

AUTOGRILL'S FULL YEAR 2017 FINANCIAL RESULTS

CONFERENCE CALL - 8TH MARCH 2018

Operator: Good afternoon and welcome to Autogrill FY2017 Financial Results conference call. All participants will be in listen mode. To ask a question you may press star 1 on your telephone keypad. Lorenza Rivabene, Group Investor Relations Manager, is going to start the call. Please go ahead.

Lorenza Rivabene, Investor Relations Manager: Good afternoon, and welcome to Autogrill FY2017 Earnings Call. Joining me on the call are Gianmario Tondato, our CEO, and Alberto De Vecchi, our CFO.

Before we begin, we would like to remind you that some of the information discussed in this call contain forward-looking statements that involve risk and uncertainty. Actual results may differ materially from those set forth in such statements. For the discussion of these risks and uncertainties, you should review the disclaimer in the earnings presentation we issued today.

Now, we are available to take your questions. Thank you.

Q&A Session

Operator: We will now begin the question-and-answer session. To ask a question you may press * and 1. Please consider the conference call is transcribed via a Text-To-Speech tool, therefore we kindly ask you to speak clearly and slowly. Thank you. The first question is from Nicolo Pessina of Mediobanca, please go ahead sir.

Nicolo Pessina, Mediobanca: Hi, good afternoon, everyone. I would have three questions, if I may. The first one is on the competitive environment. If you could comment on which kind of competition you see when you bid for a new contract, we have recently seen the outcome of the tenders in some Spanish airports? So I'm wondering if you see the same level of competition also in other markets and channels.

Second question is on the consolidation in the sector. I would like to know your view if you find it beneficial and which role do you believe that Autogrill can play eventually?

And the last question is on the contract portfolio, looking at the presentation you mentioned €10 billion of additions of new contracts and renewals, while the overall portfolio moves from €34 billion at the end of last year to €36 billion only. Personally I would have expected more, also in terms of duration that is from 7.3 to 7.5. So I'm just wondering if I'm missing something here. And if you can maybe provide a little bit more, a few more details. Many thanks.

Lorenza Rivabene, Investor Relations Manager: Thank you, Nicolo. Did we understand it well that you are asking us about the competitive environment, the consolidation in the sector, and the evolution of the contracts portfolio?

Nicolo Pessina, Mediobanca: It's correct, thanks.

Lorenza Rivabene, Investor Relations Manager: Okay. I will now hand over to Mr. De Vecchi.

Alberto De Vecchi, Chief Financial Officer: Well, as far as the competitive environment, yes we live in a competitive environment. And in principle we see it as a positive, being assigned that our industry is very attractive. I would think that we are well positioned as a landlord to recognize the quality of the service we deliver. And the broad brand portfolio that we have to offer and our capacity to innovate the concept, which make us a good partner for them. And this is in fact clearly reflected in the significant number of wins and renewals that we have done in 2017 that, by the way, is leading to your third question, that is the information about the evolution of the portfolio. So in principle, yes, the environment is competitive but we think that we are well positioned to keep us growing as we have done in 2017.

As far as, I jump to the last question, because it's connected to the first one, that is the evolution of the portfolio, yes, the total wins are close to €10 billion. Obviously, in order to calculate which is the impact on the total portfolio, you have to consider that a year has passed, that means that you have an addition of €10 billion but then you have a decrease of one year, that is €4.7 billion. And the rest you have also to consider that you have to re-evaluate the portfolio based on the exchange rate because a large proportion of our portfolio is U.S. dollar-denominated. That's why you don't have the full increase, because you have the increase on the additional we generate in 2017, but then, you have the impact on the size of the portfolio we had at the beginning of the year, denominated in dollar. That's why you see the portfolio growing only by €2 billion. But it is €2 billion on top of a very large portfolio that instead of declining one year, in fact has increased in terms of marginal size and marginal duration. As far as the consolidation in the sector, well first of all, we have to say that our industry is still rather fragmented, because even if you add the three main operators, the three companies that are listed, that are in our industry, you don't arrive to 50% of the overall sector.

