Conference Call FY2018 Financial Results

Operator: Good afternoon, and welcome to Autogrill's Full Year 2018 Financial Results Conference Call. [Operator Instructions] Lorenza Rivabene, Head of Group and Corporate Development and Investor Relations is going to start the call. Please go ahead, ma'am.

Lorenza Rivabene - Group Investor Relations Manager: Good afternoon, and welcome to Autogrill's Full Year 2018 Earnings Call. Joining me on the call are Gianmario Tondato, our group CEO, and Camillo Rossotto, our Corporate General Manager and Group CFO, who joined us last year in November. Before we get started, we want to emphasize that some of the information discussed in this call may contain forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those anticipated in these statements. For a discussion of these risk 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: [Operator Instructions] The first question is from Jaafar Mestari of Exane BNP Paribas. Please go ahead.

Jaafar Mestari - Exane BNP Paribas: Hi, good afternoon. I have two questions please. Firstly, just on the net new business in North America, on the full year 2018, it looks like you are still losing about as much new revenue as you're winning. But can you maybe talk about the difference moving parts in there? And I know there is some portfolio management in retail for example. So if we focus just on North America airports, and how is the growth wins versus business losses? And is it still flattish? Or is it more markedly positive? And my second question is not really a question, but please tell us everything you can tell us at this stage on your involvement in the strategic review of Areas and any information, please?

Gianmario Tondato Da Ruos - Group CEO, Director of the Internal Control & Risk System and Executive Director: Let me answer the second question. So we are two listed companies and we don't like to comment on rumours, so there are no comments on the second part. And going on the first point I think I would let Camillo to answer on the numbers. But generally speaking, I think of course, every year we are losing some business, and we are winning in other businesses. There is a start-up phase, especially if you're referring to the retail business. The acquisition does not start on the first day of first of the year, you know. So these are phasing in. What I see so far, generally speaking, it's a very positive trend. They are looking good in term of operation, we are integrating everything quite well. Management is in place, we're changing the management team and Padraig Drennan that is the former duty free person, who used to work with us many, many years ago, and now he is back. Very good you know the retails business in North America. I don't know Camillo, if you want to comment on?

Camillo Rossotto - Corporate General Manager and Group CFO: I think that, Gianmario just said, most of what you see in the airports in 2018 versus '17 is still very much Food & Beverage driven. And I don't think we can still appreciate the full year impact of Avila, for example, that we consolidated at the end of August. So for that, to really make a dent in the distribution of revenues. And also, quite frankly, the characteristics of the cash conversion of that business, which is more interesting from a lower level of capital perspective, you need to wait for 2019 probably. So it is still mostly a Food & Beverage business dynamic there.

Jaafar Mestari - Exane BNP Paribas: Thank you.

Operator: The next question is from Nicolò Pessina of Mediobanca.

Nicolò Pessina - Mediobanca: Yes good afternoon everyone. I have a few questions. First of all, can you give us an outlook for 2019 in terms of profitability? And in particular, your expectations for cost trends in North America? Second question, can you give us some more colour on the like-for-like growth and underlying profitability in the international division in the last few months of the year? My perception is that there was a deterioration of the growth and the profitability there. So maybe you can give us a better view on this point? Third point, on the M&A strategy, you mentioned in the presentation bolt-on acquisitions. I wonder if a large acquisition is still option. Also, I'd like to us if you can give an idea of what you'd like to achieve with the potential M&A deal? Would adding mass be enough or would you like something more in terms of geographic and product diversification? Last question on the rationalization of the non-core assets mentioned also in the presentation. I'd like to know if you referred to any specific asset? Thank you.

Lorenza Rivabene - Group Investor Relations Manager: Sorry, Nicolò, just to check if we understood well on the M&A side. You would like to understand if we will go ahead with piecemeal acquisitions in this is space, if there is room to do an M&A deal with a larger size? Is this the question?

