Capital Markets Day 2018

Full transcript

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Koen Van Gerven

CEO, bpost

So, good afternoon, ladies and gentlemen. And on behalf of the entire bpost team, I want to welcome you here on this Capital Markets Day in Brussels, sooner than one could expect after the previous one in December 2016. But a lot did change in our world and not everything went as was expected. So, I understand your impatience to get a solid update on all of this.

I'm not alone over here, as you can see over there in the corner. I'm surrounded by a renewed management team. I selected them all to accompany me in this important transformation journey which is ahead of us. And the three heads of the business units as well as the CFO, they are all new to their job – though none of them is new to bpost in one or another way, and all of them have solid and proven experience in their field.

With Kurt – and he's with bpost since 2004 and he led the successful transformation journey of Mail operations as from that onwards. He did the GeoRoute implementation afterwards, capturing year-over-year the efficiency gains and shaping our Vision 2020 projects. And all of this, believe me, is very important and key to the job that we have at hand now for him.

Afterwards, he took up the challenge of putting bpost on the growth trajectory for Parcels and he delivered on this in the last recent years. And I have asked him to take over Mail & Retail as he has the leadership and he has the skills to deliver on that. And it's exactly what we need for this business today.

Luc Cloet is in charge of Parcels & Logistics Europe and Asia. And so, in some way, carry on the business that he started to develop with Kurt. And Luc and Kurt worked together already previously during the period of Mail operations, which gives me the confidence that they will do what is right in order to optimise operational costs. Luc has been with us for 17 years. After a tour of duty with Unilever, meaning that he knows to works in a Dutch environment to say so, which probably is ideal given the dynamics that we have in the Parcel markets.

Pierre is known to some of you about his previous role as CFO of the company and architect of the IPO. And after a short period managing a turnaround in another industry, Pierre, early-2016, became the CEO of Landmark, our US Parcels & Logistics operations. And I asked him to put his sharp mind over Radial too, and now he's the Head of our activities in North America. He has put his plan together and we will have the opportunity this afternoon to look into it with him.

Now, the agenda of the three of them is very clear. It is all about delivering bottom line, of course, using different levers for each business because they have different levers. And next to that, of course, we are a team and they have to continue to work together in order to achieve the objectives.

Next to the business part, of course, we need solid support functions. And here too, I'm surrounded by very skilled and excellent people. We have Henri – Henri de Romrée. He did join recently. But believe me, he knows bpost inside out because as a partner of McKinsey, he served bpost with all key files and therefore he knows us well. But there is something more. He knows very well how to challenge us, which is not unimportant either.

Then, we have Nico – Nico, who joined bpost in 2004. And before joining bpost, he was CIO of a retail bank. And afterwards for a couple of years, CIO of Telenet. And within bpost, he handled the Commercial Mail activities for a couple of years, and afterwards the Financial Services Department, before going back to his – what I would call, his first love, IT, and he became CIO and Chief Digital Officer of the company. And of course, with this background, it is very important to have the right skills to help us to enter even more, what I would call, the modern world, as a company.

We have Mark. Mark is the CHRO of the company since 2006. And he has been instrumental in accompanying the changes we lift both from the people aspect as from the union relation aspect. You know there is an embedded culture in the company of operational excellence at all levels and bpost really stands out over here.

And then, we have Derek. Derek joined the Executive Committee with a focus on regulatory, on strategy, on M&A. And next of that, of course, he held the role of Chief Legal Officer. And since 2008, he was too the Secretary General of the company. Of course, needless to say that as a company where regulation is so important and so close to the bottom line, there is a very important agenda over here that we have to manage in this field.

This is a team and it is carefully handpicked, I would say. They are up to the job for this important transformation journey. They bring their experience of the first successful transformation of the company from 2005 onwards, and which made bpost one of the most efficient postal operators. And of course, I fully agree that it was necessary to make changes. We made them. You will see. And now, I'm eager to demonstrate what we can do for bpost.

And as I said, this Capital Markets Day comes relatively soon after the previous one. But let's acknowledge our environment did change quite fundamentally, and not everything evolved or evolves as planned. So, we had to react accordingly. And I know that you would even have preferred to see us earlier.

But to me, today was not about a quick update or a quick fix. It had to be about solid preparation that was required so that we can share today with you a very solid diagnostic. But not only that, we have to be clear about, what I would call, the therapy, about the action plan that we have put forward to do the turnaround.

And let me go through a couple of the main challenges that we did observe last month. And of course, the first one is about mail decline. The volume decline accelerated for the last couple of quarters. Of course, it doesn't – it didn't come as a complete surprise, but it's more a kind of account confirmation that forced us to review a couple of things. Why? Because the recipe of the past which was within a given model, the combination of price increases and then the recurring productivity improvements that we could harvest, well, it is not sufficient anymore, going forward.

We had, of course, a rejection in 2017 on the stamp price increase which even prevented us of applying this recipe. Fortunately, in the meantime, we have solved this with the new postal law. And then with Radial, one could argue that we were over-optimistic about the speed of delivery and transition into bpost.

Did we look sufficiently to all points? Obviously, we could have done better on a couple of aspects, and we will take the learnings going forward. But in any case, we have to get it back on track before we earn the right to take further steps in acquisitions. And let me be clear on that too, remain convinced of the strategic importance and the rationale of the acquisition.

And last but not least, I have to recognise that the excellence of delivery was not always there, unfortunately offsetting too much productivity increase – improvements that we realised on different places all over the company. So, all of this to tell you that the challenges that we have in front of us are different and that we have to provide different, but solid solutions. Reasons enough to me to reshape the organisation, to reshape the team, and to come forward with a very solid plan.

Next to the plans – or next to the challenges, I mean, there were some key accomplishments too, which I won't neglect because they are, what I would say, game-changing. Our topline has grown since last capital markets day. We are, today – or 2018, we're going to be €3.8 billion in topline compared with 2016 where we stood at €2.4 billion. So, sizable bigger.

The business portfolio became more diverse. You have to know that 2017 was the first time that less than 50% of our topline came out of Mail activities. We can't underestimate the importance of the partnership with DHL fuelling the Parcel growth in our markets.

2017, our growth was, in volume, 28%, included DHL, compared with 17% in the previous years -- previous year, even. And with a joint plan for the Netherlands, we can gain years. We did double the parcel sorting capacity and improved our laid-in[?] capabilities in our sorting centre fully in line with what the market expects.

We have re-established, as I already said, a stable and predictable regulatory framework that is absolutely needed to help us to realise this transformation while safeguarding USO in this country. I did reshape the team. Three colleagues left, four came on board. And I told you, it's a top team – skilled and committed to deliver upon expectations. Lastly, we continue to deliver dividends to our shareholders and plan to do the same thing this year, which puts, of course, the company at a very attractive yield.

So, if we go to the objectives of today and what we plan today, we will expose and explain to you the vision that we have for the company towards 2022. We will share with you our commitment to performance. And of course, ultimately, our performance allows us to reward our shareholders.

Some of you highlighted the need to review, fundamentally, our reporting, to bring it better in line with the business reality of the company today. And we will do, and we aim to align the internal performance tracking with the external view that we will provide you, going forward. And it will give you better tools to model and to assess the company. And then last but not least, of course, you will have ample opportunity to connect or reconnect and meet the leadership team in charge of making this happen, what we're going to present today.

So, looking to the future, we aspire a bpost that is different in 2022, but rooted in its heritage. Indeed by 2022, we will be beyond Mail and Parcels & Logistics. We are very much aware that if we want this group to survive in the inevitable mail decline, of course, we have to continue to transform.

The good news, however, is that we know how to do. And of course, the heritage in all of this transformation we want to preserve is three-fold. We want to continue to keep focus on efficiency. We will continue focus on generation and reward the shareholder while providing USO and public service in this country.

And let me be clear on a couple of things. Our focus on cash generation and dividends will not change. And therefore, Mail activity and their cash-generating capabilities remain core. But of course, we will move to a more, what I would call, cost-ambitious operating model and distribution model.

We will have to realise the potential of our extended BeNe markets in Parcels & e-commerce Logistics in Europe and transform this growth into profits. And last but not least, Radial, an important asset in the very big e-commerce American market that we bring back in line with the initial investment thesis.

And on this basis, I have decided to change, fundamentally, the org chart and the internal operating model in order to bring more focus and to bring more accountability to the three business units that, of course, each have their own distinct agenda and each will take up the challenge in delivering on one of the strategic aspirations that I just mentioned.

And again, with Mail and Retail, the major point is about sustainability of our Mail and Retail offering in a shrinking market, which requires a new model and systematically implement cost levers. On Parcels & Logistics Europe and Asia, it's about maximising growth and turn it into profits. And then for the US, it's about getting Radial on the initial track as soon as possible.

So, we have now dedicated teams covering each – a distinct set of activity, perhaps making a little bit clear what you will find in the three buckets. Topline-wise, Kurt holds Mail and Retail. And basically, is what you know from before – Mail, Retail and the other sources of revenue, they count today for almost €2 billion in topline.

Luc holds the revenues of the extended BeNe last-mile in Parcels and adjacent activities, including in the national mail. And it runs for topline, €0.6 billion. And Pierre manages the US activities, mainly Radial and our Landmark business, for a total of somewhat above €1 billion – €1.1 billion.

So, the three business units will have their own P&L, starting from their topline, and all the costs will be allocated down to EBIT. And it allows us to look to the performance in a completely different way. And of course, the internal way is going to be much more aligned with what we will show in the external way. And of course, there is a particular challenge for Kurt and for Luc, and they have to work hand-in-hand to optimise, where possible, the costs mainly from distribution. But on all of this, Henri will come back later to explain it in more detail.

All of you here – all of you will hear what my colleagues have today this afternoon. And if you bring it all together, it will bring us to a new guidance for the period 2019-2022. And we used to provide in the past a guidance – a long-term guidance on EBITDA and CapEx level.

We will provide today a guidance on normalised EBIT as well as EBITDA, where EBIT is a new metric. There are several reasons to do so, which Henri will come back on. But one of them is the robustness against IFRS. And you know that IFRS, going forward, will change with IFRS 16, I think so. We want to have some stability.

And next to that, EBIT, at the end of the day, is closer – or normalised EBIT is closer to dividends and the way we want to reward our shareholders. So, we will do – this is the internal way, and the external way will be the segment reporting. We will do it on the same basis because I think it's important that everybody in the business and we all are tracked and incentivised on a metric that is very close the rewards of the shareholders.

The EBIT over that period, 2019-2022, will be in the bandwidth €390 million to €440 million and the EBITDA will be between €540 million and €600 million euros. And because of the changes that we're in the course of preparing and that we will start to implement soon, we expect that the 2019 figure will be the low end of the range.

This plan is an organic plan. And of course, for the avoidance of doubt, this guidance replaces completely the previous one that we discussed in Antwerp in 2016. In each section that will follow about business reviews and how we look to the future, we will tell you what the parameters are that we used and how, of course, they differ with the ones that we had in the past.

With this guidance, we are committed to deliver the earnings to be in a position to sustain the current level of dividend over the period 2019-2022. And of course, for the year 2018, that already you know. We guided on at least €1.31 dividend per share as we paid in 2017.

The dividend policy set out at the time of the IPO, namely paying out at least 85% of the BGAAP result, remains unchanged. And you have already noticed, since IPO, that the Board has some flexibility in the exact pay-out percentage that we will use or that we used, and we will continue to manoeuvre within this range as we did in the past.

Last but not least, we are, as you know, accustomed to a strong balance sheet. And I'm very proud to announce that as a confirmation of the strong and solid situation Standard & Poor's has attributed us with a A rating with a BBB intrinsically. Important – and the question was already asked in the session or in the lunch part of our meeting, important to mention that the basis of such a rating was the plan and the guidance that we will discussed – we will discuss with you today. So, we shared with Standard & Poor's the in-size – the insights that we share with you today. But Henri will come back on that later too

So to conclude, let's make a wrap-up, to deliver on this guidance, myself and all the colleagues of our Executive Committees have very clear priorities. And in a nutshell, some of them: profit and cash generation in a declining market for Kurt; maximising profitable growth for Luc; make Radial the key growth engine of at least €100 million EBITDA contributor for Pierre; and ensure that performance management allowing disciplined execution of the plan for Henri.

Know that they're going to present the plan. It's a plan that we extensively discussed in our Executive Committee, and on which the Board has provided approval, and on which we, as a team, collectively are committed to deliver it successfully. Thank you very much.

Kurt Pierloot

Director, Mail & Retail, bpost

Thank you, Koen. So, the first business we are going to review today is the Mail and Retail business. And as Koen already pointed out, the total value of total revenues of the business is about €2 billion with a couple of key components.

It's the basic traditional Mail business which is in there with transactional mail, €800 million, which includes the daily mail, advertising mail we send to both the unaddressed and addressed advertising, press isn't there, which is the delivery at home but as well as also the delivery through the point of sales where the clients can buy their magazines and press articles.

Big chunks also of close to €5 million around proximity retail, which is both for retail network – the traditional postal network and also includes the Ubiway network. And finally, a chunk of value-added services, including speos and some additional services we provide. So total, €2 billion.

What are the key drivers of that business? We've summarised them here on this page and then the balance of this presentation, I will dive in each of them and spend a little bit more time on each of the different value drivers. But I'll go now quickly through them. The first one, it's an obvious one. It's we are in the Mail business, a declining business and we speak of mail decline will impact, of course, the business profitability of the business and the way on how we manage it. Come back to that in more detail later on.

Second one, important lever in Mail business is next to cost control, it's about price levers. We've used it in the past, also recently. And going forward, we will also build upon that important lever to manage the profitability in our declining business. Third important driver is everything about the contracts that where the state, let's say, is involved, which is in the management contract, but as well as also the two contracts around Press for the delivery of both the newspapers as well as the magazines where the state helps us in contributing to the cost.

The fourth one – and actually, Koen already referred to it – it's our evolving operating model. It's we are currently at the moment where mail decline is at a certain stage and where also the needs of the clients are changing that we think it's starting to get ready to make our model evolve. More details will follow. But it's an important step to further cost control.

And the last one, as I said, our costs are important. Costs is what's important for most postal operator. It's about FTEs. How do we control these FTEs and how will they evolve, going forward? Those are the five important value drivers in our first business.

First one is volume decline. Volume decline, as I mentioned before, close to 6% was in 2017. Our guidance for 2018 is up to 7%. And for the years to come, we expect actually that that will progressively go up to about 9% in 2022.

What are the key drivers behind that? It's the continued e-substitution by large corporates and the state, but it also intensifying competition which is in the advertising market and, of course, also on the press market, where there's an evolution to more digital, etc. So, those are the key drivers of that volume decline which we expect to grow from 6% 2017 up to 70 – up to 7% in 2018, and then gradually progressively to more 9%, including the alternative delivery model.

Price is an important lever, as said before. Traditionally, in 2017, we compensated about 20% of the volume decline with price increases because, as Koen pointed out, we – finally, we were not allowed to do a price increase in 2017. Going forward, 2018-2022, our expectation, our forecast is that it's about 50% of the mail decline will be compensated by price.

Why are we comfortable saying that is that we have a new postal law and that postal law provides us some security, going forward. And whereas the old postal law was saying that the price cap we had before was linked to quality provide – that we provided and inflation, the price cap, going forward, will be linked to three things.

The first thing is still inflation, which important because it's still an important chunk of our cost, as we are talking about FTEs. A second new one, but very important, is the volume decline, where we'll be compensated for mail volume decline. So, if the mail volume decline is more important, our price cap will go up. And finally, there is some sharing in efficiency with the consumers.

And we've just added an illustrative example. The detailed formula can be found in below, etc. It's also on the bottom of the page. But if you're talking about assumption of a 2% inflation, 6% volume decline, that gives us about 7.6% of price cap – maximum price cap that we can use to increase the prices on the small basket users. So, important that new postal law to provide that stable environment to realise that pricing, even.

Of course, not everything is subject to that price cap. There is also a business which is admin and clean Mail business, direct Mail business, etc., which is not subject to the price business but it's kind of anchored to that because the discounts we give to the large clients are kind of linked to the reference price for the consumer.

And also, there, going forward, we will use selectively that price lever smartly. For markets where there's more competition, you will do it in a different way, of course, than markets where there is less competition or where there's more value to capture from our clients. So price, a important chunk. And the price was related to the first chunk, which was the thing of the transactional mail and also the advertising mail.

Second chunk important, which was €500 million in the first chart. Remember of the €2 billion, €5 million was coming from Retail. It did grow, of course, importantly in 2017 as a result of the acquisition of Relay, going forward. We believe that that will grow with 1% to 2% – two combining effects more on the Retail side. There, the growth will be a little bit higher, compensating for the decline that we expect in the Banking & Financial side, but globally, positive evolution expected to grow steadily over the next couple of years.

Our Retail network. That's just a recap. Traditionally, we had, of course, our postal offices. Postal offices, we provide both Mail, Parcels and Bank services. We've already added four years, the postal points, where we provide the Mail and Parcel – not the Bank, but the rest of it we provide in there. And with the acquisition of Ubiway, we also cut the additional carry points which are used for pickup of parcels, which are about 1,000 additional.

And then next, finally, we have four retail points of view that we operate ourselves. So in total, we're talking about a network of about 2,500 points that we will, going forward, manage in a much more integrated way to make sure that we provide the different services in each of the different channels and that they nicely complement each other.

Quick zoom in on Ubiway because there were also a series of questions. Important to know is that our additional – our original acquisition rationale still stands. What was it? It was two-fold. The first one was to diversify into proximity and convenience retail. Important one is to complement our retail and postal point activities that we already had. But it was important for the future to make sure that we were starting to diversify. That's the first one.

The second one was to make sure that we have a more complete offering to our clients because we were strong in everything which was related to delivery of newspapers and magazines to the home. Ubiway gave us the option also to make sure that we were strong in the segment of delivery through the point of sales where clients buy their magazine or their parcel.

Where do we stand on both dimensions? The first one on diversification. There, we're testing out a series of new concepts because we should note the retail concept we have is a good concept which has proven its value over time, but it's mainly based on press and also on tobacco.

Going forward, we are looking for how can we complement that with additional products for proximity on-the-go, for convenience products that you can sell in these shops, which is undoubtedly food and the like where you make additional margins. Concept needs to be fine-tuned, needs to be tested before we roll it out further.

Everything which related to impress there. One of the ambitions was to provide synergies between the networks that we had on traditional mail network, delivering newspapers and mail together with the network we had with – we have now with Ubiway. And there, the synergies are good on track to realise them.

At the same time, we're also injecting additional leadership in Ubiway. Since the year, we have a new CEO. And also recently, we are injecting more experience in everything which is related to the Retail part. But – so, important acquisition rationale still stands and we're making progress on what's on those rationales.

Then remember, we had the last revenue buckets of the €2 billion, which was the €100 million, which is projected here in – and which the numbers of the past are giving. And then there too, we expect like an amount of growth of 1% to 3%, going forward. And that's a combination of the solutions that we are providing that we will have some additional solutions, and also our speos activities are included in this one.

Good to spend some time on the management's contract – the contract with the states. You can actually split them in three big buckets. The first is everything which is on the left side, it's everything which is related to Universal Service Obligation. There, we do not get any compensation. There will always – only be compensation as soon as there would be financial burden. But today, it's granted till 2023 and it can be renewed with periods of five years. That's an important and first chunk.

The management contract is kind of a detailing of that with specific focus on a couple of services that we provide – SGEIs, as we call them – as series of additional services that we provide and for which we get compensated, which includes the Retail network, the cash at counter, election mail and also the cash payments of pensions. That's a management contract.

