
Q1 2020 Results
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postnl

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Jochem van de Laarschot – Director Communications & Investor Relations PostNL:
Good morning, everyone. Thank you for joining the first quarter 2020 results conference call of PostNL. We have convened in the Hague in one of our bigger meeting rooms in order to ensure social distancing at all times. I am here in the room with Herna Verhagen and Pim Berendsen. We are happy to take your questions after the introduction that will be taken care of by Pim. Over to you, Pim.

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Pim Berendsen – CFO PostNL: Thank you very much, Jochem. Welcome to all of you, and thanks for joining us this morning. I would first like to move to slide 4.

Mail and parcel deliverers provide a vital service to society

Comprehensive business continuity plan in place since early March

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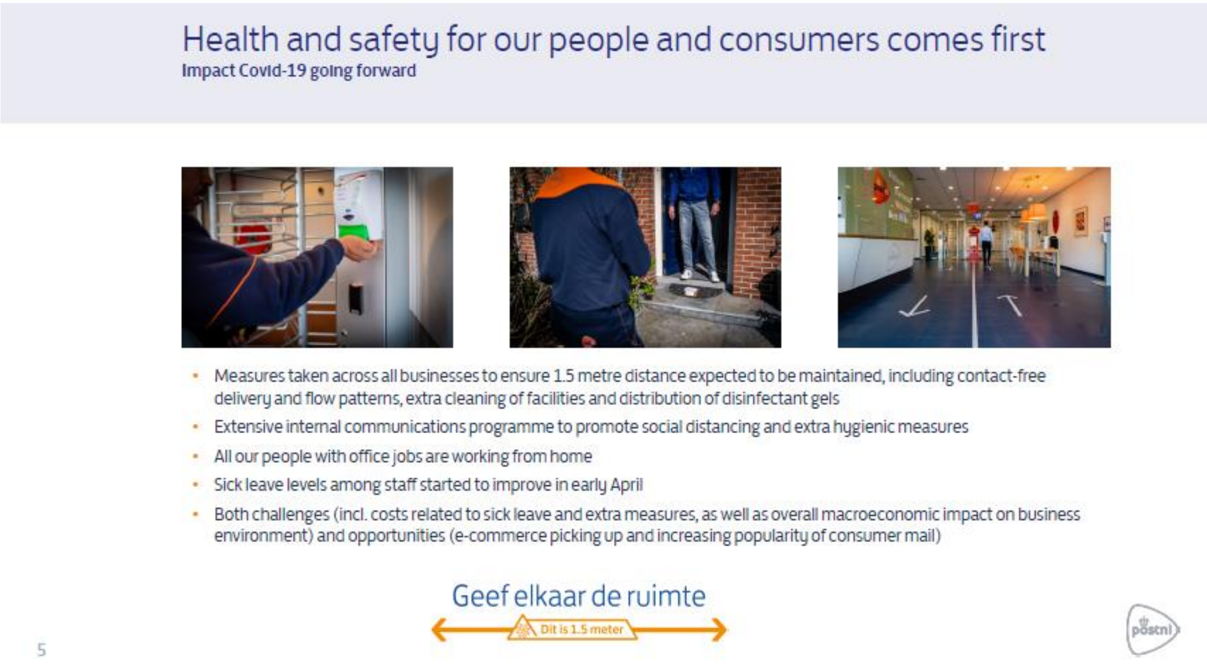
We would like to start with the new reality in which we are all living since the outbreak of the Covid-19 virus. The world around us and the way that people can interact has definitely changed, and we are very proud of our people who are fully focused on the ongoing delivery of mail, parcels and other shipments, such as medical goods and food, which allows other people to stay at home. Our mail and parcel deliverers are continuing their work, and with that, can provide a vital service to society. As early as in beginning of March, we have prepared ourselves for this new phase and have put a comprehensive business continuity plan in place.



Then we move to slide 5. Without any doubt, ensuring a healthy and safe environment for our people, partners, customers and consumers has been and will remain to be our key priority. We are applying all social distancing guidelines and health regulations to protect our people and consumers as much as possible and have implemented additional measures in our operations and facilities. I will give you a few examples of the measures that we have taken.

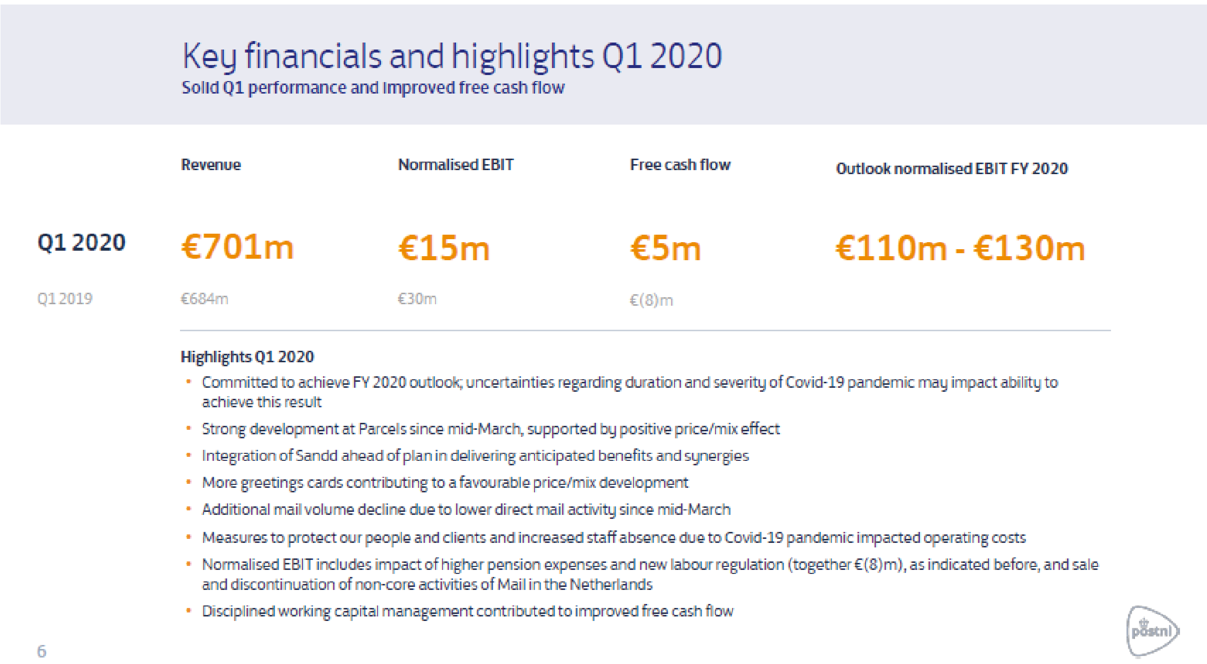
We have introduced contact-free delivery and set up flow patterns in our facilities. Of course, we do extra cleaning of our facilities and distribute disinfectant gels.

We have put a lot of effort in our internal and external communication programs to make sure that everyone is aware of these measures. At the same time, people with office jobs work from home. To be honest, it is fair to say that most of these measures will not disappear anytime soon, and we expect them to stay for the next months, maybe even the remainder of the year.

It will be no surprise to you that the outbreak of Covid-19 also impacted the sick leave levels amongst our staff. Predominantly in the second part of March, there was a steep increase towards the 20% of sick leave levels. Fortunately, these levels are returning to more normal levels throughout April.

To summarise, going forward, we see both challenges and opportunities related to Covid-19. The challenges relate to some of the points I just mentioned. And of course, we do not know yet what the overall macroeconomic impact on the business environment will be.

For PostNL, there are certainly also opportunities. E-commerce is picking up, and consumer mail is becoming increasingly popular. Visibility on the longer run and longer-term consequences yet is still limited.



Now let's look into the Q1 results on slide 6, which we qualify as a solid performance and ahead of our own expectations.

Revenue was up EUR 17 million to EUR 701 million. As indicated when presenting our full year results back in February, normalised EBIT was down in comparison to 2019. At the same time, free cash flow improved and was EUR 5 million positive. We are committed to achieve our full year outlook of normalised EBIT of between EUR 110 million and EUR 130 million.

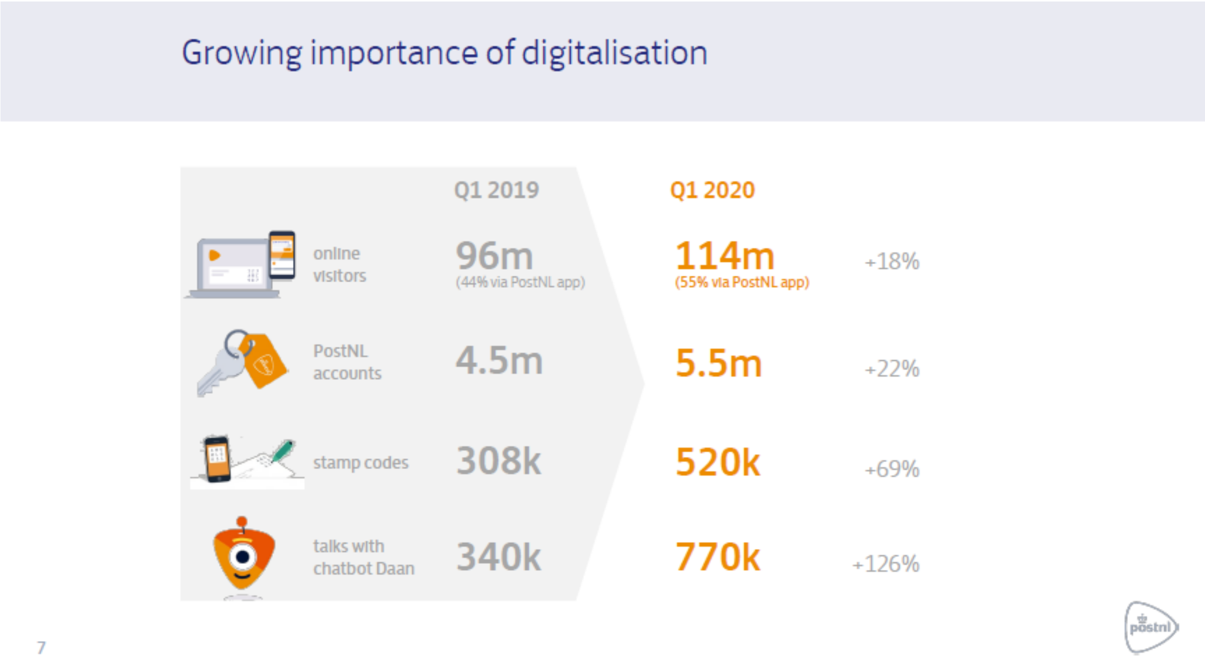
Let me add to that, that there are, of course, uncertainties about the duration and severity of the COVID-19 pandemic, which may impact our ability to achieve this result. But as said, we are committed and confident to try to achieve that full year outlook.

