Q3 2020 Results

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PostNL NV
Prinses Beatrixlaan 23
2595 AK The Hague
The Netherlands

Additional information

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Q3 2020 Results

Key takeaways

Business review

Financial review & outlook

Q&A

Our mail and parcel deliverers provide a vital service to society

Health and safety for our people and consumers come first

- Proud of our people
- Comprehensive set of measures taken across our business to ensure and safeguard health and safety of our people, customers and consumers
- Sick leave levels in Q3 declined gradually from March 2020 peak, but will potentially increase as a result of rising number of infections
- Substantial improvement in employee satisfaction, now above sector benchmark, and satisfaction of our delivery partners

Preparations for peak season in full progress

- Further scaling up of capacity
- Hiring people, for delivery and to staff sorting centres that will be also operational on Sundays, to be able to accommodate high volumes
- Renting additional locations and transportation
- Creating awareness across full e-commerce chain for early ordering of goods
- Extra mail collection on Sundays in December and delivery on Monday 21 and 28 December

Extra employee payment of €250 net in recognition of hard work and commitment

Key financials and highlights Q3 2020

Ongoing strong business performance and improved financial position

	Revenue	Normalised EBIT	Free cash flow	Outlook normalised EBIT FY 2020
Q3 2020	**€742m**	**€36m**	**€5m**	**>€175m**
Q3 2019	€636m	€26m	€40m	

Highlights Q3 2020

- Strong performance at Parcels continued
- Realisation of anticipated benefits and synergies from combined mail network ahead of schedule
- Mail volume decline slowed compared with Q2
- Normalised EBIT in Q3 2020 includes €(7)m for the extra payment to people and €(9)m, as indicated before, from new labour regulation (€(2)m mainly at Parcels) and higher non-cash pension expenses (€(7)m in PostNL Other)
- Underlying free cash flow development positive, but impacted by phasing impact in line with expectations
- FY 2020 normalised EBIT expected to be at least €175 million
- Resumption of dividend for FY 2020 expected

Growing importance of digitalisation

Further acceleration to strengthen competitive position, contribute to customer satisfaction, reducing cost base and attracting new customers

	YTD 2019	YTD 2020	
online visitors	306m (47% via PostNL app)	419m (59% via PostNL app)	+37%
PostNL accounts	5.0m	5.8m	+16%
stamp codes	697k	1,211k	+74%
talks with chatbot Daan	905k	1,560k	+72%

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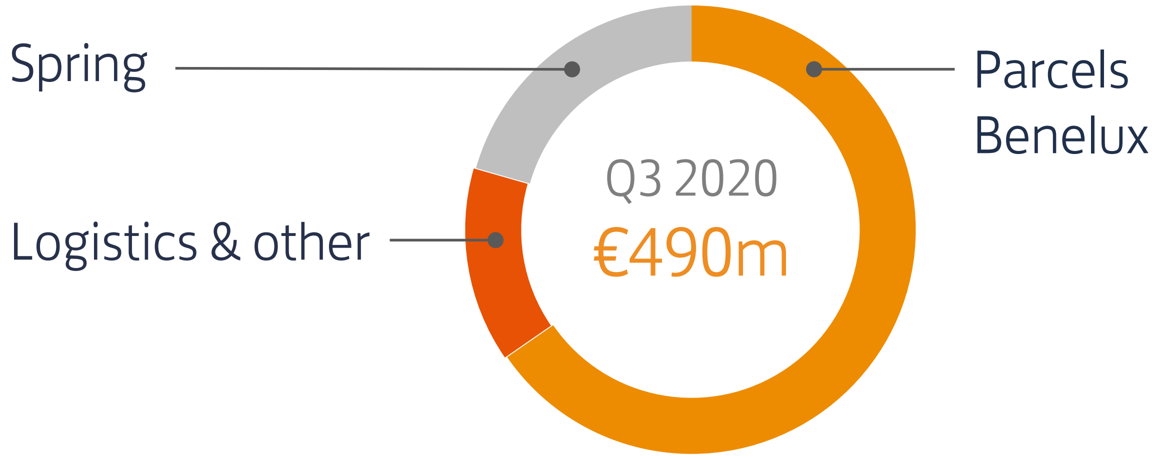
Parcels: strong performance continued

	Revenue	Normalised EBIT	Volume growth
Q3 2020	**€490m**	**€49m**	**16.8%** (YTD: 15.0%) (YTD volume: 232m)
Q3 2019	€401m	€27m	

