

# Tieto Q4 2016

Year of increased investments ends  
with solid performance

2 February 2017

Kimmo Alkio – President and CEO

Lasse Heinonen – CFO

Tanja Lounevirta – Head of IR

The Tieto logo is positioned in the bottom right corner of the slide. It consists of the word "tieto" in a white, lowercase, sans-serif font, set against a blue triangular background that points towards the top right.

tieto

# Q4 2016 in brief

## Year of increased investments ends with solid performance

- Strong order intake with fourth-quarter book-to-bill 1.5
- Sales growth 2% in the fourth quarter, IT services up by 3%
- Adjusted operating margin over 12%
- Increased competitiveness driven by investments, continued automation and efficiency programme
- Dividend of EUR 1.37 proposed

# Outlook in the Nordic IT market remains solid

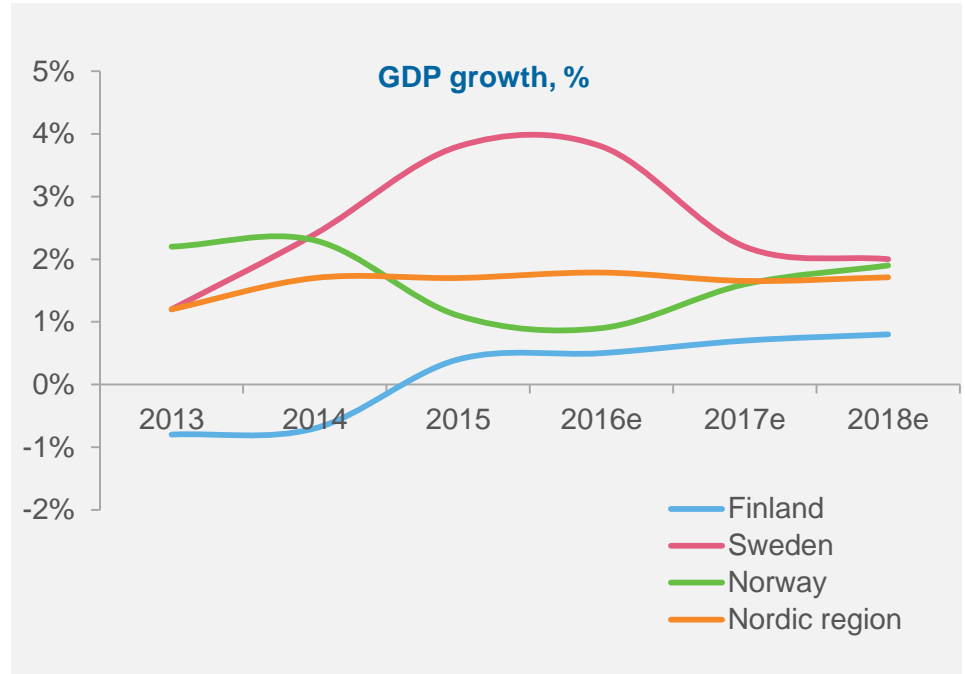
## Somewhat improved economic outlook in Finland

### IT market affected by economic outlook

- Positive outlook in Sweden continues
- Somewhat improved outlook in Finland

### Tieto expects the Nordic IT services market to grow by 2–3% in 2017

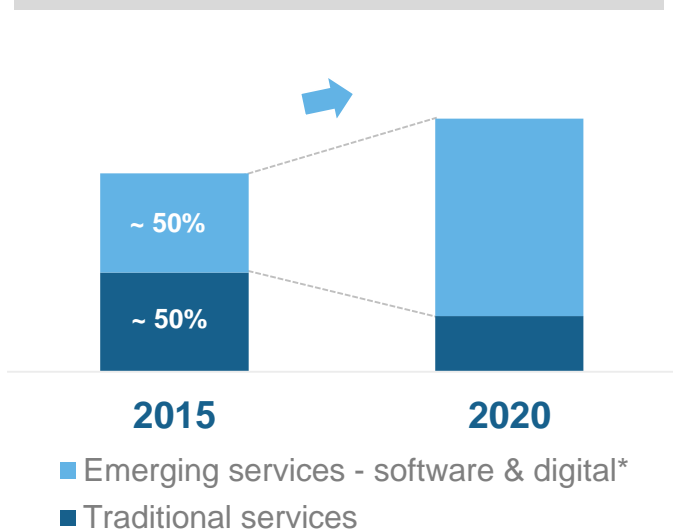
- IT services market strongest in Sweden
- Market change driven by investments in digitalization and efficiency improvement
- Emerging services expected to experience double-digit growth – decline in traditional services will continue



Source: Nordea Markets, Economic Outlook, 1/2017

# Business mix shifting towards high-growth services

Tieto's growth ambition for IT services:  
Faster than the market\*\* (CAGR 2015-2020)



\*Includes high-growth businesses and internal start-ups which represented ~20% of IT services sales in 2015

\*\*Market growth expectation (CAGR) for the Nordics at 1.5–3%

Sales growth in  
2016–2020 (CAGR)



- Industry solutions
- Cloud and modernization services
- New data-driven businesses
- Other integration and services



Traditional infrastructure  
and application services

Development  
1–12/ 2016

High-growth  
businesses<sup>1)</sup>

- ~EUR 330 million, 24% of IT services sales
- Growth 18%

Other emerging services  
and solutions

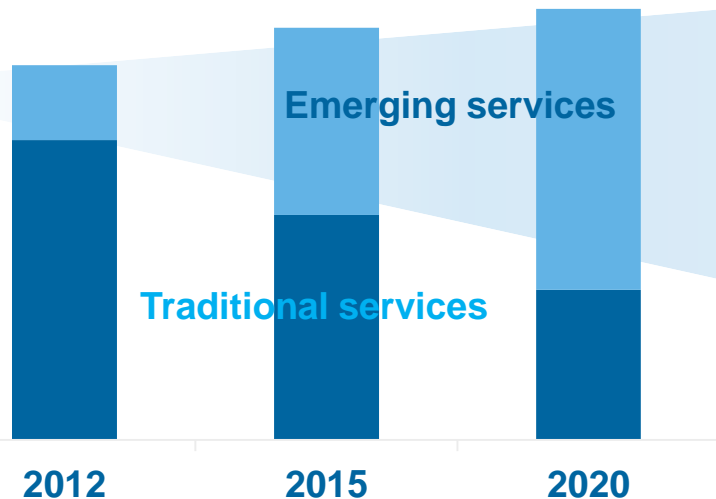
- ~EUR 455 million, 33% of IT services sales
- Growth 8%

