

Trading Statement Q3/9M 2024

November 5, 2024



EXECUTIVE SUMMARY

A CHALLENGING THIRD QUARTER. NECESSARY ACTIONS TAKEN TO IMPROVE PERFORMANCE IN 2024 AND LONG-TERM

Q3 2024 key highlights

- **Financial performance** for the third quarter **was unsatisfactory**. Some areas of the business did not perform as initially planned in Region US and Region Europe which negatively impacted the performance. Organic growth was negative by 1.6% and total revenue growth was negative by 1.7%. In Q3 2023, Region DK revenue was impacted by a positive technical one-off due to the carve-out of around DKK 15m as a revenue accrual was released in the quarter despite being related to previous quarters. Adjusted for this, the underlying organic growth for the Group would have been 1.7% and total growth of 1.6%
- **Group operating profit margin excl. special items was 3.9%** for the quarter. The unfavorable development in the profit margin was due to lower topline performance and as a consequence of NNIT having too much capacity
- To **improve business performance**, necessary actions were taken to reduce capacity in the relevant areas in Region Europe and Region US on top of the initiatives carried out in the first half of the year
- **Full-year financial outlook** was adjusted on 22 Oct 2024 cf. company announcement 7. The adjusted full-year outlook is an organic growth around 6 to 7% (previously around 10%) and group operating profit margin excl. special items between 6 to 7% (previously between 8 to 9%)

The third quarter was more challenging than anticipated. Despite positive momentum in the first half of the year, including several levers initiated in Q2 to accelerate profitability, organic growth and group operating profit margin excl. special items decreased in Q3 2024 compared with last year. A moderate slowdown in the Life Science market caused projects to be postponed or paused and resulted in lower growth than anticipated for Region US and Region Europe. In addition, recovery in the data migration business progressed at a slower pace than anticipated.

Although the performance in the third quarter was unsatisfactory, a pick-up in growth and profitability is expected in Q4 driven by a high backlog coverage, the effects of the profitability levers initiated in the second and third quarter, improvement in utilization of billable employees, and additional adjustments made to align internal capacity with market demand carried out in the beginning of Q4.

Financial overview – Selected key figures

NNIT GROUP, DKK million	Q3 2024	Q3 2023	9M 2024	9M 2023	FY 2023
Revenue	444.7	452.6	1,382.1	1,289	1,728
Revenue growth, %	-1.7%	19.1%	7.2%	16.8%	15.2%
Revenue growth, organic %	-1.6%	11.1%	5.6%	11.3%	10.8%
Group operating profit excl. special items	17.5	26.5	73.4	72	116
Group operating profit margin excl. special items, %	3.9%	5.8%	5.3%	5.6%	6.7%
Special items	9.4	16.0	13.3	61.0	69
Group operating profit incl. special items	8.1	10.5	60.1	11	47
Group operating profit margin incl. special items, %	1.8%	2.3%	4.3%	0.8%	2.7%

BUSINESS REVIEW

MODERATE MARKET SLOWDOWN MATERIALLY IMPACTING PROFITABILITY

During the third quarter, NNIT won two large contracts, one in Region US and one in Region DK whilst also delivering on several other important initiatives. However, it was not sufficient to continue the growth momentum seen in the first half of the year. NNIT experienced an unexpected market slowdown as the data migration business recovered at a slower rate than anticipated. For Q3, total revenue was DKK 444.7m, DKK 7.9m lower than last year, corresponding to a total revenue decline of 1.7%. Organic growth was negative by 1.6%. This of course is not satisfactory.

For Q3 2024, the group operating profit margin excl. special items was 3.9% (Q3 2023 was 5.8%) equal to DKK 17.5m in profit compared to DKK 26.5m in the same quarter last year. The decline in profit and margin was driven by the negative development in revenue, resulting in billable employees not being utilized to the extent planned, which had a material impact on the gross margin.

Special items amounted to DKK 9.4m, which is significantly less compared with last year. Special items mainly related to earn-out and restructuring costs. Group operating profit incl. special items was DKK 8.1m, equal to a margin of 1.8%, which is 0.5% less compared with last year.

In the fourth quarter, NNIT expects to return to profitable growth. The improved revenue performance will be driven by the backlog for the remainder of the year. The backlog is strong based on current contracts and new projects ramping up across regions.

