SOLID RESULTS ACHIEVED AND TARGETS MET

DEAR ALL

In 2019, Dufry further accelerated its growth strategy and ended the year delivering a solid set of results supported mainly by an organic growth improvement quarter after quarter. Turnover reached CHF 8,848.6 million in the year with organic growth confirming the acceleration trend and reaching 3.0%. Gross Profit margin expanded by 40 basis points from 59.8% to 60.2% in 2019. Adjusted Operating Cash Flow was CHF 959.9 million, while Equity Free Cash Flow came in at CHF 383.3 million, in line with the mid-term Equity Free Cash Flow target of CHF 350 – 400 million.[1]

One of the main drivers for our solid results in 2019 was the continuous improvement of the organic growth, which developed positively throughout the year supported by the like-for-like performance, which also showed an ongoing improvement along the quarters and reached 0.6% for the full year. In the fourth quarter, all divisions reported positive organic growth resulting in a Group organic growth performance of 3.1% supported by a healthy like-for-like growth of 2.2% driven by the commercial activities Dufry fostered along the year, namely the brand plans and promotions.

From an accounting perspective, the 2019 business year was characterized and impacted by the introduction of IFRS 16 standard in the financials. Both P&L and Balance Sheet saw considerable changes in their structure, making the comparability difficult. Therefore, we also replaced some of our traditional KPI's, such as e.g. EBITDA, as they became irrelevant. That is why going forward we will focus more on cash-flow-related KPI's, which are not affected by the IFRS 16 introduction, thus preserving a better performance comparability. The new standard brings relevant changes in our financials, especially in the accounting treatment of leases: while before leases were accounted as expenses, now fixed components are capitalized and amortized over the lifetime of the contract. It's import to highlight that the new IFRS standard has no economic impact on Dufry as evidenced in the cash flow statement, which remained unchanged in general. In this regard, Dufry's main KPI's currently include: Organic Growth, Adjusted Operating Profit, Adjusted Net Profit and EPS, Adjusted Operating Cash Flow and Equity Free Cash Flow.

In terms of cash generation, Dufry recorded a very solid performance in 2019, with the Equity Free Cash Flow reaching 383.3 million, a 3.4% increase versus the CHF 370.8 million reported in 2018. Net debt was reduced to CHF 3,101.9 million on December 31, 2019, which on a full-year base is the lowest level since 2015. The respective covenant calculated as Net Debt/Adjusted Operating Cash Flow stood at 3.52x securing a comfortable headroom towards the threshold of 4.50x.

One of the main achievements in 2019 were the acquisitions we did along the year. In June, Dufry announced the acquisition of the majority stake of 60% in RegStaer Vnukovo, further consolidating our position in Russia, especially in the Moscow area, where we will be able to extract further synergies with the integration of existing operations. The newly acquired business started to be fully consolidated as of November 2019.

During October, we also had the two important acquisitions performed by Hudson: Brookstone, which started to be consolidated as of October, and OHM, adding additional growth opportunities and accelerating further expansion in the food & beverage airport market in North America.

[1] For a glossary of financial terms and key performance indicators please see page 270 of this Annual Report.

1.9%

Turnover grew by 1.9% and reached CHF 8,848.6 million

Moreover, in November, Dufry successfully issued a new bond of EUR 750 million using the proceeds to refinance the former bond of EUR 700 million and reduce existing bank debt. The new bond has a coupon of 2% and will generate annual financing cost savings of EUR 16.5 million as compared to the previous one.

Turnover
In 2019, Turnover grew by +1.9%, reaching CHF 8,848.6 million versus CHF 8,684.9 million in 2018. Organic growth for the year stood at 3.0%, with like-for-like contributing 0.6% and net new concessions adding 2.4%. Changes in Scope, which includes the contribution of the acquisitions of Vnukovo and Brookstone, amounted to 0.1%. The translational FX effect in the period was -1.2% as a net effect of the strengthening of the US Dollar and weakening of the Euro and the British Pound.

Turnover in **Europe and Africa** was CHF 3,850.9 million in 2019 from CHF 3,828.2 million one year ago. Organic growth in the division reached 5.8% in the year and 7.5% in the fourth quarter. The like-for-like contribution remained strong during Q4, reaching 6.1%.

The UK and especially Spain continued to deliver solid performance for the year. The implementation of the pilot projects across five Spanish airports including several commercial initiatives and best practices were very successful, showing improving sales during the whole year. Greece and especially Turkey maintained their positive momentum in 2019, delivering a solid growth. Other locations such as Malta, Italy and Finland also posted positive growth. Africa saw a stronger performance in most operations, with Morocco, Kenya and Egypt growing double-digit in the year.

Asia-Pacific and Middle East's turnover reached CHF 1,274.9 million in 2019 from CHF 1,153.6 million in 2018. Organic growth for the year stood at 10.8% supported mainly by the contribution of new concessions in 2019. It's worth to highlight that the like-for-like performance has also improved during the year, reaching 8.3% in the fourth quarter.

Eastern Europe posted positive performance, supported by Russia and Serbia. Asia-Pacific posted a double-digit growth mainly driven by Hong Kong with the successful opening in the MTR high-speed railway station, as well as the strong performance seen in Macau and the positive growth in Cambodia and China. Australia also posted solid performance for the year, supported by the opening of new shops in Perth. The Middle East posted a good performance, with solid growth in India, Sri Lanka and Sharjah.

