

**Full year 2018**

**דוח**

# The NNIT Presenting Team



**PER OVE KOGUT**

Chief Executive Officer



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# Agenda

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**01** Highlights for 2018 and new strategy

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**02** Sales and backlog

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**03** Financial performance

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**04** Outlook for 2019

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# Forward looking statements

This presentation contains forward-looking statements. Words such as ‘believe’, ‘expect’, ‘may’, ‘will’, ‘plan’, ‘strategy’, ‘prospect’, ‘foresee’, ‘estimate’, ‘project’, ‘anticipate’, ‘can’, ‘intend’, ‘outlook’, ‘guidance’, ‘target’ and other words and terms of similar meaning in connection with any discussion of future operating or financial performance identify forward-looking statements. Statements regarding the future are subject to risks and uncertainties that may result in considerable deviations from the outlook set forth.

Furthermore, some of these expectations are based on assumptions regarding future events which may prove incorrect.

# Q4 2018 at a glance

Revenue

**DKK 823m**

**+5.5%**

+0.0pp F/X

Operating profit

**DKK 106m**

**+8.1%**

+1.0pp F/X

Operating profit margin

**12.9%**

**+0.3pp**

+0.1pp F/X

Net profit

**DKK 85m**

**+16%**

Order backlog addition

**DKK 161m**

**+13%**

Free cash flow

**DKK 0m**

**DKK -2m**

# 2018 at a glance

Revenue

**DKK 3,007m**

**+5.5%**

-0.3pp F/X

Operating profit

**DKK 307m**

**+17%**

+3.2pp F/X

Operating profit margin

**10.2%**

**+1.0pp**

+0.2pp F/X

Net profit

**DKK 236m**

**+19%**

Order backlog for 2018

**DKK 2,171m**

**-1.9%**

Free cash flow

**DKK 116m**

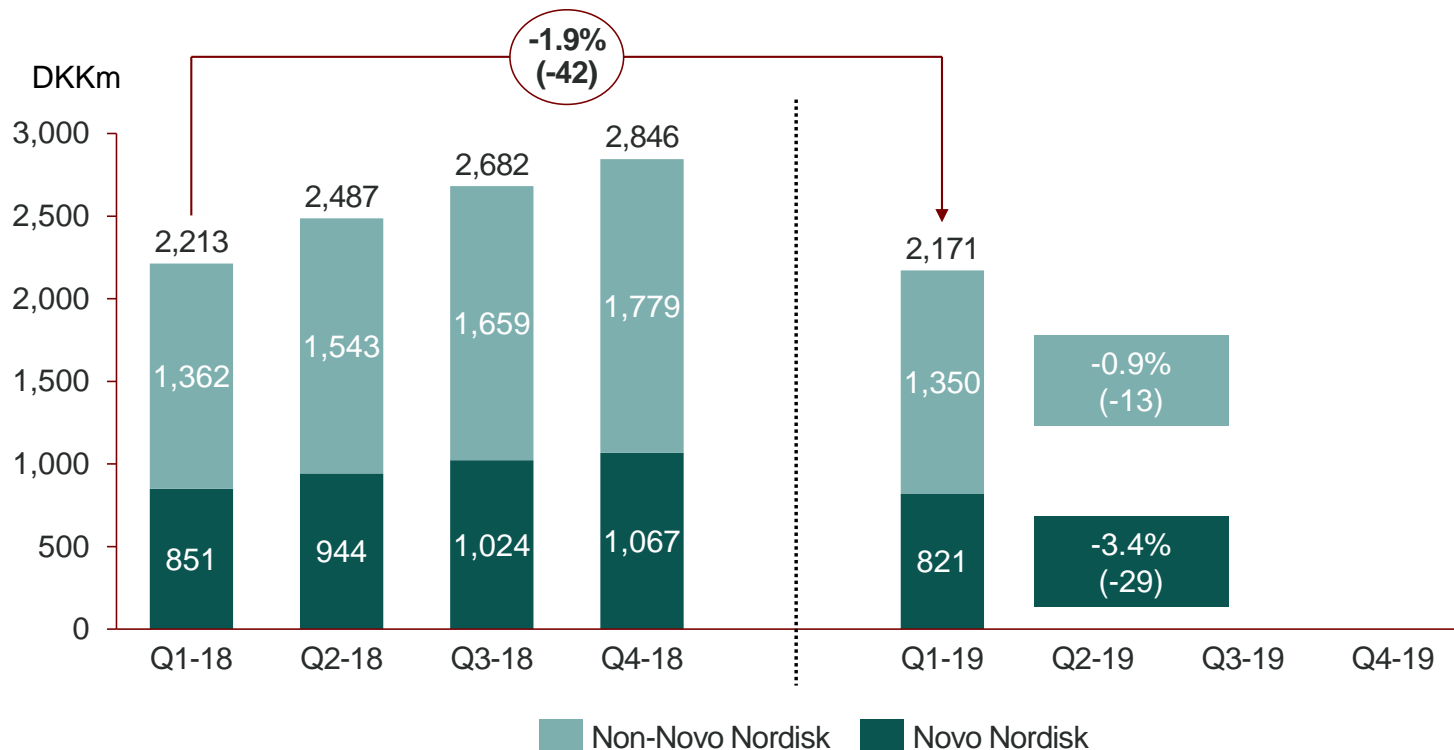
**DKK +129m**

# Major wins

	Contract	Segment	Client	Amount (DKK million)	Length (years)
Q4 2018	Infrastructure and application outsourcing agreement (Press release December 12, 2018)	Finance	AP Pension	Lower three-digit	5
	Agreement handling the IT work stations and citrix (Press release January 21, 2019)	Finance	SDC	Not disclosed	5
	Infrastructure, upgrade and application outsourcing agreement (Press release November 26, 2018)	Enterprise	Sund & Bælt Holding A/S	Minor double-digit	2
Q1 2019	SAP operation agreement (Press release October 29, 2018)	Enterprise	Copenhagen Airports	Minor double-digit	5
	Infrastructure outsourcing agreement (Press release January 22, 2019)	Public	DSB	Not disclosed	2

