

# Tieto Q3 2017

Good third-quarter performance –  
strong improvement in customer  
experience results

24 October 2017

Kimmo Alkio – President and CEO

Lasse Heinonen – CFO

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The Tieto logo is located 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 corner of the slide. The background of the entire slide is a photograph of a modern office environment with several people working at desks with multiple computer monitors.

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# Q3 2017 in brief

## Good third-quarter performance – strong improvement in customer experience results

- Revenue growth over 4% – continued solid market demand
- Operating margin close to 12% – improvement in all businesses with Industry Solutions' margin rising to over 14%
- All-time high Net Promoter Score as customer experience initiatives paying off
- Public offer to acquire Avega announced in October – to accelerate growth in Sweden

# Tieto announced a public offer for Avega

- aims to strengthen its position as the preferred business renewal partner

## Avega Group

- The Avega Group creates services, products and business models for the modern society by offering specialist consultants in business development and IT
- 350 business and digitalization consultants
- Net sales EUR 45.2 million (SEK 428 million) in 2016
- Balanced and attractive customer portfolio

## Avega and Tieto together

- Strong local **consulting capabilities**, especially in business transformation, digital consulting and customer experience management
- Extensive capabilities to provide both consulting services and **deliver large projects** to accomplish business transformation objectives
- Wide-ranging business renewal proposition covering consulting, system integration, **industry-specific software and industrialized managed services**



ICA banken

VOLVO



# Outlook in the Nordic IT market remains solid

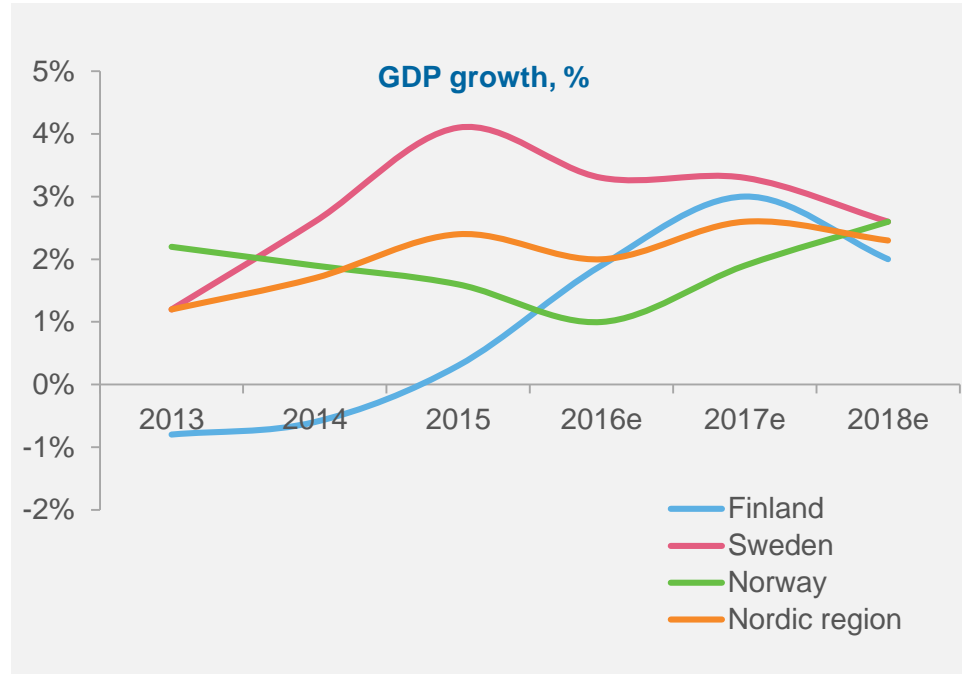
## Growth in the Nordic economies picked up in 2017

### IT market affected by economic outlook

- Positive outlook in Sweden continues
- 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
- EU GDPR taking effect in May 2018
  - New opportunities in Application Services and Security

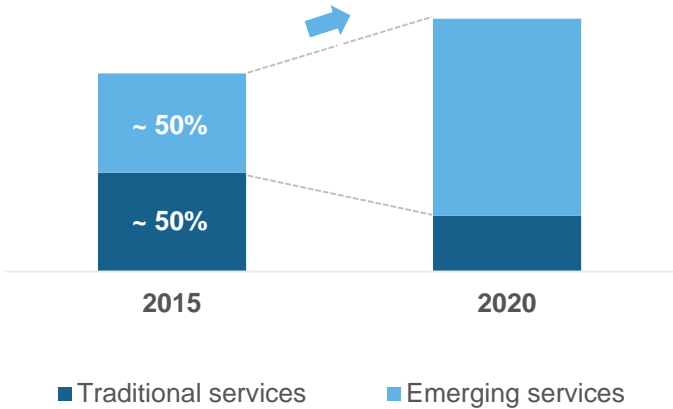


Source: Nordea Markets, Economic Outlook, 3/2017

# High-growth businesses driving growth

Application Services' growth 6% in Q3 while decline in traditional infrastructure 3%

TIETO'S GROWTH AMBITION FOR IT SERVICES:  
FASTER THAN THE MARKET\* (CAGR 2015-2020)



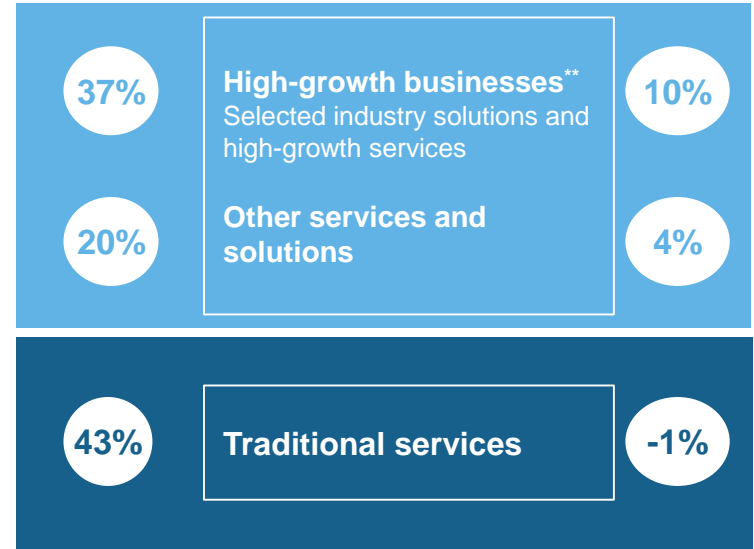
SALES GROWTH  
2016–2020 (CAGR)

