Applus+

Third Quarter 2020 Results Announcement
27 October 2020

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 third quarter ("quarter" or "Q3") and nine month period ("period" or "YTD Q3") ended 30 September 2020.

Highlights

- All divisions saw continued recovery in trading activity
- Return to a double digit margin in Q3
- Strong cash generation with available liquidity remaining high
- Two significant acquisitions fully funded from cash generated in current year
    - Besikta, €101 million – Statutory Vehicle Inspection in Sweden
    - Reliable Analysis, €67 million – Labs in China and the US mainly for EV testing
- YTD Q3 Results:
    - Revenue of €1,147.4 million down 13.7% (-8% organic in Q3)
    - Operating profit[1] of €75.4 million down 49.2% (-16% organic in Q3)
    - Operating profit[1] margin of
        - 6.6% YTD (11.2% YTD Q3 2019)
        - 10.1% in Q3 (11.1% Q3 2019)
    - Adjusted[1] free cash flow of €168.9 million (€117.4m YTD Q3 2019)
    - Net debt/EBITDA ratio of 2.5x and liquidity of €653 million

1. Adjusted for Other results, amortisation of acquisition intangibles and impairment (page 4)

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

"The third quarter was one of gradual recovery after the severely impacted second quarter from COVID-19. It was led by the Automotive division which delivered strong organic revenue growth whilst the other three divisions showed considerably lower decreases in revenue than in the second quarter with some business lines back to flat revenue on the prior year.

With the additional cost control measures we put in place and the high margin Automotive division recovering the fastest, the margin recovered well returning to over 10%.

Cash flow was again exceptionally strong this quarter due to the continued significant favourable working capital swing as a result of good collections of trade receivables enabling the Group to retain its high level of liquidity.

We are very pleased to have advanced on our acquisition strategy having agreed to acquire Besikta, a statutory vehicle inspection company in Sweden for €101

million. The acquisition reinforces our global leadership position in this highly visible and attractive industry. It follows shortly after the acquisition of Reliable Analysis, the electric vehicle components testing business in China and the US for €67 million which is transformational for the Laboratories division.

We will continue with our strategy to expand in attractive markets through organic and inorganic means.

For the full year, assuming there are no material changes in our key markets as a result of COVID-19, we expect the gradual recovery in revenue to be led by the Automotive division and for the strong cash flow to continue. We also expect the adjusted operating profit margin in the final quarter to be in line with Q3.

For the longer term, we believe the structural growth drivers in the testing, inspection and certification markets we operate in continue to be robust."

Presentation and Webcast

There will be a webcast and audio presentation on these results today at 10.00 am Central European Time. To access the webcast, use the link:
https://edge.media-server.com/mmc/p/3rhbadth
Or via the company website at www.applus.com under Investors/Financial Reports. To listen by telephone dial one of the numbers below quoting the access code **9341839**.

Spain +34 91 414 3675
UK +44 (0) 844 481 9752
France +33 (0) 1 70 70 07 81
Germany +49 (0) 692 2222 625
US +1 646 741 3167
Standard International Line +44 (0) 207 192 8338

Access code

9341839

Applus+ Investor Relations:
Aston Swift +34 93 5533 111 aston.swift@applus.com

Applus+ Media:
Maria de Sancha Rojo +34 691 250 977 maria.sancha@applus.com

Equity Advisory, Europe – Finsbury Group, London:
Justin Shinebourne +44 7884 734 384 justin.shinebourne@finsbury.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 over 23,000 people. Applus+ operates through four global divisions, all of which operate under the Applus+ brand name. For the full year of 2019, Applus+ recorded revenue of €1,778 million and adjusted operating profit of €197 million.

Applus+ is listed on the Spanish stock exchanges (Mercado Continuo). The total number of shares is 143,018,430.

ISIN: ES0105022000
Symbol: APPS-MC
For more information go to www.applus.com/en

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THIRD QUARTER REPORT 2020

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.

