Interim Financial Report
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Conference call transcript

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PRESENTATION

Operator: Hello and welcome to the bpost's third quarter 2023 analyst call. My name is Caroline and I'll be your coordinator for today's event. Please note this call is being recorded and for the duration of the call 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 hand over the call to your host, Mr. Chris Peeters, bpostgroup's CEO to begin today's conference.

Chris Peeters: Thank you, thank you and good morning, ladies and gentlemen. Welcome to all of you and thank you for joining us. I'm pleased to open this analyst call for the first time as CEO of bpostgroup. I'm Chris Peeters and I've just joined the group this week. With me, I have a team you know well, with Philippe Dartienne, who was our CEO ad interim until my arrival, Koen Aelterman, our CFO ad interim, as well as Antoine Lebecq from investor Relations. We are pleased to present our third quarter 2023 results.

It's been just a few days since I've joined this great company and I've already had the opportunity discover some of our operations and meet our employees, notably in North America, and I'll continue to do so in the coming weeks. I've already seen plenty of exciting opportunities and challenges on the horizon and I'm really looking forward to working with my fellow executive committee members to embrace these opportunities and contribute to the future success of this company.

Given that I've joined the group less than a week ago and the third quarter results were achieved under the leadership of Philippe and Koen, I will now turn the floor over to them for the presentation and the Q&A session. Philippe, Koen, the floor is yours.

Philippe Dartienne: Thank you Chris, and good morning to all. We posted the material on our website last night. As usual, we walk you through the presentation and will then take your question. Two questions each will ensure everyone gets a chance to be addressed in the upcoming hour.

I am pleased to report a good set of results in a seasonally softer quarter with our group underlying performance exceeding again our plan despite continued adverse conditions. As a reminder, and for the sake of clarity, I would like to draw your attention to the reversal of the provision related to the Services repricing in the context of our compliance reviews, which had in this quarter a positive impact of 5 million euro on income and EBIT at Belgium level, and consequently a group level as well.

Our group operating income for Q3 stood at 979 million euro and declined year over year by 4.2%, mainly due to ongoing pressures in North America, while on the other hand our domestic mail and parcels activities continue to deliver a strong performance and our core business at Eurasia continue to grow overall but at a slower pace.

Our group adjusted EBIT stood at 28 million euro with a margin of 2.9%, or at 23 million euro and a margin of 2.4% operationally, when excluding the provision reversal. This is a very limited decrease of 3 million euro compared to an EBIT of 26 million and a margin of 2.5% last year, and this despite some additional costs related to the compliance review and the inflationary pressure on cost we are now familiar with.

I will now hand over to Koen for more details on the financial of the third quarter and I will then take the floor for the outlook update. Koen, the floor is yours.

Koen Aelterman: Thank you Philippe and good morning everyone.

On page four you can find, as always, an overview of the key financials for the quarter, both reported and adjusted.

Philippe already mentioned our group adjusted operating income and EBIT, both positively impacted by the reversal of the provision related to the repricing of the services to the state for the year 2023.

In addition to this provision, as mentioned in our Compliance review update on September 22, we have recorded in this quarter a 75 million provision for the repayment of potential overcompensation to the Belgian State for the past. While this provision is included in our reported Opex, it is neutralized in our adjusted financials due to its amount and nature.

Let's then move to Belgium, on page five.

At Belgium we see that revenues increased by 22 million to 517 million euro.

Domestic mail recorded an underlying mail volume decline of -8.2% for the quarter, against -7.7% in the third quarter of 2022. This impacted revenues by -23 million euro, yet was mitigated by a positive price and mix impact of +22 million euro, and there are 5 million of additional revenues from Aldipress which was acquired on September 30, 2022 and which offsets the non-recurring 5 million euro related to COVID-19 communication campaigns we still had in the third quarter of last year. Altogether, domestic mail revenues increased by 4 million year over year. Note that specific to advertising mail, the market pressure we saw in the first half of the year continues and it includes also the impact of a customer bankruptcy.

For parcels Belgium we recorded in Q3, an increase of 12 million euro in revenue, or 12%. Volumes increased by 5.5% year over year, mainly reflecting the successful commercial hunting plan of 2022. Although it is worth mentioning that we observed in the month of September a very weak apparel sales momentum from warmer weather patterns. This overall volume growth continued to occur under persisting unfavorable market conditions. In Belgium, online retail sales, adjusted for inflation, declined by 3%, 9% and 13%

respectively over the months of July, August and September. Consumer confidence, although stable since the beginning of this year, remains in negative territories.

Price mix stood at 6.6% in the third quarter, mainly driven by the price increases.

For the Proximity and convenience retail network revenues we see an increase of 3 million euro followed by the indexation of the Management Contract.

And for Value Added Services we see a 3 million increase, mostly resulting from higher revenues from Fines Solutions.

We then move to the P&L of Belgium on page six.

