Dufry HY1 sales rise 2.4% to $1.87bn

Dufry has reported first half sales up 2.4% to CHF.1,707.9m ($1,879.91) in 2014 and 6.7% growth when measured in constant exchange rates.

The world's second-largest DF&TR operator in 2013 ($3.3bn +19.6% last year-Ed) said that 'organic growth grew more rapidly by 5% in the second quarter against 2.2% achieved in the first.

Significantly, Dufry said that new concessions contributed strongly alongside 'improvements in all businesses in Latin America, most notably in the Caribbean, Uruguay and Brazil'. It added that the US & Canada and EMEA & Asia divisions followed the positive trends experienced in in the first quarter.

EBITDA reached CHF.221.4m ($243.6m) for the first six months of 2014 and EBITDA margin reached 13% in the period and 14.2% in the second. Cash flow before working capital grew 9% to CHF.212.2m ($233.5m). Net debt at the end of June 2014, was CHF.1,487.0m ($1,635.9m) compared to the CHF.1,753.4 m ($1,928.9m) at the end of December 2013.

Importantly, Dufry also reports that during this last month it has completed the equity increase, bond issuance and bank debt refinancing required to complete the Nuance acquisition, which was announced on 4 June, 2014.

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Dufry at Mexico City Airport.

TWENTY-SEVEN NEW SHOPS IN BRAZIL

The retailer also continued with its expansion projects opening a total of 16,200sq m of new gross retail space in the first semester. This included 27 new shops in Brazil, of which 17 are located in the new Terminal 3 in Sao Paulo Guarulhos Airport.

The shops were opened as scheduled in May 2014, ahead of the World Cup. In Asia, Dufry opened shops in Indonesia, South Korea and Sri Lanka during the first half of 2014 and are seen as important for future business development.

These first half results show the resilience of the business, according to Julían Díaz, CEO of the Dufry Group: “We were able to accelerate organic growth in the second quarter, while maintaining profitability at high levels. The higher growth does not fully show in the reported numbers due to the currency translation effect when converting into Swiss Francs.

“Also, most of the new retail space was opened during the last thirty days of the quarter and didn’t fully contribute. The underlying business has gained momentum in the past months in a number of operations, especially in North and South America and in Asia.

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“On the operational side we executed the key expansion projects planned for the year. To date we have already opened 89 new shops, spanning 16,200sq m of gross retail area. Among this is the opening in Brazil of 27 new shops, in line with the timetable agreed with our landlords.

“As for Asia, we already initiated operations in most of locations previous announced: Kazakhstan, Indonesia, South Korea and Sri Lanka. Our development in the US & Canada continue [to be] dynamic, where we have already opened 36 shops or 2,800sq m and an additional 1,900sq m is planned for the second half of the year. We are in the perfect position to accelerate growth during the most important period of the year.

Dufry in Chicago Airport.

NUANCE TO MOVE TO DUFRY SUPPLY CHAIN

“Based on the positive momentum in the second quarter as well as the completion of a significant expansion phase, we will emphasize our focus in the existing business to drive profitable growth through operational improvements.

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"We will continue to enhance our centralized logistics platform, which will be beneficial also for shifting Nuance's supply chain onto our supply chain. At the same time, we will continue to systematically review opportunities to fine-tune our performance in each location to create further value.

"As to the Nuance transaction that we announced on 4 June, we made good progress. We have concluded a number of steps, the most important being the successful equity increase and the issuance of a new bond of €500m ($669.8m). Once we have obtained all regulatory approvals and have closed the transaction, we will launch the integration process.

"Overall, we expect to generate synergies of approximately CHF.70m ($77m) per year which should be fully implemented by 2016. Key elements of the synergies will be the integration of Nuance's purchasing into Dufry´s supply chain and logistics platform and the increased purchase power with suppliers.

"Furthermore, we expect that the combination of Dufry's and Nuance's global and regional organizations, as well as global support functions, will create significant value.

"The integration of Nuance will be a key priority for us in the coming quarters and we want to use this transaction as an opportunity to improve both the Dufry and the Nuance business. This is a transformational transaction for us and we want to make sure that we can bring the best of the Dufry and the Nuance world together to create a stronger and more profitable business than ever.

"Our initiatives in the existing business as well as for the Nuance integration are supported by a generally positive economic environment; fundamentals continue to be strong as *[long as]* the general economical and consumer sentiments stay at good levels and passenger trends remain solid. The number of international passenger grew by 6% in the year to May.

"The completion of several expansion projects showcases our execution capabilities. With this challenge largely accomplished, we now turn our focus to the closing of the Nuance Group acquisition and consequent integration. This integration, as well as driving profitable growth in the existing business will be the focus of the group for the next quarters."

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Nuances operation at Zürich Airport is just one of several jewels in its portfolio that Dufry is buying.

