

28 February 2023

Presentation of financial results Q4 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

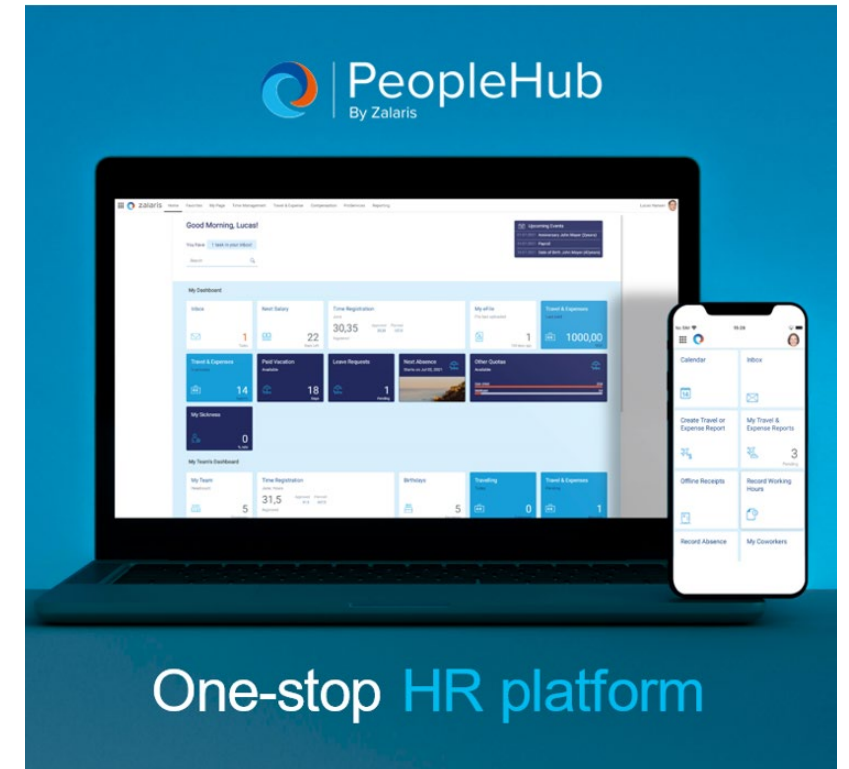


Simplify work life.
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Q4 2022 key takeaway

- ✓ **Accelerated growth:** Revenue growth of 22 percent year-on-year (constant currency).
- ✓ **EBIT improvement program on track:** Will increase annual EBIT by NOK 40 – 50 million from current level by end-2023 from costs improvements and contribution from signed contracts
- ✓ **Successful new-sales:** Good inflow of new contracts in Q4, including 5-year contracts with Boliden in Sweden and the Central Bank of Norway
- ✓ **Historic low churn:** Extended 18 of the 19 agreements up for renewal during the year
- ✓ **Solid pipeline:** New business with several large multi-country deals in contracting stage



Continued development in new signings and strong pipeline of multi-country contracts in final contracting stage

- ✓ Several new deals and extensions/renewals signed securing continued growth in 2023 and 2024
- ✓ Pipeline of Multi-Country Peoplehub powered opportunities strong, and potential for another year of record sales in 2023



5-year agreement for **outsourced payroll solution and outsourcing services** based on Zalaris **PeopleHub** to Swedish metal company **Boliden's** 3'800+ employees



5-year agreement for **outsourced payroll and, travel & expense solutions and services** based on Zalaris **PeopleHub** to **Norges Bank** (The Central Bank of Norway)



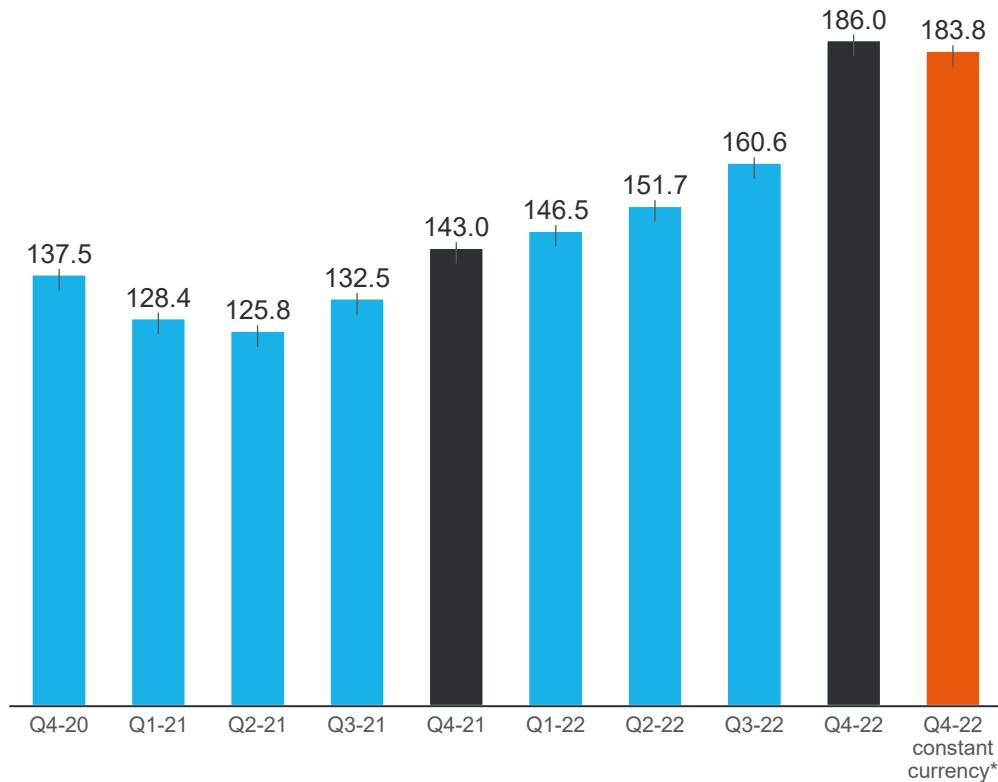
5-year agreement where Zalaris will integrate TOMRA's HR solution with Zalaris **PeopleHub**, which includes Zalaris' **cloud payroll, time and absence and travel expense solution** for employees in Norway.



Consultancy agreement (Professional Services) for the **implementation of EC Payroll** in Germany, Spain and Belgium for **Ryanair**. Further 6 – 8 countries expected to be added to the project scope.

