



## Investor meeting

November 2019



The people we all rely on  
to make the world go round,  
**they rely on Thales**



- Introduction to Thales

- Key priorities for 2019-23

- H1 and 9m 2019 results

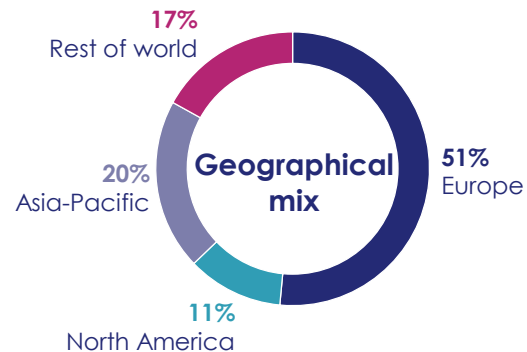
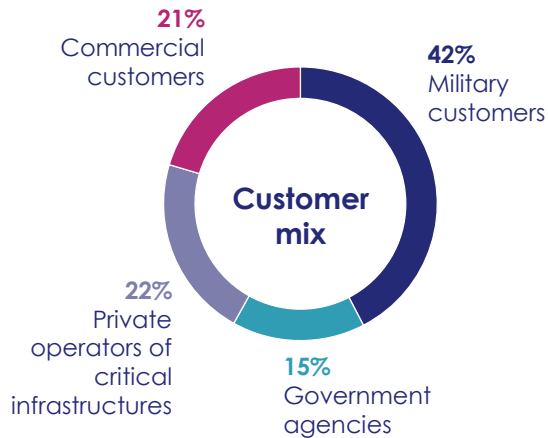
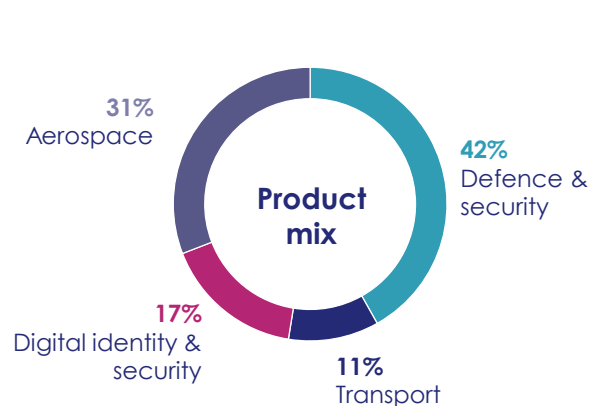
- Outlook

A photograph of a smiling man with a beard and glasses, wearing large headphones, seated in an airplane cabin. The image is partially framed by a large teal shape on the right side of the slide.

1 million  
passengers each day enjoy  
**Thales in-flight technologies**

# Thales today: a set of focused, technology-driven businesses

Pro forma 2018 sales



**Defence sensors  
& mission systems**

**#1**  
in Europe

**Air Traffic  
Management**

**#1**  
worldwide

**Rail signalling  
and supervision**

**#2**  
worldwide

**Data  
protection**

**#1**  
worldwide

**Civil  
satellites**

**#2**  
worldwide

**Flight  
avionics**

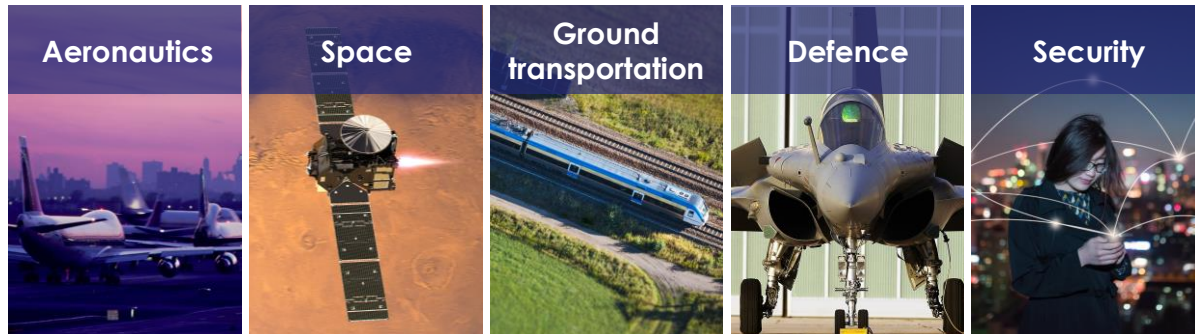
**#3**  
worldwide

# Thales: a pure player focused on intelligent systems

Addressing  
some of the most  
demanding  
end markets...



...leveraging a  
unique portfolio  
of key common  
technologies



← Critical decision chain →

Sensing and  
data gathering

*Hardware +  
software*



Data  
transmission  
and storage

*Hardware +  
software*



Data processing  
and decision  
making

*Software +  
systems*

*Sensors, mission systems, communications, command and control systems*

# Thales builds on 4 key strengths



## Cutting edge R&D

- €3.5bn+, ~20% of sales
- ~70% customer-funded
- 29,000+ engineers
- Ranked by Nature as first non-pharma company in Europe for quality of research



## Deep domain knowledge

- Top 3 globally or #1 in Europe across businesses
- Leverage across 5 end markets with many technological similarities

Connectivity  
Mobility, IoT



Big data  
analytics

Cyber-  
security



Artificial  
intelligence

## Growing digital asset base

- Thales portfolio: digital "by nature"
- Significant organic and inorganic initiatives, targeting 4 key digital technologies
- Large integrated network of digital native talents



## Global presence

- Presence in 50+ countries and sales in 100+ countries
- Proven ability to address complex markets and partnerships
- Capitalizing on 40+ year presence





Introduction to Thales

**Key priorities for 2019-23**

H1 and 9m 2019 results

Outlook

A photograph of two young women standing on a train platform. The woman on the left is wearing a black hat, glasses, and a white jacket over a black top. The woman on the right is wearing a dark, textured coat. They are both smiling and looking towards the camera. A train is visible in the background, and the scene is brightly lit, suggesting a sunny day.

**8 billion**  
passengers each year benefit  
from Thales technologies

# Extending the 5 key strategic priorities to 2023



## Continued focus on operational performance



1

Reinforce customer-centric organization and culture



2

Relentlessly optimize operational performance

## Strong development levers



3

Accelerate R&D investments to drive technological excellence



4

Lead in digital transformation of markets



5

Execute on transformative acquisition of Gemalto



1

# Reinforce customer-centric organization and culture

## Three priorities...

**Deepen  
customer intimacy**

**Consistently optimize  
sales pipeline**

**Develop exports  
from large countries**

## ...capitalizing on marketing and sales excellence

- New marketing initiatives focused on digital value propositions and Group positioning as partner in digital transformation
- Central “sales transformation” function up and running since Summer 2018
- Comprehensive program launched to enhance commercial performance and sales effectiveness



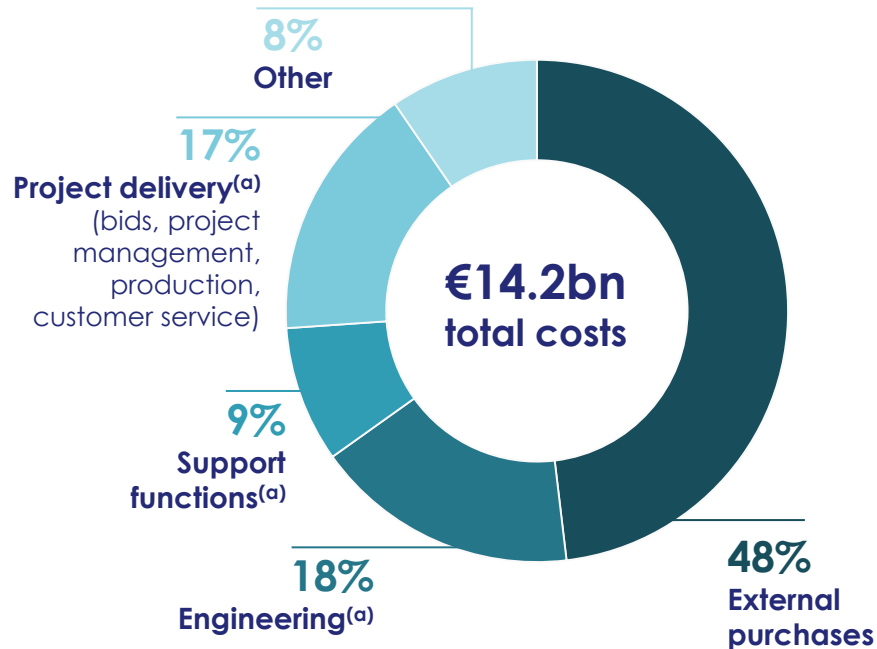


2

## Relentlessly optimize operational performance

### Group cost structure

(2018, before Gemalto)



(a) Excluding external purchases

Investor meeting - 9

### Focus on 4 high impact initiatives

Procurement performance

Engineering competitiveness

Support function efficiency

Excellence in delivery

THALES



2

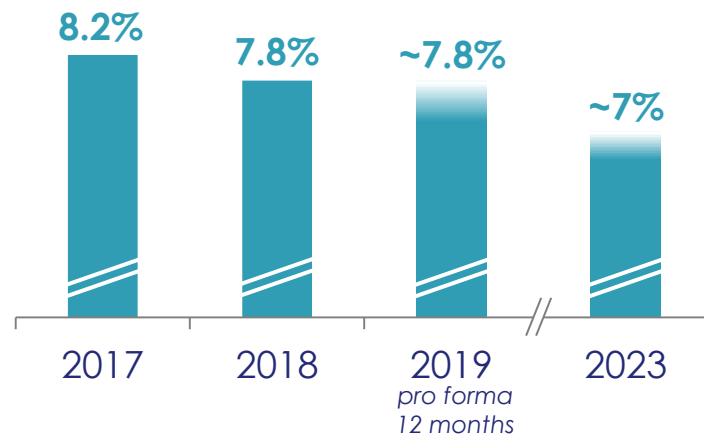
## Solid progress on Ambition 10 competitiveness initiatives

### Procurement: transformed organization delivers

- Worldwide integrated organization fully operational
- Global strategies in place for more than 85% of external purchases, with significant savings already achieved
- 38 “product conventions” executed, supporting further product cost optimization
- 25% reduction in active supplier base
- Significant synergies expected from Gemalto integration

### Global support function transformation under-way

Support function cost<sup>(a)</sup>  
as a percentage of sales



(a) Includes both support function costs reported in the P&L “G&A expenses” line and the ones included in “cost of sales”

**Performance culture continues to drive margin expansion**

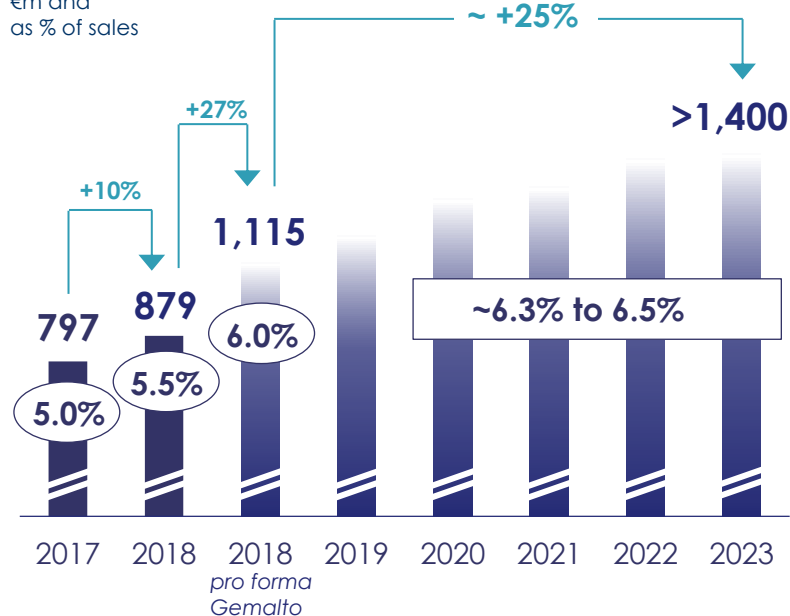


3

## Further R&D step-up to drive technological excellence

### Self-funded R&D

€m and  
as % of sales



### Gemalto drives 27% increase in R&D investments

- 2018 R&D organic increase ahead of plan

### 2019-23: continued reinvestment

- Further ~25% growth over 5 years
- Total R&D to reach €4.5bn+ in 2023 when combined with increase in customer-funded R&D

### Unchanged focus: dream products, digital

**4**

## Digital as a driver of technology leadership

**Digital technologies  
will shape the future  
of our industry**

- Leapfrog in performance: enhanced features and new capabilities
- Potential breakthrough in cost competitiveness
- Opportunities for new business models



**Adoption of digital  
technologies  
will take time**

- Highly regulated markets requiring long certification processes
- Long acquisition cycles combined with long service life (10-20 years)



**Strategy in place to  
sustain leadership**

- Thales's critical decision chains are digital by nature
- €7bn+ deployed in digital acquisitions and R&D since 2014
- 80%+ of engineers are systems or software engineers



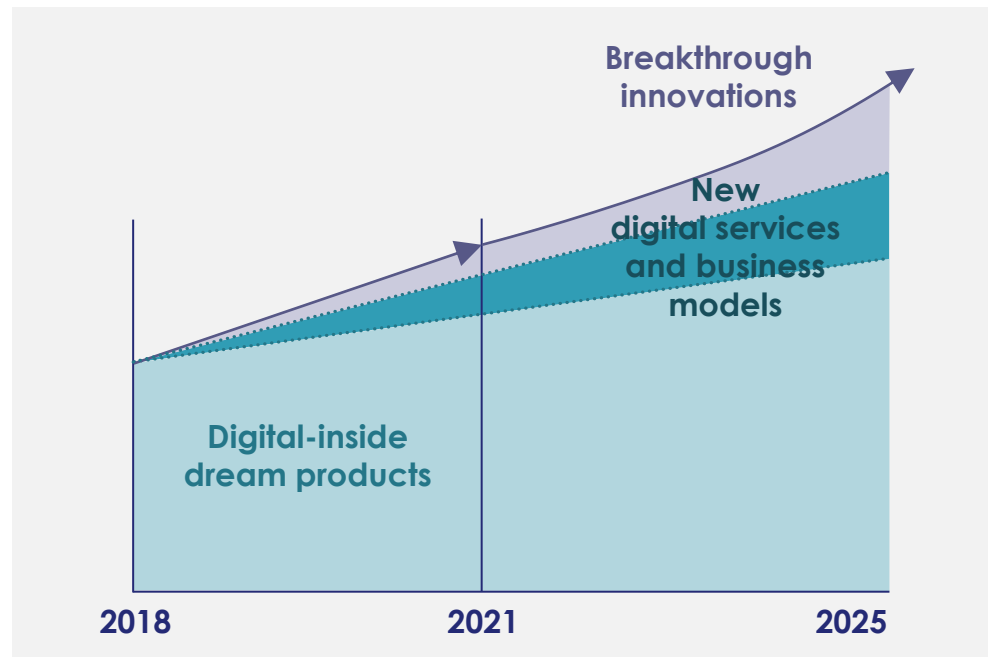
4

## Digital technology leadership enhances long-term growth profile

Quick adoption of digital technologies inside dream products to support top-line growth

