Media Release

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Dufry reaches 3% organic growth and an equity free cash flow of CHF 383.3 million in 2019, delivering on its targets

Dufry's turnover reached CHF 8,848.6 million in the year with organic growth confirming the acceleration trend and reaching 3.0%. Gross Profit margin expanded by 40 basis points from 59.8% to 60.2% in 2019. Adjusted Operating Cash Flow was CHF 959.9 million, while Equity Free Cash Flow came in at CHF 383.3 million in line with the mid-term Equity Free Cash Flow target of CHF 350-400 million.

TURNOVER

In 2019, Turnover grew by +1.9%, reaching CHF 8,848.6 million versus CHF 8,684.9 million in 2018. Organic growth for the year stood at 3.0%, with like-for-like contributing 0.6% and net new concessions adding 2.4%. Changes in Scope, which includes the contribution of the acquisitions of Vnukovo and Brookstone, amounted to 0.1%. The translational FX effect in the period was -1.2% as a net effect of the strengthening of the US dollar and weakening of the Euro and the British Pound.

In the fourth quarter, all divisions reported positive organic growth resulting in a Group performance of 3.1% supported by a healthy like-for-like growth of 2.2%.

As part of its business development strategy, Dufry refurbished over 41,600 m^2 to support like-for-like performance and opened and expanded some 33,900 m^2 of gross retail space. This includes new shops in Russia, Mexico, USA and shops across 19 new ships. Dufry also signed new contracts for close to 14,900 m^2 of additional retail space to be opened during the next two years, thus further supporting organic growth.

In November 2019, Dufry announced the successful closing of the acquisition of the 60% stake of RegStaer Vnukovo announced earlier in June 2019. The new entity was fully consolidated as of November 2019. In October, our subsidiary Hudson had already started to consolidate the newly acquired Brookstone shops in the U.S.

Europe and Africa

Turnover in the region was CHF 3,850.9 million in 2019 from CHF 3,828.2 million one year ago. Organic growth in the division reached 5.8% in the year and 7.5% in the fourth quarter. The like-for-like contribution remained strong during Q4, reaching 6.1%.

The UK and especially Spain continued to deliver solid performance for the year. The implementation of the pilot projects across five Spanish airports including several commercial initiatives and best practices were very successful, showing improving sales during the whole year. Greece and especially Turkey maintained their positive momentum in 2019, delivering a solid growth. Other locations such as Malta, Italy and Finland also posted positive growth. Africa saw a stronger performance in most operations, with Morocco, Kenya and Egypt growing double digit in the year.

Asia-Pacific and Middle East

Turnover reached CHF 1,274.9 million in 2019 from CHF 1,153.6 million in 2018. Organic growth for the year stood at 10.8% supported mainly by the contribution of new concessions in 2019. It's worth to highlight that the like-for-like performance has also improved during the year, reaching 8.3% in the fourth quarter.

Eastern Europe posted positive performance, supported by Russia and Serbia. Asia-Pacific posted a double-digit growth mainly driven by Hong Kong with the successful opening in the MTR high-speed railway station, as well as the strong performance seen in Macau and the positive growth in Cambodia and China. Australia also posted solid performance for the year, supported by the opening of new shops in Perth. The Middle East posted good performance, with solid growth in India, Sri Lanka and Sharjah.

North America
Turnover amounted to CHF 1,935.8 million compared to CHF 1,884.4 million in 2018 and organic growth came in at 1.8% in the year. The North American operation has been performing strongly for many years and in 2019 the duty-paid business confirmed its resilience despite some temporary challenges. The duty-free segment was negatively impacted by the lower spending from Chinese passengers along the first nine months, but showed signs of a recovery in the fourth quarter 2019.

Central and South America
Turnover stood at CHF 1,536.1 million in 2019 versus CHF 1,617.0 million in 2018. Organic growth in the region was -6.3% in the year with performance in the fourth quarter turning positive at 0.2%, mainly supported by the implementation of commercial initiatives.

During 2019, performance in South America remained challenging, impacted by local currency devaluations, namely in Brazil and Argentina. Performance in Mexico was positive throughout the year, reaching solid results especially during the fourth quarter. The Dominican Republic posted positive growth, while the Caribbean was healthy along the year, supported by the cruise business.

Worth mentioning are the two positive changes in legislation approved by the Brazilian government during 2019 – the possibility to open border shops and the increase of the arrival duty-free allowance – which will further support organic growth in this important market in South America.

FINANCIAL RESULTS

Given the introduction of IFRS 16 in 2019, most lines of the Income Statement and the KPIs became non-comparable with 2018 reported figures; except for the KPIs related to cash flows. In Dufry's corporate website, we provide an additional set of information with comparative data by quarter and for FY 2018.

Gross Profit margin increased by 40 basis points
In 2019, Gross Profit increased to CHF 5,323.2 million from CHF 5,195.7 million in the previous year, with the Gross Profit margin increasing by 40 basis points and reaching 60.2% from 59.8% in the previous year. The continued improvement is the result of Dufry's negotiations with global and mainly local suppliers as well as the further standardization of the supply chain and the implementation of the commercial platforms, which increase the agility of the commercial teams and take them closer to the market.