UP BY  
10–20%

DOWN BY  
5–10%

SHARE OF IT SERVICES  
1-9/2017

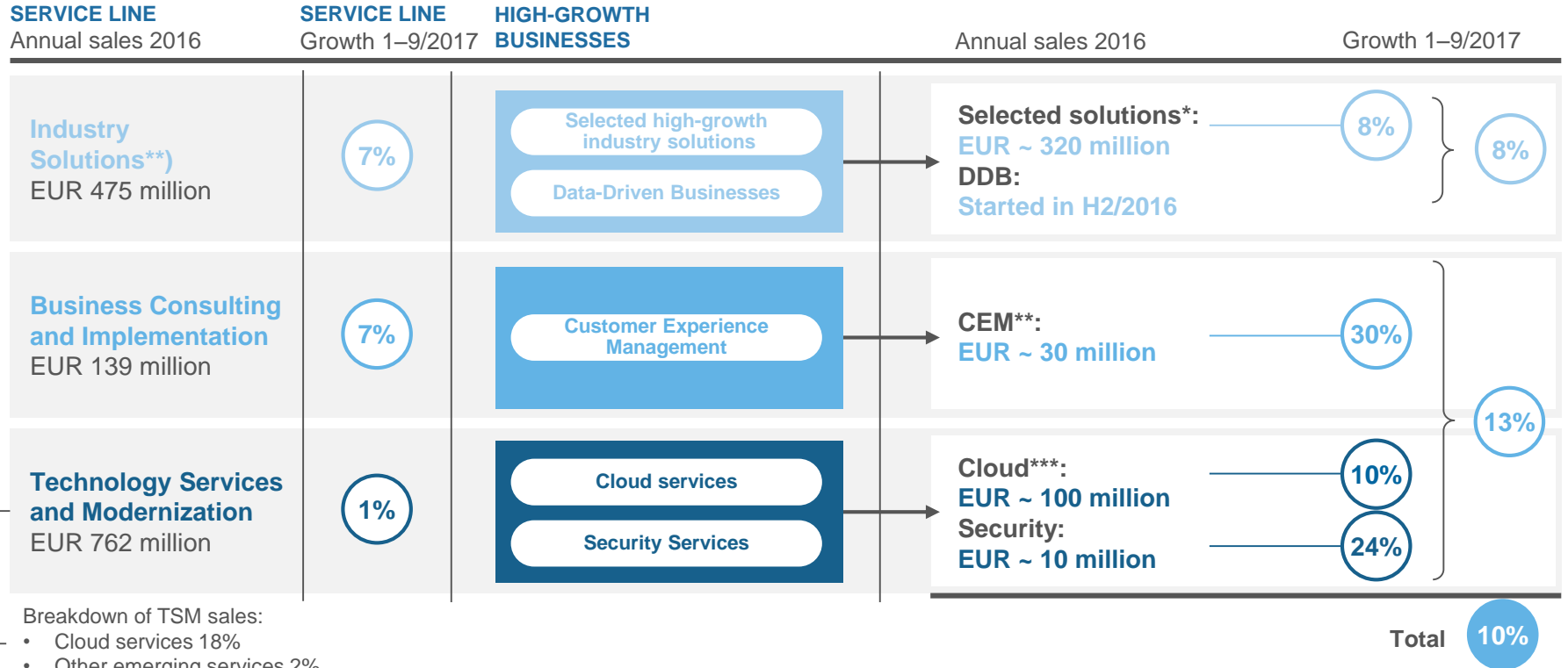
GROWTH  
1-9/2017



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

IT services annual sales EUR 1 376 million in 2016

# High-growth businesses up by 10%



Breakdown of TSM sales:

- Cloud services 18%
- Other emerging services 2%
- Application management 27%
- Traditional infrastructure services 53%

\* Incl. Lifecare, Case management, Payments, Banking solutions

\*\* CEM/Financial Services not included as that transferred to Industry Solutions as from 1 July 2016 – growth comparable to 1–9/2016

\*\*\* Sales for cloud services including Value Networks (solution for the management of financial value chain) amounted to EUR 120 million

# Q3 2017 key figures

## Net sales

- EUR 355 (341) million, +4.2%, growth in local currencies +4.5%
  - Acquisitions added EUR 3 million
  - Currency impact EUR -1 million
- In IT services, sales growth 3.8%, or 4.0% in local currencies
  - Organic growth in local currencies 3.1%

## EBIT

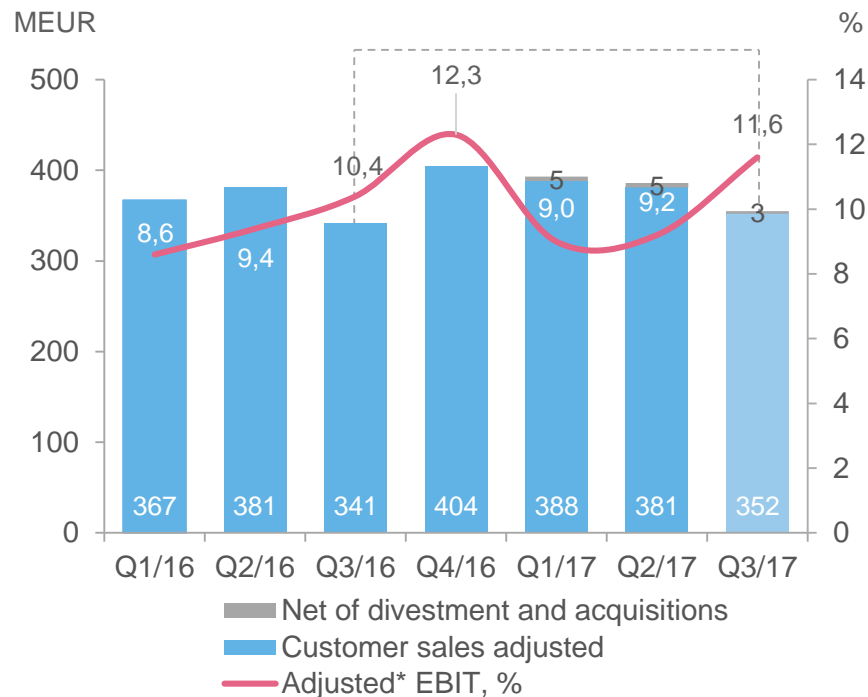
- EBIT EUR 41.1 (35.1) million, 11.6% (10.3%)
- Adjusted\* EBIT EUR 41.2 (35.4) million, 11.6% (10.4%), currency impact EUR -0.3 million

