

# 1H 2020 RESULTS

July 31, 2020

**FINCANTIERI**  
The sea ahead



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## Declaration of the Manager responsible for preparing financial reports

Pursuant to art. 154-BIS, par. 2, of the Unified Financial Act of February 24, 1998, the executive in charge of preparing the corporate accounting documents at Fincantieri, Felice Bonavolontà, declares that the accounting information contained herein correspond to document results, books and accounting records.



# 1H 2020 Key Messages

## No order cancellation and record-high total backlog up to almost €38 bln

### COVID-19 update

- **No cancelled orders thanks to effective backlog preservation strategy**
- **Slowdown of the production schedule and postponement of deliveries** has impacted revenues (-15.6% YoY)
- **3 cruise ships** scheduled for delivery from Italian shipyards in **2H 2020**
- **Production activities gradually resumed** in all the Italian shipyards starting from **April 20<sup>th</sup>, 2020**
- As of June 30<sup>th</sup>, **90% of production staff safely back at work**

### Business update

- **10 ships delivered from 7 shipyards**, among which 3 cruise ships, 1 fishery and 1 naval vessel
- **Ongoing diversification strategy:**
  - in infrastructures, electronics, and cyber security, as well as complete accommodation in the cruise segment, contributing to revenue growth in the ESS (1H 2020 revenues +5.7%)
  - new orders acquired in the renewable energy sector (1 Service Operation Vessel), 2 fishing vessels, 1 order and 1 agreement for the Port of Rapallo and the «Renato Dall'Ara» Stadium respectively
- **Total backlog<sup>(1)</sup> with 117 units at €37.9 bln:** backlog at ~ €28 bln and soft backlog<sup>(2)</sup> €9.9 bln

### Financials

- **Revenues at €2,369 mln** (down 15.6% vs 1H 2019<sup>(3)</sup>): €790 mln shortfall in revenues due to production downtime
- **EBITDA at €119 mln** (€227 mln in 1H 2019<sup>(3)</sup>) **and EBITDA margin at 5.0%** (8.1% in 1H 2019): shortfall in EBITDA contribution of €65 mln
- Adjusted net result €(29) mln and net result €(137) mln, with COVID-19 related extra-ordinary costs of €114 mln
- **Net debt<sup>(4)</sup> at €980 mln** mainly due to the postponed delivery of one cruise vessel to 2H

(1) Sum of backlog and soft backlog

(2) Soft backlog represents the value of existing contract options and letters of intent as well as contracts in advanced negotiation, none of which yet reflected in the order backlog

(3) Restated following the disposal of small fishery and aquaculture support vessels business and the closure of the Aukra yard, as well as the reallocation of VARD Electro from the Offshore and Specialized Vessels segment to the Shipbuilding

(4) Excluding Construction loans

# Key Messages

## Continuing focus on strategic developments

### FFG(X) program

- **FMM prime contractor within the FFG(X) program:** awarded a nearly **\$800 mln** contract for the design and construction of the first-in-class guided missile frigate for the US Navy. The contract also includes **options for 9 additional units**, thus bringing the contract cumulative value to **\$5.5 bn**

### Genoa bridge

- **On April 28<sup>th</sup> the last steel span of the bridge was raised, completing the structure** in one year from the steel-cutting ceremony held on March 11, 2019
- Opening ceremony scheduled on August 3<sup>rd</sup>

### JV Naviris

- **Naviris signed its first contract with OCCAR:** an R&T program involving 5 different projects with the goal of enhancing the performance of Fincantieri's and Naval Group's vessels

### Sustainability

- Obtained the **B-rating within the CDP<sup>(1)</sup> Climate Change Programme** for the fight against climate change. **First** in the Mechanical Components & Equipment sector within the **Vigeo Eiris** ranking
- Update of the **2018-2022 Sustainability Plan**
- Extended the **agreement with Eni** within the **circular economy** and **decarbonisation**

(1) Carbon Disclosure Project is a British organization whose goal is to improve the management of environmental risks. In 2019, Fincantieri obtained the B rating on a scale ranging from D (minimum) to A (maximum)



## 1H 2020 main orders

Segment	Vessel	Client	# of ships	Expected Delivery
Shipbuilding	FFG(X) first-in-class frigate	US Navy	1	2026
Offshore & Specialized Vessels	Fishing vessel	Framherij	1	2022
	Fishing	Nergard Havfiske	1	2022
	Service operation vessel	Ta San Shang Marine	1	2022

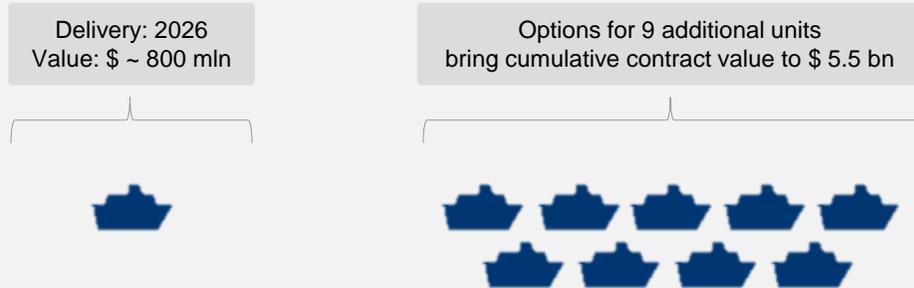
## 1H 2020 main deliveries

Segment	Vessel	Client	Shipyard
Shipbuilding	Cruise ship “Seven Seas Splendor”	Regent Seven Seas Cruises	Ancona
	Cruise ship “Scarlet Lady”	Virgin Cruises	Genova
	Littoral Combat Ship “St. Louis” (LCS 19)	US Navy	Marinette
	Expedition cruise vessel “Le Bellot”	Ponant	Vard Soviknes
Offshore & Specialized Vessels	Fishing vessel	Finnmark Havfiske	Vard Soviknes
	Fishing vessel	Nergard Havfiske	Vard Brattvaag
	OSCV	Island Offshore XII Ship	Vard Langsten
	Ferry	Boreal Sjø	Vard Langsten
	Aqua	Remøybuen	Vard Langsten
Ferry	Boreal Sjø	Vard Langsten	

# FFG(X) Program

## Design and construction of the first-in-class guided missile frigate for the US Navy

### Overview



Artist's rendering of F/MM design

- In 2018, FMM was awarded a \$15 mln contract for the study of a **customized version of its FREMM project**
- On April 30, 2020, FMM was awarded a \$ ~ 800 million contract for the design and construction of **the first-in-class guided missile frigate of the "FFG(X)" program**<sup>(1)</sup>
- **Options for 9 additional units**<sup>(2)</sup> to be awarded bring the cumulative contract value to \$ 5.5 bn

