Presentation of 1Q2014 Results

Tuesday, 13th May 2014
5:30 pm (CET)

Operator: Ladies and gentlemen, welcome to Autogrill's first quarter 2014 financial results presentation.

Elisabetta Cugnasca - Investor Relations Manager: Good afternoon and welcome to our first quarter 2014 conference call. As usual, I have to draw your attention to the disclaimer on page 2. All the numbers we will be referring to are on a constant exchange rate basis unless we say otherwise. Given that the group demerger has effect from the 1st of October 2013, the travel retail numbers related to the first quarter 2014 are still included in our 2014 numbers. And, according to IFRS number 5, are shown in a single line, below profit from continuing operations in the group's rectified profit & loss account, below net invested capital from continuing operations in the group's rectified balance sheet. Now let me hand over to Gianmario Tondato, our group CEO, and Alberto De Vecchi, our group CFO, who will take you through our results in detail. Thank you.

Gianmario Tondato - Chief Executive Officer: Thank you, Elisabetta. Good afternoon. 2014 is a transformational year for us, as you already know. And, in fact, in the first quarter we showed signs of moving in the right direction. It's a step-by-step process and it's getting a little bit of momentum. The transformation will be led by a number of performance enhancing medium-term projects, like Food Bye and SP1, and I'm pleased to announce the renewal of the Italian motorways. It has been a strategic objective for us, focusing on high-potential locations, at least what we think are high-potential locations, and reducing our presence. We are proud to achieve our goal and in 41 locations that were due for renewal we won 21. The contract length of extension is longer than the 14 years on average and, just to give you the rough number, it's portfolio secure for more than 2 billion euros. In the first quarter we took positive steps also in the P&L. The US is improving, even if there are some one-offs that are clouding our results. In Italy the sales on motorways fell by 1.4%, while traffic was up 1%, so we are moving in the right direction in closing the gap and we will do even more in attacking the penetration in traffic. In the European, in what we call "other European countries", we delivered a significant growth in sales thanks more than anything to new openings, and we delivered a good result in controlling costs that mitigate the impact of seasonality. This quarter and the results to week 18, which includes the Easter holidays and the long-weekend holiday in Italy, allow us to give you our guidance for the full year, which is in line with the long and medium-term targets that we gave you at our investor day in September. Now Alberto will take you through the numbers in much more detail. Thank you for your attention.

Alberto De Vecchi - Chief Financial Officer: Good afternoon. As you have already heard, the first quarter results give us the foundation to build on for the year ahead. Let me first warn you about some elements that may render our results of first quarter 2014 not so straightforward to understand. As you know, in 2013 the first part of the Easter holidays was in the first quarter, while this year Easter has been fully in the second quarter and merged with the holidays of the 25th of April in Italy and the 1st of May. Please also keep in mind that the first quarter 2013 still included the results of the US airport business, which has been sold by HMSHost to World Duty Free last September, in connection with the demerger of Autogrill spa. For this reason, I apologize if I will bother you several times during this presentation adjusting the 2013 comparable data and variations to eliminate the contribution of the disposed US retail business. So now moving to the numbers, with this in mind, let's start with sales: in the first