## Order backlog

- Order backlog EUR 1 689 (1 722) million
- Contract Value EUR 271 (406) million, affected by the timing of large contracts
- Book-to-bill 0.8 (1.2)

## Earnings per share

- EPS EUR 0.46 (0.37)
- EPS EUR 0.46 (0.38), adjusted\*



# Significance of order intake and backlog is changing

## The total market is expected to remain dynamic and to continue to grow

### Market trends affecting order intake

Total market expected to continue to grow while

- shifting towards agile methods and **consumption-based business models**
- traditional development **programmes cut into smaller projects**
- binding **durations and values in new contracts reduced** while frame agreements pose revenue opportunities

### Q3 characteristics

Q3 order intake affected by

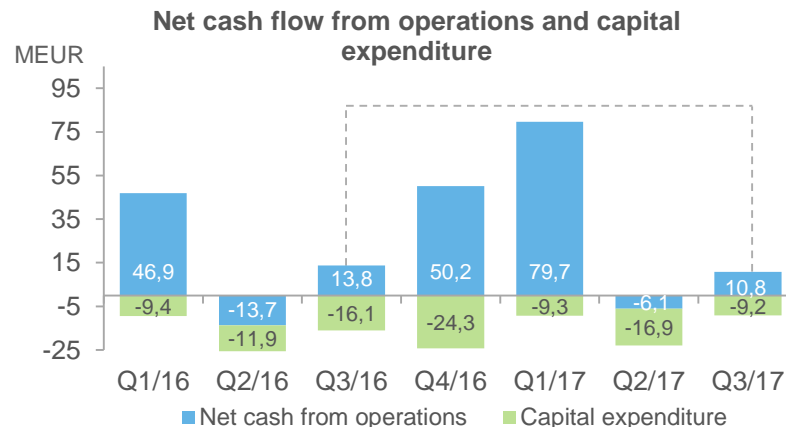
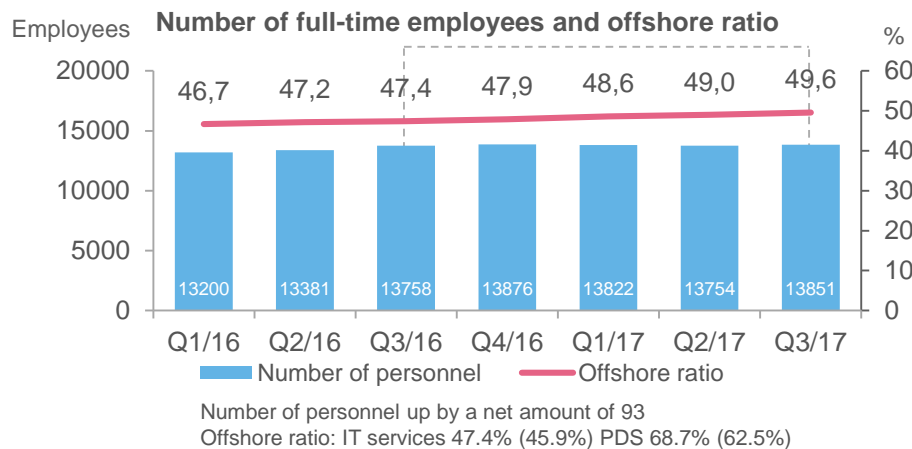
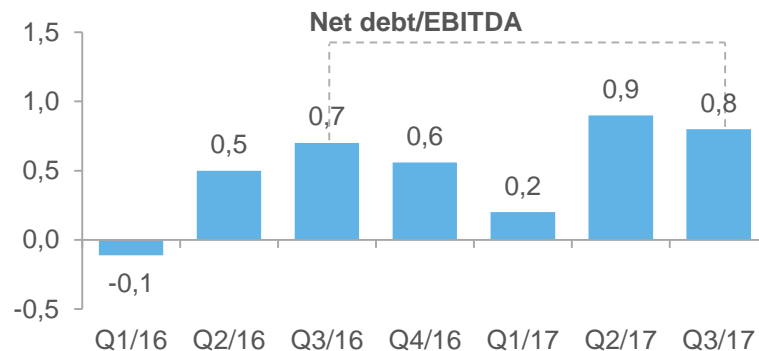
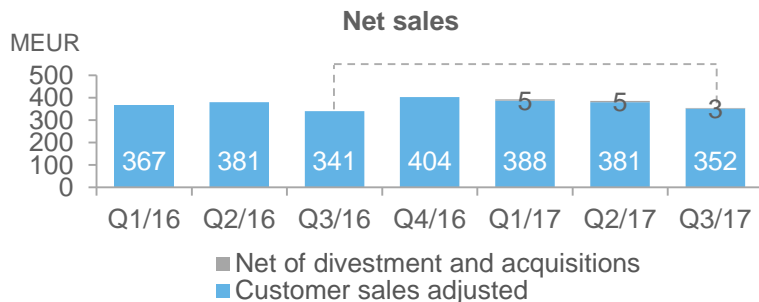
- **timing of some large contracts:** some large contracts postponed to Q4 – Q3/2016 included a large agreement worth over EUR 100 million

Book-to-bill  
0.8 (1.2)

