1st Quarter 2024 Results

Conference call transcript

Brussels – May, 3rd 2024
Chris Peeters, Group CEO
Philippe Dartienne, Group CFO

Transcript of the conference call held on May, 3rd 2024 - 10:00 am CET

PRESENTATION

Operator: Hello, and welcome to the bpost first quarter 2024 quarterly results. My name is Caroline, and I'll be a coordinator for today's event. Please note this call is being recorded, and for your lines will be on listen-only mode. However, you'll have an opportunity to ask questions at the end of the call. This can be done by pressing star one on your telephone keypad to register your questions. If you require assistance at any point, please press star zero and you'll be connected to an operator. I will now – today we have Chris Peeters, CEO, and Philippe Dartienne, CFO as our presenter.

I will now hand over to your host, Chris Peeters, to begin today's conference. Thank you.

Chris Peeters: Thank you and good morning Ladies and Gentlemen. Welcome to all of you and thank you for joining us. I am pleased to present our first quarter results as CEO of bpostgroup. With me, I have Philippe Dartienne our CFO, as well as Antoine Lebecq from Investor Relations. We posted the materials on our website this morning. We will walk you through the presentation and will then take your questions. As always, two questions each would ensure everyone gets the chance to be addressed in the upcoming hour.

Philippe, let’s get to the quarterly results and I will then take the floor for a status update on press distribution in Belgium, as this is one of our key priorities for the moment.

Philippe Dartienne: Thank you Chris, and good morning to all of you. I am on page 3.

Our underlying performance during the first quarter was impacted by challenging market conditions, particularly with ongoing pressures on our topline in North America and a soft market backdrop in Belgium and Europe. However, despite these challenges we managed to navigate through them and delivered a resilient performance thanks notably to our domestic and cross-border markets (EDIT: parcels) and our continued focus on productivity in North America.

You see that our Group operating income for Q1 stood at 993 million euro and declined year-over-year by 5.3% mainly due to ongoing pressures in North America while on the other hand our domestic revenues remained flat despite lower mail revenues - including a 5 million euro lower State compensation for the press concessions - and our e-fulfilment activities in Europe and our Asian Cross-Border sales continued to grow.

Our Group adjusted EBIT stood at 62.1 million euro, generating a margin of 6.2%, including a 7.7 million M&A cost tied to the Staci acquisition.

Before we delve into the financial performance of our business units, you will note – on slide 4 – that while our adjusted EBIT decreased from 78 to 62 million year-over-year, our adjusted net profit only slightly decreased from 48 to 44 million. This is primarily due to a nearly 11 million increase in financial results, which besides FX impacts, is mainly attributed to the absence of interest charges related to the variable-rate USD loan that we repaid in December 2023, but also a rise in interest income from cash & cash equivalents investments in the quarter.

Let's move now to the details of Belgium on page 5.

At Belgium, we see that revenues decreased by 9 million to 546 million euro.

Domestic Mail recorded an underlying mail volume decline of -6.7% for the quarter, against -8.8% in Q1 2023. This impacted negatively the revenues by -21.4 million euro, yet was mitigated by a positive price and mix impact of +12.2 million euro, resulting in a negative 9 million lower domestic mail revenues year-over-year, of which 5 million coming from the reduced State compensation for the Press concessions.

When it come to Parcels in Belgium, we recorded an increase of 5 million euro in revenue, or +4.2%. Parcel volumes increased by +2.9% year-over-year, against a very high comps and a volume trend of +9% in the same quarter last year. Compared to our annual guidance of a "high single digit percentage" volume growth, this lower volume trend in Q1 is mainly explained by a delay in anticipated additional volumes from existing customers.

It should be also be noted that this volume growth occurred under unfavourable market conditions. In Belgium, inflation continues to increase month after month since October – when the lowest level of 0.35% was reached – and rose to +2.2% (EBIT : 3.2%) in March this year, the highest level observed in the last 8 months. In parallel, consumer confidence deteriorated from 0 in December to -5 in February and March, reaching its lowest level since August last year, as unemployment prospects soared and households' savings intentions continued to edge up.

Price/mix stood at +1.3% in Q1, mainly driven by price increases.

Proximity and convenience retail network revenues decreased by 3 million, with lower banking revenues on one hand offsetting the indexation of the Management Contract.

Operationally, revenues from VAS - Value Added Services - increased, mainly driven by Fines solution and Document management contracts. However, this growth was more than offset by the repricing of the State services, which is now accounted within “VAS” instead of in “Other revenue” in the previous quarters.

Let’s move to the P&L of Belgium on page 6.

Our “Intersegment and other revenue” increased this year as they comprised in 2023 a negative 6.25 million euro impact for the repricing of the State services in, as I explained before. We also see on that line the higher intersegment revenues from inbound cross-border volumes handled in our domestic market (EDIT : network) for E-Logistics Eurasia.