Ultimately, yes, it is, there are three large operators but there are still plenty of opportunities for everybody to expand the business. So, in principle, we cannot see an enormous difference in 2017 compared to the previous situation. It's still an industry with very few international operators and a lot of very competitive regional players and local players.

Nicolo Pessina, Mediobanca: I see, many thanks.

Operator: The next question is from Simon LeChipre of Raymond James. Please go ahead.

Simon LeChipre, Raymond James: Good afternoon. Three questions if I may. The first one on the motorway market in the U.S. You mentioned earlier this year that the market was slowing down. If you could please give us an update on the topic and also if you could share with us your expectations for 2018.

My second question on your target of profitability improvement for 2018, what would be the main drivers of this acceleration?

And last point on CapEx, the level of spending was much higher in 2017, with an acceleration in Europe. I was wondering what are the main reason for this acceleration. And also do you expect a similar level in 2018? Thank you.

Lorenza Rivabene, Investor Relations Manager: Thank you, Simon. So, just to summarize, you're asking us about the motorway market in the U.S., if we have any update. The drivers of profitability going forward. And the amount of CapEx in 2017. Correct?

Simon LeChipre, Raymond James: Yeah. The acceleration in Europe, the main reason for that, and also your CapEx guidance for 2018. Please.

Lorenza Rivabene, Investor Relations Manager: Okay, thank you.

Simon LeChipre, Raymond James: Thank you.

Alberto De Vecchi, Chief Financial Officer: Well, starting with the evolution of the motorways in the U.S. Now, in general let's say the U.S. has performed, we have seen an expansion in traffic both in airports and in motorways. But it's true that the motorways have grown much less than the airport, because the airport has grown by 3.5% up to November and they were growing more until summer, and then we had the period with the bad weather, the very bad weather in the end of August and September, that determined a decline in the growth, but this notwithstanding the overall growth has been rather similar to what we had in 2016. So, approximately, the same that, what we had in 2016. And in fact on the contrary, the motorways, we are also affected by the bad weather, obviously, but we, since the very beginning of the year, we saw a much lower trend, which are the reasons of that trend compared to the rest. Well, in general, that channel is less dynamic than airports in any part of the world, and it is not being different, by the way it's even more evident in Europe, when we had a very strong growth in airports this year, in 2017, and a positive environment in motorways but very distant in terms of growth, compared to the airports. And, so in general, I think that in the U.S., also, we have seen in the second part of the year also some increase in the cost of the oil, that also contributed to some weakness in the traffic. And then in general the problem that you have in order to generate sales in the motorway is that the capture rate is intrinsically lower. So, all this is contributing to a channel that is probably intrinsically growing less than airports. Having said that, I think that the good side is that we, although this part of the business in North America is growing less than the airport, profitability is comparable. So, if it is not, it might be, it is slightly dilutive in our growth rate on the top line, but it is not dilutive in terms of the margins.

As far as what we expect for 2018, I think that in general what we expect is that next year and, this is by the way in part a first answer to the third question that is the reason of the high CapEx expenditure that we had in 2017. In terms of the top line for 2018, we expect a rather comparable like-for-like growth compared, that is not very similar to what we have had in 2017, so something above 3% as the underlying like-for-like growth of the revenue. But this year, in 2018, we expect a positive balance between openings and closings, while in 2017 it was slightly negative. And one of the reason of these additional contribution of sales generated by new openings is in fact the investment we have done in 2017. So, part of the additional expenditure that we had in 2017 was driven by the wins that we had in 2016 and in the first part of 2017, that generated CapEx that now are allowing us to have more point of sales operated and therefore, we expect that the openings will be a boost in the top line growth for the year. So the operational leverage of incremental sales will drive an increase in EBITDA and EBIT, and then we will continue to work hardly on efficiency, across the board, I think that in all the group, not only in Europe, even though definitely Europe will be the area where we'll make most of the action in order to improve the margins of the region.

And finally, with respect to the growth of the net income that is of the EPS, an important contribution will be given by the impact, the full impact for the year of the U.S. tax reform, that in 2017 contributed, because of two one-off effect that is the fact that we had to recalculate the deferred tax liability generated by the decrease in the tax rate. And the taxation – the one-off taxation on the profit generated from subsidiaries not in U.S. But on the other hand, starting from 2018, we will see the decline of the tax rate that is going down for a 35%, theoretical 35% to 21%, that will lead to a significant improvement, both in terms of P&L and especially even more in terms of the cash flow statement.

