Interim Financial Report
Second quarter 2023

Conference call transcript

Brussels – August, 4th 2023
Philippe Dartienne, CEO a.i.
Koen Aelterman, CFO a.i.

Transcript of the conference call held on August, 4th 2023 10:00am CET

PRESENTATION

Operator: Goodday and welcome to today's bpost Second Quarter 2023 Analyst Conference Call. This conference is being recorded. At this time I'd like to hand forward to Philippe Dartienne, bpost CEO. Please go ahead sir.

Philippe Dartienne: Thank you very much Olivier. Good morning ladies and gentlemen. Welcome. I am pleased to present you our second quarter 2023 results as CEO ad interim of bpost Group. Welcome to all of you and thank you for joining us. With me, I have, as usual, Koen Aelterman, our CFO at interim, as well as Antoine Lebecq from Investors Relations.

We posted the materials on the website last night. We will walk you through the presentation and we will then take your questions. Two questions each will ensure everyone gets a chance to be addressed in the upcoming hour. I will get to the highlights of our second quarter results. Koen will provide you with more details on the financials. I will then take some time to update you on the compliance reviews, on the progress made on our management priorities and on our operational output.

I am pleased to report a good set of results, demonstrating our resilience and strength amidst challenging conditions. Our performance is again exceeding our plan and this despite the current turmoil and the impacts of the compliance review.

In this regard, and for the sake of clarity, as in the first quarter, our second quarter results include a negative revenue and EBIT impact of €6.25 million at Belgium level. As a reminder, this quarterly impact corresponds to one-fourth of the low end of the €25-50 million EBIT range we have identified, in the context of the ongoing compliance review, as a preliminary estimate for the performance of some services to the Belgium State for the year 2023.

Our group operating income for the second quarter stood at €1,028 million and remained roughly stable year-over-year; our strong parcel volume in Belgium and Cross-Border and some resilient mail revenue offsetting the revenue pressure in North America.

Our group adjusted EBIT stood at €69 million with a margin of 6.7%, or €75 million and a margin of 7.2% before the revenue recognition. This compares to an EBIT of €83 million and a margin of 8% last year. Unsurprisingly, due to the inflationary pressures on costs and macroeconomic trends, group EBIT is down year-over-year, but our continued focus on productivity and cost control continue to bear fruit and the decline in operational EBIT remains limited.

Before handing over to Koen, I would also like to share with you that on May 17th, S&P reaffirmed the single A issuer credit rating of bpost SA, with a stable outlook. Their report is available on our investors' website. In a nutshell, S&P acknowledges the resilient earnings of last year and our strict cash protection measures, resulting in an increase in ample financial leeway under our credit matrix.

Koen, the floor is yours for more details on the financials of this second quarter.

Koen Aelterman: Thank you, Philippe. Good morning everyone. On page four, you can find an overview of the key financials for the quarter, both reported and adjusted. Philippe already mentioned our group top-line and EBIT. Our adjusted net profit amounts to €45.6 million, or €50.2 million before the revenue correction. This includes higher non-cash financial charges related to IAS 19 employee benefits compared to last year when we had a very favourable impact due to the steep increase in discount rates.

Let us move then to Belgium on page five. At Belgium, we see that revenues increased by €27 million to €547 million. Domestic Mail recorded an underlying mail volume decline of minus 8.3% for the quarter against minus 7.5% in the second quarter of 2022. This impacted revenues by minus €25 million, yet was mitigated by a positive price and mix impact of plus €28 million, as well as €4.5 million of additional revenues from Aldipress, which was acquired on September 30th, 2022. Altogether, domestic mail revenues increased by €7 million year-over-year.

Note that in Advertising Mail, market pressures continue as we observed in Q1, including the impact of a customer bankruptcy.

Parcels Belgium recorded, in Q2, an increase of €14 million in revenue, or plus 13.2%. Volumes increase by 7.8% year-over-year, reflecting our successful commercial hunting plan of 2022 and the absence of further Amazon insourcing impacts. It should be noted that this volume growth continued to occur under persisting unfavourable market conditions.

In Belgium, online retail sales, adjusted for inflation, declined by 11%, 9%, and 7% year-over-year in April, May, and June respectively. Consumer confidence remains negative and only slightly increased versus Q2 last year, when it took a big hit following the start of the war in Ukraine.

Price/mix stood at plus 5.3% in Q2, mainly driven by price increases.

Proximity and convenience retail network revenues increased by €3 million, following the indexation of the Management Contract; and value-added services increased by €4 million, mostly resulting from higher revenue from Fines solutions.

Let us move then to the P&L of Belgium on page six. As just explained by Philippe, our 'Intersegment and other revenue' comprise the negative number of minus €6.25 million, reflecting the preliminary estimates relating to the ongoing compliance review. We also see on the same line the higher intersegment revenues from inbound cross-border volumes handled in the domestic network for E-Logistics Eurasia.

On the costs side, operating expenses increased by €32 million year-over-year, mainly due to persisting inflationary pressures, but also, to a certain extent, from lower recoverable VAT this year.

Our payroll costs per FTE increased by 7.5% year-over-year following the impact of the five salary indexations of plus 2% each that occurred since April 2022, but our continuous focus on productivity helped us keep our FTEs stable despite significantly higher parcel volumes.

Bottom-line, excluding the impact of the compliance review, our EBIT remains stable as inflationary pressures are successfully mitigated by our top-line development and continued efforts on productivity.

Moving then to E-Logistics Eurasia on page seven. Revenues were up €20 million, reflecting strong growth across sub-segments. In E-commerce logistics, revenues increased by €5 million. Radial Europe and Active Ants' sales were up 18% year-over-year. This continued high growth is driven by our existing customers' expansion and by new customer onboardings.

At Dyna, lower volumes in DynaLogic's delivery network were mitigated by price indexations across all Dyna lines.

Most notably, Cross-border revenues increased by €15 million, or plus 21%. This top-line development is driven by both the consolidation of IMX since July last year, and the plus

35% growth of our Asian sales where we continue to see the benefit of some recent customer wins.

