



Presentation of 1H2014 Results

Thursday, 31st July 2014
5:00 pm (CET)

Operator: Good afternoon, ladies and gentlemen, welcome to Autogrill's first-half 2014 financial results presentation.

Elisabetta Cugnasca – Head of Investor Relations: Good afternoon and welcome to our first half 2014 conference 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. Now let me hand over to Gianmario Tondato, our group CEO. We will take your questions at the end. Thank you.

Gianmario Tondato - Chief Executive Officer: Good afternoon. I'm very delighted with our second quarter results, as both EBITDA and margins have improved, finally, turning around a negative trend that we had experienced for many quarters. The beginning of the year hasn't been easy, due to the severe weather in the US. We have closed the gap, and more, in the second quarter, as we have delivered better profitability across all the areas, something that we had not been able to achieve for some time. HMSHost delivered very good sales and a positive progression on the margin front after a blip in the first quarter. In Northern Europe and Asia, as Walter will describe, we are developing the business. By Walter I mean Walter Seib. In Italy sales have finally grown on motorways and, importantly, profitability has increased by 100 basis points. This is the first result of the continuing hard work on efficiency but also the closure of non-performing points of sale. Our strong push on new offerings and products are also delivering. In the rest of Europe we are seeing close to double-digit improvement in most sales and EBITDA. The good performance is the result of a significant amount of work in a still uncertain environment. Take, for example, traffic in Italy, which is still very soft, even if traffic numbers are finally positive. In conclusion, we have done a lot and we have a lot more to do, including on SP1, a program with the aim of improving the performance of our points of sale in terms of profitability and cash-flow generation. We designed and developed the project in 2013 and now we are implementing the plan. We are doing this standardizing the quality of our products to improve capture, increasing the flexibility of our labor cost, reducing equipment in our points of sale, and so capex in the medium term, building a system that is able to better manage demand in light of changes... in light of changes in traffic. Take as an example, in the past a coach loaded with passengers stopping at small locations at night would be a challenge to manage from a product point of view. Now, with our new approach, the (...) are available. So, in conclusion we are pleased with the numbers that we delivered in the second quarter, we are on the right track to deliver the targets we set at our Investor Day. Now, Walter Seib will walk you through some of the new contracts that we have won. Walter Seib is, we call him the Head of the International, our international business, actually he is in charge of the Far East, Middle East, and Northern Europe. Thank you for listening, and now Walter.

Walter Seib - CEO of HMSHost International: Thank you, Gianmario, and good afternoon to everybody. I'm pleased to say that we are delivering on the development activities we set up at our Investor Day in September last year and without a doubt we've been very successful with close to 100 million euros of incremental sales. What you see is that... we said on our Investor Day that we are targeting two main areas, which are Northern Europe – which is UK and Scandinavia – and Middle East and Asia. In Northern Europe, we are now positioned in Germany and the United Kingdom and also in Scandinavia. In Germany we won the Dusseldorf airport, which is the third biggest airport in Germany for traffic, and our core offer of one-piece store restaurants, as you probably call Bistro, is one of our most successful new concepts and marketing solutions created and tested in Milan's Main Station last year and is now adapted to the airport channel. For the UK, we expanded our presence in the airport channel entering in East Midland airports where we operate most of the food & beverage facilities. We also won the Eurotunnel contract which is for railway stations connecting the UK with France, and we will be now the main provider of F&B services in Eurotunnel terminals on both sides of the tunnel. What you recognize also from the chart is that we have



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about 100-150 million sales opportunities under evaluation for Northern Europe and Scandinavia, but most importantly in this region I'm really proud of the success we achieved in the accomplishment of Helsinki. Helsinki is a hub that is growing in importance for traffic traveling to Asia and especially Russia and Japan. Helsinki has been in the hands of our main competitor for more than 30 years exclusively, and with our 16 new points of sale we will now operate about 50% of the food & beverage outlets and points of sale in this important airport. In Asia we are leveraging on the (...) time last year in Vietnam to develop operations in that country, to take other priorities in the region and to maximize our presence at a later stage. We are establishing a regional hub in Ho Chi Minh as we speak. In Vietnam so far we opened 34 points of sale and we are on track to open additional 20 more facilities and developing, as expected, especially from a profitability standpoint. On the other side, in Indonesia, we entered that market eight months ago and I'm very happy and pleased to say that our team did a tremendous job to open in a new country on three airports in an eight-month period of time. Today, after winning parties took Balikpapan which is the airport of (...), we are operating in all three airports and we opened our first shops a few months ago. The early results in terms of sales and labor productivity are extremely encouraging and we are looking forward to developing these markets further. In the Asia Pacific region, including the Middle East, we have about 350 million in contracts that are under evaluation as we speak. In conclusion, I want to share with you that we are delivering our strategy in the areas that are identified as more interesting, deleveraging on our recognized liability, our (...) portfolio, our operations know-how, our development capabilities, and our best (...) that is service, quality and employment. And I'm more than confident that we are able to further develop this successful path.

