Presentation of 1H2015 Results
Friday, 31st July - 4:00 pm (CET)

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Chief Financial Officer Alberto De Vecchi
Head of Investor Relations Elisabetta Cugnasca

Operator: Ladies and gentlemen, welcome to Autogrill's first half 2015 financial results presentation.

Elisabetta Cugnasca - Investor Relations Manager: Good afternoon and welcome to our first half 2015 call. As usual, I have to draw your attention to the disclaimer on page 2. 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.

Gianmario Tondato - Chief Executive Officer: Okay, thank you, Elisabetta. Good afternoon, and welcome to our first half 2015 results. Let's start with the fact that I'm very happy with our first half results, you know. We have delivered a 10% increase in sales and a 20% increase in EBITDA, which seems to be a very important result, a very important achievement. We also increased our EBITDA margin by 70 basis points compared to last year, excluding one-offs, and the strong results that the team has delivered, but the results are not only good from a financial perspective, because we also won a number of new contracts in China, Turkey, as well as in the US, where we have increased our presence in a substantial way. Our results of the first half confirmed the commitments we made at the Investors Day in 2013, that is to say: focus on profitability in our two core markets, North America and Italy. The objective for both is the same, to improve profitability, but the context and the channels we're operating in are different. In North America, where we have airport-focus, the market is growing and our business is best-in-class in terms of profitability. In Italy, where we are focused on motorways, we have experienced a long downturn and there are still not clear signs of economic recovery, even if the traffic in the last couple of months has picked up. But, although the conditions are different, discipline and efficiency is key for both. The other commitment we undertook was to achieve growth in emerging and high-growing markets, which are accretive in terms of sales and have high margins. These markets include Northern Europe, with our new openings in Helsinki, Heathrow, Stansted and Manchester, as well as the Middle East and Asia. So, wrapping up, a strong first half and the summer is starting well, thanks also to the beginning of a bounce back in traffic in Italy and the hot weather, that is driving sales and is giving us comfort with the guidance that we gave you in May. Now Alberto will give you more details on the first half performance.