Source: Congressional Research Service. Navy Frigate (FFG[X]) Program: Background and Issues for Congress. Updated June 26, 2020

(1) The FFG(X) program is a Navy program to build a class of 20 guided-missile frigates (FFGs)

(2) The contract also involves post-delivery availability support and crew training



# Overview of 1H 2020 main deliveries



*Seven Seas Splendor (Regent)*



*Scarlet Lady (Virgin Voyages)*



*Le Bellot (Ponant)*



*LCS 19 "St. Louis" (US Navy)*



*Ferry (Boreal Sjø)*

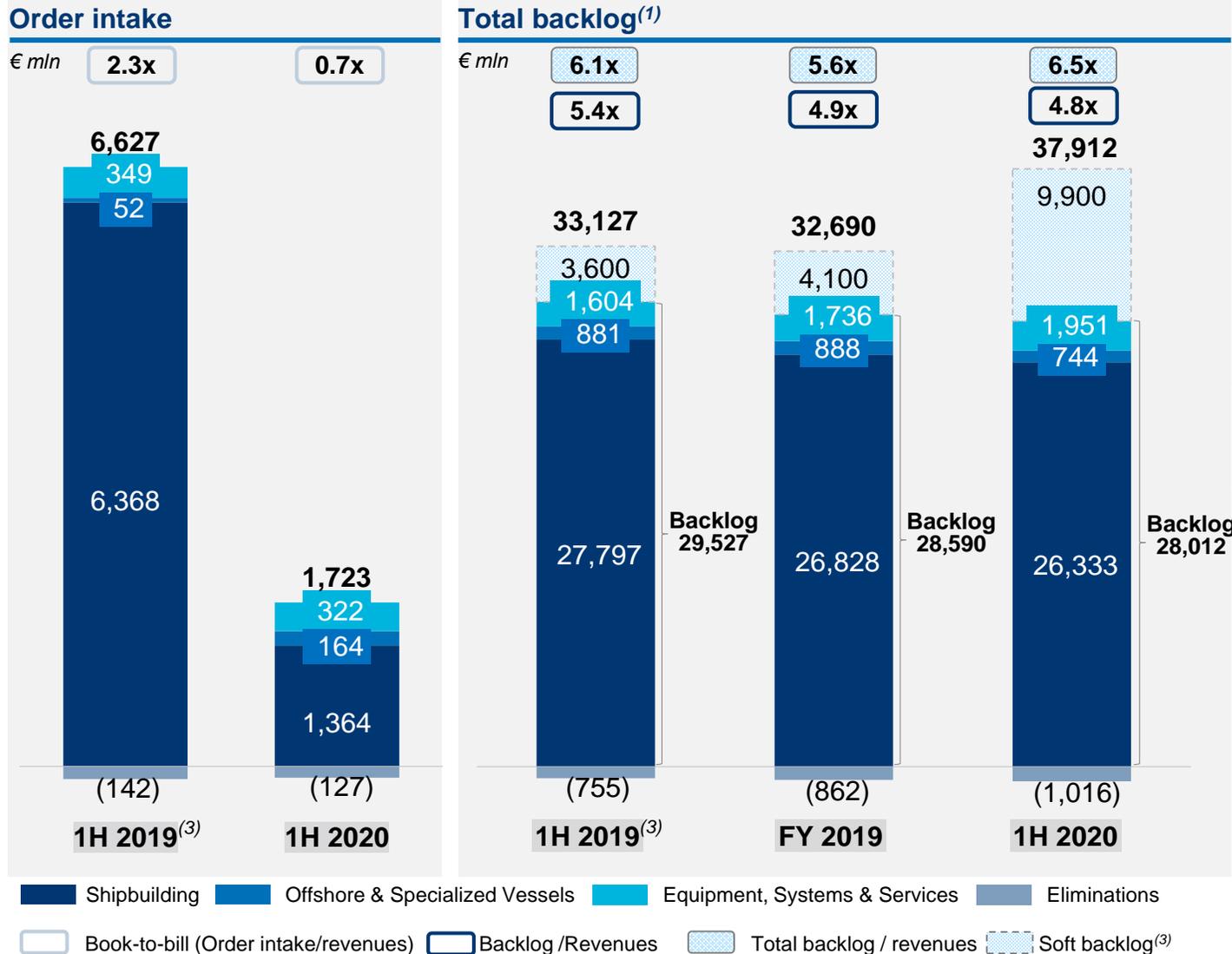


*Island Victory (Island Offshore)*

Delivered in 1H

# Order intake and backlog

## Breakdown by segment



- Order intake at € 1.7 bln
- Total backlog with 117 units at € 37.9 bln, approximately 6.5 times 2019 revenues

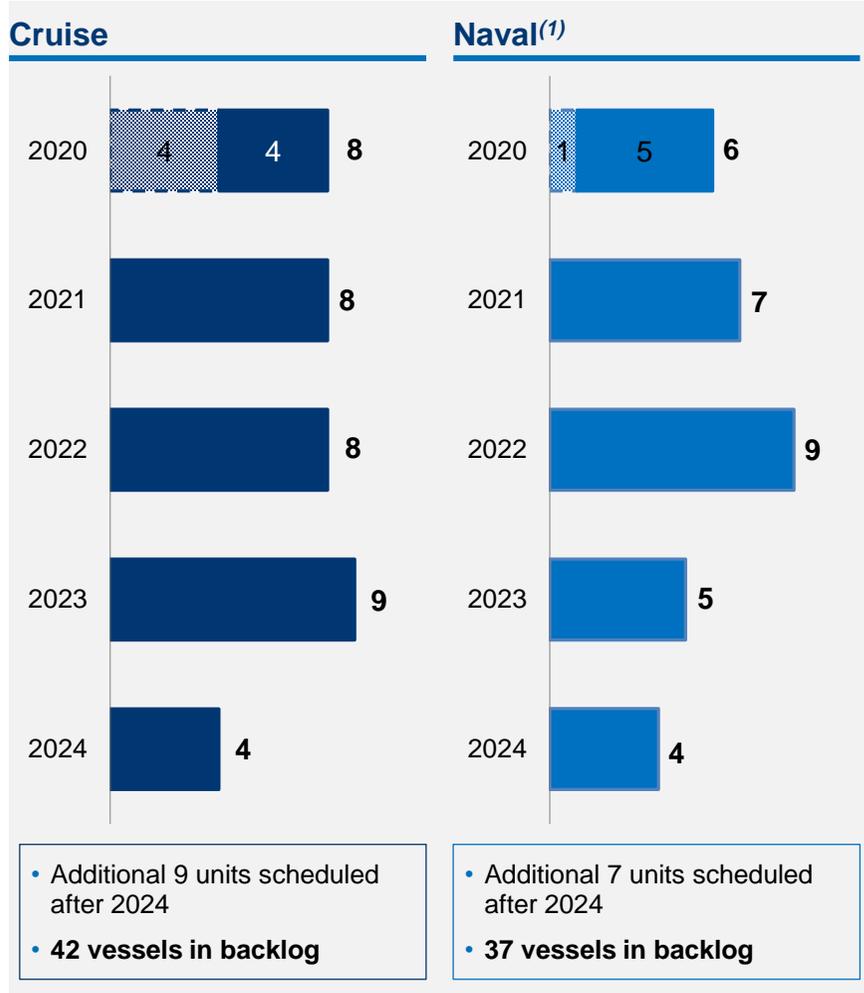
(1) Sum of backlog and soft backlog  
 (2) Soft backlog represents the value of existing contract options and letters of intent as well as contracts in advanced negotiation, none of which yet reflected in the order backlog  
 (3) Restated following the reallocation of VARD Electro from the Offshore and Specialized Vessels segment to the Shipbuilding

