Organic growth buoys Dufry Q1 revenues; Asia Pacific, Middle East and North America head regional performance

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Julián Díaz: "The good operational performance with an organic growth of 2.0% is a positive development, to which all divisions – except for the South American markets – have contributed."

INTERNATIONAL. Dufry Group turnover climbed by 3.4% year-on-year in the first quarter of 2019, reaching CHF1,882.6 million (US$1,870 million), driven mainly by organic growth of 2.0%.

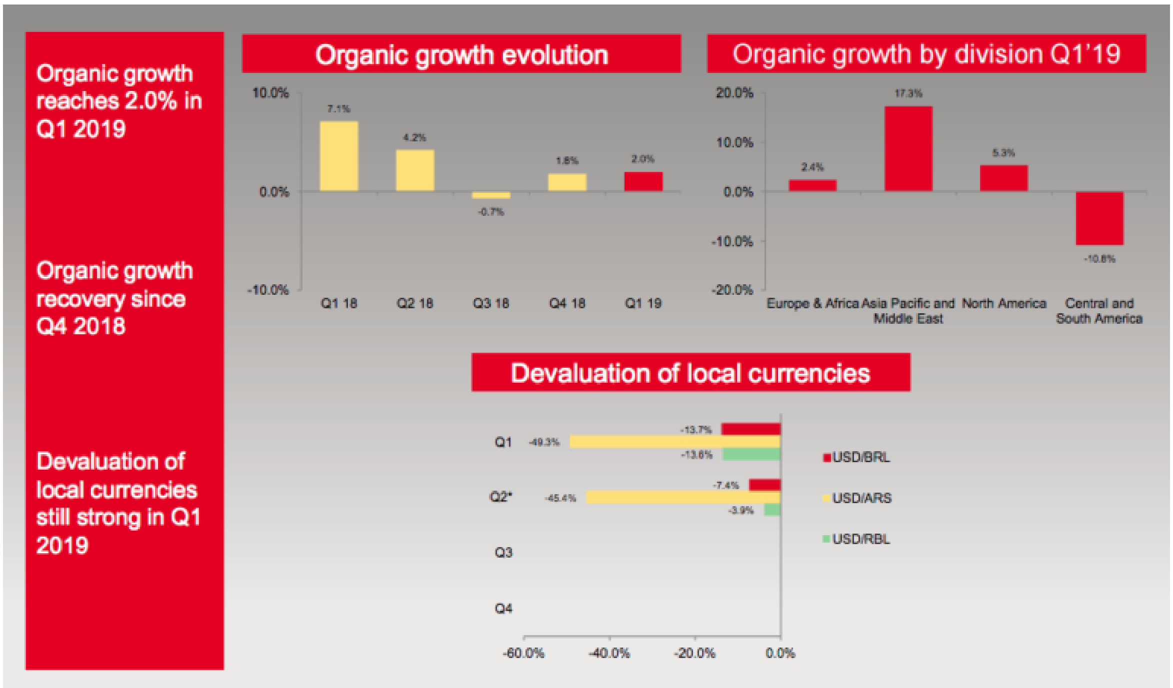
The company said that result showed a slight improvement from the 1.8% seen in Q4 2018. The retailer noted: "It is all the more positive considering the shift of Easter into the second quarter and high comparables in the previous year. Excluding the impact of South America organic growth would amount to 5.6% and like-for-like to 2.0%."

The foreign exchange effect was 1.4% in the period, mainly due to the strengthening of the US Dollar versus the Swiss Franc.

Gross profit margin further improved and reached 60.3%. Adjusted operating cash flow amounted to CHF159.3 million.

By geography, performance followed a similar pattern to previous quarters with Asia Pacific and Middle East as well as North America leading the trend. South America remains weak, while Central America performed well. Europe and Africa also saw a growth improvement.

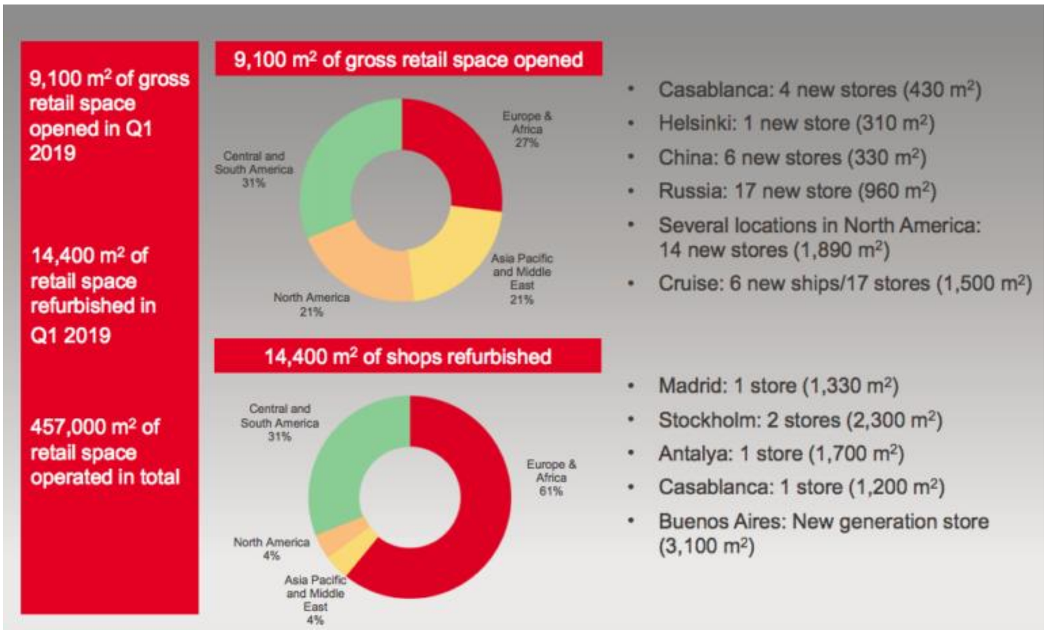
In the first quarter, the company refurbished 14,400sq m of space and plans to refurbish an additional 34,700sq m in 2019. Dufry also opened and expanded 9,100sq m of gross retail space and has signed contracts for opening a further 18,800sq m in 2019 and into 2020.