Nicolò Pessina - Mediobanca: Exactly, exactly. And what you would like to achieve with that potential large acquisition by a strategic point of view?

Lorenza Rivabene - Group Investor Relations Manager: Okay, many thanks.

Gianmario Tondato da Ruos - Group CEO, Director of the Internal Control & Risk System and Executive Director: Starting with the outlook for 2019, as you know we issued a plan, a business plan 3 years ago, and we confirm that we are in the game in 2019 and that's what we said, you know, we won't be more specific on profitability in North America or other regions, or other divisions, sorry. And what I can tell you is already in the presentation, I think, the year started... 2019 started quite well, in a positive way. In North America is performing as we expected. International is growing as we expected. And the region that is not suffering, I would say, but more soft in terms of growth is Europe, but in Europe, as you know, we are taking a lot of initiative of restructuring, rethinking of the business that we think are paying off at the beginning of the year and in the rest of 2019. So that's the situation. In terms of M&A strategy I think, generally speaking what we can tell you is that we are pursuing value creation. So we look at every opportunity and if there is an opportunity to make sense and create value and, like we did you know in the past, we will go after those opportunities, that's it. I cannot be more specific in terms of geography or target because as you can imagine it's not this the situation, you know.

Camillo Rossotto - Corporate General Manager and Group CFO: And Nicolò, on the international, I think you're right. I mean, we have been I think very transparent on the fact that the erosion in profitability there, is a consequence of some slower take-off, some of the openings in the Nordics and some other parts of the world. So I think we also alluded to the fact that, given the relatively small size of those operations, versus the other for example North American, European businesses, it doesn't take much to impact profitability, so the team is working very hard on fixing some of these start-up topics, which will be behind us by the end of this year at the latest and therefore, we should bring it back to more of a type of airport channel exposure that we have in the U.S. in terms of perspective profitability.

Nicolò Pessina – Mediobanca: Thank you.

Operator: The next question is from Simon LeChipre of MainFirst Bank.

Simon LeChipre - MainFirst Bank AG, Research Division: Good afternoon, Simon LeChipre from MainFirst. I've got 3 questions, please. First of all, if you could please provide us with an update on the cross generation deal in Italy? Can you confirm your expectations of 7 to 8 million Euro of phasing you mentioned back in July? And what do you expect in terms of phasing? Second question, as a follow-up on the M&A and the portfolio rationalization question. You mentioned those items to be priority for 2019. So do we have to expect some news in the coming weeks or months? And last question, just quickly on CapEx. What do you expect for 2019?

Camillo Rossotto - Corporate General Manager and Group CFO: Let me take the easier one. The cross-generational deal, yes, we are seeing that flowing through the P&L, because, as we mentioned the numbers you were quoting are pretty much what we expect to be the full year impact in 2019, and it's pretty much of a linear type of impact as we go into, as the exits being realized, and we are now working on the re-mixing of the labour force by introducing younger and frankly cheaper labour. So that's on track. The CapEx, I think you should expect, I mean, you have seen that the free cash flow number is still pretty disappointing, and that's a function of clearly both of EBITDA and CapEx, which reflects the '16 and '17 wins in the motorways and renewal programs both concerning the New Jersey Turnpike and some French and Italian motorways. So that will still be with us for 2019. You should expect to see a reduction from the historically high levels with which we are currently traveling starting with I think 2020. And the long term, I think, 5% is a better number than 6%. But before we get there, we should probably see a piece of a hump in 2019.

On the M&A, quite frankly, your question was whether you should expect in weeks or months any news from us, I think you will see when that happens but not something that we would comment on at this stage.

Simon LeChipre - MainFirst Bank AG, Research Division: Ok, thank you.

Operator: Next question is from Nicolò Pessina of Mediobanca, please go ahead.

