

# Q4 2017

## Solid performance continues in the fourth quarter – strong full year 2017

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6 February 2018

**tieto**

# Q4 2017 in brief

## Solid performance continues in the fourth quarter – strong full year 2017

- Strong cash flow and good profitability
- Order backlog provides healthy foundation for 2018
- Accelerated growth in Sweden – Avega acquisition completed
- Dividend proposal of EUR 1.40

# Tieto @2017!



<sup>\*)</sup> As proposed by the Board of Directors

# Favorable financial development continues

## Full-year net sales

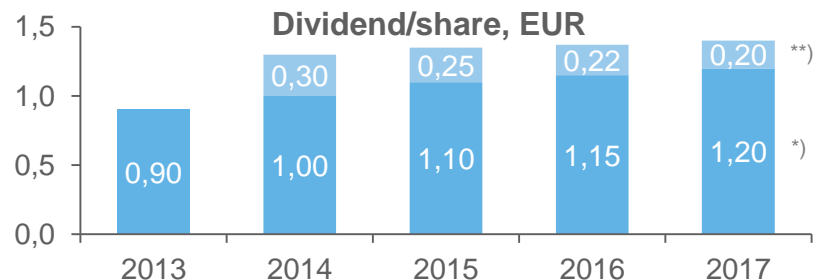
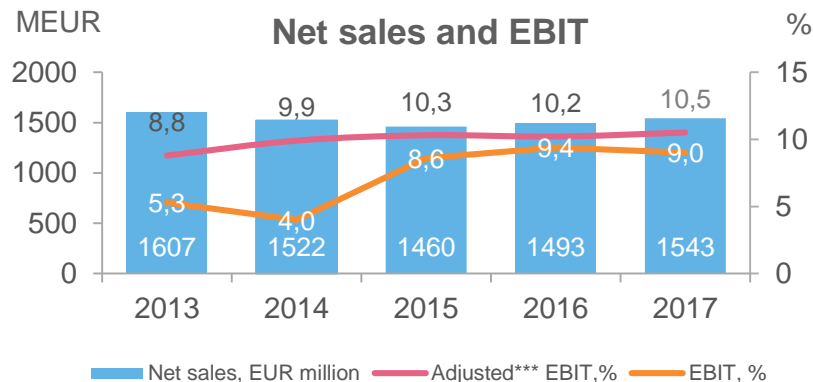
- EUR 1 543 (1 493) million, +3.4%, growth in local currency +4.1%, organic growth in local currencies +3.0%
- IT services growth 3.0%, growth in local currency +3.6%, organic growth in local currencies + 2.4%

## Full-year EBIT

- EBIT EUR 139.2 (140.8) million, 9.0% (9.4%)
- Adjusted\*\*\* EBIT EUR 161.5 (152.2) million, 10.5% (10.2%)
  - Restructuring costs ~1.3% of sales
  - Savings based on automation and industrialization EUR 20 million
  - Includes EUR 4.3 (3.3) million in allocated acquisition-based amortization

## Dividend proposal

- Proposed dividend EUR 1.40 per share
  - Base dividend EUR 1.20 (1.15)
  - Additional dividend EUR 0.20 (0.22)
- Dividend yield 5.4%



# Outlook in the Nordic IT market remains healthy

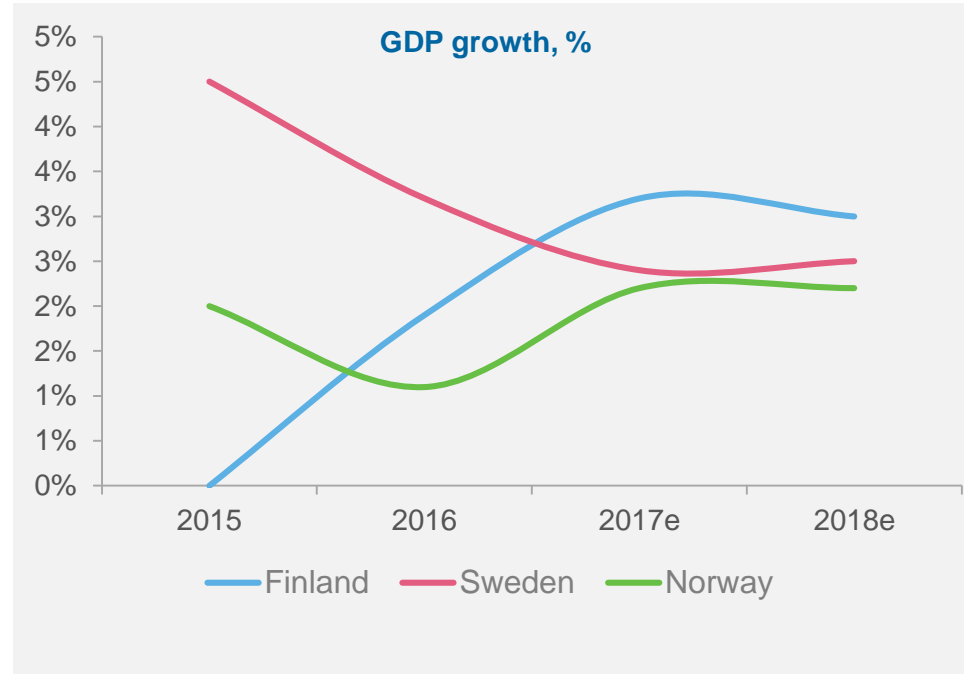
## Growth in the Nordic economies picked up in 2017

### IT market affected by economic outlook

- Upcycle in Finland
- Swedish economy continues to be strong

### Tieto expects the Nordic IT services market to grow by ~2% in 2018

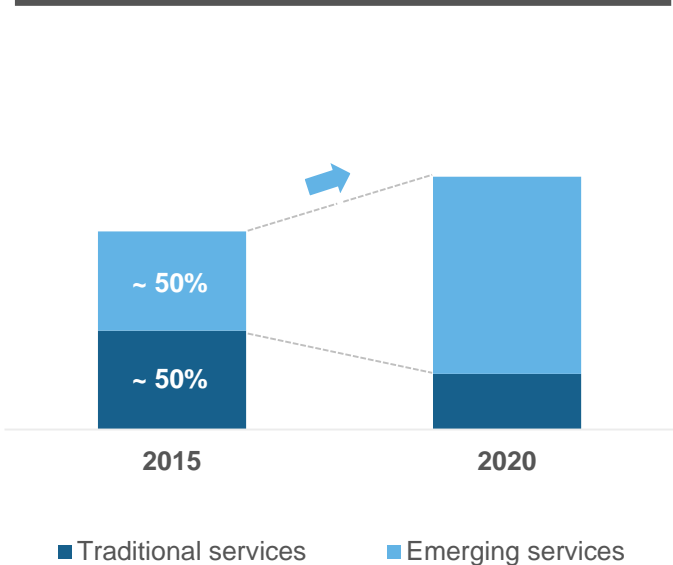
- Market change driven by investments in digitalization and efficiency improvement
- Higher adoption of cloud and healthy demand for consulting
- Good interest in adoption Artificial Intelligence
- EU GDPR taking effect in May 2018: opportunities in Application Services and Security