And the third important chunk is the press concessions, where it's basically made up of two contracts. It's a contract for delivery of newspapers at home and it's a contract for delivery of magazines at home. And both the management contract as well as the press concessions, they run today till end of 2020. And the challenge and the objective we have is that to renew that beyond 2020. Today, it's worth about €270 million in revenues – the management contract and the press – the press contract, sorry.

So going forward, the compensation till 2020 is definitely very stable because that's linked to the contract that we have today, corrected for inflation and some volume corrections, but that's contractually agreed upon. And after 2020, we need to renegotiate the contract. We assume that we will renew that and that will be, as you will see also, one of the priorities of our division is to make sure that we renew this contract in the most favourable conditions.

So, this is the – let's say the first part. The first part was more on the €2 billion revenues – how do they evolve with the different trends in their retail being different from the state contracts, from the press, from the transactional mail. Of course, part which is also very important, is how our costs going to evolve. And cost – if you talk about cost, you talk about FTEs.

And before diving into that, it's important to know that we have different dynamics in our FTE force within the operations at bpost definitely in Belgium. On one hand, you have the decline in mail. And there you see it on the on the left part of the chart where you see, actually, over the last year – and we've taken here as a reference 2013 – we see a decline of 19% of our mail volume and also mail revenues, which represents around €260 million.

On the other side, we have an – a pretty impressive growth of our Parcels – over the same period, 81%. Why is that important? Because it actually has an impact on our FTEs that we use. Because you would say – you could argue that, 'Over the last couple of years outside in perspective yet, Kurt, year 2016-2017, you have no productivity improvement at all', which is – actually, if you look at the numbers, could be the most – more natural conclusion.

However, if you look behind the numbers, you actually see that there are different components in there. First component is here mail volume decline. You have a decline in your volume. A lot is fixed costs, but you have some variable parts which allows you to reduce your workforce. Second one is productivity gains, which is, and remain for the future still, an important one. It's combination of process improvement, of automation – the whole shebang is in there.

On the other hand, as Parcels is growing at, as Koen was pointing out, from 17 to 20% – 28% growth, relatively it's growing. And at the same time, the number of FTE which are involved is growing. And actually, what you see here is that those additional FTEs that we need to just deliver those additional parcels actually compensate for the productivity improvements we may – remain on the Mail side or the volume decline FTEs that we can realise.

If you put that all together, you'll actually come to this type of chart where you actually say – actually, over the years, the share of FTE that you can allocate or people, postmen that were being working on parcel-related activities is actually gradually increasing. And in 2017, it's about 15% to 25% of our FTEs that I have on the payroll which are doing parcel-related activities.

What you'll see is going forward, is that here on the red side – the 80%–85% – you will continue to have the same effect of if there is a mail volume decline, we will make sure that the variable activities do translate into reduction of FTEs. And at the same time, we will continue working on productivity in – improvements. On the other hand, as we will be growing further in Parcels – and as Luc will point out, we continue to have ambitions there – you will see that we will need also more FTEs to deliver these parcels in Belgium.

If we then look, going forward, than we actually forecast – expect that the FTEs which are linked to the Mail side would decrease with about 5% per year. Of course, there, it will be a link to the mail volume decline. If your mail volume declines a little bit higher, you will also have a higher decline year. If it's less, positive news on the revenues. And of course, you will have a little bit less reduction of the FTEs. But the lower decline, of course, the better bottomline impact that we have. So, I thought it was important to put that a little bit in perspective.

Now, how are we going to continue working on these costs? Actually, in the past and since early 2000, in the first, let's say, first wave of transformation, we've always had our tool box of ideas. And we had a tool box and we said, 'Okay, what can we implement to make sure that we increase productivity? What are the additional automation levers that we had – we have?' And that's what we've been doing over the last years.

Going forward, the idea of the toolbox remains. It's just the ingredients which are different. An important one which is in there and I will come back in the next slides on that is the evolving operating model. Important one, but I will come back to that. But next to those, we keep on working on the traditional ones, which means in our sorting centres – one you will visit – some of you will visit the new Brussels sorting centre later today.

You will see that we will keep on working on what are the little, small continuous improvement ideas? How can you go further with fleet? What are the additional mail optimisation stuff, etc.? But also, how can we make our footprint evolve? We're currently performing activities for mail in five sorting centres. With mail decline, do we still need five sorting centres? How can you combine that with activities in Parcels at – etc.? So, optimising footprint is definitely there.

Other examples are in distribution, where we'll continue focusing on simplifying the processes on continuous improvement, involving the people like the good lean stuff, which has impact in mail delivery. And more and more, we will also use how can we use digital tools to basically, on one hand, improve the customer experience and, at the same time, also improve productivity.

And that could be – a typical example that I like to give is if you're currently receiving – definitely Belgian people here in the room will probably already have had the annoying habit of having to go for registered mail. But how can we make sure that you, as the receiving customer for the registered mail, is less upset if he or she was not at home and – when the postman was ringing? But how can we make that in a digital experience?

And for example, if the postman would ring and you would get something on your PDA and you would say, 'Yes, I'll allow it – authorise it.' Drop it in the mail box, for the sending client, probably as good as the physical signature. And for you, as a receiving customer, I think you would score me a little bit higher on the NPS score that I would love to get from you. So there, I think we can do great stuff, both working on productivity as well as on the NPS of the clients.

I talked about new operating model and the new operating model is actually triggered by the observation that if we talk to our clients, the needs are no longer the same as 15 years ago. 15 years ago when you were talking about mail. you were talking about our next mail delivery and you're talking about it should be high quality. Because at that time, we were struggling with high quality for next-day delivery. So, that was the theme – the thesis. Please make sure – make – correct it, etc.

Thus, if you would talk to clients, that was the overwhelming theme feedback that you would get. Today, if you talk to clients, they say, 'Yes, we still do appreciate that premium, fast, D+1 product. But it's not necessary for all products. For other advertising products or whatever, it can be interesting to have a day certain – on a certain day. And if we can integrate better operational change, we actually prefer that versus the obsession for next-day delivery.'

Taking that into account, it actually makes us think how can we, given those changing needs, given the decline in mail volume, what can we do about our operating model? And it's actually the – let's say the updated version of the XY model that we already talked about years ago and that we had in our tool box at the time but had not used and said, As long as mail decline is limited, we are not going to use it.' But this is the modern version of the XY that we discussed years ago. So, changing needs of clients, changing delivery model.

And why is it important? Because it actually helps us, again, increase the density – the drop density if a postman passed by. Years ago when you had volume, when you're passing by, you had a lot of items that you can deliver per household, which actually is the second item, third item, fourth item. So, marginal costs are pretty productive. So, it's about the drop density – the number of households that have mail do drive your cost.

Here, you're going to say, 'Given the decline in mail volume, if I change my model, I change it and I will get – do partly next-day delivery, next – partly, I will do non-urgent delivery. I'll combine that non-urgent delivery and I'll take that non-urgent delivery to deliver it at once. And that will actually improve my drop density and it will go up again.' A lot of words to basically say we hope to bring back that drop density to 70%, which directly impacts, positively, my productivity of the mailman in the street. That's for the FTE.

Second, if you talk about cost, it's FTE multiplied by price per cost. And therefore, in terms of average salary, there we expect that it's going to evolve in line with recent years. So, no major change. Are we talking about around 2% or the 2.1%, which we also observed in the 2016-2017?

But at the same time, we will also – further as our workforce is evolving with more auxiliary postmen coming in, we will have a positive impact of the mix which would mitigate about one-third of that cost increase of 2.1%. So, that helps to mitigate that because the population of auxiliary postmen is growing. Civil servants, which are the most expensive, are declining, which helps to reduce the average FTE cost.

Finally, there is the question, 'Okay, how can you do this with natural attrition?' Natural attrition in the past have been a great front to be able to realise these cost savings in a pretty cost-effective and also in a socially acceptable way. Going forward, we believe that it's still possible. And that is supported by the age pyramid. If you look at it, you'll see a lot of people – definitely the civil servants – which are 50-plus, which should give us sufficient room to be able to realise the productivity savings and, at the same time, even improve our mix. So, that's the first chapter so – on Mail and Retail.

So, when Koen is saying, 'How do you make sure that we keep on generating profits in a declining Mail business?' It's a little bit translated into four priorities for myself. The first thing is everything which is related to revenues, how do you actively manage those revenues in a declining business through mail defence, making sure that the clients do still see the value of mail because we can prove it. Pricing is important in there.

Second cleaver is all about cost control – continuous cost control and it's about little things of continuous improvement. It's about lean. It's about automation. But it's also about the evolving delivery model, going forward, which will bring an important productivity jump.

Third one, as you have seen, with the end of the Contract 2020 of the management's contract and the two press concession contracts, the important challenge will be to make sure that we negotiate that within favourable terms for bpost, going forward.

And the fourth one is making sure we deliver on the acquisition rationale for Ubiway and shaping the future of bpost Bank. So, that's it for the first part – the Mail and Retail business. I'll now hand over the pointer to Luc, who will talk about the Parcels in Europe and Asia.

Luc Cloet

Director, Parcels & Logistics Europe and Asia, bpost

Good afternoon. Thank you, Kurt, for this presentation. The first thing I would like to say is that I have a very, very nice challenge because my biggest challenge is to manage growth. And it's very nice because growing gives dynamics to the business.

It's fun. But it also has its challenges, going forward. And the business that I have, in fact, consists of three main parts. The first part is what we Parcels Belgian and Netherlands, which is all about our last-mile activity that we perform for e-commerce players in this market.

As you can see there, this is now nearly €300 million revenue business. It has grown substantially over the last couple of years. We will now arrive at 50 million parcels per year for 2017. This is now a business of 200,000-250,000 parcels a day. When I arrived in 2015, when we had a day of 100,000 parcels, we were really having a party. So, you see how this business has developed.

This business has also been shaped now over two main activities. The traditional activity that we already had, which we called bpack, which are the traditional parcels that we deliver in Belgium. But in 2017, we have added a new business called Dyna Group where, in fact, we are delivering parcels that are of another size and of another service type than a traditional e-commerce parcels. They are big parcels – what we call – what we in traditionally, would call ugly parcels because within the standard operating network, it is difficult to do.

In DynaLogic, we love these parcels because they are big. We can go with one man to deliver. We can go with two man to deliver. We also go into the home of the consumer and we also install the things that we deliver in the home – like washing machines, televisions and all that kind of stuff – which also provides us the means to also add value and also to calculate value for the services that we bring to the home.

Not only that what Dyna Group gave us, but it also made this possible to also go into the Netherlands. Because Dyna Group is a Dutch company that we bought – €130 million more or less in revenue – and it provides us now with a network not only in Belgium, but also with five hubs in the Netherlands, spread all over the country. So, this is a growing business. e-commerce is booming in Belgium, in Europe and we are benefiting from that.

The second business is also very much linked to that. It's e-commerce logistics. It is, in fact, based on two businesses. The first one is when we bought Dyna Group, they have a business which called Dynafix. In fact, they repair mobile phones that break – you know, they fall and then they break, and they repair that. But in fact, the repair is, in fact, only a minute part of the activity.

The big part of all that is the logistics, which are – which is around that. Because when you break it, you have to put it somewhere. Somebody has to come and collect it. It's repaired and then you have to get it back. So, it's very personalised logistics that is supporting that. And that's, in fact, why we have also put it under the under the e-commerce logistics activity.

The second part of that business is much more familiar to you. It's, in fact, the fulfilment business for e-commerce where now the order is done by the consumer. It has to be fulfilled. We need to bring all the goods that have been bought together and then ship it to the consumer.

Traditionally, we already had our own activity in Belgium, in Poland and in the Netherlands. But now with the – with Radial coming, we have been able to add Radial International, which has activities in the UK and in Germany. And so, that business has also grown for us. And I will talk to you about that – this later how we see that, going forward.

The third business is the cross-border business. Cross-border, which has traditionally always been an international Mail business for us. Now, you could say, you know, 'What about international mail?' Well, there is one category in international mail which is particularly interesting for us, which is called the packets. And the packets are small, untracked parcel-like things, but that are also sent through the postal logistics shipment – system worldwide.

Now, these packets have been used a lot also for the traditional Asian business coming into Europe. And so, while the international mail volumes have gone down, the package business has grown substantially and compensated for what has happened to Mail.

On the other side, naturally, there is also more and more cross-border business coming along with e-commerce that is booming. Because an e-tailer starts in his own country. But at a certain moment, he becomes big enough to also sell his products in the Netherlands, in France, in Germany and the UK. And so, there is a growing business there of cross-border parcels tracked mostly, which is fully, as in the first category, where we are doing all that business together also with everything that has to do with customers.

And naturally, customers are very important with that because there is another part to that is that all the parcels that are coming from Asia are also becoming more and more tracked parcels because the European consumer is not satisfied any longer not knowing when his parcel will come from Asia. And so, he wants more and more tracked parcels. And also there, we have been able to grow our business substantially cross-border like.

This is what has been reported. This figure, in 2017, is €45 million lower than the first figure you saw on the slide because the first slide also showed the Radial business that we have now and also the acquisition of a business in Holland, Leen Menken. But you see here what is happening, we had a dip in cross-border when the milk powder fell away.

But we have been able, in fact, to restore the growth in the cross-border business. The €88 million, there you had to have – to add the Leen Menken and Radial business, which is then €133 million in total for 2017. And then, you have the near €103 million – near €300 million business, which is a booming business, in terms of last-mile both in the Netherlands and in Belgium.

And how was that achieved in 2017? In fact, what we did was we acquired a number of things like first of all, De Buren which you'll find there on your left side, which is a company which is specialised in lockers. Lockers which are, in fact, pick-up, and places where you can put your parcels which are open seven days a week, 24 hours a day and which gives an enormous convenience to people to go and get their parcels whenever they want. Now, we already have more than 200 machines working over the Netherlands and Belgium and we are planning to double that over the next two years.

We have been able – 2016-2017 – to secure deals with a number of very big customers, going forward, also beyond 2018 and 2019. These are people such as Coolblue, such as BOL, such as Amazon, such as Vault Exclusive – so, the really big players. These contracts are there and prove to us that we are a really good partner to work within the last mile in the regions where we are active.

The next one is actually naturally the acquisition of Dyna Group, which I discussed, which adds to us a new set of expertise, new parcels – bigger parcels going into home, new services but also entering very actively into the Dutch market. And then, we had the launch of new Brussel X, on which I will come back later. And something, then – is something on which we are very, very proud is, in fact, the partnership which we have been able to close with DHL.

You need to know that we started to talk with DHL on 1st September 2016. We are talking here about B2C parcels. This is not the express business – let me be very clear about that. On 4th December, we launched the volumes for DHL. Everything that came from Germany, we did that for them in Belgium.

So, in three months' time, four months' time, we were able to cope with those volumes. They are €3 million a year. They are doubling, going forward. And so, this is very much important to say because this also shows that we have the ability to close partnerships not only with DHL, but with others, if they are wanting to work with us within the territory where we are active.

And to show that, in fact, that partnership has worked very well with DHL, we have just launched, in May of this year, a Benelux or, let's say, a BeNe product together with DHL, where we have partnered commercially so that we have one product, one way of working, one offer – one service offer for all customers located in Belgium and Netherlands for everything that is B2C. And so, we have been able to couple our brand name to a brand which is, I would dare to say, a reference in the European market and even worldwide. They have coupled with us. And together, we have one product for, going forward.

So, what are the key value drivers? Naturally, it's all good to say we will grow. It's also important to grow profitably, and I will come back to that how we will do that. You can see that the figures, they are double-digit, and we think they will maintain – we will be maintain double-digit, going forward.

We have an offering now that is for the Netherlands and for Belgian, going forward. We will have to optimise and continue to optimise our last-mile operations. And there, the work that we will do, together with Kurt, is of extreme importance because by working together, we have a number of good elements that others do not have.

And for e-commerce logistics, we have said we will grow with the market. We have gained our number of new tools with the Radial acquisition coming in. We will explore these tools.

We will try to leverage them within the European context. What we have said here, we will grow with the market. In fact, we want to double by 2022. And that does not exclude that if there would be formidable things coming along in that market that we will not look at an acquisition. But as Koen also indicated, I think we need still some other work to be done before we can come back with something very significant in that area.

On the other hand, we also have to acknowledge that size and logistics always matters. And so, that that will be an important point, going forward.

And cross-border, as I indicated, Mail is doing what Mail is doing. But we have the important flows of packets coming in from Asia. Also, we have the evolution of tracked things coming in. People want more and more tracked parcels. Asia is a very important growth pool for us. We have doubled our business there in 2017 versus 2016. And so, this is also very important for us to move on.

Now to come back to the Belgium and Netherlands market, what are now the main characteristics of this market? Well, the first thing is – and Belgian people will not like this – but in fact, Belgium, as e-tailing country, has completely missed the boat. So, if you can name me one Belgian e-tailer which is really, really big, there is no one there.

And so, what has happened is that the Dutch retailers have started their businesses and are working very, very much with, in fact, the Dutch-speaking part of this country. And although that Belgium thinks they are buying on a Belgian internet site, in fact, they are buying on a Dutch internet site. The extension is .be, but in fact, it is revenue that is done in the Netherlands. And so, there are many flows coming down from the Netherlands into Belgium.

The second thing is – linked to that – is that naturally, you have these e-tailers there. I can mention to you Coolblue. I can mention to you BOL. These are really important names. But there are things also like Van Vordere[?], things which are less known, but are also big volumes. And naturally, you know, if you do that, last-mile prices are benchmarked. And more and more, the whole market is looking at this market of Benelux as one market. And so also, we have to look at that in that way.

And actually, there's also a very, very competitive market. Belgium is a small country. So, everybody is here, coming from DPD, GLS, PostNL, FedEx, UPS – everybody is here. So, it's a competitive market. You do not survive in this market if you're not competitive. But I like competition because it keeps us on our toes.

Now, if you look at how many parcels really arrived per capita in Belgium in 2016, you'll see there a figure of six. If you compare that with the Netherlands, it's 90. Now, I can already reassure you that that figure is not six any longer for Belgium. It's moving up quickly. It's moving up with double-digit percentages. And so, bit by bit, we are keeping – we are getting where we should do.

The plan that we have made is, in fact, a plan where we think that in 2022, the Belgians will more or less have 14 parcels per capita, going forward. You might say, you know, 'Why not 19? Why not 39?' Well, I can tell you a story. I worked in the ice cream industry. And the

Dutch eat three times more ice cream than the Belgians. You know, we have long tried to explain that, but it is what it is.

So, there are a number of cultural things that play there which are there and we think that going from six to 14 is ambitious. It's something that is possible. It might be higher, we don't know yet. But everything that we have done in the plan is based on that assumption. We will however plan – and that is in our plans – that if it would be bigger, that we can cope with that, in terms of the operations because that is very important. And I will come back to that later.

And so, you see our growth figures. Naturally, in 2017, it was fantastic because we added to our volumes DHL, which naturally boomed everything. And next to that, we also added the volumes of Dyna – DynaLogic, which is all these big parcels, to that. Going forward, we see a double-digit organic growth. We have sought – sourced that assumption out of three external benchmarks which we have made, going forward, for the next years. It will be in the 12%, 13%, 14% range, we think, going forward.

And we also looked at a basket of four countries going forward – UK, the Netherlands, Germany and France. And so, this is the figure that we have that we have put forward in the plan. We hope that it goes faster. We hope for it. It might go faster, but this is what we have put in the plan.

In terms of price mix, we foresee a price mix of -3% to -6%. It is due to a number of things. First of all, there is competition. And let's be very clear – for my business, I am the leader in the markets I work with. That means also in my eyes, we also have to be the price leader. Because if the leader in the market starts to really destroy value in terms of price, then it's a bad thing for everything. So, we behave as a price leader and we try to do that in the market.

On the other hand, there is competition and not all competitors do agree with us. And so, there are competitors that, you know, do not do that and try to buy a market share. And that's why, also, we have a flexible pricing policy that where we need to act, we act and defend the ground that is ours.

