IFRS 16
Teach in Session

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AGENDA

1. IFRS 16 introduction and overview
2. KPIs
3. Q1 2019 results

1 IFRS 16 introduction and impacts in the financials

IFRS 16 - Introduction

- **Adopted new standard as of Jan 2019**
  - No restatement of 2018 accounts
- **New standard has significant impact on the presentation of the Financials**
  - Brings leases to the balance sheet
  - Alignment of KPIs
- **No economic impact on Dufry**
  - No impact on the way we run the business
  - No change in cash flow

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IFRS 16 - Introduction

1 Balance Sheet

- Leases brought to Balance Sheet as a **Lease Liability** and a **Right of Use Asset**
- Lease Liability is the present value of future unavoidable lease payments (in case of Dufry fix MAGs)
- **Discount rate** on a contract by contract basis. Depends on start date, term and currency and is fixed at the beginning for the entire lifetime of the concession
- At inception, Right of Use equals Lease Liability. Varies over time due to different accounting treatment

2 P&L

- Former concession fees, which was part of selling expenses, is replaced by **Lease Expenses** and **Depreciation Right of Use**
- Additional effect on Financial Result, Deferred Taxes

3 Cash Flow

- Cash flow least affected by IFRS 16
- Change in the presentation of the cash flow, with a reduction of the operating cash flow and with a corresponding increase in the cash flow from financing activities

1 IFRS 16 - Balance Sheet

- Recognition of a Lease Liability and Right of Use Asset on the balance Sheet
- Measurement

Right of Use Asset (RoU)	Lease Liability (LL)
• Equals Lease Liability at inception of any concession • Straight-line depreciation over duration of contract • Subject to impairment tests	• Present value of the unavoidable future lease payments • Individual calculation by agreement • Subsequently measured at amortized costs

Relevant aspects for calculation of RoU / LL

Term	• Duration of the contract

Concession fee	• In a typical concession contact, Dufry pays the higher of
	  • A concession fee measured as a percentage of sales
	  • A Minimum Annual Guarantee (MAG)
	• Only MAGs that are “reasonably forecastable” are capitalized (e.g., fixed MAGs)

Discount rate	• Dufry defines a unique discount rate for each concession agreement • Discount rate depends on location of the contract, start date and duration • Dufry applies the incremental borrowing rate

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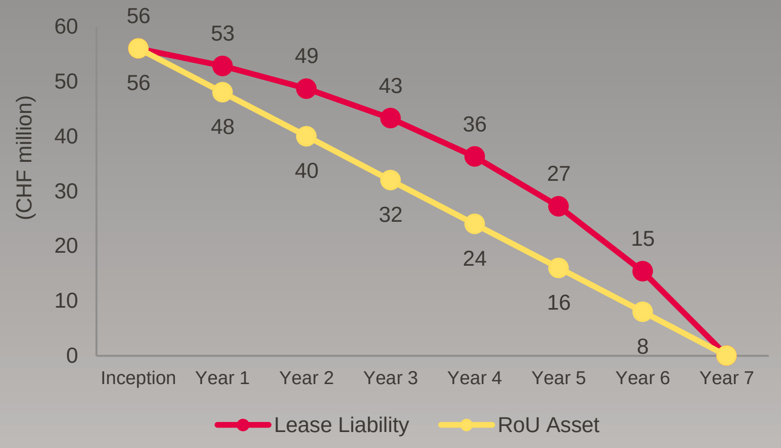
1 IFRS 16 - Balance Sheet

Illustrative Example



The values of RoU and LL are the same at the inception of the contract, but evolve differently, due to the different accounting treatment

- Right of Use is depreciated linearly over the lifetime of the contract
- Lease Liability always based on future MAGs * discount rate
- Consequently, the carrying amount of Lease Liabilities will always be higher than the Right of Use

Balance Sheet Positions Dufry

Date	RoU Asset	Lease Liability
1 Jan 2019	CHF 4,213m	CHF 4,213m
31 Mar 2019	CHF 4,276m	CHF 4,299m

