

24 August 2023

Presentation of financial results Q2 2023



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Agenda

Today's presenters

- Highlights
- Company in brief
- Financial review
- Outlook
- Q&A



Hans-Petter Mellerud
CEO and Founder



Gunnar Manum
CFO

Highlights



Simplify work life.
Achieve more.



Q2 2023 Highlights - delivering on milestone - Zalaris is now a EUR 100 million run rate company!

- ✓ **Strong growth:** Revenue increased **33% YoY** to **NOK 280 million** with **Net Revenue Retention of 109%**
- ✓ **EBIT improvement program on track:** **adj. EBIT of NOK 22 mill (8.1%)** excluding investments in building APAC up from **NOK 10.2 (4.9%)** last year
- ✓ **Market success continues:** New agreements with Global retailer and Norwegian insurance company takes H1 Annual Contract Value (ACV) of signings to **162%** compared to H1 last year
- ✓ **Solid pipeline:** Several agreements in final contracting stage and **ACV of pipeline up 53% YoY**



Market success continues with new signings in Q2

- ✓ **New signings of ~NOK 6m during the quarter delivering H1 Annual Contract Value (ACV) sold to approximately 90% of 2023 sales budget needed to support continued 15% annual growth in Managed Services.**
- ✓ **Pipeline of Multi-Country Peoplehub new name and upsell opportunities grew 53% YoY to NOK 800 million ACV with value of agreements currently in final contracting phase of ~NOK 24m**

Global Retailer

5-year Master Services Agreement with **Global Retailer** for Zalaris **Peoplehub** based payroll solution. **Denmark with 3'000+ employees** first call-off. Ongoing dialogues for significant expansion to additional countries.

Fremtind

5-year agreement for **outsourced payroll and HR services** based on Zalaris **PeopleHub** to support insurance company Fremtind's **1000+ employees** in Norway

FINNAIR

5-year renewal of agreement for **outsourced payroll services** based on Zalaris **PeopleHub** for Finnair's **5000+ employees** in Finland

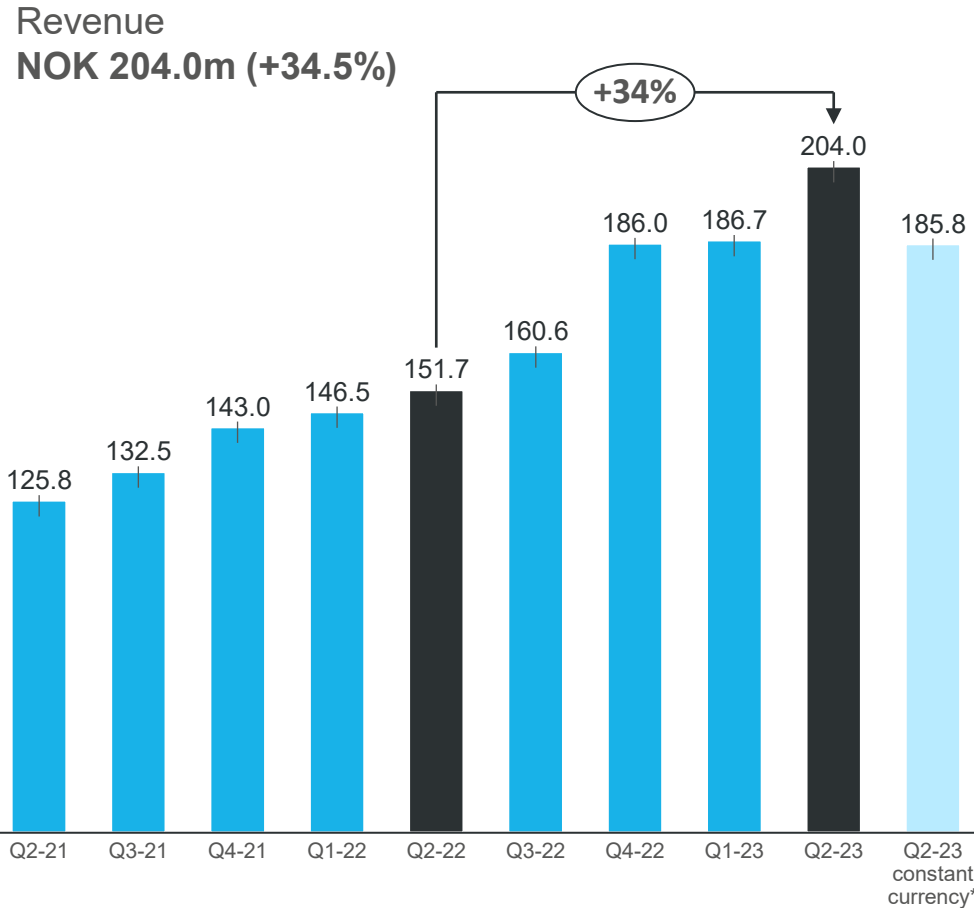
EU Airline

Expansion of consulting agreement to implement **new cloud-based payroll** for an additional **four countries**

Senex

First Australian payroll customer to be implemented based on **Peoplehub Cloud**. 3-year agreement to serve 250 employees.

Managed Services grew 34% YoY to NOK 204 million and 73% of total revenue.