There is also the customer mix which is there. Our big customers which are – have more competitive prices are simply growing more quickly than the other customers. And so, that has a negative effect on our prices. Otherwise also, people become also more and more competent in sharing and comparing prices also. That also erodes the prices.

And naturally, I don't have to tell you that we are confronted with bigger and bigger customers. They have more and more power. And so, they are trying also to install some kind of price pressure, on the way forward.

Now what is now – what are we trying to do in that market? First of all, I think we have played in May a very, very important competitive card. It's that we have one product for this market together with DHL. You know, the company – the customer has no hassle. They don't have to think about barcodes or anything else. It's one product, one offer, no hassle. You can think as it is one product.

We have also, naturally, integrated the sale forces when it is legally possible. Because this remains a commercial deal, so this is not a cross-investment between us and DHL. This is a commercial deal. But simply by having DHL together with us, we – instead of having two salespeople today in the Netherlands, we suddenly have 60 salespeople in the Netherlands. And that must also translate into higher volumes and revenues.

The second part is what I already said is the tactical pricing. You know? There are a number of elements to that. First of all, we will defend our territory. Let's be clear about that. Now if people try to undercut us, we have to react. But we will do that in the most intelligent way.

Secondly, we think that we still have possibilities, in terms of pricing, for example, in the areas of peak volumes. At the peak, capacity is scarce. Normally, scarcity should also translate in price. Yeah? Up till now, that is something that we have not really applied yet. It is something that we are seeing how can we explore that, going forward, that that is something that is – that there is value in there.

And the third tactics is for us is – as a price leader, we think that we should recuperate our inflation, going forward, each year in a market. That is the intention. That is what we want to do. But if we already have that intention, most of the times you also all succeed fully or also succeed partially.

The third element is something which has to do with our country. Our country is ideally placed in the European country – in the European continent as a logistics player. As you have probably read or not read yet, Alibaba will open a global fulfilment centre in Liege. Why are they doing that? Because simply, the cargo airports in Paris and Amsterdam, they are full. They cannot anymore accept more cargo planes.

In Belgium, we still can. And with a location – and having said that, that capacity is there. They have chosen to come to Belgium as one of their few hubs worldwide that they will have to, in fact, have their dream that they will be able to deliver all parcels worldwide in 72 hours. We will try to see how we can help Alibaba also with that kind of challenge.

And having them here is helpful. I've visited them, together with Derek, a couple of weeks ago. Many things are happening there. And we have – we live in good spirits that we will find interesting ways of collaboration with them.

And as you know, if you talk Asia, if I talk about 250,000 parcels a day, it seems a lot. But let me just tell you that Alibaba did in one day, 812 million parcels on 11th November of last year. And so, there is enormous potential there, if we can find the right ways to collaborate with them.

And the fourth element is probably the most important element. It's how will we behave as a partner towards our customers? And the first thing that I would like to introduce is the concept of the NPS, Net Promoter Score. This is a KPI by which most of the e-tailers are obsessed.

What is it? It is simply that when a customer has gone through the experience of an order until a delivery, they ask a score. They ask – the score is very simple. If you give it ten or nine, you probably will promote that company with your friends or others. If you give an eight or a seven, it's neutral. And everything that is beyond – below a seven is what they call a detractor. The NPA score is the percentage that you have of promoters less the detractors. Because, you know, that gives you a feeling of how good the experience has been for the customer you have.

As they are getting obsessed with that score, if we want to stay relevant in this market, we also have to become obsessed with that score. Because let's face it, often, we are the only human chain that there is in the whole experience that is in e-commerce order because the whole order is done on digital.

Everything is done behind the scenes. And who is still facing the customer? We are. Nobody else. Often, they still face it when there are problems. But we are facing them directly. And we think that there is value in also looking at that, making sure that this contact – that this human contact is as good, as excellent as it can get.

And to have that, we need to measure that ourselves so that we are fully in tune and fully aligned with what is important for our customers. That is also, I think, the way to create more value. Because if we don't create value, we will become as every logistics partner. That means that every year, we will be asked to do more for less money. And so, this is – must be a source of value, going forward for us.

Secondly, by being able to dedicate our network, we will also be able to also express the dream of what we are doing. A parcel is something that people are waiting for. So, it is not possible that you do not fulfil this promise. Because especially at the peak period at Christmas – just think about yourselves at Christmas, you are waiting for your parcel. My customer has made a promise that today or that it will be delivered tomorrow.

So, our network must fully, fully be obsessed also with that. That is that a parcel is a promise that we have made. And that promise has to be fulfilled every day, every hour, every parcel. And that are the two obsessions that we will drive through our business, going forward.

And the last one is all about cost. Because cost is a little bit easy for the day, yeah, for the moment because the market is growing. So, everybody, you know, it's a little bit easy. At a certain moment, that market will probably not grow any longer. And then, the only guys who will survive will be athletes that are fit, you know, that are – that have driven cost continuously out of the business and looked at it continuously with a lot of criticism, going forward. And So, we need to continue to be cost-efficient – cost-minded in everything that we do, going forward.

And here, come back – you know, I have put this little thing. This is the – this is a part of the commercials we have made together with the DHL. We've launched that at all the big e-commerce events in the Netherlands during May because that's a big month – May – in the Netherlands. But here, you see us next to DHL. I must say I'm pretty proud of that.

Here again, we can attract people. We have shown with DHL that we are capable of really building partnerships with the best and we are also willing to do that with others. I've put their names such as Amazon, such as Alibaba, Tencent, Wish.

And actually, we should not forget our current customers already, you know, like Lidl, who is doing and who has pioneered with us e-commerce in Belgium before they even did it for a number of articles in Germany. There is Carrefour, for which we are doing all the non-food fulfilment today in Belgium. We have MediaMarkt. We have Vanden Borre. And so, there is a lot of things going there for us. And we don't have only the last-mile, but also the fulfilment activities that go along with that.

Now, we come to New Brussel X. I hope many of you will visit the sorting centre this evening. I also have heard that there are a number of questions about that. Let me be very clear about this. Launching a new sorting centre is like driving a Formula One car. It's very – it's the same thing. It's all new to everybody.

And when we launched it in September, we launched it with one purpose and one purpose only – it was to really have capacity to deal with the peak of November-December. And you know what? It did what it had to do. It crashed out everyday 100,000 parcels and we had a formidable NDF peak in 2017.

We did not watch a lot productivity at that moment. It's as simple as that. Every day, 100,000 parcels. That was the mission and that's what the machine did. Our peak lasts in Belgium until the end of February because we have sales in Belgium until the end of February. As of the beginning of February, we are starting to look at this as we would like to start to look at a Formula One car.

Now, when is a Formula One car at its peak? Well, you know, anybody can drive a Formula One car at normal speeds, more or less. It becomes hard when you go to the really, really speeds that you want it to be – the speeds that are in the business case. And that is what we are now trying to achieve.

And that will take time because it's an enormous collaboration like there's a Formula One between the pilots. And that is the people that work on that machine, they have to learn to know it. And they have to learn to love it. Because a machine, you have to love a machine before it really works well. There's the pilots. There are the engineers – those who have built that. The suppliers will have to help us to improve. And then, there are also the technicians that we have constantly in the factory.

And so, that is now what we are doing. I am confident – and you will see that also with your own eyes tonight – that we will achieve what this machine has promised to do. We know that the mix has changed. When the product mix also planned, it was done five years ago. We have more bigger parcels now than we have planned for. It is true. But you also will see tonight in the factory that we have means to handle those big parcels. Yeah?

And so, we are going forward. We are installing new processes. We are talking to people. We are talking to the supplier – Leonardo from Italy – and they are working very closely with us to improve the situation. Yeah? But this machine is now constantly crashing out between 210,000 and 250,000 parcels a day. Every single day. It's solid. Doesn't that mean that it never stopped? Naturally, it stops. But we are learning very quickly now, when it stops, what we have to do, and going forward.

The operating model. As we said, you know, we will continue to maximise the synergies with Mail. We would be stupid not to do that because Kurt has, every day, a number of people on the road. Why will we not give to Kurt all the parcels that we can put into the letterbox? If we don't do that, you know, that would not be a really intelligent move.

We also have normal parcel – normal mail rounds which are on four wheels, which are in vans. Why would we not put also our parcels on these vans? So, we will intelligently really use the levers that we have there, going forward.

Where we can and where we must, we will dedicate and focus on the things – on those things. For example, the sorting operation is now with me. We will have a number of parcel hubs which – from where dedicated parcels runs will be administered. And so – but the whole thing – the whole network has to be very clearly is that we run on a promise that is that what was ordered today, must be delivered tomorrow. There is no excuse not to deliver.

And naturally, going with that is the sorting capacity. The sorting capacity that we have today is centred in Brussel X. Now, we still have the two machines that we had before, which is 150,000 a day in Antwerp and in Charleroi X going for it. And for the peak, we will reopen those two sorting centres, if necessary. And that will probably be minimally one, going forward. That is something that is already there.

The Dutch – the DHL Netherlands is also installing additional capacity, going forward, for 2000 – for the middle of 2019. They will have installed more than 400,000 additional capacity for their market, perhaps helping us also, going forward. And what is helping us even more is the fact that is that Kurt will be emptying a square meters.

As he indicated, going forward, he will have a need which is going down for sorting mail. These square meters are there. You know, when we have to add capacity, it's always building the thing that costs the most time and which is the most uncertain. Because you need a building permits and so and so on.

I can tell you we will have the square meters. The only thing that we have to do is to put a machine, which is a question of six months at the maximum. And the other thing if it really doesn't work, we can still do 15 million parcels a year manually. And so, I'm pretty reassured that going forward, that whatever comes along our way, in terms of growth – and I hope it is as high as possible – we will be able to cope with the sorting capacity, going forward.

Now, let me get to the second chapter, which is all about fulfilment. Pierre talk about Radial North America in a couple of minutes. But Radial had also a good surprise for Europe in its basket. Radial had already launched Radial International, located in Manchester in the UK, dealing with potential customers and real customers in Europe and Asia. Radial International is there. And what we will do with Radial is that we will look at all the new tools that we have been offered by Radial to see how we can fulfil and also complete our offer, going forward.

And let me just give you a small idea. On the right-hand side for you, in terms of order management, we had as good as nothing. Now, we have a set of tools which, I think, are leading tools in order management, going forward. Payments. Payment handling, fraud handling. We had nothing. This is a new tool that came with Radial.

We had already a number of activities in fulfilment. But here also, Radial has added two big sites – a big site in Manchester and a site in Halle Leipzig in Germany. So also there, we are learning about new ways of fulfilling – of having fulfilled – fulfilment operations.

Naturally the hybrid transport network, that is something that is at – always has been at the core of what our activities are. But also here, we have also inherited a customer care centre in Manchester, which is the global customer care centre for a customer like Mother Care in the UK. So, Radial has really completed our offer, going forward, and we will now explore both in the European market and the Asian market what we can do with that.

And not only that, we have just acquired a new company called Active Ants. It's located in the Netherlands which, again, adds a new way of looking at the fulfilment for the future. And I will just let you watch the little movie.

[VIDEO]

So, I hope this gives you an idea of what we are doing there. It is applying automation to something which is very difficult – fulfilment. It's a very complex process. But we have seen something which is very interesting and which we believe can help us forward with this business.

You could say why do we have this e-commerce logistics? Well, very simply because we believe fundamentally that as a player, we will have to be able to offer different kinds of activities to our customers. Last mile alone, I don't think it will be enough. Fulfilment alone, I don't think it will be enough. It will be a combination of activities that we will have to offer to our customers. So, that way – that they also can come with different kinds of problems, different kind of challenges to us to help them, going forward.

And let's not forget, the e-commerce business is a very, very young business. We are just only scratching the surface. And so, there is a lot of things still to discover – how to do things better, how to do things more efficiently, going forward. And so, fulfilment standalone? Great. But I think it's in the combination of fulfilment and last mile and perhaps other activities that probably the added value of a partner like ours may lie in the future.

This is the map of where we are. We are already present in five countries. We have a very small operation in Poland. But we are in Germany. We are in Belgium, Netherlands and the UK. And this is already now a €130 million business.

And then as last point to conclude, the business is a cross-border business. As I told you, e-commerce is very important for that business. We see the enormous evolution of cross-border business happening in Europe where, naturally, crossing the border is pretty easy up until now.

We are very much preparing already for what will happen with Brexit. But already, going to go to Norway and to Switzerland and so on, you know, gives us some challenges, but there we are specialised also in customs and things like that because it's been, since a long time, our core business.

And naturally, the Asian potential is enormous. We have doubled our business in Asia between 2016 – between – going to 2017 and that business will be coming along. Will it always come from a – from China? We don't think so. We think that probably going forward, there will be business – more and more business coming from Cambodia, from Vietnam and other places. And perhaps one day, Africa might be also a major import country for Europe and US. But a business, you know, which is still very important for us – international remains important for us, but a lot of potential also there.

And so to nearly wrap it up, my team is there my team is aligned with the priorities that we have set going forward. It's a strong team. They are they are all professionals in their area. The line that the court has indicated where the profit and loss accountability is very important is fully also drawn inside this organisation. So, if you see here, our Parcels last mile, the BU Head of the Parcels last mile, who is also fully profit and loss accountable for the business. And so, we are completely aligned with the way the organisational set-up at the highest level.

And so, what are my priorities? My priorities is growing and making a profit. And that is not always easy, but that is the ambition, going forward. Grow in Belgium and the Netherlands. Grow in e-commerce logistics, where it is still more an exploratory affair. But I hope very quickly that we know where we are going there and that we will get and earn the right to also acquire there further to increase the size to which it needs to be. And then, also capture this cross-border business as it is becoming much more tracked mail, much more also sophisticated, as it was before. Thank you for your attention.

Questions and Answers

Koen Van Gerven: So ladies and gentlemen, as you've seen in the programme, we will take a Q&A session before the break. And I propose that we address questions in first instance, looking to the pieces – the parts of information that you got before until now. Therefore, Kurt and Luc, together with me over here. If there are questions that we need some of the colleagues and where they can useful, of course, I will call them in. But let's start with the questions over there. I will take them one by one.

Edward Stanford (HSBC): Good afternoon. I'm just looking at your overarching guidance for the Group – at that level. It looks – I mean, if I read what you're saying correctly, it seems to me that in 2022, the business will still be making less EBIT than it did in 2017. A) Have I – is my understanding correct? And B) If that is the case, when you say EBIT is much closer to the dividend, how do we think about the dividend when you're actually generating less money to pay it?

Koen Van Gerven: Okay. Do we take because is it's how do we go to dividends, do we take it? It's a fairly financial question, but it's a relevant question. Perhaps – either – well, either we take the question and we leave it because it will come back in the financial section. And of course, it's a very relevant one. But we have to choose the build-up of this afternoon. So, we can take it now, but then we're going to empty the part of Henri. So if you agree with it, then we'll park it and take it back later. I think Mark McVicar –

Edward Stanford: Yeah.

Koen Van Gerven: – then, we'll take you, David.

Mark McVicar (Barclays): Thank you. Good afternoon. Probably one question for each of you. When you talk about changing the operating model inside the Mail business and moving from D+1 to D+3, do you need any regulatory approval to do that or does the USO specify that you have to deliver D+1 all the way through the five days of operation? I'm not sure I quite understand how that – whether you make that change unilaterally or you have to get regulatory agreement to do that?

Kurt Pierloot: I was probably not clear enough. But what we're going to do with the alternative delivery model is complement our current offering what we have, which is the D+1 offering, and complement it with additional D+3 offering, which basically means that whatever we offer today, we will still offer, going in future. So, we will comply with whatever we have to comply. And on top of it, we will have a, let's say, delayed offering where the consumer can choose between.

Koen Van Gerven: Yes, we have to be very clear on that. And because – you understand that the story in Belgium is all over the place. It's politically very sensitive. We're not going to remove the D+1 solution. So, everybody in Belgium – being it in an urban environment, being it in a more rural environment – will have the possibility to send and to receive a D+1 letter.

So, it's not that we're going to install the discrimination between people living in rural areas. No. Everybody will have this possibility. But as Kurt indicated, it's about a change in what people expect. Nobody waits for their invoice.

So, they don't need to have it even the paper form it – the next day. They can live with receiving it two days after or three days after. And this is the nice part of the solution. And in order – in doing so, we can again have a model where we can start, you know, working to make it more efficient and reducing costs. That's the essential part.

Mark McVicar: And an obvious follow-up to that. Presumably D+3 to the customer comes in at a lower price than D+1? How do you ensure that you don't just get this mass migration from a D+1 pricing model to whatever you're going to do with D+3? I guess if I'm a customer, I want a discount if it's only a D+3.

Kurt Pierloot: Yeah. Well, you always have it. Of course, when you have a D+3 product, it feels obvious that it will be at a discount versus a D+1 product. But versus today, it can be still higher. So, it's about the future evolution – how do you manage it? And you will have partially – you will have your D+3 product which will follow a certain price increase slope. And then your D+1 product will be at a premium versus your D+3 product.

Mark McVicar: Thank you.

Kurt Pierloot: So, you're right. There will be price difference to incentivise clients to go for the –

Koen Van Gerven: To be – to put it clear, there will be a difference in price because the type of services difference.

Mark McVicar: Yeah.

Koen Van Gerven: Are we going to apply a price decrease route compared to where the current price? The answer is no. But going forward, as Kurt indicated, it will be a different price. And all of this has to do with, of course, if you look to the reality of a fixed cost activity with declining volumes, mechanically, the price per piece increases or the cost per piece increases that we have to compensate in one or another way to remain profitability that we have.

Mark McVicar: Okay. Thank you. My other question then for you is could you tell us a little bit more about the DHL contract? You know, how long it is, how you ensure that you're properly remunerated for your end of, you know, the final mile delivery piece that you do? And you know, is it not one of those things that if it proves to be super successful, then they take it back in-house at the next contract break and do it themselves? Being the devil's advocate. Sorry.

Luc Cloet: Yeah. I don't think I can disclose, in fact, the length of the contract. But let's go back one step. In the end of the day, DHL closed their operation in Belgium for B2C parcels. You also know these people, they don't do that over one night. So, they did that, if I think, because of two things. First of all, probably at a certain moment, they made their calculations and said to themselves, you know, 'This will never become profitable because of your size – because there is this – size matters and all these kinds of things. And secondly, this company also has then said to itself, 'With whom will we do that?'

And so, they made, I think, a very careful choice where they found back a number of things: an acceptable price where both parties feel that they benefit and, secondly also, an acceptable term duration. Because, you know, if you tell me that I have to – that I have all the possibilities to stop tomorrow in one month, then, you know, there starts to be a tension between us that is very unhealthy.

And so, we found a balance whereby DHL was guaranteed enough to do this, in terms of duration. And we were also guaranteed enough that this contract would also benefit for us the investment that we have also had to make because we had to also do some investments. And so, this is – I think the best I can position the contract as it is because, you know, I also have to be careful in not disclosing things that are – but it is a purely commercial contract. It is a commercial contract.

Koen Van Gerven: There is David, and then we will move back to our colleague – of your colleague of Société Générale – with David, sorry.

David Kerstens (Jefferies): Thanks very much. First, on the guidance for the accelerated letter volume decline of 9%. To what extent is that driven by the smaller management contracts in 2020? I think the last time we negotiated the contracts, you lost around, say, €26 million in revenue. What kind of assumptions have you baked in to the 9% guidance? That's the first question.

Koen Van Gerven: But the 9% guidance does not include the management contract. 9% guidance is about the scope of transactional mail, direct mail and the press part, which is being delivered to the whole. And to the –

David Kerstens: Right. But the newspapers are in there, right?

