

# Tieto Q2/2015

Healthy growth in IT services –  
competitiveness strengthens further

22 July 2015

**Kimmo Alkio – President and CEO**  
**Lasse Heinonen – CFO**  
**Tanja Lounevirta – Head of IR**

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**

# Q2 2015 in brief

## Healthy growth in IT services – competitiveness strengthens further

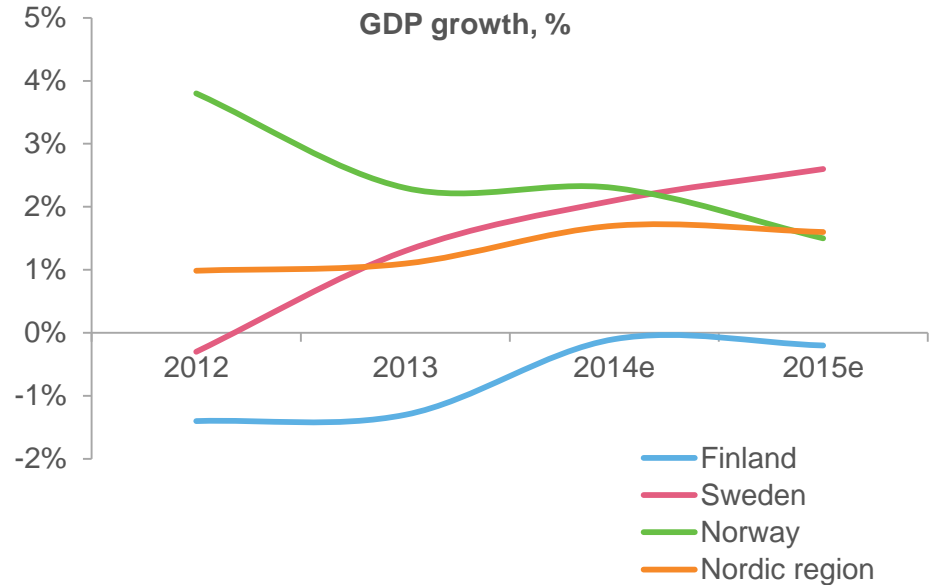
- IT services growth close to 3% – profit as expected
- Managed Services automation programme on track
- Acquisition of Software Innovation strengthens Tieto's competitiveness
- Solid performance in Product Development Services

# Market conditions unchanged – expected Nordic IT services market growth 2%

## IT market affected by economic outlook

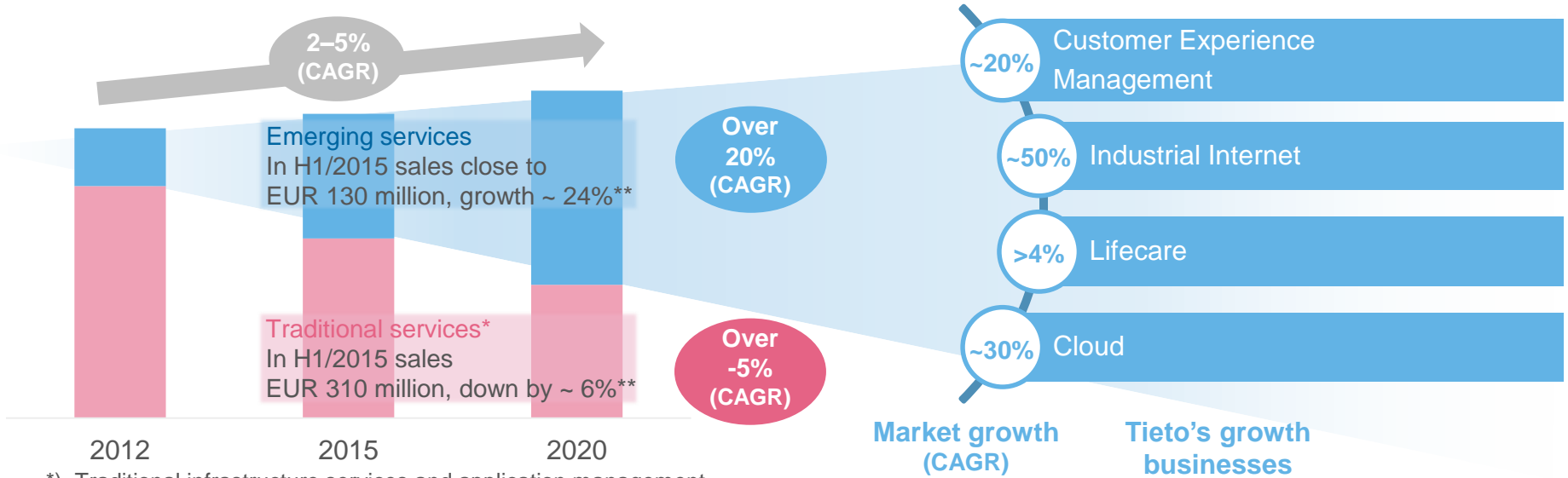
- Tieto expects the Nordic IT services market to grow by around 2% in 2015
- **Positive outlook in the Swedish economy**
- **Finnish economy remains sluggish**
- IT services market strongest in Sweden
- Long-term growth (CAGR 2013–2018) in cloud services around 30% – market size still small

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, updates as of June 2015

# Emerging services continue to drive growth



\*) Traditional infrastructure services and application management

\*\*\*) Growth in local currencies

## IT become 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



- Investments in offerings and recruitment of new talent
- Tieto and Varma launched the first mobile application in the pension sector
- Tieto and Metsä Group launched the first eCommerce solution for forest owners
- Annual sales 2014: over EUR 20 million
- H1 growth in line with the market

## Industrial Internet



- Full-service IT partner for HSB Living Lab, research project to design intelligent solutions for future living
- TeliaSonera together with Tieto launched the M2M in a Box service in Sweden
- In 2015, investments anticipated to amount to EUR 3 million, cash flow negative

