

# STATEMENT OF THE CHIEF EXECUTIVE OFFICER DEAR ALL

In 2019, we have reactivated our strategy of profitable growth based on organic growth as well as small and mid-sized acquisitions despite the headwinds experienced in South America. We have seen our growth accelerating in many ways, and we were able to achieve important milestones, which will contribute to the future development of Dufry. Our turnover reached CHF 8,848.6 million versus CHF 8,684.9 million in 2018, a total growth of 1.9%. Adjusted Operating Profit amounted to CHF 767.7 million, resulting in an Adjusted Operating Profit margin of 8.7%. Equity Free Cash Flow reached CHF 383.3 million, in line with our guidance<sup>1</sup>.

## **New organization announced in January 2019**

In January 2019, we announced a new organization in order to accelerate growth and to benefit from opportunities identified thanks to the implementation of the new business operating model (BOM) completed in 2018. This comprised further simplifying our organization, to drive market agility with full customer focus, generating additional efficiencies at headquarter level and accelerating organic growth. Changes include the regrouping of the former divisions Southern Europe & Africa and UK & Central Europe into the new division Europe & Africa. Moreover, we have further integrated the commercial and corporate teams at divisional and headquarter level, and we have invested in sales staff and sales incentive programs. In the context of the new organization, the Divisional CEOs have joined the Global Executive Committee.

## **Consistent execution of growth strategy**

Dufry has consistently executed on its growth strategy by progressing in all of its growth pillars includ-

ing extending important contracts, winning new concessions and increasing its footprint with small and mid-sized acquisitions.

## **Solid execution of initiatives for growth acceleration.**

Organic growth accelerated resiliently along the whole business year supported by our marketing initiatives and new concessions, and reached 3.0% for the full year, in line with our mid-term average guidance. This overall positive performance confirms once more that geographical diversification helps to mitigate risks from external factors that are out of our sphere of influence, such as the challenges we have faced in Brazil and Argentina and the temporary slowdown seen in North America. Overall, we saw good performance in the majority of our other markets with highlights in the United Kingdom, Spain, Greece, Turkey, most of the operations in Asia Pacific and the Middle East as well as Central America and with Mexico, the Caribbean and the Dominican Republic ranking best. Our cruise business also reported overall good growth on all routes and on the new ferries, which came into operation in the first and second quarter.

Our like-for-like performance sequentially improved along the year as well, came in at a healthy 2.2% in the last quarter and reached 0.6% for the full year. One of our ongoing focus points to drive like-for-like growth is the refurbishment of shops. The total retail space refurbished in 2019 included over 41,600 m<sup>2</sup> in over 130 shops across all our divisions. In this context it is worth mentioning the refurbishments car-

<sup>1</sup> For a glossary of financial terms and key performance indicators please see page 270 of this Annual Report.

# 2,400

Dufry is a real global player operating over 2,400 shops throughout all six continents.

ried out in 15 shops in Spain, 9 shops in Sweden, 5 shops in Turkey, 3 shops in Jordan and one shop each in Morocco and Macau as well as the one New Generation Store implemented in Buenos Aires, Argentina. The further tightened collaboration with our brand partners to increase the number of promotions as well as the extended offering of novelties and exclusive products also contributed to the like-for-like acceleration.

Net new concessions contributed with 2.4% to organic growth through expansion of existing locations and the opening of new shops such as in Russia, Mexico, USA and shops across 19 new ships. In 2019, we expanded our gross retail space by 33,900 m<sup>2</sup> in total, of which 32% is located in Asia Pacific and Middle East, including the retail space in Vnukovo, 27% in Europe and Africa, while the remaining 41% are almost equally distributed across North and South America. Dufry has further refined its strong strategic positioning with a broad portfolio of high-quality concessions across many markets, in a sector with positive fundamentals.

## Expanding footprint with attractive acquisitions.

In 2019, Dufry has started again to acquire attractive operations allowing to efficiently expand its footprint and to access new channels of growth. In this context, the majority participation Dufry took in RegStaer Vnukovo allows us to further extend presence in the Moscow area and Russia overall. The Vnukovo operation, which we consolidated as of



November 2019, generated a sales volume of EUR 58.8 million in FY 2018 and features 30 duty-free and duty-paid shops across 6,800 m<sup>2</sup>. Dufry is now present at all three Moscow airports, with Vnukovo adding a location with premium shops and a high quality passenger profile.

