netcompany

Netcompany A/S Grønningen 17 DK-1270 København K
Telefon: +45 70131440 info@netcompany.com www.netcompany.com

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The following content is a summary of previously disclosed information and facts.

Facts about 2021

In 2021, Netcompany Core grew organically by 23% in Q1, 21% in Q2, 14% in Q3 and 11% in Q4 – all measured in constant currencies. The abnormal decline in revenue growth during the second half of 2021 was due to the continued Covid-related lockdown in Q1 2021, which led staff to defer vacation to Q3 and Q4.

In addition, the late ‘soft close’ of public administrations in Denmark end-Q4 2021 led to loss of the equivalent of 3-4 working days in December 2021, leading to lower organic revenue growth.

As of 1 November 2021, Netcompany acquired Intrasoft International. Throughout 2022 proforma financial numbers will be provided for comparison.

As most of Europe was in lockdown in Q1 2021, the costs realised for the full year relating to training and staff events for Netcompany Core were still lower than in a normal “pre-Covid” environment, impacting margins positively in 2021.

Disclosure in the annual report for 2021 regarding 2022

Improved vacation and maternity/paternity leave benefits was introduced in Denmark as of 1 January 2022 and announced in the annual report for 2021. The impact hereof is negative around 3% on margin. As these benefits were introduced as more “time off”, the impact on top line will also be around 3% negative compared to 2021 – simply as the employees in Denmark are now generating fewer billable hours.

Statement in Annual Report 2021: ”*Improved employee benefits regarding parental leave, paid vacation and pension plans in different parts of the Group are to be implemented as of January 2022. These will have a dilutive impact on margins of around 3 percentage points and are fully reflected in our margin expectations.*”

Two business lines in Denmark and the UK were discontinued. In total, the impact on revenue in 2022 is negative around 3% - roughly evenly split between Denmark and the UK.

Statement in Annual Report 2021: “*We are discontinuing services in Denmark and the UK related to “subscale” implementation projects of standard software solutions and ‘stand-alone’ programme management engagements as these are non-strategic.*“

In Q1 2022 the following observations were made

A couple of problematic fixed fee projects were identified in Norway impacting revenue negatively by around DKK 10m in Q1 2022. At the same time, it was communicated that the projects would also impact Q2 negatively, however not quantified at the time.

In Denmark, higher-than-normal sickness was observed. This was however not communicated until the Q2 report, when the effects materialised over a longer period of time rather than one quarter only. The higher-than-normal sickness was mainly driven by the Covid Omicron variant but some of the elevated sickness seen in Q2 started already in March 2022. The impact hereof was DKK 15m in Q1 – not quantified in the Q1 report but disclosed in the Q2 report.

In Q2 2022 the following observations were made

Project write off regarding the problematic Norwegian projects (three in total) was made, impacting top line and margin negatively by DKK 15m. In addition, it was stated that the return to 'more normalised' margins would be gradual during H2 2022 and not with full effect in Q3 2022. The main reason for this is "*the hiring and onboarding of 70 newly graduated in Norway starting in Q3 2022 – leading to lower utilisation as it does take some time to get all fully utilised.*"

In addition, a smaller project in the Netherlands also impacted revenue – and margin – negatively in Q2 with DKK 5m.

The accumulated loss of revenue – and margin – due to project adjustments in Norway and the Netherlands in H1 was DKK 30m (DKK 10m in Q1 and DKK 20m in Q2).

Higher sickness was also observed in Q2 2022 leading to lower organic revenue growth of around 3%. The higher sickness impacted revenue negatively by DKK 25m, of which DKK 5m was in Norway and the remaining DKK 20m was in Denmark.

The accumulated loss of revenue – and margin – due to the higher level of sickness in H1 was DKK 40m (DKK 15m in Q1 and DKK 25m in Q2).

It was communicated that sickness is expected to gradually normalise during Q3 and reach normal levels in Q4. This also means that some sickness above the normal level is to be expected in Q3, which will have a dilutive impact on revenue growth and margin, albeit expectedly lower than in Q2.

Lost revenue in a given quarter caused by lower-than-expected utilisation is generally not regained in the quarter immediately following as the hours not billed in a given quarter only can be regained by means of working overtime, which is often not practically possible.

Churn rate for the Group for the last 12 months rolling was 23.9% by the end of Q2, driven by higher-than-normal churn rates in all entities.