	YTD Q3 2020			YTD Q3 2019			
EUR Million	Adj. Results	Other results	Statutory results	Adj. Results	Other results	Statutory results	+/- % Adj. Results
Revenue	**1,147.4**	**0.0**	**1,147.4**	**1,329.9**	**0.0**	**1,329.9**	**(13.7)%**
Ebitda	**151.4**	**0.0**	**151.4**	**221.9**	**0.0**	**221.9**	**(31.8)%**
Operating Profit	**75.4**	**(213.2)**	**(137.8)**	**148.5**	**(46.8)**	**101.7**	**(49.2)%**
Net financial expenses	(18.5)	0.0	(18.5)	(16.8)	0.0	(16.8)	
Profit Before Taxes	**57.0**	**(213.2)**	**(156.2)**	**131.7**	**(46.8)**	**84.9**	**(56.7)%**

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

Other results of €213.2 million (2019: €46.8m) in the Operating Profit represent impairment of goodwill and non-current assets of €164.8 million (2019: nil), amortisation of acquisition intangibles of €43.1 million (2019: €44.3m), restructuring of €4.5 million (2019: €0.7m), transaction costs relating to acquisitions of €1.5 million (2019: €1.8m) plus other net income of €0.6 million (2019: €0.1m).

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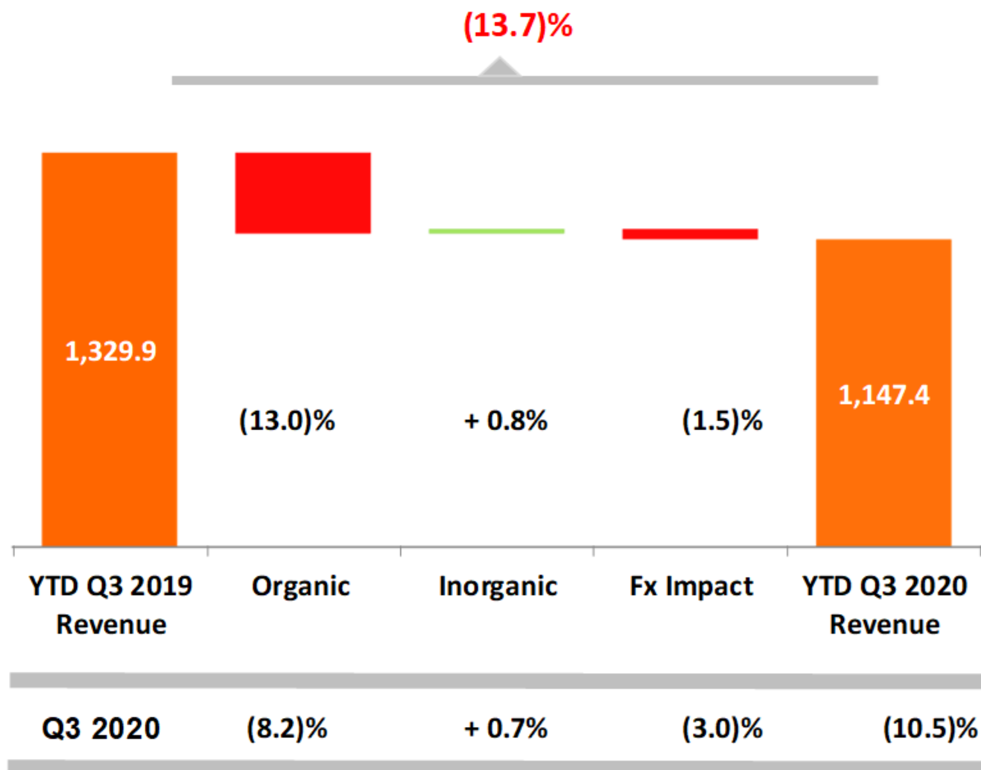
Revenue

Revenue decreased by 13.7% to €1,147.4 million in the nine month period ended 30 September 2020 compared to the same period in the prior year.

The revenue bridge in € million for the period is shown below and the change in revenue in percent for the third quarter of 2020 is shown below the waterfall chart.



The total revenue decrease of 13.7% for the period was made up of a decrease in organic revenue of 13.0%, the benefit of acquisitions made in the last twelve months of 0.8% and a negative currency translation impact of 1.5%.

For the third quarter, the total revenue decreased by 10.5% to €406.2 million. This was made up of a decrease in organic revenue of 8.2%, revenue from acquisitions added 0.7% and there was a negative currency translation impact of 3.0%.

