

26 October 2022

# Presentation of financial results Q3 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

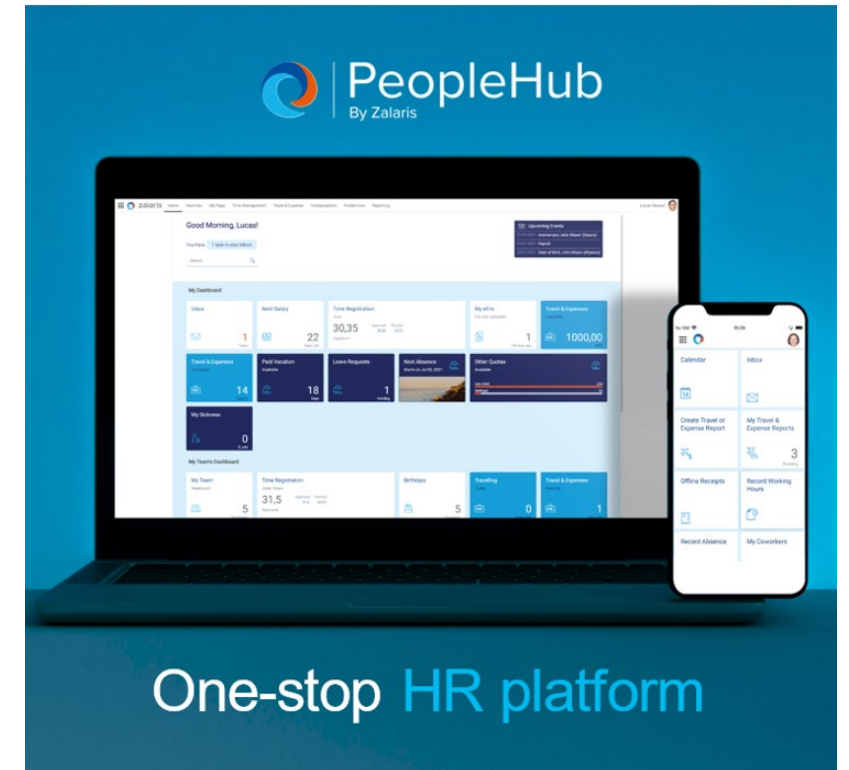


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# Q3 2022 key takeaways

- ✓ **Accelerated growth:** Revenue growth of 17 percent (constant currency). Managed Services grew by 24 percent
- ✓ **Rapid growth has affected EBIT negatively:** Stable margins on existing customers. EBIT temporarily negatively affected by ramp-up cost to handle large volume increases
- ✓ **EBIT improvement program:** Will increase annual EBIT by minimum NOK 40 – 50 million from current level by end-2023 from costs improvements and contribution from signed contracts
- ✓ **Successful new-sales:** Strong inflow of new contracts in Q3, including a 5-year contract with CSL Behring in Germany and Switzerland
- ✓ **Good outlook:** Solid pipeline of new business with several deals in final selection stage





# Continued development in new signings to serve additional 15'300 employees secure recurring revenue growth

- ✓ 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 SAP SuccessFactors v 2.0 completed and expected to create additional demand in cooperation with SAP



5-year agreement for **outsourced payroll solution and outsourcing services** based on Zalaris **PeopleHub** to global pharmaceutical company **CSL Behring's** 7'800+ employees in **Germany and Switzerland**



5-year agreement for **outsourced payroll solution and outsourcing services** based on Zalaris **PeopleHub** for international hearing aid retailer **Amplifon's** 2'500+ employees in **Germany**



Zalaris to provide **SaaS payroll solution** based on Zalaris **Peoplehub** for 3'000 employees to international payroll company **iiPay's** end customer in **Germany**



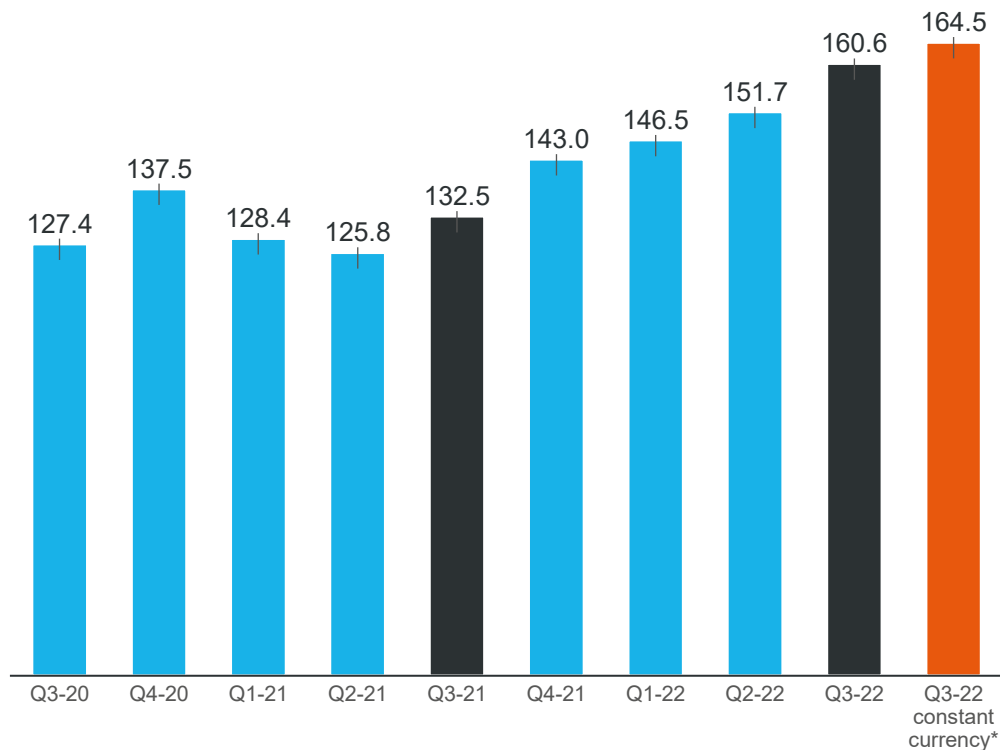
5-year agreement for **payroll outsourcing services** based on Zalaris **Peoplehub** for Polish chemical company **Ciech's** 800 employees in **Germany**



Five-year agreement to implement and operate **PeopleHub solution** powered by SuccessFactors to **Sealord's** 1'200 employees in **APAC/New Zealand**.

# Managed Services grew by 24% in the third quarter, in local currency

Revenue  
NOK 160.6m (+21.2%)

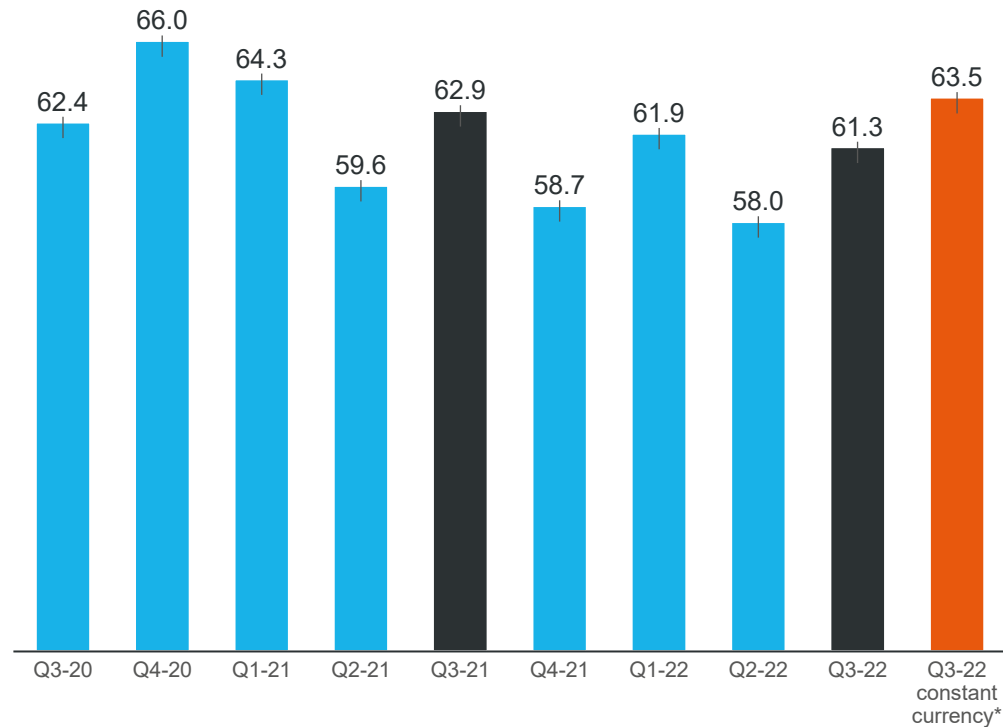


\*Revenue in local currency converted to NOK using the avg. currency rate from the quarter last year. See Q3 interim report for definitions of APMs

