DUFRY

Media Release

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Dufry confirms profitable growth strategy delivering on its 2016 targets

Dufry achieved all its main goals in 2016, thus confirming its profitable growth strategy. The Company posted positive pro-forma organic growth of +1.0% in the full year; completed the integration of World Duty Free (WDF) ahead of plan and deleveraged the business through strong cash generation. For the full year 2016, Dufry's turnover grew by 27.5% and reached CHF 7,829.1 million. EBITDA increased by 29.2% to CHF 935.1 million, and free cash flow reached CHF 483.8 million, an increase of 43.0% compared to 2015.

Turnover grew by 27.5% and reached CHF 7,829.1 million in 2016, from CHF 6,139.3 million in 2015. As of the third quarter, Dufry managed to return to positive pro-forma organic growth of +1.3%, and saw the trend accelerating even more in the fourth quarter, with organic growth reaching +5.6%, resulting in a full-year organic growth of +1.0%. Changes in scope, which include the consolidation of WDF, contributed 28.6% to turnover growth, while the FX translation effect was -0.6%, mainly driven by the devaluation of the British Pound.

2016 was an important year in terms of business development. Dufry managed to sign a substantial number of contract extensions, which account for close to 80,000 m^2. This is an important achievement as it secures the business for many more years to come and underlines the trust from landlords in Dufry. The remaining average life-time of the concession portfolio amounts to over 8 years. Moreover, the company has opened 41,800 m^2 of gross new retail space and refurbished additional 30,000 m^2.

The integration of WDF has been successfully completed by year-end 2016, ahead of plan. The announced synergies of CHF 105 million per annum are confirmed, and the company expects now the total amount of synergies to be even higher and to reach over CHF 125 million. More than half of the synergies, including CHF 49 million of cost and CHF 14 million of gross profit margin synergies are already reflected in the 2016 financials. The remaining synergies will build-up in the next quarters and Dufry expects the full benefit to be reflected by year end 2017.

Another key point for the year was cash generation and deleveraging. Free cash flow reached CHF 483.8 million, 43.0% higher than in 2015. The increase is mainly related to synergies achieved from the integration of Nuance and WDF, as well as improvements made managing core net working capital. The overall strong financial results 2016 confirm that the company is ready to accelerate performance backed by its solid strategy.

Southern Europe and Africa

Turnover reached CHF 1,702.3 million in 2016, from CHF 1,269.9 million one year before. Organic growth in the division was -2.5% in the full year 2016 and +1.6% in the fourth quarter. Spain had a fantastic year, mainly driven by double digit growth in the number of passengers visiting the country. In Turkey the business was impacted by the sharp decline in the number of travelers – especially the travel ban for Russians, that was in place from February to August 2016, impacted the business during peak season. Greece held up relatively well and posted a small decline on sales. Last but not least, Italy also posted a solid performance in the year.

UK, Central and Eastern Europe
Turnover grew to CHF 2,088.9 million in the year, versus CHF 1,427.8 million in 2015, with organic growth in the division reaching +3.9% (+8.7% in Q4 2016). The business in the United Kingdom had strong performance in the second half of the year, positively impacted by the weakening of the British Pound following the vote on BREXIT. Finland and Serbia performed well, while Sweden and Switzerland were both practically flat. Organic growth in Russia and other Eastern European locations remained negative, however showing improving trends in the second half of the year.

Asia, Middle East and Australia
Turnover amounted to CHF 770.7 million in 2016, from CHF 638.5 million in 2015. Organic growth in the division for the full year and fourth quarter was +0.4% and +1.5% respectively. India and Sri Lanka saw strong growth while performance in the Middle East was flat. Certain locations in Asia performed well, for example South Korea, Indonesia and Cambodia. On the other hand, operations such as Hong Kong, Singapore and Australia were impacted by a lower spend from Chinese consumers.

Latin America
Turnover went to CHF 1,531.1 million in 2016 versus CHF 1,409.6 million one year earlier. Organic growth in the division was -4.1% for the full year, to which the fourth quarter contributed +3.7%. In Central America, Mexico performed very well, as did most operations in the Caribbean in particular the Dominican Republic and Jamaica as well as our Cruise business, to name a few. In South America, Brazil saw an important acceleration in the second half, recording double-digit growth. Other operations in South America also did well, such as Ecuador, Peru and Chile, while Argentina remained negative throughout the year, but showing improvements so far in 2017.