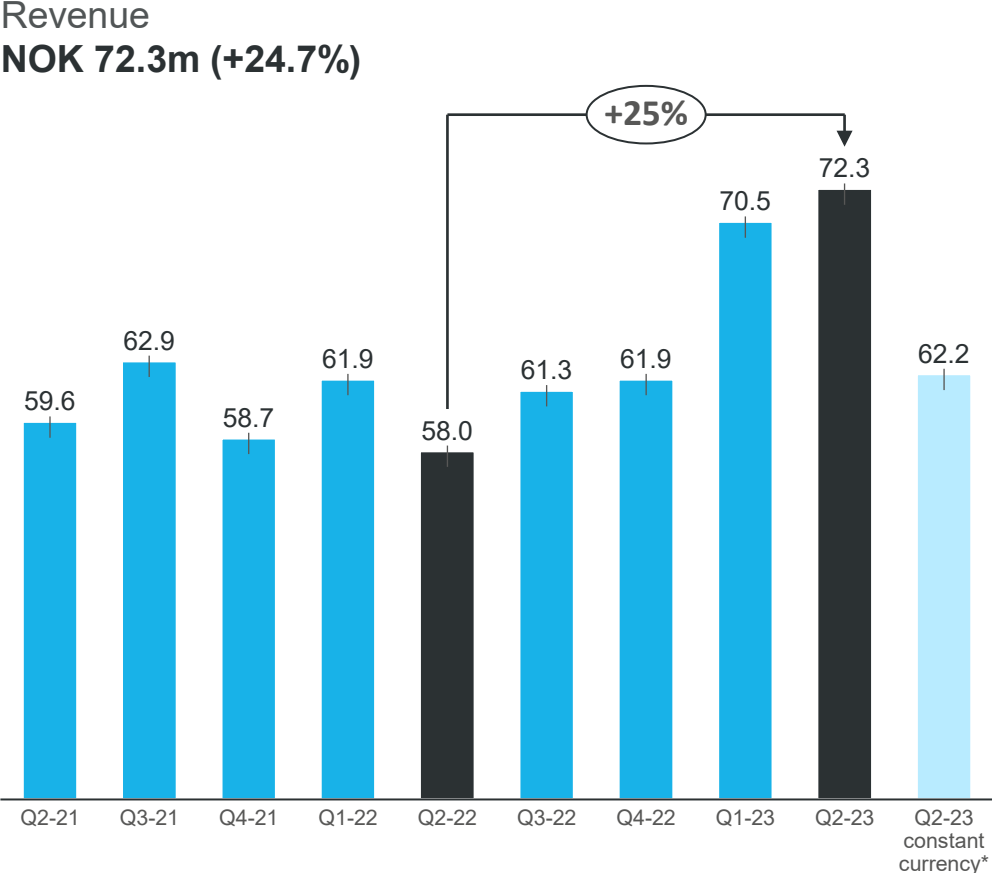
- ✓ **Revenue in Managed Services grew by 34,5% YoY (+22.5% growth YoY when adj. for positive currency effects)**
 - ✓ 56% of growth came from customers that were customers in Q2 last year
 - ✓ 44% of growth came from new names

- ✓ **109% Net Revenue Retention YoY in constant currency as existing customers expand their geographic footprint and functionalities**

- ✓ **All regions with above target (15%) growth in local currency.**
 - ✓ Northern Europe: 21%
 - ✓ DACH: 25%
 - ✓ UKI: 35%
 - ✓ Eastern Europe: 57%

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

Professional Services grew 25% and continued being strong contributor to Zalaris' overall success and Managed Services growth

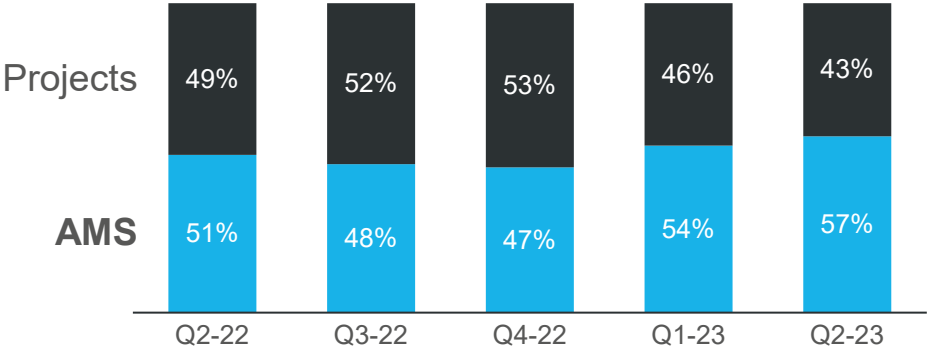


- ✓ Revenue in Professional Services grew by 25% YoY (+7.3% when adjusted for positive currency effects)
- ✓ In local currency, revenue in UK grew by 88%, from consulting work from new clients, including a large airline while Germany had revenue in line with last year
- ✓ Significant PS capacity being utilized to support Managed Services in implementing new customers (transformation projects) or delivering change orders. Particularly in Germany

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

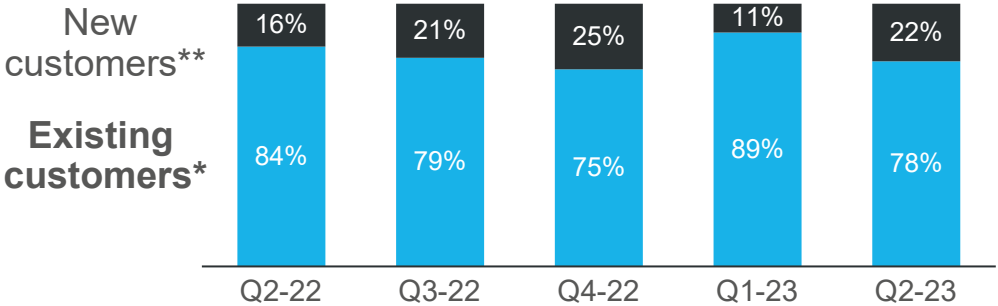
Majority of Professional Services revenue is recurring and supports a continuous presence with customers

Distribution of Projects vs long term AMS based revenue



- ~57 % of Professional Services revenue is recurring, or recurring like, and based on long term agreements and relationships

