



**Interim Financial Report**  
First quarter 2016

Conference call transcript

**Brussels – May, 3<sup>rd</sup> 2016**  
Koen Van Gerven, CEO  
Koen Beeckmans, CFO

Transcript of the conference call held on May, 3<sup>rd</sup> 2016 10:00am CET

## PRESENTATION

**Operator:** Ladies and gentlemen, welcome to the Bpost First Quarter 2016 Results Analyst Call. I'm pleased to present Mr Koen Van Gerven, CEO and Koen Beeckmans, CFO. For the first part of this call, let me remind you that all participants will be in a listen-only mode. And afterwards there'll be a question and answer session. I would now like to turn the call over to Mr Koen Van Gerven and Koen Beeckmans. Gentlemen, the floor is yours.

**Koen Van Gerven:** Thank you very much. Good morning ladies and gentlemen. Thank you for joining us. Next to Koen I have with me Baudouin and Saskia from – from our IR Department. I imagine that although it was yesterday banking holiday in the UK, you had the opportunity to go through the materials that we posted yesterday. So I will try rapidly to summarise the key messages. Let's move to page three and there you can see that we recorded strong results for first quarter.

Mail volumes held up well and came in at -4.0% mainly driven by our new selling approach in advertising mail. And in addition we posted the highest ever quarterly percentage in terms of domestic parcel volume growth at 14.6%. Nevertheless, our revenues declined by 2% or €12.1m mainly as a result of the anticipated decrease in the SGEI compensation, as you know. However, we demonstrated our ability to fully offset the impacts on our bottom line with an EBITDA increasing by €3.2m to €175.9m. And this was realised through our ongoing cost control which delivered €15.2m in savings.

Reported reduction of 355 FTEs versus the first quarter 2015 was impacted by additional FTEs and interims needed for higher parcels and solution volumes and the integration of Deltamedia, new subsidiaries and earlier timing of Easter which led to additional FTEs for the absorption of holidays.

Excluding all of these elements our underlying productivity improvements came in at 734 FTEs on average for the quarter.

Let's move to page four and there you can see that resilience in domestic mail combined with growth in parcels and further cost savings were able to fully offset the lower SGEI compensation leading to an increase of EBITDA, as already mentioned. And before handing over to Koen I'd like to mention that on the acquisition of the Belgian activities of Lagardère Travel Retail we are indeed in contact with the Belgium competition authority. The process is ongoing and we are awaiting more feedback from their side. As you know, we can't give any visibility on the closing date but we hope to be able to close the transaction in the second half of this year.

This is everything from my side and, Koen, the floor is yours to go in some more details on the financials.

**Koen Beeckmans:** Thank you Koen and good morning everybody. I am now on page five of the presentation. We see that the EBITDA is up €3.2m and the EBIT €2.3m thanks to our cost savings which delivered on all cost items. Profit before tax is up €0.3m. The financial result was stable versus last year and the share of profit of associates decreased mainly due to phasing related to a change in accounting policy and that is IFRIC 21. The BGAAP net profit which moves in line with the EBIT was up €2.6m.

On page seven some details of the product lines starting with domestic mail. As Koen mentioned before, domestic mail proved to be resilient with an underlying volume decline at -4.0% compared to -5.3% for the same quarter last year. This was driven by advertising mail for +0.1% which showed a positive response to our new selling approach in the key focus sectors we have

mentioned in earlier calls. Transactional mail showed a stable trend versus the full year 2015 at -5.3% and was impacted by one working day less, only for stamps but no impact for franking machines as mentioned in the outlook. Press showed a slightly better trend at -2.6% mainly driven by periodicals that benefitted from acquisition campaigns resulting in the distribution of free samples.

