingly being recognized

- ✓ Inclusion in Gartner Multi Country Payroll Market Guide
- ✓ Listed as major player in Everest, Nelson-Hall and various payroll associations market guides
- ✓ Increased visibility through digital marketing
- ✓ Standardization of offering and structuring of sales including AI support
- ✓ Winning landmark deals with leading brands as Telefonica and Sony Interactive

94% of sales Target FY 2021 delivered with strong relative growth in DACH and UK

	MS Q4 2020 Annualized Revenue MEUR	YTD Q3 ACV MEUR Sold to date	YTD Sold ACV as % of Annualized revenue	
DACH	6,0	1,5	25%	●
UKI	1,2	0,4	33%	●
Nordics	41,0	6,2	15%	●
Poland	0,90		11%	●
Group	49,0	8,1	16,5%	●

- ✓ 2021 sales budget to deliver 10% growth to come entirely from growing Managed Services with 14,5% = ACV of EUR 8,5 mill
- ✓ 94% of sales budget delivered as of Q3
- ✓ Solid pipeline of deals with target closing date in Q4 in all regions targeting delivery above budget
- ✓ Strong growth in lower base regions as DACH and UK.

With roadmap to margins on track we turn our attention to realizing the full growth potential of our organization

- ✓ **Net Promoting Customers - and Employees**
- ✓ **Realize roadmap to EBIT >10%**
- ✓ **Grow Managed Services with 15% and Professional Services with 5%**
- ✓ **Focus on Peoplehub powered multi country payroll solutions**
- ✓ **Execute on our non-organic growth ambitions**

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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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Achieve more.