## Lifecare



- Good growth continued in Q2
- Strong development in Sweden and Norway
- New application launches continue in 2015
- Annual sales 2014: EUR 160 million
- H1 growth higher than the market

## Cloud services



- Cloud offerings currently represent around 15% of Managed Services' sales
- Several transition projects ongoing
- Annual sales 2014: around EUR 50 million
- H1 growth: 108%

# Financial development



# Q2 2015 key figures

## Net sales

- EUR 364 (386) million, -5.8%, organic growth in local currency -3.3%
  - Currency EUR -5 million
- In IT services, organic growth in local currencies 2.7%

## EBIT

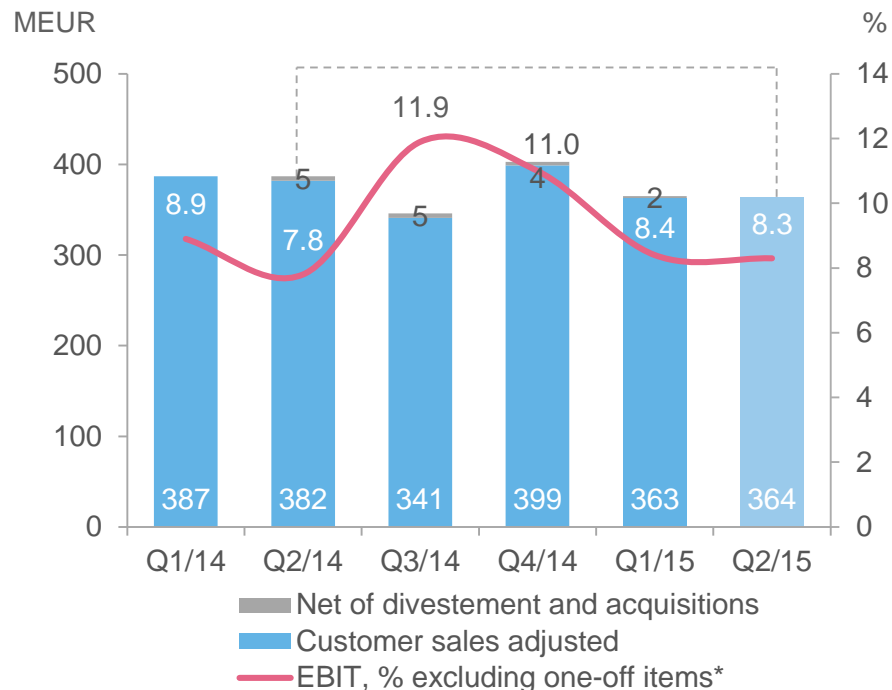
- EBIT EUR 23.1 (21.5) million, 6.3% (5.6%)
  - EUR 7.0 million restructuring costs
  - Currency impact EUR 2 million
- EBIT excluding one-off items\* EUR 30.1 (30.0) million, 8.3% (7.8%)

## Order backlog

- Order backlog EUR 1 737 (1 550) million
- Total Contract Value EUR 340 (398) million
- Book-to-bill 0.94 (1.03)

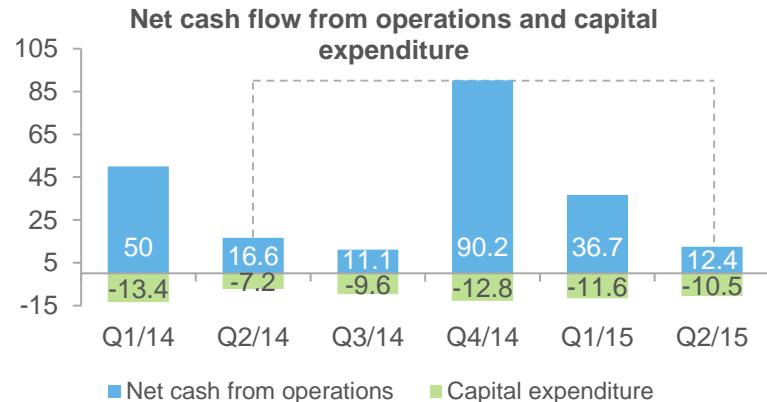
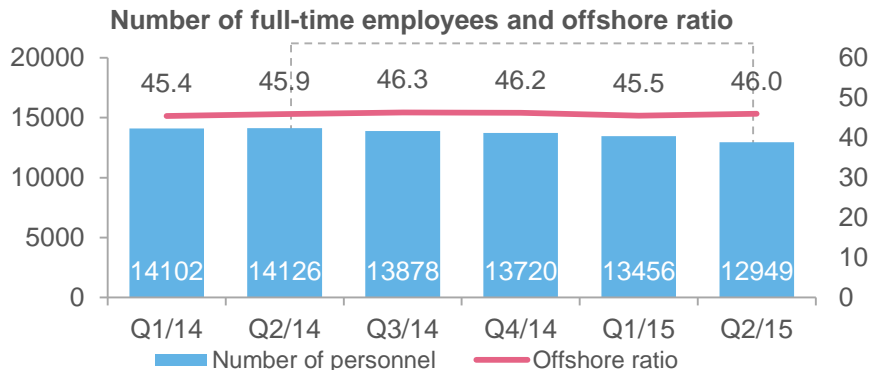
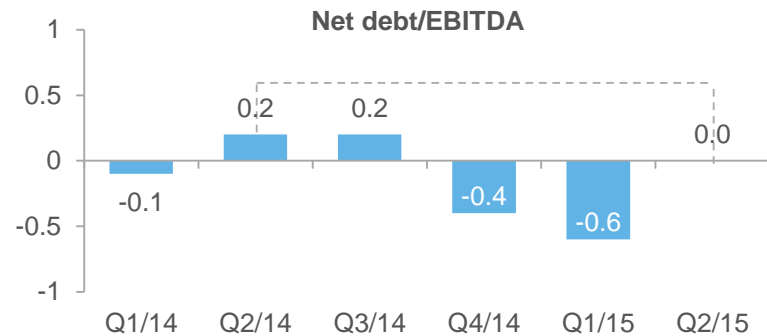
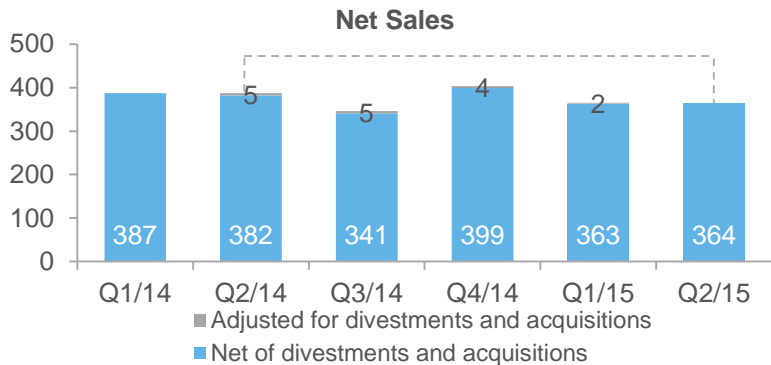
## Earnings per share

