

# NNIT full-year report 2016

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# The NNIT Presenting Team



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# Agenda

Highlights for 2016

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.

## 2016 at a glance

**Revenue**

**DKK 2,765m**

**+6.3%**

**+6.4% organic\***

**Operating profit**

**DKK 293m**

**+8.8%**

**+4.0% organic\***

**Operating profit margin**

**10.6%**

**+0.2pp**

**-0.2pp organic\***

**Net profit**

**DKK 216m**

**+1.5%**

**Order backlog**

**DKK 2,093m**

**+3.6%**

**Free cash flow**

**DKK 188m**

**-DKK 22m**

\*Organic is growth in constant currencies using Q4 2015 average exchange rates

## Q4 2016 at a glance

Revenue

**DKK 769m**

**+6.4%**

**+6.4% organic\***

Operating profit

**DKK 97m**

**+4.7%**

**+0.8% organic\***

Operating profit margin

**12.6%**

**-0.2pp**

**-0.7pp organic\***

Net profit

**DKK 72m**

**+6.0%**

Order backlog addition

**DKK 103m**

**-12.0%**

Free cash flow

**DKK 70m**

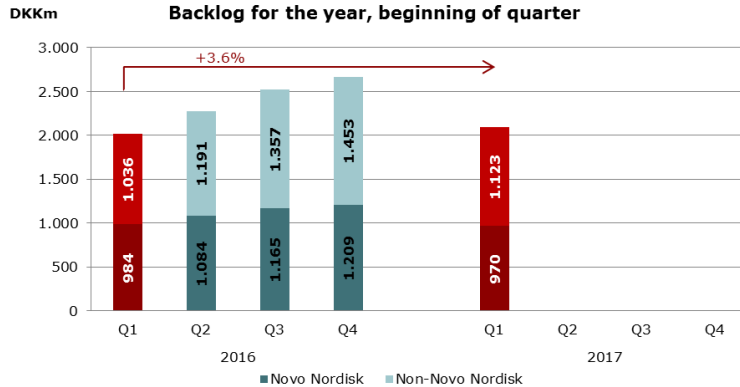
**DKK -18m**

\*Organic is growth in constant currencies using Q4 2015 average exchange rates

# Major wins

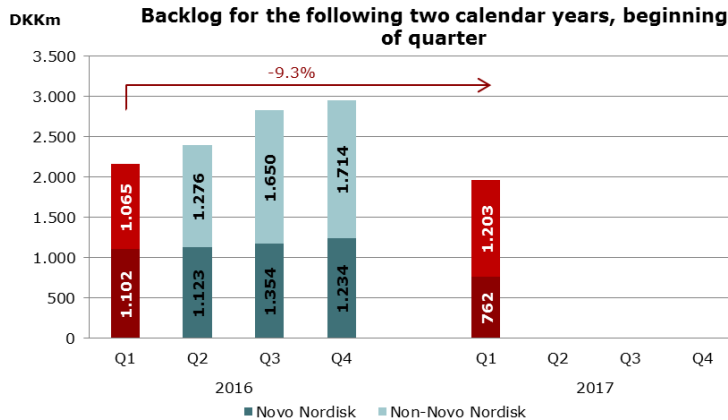
	<b>Contract</b>	<b>Segment</b>	<b>Client</b>	<b>Amount (DKK million)</b>	<b>Length (years)</b>
<b>Q4 2016</b>	Application support Agreement <i>(Announced in press release 29 December)</i>	Enterprise	PANDORA	High-double-digit	4.5
	Prolongation of Application Outsourcing agreement <i>(Announced in press release 21 December)</i>	Life sciences	Lundbeck	High-double-digit	4
	Prolongation of Operation Outsourcing agreement	Life sciences	Novo Nordisk	Medium-double-digit	5
	Operations Hardware agreement	Life sciences	Novo Nordisk	Medium-double-digit	1
	Operations Outsourcing	Finance	Finance customer	Small-double-digit	5
	Consultancy Agreement	Life sciences	Life sciences customer	Small-double-digit	1

