

2018 Capital Markets Day: Thales presents its 2021 strategic priorities

- Highly-differentiated business model: intelligent systems to address 5 demanding end markets
- Reinforcing technological leadership by accelerating R&D investments
- Group ideally positioned to lead the digital transformation of its markets
- Powerful operational performance levers implemented to deliver significant margin increase
- Further potential upside from projected Gemalto acquisition
- **2018-21 financial targets:**
 - Average organic sales growth of 3 to 5%¹, with each Thales operating segment² expected to outperform its market
 - EBIT³ margin to reach 11% to 11.5% by 2021

Thales (Euronext Paris: HO) is today hosting its 2018 Capital Markets Day with investors and financial analysts. During this event, Patrice Caine, Chairman and Chief Executive Officer, and members of the management team will present the Group's strategic priorities for the period 2018 to 2021.

In addition to presentations on Group strategy, financials and a review of each of the Group's main businesses, the meeting will include in-depth presentations focusing on its renewed drivers of operational performance and on the Group's unique ability to capture opportunities resulting from the digital transformation of its markets.

"The first phase of Ambition 10, our strategic plan, has delivered on all of its key targets. During the next phase, we have a clear plan to drive all our businesses to industry leadership.

We will reinforce our customer-centric organization and culture, ramp up new operational performance initiatives, and accelerate our R&D investments, notably to further position ourselves as strategic partner for our customers' digital transformations.

Combined with our unique position, associating world class technology leadership and deep domain knowledge of our 5 end markets, these actions will allow us to grow profitably and faster than the market, in a sustainable way.

In a few months, the Gemalto acquisition, which we expect to complete in the second half of this year, will further accelerate this strategy, and enable us to build a global leader in digital security."

Patrice Caine, Chairman and Chief Executive Officer

¹ Compared to 2017 pro forma IFRS 15 sales. Does not take into account the potential impact of the projected Gemalto acquisition.

² Aerospace, Transport, and Defence & Security.

³ Non-GAAP measure, see definition in appendix, page 5. Does not take into account the potential impact of the projected Gemalto acquisition.

The main topics to be addressed at the Capital Markets Day include:

A highly-differentiated business model: intelligent systems to address 5 very demanding end markets

Thales's business model relies on its ability to combine deep domain knowledge of its 5 complex end markets with a unique portfolio of key common technologies focused on supporting the critical decision chain, from sensors to data transmission, data processing and decision-making.

This pure player focus enables the Group to develop and deliver breakthrough solutions that help its customers think smarter and act faster, mastering ever greater complexity at every decisive moment they face.

Relying on an asset light capital base and benefiting from significant negative working capital, this business model is creating high value, with a ROCE⁴ of 25% in 2017, in line with best in class global peers.

All Thales markets benefit from solid underlying trends, driven by the increasing need for mobility and connectivity, the confirmed trend-up of defence budgets, as well as the ability of intelligent systems to deliver operational and environmental efficiency, and to support more effective decision-making in critical environments.

Reinforcing technological leadership by accelerating R&D investments

To drive technological excellence and lead the digital transformation of its markets, Thales plans to further increase its self-funded R&D investments⁵, which are expected to reach approximately €1 billion by 2021, up by 25 to 30% compared to 2017.

Leading the digital transformation of markets

The acceleration of digital innovation will transform and disrupt Thales customers' businesses over the next 5 to 10 years.

With its focus on critical decision chains, digital by nature, its large integrated network of digital native talents, and its unique portfolio of digital capabilities, notably in the areas of connectivity, big data analytics, artificial intelligence and cybersecurity, Thales is ideally positioned to lead the digital transformation of its markets.

To execute on this strategy and partner with its customers through their digital transformations, Thales will capitalize on its recent digital acquisitions and the launch of its "digital factory", while focusing its R&D investments on digital-inside "dream" products, digital breakthroughs and new digital services.

Once completed, the Gemalto acquisition will further boost this strategy.

Powerful operational performance levers

Building on new marketing and sales initiatives, the Group will reinforce its customer-centric organization and culture, targeting deeper customer intimacy, sales pipeline optimization, and the development of exports from large countries.

⁴ Non-GAAP measure, see definition and calculation on page 136 of the Capital Markets Day presentation.

⁵ Adjusted P&L research and development expenses line, €797m in 2017.

In parallel, Thales will continue to concentrate its competitiveness initiatives on 4 high impact levers:

- **Procurement performance**, driven by a new worldwide integrated organization as well as the introduction of powerful new methods
- **Engineering competitiveness**, notably through the further deployment of *agile* methods, state-of-the-art digital engineering tools and the further reinforcement of skills and capabilities
- **Support function efficiency**, with the implementation of standard worldwide operating models across every support function, fostering process standardization, digitization and further platforming of resources
- **Excellence in delivery**, targeting continuous improvement in operational excellence, including bid and project execution, while delivering growth

Complemented by the positive impact on product competitiveness arising from increased R&D, the Ambition 10 competitiveness initiatives are expected to generate a 200 to 240 basis point improvement in EBIT margin⁶ over the 2018-21 period.

