Conference Call **FH1 2020 Financial Results**

Operator: Good afternoon, and welcome to Autogrill's 2020 Financial Results Conference Call. [Operator Instructions] Lorenza Rivabene, Corporate Development, M&A & Investor Relation Director, is going to start the call. Please go ahead, Madam.

Lorenza Rivabene - Group Investor Relations Manager: Good afternoon, and welcome to our First Half 2020 call. Let me start by reminding you that some of the information discussed on this call contain forward-looking statements that involve risks and uncertainties. Half year results may differ materially from those set forth in such statements. For a discussion of these risks and uncertainties, you should review the disclaimer in the earnings presentation we issued today.
We will start today's call with the prepared remarks from our Group CEO, Gianmario Tondato, and our Corporate General Manager and Group CFO, Camillo Rossotto, followed by a Q&A session. With this, I will hand over to Gianmario.

Gianmario Tondato da Ruos - Group CEO, Director of the Internal Control & Risk System and Executive Director: Good afternoon, everyone. I hope everyone is doing well and staying safe during this challenging time. The last few months have been unlike anything we have ever experienced. We have been working hard to adapt our business operations and to mitigate the impacts of the pandemic. Prior to the global lockdown, we saw strong momentum from the end of 2019 continue into February with positive revenue growth, reinforcing that our strategy was right. As the pandemic developed in March and with health and safety of our staff and our customers as top priority, we progressively closed the bulk of our stores across all our channels. At the peak, we had 75% of our store closed. This had a meaningful impact on our financial results. We also took early action to further strengthen our financial flexibility by increasing liquidity and reducing our cash burn. We reduced working hours in line with fall in traffic and reached agreements with a significant number of landlords worldwide to abate or defer rents. We identified opportunities to reduce CapEx, primarily by pausing construction and refurbishment work. Since May, we began a phased reopening to our stores, following all local authorities guidelines, ensuring the health and safety of our staff and customers and maintaining a positive cash flow. We currently have around 50% of our stores open. And we will continue to adjust and refine our approach as we learn more about this new environment. While most of these stores have only been open for a few weeks, we are seeing some encouraging early signs with very good level of productivity and average check.

Camillo Rossotto - CFO & Corporate GM: As we discussed in March, we finished 2019 with a strong financial position and register improvements across all key metrics. This momentum continued into February, with very good revenue performance, particularly in Europe. In March, as the impact of COVID-19 began to unfold, we took immediate steps to strengthen our financial flexibility by increasing liquidity, freezing all nonessential expenses and transforming semi-fixed costs into variable costs. We suspended dividend, drew down on all our available credit facilities and took early measures to reduce our cash burn from March into June. As a result, our cash balance grew from 300 million at the beginning of the year to about 500 million at the end of June. We also obtained a 15-month covenant holiday on all our financial debt.
While our long-term capital allocation principles are unchanged, our current financial priority as we navigate through this crisis is to preserve liquidity and minimize cash burn. Now I'd like to provide additional details on our first half results, which are on a constant currency basis and reflect the adoption of IFRS 16. In H1 2020, we posted group revenue of 1.1 billion, a decrease of 52% as a result of the ongoing escalation of COVID-19 pandemic. The performance is driven by the channel mix as well as local dynamics, with motorways proving more resilient than other channels due to a shift in personal car use and their reluctance to return to mass transit.
The reduction in revenue translates into a drop-through of 24% at the underlying EBITDA level and 29% at underlying EBIT level, confirming the effectiveness of the mitigation initiatives implemented so far. All regions contributed to these results with similar level of drop through. As a result of the disruption caused by the pandemic, the group posted a 56 million underlying EBITDA, a negative 297 million underlying EBIT and a reported net loss of 271 million in the first half of 2020.

Gianmario Tondato da Ruos - Group CEO, Director of the Internal Control & Risk System and Executive Director: Our first half results reflect strategic measures we took, and we will have great benefit on our liquidity and cost structure through the rest of the year. We are taking decisive actions to respond to both the COVID-19 trend and to low traffic volumes. But these 2 related elements have created an unprecedented environment that makes it more difficult to rely on estimates impact on activities and results. As we continue to navigate through this complex environment, we are taking a cautious and thorough approach in planning our business. Our scenario plans and stress testing assume a slow recovery for the second half of 2020, but how the situation develops is extremely uncertain at the moment.

