



## 2018 First Half Results Announcement 24 July 2018

Applus Services, S.A. ("Applus+" or "the Group"), one of the world's leading and most innovative companies in Testing, Inspection and Certification, today announces the results for the first half year ended 30 June 2018 ("the period").

### Highlights

- Accelerating growth and margin improvement despite FX headwinds
- Energy & Industry back to growth at constant rates
- Excellent performance from IDIADA, Auto and Labs
- Three acquisitions made this year with revenue of €13 million
- Senior debt refinanced to extend maturities and diversify sources of financing
- H1 2018 Results:
  - Revenue of €812.8 million, up 3.0% (organic<sup>1</sup> +3.5%)
  - Operating profit<sup>2</sup> of €82.3 million, up 15.9% (organic<sup>1</sup> +5.1%)
  - Operating profit<sup>2</sup> margin of 10.1%, up 113 bps
  - Operating cash flow<sup>2</sup> of €47.3 million up 10%
  - Net Profit €22.2 million up 36.2% (Adjusted<sup>2</sup> up 14.2%)
  - Earnings per Share<sup>2</sup> of €0.32, up 3.8%
  - Net debt to EBITDA ratio stable at 2.4x

1. Organic is at constant exchange rates

2. Adjusted operating profit, margin, cash flow, net profit and earnings per share are adjusted for Other results (see page 3)

**Fernando Basabe, Chief Executive Officer of Applus+,** said:

*"I am pleased to report good results for the first half with all four divisions delivering positive organic revenue and profit growth. In the second quarter the group organic revenue growth achieved the mid-single digit target we set for the year. The adjusted operating profit margin increased on both an organic and reported basis supported by the acquisitions we made in the last 12 months.*

*Benefiting from the improved oil and gas market, our largest division, Energy & Industry reported positive organic revenue and adjusted operating profit growth for the first time since 2014. IDIADA, Auto and Labs each had excellent performance with favourable market conditions supporting the structural revenue growth drivers.*

*Cash generation was good with adjusted free cash flow of €33 million up 36% being more than the increase in Adjusted EBITDA.*

*We successfully refinanced our senior debt which provides us with more flexible and secure borrowing extending the maturities and diversifying our sources of finance.*



*We have made one further acquisition making it three this year adding €13 million of annual revenue in aggregate. We maintained discipline on prices paid and all three businesses have high revenue growth and profit margins and fit well into the organisation. We continue to see opportunities that fit our acquisition strategy which we will pursue where we see value. A strategy that is well supported by our strong organic cash generation and balance sheet.*

*We expect the Oil & Gas business to continue improving and our other business lines to maintain their positive trend leading to mid-single digit organic revenue growth at constant exchange rates. Including the benefit of the acquisitions, the revenue growth is expected to be around high single digits at constant exchange rates. Given performance to date and outlook, we are upgrading the adjusted operating profit margin outlook to be an increase of between 100 and 120 basis points versus the previous guidance of 70 to 100 basis points."*

## **Webcast**

There will be a webcast and conference call presentation on these results today at 10.00 am Central European Summer Time. To access the webcast, use the link: <https://edge.media-server.com/m6/p/oned795> or via the company website at [www.applus.com](http://www.applus.com) under Investors/Financial Reports. To listen by telephone dial one of the numbers below quoting the access code **1219516**.

Spain +34 91 419 2514  
France +33 (0) 1 76 77 22 57  
Germany +49 (0) 69 2222 2018  
UK +44 (0) 330 336 9411  
US +1 929 477 0402

### **Applus+ Investor Relations:**

Aston Swift +34 93 5533 111 [aston.swift@applus.com](mailto:aston.swift@applus.com)

### **Media - Kreab, Madrid:**

Francisco Calderón +34 91 7027 170 [fcalderon@kreab.com](mailto:fcalderon@kreab.com)

### **Equity Advisory, Europe**

Barclays Bank PLC, London:  
Justin Shinebourne +44 203 134 8028 [justin.shinebourne@barclays.com](mailto:justin.shinebourne@barclays.com)



### ***About Applus+ Group***

Applus+ is one of the world's leading and most innovative companies in the Testing, Inspection and Certification sector. It provides solutions for customers in all types of industries to ensure that their assets and products meet quality, health & safety and environmental standards and regulations.

Headquartered in Spain, Applus+ operates in more than 70 countries and employs 20,700 people. Applus+ operates through four global divisions, all of which operate under the Applus+ brand name. For the full year of 2017, Applus+ recorded revenue of €1,583 million and adjusted operating profit of €143 million.

Applus+ is listed on the Barcelona, Bilbao, Madrid and Valencia stock exchanges. The total number of shares is 143,018,430.

**ISIN: ES0105022000**

**Symbol: APPS-MC**

For more information go to [www.applus.com/en](http://www.applus.com/en)

## HALF YEAR REPORT 2018

### Overview of performance

The financial performance of the Group is presented in an “adjusted” format alongside the statutory (“reported”) results. The adjustments are made in order that the underlying financial performance of the business can be viewed and compared to prior periods by removing the financial effects of other results.