REVIEW OF HALF-YEAR 2014 RESULTS

Dufry reports that its turnover rose by 6.7% in constant exchange rates (CER) in the first half of 2014. Organic growth contributed 3.7%, as like-for-like growth was 1.6% and new concessions, net, added 2.1%. The one-quarter-acquisition effect of Hellenic Duty Free (HDF) added 3%.

Reported turnover in Swiss Francs reached the aforementioned CHF.1,707.9m ($1,879.91m) from CHF.1,667.4m ($1,835.6m) in the first half of 2013, a growth of 2.4%, after a 4.3% translational impact, driven by the appreciation of the Swiss Franc in the period.

Turnover in Region EMEA & Asia rose by 12.9% in CER to CHF.552.1m ($607.7m m) in the year to June from CHF.498.8 m ($549m) in the previous year. Dufry said the region benefited from the consolidation of HDF, acquired in April 2013.

Dufry added that in Europe, France, Italy and Switzerland it performed well and in Eastern Europe, Serbia and Armenia it also continued to delivery good results, while in Russia, the Russian Rouble and the political situation in the Ukraine not surprisingly impacted the business.

Performance in Africa continued to be hit by the political situation in the region. Egypt continued to be the country most affected with substantially lower passenger numbers compared to last year. In the Middle East and Asia, existing operations performed well and the new openings in China, Indonesia, Kazakhstan, South Korea and Sri Lanka contributed to the results ‘as expected’.

Sao Paulo Airport is a huge contributor to Dufrys sales in Brazil.

MIXED PERFORMANCE IN THE AMERICAS

Turnover in Region America I stood flat in CER and reached CHF.357.3m ($393.2m) in the first half of 2014 versus CHF.376.5m ($414.4m) in the same period in 2013. The performance of the region accelerated in Q2 (4% growth in CER).

Dufry said Mexico continued to perform well and operations in the Caribbean slightly accelerated on the back of an increase in passenger numbers *[which will be welcome considering past numbers in the 'British Caribbean'-Ed]*. Interestingly, business in Argentina held up well and Uruguayan trade had positive momentum after the weakness in the first quarter due to the depreciation of the Uruguayan Peso at the end of January.

In terms of sales numbers, turnover in Region America II reached CHF.318.4m ($350.4m) in the first half of 2014 compared to CHF.342.6m ($377m) in the same period in 2013. In the second quarter, Dufry said turnover growth in CER had a positive momentum of 3.7% compared to -9% in the first. Sales – when measured in Brazilian Reais – also accelerated to 9% in the period, 'but the devaluation of the local currency continued to mask the turnover growth when measured in USD', said the retailer.

However, the devaluation of the Brazilian Real was significantly lower in the second quarter, with -8% versus -18% in the first quarter. It is worth highlighting that in May, Dufry opened most of its announced shops in Brazil and expects to see a positive impact on sales reflected in the following quarters.

As Dufry Ceo Julían Díaz *(pictured below)* expected and explained in an in-depth interview with *TRBusiness* earlier this year, the Fifa World Cup event hosted in Brazil in June and July was turnover neutral for the region, although the retailer still believes that there will be a longer term tourism knock-on benefit from the event after it was televised and publicised all over the globe *[Fifa estimates that on average more than 700m people watch the televised coverage of the World Cup football tournament, with several million more watching on the internet, so it will be interesting to track Brazil's tourism progress in the next few years-Ed].*

Back in the United States & Canada region, Dufry reports that turnover 'surged' by 13.4% in constant foreign exchange (FX) rates. Sales turnover reached CHF.451.1m ($496.4m) in the first half of 2014 from CHF.420.1m ($462.3m) in the same period in 2013. Dufry added: "The business continues to perform strongly driven by the roll out of the new Hudson format and by the expansion of the business through new concessions".

Dufry HY1 sales rise 2.4% to $1.87bn

GROSS MARGIN UP FROM 58.8% to 59.2%

Interestingly, Dufry said that gross profit margin expanded by 40-basis points to 59.2% from 58.8% in the first half of 2013. In absolute terms it grew by 3.1% and reached CHF.1,011.1m ($1,112.8m) in the first half of 2014 versus CHF.981m ($1,079.7m) one year before.

The retailer added: “Excluding the lower contribution impact from the consolidation effect of the business in Greece, which has below average gross margin, gross margin improved by 50 basis points to 59.7%, which reflects the good development the reorganization of Dufry´s procurement and logistics structures, as announced in 2013”.

Selling expenses grew by 2.6% to CHF.402.6 m ($442.9m) in 2014 versus CHF.392.3m ($431.6m) one year earlier. As a percentage of turnover remained practically stable at 23.6% in the first half of 2014, from 23.5% in 2013.

Personnel expenses as a percentage of turnover grew slightly to 16.0% versus 15.4% in the first half of 2013. In absolute terms it increased to CHF.274.1m ($301.5m) in the first half 2014 from CHF.256.7m ($282.4m) in the same period in 2013. Dufry said that the main driver for the increase was the consolidation effect of the HDF acquisition in the first quarter 2014, as well as the higher number of employees in the new and expanded locations.