# Business mix change driven by growth businesses

Application Services' growth 4% in 2017 while decline in traditional infrastructure 5%

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

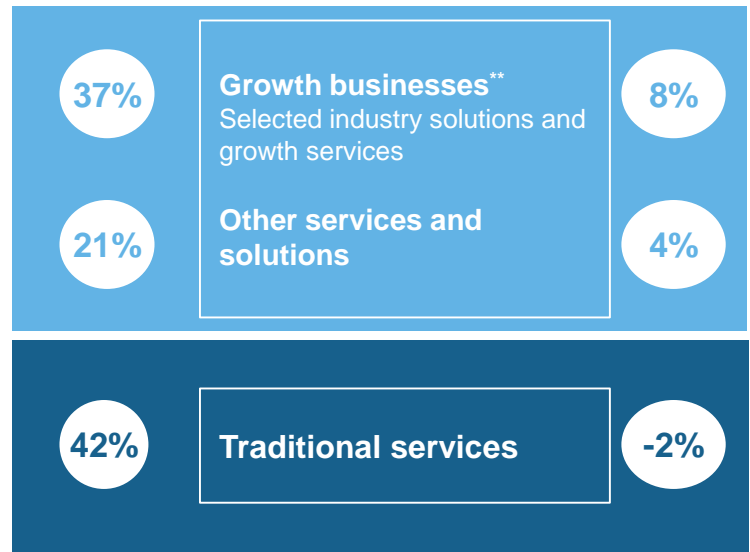


SALES GROWTH  
2016–2020 (CAGR)

UP BY  
10–20%

DOWN BY  
5–10%

SHARE OF IT SERVICES  
2017

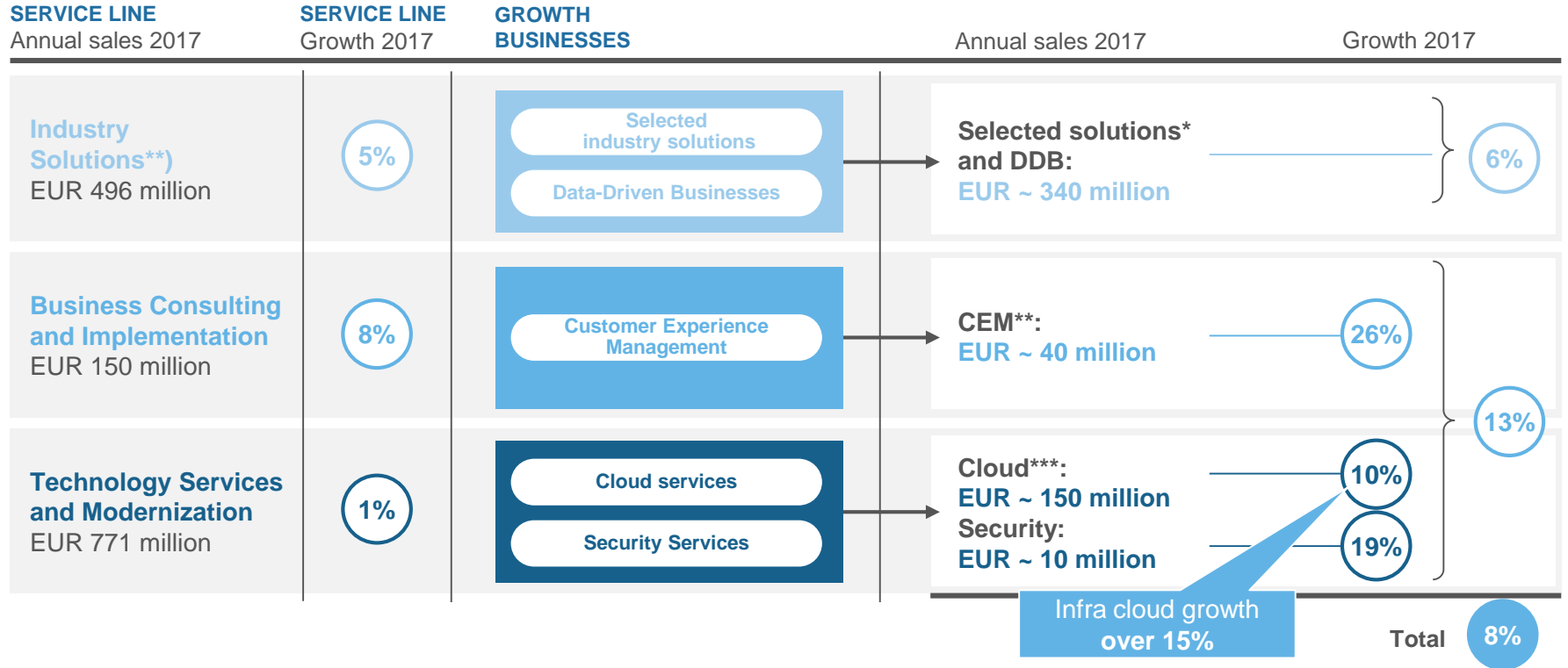


GROWTH  
2017

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

IT services annual sales EUR 1 416 million in 2017

# Selected growth businesses up by 8%



\* 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 1–12/2016

\*\*\* Includes both infrastructure cloud and selected services such as cloud-enabled consulting and shared integration services. Infrastructure cloud (Infrastructure as a Service and Platform as a Service) sales in FY up by over 15%

# Q4 2017 key figures

## Net sales

- EUR 410 (404) million, +1.5%, growth in local currencies +2.4%
  - Acquisitions added EUR 4 million
  - Currency impact EUR -4 million
- In IT services, sales growth 0.8%, or 1.7% in local currencies
  - Organic growth in local currencies 0.6%

