Grupo Logista H1 2015 Results

May 6, 2015



Grupo Logista reports First Half 2015 Results

Grupo Logista announces today its first half results for 2015. Main highlights:

- Net Income up by 16.2% to €47.1 million
- Economic Sales[1] declined 3.5% to €494.2 million and Revenues reached €4,481.9 million declining by 2.1%
- Adjusted Operating Profit up by 1.8% to €105.1 million while Profit from Operations increased by 28.3% to €69.7 million
  - Adjusted Operating Profit (or indistinctly Adjusted EBIT) is the principal indicator used by Management to assess the recurring results of operations of the business. This indicator is basically calculated by deducting from the Profit from Operations all those expenses that are not directly linked to the Revenue obtained by the Group during each period, which facilitates the analysis of the evolution of operating expenses and typical margins of the Group. In the following table reconciliation between Profit from Operations and Adjusted Operating Profit for first half 2015 and 2014 is shown (data in million Euros):

Data in million euros	1 Oct. 2014 – 31 March 2015	1 Oct. 2013 – 31 March 2014 (*)
Profit from Operations	**69.7**	**54.4**
Restructuring Costs	9.7	6.4
Amortization of Intangibles Logista France	26.1	26.1
Net Loss of Disposal and Impairment of Non-Current Assets	0.1	15.0
Share of Results of Companies and Others	(0.5)	1.3
Adjusted Operating Profit	**105.1**	**103.2**

(*) Restated

The macroeconomic environment characterised by the continuity in trends already pointed out at closing FY 2014 and during the first quarter of current fiscal year. However, the tobacco market environments shown acceleration in the pricing/volumes trend, with lower than expected price increases and growing down-trading in Spain and Italy.

In that context, the businesses in Iberia, Italy and France registered good performance in terms of distributed tobacco volumes and other businesses in France continued showing the general situation of weakness experienced by consumption in the country. The reorganisation and efficiency improvement measures that the Group is carrying out since some years ago have allowed to progress in the improvement of Adjusted Operating Profit margin over Economic Sales that reached 21.3% vs. 20.2% in the same period of last year increasing by 111 basis points.

The impact that the tobacco volume declines and a larger market share of low-price brands in Spain and Italy had on Revenues was not fully offset by the retail selling price increases in Spain and Italy and the increase of sales of other products and businesses.

The evolution of Economic Sales compared to the same period of previous year was affected by the effect of the release of a litigation provision, favourably settled during that period in Iberia, and by the lack of tobacco retail selling price increases in France during current year, both effects were partially mitigated by the good performance recorded in Italy and in the recurring activity in Iberia.

[1] Economic Sales: This term equals Gross Profit and is used without distinction by the Management to refer to the figure resulting of subtracting Procurements to the Revenue figure.

The reduction of operating costs, higher than the Economic Sales decline and despite the increase of the recurring activity, resulted in 1.8% growth in Adjusted Operating Profit.

Operating Profit grew by 28.3% in spite of higher restructuring charges vs. the precedent year due to the lack of impairment of non-current assets results during the period and the improvement recorded by the Share of Results of Companies that includes now the results from the Books[2] distribution activity.

Net Income grew by 16.2%, despite the reduction of Financial Results due to the lower interest rates during the period vs. the previous year.

These operational results are in line with Group's Management expectations but reflect tougher tobacco retail selling prices evolution, leading to a current forecast of low single digit growth in Adjusted Operating Profit for this fiscal year.

Key Metrics Summary

Data in million euros	1 Oct. 2014 – 31 March 2015	1 Oct. 2013 – 31 March 2014 (*)	% Change
Revenues	4,481.9	4,577.9	(2.1)%
Economic Sales	494.2	512.1	(3.5)%
Adjusted Operating Profit	105.1	103.2	1.8%
Margin over Economic Sales	21.3%	20.2%	+111 b.p.
Profit from Operations	69.7	54.4	28.3%
Net Income	47.1	40.5	16.2%

(*) Restated

Revenues Evolution (By Segment and Activity)

Data in million euros	1 Oct. 2014 – 31 March 2015	1 Oct. 2013 – 31 March 2014 (*)	% Change
Iberia	**1,220.4**	**1,204.9**	**1.3%**
Tobacco & Related	1,032.9	1,021.4	1.1%
Transport Services	168.9	159.7	5.7%
Other Businesses [3]	61.5	65.7	(6.3)%
Adjustments	(42.9)	(41.8)	(2.8%)
France	**2,106.3**	**2,165.1**	**(2.7)%**
Tobacco & Related	2,004.2	2,051.1	(2.3)%
Other Businesses	105.8	119.6	(11.5)%
Adjustments	(3.7)	(5.6)	34.4%
Italy	**1,170.0**	**1,222.1**	**(4.3)%**
Tobacco & Related	1,170.0	1,222.1	(4.3)%
Corporate & Others	**(14.8)**	**(14.2)**	**(4.2)%**
Total Revenues	**4,481.9**	**4,577.9**	**(2.1)%**