Traditional services

- ~EUR 590 million, 43% of IT services sales
- Down by 5%

IT services sales EUR 1 375 million  
in 2016

# Our long-term renewal supported by evolving competence mix



## Investing in competence renewal in 2016



Over 130 consultants recruited in Nordics



Close to 900 software developers recruited globally



Close to 100 architects



Gross recruitments in Sweden 370, in Finland 300



Headcount in India and Czech increased by 500

**Net increase of 800 employees**

2 700 total recruitments

# Strong solution foundation to accelerate performance – offering investments up to 75 mEUR

## High-growth businesses as from 2014

- Cross-industry solutions

Customer  
Experience



~40 mEUR  
34% growth<sup>\*)</sup>

Data-driven  
businesses



Started in  
H2/2016

Security  
services



~10 mEUR  
16% growth<sup>\*)</sup>

Cloud &  
orchestration



~ 110 mEUR  
36% growth<sup>\*)</sup>

## Selected Industry Solutions



Financial services:  
Banking and  
payments



Energy:  
SmartUtility



~170 mEUR  
6% growth<sup>\*)</sup>

Healthcare:  
Lifecare



Manufacturing:  
Production  
Excellence



Public sector:  
Case  
management



Oil & Gas:  
Hydrocarbon  
accounting

<sup>\*)</sup> Growth in 2016

# Q4 2016 key figures

## Net sales

- EUR 404 (396) million, +2.0%, growth in local currencies +3.5%
  - Acquisitions added EUR 8.3 million
  - Currency impact EUR -6 million
- In IT services, sales growth 2.7%, or 3.9% in local currencies
  - Organic growth in local currencies 1.6%

## EBIT

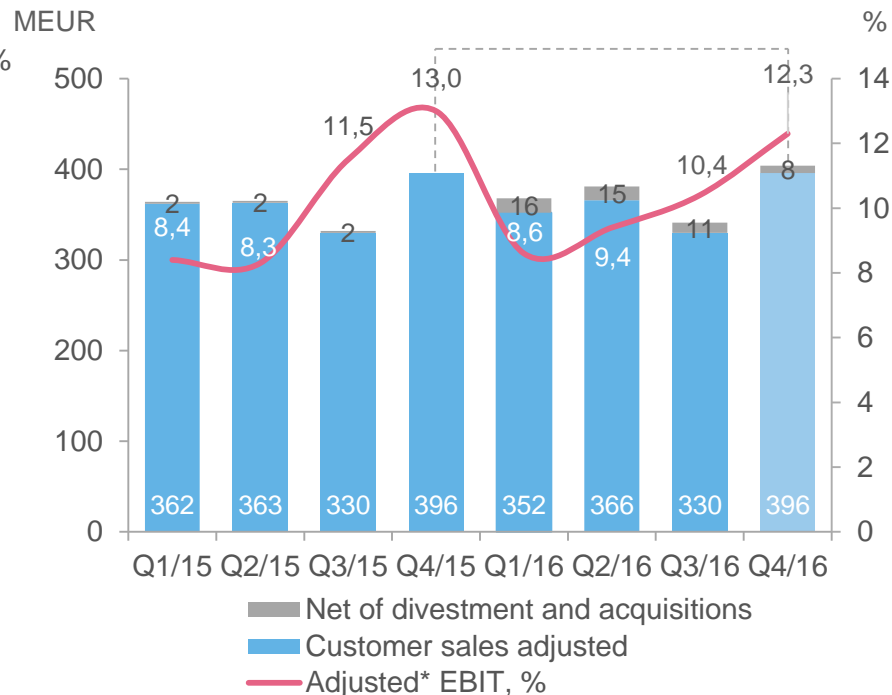
- EBIT EUR 45.1 (46.8) million, 11.2% (11.8%)
- Adjusted\* EBIT EUR 49.5 (51.4) million, 12.3% (13.0%)

## Order backlog

- Order backlog EUR 1 847 (2 030) million
- Total Contract Value EUR 613 (640) million
- Book-to-bill 1.5 (1.6)

## Earnings per share

- EPS EUR 0.46 (0.47)
- EPS EUR 0.51 (0.51), adjusted\*



# Long-term financial development favorable

## Full-year net sales

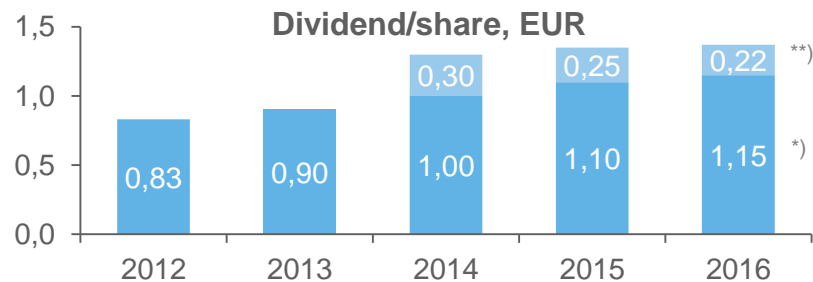
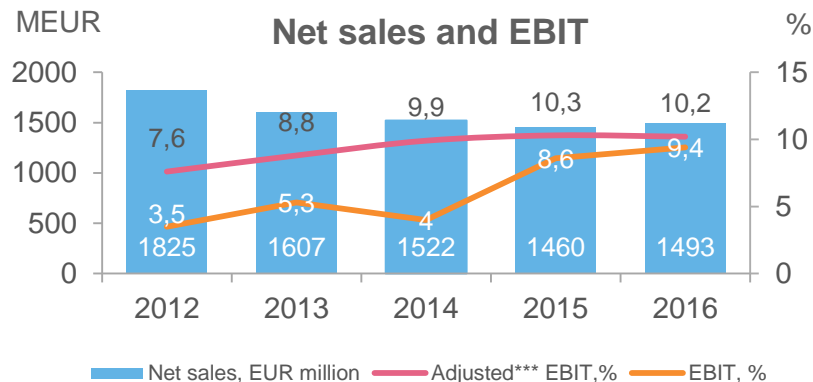
- EUR 1 493 (1 460) million, +2.2%, growth in local currency +3.2%
- IT services growth 4.3%, growth in local currency +5.3%

## Full-year EBIT

- EBIT EUR 140.8 (125.2) million, 9.4% (8.6)
- Adjusted\*\*\* EBIT EUR 152.2 (150.8) million, 10.2% (10.3%)
  - Restructuring costs ~1% of sales
  - Savings based on automation and industrialization EUR 29 million
  - Includes EUR 3.3 (1.2) million in allocated acquisition-based amortization