Besides growing the business organically in the fourth quarter and the necessary capacity adjustments and improved utilization in region Europe and Region US, profitability will be driven by the completion of internal projects, effects of the turnaround in Region Asia and structural cost reductions made in connection with relocating to new facilities.

GROUP FINANCIAL HIGHLIGHTS – SELECTED KEY FIGURES

NNIT GROUP, DKK million	Q3 2024	Q3 2023	9M 2024	9M 2023	FY 2023
KEY FINANCIAL HIGHLIGHTS					
Revenue growth, %	-1.7%	19.1%	7.2%	16.8%	15.2%
Revenue growth, organic YoY, %	-1.6%	11.1%	5.6%	11.3%	10.8%
Group operating profit margin excl. special items, %	3.9%	5.8%	5.3%	5.6%	6.7%
Special items from continuing operation	9.4	16.0	13.3	61	69
Group operating profit incl. special items	8.1	10.5	60.1	10	46
Group operating profit margin incl. special items, %	1.8%	2.3%	4.3%	0.8%	2.7%
Depreciation, amortization, and impairment	10.0	7.0	33.0	24	28
OTHER FINANCIAL HIGHLIGHTS					
Revenue	444.7	452.6	1,382.1	1,289	1,728
- of which Region Europe	126.7	125.4	388.1	357	465
- of which Region US	85.4	93.7	266.3	295	387
- of which Region Asia	35.9	37.4	105.1	111	144
- of which Region Denmark	196.7	196.1	622.5	526	732
Production cost	329.8	329.0	1,020.7	952	1,283
Gross profit	114.9	123.6	361.3	337	445
<i>Gross margin, %</i>	<i>25.8%</i>	<i>27.3%</i>	<i>26.1%</i>	<i>26.1%</i>	<i>25.8%</i>
Regional overhead cost	44.9	43.8	138.1	127	157
Regional operating profit	70.0	79.8	223.2	210	287
<i>Regional operating profit margin, %</i>	<i>15.7%</i>	<i>17.6%</i>	<i>16.1%</i>	<i>16.3%</i>	<i>16.6%</i>

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Corporate cost	52.5	53.4	149.8	138	172
Group operating profit excl. special items	17.5	26.5	73.4	72	116
<i>Group operating profit margin excl. special items, %</i>	<i>3.9%</i>	<i>5.8%</i>	<i>5.3%</i>	<i>5.6%</i>	<i>6.7%</i>
Special items	9.4	16.0	13.3	61	69
Group operating profit incl. special items	8.1	10.5	60.1	11	47
<i>Group operating profit margin incl. special items, %</i>	<i>1.8%</i>	<i>2.3%</i>	<i>4.3%</i>	<i>0.8%</i>	<i>2.7%</i>

REGIONAL PERFORMANCE REVIEW

Region Europe

The third quarter performance for Region Europe was underwhelming. Revenue amounted to DKK 126.7m, corresponding to a growth of 1.1%. Organic growth ended at 0.6%.

Region Europe continued to see good traction within the manufacturing space, including the data and digital area, however, it was not enough to offset the market slowdown in other areas of the business, including a slow recovery pace in the data migration business. A key aspect of the moderate market slowdown is customers being hesitant to initiate bigger transformations. This impacted expansion of existing engagements as well as new customer contracts where commitments were made with shorter timeframes and scopes than earlier observed. Finally, some projects were postponed or even put on hold.

The region's operating profit was DKK 13.0m, which is DKK 9.1m lower compared with last year. The margin declined by 7.3 percentage points to 10.3%. The material decline in profitability was primarily due to the significant decline in the data migration business and having too many people not being fully utilized as a result of revenue shortfall. To regain profitability, Region Europe took out capacity to fit the current backlog for the fourth quarter.

DKK million	Q3 2024	Q3 2023	9M 2024	9M 2023	FY 2023
Revenue	126.7	125.4	388.1	357	465
<i>Revenue growth, YoY, %</i>	<i>1.1%</i>	<i>2.8%</i>	<i>8.9%</i>	<i>1.0%</i>	<i>-0.6%</i>
<i>Revenue growth, organic YoY, %</i>	<i>0.6%</i>	<i>2.7%</i>	<i>8.2%</i>	<i>-2.2%</i>	<i>-2.8%</i>
Production cost	101.5	87.6	299.9	265	330
Gross profit	25.2	37.7	88.3	92	135
<i>Gross margin, %</i>	<i>19.9%</i>	<i>30.1%</i>	<i>22.7%</i>	<i>25.7%</i>	<i>29.0%</i>
Regional overhead cost	12.3	15.7	41.0	41	57
Regional operating profit	13.0	22.1	47.2	50	78
<i>Regional operating profit margin, %</i>	<i>10.3%</i>	<i>17.6%</i>	<i>12.2%</i>	<i>14.1%</i>	<i>16.8%</i>
Corporate cost	14.3	15.0	40.9	39	47
Group operating profit excl. special items	-1.3	7.1	6.3	12	32
<i>Group operating profit margin excl. special items, %</i>	<i>-1.0%</i>	<i>5.7%</i>	<i>1.6%</i>	<i>3.3%</i>	<i>6.9%</i>