Where stated, organic revenue and profit is adjusted for acquisitions or disposals in the prior twelve month period and is stated at constant exchange rates, taking the current year average rates used for the income statements and applying them to the results in the prior period.

In the table below the adjusted results are presented alongside the statutory results showing the effect of those adjustments.

EUR Million	H1 2018			H1 2017			+/- % Adj. Results
	Adj. Results	Other results	Statutory results	Adj. Results	Other results	Statutory results	
<b>Revenue</b>	<b>812.8</b>		<b>812.8</b>	<b>789.3</b>	-	<b>789.3</b>	<b>3.0%</b>
<b>Ebitda</b>	<b>106.9</b>	-	<b>106.9</b>	<b>93.9</b>	<b>(3.7)</b>	<b>90.2</b>	<b>13.9%</b>
<b>Operating Profit</b>	<b>82.3</b>	<b>(30.7)</b>	<b>51.6</b>	<b>71.0</b>	<b>(29.4)</b>	<b>41.6</b>	<b>15.9%</b>
Net financial expenses	(9.3)		(9.3)	(12.3)	0.0	(12.3)	
Share of profit of associates	0.0		0.0	0.5	0.0	0.5	
<b>Profit Before Taxes</b>	<b>73.0</b>	<b>(30.7)</b>	<b>42.3</b>	<b>59.2</b>	<b>(29.4)</b>	<b>29.8</b>	<b>23.3%</b>
Income tax	(18.4)	7.0	(11.5)	(14.2)	5.5	(8.7)	
Non controlling interests	(8.6)		(8.6)	(4.8)	0.0	(4.8)	
<b>Net Profit</b>	<b>45.9</b>	<b>(23.7)</b>	<b>22.2</b>	<b>40.2</b>	<b>(23.9)</b>	<b>16.3</b>	<b>14.2%</b>
Number of Shares	143,018,430		143,018,430	130,016,755		130,016,755	
<b>EPS, in Euros</b>	<b>0.321</b>		<b>0.155</b>	<b>0.309</b>		<b>0.125</b>	<b>3.8%</b>
<i>Income Tax/PBT</i>	<i>(25.3)%</i>		<i>(27.1)%</i>	<i>(24.0)%</i>		<i>(29.2)%</i>	

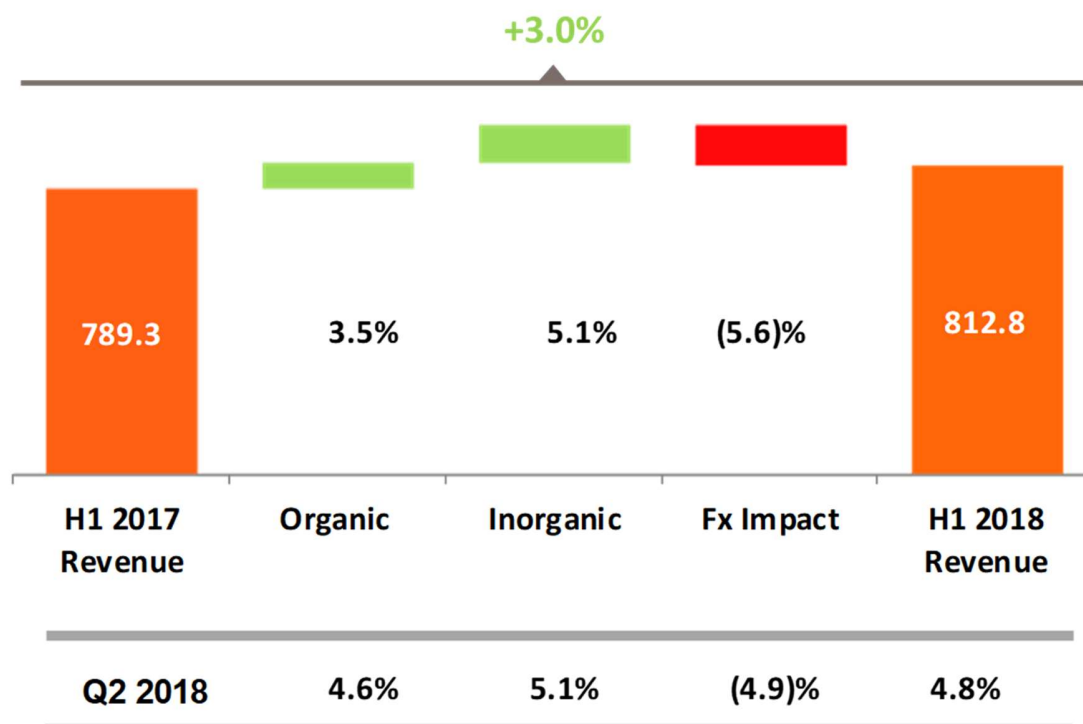
The figures shown in the table above are rounded to the nearest €0.1 million.