quarter 2014, we delivered 813 million euros of sales, over 50% of which were generated at airports. North America has accounted for 51% of our total sales of the quarter. Our F&B sales in airports grew by 4.4%, compared to the same period last year, mainly thanks to the growth in the US and the new openings in Vietnam and the UK. In the period we also saw sales growing on motorways by 2%, thanks to the new openings, mainly in Belgium and Germany. If you exclude the 40 million sales, the 40 million dollar sales generated by the US retail business in the first quarter 2013, group sales grew by 2.6% compared to last year. The weakness of the US dollar toward the euro has curbed this good growth to 0.2%. EBITDA for the first quarter was 15 million euros, with a margin of 1.9 on sales, in reduction compared to a margin of 2.6% in the first quarter of 2013. Additional costs of reorganization, the impact on margins of the fracturing of some US airport contracts, the less favorable sales/mix in Italy, more ancillary and less F&B, and the contribution of the disposed US retail, that was there in 2013 and is not in 2014, has contributed to the decline of the margin. Lower depreciation and financial charges allowed the group to limit the loss of the period on the continued operations to close to 37 million euros, compared to 41 million euros of loss of last year. The lower depreciation was due to lower capex done in 2013, while the lower interest charges reflect the reduction in debt compared to the first quarter of 2013. And also please keep in mind that the interest charges for the first quarter of 2013 still included the residual 4.5 million euros of the interest rate swap that we unwound in 2011. In the first quarter of 2013, World Duty Free was still included in our data and this contribution to our result of the period was about 12 million euros. Notwithstanding higher capex than last winter, we delivered much better results in terms of cash-flow generation, as we limited the normal absorption of the first quarter to 53 million euros compared to around 100 million in the previous year, thanks to an improvement of 47 million euros in working capital. So, now let me break down the results by area, and let's start with Italy. Sales in Italy fell by 3.4% in the quarter, a significant portion of the reduction has been generated by the closure of points of sale we undertook in 2013. On motorways the sales… the fall in sales was limited to 1.4%. In the first two months of the year, our motorway sales were only slightly negative, being negative by 0.3%, compared to the same period of the previous year and below traffic, that was positive by 1.1%. You can see that our first quarter sales show a decline higher than in the first two months, and this is due to the shift of Easter in the second quarter, while in 2013 part of the Easter period was still in the first quarter. The improvement compared to the 2013 performance is evident, because, if you remember last year in the first two months of 2013 our sales were falling by 6.1% with traffic declining by 1.6%. That is, we are closing the gap. But, at this reduced level of activities any decline in sales, although the performance is relatively better, is reflected heavily on EBITDA. And this explains the reason for the negative EBITDA we scored in the first three months. And please also keep in mind that the performance enhancing projects, and namely SP1, were not expected to give a significant contribution in the first half of the year, but only in the second part of the year, and we are on track on this project in terms of timeframe. As Gianmario mentioned at the beginning, we have started the processes that in the next three years will see the renewal of almost 60% of our contract portfolio. This started with the oldest, the contract of 1995 with ASPI expiring in 2013. Given they're vintage, the contracts were at very favorable terms, quite distant from today's market conditions. On this renewal, we took the approach to focus on cash-flow, that is to concentrate our investment on those contracts that we believe may generate most of the value, accepting to leave the less contributive. We know that a short-term bid strategy will result in a reduction of Italian sales, but we think this is the right thing to do, as it will allow us, one, to concentrate our focus and capex on the most promising contracts where we believe we can make the difference, also thanks to the clustering approach we described to you last March. And then, second, to reset the bar for the other contracts that will be renewed in the next… in the months to come, and that are more expensive. You probably recall Gianmario's mantra: "renew 50% of our locations expiring, and, as they are already the most generative, lock in with this half of locations renewed at least 70% of the sales of the contracts up for renewal. On the locations renewed, apply new concepts to get more customers, more sales and more value." And in general we are pleased with the outcome of this first stage of renewals. The total number of locations expiring in 2013 on the ASPI network was 54, of which 41, four-one, were managed by Autogrill. The amount of sales generated by those

