

*Talgo*



# Talgo 2018 1Q Results

May 11<sup>th</sup>, 2018

# Table of content

---

**1. First Quarter 2018 in review (Jose María de Oriol, CEO)**

2. Financial Highlights (Eduardo Fernández-Gorostiaga, CFO)

3. Outlook 2018 update (Jose María de Oriol, CEO)

*APPENDIX*



# Successful backlog execution with normal manufacturing pace and seasonal margins expected to be recovered by year-end

## Revenues

- **Net Revenues reached 85.2 €m in 1Q2018**, similar level of last two quarters<sup>(1)</sup> which reflects the current manufacturing stage of the main manufacturing contracts under execution.
- **Successful maintenance services** to provide business stability and long term revenue visibility.

## Profitability

- **Adjusted EBITDA and adjusted EBIT reached 15.8 €m and 13.5 €m**, respectively, delivering margins slightly below previous quarters (18.5% and 15.8%, respectively), although **guidance for FY2018 (20% Adjusted EBITDA margin) will remain unchanged**.

## Net profit

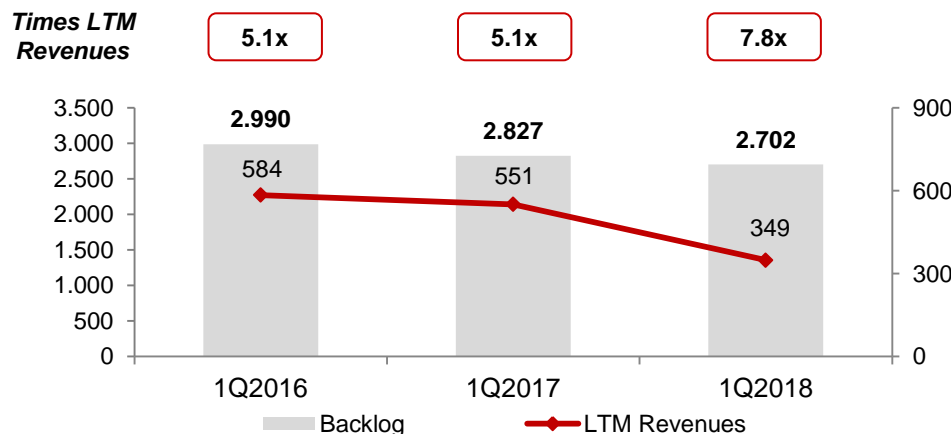
- **Adjusted Net Profit reached 8.0 €m** in the period (9.4% ROS) which reflects higher financial costs mainly driven by higher project bonds disposed related to current manufacturing projects.

## Working Capital

- **Working Capital and NFD evolved** throughout the quarter in line with company expectations.

## Backlog – Revenues (€m)<sup>(2)</sup>

## 7.8x Backlog / Sales



- **Backlog at 7.8x LTM Revenues**, showing high potential for future revenue growth.
- Considering the LTM Revenues average of the periods 1Q2016-1Q2018, the **ratio would still remain at high levels (5.5x)**.
- Main manufacturing projects being successfully executed:
  - ✓ **Spain VHS**, currently in designing & engineering phase.
  - ✓ **Mecca-Medina**, expected to continue providing net cash-in during 2018.

(2) Does not include contract awards pending to be signed.

(1) 84,3 €m and 85.0 €m in 3Q2017 and 4Q2017, respectively.

