

# Tieto Q1/2015

Accelerated investments to drive growth and renewal

28 April 2015

**Kimmo Alkio** – President and CEO  
**Lasse Heinonen** – CFO  
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The Tieto logo is displayed in white on a blue triangular background in the bottom right corner. The logo consists of the word "Tieto" in a bold, sans-serif font, with the letters "T", "i", and "e" being significantly larger than the letters "o" and "t".

**Tieto**

# Q1 2015 in brief

## Accelerated investments to drive growth and renewal

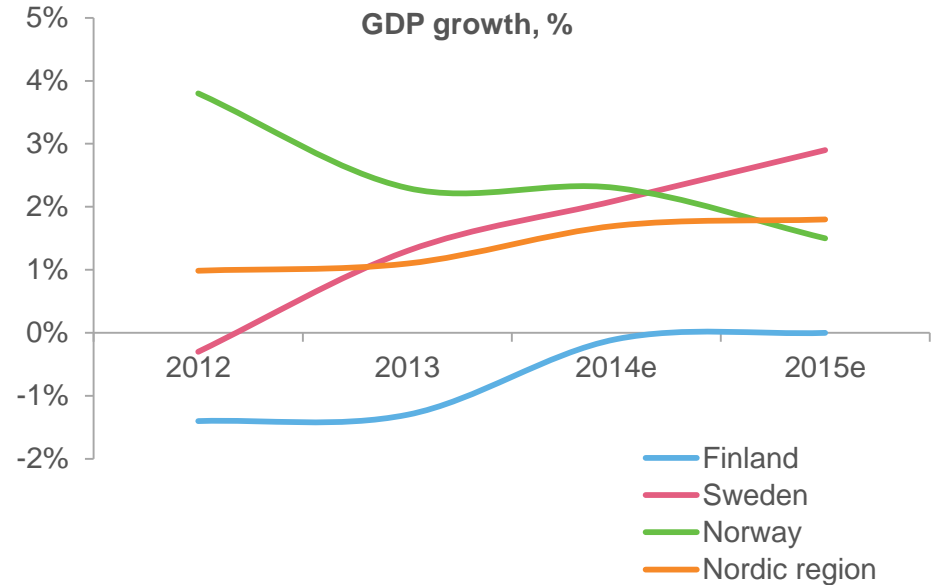
- Modest growth in IT services – continued strong order intake
- In IT services, investments in offering development and the Managed Services automation programme affect first-half profitability
- Efficiency measures improve profitability in Product Development Services
- Full-year outlook remains unchanged

# Nordic IT services market expected to grow by 2%

## IT market affected by economic outlook

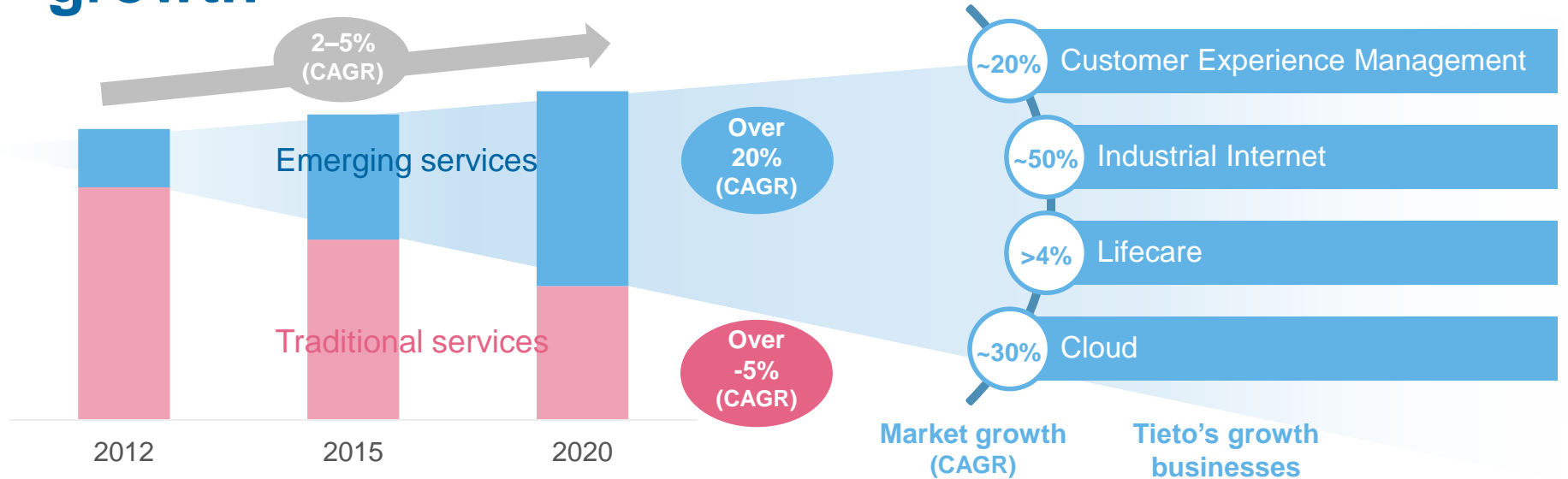
- Tieto expects the Nordic IT services market to grow by around 2% in 2015
- Positive outlook in the Swedish economy while the Finnish economy remains sluggish
- IT services market strongest in Sweden
- Long-term growth (CAGR 2013–2018) in cloud services around 30% – market size still small

Service	Demand and economic cycles
Project services	More volatile
Application management	Less volatile short-term
Infrastructure outsourcing	Less volatile, even positive impact during downturn



Source: Nordea Markets, Economic Outlook, March 2015

# Business transformation drives new services growth



## IT becoming a strategic asset

- End-customers' expectations rising faster than enterprises can evolve their business models
- Digital experience becoming an absolute requirement – resulting in a need to re-engineer businesses and IT

# Well positioned to become the preferred digitalization partner

## Customer Experience Management



- Good market momentum and fit with Tieto services and competencies
- Investments in offering development, with focus on industry-specific concepts, and recruitments to accelerate growth

## Industrial Internet



- Early-phase investment, with pilots ongoing, e.g. in manufacturing and telecom sector
- Focus on offerings and productization