## Dividend proposal

- Proposed dividend EUR 1.37 per share
  - Base dividend EUR 1.15 (1.10)
  - Additional dividend EUR 0.22 (0.25)
- Dividend yield 5.3%



\*) Proposed dividend

\*\*) Additional dividend

\*\*\*) Adjusted for restructuring costs, capital gains/losses, goodwill impairment charges and other items



# Consistent performance improvement while having increased investments

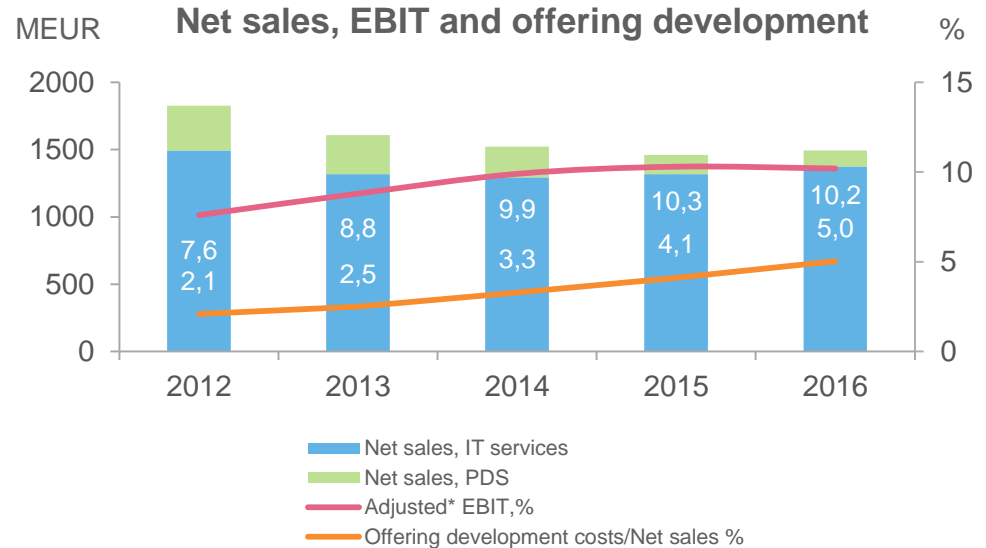
## IT services sustainably driving growth

### Increased investments in offering development

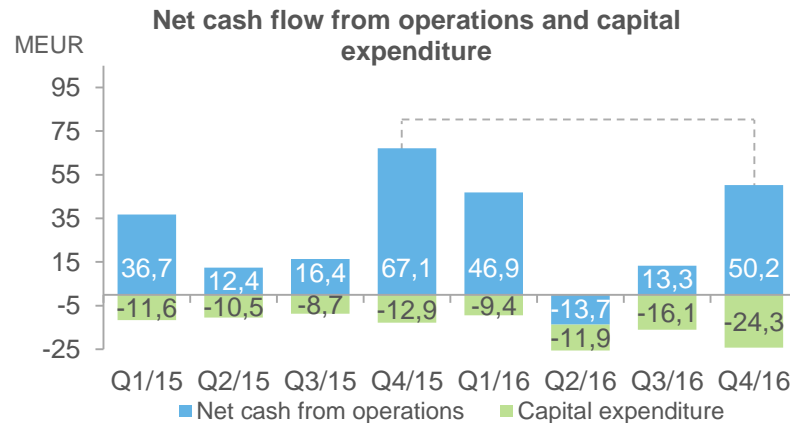
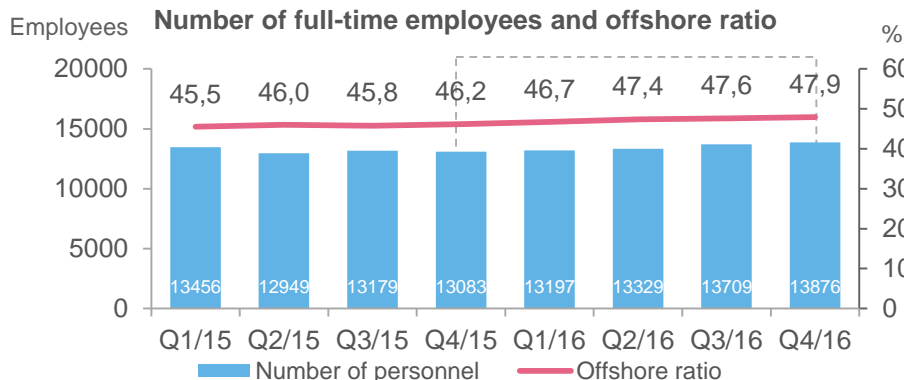
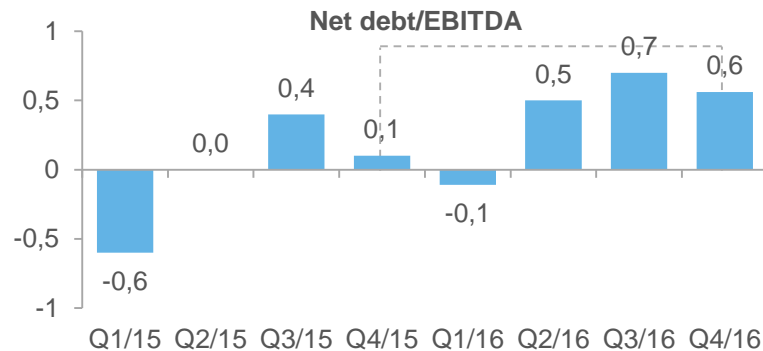
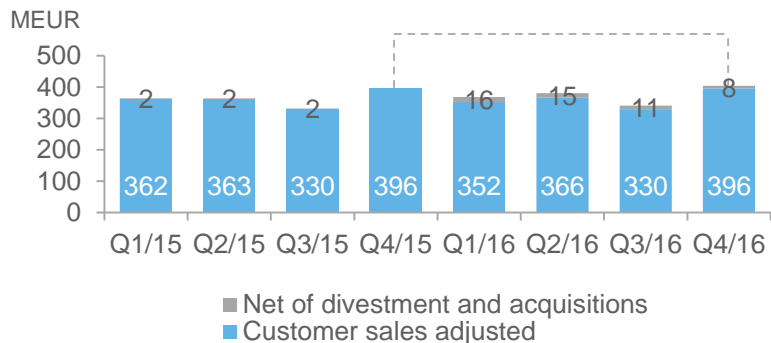
- Annual offering investments up to EUR 75 million from EUR 40 million in 2013
- Offering development costs up by EUR 15 million in 2016