Design of new services and business models delivering more recurring revenues

Breakthrough innovations boosting longer-term growth

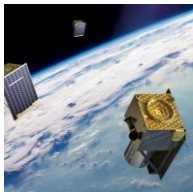


Digital innovations driving mid to long-term growth



4

## Digital offering: expanding the pipeline of digital innovations



**Big data-enabled  
observation  
constellation**



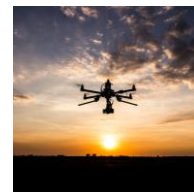
**Autonomous  
trains**



**"Smart"  
radars**



**Predictive  
maintenance  
for defence**



**Drone  
management**



**AI-enabled  
optronics**



**Next generation  
airspace  
surveillance**



**Spare parts  
market place**



**Maritime  
intelligence  
as a service**



**Connected-car  
cybersecurity**

**Concrete digital offerings across all Thales businesses**





5

## Gemalto acquisition: accelerating Thales's digital strategy

Digital security: a unique differentiator to stay at the forefront of intelligent systems

### 3 key technological capabilities



Digital identity - biometrics



Secure connectivity - IoT



Data protection - encryption

Opportunities already materializing in 80% of existing business lines

Access to large pool of digital talents

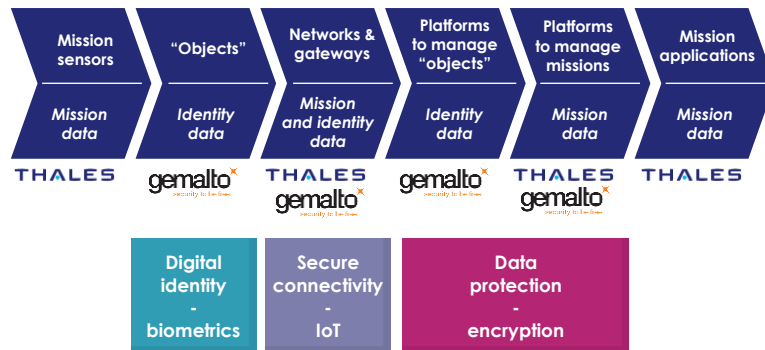
Critical decision chain

Sensing and data gathering

Data transmission and storage

Data processing and decision making

Critical digital decision chain



Reinforcing unique and differentiated market position



5

# Gemalto acquisition: expanding portfolio in highly synergistic growth market

Global leader in fast-growing digital identity and security market

Multiple growth engines, addressing major societal aspirations

Significant cross-selling opportunities, capitalizing on Thales's global sales force

Leveraging Thales's extensive technology portfolio

Maximizing value in mature businesses

## Multiple fast-growing markets

		2023 market size	2019-23 forecasted market growth
	Data protection	~€9bn	x2
	IoT connectivity & security <sup>(a)</sup>	€6bn+	x2
	Biometrics	~€5bn	x1.5
	eSIM shipments	~800 million units	x6

(a) IoT cellular modules and IoT security

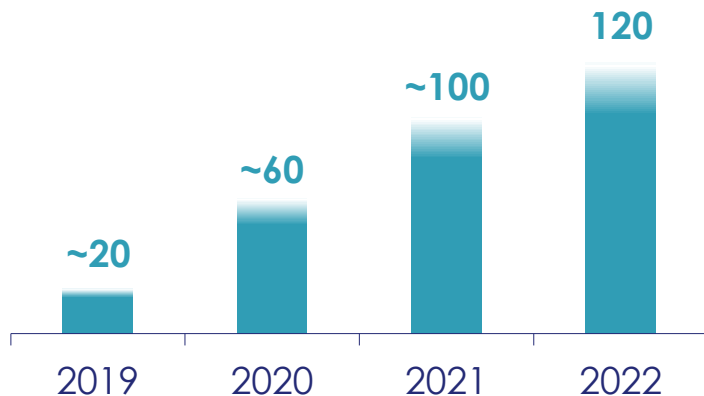
Sources: ABI Research, Gartner, IDC, Counterpoint, Thales



5

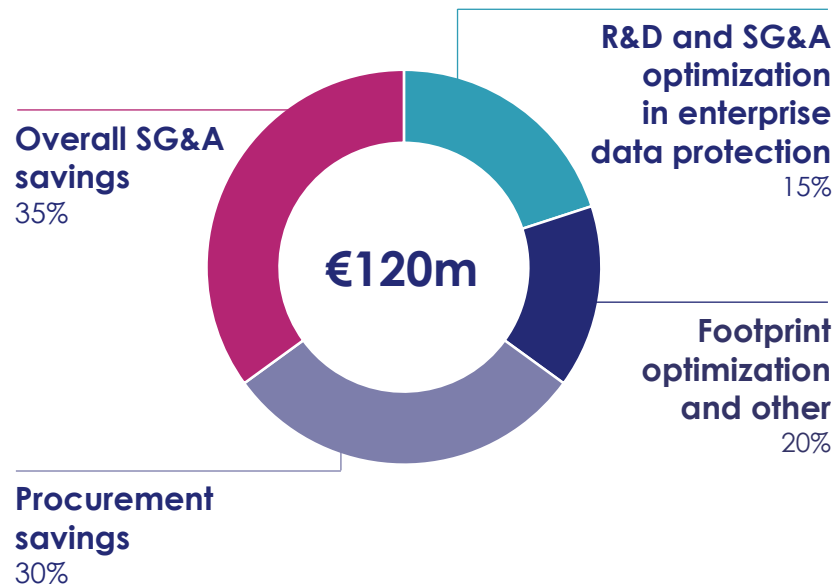
## Cost synergies progressing fully in line with plan

### Expected ramp-up of cost synergies



Integration costs: ~€60m in 2019, ~€30-40m in 2020

### Breakdown of expected run-rate cost synergies





5

# Revenue synergy opportunities materializing across Group



Digital identity - biometrics



Secure connectivity - IoT



Data protection - encryption

## Defence & Security

- > Integration of cybersecurity products and improved go-to-market
- > New homeland security offers
- > Digitally-enabled asset management, collaborative combat, IoBT (military IoT)
- > Drone management and surveillance



## Digital Identity & Security

- > Integration of cybersecurity products and improved go-to-market
- > Sales of DIS solutions through Thales global sales network



## Aerospace

- > Connected aircraft cybersecurity
- > Drone management



## Transport

- > Smart rail infrastructure
- > Autonomous train cybersecurity
- > New generation revenue collection



Enhanced by multiple cross-selling opportunities



5

# Revenue synergies deliver growth acceleration now and beyond 2023

## Priority actions

### Short-term

#### Immediate portfolio opportunities

- 460 individual customer opportunities in 25 countries
- Top 10 per country/ region closely tracked
- First wins already in 2019

### Mid-term

#### Development of new integrated offerings

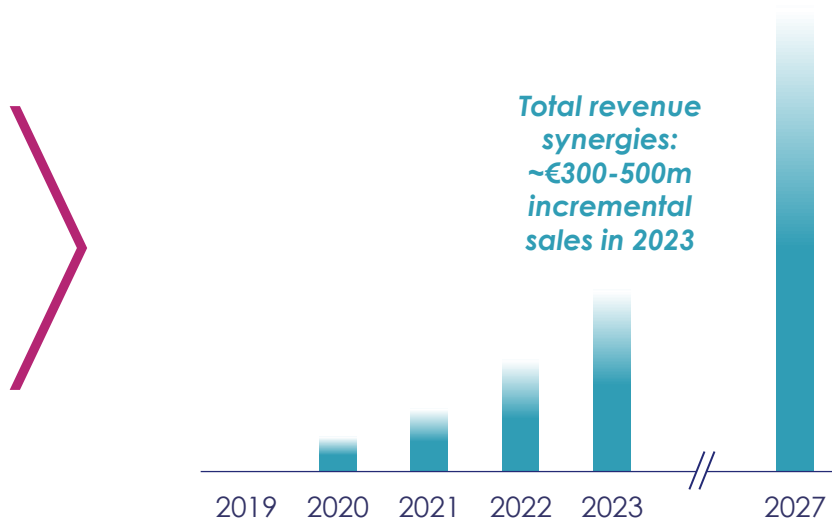
- 50 use cases identified across all Thales segments
- 5 priority themes for new synergistic offers
- 2 first pilot projects launched with Digital Factory

### Long-term

#### Shaping markets

- Experimentations launched for drone management and smart rail infrastructure

## Significant revenue synergies



Note: it is estimated that around 1/3 of run-rate revenue synergies will be recorded in DIS and 2/3 in the other segments

**Teams fully mobilized to capture synergies, supported by disciplined organization**



- | Introduction to Thales
- | Key priorities for 2018-21
- | **H1 and 9m 2019 results**
- | Outlook

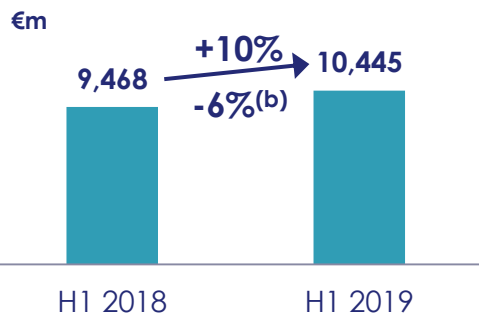
A small, stylized globe is shown, tilted at an angle. The globe features a city skyline on the right, a sandy beach and blue ocean on the left, and a lush green field in the center. The globe is set against a dark, starry space background with a bright, glowing star or planet in the upper right corner. A teal curved line separates the text area from the globe image.

The people we all rely on  
to make the world go round,  
**they rely on Thales**

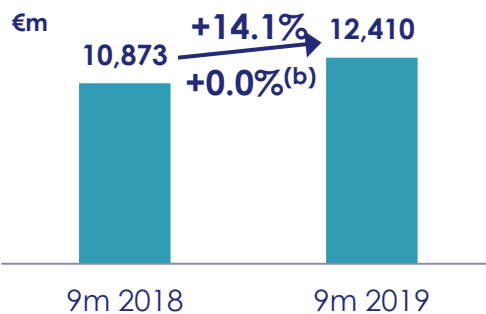


# H1 and 9m 2019 key figures

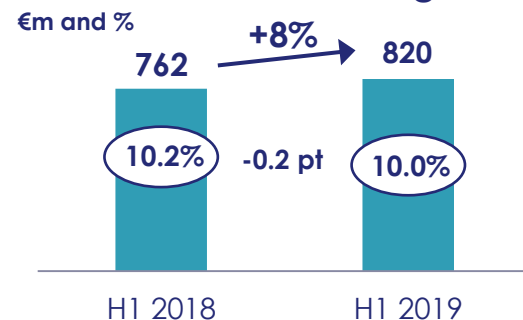
## 9m order intake



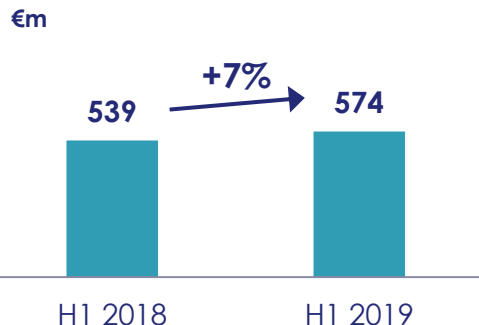
## 9m sales



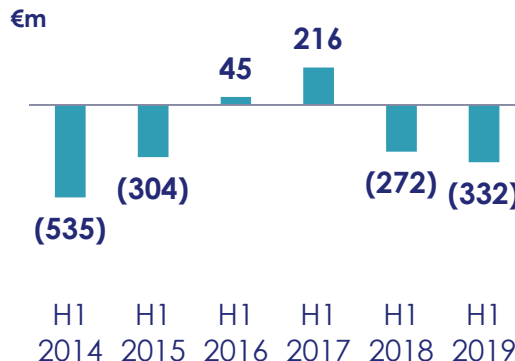
## H1 EBIT and EBIT margin<sup>(a)</sup>



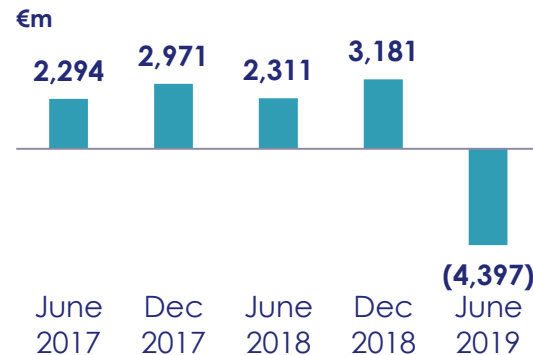
## H1 adjusted net income<sup>(a)</sup>



## H1 free operating cash-flow<sup>(a)</sup>



## Net cash (debt) position



(a) The definition of all non-GAAP measures can be found in appendix

(b) Organic

# 9m 2019 order intake

**Solid order intake, slightly lower than expectations**

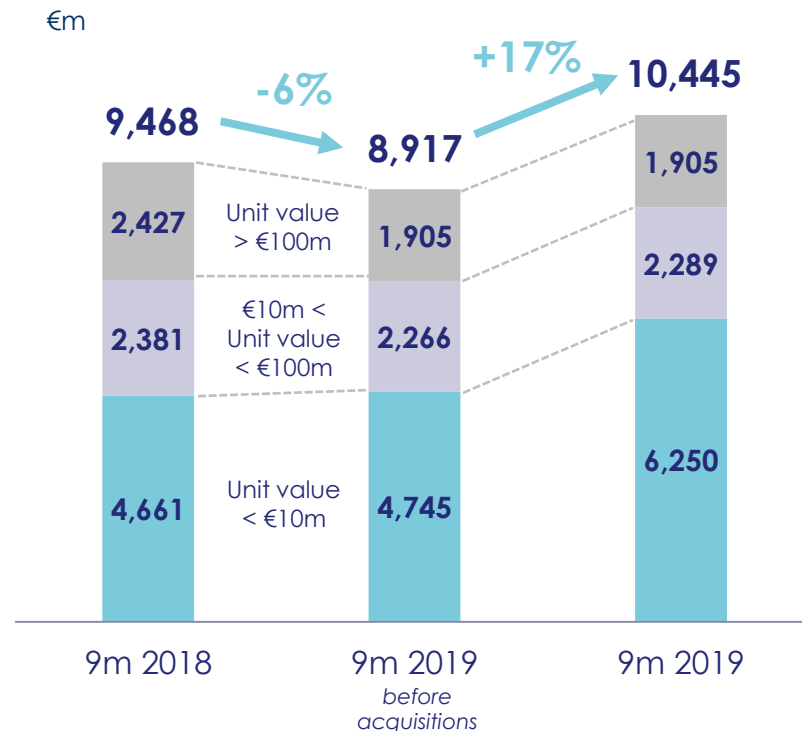
**2 large<sup>(a)</sup> orders booked in Q3 2019, for a total of 9 in 9m 2019**