Managed Services grew by 28% in the fourth quarter, in local currency

Revenue
NOK 186.0m (+30.1%)

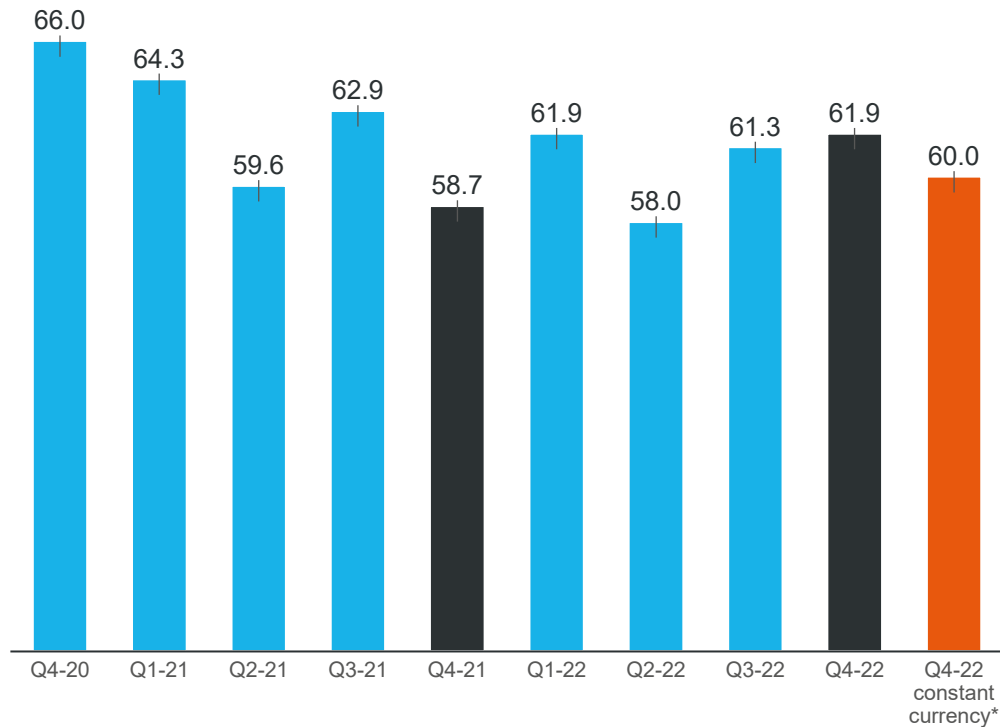


- ✓ **+28.5% higher revenue** when adj. for currency effects
- ✓ **Strong growth from new customer and up -sale/additional volume from existing customers: +30.1% (as reported)**
 - ✓ New contracts, up-sale and volume increases: +17.2%
 - ✓ More change orders contributed with 6.6% (+NOK 9.5m)
 - ✓ One-off revenue recognition relating to a customer project: +6.3% (+NOK 9.0m)
- ✓ **Net new signings with annual recurring revenue (ARR) of ~NOK 12m** during the quarter
- ✓ The pipeline remains strong, with **several** large potential global and European multi-country **deals in an advanced stage**

*Revenue in local currency converted to NOK using the avg. currency rate from the quarter last year. See Q4 interim report for definitions of APMs

Professional Services continue being strong contributor to Zalaris overall success and Managed Services growth

Revenue
NOK 61.9m (+5.5%)

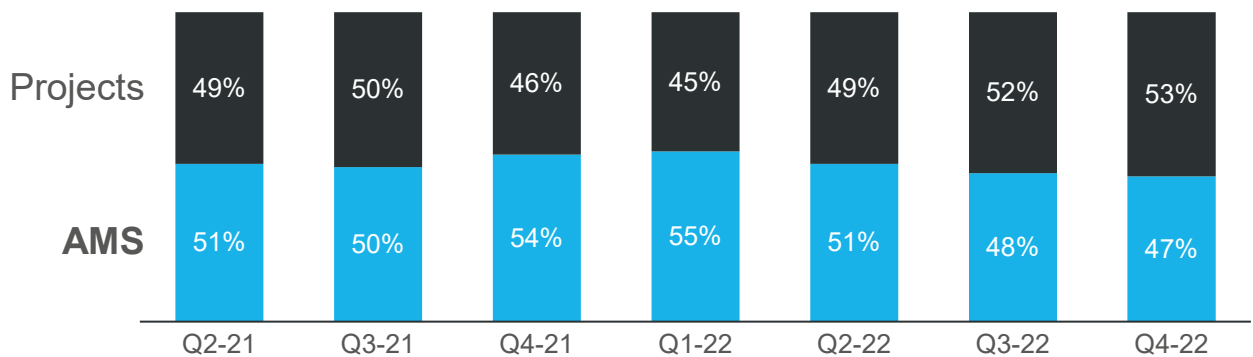


- ✓ **Revenue** in Professional Services **grew by 2.2%** when adjusted for positive currency effects
- ✓ Significant **PS capacity still being utilized on implementing new customers in MS** (transformation projects) in Germany and UK
- ✓ **Continued focus on adding internal capacity** through trainee and certification programs to address pressure on consulting resources and replace the use of external consultants, particularly in Germany.
- ✓ In local currency, revenue in **Poland grew by ~5%**, from additional volume from existing clients, while **Germany had a reduction of ~3%**

*) Revenue in local currency converted to NOK using the avg. currency rate from the quarter last year. See Q4 interim report for definitions of APMs

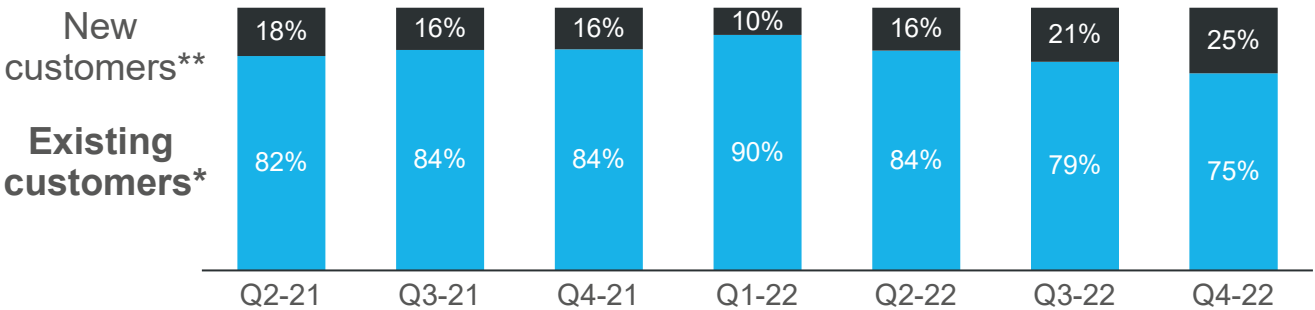
Majority of Professional Services revenue is recurring and supports a continuous presence with customers

Distribution of Projects vs long term AMS based revenue



- ✓ ~47 % of Professional Services revenue is recurring, or recurring like, and based on long term agreements and relationships
- ✓ ~75 % 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

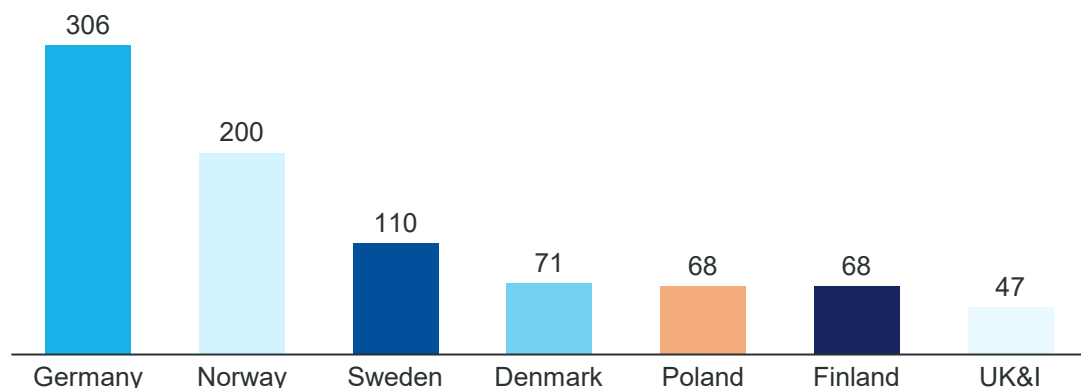
EBIT improvement program to increase annual EBIT by NOK 40 - 50m by end-23