# Backlog deployment

## Breakdown by segment and end market

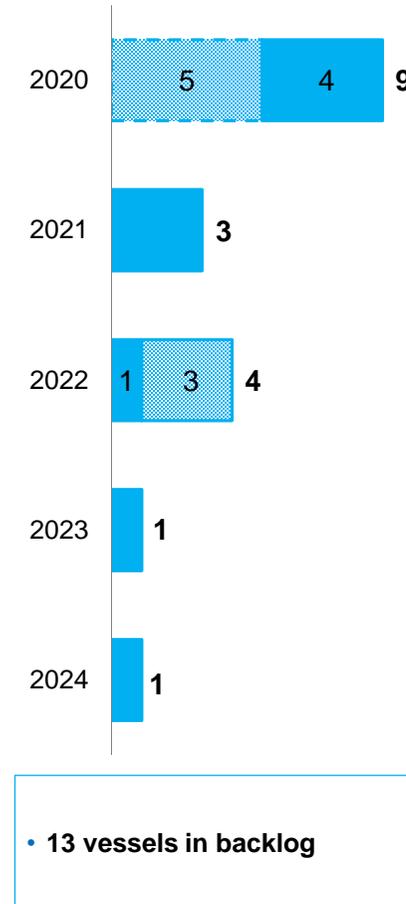
### Shipbuilding

# ship deliveries



### Offshore & Specialized Vessels

# ship deliveries



- **10 units delivered in 1H 2020 and 92 ships in backlog**
- Cruise: 42 vessels
  - Deliveries up to 2027
  - 9 units scheduled after 2024
- Naval: 37 vessels
  - Deliveries up to 2027
  - 7 units scheduled after 2024
- Offshore & Specialized Vessels<sup>(2)</sup>: 13 vessels
  - Deliveries up to 2024

(1) Articulated Tug Barge (ATB) is an articulated unit consisting of a barge and a tug, thus being counted as two vessels in one unit

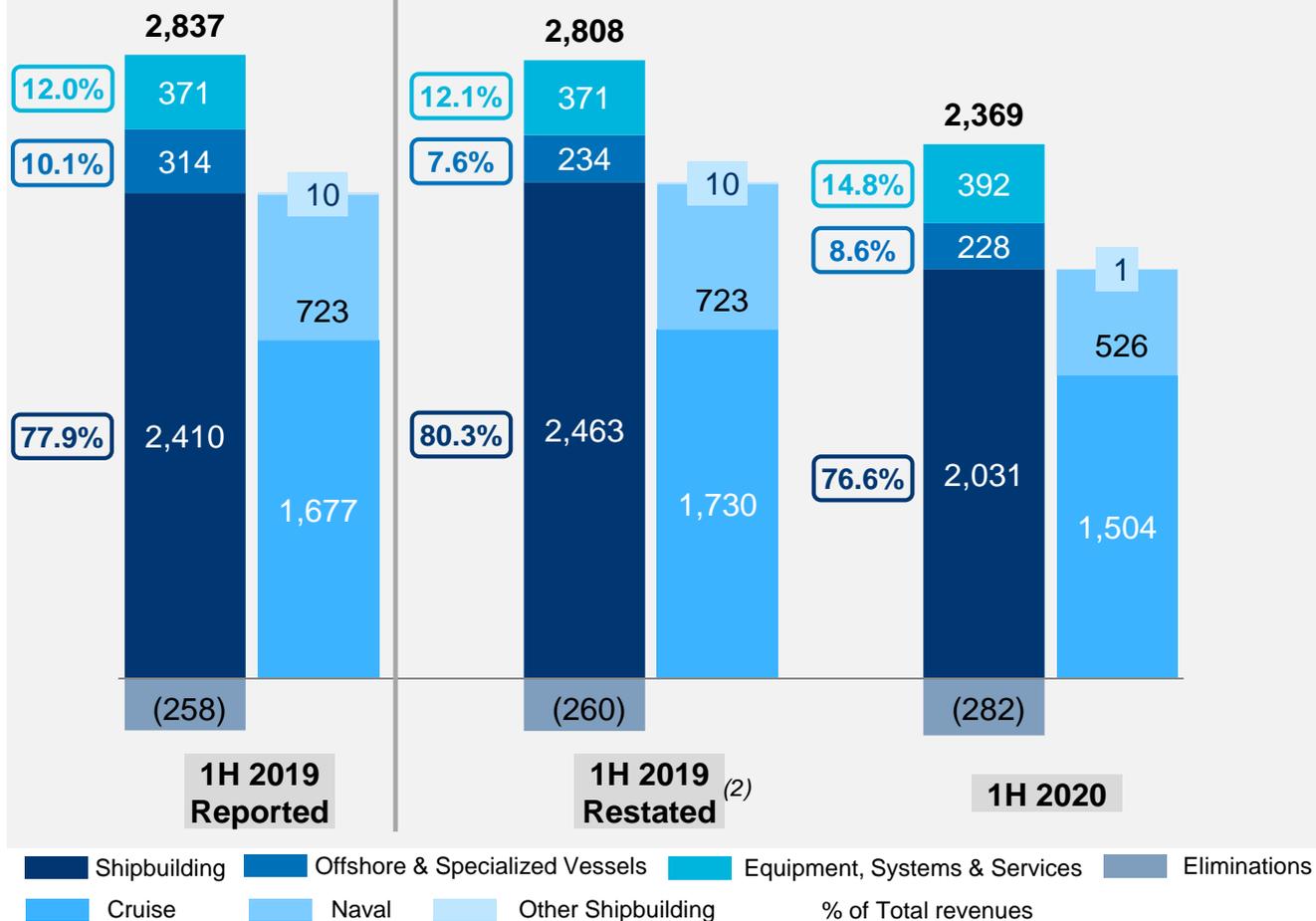
(2) Offshore & Specialized Vessels business generally has shorter production times and, as a consequence, shorter backlog and quicker order turnaround than Cruise and Naval