## EBIT

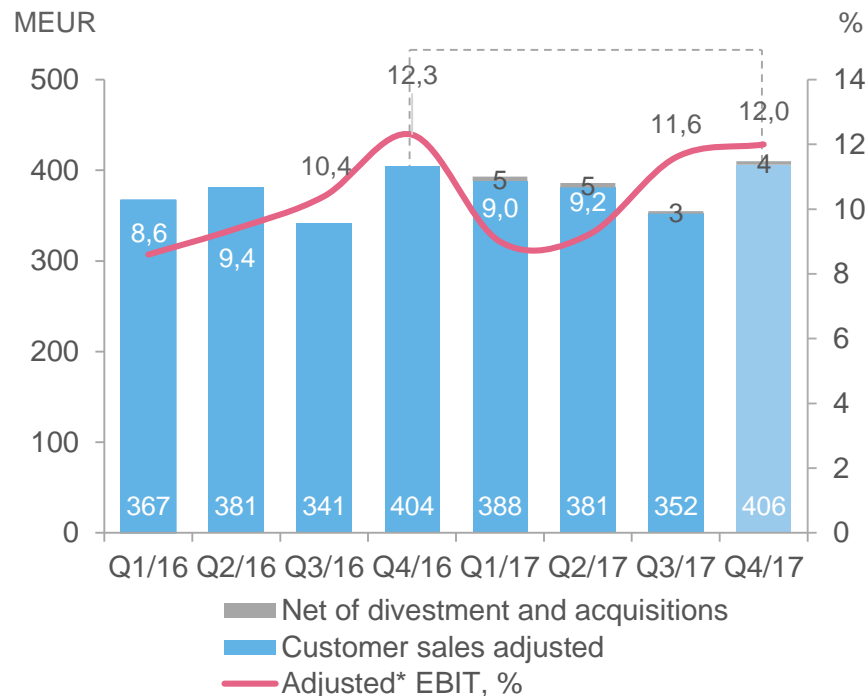
- EBIT EUR 48.0 (45.1) million, 11.7% (11.2%)
- Adjusted\* EBIT EUR 49.3 (49.5) million, 12.0% (12.3%)

## Order backlog

- Order backlog EUR 1 860 (1 847) million
- Contract Value EUR 543 (613) million
- Book-to-bill 1.3 (1.5)

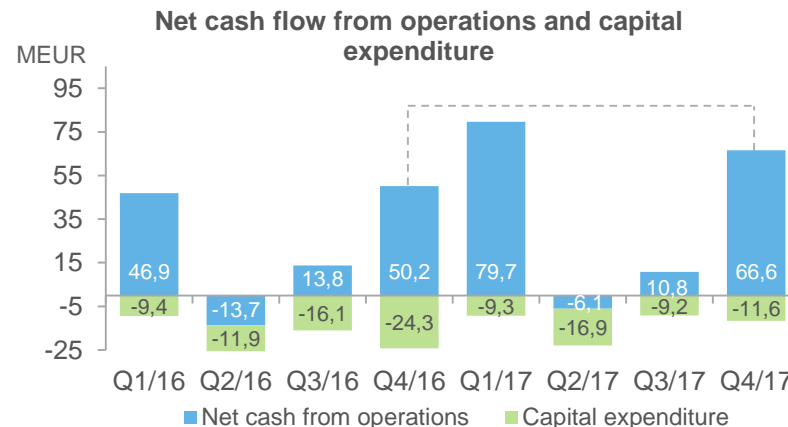
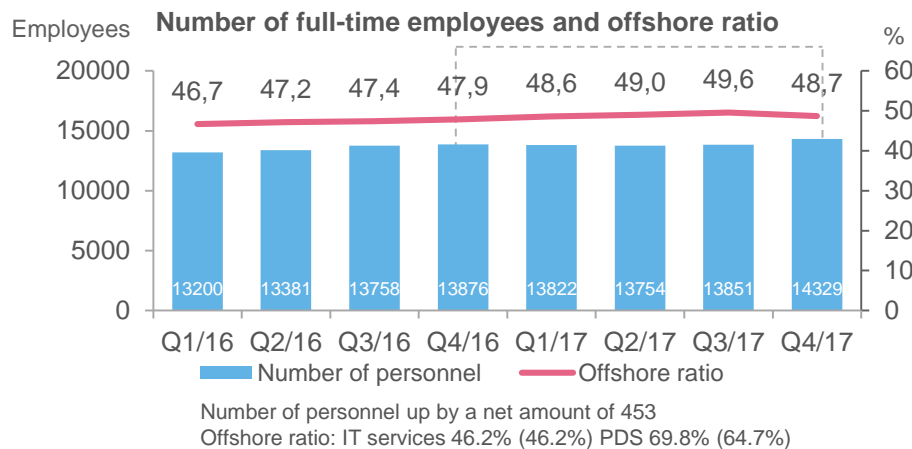
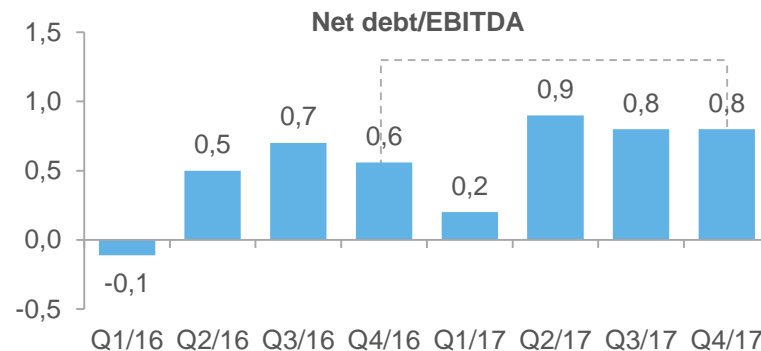
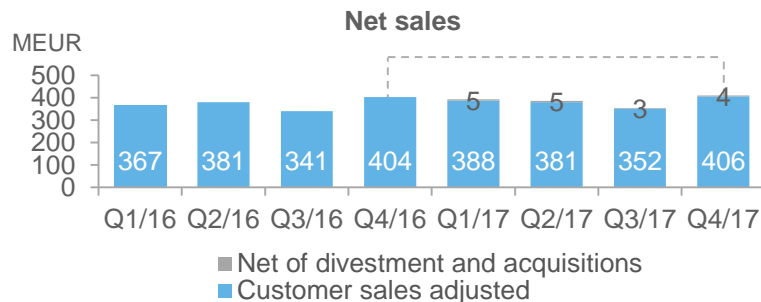
## Earnings per share