As just explained, our Intersegment and Other revenue comprise the positive 5 million euro reversal from the downward revision of the Services repricing for the year 2023. Year to date the cumulative provision now amounts to -7.5 million, which corresponds to three quarters of the annual amount of 10 million we communicated in September. So we expect another 2.5 million impact to be booked in Q4. We also see on that same line the higher Intersegment revenues from inbound cross border volumes handled in the domestic network for E-Logistics Eurasia.

On the cost side, our reported operating expenses, including D&A, increased by 99 million euro year over year, reflecting the 75 million provision I've just explained.

The adjusted Opex increased by 24 million, mainly driven by our payroll costs. On the one hand, the cost per FTE increased by 5.4% year over year following the impact of the three salary indexations of +2% each that occurred since Q3 last year, while on the other hand we continue to maintain our FTEs stable despite significantly higher parcel volumes.

Bottom line, excluding the impact of the provision reversal, our underlying adjusted EBIT improved year over year as inflationary pressures are successfully mitigated by the top line development.

Moving then to E-Logistics Eurasia on page seven.

Here, revenues were down 4 million and reflect the different trends across our activities.

In E-commerce Logistics, revenues increased by 2 million euro, which as seen in previous quarters reflects the underlying businesses with different trajectories.

Radial Europe and Active Ants' sales were up +11% year over year. Despite being slightly lower than in the previous quarters, this continued growth is driven by our existing customers and by new customers onboardings from our international expansion.

At Dyna, price indexations were not able to fully compensate the continued lower volumes we see across all business lines.

For cross border, revenues decreased by 6 million euro or -7%, which contrasts with a growth rate of around 20% in the previous quarters. But remember that this was mainly reflecting the consolidation of IMX as from July last year. Besides IMX, the top line development reflects on one hand the challenging market conditions in the UK where our cross border revenues have significantly declined compared to last year, and on the other hand a slowdown in revenue growth in Asia, where we nevertheless still continue to see a benefit from the contribution of our recent customer wins.

If we move to the P&L, we can see that while the top line decreased by -2.4%, our operating expenses decreased by 5% or 7 million, mainly explained by lower transport costs in line with lower cross border activities overall and the favorable customer mix, both offsetting the higher intersegment Opex charged by our Belgium segment as just discussed, and stable payroll costs reflecting inflationary pressures balanced by lower FTEs.

From a profitability standpoint, despite the lower revenues, we've been able to maintain the trend of consecutive margin improvement from 2.8% in Q3 last year to 3.1% in Q4 and around 5% since the beginning of this year.

Moving on then to North America E-Logistics, where in line with the previous quarter, our top line in North America continues to be impacted by the economic softness, the market overcapacity leading to a high degree of competition, pricing pressure and churn as well as the insourcing of Amazon which impacts Landmark.

The operating income of e-commerce logistics decreased by 18% or 67 million euro. At constant exchange rate it corresponds to a decrease of -11% which is in line with Q2. At Radial and in local currency, top line decreased by 10% year over year as the in-year contribution of new customer wins cannot compensate for the slumping Same Store Sales and the client churn we announced at the end of 2022 and we see further accelerating in 2023. As discussed at our Q2 results and to put our 10% drop in US dollar revenues in perspective, we continue to see a similar decline in the US parcel market with for instance a recent -7% and -12% drop in volumes at FedEx and UPS. At Landmark besides general price pressures in the market, this is now the third quarter that we continue to record lower revenues due to Amazon's insourcing that started at the end of last year.

Moving then to the P&L on slide ten.

Alongside our total operating income, Opex and D&A decreased by 9% at constant exchange rate. However, as a reminder, we had last year in our Opex a negative impact of a 7.1 million euro provision related to a dispute with an exiting customer, meaning that operationally Opex decreased by a lower percentage. Variable Opex evolved in line with revenue development and we continue to benefit from the continuous strong variable labor management and other productivity gains at Radial, where the variable contribution margin continues to improve. Compared to last year, our variable contribution margin improvement translates to close to $7 million.

In these challenging market conditions, EBIT decline and margin dilution at segment level mainly reflect the revenue pressure and the lower fixed cost coverage, which is only partly mitigated by the productivity gains at Radial.

Moving then to the Corporate segment where external operating income decreased by 1 million euro year over year from lower building sales. More importantly, Opex and D&A increased by 5 million or 4%, reflecting amongst others the inflationary pressure, notably on payroll costs with more than 5.4% of salary indexation - as just discussed for the Belgium segment - which is partially offset by a reduction of 4.4% in overhead FTEs. We also have here the additional costs related to the ongoing compliance reviews. In terms of payroll, this is now seven quarters in a row that we are able to report a reduction in overhead FTEs.

Then we move to the cash flow.

Main items to flag are the following the cash flow from operating activities before changes in working capital stood at 25 million and decreased by 67 million versus last year. This reflects the 75 million provision for the repayment of the overcompensation to the Belgian State and to a lesser extent, less prepayment of corporate income taxes. Changes in working capital and provisions stood at -21 million, a variation of + 20 million year over year or -55 million without the provision impact of 75 million. This variation is mainly driven by a negative variation of the change in working capital due to lower supplier balances.

