

# THALES

Building a future we can all trust

## Thales enters into agreement in view of selling its rail business to Hitachi

4 August 2021

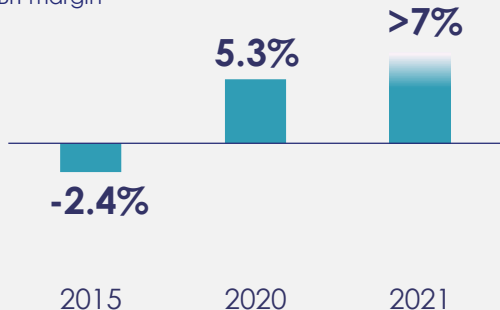


# Transport: solid progress achieved over past 5 years



## Recovery and transformation

EBIT margin

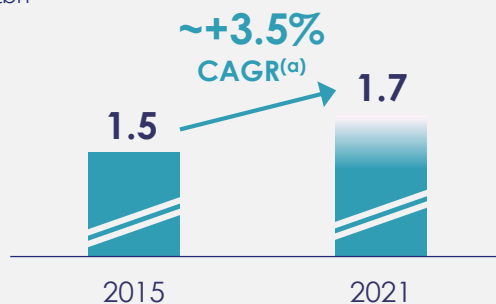


- > Strong program execution discipline
- > Competitiveness focus: procurement, engineering, and contract management
- > Product policy: structured approach across all projects



## Global growth

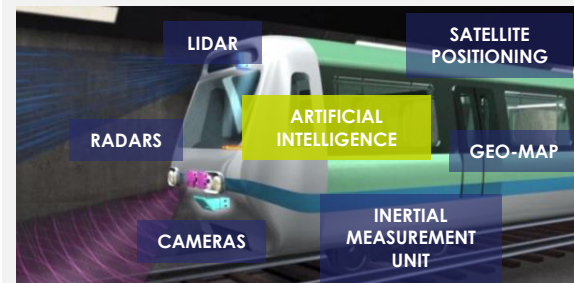
€bn



- > Main line in Europe
- > Major urban city markets
- > Chinese urban rail market through JV
- > New growth cycle initiated in 2021



## Investing in future products



- > Autonomous train (AI)
- > Smart infrastructures (rail IoT)
- > Digitalization of railways (AI and big data analytics)
- > Solutions cyber-secured by design

(a) Organic: at constant scope and exchange rates

Agreement in view of selling rail business to Hitachi - 2

# Rail control market: integrating vertically

## Railway digitalization driving tighter integration between rolling stock and signaling

- Growing on board “intelligence” vs trackside equipment
- Operations control centers to cover all aspects of infrastructure, and not just signaling

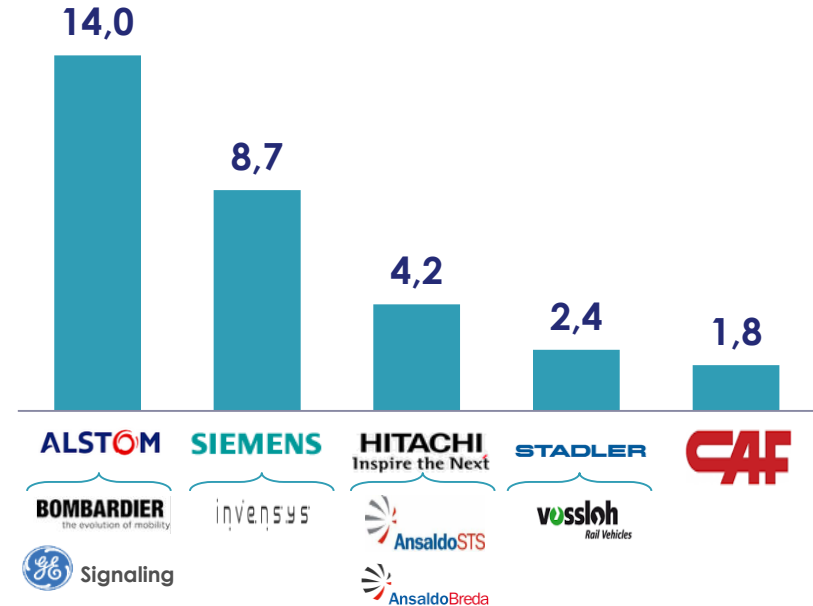
## Increased customer preference for “turnkey” suppliers in greenfield projects

- From ~40% of urban rail projects to ~70% today

## Emergence of large, vertically-integrated players, thus meeting customer trends

## Top 5 rail companies outside China

€bn, 2020



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# Transaction details

## Scope: entire transport operating segment

- Transport segment treated as “discontinued operations” in Full Year 2021 financial statements

