



## **Interim Financial Report** Fourth quarter 2017

Conference call transcript

**Brussels – March, 14<sup>th</sup> 2018**

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Henri de Romrée, CFO

Transcript of the conference call held on March, 14<sup>th</sup> 2018 10:00am CET

## PRESENTATION

**Koen Van Gerven:** Good morning Ladies and Gentlemen. Welcome to our fourth quarter 2017 results call and thank you for joining us. With me I have Henri de Romrée, our new CFO, as well as Baudouin de Hepcée and Saskia Dheedene from Investor Relations. 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 quickly.

On page 3, you see that over the fourth quarter we achieved excellent domestic parcels volume growth of 30.8% driven by end of year peak sales in e-commerce as well as continued growth in our C2C product offering. Logistic Solutions contributed 237 million euro to our revenues which in total stood at 955 million euro this quarter. This uplift was mainly driven by the consolidation of Radial since November 16th 2017 which added 203 million euro to the top line. On the mail front, we continued to witness accelerated e-substitution mainly in transactional mail. Advertising mail volumes on the contrary grew over the quarter. Overall underlying mail volume decline stood at -6.4% in the fourth quarter of 2017, which is the same figure as in the fourth quarter of 2016.

EBITDA was up 9.9 million euro to reach 151.4 million euro. Excluding the contribution of Radial and a positive one-off in the quarter, EBITDA was below last year's. In the fourth quarter, the missed small-user basket price increase has not been compensated by the EBITDA contribution from our subsidiaries. In addition, operational results were impacted by costs related to the start-up of activities at our new sorting facility in Brussels, higher opex to manage the year-end peak in parcels and a restructuring provision for Ubiway.

Moving to page 4, you can see that full year EBITDA at 598 million euro was 11.1 million euro above the 2016 figure. This is driven by an excellent parcels performance and the contribution of our acquisitions, including Radial. Our guidance was, however, excluding Radial which results in an EBITDA shortfall of 5.8 million euro. One of the major financial challenges of 2017 was to compensate the absence of the small user basket price increase with an estimated impact of 20 million euro by the contribution of our M&A. We only partially succeeded in that objective investing upfront in certain cases in restructuring like Ubiway. In addition, we witnessed increased e-substitution over 2017 leading to underlying full year volume decline of -5.8%. Although still within our guidance range, this is a step-up compared to -5% in both 2016 and 2015. On the positive side, we recorded growth in advertising mail volumes for the first time at +1.5%. This proves the effectiveness of our focussed sales strategy. We also registered excellent domestic parcels volume growth of 28.2% for the full year.

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 2017 results to 1.31 euro. This is the same amount as the year before and it's consistent with the guidance we gave in previous quarters.

On page 5 you see the various impacts that I mentioned earlier on our fourth quarter 2017 EBITDA. Domestic Mail business was impacted by the accelerated e-substitution and by the refusal of the regulator to increase the prices in the small user basket. Parcels business grew nicely with the development of the e-commerce in Belgium and abroad. The operating expenses for the fourth quarter included additional costs for the new sorting centre in Brussels and restructuring charges for Ubiway. Radial had a 16.9 million euro

contribution to our EBITDA post transaction costs. The quarter's operating result was also supported by a positive one-off.

Before handing over to Henri, I would like to give a short update on a couple of topics.

Regarding bolt-on M&A, we acquired 100% of the Dutch company Leen Menken on January 11, 2018. Leen Menken is a Dutch family-owned business specialized in fulfilment, warehousing and delivery of fresh and frozen products since more than 30 years. This acquisition fits perfectly into our strategy to grow specialized logistics activities in the Benelux and to broaden our capabilities in fresh food deliveries. Clients include fast food chains and other e-commerce players in the food sector. 2017 revenues are expected to be around 27 million euro.

Furthermore also in January 2018 Landmark Global acquired 100% of the shares of Imex and Mail Inc through the Mail Division MSI. Both companies are active in business mail. Imex is a 3rd party logistics company in the US, active in cross-border publication and mail delivery. Mail Inc. is active in the field of business mail and catalogue distribution for re- and e-tailers and some mail-room services. They are also active in parcel distribution. Both companies are a good strategic fit with our MSI business. These bolt-on acquisitions strengthen bpost's position in international business mail through combining networks, volumes, expertise and experience of their employee. The aggregate 2017 revenues of the 2 companies combined are estimated at approximately 78 million dollar.

I already mentioned a restructuring charge at Ubiway. In 2017, a 4.8 million euro restructuring provision was booked for operational network re-design at AMP press distribution, amongst others to leverage synergies with bpost. Decreasing volumes of

newspapers and magazines require AMP to review its network of distribution centres with the aim of lowering the fixed cost base while maintaining quality towards publishers and points-of-sale. Concretely this means that there will be less distribution centres operated by AMP and that anticipated synergies between bpost and AMP's newspaper activities will be realized in sorting and on secondary and last mile transport. These synergies will be visible over the period 2018-2020.

Finally, the new postal law which we already elaborately discussed during previous calls entered into force on February 10th of this year. This law designates bpost as universal service provider for a duration of five years after expiry of the current mandate in December 2018. In compliance with the new law, we implemented a price increase on our small user basket products on March 1st of this year. The average price/mix increase of all our domestic mail items will be around 4% for 2018.

And with all of this, I would now like to hand over to Henri for more details on the financials.