(*) Restated

[2] *In appliance of IFRS 11 "Joint Arrangements", data related to the Fiscal Year 2014 of this document have been restated, to make them comparable to fiscal year 2015 data*

[3] *Redefinition of activities included in this line: this line includes Pharma activities, lottery and publication distribution (these last activities were previously included in "Other and Adjustments" line) and does not include the book distribution, which is separated from this line and it is consolidated under the equity method. Data related to the FY14 of this document have been restated with the goal of being comparable with the data for the fiscal year 2015.*

Economic Sales Evolution (By Segment and Activity)

Data in million euros	1 Oct. 2014 – 31 March 2015	1 Oct. 2013 – 31 March 2014 (*)	% Change
Iberia	**245.2**	**265.0**	**(7.5)%**
Tobacco & Related	119.3	146.9	(18.8)%
Transport Services	113.5	105.0	8.1%
Other Businesses	33.0	32.3	2.2%
Adjustments	(20.6)	(19.2)	(7.5)%
France	**136.4**	**145.6**	**(6.3)%**
Tobacco & Related	114.2	120.4	(5.1)%
Other Businesses	25.2	29.1	(13.4)%
Adjustments	(3.0)	(3.9)	22.7%
Italy	**109.2**	**98.4**	**11.1%**
Tobacco & Related	109.2	98.4	11.1%
Corporate & Others	**3.4**	**3.1**	**9.9%**
Total Economic Sales	**494.2**	**512.1**	**(3.5)%**

(*) Restated

Adjusted EBIT Evolution (By Segment)

Data in million euros	1 Oct. 2014 – 31 March 2015	1 Oct. 2013 – 31 March 2014 (*)	% Change
Iberia	**49.9**	**56.8**	**(12.1)%**
France	**32.7**	**34.7**	**(5.7)%**
Italy	**28.3**	**17.3**	**63.8%**
Corporate & Others	**(5.9)**	**(5.6)**	**(5.7)%**
Total Adjusted EBIT	**105.1**	**103.2**	**1.8%**

(*) Restated

I. Business Review

A. Iberia: Spain and Portugal

Revenues in Iberia reached €1,220.4 million compared to €1,204.9 million in first half 2014, which represents an increase of 1.3%. Economic Sales were €245.2 million declining by 7.5% from €265.0 million in the same period of previous year.

Revenues in **Tobacco and related products** increased by 1.1% as a consequence of the good tobacco volumes performance in Spain and the retail selling price increases of these products in the second quarter of current year, despite the increase down-trading.

Cigarette volumes distributed in Spain grew by 0.1% during the first half (compared to an 6.3% drop in the same period the previous year) maintaining the improvement already recorded in the last quarters and that may be supported, among others, by the following factors:

- Progressive recovery of the Spanish economy.
- Moderated retail selling price increases. During the second quarter a +5 cents/pack price increase was implemented vs. no price increase during the first half last year.
- Government measures to fight against contraband and illicit trade.

RYO volumes declined at a substantially lower rate than in the previous year (-0.7% compared to -13.0%) while cigar volumes slightly declined (-0.5% vs. -1.3% in the same period last year).

Tobacco distribution gross margin growth per unit derived from higher distribution complexity, higher invoicing of value added services used by manufacturers and the evolution of sales of other products to the tobacconists' channel led to a significant Economic Sales growth. However, the impact of the release of a litigation provision, favourably settled during the second quarter of previous year translated into an Economic Sales decline of 18.8% to €119.3 million.

It should be noted that, in line with the long-standing relationships that the Group maintains with the clients in the tobacco sector, during the second quarter of this year the distribution contract with Philip Morris Spain was renewed for a period of 5 years.

The sale of other convenience products performed in a similar way to first quarter. The non tobacco related products maintained the strong increasing trend already mentioned, while smoking related products, associated to RYO, continued showing the impact of the decline of consumption in that category in the last months.

Revenues in **Transport** reached €168.9 million up 5.7% compared to the same period last year, boosted by the activity recovery started last fiscal year. Meanwhile, Economic Sales recorded a higher growth to €113.5 million (+8.1%).

The international transport activity performed very favourably thanks to the additional flows captured form the tobacco and food sectors.

