

# Tieto Q2 2016

Growth of 5% – profit improvement continues

22 July 2016

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Lasse Heinonen – CFO

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The Tieto logo is displayed in white lowercase letters on a blue triangular background in the bottom right corner of the slide. The background of the entire slide is a photograph of a diverse group of office workers in a modern, bright workspace, looking at a laptop and discussing documents.

# Q2 2016 in brief

## Growth of 5% – profit improvement continues

- Group sales growing by 5% driven by 12% growth in software-based Industry Products
- Adjusted operating margin improvement to above 9%
- Healthy profitability in Product Development Services

# IT growth in the Nordics remaining steady

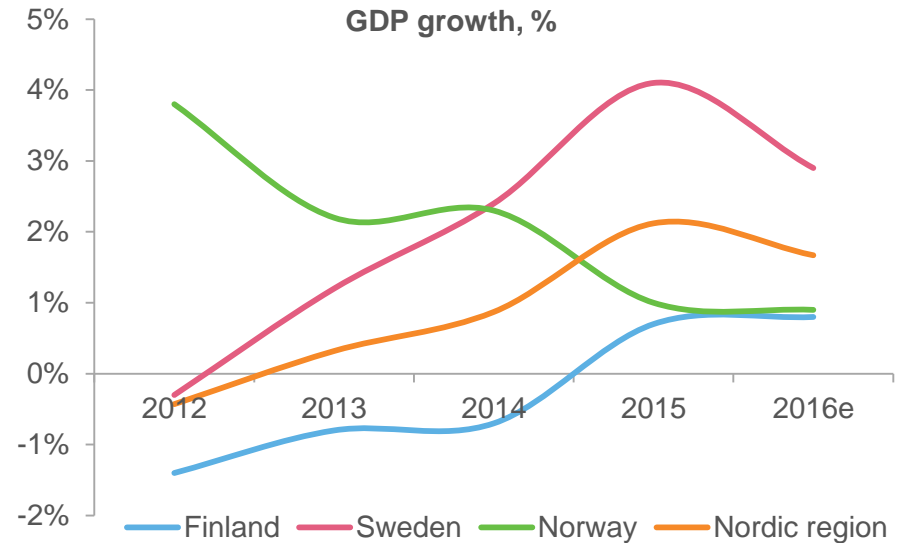
## Brexit: short-term marginal impact on Tieto

### IT market affected by economic outlook

- Tieto expects the Nordic IT services market to grow by around 2% in 2016
- IT services market strongest in Sweden
- Long-term growth in cloud services around 30%

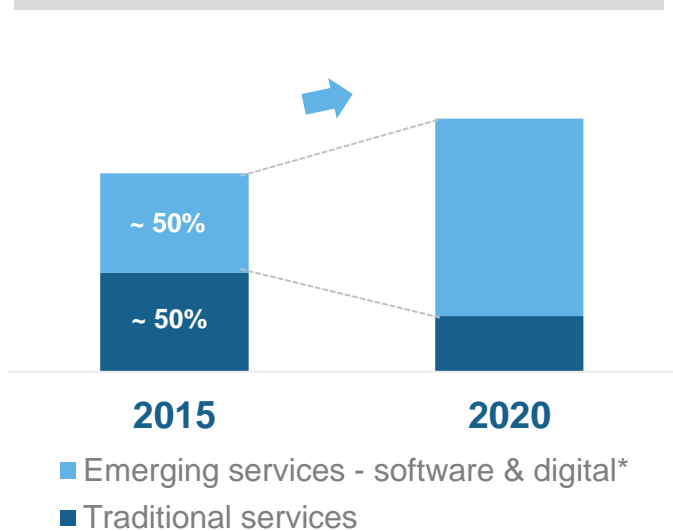
### Brexit impact on IT services market growth

- Europe with mixed prospects
- The Nordic market expected to remain stable
- Short-term marginal impact on Tieto, primarily in Financial Services



# Business mix shifting towards high-growth services

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



Sales growth in  
2016–2020 (CAGR)

UP BY  
10–20 %

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

DOWN BY  
5–10%

Traditional infrastructure  
and application services

Development in H1 2016

- Current high-growth businesses**
- ~EUR 160 million, 23% of IT services sales
  - Growth 23%
- Other emerging services and solutions**
- ~EUR 235 million, 34% of IT services sales
  - Growth 12%

- Traditional services**
- ~EUR 293 million, 43% of IT services sales
  - Down by 5%

\*Includes current 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%

# Strong solution foundation to accelerate growth

## Current high-growth businesses up by 23%



### Cloud Services

- 34% growth in Q2
- Investments in industrialization and new services

- Annual sales 2015: EUR 80 million
- Growth: 65%



### Lifecare

- 9% growth in Q2
- Dynamic HCW innovations across the Nordics

- Annual sales 2015: over EUR 160 million
- Growth: 6%



### CEM

- 35% growth in Q2, incl. Smilehouse
- Strong demand for eCommerce solutions

- Annual sales 2015: around EUR 30 million
- Growth: 20%



### Industrial Internet

- Industrial Internet innovations embedded to a number of solutions, e.g. Production Excellence

- In 2015, investments around EUR 4 million, cash flow negative



### Security Services

- Double-digit growth
- New releases complementing Tieto Security Wall

- In 2015, Tieto's sales in single digit millions



### Additional focus

Financial services:  
Banking and payments



Energy: SmartUtility



Manufacturing:  
Production Excellence



Public sector: Case management



Oil & Gas:  
Hydrocarbon accounting

# Financial development

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# Q2 2016 key figures

## Net sales

- EUR 381 (364) million, +4.7%, growth in local currencies +5.9%
  - Acquisitions added EUR 15 million
  - Divestments impacted EUR 2 million
  - Currency EUR -4 million
- In IT services, sales growth 6.1%, or 7.3% in local currencies