Revenue mix



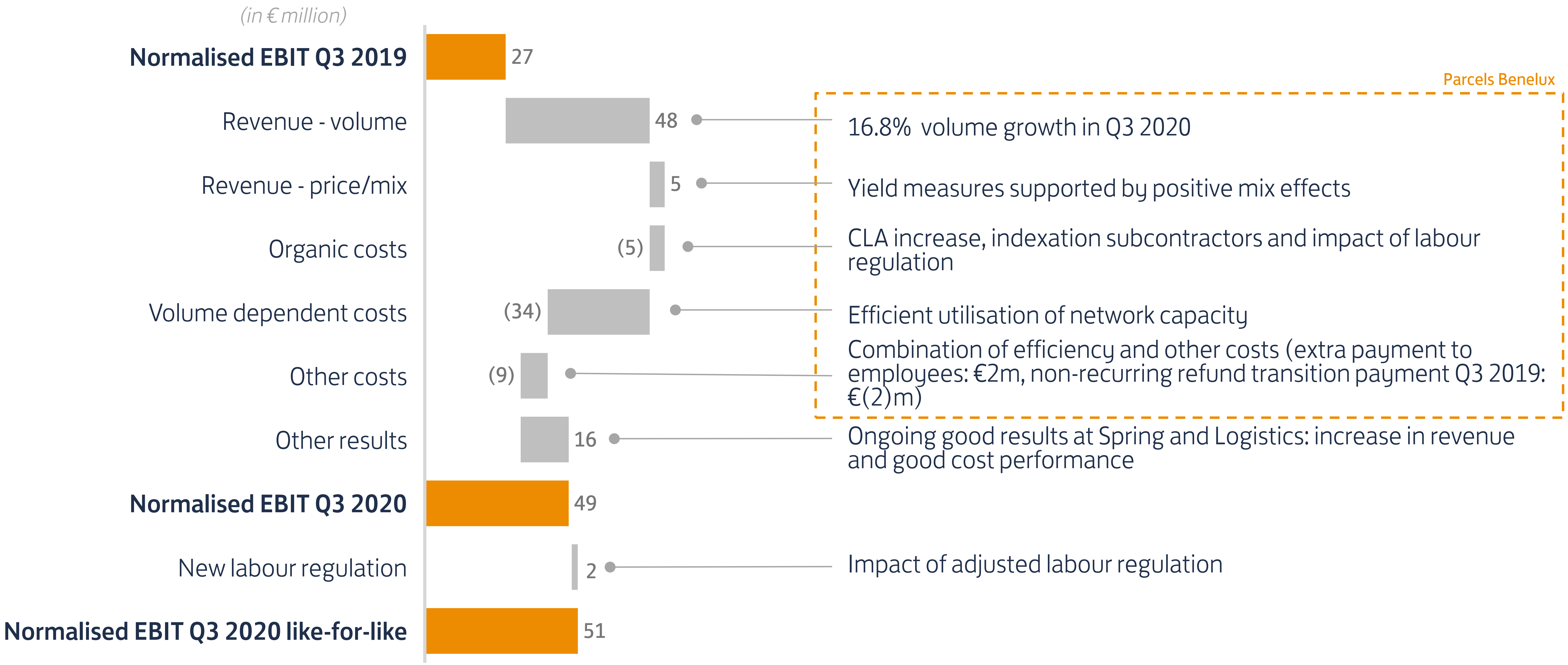
Strong revenue growth

- Benefiting from e-commerce growth
  - step-up in transition from offline to online due to Covid-19
  - growth partly also relates to specific, non-recurring, consumer spending (10m-15m parcels ytd)
- Positive price/mix effect
  - yield management (including improved pricing)
  - good growth especially among small and mid-sized webshops
- Spring: sharp growth in e-commerce volumes both in Asia and in Europe
- Revenue growth at Logistics in all business lines due to healthy e-commerce growth in relevant segments such as fulfilment

Result Parcels up €22m driven by revenue growth

- Good operational leverage
  - Efficient utilisation of capacity during summer
  - Hit rate improved, lower drop duplication
- Ongoing good performance at both Spring and Logistics driven by revenue growth and efficiency

Parcels: Normalised EBIT up to €49m (from €27m)



Mail in the Netherlands: mail volume decline slowed compared to Q2

	Revenue	Normalised EBIT	Net contribution of Sandd in normalised EBIT	Addressed mail volume decline
Q3 2020	**€379m**	**€4m**	**€8m**	**10.4%** (YTD: 13.2%)*
Q3 2019	€342m	€4m		