Adjusted Operating Profit (Adjusted EBIT)
Adjusted Operating Profit (Adjusted EBIT) reached CHF 767.7 million, with the respective margin amounting to 8.7% in 2019.

As mentioned previously, Dufry started to report under the new IFRS 16 framework, which mainly changes the accounting treatment of leases. In short, whilst previously leases were accounted as expenses, now fixed components are capitalized and amortized over the lifetime of the contract, while all variable components of the concessions are classified as lease expenses. For 2019, Lease Expenses amounted to CHF -1,372.9 million.

Personnel Expenses amounted to CHF -1,243.3 million in 2019 from CHF -1,175.2 million one year earlier. As a percentage of turnover, Personnel Expenses increased by 60 basis points to 14.1% driven mainly by North America. Reasons were the increase in minimum wages, as well as a one-off charge of USD 7.6 million of accrued severance expenses related to changes in the local management structure in Q1 2019.

Other Expenses reached CHF -618.8 million in 2019. Other Expenses mainly replace the former income statement line “General Expenses” and also include the former “Other Operational Result”.

Depreciation (excluding Right-of-Use) reached CHF -203.9 million, remaining stable as a percentage of turnover (-2.3%) versus last year. Amortization in absolute terms stood at CHF -402.8 million, increasing as a percentage of turnover (-4.6%) compared to last year (-4.3%) due to the acquisitions done in 2019. Depreciation of Right-of-Use was CHF -1,170.3 million, which relates to the leases that are capitalized.

Net Profit

Adjusted Net Profit reached CHF 349.3 million in 2019, while the respective Adjusted EPS was CHF 7.00. Net Profit to Equity Holders reached CHF -26.5 million in the year under review. Financial Results (excluding Lease Interest and FX) amounted CHF -127.6 million and Income Tax reached CHF -78.2 million, mainly driven by deferred taxes. Minorities were CHF -56.6 million for the year.

Cash Flow

Contrary to the Income Statement, the effects of IFRS 16 on the cash flow are minimal. Cash flow KPIs will therefore continue to be key for measuring the performance of the business.

Adjusted Operating Cash Flow reached CHF 959.9 million in 2019 compared to the CHF 973.2 million in 2018. Equity Free Cash Flow increased solidly to CHF 383.3 million in 2019 compared to CHF 370.8 million in the previous year.

Net Debt

Net Debt amounted to CHF 3,101.9 million at the end of December 2019, including the dividend payment of CHF 199.8 million in May, compared to CHF 3,286.1 million in December 2018 and reaching the lowest level on a full year base since 2015. Our covenant, Net Debt/Adjusted Operating Cash Flow was 3.52x as per December 31, 2019, representing an ongoing improvement versus previous quarters and providing comfortable headroom against the maximum threshold of 4.50x. The covenant calculation has also been adapted to the IFRS 16 implementation, thus not directly comparable with the previous year, but reflects the same risk profile as under the former calculation method.

Long-term financing secured and improved

In November, Dufry successfully issued a new bond of EUR 750 million using the proceeds to refinance the former bond of EUR 700 million and reduce existing bank debt. The new bond has a coupon of 2% and will generate annual financing cost savings of EUR 16.5 million as compared to the previous one.

<u>Dufry accelerates execution of growth strategy and delivers on organic growth and Equity Free Cash Flow targets</u>

Julián Díaz, CEO of Dufry Group, commented: “2019 was characterized by an ongoing acceleration of organic growth, which supported by our marketing initiatives and new concessions increased to 3.0% in line with our mid-term average guidance. Organic growth has been benefitting from both solid contributions from new concessions and like-for-like growth, which has turned positive in Q3 reaching 1.3% and increasing to 2.2% in Q4. This performance was driven by several initiatives such as the implementation of the new commercial platforms as well as our ongoing refurbishment program covering 41,600m^2 of retail space mainly in Spain, Sweden, Jordan and Turkey.

Regarding business development, we added some 33,900m^2 of gross retail space in 2019, including the opening of new shops in Russia, Mexico, Kuwait, Brazil and several ships. We also already signed around 14,900 m^2 to be opened in 2020 and 2021 in existing and new locations across the globe.

In the context of further expanding our business going forward, in 2019 we achieved several milestones such as the acquisition we performed in Russia, consolidating our position in the country, and the two acquisitions in the United States through our Hudson subsidiary. Here we created additional growth opportunities allowing us to expand both in duty-paid and duty-free, while at the same time accelerate the penetration of the important airport F&B market. Last but not least, we successfully extended the AENA contract for up to five years covering all the airports in Spain. I am looking forward to rolling out to further locations in Spain our successful commercial initiatives and best practices already tested across five pilot airports to accelerate performance even more. It’s worth to note that this implementation will not need any significant Capex investment.

