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Tieto Corporation

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Prepared Remarks

Tommi Järvenpää
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Good morning and welcome to Tieto's third quarter earnings webcast. My name is Tommi Järvenpää, the Head of Investor Relations at Tieto. In the third quarter, we saw continued pressure on our organic growth alongside with strong profitability development. We also updated our full-year guidance last night in light of these developments, which our CEO, Endre Rangnes, and CFO, Tomi Hyryläinen, will discuss in more detail this morning. After the presentation, we will open the line for questions as usual. With this, I would like to hand over to Endre. Please go ahead.

Endre Rangnes
CEO | Tieto

Thank you, Tommi, and welcome to Tieto's third quarter presentation. I would say that Q3 reflects the year of transition Tieto has been going through. We have been through a comprehensive transformation agenda across the company, strengthening execution of the strategic priorities and building foundation for future growth. At the same time, market conditions have been a bit more challenging than anticipated, and that's about rapid changes in customer demand that has required a broader transformation of Tech Consulting, especially compared to what we communicated at the Capital Markets Day. With major elements of this transformation now in place, we are accelerating investments to support future growth. This means strengthening our sales capacity and also selectively rebuilding delivery capacity in line with the market demand.

Endre Rangnes
CEO | Tieto

In Q3, our transformation was visible in our consulting revenue development while the actions to strengthen the company continued to support a strong profitability. Organic growth was -11%, of which seven points was related to known effects from the Banktech court ruling back in 2025. We also had some legacy contract runoffs during the quarter. Demand remained soft in parts of the consulting market, while revenue in Tech Consulting also was affected by our planned capacity adjustments. We will come back to this during this call. Lower volumes in parts of Banktech and Indtech also impacted the growth. However, despite the revenue decline, adjusted EBITA margin remained strong at 18%, as you can see at the bottom here. We continued to strengthen Tieto through portfolio simplification, including the announcement of the divestment of Pulp, Paper and Fibre software business this morning.

Endre Rangnes
CEO | Tieto

During Q3, we appointed Juuso Pajunen as CFO effective from early 2027. Reflecting over Q3 performance and the current outlook, we have, as you saw last night, updated our full-year guidance. Looking at Q3, we actually saw two different trends. Organic growth was a bit weaker than we had anticipated, while profitability was stronger. The weaker growth was most clear in Tech Consulting, reflecting, I would say, both soft market conditions and the ongoing transformation and headcount reductions in that business. Lower volumes also in parts of Banktech and Indtech impacted the growth in the quarter. At the same time, our cost optimization actions continued to deliver strong results. We are very pleased with the progress that we have made in strengthening profitability and the overall cost base of the company.

Endre Rangnes
CEO | Tieto

With this, we have reflected this in the 2026 updated outlook. We have narrowed and slightly lowered organic growth guidance to -6% to -5% from -5% to -3%, while also raising the adjusted EBITA margin guidance from 15.5%-16% from then originally 14.8%-15.8%. The strong profitability is one tangible result of our execution, and I will say that we are making good progress across our strategic priorities. Looking at the four strategic priorities, we continue to execute the priorities, strengthening our competitiveness and also then positioning the business for future growth. We are enhancing our commercial capability by adding now 70 new sales professionals. We are reskilling in Tech Consulting ongoing, and we will hire up to 1,000 consultants with AI and data expertise over the next 12 months.

Endre Rangnes
CEO | Tieto

At the same time, we are simplifying the business and improving execution through more efficient operating model, and we are also progressing on the international or European expansion, including Caretech entry into Germany in the third quarter. Of course, cost actions remain on track, with EUR 125 million of annualized savings delivered by September. We are close to the communicated target of EUR 130 million. It is important also to underline that additional cost measures are being implemented to support competitiveness and our CMD ambitions. Together, these actions are strengthening the foundation for future growth, supported by a more systematic approach also to partnerships. When we look at the partnership side, I would say that historically, we have not developed the partner ecosystem as a systematic groupwide commercial growth channel.