- EPS EUR 0.24 (0.23)
- EPS EUR 0.31 (0.32), excluding one-off items\*



\*) Excluding capital gains, impairments and restructuring costs

# Quarterly development

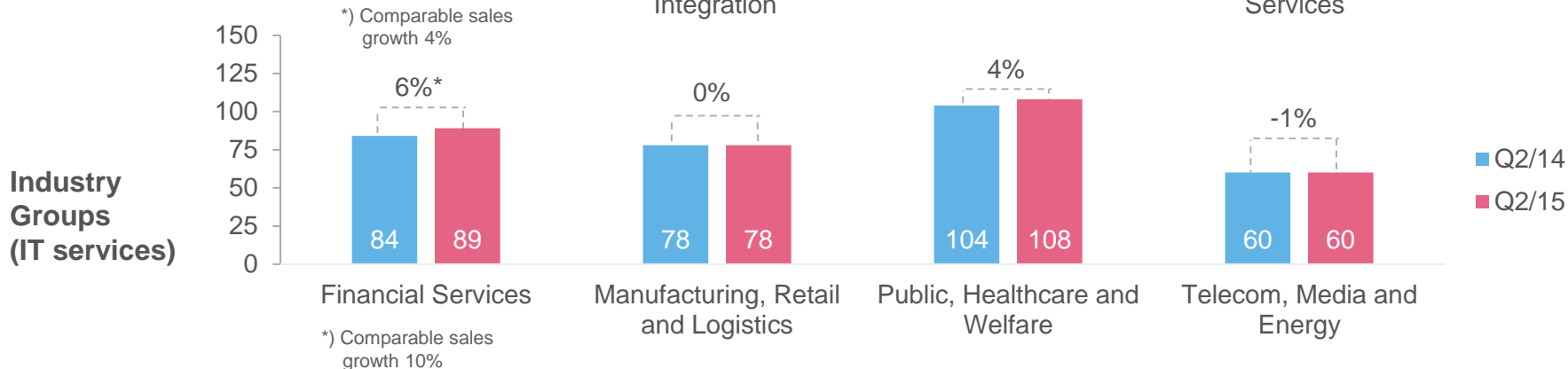
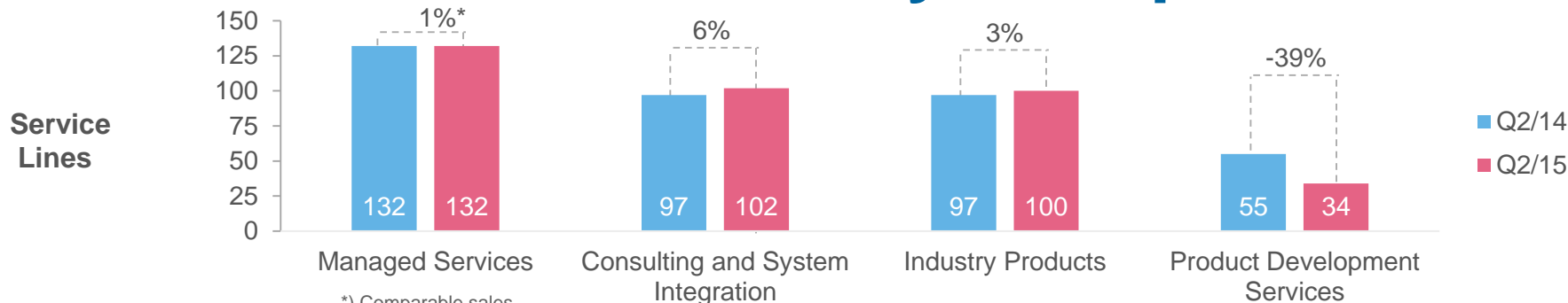


