



**President and CEO Roberto Graziani talked exclusively to Doug Newhouse recently about its DF&TR developments and a lot more**

The Nuance Group has renewed many of its DF&TR airport contracts in recent years, with a \$20m-plus investment in new concept stores at key airports in Antalya, Zürich, Geneva and Lisbon contrasting with disappointment in Hong Kong where it relatively recently lost its P&C and GM concessions. President and CEO Roberto Graziani talked exclusively to Doug Newhouse recently about all of these developments.

The Nuance Group has had its fair share of success and disappointments over the last couple of years, but it has attained an important stability over the last 18 months following the acquisition of Stefanel's long-held 50% holding in TNG by PAI in February 2011.

This exclusive interview with Roberto Graziani consists firstly of a series of submitted written questions from The Business, followed by a direct one to one interview last month where Graziani was very upbeat.



**Q: Nuance appeared to make really good progress last year, beginning with the settling investment in February of the PAI Partners /50% buy in, but also based on Nuance's Swf.1.8m sales turnover in 2010 and HY1 2011 resulting in more contract gains, renovations and expansions - plus the increased share in the Turkish operation. In overall terms, what have the main highs and lows been for Nuance in 2011 and the first half of 2012 in your opinion?**

**Roberto Graziani:** 2011 was certainly a good year for the group, both from a financial and from a more general perspective, despite a challenging backdrop of issues relating to currency volatility, increased legislation and faltering economies.

[Above: Nuance Arrivals store at Zurich Airport]

Our consolidated turnover, at constant exchange rate, grew by more than 8.0%, while the EBITDA grew by almost 30.0%. Together with this important growth we were able to secure and extend some important contracts.

Moreover, during 2011 we took to the end our efforts to open the Arrival Duty Free in Switzerland and we launched the new Duty Free Store concept at Antalya Airport in Turkey.

CEO and President of Nuance Group, Roberto Graziani

These two events show very well how Nuance responds to consumer demands for a more innovative, exciting and convenient shopping experience.

Then we bought an additional 27% of our very successful joint venture in Turkey and finally, as you mentioned, we got a new shareholder that will boost our chances of growth, not only organically, but also through M&A activities.

Furthermore, 2012 has started well with the opening of the new walk-through shop at Lisbon Airport that will be followed soon by the refurbishment of our operation in Sweden, where we extended the contract until 2018.

With no doubts, our main disappointment in the last 18 months was the loss of the two concessions at Hong Kong International Airport.

**“...2012 has started well with the opening of the new walk-through shop at Lisbon Airport that will be followed soon by the refurbishment of our operation in Sweden, where we extended the contract until 2018.”**

**With all the refurbishment and expansion at Antalya Airport where the contract runs to 2024, how significant is the increased shareholding to 82% in the Net operation?**

Turkey is one of our main 'pillars' and we are very happy about the possibility we got to increase our stake in the joint venture there. We believe the growth we could achieve in the country is material and we are, therefore, interested in further increasing our ownership there.

Let me take the opportunity to thank our local partner (Net Holding) for its cooperation and contribution to the success of the venture.



**You publicly expressed ‘extreme disappointment’ with the Hong Kong Airport core retail contract awards after a decade of ‘excellent performance’ - do you think there is any more that Nuance-Watson (HK) could have done to retain the P&C and General Merchandise concessions?**

What we have delivered in Hong Kong in the last 10 years to consumers, community, brands and Airport Authority, that has been well recognized by all the industry with an accolade of rewards, together with the very competitive offer we submitted, would have deserved, we believe, a different outcome.

[Above: Nuance Duty Free Arrivals store at Antalya airport]

In the last five years our CAGR in P&C was close to 25%. We planned our future sales consistently with our historical results...It would be very important for us to understand the reasons that led Airport Authority to the decision it took.

However, we are in the concession business and we know the rules of the game. I’m therefore taking the opportunity to thank Hong Kong International Airport for its support during the last 10 years and for the one I’m sure it will continue to show us in the future. Our business in Hong Kong is not immaterial, even after the loss of the two concessions.

CEO and President of Nuance Group, Roberto Graziani

We will continue to be very committed to Asia and to invest in the region where we have all the skills to rebuild an even more solid and successful business.

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**Obviously the Macau and Zhuhai Airport operations have benefited from the synergies of logistics tied into the Hong Kong Airport business. Will Nuance-Watson (HK) still be able to support these businesses without the critical mass of business in HKIA?**

As I mentioned before, our commitment to invest in Asia is strong, more than ever. We will keep an organizational structure that will be probably a bit heavy for the needs of our current business.

