Media Release

Basel, November 5, 2018

Dufry posts resilient first nine months 2018 results with strong cash generation

Dufry delivered resilient results in the first nine months of 2018 despite more difficult recent market conditions in certain geographies. The efficiencies from the Business Operating Model accelerated earlier than expected thus helping to drive further earnings growth and cash generation.

FINANCIAL HIGHLIGHTS

- Turnover growth for 9M 2018 versus the same period last year of 4.6% to CHF 6,560.7 million, with organic growth up by 3.1%;
- EBITDA reached CHF 806.5 million for 9M 2018, an increase of 8.5%, with the EBITDA margin increasing by 40 basis points on 9M 2018 to 12.3%;
- Cash EPS grew 4.5%, reaching CHF 6.07 in 9M 2018;
- Free cash flow and equity free cash flow grew strongly by 33.1% and 59.1% to CHF 618.7 million and CHF 430.1 million respectively in 9M 2018;
- In Q3 2018, headwinds impacted our trading in Spain, Brazil and Argentina resulting in a lower than anticipated turnover growth of 0.6% and in organic growth declining by 0.7% versus the same quarter last year;
- The share buyback program of CHF 400 million has been early completed by October 31st.

OPERATIONAL HIGHLIGHTS

- Acceleration of the Business Operating Model implementation with CHF 33.0 million already reflected in the 9M results. Around CHF 40 million of efficiencies expected to be reflected in total in FY 2018 and the remaining CHF 10 million BOM efficiencies to come in 2019.
- Continued refurbishment of operations across the Group to improve customer experience and maximise sales. 27,700 m^2 refurbished in the first nine months of the year, including the implementation of our New Generation Store concept at Heathrow airport T3 (2,500 m^2) and Cancun T3 (1,800 m^2) as well as the main store in Glasgow and several stores at the Malaga and Bali airports.
- 18,300 m^2 of gross new retail space opened in the 9M, including the start of operations aboard 13 cruise ships, totalling close to 4,000 m^2 across 41 stores, and important duty free operations opened at the MTR high-speed railway station in Hong Kong (3 stores – 1,500 m^2) as well as 36 stores across several operations in North America adding 3,500 m^2;
- Contracts now signed to open a further 16,100 m^2 of new space in 2018 and 2019, including operations already opened in October at the new Jazeera terminal at Kuwait Airport and 1,400 m^2 of duty-free retail space at Perth airport (further 1,300 m^2 to come in 2019)

Julián Díaz, CEO of Dufry Group, commented: “Given the challenging market conditions being experienced in the wider retail sector and the on-going volatility in some of the economies in which we operate, I am pleased to report that Dufry, with its strong position in the still growing sub-sector of travel retail, has delivered a resilient performance in the first nine months of 2018.

In the first semester, we saw a good organic growth performance throughout the first and most of the second quarter in line with our initial expectations. With the beginning of the peak holiday season, we experienced a slowdown in organic growth driven by a shift of tourist flows from Spain to other Mediterranean destinations as well as a currency devaluation in Brazil and Argentina affecting the purchasing power of these important nationalities. The positive performance in our other operations could not fully compensate the impact of these geographies, thus resulting in an organic growth decline of 0.7% in Q3 2018 compared to the same period last year. Despite these impacts, we still expect a positive evolution of organic growth for the full year 2018 in the magnitude of between +2 and +3% supported by the important new openings.

Looking at our three key financial metrics, we continued to generate top-line growth in most of our operations, driven mainly by organic growth. Our EBITDA margin expanded by a further 40 basis points to 12.3%; and we managed to generate significant improvement in both our free cash flow and equity free cash flow which increased to CHF 618.7 million and CHF 430.1 million respectively.

Being a global company, we have once again seen differences in the performance of our several operations, a trend that will continue due to the diverse nature of our portfolio. Whilst Spain, Brazil and Argentina experienced headwinds linked to specific local issues, most of our other operations in the UK, Central and Eastern Europe, the Middle East, Asia and North America continued to grow.

The implementation of the Business Operating Model (BOM) is now in its final phase. The efficiencies outlined earlier can already be seen coming through in our financials, being an important element of the EBITDA margin improvement in the period. We expect to see the full efficiencies being realized in the next few quarters. After generating CHF 195 million synergies from the acquisitions of Nuance and WDF, the BOM is a clear example on our capability to extract additional savings and become a more efficient company.

Despite the headwinds in selected markets, Dufry has a strong strategic positioning with a broad portfolio of high-quality concessions across many markets in a sector with positive fundamentals. Our focus continues to be the delivery of solid long-term results for our shareholders."