Revenue customer split

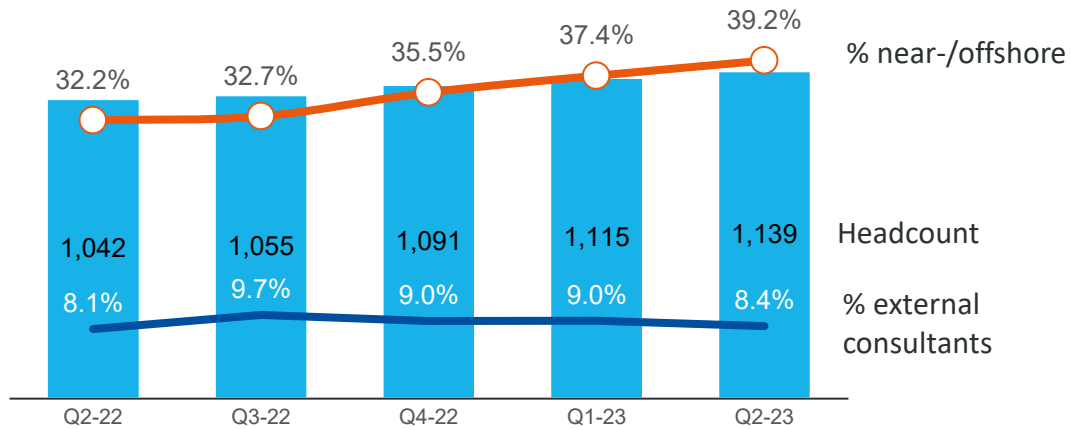


- ~78 % of Professional Services revenue is from customers that were customers 12 months prior

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

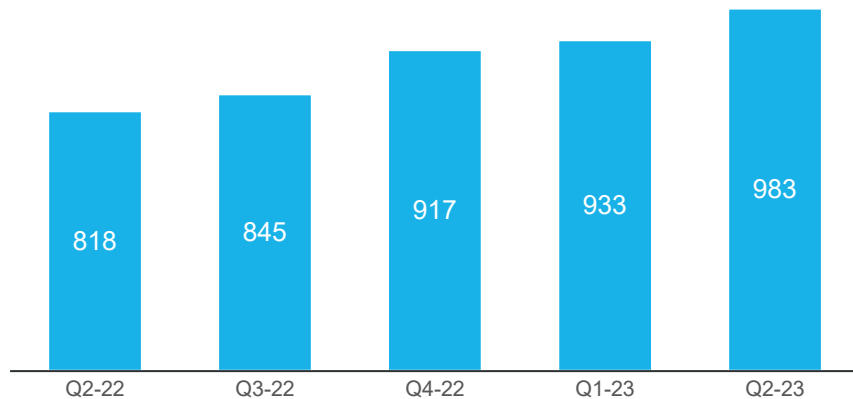
People metrics are developing in the right direction

Total headcount vs % near-/offshore and % external consultants



- ✓ **Use of near-/offshore resources has increased with 7 percentage points to 39,2%** driving resource costs downward.
- ✓ **Development in near-/offshore % trend expected to continue** towards Zalaris 4.0 target of 50%.
- ✓ **Use of external consultants relatively stable** and continue being target for substantial cost reduction but challenging due to limited available resources in the market.

Annualised revenue per employee* (NOK'000')



- ✓ **Improved productivity through increased revenue per employee** by 20% in reported and 8% in constant currency YoY.
- ✓ **Trend expected to continue** through increased use of automation, standardization and scale.

EBIT improvement program targeted to increase annual EBIT by NOK 40 - 50m by end-23 starting to show effects

EBIT improvement initiative	Status
1) 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	Completed
2) Implement Zalaris 4.0 operating model and near-/ offshoring for German operations by end of 2023 resulting in NOK 8 - 10m annualized savings	Ongoing - to be completed by Q4
3) Utilize existing capacity to serve new customers and additional change orders resulting in NOK 5 - 10 million annualized savings/incremental margin	Ongoing - will continue throughout Q3 and Q4
4) Add contribution (margin) from customers to go live (net of non-renewals) with an EBIT effect of NOK 20 million	Ongoing - will continue throughout Q3 and Q4
5) Reduce the use of external consultants and replace with own employees with 20-25% lower costs resulting in ~NOK 5 million annual savings	Ongoing – behind plan due to limited available resources in the market
6) Review overhead costs targeting maintaining or slightly lower existing levels	On plan – continuous focus

Company in brief



Simplify work life.
Achieve more.



Payroll & HR solutions that enable digital organizations

One global IT platform with local presence

Zalaris is a leading European provider of global 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 mid-size companies with cross-border need and a strong customer portfolio of some of the largest corporations in the Nordics, DACH, UKI and APAC regions