At Parcels, since mid-March, we see a strong development. Volumes are growing double digits, and it is supported by a positive price/mix effect. I am very pleased with the progress of the integration of Sandd, which is ahead of plan in delivering the anticipated benefits and synergies.

Looking at the composition of the mail bag of our mail deliverers since mid-March, we see much more greeting cards. And obviously, that has a favourable impact on price/mix development. However, we have also seen lower Direct Mail activity as businesses decide to postpone their marketing efforts, which resulted in additional volume decline.

I already discussed the measures taken related to the health and safety guidelines for Covid-19. And of course, these had some impact on cost levels in the quarter.

So all in all, normalised EBIT for the quarter came in at EUR 15 million. And let me emphasize that this includes higher pension expenses and the impact of the new labour regulation, as indicated before. Also, we have sold some non-core activities and discontinued our unaddressed activities. So what we have sold, as you are aware, is our PostNL communication services business as well as our Spotta unaddressed business and in Q1 2019 we still operated from PostNL an unaddressed network, which is discontinued. These contributed positively to our earnings in Q1 2019.



Digitalisation is one of the key pillars of our strategy on what we want to accelerate. That is why I wanted to share with you some of the main developments that we have seen in this quarter. The growing importance of digitalisation helps us serving our customers pattern, improving our customer journeys and at the same time improving efficiency in our operations. First of all, in this quarter we have had 114 million online visitors, a growth of 18%. It is good to mention that also a larger percentage – 55% – of visitors at this moment in time reach us via the app. The number of PostNL accounts increased by 22% to 5.5 million accounts.
We also see very strong growth in one of our latest innovations in Mail, the stamp code. We sold 69% more stamp codes compared to Q1 last year.
Then, we see that more and more people can be helped by our chatbot Daan, 770,000 interactions with Daan this quarter, up over 100%.
These are just a few examples that illustrate the effort that we are taking to further digitalise our business. Acceleration to becoming even more digital remains one of our key priorities for 2020 and beyond.

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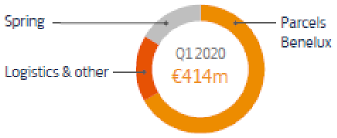
Let's look at some more details in the business segments.

Parcels: strong volume development since mid-March, supported by positive price/mix effect

	Revenue	Normalised EBIT	Volume growth
Q1 2020	**€414m**	**€26m**	**2.8%**
Q1 2019	€398m	€23m	

Revenue mix



Revenue growth

- Volume growth 11.1% in March
  - Covid-19 crisis resulted in pick-up in e-commerce
  - Good growth in small and mid-sized webshops contributes to favourable development of price/mix effect
  - Run-rate growth 13.6% at end of March, with even stronger growth in April
- As expected, webshops opting for multi-vendorship impacted overall volume growth PostNL, especially in January and February
- Mixed growth pattern continued
  - Low growth rates in some, more mature, e-commerce segments, e.g. fashion
- Yield management (incl. improved pricing)

Result Parcels up €3m

- Operational efficiency improved
  - Better hit rate
  - Drop duplication slightly down
- Higher costs:
  - Adjustments in process and higher staff absence related to Covid-19
  - Increased cost level due to new depots opened in 2019
  - Impact new labour regulation
- Improved result at both Spring and Logistics

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First of all, we move to Parcels, which are explained on slide 9. In Parcels, we see strong volume development since mid-March. The measures related to Covid-19 resulted in a pick-up in e-commerce. What we see is that this growth is particularly visible amongst small and mid-sized webshops. This has had a positive impact on price/mix next to the amendments of price policy that we have introduced as well.

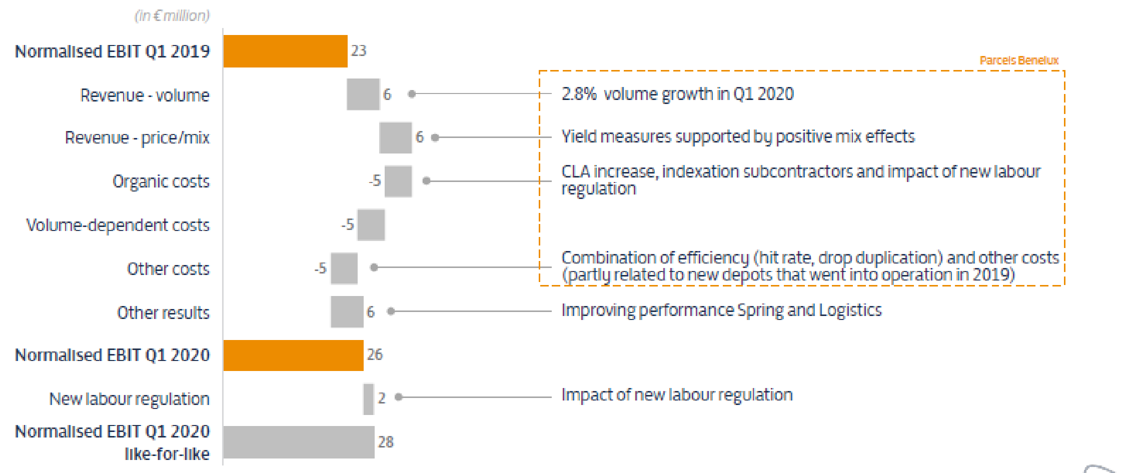
Part of this is offset by a declining trend in international flows. Please remember, that obviously in China February was already very much Impacted, when international trade from China to Europe has become more and more difficult. So, also in the overall growth of the volume in the first quarter of 2.8%, International Parcels flows have declined significantly, a double-digit decline compared to last year.

At the end of March, the run rate of volume growth was close to 15%. We have seen a strong continuation of that growth during April. In January and February volume growth was impacted, as we have explained before, by larger webshops opting for multi-vendorships, which basically means that they select a second carrier for their parcels, which was on the back of our maximum capacity in the peak period. What we have said there is that this temporarily will result in loss of market share because the clients will switch part of their volume away from us to these parties but subsequently will continue to follow the growth trajectory of the market again. So, that has not come as a surprise to us.

The trends for a mixed growth pattern within the different e-commerce segments continued. For example, the more mature fashion segment showed slow growth, particularly in January and February of this year as well.

Very important is that price/mix effects are positive and are expected to be positive for the full year 2020. Apart from the changes in customer segment mix that result in a favourable contribution, we also see the impact from our yield management, as announced last year at our Capital Markets Day. Improved pricing and indexation are part of the explanation for revenue growth.

Parcels: normalised EBIT development



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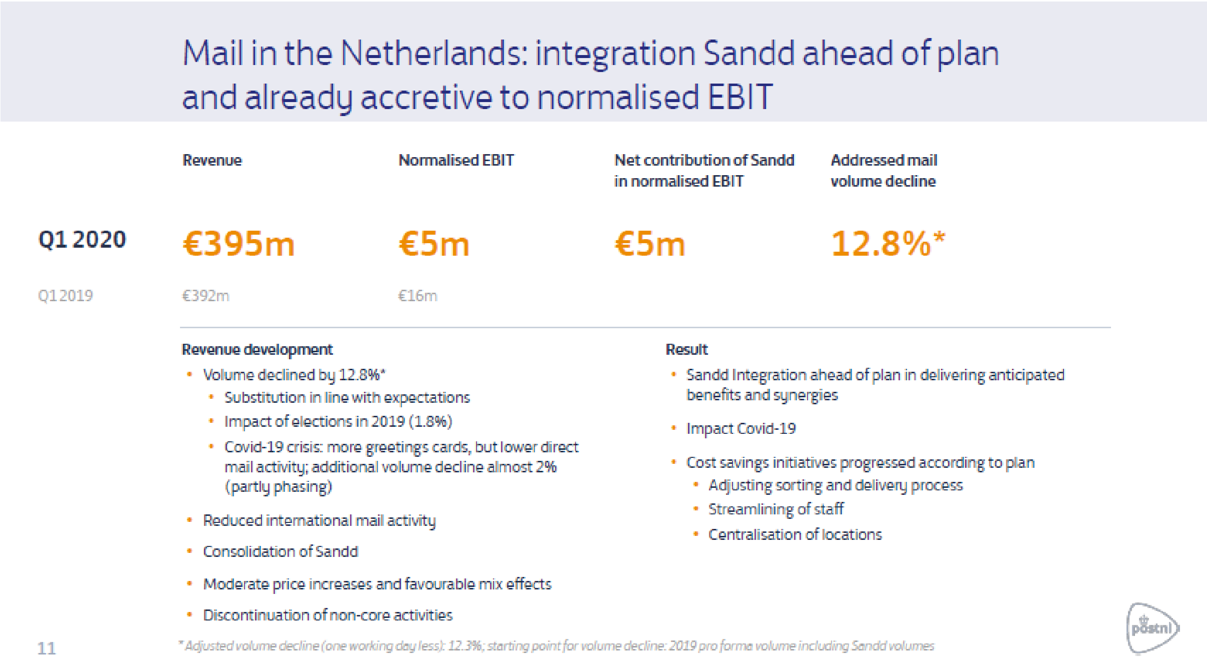
Let's go to the bridge on slide 10. There, we make the reconciliation of the normalised EBIT Q1 2019 of EUR 23 million to the normalised EBIT Q1 2020 EUR 26 million and we separated out the impact of the new labour regulation of EUR 2 million, which brings the normalised EBIT on a like-for-like basis for Parcels at EUR 28 million. So, the volume in revenue is driven by the 2.8% volume growth in Q1, EUR 6 million positive price/mix effect, yield measures supported by the positive mix effects we talked about, and the organic cost increases of EUR 5 million, driven by collective labour increases and indexation of subcontractors, volume-dependent costs that relate to the growth in volume and other cost development, which is a combination of hit rate improvements and other cost developments, partially related to new depots that went into operation in 2019.