[Above: Nuance operated Temptations store at Hong Kong Airport]

However, we have no doubts about our capability to develop the business there and very soon we will be balanced again. Therefore, we will certainly continue to support Macau and Zhuhai as we have done until now.

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**It has been billed as ‘a time to rebuild’ in Asia by some in the Nuance Group. How important is this in your opinion and does this put even more pressure on Nuance-Watson to defend its Singapore Changi P&C business which may come up for tender quite soon?**

Asia is a very important region for us and we have always been looking for new opportunities there.

Of course, since the results of HKIA tenders, we have been in a ‘rebuilding mood’. Within a few days from the announcement, Alessandra submitted to Airport Authority our ‘exit plan’ and, together with her team, she immediately started working on potential opportunities. Furthermore, Singapore is certainly a very important business for us and we will do our utmost best to keep it in our portfolio.

*[Following this interview, Nuance-Watson (HK) has since won an additional luxury brand name 104sq m concession for Emporio Armani at Singapore Changi Airport T2 plus two specialty licenses at Hong Kong International Airport, with one for a 53sq m Longchamp boutique in T1 and the other for a 119sq m Fine Food concept in the same location. These licenses run for three years until 2015-Ed].*

**Nuance has spent Swf.20m (\$20.2m) on**



**expanding, remodelling and rebranding its European DF&TR offer in Zürich, Geneva, Antalya and now Lisbon. Are you hoping to see the pull through from these operations in the next year - just from better and more attractive operations - even if traffic slows?**

We have invested, in the last 12 months, a considerable amount of money and managerial resources to develop a new and innovative retail concept and to introduce it in some very important locations in Europe.

[Left: A large selection of sunglasses on offer at Nuance operated boutique at Zurich airport]

Very soon we are going to implement it in Sweden and in other locations outside Europe, where it will be 'personalised' with local adaptations to take into account consumer specificities and partners' desires: that's what we mean with 'glocal' approach: we want to take advantage of our global size, knowledge and expertise to deliver the best local 'product'.

The results achieved so far by our new 'Duty Free Store' concept are encouraging, both in terms of performances and appreciation from our brand and airport partners.

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However, in retail you can never be fully satisfied and you have to continue to work hard if you want to keep a leading position in the competitive arena.

That's our commitment to the industry: strive to maintain our offer at the edge of the retail – and not only travel retail – industry, constantly indulging and surprising our customers – consumers and airports.

**“...we are thinking clearly our strategy is to try to be more consistent than we have been in the past in our commercial offer.”**

**There was obviously a great deal of publicity leading up to the June 2011 introduction of duty free arrivals shops in Switzerland. With a year gone by, how significant do you think that change in legislation has proved to be in terms of how popular this service at Zürich and Geneva airports is in your opinion?**

The Arrival Duty Free (ADF) concept is new in Europe and we believed it would have taken a while before passengers would have got used to it. However, the performances have been quite good from the beginning and they are improving as more and more people familiarise themselves with the new concept.

Part of the ADF business is clearly a cannibalisation from the departure business, but the main part of it, without any doubt, is an additional business related to 'convenience' and, we love to believe, to the loyalty to our brand.

**I was interested to see Nuance co-sponsoring the ARC inflight conference recently. Does this signal a significant renewed interest in the inflight retailing market in future?**

We have never lost interest for the inflight retail business. In fact, we are operating some concessions directly (TAP, Edelweiss, etc.) and some through our Retail Service and Distribution arm. We are a 'travel retailer' and therefore we look at all opportunities within the industry.

**A great deal of internal systems work and investment has taken place in the back room at Nuance. How significant is this for improved efficiency and profitability in future in your view?**

I believe in the last years we have made very material progress in terms of improving efficiency and profitability, and our focus is kept continuously in that direction.

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We are, indeed, working on a number of key projects: data mining, to get an even better understanding of our consumers' shopping behaviour; automated 'Open to Buy' tools, to sustain growth and effectiveness of our specialty business, up-grade of our forecasting and reordering tools, to reduce manual work and improve accuracy of our data; and finally we are reviewing our organizational structure to harmonize our ways of working and enhancing best practice sharing.

Now we need to take advantage of all the above to build a solid growth on top of our current portfolio. I'm quite confident we are in a good position to achieve that.

**The business of private equity companies is obviously buying into companies, helping them grow and then selling them on and PAI has a good track record with this very business model. Is there a trigger point in terms of profitability where this will also be the case with Nuance in future?**

What I really like in the PAI approach was their commitment to deliver shareholder value in the long run. This was not only consistent with the objectives of Gecos - the other 50% shareholder - but also gives to me and my management team a clear task: grow the company without thinking about tomorrow, but focusing on the long-term impact of our initiatives.

