



Interim Financial Report Third quarter 2021

Conference call transcript

Brussels – November, 10th 2021

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Leen Geirnaerd, CFO

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PRESENTATION

Operator: Dirk Tirez, CEO, to begin today's call. Thank you.

Dirk Tirez: Good morning, ladies and gentlemen. Welcome. I'm pleased to present you the third quarter 2021 results as CEO of the bpost Group. Welcome to all of you and thank you for joining us. With me, I have Leen Geirnaerd, our CFO, as well as Antoine Lebecq from Investor Relations. We posted the materials on our website last night. We will walk you through the presentation and we will then take your questions. Two questions each would ensure everyone gets a chance to be addressed in the upcoming hour.

Now let's get to the highlights of the third quarter. As anticipated, bpost delivered a lower third quarter explained by the return of the pre-COVID seasonal pattern, the impacts of the abolishment of the low-value consignment relief and expected costs.

Our group adjusted operating income for Q3 stands at €976 million, almost flat year-over-year. This mainly results from the stable mail revenues with our pricing lever and mix mitigating volume decline, the decline in Asian cross-border revenues due to the introduction of European regulation on VAT, and the accelerated contribution of Radial's new customers.

The group adjusted EBIT stands at €39 million with a margin of 4%. This is a €13 million decrease versus last year, but in line with pre-pandemic seasonal pattern in which the third quarter is always the softer.

At Mail & Retail, the underlying mail volume declined year-on-year by minus 7.5%. As expected, we saw the mail volumes re-converging towards the structural mail volume trend we know on the long term, and the support of one-off COVID-19 communication volumes faded out. Nevertheless, these mail volumes, combined with a positive price and mix

impact, led to a slight revenue increase in domestic mail. The adjusted EBIT declined by 43% versus the third quarter of 2022 [EDIT: 2020] due to anticipated fleet and energy costs, planned salary index and CLA impacts, and to the capacity kept in the network during the summer months for parcel volume growth.

At PaLo Eurasia, the 9.5% decline in top line is fully explained by the anticipated, but higher than expected decline in Asian cross-border volumes against the peak of Q3 last year, and from the abolishment of the low-value consignment relief as of July this year. For Parcels B2X, thanks to sustained online sales, volumes grew by 8.9%. The price mix stood at minus 5.8%, which has resulted in a positive top-line development of plus 3.1%. Radial Europe and Active Ants continued to grow their revenues. We saw an increase of 13.3%, also thanks to the opening of our new sites, including for Radial Germany and Radial Netherlands earlier this year; and for Active Ants Belgium more recently.

The adjusted EBIT stands at €12 million, namely an €80 million decrease versus last year, mainly due to the decline in cross-border revenues and OPEX for the e-commerce logistics expansion, in line with our full year guidance.

In PaLo North America, excluding international mail which was disposed of at the beginning of August, the total operating income stands at €313 million, which represents a growth of 14.9% excluding the exchange rate impacts. This reflects new customers' contribution that started to accelerate since June at Radial. This revenue development has been offset by the current wage rate pressure into the US and costs from new sites. In the quarter, we had a positive €4 million impact from the cyber insurance recovery from last year's ransomware attack. As a result, the adjusted EBIT of €12.8 million was flat operationally when excluding this insurance recovery.

Overall at Group level, our adjusted EBIT stands at €39 million, a €30 million decrease compared to the same period last year, and this mainly from our Mail & Retail and PaLo Eurasia business units as illustrated on the bridge on page four.

To conclude on the highlights, we can summarise that the third quarter was in line with our previous announcement and expectations. Meaning the full year is entirely on track with the guidance for an EBIT above €340 million. Pre COVID, the third quarter is the seasonally the weakest quarter for bpost, and this was already taken into account in our last revised guidance.

I will come back on this more in detail later in the presentation, but I will now give some background on the management priorities I have set for bpost, which give us the confidence to maintain our guidance for Q4.

First, on the preparation of the end of year peak. In Belgium, we have secure distribution and sorting capacity to capture growth in comparison with the 2020 peak, including through temporary parcel sorting machine in two sites. We also optimised the second distribution wave compared to Q4 2020, reducing it in time by two weeks and reducing it in size by approximately 50%. We intensified predictive analysis and operations, planning with our top customers representing over 80% of our expected parcel volumes to ensure that we use the latest data for more reliable and granular volume forecasts. We also organised a buffer capacity nationwide at low switch-on costs for additional parcel volumes that can go up to 10 to 15% of our forecast. We will be able to handle these extra volumes on the best effort basis as agreed upon with our customers injecting volumes above their forecasts. This is to prevent the use of subcontractors at the last minute with unfavourable economics.

