



Interim Financial Report First quarter 2022

Conference call transcript

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PRESENTATION

Operator: Hello and welcome to the bpost First Quarter 2022 Analyst Call. My name is Josh and I will be your coordinator for today's event. Please note that this conference is being recorded and for the duration of the call, your lines will be on listen-only. However, you will have the opportunity to ask questions at the end of the call. This can be done by pressing star one on your telephone keypad to register your question. If you require assistance at any point, please press star zero, and you will be connected to an operator. I now hand you over to your host, Mr Dirk Tirez, CEO, and Mr Koen Aelterman, CFO, to begin. Thank you.

Dirk Tirez: Thank you. Good morning, ladies and gentlemen. Welcome. I'm pleased to present you the first quarter 2022 results as CEO of bpostgroup. Welcome to all of you and thank you for joining us. With me, I have Koen Aelterman, CFO ad interim, 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'll then take your questions. Two questions each will ensure everyone gets the chance to be addressed in the upcoming hour.

I'm pleased with our Q1 results and the management initiatives supporting them. I will update you on the six priorities we shared with you at the full year results and where we intensify further.

Our priorities are even more important as, since our last results, there has been a war in Ukraine. I would like to thank our bpost colleagues who have been driving from Belgium to the border, assembled donations from thousands of Belgium citizens and worked with our colleagues in the Ukraine post. This event reveals the strong culture at bpost.

Yet this environment comes with heightened macro-economic uncertainty.

How is it impacting our environment?

In Belgium inflation climbed to 8.3% in March, the highest reading since 1983, mainly driven by higher energy prices as electricity and gas respectively rose by 50% and 31% year-over-year.

Together with the war in Ukraine, this surge in price caused a significant drop in consumer confidence and in Belgium we witnessed the largest decline since the indicator was introduced in 1985.

We also currently observe a decline in online retail sales at minus 17% in March while we also see a shift from online sales to physical shops, as the pandemic restrictions end.

In the US a similar trend in online sales is visible as March was the first month since the pandemic hit during which e-commerce sales declined year-over-year while in store sales rose.

I will later talk more on the actions taken by management to face and mitigate such impacts.

Now, let's get to the highlights of the first quarter results. Our results have been supported by some strong Mail revenues and a nice growth at Radial North America, both partly mitigating the unfavourable macroeconomic environment we just discussed.

We see that our group adjusted EBIT stands at €93 million with a margin of 9%, fully in line with our guidance.

Our group operating income for Q1 stands at €1,038 million, up 1.8% year-over-year. This mainly results from the contribution of Radial's new customers and some strong Mail revenues, offsetting together the anticipated decline in Asian Cross-Border revenues due to the new European regulation VAT, lower revenues from lower parcel volumes and the deconsolidation impacts of Ubiway as from March this year and the Mail group since August last year.

At Belgium, adjusted EBIT declined by €16 million to €75.1 million, mainly due to higher OPEX from the two recent salary indexations of plus 2% and higher energy costs.

At E-Logistics Eurasia, the adjusted EBIT stands at €10.5 million, a €6 million decrease year-over-year due to lower Cross-Border activities and higher OPEX from our E-commerce logistics growth and expansion costs. This €6 million decline in EBIT has been compensated at E-Logistics North America, where EBIT improved by €7 million and almost doubled to €15.2 million with improved margin of 4.4%, mainly thanks to Radial's contribution.

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

Koen Aelterman: Thank you Dirk and good morning to you all. For your reference, you find on page five an overview of the key financials for the quarter, both reported and adjusted.

Allow me to move directly to the details of Belgium on page six.

At Belgium, external revenue is decreased by €11 million to €557 million.

Domestic Mail recorded an underlying mail volume decline of minus 5.4% for the quarter, against minus 7.8% last year. The volume decline has impacted revenues by minus €15 million and was fully offset by a positive price and mix impact of plus €18 million, mainly driven by mail price increases. We also had a plus €1 million working days' impact in the quarter. All together Domestic Mail revenues grew by €4.5 million year-over-year.

Admin Mail volumes were still supported by some COVID-19 communication. We estimate the contribution of about €5 million to the top line in the first quarter, in line with the first quarter of last year.

Parcels Belgium recorded the decrease of €14 million or minus 12%.