# Strong order book on the back of an increased commercial activity

## Commercial delivery in the first stage of the year...

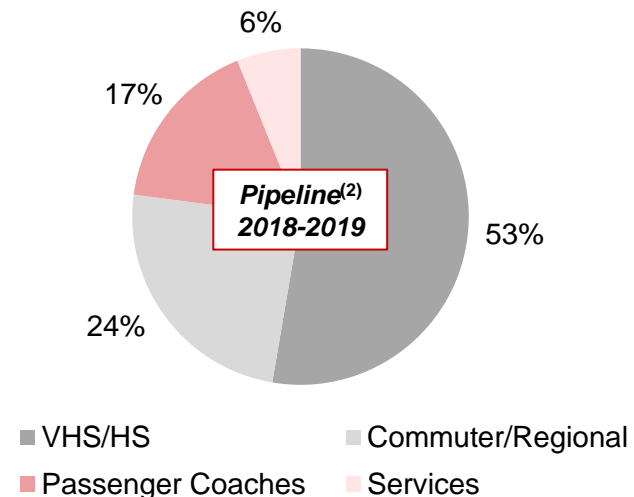
**1.3x Book to Bill ratio<sup>(1)</sup>**

- Talgo was awarded in **1Q2018** with a project for the conversion of up to **156 Talgo overnight coaches** into very-high speed trains, for a total **value amounting 107 €m**. The project includes an option for additional 72 coaches, driving the project total value up to 151 €m.
- New orders would result in **1.3x Book to bill ratio<sup>(1)</sup>**. Considering the total maximum scope of the project for the conversion of the Spanish overnight coaches into VHS trains, such ratio would increase to 1.8x.

**8.6 €b of Pipeline<sup>(2)</sup>**

**... on the back of a proactive commercial activity**

- Talgo is currently working on several opportunities expected to be awarded throughout the **period 2018-2019 with a total value amounting 8.6 €b**.
- VHS and Commuter/Regional opportunities lead the pipeline** mainly driven by identified tenders in Europe, and followed by Asia and MENA.
- UK and Spain represents 45% of the total current pipeline** with the HS2 project in UK and several commuter and high speed opportunities in Spain.



(1) Project value will be added to backlog at signing, expected for 2018. Therefore this ratio should be considered as subject to contract signing.

(2) Amounts are approximate based on available information. Maintenance consideration included subject to availability.

Source: Company information

# Table of content

---

1. First Quarter 2018 in review (Jose María de Oriol, CEO)
- 2. Financial Highlights (Eduardo Fernández-Gorostiaga, CFO)**
3. Outlook 2018 update (Jose María de Oriol, CEO)

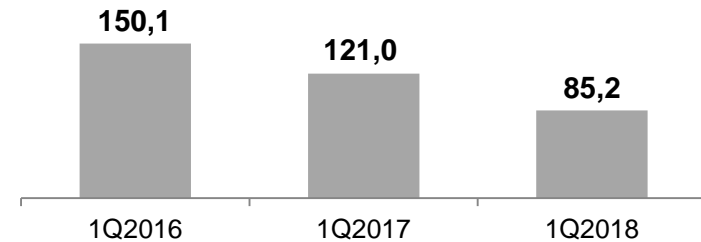
*APPENDIX*



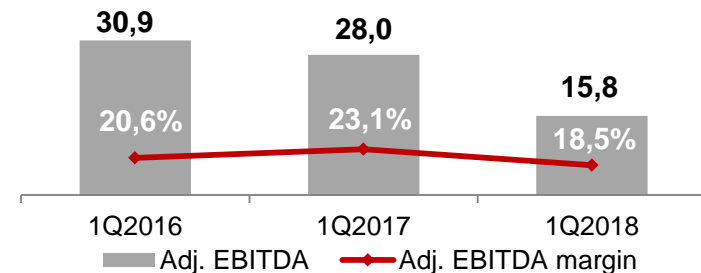
# Revenues in line with pace of current manufacturing projects while margins are expected to recover throughout the year

- Revenues reached 85.2 €m. in 1Q2018.
- **Backlog execution** reflects a normal cycle of the main manufacturing projects with lower revenue recognition.
- Such revenues are in line with previous quarters and expected to rump up by the end of 2018.
- **Maintenance services on track**, providing a solid revenue base and stability in terms of recurrence and cash generation.
- **Adjusted EBITDA<sup>(1)</sup> of 15.8 €m in 1Q2018 with margins of the period at 18.5%.**
- **Backlog successfully executed in the period**, although higher seasonal direct costs, together with the mix of projects and a temporary lower manufacturing workload resulted on less margins recognised.
- However, this **costs are expected to be offset** resulting on margins recovered by year-end.
- **Adjusted Net profit reached 8.0 €m in 1Q2018 resulting on ROS of 9.4%**, lower than previous year due to lower revenues recognition and higher volume of project bonds disposed temporarily.
- This higher financial expenses are expected to decrease as main projects are being delivered and their corresponding bonds are cancelled.