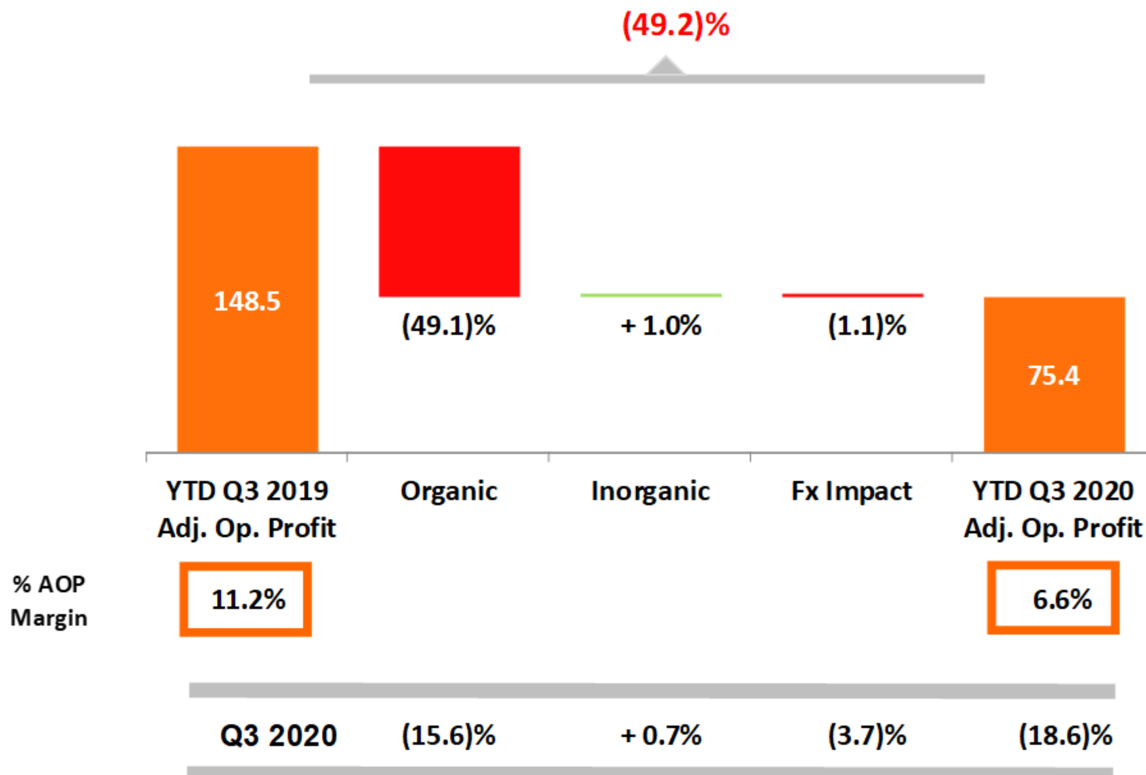
The business had a good start to the year with every division growing well until mid-March when COVID-19 materially impacted the Group. From March until the end of the third quarter the revenue has decreased month on month with each month´s revenue fall being gradually less than the previous month.

All four divisions have lower organic and total revenue in the period with only the Automotive division reporting revenue growth in the third quarter.

Adjusted Operating Profit

Adjusted operating profit decreased by 49.2% to €75.4 million in the nine month period ended 30 September 2020 compared to the same period in the prior year.

The adjusted operating profit bridge for the period in € million is shown below and the change in adjusted operating profit in percent for the third quarter of 2020 is shown below the waterfall chart.



The total adjusted operating profit decrease of 49.2% for the period was made up of a decrease in organic adjusted operating profit at constant exchange rates of 49.1%, acquisitions of 1.0% and an unfavourable currency translation impact of 1.1%.

In the third quarter, the total adjusted operating profit was down 18.6% with the organic component of 15.6% plus the contribution from acquisitions of 0.7% and an unfavourable currency translation impact of 3.7%.

The resulting adjusted operating profit margin was 6.6%, materially lower than the margin of 11.2% in the prior year.

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The lower margin in the period is due to the significant reduction in revenue especially in the second quarter of the year with increased cost control measures and the benefit of the various Government cost protection measures not being enough to protect the margin fully.

In the third quarter, the adjusted operating profit margin was 10.1% which was lower than the prior period by 100 basis points but a significant recovery on the reduction in margin in the second quarter of the year. The lower overall margin was due to the continued lower revenue for the Group although the extent of the reduction was materially mitigated by the recovery of the higher margin Automotive division recovering the fastest.