Alberto De Vecchi - Chief Financial Officer: Thank you, Gianmario, and good afternoon. Let's start with our first commitment, that is related to the profitability in North America and Italy. In North America, EBITDA was up by over 10% with a margin that increased by 90 basis points, from 9.9% to 10.8%, excluding one-offs. In Italy, EBITDA also excluding one-offs was up over 11% with a margin that increased by 60 basis points, up to 3.5% from 2.9%. As you see, we are commenting very different margins, as North America is already best-in-class among main concession F&B operators, while Italy is in a turnaround mode. But the fact that we increased margins in both regions during the weakest part of the year is a very encouraging sign that we can continue delivering also in the summer season. On our second commitment, that is our focus on growing in our emerging markets, we are both winning new contracts and opening new geographies, as well as delivering significant growth where we already are. Our sales are up by more than 20% in northern Europe, and almost 40% in the rest of the world. Now, looking at the regions one by one, let's start with North America. The strong profitability performance in the first half and in the second quarter has been achieved primarily through the quality of our sales. As you know, our North American business is made up of our presence in the US and Canada, with the US being largely predominant, as it accounts for almost 90% of the sales in the region. And in the US sales, both at airports and in motorways, are growing. Once we eliminate the impact of the residual US retail contracts sold to World Duty Free by the end of February, our sales in US airports grew by 3.7%. The increase is in line with both traffic and the average growth of the US restaurant industry in the first half of the year. I know that in past years we have shown outperformance on traffic, but today's conditions of the air transportation make the airport environment more challenging than in the past. In the year after 9/11 we have seen flights operated and passengers growing nicely. According to the growth of transportation statistics, all passengers grew from 670 million in 2002 to a peak of 835 million in 2007. In the same period, total flights operated were growing from 9.1 million in 2002 to 11.2 million in 2007. Then we went through the 2008 financial crisis and we saw passengers plunging to below 770 million, that is almost 70 million less than in 2007. Airlines reacted immediately, cutting flights from 11.2 million operated in 2007 to 10 million in 2009. But what happened afterwards? Year by year, the traffic has come back and finally in 2014 the volume of passengers got to 850 million, surpassing the 2007 peak. On the contrary, flights operated continued to decline, notwithstanding the upsurging passengers. They were 10 million in 2009 and they are 9.5 million in 2014. And, in fact, load factors boomed, from the historical 72% in 2002 to around 80% in 2009, jumping to over 83% in 2014, a level never seen in the previous 12 years. In the period between 2002 and 07, we had ideal conditions in the airports, with both growing passengers and more flights departing. Now passengers have come back, but not flights, which translates into overcrowded gates and less distributed departures during the day, generating an environment less favorable for F&B operators to capture passenger flows. This notwithstanding, we have overcome the challenge, and delivered a very solid sales growth, being extremely effective in enhancing the spend per customer. This also thanks to the migration towards more complex but also more rewarding concepts we have brought on line in the last two years. From a perimeter standpoint, all in all, taking fracturing and contract changes, we have not lost any sales in the first half of 2015. With respect to contract awards in the first six months, as expected we have been only partially renewed in Tampa airport but we have been given a larger share at Houston Bush international airport. At airports in Canada we performed less well than in the US, as we suffered from the weak economic environment of the country. On top of this, in the two key airports that we operate in, that is Toronto and Montreal, we saw an increase in offering not supported by an increase in the customers demand. But luckily Canadian airports only represent 9% of sales we generate in North American airports. Good US sales quality has been the engine of the 90 basis point increase in the EBITDA margin, driving, together with the decrease of some raw material prices, the decrease of the costs-of-goods-sold incidence on sales. The EBITDA of the first six months materially increased, notwithstanding over 4 million of one-off restructuring costs we incurred in connection with the implementation of the new organizational structure that we talked to you about last March. Net of this one-off cost, our North American EBITDA has grown by over 10%, with margin increasing from 9.9% to 10.8%. Looking forward, at the second half of the year, in North America we expect to continue to deliver profitable sales, improve our management of cost, and pursue opportunities to strengthen our portfolio. Now, looking at Italy, our core market where we are committed to improve in profitability, we have delivered, both in absolute and margin terms, despite the lack of a real recovery of the economy and soft sales. We always knew it was going to be difficult in Italy, so over the last few years we embarked on a very selective motorway renewal campaign in 2013 and 14, we rationalized our portfolio by exiting non-profitable points of sale and lowered our level of investment in the country. These actions are the main drivers of the 7.5 decline… 7.5% decline in sales you see in the first half of 2015. In fact, the selective renewal on motorways and the closure of non-performing stores led to a sale decrease of around 40 million. Together with the discipline in business development, we also launched a number of efficiency projects to allow us to have a more flexible business model to adapt and react to the market we operate in. These projects were based on using resources more effectively, leveraging on logistics although