On the costs side, our adjusted opex including D&A only slightly increased by 3.6 million or +0.7%, mainly driven by higher salary costs as our costs per FTE increased by 2.0% year-over-year following the indexation mechanism you are familiar with - we only had one since December - while on the other hand we maintained our FTEs flat.

Bottom-line, our adjusted EBIT slightly decreased by 4 million year-over-year, with domestic and inbound parcels mitigating the impact of the lower Press revenues and inflation on payroll costs.

Moving on now to E-Logistics Eurasia on page 7.

Revenues were up 4 million, reflecting again a strong growth at cross-border Asia and at Radial and Active Ants. But let's have a look into more details since we have different trends within the different activities.

In E-commerce logistics, revenues increased by 2.5 million euro. Remember we have various – sorry, stop rewind play again – So I was saying that the revenues increased by 2.5 million euro with different trends in the different businesses, so let's start with Radial Europe and Active Ants where we see an increase of +13% year-over-year; a growth which is fueled by customer onboarding as part of our international expansion efforts, as well as the upselling activities targeting existing customers. At Dyna, despite higher volumes in our 2-man delivery network, lower volumes across all other business lines – notably DynaFix and DynaSure with less devices to be repaired – led to a decrease in revenues.

When it comes to Cross-border, revenues increased by 1.5 million euro, or +2%. As reported in the previous quarter, revenue growth mainly reflects on the one hand the contribution of new customers and a continued growth from recent customer wins – both resulting in some strong volumes from China to Belgium – and on the other hand the impact of ongoing challenges we are observing in the UK market.

Let's move to the P&L of Eurasia on slide 8

While the total operating income increased by +2.1%, Operating expenses (including D&A) remained nearly stable, which is mainly explained by several elements: lower material costs in line with lower volumes at Dyna and lower SG&A, stable salary costs with inflationary pressures offset by lower FTEs, and on the other hand higher transport costs in line with higher volumes of activities (EDIT: and a favorable mix) at Cross-Border for the volumes with destination Belgium.

From a profitability standpoint, notably thanks to Asian Cross-border volumes with destination Belgium, we've been able to reach the high end of our annual guidance with a margin level of 7.5% (EDIT: 7.1%), which is consistent with the one we observed in the last quarter of 2023.

Moving on now to our North America E-Logistics business, on page 9.

In line with the previous quarters, our top-line in North America continues to be impacted by the economic softness. The market over-capacity leading to high degree of competition and pricing pressure. As well as the insourcing of Amazon which continues to impact Landmark business, I will come back on that one as well.

The operating income of E-commerce logistics decreased by 16%, or 55 million. At constant exchange rate, this corresponds to a -15%, which is in line with the previous quarters but in stark contrast with the first quarter of last year, during which revenue decrease or revenue pressure was still limited to around 6% and only began to be felt.

At Radial, topline decreased by 19% year-over-year as the lower sales from existing customers and in-year revenue of new customer wins – still limited at the beginning of the year – cannot compensate the client churn we have already announced last year.

As discussed at our previous quarterly results, and to put our drop in USD revenues in perspective, we continue to see volume pressures in the U.S. parcels market with for instance FedEx and UPS respectively referring to a "difficult demand environment" and a "challenging macro environment" during their recent quarterly result presentations.

At Landmark US, this is now the fifth quarter in a row that we record year-over-year lower revenues due to Amazon's insourcing that started end of December, end of 2022. Despite general pressures in the market, and excluding the revenue drop from Amazon, the other customers continue to grow.

Moving to the P&L on slide 10.

Alongside our total operating income, OPEX and D&A decreased by 14% – at constant FX – as we managed to align our resources to lower demand and continued to focus on what we can internally control, I mean productivity.

Variable OPEX evolved in line with revenue development and we continue to benefit from the strong variable labour management and other productivity gains at Radial where the Variable Contribution Margin – the so-called VCM – has increased by 3% compared to last year and stands at its highest ever level, it's a percentage increase of 3% translated into a 7 million dollars additional contribution compared to last year.

Despite a lower fixed costs coverage capacity resulting from the ongoing topline pressure, our ability to align capacity and resources to demand and focus on productivity gains continue to play a key role in protecting our margins in these lasting challenging market conditions.

Moving on to the Corporate segment, on page 11.

External operating income decreased by 1.5 million euro year-over-year, from lower building sales, in line with our annual guidance.

The higher net OPEX after reinvoicing of internal costs and Depreciation & Amortisation increased by 7.7 million euro, mainly resulting from some M&A costs related to the Staci acquisition. So the 7.7 million is related to Staci only. The payroll costs also slightly increased following the impact of one salary indexation. Note that, after reporting a reduction of overhead FTEs for eight quarters in a row, our overhead this quarter remained stable.