- ✓ **+24.2% higher revenue** when adj. for currency effects
- ✓ The inclusion of base added +3.3%, while **+20.9% relates to new customers** and volume increases
  - ✓ More change orders contributed with 5.4% (+NOK 7.2m) of the revenue growth
  - ✓ Change orders as a % of total MS revenue in Q3 was 11.0%, compared to 9.6% LTM (>90% recurring revenue)
- ✓ **Net new signings with annual recurring revenue (ARR) of ~NOK 25m** during the quarter
- ✓ **Continued good activity level**, particularly within the European multi-country HR & Payroll segment, where Zalaris has a strong position.
- ✓ **A number of large-size deals** in are final stage where Zalaris is selected as one or one of two final bidders in exclusive negotiations.

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

Revenue  
NOK 61.3m (-2.5%)



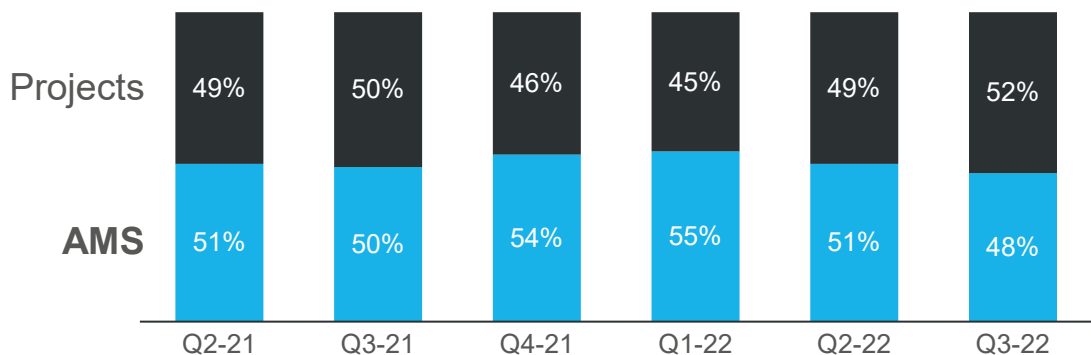
- ✓ **Revenue** in Professional Services **grew by 1%** was when adjusted for negative currency effects
- ✓ Significant **PS capacity still being utilized on implementing new customers in MS** (transformation projects) in Germany and UK
- ✓ Pressure on PS consulting resources, particularly in Germany, and **lack of available resources is the key growth inhibitor**
- ✓ In local currency, revenue in **Poland grew by ~27%**, from additional volume from existing clients, while Germany had a reduction of ~7%

\*) Revenue in local currency converted to NOK using the avg. currency rate from the quarter last year. See Q3 interim report for definitions of APMs



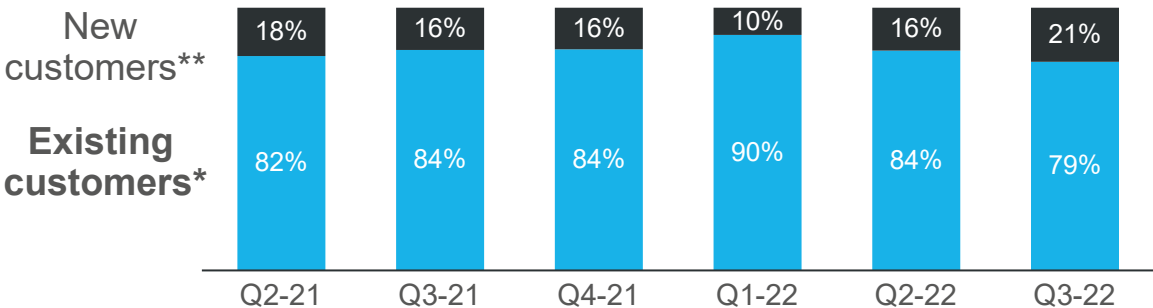
# Majority of Professional Services revenue is recurring and supports a continuous presence with customers

Distribution of Projects vs long term AMS based revenue



- ✓ ~50 % of Professional Services revenue is recurring, or recurring like, and based on long term agreements and relationships
- ✓ ~80 % of Professional Services revenue is from customers that were customers 12 months prior

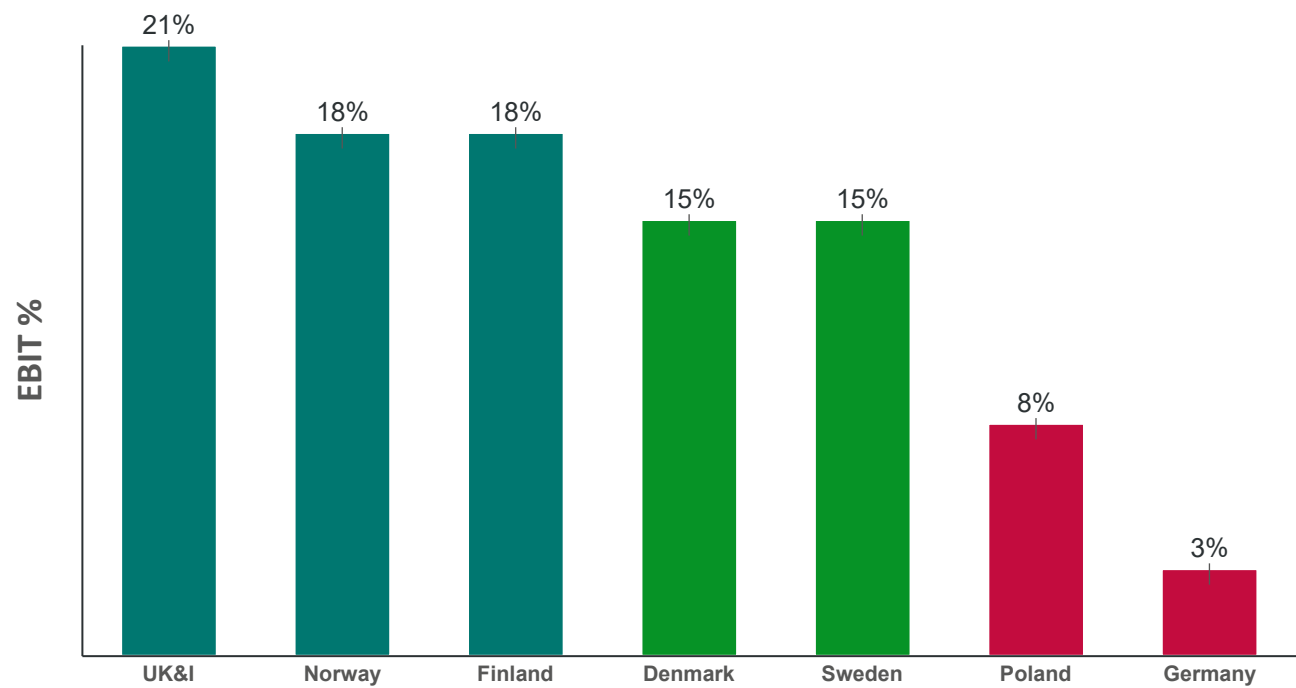
Revenue customer split



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

# EBIT improvements program lifting underperforming entities to target EBIT levels

✓ EBIT% YTD Q3'22 per country:



