2019 Capital Markets Day: Thales sets out its action plan following the integration of Gemalto and updates its medium-term financial objectives

- **Gemalto integration**
  - Thales becomes the global leader in digital identity and security
  - Unique strengthening of the Group’s digital positioning
  - Average organic sales growth\(^1\) in the “Digital Identity and Security” (DIS) operating segment: 4% to 6% over 2020-2023
  - DIS EBIT margin\(^2\) to reach 12.5% to 13.5% by 2023
  - Significant additional group synergies across other operating segments

- **Solid progress made on Ambition 10 strategic priorities**
  - Powerful operational performance levers implemented delivering significant increase in margins
  - Further R&D step-up, reinforcing the Group’s technological leadership and long-term growth profile

- **2019-2023 Group financial targets**
  - Average organic sales growth: 3% to 5%
  - EBIT margin to reach 11.5% to 12% by 2023

Thales (Euronext Paris: HO) is today hosting its 2019 Capital Markets Day with investors and financial analysts.

Six months after Gemalto’s integration into Thales, this meeting will mainly focus on the new “Digital Identity and Security” (DIS) global business unit, consisting of Gemalto and a number of digital businesses previously assigned to the “Defence & Security” operating segment.

Patrice Caine, Chairman and Chief Executive Officer, and members of the management team will also give a progress update on the Group’s key strategic priorities defined at the June 2018 Capital Markets Day, and will update the Group’s medium-term financial objectives.

“Together with the other members of Thales’s management team, I am delighted to update the financial community on the progress we have made with the strategic priorities unveiled in June 2018, and on the numerous development opportunities arising from the acquisition of Gemalto, which was finalised just six months ago.

---

\(^1\) In this press release, “organic” means “at constant scope and currency”. See the definition on page 27 of the 2018 registration document.

\(^2\) Non-GAAP financial indicator, see definition in the 2018 registration document, page 27.
The Ambition 10 plan is running in line with our expectations. We are continuing to implement operational performance initiatives and are accelerating our R&D investments. The results for both 2018 and the first half of 2019 were ahead of the dynamics needed to deliver on our 2021 targets.

Our new ‘DIS’ global business unit is already the world leader in the fast-growing digital identity and security markets, addressing key challenges in the digital transformation of our customers’ intelligent systems.

Across the whole Group, our teams have identified many business synergy opportunities that will generate several hundred million euros in revenues by 2023.

In a more uncertain economic and geopolitical environment, we are initiating this new growth phase for Thales with a robust balance sheet and enhanced resilience thanks to a broader customer base and a technology portfolio that has been strengthened with regard to critical capabilities.

Our unique position combining a world-class technology portfolio and deep domain knowledge of our five key markets will allow us to sustain our profitable growth ambition.”

Patrice Caine, Chairman and Chief Executive Officer

Unique strengthening of the Group’s digital positioning
The integration of Gemalto delivers a major acceleration of Thales’s digital strategy.

It enhances the differentiation of the Group’s business portfolio by adding market-leading expertise in three key technological domains relating to digital security: digital identity and biometrics, IoT3 secure connectivity, and data protection and encryption.

These capabilities are essential to ensure the end-to-end security of critical decision chains as they become digital. They address growing needs in an ever more connected world and have applications in all Group markets.

The teams have already identified application opportunities in many of the Group’s businesses, including, amongst others, the pooling of cybersecurity capabilities, the design of security solutions for airports, large cities and critical sites, UAV management and surveillance, and the implementation of the Internet of Things in the military domain and in rail signalling.

The Group is fully mobilized to capture these synergies, supported by a rigorous organisation. Just six months after Gemalto’s integration, several hundred specific customer opportunities have been identified, notably leveraging Thales’s global commercial footprint. The Group considers that, by 2023, the incremental revenues induced by Gemalto’s acquisition (revenue synergies) will amount to between €300m and €500m, with a significantly higher potential thereafter.

3 Internet of Things
Expansion in fast-growing digital identity and security markets

Thanks to the acquisition of Gemalto, Thales has become the global leader in the digital identity and security markets. These markets, at the junction of secure object and people identification and cybersecurity, offer high growth prospects, in the region of 10% per annum until 2023, driven by the development of digital services and solutions.