Number of personnel down by a net amount of 1 177

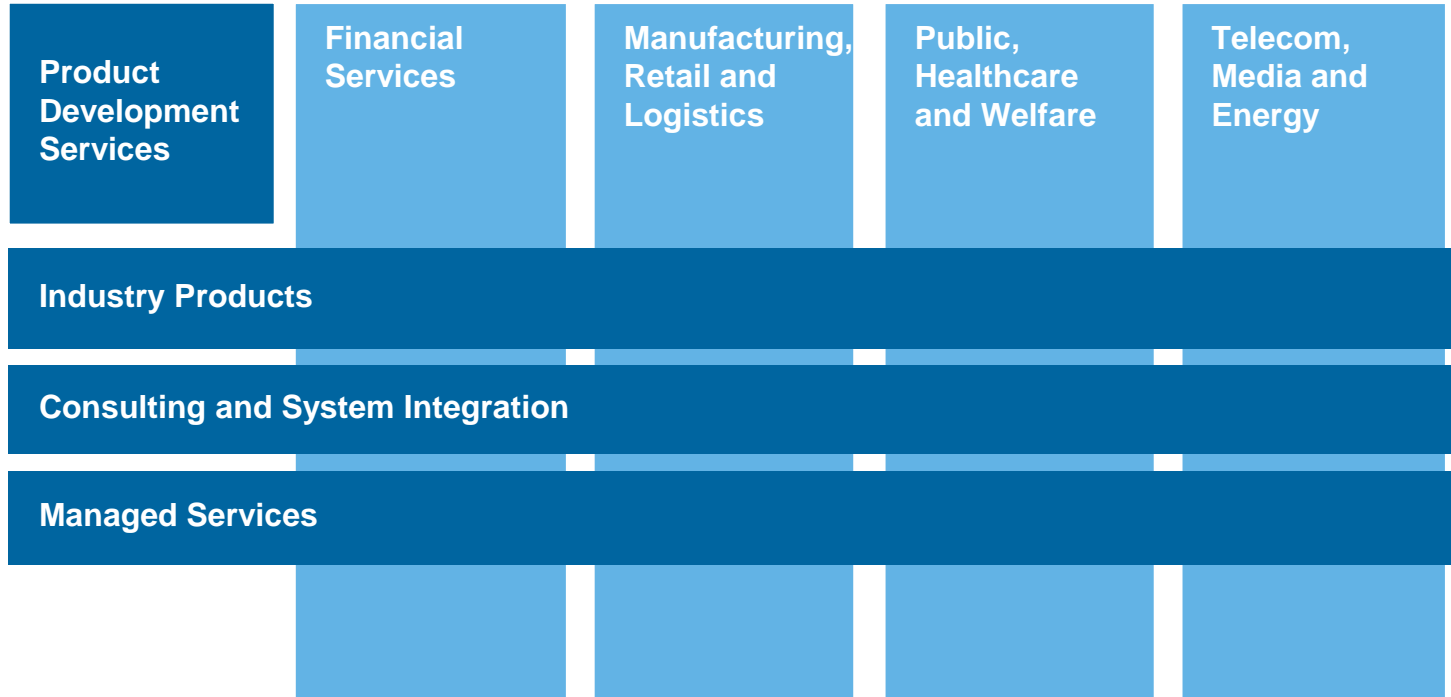
Offshore ratio: IT services 44.9% (41.7%) PDS 55.4% (61.6%)



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



# Service Lines



# Managed Services

## Customer sales Q2

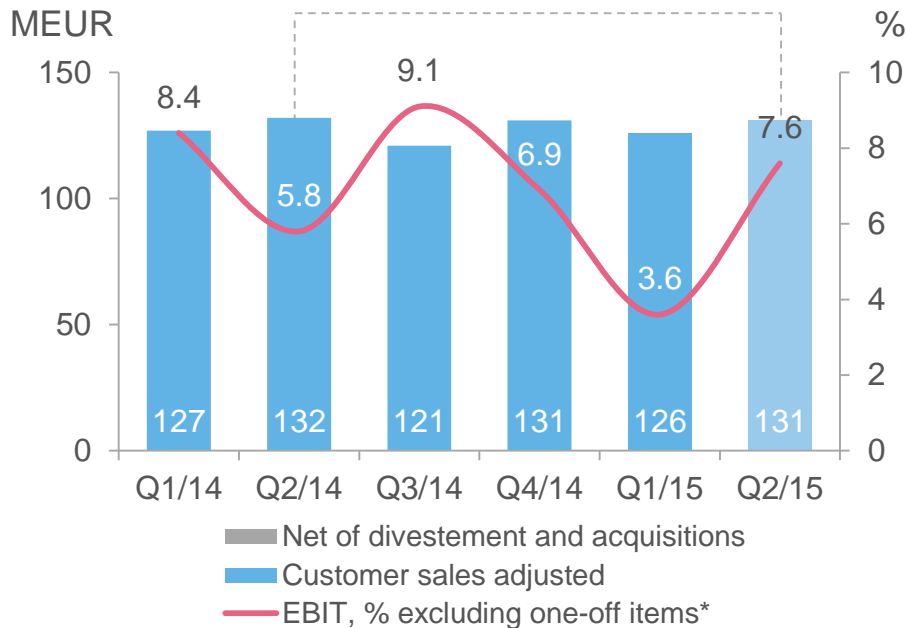
- EUR 131 (132) million, down by 1%
- Organic growth in local currencies 1%, or 4% excl. revenue recognized from equipment sales in 2014

## EBIT

- EBIT EUR 3.1 (7.6) million, 2.4% (5.8)
- EBIT excluding one-off items\*  
EUR 9.9 (7.6) million, 7.6% (5.8)

## Q2 highlights

- Cloud services continue to drive growth
  - Q2 sales up by 92% vs 2014
  - Represents 15% of MS sales
- Comparison figure for 2014 includes around EUR 5 million in revenue recognized from equipment sales
- Automation programme on track
- Margin improvement primarily due to increased offshoring and reduced cost base
- Savings related to automation programme expected to materialize as from the third quarter