Kurt Pierloot: The newspapers are in there. And there is the normal evolution, which I – it's a gradual evolution, going forward, as we've seen in the past. There's no massive stoppage there. But what is included in the up to 9% is also the alternative delivery model. If we talk about the alternative delivery model, we expect – we forecast that there will be some additional decline as a result of all of that. So, that also explains part of the increase of the expected volume decline. It's not clear?

David Kerstens: It's clear. Now, the only question was regarding the DHL contract. You mentioned that Belgian e-tailers have missed the boat. I was just wondering how many parcels do you expect to collect in Belgium and DHL to deliver in the Netherlands? Will that be an important business and generate revenue for you?

Luc Cloet: Yes. But what we are seeing is that they – that original layer coming off of Belgian e-tailers that are not yet known yet, but they are – you know, they are starting to be there. And the first thing that they do is they look north. They look north. And so, we see clearly these volumes growing going to the north. It has naturally not yet BOL's or Coolblue's. Let's be honest about that. But it are much more e-tailers which are in specific categories with specific speciality products.

And for us being able to offer a hassle-free product for these people also helps them to strengthen their offer going to the north. And so, it's a – if I – I'd rather not mention the volumes. But it is – for us, it is a substantial volume. Because otherwise, DHL would not have invested either with us if they did not expect some volumes to come back to the north. And so, that's substantial. Yes, it is.

David Kerstens: And you receive 19 parcels a couple of times in the Netherlands more than in the UK. It sounds like quite a high number.

Luc Cloet: 19?

David Kerstens: 19.

Luc Cloet: Ohm yeah. But then in the Netherlands, it's traditionally been a much more higher home delivery country than Belgium. It's been a tradition for certainly already ten years that it is like that. But it's – yeah, part of their DNA. It's part of their DNA.

Koen Van Gerven: Right. I don't know how long you left already the Netherlands, but that's an evolution you missed apparently.

Luc Cloet: Yeah.

Koen Van Gerven: So, if it is Dutch...

Luc Cloet: I heard that, you know, but he could be living in Asia.

Koen Van Gerven: We'll walk in the direction of this – I don't know if it's Mark or we move by, if you can live with that, by Ruben.

Matija Gergolet (Goldman Sachs): Yeah. Actually, a follow –

Koen Van Gerven: Sorry, I thought it was also just a decision also.

Matija Gergolet: So, a follow-up to the previous question. On the SGEI, the 2021 step-down, what kind of magnitude, if you can tell us, have you approximately baked it into the guidance?

Koen Van Gerven: Yes.

Matija Gergolet: Should we expect like a similar decline to the one from five years ago?

Koen Van Gerven: Yes. That's what – basically so, we took an extension. But we modelled it more or less in the same way as we did five years ago because, of course, we will continue to have a decline in the volumes, on one hand. But as you know, there is part of the efficiency gains that we can keep in the course of the contract, but that we will lose at the start of a new contract. And there again, we take into account that we have to rebase. And in – with the previous contract, if my memory is well, it was something like €30 million?

Matija Gergolet: €30 million?

Henri de Romrée: It was €27 million.

Koen Van Gerven: €27 million? So, €30 million is not too far away. €30 million that we had to rebase. So – and by far and large, this is the way we did it. But it was another sharing. Yeah, so that over the entire period of the contract, the efficiency gain was €30 million. We had to reimburse year-on-year part of it. And then, we had to leave the remaining thing that we were allowed to keep in the course of the contract. We had to really to give it back at the end of the contract.

So, the entire thing was sturdy. We lost part of it in the course of the contract. The entirety we had to give back. And this was the rebasing. And basically, we did it the same way for the new contract that we expect in 2021.

Matija Gergolet: Okay. So then, the second question. A follow-up on your D+3 product. So, you're saying that the D+3 will basically – there will be no price increase? Did I get that right, compared to the current product so that the D+1 will keep going up with the formula?

Koen Van Gerven: No, this is not what we say. So, we will have two products. There will be, let's call it, an express or premium or whatever. And this will be D+1 and it will be a higher price. And the other one will be – it will be a higher price compared with the – how do you call it? Non-prior –

Kurt Pierloot: D+2, D+3.

Koen Van Gerven: Yeah. D+2, D+3. So, it will be a higher price. What the base price of this product will be, basically that will follow the normal evolution of the price increases that we have had year-over-year and what we are allowed to do in the framework of the current postal law.

This being said, you know that in the past, we were fairly moderate in price increases. Many of you did ask questions to me, 'You know, why don't you push it further?' And with this model price increase, we ended up being somewhere in the middle of the European impact. With, of course, a decrease accelerating, I think it's fair to say that we are going to be less moderate, in terms of price increase.

And of course, with the new price cap, we will be able to push it a little bit further. But saying that, 'Look, we tried to make reference with the current price and the prices, going forward, between non-prior or the D+2 price and the premium price – don't try to make connections between it because it will be within the framework of the new price cap of more or less moderate price increase than we're used to be until today.

Matija Gergolet: Okay. I mean, my follow-up to that would be to say that I understand why you would have a faster decline if the D+1 basically increases more rapidly or to a higher level. But the D+3 is – say it becomes an economy product. In theory, there should be less, you know, e-substitution due to price elasticity.

Koen Van Gerven: If we talk here about the small user basket, then the letters that you and me send, we don't observe that there is a game of elasticity in e-substitution. So, this is not very important in that area. So, this is not something that we did observe in the past, if you push it bigger than this elasticity and the loss of volumes is lower.

So, we're not – this is not what we did observe neither in Belgium, neither in other countries. Don't forget that the consumption of postal products on an average Belgium household is €21 or something a year. So, it's not a size to be heavily impacted by price, as a necessity[?].

Ruben?

Ruben Devos (KBC Securities): Yes. So, another one on mail volumes. So the 9%, that's quite a significant difference compared to the previous capital markets day guidance of up to -6% by 2020.

We already learned the alternative distribution model, which could be cause of that. We know there was service elasticity. You had the e-substitution, the press concessions. These are all elements, I think, we're all aware of. But I was just wondering if you could just walk us through, you know, the rationale or, like, what has fundamentally changed compared to the previous capital markets ay when setting the -6%?

And then, the second question – just as a clarification. I assume that your plans do not assume any compensation for providing the Universal Service Obligation, which I read in the – yeah, okay.

Koen Van Gerven: I can elaborate on – I think it's a returning question. So, why the change? And basically, nothing changed and everything changed. We always knew – and you do follow people, since the IPO. So, we knew that we had somewhere a model up to 6% we could manage with the current model. And basically, we monitor it quarter-after-quarter, the decline. And we try to view what would be the evolutions in the quarters in front of us. And this was not an exact science. And we did observe a couple of things.

So, of course, it was creeping up. That we knew. But what we did observe was the volatility between quarters became bigger. That we know too. So, it became difficult or more difficult to read the future. If you go back to 2017 core – as the insights became clear somewhere in the fourth quarter. Remember, after three quarters in 2017, we ended up with a decline of 5.3% – comfortable within our range.

And moreover, something that we did learn was if you look in the way we looked at the figures quarter-per-quarter compared to the previous year, it was always if we had a bad quarter in the previous year, the comps are easier and then we had a good figure in the current year. So, all of this, you know, continue to go.

The first time we had, basically, a fundamental change in our observations was during the fourth quarter of last year. We had a fierce decline where 2016 was a very bad quarter. So at a certain point in time, you have to decide what's going on. And where the volatility – well, we didn't feel too comfortable with these comps. We didn't feel too comfortable with – because at the time the two things come together, it became clear to us, 'Look guys, there is something going on in the market.'

It complemented with the observations, of course, we all do and the contacts we have with the big EK, with the big senders. You observe in Belgium that a couple of them again start to be more aggressive in pushing to e-substitution. Why? Because they observed that the acceptance of the customer starts to grow. And all of those data points, if you put them together, brought us to the conclusion, 'Look guys, probably we enter a new area and the area will be the area of a decline above 6%.'

And we always told you if we enter that area, we have to find new, what we called, levers to compensate. We did in the past and we can do – continue to do a couple of them as Kurt indicated. We will continue to work on all of them. But at the other side with the current model, we had, we came to an end. And it's not credible.

If I would have told you today, 'Look guys, no problem. We're going to continue to work as we did in the past.', it would have not been credible. So, now we have to prepare for a new era. And I think the good news is that. We don't only know we have to prepare, we are in the process of preparing and we know what we have to do.

Matija Gergolet: Okay. Thank you.

Koen Van Gerven: I promised Mark, and then we will come back to you.

Matija Gergolet: Yeah. I had a small –

Koen Van Gerven: Sorry.

Matija Gergolet: I had a small second question on the compensation possibly from providing Universal Services. I think it was in the slides that if there would be a financial burden, you could claim compensation for public funds. So, I was wondering in the plans that you give today, I assume it's not – I mean, there's no compensation, right? It's just –

Koen Van Gerven: No.

Matija Gergolet: Okay. All right.

Koen Van Gerven: I think where we're going to Marc. And then if there is a mic going in that direction, then...

Marc Zwartsenburg (ING Bank): Yeah, a couple of questions. First, for Kurt. Can you give us a split of the 9% decline between transactional press and the advertisement mail? How you see that develop and what are the –

Kurt Pierloot: That we do not give.

Marc Zwartsenburg: Cool. Because would advertisement be, say, in the low-single digits and then transactional, double-digits? Should we look at it like that or...?

Kurt Pierloot: No, you have two different effects. So, you have on the transaction, you have the digitalisation.

Marc Zwartsenburg: Yeah.

Kurt Pierloot: That's the key competitor between brackets. And on the other one, the key competitor is the pretty intense advertising market, which is also very competitive.

Marc Zwartsenburg: Okay.

Koen Van Gerven: And here – of course, there you have the other communications solutions that you have – the new kids on the block like social media and things like that that, of course, are more present than before. But the flip side of it is that they're there. And I think that we proved it in the past. There is value in the right – taking the right combination of digital media and, of course, paper media.

Marc Zwartsenburg: Yeah. The reason why I ask is that the advertisement is currently showing a far better trend than transactional.

Koen Van Gerven: Yeah.

Marc Zwartsenburg: So, I would like to have an idea of what your view is on the specific segments to –

Koen Van Gerven: We continue to work on that because we observe that there is value in combining the different media, in terms of communication, the digital. And there, we use – there is, of course, the advantage of the reach and the stopping power and a call to action of the paper media. In our thinking, this advantage will remain, going forward. So basically, we take that into account in our model.

Kurt Pierloot: And another thing, it's on the clients, it's becoming less and less relevant for a client, is it a type of direct marketing or is it an admin mail? If I'm sending – traditionally, if I'm sending email which is personalised for you, we consider it as an admin transactional mail. If it's to a larger public, it is considered as a direct mail.

What we're doing, in terms of sales force with the people is much more engaging. We interview our clients, 'So, what's the type of communication you want to do with your clients?' And there, you see blurring advertising. Traditionally, what I would call, advertising traditional transaction mail, which we called relationship mail, but which builds upon the typical invoice type of things, combining with other type of communication.

And at the end, what you're selling is letters. If you're talking about, for example, later – transactions with a product that we've been selling lately, it's like everything which is related to GDPR. How can we help our clients in communicating around GDPR?

In the end, whether you classify it under transactional or direct mail, it's less relevant, in terms of product. We, of course, try to push it as much as through the transactional part because there, the price point is much higher. But it's more in communication.

So, we kept it more on the global level of how it's going to evolve. But if you look at the past, it's true that traditionally, the trend – the pushing that we've been doing have been successful. And you see that in advertising mail, the decline has been lower than in transactional. That you see in the deck too. And those actions we will keep on doing – those products, those services.

Marc Zwartsenburg: Maybe there's another one for you, Kurt. You mentioned also the decline in FTEs used to be -3.5, will accelerate to -5. Where should that come from? Because I always had – well, I think it's your official your vision statement you gave a month – a years back that shows that as the mail volume declines will be north of 6% or south of 6% down, you would need to have additional restructurings. I read nowhere any restructurings. But all of a sudden, the decline in FTEs accelerates to -5. Can you perhaps explain that?

Kurt Pierloot: But the key restructuring is linked to the alternative delivery model. A result of the delivery – alternative delivery model is that you will concentrate – you will have heavy days and less heavy days during the week in your delivery organisation, which means on the less heavy days, for a certain area at least, you will have far less people working.

Marc Zwartsenburg: So, that model drives –

Kurt Pierloot: And that's a significant change –

Koen Van Gerven: Sure.

Marc Zwartsenburg: – change in decline?

Kurt Pierloot: – in decline in change.

Marc Zwartsenburg: And what are your costs attached to that?

Kurt Pierloot: What do you mean? What are the costs linked to that?

Marc Zwartsenburg: Well, apparently, you need less people and your retirement is now 5% on an annual basis, I presume?

Kurt Pierloot: No, natural attrition is –

Marc Zwartsenburg: Is it 5%?

Kurt Pierloot: No, it's above 1,000 still for the years to come. It's 1,200, 1,300. So – and you have the Mail side, which is going down. On the other side, you have the partial side going up with volumes there too. So, that natural – you will have to find the natural attrition. But based on the current plan, there is no issue with natural attrition.

Marc Zwartsenburg: So, we don't need additional researching alpha programmes?

Koen Van Gerven: Alpha programmes were never for the postmen.

Kurt Pierloot: No. It was not for natural attrition.

Marc Zwartsenburg: Right. I call it an alpha programme –

Koen Van Gerven: Yeah. But –

Marc Zwartsenburg: – it could be your beta programme.

Kurt Pierloot: So, we continue to have this comfort. We need to have this comfort and, indeed, it's – some may – well, call it a major restructuring thing because the model is going to be completely different.

Marc Zwartsenburg: Then, I have to come back on the management contract. It's still unclear to me what 2021-2022 assumptions are for the management contract. And in the meantime also, you see that red bar in slide 29 – the inflation part that – is there something to expect for 2018, 2019, 2020? And what are your assumptions then for 2021-2022? What is it in your guidance for the management contract? Can you give us the ballpark figure?

Koen Van Gerven: In our modelling, we take the extension of the contract of the services because the hypothesis is that – that we deliver, in terms of services, continue to be relevant, of course, with the declines that we lift and with other volumes that we have today.

But indeed, we have in our model that the management contract, as far as the distribution of newspapers is concerned, is going to continue and that the management contract, in terms of the services that we're provide, in terms of proximity of the network, in terms of payment of pensions, in terms of payment of invoices in post offices and so on, continues.

Marc Zwartsenburg: What do you mean by continues – 246 for 2020, that continues or a lower amount because it's quite important?

Koen Van Gerven: As we discussed previously, so with the experience of the previous contract and basically the rebasing we have to do, a function of the efficiency gains that we will leave, those are a couple of the parameters that we took into the – into the model so that there will be a substantial amount that we will continue to receive for those services.

Marc Zwartsenburg: Okay. And then on the partials, how much savings do you believe you will get from the NBX parcel delivery centre or will there be just extra cost because in the end, you will probably need all the capacity. Is that currently double rating cost that we should take to account towards the next two years or is it as is?

Luc Cloet: It is – okay. It is at – at this stage, we are still running in fact costs which are above the business case. And we foresee that that probably will still continue until most of 2018. As of 2019, taking into account the difference in mix, we should be very close to the business case and that's what's been included in the plan.

Marc Zwartsenburg: And what is the delta? Can you share that with us? Do we have an idea?

Luc Cloet: No, I don't have an idea. But I could think –

Koen Van Gerven: Yeah, let's take it back when we go to the financial part. In the interest of time, how – we used already the time probably.

Luc Cloet: Yeah, yes, we –

Koen Van Gerven: Let's take three more questions and then we will take the other ones to the second Q&A part if you agree. Otherwise, we're going to run out on the programme. Then, yes, first let's take so that everybody has the opportunity to at least address a couple of questions.

Lorenzo van der Vaeren (ING): I have three questions, well, small questions. The first one, when do you plan to launch the D+3 offering? The first one. The second one, are you able to serve some of the volume coming down to Belgium from Coolblue and Bol.com and so on?

And the last one is about absenteeism. How do you cope with it? Is it rising? Is it getting more of an issue?

Koen Van Gerven: Do you start with –

Kurt Pierloot: I'll start with absenteeism. On absenteeism, we are as Koen explained, there are some – a whole programme which has been launched to address the absenteeism. And there, we see that it's paying off definitely in the offices where the absenteeism actions are being taken. So, that's paying off. And there, we see lately that the results are going the right direction. So, it's hopeful results.

At the same time, you should know that absenteeism is a result of management actions to make sure that the environment and the well-being is correct. But there is also – if there is tomorrow, whatever, an additional – how do you say that – help me, *griep*.

Koen Van Gerven: Flu, flu, flu.

Kurt Pierloot: Then it's an external factor you can't manage. But internally, we're pretty comfortable with the action plans that are under its way. Remind me the first question was on?

Lorenzo van der Vaeren: D+3, when you're going to –

Kurt Pierloot: D+3.

Lorenzo van der Vaeren: Well, D+2, 2+3.

Kurt Pierloot: D+3, it's going to be a gradual implementation because relatively soon, we will – as we speak and as we speak here, it's getting into the open and we are already discussing with clients on how we can implement this because this is not a thing you do alone. You do it together with your clients.

So, if you start about – talking with clients that can be the day, the first day of implementation, let's put it that way, and then it will be gradually starting to work on it. And the good thing about the model is that definitely the first part, you can already start doing it. And as soon as you have sufficient volume which is indeed D+3, you basically try to switch and realise your savings in the delivery. And that's currently in the plan. It's now assumed that we will have these first savings in 2020, I think.

Luc Cloet: In terms of capacities, yes. So, we are now already sitting together with our customers to prepare the end year of – the end year peak because we need to prepare now for seeing what is happening there. So, we are taking now already the actions to make sure that again, you know, we can deliver the volumes that are – that we expect to be there at the end of the year and then going forward.

Koen Van Gerven: Can we take the last question in the back of the room? And then I propose that we –

Luc Cloet: Pause.

Koen Van Gerven: That we break for a coffee.

Sumit Mehrotra (Societe Generale): Sumit from Societe Generale. My first question would be to understand what's the evolution of Ubiway profitability of late? And about DynaGroup, you had mentioned some high single digit margins by 2022 to be reached. So, how are we progressing on both of these businesses?

Koen Van Gerven: Well, either –

Kurt Pierloot: I don't have the details in my [inaudible].

Koen Van Gerven: Yes, either way, take it now or – you can address it now, okay, fine. You will address it later or you're going to do it now?

Henri de Romrée: I will address it when I go to the different parameters of the model if that's okay on Ubiway.

Koen Van Gerven: Okay.

Sumit Mehrotra: Second one would be I still missed that – I still missed how you will still achieve the 5% reduction in the personnel costs, in the personnel FTEs in the Mail business just with the accelerated delivery model which is going to show its first effect by 2020. So, what should we see for the next two or three years in this momentum?

Kurt Pierloot: You have multiple stuff. You have the – still your continuous improvements in the whole chain which is an important chunk. If you look at continuous improvement, you can realise a lot. You have the shift in activities that we already announced and which is ongoing. The optimisation of the footprint in the sorting centres is not new. It's actually – we are starting – it's where basically some working centres, we will be closing in one of the sorting centres moving into the other ones which creates additional synergies in that centre. So, it's not that, how would I say, that it's going to be a day – you close a sorting centre or whatever, but you have activities being moved – being moved to a certain sorting centre where high productivity because you bring again all the additional volume.

Next to that, there is also the – on the collect side for example which I mentioned. How do you make sure that the service offering that we have there is fully aligned with the volume that we still have in these red boxes? Also, smaller but ideas that contribute to the overall productivity improvement.

And the mail decline too. The mail decline already helps mathematically parts contributing to a reduction in FTEs, yeah.

