

Nets Q3 2016 results presentation

9 November 2016

Powering Digital Payments

Forward looking statements

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The Annual Report 2015 of Nets Holding A/S and the Offering Circular are available at www.nets.eu

Financial Highlights Q3

Another strong quarter better than expected

Organic revenue growth

6%

Revenues of DKK 1,888 million, up 8.5% since Q3 2015, driven by Merchant Services and Financial & Network Services

EBITDA b.s.i.* margin

39.5%

EBITDA b.s.i. of DKK 746 million, up 18.0% equivalent to a margin improvement of 320 basis points

Adjusted EBIT (in DKK million)

637

Adjusted EBIT up 11.7% from Q3 2015

Capital expenditure/ revenues ratio

8.5%

Capital expenditures of DKK 161 million, up from a ratio of 6.8% in Q3 2015, driven by investments in new datacentre and network segregation

Cash conversion ratio

99%

When adjusting for the non-recurring IPO accruals, the cash conversion ratio was 70% in Q3 2016

Net interest-bearing debt / LTM EBITDA b.s.i.

3.5x

Adjusted for the positive impact of IPO related accruals of DKK 219 million, the ratio was 3.6x

*Before special items

Financial Highlights YTD

Organic revenue growth

6%

Revenues of DKK 5,475 million, up 6.7% compared to last year, driven by Merchant Services and Financial & Network Services

EBITDA b.s.i. margin

35.5%

EBITDA b.s.i. of DKK 1,943 million, up by 15.0% equivalent to a margin improvement of 260 basis points

Adjusted EBIT (in DKK million)

1,639

Adjusted EBIT up 10.4% compared to last year

Capital expenditure/ revenues ratio

8.3%

Capital expenditures of DKK 454 million, up from a ratio of 7.8% one year ago, driven by investments in new datacentre and network segregation

Cash conversion ratio

78%

When adjusting for the non-recurring IPO accruals, the cash conversion ratio was 67% YTD

Special items (in DKK million)

542

Whereof DKK 284 million is related to the IPO

Business Highlights

Merchant Services

- Organic growth of **11%** for Q3
- Strong growth in integrated merchant acquiring volumes and values
- Launch of «Remember Me» service in eCommerce to simplify payment checkout
- Good momentum in building the merchant acquiring partnership with Nordea focusing on SMEs in Sweden



Financial & Network Services

- Organic growth of **10%** for Q3
- Strong growth in processing volumes including domestic card schemes and usage of contactless
- Development of the mobile Dankort with merchants and issuing banks, piloting in Q4 and launching in Q1 2017
- Implementation of two Swedish banks on issuer processing



Corporate Services

- Organic growth of **1%** for Q3
- Renewed 4 year contract on eFaktura (eBill payments) in Norway with c70 million transactions per year
- Implementation of clearing services for ICBPI in Italy in good progress

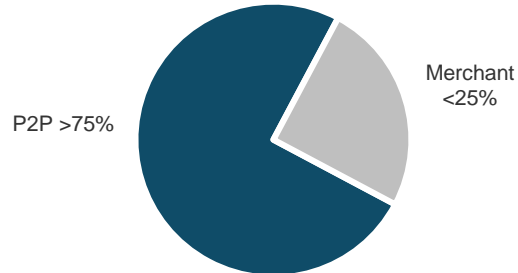


Group Strategic initiatives

- Continued effort to execute the transformation program, including investments in datacentre and network segregation
- The Nets' Blockchain lab became operational in July and we delivered the first working Proof of Concept "digital mortgage service" in August, which has been well received by a number of Nordic banks

