Talgo 2019 1Q Results

May 14th, 2019

Table of content

Successful backlog execution and backlog reloaded with high quality projects to support future business sustainable growth

Revenues

- **Net Revenues reached 87.1 €m in 1Q2019** at similar level of previous quarter, close to enter into stronger cost recognition manufacturing phases of main projects to enhance revenues in the year.
- **Maintenance services business line providing revenues growth** driven by increasing Saudi maintenance activity, and supported by **overhaul and maintenance equipment** services.

Profitability

- **Successful projects management and execution reflected in margins delivery,** with **Adjusted EBITDA and Adjusted EBIT amounting 15.9 €m and 12.9 €m**, respectively in the first quarter (margins at 18.3% and 14.9%, respectively).

Net profit

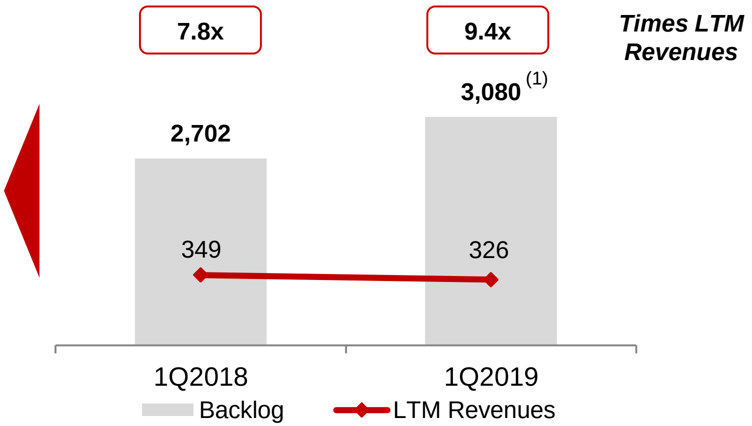
- **Adjusted Net Profit reached 7.5 €m, 20% higher than same period in 2018,** mainly due to less D&A and slightly lower financial costs registered.

Capital Structure

- **No significant variations registered on Working Capital throughout the period,** thus performing in line with Company expectations.
- **Successful buy-back programme execution**, with 4.6 million shares (26 €m) acquired as of 1Q2019.

Strengthened backlog supported by recent awarded high quality manufacturing projects (€m)

- LTM Revenues evolved in line with manufacturing projects pace, while new awards strengthened the backlog to provide business an revenues sustainable growth and development.
- Main **manufacturing projects are being successfully executed**:
  - ✓ **Spain VHS**, going towards stronger manufacturing activity, mainly from 2019 onwards.
  - ✓ **Deutsche Bahn project in initial engineering phase**.
  - ✓ **Overhaul projects**, mainly spanish night trains and LACMTA project on the right path of execution.



(1) Does not include value of projects awarded not signed, which would amount additional 317 €m.
Source: Company information

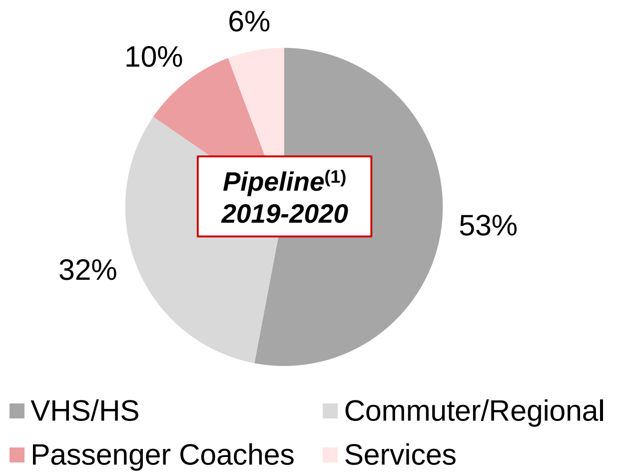
Company diversification well placed strategy together with commercial strengthened activity start to deliver outstanding results

Order intake headed to overcome final year guidance (1.3x 2018-2019 Book-to-bill ratio)

- **New orders amounted 550 €m in 1Q2019**, mainly represented by Deutsche Bahn Project signed in February 2019, comprising the **manufacturing of 23 Talgo trains**.
- In addition, Talgo has recently registered additional awards:
  - ✓ Award from ENR (Egyptian National Railways) with a project to **manufacture 6 Talgo trains and their maintenance for 8 years with a total value amounting 158 €m.**
  - ✓ Award from SCRRA (Southern California Regional Rail Authority) to the Talgo-SYSTRA joint venture with **contract to rebuild up to 121 rail vehicles for 138.9 million dollars.**
- Last but not least, Talgo has submitted additional offers in the period and is currently working on several projects aimed to both, **consolidate the company international leadership in the VHS segment and to entry on new segments (i.e. commuter and regional trains).**

Commercial activity focused on selected high-quality projects amounting 6.7 €b

- Talgo is currently working on over 20 commercial opportunities expected to be awarded in the short and medium term **with a total value amounting 6.7 €b.**
- **VHS leads the pipeline** in terms of value driven by the HS2 project in UK, followed by **Commuter/Regional identified opportunities** mainly in Europe and MENA, with outstanding focus on ongoing tenders in Spain.
- In addition to the active pipeline, the company actively monitors over 45 longer term opportunities with an expected value amounting c. 12 €b.