Revenue (MNOK)	32	143	50	53	81	52	219
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- ✓ Target EBIT margin of 15 – 20% per entity (before any allocation of group costs)
- ✓ Key characteristics of high performing entities
  - ✓ High level of standardization with customer deliveries on one common Zalaris Peoplehub platform
  - ✓ Higher level of near- and offshoring
- ✓ Key activities Zalaris Germany to improve EBIT
  - ✓ Complete roll-out of Zalaris standard service management concept and workflow providing a digital transport layer moving work to anywhere in the Zalaris organization
  - ✓ Move transactional activities to near/offshore centers in Latvia, Poland and India, and use RPA to reduce average resource costs and gain access to more talent
  - ✓ All new customer projects starting from 2022 sold and implemented on scalable multi-tenant Peoplehub solution
  - ✓ Reduce dependency on external consultants

# EBIT improvement program to increase annual EBIT by minimum NOK 40 – 50m by end-23

- ✓ **Improve customer margins in Northern Europe** through full implementation of Zalaris 4.0 operating model and near-/offshoring by end of 2023 resulting in **NOK 8 - 10m** annualized cost savings
- ✓ **Implement Zalaris 4.0 operating model and near-/ offshoring for German operations** by end of 2023 resulting in **NOK 8 - 10m** annualized savings
- ✓ **Utilize existing capacity to serve new customers** and additional change orders resulting in **NOK 5 - 10 million** annualized savings/incremental margin
- ✓ **Add contribution (margin) from customers to go live** (net of non-renewals) with an EBIT effect of **NOK 20 million**
- ✓ **Reduce the use of external consultants** and replace with own employees with 20-25% lower costs resulting in **~NOK 5 million** annual savings
- ✓ **Review overhead costs** targeting maintaining or slightly lower existing levels

# 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:** A leading European provider of payroll and human capital management solutions based on BPaaS and SaaS models

**1,500,000**

employees served monthly across all HR solutions

**990**

Zalaris employees

**> 300,000**

employees served monthly through payroll services

Q3-22 Annualized Revenue

**EUR 90+ 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)

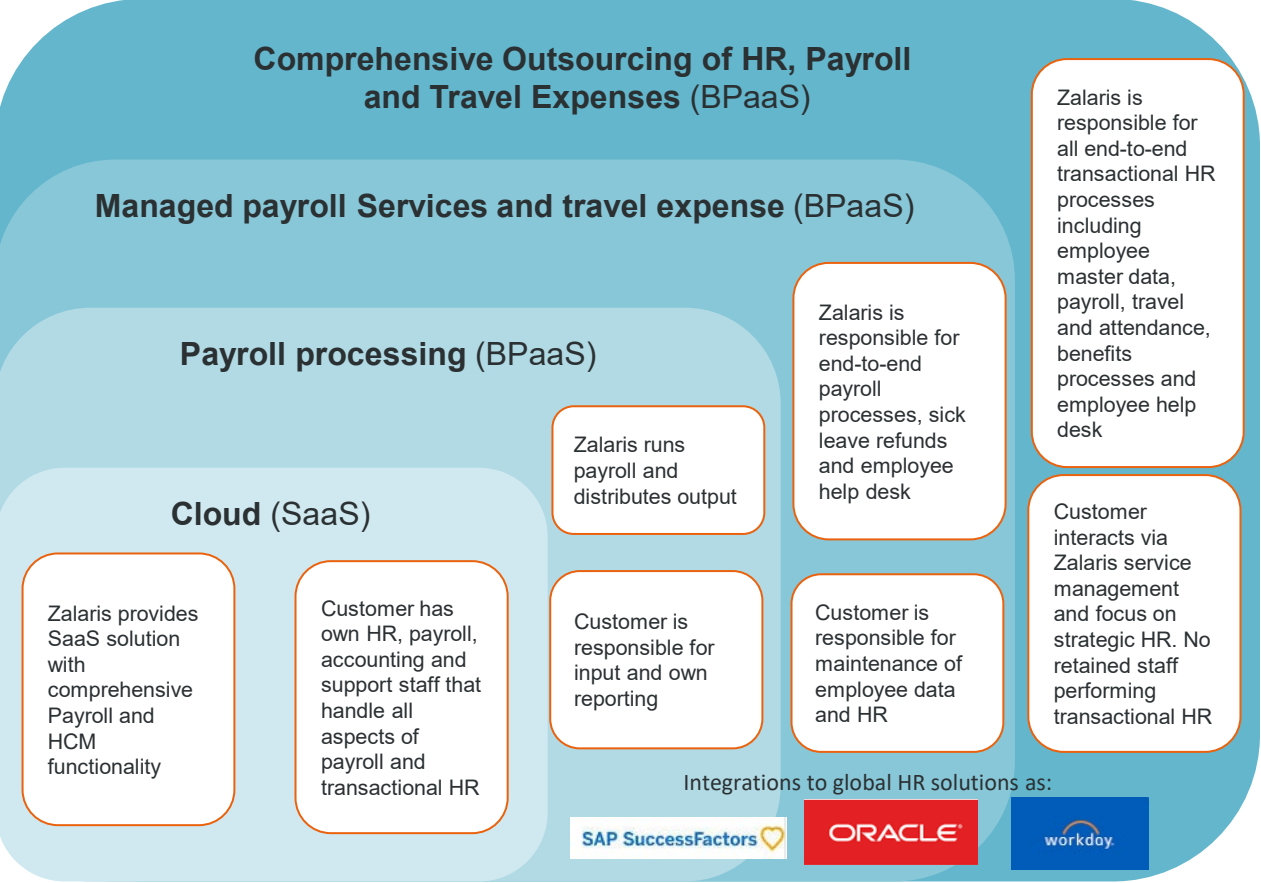
Business Process as a Service (BPaas) and Outsourcing

Software as a Service (SaaS)