Other Financial Indicators

The reported operating loss was €137.8 million in the period compared to a reported operating profit of €101.7 million in the previous period. The main reason for the extent of the loss was due to the non-cash impairment charge of €165 million taken in the half year period.

The net financial expense in the profit and loss for the period was €18.5 million higher than the previous period expense of €16.8 million mainly due to the cost of the increase in bank facilities taken out during the second quarter as well as negative foreign exchange impacts.

The profit before tax on an adjusted basis for the period was €57.0 million compared to €131.7 million in the prior period and on a statutory basis was a loss of €156.2 million compared to a profit of €84.9 million in the prior period. The adjusted profit before tax was significantly lower than for the corresponding period last year due mainly to the lower adjusted operating profit. The statutory loss before tax was additionally significantly lower due to the impairment charge that was booked in the first half results. No further impairment charges were made in the third quarter.

Cash Flow and Net Debt

Cash flow generation was exceptionally strong in the period mainly due to the decrease in the level of working capital by €53.8 million from the year end position compared to an increase in working capital of €36.5 million in the corresponding period. Additionally, capex and taxes outflows were considerably lower than last year.

	YTD Q3			
	2020	2019	Change	
Adjusted EBITDA	**151.4**	**221.9**	**(70.5)**	**(31.8)%**
Change in Working Capital	53.8	(36.5)		
Capex	(22.9)	(34.0)		
Adjusted Operating Cash Flow	**182.2**	**151.4**	**30.8**	**20.3%**
Taxes Paid	(4.6)	(25.0)		
Interest Paid	(8.7)	(8.9)		
Adjusted Free Cash Flow	**168.9**	**117.4**	**51.5**	**43.9%**
Extraordinaries & Others	(5.2)	(0.5)		
Applus+ Dividend	-	(21.5)		
Dividends to Minorities	(9.0)	(16.0)		
Operating Cash Generated	**154.7**	**79.4**	**75.3**	**94.7%**
Acquisitions	(76.9)	(15.2)		
Cash b/Changes in Financing & FX	**77.8**	**64.3**		
Payments of lease liabilities (IFRS 16)	(40.0)	(41.0)		
Other Changes in financing	134.2	(37.9)		
Treasury Shares	(0.8)	(2.0)		
Currency translations	(7.7)	1.7		
Cash increase	**163.5**	**(15.1)**		

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

The decrease in working capital of €53.8 million was a favourable swing of €90.3 million compared to the first nine months of 2019 largely due to the change in revenue trend with the cash collection in the second and third quarters without an increase in receivables due to the lower revenue. This significant working capital inflow more than compensated for the reduction in Adjusted EBITDA of €70.5 million from €221.9 million last year to €151.4 million in the current period.

Net capital expenditure on expansion of existing and into new facilities was €22.9 million (2019: €34.0m) which represented 2.0% (2019: 2.7%) of Group revenue. This expenditure included the net proceeds of disposals and purchase of new Automotive stations of €0.9 million (2019: €6.0m). The disposals in the period relate to the contract that ended last year in Washington state, for €4.7 million. Excluding the net proceeds of disposals and cost of acquiring Automotive stations, the operational capital expenditure was €23.9 million which was 40% lower than the corresponding period in 2019 when it was €40.0 million.

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Adjusted operating cash flow (after capital expenditure) was €182.2 million being €30.8 million or 20.3% higher than for the same period last year.

The decrease in taxes paid of €20.4 million from €25.0 million in the first nine months of 2019 to only €4.6 million in the current period was due to some tax refunds received in the first half of this year, some permitted tax payment delays as part of the COVID-19 Government assistance schemes and a lower amount of advance payments of corporation tax due to expected lower profits.

Adjusted Free Cash Flow was €168.9 million being €51.5 million or 43.9% higher than for the same period last year.

There was a decrease in the dividend distributions made in the period. The dividend payout declared for the 2019 full year profits to the Applus+ Group shareholders that was originally proposed to be paid in July was cancelled in April due to the uncertainty surrounding the financial impact arising from the outbreak of COVID-19. The dividends paid to Minority share interests were reduced due to lower profits in those subsidiaries.