\*) Excluding capital gains, impairments and restructuring costs

# Consulting and System Integration

## Customer sales Q2

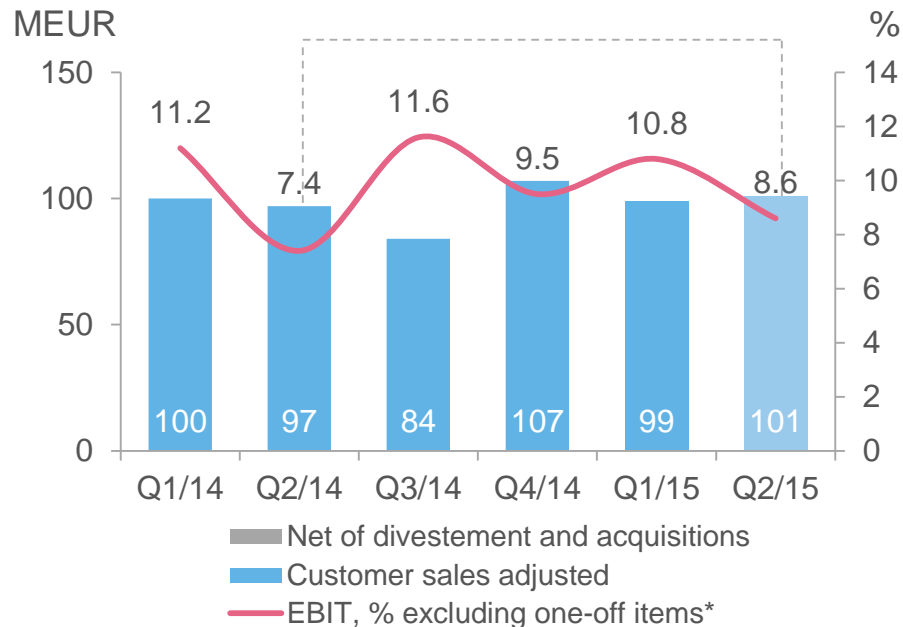
- EUR 101 (97) million, up by 5%
- Organic growth in local currencies 6%

## EBIT

- EBIT EUR 8.5 (6.1) million, 8.4% (6.3)
- EBIT excluding one-off items\*  
EUR 8.7 (7.2) million, 8.6% (7.4)

## Q2 highlights

- Good development in Customer Experience Management (CEM) services, industry consulting and ERP-based solutions
- Strong add-on sales while reduced revenues in traditional application management
- Comparison figure includes costs related to the termination of the Vitja project
- Offering development and new recruitments continued in Q2
- Savings related to service delivery industrialization expected to materialize as from the fourth quarter



\*) Excluding capital gains, impairments and restructuring costs

# Industry Products

## Customer sales Q2

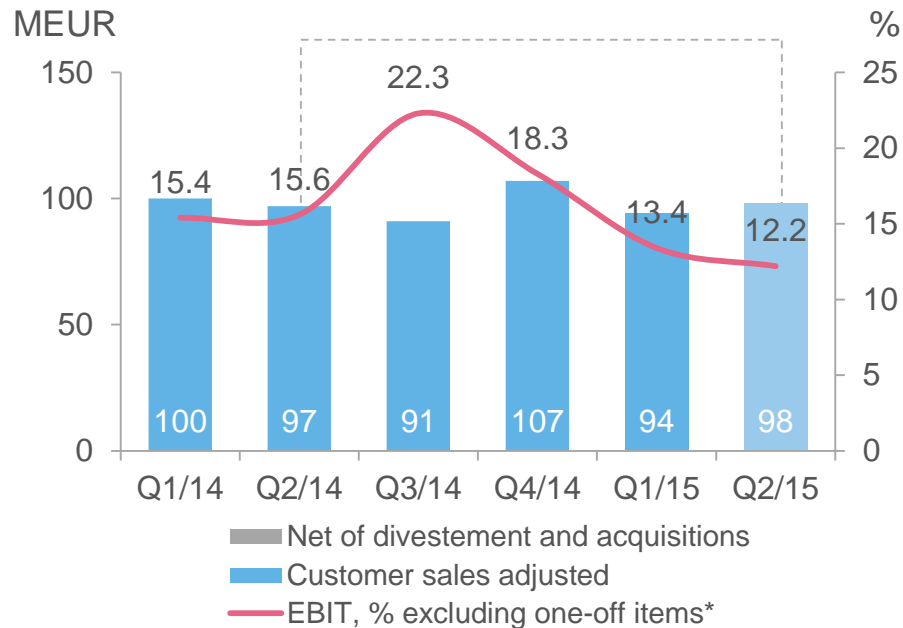
- EUR 98 (97) million, up by 1%
- Organic growth in local currencies 3%

## EBIT

- EBIT EUR 10.8 (14.9) million, 11.0% (15.3)
- EBIT excluding one-off items\*  
EUR 12.0 (15.2) million, 12.2% (15.6)

## Q2 highlights

- Financial Services saw good demand, with the Card Suite posting strongest growth
- Positive development in healthcare & welfare and energy utilities, whereas demand in oil & gas and forestry remained weak
- Investments in offering development up by over EUR 3 million, mainly in Lifecare and Industrial Internet
- Additionally, negative currency changes affected profitability
- Q2 ended with good order backlog, H2 profitability expected to be seasonally stronger



