Dufry first-half sales hit by COVID-19 as store reopenings accelerate

Dufry's first-half turnover tumbled 62% to CHF 1,586.9 million (US$1,722.3 million) year-on-year, hit by the COVID-19 crisis, which shut down airports, cruise lines and other channels and devastated passenger numbers globally.

In its first-half results announcement, published on August 3, the Swiss operator noted that passenger flows had gradually returned since mid-June, resulting in -82.3% organic growth in July 2020 compared to the same month of the previous year.

The company said there was "limited visibility on mid-term recovery trajectory, with industry forecasts of returning to 2019 levels from 2022 onwards".

In a statement, Julian Diaz, CEO of Dufry Group, expressed his optimism about the outlook, saying: "This is certainly a difficult time for both the travel retail industry and our company. However, since mid-June we have started to see first signs towards a recovery, with travel resuming gradually and more than 1,000 of our shops globally in operation again at the end of July, based on our shop-by-shop reopening plan.

"In the first half-year 2020, we have implemented a whole array of initiatives to adapt the company to the new market environment and safeguard its resilience going forward. These include measures to reduce costs at all levels, several activities to strengthen Dufry's financial structure, as well as a restructuring of the company and the implementation of a new simplified organization as per September 1, 2020. I am confident that we have taken the right initiatives and that they will help us to emerge from the crisis with a solid position."

He continued: "During the recovery and going forward, the increased agility and faster decision-making processes will allow us to adapt swiftly to the new and changing market requirements, drive sales and accelerate growth. By taking out one organizational level, the teams covering our global functions and the countries will increase efficiency and get closer to the market and our customers."

Strong relationships

Paying tribute to his staff, shareholders and business partners, Diaz said: "I would also like to express my personal gratitude to our employees for their commitment during these difficult times. Without their strong support and dedication, the fast adaptation of the company and the changes applied would not have been possible. I also want to remember the colleagues we lost as a consequence of the pandemic and I wish a full recovery to our employees who were infected. We have taken all necessary steps to provide our employees with a safe working environment.

"Our health and safety protocols are an integral part of our stores globally to also protect our customers, while we continue to provide them with a first-class shopping experience. We see that passengers want to engage in travel retail as soon as airports and other locations are reopening. We are looking forward to serving our customers globally with great service and attractive promotions.

"Our gratitude also goes to our shareholders, as well as all our business partners and stakeholders, who continue supporting the company on an ongoing basis and with renewed and strong relationships."

Financial results

Turnover in the first six months of 2020 reached CHF 1,586.9 million (US$1,722.3 million), a decrease of -62%.

Organic growth was -60.6%, with like-for-like performance reaching -57.6% due to the lower passenger traffic across most airports globally and contributions from net new concessions amounting to -3.0%.

By channel, 85.1% of net sales were generated at airports, a slight decline compared to the first half of 2019 (88.1%), whereas other channels have gained importance, especially railway stations, border, downtown and hotel shops.

Product mix remained relatively stable with perfumes & cosmetics, food & confectionery and wine & spirits being the predominant categories. The duty free versus duty paid split remained stable, representing 60.2% and 39.8% of net sales, respectively.

Regional performance

Europe & Africa: Turnover in the region was CHF 558.9 million (US$606.6 million) in the first six months of 2020 from CHF 1,725.5 million (US$1,872.7 million) one year ago. Organic growth in the division reached -66.1% in the period. Performance was negative across most locations. Performance in Africa was negative as well but to a lesser degree. From mid-June 2020 onwards, travel restrictions were lifted or eased and intra-European travel, especially in Southern and Central Europe as well as the UK, started to resume.

Asia Pacific & Middle East: Turnover amounted to CHF 236.0 million (US$256.1 million) in the first half of 2020, versus CHF 623.8 million (US$677 million) in the same period in 2019. Organic growth reached -60.4%, with China and South Korea being impacted especially during Q1 2020, but resuming domestic and bilateral travel in Q2. Other parts of Asia Pacific and especially in the Middle East region were impacted mainly in the second quarter, and are still continuing to be impacted with a low level of open shops.

North America: Turnover reached CHF 392.2 million (US$425.7 million) compared to CHF 954.5 million (US$1,036 million) in the first half of 2019. Organic growth was -57.9% in the period with a slowdown in duty free and duty paid, but especially in duty free, which is exposed to international flight schedules. Domestic travel, which accounts for around 85% of the US flight movements, started to resume, while the Canadian business was still impacted by international travel restrictions. The North American business started an initiative through its Hudson brand to rollout vending machines featuring health and safety products across 27 leading airports in North America.

Central & South America: Turnover was CHF 329.6 million (US$357.7 million) in the first half of 2020 compared to CHF 761.8 million (US$826.8 million) one year earlier, with organic growth coming in at -55.6%. The division was the least impacted during the first semester, as most restrictions in the region only started in the second quarter. The cruise business, mainly part of Central & South America Division, performed in line with the overall division, despite cancellation of cruise itineraries as staff were still based on ships and high season would only have started later in the year. Domestic travel, as well as border shopping and international flights within the region remained possible at limited levels, whereas most international travel outside the region was restricted.

The divisional turnover split saw Europe & Africa contributing 36%, Asia Pacific & Middle East 15%, North America 25% and Central & South America 21%. Global distribution centers accounted for 3% of HY 2020 net sales.

Refurbishment program

Dufry said it slowed down its refurbishment program to reduce its capital expenditures, without compromising on its reopening and growth acceleration opportunities.

Shops in London, Athens, Thessaloniki, Macau, Los Angeles, New York and Guayaquil, among others, were renewed, accounting for 6,350 square meters or 1.4% of overall retail space operated by Dufry.

The company also continued expanding its operations and opening new shops, with most space increases executed during January and the first weeks of February.

Important locations include Helsinki, Perth, Indianapolis, Calgary and Florianópolis, in the South of Brazil. The total gross retail space opened during the half-year 2020 accounted for 2,850 square meters or 0.6% of overall retail space operated by Dufry.

Reorganization

In June, Dufry announced a reorganization and restructuring program to adapt to the new business environment and to accelerate growth and support profitability during the recovery phase of the economic crisis and beyond.

The reorganization includes the integration of headquarters and divisions, the simplification of the first management level and the introduction of a new, reduced Global Executive Committee.

Dufry said the implementation was progressing in line with the plan, with the new organizational structure to become effective as of September 1, 2020, while the restructuring is expected to be completed by October 2020.

Outlook

Given the current situation, Dufry declined to provide financial guidance for the full-year 2020, but said that it had implemented several measures to reduce cash outflows to a minimum. These initiatives include reductions in concession fees, personnel expenses and general expenses.

Since mid-June, the company said travel restrictions had been increasingly lifted and domestic and international travel had started to resume, especially in Asia, Europe, and the US.

Dufry started to reopen its retail operations gradually, based on single-location productivity scenarios and in close cooperation with airport authorities and landlords. More than 1,000 of Dufry's 2,400 shops globally have opened up again, representing around 60% in sales capacity compared to full-year 2019, including key locations such as the UK, Spain, Switzerland, Mexico, US, Turkey, Russia, Hong Kong, India, Cambodia, South Korea and Kuwait.

In the first four weeks of July (until July 26, 2020), organic growth reached -82.3% compared to the same period last year. At the end of August, Dufry expects to operate around 50% of shops, representing 70% of sales capacity.

The company concluded: "Based on sales progression and customer insights, Dufry expects to be well positioned for the reopening and business recovery both from a commercial and operational perspective. Current reorganization initiatives are further strengthening the airport travel retail business and other channels, thus driving the company's profitability and preparing growth acceleration."