never compromising on the quality of our products. SP1 is the core of these actions, and SP1 has delivered close to 1 million of cost savings in the first six months of the year. Our performance also benefited from the closure of non-performing points of sale that we did last year. All these efficiencies helped us to improve margins in Italy and offset the 3 million increase in rents coming from the contracts renewed last year. In order to implement some of these efficiency actions, we sustained one-off restructuring cost, which amounted to around 3 million euros in the first half. Excluding this one-off, our EBITDA in Italy grew by over 11% and margin has gone up by 60 basis points from 2.9 to 3.5%. Now, looking into the second half of the year for Italy, the weather we have experienced so far this summer has been significantly more favorable than last year, which we expect will benefit sales. Also traffic seems to have bounced back in this beginning of summer and also comparing sales performance will be easier in the second half, as we exited all the non-renewed stores at the beginning of July last year. From a cost perspective, we will continue to deliver, as we have done in the first half. In conclusion, we have delivered on our first commitment to enhance profitability in our two key markets, North America and Italy. Before moving to look at our second commitment, that is to grow in emerging markets, let me cover our performance in other continental European countries. As in Italy, discipline is the managerial mantra also for these countries although, as they are smaller and sometimes with weaker competitive positions, their results are more influenced by specific market events. From a channels standpoint, our sales in these European countries have been soft on motorways and railway stations also as a result of closures in France and a weak performance of our Swiss motorways locations at the border with Germany, which saw reduced flows of German travelers due to the Swiss franc strength. On the contrary, we saw a solid performance at the European airports we manage. The weak sales in France and Switzerland explain the fall in the EBITDA of this region, from 11 million to 9.3 million euros. Now let's move to our second commitment, that is to grow in emerging markets. We have continued to deliver a very strong performance through HMSHost international. Sales grew by over 25% at constant FX, driven by double-digit growth both in North Europe and in the rest of the world. In North Europe, sales at Schiphol airport grew by more than 11%, and this excellent result was reinforced by the positive impact, close to 10 million, of the new openings at Helsinki, Heathrow, Stansted and Manchester airports. All in all, this part of the business grew by 21%. We delivered even stronger results in the rest of the world, where sales grew at constant FX by 38%, both as a result of the expansion in countries we were already present in, like Vietnam that grew 65%, Turkey, +95% also thanks to new operations in the Antalya airport, and India, +25%, and from the openings in new countries of presence, like Indonesia. In the first half of 2015, we operated over 50 new points of sale. As you can appreciate, when opening so many new stores in such a short period of time, not all are up and running to maximum efficiency from day 1. And this is the reason why international EBITDA margin went from 10.7% of last year to 9.6%. We expect this to smooth out over the course of the second half of the year, as stores gradually get up to speed. In the second half of the year, we will keep on expanding the HMSHost international business, thanks to new contracts won, which includes stores in Dutch railways, UK and Asian airports. Further opportunities to grow in North Europe and Asia will be actively pursued. Now a few remarks on P&L items below EBITDA. The growth in asset depreciation has been strongly influenced by the dollar appreciation, as we invest the bulk of our resources in the US. Financial charges have declined, despite the dollar, thanks to the reduction in the average cost of our debt from 5% to 4.3%. Stable taxes are the result of higher incidence of taxes in the US, due to the dollar, and the reduction of Italian IRAP, due to the change in legislation. This change has resulted in a decline of our provision for around 2.5 million euros. The net result of the period is still negative by 15.6 million euros, but this is related only to the seasonality of the business, that is to say the normally very weak first quarter. In fact, the net result of the Group in the second quarter of 2015 has been a profit of 24.7 million euros, with a solid improvement toward the 13.4 of the second quarter of 2014. The cash-flow evolution has been consistent with the improvement in profitability. Net cash-flow from operations has been 92 million in the first six months of 2015, while it was 62 million in the same period of the previous year. Reported capex was around 80 million euros in the period, that is 4.1% of our net sales. The Group followed a disciplined approach to capital allocation, addressing most of the resources to airports and to those geographies where we see more returns, which are the US, North Europe and Asia, while in continental Europe, including Italy, our capex to sales ratio has remained below 3%. Now, let's move to current trading in the first 30 weeks of the year. As of the end of July, excluding the impact of the US retail disposal, Group sales are up by 12% at current FX and around 2% at constant FX. In the weeks after the end of June, we have seen some acceleration in North American airports, with international still well on track. Very favorable weather conditions, better traffic and a now stable perimeter of motorways is supporting an encouraging sales recovery in Italy. The good progression of Italian sales is, in fact, the main driver of the positive sales performance in Europe. So, considering the performance so far, the current evolution in sales and the perspective of the main areas of the Group, we confirm the guidance we gave you in May. In conclusion, we are pleased with the strong set of results in this first half of the year. And now we are happy to take your questions.