Our volumes were 14.8% below last year. This volume trend reflects the tough comps of last year, but also the recent drop in consumer confidence and the inflation impacts on consumer spending, as explained by Dirk in his introduction. This volume decline also reflects Amazon's recent insourcing, which started late last year, as Amazon's volumes decreased by 46% year-over-year. When excluding Amazon, the underlying Parcels volume decline stands at 8.1%, which implies Amazon's insourcing accounts for 6.7% in our total volume trend.

At the same time, the price/mix improved to plus 3% this quarter, thanks to recent annual price increases and the favourable customer mix. This contrasts with the negative price/mix of the previous quarters. Note that, given the further inflationary pressure on costs, bpost has just announced a second price increase of 2.9% for its contractual products, which will be applicable as from June this year.

Against the high comps of the first quarter of 2021, with the volume growth of 54%, volumes are this year 15% lower, but they still remain respectively 60% and 32% above the pre-pandemic first quarter in 2019 and 2020.

Excluding the deconsolidation of Ubiway Retail as from the month of March this year, with the negative impact of minus €9 million, proximity and convenience retail network revenues increased by €5 million, resulting from the new management contract. The value-added services increased by €3 million, driven by higher revenues from fine solutions.

Moving to page seven. This €11 million decrease in external operating income was compounded by decline of €5 million in inter-segment operating income, which results in a total operating income of €16 million below last year. The lower inter-segment income is explained by lower Cross-Border volumes handled in the domestic network.

On the cost side, the operating expenses remained nearly stable year-over-year, despite inflationary pressure, mainly as a result of lower fleet and subcontractor costs and less FTEs due to the lower parcel volumes, lower material costs in line with deconsolidation of Ubiway Retail, but higher energy costs as well as higher payroll costs for FTE, reflecting the impact of the plus 2% salary indexations of November 2021 and February 2022, as well as the change in night-shift regulation.

Moving on E-Logistics Eurasia on page eight, external operating income declined, as anticipated, by €25 million.

Looking at the revenue development per sub-segment, we saw two very different evolutions.

In E-commerce logistics, Radial Europe and Active Ants sales continued to grow by 11.7% year-over-year, mainly from new customer onboardings.

At Dyna, sales were down around 20% versus last year, similar as to the previous quarters, and due to : the volumes in one and two-man delivery at DynaLogic, driven by the lower consumer spending in white goods ; and the shortage of electronics spare parts and less devices to be repaired at DynaFix and DynaSure.

Dyna's development did offset the strong growth momentum at Radial Europe and Active Ants, with a combined decrease of €3 million in revenues.

Cross-Border, as expected, recorded a weak quarter against high comps last year. Revenues decreased by €22 million or minus 23%.

Similar to the previous quarters, we continue to see the ongoing pressure on Asian Parcel volumes. The minus 50% decline in Asian sales is the consequence of the termination of the VAT exemption on low-value consignments since July 2021, but also reflects, to some extent, the recent COVID-related lockdowns in China.

We continue to expect, in the future, a progressive recovery from the low-value consignment impact, but the timing remains uncertain especially with the current lockdowns in China.

On the next slide, operating expenses decreased by €20 million. Across subsegments, we had:

For Cross-Border: lower transport costs and lower inter-segment OPEX charged by Belgium in line with the lower Asian volumes.

For E-commerce logistics, lower material costs, lower interims and transport costs in line with the lower volumes at DynaLogic and DynaFix/Sure.

And higher payroll costs from inflation and recent site openings in line with our expansion and the strategic development initiatives for Radial Europe and Active Ants.

Now on slide 10, our North American E-Logistics business.

The operating income of E-commerce logistics increased by €79 million, up 21% at constant exchange rate. This is driven by Radial, mainly thanks to the contribution of new customers launched in 2021 and accelerating as from June onwards. At the same time, our activities at Landmark and Apple Express continue to record strong volumes from existing clients and new customers won in 2021.

When putting Radial revenues in perspective, we see how this quarter compares with the previous years. Radial revenues amounted to \$307 million in this quarter, which is respectively 64% and 24% above the first quarters in 2019 and 2021, which reflects the structural E-commerce logistics growth and Radial's expansion plan.

Finally, International Mail decreased by €17.7 million, following the deconsolidation of the Mail Group in early August, 2021.

On slide 11, you see that operating expenses increased by 12% excluding FX impact. Variable OPEX evolved in line with the revenue development and includes labour cost headwinds due to the continued wage rate pressure in fulfilment, which were mitigated by productivity gain. We also had higher fixed costs from new site openings.

