

25 August 2022

Presentation of financial results Q2 2022



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Agenda

Today's presenters

- Highlights
- Company in brief
- Financial review
- Markets and outlook
- Q&A



Hans-Petter Mellerud
CEO and Founder



Gunnar Manum
CFO

Highlights

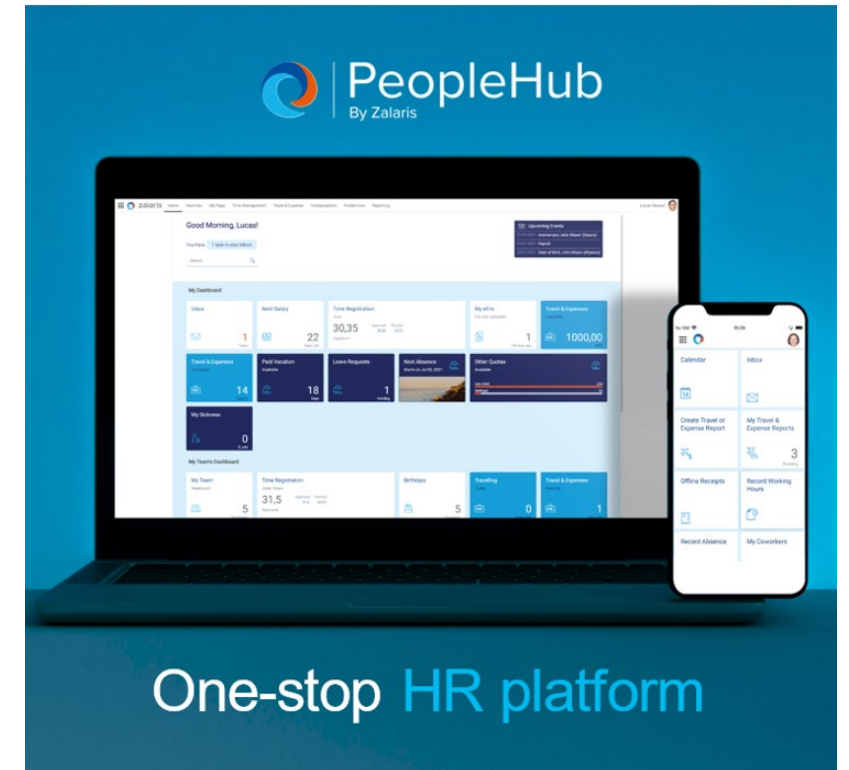


Simplify work life.
Achieve more.



Q2 2022 key takeaways

- ✓ **Accelerated growth:** Revenue growth of 15 percent (constant currency)
- ✓ **Successful new-sales:** Strong inflow of new contracts in Q2, including a 7 year contract with StoraEnso
- ✓ **Good outlook:** Solid pipeline of new business for second half 2022
- ✓ **Investing in ramp-up and expansion:** Stable margins on existing customers. EBIT temporarily negatively affected by ramp-up cost on new clients and the expansion to APAC
- ✓ **APAC on track:** APAC expansion on track with first major PeopleHub contract in place. Positive EBIT targeted from Q3 2022
- ✓ **vyble® process:** Engaged investment bank to sell vyble, allowing Zalaris to focus entirely on the continued growth of its PeopleHub based business



Continued development in new signings driving recurring revenue streams

- ✓ Several new landmark deals and extensions signed securing continued growth in 2023
- ✓ Pipeline of Multi-Country Peoplehub powered opportunities strong and potential of another year of record sales
- ✓ Peoplehub package powered by SuccessFactors v 2.0 completed and expected to create additional demand in cooperation with SAP



7-year agreement to deliver **Peoplehub Payroll and Time-** based outsourcing services to **Stora Enso's** 6000+ employees in **Finland**. Approx. 20 FTEs business transfer to Zalaris.



Five-year agreement to implement and operate **PeopleHub** solution powered by SuccessFactors to **Sealord's 1200 employees** in **APAC/New Zealand**.



Extended agreements with **Hitachi** and **ABB** for **Global Application Maintenance Services** in **Poland**



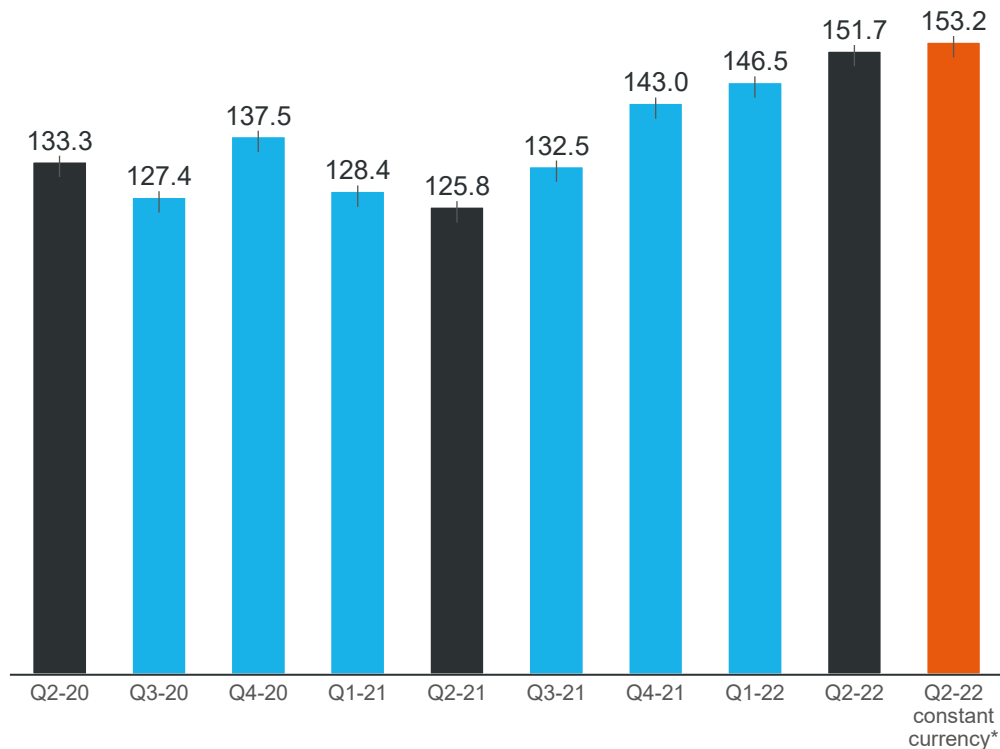
Four-year agreement with Rhineland-Pfalz for the provision of **Application Maintenance Services** valued at approx. **MEUR 2 per annum**



German Pipeline of Peoplehub based deals targeting closing in Q3 in contracting stage with **MEUR 2-6 annual contract value** when fully implemented. **Amplifon** with 2'200+ employees signed yesterday.