Koen Van Gerven: Okay. If you agree then, we can close this Q&A session over here. We're going to take coffee therefore we have to go up. And then we see again – each other again within 15 –

Luc Cloet: 15.

Koen Van Gerven: Ten, 15. So, let's – let's take 3.30, okay? Thank you.

Pierre Winand

CEO, Radial & Director, Parcels & Logistics North America, bpost

Good afternoon everyone. Hola. Very glad to be here to talk a little bit about North America, Parcels & Logistics North America, and more specifically about Radial of course.

Parcels & Logistics North America is not only about Radial. It's mostly Radial. So, we mentioned we've got about $1.3 billion in revenues pro forma in 2017 which means as if all the acquisitions had been completed at the beginning of the year of which of course Radial is the biggest contributor with about 1.14 again pro forma, i.e., it's the full year but also without any webstore business revenues in there. We still had some webstore revenue business in 2017 and a little bit in 2018. We've stripped that out. We'll show that later.

Next to that, we have a number of businesses which are active in cross-border parcel, so basically facilitating one way or the other the export of parcels outside of the US, mostly to Canada, to Europe, to Australia, and we operate under a number of names but the biggest one is Landmark Global. We have sister companies in Canada under the name Apple Express among others. Apple Express for instance does the last mile distribution for us. So, part of the Landmark parcels distributed at home in Canada are distributed by ourselves through Apple Express. We have some activities in Australia which are also in this segment there or in this part of the segment there, again linked to cross-border parcels.

Cross-border parcels in general is a growing business. It goes in all directions whether it's import or export. So, basically, our ambition in that particular segment of the market is to continue to grow with the market, and therefore continue to facilitate the exports of parcels from the US to the rest of the world.

Final activity in the US is US mail, which is a bit of a legacy business, the first business we acquired in the US a few years ago which we have complemented at the beginning of this year by two acquisitions – Imex and Mail Inc. active in the same segment but also in catalogue.

Here, our strategy is a little bit more focused. Basically, this is a declining industry, a declining business. But scale and scope is relatively important in there. So, we want to be one of the last men standing which means basically integrating the companies and really going into a simple model where everything is put together so that we can benefit from economies of scales in that business.

Won't talk about those. They are important in some ways but I'm sure that Radial is certainly the part that is foremost in your mind because of the size.

First, maybe why, what the hell did we do, why did we go into e-commerce in the US? I think one of the more – very important thing to remind everyone and you know that is that e-commerce is a very big business in the US. And it is still a very much growing business. Even though it has a certain level of maturity compared to other countries, it is more and more in daily basis embedded in the life of the American consumers. They order online for everything, anything, any needs on an impulse way or in a more reasoned way, on a weekly basis, on a daily basis.

And this drives really the growth that we expected, all experts expect, in e-commerce in the US – 16% over a long period. If you strip out the growth of Amazon, it's probably a bit less. But it is still quite a big growth. And all experts expect it to continue to grow in the year to come as penetration grows, which is basically the percentage of orders online versus basically sales into total sale, total consumer sales.

In the Radial business, we assess our – what we call the addressable market, about 27-37 billion. And how do we estimate that? We basically take the totality of e-commerce. From there, we take the parts in which we are active which is the fulfilment, transportation, the technology, customer care, etc., and we try to strip that out and to say out of the value chain, how much is basically the industry in which we operate? And depending on how you count and what you do, you get to those kind of figures. And it is a very big number. This excludes of course Amazon itself because it's a world in itself and it's not addressable because it is Amazon.

Who do we work for really? It's usually one of the two. It's either brands who want to interact with their consumers directly as part of a multi-channel strategy, or it is retailers, and very often brick and mortars retailers who are trying to develop an online business. And there, you've got some which are more successful than others in terms of both scale and growth, etc. And of course, the trick is to be with the good ones.

In that category, there are few native e-tailers, i.e., people who were born on the internet and in e-commerce. Strangely, some of them are now opening stores. So, in some ways, you see movement in both directions. But that's basically the type of clients which with whom we can work.

In this universe, Radial is not an insignificant player. Of course, it's always a little bit complicated to make comparisons because everybody has a mix of activities in their portfolio. So, we've tried to pull as far as we could identify those which have similar activities or part of their business similar activities. And if we look at that, we've got some activities of FedEx, DHL, OHL which is GEODIS and then we are probably among those bigger guys in this universe again excluding Amazon.

And then there is a vast number of second – I wouldn't say second tier because it's not true but in terms of size. And then you've got the mom-and-pop shops which basically have maybe one fulfilment centre in one particular area. And it is really in that universe that we are operating and in that universe, we are reasonably big.

How does an e-commerce transaction work and what do we do or what can we do for our clients? Well, a consumer places an order. Before the order is validated, basically, it needs to be checked to see if it's fraudulent. Fraud is a big issue on the internet and all retailers are trying to prevent fraud as early as possible. They're trying to accept as many transactions as possible because then they can have as much sales as possible. But at the same time, they don't want to be left with unpaid merchandise at the end.

So, there is a process whereby we try or all retailers try to prevent fraud. And it's very much linked to the payment process that is being used. Then it goes into some kind of order management system. And the order management system will effectively decide where should this order be fulfilled from. Should it come from my depot number one, my depot number two? Should it come from my store? Should it come from a regional node? How is it going to be fulfilled? One parcel, several parcels? Is it going to be possibly done buy online pick up in store, BOPIS, all those kinds of elements which the e-tailer can offer to its clients. It's the order management system that is going to orchestrate then what happens with that order from now on.

When it's decided where the order will be fulfilled from, basically then it needs to be fulfilled. That's pretty simple. You pick. You can do some value added so you can customise it. If you – some retailers like to engrave stuff or put in some kind of gift wrap or gift boxes. And then you pack it out with the typical brown box that is available in the US.

You then basically give it to some kind of last mile provider one way or the other knowing that in the US, you've got mostly FedEx, UPS and USPS. But there are also a number of – a growing number actually of regional or alternative last mile distributors.

And finally, you need to have some form of customer care because orders never happen as they should. Clients want to know 'Where is my order? What happened to my order? Why have I –', you know, maybe the items are not right or maybe they will ask where can I bring back my orders one way or the other?

It can be done by phone but increasingly also, by email and chat. In particular, millennials consider it a failure when they have to talk to somebody. They like to chat but they don't like to talk to a real person. So, that's usually the simplified work of an e-commerce order.

Where Radial is active, it is active in all those buckets. And we will see that later. We can offer to our clients most of the services which are in this chain, in this e-commerce chain. And we'll talk about that a little bit later.

I'm going to show you a little film, an introduction film to one of our facilities which shows then within fulfilment. It's only one of our businesses. What is the life of a parcel within that fulfilment? So, don't be scared. There is nothing wrong with your eyes. There is something strange with the way this film was filmed. But I guess, they wanted to do it artistic. I don't know, we don't know exactly what happened. But don't be surprised if it looks a bit odd. Please then, the movie.

[VIDEO]

Our various lines of business. You saw the five lines of business that we had. The first one is payment, tax and fraud and combined with omni-channel technology, it represents about 20% of our revenues. Payment, tax and fraud, it's really processing payments on behalf of our clients. But also, we always combine it with checking for fraud.

And there, we've got two types of products. Basically, we try to maximise the number of orders which is approved and as fast as possible and minimise the amount of fraud. And with a fraud zero product, we even pay back the amount of the fraud to the client. So, the client will pay more per transaction, but we provide an insurance. If there is a loss due to a fraud that we let through, we will reimburse the client.

Omni-channel technology is basically selling this order management system that orchestrate an order. It is also where the omni-channel technology is going to be. So, it's where our clients' stores are going to be connected so that this choice between the various fulfilment areas between also buy online pick up in store or BORIS, buy online return in stores, all that is orchestrated in this software. We are effectively selling that software to our clients. And combined together, all our clients have about 22,000 stores which are connected.

We do the same with drop ships which is basically where the inventory does not even belong to our clients but belong to some of their partners and suppliers. So, the order is sent then in that particular case to the supplier and is sent on behalf of our clients to the consumers. So, we offer that technology to our clients as part of our service offering.

Then we have what we call our operations activities where we do warehousing and fulfilment and transportation management. We do not do the last mile ourselves, but we orchestrate the last mile on behalf of our clients. We have rate cards based on our volumes with the various suppliers. And basically, we wholesale that to the client as well as we orchestrate it. Together, those activities represent 70% of our business and about $700 million.

One of the characteristics of that business is extremely peaky. So, during the year, not much happens in the centres because e-commerce is relatively modest. But then suddenly at the end of the year from Black Friday on, volumes go up by an enormous amount. So, as a company, we go from 6,000 employees during the year to 25,000 employees during peak.

And so one of the big challenge that we have and our competitors have is to find those about 20,000 people for a month or a period similar to that and we've been doing it for years. It's very complicated but it is something that we can bring to our clients and they don't need to do that. We have about 22 fulfilment sites in the US and in Canada.

Radial had been growing quite nicely in the last few years because if we look – and again, this is without the webstore business which they decided to stop in 2014 – basically, it had been growing to about 7% per annum. It's less than e-commerce in general but more than some of our competitors. If we look at a relatively comparable group, they grew by 3.2%.

And then in 2017, this growth stopped basically. And there was a decline of 12% that was recognised during the year. And it's a mix of two things. We started losing client, or they started losing clients, and they got less new clients than they had anticipated. And that has continued.

If we take the figure of churn, so the clients that are leaving, for the period since the acquisition, around the acquisition up to now, about 19% of our revenues is churning. So, it's going away. This is more than what happened historically, and this is more than what happened in 2017.

Let's be clear, we've not lost 19% of our turnover in 2018 because basically, it's clients that have announced that they would not renew with us. Some have stopped immediately. That's the minority. The majority will leave in the course of 2018 and in 2019. We'll see a bridge in a little while.

Why did they leave? Not because of bpost, not because we came in, because when you make a decision to stop a contract or not to renew a contract, you spend months preparing for it. You need to have an alternative and you need to do your business cases. So basically, this happened before we took over.

About 1% were one-offs so clients we knew who were not going to come back. To give an example, there was the big Equifax scandal in 2017 where there was a lot of issues. So, they hired us to do the customer care to pick up all the additional cost they would get from there. We knew that was not a sustainable part.

The second element is really bankruptcy/liquidation. And there, it's one client mostly. It's Toys "R" Us which was a pretty big client of ours in technology, in payments, tax and fraud which basically was liquidated in the course of March. Actually, it stopped operating on 31st March to everybody's amazement. But that cost us basically 5%.

Then a number of clients have in-sourced. And basically, the rationale is to say we have a B2B business. We have a brick-and-mortar business. That one is declining quite a bit. And then we have this e-commerce business. Our DCs are getting less and less occupied, so let's try to recreate some scale by moving e-commerce back into our own DCs. Whether or not it's a good strategy is debatable. And whether or not it's sustainable for those clients is debatable.

In the colour schemes, we've said this is – we can't do anything about bankruptcies. That is a fact of life. In-sourcing, we said it's partially addressable. I think if we improve our value proposition and in particular if we move a little bit to B2B, we can keep some clients because if we could make a combined offer basically saying what you're observing which is that your B2B warehouses are getting less and less efficient because volume is shifting towards B2C, why don't you give us your B2B volume or part of the B2B volume so that your inventory can stay also together but you can have the benefits of working with an outsourcer.

So, this is where I think over time we can improve our value proposition. We won't get it all because some of it is strategic. But we can get some of it back.

Two percent is about poor fit. It's client we should never have had because the type of products they do or the type of services they want don't fit at all with what we offer. So, don't know why we ever signed those contracts but it's a fact of life that they would leave anyway. And then 4% is everything else, a little bit price but it's not the biggest issue.

The other part is neglect. Fundamentally, the Radial organisation has been very much inward looking in the last few years. It changed ownership quite a few times and with owners which were not necessarily thinking about the future. And so everything was about internally looking, restructuring, trying to extract big price increases from clients and basically no longer minding too much about the client.

And I interviewed quite a lot of people internally when I moved in. I interviewed quite a lot of clients also and they all say the same thing. We do a good job. We do a decent job in our core business, nothing to complain about. We comply with our SLAs. The prices, they can always be lower but fundamentally, they're okay.

But you are very transactional. You're very legal oriented. You're very financial. You don't really think about our business. You don't help us develop our business.

And so those are really the symptom of an organisation that has gone inward. And what we've been trying to do, and you'll see that a bit later, to do since the beginning of the year is really to reopen to our clients and to put our clients first. And it's something that our clients really want and they're pretty excited about us saying that we are going to do that. But also, our employees are quite happy about that because they've been unhappy about the evolution of the company.

So, I think it can be fixed. We won't necessarily be able to switch the boat immediately and to get all the clients back into positive territory in terms of liking us. But over time, this is something that can be without any doubt fixed.

What does it do of course to our figures? So, we'll start with the 1.082 billion which was announced I think at the time maybe when last year's figures were announced. We'll remove Europe, which is not part of the scope of this presentation, we get to 1.042 billion. We have about 28 million of webstore business still over two years which will go away because it's a business we've abandoned.

130 million of churn in 2018 which is partially this 19% that I mentioned and partially some carryover of the churn of the year 2017. This will continue in 2019 and that's the second part of the 19% effectively. That part of it is already in year, for instance, Toy "R" Us is 100% in the year. And then some clients will leave at the end of the year. And so, that's another 99 million.

Against that, our clients are growing quite well. So basically, they are doing more and more transaction with us. And as a result, actually revenues go up. There's a bit of pricing in there but mostly it's the transactions of our clients picking up.

We have some in-year new clients which we still assume to be very low because the sales machine of the company has been a little bit broken in the year 2017. And so basically, we are now restarting it, but there is a six- to 18-month sales cycle in our particular industry which means that all the good things that we are doing for the moment which I'm pretty sure will deliver additional sales are going to probably deliver relatively few sales in-year. What is really important is to build for the future. So, that's where we think we are going to finish 2018. And so far, we are on track to reach this figure.

As I mentioned, 2019, we are not really making forecasts already. But I want to clear about this churn and what it means. I want to be transparent with all of you.

There is a little bit, as I mentioned, of webstore remaining. So, we had still a little bit of revenue in 2018 from those webstores, 5 million. They will go away. And then there is the known churn, so those clients who since November have told us that they will leave in the course of 2018 so there's a carryover or will leave in the beginning of 2019.

We then have some repricing that were already baked in for about 35 to 40 million. So, it's basically price decreases which have been agreed with clients as part of renewals. Then this will be partially compensated by a number of things. They will be partially compensated by the growth of our clients. It will be partially compensated by the normal price increases that we have in the contract and in some of the renewals and by the new deals that we are trying to make now and that we will make until the end of the year and which we'll start in 2019.

Here, we don't provide a figure because really, we need to see and also the purpose here was not to provide a guidance for 2019 but to explain effectively the carryover effects of some of the events now.

In terms of EBITDA, you know that we said 23 million for the year. We said it would be flat compared to the month and a half of last year which was about 23 million – sorry, if you take the US only. We come from about 64 million in North America. We announced 57 but there was a loss of 7 million in Europe. So, it was 64 million in North America.

We said we would do 23 million in North America and we still believe that we are going to do that in spite of the higher churn that we had anticipated. We are still on track to do that.

The webstores, it's kind of a 100% profit margin type of product. It's going out. We have the impact of the churn on the EBITDA. We have the positive impact on the margin of the new revenues for 31 million. We have productivity and cost improvement compensating the cost increase so that is the net of the – with the cost increase. So, productivity is actually improving extremely nicely. Nothing revolutionary there. We'll see some of the actions we are doing but basically productivity is doing very well. And our costs in general are very much under control. So, the net of the natural cost increase, salaries and the productivity improvements and the cost reduction is 12 million positive.

And then there is this famous medical cost that you've all heard about which maybe we shouldn't have singled out. But basically, what happened is that medical costs are going up quite a bit compared to last year. It's a general US phenomenon, nothing to do with the company in particular.

Previous management had said, 'Oh, it's easy. We are going to pass on that cost to the employees. So, the company will bear nothing of those cost increases.' And when we took over, we said, 'Shit, in a period where employment is extremely tight in the US, before we start making those big moves, let's get the employees to pay. Let's start to see if we don't have better solutions if we don't – how do we compare really to the market and if there is no other way of doing.'

So for this year, we anticipate that we will have the full cost of the increase for the company. And then for next year and the years after, we will fix that by changing the plans, improving the plans to make it that we can recover that money. But hoping to do that for 2019 when you have to announce the plan to the employees in January or February wouldn't work. So, basically, we took that decision to bite the bullet.

This being said, we believe that we can – over the next four years – significantly improve the results of the company. And it's not going to be rocket science. It's really about doing our job well. It sounds pretty stupid but again, the machine works well. Our call centres work well. They are productive. They are good quality. Our fulfilment centres work well. The SLAs are being met. Productivity is improving nicely. Quality is good.

So really, what we need to do is reconnect with our clients and make them love us again. They used to love us. They stopped loving us. We need to make them love again and we'll show to you – I'll show to you some of the programmes that we are taking to make us love again.

Similarly, we need to restart the sales machine. There is a big world out there. There are a lot of opportunities. And if we look at all those companies that are seeking partners to meet their growth, there is – we should be, we must be able to capture much more than what we are doing for the moment because the machine was a little bit broken and we'd talk about that.

Productivity will continue to improve, nothing revolutionary in there. It sounds like a small figure for the long period but again, it's net of the natural cost increase. So, it's really a net improvement that we hope to achieve.

And finally within the support function and in particular IT, we believe that there is still savings of about 20 to 30 million, needs still to be fully calibrated that we can achieve which would mean that by 2022, we should be able to achieve an EBITDA of $100 to $120 million. Again, this is pretty simple business. If you add some more volume on the top, stop losing your clients, continue to operate well and have your cost under control, the profit comes. Of course, the tricks is to achieve those elements at the top line in particular.

So, what do we – what do we – are we going to do? Basically, as I said, the sales machine was not working anymore. People were running around. There were quite a lot of sales people running around in all direction with very little marketing support, no value proposition, trying to bring any kind of deal and then what would happen is that there was an enormous amount of activity to try to process all those deals. Most of them didn't make any sense to start with and we should not even have pursued them.

So, what we have put in place is a very structured programme whereby we are increasing the amount of leads in a structural way. So, we have a team which is identifying leads not everywhere but in the type of clients, in the archetypes as we call them, that we know we can do. It doesn't make any sense to try for us – to try to do, I don't know, food stuff which require a cold chain. We have a couple of clients in there but in reality, our facilities are not made for that.

But there are some archetypes for which we are very good at doing. So, let's identify those and we've done that. And let's target in priority those. So, let's get more leads but better leads.

The second thing is let's make sure we convert our leads better. For the moment, we convert only 17% of our leads. That's not a lot and it's due to the fact that the leads are not of a very good quality. That's one thing. But also, our marketing speech, our value proposition is poorly explained. Then even if a client says I want to work with you, the contracting process, the pricing process is unbelievably complicated. I mean, our sales people say it takes even more time to sell internally than sell externally. Then we get with a pricing that nobody understands, in particular, our clients.

This has stopped. We have changed that. So, now, we've simplified the process. We've improved the process so that we can convert more of our deals into actual clients that we can do. So, more leads, better leads and then a better conversion.

Pricing is important. Our prices generally are not too high. Maybe 5% from time to time but in general, our pricing is there or there about. But very often, we created minimums. We created setup costs, all stuff that really prevented our clients from signing. And so we are removing those things so that there is no excuse for the clients to sign.

This being said, some clients like very detailed pricing because they want to control every single one of the factors into the pricing, fine. For those, we will do that. We will do detailed activity pricing. For others, we'll do simplified pricing.