# Backlog development



Backlog for 2017 is DKK 2,093m, which is an increase of 3.6% compared to the start of 2016:

- New customers in the enterprise and finance customer groups
- Expansion of contracts with existing customers in the enterprise and finance customer groups
- Partly countered by a lower backlog with the Novo Nordisk Group and price reductions in existing contracts



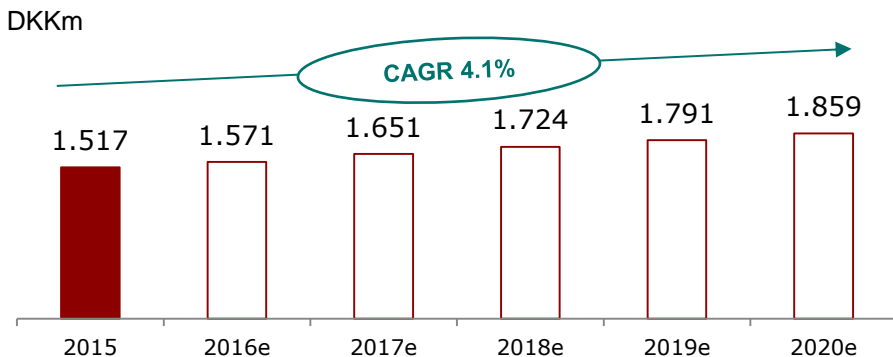
The backlog for 2018 and 2019 decreased 9.3% y-o-y to DKK 1,965m:

- Several large outsourcing contracts expiring during 2017 and 2018 which are not yet renegotiated or retendered
- All renewals or replacements of these contracts will increase the backlog

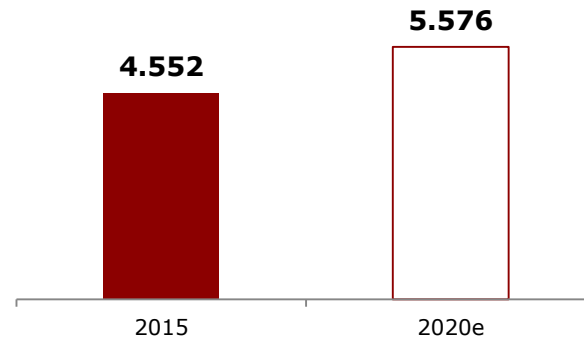


# The Danish ERP Market

## Estimated growth in sale of ERP licenses in Denmark

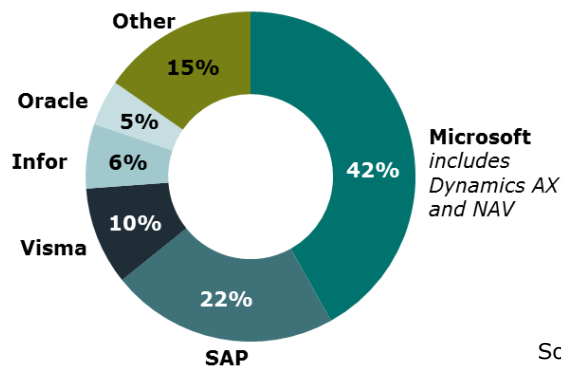


## Estimated ERP service market in Denmark



## ERP license sales market share in Denmark (2015)

DKKkM



- NNIT is a Top 2 SAP IT service provider in Denmark
- Interesting growth opportunities within MS Dynamics AX
- Examples of current clients running MS Dynamics AX are: PANDORA, Widex, Danish Pharmacies....and NNIT

