Interim Financial Report
Second quarter 2022

Conference call transcript

Brussels – August, 5th 2022
Dirk Tirez, CEO
Philippe Dartienne, CFO

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PRESENTATION

Operator: Hello and welcome to the bpost Second Quarter 2022 Analyst Call. My name is Courtney, and I'll be your coordinator for today's event. Please note this call is being recorded and for the duration, your lines will be on listen-only. However, you will have the opportunity to ask questions, and this can be done by pressing star one on your telephone keypad. If you require assistance at any time, please press star zero and you will be connected to an operator.

And I will now hand you over to your host, Mr Dirk Tirez, Chief Executive Officer, to begin today's conference. Thank you.

Dirk Tirez: Well, good morning, ladies and gentleman. Welcome. I'm pleased to discuss our second quarter 2022 results as CEO of bpost Group. Welcome to all of you and thank you for joining us. I am delighted to be joined by Philippe Dartienne, our new CFO since June, as well as Antoine Lebecq from Investor Relations.

We posted to materials on our website last night. We will walk you through the presentation and of course we'll then take your questions. Two questions each would ensure everyone gets the chance to be addressed in the upcoming hour. I'm pleased with our Q2 results and the management initiatives supporting them. I will share, at the end, some of the strong momentum in each business and how our efforts have been paying off since the Q1 results in this adverse environment.

You remember the initial EBIT guidance of €280-310 million communicated in February before the world changed. I am pleased to report that the results of the second quarter exceed the estimations underlying the initial guidance despite the ongoing macroeconomic pressures. How did that happen? Resilient mail revenues, continued nice growth at Radial North America, and the successful implementation of the management actions we had shared with you.

We see that our Group adjusted EBIT stands at €82.6 million with a margin of 8.0%. As expected, EBIT is down -22.5% compared to the high comps of the second quarter last year with a full lockdown in the month of April in Belgium and the pre-VAT regulation period.

Our group operating income for Q2 stands at €1,035 million and remains stable year-over-year, also when combining the deconsolidation impact of Ubiway Retail and the Mail Group with favourable foreign exchange movements. This mainly results from the organic contribution of Radial's new customers, partially offset by the decreased Asian cross-border revenues due to the new European regulation on VAT, slightly lower but resilient mail revenues, and lower revenues from lower parcels volumes.

At Belgium, adjusted EBIT declined by €22 million to €62.8 million, mainly due to lower operating income from lower mail and parcels volumes, coupled with nearly stable OPEX – again when excluding Ubiway impacts – despite the four recent salary indexations of +2% each and higher energy costs, which we are able to mitigate by FTE reductions and higher recoverable VAT.

At E-Logistics Eurasia, the adjusted EBIT stands at €7.1 million, a €15 million decrease year-over-year due to lower Cross-border activities and continued pressure on volumes at Dyna.

We have a different picture at E-Logistics North America where EBIT grew by more than €7 million and increased by almost 70% to €15.2 million with an improved margin of 4.8%, mainly thanks to Radial's contribution, which continues its path to higher growth and profitability.

These results were obtained despite the continued adverse macro-economic environment. Following the start of the war in Ukraine and the surge in inflation, we observed a significant drop in consumer confidence in the month of March which had continued to deteriorate in 2Q 2022. Only Belgium saw a slight recovery month after month until June. This contrasts with the trend observed in the Netherlands or in the Eurozone where consumer confidence deteriorated further. In all geographies, this indicator remained below last year's levels and first views on July levels indicate that consumer confidence remains fragile.

We also observe a continued decline in online retail sales year-over-year, but statistics suggest a softer decrease in the month of May in Belgium, with a limited decline of -5% year-over-year and a 10% point sequential improvement on April. At EU aggregated level, the year-over-year pattern remained broadly unchanged over the past three months.

In the US, online retail sales show a different trend as they continue to grow year-over-year but they are stabilizing on a monthly basis since February.

In Belgium, inflation continued to climb from 8.3% in March to 9.7% in June, the highest reading since 1982. For the remainder of the year, global recession risks now arise as high inflation hurts consumer disposable income and retail spend capacity, and central banks are taking measures with regards to their monetary policy to combat this inflation. I will later on elaborate more on the actions taken by the management to face and mitigate such sudden impacts in the past quarter and also for the rest of the year.