1,500,000

Employees served monthly by Zalaris supported HR solutions

~1,100

Zalaris employees across the world

300,000+

Employees served monthly through payroll services

~EUR 100m

Annual run rate revenues Q2'2023

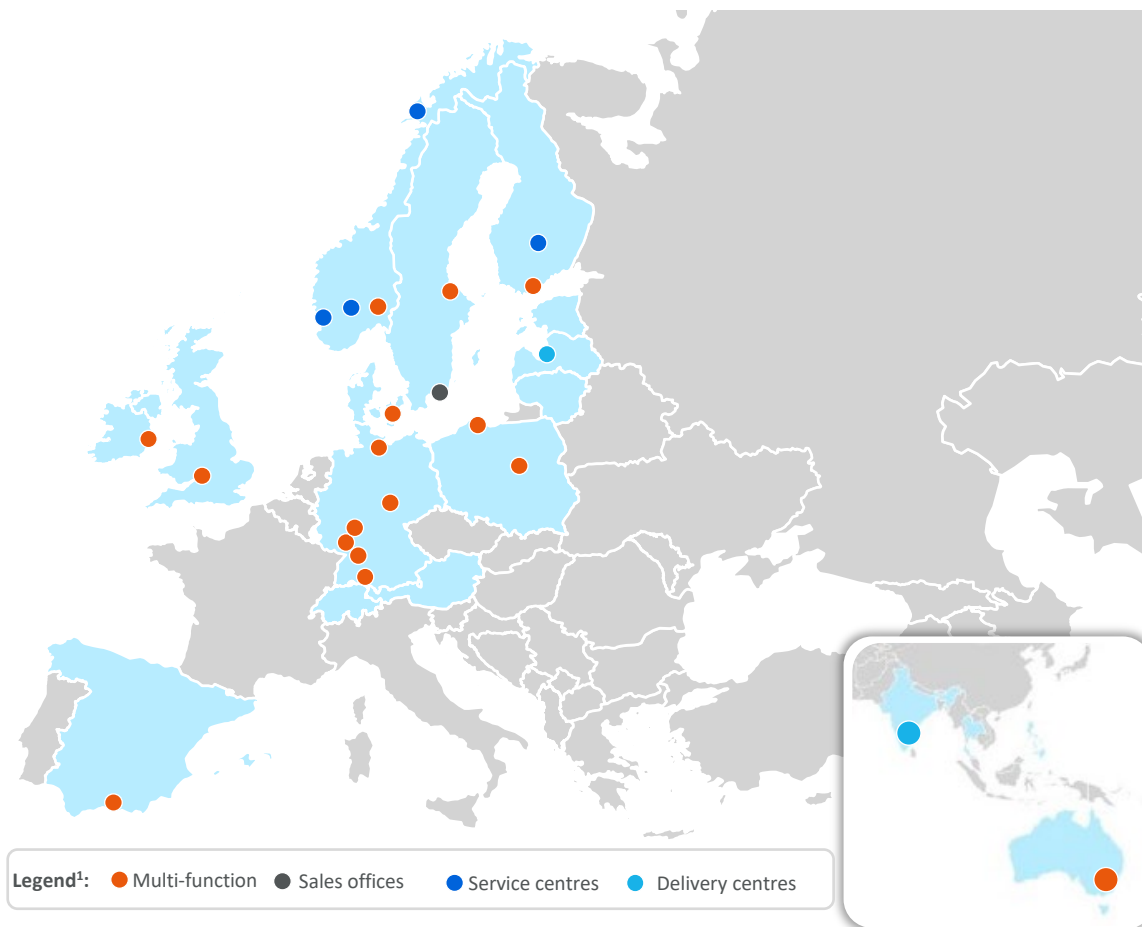
17 countries

With own service centers and expertise in local laws and regulations

150+ countries

With expertise in local laws and regulations, together with partners

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

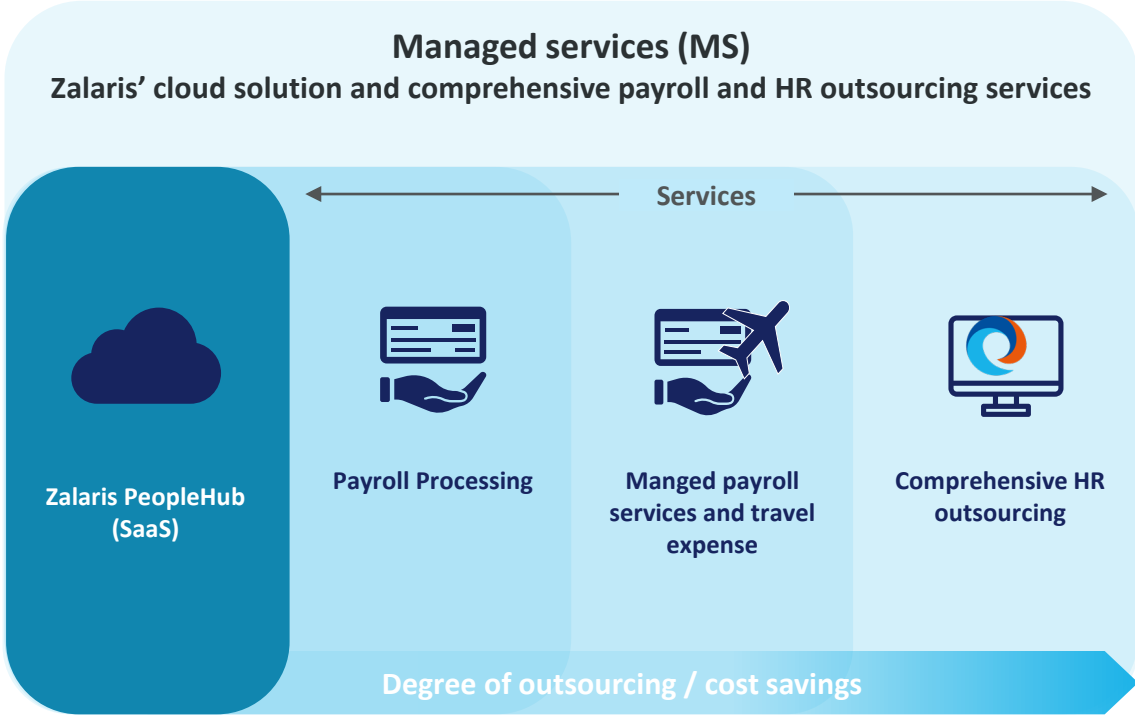
Talent management

- Recruiting
- Onboarding
- Performance goals
- Compensation
- Learning
- Succession development