**Henri de Romrée:** Thank you Koen. I am now on slide 6. Revenues are up 38.3% as they include the consolidation of Radial since half November, as well as Ubiway and DynaGroup. EBITDA is up 9.9 million euro and normalized EBIT is up 6.2 million euro. EBIT was normalized for non-cash amortization charges on several intangible assets that were recognized following the purchase price allocation for de Buren, DynaGroup and Ubiway. These charges positively impacted reported income tax. That effect has been normalized here as well. Income tax last year was normalized for a non-recurring positive impact of 22.2 million euro related to the liquidation of Deltamedia.

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 -6.4% for the quarter, while the full year figure lands at the upper limit of our guidance range at -5.8%. In transactional mail, we continued to witness accelerated e-substitution mainly in the banking and telco sectors. In addition, we see a growing acceptance by end users of all kinds of electronic documents. This resulted in an underlying volume decline of 8.9% for the quarter and 8.1% for the full year compared to 5.9% in 2016. For advertising mail, we registered a positive volume trend at 0.5%, so it's a plus, driven by our focus on growth segments, especially Retail & Distribution, and sales through indirect channels, such as media agencies. Overall, advertising mail significantly improved its volume trend over the full year from -3% in 2016 to +1.5% in 2017. In press, the volume trend was driven by periodicals which benefitted from a volume shift from the 3rd quarter of 2017 towards the 4th quarter of 2017. Newspaper volumes were impacted by 2 distribution days less, which as you know is not corrected in the underlying trend. For the full year, the trend in press stood at -3.7% versus -2.8% in 2016. When correcting the full year 2017 figure for 3 distribution days less, the underlying trend was at -3.3%.

Parcels, on slide 9, recorded an excellent performance domestically for the quarter driven by strong end of year sales. Volumes were up 30.8% benefitting from strong online end of year sales and a continued strong C2C trend. On the flip side, price/mix stood at -6.9%. International parcels revenues declined by 3.3 million euro mainly as a result of phasing in recording revenues at Apple Express and a negative exchange rate impact for USD denominated revenues. Excluding these 2 factors, flows from the US were stable and flows from Asia and Europe recorded growth. The growth in Logistic Solutions is explained by the full consolidation of DynaGroup acquired in December last year and consolidated since January 1st. Radial is also part of Logistic Solutions but for the sake of clarity, we have

shown the revenue contribution since November 16th 2017 separately here at 201.9 million euro.

On slide 10 regarding our additional sources of revenues, we booked a revenue decline of 0.6 million euro in International Mail as a consequence of overall mail volume decline. Value Added Services added 0.7 million euro to the topline driven by the management of cross-border traffic fines on behalf of the Belgian State. Banking and Finance with 6.5 million euro less in revenues was impacted by lower commissions received from bpost bank, lower revenues from bpost bank savings accounts due to the low interest rate environment and lower revenue from financial transactions managed on behalf of the State. For Ubiway, you know that we consolidate the sales under 2 categories, "Distribution" and "Retail and Other". These 2 categories contributed 42.2 million euro in revenues for the fourth quarter as last year already included 1 month of Ubiway revenues.

Moving to costs on slide 11, you see that opex was impacted by our acquisitions for 257.7 million euro. Our organic costs were up 12.2 million euro. When excluding organic transport costs related to international revenue evolution, organic costs were up only 3.1 million euro for the quarter. Overall payroll and interim costs went up 96 million euro driven by an increase of 3,654 FTEs and interims on average for the quarter. The FTE number for the quarter was first of all impacted by the integration of our new subsidiaries and secondly by additional staff to manage the end of year peak in parcels. As the go-live of our new Brussels sorting centre was foreseen just before the busy end of year period, we did not want to take any risk on our service quality. Therefore we kept the parcel sorting operations at Antwerp X and Charleroi X running in parallel, resulting in additional interim costs. Delivering quality during the end of year peak was indeed our first priority.

Organic other SG&A decreased by 1.3 million euro mainly driven by lower third party remuneration fees and maintenance & repairs. Organic other costs were down 5.4 million euro driven by the increase of the recoverable VAT rate and a decrease of provisions for local and property taxes related to the previous years.

Moving to cash flow on slide 12, you can see that operating free cash flow decreased by 611.1 million euro mainly as a result of the Radial acquisition that closed in the fourth quarter. Free cash flow was also impacted by phasing in working capital evolution for an amount of 77.2 million euro.

Cash flow from financing activities increased by 687.2 million euro as a result of the bridge loan taken for the Radial acquisition.

As a result, net cash increased by 76.1 million euro versus last year and we now have a net debt position at December 31st 2017 of 292.4 million euro, making our balance sheet more efficient.

As Koen already touched on the dividend on page 13, I'd like to end here and hand over to him again for our 2018 outlook.

**Koen Van Gerven:** Thank you Henri. Before walking you through our outlook for 2018, we can summarize that 2017 was a year to be proud of with several key achievements. We booked record domestic parcels volume growth at over 28% with peak volumes at year end of over 360,000 parcels per day. We also demonstrated to be a reliable partner for Deutsche Post DHL for their B2C last mile delivery into Belgium. We saw advertising mail volumes growing for the first time, by 1.5%. We took a huge leap forward in the

concretization of our e-commerce logistics strategy with the acquisition of Radial. We also successfully moved parcels and mail sorting activities to new Brussels X in only 3 weeks. And last but not least, the new postal law approved early 2018 provides a stable and predictable regulatory framework for the Belgian postal sector.