Year-over-year, E-Logistics North America adjusted EBIT increased by €7 million, almost doubling to €15.2 million with an improved margin of 4.4%, reflecting the continuous progress at Radial.

Moving to the corporate segment on page 12, the external operating income decreased by €7 million year-over-year from lower building sales. The adjusted EBIT evolved in line with the building sales and stood at minus €7.7 million.

Note that our corporate operating expenses decreased by 3%. This improvement was driven by lower overhead payroll costs, thanks to 3.7% lower FTEs and interims, which was partially offset by salary indexations as well as IT and consultancy costs to accelerate the transformation of bpostgroup.

Then we move to the cash flow on slide 13. Cash flow from operating activities remained stable year-over-year, and the free cash flow improved by €130 million to €290 million following the disposal of bpost bank and Ubiway Retail in the context of our active portfolio management.

The main items to flag are the following:

The cash flow from operating activities before changes in working capital slightly improved by €13 million, mainly from the favourable settlement of corporate income taxes in the quarter, more than offsetting the lower EBITDA generation.

The change in working capital and provisions remained nearly stable, resulting from two main drivers. On the one hand, we had a negative impact this year from lower supplier balances and from the payment of the bonuses to our employees in order to alleviate the pressure on their purchasing power. These bonuses are usually paid in the second quarter so this has a phasing impact of €28 million and the opposite movement will be visible in the next quarter. Following the sale of our stake in bpost bank, we also have the repayment of the €12 million working capital advance to bpost bank. On the other hand, we had, last year in the first quarter, the impact of minus €59 million from the unwinding of the extended payment terms with some suppliers, as initiated at the beginning of the pandemic in 2020.

The cash flow from investing activities improved by €126 million to €170 million resulting from the sale of bpost bank and Ubiway Retail for €142 million; lower building sales for €9 million; and higher CAPEX for €70 million.

The net inflow of €170 million in the quarter includes the repayment by bpost bank of the €25 million shareholder loan granted by bpost in 2019.

I now hand over to Dirk for some words on the outlook for the remainder of 2022.

Dirk Tirez: Well, thank you, Koen. We have delivered our Q1 and continue to deliver on the key transformation initiatives underpinning our long-term strategy. Our first quarter was in line with the full year 2022 EBIT guidance of €280 million to €310 million as issued on February 24, despite the difficult market conditions.

As we said in February, our outlook back then was based on the assumptions on inflation and overall market conditions we had at the time, which predates the Ukraine war. However, as discussed in my introduction, recent disruptions in the market bring uncertainty and a potential downside risk to the guidance for the remainder of the year.

Based on our current perspective, this risk could amount to up to €40 million driven by two external factors: the inflationary pressure in Belgium and internationally – I will come back on Belgian salary indexation mechanism in a minute; and the uncertain consumer behaviour linked to the inflation impact on demand and the post-pandemic parcel volume normalisation, especially during future peaks.

For the sake of transparency, we show on this slide, our most recent perspective on inflation, energy and E-commerce market conditions and how this differs from the outlook we communicated in February.

On inflation, for Belgium specifically, we see on slide 15, how inflation weighs on our payroll costs. Let me remind you of the mechanism in Belgium. We have a Federal Planning Bureau which publishes monthly inflation forecasts, and this is the base for the mechanical salary indexation of bpost's employees.

What we know as of today is that due to a fourth and a fifth consecutive indexations of plus 2% foreseen in June and December, we will incur an additional impact of approximately €17 million versus the guidance introduced to you two months ago when there was only one indexation still foreseen in December 2022.

Should inflation further accelerate, the anticipated future indexation of December 2022 could also occur earlier in 2022.

Of course, in order to phase and mitigate such impacts, management is taking actions at all levels, with increased sales efforts, price increases where appropriate, and cost reductions.

As shown on slide 16, we are mitigating impacts on top line by focusing on our commercial plan for Parcels and by increasing sales efforts at DynaLogic and Cross-Border to counter volume pressure. Wherever possible, we also increase prices. As mentioned by Koen, we just announced our second price increase in parcels for our national contractual volumes. On the cost side, we are working across the board on cost containment measures, such as hiring freeze or deferral, expense savings and discretionary spending reductions. In Belgium, we focus on workforce planning to take out costs in line with volumes, and we leverage the benefits of the natural attrition and the mobility initiatives. At corporate level, our diligent execution of overhead FTE reduction continues. And as mentioned by Koen, we already witnessed a minus 3.7% reduction in FTEs and interims in the quarter.