On page eight we note the highest volume growth ever in domestic parcels at 14.6% and we continue to see a negative price mix impact at -4.6%. Important to mention here is that we still managed to increase prices line-by-line but it is the change in composition of the client and product mix that is creating this negative effect. International parcels witnessed a slowdown on flows out of the US, mainly due to the strong US dollar. This of course decreases the price competitiveness and attractiveness of US goods in Canada and in Europe. Shipments of milk powder to China grew by €1.2m and flows from China by €0.2m.

On page nine on the additional sources of revenues, I believe that there are two elements worth mentioning. First element, international mail revenues continued to decline as a result of the execution of our pricing strategy. We decided not to grant any price discounts to our customers so as to keep reasonable profit margins. The result of this was some client churn. On the positive side our value added services continued to grow, mainly driven by our customised solutions such as the decoder swap that we are facilitating for a Telco or sustainable urban logistics with our company City Depot.

Turning to page ten you see that all cost items contributed to a cost saving of €15.2m. This is mainly driven by payroll and interim cost savings of €6.7m as well as a decrease of other costs and SG&A of €3.2m and €3.1m. Finally, transport costs decreased as well by €2.2m and this is of

course linked to the evolution of our international revenues which recorded a modest growth in parcels and a decline in mail.

Looking at the cash flow on page 11, cash generation was negatively impacted for €36.8m by the anticipated changes regarding the SGEI, as indicated already in our full-year 2016 outlook. Also, we continue to see the effect of the Alpha pay-outs amounting to €12m in the first quarter. Finally, we acquired some businesses in the international arena for a total of €33m. All these effects were partially compensated by better operating results, lower income taxes paid versus last year and higher proceeds from building sales.

With this I'd like to hand over to Koen for some closing remarks.

**Koen Van Gerven:** Thank you Koen and let's flip to the outlook of this year. I'm very pleased that in the first quarter we were able to move to more than offset the anticipated decrease of the SGEI compensation. As you know, this we considered as one of the biggest challenges for this year and we did it. And it's completely in line with what we communicated to the market last year and with our full-year outlook of 2016. Therefore, I would like to confirm at this point our full-year outlook for stable EBITDA and a dividend in line with last year. And with this ladies and gentlemen, I'm happy to answer your questions. Let's open the lines.

## QUESTIONS & ANSWERS

**Operator:** Thank you. Ladies and gentlemen, if you would wish to ask a question please press 01 on your telephone keypads now. We have a first question from Ruben Devos, KBC Securities.

**Ruben Devos:** Yes, good morning, two questions from my side please. The first one on domestic mail, since the third quarter 2015 the underlying domestic mail volume trend has been consistently below 5% and this is obviously supported by the reversing trend of advertising mail volumes. I understand it's early in the year but I was wondering what has been the rationale to keep your domestic mail volume guidance unchanged. Is it because of the increase in volatility within between quarters, or does it suggest you believe the declining trends in transactional mail and press to deteriorate? Now that we're deep into 2016, how has the development in the volumes throughout April been? Second question on parcels, regards domestic parcels, given your solid performance in the first quarter 2016, do you believe you've managed to gain market share in B2C, and have there been any major customer wins, and if you could shed some colour on the developments in the B2B, that would be appreciated. Thank you.

**Koen Van Gerven:** Okay, thank you. I'll start with the domestic mail and indeed, I think it's fair to say that we are very delighted or happy on the evolution that we see. Why don't we change our outlook? I think I can give some colour on that, but therefore we have to go down – one step down in granularity, and if you take, for instance, what happens on transactional mail, there we have to observe that we are perfectly in line with what we did experience in previous quarters, so is there something changing? The answer is no. Of course, you said already, probably there's something going on in the advertising mail, and indeed, you can see in the figures. To be honest, we're quite happy on that, and I think where I said that in previous quarters, I'm not sure yet that the plans and the new approach that we did try to develop and we continue to try to develop for

this market pays off, well, I have the impression that at least it was the right move to do, and we will continue to work in that direction.