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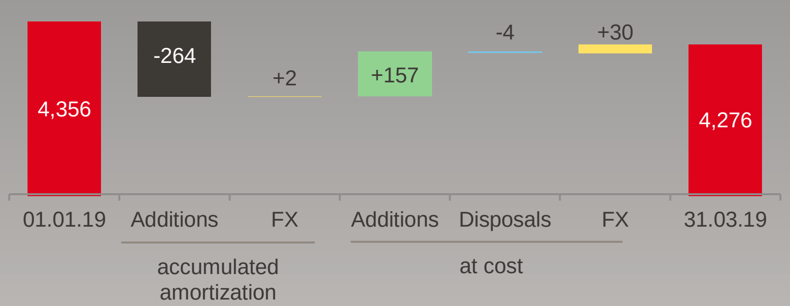
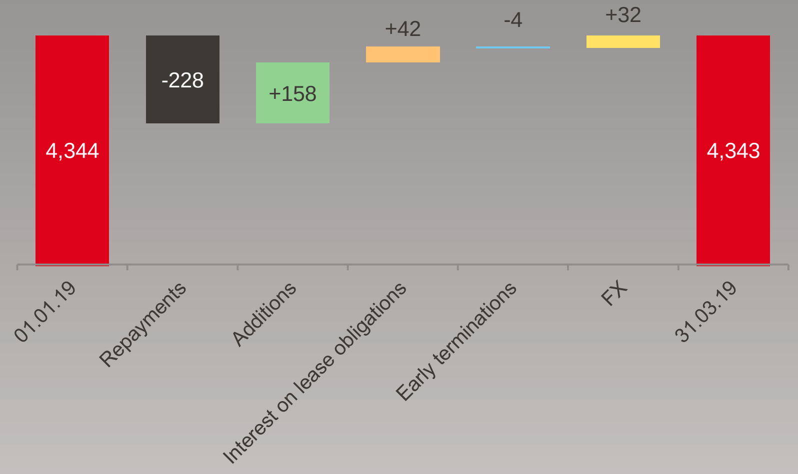
1 IFRS 16 - Balance Sheet

Right of Use Movement Schedule Q1 2019



Lease Liabilities movement schedule Q1 2019



- Movements of RoU and LL are detailed in in note 11 and 13 of the Financial Report Q1 2019
- Due to the ongoing nature of the business, the amortization/repayment is largerly compensated by additions (new concessions signed or renewed)

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1 IFRS 16 - Balance Sheet Conclusion

- Capitalization is no indicator for business performance
  - Contracts with very different shape and risk profile may have a similar impact on the balance sheet
  - Dufry seeks for long term contracts
  - MAG no indicator for quality or profitability of contract
  - Discount rate depends on start date, duration and economic environment
- Renewal and extension of contracts lead to volatility on balance sheet

IFRS 16 - P&L

- Previous concession fees replaced by
  - Lease expenses
  - Depreciation right of use asset (straight-lined)
  - Interest charge on Lease Liability
- Dufry specific structure of the concession contracts leads to changes in the P&L that may differ from others
  - Only fixed payments are capitalized and subsequently depreciated
  - The variable part continue to be reflected as Lease Expenses
- Additionally, there are some effects on deferred Tax, FX result

Pre-IFRS16	IFRS 16
Concession Fee (part of Selling Expenses)	Lease Expenses RoU Depreciation Interest Charge on LL

