# Talgo 1H2017 Results

**July 21, 2017**

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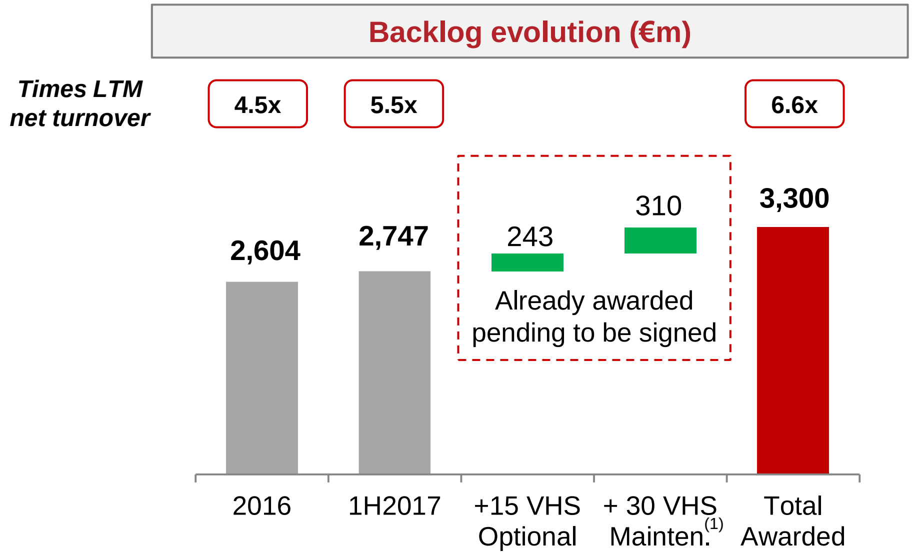
# 1.1 Key business highlights 1H2017

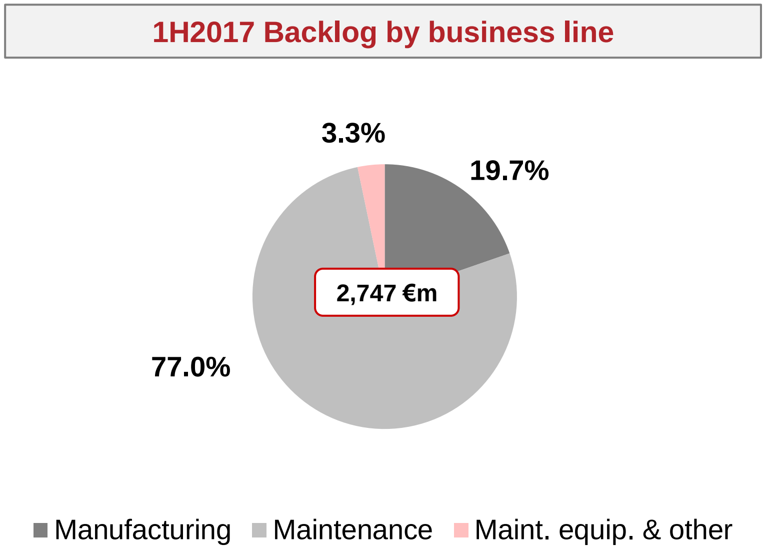
- **Main financial Highlights:**
  - **Adjusted Net income reached 32 €m**, resulting on 15% ROS (13% in 2016).
  - **Adjusted Ebitda reached 50 €m in the period**, enhancing Ebitda margins to 23%.
  - **Net turnover reached 215 €m in 1H2017** (-28% vs 1H2016) according to the current manufacturing cycle of the main contracts under execution.
  - **Significant cash generation cycle** to start in 2H2017.
  - **NFD amounted 212 €m(1) at June 2017**.
    - **2.0x leverage ratio over the adjusted LTM Ebitda**, with optimized repayment schedule through long term financing facilities with low interest rates.
    - **Strong NFD reduction expected** for FY2017.
  - **2,747 €m contracted backlog as of June 2017**, which would increase to **3,300 €m if all awarded amount were considered.**
- **Operational Highlights:**
  - **Execution of current manufacturing backlog on time and budget**: all manufacturing and maintenance contracts executed at or above margins target.
  - **Successful execution of all maintenance contracts**.
  - **Significant order intake** during the first half mainly driven by Spanish VHS contract.
  - Strong commercial activity in both existing and new opportunities, with a **large and active pipeline amounting 9.4 €b.**

(1) Does not include loans with public administrations related to R&D projects.