## Lifecare



- Double-digit growth continued in Q1
- Strong development in all core countries
- New application launches continue in 2015

## Cloud services



- 132% growth (y-on-y) in Q1
- Tieto awarded high-level security certificate meeting also the requirements set by Finnish public sector customers

# Financial development



# Q1 2015 key figures

## Net sales

- EUR 366 (387) million, -5.5%, organic growth in local currency -3.2%
  - Currency EUR -11 million
- In IT services, organic growth in local currencies 0.5%

## EBIT

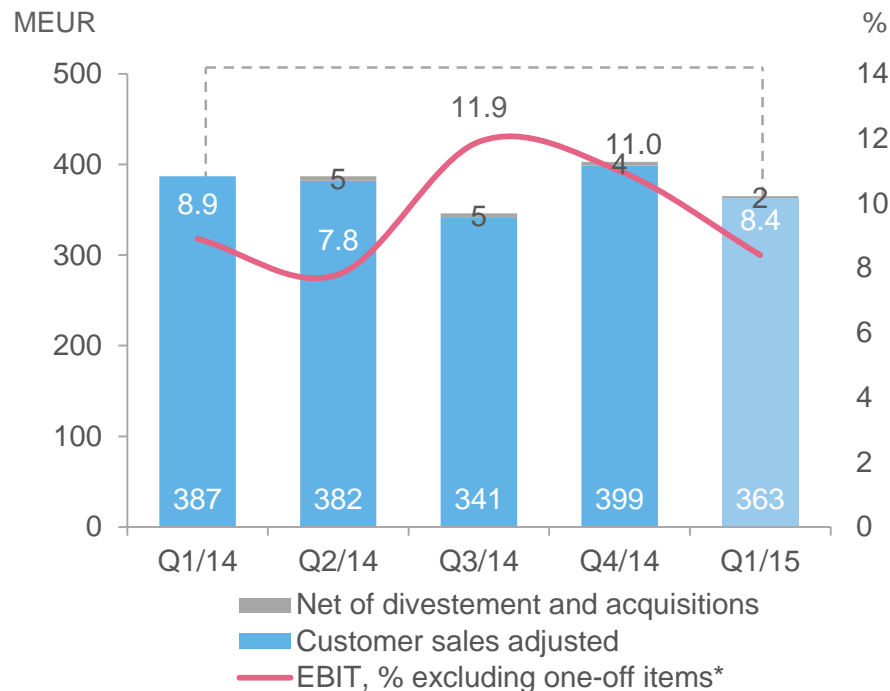
- EBIT EUR 13.9 (34.0) million, 3.8% (8.8%)
  - EUR 16.8 million restructuring costs
  - Currency impact EUR 4 million
- EBIT excluding one-off items\* EUR 30.7 (34.5) million, 8.4% (8.9%)

## Order backlog

- Order backlog EUR 1 819(1 582) million
- Total Contract Value EUR 430 (402) million
- Book-to-bill 1.2 (1.0)

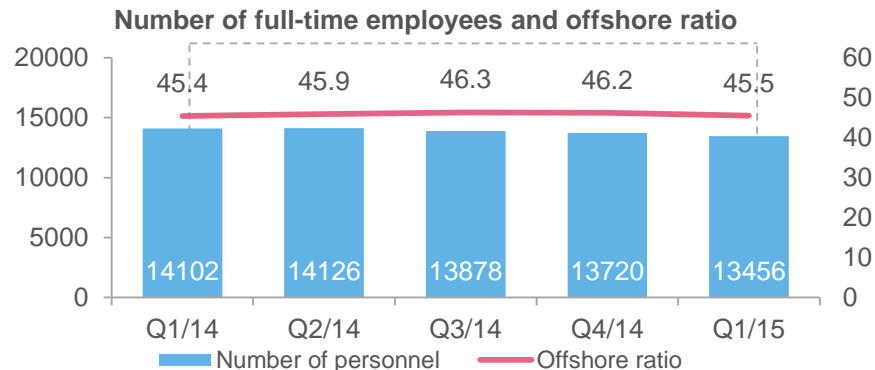
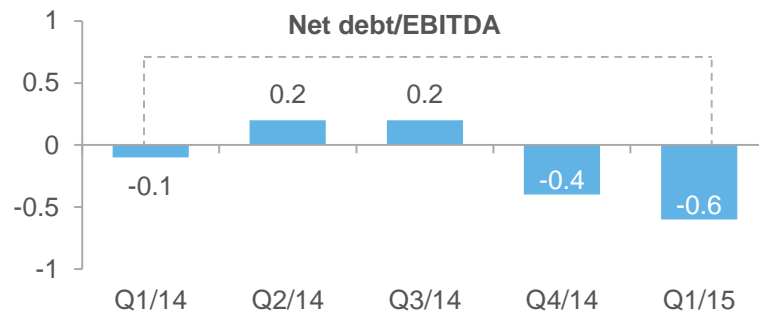
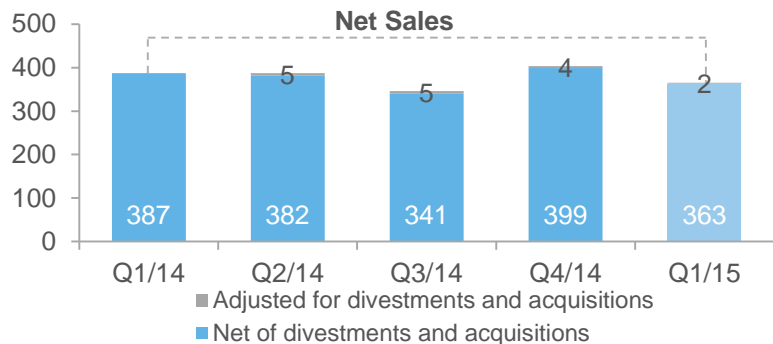
## Earnings per share