Managed Services grew by 22% in the second quarter, in local currency

Revenue
NOK 151.7m (+20.6%)

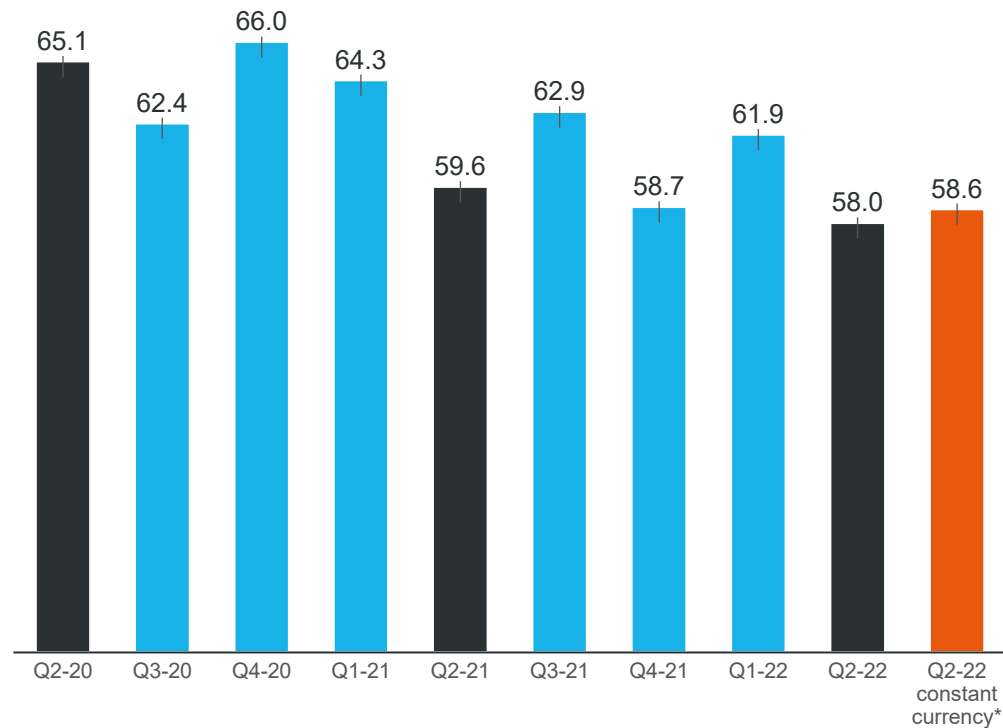


- ✓ **+22% higher revenue** when adj. for currency effects
- ✓ The inclusion of base added +9.5%, while **+12.5% relates to new customers** and volume increases
- ✓ Net **new signings** with **annual recurring revenue (ARR)** of **NOK 14m** during the quarter
- ✓ **Continued good activity level**, particularly within the European multi-country HR & Payroll segment, where Zalaris has a strong position. Several large new contracts expected to be signed in H2 2022
- ✓ **>90% of revenue is recurring** based on long-term BPO contracts, while the remaining <10% relates to change orders etc.

*Revenue in local currency converted to NOK using the avg. currency rate from the quarter last year. See Q2 interim report for definitions of APMs

Professional Services had marginally lower revenue compared to last year, in local currency

Revenue
NOK 58.0m (-2.7%)

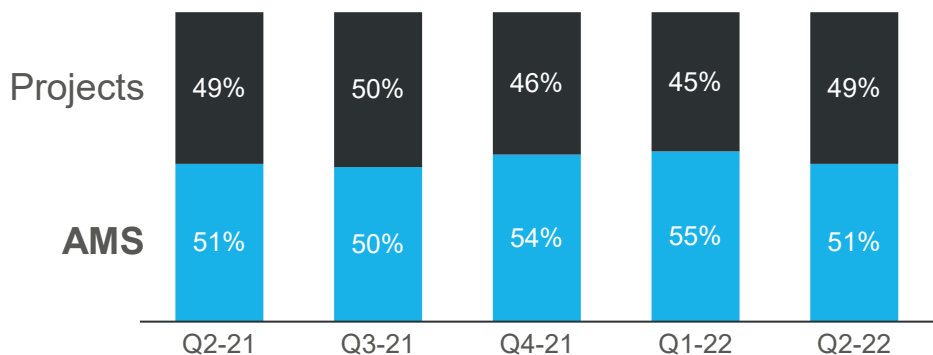


- ✓ **Revenue** in Professional Services was approx. **in line with last year** when adjusted for negative currency effects
- ✓ Significant **PS capacity still being utilized on implementing new customers in MS** (transformation projects)
- ✓ Pressure on PS consulting resources, particularly in Germany, and **lack of available resources is the key growth inhibitor**
- ✓ In local currency, revenue in **Poland grew by ~38%**, from additional volume from existing clients, while Germany had a reduction of ~10%

*) Revenue in local currency converted to NOK using the avg. currency rate from the quarter last year. See Q2 interim report for definitions of APMs

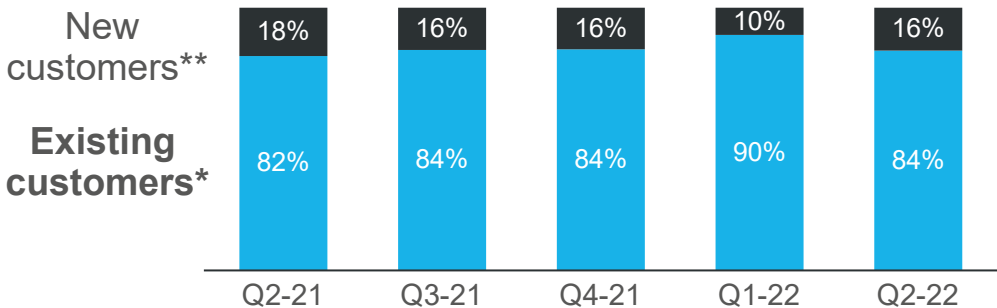
Majority of Professional Services revenue is recurring and supports a continuous presence with customers

Distribution of Projects vs long term AMS based revenue



- ✓ ~55 % 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

First major contract signed in APAC – targeting positive EBIT in Q3

✓ Clear strategic rational for APAC expansion

- ✓ Support European-based-customers as 64% of deals with European origin include APAC coverage*
- ✓ APAC one of fastest growing markets for Multi Country Payroll
- ✓ Vendor consolidation opened opportunity to hire seasoned team of industry experts to build Australian and Singapore foothold, at a relatively low risk
- ✓ Potential for offshoring in the Philippines

✓ Efficient roll-out on track

- ✓ Use PS shortterm to quickly build revenue base and name recognition, and reach breakeven level
- ✓ First major contract for implementation of Peoplehub for New Zealand company Sealord signed in August
- ✓ Healthy pipeline of contract leads, with additional signings expected in H2 2022
- ✓ Currently 16 employees– SAP consultants also utilised on European customers
- ✓ Targeting positive EBIT from Q3 2022

vyble® business reorganised and focused on SaaS – seeking partner to fund growth

✓ Strategic rationale

- ✓ German market for HR and Payroll solutions for Medium market and below estimated at EUR 3'200 million pa
- ✓ Fragmented supplier market with no clear leader in payroll space
- ✓ vyble® with modern cloud native solution

✓ Key activities and milestones since acquisition

- ✓ Refocused strategy to provide SaaS payroll and HR through two channels Direct and Indirect via tax advisors and accountancies to improve scalability
- ✓ Stabilized organization, technology and on track to receive all necessary certifications

✓ Future plans

- ✓ Executing and strengthening sales with goal to deliver on sales targets aiming at break even in Q4 2023 or approx. 0,08% market share
- ✓ Hired investment bank to sell vyble® that can accelerate growth through financing strengthened marketing and sales effort and realize market potential. Zalaris to focus on serving strong pipeline in Peoplehub based Mid- and Enterprise market.

Company in brief



Simplify work life.
Achieve more.