General expenses as a percentage of turnover decreased to 6.6% from 6.8% in the first half of 2013. In

Swiss Franc terms, general expenses stood at CHF.113m ($124.3m) in the first half of 2014, from CHF.113.9m ($125.3m) one year earlier.

As mentioned, EBITDA in constant FX rates grew by 6.1%. In Swiss Francs it increased by 1.5% and reached CHF.221.4m ($243.6m) in the year to June with EBITDA margin reaching 13.0% in the period and 14.2% for the second quarter.

Depreciation was CHF.37m ($40.7m) in the first half of 2014, compared to CHF.32.5m ($35.7m) in the same period in 2013 and increased as a percentage of turnover to 2.2% from 1.9% in the first half of 2013. Amortization increased by CHF.7.7m ($8.4m), as a result of the consolidation of HDF, and reached CHF.64.4m ($70.8m) in the first half of 2014 from CHF.56.7m ($62.3m) in the same period last year.

No sooner will Dufry have taken over Nuance than it will have to defend its Sydney Airport duty free concession.

NET EARNINGS HY1: CHF.44.1M vs. CHF.50.4M (2013)

Other Operational result (net) was minus CHF.17m ($18.7m) in the first half of 2014, mainly driven by new openings and start-up costs. The amount also includes transaction costs of CHF.2.4m ($2.6m) related to the acquisition of the Nuance Group. EBIT reached CHF.103.1m ($113.4m) in the first half of 2014 versus CHF.105.6m ($116.1m) in the year before.

Net financial expenses reached CHF.52.3m ($57.5m) in the first half of 2014 compared to CHF.44.5 m ($48.9m) in the same period of 2013. The increase is a result of the higher net debt due to the acquisition of HDF and non-recurring financing charges of CHF.5.7 m ($6.2m) related to the acquisition of the Nuance Group.

Income taxes as a percentage of EBT was 13.2% and reached CHF.6.7 m ($7.3m) in the first half of 2014, versus CHF.10.7m ($11.7m) in the previous year. In the quarter, there was a positive non-recurring tax effect of approximately CHF.2m ($2.2m).

Net earnings for the first half of 2014 reached CHF.44.1m ($48.5m) versus CHF.50.4m ($55.4m) in the same period of 2013. Pro forma net earnings attributable to equity holders excluding the effects of the Nuance acquisition, stood at CHF.35.5m ($39m). Reported net earnings to equity holders for the year to June reached CHF.27.5m ($30.2m) versus CHF.28.9m ($31.7m) in 2013.

Cash flow before working capital changes reached CHF.212.2m ($233.4m) in the first half of 2014 versus CHF.194.7m ($214.2m) one year earlier and free cash flow reached CHF.54.3 m ($59.7m). In the year to June, capital expenditure stood at CHF.100.7m ($110.7m) compared to CHF.60.7m ($66.7m) in the first half of 2013 and is mainly a consequence of the several important shop openings in Brazil and Asia.

Net debt at the end of June 2014, was CHF.1,487.0m ($1,635.9m) compared to the CHF.1,753.4 m ($1,928.9m) at the end of December 2013. The main covenant at group level, net debt/adjusted EBITDA, stood at 3.12 as of June 30, 2014. Main driver for the reduction of net debt was the issuance of the mandatory convertible notes of CHF.275 m ($302.5m) in connection with the acquisition of Nuance.

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Another Nuance stronghold due to come into the Dufry fold is the Toronto Airport duty free contract the biggest duty free airport business in Canada.

NUANCE FINANCING IN PLACE

On June 4, Dufry announced the acquisition of the Nuance Group, a global travel retailer with turnover of CHF.2.1bn ($2.3bn) and presence in 19 countries. To finance the acquisition of CHF.1.55bn ($1.70bn), Dufry executed a number of financing transactions in June and July. On 5 June, Dufry issued mandatory convertible notes of a total amount of CHF.275m ($302m) . On 7 July, Dufry issued five m new shares and raised approximately CHF.810m ($891m) in a successful capital increase, and on 11 July, successfully placed a new €500m ($$669.8m) bond with a 4.5% coupon and 8-year maturity. Last but not least, the planned refinancing of the bank debt has been completed on 22 July.

All the planned financing instruments have been put in place and Dufry has implemented the long-term funding structure for the transaction.

TOP IMAGE: Dufrys InterBaires Duty Free operation at Buenos Aires Ezeiza Airport.

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[All Swiss Franc final figures have been converted into US dollars in this report, considering the movement of the Swiss franc against the US dollar since Dufry’s last results where they were simply reported in Swiss francs. The exchange rate used for this story on Thursday July 31 just after 07.00am UK time was: 1 USD = 0.908552 CHF-Ed].