Then we move to the Cash Flow on page 12.

The main items to flag are here the following.

"Cash Flow from Operating activities before changes in Working Capital" stood at 156 million and slightly increased by 6 million versus last year, with some favorable corporate tax settlements offsetting the lower EBITDA.

"Change in working capital and provisions" remained roughly stable at +116 million compared to last year. This mainly reflects, on one hand, last year's deferral into 1Q23 of the last quarter 2022 payments of withholding tax on payroll, which was a measure granted by the Belgian government to corporates to cope with higher inflation, resulting in a favourability of 31 million euro this year, but this has been compensated by the lower State compensation for Press, that amounts to minus 35 million euro.

The "Cash outflow from Investing activities" amounted to 14 million, with a 43 million lower CAPEX reflecting the purchase of two logistics sites in the US last year. This item constitutes the main variation in our Free Cash Flow.

And The "Cash outflow from Financing activities" amounted to 34 million euro, in line with last year.

I now hand over to Chris for a status update on Press.

Chris Peeters: Thank you Philippe. During the presentation of our annual results in early February, we had shared with you our ambition to finalize negotiations with press editors by the end of March. This would have provided us with clarity to our employees and the required visibility on the financial impacts, allowing us to introduce the group EBIT guidance for 2024.

Due to factors external to bpost, the timeline deviated slightly. Let me provide you with an update on the "Press" developments of the past two months.

First, regarding the financial support from the government to the publishers. As announced at the end of 2023, the annual envelope of 50 million euro until the end of 2026 was confirmed in the form of a tax credit in favour of the editors, and the terms and conditions including eligibility criteria were confirmed by the Government on March 20th. This was crucial financial information for publishers to progress in their commercial negotiations.

Second, regarding commercial negotiations, progress varies between the northern and southern parts of the country, and also varies by product.

For the negotiations with Dutch-speaking newspaper publishers in the North of the country, which in terms of volumes represent around 80% of the total newspapers currently distributed by bpost in Belgium: commercial negotiations have concluded, and we announced last Friday the agreement we reached with publishers. As a result, we will gradually transfer volumes from bpost SA to our subsidiary AMP by 2026. AMP is a subsidiary wholly owned by bpostgroup and works with subcontractors employing their own workers. As a reminder, AMP has been active since 1885 in the press distribution and is the leading press distributor in Belgium, leveraging its four distribution centres across the country to serve over 4,500 retail outlets in Belgium such as press shops or gas stations. This commercial agreement allows bpostgroup to secure approximately 75% of the volumes we currently handle in Flanders and avoid a social plan for that part of the country.

For the negotiations with French-speaking newspaper publishers in the southern part of the country, which in terms of volumes represent approximately 20% of our newspapers: we have the proposal to gradually transfer to AMP but did not receive support from our French-speaking unions and we were unable to submit a similar offer than to the French-speaking editors. We are currently in discussions with the publishers based on a different operational setup for the press distribution in Wallonia. Here too, the objective is to secure most of the current volumes, but all options are still possible, including discontinuing distribution via bpost if our offer is not accepted by the publishers. We hope to obtain a decision by end of May.

Finally, regarding negotiations with Belgian periodical publishers, we have made good progress and have presented our new commercial offer to the regulator on April 15th. We immediately started presenting this offer to our customers and received some positive feedback so far.

Again, our goal is to find a good balance between on the one hand offering distribution services of high quality, at financial conditions that are acceptable of course for bpost but also for publishers despite a substantial decrease in government support to the press sector - we are talking about over €110 million between 2023 and 2025 of decrease - and of course avoid a social plan at bpost.

We have achieved already this for the newspapers in Flanders, which is a great relief. The commercial offer for periodicals is being presented to our customers, and we are making every effort to reach a viable agreement for the distribution of newspapers in Wallonia, even though it is still at risk.

At this stage, as some of the negotiations are still ongoing, we are not able yet to provide comprehensive details on the overall financial impact or to introduce an EBIT guidance for the group in 2024. We will do so as soon as possible, but as you understand, the timeline is not entirely within our control.

Then maybe comments on the strike. In the context of the negotiations for the newspapers in Wallonia, bpost experienced a 4-day strike from April 22nd to April 25th. This strike affected our sorting and distribution operations for press, mail, and parcels, particularly in Brussels and Wallonia. Apart from the impact this will have on service quality and the additional costs associated with clearing the backlog of unprocessed volumes during this period, we had to engage with our customers so they could make arrangements to mitigate operational disruptions. Consequently, some volumes were temporarily transferred to the competitors. As we only began the April closing process yesterday, we are currently not able to quantify these impacts. We will provide further information on this matter when we return to you with the outcome of the ongoing press negotiations.