Let us move then to the P&L. Operating expenses increased by €21 million or 15%, namely explained by: higher transport costs in line with growth in e-Fulfilment and Cross-border activities, including the integration of IMX and the intersegment OPEX charged by our Belgium segment as just discussed; and higher payroll costs from inflation and e-commerce logistics growth.

From a profitability standpoint, higher revenues continue to support our EBIT margin recovery with 5.5% in Q2, a sequential improvement compared to our margins of around 3% in the third and fourth quarters of 2022 and just below 5% in the previous quarter.

Moving on to E-Logistics North America. As discussed in Q1 already, our top line in North America continues to be impacted by the economic softness, the market over-capacity leading to a high degree of competition and pricing pressures, as well as the insourcing of Amazon, which impacts Landmark.

The operating income of E-commerce logistics decreased by 13% or €49 million. At constant exchange rates, this corresponds to decrease of minus 11%.

At Radial, top-line decreased by 10% year-over-year, reflecting, on the one hand, the contribution of some new customer launches; but on the other hand, slightly lower sales from existing customers and the impact of some terminated contracts, as discussed in the fourth quarter of last year already.

You may want to put our 10% drop in US dollar revenues in context of a US parcel market, which has been in decline over the last few quarters, as illustrated here with the volumes of UPS, FedEx and USPS. Keep in mind the correlation is not perfect for Radial because we may benefit from outsourcing contract wins, which can be lumpy. We would

nonetheless expect the US consumers to be the first to resume their online ordering; and in the meantime, as we will see in a minute, we continue to focus on productivity gains and margin enhancement, ensuring we are well prepared to seize the rebound when it comes.
At Landmark, this is a different story as besides general price pressures in the market, we continued in this quarter to record lower volumes due to Amazon's insourcing.

Moving then to the P&L on slide 10. Alongside our total operating income, OPEX and D&A decreased by 9% at constant exchange rate. This also includes, by the way, higher depreciations from new site openings in the second half of last year.
Variable OPEX evolved in line with revenue development and we benefit from the continuous strong variable labour management and other productivity gains at Radial, where the Variable Contribution Margin, or VCM, continues to improve. Our margin has consistently improved and is currently at its highest level. Compared to last year, our VCM has increased by approximately 3%, delivering an impact of USD 8 million. These productivity gains are part of our management priority set for the year, and we are making significant progress positioning us well when US consumers resume their online launching.
In challenging market conditions, EBIT decline and margin dilution at segment level mainly reflect the revenue pressure at Landmark and the lower fixed cost coverage, partly mitigated by productivity gains at Radial.

Moving then to the Corporate segment on page 11. External operating income decreased by €1 million year-over-year, from lower building sales. More importantly, OPEX and D&A increased by €15 million or 15%, reflecting: inflationary pressure, notably on payroll costs with more than 7.5% of salary indexation – as just discussed also for Belgium – partially offset by a reduction of 6.5% in overhead FTEs as part of our mitigating actions; but also additional costs related to the ongoing compliance reviews.

In terms of payroll, this is now six quarters in a row that we are able to report a reduction in overhead FTEs.

Then we move to the Cash Flow on slide 12, where the main items to flag are the following:

'Cash flow from operating activities before changes in Working Capital' stood at €121.5 million and increased year-over-year, with lower prepayment of corporate income taxes offsetting the lower operating results.

'Change in working capital and provisions' stood as minus €149 million, in line with typical seasonality of our second quarter. The positive variation of €53 million year-over-year is explained by higher supplier balances this year due to cut-off effects impacting the payables as well as different payment schedule of Terminal Dues advances.

The 'Cash outflow from Investing Activities' amounted to €23 million, €19 million less than last year. Besides the absence of M&A this year, this mainly reflects our lower CAPEX. We spent this quarter €24 million, mainly to support our e-commerce logistics expansion in the US and in the Netherlands, but also our domestic network with some additional parcel capacity and the development of our e-fleet.

I now hand back over to Philippe.

Philippe Dartienne: Thank you Koen. Before sharing with you the progress we have made on our Management properties and the execution of our strategy, and before providing an update on the operational parameters underlying our initial guidance, I would like to update you on the press concessions and our compliance reviews and the latest development since we last talked early May.

I am on page 13. As you will remember, the Belgium government launched earlier this year a new tender for the distribution of newspapers and periodicals for the period 2024-2028, and reduced its annual budget from €175 million to €125 million while adapting the tender specifications. The deadline to submit an offer was June 8th, and bpost submitted a bid for the two lots, namely for the distribution of newspaper and periodicals. For your information, it was made public that at least two other operators participated in this tender: the Belgium distributor PPP for the newspapers; and the French distributor Proximy for the newspapers and the periodicals. While the current concession runs until the end of this year, the timing of the award of the new concession starting on 1st January 2024 is, at this stage, unclear.

Let me also update you on our internal compliance reviews.

First on the press concession. We have closed the internal compliance review and the investigation of the Belgium Competition Authority remains ongoing. The progress made did not change our assessment of the risk of a fine, which is still assessed as possible but not probable.

Then on the compliance review related to the three other services provided to the Belgium State, namely the management of the 679 bank accounts, the manufacturing and the delivery of the European Licence Plates and the traffic fines. These reviews, which are still ongoing are now to be close to be finalised, reaffirm the preliminary findings we shared with you on April 28th and confirm the need for an in-depth economical assessment of the remuneration charged to the Belgian State. bpost asked the external support of an independent firm of economic consultants and other State Aid experts. The assessment is ongoing and we are making good progress. Whilst the analysis and initial conclusions diverge for service, we deem it probable that the preliminary result will be confirmed upon completion of this economic assessment and will probably result in a material adverse impact on our financial results.

As to this financial impact, one has to make the distinction between, on one hand, the impact tied to the provision of the services for the year 2023 and going forward. This is the range of €25-50 million per year we disclosed in April already. Pending the ongoing assessment, we are not yet in a position to revise these amounts nor to narrow the range. And on the other hand, there is an impact tied to the period preceding 2023. There, depending on several factors – such as, for instance, the relevant methodology to be used for the calculation of the remuneration, or the existence or not of some predetermined margins in the market for this kind of services – the assessment may result in different outcomes and can vary by year.