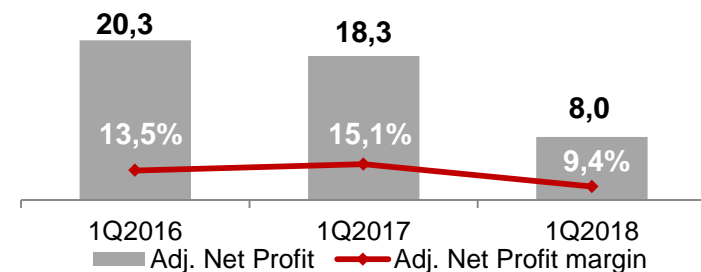
Revenues (€m)



Adj. EBITDA<sup>(1)</sup> (€m) and Adj. EBITDA margin (%)



Adj. Profit (€m) and Adj. Profit margin (%)



(1) Adjustments to EBITDA includes one-off items, mainly layoff compensations and bank guarantee fees

# Table of content

---

1. First Quarter 2018 in review (Jose María de Oriol, CEO)
2. Financial Highlights (Eduardo Fernández-Gorostiaga, CFO)
- 3. Outlook 2018 update (Jose María de Oriol, CEO)**

*APPENDIX*



# Summary and Outlook

	<u>Outlook at feb-2017</u>	<u>Performance 1Q 2018</u>	<u>Outlook update FY2018</u>
<b>Business performance</b>	<ul style="list-style-type: none"> <li>Manufacturing: Revenues to reflect scheduled pace of ongoing projects.</li> <li>Maintenance: to continue as a stable and solid base of revenues contributor.</li> <li>Order book: Company target &gt;1.3 Book to Bill (2 years average starting from 2018) to ensure company growth.</li> </ul>	<ul style="list-style-type: none"> <li>Backlog execution and revenue recognition reflecting the current normal manufacturing cycle of ongoing projects.</li> <li>Maintenance services on track with high reliability ratios required.</li> <li>&gt;100 €m of new orders in 1Q2018 still pending to be signed</li> </ul>	<ul style="list-style-type: none"> <li><b>Revenues</b> expected to <b>reflect scheduled manufacturing pace</b> of ongoing projects.</li> <li><b>Stability and recurrence</b> on maintenance projects.</li> <li><b>Strong commercial activity</b> to increase order book in short-medium term. Company target &gt;1.3 Book to Bill (2 years average)</li> </ul>
<b>Profitability</b>	<ul style="list-style-type: none"> <li>Profitability: Adjusted EBITDA margin at 20% for FY2018.</li> </ul>	<ul style="list-style-type: none"> <li>Slightly lower EBITDA margins registered in the period (18.5%).</li> </ul>	<ul style="list-style-type: none"> <li>Profitability: <b>EBITDA target is maintained at 20% for FY2018.</b></li> </ul>
<b>Cash Flow and Capital Structure</b>	<ul style="list-style-type: none"> <li>Working Capital recovery to continue in 2018.</li> <li>Capex of c. 20 €m.</li> <li>Company deleverage by FY2018 – Net cash position.</li> </ul>	<ul style="list-style-type: none"> <li>Working Capital evolved as expected in the period.</li> <li>High cash available to support potential opportunities that require strong balance sheet.</li> </ul>	<ul style="list-style-type: none"> <li><b>Working Capital in FY2018</b> reflecting delivery process of current manufacturing projects.</li> <li>Maintain <b>leverage guidance:</b> Net cash position.</li> </ul>