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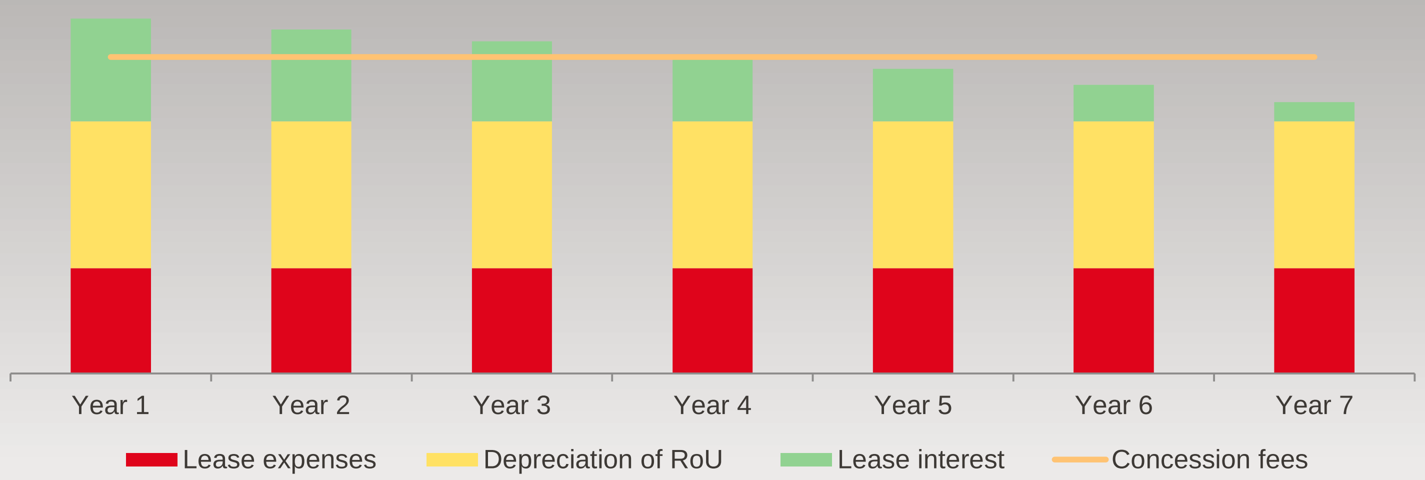
2 IFRS 16 - P&L Front-Loading Effect

- The combination of straight-line amortization of RoU and the interest applied to the lease liability results in a decreasing P&L effect throughout the lease term
- Over the lifetime, the total charge to the P&L remains the same
- Cash paid remains the same in any given period and also over the lifetime of the concession

Front-loading effect – Illustrative example



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2 IFRS 16 - P&L Conclusion

- The difference between the results in the P&L pre and post-IFRS 16 are essentially due to the following aspects:

  1. Time-value of money
     - Assets (and liabilities) are based on NPV calculation
  2. Straightline depreciation of assets
  3. Deferred tax effect on timing differences

- Over the lifetime of a contract, the overall P&L effects are identical, but there are timing differences during the lifetime

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3 IFRS 16 – Cash Flow Statement

(CHF million)	2018 pre-IFRS 16	2018 post-IFRS 16
Adjusted operating profit (adjusted EBIT)	**678.8**	**730.9**
Depreciation, amortization and impairment	264.5	1,228.9
Other items	24.1	24.1
Cash flow before working capital changes	**967.4**	**1,983.8**
Lease payments, net		-1,004.0
Adjusted operating cash flow	**967.4**	**979.8**
Changes in NWC	-4.1	-4.1
Income tax paid	-132.8	-132.8
Capex	-251.1	-251.1
Interest received	29.5	29.5
Free Cash Flow	**608.9**	**621.3**
Interest paid	-169.9	-169.9
Cash flows related to minorities	-64.2	-64.2
Other financing items	-4.0	-16.4
Equity Free Cash Flow	**370.8**	**370.8**
Net proceeds from Hudson IPO	665.2	665.2
Net purchase of treasury shares	-522.4	-522.4
Dividends to Group shareholders	-198.7	-198.7
Transaction / Reestructuring costs	-5.8	-5.8
Foreign exchange adjustments	101.5	101.5
Arrangement fees amortization and other non cash items	-9.8	-9.8
Decrease/(increase) in net debt	**400.8**	**400.8**

Entire D&A (including RoU) excluded in the cash flow

Add back Lease Payments from the cash flow from operating activity

- Cash Flows reclassified between operating and financing cash flows
- No change to net cash flows!