- Combat management systems for 2 ships
- Modernization of French military satellite-based navigation

**Small orders<sup>(b)</sup> slightly up at constant scope**

(a) With a unit value over €100m  
(b) With a unit value of less than €10m

## Order intake by contract unit value



**THALES**



## Aerospace: 9m 2019 key figures

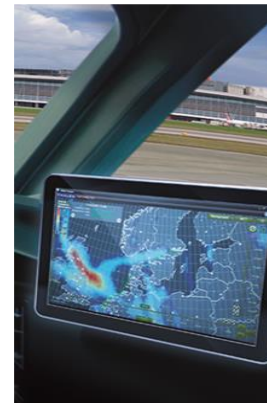
€m	9m 2019	9m 2018	Change	
			total	organic
Order intake	2,625	3,044	-14%	-15%
Sales	3,787	4,010	-5.6%	-6.8%

### Order intake down compared to 9m 2018

- Slow recovery of commercial telecom satellite market
- High comps in IFE

### 9m sales still affected by negative growth in space

- Organic growth in all other aerospace businesses
- Full Year 2019: space sales now anticipated down around 13%





## Transport: 9m 2019 key figures

€m	9m 2019	9m 2018	change	
			total	organic
Order intake	868	1,267	-32%	-32%
Sales	1,268	1,373	-7.6%	-8.9%

### Order intake significantly down due to high comps in 2018

- 2 significant metro signaling orders booked in Q3 last year

### Sales still impacted by strong phasing effects on major urban rail projects

- 9m 2018 organic sales growth was exceptional: +21.1%





# Defence & Security: 9m 2019 key figures

€m	9m 2019	9m 2018	Change	
			total	organic
Order intake	5,270	4,998	+5%	+7%
Sales	5,670	5,319	+6.6 %	+7.7 %

## Strong order intake momentum

## Broad-based sales growth

- Significant growth in airspace protection, optronics and missile electronics, equipment for combat aircraft and ships, military tactical communications and networks
- Full Year organic sales growth expected around 6 to 7%, slightly lower than anticipated





# Digital Identity & Security: 9m 2019 key figures

€m	9m 2019	9m 2018	change	
			Total	organic
Order intake	1,621	134	nm	nm
Sales	1,631	131	nm	nm

Order intake structurally aligned with sales for most businesses

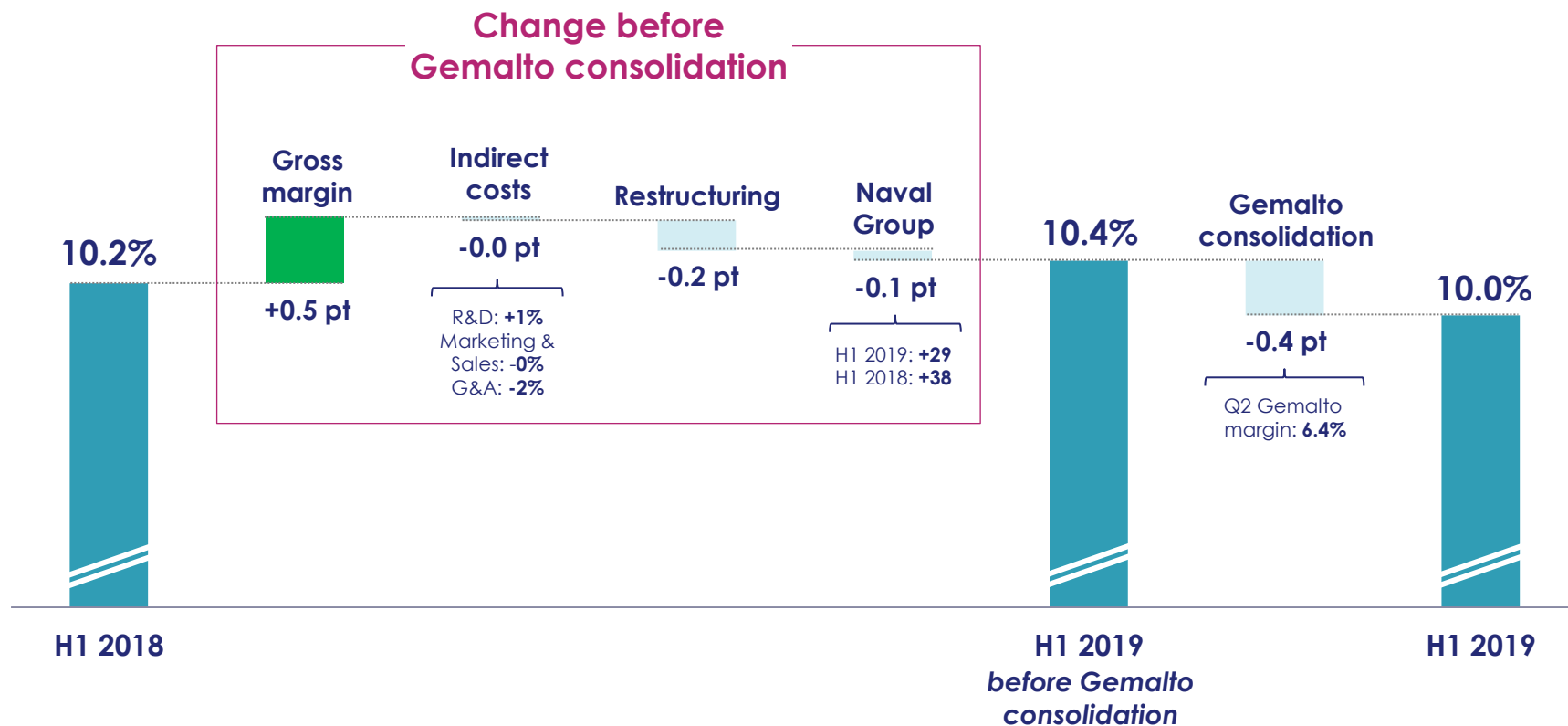
Pro forma 9m sales slightly up, in line with Full Year expectations

- Decline of removable SIM cards
- Confirmed good dynamics of EMV cards, driven by re-issue cycle in the US
- HSM business still affected by reorganization





# H1 EBIT margin evolution driven by solid operational improvement





- | Introduction to Thales
- | Key priorities for 2018-21
- | H1 and 9m 2019 results
- | **Outlook**

A small, stylized globe is shown, featuring a city skyline, a lush green forest, and a sandy beach with blue water. The globe is set against a dark background with a bright light source, possibly the sun or moon, creating a dramatic effect.

The people we all rely on  
to make the world go round,  
**they rely on Thales**

# Sustained organic sales growth

## Group organic sales growth target

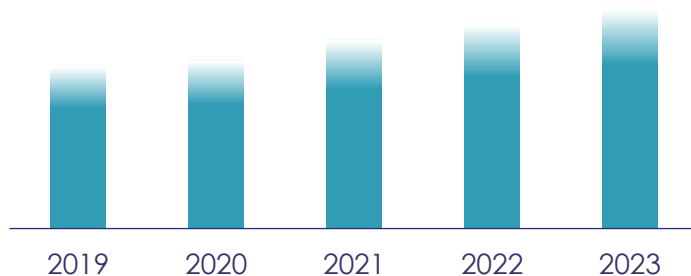
**3% to 5% growth**  
on average over 2019-23

### Lower growth in first part of period

- Impact of space market slowdown
- High comps in transport

### Progressively accelerating thereafter

- Recovery of space market
- DIS revenue synergies
- New digital services and breakthrough innovations



## Market trend

## Organic sales growth target 2019-23



### Aerospace

~+1.5%<sup>(a)</sup>

**+2-3%**



### Transport

~+3%

**Flat<sup>(b)</sup>**  
(2018-23: ~+2%)



### Defence & Security

~+3.5%

**+4-6%**



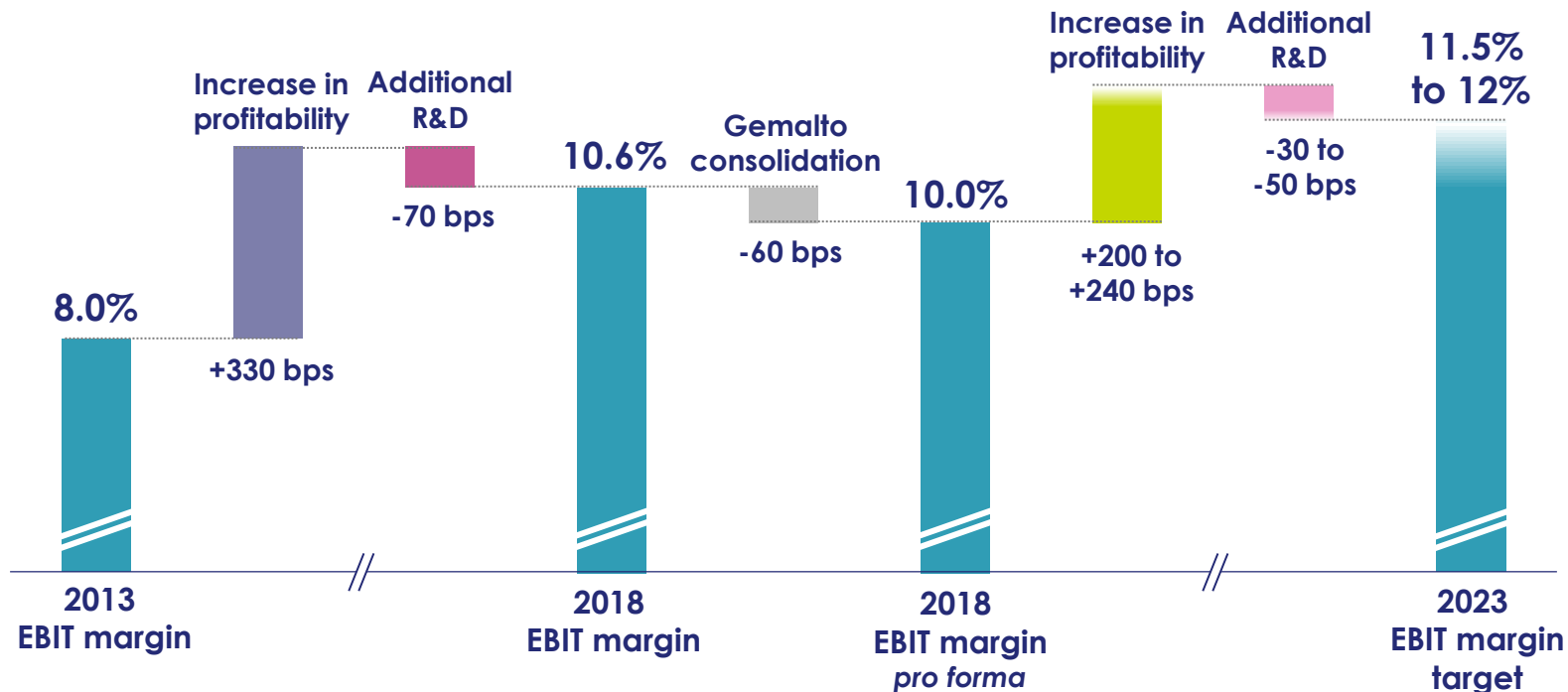
### Digital identity & security

Smart cards Flat  
Digital services and solutions ~+13%

**+4-6%<sup>(c)</sup>**

(a) Composite market trend adjusted to take into account lower growth in commercial space market  
(b) 2018-23 transport growth above 2% taking into account exceptional outperformance in 2018 (+18%)  
(c) 2020-23 growth target

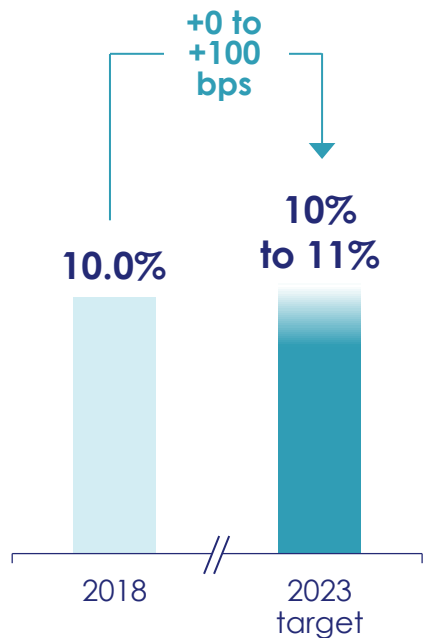
# Further significant increase in profitability



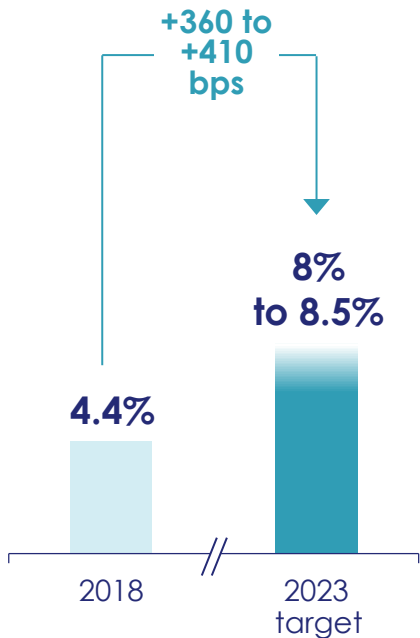
# Defence & security sustaining best-in-class EBIT margin, all other operating segments delivering EBIT margin improvement