Revenue development

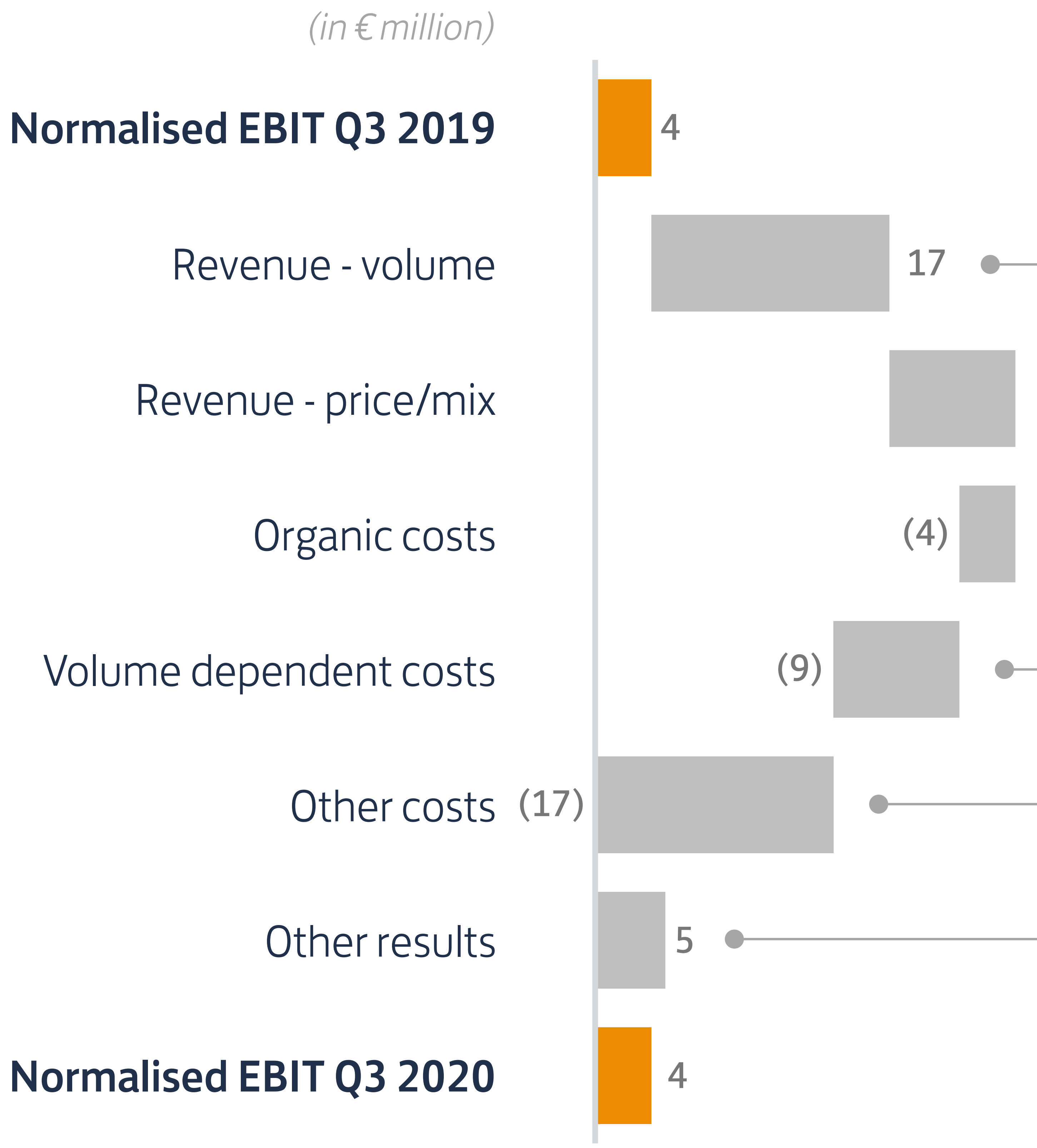
- Volume declined by 10.4%**
  - including substitution due to Covid-19 (around 3% compared with 5% in Q2)
- Consolidation of Sandd
- Moderate price increases and favourable mix effects
- Discontinuation of non-core activities

Performance marked by additional volume decline, price increases and combination of mail networks