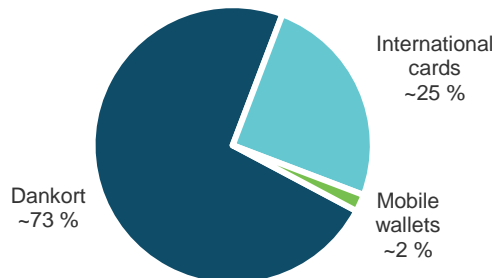
Recent mobile wallet developments

Wallets are predominantly P2P*



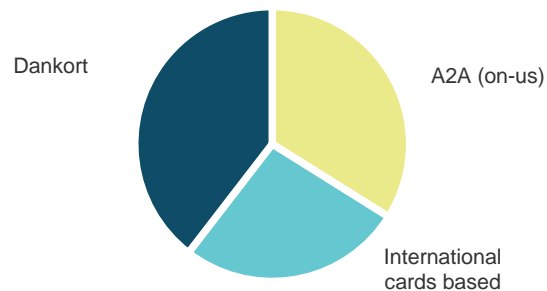
Estimated number of transactions through mobile wallets: 180 million

Wallets have low merchant penetration*



Estimated number of transactions at merchants: 1.8 bn

Cards currently main platform for wallets*



Estimated number of transactions through mobile wallets: 180 million

Comments

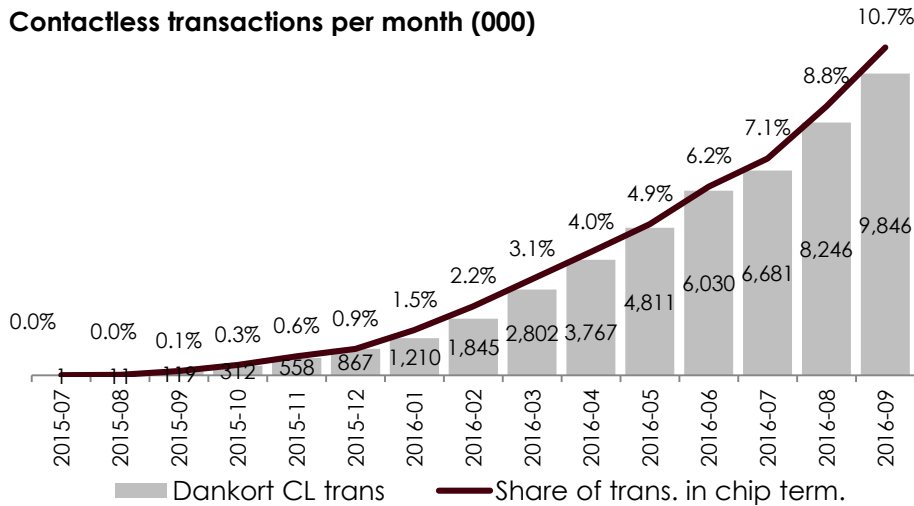
- A number of mobile wallets are operating in the Nordic region supporting the digitisation of cash and increasing the overall digital payments market
- Nets provides card payment services (merchant acquiring, gateway, issuer processing etc.) and clearing infrastructure to enable a number of mobile wallets operating in the Nordic region, including MobilePay in Denmark
- MobilePay (owned by Danske Bank) and Swipp (owned by other Danish banks and Account to Account based (A2A)) are two mobile wallets in Denmark, where MobilePay is the clear market leader
- Nordea is now moving to MobilePay (and leaving Swipp) and is expected to imply that more MobilePay transactions will be Account-to-Account
- MobilePay is predominately a Peer-to-Peer (P2P) payment platform largely focused on lower value consumer to consumer transactions (more than 75% is P2P)
- The number of transactions through mobile wallets at merchants is very small compared with card usage (around 2%)
- Nordea moving to MobilePay is expected to negatively impact card volumes. However the financial impact on Nets of this is expected to be immaterial
- Nets is well positioned towards the Danish Merchants through existing contactless solutions and with the **mobile Dankort solution** that is launching in Q1 2017. Nets offers the Danish Merchants competitive payment acceptance solutions and consumers **user friendly and secure** payment methods

Dankort Mobile launching in Q1 2017

The high pick up of contactless Dankort is important to establish the user experience in mobile Dankort

The mobile Dankort solution offers low cost and scale to merchants and is user friendly and secure

Contactless transactions per month (000)