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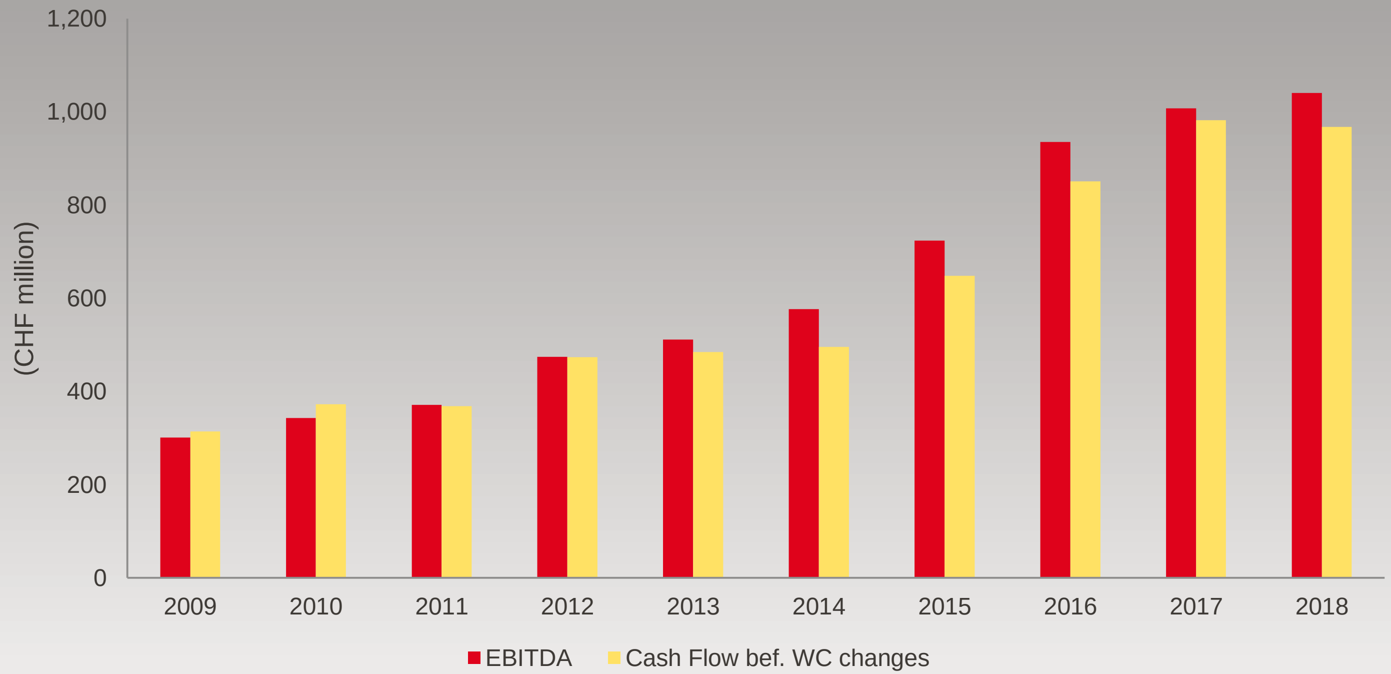
3 IFRS 16 – Cash Flow Statement

- There may be a concern that cash flows may deviate from P&L metrics and are not indicative of cash generation
- However, EBITDA and cash flow before working capital changes are highly correlated



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IFRS 16 - Summary

- Amount to be capitalized does not say anything about the quality or profitability of the contract
- Capitalization has negative impact on net earnings in first year and positive impact in late years of the contract
  - Negative net earnings impact is not an indicator for the quality of the contract and the concession portfolio as a whole
- The balance sheet and the P&L may develop quite dynamically
  - Renew/win of new concessions
- Cash Flow remain unchanged
- Change in accounting standard has no economic impact on Dufry
  - Turnover and gross profit completely unaffected
  - Net Cash Flow completely unaffected
- Group ambition and strategy to remain unchanged

2 KPIs

Adjusted / KPIs adjusted to IFRS 16

- Introduction of a set of KPIs adjusted to implications of IFRS 16
  - EBITDA no longer suitable as proxy for underlying cash operating profit
- KPIs
  - Turnover / Organic Growth
  - Adjusted Operating Profit (Adjusted EBIT)
  - Adjusted Net Profit / Adjusted EPS
  - Adjusted Operating Cash Flow
  - Equity Free Cash Flow