### Other investments in 2016

- Net recruitments 800 employees – impact on cost base ~20 mEUR
- Acquisition of Emric
- Capital expenditure EUR 62 (51) million, around 4% of sales



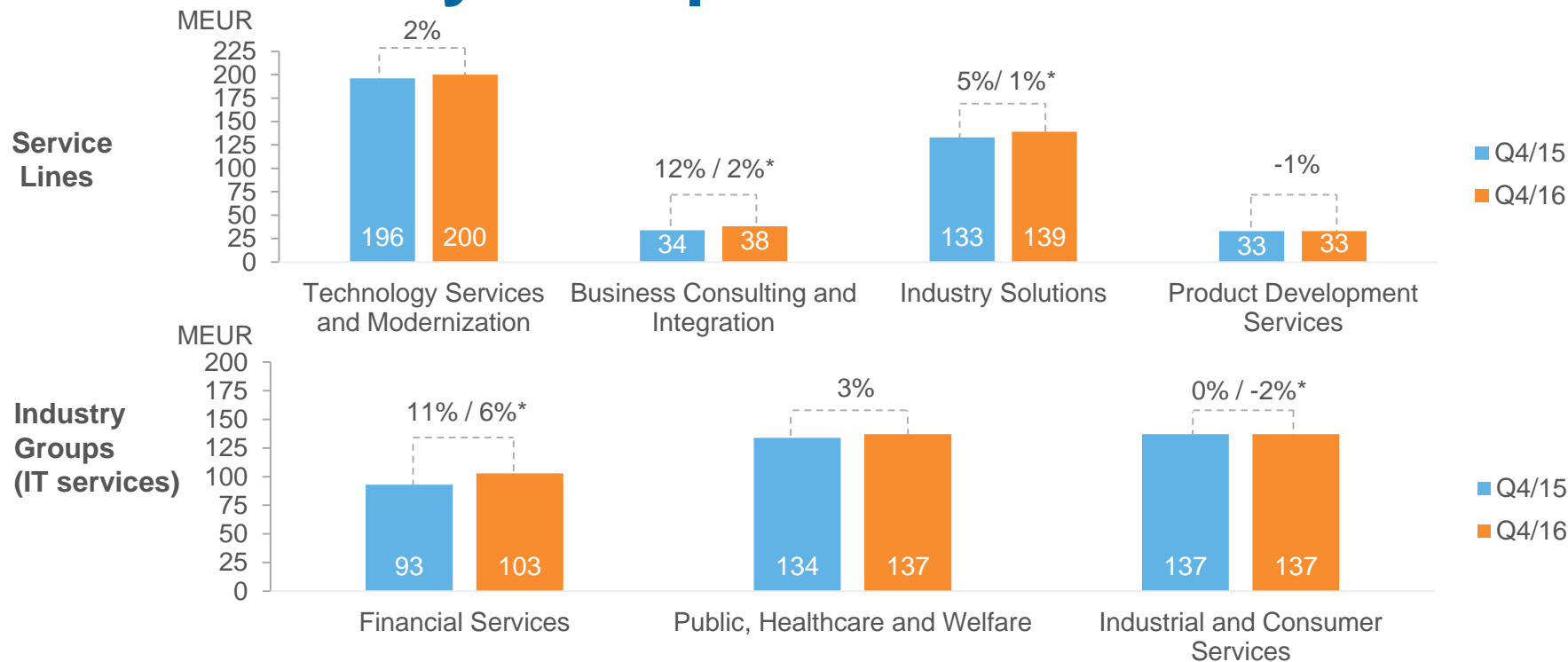
# Quarterly development



Number of personnel up by a net amount of 793

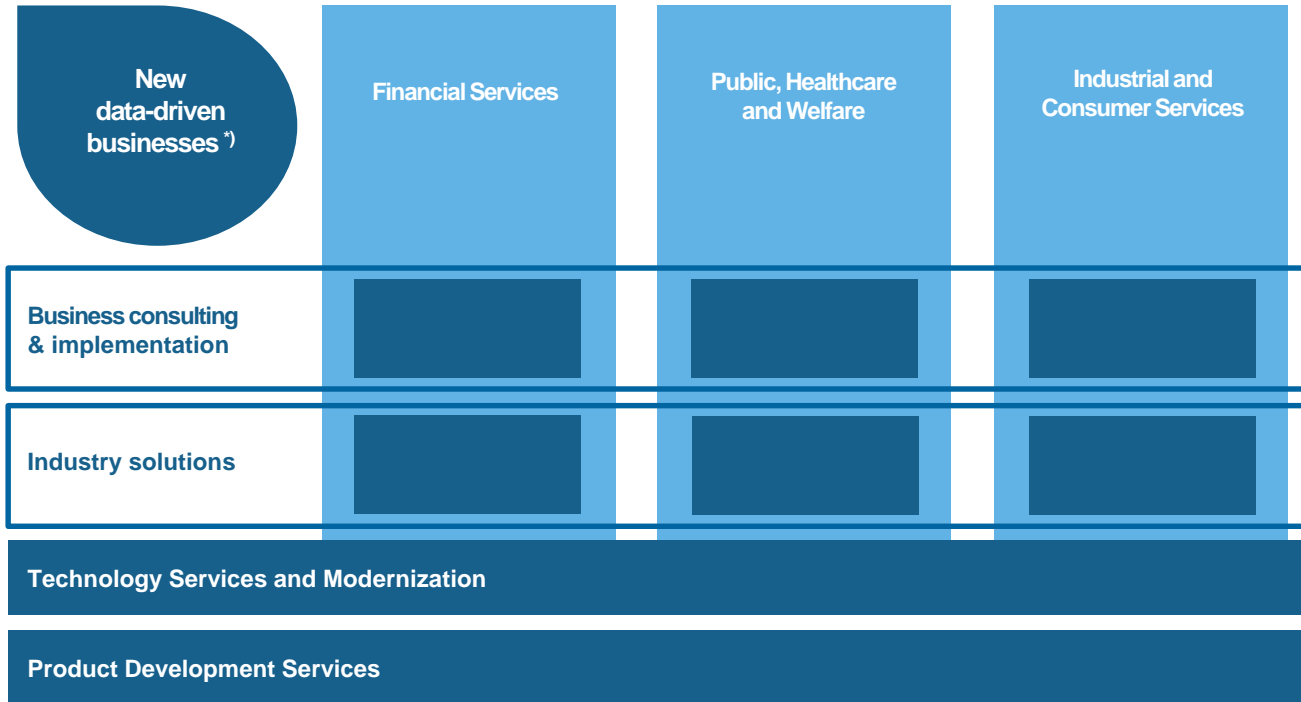
Offshore ratio: IT services 46.2% (44.6%) PDS 64.7% (60.7%)

