



## **Interim Financial Report** Fourth quarter 2018

Conference call transcript

**Brussels – March, 20<sup>th</sup> 2019**  
Koen Van Gerven, CEO  
Baudouin de Hepcée, interim CFO

Transcript of the conference call held on March, 20<sup>th</sup> 2019 10:00am CET

## PRESENTATION

**Koen Van Gerven:** Good morning Ladies and Gentlemen. Welcome to our fourth quarter 2018 results call and thank you for joining us. With me I have Baudouin de Hepcée, our interim CFO, as well as our Investor Relations team. I imagine that you already had the opportunity to read through the materials we posted on our website last night. We will summarize the key messages so as to move on to Q&A as quickly as possible.

On page 3, you see that our full-year results are in line with expectations. Group EBITDA declined by 4.5% or 27 million euro versus last year and came in at 571.1 million euro, in the third quartile of the 560 to 600 million euro guidance range, as expected.

The year-on-year evolution reflects a 5.8% volume loss in domestic mail, due to continued e-substitution and rationalization. There were only 10 months of price increase in small user basket in 2018 to help mitigate.

Radial delivered on expectations with an EBITDA contribution of 25.7million euro this year and is on track, under Pierre's successful leadership, for its 2022 guidance as presented at the CMD.

We continued to experience a strong volume growth in domestic parcels, at +23.3%, even factoring the impact of the strikes in the fourth quarter.

All this allows us to propose a final dividend per share of 25 euro cents to the general shareholders' meeting. This brings the total gross dividend per share based on the full year 2018 results to 1.31 euro. This is the same amount as in 2017 and it's consistent with the guidance we gave in previous quarters.

Moving to page 4, which highlights the fourth quarter of the year, you see that the quarter was still impacted by acquisitions, namely Radial which was only consolidated as of November 16th 2017.

Domestic parcels continued to grow strongly but at a slower pace versus the previous quarters, primarily because of strikes. We recorded +15.8% in volumes fuelled by e-commerce development. Note that e-commerce market growth in Belgium in 2018 was at some 6% in value.

You know that the fourth quarter has become increasingly important for our full-year results, and we are proud to say that peak management was good both in Belgium and the US. In Belgium, we were able to deliver again good quality which is crucial during this peak period. In the US, our peak management received positive feedback from clients.

In mail, we witnessed continued e-substitution and rationalization, while the advertising mail market remained competitive. Overall underlying mail volume decline stood at -6.2% in the fourth quarter of 2018, which was consistent with our expectations.

EBITDA generation was as expected back-end loaded, and our fourth quarter EBITDA was 55 million euro above last year thanks to a favorable organic cost evolution and to several specific elements we will come back on.

On page 5 you see a more detailed view of the various impacts that I mentioned on our fourth quarter 2018 EBITDA.

Elections and price increase in Domestic Mail business almost compensated the volume decline.

Parcels business grew nicely with the e-commerce development in Belgium and abroad. Parcels operating income and costs still reflect some smaller acquisitions, which is the case for Additional Sources of Revenues as well.

Organic operating expenses for the fourth quarter benefited from a favorable comparison base.

Radial had a small positive year-on-year contribution. As a reminder, this compares a full quarter this year to 6 weeks of consolidation in 2017.

The fourth quarter also benefited from some other elements. As announced, there was the gain on disposal of our old Brussels X for 7.9 million euro and a technical element related to IAS19 group insurance. Then, there were two earn-out reversals. One relates to de Buren, as bpost has decided to focus on the Belgian network of parcel lockers and to cease its participation in de Buren International. The other one relates to the final earn-out of DynaGroup as some of the criteria we had set were not met.

Before handing over to Baudouin, I would like to give a short update on a few topics.

At the end of 2018, we experienced social unrest and concluded an important 2019-20 collective labor agreement with the unions. This agreement aims at improving the attractiveness of the jobs on the field and the purchasing power of our operational

employees. This results in an increased cost base by around 20 million euro on a yearly basis from 2019 onwards.

On the mail side, we introduced on the 1st of January this year a dual prior/non-prior stamp offering as a first step towards the deployment of our new operational model. Customers now have the choice between a Day+3 delivery and a next day delivery, however at a premium price.

You are also aware that there were some management changes at the start of this year. Kurt Pierloot, who headed our Mail & Retail operations, has decided to leave the company and give his career a new direction. I hereby would like to thank Kurt again for his contribution to the company's transformation over the past 15 years. Henri de Romrée has taken up his role, and Baudouin de Hepcée whom most of you already know, replaces Henri ad interim as CFO of the company.

Finally, delivering on our promises for transparency, we are able to provide you, together with the full-year results, a restatement of our 2018 figures according to our new business unit structure. This will be the new way of reporting as from the first quarter 2019. We believe that this reporting will help the financial community to assess the drivers of our business in a more straightforward manner and the respective BU managers to take responsibility to the bottom-line. Baudouin will come back on this later.

I would now like to hand over to Baudouin for more details on the financials.

**Baudouin de Hepcée:** Thank you Koen. I am now on slide 6. Revenues are up 18.5% as they include the consolidation of Radial since half November 2017, as well as some other

smaller acquisitions. EBITDA is up 55 million euro and normalized EBIT is up 32.7 million euro. EBIT was normalized for non-cash amortization charges on several intangible assets that were recognized following the purchase price allocation for Radial, Ubiway, DynaGroup, de Buren and IMEX. These charges positively impacted reported income tax. That effect has been normalized here as well. Free Cash Flow has been normalized for the cash Radial receives on behalf of its customers for performing billing services. That cash is indeed routinely redeemed to Radial's customers with some delay.