Other results of €30.7 million (H1 2017: €29.4m) in the Operating Profit represent amortisation of acquisition intangibles of €29.6 million (H1 2017: €23.8m) plus €1.1 million of transaction costs and other items (H1 2017: €0.4m). In the prior first half period, there was also a charge of €3.7 million relating to the historical management incentive plan as disclosed at the IPO and severances of €1.5 million. Tax of €7.0 million (H1 2017: €5.5m) relates to the tax impact on these Other results.

## Revenue

Revenue increased by 3.0% to €812.8 million in the six month period ended 30 June 2018 compared to the same period in the prior year.

The revenue growth bridge in € million for the half year is shown below.



The total revenue increase of 3.0% for the period was made up of an increase in organic revenue of 3.5%, the benefit of acquisitions made in the last twelve months of 5.1% reduced by an unfavourable currency translation impact of 5.6%.

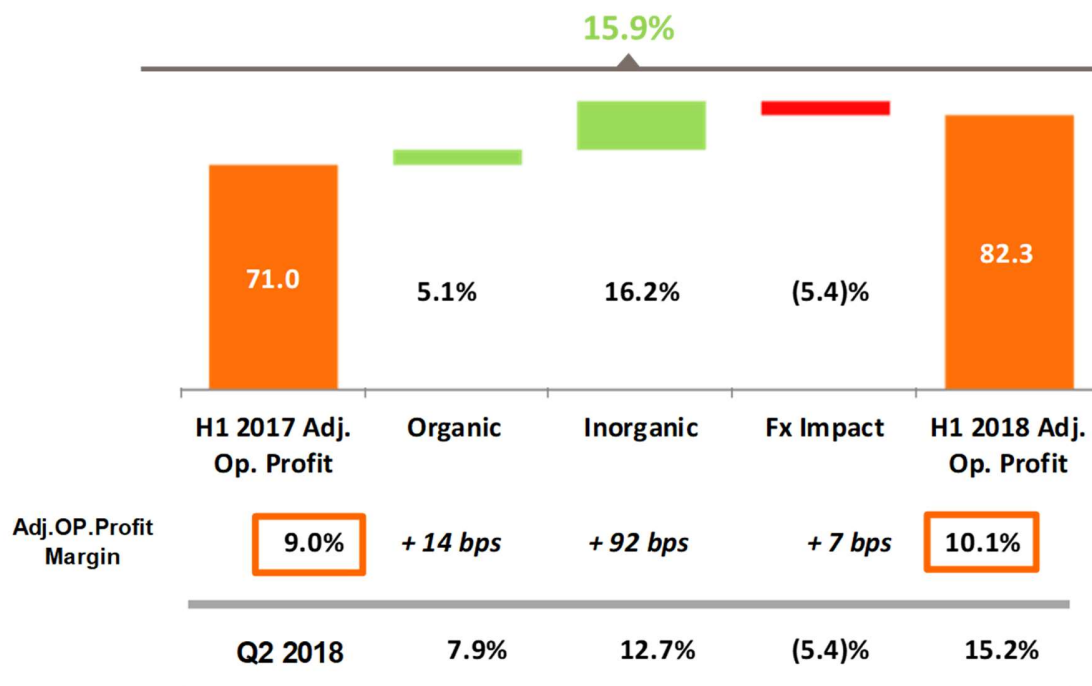
The organic revenue in the second quarter grew by 4.6% which was an acceleration on the first quarter and the strongest quarterly organic revenue growth for over four years. The revenue benefit from acquisitions in the quarter at 5.1% was the same level as for the first quarter but the unfavourable currency translation impact at 4.9% was less than in the first quarter.

For the first half of 2018, 48% of the revenue was generated in the reporting currency of the Group which is the euro and 52% in other currencies of which the US dollar and other currencies linked to the US dollar are the largest at 24%. The average exchange rate of the US dollar to the euro in the first half of 2018 compared to the first half of 2017 has weakened by almost 11% and some of the other key currencies have also weakened against the euro resulting in a significant currency translation impact on the revenue of the Group. At current exchange rates, we expect the impact for the rest of the year to be lower.

## Adjusted Operating Profit

Adjusted operating profit increased by 15.9% to €82.3 million in the six month period ended 30 June 2018 compared to the same period in the prior year.

The adjusted operating profit growth bridge in € million for the half year is shown below.



The adjusted operating profit increase of 15.9% for the period was made up of an increase in organic of 5.1% the benefit of acquisitions made in the last twelve months of 16.2% reduced by an unfavourable currency translation impact of 5.4%. The impact on the adjusted operating profit due to currency weakness is as explained for revenue above.

The resulting adjusted operating profit margin was higher than for the first half of 2017 by 113 basis points contributed by the organic, inorganic and currency impact with the benefit from the acquisitions being the most significant.

## Other Financial Indicators

The statutory operating profit was 24.1% higher at €51.6 million in the half year.