Region US

The third quarter performance continued to be challenged by less activity in the data migration business and overall, as a result of a moderate market slowdown. Revenue decreased to DKK 85.4m, equal to a total revenue growth of -8.9%. Organic growth was at -8.3%. Region US winning its historically largest contract with an existing customer will only affect later periods.

During the quarter, Region US faced similar challenges as Region Europe, the main challenge for Region US being the data migration business. Even though the revenue has gradually improved quarter-over-quarter, the pace of the recovery is slower because projects are taking longer to ramp-up than initially anticipated.

Region US' regional operating profit ended at DKK 15.9m, equal to a margin of 18.6%, which was 2.7 percentage points lower than last year. The margin development was unsatisfactory, and a direct result of the drag from the data migration business. To support future profitability, Region US adjusted its internal capacity to reflect the current market demand.

DKK million	Q3 2024	Q3 2023	9M 2024	9M 2023	FY 2023
Revenue	85.4	93.7	266.3	295	387
Revenue growth, YoY, %	-8.9%	14.3%	-9.9%	29.1%	23.9%
Revenue growth, organic YoY, %	-8.3%	22.8%	-9.8%	31.6%	27.4%
Production cost	52.1	57.7	170.4	191	252
Gross profit	33.3	36.0	95.9	104	135
Gross margin, %	39.0%	38.5%	36.0%	35.3%	34.9%
Regional overhead cost	17.4	16.1	49.3	44	55
Regional operating profit	15.9	19.9	46.6	60	80
Regional operating profit margin, %	18.6%	21.3%	17.5%	20.5%	20.7%
Corporate cost	10.3	12.0	29.4	31	38
Group operating profit excl. special items	5.6	7.9	17.2	29	42
Group operating profit margin excl. special items, %	6.6%	8.5%	6.5%	9.9%	10.9%

Region Asia

In Q3 2024, the revenue for Region Asia decreased by 4.1% to DKK 35.9m. Organic growth was -2.4%. The macroeconomic environment in China continued to have a challenging impact on the business in Region Asia. The trend of lower demand for external support and customers' hesitation in signing new contracts or expanding existing contracts continued. Moreover, the continuing challenging macroeconomic environment in China has created a fierce price competition amongst local and global players. This resulted in Region Asia withdrawing from a few projects to protect profitability.

Even though the revenue was lower than last year, regional operating profit increased by DKK 1.9m to DKK 3.0m, corresponding to a regional operating profit margin of 8.3% (2.9% in Q3 2023). The improved profitability was a direct result of the rightsizing actions taken earlier this year.

DKK million	Q3 2024	Q3 2023	9M 2024	9M 2023	FY 2023
Revenue	35.9	37.4	105.1	111	144
Revenue growth, YoY, %	-4.1%	-15.0%	-5.8%	-1.4%	23.9%
Revenue growth, organic YoY, %	-2.4%	-7.5%	-2.9%	3.0%	27.4%
Production cost	28.4	33.2	83.5	104	135
Gross profit	7.5	4.2	21.6	7	9
Gross margin, %	20.9%	11.2%	20.6%	6.3%	6.3%
Regional overhead cost	4.5	3.1	15.4	10	13
Regional operating profit	3.0	1.1	6.2	-3	-4
Regional operating profit margin, %	8.3%	2.9%	5.9%	-2.7%	-2.8%
Corporate cost	4.0	4.9	11.3	13	14

Group operating profit excl. special items	-1.0	-3.8	-5.1	-16	-18
<i>Group operating profit margin excl. special items, %</i>	<i>-2.7%</i>	<i>-10.3%</i>	<i>-4.9%</i>	<i>-14.1%</i>	<i>-12.5%</i>

Region Denmark

During the third quarter, Region Denmark delivered DKK 196.7m in revenue, equal to a total revenue growth of 0.3%. Organic growth was also 0.3%. However, the region was impacted by a technical one-off last year due to the carve-out of DKK 15m where a revenue accrual was released in Q3 2023 despite being related to previous quarters. Adjusting for this, the underlying organic growth for Q3 2024 would have been 8.5%.