Engaging our temporary workforce is on track, given the earlier engagement of recruiting agency and by adopting a faster recruitment process.

For also our peak preparation in the US, hiring and training of our temporary workforce is on track through the use of additional temporary recruiting agencies with access to a larger labour pool and an earlier initiation of marketing campaigns. Moreover, despite US carriers' capacity limitations, capacity for Radial clients has been secured, taking advantage of our scale as a large provider of parcels.

Second, we are anticipating on adverse macro-economic trends. We all know the supply chain disruption is a market trend. While currently our customers expect limited exposure to e-commerce supply chain disruptions based on current stocking up, we are managing the volume risks by a meticulous preparation, planning and execution of the end-of-year peak. We also have mitigated exposure to inflation thanks to the inclusion of standard indexing provisions in our e-commerce agreements and through the stamp price increase mechanism.

Third, on operational efficiency in Belgium, we initiated this year, an increased focus on the reorganisation of the 247 distribution offices until 2024. In 2021, year-to-date, we have already reorganised 108 distribution offices compared to the 77 offices throughout full the year 2020, leading to productivity improvements.

Fourth, we are planning reduction in Belgium overhead and headquarter costs. We have stabilised overhead FTEs in 2020 while continuously investing in our transformation.

In view of these elements, we maintain our guidance for Q4 and for the full year 2021.

I would now like to hand over to Leen for more details on the financial..

Leen Geirnaerdts: Thank you very much, Dirk. Good morning to you all. Thanks for joining.

On page seven, you find an overview for your reference of the key financials for the quarter, both reported and adjusted. And allow me to move directly to the details of Mail & Retail.

In Mail & Retail, the external revenue has slightly increased by €7 million to €294 million. Domestic mail recorded an underlying mail volume decline of minus 7.5% for the quarter. This mail volume decline compares to the more regular comps of last year. Remember that bpost reported a new volume decline of minus 8.2% in that quarter. This has impacted current revenues by minus €18 million. That impact was offset by a positive price and mix impact of €20 million, this mainly driven by mail price increases.

In admin mail volumes, they were still supported by some fading out COVID-19 communication that had already started in March this year. We estimate a contribution of about €4.5 million to the top-line in this quarter.

In units, when you look at the graph and excluding the mail pricing impact, we see that domestic mail volumes now re-converge towards the underlying trend with the structural volume decline in mail volume compared to the third quarter 2019 and the third quarter of 2020.

Proximity and convenience retail network revenues increased by €3 million resulting from a combination of higher revenues from Ubiway retail, since last year we had lower sales due to reduced footfall, especially in travel locations, and also lower banking revenues from the low interest rate environment.

Also profiting from the soft comps of last year, the value-added services increased by €2 million driven by higher revenues from fines solutions.

Looking then at the EBIT of Mail & Retail on slide nine, adjusted EBIT declined by €15 million to €20 million with a margin of 4.3%. This decline, of course, is explained in part by an increase of €6 million in total revenue, and on the other hand, an increase of €21 million in the operating expenses.

The operating expenses, the increase year-over-year, mainly as a result of expected higher costs, including staff costs and including costs for our larger fleet in line with parcel volume development and increased energy prices.

More specifically on the staff costs, we have the impacts of the new collective labour agreement 2020-2021 [EDIT: 2021-2022], and the recent plus 2% salary indexation in Belgium. We had a different holiday phasing with less postmen on a summer holiday in the third quarter of last year, due to the pandemic. We then also had less need for replacements. This was phased to the fourth quarter 2020. This year, our postmen, they went on a holiday following the regular seasonality and we had to replace them to cover the fixed distribution rounds. This was combined with the impact of the capacity kept in the network during the summer to cope with our customers' demand for capacity in view of their forecasted parcel volume growth, which did not in full materialised.

Moving to slide 10 with PaLo Eurasia. In this quarter, we did record an external revenue decline of €25 million, fully due to an anticipated, but higher than expected, decline in Asian cross-border volumes. For Parcels BeNe and e-commerce logistics, we had a flat top line development despite the good performance in Parcels B2X and at Radial and Active Ants.

Let's look at this revenue development per sub-segment.