The cash outflow for acquisitions relates to three made in the period plus deferred consideration on acquisitions made in prior periods. The largest acquisition made in the period was of the electromagnetic compatibility testing business for electric vehicles in China and the USA called Reliable Analysis for €67 million in initial consideration.

The final net cash increase in the period was €163.5 million. This was from the cash generation before financing and foreign exchange of €77.8 million, less the payment or lease liabilities of €40.0 million that previous to the new accounting standard of IFRS 16 used to be included within operating costs, plus a net increase in the drawdown of borrowings of €134.2 million.

The financial leverage of the group at the period end, measured as Net Debt to last twelve months Adjusted EBITDA was 2.5x (as defined by the debt covenants), at a slightly higher level to the position at 30 June 2020 when it was 2.4x. The leverage covenant is set at 4.0x with a recently placed temporary relaxation to higher levels.

The closing of the acquisition of Besikta Bilprovning is expected to take place in November after which the leverage (as defined by the debt covenants) following the transfer of funds for the consideration is expected to be around 3.0x.

At the end of the first nine month period, the amount of cash in the Group was €314.1 million and the undrawn committed facilities at the end of September was €338.7 million giving a total liquidity position of €652.7 million which is at a similar level to that at the end of June when it was €666.2 million despite the spending on the acquisition of Reliable Analysis.

Liquidity	
Cash at 30 September 2020	314.1
Undrawn facilities	338.7
Available liquidity	**652.7**

Debt Covenants temporary relaxation

After the period end, the leverage covenant in the debt facilities was amended to ensure the Group can continue to operate at a comfortable level of headroom after making in-fill and bolt-on acquisitions and in case there is another material change in the key markets due to COVID-19 that affects the business. The two debt facilities where the covenants are defined are the US Private Placement debt facilities of €230 million with maturities in 2025 and 2028 and the Bank Syndicate debt facilities of €600 million that has a final maturity date in 2025. Each were separately negotiated and amended with their own further conditions.

COVID-19 update

The Group continues to apply all the necessary measures across the world to reduce the risk of people catching or spreading of the coronavirus whilst balancing this with continuing to provide services to our customers.

Tight cost control, prioritisation of the management of cash inflows and outflows and the prudent management of financial resources and financial risk continue to be applied whilst being open to business opportunities including those that require investment to ensure the future growth in value of the business.

The Group will also continue to provide the investment community with updates on financial performance and position and to provide guidance in so far as it is possible.

Outlook

For the full year, assuming there are no further material changes in the key markets that Applus+ operates in as a result of COVID-19, it is expected the gradual recovery in revenue led by the Automotive division and for the strong cash flow to continue. It is also expected that the adjusted operating profit margin in the final quarter will be in line with Q3.

Operating review by division

The Group operates through four global business divisions: Energy & Industry Division, Automotive Division, IDIADA Division and Laboratories Division.

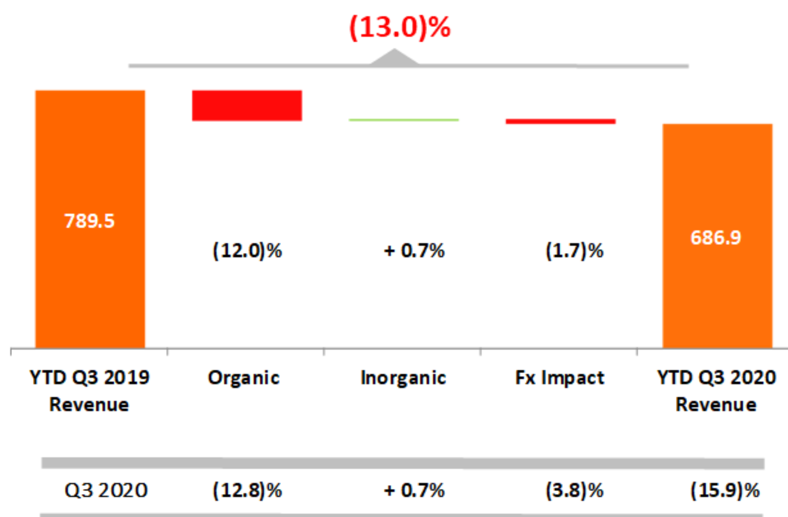
Energy & Industry Division

The Energy & Industry Division is a world leader in non-destructive testing, industrial and environmental inspection, quality assurance and quality control, engineering and consultancy, vendor surveillance, certification and asset-integrity services.