# Backlog development, current year

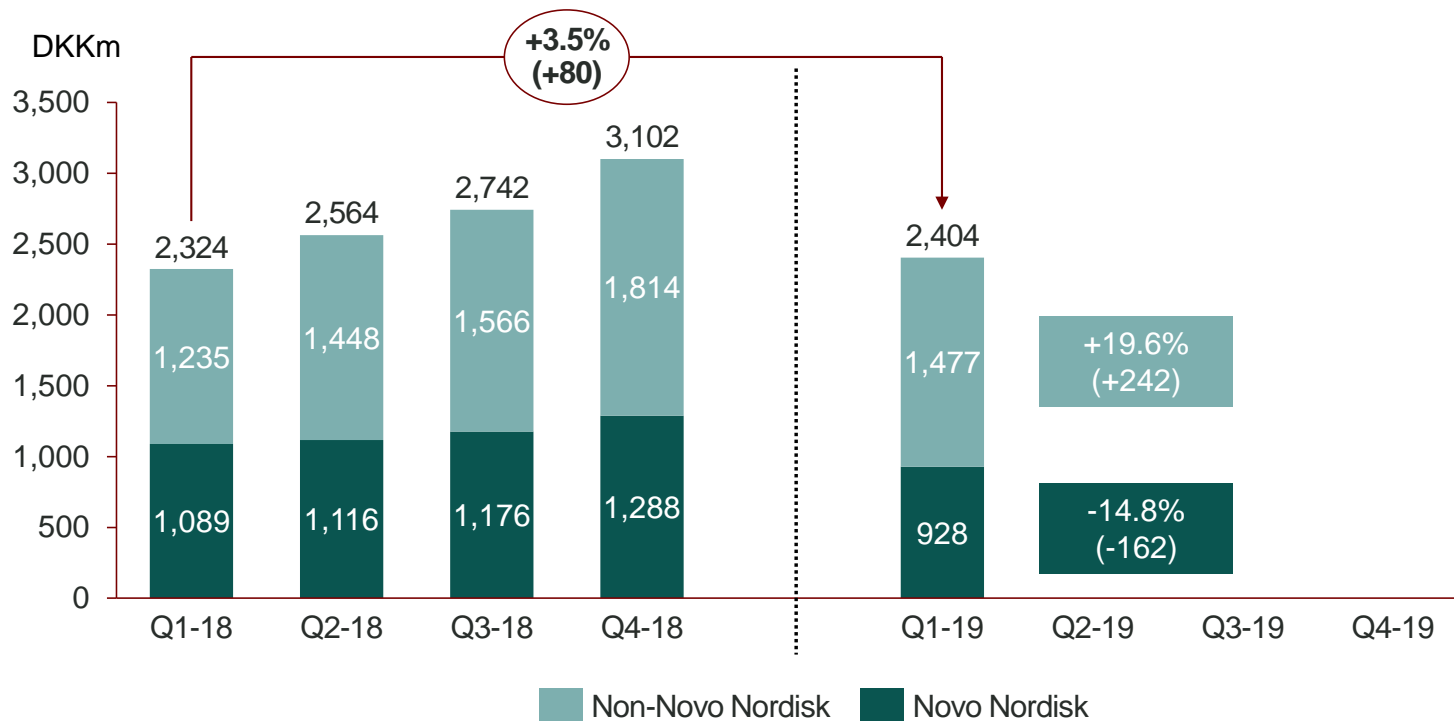
Beginning of quarter





# Backlog development, following two calendar years

Beginning of quarter



# New strategy

NNIT 2022

6-8% organic revenue growth excluding the Novo Nordisk Group

Operating profit margin of at least 10%

Grow revenue

Grow revenue through International life sciences

Grow the revenue from international life sciences significantly, supported by M&A and continued execution of go to market plan.

Grow NNIT core revenue

Grow revenue coming from our core-NNIT offerings.

Grow revenue through increased level of innovation

Build on and strengthen our innovation capabilities to grow the level of new high margin offerings we bring to the market significantly.

Maintain and develop strong Novo Nordisk relationship

Maintain and develop strong Novo Nordisk relationship by staying relevant and competitive.

Optimize cost

Cost efficient delivery, sales and support functions

Ongoing optimization through sourcing and process optimization across all functions to remain cost efficient and competitive.

Use of Automation and AI

Leverage automation and AI to support optimization.

