AUTOGRILL FY2016 FINANCIAL RESULTS

CONFERENCE CALL – 9TH March 2017

Operator: Good afternoon and welcome to Autogrill FY2016 Financial Results conference call. All participants will be in listen-only mode. To ask a question, you may press * then 1 on your telephone keypad. Mr. Gianmario Tondato, Chief Executive Officer, is going to chair the meeting. Please Sir, go ahead.

Gianmario Tondato, Chief Executive Officer: Good afternoon and welcome to our call for the full-year result 2016 for Autogrill. We delivered strong results for 2016, which I hope you have seen in our new format video, that we posted online earlier today with the presentation. In addition, as you know, our Investor Relations function has been driven very successfully for a number of years by Elisabetta Cugnasca. Elisabetta brought huge passion, enthusiasm, expertise to the role, and I'm sure you enjoyed working with her. Now Elisabetta has been promoted to a different position: she will be the head of the Group Controlling, as part of her continued development within the group. At the same time, Lorenza Rivabene has taken charge of the Investor Relations department, building on her experience in Autogrill as well as in the same role for another listed company, and on her strong background in strategic planning and control function. I am sure you will find your dialogue and the exchange with Lorenza and her team positive, engaging and fruitful. Now Alberto, Lorenza and I will be taking your questions.

Lorenza Rivabene, Investor Relations Manager: Thanks Gianmario, and good afternoon. Before we get started, we want to emphasize that some of the information discussed in this call contain forward-looking statements that involve risk and uncertainty. Actual results may differ materially from those set forth in such statements. For the discussion of this 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.

<u>Q&A Session</u>

Operator: We will now begin the Q&A session. To ask a question, you may press *then 1 on your telephone keypad. The first question comes from Tim Ramskill from Credit Suisse.

Tim Ramskill, Credit Suisse: Good afternoon, guys. I just want... one key question for me, really, I suppose, or maybe a couple of sub questions, but...just related to the guidance that you've given today around given your 2016 to 2019 growth expectations. My question is two-fold. One is why did you come to the conclusion that you need to sort of introduce that guidance, that's new, so I've been interested to see why you've chosen to frame it that way. And then the second question is…we see this you know the guidance on the top line is clear, but in terms of the drivers between the top-line growth and the EPS growth, maybe just some senses to what you believe that kind of margin improvement ought to be over the three-year period to deliver the 15% Compound Earnings Growth, please. Thank you.

Alberto De Vecchi, Chief Financial Officer: Ok, for the reason why behind the decision of having the guidance including three years instead of only one year, because we have been able to consolidate our growth during last years thanks to contract wins and renewals that allowed us to increase the portfolio. And obviously we think that only a three-year period is the right period in order to really enable also us to deliver the value that is behind this growth, otherwise a single year probably is not giving the full picture. That's why we think that an overall guidance based on the CAGR, that is giving a sort of trend, is useful for allowing investors to understand the value creation, and also in terms of the KPIs we think that sales, obviously we are a retailing company, so sales are very important for giving us an indication about the value that is created by the portfolio. The EPS is because ultimately we think that you have to find a KPI in terms of profitability, I think that when you look to the bottom line you have everything there. So we think that probably this is the best indicator and also because we have introduced a dividend policy, giving a guidance in EPS is also allowing investors to build up their views about the dividend in the next three years. So these are the main reasons why we have decided for these two KPIs. In terms of what is in between the top line and the bottom line, I think that the main trends are there, so I don't expect in the next three years you will see a completely different picture. Our main target remains the same, that is to make growth and profitability in North America, to have a sustained growth in international and to be mainly efficient in Europe, in Continental Europe. So the trend will go, the trend of the underlying margins will go together with the trend of the sales, then obviously we are really looking for a global improvement also of the margins, but seeing that we are really focused at the moment to deliver growth in the top line and the growth in profits that also is growth in free cash flow.

Tim Ramskill, Credit Suisse: Ok, thank you.

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

Alessandro Cecchini, Equita: Hello everybody, I have some questions. The first one is about if you could give us a sort of more colour about maybe margins in the U.S., in North America, for this year 2017, considering labour cost and current food prices. So your expectation, your idea at the current stage. My second question is about if you could give us some indications about the start of the year in term of top line, like-for-like, and finally I saw margins in the U.S. and in the North America divisions hold well in the 4Q, I would like to understand if you experienced some differences, some different actions versus the 3Q. Thank you.