Endre Rangnes
CEO | Tieto

We see this as a significant missed opportunity, and then working more closely now with partners that will help us reach more clients, strengthening our offerings and also generate additional sales. This year, we have made a great start in building the partnership business. We have introduced clear group-wide ownership, including the appointment of Group Head of Partnership in Q3, and we are putting more focus behind joint go-to-market strategies or activities also with our partners. I would say that this is a long-term priority to make partnerships a meaningful source of growth across our businesses. Clearly, we are seeing this also as a market trend. The opportunity extends beyond AI. Of course, AI data and cloud are important areas where partners are supportive for Tieto and our customers going forward.

Endre Rangnes
CEO | Tieto

However, we are also partnering up to grow the industry-standard software with then the associated consultancy and services. I would say also that the Microsoft Frontier Partner and the Snowflake Premier Partner recognitions are recent examples all of a partnership making good progress. Looking then at Q3 in numbers, I would add a couple of comments on the order backlog and the cash flow, as we have already discussed growth and the strong profitability. The order backlog declined by 2% year-on-year, and this was mainly due to lower volumes in some of the volume-based businesses, particularly then in Banktech and in Tech. At the same time, the overall backlog remains at very solid levels, supported by the recurring nature of our software businesses. When we look at the cash flow, cash flow from operations was EUR 3 million, compared to EUR 45 million last year.

Endre Rangnes
CEO | Tieto

We need to keep in mind that the comparison includes around EUR 17 million from businesses which are divested, then a positive EUR 22 million impact from the court ruling in 2025. Excluding these effects, then prioritization of tax and financial items, cash flow was slightly better than last year. We need to keep in mind that Q3 is, I would say, always the weakest quarter in the year. Let me then focus on the business units. We are starting off with Tech Consulting. At our Capital Markets Day, we outlined the need to transform this specific business. First of all, to become more customer-centric, to strengthen the service mix, then build a more competitive operating model.

Endre Rangnes
CEO | Tieto

Since Capital Markets Day, we have to admit that customer demand has changed rapidly, particularly as AI has advanced faster and market conditions have been more challenging than expected. This has made the transformation broader than we originally anticipated. This year we have introduced a new operating model with clear ownership, clear KPIs and accountability across eight different geos. We have also made a substantial shift in our workforce. Over the past year, we have reduced the number of employees, meaning from Q3 last year until end of Q3 this year in Tech Consulting by 1,100 employees, including around 360 during Q3 of this year. At the same time, we have been reskilling our people to better align with the market demand.

Endre Rangnes
CEO | Tieto

By end of Q3, we have completed a reskilling of 2,700 out of the 5,000 people covered by the Microsoft upskilling program. These changes, together with soft demand in parts of the consulting market, were reflected in the Q3 revenue. Organic growth was -11%. We had included in that the termination of a loss-making U.S. customer contract that had a negative impact on two points. We are deliberately reshaping capacity and skills to reflect the market conditions and where the market is moving, this has affected also the revenue during the transition period. Despite the revenue decline, the adjusted EBITA margin improved to solid 15.6%, this comes from high utilization, lower G&A cost levels, then also supported with high level of activity in terms of billable utilization.

Endre Rangnes
CEO | Tieto

This shows the impact of the actions that we have taken to strengthen this part of the business. With the main elements of the reset in place, we are now building the next phase for Tech Consulting. We have increased sales capacity by 30% and more to come in terms of sales recruitment. We have continued to renew skills through reskilling and partnerships, we plan to hire up to 1,000 consultants with AI and data skills over the next 12 months. These are targeted investments in areas where customer demand is currently growing. The customer examples then on this slide as well, including GM and Traficom, the Nokia Diamond Award offer future evidence of customer activity and recognitions. Moving then to Banktech, we had organic growth of -18%.

Endre Rangnes
CEO | Tieto

This reflects two specific effects, a negative comparison impact of 14 points from the court ruling back in 2025, and further five, sorry, four points, negative from the legacy non-profitable contract run-off. Q3 was the final quarter affected by these legacy run-offs. From Q4, we will have a cleaner view of the business from a comparable point of view. Our underlying growth was flat. As we noted in Q2, volumes in some of our volume-based businesses in Banktech were lower, and this continued in Q3. I would say that we are not satisfied with this level of flattish growth, but looking down ahead, there are encouraging signs. The order backlog is strong and is starting now to translate more into revenue.