- ✓ **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

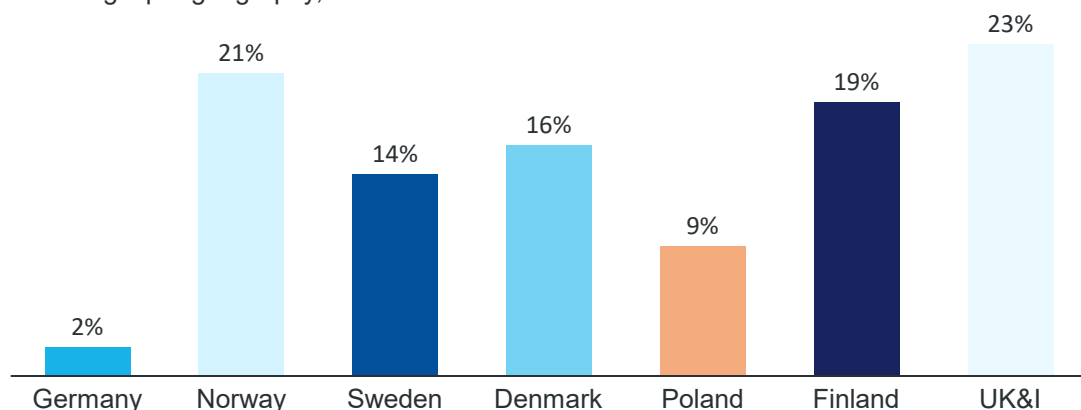
Targeting 15-20% EBIT margin per country - *significant margin potential in Germany*

Germany is the largest market, but lowest margin...

Revenue per geography FY 2022 (NOKm)



EBIT margin per geography, as % of FY 2022 revenue



...with several detailed measures initiated

- 2% EBIT margin (FY 2022) in Germany vs. UK&I and Norway at 23% and 21%, respectively.
- Key activities to improve Zalaris Germany**
 - ✓ New EVP DACH from YE21 introducing tighter measures on engagement, leadership training and promotion of internal career opportunities
 - ✓ Implementation of Zalaris 4.0 operating model with use of near- and off-shoring vs 100% delivered from Germany
 - ✓ New Managed Services bids based on scalable Peoplehub infrastructure
 - ✓ New team leaders hired/promoted with a clear target oneNPS with a voluntary separation ratio for 2023 of 12%
 - ✓ Project Initial strategy starting to pay-off with several key wins and revenue growth

Selected new logo wins in Germany



Company in brief



Simplify work life.
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Payroll & HR solutions that enable digital organizations

One global IT platform with local presence

Zalaris is a leading European provider of payroll and human capital management solutions delivered through software as a service, outsourcing, or consulting delivery models

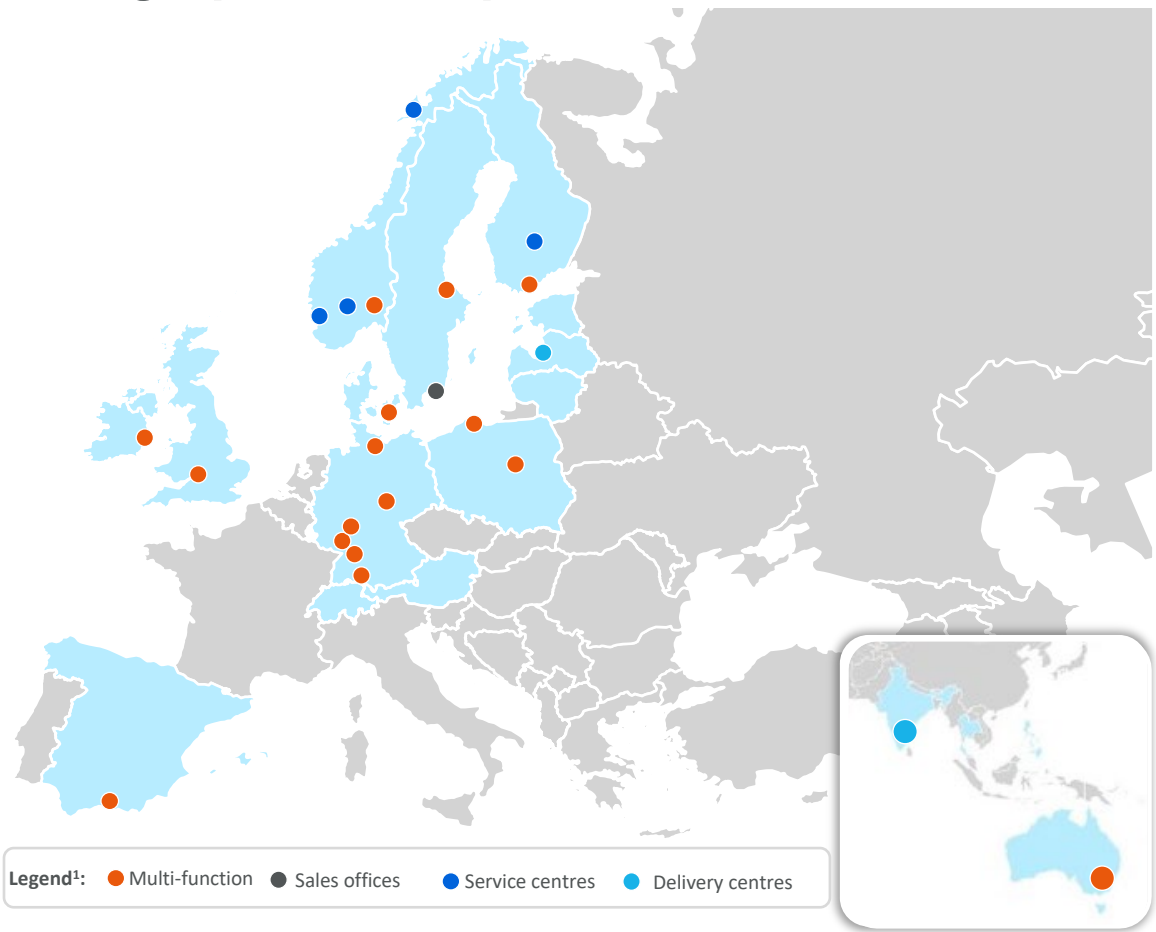
Supporting **fully digital processes** for payroll and human capital management targeting 20-30% cost savings

One common multi-country solution satisfying GDPR requirements combined with competent resources serving complex customers with local competence and language

Market leader within large Nordic companies with cross-boarder need and a strong customer portfolio of some of the largest corporations in the Nordics and DACH region