# Growth in local currencies by Service Line and Industry Group



\*) Organic growth in local currencies (not shown for businesses where acquisition impact is not significant)

# Service Lines



# Technology Services and Modernization

## Customer sales in Q4

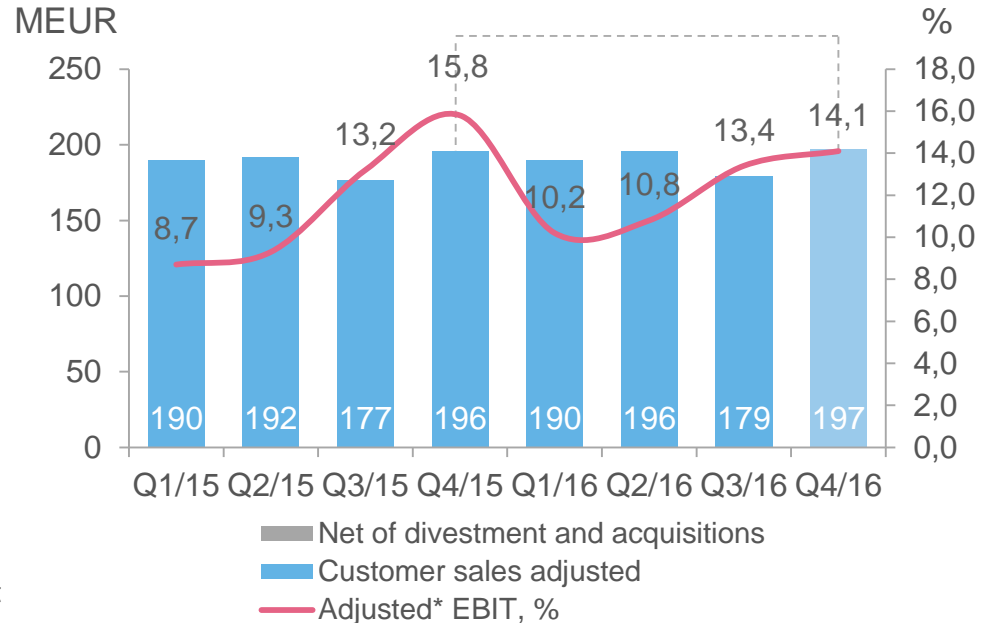
- EUR 197 (196) million, +1%, growth of 2% in local currencies

## EBIT

- EBIT EUR 26.2 (30.3) million, 13.3% (15.5)
- Adjusted\* EBIT EUR 27.7 (30.9) million, 14.1% (15.8)

## Q4 highlights

- Cloud sales up by 23% in Q4, representing 22% of infrastructure services
- Strong growth in shared, standardized workspace services continues
- Service standardization and automation initiatives continue
- EBIT somewhat down due to exceptionally strong Q4/2015
- Measures to ensure continued competitiveness will affect operating margin mainly in the second half of 2017
- Q1 margin expected to be at the Q1/2016 level



# Business Consulting & Implementation

## Customer sales Q4

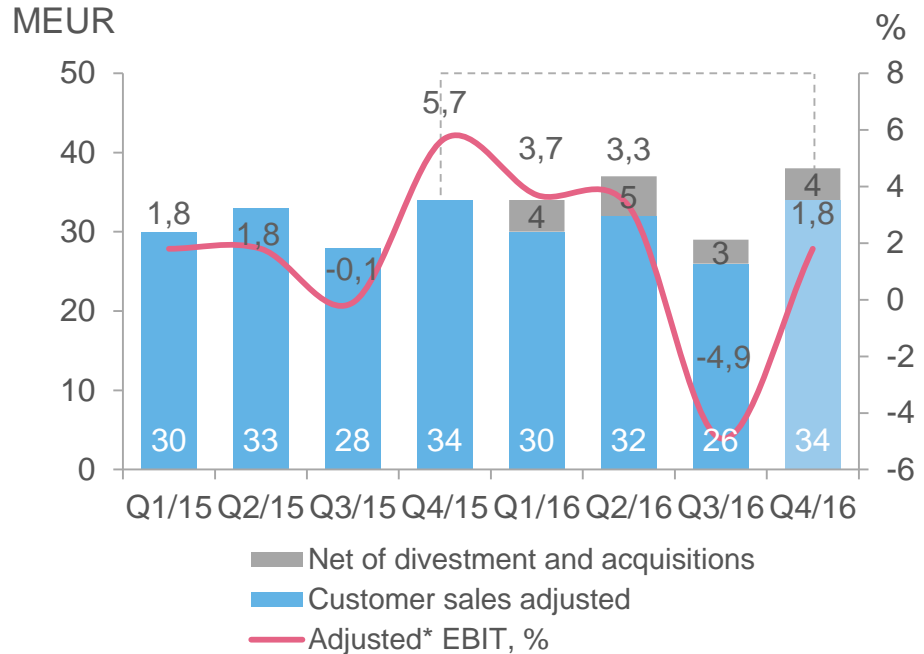
- EUR 38 (34) million, +10%, growth of 12% in local currencies
- Organic growth in local currencies 2%

## EBIT

- EBIT EUR 2.0 (1.3) million, 5.3% (3.7)
- Adjusted\* EBIT EUR 0.7 (2.0) million, 1.8% (5.7)

## Q4 highlights

- Growth supported by acquisitions of Smilehouse and Imano
- Demand strongest in Customer Experience Management and consulting services
- Investments in growth, incl. recruitments for eCommerce
- Continued overcapacity in Enterprise Applications
  - Significant agreements started during the quarter
- Utilization rate anticipated to improve based on the efficiency improvement programme
- Margin improvement expected to materialize as from Q2/2017