Let's now have a look into the different product lines. We are on page 8 now with Domestic Mail.

Koen already mentioned that underlying mail volume decline came in at -6.2% for the quarter, excluding the positive impact of election mail, while the full year figure lands at -5.8%, helped by the specific mailing volumes we had in the second quarter related to MIFID II & GDPR among others.

In Transactional Mail, we continued to witness e-substitution mainly in the banking, telco and utilities sectors. In addition, we observe the ongoing trend of growing acceptance by end users of electronic documents. This resulted in an underlying volume decline of 6.6% for the quarter and 5.7% for the full year.

Advertising Mail volumes were down by 6.3% in the fourth quarter excluding elections. This is explained by an unfavorable media mix evolution in Direct Mail and increased competition in Unaddressed. We also see a shift towards the transactional mail and press categories since we are stricter on the fencing of different mail categories. Overall, Advertising Mail volumes declined by 7.2% over the full year.

Within Press, where volumes declined by 2.9% in the fourth quarter. Newspapers volume trend was slightly better than last year excluding distribution day differences. Periodicals were impacted by e-substitution, rationalization and consolidation. For the full year, Press volumes stood at -3.8%, broadly in line with last year's trend.

Parcels, on slide 9, delivered a good performance domestically for the quarter driven by 15.8% volume growth. The price/mix of -3.3%, was exclusively driven by mix. Volumes trend was however slightly slower than in the first nine months of the year because of the November strikes, which impacted volumes negatively by an estimated 5.3% in the quarter and slower C2C sales. As Koen stated earlier, the total e-commerce market in Belgium in value grew by some 6% in 2018.

International parcels revenues showed a nice organic growth, driven by the US and Europe, while the growth in Logistic Solutions is mainly driven by the consolidation of Leen Menken and Active Ants.

Moving to slide 10, Radial's performance is in line with our expectations. Results are still impacted by the client churn observed at the beginning of 2018 and webstore phase-out, not fully compensated by revenue growth from new and existing customers. The year-end peak was, as already mentioned, operationally successful. This is significant for our client base in e-commerce and for our pipeline development. In order to deliver on quality, there was however some pressure on payroll costs given the tight labor market in the US. We managed to adequately staff in all our fulfilment centres but we incurred higher variable labor costs due to peak incentives. EBITDA for the fourth quarter was at 17.9 million euro.

Page 11, we are rather confident on the perspectives for Radial. The customer-focused approach launched early 2018 starts to bear fruits and the important contract renewal cycle was successful. New contracts signed in 2018 have a Total Contract Value of 217 million dollar, which is above target and above what Radial recorded in the previous two years. We believe that we are on track for the 2022 guidance as presented during the CMD. I can confirm that the impairment testing validated by the auditors leaves sufficient headroom and hence no impairment on goodwill has to be recorded.

On slide 12 regarding our Additional Sources of Revenues, the consolidation of IMEX and Mail Inc from January 2018 onwards contributed to the majority of the 22.7 million euro increase in International Mail, which is similar to the last quarters.

Value Added Services added 3.2 million euro to the top-line driven by document management services and the management of cross-border traffic fines.

Banking and Finance with a 2.2 million euro decline in revenue was impacted by lower commissions revenues on bpost bank savings accounts due to the low interest rate environment and lower revenue from financial transactions managed on behalf of the Belgian State. For Distribution and Retail & Other, revenues were impacted by a reclassification from Retail and Other to Distribution. Underlying, we observed growth at Ubiway retail driven by good like for like sales, offset by lower sales of bpost retail products.

Moving to costs on slide 13, you see that opex was impacted by our acquisitions for 133.7 million euro. We provide more detail in the appendix as to how they flow through the different cost lines.

This quarter, our organic costs declined by 1.4 million euro. The negative effect of additional transport costs related to international activities, domestic parcels growth and strikes was more than offset by a reduction in payroll & interim costs due to better productivity, favorable FTE mix, tax shift, unpaid hours due to strikes and favorable evolution of some payroll provisions.

Organic other SG&A decreased by 4.4 million euro thanks to lower third party and advisory costs, as anticipated.

Moving to cash flow on slide 14, you can see that operating free cash flow increased to 221.8 million euro mainly as a result of tax prepayment phasing positively unwinding in Q4, higher collected proceeds due to Radial's clients, and a favorable working capital evolution.

Proceeds from sale of buildings almost fully compensated capex, bringing our cash flow from investing activities to -2.1 million euro for the quarter. Capex for the year was slightly lower than last year and slightly lower than guided, at 114.9 million euro.

Cash flow from financing activities was negative by 79.1 million euro as the issuance of commercial papers for 145 million euro was more than offset by the interim dividend payment.

As a result, net cash was positive, at 142.7 million euro and we now have a net debt position at December 31st, 2018 of 344.8 million euro.

As Koen already touched on the dividend on page 15, I'd like to go directly to slide 16.