Nicolò Pessina – Mediobanca: Well thanks, a quick follow-up. I was wondering if you can make any comment on the competitive environment for new contracts in the U.S. and international airports? How is it evolving and how Autogrill is it performing in such environment? Second point, U.S. motorways, where somehow a headwind in 2018. I'm wondering if anything is changing: traffic trends, tastes, consumer tastes and choices and so on? And a final question on Amazon. We read about the potential entry of Amazon into airports, I would be curious to know your view if you perceive it as a threat or not? Thank you.

Gianmario Tondato da Ruos Group CEO, Director of the Internal Control & Risk System and Executive Director: We read the news as well, and so of course Amazon is a big machine, I don't know, but so far nothing happened. If they want to enter an airport, they have to go through the same process that all the other competitors, they have to win a contract, to win a bid and I do not think this is their business plan so far, you know, but anyhow, we will see if they do something. And on the competitive environment, I think the U.S., frankly speaking I don't see a lot of changes. As I said many times before stronger you know the main, the strongest competitors that we have are the locals, more than the usual subjects that you're thinking or we're thinking of in the international arena. And so far, I think we are winning, as you saw in our chunk of business. We are going back in airports, where we were not there for almost a decade, like LaGuardia in New York, it is a big achievement, because we are entering really the hometown of a big competitor, actually probably the biggest competitor that we have in the U.S., that is OTG and so on, you know. And the market is growing, that's the U.S. market in the airports, the infrastructure is growing, so that's the great news, you know, there is I think, we can work in a growth environment, that's really the great news. Talking about the motorways, I think the traffic is not that bad, we don’t have actual data you know in the U.S. motorways, but the traffic in my perception, our perception is that the traffic is not so bad. What is changing is the attitude of people you know that through apps, they can read, for instance, whatever, when they are going through to a motorway they can read all the brands you know that are, stores of the brands that are around the motorway and so they can go out you know and make the choice of stopping and going out and stop, so it's a completely different, completely... a little bit a different behaviour what we've seen before. So, in a nutshell, basically in the old days, what we were providing was basically a service, you know, you stop in the motorways business, you found food, now we're competing with brands. So what we are doing is a rebranding, upgrading our brand portfolio also in the motorway business, and we are, frankly speaking, seeing some success on that. So the introduction with new brands like Pret A Manger are performing very well, for instance, in our U.S. motorway infrastructure. So I think we have to fine-tune, to change a little bit branding strategy in the motorway business, I think that some results are going to be there.

Nicolò Pessina – Mediobanca: Thank you.

Operator: The next question is from Alessandro Cecchini of Equita SIM.

Alessandro Cecchini – Equita SIM S.p.A., Research Division: Hello everybody, I have some questions for you. My first question is about trading momentum. You stated about a good start of 2019. I was wondering if you think about both organic growth, organic top line growth and profitability, this is my first question. My second question is about, a follow-up about CapEx. I think correctly that you are talking about still high CapEx in 2019 but a return to a 5% on sales in 2020, is something feasible? And finally, on the North America, I mean, your exit speed in the second half is quite impressive, plus 7% year-on-year, in term of EBITDA, if you compare this with the first half. I was wondering about what are your expectations in term of labour cost inflation in the U.S. for 2019? And if this exit speed of plus 7% is something sustainable for full year '19.

Camillo Rossotto - Corporate General Manager and Group CFO: Let me take care of the question there. The CapEx yes, starting from 2020, we expect to see trending down towards 5%. So it's going to be a gliding process in 2020, to get to the 5% around 2021. Keep in mind that as we focus more on airports, they have a positive impact also on the CapEx intensity, as we get more also retail exposure that also helped to drive to a lower CapEx level. So it's not just the function of the current contracts but also the dynamics that we anticipate happening in the coming years. That was for the CapEx.