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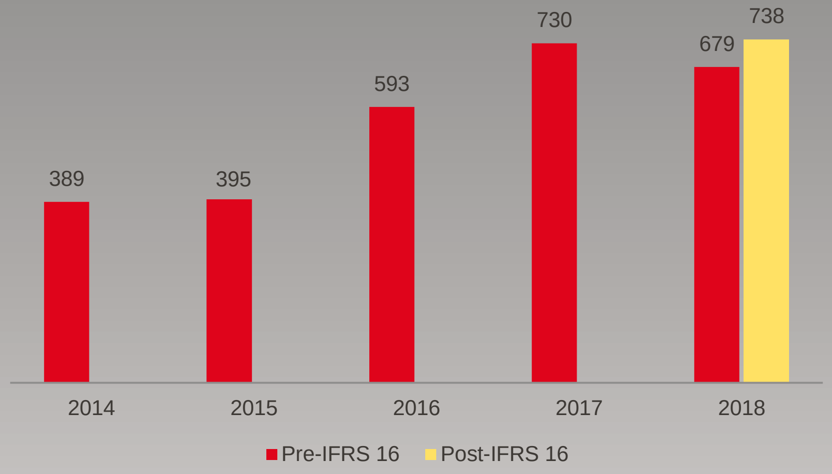
IFRS 16 - KPIs: Adjusted operating profit (Adjusted EBIT)

Adjusted operating profit (Adjusted EBIT)



Definition	2018 post-IFRS 16
Operating profit (EBIT)	421.8
+ Acquisition related amortization	316.5
= Adjusted operating profit (adjusted EBIT)	**738.3**

- Good operating profit metric
- Limited impact from IFRS 16
  - Part of leases expenses are replaced with depreciation of right of use assets
- Similar growth compared to top-line

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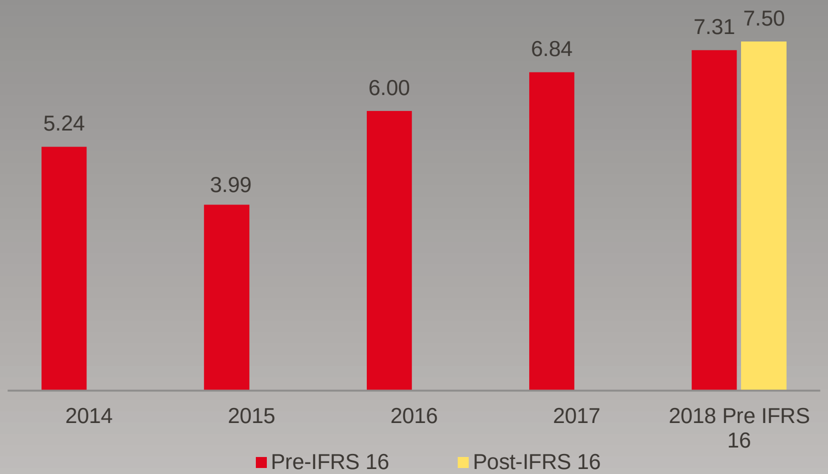
IFRS 16 - KPIs: Adjusted Net Profit / Adjusted EPS

Adjusted Net Profit / Adjusted EPS



Definition	2018 post-IFRS 16
Net profit to equity holders	**-4.7**
+ Acquisition related amortization	307.4
= Cash net earnings	302.7
+ Interest from lease liabilities	154.7
- Deferred taxes from lease liabilities	-13.7
- Deferred taxes from acquisition related amortization	-54.6
= Adjusted Net profit	**389.1**
# shares	51.9
= Adjusted EPS	**7.50**

- Adjusted EPS good overall indicator of the performance of the business
- Easier to use for comparison than free cash flow metric
- Adjustment allow to show normalized (sustainable) earnings generation
- Should grow faster than top line
- Adjusted profit margin

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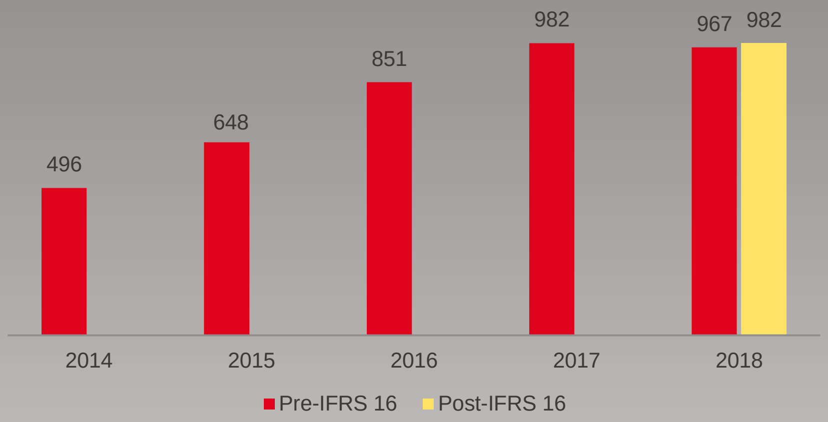
IFRS 16 - KPIs: Adjusted Operating Cash Flow