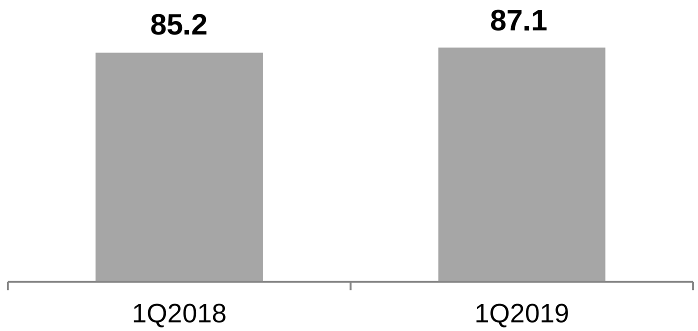
(1) Importes aproximados basados en información disponible. La actividad de mantenimiento se incluye según su disponibilidad.

Fuente: Compañía

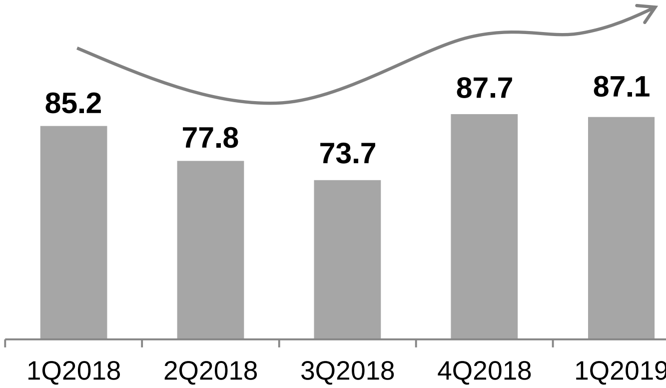
Table of content

Revenues growth expectations throughout the following months on the back of the manufacturing projects schedule

Revenues QoQ (€m)



Revenues evolution (€m)

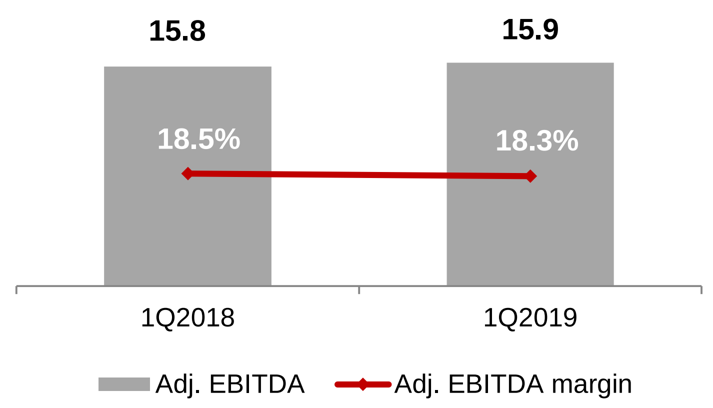


- **Revenues reached 87.1 €m in 1Q2019** to similar levels than previous quarter and same period of 2018, on the back of:
  - ✓ the first phases of main manufacturing projects lead by Spanish VHS contract…
  - ✓ … and a solid recurrent but also growing maintenance revenue base, with the increasing impact of Mecca-Medina project.
- On a quarterly basis, revenues registered in 4Q2018 already reflected the industrial activity switch from Mecca-Medina project to Spain VHS project, process continued during 1Q2019. However, **ongoing projects higher progress and new projects entering into execution are expected to enhance revenues throughout the following months** in line with the expected project schedule.
- In addition, **overhaul projects** lead by the Renfe night trains conversion and LACMTA project **also contributed with increasing revenues in the first months of the year**.

