

# NNIT Q1 2017

May 18, 2017

# The NNIT Presenting Team



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# Agenda

Highlights for first quarter 2017

Sales and backlog

Financial performance

Outlook for 2017

# 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.

## Q1 2017 at a glance

Revenue

**DKK 715m**

**+8.0%**

**+7.9% organic\***

Operating profit

**DKK 73m**

**+4.3%**

**+3.4% organic\***

Operating profit margin

**10.2%**

**-0.4pp**

**-0.4pp organic\***

Net profit

**DKK 56m**

**+8.9%**

Order backlog

**DKK 2,385m**

**+4.8%**

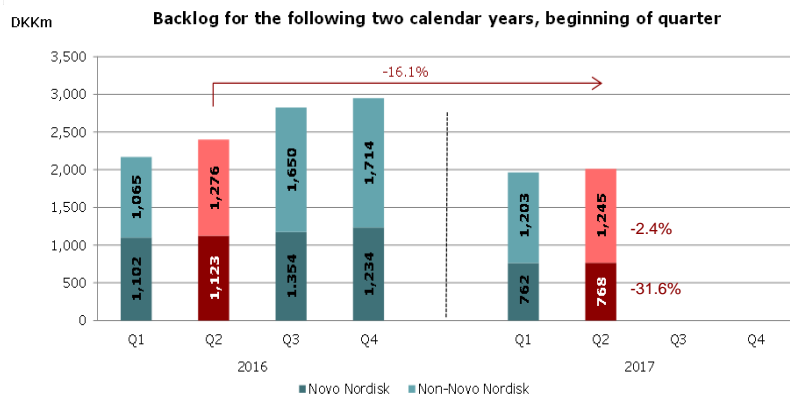
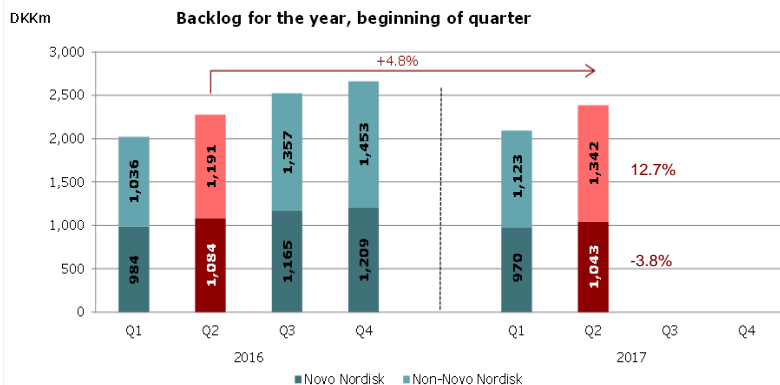
Free cash flow

**DKK 142m**

**+DKK 11m**

\*Organic is growth in constant currencies using Q1 2016 average exchange rates

# Backlog development



Backlog for 2017 is DKK 2,385m, which is an increase of 4.8% compared to same time in 2016:

- New customers in the enterprise and life sciences customer groups
- Expansion of contracts with existing customers in the enterprise customer group
- Partly countered by a lower backlog with the Novo Nordisk Group

The backlog for 2018 and 2019 decreased 16.1% y-o-y to DKK 2,013m:

- The announced renewal of the Novo Nordisk global infrastructure agreement is not included in the backlog
  - The backlog only decreases with around 3% if the renewal is included
- Several large outsourcing contracts expire in 2017 and 2018 and are not yet renegotiated or retendered
- All renewals or replacements of these contracts will increase the backlog

# Major wins

	Contract	Segment	Client	Amount (DKK million)	Length (years)
Q1 2017	Onsite support contract	Enterprise	Existing customer	Medium-double-digit	4
	Prolongation of operation outsourcing	Enterprise	Existing customer	Small-double-digit	4
Q2 2017	Global infrastructure agreement <i>(Company announcement 4/2017 5 May)</i>	Life sciences	Novo Nordisk	Around one billion	6

# Novo Nordisk Infrastructure agreement

The agreement covers Novo Nordisk's global IT infrastructure and further supports the pharmaceutical company's cloud strategy.