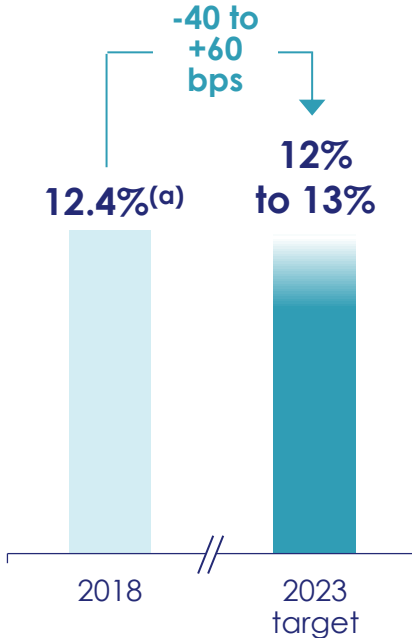
## Aerospace



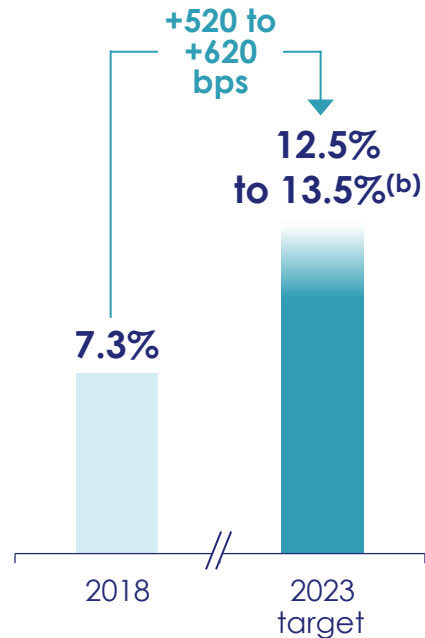
## Transport



## Defence & security



## Digital identity & security

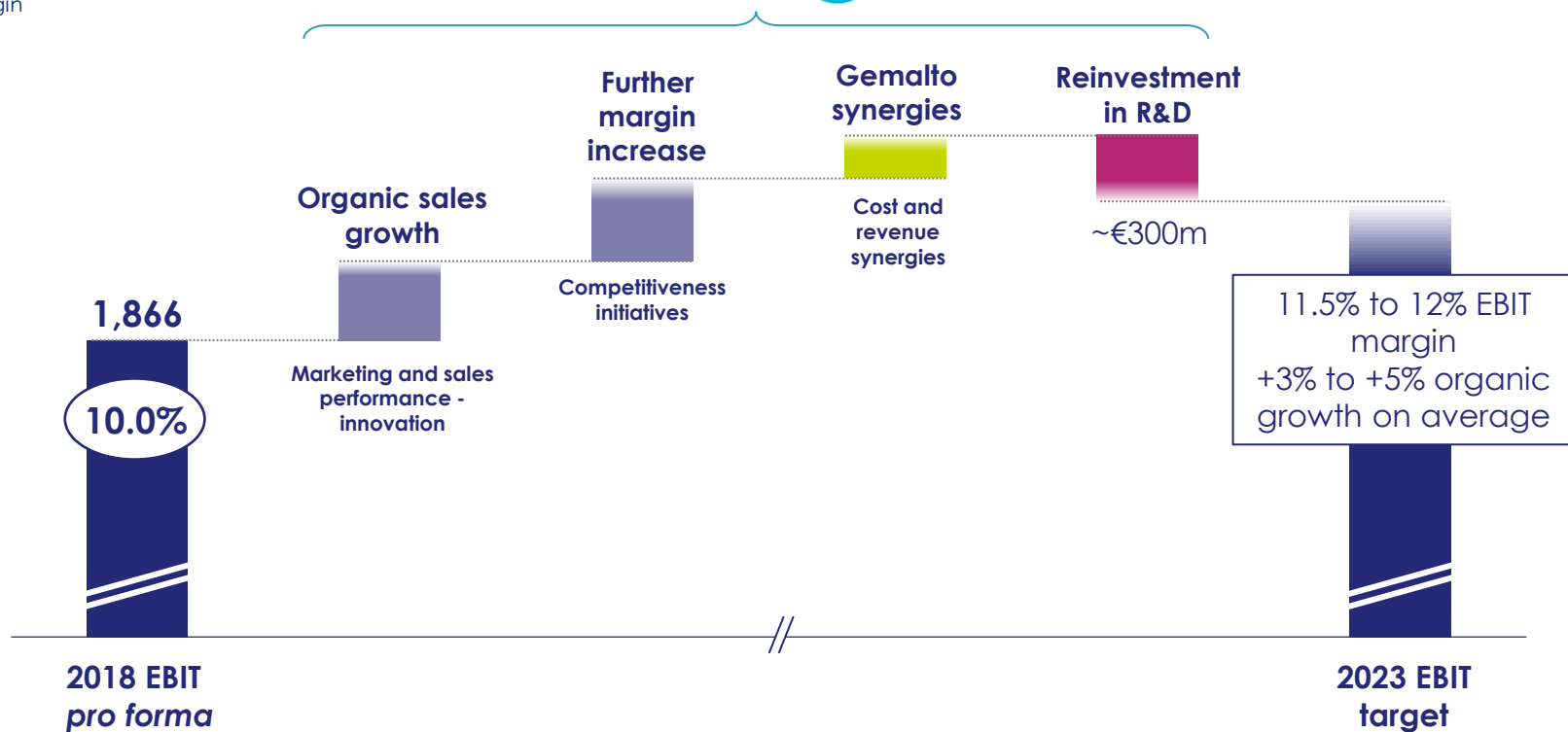


(a) Excluding €20m one-off

(b) Only 2/3 of cost synergies and 1/3 of revenue synergies are expected to be recorded within DIS

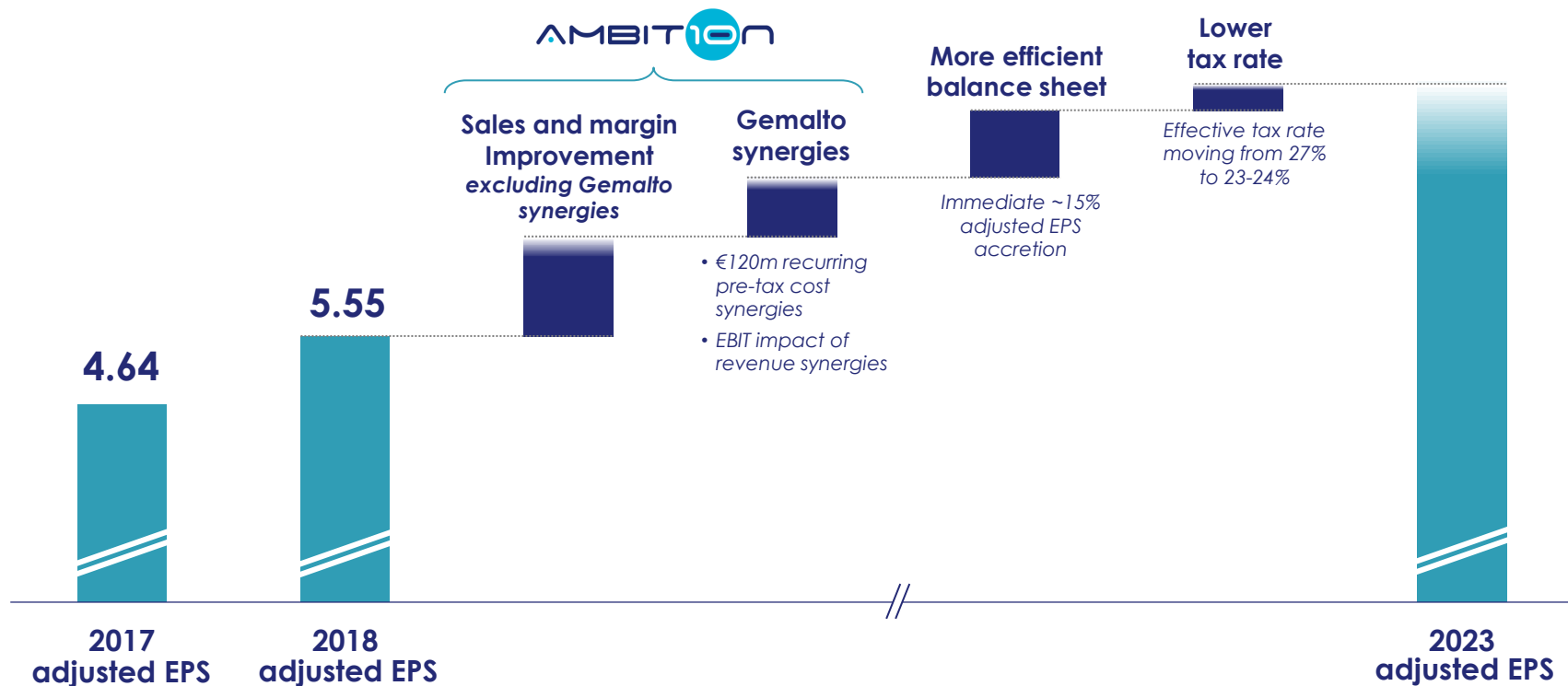
# EBIT growth boosted by CMD 2018 performance levers and Gemalto synergies

EBIT in €m and  
EBIT margin





# Multiple drivers deliver significant EPS accretion



# Maintaining strong focus on cash flow generation

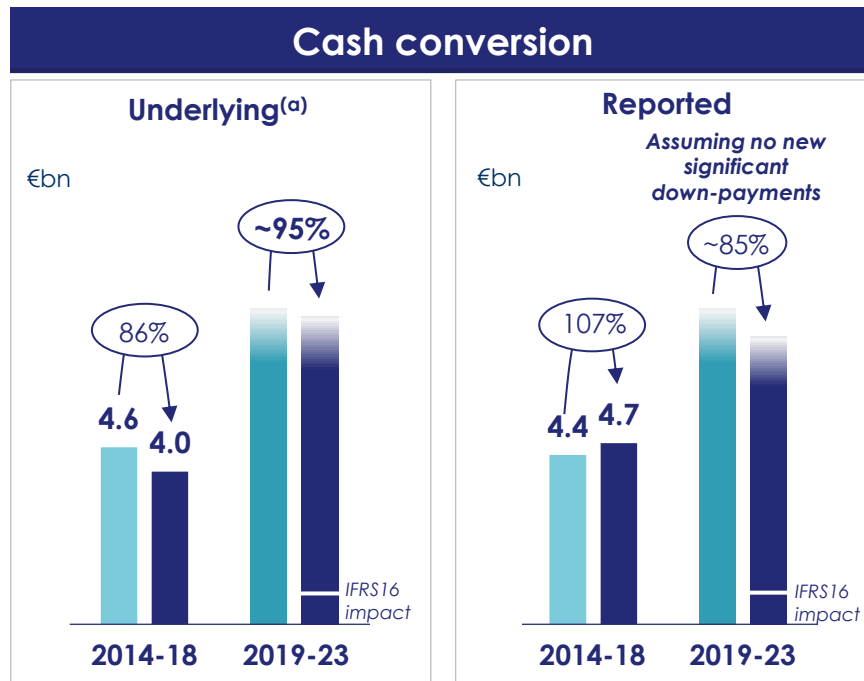
## 2019-23: major increase in underlying free operating cash flow

### Underlying 2019-23 cash conversion comparable to 2014-18

- Mechanical positive IFRS16 effect
- Development of service businesses
- DIS sales growth requiring additional working capital
- Continuous focus on cash flow: launch of CA\$H! initiative

### Reported cash conversion will depend on phasing of down-payments on large export contracts

- €400m remaining down-payments to unwind over 2020-23



Adjusted net income, Group share<sup>(b)</sup>

Free operating cash flow<sup>(b)</sup>

xx%

Cash conversion ratio:  
Free operating cash flow /  
adjusted net income, Group share

(a) One-off items on adjusted net income: €117m non cash losses at Naval group in 2014, €85m non cash tax items in 2016 and 2017 – One-off items on Free operating cash flow: €750m of positive WCR effects booked in 2015-18, of which €350m expected to unwind in 2019

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

# A more efficient capital structure to support significant dividend growth whilst maintaining financial flexibility

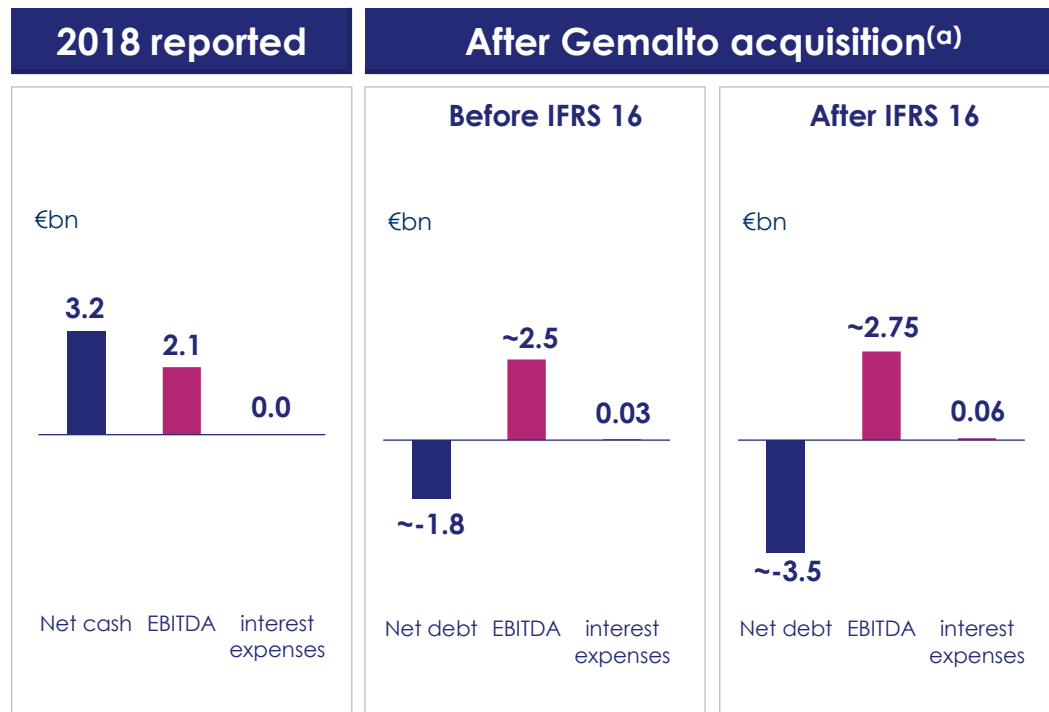
Strong investment grade maintained (A-, A2)

Dividend growth in line with adjusted EPS

Financial flexibility to allow bolt-on acquisitions while deleveraging the Group

Retaining focus on ROCE

- Pre Gemalto: 19%,  
pro forma 2019: ~13%
- Expected to rise above 16%  
by 2023



(a) 2019, pro forma 12 months

# Enhanced business model resilience

## Markets benefiting from long-term growth trends

- Addressing major societal aspirations: security, safety, digital trust, environmental efficiency...