We are now ready to take your questions. Again, two questions each please so that everyone gets the chance to be addressed during the session. Operator, please open the lines.

Questions and Answers

Operator: Sure. Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. We will take the first question from line Frank Claassen from Degroof Petercam. The line is open now. Please go ahead.

Frank Claassen (Degroof Petercam): Yes, good morning. Frank Claassen, Degroof Petercam. Two questions indeed. First of all, on the guidance. I understand that you cannot give the guidance spending and negotiations, but with the full year numbers you gave some building blocks for the different divisions excluding the press distribution impact. Can you – let's say, are these building blocks still valid? That's my first question.

And then secondly, it’s related to that the CAPEX. You've indicated €180 million at the start of the year, but the first quarter was only €14 million. Is that pure timing or do you think that €180 million may be a bit at the high end? Thank you.

Philippe Dartienne: Okay. So let me start, and feel free to jump in. So indeed, when we presented the guidance, in fact, we presented the building blocks for the different subsets. And then let me briefly walk through – and of course as you rightly mentioned it, this did not included any impact of the press concession. So let me come back on what we shared with you back then.

So when it comes to Belgium and E-Logistics Eurasia, again, excluding the impact of the press, we are more or less in line with what we were expecting. So again, excluding that one. Nevertheless, there is an additional element compared to the time or the assumption that were made back then at the time when we shared with you the guidance or the building blocks for the guidance, which is, as Chris mentioned it two minutes ago, which is the impact of the strike. Impact of the strike has direct and indirect impact in the sense that of course you have not been able to deliver some products, some services to the customers, but also it might have an impact also on customers in the future.

When it comes to E-Logistics North America, indeed we see a decrease of the top line in a context, again, which is extremely demanding and it's not only us seeing it, our competitors as well are seeing it. So there, I would say in fact that if we would've to guide right now, we would rather guide to the lower end of the range that we had announced earlier if the pressure persists. Also, keep in mind that when it comes to the top line development in the US, this is a business which is highly dependent of the year-end peak and no one could anticipate right now what's going to be this year-end peak.

I mean we have no reason to be more or less optimistic or negative compared to a similar situation when we announced the first quarter of result of any given year.

When it comes to corporate, then we have to revise it downwards, which is mostly through the M&A cost relating to the Staci acquisition. You understand that at the time we were presenting you the guidance, the billing block of the guidance, for confidentiality reason, we could not state any amount relating to that activity.

So long story short, we have not dropped our initial guidance. We always put it in a way which is by biding us with some exceptions, some unknown, mostly relating to the press and I would add the impact – the unquantified impact, the unquantified yet impact of the strike we had – we experienced some days ago.

Second point of the question which is on the CAPEX. Indeed, we guided on 180 [million]. Typically, the first quarter is very low. Last year it was a bit higher because we had the acquisition of two warehouses in the US. But if you go back in history, you will see that the first quarter is typically low.

One thing is for sure is that in that CAPEX, there are two types of CAPEX. There are some maintenance CAPEX that we'll continue to invest in. We need to keep our delivering our engine, being able to deliver the parcels, the mail. We continue that one, but there is also a component which is linked to growth. Since when we are onboarding new customers, we have to invest in

IT or sometime physical equipment. And as in some part of the world, the acquisition rhythm of some customers is slowing down, de facto there will be less CAPEX spent on the development part.

Frank Claassen: Okay. Thank you very much.

Operator: Thank you. We will take the next question from line Marco Limite from Barclays. The line is open now. Please go ahead.

Marco Limite (Barclays): Hi. Morning. Thanks for taking my question. I've got two. So the first one is, can you just remind us how it's split between newspaper and periodicals work? So I mean, in the past you used to receive €160 million plus for the press concession basically. Now you're saying that for the periodicals, you have presented a new offer to the regulator. So just wondering if you remind us how the periodical works, if you're getting some sort of compensation from the state for that business specifically.

And the second question is, can we take the run rate on financial expenses that you have reported in Q1 as a run rate for the full year? Thank you much.

Philippe Dartienne: Let me start with the financial expansion, which is a very technical one and very easy to take with. So basically, the two elements that we are seeing that explain an evolution in the financial expense result being lower or more favourable than in the past. First, there is a reimbursement that happened in December 2023 of the US dollar tranche. That one is repaid. So we could expect the savings to continue over the entire year.

On the other hand, we continue actively managing the cash and cash equivalent surplus that have generated a significant income in the first quarter. Of course, we will continue to manage this one, but it's dependent of the interest rate. It's one element.

The second element, we have excess cash right now on the balance sheet. Of course, we will use part of this excess cash to finance the acquisition of Staci at the time of the closing, which is I remind everyone that it's targeted to happen at the end of the third quarter.