Contract size is around DKK 1 billion over 6 years starting January 1, 2017.

The contract replaces the former contract covering January 1, 2013 to December 31, 2017.

Due to the commitment and length of the contract has build in efficiency measures, which enable NNIT to provide a high quality service combined with a competitive price, providing Novo Nordisk with a declining price over time. This in in-line with general practice in the market.

The contract size will increase with future growth, which is not included in the baseline of DKK 1 billion. These are typical elements of long-term, outsourcing contracts

The length and scope of the contract allows NNIT to:

- Further optimize on the delivery through automation and operational excellence
- Include new and efficient technologies, innovation and cloud
- Increase offshoring and further leveraging NNIT's Global Delivery Model

The contract will serve as a platform for the continued strategic cooperation between Novo Nordisk and NNIT and provides a foundation for further global cooperation, e.g. through standardized global services, increased security services, transformational services e.g. Future Digital Workplaces and cloud services.

The new contract does not change NNIT's guidance for 2017 since NNIT's guidance in the annual report for 2016 was based on an expected outcome, which is close to the signed agreement.



# SCALES acquisition – in overview

## Transaction details

Acquisition price consists of:

- An upfront payment of DKK 122m of which 85% is in cash and 15% in NNIT shares
- An earnout target of DKK 52m with an earnout range of 0-130% of target depending on performance in EBITDA, additional revenue in application outsourcing in NNIT as well as employee attrition rate
- Earnout period is 2017-2019 and earnout is paid 85% in cash and 15% in NNIT shares
- June 1, 2017 SCALES will be a part of the NNIT Group under the name “SCALES, an NNIT Group company”
- The acquisition is expected to increase NNIT’s 2017 full year revenue growth by around 3 percentage points and is expected to have a slightly positive impact on NNIT’s operating profit margin

## Organization

- SCALES Group will continue its current business, while working together with NNIT on new business opportunities within larger projects and application outsourcing
- SCALES will report to the NNIT Solutions division and will be included in NNIT Solutions division reporting

## Synergies

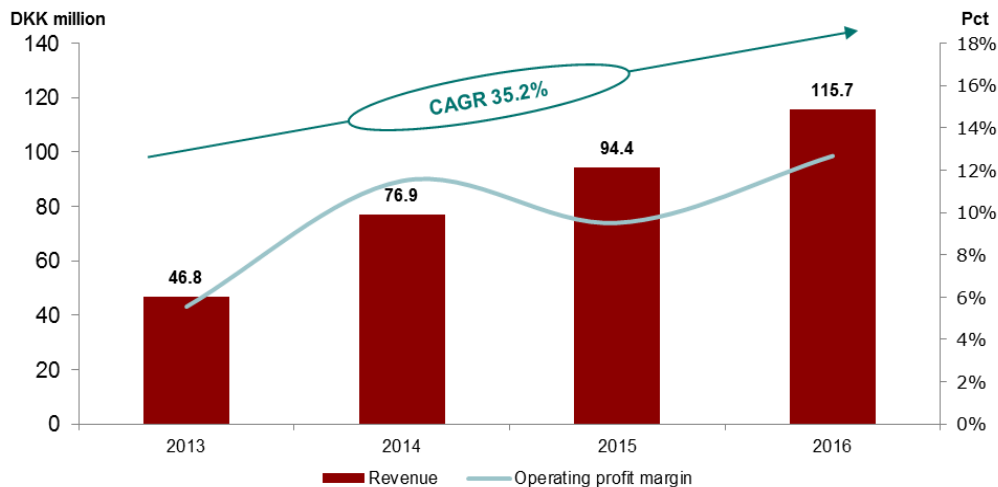
- Revenue - full stack within Dynamics AX – will be primary synergy
- NNIT offshore center in Philippines can be utilized within development, life cycle care and on-going maintenance and updates
- Due to the lean setup at SCALES Group only limited cost synergies exist