## EBIT

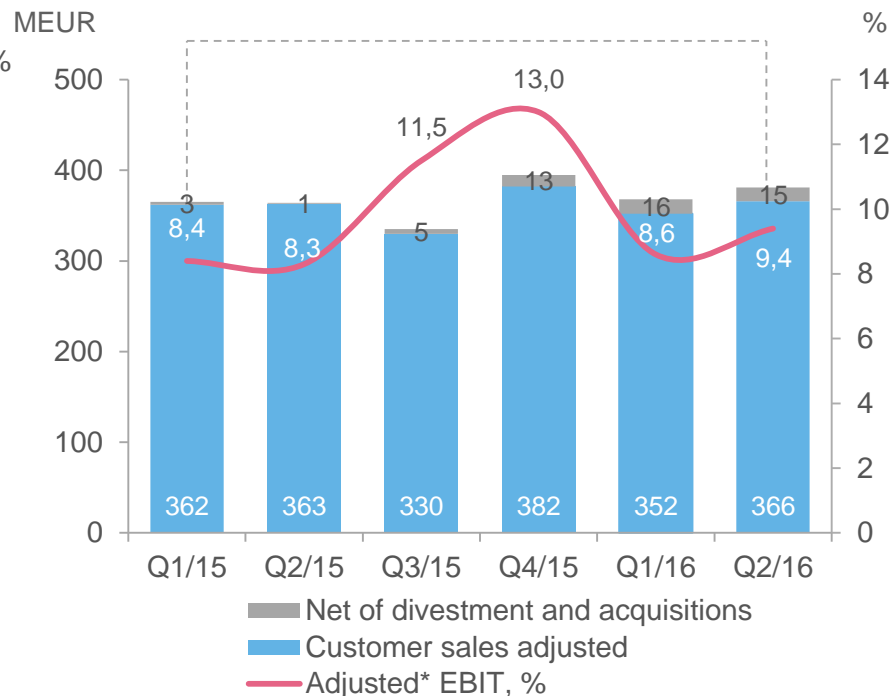
- EBIT EUR 32.3 (23.1) million, 8.5% (6.3%)
- Adjusted\* EBIT EUR 35.8 (30.1) million, 9.4% (8.3%)

## Order backlog

- Order backlog EUR 1 757 (1 737) million
- Total Contract Value EUR 326 (340) million
- Book-to-bill 0.9 (0.9)
- Stronger order intake expected for H2

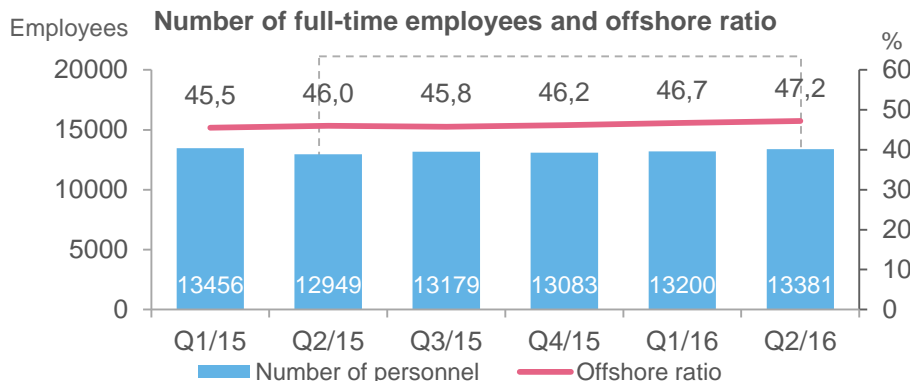
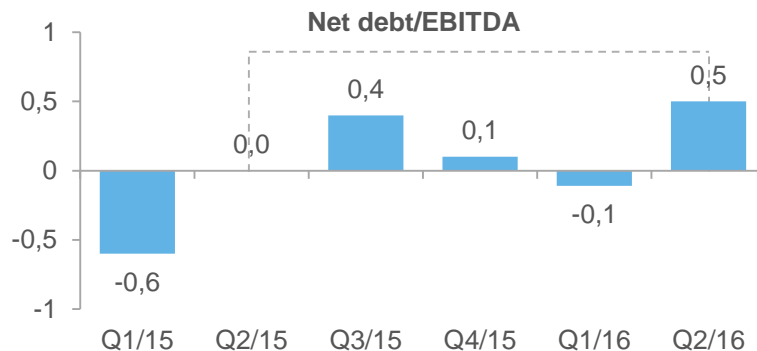
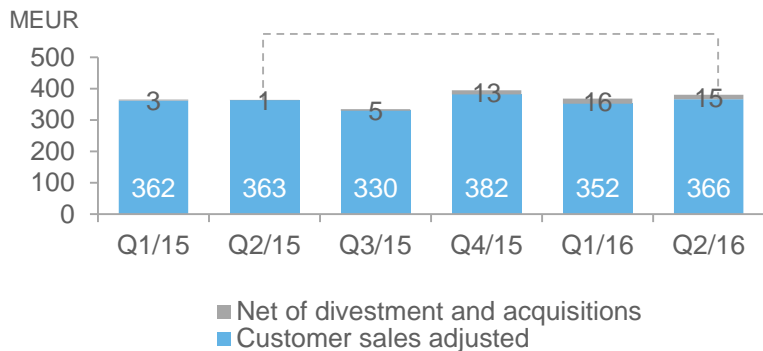
## Earnings per share

- EPS EUR 0.33 (0.24)
- EPS EUR 0.37 (0.31), adjusted\*



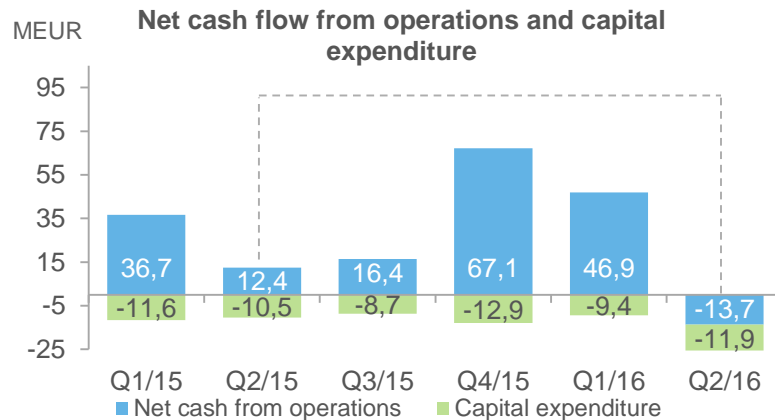
\*) adjusted for restructuring costs, capital gains/losses, goodwill impairment charges and other items