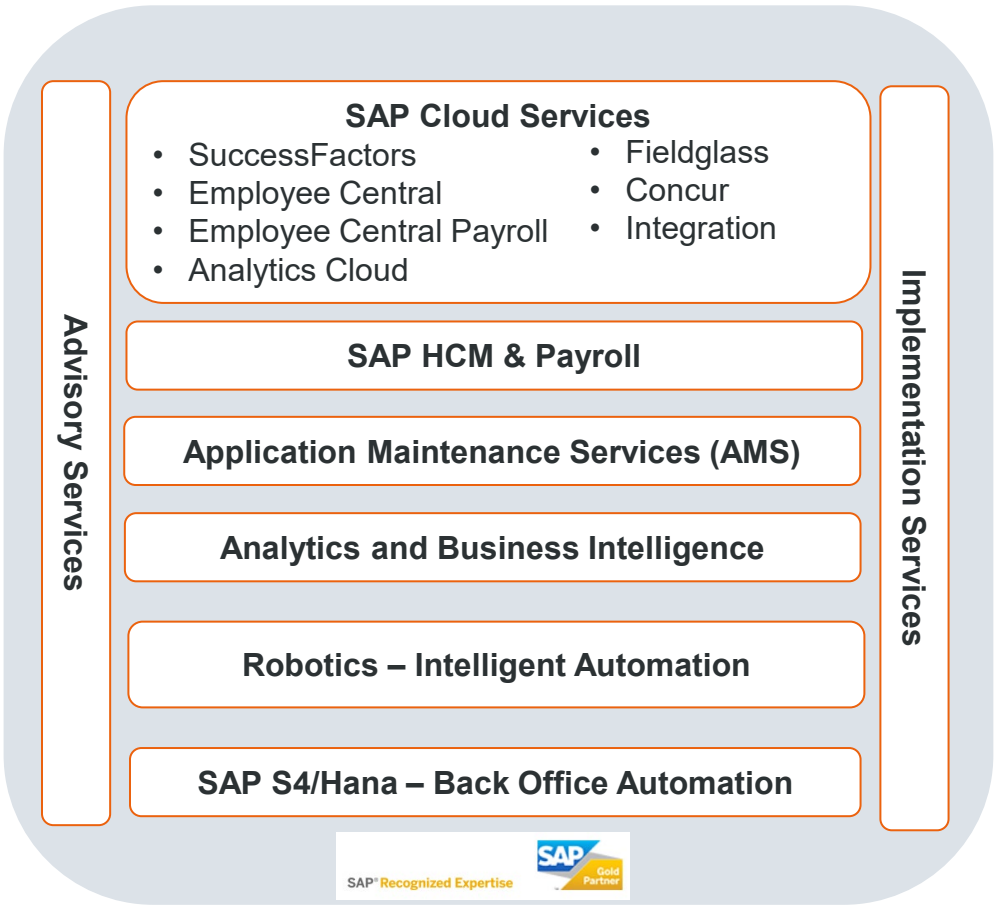


# Payroll and HR partner to mid- and large size organizations

## MANAGED SERVICES (MS)



## PROFESSIONAL SERVICES (PS)

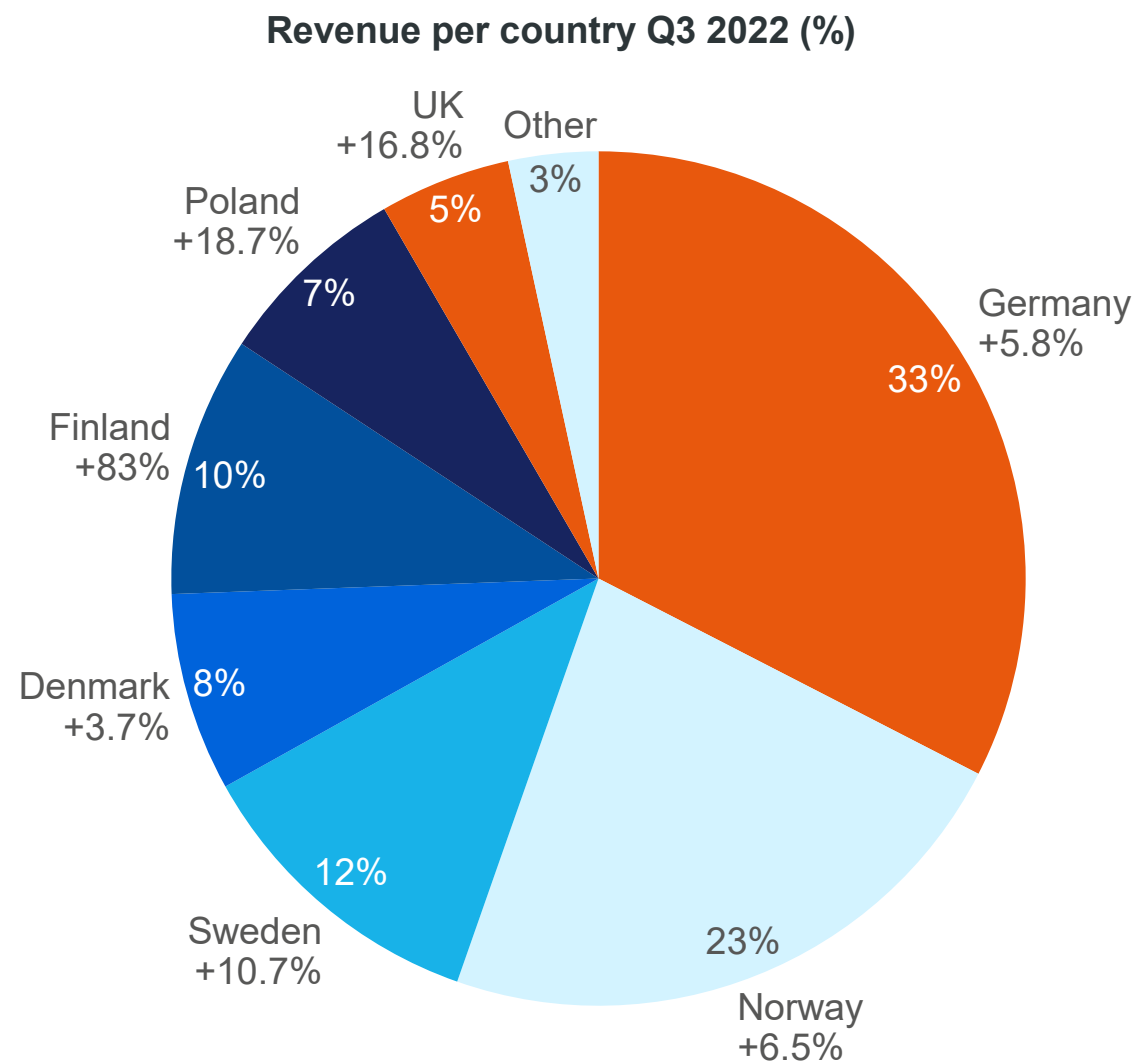


Professional Services is responsible for the delivery of traditional consulting projects as well as outsourcing- and cloud implementation projects



\*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 AND HOSPITALITY	SERVICE INDUSTRIES
		