Although – this being said, are we really sure that this evolution will continue? A couple of things on that, we had a first – a good first quarter. We had a couple of nice events in that quarter, as the car fair in early January. On the other side, we all know that advertising spend and direct mail is heavily related to the growth of the economy, and there we have to observe that the growth perspectives of the economy this year are even more flattish than they were last year.

Last year, the growth of the economy came out at 1.4%, where the prospects of this year are even lower, at 1.2%. Indeed, we have a couple of very interesting events in front of us, like the European Football Championship, that should fuel a couple of things. Of the other side – on the other side, we have uncertainty on the Brexit and a couple of other difficult events that we experienced recently in Belgium. So putting all together, we are hopeful, but I think it's really early days to be really convinced that the trends will fundamentally change in that perspective. This is as far as mail is concerned.

Parcels, what about market share? As you know, since a couple of years, the market share as it should be measured, is not measured anymore in the Belgian market, although the indications that we have is, that with the figures, that we post – we don't lose market share. We don't lose market share, the most important part of that market is B2C, and as you know, there we have a couple of different evolutions. We grow with the expansion of the e-commerce, and I think, if I look to our big customers, and I think we have almost most of them, they continue to develop positively. On the other side, of course, we continue to experience the decline, the volumes of the catalogue sellers. As you know, their size becomes smaller and smaller as they continue to shrink, but

nevertheless, they were important customers of us, so there is still some impact on the figures that we post.

As far as the B2B market, and our ambitions in that market, I think I gave an update in the previous charter – the previous quarter. We made some progress in a previous year. We did grow faster than the growth of the economy, and up today, we continue to work in this field, but there is nothing that important that we can mention today.

**Ruben Devos:** All right. Thank you.

**Operator:** Thank you. The next question is from Christopher Combe, JP Morgan.

**Christopher Combe:** Thank you. Just a couple of questions following up on parcels. Is it incorrect to look at the Q1 result as an underlying acceleration, because it does look like the comparison was quite a bit weaker than the fourth quarter, and if so, maybe, you know, while the market is not measured, can you give us some sense of whether you feel you're basically outpacing local competition? And then second, can you remind us what proportion of the total parcel volume is cross-border, and are you at all concerned about what we've seen in Austria, UK and, you know, similar concerns in Germany, as these are well-funded new entrants, potentially making life more difficult?

**Koen Van Gerven:** Basically, as far as the parcel growth is concerned, I think it's mainly related to the fact that e-commerce development seems to pick up in Belgium, you know, that we were in a kind of lagging situation, you know, that probably, with the events of the end of last year, it came to the attention of the markets, and some of this interest, apparently, seems to be confirmed and we start fuelling up this part of the activity.

The expected growth, as far as e-commerce is concerned, in the Belgian market, is at 16 – around 16, a little bit more than 16%. Of course, it's an expected growth, so what we realise is more or less in line with the growth of the market. This is one point. The percentage of the cross-border, B2C parcels, what we know on the whole, on the Belgian market, it's that almost half of e-commerce that is bought by Belgian customers comes from abroad, which is not completely different for us, because if we look at our big e-tailers, in fashion or in electronics or in whatever, like Amazon, all of these activities come from abroad, and I think that we can provide for them, the last mile in Belgium, of course.

In terms of interest of competition, I think that you made reference to what happens with Amazon in a couple of countries. As far as Belgium is concerned, Belgium, of course, has the advantages of being a small country, from that perspective. Belgium is a little bit complicated, and we do have the experience that these kind of activities, before they come to Belgium, it takes a lot of time. Next to that, of course – of course there is interest to move in those markets, if there is a kind of either an issue or something that is not served being it in terms of – being it in terms of quality issues, and I think with the quality delivery or the quality in our delivery that we provide with the documented on time next-day parcels of in the high 90s, it's not really an issue.

On the other side, if something is not served, it could be that, of course, the distribution can be more efficiently organised in very dense areas, as for example, I understand that this is a target or this is the objective Amazon has in starting in Germany. But we don't have big cities like Munich or Berlin in Belgium, fortunately or unfortunately, so I'm not sure that from this perspective we're very high on the agenda of this type of players.