Immediate action is in line with the six priorities I shared with you for the year 2022, as our group transformation gathers pace.

There is a lot of energy to help the group to accelerate our transformation. Each initiative varies in timing and intensity throughout the year and each is well on track versus plan.

Let me highlight a few examples.

In Belgium, our sales efforts dedicated to our Parcels hunting plan are paying off. For example, we just signed two new high-volume E-commerce customers, Nespresso and Zooplus, the biggest European online pet shop.

At E-commerce Logistics, Radial in North America improved by 3% its fulfilment activities, while the SG&A and fixed expenses have improved by 3% against revenues, leading to improved margin as visible in this quarter's results. In Europe, we just announced the future opening of Active Ants' fifth fulfilment centre. Their new facility, located in Northampton in the UK, will process orders as from September this year.

As to sustainability, we are making great progress on green delivery in Belgium. We recently ordered 800 e-vans. We also announced a collaboration with companies such as Danone, Delhaize, Jacobs Douwe Egberts, Pro-Duo, Proximus, Telenet and Schoenen Torfsas to combine deliveries of orders to retail outlets and individuals in the city of Antwerp. The smart bundling of goods on the outskirts of the city is one of the first pilots worldwide on consolidated green city delivery across centres, and will immediately translate into a quarter fewer kilometres driven and 90% less emissions.

In the same vein, bpost continues to support Belgian cities in their ambition to turn the city centres into a zero emission parcel, letter and newspaper delivery zone. bpost have just rolled out its EcoZone in Leuven and the city of Namur, the Walloon capital, has just announced the set-up of an EcoZone by this summer. This follows the successful implementation of the first EcoZone in Mechelen last year.

We certainly see the need for bpost to be as best prepared as possible for the uncertainties ahead. And there is plenty of determination to act on what we can control from management and our colleagues. bpost also intends to leverage the ongoing disruptions in the market to further accelerate the transformation momentum.

We are now ready to take your questions. Operator, thank you for opening the lines.

QUESTIONS AND ANSWERS

Operator: Thank you very much. If you would like to ask a question on the call today, please press star one on your telephone keypad now please. Please ensure your line is unmuted locally, and then you will be introduced into the call. That is star one on your telephone keypads now please.

Our first question comes from the line of Ivar Billfalk-Kelly from UBS. Please go ahead.

Ivar Billfalk-Kelly (UBS): Good morning, thank you gentlemen, for the presentation. If I start with one big headline, and I suppose it's slightly the elephant in the room. Why has guidance not been explicitly cut? And why are you rather just flagging potential headwinds to that? And maybe linked to that, does this mean that the potential floor for EBIT this year might be €240 million if I take the low end previously? And linked to that, with the management actions that you're outlining, are there any costs associated with their implementations? And if so, are they factored into your €40 million headwind you flag? And sorry, I'm going to try and sneak in another one, please. In terms of the CAPEX previously, you had a target of €250 million. Is it fair to assume now that in the context of the inflation of about 10%, that might actually be €275 million for this year? Or are you going to make some cutbacks? Thank you.

Dirk Tirez: Thank you very much for your questions. And then maybe I can start on the outlook. I think what we have done is to show you openly our risk assessments, and we have not changed the outlook. I think we have made a risk assessment because we have less visibility, given the disruption and the macro-economic circumstances, than we used to have. And of course, if and when this risk would materialise, we will, of course, in full transparency say so. What we can already say is that April is closed to the dynamics of

the first quarter. And as you know, on the first quarter, our results are in line with the outlook we suggested.

Koen Aelterman: If I look to your second question, are there any costs related to the mitigations? So, yes, in some cases these mitigating actions have some costs with them. Obviously, as there are mitigations to offset the headwinds we see this year, these are all projects which will deliver a net return or a positive impact on our EBIT this year. So it's offset. And so it is included – when we talk around the potential downside risk of €40 million, those costs are in that.

On CAPEX, so in general, whenever we look at CAPEX, we have a stringent adherence to our internal investment governance which is balanced with the need to sustain the anticipated long-term growth in Parcels for the coming years. And it means that we will follow up closely on the evolution of the macroeconomic context and the volumes in the next months to inform our investment decisions in any capacity. Provided the anticipated volume decline in Parcels through 2022 continues, the investments for parcel-related activities are likely to be revised downwards for this year. And so that would impact the CAPEX outflow.