Payroll & HR solutions that enable digital organizations

One global IT platform with local presence

Our vision: Supporting multi-national companies manage HR and payroll across borders

Zalaris today: The leading European headquartered Global provider of payroll and human capital management solutions based on outsourcing and SaaS models

1,500,000

employees served monthly across all HR solutions

989

Zalaris employees

> 300,000

employees served monthly through payroll services

2021 Revenue:

EUR 78 million

Own service centers in

16 countries

with expertise in local laws and regulations

Together with partners

150+ countries

with expertise in local laws and regulations



Zalaris offering is built around Peoplehub – covering the whole employee life cycle

HR System



Payroll



Workforce Management



Talent Management



Travel and Expenses



Application Maintenance Services (SAP Support)

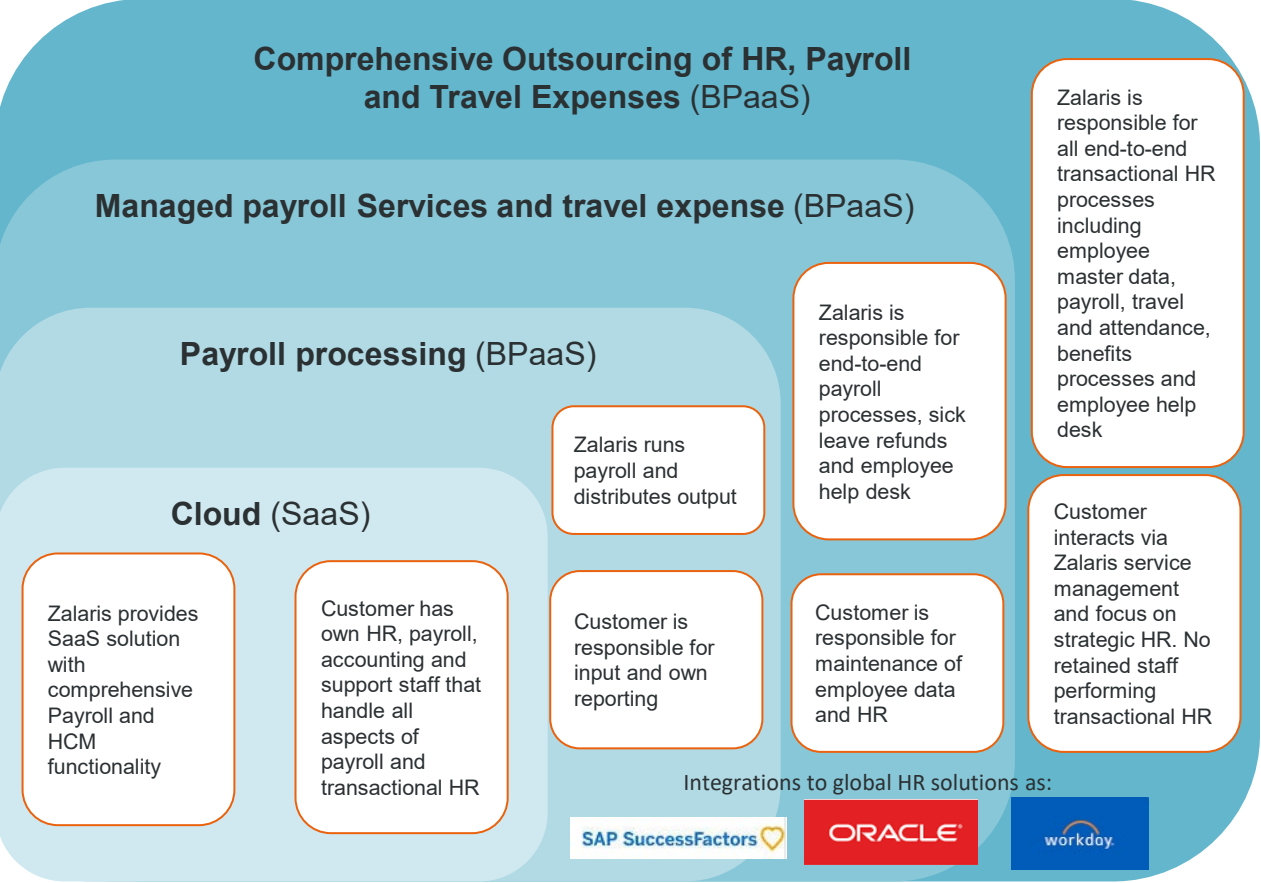
Professional Service (Advisory, Analytics, Technology, Implementation)

Business Process as a Service (BPaas) and Outsourcing

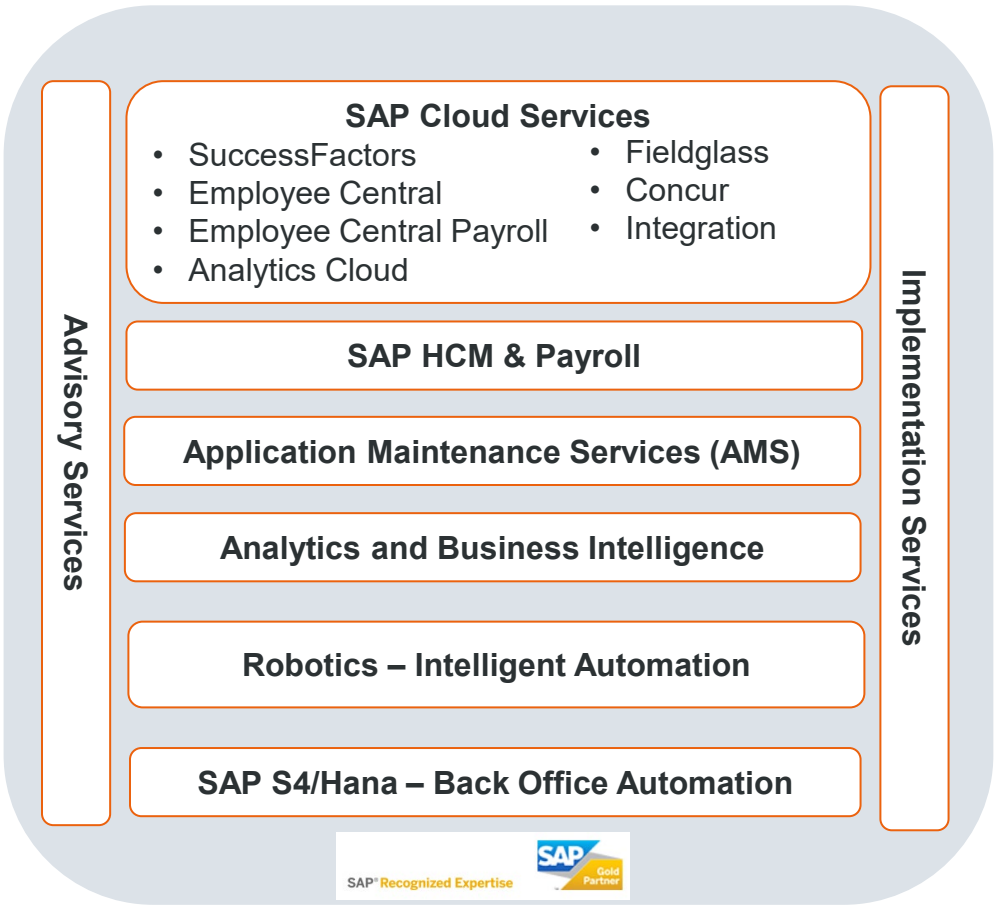
Software as a Service (SaaS)

Payroll and HR partner to mid- and large size organizations

MANAGED SERVICES (MS)



PROFESSIONAL SERVICES (PS)

