

# Tieto Q2/2014

Positive development in IT services continues

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# Q2 2014 in brief

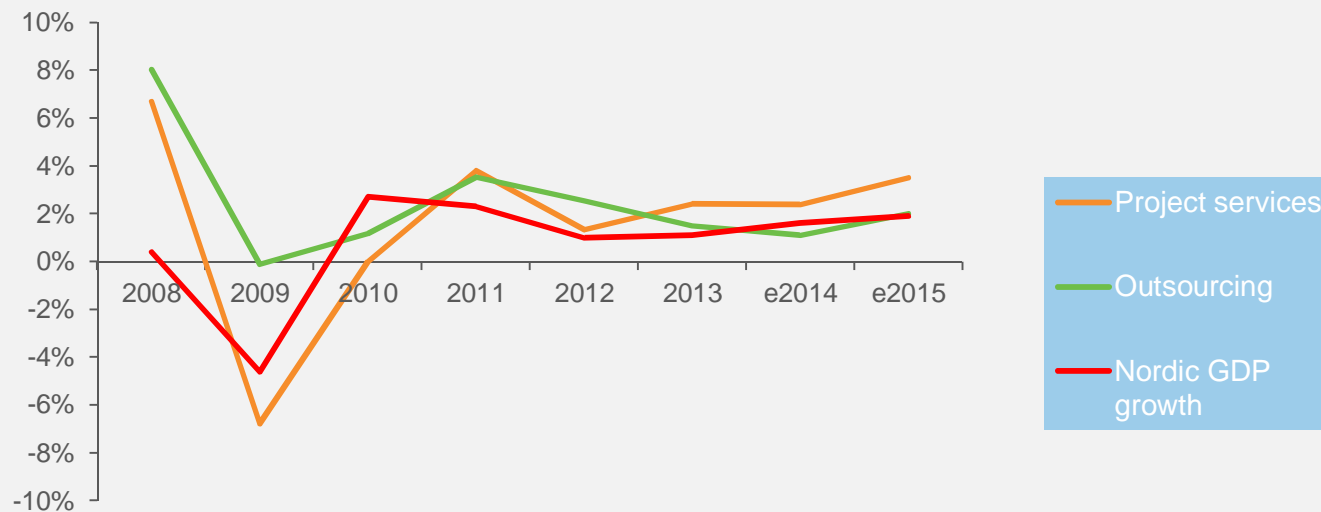
## Positive development in IT services continues

- IT services organic growth in local currencies close to 3%
- Profitability continued to improve despite costs related to exceptional project termination
- Customer insourcing results in lower volumes in Product Development Services

# Nordic IT services market expected to grow

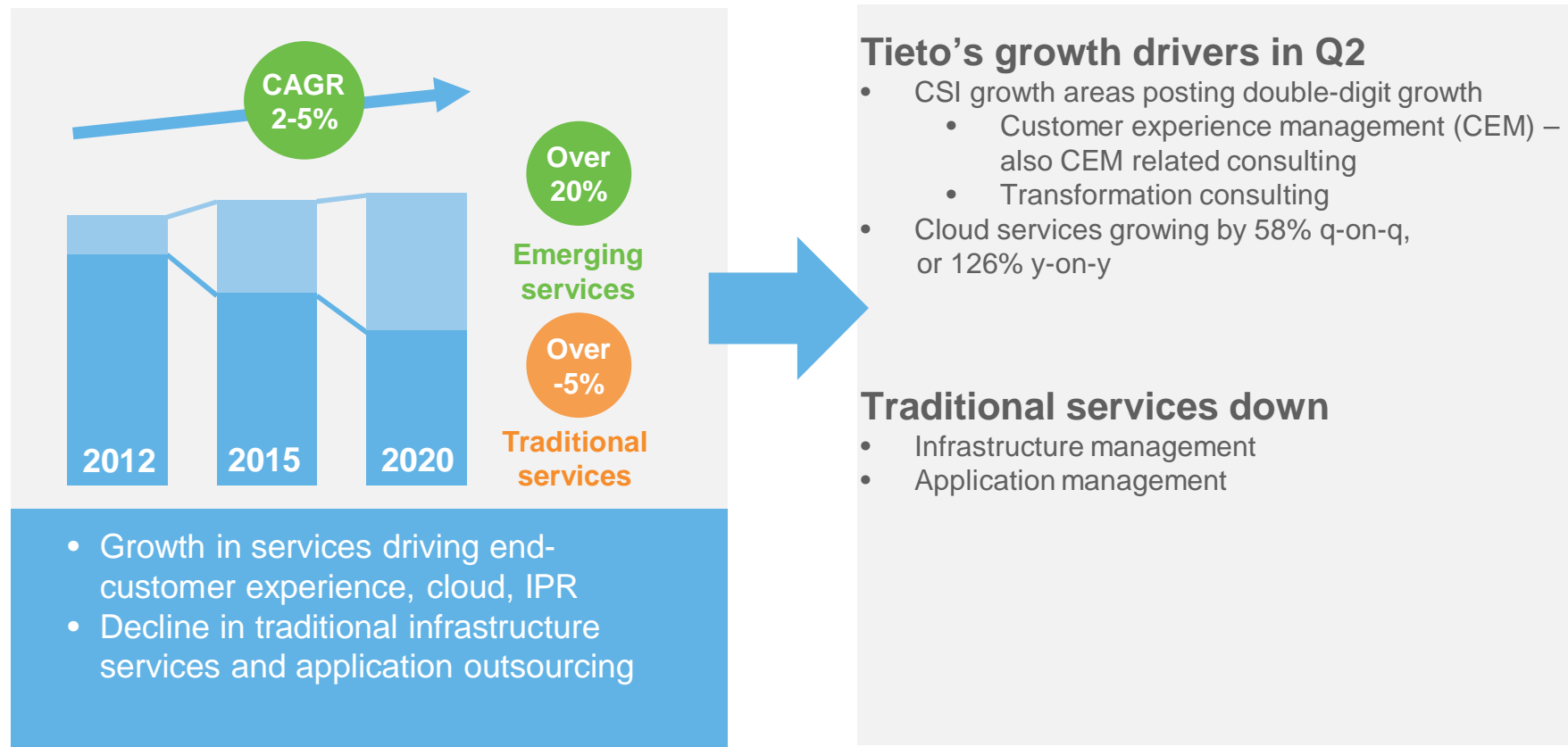
## In R&D, insourcing has resulted in reduced external R&D spending

- Tieto expects the Nordic IT services market to grow by around 2% in 2014
- Double-digit growth for customer experience management, mobility and cloud services while the traditional IT services market is likely to decline
- In PDS market, outsourced software R&D continues to hold a relatively small share



Source: Multiple sources, Tieto estimates

# New services contributing to growth



Source: Multiple sources, Tieto estimates

# Financial development



# Q2 2014 key figures

## Net sales

- EUR 386 (417) million, -7.3%, organic growth in local currency -1.3%
  - Divestments EUR 19.2 million
  - Currency EUR -12 million
- In IT services, organic growth in local currencies up by 2.6%