# Quarterly development



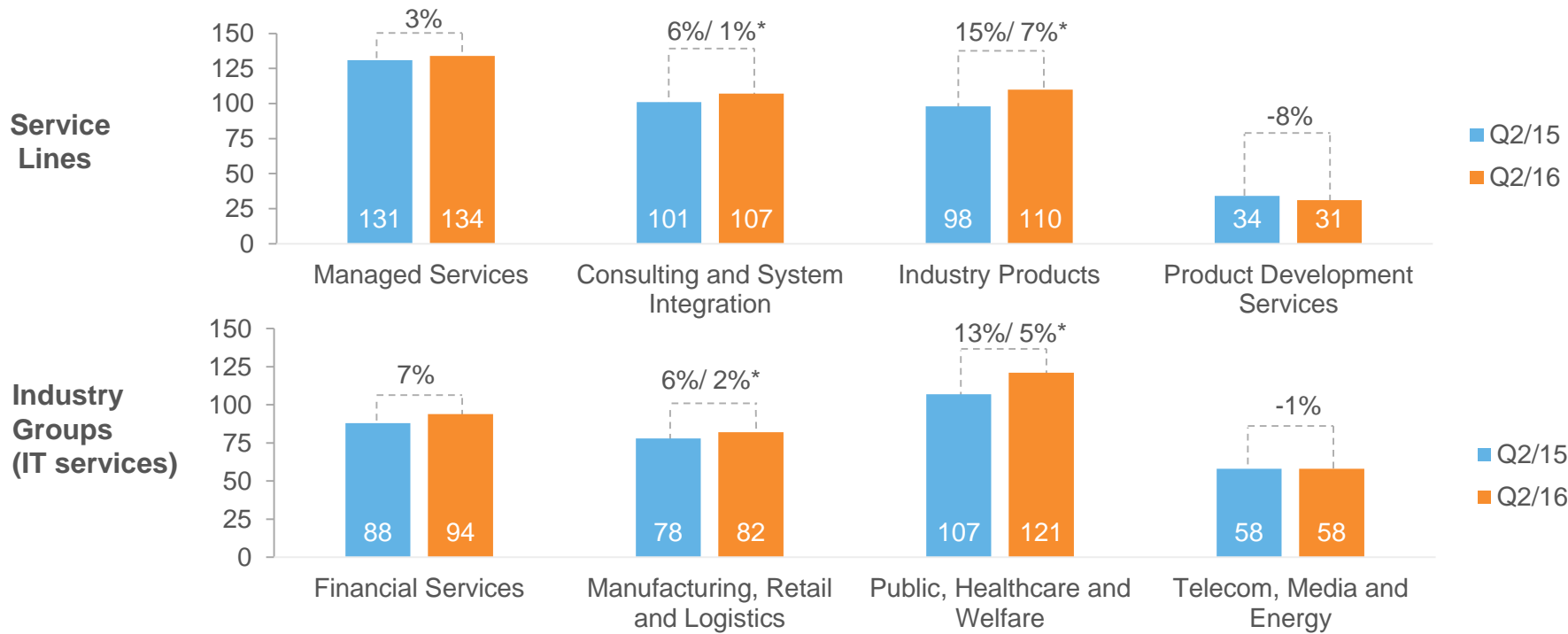
Number of personnel up by a net amount of 433

Offshore ratio: IT services 45.9% (44.9%) PDS 60.9% (55.4%)