Due to the multitude of factors impacting historical compensation, the approach applied to arrive at the preliminary estimate for 2023 cannot be used to determine the historic impact as it does not reflect in a meaningful range of outcomes. To put it simply, multiplying the annual impact of €25-50 million by 10 years, which is the maximum lookback period for the State Aid matters, is not necessarily a good predictor of the outcome of this economic assessment. It is a complex matter and our top priority. We are diligently working on it and we are doing our utmost to provide you with more clarity by the third quarter results' announcement. We do need to recognise that we are dependent on external stakeholders, so the timing is not fully in our hands.

To summarise, our estimates and our perception did not change since last time. Rest assured that on all these matters, we will communicate as soon as we can to bring the clarity to all of you; an understandably request.

Let us now focus on the progress on our Management priorities and the execution of our strategy to be a global e-commerce and logistics service provider with a sustained anchor in Belgium, while being recognised as a reference in sustainability. Well, as you can see on slide 14, we are making progress on all fronts and here you have an overview of what we have achieved so far and what will be our focus for the remainder of the year 2023.

Before going over the achievement of our business units, I would like to highlight that despite the period of turmoil we have been facing for the past nine months since October last year, bpost and all its employees continue to stay on course and remain focused on our operations, enabling us to consistently deliver strong results in the challenging market environment and amidst cost inflation pressures.

In Belgium, the Management and our social partners concluded on May 30th, a CLA for the year 2023-2024, with a focus of the wellbeing of our people and the attractiveness of the job in the field, while ensuring the ability for bpost to respond in a flexible way to the expectations of our customers and citizens. Besides social achievements, we also made progress on our environmental track, notably with our eco-friendly fleet and the addition of a 13th city to our Ecozone network of zero-emission delivery cities. Besides the 1,000th e-van that was delivered in June, bpost runs more than 6,700 electric vehicles and bikes with or without trailer, which means then more than 40% of our domestic fleet is now 100% eco-responsible and the transition continues as more than 600 e-vans are scheduled to arrive by the end of this year.

In Eurasia, we continue to make progress in deploying our e-commerce logistics footprint, notably with the launch of a new cutting-edge site in Groningen for Radial Netherlands, as well as the official launch of Active Ants in Northampton, UK, and additional capacity investment for Active Ants in Willebroek, Belgium.

In North America, as discussed by Koen, although online sales are yet to recover, we are using this time to continue to improve our cost base, mainly by matching labour to volatility in demand patterns from our customers. Working on productivity and service quality today positions ourselves for any rebounds.

At Cross-border, we developed, during the first half of the year, the Asia-Canada lane, with volume expected to start to pick up in Q3, and we improved the lead times in our UK-North America lanes as well.

As you can see, we continue to move forward. We are well equipped to tackle the second half of the year with the same momentum. Preparation and execution of year-end peaks are, of course, at the top of our agenda, but our focus also turns to the outcome of the press tender and the results of the economic assessment of the financial impact of the ongoing compliance reviews, which will help alleviate some of current uncertainty surrounding bpost. We are conscious of this uncertainty caused by the situation, but be assured that we will update you on this matters as soon as possible.

Now, a few words on our outlook for 2023. I am on page 15. As you know, we had to withdraw in April our EBIT guidance of €240-260 million for 2023, following the preliminary results of the compliance review indicating a negative adjusted EBIT impact of €25-50 million. As I just explained, the review is still ongoing and while it is nearing completion, we are not able yet to reassess its preliminary estimate and, therefore, reintroduce a group EBIT guidance. However, we want to provide you with an update on the operational parameters underlying our initial guidance, reflecting for each of our business units the performance of the first half of the year and our views for the coming months. For clarity, I emphasised that the financial impact of the compliance reviews, notably the negative EBIT impact of €25-50 million, are excluded from this update.

So how does this compare to the initial guidance we presented in late February at our Q4 results?

Belgium's outlook is revised upwards, reflecting a favourable evolution of both revenues and costs, while for North America, we reflect the current revenue pressure while preserving our margin ambitions. Eurasia remains unchanged.

For Belgium, while we were expecting a 3-5% top-line growth, excluding the deconsolidation impact of Ubiway Retail, notably driven by Parcel volume growth of a mid-single-digit percentage and a mid-to-high single digit percentage price/mix, we now anticipate a top-line growth of 4-6% supported by a Parcels growth volume of a mid-to-high single digit percentage, and a mid-single percentage price/mix.

In term EBIT margins, continued progress on productivity and cost savings, together with a delayed salary indexation – initially expected to occur in October 2023, but now in January 2024 – are expected to result in a higher EBIT margin of 7-9% compared to a 6.5-8.5% initially.

For North America, current market trends leads us to revise our top-line ambition from 'slightly lower' to a 'low double digit percentage', but we are able to maintain our EBIT margin ambition thanks to the productivity gains. Based on our current views on the market, we expect that the net impact of these two to be positive.

We are now ready to take your question. Again, two questions each please so that everyone gets a chance to be addressed during this session.

Operator please open the lines.

QUESTIONS AND ANSWERS

Operator: Thank you sir. Ladies and gentlemen, if you want to raise a question, please signal by pressing Star 1. If you wish to cancel your request, please press Star 2. A first question comes from Ivar Billfalk-Kelly from UBS. Please go ahead.

Ivar Billfalk-Kelly (UBS): Good morning gentlemen, but I'm sorry for labelling this point starting straight away but I think – given as it is - it is important to touch on the ongoing press (…inaudible…) concession. Can you give us any context around this €75 million cost base highlighted in the recent book published (…inaudible…) in Belgium? What are the major discrepancies in that number compared to your understanding of the action cost estimates? And linked to that, given that you do continue to be confident and fine, is 'possible but not probable', what is it that you have seen from the ongoing BCA review that gives you that confidence? And what wouldn't change the floor (…inaudible…). And then secondly, given your strong progress on the variable cost basis, in what direction do you expect you margins to land in the longer term when we see a recovery arising?