FINANCIAL RESULTS

Turnover

In the first nine months of 2018, turnover grew by 4.6% to CHF 6,560.7 million from CHF 6,270.5 million in the same period in 2017. Like-for-like growth contributed with 1.8% and net new concessions added 1.3%, which resulted in an organic growth of 3.1%. The FX translation effect during the period was 1.5%, mainly due to the strengthening of the Euro and the British Pound versus the Swiss Franc.

In the third quarter of 2018, headwinds in certain geographies impacted our trading in Spain, Brazil and Argentina resulting in a lower turnover growth of 0.6%. On a like-for-like basis, revenues declined by -0.9% compared to an increase of 3.5% in H1 2018, due to the weaker trading largely in these geographies.

Net new concessions also contributed less during the period with 0.2% in the third quarter from +2.0% in H1 2018, as several of the concessions that provided positive contribution annualized. As a result, organic growth was -0.7% in the third quarter. The FX translation effect was, however, positive at 1.3% for the third quarter, as the USD, EUR and GBP saw a year-on-year strengthening versus the Swiss Franc.

Further negotiations with suppliers drive improvement in the gross profit margin

Gross profit margin in the first nine months of 2018 improved by 50 basis points to 59.9%, compared to 59.4% in the previous year. The improvement comes partly from a mix effect and mainly as a result of further renegotiations of terms and conditions with local suppliers, supported by a contribution from the acceleration of several brand plan initiatives, resulting either in better terms or higher advertising income.

Continued improvement in EBITDA[1] margin

EBITDA reached CHF 806.5 million first nine months of 2018, a growth of 8.5% year-on-year. EBITDA margin expanded by 40 bps, to 12.3% in the first nine months of 2018, compared with 11.9% last year.

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 generating savings in personnel and general expenses of 30 basis points year-on-year in the nine months.

Conversely selling expenses, 90% of which are concession fees, continued their trend upwards and rose by 40 basis points as percentage of turnover in the nine months; which due to the effect of the Spanish contract is slightly above the normally expected range of 20-30 basis points per annum.

EBIT increased by 12.4%

EBIT grew by 12.4% and reached CHF 328.2 million in first nine months of 2018, compared to CHF 292.0 million in the same period in 2017. Depreciation and amortization slightly increased as a percentage of turnover at 6.4% in 9M 2018 versus 6.2% one year before. Linearization (non-cash accounting treatment in regards to Spanish concessions) amounted to CHF 27.2 million in the first nine months of 2018.

Net earnings

Cash net earnings, which add back the acquisition-related amortization, were CHF 319.1 million in the first nine months of 2018, compared to CHF 312.3 million in the same period in 2017. Cash EPS grew 4.5%, reaching CHF 6.07 (9M 2017: CHF 5.81). Based on the current number of shares remaining in the market the increase in cash EPS would be even more pronounced for a total growth of 8.1%.

Net earnings to equity holders stood at CHF 87.5 million in the first nine months of 2018 compared to CHF 84.7 million in the previous year. Financial results, net, reached CHF -99.4 million in the first nine months of 2018 from CHF -132.9 million one year earlier. The improvement of CHF 33.5 million is due to the refinancing concluded last year as well as the lower debt levels in 2018. Income tax was CHF -92.4 million, and was impacted by one-offs as well as the changes in the US business and tax regulation. Of the increase of CHF 55.3 million versus last year, CHF 43.5 million are due to non-cash deferred taxes and CHF 11.8 million due to higher income taxes. Minorities were CHF 48.9 million in 9M 2018 compared to CHF 37.3 million in the previous year, mainly influenced by the reflection of the additional Hudson minorities after the IPO.

Cash Flow

Free cash flow[2] reached CHF 618.7 million in the first nine months of 2018, up from CHF 464.7 million in the same period last year; an increase of 33.1%.

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[1] EBITDA before Other operational result

[2] Before interest costs and minorities

In addition to the EBITDA generation, changes in net working capital added a further CHF +93.7 million in the 9M 2018, with Capex further reduced to CHF 181.2 million in the year to date from CHF 217.3 million in the 9M 2017, now standing at 2.8% of turnover and comparing to 3.5% a year earlier.

Equity free cash flow increased by 59.1% and reached CHF 430.1 million from CHF 270.4 million in the first nine months of 2017.

Net debt: Deleveraging on track
Net debt stood at CHF 3,087.6 million at the end of September 2018, CHF 599.3 million lower compared to the CHF 3,686.9 million in December 2017.