**"We are mainly an airport operator, but there are some opportunities outside airports that we are keen to pursue."**

**What challenges do you expect to be the biggest that Nuance will have to face over the rest of 2012 and moving into 2013 and do you believe the company is better equipped today to take up opportunities, as well as battle through what some are suggesting will be a continual slowing of traffic in Europe in particular - at least in the short term?**

The rest of 2012 and the first months of 2013, I believe, will still be characterised by very poor growth performances in Europe and by the uncertainty of the future of its single currency.

Moreover, also 'fast growing' countries will record a reduction in their GDP growth rate and [the] US economy will continue to suffer. This will probably determine a slowdown in traffic in the short term, but it will not undermine the long-term growth trend that guarantees a very interesting future to our industry.

Finally, as far as Nuance is concerned, there will be more interesting opportunities coming to market in the next few months than we have not seen in the last few years. Our objective is to 'grab' at least few of

CEO and President of Nuance Group, Roberto Graziani  
them..

**With this aim in mind, Nuance has obviously now tied up with Areas for the Spanish tenders. Have you been thinking about this and talking to Areas for a long time?**

Spain has always been an interesting country, not only for us, but for a lot of companies in Europe. There was always uncertainty about when this tender would come onto the market, but on the other side there was certainty that sooner or later that would happen.

We have tried to do as we are doing with every other airport authority or airport operator, to keep up good relations and to try and share our views and understand what they need, therefore preparing ourselves to do this tender.

**Are you concerned that this one bag rule which is still being imposed by at least one airline is an impediment to growth there?**

Sure, it's not a positive element. There are some others that I believe we need to consider. If I'm not wrong, AENA has recently increased the landing fees and I believe there are some airlines that are considering the business viability of certain airports in Spain.

I wouldn't focus on the negativity, because in every airport there will be some plus or minus. I think that the opportunity there is quite good and there are some very important airports in every lot that they have built and it's quite an interesting opportunity.

It's quite a science though isn't it, picking



**the right lots, because some of those bigger attractive airports are also included in with some very small ones, aren't they?**

Yes. I believe this was the only way for them to guarantee that a retailer will put the attention he needs to into the minor airports so you need to mix them....

They are smart in the way they have built the tender. You know the RFP is not out yet but there are some quite clear indications about how they will tender. So it is to maximize the revenue and Spain cannot now avoid maximizing revenues from every sector they are operating, so they needed to do something that would maximize the revenue.

**Interestingly in your earlier answers you say that the business doesn't only focus on travel retail and obviously you've got an extension now until 2018 with the UK Center Parcs leisure group. How is that progressing and would you like to explore more non-TR business opportunities like this in the future?**

We believe that Center Parcs is a TR business. It's linked to people who are on vacation, so the idea is to follow people when they are travelling and that is always in our minds. We are not thinking to go outside of travel retail.

[Left: Apple store at Zurich airport]

What I meant was we are not just an airport operator. We are mainly an airport operator, but there are some opportunities outside airports that we are keen to pursue.

**So would railway stations be part of that?**

We have evaluated this, especially in Italy where they have built these very big companies to run the big stations, but in the end we decided no, because time is essential in our business and the categories we believe we are good at are not consistent with people who are just running to and from the station. So never say never, but not for now.

**Again, positively, you're about to implement a new look at Toronto Airport. Will that be a similar branding exercise to those already taken in Europe, say at Lisbon, Zürich and Antalya?**

We are working on something that I cannot say now - not only for Toronto, but we have some plans and we are thinking clearly our strategy is to try to be more consistent than we have been in the past in our commercial offer.

We want to keep what we believe is our strength and try to be as local as much as possible and - on the other side - try to maximize the synergies of being a global company.

**So you want to be more visible?**

We want to make this more clear to our partners first and then also to our consumers, but our business I believe to be more of B2B exercise. We want to send a clear message about who we are, how we operate and what we are standing for, so we believe this is important.

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**So that is a message you will try to get across for the whole company worldwide?**

Yes, but this doesn't mean that we will have one retail brand. What I believe is that we need to give a more consistent image of the company.

CEO and President of Nuance Group, Roberto Graziani

**So what are your three priorities between now and the end of the year?**

As I said, the first priority is to take home some new business. That is very important for us and we are now working on two or three opportunities that are quite interesting.

The second is to go ahead with the project I was talking to you about just now in terms of creating a more consistent commercial and communication approach around the globe.

And then the third one... to grow even further in the future through many activities.

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