Koen Aelterman: I'm sorry, Ivar, … but the line was not great. I didn't quite catch all of your questions. I'm looking here around at my colleagues, …; would you mind repeating? One by one, yes.

Ivar Billfalk-Kelly (UBS): I'll try again, I sorry. …press concession (…inaudible…)

Philippe Dartienne: Sorry, it's again the same. At the beginning of your sentence it was great, but then it's braking back.

Ivar Billfalk-Kelly (UBS): (…inaudible…)

Philippe Dartienne: I’m sorry, we don’t hear you. (2x)

Operator: Sorry Ivar, we have to reconnect your line. We’ll move to the next question from Marc Zwartsenburg from ING; please go ahead.

Marc Zwartsenburg (ING Bank): Yes, good morning. Thank you for taking my questions. First of all, maybe on the Parcel volume side, can you give a bit more colour on the trends? Because we had this high single digit, then 9.1% in Q1, 7.8% in Q2. Obviously, the underlying 9.1% in Q1 was even a bit higher given the impact of Amazon. So can you give us a bit more colour on whether the change was rather stable through the quarter and how things are going into the third quarter? That is my first question.

Koen Aelterman: Yes, sure. Good morning, Marc. So on parcel volume, when you look at the trend, you see that Q2 versus Q1 is a slightly smaller growth. Now to put that in perspective, when we look at what we saw in Q1, we actually had growth in line with Q2 in January and February, and we had a very high growth in the month of March, which was the month that the war in Ukraine started. So, the trend you see between Q1 and Q2 is very much linked to the comparable of last year with a disproportionately high impact in March. For the rest of the year, we are actually expecting the trend to continue in the same way as we have seen in Q2 so far. So we do not expect any major changes on that front.

Marc Zwartsenburg: Okay, that is very clear. And then maybe, I think my colleague wanted to ask a question about the press concession, but I have actually the same question, so maybe can help him with that. Yeah, looking to the press concession, a couple of questions on that one. First of all, this, I think my colleague also mentioned that in that book that is published that, indeed, a former CEO talking about the cost base of €75 million is enough to provide the concession. So could you perhaps comment on those statements? And the outcome from the government or the EU, why is there still not an update? What is causing the delay in that? Can you just maybe a bit more colour there?

Philippe Dartienne: So Marc, I will take the first leg of your question on the press concession, and I will let Koen answer the second one. So regarding what has been written in the book and declaration of the former CEO, I am sorry, but we are not able to comment on this one because we do not know. So it is a statement made by Dirk Tirez. So if you have a question, you ask him directly, but we will not comment on that one. Moreover, we do not really understand how he has come to this number. Our view is still that the price that we need to continue delivering the service with a good level of quality, is nowhere near this kind of price. And I am not making any extreme declaration. In the bid that we have submitted, I can tell you we are not a price which is so low.

Koen Aelterman: Yeah, exactly. And so your other questions on why does it take so long to get the outcome from the government, the EU and so on, I would say this process is not slower than would be typical for these type of investigations. So the Belgium Competition Authority is running its investigation. Typical run-through times for these type of processes are in the 18 to 24 months timeframe. Now, we obviously hope we will have some visibility beforehand but, this is a very standard timeline which is happening. And I want to reemphasise what Philippe said, that based on the information currently at our disposal, there is no reason for us to think there is any case of overcompensation with regards to the press concession. If there would be, by the way, it would, of course, figure in our contingent liabilities or be even part of the numbers. So the fact that it is not there illustrates that we do not see the issue raised in the book.

Marc Zwartsenburg: Maybe a small follow-up, because you are using the lower end of the range of €25-50 million that you apply to the internal audit. But why do you apply the lower end of that range? Is it based on any preliminary findings or you just chose, well, let us set it at €25 million? Normally we would say we use a mid-range if we do not know the outcome yet.

Koen Aelterman: So we just apply here the IFRS rules which stated in the case that you [inaudible] – if we would make an estimate and we would say we think we will be around the midpoint, and obviously we would provision for the midpoint. That is not the case here. The way we have gotten to that number is really do a number of scenarios, best and worst-case type analysis, which gives us this range. And in such a case where you are not able to make a reliable estimate, you provision for the lower end of the range and you disclose the full range, which is exactly what we are doing. So this is an accounting treatment exactly the same as we did in Q1. It is not any statement on where in the range we expect to end up.

Marc Zwartsenburg: But do I get this right that you say, if you can make a number of scenarios that make sense, but if you cannot make any scenario, then you get to low end of the range. But you need to have scenarios to get to a range. So I am still a bit puzzled how that works.

Koen Aelterman: No, no. So these are very complex files with many potential outcomes for each of them. And so in order to get to the €25-50 million, we just looked at all the possible outcomes, which gives a very, very broad range, which is the €25-50 million. Again, we have no idea on which scenario at this stage is more probable than any other. And so we apply the rule to say, when you have such a case, you book the minimum of it and you disclose the entirety as part of the contingent liability.

Philippe Dartienne: Marc, if you allow me, I have made the comment during the presentation that we are making progress on these files and that we should be able to come back to you before the announcement of the third quarter results. Of course, there is a small caveat to it is that there are also some external stakeholders involved in that one. We are trying to go as fast as we can, but if they do not react rapidly, we might face some delay. But I think we have made great progress, but not enough to be able to revisit this range.

Marc Zwartsenburg: Oh, that is very clear. I just wanted to understand the dynamics, why you picked the low end and, but accounting is than the answer. That is very clear. Thank you very much.

Philippe Dartienne: Thank you.

Operator: We have with us Ivar Billfalk-Kelly from UBS. Yes, please proceed with your questions.