# Equity Story

## Life sciences growth strategy

- **Solid track record of >20% organic growth** in international life sciences
- **Attractive market** with high margins and high entry barriers due to level of regulation
- **Strong domain knowledge** based on our life sciences legacy
- **Strategic acquisitions** being pursued to accelerate growth even further
- **Maintain Novo Nordisk relationship** through state-of-the-art delivery and innovative solutions

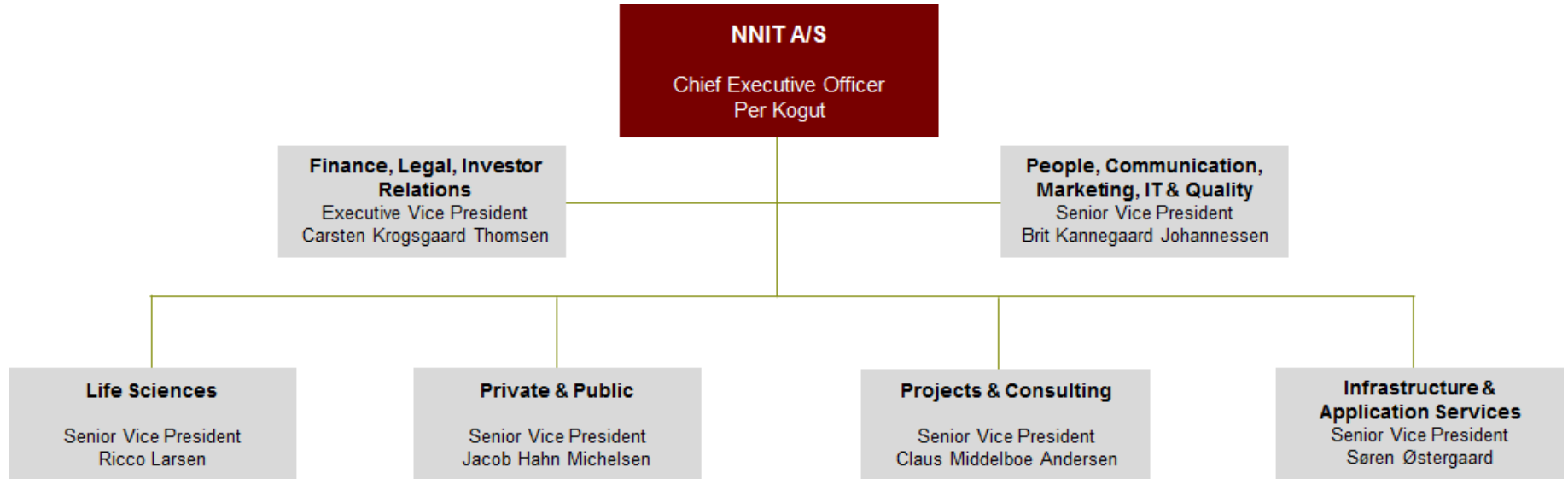
## Business model fit for growth

- **Full scale service offering** in Advisory, Development, Operations and Support
- **Strong innovation focus** with DKK 500m revenue from new offerings in 2022
- **Flexible global delivery model** with around 50% of employees based in offshore and nearshore locations
- **Top 3 IT Service Provider** in Danish market measured by revenue

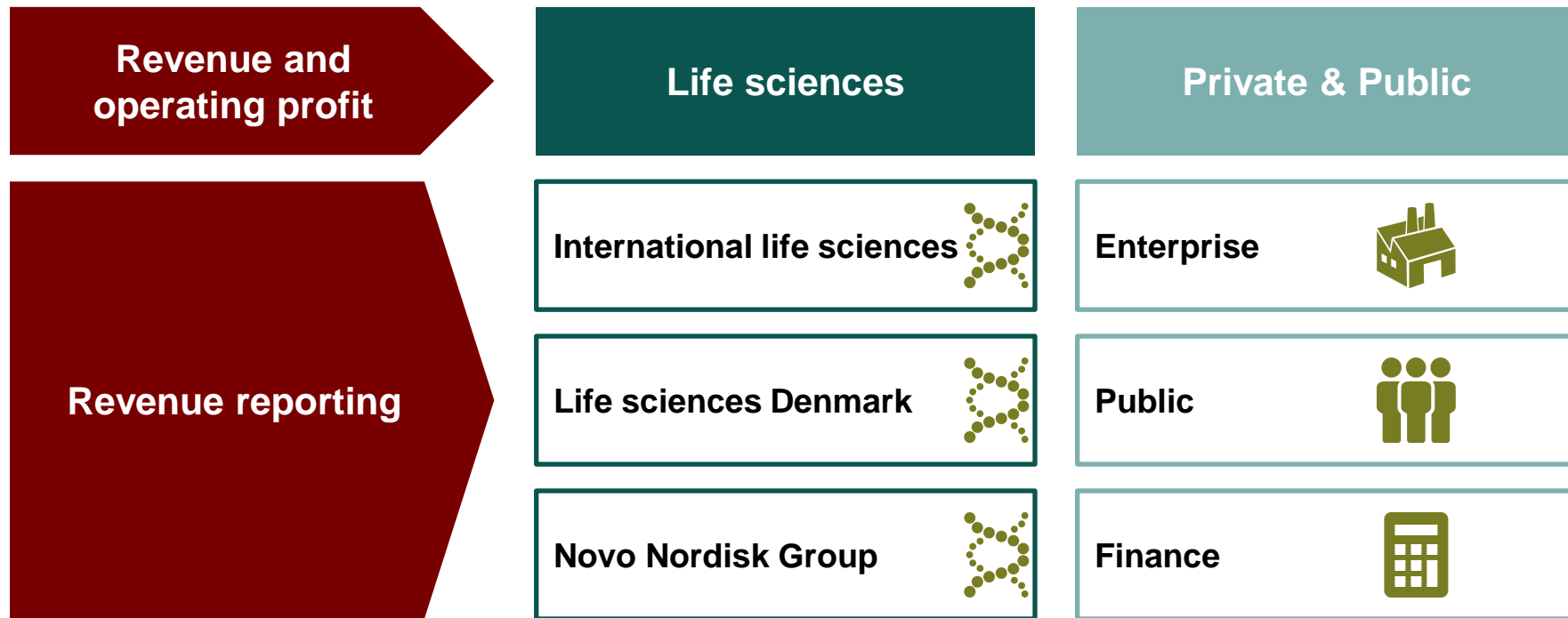
## Attractive financial results

- **Organic revenue growth of 6-8%** excluding business from Novo Nordisk
- **Operating profit margin of at least 10%**
- **Cash generating business** with high dividend yields while investing in future growth with pay-out ratio objective at a minimum of 45%
- **Solid back-log** with high visibility
- **Stable reinvestment** levels with capital expenditure of 5-7% of revenue