- Realisation of anticipated benefits and synergies of combined mail network ahead of schedule: net contribution of €8m in Q3 (YTD: €28m)
- Further implementation cost savings projects
  - Adjusting sorting and delivery process
  - Overhead reduction in line with earlier plans
  - Centralisation of locations: some delay due to measures taken to apply social distancing guidelines in operations and facilities as indicated before

** YTD adjusted volume decline was 12.6% (three working days less)*
*** No election impact, no working day impact, 2019 pro forma volume including Sandd volumes*

Mail in the Netherlands: normalised EBIT in line with Q3 2019



Mail activities

- Volume decline 10.4%*, revenue includes €33m related to Sandd consolidation
- Moderate pricing policy supported by favourable development price/mix effects
- Mainly CLA-related
- Including volume-dependent costs related to the addition of volumes from Sandd
- Reflects sost savings and efficiency related results, costs related to combination of networks (including €6m incidental costs) and extra payments to our employees: €5m

- Impact of sale of PCS and Spotta and results at other services (e.g. export)

** Starting point for volume decline: 2019 pro forma volume including Sandd volumes*

Q3 2020 Results

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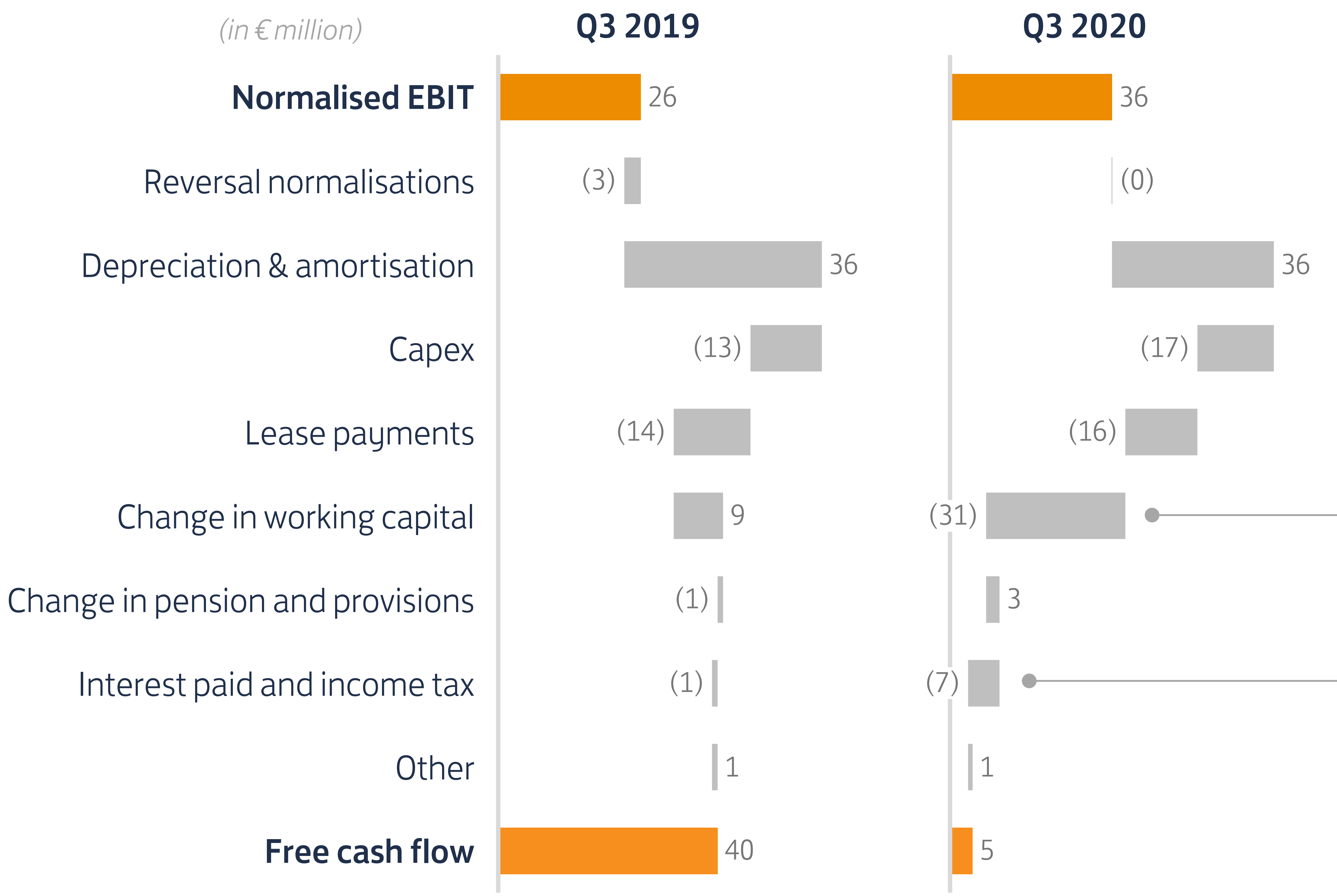
Financial review & outlook