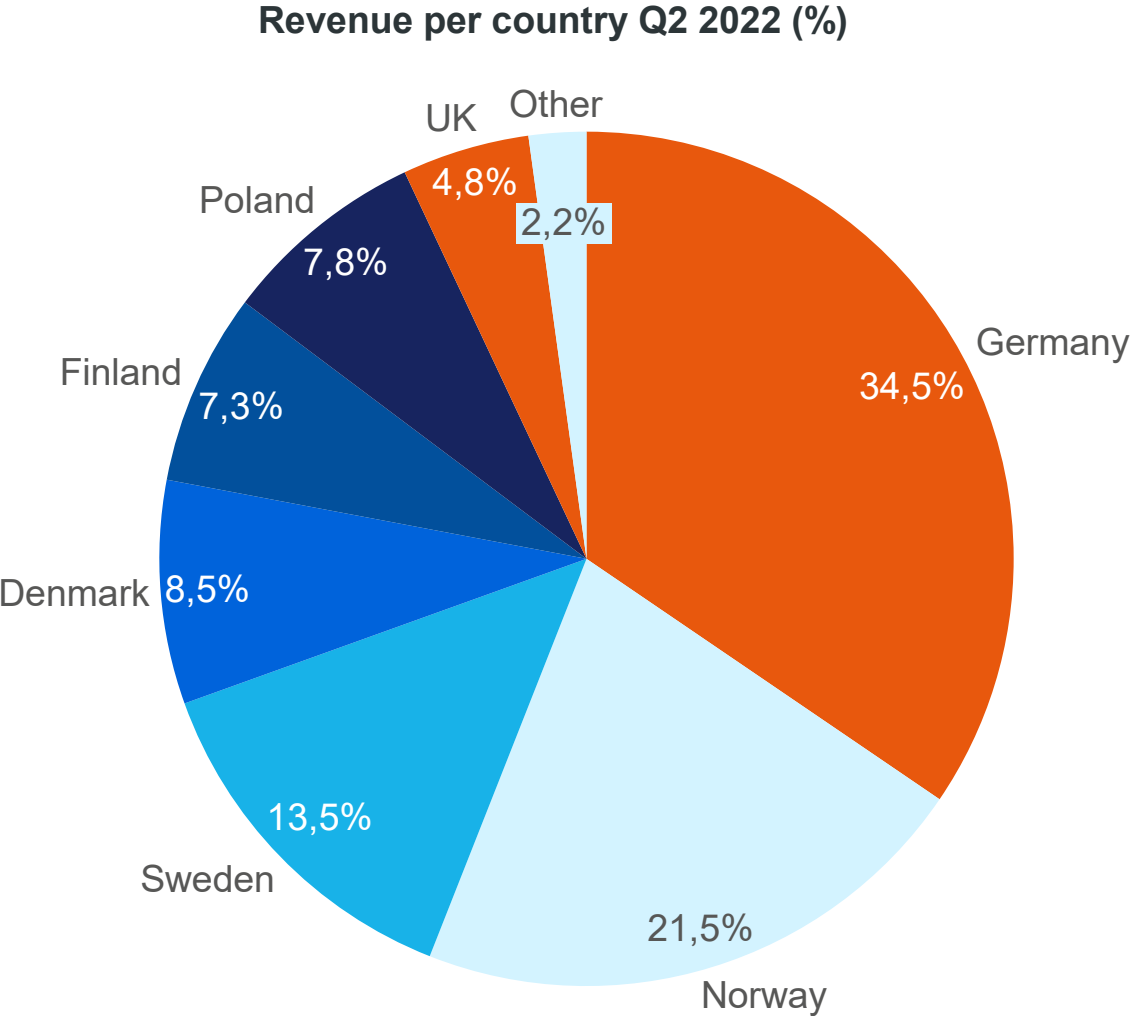


Professional Services is responsible for the delivery of traditional consulting projects as well as outsourcing- and cloud implementation projects















































*BPaaS – Business Process as a Service

Significant European player with Germany largest entity



Diversified customer base across a wide range of industries

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
     	     	  

Financial Review

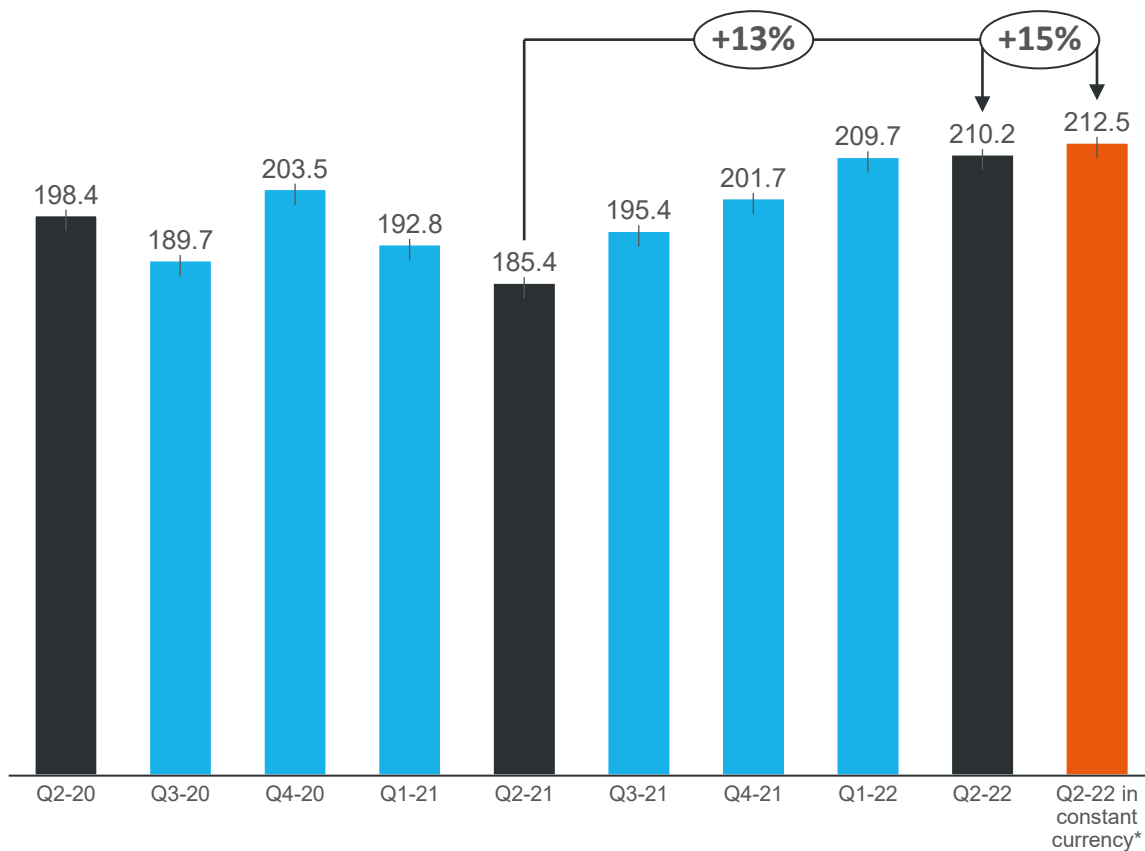


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Revenue increased by 15% for the quarter in local currency

Revenue
NOK 211m (+13%)