# New organization



# New reporting structure from Q1 2019\*



\*Comparison figures will also be provided for 2018

# Financial statement Q4 and 2018

DKK million	Q4 2018	Q4 2017	Change	2018	2017	Change
<b>Revenue</b>	822.9	779.7	5.5%	3,007.2	2,851.4	5.5%
Cost of goods sold	657.6	614.9	6.9%	2,465.9	2,338.4	5.5%
<b>Gross profit</b>	<b>165.3</b>	<b>164.8</b>	<b>0.3%</b>	<b>541.2</b>	<b>512.9</b>	<b>5.5%</b>
<i>Gross profit margin</i>	<i>20.1%</i>	<i>21.1%</i>	<i>-1pp</i>	<i>18.0%</i>	<i>18.0%</i>	<i>0pp</i>
Sales and marketing costs	30.5	36.0	-15.3%	127.6	135.3	-5.7%
Administrative expenses	28.7	30.5	-6.2%	106.2	115.3	-7.9%
<b>Operating profit</b>	<b>106.2</b>	<b>98.2</b>	<b>8.1%</b>	<b>307.4</b>	<b>262.3</b>	<b>17.2%</b>
<i>Operating profit margin</i>	<i>12.9%</i>	<i>12.6%</i>	<i>0.3pp</i>	<i>10.2%</i>	<i>9.2%</i>	<i>1pp</i>
Net financials	1.5	-4.2	-134.9%	-2.3	-9.9	77.1%
<b>Profit before tax</b>	<b>107.6</b>	<b>94.1</b>	<b>14.4%</b>	<b>305.1</b>	<b>252.4</b>	<b>20.9%</b>
Tax	22.8	21.2	7.9%	69.5	53.6	29.8%
<i>Effective tax rate</i>	<i>21.2%</i>	<i>22.5%</i>	<i>-1.3pp</i>	<i>22.8%</i>	<i>21.2%</i>	<i>1.6pp</i>
<b>Net profit</b>	<b>84.8</b>	<b>72.9</b>	<b>16.3%</b>	<b>235.6</b>	<b>198.8</b>	<b>18.5%</b>

Revenue growth of 5.5% (**2018: 5.5%**) in Q4 2018 was driven by a 39% growth from life sciences clients of which 13.6pp came from the acquisition of Valiance Partners. Adjusting for Valiance Partners the underlying total organic growth was 3.8%.

Cost of goods sold increased by 6.9% in Q4 2018 (**2018: 5.5%**) mainly due to costs from the newly established data center which are not yet covered by revenue due to low utilization which is to be expected in the first years of the investment period. Further, price reductions in major service level agreements also impacted the gross profit margin negatively.

Sales and marketing costs decreased by 15.3% in Q4 2018 (**2018: -5.7%**) due to cost efficiencies and timing of expenses.

Administrative expenses decreased by 6.2% in Q4 2018 (**2018: -7.9%**) due to cost efficiencies and layoffs in staff functions in 2017.

Effective tax rate decreased 1.3pp in Q4 2018 (**2018: +1.6pp**) primarily due to a correction for a non-deductible expense from prior years.

# Segment development

DKKm	Q4 2018	Q4 2017	Change	2018	2017	Change
Novo Nordisk Group	323.0	318.5	1.4%	1,124.2	1,185.4	-5.2%
Life sciences excl. NNG	132.8	95.4	39.2%	433.4	374.6	15.7%
Enterprise	202.1	191.3	5.6%	793.8	684.3	16.0%
Public	92.6	115.0	-19.5%	399.2	353.9	12.8%
Finance	72.4	59.6	21.5%	256.6	253.2	1.3%
<b>Total</b>	<b>822.9</b>	<b>779.7</b>	<b>5.5%</b>	<b>3,007.2</b>	<b>2,851.4</b>	<b>5.5%</b>

**Novo Nordisk Group** revenue increased by 1.4% in Q4 2018 (**2018: -5.2%**) mainly due to increased project activity.

**Life sciences** excl. the Novo Nordisk Group grew by 39% in Q4 2018 (**2018: 16%**) reflecting an increased activity level especially from a number of international customers. Valiance Partners had a positive impact on growth of 13.6pp.

**Enterprise** revenue grew by 5.6% in Q4 2018 (**2018: 16%**) driven by STARK and a number of IT Solution Services' customers.

**Public** revenue decreased by 20% in Q4 2018 (**2018: +13%**) primarily due to a lower level of software sales and part of the DSB agreement which was not extended. Full year 2018 growth was impacted by a one-off settlement with a client in IT Solution Services.

**Finance** revenue increased by 22% in Q4 2018 (**2018: 1.3%**) primarily due to expansion of operation agreements with existing customers and an increase in number of projects. Full year 2018 growth was impacted by customer contract within IT Operation Services, which was not extended when it expired in June 2017.