**Christopher Combe:** Thank you.

**Operator:** Thank you. The next question is from David Kerstens from Jefferies.

**David Kerstens:** Yes, good morning everybody. The first question on cost savings, please. The €15 million, can you attribute that to the various sources of cost savings that you have, or is it fair to assume that of the payroll savings, the majority is currently coming from Alpha, or did you already also have a meaningful contribution from the reduced Saturday working hours as well as the social security contributions?

And then regarding the VAT recovery, you had quite a big increase in the rate of VAT recovery to 19%. What's driving that big jump, please?

And then the second question on the SGEI compensation, seems to be a little bit higher in the first quarter than the 26.8 million you're guiding for the full year. Is it fair to assume that if you would include the inflation and the volume impact that you're referring to in the outlook, the maximum deviation would be around €2 million? And then the cash flow impact of 36.8million, I saw this all booked in the first quarter. And is it fair to assume that the 10 million difference with the P&L impact you'll get back in the first quarter of 2017? Thank you very much.

**Koen Van Gerven:** Okay, seems couple of financial questions Koen will react on those.

**Koen Beeckmans:** On the VAT, we have an agreement with the tax authorities to change our methodology. Now we are allocating costs per VAT category and before we did it in terms of turnover. Now we're using the direct method of that. It took some time to get the agreement but it's finalised, which means that we have an effect of 3 million related to last year and we have one quarter in first quarter of 2016 as a benefit of that. Okay.

**Koen Beeckmans:** And then your question on SGEI. Yes, that has to do with the volumes. For example, we are integrating Delta media as we said during earlier calls, which means that the – well, the volume component of that will tend to increase a little bit towards the end of the year and that's the difference between the two amounts.

Then I think your question on –

**David Kerstens:** Savings.

**Koen Beeckmans:** Yeah, on the cost savings. It is fair to say that it is related to all the different elements you've mentioned. So it is related to alpha, it is related to the vision 2020 programmes and it is related to all other cost saving programmes that we have been putting in place, of which of course salary savings is a big chunk. So it's all related to that.

**David Kerstens:** Alright, thank you. And then the cash flow impacts of the SGEI compensation of 36.8 million in the quarter being 10 million higher than the P&L impact, that is due to different payment terms, I understand, but does that mean that you'll get that back in the first quarter next year?

**Koen Beeckmans:** Yes, that's purely phasing, timing that has been negotiated with the government like that. It has purely to do with the timing and phasing and we will be getting it early of next year.

**David Kerstens:** Yeah.

**Koen Beeckmans:** That's correct.

**David Kerstens:** Great, thank you very much.

**Operator:** Thank you. The next question is from Andy Jones, RBC.

**Andy Jones:** Good morning. Thank you for taking the question. Just one from me. I'm interested to know about the different degrees of visibility in terms of forward visibility amongst the different domestic mail divisions. For example, having a greater amount of advertising mail in the mix, does that make life easier or more difficult for you from a business planning perspective? Thank you.

**Koen Van Gerven:** Provided that we have a solid distribution backbone and that we have – we're able to absorb volumes – larger volumes, from business perspective this is not an issue, not at all.

**Andy Jones:** Okay. But, I mean, just for example, you know, in which division do you tend to have the greatest forward visibility in terms of knowing when there's big mailings coming?

**Koen Van Gerven:** I'm not sure that I fully understand what you're looking after.

**Andy Jones:** Okay, I'm just trying to understand, if got advertising that tends to be a more volatile business in terms of the cyclical nature of that versus the transactional mail, and when you have a contract with, you know, one of your customers which tends to give you the greatest degree of, kind of, headroom or, you know, when do you get the best heads-up for when mailing is coming?