# Revenues

## Revenues breakdown by segment<sup>(1)</sup>

€ mln



- Revenues down 15.6% YoY, with an estimated **shortfall of €790 mln due to the production downtime**
  - Shipbuilding revenues down 17.5% vs 1H 2019 (Cruise revenues down 13.1% and Naval revenues down 27.3%)
  - Offshore & Specialized Vessels revenues down 2.6% vs 1H 2019
  - Equipment, Systems & Services revenues up 5.7% vs 1H 2019

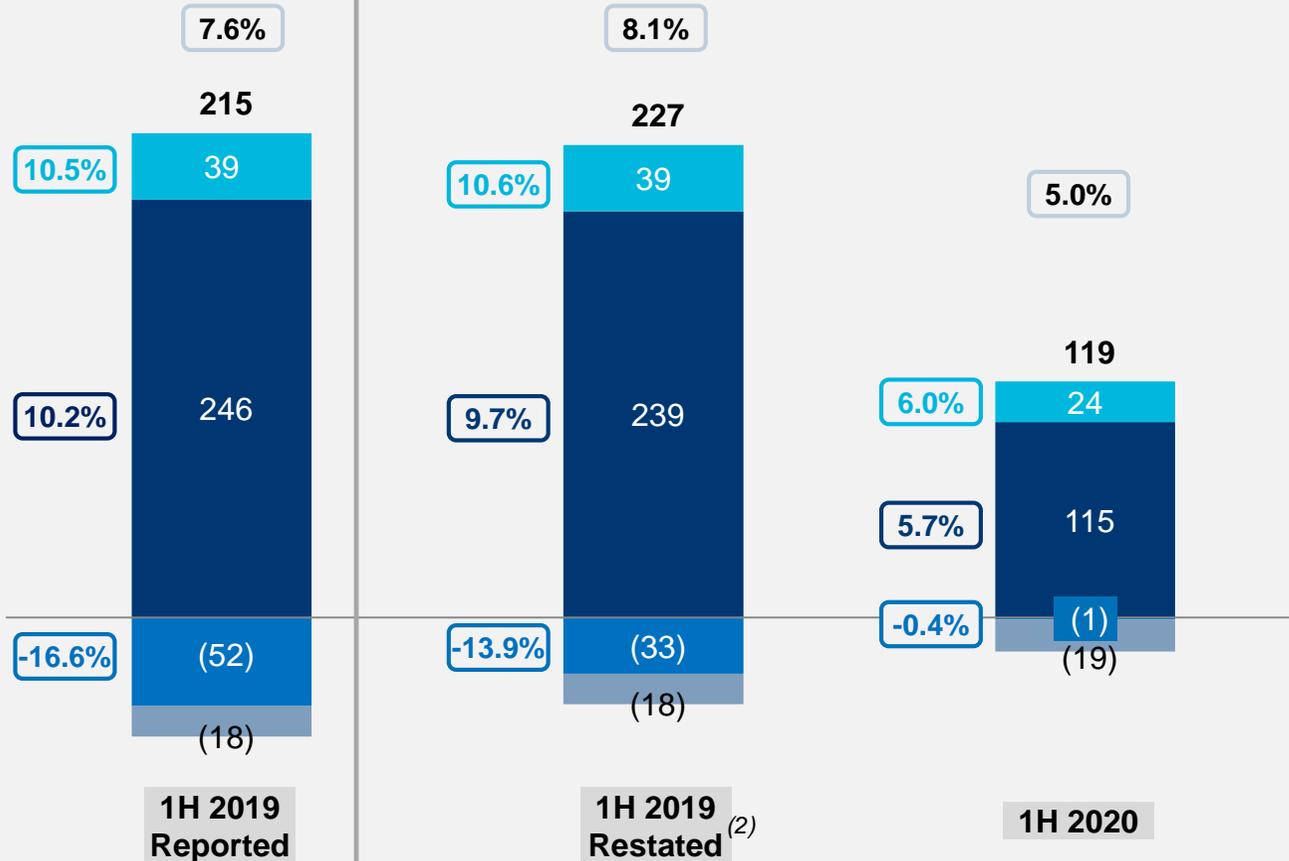
(1) Breakdown calculated on total revenues before eliminations

(2) Restated following the disposal of small fishery and aquaculture support vessels business and the closure of the Aukra yard, as well as the reallocation of VARD Electro from the Offshore and Specialized Vessels segment to the Shipbuilding

# EBITDA

## EBITDA<sup>(1)</sup> and EBITDA margin

€ mln



■ Shipbuilding 
 ■ Offshore & Specialized Vessels 
 ■ Equipment, Systems & Services 
 ■ Eliminations 
 ■ Other activities<sup>(2)</sup>
% % Revenues 
 % Group EBITDA Margin

- **EBITDA at € 119 mln** (-47.5% YoY) and **EBITDA margin at 5.0%** (8.1% in 1H 2019)
- **COVID-19 related reduced EBITDA contribution of € 65 mln**
  - Shipbuilding segment lags behind performance due to **suspension of operations**
  - Offshore and Specialized Vessels **breakeven**
  - **Positive contribution of the ES&S** despite lower-than-average margin

(1) EBITDA is a Non-GAAP Financial Measure. The Company defines EBITDA as profit/(loss) for the period before (i) income taxes, (ii) share of profit/(loss) from equity investments, (iii) income/expense from investments, (iv) finance costs, (v) finance income, (vi) depreciation and amortization (vii) expenses for corporate restructuring, (viii) accruals to provision and cost of legal services for asbestos claims, (ix) other non recurring items