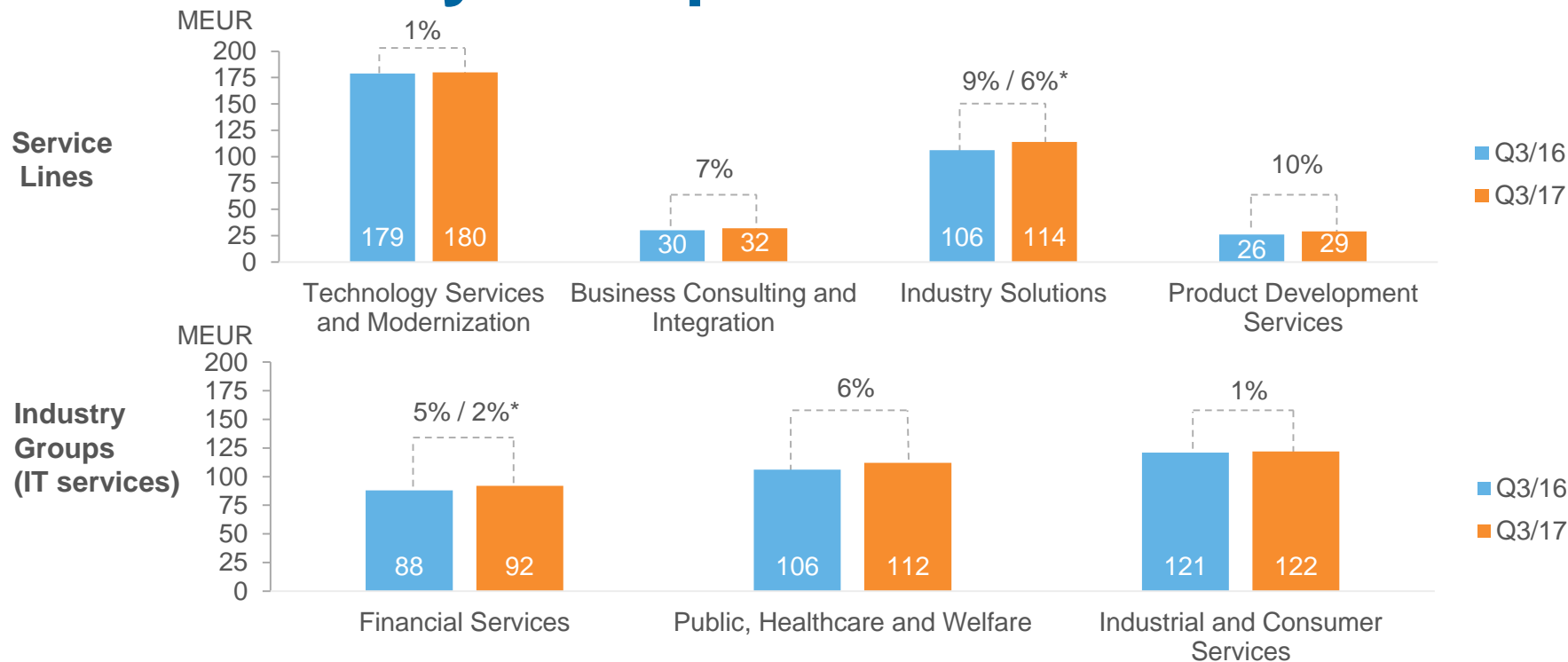
Book-to-bill  
rolling 12m  
1.0



# Quarterly development

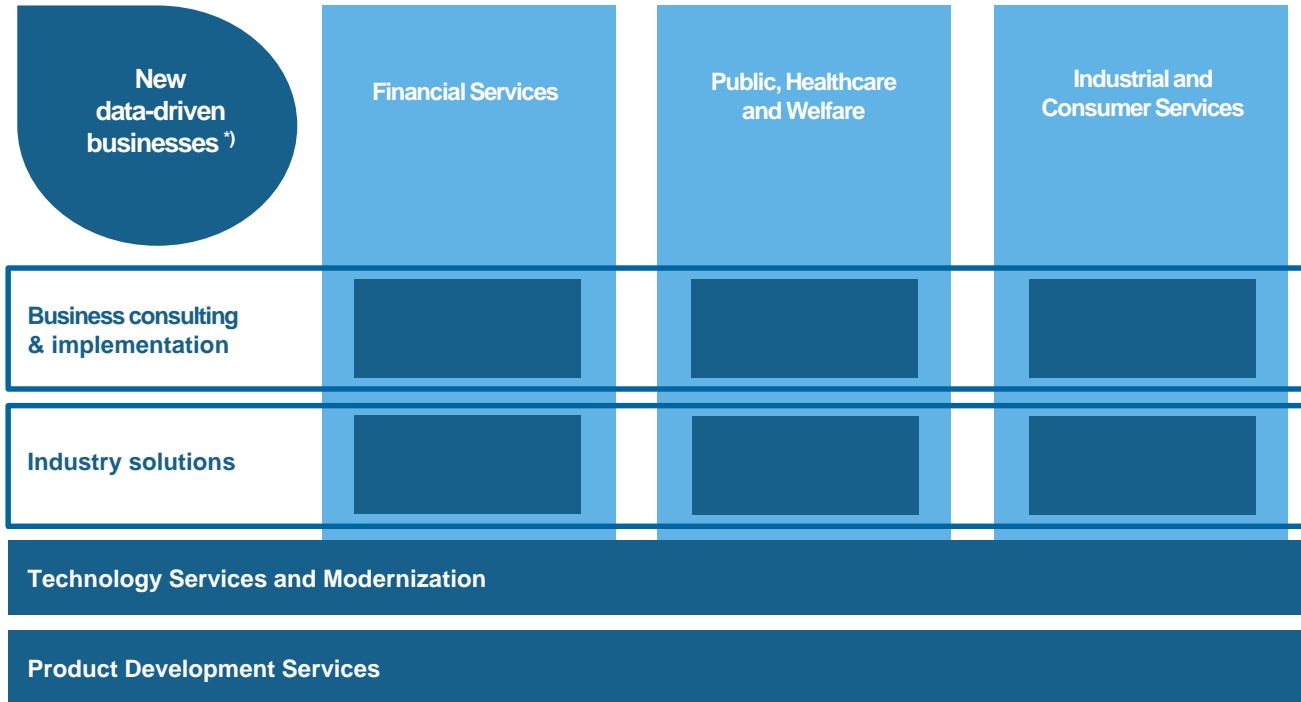


# Growth in local currencies by Service Line and Industry Group



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

# Service Lines



# Technology Services and Modernization

## Customer sales in Q3

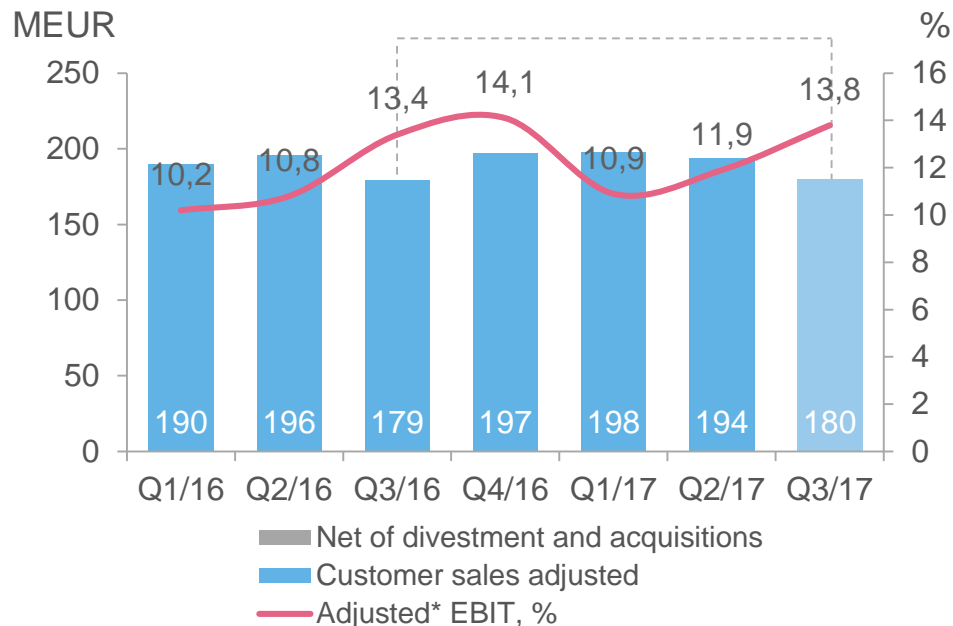
- EUR 180 (179) million, +1%, growth of 1% in local currencies

## EBIT

- EBIT EUR 25.0 (24.2) million, 13.9% (13.5)
- Adjusted\* EBIT EUR 24.9 (24.0) million, 13.8% (13.4)

## Q3 highlights

- Two-fold development in traditional services
  - Decline in infrastructure services 3%
  - Application services growth 6%
- Nine-month cloud sales up by 10%
- Security Services and GDPR supporting growth
