Presentation of 3Q2014 Results

Thursday, 13th November 2014
6:30 pm (CET)

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

Elisabetta Cugnasca - *Investor Relations Manager:* Good afternoon and welcome to our third quarter 2014 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 and exclude the US retail business. Given that the group demerger has effect from the 1st of October 2013, the travel retail numbers related are still included in our numbers and, according to IFRS 5, are shown in a single line, below net 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: Grazie, thank you, Elisabetta. Good afternoon. Commenting the results of the third quarter of 2014, I think we can say that we had a positive impact on what we can control, even if there is still a hostile and tough environment. Italy has taken some steps forward, and our margins have started to improve thanks to our work on rationalization, our footprint leading to a smaller and better network. We achieved this despite a traffic that has been soft due to the weather not being particularly friendly during the summer, and a higher rent environment because of the extended renewed points of sales. And keep in mind that all the programs that we've been talking about in the past, like the clusterization program, have not started yet. In the other European countries the results have improved, with both sales and EBITDA developing in a very positive way. This is an area where we first started rationalizing our network, by focusing on the most profitable motorways, points of sale and moving to airports and railway stations. In conclusion, the summer in Europe has been satisfactory, even if still in a difficult environment. HMSHost, our North American international business, non-European international business, has also delivered decent results, even if we expected more in terms of good sales reflecting into good profitability. This wasn't entirely the case. HMSHost has delivered at two different speeds: in North America we weren't able to fully capture the strong traffic in the summer months. In the rest of the HMSHost, apart… international apart, performed quite strongly, on the opposite. Overall, at the group level the third quarter shows that we have improved EBITDA, net profit and free cash-flow. Alberto now will take you through the numbers in much more detail. Thank you for your attention.

Alberto De Vecchi - Chief Financial Officer: Thank you, Gianmario. Let me take you through the numbers in detail, starting with HMSHost and the airport channel, and within the airport channel I would like to look first at our operations outside North America. You know that we want to boost our presence in new geographies that may assure high-growth rates in traffic and potential additional customer base or, as in the case of Northern Europe, expand in markets which are very profitable. HMSHost businesses outside North America have grown in the quarter the HMSHost performance inside North America, also thanks to the contribution from the recently opened locations, which include Saint Petersburg, Vietnam and Indonesia. These locations contributed about 14 million dollars of sales to the quarter. At the Amsterdam airport, our sales in the quarter amount to almost 34 million, up to 7.6%, outpacing an already strong traffic, which was up 3.7%. In total, HMSHost sales in airports outside North