- EPS EUR 0.12 (0.34)
- EPS EUR 0.31 (0.34), excluding one-off items\*



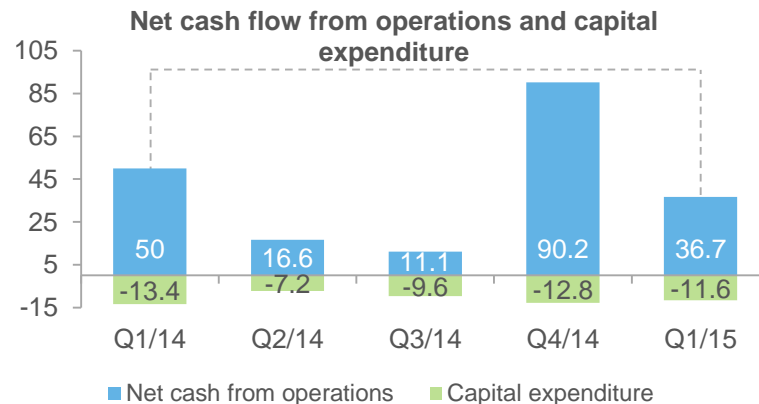
\*) Excluding capital gains, impairments and restructuring costs

# Quarterly development



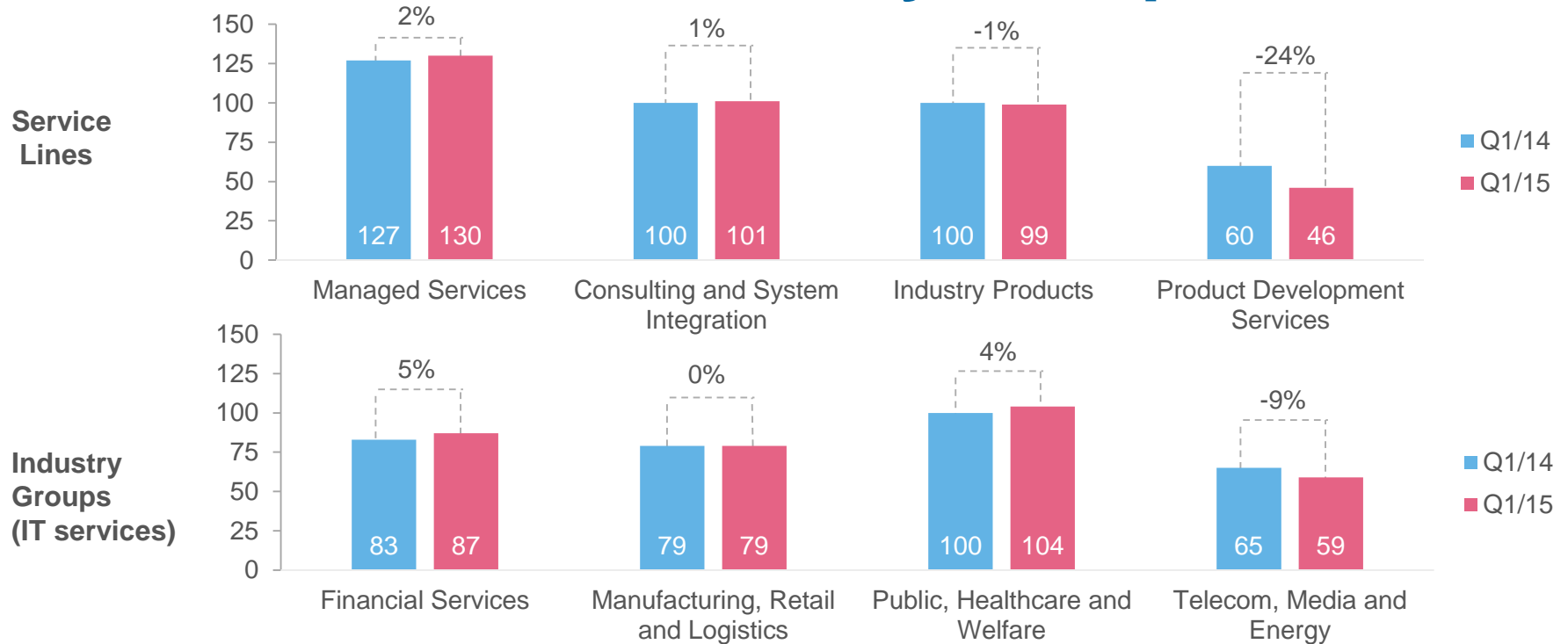
Number of personnel down by a net amount of 646

Offshore ratio: IT services 43.8% (41.4%) PDS 57.5% (60.4%)