## Robust valuation achieved

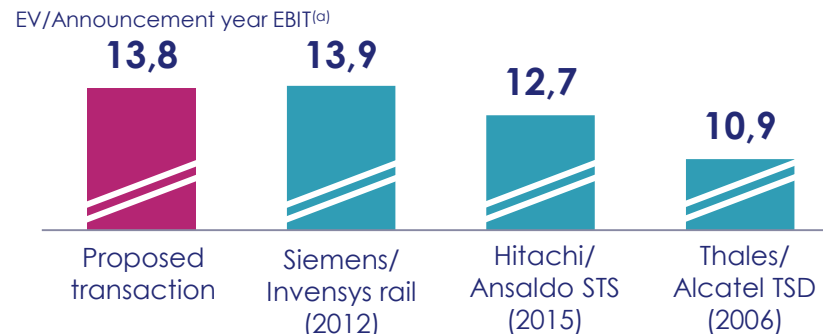
- Enterprise value: €1,660m

## Next steps

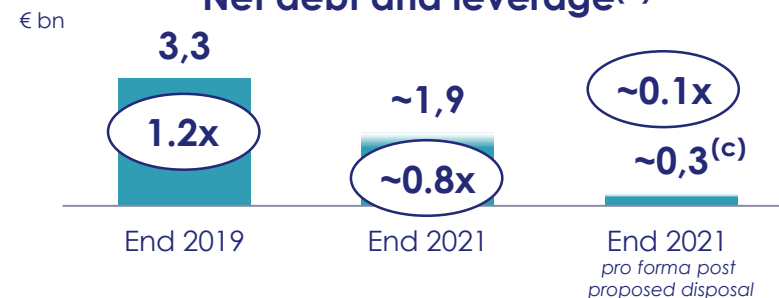
- Consultation of employee representatives
- Carve-out of business
- Usual closing conditions: antitrust, foreign direct investment...

## Expected closing: end 2022 / early 2023

## Valuation benchmark



## Net debt and leverage<sup>(b)</sup>



- (a) Proposed transaction: reported EBIT over last 12 months  
(b) End 2021 net debt based on 16 July 2021 consensus. Leverage: EBITDA/net debt.  
(c) Excluding the transfer of net pension obligations considered as debt-like items

# Impact on 2021 financial objectives

**Order intake**

**Book-to-bill above 1**

**Sales**

**€15.8 to 16.3 billion<sup>(a)</sup>**

**EBIT margin<sup>(b)</sup>**

**9.8% to 10.3%<sup>(a)</sup>**

*Adjustments for the accounting treatment of the transport segment as “discontinued operations”*

(a) Based on July 2021 scope and foreign exchange rates. Assuming no new major disruptions of the health and economic context, and a rapid normalization of global semi-conductor supply chains.

(b) Non-GAAP measure: see definition in appendix

# Enhanced investment thesis, unchanged strategy

## Strategic focus on 3 best-in-class high tech BtoB/BtoG businesses

- Simplified exposure to fewer long-term growth markets: aerospace, defense & security, digital identity & security
- Pure player positioning on intelligent systems and digital solutions, able to sustainably deliver double-digit margins

## Strengthened balance sheet with substantial cash optionality

## Continued implementation of key Ambition 10 strategic levers

- Further acceleration of R&D investments
- Constant focus on operational performance
- Strong financial discipline