\*) Excluding capital gains, impairments and restructuring costs

# Product Development Services

## Customer sales Q2

- EUR 33 (60) million, down by 44%
- Organic growth in local currencies -39%

## EBIT

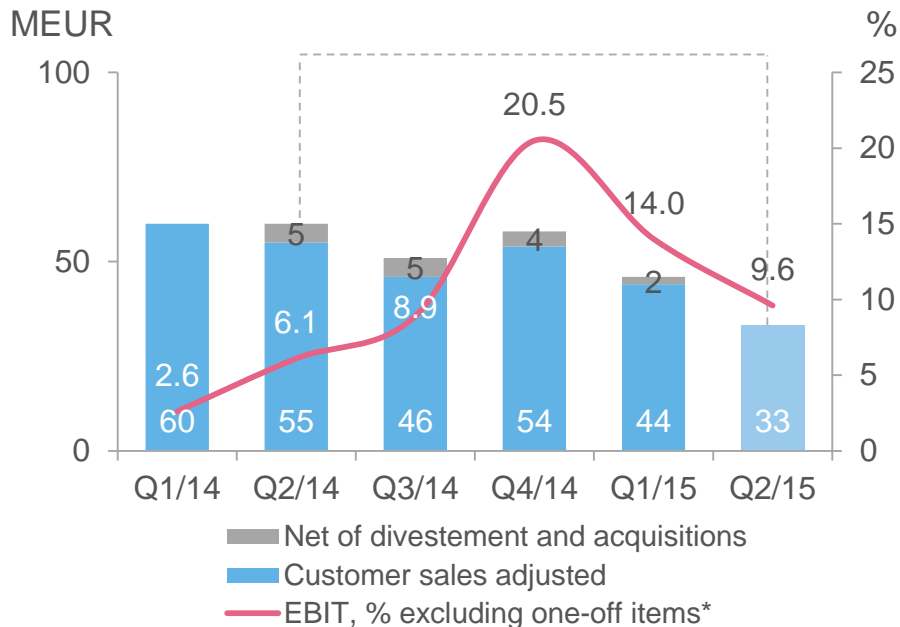
- EBIT EUR 5.7 (-2.3) million, 17.1% (-3.8)
- EBIT excluding one-off items\*  
EUR 3.2 (3.7) million, 9.6% (6.1)

## Q2 highlights

- Sales for current customer base remained stable
- Insourcing by one key customer, as announced in 2014
  - Projects ended in Q1 – in Q2/2014: 5% of Group sales
  - Cost base aligned in parallel with the reduction in business volumes
- Healthy cost structure for the existing business
- Normalized operating margin expected to level to a range below 10%
  - Q3 typically seasonally weaker

