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PostNL conference call

Audio Webcast



Herna Verhagen (CEO)
Pim Berendsen (CFO)
Jochem van de Laarschot (Investor Relations)



Jochem van de Laarschot – Director Communications & Investor Relations PostNL:

Thank you and thank you for joining us this morning. We have issued a press release this morning with an update on our third quarter performance and with the preliminary results for the quarter. We thought it was a good idea to provide you with a brief opportunity to ask some questions to our board of management. So with us in the call are Herna Verhagen, our CEO, and Pim Berendsen, our CFO. We will have a quick introduction followed by the opportunity for Q&A.

Herna, over to you.

Herna Verhagen – CEO PostNL: Thanks for being present so quickly after we issued our trading update. As said by Jochem, we find it important to have a moment with our analysts to give our explanation but also answer your questions.

As you have seen in our trading update, macroeconomic conditions have worsened since we last spoke in August and we expect them to continue to do so in the quarters to come. In the next few minutes, Pim will give you some more background around those conditions and of course also the impact on PostNL, especially on Parcels, the impact on our profitability, et cetera. I understand that our trading update also leads to questions around 2023. Those questions we will not answer today, as you probably will understand.

Pim, may I give you the floor, please?

Pim Berendsen – CFO PostNL: Thanks Herna, and good morning to all of you. Clearly, you have seen the press release we had to issue given the further deterioration of the macroeconomic environment. Those implications are, simply said, twofold.

We have seen unprecedented high inflation levels, really higher than everybody expected. All regulatory bodies did not expect that high an inflation level and obviously, this higher inflation lead to even more pressure on organic cost developments. Not necessarily that much on fuel and energy in comparison to our assumptions over the year, but certainly higher inflation levels have their impact on the cost of labour in an already very tight labour market. That is one element of it. We are seeing rising costs, even higher organic costs. Obviously, those costs



come after the moment in time that we fixed the price points and as such will deteriorate margins in 2022.

Given the higher uncertainty, the higher inflation level, and the all-time low consumer confidence, which will lead to lower consumer spending and also lower consumer spending in the categories that through online lead to Parcel volumes. So, we anticipated relatively small but still growth in Parcels volumes for Q3 and Q4 originally and now we see that not materialising in Q3 and we also do not expect it to happen in Q4.

At the same time and that is just to make clear the fourth quarter will see a peak albeit maybe not that high of a peak that we originally anticipated. But will still ramp up our capacity to almost double the number of parcels to be delivered than on a regular basis. Currently, expectations are that we are roughly roundabout the level of volume that we reported in 2021 for the fourth quarter. But, as said, there is a fair amount of uncertainty around the developments at this point in time.

Obviously within those very difficult circumstances we are taking all actions and measures that we can do. These relate to yield management, we are adjusting as much as we can the flexible part of the parcel cost base, in line with current volume development, and we are aiming to reduce indirect costs if, if possible, tight control of overhead costs in the approach of filling staff vacancies and obviously, we strive to maintain a healthy balance sheet, which also is the level of capital employed. So we are reducing the level of our capex, the lease additions and keep on rigorously focusing on working capital to ensure as much as we can a strong balance sheet. That is what we are doing in very difficult market circumstances.

The preliminary Q3 results you have seen. A normalised EBIT loss of EUR 20 million and a free cash flow of EUR (49) million. That EUR (49) million is also impacted by the phasing of working capital settlements. So, that not is not necessarily the proxy for the end of the year.

Because of these circumstances, it is no longer realistic to assume that the outlook that we have provided at the Half Year will materialise and that is why we are basically taking it off the table today. On 7 November we will get back with the normal, regular, and detailed Q3 results



and then we will be able to continue the conversation. But I am sure you have questions for us right now, so maybe it is time for those.

Operator, can you open the floor for Q&A?