Persistent focus on shareholder value creation

As a result of these initiatives, Thales has set itself the following financial targets, not taking into account the potential impact of the projected Gemalto acquisition:

- **Organic sales growth**⁷ of +3% to +5% on average over the 2018-2021 period, with each operating segment expected to outperform its market
- An **EBIT margin** of 11% to 11.5% by 2021, resulting from the 200 to 240 basis point improvement related to competitiveness initiatives, partly offset by the reinvestment in self-funded R&D mentioned above, representing approximately 50 to 100 basis point of margin. All 3 operating segments are expected to further increase their EBIT margin

On top of the above-mentioned drivers, **adjusted EPS** will benefit from the expected progressive lowering of effective tax rates, from 31%⁸ in 2017 to 23-24% in 2021.

Thales will maintain its strong focus on cash flow generation, and targets a further improvement in its **cash conversion ratio**⁹, which is expected to reach approximately 90% before one-offs on average over the 2018-21 period, in spite of a less favourable cash/expense tax gap.

Further upside from transformative Gemalto acquisition

Once completed, the Gemalto acquisition is expected to deliver significant sales and cost synergies. It will also improve the efficiency of the capital structure, enabling Thales to deliver significant dividend growth whilst maintaining financial flexibility for bolt-on acquisitions.

⁶ Compared to a reported EBIT margin of 9.8% in 2017.

⁷ Compared to 2017 pro forma IFRS 15 sales.

⁸ 25.9% excluding one-off non cash tax items. Effective tax rates computed on adjusted P&L.

⁹ Free operating cash flow divided by adjusted net income. See definitions in appendix.

This press release may contain forward-looking statements. Such forward-looking statements represent trends or objectives, and cannot be construed as constituting forecasts regarding the Company's results or any other performance indicator. Actual results may differ significantly from the forward-looking statements due to various risks and uncertainties, as described in the Company's Registration Document, which has been filed with the French financial markets authority (Autorité des marchés financiers — AMF).

This press release does not constitute an offer, or any solicitation of any offer, to buy or subscribe for any securities in Gemalto. Any offer is only made by means of the Offer Document, which is available since 27 March 2018.

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About Thales

The people who make the world go round – they rely on Thales. Our customers come to us with big ambitions: to make life better, to keep us safer.

Combining a unique diversity of expertise, talents and cultures, our architects design and deliver extraordinary high technology solutions. Solutions that make tomorrow possible, today. From the bottom of the oceans to the depths of space and cyberspace, we help our customers think smarter and act faster, mastering ever greater complexity at every decisive moment along the way.

With 65,000 employees in 56 countries, Thales reported sales of €15.8 billion in 2017.

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Appendix: definitions of non-GAAP financial indicators

“**Organic change**” measures the movement in monetary indicators excluding the effects of changes in exchange rates and scope of consolidation. It is defined as the difference between (i) the indicator for the prior period, recomputed at the exchange rates applicable for the current period to entities whose reporting currency is not the euro, less the contribution of entities divested during the current period, and (ii) the value of the indicator for the current period less the contribution of entities acquired during the current period.

In order to facilitate monitoring and benchmarking of its financial and operating performance, the Group presents four key non-GAAP indicators, which exclude non-operating and/or non-recurring items. They are determined as follows:

- **EBIT**, an adjusted operating indicator, corresponds to income from operations plus the share in the net income of equity-accounted companies, before the impact of entries relating to the amortisation of intangible assets acquired (purchase price allocation – PPA) recorded as part of business combinations. From 1 January 2016, it also excludes the other expenses recorded in income from operations that are directly related to business combinations, which are unusual by nature.
- **Adjusted net income** corresponds to net income, excluding the following items and net of the corresponding tax effects:
 - amortisation of acquired intangible assets (PPA) recorded as part of business combinations;
 - expenses recognised in income from operations, that are directly related to business combinations, which are unusual by nature;
 - gains and losses on disposals of assets, changes in scope of consolidation and other;
 - changes in the fair value of derivative foreign exchange instruments (recognised under “Other financial income and expenses” in the consolidated financial statements);
 - actuarial gains (losses) on long-term benefits (recognised under "Finance costs on pensions and other long-term employee benefits" in the consolidated financial statements).
- **Adjusted earnings per share (EPS)** correspond to the ratio of adjusted net income (as defined above) to the average number of shares outstanding.
- **Free operating cash flow** corresponds to the net cash flow from operating activities before contributions to reduce the pension deficit in the United Kingdom, and after deducting net operating investments.

The detailed computation of these non-GAAP indicators can be found on pages 10 and 12 of the 2017 registration document.