# IT Operation Services

DKKm	Q4 2018	Q4 2017	Change	2018	2017	Change
<b>Revenue</b>						
Novo Nordisk Group	229.8	220.9	4.0%	770.3	818.7	-5.9%
Non-Novo Nordisk Group	273.3	259.6	5.3%	1,071.9	1,013.1	5.8%
<b>Total</b>	<b>503.1</b>	<b>480.5</b>	<b>4.7%</b>	<b>1,842.3</b>	<b>1,831.9</b>	<b>0.6%</b>
Costs	440.8	418.8	5.3%	1,663.7	1,627.8	2.2%
<b>Operating profit</b>	<b>62.3</b>	<b>61.7</b>	<b>0.9%</b>	<b>178.6</b>	<b>204.1</b>	<b>-12.5%</b>
<i>Operating profit margin</i>	<i>12.4%</i>	<i>12.8%</i>	<i>-0.5pp</i>	<i>9.7%</i>	<i>11.1%</i>	<i>-1.5pp</i>

Revenue increased by 4.7% in Q4 2018 (**2018: 0.6%**):

- Customers outside the Novo Nordisk Group increased 5.3% driven by the enterprise and life sciences excl. Novo Nordisk Group customer groups
- Novo Nordisk Group increased due to an increased project activity in Q4 2018, whereas 2018 was impacted by price reductions in major service level agreements

Operating profit margin decreased 0.5pp to 12.4% in Q4 2018 (**2018: -1.5pp to 9.7%**):

- The decrease was mainly due to costs from the newly established data center which are not yet covered by revenue due to low utilization which is to be expected in the first years of the investment period. Further, price reductions in major service level agreements impact the operating profit margin negatively



# IT Solution Services

DKKm	Q4 2018	Q4 2017	Change	2018	2017	Change
<b>Revenue</b>						
Novo Nordisk Group	93.3	97.5	-4.4%	353.8	366.7	-3.5%
Non-Novo Nordisk Group	226.5	201.7	12.3%	811.1	652.8	24.2%
<b>Total</b>	<b>319.8</b>	<b>299.2</b>	<b>6.9%</b>	<b>1,164.9</b>	<b>1,019.5</b>	<b>14.3%</b>
Costs	275.9	262.7	5.0%	1,036.0	961.3	7.8%
<b>Operating profit</b>	<b>43.9</b>	<b>36.5</b>	<b>20.2%</b>	<b>128.9</b>	<b>58.2</b>	<b>121.5%</b>
<i>Operating profit margin</i>	<i>13.7%</i>	<i>12.2%</i>	<i>1.5pp</i>	<i>11.1%</i>	<i>5.7%</i>	<i>5.4pp</i>

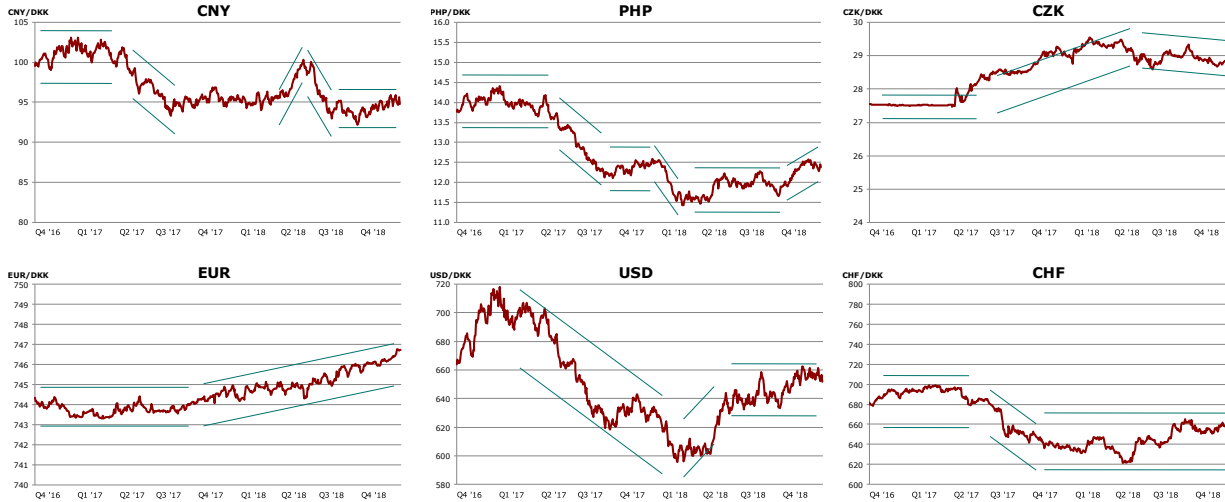
Revenue increased 6.9% in Q4 2018 (**2018: 14%**) driven by customers outside the Novo Nordisk Group:

- Customers outside the Novo Nordisk Group was mainly driven by STARK, the inclusion of the acquisitions, Valiance Partners, and a number of new customers
- Revenue from the Novo Nordisk Group decreased 4.4% due to a decline in project activities

Operating profit margin increased 1.5pp to 13.7% in Q4 2018 (**2018: 5.4pp to 11.1%**):

- The increase is driven by increased revenue and higher utilization of billable resources
- Full year 2017, was impacted negatively by the one-off revenue reversal of DKK 26m

# Currency development and hedging



CNY, PHP, USD and EUR have appreciated slightly versus DKK in Q4 2018, whereas CHF is fairly stable.

In 2018, our operating profit margin tailwind was 0.2pp compared to 2017 exchange rates primarily due to the CNY.

In 2019, we see currency headwind on operating profits from the CNY and PHP compared to 2018, while we have currency tailwind from USD compared to 2018.