**Koen Van Gerven:** Yes. Yes, from our side we are capable, absorbing this campaigns, and of course we try to have the best planning possible being in contact with our customers. And for example, when we took the fair, the car fair in January then of course we know already as from December that companies are planning and that we have to include it in the sorting and the distribution schedules. And as I said, it's more or less the same with a big campaign that will start now in the weeks to come, aiming at the European Football Championship. So those are the things that we try to stay in close contact with our customers to understand what comes, and of course then the more we know, the easier it is to integrate it in our operations.

**Andy Jones:** Okay, thank you very much.

**Operator:** Thank you. Ladies and gentlemen, I would like to remind you that if you wish to ask a question, please press 01 on your telephone keypad. The next question is from Mark McVicar, Barclays.

**Mark McVicar:** Good morning, thank you. Can I start with a question on acquisitions? You've obviously spent nearly 33 million in Q1. Could you say a little bit about what those bring to the network and how you measure – or what sort of financial return you look for in that type of investment?

**Koen Van Gerven:** I think in the first quarter there are two things that show up that we didn't have before. First of all, it's about Success Partners that, as explained previously, it's a small bolt-on activity in fulfilment that we've bought in Poland. It was the previous Success Partners Europe activity of an American company, and the idea is that we follow the evolution of our customers – American customers – towards Europe. In terms of size, it was an initial consideration of 3.5 (m euro) and sales that are generated through this company are at 3.4m, so it's not that important.

And the 3.4 is even in dollars. But of course it will provide, in terms of EBITDA – in the beginning quite limited – but the idea is that we of course – that we're going to develop it in – in the years to come.

Next to that, and this is something that we did close earlier this year, is an activity in Australia. It's – it's a little bit bigger in size, because there we talk about sales of around 25 million, and it is a fulfilment activity combined with last mile delivery in a number of selected cities in – in Australia. The reason why we did move in this direction is that Australia is promising and becomes an even more and more important line in terms of ecommerce out of the United States, and on the Australian side, we experienced some quality issues – some pricing issues – with the last mile delivery with the Australian Post, so this brings a solution to adapt, and we will continue to do the – or we will start to do the last mile delivery in big cities ourselves, and then of course going in – in the less dense areas of Australia we will continue to use the services of the Australian Post.

**Mark McVicar:** Okay, I think –

**Koen Beeckmans:** So aside – I think aside from this strategic rationale that I think Koen has explained, of course we have strict criteria in order to make an acquisition it always needs – needs to – needs to help us, but the strict financial criteria of course make sure that the acquisitions we do are accretive and I think that's very important as well, aside from the strategic rationale that all these acquisitions have.

**Mark McVicar:** Okay, thank you. I have two other – two other small questions. First of all, the tax rate in Q1 is just under 36%. Are you happy that you can still hold it to 35% across the year?

**Koen Beeckmans:** Yes, because now we had a payment – or a payment was done – a booking was done – that related to last year. If we take that out I think we will be – we will be around that number, or perhaps even a little bit lower, so I think we – yeah, we should be – we should be able to manage that this year.

**Koen Van Gerven:** Yeah Mark, just – just to be complete on your – on your previous question, next of course to the two acquisitions I did talk you, of course there was a big payment, part of the earn out, that we did pay to Landmark in this quarter too, and this had to do with – well, it had to do with additional acquisition of almost 25% of the shares, so now we are up to 75%, and I think that the last part will come at the end of this year, early next year, January next year.

**Mark McVicar:** Yep.

**Koen Van Gerven:** Okay?

**Mark McVicar:** Okay, and then I have one very small final question. Just in the – the BGAAP reconciliation, the other number is a positive 6.2 – usually sort of large. Was there anything special in there, or was that just an accumulation of little things?

**Koen Beeckmans:** I think it's accumulation of different things. The BGAAP reconciliation, there's nothing in the bridge to go – to come from IFRS to BGAAP that is striking or that should be different than in the other quarters. So –

**Mark McVicar:** Okay. All right. Yeah, it's just a – quite a big number in – just in Q1 at 6.2, doesn't that – but okay. If you – as you say, that's just an accumulation of little bits. So fine. That's great, thank you very much.