## Table of content

---

1. First Quarter 2018 in review (Jose María de Oriol, CEO)
2. Financial Highlights (Eduardo Fernández-Gorostiaga, CFO)
3. Outlook 2018 update (Jose María de Oriol, CEO)

### *APPENDIX*



## Appendix 1. Profit & Loss - QoQ

Profit & Loss Account (€m)	1Q18	1Q17	1Q16	% Change 1Q18-1Q17
<b>Total net turnover</b>	<b>85,2</b>	<b>121,0</b>	<b>150,1</b>	<b>(29,6%)</b>
Other income	0,5	1,2	1,8	(59,4%)
Procurement costs	(31,4)	(56,1)	(84,7)	(44,0%)
Employee welfare expenses	(27,8)	(25,3)	(23,4)	9,9%
Other operating expenses	(13,0)	(13,6)	(13,7)	(4,8%)
<b>EBITDA</b>	<b>13,5</b>	<b>27,1</b>	<b>30,1</b>	<b>(50,2%)</b>
% Ebitda margin	15,8%	22,4%	20,1%	
Other adjustments	2,3	0,8	0,8	174,6%
<b>Adjusted EBITDA</b>	<b>15,8</b>	<b>28,0</b>	<b>30,9</b>	<b>(43,5%)</b>
% Adj. Ebitda margin	18,5%	23,1%	20,6%	
D&A (inc. depreciation provisions)	(5,2)	(5,0)	(5,2)	2,6%
<b>EBIT</b>	<b>8,3</b>	<b>22,1</b>	<b>25,0</b>	<b>(62,3%)</b>
% Ebit margin	9,8%	18,3%	16,6%	
Other adjustments	2,3	0,8	0,8	174,6%
AVRIL Amortization	2,8	2,8	2,0	-
<b>Adjusted EBIT</b>	<b>13,5</b>	<b>25,8</b>	<b>27,8</b>	<b>(47,7%)</b>
% Adj. Ebit margin	15,8%	21,3%	18,5%	
Net financial expenses	(2,4)	(2,2)	(1,8)	11,2%
<b>Profit before tax</b>	<b>5,9</b>	<b>19,9</b>	<b>23,2</b>	<b>(70,3%)</b>
Tax	(1,8)	(4,3)	(4,9)	(59,0%)
<b>Profit for the period</b>	<b>4,2</b>	<b>15,6</b>	<b>18,3</b>	<b>(73,4%)</b>
<b>Adjusted Profit for the period</b>	<b>8,0</b>	<b>18,3</b>	<b>20,3</b>	<b>(56,2%)</b>

# Disclaimer

---

This presentation has been prepared and issued by Talgo, S.A. (the “Company”) for the sole purpose expressed therein. Therefore, neither this presentation nor any of the information contained herein constitutes an offer sale or exchange of securities, invitation to purchase or sale shares of the Company or its subsidiaries or any advice or recommendation with respect to such securities.

The content of this presentation is purely for information purposes and the statements it contains may reflect certain forward-looking statements, expectations and forecasts about the Company and/or its subsidiaries at the time of its elaboration. These expectations and forecasts are not in themselves guarantees of future performance as they are subject to risks, uncertainties and other important factors beyond the control of the Company and/or its subsidiaries that could result in final results materially differing from those contained in these statements.

This document contains information that has not been audited. In this sense, this information is subject to, and must be read in conjunction with, all other publicly available information.

This disclaimer should be taken into consideration by all the individuals or entities to whom this document is targeted and by those who consider that they have to make decisions or issue opinions related to securities issued by the Company.

In general, neither the Company or any of its subsidiaries, nor their directors, representatives, associates, subsidiaries, managers, partners, employees or advisors accept any responsibility for this information, the accuracy of the estimations contained herein or unauthorized use of the same. The Company expressly declare that is not obligated to updated or revise such information and/or estimations.