Simon LeChipre, Raymond James: Ok. Thank you, very helpful.

Alberto De Vecchi, Chief Financial Officer: You're welcome.

Operator: The next question comes from Marco Baccaglio of Kepler. Please go ahead.

Marco Baccaglio, Kepler: Good afternoon. First question is if you give us an idea about 2018 net capital expenditure.

The second question is regarding your €0.52 guidance of EPS for 2019. I was wondering if this is a number, which is a reported number or as you have started from this reporting to show an underlying figure which for example exclude the stock option plan.

And the third question is about your International activity unit where I see that there is a sort of continuous declining profitability. I was looking at my numbers in 2014, it was 12.6%, and now, you are at 11.3%. I understand there are a lot of start-up costs of new units, but where would you put the target profitability of these units? Because it seemed one or two years ago that it should have been even more profitable than the American market, while now it is not the case anymore.

Alberto De Vecchi, Chief Financial Officer: So, I will start from the last one and then go back to the previous two. With respect to International, I think that there are, yes, some start-up because when you grow by the range of 20% every year, obviously, there is an important contribution of the new openings that, which means that at the very beginning, there are not many locations that are already at the maximum efficiencies. So, you have to start and then to, you will improve the profitability with the time. And so, I was also on the subject to add that the openings are an important contributor to that, but we want also to underline that International has been particularly strong this year or in terms of like-for-like and that, in general, it's a very nice growth that we are experiencing there.

One of the reason of the decline of the margins that continues to be strong, by the way, so we don't have to forget that we are still speaking about a double-digit margin in an industry that, where in many cases you have a high single-digit. So, still they are particularly high. It is also because of the fact that while at the beginning, International was only concentrated in airports, today in certain areas and especially in the Netherlands, we are also expanding the business in railway stations and in shopping malls that are, where you see margins that are a bit lower. And for that reason, it is also in terms of mix of the growth that you see some decline.

Where we can go? I think that in general, there is no reason why this business that, in terms of proportion in the airport and non-airport, similar with North America, is going to have a much

different profitability than the North American one, so I think that we should see them in the time relatively aligned in terms of profitability.

So, in terms of the EPS guidance, we are talking about the €0.52 expected at the end of the period. And I think that in that case, it is basically we shouldn't see a big difference in between underlined and reported at the end of the period. I think that one of the reasons why we wanted to show the impact of the stock option plan this year, in 2017, was also because of the fact that the stronger increase in the stock price has generated for us the need of re-evaluating the stock of the provision that we made in 2016. And for that reason we had on 2017 a particularly significant impact and that's why we wanted to represent it separately. But in-principle, the stock option is a part of the cost of labour, so obviously it is included in the €0.52 guidance.

Marco Baccaglio, Kepler: And if I may, with the stock option costs which were around €16 million, if I remember correctly, do you have an estimate for 2018? Obviously it will depend on where the stock price is. But assuming there is no change in the stock price, what kind of cost would be charged?

Alberto De Vecchi, Chief Financial Officer: I will tell you indirectly, it seemed the adjustment that we had to make on the evaluation of the plan in 2016 was around €5 million. So it means that without that adjustment the cost for the year would have been in the range of €10 million.

So the last question was related to 2018 capital expenditure. I've seen that in 2018 and in the next probably two years we will have to complete the most investment we planned for this important renewal on the New Jersey Turnpike. So that is probably the portion that will be the most relevant. For the rest, I think that I don't perceive any special spike that we can expect compare to the historical trends and incidence of revenues. For the plan it is a larger program of investment that might be an addition. And for the rest, I don't see other main investment.

Marco Baccaglio, Kepler: Thank you.

Operator: The next question is from Alessandro Cecchini of Equita. Please go ahead.

Alessandro Cecchini, Equita: Hello, everybody. I have some questions. The first one is about the North America margins, so you delivered good margins in 2017, basically we're flattish year-on-year despite adverse weather conditions. Do you expect to confirm these margins in 2018? And just if you could elaborate a little bit more on raw materials, labor cost, just to understand the drivers of margins in North America. This is my first question.