Ivar Billfalk-Kelly (UBS): Thank you. Morning, everyone. And sorry if this question has already asked by Marc, I am going give follow up and forgive me if I am repeating this. In the context of the review of the press concession, given your confidence that a fine is not probable, can you please just confirm that? Is it just a question of over-earning, or potential over-earning that was being under review, or are there other factors in terms of how the contracts were won, for example, which could then alter the dynamics and then potentially lead to a fine?

And then secondly, given the strong progress on the variable cost base in North America and you maintaining your margin range, where could we actually expect this margin to land in the medium term once we do see a recovery in the US?

Philippe Dartienne: Okay, so let me take the first one on the press concession. So when it comes to press concession, which is what we call the Cleopatra file, which is totally different than the other three, then the question is not overcompensation, it is about potential cartel, so agreement of people to come to anti-competitive range. So in that case the authority, which is competent – and by the way, the few we heard from your first question was relating to BCA. Indeed, it is the competence of the Belgium competition authority who is reviewing these matters. So they are absolutely of different nature compared to the other three files that we have mentioned.

Koen Aelterman: And as your question why we assess it as not probable, we obviously cannot share any of the details of the ongoing investigation, but rest assured that the assessment of this is backed up by all our external advisors working on this. And so it reflects really our best estimate of the outcome of this investigation.

Philippe Dartienne: And including our external auditors as well, because they agreed to the accounting decision that we have made back then in the fourth quarter when we published the 2022 results.

Koen Aelterman: Exactly. And then for your question on the US, so first of all, if we look just at the rest of the year in terms of our margin range, we do expect that the top-line pressure will lead to some margin dilution, notably by lower fixed cost coverage. And so while we maintain our range, we do expect we will be towards the lower end of it for this year. For the longer-term perspective, what we envisage for this business, or for that unit as a whole, is to very much be in somewhere in the 5-7% range of margin on a recurring basis.

Ivar Billfalk-Kelly: That is very clear. Thank you very much.

Operator: Our next questions comes from Henk Slotboom from the Idea. Please go ahead.

Henk Slotboom (the IDEA): Good morning, Philippe, Koen and Antoine. Two questions, if I may. First of all regarding the press distribution contract, it is now the beginning of August. A lot of people are on holiday. It is not clear when the award of the tender will take place. But certainly in the case of PPP and Proximy, time is running out to get a whole infrastructure built up. If the contract starts in 2024, then they face quite a challenge to be ready to handle the newspaper and magazine distribution. Are there any backup scenarios and that sort of things, and is it fair to assume that the longer it takes before the award takes place, that it is in the favour of bpost one way or another? Whether you win the contract or you do not win it, I guess that there is this half year extension possibility that at least you can keep the contract for another half year if you do not win this contest. The second question I have is, I think it is fair to assume that are three company specific uncertainties at this moment playing a role at bpost. One is the review in the broad sense, in the broad meaning of the word. The second one is the uncertainty surrounding who gets the press distribution contract. And the third uncertainty is finding a new CEO. Now, if I approach it quite pragmatic and I look back at the most recent quarters, then compliments to the management team, which is in place right now. You have been surprising the market at least for the last few quarters. So obviously things are working well with this management team. Why is there so much emphasis on finding an external candidate? Because certainly, against the background of the uncertainties I just referred to, it will be difficult to sign up a suitable candidate from outside the company. And perhaps I should ask this question to Audrey as the chair of the Management Board. If that is your answer, then I would like to rephrase it. Phillippe, how is your Dutch?

Philippe Dartienne: Henk, thanks for your question and I will start with the second one. So it is always good to hear some compliments, especially in turmoil situation. I think bpost is in a very particular situation. There are bad elements and good elements. The good elements that I have always seen, is that there is a very clear strategy for bpost that has been established since 2016/17, I would say, which is to become an e-commerce logistics player across the world, strongly anchored in Belgium with an ESG responsibility, … focus. So I think even when we were in the turmoil situation, when the strategy is clear and not challenged, and it has not been challenged because since 2016/17, there has been the acquisition of Radial. Yes, the acquisition of Radial was not easy at the beginning, but thanks to the work of the team, the team has been able to turn that around. And now we really see the benefits and the value of having a portfolio of activities and also being active on different continents.

So when the strategy of a group is solid, I think it is easier for a group to be able to survive in difficult situation, which is exactly this one. So I think bpost was, is still very equipped to face this kind of stuff.

When it comes to the decision of going for another CEO and potentially a new EXCOM team, you said it nicely, you should better direct that question to Audrey, who is the Chair of the

Board. But you also need to bear in mind that there are some rules applicable to the fact that bpost is a public company, that there is a rule saying that – it is obvious for people who are living in Belgium, that there are three official languages of which two major ones, Dutch and French. And there is a rule which is applicable to bpost since many, many years, whereby when the chair of the board is French native, the CEO has to be Dutch native speaker. That is the fact that in the law, that it is also in agreement; it's the way that the government has always managed this company.

So obviously, I am a French-speaking person, so I think the question is not even to be put on the table because from a legal standpoint, any French-speaking person bearing a Belgium passport could not be the CEO of bpost right now under the present condition. So this being said, for furthermore, please ask your question to Audrey, but nevertheless, I can tell you that the current management team takes your compliments with great pleasure because we need it, it is a difficult situation.

When it comes to the press concession contract, sorry that I am not answering directly your question, but it is not in our hands to decide if and when the winner will be awarded a contract. It is up to the government. You have read in the press that the government had said that they would not award the contract before having the conclusion of the audit on the press concession. So it has been made public by politicians. So it is one element of information.

But second, an element which is important to know, because you make the link between the longer it lasts, the more chance we have for bpost, because the contract starts on January 1st, 2024, you need to understand that there is in the case bpost would not win the concession, meaning someone else would be awarded the concession, in fact, there is a six months' period to transfer from bpost to the new potential operator. So the deadline of January 1st is less critical, I would say.

Henk Slotboom: Okay, that is clear. Thank you very much.

Operator: Our next questions comes from Nikolas Mauder from Kepler Cheuvreux. Please go ahead.