Adjusted Operating Cash Flow



Definition	2018 post-IFRS 16
Cash flow before working capital changes	1,986.0
- Lease payments, net	-1,004.0
Adjusted Operating Cash Flow	**982.0**

- Good proxy for cash generation from operations
- Very similar to former EBITDA concept
- Also used for new covenant calculation replacing EBITDA
- Limited impact from accounting
- Can be measured as a percentage over turnover

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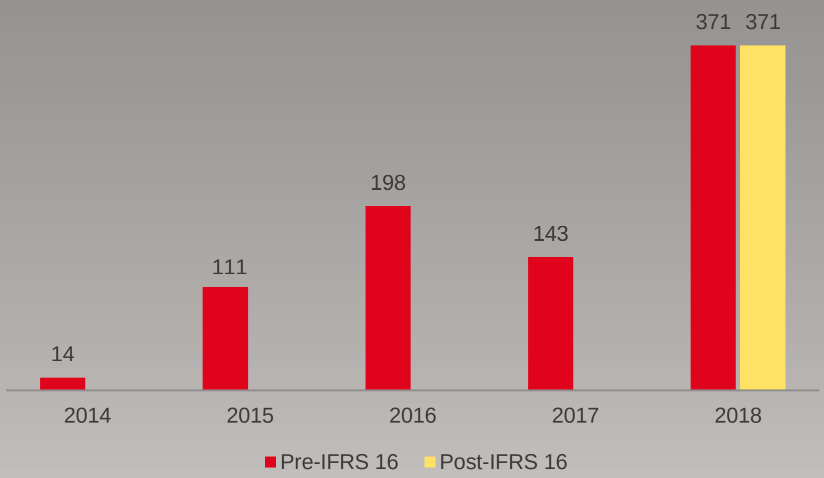
IFRS 16 - KPIs: Equity Free Cash Flow

Equity Free Cash Flow



Definition	2018 post-IFRS 16
Adjusted Operating Cash Flow	**979.8**
+/- Changes in net working capital	-4.1
- Income taxes paid	-132.8
- Capex	-251.1
+ Interest received	29.5
= Free cash flow	**621.3**
- Net Interest Paid	-169.9
- Cash flows related to minorities	-64.2
+/- Other financing items	-16.4
= Equity Free Cash Flow	**370.8**

- Real Cash Flow from underlying equity
- Limited impact from accounting
- Reflects also balance sheet structure
- High variance overall
- Similar growth compared to top-line

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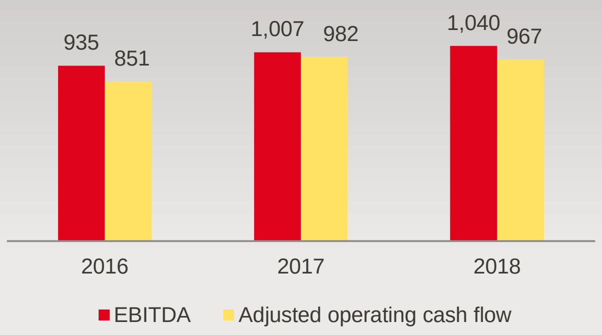
Covenants – Amendment Financial Covenant Bank Financing

New covenant after IFRS 16

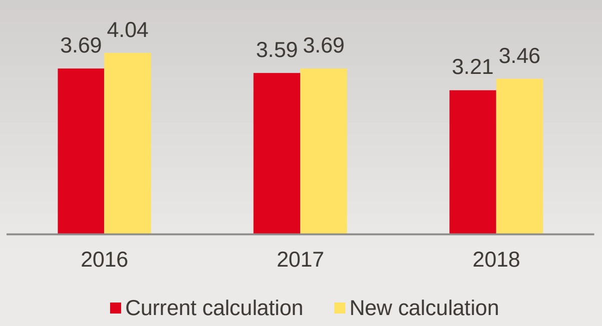
Net Debt remains the same; Adjusted Operating Cash Flow replaces EBITDA