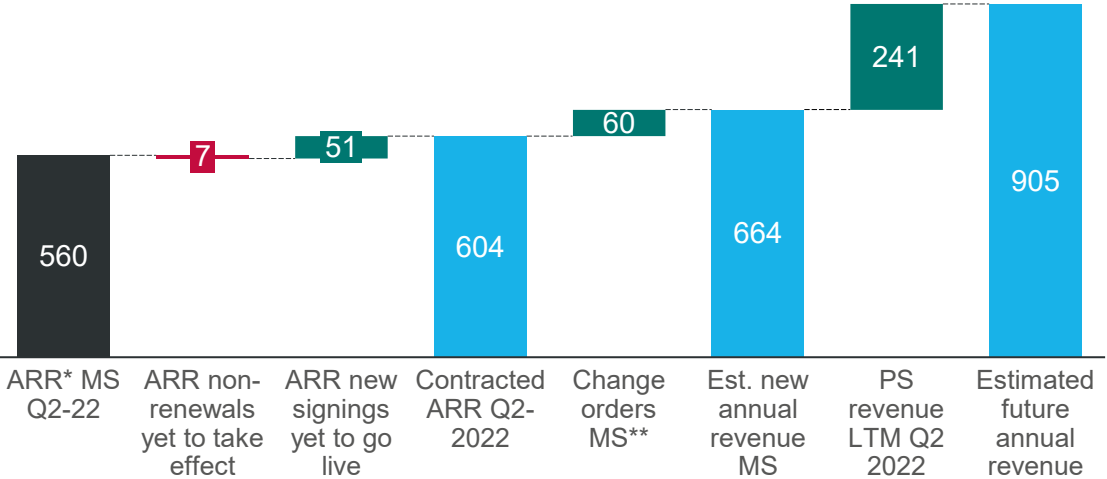


- ✓ Revenue growth +15% YoY in constant currency
- ✓ Revenue growth (as reported) for the quarter YoY: +13.4%
 - From new entities (ba.se and vyble): +6.4%
 - New contracts/volume changes: +7.0%
- ✓ MS +20.5% to NOK 152m
- ✓ PS -2.5% to NOK 58m
- ✓ New BPO contracts awarded yet to be implemented has annual recurring revenue of ~NOK 51m

*See Q2 financial report for definitions of APMs

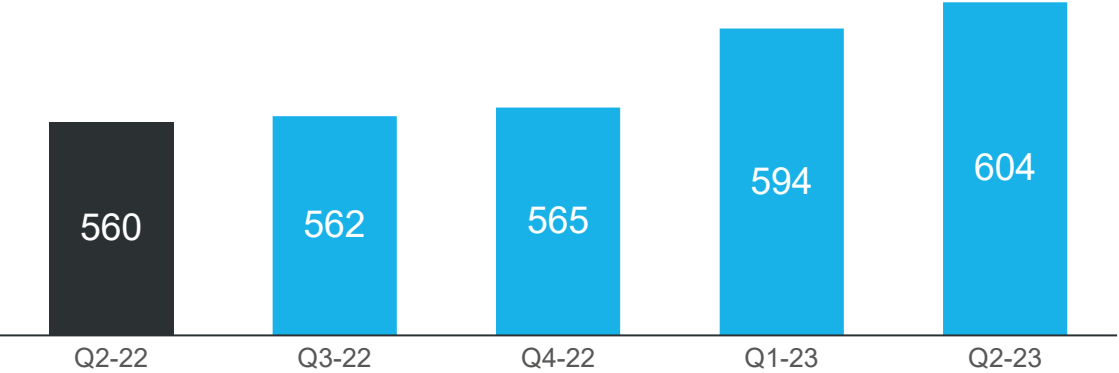
New BPO contracts will result in significant revenue increase going forward

Revenue development over time based on signed MS contracts (NOKm)



- ✓ **Total annual revenue expected to increase by NOK 87m (+11%)** by Q2 2023 vs. LTM Q2 2022, based on signed contracts (assuming no material churn)
- ✓ Any new contract signings after Q2 2022, with a revenue effect by Q2 2023, will come in addition
- ✓ Revenue from new contracts signed will materialise gradually through to Q2 2023
- ✓ Assumes MS change order levels at historical ~10% and PS revenue at LTM Q2 2022

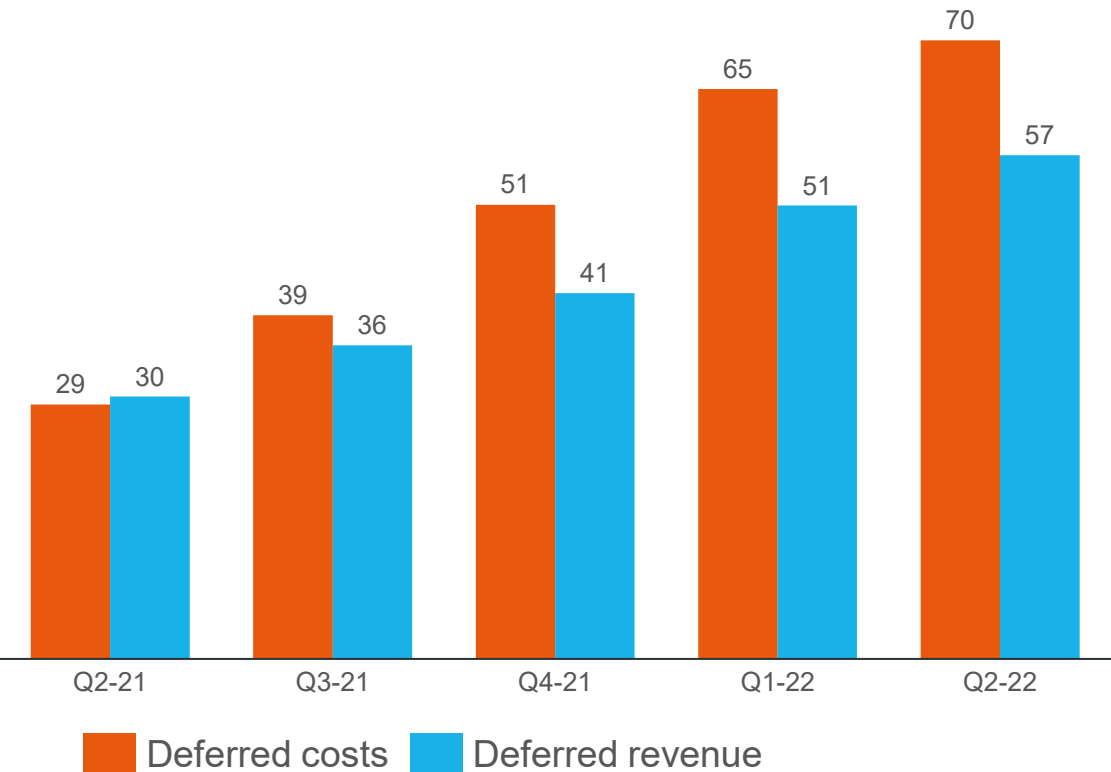
Contracted ARR* evolution over time based on signed contracts (NOKm)



*The ARR for the quarter is an estimate calculated by annualising the actual recurring revenue (according to contract 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.