# Industry Solutions

## Customer sales Q4

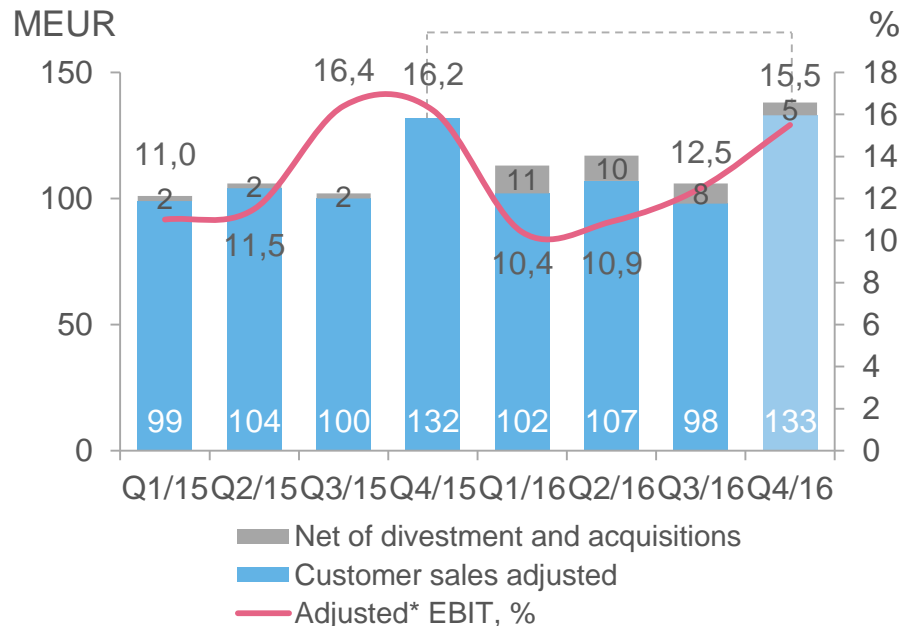
- EUR 138 (132) million, +4%, growth of +5% in local currencies
- Organic growth in local currencies 1%

## EBIT

- EBIT EUR 19.7 (20.8) million, 14.3% (15.7)
- Adjusted\* EBIT EUR 21.5 (21.5) million, 15.5% (16.2)

## Q4 highlights

- FS growth supported by the acquisition of Emric, Lifecare up by 5%
- Strong order intake in all main businesses
- Offering development costs up by EUR 5 million, including data-driven businesses – impact of 3.6 %-points on margin
- Q1 margin anticipated to be at the level of Q1/2016



# Product Development Services

## Customer sales Q4

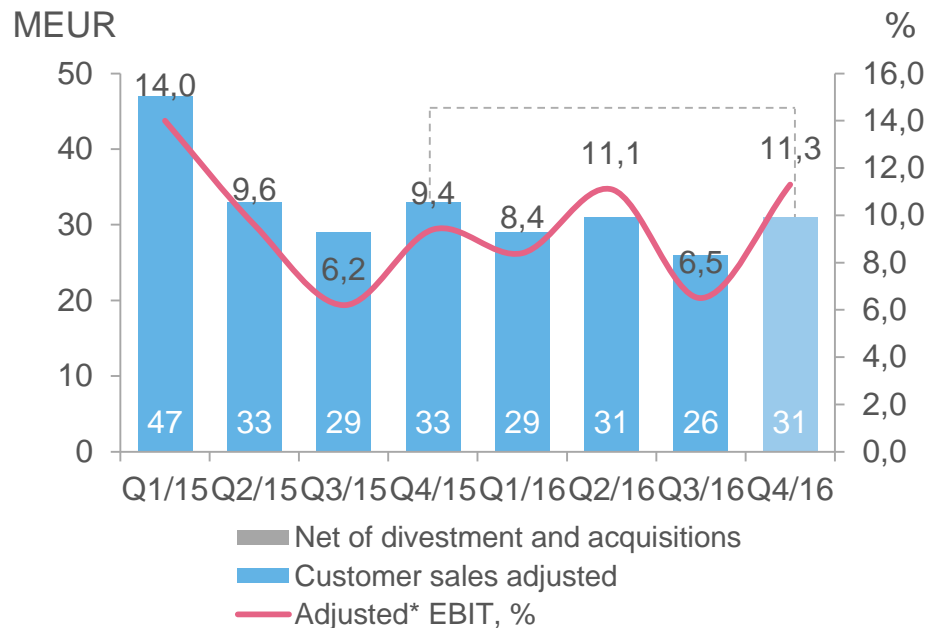
- EUR 31 (33) million, -5%, decline of 1% in local currencies

## EBIT

- EBIT EUR 3.3 (2.8) million, 10.6% (8.4)
- Adjusted\* EBIT EUR 3.5 (3.1) million, 11.3% (9.4)

