Dufry to acquire World Duty Free

30 March 2015

Dufry announces that it has entered into a binding agreement with Edizione S.r.I. ("Edizione") to acquire its 50.1% stake in World Duty Free S.p.A ("WDF"). Following completion of the transaction with Edizione, Dufry will launch a mandatory tender offer for the remaining 49.9% outstanding WDF shares. The combination with WDF will enhance Dufry's global position in the travel retail industry. Dufry expects to generate synergies of up to EUR 100 million[1]. On a pro forma combined basis, once fully integrated and including planned synergies, Dufry would have generated a turnover of CHF 7.8 billion in 2014 and an EBITDA of more than CHF 1 billion[2]. The transaction is expected to be value accretive to Dufry shareholders, resulting in a double-digit cash EPS accretion from the second year post-acquisition.

Strategic rationale

- The combination with WDF will further enhance Dufry's global position in the travel retail industry and the combined entity will be present in 67 countries and reach a market share of approx. 24% in airport retail globally
- The transaction will enhance Dufry's portfolio with attractive long-term concessions across several major European airports, including the recently extended London Heathrow airport with a large number of emerging market consumers and the Spanish airports which ideally complement Dufry's strong Mediterranean footprint; in addition, the transaction will also strengthen Dufry's operations in North and Latin America, Asia and the Middle East
- Dufry believes that the transaction will create a series of new growth opportunities thanks to the broader breadth of the combined platform

Financial highlights

- Dufry agreed to acquire Edizione's 50.1% stake in WDF for € 10.25 per share in cash, valuing the entire fully diluted share capital of WDF at € 2.6 billion (CHF 2.7 billion) and implying an enterprise value of € 3.6 billion (CHF 3.8 billion); following completion of Edizione's stake in WDF, Dufry will launch a mandatory tender offer for the remaining 49.9% of WDF's outstanding shares for € 10.25 per share in cash
- Dufry expects that the transaction will result in cost reductions and gross profit improvements with an annual run-rate of approximately € 100 million[1] which are expected to be fully realised by full-year 2017
- The transaction is expected to be value accretive to Dufry shareholders, resulting in a double-digit cash EPS accretion from the second year post-acquisition
- The financing of the transaction has been secured via a fully committed debt bridge facility of € 3.6 billion (CHF 3.8 billion), of which at least € 2.1 billion (CHF 2.2 billion) will be refinanced through equity and up to € 1.5 billion (CHF 1.6 billion) through debt instruments
- Dufry will hold a General Meeting (GM) to approve the equity financing, in form of an at market rights issue, targeting at least CHF 2.2 billion from an ordinary capital increase
- The rights issue is fully secured by a combination of the underwriting by a bank consortium as well as commitments by the investors GIC (Singapore's Sovereign Wealth Fund), the Qatar Investment Authority ("QIA") and Temasek, which have all committed to invest up to CHF 450 million each in equity in the combined entity
- By way of the capital increase, Dufry expects to maintain its solid financial profile with a net debt / LTM EBITDA not exceeding 4.3x (pre-synergies)

Transaction overview

Dufry announces that it has entered into a binding agreement with Edizione to acquire its 50.1% stake in WDF for € 10.25 per WDF share in cash, equivalent to a total consideration of € 1,307 million. Following completion of the transaction with Edizione, Dufry will launch a mandatory tender offer for the remaining 49.9% outstanding WDF shares at a price of € 10.25 per WDF share. The consideration to Edizione and in the mandatory tender offer will be fully payable in cash. The transaction with Edizione remains subject to approval of the ordinary capital increase by Dufry's shareholders as well as regulatory approvals.

Dufry intends to initially finance the acquisition of WDF and the refinancing of WDF's debt through a fully committed debt bridge facility of € 3.6 billion (CHF 3.8 billion), provided by BBVA, Goldman Sachs, ING, Santander, UBS and UniCredit, which is expected to be refinanced by the rights issue of at least € 2.1 billion (CHF 2.2 billion) and long-term debt instruments for a total amount of up to € 1.5 billion (CHF 1.6 billion).

The equity financing is expected to be implemented in the form of a rights issue of at least CHF 2.2 billion from an ordinary capital increase, which is subject to approval by the GM. The rights issue has been fully secured by a combination of a firm underwriting by a banking consortium as well as commitments by the investors GIC, QIA and Temasek. The definite terms of the rights issue are expected to be determined and communicated immediately prior to the GM, which will take place no later than 15 May 2015.

Dufry has secured equity investment commitments from GIC, QIA and Temasek for up to CHF 450 million each in the form of a commitment to purchase shares for which existing shareholders have not exercised their pre-emptive rights in the rights issue.

Shareholders representing approximately 30% of Dufry's voting share capital have irrevocably committed to vote in favour of the ordinary capital increase at the GM.

Following completion of the share purchase from Edizione which is expected to occur in the 3rd quarter 2015, Dufry will launch a mandatory tender offer for all remaining shares of WDF in accordance with Italian law at the same price per WDF share of € 10.25 as will be paid by Dufry to Edizione, in accordance with the terms of the share purchase agreement. The consideration of the mandatory tender offer will be fully payable in cash. Dufry will, in due course following completion of the share purchase agreement, publish an offer prospectus with further details related to the mandatory tender offer.