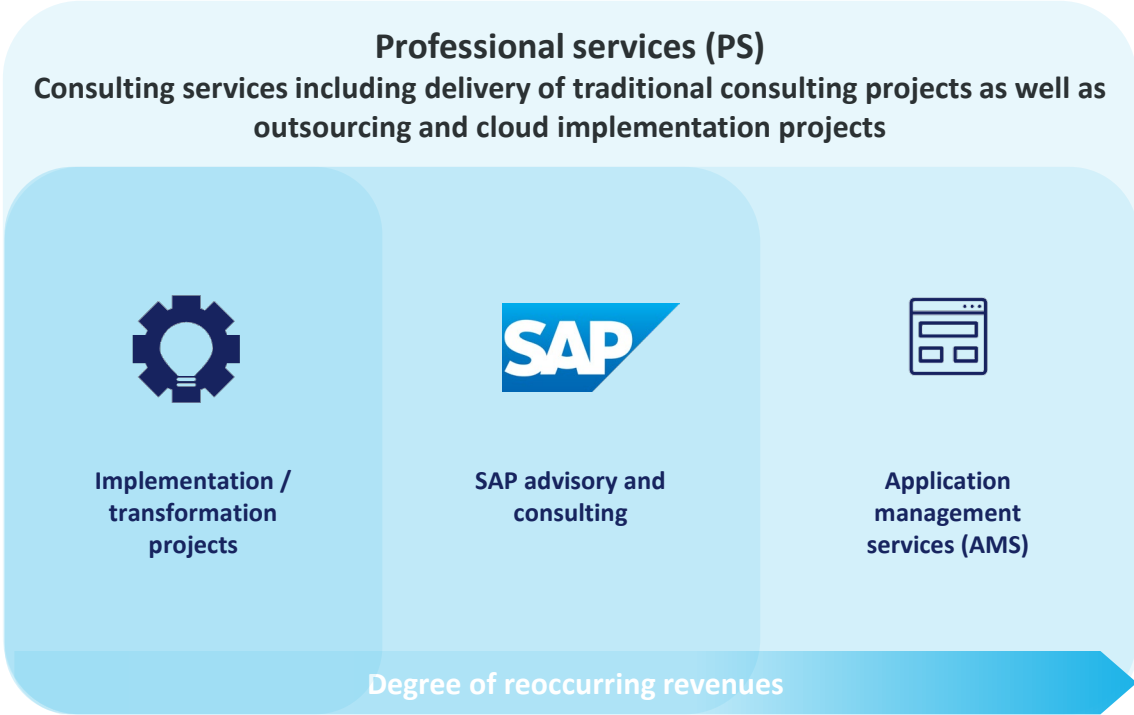
Travel and expense

- 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



89¹ customers, ~71%³ of total revenues with ~90% recurring revenues



46² customers, ~29%³ of total revenue with ~50% recurring revenues

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

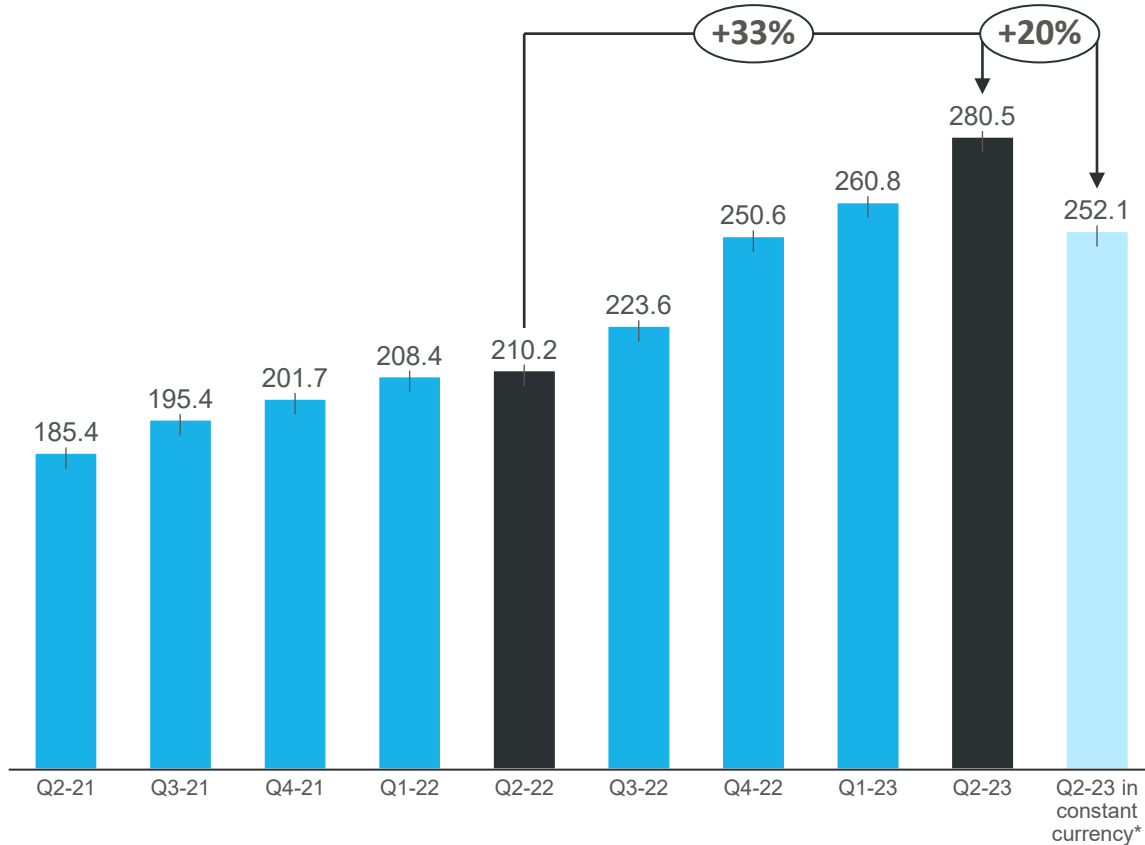


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Revenue increased by 20% for the quarter YoY in local currency

Revenue
NOK 280.5m (+33.5%)