North America
Turnover reached CHF 1,660.9 million in 2016 from CHF 1,352.2 million in the previous year. Organic growth reached +4.5% in the full year, while in Q4 it reached +7.2%. Growth was stronger in the duty-paid business, while duty-free saw the strong performance in Canada being mitigated by lower trading in the United States, due to the stronger US Dollar.

FINANCIAL RESULTS

Gross profit
Gross profit grew by 28.2% and reached CHF 4,584.1 million in 2016 versus CHF 3,574.7 million in 2015. Gross margin improved by 40 basis points, reflecting the synergies achieved from the integration of Nuance and operational improvements.

Selling expenses
Selling expenses reached CHF 2,236.2 million in 2016 from CHF 1,684.0 million in 2015. As a percentage of turnover, they went to 28.6%, from 27.4% in 2015. The increase is due to the consolidation of WDF.

Personnel and general expenses
Both personnel and general expenses saw substantial improvement. As percentage of turnover, the former improved by 40 basis points to 13.5% and the latter by 50 basis points to 4.6% respectively. The improvements in these expenses are a combination of the consolidation of WDF and synergies achieved in the year.

EBITDA

EBITDA grew by 29.2% and stood at CHF 935.1 million (CHF 723.8 million in 2015). EBITDA margin was 11.9% in 2016, compared to 11.8% in 2015, and reported a strong increase in the fourth quarter 2016 reaching 12.8% (Q4 2015: 11.2%) supported by the synergies. While all synergies from Nuance are included in the result, also more than half of the expected WDF synergies have already been reflected, including CHF 49 million of cost and CHF 14 million of gross profit margin synergies. EBITDA margin improved year-on-year despite the negative impact from some underperforming operations, such as Turkey and Brazil.

Depreciation, Amortization and Linearization

Depreciation was CHF 166.2 million in 2016 (CHF 135.8 million in 2015). As a percentage of turnover it remained nearly stable at 2.1% compared to 2.2% in 2015. Amortization increased by CHF 70.2 million and reached CHF 379.2 million in 2016, as a result of the additional amortization generated by the acquisition of WDF. Linearization amounted to CHF -74.7 million in 2016. Linearization is a non-cash item related to the Spanish business and originates from the difference between the average minimum guarantee (MAG) over the full concession period and the effective MAG payable in the period. This item also includes the reduction in concession payments granted based on an upfront payment (prepaid lease) related to Spanish contracts.

EBIT

EBIT more than doubled to CHF 272.6 million in 2016 from CHF 132.7 million in the last year. Other operational result (net) reached CHF -42.4 million, compared to CHF -117.1 million in 2015, when CHF -77.4 million of transaction and restructuring cost were included.

Financial results

Financial results, net, increased by CHF 36.0 million and reached CHF 215.5 million in 2016 from CHF 179.5 million in 2015. While the higher net debt due to the acquisition of WDF explains part of the increase, the repayment of the USD 500 million Senior Notes expiring in 2020 generated one-off costs of CHF 14.2 million. The repayment will allow for annual interest savings of CHF 27.5 million per annum from 2017 onwards.

Income tax

Income tax expense was CHF 11.3 million in 2016, versus a positive of CHF 10.1 million one year before. Tax rate in 2016 was 19.8%.

Net earnings

Net earnings improved by CHF 82.7 million and reached CHF 45.8 million in 2016 compared to CHF -36.9 million seen in 2015. Net Earnings to equity holders saw a similar increase year on year and stood at CHF 2.5 million in 2016, versus the loss seen in 2015, which was related mainly to one-offs from the WDF acquisition and the Nuance integration. Cash earnings, which add back acquisition-related amortization, grew by 76.6% in 2016 and reached CHF 322.9 million versus CHF 182.8 million 2015. Cash EPS in 2016 grew by 50.4% and reached CHF 6.00, compared to CHF 3.99 in 2015.

Cash flow

Free cash flow before interest increased by 43.0% and reached CHF 483.8 million in 2016, compared to CHF 338.4 million in 2015. In addition to EBITDA growth, a more efficient management of core net working capital was key for this achievement. Capex in 2016 amounted to CHF 262.2 million.