Furthermore, within 'Other results' you can see that Spring and Logistics performance in comparison to last year have improved as well.



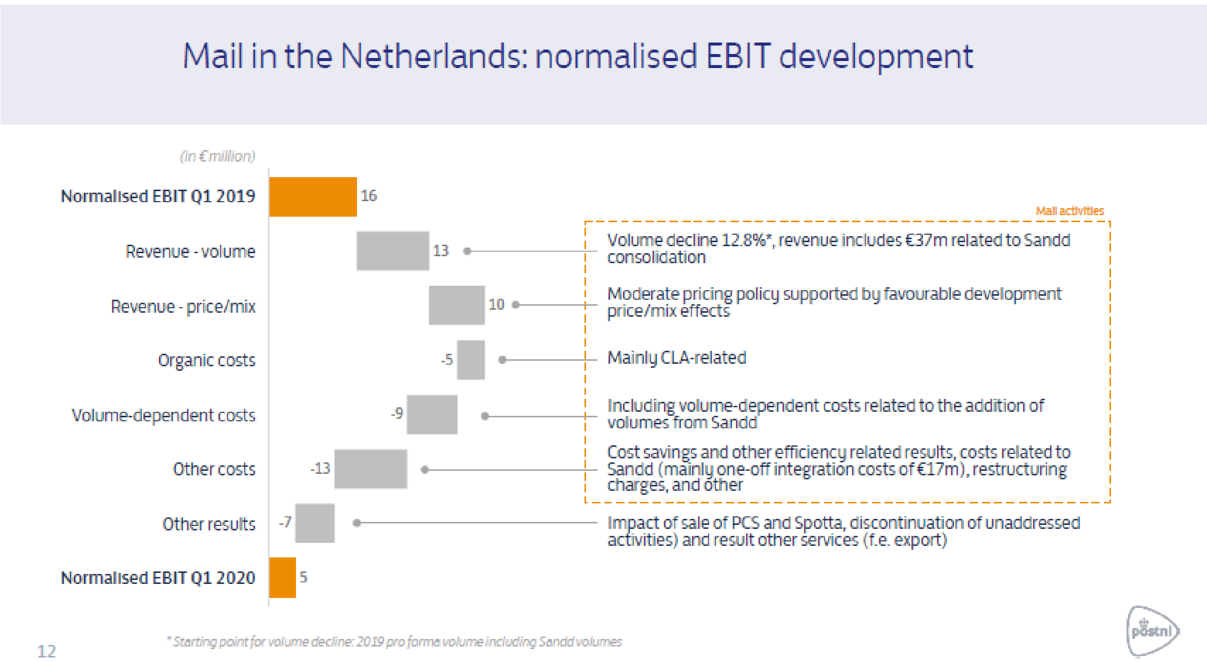
Then let's move to Mail in the Netherlands. I would like to start by spending a bit of time on the integration of Sandd. After the closing of the transaction in October of last year, we have integrated the networks of Sandd and PostNL on February 1. We are very happy to conclude that this integration went very smoothly. We are ahead of plan and Sandd has already been accretive to normalised EBIT in this quarter. The total contribution was EUR 5 million to the normalised EBIT number.

Mail volumes were down 12.8% or 12.3% when corrected for the fact that we have had one working day less. It is also good to mention that we have had elections in 2019 and not in this year, which accounted for a volume decline of 1.8%. Next to these two elements, we have of course the impact of Covid-19. More greeting cards on the one hand but on the other hand additional volume decline due to less direct mail activity. This brings a total impact of around 2% as well. We also expect that this will be visible in Q2.

Overall this means a normal decline in relation to substitution and a roughly 2% impact of Covid-19 on the volume development within Mail. And again, as said, the Parcels segment and also International Mail activities have been impacted by COVID-19 prices.

The effect from volume decline was partially offset by a positive price/mix effect, which was more favourable this quarter than it usually is. When looking at the revenue development, please also remember that we have sold PostNL Communications Services and Spotta, and that we have discontinued our unaddressed activities. The combination of these three accounted roughly for EUR 25 million of revenues in 2019.

The drivers for the result developments were Sandd, the impact of Covid-19, focus on our core activities and the usual business development. Cost savings in the quarter progressed according to our plan.



On slide 12, you will find the bridge, the reconciliation of the normalised EBIT for the Mail segment, where you see a positive volume impact of EUR 13 million, which is driven by EUR 37 million related to the consolidation of Sandd and a volume decline of 12.8%. and a positive price/mix effect of EUR 10 million. It is a combination of moderate pricing strategy supported by the favourable development in price/mix, driven by the greeting cards as well.

Organic costs mainly related to collective labour agreements. The volume-dependent cost, , include the costs related to the additional volumes from Sandd. In ‘Other costs’, you will see the combination of our cost savings, efficiency measures and one-off integration costs of EUR 17 million, still related to the Sandd integration. Other result, minus EUR 7 million, and that is the impact on profit of PCS, Spotta and the discontinuation of unaddressed activities, bringing the normalised EBIT for the first quarter to EUR 5 million.

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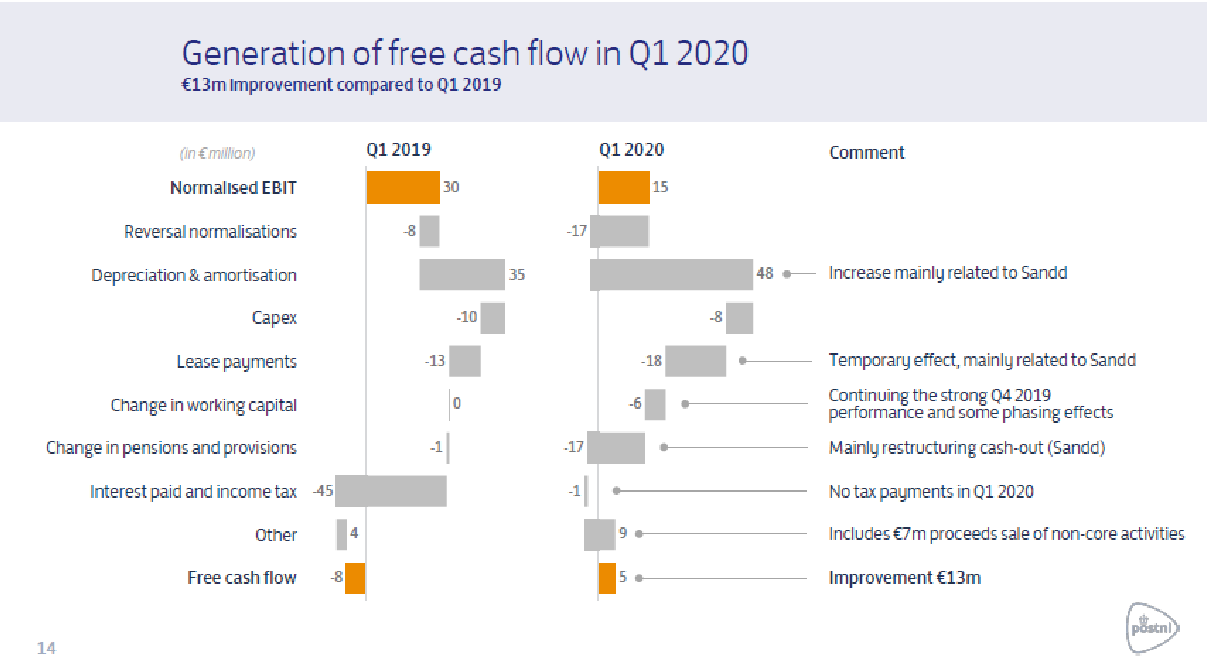
Now let's move to the financials with a little bit more detail.