<u>Q&A session:</u>

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.

1. Mr. Jaafar Mestari from JP Morgan:

Q – Jaafar Mestari: Hi, good afternoon. I have two questions, please. Firstly on capex, on which you finished, it looks like you are significantly under-spending in H1 compared to your full-year guidance of 240 million. So, as usual do you tend to spend less during the summer? How likely is it that you end up spending the entire budgeted amount this year? And if not, will all of the remaining be spent in 2015 anyway? Can you give us a bit more color on this? And my second question is on the US airport business and in particular what you said on the impact of structurally higher load factors at airlines. And if you've seen this happening in the US what do you think will happen in the other regions? Because I suppose airlines, whether they can achieve it or not, they will always be trying to get to higher load factors, and from the point of view of the airports it's probably a win-win as well, so are European airports still far away from those levels of efficiency or do you think they'll get there and you could face a similar problem in the medium term? Thank you.

A – Gianmario Tondato - Chief Executive Officer: (…)

Q – Jaafar Mestari: Hello?

A – Gianmario Tondato - Chief Executive Officer: Yes, we're here, you know, just taking some time to think, you know, about the answer. Let's start with the second question. It's not necessarily a problem, you know, the fact that… it's just a fact, as Alberto was stating, and there are some numbers in the annex, you know, so the load factor is the highest in the last probably ten years, I think it's the highest we have seen in the business. So, there are two facts in the US that are specific to this market: the first there has been a big merger between two airlines, so, you know, this can be one of the drivers of this load factor; the second is, that is specific to this market, they're cutting services to the customers. So it could be seen also like the bottom of a cycle, something is probably going to happen I think some… it could be, you know, nobody knows the plans that the airlines really have, but it could be also that they're going to add some flights. There's no question about that. As you are probably aware, the antitrust in the US has opened an investigation on this… on this matter, you know. On the airlines, you know, because of these numbers, basically, I think, you know. So that's the situation right now, so it could be also that we are at the bottom of a cycle, and that the trend can… but the interesting thing is that in the last three years, you know, there is a mismatch really, a different trajectory between the flights and the passengers. That's the most important thing. So, it's changing the shape of the business. So basically we have more people but with less exposure, you know.. is this something that is going to change? It could be, I mean. That's the situation, we're just stating… taking a snapshot of what happened, you know. That's it. I wouldn't assume that that's the future for the world.

A – Alberto De Vecchi - Chief Financial Officer: In general, anyway, the increase of load factors is obviously a target for all the airlines everywhere in the world. So we can expect that this is something that is a general trend. We remark this fact because in order also to invite you, when you evaluate numbers, to judge our sales performance not necessarily the outperformance on traffic, because the industry changes. That is the main message we want to send to you. And so the important fact is that we are able to adapt our mode and to try to capture and to deliver good sales. That's the main point. On capex, you're right that in terms of capex, you see that there is a difference between paid capex and reported capex, because in fact we have an amount of capex that in fact we paid this year and was related to the previous year, but you're right that the reported capex is only 80 million, so we're very distant from the 240. We expect to recover part of the delay. At the moment, based on the evolution of our projects, there is still the possibility to make this amount, even though, if you want my gut feeling, I think that if there is a number on hich we may make mistakes on the guidance probably capex is the most likely, also because it's very difficult to predict the evolution of the capex during the months and we recognize the capex according to the works. So it may be that is a bit too large an amount for the full year.

Q – Jaafar Mestari: Okay, thank you very much.

2. Mr. Tim Ramskill from Credit Suisse:

Q – Tim Ramskill: Thank you, good afternoon. I have three questions, please. The first is just to come back on that discussion about the US airports: I think your comment in the answer to the last question was not to judge you relatively… relative to the traffic, but clearly that's how you framed your discussion with *investors in the past about performance. So, again I appreciate you said that that's a snapshot, you wouldn't necessarily think about it that way going forward, but I guess it would be helpful to hear how you would encourage us to think about that dynamic. Is therefore traffic expectations in performance in one-way traffic a better view for the longer term? The second question just a point of clarification, I apologize if I missed this, but does your EBITDA guidance… is that including or excluding the one-offs that you've pointed to? And do you have any expectation of further one-offs in the second half? And then the final question is: you pointed to the fact that Italy's seeing some improved traffic trends in the early part of the summer, obviously the traffic data virtually comes out generally fairly late, but maybe you can just comment on the traffic both during the second quarter and the encouraging trends you've seen in July, just to give us a sense of the scale of that change? Thank you.*

A – Alberto De Vecchi - Chief Financial Officer: Excuse me, I didn't understand which traffic you were referring to in your last question.