**Estimated annual impact on NNIT's operating profit of a 10% increase in the outlined currencies against DKK\*      Hedging period (months)**

EUR	DKK 28 million	-
CNY	DKK -22 million	14
CZK	DKK -13 million	14
PHP	DKK -7 million	14
USD	DKK 4 million	-
CHF	DKK 1 million	-

Hedging gains and losses do not impact operating profit as they are recognized under net financials.  
 \*The above sensitivities address hypothetical situations and are provided for illustrative purposes only.  
 The sensitivities assume our business develops consistent with our current 2019 business plan.



# Net Financials

<b>Net financials</b> DKKm	<b>2018</b>	<b>2017</b>	<b>Change</b>
Net loss on Novo Nordisk shares*	0.0	-0.3	0.2
Dividends received from Novo Nordisk shares	0.0	0.3	-0.3
<b>Total Novo Nordisk share related items</b>	<b>0.0</b>	<b>0.1</b>	<b>-0.1</b>
Currency hedge gains	8.9	2.8	6.1
Currency losses	0.4	-0.2	0.6
<b>Total currency related items</b>	<b>9.2</b>	<b>2.6</b>	<b>6.6</b>
Interest expense from leases	-8.8	-9.0	0.2
Interests and bank charges**	-2.7	-3.6	0.9
<b>Total interests and bank charges</b>	<b>-11.5</b>	<b>-12.6</b>	<b>0.2</b>
<b>Net financials</b>	<b>-2.3</b>	<b>-9.9</b>	<b>6.8</b>

\* Market value of Novo Nordisk shares less adjustment of obligation related to long-term incentive programs from previous years.

\*\* Includes fees to banks in relation to being a public listed company and interesting from leasing liabilities

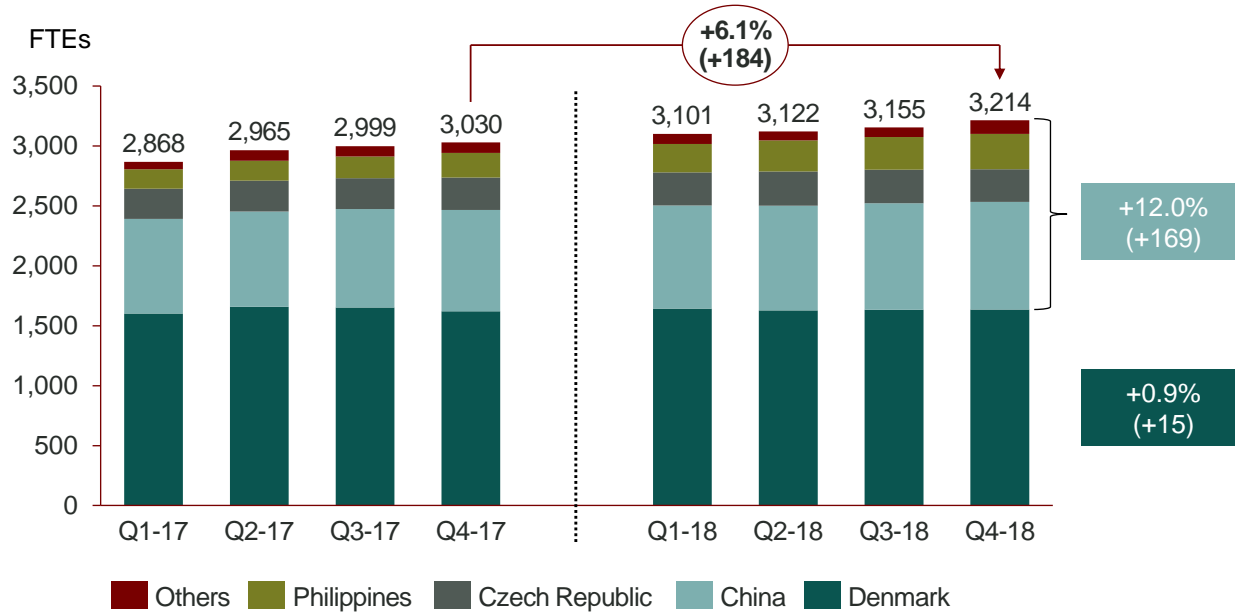
<b>Total Currency hedges</b> DKKm	<b>2018</b>	<b>2017</b>	<b>Change</b>
Currency hedge gains/loss in P&L	8.9	2.8	6.1
Currency hedge gains on Equity	7.3	3.5	3.8
<b>Total currency hedge gains</b>	<b>16.2</b>	<b>6.3</b>	<b>9.9</b>

Net financials for 2018 were DKK -2.3m, which was an improvement of DKK 6.8m compared to 2017.

This was due to:

- Gains on currency hedges (DKK 8.9m) compared to 2017 (DKK 2.8m)
- Currency gains
- Lower interest fees and bank charges

# Employee development



Number of employees increased by 6.1% to 3,214 FTE end of 2018. This increase was primarily driven by Philippines (87 FTEs) and China (52 FTEs) in-line with the long-term offshoring strategy.

Growth outside Denmark was 169 FTE (12%) with the Philippines and China as the main contributors.

Employees in Denmark increased by 0.9% despite including around 50 employees taken over from STARK. Excluding these, the underlying decline in Denmark was 2.2%

Share of employees in low cost countries was 45.6% end of 2018 compared to 43.7% end 2017.