The cash outflow from investing activities amounted to 36 million. As communicated on August 24, bpost acquired the remaining shares of Active Ants and now owns 100% of the company. This explains the 9 million euro higher M&A activities this year. On the other hand, we spent 21 million less in capex with 26 million being spent to support our international ecommerce logistic expansion, but also our domestic network with additional parcels capacity, mail infrastructure and the development of our electrified fleet.

I now hand back over to Philippe for the outlook update.

Philippe Dartienne: Thank you Koen, I'm on page 13.

As you know, back in April our Internal Compliance reviews led us to withdraw the initial EBIT guidance of 240 to 260 million euro that we presented in February.

In August at our Q2 results, in absence of better visibility on the financial impacts related to the compliance review, we at least updated the underlying parameters of the initial guidance and reintroduce a partial guidance at segment level.

Today, following our update on compliance reviews made on September 22 and the downward revision on the financial impact related to the services pricing, we are now in a position to share an EBIT guidance at group level for 2023. We also take this opportunity to update some parameters to reflect the strong performance in the first three quarters, but we're also taking into account the business uncertainties related to the year-end peak, particularly in North America where it plays a major role in the full year EBIT contribution.

We today expect the Group adjusted EBIT to be above 240 million for 2023, and this despite North American market headwinds and compliance reviews impacts. For the avoidance of doubt, I want to clarify that the negative financial impact of 10 million for the repricing of Services to the State is included in our guidance, unlike the August Update.

Looking at divisional level, how does this compare to the previous update?

The main update pertains to the Belgium business unit, where, despite now including the financial impact of the compliance reviews, we are able to revise our guidance upwards. We are now targeting a revenue growth of 4% to 5%, including the negative 10 million impact. In August, we had announced a growth range of 4% to 6%, but excluding any impact from Services repricing due to the lack of visibility on these. This revision reflects a revised Mail volume decline of -8% to -10% compared to the -8% to -10% previously announced, and the guidance on parcel volume remains unchanged with a mid to high single digit percentage growth in 2023.

The EBIT margin still falls within the range of 7% to 9%, but now includes the negative impact of the 10 million tied to the Services repricing, some additional cost related to our compliance reviews and a salary indexation of +2% in December 2023 while this one was previously foreseen in January 2024. These additional costs were not part of the August update.

For Eurasia, the guidance remained unchanged since the initial outlook of February, except that based on the first three quarters and our views for the remainder of the year, we do not longer expect a decline in cross border Postal for 2023.

For North America, while we acknowledge the soft market backdrop and the current revenue pressure, we nevertheless maintain our guidance as in August we have already revised our top line ambition for 2023 from “slightly lower” to a “lower double digit percentage decline” in 2023. While the commercial success of the year-end peak remains uncertain, we are currently trending in line with our revised outlook, and our efficiency gains help us to defend our margins, but we must admit that we need to remain cautious. The ongoing churn is weighing on our top line and could further extend beyond the fourth quarter into 2024.

Finally, we have reduced our Capex envelope from 200 to 170 million, reflecting our financial discipline in this difficult market.

Chris, Koen and I are now ready to take your questions. Again, two question each so it allows everyone to get the chance to be addressed during this 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 the line of Sumit Mehrotra from Société Générale, the line is open now. Please go ahead.

Sumit Mehrotra (Société Générale): Thank you for the presentation. I am seeking some insights on your North American business Radial US in terms of what contract volumes you have at this point of time for next year. And your general comments on what we should look for in 2024. Now, are we seeing the bottom end of the destocking cycles? Already seeing some early signs of restocking there? And secondly, again on North America, what are you seeing in terms of pricing trends for the new customers your business development team is signing up? Are you seeing continued softness in the pricing contracts? Thank you.

Philippe Dartienne: Let me take that one, Sumit. Thank you for your question. So next year top line will be under pressure. You've seen it, the market is globally - soft by the way it's not only us facing this kind of issue, as Koen mentioned it, when we look at the result and the forecast of FedEx and UPs, they are in the negative territories and we do not see a change overnight. Meaning when I say overnight heading to 2024 1st January, we don't see the trends reversing. So on that one, we expect to continue a decrease in the top line since we are also observing some churn which will definitely have an impact in 2024 because these customers have expressed the fact that they will not be with us in 2024. On that one, I would like to mention that typically when customers announce their departure, there might be some time, some delay between the moment they announce it and the real departure. But nevertheless the trend is there. Have we reached the bottom? It's difficult to say. We don't have a crystal ball on that one, but we definitely see softness. When it comes to pricing of new contracts. I would say, you know it, the market is in overcapacity, everyone is facing the same situation, so there is definitely a push towards prices. But on the other hand, I would say we remain very adamant in signing favorable contract to us. What is helpful, as Koen alluded to, our variable contribution margin is improving because we've been able to really manage in a very positive way these variable costs. So it allows us also to be competitive under those circumstances. So yes, definitely there is pressure in pricing and as we have always been in the past, and continue to be very selective when it comes to signing contracts, which we consider bearing a right balance between the risk and the reward we're having on this contract.