America have amounted to close to 72 million dollars with an increase of around 19% on the third quarter 2013. They represent today around 13% of total sales generated by HMSHost in airports. Now, moving to US airports, comparable sales have grown by 5%, outperforming the traffic, which was up 3.5% in the quarter, but the outperformance has been a bit lower than our expectations. In the summer months the average ticket has been strong, up by 5.4%, even better compared to the increase of 4.9 we achieved in the first six months of 2014. This improvement has been driven by a sales mix with more table service dining compared to QSR. Unfortunately, during the summer months the number of tickets slightly declined compared to third quarter 2013, they were down by 0.3%, whereas in the first six months of the year they grew by 1.8%. The relative weakness of the QSR towards more expensive concepts, which is positive for the average ticket, as we have seen before, may have produced less contacts. Also, we may have overstressed labor productivity, generating a temporary lower capturing of the traffic. The balance between efficiency in managing resources and sales effectiveness is a never-ending fine-tuning process in our business. And, in fact, in October the average number of tickets has improved, alongside the average ticket. In fact, in October we have seen an increase of 4.2% in terms of average ticket and an increase of 3.7% in terms of number of transactions. Now, moving to HMSHost motorways, sales in the quarter grew by more than 3%, mostly thanks to the positive impact derived from the reopening of the refurbished points of sale on the Ontario toll road. On a comparable basis, US motorways were flat compared to a traffic which was up by 0.8% in July and August. Our sales growth was less than what we saw in the first six months of the year, but mainly due to a calendar effect, that is the different position of Labor Day, where the summer's high season ends in the US, in the two periods. HMSHost's EBITDA in the quarter grew by 4.7… 4.4%, excuse me, net of a reorganization cost of 1.6 million dollars. Excluding the reorganization one-off, HMSHost's EBITDA margin was 14.5% compared to 14.7% in the third quarter of 2013. This slightly lower percentage margin is due to some start-up costs from the new openings outside North America and in part is still influenced by the fracturing. Although, thanks to our strong performance in the Los Angeles airport, total sales in the four fractured contracts, I remind you namely they are Los Angeles, Atlanta, Phoenix and San Diego, have grown in the quarter in line with the rest of the US airports, this is in the range of 5% approximately, there was no additional EBITDA for those additional sales. And this is the result of the cost structure of these airports still needing to be fine-tuned. Now looking at Italy: sales in Italy were down only due to… in the quarter, only due to the change in the perimeter driven by our exit from non-profitable points of sale and those locations on the motorways that we decided not to renew. We exited the exited motorways locations starting from the 1st of July 2014. The total impact on the quarter of these changes in the perimeter of the Italian activities was about 24 million euros of lower sales compared to the same period of last year. In fact, excluding these changes in the perimeter, sales in the third quarter 2014 were only slightly reducing, there was a reduction of 0.4%, compared to the same period of 2013. Motorways sales in the quarter were slightly up, 0.2%, a positive result that we had not seen in Italian motorways for almost 10 quarters. We have data for the whole motorways network, for the traffic of the whole motorways network, up to the month of August: in the two main summer months, traffic grew by only 0.1%. A comparison with the increase of 1.2% as of June-end underlines that traffic in the summer has decelerated, also due to the bad weather conditions in July. In fact, in the entire third quarter of this year, the weather has been particularly bad, with low temperatures and 56 rainy days out of the 92 days of the quarter, while the rainy days were 33 in the third quarter of 2013. So almost double bad weather than the previous year. Bad weather and low temperatures are responsible not only for lower sales generated by the lower traffic, but also for a different sales mix: on motorways in the quarter we saw total sales in beverages and ice creams, which have higher margins, declining by 9.7% compared to the third quarter of 2013. Overall, in terms of sales mix by category, the quarter confirmed the trend we saw in the first half with market sales performing better than F&B sales thanks to the promotions, which has also proved that our clients' propensity to spend is still low. At the airports, the sales performance reflected the change in the perimeter. Our sales in the channel were down by 1.3% due to leaving two airports and our reduction in commercial space at Milan's Malpensa, partially compensated by taking more space at Rome's Fiumicino, which in fact has performed well. We grew by 3% in railway stations in part thanks to the new openings in Verona and Bari. The reason of the strong contraction in our Italian EBITDA, going from 53 million to about 41 million