I would now like to hand over to Philippe for more details on the financials of the second quarter.

Philippe Dartienne: Thank you Dirk and good morning to you all. I am very happy to be here to comment on our second quarter results and I look forward to meeting you all. I have enjoyed my first two months at bpost group. I am impressed by the energy within the group and the collective desire to drive change and implement the management actions Dirk mentioned.

For your reference, you will find on page 5, an overview of the key financials for the quarter, both reported and adjusted. Dirk already mentioned our group top-line and EBIT. Our adjusted net profit amounts to €71.4 million. It benefited from net financial results increasing by €18 million year-over-year, reflecting lower financial charges related to IAS 19 employee benefits, in line with higher discount rates and is thus a non-cash impact.

Effective tax rate being at 27.3%, very close to the statutory tax rate.

Allow me to move directly to the details of Belgium on page 6.

Belgium, at constant perimeter, external revenues decreased by €12 million to €519 million. Let me walk you through our sub-segments.

Domestic Mail recorded an underlying mail volume decline of -7.5% for the quarter, against the post-COVID rebound of +1.4% in Q2 2021. This impacted revenues by -€20 million but was mitigated by a positive price and mix impact of +€13 million, mainly through mail pricing. Altogether, Domestic Mail revenues decreased by €7 million year-over-year.

Admin Mail volumes were only slightly supported by some COVID-19 communication. We estimate a contribution of less than €1 million to the top-line in the second quarter, which contrasts with the contribution of about €8 million to the top-line in Q2 last year.

Parcels Belgium recorded a decrease of €11 million, or -9.5%. Our volumes were -12.9% below last year. This volume trend reflects the tough comps of last year when there was a full lockdown in the month of April. It also reflects Amazon's insourcing, without which the underlying Parcels volume decline stood at -2.9%. This is an improvement on Q1 when this amounted to -8.1%. Volumes were supported by resilient demand in Fashion in the months of May and June. At the same time, the price/mix improved from +3.0% in Q1 to

+3.4% in Q2, thanks to recent price increases and a favourable customer mix. This contrasts with the negative price/mix effect of last year.

As a reminder, given the further inflationary pressure on costs, bpost announced in May a second price increase of +2.9% for its contractual products, applied since the month of June. To put things in perspective, parcel volumes remain 57% above the pre-pandemic second quarter of 2019.

Let me move to Proximity and Convenience retail network where revenues increased organically by €6 million, resulting from the new Management Contract. Recall that the Management Contract was already approved by the Belgian government in July 2021. On July 19, 2022 the European Commission approved Belgium's plans to compensate bpost for providing Services of General Economic Interest for the period 2022 to 2026 under the 7th Management Contract.

In this sub-segment, the deconsolidation impact of Ubiway Retail as from the month of March this year was -€34 million in the quarter.

Value-added services slightly increased by €1 million, mostly resulting from higher revenues from Fines solution.

Let's move to the P&L of Belgium on page 7. As a result of lower volumes, operating income decreased by €17 million in Belgium. On the costs side, excluding Ubiway Retail, the operating expenses remained nearly stable year-over-year despite inflationary pressure. We indeed suffered from, first, higher payroll costs per FTE reflecting the impact of each of the +2% salary indexations of November 2021, February, April and June 2022; as well as the change in Night shift regulation. We also suffered from higher energy costs but on the other hand, we benefited from lower fleet and subcontractor costs, less FTEs due to the lower parcels volumes and the execution of the dedicated management actions

Dirk will discuss later on in the presentation. We also enjoyed higher recoverable VAT in this quarter.

Moving on to E-Logistics Eurasia, on page 8. External operating income was down €27 million, contrasting the strong growth in e-commerce logistics with lower volumes at Dyna and Cross-border.

Looking at the revenue development per sub-segment, we see that in E-commerce logistics, Radial Europe and Active Ants' sales enjoyed a healthy 12.8% growth, mainly from new customer onboardings. Note that despite lower sales in April, sales of existing customers – the Same Store Sales – started to pick-up in May and June.

At Dyna, sales were down around -20% versus last year, similar to the previous quarter and due to the volumes in one and two-man delivery at DynaLogic, exclusively driven by the lower consumer spending in white goods, and less devices to be repaired at DynaFix. Dyna's development did offset the strong growth momentum at Radial Europe and Active Ants with a combined decrease of -€2 million in revenues.