That said, for E-Logistics Eurasia and North America, we are committed to continue our investment programme to support the ongoing growth of our activity, both in the US and in Eurasia, which represents the bulk of the €250 million CAPEX envelope we communicated in our guidance.

Ivar Billfalk-Kelly: Very clear. Thank you very much.

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

Frank Claassen (Degroef Petercam): Yes. Good morning gentlemen. First on the Mail volume decline, minus 5.4% in the first quarter. Is the full year range you gave of minus 8% to minus 10%, is that still valid? And what is driving to end up either at the lower end or the high end of this range?

And then secondly, you've integrated in Belgium, both the Mail and Parcels divisions into the new division Belgium. Are you already seeing the first benefits? Could you elaborate on what has actually changed on the ground? Thank you.

Koen Aelterman: Starting perhaps, so with the first question on Mail. So indeed the first quarter is slightly above our expectations, although we did anticipate COVID communications already for 2022 in our outlook. For 2022 for the rest of year, we do continue to anticipate that overall we'll be at that 8% to 10% underlying volume decline, driven by transactional mail continuing its natural decline and advertising mail not recovering to pre-COVID crisis level.

We expect some support too from COVID communications related to the fourth dose for the rest of the year, and the solid Q1 performance could help to reach the volume decline towards the lower end of the range we communicated. So more towards the minus 8% than towards the minus 10%. It will still be mitigated by the price increase we had, and so as volumes decline a bit less, the price increase will help to mitigate a bit more. But overall we stay within the realms of the guidance we provided in February.

Dirk Tirez: And as to your second question, I think on the creation of BU Belgium, what I think what we see are three benefits on three levels. The first one is of course on cost and synergies. The second one, I would say, is we see increased combined efforts on sales and delivering on the hunting plan so that we can mitigate the Amazon insourcing by

onboarding new commercial clients in Parcels. And third, we also have a more clear focus on consolidated operations and that allows us to accelerate the planned reorganisations so as to adjust the operating network to volumes, and also to take benefits of the natural attrition. And we also introduced internal and external mobility plans to that effect.

Frank Claassen: Okay. That's helpful. Thank you very much.

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

Henk Slotboom (the IDEA): Good morning all, thanks for taking my questions. I have two questions. First of all, I'm not so familiar with the indexation – the inflation index in Belgium. Is that something that mainly applies to the civil servants and companies, for example, like bpost or is that institutionalised across all the companies in Belgium? And the second question I had relates to Amazon. We've seen quite an impact in the first quarter already. Amazon is opening a hub near Antwerp later on this year. Is going to aggravate the down trends in the volumes you do for Amazon? Those are my questions. Thanks.

Koen Aelterman: Okay, thanks. Let's start with the inflation. So in Belgium, there is an automatic indexation mechanism imposed by the government, which applies both across the public sector, including the government itself, companies like bpost, but also anyone in the market. There is a difference between the ways that these measures, or this automatic indexation is implemented. So, for example, for some companies, it's really on a monthly basis; for others, it's on an annual basis that the salaries are indexed. For bpost, it is every time that the smoothed health index, which is provided by the Federal

Planning Bureau, passes the threshold that has been defined. So that basically means each time the indexation goes above 2%, it triggers an automatic salary indexation two months later for bpost employees. So timing might be different, but the mechanism is applicable across the entire market.

In terms of Amazon, so what we've seen throughout the quarter is that Amazon has ramped up its insourcing, where we end up in March at an insourcing of about – or a volume impact of minus 60% versus last year. Based on the plans communicated to us by Amazon, we expect that to remain stable at least for the coming months. Amazon has not provided any insight into what that would mean for the end of the year when their new facility is planned to be open. Although, at that point in time, Amazon will be going through a peak as well and typically we would expect a bit of that volume to flow back to us as an overflow for their own capacity. So we're not expecting any aggravated impact at the end of the year, at this stage.

Henk Slotboom: Can I please squeeze in another one in relation to the indexation? One of the things we've seen happening in the past few months that was a lot to do about the lack of level playing fields in remuneration. I can imagine that self-employed drivers, well, obviously they don't have the 2% indexation. What is it doing to your competitive position in Belgium now that you're confronted with these automatic indexations?