This slide summarizes the impact of IFRS 16 expected on our 2019 accounts. I will not go through these in detail, but it will positively impact our full-year 2019 EBIT by some 4 million euro. The detailed impact by division is shown on slide 17.

Slide 18 provides you a reminder of the new business structure we are talking about, which will be the basis of our reporting going forward. We will thus be organized in three businesses. The first one is Mail & Retail, consisting of Transactional, Advertising and Press mail, as well as Proximity and Convenience Retail Network and Value-added Services. The second one is Parcels & Logistics Europe and Asia, which will include our Parcels BeNe operations, our E-commerce logistics operations in Europe & Asia, and the Cross-border operations. The third and last one is the Parcels & Logistics North America, with 2 main activities, e-commerce logistics and International Mail in the region.

Besides that, we will have the Corporate Segment which in terms of capex bears all buildings related investments which are then invoiced to the different businesses.

We believe that this is an important step for the evolution of our company with the trends of the market, and that it will provide the financial community with much more visibility on the drivers of our business. This is also in line with the internal management structure and fosters accountability down to EBIT.

I'm now on slide 19. So what do these business units look like? Here are the restated 2018 figures. I am sure you will have many detailed questions over the next few days so the investor relations team will take the time to support you in going through these. I just want to flag that the corporate segment EBIT for 2018 was positively impacted by building sales and some one-off items in costs as disclosed.

Now that you have a comparable 2018 basis and the IFRS 16 impact, I will now hand over to Koen.

**Koen Van Gerven:** Thank you Baudouin.

Before walking you through our outlook for 2019, we can summarize that 2018 was a difficult year, but we have delivered on our promises with a full year EBITDA in line with guidance, the contribution from Radial as anticipated and a dividend payment of 1.31 euro per share.

Our 2022 vision is clear and unchanged: we become, beyond mail, an efficient global e-commerce logistics player anchored in Belgium. Over 2018, we have made important progress towards this goal by implementing a real Business Unit structure to bring dedicated focus on the three key challenges of the company, being mail volume decline, parcels growth and Radial. We have already observed visible signs of improvement at Radial with increased client satisfaction, reduction in churn and important contract renewals.

Note, as we already stated in the past that 2019 would be the low year of our long-term trajectory in terms of EBIT generation. It will be an important year with the accelerated preparation of our modified distribution model. This preparatory work will first weigh on results before we can reap the benefits and at the same time, we will have to cope with mounting cost pressure.

I think you have largely anticipated this impact and it explains our outlook for 2019 on page 20.

At a group level, we expect a stable operating income (including proceeds from building sales), and an EBIT above 300 million euro. This is basically the expectation at the Capital Markets Day minus the negative costs elements that we mentioned last December.

In Mail & Retail, we plan for a low single-digit percentage decline in total operating income and an EBIT margin ranging between 11% and 13%. Underlying Domestic Mail volume decline is still expected to be up to 7%, with an average price increase of +4.4%. The cost drivers impacting a lower EBIT margin than in 2018 are primarily costs inflation, namely related to the CLA we talked about earlier, as well as the accelerated roll-out plan of our new distribution model that requires the front-loading of several project and pilot costs.

In Parcels & Logistics Europe and Asia, we expect a high single digit growth in operating income, of which mid-teens for Parcels in Belgium and Netherlands thanks to strong volume growth, partly offset by price/mix. EBIT margin should range between 6 and 8%. This would be an improvement over the restated 2018 figures thanks to a higher contribution of Parcels BeNe, the growth focus at Dynagroup and a higher contribution from Cross-border.

Parcels & Logistics North America will still be hit by the 2018 client churn and repricing at Radial, and operating income is therefore expected to decline by a low single-digit for the segment, and break-even at EBIT level. As already stated during the CMD, 2019 should mark the low-point at Radial, which remains on track for its 2022 guidance.

For the corporate segment, we expect a break-even contribution at EBIT level.

We expect gross capex for the group at around 150 million euro, as guided at the CMD.

On the dividend front, we confirm our existing dividend policy of distributing at least 85% of bpost SA 2019 net income in dividends. With the lower EBIT guidance however, I expect the board to decide on a lower dividend than previous years. With that, we remain committed towards maintaining a solid intrinsic investment grade credit rating.

And with this, we are happy to answer your questions. Please open the lines.

## QUESTIONS AND ANSWERS

**Ruben Devos (KBC Securities):** Yes, good morning. Thanks for taking the questions. Maybe the first one I'd like to start off with the transactional mail. If I'm not mistaken the third quarter in a row that transactional mail revenue delivered growth. I understand that the elections had an impact, but still if you would exclude that effect the underlying trend was noticeably better than in 2017 when actually volumes were down 8% and there was no price increase on the small user basket. So, would it be possible to give some colour on a bit of the dynamics in transactional and what has driven that performance in 2018. Yeah, that's the first one.

**Koen Van Gerven:** Okay. Thank you, Ruben, and indeed, if you look to the entire 2018, so, we have to observe that we had a decline above six with the exception of the second quarter and there we pointed out already that some specific mailings related to GDPR and MiFID did make a difference. Although there are a couple of other things that we have to observe and if you look to transactional the flip side of this that we observe a couple of things in advertising that goes in the other direction. And a first explanation next to the one you gave on the elections has to do with what we call the fencing, as you know, there are two types of or different types of mail that we have, and they are different in pricing as far as they differ on the content. And one of the projects we did talk about to you earlier was about revenue leakage because what we observed that basically people did try or to send - and we talk about companies in the first instance, it's not on the personal or private individuals - to send mailings under the advertising conventions because then it becomes cheaper. So, we became a little bit more stringent on that and that's the first part of the explanation. And so we got more volumes in transactional or less decline in transactional and, of course, you can see the flip side in the advertising part.

