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Autogrill Group
IFRS 16 application

Milan, 16 May 2019



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Autogrill Group IFRS 16 application

Introduction to IFRS 16

- **IFRS 16 Leases is effective for annual reporting periods starting on or after 1 January 2019**
 - It replaces IAS 17 Leases and related interpretations
- According to IFRS 16, lessees are required to recognize on their balance sheet a **Right-of-Use Asset (“RoU”)** and a **Lease Liability** for almost all types of lease contracts
 - The Lease Liability is measured as the **net present value of future lease payments**; only minimum guaranteed rents are capitalized, while the variable lease payments continue to be expensed above the EBITDA line
 - At the starting date, the RoU is **equal to the Lease Liability**
- IFRS 16 will have **effects on Balance Sheet and Income Statement**, while total **impact on Cash Flow generation will be neutral**
 - The payment of minimum guaranteed rents will be reclassified under financing activities in IFRS 16 Cash Flow Statement

Accounting and financial impacts

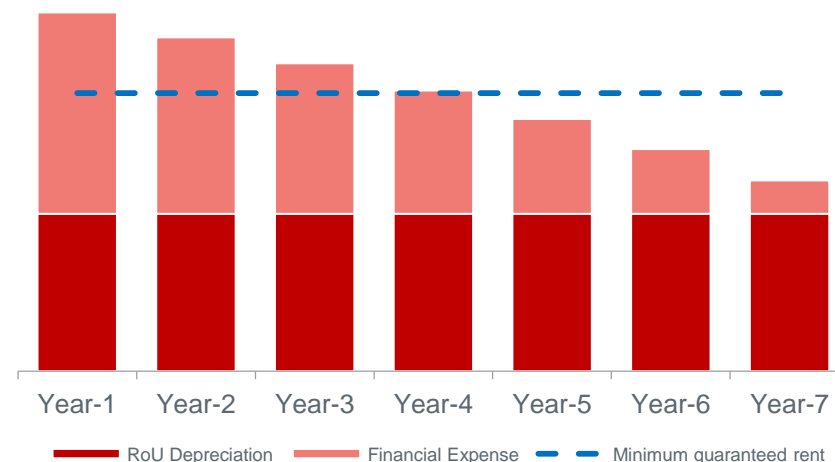
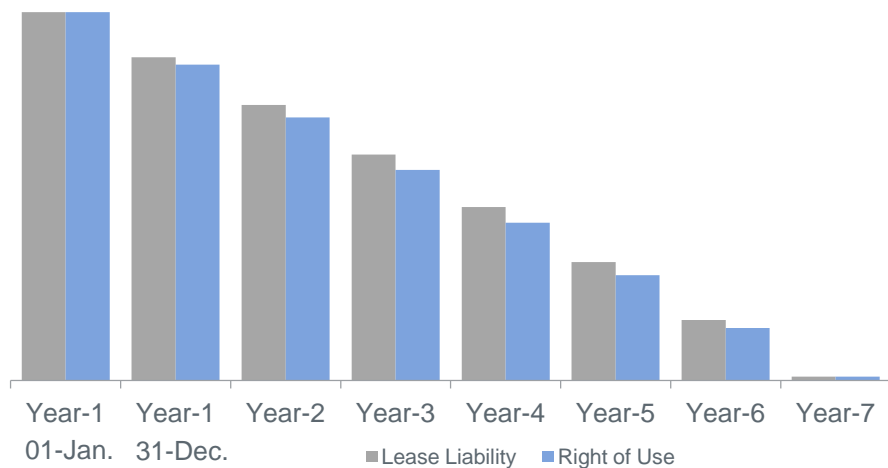
Balance Sheet

Impacts

Income Statement

- A **RoU** and a **Lease Liability** (net present value of minimum guaranteed rents) are recognised
- The **RoU** is depreciated on a straight-line basis over the lease term
- The **Lease Liability** decreases over time to reflect the **repayment** of the principal

- Over the contract, the **minimum guaranteed rent is replaced by:**
 - **Straight-line depreciation** of the right-of-use asset
 - **Decreasing lease interest expense** in Finance costs
- In early years of a contract, the **impact on net profit** is **negative** but it **reverses over the lease term**



Autogrill transition choices and estimated impact on balance sheet

Transition choices

- **Modified retrospective** approach: **it is not allowed to restate** the comparative information for the year prior to first adoption
- Leases for which the **lease term ends within 12 months** of the date of initial application are **out of scope** (practical exemption granted by the Standard)
- **Discount rates**⁽¹⁾ are set based on **country / cluster of duration** of contracts and updated on a half-year basis⁽²⁾

Key dates

- Autogrill to apply **IFRS 16 starting from 1 January 2019**
- First financial communication under the new standard: **H1 2019 results**

Estimated impact on Balance Sheet

- The estimated impact as at 1 January 2019 is **an increase in financial liabilities of €2,300m-€2,600m** against an increase in non-current assets (RoU)

(1) Based on risk-free interest rate plus credit spread.

(2) Discount rate update is applicable only in case of new contracts or remeasurements / reassessments made on contracts already existing.