Nikolas Mauder (Kepler Cheuvreux): Hi, good morning. Thanks for taking the questions. I would like to go one by one for the questions. So the first one is on the good Parcel volume growth. Can you perhaps try to allocate it into a few buckets, like, let us say, overall consumer spending, e-commerce penetration market share gains, etc., so we can better understand how you are able to produce these growth levels in what seems to be still challenging environment? Thank you.

Koen Aelterman: So on this one, when we look and we decompose our growth into different components, we can see that, in fact, the bulk of our growth, the large majority is coming from the commercial hunting plan and the new customers we signed last year. This is where the majority comes from. When we look at the overall evolution of the market as a whole, that is rather in around flattish territory. So really, due to the efforts we have taken in terms of commercial hunting, and so it is market share gain.

Nikolas Mauder: Okay. So just to clarify, when you say the overall market is flattish, you mean the overall B2C e-commerce parcel market rather than consumer spending? Okay, thank you.

Koen Aelterman: Yes, yes.

Nikolas Mauder: And secondly can we please talk again about the EBIT associated with the press concession business now that it has been printed that there is competitors in the race and that there is some chance, whatever the probability, that you lose the business. So I understand that there is this government subsidy of €170 million, but that there is an even larger top-up coming from the publishers and that the margin on the total, which should represent almost the entire press revenue line in the Belgium segment, has a profitability cap of around 7%. Now, that would put EBIT at risk somewhere below €24 million, if I am correct there. So is that calculation correct and can you maybe comment whether that would probably go down even in case you win the tender and by how much? Thank you.

Koen Aelterman: So, first, indeed, in terms of the compensation for the concession, there are two components. There is a compensation coming from the state, which is a number which is indeed out there and is €170 million or approximately in that range. And there is a compensation coming from the editors. Now this compensation coming from the editors is smaller than the part coming from the State. It is rather in the range of around €100 million, bringing the total for the concession to €270 million, which, as you rightfully say, is subject to a cap in terms of profitability, which is at 7.5%. And we have already shared in the past that we are not reaching this cap on that contract. Obviously, I cannot go in more detail as that would also share competitive information, which I cannot do in the context of the ongoing tender.

If we look at the new contract though, and here I want to emphasise two things. First, the changing conditions for the tender, it goes much beyond just that reduction of the €50 million in subsidy, which is being mentioned. The cost of the concession, it depends obviously on the requirements which are put forward, and there are some changes in terms of the requirements, in terms of the service levels and so on, which will allow bpost to realise a certain level of cost savings. Secondly, and more importantly, the compensation mechanism of the concession has changed.

So there is still the two parts, but compared to the previous concession, the operator that wins has much more leeway in determining how much the compensation from the editors should be. So the concession allows for different ways to reach an economic equilibrium as compared to the previous one. So, I cannot share more detail, again, given that we are in an ongoing process, but know that the whole setup of the concession is different and just looking at the reduction in subsidy would be looking at only half of the story.

Nikolas Mauder: Okay. I dare to ask one more follow-up. So can you perhaps comment how much of sticky fixed cost is associated with the business? Because yes, we can calculate some sort of EBIT risk, but is there some cost that would stay with you even in case you do not perform the service anymore?

Koen Aelterman: So, as always, when a service suddenly disappears, we will go through a period in which we are not able to take away the cost directly at that moment. I think there is a reality there that there will be some restructuring efforts needed to absorb this. And so we will be facing financial impact in the short term. In the longer term, as we reorganise, that stickiness, it should not be very big. And keep in mind that whenever we look at how we bid for this type of concession, obviously we also compare it to the alternative of not having it. So we will of course look at that from a business case perspective and decide whether or not to bid and at what price, also in function of whatever cost would potentially remain. But I cannot share more now, as, again, it would be competitively sensitive information.

Nikolas Mauder: Thanks for your time. Thank you.

Philippe Dartienne: Thank you.

Operator: I have a next question comes from David Kerstens from Jefferies. Please go ahead.

David Kerstens (Jefferies): Thank you. Good morning gentlemen, I have got two questions please. First on the upgraded margin guidance for Belgium on the back of the better-than-expected parcel growth. The 7-9% implies still a materially weaker margin in the second half of the year than in the first half. And I think the first half does include the impact of the €25 to 50 million related to the government contracts. Is that normal seasonality that you expect margins to be so much weaker in the second half of the year, or is there something else that you are already accounting for in that outlook for the second half of the year?

And then the second question around the top line momentum of Radial now expected to be down low double digit. Can you break that out into volume and price? And I saw you are now benchmarking with UPS, FedEx and USPS. Is that markets maybe more in line with the market due to over-capacity post-COVID normalisation? When do you expect that over-capacity to have been absorbed and pricing to recover? Thank you very much.

Koen Aelterman: So let me start on the first one. In terms of the guidance for Belgium, our guidance just reflects indeed normal seasonality. You will see that typically, especially the third quarter is substantially weaker in terms of margins due to the holiday period and the lower volumes in that moment of the year. So there is nothing specific there to mention: regular seasonality.

As for the US, splitting it in volume and price effect, I cannot comment on that specifically. What we can say though is that especially for the volumes, we know we are exposed to certain verticals and certain customers, which can introduce some type of lumpiness in our results. We operate a number of very big sites, some of which are single customer. When one customer switches or insources volumes, we see big impacts straight away, which mean that our trend, although broadly in line with what you would see in the market, can fluctuate both positive and negative. When we look at 2022, we were doing much better than the market. And we have seen examples, and I think I mentioned that also in the previous time, of customers who have both insourced and outsourced fulfilment in the current situation. With the reduction of volumes, they will obviously concentrate volumes to optimise their own capacity utilisation, which means that we are disproportionately impacted beyond what the normal market trend is.

As to your question, as to when it will recover – go ahead.

Philippe Dartienne: If you allow me to add one more element, it was all already mentioned but I really want to reemphasize, is that if you look at the macro-economicals of the different segments, in the US they are totally different from one to the other. You have got health and personal care products going up while others are really deeply going down. So also when you are comparing with our competitors who have a broader exposure, again, as Koen mentioned it, then there is a dilution, in fact, of this – we are big of course, but we are not representative of the entire US economy.