- Service standardization and automation supported margin improvement and Q3 typically the strongest
- Q4 adjusted margin expected to stay at around H1/2017 level
  - Q4/2016 exceptionally strong and included other income related to periodic Government grant



# Business Consulting & Implementation

## Customer sales Q3

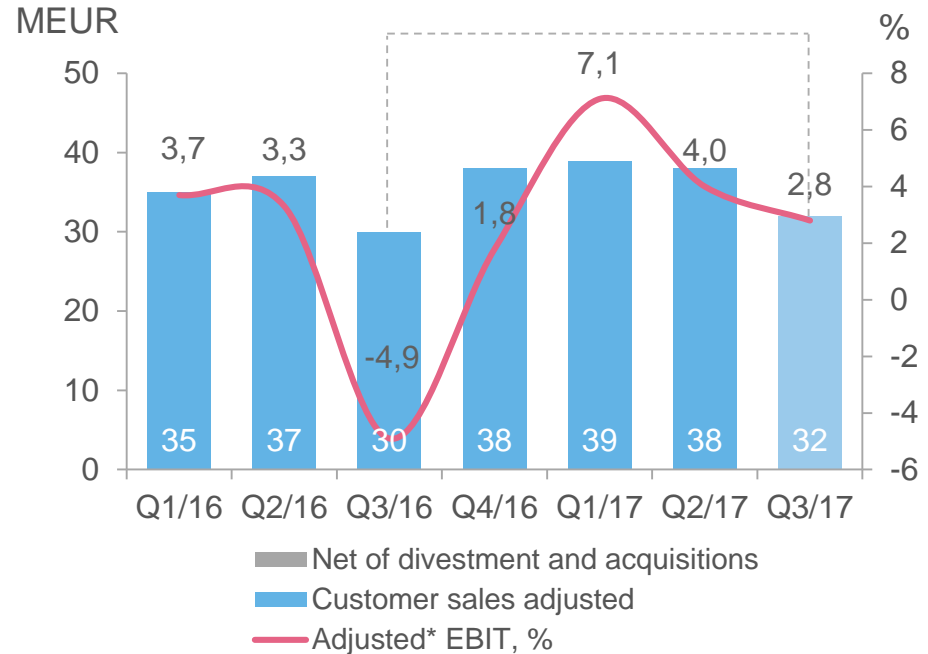
- EUR 32 (30) million, +7%, growth of 7% in local currencies

## EBIT

- EBIT EUR 0.7 (-0.2) million, 2.3% (-0.6)
- Adjusted\* EBIT EUR 0.9 (-1.5) million, 2.8% (-4.9)

## Q3 highlights

- Healthy growth in consulting services and Customer Experience Management across all industry groups
  - In CEM, nine-month sales up by 30%
- Improvement in adjusted operating profit
  - Billing rate improved
  - Offering development investments reduced
- Q4 adjusted margin expected to clearly improve from Q4/2016