All that is being enabled by like we call it the growth hub. We wanted to call it the war room but apparently it's a little bit too martial and no, it's not a good idea. So, we called it the growth hub which sounds more positive. But it's basically a dedicated group of people who are working really at making sure we identify the targets and we don't let the deals go because we've made a mistake in the process – helping, really preparing the material to go to the pitches, going to the stakeholders.

A lot of retailers in the US are owned by private equity. So, we have developed a pitch specifically for private equity owners. We know what resonates for them. So, we go and see them as part of our process – things that we never did before.

If we have a client in cosmetics or prospective clients in cosmetics, small size, we probably already have in our client list a cosmetics small size client because we've got so many clients. So, let's use that example and use it to make a testimony for that particular client. That's what the growth hub does. It's really helping making sure that our sales people go to our clients with the best potential material.

So, we identify clients for them and then we go to them with the best potential material. All of that should help us do much better than we've been doing. I mean, as I said, you know, the process was pretty broken. So, I think just about everything that we do should be better but we want to be much better.

The second thing is about keeping our clients. Again, it's not rocket science. We need to become again – we used to be – a customer-focused organisation. And so basically, we need to monitor two things – our performance but also the performance of our clients. Our clients love data. They want data. They need data. So, we need to be much better at providing them data that they can use and advice on those data.

We have in our systems because of the breadth of product we have a lot of insights on our clients. So far, we've not done anything about it and our clients are saying, 'You have all those things. Why aren't you doing anything about it?' So, we are preparing reports and documents for our clients so that we can add value to their business.

At the same time, client satisfaction was measured once a year and they were also very careful to measure it before peak so that it's probably when they were happy. We are going to measure them every quarter because that's how you know if you're doing a good job.

We are also going to improve, as I said, client qualification. It doesn't make any sense to try to serve well a client that we should never have picked up. Our facilities are not made for those type of clients so we will always bend over backward trying to do something about it and we have a bad result. It's not a huge part of our business but it is a disrupting part of our business. We need to remove that.

Finally, the client interaction model and there are two levels in there. There is a transactional level, how do we resolve the issues and the questions that our clients have. So far, they say we never get any – a good answer to our questions. It takes forever. So, there, it's about improving basically the way we interact with the clients. If a client has a question, we answer quickly and accurately to what they want. If they have an issue, they want an improvement, they want something, again, we react quickly. So, teams are being organised which are dedicated to those activities.

Similarly, we want to go a bit more strategic and not just fix issues or report on the performance of our clients but also provide advice. We have a lot of information on packaging for instance. We see what all our clients are doing to try to improve the packaging – either to lower costs or to improve the consumer experience, the end consumer experience.

This is information that we could share with our clients and they want that because they say you are the nexus of everything that is happening in e-commerce. You should be able to advise us on that. Please advise us on transportation options. What are the good transportation options? We have that information. This is about being more strategic, revamping our engagement model.

So, we've introduced an executive sponsorship programme. We've introduced a client advisory board and we are revamping what we call the strategic business reviews to improve the value that we are giving.

Cross selling and renewals, it is done but not particularly well done. We just want to do it better as it should be.

So, if we do – those are not, you know, terribly original recipes. And any good sales and marketing department knows those things. So, now that we are freeing up our employees, that we have new leadership in place in sales and marketing, I'm pretty sure this will deliver very quickly good results.

Productivity as I mentioned, we have been doing well in terms of productivity. 2018 productivity is better actually than what we had anticipated. There are a number of programmes in place which are delivering. One of it is to basically use the best practice of each of our 22 facilities and sharing them across the facilities. That sounds pretty simple. That was never done.

Every single plant had its own operating model. We are now unifying our operating model based on the best practices. We are improving the DC layouts based on the best practices, etc. No rocket science, not very difficult to achieve. We are doing it. It's delivering.

Technology is a big issue in the sense that all our clients and everybody thinks that technology is the future. We see the Active Ants boxes there. You see sometimes you know movies about robots in China at the facilities of some e-commerce or some of the machines being used by Amazon. Actually, Amazon is using very few machines. It's mostly manual because automation in our business works for certain type of clients, certain types of products, certain types of volume, certain type – number of SKUs.

So, the trick in our business is to find the right automation. It's not to automate at all cost. It's not to do, you know, to get the best machine. It works for some clients but not for all. And so the talent of our engineers is to make sure that for each client, for each archetype, for each facility, there is the right level of automation.

Labour optimisation, sometimes we over deliver on some of our commitments. So, we have too many shifts or we are having shifts on Sundays which we should not have. So, this is about optimising those kind of things.

A very important one also is called slotting. You know, our clients want to have as many SKUs as possible in our facilities. So, you've got endless aisle. Even very slow-moving SKUs are important to them. As a result, our employees spend their time walking miles to get to the product from the other side of the aisle.

Slotting is basically saying at this moment in the year for this client based on their promotion, what SKUs are likely to sell the most? And you move them to the front of your facility basically. And that's called slotting and it varies during the year because it depends on the seasonality of that particular client. So, that's why we need to work with them.

But if you do that, you reduce the working time, you increase the peak density and the peak efficiency. This is something that we've not yet implemented but we are in the process of implementing.

And finally, it's about better allocating our clients' per DC. Each of our distribution centre is a particular archetype. So, they are particularly good at doing something and a bit less good at doing something else. And historically basically, clients were put where there was space.

So, you ended up serving a client doing apparels in a facility which was very good doing cosmetics which are different type of peaks basically. So, what we want to do is to rebalance our clients so that we can improve efficiency by putting the right archetype of client in the right DC. Again, no rocket science. It takes planning. It takes time but that will deliver the kind of productivity improvement that I highlighted.

I mentioned the back office. We did a benchmark. Actually, we are not that fat. Well, except for me but for the employees, not that fat. When we look at IT, it's not fat really where we think we can save. There is a certain element of we have too many systems and too many – we've got seven warehouse management systems. We have three order management systems. Those kind of things need to be fixed and unified. That will deliver a certain amount of savings.

Another element is to offshore part of the activities. We consider that for many development activities, about $85 an hour in the US. It's about $14, $15 in India. We cannot do everything of course but part of the activities can be done there. We already have our own development centre in India and so that's part of the activities that we could shift.

Medical costs as I mentioned, we have plans to basically rebalance the medical cost and recover some. It's going to take a little bit of time. But we'll get there.

Procurement, a little bit of savings and then here and there some savings. We're pretty comfortable with this amount of savings that we indicate there.

So, where should it take – I'm sure by now, you've understood, it's all about the top line. It's all about the sales machine. It's all about the retention of our clients. And retention is all about client satisfaction. That's pretty simple at the end of the day.

And so we believe that the activities that we do on what we call within the growth hub, the grow initiative and the retain initiative. We think that we can improve basically dramatically our top line performance.

One thing is to get a better pipeline, increase our pipeline and increase at the same time the quality of the pipeline because I can double the pipeline tomorrow. I invent fake[?] – potential clients – not going to get there, but a better and bigger pipeline.

We want to improve the win rate by – from 17% to 23%. It's not the hugest amount of ambition but it is already pretty ambitious to get us there. If we do that, actually the total contract value of each year new sales could move from 150, which is what we are anticipating for this year – last year, we did 200; this year 150 because the year started very poorly. But then we think we can get to 350. And if we can bring churn back to the 5% historical rate when the company was customer focused, then if we combine all those things together, we can get – plus the same store sales – we can get the top line to grow again by 7 to 9% CAGR if we exclude 2019 of course which is impacted by the big churn that we had last year.

In terms of CapEx, CapEx of the company, it's a little bit misleading to look at the CapEx of the past. The company had very high CapEx because it was developing a lot of software. Most of it was abandoned under the Sterling area but those software were capitalised.

But if you look at two much more regular year, 2016, it was $46 million; 2017, $35 million. Without capacity expansion, we can probably do around 25 to 30 million CapEx. So, that's a little bit of automation and that's maintenance basically. When I say a little bit of automation, it's some automation but it's not going overboard.

The two reasons why it could go above this 25 to 30 are twofold – capacity expansion for the moment and for what we think we can get as new contract in 2018 for 2019. Actually, the current capacity is sufficient. With the clients leaving, it's pretty easy. We can still do quite a bit in the current facilities. So, we can increase sales quite a bit with the current facility.

After that, it's a little bit of a staircase type of CapEx. You open a new centre, you fill it up, you open a new centre, you fill it up, etc. And basically, so the exact CapEx of the future will depend a little bit at the speed at which new clients arrive of course but also a little bit the archetype. So, it's not a straight-line increase with the revenues. It's a little bit of a staircase increase.

The second element is automation. I mentioned, we should not look at automation for the sake of automation. We need to do that smartly not only for CapEx but also because automation doesn't necessarily save money. Automation really what it does in many cases if not all cases is really allow you to cope better with peak.

Peak is the big challenge of the e-commerce. Everybody will tell you if you ask UPS, if you ask FedEx, if you ask any e-commerce, this is the big issue. And this issue is compounded by the fact that the labour market in the US is extremely tight. It's very difficult to find people for the moment. And this has never been as tight as it is for the moment.

So, automation is not something we have to do to reduce cost. It's not something we have to do to achieve the results I've indicated in terms of productivity, a little bit but not much. Automation might be considered if you continue with a very tight labour market. But we all know the US, it's a boom-bust economy. So, if we decide today to do massive automation, it might be that when it's ready, it's not particularly useful. So, we'll do that in a very thoughtful way.

The second element is about working capital. Working capital is seasonal and that's about 40 million swings between the high seasons and the lower season. That's linked again to e-commerce. There is also a one-off impact over 2018 and 2019 of $100 million which is in our plans which is actually from day one.

So, the company used to basically collect money from its clients as part of the payment activities and they would keep it for a while. And that was called, you know, the client's money. But that float is effectively disappearing because the new contract that we are signing with the clients, quite rightly, they want their money much faster to them. So, the float is disappearing.

In terms of valuation of the deal, it doesn't make any difference because when we did the deal with Sterling, basically, there was you know the price we were willing to pay plus the usual adjustments. So, plus the cash, minus the client's money, minus the debt. So, effectively, we deducted from the amount of cash that there was on day one, the client money.

But of course, Sterling took as much cash as possible as they could prior to the deal. Again, it's neutral in the valuation of the company but it has an impact from day one as we need to reconstitute our working capital. Again, it was not a surprise. It's not unexpected and it doesn't impact the value of the deal or the total amount which was paid. Except for that, it's the seasonal element of that.

Very important of course to do a plan like that is the team. We've renewed the team quite a bit. And we've got a little bit of a mix of old and new. The only person who's been 15 years with the company is Paul Cataldo. He's in charge of HR, legal, pricing and some of IT until today. But that's going to change.

Sean McCartney, he's in charge of everything which is operations so the call centres, the transportation unit and the fulfilment unit. He's been, I think, all his life in 3PLs. He's been with the company for 18 months. He's the one driving in particular the productivity improvement and the good quality that we've been able to have in the last year.

KC Fox leads our technology business unit. So, it's technology as a product, omni-channel channel payment, tax and fraud. He's spent all his career in payments. He was promoted in January after having been with the company for 18 months.

We have since two weeks a new Chief Commercial Officer, Tim Hinckley, extremely experienced. I think he spent 30 years, or he has spent 30 years, in various 3PL or transportation roles, most of it at FedEx and companies coming from FedEx. So, he knows everybody in the industry. And he is a true sales person. So, he's going to help us tremendously implement all the changes that we've already started doing.

We've got a new CFO, a very good guy who comes from pretty big companies and who's making very good strides in really improving performance management. Performance management was not particularly high on the agenda. And he's doing a great job at that.

And next week on Monday, our CIO will start. I can't disclose his name yet for various legal reasons. But he will be starting on Monday and we'll have a full team.

So, what are our priorities? Well, make money of course and go back to the business case, to the acquisition business case which we think we can do by 2022 as we indicated. But basically as a company, our only purpose in life is to help our clients succeed. And that's really something which is our mission within Radial is to tell our employees whatever you do, you need – we are there to help our clients succeed. That's to send this message of being customer centric in everything that we do.

So, we need more clients. We need our clients to be happy. If they are happy, they will stay with us and they may buy more services from us. We need to continue to have efficient operation which means maintain the quality, manage peaks and provide economies in terms of productivity. And of course to do all that, we need employees that are engaged with the company. They've been battered by the change of ownership over the last three or four years and they are in desperate need of a little bit of TLC which they believe they have with bpost which is providing them a good home. And they're absolutely willing, ready to unleash their energy to do the plans that I've highlighted before.

And I'll now pass the word to Henri.

Henri de Romrée

Chief Financial Officer, bpost

So, hello everyone. I'm Henri. I'm the new CFO. I joined in January and it felt like I owed you two things. I think one was a clear trajectory for the company, a robust trajectory. And the second one was more clear information and tools so that you can track our performance.

If I look at the first one, I hope you've seen that we've worked extensively with the team to build a collective plan. This is really a collective plan. We've had the chance to discuss it among ourselves extensively and we have discussed it as well with our board several times. And they approved it this month.

So, with regards to information and tools, we – I'm going to present to you today with a new segment reporting that I think will be better aligned with the way now we have reorganised the company and I think will bring more clarity with regards to our performance and will allow you then to better assess us going forward.

So, let me then get going with that short introduction. If you look at our backward performance for a moment, what you see is that bpost has solid foundations. We have delivered solid performance with operating profits allowing to support a strong dividend generation.

Now, of course, you've probably noticed through the presentation of today that we need to face reality. And some of the recipes of the past will not suffice anymore for us to deliver on our ambition. And that's the reason why we have worked on that new plan to incorporate properly those challenges.

Let me pause for a second on that new plan. So, why did we feel we needed a new plan? First, we have seen things in our environment, changes and trends but we have as well identified new opportunities and we had to incorporate both those challenges and those levers or new tools in our plan.

I think there was a second important element which was that we start to realise that we have very different dynamics in our different business units. Specific opportunities, specific challenges and we have new management and we wanted from the bottom up to be able to have a clear perspective on the performance of each of those business units.

Another thing that gave us energy in the process of building that new plan was to having clarity end-to-end on profit and being able then going forward to track performance on a business unit by business unit base with a strong focus on EBIT.

The last element about that plan and – is that we have – we are going to have a very strict discipline. We want to maintain our investment grade rating. And therefore, we have built a plan that we see as completely organic. So, we have not included in our plan any acquisition.

So, that's for the plan. Let me come back for a second then on the guidance. So, Koen has presented the guidance and you have noticed probably that we are moving from an EBITDA plus CapEx guidance to an EBIT guidance. The idea was not to create confusion but we really thought that EBIT was for the years to come a better indicator. Different reasons for that.

First, we believe it represents better our investors' interest and it's a better proxy for ability to distribute dividend. Second, with the upcoming IFRS 16 accounting changes, we believe that it will be more robust against those changes. Third, it is going to include properly our investment cycle through the depreciation. And I would say last but not least, we believe it's a better indicator to organise our performance management. And it is as well the indicator we use as an incentive for management. So, these were the four reasons why we switched to EBIT.

When you look at the number themselves, so what you observe is that for 2018, we don't change the guidance that we had communicated earlier this year. We have guided towards 550 to 600 but pointing to the lower end of the range. If you look at the guidance now going forward, what we guide to is somehow stable profitability within the range with a 9% mail volume decline with of course, and Koen mentioned it already, with 2019 being the low end of that range.

For those who were with us at the IPO time, you will remember that we had a bit of a similar commitment. We said that we would maintain stable profitability with a 6% mail volume decline. We do a similar commitment but with three additional points of mail volume decline. And that is enabled, I would say, by two things – a series of additional cost savings measure.

We have talked about alternative distribution model. But I hope you have noted that there were others such as revising the footprint for sorting, reducing distribution in certain days, bank holidays, etc. So, we have a large series of initiatives that we can put into the mix to generate cost savings next to the alternative distribution model. And of course, there is a second important contributor in that mix which is the value creation coming from our subsidiaries. So, this is our guidance and this is I would dare to say our commitment.

As you can expect and I expect to be grilled on that, as you can expect, we have underpinned that plan with several parameters. And I thought it was important for me to be transparent with you on the parameters that we have used as much as I could. And so that's what you see on the page.

I'm not going to go through them one-by-one but let me maybe highlight a few so you understand by now that we plan for mail volume decline that is progressive up to minus 9%. You have noted as well that we have accounted for a 5% mail – a 5% productivity gain on the mail-dedicated resources or people.

Just one point, I want to point to the fact that our FTE evolution will be in operations that net effect between growth on the parcel side and decline on the mail volume side.

So, for those who were wondering, does that imply a big restructuration, you know, we are a company that have 1,000 people leaving every year naturally. And I feel completely at ease that we can absorb the productivity gains that we foresee in our plan within the natural attrition. But of course, that's going to be the net effect of, on the one hand, the efficiency gains on mail and on the other hand, the additional need from a parcels point of view.

We have assumed in terms of growth for parcels a double-digit growth for the BeNe part and we have assumed a 7-9% growth on the US parcels e-commerce side.

Another important element is that we have looked at our state-related contracts. And so, we have assumed that we would maintain our regulatory framework when embedded in the postal law and that we would be able to renegotiate our SGI contract successfully.

For those who were wondering, we have not assumed that the contribution from those contracts would remain constant. You will remember that there are a few parameters that are at play with regards to how much we get from the state. One is scope; another one is inflation; another one is productivity gains.

So, for modelling purpose, you remember that from the past, we had assumed a 30 million decline. I would take probably a similar assumption over the period from 2018 to 2022 – 20 to 30 million would be, I think, a fair assumption.

I think a last important element is that we have of course taken into account as well the change in Belgian corporate tax which is significant because as you know, over the period, we evolved from 33% tax rate to 25 which is quite significant. So, these are the few assumption. We can go back to them when we do the Q&A.

I mentioned earlier the fact that we are keen to show you a difference segment reporting. We indeed somehow do not – we want to move away a bit from the way we depicted our self at the time of the IPO. And this is not because what we did at the IPO time was not correct but our business has evolved in a certain way. And we believe that it now makes much more sense to structure segment reporting around our three business units.

So, concretely, how is this going to unfold? This is going to be – you are going to receive revenues at sub-segment level. We are going to report on ten sub-segments. For each of those sub-segments, there has been some regroupings, reconsolidation, reallocation. We will provide you with a comparable basis so that you can find back for 2018 those different changes.

But most importantly, we are going to give you a full P&L by business unit down to the EBIT. We are going to give you the CapEx as well by business unit. And we are going to complement that picture with a few additional indicators. Some of them you know. They are obvious.

So, for the business unit mail and retail, we'll provide you with the mail volume decline numbers, etc. For P&L Americas with Pierre, we plan on giving you the exact performance of Radial as a single item so that as long as needed, you can track that performance.

So, the intention is that when you leave the room today, you are able based on the information you've gotten today, you are at least already able to remodel somehow the top line. You will have sufficient assumptions to be able to remodel as well the overall cost base. I've put for you in the appendix a pro forma P&L of bpost with the 2017 numbers so that you can do that. And then I will provide you with those new segment reporting at the full year 2018 results announcement so at the first quarter of 2019. I will communicate to you in that new way of reporting, providing you with a base so that you can compare properly.

I'm now testing that new way of reporting. We are starting to work with that new way of reporting. But I want to make sure I've piloted it enough before I leave it in the open. So, that's for the segment reporting.

Let me pause for a second on the balance sheet aspect. So, balance sheet for bpost, we have and we aim at keeping a very strong balance sheet. You have seen the press release of S&P. We have received an A rating with a triple B intrinsic. My policy or our policy is definitely to maintain financial ratios so that we can continue to deserve that triple B intrinsic rating.

And I think you've seen from the press release that we are well-embedded in our rating. Of course, dividends will continue to be an important component on how we use our cash. I will give you more information about that in a second.