Endre Rangnes
CEO | Tieto

In addition, the European sales pipeline has developed well together the support of a growth outlook, as the legacy effect now is falling away. Adjusted EBITA margin came in strong at 18.1% in Q3. We have recent wins, including Handelsbanken, Norway's self-service wealth management portal, the NBX digital and physical card issuing for stablecoin users. I am also quite proud that we have now a Nordic Tier 1 bank that has selected Banktech's wealth management solution for the future wealth management in that bank, selected now in Q3. Caretech continued the strong performance in Q3. Reported organic growth was minus 1%, but that includes also a 5 percentage point impact from the decline in the legacy business. Excluding this effect, underlying growth was 4%, reflecting the continued strength in our modern Lifecare software portfolio.

Endre Rangnes
CEO | Tieto

When we look at the profitability, coming in very strong with adjusted EBITA margin increasing to 33.1%. Also in Q3, University Medical Center Mainz selected Lifecare, making our entry also now into the German market. In Switzerland, another market that we have expanded to, Caretech is co-developing a digital tumor board solution with University Hospital Basel, starting with lymphoma. Moving to Indtech. Indtech's organic growth was minus 3% in the quarter, reflecting, I would say, several pressures with different characteristics. The most significant one was continued weakness in our volume-based business, as we discussed also in Q2. For example, in Multichannel and BIX, Nexus, which represents around 45% of Indtech's revenue, customers are increasingly bundling invoices that were previously sent separately, and this reduces print postage volumes, and reflects a structural change in customer behavior.

Endre Rangnes
CEO | Tieto

We had also data-driven services that was affected by software activity in the Norwegian real estate market last quarter. We also saw a temporary slowdown in the professional services demand, particularly in Public 360°. We expect some of these more temporary pressures to ease in Q4 and during next year. When it comes to Pulp, Paper and Fibre, we would also say that that market remains weak, reflecting the long-term challenges for that specific industry. Early this morning, we signed an agreement to divest this business, which is consistent with our aim to simplify and focus our future portfolio. Despite, I would say, these growth pressures, profitability remained solid with an adjusted EBITA margin of 17.9%.

Endre Rangnes
CEO | Tieto

While we are seeing the volume trends continue to affect part of Indtech, we believe the remaining portfolio can return to growth trajectory as temporary market pressures ease. Regarding our development with customers, we have seen Helse Sør-Øst selected Public 360° to modernize and standardize case management and records administration across 13 hospitals. In addition, [Ayeshe] will give Indtech's Idemitsu Norway traceability from purchase order to approved invoice, while Tieto and Siirto are partnering to make e-invoicing easier for businesses and customers in Finland. Tomi, that leaves the stage to you.

Tomi Hyryläinen
CFO | Tieto

Thank you, Endre, and good morning, everyone. Q3 highlight was strong profitability in all businesses with approximately two percentage point operational improvement compared to prior year. Our improvement is a result of successful execution of the cost optimization program and continued cost discipline across the company. As discussed earlier, our growth of negative 11% was impacted by known headwinds of seven percentage points from Banktech and Caretech, with underlying growth being negative 4%. Large contributor to this negative growth was Tech Consulting growth of negative 11%, which came in slightly weaker than our expectations. Our one-time items in Q3 were in line with our expectations of EUR 7 million. However, we are increasing our expectation for the full year to approximately 2% of revenue from 1.5%. This increase is a result of further G&A optimization and specific capacity reductions to address the revenue decline.

Tomi Hyryläinen
CFO | Tieto

Other Q3 events include our updated guidance, which Endre discussed earlier, and concluding of our EUR 150 million share buyback program in August, after which we started the buybacks for the announced EUR 90 million program. We expect to complete this EUR 90 million program by mid-January. Q3 is seasonally weak cash flow quarter as mentioned, which is also reflected in our operative cash flow of EUR 3 million. Our working capital increased by EUR 57 million due to normal seasonality, mainly due to vacation accruals, but also from the utilization of restructuring provision following the execution of our cost optimization program. Note that Q3 2025 cash flow includes contribution also from discontinued and divested businesses as well as SB1 compensation. On comparable basis, including timing differences in tax and financial items related payments, our operative cash flow is slightly better than prior year. Overall cash generation foundation remains healthy.