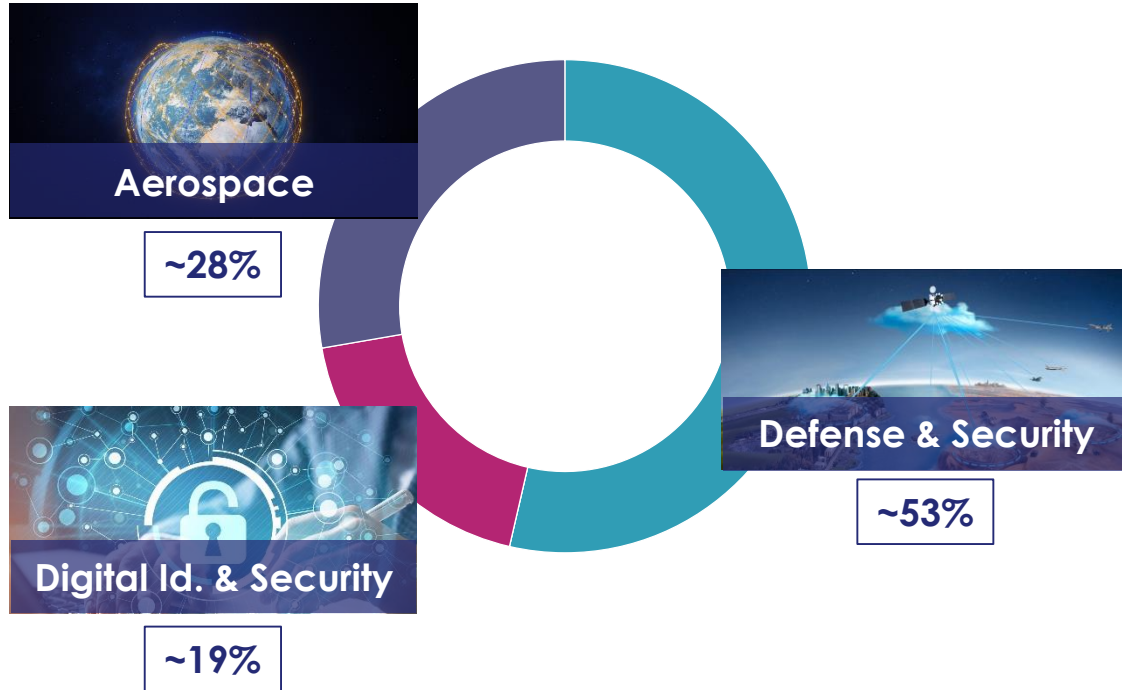


AMBITION

Sustainable  
value creation,  
with enhanced  
resilience

# Thales tomorrow

## Sales mix<sup>(a)</sup>



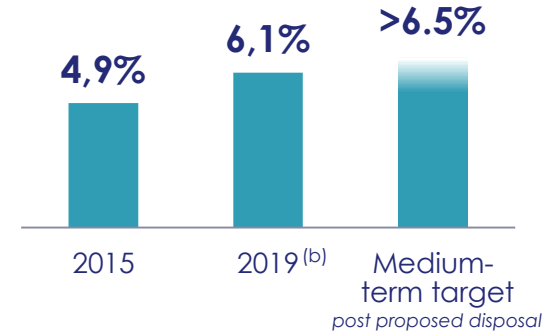
(a) 2022 pro forma post proposed disposal, based on 16 July 2021 consensus.

(b) 2019 pro forma Gemalto over 12 months.

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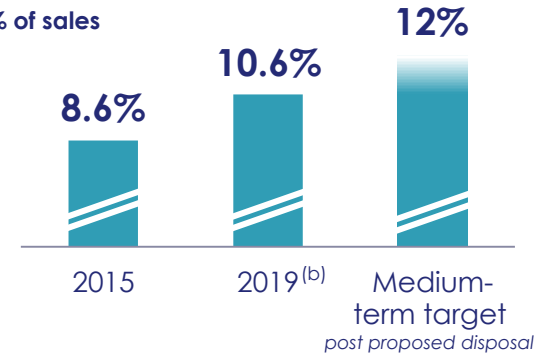
## Self-funded R&D