euros, has to do with one-offs only. You may recall that last year the third quarter benefited from a positive one-off of 13.8 million euros related to the sale of preemptive rights on several motorways up for renewal. In addition, the restructuring costs in Italy this quarter were 1.1 million euros, about twice as much as in the third quarter of the previous year. If you eliminate all these one-offs, the actual EBITDA grew by more than 5% notwithstanding a 7% fall in sales, higher rents of about 1.5 million euros in the period, on the renewed motorways points of sale, and although we are not yet benefiting from the SP1, which is still in the implementation phase. The growth of the actual EBITDA resulted in an EBITDA margin, net of one-offs, that went from 11.8% to 13.3%, thanks to the exit from unprofitable locations, a strong focus on operating costs and G&A, and leveraging on cost control and the ability of our people to deliver. Finally, moving to the other European countries, we saw a good performance and better than expected across the board. The group's strategy to rationalize our network and focusing on airports and railway stations has started to pay off. Today in other European countries our motorways business accounts for around 56% of total sales in the region, compared to 80% in Italy. Both airports and railway stations grew double-digit in the quarter. Total sales grew by close to 5% and EBITDA grew by nearly 11% in this region, in part thanks to the flow-through from additional sales and the cost containment that we have been focusing on. Finally, corporate costs were more than half, thanks to a reduction in consultancy and personnel costs. Now, moving below EBITDA, I think it is more meaningful to comment the nine-month results year-to-date than looking at the third quarter only. The reduction in depreciation from 139 million to 136 million euros, as a result of less investments in 2013 compared to 2012, resulted in an EBIT of 111 million, that is 11 million higher than last year. Interest charges declined from 37 million to nearly 31 million euros, thanks to the reduction of the average debt in the period and no more impact from the amortization of the residual value of the interest rate swaps which we unwound in 2011. Food & beverage net profit was 46.9 million, compared to 31.2 million euros, with an increase of around 58% with respect to the nine months of 2013. The total net profit consolidated was 37.5 million compared to 113 million euros of the nine months of 2013, which benefited from the positive contribution of about 91 million euros from the travel retail business which we spun-off in October 2013. Now, moving to the cash-flow, free operating cash-flow increased by more than 50%, reaching 124 million euros, also thanks to better net working… net working capital that contributed close to 36 million compared to absorbing 76 million euros last year. Please keep in mind that net working capital last year was impacted by a long-term bonus payment to the top management of about 15 million euros, while this year it benefited from about 18 million dollars related to the disposal of the US retail business. Some changes in the amount of capex payables are also partially responsible for the different evolution of the net working capital in the two periods. The good cash generation has reduced our net financial debt from over 670 million at the end of December 2013 to just under 600 million at the end of September 2014, after investments of about 128 million. As I mentioned earlier, in the month of October, US airports had confirmed the positive trend in terms of average ticket and the number of tickets has started to grow again. On Italian motorways, net of the closures, the performance was better compared to the summer season and in the other European countries the growth trajectory has continued, driven by airports and railway stations. With respect to our 2014 guidance, that we gave you last May, we are in line on expected sales and only slightly below on EBITDA, but the strong dollar more than compensated for this, as today we expect an average dollar-euro rate of 1.33 compared to the rate used for the original guidance of 1.37. As a result, we update our guidance as follows: sales at 3.91 billion compared to 3.86 billion euros of the previous guidance. The increase of 55 million is due to the stronger dollar. EBITDA at 314 million compared to 310 million euros, due to a performance of around 3 million below guidance and a positive exchange rate effect of 7 million. Capex is expected at 203 million compared to 210 million euros of the guidance. Some delays in the schedule of investments in the US have resulted in about 10 million euros of lower-than-expected capex. The difference is reduced to 7 million due to the stronger dollar. Summarizing, we had a rather positive summer, with some areas performing better than other, as at the end of September our profit from continuing operations increased significantly and cash generation was strong, October trends in sales were in line or even better than in the summer, and we took additional steps forward in our developing strategy, expanding our presence both in Asia and the UK, where we have increased our presence in the Manchester airport. With this, we are happy to take your questions.