# SCALES Group – an overview



**11**  
Dynamics AX 365  
platform  
implementations  
completed or ongoing  
(most in Scandinavia)

Also nominated in top 3 in 2014+2015  
and ERP(AX) partner of the year in 2013

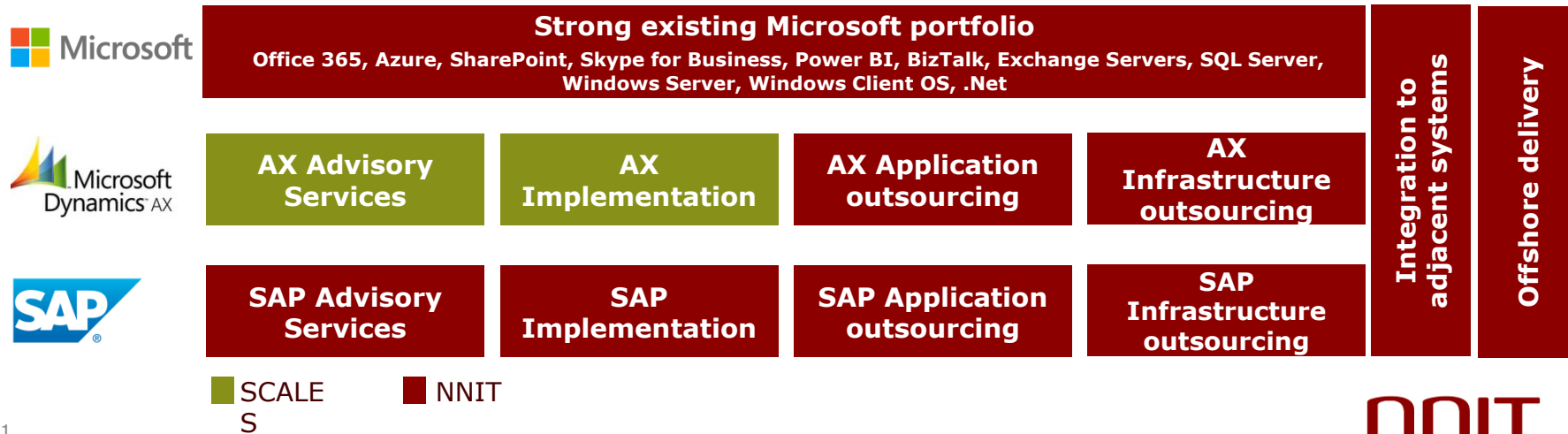


- Founded in 2011
- One of the largest Dynamics AX consultancies in Denmark – a recognized Microsoft partner
- The leading Dynamics 365 consultancy in the Nordic region
- 113 AX consultants in Denmark and Norway
- Strong profitable growth track record
- Strong cultural fit to NNIT
- NNIT partner on Widex and PANDORA deliveries

# How does the transaction create value

- Create a **full stack offering for Dynamics AX** from advisory, to implementation and operations (application and infrastructure)
- Will create an **unmatched ERP power house in Denmark** with a full stack value proposition for the two market leading platforms - Microsoft and SAP - for larger organizations. AX is a critical application – managing critical applications is a core NNIT capability
- Supports Microsoft focused customers and their move into the cloud as part of their digital transformation and creating the future digital workplace