# Industry Solutions

## Customer sales Q3

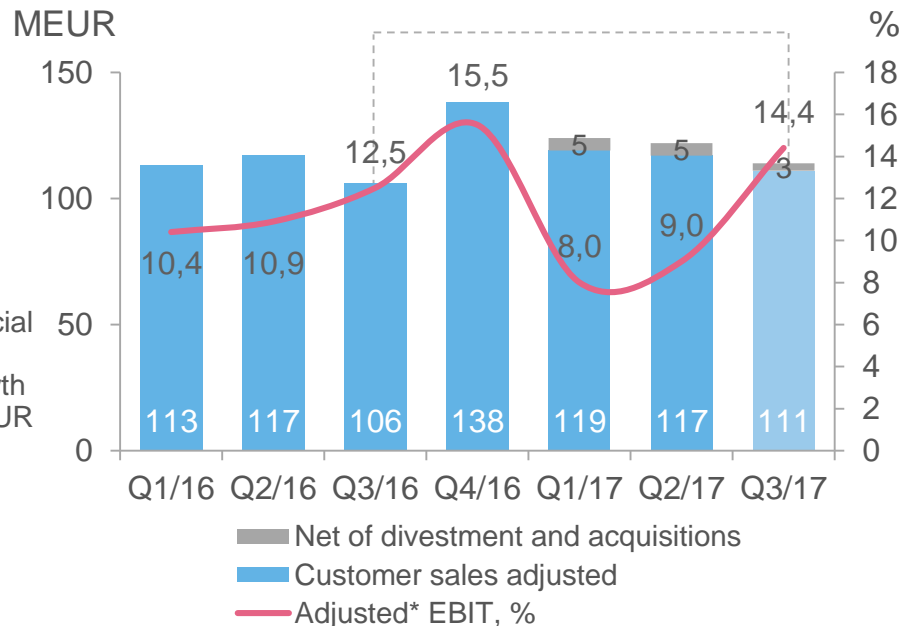
- EUR 114 (106) million, +8%, growth of 9% in local currencies
- Organic growth in local currencies 6%

## EBIT

- EBIT EUR 16.6 (13.0) million, 14.5% (12.3)
- Adjusted\* EBIT EUR 16.5 (13.2) million, 14.4% (12.5)

## Q3 highlights

- Good growth across Industry Groups, especially in Financial Services, Energy Utilities and Manufacturing
- Adjusted EBIT improved due to better efficiency and growth
- Offering development costs at Q3/2016 level, including EUR 1 million for Data-Driven Businesses
- Q4 sales anticipated to temporarily slightly decline
  - Q4/2016 included a large delivery related to Tieto's Intelligent Transportation Solution – an impact of around EUR 5 million on year-on-year comparison
  - High comparison number for Financial Services
- Q4 adjusted operating profit and margin anticipated to improve from Q4/2016



# Product Development Services

## Customer sales Q3

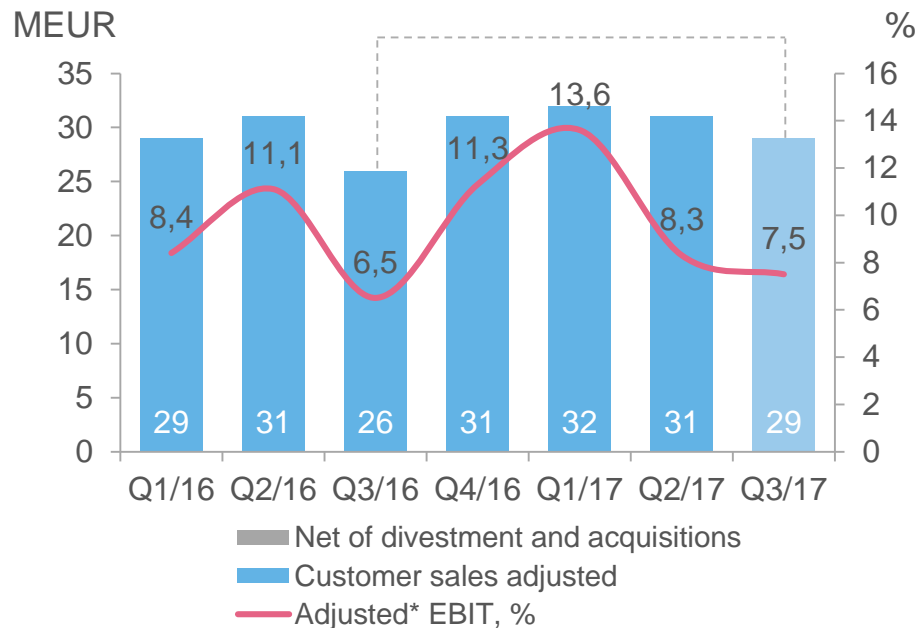
- EUR 29 (26) million, +10%, growth of 10% in local currencies

