Conference Call 1H2019 Financial Results

Operator: Good afternoon, and welcome to Autogrill First Half 2019 Financial Results Conference Call. Lorenza Rivabene, Group Corporate Development and Investor Relations Director, is going to start the call. Please go ahead, Madam.

Lorenza Rivabene - Group Investor Relations Manager: Good afternoon, and welcome to Autogrill's First Half 2019 Earnings Call. Joining me on the call are Gianmario Tondato, our Group CEO; and Camillo Rossotto, our Corporate General Manager and Group CFO. Before we get started, we want to emphasize that some of the information discussed in this call may contain forward-looking statements that involve risk and uncertainty. Actual results may differ materially from those anticipated in these statements. For a discussion of these risks and uncertainties, you should review the disclaimer in the earnings presentation we issued today. Now we are available to take your questions. Thank you.

Operator: We will now begin the question-and-answer session. The first question comes from Alessandro Cecchini of Equita. Please go ahead.

Alessandro Cecchini - Equita SIM: Hello everybody and thank you for taking my questions. The first one is about North America. First half benefited from easy comparison and likely price hikes started in mid-2018. I would like to better understand, if you do expect the second half to be supported by a new wave of price increases? This is my first question about North America. And then what is your feeling about labor cost, cost inflation in North America. What was the trend in the first half? And if you consider the second half's trend similar to this. My second question is about International: in the first half, you reported weak margins. This trend probably is much different from your guidance of flattish margins. I would like to better understand what kind of assumption for the full year or better color on the initiatives that you are undergoing in order to improve margins in the second half. And then finally, on the net working capital. I would like to better understand if you do expect to fully recover the minus 60 million of negative net working capital trend of the first half for the full year?

Camillo Rossotto - CFO & Corporate GM: Thank you for your questions. Let me address the last one first. The answer is yes, we expect that on a full year basis, we're going to be on track with the guidance we provided at the Capital Markets Day of doubling our free cash flow generation versus 2018. And that implies essentially a roll back on a full year basis with around something like zero or similar in terms of changing working capital on a full year basis, which is expected to recover the absorption in the first half, which was driven by receivables and expenses that we already forecasted, related to the monetary expression of the one-off cost that we booked in 2018 for the cross-generational deal and so other VAT receivables, which reversed in the second half of the year. So the answer is yes, we are confirming the kind of doubling the free cash flow and, therefore, recovering the absorption of the first half.
On the margins, let me start with North America. I recall, we tend to provide guidance and colour on the full year performance, given the relevance of seasonality also in our numbers. So when you look at our new and confirmed guidance for 2019, in terms of the EBITDA range, 450 to 470 million Euros on an underlying basis, that implies operating margins stability at the North American level. And as you recall, last year we talked about something like 11% of underlying EBITDA margins in North America. And I think that's still the operating assumption. The dynamics on the incrementals in the first half, forgetting for a second easy comparables with last year's, are still impacted by strong dynamics in terms of labour cost inflation, we're talking about 5%, 5.5%, roughly there. And we don't see those subsiding in the short term. So we continue to guide for margin stability as opposed to margin improvement.
Last, I think you were asking about international. It's taking a bit longer than expected to fix some of the issues in some of the stores in the Nordics. And as a consequence of that, that has affected the profitability compounded by, I think, a slowing down of traffic in the Nordics. And that has kind of driven the lower operating profitability. We're still seeing solid growth overall. But I think in terms of overall guidance, we are probably slightly lower than we expected, when we made the Capital Markets Day, which then on the total numbers of the group still blend to the range that I've given before.

Alessandro Cecchini - Equita SIM: Okay, thank you. And about, back to North America, about the price increases. You said the first part of this year, so 2019, are you passed some price hikes so to support the second half? Or we are still, I mean, working on the 2018 price hikes?

Camillo Rossotto - CFO & Corporate GM: No, there's still some new pricing in there, so that those should be sufficient to weather the increases on the labour cost side. And therefore, it's consistent with the flattish margin indication that we provided you.

Alessandro Cecchini - Equita SIM: Thank you very much.

Camillo Rossotto - CFO & Corporate GM: Welcome.

Lorenza Rivabene - Group Investor Relations Manager: Okay. I received via e-mail some questions from Ali Naqvi of HSBC. So, some questions on margins. European margin growth of 100 basis points, how much of this was driven by the Italian turnaround? How far are you in the cross-generational deal? And any opportunities for further margin progression are here given? On international, if you backed out to the preopening cost, what would the margin have been for H1? Finally, on margin, could you explain the moving parts that saw your raw material cost fall as a proportion of sales and operating lease concession fees increase, but not as much as like-for-like sales growth.