Revenue deferred as part of transformation projects for new BPO contracts continues to show a high activity level

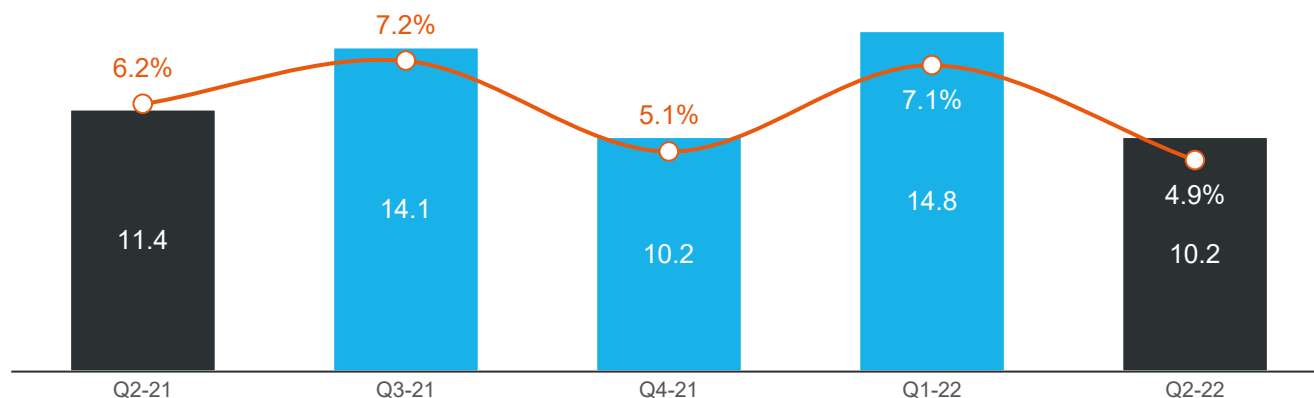
Deferred revenue and employee hours capitalised, LTM (NOKm)



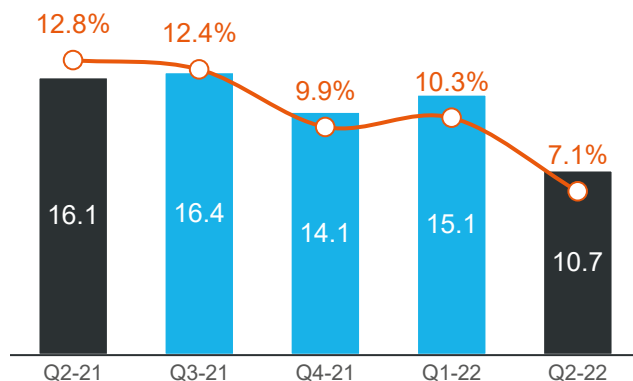
- ✓ Significant potential **revenue generating capacity utilised on implementing new BPO contracts**, which will generate recurring revenue from go-live date
- ✓ Amount of **revenue deferred increased by 55% to NOK 17.6m** for the quarter YoY
- ✓
- ✓ Value of employee hours capitalised increased by 52% to NOK 18.2m for the quarter YoY
- ✓ Deferred revenue and costs will be recognised over the contract period, from the go-live date

Adj. EBIT (ex. APAC) for Q2 impacted by onboarding of customers and recruitment and training of new resources to handle increased volumes

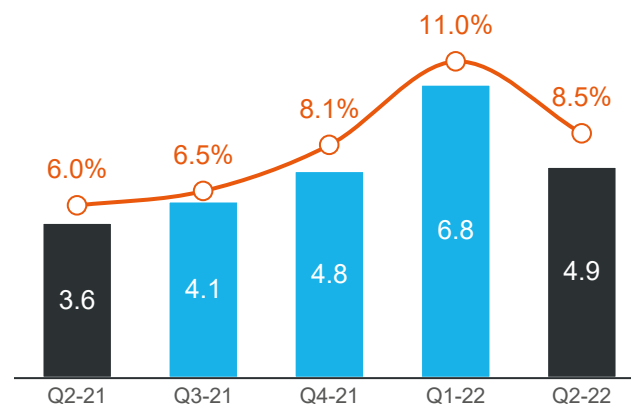
Adj. EBIT* excluding APAC (NOKm) and margin (%)



MS - EBIT (NOKm) and margin (%)



PS - EBIT (NOKm) and margin (%)



- ✓ Adj. EBIT (ex APAC) NOK 10.2m (NOK 11.4m) -10.5%
- ✓ Adj. EBIT (ex APAC) margin 4.9% (6.2%)
- ✓ Adj. EBIT margin impacted by:
 - ✓ build-up of delivery capacity for new contracts +35 FTEs (57% near/offshore) since Q1'22 to 884 FTEs ex. APAC having negative effect on utilisation
 - ✓ Higher travel and related costs + NOK 3m
- ✓ New contracts that go live in 2022 and 2023 will support improved EBIT margins
- ✓ Initiatives for margin improvements
 - ✓ Further transfer of work to nearshore and offshore locations with lower cost structure
 - ✓ Operational improvement program to bring customer margins in Germany to Nordic level
 - ✓ Increased utilisation (will partly come through volume increases)
- ✓ EBIT APAC NOK -3.5m – targeted break-even from Q3'22

* See definition of adj. EBIT under APMs in Q2 2022 Interim Report)