**Source:** Company information

# 1.2 Industry record backlog (6.6x)




- **Manufacturing backlog was executed in 1H2017 according to the contracts schedule** and customer needs.
- Increasing manufacturing backlog due to recently awarded Spanish VHS contract.
- If considered the total contract awards pending to be signed, **backlog would increase to 3.3 €b.**
- While manufacturing backlog increases in the period to 541 €m, **77% of current order book correspond to maintenance services**, ensuring long-term cash generation capacity.
- Maintenance equipment remains as a **complementary business line (3.3% of backlog).**

(1) Maintenance of 30 VHS only includes Talgo's share in the JV to be established with Renfe

**Source:** Company information

# 1.3 Successful execution of Mecca-Medina project

- **Scope of the contract: manufacture of 36 VHS Talgo 350 trains**, with and an option for 20 additional trains. The contract also includes the maintenance for a period of 12 years.
- **Execution performance**: project under execution **in line with Company expectations** and an degree of progress reaching finalization:
  - **30 trains are already finished**, out of which 11 trains have already been sent to Arabia. Additional shipment expected to be done once the Medina depot is finished.
  - Additional trains under manufacturing process and **expected to be finished throughout 2017 and 1Q2018**.
  - Ongoing static and dynamic tests. **Speed-up test to reach the maximum speed of the Project (330 km/h) was successfully completed** in 1H2017 (10% above the commercial speed established in 300 km/h).
  - **Provisional acceptance is expected for 2018** with start of commercial operations.
- As a result, the project is being **executed in time and budget with no significant risks identified**.
- **Significant payment milestones of the project are expected to be reached in 2H2017 and 2018.**

**3Q2017**
- Start of dynamic testing for train certification

**4Q2017**
- New infrastructure ready for shipping of additional trains (Medina depot)

**1H2018**
**Expected start of commercial operations**
(according to last schedule agreed with SRO)

# 1.4 Great achievement of VHS contract in Spain

- **<u>Scope of the contract</u>**: manufacture of 30 VHS trains "AVRIL" and maintenance for a period of 30 years, for a total award amount of 1.2 €b (0.9 €b for Talgo considering 50% of maintenance).
  - **First 15 trains manufacturing contract was signed in April 2017**. These trains will have fixed gauge and will be also certified in France.
  - **Additional 15 trains awarded in June 2017** and expected to be signed in the following months. These trains will have Talgo's variable gauge system.
- **<u>Execution performance</u>**: project execution already started with **schedule of staggered deliveries beginning on 2020**.
- The **first public tender in which Talgo offered its new AVRIL VHS train**, which has been developed during recent years and contains the most advance technology of the industry:
  - Higher power while lowering energy consumption, being the lightest train on the market.
  - Wider coach offering higher capacity in one floor (3+2 seats).
  - Technical advances resulting in high reliability and optimized maintenance costs.

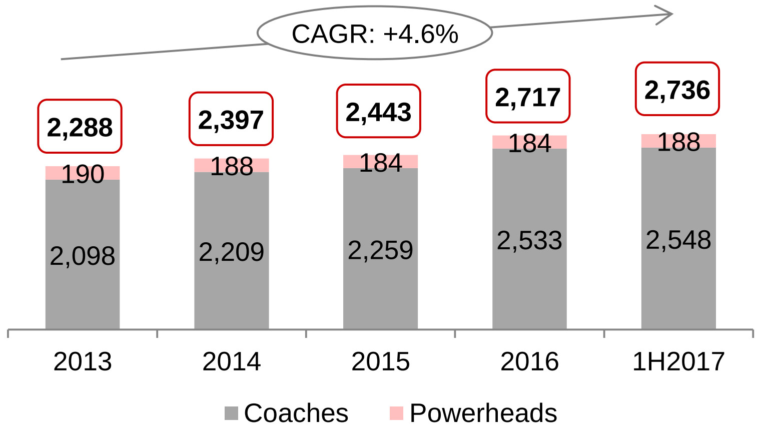


**Source:** Company information

# 1.5 Increasing fleet continue to grow maintenance revenues

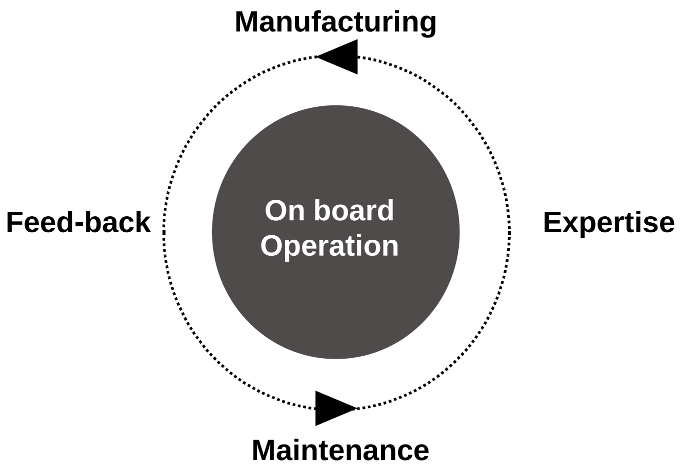
- Talgo provides maintenance services to **its manufactured trains and to units produced by third-parties**.
- A strong expertise together with a solid maintenance portfolio provides **recurrent activity and long term business stability** to the Company.
- **All contracts are being successfully executed**, providing high quality of service, high reliability and customer safety, while **improvements are continuously implemented increasing operational and cost efficiencies.**
- The size of maintained fleet is expected to **continue growing** as the contracted manufacturing backlog is delivered (additional coaches in Kazakhstan and Arabia will be added to maintenance portfolio). As of June 2017, the maintained fleet reached **2,736 units**, representing +4.6% CAGR in the period 2013-1H2017.