Camillo Rossotto - CFO & Corporate GM: 2020 continues to be subject to significant uncertainties which is lower visibility on what to expect this year. Airport passenger volumes are likely to remain materially below 2019 for the remainder of 2020 with domestic traffic recovering more quickly than the international segment, while motorway traffic may continue to prove more resilient. Given the ongoing lack of visibility, in particular on the recovery of air traffic, accurate statements on the future developments of revenue and earnings cannot be made at present. In a scenario with revenue down 50% to 55% year-over-year in the second half of 2020, we expect a drop-through of revenue loss of about 25% on underlying EBITDA. And we expect to burn about EUR 150 million to EUR 200 million of cash over the second half of the year. We should also emphasize that the 2021 guidance provided during our Capital Markets Day in June last year is withdrawn due to uncertainty around the impact of COVID-19 on financial and operating results.

Gianmario Tondato da Ruos - Group CEO, Director of the Internal Control & Risk System and Executive Director: These are unprecedented times, but we must remember that the current restrictions in our markets are temporary. xxx (07:45) in our sector, we remain focused on not simply managing through the crisis, but taking actions that will allow us to emerge even stronger. Our long-term fundamentals and strategy remain unchanged as well as our commitment to further strengthening our global leadership and delivering sustainable long-term value to all our stakeholders. In conclusion, we continue to focus on the action required to mitigate the impact of COVID-19. Our first half results reflected the resilience of our business and the hard work done.
We will now take your questions. Thank you for the attention.

Question and Answer

Lorenza Rivabene - Group Investor Relations Manager: We have received some written questions, so I'm going to read them. So from Simon LeChipre. The first one is could you, at some point, consider options to repair the balance sheet or would you rather opt for a progressive organic deleveraging? The second one is how should we think about margin at sites reopened and volumes gradually come back given the safety and social distancing requirements? And how do you think about the long-term profitability of the business in this context? The third one, could you update us on the CapEx you were planning to implement this year on the Italian motorways?

Camillo Rossotto - CFO & Corporate GM: Yes. I'll take the questions, Simon. The repaired balance sheet. Well, I think for us to start repairing, we need to assess the full extent of the damage, if you will. We think we are doing a decent job there, utilizing debt as the main instrument to manage the appropriate level of liquidity on a funded basis and to go through the crisis. You might have appreciated that in the outlook we provided on the second half, when you look at the EUR 150 million - EUR 200 million maximum cash burn cumulatively, if you divide it by 6 months, you get to a lower level of monthly cash burn than we had anticipated when we were talking about a simulation, given 75% loss on revenues. So I think when you compare the amount of liquidity we have at the end of June with that projection, we feel definitely focused but comfortable in terms of the size of the balance sheet.
For sure, there will come a point in time, but probably it's mostly in the latter part of the year when we will have clarity on what 2021 and '22 bring, where that we can assess what -- how long it would take for the natural, let's say, cash generation of the business to sort of do the self-repairing of the balance sheet. At that point in time, with that kind of clarity, we have all the options open. I mean, other people have already recurred to other sorts of instruments to raise not just debt, but equity. We have left debt untouched because we think we can handle this crisis based on the strength of our financial resources.
As far as the margins are concerned, tough to say because we're seeing good margins and good incrementals where volumes are coming back. Given the level of efficiency that we have achieved with the variabilization, if you say that in English, of the fixed cost, the semi-fixed cost, clearly, those levels of margins don't bring today the absolute level of EBITDA to the cash flow that we desire. So the question is what happens when you flex them up based on the return on the