- EPS EUR 0.50 (0.46)
- EPS EUR 0.51 (0.51), adjusted\*

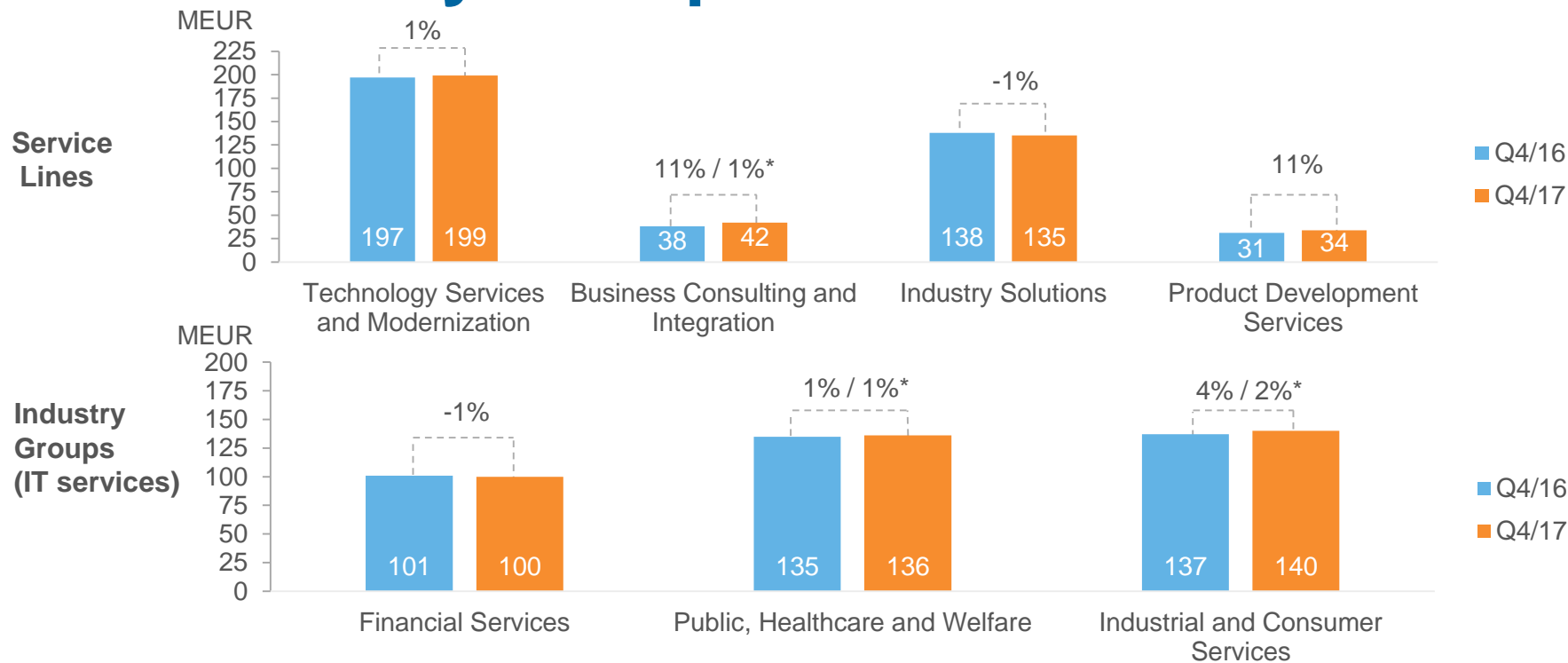




# Quarterly development

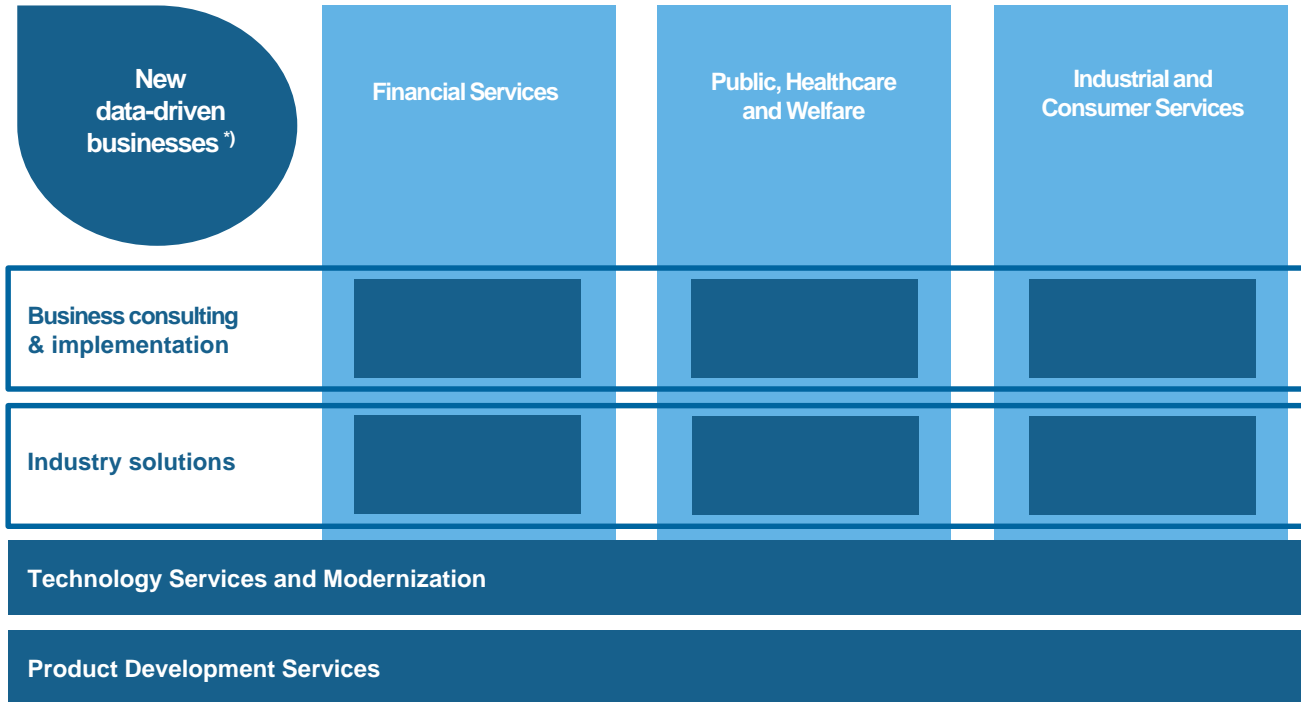


# Growth in local currencies by Service Line and Industry Group



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

# Service Lines



# Technology Services and Modernization

## Customer sales in Q4

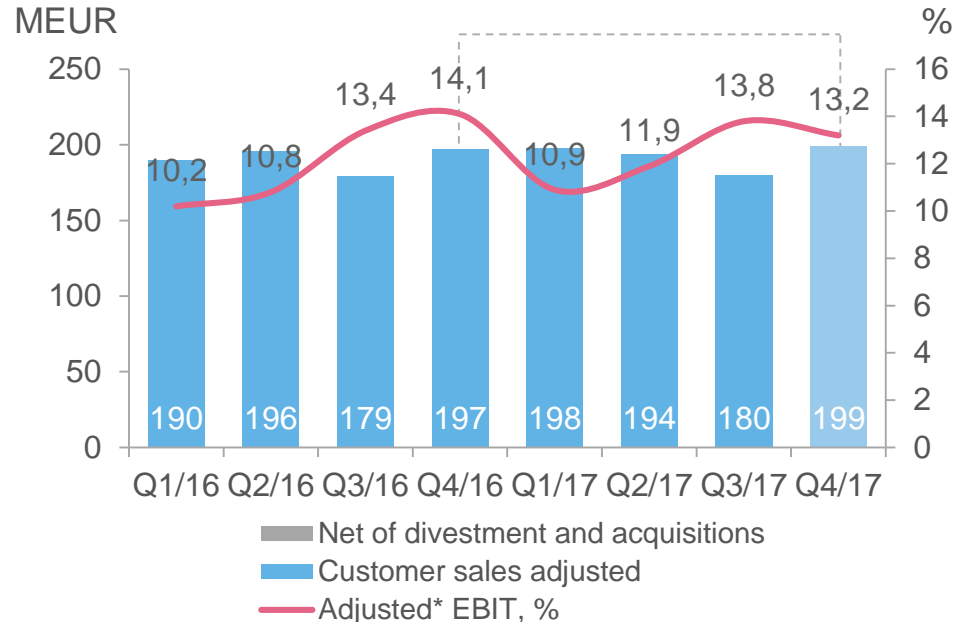
- EUR 199 (197) million, +1%, growth of 1% in local currencies

## EBIT

- EBIT EUR 24.7 (26.2) million, 12.4% (13.3)
- Adjusted\* EBIT EUR 26.3 (27.7) million, 13.2% (14.1)

## Q4 highlights

- Two-fold development in traditional services
  - Application services growth 4%
  - Decline in traditional infrastructure services 6%
- Full-year cloud sales up by 10%, infrastructure cloud by over 15% – Security Services up by 19%
- EBIT margin supported by
  - Service standardization and automation