Geographical footprint



1) Type of office

Zalaris' Product offering covering the full employee life cycle

HR system



Benefits management


Country specific locations


Employee self services


Organizational structures


Employee Co2 footprint


Document archive

Payroll


Cloud payroll


Global payroll



Payroll hr-automation


Payroll HR-transformation

Workforce management


Time attendance


Absence management


Scheduling planning


Sick leave monitoring

Talent management


Recruiting


Onboarding



Performance goals


Compensation


Learning



Succession development

Travel and expense


Trip request

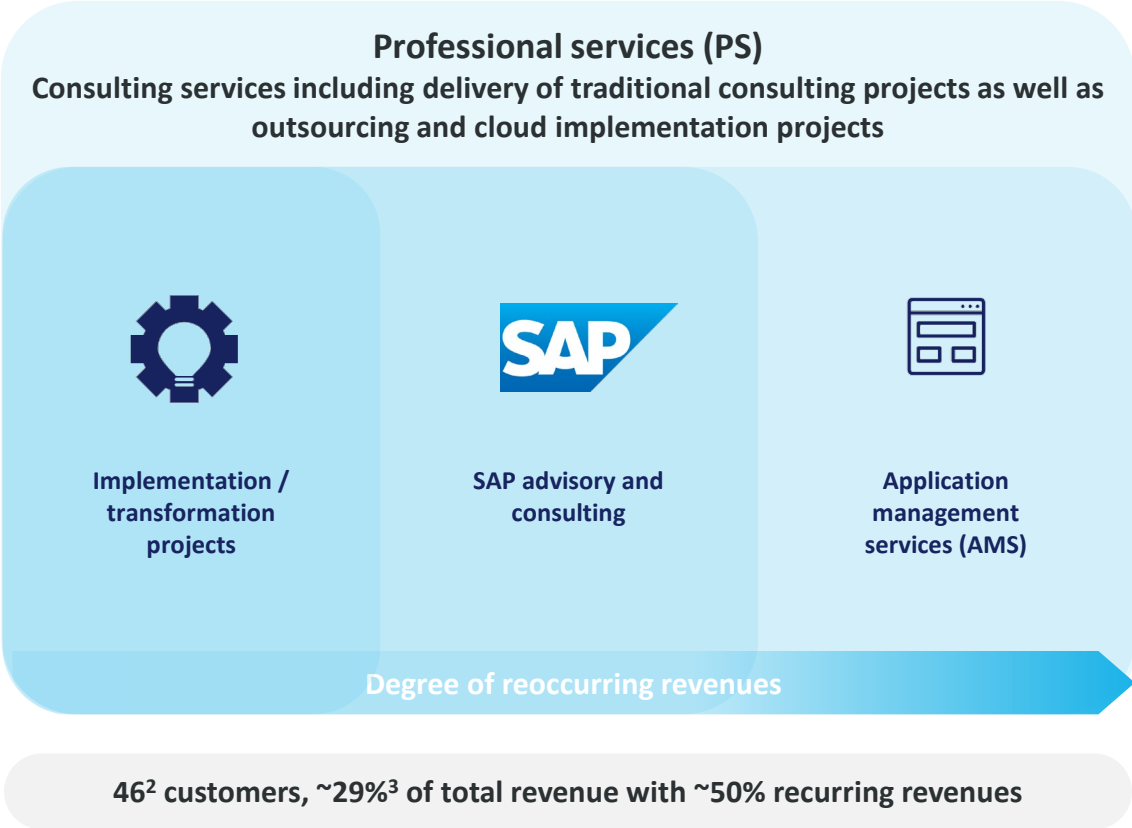
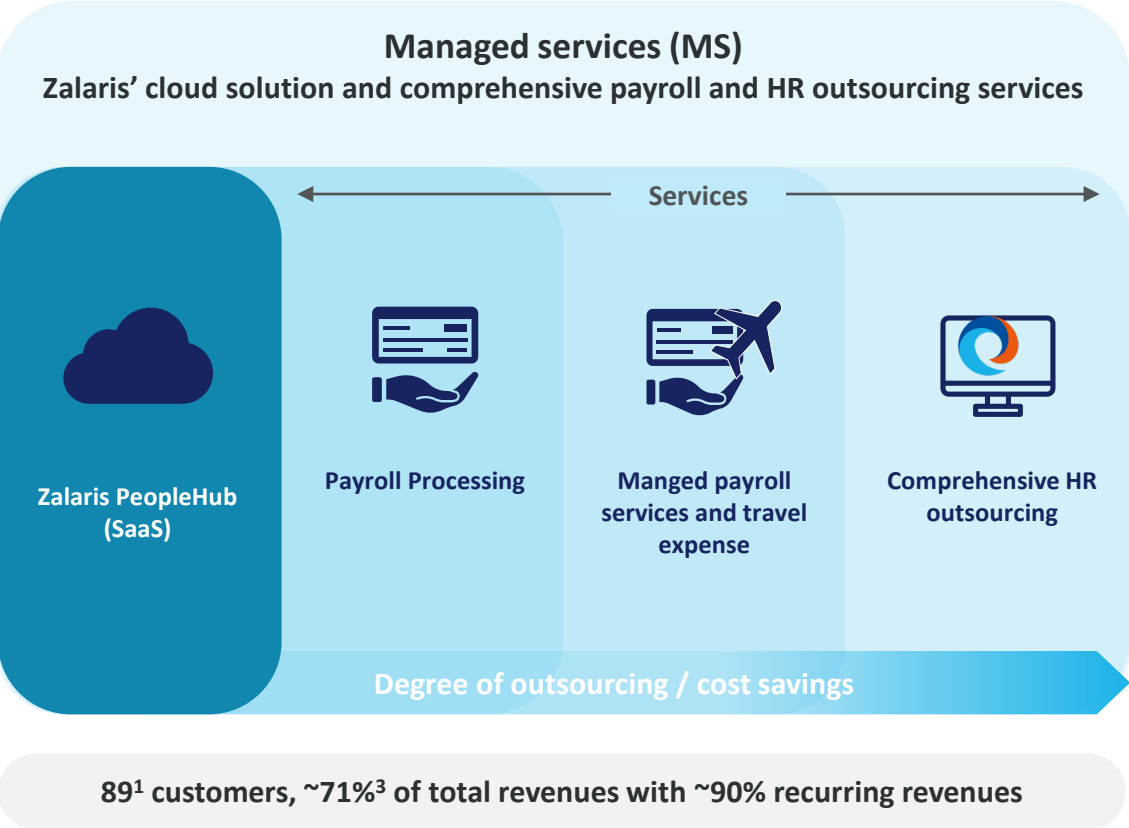

Travel expense


Business expense


Credit card integration


Co2 footprint tracking

Services delivered by two integrated business units with the majority of revenues being recurring of nature



1) 89 customers paying Zalaris NOK >1m, with a long-tail of 100 smaller customers
2) 46 customers paying Zalaris NOK >1m, with a long-tail of 189 smaller customers
3) Based on LTM Sep '22 revenues