How organic growth compares quarter by quarter and across regions (click to enlarge).

Dufry CEO Julián Díaz commented: "The good operational performance with an organic growth of 2.0% is a positive development, to which all divisions – except for the South American markets – have contributed. In particular, Asia Pacific and the Middle East as well as North America have continued with their strong performance, while recovery has started in Europe.

"A combination of commercial and marketing initiatives launched in several markets as well as strong contributions from new concession, supported the ongoing improvement in organic growth. Worth mentioning are the new operations at the MTR station in Hong Kong, the new airport in Perth as well as the addition of new cruise ships to our portfolio.

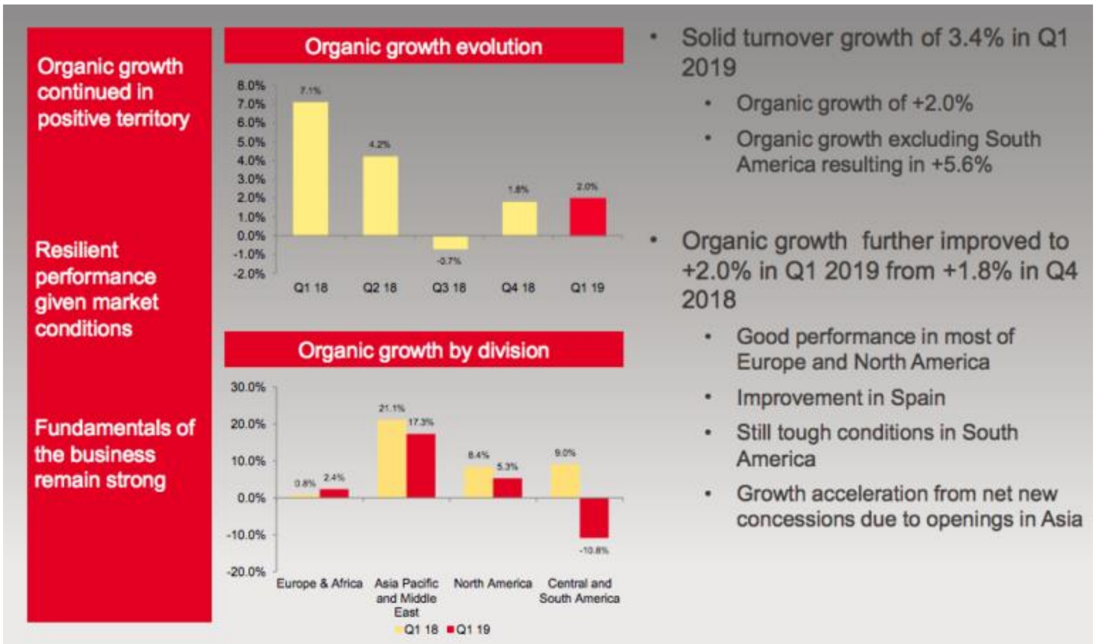


Key recent openings across the network (click to enlarge).

“We have also continued with returning capital to shareholders through a dividend payment of CHF4.00 per share, which represents an increase of 6.7% on last year’s CHF3.75 per share and is equal to a total payout of CHF199,141,000. Our shareholders also approved the election to the Board of Directors of Luis Maroto Camino, who will support Dufry with his in-depth IT know-how for the travel and tourism industry.

“The improving market conditions seen in the first months of 2019 in all divisions, with the exception of Brazil and Argentina where the environment remains challenging, have continued and are encouraging. Organic growth in the month of April reached 2.4%.

“Our goals of 2019, to further drive growth with a strong customer focus, to leverage our business model to generate efficiencies and accelerate the implementation of the digital strategy remain unchanged. We therefore confirm our mid-term organic growth guidance of 3%-4% as well as the expected range of CHF350-400 million for the 2019 equity free cash flow generation.”