By the end of October 2018, Dufry has returned cash to shareholders for a total of CHF 600.6 million, including the dividend payment of CHF 198.7 million and the CHF 401.9 million of the share buyback program following the early completion of the program by October 31st. During the buyback program, Dufry AG repurchased a total of 3,304,541 registered shares (equivalent to 6.1% of its share capital) at an average purchase price of CHF 121.61 per share. The registered shares were repurchased on SIX Swiss Exchange on the ordinary trading line. Dufry AG intends to cancel all 3,304,541 registered shares repurchased.

Moreover, earlier in the year in Q1, the company bought 877,666 shares for an amount of CHF 120.7 million.

Net debt/adjusted EBITDA, the main covenant for the Group, stood at 2.92x as per 30 September 2018 (31 December 2017: 3.59x) against a maximum threshold of 4.00x.

PERFORMANCE BY DIVISION

Southern Europe and Africa
In the first nine months of 2018 turnover grew by 1.6% to CHF 1,456.3 million, (9M 2017: CHF 1,433.9 million) with organic growth falling by 2.1%. In the third quarter organic growth slowed to -5.2%.

Within the division, Spain had the weakest performance due to an unfavorable passenger nationality mix affecting spend per passenger and tougher comparatives on the record numbers of international tourists in the previous years, which were substituted with domestic passengers.

Whilst our operations in Turkey and to a lesser extent Greece benefited from the shift of tourists from Spain, the improvement seen here did not fully offset the Spanish impact. Italy, France and Malta all continue with good organic growth.

UK and Central Europe
Turnover amounted to CHF 1,484.0 million in the first nine months of 2018, 2.5% higher than the CHF 1,447.6 million in the same period last year.

Organic growth, excluding the impact of the closing of Geneva, amounted to an encouraging +3.6%; while including Geneva, organic growth fell by -0.7% for the nine months.

Organic growth was higher in the third quarter at +0.2%, mainly due to an acceleration of growth in the United Kingdom, which accounts for about two thirds of this segment and where several operations benefitted from refurbished stores and intensified in-store marketing efforts.

Performance continued to be solid elsewhere in Switzerland and Sweden, while Finland was flat.

Eastern Europe, Middle East, Asia and Australia
Turnover increased to CHF 849.5 million in the first nine months of 2018, versus CHF 746.2 million in the same period in 2017. Organic growth in the first nine months increased to 15.2%. In the third quarter organic growth was 4.4%, a good performance against the high comparables of the previous year.

Within the division, Russia kept the good performance seen in the year. Bulgaria, Serbia and Armenia all with good growth.

In the Middle East most of our operations saw double digit growth (Jordan, Kuwait and India). Sharjah also continued with its positive performance.

In Asia, where performance has been at strong levels for a number of quarters, growth was lower, although still solid in the main operations, such as Macau, Cambodia and South Korea. Australia continued to perform well, with strong double-digit performance driven by the full renovation of the stores.

Latin America
Performance in this segment reflected the ongoing challenging market conditions resulting from extreme currency volatility in the largest markets in the division, namely Brazil and Argentina, where the devaluation of the respective local currencies versus the USD impacted sales. Other operations in South America saw a slowing performance in the third quarter as a knock-on effect from the two key countries.

Whilst turnover for the first nine months of 2018 fell by -2.8% to CHF 1,212.6 million (2017: CHF 1,247.0 million), organic growth for the third quarter fell by -11.0%.

Performance in Central America, including the Caribbean, continued to be strong, especially in our cruise division, which saw high double-digit growth. Mexico was the exception, being flat in the third quarter after a strong H1 2018.

North America
Turnover increased by 6.6% to CHF 1,415.1 million, compared to CHF 1,327.3 million in the first nine months of 2017.

Organic growth kept developing strongly, reaching 7.5% in the 9M and 7.1% in Q3, with strong like-for-like growth generated by healthy passenger numbers and good contributions from net new concessions.

TRADING UPDATE & FULL YEAR OUTLOOK

The last few years has seen Dufry evolve into a substantially larger and more diversified business, better positioned for the future and with enhanced opportunities in both existing and new travel retail markets. Despite the headwinds in certain countries – in particular with the structural issues in Spain, and to a lesser extend in Brazil and Argentina – are likely to persist for the coming quarters, Dufry’s business model and the fundamentals of the travel retail market do remain solid.

Based on current indications of our trading during October, we anticipate some stabilization of the business in the fourth quarter and a potential improvement in the fourth quarter compared to the third.