Koen Aelterman: Perhaps to complement that Sumit, so obviously, our top line guidance, we will share as we normally do in February, together with the Q4 result. But perhaps a few elements I can already share with you. Philippe talked about the customer churn. If we look at the revenue impact we can expect next year from customers who have exited this year, which you see in the top line as well as we just discussed, we expect that wraparound effect to amount to around 125 million impact for next year. On the bright side, I do want to call out that despite the difficult market circumstances at this point in the year, we have already signed $120 million of new contracts as well. Now, obviously it takes some time to onboard all of these, so that doesn't mean the net impact next year will be that 120 million. But we do keep some commercial momentum in these difficult market circumstances. And then one of the big unknowns, I would say, but it's for us, but also for the rest of the market, is what will happen with the economy itself and notably the Same Store Sales, so what growth rates will we be seeing at our customers, at our existing customers and so on, that we will come back as part of our guidance for next year.

Sumit Mehrotra : Thank you very much. Just a clarification, you mentioned 120 million new contracts is the incremental effect you would see in 24 and are you willing to share a total sum of total contract value as you did earlier?

Koen Aelterman: So this is the annual contract value. And so the in-year impact next year will be lower than that as those customers will progressively onboard throughout the year.

Sumit Mehrotra : Thank you so much. Thank you.

Operator : Thank you. We will take the next question from the line of Henk Slotboom from The Idea. The line is open now. Please go ahead.

Henk Slotboom (The Idea) : Good morning, gentlemen, and thanks for taking my questions. I've got more than two, so you'll probably hear my back later on. First of all, on the press contract, the tender, have there been any developments? And given the fact that it is so late in the year already and we still haven't seen a decision on the press contract, is it fair to assume that you will do the delivery of magazines and newspapers next year as well? And if so, is that on the basis of the old contract? So on the basis of the old compensation you get for it? The second question I had is on the costs of the review, and if I remember it correctly, we were supposed to hear a little bit more of a quantification this quarter. Perhaps you can shed some light on it, and then I'll save the other two questions for later.

Philippe Dartienne: Thank you, Henk you follow the rule, two questions by two questions. So let me start with the press contract, and Koen will come back to you on the cost of the compliance. So where do we stand in the press contract since the third quarter? What happened? In fact, we have submitted a first bid. It's a public knowledge that we have also two other competitors who have submitted a bit. The administration came back to us with some clarification questions and asked all the bidders to submit another offer. That's what we have done mid-September, we have submitted an updated, revised offer to increase our chances of winning. And since then, it has been radio silent from the authority side. So your question is, what's going to happen on January 1? I understand and sympathize with your question, but so far we have no news from the authorities. So we will see as soon as we have a news on that one, would you come and take with you? But at this stage, we have no news.

Koen Aelterman: There are different scenarios which could materialize. If the new concession is not attributed in time… Sorry, step back. If it is attributed in time, there will be a six month transition period in case it would not be attributed to people. If it is not attributed, there are still two options. Theoretically, there is the scenario of a complete stop, but that seems extremely unlikely, given also that all the users of the concession at this time are not prepared to deal with that scenario. So it would seem much more likely that in that case, we end up in another extension of the existing contract. To tackle your second question, then, in terms of the costs of the reviews, if we think about it on a full year basis, our current expectation is that the costs for executing these compliance reviews will amount to somewhere around 9 million euro, mostly related to the legal advisory and consultancy we have to resolve the issues. For the sake of clarity, I'm talking here about pure expenses, and it is not the provision of the 10 million or the 75 million. If you look at where in the year this falls, the bulk of it fell in Q2 and in this quarter, and it's visible at the Belgium and the Corporate level. So part of it remains in Corporate. Part of it is in Belgium, with a split which is around two thirds of it in Belgium. These costs are largely one-offs, although we expect a small part of it to be recurring, also linked to our reinforcing of compliance across the group. So part will remain for the coming years.

Henk Slotboom : Okay, that's very clear. Thank you.

Operator : Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. We will take the next question from the line of Nikolas Mauder from Kepler Cheuvreux. The line is open now. Please go ahead.

Nikolas Mauder (Kepler Cheuvreux): Hi. Good morning, everybody. Firstly, I'd like to talk about the Eurasia guidance a bit. Isn't the top line indication a bit optimistic, given the year on year run rates we've seen throughout the quarter so far? And at the same time, is EBIT not a little pessimistic given where we stand after nine months? First question. And secondly, is there any update on the compliance reviews where you have internally concluded, have you received any feedback from the authorities for example, thank you.