Let's move to cross-border. Cross-border, as expected, recorded a weak quarter against high comps last year. Revenues decreased by -€25 million, or -26%. Similar to the previous quarters, we continued to see the ongoing pressure on Asian parcel volumes. The -50% decline in Asian sales is the consequence of the termination of the VAT exemption on low value consignment since July 2021, but also reflects the recent COVID-related lockdowns in China and the consequences of the Ukraine war resulting in delays or reduced shipment to Europe.

Note that as from Q3 onwards, we will start comparing with post-VAT regulation quarters. We continue to expect, in the future, a progressive recovery from the VAT regulation impact and the sales of June were slightly recovering.

Let’s move to slide 9.

Operating expenses decreased by -€14 million. Across sub-segments, we had for Cross-border, lower transport costs and lower intersegment OPEX charged by Belgium, in line with the lower Asian volumes; for E-commerce Logistics, lower material costs, lower interims and transportation costs, in line with lower volumes at DynaLogic and DynaFix/DynaSure; and higher payroll costs from inflation and recent sites openings, in line with our expansion and the strategic development initiatives for Radial Europe and Active Ants.

Moving on to our North America E-Logistics business, on page 10.

The operating income of E-Commerce logistics increased by €86 million, up +15% at constant exchange rate, a very healthy level of growth at Radial but also Landmark and Apple Express that benefited from new clients or volumes won in 2021. Radial revenues amounted to $321 million in this quarter. This is respectively +61% and +18% above the second quarter of 2019 and 2021; which reflects the structural E-commerce logistics growth and Radial’s expansion plan.

You can also see the impact of the deconsolidation of the Mail Group in early August 2021.

Moving to the P&L on slide 11.

Operating expenses increased by 6.6% excluding FX impacts. Variable OPEX evolved at a slightly lower pace than the revenue development, at +8.2% and include labour costs headwinds from wage inflation in fulfilment, but were also mitigated by some productivity gains. We also incurred lower SG&A costs and higher fixed costs from new site openings, which support our commercial success.

Year-over-year, E-Logistics North America adjusted EBIT increased by €7 million, almost 70% up, to €18.1 million with an improved margin of 4.8%, reflecting the continuous progress at Radial.

Moving on to the Corporate segment on page 12.

External operating income slightly increased by €1 million year-over-year, from higher building sales. More importantly, lower OPEX includes a reduction of 3.8% in overhead FTEs and interims, resulting in an improved EBIT.

Then we move to the cash flow on slide 13.

The main items to flag are the following. The cash flow from operating activities before change in working capital remained stable year-over-year, mainly resulting from lower prepayment of corporate income taxes offsetting the lower operating results. The change in working capital and provisions decreased by -€62 million, resulting from lower suppliers' balance due to a different payment calendar resulting in one additional accounts payable run in the month of June 2022 compared to last year; but also a different payment schedule of Terminal Dues advances. These were made in this second quarter this year, whereas these advances were paid in Q3 last year. These timing effects are expected to reverse in the coming quarters.

The cash outflow from investing activities increased by €14 million to €42 million, including higher CAPEX to support the logistics growth of Radial US and the optimisation of our domestic network; but also higher M&A activities, mainly from the acquisition of IMX in May.

In line with our strategy to transform Belgium, build E-Logistics Eurasia and grow E-Logistics in North America.

I now hand over to Dirk to cover our outlook for the remainder of 2022 and elaborate on management actions that resulted in operational improvements in the first half of 2022.

Dirk Tirez: Thank you Philippe. Whereas our first quarter was in line with the February guidance, our second quarter outperformed our full year 2022 EBIT guidance of €280-310 million despite the difficult market conditions. This is notably thanks to the successful implementation of the measures explained in May with our Q1 results in order to face and mitigate unfavourable impacts on EBIT. The collective energy Philippe mentioned is certainly at work.

However, as discussed in my introduction, adverse macroeconomic environment persists globally and still brings uncertainty for the remainder of the year, driven by two external factors. First, with the rising inflation in Belgium and internationally, which results in even stronger headwinds than those anticipated in May. In Belgium, as illustrated in the backup slides, we know as of today that due to a fifth consecutive indexation of +2% that will now take place in September, we will incur, this year, an additional impact of approximately €7.5 million which comes on top of the €17 million versus the guidance, as introduced to you three months ago when this indexation was still foreseen in December 2022. At this stage, the Federal Planning Bureau also foresees two other salary indexations to follow in February and May 2023. Should inflation continue to further accelerate, the anticipated future indexations could still occur earlier than anticipated.