**Aver. number of vehicles maintained (#)[1]**



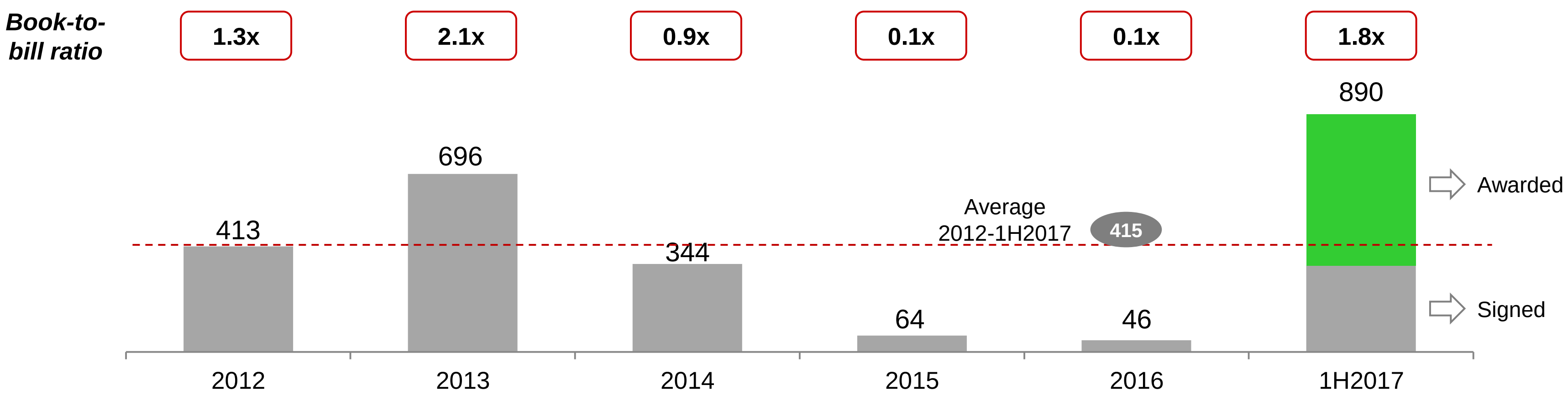

(1) Include both cars and powerheads.
Note: Additional c. 80 coaches (stable over the period 2013-1H2017) manufactured by third parties are maintained by Talgo in Germany. Such cars are around two times longer than Talgo standard coaches.

**Company maintenance strategy**



# 1.6 Strong awards during 2017

**Order intake evolution 2012 – 1H2017 (€m)**




- In December 2016 RENFE awarded Talgo a project for the manufacture and maintenance of 15 VHS trains for a total consideration of 537 €m(1). **Manufacturing contract amounting 338 €m was signed on April 2017**.
- In addition, during 2Q2017 RENFE executed the option ordering 15 additional units, increasing therefore the order to 30 VHS trains for a total considerations of 890 €m(1), which is expected to be signed in 2H2017.
- With all, Talgo has marketed the **most advanced technology** developed in-house for the high-speed segment (AVRIL) through the **largest contract in Europe for a while.**