## EBIT

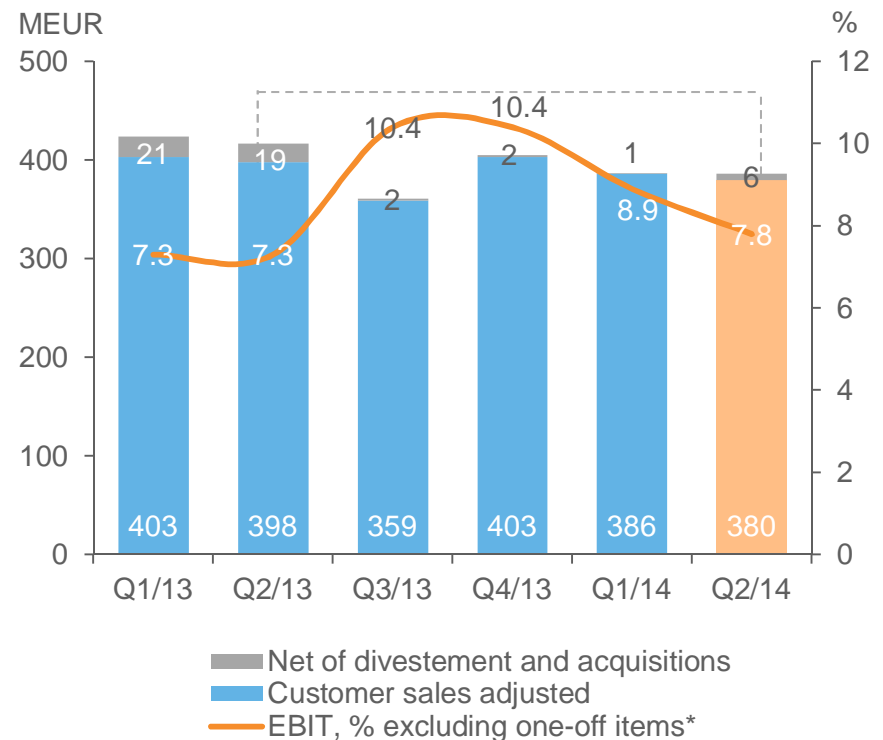
- EBIT EUR 21.5 (14.8) million, 5.6% (3.5%)
  - EUR 8.5 million restructuring costs
- EBIT excluding one-off items\* EUR 30.0 (30.6) million, 7.8% (7.3%)

## Order backlog

- Order backlog EUR 1 550 (1 469) million
- Total Contract Value EUR 398 (551) million
- Book-to-bill 1.0 (1.3)

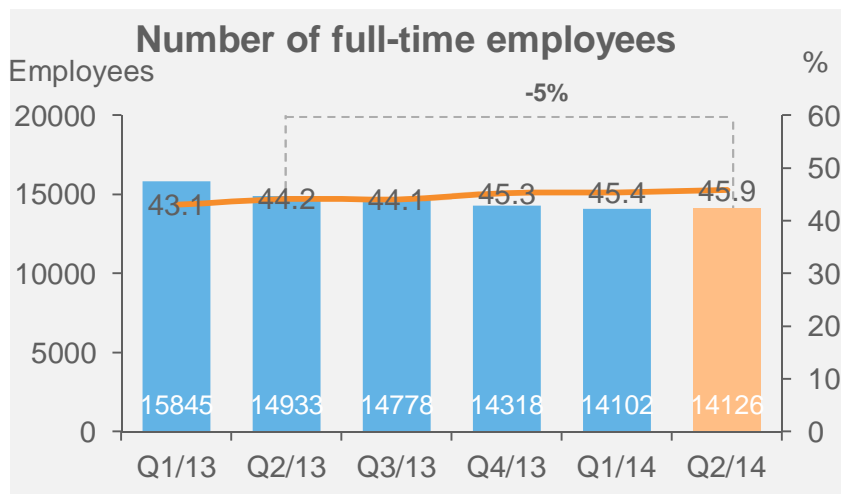
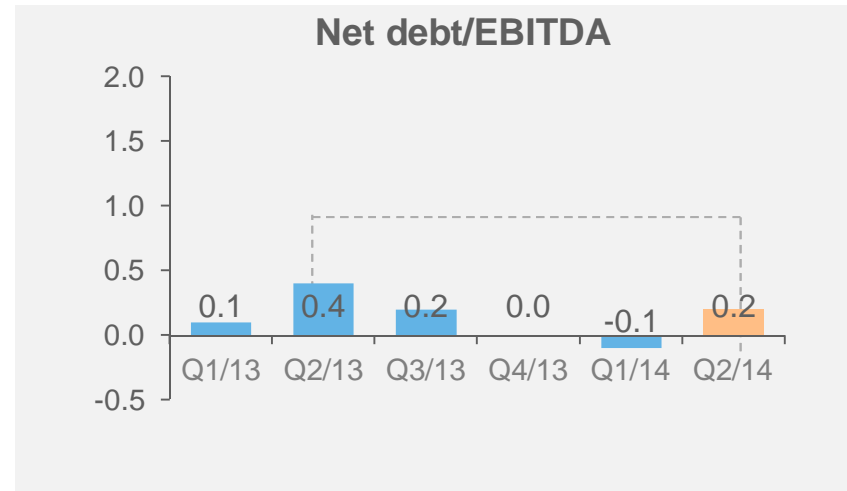
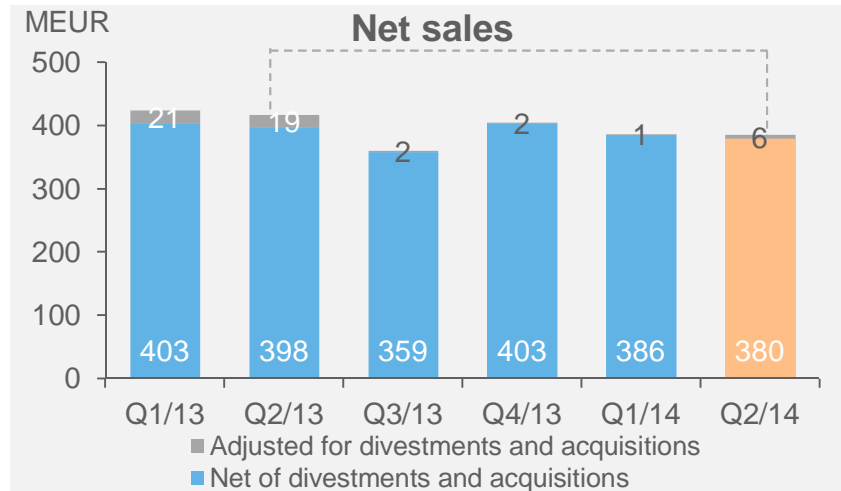
## Earnings per share