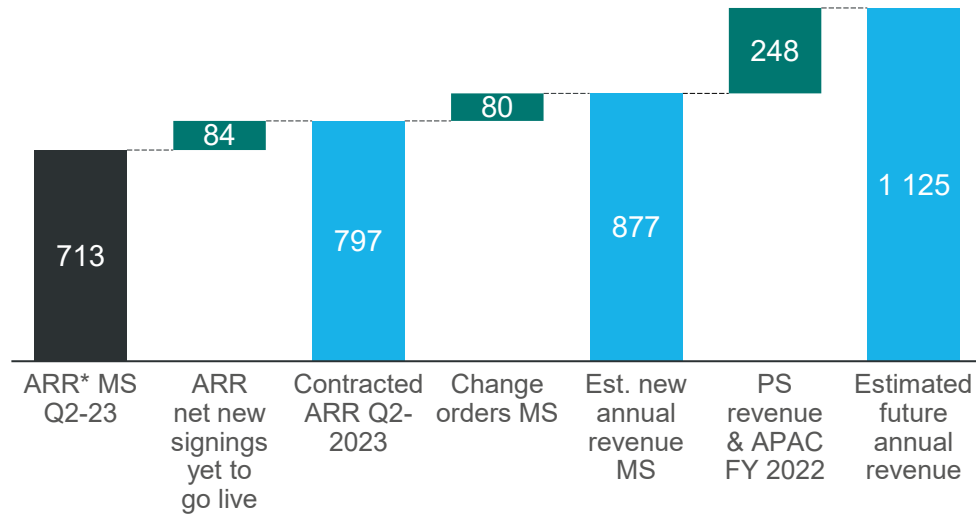


- ✓ Revenue growth (as reported) for the quarter YoY: **+33.5%**
- ✓ Revenue growth **+19.9%** YoY in constant currency
- ✓ **MS +34.5%** to NOK 204m
 - 56% of growth came from customers that were customers in Q2 last year
 - 44% of growth came from new names
- ✓ **PS +24.7%** to NOK 72m
- ✓ Signed **new SaaS/BPaaS contracts** with annual recurring revenue of **~NOK 6m** during the quarter, contracting ongoing for additional **~NOK 24m**
- ✓ **Net new SaaS/BPaaS contracts signed**, but yet to go live, has annual recurring revenue of **~NOK 84m**

*See the interim financial report for definitions of APMs

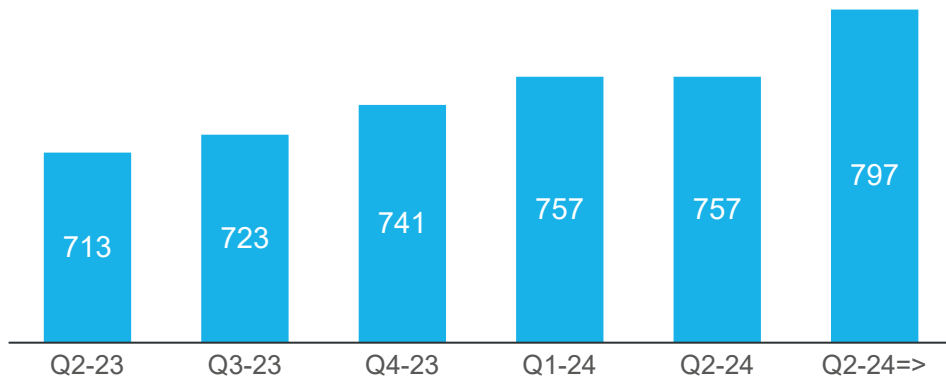
Strong revenue visibility through 2023 and 2024 - newly signed BPO contracts will result in significant revenue increase

Revenue development based on signed MS contracts (NOKm)



- ✓ Total annual revenue expected to increase by ~NOK 232m (+26%) vs. FY 2022, based on signed contracts (assuming no material churn and based on avg. currency rates for Q2 2023)
- ✓ The new contracts signed will start generating monthly recurring revenue when the customers go live on PeopleHub
 - New EUR 5m (ARR) contract with Innomotics announced in Q1 2023 will be fully implemented by end-2024
- ✓ Estimated future annual revenue assumes MS change order level at historical ~10% of ME revenue and PS & APAC revenue at FY 2022 level
- ✓ ~NOK 12m in churn, effective Q1 2024

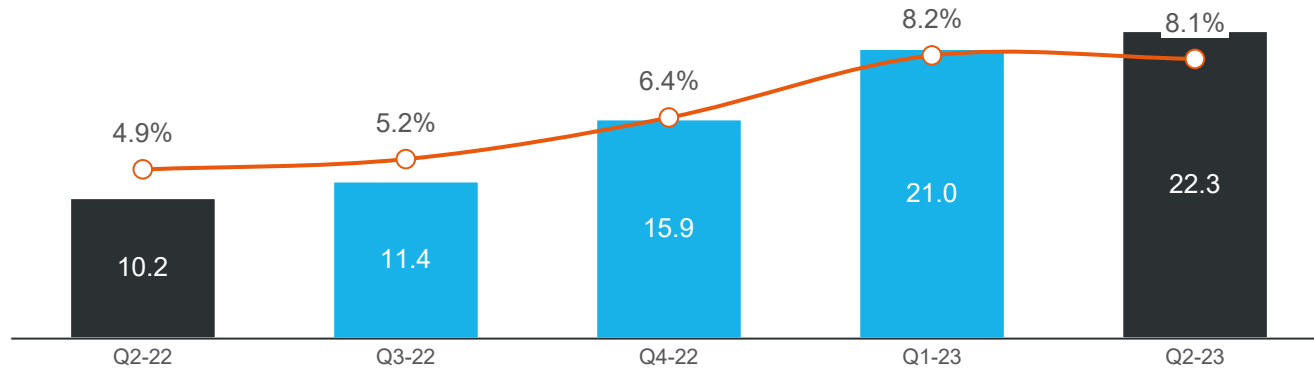
Contracted ARR* development over time based on signed contracts (NOKm)



*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.