Tomi Hyryläinen
CFO | Tieto

Our reported net debt EBITDA was 1.3x at the end of Q3. The increase from Q2 is in line with the expectations and is a result of the execution of the share buyback programs. On fully adjusted basis, our leverage at the end of Q3 is at 1.9x, so at targeted levels being slightly below 2x. Few words of the cost optimization program. We have reached EUR 125 million run rate savings at the end of Q3 and will successfully complete the program by end of 2026. As communicated earlier, this program aims for a permanent cost-based reset of approximately EUR 50 million while mitigating the cost burden from Tech Services divestment and reducing overcapacity primarily in the consulting business. The one-time cost from the program will land to approximately EUR 55 million, of which we have incurred EUR 53 million at the end of Q3.

Tomi Hyryläinen
CFO | Tieto

On employee matters, LTM attrition continued at very low levels, being 7.2% at the end of Q3. These low levels are market-driven with normal healthy attrition being around 10%. During the quarter, we continued with planned personnel reductions impacting primarily Tech Consulting with 360 net FTE reduction. Group personnel reduction year-on-year has been significant with negative 14%, of which approximately 4% relates to acquisition and divestments. Consistent with Q2, we expect our group salary inflation for the year to be between 3% and 3.5% compared to 4% in 2025. Next, some outlook remarks for Q4. As you can calculate from our updated growth guidance, the midpoint reflects negative 3% growth for Q4. Growth remarks per business are following. We expect Tech Consulting growth to slightly improve from Q3 level, supported by our transformation efforts despite the continued soft market demand.

Tomi Hyryläinen
CFO | Tieto

Banktech is expected to turn to growth with structural headwinds behind us. The positive momentum is supported by increased order backlog conversion to revenue. Caretech continues to be impacted by legacy contract runoff with negative 4%, so 1% less than in Q3. Good performance in the modern software portfolio and strong order backlog supports underlying growth. In Indtech, we expect to improve from Q3 as we expect the temporary pressures in professional services and customer decision-making to ease. Softness in PPF and in volume-based businesses will continue into Q4. On profit remarks, cost optimization program continues to contribute to profitability in all businesses. On other remarks, there is minor positive impact from working days. Then as usual, Q4 profitability outlook per business. We expect Tech Consulting to be at or below prior year level. Banktech is expected to be below prior year.

Tomi Hyryläinen
CFO | Tieto

Caretech is expected to be at or above, and Indtech above prior year profitability level. Overall, we continue to deliver strong profitability in Q4. However, we have reached higher comparables, and that is visible also in this outlook table. As the year 2026 includes some specific headwinds, we created this growth dynamics slide to help everyone navigate the growth expectations on a quarterly basis. After significant headwinds in Q3, the Q4 headwinds include only continuation of the Caretech legacy contract runoff with four percentage point impact at Caretech level and 1% impact at group level. Back to you, Endre.

Endre Rangnes
CEO | Tieto

Tomi, thank you so much. Looking forward and summarizing where we stand now into Q4, looking into also 2027. I would say that 2026 has definitely been a year of transition for Tieto, like we also communicated at our Capital Markets Day. It is about changing market dynamics, customer requirements, is also expanding the transformation beyond the original plan, especially then in Tech Consulting. We have simplified the portfolio. We have reshaped our cost base and operating model. We have renewed competencies in our portfolio, and also the cost shape and operating model is completely renewed. I would say that when we look now going into 2027, looking at our software businesses, we have a strong order backlog, particularly in Banktech. This is expected to translate increasingly into revenue.

Endre Rangnes
CEO | Tieto

Legacy contract headwinds come to an end this year, and then selective European expansion is backed by a developing sales pipeline. In Tech Consulting, we are strengthening our AI and data offerings, sales capabilities, and then also the consultancy capacity by an increase of up to 1,000 people. When it comes to the AI opportunity, our domain expertise and mission-critical software, combined with AI, cloud, and data competencies, in addition to partnerships with Microsoft and others, that is positioning us to help customers embed AI in business-critical workflows. We believe we have reached the bottom of our organic growth trajectory. Recovery will be gradual, but we expect solid organic growth in 2027. This transition year is building a stronger foundation for sustainable long-term growth for Tieto. We are opening up for Q&A.