Q – Tim Ramskill: Sorry, I think you said in your… during the presentation that in Italy during July there were some positive signs in the early part of the summer. I just wondered if you could help us understand the scale of that improvement, please.

A – Alberto De Vecchi - Chief Financial Officer: Well, with respect to the last question, at the moment we don't have statistics that are… frankly speaking, the statistics in Italy are quite old, because the last information on the full network is still at March, so...

Q – Tim Ramskill: Yes, yes.

A – Alberto De Vecchi - Chief Financial Officer: …we're not even in the second quarter. What we have are indications, we have got that a landlord that is listed gave indication yesterday, I think, of a very positive second quarter, but it is one network in... and also geographically, let's say, limited. So it's difficult to be right on that, so take this indication about the traffic as a gut feeling, because we see our locations, our stores, we see the parking lots are full of cars, that is… so we have the impression that traffic is strong, but we don't have evidence at the moment about that. As to one-offs, for the rest of the year I think that with respect to the projects that are related they're gone of course, there are no other included. And they are not included also in our guidance, apart from the ones that have already been included in the first six months.

Q – Tim Ramskill: Okay.

A – Alberto De Vecchi - Chief Financial Officer: Yes, excuse me, on the first question, because I started answering from the bottom, so I don't remember your first question.

Q – Tim Ramskill: The first question was back to the US airports, you know, just some help as to how you would encourage people to think about the likely sales performance moving forward, given in the past we have tended to talk about, you know, the sort of thinking about outperformance over and above the traffic growth. So, if that's changed, which clearly divides divisions why that is more difficult, how would you encourage people to think about the likely growth projection of the business moving forward?

A – Alberto De Vecchi - Chief Financial Officer: I think that what… the situation… as you said, the situation is what it is, and of course it is more complicated to capture. But the point is that you must be more flexible. So we are working on that, trying to adapt our model and to try to be much more efficient to follow the peaks of the flows during the day, because this is the main complication that the higher load factors imply for airports. That you have more people in more limited periods of the day, and sometimes you also miss tables, in order to serve all these people, and sometimes during the day you have too many tables for the people who are in the airport. So, it is more complicated but we are working on that, and we think that we are implementing things exactly to address this issue. To be more flexible, to take food at the passengers when they are departing.

A – Gianmario Tondato - Chief Executive Officer: So I can add, you know, I wouldn't assume… so we've been changing… the environment is changing, I wouldn't assume that this is going to stay with us forever. That's what happened so far, you know, a load factor of 85% is high, let me tell you this. It's not low. So, it could be…

Q – Tim Ramskill: Just on that point, I saw some data very recently that suggested that US airlines this year are adding quite meaningful amounts of extra seats, so in other words more… there must be more flights. Is that… because obviously the data I've seen includes all the appendixes and the data you've shown is up until the end of 2014, are you feeling from, you know, your guide on the ground that this dynamic is already changing in 2015? Or not just yet?

A – Alberto De Vecchi - Chief Financial Officer: In terms of flights operated, the statistics we have seen, because we prefer to mention statistics for the full US and the full US is only given by the Bureau of Federal Statistics. And they stopped to the end of 2014. So we expect that sooner or later they will introduce new flights. Unfortunately, at the moment we don't have any evidence for the full network, we may have indications from one airline but not from the full network.

Q – Tim Ramskill: Okay, fair enough. Thank you very much.

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

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

Operator: There are no more questions at the moment.

A – Elisabetta Cugnasca – Investor Relations Manager: Okay, thank you very much and happy vacations to everybody.

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