Koen Aelterman: So, in terms of the guidance, we've taken into account all the evolutions we have seen so far in what Philippe just shared as part of the presentation. If you look at the guidance we give, there is a significant range. And so, given what we know so far, you will see that we will position more towards one end or the range or the other. But we do expect to remain within the range we just communicated.

Philippe Dartienne: when it comes to the compliance file. As you said it, Nikolas, we have fully completed this part. We shared that on September 22, when we went to the parliament with the chair and we took the consequences of it, because at that time we decided to book the 75 million provision. Since then, what happened is that, of course, you imagine that there was a lot of discussion happening. Most of them were at the level of the lawyers. Now, we have, since a month now, started having discussion with the administration on a customer to supplier basis, if I could say so. And it will, of course, take time to come to a conclusion. It's obvious that the discussion, in fact, will be on two levels. First of the price itself, in certain instances, and on the other one, on the margin level on the other end. There, it will be a discussion between experts, between economical experts, so far, and that's how we came to the 75 million, it's based on our analysis from economical benchmark. We expect, and that's what the administration has expressed to us, that they will take their own experts to check the validity of these economical studies, economical benchmarks. This is where we stand at this stage.

Nikolas Mauder: Okay, thank you.

Operator: Thank you. We will take the next question from Henk Slotboom from The Idea again. The line is open now. Please go ahead.

Henk Slotboom (The Idea): I've got one question left because I also had the question about the state of the compliance and the discussions you had about that with the authorities. The other question is a more recent question on the Parcel law that was passed through Parliament yesterday. I read somewhere in one of the Belgian newspapers that the BIPT, the regulator, estimates that the impact of the new regulation could be that you as a market leader could fetch margins as high as 12.3% on your parcels business in Belgium. That would be, in my view, a significant improvement from where it is right now. Do you feel comfortable with this assessment of BIPT? And could you perhaps elaborate a little bit more about that? You're not affected directly by the new labor legislation for parcels. Your competitors are. Could that mean that bpost is in a better position to win market share?

Philippe Dartienne: So several comments and feel free my colleagues to jump on that one. So first, the law is very new and there should be the royal decree for application that still need to be implemented. So we are at a stage where we know the idea, the direction, but as you know, the devil is always in the details, so we need to see how it goes. When you say Henk that we will not be affected, that's not totally true, because there are some measures in the law that speak about measuring the time spent on these deliveries. It's not something that we are disclosing or measuring and sharing with the authorities. So this will nevertheless, from an operational standpoint, will affect us. To be frank, not aware of these 12.3% from BIPT. I don't know where it's coming from. We had no chance to look at that one. So difficult to comment on it at this stage.

Henk Slotboom: But in general, you will have an administrative burden that increases, if I understand you correctly, but what I also understood from all the discussions that have taken place about this parcel law is that it will particularly affect companies that are now acting as subcontractors to peers like PostNL and GLS. If they apparently have more to fear from that than bpost has, it should bring you in a better competitive position, in my view, isn't it?

Philippe Dartienne: We don't know what, I think Henk will not talk in the name of the competition. What I can tell you is that we're not planning in the short term, in any cases, to change our operating model. So let's see what impact it will have on the competition.

Henk Slotboom: Okay. And when is the new law taking effect?

Philippe Dartienne: That's a good question. As I said, there is a royal decree to be published. It might take some time before it's in application. So I do not foresee something over the course of (inaudible), it might take quarters.

Henk Slotboom: Okay. In that case, let's agree that I come back on it in February again.

Philippe Dartienne: I'm sure you will come back on that one. Thank you.

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

Marco Limite (Barclays): Morning. Thanks for taking my question. So I've got first question on the contracts review. So in terms of timing, I know that it remains highly uncertain, but what is your expectation in terms of timing, given that this review going on remains a significant overhang for the investment case. And still on this topic, so just a clarification of how it's going to work from an accounting perspective next year. So assuming that there is no clarification, you are still, let's say, booking the 10 million revenue provision, I guess, and that still creates, let's say, non-cash effect in a way. So basically you are cashing in 10 million more than what you should do from, let's say, an accounting perspective. Is that right? So you are creating basically a 10 million payable this year and also next year. Just would like to know if I'm thinking right here. And my second question is on the outlook for 2023, I understand that there is quite limited visibility into November and December, but just wondering, well, first of all, how you are seeing the exit rates in October, and let's say, how much upside do you see to your guidance should the October trends, let's say, repeat into November and December as well? Thank you.

Philippe Dartienne: Thank you. Marco. Koen, you take the question on next year and we'll share the outlook and I will come on the timing.

Koen Aelterman: Sure. So, yes, indeed, first, in terms of accounting treatment for next year. So as long as we do not end up with an agreement, the accounting treatment will be the same as this year, which does not necessarily mean that the amount itself will be 10 million. As we've explained already in the past, the amount of overcompensation also depends on the costs made in any given year, which is not the same for every year, also, when we look back on the history. And so depending on the costs, we will engage next year for these contracts, the overcompensation may be more or less than that 10 million. What is clear is that we will apply the same calculation method as we did this year in order to arrive at the amount. And as you say, indeed it's a non-cash effect. We will still be receiving the cash, but of course, in our net financial debt, it will be neutralized, as it's also foreseen on the balance sheet.