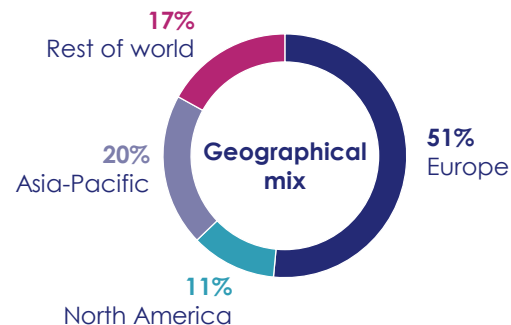
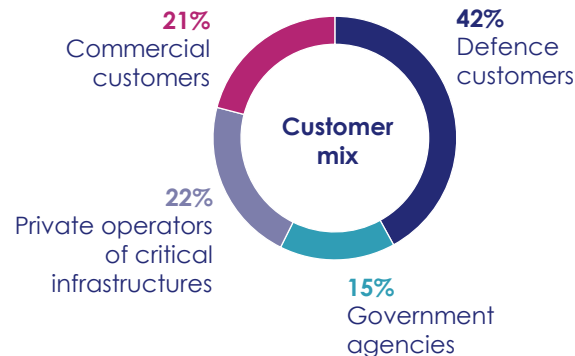
## Diversified, robust customer base

- 5 markets in 100+ countries
- Stronger geographical diversification
- Increased balance among customer types

## Enhanced leadership in critical technologies

- Step change in digital security capabilities
- Partnering with long-term customers through their digital transformation

2018 sales, pro forma Gemalto



**Resilience: key to value creation in an uncertain world**

# 2019 financial objectives

**Order  
intake**

**Slightly above €18bn**

*Unchanged*

**Sales**

**Thales excluding  
DIS segment**

**Organic growth  
around 1%**

*Revised from “lower  
end of 3% to 4% range”*

**DIS segment**

**Organic growth between  
0% and 2%<sup>(a)</sup>**

*Unchanged*

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

**€1,980-2,000m<sup>(c)</sup>**

*Unchanged*

(a) On a full-year basis

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

(c) Based on September 2019 scope and foreign exchange rates, post IFRS 16

# Summary

## Unique portfolio positioning

- “Intelligent systems” pure player positioning
- Markets benefiting from solid long-term underlying growth
- Portfolio expanded into highly synergistic growth market through Gemalto acquisition

## Continued focus on operational performance

- New competitiveness initiatives gaining momentum in coming years
- Strict cost control and value maximization in mature smart card businesses

## Strong development levers

- Further acceleration of R&D investments
- Gemalto accelerating digital strategy



AMBITION

Sustainable  
value creation,  
with enhanced  
resilience



## Appendix



The people we all rely on  
to make the world go round,  
**they rely on Thales**

# A strong set of focused businesses

Segment	Sub-segment		Civil	Military	2018 sales <sup>(a)</sup> (€m)	Market position
<b>Aerospace</b> 31% of 2018 sales <sup>(a)</sup>	<b>Flight avionics</b> including cockpit avionics, communications, electrical systems, training and simulation				~2,100	#3 worldwide (flight avionics)
	<b>Connected in-flight entertainment (IFE)</b>				~750	#2 worldwide
	<b>Microwave tubes</b> for satellite, medical, scientific and military applications				~450	#1 worldwide
	<b>Space solutions</b> for telecom, observation, navigation and exploration				~2,500	#2 worldwide (civil satellites)
<b>Transport</b> 11% of 2018 sales <sup>(a)</sup>	<b>Rail signalling and supervision</b> including passenger payment collection systems				~2,000	#2 worldwide
<b>Defence &amp; security</b> 42% of 2018 sales <sup>(a)</sup>	<b>Sensors and mission systems</b> including radars, sonars, optronics, mission systems for aircraft, ships and submarines, missiles and armored military vehicles				~4,000	#1 in Europe
	<b>Communications, command and control systems</b> including military communications and networks, military command and control systems (C4I), cybersecurity, Air Traffic Management, and security solutions for countries, cities and critical infrastructures				~3,700	#2 worldwide (military tactical communications)
<b>Digital identity &amp; security</b> 17% of 2018 sales <sup>(a)</sup>	<b>Digital identity and security solutions</b> including smart cards, biometrics, identity management and data protection, and analytics and Internet of Things				~3,100	#1 worldwide

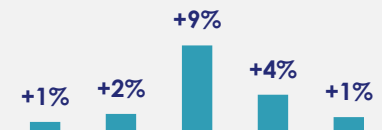
(a) Pro forma including Gemalto



# Historical sales and EBIT performance by segment

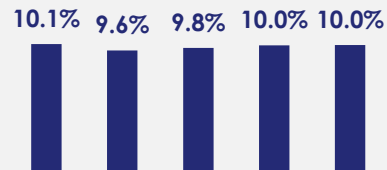
## Aerospace

Organic sales growth



2014 2015 2016 2017 2018

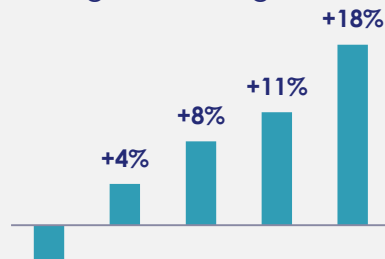
EBIT margin



2014 2015 2016 2017 2018

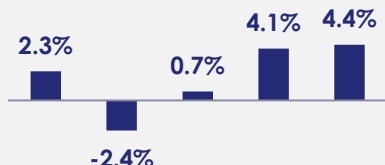
## Transport

Organic sales growth



2014 2015 2016 2017 2018

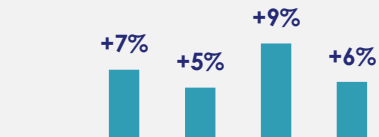
EBIT margin



2014 2015 2016 2017 2018

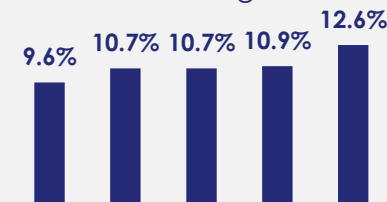
## Defence & Security

Organic sales growth



2014 2015 2016 2017 2018

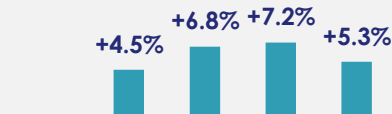
EBIT margin



2014 2015 2016 2017 2018

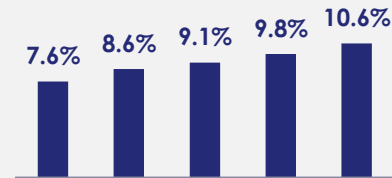
## Total Group

Organic sales growth



2014 2015 2016 2017 2018

EBIT margin



2014 2015 2016 2017 2018

Note: Group EBIT includes equity associate Naval Group (losses in 2014)

**THALES**

# A global well-balanced leader in space solutions

Space Alliance with Leonardo,  
involving 2 joint-ventures

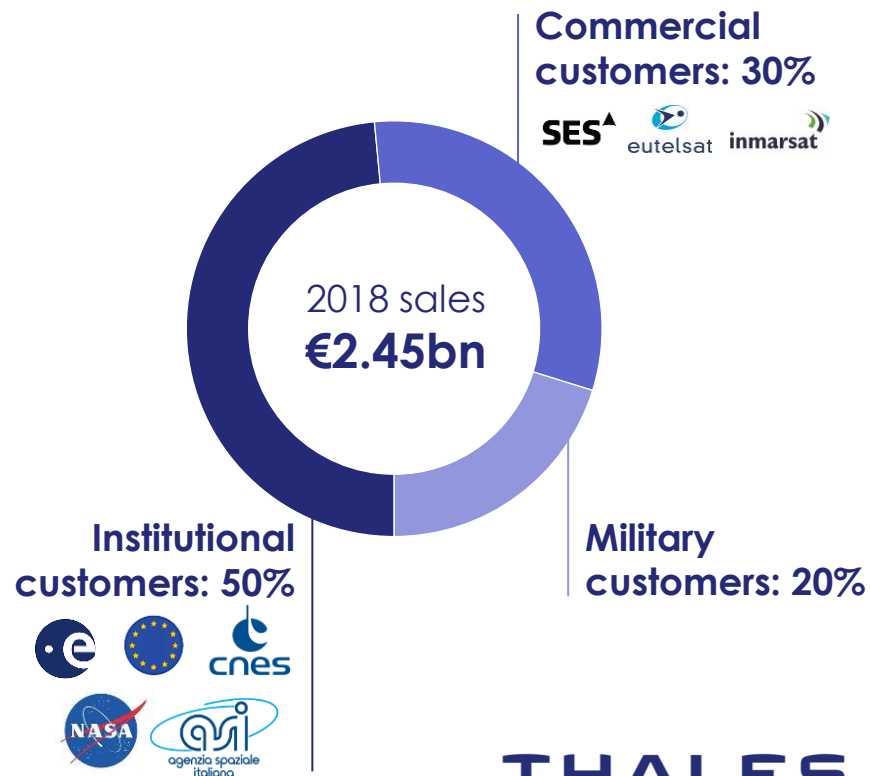
World #2 largest civil satellite  
manufacturer

Well diversified across solutions  
and end-markets

Delivering strong financial  
performance in past 4 years

- 2015-18 sales CAGR: +5%
- High-single digit EBIT margin

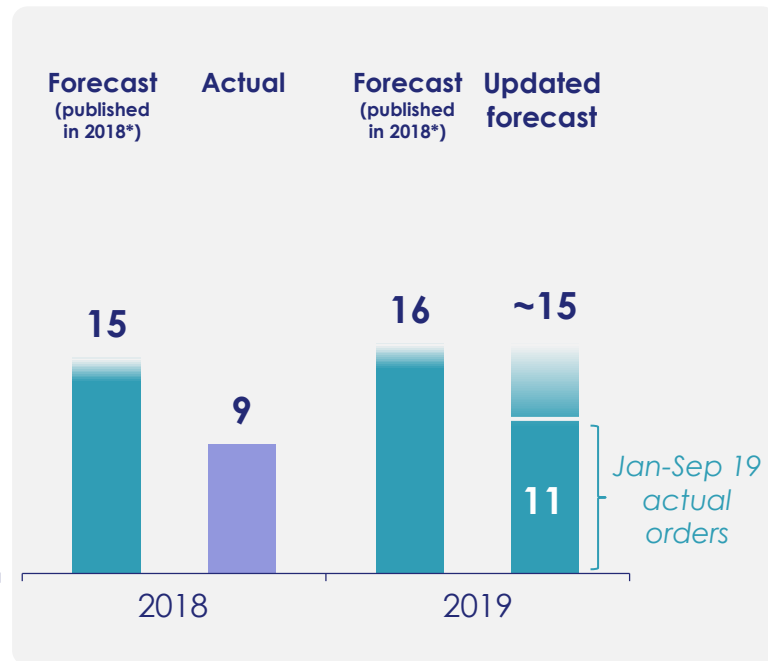
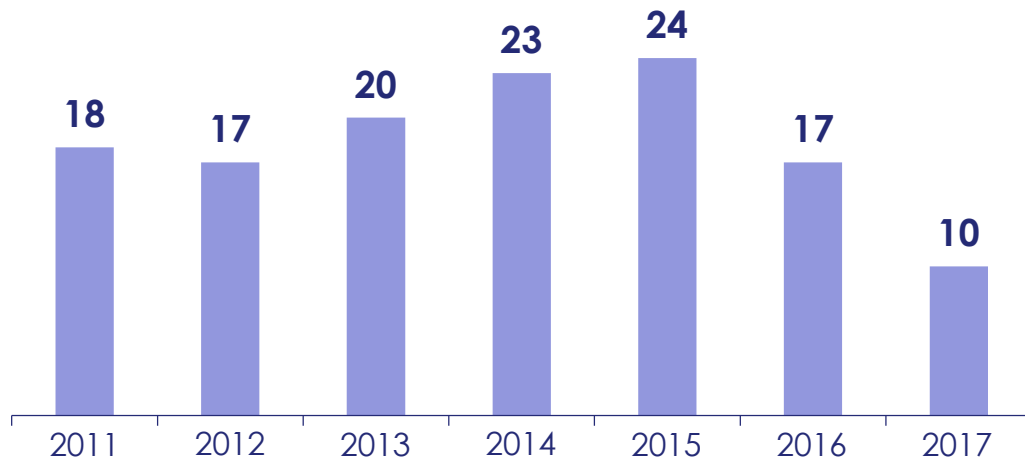
## Breakdown of sales by end-markets



# Space: slower than expected recovery of telecom market driving drop in sales in 2019 and 2020

## Worldwide number of geostationary telecom satellite ordered

# satellites



\* Forecast source: NSR

# Thales: best-in-class product range, ideally suited to capture solid long-term market growth for space-based telecom solutions

~5% long-term growth, driven by new applications

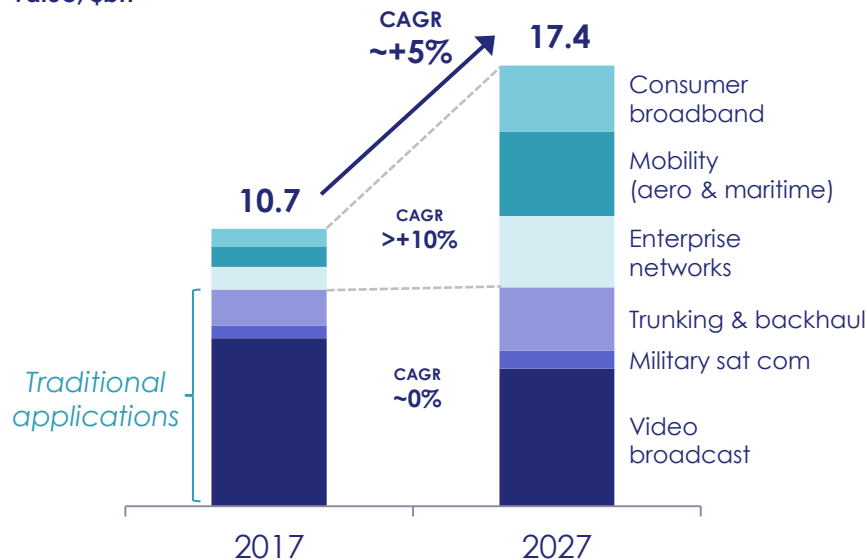
## Thales: strengthening best-in-class telecom product range

- Already global VHTS and constellation leader
- Further investments to develop new flexible satellite product line