The net financial expense reduced in the period from €12.3 million in the first half of 2017 to €9.3 million this half mainly due to the lower amount of debt in the period compared to the prior year.

The effective tax charge for the first half at €18.4 million was higher than the prior year first half of €14.2 million due to the increased profit before tax. This gave an effective tax rate of 25.3% compared to 24.0% in the prior period. The reported tax charge was €11.5 million (H1 2017: €8.7m) and this rate on the reported profit before tax was 27.1% (H1 2017: 29.2%).

Non-controlling interests increased in the half year from €4.8 million in the first half of last year to €8.6 million in the first half of 2018. The increase of €3.8 million is mostly due to the inclusion of profit due to the minority interests of Inversiones Finisterre following that acquisition in the last quarter of 2017 but also includes profit growth from other non-wholly owned subsidiary investments. This increase in the non-controlling interest charge is expected to continue for the rest of the year.

The adjusted net profit increased by €5.7 million or 14.2% to €45.9 million in the six month period ended 30 June 2018 compared to the same period in the prior year. The corresponding adjusted earnings per share increased by 3.8%, less than the increase in the adjusted net profit due to the increase in the number of shares in the first half of 2018 compared to the prior year.

## Cash Flow

Net capital expenditure for the period relating to expansion of existing and into new facilities was €18.5 million (H1 2017: €12.8m). In the first half of 2018, this capital expenditure included the cost of acquiring new automotive stations of €1.6 million (H1 2017: €1.7 million). In the first half of 2017 there were also proceeds from the disposals of old automotive stations of €7.8 million. Excluding the net cost and proceeds of automotive stations, the operational capital expenditure was €16.9 million (H1 2017 €18.9 million) and this represented 2.1% (H1 2017: 2.4%) of Group revenue.

Adjusted operating cash flow (after capital expenditure) of €47.3 million was higher than for the same period last year when it was €43.0 million. After tax and interest paid, the adjusted free cash flow was €33.0 million which was higher than last year when it was €24.2 million. The main reason for the higher cash flow this half was due to the increased earnings before interest, tax, depreciation and amortisation (EBITDA).



## **Debt and Refinancing**

The Group refinanced the senior debt facilities in July. The €750 million existing senior secured facility maturing in June 2020 has been prepaid early with a new financing package to take advantage of favourable market conditions including historically low long term euro interest rates and to diversify the sources of finance.

The new debt package consists of senior unsecured bank debt and an institutional private placement debt. The senior bank debt, which has been provided from nine banks, is a €600 million multi-currency Facility split in a €200 million 5 year Term Loan and a €400 million 5 year Revolving Credit Facility. The tenor can be extended by two 1-year extension options at the end of the first and second anniversary from signing. The drawn margin at the current leverage level is 1.1%.

The private placement debt is from two well recognised US Private Placement lenders, Pricoa Capital Group and MetLife Investment Management. It is a 7 year €150 million bullet facility and a 10 year €80 million bullet facility. The blended annual interest cost on these two tranches of private placement is a fixed rate of 2.0%.

The financial covenants on the two sources of debt are the same with the principal one unchanged from the old bank debt facility being a leverage covenant of Net debt to EBITDA not to exceed 4.0x and tested every six months. The financial leverage of the group at the end of the period was 2.4x which is the same as it was at the end of 2017.

The total up-front bank fees including the legal and advisory was close to €5 million which will be amortised over the term of the loans. A write off in the second half of 2018 of the unamortised portion of the up-front fees of the old debt will be around €4 million and will be booked as Other costs.

The refinancing has diversified the sources of finance allowing the group to tap the fixed rate US Private Placement market for future financing needs. It has also extended and spread the maturity dates reducing the annual refinancing risk.

## **Outlook**

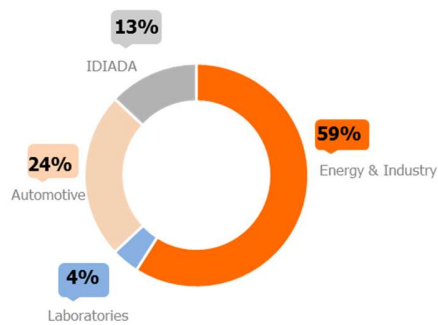
The oil and gas business is expected to continue improving and the other business lines are expected to also continue with their positive trend leading to mid-single digit organic revenue growth at constant exchange rates. Including the benefit of the acquisitions, the revenue growth is expected to be around high single digits at constant exchange rates. Given performance to date and outlook, the adjusted operating profit margin outlook is upgraded to be an increase of between 100 and 120 basis points from the previous guidance of 70 to 100 basis points.