Diversified customer base across a wide range of industries

Customer traits

Managed services

- ✓ >1,000 employees
- ✓ >2 countries
- ✓ Software agnostic

Professional services

- ✓ >1,000 employees
- ✓ Private and public sector
- ✓ SAP integration

Bank, Insurance & Financial services



Health & Life Science



Infrastructure & Transportation



IT, Technology & Telecom



Offshore & Energy



Product & Industrials



Public Services & Other Institutions



Retail



Service Industries



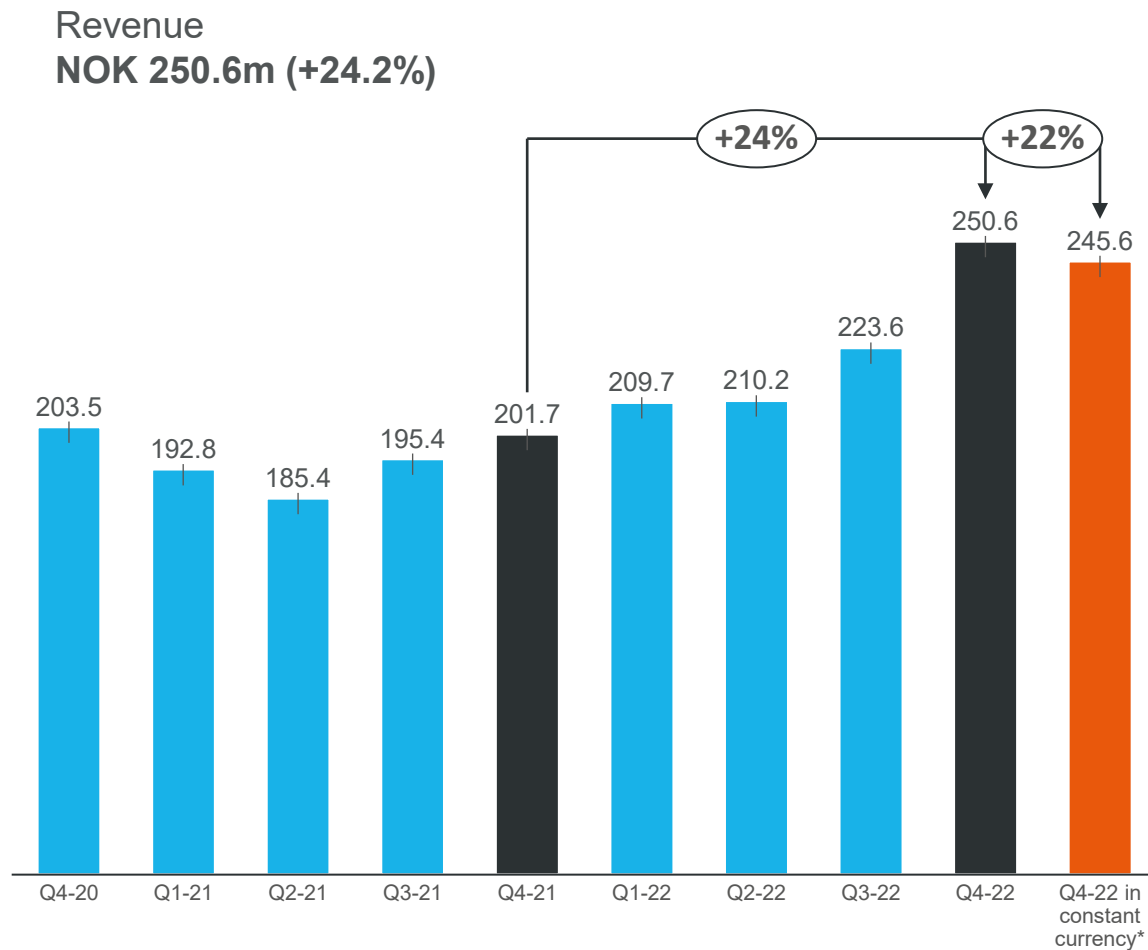
Financial Review



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Revenue increased by 22% for the quarter in local currency

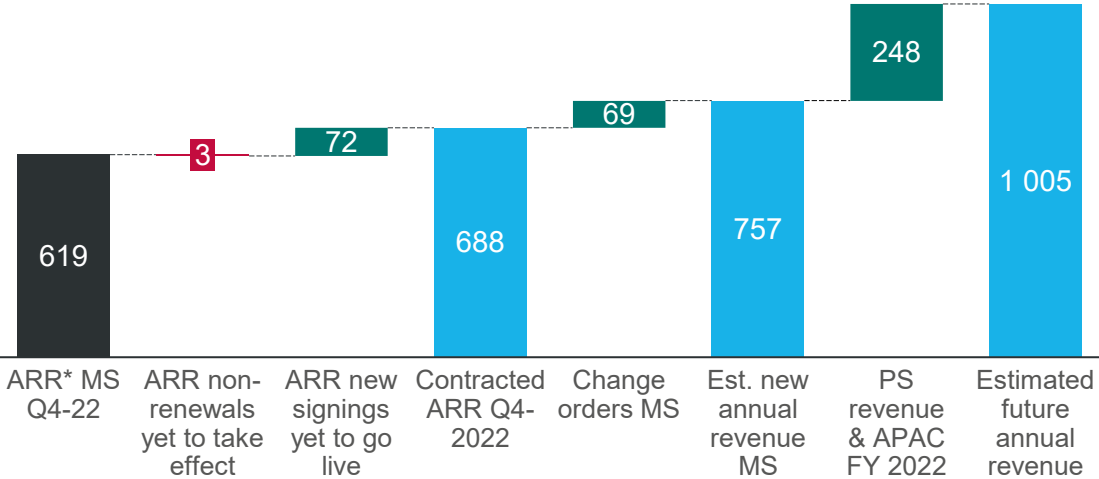


- ✓ Revenue growth +21.8% YoY in constant currency
- ✓ Revenue growth (as reported) for the quarter YoY: +24.2%
 - New contracts/up-sale/volume changes: +15.0%
 - Increased change orders in MS: +4.7%
 - One-off revenue recognition relating to a customer project in MS: +4.5%
- ✓ MS +30.1% to NOK 186m
- ✓ PS +5.5% to NOK 62m
- ✓ Signed new SaaS/BPaaS contracts with annual recurring revenue of ~NOK 12m during the quarter
 - Invoicing to start in Q4'23
- ✓ New SaaS/BPaaS contracts signed, but yet to go live has annual recurring revenue of ~NOK 72m

*See Q4 financial report for definitions of APMs

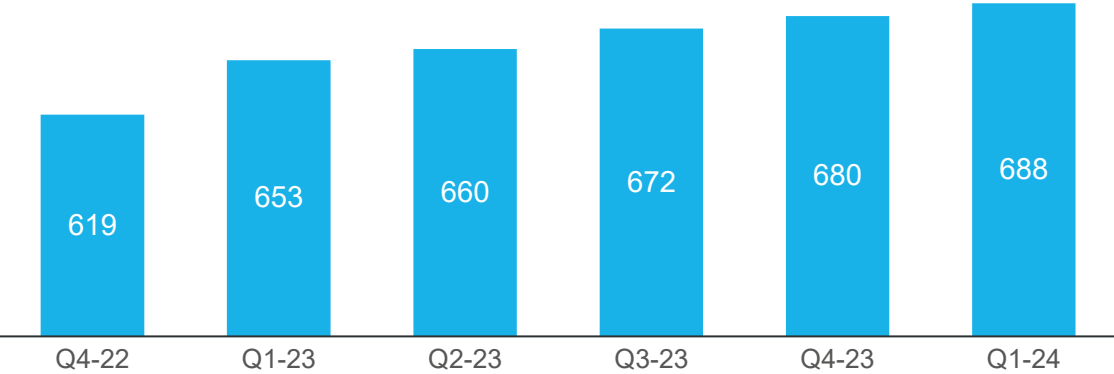
Strong revenue visibility through 2023 and beyond - signed BPO contracts will result in significant revenue increase