Source: Gartner, 2016

# Financial statement

DKK million	Q4 2016	Q4 2015	Change	2016	2015	Change
<b>Revenue</b>	768,9	722,9	6,4%	2.764,6	2.600,3	6,3%
Cost of goods sold	606,4	564,6	7,4%	2.223,0	2.083,0	6,7%
<b>Gross profit</b>	<b>162,5</b>	<b>158,3</b>	<b>2,6%</b>	<b>541,6</b>	<b>517,3</b>	<b>4,7%</b>
<i>Gross profit margin</i>	<i>21,1%</i>	<i>21,9%</i>	<i>-0.8pp</i>	<i>19,6%</i>	<i>19,9%</i>	<i>-0.3pp</i>
Sales and marketing costs	36,7	35,2	4,3%	134,8	129,6	4,0%
Administrative expenses	29,0	30,6	-5,5%	113,9	118,6	-3,9%
<b>Operating profit</b>	<b>96,8</b>	<b>92,5</b>	<b>4,7%</b>	<b>292,9</b>	<b>269,1</b>	<b>8,8%</b>
<i>Operating profit margin</i>	<i>12,6%</i>	<i>12,8%</i>	<i>-0.2pp</i>	<i>10,6%</i>	<i>10,3%</i>	<i>0.2pp</i>
Net financials	-2,1	-0,5	n.a.	-12,6	3,1	n.a.
<b>Profit before tax</b>	<b>94,7</b>	<b>92,0</b>	<b>2,9%</b>	<b>280,3</b>	<b>272,2</b>	<b>3,0%</b>
Tax	22,5	23,8	-5,8%	64,6	59,8	8,0%
<i>Effective tax rate</i>	<i>23,7%</i>	<i>25,9%</i>	<i>-2.2pp</i>	<i>23,0%</i>	<i>22,0%</i>	<i>1.1pp</i>
<b>Net profit</b>	<b>72,2</b>	<b>68,2</b>	<b>6,0%</b>	<b>215,7</b>	<b>212,4</b>	<b>1,5%</b>

Organic revenue growth of 6.3% (Q4: 6.4%)

Cost of goods sold increased by 6.7%

(Q4: 7.4%) mainly due to:

- One-off severance payment of DKK 10m and lower level of higher margin projects (Q4)
- Provision for loss on a project in the public customer group (Q1)
- Dispute with another customer in the public customer group (Q3), now settled

Operating profit margin of 10.6% (Q4: 12.6%)

Net financials negatively impacted (2016 and Q4) by:

- Losses on cash flow hedges
- Negative net value adjustment of Novo Nordisk shares and long-term incentive program liability for previous years

Effective tax rate of 23.0% (Q4: 23.7%)

with a Danish Corporate tax rate of 22%

- Impacted by negative net value adjustment of Novo Nordisk shares

Net profits increased 1.5% (Q4: 6.0%)

# Segment development

DKKm	Q4 2016	Q4 2015	Change	2016	2015	Change
Life Sciences	431,2	479,4	-10,1%	1.597,0	1.649,7	-3,2%
<i>Hereof Novo Nordisk Group</i>	328,7	391,9	-16,1%	1.238,4	1.315,8	-5,9%
<i>Hereof other Life Sciences</i>	102,5	87,5	17,1%	358,6	334,0	7,4%
Enterprise	170,5	97,9	74,1%	545,6	384,7	41,8%
Public	103,5	92,1	12,4%	385,3	375,1	2,7%
Finance	63,8	53,5	19,1%	236,7	190,8	24,1%
<b>Total</b>	<b>768,9</b>	<b>722,9</b>	<b>6,4%</b>	<b>2.764,6</b>	<b>2.600,3</b>	<b>6,3%</b>

Novo Nordisk revenue decreased by 5.9% (Q4: decreased by 16.1%).