## NNIT, a full stack ERP house

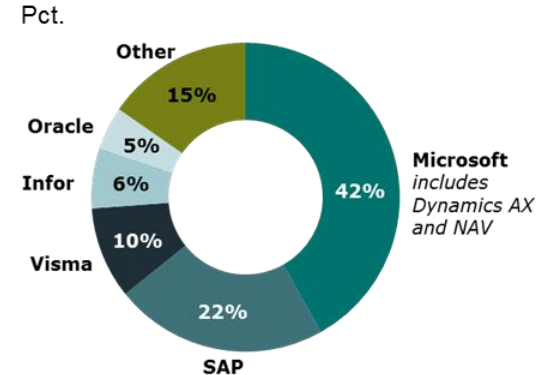


# Dynamics AX – an attractive market

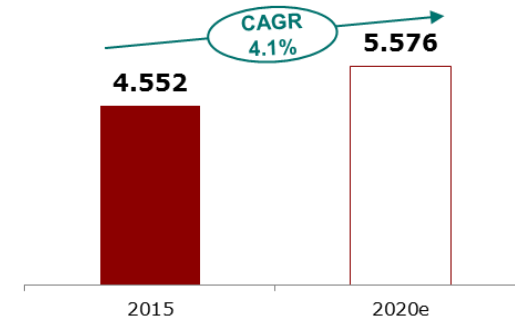
- AX is increasingly being accepted as an attractive option for larger enterprises
- Traditionally, Microsoft has had a strong market position in the Danish ERP market due to C5, Navision and AX
- Gartner predicts the Danish ERP software market to grow plus 4% p.a. and we expect the services market to grow in the same range
- NNIT expects AX to outgrow the market based on current market traction
  - Worldwide, Dynamics has seen strong growth. Dynamics products and cloud services increased 10%
  - Dynamics 365 growth was 81%

Source: Gartner, Microsoft quarterly reporting

ERP license sales market share in Denmark (2015)



Estimated ERP service market in Denmark



Calculation based on estimated ERP software sales in Denmark assuming a constant 3:1 factor between services and software licenses

# Financial statement

DKK million	Q1 2017	Q1 2016	Change
<b>Revenue</b>	715.3	662.6	8.0%
Cost of goods sold	581.7	532.1	9.3%
<b>Gross profit</b>	<b>133.6</b>	<b>130.5</b>	<b>2.4%</b>
<i>Gross profit margin</i>	<i>18.7%</i>	<i>19.7%</i>	<i>-1.1pp</i>
Sales and marketing costs	32.9	32.9	-0.1%
Administrative expenses	27.9	27.7	0.5%
<b>Operating profit</b>	<b>72.8</b>	<b>69.8</b>	<b>4.3%</b>
<i>Operating profit margin</i>	<i>10.2%</i>	<i>10.5%</i>	<i>-0.4pp</i>
Net financials	-1.6	-4.3	n.a.
<b>Profit before tax</b>	<b>71.2</b>	<b>65.5</b>	<b>8.7%</b>
Tax	15.4	14.2	8.2%
<i>Effective tax rate</i>	<i>21.6%</i>	<i>21.7%</i>	<i>-0.1pp</i>
<b>Net profit</b>	<b>55.8</b>	<b>51.3</b>	<b>8.9%</b>

Organic revenue growth of 8.0% compared to Q1 2016

Cost of goods sold increased by 9.3% compared to Q1 2016 mainly due to increase in costs of hardware for infrastructure projects and onboarding of new customers

Sales and marketing costs and administrative expenses are flat compared to Q1 2016

Operating profit margin of 10.2%

# Segment development

DKKm	Q1 2017	Q1 2016	Change
Life Sciences	414.4	392.6	5.6%
<i>Hereof Novo Nordisk Group</i>	322.2	310.7	3.7%
<i>Hereof other Life Sciences</i>	92.1	81.8	12.6%
Enterprise	150.5	109.6	37.4%
Public	84.2	100.7	-16.4%
Finance	66.3	59.8	10.8%
<b>Total</b>	<b>715.3</b>	<b>662.6</b>	<b>8.0%</b>

Novo Nordisk revenue increased by 3.7% due to infrastructure projects with a high degree of hardware with low margins.

Adjusted for the increased hardware revenue the growth from the Novo Nordisk Group would have been negative with 3.2%.

Life sciences revenue outside Novo Nordisk grew by 12.6% due to international growth.

Enterprise revenue grew by 37% driven by increased revenue from new customers, which includes PANDORA and Widex where the contracts were entered into in Q2 2016.

Public revenue decreased by 16.4%. The decline can be explained by a settlement with a customer in the public customer group within IT Operation Services. Besides this price reductions in certain outsourcing contracts impact revenue.

Finance revenue increased 10.8% primarily due to contract wins with new customers such as E-nettet and Danske Bank.