Second, there is the consumer behaviour uncertainty linked to the inflation impact on discretionary spending, the rising risk of a recession and the post-pandemic parcel volume normalisation. These stronger headwinds and consumer behaviour remain a source of uncertainty for the third quarter, which, when looking at historical seasonality, is a softer quarter with lower volumes during the summer period and for the end-of-year peak.

For the sake of transparency, we shared with you in May, the way our perspective on inflation, energy and e-commerce market conditions may deviate from the initial outlook. Based on our perspective at that time, there was a potential downside risk of up to €40 million net to the initial EBIT guidance. Today, with one extra quarter behind us, and the results from the management measures, bpost now revises downwards this risk to up to €25 million net despite continued market disruptions.

Of course, management continues to take actions at all levels in order to phase and mitigate these adverse impacts while positioning our business for success in the mid-term; and in a sustainable way as our ESG framework becomes embedded with the way we plan and execute.

As shown on slide 15, and to name a few, we had, in Belgium, good progress made on our commercial Parcels hunting plan with the objective to counter volume loss from Amazon and post-COVID normalisation. On top of the large volume customers already announced in May – namely Nespresso, Puma, ZooPlus – we recently signed additional customers such as Vinted and the National Lottery. We were also successful in signing strategic partnerships with some carriers; these are expected to bring additional volumes as from the beginning of 2023.

And as Philippe has just recalled, we also applied since June a second price increase for our national contractual volumes.

As to costs, OPEX control measures are paying off and positive effects are beginning to be visible; notably in workforce management. In concertation with the social partners, several actions have been implemented, and will continue to be implemented progressively in the coming weeks and months. The drastic implementation of the planned reorganisations for 123 of our distribution offices in 2022, is further reinforced by an exceptional measure consisting in additional volume-driven workforce adjustments in offices that are significantly affected by lower volumes and not provided for in the reorganisation plan. These measures are also supported by external mobility to other public or semi-public institutions, from May and June, as well as internal geographical and functional mobility.

Despite our relatively fixed cost base structure and lower than initially anticipated parcel volumes, these measures led so far to a productivity improvement of +2.7% year-over-year and around 780 less FTEs year-to-date, mainly in our operational network but also to a lesser extent in overhead functions. And of course this numbers excludes FTEs at Ubiway Retail. This improvement in overhead was supported by synergies in Sales and Marketing resulting from the combination of Mail and Parcels, the reviews of mail centres positions and an external hiring freeze, altogether leading to a 3% FTE reduction year-over-year.

At E-commerce Logistics Eurasia, increased sales efforts are being made in our cross-border activities to counter volume pressure from lasting impacts of the new VAT regulation and the lockdowns in China. We developed five new lanes and new business opportunities for our Asian activities. New lanes have also been created with the Canada, and between the UK and the US for a famous brand in fast fashion. All these new opportunities should allow us to progressively get back to the pre-VAT sales levels of Q1/Q2 2021 in the near-term.

At Radial and Active Ants, contracts with new customers have also been signed in Belgium and in the Netherlands with famous retailers in health and wellness, fashion, and pet food industry. Focus remains on further development of sales team in order to leverage the recently expanded capacity.

We also continue to focus on other initiatives such as costs optimisations and productivity improvements across all our businesses.

At E-commerce Logistics North America, besides pricing adjustments to reflect wage and shipping costs increases, additional productivity actions are taken in fulfilment activities at certain Radial sites. These include operational flow improvements and automation to reduce labour dependency. On the costs side, the focus on overhead management led to a reduction of overhead-to-revenue ratio, while keeping investing in our operational structure to drive our future growth as planned.

As a side note, on our growth plan, Radial has just added a new fulfilment centre in Vancouver to support client needs, and Landmark Global and Apple Express have expanded their processing capacity through investments in additional facility space. As a follow-up of the announcements made previously, Radial is rationalising the timing of new site openings in order to align with customer timelines. The opening of two new sites will be postponed from H2 2022 to early 2023, which also contributes to OPEX control measures. The North American market remains dynamic and attractive for Radial to pursue its accelerated growth plan.

