Excellent progress on our Destination 2027 ambitions

Yves Gerster
Chief Financial Officer

Dear all,

As we look back on 2023, we can be proud of our many achievements. The most notable highlights are perhaps the closure of the two-staged EUR 2.4 billion Autogrill transaction in July 2023 and the earlier-than-anticipated integration of the businesses, standing 2023 as a historical and transformational year for Avolta. In total, our full year CORE turnover reached CHF 12,534.6 million, representing organic growth of 21.6% proforma versus the previous year.

Despite a business environment further impacted by inflation, interest rate challenges and geopolitical concerns, demand for travel and the travel experience was strong and with demand through to the end of the year remaining strong we are confident that this momentum is sustainable over the foreseeable future. Our reinforced geographical diversification (73 countries, over 1,000 locations, over 5,100 stores and restaurants) has further enhanced our resilient and defensive qualities, underpinning our «Destination 2027» financial ambitions of medium-term profitable and cash generative growth.

In this regard, Avolta delivered a solid 2023 profit performance with CORE EBITDA of CHF 1,129.6 million, representing a margin of 9.0%, +30 basis points (bps) proforma. 2023 Equity Free Cash Flow (EFCF) reached CHF 323.0 million, an 28.6% conversion of CORE EBITDA, positioning us firmly on the pathway towards our «Destination 2027» goal of EFCF conversion superior to 30%.

Profitable and cash generative growth.

All of the aforementioned metrics performed well above our initial expectations, set out at the beginning of the year. This was thanks, in part, to the continued strong global travel demand as well as the lower-than-forecasted integration costs[1] and, in part, to the earlier-than-anticipated synergy realization.

In October last year, we communicated our «Destination 2027» vision as regards our medium-term capital allocation. Specifically, of our annual EFCF, we have committed to returning one third to shareholders by way of a dividend. For 2023, we will propose at the Annual General Meeting of Shareholders (AGM) on 15 May 2024, a dividend of CHF 0.70 per share equating to a total payout of CHF 106.8 million from our EFCF of CHF 323.0 million. For the remaining two thirds of annual EFCF, our priority is to deleverage the balance sheet while retaining a degree of flexibility to invest in relevant business development and small bolt-on acquisitions in order to reinforce the longer-term competitive advantage of the business. In total, we have a medium-term leverage target of 1.5-2.0x net debt/CORE EBITDA with flexibility up to 2.5x if needed after investment in growth. Our December 31, 2023 net debt amounted to CHF 2,696.1 million, the lowest level since 2015, and representing a net debt to CORE EBITDA leverage ratio of 2.6x, well below the covenants ceiling 4.5x, in part thanks to the combination with Autogrill. As at December 31, 2023 we had CHF 715 million cash on the balance sheet and additional liquidity of CHF 1,923 million resulting from undrawn credit facilities.

Avolta has a history of addressing debt financing well ahead of maturity by aligning products and timing to the respective market environment to achieve the best possible financing. At present, while Avolta has access to a range of products and strives to balance financing security, maturity profile and cost aspects and while current available liquidity of CHF 2,637.9 million, thereof CHF 715 million available cash and cash equivalents, we are mindful of the 2.5% coupon on our October 2024 EUR 800 million maturity.

Ample liquidity.

At an attractive weighted average rate of 3.8%, our current debt profile con-

[1] CHF 50 million vs. our initial expectation of CHF 100 million, of which CHF 25 million was expensed in 2023 with the remainder to be expensed in 2024.

Avolta delivered a solid 2023 profit performance.

sists of 81% fixed rate debt and 19% on floating rates. Our ratings in 2023 improved with upgrades by both S&P from B+ to BB Outlook Stable and Moody's from B1 to Ba3 Credit Watch Outlook Positive.

During 2023, we have continued the close relationship and ongoing interaction with our shareholders, investors, bondholders, equity and debt analysts as well as banks and rating agencies in more than 1,190 interactions, thereof 9 roadshows, 12 conferences, 564 meetings and 626 conference calls and emails.

Resilient growth.

Our long-term strategy to revolutionize the travel retail experience coupled with the combination with Autogrill has impacted the financial profile of Avolta. With 37% of revenues generated in Duty-Free, 31% Duty-Paid and 32% F&B in 2023, and a presence in 73 markets, across over 1,000 locations and more than 5,100 outlets, we are significantly more resilient and defensive than ever before while our balance sheet has also been significantly reinforced.

The combination with Autogrill and expansion into travel F&B has changed our P&L and cash flow. While Autogrill delivered similar net returns to the combined entity, we now have structurally higher gross profit margins and a lower concession fee (with longer contract durations) ratio. On the other hand, personnel and other expenses as well as CAPEX requirements will be higher due to the different profile of the F&B business. In October 2023, we have published proforma combined financial statements for 2019 and 2022 which allow comparison to our 2023 consolidated financial statements. The historical pro forma numbers are available on our webpage.

Over the medium-term, we continue to foster a culture of operational improvement to fuel profitability, accelerate cash flow generation, and reinvest in growth. Hereby, the finance teams will support our strive for superior profitability driven by a logic of zero-based budgeting, focused on disproportionally allocating resources to activities that make the most impact, while leveraging technology to simplify work and operations. In addition to the budgeting discipline, Avolta will systematically and actively manage its concession portfolio, with stronger focus on the evaluation of full profitability, cash flow contribution and returns.

We have reinforced our ongoing ESG commitment by fully integrating the ESG strategies and sets of initiatives of the former entities into a new combined ESG Strategy House, which has resulted in greater transparency of our group wide ESG direction. In particular, we have implemented the double materiality approach in our new Materiality Matrix, developed through a collaborative process with various stakeholder groups. We have also evolved our TCFD Report not only by considering the scope of the new joint entity, but also by providing three severity scenarios for our climate-related risks and opportunities. Last but not least, and a topic close to my heart, we have finalized Avolta's Community Engagement strategy creating the base for a joint and focused implementation of initiatives in the communities where we operate.

Diligent cost and cash flow management.

For 2024, while macroeconomic and geopolitical developments remain uncertain, we look forward to the year with confidence, underpinned by recent demand momentum across the travel-related sectors, the positive outlook for global passenger trends

The business combination has positively impacted the financial profile of Avolta. We are now more resilient than ever.

and our reinforced resilient and defensive credentials. With our global exposure, we are naturally well hedged with respect to FX fluctuations from an operational perspective, however it is important to consider translational effects from currency developments when comparing turnover with previous years.

I would like to thank our customers, shareholders, bondholders, banks, analysts, rating agencies, business partners and key advisors for their continued trust in Avolta and their ongoing support to initiate and execute the right measures helping us to emerge stronger and be in the best position to take advantage of the opportunities we see on our way ahead.

Kind regards,

Yves Gerster