Debt

Both net debt and leverage were reduced in 2016 as expected: net debt reached CHF 3,750.4 million at the end of December 2016 compared to CHF 3,956.0 million one year earlier and our main covenant, net debt/adjusted EBITDA, stood at 3.69x as per 31 December 2016 from 3.92x at the end of December 2015. In terms of financing strategy, Dufry called in advance its USD 500 million Senior Notes with maturity in 2020 in December 2016. The repayment allowed to further improve the debt structure and to reduce interest costs going forward.

Delivering on our main goals for 2016

Julian Diaz, CEO of Dufry Group, said: "2016 ended up being a successful year for Dufry after a though start. Throughout the year we focused on and successfully accomplished our three main goals: driving organic growth, completing the integration of World Duty Free, and maximizing cash flow generation to deleverage.

Dufry successfully managed to accelerate organic growth along the year and including World Duty Free organic growth reached +1.0% for the full year 2016. The clear rebound of the business we saw in the last two quarters of 2016 with a +5.6% organic growth in Q4, was driven by our growth initiatives.

The several growth initiatives launched by us in late 2015, played an important role on the growth acceleration. The global alignment of our operational approach and the extensive refurbishment plan covering over 30,000 m^2 of retail space in 119 shops not only supported our performance in 2016, but will also be one of our key organic growth drivers in 2017.

To further accelerate organic growth and to reach under normal conditions a yearly average organic growth of between 5% to 6% going forward, we have developed a "customer focused, digitally driven" strategy approach, which will allow us to drive sales by increasing our penetration rate, the average spend per ticket and the spend per passenger. A key element of this strategy is the intensified use of digital technology to multiply the customer touch-points during the whole travel journey and to improve the customer experience with individualized offers, promotions and services along with an intensified training of our sales force.

The integration of World Duty Free has been completed by the end of 2016 ahead of plan. We not only confirm the CHF 105 million synergies announced, but we expect now to realize over CHF 125 million synergies in total. More than half of the expected synergies are already reflected in the 2016 financials and they include CHF 49 million of cost and CHF 14 million of gross profit margin synergies. The remaining synergies will build up quarterly in 2017.

Deleveraging was a priority for 2016. We reduced net debt and leverage in 2016 as expected and this focus on cash generation will also remain a focus for 2017. Despite our focus on cost control and cash generation, we have continued to invest in the ongoing acceleration of organic growth.

Another area where we worked heavily was the definition of our new Business Operating Model (BOM), which we completed in 2016 and for which we ran a successful pilot in Mexico. The new business operating model aims at refining our processes, benefitting from best practices and adopting new efficient ways of working to better serve our customers, drive our sales and generate additional efficiencies. Our current estimates suggest that we could generate more than half a percentage point of savings at EBITDA level. The BOM will now be implemented country by country in multiple waves, with completion expected for end 2018.

The start of 2017 has confirmed the positive trends seen in the second half of 2016. Above all, the return to organic growth seen in the last two quarters in 2016 is continuing. Those markets with significant headwinds in 2016, such as Brazil and Turkey, have started to turn around and we do expect a significantly improved performance in those markets in 2017 relative to 2016. We also continue to see a reduction of currency volatility in emerging markets. Thanks to the additional efficiencies we implemented over the past 12 month, our organization is ready to perform, backed by our solid strategy.

Positive fundamentals on the global economy and the resilient growth in passenger numbers indicate a positive overall business environment. Combined with our focus on operational improvements and the already signed additional space of 22,000 m^2 to be opened in 2017 and beyond, we expect a successful year for Dufry."

Key Figures Dufry Group

In CHF million	FY 2016		FY 2015		Var.
Turnover	7,829.1		6,139.3		27.5%
Gross Profit	4,584.1	*58.6%*	3,574.7	*58.2%*	28.2%
EBITDA (before other operational results)	935.1	*11.9%*	723.8	*11.8%*	29.2%
Net Earnings to Equity Holders	2.5	*0.0%*	-79.3	*-1.3%*	
Cash EPS (in CHF)	6.00		3.99		50.4%

Dufry's 2016 Annual Report is available at the company's website at www.dufry.com/en/investors.

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Dufry Group – A leading global travel retailer

Dufry AG (SIX: DUFN; BM&FBOVESPA: DAGB33) is a leading global travel retailer operating around 2,200 duty-free and duty-paid shops in airports, cruise lines, seaports, railway stations and downtown tourist areas.

Dufry employs close to 29,000 people. The Company, headquartered in Basel, Switzerland, operates in 64 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.