41 Autogrill locations in 2013 was around 170 million euros. We competed for securing half of them, of those locations, and in fact we won 21 points of sale, which represent around 70% of the sales generated by the expiring locations. The average life of the contracts renewed is above 14 years, one - four, which implies a portfolio of 2.1 billion euros of sales secured for the group. The new contracts are still to be finalized, and we don't know yet the details and the time of inceptions of the new conditions. In the projections we will present to you today we have assumed that the effect of the new contractual conditions came into force from the middle of the year. We expect that the performance enhancing programs, including SP1, will compensate in Italy for these higher rents. Now, moving to HMSHost, and always excluding the 40 million dollar sales generated by the retail asset that we disposed of in 2013, sales grew by 5.4% at airports. Within US comparable sales in airports… excuse me, within the US, comparable sales at airports grew by 7% compared to traffic, that grew by 1%, benefiting from an increase in both the number of transactions and the average ticket. This is an outstanding result, as it has been obtained notwithstanding the negative impact of both the fracturing of some contracts and the very severe winter weather in the US with, if you remember the presentation we made in March, with more than 50,000 flights cancelled in wintertime. We cannot, obviously, guess the effects of the weather on our sales, on our lost sales, but we estimate the impact of fracturing around 7 million dollars of lower sales. Because of this effect… we were not subjected to fracturing, we registered a strong performance across the board in North America. In fact, our stable contracts in the US grew by close to 11%. Vietnam and the UK and Saint Petersburg in Russia are the new contracts… are among the new contracts that contributed additional sales to the quarter. And in 2014 you will see the contribution of other contracts we have already been awarded, including… probably the most important is Fort Lauderdale, then we have Abu Dhabi, Indonesia, and contracts that will also contribute to our numbers in the second part of the year. Staying… keeping our attention on this first quarter, motorways also grew in North America by 2.9%, to almost 72 million dollars, not a bad result at all, if you keep in mind the very bad weather conditions in January and February on the Atlantic coast. EBITDA for the period, for our North American and Asian activities, was 41 million dollars, with an EBITDA margin of 7.3%, that is slightly below the 7.5% of the first quarter of 2013. The minor fall in terms of EBITDA margin is mainly due to fracturing, what has been lost on these contracts, given that they are large airports, a lot of potential economies of scale, is not fully compensated by the stable contracts. The good fact on this subject is that the impact of fracturing is stabilizing in the year, as these contracts had been fractured already during 2013. Also reorganization costs for 1.2 million dollars and the disposed travel retail asset that contributed 0.8 million dollars last year to the result of the quarter of last year are also responsible for this limited decline of our EBITDA in the US for the first quarter. Finishing with other European countries other than Italy, our sales increased by 7%, mainly thanks to the new openings in Belgian motorways and at UK airports and at the Eurotunnel terminal. This region tends to generate the lion's share of its revenues and margins in the middle part of the year and, as a result, it has registered a loss in this first quarter, albeit improving with respect to the first quarter of 2013.

Then, moving on to the balance sheet and cash-flow statement, we have already talked about our cash-flow statement and working capital improvement. The performance, the strong performance in working capital has been helped by two one-offs, one positive in the first quarter of 2013 of 17 million dollars, as we got the payment for the net working capital that HMSHost has transferred together with the US retail business sold to World Duty Free, while last year we had in the first quarter a negative, an outflow of 15 million euros in the first quarter of 2013, due to the payment of the three-year bonus to the management. But, even if you eliminate these one-offs, you see that there has been anyway a good performance on the working capital management on a continuous basis. And below the line of the working capital please note that the first quarter of last year has benefited from a tax refund of 15 million dollars in the US, that you see, because in the line of last year of the tax paid or refunded you see that there is a positive number of 11.3 million euros, which is the equivalent of the 15 million dollars of refund. As a result of the evolution of the cash-flow I just mentioned, the group net debt at the end of 2013 was amounting to 724 million euros. So, in conclusion, for the quarter we successfully renewed our Italian motorway contracts, we