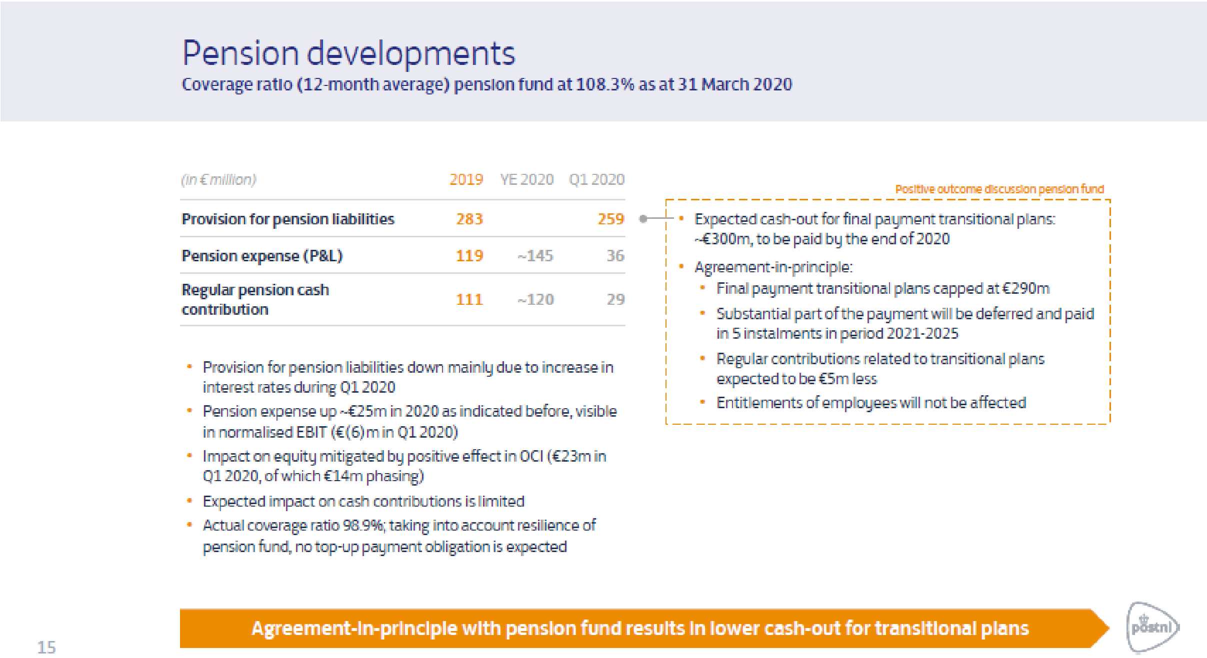


Firstly, we go to the cash flow bridge on slide 14. We are happy with the development on cash. Although normalised EBIT was down, our free cash flow was better than in the first quarter of 2019, and this slide explains the different components of how you can bridge the normalised EBIT to free cash flow.

So EUR 15 million normalised EBIT. Normalisations related to the Sandd acquisition, depreciation and amortisation up also because of Sandd, CapEx slightly below last year's numbers and lease payments up also. That includes temporary effects because they still include lease payments on leaseholds of Sandd and a change in working capital, which is negative EUR 6 million, significantly less negative than predicted before. That is on the back of a continuation of strong working capital management and the big improvements that we've shown on Q4 2019 have really improved our run rate working capital position.

The large difference in cash-out can be explained that we have had a large amount to pay to the tax authorities last year. And this year, we do not expect to pay any taxes also because of the soft pension tax -- the costs related to soft pensions that reduced the taxable amount in 2020.

All in all, a free cash flow of EUR 5 million, which is a positive improvement.



It is important to spend a bit of time on pensions. First, some good news there. We have reached an agreement in principle with our pension fund for another way of determining the final payments for the transitional pension scheme without affecting the entitlements of the employees.

Regarding the regular contributions of the transitional plans within 2020, please remember we not only pay a final payment in 2020, but also one last regular contribution to those transitional plans. The amount to pay has come down by EUR 5 million. The final payment that needs to be paid at the end of the year, which was expected to be around EUR 300 million, will be lower. It will, in any event, be capped at EUR 290 million and can come down if interest rates and coverage ratios move favourable. A substantial part of this amount will be deferred and paid in five instalments over the period 2021 to 2025.

Beneficiary for our leverage ratio are the lower pension payments for the regular contribution as well as the EUR 10 million difference between EUR 300 million and EUR 290 million. And of course, from a liquidity perspective, the part of the payments that can be deferred will help our cash position end of year. What is substantial? You should think that roughly EUR 60 million to EUR 80 million of that amount can be paid in later years than 2020 is our current expectation.

Accounting-wise, as you know, the lower interest rate at the start of the year translates into higher pension expense, around EUR 25 million for the year, so EUR 6 million of which is accounted for in the first quarter. This is only an accounting thing that has very limited impact on cash. On top of that, the impact on equity will be mitigated by a positive effect in other comprehensive income. This was EUR 23 million net of tax in this quarter, part of which is phasing.

The last item that I want to mention about pension is the coverage ratio of the pension fund. The actual coverage ratio of the fund was 98.9% at the end of March. This brings the relevant coverage ratio, which is the 12-month average coverage ratio of 108.3%, still above the minimum required level of 104%, taking into account the resilience of the pension fund. No top-up obligation is foreseen.

Consolidated statement of financial position

Adjusted net debt position end of Q1 2020: €699m

(in € million)	28 Mar 2020		28 Mar 2020
Intangible fixed assets	359	*Consolidated equity*	*(10)*
Property, plant and equipment	402	*Non-controlling interests*	*3*
Right-of-use assets	239	Total equity	(7)
Other non-current assets	88	Pension liabilities	259
Other current assets	434	Long-term debt	695
Cash	485	Long-term lease liabilities	191
Assets classified as held for sale	68	Other non-current liabilities	31
		Short-term lease liabilities	59
		Other current liabilities	762
		Liabilities related to assets classified as held for sale	85
Total assets	2,076	**Total equity & liabilities**	2,076

- Adjusted net debt is €699m; gross debt (Eurobonds, other debt/receivables), pension liabilities (adjusted for tax impact), lease liabilities (on-balance sheet and off-balance sheet commitments, adjusted for tax impact) and cash position
- Total comprehensive income Q1 2020: €10m (Q1 2019: €(1)m)

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Then some words on the balance sheet. Consolidated equity up EUR 11 million compared to end of last year. The same movement is also visible in total comprehensive income driven by the pension effect that we just talked about. And as you know, the normalised comprehensive income will be the basis for the dividend pay-out ratio.

Drivers for the movement are the net loss of EUR 12 million, which includes EUR 7 million for discontinued operations and that loss is more than offset by the OCI effect from pensions of EUR 23 million, net of tax.

Adjusted net debt is down to EUR 699 million from EUR 736 million. This is mainly explained by the improvement in the cash position and the lower pension liabilities. Please note that the pension liabilities on balance sheet represent the accounting value of the liabilities, which is not necessarily the same as the cash value.

Committed to achieve outlook for 2020

Uncertainties regarding duration and severity of Covid-19 pandemic may impact ability to achieve this result

(in € million)

Normalised EBIT	2019	2020 like-for-like		2020 indication	
Parcels	120	125 – 145	new labour regulation ~(10)	115 – 135	
Mail in the Netherlands	52	50 – 70		50 – 70	
PostNL Other	(37)	~(40)	pension expense ~(25), no impact pension cash-out	~(65)	
PostNL	135	145 – 165	impact new labour regulation and pensions ~(35)	110 – 130	**Outlook for 2020**
Free cash flow*					
PostNL	107	(15) – 15	final payment transitional plans around (300)**, to be paid in 2020	(315) – (285)**	

* *Cash flow before dividend, acquisitions, redemption bonds/other financing activities; after payment of leases*
** *Agreement-in-principle with pension fund: maximum final payment of €290m; substantial part of the final payment will be deferred and paid in 5 instalments in 2021-2025*

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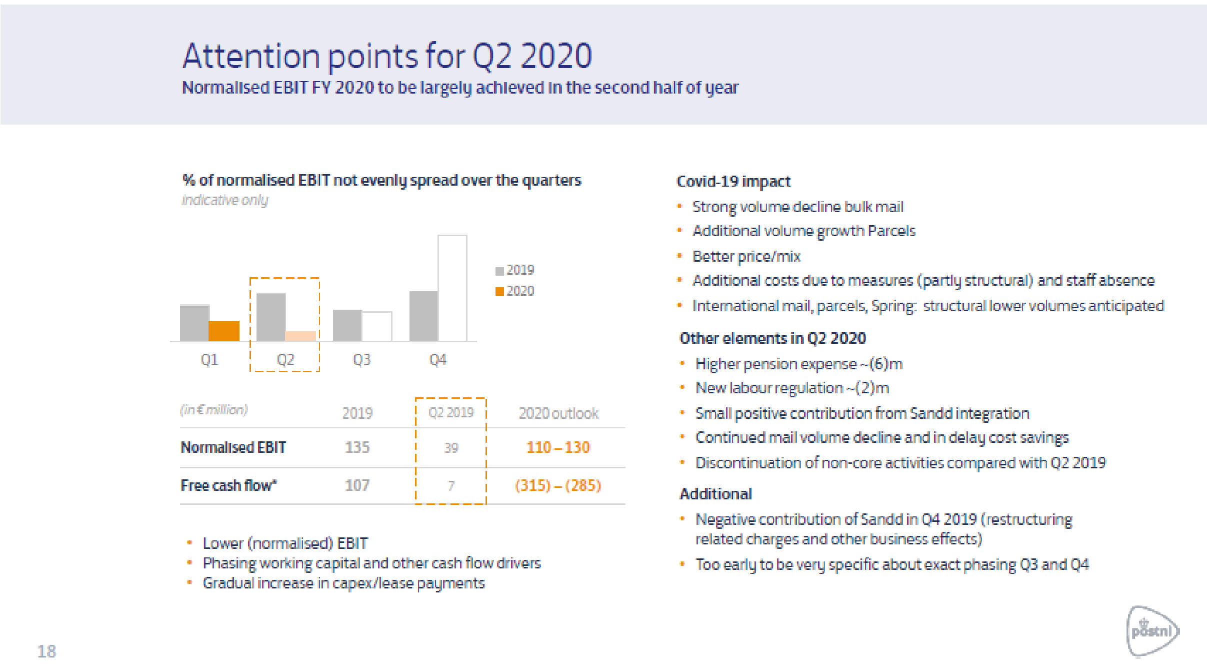
Building on the solid performance in Q1, we are committed to achieve our normalised EBIT outlook for 2020 of between EUR 110 million to EUR 130 million. I have to add that there are uncertainties regarding the duration and severity of the Covid-19 pandemic that may impact the ability to achieve this result. But said, at the moment, solid performance Q1. We are ahead of our own plan and, as said, committed to realise the EUR 110 million to EUR 130 million.