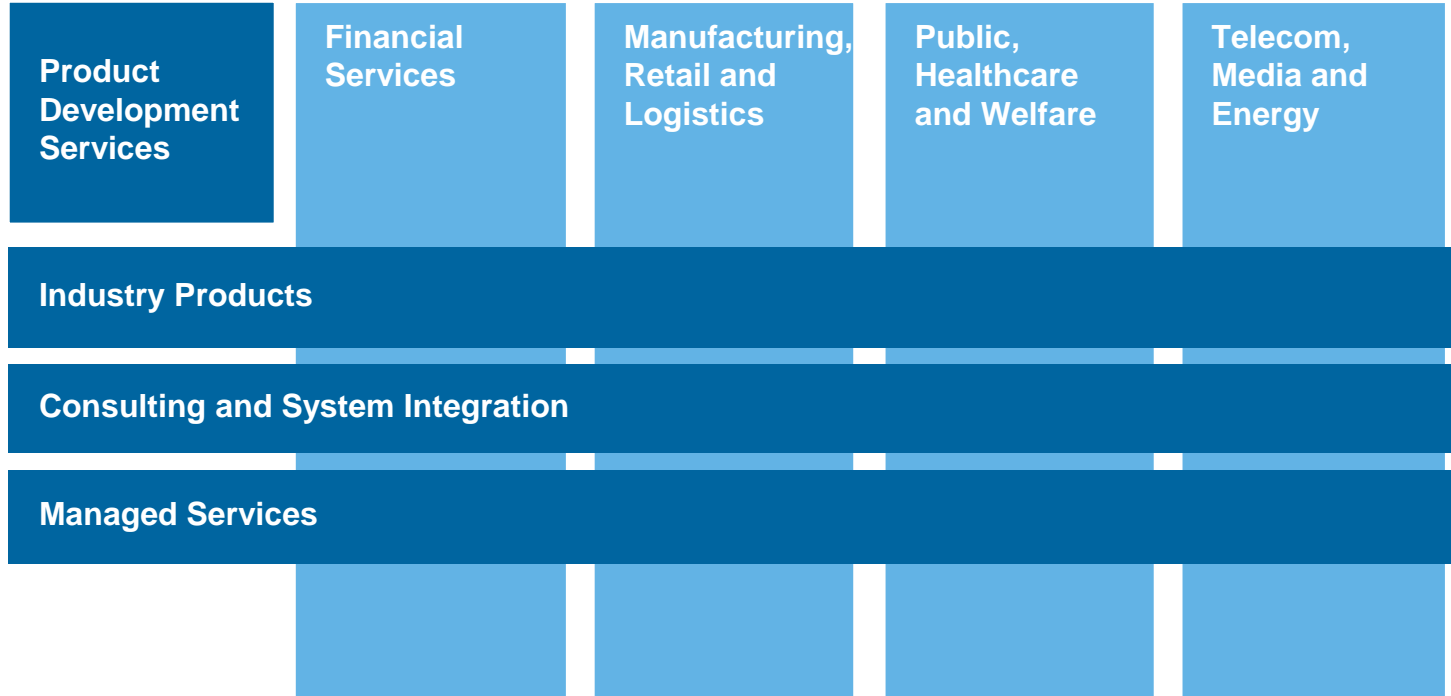


# Growth in local currencies by Service Line and Industry Group



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

# Service Lines



# Managed Services

## Customer sales in Q2

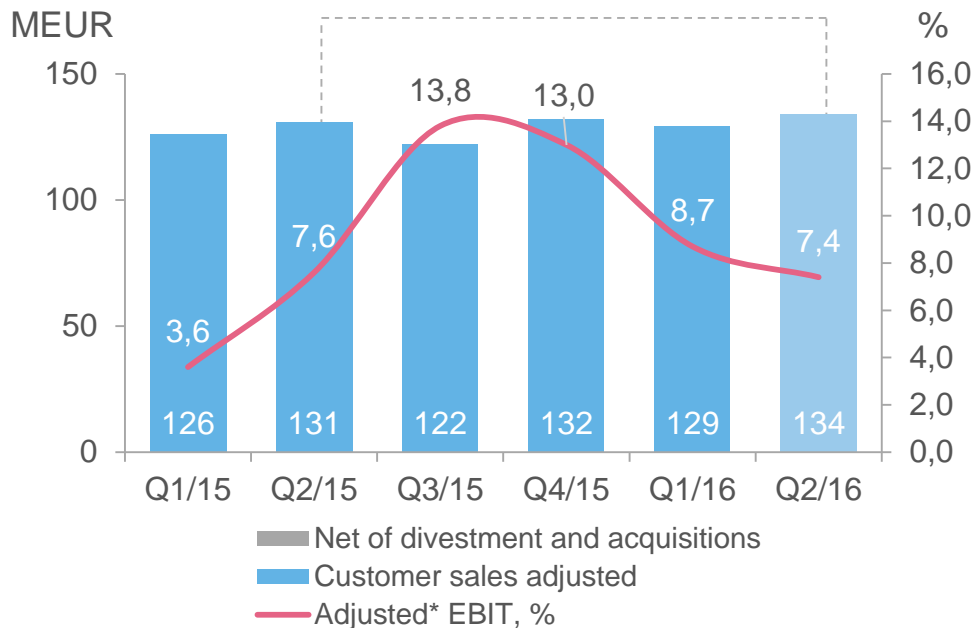
- EUR 134 (131) million, +3%, growth of 3% in local currencies

## EBIT

- EBIT EUR 9.8 (3.1) million, 7.4% (2.4)
- Adjusted\* EBIT EUR 9.9 (9.9) million, 7.4% (7.6)

## Q2 highlights

- Cloud sales up by 34% in Q2, representing 20% of MS sales
- Strong growth in shared, standardized workspace services with competitive ecosystem
- Productivity focus continues with automation and offshore transitions
- Operating profit affected by
  - additional investments in Security, new cloud services and further industrialization
  - debt restructuring of one customer
- Operating margin in Q3 to follow seasonality while investments in industrialization will continue



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

# Consulting and System Integration

## Customer sales Q2

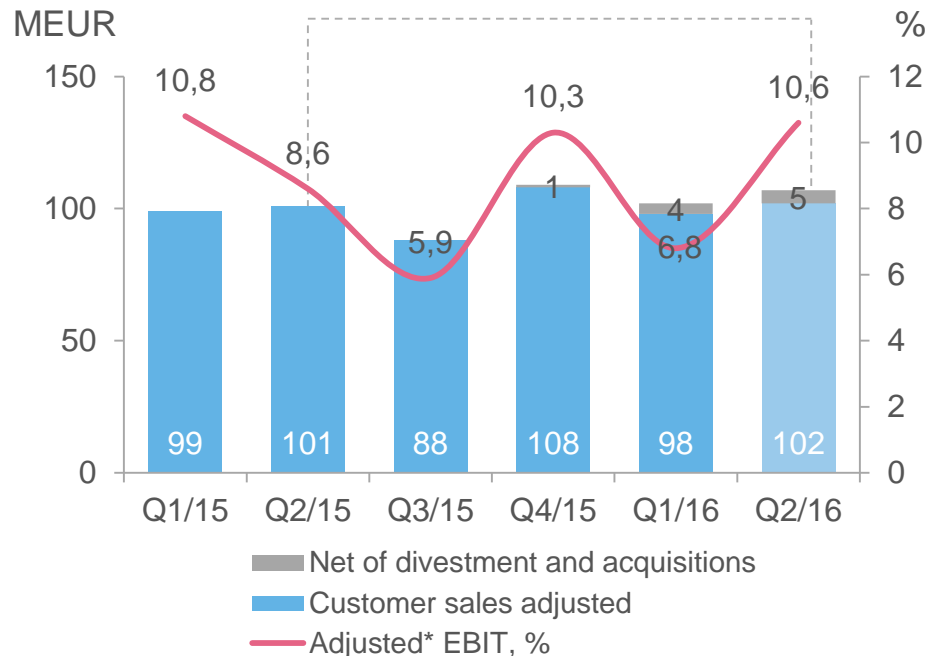
- EUR 107 (101) million, +6%, growth of 6% in local currencies
- Organic growth in local currencies 1%

## EBIT

- EBIT EUR 10.9 (8.5) million, 10.2% (8.4)
- Adjusted\* EBIT EUR 11.3 (8.7) million, 10.6% (8.6)