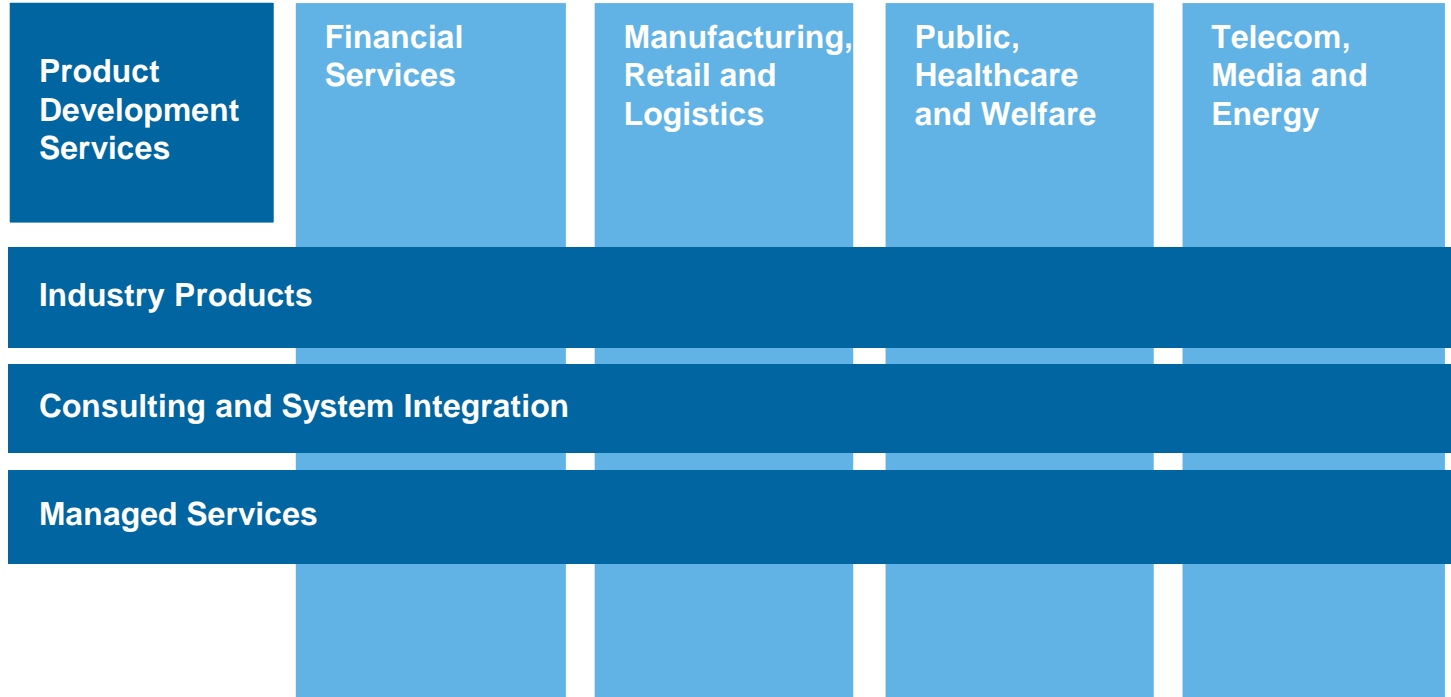




# Organic growth in local currencies by Service Line and Industry Group



# Service Lines



# Managed Services

## Customer sales

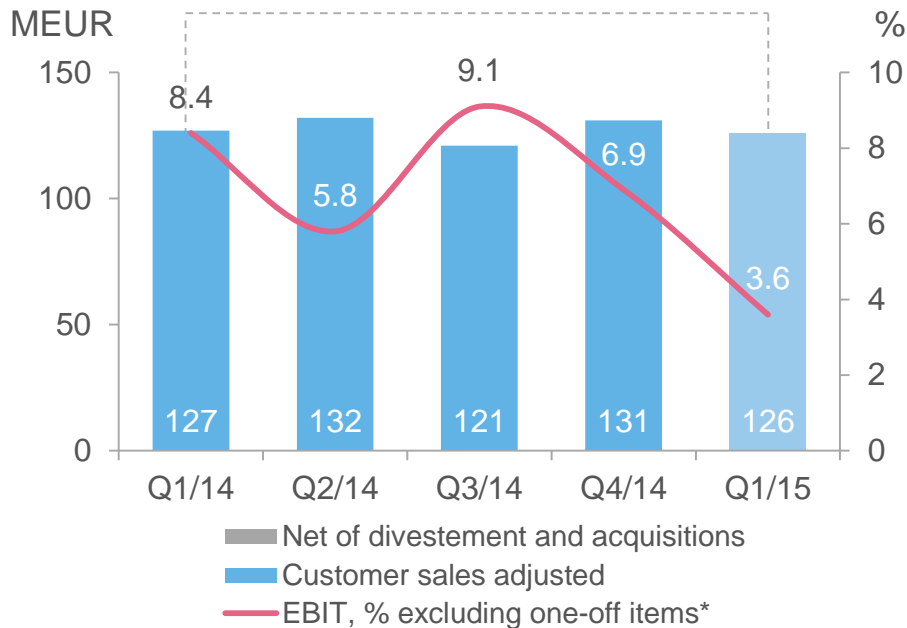
- EUR 126 (127) million, down by 1%
- Organic growth in local currencies 2%

## EBIT

- EBIT EUR -8.3 (11.1) million, -6.6% (8.8)
- EBIT excluding one-off items\*  
EUR 4.6 (11.0) million, 3.6% (8.4)

## Q1 highlights

- Cloud services drive growth
  - Q1 sales up by 132% vs 2014
  - Represents 12% of MS sales
- Temporary transition costs related to automation programme strain profitability in H1
- Service competitiveness and automation programme expected to improve profitability in H2
- New large contracts during the past quarters expected to support sales growth in H2



\*) Excluding capital gains, impairments and restructuring costs

# Consulting and System Integration

## Customer sales

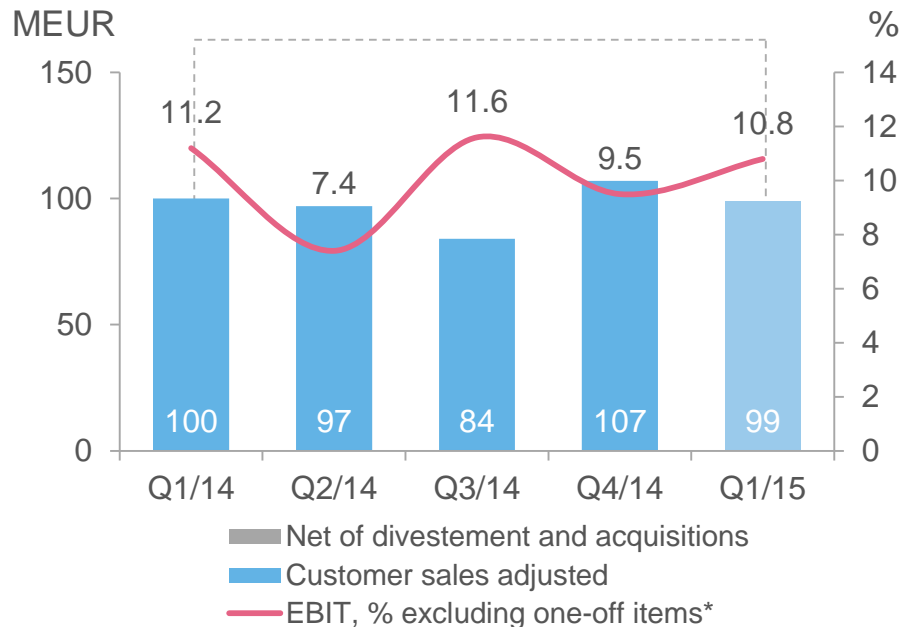
- EUR 99 (100) million, down by 1%
- Organic growth in local currencies 1%