Sales decline and R&D investment to weigh on profitability over 2019-2021 period

## Commercial telecom satellite services market demand

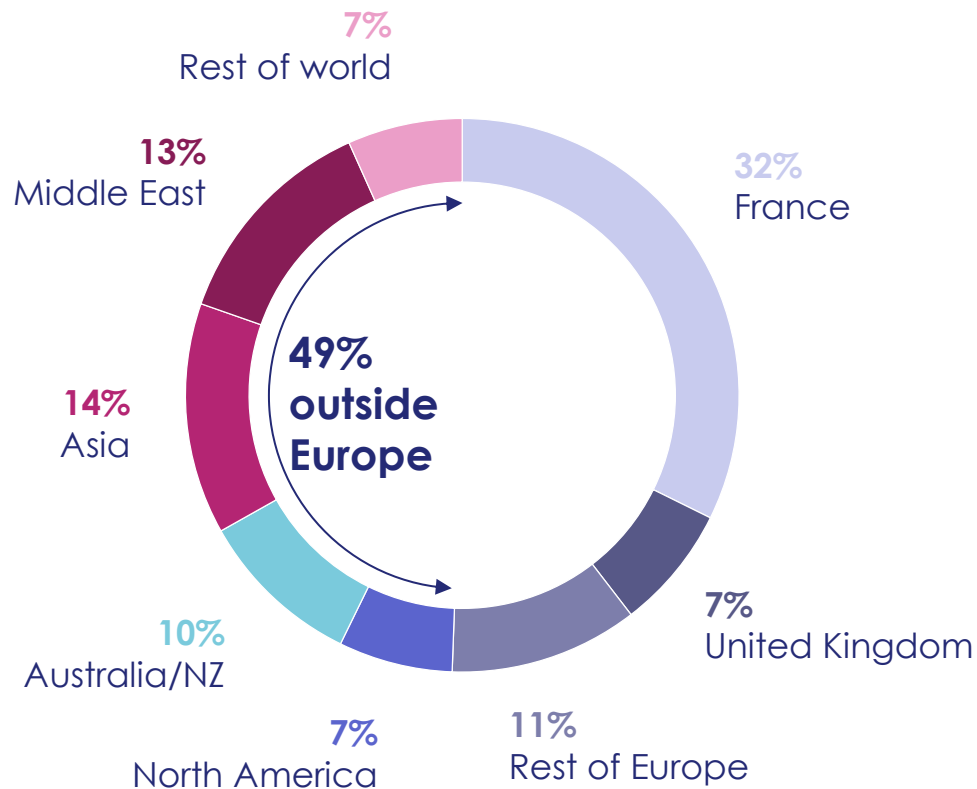
Forecast market value, \$bn



Source: Euroconsult

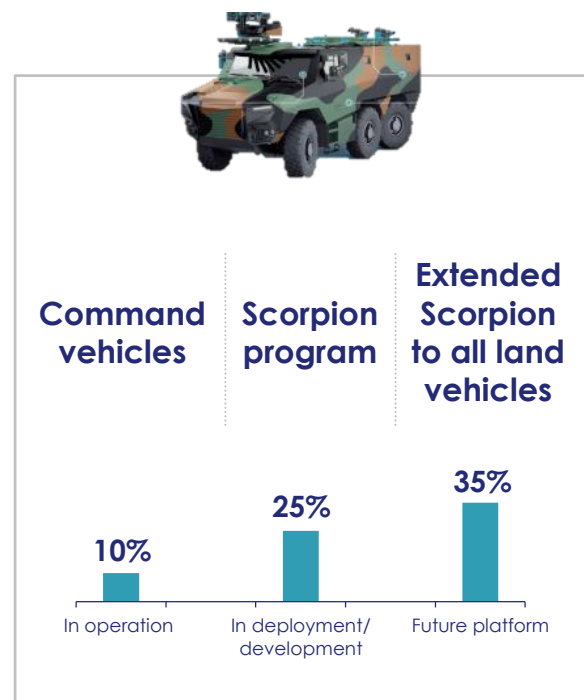
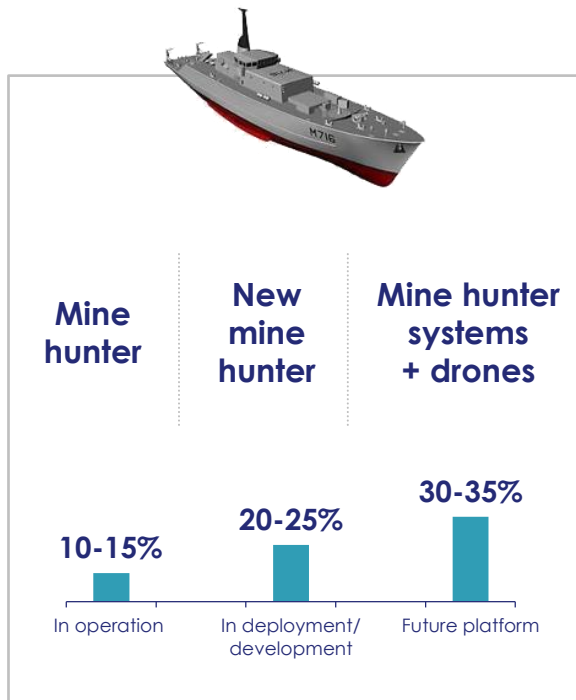
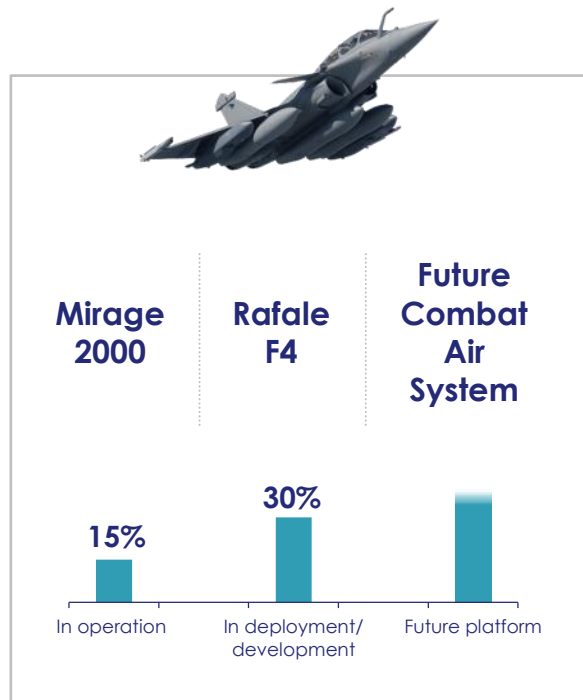
# Highly diversified Defence & security customer base

Defence & security sales by region, 2018



# Long-term growth of intelligent systems content in defence platforms

## Illustrative value of intelligent systems in platform



# Digital Identity & Security (DIS) business overview

€3.1bn

Pro forma  
2018 sales

~10.0%

Expected underlying  
full year 2019 EBIT margin



15,000  
employees  
in 58 countries

3,000+  
engineers

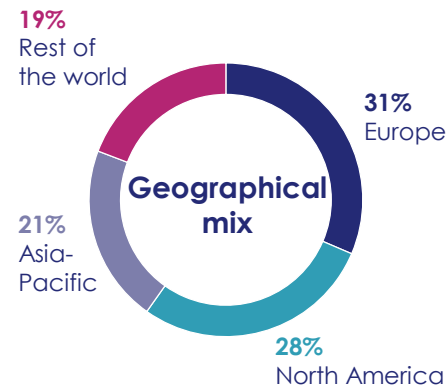
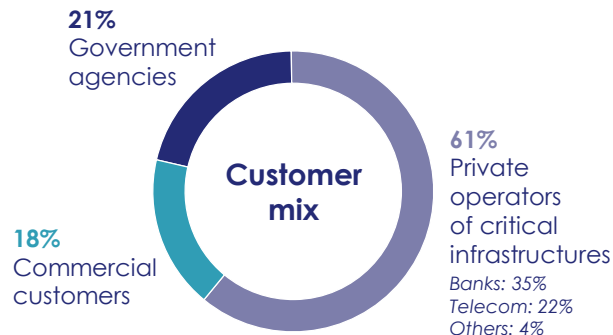
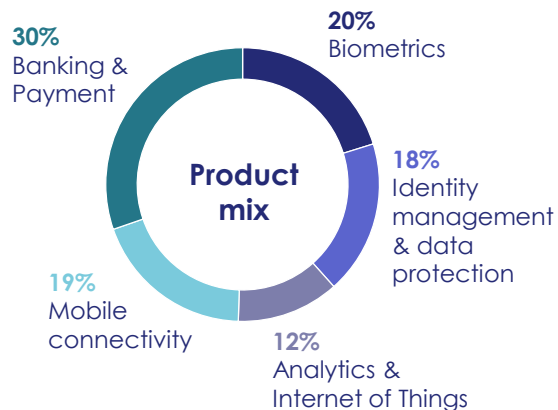
Main footprint

France: 16%

USA: 14%

Singapore: 9%

Mexico: 8%

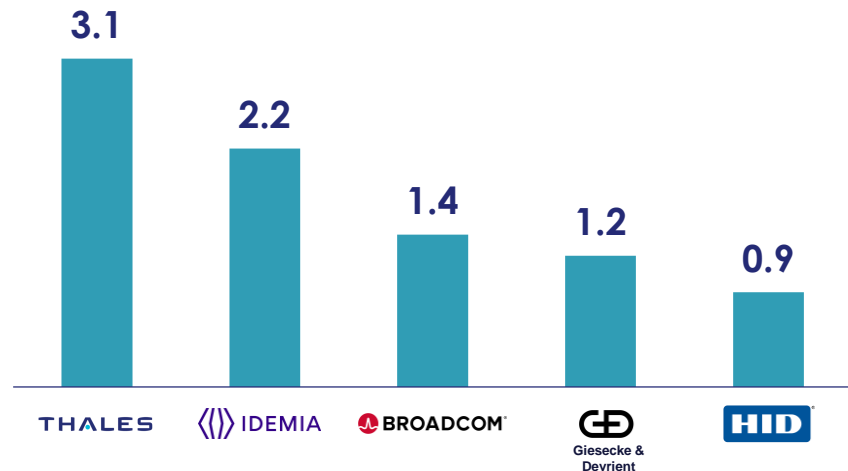


Pro forma 2018 sales

# Global leader in digital identity & security market

## Top 5 digital identity & security players

2018 sales, €bn



Sources: Company publications, IDC, Thales, Broadcom, HID; revenue estimates for competing activities. Broadcom pro forma after pending acquisition of Symantec. Thales pro forma Gemalto

## World # 1

- > Data protection
- > Secure identification documents
- > Smart payment cards ("EMV cards")
- > Removable SIM cards ("rSIM")
- > eSIM subscription management



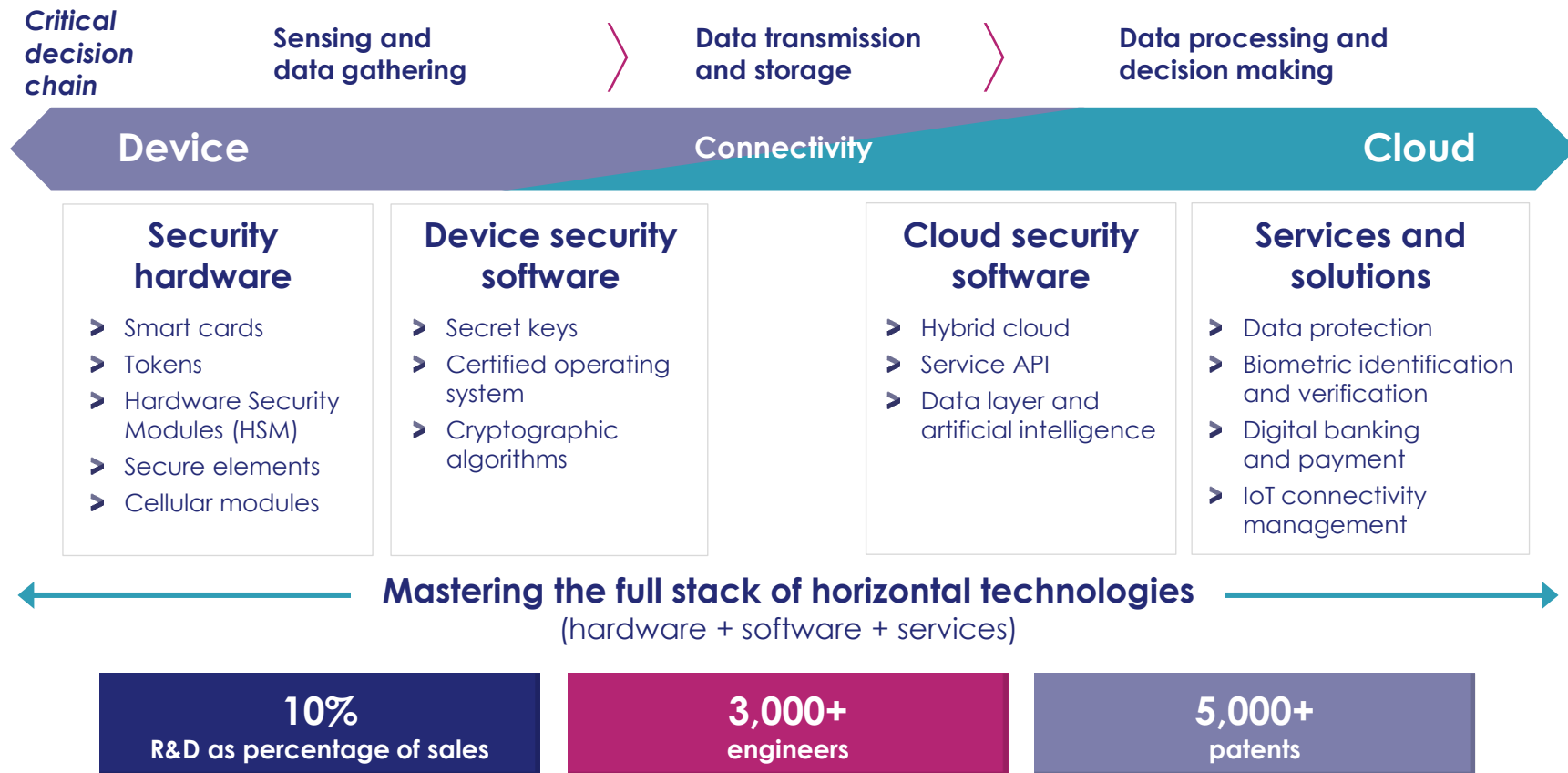
## In global top 3

- > IoT cellular connectivity modules
- > Identification & verification solutions
- > Embedded SIM cards ("eSIM")
- > Biometrics for crime prevention





# DIS R&D leadership built on security management expertise from device to cloud



# DIS medium-term strategy: 3 pillars



## Digital services & solutions

### Capitalizing on unique positions in fast-growing high-value markets

- Global leadership positions in fast-growing markets
- Investments focused on key high-value growth engines: eSIM, cloud security, public and commercial biometrics, critical industrial IoT applications



## Smart cards

### Maximizing value

- EMV cards: sustaining market leadership through industrial excellence and incremental innovation
- Comprehensive plan to adapt to significant rSIM revenue erosion



## Group synergies

### Maximizing cost and revenue synergies

- Disciplined implementation of cost synergy plan
- Leveraging Thales global presence to accelerate growth
- Joint development of new digital solutions, leveraging DIS technologies and talents

# Identity management & data protection: securing the cloud

## Global leader in data protection

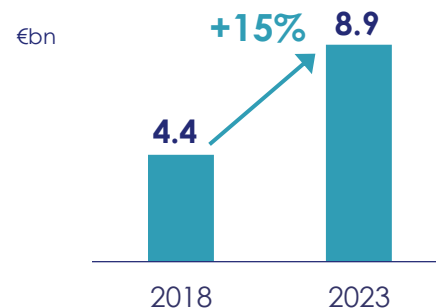
- Global #1 in HSM and encryption software
- Industry-leading capabilities from joint Thales e-Security and Gemalto
- Significant synergies: unified Thales-Gemalto product portfolio in place since 1 September 2019

## Investing to deliver seamless security across clouds

- Hybrid/multi-cloud is the new norm
- Supplying fast-growing public cloud service providers
- New offers already launched, enabling seamless migration of customers to the cloud



## Data protection market growth



Sources: IDC, Gartner

### New Thales offers



**Data protection  
on demand**



**Access management  
as a service**

- ✓ Cloud-based
- ✓ On-demand security services through an online marketplace
- ✓ Cloud and infrastructure agnostic
- ✓ Compliant with regulations
- ✓ Broad choice of risk management and authentication options