- EUR 0.23 (0.10)
- EUR 0.32 (0.30), excluding one-off items\*

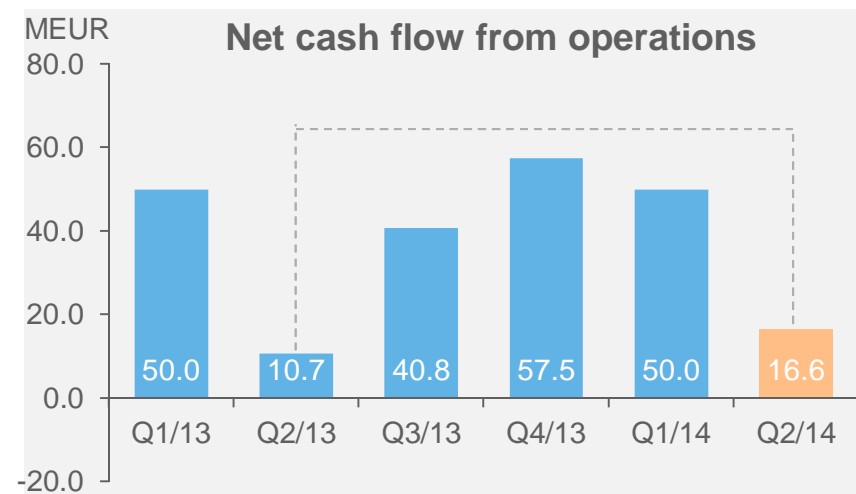


\* ) Excluding capital gains, impairments and restructuring costs

# Quarterly development

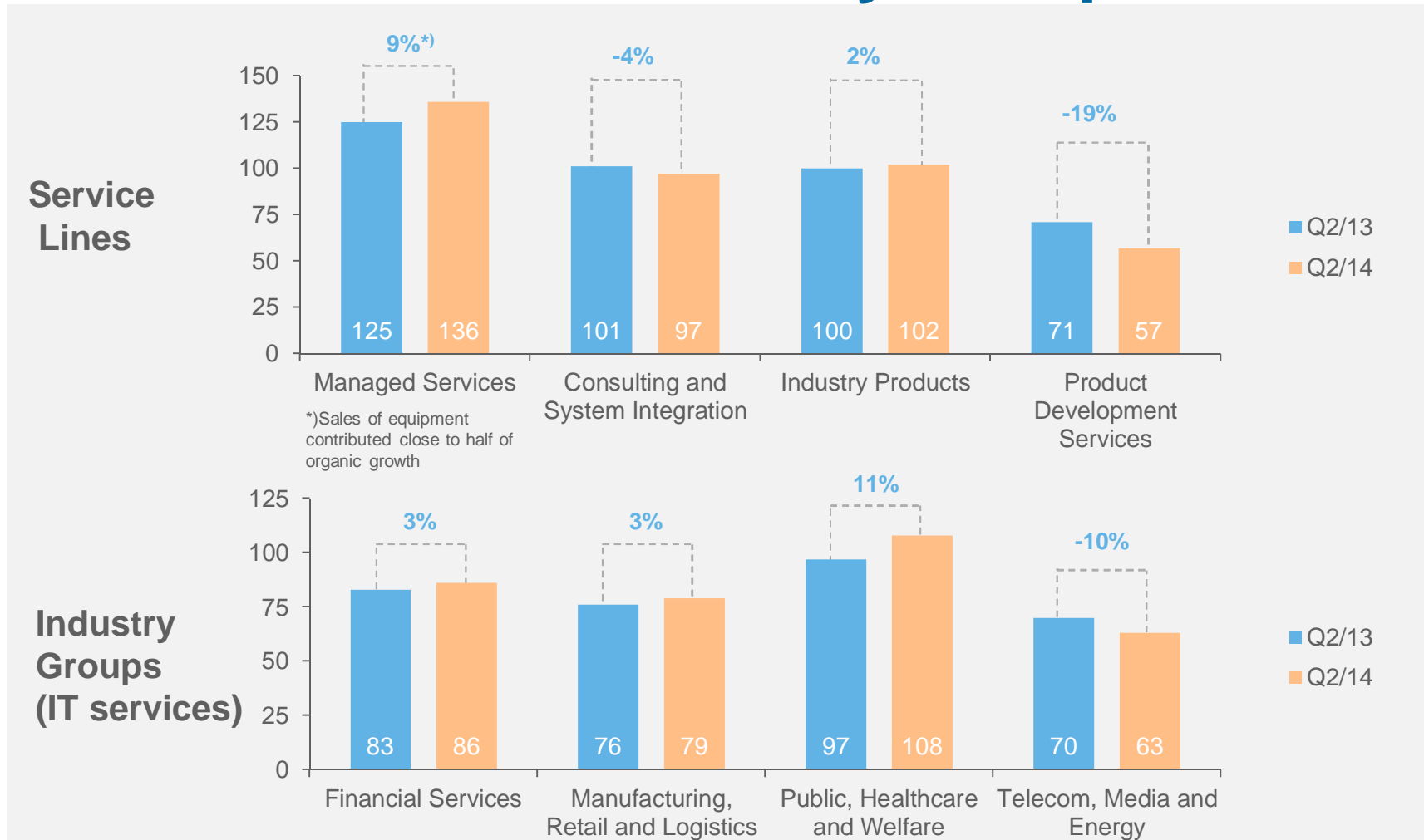


- Number of personnel down by a net amount of 807



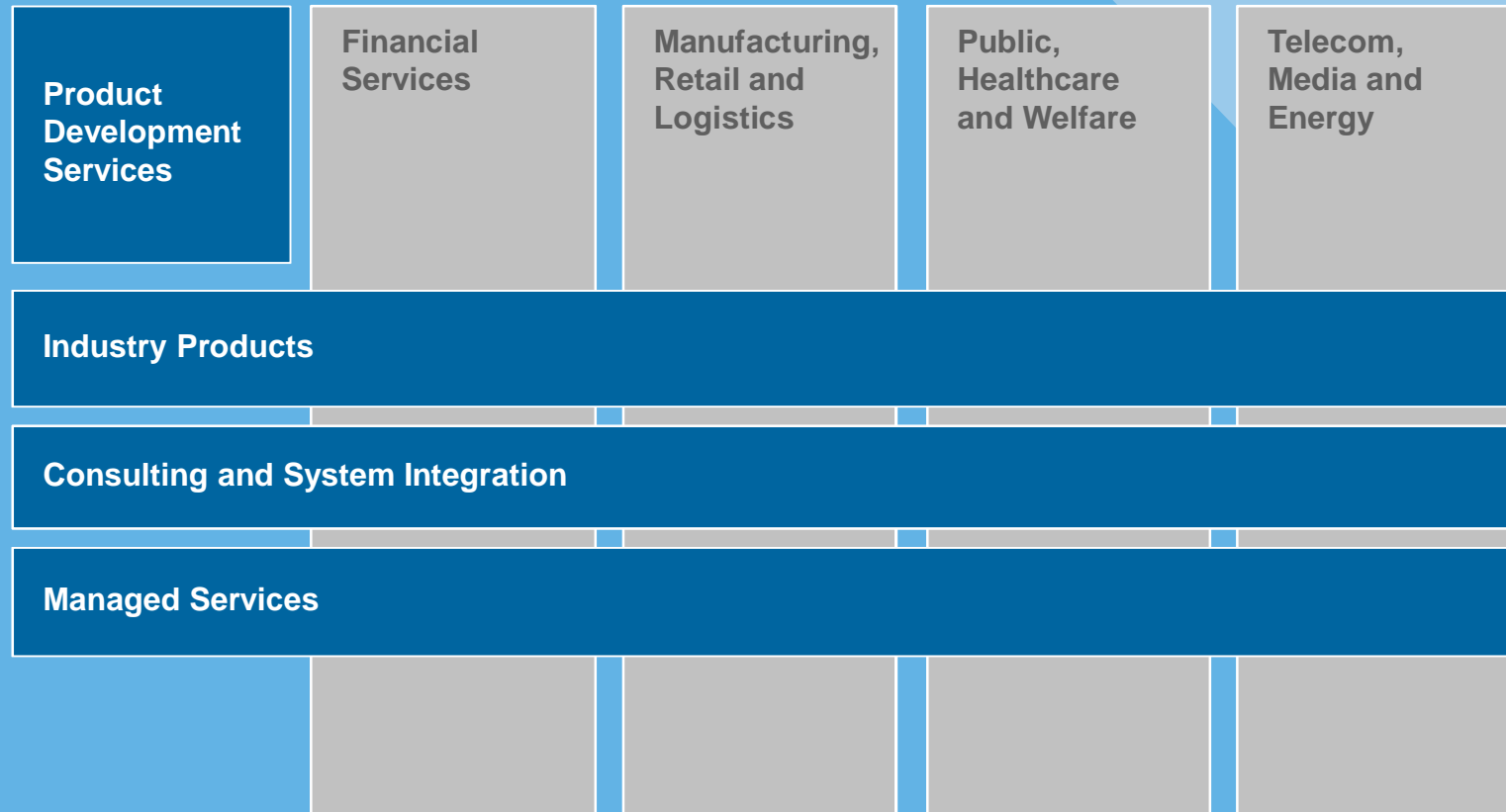
Offshore ratio:  
 IT Services 42.0% (39.4%)  
 PDS 61.6% (60.8%)