# Balance sheet

Assets DKKm	2018	2017
Intangible assets <sup>1</sup>	432.2	212.1
Tangible assets	593.6	574.0
Lease assets	371.7	369.6
Contract assets	111.1	110.0
Deferred tax	39.3	64.7
Deposits	32.7	32.6
<b>Total non-current assets</b>	<b>1,580.7</b>	<b>1,362.9</b>
Inventories	1.7	1.6
Contract assets	52.5	69.4
Trade receivables <sup>2</sup>	500.6	574.8
Work in progress <sup>3</sup>	151.1	56.1
Other receivables and pre-payments	140.1	164.4
Tax receivables	0.2	0.0
Shares	0.0	14.0
Derivative financial instruments	9.8	4.6
Cash and cash equivalents	107.5	74.6
<b>Total Current assets</b>	<b>963.6</b>	<b>959.4</b>
<b>Total assets</b>	<b>2,544.3</b>	<b>2,322.3</b>

## Notes

<sup>1</sup> Intangible assets increased by DKK 220m mainly due goodwill from acquisitions.

<sup>2</sup> Trade receivables decreased by DKK 74m due to a decrease in the receivables from Novo Nordisk following lower amount of invoicing in Q4.

<sup>3</sup> Work in progress increased by DKK 95m due to a few large projects with the Novo Nordisk Group and STARK.

<sup>4</sup> Contingent considerations increased by DKK 58m related to earn-out regarding acquisitions.

<sup>5</sup> Contract assets decreases by DKK 48m due to progress in operation contract which included up-front payment for transition projects.

<sup>6</sup> Work in progress decreased by DKK 43m due to less prepayments from Novo Nordisk and other customers

Equity and liabilities DKKm	2018	2017
Share capital	250.0	250.0
Treasury shares	-4.6	-6.6
Retained earnings	764.3	665.4
Other reserves	11.5	8.7
Proposed dividends	63.8	56.0
<b>Total equity</b>	<b>1,084.9</b>	<b>973.6</b>
Lease liability	298.8	298.8
Deferred tax	2.7	0.0
Employee benefit obligation	15.5	15.4
Contingent consideration <sup>4</sup>	112.7	54.3
Provisions	24.6	24.7
<b>Total non-current liabilities</b>	<b>454.4</b>	<b>393.2</b>
Prepayments received, contract assets <sup>5</sup>	87.5	135.2
Prepayments received, work in progress <sup>6</sup>	115.3	158.4
Lease liability	83.6	80.5
Bank overdraft	242.7	93.2
Trade payables	97.5	58.9
Employee cost payable	253.3	255.4
Tax payables	6.7	18.1
Other current liabilities <sup>6</sup>	117.2	132.8
Derivative financial instruments	1.3	1.2
Employee benefit obligation	0.0	21.7
<b>Total current liabilities</b>	<b>1,005.0</b>	<b>955.5</b>
<b>Total equity and liabilities</b>	<b>2,544.3</b>	<b>2,322.3</b>



# Cash flows

Cash flow DKKm	2018	2017	Change
Net profit for the period	235.6	198.8	36.8
Reversal of non-cash items	341.4	329.8	11.6
Net interest and taxes paid	-76.5	-92.8	16.3
Changes in working capital	-61.8	-10.8	-51.1
<b>Cash flow from operating activities</b>	<b>438.7</b>	<b>425.1</b>	<b>13.6</b>
Capitalization of intangible assets	-14.3	-10.3	-4.0
Purchase of tangible assets	-164.3	-323.7	159.4
Change in trade payables related to investments	18.1	-2.9	
Dividends received	0.0	0.3	-0.3
Sales/(purchase) of shares (net)	0.1	0.0	0.1
Payment of deposits	0.1	-3.1	3.2
Acquisition of subsidiary	-162.3	-98.0	-64.3
<b>Cash flow from investing activities</b>	<b>-322.6</b>	<b>-437.7</b>	<b>94.1</b>
Dividends paid	-105.5	-102.0	-3.5
Purchase of treasury shares	-37.3	0.0	-37.3
Installments on lease liabilities	-89.7	-77.9	-11.9
Bank overdraft	149.5	93.2	56.3
<b>Cash flow from financing activities</b>	<b>-83.1</b>	<b>-86.7</b>	<b>56.3</b>
<b>Net cash flow</b>	<b>33.0</b>	<b>-99.3</b>	<b>164.0</b>
<b>Free cash flow</b>	<b>116.1</b>	<b>-12.6</b>	<b>107.7</b>

Cash flow from operating activities was DKK 439m, which was DKK 14m higher than 2017 due to higher net profits and lower payment of taxes partly countered by changes in working capital driven by work in progress following a number of transformation projects where invoicing will follow later and less prepayments received from customers.