Q&A session:

Operator: Ladies and gentlemen, 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.

Operator: We have no reservations at the moment. I remind you that you can register for your questions by dialing star followed by 1.

1. Mr. Marco Baccaglio from Kepler:

Q – Marco Baccaglio: Good afternoon. One question for me is: as you have started to announce new contracts again, I would like to know if you can give us a rough idea in terms of sales, how much additional sales are going to generate these new contracts on a yearly basis in 2015. Thank you.

A – Alberto De Vecchi - Chief Financial Officer: Yes, it is a good question, an obvious question, I think. Unfortunately, at the moment I don't have the answer about the amount, in fact we're working on the budget these days, in fact we see that the impact… unfortunately, I don't have the answer at the moment about the run rate of the new concessions that we've been awarded recently. I think that… I'm sorry, but I don't have the answer at the moment. We can provide you this information, but not now.

Q – Marco Baccaglio: Okay, thank you.

2. Mr. Tim Ramskill from Credit Suisse:

Q – Tim Ramskill: Thanks, good evening. Three questions, actually, if that's okay. The first is: I guess we're about 12 months further on from your investor day last year, I just wondered if you could update us on your… on the margin opportunities for each of the three principal geographies and just kind of what the shape of that might be in 2015 and beyond. Has anything changed in terms of your thinking? And the second question is: you mentioned in your preparatory remarks that central costs were obviously lower during the quarter and have been sort of relatively lower so far this year and now we know there are going to be some one-off merger-related expenses which weren't going to recur, but can you give us some sense as to how you think you'll conclude the year on central costs? And then the following question is…

A – Elisabetta Cugnasca - Investor Relations Manager: Excuse me, Tim, unfortunately we can… we hear very bad. Can you ask one question in a row in order to allow to...

Q – Tim Ramskill: Sure. Perfect, yes.

A – Elisabetta Cugnasca - Investor Relations Manager: Thank you.

Q – Tim Ramskill: Did you get the first two questions?

A – Elisabetta Cugnasca - Investor Relations Manager: No.

Q – Tim Ramskill: Okay. Can we start again?

A – Alberto De Vecchi - Chief Financial Officer: Excuse me, we apologize, but while the previous one, the previous question has been heard very clearly, we cannot understand your question… so probably the best is if you can repeat question.. the first question, then we can answer to the first question, and then the second and then the third, because otherwise we don't want to keep you repeating and stopping when we don't hear you. Sorry.

Q – Tim Ramskill: Okay, I'll try again. Maybe that's better. Actually the first question was: it's 12 months since you had your investor day, and you gave margin targets and comments as to how you expect the three geographies to progress. And could you update us on that, please?

A – Alberto De Vecchi - Chief Financial Officer: I think we got half of your question. It seems that you said that it has been 12 months after the investor day when we gave some indications about the development of the margins in the future. Is that… do you want an update on this?

Q – Tim Ramskill: Correct. Yes, thank you.

A – Alberto De Vecchi - Chief Financial Officer: Excuse me. Well, what we can say is that… of course, 2014 is still a year in which we are fixing things. As we said before, we're happy with the results in Italy, for instance, even though the SP1 has not generated any improvement. So, the SP1 in these numbers is not there. I would say the opposite, at the moment the SP1 has been generating… as we are in the phase of implementation, there are a lot of, say, start-up costs, it has more costs than benefits. Starting… we hope it will start generating benefits starting next year. So, in principle I think that in Italy nothing has changed, that is we said that our target is to achieve the 8%, definitely not in 2015, because we will be… in 2015 we will continue to improve in order to digest the renewal on the one hand and to start building sales in order to have a better coverage of fixed costs. But the aspiration is to arrive to this percentage afterwards, when we start seeing the old contract expiring, that will start in the last part of 2016 with the full effect in 2017. So, nothing has changed, basically. The idea is still to improve the margins starting to… also to start seeing increases in sales. Of course, we are describing a lot of quarters with declining sales, it's very difficult to improve margins if we continue to see reductions in the sales base. With respect to North America, as I said, the summer has not been great, we are not, as I said, so satisfied about the outperformance on the traffic. The good fact is that the traffic's strong. We have seen a very strong summer, so we are really focusing on trying to capture this traffic. The traffic is there, the demand is there, so it is up to us to transform this potential in sales in more than proportional EBITDA growth.

Q – Tim Ramskill: And do you still believe you'll get to 12% margins?

A – Alberto De Vecchi - Chief Financial Officer: Yes, Elisabetta is reminding me that the third target that we communicated on the investor day was the fact that we want to expand the business in what we call the "new geographies", that is Northern Europe and Asia and the Middle East, and we are on track on that, even probably even better than what we expected.