The Division designs and deploys proprietary technology and industry know-how across diverse sectors, helping clients to develop and control industry processes, protect assets and increase operational and environmental safety. The services are provided for a wide range of industries including oil and gas, power, construction, mining, aerospace and telecommunications.

Revenue decreased by 13.0% to €686.9 million in the nine month period ended 30 September 2020 compared to the same period in the prior year.

The revenue bridge in € million for the period is shown below and the change in revenue in percent for the third quarter of 2020 is shown below the waterfall chart.



The total revenue decrease of 13.0% for the period was made up of a decrease in organic revenue of 12.0%, the benefit of acquisitions made in the last twelve months of 0.7% and a negative currency translation impact of 1.7%.

For the third quarter, the total revenue decreased by 15.9% to €230.7 million. This was made up of a decrease in organic revenue of 12.8%, revenue from acquisitions added 0.7% and there was a negative currency translation impact of 3.8%. This was at a considerably lower rate of decrease than for the second quarter.

The division had a good start to the year growing well until March when COVID-19 materially impacted the operations. From April until the end of the third quarter the revenue has decreased every month compared to the previous year with the greatest percentage decrease in May and from June the business has gradually recovered with a reducing rate of revenue decrease.

Revenue from services provided for capex in the oil and gas end market has been the most impacted with the lower demand for oil and the lower oil price continuing to reduce new capital investment decisions in the industry. Services provided for opex in oil and gas are also down, but less than for capex. The other end markets in this division including Power, Aerospace, Mining and Construction, in aggregate recovered to flat revenue in the third quarter compared to the third quarter in the prior year.

All regions were down with Spain, Latin America, Middle East & Africa being the better performing regions.

With the expectation that in some countries there will continue to be lower demand for some services, the cost base is being addressed through the continued use of temporary lay-off programmes and permanent restructuring.

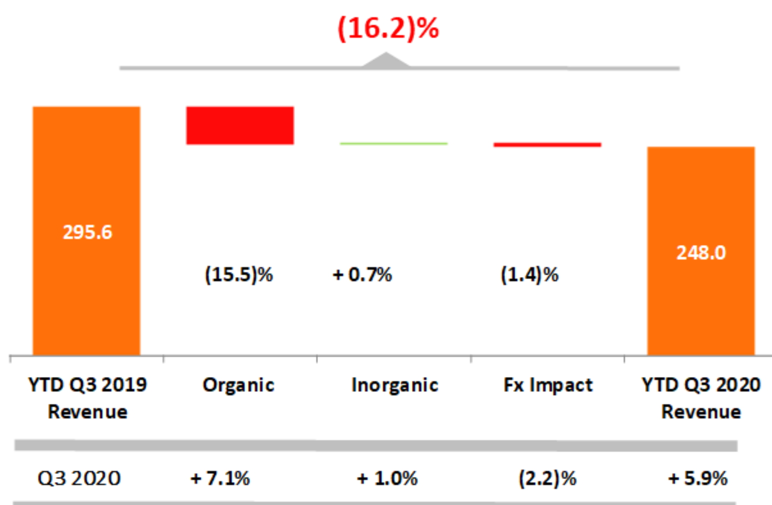
Automotive Division

The Automotive Division delivers statutory-vehicle-inspection services globally. The Division's programmes inspect vehicles in jurisdictions where transport and systems must comply with statutory technical-safety and environmental regulations.

The Division operates 30-plus programmes, carrying out over 20 million vehicle inspections across Spain, Ireland, Denmark, Finland, Andorra, the United States, Argentina, Georgia, Chile, Costa Rica, Ecuador and Uruguay in 2019. In the programme-managed services, a further 6 million inspections were delivered by third parties. The recently announced acquisition of Besikta Bilprovning in Sweden will add a further 1.5 million inspections per year in an additional country.

Revenue decreased by 16.2% to €248.0 million in the nine month period ended 30 September 2020 compared to the same period in the prior year.

The revenue bridge in € million for the period is shown below and the change in revenue in percent for the third quarter of 2020 is shown below the waterfall chart.