A snapshot of the Dufry Q1 performance by region.

Profitability, IFRS 16 and comparability

Gross profit increased by 4.2% to CHF1,135.6 million with Dufry putting the increase down to “the continuous improvements in global negotiations with suppliers, brand plans and launch of exclusive products”, *writes Kevin Rozario*.

However, Dufry was at pains to point out to analysts that with the introduction of the new International Financial Reporting Standard 16 (IFRS 16) “most lines of the income statement and the KPIs become non-comparable with 2018 reported figures”, except for KPIs related to cash flows (see table below).

Income statement: Pro forma Q1 18 adjustment for better comparability

Q1 2019 according to IFRS 16 with no restatement in 2018

Adjustments provided for 2018, although only works as an indication

- in CHFm -	Q1 19 Reported	Q1 18 Pro-forma	Q1 18 Reclass.	Q1 18 IFRS16 impact	Q1 18 Reported	Comp-arable	Note
Turnover	**1,882.6**	**1,820.0**	**-**	**-**	**1,820.0**	✓	
Gross Profit	**1,135.6**	**1,089.9**	**-**	**-**	**1,089.9**	✓	
Lease Expenses	(325.0)	(294.6)	31.8	196.9	(523.3)	X	1
Personnel Expenses	(307.7)	(284.8)	-	-	(284.8)	✓	
Other Expenses	(131.6)	(129.5)	(42.8)	12.7	(99.4)	X	2
Share results of associates	-	-	(0.7)	-	0.7		
Depreciation (excl. RoU)	(47.4)	(43.9)	-	-	(43.9)	X	
Depreciation of RoU	(264.0)	(245.1)	-	(245.1)	-	X	3
Amortization	(90.8)	(89.6)	-	-	(89.6)		
Linearization	-	-	-	39.9	(39.9)		
Other operational result	-	-	11.0	0.3	(11.2)		
Operating Profit (EBIT)	**(30.9)**	**2.4**	**(0.7)**	**4.7**	**(1.5)**	X	
Financial Result (excl. lease interest / FX)	(32.7)	(33.6)	0.7	-	(34.3)	X	
Lease Interest	(40.2)	(42.8)	-	(42.8)	-	X	4
FX	(6.8)	(5.7)		(8.7)	2.9		
Profit before Taxes	**(110.6)**	**(79.7)**	**-**	**(46.8)**	**(32.9)**	X	
Income Taxes	1.0	(7.0)	-	5.7	(12.7)	X	5
Net Profit	**(109.6)**	**(86.7)**	**-**	**(41.1)**	**(45.6)**	X	
Non-Controlling Interest	0.1	2.4	-	4.3	(1.9)	X	6
Net Profit to equity holders	**(109.5)**	**(84.3)**	**-**	**(36.8)**	**(47.5)**	X	

New lines in P&L with different scope, therefore certain reclassifications were needed

1) Variable concessions and variable part of concessions which contain a MAG. Selling Expenses not related to concession fees (e.g., credit card commissions, packaging, etc.) moved to Other Expenses. Leases of office buildings, warehouses, etc. move to this line from General Expenses.
2) All other operating expenses. Items reclassified to this line: Former other operational results line and Selling Expenses not related to concession fees (e.g., credit card commissions, packaging, etc.)
3) Linear depreciation of right of use (balance sheet)
4) Interest charge on Lease Liability
5) IFRS 16 impact on deferred taxes
6) Above mentioned impacts attributable to minorities

Adjusted Operating Profit (adjusted EBIT)

	Q1 2019	Q1 2018 Pro-forma
Operating Profit (EBIT)	-30.9	2.4
Acquisition-related amortization*	76.9	78.0
Adjusted Operating Profit (Adjusted EBIT)	**46.0**	**80.4**

Adjusted Net Profit / Adjusted EPS

	Q1 2019	Q1 2018 Pro-forma
Net Profit to equity holders	-109.5	-84.3
Acquisition-related amortization*	71.5	77.4
Lease interest	40.2	42.8
Deferred tax on items above	-11.0	-13.8
Adjusted Net Profit	**-8.8**	**22.1**
# shares	49.8	53.2
Adjusted EPS	**-0.18**	**0.41**

The company said that leases were most affected. Whereas before they were accounted as expenses, now fixed components are capitalised and amortised over the lifetime of a contract. In Q1, lease expenses thus had a more negative impact than usual of CHF325.0 million. These expenses relate to the variable part of concessions which contain a minimum annual guarantee.

As a result, operating profit (EBIT) fell drastically from CHF2.4 million in Q1 2018 to a loss of CHF30.9 million. However, adjusted for 'acquisition-related amortisation' Dufry generated an operating profit (adjusted EBIT) of CHF 46.0 million in the period. Adjusted net profit showed a small loss of CHF8.8 million.

Dufry noted that it has a very seasonal business with most of its operations located in the Northern hemisphere – so Q3 has the highest passenger flows. "Q1 is the least important period of the year for turnover, profitability and cash generation, which is typically negative in this quarter," the company said.