Q – Tim Ramskill: All right. And, if you can still hear me, if I can ask my second question, I'll leave it to two. My second question was: you mentioned in your comments that central costs were lower in the quarter and they're certainly trending quite meaningfully lower year-on-year, so as we're at the nine-month stage, so what are your expectations for central costs for the full year, please?

A – Alberto De Vecchi - Chief Financial Officer: I think that… if I understand, you ask which is the guidance for central costs within the guidance for 2014.

Q – Tim Ramskill: That's correct, yes.

A – Alberto De Vecchi - Chief Financial Officer: Well, it's going to be probably a bit less than 30 million. Probably in the range of 28 million approximately.

Q – Tim Ramskill: Thank you.

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

3. Ms. Emanuela Mazzoni from Intermonte:

Q – Emanuela Mazzoni: (…)

Operator: Ms. Mazzoni, it's your turn.

Q – Emanuela Mazzoni: Yes, hi, good evening. Can you hear me now?

A – Elisabetta Cugnasca - Investor Relations Manager: Yes, we can. Good evening.

Q – Emanuela Mazzoni: Okay, thank you. I had one question on profitability in North America: can you help us understand how your EBITDA margin will evolve in the last quarter of this year, maybe helping us understand how the fracturing impact… will impact your profitability in this quarter? And one clarification on the answer you provided before on your guidance in terms of EBITDA margin for 2015 in North America: are you sticking with the 12% EBITDA margin for North America… for HMSHost as a whole for 2015 or might fracturing impact again your profitability next year partially? Thank you.

A – Alberto De Vecchi - Chief Financial Officer: As far as the indication about… if I understand, when you say "in this quarter" you are not referring to the third quarter but to the fourth quarter.

Q – Emanuela Mazzoni: Yes, the last one. Sorry.

A – Alberto De Vecchi - Chief Financial Officer: Well, in this case we don't want to split now the guidance of 314 in pieces between, among Italy and the rest of Europe, because I think that this is not the way we give the guidance, so in principle I think that we have… we have to some extent confirmed that using the same exchange rate of the last guidance we were short about 3 million. In fact this is because we were expecting a bit more from the US in the summer. So basically it's… it's basically related mainly to the US, that means that we expect to be on track with the original guidance in the last quarter. And this is the indication. So I think that… October has performed well, that means that sometimes you may be not completely effective in capturing traffic, this is what happened in the summer, October has been positive, of course, there are still two months to deliver, and we are confident that we can deliver in these last two months in order to be back on track. With respect to 2015, frankly speaking I'm not prepared to give you a guidance on 2015, whether as a whole or in part. We confirm that the targets are the ones that we mentioned, but we will give the guidance once we will give the guidance for the group.

Q – Emanuela Mazzoni: So maybe, if I can, one more question on Italy: the impact already exit from some points of sale on motorways was around 14 million in the quarter, in Q3, so can you help us understand what will be the impact for the last quarter of this year? A similar impact or a higher one?

A – Alberto De Vecchi - Chief Financial Officer: Yes. What we can say, I repeat that I'm not prepared to split the guidance...

Q – Emanuela Mazzoni: All right.

A – Alberto De Vecchi - Chief Financial Officer: But I think that it's obvious that as we started leaving these locations at the beginning of July, that means that we had almost the full summer as an impact. It's obvious that the impact is lower in the last quarter, because the last quarter is low season.

Q – Emanuela Mazzoni: All right, and only the last one on the Chicago airport concession: can you provide us some insight on the potential timing in terms of an outcome from the renewals?

A – Gianmario Tondato - Chief Executive Officer: Can I.. Can I… Alberto, can I take this question? I mean, there is no news. We don't know, it's not up to us, we're on a month-by-month basis, and I think it's good for us, not bad. So, as soon as there is some news, you know, we will talk. But there is no news now.

Q – Emanuela Mazzoni: Okay, thank you.

Operator: There are no more questions at the moment.

A – Elisabetta Cugnasca – Investor Relations Manager: Okay, thank you very much. We know that it is very late and you had other conference calls before ours, so thank you for your patience and have a good evening.

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