However the second thing I want to highlight has to do somewhere with GDPR, and we all know that GDPR of course potentially impacts advertising mail. The biggest chunk is about own databases where there is no discussion, if they want to do commercial mailings on the legitimate part of it, although they have to take into account time validity elements. But in the case of doubt what we did observe is instead of sending advertising mail, they prefer to work with transactional mail.

So, in order to get information or to get customer information what we did see to get information about data security and things like that, so they flow more easily over the transactional mail than we see them in the advertising mail.

**Ruben Devos (KBC Securities):** Okay, thanks for that. And then maybe on Radial, so I guess you've come to the end of year peak quite well despite challenges on the US job market, let's say, just wondering whether you could give any idea of the impact in Q4 from the incentives that were necessary to find sufficient staff, and, you know, how potential wage inflation has affected the break-even EBIT guidance for 2019. I'm asking if the mid-term guidance that was given at the CMD is reconfirmed, but in the meantime, I can imagine that some of the competitors' actions on the US job market has had an impact on labor costs? Thank you.

**Koen Van Gerven:** Thank you for that and indeed, well, and it's not all over the place my understanding in the United States, but there are a couple of places where indeed there was some cost pressure and we had to provide incentives. And of course it is reflected in the result, but it is not to that extent that there is a concern that we have to review fundamentally things that we shared with you previously. As far as the 2019 part is concerned, already at the Capital Markets Day we indicated that basically 2019 would be impacted by the churn that goes back to 2017 and even in the first quarter of 2018. So,

what we observed is that people that told us at that moment that they decided to leave, well, some of them are still present with us and so some of them left already late last year, and some of them will leave in the course of this year.

And of course the same goes for the one, the big ones that decided to sign in the course of 2018. They're not there yet. Smaller ones, yes, but the big ones, so they will arrive. And all of this will impact the 2019 topline together with repricing that we were talking about and the phasing out of the Webstore.

So, if you take all of that together of course there will be some cost pressure from labor eventually that will continue on several on certain places, but I'm not sure that it's sufficient all to reconsider what we shared with you previously.

**Ruben Devos (KBC Securities) :** Okay. And then just finally, you know, following the agreement on the new CLA and the range of measures announced. It would be helpful if you could give some early commentary on whether you've already seen some changes in three months into the New Year in terms of productivity, absenteeism and social stability in general?

**Koen Van Gerven:** We will come back on that at the first quarter results, of course, so it's a little bit early because we don't comment on the quarter running, but I think all of that is a little bit early days too. As far as absenteeism is concerned and then I don't talk about the first quarter of this year of the first months of this year, but as you know absenteeism it was high on our agenda last year because it's important, it hits us not only in costs, but in the quality of the delivery we can do. It's high on the agenda we did a lot in terms of profiling in terms of data analysis in terms of trying to find how could we impact positively what's going on over there with trainings and pilots. It's fair to say that we didn't crack the nut yet and we find not much correlation.

So, we continue to work on that. This being said, it is not a specific thing that we only live within bpost it's a little bit going on all over the place, and it remains a concern, and we will continue to work on that, and I hope that we can make progress.

**Ruben Devos (KBC Securities):** Okay, thank you very much.

**David Kerstens (Jefferies):** Yes. Good morning, gentlemen. I have a question on the new operating model and the accelerated implementation that you are pursuing this year. Can you give some indication on what exactly is going to be changed and what the potential benefits on your cost base will be this year and next year and how that ties into the new pricing structure and the room for further price increases. So, you were guiding for 4.4% increase. And secondly on Parcels & Logistics North America: break-even at EBIT level, I saw the depreciation level of 35 million looks relatively low compared to the depreciation level of Radial that you originally communicated, which I think was more than \$50 million. I was wondering, what the difference is. And then finally on the working capital reduction in the fourth quarter. I understand you had a seasonally high outflow in Q4 2017, and that you now recover some of that, are you now done with working capital reduction or is there more to go with the integration of Radial progressing better than expected?

**Koen Van Gerven:** Okay. Thank you, David. I will take the first question and then I will hand over to Baudouin. Perhaps let me flesh out a little bit what we mean with the new operating model and the phasing of all of that. So, the new operating model is basically what we discussed at the Capital Markets Day, which is the introduction of another way of distributing ordinary mail, where what we observe with the customers is that basically they use other means to send urgent messages, and we think the time is there to make the

distinction between the next day delivery product and the D+3 delivery product with of course a premium price for the next day delivery product.

All of that, we decided that, and that's what we shared with you at Capital Markets Day, we were going to prepare this correctly. And the idea was that we would start to introduce it in 2021. And all of the financials you saw were based on the preparation in the course of '19 and '20 and an introduction as from '21 with the cost spread over '19 and '20 and starting to reap the benefits as from '21.