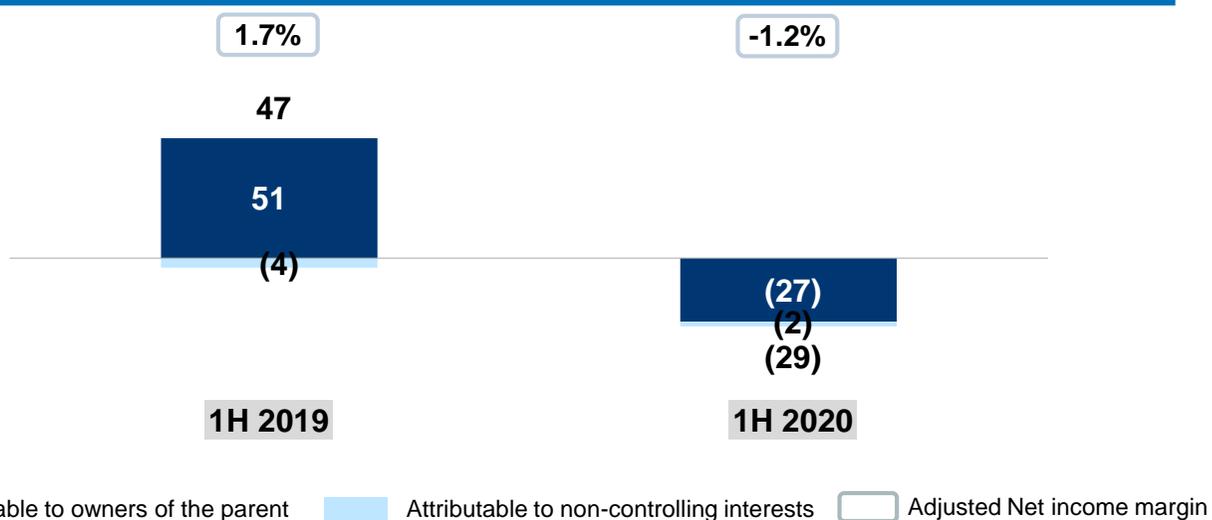
(2) Restated following the disposal of small fishery and aquaculture support vessels business and the closure of the Aukra yard, as well as the reallocation of VARD Electro from the Offshore and Specialized Vessels segment to the Shipbuilding



# Net result

## Adjusted Net result<sup>(1)</sup>

€ mln



- Increased extraordinary and non recurring items
  - €114 mln COVID-19 related costs
  - €23 mln asbestos-related litigation claims

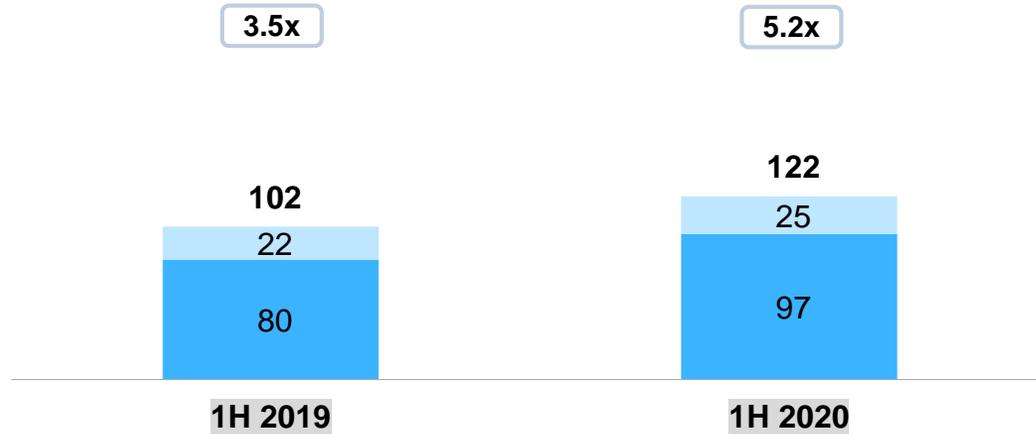
€ mln	1H 2019 - Restated	1H 2020
<b>A Adjusted Net result<sup>(1)</sup></b>	<b>47</b>	<b>(29)</b>
<i>Attributable to owners of the parent</i>	51	(27)
<b>B Extraordinary and non recurring items gross of tax effect</b>	<b>(27)</b>	<b>(139)</b>
<b>C Tax effect on extraordinary and non recurring items</b>	<b>5</b>	<b>31</b>
<b>A + B + C = D Net result from continuing operations</b>	<b>25</b>	<b>(137)</b>
<b>E Net result from discontinued operations</b>	<b>(13)</b>	<b>-</b>
<b>D + E Net result</b>	<b>12</b>	<b>(137)</b>

(1) Net result before extraordinary and non-recurring items

# Capital expenditures

## Capex

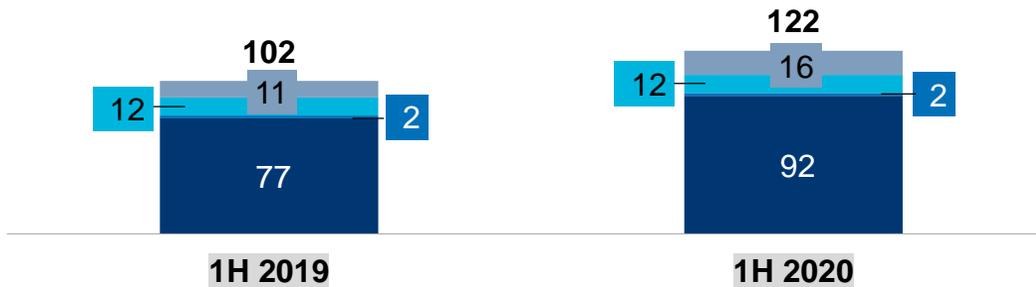
€ mln



■ Tangible ■ Intangible □ % of Revenues

## Capex by segment

€ mln



■ Shipbuilding ■ Offshore & Specialized Vessels ■ Equipment, Systems & Services ■ Other activities