So yes and no. So we'll continue for the first two quarters for sure. Third and fourth quarter, this – the lower level of cash and cash equivalent will definitely have an impact on the financial income.

When it comes to press concession or press in general, I would say, let me remind you that in fact in the past when – the top line relating to press is composed of different elements. First, there is the concession for which we are receiving or we were receiving in the past some money directly from the state and also from the editors. And it was not a balance amount, it was mostly geared towards the state compensation.

Second building block, which is all the revenue that are generated by AMP, it’s a company Chris referred to earlier in speech and to a lesser extent the company Aldipress. So when it comes to top line relating to press, there are different elements. And over time these elements would vary, because you know that in the new press concession – the new price agreement, let me put it that way, won't call it concession because there is no more concession.

But even for the first - for 2024 and going forward, the balance between the state compensation and the editors compensation totally changed. Globally, the state compensation goes south, decreased drastically, but at the same time editors’ compensation go up. I would say there is no major impact on AMP and Aldipress besides the anticipate one, as Chris mentioned, where some volume that were historically invoiced through bpost SA, so the legal entity will be – when it'll be transferred to AMP will be invoiced by AMP, but it's only gradual and will only kicks in, in 2026.

Chris Peeters: Yeah. And then maybe to add on that to your question on how does it work at the newspaper side versus periodical side. As I explained very briefly but maybe to give some more clarity on that, newspaper rounds are still today – well for the contract that we concluded in the north based on dedicated rounds, there are few newspapers rounds that are happening in the early morning hours with specific quality demands from the editors because of course they want to have it in time with the readers in the mailbox.

While if you look at the periodicals, it goes through a regulatory process of tariffication because there it is part of the normal mail rounds. So those periodicals are integrated in normal mail round. And of course, there you have an overview coming from the regulator that the tariff structure is in line that is coherent. That is something that we had to submit.

And then, of course, for the ones that use large volumes, there are specific discounts for the volumes, but more importantly as well, they might have specific treatment qualities in the way how they deliver it to or sorting centres the way how we want to discipline, some of them will sort before, some of them will not sort oar before and that will have an impact on the way how the tariff structure is defined for them. And that is something that is happening as we speak after that we have made the submission of the new tariff structure also with a slightly change in the way how we define those products. And so that are we discussing in there and we see quite positive reaction in the market today of the biggest editors of periodicals as we speak.

Marco Limite: Thanks.

Operator: Thank you. We will take the next question from line Amy Li from UBS. The line is open now. Please go ahead.

Amy Li: Hi. Morning. Thank you for taking my question. Can I ask on the Belgium domestic parcel volume growth? You attributed the 2.9% growth this quarter to slight delays in anticipated additional volumes. Can you maybe talk a little bit about what you've seen so far in the first month of Q2 in terms of parcel volume development? And against, if we're still aligned in the guidance of high single digit growth for the full year, how should we think about the volume development cadence in the rest of the year? Thank you.

Philippe Dartienne: Again, I'll start, you will continue. So indeed 2.9% is rather at the low end, but also we need to – so it is a result for the quarter. We have observed, in fact, in the first two months in Jan and Fab, we were high in that one. The month of March was disappointing, I would say, compared to the first two one. And in April, it's difficult to say because as you heard, we had that strike impact.

What I can tell you is this prior to the strike, we are more in line with the Jan to Feb level than the March one. So let's see what's going to – where the market brings us in the coming months, but also keep it in mind the impact – [Foreign language, 0:36:52 - 0:36:57][Technical issue].

Chris Peeters: To add to that, the delay that Philippe mentioned in his part of the speech is due to a number of large contracts that we could conclude end of last year, beginning of this year, with a couple of big e-retailers. And those volumes will grow that I have an agreement for, let's say, an overall, let's say bandwidth of volume they will do over the year.

And so – or let's say initial thought was that would kick in earlier, but still that is something that we expect that will evolve later over the year, of course, taking that into account, not yet the impact of the strike.

Amy Li: Okay, thank you.

Operator: Thank you. We will take the next question.

Chris Peeters: Is that an answer to your question?

Philippe Dartienne: I guess she's muted.

Chris Peeters: Okay.

[Technical issues with lines]

Operator: Thank you. We will take the next question from line Marc Zwartsenburg from ING. The line is open now. Please go ahead.

Marc Zwartsenburg (ING): Hello. Good morning. This is Mark.

Chris Peeters: Operator, do we still have somebody on the line?

(…)

Chris Peeters: Shifted the line. Sorry for that. So we're back here. So we are again ready for your next questions.

Marc Zwartsenburg (ING): Good morning. Can you hear me now?

Chris Peeters: Yes, we can.

