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ISSUER COMMENT
12 July 2022

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Contacts

David Beadle +44.20.7772.5390
VP-Sr Credit Officer
david.beadle@moodys.com

Alberto Bossini +44.20.7772.1952
Associate Analyst
alberto.bossini@moodys.com

Richard Etheridge +44.20.7772.1035
Associate Managing Director
richard.etheridge@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
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Dufry AG

Autogrill deal is complementary and credit positive

On 11 July, airport retailer Dufry AG (B1 stable) announced that it plans to merge operations with Autogrill SpA, a travel-related food and beverage service provider. The deal is credit positive and we expect it to strengthen credit metrics, helped in part by cost synergies between the complementary businesses. Dufry will benefit from increased scale and revenue diversification by activity, and greater exposure to the large and resilient US market. We expect it will strengthen relationships with airport landlords and the brands that both companies sell, and give the company scope to provide enhanced digital offerings to consumers.

Under the agreement, which is subject to Dufry shareholder, regulatory and other approvals, Autogrill's majority shareholder, Edizione, will transfer its entire 50.3% stake in Autogrill to Dufry at an exchange ratio of 0.158 new Dufry shares for each Autogrill share. Following close of this transaction, which is expected to be in the first quarter of 2023, Dufry will launch a mandatory tender offer (MTO) for the remaining 49.7% of Autogrill shares on the same 0.158 exchange ratio, or for a cash payment of €6.33 per Autogrill share. Depending on the MTO results, Edizione will ultimately have a 20%-25% stake in Dufry, making it the company's largest shareholder.

We estimate the maximum cash cost of the MTO will be around CHF1 billion, which Dufry expects to finance with equity and/or debt. Even assuming that all Autogrill shareholders choose the MTO's cash option and that Dufry funds it all with additional debt, the pro-forma effect of the deal on 2021 leverage would be modestly positive, taking leverage down around 0.1x from the actual 5.4x year-end 2021 level[1].

In addition, on the same assumptions for Autogrill, we estimate that the group's 2022 pro-forma Moody's-adjusted leverage would decline by about 1x compared to the relatively high level of more than 7x we expect Dufry's standalone leverage will rise to in 2022. The increase we forecast in Dufry's leverage reflects our expectations that its EBITDA will fall as its cost base (mainly for leases and staff) increases alongside higher activity levels.

We expect both Dufry and Autogrill will continue to make progress toward pre-pandemic levels of revenue and profitability in 2023 and beyond. However, at this stage, and considering the still uncertain extent, pace and sustainability of demand recovery, this transaction merely leaves the company more comfortably positioned in its B1 rating category than previously, rather than resulting in any immediate upward pressure.

Endnotes

1 this calculation also factors in Autogrill's underlying IFRS16 EBITDA of €530 million (broadly similar in CHF at current exchange rates) and lease liabilities of €1.7 billion in 2021 and assumes that Dufry repays Autogrill's modest €0.2 billion net borrowings from its own cash resources

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REPORT NUMBER 1336178

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