



Rating Action: **Moody's upgrades Dufry to Ba3 from B1; changes outlook to positive**

27 Apr 2023

London, April 27, 2023 -- Moody's Investors Service (Moody's) has today upgraded global travel experience leader Dufry AG's (Dufry or the company) corporate family rating (CFR) to Ba3 from B1 and its probability of default rating (PDR) to Ba3-PD from B1-PD. Concurrently, Moody's has upgraded to Ba3 from B1 financing subsidiary Dufry One B.V.'s backed senior unsecured ratings. The rating agency has also changed the outlook to positive from stable.

Today's rating actions reflect:

- Strong trading in 2022 and solid recovery in credit ratios following the pandemic hit
- The completion of the first step of the credit-enhancing combination with Autogrill
- Prospects for sustainable revenue and earnings growth, with expectations of deleveraging

RATINGS RATIONALE

In 2022, Dufry delivered results ahead of both Moody's forecasts and global air passenger volumes. Revenue of CHF6.9 billion represented 78% of 2019 versus 68.5% for global air travel. The company's overperformance reflected the combination of (i) Dufry's overproportionate exposure to regions where the recovery was faster such as North America and Europe, (ii) consumers' higher propensity to spend in the wake of the pandemic, and (iii) Dufry's success in passing on rising inflation to consumers. The latter, as well as overhead savings during the pandemic and discipline in bringing costs back in as activity recovered, has led EBITDA to closely track the revenue recovery. As a result, the company's Moody's-adjusted EBITDA margin for 2022 was 23.2%, only modestly lower than the 24.5% in 2019.

Moody's-adjusted gross debt/EBITDA for Dufry has improved to 4.0x in 2022 from 5.4x in 2021. Thanks to multiple equity raises during the pandemic, Dufry's bank and bond debt balance at 31 December 2022 was not higher than at 31 December 2019. At the same time, 2022 lease liabilities were well below pre-pandemic levels, such that Moody's-adjusted gross debt in 2022 was around CHF1.5 billion lower than in 2019.

Today's rating actions also reflect the conservative funding structure for the Autogrill acquisition, including (i) the all-share purchase of Edizione's 50.3% stake in February 2023, and (ii) Moody's expectation that the remaining portion will be funded with a mix of equity and debt (the rating agency assumes CHF600 million additional borrowings). In addition, Autogrill had very low net debt at the end of December 2022. In light of these assumptions, the rating agency estimates that Moody's adjusted pro forma gross leverage was around 4.0x, in line with Dufry's standalone leverage in 2022.

The combined group's revenue will grow by over 10% in 2023, according to Moody's forecasts, reflecting further recovery in passenger volumes and pent up demand. The rating agency expects organic growth rates to slow in 2024-2025 as pandemic recovery tailwinds ebb.

Despite solid revenue growth, Moody's expects that Dufry's cash generation will likely worsen in 2023

because (i) pro forma EBITDA margin will reduce as costs catch up, (ii) capex will increase materially from 2022's low level, and (iii) transaction and integration expenses will burden free cash flow (FCF). However, Moody's expects deleveraging beyond 2023 back to below 4.0x thanks to solid organic revenue growth and Autogrill cost synergies, which management has guided to CHF85 million by 2025. Phased benefits will flow through in 2023 and 2024 already.

Moody's expects that Autogrill will be modestly dilutive to Dufry's growth, margins and cash conversion because (i) Autogrill's organic growth has been slower historically, (ii) Autogrill's higher fixed cost base, combined with higher variable lease expenses, will reduce Moody's-adjusted EBITDA margin by up to 400 basis points, and (iii) Autogrill has greater capex requirements because fitting costs for food and beverage are higher. Nevertheless, the rating agency considers the combination to be credit-enhancing overall:

- it increases the company's scale in terms of number of outlets, revenue and EBITDA by over half,
- it provides Dufry with greater clout vis-a-vis concession partners, suppliers and brands, and
- it improves diversification by product offering and channel.

Autogrill brings in food & beverage activities, which have greater penetration with passengers than travel retail. It also has higher revenue stability given it is less discretionary. Autogrill also has a greater degree of diversification outside of airports than Dufry currently does.

More broadly, Dufry's credit quality benefits from long-term growth in air passenger traffic which is conducive to organic growth, as its track record, with stable profitability shows. However, macroeconomic downturns, geopolitical tensions and health concerns can lead to a drop in sales. In addition, the Autogrill combination presents integration risks and Dufry has exposure to the risk of non-renewal on its concession contracts and to emerging market currency volatility. Moody's also expects that the company's cash generation and interest coverage will remain relatively low for its rating category.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

Governance considerations in particular were relevant to today's rating actions. They include the conservative funding of Autogrill's acquisition, the accession to the board of three members from Edizione and a management reorganisation to foster an integrated approach to Dufry's regional markets.

LIQUIDITY

Moody's views Dufry's liquidity as good. It reflects the company's unrestricted cash balance of CHF745 million at the end of 2022 and current commitments under its senior unsecured revolving credit facility (RCF) of EUR2.5 billion. Dufry refinanced its RCF in December 2022. It increased its size by EUR800 million, in part reflecting CHF409 million drawings under a US-dollar term loan converted into a revolving loan. Dufry also extended the RCF maturity by three years to December 2027. Following a covenant holiday negotiated during the pandemic, Dufry's covenants will be tested again from 30 September 2023 and Moody's expects good headroom. Although it has sufficient liquidity for it, Dufry will need to address the maturity of its EUR800 million bond maturity in October 2024.

STRUCTURAL CONSIDERATIONS

Dufry's capital structure consists of a mix of bonds and bank debt. All the facilities are unsecured, rank pari passu and benefit from guarantees from the material holding companies within the group.

As a result, all Ba3 instrument ratings are in line with the Ba3 CFR.

RATIONALE FOR POSITIVE OUTLOOK

The positive outlook reflects the material opportunity from the ongoing recovery in air passenger traffic and Moody's expectation that Dufry's credit ratios have the potential to further improve as a result.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Moody's could upgrade Dufry's ratings if (i) Dufry (including Autogrill) successfully renews its concession contracts on an ongoing basis, maintains organic revenue growth and at least a stable Moody's-EBITDA margin, (ii) Moody's-adjusted gross debt/EBITDA does not sustainably exceed 4.0x, and (iii) Dufry generates meaningful free cash flow (FCF, after interest and dividends) while maintaining good liquidity and addressing its debt maturities in a timely manner.

Conversely, downward pressure on Dufry's ratings could materialise if (i) Dufry fails to integrate Autogrill successfully, or (ii) revenue and EBITDA reduce on an organic basis, or (iii) Moody's-adjusted leverage moves back above 5x on a sustainable basis, or (iv) FCF becomes negative, liquidity weakens, or refinancing risk increases.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Retail published in November 2021 and available at <https://ratings.moody's.com/rmc-documents/356421>. Alternatively, please see the Rating Methodologies page on <https://ratings.moody's.com> for a copy of this methodology.

COMPANY PROFILE

Headquartered in Basel, Switzerland, Dufry is a global leader in travel retail and food and beverage. Including Autogrill, the company will have presence in 75 countries, operating about 5,500 outlets, in 1,200 locations (thereof 350 airports, around 80% of sales). The company reported revenues of CHF6.9 billion in 2022 (CHF11 billion including Autogrill) and had a market capitalisation of about CHF5.0 billion at the date of this publication.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moody's.com/rating-definitions>.

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At least one ESG consideration was material to the credit rating action(s) announced and described above.

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