(1) Note: considering Talgo 50% share of maintenance

**Source:** Company information

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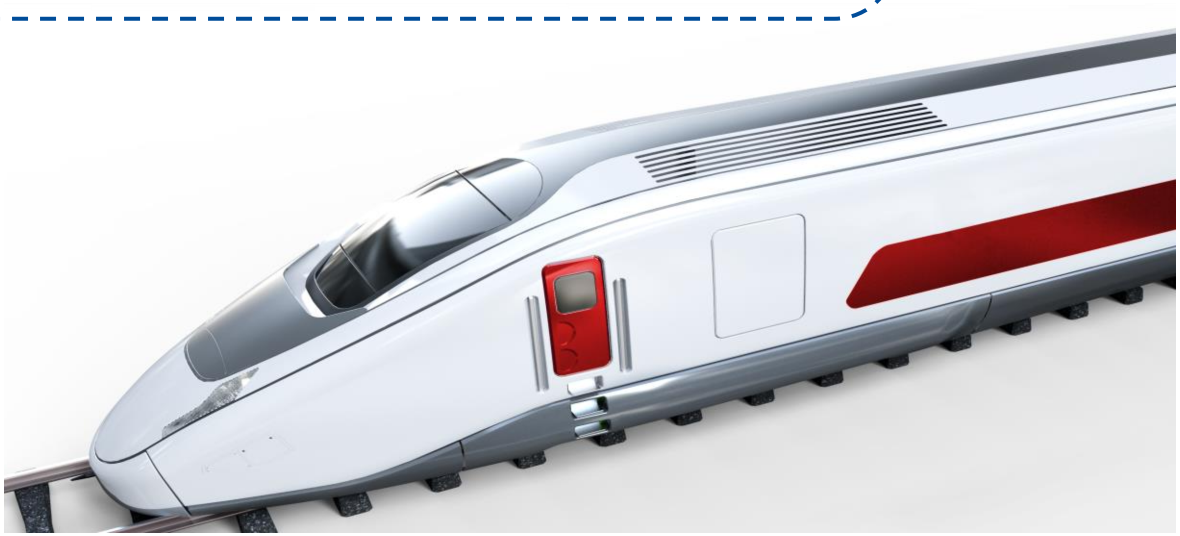
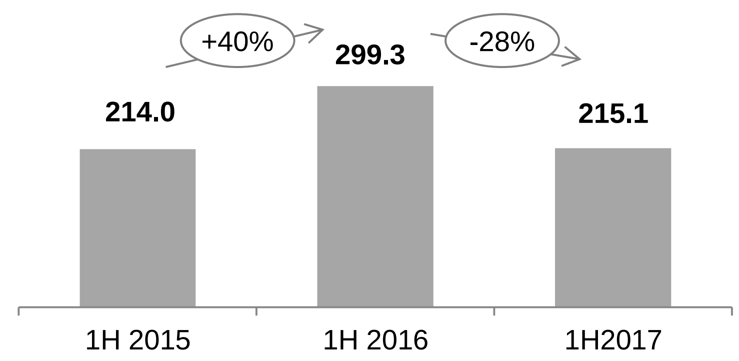
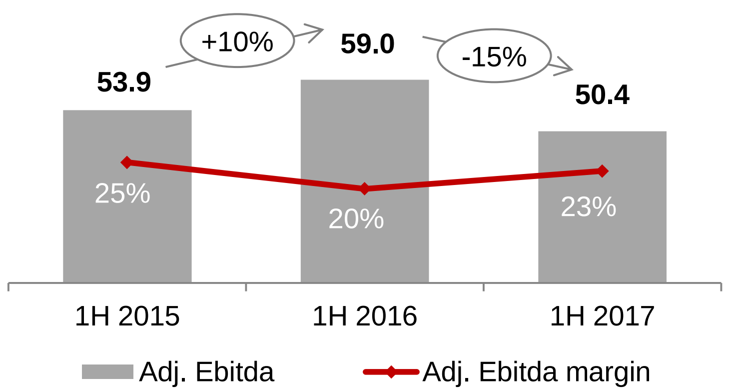


# 2.1 Revenues and Ebitda evolution

**Net turnover (€m)**




**Adj. Ebitda (€m) and Adj. Ebitda margin (%)**




- **Net Turnover reached 215 €m in 1H 2017,** 28% below than same period of 2016, driven by lower manufacturing activity **in accordance with the current manufacturing stages:**
  - ✓ Contracted manufacturing backlog executed on budget and meeting schedules set with the customers.
  - ✓ Net turnover recognition reflect the manufacturing cycle of the main projects under execution.
  - ✓ High quality and reliability in maintenance services provided.
- **Adjusted Ebitda reached 50.4 €m in 1H2017** in line with manufacturing pace.
- However, **Ebitda margin increased in the same period to 23%** driven by costs efficiencies and projects mix, showing:
  - ✓ Successful performance of the projects under execution and finished.
  - ✓ Commitment with returns, enhancing Ebitda margin above the Company target (20%).
- **Adjusted ROS to 15%** (13% in 1H2016).

**Source:** Company information

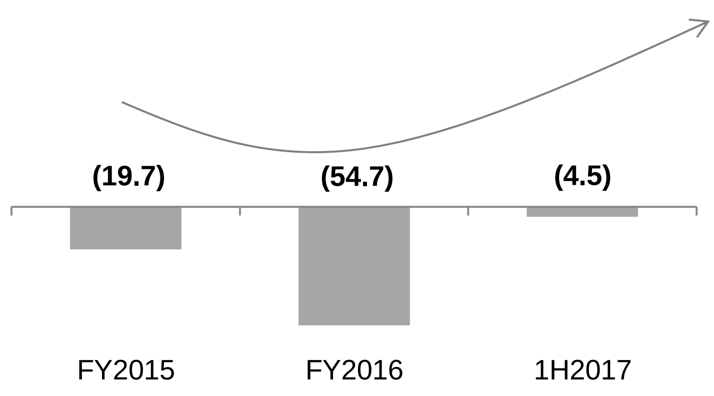
# 2.2 Significant cash generation cycle starts

- **Net cash inflows expected for 2H2017 and 2018** driven by the expected delivery process in our current key manufacturing projects (mainly Mecca-Medina project), **reducing significantly the Working Capital** and the **net financial debt** of the Company.
- During 1H2017, **Working Capital increased in line with Company expectations**:
  - ✓ **Accounts receivable and payables**: main drivers of working capital increase, mainly due to manufacturing projects stage.
  - ✓ **Inventory higher consumption** reflects the late stages of the main manufacturing projects.
  - ✓ **Advances received**: reflects the prepayments related to recent awards.