Of course, we are also committed to achieve the free cash flow, as shared with you earlier, of minus EUR 315 million to minus EUR 285 million. And of course, I put your attention on the agreement in principle with the pension fund. And those outcomes are not yet reflected in this cash flow outlook. We will do so at the moment that the agreement is final. And then we'll update the free cash flow guidance for the remainder of the year.



Then let's spend a bit of time forward looking to the attention points for the second quarter of 2020.

As indicated earlier, the normalised EBIT in 2020 will be largely achieved in the second half of 2020. You can see an indication of the percentages of normalised EBIT over the quarters in the graph on this slide.

What you also see is that we expect that Q2 will have the smallest contribution to normalised EBIT in 2020, which was different in 2019. So broadly, the negative consequences on the Mail business of Covid-19 will be predominantly visible in Q2, and we have been conservative in our estimation of that impact.

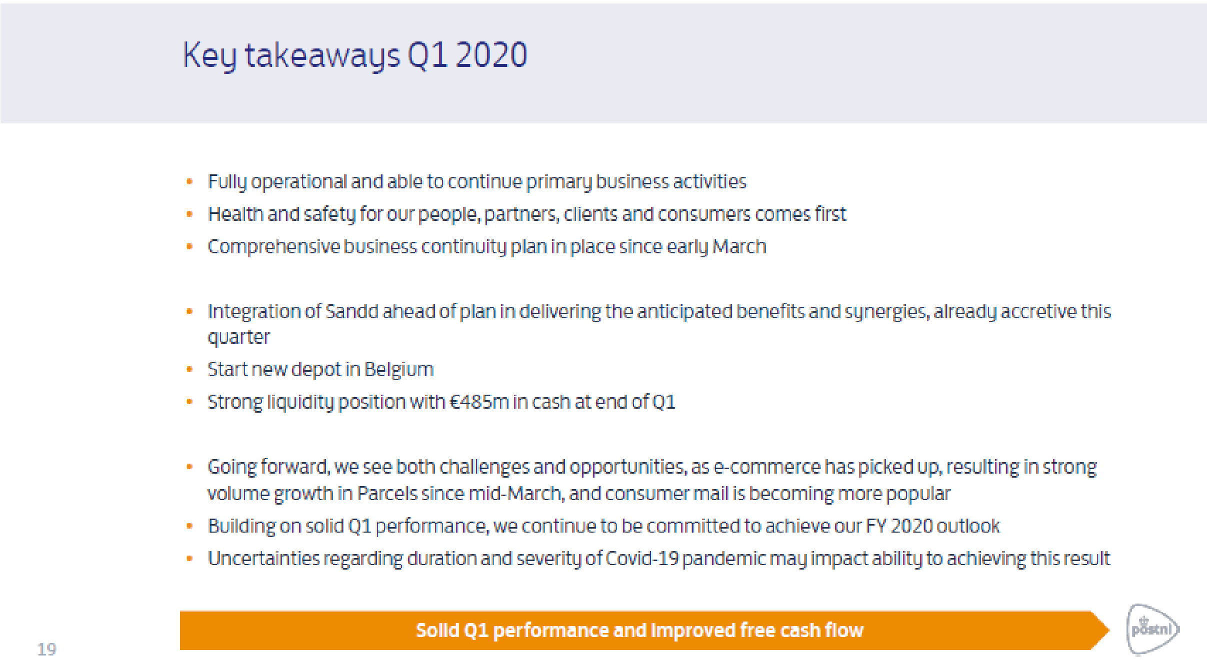
Very important to note is, if you look at this graph, there is a big gap difference between the Q4 numbers of 2019 and the 2020 numbers. Q4 2019 included the impact of the acquisition of Sandd. That was roughly around EUR 40 million of negative EBIT. That will not repeat itself within 2020. So it is fair to assume that this year's Q4 results will account for a much larger percentage of the full year number.

Please note that the phasing for Q3 and Q4 is indicative as visibility on Covid-19 implications is low at the moment.

Let me mention some specific attention points for Q2. We expect volume decline in bulk mail to continue in the second quarter. Additional volume growth from Parcels, as said, the growth rate at Parcels at the end of March was around 14%, which significantly increased throughout April. We expect a better price/mix to continue both in Mail and in Parcels, but we also have additional costs due to the measures of social distancing and throughout April still, albeit deteriorating, additional cost of staff absence. Volumes in international mail and international parcels are still impacted by lower airfreight capacity, and we expect that to continue throughout the second quarter.

Some other elements that you are familiar with, also in the second quarter, are a higher pension expense, roughly EUR 6 million, the impact of the new labour regulation, also around EUR 2 million, a small positive contribution of the integration of Sandd, and the continuation of the mail volume decline and delay of cost savings that were part of the business case of Sandd.

So fair to assume that normalised EBIT for the next quarter will be significantly below last year. And in the translation to free cash flow, please take into account phasing effects in working capital and other cash flow drivers such as a gradual increase in CapEx and lease payments throughout the year.



Then to conclude all of this on slide 19, Q1 has been an unprecedented quarter with the Covid-19 crisis impacting people and businesses on a global scale. Health and safety for our people, partners, clients, consumers, has been and will remain to be our first priority.

Since early March, we have anticipated quickly and have introduced a set of comprehensive continuity plans to ensure the continuity of our main networks, and we are fully operational and able to continue our primary business activities.

We were able to report a solid Q1 performance ahead of our own plans and the free cash flow improved. Also, the integration of the networks of Sandd and PostNL, which are ahead of plan in delivering the anticipated benefits and synergies and is already accretive in this first quarter.

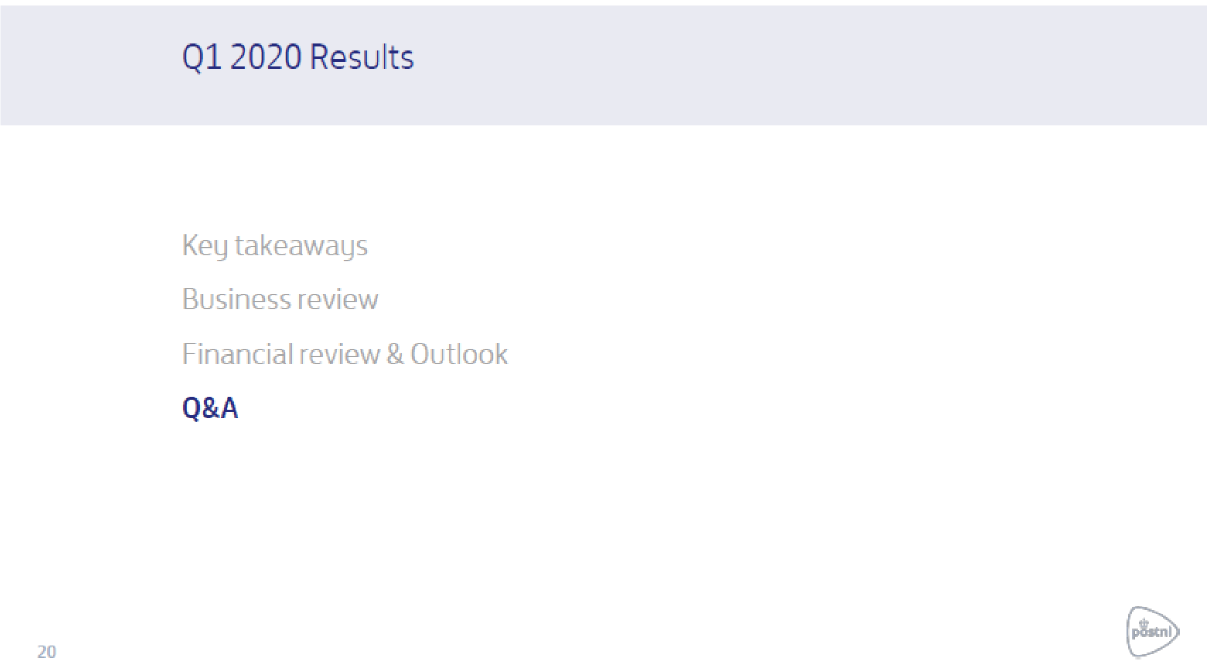
In line with the volume development, we today announced that we will be opening a new depot in Belgium. Preparations for this depot just started. It is also good to mention that our liquidity position is very strong. We have got EUR 485 million cash at hand at the end of March.

Going forward, we see both challenges and opportunities as e-commerce has picked up, resulting in strong volume growth in Parcels since mid-March, and consumer mail becomes more popular.

Building on the solid Q1 performance, we continue to be committed to achieve our full year 2020 outlook.