The second one is about net working capital that basically you did not generate cash in 2017 despite some positive growth. I would like to better understand this starting point and then to understand if an acceleration of top line growth over the coming two years could provide some cash from this item.

And then if you could, probably if you want elaborate a little bit more the impact that you expect in 2018 from net openings on the top line level with current portfolio. Many thanks.

Alberto De Vecchi, Chief Financial Officer: The questions are...so let's start with North American margins. Yeah, I think that as you properly said, that it has been a very good achievement to

maintain the margins, notwithstanding the situation that has been generated because of the hurricanes. Especially because those hurricanes happened in a period of day where normally we make a significant portion of our profit, that is August and September.

And so I think that obviously, this year we will continue to go for obviously both the growth and the profit. In North America as we always said, what we want is really also to improve on sales. So we are not, what we would like is to increase the EBITDA in absolute terms, more than be maniac on increasing the percentage. Because we do think that there is an opportunity for us to expand at the top line. I think that this is an important addition of the value. But in principle, we want to continue to have strong margins as we have. And we'll continue to maintain a lot of focus in expanding sales as much as we can.

In terms on the working capital, in general our industry, the working capital, when you expand the business, it is positive but not that big. Because the vast majority of our purchases are fresh food, and it means that, yes, it is true that we cash from customers immediately, but it's also true that we pay also our suppliers quite quickly. So in principle, that is not an area where you can see massive generation of free cash flow or absorption of free cash flow. So, in principle, there is always the room for improving, but don't expect to see enormous variation on that in our numbers.

In terms of the openings, as I said before, we'll do, last year we had a negative or around €25 million in terms of more closings than openings. This year, we expect to have a positive number with a total change that is substantial, probably let's say more in the range in terms of the difference compared to this year, more in the range of €100 million.

Alessandro Cecchini, Equita: Okay. €100 million plus, okay, in terms of sales. Just to follow up a little bit on the CapEx side. If I understood correctly for 2018, do you expect to increase the CapEx for the U.S. motorways, but at the same time probably, the big jump that you had in 2017 to decrease probably, just to understand in absolute terms at the current Forex you see a balance level, a similar level of CapEx with respect to 2017. Is it correct, my elaboration on this? Thank you.

Alberto De Vecchi, Chief Financial Officer: Yeah. We are not prepared to give you a precise number also because it is one of the most difficult numbers to predict, because it's really determined by the moment when we execute, we start doing the CapEx. And you know that our CapEx are concentrated either in the very first part of the year, that means we finish to invest in the year generally by March, and the rest is generated starting from the end of September to the end of the year. This is the period when we make the investment and sometimes it's very difficult even in October to exactly have it, a precise prediction of how money we actually spend in the many projects we have on-going. So, and sometimes that is not, that level is not exactly in our hands because some, very frequently we can start the CapEx when the landlord is giving us the infrastructure or the permission to start the works. So, that's why sometimes it's difficult to give you a precise indication, because it really depends from which moment in the year we really start the investment. That obviously may drive some impact also on the top line, because normally when you make the CapEx, you have also the boost on the sales. So, in principle, I confirmed what I said, that is I don't see apart from the opening of the works on the New Jersey Turnpike at any particularly larger program of investment that may be a significant addition. And this is what we

can tell you now. Also, on the New Jersey Turnpike and see that is a large investment that we were completing in several years. So even for the New Jersey, it's very difficult today to say the exact amount for 2018.

Alessandro Cecchini, Equita: Okay, many thanks.

Operator: The next question is from Ali Naqvi of HSBC. Please go ahead, sir.

Ali Naqvi, HSBC Bank: Hi. I've got three questions please. Could give us a little bit more colour on current trading particularly around the U.S. domestic travel trends. And also how is your convenience retail business developing?

Could you also give us a little bit more clarity on the cost base, this is my second question. You know, you had quite a good improvement in food prices this year. How do you expect that to trend next year, and as well as personnel?

And, finally, you know you talk about operational efficiencies for next year is up being the main focus. What sort of things are you doing differently to drive that? Thank you.