## EBIT

- EBIT EUR 8.2 (11.1) million, 8.3% (11.1)
- EBIT excluding one-off items\*  
EUR 10.8 (11.2) million, 10.8% (11.2)

## Q1 highlights

- Good development in industry consulting, ERP-based solutions and Customer Experience Management (CEM) services
- Reduced revenues in traditional application management as anticipated
- Offering development, mainly in CEM, and recruitments related to service renewal accelerated in H1
- New large contracts during the past quarters expected to support sales growth in H2



\*) Excluding capital gains, impairments and restructuring costs

# Industry Products

## Customer sales

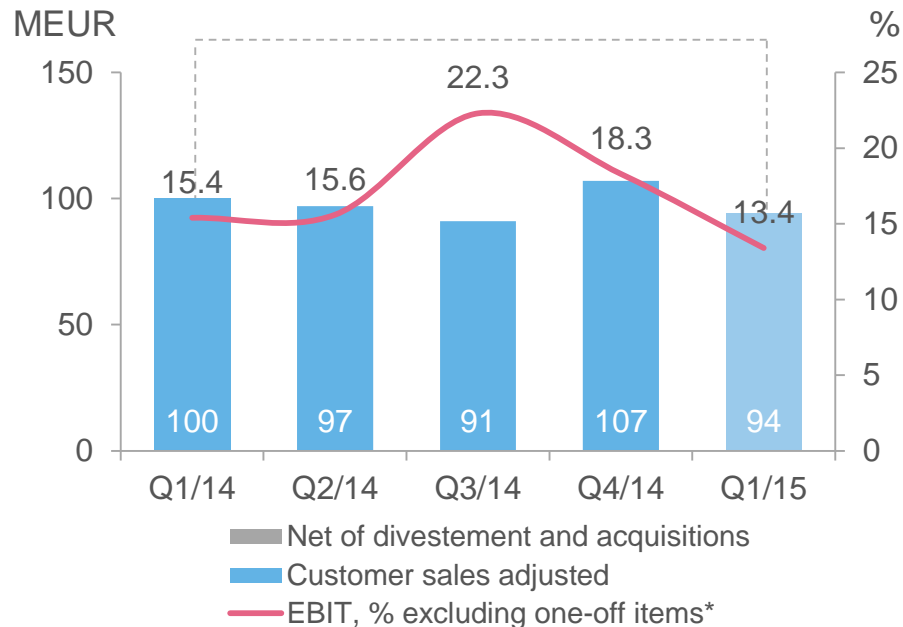
- EUR 94 (100) million, down by 6%
- Organic growth in local currencies -1%

## EBIT

- EBIT EUR 12.6 (15.5) million, 13.3% (15.4)
- EBIT excluding one-off items\*  
EUR 12.7 (15.4) million, 13.4% (15.4)

## Q1 highlights

- Double-digit growth in healthcare and welfare sector
- Demand in oil & gas remained weak
- Financial Services sales somewhat down due to challenges in Eastern Europe and delays in new projects
- Increased investments in offering development in H1, mainly in Lifecare and Industrial Internet
- Additionally, negative currency changes and transitions to offshore in FS affected profitability
- H2 profitability expected to be seasonally stronger



\*) Excluding capital gains, impairments and restructuring costs

# Product Development Services

## Customer sales

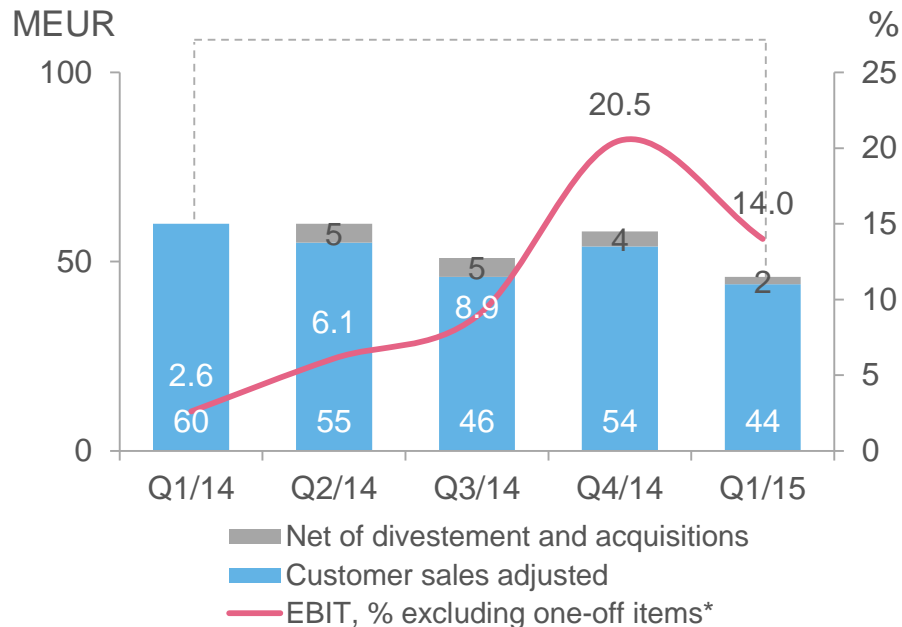
- EUR 47 (60) million, down by 22%
- Organic growth in local currencies -24%

## EBIT

- EBIT EUR 6.5 (1.1) million, 14.0% (1.9)
- EBIT excluding one-off items\*  
EUR 6.5 (1.6) million, 14.0% (2.6)