# Financial Review

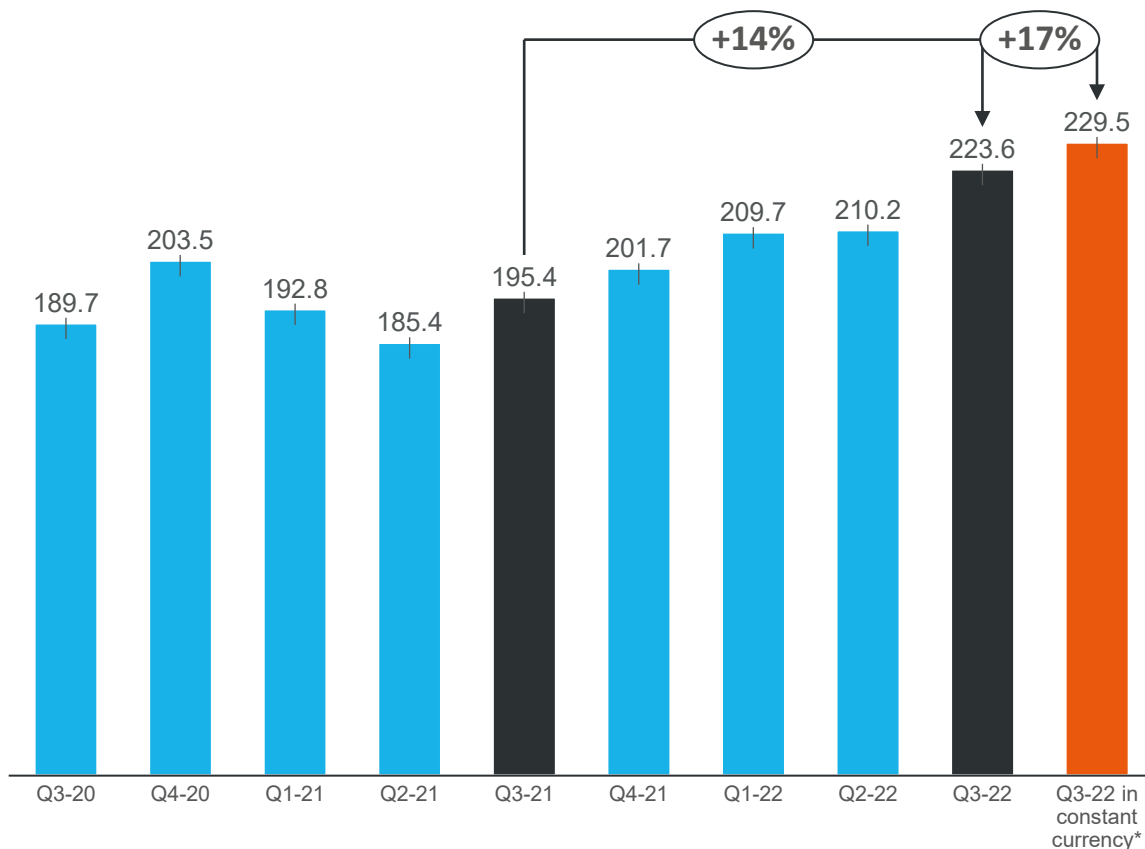


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# Revenue increased by 17% for the quarter in local currency

Revenue  
NOK 224m (+14%)

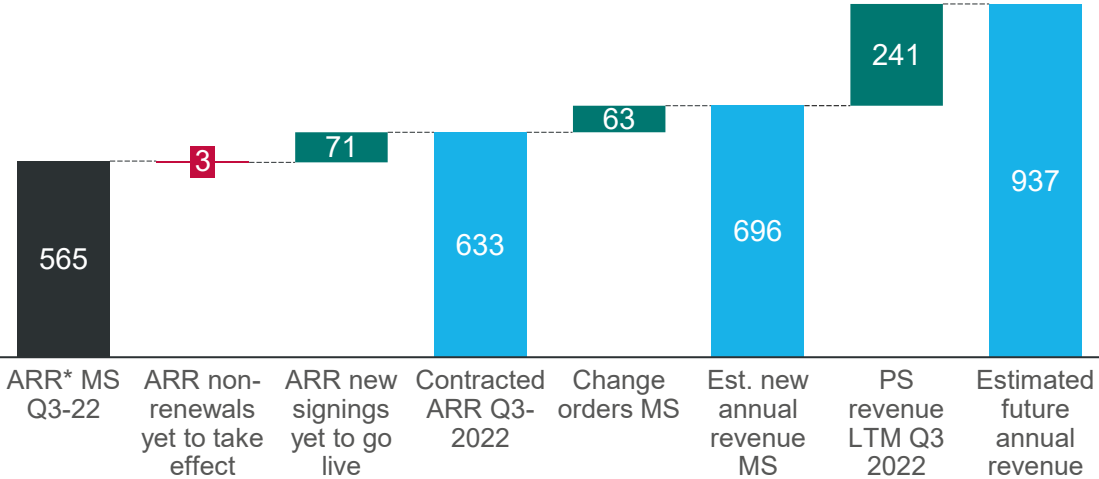


- ✓ Revenue growth +17.5% YoY in constant currency
- ✓ Revenue growth (as reported) for the quarter YoY: +14.4%
  - From new entities (ba.se): +2.2%
  - Increased change orders in MS: +3.7%
  - New contracts/volume changes: +8.5%
- ✓ MS +21.2% to NOK 161m
- ✓ PS -2.5% to NOK 61m
- ✓ Signed new SaaS/BPaaS contracts with annual recurring revenue of ~NOK 25m during the quarter
- ✓ New SaaS/BPaaS contracts signed but yet to be implemented has annual recurring revenue of ~NOK 71m

\*See Q3 financial report for definitions of APMs

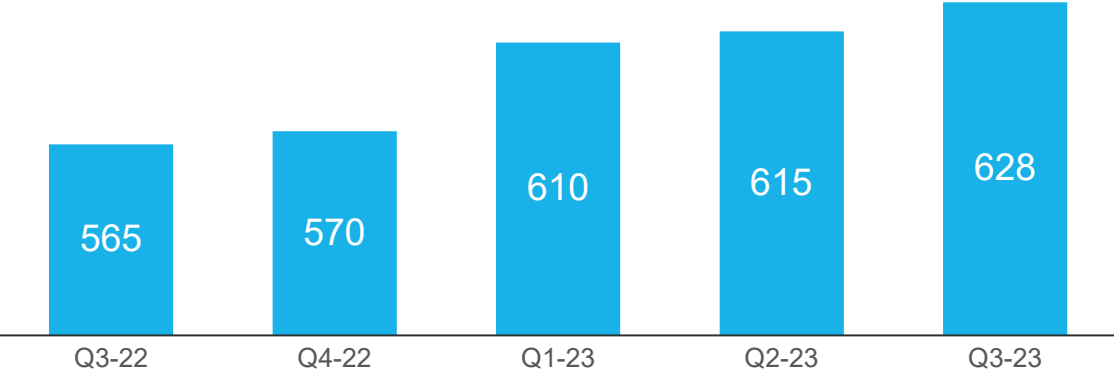
# New BPO contracts will result in significant revenue increase going forward

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



- ✓ **Total annual revenue expected to increase by ~NOK 87m (+10%)** by Q3 2023 vs. LTM Q3 2022, based on signed contracts (assuming no material churn)
- ✓ Any new contract signings after Q3 2022, with a revenue effect by Q3 2023, will come in addition
- ✓ Revenue from new contracts signed will materialise gradually through to Q3 2023
- ✓ Assumes MS change order levels at historical ~10% and PS revenue at LTM Q3 2022

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

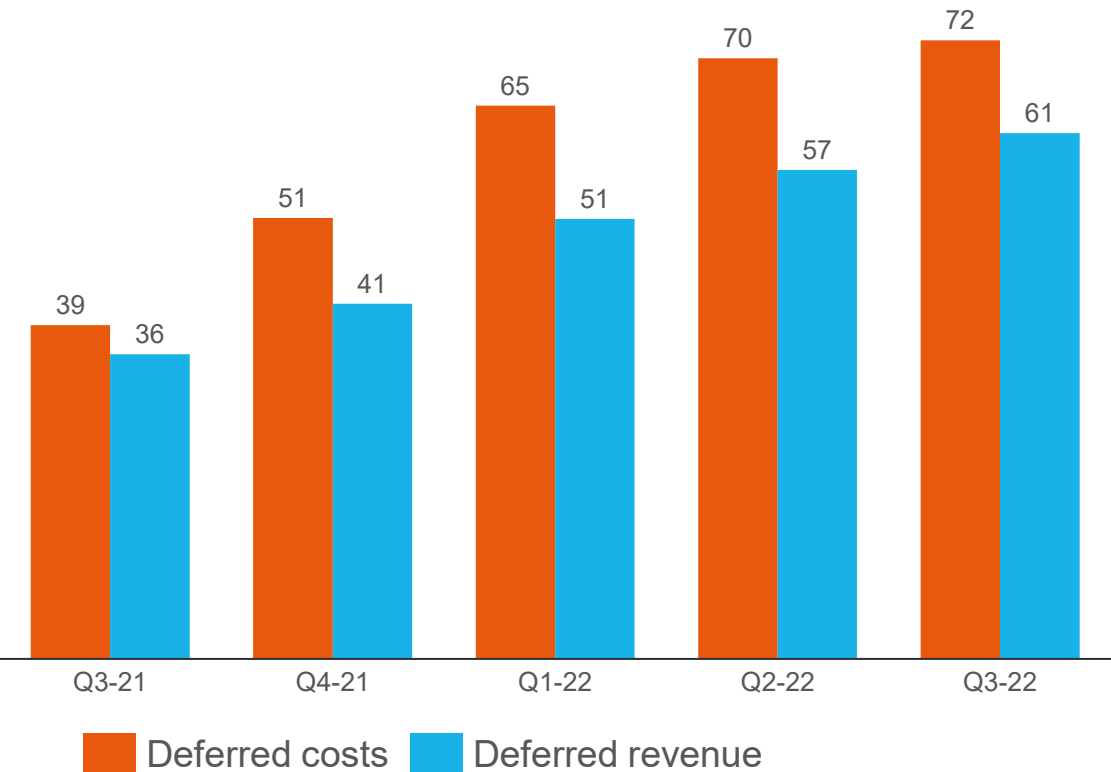


\*The ARR for the quarter is an estimate calculated by annualising the actual recurring revenue (according to contract revenue and additional services) for the quarter, for customers at the end of the quarter. Please refer to the APMs section of the interim financial report for further details.