During the second quarter of this year the activity growth in our parcel and courier subsidiaries sped up propelled by a better economic context and by the slight reduction on the pressure on tariffs already mentioned during the first quarter.

Revenues in **Other Businesses** declined by 6.3% to €61.5 million and Economic Sales increased by 2.2% to €33.0 million. From this fiscal year, this line includes Pharma, lottery and publication distribution activities and does no longer include books distribution.

In appliance of IFRS 11 "Joint Arrangements", our 50% subsidiary Logista Libros will be consolidated under the equity method and not the proportional method as in the past. As a consequence, sales of this activity are neither included in Group Revenues nor in Group Economic Sales. Additionally, in order to facilitate interpretation of the performance of consolidation adjustments in Iberia, it was decided to separate them from the distribution of lottery and publications, jointly reported in the past and to include these activities in the Other businesses line. All 2014 data has been restated considering these two effects to make them fully comparable to 2015 figures.

Pharma activity continued recording a strong growth while lottery and publications distribution continued showing a weak performance due to the situation prevailing in both sectors.

Adjusted Operating Profit reached €49.9 million, down by 12.1% compared to previous year, despite the good general performance recorded by the businesses, as a consequence of the provision movements in both periods and, mainly, due to the effect of the litigation provision release on second quarter results last year.

Profit from Operations reached €45.7 million vs. €42.8 million reached in the same period of the previous year, up by 6.7%, including a similar level of restructuring costs, but not impairment results that reached €10.1 million in the previous year.

B. France

Revenues in France declined by 2.7% to €2,106.3 million while Economic Sales reached €136.4 million falling by 6.3%.

The drop in Tobacco and related products Revenues caused by the tobacco consumption reduction and the lack of retail selling price increases on these products was accompanied by a reduction in Other businesses Revenues as a consequence of the weak general consumption and the portfolio of customers rationalization.

Tobacco and related products Revenues were down by 2.3% to €2,004.2 million because of the tobacco volumes reduction that despite a slower rate of decline continued the negative trend recorded at the end of previous year.

The reduction in distributed cigarette volumes in France was lower than in the first quarter of current year and significantly lower than in first half of the precedent year (-1.7% vs. -5.0%) probably due to price stability. During the first half of current year there were not retail selling price increases compared to a +20 cents per pack in the second quarter of 2014.

The RYO category showed a positive performance, growing by 1.7% contrasting with a decline of 2.6% recorded during first half of 2014.

The sales of other products to the tobacconists' channel continued recording an uneven performance. The good sales evolution of the smoking items category due to the slight recovery of RYO consumption contrasted with the weak evolution in the rest of categories of convenience products. Telephony top-ups sales continued a declining trend, in line with the general sector trend, nevertheless mitigated by growth in other electronic transaction products. Regarding the rest of categories, the weak consumption and the worse performance of e-cigarette sales compared to the same period last year hampered achieving a change in the declining trend already pointed out during the first quarter of this year.

Economic Sales in this activity recorded a reduction of 5.1% reaching €114.2 million due to the lack of retail selling price increases and reduction in consumption of tobacco products (partially offset by a higher unitary gross distribution margin linked to the increased distribution complexity, the invoicing of value added services to manufacturers and the higher margin in electronic transactions).

Revenues in **Other Businesses** (wholesale distribution of convenience products in non-tobacconist channels) declined by 11.5% to €105.8 million and Economic Sales were down 13.4% to €25.2 million.

As already mentioned in the first quarter, the portfolio of customers added during the precedent year from the disappearance of one of the competitors in the sector is being rationalised, keeping only those allowing obtaining the profitability required by the Group. Some of the contracts not yet expired and yielding a lower Economic Sales margin will be reviewed during current fiscal year.

Adjusted Operating profit in France reduced to €32.7 million vs. €34.7million in the same period previous year, down by a 5.7%, a much lower decline than the recorded in the first quarter. The reorganisation measures undertook last year and during last months helped more than compensating the Economic Sales reduction experienced during the second quarter.

Profit from Operations reached €1.3 million vs. €6.8 million in the first half last year. It is worth highlighting that the most important adjustment in this segment is the Intangible Assets Amortization related to the Logista France's acquisition at the beginning of the fiscal year 2013, reaching €26.1 million per half for a period of 15 years. On the other hand, during this half, restructuring charges reached €5.3 million vs. €1.8 million in the same period of previous year as a consequence of the measures undertaken to counteract the activity shrinkage in the last quarters.

C. Italy

Revenues in Italy amounted €1,170.0 million compared to €1.222,1 million last year, down by 4.3%.