QUESTIONS AND ANSWERS

- **Henk Slotboom – The Idea!**

Good morning all and thanks for taking my questions. Maybe I am wrong but there seems to be something contradicting in the guidance for the full year. On the one hand, you say you expect parcel volumes to be more or less in line with the fourth quarter of last year and on the other hand, you take the full year guidance off the table but you do not come with a new guidance. Is there something else? Is the guidance for Parcels based on a best guess at this moment? I can understand that and we hear from a lot of big senders as well that the visibility is close to zero. Or am I missing something? Is there something in Mail or anywhere else that that is causing the reason you do not come up with a concrete forecast for the full year?

The second question I had is, can you perhaps provide some colour as to how the volume developed in Parcels in the third quarter, because in the pre-earnings closing call, we heard that July and August were more or less in line with the trends we saw in May and June. Have things got worse in September and what is your early view on October?

The third question is an easy one. You mentioned a series of mitigation measures. Is it fair to expect that you will come with more details as to how much you plan to save or how much that could save at the time you publish your definitive results?

And the final question I had is on tariff negotiations. We all know that they are about to start and I am not going to ask you how much you are going to raise tariffs or whatever, but in this environment where things are definitely getting more complicated, not only for you as a logistics provider, but also for the e-commerce companies, how easy will it be to increase tariffs



moreover, because we obviously also see increased competition from the new kids on the block, but also from companies like DHL?

Those were my questions. Thank you.

Pim Berendsen – CFO PostNL: Henk, thank you very much. I will try to take them one by one. In our minds there is no contradiction as to what we are saying and the reason we're taking off the full year outlook. What I intended to clarify is that our current view, our current expectation in very difficult circumstances, is Parcel volumes more or less with last year volumes. But you also know that deviations from that currently impact the P&L more significantly than in other more regular terms. The margin we miss of every other parcel that we are not getting becomes bigger and bigger given the fact that we are basically now at fixed costs at Parcels. So, the expectation is what it is, the volatility around it is still very high. There is a lot of uncertainty around it, obviously for the full year profit number for the group. It is not only about Parcels; it is also our Mail performance. There is a very big contribution of Christmas cards in the Mail P&L always in November and December. It is very difficult, given the fact there is no trendline throughout the year to determine what the implications of higher inflation on those Christmas cards will be. Although we do as much as we can to provide you with our view or background on our view, it is still too uncertain for us and that is why we are not replacing the previous outlook with a new one.

Your second question to colour on volume developments. We said that that July and August followed the trends of the previous months, those trends were no growth whilst we were expecting a bit bigger growth in Q3. If you break down the volume development, what we have done in Q2, is still a 3% underlying domestic growth. If we look at it in Q3, it is only 0.8% of growth. So a further slowdown of growth whilst we can anticipate slightly higher growth numbers for the third quarter. As a consequence, we have had to adjust the full year expectations on that as well.

Henk Slotboom – The Idea! Sorry to interrupt you, Pim, but that means that September was clearly worse than the first two months of the quarter.



Pim Berendsen – CFO PostNL: No, that is not what I said. If the underlying development is the same, the expectation was higher, the development was not that much different from that. The expectation was, as we clearly indicated, that we would see an improvement in Q3 and Q4 to end up with the volume expectations on the back of the assumptions we at that point in time had from our customers and all the analyses that we have done. Given the high inflation and low confidence, the actual run rate is lower. On Domestic it is still positive, as said for the quarter 0.8% growth, but it is significantly lower than anticipated.

Henk Slotboom – The Idea!: Clear. Thank you!

Pim Berendsen – CFO PostNL: On the mitigation measures, we currently focus on full year 2022 and take measures that impact 2022. We will definitely give you a bit more colour around it but do not expect every measure to come with an amount in euros. We will certainly take the time to, as Herna said in the beginning, determine what additional measures need to be taken for 2023 given the various scenarios we will explore. Obviously, 7 November will be too early to talk about 2023 as well.