  - Strong add-on sales
- Q1 adjusted margin expected to be below Q1/2017
  - Number of working days affecting application services
  - Q1 seasonally lower



# Business Consulting & Implementation

## Customer sales Q4

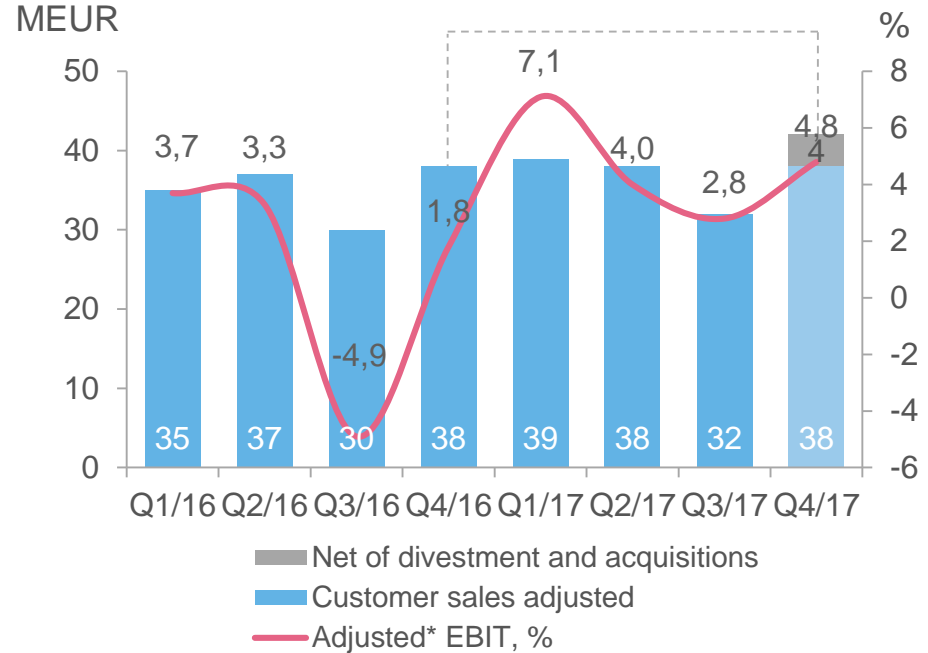
- EUR 42 (38) million, +10%, growth of 11% in local currencies
- Organic growth in local currencies 1%

## EBIT

- EBIT EUR 2.4 (2.0) million, 5.7% (5.3)
- Adjusted\* EBIT EUR 2.0 (0.7) million, 4.8% (1.8)

## Q4 highlights

- Growth supported by the acquisition of Avega
- Healthy growth in Customer Experience Management across industry groups
  - In CEM, full-year sales up by 26%
- Enterprise Applications negatively affected by few large ending contracts
- Improvement in adjusted operating profit
  - Billing rate improved
  - Offering development investments reduced
- Q1 growth and profitability affected by the number of working days