The second bolt-on acquisition was the transaction to acquire the 34 Brookstone shops in the United States, which also included the exclusive right to act as airport retailer to further expand the brand, and to sell a selected Brookstone assortment in existing Hudson shops. Through Hudson's presence in many other locations, we will be able to accelerate the expansion of this well-known U.S. brand to further airports in North America.

The acquisition of OHM Concession Group LLC has a slightly more strategic component as compared to the two described above. Besides adding a volume of around 60 airport food & beverage units to Hudson's current 50 quick service and café concepts, it adds a considerable know-how and skill-set to Hudson to accelerate our subsidiary's further expansion into the airport food & beverage market in North America. OHM operates a variety of over 20 F&B concepts, which provide airport operators with a large variety of culinary options to enrich their offer for travelers.

### **Ongoing deployment of digital strategy to drive sales**

Dufry's digital strategy is aimed at driving sales by creating an immersive digital communication to increase the number of multichannel touch-points and customer engagement, as well as providing employees on the shop floor with digital tools to better serve and interact with customers to improve their shopping experience. In 2019, we have considerably accelerated the digital strategy deployment through the expansion of all its elements such as the New Generation Store concept, the RED by Dufry customer loyalty program, the Reserve & Collect online ordering platform, and Dufry's proprietary social media channel, Forum by Dufry.

## **Digital strategy further accelerated.**

The cornerstone of our digital strategy is the new generation store, of which we have added 4 shops in Buenos Aires, Amman, Alicante and Malaga, and now totaling 13 shops deployed across all our divisions. The new generation stores provide a stronger shopping ex-

perience, as the shops communicate with customers in different languages, and adapt promotions and marketing campaigns to match the customer profiles and nationalities present at the airports at any given time of the day. The new generation store also includes the employee digitalization element, which consists of sales tablets to help staff to better serve our customers with more detailed product and other sales related information. Sales tablets are now in operation across 111 locations in 30 countries.

We have substantially intensified the rollout of our customer loyalty program RED by Dufry in the year under review and it is currently available in 236 locations across 46 countries. In addition, we have increased the number of services and benefits for customers by engaging with airport and brand partners around the world. At the end of 2019, Dufry's CRM database included 5 million customers – a database we intend to further expand in 2020 and beyond.

Equally important is the expansion of our Reserve & Collect network, which now covers 170 airports in 44 countries world-wide. This service, allowing customers to order online and pick-up their purchases when departing or upon arrival, is being increasingly used and we see on average higher tickets being generated as compared to traditional average in-shop sales.

Last but not least, in 2019 we have ramped up our social media channel Forum by Dufry, which connects all of our digital dots and adds emotion and experience with content provided by brands, bloggers and influencers highlighting the attractiveness of the travel retail channel.

The deployment of the digital strategy confirms our initial expectation that it would contribute to attracting more customers to the shops, would increase sales, and thus ideally complement the physical shops, which continue to benefit from the traditionally strong impulse buying behavior of our affluent and captive audiences.

### **Global marketing initiatives driving shopping experiences and customer engagement**

We have seen the trend for a more experience-driven shopping behavior, focusing on novelties, exclusive products and limited editions continuing in 2019. Accordingly, we have intensified bilateral collaboration with our most important global brand partners to increase the development of products sold only in travel retail – or increasingly sold exclusively in Dufry shops. This allows us to create that sense of uniqueness and individuality that raises brand value, drives

sales and provides customers with memorable experiences. Moreover, we intensified the deployment of marketing initiatives with global brands aimed at – alongside increasing sales for Dufry and the brand partners – getting closer and engaging more tightly with customers, as this proves to be one of the key drivers to increase customer spending.

### **Securing future business with new concession wins and contract extensions**

Both, new wins and contract extensions are key elements to secure our future business. In 2019, we successfully extended the milestone contract to operate all 25 Spanish airports with AENA for up to 5 years. Spain has already shown an improving performance during the year under review and we are looking forward to deploying the operational best practices successfully tested across 5 pilot airports, which have given promising results. Other important extensions were agreed with Philadelphia airport for 9 retail and food & beverage shops, as well as with Toronto Pearson International Airport for an eight-year duty-free contract from 2022 to 2030.