Parcel BeNe recorded a decrease of €2 million or minus 1.3%. First, the sales at Dyna, they were down 18.7% versus last year, due to lower sales in insurance and also a lower demand in the 2XL delivery compared to the lockdown momentum of the last year. This has more than offset the positive development of our Parcel B2X. As to Parcel B2X, we witnessed sustained online sales in the third quarter 2021, and volumes continued to grow by 8.9%. Parcels B2X revenues increased by 3.1% also due to an anticipated negative price mix of minus 5.8% fully mix driven. Since we continue to see in our mix this entire year, lower volumes in prepaid products, consumer-to-consumer parcel peaked during the pandemic last year. In addition to that, higher contractual products with our top customers growing their volumes shares.

It is also interesting here to look at Parcels B2X volumes retrospectively. The volumes in the third quarter 2021, they were of course below the second quarter in line with the normal seasonality, but respectively, they were up 62.4% and 8.9% above the third quarter of 2019 and the third quarter 2020, thanks to structural volume growth post COVID.

In e-Commercial Logistics, Radial Europe and Active Ant sales, like Dirk already said, they continue to grow year-over-year, but the progress made was fully offset by the decline in the revenue at DynaFix, so we only recorded a slight increase of €1 million in revenues.

So on the one hand, we did see continued organic growth at Active Ants from the existing customers, and also Radial Europe growth mainly driven by the third site opened in Germany in February this year. The combined revenues of Active Ants and Radial Europe, they grew about 13.3% year-over-year. Note that for Active Ants, we opened a new site in Belgium this quarter, latest quarter, and another site has just been launched in Germany a few weeks ago.

And then on the other hand, I talked about DynaFix with a negative revenue development. It's a specialist in repairs in the Netherlands for electronic devices. This is due to the current shortage of electronic spare parts and less devices to be repaired.

Then moving to cross-border, indeed we recorded a weak quarter against last year high comps. Revenue decreased by €24 million; that's minus 25.7%. We saw the decline especially in the Asian parcel volumes, so only in Asia parcel volumes. The decline in Asian sales is a consequence of the high comps of last year when we set up the temporary Train transport alternative. And second, the abolishment of the VAT exemption on low-value consignments since July this year. In the future, we expect to see a progressive recovery from this low value consignment impact. The timing, however, remains a bit uncertain as the consumer behaviour is still impacted by some confusing information circulating about VAT impacts for the final receivers. While we see that most of the Asian platforms are actually already full compliant with the new VAT clearance. Note that the volumes of Asian cross-border are still 40% ahead of the third quarter 2019 pre COVID.

On the next slide, adjusted EBIT for Parcel & Logistics Eurasia, it decreased by €18 million or minus 59%, to reach a margin of 5%. This was driven by the top line evolution that I just talked about.

And on the cost side, lower volume-linked transportation costs from the Asian cross-border activities, partially offset by higher costs including staff cost from the expansion of e-Commerce Logistics and the new sites openings in line with the full year guidance; and also a commitment to invest in the long term; and also somewhat higher cost as to the low-value consignment projects.

Moving to North America, operating income of e-Commerce Logistics increased by €39 million, up 14.9% when excluding the foreign exchange development year-over-year. This is driven by Radial, mainly thanks to the contribution of new customers launched in 2021 and accelerating since June. At the same time, our activities at Landmark and Apple Express continued to record strong volumes from existing clients and new customers. When also putting Radial revenues in perspective, as you see on the slide, and we see how this quarter compares with the previous one, we see Radial revenues are 8% above the revenues of the second quarter, 12% above third quarter 2020, as just discussed, and 50% above the third quarter 2019, which reflects the structural e-Commerce Logistics growth and Radial's expansion plan.

International mail decreased by €40 million, following the deconsolidation of The Mail Group in early August.

On slide 13, you see that the operating expenses, they increased by 6.7%. Variable OPEX evolved in line with revenue development, and they include labour cost headwinds due to the current wage rate pressure in the US. We also had higher fixed costs from the new sites and start-up costs in line with our expansion and commitment to invest. Note that in the third quarter, we recorded the positive impact of €4 million from the cyber insurance recovery following last year's ransomware attack.

PaLo North America adjusted EBIT, this remained flat operationally when excluding this impact. The top line development has not yet turned into operating leverage due to costs from the new site openings and the ongoing wage rate pressure in the US.

Corporate segment. The net operating expenses, they remained globally stable. The adjusted EBIT evolved in line with the building sales and stood at minus €5.9 million.

Then we can move to the cash flow. Net cash flow increased compared to the same period last year by €110 million, to plus €53 million.

The main items there that I want to flag are the following: of course, lower EBITDA generation in this third quarter. In addition to that, lower tax prepayments done in this quarter, while last year, we postponed the tax payments to the third quarter out of prudence and cash preservation in the context of the pandemic, so that's timing. And a positive variance of plus €78 million in the change in working capital, mainly driven by the deferred payments schedule of the SGEI compensation that last year we received in January and this year in July. So the latter has no impact on the full year cash flow.