On the tariff negotiations, we are in the middle of those. Indeed you are right, that obviously our biggest clients being the e-commerce providers, face the same macroeconomic developments as we do, which means that although parties understand that the organic cost levels that have risen quite significantly need to find their way in price points. It is going to be a tough discussion and tough negotiations. We do not really see increased competition. We already are in very competitive markets. We have not seen a deterioration of our market share position to DHL. But we need to be smart, we need to be careful and we will be very selective, customer segment by customer segment, as to how we go with the tariff increase discussions. But what is clear is that there are going to be quite significant increases across our customer segments. We will just need to do it as smartly as we can, given the current macroeconomic and competitive landscape.

Herna Verhagen – CEO PostNL: Henk, it is not realistic to assume that our competitors will focus on all our customers. There are of course segments. Secondly, we will follow it very closely to make sure that we stay in the position we are today when it comes to market share.



Henk Slotboom – The Idea!: Thank you!

- **Ivar Billfalk-Kelly – UBS**

Good morning everyone. Given the staff costs, the negotiations with the unions are a big contributing factor to the withdrawal of the guidance. Can you please tell us what you had been expecting when you most recently adjusted your guidance to EUR 145 million to EUR 175 million. Are we looking at a similar 4% annual increases that the mail deliverers got or had you been expecting something bigger?

Linked to that, given that your disclosure is a little bit difficult, can you tell us the proportion of the wage bill that is attributable to the people that you are negotiating with now? And linked to that, I believe your subcontractors actually get paid based on the same CLA, so are there automatic increases in your payments to subcontractors that you are going to have to pay?

And then separately, given that you have lower earnings now and potentially lower cash flow, is there a chance that if your leverage goes above two times that you will stop paying the dividends given that that was a soft threshold that you had in the past? Thank you.

Herna Verhagen – CEO PostNL: When I start on the unions and negotiations, we are in the midst of those negotiations and that is the reason why the information we give is limited . For sure we are not at the end, so there is not yet sight on a closed CLA. In the CLAs we try to differentiate and that means that not all people will get the same increase. That is first of all to support the ones who need it the most, the lower-earning jobs within PostNL and secondly, we also try to make sure that in the end we get an annual increase, which is also payable for PostNL looking into the profits we also announced today. So, it is difficult to give you very clear insight in what it exactly is. We are in the midst of negotiations and next week we will have another full day of negotiations with the unions.

The contracts of our contractors. They do not follow the PostNL CLA, they follow another CLA in The Netherlands, which is the Bgv-CLA. It is a CLA used by most of the logistical companies



in the Netherlands. They put an end-bid on the table, so they are more or less at the end of their negotiations. It is not yet approved by the unions and the members of the unions. That is the CLA we have to follow when it comes to our subcontractors. So, it is a different one than the CLA of PostNL.

May I hand over to you, Pim?

Pim Berendsen – CFO PostNL: Maybe in addition to this last point, this is the case for the delivery partners. But given the fact that there is still going to be a peak we need to ramp up our sorting capacity before the peak. We also use temp staff in those processes. Given the tight labour markets, the cost of those will also increase on the back of the higher inflation levels and tight labour markets. So, it is not only directly related to CLAs that we see the upward pressure on labour costs.

Your third question was around lower earnings, lower cash flow and the consequences on dividend. Yes, lower earnings, given the same dividend policy, will lead to lower dividend payments. The dividend policy is the policy. It is still on the table. Obviously, the mitigating measures that I have talked about are also there to secure a certain level of strength of the balance sheet and to try and avoid the leverage ratio going beyond. That is what the effort is all about, to keep the balance sheet strong and try to keep the leverage ratio below 2. That is what we are working for.

Ivar Billfalk-Kelly – UBS: So then if the leverage were to increase above 2% you would consider cutting the dividend in future? Is that right?

Pim Berendsen – CFO PostNL: The dividend policy that said we aim to get to a certain level of credit rating. There is no automatic "beyond 2 then no dividend anymore". It is there for a reason, so we will follow the dividend policy and first and foremost our objective is to keep adjusted net debt over EBITDA under 2.