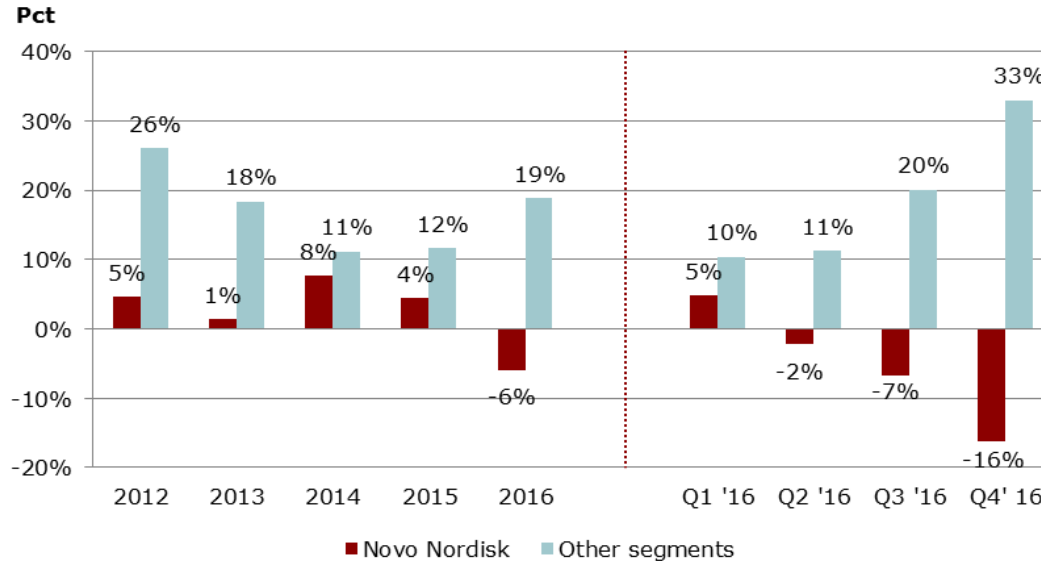
Life sciences revenue outside Novo Nordisk grew by 7.4% (Q4: 17.1%). The growth in Q4 was driven by new orders from previous quarters.

Enterprise revenue grew by 41.8% (Q4: 74.1%) driven by existing customers as well as PANDORA and Widex.

Public revenue grew by 2.7% (Q4: increased 12.4%). Revenue was impacted by a settlement with a customer and price reductions in some outsourcing contracts which have only partly been offset by increased project activity.

Finance revenue increased 24.1% (Q4: 19.1%) due to expansion of several existing customer contracts and new customers such as e-nettet and Købstædernes Forsikring/Propermo.

# Revenue development last 5 years



Significant change in segmental revenue during 2016.

2012-2015 Novo Nordisk revenue CAGR was 4% while 2016 revenue declined 6%.

2012-2015 other segments revenue CAGR was 14% while 2016 revenue grew 19%.

Change in revenue development from Novo Nordisk after Q1 2016.

Other segments revenue growth in 2H was impacted by new customers as well as existing customers within the Enterprise and Finance segments.

# IT Operations

DKKm	Q4 2016	Q4 2015	Change	2016	2015	Change
<b>Revenue</b>						
Novo Nordisk Group	225,9	270,9	-16,6%	841,4	889,9	-5,4%
Non-Novo Nordisk Group	289,7	219,8	31,8%	982,3	850,5	15,5%
<b>Total</b>	<b>515,6</b>	<b>490,7</b>	<b>5,1%</b>	<b>1.823,7</b>	<b>1.740,4</b>	<b>4,8%</b>
Costs	447,9	430,7	4,0%	1.616,9	1.568,2	3,1%
<b>Operating profit</b>	<b>67,7</b>	<b>60,0</b>	<b>12,9%</b>	<b>206,8</b>	<b>172,2</b>	<b>20,1%</b>
<i>Operating profit margin</i>	<i>13,1%</i>	<i>12,2%</i>	<i>0.9pp</i>	<i>11,3%</i>	<i>9,9%</i>	<i>1.4pp</i>

2016 revenue growth of 4.8% (Q4: 5.1%):

- Driven by new and existing large outsourcing customers primarily within the enterprise segment
- Negatively impacted by decline in Novo Nordisk revenue of 15.5% due to less project activity compared to 2015

2016 operating profit margins increased 1.4pp to 11.3% (Q4: 0.5pp to 13.1%):

- Profit margin positively impacted by the growth in revenue
- Efficiency measures implemented last year combined with stable operations positively impacted operating profits