Dirk Tirez: Well, thank you, Henk, for the question. I think that there has been discussions, given allegations of social security and tax fraud resulting from this subcontracting model. And it has been also publicly debated on a possible law reform. I think in terms of bpost, we do not comment on what regulation we put in place, but what I'm saying is there will be no different business models. bpost will become flexible, agile and dynamic as our competitors. And we will fully look at what the regulation – how it will

unfold. I think there may be a difference in terms of sustainability, compliance and governance. But I think the business models will, I think, evolve into one single model.

Koen Aeltermann: And if I can just pick in on something you said, so most of the subcontractors active in the Belgium market, they are in fact not self-employed, but they are part of small companies with a limited number of employees. It means that these people are still subjected to that automatic indexation mechanism. And so even though for our competitors, it would imply a negotiation with their subcontractors, at the base level, their costs do increase. And so there might be a time lag, but at some moment, especially taking into account the thin margins they have already, that will also show up in the cost base of our competitors. And we've already seen that some of them have given temporary measures at this moment, for example, to cover the higher fuel price. So there is an increase in their cost.

Henk Slotboom: Okay. That's very clear. Thank you.

Operator: Thank you very much. Our next question comes from the line of Sumit Mehrotra from Société Générale. Please go ahead.

Sumit Mehrotra (Société Générale): Thank you. So first, I'd like to know impact of Ubiway Retail on the top line once it's removed. Could you quantify that for us please? Also, could you mention about the Cross-Border, would it be able to recoup the 2019 top line levels in next two to three years, or we are seeing a structural exit of volumes here in Cross-Border?

Thirdly a few comments on Radial, especially the operating leverage that we have seen. €60 million increase in top line, but €6 million increase in EBIT. And how is the pricing of

the new contracts that you have taken on your books looking versus your existing ones?
Thank you.

Koen Aelterman: I'm sorry, I didn't quite catch the question on Cross-Border. Did you repeat that one for me please?

Sumit Mehrotra: So the Cross-Border top line, do you think it could be recouped back to the 2018/19 levels in the next two, three years, or you're seeing a structural exit?

Koen Aelterman: So let me start, perhaps with Ubiway Retail, and I think the exact figure is actually in our press release. It's €21 million impact this year top line, which is only two months of revenues. And so for comparison, last year in the first quarter, we had €31 million with three months of revenues on Ubiway. Full year revenue was approximately €140 million in 2021.

On Cross-Border, so here we do expect a recovery but not to the levels that we have seen back in 2021. So there's actually two impacts on our volumes. During the COVID, we had put in place a solution via train to bring volumes into Europe, in which bpost acted as a distributor across Europe for those volumes, or at least injecting into the network of other postal operators. That part of the business we expect is gone and will not return. However, the impact of the low-value consignment abolishment, or the relief of that which was abolished, that we do expect to gradually return, but at a slow pace. So we're expecting for the third and fourth quarter to be approximately 10% above where we were last year. And then on the final question could you just repeat that one, please? It was –

Sumit Mehrotra: Yeah. Radial. So firstly, any comments on the operating leverage that you have seen? So €60 million increase in revenues, but just €6 million in EBIT. And

generally how the pricing of the new contracts that you have taken in compares with what you had existing –with ones you have existing.

Koen Aelterman: So I would say actually looking at that increase in €60 million versus €6 million on the bottom line, that clearly shows the operating leverage, because that means on the incremental revenues, we have a margin, the 30% rate, which is well above what we have for that business overall. So we do see that operating leverage.

On the pricing side, when we took on board new customers last year, some of those were cost-plus contracts, which allows us to fully pass through any inflationary impacts we have in the US. And so that also shows in our figures. When we onboard new customers, it will still be a mix of the standard activity-based contracts, as well as a number of cost-plus contracts we are looking for. And we are negotiating one other site takeover, for example, at this point in time, which would bring another cost-plus contract into the portfolio.

Dirk Tirez: And I can then add that what we currently see is that we are on track to deliver on the accelerated growth plan for Radial and the acceleration of the profitable growth.

Sumit Mehrotra: Thank you. So lastly, if can just take liberty on CAPEX. So you are reiterating a €250 million intention?

Koen Aelterman: What we're saying is that we'll look at how the market continues to evolve and everything we had planned in terms of capacity expansion for Parcels will be evaluated in light of the new volume evolutions we see. Depending on what happens over the next couple of months, that could be indeed led to a downwards revision of that CAPEX portfolio.

Sumit Mehrotra: Thank you.