Revenue development based on signed MS contracts (NOKm)



- ✓ Total annual revenue expected to increase by ~NOK 112m (+13%) by Q1 2024 vs. FY 2022, based on signed contracts (assuming no material churn)
- ✓ The new contracts signed will start generating monthly recurring revenue as soon as the contracts go live
- ✓ Assumes MS change order levels at historical ~10% and PS revenue at FY 2022

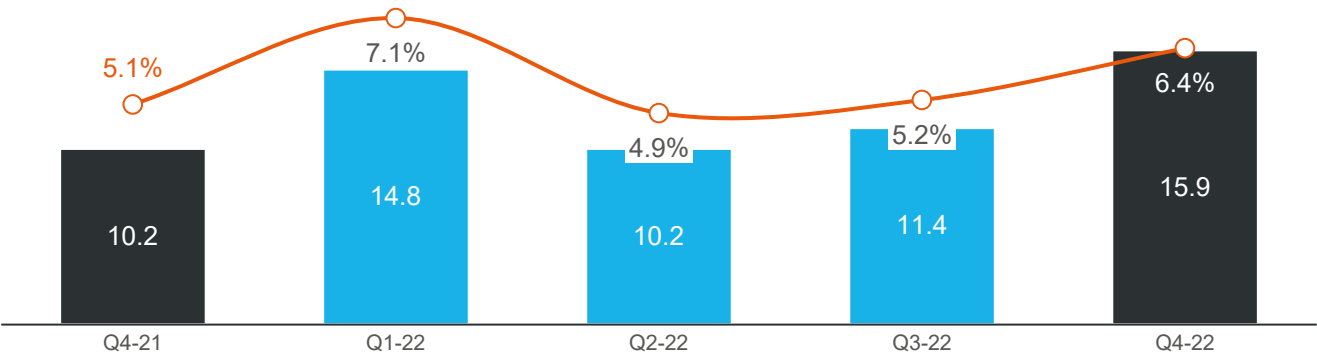
Contracted ARR* development over time based on signed contracts (NOKm)



*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.

Increase in adj. EBIT (ex. APAC) for the quarter, year-on-year

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



✓ Adj. EBIT (ex APAC) NOK 15.9 (NOK 10.2m) +56%

✓ Adj. EBIT (ex APAC) margin 6.4% (+1.3pp)

✓ EBIT improvement program to increase annual EBIT by NOK 40 – 50m by end-23 on track

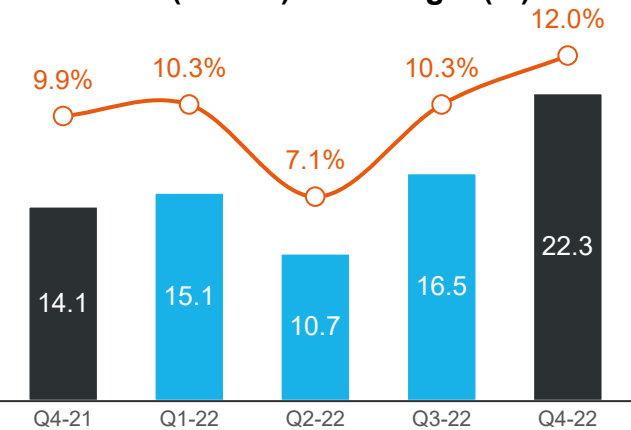
✓ Cost improvements by moving work to near-shore and off-shore locations (program has started)

✓ Improved allocation of resources and focus on improvement in customer margins after initial rapid growth since 2021, which necessitated large increase in FTEs

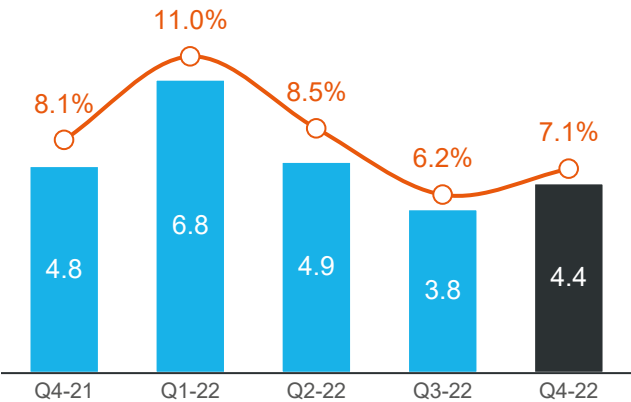
✓ Contribution from new signed contracts

✓ Reduced used of external consultants through recruitment of own personnel

MS - EBIT (NOKm) and margin (%)

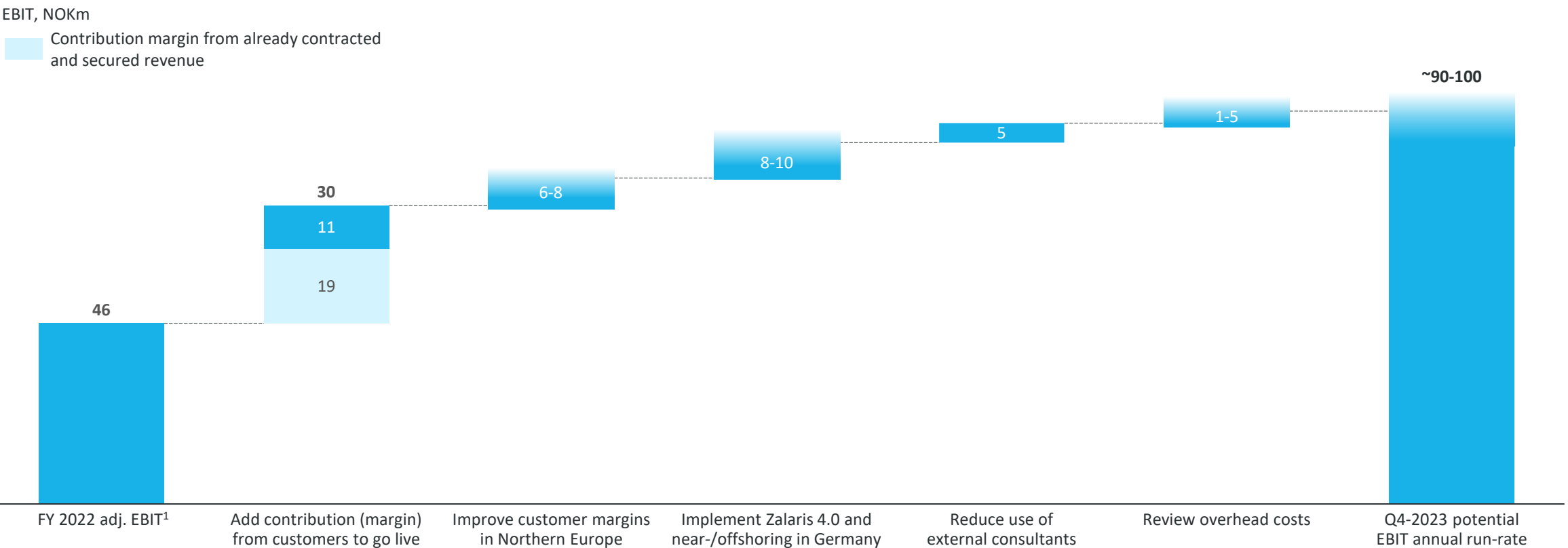


PS - EBIT (NOKm) and margin (%)