# Organic growth in local currencies by Service Lines and Industry Groups





# Service Lines



# Managed Services

## Customer sales

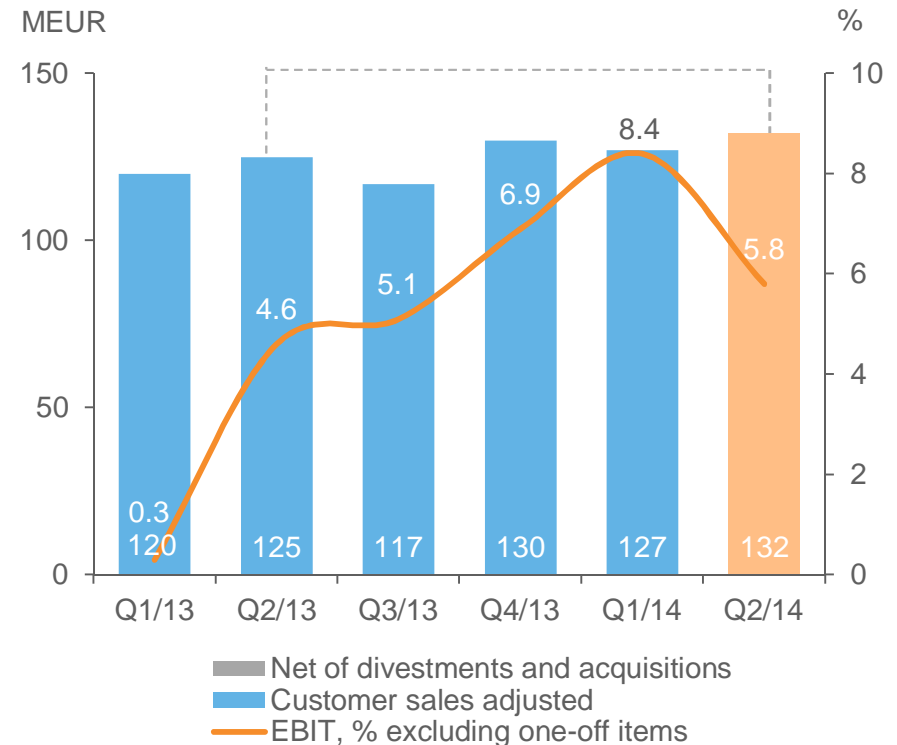
- EUR 132 (125) million, up by 5%
- Organic growth in local currencies 9%

## EBIT

- EBIT EUR 7.6 (5.4) million, 5.8% (4.3)
- EBIT excluding one-off items\*  
EUR 7.6 (5.7) million, 5.8% (4.6)

## Q2 highlights

- The market for transforming ICT infrastructure to cloud-based environments remained active
- Cloud services sales grew by 58% q-on-q, or 126% y-on-y, to EUR 10 million
- Revenue recognized from sales of equipment contributed to close to half of organic growth
- Good volume development coupled with higher efficiency resulted in profitability improvement



\*) Excluding capital gains, impairments and restructuring costs

# Consulting and System Integration

## Customer sales

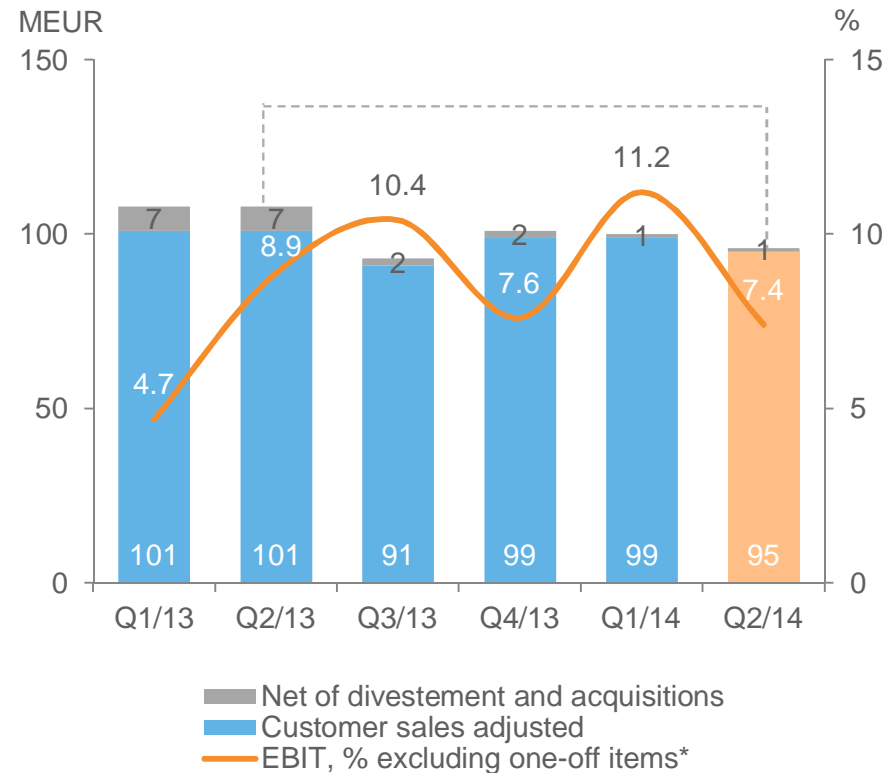
- EUR 97 (108) million, down by 10%
- Organic growth in local currencies -4%

## EBIT

- EBIT EUR 6.1 (2.8) million, 6.3% (2.6)
- EBIT excluding one-off items\*  
EUR 7.2 (9.6) million, 7.4% (8.9)