The total revenue decrease of 16.2% for the period was made up of a decrease in organic revenue of 15.5%, the benefit of acquisitions made in the last twelve months of 0.7% and a negative currency translation impact of 1.4%.

For the third quarter, the total revenue increased by 5.9% to €103.9 million. This was made up of an increase in organic revenue of 7.1%, revenue from acquisitions added 1.0% and there was a negative currency translation impact of 2.2%.

The division is recovering well after the forced station closures from March to May with only Argentina, Chile and Ireland remaining partially closed in the third quarter due to COVID-19.

The increased requirements to comply with new health and safety measures have been successfully and efficiently implemented resulting in a lower impact on productivity than initially expected and which in combination with the high operating leverage across most of the network has benefited the margin in the third quarter.

The Group announced on the 20th October that it had agreed to acquire the entire share capital of one of the leading statutory vehicle inspection companies in Sweden called Besikta Bilprovning for €101 million. Besikta´s current revenue is €62 million per annum and is highly recurring and growing as are its cash flows and has an EBITDA margin in the high teens before applying IFRS16. It performs 1.5 million inspections per annum being approximately 25% of the total market in Sweden. Integrating Besikta into the Applus+ Automotive division will bring mutual benefits from the opportunity to share best practice and consumer marketing expertise. Following this acquisition, Applus+ will become the leading operator in the Nordic region building upon its strong presence in the liberalised markets of

Denmark and Finland and this will improve the portfolio quality of the Automotive division by reducing the dependence of the division on concessions that require periodic renewals. The acquisition is subject to approval by Swedac (Swedish Board for Accreditation and Conformity Assessment) which is expected to be received in November.

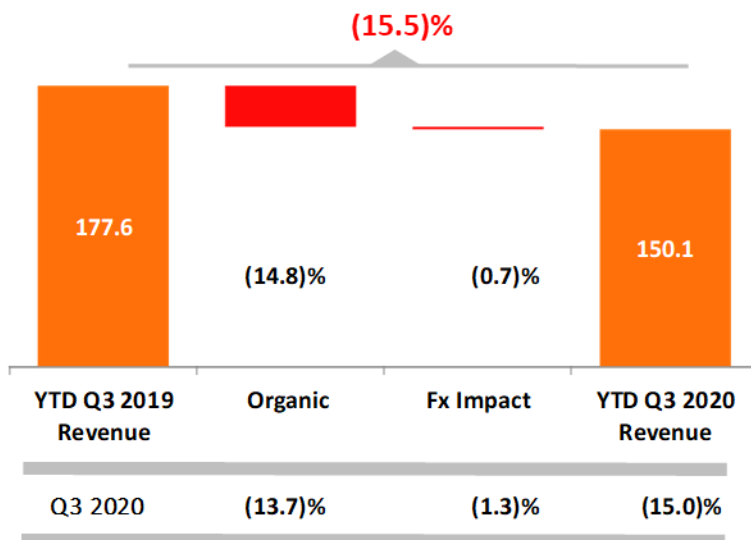
IDIADA Division

IDIADA A.T. (80% owned by Applus+ and 20% by the Government of Catalonia) has been operating under an exclusive contract from the 351-hectare technology centre near Barcelona (owned by the Government of Catalonia) since 1999. The contract to operate the business runs until September 2024 and although it is renewable in five year periods until 2049, the current expectation is that there will be no further extensions but a tender for a new 20 year concession.

IDIADA A.T. provides services to the world's leading vehicle manufacturers for new product development activities in design, engineering, testing and homologation.

Revenue decreased by 15.5% to €150.1 million in the nine month period ended 30 September 2020 compared to the same period in the prior year.

The revenue bridge in € million for the period is shown below and the change in revenue in percent for the third quarter of 2020 is shown below the waterfall chart.



The total revenue decrease of 15.5% for the period was made up of a decrease in organic revenue of 14.8% and a negative currency translation impact of 0.7%.

For the third quarter, the total revenue decreased by 15.0% to €49.8 million. This was made up of a decrease in organic revenue of 13.7% and there was a negative

currency translation impact of 1.3%. This was at a considerably lower rate of decrease than for the second quarter.

The division, in particular during the second quarter, was materially impacted by COVID-19 with the complete closure for two weeks during April of the main facilities in Spain and partial closures thereafter and in other locations having a severe impact. There was some remote working where possible although the restrictions on international customers coming to Spain impacting mainly the Proving Ground and the crash testing business continues to be a key reason for the reduction in revenue in the division.