Camillo Rossotto - CFO & Corporate GM: Maybe we repeat the last one because it's complicated, but first, on Italy, on Europe, the 100 basis point it's really driven by Italy. Clearly, the cross-generational deal is in there. The first half result reflects out of that. But there's other pieces in there which have to do with the cost of products, actions on the operating cost and the store labour cost and others. So definitely, the driver of improvement is Italy. The second question was on...

Lorenza Rivabene - Group Investor Relations Manager: On international. If you backed...

Camillo Rossotto - CFO & Corporate GM: Now it's hard to back out of international things. I mean that's the operating performance, probably the indication there were given previously of stable margins and recovering in the course of 2019, so the 10.5% profitability will require a little bit longer. So we still have given you an overall guidance that reflects the fact that we'll get to around 10.5% by 2020.

Lorenza Rivabene - Group Investor Relations Manager: On margin, could you explain the moving parts that saw your raw material costs fall as a proportion of sales and operating lease concession fees increase, but not as much as like-for-like sales growth.

Camillo Rossotto - CFO & Corporate GM: I mean the, I see it more as a statement than as a question. But anyway, the cost of materials, of raw materials are actually pretty effectively managed both in Europe and in the U.S., and you can see that on the P&L. And yes, one component that's new in terms of the business model is the American Airlines deal, which is clearly impacting the P&L in terms of additional cost of materials that we will then re-invoice as we move on. So that changes a little bit the percentages in terms of the impact of the cost of goods. And we still, at the early stages, we will see that reflected in the second half in that bigger magnitude.

Lorenza Rivabene -Group Investor Relations Manager: Okay. We can go ahead with the other questions, please.

Operator: Okay. We have a question. The next question comes from Simon LeChipre of MainFirst. Please go ahead.

Simon LeChipre - MainFirst Bank: Yes, good afternoon. A few questions from me, please. First of all, I will follow-up on the free cash flow question. What do you expect in terms of CapEx for the full year? And second question, in North America, for the motorway business, how do you see like-for-like trend evolving over H2? And last question, still in North America. It seems that you are, you have a slight loss in terms of net contract effect over the May-June period as opposed to the January-April period. So if you could expand a little bit on this point? And how do you see the net contract effect evolving over H2?

Gianmario Tondato da Ruos - Group CEO, Director of the Internal Control & Risk System and Executive Director: Can you repeat the last question, please? Number, point 3.

Simon LeChipre - MainFirst Bank: Yes. In North America, it seems you have had a slight negative net contract effect over the May-June period as opposed to a slight positive effect for the January-April period. So just wondering if you can expand a little bit on this one. And then also, how do you see this effect evolving over H2?

Lorenza Rivabene - Group Investor Relations Manager: Sorry, Simon, if we understood well, you want to break down the performance we had on the top line based in the month of May-June, in respect to what we have announced as of April. Is that the question?

Simon LeChipre - MainFirst Bank: Yes. But with the focus, just with the focus on the net contract gain or losses.

Lorenza Rivabene - Group Investor Relations Manager: Sorry. I think that you don't have to look month by month, but it's much more important to have a look at channel by channel. So I think that the most relevant point is the fact that we are continuing increasing our footprint at airports, while we are reducing a little bit the footprint on motorways. That is also relating to the fact that we are doing some refurbishment works, as you know, on the New Jersey Turnpike. So there are some point-of-sale that now are closed for refurbishment, whilst at airports we continue to increase the footprint.

Simon LeChipre - MainFirst Bank: Ok.

Camillo Rossotto - CFO & Corporate GM: On CapEx for the year, we confirm the 6.5% maximum CapEx for the year. As we continue to finish, the process with the motorways in Europe and we continue to invest also in the motorways in North America. You can see on Slide 17 all the material that, the CapEx by channel, how it breaks down. It's 55% in airports and 32% in motorways, as a function of the investment in, also the New Jersey Turnpike and others. And the second half, the motorway like-for-like trends are still pretty flat and motorways as, we don't see any big change there.

Simon LeChipre - MainFirst Bank: Ok, thank you.

Operator: The next question is from Luca Bacoccoli of Banca IMI. Please go ahead.

Luca Bacoccoli - Banca IMI: Yes, good afternoon everyone. Just one question on the North America. Since, given the very easy comps, I would have expected a quicker EBITDA margin recovery in this geography. So are still there cost headwinds such as labour cost, limiting margin improvement or everything is in line with your, let's say, budget? And should we expect an acceleration in the second semester, which seems not possible based on what you answered to some of the previous question?