On page 17 of the document we posted last night, you can see that at the same time 2017 wasn't at all a walk in the park. We faced an acceleration in mail volume decline which we were not allowed to compensate by a price increase on our small-user basket items. The 20 million euro gap on pricing should have been compensated by the EBITDA contribution from our new subsidiaries excluding Radial, but that was only partly the case. Ubiway EBITDA wasn't what we had expected and was moreover impacted by a restructuring charge for the reorganization of the press network. We also recorded additional costs related to the move to new Brussels X as well as end of year peak staffing as we didn't compromise on parcels delivery quality. Reliable delivery, especially in peak season is key, and we consider this as a good investment in our reputation.

With this in mind, the starting base of 2018 is at 574.8 million euro, being the result of this year's result excluding 23 million euro of positive one-offs.

I am now on slide 15 of the document with our 2018 outlook. It is our ambition for 2018 to announce a recurring EBITDA in the range of 560 to 600 million euro. The 2018 dividend will be at least at the same level as 2017.

Looking into 2018, we plan for a growing revenue base driven by double digit volume growth in domestic parcels mitigated by a price/mix effect between -3 and -6%. In international parcels we'll see continued growth supported by the positive contribution of

our newly acquired businesses. We don't have any indications that underlying trends in domestic mail will improve and therefore we count on further acceleration of e-substitution leading to underlying volume decline up to 7%. This will be partly compensated by a positive price/mix effect of around 4% on average on all domestic mail items. We further expect continued decline in banking and financial services revenues.

On the cost side, we'll continue to further optimize our cost base through productivity improvements, an optimized FTE mix and continued cost optimization on all categories. Nevertheless, we believe our opex will increase driven by higher transport costs resulting from growth in international parcels and mail. On payroll, we expect a 2% salary indexation to kick in as of November 2018.

For Radial, we expect revenues to be stable compared to full year 2017, while costs will be negatively impacted by the phase out of the webstore businesses and higher than expected opex related to medical benefits and inflation. Both of which will not be fully compensated by productivity improvements. As a result, we expect a stable EBITDA contribution versus what we recorded in bpost's P&L over the six weeks of 2017.

Finally, we estimate gross capex spend at 140 million euro relating to recurring and Vision 2020 investments as well as business development investments at our new subsidiaries.

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

## QUESTIONS AND ANSWERS

- **Marc Zwartsenburg – ING Bank**

Good morning, I have a couple of questions, first on Radial. You indicate no growth in 2018. Can you explain why there is no growth in Radial and how do you see that going forward? Continuing on Radial, can you give us an indication of the additional costs you see on workmen's compensation and the inflationary pressures? I know it is a bit early, but maybe you can also give an indication of when you think Radial will be earnings accretive, which year, so in terms of earnings accretive but also value creative?

Looking at the mail volume declines: do you think that given the trends in transactional and further digitisation that the up to 7% is on the safe side? Could you give a bit more colour on where that number comes from?

Then, on the dividend: do you believe that you will need to touch the equity reserve in 2018 to be able to pay the dividend guidance and can you give us the equity reserve at the end of 2017?

I have more questions, but I will leave it at this.

**Koen Van Gerven:** Thank you, Marc. Let's start with Radial. If we take some distance, indeed, the good news is that we had a very good end-of-year period with Radial. So, that went well, a very good peak and it delivered with a turnover slightly more than we expected. However, looking at 2018, we observe two phenomena that we take into account in the top line. First of all, the market will continue to grow, both with the existing customers as well as with new customers. So, that is the good news. On the other hand, after the good end-of-year period we started to take really control of the company and one of the observations is that we even should put more emphasis on the customer and make sure that we take the customer much more back in the centre of what we do. This was not

complete a surprise, because after a purely financial owner we knew and we had some indications. By the way, the additional costs we announced at the time of the conclusion of the transaction – the 35 million to 40 million USD – frontloaded in 2018, were partly about webstores rundown and partly about a couple of things that we had to do, amongst others paying more attention to customer relationships. To make a long story short: we expect that in the course of 2018 we are going to have a couple of difficult discussions with customers and that we discounted somewhere in the fairly flat top line that we have on 2018.

Additional cost about inflation: inflation is there and it will impact ...

**Marc Zwartsenburg:** Could I interrupt quickly on this one? By 'difficult' talks do you mean end contracts or come up with price increases that they will probably not accept? Is that pencilled in?

**Koen Van Gerven:** Mainly, I think, when we talk to customers and especially after the 2017 peak, they are fairly happy with what we do in terms of performing the service that we have to deliver, although what we hear is that basically with the financial owner and what a company should have: "having the customer at the centre of their thinking" was not what it should be. Is this a complete known field to us? To be honest: from that perspective and eventually from a couple of other things, I feel that we still have some work to do compared to what we do in bpost, so think about the customer, tune your offering from that perspective in terms of efficiency improvements – not a big investment but work on LEAN – in order to be more customer-oriented. This is the name of the game, but I am not naïve either. In a couple of discussions this is going to fire back, and we are going to have difficult discussions with a couple of customers. That we take into account for 2018.

Moving to the medical costs: I have to admit that this is a kind of an unexpected element. Apparently, there is a big increase going on in medical costs in the United States. You have different models. Somewhere, there was a hypothesis that basically most parts of the costs could be turned off to the employees, which apparently is not very realistic. So, we have to work on that. It will impact 2018, that is for sure, because it will take time. Of course, we are going to do what has to be done to limit the impact. To me, the good news over there is that with a new CFO arriving, who has some experience in his previous company, this track has already started, and we are working on that.

**Marc Zwartsenburg:** Do you mean you can pass these on to your clients, given the difficult discussions you still need to have?