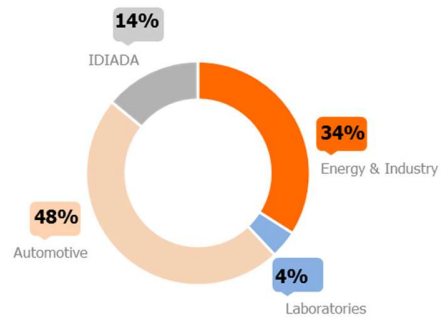
## Operating review by division

The Group operates through four global business divisions: Energy & Industry Division, Automotive Division, IDIADA Division and Laboratories Division, and the respective shares of the revenue and adjusted operating profit for the first half of 2018 are shown below.

H1 2018 revenue split



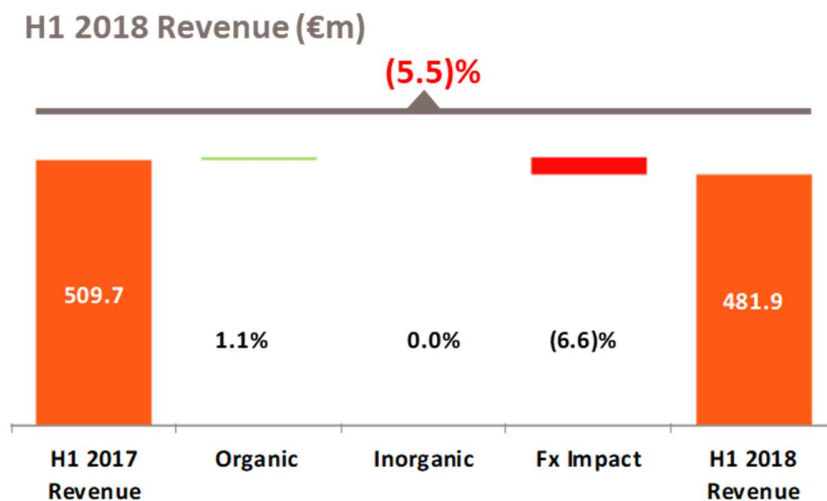
H1 2018 adjusted operating profit split



## Energy & Industry Division

The Energy & Industry Division is a leading global provider of non-destructive testing, inspection, quality assurance and quality control, project management, vendor surveillance, certification, asset integrity services and technical staffing services. The teams are made up of engineers and technicians with specialist skills focused on assisting companies to develop and control industry processes, protect assets and infrastructure and increase operational and environmental safety. They provide services for different industries such as oil & gas, power, construction, mining, aerospace and telecommunications.

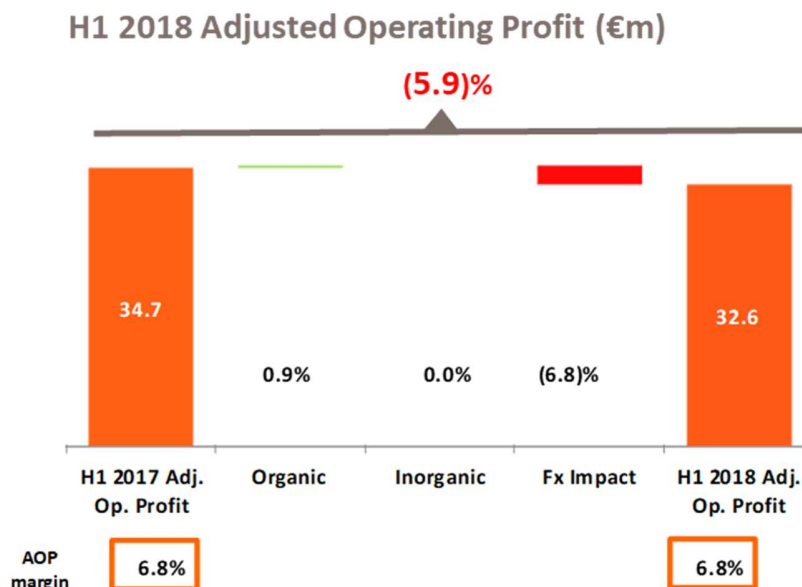
The revenue in the division declined by 5.5% to €481.9 million in the period.



At constant exchange rates, organic revenue increased by 1.1% for the period of which 2.1% was in Q2 following a decline of 0.2% in Q1.

There was a significant negative foreign exchange translation impact on revenue of 6.6% mainly due to the US, Canadian and Australian dollars and other currencies that this division operates in, being significantly weaker against the euro in the first half of 2018 compared to the first half of 2017. The currency impact was slightly less in the second quarter than the first.

The adjusted operating profit in the division declined by 5.9% to €32.6 million in the period.



The adjusted operating profit margin remained stable at 6.8%. The largest end market for the division of oil and gas remains competitive with significant pricing pressure.

Underlying revenue at constant exchange rates were up slightly on the same period last year reflecting an improved environment for services to the oil and gas end market. Oil & Gas, which for the period accounted for below 60% of the revenue of the division, was flat in the first half but with positive growth in the second quarter after a decline in the first quarter. The improvement in the segment results was driven by a more favourable market for oil and gas services although it remains challenging with continued price pressure.

Other end markets including power, construction, aerospace and telecom, performed well benefiting from regional cross-selling.