Camillo Rossotto - CFO & Corporate GM: I think the gist of your question is if we would have expected better flow-through of the incremental sales in North America in the first half, given the comparable. But you have seen a bit of margin improvement. The labour cost is clearly there, like I said before, it's in excess of 5% in terms of inflation. And so we need to weather that through efficiency and through productivity and through pricing. The second one is there are some, as you've seen, also from the activity in North America, we are reporting significant new gains in new airport locations. What that means? It's that it takes a little bit more in some of these to get to up to speed and to get the full benefit of the operating leverage there. So that's part of what happened in the first half. And that's pretty much it. So I think, again, at the cost of repetition, the full year indication for us is still of constant margins on the incremental performance, which is pretty strong in airports.

Luca Bacoccoli - Banca IMI: Ok, thank you.

Operator: The next question is from Mr. D'Halluin, Bank of America Merrill Lynch. Please go ahead.

Geoffrey D'Halluin - Bank of America, Merrill Lynch: Hey good afternoon, Geoffrey D'Halluin from Bank of America, Merrill Lynch. Two questions, please, and I apologize because I missed you at the very start of the call, so maybe you've got these questions already. But just would like to get back to your working capital outflow for the first half, which has been minus 68 million Euros, compared to 33 million Euros in the first half '18. Just would like to get your sense on how we can look at this working capital on a full year basis, because it seems to be impacted by temporary items in the first half. And my second question is any update on the Starbucks partnerships you can share with us, please?

Camillo Rossotto - CFO & Corporate GM: Okay. I'll deal with the working capital. Indeed, I had talked about it, but I think you...

Geoffrey D'Halluin - Bank of America, Merrill Lynch: I apologize.

Camillo Rossotto - CFO & Corporate GM: No, no, no, don't worry. It's, we still are on task with the full year objective of doubling last year free cash flow. And as far as the working capital component of it, that means that it basically needs to go back to a, call it a 0 level, so we would revert in the second, reverse in the second half most of the absorption in the first half. That partly have to do with receivables, which is both linked to the coming into regime of the American Airlines deal in North America and the some VAT receivables in Italy, that we revert in the second half. And then there's a piece which is, which was forecasted for and we'll provide for more free cash flow in terms of European operation, which was the cross-generational deal that was booked last year but cashed out this year. So the improvement in the second half in the free cash flow is going to be mostly driven by working capital.

Gianmario Tondato da Ruos - Group CEO, Director of the Internal Control & Risk System and Executive Director: On the Starbucks question, I think you know, as you have seen, we are pretty active in managing our brand portfolio lately, so we have, we are improving our partnership with Pret A Manger, that is an important brand, that we are developing in the U.S. very successfully actually. And the last brand that we got exclusive for the concession business in the U.S. is Panera. This is a very, very important brand. It's a cutting edge brand also for the digital development that they did. You know, they make more than 2 billion of sales, If I recall well, you know, just to the digital and they have a small part of their business, that is coffee business, and of course, bread is the, sort of, it is the base of there. So just to tell you that we are pretty active in developing and updating our portfolio. On Starbucks, as I said many times, we've been partner for more than 30 years actually. If you go there, you know, and you look at the entrance of Starbucks' headquarters, there is, in the wall, you know, there is the milestone, when we opened the first store together in Seattle–Tacoma. It's still there. So we still have a good relationship. And it is of course 20% of our sales. And very important for them, very important for us. And we are in discussion now. So we have time and we are trying to reshape the partnership and the friendship that we've been enjoying in the last 30 years. And of course, the landscape now is very different. You know, as I said many times, you know, there is local and global perception and strength of the brand, you know, that is coexisting. So we have to find as much solution to keep us staying together on developing both the businesses, but also fulfilling the needs of this environment, that has changed in the last 7, 8 years, you know, that we have been together. So from, all I can tell you is I expect to be a Starbucks' operator for the year to come. There's no question about that, but we're still in the middle of a long, I would say, discussion, positive discussion with them.

Geoffrey D'Halluin - Bank of America, Merrill Lynch: Thank you very much.

Operator: There's a follow-up from Alessandro Cecchini. Please go ahead.

Alessandro Cecchini - Equita SIM: Hello, thanks for my, a couple of more questions from my side. The first one is more strategic about the bolt-on, I mean, acquisitions and probably disposals, just to better understand your current pipeline. What are you looking for? Just to have an update on this part. You were very active at the beginning of the year, but I would like to better understand if we could expect or to manage something by the year-end. This is my first question. My second question is about your guidance on EPS reported. I am not wrong to say that excluding one-off, you are guiding for 0.41-42 to 0.46, just to deduct, deducting the one-off for the first half, is it correct? Thank you.