Marc Zwartsenburg: Good. Sorry for that. Good morning. Two questions from my side. First, maybe on Radial. So the top line trend being minus 19% in Q1, but there's some phasing effect coming in. Can you give us a bit more colour on what we should expect going forward? Because it's quite a big change from Q4 to Q1? But yeah, it can reverse, but yeah, can you give us a bit of an indication of what we should be thinking about in terms of top line development going forward? That's my first question.

Then the second one is related to the state contracts. I know it's a file that you alluded on last year. What is the current situation with the court case there or the potential for fines, the clawback, etc. Can you maybe give us a bit of an update on that issue? Those are my questions.

Chris Peeters: Okay. Let's maybe start with the second one. Two answers to your question. On the one, what we've seen is that from the administrations that we discussed to, some of them are in the process of a tender for the next period that that service needs to be provided and not yet concluded. And some of them have done an extension of the period that we're working on, of course after then some price corrections that we've done. But so they extended the periods to give them the time to prepare for the next period that that service needs to be delivered.

So we are still delivering the service for those contracts in terms of the fines that we expect with no new element that came to us over the last quarter to change the provisions that were taken last year in the light of the handling of the audits in those contracts.

Have you anything to add to that?

Philippe Dartienne: No.

Chris Peeters: Yeah. And then maybe you take Radial one.

Philippe Dartienne: Okay.

Marc Zwartsenburg: Can you maybe remind me the provisions that's taken? Can you remind the situation?

Chris Peeters: €75 million provision was taken last year, I think Q2. And since then I think that the evolution of the files has not given any new elements to correct for that amount.

Marc Zwartsenburg: And any timeline on using the provision or is it so uncertain that it can also take years?

Chris Peeters: Well, again, like we said also for the press negotiation for some of these elements, we're completely dependent on what is happening at either administration, either the government level. We have submitted for all the files the – in full transparency, the audits that were done internally.

Based on that, now those different administrations where those services are delivered will do their part of the analysis and then we sit at the table. We have been having meetings with most of them for a first or a second time, but still it's up to them then to basically say based on the proposal that we've made, which is in line of course with the provisions that we have taken. If they think that there needs to be some adjustment to that yes or no, in each of the individual files and if we can come to a conclusion on those files.

But timewise is that –

Marc Zwartsenburg: Is that because you made –

Chris Peeters: And so it's something that's a little bit out of our control.

Marc Zwartsenburg: But this – because you made some statements on this Staci acquisition on leverage ratios at around 3 times within two years. Do you take into account that this profession will be occasion outflow at some point?

Chris Peeters: I haven't understood the question. Can you repeat?

Marc Zwartsenburg: You made some statements on the Staci acquisition in terms of leverage ratio to drop below – back to, was it would arrive at 3 times at the end of this year and then moving back to 2. Is that including taking into account that there will be cash out for this provision?

Chris Peeters: Yes, that is taken into account key provision and as we don't expect any, let's say, reason to change or any new element to change that provision. So every statement that we've done around Staci was in the full knowledge of the €75 million provision, and therefore, they still hold as we stand.

Marc Zwartsenburg: Perfect. Very clear. [inaudible] [00:43:37] Hello?

Philippe Dartienne: Dispute will be agreed upon. At the same time, they might come in a phased or stage approach. So it might not be everything in one go.

Coming to Radial, yes,

Marc Zwartsenburg: You were referring to the provision you mean?

Philippe Dartienne: Yes, exactly. Exactly, yes. I just want to say that there are three contracts in that one.

Chris Peeters: It’s not a one settlement with the administration. Three are separate settlements that need to be –

Marc Zwartsenburg: Yeah, correct. Yeah. Okay. Sorry, the line dropped it for a while, sorry.

Philippe Dartienne: Okay, so on Radial now the second – the first part of your question. So first, I understand that your question is on the top line. I will not allude it. But I want remind that to emphasise on the variable contribution margin that Radial has been able to deliver in the first quarter in a context of lower volume, which is now we could say that this kind of high profitability level are sustainable because you see that since a couple of quarters in a row and a couple of peak period, we have been able to maintain them.

Now when it comes to the top line itself, we also need to realise that we live in an environment where market condition is extremely tough. There is the overcapacity in the market. And also when I make the reference to UPS and FedEx, if last time – last year at the same time UPS and FedEx were really experiencing very low decrease while we were on the upper side of the range, meaning less negative, this time, it's a bit the opposite, which could also be explained by the fact that the structure of the client portfolio is not the same.

We have some significant customers individually size wise, meaning that when one drops either walks away or have an impact on the same store sale, of course it has a major impact on the portfolio if you would compare a portfolio with a lot of small customers. So we are aware of that one. We are working in a direction to rebalance the portfolio with less dependency on the large customers to avoid concentration risk. Difficult to say fast.

