DUFRY

**Media Release**

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# Dufry grows turnover 7.2% and achieves both record EBITDA of CHF 464.1 million and record free cash flow of CHF 330.2 million in the first half of 2018

**Dufry continued to deliver solid results in the first half of 2018 with turnover growing by 7.2% and reaching CHF 4,097.1 million driven by a healthy organic growth of 5.5%. The contribution from the Business Operating Model initiative progressed very well, impacting positively the profitability with EBITDA reaching record CHF 464.1 million, a growth of 12.9% versus the same period last year. EBITDA margin expanded by 50 basis points to 11.3% in the first half of 2018. Both, free cash flow and equity free cash flow were the strongest ever for a first semester, reaching CHF 330.2 million versus 127.6 million in H1 2017 and CHF 222.2 million versus CHF 16.5 million, respectively.**

In the first half of 2018, turnover grew by 7.2% and organic growth reached 5.5% supported by good growth in most regions. Division Eastern Europe, Middle East, Asia and Australia continued to outperform driven by a growing number of Chinese passengers. Division North America also continued to have strong growth thanks to the ongoing development of the concession portfolio. Division Latin America saw slowing growth due to the devaluation of local currencies, while Divisions UK and Central Europe as well as Southern Europe and Africa had a stable performance, with some changes in passenger flows within European destinations, mainly seen as shifting from Spain to Greece and Turkey. Dufry's diversification strategy herewith confirms its strength to mitigate regional external risks and securing a good level of growth within all P&L lines.

Following the focus on accelerating organic growth, Dufry continued to actively expand and refurbish its operations across the Group. In the first half of 2018, Dufry expanded and opened 13,200 $m^2$ of gross retail space, which includes the start of operations aboard 12 cruise ships, totalling 3,500 $m^2$ across 38 stores. We also refurbished another 22,400 $m^2$ in the half year, including the implementation of our New Generation Store concept at Heathrow airport T3 (2,500 $m^2$).

Moreover, the Company has already signed contracts to open 14,100 $m^2$ until 2019, which among others, include new shops at the new Jazeera terminal at Kuwait Airport, 13 new shops to be opened at Chicago Midway airport and as recently announced 2,300 $m^2$ at Perth Airport. Last but not least, in 2018 we have also renewed important contracts, such as Gatwick, in the UK, and Guadalajara, in Mexico.

Dufry also recorded strong results in terms of margins. The efficiencies achieved as part of the Business Operating Model (BOM) and the further expansion of the gross profit margin continue to build up with EBITDA margin improving 50 bps during the first half year 2018, and reaching 11.3% versus 10.8% in the same period in the previous year.

As previously announced, Dufry started this year with its strategy of returning cash to shareholders. In May the Company distributed cash dividends for an overall amount of CHF 198.7 million, equivalent to CHF 3.75 per share. Also in May, Dufry initiated its up to CHF 400 million share buyback program, which will run over a period up to 12 months. As per July 27th, shares for just over CHF 182.1 million were purchased. The intention is to cancel the shares bought back.

## TURNOVER

In the first half of 2018, turnover grew by 7.2% to CHF 4,097.1 million from CHF 3,821.3 million in the same period in 2017. Like-for-like growth contributed with 3.5% and net new concessions added 2.0%, which resulted in an organic growth of 5.5% in the first six months of 2018. The FX translation effect during the period was +1.7%, mainly due to the strengthening of the Euro and the British Pound versus the Swiss Franc.

**Southern Europe and Africa**
Turnover grew by 7.3% and reached CHF 833.1 million in the first half of 2018, from CHF 776.6 million one year before. Organic growth in the division reached 0.5%. In the second quarter, a trend of tourists shifting from Spain to Turkey and Greece became more evident, which benefitted the latter operations with particularly Turkey seeing high double-digit growth. Spain's passenger growth was more driven by domestic tourism which has lower spend and as such did not translate into turnover growth.

**UK and Central Europe**
Turnover amounted to CHF 910.1 million in the first six months of 2018 versus CHF 879.9 million in the same period last year. Organic growth excluding the closing of Geneva last year amounted to +3.3%, and including the Geneva impact organic growth amounted to -1.2%. Switzerland and Scandinavia were overall positive and the United Kingdom performed well following a steady growth in passenger numbers.

**Eastern Europe, Middle East, Asia and Australia**
Turnover increased to CHF 546.5 million in the first half of 2018, versus CHF 454.2 million in the same period in 2017. Organic growth remained at high levels reaching 22.1%, with strong results across the division. In Eastern Europe, Russia continued with a good performance, as did Armenia, Bulgaria and Serbia. In the Middle East, Jordan and Kuwait grew double-digits, while Sharjah also saw good growth. Asia continued to boom with Bali, Cambodia, Indonesia, Macau and South Korea all growing double-digits. Last but not least, Australia continues with strong double-digit performance after the full renovation of the stores.