As for the cash flow from investing activities, capital expenditures stood at €31 million in the third quarter versus €41 million last year, mainly invested in continued e-commerce logistics expansion of Radial and Active Ants. We also saw a positive impact of €6 million following the disposal of The Mail Group and some lower building sales for €2 million.

So all in all, the net debt decreased again by €140 million compared to September last year, to an amount of €458 million, supported by the free cash flow generation and the absence of dividend payments in the fourth quarter of 2020.

I will now hand over back to Dirk for the outlook update.

Dirk Tirez: Well, thank you Leen.

We can indeed summarise that we had a softer third quarter in line with pre-pandemic seasonal pattern. Nevertheless, given our current insight on normalisation for e-commerce activities post COVID and building on the initiatives presented earlier in this call, bpost maintains its guidance, and we still expect our group adjusted EBIT to be above €340

million. I know that it implies at least another €79 million to deliver in the third quarter, with different moving parts.

For Mail & Retail, we have a higher level of visibility after three quarters. We now expect a mail volume decline of up to minus 7% for 2021, versus minus 8% previously. And the price mix impact will allow to mitigate the decline in mail revenues. The adjusted EBIT margin is now expected to range between 9% and 10% in 2021, compared to the previous updated range of 8% to 10%.

For PaLo Eurasia, we saw in the third quarter how volatile it can be and we remain prudent on a specific guidance for the fourth quarter. On a full-year basis, we now expect a low single digit percentage growth in total operating income, versus a high single digit percentage previously. This reflects the recent developments in Asian cross-border volumes and the Parcels and e-Commerce Logistics volumes normalising in the post-pandemic new normal.

As part of our peak planning, we will be focused on efficient parcel volume absorption in Belgium and top to bottom improvement. While supply chain disruptions may impact consumer shopping behaviour, we have mitigated the impact on volume risk by updated volume forecast, adjusting the second wave size, adjusting the work force model by proactive interim agency management, by granular local FTE planning, by central workforce planning control tower, and three times more central staff mandays in peak, versus last year. And therefore the guidance on EBIT margin percentage for the year remains intact.

Despite these moving parts at the group level, the guidance remains unchanged. We still expect a low to mid-single digit percentage growth in revenues and the adjusted EBIT to be above €340 million.

Finally, while we were initially guiding for €200-220 million, the gross CAPEX envelope is now revised downwards to €180 million.

Before taking your questions, I would like to walk you through our management priorities for 2020 [EDIT: 2022], as well as give a few general updates. Based on the crystallisation of the new normal post COVID for e-commerce and the trends seen as of the summer this year, we can start to consider the 2022 management priorities. Well, we plan to continue and to accelerate the execution of our key existing management priorities; namely Belgian operations, cost reduction, and e-commerce logistics growth.

Consequently, we have set in place a Belgian organisation that enables to accelerate the transformation. The reorganisations and the implementation of our Alternating Distribution Model continue as planned, of course. But we are now shifting gears to changing things and not simply optimising the existing. We are bundling our Belgium parcel activities with our Mail and Retail activities into one Belgium business unit. The new industrial plan for Belgium will accelerate the transition of mail and parcel operations into a forward-looking and dynamic delivery rounds model. We are launching first pilots of this project called OMEGA in 2022, following discussions with the social partners. This also gives a gear perspective for the Belgium organisation on the future proofed company.

It also means that we can recognise cost synergy between mail, retail, and parcels. For instance, for sales and marketing, which we expect to lead to a cost reduction of also around 30%.

We will work on how to report it to you forward looking but what we're trying to resolve for this is the accelerating operational improvements, quality of service and optimising costs to maximising synergies.

We will also accelerate the reduction of the Belgian overhead and headquarter costs, which are currently in excess of 24% of revenue. One of the objectives of the new group CFO will be to bring these costs over time in line with the benchmark of our e-commerce competitors during our business transformation journey to 15 to 17% of revenue.

On the e-Commerce Logistics on both sides of the Atlantic, comparing year-over-year, Radial US has contracted year-to-date 2021, approximately 35% additional ACV compared to year-to-date 2020 with three fulfilment centres opened plus three new client centres added that are managed by Radial. We are working on an ambitious new industrial plan for Radial to grow with our existing and new clients and get benefit of the continuous growth in the North American markets.