volumes. Tough to say. But we think that the way we look at, for example, at the Italian motorways, the amount of COVID-specific CapEx that is being required is not a number that moves the profitability of the business one way or the other because we're talking about Plexiglas, some postages and some sanitization things. So I don't think you should look at that as the major driver of profitability going forward. What we should look at is the speed at which volumes will come back, traffic. And so far, I mean, the new normal looks very much like the old normal when we had decent levels of traffic because we are a company that tends to thrive in peak type of situations.
The last one I forget -- no the last one is, well, the -- I think there's a silver lining under the fact that we had been sort of forced by our role in the Italian motorway, to stay open and continue some level of activity even during the lockdown. And that is that the resumption of operations there is pretty smooth. And the plans that were announced at the beginning of the year, they were frozen during COVID, where applied, can give significant pickups in revenue. So the amount is probably going to be on a full year basis, something around 60 million versus the announced 90 million for the Italian motorways.

Lorenza Rivabene - Group Investor Relations Manager: Okay. We have 3 questions also from Ali Naqvi. The first one is, you have given the drop-through by region. Can you comment on the U.S. drop through, why it differs so much from international and Europe? And if any chance to improve this? And it's also on if the drop-through improves as a group over time.
The second one is on liquidity and cash burn. It looks like the second half cash burn is marginally better. What has driven that? And are you considering any other funding sources by EBIT to debt equity, I think you have already answered. At what point do you need to get to cash and profit breakeven given the initiatives you have taken to date?

Camillo Rossotto - CFO & Corporate GM: So I'll start with the second one because we have kind of answered, but the thing you should be sensitive about in our forecast or whatever outlook you want to call it is the fact that the second quarter of 2020 has been the dramatic one. So a 50% drop over a 6-month period made of a few months of stability and then a 90% drop. It's a very different profile versus a second half where you get to an average of 50%, but by moving from minus 70, minus 60, minus 50, that kind of trajectory. Because what the second quarter has brought has been a drastic contraction of the working capital, which is not to be replicated in the second half of 2020. And therefore, that's the major swing factor in terms of cash generation or cash absorption, one half versus the other.
The U.S. drop through. Look, I think when you look at the, because one thing is the direction of change, which has been the… impacting every region pretty much in the same way, i.e., reduction of revenues. But when we look at the balance of the fall in revenues in a 15-day period from March 15 to March 29 in the U.S., you can appreciate that even if you are passing the light in fixing your cost base, you will never be able to replicate that kind of velocity. And so it takes a while for that to flow through. The renegotiations that have been done with the landlords and the work that the team has done on the labour cost front have been tremendous. So I think that's what explains the difference. While in Europe, as usual, things have been more gradual. Asking for improvements at 24%, I think it is somewhat unrelated to the characteristic of our business. We will monitor and make sure that we deliver on that number, but doing something better, I don't think it's very realistic.
And the kind of level of revenues you need to reach breakeven. Now when you talk about free cash flow, which is today our first and foremost concern, I think you should be looking at something like minus 40 because like we said that minus 75%, we were xxx (16:14) by around 40%.

At minus 50%, 55%, we would burn around 25%, 30%. I think we can reach cash flow neutrality at around 40% loss versus 2019. And as far as EBITDA is concerned, it's probably not very different.

Lorenza Rivabene - Group Investor Relations Manager: Okay. Lastly, we have received some questions from Leo Carrington. The first one is landlord discussions. Firstly, any differences depending on the channel. And then thinking about the largest airport channel, what are your expectations for margins for second half and 2021? Could there be any changes to balance of power between Autogrill and the airports midterm?
The second one is the spend per passenger during the crisis so far. Can you comment on any changes you have seen in the average of sales per passengers versus the pre-pandemic levels? Has there been any evidence that passengers have a lower propensity to spend?