Finally, at Corporate level, thanks to a strict hiring policy and governance, we have been able to capture 65% of the natural attrition in the overhead population within bpost SA/NV. This means that only 35% of the departures are replaced, notably thanks to our focus on internal mobility. In the near-term, we have the ambition to reach 80%.

This diligent execution of the FTE reduction is also complemented with several initiatives to optimise the workforce needs in a sustainable way. The main initiative that in the last quarter has started to deliver, is the launch in April of the bpost Business Services – BBS – our new corporate shared services centre.

So far, all these initiatives led to a FTE reduction of close to 4% or 60 FTEs, visible at Corporate level.

We remain active in our portfolio management as we are keen to support our most promising activities and reassess those becoming more marginal. You will have seen our acquisition of IMX and we always assess accretive opportunities. Overall, these immediate actions are in line with the six priorities I shared with you for the year 2022 and have contributed already to the good results of the second quarter.

We continue to see the need for bpost to be as best prepared as possible for the uncertainties ahead and we proactively act on what we can control from management and our colleagues. Bpost Group continues to leverage the ongoing disruptions in the market to further accelerate the transformation momentum.

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

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QUESTIONS AND ANSWERS

Operator: Thank you. As a reminder, if you would like to ask a question on today's call, please press star one on your telephone keypad. Please ensure your line is unmuted locally, and you will be advised when to ask your question. Press star one on your telephone keypad and please stand by while we prepare for the first question. Our first question comes in from the line of Ivar Billfalk-Kelly calling from UBS. Please go ahead.

Ivar Billfalk-Kelly (UBS): Good morning. And thank you for the presentation. If I start with the clarification, please, on the guidance and you stated that 1Q is in line with expectations but 2Q is better. Does this imply that the reduction of the potential headwinds from €40 million to €25 million is exclusively down to better outlook for the second half? Or does some of the better performance in 2Q actually contribute to that reduction? And linked to that, given that you haven't actually reduced a headline guidance of €280-310 million, does that imply that there's actually a credible scenario where you could be above €300 million in the year?

And secondly –

Dirk Tirez: Please accept our apologies, but the line is very difficult to understand. Would it be possible to clarify your questions again? And sorry for this.

Ivar Billfalk-Kelly: Is this any better now?

Dirk Tirez: Yes, indeed. Yes.

Ivar Billfalk-Kelly: Sorry about that. I'll start again and sorry, everyone for the extra time. So you stated that 1Q was in line with expectations, but 2Q was better. Does this imply that the reduction in the potential headwind from €40 million to €25 million, is it exclusively down to better outlook for the second half, or does some of this outperformance in 2Q actually contribute to the reduction? And linked to that, given that you haven't changed your headline outlook of €280-310 million, does that implies that there's actually a credible scenario where an EBIT above €300 million could be [inaudible] the full year?

And the second question then, on the Logistics divisions, can you give us an estimate of the proportion of the contracts that are being repriced or had indexation applied recently to reflect the higher cost basis? And is there any change in the contract that you're signing or renegotiating to change the split between open and closed book contracts at all? Thank you.

Philippe Dartienne: Thank you for the question. Relating to the outlook, let me put some numbers next to what Dirk already mentioned. So you will recall that in Q1, the negative €40 million potential risk has been explained by several elements, of which the salary increases and the energy cost, and the context of the macroeconomic environment. If we look at the end, as we stand right in July after the June results, what can we say? We see still some pressure when it comes to labour cost in front of us and energy as well. So we assess this one to be roughly €8 million addition headwinds. On the other end, we had outperformed our forecast for Q2, as you rightly mention it. So mechanically, we considered that we could reduce the risk for the total year 2022.

And, of course, also, I mean, we are at end of Q2. When we'll have more clarity at the end of Q3, we will give you updates on where we believe we are going to land in December, 2022.

On the Logistics reprice proportion of the portfolio, I'm sorry, but we don't have the numbers readily available. Antoine will come back to you on that one. But, indeed, it's a dynamic which is ongoing with our customers. In some instance, we need to renegotiate one by one. On the other circumstances, this mechanism are totally embedded in the contract. So it's not even in negotiation, it's automatic.

Ivar Billfalk-Kelly: Understood. Then linked to that, the new contracts that you're signing, is there a change in strategy at all then to try and mitigate or reduce volatility in costs? Or is it business as usual?.