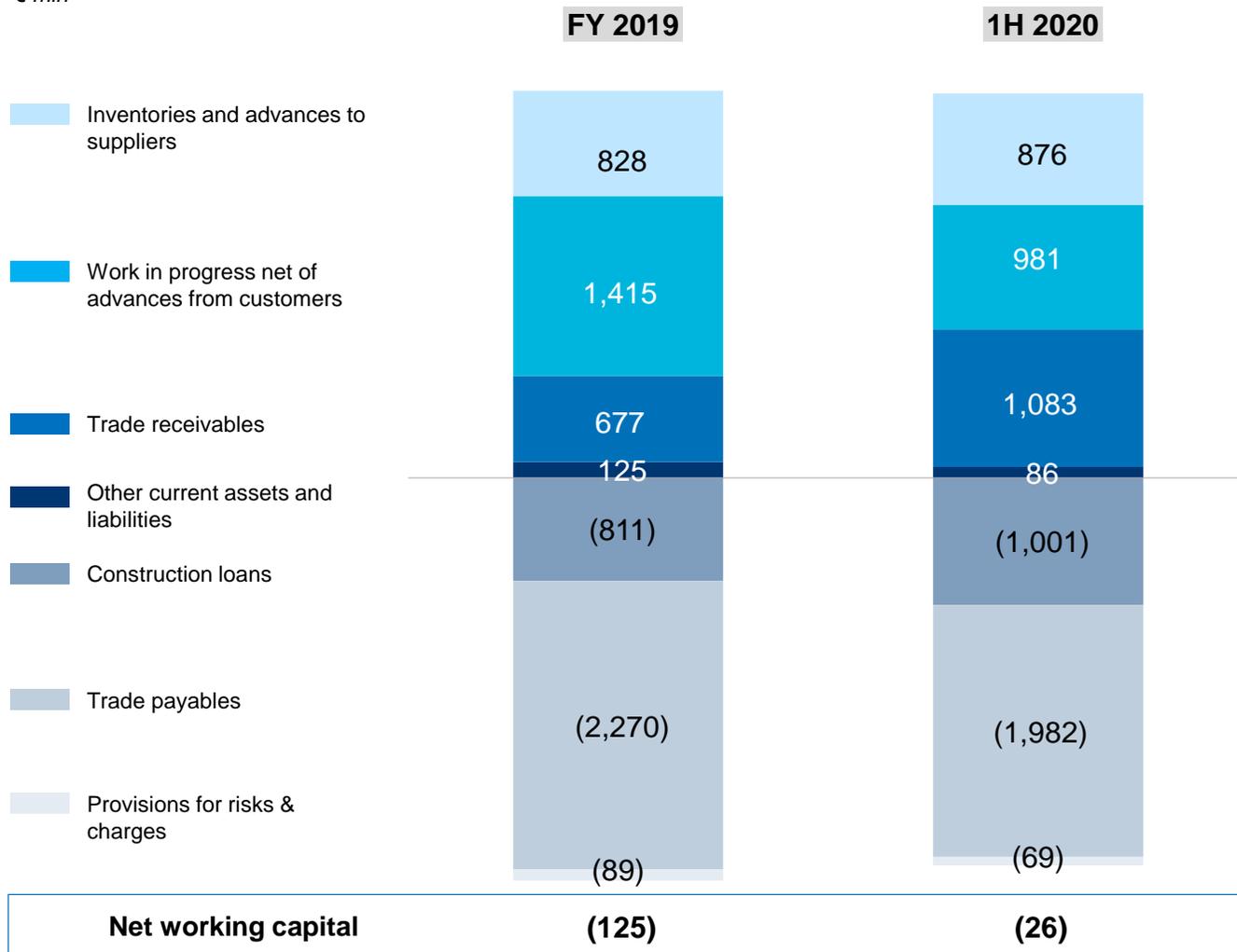
- Capex mainly dedicated to:
  - Improving Italian yards for higher efficiency
  - Adjusting Vard Tulcea and Braila production capacity
  - Enhancing safety and environmental conditions in all the yards



# Net working capital <sup>(1)</sup>

## Breakdown by main components

€ mln



- Main drivers include:
  - **Reduced production activities** at Italian premises as a consequence of suspension of operations
  - **Cash-in of the final payments** for the vessels delivered in 1H and for one vessel to be delivered in 2H

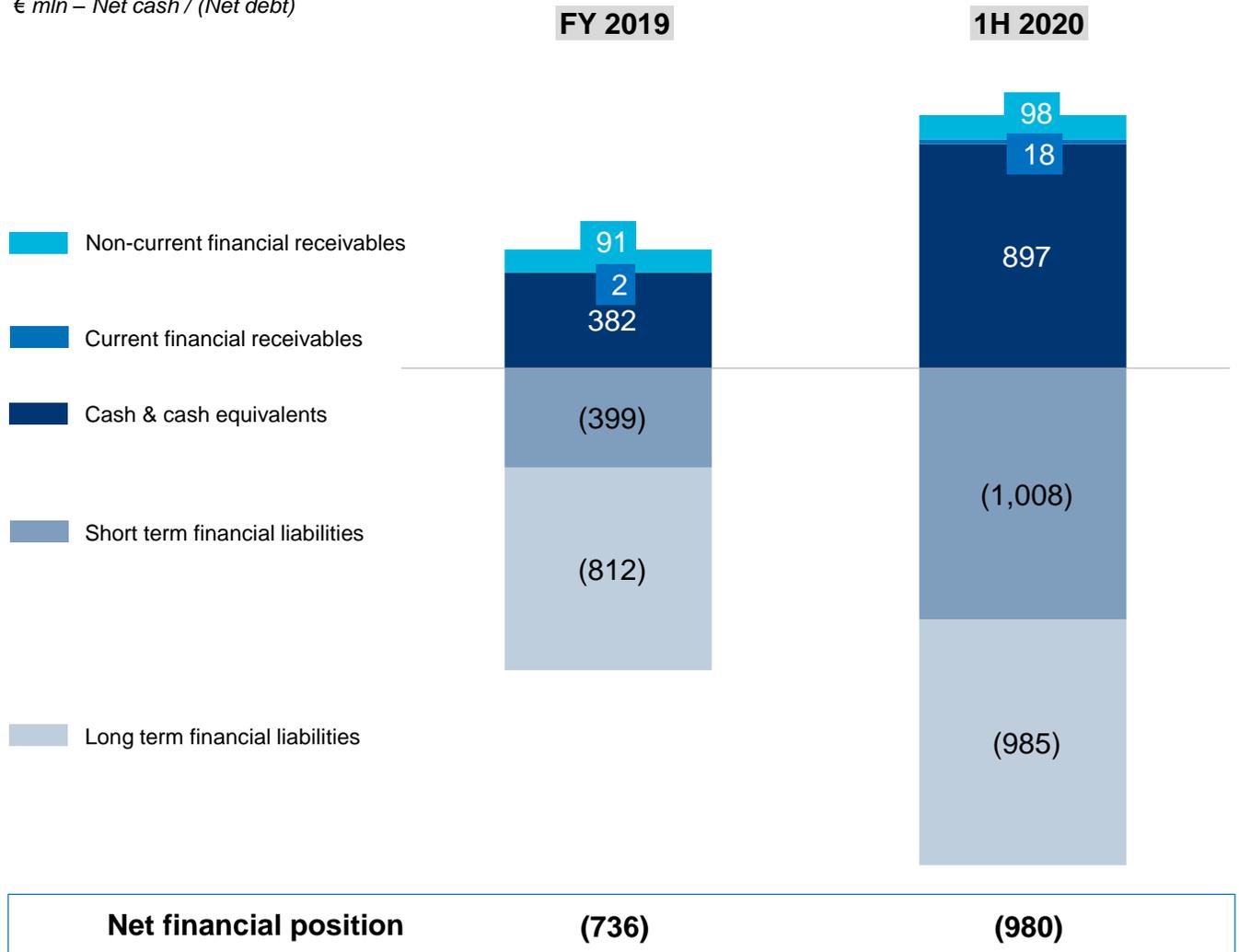
(1) Construction loans are committed working capital financing facilities, treated as part of Net working capital, not in Net financial position, as they are not general purpose loans and can be a source of financing only in connection with ship contracts