Alberto De Vecchi - Chief Financial Officer. Thank you, Walter, and now let's move to the comment on the numbers. Alberto De Vecchi speaking, and good afternoon to everybody. As Gianmario said, we comment today a good first half of the year. In the first six months of 2014, HMSHost has continued to perform with a solid sales progression and growth in the EBITDA and margins. Italy is showing stability and our business in the rest of Europe is performing very well, both in terms of sales and EBITDA. And the second quarter is showing an acceleration of the growth in our results all across the board. Now let's start the review of our first-half numbers with HMSHost. For the sake of comparison in the comments of the variances I will exclude from the data of the first half of 2013 the contribution of the US retail business which we disposed last year. In the US, our sales in airports grew by 5.7% and almost 7% on a comparable basis, with traffic growing by 2%, with a strong outperformance driven by a higher number of transactions and a higher average ticket. When last March we commented the results of full-year 2013, we spoke about those US airports we defined as "fractured", that is those airports where we renewed our presence only partially due to limitations set by landlords on the packages that any bidder may be awarded. On the occasion, we told you that fracturing is not a new phenomenon in the industry, and that it is not limited to the US market. We also said that, although fracturing may limit our growth in the very short term, it is bound to be absorbed over time. The result of the first half of 2014 confirms that. In fact, while in full-year 2013 we lost 67 million dollar sales due to the fracturing in four large US airports, in the first six months of this year the reduction of sales in the same airports has been less than 9 million dollars. At Los Angeles' airport, for example, last year we lost sales for approximately 16 million dollars, due to fracturing. In the first half of this year the net balance of the lack in sales of those stores we did not renew, the growth of sales in those stores we did renew, and the additional sales of new stores awarded, is positive for an amount of 7 million. Outside North America, as Walter mentioned before, HMSHost has generated sales of about 112 million dollars, 14.4% higher than the same period of last year, with our most important location besides North America, which is Schiphol Airport in Amsterdam continuing to perform well, with sales growing by 3.4%, and new openings in Vietnam, Russia and Turkey, which in the first half of the year contributed additional sales for more than 9 million dollars. North American motorways also performed well: on a comparable basis, sales grew by 3% compared to a traffic that, up to May, was falling by almost 1%. This result has been achieved thanks to an increase in the average ticket and notwithstanding the severe weather experienced at the beginning of the year. Total growth of sales in North American motorways has exceeded 6% also thanks to the opening of points of sale after the refurbishment on the Ontario toll road. Now moving to EBITDA, if