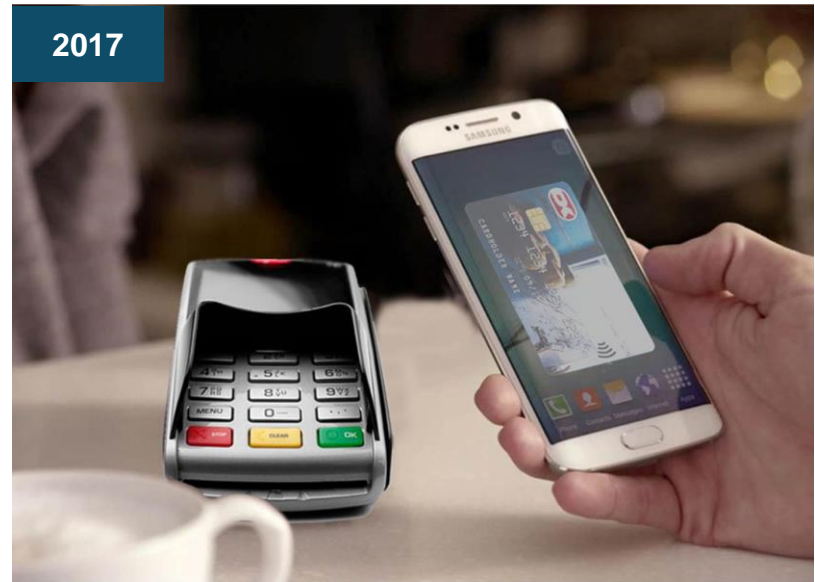


- The pick up of contactless Dankort transactions at the Point of Sales continues and is unparalleled compared to other countries (c11% in September)
- Simple compelling payment experience and strong merchant support (already made significant investments)
- Acceptance by NFC, QR and Bluetooth
- Dankort Mobile under testing now and launching in Q1 2017
- Mobile Dankort is a result of a close cooperation between Dankort merchants, banks as issuers of Dankort and Nets
- Several large retailers recently signed on the platform to accept mobile payments
- Strong support from terminal vendors