**Working Capital performance (€m)**

| (€m) | FY2016 | 1H2017 |
|---|---|---|
| Accounts receivable | 341.7 | 385.9 |
| Other receivables | 2.9 | 2.9 |
| Assets held for sale | 6.1 | 0 |
| Inventories | 93.0 | 78.4 |
| Acc. payables (excl. advances) | (162.5) | (124.3) |
| Advances received | (11.5) | (42.5) |
| Other current liabilities | (4.5) | (4.7) |
| **Working capital** | **265.2** | **295.8** |

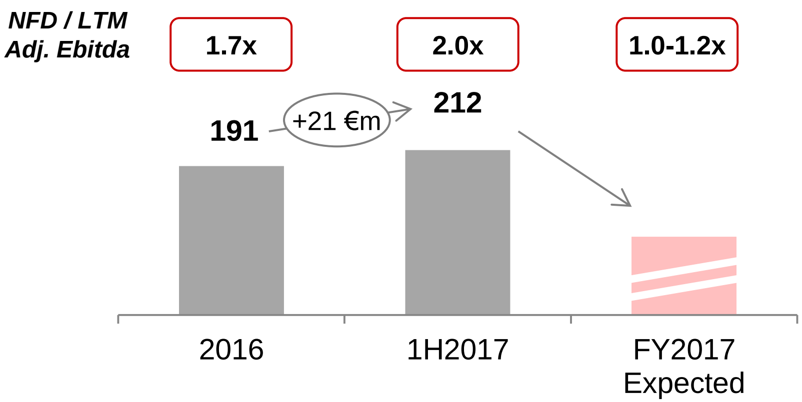
**Free Cash Flow evolution (€m)**




**Source:** Company information

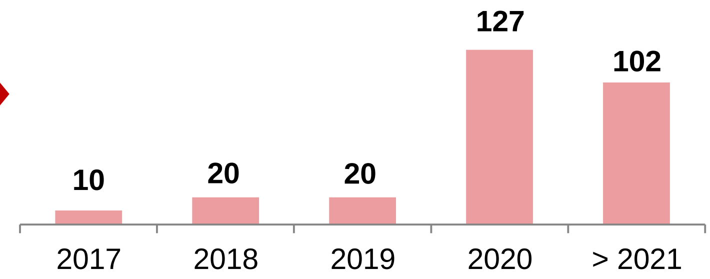
# 2.3 Comfortable financing structure

**Net Financial Debt (€m)[1]**




**Long term bank loans – Repayment schedule (€m)**

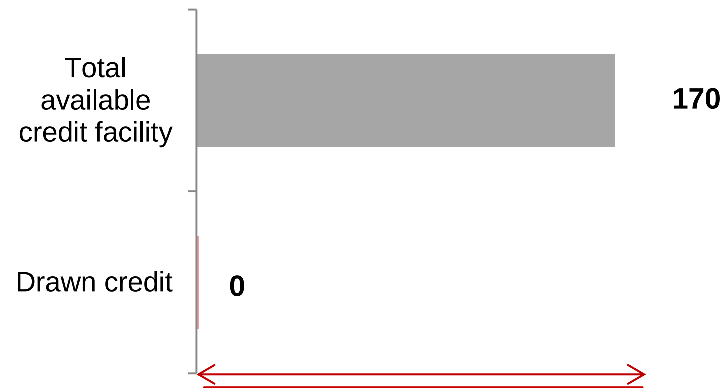
***Optimized bank financing profile with long term maturity***




- During 1H2017 Talgo continued to take advantage of **favorable debt markets** to issue long term debt with **bullet maturities and attractive interest rates** in order to finance both ongoing and forthcoming projects. No additional debt is expected to be issued.
- **Gross bank debt amounted 279 €m:**

| €m | 1H2017 |
|---|---|
| Banco Santander | 80 |
| European Investment Bank | 32 |
| Long term debt with bullet maturities | 166 |
| Accrued debt interests | 1 |
| **Total banking debt** | **279** |

**Committed credit lines at June 2017 (€m)**




***Full availability of credit lines (100% undrawn)***

(1) Financial Net Debt excludes reimbursable advances with Spanish Public Administration entities related with R&D (22.7 €m in June 2017) which are not considered financial debt due to their recurrence.