Ivar Billfalk-Kelly – UBS: Understood. Thank you very much.



- **Marco Limite – Barclays**

Hi, good morning. Thanks for taking my question. My first question is on your Parcels unit. If I look at the items you disclosed today, revenues are broadly flattish year over year, so on volumes 1% down. So you know, year over year the biggest differences are on costs. Costs are 6% up. I just want to get more of an understanding, more colour on what the main drivers of cost are. Is that mainly coming from cost inflation or do you have a live indexation of the subcontractors that work with you on the parcel volume deliveries? Therefore, if you can clarify if that CLA agreement only applies to personnel, employed people or should we expect further inflation also on your subcontractors? I am just trying to understand whether the cost based inflation in Q3 was driven by subcontractors, higher tariffs or simply by higher energy costs or fuel?

Second question, if you can please repeat what the trend was over the months of July, August, and September and if September was actually ahead as the run rate was a weaker run rate compared to July and August.

My third question is to what extent you can actually adjust the cost base going into the peak season. And sorry, some of these questions were already asked, but I had issues logging in earlier. Thank you.

Pim Berendsen – CFO PostNL: Thank you, Marco, for your questions. Regarding the first question, if you talk about the comparison of last year for the segment of Parcels there are a few elements that come into play. Some of them were already touched upon at Q2. There are significantly higher organic cost developments than covered by the price indexation that we put through on the 1 January 2022. So that deteriorates the profits. Next to that, obviously we have anticipated and have taken on commitments let's say one year ago on future growth expectations. So at the beginning of the year we were looking at growth expectations of a couple of percentage points reported and now we are looking at a close to double-digit decline, roughly speaking. So that swing will not be able to offset . You anticipated your capacity expansion programs on growth. Now growth is no longer there, but you still add a fixed cost to



the network that you just cannot easily get rid of. That is another big component of it. Let's not forget that the Parcels segment is not only directly related to the volume development of our Parcels volume, but there are also businesses like transport, Belgium, logistic solutions that also suffer from the same macroeconomic circumstances. So, I think those are the key elements of the bridge for now. We will give you the detailed bridge on 7 November. But these are the key points.

Volume development within the quarter. As said, July, August, and a bit of the summer holidays. Those we will look at together. September was slightly better than July and August, but really slightly.

Herna tried to explain that the delivery partners follow a different Collective Labour Agreement than the PostNL Collective Labour Agreement, which is a separate kind of transportation and logistics sector Collective Labour Agreement. And those will lead to higher costs for delivery partners. The vast majority of our staff is obviously covered by the collective labour agreements for the Mail deliverers, which we have computed and we are still in the process of negotiation for the PostNL CLA.

Next to that, on the employment side, which is my addition to it, is that we also hire temporary staff from agencies, particularly in the ramp-up period towards Black Friday, Sinterklaas and Christmas. Those people come in at slightly higher hourly wages now than in previous periods, given the tight labour markets. Hopefully, that answered your questions.

Marco Limite – Barclays: Yes. Maybe a follow-up question. So even though you know that Q4 is going to be probably softer from what you were expecting with the Q2 results, are there cost measures that you can take now, given the softer outlook for Q4 for example? Have you already committed for a certain amount of delivery capacity for Q4 that you cannot trim back or do you still have flexibility to do that to adjust for the softer outlook?

Pim Berendsen – CFO PostNL: There is a bit of flexibility and that we have used to take cost measures already. The current expectation of volume has led to amendments on the preparation of our operational cost base for the peak period, which means maybe less working days than we anticipate. There could have been more Sundays but we are not doing that. We



optimised the routing matrix on the back of lower volume expectations. The level of overflow capacity that you need for peak is lower given the fact that your volume expectations are lower. So all of those cost measures have been taken but on some other points you are really locked in. The capacity in terms of fixed components like sorting capacity is fixed; at some point in time you commit to a level of staff that you think you need, particularly in tight labour markets. We do not want to run the risk that we have too little people to ensure the right service offering for our clients in this competitive landscape. So, there are limitations to it, but whatever we think we could do, we have done next to cost measures that relate to indirect cost, overhead cost that we have taken as well.