delivered strong growth in the US, we kept expanding our presence in new geographies, and we have a solid footing to build on. Now, and before going on to the Q&A session, what do we see for the year ahead? Based on the end of week 18, where 0.8 still below the same period of the previous year, but – again for the last time, I promise I won't mention the US travel retail business anymore, because we have been speaking about that during the whole presentation – if you eliminate the impact of this disposed asset from the first 18 weeks of last year, in fact our sales have grown in these first 18 weeks 3.7%. We have warned you in the past that you cannot compare a change on weekly sales to the report sales, as the perimeters of these two sets of figures are slightly different. But the improvement with respect to the quarter's reported data is reliable. And… at least in terms of trends. In fact, at week 18 all the first holidays of the year, Easter, April 25th in Italy and May 1st, have passed, allowing us to a better understanding of real trends and performances. And in these first weeks, 18 weeks, HMSHost has kept the speed shown in the first quarter, while Europe, including Italy, and probably especially Italy, have shown an improvement, especially in motorways. Particularly, Italian motorways at week 18 show a growth with respect to the same period of the previous year, while, if you remember, at the end of… in the first quarter they were still recording a -1.4%. Based on the current trading and we made several assumptions to build up our guidance for the year, and allow me to just summarize these assumptions. The first is that HMSHost will continue to see traffic growing at US airports and a strong performance from our stable contracts, as we did in the first quarter 2014… of this year, while the impact of fracturing is expected to decline. In Italy total sales, notwithstanding the good news about week 18, will decline, because of the selective renewal approach that we took on motorways and because of the closures of marginal locations that we did last year. This is about sales, but, as Gianmario said, this 2014 is a transformational year, and this is particularly true in Italy, with the renewals and the performance enhancing projects that are coming on line. And, in fact, the Italian performance will be the one more influenced by non-comparability due to the change in perimeter induced by the selective renewals and the closures, the benefits of the project that will manifest in the second part of the year, the increase of rents from the renewal process, and please keep in mind that last year the Italian performance… the Italian division, benefited from one-offs that may hand out… around 9 million for the division of positive one-offs. In the rest of Europe, we expect a good performance in terms of sales, given the new contracts won, and corporate costs will be less than last year, because we will not have to record this year the costs of the demerger, which were last year 4.5 million euros for Autogrill. Finally, we expect that capital expenditure will be a bit higher than our average track record and medium-term guidance, in part because of the programs in Italy that will start in the last part of 2014, but also because of a significant IT investment in the US, which, of course, is non-recurrent. If the current trend on exchange rates continues, the comparison with the results of the previous year will also be affected especially by the translation of our results in North America and Asia in to euros… from dollars into euros. Last year, the euro-dollar exchange rate has been around 1.33 dollars per euro. For our 2014 forecast we have used an exchange rate with the dollar at 1.37 per euro, which is close to the current exchange rate and consistent with the one-off in the first quarter. Based on those assumptions, we expect: sales in the area of 3 billion 860 million euros, which compares to 3 billion 985 million euros of last year, the impact of the different exchange rate is around 60 million euros of lower sales for this year, while the US retail business contributed 135 million dollars to the sales of last year, that is approximately 100 million euros. At the EBITDA level, we expect to be around 310 million euros in 2014, with an EBITDA margin in the area of 8% on sales. 2013 EBITDA was 314 million, with an EBITDA margin of 7.9%. Please remember that last year we had a positive contribution of one-offs, as I mentioned before, around 9 million in Italy, plus some other one-offs, some other positive one-offs across the board, partially compensated by the extra costs of the demerger. So, net-net, the impact of the one-offs last year was around 7 million, then there is another 7 million of impact generated by using the different exchange rates and, finally, another around… between 6 and 7 million of lower margins generated by the fact that we don't have the US retail business anymore. So, if you calculate all these adjustments, you end up with a comparable number for last year that is more in the range of 296 million that should be compared to the 310

million of the guidance of this year. Finally, a capex of 210 million euros in the case, of course, the exchange rate goes in the opposite direction, that would have been 216 million at last year's exchange rate.
With that, we are now happy to take your questions. Thank you.

Q&A session:

Operator: The Q&A session is now open. You can register for your questions by dialing star followed by 1. To cancel the reservation, dial star followed by 2. Thank you.

1. Mr. Alberto Checchinato from Fidentiis:

Q – Alberto Checchinato: Good evening. I have three questions. The first is about the Italian renewals: I get that the impact will only be from the second half of 2014, I was wondering if the impact will be retroactive, in the sense that you will be paying higher rents for the full year concentrated in six months or you're only paying higher rents for six months. Second, if you can give us a kind of mid-term guidance in terms of the investments which you intend to make going forward, you're historically at around 5% and I was wondering if you can give us more color about what you expect going forward. And the third is about material renewals you might have, either in the US or in other markets in 2015. Thank you.

A – Gianmario Tondato - Chief Executive Officer: Talking about the rent, the answer is no, there is no retroactive rent in… due for the extension and for these new contracts. Actually, we are going to pay the new rent only when we're going to be finalizing really this agreement, so it is just an announcement, we are still in the old rent, you know, these days. I didn't get exactly the second question, I understand… if you can talk louder, you know..., it would be better for us, because we cannot hear you very well. If you were asking about the capex, you know, for Italy, or generally speaking…

Q – Alberto Checchinato: No, no, no, in general, I mean, I get that 210 million guidance you gave for 2014 includes, of course, capex for Italy. I was wondering about the whole group. So, what do you expect going forward? A kind of mid-term guidance in terms of capex. So, historically, you've been at around 5%, if I remember correctly, so I was wondering if this number is set to go down going forward or if you need to assume a kind of steady state, so like 5% of sales going forward.

A – Alberto De Vecchi - Chief Financial Officer: No, in general we confirm that the number of capital expenditure for the year is in the range of… should be in the range of 200 million, around 200 million. In this case, as I mentioned before, there is an extra investment related to the fact that in the US we are basically revamping the whole system of cash registers in the locations. So it's mainly an IT, related to sales, but it is an IT… you don't do it every year, because you do it only once in many years, and it happened in 2014. So, in general it should be… the 200 million that is the number that we expect, is reliable. And the third question, if I got it, is related to material renewals in the US. In 2015, you said. Or 16?