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we exclude the contribution of travel retail in the first half of last year and the different impact of one-offs in the first half of the two years, HMSHost EBITDA grew by 4.8% with the EBITDA margin on sales increasing by 10.2%, that is 50 basis points up toward the first half 2013, driven by a better sales/mix and better labor productivity in terms of both more transactions and more sales value per hour. In conclusion, HMSHost has performed very well across the board. The conclusion is even strengthened if we look to the HMSHost performance on the second quarter. In terms of sales, we see an acceleration of growth, which were positive in the quarter by 6.6%, while they were growing by 4.7% in the first quarter. The acceleration can be seen in both airports and motorways and both in North America as well as in international operations. The EBITDA margin of HMSHost in the second quarter shows an advantage of about 90 basis points on the same period of last year. Now let's move to comment the performance in Italy. In this case I will focus my comment on year-to-date data as the different position of Easter in the two years limits the significance of the variance analyses on the second quarter only. Underlying sales, especially in motorways, finally stabilized, after more than two years of steady decline. On Italian motorways, in fact, sales were around 411 million euros and flat compared to last year, with traffic up to 1.7% as at April and I think it's 1.5% as at May. It's data that has been communicated today. Market sales were up by 1.2% in line with traffic, almost in line with traffic, while F&B sales were still down by 0.8%. The fall that you see, 2.9% in Italian sales, is only due to closure of non-profitable stores at city centers and selected airports. You may recall that we have undertaken a program for streamlining our points of sale with the aim to concentrate our investments on the most contributing and promising ones. In the first half of 2013, those stores now closed were contributing sales for about 15 million. Notwithstanding this reduction in sales, our margin in Italy has declined by less than 1 million. The very limited flow-through on EBITDA is due to the fact that the lost sales were mostly non-profitable exited points of sales. Now, before moving to the rest of Europe, I would like to take you back to Italian motorways and to the contracts subject to the renewal process. As you probably remember, we renewed 21 points of sale out of a total of 41 under bid. They were the contracts we wanted, those we felt had the most potential. As you know, there was a delay in the award, so we are just starting now to exit the points of sale that we did not renew. As a consequence, you will start seeing the dilution of our selective approach to renewal on the Italian motorways network on sales starting from the current third quarter. Now, moving to the rest of Europe, where we have seen strong growth, with sales up by over 7% also thanks to the new openings in Belgium, Germany and the UK. Some even more positive data is that with sales growing by 7%, EBITDA grew by 15%, thanks not only to the sales performance, but also to the efficiency project that we undertook last year. You will recall, now moving to the financial part, that is the cash-flow statement analysis, you will recall that the first part of the year is the least contributing in terms of cash generation. Thanks to the positive results in terms of sales, and from working capital management, we delivered a good cash-flow. The positive change in cash-flow generation in the first six months of this year compared to the same period of last year is about 85-86 million euros and it is due to less investments for 30 million and a higher cash-flow generation from the business of about 55 million euros. Included in the latter is the residual cash-in of 17 million dollars in the first half 2013 related to the disposal of the US retail business. Due to this change in free cash-flow, our net financial debt at the end of the first half of 2014 is about 690 million. In conclusion, HMSHost continues to perform in terms of sales and is back to where it needs to be in terms of profitability, following the hiccup in performance of the first quarter. Italy is showing signs of stabilizing and our streamlining program is bearing fruit. In the rest of Europe we have seen strong performance. The trend we have seen continues and I can update you with our sales figures to week 29, that is the week ending on July 20. HMSHost and motorways continue to perform strongly. The rest of Europe also continues to perform very well. Italy shows the impact of the exit from the non-renewed stores on motorways I mentioned before. So, given the performance so far, we confirm our guidance for 2014. Thank you and now we are happy to take your questions.



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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.

1. Mr. Tim Ramskill from Credit Suisse:

Q – Tim Ramskill: Hi, good afternoon. Two questions for me, please. The first is: if I look at your central cost line, your corporate costs in the second quarter, they've reduced quite significantly by 30%. I just wondered if you could explain to us whether that's something you're going to expect to continue into the second half of the year or if it's a one-off, and if you can just explain what's behind that line. And then, secondly, clearly you've had a very strong second quarter, EBITDA for about 7... 7 million euros, in light of that, your guidance hasn't changed but you're probably not going to have to have a desperately strong second half in order to sort of beat your guidance. So I just wondered if you could share with us your thoughts around anything in the second half that we should be aware of, because the momentum at the moment looks very good, and I would suggest a bit of an upside risk on your EBITDA guidance for the year. Thank you.

A – Elisabetta Cugnasca - Investor Relations Manager: For the first... taking into account the first question, please keep in mind that last year we were under the merger, so on the corporate cost we booked some costs related to the demerger process, obviously this year we are not demerging and these costs are not there.

A – Alberto De Vecchi - Chief Financial Officer: This is an indication more for the guidance, I think that for the first half of the year it's temporary, and it's also due to the fact that the organization programs have had a different profile during the year. So, I don't expect that eliminating the one-off costs Elisabetta was mentioning now there are major differences on the corporate costs this year.

Q – Tim Ramskill: Maybe to help close that one out, can you give us an idea of what you think the total corporate costs are going to be for the full year 2014?

A – Alberto De Vecchi - Chief Financial Officer: We are not... normally we don't give specific guidance on specific lines of our P&L, of course. I think that there are no major changes on this line if you look at the history and consider the one-offs that we mention in our reports, you should have a reasonable indication.