# Net financial position<sup>(1)</sup>

## Breakdown by main components

€ mln – Net cash / (Net debt)



- Increase of net debt (+244 mln vs FY 2019) mainly due to the postponement of one unit from 1H to 2H, partially offset by lower production volumes

(1) Net financial position does not account for construction loans as they are not general purpose loans and can be a source of financing only in connection with ship contracts



# Cruise industry outlook

## Cruise travelers

- Results of a survey on cruise traveler sentiment shows **32% of respondents are already looking to book their next cruise** and **37%** said that they **are likely to book a future cruise** once restrictions ease<sup>(1)</sup>

## Cruise operators

- Major cruise operators are disposing older vessels<sup>(2)</sup>
- **New ships deliveries are being delayed but not cancelled<sup>(3)</sup>**

## New ships

- **New ships are just more appealing<sup>(3)</sup>:**
  - Major efficiency and higher ROI
  - More environmentally friendly

## Operations resumption

- **Operations have either been resumed or are about to be resumed** starting from late July/early August at reduced capacity and in limited geographies<sup>(4)</sup>
- **Safety measures** are being implemented **onboard** both for passengers and cruise staff

(1) June survey from Cruise Critic. In: Forman, L. (11/07/2020). "Cruise Fans Yearn to Ship Out". The Wall Street Journal, p. 14

(2) Carnival has stated to have reached agreements for disposing 9 vessels. Source: Carnival 2Q 2020 Conference Call Transcript

(3) Carnival CEO, Arnold Donald, stated that «the new ships are just far more efficient. We would regulate with demand by, again disposing of less efficient ships rather than trying to avoid bringing on the new ships. The timing of that is important to us, but we would like to have the new ships». Source: Carnival 2Q 2020 Conference Call Transcript

(4) Aida Cruises (early August), Marella Cruises (late August), MSC (early August), Ponant (mid-August). Source: When Will Each Cruise Line Resume Sailings Again? Accessed from: <https://www.cruisehive.com/when-will-each-cruise-line-resume-sailings-again/39187>

# Company outlook

## Production volumes

- **Production volumes** are expected to come back to pre-Covid levels in the second half of the year
- **Second-half 2020 revenues are expected to be broadly in line with second-half 2019 revenues**

## Cruise

- **3 units scheduled for delivery from Italian shipyards in the second half** of the year

## Naval

- Progress of the orders for the **Qatari Ministry of Defence** and for the **fleet renewal of the Italian Navy**

## L/T Prospects

- If backlog is preserved, its **embedded profitability** will trigger a **robust improvement of Group's results** in the medium to long term
- The new **Business Plan** will be presented as soon as a more detailed analysis about the long-term impacts of the pandemic will be feasible



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# Q&A

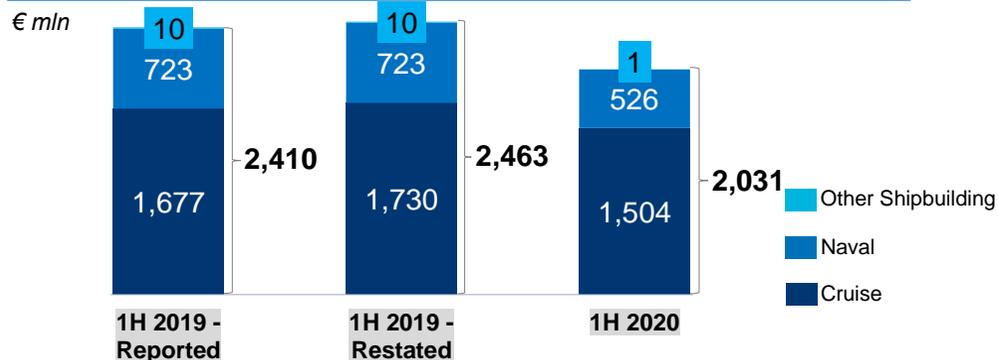


# Appendix

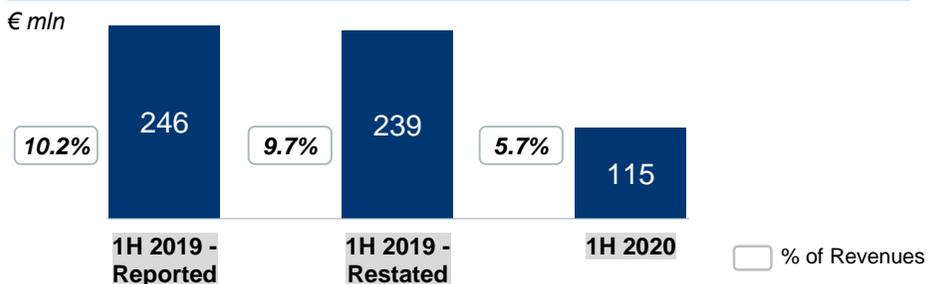


# Financial overview - Shipbuilding

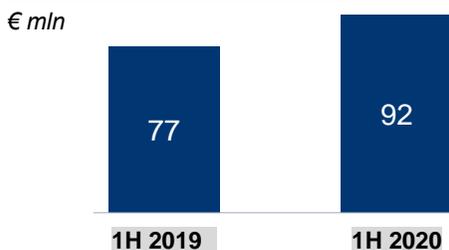
## Revenues



## EBITDA



## Capex



- **Revenues:** € 2,031 mln (-17.5% vs 1H 2019)
  - Lower volumes both in Cruise (-13.1% vs 1H 2019) and in Naval (- 27.3 % vs. 1H 2019) due the suspension of production activities and gradual resumption from April, 20<sup>th</sup>
- **EBITDA:** € 115 mln, with margin at 5.7%
  - Estimated shortfall in Shipbuilding EBITDA of € 48 mln due to the slowdown of production activities
- **Capex:** € 92 mln
  - Upgrading of Italian and Romanian shipyards
- **Orders:** € 1,364 mln (€ 6,364 mln in 1H 2019)
  - 1 guided-missile frigate<sup>(1)</sup>
  - Lengthening project<sup>(2)</sup>
- **Backlog:** € 26,333 mln (€ 27,797 mln in 1H 2019)
- **Deliveries:**
  - 3 Cruise ships<sup>(2)</sup>
  - 1 Naval vessel<sup>(3)</sup>
  - 1 fishery vessel<sup>(4)</sup>

(1) First-in-class guided missile frigate of the "FFG(X)" program for the U.S. Navy

(2) Lengthening project Norwegian Cruise Line

(3) "Seven Seas Splendor" for Regent Seven Seas Cruises; "Scarlet Lady" for Virgin Voyages; "Le Bellot" for Ponant