Q&A

Operator

If you wish to ask a question, please dial pound key five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial pound key six on your telephone keypad. The next question comes from Mark Hyatt from Morgan Stanley. Please go ahead.

Mark Hyatt
Analyst | Morgan Stanley

Hi, Endre. Hi, Tomi. Thanks for having me on. Got a couple of questions. Please, just to start with your comments around AI. You said that AI is causing some customers to reassess project timing and scope, while some customers expect productivity gains to be reflected in pricing. Could you tell us a little bit on what specific types of projects you're seeing that being most impacted today, and how are you already seeing those pricing expectations translate into lower contract values for comparable work? Is that causing some shifts in the competitive landscape in other providers coming in at lower cost to undercut? Just to follow up on the guide, Tomi, thank you for confirming my maths. I think you said minus 3% exit rate implied for Q4 at the group level.

Mark Hyatt
Analyst | Morgan Stanley

I suppose if we X out that 1 percentage point legacy contract headwind, that implies still minus 2% on an underlying basis. You've reiterated your confidence that you should get back to solid organic growth in 2027, and of course, we all have the 5% revenue CAGR target for 2027, 2028 in mind. Could you just talk a little bit about what gives you the confidence in terms of the bridge between that minus 2% and back to solid organic growth? Is that supported by contracts that you're already seeing in the software businesses? How much is contingent on a recovery in the consulting business or international expansion? Thanks.

Endre Rangnes
CEO | Tieto

It is actually, I would say, a combination of all those three. I would say that looking at underlying growth in Q3, we are at -3.6%, -4%. Then when you look at the guidance update, it is not rocket science to say that this will be slightly better in Q4, then we are hopefully on the right trajectory. Also from a comparable point of view, when you look at Tech Consulting, based on the shift that we have now been through, based on deploying more sales resources, based on also now recruiting more people, we should increase the capacity, having also an effect on the top line of that specific business.

Endre Rangnes
CEO | Tieto

When it comes to the software businesses, we have a clear view on the backlog, especially in Banktech, ramping up now signings that we did back in 2024, 2025, in terms of mergers and migrations of especially the core bank clients. This is now coming through materializing during Q4 and especially into 2027, where we also have some specific win backs in Banktech and core bank solutions. Then we had several signings also in Q3, materializing in Q4 and into 2027 in Banktech. Then we have also, I would say that when it comes to the international expansion, international growth, we have seen now several examples of revenue-generating contracts in Caretech in several countries. I would say that, yes, maybe we have more contracts with them in the end, slightly lower than expected revenue currently, but this is expected to ramp up also in Caretech going into 2027.

Endre Rangnes
CEO | Tieto

I would say that we have pretty good visibility going into 2027. But as said also in my CEO remarks, is that this is not going to change quickly in one quarter. This will be a gradual ramp-up during Q4 and into 2027. So we are still comfortable about the CMD targets that we have communicated. When it comes to AI, your first part of the question is that we do not see a lot of price pressure in AI. I would say that the projects and the character of the projects that we are currently running, we are seeing several of them now re-platforming, using AI to re-platform legacy systems into new modernized SaaS solutions or cloud solutions, whatever. We have seen that more of these projects, complex large projects, have been broken up and ending up in smaller pieces driven by AI technology.

Endre Rangnes
CEO | Tieto

We have seen new wins in Banktech, for example, winning the deals based on AI competencies, also in terms of automating and improving legacy systems, which has a huge effect also for the clients and a big impact for the clients. So I would say that, yes, AI is reshaping the industry from many aspects. But again, looking at the DNA of Tieto, looking at what we are coming from, we have really, really complex software in complex businesses with high level of integration and high level of dependencies also on the regulatory elements, which gives us an advantage if we are able, which we are, to apply the technology for renewing the existing platforms, including the re-platforming, if that is necessary.

Mark Hyatt
Analyst | Morgan Stanley

Thanks very much.

Operator

The next question comes from Daniel Thorsson from ABG Sundal Collier. Please go ahead.