## Q2 highlights

- Growth supported by acquisitions of Smilehouse and Imano, and the number of working days
- Profit improvement driven by additional sales in enterprise applications and consulting businesses
- ADM productivity improvement through industrialization
- Overall billing ratio slightly better than earlier anticipated
- Q3 margin anticipated to exceed Q3/2015 but remain below the Q2/2016 level



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

# Industry Products

## Customer sales Q2

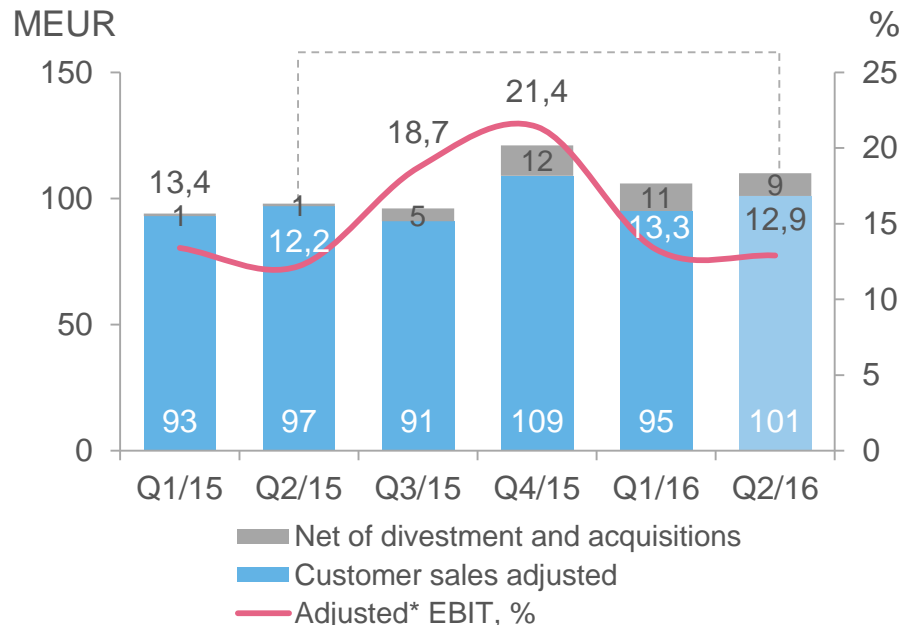
- EUR 110 (98) million, +12%, growth of 15% in local currencies
- Organic growth in local currencies 7%

## EBIT

- EBIT EUR 12.5 (10.8) million, 11.4% (11.0)
- Adjusted\* EBIT EUR 14.1 (12.0) million, 12.9% (12.2)

## Q2 highlights

- Strongest development in Financial Services and Public, Healthcare and Welfare, up by 11% and 30% (in local currencies), respectively
- Healthcare and Welfare solutions (Lifecare) growth 9%
- Sales affected by the acquisition of Software Innovation and the divestment of Lean System
- Operating profit somewhat up
  - Improvement partly offset by the EUR 3 million increase in offering development costs
- Margin trend expected to follow the previous year's path



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

# Product Development Services

## Customer sales Q2

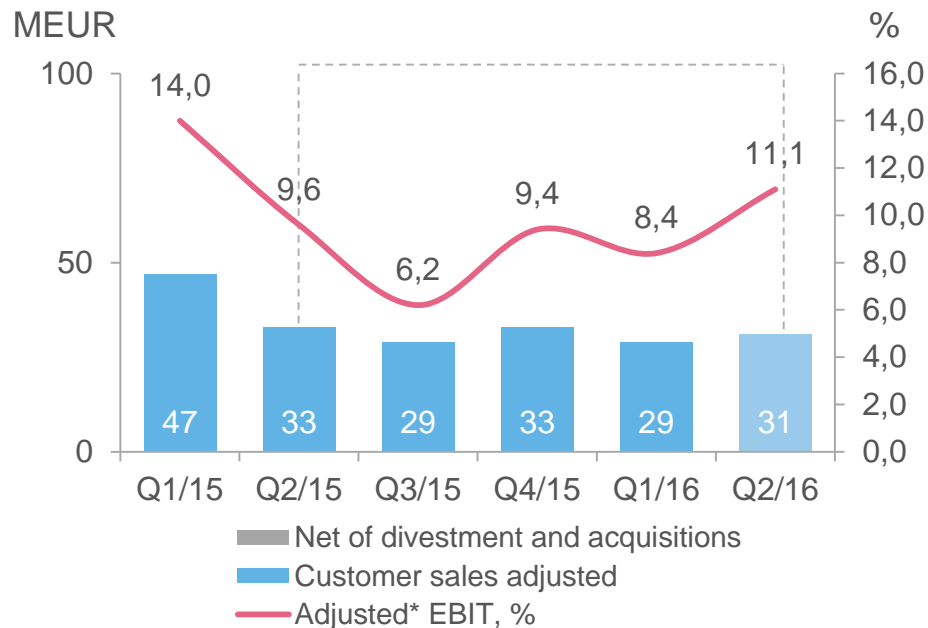
- EUR 31 (34) million, -9%, decline of 8% in local currencies

## EBIT

- EBIT EUR 3.3 (5.7) million, 10.7% (17.1)
- Adjusted\* EBIT EUR 3.4 (3.2) million, 11.1% (9.6)