**Source:** Company information

## 2.5 Scrip Dividend – 87% chose to receive shares

- Talgo Started in 1H2017 a **shareholders remuneration** through two different schemes:
  - **Scrip dividend Programme**: remuneration system implemented with the aim of allowing shareholders to decide whether they wish to receive all or a portion of their remuneration in cash or in paid-up shares of Talgo.
  - **Buy Back Programme**: acquisition of shares in the market followed by a share capital reduction through the redemption of the previously acquired shares.
- **Talgo disbursed a total amount of 11.3 €m to implement both programmes.**

**Scrip Dividend Programme**

- Under the item Five on the agenda approved in the General Shareholders' Meeting held on May 2017, the Company has implemented a **Scrip dividend Programme amounting 10 €m.**
- Shareholders holding **86.7% of the company shares chose to receive shares**, while the remaining **13.3% chose to receive cash payment**.
- As a result, the company paid in cash **1.3 €m to those shareholders that requested cash payment**, and **1,582,092 new shares issued through a capital increase charged against reserves** were given to remaining shareholders.

**Buy-back Programme**

- On February 23rd the Board of Directors resolved to implement a Buy-back Programme of the Company's own shares(1).
- Under this Programme and in accordance with the established terms, through the period April 6th – June 19th the company **acquired 1,852,394 own shares for a total consideration of 10 €m.**
- Under the item Six on the agenda approved in the General Shareholders' Meeting held on May 2017, the Company is currently implementing a **reduction of the share capital through the redemption of the acquired shares, which is expected to finalize in 3Q2017.**

(1) in accordance with the authorisation granted by the General Shareholders' Meeting held on 28 March 2015

**Source:** Company information

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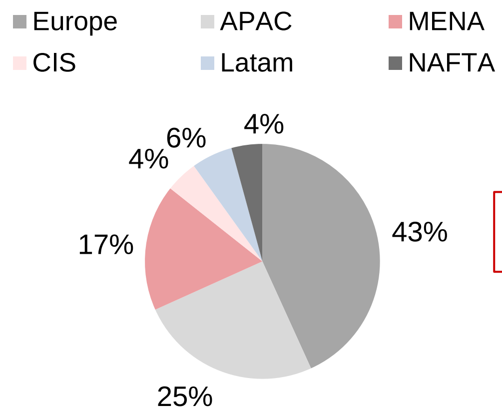
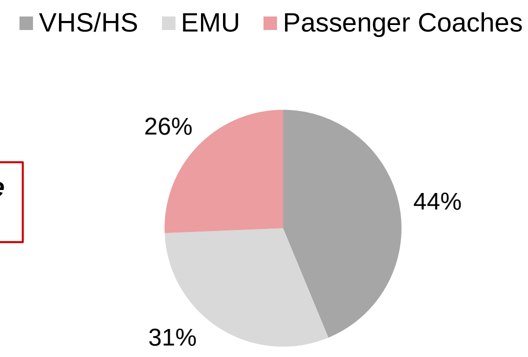
# 3.1 Commercial developments

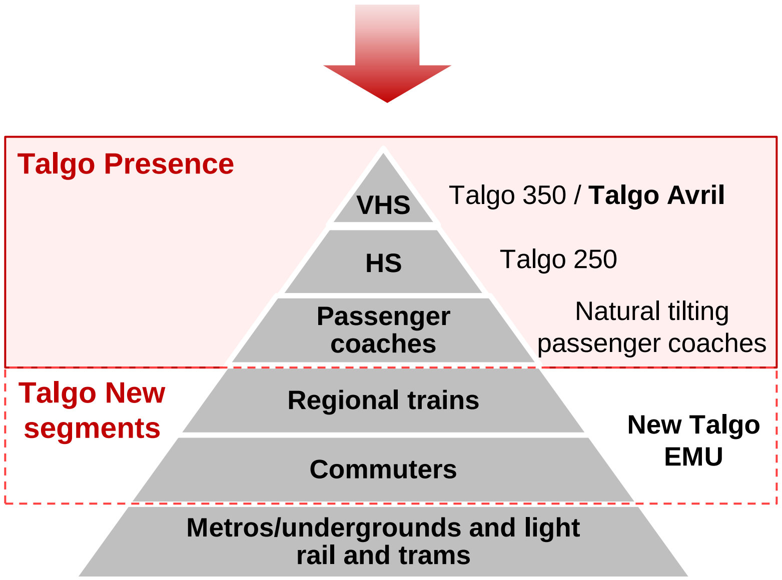
**Talgo pipeline by geography 2017-2020[(1)]**




**Talgo pipeline by segment 2017-2020[(1)]**




***Talgo identified pipeline amounts to 9.4 €b***




- Considered pipeline comprises those commercial opportunities in which Talgo is **actively working and are expected to be awarded during the period 2017-2020**.
- Tenders identified as attainable for Talgo in the:
  - ✓ **HS/VHS tenders** states as the segment with higher growth potential in the next years.
  - ✓ **Regional commuter trains**: increasing number of opportunities worldwide.
  - ✓ **Passenger coaches** opportunities to take into advantage the Talgo natural tilting system for countries under development.