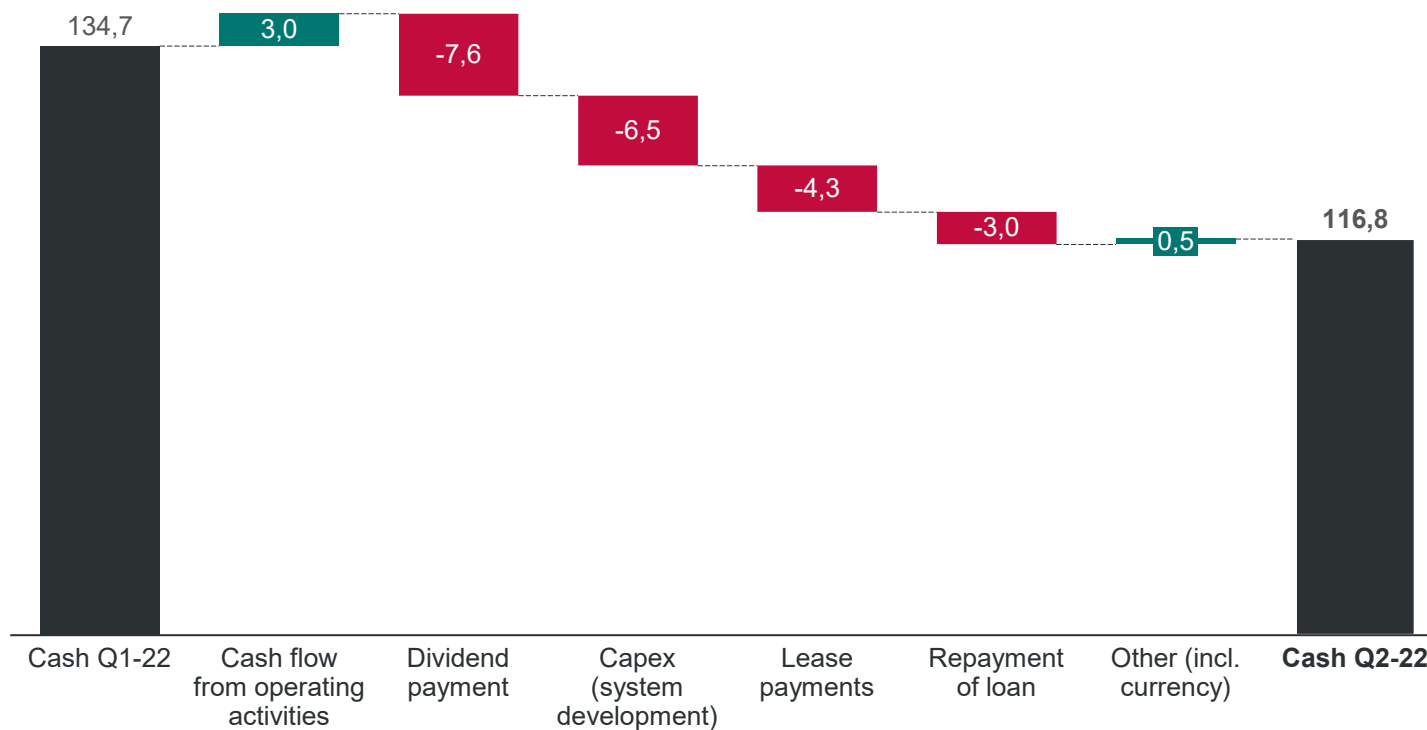
Condensed Profit and Loss

	2022	2021	2022	2021	2021
(NOK 1 000)	Apr-Jun	Apr-Jun	Jan-Jun	Jan-Jun	Jan-Dec
Revenue	210 187	185 415	418 627	378 193	775 265
License costs	20 647	16 188	40 416	31 763	67 481
Personnel expenses	118 864	98 961	223 614	205 023	405 949
Other operating expenses	49 819	48 497	105 049	90 723	199 886
Amortization implementation costs customer projects	7 469	6 922	15 491	13 678	29 874
Depreciation, amortization and impairments	12 194	11 748	24 416	23 641	49 488
EBIT	1 194	3 100	9 642	13 365	22 585
Adjustment items	5 626	8 320	11 560	11 843	26 989
Adjusted EBIT*	6 820	11 419	21 201	25 208	49 574
Adjusted EBIT margin %	3,2%	6,2%	5,1%	6,7%	6,4%
Net financial income/(expense)	(27 396)	(12 138)	(21 107)	(918)	(7 571)
Profit/(loss) before tax	(26 203)	(9 039)	(11 466)	12 447	15 014
Income tax expense	5 182	2 623	3 664	(1 387)	(2 203)
Profit/loss from discontinued operations	(3 959)	-	(7 720)	-	-
Profit/(loss) for the period	(21 021)	(6 416)	(7 802)	11 060	12 812
Basic earnings per share (NOK)	(0,72)	(0,31)	(0,75)	0,52	0,60

- ✓ **License costs:** Increase from inclusion of ba.se and volume/revenue increases
- ✓ **Personnel expenses:** Increased number of FTEs YoY (+188), higher option costs (+NOK 1.2m), and reclassification from Other op. exp. (+NOK5.2m), partly offset by more costs being deferred through customer projects (-NOK 6.0m) and positive currency movements
- ✓ **Other op. exp.:** Higher use of external consultants and travel costs, and inclusion of ba.se, offset by NOK 5.2m reclassified to personnel exp. Figure last year included NOK 5.2m in one-off m&a expenses

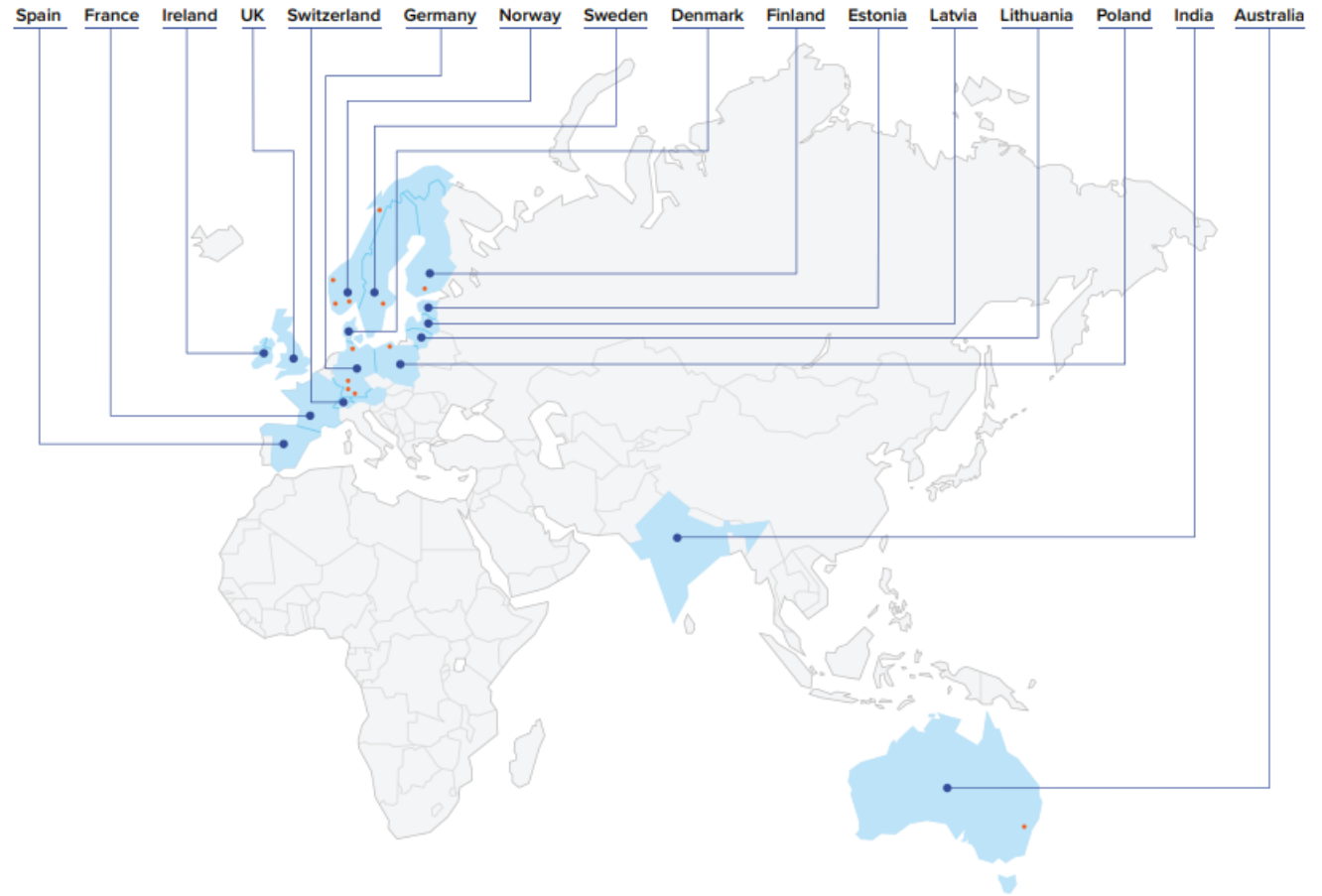
Continued strong cash position

Development in cash balance (NOKm)