Turnover in **North America** amounted to CHF 1,935.8 million compared to CHF 1,884.4 million in 2018 and organic growth came in at 1.8% in the year. The North American operation has been performing strongly for many years and in 2019 the duty-paid business confirmed its resilience despite some temporary challenges. The duty-free segment was negatively impacted by the lower spending from Chinese passengers along the first nine months, but showed signs of a recovery in the fourth quarter 2019.

Growth acceleration leads to solid performance

Central and South America's turnover stood at CHF 1,536.1 million in 2019 versus CHF 1,617.0 million in 2018. Organic growth in the region was –6.3% in the year with performance in the fourth quarter turning positive at 0.2%, mainly supported by the implementation of commercial initiatives.

During 2019, performance in South America remained challenging, impacted by local currency devaluations, namely in Brazil and Argentina. Performance in Mexico was positive throughout the year, reaching solid results especially during the fourth quarter. The Dominican Republic posted positive growth, while the Caribbean was healthy along the year, supported by the cruise business.

Worth mentioning are the two positive changes in legislation approved by the Brazilian government during 2019 – the possibility to open border shops and the increase of the arrival duty-free allowance –, which will further support organic growth in this important market in South America.

Gross profit
In 2019, Gross Profit increased to CHF 5,323.2 million from CHF 5,195.7 million in the previous year, with the Gross Profit margin increasing by 40 basis points, and reaching 60.2% from 59.8% in the previous year. The continued improvement is the result of Dufry's negotiations with global and mainly local suppliers as well as the further standardization of the supply chain and the implementation of the commercial platforms, which increase the agility of the commercial teams and take them closer to the market.

Adjusted Operating Profit (Adjusted EBIT)
Adjusted Operating Profit (Adjusted EBIT) reached CHF 767.7 million, with the respective margin amounting to 8.7% in 2019.

As mentioned previously, Dufry started to report under the new IFRS 16 standard, which mainly changes the accounting treatment of leases. In short, whilst previously leases were accounted as expenses, now fixed components are capitalized and amortized over the lifetime of the contract, while all variable components of the concessions are classified as lease expenses. For 2019, Lease Expenses amounted to CHF –1,372.9 million.

Personnel Expenses amounted to CHF –1,243.3 million in 2019 from CHF –1,175.2 million one year earlier. As a percentage of turnover, Personnel Expenses increased by 60 basis points to 14.1% driven mainly by North America. Reasons were the increase in the minimum wages, as well as a one-off charge of USD 7.6 million of accrued severance expenses related to changes in the local management structure in Q1 2019.

Other Expenses reached CHF –618.8 million in 2019. Other Expenses mainly replace the former income statement line "General Expenses" and also include the former "Other Operational Expense". Other Income is now aggregated and presented in a specific line reaching CHF 121.6 million (2018: CHF 45.5 million).

Depreciation (excluding Right-of-Use) reached CHF –203.9 million, remaining stable as a percentage of turnover (–2.3%) versus last year. Amortization in absolute terms stood at CHF –402.8 million, increasing as a percentage of turnover (–4.6%) compared to last year (–4.3%) due to the acquisitions done in 2019. Depreciation of Right-of-Use was CHF –1,170.3 million, which relates to the leases that are capitalized.

Net Profit

Adjusted Net Profit reached CHF 349.3 million in 2019, while the respective Adjusted EPS was CHF 7.00. Net Profit to Equity Holders reached CHF –26.5 million in the year under review. Financial Results (excluding Lease Interest and FX) amounted CHF –127.6 million and Income Tax reached CHF –78.2 million, mainly driven by deferred taxes. Minorities were CHF –56.6 million for the year.

Cash flow and net debt

Contrary to the Income Statement, the effects of IFRS 16 on the cash flow are minimal. Cash flow KPIs will therefore continue to be key for measuring the performance of the business.

Adjusted Operating Cash Flow reached CHF 959.9 million in 2019 compared to the CHF 973.2 million in 2018. Equity Free Cash Flow increased solidly to CHF 383.3 million in 2019 compared to CHF 370.8 million in the previous year.

Continuous deleveraging in place

Net Debt amounted to CHF 3,101.9 million at the end of December 2019, including the dividend payment of CHF 199.8 million in May, compared to CHF 3,286.1 million in December 2018 and reaching the lowest level on a full year base since 2015. Our covenant, Net Debt/Adjusted Operating Cash Flow was 3.52x as per December 31, 2019, representing an ongoing improvement versus previous quarters and providing comfortable headroom against the maximum threshold of 4.50x. The covenant calculation has also been adapted to the IFRS 16 implementation, thus not directly comparable with the previous year, but reflects the same risk profile as under the former calculation method.

Targets achieved in 2019 and confident outlook

2019 was an important year where we could prove the efficiency of our growth strategy. We were able to improve organic growth quarter after quarter, in line with our expected average target. Such achievement reflects the set of commercial activities developed along the year and underlines our execution capabilities.

In terms of cash generation, we continued to deliver a record level, being able to increase the Equity Free Cash Flow from CHF 370.8 million last year to 383.3 million in 2019, in line with the Equity Free Cash Flow mid-term target of CHF 350–400 million.

From an outlook perspective I am convinced about the resilience of our business and the travel retail industry going forward in general and I also believe that the acquisitions we executed will support our development going forward. At the time we wrote this letter, Covid-19 started to create a potential temporary impact for the current business year in locations where we have Asian customers or which are directly affected by the phenomena, resulting in a low visibility and making it difficult to assess in detail the potential impacts.

I would like to thank our customers, shareholders, bondholders, banks, analysts and key advisors for their trust in Dufry and their support throughout the year to contribute to Dufry's success.

Kind regards,

Yves Gerster