# IT Solutions

DKKm	Q4 2016	Q4 2015	Change	2016	2015	Change
<b>Revenue</b>						
Novo Nordisk Group	102,7	121,0	-15,1%	397,0	425,9	-6,8%
Non-Novo Nordisk Group	150,5	111,2	35,3%	543,9	434,0	25,3%
<b>Total</b>	<b>253,2</b>	<b>232,2</b>	<b>9,1%</b>	<b>940,9</b>	<b>859,9</b>	<b>9,4%</b>
Costs	224,1	199,7	12,2%	854,8	763,0	12,0%
<b>Operating profit</b>	<b>29,1</b>	<b>32,5</b>	<b>-10,5%</b>	<b>86,1</b>	<b>96,9</b>	<b>-11,2%</b>
<i>Operating profit margin</i>	<i>11,5%</i>	<i>14,0%</i>	<i>-2.5pp</i>	<i>9,1%</i>	<i>11,3%</i>	<i>-2.1pp</i>

2016 revenue growth of 9.4% (Q4: 9.1%):

- The revenue increase was driven by revenue from customers outside the Novo Nordisk Group
- Revenue from the Novo Nordisk Group decreased 15.1% partly due to lower project activity and partly due to a strong comparison base in 2015 with non-recurring projects in connection with the separation from Novo Nordisk being finalized

2016 operating profit margins decreased 2.1pp to 9.1% (Q4: -2.5pp to 11.5%):

- Lower level of higher margin projects from Novo Nordisk (Q4)
- Increased complexity of a fixed price project in the public customer group resulted in a provision for loss (Q1)
- One-time severance payments in connection with changes in group management (Q2)

# Currency development and hedging



After the depreciation of the CNY in H1 2016 vs. DKK, the CNY has been appreciating in Q4.

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

Despite the recent appreciations we continued to have currency tailwind from the CNY and PHP compared to 2015. EUR, CZK and CHF are on 2015 level, while USD increase provides limited headwind.

Full year 2016 our operating profit margin tailwind was 0.5pp compared to 2015 exchange rates and Q4 operating profit margin tailwind was 0.5pp compared to Q4 2015.

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

CNY	DKK - 18 million	14
EUR	DKK 23 million	-
CZK	DKK - 8 million	14
PHP	DKK - 4 million	-
CHF	DKK - 2 million	-
USD	DKK - 0 million	-

Hedging gains and losses do not impact operating profit as they are recognized under net financials. For further details on hedging, please see note 5 above.

\* The above sensitivities address hypothetical situations and are provided for illustrative purposes only. The sensitivities assume the business develops consistent with the current 2017 business plan.

# Net Financials

Net financials DKKm	2016	2015	Change
Net gains on Novo Nordisk shares*	-5,4	4,1	-9,5
Dividends received from Novo Nordisk shares	0,7	0,7	0,1
<b>Total Novo Nordisk share related items</b>	<b>-4,7</b>	<b>4,8</b>	<b>-9,5</b>
Currency hedge gains	-3,4	6,8	-10,1
Currency losses	-1,1	-3,7	2,6
<b>Total currency related items</b>	<b>-4,5</b>	<b>3,1</b>	<b>-7,6</b>
Interests and bank charges**	-3,5	-4,7	1,3
<b>Total interests and bank charges</b>	<b>-3,5</b>	<b>-4,7</b>	<b>1,3</b>
<b>Net financials</b>	<b>-12,6</b>	<b>3,1</b>	<b>-15,8</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

Total Currency hedges DKKm	2016	2015	Change
Currency hedge gains in P&L	-3,4	6,8	-10,1
Currency hedge gains on Equity	-1,3	-3,9	2,6
<b>Total currency hedge gains</b>	<b>-4,7</b>	<b>2,9</b>	<b>-7,5</b>

Net Financial impact from Novo Nordisk share price DKKm	Market value	Obligation	Net
Full year 2017 (if the share price increase by 10%)	1,8	1,6	<b>0,3</b>
Full year 2017 (if the share price decrease by 10%)	-1,8	-1,6	<b>-0,3</b>

Net financials for 2016 were DKK -12.6m, which was DKK 15.8m lower than 2015.

- Q4 net financials were -2,1m, which was DKK 2.6m lower than Q4 2015

This was due to net losses on Novo Nordisk shares held for management long-term incentive program from before 2015 of DKK 5.4m vs. a gain of DKK 4.1m in 2015.