% of sales



## EBIT margin

% of sales



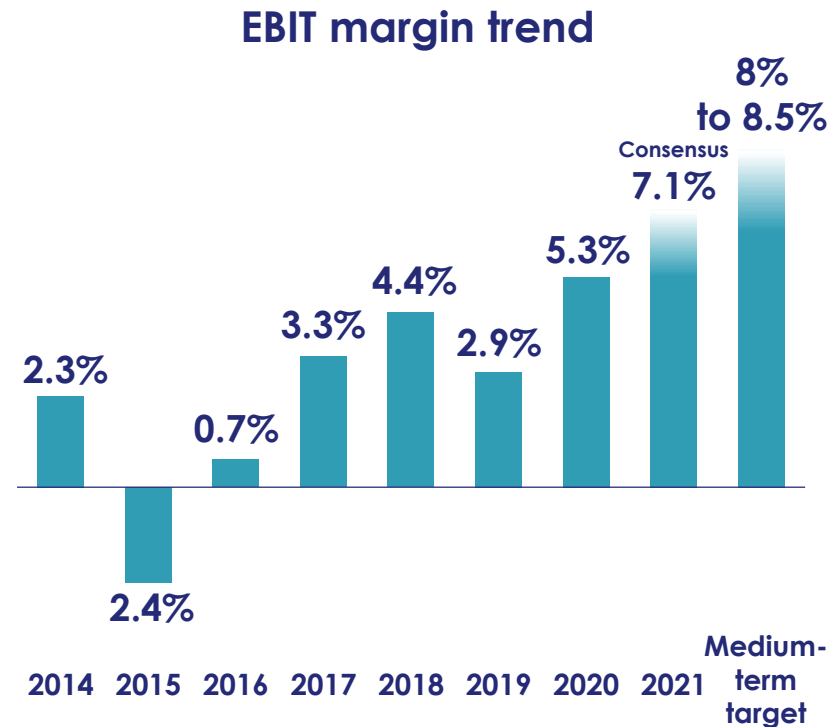
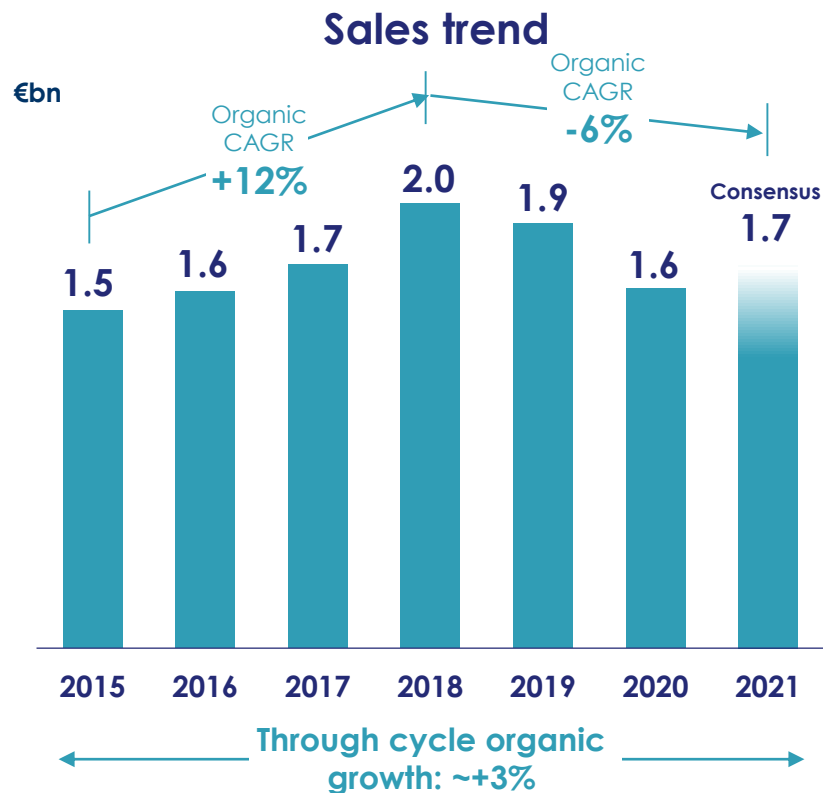


# Appendix





# Transport segment: historical sales and EBIT margin trend



# Definition of non-GAAP measures and other remarks

## Rounding of amounts in euros

In the context of this presentation, the amounts expressed in millions of euros are rounded to the nearest million. As a result, the sums of the rounded amounts may differ very slightly from the reported totals. All ratios and variances are calculated based on underlying amounts, which feature in the consolidated financial statements.

## Definitions

- **Organic:** at constant scope and exchange rates;
- **Book-to-bill ratio:** ratio of orders received to sales;
- **Mature markets:** All countries in Europe excluding Russia and Turkey, North America, Australia and New Zealand;
- **Emerging markets:** All other countries, i.e. Middle East, Asia, Latin America and Africa.

## Non-GAAP measures

This presentation contains non-Generally Accepted Accounting Principles (GAAP) financial measures. Thales regards such non-GAAP financial measures as relevant operating and financial performance indicators for the Group, as they allow non-operating and non-recurring items to be excluded. Thales definitions for such measures may differ from similarly titled measures used by other companies or analysts.

- **EBIT:** income from operations; *plus* the share of net income or loss of equity affiliates *less:* amortization of acquired assets (PPA), expenses recorded in the income from operations that are directly related to business combinations. See also notes 13-a and 2 of the consolidated financial statements at 31 December 2020.
- **Adjusted net income:** net income, *less* the following elements, net of the corresponding tax effects: (i) amortization of acquired assets (PPA), (ii) expenses recorded in the income from operations or in "financial results" which are directly related to business combinations, which by their nature are unusual, (iii) disposal of assets, change in scope of consolidation and other, (iv) impairment of non-current assets, (v) changes in the fair value of derivative foreign exchange instruments (recognized under "other financial income and expenses" in the consolidated financial statements), (vi) actuarial gains or losses on long-term benefits (recognized under "finance costs on pensions and employee benefits" in the consolidated financial statements). See note 13-a of the consolidated financial statements at 31 December 2020. This definition implies the definition of several other adjusted financial measures, such as adjusted gross margin, adjusted tax, adjusted EPS .... See page 14 and 15 of the 2020 results press release for detailed calculation of these other indicators.
- **Free operating cash flow:** net cash flow from operating activities, *less:* capital expenditures, *less:* deficit payments on pensions in the United Kingdom. See notes 13-a and 6.3 of the consolidated financial statements at 31 December 2020.
- **Net cash (debt):** difference between the sum of "cash and cash equivalents" and "current financial assets" items and short and long-term borrowings, after deduction of interest rate derivatives. See note 6.2 of the consolidated financial statements at 31 December 2020.

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