For Radial and Active Ants combined, they sold year-to-date 2021, approximately 60% additional ACV compared to the full year 2020, with one quarter still to go. Radial Europe and Active Ants together also opened six new sites so far in 2021, with for Active Ants first sites open and operational in Germany and Belgium. We plan to continue to invest in e-Commerce Logistics in Europe with an ambition to grow their revenues more than five times over a period of five years.

I also wanted to come back on our ambition communicated in Q2 to be one of the greenest postal operators in Europe. As bpost we are at the frontline of the increasing regulation on access to cities for last mile delivery and increasing requests of our e-commerce clients for sustainable delivery. Yesterday, the bpost board of directors approved the new sustainability roadmap for bpost with, as ambition, to become one of the greenest e-commerce logistics providers in the countries where we operate by 2030. As such, we will decrease the bpost group emissions under direct bpost control, or the scope 1 and 2 emissions in specialist terms, with 55% by 2030 compared to 2019, bringing it well in line

of a below 1.5 degrees Celsius scenario by 2030. And making bpost one of the greenest postal operators in Europe, and one of the greenest logistics operators in the US. We will also decrease the bpost's group scope 3 emissions, being the emissions of our suppliers, in line with a below 2 degrees Celsius scenario by 2030. Investments to accelerate this transition are captured within the existing CAPEX envelope.

I also would like to update you on the newspapers and periodicals contracts. The existing contracts with the Belgian government is expected to terminate at the end of next year. And the government launched a tender process for the period 2023 - 2027. The tender is divided in two separate concessions, for which applications are now closed. bpost again has applied for these standards with an excellent track record on delivery quality and other SLA requirements.

As a final topic I wanted to address the recent management changes at bpost. With the new board, I'm working to establish the succession plan to ensure business continuity in the future. We took the opportunity to review the roles and responsibilities of each member of the Group Executive Committee to ensure focus on the acceleration of the transformation journey of bpost. The new roles thus reflect the new ambition of bpost to accelerate the transformation of bpost into an international e-commerce logistics player. First, a new function CEO Belgium has been created to strengthen the leadership position of bpost in Belgium and accelerate to transformation into a high quality, competitive parcel delivery company, integrating mail in Belgium. Jean Muls will join us shortly to lead the transformation journey of an integrated parcel and mail company, and will be responsible for cost efficient and high quality service delivery to our clients. I think as you can see from his resume, he has really a background in excelling in operational excellence.

The transformation trajectory of bpost will further accelerate by the appointment of a Chief Strategy and Transformation Officer. Nicolas Baise will coordinate the group strategy and join bpost on January 10th, 2022 and lead all transformation projects of the group, but also the agility culture of the group. He will develop and lead the bpost excellence centre aimed at improving customer centricity and employee engagement.

The role of the group CFO has been redefined to accelerate also the transformation journey. The new role will have an increased focus on group profitability, group performance and making bpost best in class in terms of cost effective leadership as a group.

I also expect to onboard the Chief Technology Officer shortly. The CTO will have business acumen and focus on innovation, increasing customer experience through technology and supporting the growth in e-commerce technology as a service to our customers.

And a succession plan is being established for all other functions in the Group Executive Committee in the future.

So to conclude, Q3 was soft, but 100% expected due to do anticipated low-value consignment relief, the impact of the CLA, the cost to reserve FTEs for peak and a tight labour market. And this is also in line with what we have seen in the industry. We expect in Q4 to deliver at least €79 million, meaning we confirm the upgraded guidance above €340 million for the year. And I'm rebuilding the top executive team. We have clear priorities for 2022, and it's going to be an exciting and busy year.

Now we are ready for your questions. Operator, thank you for opening the lines.

QUESTIONS AND ANSWERS

Operator: If you would like to ask a question, please press star one on your telephone keypad. Please enjoy your line is unmuted locally as you will be advised when to ask you a question. Once again, that's star one, if you would like to ask the question. And the first question comes from the line of Ivar Billfalk-Kelly from UBS. Please go ahead.

Ivar Billfalk-Kelly (UBS): Good morning, everyone. Thank you for taking the questions. I'll ask two linked to your logistics businesses, please. What portion of your logistics contracts are open book relative to closed books? And to what extent can the increased cost actually be passed on to your customers? Some of your other peers that I've spoken to have indicated that even in closed book contracts, they're actually able to increase pricing to maintain service levels. So, so when will you be able to see this, particularly in Radial?

And linked to that, within your targets to grow your logistics revenues by five times in Europe, I mean, what are the underlying costs, both from an OPEX and CAPEX perspective, of opening up new centres and what are your long-term margin ambitions for that? Is it in line with what we're seeing in the North American business at the moment? Thank you very much.