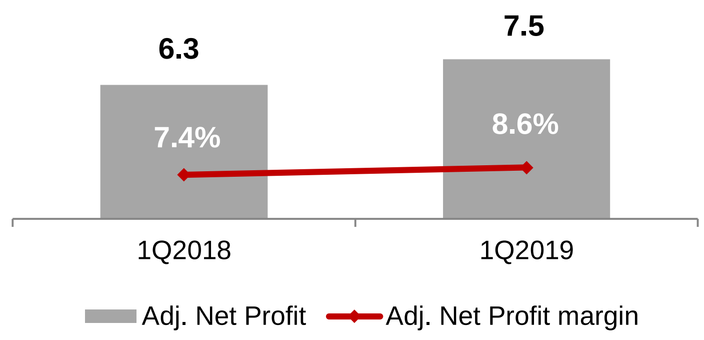
Source: Company information

Successful projects execution in the period resulted on a solid EBITDA margin

Adjusted EBITDA[1] (€m) and margin (%)



Adjusted Profit (€m) and margin (%)



- **Adjusted EBITDA[1] amounted 15.9 €m in 1Q2019 with 18.3% margin**, slightly below previous quarter (17.0 €m and 19.3% margin in 4Q2018) and similar to same period of 2018 (15.8 €m and 18.5% margin in 1Q2018), as a result of:
  - ✓ High quality projects under execution both in manufacturing and maintenance business lines **ensuring high and sustainable operating margins.**
  - ✓ **Successful operational performance of maintained fleet**, together with an **efficient maintenance management** and continuous developments aimed to optimize the maintenance processes.
- **Adjusted net profit reached 7.5 €m and 8.6% margin in 1Q2019, substantially above the number achieved in the same period of 2018 (6.3 €m and 7.4% margin)** mainly due to less Depreciation & Amortization cost registered (Avril project was fully amortized in 4Q2018), and slightly lower financial expenses driven by the recent long term debt refinancing aimed to increase maturity and reduce the company long term debt interest rates.

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

Source: Company information

Table of content

Summary and Outlook

	Outlook at Feb-2019	Outlook update FY2019
Business performance	▪ Strong double digit revenue increases expected for the year, reflecting manufacturing ramp-up of ongoing projects. ▪ Maintenance: acting as a stable and solid base of revenues contributor. ▪ Order book: Company target >1.3 Book to Bill is maintained (2 years average 2018-2019).	▪ **Strong double digit growth expectations for FY2019.** ▪ **Maintenance successful performance expected for the year in all projects.** ▪ Growth efforts to enhance overhaul activity and maintenance equipment sales. ▪ **Commercial activity** to increase order book. Company target >1.3 Book-to-bill (2 years average) is maintained.
Profitability	▪ Profitability: Adjusted EBITDA margin at c. 18% for FY2019.	▪ Profitability: **Adjusted EBITDA margin target is maintained at 18% for FY2019.**
Cash Flow and Capital Structure	▪ Neutral Cash flow performance expected for 2019. ▪ Slight increase of net cash position in 2019. ▪ Capex of c. 20 €m.	▪ Guidance given related to cash flow performance is maintained for FY2019: No significant changes with a **slightly increase in net cash position**. ▪ Capex of c. 20 €m.
Shareholders Remuneration	▪ Continue share buy-back programme execution throughout 2019 (c. 15% executed as of February 2019).	▪ Company commitment to continue its Share buy-back programme execution in 2019.

Table of content

Appendix 1. Profit & Loss

Profit & Loss Account (€m)	1Q19	1Q18	% Change
Total net turnover	**87,1**	**85,2**	***2,2%***
Other income	1,4	0,5	*193,5%*
Procurement costs	(28,1)	(31,4)	*(10,5%)*
Employee welfare expenses	(28,7)	(27,8)	*3,3%*
Other operating expenses	(17,3)	(13,0)	*33,7%*
EBITDA	**14,3**	**13,5**	*5,9%*
% Ebitda margin	*16,4%*	*15,8%*	
Other adjustments	1,6	2,3	*(29,7%)*
Adjusted EBITDA	**15,9**	**15,8**	***0,7%***
% Adj. Ebitda margin	*18,3%*	*18,5%*	
D&A (inc. depreciation provisions)	(3,5)	(5,2)	*(31,4%)*
EBIT	**10,8**	**8,3**	***29,0%***
% Ebit margin	*12,3%*	*9,8%*	
Other adjustments	1,6	2,3	*(29,7%)*
AVRIL/ViTtal Amortization	0,6	2,8	*(80,2%)*
Adjusted EBIT	**12,9**	**13,5**	***(4,0%)***
% Adj. Ebit margin	*14,9%*	*15,8%*	
Net financial expenses	(2,0)	(2,4)	*(18,6%)*
Profit before tax	**8,8**	**5,9**	**48,5%**
Tax	(1,7)	(1,8)	*(3,2%)*
Profit for the period	**7,1**	**4,2**	***70,4%***
Adjusted Profit for the period	**7,5**	**6,3**	***19,6%***

Source: Company information