Excellent strategic fit with significant value creation potential

Enhancing global industry position in travel retail: The acquisition of WDF will enhance Dufry's global position in the global duty-free and travel retail market. On a pro forma combined basis and based on 2014 turnover, Dufry including WDF would have a pro forma market share of c.24%. Pro forma combined 2014 turnover of the combined entity would have been CHF 7.8 billion with a pro forma combined 2014 EBITDA of more than CHF 1 billion[2].

Enhancing key strategic areas and emerging market exposure: The combined entity will comprise a geographically diversified concession portfolio with operations in 67 countries and close to 400 locations, providing a balanced exposure to developed and emerging markets and spanning across all five continents. WDF’s operations at London Heathrow have one of the most diverse customer mix, and combining Dufry’s and WDF’s expertise with different passenger nationalities will provide for an unrivalled proposition in the travel retail industry. The WDF businesses in Spain and Italy are highly complementary to Dufry's existing footprint in the Mediterranean region, one of Dufry’s key strategic focus areas. The acquisition of WDF will also reinforce Dufry's position in the Americas, another key strategic area, by adding operations in the US, Canada, Mexico, Brazil, Peru and Chile. Last but not least, the transaction will substantially enhance Dufry's third key growth area in Asia and the Middle East with attractive locations that will support the future growth in these regions.

Attractive potential synergies at Group level with a run-rate of approx. € 100 million p.a.[1]: Dufry intends to integrate WDF into its organisation and expects to generate annual cost synergies with a run-rate of approx. € 100 million[1] (pre-tax), comprising both cost reductions and gross profit improvements. First, Dufry expects to realise cost reductions with a run-rate of approximately € 50-60 million per annum (pre-tax) by integrating the global operations of the enlarged company, including combining and streamlining regional and global headquarters, accelerating the functional optimization plans in the UK and Spain and streamlining the new operating model. Secondly, Dufry expects to realise gross profit improvements with a run-rate of approximately € 40-50 million through improved purchasing power, optimised pricing and promotion strategies. Dufry expects to fully realize these synergies by full-year 2017 with associated, non-recurring restructuring costs of approx. € 50 million in total during the first two years post completion of the transaction.

Value enhancing transaction for shareholders: The transaction is expected to create significant value to shareholders as a result of the substantial synergies. Dufry expects that this will translate into a double digit cash EPS accretion from the second year post acquisition.

Creating additional avenues for growth: Dufry believes the acquisition of WDF also presents additional growth opportunities and revenue synergies. The combined entity is expected to be better positioned to secure new contracts and renew existing agreements. Together, Dufry and WDF expect to benefit from leveraging their mutual core competencies such as scale of procurement operations, assortment expertise and consumer insights and build on long-term relationships with airport operators. The combined group's airport retail capabilities and logistics network is expected to offer a differentiated proposition when competing for concessions and provide a solid foothold to successfully realise renewals and win new contracts in key strategic areas.

Starting a new era in travel retail
Julian Diaz, CEO of Dufry, commented: "The acquisition of WDF is a truly unique and highly transformational transaction for Dufry and is equally a milestone for the travel retail industry overall. The transaction further enhances our global position and with a market share of 24% in airport retail, we plan to drive our business to new levels in term of capturing global passenger flows, execution capabilities and efficiencies. WDF's business is highly complementary to our existing footprint and will reinforce our leading position in the Mediterranean, the Americas as well as the Middle East and Asia. At the same time, having access to one of the most diverse passenger flows in Heathrow, combining attractive emerging and developed market customer profiles, will allow us to leverage our existing expertise on all the customer groups and to further develop our global offering.

As such, the transaction will transform Dufry into an even more distinct global business with a balanced exposure to developed and emerging markets. This acquisition is a continuation of the global geographic diversification strategy which we have communicated and executed for many years, lastly with the acquisition of Nuance last year. We are preparing a detailed integration plan, focused on implementing the operational initiatives previously communicated by WDF and creating additional value through the integration of WDF and Dufry's existing platforms. We have a successful integration track record and will work closely with the local teams. Dufry has great respect for the achievements of WDF and we look forward to working with our more than 9,500 new colleagues in 20 countries and across more than 100 locations. Ultimately what we want to achieve is to develop a better company for our employees, customers, suppliers and landlords and a more valuable asset for our shareholders."

About Dufry

Dufry AG (SIX: DUFN; BM&FBOVESPA: DAGB33) is a leading global travel retailer operating over 1,650 duty-free and duty-paid shops in airports, cruise lines, seaports, railway stations and downtown tourist areas. Dufry employs around 20,000 people. The Company, headquartered in Basel, Switzerland, operates in more than 60 countries around the world.

About WDF

WDF, the holding company of World Duty Free Group, is one of the world's leading travel retailers, operating mainly in airports and with a broad geographical reach. It has operations in 20 countries through 105 locations with over 500 stores, from its heartland in Western Europe, to the Americas, the Middle East and Asia. In 2014, WDF reported turnover of € 2,440 million and EBITDA of € 261 million. WDF operates some of the most exciting and engaging airport shops in the world, with a focus on the customer and innovative marketing programmes, including multi-channel digital and live in-store interactive promotions.

Financial Advisors

Credit Suisse, Goldman Sachs and UBS acted as financial advisors to Dufry on this transaction.

1 On the basis of FY2014 financials, including cost savings of € 26 million announced by WDF in January 2015
2 Dufry 2014 pro forma for acquisitions of Nuance and WDF, including expected synergies