But you know it doesn't happen overnight. And also, we are redirecting the portfolio in terms of differentiating the positioning and offering the click-to-door delivery, which is a more tailormade type of services with higher added value. But again, this doesn't happen overnight. So long story short, having – after having set up the scene, if the market condition, the prevailing market condition prevail indeed, as I said earlier, we would have to – if we would've to guide right now for the US, we would rather be at the low end of the guidance that we gave than anywhere else.

Marc Zwartsenburg: Yeah, but that's the margin range with individual top line because it's moving 10% per quarter or so. Should we expect a little bit of a lower decline going forward that the new customers start to roll in? Or should we still be a bit more careful?

Philippe Dartienne: Again, so the impact of the onboarding of the customers happened during the different quarters and it's typically low in the first quarter, so we'll see more coming in. But nevertheless, there is the impact of the same store sale and the economical condition that are not favourable right now. Again, would this condition prevail, we would lead to a lower end of the range compared to what we guided last year.

Marc Zwartsenburg: Okay, great. Well, thank you very much.

Chris Peeters: Thank you.

Philippe Dartienne: Thank you. Are we switching maybe?

Operator: Thank you. We will take the next question from line Michiel Declercq from KBC Securities. The line is open now. Please go ahead.

Michiel Declercq (KBC Securities): Yes. Hi.

Chris Peeters: Hello?

Michiel Declercq: Yes. Do you hear me? Hello?

(…)

Chris Peeters: Yes. Loud and clear now. Sorry.

Michiel Declercq: Okay. Yes, sorry. Alright, thanks for taking my questions. My first question would be a bit – I understand that you can't disclose much given that Wallonia is still in negotiations on the press concession or on the press distribution, sorry. I am just wondering because how I understand it now. You mentioned that you will keep everyone on board, so no big restructurings.

However, if I look at the volumes, let's say you retain 80% and you had roughly €250 million of revenue from the press. If I would extrapolate this also to Wallonia, you would have a couple of tens of millions of revenue loss while your cost would remain the same, especially in '25 I would assume. And then in 2026, yeah, you will still have these customers but also need to attract some subcontractors in AMP. So I'm just wondering what type of cost saving measures that will compensate for this or in terms of national attrition or reallocation towards the parcel or just how you look at this in general. Not necessarily looking for quantitative figures, but just how you look at this transition specifically.

And then just the second question is just to make clear on the extra M&A cost this quarter. I think this is now finalised or should we expect something extra in the second quarter?

Chris Peeters: Okay, I will first answer on the first question that you said. So what we said is that we will not have a social plan with forced layoffs of people with a long-term fixed contract, which is different of course from saying that we will not adjust the organisation to reality.

There are two levers that we apply or actually three levers that we apply and we have a methodology of a permanent revision and reorganisation and to put our local organisations of local mail centres towards the size that is needed for the level of volume that they have there.

And so we have anticipated the fact that there would be volume fluctuations anyhow in the different products that we would have. And based on that, we have over the last years had the focus on making sure that we had a sufficient amount of temporary contracts that we actually can stop at the moment that the volume is not there. And that is the way how we handle it at the moment that we transfer volumes from a specific mail centre towards AMP, then we can actually have at that moment of time also the end of the temporary contracts that we have there.

Next to that, you have of course the structural trend of volume decline that you see in newspapers and also that you see in mail volumes. And for those, we use the natural attrition on the one hand. And the second lever that we do is reallocating people to other activities internally that can be in the short term towards activities that we have, some of them in IT, most of them actually in transport or alike activities.

And then the second thing that we are preparing now is of course that we're launching the pilot in the new business area that we will step into, which is the business-to-business. And we expect that as of next year, that we will have people that can move into that part. And so their cost will be compensated by the fact that they also will have new business that comes in. And so that is the effort that we do in the transformation of this company towards a logistical player that has the traditional mail products and press products at the one hand, but also both B2C and B2B parcel products that they can deliver to the market. And therefore, we see that risk given the natural attrition speed of the company and the other lever that I mentioned, there is no specific need for forced layoffs and that's why we say no cost of a social plan because all the cost adjustments we can do actually without having to have specific dedicated cost to it.

Is that answering your question sufficiently?

Michiel Declercq: Yeah, that's clear for me. Maybe just a small follow up. I understand of course that there is no outlook now, given that discussions are still ongoing in Wallonia. You mentioned four weeks, but at the other hand you also have the periodicals of course. Is there a rough timeline for – from the USOwhen you should expect an answer from them as well? Because I would assume that you would need that also before you can officially state on –

Chris Peeters: Yeah, I mean what you see is that on the large volume ones, of course this discussion is already ongoing because for them it's of course very important to have this one. What we expect for the smaller volumes that it's not a discussion for going somewhere else. But there's a question of course that if the impact of the tariff change would be high that they might reduce internally their volume to have, let's say, less additions over the year or that they have more digital people linking to that. That is an impact that we only can calculate when we see how much of the volume is coming in later on.