# IT Operations

DKKm	Q1 2017	Q1 2016	Change
<b>Revenue</b>			
Novo Nordisk Group	226.0	212.6	6.3%
Non-Novo Nordisk Group	242.6	226.0	7.4%
<b>Total</b>	<b>468.7</b>	<b>438.6</b>	<b>6.9%</b>
Costs	419.3	385.7	8.7%
<b>Operating profit</b>	<b>49.3</b>	<b>53.0</b>	<b>-6.8%</b>
<i>Operating profit margin</i>	<i>10.5%</i>	<i>12.1%</i>	<i>-1.5pp</i>

Q1 revenue growth of 6.9%:

- Driven by new and existing large outsourcing customers primarily within the enterprise and finance segments
- The growth from the Novo Nordisk Group was primarily driven by infrastructure projects with a high degree of hardware. Adjusted for the increased hardware revenue the growth in revenue from the Novo Nordisk Group would have been negative

Q1 operating profit margins decreased 1.5pp to 10.5% negatively impacted by Novo Nordisk hardware projects with low margins, and onboarding of new customers

# IT Solutions

DKKm	Q1 2017	Q1 2016	Change
<b>Revenue</b>			
Novo Nordisk Group	96,2	98,1	-1,9%
Non-Novo Nordisk Group	150,5	125,9	19,5%
<b>Total</b>	<b>246,6</b>	<b>224,0</b>	<b>10,1%</b>
Costs	223,2	207,1	7,7%
<b>Operating profit</b>	<b>23,5</b>	<b>16,8</b>	<b>39,4%</b>
<i>Operating profit margin</i>	<i>9,5%</i>	<i>7,5%</i>	<i>2pp</i>

Q1 revenue growth of 10.1% compared to Q1 2016 where the Danish Easter holiday was in March. The timing of the Danish Easter holiday impacts the revenue growth with 4.5pp.

- Revenue from customers outside the Novo Nordisk Group was driven by the enterprise and life sciences customer groups
- Revenue from the Novo Nordisk Group decreased 1.9% due to a drop in project activities

Q1 operating profit margins increased 2.0pp to 9.5%:

- Comparison period was impacted by a provision for loss on fixed price project in the public customer group
- This is partly countered by a reduction in higher margin project activities from the Novo Nordisk Group



# Currency development and hedging



USD and PHP have been depreciating lately against the DKK, while CNY, EUR and CZK all have been relative flat vs. DKK.

CHF has continued the appreciation against DKK.

We continued to have currency tailwind from the CNY and PHP compared to 2016. EUR and CZK and are stable at 2016 level, while USD and CHF increase provides limited headwind.

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

**Hedging period (months)**

EUR	DKK 34 million	-
CNY	DKK -18 million	14
CZK	DKK -9 million	14
PHP	DKK -4 million	-
CHF	DKK -2 million	-
USD	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 2016 business plan.

Q1 2017 our operating profit margin tailwind was 0.1pp compared to 2016 exchange rates.

# Net Financials

Net financials DKKm	Q1 2017	Q1 2016	Change
Net gains on Novo Nordisk shares*	-0,6	-2,2	1,6
Dividends received from Novo Nordisk shares	0,2	0,5	-0,3
<b>Total Novo Nordisk share related items</b>	<b>-0,4</b>	<b>-1,7</b>	<b>1,3</b>
Currency hedge gains	-0,2	-1,7	1,5
Currency losses	-0,4	-0,3	0,0
<b>Total currency related items</b>	<b>-0,5</b>	<b>-2,0</b>	<b>1,5</b>
Interests and bank charges**	-0,7	-0,6	-0,1
<b>Total interests and bank charges</b>	<b>-0,7</b>	<b>-0,6</b>	<b>-0,1</b>
<b>Net financials</b>	<b>-1,6</b>	<b>-4,3</b>	<b>2,7</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

Total Currency hedges DKKm	Q1 2017	Q1 2016	Change
Currency hedge gains in P&L	-0.2	-1.7	1.5
Currency hedge gains on Equity	5.5	-5.4	10.9
<b>Total currency hedge gains</b>	<b>5.4</b>	<b>-7.1</b>	<b>12.4</b>

Net Financial impact from Novo Nordisk share price DKKm	Market value	Obligation	Net
Full year 2017 (if the share price increase by 10%)	1.0	0.8	<b>0.2</b>
Full year 2017 (if the share price decrease by 10%)	-1.0	-0.8	<b>-0.2</b>