The impact of a slight reduction of tobacco consumption in the Italian market and a higher market share of the low-price category was not fully offset by the rise in cigarette retail selling prices, in most but not all brands, during the second quarter of this year leading to a fall in Revenues.

Cigarette distributed volumes declined by 0.8% compared to a 2.0% drop in the same period last year, despite a cigarette retail selling price increase of +20 cents per pack (after more than two years of no prices increases in the market).

RYO volume grew by 2.4% vs. an increase of 3.2% in the same period of the precedent year.

The new operating model implementation, in line with the other geographies where the Group operates, that provides the Italian business with higher commercial strength for the sale of convenience products to the retail network, facilitated a strong sales growth in this category as happened during first quarter.

Economic sales in Italy increased by 11.1%, reaching €109.2 million compared to €98.4 million in H1 2014.

The sales increase of other products to the tobacconists' channel and the additional added value services invoiced to manufacturers more than compensated for the impact a slight decline of tobacco volumes distributed, contributing to the Economic sales growth during the period.

Adjusted Operating Profit recorded an increase of 63.8% reaching €28.3 million from €17.3 million in the first half 2014, thanks to the good Economic Sales performance and the cost reduction once the new operating model stabilised.

Profit from operations was €28.2 million, practically in line with Adjusted Operating Profit.

D. Corporate and Others

Adjusted Operating Profit in this segment that includes corporate expenses and the Polish operations decreased by 5.7% to -€5.9 million from -€5.6 million in 2014.

II. Financial Overview

A. Financial Result Evolution

Financial results reduced from €10.9 million in H1 2014 to €3.1 million due to the reduction in interest rates and the favourable settlement during the second quarter of last year of the litigation mentioned before.

Financial income that during last year reached €14.9 million amounted €5.2 million as a consequence of the reduction in the base interest rate used as a reference in the treasury agreement with our majority shareholder. During H1 2014, the European Central Bank base rate (over which a 75 b.p. spread is obtained under the previously mentioned agreement) moved between 0.5% (until beginning of November 2013) and 0.25% (effective during most of November and until 31 March 2014); however, during current H1 this base rate was 0.05%. Additionally, during the second quarter last year the settlement of pending litigation impacted this line in €7.3 million.

The average cash position during the period was €1,147 million compared to €990 million in the same period last year.

Financial expenses fell from €4.0 million in the first half of 2014 to €2.1 million in the first half of 2015. This reduction was due to lower interest rates and the strong reduction of provisions for possible delayed interest payments related to pending litigation (as most of it was settled in 2014) and therefore the provision charges for potential delay interest payments associated to it.

B. Net Income Evolution

Earnings before Taxes increased by 11.9% to €72.7 million, while Net Income increased by 16.2%. The effective tax rate of the period was 35.0% vs. 37.6% in H1 2014 mainly due to a lower relative weight of the results in France that holds the highest corporate income tax among the countries in which the Group operates.

Earnings per Share were €0.35.

C. Cash Flow

The seasonality of the Group's business results in a negative cash flow during the first and second quarters of the fiscal year that is recovered during the second half.

The increase in profits and lower working capital investments during the first half led to a negative cash flow 38.8% lower than during the same period of the preceding year, despite the slight increase on taxes paid during the period.

During the second quarter, dividends amounting €74.3 million were paid, charged to the premium share.

D. Outlook

These operational results are in line with Group's Management expectations but reflect tougher tobacco retail selling prices evolution, leading to a current forecast of low single digit growth in Adjusted Operating Profit for this fiscal year.

Appendix

P&L

Data in million euros	1 Oct. 2014 – 31 March 2015	1 Oct. 2013 – 31 March 2014 (*)	% Change
Revenues	**4.481.9**	**4.577.9**	**(2.1)%**
Eco. Sales	**494.2**	**512.0**	**(3.5)%**
(-) Distribution Costs	(304.2)	(319.9)	4.9%
(-) Sales and Marketing Expenses	(31.6)	(35.1)	10.0%
(-) Research Expenses and G&A Expenses	(53.4)	(53.9)	0.9%
Total Costs	**(389.1)**	**(408.8)**	**4.8%**
Adjusted EBIT	**105.1**	**103.2**	**1.8%**
Margin %	*21.3%*	*20.2%*	*111 b.p.*
(-) Restructuring Cost	(9.7)	(6.4)	(52.9)%
(-) Amort. of Intangibles Logista France	(26.1)	(26.1)	0.0%
(-) Net Loss on Disposal and Impairments	(0.1)	(15.1)	n.a.
(-) Share of Results of Companies and Others	0.5	(1.3)	n.a.
Profit from Operations	**69.7**	**54.4**	**28.3%**
(+) Financial Income	5.2	14.9	(64.9)%
(-) Financial Expenses	(2.1)	(4.0)	47.4%
Profit before taxes	**72.7**	**65.0**	**11.9%**
(-) Corporate Income Tax	(25.4)	(24.4)	4.3%
Effective Income Tax Rate	*35.0%*	*37.6%*	*(260) b.p.*
(+/-) Other Income / (Expenses)	(0.1)	(0.3)	(119.5)%
(-) Minority Interest	(0.1)	0.0	n.a.
Net Income	**47.1**	**40.5**	**16.2%**