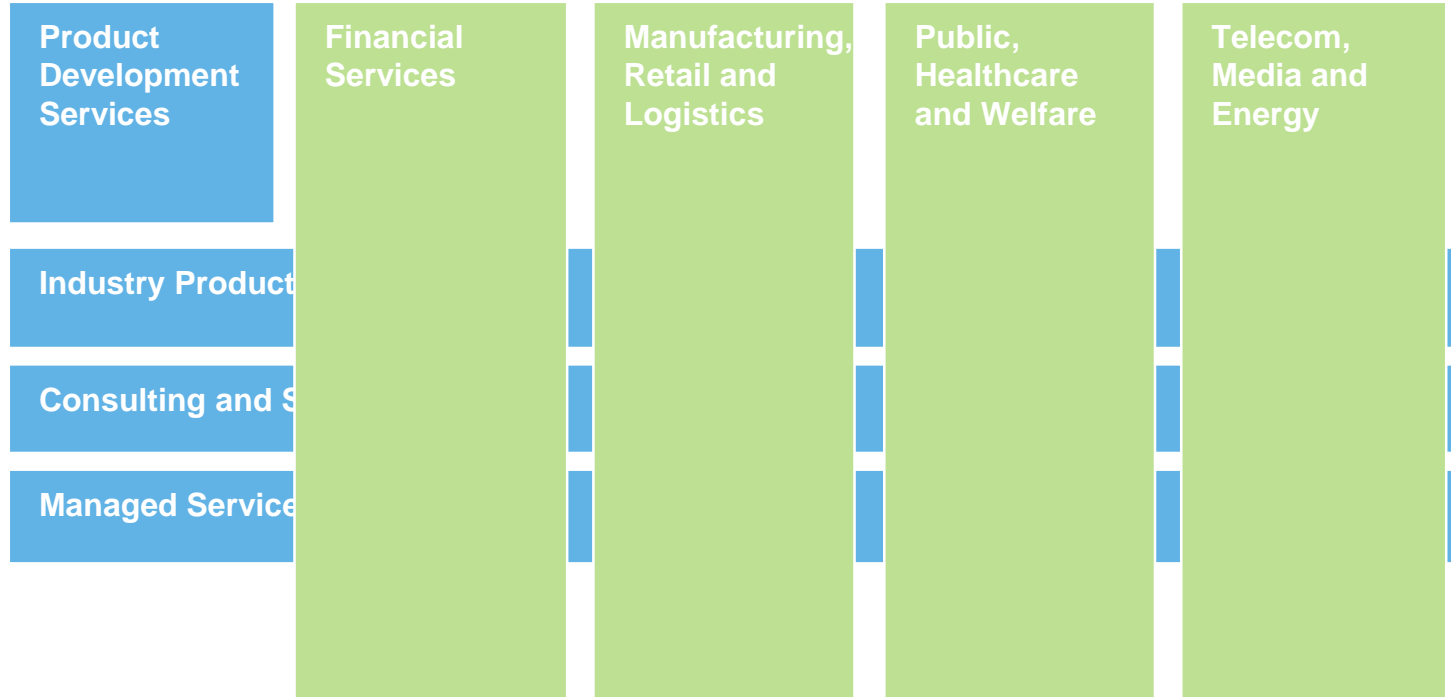
## Q1 highlights

- Sales decline due to insourcing by one key customer
  - Contract ended – in 2014: 5% of Group sales
  - Cost base aligned in parallel with the reduction in business volumes
- Sales for several key customers growing and openings in new verticals, e.g. automotive
  - New wins include Continental
- Operating profit supported by certain temporary commercial terms
- Normalized operating margin below 10%
  - Strong profitability outside the insourced business due to efficiency measures



\*) Excluding capital gains, impairments and restructuring costs

# Industry Groups



# Financial Services

## Customer sales Q1

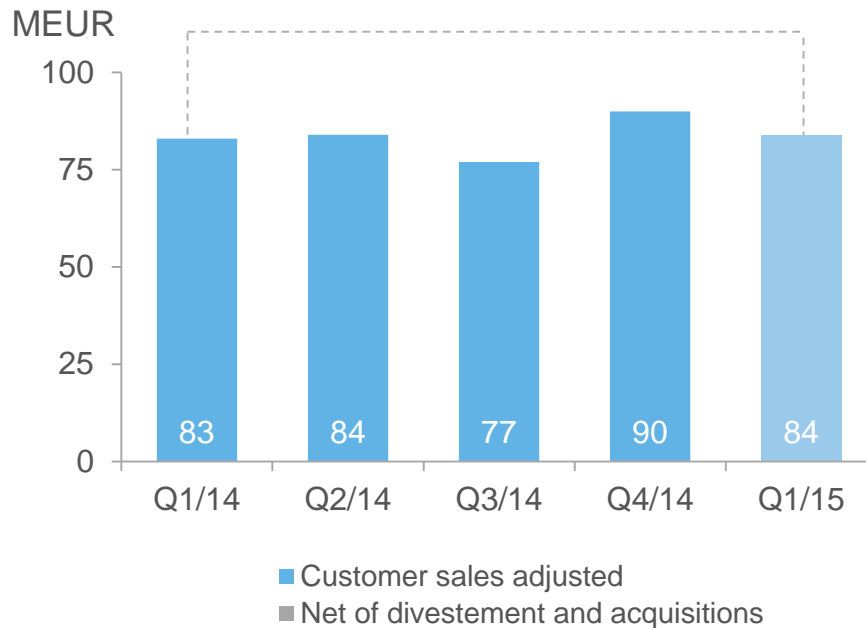
- EUR 84 (83) million, up by 1%
- Organic growth in local currencies 5%

## Sales split by service line

	Q1/2015	Q1/2014
MS	48%	44%
CSI	21%	20%
IP	31%	36%

## Q1 highlights

- Good development in Managed Services, growth supported by a number of new agreements
- Strong development in insurance segment, banking segment slightly weaker due to challenges in Industry Products
- New agreement with Etera