Lorenza Rivabene, Investor Relations Manager: Thank you, Ali. Did I understand properly that you want to have more details on the current trading in the U.S.? More details on the cost base, if I understood well across the board? And on the operational efficiencies in 2018?

Ali Naqvi, HSBC Bank: That's right.

Lorenza Rivabene, Investor Relations Manager: Okay, thank you. I will now hand over to Mr. De Vecchi.

Alberto De Vecchi, Chief Financial Officer: As far as the current trading, I think that the year has started well with good performance, I would say across all the channels and all the geographies to expand a bit your question, and not looking only to U.S. but looking to the world. The opening in the year has been rather positive and at the moment the current conditions are supportive to our three-year guidance. Obviously, it is always the beginning of March. So it's a bit too early to say that this is a final indication about the trend of the year, but the opening of the year has been positive, also in Europe.

With respect to the cost base, let's say that, let's start from 2017 in order to understand the drivers that may impact 2018. In 2017, what we have seen is obviously there is still an inflation in environment in U.S. on labor because there is almost full employment. So, the pressure on cost of labor is still there. If we can make a comparison between the situation of 2015 and 2016, and the one that was prevailing in 2017, there is a bit less pressure even though there is still, let's say, it's still difficult to find people and that means that you have to pay people in order to hire them. But there is a bit less pressure than what we have seen in 2016. On the other hand, on the cost of goods sold, while in 2016 we were seeing a deflationary environment that was helping us to sustain the pressure on labor, that contribution, let's say that almost disappeared in 2017, so even

though still in 2017 we have seen a positive evolution of both the cost of goods sold and labor in fact on sales. So, we have seen a positive impact on both in 2017. What may happen in 2018, I think that on cost of goods sold it is very important to understand the evolution also of the weather conditions in winter, in order to understand if there will be some issues on the supply in the spring. At the moment, we don't see it, but that is always an issue, a question mark.

On labor, what we may expect is that the environment will be similar to what we have seen in 2017. So, still an environmental full employment but a bit less pressure on the cost side.

Finally, with respect to efficiencies on the way we manage operations, we have done a lot of work in 2017 in trying to be more effective in managing hours, because the cost of labor is the most, the first cost element in our P&L structure. And we have to be always more and more efficient in managing them. We have introduced certain software in order to allow the store managers to manage the hours effectively, especially because hours are expensive to the U.S. We will continue on that track. And the rest is, there are, technology may also help us with respect to what we proposed to the customers. And in fact, we are investing, part of the investing we have been doing, and we will continue to do in 2018 and the following years, is to introduce kiosks in our locations in order to try also to capture the traffic better and to increase the average order. That is an area where we can expect to have some efficiency and some improvement also in the margins.

Ali Naqvi, HSBC Bank: Thank you.

Operator: The next question is from Luca Bacocoli of Banca IMI. Please go ahead, sir.

Luca Bacocoli, Banca IMI: Hi, good afternoon everyone. A few questions from my side, most of them on the Italian motorways channel. So, the first one is if you can give us a sort of indication of the like-for-like in 2017 only for this channel? You mentioned that the overall Italian business like-for-like was up 1%, so I was wondering if also the Italian motorways was contributing positively to that performance.

The second one again on Italian motorways is on the expectation for this year because there were several refurbishment projects that you conclude last year, and these together with the strong start to the year of the traffic maybe should support an acceleration on the top line in 2018. And so I was wondering if this could be a reasonable assumption.

And finally, again on Italy, but let's say a broader question is on the corporate reorganization that you concluded last year. I was wondering if we can expect some savings from the leaner structure that you have in place since the beginning of this year? And finally, a follow up question on the North America business. You mentioned a material headwinds and impact from the hurricanes in the last part of 2017. So, if you can share with us any estimates that you can have on the top line and maybe even in EBITDA level impact from the really adverse weather condition in that geography? Thank you.

Lorenza Rivabene, Investor Relations Manager: Thank you Luca. So, just to summarize. As far as the Italian motorways are concerned, you would like to have more details on the like-for-like revenue growth for 2017.

Luca Bacocoli, Banca IMI: Right.

Lorenza Rivabene, Investor Relations Manager: And about our expectations after the refurbishment works on the Italian motorways in terms of revenue growth in 2018.