Q&A

Generation of free cash flow in Q3 2020

Underlying working capital development remains strong



Comment

Timing effects in line with expectations: mainly labour related (around €80m, mainly phasing Q2 and partly Q4) and settlement of terminal dues

First interest payment on Green Bond

Pension developments

Coverage ratio (12-month average) pension fund at 105.2% as at 30 September 2020

(in € million)	2019	YE 2020	YTD 2020
Provision for pension liabilities	283		283
Pension expense (P&L)	119	~145	109
Regular pension cash contribution	111	~110	79

Positive outcome discussion pension fund

- Expected cash-out for final payment transitional plans capped at around €290m
- Around €85m of this payment will be deferred and paid in 5 instalments in 2021-2025 period
- Regular contributions related to transitional plans expected to be €5m less
- Entitlements of employees will not be affected

- Pension expense up ~€25m in 2020 as indicated before, visible in normalised EBIT (€(7)m in Q3 2020)
- Impact on equity mitigated by effect in OCI (€4m in Q3 2020)
- Expected impact on cash contributions is limited
- Actual coverage ratio 104.4%; taking into account resilience of pension fund, no top-up payment obligation is expected

Consolidated statement of financial position

Adjusted net debt position end of Q3 2020: €618m

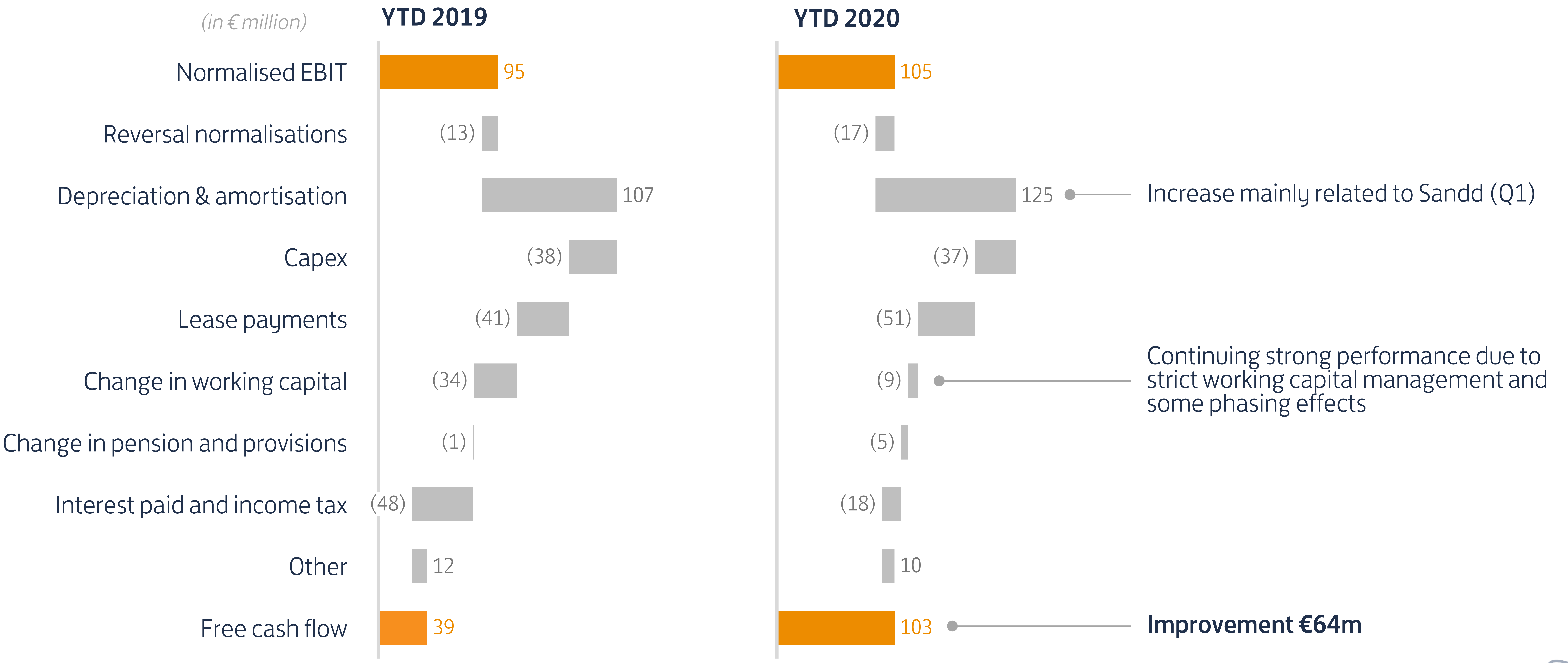
(in € million)	**26 Sep 2020**
Intangible fixed assets	353
Property, plant and equipment	396
Right-of-use assets	229
Other non-current assets	106
Other current assets	399
Cash	569
Assets classified as held for sale	8
Total assets	**2,060**