# Manufacturing, Retail and Logistics

## Customer sales Q1

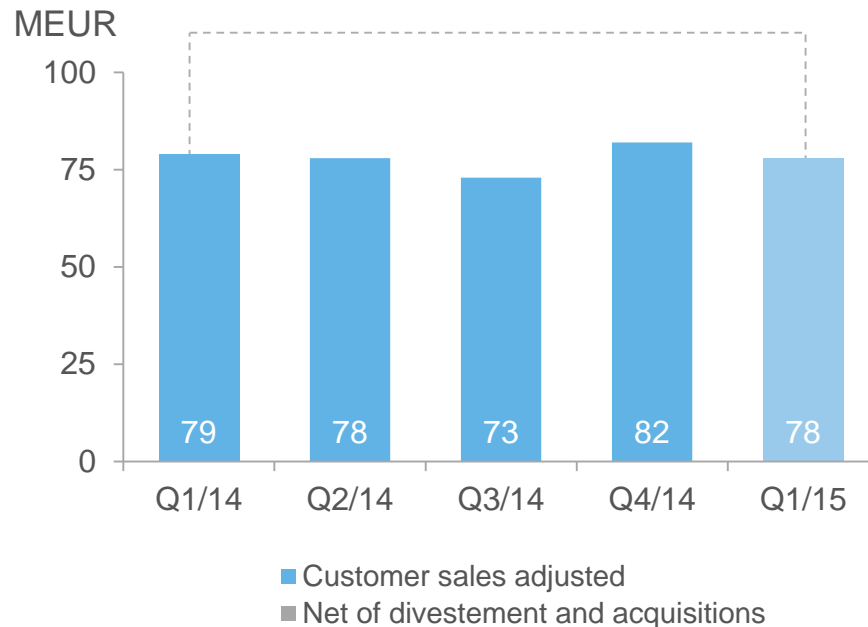
- EUR 78 (79) million, down by 2%
- Organic growth in local currencies 0%

## Sales split by service line

	Q1/2015	Q1/2014
MS	50%	50%
CSI	40%	39%
IP	10%	11%

## Q1 highlights

- Healthy development in manufacturing sector due to several new agreements while retail sector experienced negative development
- Transition projects in Managed Services affect sales and profitability
- New large contracts during the past quarters expected to support sales growth in H2
- Industrial Internet in an investment phase



# Public, Healthcare and Welfare

## Customer sales Q1

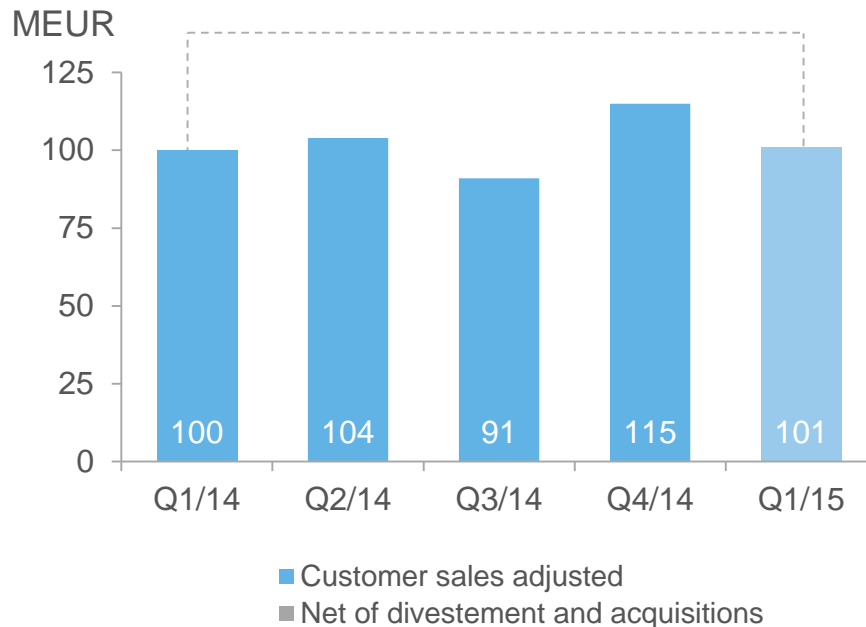
- EUR 101 (100) million, up by 1%
- Organic growth in local currencies 4%

## Sales split by service line

	Q1/2015	Q1/2014
MS	36%	39%
CSI	25%	24%
IP	39%	37%

## Q1 highlights

- Growth mainly in healthcare and welfare sector
  - Double-digit sales growth in Industry Products
  - Driven, for example, by national interoperability and eServices in the welfare and education segments
  - In public sector, healthy market for data centre and capacity services
  - New agreement with Region Skåne



# Telecom, Media and Energy

## Customer sales Q1

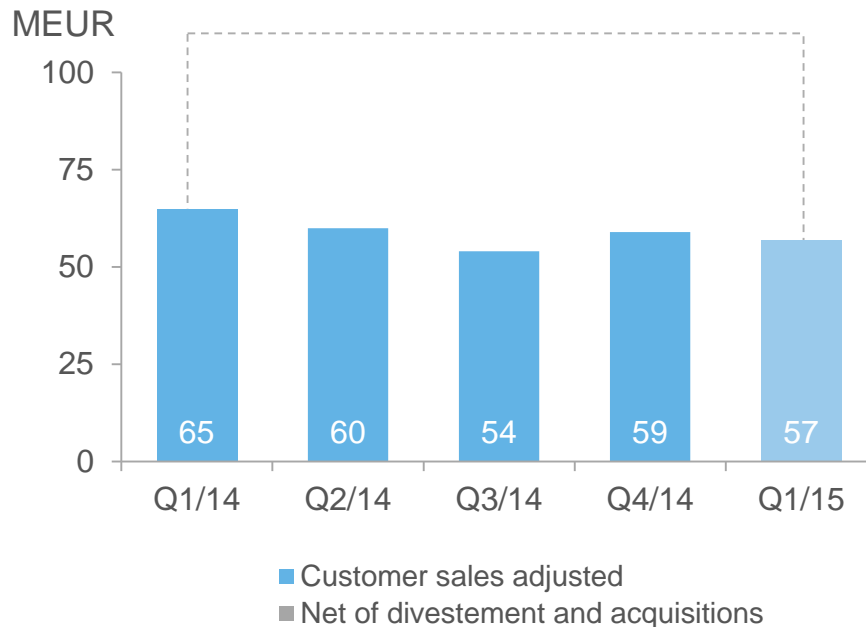
- EUR 57 (65) million, down by 12%
- Organic growth in local currencies -9%

## Sales split by service line

	Q1/2015	Q1/2014
MS	17%	18%
CSI	45%	44%
IP	38%	38%

## Q1 highlights

- Demand in the oil and gas segment is weak and IT investment levels are low
- Energy utilities market is opening up for cloud services as clients are seeking to reduce IT costs
- Healthy order intake in Q1 driven by telecom and energy utilities