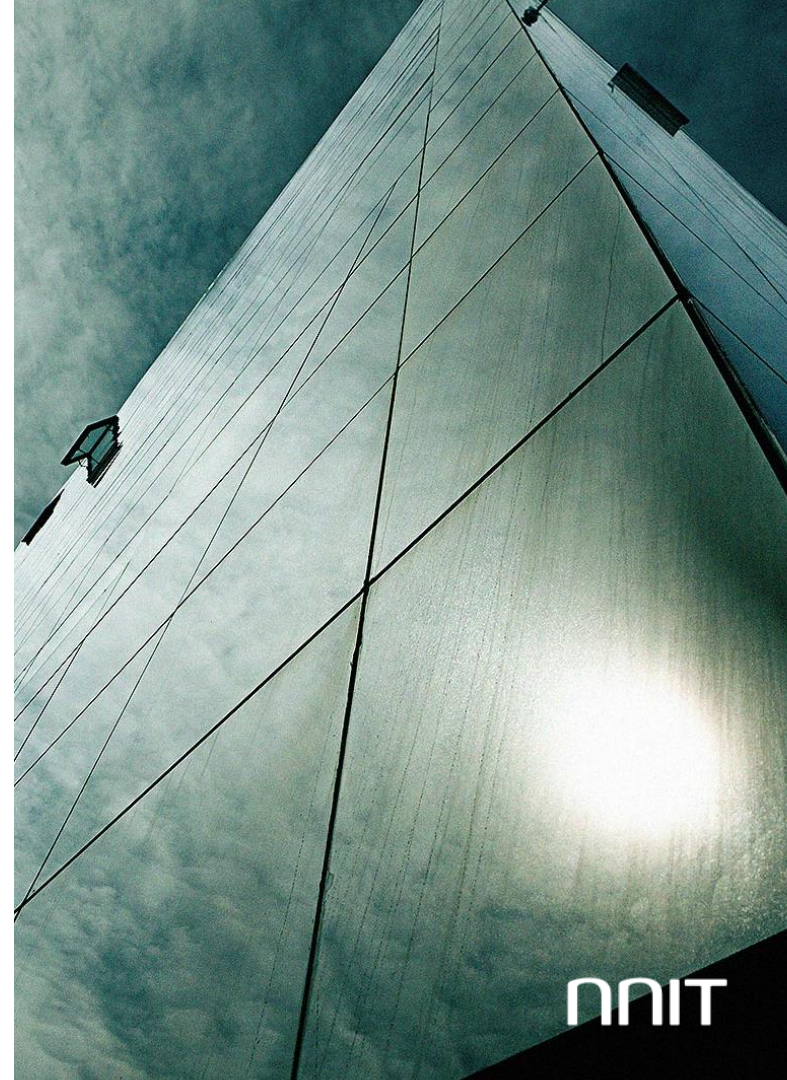
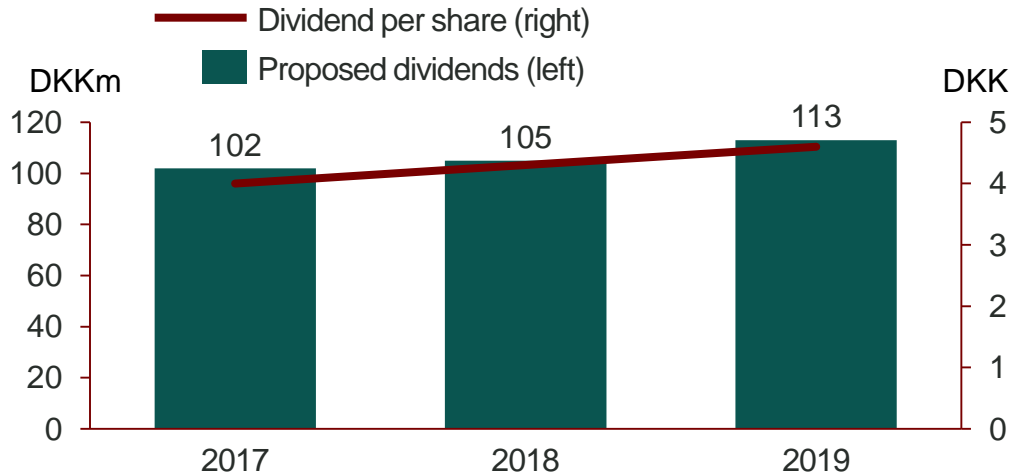
Cash flow from investing activities was DKK -323m compared to DKK -438m in 2017. The decline relates to last year's investments in the data center and the acquisition of SCALES.

Cash flow from financing activities was DKK -83m compared to DKK -87m in 2017.

Free cash flow was DKK 116m, which is an improvement of DKK 108m compared to 2017 mainly due to the above mentioned reasons.

# Proposed dividends

- It is suggested to propose dividends for 2018 of DKK 63.8m equal to DKK 2.60 per share
- This brings NNIT's total dividends for financial year 2018 to DKK 113.0m equal to DKK 4.60 per share and corresponding to a dividend pay-out ratio of 48.3% and dividend yield of 2.5%
- Financial gearing is still very low



# Outlook

	2019	Long-term targets
Revenue growth	Constant currencies: <b>3-6%</b> Reported currencies: 0.3pp higher	6-8% organic excl. Novo Nordisk Group
Operating profit margin	Constant currencies: <b>10-10.5%</b> Reported currencies: 0.1pp lower	At least 10% It is expected that the margins in the life sciences segment will be substantially higher than the margins in the Private & Public segment
Capex	Share of revenue: <b>5-7%<sup>2</sup></b>	

<sup>2</sup>Investments and re-investments are in 2019 expected to be between 5-7 percent of total revenue



# Closing remarks

- Revenue growth of 5.5% in Q4 2018, and 5.5% for the full year 2018, hereof 13% growth from clients outside the Novo Nordisk Group
- Operating profit margin of 12.9% in Q4 2018 and 10.2% for the full year 2018
- Strong growth within international life sciences and finance customer groups in Q4 2018
- The strong underlying cash flow generation allows us to raise dividend even in a year, where we acquired Valiance Partners
- New strategy, equity story and a more customer focused organization to enable further innovation and digital transformation for our clients
- For 2019 we expect revenue growth of 3-6% and an operating profit margin of 10-10.5% in constant currencies (0.1pp lower in reported currencies) with an investment level of 5-7% of revenue
- Uncertainty regarding revenue from Novo Nordisk should be noted

# Investor contact information

## Upcoming events

### **March 7, 2019:**

- Annual General Meeting

### **May 14, 2019:**

- Interim report for the first three months of 2019

### **August 14, 2019:**

- Interim report for the first six months of 2019

### **October 24, 2019:**

- Interim report for the first nine months of 2019

## Investor contact



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