Philippe Dartienne: Maybe to close on that one. When it comes to the timing of this review, you need to be conscious that, in fact, the discussion needs to happen at two levels. First, with our customers at the Belgium level. But there will be a second phase at European level. I mean, we will be able to draw a line only when the decision will be approved at the level of the European Commission. So it's a decision that might take years. We don't see it going very fast. Any decision or investigation at European level takes between 12 to 24 months. And prior to that, we need to come to an agreement with the Belgian government. So this being said, first step first, having an agreement with the Belgian government, and on that one, I will repeat what I've said last time, to dance the tango will need to be two so even if we want to go very fast, the authorities also will need to take a bit of time, as I said, as well, in the contact with the administration, they need to appoint economical experts, and it will be also a discussion between economical experts. So at first we might have thought that it could go quite fast, but we do not see an end to that one, certainly not in 2023, and then the rest will be dependent on the speed of which both parties could come to an agreement.

Koen Aelterman: And then in terms of the outlook. So if we look at the month of October, parcel volumes in Belgium, we actually saw much better month than we had in September. As I mentioned, September was very low, which created some uncertainty. We see that October is again back to strong growth numbers above the average we've seen for the Q3. In terms of how much upside there is potentially it is very difficult to answer, because, as said, the visibility on the short term, on the volume development is very low. I would say if volume is developed well, I would say we have an upside of up to 10 million or something to that guidance. But again, it will depend on the volume evolution, which for everyone in the market is very unclear, including for our customers, with whom we are in regular contact, to make sure we staff appropriately.

Philippe Dartienne: And also, it depends where the uplift in terms of volume will come from, because the impact in Belgium, in Europe and US is not resulting in the same dollar amount.

Marco Limite: Okay, thank you. And actually, another question, another question on your volumes in Belgium. So you reported about 5% volume growth in Belgium, which I assume is mainly domestic volumes, as I think international volumes are booked in the European Asian Logistics division. Do you think that you are still outgrowing the market, or you think that you are now broadly growing in line with the market? Thank you.

Koen Aelterman: It's very clear when we decompose the growth into what is coming from the new customers onboarded and what we see as the general market development, we rather see the general market being flattish. And so the growth is very much coming from the new customer onboardings we've had. So it is a gain in market share.

Philippe Dartienne: It's relating to what we have already mentioned some quarters ago. The hunting plan, the commercial hunting plan that started in 2022 is still bearing fruit right now.

Marco Limite: Can you just remind us when the comps normalize from the hunting plan and therefore we start seeing, let's say, underlying growth rather than new customers being onboarded?

Koen Aelterman: Yeah. So in fact, the onboarding of those new customers was spread mostly over Q3 and Q4 of last year. So over the course of Q4, we will see this effect gradually fading out, but it will still be there in the fourth quarter. We should be more on a pure like for like basis as of Q1 next year.

Philippe Dartienne: This being said, there is also the question on these customers, what's going to be their Same Store Sales. Of course would it go up we would automatically benefit from it. So it is something which is, in our end, something which is not.

Marco Limite: Okay. Very clear. Thank you.

Operator: Thank you. We will take the next question from the line of Paul Kirjanovs from Bank of America. The line is open now. Please go ahead.

Paul Kirjanovs (Bank of America): Hi. Hello. Good morning, everyone. Two questions. With everyone else. On Capex, I see guidance has decreased and you talk about discipline. Is that simply related to timing and not having viable projects in the near term? And does that mean we should expect a step up in H1 of next year? Maybe related. Can you just give us an overall update on your growth capex plan? Now, there was an announcement of Antwerp sorting machine, but perhaps you could talk beyond that. And second question is actually to Chris. Chris, welcome. Maybe, I know you just started, but maybe you can talk about your just early observations, what you're seeing and your thoughts that I think will be helpful. Thank you so much.

Chris Peeters: Yes. Okay, good. I'm going to be fairly brief on observations. As you know, I just started a week ago, but I did a visit to three different facilities in the US and where I could witness the increased capabilities that we have built up in terms of preparing for peak. So you see clearly that - and you see that as well in the figures, of course - that I'm just, let's say, witnessing, I was not part of that Q3 was closed before I came to this company - but so there you see that they have, in terms of forecasting ability and adjusting the opex cost linked to that. You see that Radial has clearly boosted up their capabilities. And that is, I think, a good sign, because that's, of course, a capability that will be important for the future defense. That being said, they are operating in a particularly challenging market. The apparel, health and beauty market is particularly challenging at these days. So that is the combination of the two things that you see there. Here in Belgium, this was a week, as you know, including this call with committee meetings and rest. So my field visits still have to start. So I'm not yet going to comment on the operations that we have in Belgium. As you have seen as well probably in the press - I was not yet even able to visit - our new facilities in Antwerp. So I hold that for our next call.