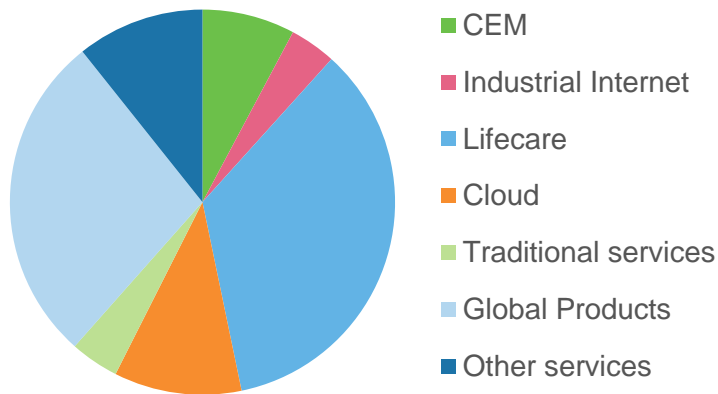
# Accelerating growth in focus



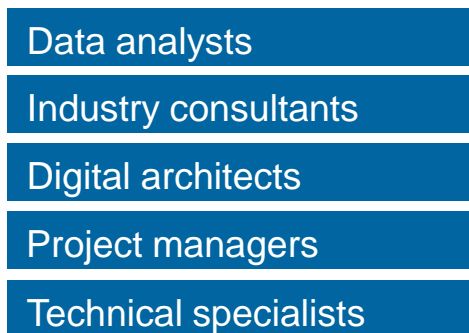
# Investments in offering development and recruitment of new talent to accelerate growth

## New growth areas to be evaluated

Investment profile 2015



Recruitments 2015



Net recruitments in Q1 2015



- Full-year investments (OPEX) in high-growth businesses maintained at least at the 2014 level
- In H1/2015, development costs higher than in H1/2014

# Performance drivers 2015

Performance drivers in IT services	H1 Impact on profitability <sup>1)</sup>	H2 Impact on profitability <sup>1)</sup>
Sales growth		●
Increase in offering development	●	
Costs for new hires in growth businesses	●	●
MS automation programme	●	
Cost savings	●	● ●
Currency fluctuations	●	n/a

<sup>1)</sup> Illustrative, in comparison with the previous year

## IT services in 2015

- Sales growth in line with the market
- Gross savings related to automation and industrialization – EUR 30 million

## Performance drivers for Product Development Services

- Sales decline related to insourcing decision by one key customer
- Expansion of customer base and new customer wins
- Adjustments in cost base
- Temporary commercial terms related to the insourcing decision by one key customer

# Guidance for 2015

Tieto expects its full-year operating profit (EBIT) excluding one-off items to increase from the previous year's level (EUR 150.2 million in 2014).



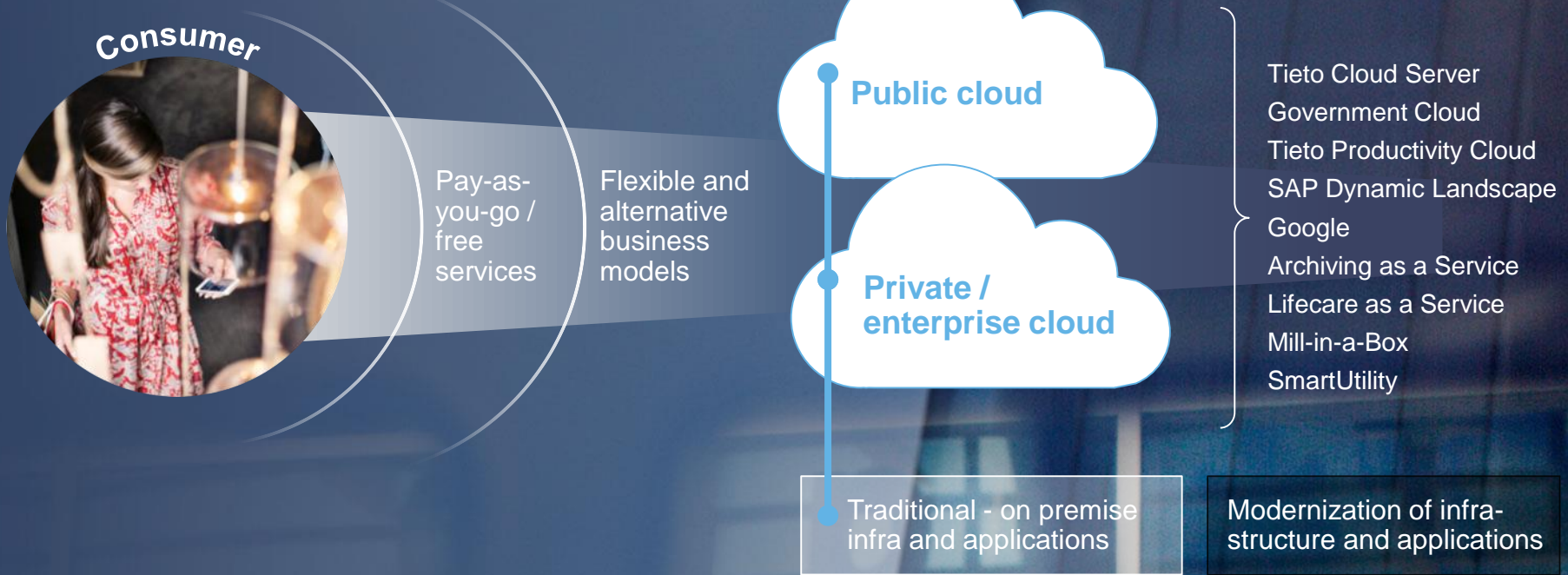
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# We enable enterprises to reinvent business models through cloud services



# Changing perspectives™



# Appendix

# Top 10 customers 2015

- City of Stockholm
- Ericsson
- Finnish Tax Administration
- IF Insurance
- Kesko
- Nordea
- Nokia
- OP-Pohjola Group
- S-Group
- TeliaSonera