Gianmario Tondato da Ruos Group CEO, Director of the Internal Control & Risk System and Executive Director: Talking about the second half of the year, North America, let me tell you, I think, it is a result of course of the traffic on one hand, but on the other hand, it is also the result of the management, frankly speaking. I think we have been much more focused, we found, we got back to what we used to do very well in the past you know, I think, so again it is a complicated operation, because we are talking about a lot of people, big hours, a lot of hours and many accounts. Now I think, I'm quite pleased with what we achieved. Having said that, I was thinking a little bit to stretch, to assume that the second half of the year can be stretched and compared to all 2019, also because the first half of the year, the first quarter are softened in terms of sales, if you compare the 2 halves of the years, we're talking about two different yearly “animals” in terms of sales, in terms of growths, in terms of peak seasons, so It's a complicated situation. If I can summarize, you know, in the first quarter you have to save the cost base on the business. In the second quarter you start to ramp-up in terms of sales. The third quarter is the big bang and the fourth quarter is a mix of things, so it's really 4 different “animals”, you know, in terms of how you manage the labour, how we manage the offering. But having said that, you know, going back to the trading momentum, I think that 2019, as I can confirm what we said before, it has been a good start for the year, definitely.

Alessandro Cecchini - Equita SIM S.p.A., Research Division: Okay... and talking about your labour cost inflation assumption for 2019, can you share with us your view on this?

Camillo Rossotto - Corporate General Manager and Group CFO: Look, that's an headwind that's going to be with us for a while. Last year, it was something like 4% - 5% and we have structured a business to deal with that, via actions that Gianmario was mentioning on reorganizing the amount of hours to go into the business, looking at G&As and some automation process. So we are continuing to do that, not to mention also pricing for some of these increases, and we think that probably given the situation in North America, in particular with immigration restrictions and full employment almost that's going to be a trend that we will need to continue to deal with also in 2019.

Alessandro Cecchini - Equita SIM S.p.A., Research Division: Okay. Finally, last question from my side. So basically your underlying tax rate for adjusted net income, underlined net income is 21%, pretty low. Is it something do you want to think about, so, you spoke about 25% of underlying tax rate, this year it's lower. Could you argument a little bit on this?

Gianmario Tondato da Ruos - Group CEO, Director of the Internal Control & Risk System and Executive Director: Look, I think in terms of average tax rate 25% is a good proxy, I think now you're getting more into technical issues with the theoretical one assuming tax losses and all of that. So at Group level a consolidated 25% is a good number.

Alessandro Cecchini - Equita SIM S.p.A., Research Division: Ok, thank you.

Operator: The next question is from Ali Naqvi of HSBC. Please go ahead.

Ali Hamza Naqvi - HSBC, Research Division: Hi, just a few questions from myself. Could you just talk about other cost pressures in the group in terms of food and royalty. How those are trending for 2019? And also, in terms of the airports environment. We've see more operators, particularly in convenient start to make quite strong like-for-like growth from Food & Beverage items. I'm just wondering how do you see that as an industry trend going forward?

Lorenza Rivabene - Group Investor Relations Manager: Ali, sorry to interrupt you, but the quality of the line is very bad. Can you please repeat the question? Otherwise you can send it to me and I will repeat it.

Ali Hamza Naqvi - HSBC, Research Division: Is that better? Hello, is that better? I will send an e-mail.

Lorenza Rivabene - Group Investor Relations Manager: If you can send me an e-mail.

Gianmario Tondato da Ruos - Group CEO, Director of the Internal Control & Risk System and Executive Director: Yes, thank you, we appreciate, because it's very choppy.

Operator: The next question is from Alberto Checchinato of Fidentiis Equities.

Alberto Checchinato - Fidentiis Equities S.V.S.A., Research Division: Hello good evening, I have three questions please. The first one is about the U.S. convenience retail. You said previously that the retail has capital returns enhancement for you, so is it fair to assume that convenience as a better free cash flow conversion and return on capital, compared to Food & Beverage in the U.S. airport channel? And the second one is if we exclude the biggest two players in the business of U.S. convenience retail, what is the value of the market that you can realistically target with piecemeal acquisition in the U.S. convenience retail business? And the last one is about the rationalization of non-core activities. Is it fair to assume that when you talk about rationalizing, that would result in a higher share of revenues coming from the airport channel at the end of it? Thank you.