- Q4 loss of DKK 1.7m vs. gain of DKK 0.2m in Q4 2015

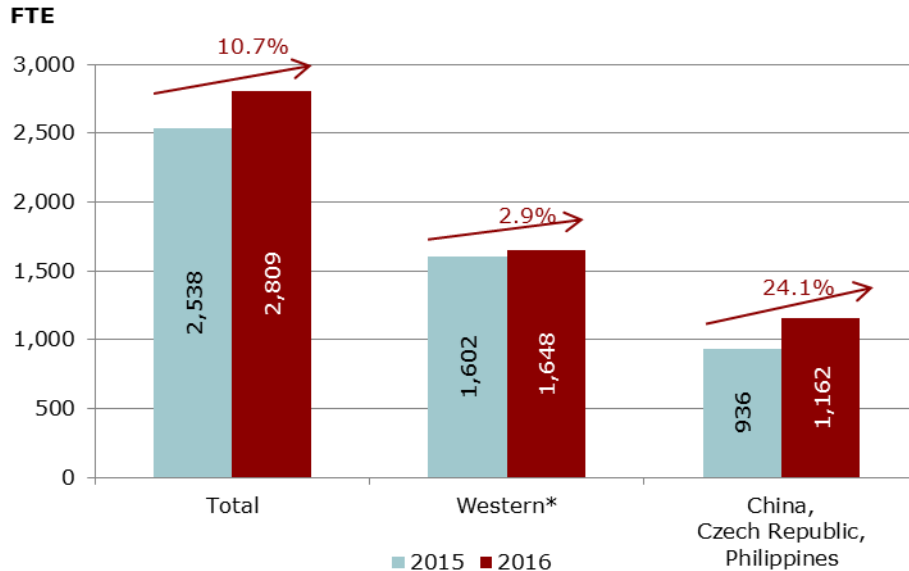
Losses on currency hedges of DKK 3.4m compared to a gain of DKK 6.8m in 2015.

- Q4 saw a gain on currency hedges of DKK 1.9m which is DKK 1.1m higher than Q4 2015

Interest and bank charges of DKK -3.5m, which is an improvement of DKK 1.3m compared to 2015.



# Employee development



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

Number of employees increased by 10.7% to 2,809 FTE end of December 2016 due to large contract wins impacting the number of FTEs in H2 2016.

The growth in average FTEs from 2015 to 2016 was 7.3%

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

- Increase of 226 FTE (24.1%) compared to end of December 2016

Number of employees in western countries increased 46 FTE (2.9%).

Share of employees in low cost countries grew to 41.4% end of December 2016.

- Increase of 4.5 percentage-points compared to December 2015

# Balance sheet

<b>Assets</b> DKKm	<b>2016</b>	<b>2015</b>
Intangible assets	33,3	27,6
Tangible assets	412,9	402,2
Deferred tax	52,4	43,9
Other financial assets	28,7	28,3
<b>Total non-current assets</b>	<b>527,3</b>	<b>502,0</b>
Inventories	2,8	1,7
Trade receivables	604,6	489,5
Work in progress	136,4	84,4
Other receivables and pre-payments	126,2	76,8
Tax receivables	0,0	0,0
Shares	18,2	49,3
Derivative financial instruments	1,1	1,0
Cash and cash equivalents	173,9	131,0
<b>Total non-current assets</b>	<b>1.063,2</b>	<b>833,8</b>
<b>Total assets</b>	<b>1.590,5</b>	<b>1.335,8</b>