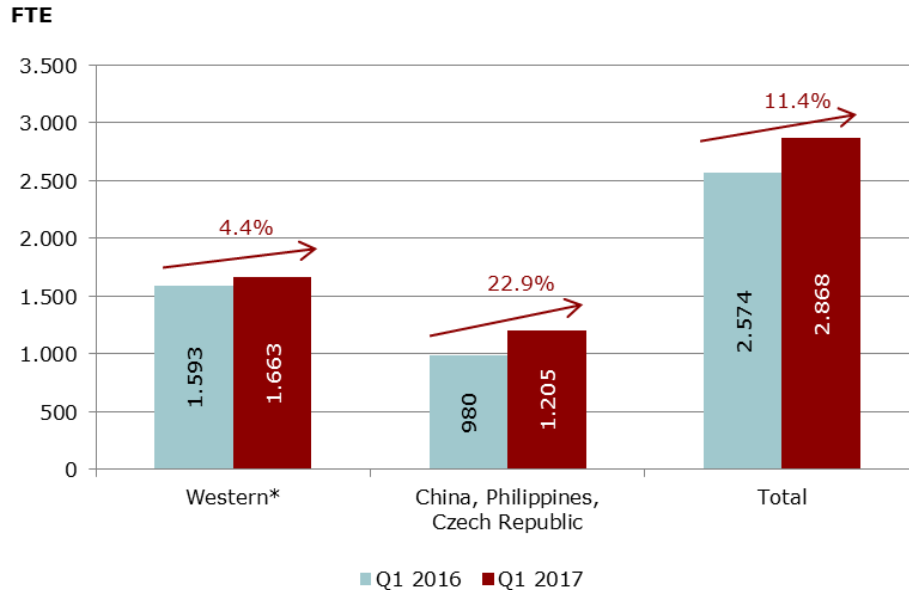
Net financials for Q1 2017 were DKK -1.6m, which was DKK 2.7m better than Q1 2016.

This was due to:

- Lower net losses on Novo Nordisk shares held for management long-term incentive program from before 2015 (DKK -0.4m) compared to Q1 2016 (DKK -1.7m)
- Lower losses on currency hedges (DKK -0.5m) compared to Q1 2016 (DKK -2.0m) due to a more stable development in exposed currencies

Interest and bank charges was DKK -0.7m, which is in-line with Q1 2016

# Employee development



\*Western countries: Denmark, Germany, Switzerland, United Kingdom, United States

Number of employees increased by 11.4% to 2,868 FTE end of March 2017 due to large contract wins in H2 2016 such as PANDORA and Widex.

Growth came primarily in China, the Czech Republic and the Philippines:

- Increase of 224 FTE (22.9%) compared to end of March 2016

Number of employees in western countries increased 70 FTE (4.4%).

Share of employees in low cost countries grew to 42.0% end of March 2017.

- Increase of 3.9 percentage-points compared to March 2016

# Balance sheet

<b>Assets</b> DKKm	<b>Q1 2017</b>	<b>Q1 2016</b>
Intangible assets	32.9	25.6
Tangible assets	444.2	404.5
Deferred tax	44.8	51.1
Other financial assets	29.0	28.4
<b>Total non-current assets</b>	<b>550.9</b>	<b>509.6</b>
Inventories	2.4	2.4
Trade receivables	419.2	331.1
Work in progress	149.3	95.2
Other receivables and pre-payments	140.3	99.1
Tax receivables	3.8	0.0
Shares	10.0	27.1
Derivative financial instruments	5.3	0.4
Cash and cash equivalents	262.7	165.4
<b>Total Current assets</b>	<b>993.1</b>	<b>720.7</b>
<b>Total assets</b>	<b>1,543.9</b>	<b>1,230.3</b>