That concludes my presentation. So back to you, Jochem.

Jochem van de Laarschot – Director Communications & Investor Relations PostNL: Thank you, Pim. We are opening the floor for your questions.



- **David Kerstens – Jefferies**

I have a few questions, please. First of all, you are saying that Q1 came in ahead of your own expectations. Does that mean that you had a positive net effect from Covid-19 in the quarter? What was driving that beat versus your own expectations? And can you quantify that effect?

Then in the Parcel business, if you strip out the improvement in Spring and Logistics, the underlying number for Parcels Benelux was relatively stable year-on-year despite the increase in volume. Is that the trend we should anticipate going forward? And do you still expect to achieve the 7% to 9% volume growth for the year if in January and February – I estimate – it was probably down 5% and if March is half of the quarter? Is that a fair assumption for the underlying business, excluding Covid-19?

And then on Mail in the Netherlands, can you please quantify what the impact is of social mail? How important is that in the mix and direct mail and how important these factors will contribute going forward?

Pim Berendsen – CFO PostNL: Please remind me, David, if I have missed out on one because this went very, very quick.

Your first question was on the net impact in the first quarter. If we look at the first quarter results and the comparison to our own plans, we are ahead of schedule and that is driven by a couple of components. The Sandd integration has resulted in a better trajectory. Basically, we have reached positive contribution on the integration already in the first quarter, which was better than expected. At the same time, also with lower volume growth in the first months of the quarter, Parcels has managed to improve the margin and at the same time, also, the realisation of cost savings in the mail side were in accordance with our plan. So those elements together contributed also to a better-than-expected outcome of this first quarter.

If you talk about the growth of Parcels volume, then the January, February numbers were impacted, as I said, by the switch to multi-vendor, which have taken the volume growth down, as well as the international streams coming from Asia towards mainly Europe. All in all, we definitely expect the full year Parcels growth number to be within the 7% to 9% volume growth expectation, depending as well on how long the increased volume growth that we currently see. As said, that has significantly increased also from the March run rates or will continue. But at this moment in time, we definitely expect a 7% to 9% full year growth on Parcels.

Then another question was related to Mail Netherlands. We make a split between single items and bulk mail; we do not have a more specific split between bulk mail in transaction mail and direct mail. But in comparison on a full year basis, you basically need to look at single items being roughly 10% to 15% of the full-year numbers but per quarter, that can vary a bit because big direct marketing campaigns can influence that relative position throughout the different quarters.

David Kerstens – Jefferies: Great. Can I ask one quick follow-up, please, with regards to the Parcels' EBIT? You highlighted in the presentation that Spring and Logistics contributed EUR 6 million, but you talked about the volume pressure in March. What is driving that improvement in Spring and is that sustainable going forward?

Pim Berendsen – CFO PostNL: Let's make the split. We have International Parcels coming to the Parcels network. And next to that, we have Spring. What I was talking about predominantly was the International Parcels streams, the import flows have been affected earlier than in the Netherlands and Belgium by Covid-19. As Spring has improved in comparison to last year and that improvement was driven by more e-commerce-related businesses within Spring, predominantly in mainland Europe, and a better improvement on costs.

David Kerstens – Jefferies: Thank you very much.

- **Ruben de Vos – KBC Securities**

Good morning, just two questions for me. The first is also on the run rate volume growth of Parcels. At the end of March, it was about 14% and have seen even stronger growth in April. Could you possibly quantify the trend in the last few weeks, please? The reason I am asking is that we have seen a lot of new strong potential growth of e-commerce with volumes as high as in the year-end holiday period. I have been through the reports as well that you expanded capacity 40%. Belgium is seeing a tremendous catch-up in growth. So next to the volume trends it would be much appreciated if you could comment on these.

Secondly, just on Amazon. They have gone live in March. I understand it is still early days, but would it be possible to expand a bit on what you have seen since its entrance and give some flavour on the market dynamics? What has been the web shop behaviour, pricing pressure, that sort of thing?

Herna Verhagen – CEO PostNL: Let me talk about the volume growth end of March and then in the direction of April. We did not quantify it, but what we said and what Pim repeated in his presentation is that it is significantly higher than at the end of March. And that is what we see for the whole of April. And it is indeed correct that volume growth in Belgium is even much higher than in the Netherlands and that had mostly to do with the fact that most of the shops were closed in Belgium, and they were not in the Netherlands.

Amazon went live in March. It did not have a big impact yet on the market, so not in price pressure, not in the way the market acted. But I also think that Covid-19 is the biggest impact in e-commerce at this moment in time. What the real impact of Amazon will be will only be visible over time. So, so far, no changes seen or measured in the market.

Ruben de Vos – KBC Securities: Thank you. I would like to add one question. It is interesting to read that you will open a new depot in Belgium. About 120,000 parcels per day will be handled, I read. Could you talk a bit how the depot fits within the capacity plan that you unfolded at the CMD and when the development will be finished? And related to that, I am very curious to hear what elements have led you to decide to build the depot in Willebroek.

Herna Verhagen – CEO PostNL: The depot in Belgium was already communicated and planned when we had our Capital Markets Day in 2019. By then, we said we want to open two in Belgium. So it will add capacity in Belgium itself. It will also release some capacity of our southern depots in the Netherlands. Part of the sorting today takes place in the depots we have in Limburg and Brabant, and that will be handed over to the new-to-open depot in Belgium and that releases capacity in The Netherlands as well. So it helps on two fronts, and the opening is planned in 2021.

Ruben de Vos – KBC Securities: Thank you.

- **Marc Zwartsenburg – ING**

Good morning, I have a couple of questions. Let's take them one by one, please. First, on the extra cost for health and safety measures, can you give us a bit of an indication how much extra costs you have seen in Q1 and what we should expect for Q2?

Pim Berendsen – CFO PostNL: Well, a combination of elements has led to those additional costs. It is a combination of the steep increase in illness rates and the amendments to the processes that we have had to undertake to ensure the 1.5 meters distancing. It is difficult to be very exact in the normal numbers going forward, Marc, but let's say that the combination of the illness rate implications in March already had several millions impact in the March numbers. And luckily, we have seen the April illness rates come down throughout April, so the average run rate in April has still been significantly higher than normal, but it is getting down relatively close to the numbers of pre-mid-March illness rates.

Herna Verhagen – CEO PostNL: It is good to understand that we are currently using a very broad definition of illness, which means that what we told people working for PostNL to stay at home when somebody feels sick. Everyone who has people in their family who are sick together with, for example, cough or something like that, stay at home. Some of the elderly people in our organisation who are vulnerable and while we cannot create a working environment where they are safe, stay at home. So our definition of illness from the start of the Covid-19 crisis, is much broader than what you would normally use as probably illness. That helped us enormously in making sure that we could continue our operations and in making sure that we did not have that much of people getting sick at our locations. And, as Pim said, fortunately people are coming back relatively quickly over the month of April.

Marc Zwartsenburg – ING: And are these costs mainly in Parcels where I can imagine that you have more safety measures to be taken care of? Or is it equally spread?

Herna Verhagen – CEO PostNL: It is both. Also in Mail, you have to take lots of measures because we have big sorting centres. We still have lots of preparation locations where people prepare the mailbags for our mail deliverers. And we have more than 2,000 depots in the Netherlands where people pick up their delivery bags. So, I would say it is equally spread. We have of course a much bigger amount of people working in Mail than in Parcels.

Marc Zwartsenburg – ING: Then one for Pim, on the working capital. You mentioned that it was far better than you anticipated. And also for the full year and the guidance is EUR 65 million to EUR 75 million negative investments in working capital; would you say that guidance now come down maybe to a different number?

Pim Berendsen – CFO PostNL: As said, if we turn back the clock we have seen a very good outturn on working capital in Q4 2019. Then it is always interesting to see how much actually sticks and whether or not you lose a bit of that in the beginning of the new year. Looking at the minus EUR 6 million, that is a significantly lower investment in working capital than we have estimated. So that also has positive implications on the full year expectations on the investment in working capital, albeit that we monitor also very closely whether or not there is any change on our receivable positions because of Covid-19 liquidity issues potentially at our clients. At the moment, not significantly yet, but you can assume less investment in working capital than assumed before.

Marc Zwartsenburg – ING: Any range you want to give that or …

Pim Berendsen – CFO PostNL: No, that is a bit too early for that right now.

Marc Zwartsenburg – ING: Then coming back to the Parcels volumes. I heard David say something like negative numbers for Jan and Feb. Could you maybe comment a bit on what happened in January and Feb and what the trend was and perhaps also indicate what the negative impact was from the international parcels business on the growth rate? We all know the stock exchange is down today and I think it may relate to these two numbers. So, if you could give a bit more colour on what happened in January and Feb, that would be great.

Pim Berendsen – CFO PostNL: I am afraid I will get back to the same points. So January and Feb together: driven or influenced by multi-vendor, and that basically, as we have guided before, takes a few percentage points off the overall growth. So, bigger clients like bol.com, de Bijenkorf and Zalando have opted earlier to use a second carrier for part of their volume, just to make their business model less reliant only on us in peak capacity periods in the end of the year. But that has materialised, as we expected, in January and February.

Next to that, the continuation of the volume growth trend in more mature categories, like fashion, impacted that growth number as well. On top of that, as of February, we have seen a steep decline of the import flows of cross-border. And if I say steep, you need to think a double-digit decline in comparison to last year. But of course, take into account that the international part of the volume is a relatively small part 10% to 20% of total volume. But still, a double-digit decline on 10% to 15% of that volume is relevant numbers here. But growth has not been negative in January and Feb. Also in the first two weeks of March, we already saw our growth numbers picking up, as we expected. And that subsequently accelerated towards the 14% run rate numbers in the second part of March.