Moving forward, we will see the contribution of our new concessions, which we have added organically and through M&A in 2019. Therefore, we are optimistic about Dufry´s ability to deliver mid- and long-term sustainable growth and solid cash flows with our resilient business model.

At the beginning of 2020, we saw a further acceleration of the business. Then Covid-19 impacted our operations where we have exposure to Asian customers as well as in locations directly impacted by the phenomena. We have immediately implemented several worldwide initiatives to accelerate sales; to secure cash generation through renegotiations of rents and with brands, and to reduce costs through actions at third party cost levels and with employee reorganizations. Currently it’s still challenging to estimate the impact for the full year.“

Outlook

The group organic growth performance saw a further acceleration in January 2020. In February performance was negative reaching -7.3%. In February, Europe and Africa performed slightly negatively; Asia Pacific and Middle East reported negative growth at double digit level; North America was negative at single digit, while Central and South America featured positive growth. Year-to-date until end of February organic growth was -2.3%; and year-to-date until March 8th organic growth was -3.8%.

The company has immediately set up a special committee at the Global Executive Committee level and implemented an action plan to secure cash flow generation, drive sales and safeguard profitability. The action plan is monitored on a weekly basis and includes initiatives to accelerate sales volumes, maintain gross profit margin levels, reduce personnel and other expenses as well as renegotiate rents. In total these initiatives are expected to generate savings of CHF 60.0 million on a consolidated full-year basis at Adjusted Operating Profit level. Moreover, measures to offset cash flow impacts have been launched at Capex and Net Working Capital level expected to generate in total a contribution of CHF 40.0 million in the full-year.

Considering the planned savings at Adjusted Operating Profit level as well as the self-help measures at NWC and Capex levels, we do not anticipate any liquidity problems during the crises.

Provided that the situation improves in the second semester and considering that the third quarter is the most important for the company, Dufry expects to reach a negative, single digit organic growth performance for the fully-year 2020, based on current information.

The release of Dufry's FY 2019 results includes the implementation of the IFRS 16 framework in the financials. Given that the new accounting standards have a significant impact on Dufry's Income Statement and Balance Sheet, some of the reported figures are not comparable with 2018. While this press release explains the main results, a more thorough analysis will be made at the results' conference call and is available in the FY results presentation. Access all FY 2019 results documents, including press release, presentation, Financial Report FY 2019 - **link**

ADDITIONAL BACKGROUND INFORMATION

In order to further increase transparency and to support comparability of the company performance before and after the introduction of the IFRS 16 accounting standards as per the business year 2019, our corporate website provides an additional set of financial data for each quarter and the full-year 2018. Please follow this link to access the information.

ALTERNATIVE PERFORMANCE MEASURES

ORGANIC GROWTH

Like-for-like *
+ Net new concessions **
= Organic Growth

ADJUSTED OPERATING PROFIT (ADJUSTED EBIT)

Operating profit / (loss)
+ Amortization of concession rights ***
+ Impairment of concession rights ***
= Adjusted Operating Profit (Adjusted EBIT)

ADJUSTED NET PROFIT / ADJUSTED EPS

Net profit / (loss) attributable to Equity Holders of the parent
+ Amortization of concession rights ***
+ Impairment of concession rights ***
+ Interest on Lease Obligations
+ Transaction Expenses ***
- Income tax on above lines
- Minority interest on above lines
= Adjusted Net Profit
÷ Weighted Average number of Ordinary Shares Outstanding
= Adjusted EPS

CAPEX

Purchase of Property, Plant and Equipment
- Purchase of Intangibles
- Other Investing Activities
+ Proceeds from Sale of Property, Plant and Equipment
= Capex

ADJUSTED OPERATING CASH FLOW

Cash Flow before Working Capital Changes
- Lease Payments
+ Proceeds from Lease Income
= Adjusted Operating Cash Flow

NET DEBT
Borrowings (short and long-term)
- Cash and Cash Equivalents
= Net Debt

CORE NET WORKING CAPITAL
Inventories
+ Trade and Credit Card Receivables
- Trade Payables
= Core Net Working Capital

EQUITY FREE CASH FLOW
Net cash flows from operating activities
- Lease Payments
+ Proceeds from Lease Income
- Capex
+ Interest received
= Free cash flow
- Interest Paid
- Cash Flow related to Minorities
- Purchase of interest in associates
- Dividends paid to non-controlling interest
- Contributions from non-controlling interests
+/- Other Financing items
- Purchase of financial assets
+ Proceeds from sale of financial assets
+ Proceeds from loans receivable repaid
= Equity Free Cash Flow

Note: Calculation methods applicable as of 2019
* Sales on same space as previous comparable period
** Store openings minus store closings in the period under review
*** Related to acquisitions

DUFRY

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Dufry Group – A leading global travel retailer

Dufry AG (SIX: DUFN) is a leading global travel retailer operating over 2,400 duty-free and duty-paid shops in airports, cruise lines, seaports, railway stations and downtown tourist areas.

Dufry employs over 31,000 people. The Company, headquartered in Basel, Switzerland, operates in 65 countries in all six 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.