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

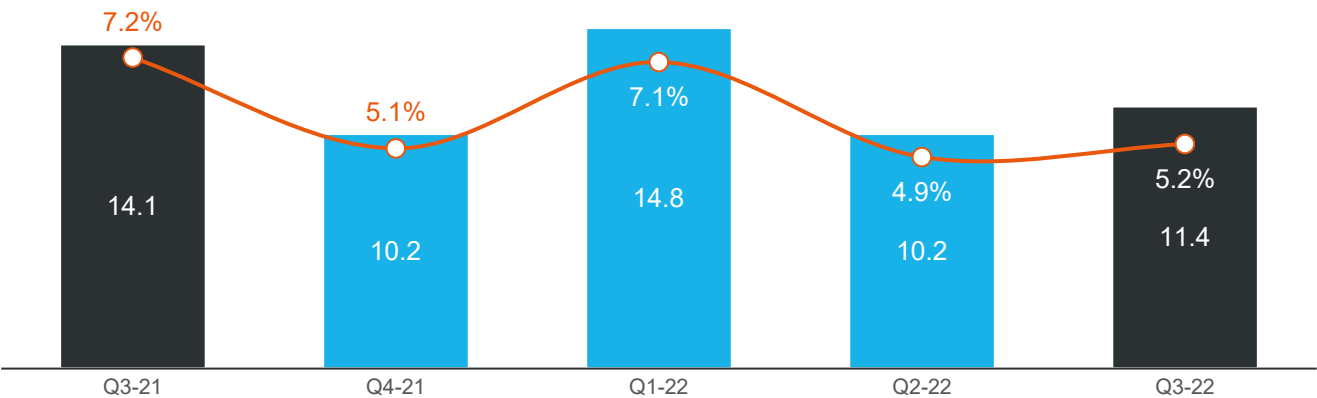
Deferred revenue and employee hours capitalised, LTM (NOKm)



- ✓ 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 51% to NOK 12.8m** for the quarter YoY
- ✓
- ✓ Value of employee hours capitalised increased by 16% to NOK 15.1m for the quarter YoY
- ✓ Deferred revenue and costs are recognised over the contract period, from the go-live date

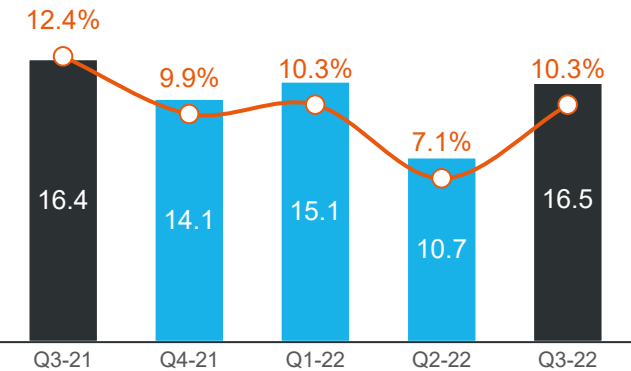
# Adj. EBIT (ex. APAC) for Q3 impacted by onboarding of customers and recruitment and training of new resources to handle increased volumes

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

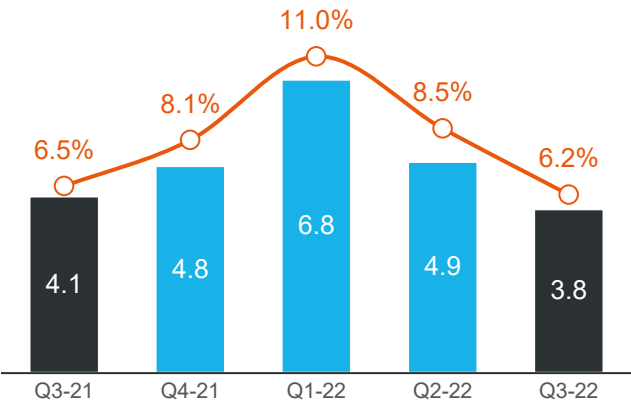


- ✓ Adj. EBIT (ex APAC) NOK 11.4 (NOK 14.1m) -19.1%
- ✓ Adj. EBIT (ex APAC) margin 5.2% (2.0pp)
- ✓ Adj. EBIT margin impacted by:
  - ✓ build-up of delivery capacity for new contracts +158 FTEs since Q3'21 (ex. APAC) having negative effect on utilisation
  - ✓ More use of external consultants on customers at a higher average cost

MS - EBIT (NOKm) and margin (%)



PS - EBIT (NOKm) and margin (%)



- ✓ EBIT improvement program to increase annual EBIT by minimum NOK 40 – 50m by end-23
  - ✓ Cost improvements by moving work to near-shore and off-shore locations (program has started)
  - ✓ Improved allocation of resources and focus on improvement in customer margins after initial rapid growth since 2021, which necessitated large increase in FTEs
  - ✓ Contribution from new signed contracts
  - ✓ Reduced used of external consultants through recruitment of own personnel

\* See definition of adj. EBIT under APMs in Q3 2022 Interim Report)

