

Nagarro SE – AGM 2023

Presentation of the Management Board

Presenter: Manas Human

Hello, everyone. Thank you for making it to this AGM and thank you for your support of Nagarro.

What a powerful performance Nagarro had in 2022! In the second full year after the spinoff in December 2020, it was most satisfying to see all the marketing, all the selling, all the capability building, all the engineering delivery, all the scaling built into processes like talent allocation and hiring – everything kicked in all together to deliver a great year. Nagarro not only kept pace with its peer group, but in fact was one of the very fastest growing IT services companies on the planet. Every Nagarrian and every shareholder of Nagarro can be proud of this accomplishment.

But this was just one more year, and we at Nagarro have our sights on a much longer race. We have a long way to grow the company from here. The going will not be a straight line, there will be ups and downs, there will be people who cheer us on and maybe some others.... Right now, we see a less than enthusiastic valuation on the stock exchange. But we have always believed that if we keep doing the right thing, building the right company, we will eventually do well by all stakeholders, we will do very well.

Warren Buffett, and perhaps Ben Graham, are supposed to have said, “In the short run, the market is a voting machine but in the long run, it is a weighing machine.” That’s how we think too.

In 2022, Nagarro did 856.3 million Euro in revenue, up from 546.0 million Euro in 2021. This is a YoY revenue growth of 57 %. In constant currency terms, this is a YoY revenue growth of 48%. Even organic constant currency growth was 39%. Of course, the market conditions were mostly favourable, but in any case, this is truly spectacular performance.

Gross margin for 2022 was 28.9%. Adjusted EBITDA margin was 17.3%.

We spoke already about how revenues grew in 2022 as compared to 2021 – a 57% increase. Gross profit grew from 154.4 million Euro to 247.1 million Euro, a 60% increase. Adjusted EBITDA grew from 79.7 million Euro to 148.5 million Euro – an 86% increase.

The only indicator that has not performed so well has been the share price.

In terms of our reporting segments, North America – that’s the second set of bars – grew the most in terms of Euro, growing from 193.3 million Euro to 344.1 million Euro. In percentage terms, Rest of World – the fourth set of bars – grew the fastest, from 91.8 million Euro to 179.0 million Euro, nearly doubling. Central Europe grew from 182.5 million Euro to 231.7 million Euro. Rest of Europe grew from 78.5 million Euro to 101.5 million Euro. It is a reflection of how fast the company grew in 2022 that even the approximately 25 to 30% growth of Europe looks slow compared to how the rest of the business was growing.

We ended the year with a strong enough balance sheet. We had 110.2 million Euro in cash, 143.7 million Euro in working capital, and 205.0 million Euro non-current liabilities to banks.

Our most important non-financial KPI is our customer satisfaction score. In Q4 2022, this score, as per a new format of survey, was 92.2%. We had fully 159 clients with >1 million Euro in revenue in 2022. We ended the year with 18,250 Nagarrians.

Apart from the numbers, there was a qualitative change within the company in 2022. 2021 was just after the listing, not everything was in a stable state yet, there was a lot of action but it was a bit helter-skelter. By 2022, it felt like we were a smoothly performing machine.

All the various parts came together to make us one of the most successful companies in our industry. We raised the company’s profile at most of our clients, we raised our profile in the job markets. It was a very satisfying year in many respects.

Moving to this year, 2023.... in Q1, we posted 229.5 million Euro in revenue, which was 24% growth over the same quarter in the previous year. Gross margin was 26.8% and adjusted EBITDA was 31.4 million Euro. As of 31st March 2023, we had 113.6 million Euro in cash, 160.9 million Euro working capital, and 211.0 million Euro in non-current liabilities to banks.

Our CSAT score was 92.0% and we announced a Net Promoter Score for the first time, which was very high at 65. We ended the quarter with 18,946 professionals.

In Q1 we also announced the acquisition of Infocore in the space of Product Lifecycle Management, and of MBIS in the space of SAP in Turkey ... I am happy to share that the MBIS deal has subsequently been cleared by anti-trust authorities in Turkey. While we are on the subject of acquisitions, of course some weeks ago we announced the acquisition of APSL in Spain. We are excited by the entrepreneurs and capabilities these acquisitions bring to Nagarro.

Growth in our sector has moderated in the last few quarters. This affects Nagarro too, and we have had to revise our guidance. Still, I must emphasize, we continue to win new global blue-chip clients, win significant new projects at existing clients, and to have a lot of good conversations. We continue to progress towards our vision of being the leader in our space and to make distance, and difference irrelevant between intelligent people.