The first two weeks of March were already significantly higher than Jan and February, accelerated throughout March and continue to accelerate today.

Marc Zwartsenburg – ING: If I hear ’significantly accelerating’ into April, I am thinking of more than 20% volume growth in April. I know you are not willing yet to disclose the number, but could you give us a bit of a feel for the number?

Pim Berendsen – CFO PostNL: I think that is a fair estimate. And for May it is not lower.

Marc Zwartsenburg – ING: Good! That is already very helpful. Thank you.
And then lastly, on Sandd. The run rate has been EUR 22 million in Q1. Obviously, the master plan savings and the delays may be more geared to the second half but it is far ahead in terms of run rate than the EUR 55 million guided for 2022. Is it perhaps unlikely to think that we would see a number of EUR 60 million to EUR 70 million already for this year? Or am I now talking blue sky? Or...

Pim Berendsen – CFO PostNL: No, that is not unlikely but please take into account the point that you make yourself that predominantly, in the second part of the year, we will see the bigger consequences of lower cost savings as a consequence of the integration. You need to deduct that from the run rate synergies. But if you do that, you get close to the numbers you just mentioned.

Marc Zwartsenburg – ING: That is probably also the reason why you mentioned specifically that Q1 is ahead of plan and better than expected, that you are fairly confident then that you maybe end up towards the higher end of the range then, I think, if it is better than expected to start with. Is that a logical conclusion?

Herna Verhagen – CEO PostNL: That is not a conclusion we have drawn. We kept the range at EUR 110 million to EUR 130 million and still with low visibility on how Covid will develop over the next month or next half year. As said, we are very proud on how successful the integration of Sandd is, also on the people side as well as on the side of social workplaces. So there are many aspects in the integration of Sandd on which we are proud that it is in our view, running and going as well as it does. But do not forget the delay in cost savings we have also forecasted in the graph you probably remember when we presented the business case of Sandd.

Marc Zwartsenburg – ING: That is very helpful. Thank you very much.

- **Henk Slotboom – The Idea!**

Good morning, I hope you are all well. I have a couple of questions, and like Marc, I would like to take them one by one as well. First of all, Pim, a question on the net working capital. It is pleasing to see the improvements in the EBIT that sticks. To what extent is it caused by a shift in Mail to social mail, for example? Does that have a material impact on your working capital?

Pim Berendsen – CFO PostNL: No.

Henk Slotboom – The Idea!: Okay. That is clear.

Pim Berendsen – CFO PostNL: But the improvement in working capital is fundamentally driven by quicker invoicing, reducing the DSO and optimising our payable positions to the moment that we said we would pay and not earlier than that. But there are no implications whatsoever by this mix effect that you allude to.

Henk Slotboom – The Idea!: Okay. Perfect, that is clear. Then sticking to Mail, obviously, Covid-19 has influenced direct mail order campaigns. Can you give us any indication as to what kind of volume decreases we have to think of in direct mail when you look at April? And is it only restricted to direct mail? Are we also seeing, for example, a drop in transactional mail volumes because people are working from home and 'the paper trail' is not so efficient when everybody is working from home?

Herna Verhagen – CEO PostNL: When you take the 12.8%, the volume decline we have for Mail in the Netherlands Q1, Pim has already said that 1.8% is related to elections we had last year, which we do not have today, 0.5% is related to one workday less, and then around 2% is related to Covid-19. That means that substitution is still in the bandwidth where we expected it to be. So we do not see at this moment in time a steeper decline in substitution.

And on your question whether the influence of Covid-19 is only on direct mail? No, it is not, but it is mainly direct mail. So it is a little bit of business mail. It is a little bit of periodicals and then, for example, sponsored magazines but it is mainly direct mail. At this point in time we do not see in Q1 what we expected to see.

Henk Slotboom – The Idea!: But can you give us any feel on direct mail on the basis of what you have seen so far in April? Because the figure in the first quarter was mainly impacted by the second half of March, I guess.

Herna Verhagen – CEO PostNL: That is correct. So it is impacted since the beginning of March, and then you see it is becoming a little bit steeper in the second half of March. As Pim said, we gave a little bit of visibility on what we expect Q2 to be. And it is Q2 in which we have taken all precautions necessary. That gives you probably a little bit of idea.

Henk Slotboom – The Idea!: Okay. Then, let me switch to Parcels, the multi-vendorship. A lot has been said about it already and we have been reading a lot in the papers. Since e-commerce volumes have picked up so steeply, there are delays in getting the stuff delivered at the right time at the right place. So what we have been picking up is that a lot of companies are shopping for, yes, others who can solve that logistic problem for them. If I understood it correctly, Pim said that especially during the peak period of last year, large clients were incentivised to go and look for alternatives, find multiple delivery firms working for them. Is this picking up now, given what we have seen in Covid-19, as a result of Covid-19? Is it fair to say that multi-vendorship will switch into another further gear? And if so, could that structurally harm your market share? Because I guess people go to DHL or DPD, and then they will be perfectly willing to help them out provided that the client who want stuff being shipped wants to sign up for a longer period. They are not interested in an ad-hoc business, but they try to glue the clients to them, if I may say so.

Pim Berendsen – CFO PostNL: Yes. A couple of points from my side, Henk. We have not incentivised our customers to move to somebody else.

Henk Slotboom – The Idea!: I am sorry, I said they felt incentivised. So do not understand me wrong. But continue, please.

Pim Berendsen – CFO PostNL: What I said is that because of peak and peak capacity and the fact that, as you know, we wanted to get to a better balance between volume growth, margin development and cash flow, there are just limitations to our capacity in that peak period in November, December times. And that is why some of our customers decided not to be completely dependent, whether or not they could grow with us as quickly as they intended to grow and have opted to add a second carrier for the entire year because you just cannot switch only on the November and December peak. You have to take a part of your volume for the entire year. That is what they have chosen to do, and that is what we expected and what is included in the first quarter volume numbers of Parcels.

What we have subsequently seen is a ramp-up of our capacity of more than 40% as of March over the last weeks. Basically, if we talked peak in the past, we talked about a peak that lasts maybe ten working days, fourteen days from Black Friday to Sinterklaas and another peak in Christmas time. We are talking about peak and running at max capacity already as of mid-March. Although we scaled up 40%, some of the customers that we service have grown so fast that they have looked for alternative carriers as well if we could not take their parcels. By now, already quite a while ago, I think everybody is at max capacity, so DPD and DHL as well. As said, we will continue to expand our capacity going forward to ensure that we can help our customers grow as much as we can.

Henk, as said, today, we have announced the opening of a depot in Belgium. Next year, we will have the small sorting parcel centre live that also increases capacity significantly. We will continue to expand our capabilities to service our clients.

Henk Slotboom – The Idea!: So summarising, you do not see a shift in multi-vendorship in a way that it accelerated since the peak in volume.

Pim Berendsen – CFO PostNL: No, not structurally. As said, some clients have moved volume to other carriers because of the fact that we could not service them and because of the fact that the network was utilised to the maximum. But it remains to be seen whether or not that is structural or incidental. We do not see that at this moment in time.

Henk Slotboom – The Idea!: Then a final question on Parcels. Last year, you discussed introducing a surcharge in peak periods. Meanwhile, unexpectedly, bpost was the first one to introduce such a surcharge and you did not, to my knowledge. Can you give me some background on why you did not do it and are you still considering doing it, given the fact that as you just said, that the peak is much more prolonged than during the year-end peak?

Herna Verhagen – CEO PostNL: We introduced peak pricing via normal contract negotiations. That means that at the end of last year in all contract negotiations of contracts that ended at that moment in time, we introduced peak pricing. Introducing Covid-19 extras like Belgium Post did without normal contract negotiations is not what we want to do.

Henk Slotboom – The Idea!: So basically, what you are saying is that the surcharge for new contracts applies for older peak volumes? So let's assume that you say that a client can do 150% of your normal volume, and everything on top of that is subject to surcharge. Or how should I see that?

Pim Berendsen – CFO PostNL: In a specific period of the year, yes, in the last six weeks of the year.

Herna Verhagen – CEO PostNL: Old volume.

Henk Slotboom – The Idea!: Fine. That is clear. Thank you very much.

Pim Berendsen – CFO PostNL: We talked about three peaks and I am sure you do remember. We talked about one peak at the end of the year, a peak at the end of the day but also a peak on Tuesdays within the week. A positive element that helps efficiency as well is that we now see a much more equal flow over the days of the week, which leads to more efficiency in sorting and delivery of Parcels. But that peak has been flattening out as a consequence of the growth that we have seen as of mid-March.

Henk Slotboom – The Idea!: Thanks very much!

- **Wijnand Heineken – Independent Minds Limited**

Most of my questions have already been answered, but maybe one left, and that is about the Q2 outlook. You mentioned being very conservative as far as the outlook is concerned, especially within the Mail. If we do a bit of the math, because you have given the breakdown of the volume decline in Q1 and taking maybe the Covid-19 impact for a full quarter, one might get into something like 15% volume decline. Is that part of your assumptions or have you taken a different angle on that?

Pim Berendsen – CFO PostNL: No, not a fundamentally different angle. We have used run rates for the second part of March, which is not that easy for Mail in comparison to Parcels because in Mail, you see much more impact of bigger mail shops, DM – direct marketing – rather than a steady stream of multiple clients growing across the board as in Parcels. But roughly, we have done your exercise, and on volume, that is relatively close to our own expectations.