So there is that effect, which is unfortunate, but it is real.

Koen Aelterman: And then as to the question of when, obviously that is the million-dollar question. I wish I had the crystal ball; unfortunately we do not know. What we can say though is that in the update we have given you today, our expectation is for the market circumstances to continue along the same way as they were.

David Kerstens: Yes, understood. Can I ask one follow-up related to Belgium, please? The, the €25-50 million is excluded from your outlook now, right? And whereas in your reported numbers, it is still included based on the €25 million, the lower end of the range. Once you have clarity on the historical number of overcompensation, how will that be booked technically in the, in the accounts? Will it still be an adjusted EBIT or will it be below the line, and will we see it mainly in the balance sheet come up?

Koen Aelterman: So, for the three contracts where we are looking into a potential overcompensation, the impact would be similar as the one you see today, which is namely a reduction in revenue. So it would be in the EBIT numbers. That said, depending on the size of the impact, and if it is a one-off impact, we have a threshold of €20 million of one-offs when we correct for it in the adjusted EBIT. So it depends on the final size of that impact, whether or not it will be corrected. Again, this is for the one-off. Given that the €25-50 million is the impact for 2023, and there will be an impact going forward, this would not be neutralised, of course, in the adjusted numbers.

David Kerstens: No, so only the historical one.

Koen Aelterman: [Inaudible] might be, depending on the size.

David Kerstens: Understood. Thank you very much, gentlemen.

Philippe Dartienne: You are welcome.

Operator: And our last question in the cue comes from Frank Claassen from Degroof Petercam. Please go ahead.

Frank Claassen (DEGROOF PETERCAM): Yes. Good morning all. Two questions left, indeed. Also on Radial but more focused on the commercial wins. Did you have some new contracts signed up in Q2, and did you notice price pressure with these new contracts? And then also on CAPEX, is the guidance still around €200 million? And what are the main projects you are going to spend the CAPEX on in 2023? Thank you.

Philippe Dartienne: Thank you, Frank, for the question. We will answer both. Koen will start with Radial and on CAPEX, we will do it forehand, exactly.

Koen Aelterman: So, for Radial, obviously we are working very hard on our commercial efforts to make sure we sign new customers. Also, in these difficult market circumstances, we have succeeded in signing significant amount of contracts. Now, we only share these numbers normally on an annual basis. And again, this can be very lumpy. So we will share this together with the full-year numbers, but so far there has been some commercial traction, obviously in a difficult market context, which we need to take into account. I also want to highlight that we do not want to sign contracts just for the sake of bringing in the revenue, if we would have to do it at margins which are not attractive to us and certainly which would not meet our return on invested capital requirements.
So we do remain selective and we are not chasing top-line just for the sake of top-line. It is important we have the right return metrics as well for any new contract we sign.

Philippe Dartienne: And we have to announce a contract that we are presenting exactly the characteristic that Koen is describing. And since it does not fit our strategy, we have decided not to go for this type of contract.

Koen Aelterman: And obviously there is a difference between contracts which would allow us to fill up existing capacity, which obviously changes the metrics; versus contracts where we have to invest in new capacity automation and so on, where what I said on the return, obviously applies.

Philippe Dartienne: For the CAPEX, I will make the introduction and Koen will give you the details for the main contributors for the CAPEX for the year. But as a general statement, what I would like to say is first, that bpostgroup has a growth strategy. It has been always clear and it is still the case right now. We have a very sound balance sheet. The comment I made on the S&P rating just reinforced that one. We have leeway to leverage our balance sheet and we have the cash. So all the conditions are there to be able to execute our growth strategy. So there is absolutely no reason to stop that one.

This being said, we are very selective when it comes to investment. It needs to respect our returns, the expected returns, and if and when they are good projects, we will go for it. That is the message I am continuously passing on to the commercial team – so does Koen – do not be shy of coming with projects. If the projects are good, we will invest. Luckily enough in our business, we invest when we have contracts. We do not want to go to an equivalent of a merchant type of investment. No, we link it and it is part of our strategy with the contract.

So, philosophically, I would say there is absolutely no reason - philosophically, strategically - there is absolutely no reason to change that statement. So this is the mind-set in which we are when we contemplate CAPEX in 2023 and going forward. And for the details of what is included I give the floor to Koen.

Koen Aelterman: Yes. So I would say there is three big buckets in there. One is, of course, maintenance CAPEX which we have and where I am sure you can make an estimate based on some of the other numbers we report as to what that could be. Then we have two big parts, I would say, within more the growth-oriented CAPEX. One is we plan to invest in an extension of our parcel sorting capacity in the Belgian market, specifically in Charleroi, which will start coming in the second half of the year. So that is a big bucket. And then there is also further expansion in e-commerce logistics activities, both in Europe and in the US, where it can be expansion, but it can also be further automation where that makes sense. So those are the big components. I will not give you a split per block though, but these are the major ones.

Frank Claassen: But to be clear, so the guidance remains €200 million roughly for 2023, gross CAPEX?

Koen Aelterman: Actually at this stage, we see no need to change that. Again, we invest with the idea of doing that through the cycle. We will not react in the short term to some of the market pressures. If we see good opportunities, we will continue to invest, our balance sheet allows us to do it. But also, as Philippe said, for much of our investment, it is only when the concrete contracts are there. We see no reason to change our growth trajectory.

Frank Claassen: Okay. Very good. Thank you.

Operator: Sumit Mehrotra from Société Générale. Please go ahead.

Sumit Mehrotra (Société Générale): So first thanks to Henk for extending the compliments and bringing up the question on the CEO candidature. My first question is, it is going to be a bit detailed, I am sorry to bring this up, the last end of call. Please walk us through your logic of assessing the stable state of Belgium segment EBIT. What could be the building blocks for us to assess that two years from now? What could be the contribution from this segment considering the lower value of the future press concession contract? That is my only question. Thank you.