**Koen Van Gerven:** It is not only a discussion that we have to have with our clients; it is a discussion with our employees, too. Provided that there are different systems, I think the jury is out and it has to be solved. But it is more a matter of months than of weeks.

Your third question was about the 'accretiveness', which we have projected as of 2020. I think it is fair to say that we have to do our homework, as we agreed with the community. We will come back on that on our Capital Markets Day at the end of the second quarter. Now, it is too early to start guessing in all directions; we will come back on that.

Then moving to mail volume decline. From that perspective, the fourth quarter was a bad quarter; let's put it that way. We observed an acceleration in mail decline and of course mainly in transactional mail. It is not a complete surprise of course, because in previous quarters we already observed this acceleration but there are a couple of things I would like to draw your attention to, that helped us in shaping the outlook for 2018. You have the

usual suspects (banking, telecom, utilities) but there are two elements that become more articulate and hit us. There is a growing acceptance – as we mentioned before – of e-substitution or e-mails. In the banking sector everything that had to do with account statements is already behind us, but now they start to digitise a couple of other things, like insurance contracts, statements on investment portfolios and even mortgage contracts, et cetera. Basically, they start to digitise that and the acceptance is higher than it used to be a couple of years ago. This will impact us and will continue to impact us.

The other part is in telecom. I am not going to say that they are more aggressive than they used to be in the past but eventually they have become more intelligent and they offer more and more packages. These are interesting packages but within the package e-invoicing is mandatory.

These are two phenomena that with a good acceptance start to hit us. That is why basically we take into account that this will continue to go in 2018. That is why we took up to minus 7%. Do we feel safe about this? We do not feel completely safe but sufficiently realistic whilst adding that next to a couple of evolutions we do not see a cliff coming either. That is why we feel comfortable but indeed, it is the first time that we go beyond 6%. In our mind, we can go up to 7%. That is what we included in the guidance.

**Marc Zwartsenburg:** But in terms of the price increases, because that only kicks in as of 1 March so it is too early to tell the impact, are you not afraid that this will also have an additional impact on your mail volume declines?

**Koen Van Gerven:** It is about the small user basket. Experience shows that the elasticity is relatively limited. The average basket for a household is about EUR 22 on a yearly basis, so it is not the biggest of my concerns to be honest.

Then we go to the dividend. What will help us of course is that the tax rates in Belgium will go down in the course of 2018 from more or less 34% to 29%. That is the first part. The second part of your question is about equity reserves. They stand today at EUR 172 million that we have at our disposal.

**Marc Zwartsenburg:** That's significant. Thank you very much.

- **Edward Stanford – HSBC**

Good morning, I have a couple of questions. I think you explained during the preamble but I am afraid I did not fully understand why Ubiway was not as expected in terms of numbers. Perhaps you could provide some amplifications on that?

Can you just remind us what the rough price increase was for the small user basket?

**Koen Van Gerven:** Sorry for my English but let's elaborate a little bit more on Ubiway. Ubiway is in the figures for the full period 2017. You will remember we closed the acquisition slightly before the end of 2016 although we could not immediately get a grip on the operations because we were waiting for the approval from the competition authority in Belgium. To be honest, it took much longer than we expected. This meant that we started later than we wanted to start in 2017. That is one of the explanations why we are not where we wanted to be and why the overall result over 2017 was disappointing. Looking much deeper into the different types of activities: the first type of activity has to do with distribution, the distribution of newspapers, periodicals and other things. Of course,

it is not a surprise that we have a structural decline of those activities. Firstly, 2016 was supported by the European football cup and then they had a couple of Panini transactions which are very useful. This is one part.

Secondly, we have prepaid coupons for a bunch of cards. This business was not very well evolving because we lost a big client in the course of 2017 and there is a change in the regulatory environment, as far as the anonymity of prepaid cards for mobile phones is concerned. That had an impact, too. On the other hand, we were able to have a slight price increase in the distribution component of this activity.

As far as retail is concerned, as I already said, we were not able to start and roll out the new format when expected. We were not able to start to work on the integration track that we wanted to start in order to realise synergies. We also were not able to start working on the product portfolio as we wanted to do.

To make a long story short: in 2017 we were lagging behind, although the good news is that for 2018 we took a provision as we finalised the agreement with the unions on the restructuring at the end of 2017. Now, we have a clear plan to further rationalise and integrate the sorting and the transport of the newspapers and rationalise the handling of the periodicals. It will start to deliver as from 2018 up to 2020. We won the contract, the tender of the Proximity shops in the railway stations, which is good news. So, we can start to work on that. We had the first roll-out of the new format in a couple of shops. It will continue to go in 2018 and we will continue to work on the repositioning of the product portfolio. All of this will lead to a slow improvement on the revenues and the margins. This is a little bit more colour and context on Ubiway on why 2017 was somewhat disappointing and why we are looking forward to 2018.

The price increase over the entire portfolio and over the year will be 4%. It is price/mix because as you know, we have different prices for advertising mail and transaction mail and provided that the decline in transaction mail is much bigger than advertising mail – where we have a positive growth – we have to take that into account. But if you take it all over the entire portfolio over the entire year you end up at 4% (in price/mix).

**Edward Stanford:** Thank you. Just one follow-up if I may. You clearly had a bit of a nasty surprise once you got into Radial with some of the issues on costs that you were not expecting. How confident are you now that you have a full understanding of what you are dealing with and there will not be any difficulty emerging?