**Latin America**
Turnover reached CHF 821.3 million in the first half of 2018 from CHF 819.6 million one year earlier. Organic growth was 4.2%. In Central America, Mexico and the Caribbean had strong performance, with highlights to Dominican Republic, Jamaica and our cruise business in the region. In South America, Ecuador and Peru posted positive growth, while Argentina, Brazil, Chile and Uruguay faced a sales decline in USD due to the devaluation of the respective local currencies versus the USD.

**North America**
Turnover reached CHF 896.6 million compared to CHF 849.5 million in the first half of 2017. Organic growth kept developing positively, reaching 7.7% driven by ongoing passenger growth, positive productivity and new contracts signed. Both retail concepts, duty-free and duty-paid, continued contributing with a solid performance as seen in last quarters.

## FINANCIAL RESULTS

**Gross profit margin improvement due further negotiations with suppliers**
Gross profit margin improved by 30 basis points to 59.8% in 1H18 versus 59.5% in the previous year. Gross margin in the period has been positively affected by further renegotiations of terms and

conditions with local suppliers and supported by contribution from the acceleration of several brands plan initiatives, resulting either in better terms or with higher advertising income.

**EBITDA[1] margin continued expansion**

EBITDA continued expanding during the first half of 2018 and reached CHF 464.1 million, representing a growth of 12.9% year-on-year. EBITDA margin expanded by 50 bps, to 11.3% in the first six months of 2018, compared with 10.8% last year. With this improvement in the first semester, Dufry remains on track to deliver a similar margin expansion level for full year 2018. Apart from the expansion in the gross margin, the improvement came mainly as a result of the contributions from the BOM implementation, with a rationalization of the cost structure which generated savings in personnel and general expenses of 40 basis points year-on-year. On the other hand, selling expenses continued their normal trend upwards and rose by 40 basis points as percentage of turnover. As a reminder, over 90% of selling expenses are concession fees.

**EBIT grows by 38.4%**

EBIT grew by 38.4% and reached CHF 124.6 million in first six months of 2018 compared to CHF 90.0 million in the same period in 2017. Depreciation and amortization stood practically stable as percentage of turnover at 6.7% in H1 2018 versus 6.8% one year before. Linearization (non-cash accounting treatment in regards to Spanish concessions) amounted to CHF 40.5 million in the first six months of 2018.

**Net earnings**

Cash net earnings, which add back the acquisition-related amortization, increased to CHF 141.8 million in the first half of 2018 from CHF 126.0 million in the same period in 2017. Cash EPS grew by 14.5%, reaching CHF 2.68 compared to CHF 2.34 in the H1 2017.

Net earnings to equity holders stood at CHF -9.6 million in the first half of 2018 compared to CHF -24.9 million in the previous year. Financial results, net, reached CHF -64.1 million in the first half of 2018 from CHF -90.3 million one year earlier. The improvement of CHF 26.2 million is due to the refinancing concluded last year as well as the lower debt levels in 2018. Income tax was CHF 46.8 million, and was impacted by one-offs as well as the changes in the US business and tax regulation. Of the increase of CHF 46.2 million versus last year, CHF 34.9 million are due to non-cash deferred taxes and CHF 11.3 million due to higher income taxes. Minorities were CHF 23.3 million in 1H18 compared to CHF 24.0 million in the previous year.

**Cash Flow: Record cash flow generation**

Free cash flow[2] more than doubled and reached CHF 330.2 million in the first half of 2018 from CHF 127.6 million in the same period last year. Apart from the EBITDA growth, changes in net working capital added CHF 41.9 million. Capex continue under control at CHF 127.3 million (3.1% as a percentage of turnover) compared to CHF 152.0 million one year earlier (4.0% as a percentage of turnover).

Equity free cash flow reached CHF 222.2 million from CHF 16.5 million in the first half of 2017. Interest paid and dividends to minorities together declined by CHF 10.3 million, which contributed to the remarkable cash generation in the period.

**Net debt: Deleveraging on track**

Net debt stood at CHF 3,150.9 million at the end of June 2018, CHF 536.0 million lower when compared to CHF 3,686.9 million in December 2017. Apart from the events already seen in the first quarter (proceeds from the Hudson IPO and purchase of treasury shares), the overall cash out

[1] EBITDA before Other operational result
[2] Before interest costs and minorities

related to the dividend payment in May amounted to CHF 198.7 million, while CHF 102.3 million were related to the share buyback in place. Last but not least, net debt was positively impacted by CHF 82.7 million from currency changes.

The main covenant, net debt/adjusted EBITDA, stood at 2.95x as per 30 June 2018 (31 December 2017: 3.59x) against a maximum threshold of 4.00x.