Gianmario Tondato da Ruos - Group CEO, Director of the Internal Control & Risk System and Executive Director: First of all, landlords discussion. I think Europe is very different from the U.S., of course. And the reason is that the U.S. is very fragmented in terms of landlords. So basically, every airport is run by a city and every city owns some airport. So we are dealing with different type of situations everywhere. I must say there is, on average, there is a good understanding of the situation right now. We have, as I said before, rent relief or rent abatement or rent deferral. Almost everywhere, of course, we'll go month-by-month or 2 months by 2 months, you know, because nobody really is able to understand where and which kind of recovery we're going to face. So I think the situation, what you see also now in our cash flow profile, in our cash flow statement, it is quite good. And we are managing and working out very hard on that. And I'm quite confident that this situation, that is already quite good, is going to improve even further in the second half of the year.
And spend per pax is a different situation where we land in Europe because Europe, especially in the motorway business is very concentrated. If you look at Italy, for example, we have 3, 4 landlords, major landlords. So we've got already an agreement with them. It's also talking about Italy for the pandemic because it started much, much earlier. So we are already at the end of the peak probably situation. So it's already a xxx (19:10) situation for us. And it's quite a good agreement reflected on our cash flow statement. Talking about the spend per pax, actually, it's quite difficult to tell. My personal gut feeling is that the average ticket is going up because there is a sort of shifting in mix. And so basically, there is, we are adding more retail over F&B, pure F&B. So it's, the ticket is becoming richer than before. What I can tell you is that if, what Camillo was saying before, if you look at the productivity, the makeup productivity is basically transaction per hour and sales per hour is going up. So we are much more efficient right now at the store level than we used to be. And it's quite easy to understand because in such a dramatic situation, we are allowed to do things that in terms of opening hours, in term of compacting F&B, before it wasn't even thinkable. So people understand that we are facing a completely different situation.

Operator: [Operator Instructions] There's a question coming from Luca Bacoccoli with Intesa Sanpaolo, please go ahead.

Luca Bacoccoli - Intesa Sanpaolo: Hi, god afternoon everyone, can you hear me?

Camillo Rossotto - CFO & Corporate GM: Yes, Luca.

Luca Bacoccoli - Intesa Sanpaolo: Ok, good. Two questions from my side. The first one is on the average ticket. You mentioned that is going up and so I was wondering if this trend is on both the 2 main channels, on the airport one and also in motorways.
The second question regards, again, the balance sheet. You mentioned that the key tools to manage currently the stress situation. And in recent weeks, the press have report on your application for new financing assisted by the guarantees xxx (21:26). My question is could you confirm these press rumors? And secondly, if so, when is the process likely to be concluded and how much are you negotiating with the banking system? Thank you.

Camillo Rossotto - CFO & Corporate GM: xxx (21:43) anything more specific? No, I mean, the fact that we are not denying it, I think, somehow is a confirmation, but indeed we are in the process. Like we said, we are happy with the level of cash management that we have realized across the various jurisdictions. First of all, the first part that we have sort of elegantly just touched upon is the covenant holiday with the lenders, including the USPP holders, which has created a condition of clarity on the existing debt and COVID-related impact. The second one has been the reduction of the cash burn. The third one is the fact that the earlier maturities that we have are at 2023. And then like any other major, I think, talent corporation, we have applied and we are in good progress with our negotiation for a 300 million long-term financing under the Sace - MEF scheme. That's where we are. I will keep you posted as we're used to communicate things when we've done it. You'll see it when it's reflected on the balance sheet, but we're making good progress there.

Gianmario Tondato da Ruos - Group CEO, Director of the Internal Control & Risk System and Executive Director: In terms of average ticket, I can tell you that it's quite consistent. So it's growing almost in every channel.

Luca Bacoccoli - Intesa Sanpaolo: Thank you.

Camillo Rossotto - CFO & Corporate GM: And by the way, Luca, we also have been receiving full support by all the banks plus others that have helped us with the renegotiation of the covenants, also in terms of funding these additional extra cash buffer with Sace. So I would like to thank them on this call.

Operator: The next question comes from Alessandro Cecchini with Equita.

Alessandro Cecchini - Equita SIM S.p.A.: The first one is basically on the drop-through. So basically, you are executing very well. The first half and the same for the full year. I was just wondering, if we think about the recovery in sales and volumes for the next year, of course, it will depend by this kind of positive reaction. But it's possible to improve this drop-through in a positive way. So change -- positive change in volumes applied to this kind of drop through? Or if you can execute a better drop-through next year because you are making some efficiencies? This is my first question.
My second question is about the net working capital on sales. For the full year, do you expect to improve the ratio that you had last year or not? Is there something already good for you? And finally, on the CapEx level. Do you expect to double the amount that you had in the first half? The underlying was EUR 92 million, if I am not wrong. Thank you.