Camillo Rossotto - CFO & Corporate GM: Look, I'll take the second one. Now what we're guiding for is at the midpoint of the reported EPS for a 47 cents of underlying EPS, and the new range is accordingly so. It's slightly higher because, I think, the calculation you're doing for deducting the one-off is a bit too generous. You need to consider in there not only the number that you've seen in the financial statements published today, but also the component of underlying the first half and the impact on a full year basis of having this sold of Canada and, sorry, the Check Republic. So the 47 cents, which was provided at the Capital Markets Day is at the center of the new range with 90 to 95 cents.

Alessandro Cecchini - Equita SIM: 47?

Camillo Rossotto - CFO & Corporate GM: 47, yes.

Alessandro Cecchini- Equita SIM: 47 is the midpoint for the underlying EPS.

Camillo Rossotto - CFO & Corporate GM: Right.

Alessandro Cecchini - Equita SIM: Okay. And...

Gianmario Tondato da Ruos - Group CEO, Director of the Internal Control & Risk System and Executive Director: Talking about the acquisition, the bolt-on and the disposal, I can just repeat what you probably heard during our Capital Markets Day. So as I said, we are not sitting on our assets. We have, you should look at the portfolio model, in the portfolio we have probably 400 million on an yearly basis evaluation of sales that belongs to contracts with a duration that is around, more than 15 years, there is an embedded value, on duration it is value, as we said, you know, during the Investors Day, We already proved this with Canada, Canadian disposal. There is a market for this asset, you know, and we try to do something, if it is positive for, and this creates value for the corporation. Talking about the bolt-on, it is the same thing, we are in the game, it is a way to invest the proceeds that we get from this active approach with the asset and if you do something we will announce something, you know, you do acquisitions, you make acquisitions, you announce the acquisition, you don't, we don't do the other way around, you know, as simple as that.

Alessandro Cecchini - Equita SIM: Okay, thank you.

Operator: The next question comes from Jaafar Mestari of Exane BNP Paribas.

Jaafar Mestari - Exane BNP Paribas: Hi, good afternoon. It's Jaafar Mestari from Exane BNP Paribas. And I apologize I also to miss the first two minutes of this call, so hopefully you have not coped with this. Two questions, please. The first one on free cash flow. Have you reiterated the soft guidance for free cash flow to equity to already double this year? And then secondly, on the next new business wins in North America, I appreciate there's a lot of churn there, in terms of gross wins, you are definitely winning quite a lot, about 100 million. But the losses are basically of a similar magnitude so far. So given the updated brand strategy, the new partnerships and given how much CapEx you've put in the initiatives to defend some of your strategic contracts, when can we expect net new business wins in North America to be more materially positive?

Camillo Rossotto - CFO & Corporate GM: I reply to your question on free cash flow, Jaafar, because the one on America was very choppy. But I guess the first point is, yes, we are confirming, even on the back of the cash absorption at the operating level coming from working capital, our guidance for the full year of doubling free cash flow and the way we get there, while we continue to guide for 6.5% roughly CapEx in the year, so on the work, the change in working capital for the remainder of the year will make up the absorption of the first half. There are components there which are structural, like the payment for the, what we call the transformational deal in Italy, for the workforce that we had already forecasted. And you'll see it in the first half, it's a function of actually disbursement having occurred there. But those will be recovered through operating cash from the second half. And then there are others which will reverse as a function of that receivables being absorbed in the second half of the year, where we have more business volumes and the deal with American Airlines getting to cruising altitude in the second half. So the, I guess that was your question on free cash flow. On North America...

Jaafar Mestari - Exane BNP Paribas: I'm sorry. Sorry if you didn't quite hear that, apologies. But basically, my question is gross new contract wins about 100 million, losses about 100 million revenue. Is there a realistic scenario where you start winning on a net basis and more material contribution?

Gianmario Tondato da Ruos- Group CEO, Director of the Internal Control & Risk System and Executive Director: Understood. If you, if I can, some of those contracts that won 100 million, roughly speaking, 100 million win, you know, and then 100 million losses are real, you know, with contracts that are expiring. The 100 million wins are, most of them are start-up, so frankly speaking, a couple of big airports in which we are starting the business, we have not finished yet, so I mean you all see a big improvement there definitely. So it just starts a start-up curve, so you're going to see an important improvement in the openings in terms of sales, and that’s it basically.

Jaafar Mestari - Exane BNP Paribas: Ok, thank you very much.

Operator: There are no more questions at the moment. [Operator Instructions] We have no questions.

Lorenza Rivabene - Group Investor Relations Manager: So many thanks for your time. I am available to take other calls, if you want to have some follow-ups. Have a nice evening. Bye.