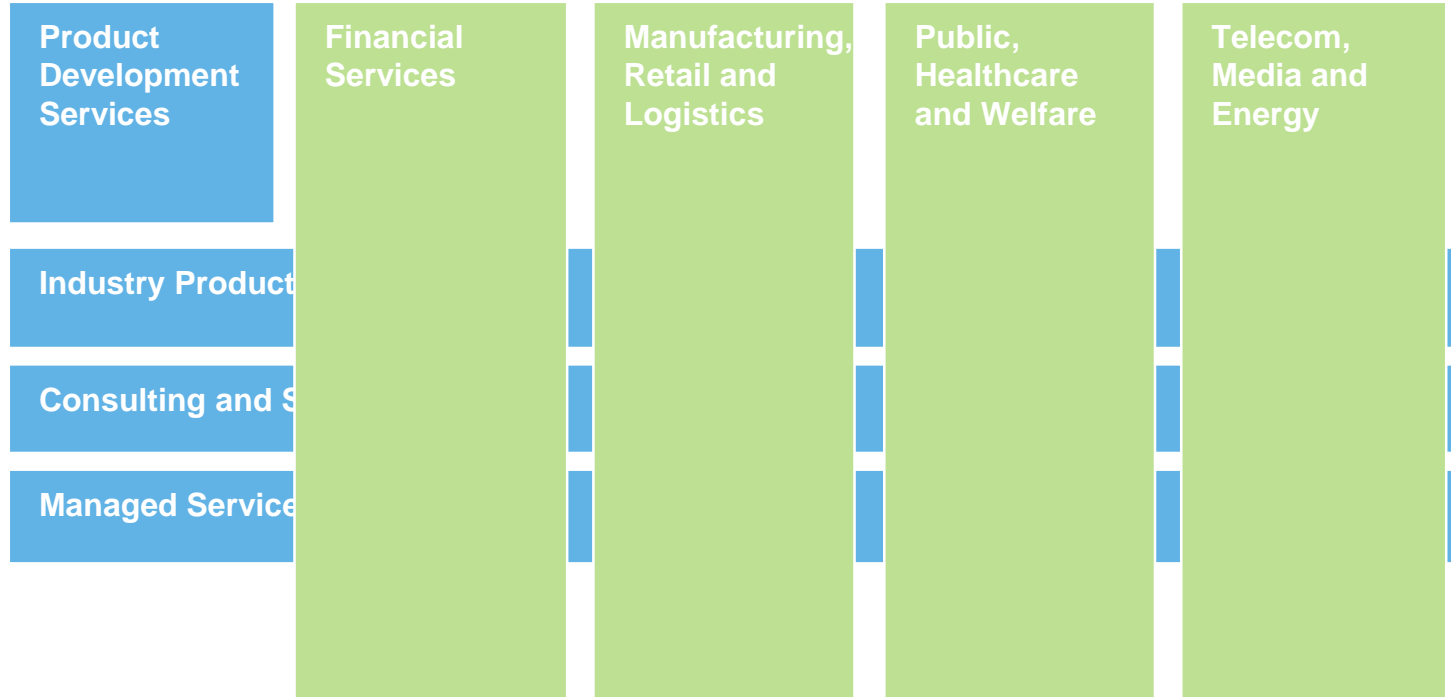
## Q2 highlights

- Business with key customers progressing well
- Sales decline vs Q2/2015 due to a few expected end-of-life projects
- New customer acquisition proceeding as planned and opening up new growth opportunities
- Strong operating margin due to improved efficiency and improved business mix
- Sales anticipated to stabilize while Q3 operating margin seasonally lower and affected by project ramp-ups



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

# Industry Groups



# Financial Services

## Customer sales Q2

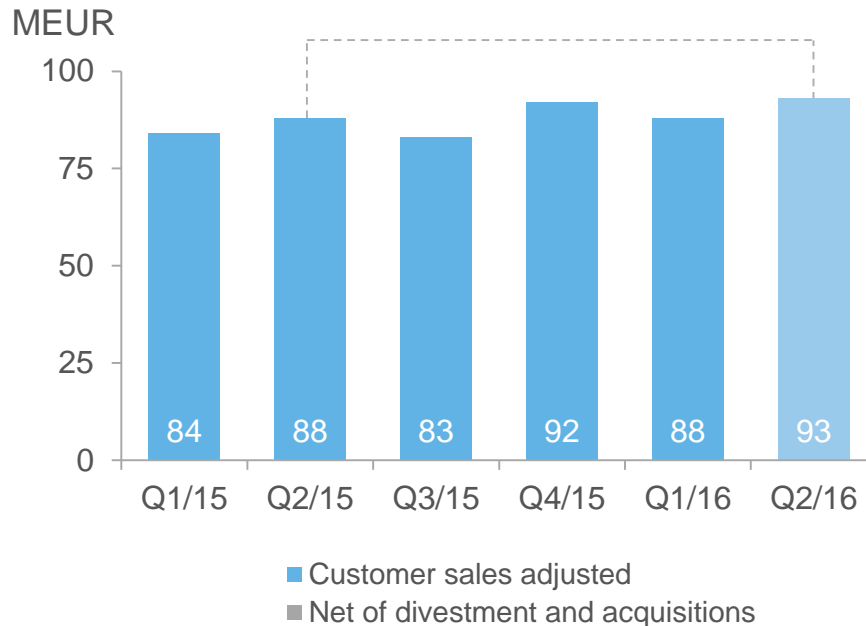
- EUR 93 (88) million, +6%, growth of 7% in local currencies

## Sales split by service line

	Q2/2016	Q2/2015
MS	44%	47%
CSI	23%	21%
IP	33%	32%

## Q2 highlights

- Growth driven by new projects in Finland and Industry Products' good performance
  - a number of solutions, such as Payments and Banking as a Service solutions in the SME segment
  - consulting on the rise, especially in Sweden
- Good demand all across the banking and insurance segments