Herna Verhagen – CEO PostNL: Together with the fact that the price/mix effect is positive because of the Single Mail items. There is a different mix and therefore also a different price/mix than we saw before Covid-19.

Pim Berendsen – CFO PostNL: Also there we have done the same, so the positive price/mix effect because of higher single items continues in our expectations in Q2.

Wijnand Heineken – Independent Minds Limited: Thanks!

- **Lotte Timmermans – ABN AMRO**

Good morning. First, a question on the phasing of normalised EBIT. You already indicated during the full year 2019 results that the majority of normalised EBIT would be achieved in the second half. Did anything change on your assumptions? And was this what you expected?

Pim Berendsen – CFO PostNL: No, no fundamental changes there. The biggest part of normalised EBIT will be realised in the second part of the year and by far, the biggest component in the last quarter, also because in 2019, you will remember normalised EBIT that we had to take provisions in relation to the integration of Sandd. On top of that, there were also running losses at that moment in time in Sandd, which we will now not have in the last quarter of this year.

Lotte Timmermans – ABN AMRO: I meant the other way around. Q2 is actually lower than expected and more of the normalised EBIT will be achieved in the second half year?

Pim Berendsen – CFO PostNL: Okay. That way around. Well, Q2 is definitely lower than the quarter last year and by taking the assumptions on the Mail side, as Herna said, conservative, yes, we expected a slightly lower Q2 than originally.

Lotte Timmermans – ABN AMRO: Now you expect a lower Q2 than originally?

Pim Berendsen – CFO PostNL: Yes, but still, as said we are not ahead of plan. We will expect to be ahead of plan halfway in the year.

Lotte Timmermans – ABN AMRO: Yes. When I look at the graph, when I see that you say about 20% volume growth in April in Parcels and that operating costs are okay-ish, then I would say that Q2 seems conservative from my side.

Pim Berendsen – CFO PostNL: Yes, you are right.

Herna Verhagen – CEO PostNL: That is also what we said. We took it cautiously. Q2 started when Covid-19 started, so you take a cautious quarter. Let's hope it will be a little bit better than what we forecast at this moment in time. But in our view, it is good to give you at least a view on how we see Q2. Now you understand hopefully a little bit better what assumptions we have taken to underpin this Q2.

Lotte Timmermans – ABN AMRO: Thank you. Then my last question. You say that campaigns are postponed. Is there any visibility on if they are postponed until the second half of the year? Or is there any guidance you can give on that one?

Pim Berendsen – CFO PostNL: That is difficult. Yes, there are parts of volume that we know we will get back because those are actually postponements, on some of the sponsored magazines, for instance, that they have moved to a different date. But it is really difficult to say how much is actually delayed and how much will be lost. You can imagine that a spring campaign will not be postponed to autumn, but some other elements can indeed be postponed to later in the year. But it is difficult to really give you clear numbers on that.

Lotte Timmermans – ABN AMRO: Thanks.

- **Andre Mulder – Kepler**

Good morning. Can you give us a feel about the size of direct mail in terms of sales?

Secondly, you mentioned on the disposals the effect on sales, the effect on the proceeds. But what was the actual transaction with that on disposals? Maybe a question related to that, in the balance sheet it shows that your asset held for sale are EUR 68 million and liabilities are at EUR 85 million. Can I conclude from that that there are going to be some further losses there?

Then a question on the distribution of EBIT over the quarters. You originally mentioned EUR 66 million of EBIT in the fourth quarter 2019. Would you say that the normalised level, the real normalised level is something like EUR 40 million? Otherwise, the columns do not sit there. It should be as large as Q2, which was EUR 39 million. So there's quite a difference there.

Lastly, looking at Parcels, it now seems that every day is Christmas. Are you looking for an acceleration of the expansion there or should we view this as a sort of a temporary phenomenon?

Pim Berendsen – CFO PostNL: A lot of questions, Andre. Let's do the discontinued parts first. What we have said is that there are separate transactions. We have sold Spotta, and that was really a de-risking exercise given the changes in the unaddressed market. The same applies for stopping our unaddressed activities within 2019 within Mail. PostNL Communication Services was sold but the combination of the two did not really lead to a material impact on transaction results, so to say. So those transactions have been done and are completed. And so I say yes, as all completion done, Spotta has been sold and also completed. So those elements are completely accounted for in the balance sheet.

What we still have to do is complete the transaction for Nexive, which you know has been signed. And we strive to complete that transaction end of May, beginning of June. Of course, we are dependent there of the Italian government to issue also postal licenses that were required to do the asset transfers that were part of the transaction. There is a bit of a delay there caused by of course the overall Covid-19 consequences and the Italian government being slow in these elements.

On capacity increase, as said, we have ramped up capacity to 40% already. We will build a new depot in Zaandam during 2021. The whole Parcel sorting centre will come live, which is a flexible way to increase capacity, because if we want to or if we need to, we can add sorters that will increase in a more efficient way the capacity that we can take. So these elements, we will continue to build upon.

What is difficult to assess is that some of the elements of the growth that we see might be structural. We see more households buying online than before. We actually visited addresses that we have never visited before. Although the Netherlands was already very mature online, there is still an increase of the number of people that use online. That could definitely be there to stay. What is more difficult to predict at the moment is the impact of potential slowdown of macroeconomic circumstances and how they will then subsequently impact consumer behaviours and, as such, growth. There are definitely parts of the change that we expect to be structural.

Herna Verhagen – CEO PostNL: The way we expand capacity at this moment in time is much more, as said by Pim, by the fact that we have an equal flow over the week but also using more of our sorting centres for sorting on a Sunday, filling in Monday as a full delivery day instead of as a partly delivery day. And so there are still several options we have already implemented and we will implement going forward to expand capacity.

I think you had a question around the distribution of EBIT over the quarters and Q4 normalised EBIT 2019 versus 2020. Also take into account what was said by Pim in the presentation that in 2019, in Q4 we added the cost we made for Sandd, the losses for Sandd and the integration costs we made for Sandd. So that is what you have to take in mind when you talk about Q4 2019, and those numbers will not be there in Q4 2020.

Your last question was on the size of direct Mail in terms of sales. And that is what we did not disclose and we did not split out. I am so sorry for that.

Andre Mulder – Kepler: And any indication we do not need the support?

Herna Verhagen – CEO PostNL: No indication.

Pim Berendsen – CFO PostNL: No.

Andre Mulder – Kepler: Thanks.

- **Marco Limite – Barclays**

Just one question left for me. What explains the difference between the normalised EBIT at EUR 15 million and the operating income that actually was negative at minus EUR 2 million?

Pim Berendsen – CFO PostNL: Almost the only explanation is an accelerated depreciation of Sandd assets in Q1. Partly, these were normalisations in Q4 of 2019 but the gap is completely explained by basically finally written down all remaining assets of Sandd as of February 1 because they were then not used anymore.

Marco Limite – Barclays: Okay. So we should not expect any more write-offs within...

Pim Berendsen – CFO PostNL: Yes. That is to say that this amount of normalisations will definitely not continue.

Marco Limite – Barclays: Another quick one. You have left the guidance for the cash flow unchanged compared to the full year 2019. This means that in that guidance, you have not taken into account yet the new kind of deal on the pension settlement, right?

Pim Berendsen – CFO PostNL: Yes. What I said there is that as soon as the agreement in principle becomes a full final agreement, we will update that guidance on free cash flow. I have tried to help you with some numbers to get to a view of what they might look like, but as soon as we have the final deal, we will let you know.

Marco Limite – Barclays: Thank you.

- **David Kerstens – Jefferies**

Just a quick follow-up, please, on the election effect that you called out. I was wondering, if that was included in your underlying Mail volume decline and you did not mention it a year ago, should we also take into account the election effects in the second quarter related to the European elections in 2019? How large was that effect? I quickly googled what that election might have been in the first quarter last year and saw that is Provinciale Staten. Is the European election a lot more important?

Pim Berendsen – CFO PostNL: No, not a lot more important. It is equally important, I would say. We have of course taken that into account when we have given the volume guidance for the full year.

David Kerstens – Jefferies: Yes. So you have another 1.8% impact in the second quarter of 2019 that you have to...

Pim Berendsen – CFO PostNL: It depends a bit on the overall volumes in the second quarter, but roughly, yes. And when Wijnand has done this calculation of the expected volume growth, I have also taken an election effect in mind when I said that he was roughly right.

David Kerstens – Jefferies: Minus 15%.

Pim Berendsen – CFO PostNL: That is what he said, yes.

David Kerstens – Jefferies: That is clear. Thank you very much!

Jochem van de Laarschot – Director Communications & Investor Relations PostNL: Well, I think all questions have been asked at this stage. If you have any need for further information, you know where to find us. Let's stop it right here, and all I can say is stay safe and healthy and take care. See you next time. Thank you.

Herna Verhagen – CEO PostNL: Thank you.

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End of call

Q1 2020 Results

Appendix

- Results by segment Q1 2020
- Breakdown pension cash contribution and expenses

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Results by segment Q1 2020

(in € million)	Revenue		Normalised EBIT	
	Q1 2019	Q1 2020	Q1 2019	Q1 2020
Parcels	398	414	23	26
Mail in the Netherlands	392	395	16	5
PostNL Other	21	26	(9)	(15)
Intercompany	(127)	(133)		
PostNL	**684**	**701**	**30**	**15**

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Breakdown pension cash contribution and expenses

(in € million)	Q1 2019		Q1 2020	
	Expenses	Cash	Expenses	Cash
Business segments	24	26	24	29
IFRS difference	6		12	
PostNL	30	26	36	29
Interest	1		0	
Total	31		36	

23