North America which accounted for 25% of the division by revenue in the period and is mainly exposed to the oil and gas sector had a recovery in oil and gas. This was driven by non-destructive testing and inspection services for the many small new construction pipelines in shale regions being built and non-destructive testing for large transmission pipelines as well as a good season for facility shutdown/turnarounds in Canada.



Latin America, which accounted for 10% of the division by revenue had good growth at constant exchange rates with a significant performance improvement in countries such as Colombia, Mexico, Brazil and Panama.

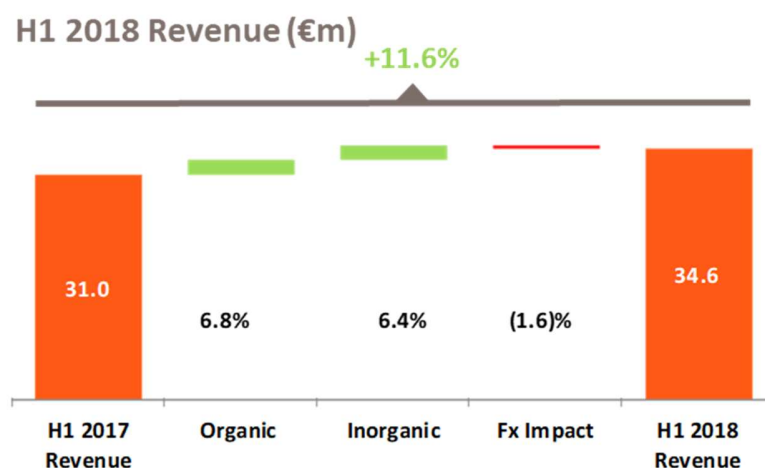
In Northern Europe which accounted for 19% of the division by revenue, and where a high proportion of the revenue comes from recurring operational expenditure exposed work to the downstream industries, organic revenue was down mid single digits at constant exchange rates due to fewer large international projects managed out of the region and a competitive opex market in Europe. The North Sea market that we manage from Norway returned to growth due to an increase in capex investment by the oil companies.

In Southern Europe, Africa, Middle East, Asia & Pacific which is the largest of the four regions by revenue accounting for approximately 46% of the division of which the largest part are services to other end markets such as Power, Construction and Telecom infrastructure had mixed results with Spain, Middle East and Oceania growing well in all end markets and offsetting the continued decline in Africa and South East Asia from lack of investment in existing and for new projects in the oil and gas sector. The large new 7 year opex contract signed with Shell in Australia is performing very well.

## Laboratories Division

The Laboratories Division provides testing, certification and engineering services to improve product competitiveness and promote innovation. The division operates a network of multidisciplinary laboratories in Europe, Asia and North America. With its cutting-edge facilities and technical expertise, the services bring high added value to a wide range of industries, including aerospace, automotive, electronics, information technology and construction. In the last twelve months, the Laboratories Division has acquired five companies and expanded some testing facilities in order to reinforce its position in the automotive components, fire protection, and calibration sectors.

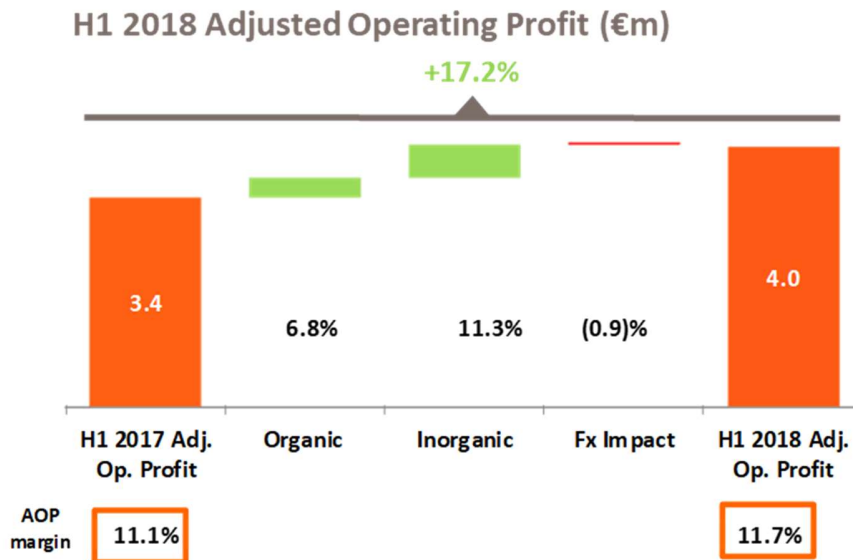
The revenue in the division increased by 11.6% to €34.6 million in the period.



At constant exchange rates, the division had organic revenue growth of 6.8% for the period, revenue relating to acquisitions of 6.4% less an unfavourable currency translation impact of 1.6%. The organic revenue growth in the second quarter at 8.1% was higher than the 5.3% growth in the first.