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

New contracts and EBIT improvement program to increase annual EBIT by NOK 40-50m by end of 2023



Condensed Profit and Loss

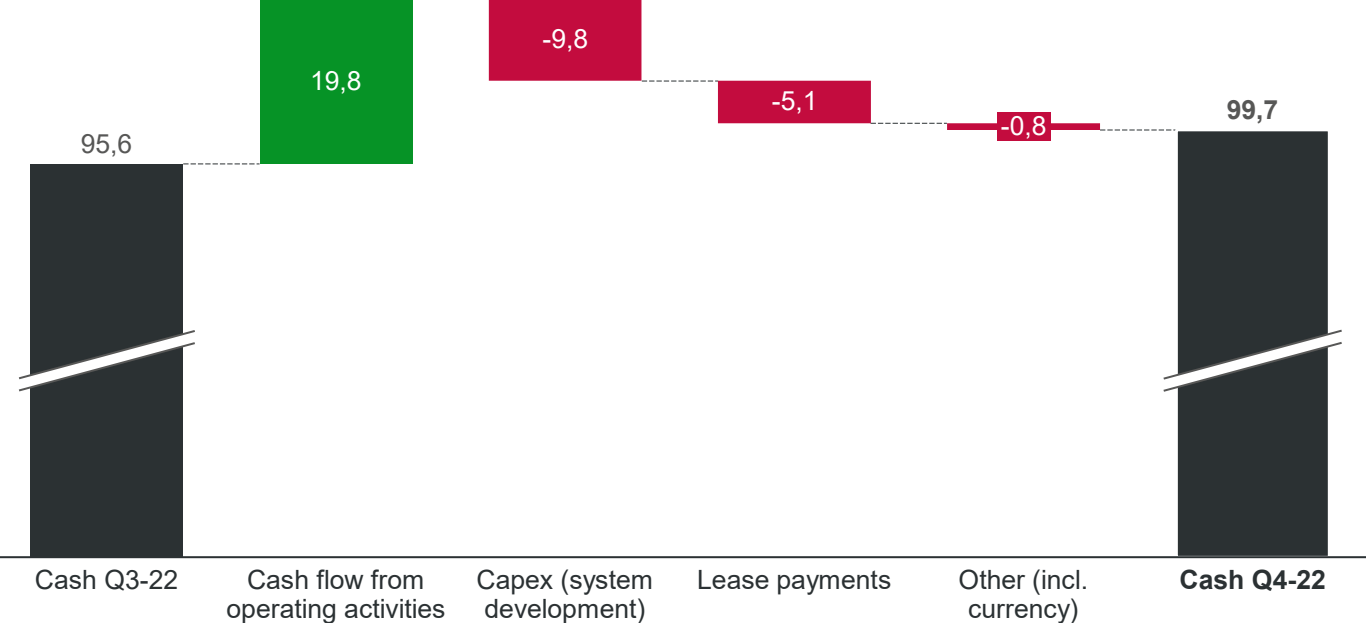
	2022	2021	2022	2021
(NOK 1 000)	Oct-Dec	Oct-Dec	Jan-Dec	Jan-Dec
Revenue	250 551	201 695	892 743	775 265
License costs	19 077	18 518	80 198	67 481
Personnel expenses	140 032	102 196	483 824	405 949
Other operating expenses	59 096	57 487	222 537	199 886
Amortization implementation costs customer projects	8 830	8 858	31 638	29 874
Depreciation, amortization and impairments	13 819	13 165	50 851	49 488
EBIT	9 697	1 472	23 695	22 585
Adjustment items	5 594	8 757	22 547	26 989
Adjusted EBIT*	15 291	10 228	46 242	49 574
Adjusted EBIT margin %	6,1%	5,1%	5,2%	6,4%
Net financial income/(expense)	(5 218)	76	(40 102)	(7 571)
Profit/(loss) before tax	4 479	1 548	(16 407)	15 014
Income tax expense	(12 685)	(458)	(6 295)	(2 203)
Profit/loss from discontinued operations	(3 891)	-	(16 018)	-
Profit/(loss) for the period	(12 098)	1 089	(38 720)	12 812
Basic earnings per share (NOK)	(0,56)	0,05	(1,79)	0,60

- ✓ **Personnel expenses:** Increased number of FTEs YoY (+168), approx. NOK 9m in additional costs recognition in connection with one-off revenue recognition relating to a customer project (no material EBIT impact) and negative currency movements. Personnel expenses per FTE increased by approx. 3.7%, of which approx. 3% is due to currency movements
- ✓ **License costs and other operating exp.:** No material changes vs. last year.

* Items excluded from adjusted EBIT Q4 2022: share-based payments (NOK 2.5m) and amortization of excess values on acquisitions (NOK 3.1m) - see definition of adj. EBIT under APMs in Q4 2022 Interim Report)

Continued strong cash position

Development in cash balance (NOKm)