Daniel Thorsson
Analyst | ABG Sundal Collier

Yes, thank you very much. I have two questions. First one relate on 2027 organic growth comment here to be solid. Does that also refer to Tech Consulting organic growth? Additionally, the hiring of 1,000 people in Tech Consulting with AI and data capabilities, does that put organic net recruitment negative, flat, or positive in 2027 as best guess for Tech Consulting?

Tomi Hyryläinen
CFO | Tieto

We can comment the 2027 such that we don't give now business-specific commentary. This was the group commentary, and we rather stay at that level at this point in time. As for the 1,000 recruits, we are looking at net 500-600 FTE increase through this 1,000 recruitment plan.

Endre Rangnes
CEO | Tieto

Yeah, and keep in mind that. First of all, I would say that those. Back to Capital Markets Day, we have given a clear guidance on Tech Consulting as well, CAGR 2027, 2028. Looking at now what we have been through in 2026 in terms of reskilling, in terms of now taking out 1,100 people year-over-year, Q3, and then deploying now relevant competencies, being through end of year, more than 3,000 on AI reskilling. We are positioning Tech Consulting in a completely different way. And to be clear, this is also now visible when we look at the CRM and the pipeline in Tech Consulting. This is now ramping up, and that is why we have the level of comfort we have currently in terms of the Capital Markets Day CAGR growth.

Daniel Thorsson
Analyst | ABG Sundal Collier

Okay, perfect. That's very clear. I have a short one after that as well. The Volvo Cars profit warning earlier this month will be followed by heavy headcount reductions in Sweden. Can you say something about your exposure to either Volvo Cars or the automotive industry in general?

Tomi Hyryläinen
CFO | Tieto

We have close to zero exposure in that part of the industry.

Daniel Thorsson
Analyst | ABG Sundal Collier

Perfect. Thank you very much.

Tomi Hyryläinen
CFO | Tieto

No impact for Tieto.

Daniel Thorsson
Analyst | ABG Sundal Collier

Yeah, clear.

Operator

The next question comes from Sami Sarkamies from Danske Bank Markets. Please go ahead.

Sami Sarkamies
Analyst | Danske Bank Markets

Hi. I have a couple of questions. We will take this one by one, starting from Q3 developments. Can you still explain how come, despite clearly lower than anticipated revenues at Tech Consulting, you exceeded your earlier profitability expectations? And then secondly, what were the surprises at Indtech during Q3?

Endre Rangnes
CEO | Tieto

Let's take Tech Consulting first. We have taken out a lot of capacity in Q3, so that is, of course, impacting their top line. We took out 360 FTEs during Q3 and, as I said, 1,100 since Q3 of 2025. When it comes down to the margin, that's an effect of course, scaling significantly down in terms of FTEs, but also the main part is related to people on the bench and then G&A resources. We're ending up with billable utilization in Q3 close to 90%. Then, of course, we get the effect of the G&A reductions, and that is basically why you see this solid margin coming through. When it comes then to Indtech, I would say that we had a couple of elements which were partly a surprise or kind of market fluctuations in Q3.

Endre Rangnes
CEO | Tieto

One was related to, as you know, we have also a certain level of services or professional services related to the software implementation. We had a couple of areas where the market was quite soft in Q3 for professional services, which is now changing going into Q4. We had also one specific project related to professional services, but a quite large project, which was also postponed. This was signed back in Q4 of 2025, but this was also postponed startup into Q4 from Q3 of 2026. We have communicated several times that also Nexus being approximately 45% of the total revenue of Indtech is that we have seen now also some of the players in that space, mainly in the consumer space, have also had reductions in number of invoices.

Endre Rangnes
CEO | Tieto

On top of that, we are seeing also players now bundling more and more, if they had the opportunity to do it, to bundle more and more to take down the cost. So bundling invoices, which impacted us in Q2 and Q3 from post and printing point of view. I would say we expected that to kind of come up again from Q2 when we went into Q3. From that point of view, I would say it's a slightly negative surprise. But as I said also in my comments to Indtech, is that we are now seeing this now both professional services improving in Q4 and then also the volume business slightly coming up, but not a big change in the volume business.