But I think that if you look at the big editors of periodicals, we will have also clarity in the coming weeks because there we are very far progressed in the discussion with them as well.

Michiel Declercq: Okay, that's very clear. Thank you. Yeah, just on the M&A costs, I think that's now fully included or –

Philippe Dartienne: No. So first thing, we have signed the agreement. We have not closed the transaction yet, so we have already included roughly €8 million in Q1 and the remaining cost will happen at the time of closing that we expect to happen in the third quarter. And we – in order of magnitude, we think we are going to land between €15 million and €20 million on the full year – full '24 – so full year '24 impact.

Michiel Declercq: Okay. So €15 million to €20 million for the full year. So that's –

Philippe Dartienne: Of which the one we already accounted for in Q1, it's not on top. It's all in.

Michiel Declercq: Okay, very clear. Thank you very much.

Operator: Thank you. We will take the next question from line David Kerstens from Jefferies. The line is open now. Please go ahead.

David Kerstens (Jefferies): Hi. Good morning. Two questions please. I wanted to go back to the periodicals. You said with the large editors, you already expect a commercial agreement in the coming weeks as well. I always understood that the revenue related to the periodicals distributed to the mail network are around €90 million. How would you mitigate the risk or any potential loss revenue because you have your fixed cost network. Does that drop straight into your EBIT line? How should we see that?

And then the second question is on the strike impact. What is your best estimate or rule of thumb for one day of strike? Is that related to all your revenues in Belgium that drops into EBIT or are there any mitigating factors? Thanks very much.

Chris Peeters: Yeah. Okay. On the periodical side, I would not say that the costs that we have are a pure fixed cost dimension. So also there, there is a pre-mail round treatment that needs to happen. And so we have also a level of flexibility on that side.

Second thing to be said is obviously that we did also tariff corrections in line with the loss of the part of the concession over there, which now will have to be paid by the editors that also will have a compensation from the government side. So of course, the most important question for us is how much volume drop might we see? And so for us it's very important to focus on volume. If we can capture most of the volume cost-wise, it's something that we completely can manage our productivity gains that we would have if it's limited volume loss as well. Of course, if we would have major volumes of major publishers that would be redirected somewhere else, then we're talking about something else. But that is not what we see evolving as we speak.

David Kerstens: Okay, understood. And on the estimate of the strike impact, how should we look at that? Is it based on four days of revenue in Belgium? I think you said it was Brussels and Wallonia.

Chris Peeters: Yeah, no, it is much more complicated. So what you see in the first days is that they kept the inflow in the sorting centres open and that on day one, as we didn't have a visibility how much days it would take. So there was in day one, you typically have no big impact because basically it is a late delivery of the same parcel. So there might be some client discussions on some of the KPIs in terms of quality that you achieve in the end of the year. But typically a one-day strike is not having a dramatic impact on the results that we have.

Now we're in a different position. Four days is of course a volume that we cannot fully store and buffer into our system, and that means that we have buffered part of that. And part of that is actually redirected to some of our competitors to make sure that the quality towards the end client of the e-retailer could be preserved. So that is a calculation that we have to see how much volume has been shifted away from us to that.

And the second element that we have to see is that of course now that we buffered some of that volume, it needs to be delivered so we will have some slightly higher cost. Yes, some of it will be taken by existing staff, some of them we probably have to add temporary for a few days, some additional temp workforce to make sure that we can deliver it out within the optimal quality standards that we want to have. That is so the short-term impact that we will have to measure.

Second impact of course that we have to measure and that is something that we hope that will be limited, but today we don't know yet is of course when you have volumes that deviate, some of them might take a while before we fully get the confidence again before they get back. That is something that we will see in the – evolving in the coming weeks. And therefore of course all commercial teams are in full discussion with the different e-retailers to ensure that we can have those volumes back into our systems as soon as possible.

Of course, they also look at the backlog that we have before they start to inject again at full force. And that is something that we will have to follow up day by day in the coming days to see if we fully recapture the volume of the past and have no long-term impact or that there is some volume that we will have to fight over the next coming weeks and months to get it back.

David Kerstens: Okay. Thank you very much.

Operator: Thank you. It appears no further question at this time. I'll hand it back over to the host for closing remarks.

Chris Peeters: Okay. So if no further question, I would like to thank everybody in the call for having taken the time to be with us and for your interesting questions. As a reminder, bpost will hold its annual shareholder meeting next Wednesday and our second quarter Results will be released on 2nd August.

We look forward to staying in touch and we will get back to you as soon as we have full visibility ahead with the outcome of the ongoing press negotiations. Thank you very much, and have a nice day.

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

[END OF TRANSCRIPT]