## EBIT

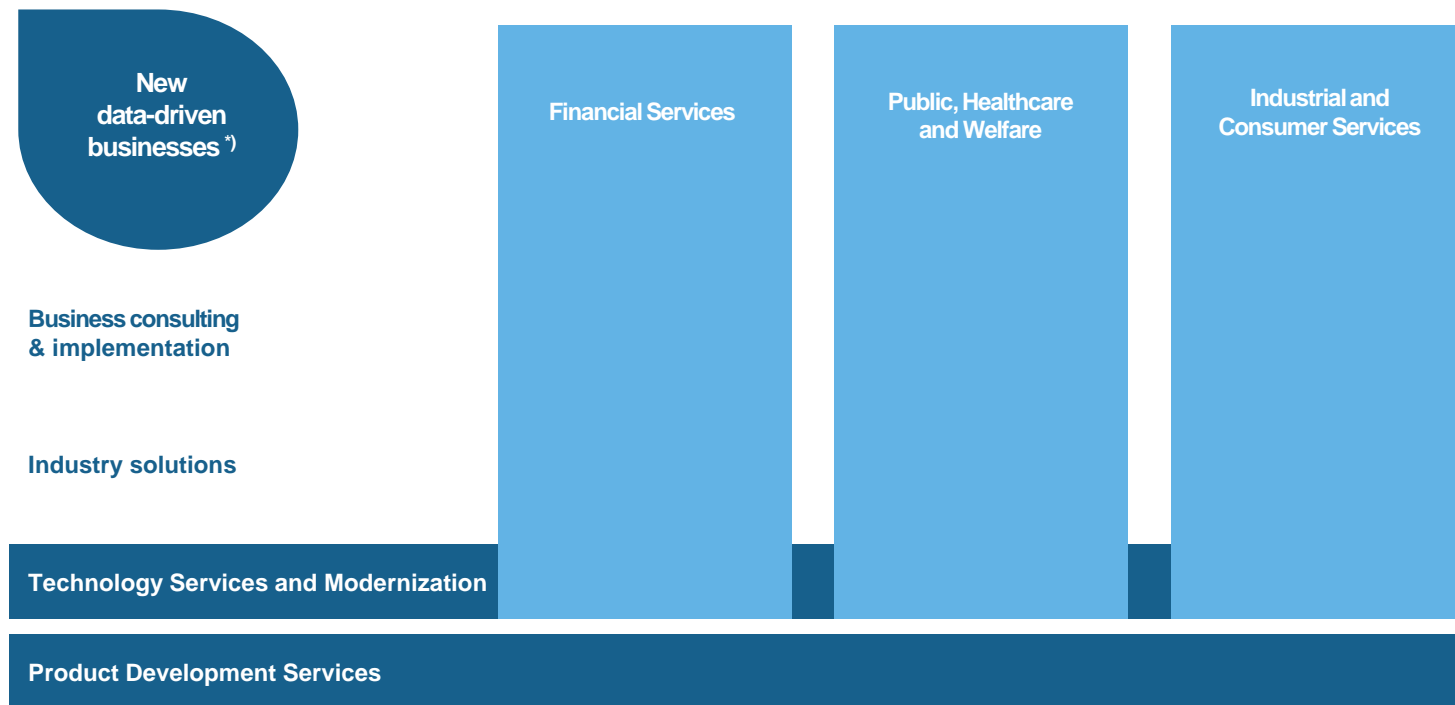
- EBIT EUR 2.2 (1.7) million, 7.6% (6.4)
- Adjusted\* EBIT EUR 2.2 (1.7) million, 7.5% (6.5)

## Q3 highlights

- Strong volume development with the largest key customers
- Good development especially in the Radio and Smart Traffic areas
  - Resources in offshore locations continued to increased to meet demand
- Operating margin up due to improved billing ratio driven by growth – while seasonally lower
- Q4 adjusted margin anticipated to be at normalized levels of close to 10%



# Industry Groups





# Financial Services

## Customer sales Q3

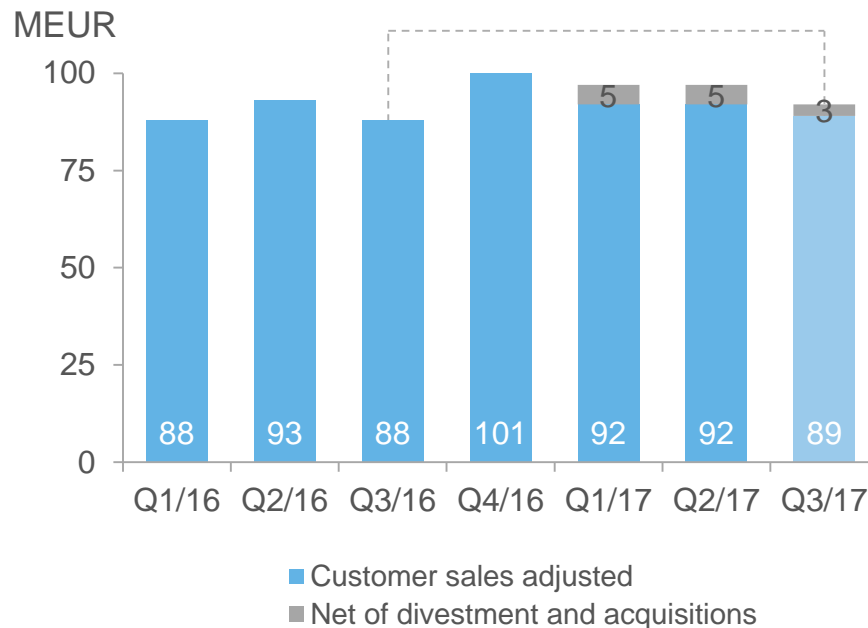
- EUR 92 (88) million, +5%, growth of 5% in local currencies
- Organic growth in local currencies 2%

## Sales split by service line

	Q3/2017	Q3/2016
TSM	57%	60%
BCI	5%	4%
IS	38%	36%

## Q3 highlights

- Acquisition of Emric and a significant agreement contributing to licence sales growth in Payments
- Investments to support transition to a new product family in payments solution continue
- New agreements include Arek
- Christian Segersven appointed to lead FS and a member of Leadership Team



# Public, Healthcare and Welfare

## Customer sales Q3

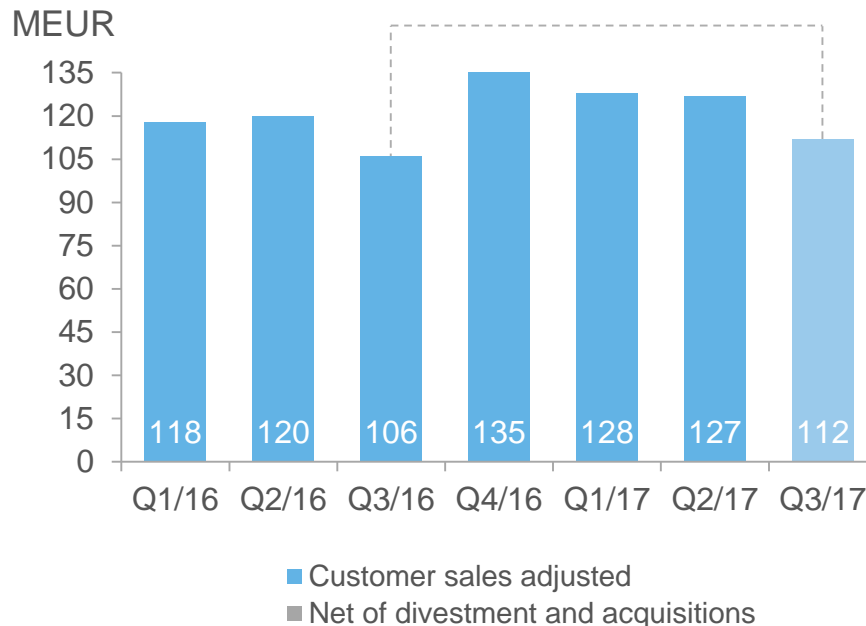
- EUR 112 (106) million, +6%, growth of 6% in local currencies