**First half results solid and in line with the targets set for 2018**

Julián Díaz, CEO of Dufry Group, commented: "The first half year results were solid and in line with Dufry's expected targets for 2018. I am particularly pleased with the EBITDA and cash generation for the period, a record for the first semester due to our good operational performance.

In general, most of our operations continued to perform well. Our European business has been stable with some shifts in destinations. Especially Turkey and Greece are more popular this year at the expense of Spain, where in order to drive sales we have implemented several actions including shop openings and refurbishments as well as various marketing initiatives. Given our diversified portfolio and our leading position in Europe, we are in the best possible position to capture passengers in almost any market. Eastern Europe, Middle East, Asia and Australia continued with stellar performance. Especially in Asia, the strong growth in Chinese passenger has been a key driver. North America has been performing stronger than ever with continuous business development by adding retail space in existing and new locations. Latin America had a mixed picture: while Central America and the Caribbean have performed well, especially Argentina and Brazil had a weak performance in the second quarter. The devaluation of the Brazilian Real and the Argentinean Peso are affecting our sales in US Dollar. Having said this, when measured in local currencies, the performance of the business is stable, which is a sign that the overall consumer sentiment is still positive.

Regarding profitability, the Business Operational Model further contributed by generating efficiencies and improvements in the cost structure, positively impacting the EBITDA margin. Until June, the BOM has been launched in 39 countries in total, of which 14 countries were already certified by the program.

We continued to actively foster the opening of additional retail space and refurbishments across the Group. During the year until June, we added 13,200 $m^2$ and refurbished 22,400 $m^2$ of retail space. As for the remainder of 2018 and 2019, we have already secured agreements, which amount to 14,100 $m^2$ to be opened in existing and new locations, and plan to revamp further 33,000 $m^2$ along 2018. In this context, I would like to highlight the several successful wins of new contracts seen in the first semester, which include new retail operations across different channels – train stations, cruise lines, downtown locations and airports – and covering all divisions. The most recent one being our footprint expansion in Australia with the new concession in Perth; while earlier this year we signed contracts for a total of 10 cruise vessels of Holland America, Carnival Cruise Line and Norwegian Cruise Line as well as the duty-free concession for the new high-speed railway station in Hong Kong.

During the first half year, Dufry also moved forward to return cash to shareholders, one of its main priorities for 2018 and beyond. In May, we paid a CHF 3.75 cash dividend per share and launched a share buyback program over a period of up to 12 months. Overall, we returned CHF 380.2 million to our shareholders since the beginning of 2018. Going forward and given the positive outlook for the business, which includes a sustainable cash flow generation derived by its organic growth, Dufry aims to continuing with the dividend payment.

Finally, the good results and new developments during the first six months of 2018 are positive signs that we are moving in the right direction to meet the priorities we have set for the year. We will keep our focus on the main drivers through the BOM implementation, the further development of our digital initiatives and expansion of our presence in the travel retail industry.

Last but not least, we expect market conditions to remain positive supported by a healthy growth of passengers globally. The weakness seen in specific markets is likely to persist during the second half, but we expect to compensate this with the good performance in our other operations. The third quarter is the most relevant for cash generation and deleveraging, and Dufry is ready to capture the full potential of the high season."

## Key Figures Dufry Group

| In CHF million | HY 2018 | | HY 2017 | | Var. |
|---|---|---|---|---|---|
| Turnover | 4,097.1 | | 3,821.3 | | 7.2% |
| Gross Profit | 2,450.6 | 59.8% | 2,274.6 | 59.5% | 7.7% |
| EBITDA (before other operational results) | 464.1 | 11.3% | 411.2 | 10.8% | 12.9% |
| Net Earnings to Equity Holders | -9.6 | -0.2% | -24.9 | -0.7% | |
| Cash EPS (in CHF) | 2.68 | | 2.34 | | 14.5% |

Dufry's HY 2018 Financial Report is available at the following link:
https://www.dufry.com/en/investors/ir-reports-presentations-and-publications

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**Dufry Group – A leading global travel retailer**

Dufry AG (SIX: DUFN; B3 – Brasil, Bolsa, Balcão: DAGB33) is a leading global travel retailer operating over 2,200 duty-free and duty-paid shops in airports, cruise lines, seaports, railway stations and downtown tourist areas.

Dufry employs over 30,000 people. The Company, headquartered in Basel, Switzerland, operates in 65 countries in all five continents.

**Social Responsibility**

Dufry cares for children and supports social projects from SOS Kinderdorf in Brazil, Cambodia, Mexico, Morocco and Ivory Coast. SOS Children's Villages is an independent, non-political and non-demonstrational organization established for orphaned and destitute children all over the world.