In the first four weeks of October net sales were gradually improving; with organic growth close to +1%. The improvement in organic growth is due to a number of factors including lower exposure to Spain; the annualisation of the closing of our operation in Geneva (October 2017), further improved performance in Asia; and the contribution of new openings, namely in Hong Kong and Australia.

We remain focused on cost control and plan to complete the implementation of the Business Operating Model, which will be important for the EBITDA development in the next few quarters.

We therefore expect to see an outcome for the full year 2018 that will demonstrate continuing year-on-year progress for the overall Group. Organic growth is now expected to be in a range of between +2% and +3%; our EBITDA margin between 12.0% and 12.3%; with equity free cash flow of between CHF 350 million and CHF 400 million being confirmed.

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FINANCIALS

Income statement

(CHF million)	9M 2018	%	9M 2017	%
Turnover	**6,560.7**	100.0%	**6,270.5**	100.0%
Gross profit	**3,932.4**	59.9%	**3,726.4**	59.4%
Concession fees	(1,843.3)	-28.1%	(1,741.2)	-27.8%
Personnel expenses	(883.2)	-13.5%	(844.7)	-13.5%
Other expenses	(402.4)	-6.1%	(394.5)	-6.3%
Share of results of associates	3.0	0.0%	(2.4)	0.0%
EBITDA[1]	**806.5**	12.3%	**743.6**	11.9%
Depreciation & impairment of PP&E	(141.2)	-2.2%	(120.7)	-1.9%
Amortization & impairment of intangibles	(278.2)	-4.2%	(268.3)	-4.3%
Linearization	(27.2)	-0.4%	(35.1)	-0.6%
Other operational result	(31.7)	-0.5%	(27.5)	-0.4%
EBIT	**328.2**	5.0%	**292.0**	4.7%
Financial result	(99.4)	-1.5%	(132.9)	-2.1%
EBT	**228.8**	3.5%	**159.1**	2.5%
Income taxes	(92.4)	-1.4%	(37.1)	-0.6%
Net Earnings	**136.4**	2.1%	**122.0**	1.9%
Non-controlling interests	48.9	0.7%	37.3	0.6%
Net Earnings to equity holders	**87.5**	1.3%	**84.7**	1.4%
Acquisition-related amortization	231.6		227.6	
Cash Net Earnings	**319.1**	4.9%	**312.3**	5.0%

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Cash flow statement

(CHF million)	9M 2018	9M 2017
EBITDA before other operational result	**806.5**	**743.6**
Changes in net working capital	93.7	(6.5)
Taxes paid	(81.1)	(69.4)
Other operational items	(44.7)	(9.9)
Dividends from associates	5.7	4.9
Net cash flow from operating activities	**780.1**	**662.7**
Capex	(181.2)	(217.3)
Interest received	22.4	19.3
Increase in participation in associates	(2.6)	-
Free Cash Flow	**618.7**	**464.7**
Proceeds from sale of interests / (investments) in subsidiaries and associates	0.2	-
Interest paid	(128.6)	(159.1)
Cash flows related to minorities	(55.8)	(34.3)
Other financing items	(4.4)	(0.9)
Equity Free Cash Flow	**430.1**	**270.4**
Net proceeds from Hudson IPO	665.2	-
Net purchase of treasury shares / Share buyback	(406.1)	-
Dividends to Group shareholders	(198.7)	-
Transaction / Reestructuring costs	(5.8)	(0.1)
Decrease in Net Debt, before currency translation	**484.7**	**270.3**
Currency translation	122.5	14.1
Arrangement fees amortization and other non cash items	(7.9)	(9.7)
Decrease in Net Debt, reported	**599.3**	**274.7**
Net debt		
– at the begining of the period	3,686.9	3,750.4
– at the end of the period	3,087.6	3,475.7

Balance sheet

(CHF million)	30.09.2018	31.12.2017	Variation
Concession right finite life	3,213	3,499	-286
Goodwill, Brands, Conc. rights indef. life	2,952	2,991	-39
Other intangible assets	100	108	-9
Other non current assets	322	373	-51
Core Net Working Capital	425	461	-36
Other current assets	538	549	-11
PP&E	649	668	-19
Total	**8,198**	**8,648**	**-450**
Equity	3,507	3,356	151
Net Debt	3,088	3,687	-599
Non current liabilities	204	256	-52
Deferred tax liabilities, net	308	334	-26
Other current liabilities	1,092	1,016	76
Total	**8,198**	**8,648**	**-450**

All 9M 2018 related documentation can be found 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 2,300 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.

SOS CHILDREN'S VILLAGES

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.