Gianmario Tondato da Ruos - Group CEO, Director of the Internal Control & Risk System and Executive Director: Excuse me can you repeat the second question?

Alberto Checchinato - Fidentiis Equities S.V.S.A., Research Division: Yes, you mentioned in the presentation that you want to rationalize non-core activities. I was wondering if this rationalization process would result in a portfolio that is more skewed towards the airport channel rather than the other two?

Gianmario Tondato da Ruos - Group CEO, Director of the Internal Control & Risk System and Executive Director: Yes. So, we are thinking we have a marginal operations, small operations in regions that don't growth or don't show the opportunity of important market share, although they are still very valuable, but this is not properly what we should invest our management, out time and out management to skill set, so I think there is an opportunity to streamline and to reorganize our portfolio. I was talking about a lot of small things here and there. So I think that's one thing that we are working on and it is going to be really interesting for the management. The second, the first thing is theoretically of course that the free cash flow, let's say the cash conversion on the retail business is better than the Food & Beverage, because generally speaking if you do not pay too much rent, you know, because it's of course, the CapEx intensity of the retail is different. On the other hand it's also, if you take a look, you know, the normal convenience stores that you find in an airport, you know, probably 10 years ago they were selling 10% of F&B and non-confectionery and on confectionary, no music, stuff like that, you know. Now probably you should look at the placement of them probably is 40% if following the right number for Food & Beverage. On the other hand, the retails business is more flexible, so on the other hand you can change the products, you can change the mix, just changing the product that you are selling, why you should have to change from one to another, of course you need to invest more CapEx. So, and last but not least, even the most important thing you know you do the market share in the F&B they are selling, they are stores that are becoming a sort of competitor or at least overlapping with us. Why do we think is a different market? Because when you bid for a retail, it is a completely different process than bidding for a Food & Beverage operation in an airport. So it is still a differentiated market, but that's the reason also why we think it is an interesting sector. We are, as you said, I think you were mentioning our presence in the U.S., of course we have a plan, we have ideas on where we want to go, you know, in terms of market share, but as you can appreciate, I cannot tell you on a conference call where we are going, you have to be patient, we are going to see where we are able to arrive. Another thing is a very fragmented market that has been in North America, they take the two big players there, we have told you we are already the third, and the rest if you go to the fourth we are talking about, probably one quarter of our size. So it is a good market for M&A, if you know the market.

Alberto Checchinato - Fidentiis Equities S.V.S.A., Research Division: Great, thank you.
Lorenza Rivabene - Group Investor Relations Manager: Sorry, before going ahead with the other questions I will read the questions from Ali Naqvi, that I received via email. So cost pressure for 2019 compared to 2018, food and royalty cost going forward. Then the second question is airport

channel, convenience operators are adding more F&B lines, how do you see that impacting your business? And how much of that is a headwind for the industry? The third question is the target net debt for EBITDA ratio, if you would do a deal how far you would push leverage for the group?

Camillo Rossotto - Corporate General Manager and Group CFO: Let's start with the last one. I think, directionally, we would always try and of course, all I'm saying is ex any IFRS 16 re-class, so it is a pure net debt the way we know it. I think we would like to be thinking of ourselves always as in an investment grade territory, which probably, depending on where you want to put that, given the sector and the size and all of that it's in the maximum of three times EBITDA, on a pro-forma basis for a whatever acquisition with we end up looking at.