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

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



✓ Adj. EBIT (ex APAC) NOK 22.3 (NOK 10.2m) +119%

✓ Adj. EBIT (ex APAC) margin 8.1% (+3.2pp)

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

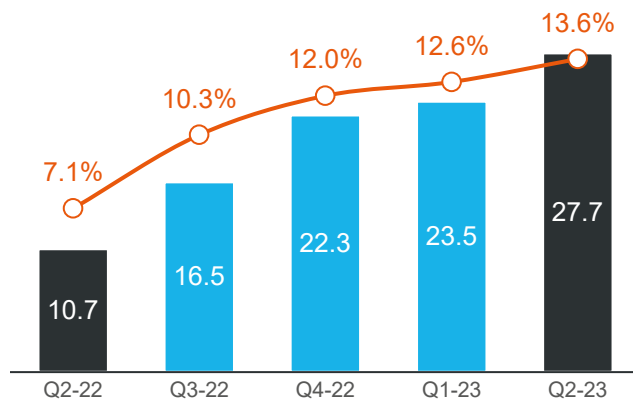
✓ Cost improvements by moving work to near-/offshore locations ongoing – mainly completed in NE and in progress in Germany

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

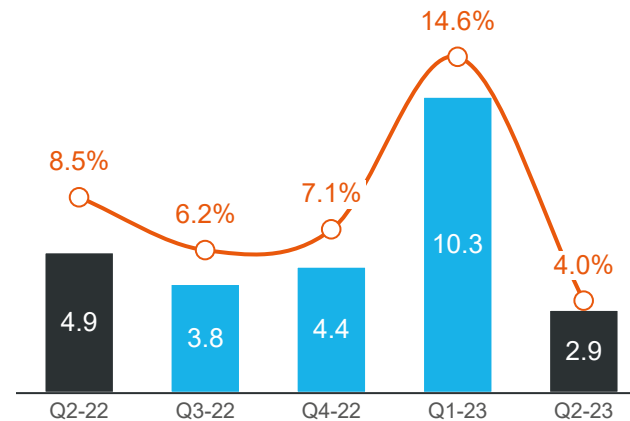
✓ Contribution from new signed contracts

✓ Reduced used of external consultants through recruitment of own personnel

MS – EBIT (NOKm) and margin (%)



PS – EBIT (NOKm) and margin (%)



*See the interim financial report for definitions of APMs

Condensed Profit and Loss

	2023	2022	2023	2022	2022
(NOK 1 000)	Apr-Jun	Apr-Jun	Jan-Jun	Jan-Jun	Jan-Dec
Revenue	280 530	210 187	541 329	418 627	892 743
License costs	25 857	20 647	49 866	40 416	80 198
<i>% of revenue</i>	9,2 %	9,8 %	9,2 %	9,7 %	9,0 %
Personnel expenses*	153 310	124 051	292 705	234 809	483 824
<i>% of revenue</i>	54,7 %	59,0 %	54,1 %	56,1 %	54,2 %
Other operating expenses*	64 802	44 632	129 701	93 854	222 537
<i>% of revenue</i>	23,1 %	21,2 %	24,0 %	22,4 %	24,9 %
Amortisation implementation costs customer projects	9 058	7 469	14 891	15 491	31 638
Depreciation, amortisation and impairments	14 535	12 194	28 421	24 416	50 852
EBIT	12 969	1 194	25 745	9 642	23 694
Adjustment items**	7 248	5 626	12 958	11 560	22 548
Adjusted EBIT	20 217	6 820	38 703	21 202	46 241
Adjusted EBIT margin %	7,2%	3,2%	7,1%	5,1%	5,2%
Net financial income/(expense)	(21 888)	(27 397)	(59 755)	(21 108)	(40 102)
Profit/(loss) for the period	(9 327)	(21 021)	(37 213)	(15 522)	(22 703)
Total comprehensive income	4 046	(3 463)	6 000	(5 020)	(27 431)

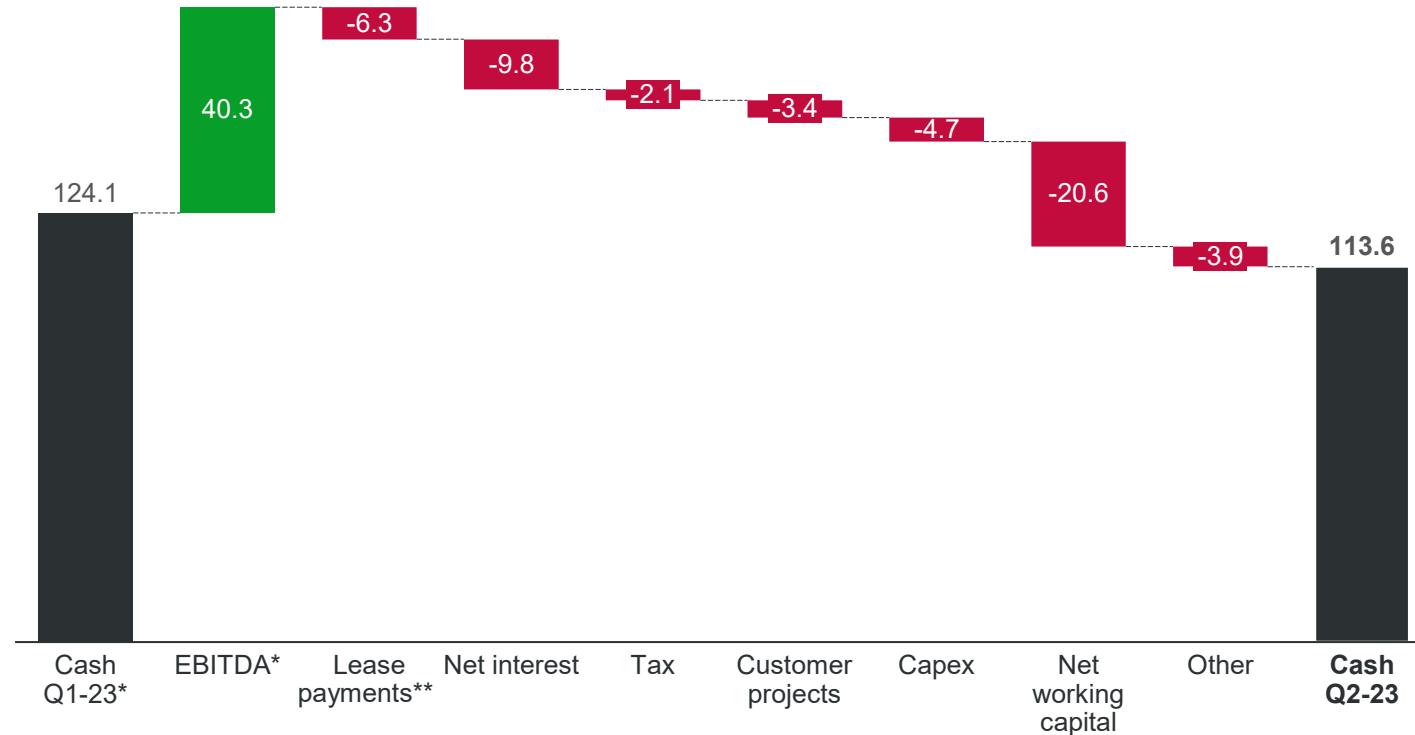
- ✓ **Personnel expenses:** Increased number of FTEs YoY (+103) and negative currency movements of (+12%). Revenue per employee in constant currency increased by ~8%
- ✓ **License costs and other operating exp.:** Increase mainly due to currency movements and additional SuccessFactors licenses for customers
- ✓ **Other op. exp.:** Additional externals (+NOK 4.1m), external payroll partners (+NOK 2.8m), travel (+NOK 2m), currency movements
- ✓ **Financial expense:** Includes currency loss of NOK 9m relating to the EUR denominated bond loan