Alberto De Vecchi, Chief Financial Officer: So, in terms of the margins in North America for 2017, I think that in 2016 what you have seen is the main cost driver that we had to manage was the increase in the labour cost that was particularly strong especially in the 2Q and 3Q, because of several aspects. The main aspect is the increase of the minimum wage, and the minimum wage has reflections, because although we pay more than the minimum wage, we have to keep the differential and so ultimately we have seen our unit cost going up. In last quarter you were mentioning in your questions what has been done in the last quarter that is showing in fact an improvement, is because once the increase has been done, then you start building up in efficiency, and this is what has been done. We are introducing new tools, in order to manage the hours more effectively at the level of the stores that we expect to continue to help us also for 2017. And that will be the main driver. We don't expect that we will see the labour cost pressure disappearing in 2017, because besides the minimum wage, the other element that is driving the cost of labour is the full employment, and the full employment is there, also today, but obviously we think that we have now also new tools in place to manage (*voices*) excuse me, is there someone that is speaking? Because we listen to a person that is speaking but we don't understand a word. So I think that these are the main elements, on the other elements that are part of the cost-structure of the company, I think that in 2016 the cost of goods sold has been supportive for us, we have been able to increase margins, because of the evolution of the trend in materials, we don't see at the moment reversal of that, so condition remain relatively positive, so at the end I think that the picture for 2017 at least at this opening of the year is positive.

Alessandro Cecchini, Equita: Ok. Thank you.

Operator: The next question comes from Jafaar Mestari of JP Morgan.

Jafaar Mestari, JP Morgan: Hi, good afternoon, I just had one question, back on the revenue gross guidance. Could you maybe break it down a little bit, and in particular to achieve your organic gross target range, what sort of net new business contribution from contract wins do you need every year, please.

Alberto De Vecchi, Chief Financial Officer: I think that we have given the indication of the organic growth that is the sum of like-for-like and openings and closures, exactly because it is very difficult on a three-year guidance to split between the two. I think that on average, we think that because of the pipeline we have and the present situation that we envisaged can be sustainable, I think that these are the main drivers, so we don't expect, in order to achieve that number, to see things completely different than what they are today, and we think that the pipeline will be supportive for us to go from the guidance. Just another element: I think that in general, as you may have seen, the guidance has been given at a currency… at a… with a forecast on exchange rate 1.06, and the impact of the exchange rate on the first year, because then on the other two years it's not anymore there, because the 1.06 is for the three years, is approximately 70 basis points, so in fact this is the impact per year in the three years. So if you want to have the same guidance at constant exchange rate, you have to deduct around 70 basis points after that.

Jafaar Mestari, JP Morgan: Thank you.

Operator: The next question comes from Bastianelli Oriana from Kairos.

Oriana Bastianelli, Kairos Partners: Hi, good afternoon to everybody, I have a couple of questions. The first one is if you can kindly elaborate on the priorities in terms of capital allocation down the road. I'm asking because, if my projections are correct, you should land with a leverage of below one time at the end of the plan, so if you can also elaborate a bit on the optimal leverage that you see for your business. This is the first one. The second is related to if you can provide me with a bit more granularity on the assumptions below the EBITDA line in terms of cost of debt, depreciation and tax rate that you are assuming in your 15% Compounded Annual Gross Rating of Profit. Thank you.

Alberto De Vecchi, Chief Financial Officer: Well, with respect to the ideal leverage, you're right that if we expand only organically and we don't do anything else, we arrive to a leverage that is quite low, and probably inefficient, so I do agree that the trend that we see, the trend that will build up some room for expansion also on non organic growth base, so there is room for also using the cash in order to expand the business. This obviously cannot be included in the guidance, because it has to be evaluated if there were the right opportunities and which these right opportunities are. So but in principle you are right, that we would arrive to well below one time in terms of leverage and we think that if the company is in the range of two times, the leverage is already in a very quite solid situation in terms of leverage ratio. So there is room for us to other things. On other aspects, I think that in general what we expect is, we try to give guidance based on a few parameters, then obviously inside there is the full P&L and there are a lot of assumptions in terms of capital expenditure and so on. I don't think that there are tremendous changes in for instance the capital incidence of the business, so in the next three years. So in principle you may expect that in terms of D&A, for instance, to see a progression of the D&A that is in line with what you see today. And ultimately in a model, in a five-year model you should have a depreciation that are more or less in line with the capex of the year, so there is no huge difference between the two numbers. On tax rate, you said about the cost of the debt, you know that at the moment the majority of our debt is fix rate and it is in a private placement instrument. This is not going to change, the variable part, so at the end, after years in which we probably were not completely efficient, if there is an increase in interest rate in the next years in the U.S. we would be to some extent, we wouldn't reflect it in our cost of debt, because it is already there. So I think that at the moment our average interest rate cost of Debt is in the range of 4% and we still may see a decline because of the composition, there is part of the facility that will expire in 2017, that are the most expensive, and this will allow us to show some decline but not a major change as what you see today.

Oriana Bastianelli, Kairos Partners: Ok, can I ask you just a comment on the tax rate, please?