The rate of revenue decrease has nevertheless improved considerably in the third quarter compared to the second quarter mainly due to an increasing amount of Advanced Driver Assistance Systems (ADAS) work for electric vehicles in the Powertrain and Homologation segments as well as a good performance in China, including from the proving ground there.

With the continuing pressure on the profitability from the lower revenue, the cost base in Spain is being addressed through the continued use of the temporary lay off programme and restructuring where necessary.

The tender for a new 20 year concession by the Government of Catalonia from September 2024 when the current five year extension ends is still expected to take place and is currently at the preparatory stage.

Laboratories Division

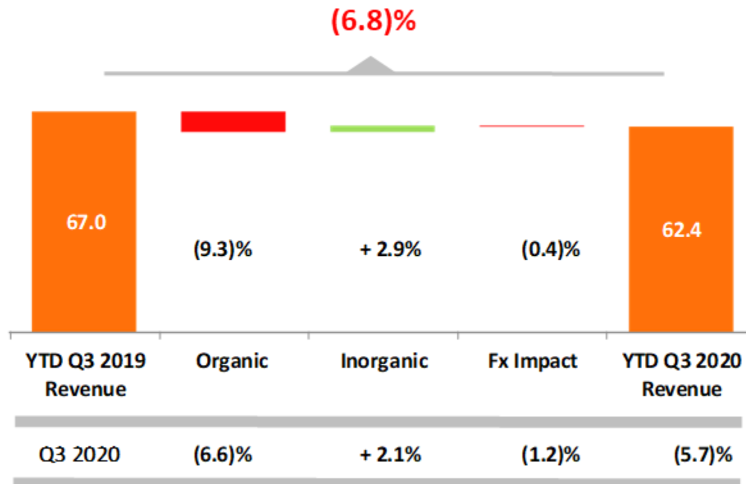
The Laboratories Division provides testing, certification and engineering services to improve product competitiveness and promote innovation. The Division operates a network of multidisciplinary laboratories in Europe, Asia and North America.

With cutting-edge facilities and technical expertise, the Division's services add high value to a wide range of industries, including aerospace, automotive, electronics, information technology and construction.

In 2017, 2018, 2019 and up to the present time in 2020, the Laboratories Division acquired nine companies and expanded its testing facilities in order to reinforce its position in the automotive components, fire protection, aerospace parts and calibration sectors.

Revenue decreased by 6.8% to €62.4 million in the nine month period ended 30 September 2020 compared to the same period in the prior year.

The revenue bridge in € million for the period is shown below and the change in revenue in percent for the third quarter of 2020 is shown below the waterfall chart.



The total revenue decrease of 6.8% for the period was made up of a decrease in organic revenue of 9.3%, the benefit of three acquisitions made in the last twelve months of 2.9% and a negative currency translation impact of 0.4%.

For the third quarter, the total revenue decreased by 5.7% to €21.7 million. This was made up of a decrease in organic revenue of 6.6%, revenue from one acquisition made in the last twelve months added 2.1% and there was a negative currency translation impact of 1.2%. This was at a considerably lower rate of decrease than for the second quarter.

The results for the period and in particular the second quarter were materially impacted by COVID-19 especially with the severe lock down that took place in Spain which accounts for 70% of the division by revenue and the continued restrictions on the ability of international customers to travel to Spain and the UK for testing. The division saw an improvement in June and in the third quarter supported by the success of remote working with most end markets now on an improvement trend with the exception of Aerospace and electromagnetic compatibility (EMC) testing in Spain.

The division recently acquired Reliable Analysis for an initial consideration of €67 million that in 2019 reported €24 million revenue with an adjusted operating profit margin above the Laboratories division margin in 2019. This is a laboratory-based materials, component, electrical and EMC testing company with over 300 employees primarily serving the automotive industry and specifically for electric vehicles (EV) operating from two locations in China and two in the USA. This acquisition significantly increases the division´s footprint in China and its exposure to the fast growth EV market, especially in China which is the largest EV market in the world.

There is a pipeline of further acquisition opportunities for this division.

End of 2020 Third Quarter Results Announcement. This announcement is a translation of the third quarter financial results announcement 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.