Sami Sarkamies
Analyst | Danske Bank Markets

Okay. Then I have one question regarding Q4 outlook and then a small one after that. Regarding Banktech margin guidance in Q4, I think you should start to see finally growth. How come this is not visible in margins? You're not seeing any margin expansion in Q4?

Tomi Hyryläinen
CFO | Tieto

Sami, if we look at the level, we reported Q3, so 18.1%. You know that Q3 is typically the highest profitability quarter of the year. Q4 is slightly lower. That is seasonal for us. And then when you look at last year comparable 18.3%, so we will be slightly below that. So that is the logic. And yes, you are right, the growth obviously makes the profitability improvement agenda easier.

Sami Sarkamies
Analyst | Danske Bank Markets

Okay. And then final question regarding costs. You raised the one-time cost guidance today. Can you elaborate on the planned actions on that front going into Q4?

Endre Rangnes
CEO | Tieto

Yeah. It is about, I would say, calibrating the organization according to Q3 and Q4, meaning then full-year outlook and the new guidance. It is about taking some further steps to improve margins going forward, hopefully by taking down the G&A. And it is also about, in general, capacity. We are talking about, of course, the main thing has been done now in Tech Consulting, but we are also talking about capacity in other parts of the business that we can also adjust going forward. So that was the kind of rationale for increase of OTI. And there is still one specific client situation in Tech Consulting, which is also partly impacting the OTI in Q4.

Sami Sarkamies
Analyst | Danske Bank Markets

Okay, thanks. I do not have any further questions.

Operator

The next question comes from Matti Riikonen from DNB Carnegie. Please go ahead.

Matti Riikonen
Analyst | DNB Carnegie

Hi, it's Matti Riikonen. Good morning. I have two questions. First of all, about your plans and guidance or implied guidance for 2027. If we look back a year, in the beginning of 2026, you had a fairly optimistic outlook, including Tech Services division. But during the year, outlook has deteriorated basically in every quarter. My question is that what makes you so confident now for 2027 outlook, particularly for Tech Services, where the environment has clearly become worse during the whole year?

Endre Rangnes
CEO | Tieto

Yeah. Let's take that one first. I would say that if you go back to Capital Markets Day, the consultancy market has changed quite dramatically based on AI and shift in demand. That's one element. The second element is that we went into 2026 with far too high content of time and material and CV profiles, which also impacted, I would say, the restructuring that we had to do. But I would say that what gives us comfort is that, first of all, we have now completely adjusted the Tech Consulting business. We are running now close to without people on the bench. We have taken out 1,100 people, and that's one of the reasons why we still deliver rock-solid profitability in this part of the business, if you compare to the industry. We have deployed 30% more of new sales, and we are deploying more during Q4.

Endre Rangnes
CEO | Tieto

We are starting a ramp-up of new hires of AI and data resources up to 1,000 during the next 12 months, and we have already started with that deployment. As I was also alluding to, we also see now, based on having been through the shift that we have been through in terms of competencies, the upskilling that we have done now with the Microsoft program has already started to build the backlog, which is coming through in 2027. If you also look then from a comparable point of view, and you look at the CMD guidance that we gave for the CAGR 27/28, that we gave for Tech Consulting, we are still comfortable with that kind of trajectory now going into 2027.

Matti Riikonen
Analyst | DNB Carnegie

All right. Thank you. Secondly, could you discuss a bit what are your customers saying, particularly in the Tech Services business, about their plans to invest in AI and IT in 2027? Is this kind of expectation of demand increase coming from your customers so that you have more in the sales pipeline or more orders that you expect to deliver in 2027, and that would make you as confident as you sound?

Endre Rangnes
CEO | Tieto

Yeah. No, I would say that, first of all, it is very difficult to predict what is happening with the market, especially when we have the situation with AI. What do the customers say? That is, of course, I mean, they say a lot, but I would say that in Tech Consulting, I would say, first of all, we have become much more relevant and have done the shift that we have done. This is meaning investing into AI upskilling and also then combining that with the other software entities. Historically, we are coming also from a situation where we have 4% overlap between the software entities and Tech Consulting. We have now established country opportunity board to drive cross-selling across software and Tech Consulting. I think also what we have done in terms of the partnership and the partnership ecosystem will benefit us going forward.