With this one of the components of the issues that we lived last year on the social front is that we came to the conclusion that the model that we have for already 10 years, and which is heavily based on mail, less on parcels, that it becomes and it is very obsolete in terms of workload. So, one of the things we concluded is we have to go faster to replace the model, which means that basically first of all during the course of 2019, we will not be able to make the improvements that we scheduled as every year in the distribution because it doesn't work anymore. So, we have to postpone that, or at least part of it, and it has a cost impact of not doing the savings this year.

Secondly, the fact that we have to speed up the development and the piloting in the course of this year will have higher costs and we talked in December, we were talking about around EUR15 million. So by far and large the costs will be squeezed towards 2019, and the benefits will start to come as from '20 instead of as from '21. So this is by far and large what we're going to do in this new operating model part. Of course, what we did already this year is to change the product portfolio with the introduction of prior and non-prior, which is of course a condition precedent to be able to start working with that afterwards. So, this is as far as what is the new operating model. What this is about and how is it going to unfold in 2019 and as from 2020.

**David Kerstens (Jefferies):** And what do you see in the first months in terms of usage of the new products. What is the mix between the eco and the priority products?

**Koen Van Gerven:** And we will come back on that, I'm not sure it's already clear. People continue to use their old stamps and things like that, so but at the end of the day, it's not very important, but it's one of the things that we have to get tuned in over time and as far as this year is concerned, probably it will lead some cost savings in how you organize your sorting, but let's come back on that, if we have more clarity we start to work in that way, so it's not very significant now what we can tell about that.

**David Kerstens (Jefferies):** All right. Fair enough. Thank you very much.

**Baudouin de Hepcée:** Concerning your third question relating to PaLo North America the evolution of the break-even at EBIT level compared to 2018. There you should take into consideration that in 2018 we had positive contribution but it will decline in 2019 due to a full-year impact of the churn that we had in 2018. This is the first element of explanation. Second one being the impact of the repricing; as you know for some clients contract renewal we renegotiated at lower rates. And the first two elements being the churn and the repricing it's in line with our guidance of the Capital Markets Day.

On top of that for the evolution of the margin in 2019 we have some wage increase in a tight labor market, which will be partly compensated offset by higher revenue from existing client and new client growth, better productivity, and some savings in different areas among others in IT and support functions. So, this brings us all-in-all into the guidance for 2019 and for the evolution of the depreciation and amortization you have to take into consideration that D&A at Radial are impacted by the normalization for the intangible assets on one hand. And on the other hand the depreciations have been impacted by a

prolongation of the useful life of some assets linked to the [PPA exercise] last year. So, this should explain the evolution of the D&A at Radial compared to what you had in your mind.

**David Kerstens (Jefferies):** That's great. Thank you very much. And working capital for Radial in Q4?

**Baudouin de Hepcée:** For working capital at Radial. Well, in the Capital Markets Day for EUR100 million negative impact in working capital evolution: this was related to the periods 2017, 2018 and 2019. In 2017 we paid transaction cost post-closing, which was visible in the unfavorable evolution of trade payable last year. In 2019, we had some clients, important clients -- impact of clients churn we had in 2019 having an impact on the payment terms and what we observed for Radial working capital at the end of the year 2018 is that we had a positive variance in trade payable versus last year and a favorable evolution of account receivable. So, all-in-all positive working capital evolution at Radial due to payable and receivable evolving in the right direction for us.

**David Kerstens (Jefferies):** Okay. Thank you very much, gentlemen.

**Ruairi Cullinane (RBC):** Good morning. I was wondering if you would be willing to update your 2020 at EBIT guidance that you outlined at the Capital Markets Day. So, the cost headwinds that you outlined in December following the CLA. And secondly just on the mail volume outlook clearly there's been no deterioration in 2018. Could you talk us through some of your assumptions about what drives your volume decline up to 7% in 2019 up to 9% in 2022?

**Koen Van Gerven:** Your line is not very clear. Sorry.

**Ruairi Cullinane (RBC):** Okay. Can you hear me better now?

**Koen Van Gerven:** Yes, that's better. Yes.

**Ruairi Cullinane (RBC):** Okay. So, the first question was on whether you'd be able to update your 2020 Capital Markets Day guidance for the cost headwinds outlined in December following the CLA. And then secondly on mail volume outlook clearly there's been no deterioration this year. What are your assumptions about what drives mail volume decline up to 7% in 2019 and up to 9% by 2022. And finally on free cash flow outlook for next year: it seems like there's a mix of one-off and underlying impacts in the Q4 performance. Could you, would you expect the step down in free cash flow to be equivalent to the step down in EBIT? If you could sort of talk us through some of the impacts that would be helpful.

**Koen Van Gerven:** Okay, thank you. Let's take the first question. So, we have now clarity on 2019. As you observed there are a couple of things that are changing fundamentally mainly with the phasing change of our new operating model, which will be impactful for 2019, it becomes clear because there we guided on the additional costs that we have. We will take a time because the fact that we are going to be quicker in rollout is that we have to squeeze the preparation. So, it's a challenge, and it will take us most of the year. So, that's why we will come back to you with an updated view on '20 and beyond after we have discussed internally all of this with our Board, and it will be by the end of the year that that will be done. That's the first part on how do we look beyond 2020. So, in terms of strategy, nothing has changed compared to what we shared with you during the Capital

Markets Day. It remains valid, but in terms of how will it be fleshed out, and what will be the guidance in the longer term there we will come back to you after internal discussions around the end of year.