<b>Equity and liabilities</b> DKKm	<b>Q1 2017</b>	<b>Q1 2016</b>
Share capital	250.0	250.0
Treasury shares	-7.5	-7.5
Retained earnings	603.7	452.1
Other reserves	14.4	4.0
<b>Total equity</b>	<b>860.5</b>	<b>698.6</b>
Employee benefit obligation	19.1	27.3
Provisions	11.9	9.1
<b>Total non-current liabilities</b>	<b>31.0</b>	<b>36.4</b>
Prepayments received	169.0	90.5
Trade payables	138.7	50.5
Employee cost payable	227.5	220.2
Tax payables	0.0	1.1
Other current liabilities	103.3	112.3
Derivative financial instruments	0.4	6.6
Employee benefit obligation	11.3	9.1
Provisions	2.2	4.9
<b>Total current liabilities</b>	<b>652.4</b>	<b>495.3</b>
<b>Total equity and liabilities</b>	<b>1,543.9</b>	<b>1,230.3</b>

# Cash flows

Cash flow DKKm	Q1 2017	Q1 2016	Change
Net profit for the period	55.8	51.3	4.5
Reversal of non-cash items	48.1	57.3	-9.1
Net interest and taxes paid	-44.0	-32.0	-12.0
Changes in working capital	149.5	100.1	49.4
<b>Cash flow from operating activities</b>	<b>209.5</b>	<b>176.7</b>	<b>32.8</b>
Capitalization of intangible assets	-1.6	0.0	-1.6
Purchase of tangible assets	-68.4	-37.1	-31.3
Change in trade payables related to investments	2.6	-8.8	11.4
Sale of tangible assets	0.0	0.0	0.0
Dividends received	0.2	0.5	-0.3
Purchase of shares	0.0	0.0	0.0
Payment of deposits	-0.2	0.0	-0.2
<b>Cash flow from investing activities</b>	<b>-67.4</b>	<b>-45.4</b>	<b>-22.0</b>
Dividends paid	-53.4	-97.0	43.7
<b>Cash flow from financing activities</b>	<b>-53.4</b>	<b>-97.0</b>	<b>43.7</b>
<b>Net cash flow</b>	<b>88.8</b>	<b>34.3</b>	<b>54.5</b>
<b>Free cash flow</b>	<b>142.2</b>	<b>131.3</b>	<b>10.8</b>

Cash flow from operating activities was DKK 210m, which was DKK 33m higher due to positive development in working capital.

Cash flow from investing activities was DKK -67m compared to DKK -45m in Q1 2016 due to investments primarily related to a new datacenter.

Cash flow from financing activities was DKK -53m compared to DKK -97m in Q1 2016 due to interim dividend payouts mid-year 2016.

Free cash flow was DKK 142m, which is DKK 11m higher than Q1 2016.

Based on the strong cash flow NNIT expects to pay out an interim dividend in August 2017 of DKK 48.5m in cash equal to DKK 2 per share of a nominal value of DKK 10

# Outlook

	2017	Previous guidance														
Revenue growth	<table><tr><td>Constant currencies:</td><td><b>4-8%</b></td></tr><tr><td>Constant currencies (organic):</td><td>1-5%</td></tr><tr><td>Reported currencies:</td><td>No impact</td></tr></table>	Constant currencies:	<b>4-8%</b>	Constant currencies (organic):	1-5%	Reported currencies:	No impact	<table><tr><td>Constant currencies:</td><td>1-5%</td></tr><tr><td>Constant currencies (organic):</td><td>1-5%</td></tr><tr><td>Reported currencies:</td><td>0.1pp higher</td></tr></table>	Constant currencies:	1-5%	Constant currencies (organic):	1-5%	Reported currencies:	0.1pp higher		
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# Closing remarks

- A solid financial performance in Q1 in-line with our expectations
- Strong growth in non-Novo Nordisk revenue
- Uncertainty in full-year Novo Nordisk revenue
- Renewal of major infrastructure agreement with Novo Nordisk serving as a platform for the continued strategic cooperation between Novo Nordisk and NNIT
- Bolt on acquisition of SCALES Group gives NNIT unmatched full stack Dynamics AX capabilities to go with NNIT's full stack SAP capabilities
- 2017 guidance of 4-8% revenue growth, 3pp coming from the SCALES acquisition, and around 10% operating profit margin with an investment level of 12-14% revenue

# Investor contact information

## Upcoming events

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August 16, 2017:	Interim report for the first six months of 2017
October 26, 2017:	Interim report for the first nine months of 2017

## Investor contact

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