# Condensed Profit and Loss

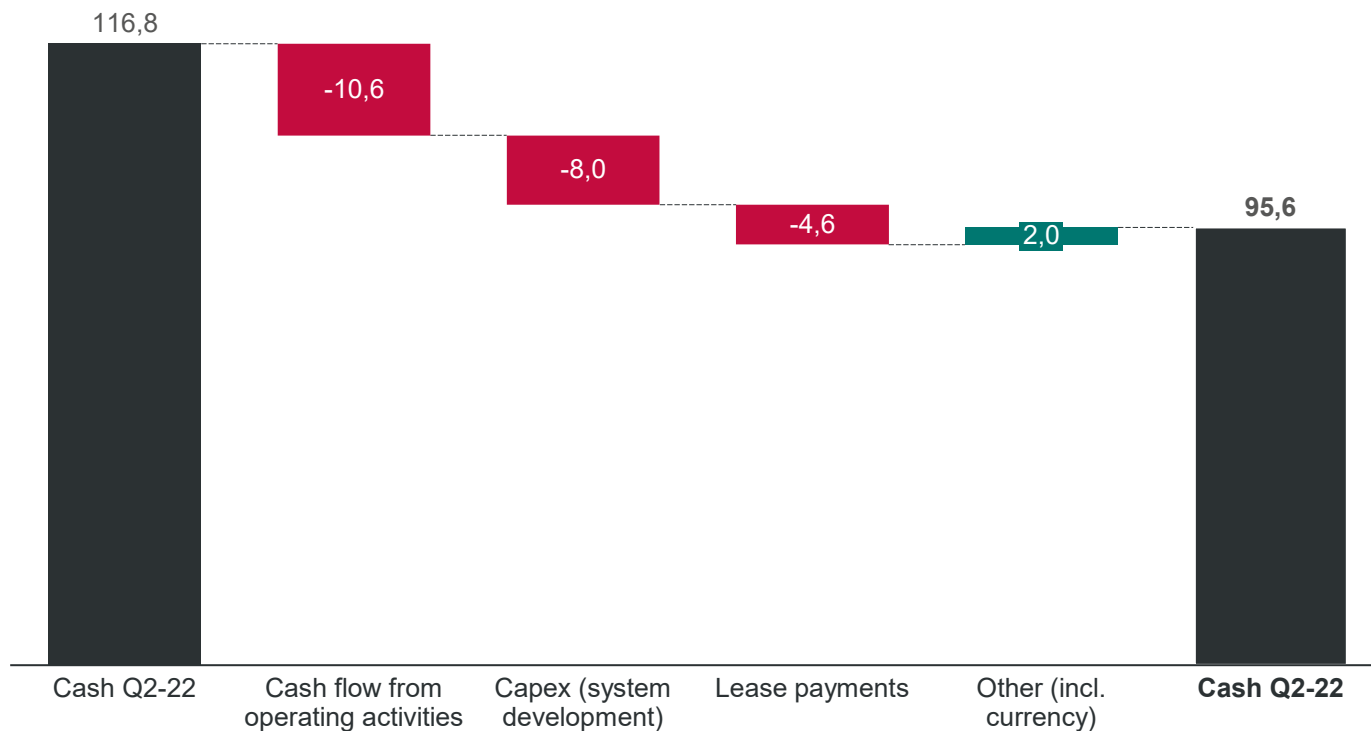
	2022	2021	2022	2021	2021
(NOK 1 000)	Jul-Sep	Jul-Sep	Jan-Sep	Jan-Sep	Jan-Dec
<b>Revenue</b>	<b>223 564</b>	<b>195 376</b>	<b>642 191</b>	<b>573 569</b>	<b>775 265</b>
License costs	20 704	17 200	61 120	48 963	67 481
Personnel expenses	120 179	98 730	343 792	303 753	405 949
Other operating expenses	58 392	51 676	163 441	142 399	199 886
Amortization implementation costs customer projects	7 316	7 338	22 807	21 017	29 874
Depreciation, amortization and impairments	12 617	12 683	37 033	36 324	49 488
<b>EBIT</b>	<b>4 356</b>	<b>7 749</b>	<b>13 998</b>	<b>21 114</b>	<b>22 585</b>
Adjustment items	5 393	6 389	16 953	18 232	26 989
<b>Adjusted EBIT*</b>	<b>9 749</b>	<b>14 138</b>	<b>30 951</b>	<b>39 346</b>	<b>49 574</b>
<b>Adjusted EBIT margin %</b>	<b>4,4%</b>	<b>7,2%</b>	<b>4,8%</b>	<b>6,9%</b>	<b>6,4%</b>
Net financial income/(expense)	(13 776)	(6 729)	(34 884)	(7 647)	(7 571)
Profit/(loss) before tax	(9 420)	1 020	(20 886)	13 467	15 014
Income tax expense	2 727	(357)	6 390	(1 744)	(2 203)
Profit/loss from discontinued operations	(4 406)	-	(12 127)	-	-
<b>Profit/(loss) for the period</b>	<b>(6 694)</b>	<b>663</b>	<b>(14 496)</b>	<b>11 722</b>	<b>12 812</b>
Basic earnings per share (NOK)	(0,95)	-	(1,23)	0,56	0,60

- ✓ **License costs:** Increase from inclusion of ba.se and volume/revenue increases
- ✓ **Personnel expenses:** Increased number of FTEs YoY (+169) and NOK 3.5m less deferred through customer projects, partly offset by positive currency movements. Personnel expenses per FTE decreased by 1.6%.
- ✓ **Other op. exp.:** Higher use of external consultants, utilized on customers (+NOK 6.5m) and higher travel costs (+1.5m)

\* Items excluded from adjusted EBIT Q3 2022: share-based payments (NOK 2.5m) and amortization of excess values on acquisitions (NOK 2.9m) - see definition of adj. EBIT under APMs in Q3 2022 Interim Report)