2016







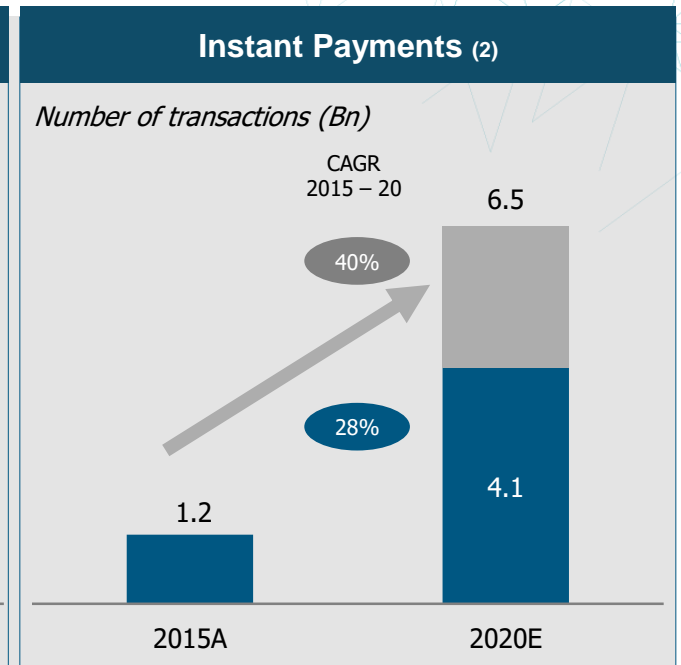
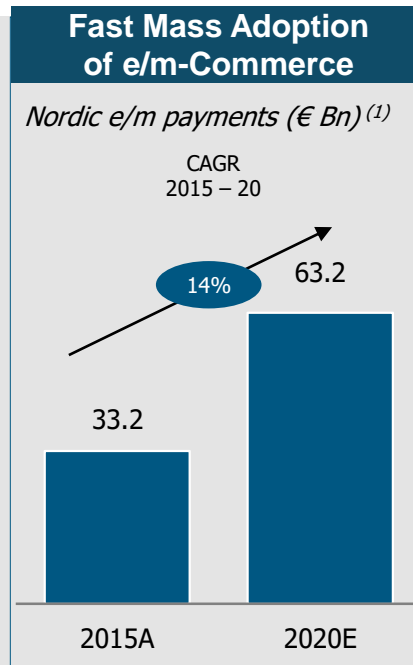
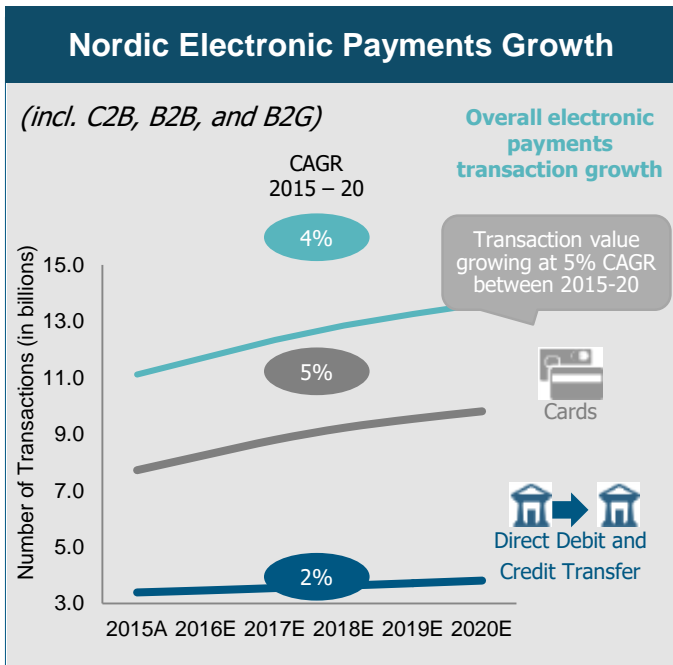
2017



Strategic growth areas all delivering to Q3 growth

– and well supported by continued strong underlying volume growth

Mobile	Outsourcing	Value Chain Expansion	Nordic Growth
<p>Strong growth in Mobile Dankort implementation revenue</p> <p>Increased no of users of BS-app</p> <p>Nets and Oberthur partnering to offer Nordic banks with mobile payment solutions</p> 	<p>Continued on-boarding of new card portfolios</p> 	<p>Strong growth in real time clearing</p> <p>Solid growth in fraud services</p> <p>Nets' Blockchain lab presenting proof of concepts to banks and corporates</p> 	<p>Good momentum in partnership with Nordea on merchant acquiring</p> <p>Implementation of two Swedish banks on issuer processing</p> 



Source First Annapolis report

Notes

1. Cards transaction value growth in the Nordics
2. Real time clearing

Group income statement

<i>DKKm</i>	Q3 2016	Q3 2015	YTD 2016	YTD 2015
Revenue, net	1,888	1,739	5,475	5,132
Costs	(1,142)	(1,107)	(3,532)	(3,442)
EBITDA b.s.i.	746	632	1,943	1,690
Special items	(78)	(92)	(258)	(434)
IPO related costs	(220)	0	(284)	0
EBITDA	448	540	1,401	1,256
Net financials	(1,242)	(55)	(1,603)	(587)
Net profit	(831)	246	(807)	8
Revenue growth	8.5%		6.7%	
Organic growth	6%		6%	
EBITDA b.s.i. margin	39.5%	36.3%	35.5%	32.9%