# Manufacturing, Retail and Logistics

## Customer sales Q2

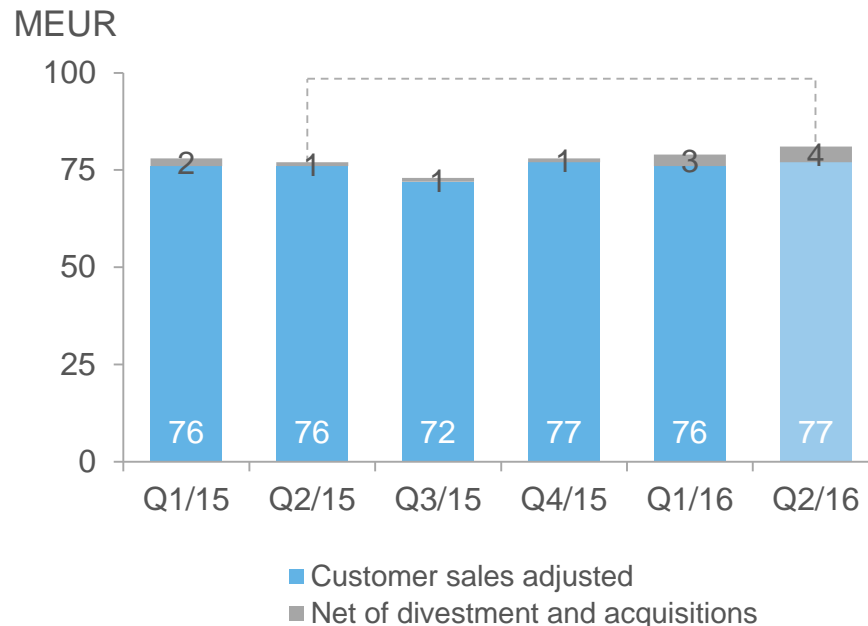
- EUR 82 (77) million, +5%, growth of 6% in local currencies
- Organic growth in local currencies 2%

## Sales split by service line

	Q2/2016	Q2/2015
MS	50%	52%
CSI	41%	38%
IP	9%	10%

## Q2 highlights

- Sector back to growth driven by Manufacturing and Forest
- Smilehouse and Imano acquisitions supporting growth and competitiveness
- Activity level rising in Retail – expected to become visible in H2



# Public, Healthcare and Welfare

## Customer sales Q2

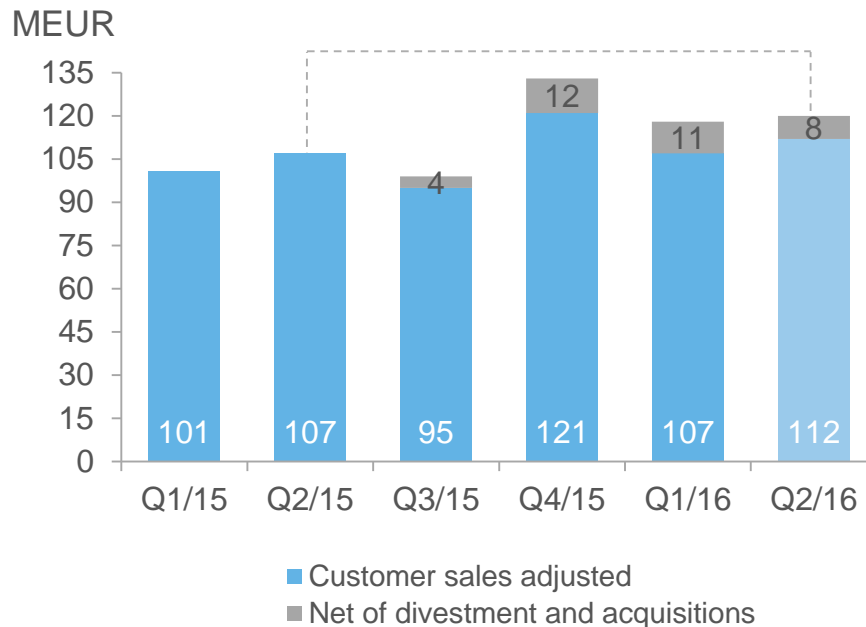
- EUR 120 (107) million, +13%, growth of 13% in local currencies
- Organic growth in local currencies 6%

## Sales split by service line

	Q2/2016	Q2/2015
MS	36%	37%
CSI	22%	25%
IP	43%	38%

## Q2 highlights

- Strong 30% growth in Industry Products, organically up by 11%
- Demand remained good across all segments, Healthcare and Welfare sector and the public sector in Finland and Sweden
- Software Innovation business performance continues to be good, incl. new customer wins



# Telecom, Media and Energy

## Customer sales Q2

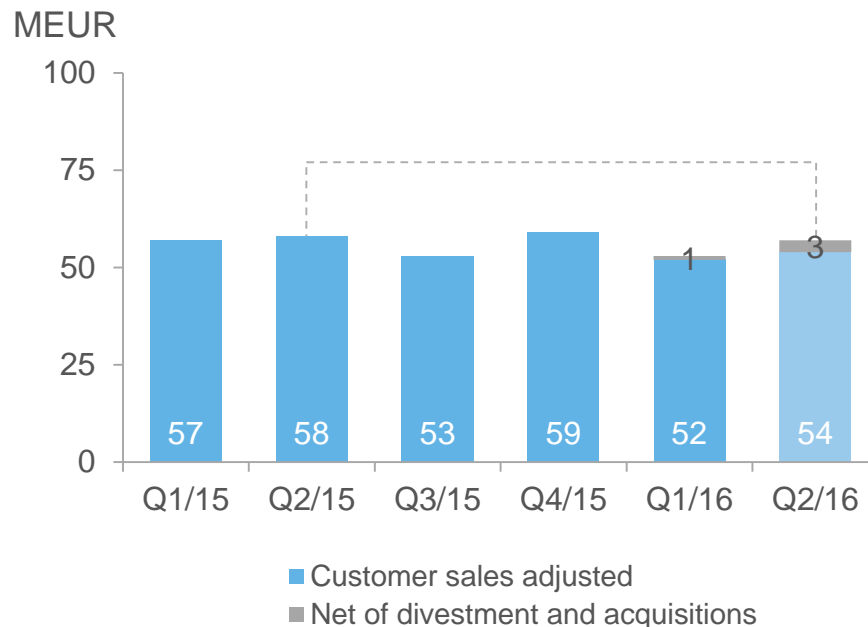
- EUR 56 (58) million, -4%, decline of 1% in local currencies

## Sales split by service line

	Q2/2016	Q2/2015
MS	16%	17%
CSI	47%	45%
IP	37%	37%

## Q2 highlights

- Strong growth in Sweden, Telecom & Media challenged in Finland
- Sales were down as anticipated due to the expiry of some outsourcing contracts in Media
- Positive development in the energy utilities segment continued and sales to the telecom segment remained at the previous year's level