If I look now at the other side, if you look at net debt, you know that we are leveraged. We are financed. We have financed Radial acquisition with a bridge loan. What we are now going to do is replace that somehow, more short-term source of funding. So, it was 12 months plus six months – 12 months would be November and so we start to be close to the term. So, we are going to replace that bridge loan with a longer and stable source of funding. And we are going to do that to tap into the bond market.

And that was, by the way, the reason why we wanted to have a rating. It was to be able to fund ourselves properly to replace the bridge loan for Radial. So, that's one aspect.

Another aspect is cash. So, you know that bpost has a strong cash position. You have probably observed as well that we have some seasonality to expect in that cash position. During the first – after the first quarter of the year, we get paid by the state for the service we give to the state. At the second quarter, we pay the remainder of dividend for the year before. And at the end of the year, we pay the full dividend. So, there is some seasonality. There is as well some operational seasonality with peak. But overall, we have across the year a very solid cash position.

Some of that cash is trapped in the network. It's not trapped but it's in the network. When I look at it so far, it would cost me much more in operational cost in rotation if I would take that cash back. So, for the moment, part of that cash is in the network. And it would probably remain so until condition – market conditions change.

We have a few – we have of course leases. Leases relate in big part to some of our centres. New Brussels X that you are going to see tonight is not an exception. And of course, that lease is well taken into account in our rating. And I will explain you more of the impact of those leases on our accounts when I'm going to explain you the impact of IFRS 16 later.

Now, if I now – I take the CapEx perspective. So, the CapEx perspective, you will remember that for bpost historically, we had two drivers for CapEx. One was the investment we made in our Belgian/mail operation. It used to be around 60-ish million on a yearly basis with a peak last year or an uptick last year should I say to cover some last – some elements of Vision 2020 as well as some – as well as the new Brussels X sorting centre.

Another component was as well the proceeds of building sales. And these were around 20, 25 million per year. What you can now expect for the future is an increase in the CapEx around 130, 170 million per year. This is merely the effect of integrating our new subsidiaries mostly Radial and mostly – and Ubiway. But of course, that's not the only effect. Beyond the integration of the subs, we have as well taken into account what is it that we need to invest from a CapEx point of view to absorb the growth we have on the parcels market. And that Luc mentioned earlier so that's what we have computed in our CapEx trajectory.

Overall in terms of CapEx related to revenue, we stay within the range of 3 to 4% which is a range that we have always had. But of course, we have it on a much larger scope.

If you look at proceeds from building sales, there, we expect higher proceeds from building sales this year and the year after so this year and 2019 simply because we are going to divest a few important buildings. The most iconic one is our old sorting centre, Brussels X, and then we expect as of 2020 to have an envelope across the last three years of the plan between €30 and €40 million of building sales. So, that's what we have accounted for.

So, all of that puts us in a position to deliver stable dividend going forward as of 2018. So, we have already guided – sorry, we have already guided in 2018 for at least a stable dividend. And again as Koen mentioned earlier, all of that puts us in a position to maintain dividend at such a level going forward.

Two elements that are important is that we would stay within the bandwidth of 85% to 100% payout ratio to be able to deliver that dividend. And to your question earlier but I guess we'll get back to it, we of course, benefit to a certain extent off the decrease in the Belgian corporate tax rate.

So again, we – some of you have asked me or have asked in the past whether we would need to use our reserve to be able to pay dividend and that's not what we plan for – that's not what we plan for.

On that note, let me give you a bit more detail on the BGAAP story and on the reserve story because as you know, our dividend capacity is not computed on our IFRS account, but it's computed based on our BGAAP account.

So, what's – I wanted to shed some light on how we – you move from one to another. So, there are basically three big effects when you move from IFRS to BGAAP. The first one is subsidiaries. Basically, we take out the impact of the subsidiaries from our IFRS account and we substitute it by the dividend contribution of those same subsidiaries. So, that's one effect.

A second effect has to do with our employee benefits. In IFRS for future obligation, we need to provision whereas in Belgian GAAP, we don't need to do it. So, any fluctuation in future obligation with regards to employee benefit, we need to neutralise when we move to BGAAP.

And a third effect is a deferred tax effect. In IFRS, we need to record those deferred tax whereas we don't have that obligation in BGAAP. And therefore, we need to neutralise for that effect.

So, historically, you see it on the page that the GAAP has been between 20 and 40 million difference between – sorry, between 20 and – all right, 20 and 30 million difference between our IFRS profits and our BGAAP.

Another important element and I've already alluded to it is that in BGAAP, we have distributable reserve. So, it's not for us as management to decide whether we want to distribute those reserves. As I've said, our plan does not account or does not count for the fact that we are going to tap into those reserves because our dividend can hold in the bandwidth between 85 and 100. But of course, it's always good to know that they are there.

Some of you had questions on cash. I think cash is important. It is something where I'm going to, I would say, increase the focus. So, I wanted to give you a few elements on – I wanted to give you not a few elements. I wanted to give you the building blocks on a cash point of view.

So, I think one first element to mention is working cap. Kurt has already mentioned it. We see that there will be a need, an additional negative impact on the working cap from Radial. And that is going to be in 2018 and in 2019. The combined effect across those two years, the sum of those two years will be around $100 million.

I've already mentioned acquisitions. So, acquisition, we don't plan for any acquisition and therefore you do not – you should not expect a big increase on that side.

On the dividend side, I've already mentioned it. And on the financing side, it will pretty much depend from the terms we will be able to negotiate when we tap into the bond market hopefully before year end. So, I think all those components together means that we expect our net cash position to improve and to be positive as of 2020. So, that's the plan that we have.

So, all in all, as a CFO, I would say I have three important priorities and that links back to what I've said at the beginning of my intervention. I think first, I want to have a tight performance management and that tight performance management will be – will build quite significantly on both the new organisation and the new reporting.

I think a second important part for me is to be as transparent as I can with you guys. I think we owe you the transparency. So, that's, I think, a second priority.

And of course, a third priority is for me to be able to maintain a strong balance sheet and as a consequence maintain a strong or maintain our investment grade rating.

Now, of course, this is all nice but I know that you will expect that we deliver performance as planned in the next quarter. And that's probably where you will expect me in the coming months.

Koen Van Gerven

CEO, bpost

That I need, yes. So, thank you very much all of my colleagues for explaining to you the plan. Perhaps as a wrap of – and before wrap up – before we go to the second question time, let's put us somewhat in the future, 2022 and what will bpost be at that time. Of course, it's going to be very different from what we had at the time of the IPO and it's even going to be different from what we have today.

In terms of size, it will be different as it will be more sizeable, more than 4 billion in turnover. But it will continue to be a solid company with EBIT, well, the numbers that you have over here. Of course, the EBIT is going to be different. We all know that we'll move away from the very high EBIT margin Mail business and that we'll replace it going forward with other activities. But this is part of the reality of this industry.

We are going to be less dependent on one geography. So, we will be in other geographies outside Belgium. And the portfolio that we will manage is going to be much more diverse than we have to be, than we have today. Of course, less mail and more parcel and logistics, e-commerce logistics activity. So, this is what we're going to do. That, we're going to do and where we're going to walk through towards 2022.

So, for today, these were the plans we wanted to share with you. I'm well aware that we poured a lot of information your direction not only because we provided you with the insights of the analysis that we have for the challenges and remember earlier today, I listed a couple of challenges that we are confronted with in this changing world.

I promised you that we had to provide to you not only with the right diagnostic about it but with an answer how we're going to handle these changes. What is our action plan? A lot were shared with you. I realise that not only we had to share a lot of information but in the meanwhile, we will or we tried to explain that we're going to move and the organisation and the reporting what we're going to do. And of course, we will come back. We're available for you in offline to talk you through and to help you to better understand because at the end of the day, it's about how can you use this information. How can you use new tools in order to assess the company?

We talked to you about the ambition we have. We talked to you about the team. We talked to you about the commitment that we have to deliver upon the plan. So, all of this we shared with you. I think it's the right time to make a wrap up and I'm not going to walk through it but you remember at the time of the IPO, we had an investment rationale. I think it was time to make an update of this rationale because the world did change in between.

The idea today was to share with you the information, to provide you the rationale and information in order to make it able for you to make the analysis and come up with a recommendation. And of course, recommendation, I hope, will be that you fight[?] as a recommendation and your customers to continue to invest in this company, and I hope that we will continue to meet you, of course, on our journey, towards 2022.

Questions and Answers

With this, the only thing that we owe you before taking a break and going to visit tonight our sorting centre for those who will stay with us, is a second Q&A. What I would suggest is that all the team comes to the floor, we can take the questions, but then I hope that you had already the opportunity to interact with them during the breaks of today, but at least that you can see them in life who is committed to deliver the plan that we presented to you this afternoon.

Let's walk from left to right, so Mark, and here comes a mic.

Mark McVicar: Thank you. As I said, Pierre, I've got 427 questions for you but we'll do those later. First question and it's probably a little bit general, you know, with the Radial presentation you walked us through a whole litany of things that were wrong with this business and you know, your plans to fix them. How many of those problems could you see going through due diligence before you agreed the price and signed on the dotted line? And how many of those have sort of come to light later?

Pierre Winand: So, it's all – hindsight is a wonderful thing, yeah?

Mark McVicar: Of course.

Pierre Winand: So it's easy. Let's not forget all the good things that work about the company. I wanted to be transparent today because I think there has been a lot of confusion about, you know, what is Radial, what it is it does, etc. And so today was a little bit about rebasing some of the information, making them transparent and then being able to explain what we are going to do.

So the good things that are there: it's an industry which is growing, it's – Radial is well-positioned because it does a good job, the people do a good job. And we have a few competitive advantages, or good things, which is that we are located throughout the US and not everybody in our competitor set is across the US, which allows us to deliver from various nodes to our clients. And we do offer various services, not only fulfilment but also some technology services which really afford us to offer an integrated offering – integrated commerce offering as we call it internally – to our clients. So, there are a lot of good things. People are back into being motivated, they know what they are doing, we have a good team that we now have assembled. It's people who are very senior in the industry who believe in us and have joined us, so I think that's a good thing. So those – let's not forget all the good things about the company.

This being said, there are two big surprises in some ways. The first one is the unhappiness of the clients. And basically, in a due diligence process, you obviously try – the problem a little bit with the kind of business it is, it's that there are renewals and basically, they come at a particular time and it's slightly binary: you renew, or you don't renew. And then, you know, there is a year after the decision is announced so the clients don't go out of the window.

So it's difficult to see, from the outside looking in, how it is. So what did we do? We asked for – client-per-client we discussed with the management of the company which were – how they were feeling about the renewals and you know, they knew about it, they were cogent about it, etc. We looked at the NPS. Luc talked about the NPS and there, there were, say, pretty bad figures. It was –13, so there were more detractors than proponents. So, we asked to interview clients. And so we – out of the top 20 clients, we interviewed seven of the top 20 clients. And basically, the results from those interviews were not bad. They were – you know, not everybody was extremely about it – about the company but nobody was really unhappy. There was one client who expressed unhappiness about the company because of an issue they had in peak[?] in 2016. By the way, this client is very happy this year and actually has agreed to a price increase even though it was not part of the contractual cycle.

So, effectively, it's very difficult to gauge the sentiment of the clients. By the way, some of those – but because people are not going to tell you, 'I intend to leave,' because they want the supplier to continue to perform as well as long as possible. So, as part of a due diligence process, how do you measure that?

When you start talking to the rank and file? When you start looking in the eye into the clients, you get a slightly different story, but you get that only when you get the keys. So could we have done more? Tried to talk to more clients? You know how difficult it is in a due diligence process. So, yes, that was surprise number one.

Surprise number two was that the sales machine was not working as well as anticipated. The company had a plan to achieve $300 million of TCV, total contract value. If you divide by three to four years – three to five years, actually, average contract duration, that's about $80–100 million, let's say, of additional sales per year. Their target was $300 million of total contract value.

And when we were – I guess in October they were at about $200 million. We had extensive conversations with their sales – the people in charge of sales. They had a pipeline, they walked us through the pipeline; the pipeline was huge. It was $1.2 billion. They went through the various elements and where they were in the conversation and at the end of that year it really came down to two deals. They had two deals that would have brought them from $200 million to $275 million and those two deals didn't happen at the end of the day. So it's $200 million, which – instead of $300 million.

And what we didn't quite – and it's very difficult to see because also, when you look at a pipeline, how do you judge the quality of the pipeline? So when we came through – when we came in, we started talking with the salesforce much more in details about the quality of the pipeline and what was behind that and that's when we started cutting out of the pipeline, saying, 'This is not real pipeline. This is not real things.' And so those are two elements which in a due diligence is very difficult to assess. So with hindsight it's obvious, you know, that was there.

When you do those kind of process, it's difficult. What we did spend a lot of time was, you know, what are the capabilities of the company? Are they – you know, are they able to cope with peak? By the way, last year's peak was pretty good. Actually, they did well last year compared to many of their competitors.

So many – we looked at many of the qualitative things but in terms of gauging the likelihood that clients are going to resign and gauging the quality of the sales process – I'm not talking about the quality of the people behind the sales process but the sales process – that's something which is extremely difficult to do. And because the sales are very lumpy in some ways through this renewal process and this acquisition process with a long lead time, it was difficult to do. So, with hindsight we could have done better of course but it's not an easy thing to do.

And again, let's not forget the negative and – let's not forget the positive and I think also the fact that we are really putting back the focus on clients – on client satisfaction and all those good things is something that the sales force and the work force in general is very happy about and they do a good job, day in, day out.

François Cornelis: Maybe to add and a couple of elements to share – to follow up, of course, the board has been looking into the matter, whether the due diligence should have been different and the conclusions were the following. Number one, it has been conducted in accordance with market practice. Number two, there will be no recourse as a result because there is nothing to have a recourse against the seller or the advisors. Number three, the plan originally as planned will be delivered with –

Pierre Winand: Some delay.

François Cornelis: – based upon the explanation of Pierre with some delay. More importantly, during the period 2022, if we deliver the plan no impairment will be needed, which is also important and these were basically the conclusions that has been done by the chairman of the audit committee on behalf of the board.

Mark McVicar: Okay, thank you. My –

Koen Van Gerven: Perhaps to conclude because of course we took some time, to go through Radial and every – we are aware too that Radial is, of course, an important topic. Although I hope that it became clear that there are other challenges that we have going forward with this industry we have to cope with and the good news is, of course, that we have the answer. But it was a bit lengthy and – as you said so we asked Pierre, you know, go through the full diagnostic and show what we do because at a certain point in time you have to at least close the analysis and now the big challenge is go forward and realise the plan.

Mark McVicar: Thank you. My other question was – again it's for Pierre, I think. It is, you know, we can all see from the outside that the world of ecommerce logistics is moving very, very rapidly. Things are coming in, going out, in terms of – are you – I suppose the bottom line is are you happy that Radial has the entire suite of products that any of your customers or future customers are likely to need? Or do you think you're going to have to develop, whether it's in the payments area or it can be physical, it can be electronic, it can be data. You know, do you think you have it all there? And could you just give us a sense of how many of the customers today are buying all of the services and how many are buying just one bit or two bits or something?

Pierre Winand: Sure.

Mark McVicar: Thank you.

Pierre Winand: On that last one I need to go back to you. We've got the statistics somewhere, so it's pretty easy to do. On the first one I think we're pretty well equipped. So we've got a good order management system and good omnichannel system and we'll continue to develop and to do it. In terms of fulfilment I think, you know, we've got good places. We may want to open some facilities in the centre of the country to complete the network but nothing major. I think in general we've got the tools and we've got the products that need to be done. As I mentioned, pivot – not pivoting but moving a little bit to the B2B side so that we can offer true alternatives to insourcing is something that we could do. It doesn't require a lot of investment. It doesn't require a lot of changes in what we have.

Mark McVicar: No and essentially it's the same skillset, isn't it?

Pierre Winand: It is the same skillset.

Mark McVicar: It's a slightly different – it's a different channel but sort of – yeah.

Pierre Winand: It's a little bit – yeah. And by the way, quite a lot of our managers come from that side anyway, so in many ways I'm pretty confident on that one.

Mark McVicar: Thank you.

Edward Stanford: Two questions, please. If I might ask the dividend question again, actually. But the –

Koen Van Gerven: Go ahead.

Edward Stanford: The – from my rudimentary calculations it seems that the dividend is costing more than free cash generation last year, even adjusting for Radial and the year before. At what point will free cash generation be sufficient to pay for the dividend? That's point one.

Secondly, back to Radial: you have some clever software and technology for the omnichannel software; it's about 20% of revenues, I think, as you said. First of all, is that the most value-added part of the business and secondly, to what extent can that increase as a proportion of the whole in terms of your growth plans?

Henri de Romrée: So the answer is 2020.

Edward Stanford: Okay.

Pierre Winand: In terms of software, the previous management had huge plans on that one and they were basically telling us that the software would overtake everything. In some ways they were going to become a software company. I'm much more cautious about that because basically this is a market which is a competitive market; we're not the only one offering those good things. We are one of the few ones who can integrate the various components. And that's where I think we can make a difference. So, yes, it could become a bigger part of the business. It is possible but I'm trying to be cautious about that and so I'm not planning a big change in mix. I would like the various bits and pieces to grow nicely together. But of course there is a leverage – bigger leverage on software because a lot of the cost is on cost in there.

Koen Van Gerven: Okay, to David and then we will walk to the other side of the room.

David Kerstens: Thank you, also a follow-up question on the Radial performance guidance that you provide on the EBITDA level.

Pierre Winand: Sure.

David Kerstens: For the group you moved to EBIT; your guidance for Radial is still at EBITDA. First of all, why is that? And do you – what is the delta in the depreciation and amortisation? Is it still the same as what you indicated at the time of the acquisition? I think it was roughly $15–20 million.

And then secondly, the downturn in EBIT that you're still projecting for 2019; is it predominantly coming from Radial or is it also the existing business?

Pierre Winand: So, the downturn for 2019 is – it depends how you want to see. What we realise is that some of the measures we have talked about today and we want to implement, they will take time. And therefore, what we see is that the main volume decline that we will not be able to compensate by price increase we will somehow take in full. Why? Because the productivity gains that we have now in the pipeline will allow us to compensate for the wage drift. And that's the reason why we see a pinch in 2019 and that's the reason why we see it as the low end. And of course, you may say the expected contribution of Radial is too low to compensate for that effect or to bring additional money to the mix, but that basically is the reason why we have 2019 as being the low end of the range.

And with $20 million of EBITDA and you've seen the historical –

David Kerstens: Yeah.

Pierre Winand: – CapEx, EBIT is negative of course –

David Kerstens: Yes.

Pierre Winand: – at the Radial level.

David Kerstens: And so –

Pierre Winand: So that one doesn't help because it helps the EBITDA –

David Kerstens: Yes.

Pierre Winand: – but it doesn't help the EBIT. As we grow the EBITDA, according really to our plans –

David Kerstens: Yes.

Pierre Winand: – then the contribution on EBIT level will become positive.

Henri de Romrée: And so, in our plan, we expect that Radial will be earnings accretive as of 2020, which is in line with the one/two years delay that we have mentioned earlier.

David Kerstens: But the delta at the EBITDA level is $80–100 million for Radial according to your presentation and at the EBIT between 2019 and 2020 would be substantially larger, right?

Henri de Romrée: Yes.

David Kerstens: How much?

Henri de Romrée: So, what you ask me what would be – the depreciation for Radial is around $35 million on average.

David Kerstens: Not substantially higher in this year and next year?

Henri de Romrée: No.

David Kerstens: Okay. Alright, thank you.

Koen Van Gerven: Okay. Let's move – continue to move. I think it was Marc, or...