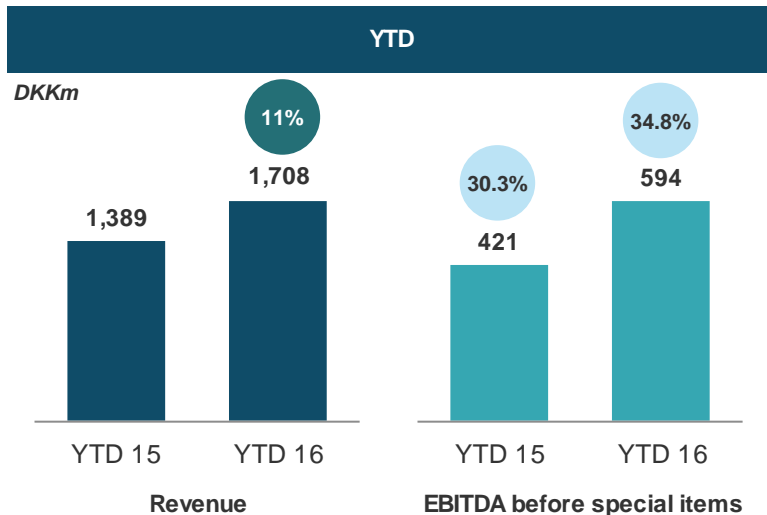
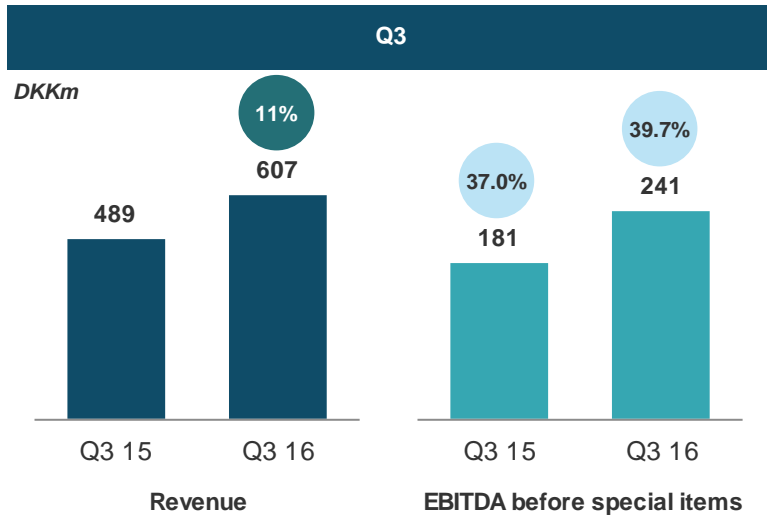
- **Organic revenue growth** in Q3 2016 of 6% driven by Merchant Services and Financial & Network Services. Reported revenue increased by 8.5%
- **Operating expense ratio** lowered from 64% to 60% in Q3 2016 due to operating leverage and effects from the transformation programme
- **EBITDA b.s.i.** grew by 18.0% in Q3 2016 and the EBITDA b.s.i. margin improved to 39.5% compared to 36.3% in Q3 2015
- **Special items** in Q3 2016 of DKK 298 million, whereof DKK 220 million was IPO-related
- **Net financials** in Q3 2016 were significantly impacted by the refinancing in connection with the IPO and value adjustments related to Visa shares
- Net financial expenses of DKK 393 million in Q3 2016, including foreign exchange losses of DKK 100 million, mainly related to NOK/DKK. In Q3 2015 net financial expenses amounted to DKK 55 million including an exchange gain of DKK 239 million.
- **Net profit** in Q3 2016 of minus DKK 831 million, as expected, significantly impacted by special items and refinancing expenses in total of DKK 1,036 million

Adjusted net profit

Non-GAAP performance measures DKKm	Q3 2016	Q3 2015	YTD 2016	YTD 2015
EBITDA b.s.i.	746	632	1,943	1,690
Underlying depreciation and amortisation	(109)	(62)	(304)	(206)
Adjusted EBIT	637	570	1,639	1,484
Adjusted net financials	(293)	(294)	(825)	(719)
Adjusted profit/(loss) before tax	344	276	814	765
Adjusted tax, 23%	(79)	(64)	(187)	(176)
Adjusted net profit/(loss) for the period	265	212	627	589