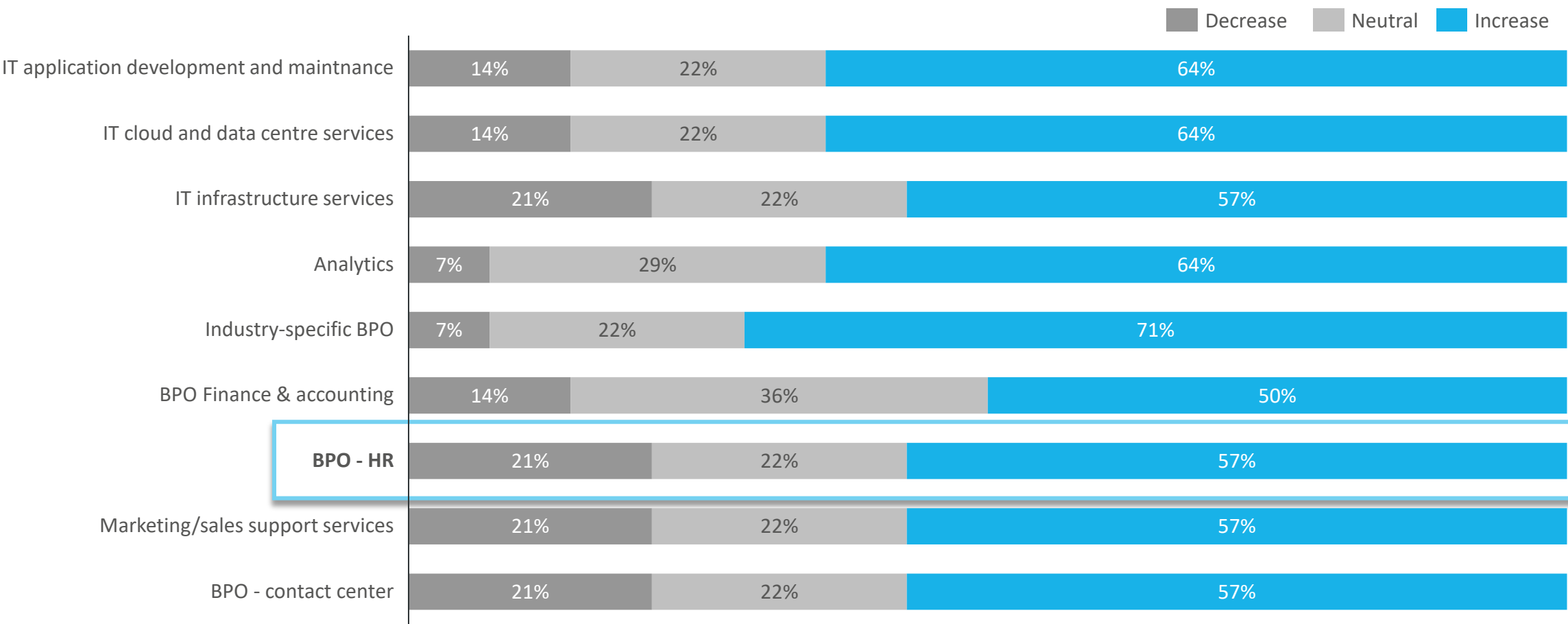


- ✓ **Cash balance** at 31 Dec of **NOK 100m**
- ✓ **Positive cash flow from operating activities of NOK 20m** from changes in working capital
- ✓ Investments relates mainly to internal system development including projects partly financed through SkatteFunn
- ✓ **Net interest-bearing debt of NOK 280.9m** vs. NOK 284.5m at the end of previous quarter.

Markets and Outlook



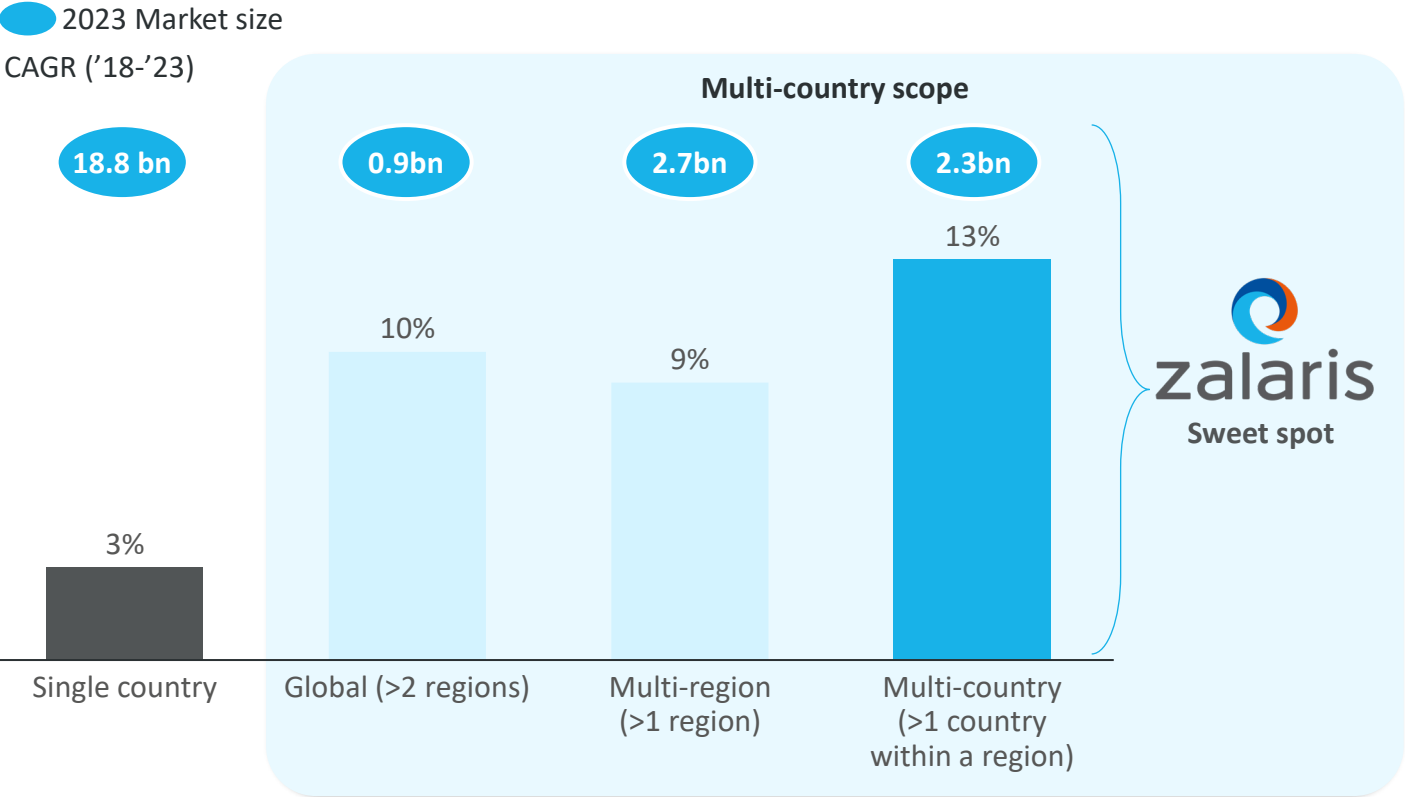
57% of European senior stakeholders from global enterprises expect the use of HR outsourcing to grow



Source: Everest Group Key Issues Survey, 2020

Zalaris is well positioned in the most attractive and fastest growing market segment

Expected growth of +10% in Zalaris' core market with multi-country focus



Comments

- ✓ Zalaris focus on delivering HR outsourcing services to clients with cross-border employees and offices with more complex HR tasks
- ✓ The core market is multi-country companies with more than two or more countries within a region
- ✓ Within BPO services, the multi-country payroll market is the fastest growing with ~13% annual growth expected until 2023
- ✓ Additionally, Zalaris' other focus markets, multi-region and global are expected to grow ~10% annually
- ✓ Zalaris is well positioned with a sweet spot within multi-country and further upside from multi-region and global

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 2022 with continuing growth and an aim to deliver on margin expectations through EBIT improvement program

- ✓ **Communicated growth target of 10%+** and becoming a NOK 1 billion company in 2023
- ✓ **Maintain our 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



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“If your dreams don’t scare you, they are not big enough”

That was the way in which Germany’s 2014 IRONMAN and two-time IRONMAN 70.3 World Champion, Sebastian Kienle, announced the news last week that one of the aims for his final season in the sport is to win the 2023 Zalaris Norseman Xtreme Triathlon



Scary dreams and Zombie Hill - Sebastian Kienle's Norseman challenge

“

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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