As far as the mail decline is concerned, there is nothing that we change and there is no reason to review the longer-term outlook. So for 2019 this year, we keep up to 7% knowing that what you observe in the market, the decline continuous and basically the acceptance of the customer of all what is digital, continues to grow. That's one observation. In the longer-term there we forecast that going from 7% to 9% and there the moment that we will shift to that of course that will follow the introduction of our new distribution model. You remember probably that we discussed with you at Capital Markets Day when we come to the introduction of the new operating model with the D+3 and the next day delivery at a premium that we expect that the 7% decline will go up to 9% decline. Why? because we have to change part of our offering for example someone that wants to have the delivery of his folder on the same day in the entire country that is not going to be possible anymore at D+3 pricing. And we don't exclude that the volumes will be impacted by that and that's the reason at that time in the long-term outlook, we forecasted that up to 7% will have a step-up up to 9%. And then on the cash flow.

**Baudouin de Hepcée:** Yes, on the cash flow, so we don't provide a precise guidance on the free cash flow for next year, but the different elements that we can give you are the following. First, as you mentioned, we will have an impact of one-off impact for the sales of our HQ building for an estimated amount of EUR55 million that we already communicated that will impact our second quarter. Second element in modelling your free cash flow is of course the evolution of the EBIT line where we will land, we expect to land above EUR300 million and there you will have to do your math. A third element is the higher CapEx. So, we have indicated that the CapEx for 2019 should be around EUR150 million, which is

higher than 2018. Then you have also the impact of the working capital at Radial that I just commented in a previous question. And finally, you have to take into consideration the impact of the IFRS 16 on the cash flow from operating activities since the leading related cash outflow will be transferred to the cash flow from financing activities.

**Ruairi Cullinane (RBC):** Okay. Thank you.

**Sumit Mehrotra (Société Générale):** Hi. My first question is about Parcels Eurasia that you guide for an improvement, significant improvement from 5% to 6% to 8% next year. I just want to know that what is behind this positive outlook in Europe. And, secondly, I want to know about the new corporate division. How should we look at the EBIT contribution at this division? It was quite significant for this year and it includes one-offs. So, related to this what one-offs or what elements of those one-offs should we expect to be temporary as of this year and should not be there for the following year? Thank you.

**Baudouin de Hepcée:** Thank you, Sumit. Let me take first the question on the evolution of the Parcels & Logistics Europe and Asia. EBIT margin is expected to increase from around 5% to a range of between 6% and 8%. This is driven mainly by the parcels BeNe mid-teen revenue growth. And this is, of course, related to the volume growth and the price evolution there. Beside that you will have, of course, the Dyna expectation that will be higher than what we delivered in 2018, delivering on the growth plan, and there we have important contract wins that will support higher results at Dyna in 2019. You have also an additional contribution from our cross-border business, which will continue to grow. And finally Parcels & Logistics Europe and Asia EBIT will be positively impacted by our decision to exit a number of loss making - small, but loss making - activities at de Buren and Bubble Post.

So, those evolution, those decision will positively impact the EBIT margin of Parcels & Logistics Europe and Asia.

Coming on your second question for the evolution of the corporate segment. What you will find in the corporate segment. First on the top line, the external revenues of the corporate segment contain mainly the gain on building, the gain on disposal of buildings. The rental income of investment property and various other smaller items which are booked at corporate level. Internal, this was for the external revenue, for the internal revenue, it relates to the re invoicing of OpEx we have at corporate level and depreciation & amortization. And this is re invoicing to the three operating business units for support functions like ICT, Human Resources, Finance, Legal and so on and so forth.

In a world without external operating income, you would see a negative EBIT for the amount of the cost of the central unit. Only part of that cost is re invoiced to the operating business units, while part remains in corporate. We talk about an amount of roughly between EUR20 million to EUR25 million on a yearly basis, which is not re invoiced to the business units and is compensated by the external revenue mainly for the building, sales of buildings. Of course, what you will see in the corporate segment as well is the usual things related to taking provision and reversing the provision. We have decided to allocate those movement to the corporate segment in order to have a pure and comparable EBIT calculation for the three business units.

For the corporate segment, EBIT in 2018 it was quite high at EUR42 million and it's mainly because of a number of elements that reflect in the one-offs related to the building sales and provision reversals. Let's be clear about that for the corporate segment, EBIT 2019, we expect the corporate segment to be break-even at EBIT level including the sales of the HQ building.

**Sumit Mehrotra (Société Générale):** Okay. So, break-even means no contribution to the group then for the corporate?

**Baudouin de Hepcée:** Correct.

**Sumit Mehrotra (Société Générale):** Okay, thank you.

**Mark McVicar (Barclays):** Good morning, everybody. Just two questions from me. On the '19 one-offs, okay, we understand the gain on the disposal of the head office. In terms of what's in your guidance, are there any other notable one-time items that you can see coming relating to insurance provisions, anything like that that's already built in there or is that really just the – is it just really that head office disposal?

**Baudouin de Hepcée:** It's mainly that point. So, the usual and in the normal course of the business and for what we know until now, it's the sales of HQ building nothing more or less than that.