## Sales split by service line

	Q3/2017	Q3/2016
TSM	48%	47%
BCI	7%	8%
IS	45%	45%

## Q3 highlights

- Healthy growth driven by Industry Solutions
- Finland the strongest market
- Reforms in the social and welfare sector across the Nordic countries provide growth opportunities
  - Large Electronic Medical Record procurements ongoing in all Nordic countries
- Several agreements in the public sector based the Hansel frame agreement, including Ministry of Agriculture and Forestry
  - two postponed agreements based on appeal processes in Sweden



# Industrial and Consumer Services

## Customer sales Q3

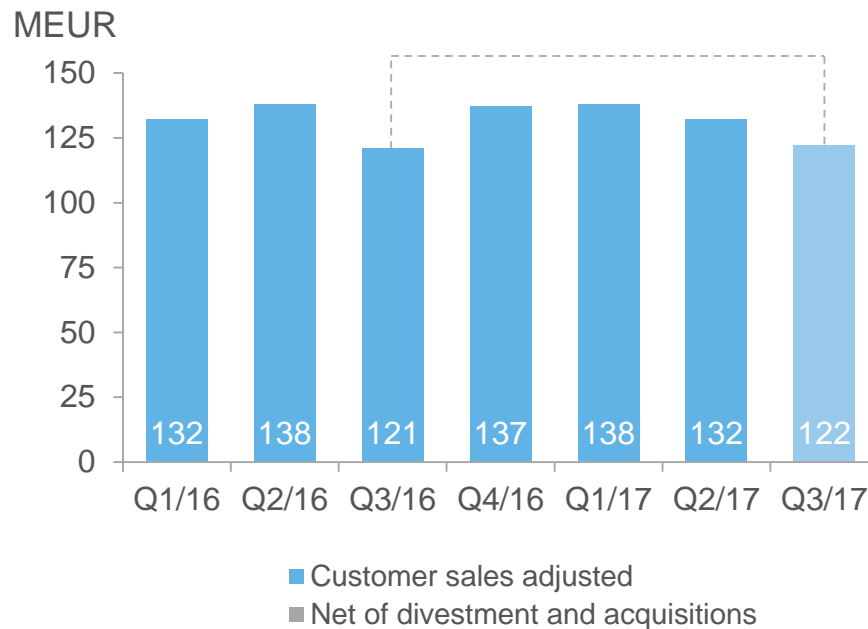
- EUR 122 (121) million, 0%, growth of 1% in local currencies

## Sales split by service line

	Q3/2017	Q3/2016
TSM	60%	62%
BCI	16%	15%
IS	24%	23%

## Q3 highlights

- New contracts signed, while positive impact offset by expiring contracts and price erosion
- Positive development in energy utilities – good demand in billing area continues due to regulatory changes and investments in digitalized customer services
- Strong demand in Industry Consulting and Customer Experience Management
- New agreements include Cargotec



# Outlook

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# Performance drivers in 2017

## IT services

### > 1–9/2017

**Growth 4%**, faster than the market

Efficiency programme affected cost base by around EUR 12 million

Investment levels in offering development **maintained at 2016 level**

Restructuring costs EUR 19 million

### > Q4 2017

Q4 dynamics – **Solid underlying trend**

**Revenue:** IS growth maybe temporarily negative

- EUR 5 million for large HSL project<sup>\*)</sup> Q4/2016
- Strong Financial Services in Q4/2016

**Profit headwind** of over EUR 5 million:

- Incentives anticipated to be above 2016
- Q4/2016 Government grant not expected

### > Full year

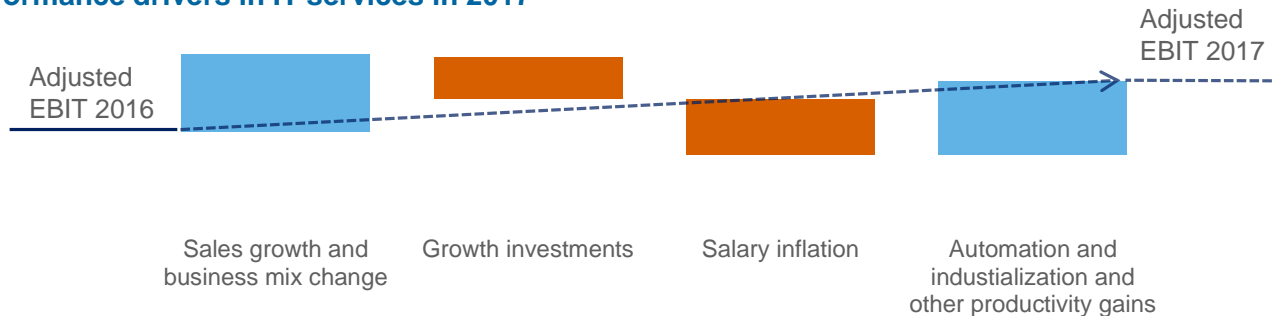
We aim to **grow** faster than the market, growth supported by acquisitions

**Efficiency programme:** impact of ~ EUR 20 million, annualized gross savings ~ EUR 40 million

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

Restructuring costs 1–2% of Group sales

## Performance drivers in IT services in 2017



<sup>\*)</sup> Intelligent Transport Solution

# Guidance for 2017 unchanged

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

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- Public offer to acquire Avega announced in October – to accelerate growth in Sweden

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