Koen Aelterman: So on this one, Sumit, I am afraid we will not answer today. I think we are in longer term forecasts here. At this moment, there is a lot of uncertainty around these contracts. We cannot answer this question today until we have some more clarity on the different outstanding parts, of which the press concession is one, but of which also the other contracts are an important component. With that €25-50 million range, you see that would introduce a very big variance. So it is too early now to give any longer-term forecast at this stage. We may come back to that once we have more clarity on those contracts.

Sumit Mehrotra (Société Générale): Okay. Then I can slip a second one. For US, at Radial or Landmark global, can you give us your observations on the incremental customer wins or the deals out there? Are we now looking at an extended phase of tougher pricing where you could just about meet the inflation pressure in US? Thank you.

Koen Aelterman: So, as I mentioned before, for Radial, we do not share any numbers on new customer side except for on an annual basis, so you will have to wait for the Q4 results for that. But we are signing new customers. What we see when we look more at our Cross-border activities in the US, the biggest impact really in our numbers is from that Amazon insourcing. For the rest, we do keep a good traction generally, even though there is a high degree of competition in the market. We are also developing new cross-border lanes to bring volumes from Asia into North America, which will also further support the growth there. So we do see we have some traction, again commercially, the biggest impact really is the Amazon contract, for which, by the way, the tender is ongoing and where we are awaiting the outcome of that tender, which would not exclude that volume may continue to head our way, even more than we had in the second quarter. But that depends on the outcome of that tender process.

Sumit Mehrotra (Société Générale):Thanks. But I just wanted to know, the incremental wins that you have for Radial ahead, what is the pricing pressure looking like? Do you think it is going to continue being tough in terms of pricing in US?

Philippe Dartienne: Sumit, Koen made it very clear. There is an overcapacity in the US right now. So the answer is yes.

Sumit Mehrotra (Société Générale): Thank you.

Operator: The next question comes from Marco Milite from Barclays.

Marco Limite (Barclays): Hi, good morning. Thanks for taking my question. The first question is on your portfolio of businesses. Clearly, you are facing the risk of financial cash-out from all the contracts under review. So I was wondering if it is part of your strategy, thinking to eventually disposal of some of the minor businesses that are maybe not profitable, just to strengthen your balance sheet and to be in a better position eventually to face any payment of fines. That is my first question.

And the second question, a bit more medium term. So across, let us say, your divisions, E logistic Europe and North America are, let us say, set for growth alongside E-commerce growth. But when we think about Belgium, clearly, there, you have got the Mail and the Parcel mix. So just wondering how confident you are on the medium term to be able to achieve profitability growth also in Belgium. Or if we should think about Belgium as a steady-state type of profitability, so not really growing over time. Thank you.

Philippe Dartienne: Okay, so I take the portfolio one, and Koen will take the second one. When it comes to the portfolio, so first, I think it is our way of working to permanently assess the quality and the relevance of the different assets that we have in our portfolio. Historically bpost has demonstrated that they are buying and disposing of assets if and when the conditions are there. That position has not changed. We will always be contemplating potential acquisition and potential disposals. But nevertheless, thanks to the strong balance sheet, there is no need to potentially have to dispose assets. And by the way, we still do not know how much this potential reimbursement will amount to. So too early, but fundamentally, asset rotation is still on the agenda. We are constantly looking at it, and there is no urgent need. We are not in a cash situation that forces us to sell assets. And by the way, when you have to sell assets, it is not the low performing that bring the more cash. So, in any case, it would not be the reason to dispose of them.

Koen Aelterman: And as to for your second question, so clearly in Belgium, indeed, as you mentioned, we have the two activities: one, which will be in a structural decline which is the mail activity; another one, which there is a structural growth. Our expectation is at some point, given that the size of one continues to decrease and the size of the other continues to grow, that the growing business will overtake the declining one. We are not there yet at this stage. I think that is clear. It will come on the exact timing – again, that is a bit of a crystal ball. We have seen Parcel volume growth in the past few years fluctuate very wildly. So it is difficult to predict when that will come. However, the belief is that at some point, indeed, the Parcel business will overtake the Mail business, and we will, even for Belgium, return to an area where we see growth from an EBIT contribution.

That said, and I do want to add, it will probably be at a lower margin level than it is today, as obviously the margin levels for a mail business and a parcel business are different. And so we do expect some further margin dilution in the coming years on that business.

Marco Limite: Thank you. That is it. Thank you.

Philippe Dartienne: Thank you.

Operator: We will now take the very last question from Paul Kirjanovs from Bank of America.

Paul Kirjanovs (Bank of America): Hi, good morning. Just one question, I promised last one. Just on costs, you had six quarters of workforce optimisation. Are you now finding the right levels of FTEs or can we expect that to continue going forward? And if you are close to that level, would that mean we can expect a step-up in focus on productivity? Or is that not the case?

Philippe Dartienne: Thank you, Paul, for your question. Yes, we are continuously reducing the workforce. Are we still at the bone? I do not think so. There is still meat around the bone that we can always benefit from more digitalisation and different ways of working. Also, depending on the services that we are offering to our customers, we might end up with a different structure of workforce. This being said, this one element – the second element – as the company evolves, there are areas where we can continue decreasing the workforce, but there are maybe others where we need to reinforce them. But nevertheless, we are quite confident that for the coming quarters, the net effect of both will still be positive.

Paul Kirjanovs: Great. Thank you.

Philippe Dartienne: Thank you very much. I would like to thank everyone for being in the call with us. Sorry we went a little bit longer than typically, but there was a lot of very interesting questions. So thank you for the ones who stayed a bit longer. We hope we answered the questions in a way which is acceptable for you. We will hear from you at the conference will be going to attend in London in September. Looking forward to staying in touch on our third quarter results which will be released in November. In the meantime, you can always stay in contact, as you are, with Antoine who is at your disposal. And more than likely, as we are expecting, we should come back to you prior to the release of the third quarter results with an update of the compliance review file.
So for the one who has not been on holiday yet, I wish you a very happy holidays. Thank you very much, and see you soon. Bye-Bye.

[END OF TRANSCRIPT]