Dirk Tirez: So, yeah, I would say that indeed, I think we stick to our internal investment governance. And so in terms of, in Belgium for investment for Parcel-related activities, we may want to look at that, but in terms of investing in the long-term sustainable growth and E commerce Logistics, I think we will continue that programme.

Sumit Mehrotra: Thank you.

Operator: Thank you very much. Our next question comes from the line of David Kerstens from Jefferies. Please go ahead.

David Kerstens (Jefferies): Good morning gentlemen. A couple of questions, please. First of all, on the calculation of the €17 million impact from the additional indexation in June, do I understand that this is on the six-month basis? So if you were to annualise that 2% salary increase, that's €34 million. How does that – what does that imply for your average wage increase this year and going into 2023? Is it an 8% increase this year and then corresponding to pro rata the €17 million impact on the six-month basis?

Then the second question is with regards to energy prices. If those were to normalise at some point, which might happen at maybe later this year, will you then also see that inflation will come down and this is also mean your salaries will come down? Or will you be stuck with elevated salary levels going forward, so there will not be a recovery in salary cost going into next year?

And then the second question is related to the growth in Parcels. You highlighted that is impacted by a shift to the physical channel. Does that mean that you now see internet penetration, or E-commerce penetration coming down in Belgium? Those are my questions. Thank you very much.

Koen Aelterman: Okay. So starting with the impact of indexation. So the €17 million, it takes into account the different indexation currently proposed by the Federal Planning Bureau versus the ones we had foreseen in our guidance, where the difference is that the one which was originally foreseen in December has moved to June, and there is an additional indexation taking place in December. The impact of those combined is €17 million. I think, as I said last time, to give you a sense of the sensitivity on the indexation, one month in which we have the 2% indexation represents an impact in the order of size of €2-3 million, more towards the 2 than towards the 3, depending a bit on the month.

As to your second question, so energy prices, there is indeed a very strong correlation between energy prices and the total consumer price index in Belgium. And so if energy prices were to normalise, we would see that through – we would see that decrease as well in the consumer price index. First, there is already the question on whether that would be enough to offset other inflation we see happening on other cost categories and energy as well. But even if it would lead really to a negative inflation, although in theory, that could lead to an impact on the salaries, so a decrease, in practice, to my knowledge, it has never, or almost never been done in Belgium. And that would create a lot of social tension. So there is no guarantee that that would translate into a lower salary cost.

As to your question on what it represents in total, the increase in salaries, if you look at it, since October 2021 to the end of – to December, 2022, we will have, based on the current forecast, five consecutive indexations. So that's an impact which is slightly above 10% on the average cost per FTE.

And then finally there was a question on the shift back to brick-and-mortar. So we see that people tend to, now that they can, to go back to physical stores, which has an impact in terms of what that means in E-commerce penetration. Overall, you see the figure which we had at the start of the presentation of minus 17% in online Retail sales which is higher than what we see in our own volumes if we exclude Amazon, which is only minus 8%. That

minus 17%, it is there, that is the shift. Whether that means that some people don't order anymore at all, I have no view on that. All we can say is that overall orders decreased.

Dirk Tirez: The one thing I may add is that, of course, that we are activating package of measures, a toolbox to counterbalance disruptions and, in particular, the increased salary costs, given the indexation mechanism in Belgium. And so we are increasingly and accelerating our efforts on workforce planning. The idea is to accelerate, to take out cost in function of volume, and that is supported by natural attrition and mobility. And we are also focusing on productivity improvements and further cost containment.

So you cannot simply take the increase in salary costs and imagine that we are not significantly addressing it by measures to counterbalance the increase in costs, given the Belgian salary indexation mechanism.

David Kerstens: Yeah, yeah. Understood, so the €17 million is not only related to the salary increase, but also includes the mitigating effects?

Koen Aelterman: The €17 million is the impact on our costs, which based on the forecast of the Planning Bureau would be unavoidable. It is not necessarily an EBIT impact because, as Dirk said, there are a number of mitigating measures that will offset that. So the €17 million on cost is certain, it's – on salary at least is certain. It'll be offset by other measures.

David Kerstens: And can I maybe ask a quick follow-up related to the remaining €23 million? How do you quantify the impact of lower consumer confidence? And I suspect there's also a bit of accelerated Amazon insourcing in there, but what drives the €23 million, how did you estimate that number?