## **Important contract wins and extensions across channels.**

With respect to new wins, Dufry has signed important new contracts in the United States with 6 new shops at Newark including Dufry Shopping, as well as for 9 shops in Indianapolis. New concessions were also awarded at the Mexico City International Airport for 3 duty-free shops covering 1,400 m<sup>2</sup>; at Florianópolis (Brazil), with a sales area of 650 m<sup>2</sup> including two duty-free and one duty-paid shop; while in Helsinki the new contract signed covers 7 luxury boutiques across 700 m<sup>2</sup> of space. Worth mentioning is the new confectionery concession won at the Singapore Changi Airport.

2019 was also an important year for alternative channels such as the cruise ships, where Dufry signed a further agreement with Holland America to operate shops on 6 new ships with a total sales area of 650 m<sup>2</sup>; as well as for the border shops in Brazil, with the opening of the first border shop covering 850 m<sup>2</sup> of retail space in the city of Uruguaiana. The Brazilian Government had previously approved the long expected law on the border shops, defining 32 cities, where border duty-free shops can be opened.

In this context, I would also like to draw the attention to the allowance increase approved by the Brazilian government for arrival duty-free shops, thus doubling the amount from previously USD 500 to USD 1,000 as of January 1, 2020. This is an important sales driver for our Brazilian business, as it not only permits customers to spend more, but it allows us to considerably expand our product assortment with products in the price range of USD 500–1,000, which could not be presented so far due to the earlier lower limit.

## **Resilient strong cash flow generation.**

### **Resilient cash flow generation confirmed; net debt reduced**

The 2019 business year confirmed once more Dufry's capability to generate resilient cash flows; while maintaining our dividend payment, for which in 2019 we allocated CHF 199.8 million. Our Adjusted Operating Cash Flow amounted to CHF 959.9 million and Equity Free Cash Flow came in at CHF 383.3 million (previous year CHF 370.8 million), in line with our guidance range of CHF 350–400 million. The resilient cash generation allowed us to further reduce our net debt by CHF 184 million, which stood at CHF 3,102 million at year-end, which from a full-year perspective is the lowest level since 2015.

### **Confident outlook for the resilience of our business**

The ongoing improvement in organic growth in 2019, and the additional growth potential we have added with the three acquisitions provide a solid base for the further resilient development of our business. At the time this letter has been written, we have seen Covid-19 creating a potential temporary impact for 2020 in the locations where we have Asian customers as well as in locations directly affected by the phenomena. Both, from a safety and operational perspective we have been closely monitoring the developments with a dedicated committee of the Global Executive Committee on a daily and weekly basis and we have immediately put in place the necessary plans to act as needed. These plans cover the protection of health and safety of our employees and customers at any time, and include measures to drive sales performance as well as to safeguard the profitability and the cash flows of the company. While our flexible cost structure provides certain opportunities to protect the company's performance, it is difficult to assess the magnitude of any impact as this will depend on the duration of the phenomena and its geographic spread.

## **Thank you**

Above all, I want to thank our customers from over 150 nationalities for their ongoing trust and for continuing to visit our shops, appreciating our offering and ultimately generating the sales, which allow our company and our employees to prosper. We will continue to refine our assortments and services, making any visit a memorable experience.

2019 continued to present some challenges to Dufry's market environment, but the dedication and motivation of our teams allowed us to deliver solid results in line with our expectations. All our teams at country, division and headquarter level focused on our strong customer centric strategy to drive sales and further develop our company. I would therefore like to thank all our colleagues and teams across all functions and operations for their strong contribution and their engagement in accomplishing our common goals set for the past year.

I also want to thank our suppliers, landlords and business partners for their ongoing support in further developing Dufry. Again, we have seen the collaboration intensifying along the value chain of travel retail, which we consider to be the key factor for our common success. We are looking forward to continuing to develop this collaboration and will strongly support related initiatives by suppliers and landlords.

Last but not least, I thank our Board of Directors and our shareholders for their ongoing support, trust and contributions in making Dufry even more WorldClass. WorldWide.

Best regards,

A handwritten signature in black ink, consisting of several overlapping loops and a horizontal stroke at the bottom.

Julián Díaz González