Alberto De Vecchi, Chief Financial Officer: On the tax rate, the change you see in 2016 compared to 2015 is basically a non cash item, because it's determined by the fact that in 2015 we booked for a deferred tax asset in Italy, and for that reason we had, we saw a particularly low tax rate for the year at a group level. So I think that if you look at the tax rate of today, of 2016, it is a good proxy of what we expect in next years. Of course, the guidance that we gave you the 15% increase in EPS is not including any tax, any tax reform in the U.S., so it is not including the possibility that the tax rate in the U.S. may go down. In that case obviously we would reflect it in positively but it is not yet at the moment in the guidance.

Oriana Bastianelli, Kairos Partners: Ok sorry, just a follow-up. On the dividend distribution to minorities, I have seen a significant jump this year versus last year. Can you please elaborate a bit from where these distribution, where this distribution is going and what we should expect for the future.

Alberto De Vecchi, Chief Financial Officer: Are you referring to 2016 vs. 2015?

Oriana Bastianelli, Kairos Partners: Yes, there is I guess around 10 million of dividend distribution to minorities in 16 vs. 15. Just wondering where it comes from.

Alberto De Vecchi, Chief Financial Officer: Yeah, because that amount is a net amount, that is an amount done by dividend paid to our minority partners minus capital contribution. So the underlying dividends are not that different, but last year we had a different amount of capital increase done by our minority partners.

Oriana Bastianelli, Kairos Partners: So ok. Thank you, thank you very much.

Alberto De Vecchi, Chief Financial Officer: You're welcome.

Operator: The next question comes from Ali Naqvi of HSBC Bank.

Ali Naqvi, HSBC Bank: Hi, it's Ali Naqvi from HSBC. I just had three questions, if I may. On the Italian motorway…

Lorenza Rivabene, Investor Relations Manager*:* Sorry the line is not very good, so we cannot hear you.

Ali Naqvi, HSBC Bank: Hi, can you hear me now?

Lorenza Rivabene, Investor Relations Manager*:* Oh yes, that is better, thank you.

Ali Naqvi, HSBC Bank: Hi, Ali Naqvi from HSBC. Just on the Italian motorway trends, I thought we were seeing some market quotes that coming out towards the second half of the year, can you just comment on that? And, because I think that like-for-likes were flat going on to the full year, and how you see that progressing? And also in the U.S. what are the competitive pressures like, have you seen more operators going out for new contracts, so, all the news and any sort of thought there. And finally looking to your structure in Northern Europe.

Lorenza Rivabene, Investor Relations Manager*:* Ali, sorry, we cannot hear you again. If you want you can write an email with the question and I will read it, because we cannot hear you.

Ali Naqvi, HSBC Bank: Ok, all right. Yeah, hold on for now, thanks.

Lorenza Rivabene, Investor Relations Manager*:* Thank you.

Operator: There are no more questions at this time. I remind you that to ask a question you might press * then 1 on your telephone keypad. The next question comes from Bacoccoli Luca, from Banca IMI.

Luca Bacoccoli, Banca IMI: Hello, good afternoon everyone. A couple of questions from my side as well. The first one is on the networking capital trend which basically did not contribute at all to the cash flow generation this year, despite the top line growth. And you mentioned the different sourcing policy in 2016, so I was wondering if you can elaborate a little bit more on that and what should be expected going forward from the networking capital trend. My second question is on the ObamaCare cost, which you mentioned in the 3Q of 2016 as one of the main drivers on the labour cost increase. You know better than me that this is one topic under discussion from the new President in the U.S. which should be completely dismantled and so my question is what should we expect in terms of savings if the ObamaCare system is going to be basically cancelled. Thank you.

Alberto De Vecchi, Chief Financial Officer: Well, on working capital this year compared to last year, yes, basically a really seasonal impact, there is not an underlying motivation.

Last year we had a slightly different trend of approaches especially in Italy, and this year we have followed a different path and the reason is that at the end of the year we have a lower contribution of the working capital. In general, you are right that our business… when you see top line growth you should see also an improvement in working capital. This year this has not happened because of a seasonal effect but I don't... I wouldn't see a special motivation, there is not… any significant change in the way we behave with our suppliers, for instance. With respect to the ObamaCare, well, considered that in fact the ObamaCare is being effecting our cost of labour not only in the last... in the 3Q. I would say that in fact in the 3Q it was not particularly important, or better said, was as important as the increase in the unit cost that has been driven by low unemployment, minimum wage and what I mentioned in one of the previous answers. It has been the combination of these two impacts all together in the same quarter, that created the big jump in the cost of labour of the 3Q, but ObamaCare was there also in the previous 6M and also in 2015. We don't know obviously how the next administration will change the law, and we will see. Obviously we may expect some benefit but it is really very early and very, a bit too early to say which will be the impact of the new administration on the labour cost on the restaurant industry.

Luca Bacoccoli, Banca IMI: Ok, thank you.

Operator: There are no more questions at this time.

Lorenza Rivabene, Investor Relations Manager: Ok, thank you so much for your time today. Feel free to call me should you need any further information. Thank you.

Operator: The conference is now concluded. You may now disconnect your lines.