Our updated guidance for 2023 was revenue of 940 million Euro, gross margin of 28%, and an adjusted EBITDA margin of 15%.

In our Capital Markets Day, we have also elaborated on our ESG plans for 2023. We will share our commitment to decarbonization within this calendar year and will use the SBTi guidelines to align our decarbonization efforts with the Paris Agreement. As part of our commitment to transparency and accountability, we have initiated a Materiality assessment to identify the most important sustainability topics that are relevant to us and our stakeholders in line with the GRI standard. Our non-financial statement for reporting period 2023 will be aligned with the GRI standard.

To look beyond 2023, and see where we might be in some years, it is helpful to see where we are coming from. I've been involved with Nagarro since 1996 when there were about as many people at Nagarro as there are on this podium. We have grown almost continuously in these 25 years. There have been a few years of economic crisis, but even through these crises Nagarro has been stable, and afterwards growth has always resumed, at a rapid pace.

Meanwhile, in these two and a half decades, at many times one expert or another has predicted the end of this sector. They have been wrong every time. I'm reminded of the quote attributed to Mark Twain, "The reports of my death are grossly exaggerated".

Software is infinitely malleable, it can be used for so many things. We have only just scratched the surface in the software transformation of humankind.

In this next phase, we expect that just like digital transformation or cloud did in the past, it will be the AI excitement could drive the next phase of growth. There is a lot of opportunity to build more intelligent businesses and better customer experiences with AI, and that requires a lot of work with data. Just about a week ago, for example, the Chief Data and Analytics officer of the Abdul Latif Jameel group, one of the leading conglomerates in the Middle East, posted on LinkedIn how Abdul Latif Jameel had won an award for the best AI use case at the World AI Show. And he thanked how Nagarro and Microsoft had partnered with Abdul Lateef Jameel to execute that.

This type of work will keep happening – underlying technology from the Microsofts of the world, and the Nagarros of the world will make this technology work in the client contexts, we will help our clients win in their markets with it.

As I said earlier, even today, we continue to win new customers and win and execute new projects in new areas with existing customers. In that sense, even this slowdown is quite different from previous slowdowns. It is as though there is an underlying resilience in the demand environment, it is just that it is not flowering into growth. In the medium term, we target 20% organic annual revenue growth.

The management of Nagarro acts like owners and stewards or custodians of the company – steering for the long term rather than quarter by quarter. We have invested all these years in building out expertise in many industries and building out our brand. Now, in the coming years, we should be able to get some operating leverage from these investments.

We now target a sustainable Adjusted EBITDA margin of at least 18% for 2026 and beyond.

Where exactly will this leverage come from? One, it will come from growth at existing clients, which is less expensive than winning new clients. You may remember we ended 2022 with 159 clients with sales >1 million Euro. Two, it will come from maturing expertise in particular industries and solution areas. Finally, as Nagarro becomes better known worldwide, we expect to see a little more pricing power. All of this should add, to the Adjusted EBITDA margin, roughly 3% of sales by 2026.

Finally, our management team continues to focus on what is important for Nagarro, without being distracted.

Our trump card is the differentiated Caring experience that Nagarro provides for clients – agile, responsible, intimate – but also for Nagarrians and entrepreneurs whose companies flow into Nagarro via M&A.

Our way of working is driven by agility and entrepreneurship – not a free-for-all but via an intelligent and robust framework with common global systems and processes - for running projects, for building and sharing capabilities, for talent allocation and planning, for hiring, for HR, for risk, for compliance, for marketing and so on. We continue to build this framework out. It is our moat.

We continue to add new clients and also expand into our existing clients; there is a lot of opportunity there.

We continue to acquire interesting companies and integrate our teams and capabilities with theirs.

And as we stay longer in the public markets, we stay receptive to sincere feedback from investors. We have added reporting on constant currency revenue growth, separating organic revenue growth from inorganic revenue growth, we now report revenue and expense by currency, we report Days of Sales Outstanding. We have reacted to persistent investor concern about our rather small factoring program, even if we do not understand this concern, and have announced that we will probably not expand this program any more. We have reacted to investor suggestions about having more US- and technology representation on our Supervisory Board, for which we are proposing to add Vishal Gaur, professor of operations, technology and information management, *and* the incoming Dean of the Johnson Business School at Cornell University, which the Financial Times recently ranked as among the top 10 business schools in the world.

All management at Nagarro, not just the people here, stay fully focused on the longer-term, sustainable value creation at Nagarro.