Luca Bacocoli, Banca IMI: Correct.

Lorenza Rivabene, Investor Relations Manager: Okay. As far as the corporate reorganization is concerned, you would like to know if going forward we would expect some savings on the cost basis?

Luca Bacocoli, Banca IMI: Yes.

Lorenza Rivabene, Investor Relations Manager: And on North America, you would like to have some details of the impacts related to the hurricanes that affected the region in the second half of the year.

Luca Bacocoli, Banca IMI: Exactly. Correct.

Lorenza Rivabene, Investor Relations Manager: Okay, thank you.

Alberto De Vecchi, Chief Financial Officer: Okay. Let's start with the like-for-like in the Italian motorways. On the Italian motorways, the main sales, that is food and beverage and retail sales, had grown like-for-like 1.5%, so a bit more than the country.

In terms of our expectation on 2018, as I've said to a previous question, the year has started well. Honestly, we believe, we think that the start of the year has been more determined by good traffic and our capture on the traffic more than the refurbishment. But it is true that now that we have renewed this important part of the network for a significant number of years, we can make some programs because we have visibility on the future. So, we will work, we will continue to work, the opening of the year has been positive, let's see what is going to happen in the next part of the year.

In terms of corporate reorganization, the corporate reorganization has been completed. And we have created the relevant legal structure for each region. Now, what we can say is that we have more accountable regions. I cannot say that this is immediately driving efficiency in terms of savings, but definitely we have created more accountable regions and even, I think more importantly, a more flexible corporate structure. And now it is to us and to the management to execute on our program and to deliver both efficiency and hopefully growth.

Finally, the calculation, the impact on North America about the hurricanes. There is not, it is not possible to quantify what has been the impact. What we can say is that in the months of the hurricane the overall traffic has gone down by 1.6% on the whole region, not only on the few airports that have been closed for the hurricanes. We have seen this has temporarily slowed down across the system, that had the duration of about two months and after we have seen a straight back on track and performing the most as usual. The good side is that we reacted very quickly and that therefore our margins were not materially affected by the slowdown. That means that today in 2018, that is not a reason to expect that our margins can jump because of what they do in 2017, and so there is not any inefficiency, any important inefficiency to recover in 2018.

Luca Bacoccoli, Banca IMI: Okay. Very clear, thank you.

Operator: The next question is a feedback from Marco Baccaglio of Kepler. Please go ahead.

Marco Baccaglio, Kepler: Thank you. I wanted to come back on capital expenditure. I understand you don't want to share a number with us because timing could affect this capital expenditure. But the business has actually had about 5% CapEx to sales. You did 6% in 2017, so given your comment and these turnpike investments which will be probably higher in the short-term, is it possible to assume what you might have a couple of years where CapEx to sales could be in excess of 6% on average?

Alberto De Vecchi, Chief Financial Officer: I think that it is possible that is in excess of 5%. I doubt that is going to be much higher than 6%.

Marco Baccaglio, Kepler: Okay.

Operator: The next question is a feedback from Ali Naqvi of HSBC. Please go ahead.

Ali Naqvi, HSBC Bank: Hi. I just wanted to ask if you thought about the EPS guidance beyond 2019 or how the board is thinking about that? Thank you.

Lorenza Rivabene, Investor Relations Manager: Sorry, Ali, we didn't get your question. Could you please repeat it?

Ali Naqvi, HSBC Bank: Has the board thought about giving any further EPS guidance beyond 2019, beyond the 20% that you came out with this morning?

Lorenza Rivabene, Investor Relations Manager: Okay. So, if we provide for a guidance beyond 2019?

Ali Naqvi, HSBC Bank: Yes.

Alberto De Vecchi, Chief Financial Officer: No, I think that at the moment, we want to stick to the guidance we gave to the market, that is a three-year guidance, so...

Ali Naqvi, HSBC Bank: Thanks.

Alberto De Vecchi, Chief Financial Officer: Thank you.

Operator: There's no question booked at the moment. This concludes our question-and-answer session. The conference call has now concluded. Thank you for attending today's presentation. You may now disconnect.

Lorenza Rivabene, Investor Relations Manager: Thank you.