Philippe Dartienne: So on the Capex side, sorry to be a bit theoretical and remind, always the same, there is two components to it. There is a maintenance part and that one is going as expected. There is absolutely no reason to slow it down. We really want to keep our operation up and running, especially at the light of the upcoming peak, as Chris mentioned it. When it comes to the development part, you know that except for Active Ants, we are in a model whereby we first need to sign the contracts and potentially to have to invest in additional capacities to deliver this contract. Since the signing of new contract has not been as high as expected, combined with the fact that we have also some customers leaving us, so having some free capacity, the need for investment right now has not materialized as expected. So it's not that we have turned down some project, it's lack at this stage of attractive project. And we do not expect any timing effect between the third or fourth quarter, 2023, to a spillover to 2024.

Koen Aelterman: Perhaps to complement that and to avoid any confusion. So we have not reduced by choice or Capex, we continue to invest in the growth of the company. However, we stay financially disciplined in the sense that we have had throughout the years, opportunities coming up, but which do not meet our investment criteria. And we have remained disciplined. And we are not engaging in those which would have supported top line, but which would overall have been very bad from a value creation perspective. So that is where the discipline comes in. We keep a long term perspective on this, as to sort of forward looking growth Capex, so you've mentioned the new one from Antwerp X facility. I think it's an important one to call out, because it is what gives us the additional capacity to treat the peak volumes in a way which allows us to avoid putting into place a second distribution wave. So just like we've done last year. This extra capacity gives us that flexibility. Beyond that, the Capex will include, on the one hand, further investment in parcel sorting capacity. We have already announced that we will start constructing additional parcel capacity in Charleroi over the coming years. We will continue to dedicate Capex to growing our e commerce logistics businesses, and to also invest in automation and digitization to ensure we stay also on the technology side, we can remain and become at the forefront.

Paul Kirjanovs: Great, thank you.

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

Michiel Declercq (KBC Securities): Hi. Yes, thanks for taking my question. The first question would be on Radial US. At the beginning, you mentioned that you expect 125 million accretive top line impact from the lost customers next year. You're going to win some new ones as well. But I have the feeling that you said that it will remain under pressure next year. This year you were able to play very well with your variable cost. How much room do you have there for next year and to protect the margins in the US next year? And then the second question would be on the FTE reduction. So seven quarters in a row now on the overhead FTE reduction, I think during the last quarter, you mentioned that the room that you have here for further reductions is diminishing. Can you give a bit of an update here? Is there still, or quantify how much room there is still left here? Those would be my question.

Philippe Dartienne: Okay, thanks, Michiel, for the question. On the variable side, it's true that we enjoyed significant improvement into the variable contribution margin. Of course, as time goes by, the potential is reducing. But on the other hand, the advantage that we have gained will remain. So on that one, it's very positive. As I said, it allows us also to be more competitive in our pricing. There might be another angle we should look at in terms of cost. There is the variable cost, but there should also be the fixed cost. And on that front, I must say some effort have been done over the last quarters, but maybe we will put an additional focus in the coming quarters. So difficult to quantify in this stage. But there is definitely when one fading out there is definitely potential on the fixed cost side or on the SG&A, if you want.

Koen Aelterman: That said, the net effect is likely to remain negative. There's obviously a loss of top line like that cannot be fully compensated. We do have lower fixed cost coverage, despite the measures which Philippe talked about. And then on FTE reduction in overhead. So indeed, as I said last time, the potential with the levers we had going on now that one is diminishing. So the challenge is putting into place a new set of levers to continue the decrease, which will again be things like automation and so on. But also, as said, the effect will be less visible from a net perspective because there are areas where we want to reinforce, notably on compliance. I already spoke about it. This is one of those elements where we will be adding FTEs to ensure that we realize our ambitions on that front. And so the net effect will be diminishing, certainly over the course of next year.

Philippe Dartienne: On the top line for Radial, as you rightly pointed out, it's a combination of - I will not speak about Same Store Sales - because that one, we have limited impact on it, when it comes to customers leaving us and new one coming in, we expect the net of the two to be negative, even if we have to recognize that what has been achieved in 2023 in difficult market conditions, and as Koen reiterated, we are still extremely selective in terms of profitability - we are not signing top line, we are signing for profitability - it's challenging, I'm sure we'll continue signing new contracts with potentially a refocus on mid-size customers, typically, and not only or to lesser extent, big size customers. We might also focus on, even in the same verticals, more subscription type of contract that ensure level out volume throughout the year. These are areas where we will continue or increase our focus on. But indeed we are facing some churn right now. We're still over effect in 2024.

Michiel Declercq: Thank you very much.