- IFRS16 requires an amendment of the financial covenants under the bank financing
- Definition of Net Debt to remain the same but EBITDA to be replaced by a cash flow metric: Adjusted Operating Cash Flow
  - Adjusted Operating Cash Flow represents a solid proxy to former EBTIDA
- Threshold to be increased from 4.0x to 4.5x to maintain headroom
  - The new calculation results in a slightly higher covenant as the Adj. CF is lower than Adj. EBITDA.
  - The change does not reflect additional financial flexibility

Historical comparison EBITDA vs Adjusted Operating Cash Flow (CHFm)



Historical comparison current vs new calculation



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3 Q1 2019 results

Income statement: Pro forma Q1 18 adjustment for better comparability

Q1 2019 according to IFRS 16 with no restatement in 2018

Adjustments provided for 2018, although only works as an indication

New lines in P&L with different scope, therefore certain reclassifications were needed

- in CHFm -	Q1 19 Reported	Q1 18 Pro-forma	Q1 18 Reclass.	Q1 18 IFRS16 impact	Q1 18 Reported	Comp-arable	Note
Turnover	**1,882.6**	**1,820.0**	**-**	**-**	**1,820.0**	✓	
Gross Profit	**1,135.6**	**1,089.9**	**-**	**-**	**1,089.9**	✓	
Lease Expenses	(325.0)	(294.6)	31.8	196.9	(523.3)	X	1
Personnel Expenses	(307.7)	(284.8)	-	-	(284.8)	✓	
Other Expenses	(131.6)	(129.5)	(42.8)	12.7	(99.4)	X	2
Share results of associates	-	-	(0.7)	-	0.7		
Depreciation (excl. RoU)	(47.4)	(43.9)	-	-	(43.9)	X	
Depreciation of RoU	(264.0)	(245.1)	-	(245.1)	-	X	3
Amortization	(90.8)	(89.6)	-	-	(89.6)		
Linearization	-	-	-	39.9	(39.9)		
Other operational result	-	-	11.0	0.3	(11.2)		
Operating Profit (EBIT)	**(30.9)**	**2.4**	**(0.7)**	**4.7**	**(1.5)**	X	
Financial Result (excl. lease interest / FX)	(32.7)	(33.6)	0.7	-	(34.3)	X	
Lease Interest	(40.2)	(42.8)	-	(42.8)	-	X	4
FX	(6.8)	(5.7)		(8.7)	2.9		
Profit before Taxes	**(110.6)**	**(79.7)**	**-**	**(46.8)**	**(32.9)**	X	
Income Taxes	1.0	(7.0)	-	5.7	(12.7)	X	5
Net Profit	**(109.6)**	**(86.7)**	**-**	**(41.1)**	**(45.6)**	X	
Non-Controlling Interest	0.1	2.4	-	4.3	(1.9)	X	6
Net Profit to equity holders	**(109.5)**	**(84.3)**	**-**	**(36.8)**	**(47.5)**	X	

1) Variable concessions and variable part of concessions which contain a MAG. Selling Expenses not related to concession fees (e.g., credit card commissions, packaging, etc.) moved to Other Expenses. Leases of office buildings, warehouses, etc. move to this line from General Expenses.

2) All other operating expenses. Items reclassified to this line: Former other operational results line and Selling Expenses not related to concession fees (e.g., credit card commissions, packaging, etc.)

3) Linear depreciation of right of use (balance sheet)

4) Interest charge on Lease Liability

5) IFRS 16 impact on deferred taxes

6) Above mentioned impacts attributable to minorities

Income statement KPIs: Adjusted Operating Profit (Adjusted EBIT) and Adjusted Net Profit

Adjusted Operating Profit (adjusted EBIT)

	Q1 2019	Q1 2018 Pro-forma
Operating Profit (EBIT)	-30.9	2.4
Acquisition-related amortization*	76.9	78.0
Adjusted Operating Profit (Adjusted EBIT)	**46.0**	**80.4**

- Variation mainly related to:
  - Gross profit increase by CHF 45.7 million
  - Increase in personnel expenses in North America
    - Increase in minimum wages
    - Change in local management structure
  - Increase in Lease Expenses and Depreciation of Right of Use:
    - New contracts
    - Contract renewals