	26 Sep 2020
Consolidated equity	*57*
Non-controlling interests	*2*
Total equity	59
Pension liabilities	283
Long-term debt	696
Long-term lease liabilities	183
Other non-current liabilities	28
Short-term lease liabilities	55
Other current liabilities	755
Total equity & liabilities	**2,060**

- Adjusted net debt is €618m; gross debt (Eurobonds, other debt/receivables), pension liabilities (adjusted for tax impact), lease liabilities (on-balance sheet and off-balance sheet commitments, adjusted for tax impact) and cash position
- Total comprehensive income Q3 2020: €28m (Q3 2019: €4m); YTD 2020: €75m (YTD 2019: €(2)m)

Generation of free cash flow YTD 2020

Exceptional items in Q4: payment of ~€205m for transitional plans and proceeds of €150m sale-and-leaseback transaction



Outlook for 2020

(in € million)	Initial outlook FY 2020 (24 Feb 2020)	Outlook FY 2020 (3 August 2020)	Outlook FY 2020 trading update (6 October 2020)
Normalised EBIT	110 – 130	strongly above 110 – 130	> 175
Free cash flow *	(315) – (285)	strong improvement compared to (215) – (185)**	additional positive impact

** Cash flow before dividend, acquisitions, redemption of bonds/other financing activities; after payment of leases*
*** Including €100m improvement following the final agreement on transitional plans (2 June 2020)*

- FY 2020 normalised EBIT expected to be at least €175m
- Free cash flow for FY 2020 - additional positive impact expected
  - Further upside is anticipated as adjustments of normalised EBIT will convert into cash
  - Sale-and-lease back agreement, expected to close in November, to result in proceeds of around €150 million in 2020
    - related book gain of around €61 million
    - impact on adjusted net debt position: approximately €97 million
  - Working capital investments should be lower than anticipated due to strict working capital management and more export, more than offsetting effect from higher revenue

Uncertainties appear to be increasing due to the second wave of the pandemic

Attention points development normalised EBIT for Q4 2020

Parcels

- Volume growth expected to slow somewhat compared with Q3 (16.8%)
- Better price/mix expected
- Expected peak volume of 1.5m per day (annual average: 0.9m per day)
- Impact peak season costs
- Adjusted labour regulation ~€(2-3)m per quarter

Mail in the Netherlands

- Volume decline expected to slow compared with Q3 (-10.4%)
- 3 extra working days
- Positive synergies from combination of networks; non-recurring negative contribution of consolidation of Sandd in Q4 2019 (restructuring charges of €24 million and other integration costs of €6 million)
- Some delay in cost savings due to integrated networks and Covid-19