**Koen Van Gerven:** I think, if you take everything together, we are comfortable that the engine is good. We have seen it working now for the end-of-year period, which is a critical period. We immediately spotted the weak things and of course, the medical benefits were the obvious one. We discounted as I said in the beginning, already that we had to do some work as far as the customer-orientation is concerned but also as far as productivity improvement is concerned. The reason why I am fairly comfortable is that the things we observe are not completely unknown to companies where you had previously a financial owner. To be very clear, we lived the same experience many years ago. So are these things unknown to us, the answer is no, but the good news is that basically we can identify them. But that is not sufficient; you have to understand them and establish a track and an action plan. That is what they are going through. With very enthusiastic employees over there we have identified around ten tracks that we will start to work on. And reason why I am comfortable is that we built this experience over here. At the time, one of the tough cookies monitoring these different tracks at bpost was Pierre Winand and he is now in charge at

the other side of the ocean. He knows what we are talking about and of course, that provides confidence.

**Edward Stanford:** Thank you.

**Koen Van Gerven:** And then we have a clear view on 2018. We are not going to tell you everything but of course we will come back to it on the Capital Markets Day. That will be included and it will be very important when we are talking about the longer-term outlook that we will handle at the Capital Markets Day at the end of June probably.

- **David Kerstens – Jefferies**

Good morning, I have two questions, please. First of all, also on Radial. If I calculate correctly I think your EBITDA margin before the integration costs is now expected to fall below 5% this year. You were previously guiding for a high single-digit margin by 2020. Is this still feasible and what are the key drivers behind the recovery from below 5% to around 9%, what you were guiding for previously? Do you still anticipate depreciation and amortisation to come down as well in 2020, which should make the deal earnings accretive? Secondly, regarding the e-substitution: what proportion of your mail volume is potentially affected by the second wave of e-substitution you were talking about, not just the e-invoicing but mainly the other types of communication?

**Koen Van Gerven:** These are relevant questions but to be honest, we have to come back on that on the Capital Markets Day. We can try and give a hypothesis in all directions but it is good to remember what we told you. We keep this ambition, no doubt about that, but to underpin it in a correct way we have to come back on the Capital Markets Day.

David Kerstens – Jefferies: But you have a turnaround plan in place, right? That had already started before you acquired Radial? What are the potential drivers of that turnaround plan that lead to the improvement?

**Koen Van Gerven:** The turnaround basically was part of the web services and there were a couple of things we had to do with the product positioning and the customer orientation. That will continue to be executed and that will contribute. But on top of that, as I mentioned earlier, there are other things that we have to handle and I would like to have an integrated view before we start to provide eventually modified outlooks going forward. So, I am not going to disclose any further information on this at this moment.

As far as your question on transaction mail is concerned, you have the details in the deck. Transaction mail accounts for, and that is that part of the business that is mainly impacted EUR 808 million which is slightly below 30% of the turnover.. This is not only about banks; those are all the players involved. But the usual suspects like Bank Telecom and Utilities are very important from that perspective.

**David Kerstens:** Thank you very much.

- **Sumit Mehrotra – Société Générale**

Good morning. First, just taking a step back, could you please share the building blocks for FY 2018 EBITDA guidance? As I understand clean EBITDA stands at 575 but the bottom of the guidance range[...] even goes for a decline now.

My second question is on M&A. Could you please give us a sense of whether EBITDA contributions from Ubiway and Dynagroup should be improving sequentially or is there still significant work in progress in the pipelines in FY 2018?

Lastly, the 7% decline in your guidance is understandable but what measures do you have in store to counter this weakness[...] first showing the mix on the back of the price [...] that have been taken.

**Koen Van Gerven:** Could you be more precise on the third question, please?

**Sumit Mehrotra:** The 7% decline is understandable but what measures do you have to counter the weakness that we first saw in the mix, which is going to take place because of the price hike that have been taken in domestic letters?

**Koen Van Gerven:** I will take the point on mail and Henri will come back on the different components and the build-up in the guidance.

Indeed, it can go up to 7%. Indeed, it is a combination of different types of products with better prices for the transactional mail than for advertising mail. Within the 4% price/mix-combination we took into account the 0.7, which is the product/mix-effect. The 4% is the price effect. I hope that answers your question.

**Sumit Mehrotra:** But with the price hike that have been taken, the mix could even see a downside risk.

**Koen Van Gerven:** If I understand well, I think we are talking different products. It is not that easy to substitute one product with the other. What can happen – and there you are completely right of course – and what we took into account – is price increases. That is something we already observe today. But again, the price increases we are talking about are in the small user basket. I do not have the price increases for the big users at the top of my mind, but they are lower. What we observe is that one of the measures big mailers take is regrouping: rather than sending three messages or three letters, they wait, they

regroup and reduce the volume. That is one of the measures they take. It is not new; they did it already before and they will continue to do it, because everybody is chiselling on their costs. So, from that perspective we took that into account as we always did in the past. That will not change going forward.

**Sumit Mehrotra:** Thanks.

**Henri De Romrée:** Regarding the guidance: you can look at it both ways. If you start from the 2017 results and you take out the different one-off element of EUR 23 million you see three effects on our guidance. One effect is for sure the e-substitution. Koen already elaborated on that. We had a full year number for 2017 of 5.8 and we guide up to 7%, so that will definitely have an impact. The second element for the 2018 guidance is Radial and the third element is everything that has to do in a positive way with regards to the parcels growth and the associated costs and investments. These are the different building blocks. Another way of looking at it is going through page 15 of the presentation, I can go through it again. There, you will find the different elements in terms of expectations of parcels growth, e-substitution, Radial, impact on the banking activities and different costs. So, you let me know what is most useful.