Philippe Dartienne: I would say it's a – sorry to answer that way, it's a mix of both. Of course, it's not only about signing new contracts, but trying to be as much protected as possible as everyone is doing in the market. So whenever we could automatically include this formula, we do it. Sometimes we are successful, sometimes we are not. So the strategy of remaining –trying to be protected for any potential increase is unchanged compared to the past.

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

Operator: The next question comes in from the line of Frank Claassen calling from Degroof Petercam, please go ahead.

Frank Claassen (Degroof Petercam): Yes. Good morning all. Two questions, first on the mail volume decline, what is currently reflected in your guidance for the full year? If I recall, well, you started the year with -8%/-10%. Then you said at Q1 closer to -8%. What do you currently expect and what are the main drivers?

And then secondly, similar question, I would say on the CAPEX guidance, you started the year with around €250 million gross CAPEX. Is that still valid, or do you expect to come down lower because of the slowdown of the economy? Thank you.

Philippe Dartienne: Thank you for your question. So the first one relating to the mail, we keep the full-year guidance. Indeed, we are closer to -8% than -10%, thanks to the good performance of H1. And our perspective on H2 is, of course, lower volumes in Q3.

Relating to the CAPEX. So the budget, we have a €250 million as a full year spending. We are roughly around €60 million again of June. We will continue investing to support our growth, but this one is also dependent, the speed at which our customers are requesting expansion. So we will continue matching the investment in terms of CAPEX with the higher demand or capacity installation to meet our customers' requests.

Frank Claassen: But as it looks, now you stick to the €250 million, but it could be lower dependent on your clients.

Philippe Dartienne: Absolutely, absolutely. We rather go – we rather see being slightly lower the €250 million than higher

Frank Claassen: That's understandable. Okay. Thank you.

Operator: The next question comes in from the line of Sumit Mehrotra calling from Société Générale, please go ahead. Hi, Sumit, is your line muted.

Okay. We'll move onto the next question, which comes in from the line of Henk Slotboom, calling from the IDEA, please go ahead Henk.

Henk Slotboom (The IDEA): Good morning. All. I've got two questions and if I may, I can ask a third one as well, but let me start with a question I've been asking before. We've heard a lot of noise from Ms De Sutter at the end of last year and early this year on labour legislation in Belgium and it's been terribly silent of late. Have there been any developments? Have I missed something or can we expect something? Perhaps you can shed some light on that.

The second question relates to the shift in volumes in – and the moving parts in parcels. You successfully recouped about 40% of the volume you lost to Amazon. And I'm reading in De Tijd that the contracts you gained came from small and mid-sized enterprises and from parties like the National Lottery and Vinted. As far as the small and mid-sized enterprises are concerned, I assume that these are relatively new players on the on the e-commerce market, because I would assume also that smaller mid-sized enterprises, when they start, they first go to the former incumbents mostly. Perhaps you can shed some light on that. Vinted is not – yeah, if I speak to your colleagues, it's not a party that makes you very rich, to put it in those phrases. They often go for the lower tariffs, and I've got no idea what to think of the National Lottery. I can't imagine that the lottery tickets are so big that you need a parcel for it. So perhaps you can provide more granularity as to what is driving this 40% recoupment of volumes.

And attached to that, Amazon formally announced that they will open a Belgium platform later on this year. And obviously they will try and promote the Amazon marketplace and fulfilment and shipment by Amazon as well. And to what extent could that cause a second wave of shift in volume to Amazon or yeah, even worse that Amazon insources that part of the volume as well? Those were my questions. Thank you.

Dirk Tirez: Well, thank you, Henk. And maybe to go back to your first question on the social level playing field and the action taken by the Belgian government, as far as I understand, and I think it's publicly available information, the minister has declared in the Belgian parliament that, indeed, there are – the need for regulation and to take preventive measures remain in place, in particular relating to the subcontracting model in the Belgian parcel delivery markets. She reported in parliament that discussions are still ongoing in the government level. She clarified that in parliament that she has indeed tabled a draft bill on the table of the government with additional parameters, and these parameters include an insourcing obligation revised to 50%. But also she added additional parameters such as an obligation of transparency, minimum prices, maximum package delivery quantities per FTE or a prior certification mechanism. And we expect that the discussion at the government will continue after parliamentary recess, so in September.