The improvement in the underlying organic growth compared with last year was due to Region DK continuing to expand its footprint within the Public and Private space. During the quarter, Region DK won the contract tendered by ATP for their new critical SAP Debitor system at an estimated contract value of DKK 240m incl. options, ad hoc solutions made to order and infrastructure operations to be delivered by a subcontractor.

Furthermore, the region continued to see solid development across its Private customers where SCALES continued to expand collaboration with existing customers as well as start new projects.

Region DK's regional operating profit increased by DKK 1.3m to DKK 38.1m for the quarter, equal to a regional operating profit margin of 19.4%. The key driver for the profitability improvement was billable employees previously spending time on critical internal projects being released to external projects as indicated by the gross margin development.

DKK million	Q3 2024	Q3 2023	9M 2024	9M 2023	FY 2023
Revenue	196.7	196.1	622.5	526	732
<i>Revenue growth, YoY, %</i>	<i>0.3%</i>	<i>47.5%</i>	<i>18.4%</i>	<i>28.3%</i>	<i>29.8%</i>
<i>Revenue growth, organic YoY, %</i>	<i>0.3%</i>	<i>17.7%</i>	<i>14.3%</i>	<i>13.8%</i>	<i>27.4%</i>
Production cost	147.8	150.5	467.0	392	566
Gross profit	48.9	45.7	155.6	134	166
<i>Gross margin, %</i>	<i>24.8%</i>	<i>23.3%</i>	<i>25.0%</i>	<i>25.4%</i>	<i>22.7%</i>
Regional overhead cost	10.8	8.9	32.4	32	33
Regional operating profit	38.1	36.8	123.1	102	133
<i>Regional operating profit margin, %</i>	<i>19.4%</i>	<i>18.8%</i>	<i>19.8%</i>	<i>19.4%</i>	<i>18.2%</i>
Corporate cost	23.9	21.5	68.2	56	73
Group operating profit excl. special items	14.2	15.3	54.9	46	60
<i>Group operating profit margin excl. special items, %</i>	<i>7.2%</i>	<i>7.8%</i>	<i>8.8%</i>	<i>8.8%</i>	<i>8.2%</i>

FINANCIAL OUTLOOK

FULL-YEAR FINANCIAL OUTLOOK ADJUSTED AS OF OCTOBER 22, 2024

NNIT adjusted its full-year financial outlook on the 22 Oct, cf. company announcement no. 07/2024. The adjusted full-year outlook reflects organic revenue growth of around 6 to 7% (previously around 10%) and group operating profit margin excl. special items between 6 to 7% (previously between 8 to 9%). The adjustment to the financial outlook was based on the Q3 2024 performance.

NNIT A/S	Adjusted on 22 Oct 24	Previous
	Current 2024 outlook	2024 outlook
Organic growth	Around 6-7%	Around 10%
Group operating profit margin excl. special items	6-7%	8-9%

Forward-looking statements

This announcement 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.

Please also refer to the overview of risk factors in the ‘risk management’ section on page 27-28 of the Annual Report 2023.

OTHER EVENTS

OTHER IMPORTANT EVENTS AFTER THE REPORTING PERIOD

NNIT adjusts its 2024 financial outlook

On 22nd October 2024, NNIT released a company announcement announcing that NNIT adjusted its full-year financial outlook for 2024.

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CONFERENCE CALL

November 6, 2024, at 9:30 AM CET:

[Webcast link](#)

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ABOUT NNIT

NNIT is a leading provider of IT solutions to life sciences internationally, and to the public and private sectors in Denmark.

We focus on high complexity industries and thrive in environments where regulatory demands and complexity are high.

We advise on and build sustainable digital solutions that work for the patients, citizens, employees, end users or customers.

We strive to build unmatched excellence in the industries we serve, and we use our domain expertise to represent a business first approach – strongly supported by a selection of partner technologies, but always driven by business needs rather than technology.

NNIT consists of group company NNIT A/S and subsidiaries SCALES, Excellis Health Solutions and SL Controls. Together, these companies employ more than 1,700 people in Europe, Asia, and USA. Read more at www.nnit.com.

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