Camillo Rossotto - CFO & Corporate GM: Look, let's start with the last one. It's going to be slightly lower, but the First Half CapEx can be a relatively good indication of the run rate, slightly lower because in the first 2 months we were running higher levels of CapEx.

Second is working capital. Like I said, the second half being on average the same reduction versus last year or the first one, but with a different dynamic, should take back some of the working capital assumptions that we had in the second quarter. So on a full year basis, we expect to go back to a level of efficiency, which is not very different from last year. That was your question.
And the drop through, well, normally, we think in terms of incrementals when we go up. The fact that we've been able to variabilize some of these costs, some of these are due to the emergency like the rent relief. I mean, there's no reason to think that structurally, we can get to those levels of abatements year-over-year. So we will have to compensate that with incremental volumes and sales.
And on the labour cost, we will be very careful to bring back the amount of hours that are really needed to generate positive for cash flow, like I was saying. So I think we have drawn the guidance for 2021. It would be bizarre if we now started giving you indications on profitability levels for 2021. So you need to be patient for that. Thank you.

Alessandro Cecchini - Equita SIM S.p.A.: Ok, thank you very much.

Operator: The next question comes from Felix Schlueter with Goldman Sachs. Please do ahead.

Felix Schlueter – Goldman Sachs: Yeah, I think you would take my questions, I have two. The first was also on the drop-through for the second half of 2020. I'm just wondering what assumptions you're making there for sort of furlough support in Europe. With everything we're hearing now that in some countries, furlough support might ease, which could work against the drop from the second half. And I was wondering if that is the case, if there could be potential restructuring that you planning should sales not recover in line with what you're currently anticipating? And the second question is on the comment that you put, you've reached agreements with landlords to abate or defer rents. I'm just wondering if you could give us an idea of the split between abate or deferring rents. I guess if you defer rents, these are future costs that you might have as a headwind then even when sales are fully recovered. Thank you.

Camillo Rossotto - CFO & Corporate GM: Sure. Look, when you look at the first 6 months cash flow, in the 70 million reduction of the lease liability, you see the amount that has been abated. So there's been a reduction in liability, which has flown through the EBITDA and then generated savings. So we would basically halved versus last year the amount of fixed rent that we paid. The variable one, you don't see it's already embedded into the EBITDA. And we expect that number to be reduced as you get into the second half, but still be a positive contribution. The amount deferred, we don't disclose, but somehow, it's the next that will just, the amount of our liability reflects on the balance sheet, whatever that number is.
As far as the drop-through. Well, we are assuming a continuation of the major schemes, we're talking about Italy, for example, into the second half as long as revenues don't go back to normal, which is probably going to be visible in Italy in the last quarter of the year. And therefore, that's what we have predicted on the previous year, drops through the one that we had experienced in the first half of the year.

Felix Schlueter – Goldman Sachs: Ok, that’s clear, thank you.

Operator: [Operator Instructions] We have no questions at the moment. We have a question, it comes from Ali Naqvi with HSBC.

Ali Naqvi - HSBC: Just a quick one, if I may. What do you see in terms of the competition your various rated channels, what's happening to them so far in terms of the reopening. Thanks.

Gianmario Tondato da Ruos - Group CEO, Director of the Internal Control & Risk System and Executive Director: I think, as we say in Italian, I am trying to translate, we are all in the same boat, so it's tough for everybody. I think, of course, what was the most rated channel, it was the motorway channel, now it is the top because as you can imagine, almost everywhere in the world, people try to, they prefer to travel by car rather than take a plane or a train. So really, for instance Italy is doing quite well on the motorway channel and all the rest of Europe as well. So we're recovering quite fast, as we said before. The rest, airports, as we said, probably the internal traffic is going to recover much faster than international traffic. So the U.S. probably is coming back, will come back faster. Now it's stable. It's not improving, but it's stable. We see sign of recovery. International traffic is going to be much slower in terms of recovery. Railway is still a complicated sector right now. So we don't have a clear sign how it goes. So if you take these indications, you apply this to the channel of your competitor, you can have a map where they stand.