2. Mr. Jaafar Mestari from JP Morgan:

Q – Jaafar Mestari: Hi, good afternoon. I have two questions, please. Firstly on HMSHost, you mentioned that Q1 was a blip for HMSHost and indeed margins are now up, just a bit for just Q2, excluding US retail. And can you give us just a bit more color on the sources of this improvement and in particular whether your new procurement deal in the US is already helping margins there. And secondly on your group capex guidance for the full year, which hasn't changed at around 210 million, and in H1 you spent 75 million in capex, so that implies some over 120 million will be left in H2. My understanding was that you would not be doing most of that spending in Q3 in terms of refurbishment, obviously you may want to keep as many sites open as possible during the high season, so should we understand that you're going to spend the largest part of the remaining capex in Q4? And if that is so, how much do



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you plan to spend in Q4 low and do you have a first indication on capex spend for 2015? Or should we consider that refurbis will be done by the end of Q4 2014? Thank you.

A – Alberto De Vecchi - Chief Financial Officer: Yes, I think that... I'll start from the second question, say that we expect... you're right, we don't expect to have any major investments in the third quarter because normally we tend to stop the capital expenditure program during summertime, so the most will be concentrated from October to December. The guidance of this year, as we mentioned in past occasions, is also a bit higher than what we normally spend because we have a program of a very global refurbishment of the cash registers in the US that we will start, in fact, in the second half of the year. Having said that, you know, it's always very difficult to... because we record, we book our capital expenditure on the advance of the various projects and so it may happen that at the end of the year we don't finish. There's no doubt that the commitments we have are consistent with the numbers we show. In terms of cash or capital expenditure, actually paid out, it might be that at the end of the year we are a bit short on this amount, but I don't think that... I think that the guidance we gave is still... is still reasonable and is reflecting what we are spending. So, maybe we can spend something in January and not in December, but at the end of the day this is the cash-out that we expect to do on the capital expenditure programs that are already ongoing. With respect to profit in US, let's say that there's been a recovery, in part I don't think that we can say that it is exactly on the project that we have in terms of improvement in the management of the cost of goods sold, I think that on the one hand it's a better mix, in the second quarter we've had a better mix in terms of composition of our sales, namely say more beverage in proportion than food, which helps margins. This is one element to consider. Also the quality of the sales we have done in the US in the second quarter is improving, in the sense that we see also more business-related traffic that in general have higher tickets. So this is also an advantage. And then, of course, all the rest has been that... the other improvement is that part of the result of the non-exciting result in terms of margin of last quarter... of the first quarter, has been generated by the fact that we had a very high level of store operational costs related to the very bad weather, especially on motorways, that we had at the beginning of the year. So, in terms of snow clearing and in terms of heating, we spent a massive amount that, of course, has not been repeated in the second quarter.

Q – Jaafar Mestari: Okay. Just coming back to the first capex point. Can we start thinking about 2015 as being a more normalized year in terms of capex proportion to sales? I think you previously commented about the 4% level in the medium term. And then if you were to spend more next year it would be because you haven't spent everything of the 210 this year. Is it the right way to look at it?

A – Alberto De Vecchi - Chief Financial Officer: Well, I said before, in general we say that our ideal amount in terms of incidence of capex on sales is around the famous 4%, then it depends on, apart from special projects, like the cash registers, you don't change cash registers every year, that may result in some temporary pick-up of the capex, in general we think that this general guidance across the year is still valid. So, the fact that we tend to spend something in between, say 160-170 and 200 million depending on the renewals. So it's critically related to the renewals.

Q – Jaafar Mestari: Okay. Thank you.

A – Alberto De Vecchi - Chief Financial Officer: Excuse me, Gianmario said that I said the wrong number, between 180 and 200 million, excuse me.

Q – Jaafar Mestari: Yes, okay. Thank you.

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



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3. Mr. Alberto Cecchinato from Fidentiis:

Q – Alberto Cecchinato: Hello, good evening. Just two questions for me. Could you share with us a kind of debt guidance for this year, at least the guidance you've given when you set out your capex and EBITDA guidance? And second, do you have a specific debt to EBITDA ratio below which you...

A – Gianmario Tondato - Chief Executive Officer: Alberto, excuse me, but it's very difficult to hear you. I don't know if you're playing with something in front of you... paper, I don't know, it's really very difficult to hear you.

Q – Alberto Cecchinato: No, it's just bad technology I think. Do you hear me better now?

A – Gianmario Tondato - Chief Executive Officer: Better now.

Q – Alberto Cecchinato: Okay. Just two questions. If you can you share with us the net debt guidance for this year, at least the range, given that you already provided an EBITDA and capex guidance? And the second question if there is a specific debt to EBITDA ratio below which you would consider resuming distributing dividends. Thank you.