# Industry Solutions

## Customer sales Q4

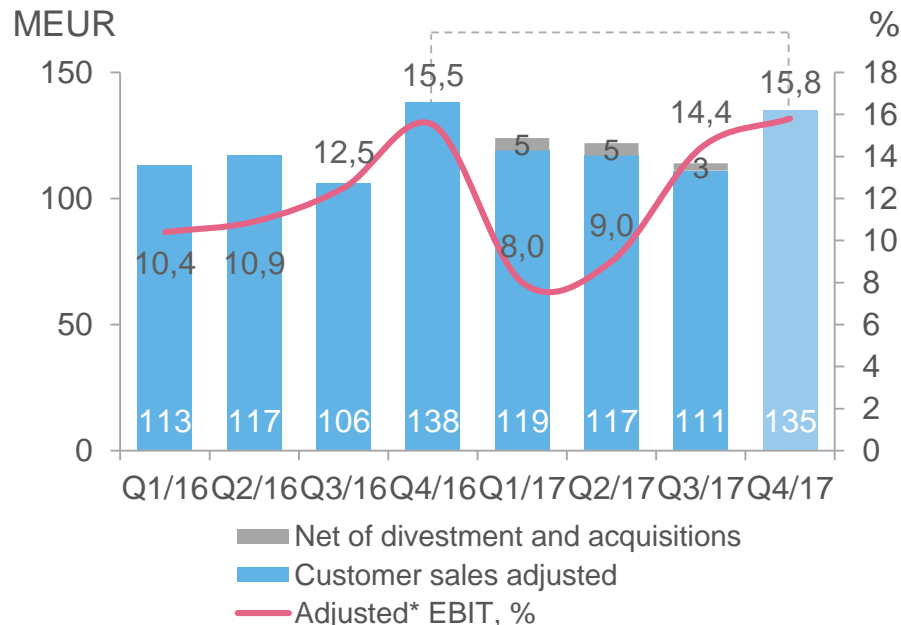
- EUR 135 (138) million, -2%, growth of -1% in local currencies
- Organic growth in local currencies -1%

## EBIT

- EBIT EUR 23.2 (19.7) million, 17.2% (14.3)
- Adjusted\* EBIT EUR 21.3 (21.5) million, 15.8% (15.5)

## Q4 highlights

- Sales affected by
  - Large delivery related to Tieto's Intelligent Transportation Solution in Q4/2016 affecting comparison number
  - High comparison number for sales in FS
- Lifecare and SmartUtility remained strong with growth of 7% and over 20% in Q4
- Investments specifically for Lifecare, Payments, SmartUtility and Public 360° to drive future growth
- Adjusted EBIT affected by sales development
- 2018 outlook supported by strong order backlog
  - Q1 growth is expected to remain at a relatively low level, partly due to negative currency effects
  - Adjusted EBIT margin anticipated to remain at Q1/2017 level



# Product Development Services

## Customer sales Q4

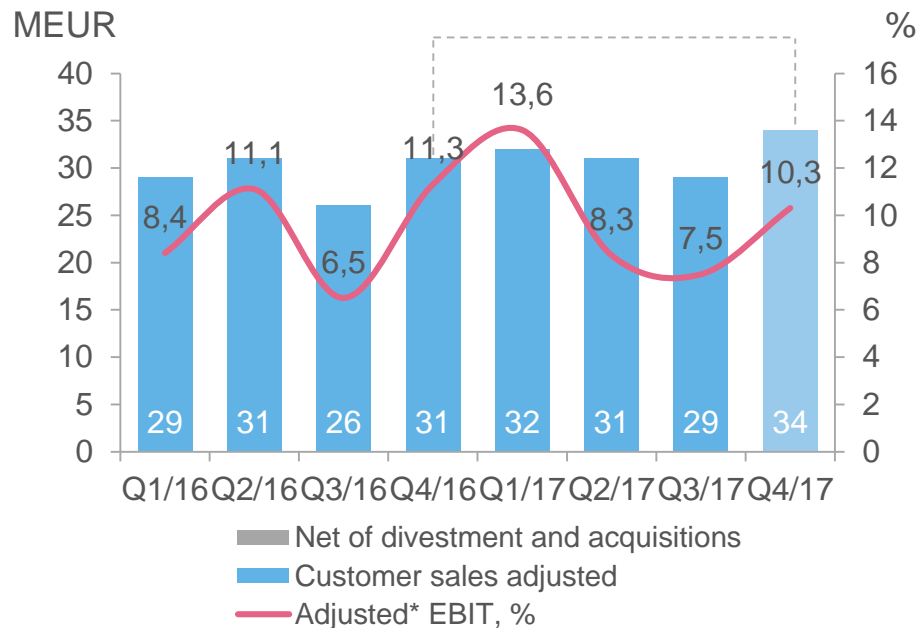
- EUR 34 (31) million, +10%, growth of 11% in local currencies

## EBIT

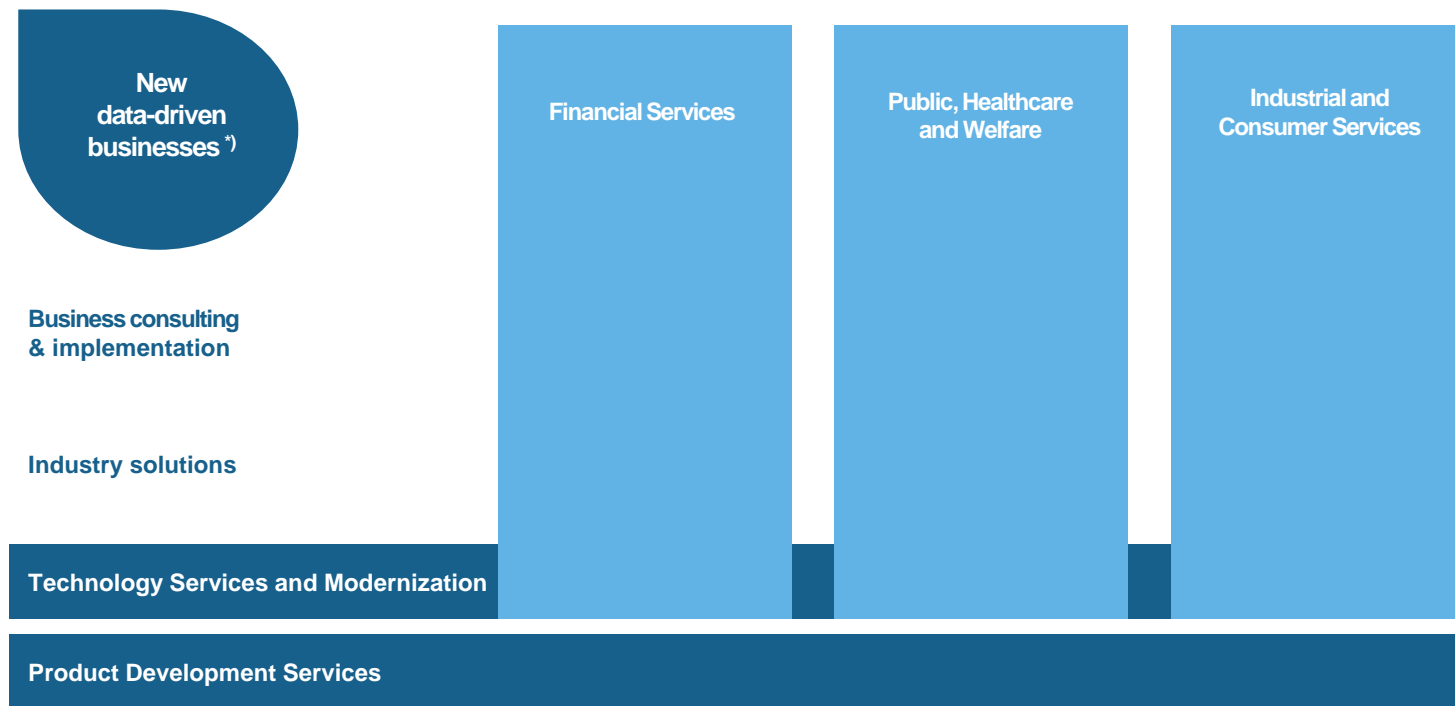
- EBIT EUR 3.5 (3.3) million, 10.3% (10.6)
- Adjusted\* EBIT EUR 3.5 (3.5) million, 10.3% (11.3)