Camillo Rossotto - CFO & Corporate GM: Yes. In general, terms, domestic performs better than international and motorways performed better than airports and the other channels are kind of lingering between. So xxx (32:10) were the dogs before but now are starting to be stars again.

Ali Hamza Naqvi - HSBC: So, sorry, what I meant to ask is, have you seen any supply come out of the market in those channels xxx (32:23) continues to struggle? And so could you benefit from any market share gains into that recovery?

Gianmario Tondato da Ruos - Group CEO, Director of the Internal Control & Risk System and Executive Director: Of course. But the point is, I do not think it is properly. So right now, we shouldn't talk about market share. We should talk about how we do day after day. But of course, if you see, for instance, if you have a chance to travel around in Italy, and you see the gap that we are opening versus the competitors, it's quite huge right now. So we are growing much faster than them. These days to talk about market share. So we are all in a very tough situation. So it's difficult to tell you what is going to do. After the summer, probably it's going to be much more visible where those things are going to land. But we have positive feelings on some channel, as Camillo was saying before, and less positive on other channels, this means you know that they would recover, but we're going to take a line before to see good traffic in, I think at railways for instance.

Operator: The next question comes from Francesco Brilli with Intermonte.

Francesco Brilli - Intermonte SIM S.p.A.: Yes good evening, thank you for taking my question. I have a quick one and one on a more general note. Do you think that we will see in the, I mean, the mid to long term some structural changes in the passenger traffic, both in motorways and or specifically in airports. Do you think after this crisis, there will be a lower level of passengers or we'll see some specific change in passengers' behaviour going forward?

Camillo Rossotto - CFO & Corporate GM: Look, I think it's a crystal ball question. For sure, we need to monitor very well the trend in smart working and reduce frequency of business traveling as time goes by, how much of that is there is just right now or how much of that will become when people realize that that's not necessary. But your guess is as good as mine at this point in time.

Operator: We have a follow-up from Felix Schlueter with Goldman Sachs.

Felix Schlueter – Goldman Sachs: I just had a quick question on the cash burn that you've disclosed that you're anticipating for the second half. And maybe you gave the answer to this question already. I'm just wondering, is that included in the working capital? And if so, what's the flowback from working capital that you're anticipating for the second half that you're getting to this xxx (35:19)?

Camillo Rossotto - CFO & Corporate GM: Look, it is a free cash, so it does include the change in working capital, which we anticipate having, the working capital is like a bubble. It has burst in the first half. It cannot burst twice, right? So from where we are now, we should be inflating it progressively and as revenue go up. So it is an all-in estimate of EBITDA, working capital, CapEx, and it should level off. It should be more stable than it was in the first half when we went from different -- in the given months the adjusted working capital as being the single biggest impactor. So if you...

Felix Schlueter – Goldman Sachs: Sorry, if you just think about the amount of xxx (36:08), is that from the working capital? Should we think of the net working capital position relative to sales as being constant as it was 2019 or going to change more?

Camillo Rossotto - CFO & Corporate GM: You've seen in the statement of accounts for the first half, a negative swing of something like 170 million in the first 6 months, right? That was the function of the payables contraction given by purchases in the first 3 months that we had to deplete in the second quarter. Once you have cleaned that up, the payables, then as we collected time 0 essentially because we sell other than we have a very little credit time other than some specific transaction. As we sell, as revenues go up, they become cash in and then 60 to 90 days later, you start having to build your payable base again. So that's what I'm saying. In the first time, revenues came down very hard. We have to make the payments but now we lost the cover from the negative working capital. And now we're rebuilding it in the second half.

Felix Schlueter – Goldman Sachs: Thank you very much.

Camillo Rossotto - CFO & Corporate GM: So the full year number for absorption working capital is going to be a lower number than the absorption you see in the first half. So it's going to be a positive contribution in the second half.

Operator: [Operator Instructions] There are no more questions.

Camillo Rossotto - CFO & Corporate GM: Thank you very much, guys.