Marco Limite – Barclays: I think you have done the same exercise with Q3, the third quarter? For the third quarter a lower volume level and therefore we should expect an improvement somehow in cost control in Q4 versus Q3.

Pim Berendsen – CFO PostNL: We have consistently adjusted our cost base to those levels as much as we could. On the variable side you will see that also back in the bridge but, as said, there is still going to be quite a significant ramp-up from Q3 to Q4 anyway, albeit a lower peak still a steep ramp-up. That requires making sure that you have the line hauls, the people organised and set up to cater for that product. So, there are limitations on what you can do given that peak.

Herna Verhagen – CEO PostNL: That is also what we said when we presented the Q2 numbers, that the capacity of the network is a little bit higher than the volume, which is in at this moment in time. But with that we took a deliberate decision to not fully scale down the network because we need it for peak season. Normally you could do a ramp-up for peak in four to five weeks. In current labour markets that is impossible. At the moment you send people home, it is very difficult to get them back. So a certain level of certainty around being able to deliver the peak, as Pim already said, is necessary to run the business. And that part of the cost is not flexible; it is only flexible as of 1 January or 2 January 2023.

Marco Limite – Barclays: OK. Thank you very much.



- **Wijnand Heineken – Independent Minds**

Good morning, I have a couple of questions about Mail, because in the first two quarters Mail did pretty well. The volume trend, if we skip out the Covid-effects of last year, did well compared to your own guidance and results were pretty satisfactory. That seems now to have deteriorated during the third quarter to some extent. Maybe on the cost side, apart from the reasons in the environment, ramping up for Q4 might have played a part there, but I was wondering is there any anything specific happening in Q3 that also contributed to this new deteriorating trend?

My other question is about the costs relating to the ramping up. You mentioned two things. First, normally we do it four to five weeks and now we need a longer period because it is difficult to get people in and to hold them in. The question is at what point in time you started. Obviously, it will all be at higher cost for the temps you need. Could you give some indication about how much higher the payment to these people will be? Is that well into double-digit territory, which is currently the inflationary environment here in The Netherlands or is it less? A few comments would help, I believe.

Pim Berendsen – CFO PostNL: Thank you, Wijnand. On the mail volumes, on reported you indeed see a decrease from roughly 7.4% - 7.5% in the previous quarters to now 9.3% volume decline. But if we zoom in, in Q3 last year there was still quite a significant amount of non-recurring Covid, so if you correct for that we actually are close to the 7.5%. There is a slight deviation but we are not too concerned about the volume development at Mail at this point in time. There is always the third quarter that is very slow, particularly in July and August for the mail volumes anyway. In our view, that is not a fundamental change.

On the cost development and whether it is related to the ramp-up, for the element that we just talked about – it is also related to your third point – normally at Q2 we would have already scaled back a bit more on capacity if we were not living in these very tight labour market circumstances. We all know that we are living in a very competitive marketplace and we differentiate ourselves to our e-commerce clients by quality and reliability of service offerings. So we just do not want to run the risk to have too little people to accommodate for the peak



that we still expect. That ramp-up is already underway because there are only a couple of weeks left before we expect those volumes to come in.

On the percentage-wise differences on temporary staff, I cannot share the cost base at this point in time but you are really thinking about very high single-digit to low double-digit increases on hourly rates to ensure that you have those people in when you need them in October and November because typically it relates to the temporary sorting staff.

Wijnand Heineken – Independent Minds: Thank you very much.

Jochem van de Laarschot – Director Communications & Investor Relations PostNL:

Thank you. Not so many remarks but two. We will publish the consensus at the end of today. The second point was already mentioned and that is that the full Q3 results will be published on Monday 7 November.

Thank you very much for joining. See you next time!