**Sumit Mehrotra:** And that is also in the context of the personnel cost pressure because now the indexation is kicking in?

**Henri De Romrée:** Yes, we expect the impact of 2% indexation in 2017 on the payroll costs in 2018. There is an additional index impact for the index 2018. That is again 2% and that will kick in in the last two months of the year.

**Koen Van Gerven:** Then on the question on the margins. Dyna has already a very nice margin and of course, we will continue to develop that business. Next to that Ubiway and there, as I said, we expect that we can increase the margin in the course of this year. It comes both from the synergies that we will start to realise on the one hand in the distribution activities and secondly, in the growth that we expect in retail and the work that we will do in retail with an improved format and an improved product portfolio.

**Sumit Mehrotra:** Thank you.

- **Ruairi Cullinane – RBC Capital Markets:**

Hi, I was wondering how you felt about future acquisitions at this stage? Does the current mail volume decline reinforce your commitment Radial-style acquisitions or are you more focused on integrating the acquisitions that you have already made?

Secondly, with respect to the new postal law: if the new law continues to give you scope for continued sizeable stamp price increases do you think you will continue to use them, even if this was to take your prices towards the top end among European peers?

Finally, I was wondering if you could give us a bit more guidance on Radial depreciation of amortisation and impairments in 2018. I think the last guidance we received was that this was likely to be more than Capex; are you able to be a bit more specific at this stage now the business is consolidated?

**Koen Van Gerven:** As far as acquisitions are concerned I think you did put forward the priorities I share with you. It will help us even better to understand and see how the market in e-commerce logistics evolves. Although I am convinced with what we see happening in this world, and I don't talk only about what we as postal operator happen in Belgium it is clear that our iceberg is melting. If you want to remain relevant in this world, you have to

reach out to new icebergs. That is as far as the first part is concerned. Although of course in the European continent and e-commerce in the Benelux is evolving and picking up, there eventually we will continue to see how we have to position ourselves in the e-commerce logistics and more particularly in the short-term in the specialised services or add-on services. I made reference to Dyna in the Netherlands, which was a very nice acquisition and it positioned us in these added-value services. In my remarks I hinted to what we did with Leen Menken in the cold chain and food delivery, which is obviously a very important market in terms of potential. If we compare it with a couple of other countries like the US or the UK, we see that we have not cracked the nut yet. It will come and when it comes, we have to be ready. We are not going to be completely absent, but we know our priorities. Secondly, as far as the price is concerned, we will indeed continue to work. It is not black magic and we know that. With other postal operators we observe that in a declining market your tool is fixed costs and your network is fairly fixing costs. One of the levers you can work on to keep it alive is price. Price is actively used by most operators and we will continue to do that.

Do we run the risk very rapidly to be at the top of what we see in Europe? I am not sure about that because today we are somewhere mid-way and even slightly below, especially if you take into account the purchase price or purchase power parity. Then we are even at the lower side of Europe. To put it bluntly, there is still room for a catch up.

**Henri De Romrée:** Regarding Radial, what I can say at this stage is that indeed, depreciation and amortisation will continue to be higher than capex and capex for 2018 is planned to be between US\$ 35 million to US\$ 40 million.

**Ruairi Cullinane:** Thank you.

- **Damian Brewer – RBC**

Good morning, I have two questions. First of all, given the historical yield-backing of your share, could you share with us the free cash flow generation in 2017? How much of that was from the core Belgian business and how much of the base dividend is support by Belgium?

Then the second question: could you elaborate a little bit more on the US, on what you think you can do different there? Clearly, Singapore Post have had problems there and Deutsche Post [...] 26 billion in a decade to get it EBIT flat [...]

**Koen Van Gerven:** I am sorry, I lost the beginning of this questions. The line was not clear?

**Damian Brewer:** I will repeat it. You have expanded your asset base about EUR 930 million and you have had no growth in it this year. Singapore Post had problems in the US, Deutsche Post spent 25 billion in a decade to leave it EBIT flat, so I am interested to know what you think you can bring differently to the US, given where you are with Radial at the moment. That is the second question.

The first one was what is the core free cash generation at the Belgium business that can support your dividend.

**Henri De Romrée:** We do not disclose our free cash flow evolution between Belgium core operations and the rest but I can comment on the free cash flow evolution in 2017.

Damian Brewer – RBC: That would be useful but it would be much more useful to understand what are the dividends that are supported by the core business because at the end of the day that is best what support your shares.

**Koen Van Gerven:** It is fair to say that the most important part today still comes from the Belgian activity. We do not separate that into different components. There is some

contribution but it is limited and it points a little bit to the second question you have. I absolutely agree with you that it is not our ambition to spend a lot of money and have no growth; we are not going to play in the side of Deutsche Post or DHL. I think we have a couple of challenges. First of all, our legacy business is declining and we all know that the margins on the legacy business are very impressive. We have to reach out to other possibilities and, as we elaborated previously, we think that what we found is not too far away from our core business, but it is not identical, too. We definitely did not want to go in the kind of business we know in Belgium, in an identical way abroad, the last-mile distribution of parcels. Why? Because we know that unless you have sufficient density and volume you cannot make money out of that. That is why the experience we built on a limited scale with Landmark and with Dyna, provided us some insights and indicated the potential of what you can have in e-commerce logistics. That is why we decided that we can step up and speed it up to get scale and this is Radial. Why am I convinced that Radial is different from eventually some other experience in other areas? It is because the building block of this business is about e-commerce, which is a sizeable market and a growing market. In the United States, with the acquisition of Radial we build scale and we get capabilities. Ultimately, with the idea to not only leave it in the United States but to cycle it back to Europe if the market evolves in that direction. This is the plan and this is the strategy we want to develop. Of course, we will assess at regular moment if we walk in the right direction and if we have to rectify the things we do or not. To be honest, after two months, it is too early to give a final judgment and compare to other events in the past.