Illustrative example – Balance Sheet impacts

Illustrative contract clauses:

Minimum Annual Guaranteed Rent (MAG) expense = €50,000

Starting date = 1 January 2019

Lease term = 7 years

Frequency of payment = yearly (deferred)

Discount rate: 5%

Total MAG (not discounted) = €350,000

Net Present Value = €289,319

Balance Sheet as of 1 January 2019 (€)

Fixed asset	RoU	289,319	Financial liabilities	Lease liability	289,319
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Illustrative example – Balance Sheet and Income Statement impacts

<i>Income Statement 2019 (€)</i>	<i>NEW</i>	<i>OLD</i>
Revenue	100,000	100,000
Rent		
↓ MAG	–	(50,000)
Variable	(10,000)	(10,000)
EBITDA	90,000	40,000
Depreciation and amortization		
↑ Depreciation expense on RoU	(41,331)	–
EBIT	48,669	40,000
Finance Costs		
↑ Interest expense - lease liability	(14,466)	–
EBT	34,203	40,000
Income Tax expenses		
Current taxes ⁽¹⁾	(10,000)	(10,000)
↓ Deferred taxes	1,449	
Net profit	25,652	30,000

The MAG expense is removed

Straight-line depreciation of the RoU is included

Lease interest expense included in finance costs

Positive fiscal impact due to lower EBT

Balance Sheet as of 31 December 2019 (€)

Fixed asset	RoU	247,988	Equity	25,652	
	Deferred tax assets	1,449			
Current asset	Cash	40,000	Financial liabilities	Lease liability	253,785
			Current liabilities	Tax liabilities	10,000

(1) Assumed tax rate of 25%. To note that the Italian Tax Authority has not yet issued any guidance regarding the application of “Reinforced Derivation Principle” on the new IFRS 16 Standard.

Key takeaways

- **Off-balance sheet contractual obligations** for operating leases are now **discounted** and presented in a **separate line in the balance sheet** as a lease liability against a RoU, with **impacts both on the Balance Sheet and the Income Statement**
- **No impact on net cash flow generation**
- To facilitate the performance measurement, during 2019 Autogrill will continue to provide a set of KPIs **under both the previous accounting standard and under IFRS 16**

Annex



Illustrative example – Balance Sheet impacts for the concession contract over the lease term

Assumptions

- Starting date: 1 January 2019
- MAG expense: €50,000
- Variable rent: 10% of Net Sales
- Lease term: 7 years
- Frequency: yearly (deferred)
- Discount rate: 5%
- Tax rate: 25%

Depreciation schedule of lease liability and RoU asset (€)

	Lease liability					RoU asset		
	(€m)	Opening balance	Interest accrual	Principal repayment	MAG expense	Closing balance	Opening	Depreciation of RoU asset
2019	289,319	14,466	35,534	50,000	253,785	289,319	41,331	247,988
2020	253,785	12,689	37,311	50,000	216,474	247,988	41,331	206,657
2021	216,474	10,824	39,176	50,000	177,298	206,657	41,331	165,325
2022	177,298	8,865	41,135	50,000	136,162	165,325	41,331	123,994
2023	136,162	6,808	43,192	50,000	92,971	123,994	41,331	82,663
2024	92,971	4,649	45,351	50,000	47,619	82,663	41,331	41,331
2025	47,619	2,381	47,619	50,000	-	41,331	41,331	-
Total			289,319				289,319	

Illustrative example – Income Statement impacts for the concession contract over the lease term

Assumptions

- Starting date: 1 January 2019
- MAG expense: €50,000
- Variable rent: 10% of Net Sales
- Lease term: 7 years
- Frequency: yearly (deferred)
- Discount rate: 5%
- Tax rate: 25%

Income statement according to IFRS 16 (€)

	2019	2020	2021	2022	2023	2024	2025	Total
Revenues	100,000	105,000	102,000	104,000	106,000	109,000	108,000	734,000
Annual rent payment	(60,000)	(60,500)	(60,200)	(60,400)	(60,600)	(60,900)	(60,800)	(423,700)
Reversal of MAG exposure	50,000	50,000	50,000	50,000	50,000	50,000	50,000	350,000
EBITDA	90,000	94,500	91,800	93,600	95,400	98,100	97,200	660,600
RoU depreciation	(41,331)	(41,331)	(41,331)	(41,331)	(41,331)	(41,331)	(41,331)	(289,319)
EBIT	48,669	53,169	50,469	52,269	54,069	56,769	55,869	371,281
Interest expense on Lease Liabilities	(14,466)	(12,689)	(10,824)	(8,865)	(6,808)	(4,649)	(2,381)	(60,681)
EBT	34,203	40,480	39,645	43,404	47,261	52,120	53,488	310,600
Income tax expenses	(10,000)	(11,125)	(10,450)	(10,900)	(11,350)	(12,025)	(11,800)	(77,650)
Deferred taxes	1,449	1,005	539	49	(465)	(1,005)	(1,572)	-
Net profit	25,652	30,360	29,734	32,553	35,445	39,090	40,116	232,950

IFRS 16 Income Statement impacts (€)

	2019	2020	2021	2022	2023	2024	2025	Total
Reversal of MAG expense	50,000	50,000	50,000	50,000	50,000	50,000	50,000	350,000
IFRS 16 impact on EBITDA	50,000	50,000	50,000	50,000	50,000	50,000	50,000	350,000
Depreciation on ROU	(41,331)	(41,331)	(41,331)	(41,331)	(41,331)	(41,331)	(41,331)	(289,319)
IFRS 16 impact on EBIT	8,669	8,669	8,669	8,669	8,669	8,669	8,669	60,681
IFRS 16 interest expense	(14,466)	(12,689)	(10,824)	(8,865)	(6,808)	(4,649)	(2,381)	(60,681)
IFRS 16 impact on EBT	(5,797)	(4,020)	(2,155)	(196)	1,861	4,020	6,288	-
Income tax expenses	1,449	1,005	539	49	(465)	(1,005)	(1,572)	-
IFRS 16 impact on Net profit	(4,348)	(3,015)	(1,616)	(147)	1,395	3,015	4,716	-



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