## Q2 highlights

- Traditional application management continued to experience price pressure and reduced revenues
  - Investments to increase efficiency and automation in application management accelerating in H2
- Healthy growth in customer experience management and transformation consulting
- Continued challenges in telecom sector, sales up in the finance sector
- Operating margin declined due to the costs related to the termination of the Vitja project



\*) Excluding capital gains, impairments and restructuring costs

# Industry Products

## Customer sales

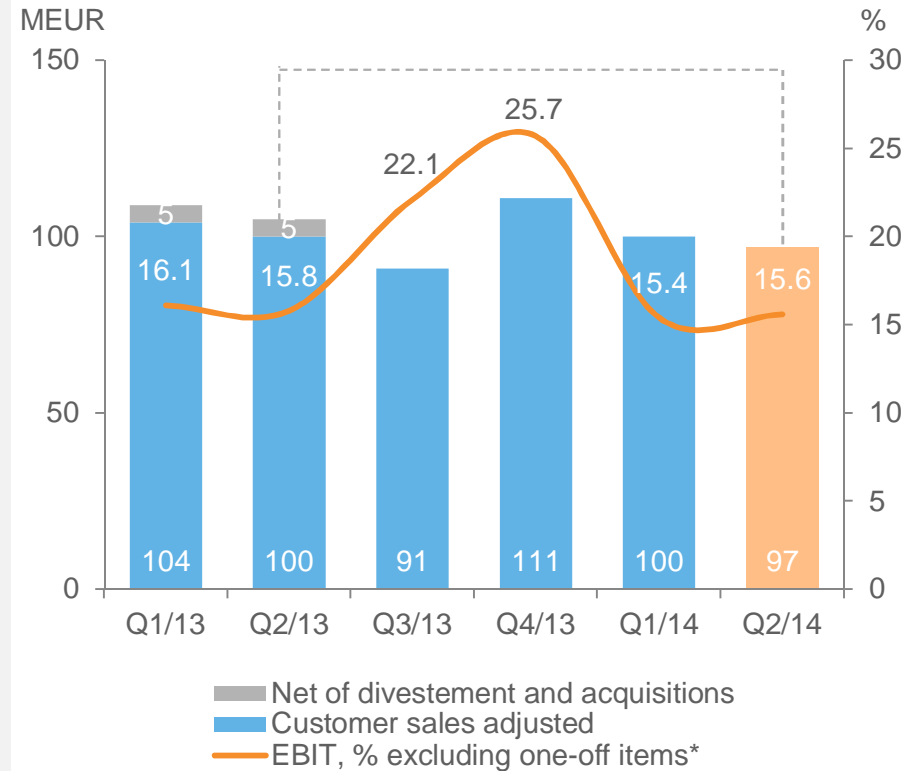
- EUR 97 (105) million, down by 7%
- Organic growth in local currencies 2%

## EBIT

- EBIT EUR 15.0 (15.4) million, 15.3% (14.7)
- EBIT excluding one-off items\*  
EUR 15.2 (16.6) million, 15.6% (15.8)

## Q2 highlights

- Good growth in healthcare and welfare
- Financial Services sales were down, partly due to the negative development in Russia and Latvia
- Healthy development in maintenance
- Underlying margin was at the previous year's level
  - Slightly negative impact from divestments and profitability of joint ventures



\*) Excluding capital gains, impairments and restructuring costs

# Product Development Services

## Customer sales

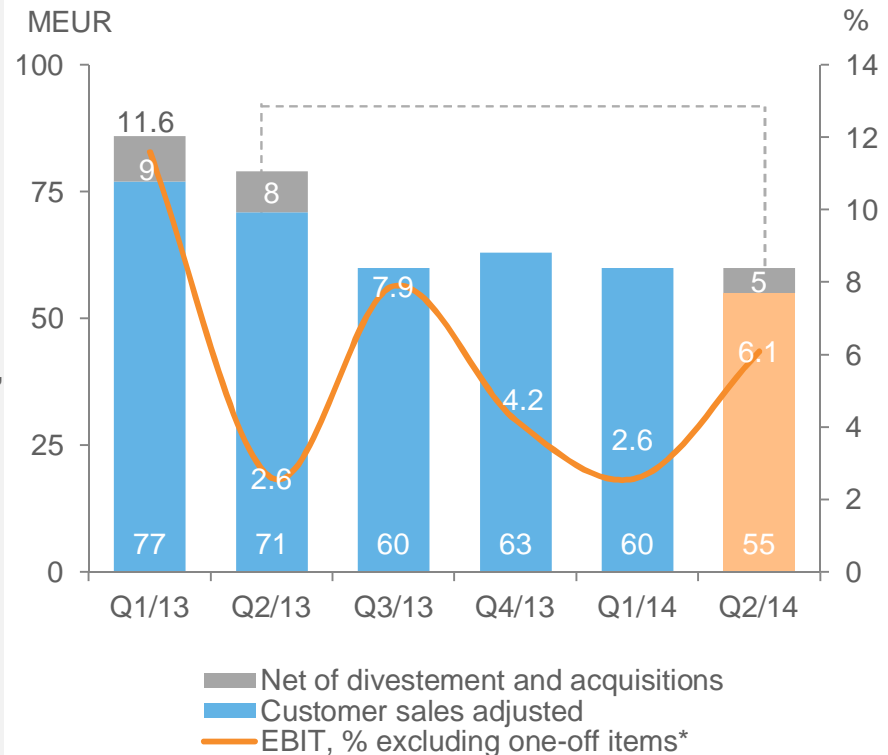
- EUR 60 (79) million, down by 24%
- Organic growth in local currencies -19%

## EBIT

- EBIT EUR -2.3 (-2.6) million, -3.8% (-3.4)
- EBIT excluding one-off items\*  
EUR 3.7 (2.0) million, 6.1% (2.6)