(4) LCS 19 "St. Louis" for the US Navy

# Financial overview - Offshore & Specialized Vessels

## Revenues

€ mln



## EBITDA

€ mln



## Capex

€ mln



- Revenues: € 228 mln (-2.6% vs 1H 2019)
  - Decrease mainly due negative EUR/NOK conversion
- EBITDA: € (1) mln with margin at -0.4%
  - Positive effect of the restructuring plan
- Capex: € 2 mln
- Orders: € 164 mln (€ 52 mln in 1H 2019)
- Backlog: € 744 mln (€ 881 mln in 1H 2019)
- Deliveries: 5 ships
  - 1 OSCV unit to Island Offshore
  - 1 fishery to Nergard Havfiske
  - 2 ferries to Boreal Sjø
  - 1 aqua to Remøybuen



# Financial overview - Equipment, Systems and Services

## Revenues

€ mln



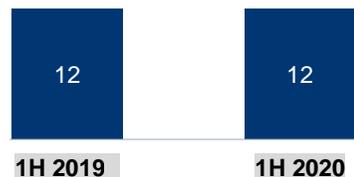
## EBITDA

€ mln



## Capex

€ mln



- Revenues: € 392 mln (+5,7% vs 1H 2019)
  - Confirmation of the growth trend despite the negative impact of the production suspension
  - Positive impact from Fincantieri Infrastructure (Polcevera bridge) and from the acquisition of INSIS
- EBITDA: € 24 mln with margin at 6.0%
  - Major contribution of projects with strategic importance but limited margins
- Capex: € 12 mln
- Orders: € 322 mln vs € 349 mln in 1H 2019
- Backlog: € 1,951 mln vs € 1,604 mln in 1H 2019

# Profit & Loss and Cash flow statement

<b>Profit &amp; Loss statement (€ mln)</b>	<b>FY 2019</b>	<b>1H 2019<sup>(5)</sup></b>	<b>1H 2020</b>
<b>Revenues</b>	<b>5,849</b>	<b>2,808</b>	<b>2.369</b>
Materials, services and other costs	(4,497)	(2,063)	(1,810)
Personnel costs	(996)	(504)	(432)
Provisions <sup>(1)</sup>	(36)	(14)	(8)
<b>EBITDA</b>	<b>320</b>	<b>227</b>	<b>119</b>
Depreciation, amortization and impairment	(167)	(77)	(65)
<b>EBIT</b>	<b>153</b>	<b>150</b>	<b>54</b>
Finance income / (expense)	(134)	(60)	(63)
Income / (expense) from investments	(3)	(3)	(3)
Income taxes <sup>(2)</sup>	(87)	(40)	(17)
<b>Adjusted Net result<sup>(3)</sup></b>	<b>(71)</b>	<b>47</b>	<b>(29)</b>
<i>Attributable to owners of the parent</i>	(64)	51	(27)
Extraordinary and non recurring items <sup>(4)</sup>	(67)	(27)	(139)
Tax effect on extraordinary and non recurring items	14	5	31
<b>Net result from continuing operations</b>	<b>(124)</b>	<b>25</b>	<b>(137)</b>
<i>Attributable to owners of the parent</i>	(117)	29	(135)
Net result from discontinued operations	(24)	(13)	-
<b>Net result</b>	<b>(148)</b>	<b>12</b>	<b>(137)</b>
<i>Attributable to owners of the parent</i>	(141)	16	(135)
<b>Cash flow statement (€ mln)</b>	<b>FY 2019</b>	<b>1H 2019</b>	<b>1H 2020</b>
<b>Beginning cash balance</b>	<b>677</b>	<b>677</b>	<b>520</b>
Cash flow from operating activities	209	(2)	(177)
Cash flow from discontinued operations	(22)	(12)	-
Cash flow from investing activities	(310)	(118)	(123)
Cash flow from financing activities	(173)	137	820
<b>Net cash flow for the period</b>	<b>(296)</b>	<b>5</b>	<b>520</b>
Exchange rate differences on beginning cash balance	1	2	(5)
<b>Ending cash balance</b>	<b>382</b>	<b>684</b>	<b>897</b>

(1) The line "Provisions and impairment" has been modified in "Provisions" and includes provisions and reversal for risks and writedowns. It excludes impairment of Intangible assets and Property, plant and equipment, which is included in "Depreciation, amortization and impairment" (previously "Depreciation and amortization"). This change had no effect on the comparative information.

(2) Excluding tax effect on extraordinary and non recurring items

(3) Net results before extraordinary and non recurring items

(4) Extraordinary and non recurring items gross of tax effect

(5) Restated following the disposal of small fishery and aquaculture support vessels business and the closure of the Aukra yard

# Balance sheet

<b>Balance sheet (€ mln)</b>	<b>FY 2019</b>	<b>1H 2019</b>	<b>1H 2020</b>
Intangible assets	654	621	623
Right of use	90	85	81
Property, plant and equipment	1,225	1,152	1,230
Investments	75	74	105
Other non-current assets and liabilities	(79)	(14)	(93)
Employee benefits	(60)	(59)	(59)
<b>Net fixed assets</b>	<b>1,905</b>	<b>1,859</b>	<b>1,887</b>
Inventories and advances	828	807	876
Construction contracts and advances from customers	1,415	969	981
Construction loans	(811)	(492)	(1,001)
Trade receivables	677	647	1,083
Trade payables	(2,270)	(1,824)	(1,982)
Provisions for risks and charges	(89)	(80)	(69)
Other current assets and liabilities	125	76	86
<b>Net working capital</b>	<b>(125)</b>	<b>103</b>	<b>(26)</b>
<b>Net assets (liabilities) held for sale and discontinued operations</b>	<b>6</b>	<b>-</b>	<b>6</b>
<b>Net invested capital</b>	<b>1,786</b>	<b>1,962</b>	<b>1,867</b>
<i>Equity attributable to Group</i>	<i>1,019</i>	<i>1,216</i>	<i>858</i>
<i>Non-controlling interests in equity</i>	<i>31</i>	<i>22</i>	<i>29</i>
<b>Equity</b>	<b>1,050</b>	<b>1,238</b>	<b>887</b>
Cash and cash equivalents	382	683	897
Current financial receivables	2	12	18
Non-current financial receivables	91	72	98
Short term financial liabilities	(399)	(670)	(1,008)
Long term financial liabilities	(812)	(821)	(985)
<b>Net debt / (Net cash)</b>	<b>736</b>	<b>724</b>	<b>980</b>
<b>Sources of financing</b>	<b>1,786</b>	<b>1,962</b>	<b>1,867</b>