I think there is, within the government, a clear understanding that a lack of regulation has brought a lack of income from Social Security and tax perspective. And now as the government is establishing the budget and giving the public budget deficit, we expect that in September, the government will look at how to address the social level playing field in the parcels delivery market.

The second question relates to, indeed, parcels. I think in Q1, as I recall, we said that the insourcing would be between 55% to 60%. I can say that in Q2, we still confirm that. There has been no more insourcing and it is also our view that the distribution centre impact in Antwerp would have no further impact as we have included that in our guidance that we gave in Q1.

It is very clear that what bpost has done in terms of management actions and management priorities, that we have proceeded with a parcels hunting plan that is not only focused on the clients that you cited, but it's also focused on existing customers volumes. And we see an increase from our existing customers volumes. We are hunting large customers and also have engaged with strategic partnership with some carriers. We do expect, at this stage, to counter, indeed, around 40% of Amazon's volume on a full year basis, and we continue to work on a promising pipeline.

So what we see is that we will continue to improve and focus all our commercial efforts. And the commercial plan typically relies on bpost competitive NPS, the quality of our services and the customer experience we are able to offer to the sender and the receiver. So this allows us that we will stabilise the volume loss of Amazon. And at this stage, Amazon has not provided any new plan to us. So we currently expect to remain stable, at least for the coming months. I also point out that in Belgium for several years, Belgians are already using Amazon.nl and Amazon.fr so also, the Belgian website will propose the same products and the logistic flows will remain the same. And we also believe that, therefore, the launch of their website does not represent a higher risk to bpost.

So that's a bit what we have seen so far and the impacts I think of the commercial hunting plan is shown in the numbers of Q2, in the Q2 results as you have seen.

Henk Slotboom: Okay. Well, it was very helpful. Thank you very much.

Operator: The next question comes in from the line of Stefano Toffano calling from ABN AMRO-ODDO, please go ahead.

Stefano Toffano (ABN AMRO-ODDO): Yes, good morning everybody. Congratulations on the results. Three questions from my side. First question relates to the online retail sales. Obviously a clear improvement, relatively speaking. If you can maybe shed a light on that, any particular reason and maybe what you expect going forward and what you have been seeing over the past few months, so July and maybe beginning of August.

Then two more numerical question. One, if you can quantify the impact of the higher recoverable VAT. And the second one relates to the working capital, very big change, obviously what we have seen. If you maybe can explain that a little bit more into detail. From what I understand, a partial – a part of the movement seems just a one-off or a step down. So I don't know if you maybe can shed a little bit more light on that. Thank you.

Philippe Dartienne: Let me take part of it and Dirk will take some as well. On the working cap, it's what I've explained – when explaining the slide page 13, which is the change in working cap is decreased by €66 million, which is for both element – timing elements. On one hand we have one additional AP run in the month of June 2022 compared to last year. And the second one is the terminal due advances that were last year paid in third quarter, has being paid in second quarter. So on a full year basis, it doesn't change, it's just that it's, how can I call it, a cut-off item in June that will reverse in the coming quarters.

On the higher VAT recovery, yes, it's an amount that fluctuates year-on-year and quarter-to-quarter. And it has been indeed an amount which is higher than what we have experienced in the first quarter.

Dirk Tirez: And maybe on the question I think on online retail sales, if I talk to parcels, I think with the answer to Henk's question that is being answered, but what I've seen in the North America, is that the US market remains really dynamic and attractive for pursuing the accelerated growth plan. We are, of course, taking different actions and on our growth plan, we have added a new fulfilment centre to support client needs. We have expanded processing capacity at Landmark Global and Apple Express through investment in additional facility space. For the remainder of the year, I think we are rationalising the timing of new site openings in order to align with customer timelines.

And if I look at E-Logistics Eurasia, we are also focusing on countering, and taking action on countering the Cross-border volume decline by ongoing sales efforts, new business opportunities and we have opened new lanes and new customer wins that we expect to bring us progressively back to the pre-VAT Asian sales levels in the near term. And at e-commerce logistics levels, well, it is true that DynaLogic volume pressure in a one to two-man delivery is lower, but that is not because of churn of clients. It's driven by lower consumer spending in white goods and home furniture. But what we see in Active Ants and Radial Europe, we continue and reaffirm the expansion plan that we announced in the third quarter of last year, and which consists of growing by 5x the sales of 2020 by 2026. And, indeed, given online retail sales demand, we have meanwhile opened new sites. So just for your information, we have accumulated eight sites for Radial, four sites for Active Ants, and we are going to open in UK in September, a new site, given our client demands. And we have, indeed, the required capacity to onboard new customers.