Endre Rangnes
CEO | Tieto

I would say that when we look at the kind of foundation of Tieto and what we are coming from, looking at the DNA of Tieto, we are working mainly with mid-sized and large clients having fairly complex infrastructure and software installations. That is what is our specialty. When we are now embedding AI, we clearly see that we are more relevant. Yes, some of these projects are being broken up to smaller projects driven by AI, but the total demand is not going down. The total demand is quite stable but shifting from traditional to more AI. I would say that, and I am meeting frequently with clients, of course, and then we clearly see that they are asking about how can we use AI to accelerate and improve and re-platform legacy systems. That is a lot of discussions ongoing on that.

Endre Rangnes
CEO | Tieto

From that point of view, we are quite relevant. I would say that when you look at the effect of the investments we have done in the partnership area and the re-platforming or reskilling and upskilling that we have done in Tech Consulting, we still feel that we are now building relevance, and we are building backlog going into 2027.

Matti Riikonen
Analyst | DNB Carnegie

All right. Thank you. That's all from me.

Operator

As a reminder, if you wish to ask a question, please dial pound key five on your telephone keypad. The next question comes from Felix Henriksson from Nordea. Please go ahead.

Felix Henriksson
Associate Director of Equity Research | Nordea

Hi, guys. Thanks for taking my question. I have two. In Tech Consulting, first of all, you mentioned that there was a termination of a loss-making U.S. customer contract that had a 2 percentage points negative top-line impact. Can you disclose the margin impact of this contract in Q3 and also the expected margin benefit going forward?

Endre Rangnes
CEO | Tieto

I would say this is a minor profit impact, so not a big one, but it's, of course, a small minor impact on the profitability. It was, of course, not a big loss-making contract, then we would have done something before. The main effect is then the top line that you're talking about. And of course, this will impact then approximately at the same level when we talk about the next two, three quarters for Tech Consulting.

Felix Henriksson
Associate Director of Equity Research | Nordea

Fair enough.

Endre Rangnes
CEO | Tieto

Meaning top line.

Felix Henriksson
Associate Director of Equity Research | Nordea

Right. Got it. The second one is more of a bigger picture question, because listening some of your more global peers are highlighting that, some of the strongest themes in the IT consulting industry in Europe tend to relate, at the moment, to topics around sovereignty, defense, and security. Can you discuss a bit whether or not you have any exposure to these themes or the required competence to address that demand? Thank you.

Endre Rangnes
CEO | Tieto

Yeah. First of all, we have flows in the R&D part of Tech Consulting. We have, of course, deliveries to the defense industry through our clients. We are heavily involved in R&D development for Ericsson, for Nokia, for others. We are heavily into antenna technology, 6G, which is also a growing market from a defense point of view. But currently, we do not have a lot of exposure directly related to the defense industry, for example, if that was the question.

Felix Henriksson
Associate Director of Equity Research | Nordea

Yeah.

Endre Rangnes
CEO | Tieto

But it is an opportunity going forward, for sure.

Felix Henriksson
Associate Director of Equity Research | Nordea

Fair enough. Got it. Thank you. That is all from me.

Tommi Järvenpää
Head of IR | Tieto

Thank you, Endre. And thank you for the questions. I believe we have one more item on the agenda still.

Endre Rangnes
CEO | Tieto

Yeah, we need to, of course, we have had a fantastic CFO that has been running, I think it is 32 quarterly presentations, Tomi, that you have been through. So impressive track record and, I must say, rock solid every single time, so highly appreciated. So I must really thank you for a really, really impressive track record as the CFO. And of course, we wish you all the best for your next assignment, whatever that is going to be. We do not know yet. But it has been amazing to work with you, Tomi, and unfortunately, you cannot be there for the Q4 presentation.

Tomi Hyryläinen
CFO | Tieto

Thank you, Endre. Thank you, everyone.

Endre Rangnes
CEO | Tieto

Thanks a lot.

Tommi Järvenpää
Head of IR | Tieto

Thank you. Thank you, Tomi, also on my behalf. Thank you everyone for watching. See you next time.