In Denmark, churn rate was 19.9% compared to a normal level of 17 – 19%. One of the reasons for the higher-than-normal churn rates reported for Q2 2022is, that it is the 12-month rolling average, which includes Q3 and Q4 of 2021 where more people were changing jobs after a period of low churn during Covid.

Statement in the Q2 2022 report: *"Rolling three months churn rates have declined during Q2 2022 and churn rates are expected to be reduced further during the remainder of 2022."*

<u>In Q3 2022 the following observations were made</u>

Organic revenue growth was 18.2% in Q3 2022, representing an expected acceleration in organic revenue growth compared to Q3 2021 considering that Q3 2021 organic revenue growth of 14% was somewhat soft.

Utilisation in Norway was lower as 70 new employees in Q3 2022 increased headcount by around 25% in a short period of time.

Delays of projects for Netcompany-Intrasoft in the public segment in Greece and under the RRF program led to 6.5% growth, which was lower than observed in Q1 and Q2 2022. Some projects were delayed into Q4 2022 – one of them was the "EU Digital Wallet" announced as a contract win on 2 December 2022 on TED https://ted.europa.eu/TED/browse/browseByMap.do

Sickness levels were falling, however at the end of Q3 still not at normalised levels. Statement in the Q3 2022 report: "*As expected, the level of sickness in Netcompany Core was lower in Q3 2022 than in the previous quarter and are closer to the historic level going into Q4 2022*."

Churn rates are normalising as expected. On a three-month rolling basis, the churn rate in Denmark was 16.8% by the end of Q3 2022.

In Q&A session(s) it was clarified that "*some variable remuneration for certain business units had been reduced, based on performance.*" Such a reduction has a positive impact on costs – meaning that costs are reduced.

In Q&A session(s) it was clarified that "*the increased level of Accounts Receivables overdue by more than 90 days did not pose a risk of write off.*"

Events impacting Q4

2H 2022 contains seven more working days gross compared to 1H 2022.

Other factors with potential impact on Netcompany´s business model

The election in Denmark in November resulted in a parliament with no clear majority. The ruling PM is still seeking to form a new government, which is expected to be concluded before Christmas. While there is no major impact from the election short term, a functioning government must be in place to initiate new larger projects and hence the timing of when the new government is in place, and the mandate it ends up carrying, could potentially have impact on 2023 projects, however it is too soon to quantify these.

Since Q3, the likelihood of Europe facing a recession has increased significantly. The impacts hereof on Netcompany cannot be predicted exactly, however several characteristics of our business, our customer portfolio and the demand for the projects that we work on, provide a certain level of resilience to Netcompany's business model:

- ✓ Roughly 65% of Group revenue is in the public sector, which is sticky by nature
    - There will be a continued need to collect tax and pay out welfare benefits
    - The ongoing unified custom code legislation will not be cancelled
    - The EU RRF initiative will continue
- ✓ Public sector contracts in Netcompany Core are multi-year. The maintenance part of these contracts is committed throughout the contract period and cannot be cancelled
- ✓ The public sector contracts in NC-Intrasoft are mainly related to the EU and are based on frame agreements with a duration of up to 8 years
- ✓ The vast majority of type of work done in the private sector are focused towards 'transformational back-office programs' that will most likely continue
    - They are core to our customers
    - They are necessary for our customers to stay in business and lead to lower costs
- ✓ New large, private contracts could however be delayed, but will likely eventually emerge, as private customers will be forced to optimise costs. Typically, one of the largest costs is 'old legacy IT platforms'
- ✓ During the financial crisis in '08 and '09 revenue growth was 14.5% and 8.3% respectively with stable margins – however Netcompany was in 2008-2009 a smaller company with around 250 FTE.

- ✓ Denmark has one of the most flexible labour markets in the world making it relatively easy to adjust costs quickly if needed (labour) – notice periods are typically between one and three months. For more senior employees notice period is longer – typically four to five months.

<u>Timing in the overall Customs program</u>

The MASP customs program under the EU – often referred to as the Unified Custom Code (UCC) program is a program of around 20 new legislation initiatives put forward by the European Union to be implemented in each of the member states and in non-EU countries with significant trade with EU countries.

The Customs program under the EU consists of the following main parts

MASP overall	deadline 2025
Import	deadline 2024
Export	deadline 2023
Transit	deadline 2023

Currently, Netcompany is implementing all three parts of the UCC with the Danish Customs agency and the expectation is to be complete during 2024 – as one of the only countries in the EU having implemented all three areas. Export and Transit for the Danish Customs is expected to be implemented in 2023.

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