## Q4 highlights

- Strong volume development with key customer
- New partnership with HERE and further opportunities in the automotive segment
- Good development especially in the Radio and Smart Traffic areas
- Strong EBIT margin – excluding the negative working day impact remained at the level of Q4/2016.
- Q1 adjusted EBIT margin anticipated to stay close to 10%



# Industry Groups





# Financial Services

## Customer sales Q4

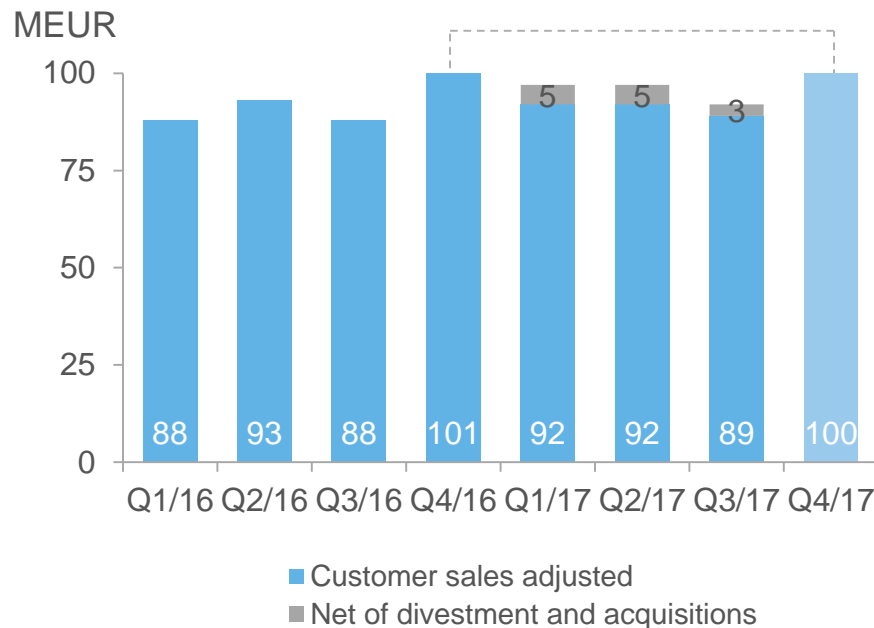
- EUR 100 (101) million, -1%, growth of -1% in local currencies
- Organic growth in local currencies -1%

## Sales split by service line

	Q4/2017	Q4/2016
TSM	57%	56%
BCI	5%	5%
IS	38%	39%

## Q4 highlights

- Positive development in Application Services
- Decline in Industry Solutions, affected by high comparison number
- Investments, specifically in the Transaction Banking area, to drive future growth
- New agreement with Elo, strategic partnership for developing and managing Swish



# Public, Healthcare and Welfare

## Customer sales Q4

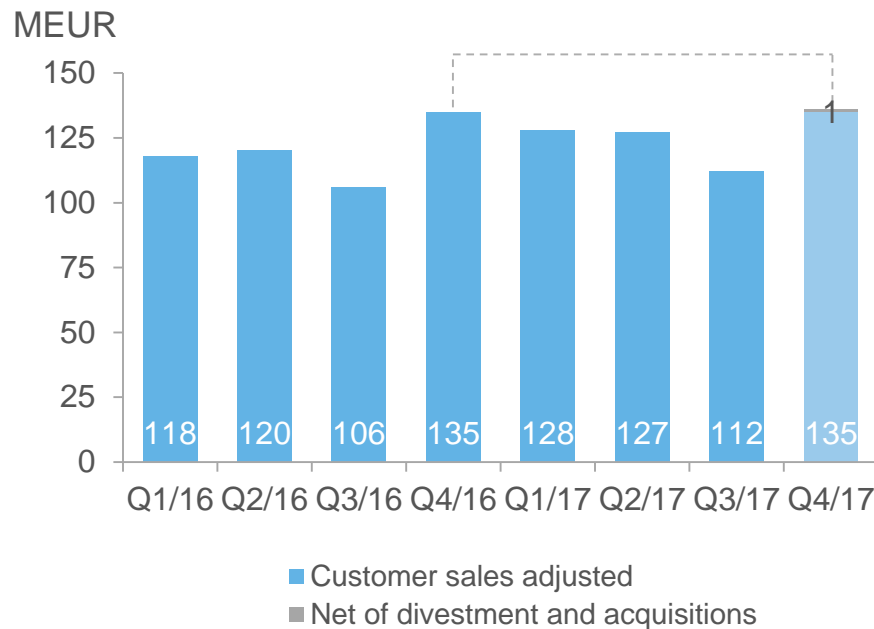
- EUR 135 (135) million, +1%, growth of 1% in local currencies
- Organic growth in local currencies 1%

## Sales split by service line

	Q4/2017	Q4/2016
TSM	46%	44%
BCI	8%	8%
IS	46%	48%

## Q4 highlights

- Healthy development continued in Finland and Sweden
- High comparison number due to a large delivery in Q4/2016 related to Intelligent Transportation Solution
- 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, e.g. City of Stockholm, Tampere and municipalities in the region, Haninge municipality