Leen Geirnaerd: Okay. I'm happy to have your question. On open and closed books, we don't disclose the split in between the two. You're absolutely right. Of course, that in open books, it's a bit more easier to cross-charge your increase in, for instance, the wage rate inflation that we see, but we can give you confidence that also in the closed book contracts, we have a pricing mechanism that is based on the indexation. So also there, we are able to cross-charge those increases in cost.

And the second question as to e-commerce logistics was on what basis the increase would take place. And actually, we are planning to come back on that one with Q4. Like Dirk indicated, we want to already give an insight on the management priorities of 2022. And going forward on the longer term ambition, it is planned also in the course of 2022 to come with the Capital Market Day and be more specific on that one.

Ivar Billfalk-Kelly: Okay. Thank you very again. Given they're relatively short, I'll toss in another one quickly. Within that ambition, is it the intention to do entirely organically or will you need M&A to achieve that five times growth?

Dirk Tirez: Well so far – and thank you for your question – we are planning organic growth, but I think we would look in Europe at bolt-on acquisitions to accelerate the growth path in building a truly e-commerce logistics business.

Ivar Billfalk-Kelly: Thanks. And Leen, best of luck in your future endeavours.

Leen Geirnaerd: Thank you very much.

Operator: The next question comes from the line of Frank Claassen from Degroof Petercam, please go ahead.

Frank Claassen (Bank Degroof Petercam): Yes, good morning. I've got a question on the OMEGA project. Could you elaborate on the benefits? Where do you see these benefits and also perhaps the timing of these benefits? Because next year it will be a pilot project. How quickly will you really implement the whole project after that? Will it be gradual or will it be a big boom? So some elaboration on that place?

Dirk Tirez: Well, thank you for your question and what I can confirm is that with the appointment of the CEO Belgium and the appointment of the Chief Strategy and Transformation Officer, we will accelerate the transformation journey of bpost. The blueprint for the new distribution model, including on transport, quality, distribution, sorting, workforce planning and organisation is ready. The dialogue with the labour unions will start. We will report in further detail when we present the annual results of this year in the beginning of next year, on our further ambition on project OMEGA.

Frank Claassen: Okay. Then maybe another question on COVID. Some of your peers really split out what they see as the non-recurring positive impact. What is your view of the impact of COVID on your numbers? Is it positive and what is your guesstimate on how positive it has been?.

Leen Geirnaerd: Yeah, like we indicated also during the presentation, I think for mail, like, it's quite sure we can really see what is specific COVID-19 communication as to call it out. And there we have seen year-to-date that we have about €18 million of revenues coming from that. On the other hand, for parcels, that's also why we put the trend on the slide for parcel. We consider that actually as part of the new normal, I think the trends clearly indicate that – like we call it, we jumped the curve and it's really difficult to identify what exactly is COVID and non-COVID. So we really see it as part of the new normal, like the trend clearly indicates.

Frank Claassen: Okay. Thank you very much.

Leen Geirnaerd: You're welcome.

Operator: The next question comes from the line of Marc Swartsenburg from ING. Please go ahead.

Marc Swartsenburg (ING): Yeah, thank you for taking my questions. In the parcel volumes, can you give me an indication on how the volume trend went through Q3, particularly with the holiday timing in Belgium and what you're currently seeing, going into Q4. That's my first question.

Leen Geirnaerd: Can we have your second question?

Marc Swartsenburg: Yeah, but I have quite a few, so then you probably forget what I asked the first question.

Leen Geirnaerd: Yeah, it's okay Marc. For this last time I allow actually. So what we've seen in the indeed in the parcel volume of October, so actually throughout the quarter, I think we've seen it in the first – in the beginning July, like we indicated at that point in time too, it was indeed a double digit and throughout the quarter it went to a single-digit percentage. And that's also how we went in into the fourth quarter. So also the first month of October went that way.

Dirk Tirez: I think on Q4, I think what we see is comparable to what can be seen by our peers in the sector. I think we have a clear forecast. We are in continuous dialogue with our customers. We're building the buffer of 10-15% above forecast. We have a meticulous plan that we use for end-of-year peak. And the most important thing is that profitability, top to bottom impact will improve. So I would say, do not only look at volume but look at

profitability and we believe with the meticulous planning of the end-of-year peak, we feel comfortable to confirm the outlook.