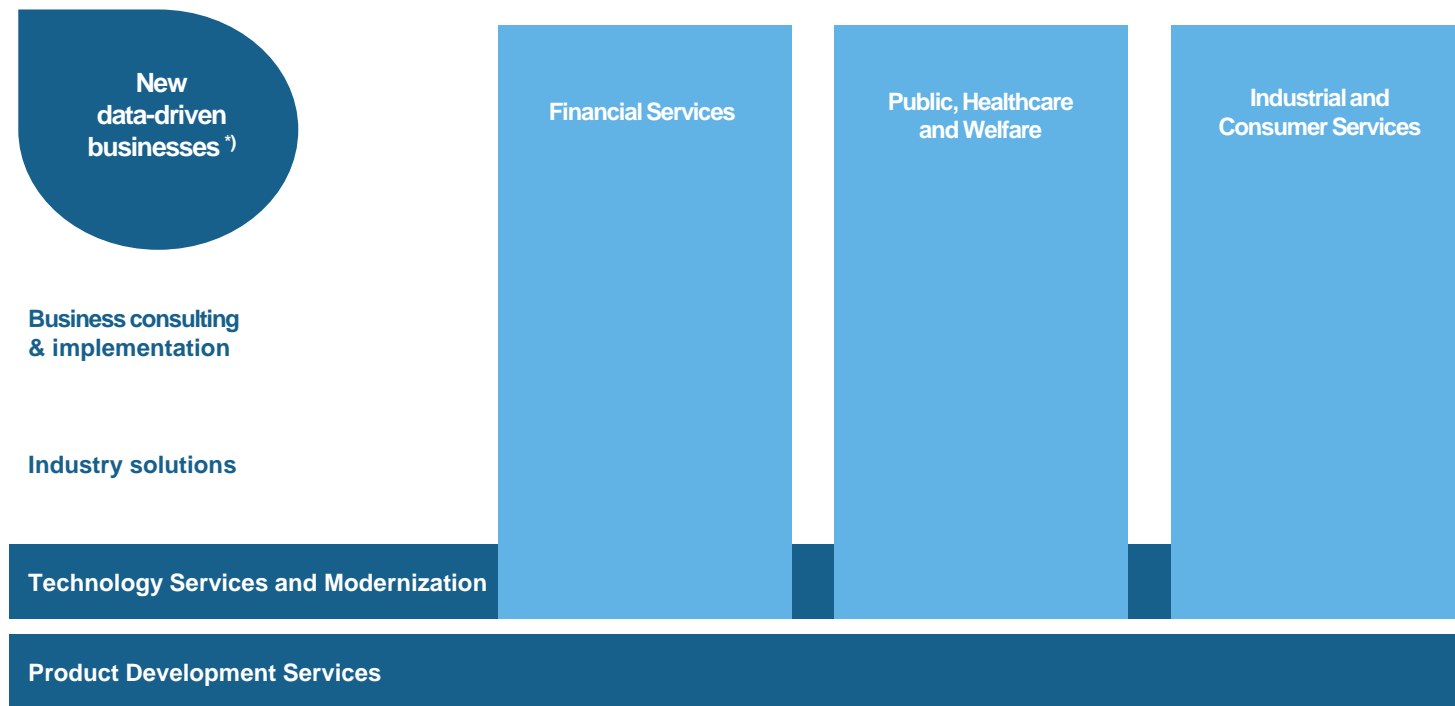
## Q4 highlights

- Business with largest key customers was growing mainly due to good development in the Radio area
- New customer acquisition continued – new business did not fully compensate for the anticipated end-of-life projects
- Q4 operating margin improved clearly due to improved utilization rate and healthy cost structure
- Q1 margin anticipated to be at or above the level of Q1/2016





# Industry Groups



# Financial Services

## Customer sales Q4

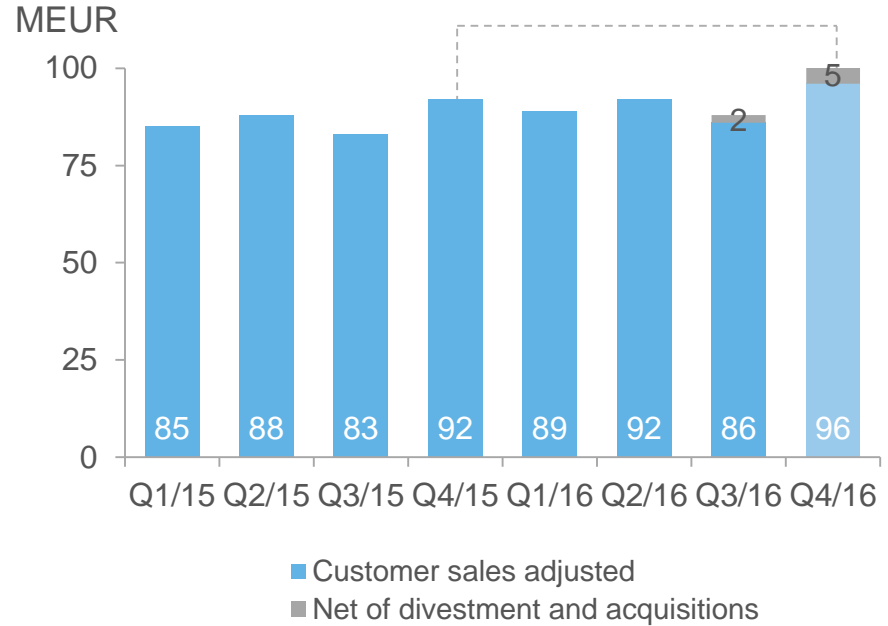
- EUR 101 (92) million, +10%, growth of 11% in local currencies
- Organic growth in local currencies 6%

## Sales split by service line

	Q4/2016	Q4/2015
TSM	56%	58%
BCI	5%	4%
IS	39%	38%

## Q4 highlights

- Acquisition of Emric support growth
- Growth driven by new projects driving IT efficiency and digital services, especially in Finland
- Agreements with Arek, Folksam, Etera, Marginalen Bank



# Public, Healthcare and Welfare

## Customer sales Q4

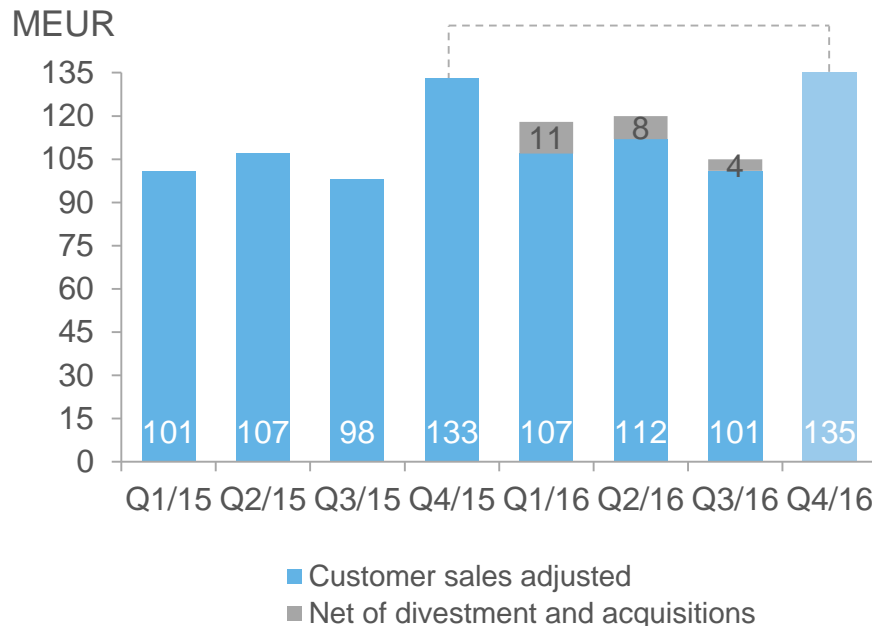
- EUR 135 (133) million, +1%, growth of 3% in local currencies

## Sales split by service line

	Q4/2016	Q4/2015
TSM	44%	43%
BCI	8%	8%
IS	48%	49%

## Q4 highlights

- Growth was strongest in industry-specific solutions – organic growth of around 4%
- Transition projects in infrastructure services in Finland contributed to growth
- Strong maintenance growth – price increases and good licence sales in 2015
- Reforms in the social and welfare sector across the Nordic countries provide growth opportunities