Adjusted Net Profit / Adjusted EPS

	Q1 2019	Q1 2018 Pro-forma
Net Profit to equity holders	-109.5	-84.3
Acquisition-related amortization*	71.5	77.4
Lease interest	40.2	42.8
Deferred tax on items above	-11.0	-13.8
Adjusted Net Profit	**-8.8**	**22.1**
# shares	49.8	53.2
Adjusted EPS	**-0.18**	**0.41**

- Number of shares reduced due to share buyback program executed in 2018
  - Accretion effect of 6%

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Cash flow statement

Adjusted Operating Cash Flow at similar levels to last year

Income tax lower due to a tax refund in Q1 2019

Cash flow statement

(CHF million)	Q1 2019	Q1 2018
Cash flow before working capital changes	**386.4**	**164.7**
Lease payments, net	-227.1	-
Adjusted Operating Cash Flow	**159.3**	**164.7**
Changes in NWC	-171.0	-130.8
Income tax paid	-0.5	-23.3
Capex	-58.5	-63.0
Interest received	7.6	7.8
Free Cash Flow	**-63.1**	**-44.6**
Interest paid	-46.9	-44.2
Cash flows related to minorities	-10.1	-7.1
Other financing items	-2.9	-7.4
Equity Free Cash Flow	**-123.0**	**-103.3**
Net proceeds from Hudson IPO	-	665.5
Net purchase of treasury shares	-	-120.6
Foreign exchange adjustments	-12.3	40.5
Arrangement fees amortization and other non cash items	-1.7	-4.8
Decrease/(increase) in net debt	**-137.0**	**477.3**

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Balance sheet

Intangible assets mainly generated by acquisitions

Hudson IPO impacting Equity to equity holders and Equity to minorities

Summary balance sheet as per 31.03.2019

(CHF million)	31.03.2019	31.12.2018	Variation
Right of use assets	4,276	0	4,276
Concession right finite life	3,086	3,086	0
Goodwill, Brands, Conc. rights indef. life	2,906	2,918	-12
Other intangible assets	108	113	-5
Other non current assets	257	300	-43
Core Net Working Capital	550	485	65
Other current assets	465	526	-61
PP&E	647	644	3
Total	**12,295**	**8,073**	**4,222**
Lease obligations	4,343	0	4,343
Equity	3,307	3,342	-35
Net Debt	3,423	3,286	137
Non current liabilities	111	179	-68
Deferred tax liabilities, net	277	287	-10
Other current liabilities	834	980	-146
Total	**12,295**	**8,073**	**4,222**

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Q&A

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Thank you

IFRS 16 - 2018 P&L overview

- in CHFm -	FY 18 Pro-forma	Reclass.	IFRS16 impact	Reported	Comp-arable	Note
Turnover	**8,684.9**	**-**	**-**	**8,684.9**	✓	
Gross Profit	**5,195.7**	**-**	**-**	**5,195.7**	✓	
Lease Expenses	(1,546.1)	144.0	890.4	(2,580.5)	X	1
Personnel Expenses	(1,175.2)	-	-	(1,175.2)	✓	
Other Expenses	(516.3)	(193.3)	80.5	(403.5)	X	2
Share results of associates	-	(3.8)	-	3.8		
Depreciation (excl. RoU)	(202.3)	-	-	(202.3)	X	
Depreciation of RoU	(964.4)	-	(964.4)	-	X	3
Amortization	(369.6)	-	-	(369.6)		
Linearization	-	-	47.7	(47.7)		
Other operational result	-	49.3		(49.3)		
Operating Profit (EBIT)	**421.8**	**(3.8)**	**54.2**	**371.4**	X	
Financial Result (excl. lease interest / FX)	(127.9)	3.8	-	(131.7)	X	
Lease Interest	(154.7)	-	(154.7)	-	X	4
FX	4.7	-	10.2	(5.5)		
Profit before Taxes	**144.0**	**-**	**(90.2)**	**234.2**	X	
Income Taxes	(85.1)	-	13.7	(98.8)	X	5
Net Profit	**58.9**	**-**	**(76.5)**	**135.4**	X	
Non-Controlling Interest	(63.6)	-	-	(63.6)	X	6
Net Profit to equity holders	**(4.7)**	**-**	**(76.5)**	**71.8**	X	

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