**Operator:** Thank you. The next question is from Henk Slotboom, The Idea.

**Henk Slotboom:** Good morning. Thanks for taking my question. I only have one question, and that's in relation to the milk powder. You're still shipping a lot of milk powder, I guess, to China. And you record that in the first quarter you actually carried 1.2 million worth more to China. How is that developing, because I've understood that, for example, Danone has been stepping up its production in Europe quite a bit, and is taking more control over the distribution of its own products in China itself, actually resulting in a retail price in China which is currently below the retail price here in Europe. Could you shed some light on that? How big is this component in your sales?

**Koen Van Gerven:** Sure. Indeed, and I think it's fair to say that already, since a couple of quarters, we were convinced that one day it could disappear and we had ups and downs, and there was some price sensitivity. And if one player did increase the price then the volumes tended to go away, and then when another party did increase the price, they came back.

What we see today and what we understand today is that from the Chinese side they really – they want to start to get those things better under control, because they don't like all this milk powder coming from abroad, and it is our feeling that these volumes will start to fade away. But of course, this is something we already said for a couple of quarters, but I have the feeling that now there, from the Chinese side, they start to take it more serious – to take it more seriously.

As far as we're concerned, we always said this is a quite variable cost structure that we have, related to this activity, because we buy the volume and the capacity we need on the aircrafts to

send it out to China, and of course if flows disappear then the costs will disappear. Of course, what we will see evaporating is the margin on that, but that of course we will absorb.

**Henk Slotboom:** Could you give any indication how big this business is for you in quantitative terms?

**Koen Van Gerven:** I think we reported last year, in the previous year, by far and large, it was a little bit more than €30 million in terms of revenues.

**Henk Slotboom:** Okay. Thank you very much.

**Operator:** Thank you. The last question is from Philip Scholte, Kempen & Co.

**Philip Scholte:** Yes, good morning everybody. I have a question on your cash flow and then your mentioning of the settlement on the terminal dues with another postal operator. Can you quantify that number, and is that actually only going to be a cash flow impact and it will not impact your P&L? And can you say with which other postal operator that actually is?

And my second question is the proceeds from the sale of buildings. I can sort of guess from the increase in revenue from the corporate side how big that is, but you have not really chosen to put that in, sort of, an exceptional or incidental line like you did last year with the big sale. Has your outlook on those proceeds changed for the full year?

**Koen Beeckmans:** Yeah. On your first question it will have a cash impact, we believe, this year. The amount is, well, currently not completely negotiated so we cannot disclose that because we don't know the exact amount. We don't disclose who the other postal operator is. Then on the

P&L impact, it should not have a P&L impact because we believe that it is fully provisioned for over the last years; it will only have a cash outflow impact.

Then on the buildings, in total the gain, or the profit, on disposal was €5 million. But it's ordinary course of business, as you know, with buildings there we don't fully control it, but we believe that it should be in line with the rest of the years, as we have always communicated. Sometimes it's a little bit higher, sometimes it's a little bit lower, but again, we don't fully control this part, so....

**Koen Van Gerven:** Philip, on the settlement with the postal operator, you have to understand that we're not putting figures on that because negotiations are still ongoing and it would be interesting for the other party to know what we have in mind, of course.

**Philip Scholte:** Right, no I appreciate that. I was just wondering whether that was already negotiated and the cash impact would come later? But thanks very much.

**Koen Van Gerven:** Yes.

**Operator:** Thank you. We currently have no further questions.

**Koen Van Gerven:** Okay. If there are no further questions, I would like to thank you for participating. I hope it was useful and I want to wish you a good continuation of this day. Thank you.

**Koen Beeckmans:** Thank you very much.

**Koen Van Gerven:** Bye now.