# Industrial and Consumer Services

## Customer sales Q4

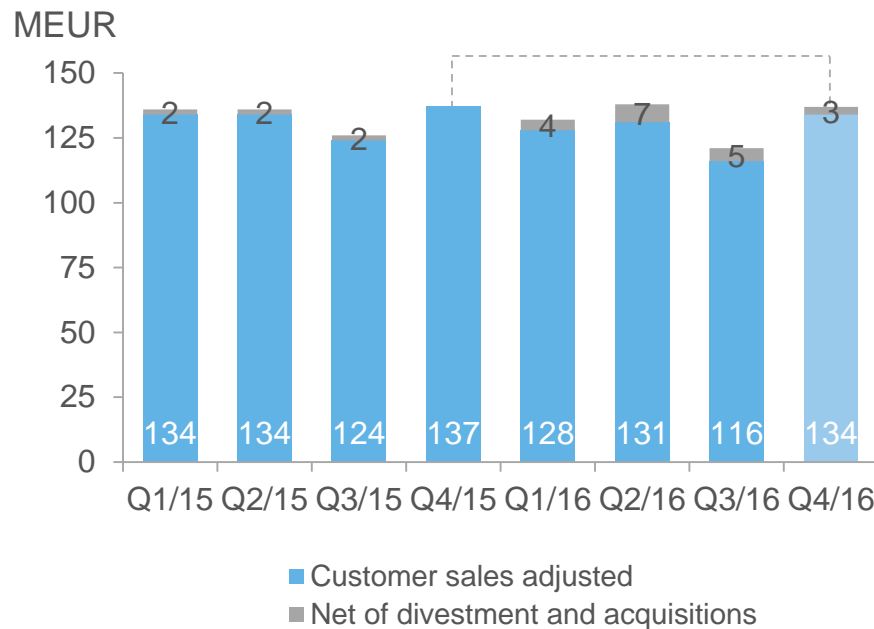
- EUR 137 (137) million, remained at the previous year's level
- Organic growth in local currencies -2%

## Sales split by service line

	Q4/2016	Q4/2015
TSM	59%	62%
BCI	17%	15%
IS	24%	23%

## Q4 highlights

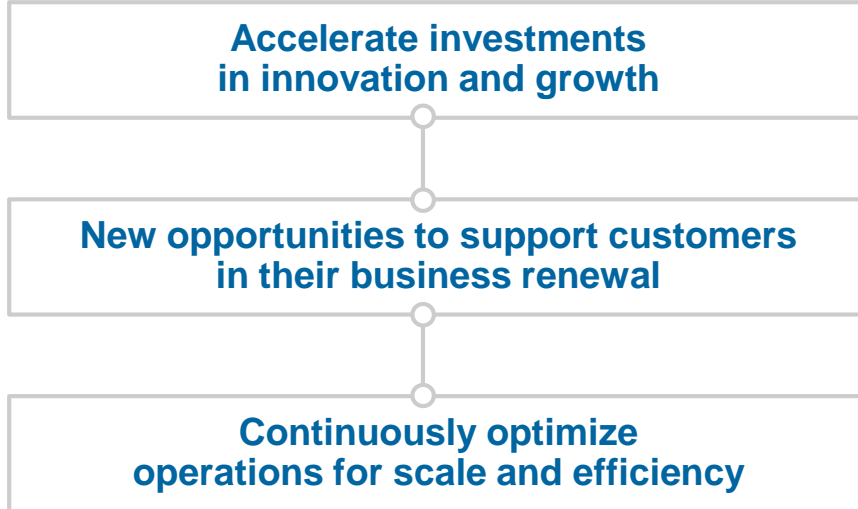
- Sales supported by the acquisition of Imano and Smilehouse
- Organically, sales were down due to anticipated lower project business volumes for one Telecom customer
- Demand in the energy utilities segment remained good
- Healthy order intake in Q4 – several new agreements, e.g. Fortum and COOP Mitt & Väst



# Way forward

**tieto**

# We continue to drive growth and efficiency – for our customers and us



# Our prime objectives for 2017



Accelerate growth and innovation



Quality & customer experience



Drive productivity



Develop skills for the future

# Performance drivers

## > 2017 – IT services

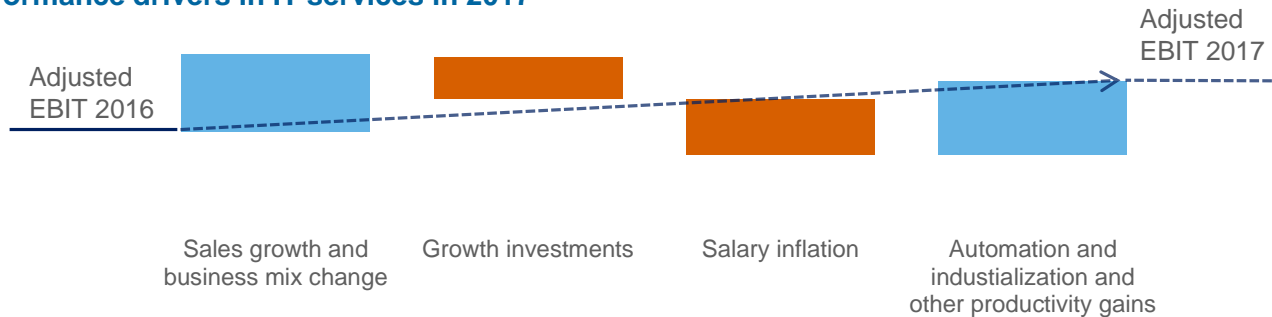
We aim to **grow** faster than the market, growth supported by acquisitions

**Efficiency programme:** impact of over 20 mEUR, annualized gross savings close to 40 mEUR

Offering development costs remain at the 2016 level and around 5% of Group sales

Restructuring costs 1–2% of Group sales

### Performance drivers in IT services in 2017





# Guidance for 2017

Tieto expects its full-year adjusted<sup>\*)</sup> operating profit (EBIT) to increase from the previous year's level (EUR 152.2 million in 2016).

\*) Adjusted for restructuring costs, capital gains/losses, goodwill impairment charges and other items

# Q4 2016 in brief

## Year of increased investments ends with solid performance

- Strong order intake with fourth-quarter book-to-bill 1.5
- Sales growth 2% in the fourth quarter, IT services up by 3%
- Adjusted operating margin over 12%
- Increased competitiveness driven by investments, continued automation and efficiency programme
- Dividend of EUR 1.37 proposed

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