Other

- Higher pension expense ~€(6-7)m per quarter in PostNL Other

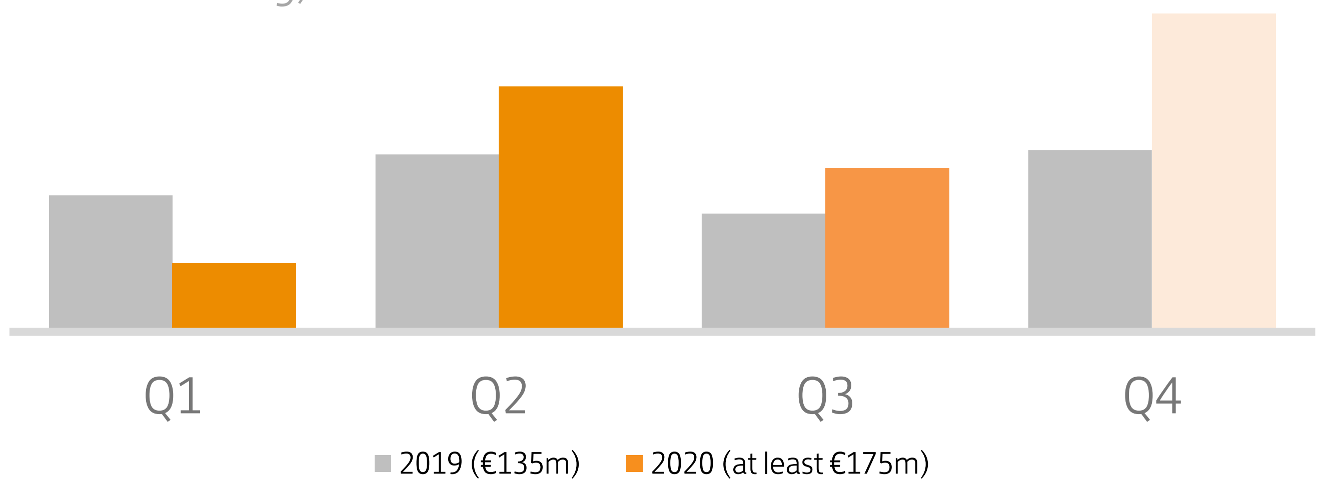
Volume development 2020

15.0% YTD

-13.2% YTD

Normalised EBIT not evenly spread over the quarters

indicative only, in €m



Visibility for Q4 remains limited

Key takeaways Q3 2020

- Ongoing strong performance and improving financial position
- FY outlook for normalised EBIT: > €175m

- Normalised EBIT €36m in Q3 2020 (Q3 2019: €26m); includes €(7)m for the extra payment to our people and €(9) million, as indicated before, from new labour regulation and higher non-cash pension expenses
- Good underlying FCF performance, development in Q3 impacted by timing effects in line with expectations

- Strong performance at Parcels continued
- Realisation of anticipated benefits and synergies from combined mail network ahead of schedule

- Further acceleration of digitalisation underpins ambition to be the favourite deliverer in the Benelux region
- Substantial improvement in employee satisfaction, now above sector benchmark, and satisfaction of our delivery partners

Resumption of dividend over FY 2020 expected

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Appendix

- Results by segments Q3 2020 and YTD 2020
- Result development per segment YTD 2020
- Breakdown of pension cash contribution and expenses
- Adjusted net debt

Results by segment Q3 2020

(in € million)	Revenue		Normalised EBIT	
	Q3 2019	Q3 2020	Q3 2019	Q3 2020
Parcels	401	490	27	49
Mail in the Netherlands	342	379	4	4
PostNL Other	19	25	(5)	(17)
Intercompany	(126)	(151)		
PostNL	**636**	**742**	**26**	**36**