(1) maintenance have not been considered in the identified pipeline, which could increase significantly its amount.

**Source:** Company information

# 3.2 Summary and Outlook

| | Outlook given in Feb-2017 | Performance 1H2017 | Expectations for FY2017 |
|---|---|---|---|
| **Business performance:**<br><br>**Manufacturing / Maintenance activity** | ▪ Manufacturing execution will continue in current projects.<br>▪ Maintenance activity to continue providing stability and recurrent revenues.<br>▪ Further internationalization.<br>▪ Proactive commercial activity. | ▪ Backlog execution in line with current manufacturing cycle of main projects under execution.<br>▪ Successful maintenance services provided.<br>▪ Substantially increased Backlog driven by VHS Spain contract. | ▪ Manufacturing execution: updated industrial activity driven by manufacturing pace and customer needs.<br>▪ Maintenance activity expected to continue providing stability and recurrent revenues.<br>▪ Further internationalization and proactive commercial activity. |
| **Profitability** | ▪ Profitability ratios expected to achieve the Company objectives (>20%). | ▪ 23% Ebitda margin delivered in 1H2017, above company target. | ▪ An efficient business model and operational excellence to drive margins above 22% by FY2017. |
| **Cash Flow and Capital Structure** | ▪ Improvement of Working Capital expected for 2017-2018.<br>▪ Growth capex expected of 19-20 €m.<br>▪ NFD to be reduced in 2017. NFD/EBITDA target: 1.0-1.2x. | ▪ Working capital remained high as expected.<br>▪ Capex in new products (AVRIL and EMU): 2.2 €m.<br>▪ Leverage ratio at 2.0x pending to reflect forthcoming payments.<br>▪ Comfortable long term banking debt profile. | ▪ Strong improvement of Working Capital profile expected for 2017-2018.<br>▪ Capex expected of 12-15 €m.<br>▪ NFD to be reduced in FY2017 as manufacturing milestones are met in ongoing projects. NFD/Ebitda target: 1.0-1.2x. |
| **Dividend / Pay-out** | ▪ Commitment to remunerate shareholders in 1H2017.<br>▪ Start of a share buy back program(1). | ▪ Dividend programme implemented (Buy-back and Scrip Dividend) | ▪ Talgo remunerating commitment with shareholders expected to continue in following years. |

(1) In line with the Relevant Fact published by the Company on Thursday 23rd in CNMV

Source: Company information

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# Appendix 1. Profit & Loss

| Profit & Loss Account (€m) | 1H17 | 1H16 | 1H15 | % Change |
|---|---|---|---|---|
| **Total net turnover** | **215.1** | **299.3** | **214.0** | ***(28.1%)*** |
| Other income | 3.9 | 2.8 | 6.4 | *39.9%* |
| Procurement costs | (92.0) | (177.8) | (103.7) | *(48.2%)* |
| Personnel costs[1] | (51.6) | (47.2) | (50.8) | *9.4%* |
| Other operating expenses | (27.1) | (20.0) | (26.7) | *35.1%* |
| **EBITDA** | **48.2** | **57.1** | **39.2** | *(15.5%)* |
| *% Ebitda margin* | *22.4%* | *19.1%* | *18.3%* | |
| Other adjustments | 2.1 | 2.0 | 11.5 | *7.8%* |
| Long-term stock compensation plan | - | - | 3.2 | *n.a.* |
| **Adjusted EBITDA** | **50.4** | **59.0** | **53.9** | ***(14.7%)*** |
| *% Adj. Ebitda margin* | *23.4%* | *19.7%* | *25.2%* | |
| D&A (inc. depreciation provisions) | (10.2) | (9.8) | (9.0) | *3.6%* |
| **EBIT** | **38.1** | **47.2** | **30.2** | ***(19.4%)*** |
| *% Ebit margin* | *17.7%* | *15.8%* | *14.1%* | |
| Other adjustments | 2.1 | 2.0 | 11.5 | *7.8%* |
| Long-term stock compensation plan | - | - | 3.2 | *n.a.* |
| AVRIL Amortization | 5.6 | 4.0 | 4.0 | *41.8%* |
| **Adjusted EBIT** | **45.9** | **53.2** | **48.9** | ***(13.8%)*** |
| *% Adj. Ebit margin* | *21.3%* | *17.8%* | *22.9%* | |
| Net financial expenses | (4.6) | (3.3) | (2.3) | *41.8%* |
| **Profit before tax** | **33.4** | **44.0** | **27.9** | **(24.0%)** |
| Tax | (7.4) | (9.4) | (4.4) | *(21.1%)* |
| **Profit for the period** | **26.1** | **34.6** | **23.5** | ***(24.7%)*** |
| **Adjusted Profit for the period** | **31.9** | **39.1** | **37.0** | ***(18.4%)*** |