Koen Aelterman: So, first beyond the salary indexation, there is an impact also of the energy prices and that one, we estimated about €8 million, and then the remainder is very much linked to what happens at the level of the top line in E-commerce, in Parcels but also in our other geographies. Even though there, we have a variable cost base, we are able to mitigate that quite well also through pass through. The main impact we expect to see is in the Belgian business unit. And there, indeed, it'll depend on what happens in terms of Parcel volumes. Whereas we've told you in the guidance that we had a flat volume development in mind. Right now, based on what we've seen in the market, we expected to rather be high single digit to mid-teens decrease versus last year. And so that's the other big component in that €40 million, obviously again, as the Dirk said, offset by that package of measures we're implementing to counterbalance that.

Dirk Tirez: So, I think the €40 million is a risk assessment because the outlook based upon Q1 and based upon April is not changing, but it's a risk assessment. And we have less visibility given the microeconomic conditions. If the risk were to materialise in Q2 and Q3, of course we will openly say so to the market, but this is, on the basis of the information we have currently available, the best risk assessment we could share with you in all transparency.

David Kerstens: Thank you very much gentlemen.

Operator: Thank you very much. The next question comes from the line of Marco Limite from Barclays. Please go ahead.

Marco Limite (Barclays): Good morning. Thanks for taking my questions. So my first question is on price increases. So you are posting a favourable price mix of about 3% in

Q1 that I assume is mainly driven by price increases introduced on the 1st Jan, and you also mentioned an additional 2% price increase from the 1st of June. So I'm just wondering, given that the sum of the two is around 6%, but probably cost inflation is tracking well ahead of 6% – you mentioned wage increase at 10%, energy cost also very high levels. Are you planning a third round of price increases this year? Or yeah, how you're thinking about pricing in order to offset cost inflation.

And my second question is just about what has been the development of Parcel volumes in Q1. So if you're seeing an acceleration in volume decline in March, and if you also have a number for April Parcel volumes. Thank you.

Koen Aelterman: Yes. So on the first question, price indexation on – first we need to distinguish between our commercial products in Belgium and the ones which are part of the scope of the universal service. For the ones in the universal service, we are subject to a price cap formula which is controlled by the regulator, and which only allows by law for one price increase per year. So there, at this moment, we are blocked from instituting a catch-up on the inflation for this year, and that will be reflected next year.

On the commercial products, we have some more flexibility, hence that new price increase to take effect as of June. But we still base it on the same underlying index we usually use, which is the ITLB index, so transport-sector specific index, which is backwards looking. And so by implementing this new price increase, we will catch up part of the inflation we have seen in the first half of this year, or until now in the year. But we will not yet include in that, the effect of the indexations which we still foresee in the second half of the year. That will be caught up when we do our normal price increase again next year. So, that's how we think about that.

In terms of the Parcel volumes, so yes, we did see throughout the quarter that the volumes deteriorated a bit between January and March, part of that due to the Amazon insourcing

which, as you know, on average for the quarter is the minus 46% we communicated. And then in March, was at minus 60%. So that's one part of that acceleration, but we did already see, or also see the acceleration on the other customers.

When we look at April though, the volumes have stabilised or even slightly improved versus March. So we believe that we've seen the negative impact at this stage and that from now, it'll be stable or going up. Also keep in mind that last year, Q1 and Q2 were high comparables and Q3 and Q4 were already less impacted by COVID. And so the percentage decline you see now in the first quarter, it is versus that high comparable. So that would also normalise to some extent towards the second half of the year.

Dirk Tirez: But again, I think – go ahead.

Marco Limite: Sorry. And just to confirm before, when you mentioned what's the implied assumption for – baked into your €40 million headwinds, you said that you're assuming high single digit to mid-single-digit volume decline, right?

Koen Aelterman: High single digit to mid-teens volume decline.

Marco Limite: Right. Thanks.

Operator: Thank you very much. And I will hand you back over to the speakers for some concluding remarks.

Dirk Tirez: Well, thank you all and thank you everybody in the call for having taken the time to be with us, and of course for your interesting questions. As a reminder, bpost will host its annual shareholders meeting next week on Wednesday, 11th May. We will hear

from you at the conferences we are going to attend in the coming weeks and months and, of course, we look forward to staying in touch and our second quarter results will be released in August. Thank you very much and have a nice day.

Operator: Thank you for joining today's conference. You may now disconnect your handsets.

[END OF TRANSCRIPT]