**Damian Brewer:** That is very clear. Can I just check? You have expanded the balance sheet assets by EUR 930 million. In the Q2 Investor Day, if they have gone to investors with the 9% return on equity, that EUR 930 million needs to generate about EUR 84 million

of profit after tax. In Q2, will you be able to give us a trajectory of when you can get to that kind of return to offset the opportunity costs?

**Henri De Romrée:** The plan is to come back to you on the Capital Markets Day.

**Koen Van Gerven:** It is a more than relevant question. Do not read me wrong, but we have to do it in a serious way. As we pointed out, we will come back to that on the Capital Markets Day, probably towards the end of the second quarter.

**Damian Brewer:** That is great! I look forward to it. Thank you very much.

- **Tobias Sittig – MainFirst Bank**

Good morning, I have two questions, both a little bit following up on Damian's question. The first is on the balance sheet structure. You get EUR 450 million cash in the balance sheet; what do you think is the right level of cash you need for your operating business and how much can we expect in terms of balance sheet reduction now into the year?

I skip my second question.

**Koen Van Gerven:** As far as the needed cash is concerned: we need part of the cash for the operations. Probably, the amount of cash that we have today does not reflect very correctly the economical need to run the operations but it is an economical decision to keep a lot of this cash where it is today, because a lot of the cash is in our ATM machines. In putting them there – I am not going to go into further detail on that – we avoid regular replenishment and we avoid paying negative interest rates in bank accounts. In a normal situation without negative interest rates we have to do the calculation properly to have a

good view and to have a good cash management. Today, cash management is not very important with negative interest rates.

**Tobias Sittig:** And the other one is on free cash generation: you have not really earned your dividend in the past two years. Can you elaborate on whether you think that will be the case in terms of free cash generation in 2018 or when will you be back to the level where the dividend is covered by the free cash flow?

**Koen Van Gerven:** I am a little bit puzzled by the statement that we did not earn our dividend in the last two years.

**Tobias Sittig:** In terms of free cash generation. When I look at your cash flow statement, your free cash flow just before the acquisitions was probably closer to EUR 200 million last year and EUR 260 million as a pay-out you need for the dividend.

**Koen Van Gerven:** Okay, then you point to the acquisitions.

**Tobias Sittig:** Stripping of the acquisitions.

**Henri De Romrée:** That is excluding the acquisitions.

**Koen Van Gerven:** But excluding the acquisitions it is okay.

**Tobias Sittig:** Okay, maybe I will take this question offline.

**Koen Van Gerven:** I think we have to do that. Thank you for that.

- **Penelope Butcher – Morgan Stanley**

Good morning, everyone, also to dwell a little bit on the cash flow side but maybe focused on 2018 itself. You noted in the Q4 comments to the cash flow that there was a particularly large swing in working capital outflow in the Q4. Could you talk a bit about how you see the evolution of the working capital change in 2018 and thus, maybe just to help us with

the building blocks, of the headline guidance on EBITDA at the midpoint of your new range at 580 million, what you are expecting to be the working capital adjustment on that? If we then subtract the capex outline of 140 million, is that correct to give you a proxy of where we should be, assuming that further acquisitions coming out on a free cash flow basis?

**Henri De Romrée:** Let me give you a bit of detail on what happened on the cash flow side in the last quarter. We had a 77.2 million deterioration in working capital at the end of the year and that was mainly due to two phenomena. One was on the front of Radial and the other one was on bpost itself. As a teaser I would say that some of those elements will unwind in the beginning of 2018. On the Radial side, we had some social liabilities that needed to be paid out, related to the transaction. Which is a recurring phenomenon at Radial, we had a deterioration of the working capital in the end-of-year peak; basically, Radial pays the employees and its own suppliers faster than it gets money back from its own customers. Then there was a phenomenon on the bpost front, which was that we paid out social security faster than we did the year before. We had a few expenses, cash out, related to the transition to the new Brussels X at the end of last year and we had a specific settlement with the Canadian customs at the end of last year. That, altogether, deteriorated our working capital by 77.2 million. So, most of those effects will unwind in the 2018 period.

**Penelope Butcher:** Would it be fair to say that on an annualised 2018 basis your expectations for the overall change in working capital from a cash flow point of view should be closer to neutral or given now the timing of the Radial business it is possible to still be a negative outflow at the group level?

**Koen Van Gerven:** I think it is fair to say at this moment that it is going more or less to be more neutral.

**Henri De Romrée:** Yes.

**Penelope Butcher:** Okay. Thank you very much.

**Koen Van Gerven:** And again, we will come back on that in our Capital Markets Day, too. Of course, Radial is going to be important and we will treat that in more detail.

**Penelope Butcher:** Thank you.

- **Henk Slotboom – The Idea**

Good morning. Since I was out last night and did not arrive back in the office this morning, I have not been able to look at the annual report, so maybe the questions I am asking are in the annual report. Could you first of all give me the exact sales number of Radial in 2017, please?

My second question is on the double running costs of the new sorting centre. You said you kept Antwerp and Charleroi open for quality purposes. If I look at the specification in the presentation, you have given an all-in figure, extra rent and the double running costs. Could you please specify what is what?