Stefano Toffano: Thank you.

Operator: The final question comes in from the line of Sumit Mehrotra calling from Société Générale, please go ahead.

Sumit Mehrotra (Société Générale): Sorry. Took me a while to unmute myself. Yes, so could I have your views on the segment-wise ambitions that you would have that you shared at the beginning of the year? Are they in line largely from what you stated, the segment-wise margins, or there have been some variations?

Secondly, a larger one on Radial. Yes, we'd like to know a little bit more about your top line ambitions, your margin ambitions midterm beyond this year. And in that perspective, we'd like to hear a little bit more about how the churn has been, how the mix of new customers have been. So, yes, a little bit more beyond this year for Radial would be good to hear.

And lastly your ambition for Radial in Europe, what are your margin ambitions going to be for this business in Europe? Would it be in line with what you saw for Radial in US? Thank you.

Philippe Dartienne: Okay. So let me start with Radial in the US. In fact, what is our view on what's going to happen in the second half, as you have rightly pointed out, we enjoyed significant growth in the second quarter as well in the first quarter, which is a result of the contract that has been signed and onboarded in 2021. From an operational standpoint, you need to know that, in fact, customers prefer to change operator in the first half of the year, because in the second half of the year, first, you have the summer period; and second, they are preparing themselves for the year end peak deliveries, and they do not want to take any risk to move operator at that period. So what I would say is that, in fact, we will softly lend in terms of growth at Radial US for the year 2022. The growth will come again in 2023 will the onboarding of new customers. So second semester, in terms of top line, growth rate would be definitely lower than what we have enjoyed, but is totally anticipated and expected. Despite that, because your question is on the top line, but I wanted to restate that it's not because the top line will not grow the same pace as in the first half that the profitability will degrade in terms of Radial US. It'll remain to be – as you have seen, it's improved and it will continue to be strong.

So for Belgium, the question on the two metrics, which is the top line and the margin, the low part of the range, it's confirmed, we have not changed on our guidelines on that one. And I missed the last one, which was your third question, was…

Sumit Mehrotra: Yes, I'll rather go again. On the second one, I just wanted to know, you shared the segment-wise EBIT margins with us before the downside risk guidance bit came in. So how far are you from achieving those indicated targets by segments? And lastly Radial Europe EBIT ambitions, would it be identical to those of Radial US in the midterm?

Dirk Tirez: Well, I think on North America, we maintain the parameters of the initial guidance. On Belgium, given what we see in the market, we also – the margins are at the lower end of the range that we have been given, given headwinds that we are mitigating and softening. In Eurasia, it is true that given the performance you have seen in H1, particularly on Cross-border and Dyna, the top line and EBIT margin ambition might be more challenging. What we do in terms of ambition of management is that we should not be that far, given the expected recovery in H2, thanks to the commercial efforts in Eurasia. So the general ambition is that bpost is delivering on the promises. What we want to do is make bpost predictable again, and more agile. You have seen that we are meticulously planning and executing the management priorities in the three businesses, and that we have a clear focus and cost discipline in the three businesses, but particularly in Belgium relating to taking overhead out. And that's why I think we are revising the downside risk to the outlook we confirm.

Sumit Mehrotra: Radial Europe, please.

Dirk Tirez: Excuse me.

Sumit Mehrotra: Your views on Radial Europe ambitions in the long term.

Dirk Tirez: In the long term, I think we have said that our plan, as I think we announced in Q3 last year, is to grow with Active Ants and Radial Europe 5X, and we maintain currently the ambition to grow 5X between 2020 and 2026.

Sumit Mehrotra: Thank you very much.

Operator: That was the final question in the queue. So I shall hand the call back over to yourselves for any concluding remarks.

Dirk Tirez: Well, I would like to thank everybody in the call for having taken the time to be with us and for your interesting questions. We will hear from you at the conferences we are going to attend in London in September. We look forward to staying in touch and third quarter results will be released in November. And I would like to wish you all happy holidays. So thank you very much.

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

[END OF TRANSCRIPT]