- **Adjusted EBIT** in Q3 2016 was DKK 637 million, up 11.7% from DKK 570 million in Q3 2015
- Adjusted net profit is calculated as adjusted EBIT adjusted for non-recurring net financials, including impact from Visa shares, financial expenses relating to refinancing and foreign exchange rate movements on external borrowings and an effective tax rate of 23%
- **Adjusted net profit** in Q3 2016 was DKK 265 million, up 25.0% compared to Q3 2015
- Financial interest expenses in Q4 2016 are expected to be significantly lower, due to the new capital structure from the time of the IPO
- Had the new post-IPO capital structure been in place from 1 July 2016, the adjusted net profit would have amounted to DKK 417 million in Q3 2016
- For the nine months ended 30 September 2016, adjusted net profit was DKK 627 million

Merchant Services



● Organic growth ● EBITDA b.s.i. margin

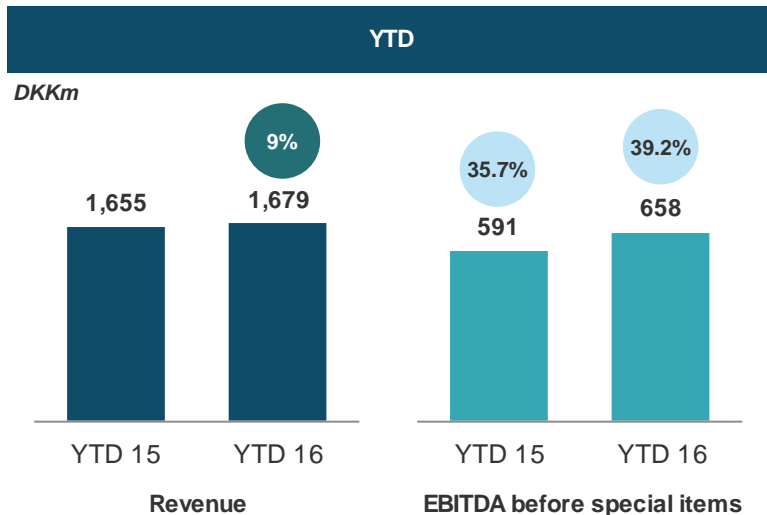
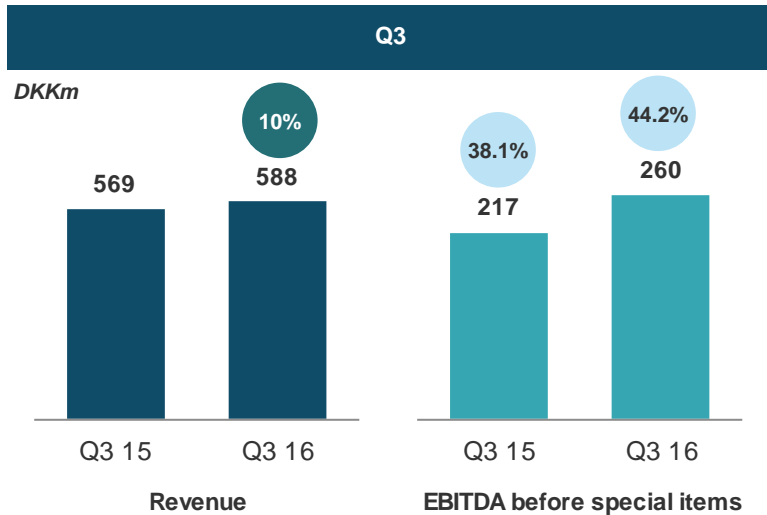
Revenue

- Strong organic growth of 11% in Q3 2016
- Strong growth in our integrated merchant acquiring offering driven by strong volume and value growth further positively impacted by the implementation of the EU regulation on interchange fees in Norway
- Point of sales and related solutions saw good growth supported by a continued push towards a higher proportion of rented terminals

EBITDA b.s.i.