## Q2 highlights

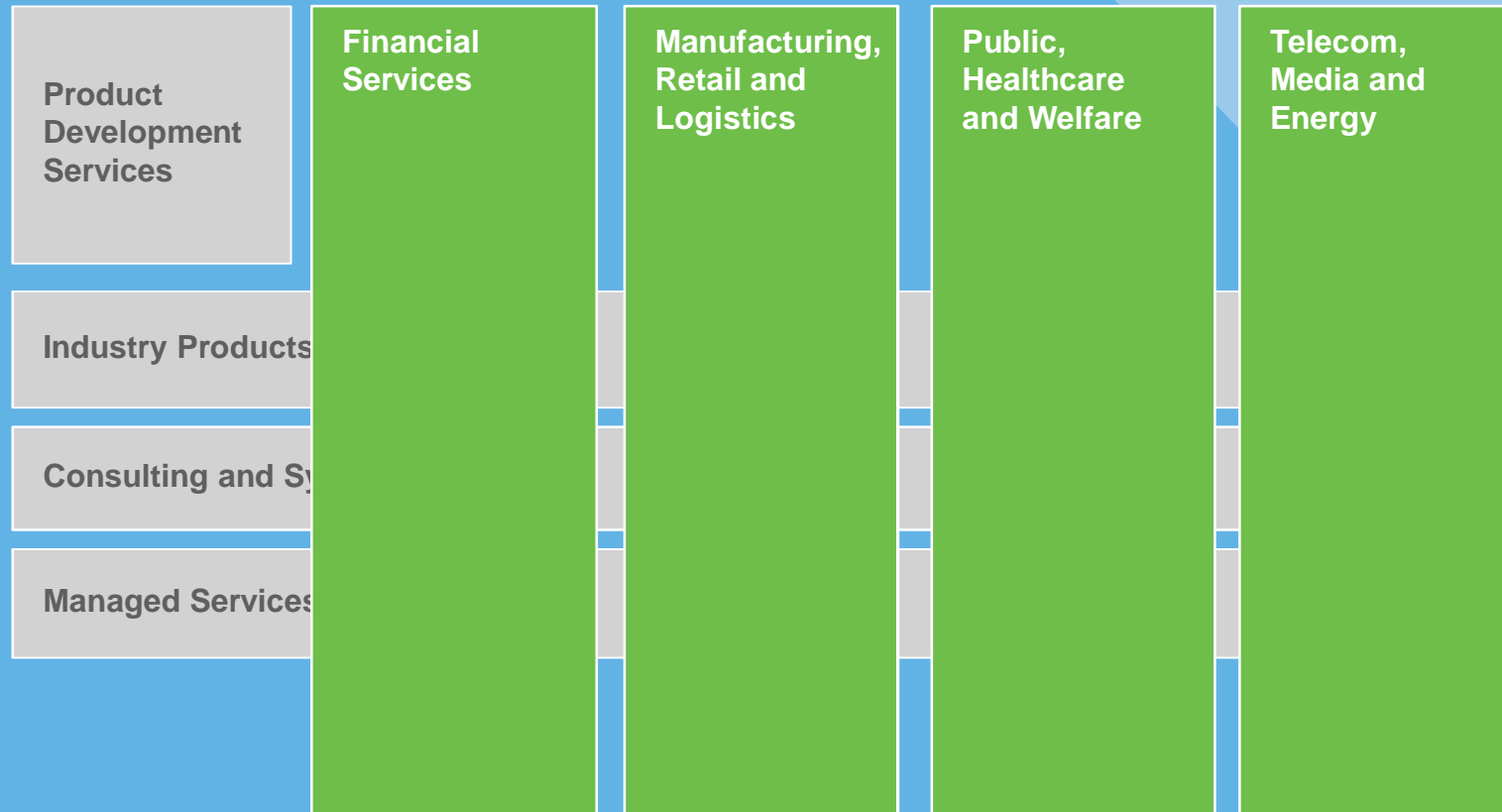
- Sales continued to decrease due to some key customers' continued insourcing
- New customer wins in the semiconductor area and some new openings with existing customers in the MDCE\*\*) area still have a limited impact on financials
- Weak demand expected to continue and sales for the full year anticipated to decline from the 2013 level
- Appropriate adjustment of resources to reflect demand change leading to significant restructuring charges in Q2 (EUR 6.0 million)



\*) Excluding capital gains, impairments and restructuring costs

\*\*) Mobile Devices and Consumer Electronics

# Industry Groups



# Financial Services

## Customer sales

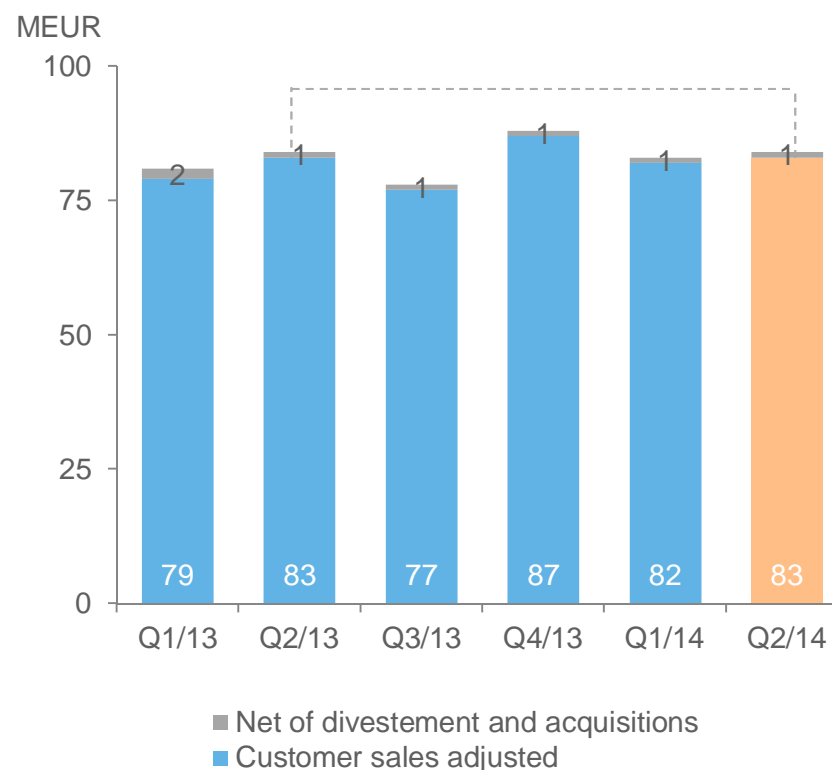
- EUR 84 (84) million, at the previous year's level
- Organic growth in local currencies 3%

## Sales split by service line

	Q2/14	Q2/13
MS	48%	46%
CSI	20%	16%
IP	32%	38%

## Q2 highlights

- In the small and medium sized business segment increased activity level and the market is dominated by the “as a service” model
- Growth was strongest in Consulting and System Integration in Finland and Industry Products in Sweden
- Front-end services continued to be key revenue driver
- In Managed Services, activity level was good both in Finland and Sweden



\*) Excluding capital gains, impairments and restructuring costs

# Manufacturing, Retail and Logistics

## Customer sales

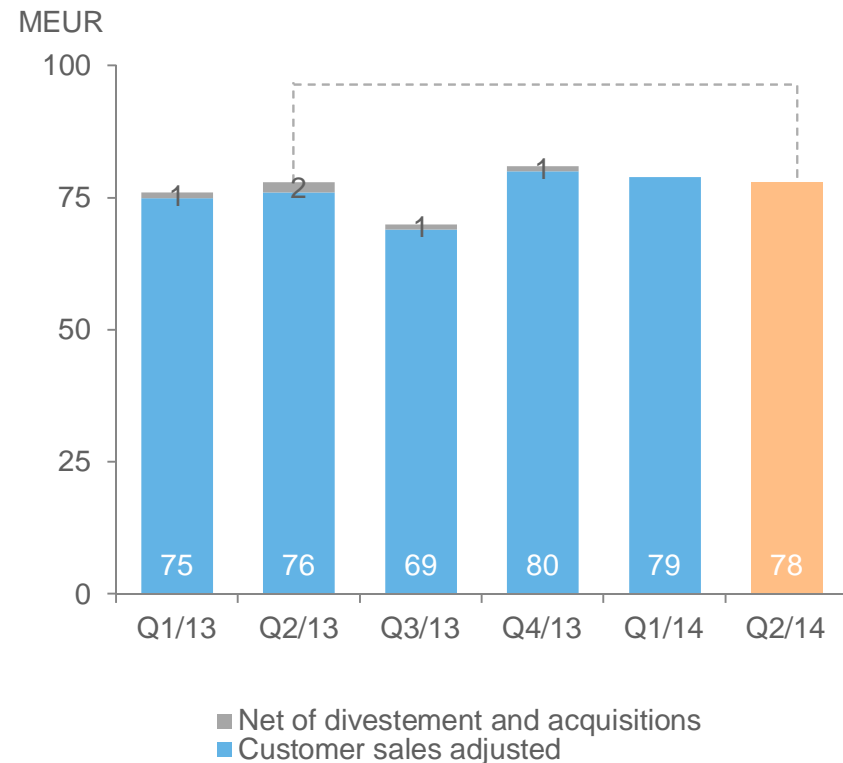
- EUR 78 (78) million, at the previous year's level
- Organic growth in local currencies 3%