Gianmario Tondato da Ruos - Group CEO, Director of the Internal Control & Risk System and Executive Director: The third question is the convenience adding more F&B I think I answered probably, we did the question before, if you need more explanations, just send us an email back, but I think there is an overlap, because we do not see a real cannibalization but, because also it is a different market, but for sure we are selling more F&B, that's the fact. Talking about cost pressure, if you think about, you should talk about the food the only pressure that we have is the real pressure that we have so far is the Starbucks integration with the food business, because before we used to produce our food by ourselves, now some of the, it is owned all the food in the U.S., but part of the F&B is provided by them, so there is a different cost of goods sold. Talking about the royalty, frankly speaking what I see now, I do not see an increase in royalties, what I see is more a mix, changing in the mix of the brands,. Stretching the points what we can say is that you know there are less QSR concepts and more casual dining concepts, so it is changing a little bit or probably more than a little bit the nature of the business, so it is moving from what used to be to a more complicated probably type of organization. But that's good for us, because it's getting more complicated and so we are good in doing this. Having said that, going back to the Starbucks theme, there is this increase of the cost of goods sold, you know, on the Starbucks products our COGS in 2019, '18 sorry, is negative. So it's going down basically. So it's positive for us. So it is a proof that we can manage this.

Lorenza Rivabene - Group Investor Relations Manager: Ok now we can go ahead with the other questions. Thank you.

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

Luca Bacoccoli - Banca IMI SpA, Research Division: Hi, good afternoon everyone, just two questions from my side. The first one is on your mid-term ambitions, which were pointing to 52 cents earning per share for 2019. So I was wondering if you are confirming that target once updated for the FX? And the second one is on the impact from the IFRS 16 accounting principle in terms of probably higher net debt, and the D&A P&L line?

Camillo Rossotto - Corporate General Manager and Group CFO: Okay, let me start on the IFRS 16, Luca. The group will adopt the retrospective modified approach, which means that as far as the account for 2018 are concerned, you will see nothing the no risk statement and no asset liability at the end of the year, because the right of use asset would be created affective on the 1st of January 2019. And we will provide as we get to the publishing of the financial statements for 2018, an indication of what that discounted liability, which is the same amount of the asset, is going to be with a relatively small range. So you just have got to be patient for that, it's coming up. And we think that 2019 for the purpose of investors in terms of management and also whatever stakeholders external reporting purposes, we will keep a dual track to continue with the older metrics in the accounting principle not being implemented, which will make it easier for everybody to kind of glide from the old concept to the new one. And then I think you see we have announced this capital market's day, in that occasion they will be clear on what are the key metrics we think management and external partnership should be focused on, because after that the principle is implemented some of the good older measures like EBITDA, etcetera, take a different perspective. So we will be clear as the year progresses on that, but this is what we do for now. The other question, sorry. Yes, the factors as Gianmario mentioned both in the video and that we have indicated we feel that both the start of the year and the perspective of the business continue to make the guidance relevant.

Luca Bacoccoli - Banca IMI SpA, Research Division: Ok, thank you.

Operator: As a reminder, if you have a question, please press * then 1. There is no question at the moment. The next question is a follow-up from Alessandro Cecchini of Equita.

Alessandro Cecchini - Equita SIM S.p.A., Research Division: Hello thank you for taking my last question, it is about International. Do you expect that the negative effects that you had in 2018, lowering margins importantly, do think that still in, already in 2019, you will see a pick-up in profitability or we need to wait a little bit longer?

Camillo Rossotto - Corporate General Manager and Group CFO: Our indication is that 2019 will see good growth, but still the same type of profitability of 2018 as it will take sometimes for this start-up phase issues to be over, and that's what we are currently working on fixing for 2019. But we think that they will be going back to an historical profitability by 2020.

Alessandro Cecchini - Equita SIM S.p.A., Research Division: Ok, ok many thanks.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Lorenza Rivabene for any closing remarks.

Lorenza Rivabene - Group Investor Relations Manager: Thank you everybody for joining the call. If you have additional questions to ask feel free to call me afterwards. Thank you. Have a good evening.

Operator: The conference call is now concluded. Thank you for attending today's presentation. You may now disconnect.