# Industrial and Consumer Services

## Customer sales Q4

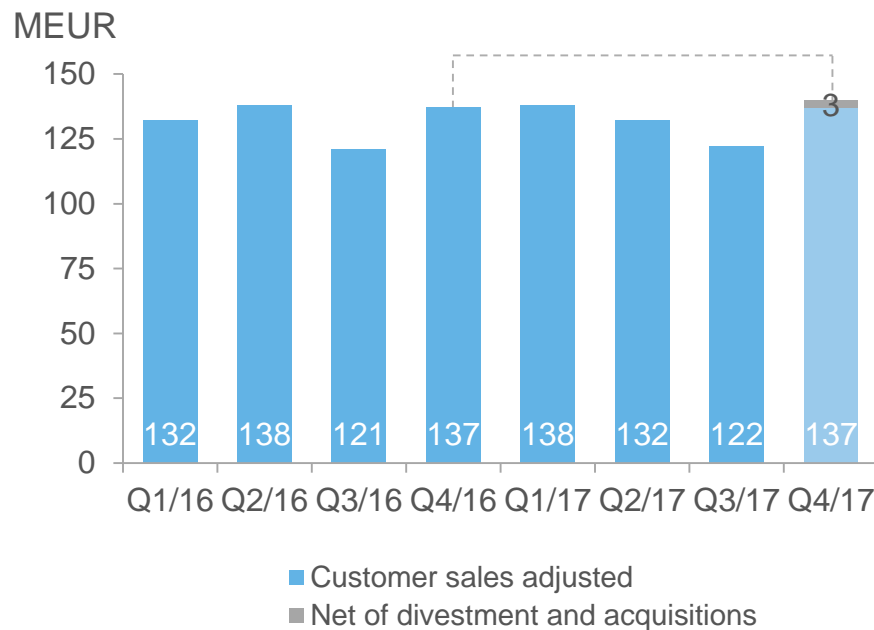
- EUR 140 (137) million, 3%, growth of 4% in local currencies
- Organic growth in local currencies 2%

## Sales split by service line

	Q4/2017	Q4/2016
TSM	57%	59%
BCI	18%	17%
IS	25%	24%

## Q4 highlights

- Growth supported by the acquisition of Avega and good development in Customer Experience Management
- Good development in strong Swedish markets
- In energy utilities, good demand in the billing area continued due to regulatory changes and investments in digitalized customer services
- New agreements include Göteborg Energi, Martela



# Way forward

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# Strategy execution progressing towards 2020 strategic ambition

Tieto 2020 management ambition (strategy 2016–2020)			
<b>40% of sw and solutions</b> <span style="color: orange;">To be accelerated</span> <ul style="list-style-type: none"> <li>Accelerated investments, incl. acquisitions</li> <li>New product launches in 2018</li> </ul>	<b>100M+ from data-driven businesses</b> <span style="color: orange;">To be accelerated</span> <ul style="list-style-type: none"> <li>Promising innovation pipeline</li> <li>Drive scale</li> </ul>	<b>80% shared managed services</b> <span style="color: green;">On schedule</span> <ul style="list-style-type: none"> <li>Consistent growth of industrialized Application Services</li> <li>Accelerate OneCloud</li> </ul>	<b>1–2% increase in Nordic market share</b> <span style="color: orange;">To be accelerated</span> <ul style="list-style-type: none"> <li>Consistent growth and M&amp;A</li> <li>Aim to grow faster than the market</li> </ul>
<b>~5% of revenues as offering investments</b> <span style="color: green;">On schedule</span> <ul style="list-style-type: none"> <li>Investments increased to 5% of sales</li> <li>Investment level maintained</li> </ul>	<b>&gt;5% IT services revenue growth p.a.*</b> <span style="color: green;">On schedule</span> <ul style="list-style-type: none"> <li>Consistent growth of ~4%, above market</li> <li>Aim to grow faster than the market</li> </ul>	<b>10–12% SG&amp;A of revenue</b> <span style="color: green;">On schedule</span> <ul style="list-style-type: none"> <li>Down from ~15% to a range of 13–14%</li> <li>Automation driving further improvement</li> </ul>	<b>10% margin**</b> <span style="color: green;">On schedule</span> <ul style="list-style-type: none"> <li>Adj EBIT 10.5% (10.2)</li> <li>Restructuring down to less than 2% of sales</li> <li>Productivity and scale improvement continues</li> </ul>



\*Formal guidance: IT services revenue growth above the market (CAGR)

\*\*Formal guidance: 10% reported operating margin (EBIT)

Customer's first choice!

Above industry average TSR

Great place for innovation and growth

# Performance drivers

## > 2018 – IT services

We aim to **grow** faster than the market, growth supported by acquisitions and software product launches

**Efficiency programme:** impact of around 20 mEUR, drive for productivity continues

**Offering development** costs anticipated to remain at the 2017 level at around 5% of Group sales

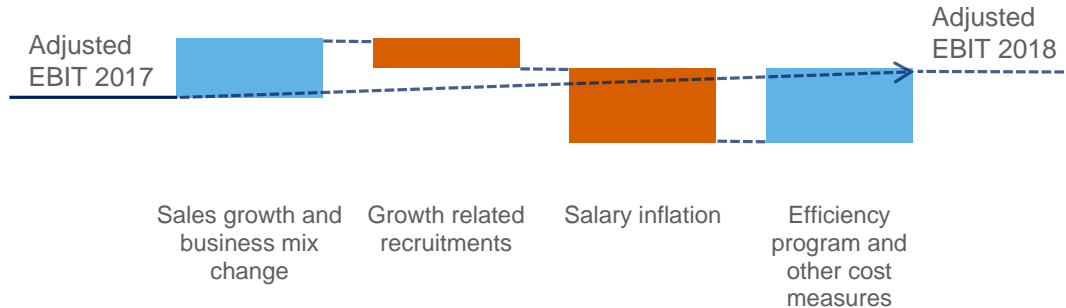
**Restructuring** costs 1–2% of Group sales

## Quarterly dynamics

**Q1 revenue and profitability** affected by

- a lower number of working days
- currency effects negative based on year-end exchange rates

## Performance drivers in IT services in 2018



# Guidance for 2018

Tieto expects its full-year adjusted<sup>\*)</sup> operating profit (EBIT) to increase from the previous year's level (EUR 161.5 million<sup>\*\*)</sup> in 2017).

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

<sup>\*\*)</sup> Subject to revision according to IFRS 15 restatement

# Q4 2017 in brief

## Solid performance continues in the fourth quarter – strong full year 2017

- Strong cash flow and good profitability
- Order backlog provides healthy foundation for 2018
- Accelerated growth in Sweden – Avega acquisition completed
- Dividend proposal of EUR 1.40





**50** years

**tieto**

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