Inorganic revenue growth of 6.4% in the period came from the acquisitions made in the previous twelve months. There have been five in total including one in the second quarter of this year of DatapointLabs in New York state that has annual revenue of US\$4 million. The performance of these acquisitions have overall been above expectations.

The adjusted operating profit increased by 17.2% to €4.0 million in the half year resulting in an increase in margin of 60 bps to 11.7%.



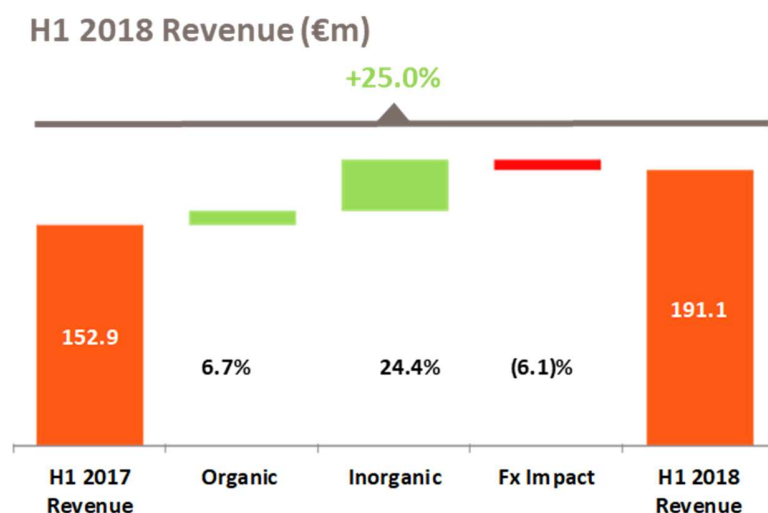
The division had strong performance across all the business lines including fire and structural testing for building materials, electrical and electro-magnetic compatibility testing for the electronics and automotive sector as well as services in metrology, system certification and electronic payment system protocol testing and approval.

The margin improvement came primarily from the contribution of the higher margin acquisitions.

## Automotive Division

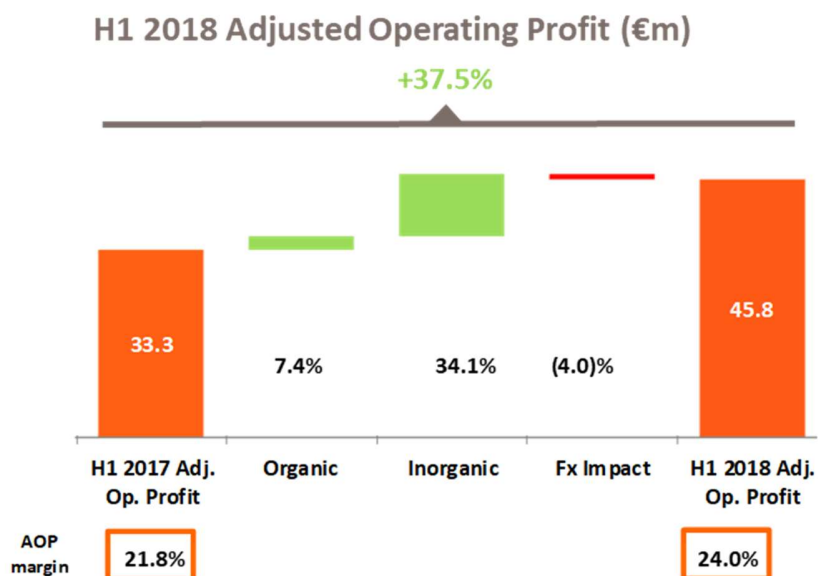
The Automotive Division is a leading provider of statutory vehicle inspection services globally. The division provides vehicle inspection and certification services across a number of jurisdictions where periodic vehicle inspections for compliance with technical safety and environmental specifications are mandatory. From the 28 programmes held by the Group, 15 million vehicle inspections were carried out in 2017 across Spain, Ireland, Denmark, Finland, the United States, Argentina, Chile, Costa Rica and Andorra and programme managed a further 5 million inspections carried out by third parties.

The revenue in the division increased by 25.0% to €191.1 million in the period.



The division reported strong organic revenue growth which at constant exchange rates was 6.7% for the period and inorganic revenue of 24.4% came from the acquisition of Inversiones Finisterre in the fourth quarter of last year. There was a negative currency translation impact of 6.1% as a result of the significantly weaker Argentinian peso that was 34% weaker on average in the first half of 2018 versus the first half of 2017.

The adjusted operating profit increased by 37.5% to €45.8 million in the half year resulting in an increase in margin of 220 bps to 24.0%.



The division had strong organic and reported revenue and profit growth and an excellent performance from Inversiones Finisterre that also had high organic revenue and profit growth. The significant increase of 220 basis points in the margin was mainly due to the acquisition of Inversiones Finisterre but also contributed by organic margin improvement.

