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Dufry and Autogrill Merger: Story Structure In European Event-Driven Equities

July 11, 2022 | By Alex Gavrish, Etalon Capital Ltd; author of "Story Investing"

Story Structure

Best investments are just like good **stories** or movies: with a three-part story structure (complication, development, resolution), important turning points, intrigue, drama, and surprises.

A strictly analytical approach to investment management does not provide us with tools for dealing with uncertainty.

The closed and fixed form of analytics leaves no place for imagination.

And without imagination, we are just not capable of fathoming uncertainty, fathoming the future.

Narrative, by its nature, allows us to understand the time dimension better: order of events, their length, and different time periods.

For example, **George Soros,** in his book **"Alchemy of Finance"** describes how he analyzed certain investment situations.

In order to see the big picture and analyze the case, he uses terms borrowed from the world of literature, movies, and theatre. He calls the overall cycle "scenario" and different stages of the cycle "act one", "act two", "act three", and "act four", and puts an emphasis on the main "actors": the shareholders.

I think that the use of such terms is not a coincidence: it serves well the purpose of looking at how the situation develops over time.

M&A Situations

Some M&A transactions present an opportunity to develop a good investment thesis.

A large merger is an important, transformative corporate event.

It can change the investment thesis and story of a company.

It just takes time for a company's story structure to develop and for share prices to reflect fundamental changes and developments.

As a result of this, shares can decline or trade sideways despite the fact that the transaction has great fundamental logic and benefits for shareholders.

All of this creates opportunities for investors. After a certain period of time, it is easier to take a step back and look at the company's **story** and story structure.

Dufry

The covid period certainly was not easy for the entertainment, travel, and restaurants industries.

Today, July 11th, 2022, Dufry **announced** that it will **merge** with Autogrill to create a new, integrated global Travel Experience player.

As a result of **a transaction,** Autogrill's controlling shareholder Edizione will become a major shareholder in the combined entity.

The combined company will have a market capitalization of approximately CHF 5,015 billion (based on Dufry's recent share price of CHF 33.07 and assuming the acquisition will consist of a 100% stock component).

Net debt (excluding leases) is estimated to be CHF 3,378, making an Enterprise Value of about CHF 8,393.

Based on Dufry's presentation, the combined company had a FY 2021 EBITDA of CHF 595 million. This means that based on current Dufry's share price the combined company is valued at an EV/EBITDA valuation multiple of x14.1.

The essential story and investment thesis both companies “request” investors will buy is the recovery of the travel industry post covid.

Based on the same presentation, the combined company is estimated to have combined pro-forma FY 2019 revenues of CHF 13.6 billion and an EBITDA of CHF 939 million.

This, of course, makes it much more attractive valuation-wise: based on these numbers the combined company is currently valued at an EV/EBITDA valuation multiple of x5.97.

This of course might be attractive, but the question is how responsible such a step is given a very hard covid period. Yes, the recovery story might very well play out, but do you want to invest in a company where management is taking rather aggressive steps. They cannot leverage it anymore, so they do it through a merger. By the principle “In for a penny, in for a pound”.

We believe that the company’s shares might be an interesting option for investors looking to play a macro theme and story of post covid recovery of the travel, entertainment, and restaurant industries. But from a micro perspective, investors should exercise extra caution because they are dealing here with leveraged equity and an “aggressive” M&A situation.