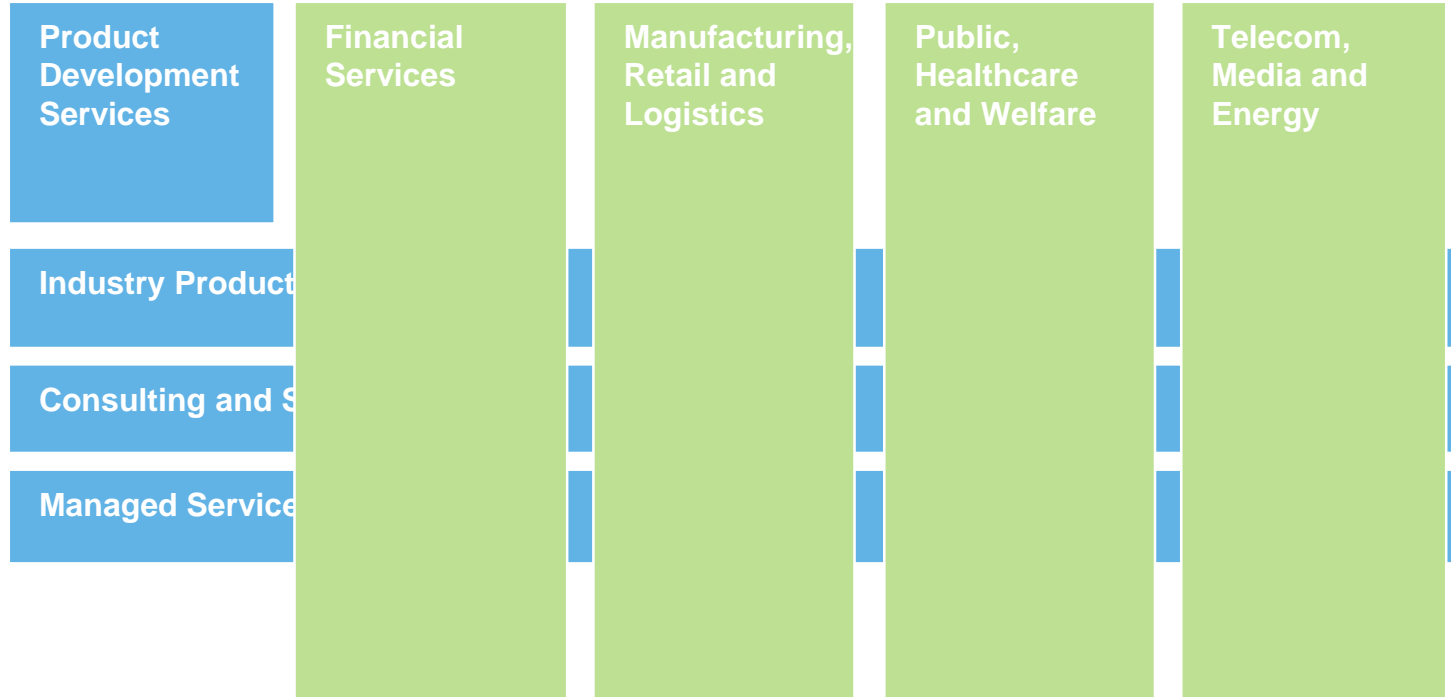
## Change in PDS leadership

- Tom Leskinen appointed Head of PDS



\*) Excluding capital gains, impairments and restructuring costs

# Industry Groups



# Financial Services

## Customer sales Q2

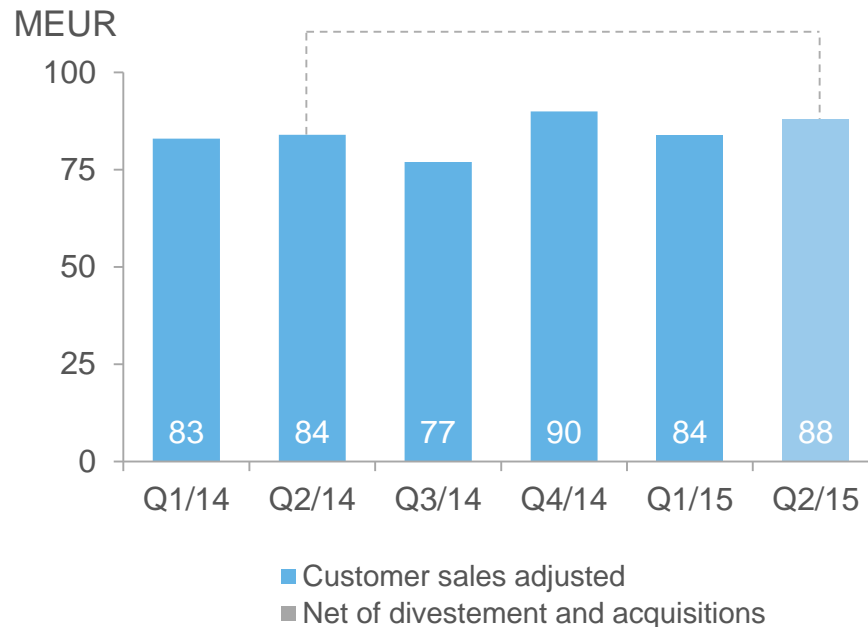
- EUR 88 (84) million, up by 4%
- Organic growth in local currencies 6%, or 10% excluding revenue recognized from equipment sales

## Sales split by service line

	Q2/2015	Q2/2014
MS	47%	48%
CSI	21%	20%
IP	32%	32%

## Q2 highlights

- Healthy development in all service lines
- In banking segment, good development for industry products, especially Card Suite and Virtual Account Management
- In insurance segment, Managed Services drive growth





# Manufacturing, Retail and Logistics

## Customer sales Q2

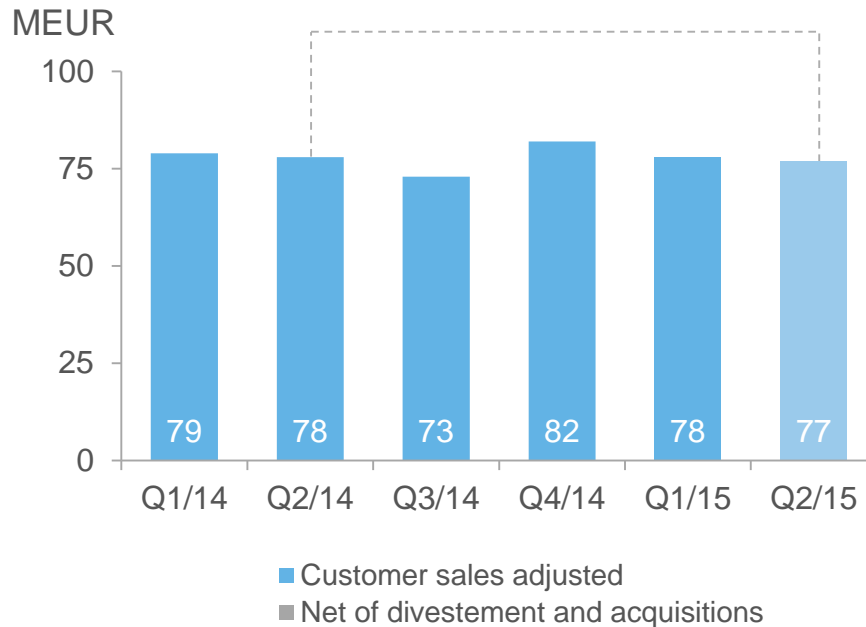
- EUR 77 (78) million, at previous year's level
- Sales in local currencies at the Q2/2014 level

## Sales split by service line

	Q2/2015	Q2/2014
MS	52%	52%
CSI	38%	38%
IP	10%	10%

## Q2 highlights

- Strong development in manufacturing sector due to several new agreements while retail sector experienced negative development
- Transition projects in Managed Services affect sales and profitability
- Industrial Internet in an investment phase



# Public, Healthcare and Welfare

## Customer sales Q2

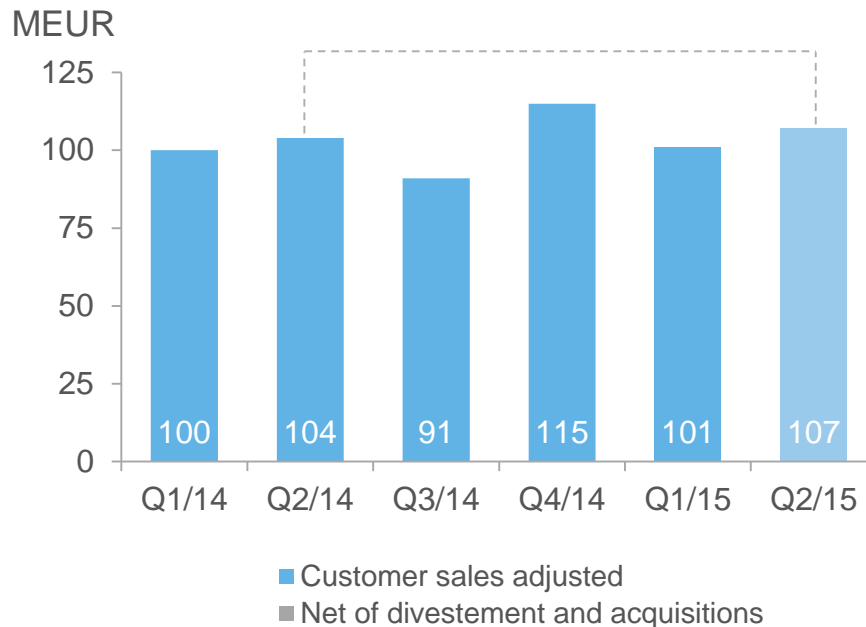
- EUR 107 (104) million, up by 2%
- Organic growth in local currencies 4%

## Sales split by service line

	Q2/2015	Q2/2014
MS	37%	38%
CSI	25%	24%
IP	38%	38%

## Q2 highlights

- Growth mainly in healthcare and welfare sector
  - Driven, for example, by mobile services for elderly care and eServices in the welfare segment
- Sweden and Norway were the strongest markets
- Acquisition of Software Innovation support public sector digitalization