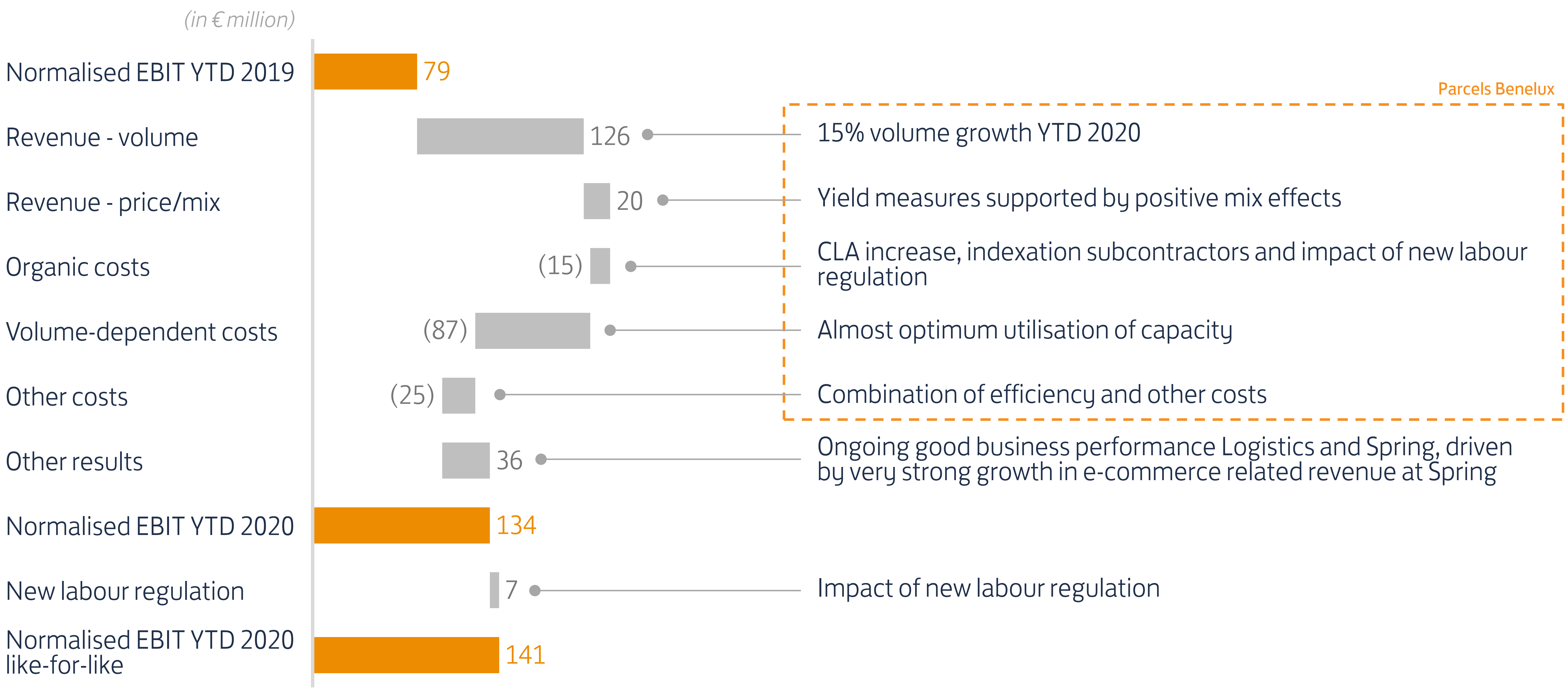
- Normalised EBIT in Q3 2020 includes €(7)m for the extra payment to people and €(9) million, as indicated before, from new labour regulation (mainly in Parcels) and higher non-cash pension expenses (PostNL Other)

Results by segment YTD 2020

(in € million)	Revenue		Normalised EBIT	
	YTD 2019	YTD 2020	YTD 2019	YTD 2020
Parcels	1,201	1,420	79	134
Mail in the Netherlands	1,114	1,166	37	14
PostNL Other	59	76	(21)	(43)
Intercompany	(373)	(430)		
PostNL	**2,001**	**2,232**	**95**	**105**

- Normalised EBIT in YTD 2020 includes €(7)m for the extra payment to people and €(26) million, as indicated before, from new labour regulation (mainly in Parcels) and higher non-cash pension expenses (PostNL Other)

Parcels: normalised EBIT up €55 million, impacted by Covid-19



Mail in the Netherlands: normalised EBIT development impacted by Covid-19

(in € million)

Normalised EBIT YTD 2019	37	
Revenue - volume	34	YTD volume decline 13.2%*, revenue includes €104m related to consolidation
Revenue - price/mix	40	Moderate pricing policy supported by favourable development price/mix effects
Organic costs	(13)	Mainly CLA-related
Volume-dependent costs	(26)	Including volume-dependent costs related to the addition of volumes from Sandd
Other costs	(45)	Cost savings and other efficiency related results, costs related to combination of networks (mainly one-off integration costs of €29m), restructuring charges, and other
Other results	(12)	Impact of sale of PCS and Spotta, discontinuation of unaddressed activities) and results of other services (e.g. export)
Normalised EBIT YTD 2020	14	

Mail activities

** Starting point for volume decline: 2019 pro forma volume including Sandd volumes*

Breakdown of pension cash contribution and expenses

(in € million)

	Q3 2019		Q3 2020	
	Expenses	Cash	Expenses	Cash
Business segments	25	30	23	26
IFRS difference	5		13	
PostNL	**30**	**30**	**36**	**26**
Interest	1		0	
Total	**31**		**38**	

Adjusted net debt

(in € million)	31 Dec 2019	26 Sep 2020
Short- and long-term debt	696	702
Long-term interest-bearing assets	(6)	(12)
Cash and cash equivalents	(480)	(569)
Net debt	**210**	**121**
Pension liabilities	283	283
Lease liabilities (on balance)	264	238
Lease liabilities (off balance)	51	49
Deferred tax assets on pension and operational lease liabilities	(72)	(73)
Adjusted net debt	**736**	**618**