*Q2'22 reclassified (NOK 5.2m moved from other operating expenses to personnel expenses)

** Items excluded from adjusted EBIT Q2 2023: share-based payments (NOK 3.8m) and amortization of excess values on acquisitions (NOK 3.5m) - see definition of adj. EBIT under APMs in the interim financial report)

Strong cash position

Development in cash balance (NOKm)

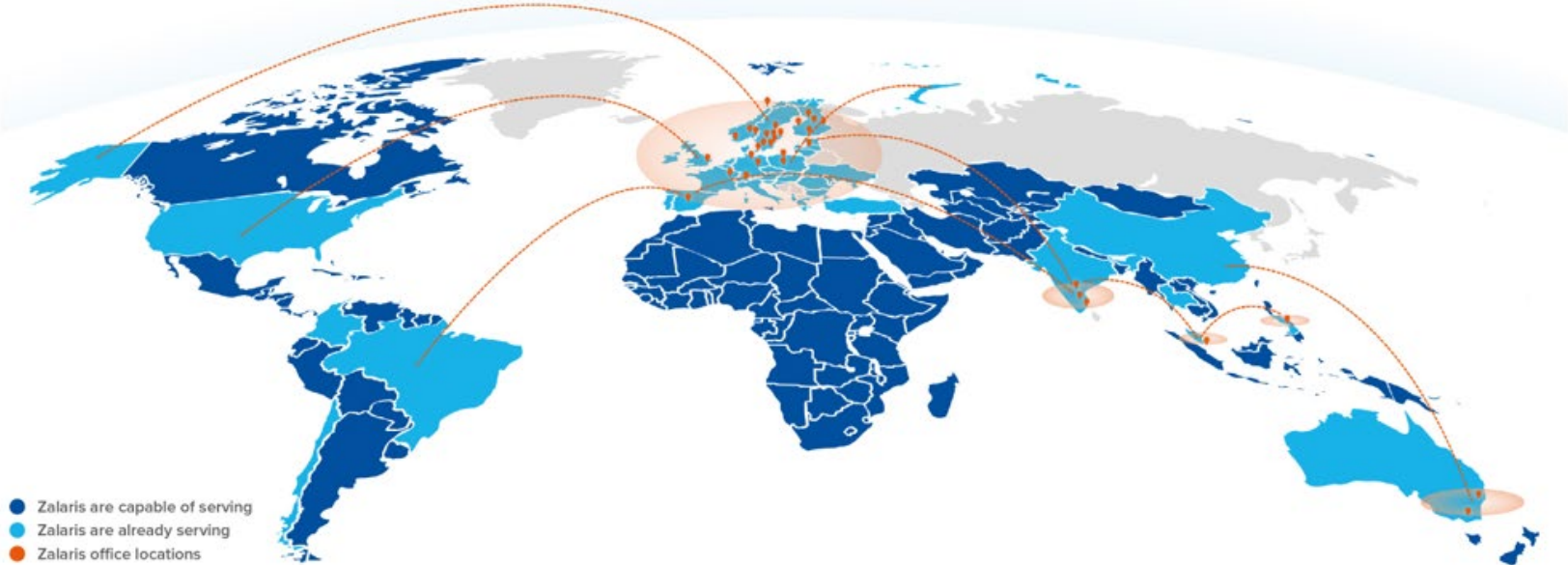


- ✓ **Positive cash flow from operating activities before interest of NOK 12.8m**
 - ✓ ~NOK 16m in annual bonus/sales commission paid had a negative impact on net working capital in the quarter
- ✓ Capex relates mainly to internal system development including projects partly financed through SkatteFunn
- ✓ **Cash balance at 30 June NOK 114m**
- ✓ **Net interest-bearing debt of NOK 356.3m** vs. NOK 332.9m at the end of previous quarter

* Before share based payment costs

** Relates mainly to rental costs for office premises

Outlook



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Continuing building Zalaris to a Global Player

- ✓ **Key milestone delivered in becoming a EUR 100 Million run rate company**
- ✓ **Next milestone of delivering 10% EBIT in Q4 within reach as EBIT improvements and increased scale gradually takes place**
- ✓ **Signings in H1 and strong pipeline support continuing existing growth trajectory** as global delivery capability has significantly increased Serviceable Available Market
- ✓ **Standardized platform-based multi-tenant solutions** as the core of all new offerings **will increasingly drive scale and further margin expansion**

Q&A



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Save the date: Capital Markets Day

Tuesday, 19 Sep. 2023 (09:00 – 11:00 CET)

Place: Hotel Continental, Oslo + webcast

Agenda: Presentation of strategy, goals and operations by key members of Zalaris' executive management team



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“

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Thank you!

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