- Q3 2016 was DKK 241 million, equivalent to a margin of 39.7%, up 270 basis points compared to Q3 last year
- The margin expansion was driven by an increased top line supported by operating leverage and a positive effect from the interchange fee regulation introduced in September 2016 in Norway

Financial & Network Services



● Organic growth ● EBITDA b.s.i. margin

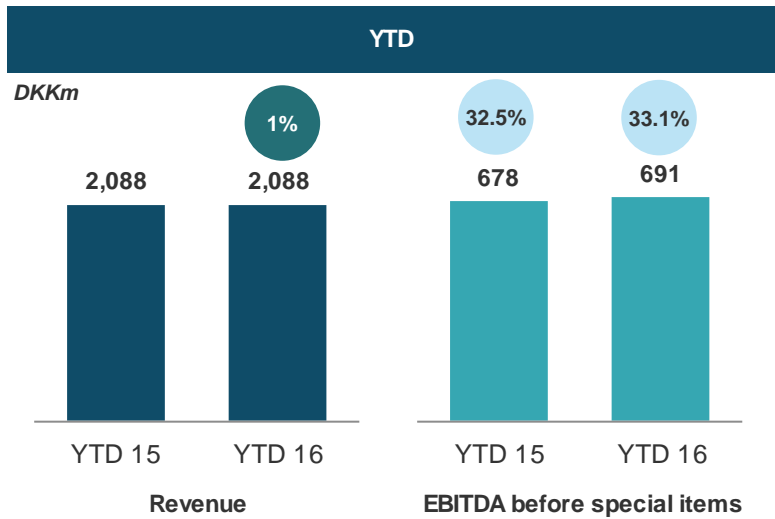
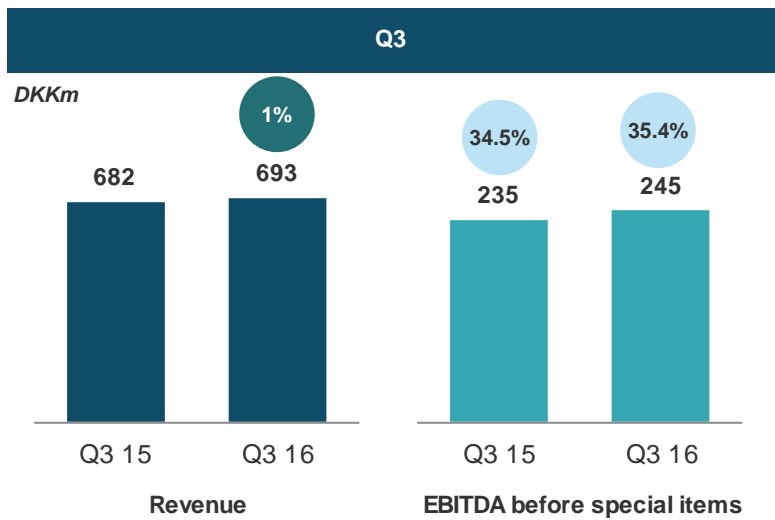
Revenue

- Strong organic growth of 10% in Q3 2016, supported by strong transaction growth in all major product areas
 - issuer processing services
 - domestic card schemes (Dankort and BankAxept)
 - card management services
 - implementation revenue related to the mobile Dankort
- Solid growth in fraud services

EBITDA b.s.i.

- Q3 2016 was DKK 260 million, and the margin increased to 44.2%, up 610 basis points compared to last year
- Increase in margin was supported by high transaction volumes in Q3 2016 and by implementation revenues related to the mobile Dankort

Corporate Services



● Organic growth
 ● EBITDA b.s.i. margin

Revenue

- Organic growth for Q3 2016 was 1%
- Growth was supported by a solid underlying growth in volumes in e-bill-payments (Betalingsservice in Denmark and services like eFaktura and AvtaleGiro in Norway)
- Strong growth in clearing services positively impacted by implementation revenues from clearing services for ICBPI in Italy
- Overall growth somewhat countered by lower revenues in adjacent digital services

EBITDA b.s.i.