A – Alberto De Vecchi - Chief Financial Officer: Well, in terms of the rationale of the guidance, so, by the way, this way we recover a missed answer that we gave to the analyst of Credit Suisse, because we've been cut when answering the second question that the analyst posed to us, and I apologize on that and, by the way, I hope that he is still on the line, but say that the reason why we thought of confirming the guidance and not of, say modifying it, is that basically we are still in the middle of summer. You know that we do around 40% of our numbers in summer. And, you know, in principle the numbers are nice, but not that nice in Italy yet, also because besides the fact that we mentioned before, which is the fact that we are seeing now the exit from the non-renewed contracts and, of course, you run the risk that for only six months you lose the three months of summer that are, of course, the most important. So it is in proportion more important what you lose now than what you may lose in the third quarter and in the last quarter. But, apart from that, is the fact that unfortunately so far the weather conditions in Italy have been very poor, that means, especially in terms of temperature, it has been very cold and that, of course, is not helping, not only the sales, but the quality of sales. As we said before, in the second quarter we saw a fantastic result in terms of profit in the US because of the increase in beverages. And there is an almost perfect correlation between temperature and the sales of beverages in our industry and, you know, this is why we prefer not to guess about, say, an improvement in the guidance so far, because we have to see whether we can recover in the second part of summer what was not manifested in the first part of summer and unfortunately you have only three months in summertime and if you lose one month out of three, it is significant. So, for this reason we prefer to be prudent. But, of course, we are working hard to beat the expectations, but at the moment we don't see, apart from, of course, the obvious impact of the exchange rate, we have kept at the moment a very prudent exchange rate because this is the one that we use in the guidance of May which is 1.37. At the moment, with the present situation of exchange rates, of course, this is very pessimistic, we expect that it will be better, but you are perfectly in the position to calculate which is the influence of a different exchange rate on our numbers. But the reason is because until the summer is not sufficiently advanced we don't want to overpromise. As far as the debt... the leverage ratio that we consider, say that we consider an optimal leverage ratio a leverage ratio that is in the range of two times the EBITDA. I think that in between two times and two and a half times it's really fine. Of course, if it is two times I think that we have a very strong balance sheet then the decision whether to distribute dividends or to invest is, of course, related to the opportunities... to invest in new opportunities to expand the business.

Q – Alberto Cecchinato: All right. Thank you.



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

4. Mr. Flavio Cereda from Merrill Lynch:

Q – Flavio Cereda: Yes, hi, good afternoon. I have a quick question on your SP1 roll-out: just from what you've seen so far, has it proceeded along the lines that you're expecting? Were you surprised by anything positively or negatively? Are there any unexpected developments? Good ways or bad ways, please? Thank you.

A – Gianmario Tondato - Chief Executive Officer: I think it's doing well, of course, we are in the middle of the roll-out, I think the positive surprise, you know, is that it's not only, let's say, a more efficient way of serving people, so a less expensive way of serving people, it's also something that is improving our top line, especially in the downturn, the example of the coach stopping at small locations, all of the sudden and the impossibility to serve people unless you have an assistant SP1 is very important. Another thing is that, you know, it's changing the mix of our offer, especially at night, and so we are... for instance, the average ticket is improving, definitely, because before, in order to avoid wasted, you know, wasted products, the store managers what they tended to do in the past was to display the less expensive products, now they are able also to display the more expensive products, the most expensive products. So, basically, in a nutshell, you know, we are improving also our average ticket. These are the first results, positive results that we... of course, there is a lot of training to do, because, you know, people have to move from the back of the house, you know, in front of the people; service is not really properly done yet, but we are working on that, you know. Now there is also the peak season in Italy, you know, and it's going to take time. Again, if there is a problem in these days it's that we have an overlapping of costs, probably we don't need all the costs we have in the business right now, because there are probably more people than we need in a perfect ideal world, you know, when the problem is deployment and the stores are still learning, you know, how to handle a process like that. But, you know, so far I'm very pleased with the process, frankly speaking, and more than anything what I'm pleased of is the fact that, you know, our operations are really embracing the program. It's changing their lives and it's something that really makes me happy.

Q – Flavio Cereda: Okay, thank you.

Operator: There are no more questions.

A – Elisabetta Cugnasca – Investor Relations Manager: We know that there are many conference calls after ours, so we wish you a nice evening and a nice summer. Bye.

Operator: Ladies and gentlemen, the conference call is over. Thank you very much for your attention.