Marc Zwartsenburg: Maybe then a question on profitability, we do, of course see some inflationary pressures from higher fuel costs, etc. And the delay that you have in passing on price increases in your contracts, there's always a bit of a delay, and you're also adding more capacity to avoid subcontractors moving in with bad economics. But what if the volumes don't come because you still have [inaudible] big account and for that reason, yeah, are you then afraid that then the margin will disappoint in Q4?

Dirk Tirez: Well, again, I think there is an uncertainty about the exact volume but we are in continuous dialogue with our customers to allow, as we now have forecasting tower and a meticulous planning of the end of year to adjust and to focus on delivery in terms of profitability of Q4.

Marc Zwartsenburg: Okay. And then maybe on the newspaper and periodicals contract expiring next year. Can you give us a bit of an indication on the SGEI, what is – this part is expiring, but then there's only part of the €270 million. Can you give an indication of what currently is the split in the SGEI and what you believe are your chances of keeping the contract?.

Dirk Tirez: First of all, I think earlier this year we were able to confirm the prolongation of the seventh management contracts, the seventh management contract, relates to the service of general economic interest. It is a contract of €130 million annually, approximately. It runs for five years as of 1st January 2022, and it has been approved and signed by both the Belgian government and bpost. It has been notified to European

Commission, but it's, I think, the seventh time that it has been notified, so we expect the procedure to go as planned.

In terms of the press concession, as required under European law, there is a public tender for the contract to prolong the newspapers and the periodicals' contracts for also five years. But that is for the periods 1st January 1st 2023 and then five years beyond. I think we have exceptional track record during the past five years to be ideally positioned also to win that contract.

Marc Zwartsenburg: That's reassuring. Thank you. Lastly on Radial US. You see the onboarding definitely supporting the top line but yeah, if you strip out the insurance and there's no operational leverage because there's also inflationary pressures there. How do you see this going forward? Is part of this lack of operational leverage in Q3 also because of investments in the network, and potential one-off start-up costs or onboarding costs? [Inaudible] Q3. And how should we think about it then moving into Q4 and beyond? Should we see the operational leverage really kick in with the top line?

Leen Geirnaerd: For Q4 indeed, yeah, it's a peak season. So I think the volumes are then at the highest. So of course that will support any operating leverage as such. That's also what is included in the outlook, but we see that the revenue growth is driven by fulfilment, which is labour intensive, resulting in a bit lower variable margin driven by the higher variable labour from the current wage increase in North America. And then we also have a fixed costs. That increased because of the starting up of those new customers. Those are now all on-boarded in third quarter. Some of them were also at the end of the third quarter. So volume will kick in, but onboarding costs we already have.

And then the remaining driver of the lower EBIT that we've seen in the third quarter, is tied to service line revenue mix versus the last year, there indeed, we've seen with a couple

of customers that were sky high last year. I already mentioned one to two customers that had a lot of projects typically for COVID-19, as to hand gels and sanitisers. And that's something that we've seen in Q3 too. They have closed book contracts. They have an impact on volume, but bit by bit, and also for Q4, those volumes should start to kick in and also as to mix, improve it for the fourth quarter.

Marc Zwartsenburg: Okay. Maybe, maybe I can slip in the last one for you Leen because it's your call. On the CAPEX, the €180 million guidance, a bit below the initial guidance. Is it a phasing effect, or is it really the number? And then back to the guidance again for the coming year?

Leen Geirnaerd: The big advantage of the management priorities is that throughout the organisation, it's very clear what to invest in and what not to invest in. As you know, we have quite stringent investment criteria. And on top of that, indeed, also come the management priorities. So some of the investments in Belgian operations, we decided to not to execute, to be able to fully focus on e-commerce logistics and not on what is non-core to the business or the strategy.

Marc Zwartsenburg: But is it then a phasing that we see as part of it back next year those items, or is this just a goal?

Leen Geirnaerd: It's really based on what projects to invest in for the future.

Marc Zwartsenburg: Okay. All right. Thanks very much. Leen, thank you very much for your support to the analysts and all the best in your new challenges.

Leen Geirnaerdts: Thank you Marc.

Operator: The next question comes from the line of Henk Slotboom from The IDEA, please go ahead.

Henk Slotboom (The IDEA): Good morning, Dirk, good morning, Leen. I've got two questions, maybe a brief follow-up. First of all, you were mentioning the newspaper contracts. From what I've seen in the Belgium press is that it has a total value of around €750 million, starting at €162 million in the first year, in 2023. Now, on the one hand, you're saying that the goal of, or one of the consequences of merging the mail and parcels business in Belgium is that it will reduce your costs by around 30%, if I understood it correctly. I don't know how it works with the newspaper contract, whether that's subject to EC approval as well, but if your costs go down by 30%, could that potentially endanger the value of the contract in the eyes of the European Commission? That's my first question. The second question relates to the subcos situation in Belgium. I realise you're not an active party in the court case which is currently taking place in Antwerp, but undoubtedly you will watch it with great interest. Is there any indication as to when we can expect a court ruling in this case against the GLS and PostNL?