- Q3 2016 was DKK 245 million, and the margin increased to 35.4%, up 90 basis points compared to last year
- Increase in margin primarily driven by continued positive effects from the transformation programme

Cash flow and Balance sheet

DKKm	Q3 2016	Q3 2015	YTD 2016	YTD 2015
CASH FLOW				
Net cash from operating activities, incl. clearing	(1,319)	(188)	(478)	1,370
Hereof:				
- Expenses related to refinancing	(1,688)	0	(1,688)	0
- Special items	(78)	(93)	(322)	(434)
Net cash from investing adjusted for Visa payments	(161)	(214)	(524)	(498)
Visa shares payments, net	(662)	0	1,408	0
Net Cash from financing	43	100	(404)	(332)
Net cash flow for the period	(2,099)	(302)	2	540
BALANCE SHEET				
Total assets	27,511	25,005	27,511	25,005
Total equity	9,603	4,821	9,603	4,821
Net interest-bearing debt	8,805	12,279	8,805	12,279
KEY FIGURES				
Capital expenditure/revenue	8.5%	6.8%	8.3%	7.8%
Capitalised development costs (EBITDA b.s.i./revenue)	3.6%	3.0%	3.8%	3.9%
Cash conversion ratio	99%	71%	78%	71%
Net interest-bearing debt / LTM EBITDA b.s.i.)	3.5x		3.5x	

- **Net cash flow from operating activities**, including clearing working capital, was minus DKK 1,319 million in Q3 2016, significantly impacted by refinancing expenses and special items
- **Net cash flow from investment activities** adjusted for Visa share payments in Q3 2016 was DKK 161 million, down by DKK 63 million to Q3 2015. Q3 2015 was impacted by acquisition of Signaturgruppen by DKK 95 million.
- **Net cash flow from financing activities** in Q3 2016 was DKK 43 million. Key components were:
 - Proceeds from the IPO: DKK 5,430 million net of fees
 - Proceeds from new borrowings: DKK 8,647 million
 - Repayment of existing borrowings and settlement of interest swaps: DKK 14,034 million

Guidance

	Guidance for 2016 at 13 September	Guidance for 2016 at 9 November	Medium-Term guidance
Organic Revenue Growth	Around 6% on the basis of adjusted 2015 revenue of DKK 6,928 MM	6-7%	5-6% per annum
EBITDA b.s.i. Margin	Around 35%	35%-36%	High 30s
CAPEX	CAPEX will be affected by e.g. investment in a new data center and, hence, expected to be at elevated level of 10-12% of net revenue	Capex will be affected by e.g. investment in new data centre and, hence, expected to be at an elevated level of around 10% of net revenue	Target normalized Capex in the range of 6-8% of net revenue from 2017 onwards
Special Items	In 2016, special items on EBITDA level are expected at DKK 800 MM, of which approx. DKK 475 MM are IPO related	DKK 630 million, of which approx. DKK 290 million are IPO related	2017 special items are expected at DKK 120 MM; in addition, IPO related retention costs expected at DKK 60 MM for 2017 and 2018 (in total)
Capital Structure	Net interest-bearing debt/EBITDA b.s.i. at year-end 2016 is slightly below the expected IPO leverage of 3.75x	At or below 3.4x	Medium-term target net interest bearing debt / EBITDA b.s.i. of 2.0x-2.5x assuming no M&A

The assumptions on which Nets has based its medium-term financial targets include that Nets:

- Is able to achieve revenue growth at a level slightly above the expected growth of digital payments in the Nordic region, through exposure to selected pockets of the market experiencing faster growth (for example e-commerce) and through the execution of the strategies
- Will continue to execute its transformation programme
- Is able to further develop its current margins as a result of (i) revenue growth, (ii) the ongoing implementation of the transformation programme and (iii) the positive effect of operational leverage from the portion of the cost base, which is fixed in relation to volume
- Does not experience any material adverse change in the pricing environment for its products and services as a result of competitive pricing pressure or otherwise.

Q&A