# Telecom, Media and Energy

## Customer sales Q2

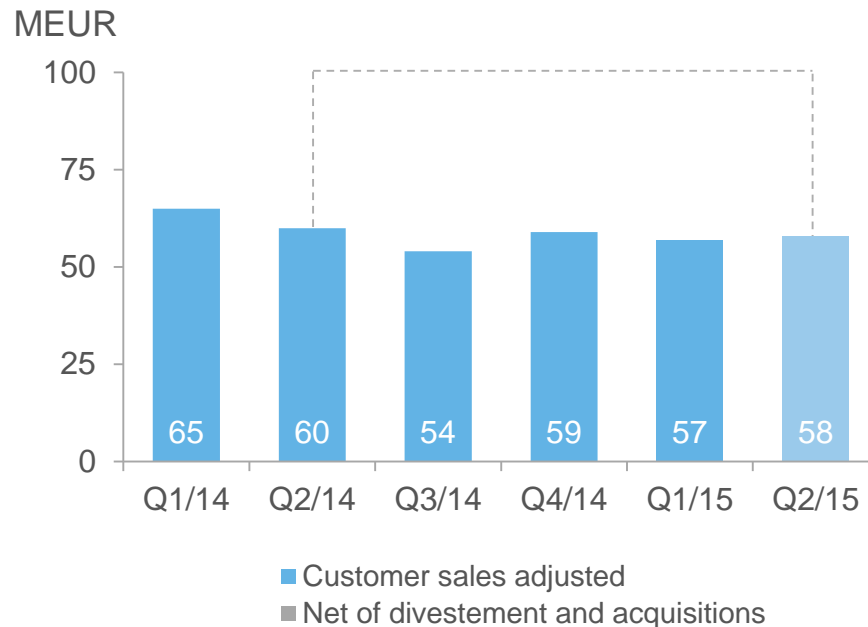
- EUR 58 (60) million, down by 3%
- Organic growth in local currencies -1%

## Sales split by service line

	Q2/2015	Q2/2014
MS	17%	19%
CSI	45%	42%
IP	38%	39%

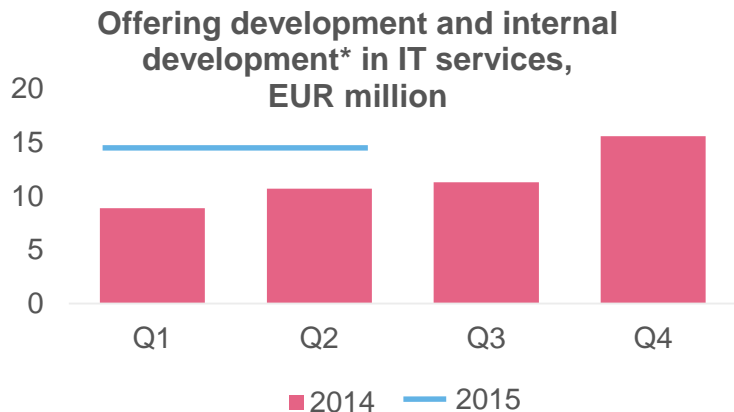
## Q2 highlights

- Business starting to stabilize
- Development in telecom and energy utilities segments positive
- In telecom, sales growth is attributable to customers' transformation programmes
- Demand in the oil and gas segment is still weak and IT investment levels are low



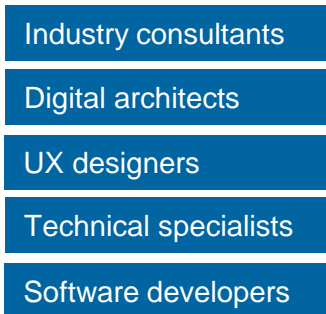
# Investments in offering development and recruitment of new talent to accelerate growth

## New growth areas to be evaluated



\*) related to MS automation programme

### Recruitments in 2015



### Net recruitments in H1 2015



- Full-year investments (OPEX) in high-growth businesses expected to exceed the 2014 level
- In H2/2015, development costs expected to remain at least at the 2014 level

# 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 investments		
Cost savings in MS and CSI		
Currency fluctuations		n/a

## 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 visible in Q1 – no impact in Q2

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

# 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).



# Accelerating growth in focus



# Tieto acquires Software Innovation

## to accelerate its role as the leading digitalization advisor in the Nordic countries

- Strengthens Tieto's position as the preferred partner for digitalization in the Nordic countries
- Extends our scalable software-based businesses
- Strengthens our presence especially in Norway
- Expected to be value accretive and adds to growth potential in both Software Innovation's and Tieto' customer base

### Software Innovation

- Leading software company in the Enterprise Content Management (ECM) business in the Nordic countries
- 2014 sales EUR 41 million and operating margin (EBIT) 12.5%
- Employees: Approx. 350
- 75% of revenue in Norway, ~12% in Denmark and ~12% in Sweden
- Enterprise Value estimated to amount to NOK 623 million

### ECM market

- Nordic market around EUR 350 million - the public sector represents over 50%
- 5–8% annual growth rate – one of the fastest growing software market segments
- Existing Tieto market share of around 7% to some 20%



# Q2 2015 in brief

## Healthy growth in IT services – competitiveness strengthens further

- IT services growth close to 3% – profit as expected
- Managed Services automation programme on track
- Acquisition of Software Innovation strengthens Tieto's competitiveness
- Solid performance in Product Development Services

# Changing perspectives™



# Appendix

# Top 10 customers Q2 2015

- City of Stockholm
- Ericsson
- IF Insurance
- Kesko
- Nordea
- OP-Pohjola Group
- S-Group
- Region Skåne
- TeliaSonera
- UPM-Kymmene