The programmes in Spain generated revenue growth in the mid single digits with all regions growing. The contract in Ireland returned to growth in the second quarter after a decrease in the first quarter due to the timing of Easter. In the Nordics, Denmark grew slightly but Finland continued to decrease with the restructuring of the business in the country due to take effect in the coming quarters. In the US there was good revenue growth largely due to the new Massachusetts programme taking full effect as well as the improvement of the Illinois contract that renewed at the end of 2016 at a lower price. In Latin America, the contracts in Argentina, Chile and Costa Rica all grew well.

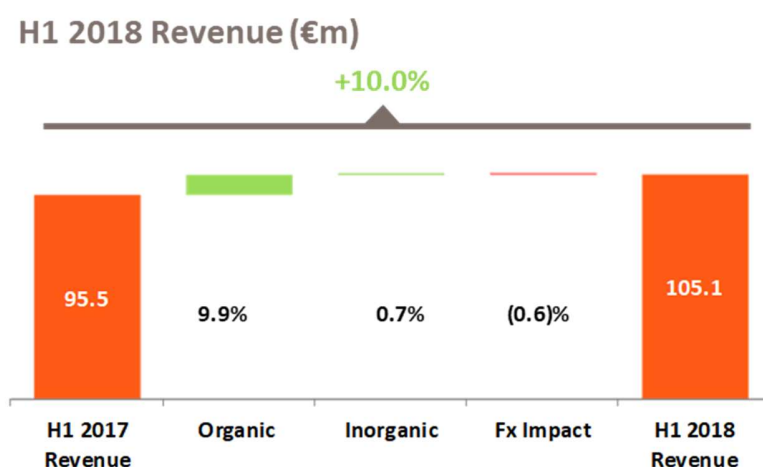
The tender for the contract in Ireland that is due to end at the end of next year, is expected to take place in the second half of this year. Two new contracts are due to start imminently in Uruguay and the city of Duran in Ecuador and a further two new contracts have been awarded in Ecuador and Georgia with total annual revenue of €2 million. The pipeline of opportunities continues to be good.



## IDIADA Division

With over 25 years of experience, the IDIADA Division supports the world's leading vehicle manufacturers in their product development activities by providing design, engineering, testing and homologation services. The division's 370-hectare main technical centre, located near Barcelona, includes the most comprehensive proving ground and laboratories for vehicle testing and development in Europe.

The revenue in the division increased by 10.0% to €105.1 million in the period.

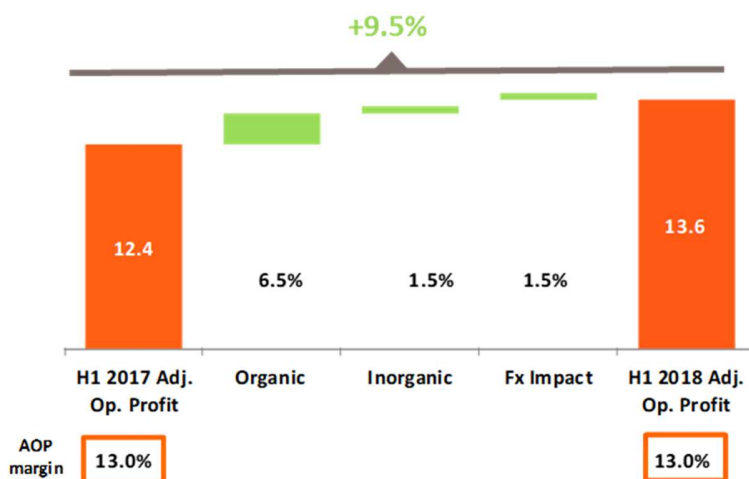


At constant exchange rates, the division had organic revenue growth of 9.9% for the period, revenue relating to acquisitions of 0.7% less an unfavourable currency translation impact of 0.6%. The organic revenue growth in the second quarter at 8.1% was lower than the 11.8% growth in the first quarter reflecting the particularly tough comparable where the organic revenue growth was 15.4% in the second quarter of 2017.

Inorganic revenue in the period came from the acquisition made in May of this year of a small and complementary acquisition of 67% of the shares of a company in the US called Karco Engineering which is a crash testing laboratory based in California. It generates €4.2 million in annual revenue and this will support Applus+ to expand its services to the important US market.

The adjusted operating profit in the division increased by 9.5% to €13.6 million in the period resulting in a stable margin of 13.0%.

## H1 2018 Adjusted Operating Profit (€m)



Excellent revenue and profit growth continues in this division with all business units performing well from the increasing industry spend on auto development and improvement and increasing the levels of outsourcing to independent testing companies.

Homologation for the new European emissions standard (WLTP) is growing strongly with extra capacity being added to the laboratories to meet the increasing demand.

End of 2018 Half Year Results Announcement. This announcement is a translation of the Spanish version which is extracted from the Interim Condensed Consolidated Financial Statements at 30 June 2018 and as filed with the Spanish regulator, Comisión Nacional del Mercado de Valores (CNMV). In cases of discrepancy, the Spanish version filed with the CNMV will prevail.