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

Marc Zwartsenburg (ING): Yeah, good morning and thank you for taking my questions. And if I repeat the question because I was disconnected at some point and I apologize, but maybe first on Radial you mentioned you had some churn, lost a few clients. What is exactly the reason that they churn? Is it because of the macro that they are insourcing it again, or do you lose it to competition and where do you lose it on? Can you maybe give a bit of color on that?

Philippe Dartienne: There are several elements on that one and we will answer it, Koen and myself. There is typically an overcapacity in the market, and hence typically in regards to circumstances, some customers decided to reinternalize what was outside. So that's a fact that we are seeing, by the way, all over the place, it's not only in the US, but it's exacerbated in US because of the individual size of the contract that we are having. That's one. Second, there is definitely a pressure on price, which is really obvious.

Koen Aelterman: On that one. Indeed, some of the deals are lost to competition. As the market is very difficult also for our customers, their margins are under pressure. They are of course looking for ways to save costs themselves. And we are seeing one particular avenue which they choose to take, which is to make use of the 3-2-1 regulation as it exists in the US, which allows for import of goods from Mexico below a value of $800 to be tax free. And so we do see some of our customers moving their fulfillment businesses to Mexico to be able to benefit from that, which is a much bigger gain than just the difference in fulfillment costs by the way, the tax benefit is very significant. In order to address this, we have been working on a new value proposition in partnership with local operators in Mexico, which we are launching into the market as we speak to be able to keep and even win back market share for those who are looking for that opportunity. But that is something we have clearly seen over the past couple of months where we did not have the solution in place, but we are putting it into place today.

Marc Zwartsenburg: Then we get a bit of extra margin pressure from that because of sharing it with your partners?

Koen Aelterman: We are launching it now, but based on our expectations, the tax benefit is that big that it would allow to keep similar margins even in such a configuration, and where we are still bringing a very significant value added to the partner, which also obviously determines the way margin is distributed.

Philippe Dartienne: But it's not unfair to ask a question, and as Koen mentioned it, it's a bit early to say, but indeed, if we look at it, from a pure theoretical standpoint, if we are coming with a partner to offer to a solution to a customer, normally it's at the detriment of the margin. More than likely we can expect that in fact, it will be a sharing between the new solution and the old one. But a bit early to say what the outcome is going to be.

Marc Zwartsenburg: Very clear. Thanks for that. And then the last one from my side is on the pricing for parcels, the price mix was significant still in your Belgian unit because of the price increases you had. How do you see that developing in the next quarter when you have a bit more like for like with the new hunting plan, how do you see the price mix developing Q4, but also into next year. Do you have already a feel for what the price increases will be for the parcels? Domestic parcel we're talking about it. So price mix development, it's driven by two aspects, as in the name. There is the pricing impact, where obviously all the price increases we've been able to pass through over the course of this year, there is no reason to expect that those will no longer be there in Q Four. If we look at the mix effect, so we have a shift towards some higher value products, so there's more Saturday delivery, evening delivery and so on, which also plays into these numbers. That part we can expect to be less in the fourth quarter, as during the peak, there is largely a substantial growth of, I would say, the normal volumes. And so we could expect the price mix effect in the fourth quarter to be lower than we have seen it throughout this quarter. For next year, there's a number of elements we can already share. First, for everything, which is under the scope of BIPT approval, so that's everything in the small user basket, we have announced the price increases, which are 4.9% price increase for mail products and 3.9% price increase for parcel products. And here I'm talking about prepaid. If we look to our contractual business, and as we've explained in the past, we typically in our contracts have indexation based on the ITLB, which is a transport sector specific index, of which we capture normally around 80% in those contracts. And so based on that, we would end up - at the current level of that index - we would see a price increase in the range of 5.3% next year, being 80% of that index as it stands today. Obviously, depending on the nature of the contract, this can be automatic, when we have renegotiations it will be a discussion with the customer, and we'll come back with the overall price mix guidance when we come with the outlook for next year. But at least these are some elements we can already share today.

Marc Zwartsenburg: On the domestic parcel, we will be somewhere in the 4-5% range. A bit like that.

Koen Aelterman: Again, we'll come back with the final guidance on that, but based on the element shared, I could understand why you come to that conclusion.

Marc Zwartsenburg: Yes, very clear. Thank you very much.

Operator: Thank you, there's no further question at this time. I'll hand it back over to your host for closing remarks.

Chris Peeters: So we would like to thank everybody in the call for having taken the time to be with us and for your interesting questions. It's been a pleasure to be part of this team today and to immerse myself in our company every day. My primary focus right now is to fully engage with our operations, connect with our employees, and gain a deeper understanding of our organization. Our fourth quarter results will be released in February. By the time I will have had the opportunity to gain a comprehensive understanding of our company and to work collectively and closely with the team, I'll then be ready to share with you the objectives for 2024, as well as the long term ambitions and a clear vision of the structure and direction we intend to take as a group.
As a reminder, bpost will hold a special general shareholder meeting in a bit less than two weeks on November 2. The agenda and related documents are available on our investor website. Thank very much and have a nice day. [END OF TRANSCRIPT]