(1) Include personnel welfare expenses and social expenses.
**Source:** Company information

# Appendix 2. Balance Sheet

| Balance Sheet | June 2017 | Dec 2016 | June 2016 |
|---|---|---|---|
| **FIXED ASSETS** | **282.2** | **280.3** | **272.6** |
| Tangible + intangible assets | 117.2 | 117.4 | 122.7 |
| Goodwill | 112.4 | 112.4 | 112.4 |
| Other long term assets | 52.6 | 50.4 | 37.5 |
| **CURRENT ASSETS** | **535.1** | **482.6** | **486.8** |
| Inventories | 78.4 | 93.0 | 87.8 |
| Non- current assets held for sale | 0.0 | 6.1 | 6.1 |
| Accounts receivable | 385.9 | 341.7 | 382.9 |
| Other current assets | 2.9 | 2.9 | 3.7 |
| Cash & cash equivalents | 67.9 | 38.8 | 6.2 |
| **TOTAL ASSETS** | **817.3** | **762.8** | **759.4** |

| Balance Sheet | June 2017 | Dec 2016 | June 2016 |
|---|---|---|---|
| **SHAREHOLDERS EQUITY** | **306.5** | **293.8** | **265.4** |
| Capital Stock | 41.7 | 41.2 | 41.2 |
| Share premium | 7.9 | 68.5 | 68.5 |
| Consolidated reserves | 2.8 | 4.9 | 3.7 |
| Retained earnings | 264.1 | 179.2 | 152.0 |
| Other equity instruments | -10.0 | 0.0 | 0.0 |
| **NON-CURRENT LIABILITIES:** | **314.0** | **265.1** | **172.2** |
| Debt with credit institutions | 257.0 | 207.4 | 113.5 |
| Provisions | 27.9 | 28.1 | 26.4 |
| Other financial liabilities | 19.8 | 19.8 | 23.2 |
| Other long-term debts | 9.4 | 9.7 | 9.1 |
| **CURRENT LIABILITIES:** | **196.8** | **203.9** | **321.8** |
| Accounts payable | 166.7 | 174.0 | 211.4 |
| Debt with credit institutions | 22.4 | 22.4 | 104.1 |
| Other financial liabilities | 3.0 | 3.0 | 2.6 |
| Provisions for other liabilities and other | 4.7 | 4.5 | 3.8 |
| **TOTAL S. EQUITY + LIABILITIES** | **817.3** | **762.8** | **759.4** |

**Source:** Company information

# Appendix 3. Cash Flow Statement

| Cash flow statement | 1H17 | 1H16 | 1H15 | % Change |
|---|---|---|---|---|
| *€ million* | | | | |
| Net income | 26.1 | 34.6 | 23.5 | *(24.7%)* |
| Corporate income tax | 7.4 | 9.4 | 4.4 | *(21.1%)* |
| Depreciation & Amortization | 10.5 | 9.4 | 9.0 | *11.8%* |
| Financial income/Financial expenses | 4.2 | 3.6 | 2.6 | *19.4%* |
| Other result adjustments | (2.4) | 0.7 | 7.3 | *(435.7%)* |
| Changes in working capital | (41.8) | (135.6) | (113.7) | *(69.2%)* |
| **Operating cashflows after changes in WC** | **3.9** | **(78.0)** | **(66.9)** | ***(105.0%)*** |
| Net interest expenses | (3.9) | (3.1) | (2.1) | *24.3%* |
| Provision and pension payments | 0.0 | 0.0 | 0.0 | *n.a.* |
| Income tax paid | (4.2) | (2.2) | (2.3) | *89.3%* |
| Other collection and payments | 0.0 | 0.0 | 0.0 | *n.a.* |
| **Net cash flows from operating activities** | **(4.2)** | **(83.3)** | **(71.3)** | ***(95.0%)*** |
| **Investments** | **(4.2)** | **(3.9)** | **(5.9)** | ***6.2%*** |
| Changes in financial assets and liablities | 48.7 | 71.7 | 137.0 | *(32.1%)* |
| Purchase of non-controlling interests | (10.0) | 0.0 | (23.0) | *n.a.* |
| Dividends payments | (1.3) | 0.0 | (107.4) | *n.a.* |
| **Net cash flows from financing activities** | **37.4** | **71.7** | **6.6** | ***(47.8%)*** |
| **Net variation in cash & cash eq.** | **29.1** | **(15.6)** | **(70.7)** | ***(286.4%)*** |

**Source:** Company information

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