**Koen Van Gerven:** Mark, we -- as you know we have building sales that continue to go on. But those are smaller ones and basically it's a little bit. This is not going to be different than I think on average it was -- we're talking about the impact around 10 million, 15 million or something like that, but this is what Baudouin calls normal course of business, but of course the headquarter that's a sizable one, but that's the only thing that's included in the guidance that we have today.

**Baudouin de Hepcée:** And for the HQ sales building sales it's included as we already communicated for an amount of EUR19.9 million and it's included into the guidance above EUR300 million.

**Mark McVicar (Barclays):** Okay. That's great. My other question and this is a slightly longer-term one. You've talked in the past at the Capital Markets Day about wanting to build out in Europe more of the kind of fulfilment centre capability and one or two other bits and pieces. Do you see any sort of small acquisitions coming down the track or do you think it's going to be very much organic from here?

**Koen Van Gerven:** Well, that's what we explained to you. Well, we explained to you at the Capital Markets Day and we have already a couple of things in Europe. We are present in Poland, we have activities in the Netherlands, we have a fulfilment centre that we have in Manchester, we have another one near to Leipzig. So, there are a couple of things, there are a couple of them in the Netherlands, so, what we presented at the Capital Markets Day is that we will use this part to continue our organic growth in Europe. So, within the horizon of the plan, we felt confident as we presented it at the Capital Markets Day that we have what we need.

So, no sizable things that we miss. If very, very small bolt-ons pass our roads and it makes sense then of course you can never exclude as we did it in the past. This being said that this is what we have today in the framework of the plan.

So, but as a company, you always have the responsibility to reflect if you can go deeper and faster in your growth and we will take this year to reflect on how eventually we can go faster in the development of e-commerce in Europe. But again at the end of the year after we have discussed all of that internally be sure that we will come back to the market on a concise update on our longer-term view of the company.

**Mark McVicar (Barclays):** Okay. That's great. Thank you both very much.

**Andre Mulder (Kepler Cheuvreux):** Good morning. Basically two questions. Firstly, on Radial. You talked about what's happening with the cost side, but I would also be interested in what you see at the revenue side or have you seen any changes there? How has this market behaved? Secondly, on your update later this year, can you provide a bit more clarity on what are the most important building blocks giving any direction of what we should expect now?

**Koen Van Gerven:** Okay. Let's talk about Radial. First on the revenue side. So, there are different things going on over there. Of course the first and we elaborated already on that, we have the churn. Those will leave and the arrival of the ones that will arrive, and as we explained, it will be negative, and it will be at the deepest point in the course of this year. Secondly, there are, what we call, same-store sales, which is basically the current customers that grow because we live in a growing market and that evolves as we indicated already a couple of times last year, it evolves and goes in the right direction, and that of course will help us. And then thirdly, as far as the top-line is concerned, we have this year the impact of the Webstore phasing out and we will have a small part in the course of 2019. And then, but basically most of that happened this year, we had many, and it was a critical thing, we had the maturity of many contracts and they had to be renewed. I think the very good news is that almost all contracts and absolutely more than we expected are renewed, which is basically good news. Although within the renewal, part of the discussion was on another type of contracts. Where in the past, and it was linked to the way they did business, it was a very blended price offering different services and it was a blended price

where the tendency of the market goes more to what we call an open book pricing. And in this movement, you tend to lose somewhat.

This being said, we are very happy on the margins that we make on the new contracts, but it will hit in the course of 2019, if you compare to 2018. It will hit somewhat our topline. So, all of that was included. There are no big surprises or new surprises as that is concerned.

So, and that's why 2019 will be what it will be. So, with lower top line than we had in 2018. That's on the first question. But as far as the market is concerned, it continues to be an important market and a growing market. So for the avoidance of doubt e-commerce continues to grow.

And then on the second part, what can we expect, what is going to be the big change compared with Capital Markets Day in the financials. I think probably it is mainly in how is the acceleration of the new operating model, how it is going to unfold. The fact that we have the ambition to squeeze it means that, well, 2020 is going to look different because in the old version, if I want to put it that way, we were still studying and trying to prepare for a rollout that's from '21. So, 2020 will be different and 2021 will be different, 2022 will be different. Absolutely too early to provide whatever direction. So, we're not going to shoot from the hip. It will take time. And then the second part, but let's see, are there things – other things that we can do in order to sustain our growth further down the road with the things that we will learn from the fallout or from the deployment [inaudible] that we did last year in the course of 2019. So, we will take the learnings in order to see how we can bring it further. Radial, well, the e-commerce logistics activities in Europe. I don't expect that we're going to have big changes as Radial is concerned. We have a concise plan that brings us to 2022. 2018 was absolutely in line with what we had hoped and expected and they did realize it. And so I think that as Radial US is concerned, it's going to be broadly identical.

**Andre Mulder (Kepler Cheuvreux):** Okay. So, did the market -- the search market in general is showing the same growth rates as you anticipated for Radial?

**Koen Van Gerven:** To be honest, I didn't look to the figures very precisely, but of the top of my mind, I think, they are -- if you look to Forrester and other figures that we're used to use, there were no big swings or shifts that came to my attention.

**Andre Mulder (Kepler Cheuvreux):** Right. And then once again on the update. You said some years look different, is that just phasing or should we expect changes to the upward or downside now?

**Koen Van Gerven:** Well, the fact that you squeeze preparation and that you try to go faster, it means that you have to be very precise on what you're going to do, not only in phasing because we will start earlier, one could consider, we start with the same speed to do to the rollout. We can consider to go a little bit slower in the ramp-up I mean.