Marc Zwartsenburg: First, to come back to working capital, on your slide you mentioned that working capital will be stabilising as of 2020, after expecting $100 million negative impact from Radial spread over 2018–2019. What should we assume for the group as a working capital impact in 2018–2019 and then after that?

Henri de Romrée: It's – in the spirit of transparency, it's in line with what we've seen in the past, it's just a few million. So, for the group, we really expect close to stability from a working capital point of view.

Marc Zwartsenburg: Stability? You mean that there's no working capital consumption?

Henri de Romrée: There is no additional working capital needed.

Marc Zwartsenburg: [Inaudible].

Henri de Romrée: So there is working capital, of course but there is no delta working capital for the group.

Marc Zwartsenburg: Okay. So, the release from working capital from Mail is not more than eaten away by the growth in Parcels and –

Henri de Romrée: So, it's roughly compensated.

Marc Zwartsenburg: Okay. Then coming to your guidance, I think also the guidance for this year is at the low end for the EBITDA, in the low end of the range and then you mentioned a range for the EBIT –

Henri de Romrée: Yes.

Marc Zwartsenburg: – which is $40 million. Why do you provide a range for the EBIT and a more specific guidance for the EBITDA? Is there any uncertainty around the D&A?

Henri de Romrée: No. No.

Marc Zwartsenburg: Well the EBIT – yeah, to explain – to Koen –

Henri de Romrée: No, no, *de fin*[?], sorry.

Marc Zwartsenburg: Okay.

Henri de Romrée: So, we have just translated what we know from an EBITDA range to an EBIT range and there is no uncertainty –

Marc Zwartsenburg: Okay, so that range on EBIT applies to the range in EBITDA.

Henri de Romrée: Yes.

Marc Zwartsenburg: Because that's not how it reads, in my view.

Henri de Romrée: Okay, sorry for that.

Marc Zwartsenburg: To come back on the cash flow generation, you – basically on the same slide again, that's the slide 95, expected to generate excess liquidity as of 2020. Is that in 2020 and then onwards or as from – so in 2020 on?

Henri de Romrée: Never, so it's 2020 included and onwards.

Marc Zwartsenburg: Okay.

Henri de Romrée: So we will deleverage as of 2020.

Marc Zwartsenburg: Yes, okay. Clear. Thank you very much.

Henri de Romrée: You're welcome.

Koen Van Gerven: So then – okay, André and then we will move to Patrick[?] and we will go back to the other side of the room.

André Mulder (Kepler Cheuvreux): First question on tax: you said it's going to be 25%. Taking into account the tax laws carried forward since[?] Radial, how would that work out for your overall group level? Should we expect any changes there? Will that be visible in the cash flow statement?

Henri de Romrée: Well, the thing is that in BGAAP I don't think it has an impact, as we deconsolidate the different subsidiaries. So it would only have an impact in terms of dividend contribution from Radial. So I think what you need to take into account is for BGAAP accounts, just the decrease in corporate tax and that's what you should factor in.

And then, as of – and for Radial, we assume that is going to be earnings accretive as of 2020 and then it will be just a matter of streaming dividend in BGAAP from Radial to bpost SR.

André Mulder: And then on the churn numbers in Radial, I found some pretty striking numbers if you look at the ones that you provided. If you look at the churn in 2019, you're losing $50 million of EBITDA on sales that are $140 million lower. That's quite a difference. But it's even more striking if you're saying I want to add $50 million in EBITDA going forward. That would be on $300 million in sales, be it four years of 8% growth. Why are those differences so big?

Henri de Romrée: What do you mean by the difference is so big? You mean the –

André Mulder: The $140 million and the $140 million against $50 million and the $50 million against $300 million.

Henri de Romrée: Okay, so you say there is a lower margin on the new accounts. There is a lower margin on the new accounts. Part of it is linked to the history of the company. The company used to do this webstore business, where basically they took 22% of the – or about 22% of the revenues of the e-tailers and with that they were paying the various components: the webstore IT – let's call it that way – fulfilment, transportation, etc., etc. And so it was a very profitable model, so our assumption is that the new accounts that we are going to make are made at a more normal industry profitability. But the old business model was a very profitable model but we all know that fulfilment is, what, between 5–10%. If you add some technology, that helps us go to high-single-digit but no longer the old contracts, basically.

André Mulder: So a last question on Radial. Can you give us a bit more feel of how your client base is split? And remember that TradeGlobal lost, almost, its shirt on two clients leaving. How is that with Radial? How are the – let's say the top five, or the largest clients?

Henri de Romrée: I've got – do you have the top five? We had it –

Pierre Winand: In the deck.

Henri de Romrée: In the supporting, in the Q&A. I need to get to – it's over 50, I think, the top five. Okay, I can give you the information; I've got it in the Q&A so we'll send it to everyone.

André Mulder: Okay, one –

Henri de Romrée: So there is a – there is a – the top ten is relatively heavy: 50–56% from memory but don't quote me totally. Top 20 will go – get you to 65% or something like that. Again, don't quote me if I'm completely wrong but it's – so it's concentrated but not super, super concentrated. But let's be honest, Toys 'R' Us alone, you know, is equivalent to a 5% share, no? So the figures are big but it's, at the same time, not super concentrated.

André Mulder: Last question, then. You're preparing the organisation for a 9% volume decline in Mail. Have you already – also run a sort of scenario analysis where the volume decline would stay as it is? I get the impression it is more driven – the volume decline is more driven by, 'What can we handle?' than that you really expect that it will be 9%.

Koen Van Gerven: Of course, it always – it's always difficult to predict the future but from the observation that we have and what we see happening in the market, when we keep the 6%, then of course we're going to get push back on the – 'Guys, this is not realistic.' I think that the 9% is much more realistic, based on the observations that we make. So I think it's wise that we organise for absorbing and being able to absorb this kind of decline. When it is less, I consider it as good news because we can absorb less decline in the new model too because part of the answer that we give in the new model is changing expectations of the customer on the speed of delivery and this is something that is not going to change. This is there; this is something that we observe today in market research, so it would be very good news if, basically, the decline would be less.

André Mulder: Thank you.

Koen Van Gerven: Patrick[?]?

Patrick Garcelman[?] (BNP Paribas): First, an accounting question on the goodwill on Radial. You already told that there will be no impairment on Radial if it delivers to the plan by 2020. But in the meantime, this year, according to the current performance, will there be any intermediate impairments?

Henri de Romrée: Well, as you can imagine, I'm monitoring quite closely the impairment risk, not only on Radial. So we are just done with the exercise. Again, if you look at the acquisition case of Radial over the period a delay of one year in that trajectory does not trigger, according to us, an impairment risk. So for us at this stage there is no risk of impairment because, again, we are in a scenario where we planned for a year, maximum two years, delay. And the acquisition case was not made on one or two years only.

Patrick Garcelman: Okay. And then a second question on the dividends, an add-on question. To understand it very well, your ambition is clearly to try to maintain the dividend. You have some flexibility with the pay-out ratio between 85–100% and also some tax effects. And then there are the reserves, but you say the base plan is not to use that reserves. So a concrete question: let's assume in 2019 the net profit falls 25% below the 2017 level, so that's not sufficient to absorb with the pay-out flexibility.

Henri de Romrée: Yes.

Patrick Garcelman: In that case, will the dividend be lower by 10%, for instance? Or are you – or in that case, do you plan to use the reserves, maybe?

Henri de Romrée: Well, I think as management and if I look at our stakeholders, everybody is aware that the dividend is really an important part of our value proposition towards our investors. So I think everybody is aware of that but it's, of course, not for us to decide on distributing those reserves and it's very difficult for me, or for us, to prejudge on what would the board propose to the general assembly. Now, of course, those reserves are there and they could be put to go use would that be needed but again, it's not for us to comment on that.

Patrick Garcelman: Okay. Okay, thank you.

Koen Van Gerven: I remember the silence in the conference call when we were talking about the dividend in March, probably you too. So we provided clarity; the clarity is there and there is somewhere a buffer but it's up to the board to decide on that. We don't discount: in the plan that we have, we are able to deliver the proceeds or the earnings in order to sustain the dividend going forward.

Patrick Garcelman: Okay, thank you.

Koen Van Gerven: Yes.

Matija Gergolet: Just two quick questions for me, firstly on IFRS 16. Could you tell us, if you have already done the exercise, which I presume you have, what would be the impact next year on EBITDA and on EBIT from IFRS 16. And just to make clear, is this impact already included in the guidance?

Henri de Romrée: So, Matija, a very good question and I like the fact that you expect me to have done it already completely. I appreciate the – I have an estimate of what would be the EBITDA impact but if you allow me I would like to show you a proper number. I was planning to do that no later than our Q1 announcement in 2019, together with the rest. The implication is that the numbers you have seen do not take that into account. As you know, the impact on EBIT should be limited but of course we will have a significant impact on the EBITDA number.

Matija Gergolet: Thank you. And a second question, just on tax. So we expect a reduction in the corporate tax due to the Belgian corporate tax. When it comes to, say, Radial, once it becomes profitable in your plans, say in the outer years, will that contribute to a lower tax rate for the group? How should we think about the – now, tax at Radial. And does it have any impact at the group level? Thank you.

Henri de Romrée: That's a good question. I think the tax rate in the US has been reduced, which should be – it was very high, it was one of the highest corporate tax rates in the world, actually. So now I think it's going down to the 20% range, which is not hugely different from the tax rate in Belgium, 25%. But of course one would need to look exactly at the – you know, the basis upon which it's done so I don't think it's going to have a big material effect on the average tax rate of the group. It's probably relatively similar.

Matija Gergolet: And just lastly on that, will you have any tax losses carry forward that you could utilise from these –

Henri de Romrée: There are some, yes.

Koen Van Gerven: Yeah.

Henri de Romrée: Which – yeah.

Matija Gergolet: Thank you.

Henri de Romrée: Which we use, yeah.

Koen Van Gerven: Okay. So from the back of the room back to the front of the room, Mark. Unless – okay, fine so then we will end up with you as we did in the first part of the Q&A. Mark and then we will move back to the back.

Mark McVicar: Thank you. I had two further and sort of not particularly related questions. First of all, if you're right about the rate of decline in letters and the D+3 product becomes accepted and heavily used, do you see, as you renegotiate the next USO, being able to negotiate the complete removal of D+1, or do you think the government will continue to want D+1 as a full product?

Kurt Pierloot: Look, it's even not the government because in the Third Postal Directive at a European level there is a D+1 included. Even in a country like Denmark, where they only do the distribution once a week anymore, there is still a D+1 product available. It is very limited use, but what they do literally over there, they transform a D+1 letter into a parcel. By the way, it's almost the price of a parcel, it's – I guess it's €3.50 – and they inject in the parcel stream.

So this is – I think we can have a theoretical discussion, but leave the D+1 in peace.

Mark McVicar: Yeah.

Kurt Pierloot: Yeah.

Mark McVicar: Okay. For now. But there's going to be a point, isn't there, when you've almost got a parcel network that you're injecting letters into from time to time –

Kurt Pierloot: Yes.

Mark McVicar: – and that would clearly change the shape of the overall network. And if the customers don't really want D+1 and they won't pay for it unless they're prepared to pay a Danish price, then why would you bother keeping it?

Kurt Pierloot: But you will keep it because they will pay you the right price and you will distribute –

Koen Van Gerven: Right.

Kurt Pierloot: – together with the parcels.

Mark McVicar: Yeah.

Koen Van Gerven: Still –

Kurt Pierloot: Which will still be the next-day delivery product, so –

Koen Van Gerven: No, no, it's like the discussion of the telephone booths.

Mark McVicar: When was the last time anybody went to a telephone booth?

Kurt Pierloot: You need to say more, Koen, honestly.

Koen Van Gerven: Yeah, but –

Mark McVicar: Even I was probably only about that high, you know, so –

Koen Van Gerven: If you remove them, it's like the end of the world so leave them over there and –

Mark McVicar: [Inaudible], okay.

Koen Van Gerven: – you know.

Mark McVicar: Okay. Alright. And my final question was for Henri. As you go through this new sort of divisional structure allocation, are you going to be pushing the relevant capital down into those businesses and charging those businesses for their capital, which other logistics businesses, not necessarily post office, do – do that? And that creates the incentive not only to, you know, maximise EBITDA, EBIT or whatever but also to – it has a way of crushing down, you know, the unnecessary capital that sits in these businesses.

Henri de Romrée: In the spirit of full transparency, that's, I think, the endgame. That's where I would like to be.

Koen Van Gerven: First things first.

Henri de Romrée: But the first step would be, for me, already to figure out and deliver already on the new segment reporting plus CapEx –

Koen Van Gerven: Yes.

Henri de Romrée: – which I think would be already a quite good step. I agree with you that what you just mentioned is probably the endgame, right? But it's not going to be for the next 12 months.

Koen Van Gerven: I take notice of the fact that now you did achieve the thing we were discussing and – you know, adapt your reporting to the reality of the business –

Henri de Romrée: Yes.

Koen Van Gerven: – that you put a new challenge in front of us. So –

Henri de Romrée: No, no but that is –

Mark McVicar: There's always a new challenge.

Henri de Romrée: No but I think it's the logical –

Koen Van Gerven: It's the obvious step.

Henri de Romrée: It's the logical next step. It's the logical next step.

Mark McVicar: Yeah because then it gives the managers –

Henri de Romrée: Of course.

Koen Van Gerven: Sure. Sure.

Mark McVicar: – the ability to really decide what capital they want and what they don't need and what they used to need and don't need now.

Henri de Romrée: I agree.

Koen Van Gerven: Sure.

Mark McVicar: And maybe –

Henri de Romrée: I agree.

Mark McVicar: – new capital and all that kind of stuff.

Henri de Romrée: I agree.

Mark McVicar: Okay, thank you.

Koen Van Gerven: Okay, then we move back to the end of the room –

Sumit Mehrotra: Hi.

Koen Van Gerven: – in order to conclude this Q&A session. And of course afterwards we remain available to do deep-dives with you. Yes.

Sumit Mehrotra: Thank you. Pierre, you mentioned that the problem at Radial was mostly at the top line. We understood that, but we see it – some issues on the cost side, a few surprises there. And that obviously raised questions, that – have you already looked under all the rocks?

Pierre Winand: Good question. First thing to say is that, you know, the company was under private equity ownership for a couple of years and usually those guys tend to look at many rocks. I think where there are opportunities which may not have yet completely captured it is to – how can we simplify further many of our infrastructure in some ways. For the moment we run a relatively complex business and so our plan is to try to simplify that business by moving to one or two warehouse management systems, reducing the number of order management systems that we operate and sell. And there are a few other things in terms of data management, all those good things.

We've got some other places where there are some inefficiencies in terms of reporting, etc.; lots of people doing lots of reporting. So, some of it is probably captured in the savings we've identified. Others, you know, I'm hopeful that we can do better in a number of those but I don't want to commit to those. I'm happy to commit to those that are on the table here. For those, you know, if we've got some opportunities of course we'll capture them.

Sumit Mehrotra: Thank you but my more – my intention was most towards any surprises still lurking around. We saw surprises like card fraud. We saw surprises like some inefficiencies in planning the headcount in certain centres. So – and the healthcare costs were obviously the most well-known. So, my concerns are more about any surprises lurking and what's your confidence level now that you have been there for six months.

Pierre Winand: It's the famous Rumsfeld known-unknowns and unknown-unknowns. I think I know the known-unknowns; I'm not sure I'd know if there were unknown-unknowns; I don't know because I'd know them. So I think, you know, we've done a pretty exhaustive piece of work on there. Of course, the outside world also plays with that. You never know what could happen in the outside world which is going to have an impact on us.

I think the biggest question mark we have this year is really the labour situation and it's a US-wide issue. It's not particular to us but labour in the US is extremely tight in many, many parts and you know, it's well-known and well-documented that you've got whole businesses that have to close down because they can't find labour, restaurants closing down because they can't find short-order cooks and those kind of things.

So I think we've done a good job of exploiting as much as possible, you know, every single source of labour. But if labour was to worsen – worsen or improve, it depends how you look at it, further, that could have an impact on us and the whole industry. But of course then we would have to have a conversation with our clients in that case.

If I had one moving part for the moment in my known-unknowns, that would be labour fraud. Yes, we were attacked, like because of the switch in particular from the – you know, the cards. You know about that, I think I mentioned it in the last quarter. It's going back into under control, but it was in some ways an external element, a little bit of self-inflicted, to be fair. So my last big moving part, I think, is labour.

So far, so good. We had to scale up in one of our facilities in June because one of our clients did a massive promotion so we had to scale up quite a lot. In the end, we were very concerned about that, we did very well. And actually one of our competitors, which is another supplier of that, apparently did less well. So, there is expertise in this labour thing but that's my moving part, I would say.

Sumit Mehrotra: Thank you and Henri, about now the focus increasingly more also to the recently done M&As, thereby my question on how you feel about Ubiway, or about DynaGroup profitability, how it's evolving along the planned trajectory that you shared at the time of acquisition?

Henri de Romrée: Of course. So I think if you look at Dyna, the feeling is a good feeling. I think it's both growing and profitable and it is rewarding us with a very good return on the money we have invested, and we have included in our plan that it will continue to do so. You will, of course, not be able to track any more in the future Dyna because as part of the new segment reporting we are going to integrate it because we believe that it's going to be much more integrated than it is today, with other operations that we have in the Netherlands. So that's for Dyna. I think if you look at Ubiway, you probably remember last year we had to provision for certain restructurings.

So 2017 is not a fair reflection of the financial performance of Ubiway. Going forward what we have assumed is contribution from Ubiway that would then remain constant across the horizon of the plan. The reason why it is being considered constant is because you have basically two effects. You are going to have additional mail volume decline in press distribution, which is going to be partly compensated by synergies that we are able to implement between our normal press distribution and the one of Ubiway but still this is going to affect the press distribution business of Ubiway and we expected that it will be compensated to a certain extent by the growth that we want to – that we try to develop now in the convenience retail segment. So you remember Ubiway was convenience, retail and press. So we expect a decline in press and we expect growth in convenience and retail. Again, as part of the new reporting we are going to report the press part of Ubiway as part of Press and we are going to report the retail part of Ubiway in our Retail segment because, again, those activities are more and more managed as one activity with more and more synergies among them.

Sumit Mehrotra: So some improvement this year versus last year but thereby just flat.

Henri de Romrée: Yeah, that's correct, exactly.

Sumit Mehrotra: Thank you.

Henri de Romrée: You're welcome.

Koen Van Gerven: Okay. So let's conclude over here. I think we are relatively in time. Is there still –

Speaker: Time to wrap up.

Koen Van Gerven: So, we can – we're going to conclude, we're relatively in time. The idea is now we have a big – we have a quick bite, or you will –

Baudouin de Hepcée: I will, yes just –

Koen Van Gerven: You will explain now what's going to happen?

Baudouin de Hepcée: Yes, just in a short round up so you know what happens for the rest of the evening. We invite you now back to the ground floor for a working dinner – not too long, something like an hour, an hour and 15 minutes maximum because, at the latest, by 19.00 we should – we'd like to get you in the coach, in the bus, that will take us to NBX, to this covered – the centre. It's a ride of something like half an hour if the traffic is gentle, I would say, over there; a tour of something like an hour, an hour and 15 minutes and close to 21.00 we would – should take the bus back, first to the airport to get everybody there who can be dispatched to their destination and then we finally come back here for those people who still have their car parked out here. That's the idea.

Koen Van Gerven: Okay, thank you. So, then we know what we can expect this evening. Most of us are going to be around over here and so we can continue to have the conversation. I hope it was useful in terms of information sharing and of course, as always, you can come back to our investor relations – to Saskia and Baudouin to get deep dives and we will be there in the weeks and the months to come to continue to share information and continue to conversation with you.

Thank you very much for now.

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