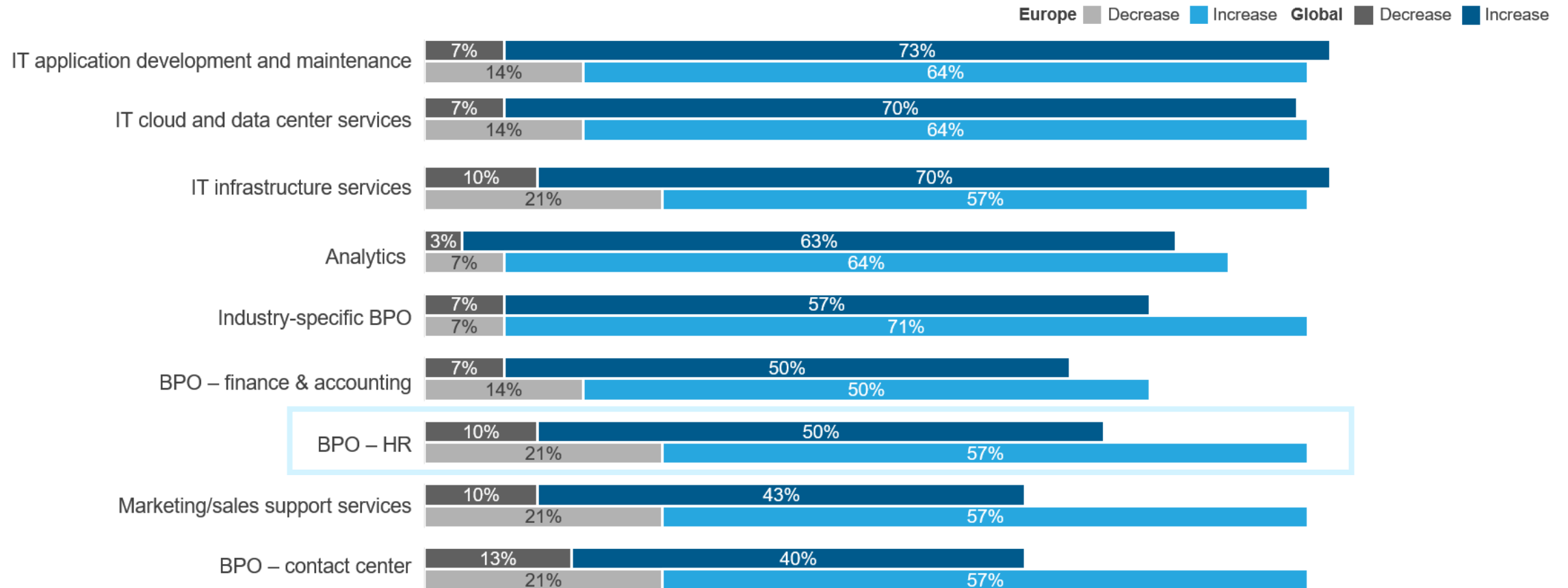


- ✓ **Cash balance** at 30 June of **NOK 117m**
- ✓ **Dividend payment of NOK 7.6m** (NOK 0.35 per share)
- ✓ Investments relates mainly to internal system development including projects partly financed through SkatteFunn
- ✓ **Net interest-bearing debt of NOK 254.4m** vs. NOK 212.9m at the end of previous quarter.

Markets and Outlook



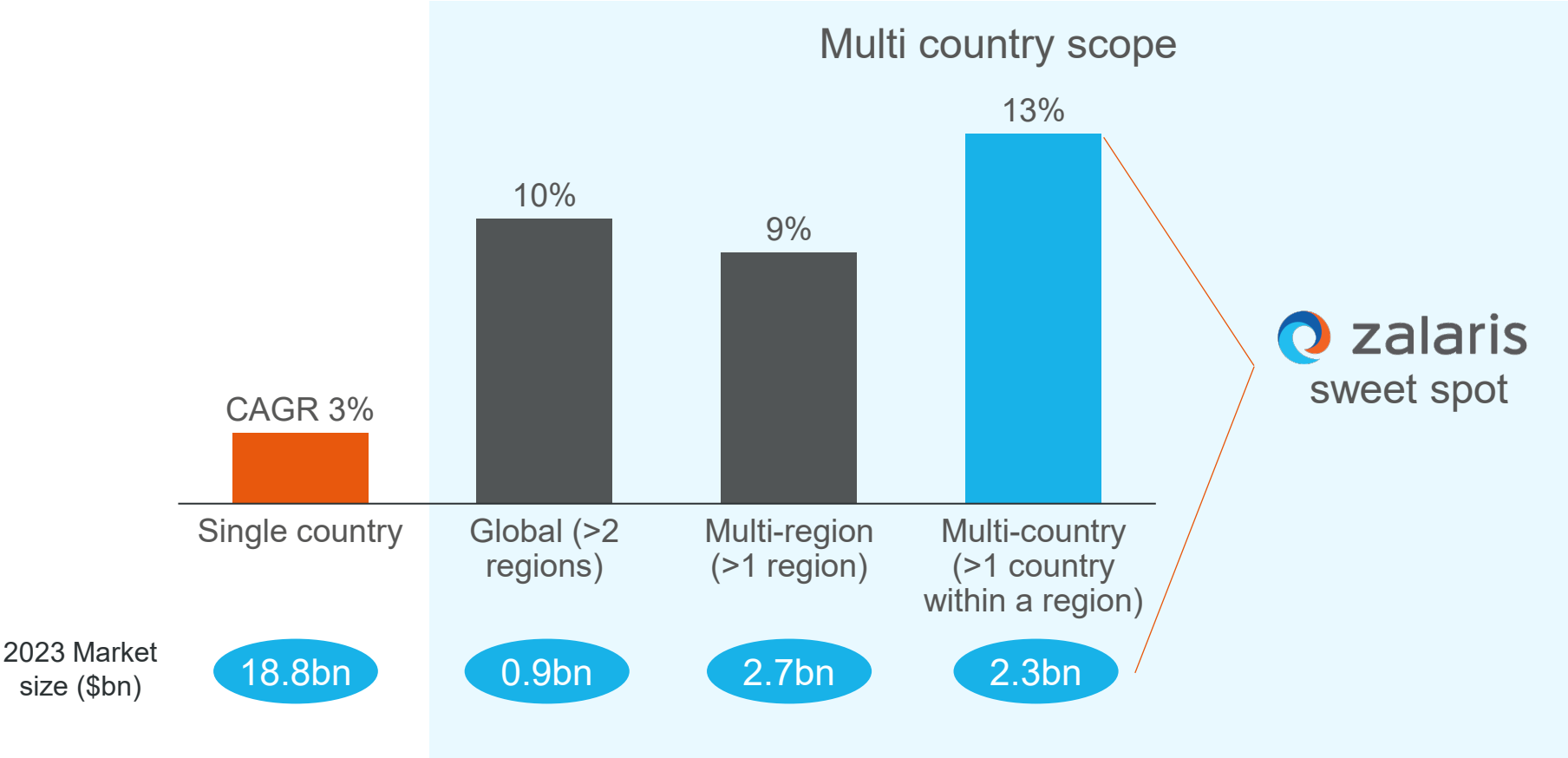
57% of European senior stakeholders from global enterprises expect the use of HR Outsourcing to grow



Note: Bars do not sum to 100% because they exclude the neutral respondents
Source: Everest Group Key Issues Survey, 2020

Well positioned in most attractive market segment

Above 10% 2018-2023 growth (CAGR) for the multi-country segment



CAGR 2018-2023 Source: Nelson-Hall, "Next Generation Payroll Services"

Well protected to changes in global macro picture

- ✓ Higher inflation
 - ✓ Most long-term contracts have a provision for annual indexation based on salary and CPI increases
 - ✓ Experiencing some pressure on salary levels in a competitive market for resources
- ✓ Fear of recession
 - ✓ High share of recurring revenue and long-term contracts
 - ✓ Historically seen an increased interest for outsourcing in challenging times, when companies need to focus on operational efficiencies and cost reductions
 - ✓ Geographical diversified
- ✓ Higher interest rates
 - ✓ Would increase cost of capital, but current solid cash position and positive cash-flow.



Leaving Q2 continuing growth with aim of delivering on margin expectations

- ✓ **Communicated growth of 10%+** within sight and annualized revenue of NOK 900+ million by Q1 2023
- ✓ **Maintain target EBIT of 10%** as revenue from projects under implementation are recognized and cost reductions from Zalaris 4.0 in place
- ✓ **Resilient vs macro picture.** Majority of contracts with indexation clauses protect against inflation and pressure on personnel costs. Historically increased demand for outsourcing in recession/crisis situations.
- ✓ **APAC investment** with first significant projects wins and **expected to deliver positive EBIT from Q3 2022**
- ✓ **Refocused vyble** to focus on HR and Payroll **SaaS**. **Seeking new owner/co-owner** that can finance strengthened marketing and sales to capture significant share of EUR 3,2 billion German market.

Q&A



Simplify work life.
Achieve more.



“

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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