

Thales updates its 2019 financial objectives following the integration of Gemalto

- 2019 objectives for the “Digital Identity and Security” (DIS) operating segment:
 - Organic¹ sales growth between 0% and 2%, in line with expectations
 - EBIT² between €240 and €260m, corresponding to an underlying margin of around 10%, comparable to the rest of the Group
- €120m of run-rate cost synergies, at the top end of the initially announced range, after taking into account the disposal of Thales’s GP HSM business
- Confirmed outlook for all other businesses
- New 2019 Group objectives:
 - Order intake slightly above €18bn
 - Organic sales growth between 3% and 4% (unchanged)
 - EBIT between €1,980m and €2,000m

Thales (Euronext Paris: HO) published today the update of its 2019 financial objectives following the integration of Gemalto, completed on 1st April 2019, and the disposal of its General Purpose Hardware Security Module (GP HSM) business³, deconsolidated since 1 January 2019 and finalised on 7 June.

“The update of our 2019 financial objectives announced today is in line with our plan. The solid momentum in growth businesses, combined with strict cost control in the more mature businesses, should result in a significant underlying EBIT increase in the ‘Digital Identity and Security’ operating segment, which hosts Gemalto.

Detailed action plans will allow us to generate €120m of run-rate cost synergies.

Throughout the Group, there is tremendous enthusiasm for what Gemalto brings to all our businesses. This acquisition represents a powerful accelerator of the strategy we have been implementing since 2015; by providing a unique range of digital technologies and skills, it strengthens the differentiation of our solutions and positions us as partner in the digital transformation of our customers. At the same time, it allows us to create a global leader in the digital security market, responding to the needs of the most demanding customers as they step up to the challenges of identifying people and objects and keeping data secure.”

Patrice Caine, Chairman & Chief Executive Officer

¹ In this press release, “organic” means “at constant scope and currency”. See definition in the 2018 registration document, page 27.

² Non-GAAP financial indicator, see definition in the 2018 registration document, page 27.

³ This disposal followed the commitment made by Thales to several competition authorities to divest this business in order to finalise the acquisition of Gemalto.

Outlook for the “Digital Identity and Security” segment

As previously announced, Gemalto has become one of Thales’s seven Global Business Units, called “Digital Identity and Security” (DIS), and is a new operating segment in the Group’s financial statements. This segment also includes some of the digital businesses previously assigned to the “Defence & Security” operating segment.

Over the whole of 2019, this segment should deliver organic **sales** growth of 0% to 2%, reflecting the solid momentum in most of its businesses, partly offset by the continued decline in sales of traditional SIM cards⁴.

As this segment is mostly exposed to short order cycles, its level of **order intake** should be very close to sales.

The detailed review of the cost synergy action plans undertaken over the last two months leads to an upward revision of the cost synergy target. The Group now expects €120m in run-rate **cost synergies**, compared with the initial objective of €100 to €150m, which included €30m in cost synergies related to the GP HSM business that ultimately had to be divested.

The integration costs to be recorded within EBIT are estimated at €60m in 2019 and €30 to €40m in 2020.

Over the period in which Gemalto is being consolidated (April to December 2019), the **EBIT** of this segment should reach €240 to €260m⁵, benefiting from the full effect of the transition plan implemented by Gemalto since 2017 and the growth in sales, and including €20m in cost synergies and the €60m in integration costs mentioned above.

Group outlook

The setting of the objectives for the “Digital Identity and Security” operating segment and the disposal of the GP HSM business leads Thales to review its 2019 Group outlook.

Order intake is therefore expected to be slightly above €18bn, driven by the favourable orientation of most of the Group’s markets, combined with its differentiated positioning on digital solutions.

Since the acquisition of Gemalto and the disposal of the GP HSM business represent changes in scope (by nature excluded from the calculation of organic growth), the organic sales growth objective is unchanged. As such, as announced on 30 April 2019, **sales** should achieve organic growth of 3% to 4% compared to 2018, incorporating the normalisation of growth in the Transport segment after an exceptional performance in 2018, and a 5% to 10% decline in sales in the Space Global Business Unit, which is affected by a slower than expected recovery of the commercial satellite market.

⁴ Traditional SIM cards accounted for only 13% of the segment’s 2018 pro forma sales (around €400m).

⁵ Based on the scope and exchange rates of June 2019.

As announced during the June 2018 Capital Markets Day, the Group will continue to step up its R&D investments, targeting in particular digital technologies. Self-funded R&D expenses are therefore expected to grow at a slightly faster rate than sales.

The growth in sales, combined with the impact of the Ambition 10 strategy on competitiveness and the differentiation of products and services, should result in Thales delivering an **EBIT⁶** of between €1,980 and €2,000m (based on June 2019 scope and currency), reflecting the outlook described above for the “Digital Identity and Security” segment and the confirmed outlook for the other Group businesses.

The Group will update its medium-term financial outlook at a Capital Markets Day that will take place on 3rd October 2019.

Breakdown of updated Group EBIT objective

<i>(in € millions)</i>	2019 objectives
Objective initially set (February 2019)	1,780 to 1,800
+ EBIT objective set for DIS segment (April-December 2019)	240 to 260
- EBIT of businesses transferred from the Defence & Security segment to the DIS segment, and disposal of the GP HSM business	~ 50
= New Group EBIT objective	1,980 to 2,000

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).

⁶Since 1 January 2019, the Group has been applying IFRS 16 (“Leases”). Based on current assessments, this standard is expected to have no material impact on Group EBIT.

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 80,000 employees in 68 countries, Thales reported sales of €19 billion in 2018, on a pro forma basis including Gemalto.

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