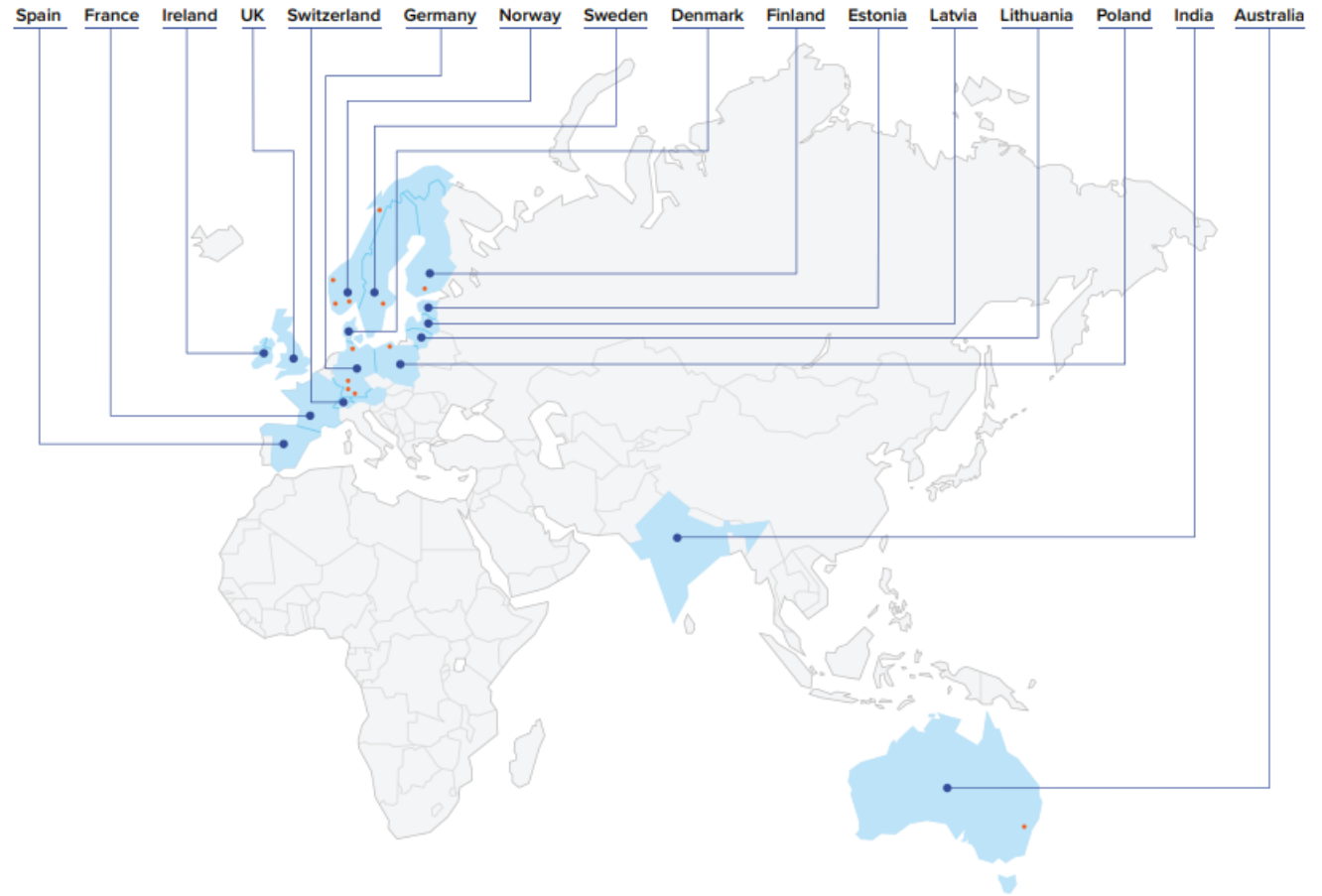
# Continued strong cash position

## Development in cash balance (NOKm)

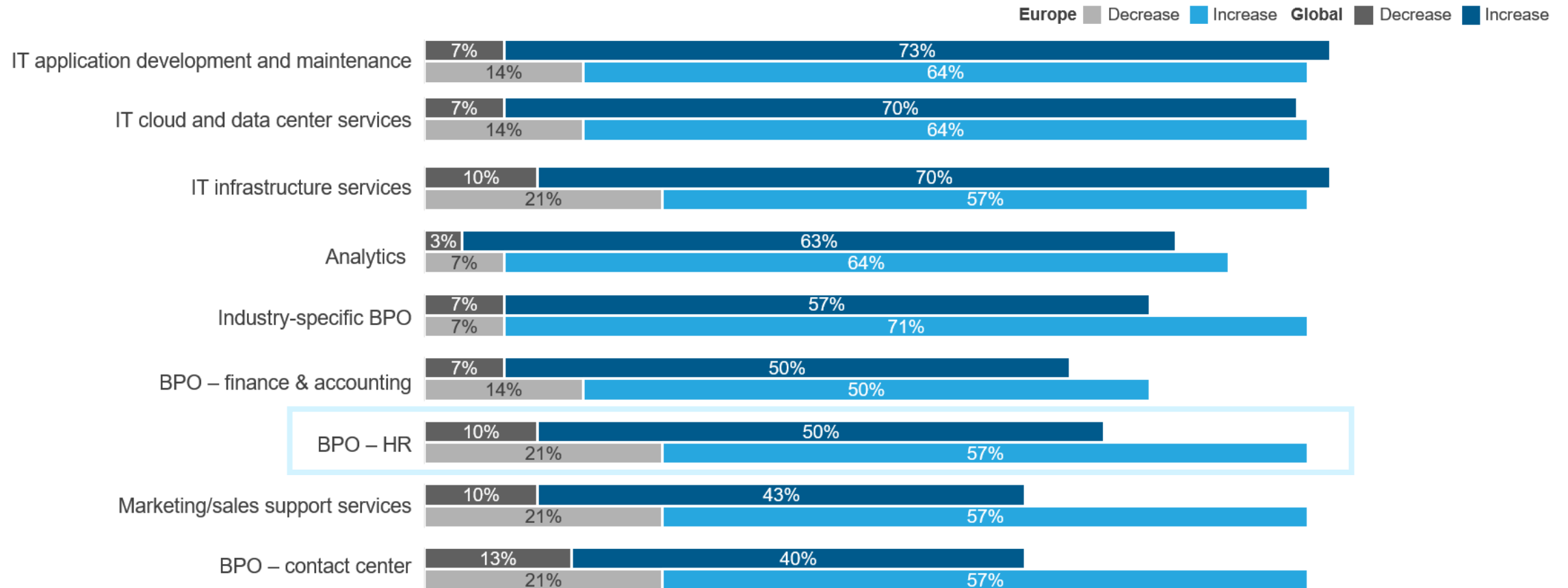


- ✓ **Cash balance** at 30 Sep of **NOK 96m**
- ✓ Negative cash flow from operating activities from **NOK 20m increase in trade receivables** (increased sales and timing effects)
- ✓ Investments relates mainly to internal system development including projects partly financed through SkatteFunn
- ✓ **Net interest-bearing debt of NOK 284.5m** vs. NOK 254.4m 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

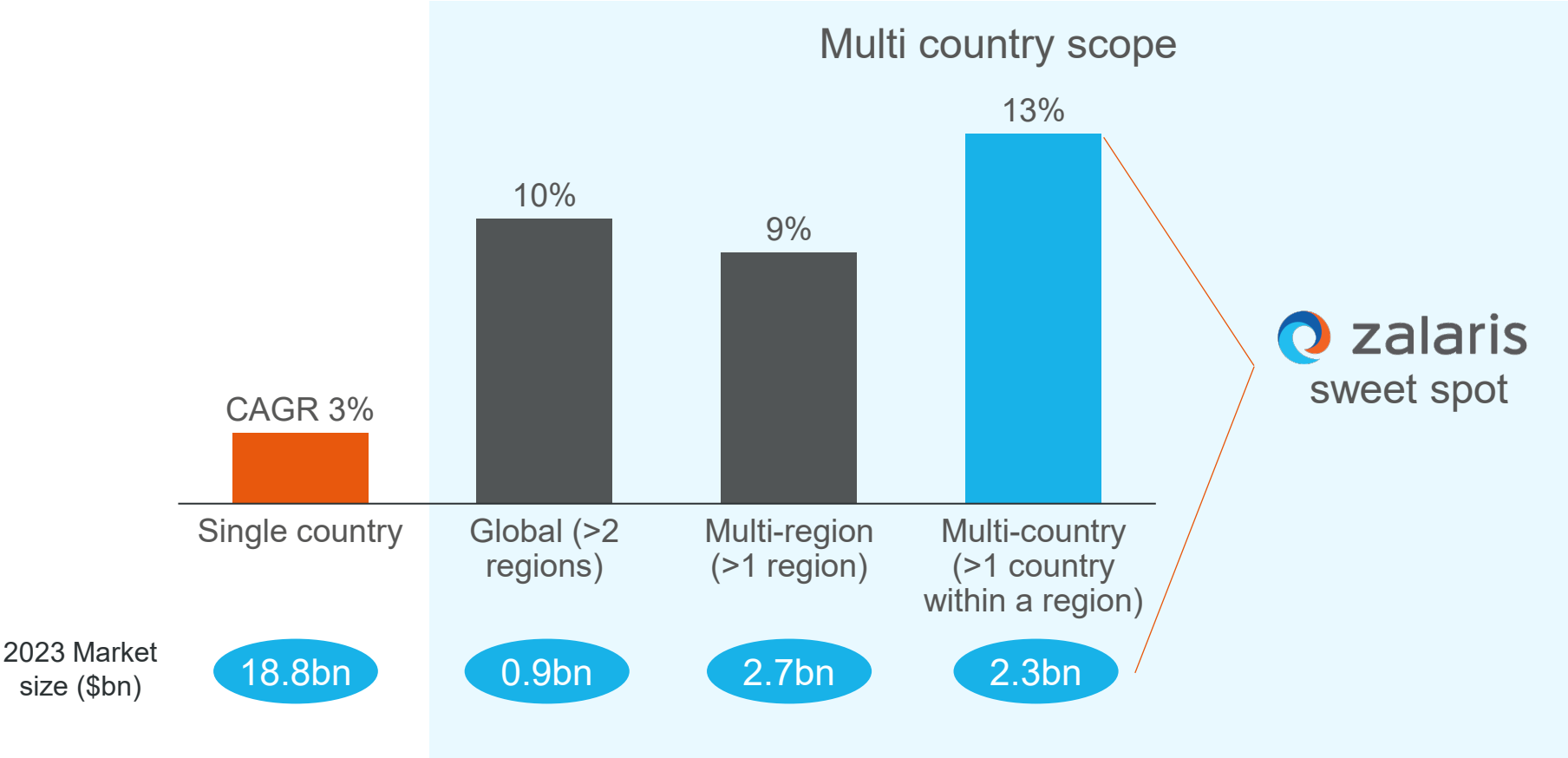


Note: Bars do not sum to 100% because they exclude the neutral respondents  
Source: Everest Group Key Issues Survey, 2020



# 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 Q3 continuing growth with aim of delivering on margin expectations through EBIT improvement program

- ✓ **Communicated growth of 10%+** within sight and becoming a NOK 1 billion company in 2023
- ✓ **Maintain target EBIT of 10%** as revenue from projects under implementation are recognized and EBIT improvement program actions implemented targeting annualized EBIT of NOK 100 million in 2023
- ✓ **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.

# Q&A



Simplify work life.  
Achieve more.





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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.



**RESILIENT** - "Able to withstand or recover quickly from difficult conditions"



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