And perhaps if I can be so impolite, can I ask a last question? And that's about the green ambitions of bpost. You're saying in the presentation that the targets can be reached within the current CAPEX budgets that you're planning to spend. May I ask how much of the CAPEX budget is related to becoming one of the greenest companies in Europe? And let me say on forehand, Leen, thank you very much for all the explanation you did during the presentation. We'll miss you and hopefully we'll hear from you again in the future. And good luck with whatever you're planning to do.

Leen Geirnaerdts: Thanks a lot. Henk, it's a small world indeed, yeah.

Dirk Tirez: Well, Henk many, thanks for your questions. First on the press contract, you know that the European Commission, for the approval under the European State Aid rules, uses the NAC methodology, the Net Avoided Costs methodology. And as you know, since the introduction of the SGEI package by [inaudible], we are entitled to keep the efficiency gains under the contract. The contract would be notify to European Commission if and when awarded. So we feel comfortable with the budgets that has been set by to government and the terms of the contract.

Number two, on the social level playing field, we are not party to the proceedings which are criminal proceedings. And we see increasingly criminal proceedings starting up against independent contractors used by some of our competitors.

The position of the bpost is that we comply with tax and social security legislation, and we expect also that the Belgium government is losing hundreds of millions in terms of tax and social security revenues. We expect that they will take action to address, on the more structural basis, the unfair competition in the transport and logistics market in Belgium.

In terms of our green ambitions, indeed I can confirm that the CAPEX envelope is included in the CAPEX envelope as presented, and it is between €15-20 million. It was fully budgeted for in 2021 and will continue to be budgeted for as previously for the next years.

Leen Geirnaerdts: And perhaps if I can add something Henk, because you mentioned 30% of cost reduction, I just want to point out, that Dirk gave the examples of one particular department, being sales in marketing, in which indeed we expect a cost reduction of around 30%. Whereas your question on newspapers was more relating to operations, and that's a different story, of course. So the 30% only relates to overhead for all avoidance of doubts.

Henk Slotboom: Okay. Very clear there. Dirk may I ask one follow-up? Do I understand correctly that you're expecting the government to move ahead of the court case, which is going on right now? You're saying, 'I expect the Belgian government to take action'?

Dirk Tirez: Government never interferes, nor does bpost, in the pending court case. The court case is what it is, between the parties that are affected in this criminal proceedings. What I say is from a policy level, there is no doubt in my mind that the Belgian government will need to address, given the losses in social security and tax contributions, the level playing field in the transport and logistics sector.

Henk Slotboom: Okay. Very clear. Thank you very much. And once again, Leen, good luck.

Operator: The next question comes from the line is André Mulder from Kepler Cheuvreux. Please go ahead.

André Mulder (Kepler Cheuvreux): Yeah. Good morning, a number of questions. Firstly, on the reduction of the overhead from 24% of sales to 16%, can you give us a bit more insight the base that you're using? Is that the sales level in Belgium of €2.5 billion?

Dirk Tirez: Well, I can be very clear on that. That is based on €550 million overheads and administrative expenses. We have ambition to reduce it over time, three to five years, with 30%, it means an amount of €160 million and in terms of FTE, because there's FTE and OPEX, and FTE reduction will be in line with natural attrition. And that will be 6% per year.

Operator: The next question comes from the line of Sumit Mehrotra from Societe Generale. Please go ahead.

Sumit, please go ahead. Your line is unmuted.

As there is no answer, and there are no further questions in the queue, I will hand the call back to your hosts for some closing remarks

Dirk Tirez: Well, thank you.

And first of all, I think as some of you on the call have already done, I would like to express my gratitude to Leen. I think she has been an outstanding colleague. She is an excellent CFO. We will miss her. In the office, she sits next to me. So I will miss her dearly.

I also would like to thank everybody on the call for having taken the time to be with us and really for your interesting questions. We will hear from you at the conferences we're going to attend later this year. We look forward to staying in touch and our fourth quarter results will be released in February. So thank you all. And stay safe..

Leen Geirnaerd: Bye-bye to you all.

Operator: Thank you for joining today's call. You may now disconnect your lines.

[END OF TRANSCRIPT]