## Sales split by service line

	Q2/14	Q2/13
MS	52%	47%
CSI	38%	42%
IP	10%	11%

## Q2 highlights

- Market is active – incremental demand in Omni channel customer experience
- Cost savings and the efficiency improvements in demand supply chain are important drivers for initiating new IT projects
- Growth mainly coming from managed services, both manufacturing and retail sector growing
- Several new agreements concluded and sales pipeline continues to be healthy



\*) Excluding capital gains, impairments and restructuring costs



# Public, Healthcare and Welfare

## Customer sales

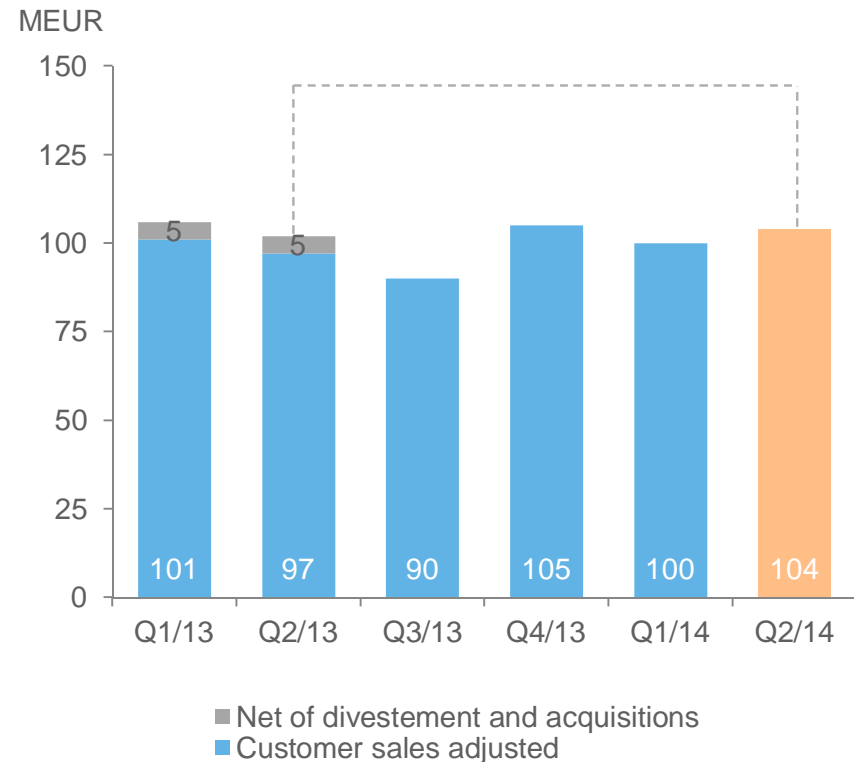
- EUR 104 (102) million, up by 3%
- Organic growth in local currencies 11%

## Sales split by service line

	Q2/14	Q2/13
MS	38%	38%
CSI	24%	25%
IP	38%	37%

## Q2 highlights

- Strong growth in healthcare and welfare segment and the Swedish public sector
- Finnish public sector turned to slight growth
- In Finland, digitalization and national interoperability in the healthcare and welfare is driving growth
- Vitja project terminated in June



\*) Excluding capital gains, impairments and restructuring costs

# Telecom, Media and Energy

## Customer sales

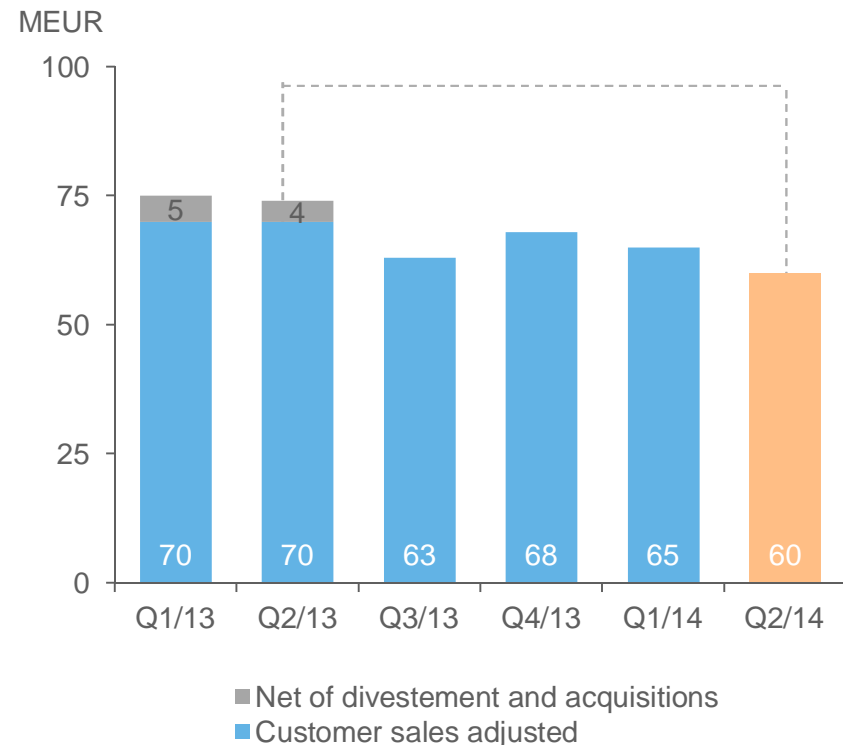
- EUR 60 (74) million, down by 19%
- Organic growth in local currencies -10%

## Sales split by service line

	Q2/14	Q2/13
MS	19%	18%
CSI	43%	46%
IP	38%	36%

## Q2 highlights

- In both telecom and media segments, expiring projects affect volumes as interest in starting new projects is low
- In energy utilities, clients awaiting regulatory changes related to the harmonization in the Nordics prior to making further IT investments
  - Advanced metering infrastructure in Norway is progressing well with new customer wins
- Oil&gas segment growth slightly negative due to customer reduced investment levels



\*) Excluding capital gains, impairments and restructuring costs

# Basics are in place and ready for next chapter while managing volatility remains

**2012**  
Build the foundation

**2013**  
Execute the structure and efficiency

**2014**  
Reorienting for growth

- Modernizing customers' infra and apps
- Expand customer base in the Nordics
- Launch new cloud services
- Improve customer experience and quality
- Continue simplification and efficiency