# Biometrics: targeting public and commercial sectors

## Global leader in biometrics

- #1 in secure identity documents and services, 30 years in biometrics business
- Demonstrated technology leadership: #1 in accuracy and global performance test of matching algorithm<sup>(a)</sup>
- Capitalizing on best-of-breed data security expertise to address privacy concerns

## Investing in foundational ID and commercial biometrics

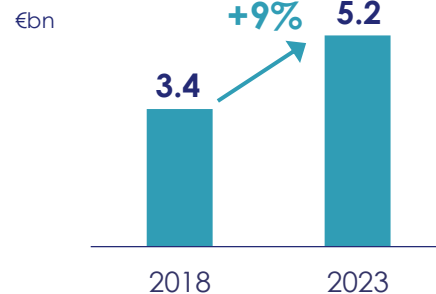
- Foundational ID market benefiting from UN mandate and World Bank funding
- Fast growth in commercial biometrics

## Thales combination delivering significant revenue synergies

<sup>(a)</sup> US NIST tests, 2018



## Biometrics market growth



Sources: ABI, Thales

## Thales Foundational Identification System



Biometric enrollment in centralized database

9451-3884-1284-3



Delivery of unique identifier and/or ID document for identity verification

- ✓ Health
- ✓ Finance
- ✓ Education
- ✓ Civil rights

Extension of ID verification services to commercial sectors

**THALES**

# Analytics & IoT: focusing on most critical industrial IoT applications

## Security: a major roadblock to sustainable IoT deployment

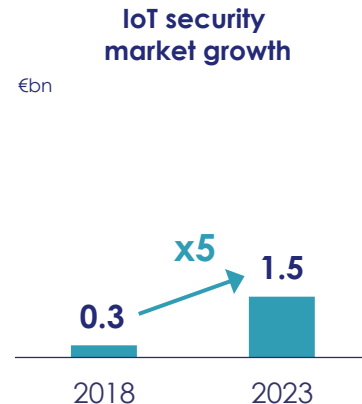
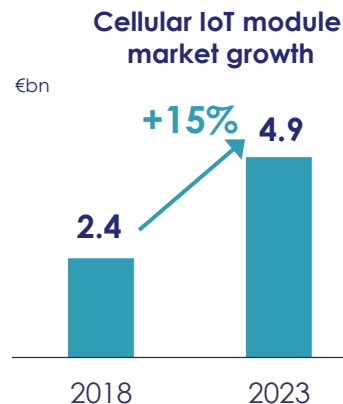
- Driving increased regulatory focus

## Global leader in analytics & IoT

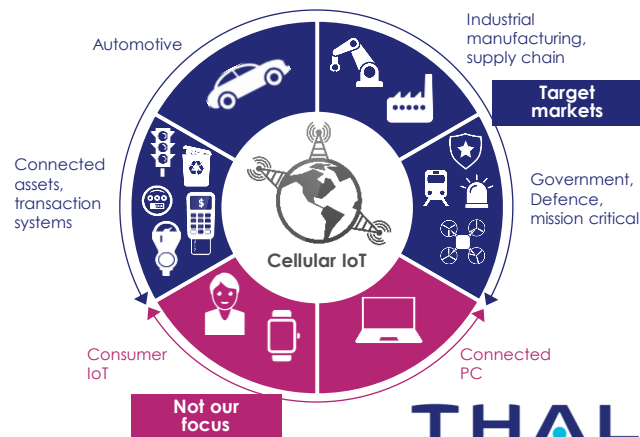
- Top 3 for cellular IoT modules, #1 for subscription management
- Comprehensive expertise in IoT security, from device to cloud

## Targeting most demanding segments

- Segments with highest connectivity and security requirements
- Thales combination: step change in ability to address government, defence, and mission critical segments



Sources: ABI, HIS, Markets & Markets



# Mobile connectivity: leading in attractive, fast-growing eSIM market

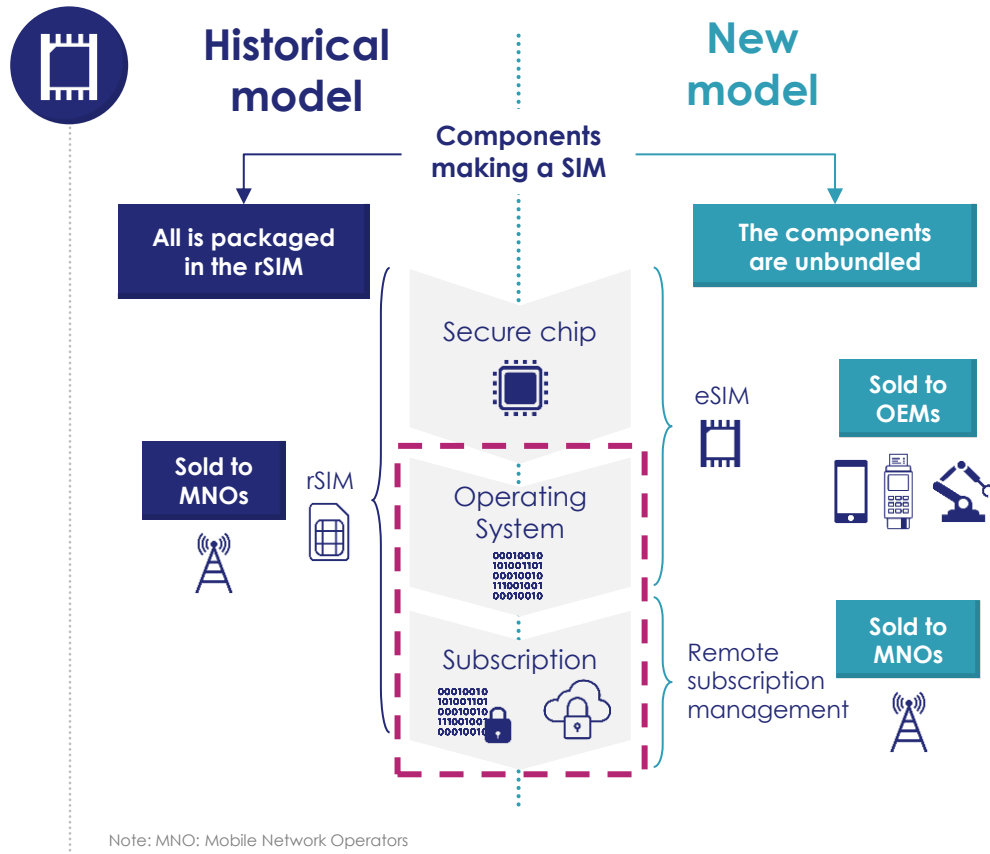
## Strong growth forecasted for eSIM market

- Future key end-point security technology, essential to critical IoT applications
- ~800m units shipped in 2023, x6 vs 2018, moving from ~4% today to ~14% of SIM market by 2023

## eSIM: attractive software and services business model

- Subscription business model, delivering recurring revenue at higher margin
- Thales: global leader in subscription management services
- €100m+ opportunity by 2023, and accelerating thereafter

Sources: ABI 2Q 2019, Thales, Counterpoint



# EMV payment cards will continue to be the leading payment enabler

## Market growth in volume driven by renewals and emerging markets

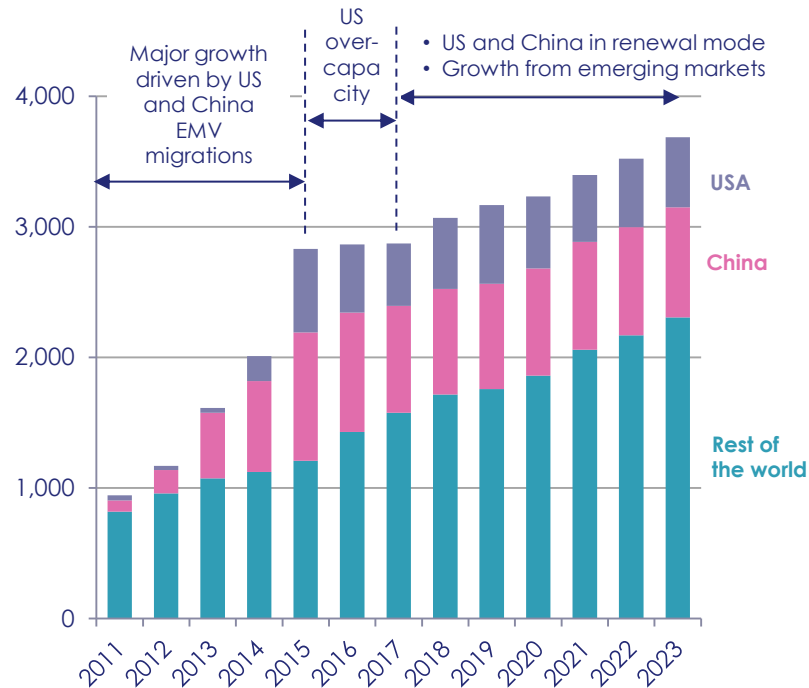
- Market forecasts for annual volume growth ranging from +2% to +4% until 2023
- EMV penetration to grow from 76% in 2018 to ~88% in 2023
- Minimal risk of substitution from new digital payment solutions

## Limited decline in Average Selling Price driven by product mix

- Migration towards contactless cards (2018: 50% of shipments, 2023: ~74%)
- Introduction of incremental innovations
- Biometric card shipments to reach critical mass by 2023 (x35 at 100+ million units)

## EMV<sup>(a)</sup> cards annual shipment forecast

Million unit



Source: ABI

(a) "Europay Mastercard Visa" smart payment cards

# Removable SIM cards: maximizing value

## Market trends

Significant market commoditization continues

No major change in product mix until arrival of 5G (impact after 2023)

### Slow transition to eSIM

- rSIM-equipped phones needed to ensure global mobile network access



## Thales strategy

Associated software and services essential to development of secure IoT connectivity

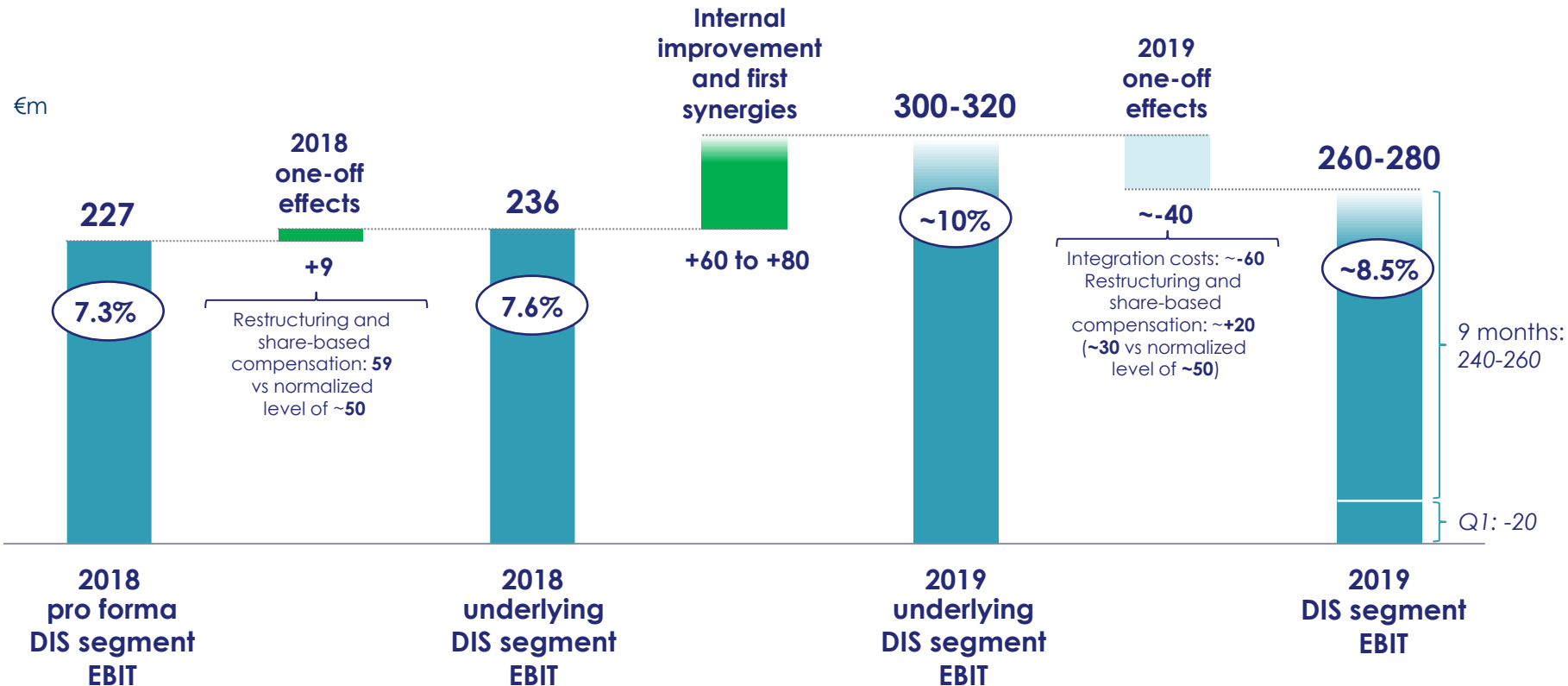
Focus on higher value markets

Comprehensive industrial plan to adapt to significant revenue erosion (~-10% p.a.)

- Unmatched economies of scale
  - 1 bn rSIM cards produced yearly, x1.7 larger than #2
  - Most efficient sourcing
- Rigorous cost efficiency and productivity programs
  - Process and manufacturing automation
  - Sales and marketing efficiency
- Continuous adaptation of industrial footprint and of production outsourcing



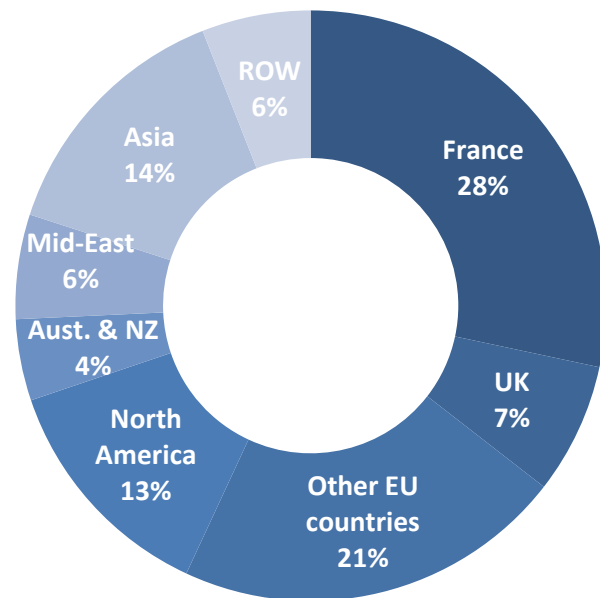
# DIS: underlying margin improvement in 2019



Note: All targets based on June 2019 scope and foreign exchange rates, post IFRS 16.