Q – Alberto Checchinato: 2015, but, I mean, 16 is fine as well.

A – Gianmario Tondato - Chief Executive Officer: We have only one major location in the US, which is Chicago, it's very difficult to tell you if it's going up in 2015, because we are on extension already since the beginning of this year. So, this big contract, you know, expires, and… I mean, I'll tell you a story: we were in Atlanta on a month-on-month basis from the top of my head I would say for 5 or 6 years, you know, so it's difficult… the bid is not out, we don't have any clue of what is going to happen, you know. So... so that's the only material contract we have in the US that is going to expire.

Q – Alberto Checchinato: All right. Thank you.

Operator: No questions at the moment. I'd like to remind you that to register for your questions, you can press star followed by 1.

Operator: I confirm. No more questions.

2. Mr. Marco Baccaglio from Kepler:

Q – Marco Baccaglio: Good afternoon. A quick question on your medium-term targets. Do I remember correctly that the target was to have a 10% EBITDA margin and the year was 2015 or was it a longer-term target? Thank you.

A – Alberto De Vecchi - Chief Financial Officer: So, we confirm that the target is 2015 achieving a margin in the area of 12% in our North American business and to achieve a target of 8% in Europe, but more in 2016. So, if you have to… the full impact of the two, it will be more 2016. But the bulk of the business that today is the one that is generating most of the value will materialize in 2015, that is in North America.

Q – Marco Baccaglio: And this is before corporate costs?

A – Alberto De Vecchi - Chief Financial Officer: When we give this indication, it's around 12% in North America, around 8% across the board in Europe and then you have to make the blending, of course, of the two… of the due incidences, because we can expect that the US will… say, HMSHost will increase its share on the total, because they are growing fast and in Italy, as we said, the approach is to be selective in the renewals. So, it's likely that it's going down in terms of incidence, so, while today they are almost 50-50, most likely in two years' time they will be a bit more of US than Europe, of course it will depend also on the exchange rate. This is something that, of course, is more difficult to predict. But then you have to deduct the corporate cost.

Q – Marco Baccaglio: Thank you.

A – Alberto De Vecchi - Chief Financial Officer: You're welcome.

3. Mr. Simone Ragazzi from Mainfirst:

Q – Simone Ragazzi: Yes, hello to everybody. I have one question on your full-year targets. What are your assumptions in terms of traffic underlying your targets? Because, if I remember correctly, you assume something around flattish traffic on the Italian motorways business during your full-year results. Have you changed it? Also following the good trends that we have recorded at the beginning of the year? Thanks.

A – Alberto De Vecchi - Chief Financial Officer: On Italy, we are, of course, a bit more positive than when we prepared the budget last year, because last year we were more inclined to believe it slightly negative, today we expect to see a traffic slightly positive but, say, not materially. We are not expecting a 2 or 3% growth. This is our expectation for Italy.

Q – Simone Ragazzi: Thanks.

A – Alberto De Vecchi - Chief Financial Officer: You're welcome.

4. Mr. Alberto Checchinato from Fidentiis:

Q – Alberto Checchinato: Yes, hello again. Given that you just renewed the latest batch of concessions where the oldest ones are in Italy and you also have more visibility on how much bargaining power you might have with the landlords, can you please give us a kind of, let's say, mid-term EBITDA margin guidance for Italy as well, given that you've given it for both North America and Europe? Thank you.

A – Alberto De Vecchi - Chief Financial Officer: Excuse me, maybe I.. if I understood.. because, in fact your line continues to be not particularly good, so maybe I didn't understand, but when I mentioned Europe I was saying it is rather consistent what we expect to do in Italy and the rest of Europe.

Q – Alberto Checchinato: All right, perfect. Thank you.

A – Alberto De Vecchi - Chief Financial Officer: You're welcome.

Operator: No questions at the moment.

Operator: I confirm. There are no more questions.

A – Elisabetta Cugnasca – Investor Relations Manager: Okay. Thank you very much and good evening.

Operator: Ladies and gentlemen, the conference is over. Thank you for calling.