(*) Restated

Cash Flow Statement

Data in million euros	1 Oct. 2014 – 31 March 2015	1 Oct. 2013 – 31 March 2014 (*)	% Change
EBITDA	**123.8**	**122.4**	**1.1%**
Movements in Prov. and Other Fixed Liabilities	4.3	(86.4)	n.a.
Working Capital Variations and Other	(409.8)	(518.1)	20.9%
Corporate Income Tax Paid	(21.2)	(22.7)	6.6%
Other Income and Expenses	3.4	10.9	(68.8)%
Cash Flow From Operating Activities	**(299.5)**	**(493.9)**	**39.4%**
Capex	(13.9)	(18.1)	23.2%
Economic Free Cash Flow	**(313.4)**	**(512.1)**	**38.8%**
% over EBITDA	*(253.1)%*	*(418.4)%*	

(*) Restated

Balance Sheet

Data in million euros	31 March 2015	30 Sept. 2014 (*)
PP&E and other Fixed Assets	217.6	224.2
Net Long Term Financial Assets	9.4	8.8
Net Goodwill	919.2	919.2
Other Intangible Assets	688.5	713.2
Deferred Tax Assets	52.7	59.0
Net Inventory	1,135.9	1,066.7
Net Receivables	1,802.3	1,777.3
Cash & Cash Equivalents	1,313.2	1,700.9
Total Assets	**6,138.8**	**6,469.3**
Group Equity	413.5	440.5
Minority interests	2.1	1.9
Non Current Liabilities	50.3	60.5
Deferred Tax Liabilities	348.9	357.5
Short Term Financial Debt	31.7	31.6
Short Term Provisions	18.7	16.1
Trade and Other Payables	5,273.4	5,561.2
Total Liabilities	**6,138.8**	**6,469.3**

(*) Restated

Tobacco Volumes Evolution

	Million units			% Change	
	1 Oct. 2014 – 31 March 2015	1 Oct. 2013 – 31 March 2014	1 Oct. 2012 – 31 March 2013	1 Oct. 2014 – 31 March 2015	1 Oct. 2013 – 31 March 2014
TOTAL					
Cigarettes	78,998	79,678	83,053	(0.9)%	(4.1)%
RYO/MYO	9,795	9,709	10,266	0.9%	(5.4)%
Cigars	1,918	1,948	1,988	(1.5)%	(2.0)%
SPAIN					
Cigarettes	21,472	21,456	22,888	0.1%	(6.3)%
RYO/MYO	3,141	3,162	3,634	(0.7)%	(13.0)%
Cigars	1,024	1,029	1,043	(0.5)%	(1.3)%
PORTUGAL					
Cigarettes	764	811	860	(5.8)%	(5.7)%
RYO/MYO	81	95	124	(14.5)%	(23.0)%
Cigars					
FRANCE					
Cigarettes	21,917	22,299	23,477	(1.7)%	(5.0)%
RYO/MYO	4,524	4,450	4,568	1.7%	(2.6)%
Cigars	665	686	712	(3.1)%	(3.7)%
ITALY					
Cigarettes	34,845	35,112	35,828	(0.8)%	(2.0)%
RYO/MYO	2,049	2,002	1,940	2.4%	3.2%
Cigars	229	233	233	(1.6)%	0.0%

Results presentation

The company will publish its H1 2015 results on May 6, 2015 before Market opening.

This results presentation will be available in the web page of the CNMV (Comisión Nacional del Mercado de Valores, www.cnmv.es) as well as in the company's web page (www.grupologista.com).

The company's Management will hold a H1 2015 results presentation for analysts and investors this day at 12:00h, which could be attended on real time through an audio-webcast in the company's website (www.grupologista.com), and analysts and investors will have the opportunity of making questions to the company from the publication of these results to the end of the presentation.

This audio-webcast will be available in the company's website at least during one month.

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