WDF launches streamlining plan, targets €3bn by 2017

Milan-listed World Duty Free, the holding company of travel retailer World Duty Free Group, today approved a three-year plan for 2015 to 2017 which it hopes will push consolidated revenue up to €3,004m ($3,553m) in 2017 and adjusted Ebitda to €335m, through investment of €190m during the period.

But it is a telling sign that the core market of Spain – even after a streamlining and efficiency process – is predicted to deliver just €17m of that €335m Ebitda, underlining just how much of a drag its guarantee payments to Aena [*the Spanish airports operator*] continue to be. WDF is also changing the accounting treatment of its MAG fees in two cases (*see below*).

FLATLINING EBITDA IN 2015

For 2014, the WDF board says it expects to deliver revenue of €2,403m and adjusted Ebitda of €284m, and has also issued 2015 guidance of €2,630m to €2,670m for revenue and Ebitda between € 279m and € 294m.

The forecast +7.7% (CAGR) hike to €3bn – as well as an improvement in net debt from €950m at the end of 2014 to €365m in 2017 – will require a certain amount of pain in Spain where the company is rationalising costs, refocusing its offer by revising some product categories and commercial spaces, and introducing incentive schemes to sales staff.

'FEWER, BIGGER & BOLDER ACTIONS'

WDF says: "The group objective for the next three years is to focus activity in fewer, bigger and bolder actions, including maximising the value of the portfolio of existing concessions; the completion of the integration process; improving the profitability of Spanish operations; and expanding the US business."

UK concessions have healthy longevity (show here: Stansted Airport)

The new plan is much the same as outlined in December, when **the company reported a -20% profit fall**. Aside of the Spanish shakeup, WDF also plans to maximise the value of its current concessions portfolio; complete its integration process; and expand its US business.

The groups concession portfolio has an average length of 9 years, claimed to be among the highest in the industry, with a peak of 11 years in the UK, a market which accounts for about 44% of the group's 2014 expected revenue. WDF wants to extend big contracts, where possible, as happened recently with the extension at Heathrow Airport until 2026.

On its integration process [*WDFG is a combination of three entities: Alpha Group, WDF and Aldeasa*] WDF admits that the integration of Aldeasa and WDF has suffered a slowdown and an objective of the 2015-2017 budget is to complete the integration of European platforms by streamlining processes to generate an Ebitda contribution by 2017 of €26m.

Measures are planned in the following areas:

Organisation – the integration and simplification of the corporate structure and central functions at the Spanish and UK offices [*the latter becoming the operational centre of the group*], cutting operating expenses and making the organisational structure leaner.

Supply chain and Logistics – the reduction and consolidation of warehousing and improvement in its efficiency thereby increasing product availability; and the reduction of transport costs.

IT systems integration – converging into one retail platform to eliminate duplications and standardise processes in order to achieve the improved logistics outlined above.

USA PERIMETER EXPANSION

Meanwhile in the US, WDF says it wants to "improve the profitability of the entire business by leveraging the group´s retail expertise" with the objective of generating an Ebitda contribution in 2017 of €13m. To do this the company points to "the expansion of the perimeter of the duty free and duty paid activities by identifying new opportunities in the segment". A reassessment of current formats and the regional organisation is also pipelined.

WDFG Chief Executive Eugenio Andrades

Finally, WDF notes that the above programme does not take into account new growth prospects through acquisitions that the company may address in the coming years, nor upsides related to a potential business combination.

Regarding the latter, on Saturday, *Reuters* said that according to its sources the Benetton family is ready to halve its 50% stake in WDF and also reported a comment from WDFG's new Chief Executive Eugenio Andrades to Spanish newspaper *Expansion* that if a new partner was brought in he considered this a "good option".

LINEAR ACCOUNTING TREATMENT OF SPANISH RENTS

WDF says that at the inception of its Spanish concession contracts [**the three lots were won in December 2012**] the expected scenario was one where the percentage of sales exceeded the Minimum Annual Guarantee each year during the term [*the contracts require the payment of a percentage of sales with a MAG*].

The changes in the circumstances [*Spain's poor traffic performance in recent years, although it is now back in growth*] have led WDF to expect the MAG for the coming periods to be higher than the fees calculated as the percentage of sale, for Lot I [*where Madrid is the main hub*] and Lot II [*where Barcelona is the main airport*].

WDF is changing the way it deals with this scenario in accounting terms. In a statement, it says: "As established in International Accounting Standards 17, rents of Lot I and II the group will consider MAG for Lots I and II as minimum fixed payments and will recognise them in its consolidated income statement on a straight-line basis (starting December 2014)."

The company says this will have a negative impact of circa €90m in the 2014-2017 period, with the effect reverting in the period 2018-2020 (which will record a corresponding positive impact of €90m).