So, to be honest, it's too early to say and we have to come back, but that's the reason that we really want to take the time. So, squeezing two years of preparation on this kind of reorganization in one year, it's not a fly-by-night operation. It has to be solid. So, and that's what we want to do.

**Andre Mulder (Kepler Cheuvreux):** And it's still fake to me whether I should regard as a positive or negative?

**Koen Van Gerven:** As far as 2019 is concerned, but that you know, it's a negative of course the impact is there. As far as 2020 is concerned so part of the costs are behind us.

So, I hope that the cost is going to be lower and that we start a little bit faster to see the positive impact. The size of it, Andre, don't push me too far because I don't know it.

**Andre Mulder (Kepler Cheuvreux):** No. Okay. We'll await that. Okay, thanks.

**Edward Stanford (HSBC):** Good morning, everybody. Just I'm trying to reconcile something and maybe this is my imperfect understanding, but the new distribution model is partially or wholly, as I understand it, to help deliver the different timed products that you've introduced. I suppose the question I have is: why have you introduced the D+3 product at a time when the distribution model is imperfect, if that is my correct understanding? And secondly, in doing that, is there any compromise on service that you're having to endure in the short-term while you introduce the new distribution model? Thank you.

**Koen Van Gerven:** It's a good question and it's a question about the chicken and the egg. We took the stand, look, change your portfolio get your customers used at something that will be different, and then the operational aspect is going to be more fluidly accepted, that's a hypothesis. So, that's the reason why we started this year already and basically, there was nothing changed from that perspective in this [inaudible] we have.

In all honesty, I want to have a year back-up in case of we would have had very difficult discussions with the regulators, you never know. So, that's the first thing. This means that today of course we don't make any compromise as far as quality, service of quality, quality of service is concerned, which in reality means that in the case of doubt, we distribute probably a little bit faster than we should be.

So when you look to our quality levels D+3 probably they are a little bit too good. Is this annoying? The answer is not from customer perspective, but it tends to say to me that we

have room for improvement from operational point of view. And so this will take us this year going. So, we can shift a little bit on that. But, of course, it's clear that we're not going to compromise the quality.

**Edward Stanford (HSBC):** Thank you.

**Koen Van Gerven:** Is this clearer to you, Edward?

**Edward Stanford (HSBC):** Yes, I mean, I'm just curious to see whether there's going to be any fallout from the D+3 customers in a year's time when they realize that what they were getting was better than they were paying for, but I guess you can't answer that question now, can you?

**Koen Van Gerven:** Sure. Let's come and we will learn about what part of the mail goes through to the next day and to the D+3. So, it's interesting. And I think not only we, but if you look to Austria, if look to Italy, to a couple of other countries, they are in discovery phase of this movement too.

**Edward Stanford (HSBC):** But just, sorry, just to follow-up on that, I mean, presumably the new distribution model is actually aiming for you to smooth any peaks in workflow through your sorting centres and it's a much more even distribution in volume. Is that right?

**Koen Van Gerven:** That's not the only thing and I have to point back to the Capital Markets Day: a concept that is very important in the last-mile distribution is the drop density probably you remember. So, what are the percentage of mailboxes, where you

have to drop a letter. If you go back to the old days then it was of course 100. It went down to 70 a couple of years ago, and we are around 50. One of the ideas is that we can increase it again to around 70 and of course that's absolutely important for the efficiency and the costs that you get in your last-mile distribution.

**Edward Stanford (HSBC):** Okay, thank you.

**Ruairi Cullinane (RBC):** Hi. I was wondering what your thoughts would be about what inputs which go into deciding the dividend in 2020. At your Capital Markets Day, you guided that you didn't think free cash flow would cover the dividend cost. But if you were to re-base the dividend would free cash flow be important in addition to BGAAP net profit and any thoughts there would be helpful?

**Koen Van Gerven:** I [sure talked] that we have to reflect on it, to be honest, but I think what I can say today is, we established the dividend policy at the time of the IPO. And I think the dividend policy served the company quite well, but it was a time, and I know it sounds like an old man, but it was a time that we had good visibility on our business drivers.

I think that you can't neglect that today, the environment is somewhat more different. So, consequently, I think it's sound that we do the reflection on what should our dividend policy going forward in this other world. We're not ready for that and that's the simple reason why we confirmed our dividend policy that we laid out a couple of years ago, but I think it's a fair point, and let's come back at the end of the year and then we have clarity on the longer-term probably we can have a discussion on capital allocation at that moment and part of that will be, what are we going to do in terms of dividend policy.

**Ruairi Cullinane (RBC):** Okay, thank you.

**Koen Van Gerven:** Okay. If there are no further questions, of course, you always know - and I presume that there are still a lot of questions about how to go from the new modelling or the old modelling that we have to the new modelling based on the business units - but our IR team is of course available to help you with that. And we will meet some of you at our roadshows that we're going to do and for those we're not going to meet let's take the appointment after the second quarter, which is going to be -- the first quarter, which is going to be in May. Okay. Thank you. Bye, bye for now.

**Operator:** Ladies and gentlemen, this concludes this conference call. You may now disconnect your line. Thank you and have a nice day.

[END OF TRANSCRIPT]