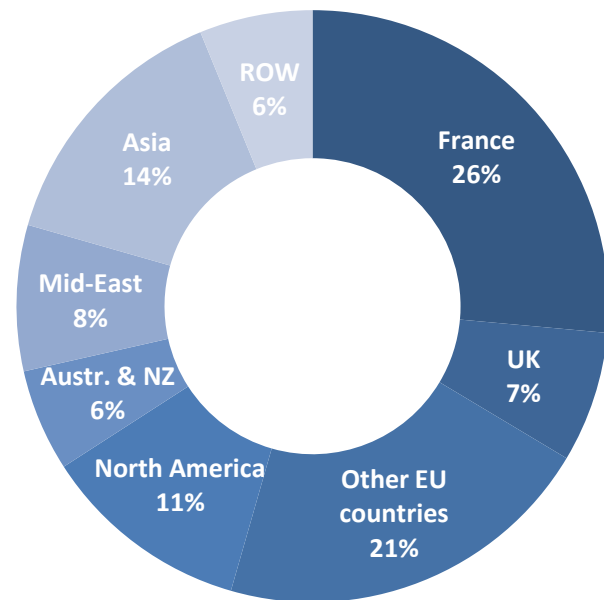
# 9m 2019 order intake by destination

€m	9m 2019	9m 2018	change	
			total	organic
France	2,961	2,614	+13%	+10%
United Kingdom	749	568	+32%	+20%
Other European countries	2,236	2,112	+6%	-8%
<b>Europe</b>	<b>5,945</b>	<b>5,294</b>	<b>+12%</b>	<b>+4%</b>
<b>North America</b>	<b>1,346</b>	<b>1,004</b>	<b>+34%</b>	<b>-5%</b>
<b>Australia/NZ</b>	<b>466</b>	<b>1,346</b>	<b>-65%</b>	<b>-67%</b>
<b>Mature markets</b>	<b>7,757</b>	<b>7,644</b>	<b>+1%</b>	<b>-10%</b>
Asia	1,467	971	+51%	+22%
Middle East	598	571	+5%	-12%
Rest of the world	623	281	+121%	+20%
<b>Emerging markets</b>	<b>2,688</b>	<b>1,823</b>	<b>+47%</b>	<b>+11%</b>
<b>Total</b>	<b>10,445</b>	<b>9,468</b>	<b>+10%</b>	<b>-6%</b>

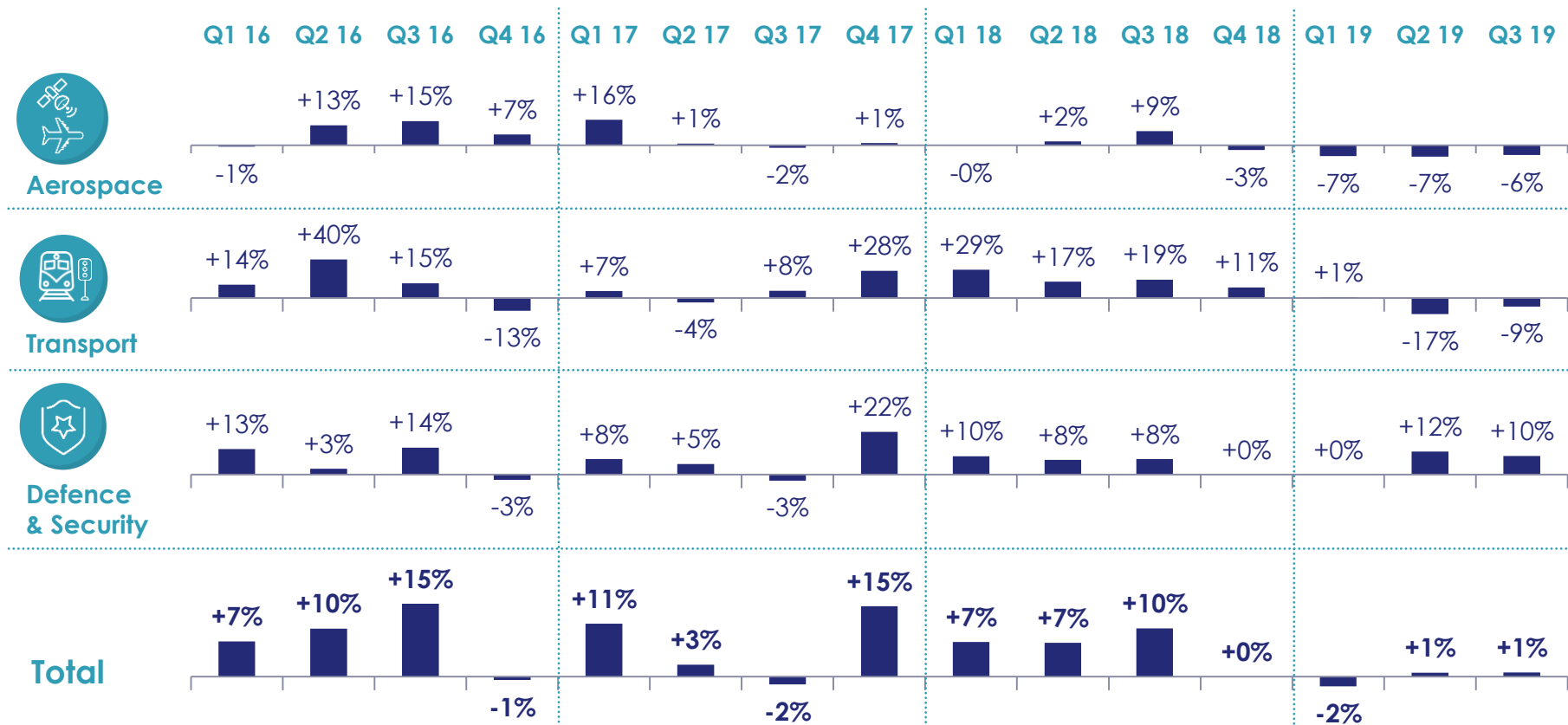


# 9m 2019 sales by destination

€m	9m 2019	9m 2018	change	
			total	organic
France	3,281	2,843	+15.4%	+12.4%
United Kingdom	887	916	-3.1%	-10.3%
Other European countries	2,589	2,266	+14.3%	+0.9%
<b>Europe</b>	<b>6,757</b>	<b>6,024</b>	<b>+12.2%</b>	<b>+4.7%</b>
<b>North America</b>	<b>1,419</b>	<b>998</b>	<b>+42.1%</b>	<b>+0.8%</b>
<b>Australia/NZ</b>	<b>693</b>	<b>636</b>	<b>+8.9%</b>	<b>+5.5%</b>
<b>Mature markets</b>	<b>8,869</b>	<b>7,659</b>	<b>+15.8%</b>	<b>+4.2%</b>
Asia	1,786	1,486	+20.1%	+0.4%
Middle East	988	1,093	-9.6%	-16.8%
Rest of the world	767	636	+20.7%	-22.6%
<b>Emerging markets</b>	<b>3,541</b>	<b>3,215</b>	<b>+10.2%</b>	<b>-10.0%</b>
<b>Total</b>	<b>12,410</b>	<b>10,873</b>	<b>+14.1%</b>	<b>+0.0%</b>



# Organic sales growth per quarter



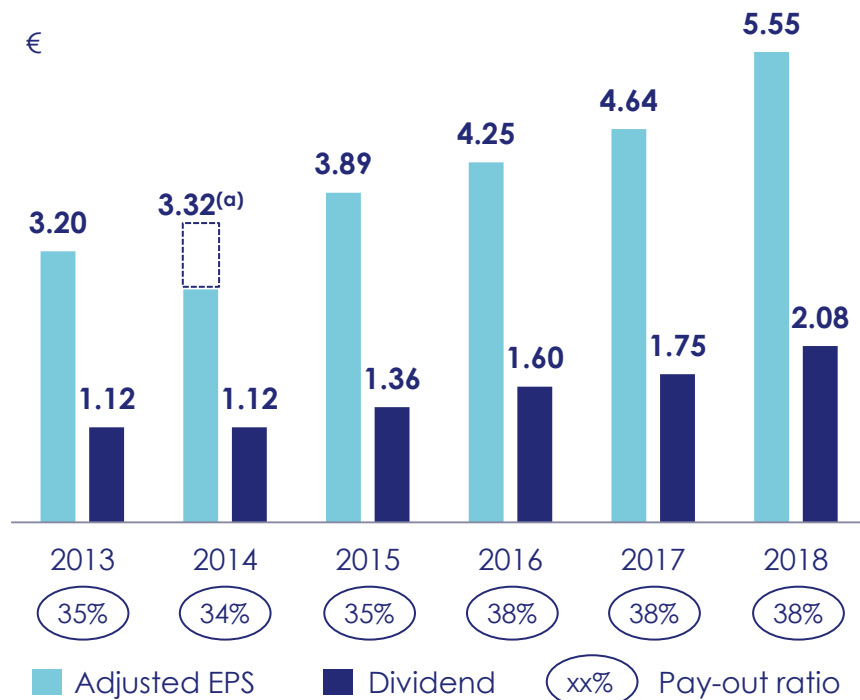
# Pro forma 2018 P&L: Gemalto brings higher gross margin and R&D

	2018 reported		2018 pro forma <sup>(a)</sup>	
	€m	% of sales	€m	% of sales
<b>Sales</b>	<b>15,855</b>		<b>18,722</b>	
Gross margin	4,088	25.8%	5,009	26.8%
Indirect costs	(2,526)	-15.9%	(3,237)	-17.3%
o/w R&D expenses	(879)	-5.5%	(1,115)	-6.0%
o/w Marketing & Sales expenses	(1,095)	-6.9%	(1,433)	-7.7%
o/w General & Administrative expenses	(552)	-3.5%	(689)	-3.7%
Restructuring costs	(48)	-0.3%	(75)	-0.4%
Share in net result of equity-accounted affiliates	172		170	
<b>EBIT</b>	<b>1,685</b>	10.6%	<b>1,866</b>	10.0%

(a) Not audited. Pro forma 2018 based on 2018 reported figures adjusted for the Gemalto acquisition and the disposal of the GP HSM business as if these transactions had taken place on 31 December 2017

# Adjusted EPS and dividend

## Adjusted EPS and dividend per share



(a) Corrected for negative Naval Group contribution (€0.57)

**Adjusted EPS up 12% per year since 2013**

**2018 dividend : €2.08 per share**

➤ Pay-out ratio: 38%

**Dividend up 13% per year since 2013**

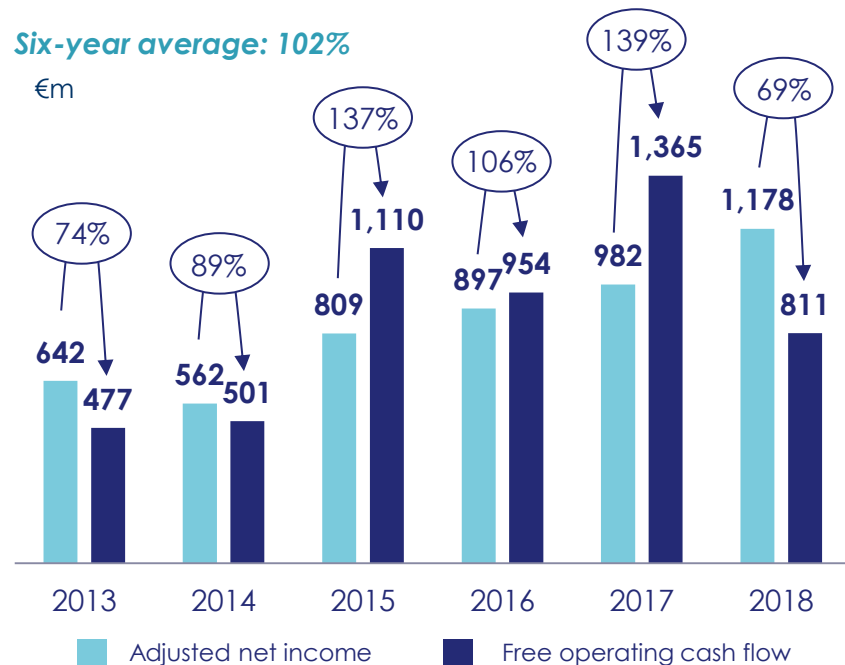
➤ Quasi doubling in 5 years

# Historical trend in cash conversion

## Adjusted net income conversion into Free operating cash flow

Six-year average: 102%

€m



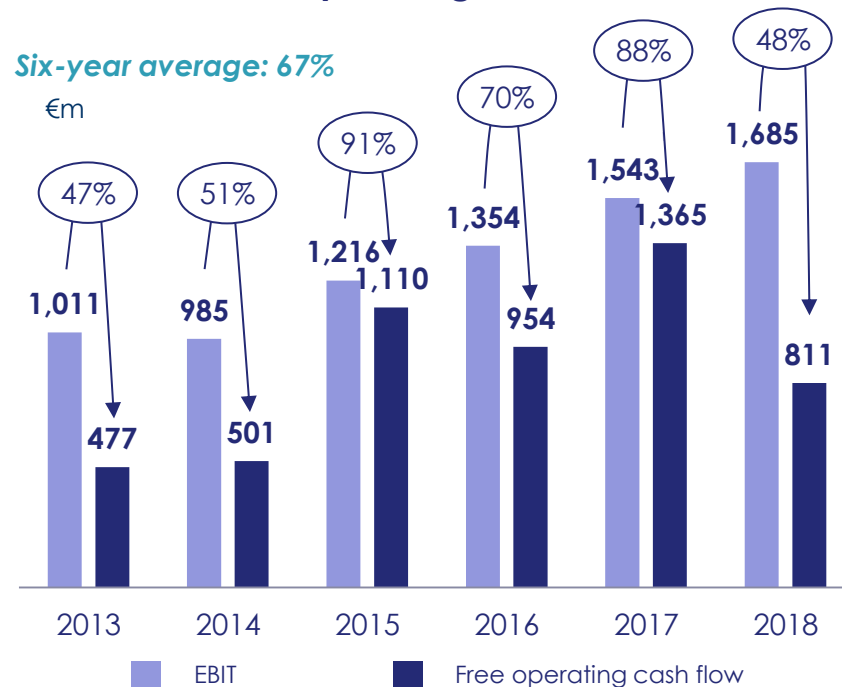
xx%

Cash conversion ratio: Free operating cash flow / adjusted net income

## EBIT conversion into Free operating cash flow

Six-year average: 67%

€m



xx%

Cash conversion ratio: Free operating cash flow / EBIT

# 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 2018.
- **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 2018. This definition implies the definition of several other adjusted financial measures, such as adjusted gross margin, adjusted tax, adjusted EPS .... See page 11 and 12 of the H1 2019 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 6.4 of the consolidated financial statements at 31 December 2018.
- **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 2018.





### **Tour Carpe Diem**

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The people we all rely on  
to make the world go round,  
**they rely on Thales**