On Radial again: after so many years of declining sales you are predicting stable sales. Could you give us a little bit more comfort as to what is giving you this feeling of keeping sales at the level where they were in 2017, please?

**Koen Van Gerven:** I will provide some catch-up for you although your last question we took in earlier in this call, so I propose we come back offline on that question. As far as the Radial top line is concerned, all over 2017 it came out at US\$ 1,082 million, which was slightly above what we guided at the time of the acquisition. In the fourth quarter, it was about EUR 203 million. I have it in my mind at Euro, because it is in the way it is in the figures. So, that answers your first question. What happened in the end-of-year period, I elaborated on that for the parcels here in Belgium. We had a very successful move of the sorting centre. The machine did turn, which is not unusual. There has to be a ramp-up in terms of tuning up the machine, which we were not able to complete. The flip side of that is that we expect that we can make future improvement in the course of 2018, but with the end-of-year in front of us we decided not to take any risk and compromise the delivery quality, because we all know that at the end of the year you make or you break your reputation. So, we kept standing capacity up and running that we had in Antwerp and in Charleroi. It came at a cost of 5.9 million in the fourth quarter, which we consider as a good investment in the reputation of the company in the Belgian and the Dutch market. I think we were the only one that kept our promises in terms of delivery speed.

**Henk Slotboom:** Absolutely! May I ask one more question, please? The Radial result, which is in the fourth quarter results, was EUR 16.9 million and that is after deduction of transaction costs. Could you give a ballpark figure for the transaction costs, please?

**Koen Van Gerven:** If you take the time to read it through you will find it but I think it is 2.8 million. Here, I talk in euros.

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

- **André Mulder – Kepler Cheuvreux**

Good morning. I have two questions. First, you talked about growth in the market that is still going on for the Radial segment. Can you tell us what kind of growth you have observed in that market segment?

Secondly, looking at the EBITDA numbers that you have given for Radial, I see there has been an increase in the DA especially in the fourth quarter. How much of that is attributable to Radial? Can you give us a bit more of a feel of what kind of EBITDA and EBIT you would expect for Radial in 2018, either in terms of absolute numbers or margins?

**Koen Van Gerven:** Your first question was on the growth that we observe in the market. To be honest, there I have to make reference to that we told because we do not have an indication that it fundamentally changed. What we observed in terms of growth in the American market is that when you take out Amazon it was about – if I remember well – 8% to 12% or even slightly higher. In the plans we have for Radial we took that somewhat lower; it was questioned at the time but one of the explanations is that basically, when you are in fulfilment, you cannot translate 1:1 the growth of e-commerce. We work in parcels and I understand that if the market grows the number of parcels and the fulfilment parcels grow at the same rate. In terms of market growth these are basically the figures that confirm what we saw previously.

Henri will come back on the questions on amortisation, but as far as the contribution of Radial is concerned over 2018 I said in my introductory remarks that we expect a stable EBITDA contribution from Radial versus what we have recorded in the P&L bpost this year. So, it will be in line with the EUR 16.9 million that we see in the figures of 2017.

**André Mulder:** And then a last question on bpost bank. We still see double-digit decline in Banking & Financial products. To what extent would that put the future of your stake in bpost bank at question? Would you still be interested in having that stake? What are the drivers to say goodbye to that one?

**Koen Van Gerven:** It is a very good question and indeed, this point appears on the agenda from time to time. As you know, the bank is important to us because it supports the post office network. It is still a very important contributor to the postal office network. Today, it still contributes. Of course, from that perspective it is not only the dividend that counts but more importantly, it is about the commission that we get. That indeed is under pressure. Part of the commission is related to the transformation margin which is at a historical low today.

To be completely precise on Banking & Financial Services revenues: it is not only the bank that has a less interesting period with these low interest rates, but we provide services for the State, too, in terms of payment services. You know the famous 679-account. There, we are paid per transaction and we observe the number of transactions going down. This is basically a fairly fixed cost thing, because we run a banking platform with a couple of people operating it. When the volumes go down, we tune the workforce functions of the volumes that we have to treat.

**André Mulder:** And then one question on the statement of 70 million in the EBITDA for Radial: you would expect the same amount for the full year 2018 as what you made in the last six weeks in 2017.

**Koen Van Gerven:** This is the right translation of what I said, André!

André Mulder – Kepler Cheuvreux: Okay. Thanks.

- **Marc Zwartsenburg – ING Bank**

I have a few short follow-ups. What will be the impact from the wage inflation impact from November onwards on the fourth quarter? Will that be around 5 million? What kind of numbers do you use?

**Henri De Romrée:** 4 million. It is 2%.

**Marc Zwartsenburg:** And then on the tax rate. We have a new tax rate in Belgium phasing in; what should we expect on the tax rate? Is that the low-30s?

**Henri De Romrée:** We expect the tax rate to be equivalent to the statutory tax rate which is expected to be at 29.58%.

**Marc Zwartsenburg:** For the full year?

**Henri De Romrée:** Yes.

**Marc Zwartsenburg:** Thank you very much.

**Koen Van Gerven:** There are no further questions. Ladies and gentlemen, thank you for having participated. As always, you can take follow-up questions with our IR department. Both Henri and myself will be on roadshows in the course of the weeks to come and we will be happy to meet you. As I promised, we will come back to you at the end of the first quarter with the results and I hope that we will meet at the Capital Markets Day. The date has yet to be determined but we will combine this with probably a visit to the new sorting centre here in Brussels. We hope to see you there all!

Thank you very much for today!

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End of call