In these markets, the Group will implement a differentiated growth strategy:

- targeting high-value opportunities in the fast-growing segments: embedded SIM (eSIM) software and services, data protection in the cloud, public and commercial biometrics, secure IoT connectivity for the most critical industrial applications
- strict cost control and value maximization in the mature smart card businesses

This strategy will benefit from robust synergies with the rest of Thales, whether in terms of creating an undisputed global leader in data protection or the Group’s privileged relationships with its customers in its five major markets.

Based on detailed action plans, the implementation of cost synergies is fully in line with expectations. They should reach €120m on a run-rate basis (2022), of which €20m in 2019 and around €60m in 2020.

As a result, the Group anticipates organic sales growth for the DIS operating segment in the range of 4% to 6% per annum over the 2020–2023 period⁴ and an EBIT margin of 12.5% to 13.5% by 2023. These objectives include only a portion of the synergies expected at Group level⁵.

2023 financial objectives focused on shareholder value creation

Thanks to the smooth roll-out of the Ambition 10 plan, the long-term robust momentum in most of its markets, and the integration of Gemalto, Thales updates its medium-term objectives⁶:

- organic sales growth of +3% to +5% on average over the 2019-2023 period, with the strengthening of the Group’s growth potential relating to digital investments and to the integration of Gemalto largely offsetting a more uncertain outlook in the commercial space market and no growth in transport over 2019-2023 after strong performance in 2018 (+18%). The phasing of these different factors is expected to translate into lower growth in the first part of the period, and progressive acceleration thereafter.

- an EBIT margin of 11.5% to 12% by 2023, benefiting from the competitiveness initiatives and Gemalto synergies (200 to 240 basis points improvement compared to a pro forma 2018 EBIT margin of 10%), partly offset by the reinvestment in self-funded R&D (30 to 50 basis points).

---

⁴ Compared to pro forma 2019 revenues over 12 months in the DIS segment, expected to be between €3.1 and €3.2 billion.

⁵ The Group considers that approximately 1/3 of run-rate cost synergies and around 2/3 of run-rate revenue synergies will be booked in the other operating segments.

⁶ Financial objectives based on September 2019 exchange rates.
In addition to the two levers outlined above, **adjusted EPS** will rise thanks to the anticipated reduction in the effective income tax rate, expected to fall from 27% in 2018 to 23-24% by 2023, and thanks to the more efficient use of the balance sheet following Gemalto’s acquisition.

Furthermore, the Group will pursue its efforts to maximise cash generation, and thus aims to maintain a high **cash conversion ratio**\(^7\). It should thus stand at around 95% before one-offs\(^8\) on average over the 2019-2023 period, in spite of a less favourable cash/expense tax gap, of the Group’s development in service activities, which have longer cash generation profiles than project activities, and of the additional working capital required by the growth of the DIS global business unit.

****

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).

**About Thales**

Thales (Euronext Paris: HO) is a global technology leader shaping the world of tomorrow today. The Group provides solutions, services and products to customers in the aeronautics, space, transport, digital identity and security, and defence markets. With 80,000 employees in 68 countries, Thales generated revenues of €19 billion in 2018 (on a pro forma basis including Gemalto).

Thales is investing in particular in digital innovations – connectivity, big data, artificial intelligence and cybersecurity – technologies that support businesses, organisations and governments in their decisive moments.

**CONTACTS**

**Thales, Media Relations**
Cédric Leurquin
+33 (0) 1 57 77 90 93
cedric.leurquin@thalesgroup.com

**Thales, Analysts/Investors**
Bertrand Delcaire
+33 (0) 1 57 77 89 02
ir@thalesgroup.com

**FIND OUT MORE**

Thales Group
Download photos

---

\(^7\) Division of free operating cash flow by adjusted net income, Group share.

\(^8\) The mechanical impact on the cash conversion ratio of IFRS 16, the application of which has been mandatory since 1 January 2019, is estimated at around 9 points.