<b>Equity and liabilities</b> DKKm	<b>2016</b>	<b>2015</b>
Share capital	250,0	250,0
Treasury shares	-7,5	-7,5
Retained earnings	542,8	396,0
Other reserves	7,8	5,3
Proposed dividends	53,4	97,0
<b>Total equity</b>	<b>846,5</b>	<b>740,8</b>
Deferred tax	0,0	0,0
Employee benefit obligation	34,3	39,1
Provisions	11,4	8,3
<b>Total non-current liabilities</b>	<b>45,7</b>	<b>47,4</b>
Prepayments received	186,5	60,5
Trade payables	59,3	73,0
Employee cost payable	258,4	267,5
Bank debt	0,0	0,0
Tax payables	29,9	11,3
Other current liabilities	140,9	105,7
Derivative financial instruments	2,1	5,3
Employee benefit obligation	7,6	18,6
Provisions	13,7	5,5
<b>Total current liabilities</b>	<b>698,4</b>	<b>547,5</b>
<b>Total equity and liabilities</b>	<b>1.590,6</b>	<b>1.335,8</b>

# Cash flows

<b>Cash flow</b> DKKm	<b>2016</b>	<b>2015</b>	<b>Change</b>
Net profit for the period	215,7	212,4	3,3
Reversal of non-cash items	270,7	235,2	35,5
Net interest and taxes paid	-54,9	-80,4	25,5
Changes in working capital	-68,7	-14,0	-54,6
<b>Cash flow from operating activities</b>	<b>362,8</b>	<b>353,2</b>	<b>9,6</b>
Capitalization of intangible assets	-13,6	0,0	-13,6
Purchase of tangible assets	-164,6	-140,7	-23,9
Sale of tangible assets	2,2	0,0	2,2
Dividends received	0,7	0,7	0,0
Purchase of shares	1,2	3,6	-2,3
Payment of deposits	-0,5	-5,9	5,4
<b>Cash flow from investing activities</b>	<b>-174,4</b>	<b>-142,3</b>	<b>-32,1</b>
Dividends paid	-145,5	-83,7	-61,8
Purchase of treasury shares	0,0	-93,8	93,8
<b>Cash flow from financing activities</b>	<b>-145,5</b>	<b>-177,5</b>	<b>32,0</b>
<b>Net cash flow</b>	<b>42,9</b>	<b>33,5</b>	<b>9,4</b>
<b>Free cash flow</b>	<b>188,4</b>	<b>210,9</b>	<b>-22,5</b>

Cash flow from operating activities was DKK 363m, which was DKK 10m higher than 2015 due to non-cash items, lower payment of income taxes partly countered by a negative development in working capital.

Cash flow from investing activities was DKK -174m compared to DKK -142m due to investments including in a new datacenter.

Cash flow from financing activities was DKK -146m compared to DKK -177m in 2015.

Free cash flow was DKK 188m, which is DKK 22m lower than 2015 due to higher investments.

# Outlook for 2017

2017

**Revenue  
growth**

**1-5% in constant currencies**

Around 0.1pp higher  
in reported currencies

**Operating  
margin**

**Around 10% in constant currencies**

No currency impact  
in reported currencies

**Capex**

**12-14% of revenue**

Of which around 7pp relates to the new data center investment  
of around DKK 200m in 2017

The total data center investment is expected to be  
around DKK 250m in the period 2016-2018

# Long-term targets

## Long-term target

### Revenue growth

At least 5%  
in constant currencies

The long-term target for revenue growth of at least 5% **is maintained** as the lower level of revenue from the Novo Nordisk Group is expected to be compensated by revenue growth from other customer groups from 2018 and onwards.

### Operating margin

At least 10%  
in constant currencies

The long-term operating profit margin target of at least 10% **is maintained** as a positive impact from the operational excellence program in IT Operation Services is expected from 2018 and onwards.

## Closing remarks

- Solid financial results in line with expectations
- Strong growth in non-Novo Nordisk revenue
- Revenue from Novo Nordisk declined but fully mitigated by other customer groups
- Operating profit in line with expectations
- 2017 guidance of 1-5% revenue growth being impacted by declining revenue from Novo Nordisk and around 10% operating profit margin with an investment level of 12-14% revenue
- Maintained long-term targets of at least 5% revenue growth and an operating profit margin least 10% from 2018 and onwards

# Investor contact information

## Upcoming events

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March 8, 2017:	Annual General Meeting
May 18, 2017:	Interim report for the first three months of 2017
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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