# Performance drivers in 2016

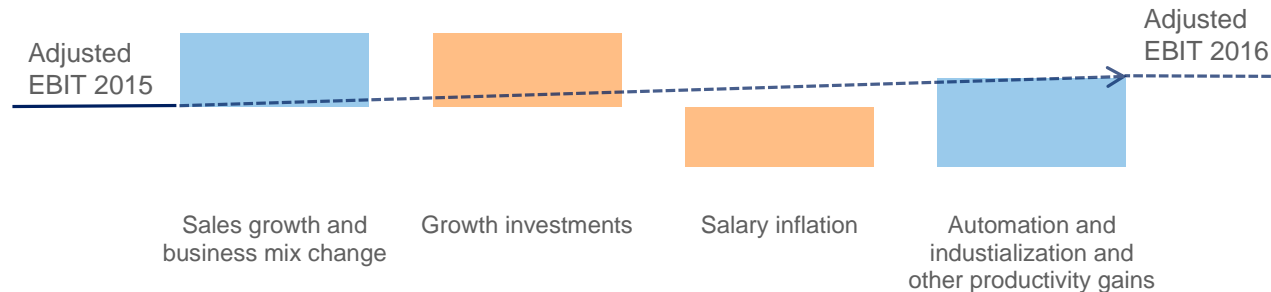
## IT services

- We aim to grow faster than the market, growth supported by acquisitions
- Automation and industrialization expected to result in savings of around EUR 30 million in total
- Growth initiatives supported by recruitments and higher offering development
- *Anticipated restructuring slightly above 1% of sales*

## Product Development Services

- Healthy cost structure for the existing business, margin expected to remain in a range below 10%

### Profitability drivers in IT services



# Strategy 2016–2020

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Tieto strategy 2016–2020

# We aim to be our customers' first choice for business renewal

## Services to accelerate customer value

Build solutions and capabilities to accelerate our customers' business performance and renewal.

## Nordic leadership and international expansion

Further accelerate our strong market position in the Nordics and expand industry solutions internationally.

## Openness and co-innovation

Co-innovate with customers and partners, access open talent networks and drive continuous skill and capability development.

### Business choices building on our strengths

- ✓ Vertical industry solutions
- ✓ Technology services and modernization
- ✓ New data-driven businesses

# We implement the strategy in phases

2012

2016

2017 - 2018

2019 - 2020

## Accelerate capabilities in Sweden and industry solutions

- Accelerate capabilities and growth in Sweden
- Implement new structure and operating model
- Invest into SIAM\*, service productization and cognitive automation
- Expand selected industry solutions internationally
- Pilot data-driven businesses

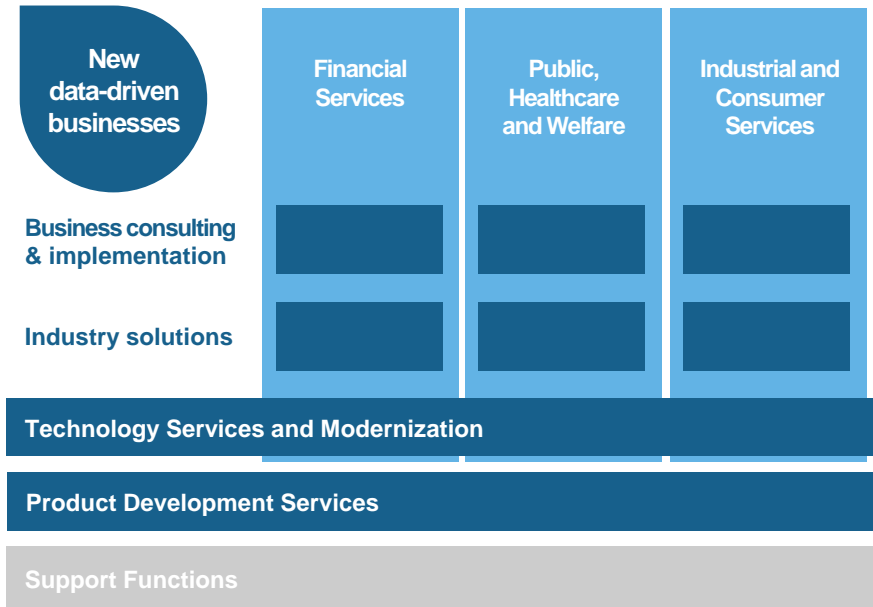
## Drive innovation and selective market entry

- Scale chosen industry solutions internationally
- Accelerate and commercialize data-driven businesses
- Operationalize open talent networks and innovation ecosystem
- Standardize service architectures and cognitive automation

## Actively expand internationally

- Expand productized services internationally
- Drive large-scale expansion to adjacent markets

# Our structure aligned with the strategic choices



- ✓ Faster time to market and co-creation opportunities with the customer by organizing BCI and Industry solutions in Industry groups
- ✓ New data-driven businesses as an independent business – reported in Industry Solutions
- ✓ Effective as of 1 July 2016
- ✓ Third-quarter reporting based on new structure
- ✓ Comparison figures for 2015 and H1/2016 published before Q3 report

Effective as of 1 July 2016

● Industry groups

● Service lines



# Upgraded growth ambition – while maintaining profitability focus and attractive dividend policy

## Ambition 2020

- **IT services revenue growth above the market (CAGR)**
- **10% reported operating margin (EBIT)**
- **Aim is to increase dividends annually in absolute terms**
- **Net debt / EBITDA 1.5 as an upper limit in the long run**

**The leading Nordic software and services company with the aim to be customers' first choices for business renewal**

# Guidance for 2016 unchanged

Tieto expects its full-year adjusted operating profit<sup>\*)</sup> (EBIT) to increase from the previous year's level (EUR 150.8 million in 2015).

Based on European Securities and Markets Authority (ESMA) regulation, Tieto will report adjusted operating profit in 2016

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



# Q2 2016 in brief

## Growth of 5% – profit improvement continues

- Group sales growing by 5% driven by 12% growth in software-based Industry Products
- Adjusted operating margin improvement to above 9%
- Healthy profitability in Product Development Services

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