**2015**  
Accelerate growth portfolio

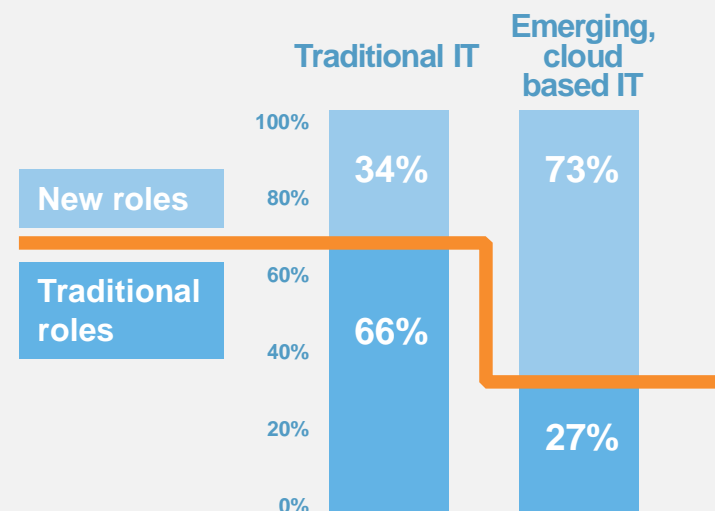
- Scale growth businesses – CEM, Industrial internet, MS cloud, IPR
- Accelerate modernization AM and Infra

**2016+**  
Expand markets

- Expand proven growth bets beyond the Nordics
- New growth bets e.g. IPR

# Efficiency drive and competence renewal will continue

- 2013 programme concluded: annualized savings of over EUR 50 million
  - 1 200 redundancies of which 880 materialized in 2013 and over 300 in H1/2014
- Restructuring costs in 2014 expected to be around half of 2013 level
  - In Q2, additional actions initiated based on overcapacity and competence base realignment: 410 employees in PDS and CSI affected

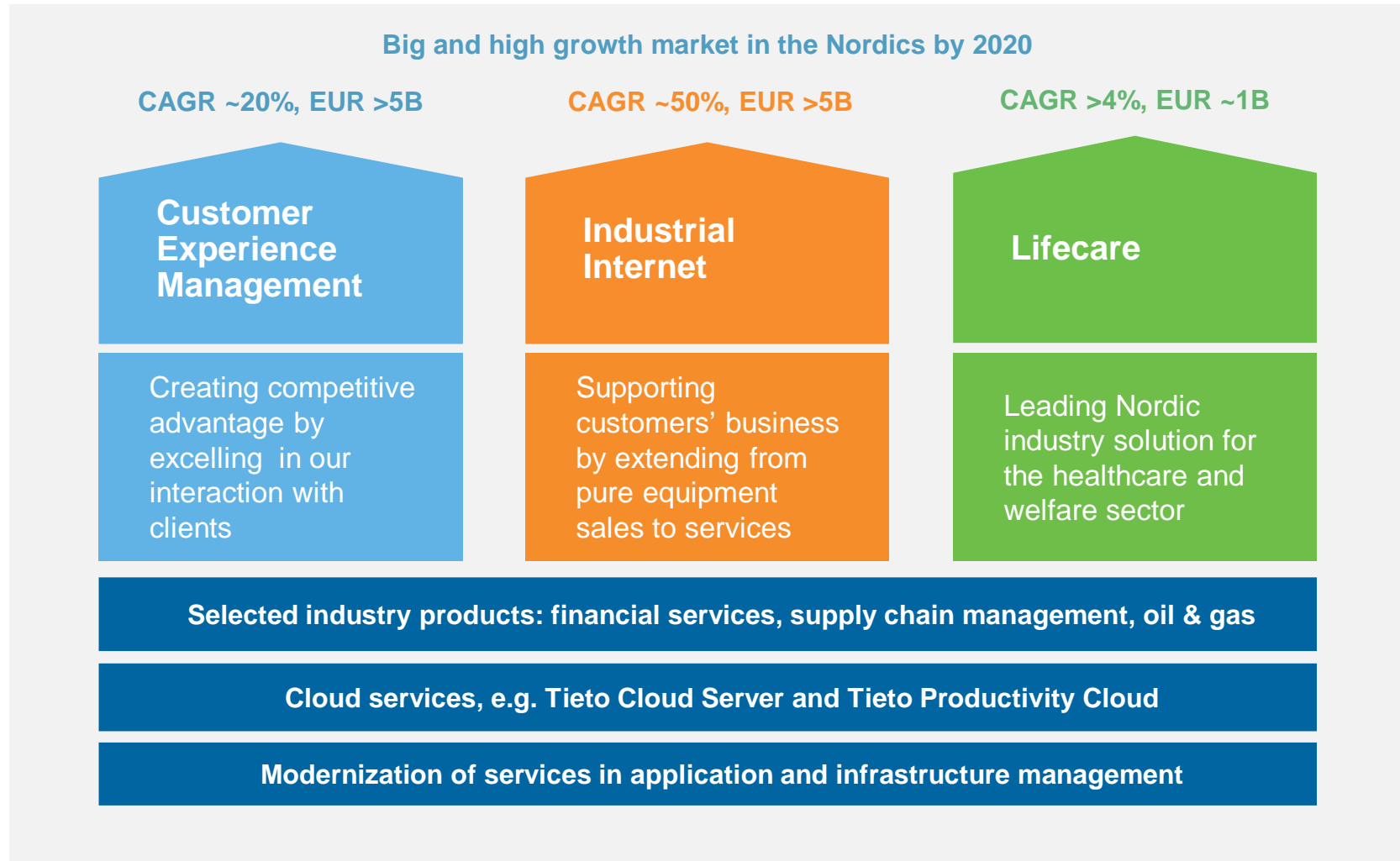


- High demand competencies - industry knowledge, program management, user experience, etc.
- Lesser need for traditional AM, AD and Infra capabilities due to automation and SaaS

Source: Multiple sources, Tieto estimates

# Investing in offerings and innovation

€3m of the estimated €10m increase in offering development materialized (YTD)



# Performance improvement in 2014

- In IT services, the company aims to organically grow in line with the market
- In Product Development Services, sales anticipated to decline in the full year
- Based on the estimate for 2014, restructuring costs anticipated to be around half of the previous year's level
  - In the short term, restructuring needs will be based on potential overcapacity in selected businesses and in the longer run, on automation and the need to realign the company's competence base

# Guidance for 2014 unchanged

Tieto expects its full-year operating profit (EBIT) excluding one-off items to increase from the previous year's level (EUR 141.2 million in 2013).



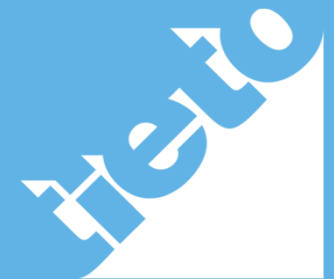
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- Customer insourcing results in lower volumes in Product Development Services



# Changing perspectives



# Appendix



# Top 10 customers 2014

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



Top 10 customers based on sales in alphabetical order

# Financial Calendar 2014

23 October

Interim report 3/2014