Preliminary Q4 & FY 2023 results

The Hague, the Netherlands

26 January 2024

1

PostNL provides update on its 2023 performance

Q4 & FY 2023 preliminary results

in € million	Q4 2022	Q4 2023	FY 2022	FY 2023	FY 2023 outlook: Initial (27 February 2023)	FY 2023 outlook: Revised (7 August 2023)	FY 2023 outlook: 6 November 2023
Normalised EBIT	60	77	84	92	70 - 100	100 - 130	*Key financial indicators to come in at the low end of the guided ranges*
Normalised comprehensive income	41	42	90	52	40 - 70	65 - 95	
Free cash flow	79	143	40	52	10 - 40	10 - 40	

Please note that all numbers are unaudited and subject to change

Highlights

- Normalised EBIT FY 2023 expected at around €92 million
- Strong 2023 free cash flow at €52 million
- Expected leverage ratio 2023 around 1.7x, providing a solid base for dividend

Full details will be presented on 26 February 2024.

On that date, as scheduled, PostNL will publish its final Q4 & FY 2023 results and a detailed outlook for FY 2024.

2

PostNL preliminary Q4 FY 2023 results

Inge Laudy – Manager Investor Relations: Thank you and thank you all for joining us this morning. As you have seen, we have published a press release this morning with the preliminary results for Q4 and Full Year 2023, ahead of announcing the results on February 26. Then we will provide further details on our Q4 results and an outlook for 2024. We thought it was a good idea to provide you some explanation and give you the opportunity to ask questions on today's announcements to Herna and Pim and they are with us in the call. So, Pim, over to you.

Pim Berendsen - CFO PostNL: Thank you, Inge, and good morning to all of you and thank you for being present so quickly after we have issued our preliminary results, As Inge said and what you know of us is we think it is really important to engage with you as quickly as possible and to also offer you the moment for further explanations.

When we published our Q3 results on 6th of November. We guided towards the lower end of EUR 100 million – EUR 130 million bandwidth for normalised EBIT. With a consensus that stands at EUR 97 million, the preliminary results came in at around EUR 92 million of normalised EBIT. There are three factors that explain the difference between the lower end of that bandwidth and the outcome so far and I will touch upon those step by step.

First and foremost, we have seen lower volumes than anticipated, whilst we already had locked-in the costs and the capacity predominantly in November and December in the e-commerce market. We have continued to see a more negative shift in product mix that relates both to Parcels and Mail in the Netherlands. I will come back to that a little bit later on. Next to that, there is still an awful lot of pressure on costs predominantly related to a higher and still high illness rates.

Whilst we are disappointed to be reporting an outcome below our previously stated expectations, there are certainly also a few points that we were very positive about. If you look back at the peak season operationally, it has been very successful. So our clients have been very happy with the performance. Their customer journeys were very strong and we truly believe that will help our competitive position going forward substantially. Next to that, you might have already seen a very strong free cash flow, obviously on the back of tight working capital management and capex.

Let's take a bit more time to look at the preliminary results. As said, for the full year, we expected normalised EBIT to come in around EUR 92 million, which is in line with our initial outlook, but below our range we guided on the 6th of November. At the same time, focus on CapEx and strict working capital management contributed to a strong cash flow performance with a free cash flow of EUR 52 million for 2023, which is well above our outlook on cash flow. Please note that all these numbers are still unaudited, so not yet final.

As we have discussed already a couple of times before, in 2023 we operated in an environment where short-term visibility is limited and where it becomes increasingly difficult to predict volumes. That is not a PostNL phenomenon; we see that with all of our customers and also across the industry. And unfortunately, the fourth quarter did not bring the level of parcel volumes that we were expecting and had organised for. And especially in this peak with largely fixed costs, already minor deviations from expectations impact the bottom line quite materially. We have covered this in our previous calls.

At the same time, the shift in product mix was less favourable, both in Parcels and in Mail.

Lastly, the high illness rate remained a matter of concern and put more pressure on costs than anticipated.

In our peak season, we delivered millions of seasons greetings and parcels to deliver special moments to the consumer. Operationally, this was very successful.

Let's talk a bit more on the business performance in the fourth quarter. Revenue came in around EUR 889 million and we expect normalised EBIT to be EUR 77 million for the quarter, and a strong free cash flow in the quarter of around EUR 143 million. Whilst normalised EBIT came in below our expectations, our focus on capex and strict working capital management contributed to a very strong cash flow performance at EUR 52 million for the year, well above the outlook and obviously that resulted in a leverage ratio that will be significantly below the 2.0 times. We expect it to be around 1.7. And that, of course, is a good basis for dividend. The dividend will be determined, as you know, on the basis of normalised comprehensive income and that is expected to come in around EUR 52 million for the year.

A few comments on the value drivers for Q4. Obviously full details, full reconciliations and bridges will be provided to you on 26th of February. Nonetheless, a few highlights.

At Parcels, volumes were up 0.9% in the quarter, mainly driven by strong growth from our international customers whilst domestic volumes were lagging. For the full year, volumes were around flat compared to 2022, which is slightly better than our initial volume guidance. But the volume was not spread over the year as we have expected. Volume development in the fourth quarter was lagging our anticipations, and especially lagging volume in a locked-in cost environment directly impacts results. Furthermore, we had continued headwind in shifting customer mix, mainly driven by a shift in consumer preferences to more Asian web shops.

At Mail in the Netherlands, volumes were only down 1.9% for the quarter, obviously impacted by elections and a very strong direct marketing volume development. However, profitability was lower due to the negative product mix. Both these products of course give lower contributions than single items and letter box parcels, that were below expectations for which, of course, letterbox parcels follows the same e-commerce trends.

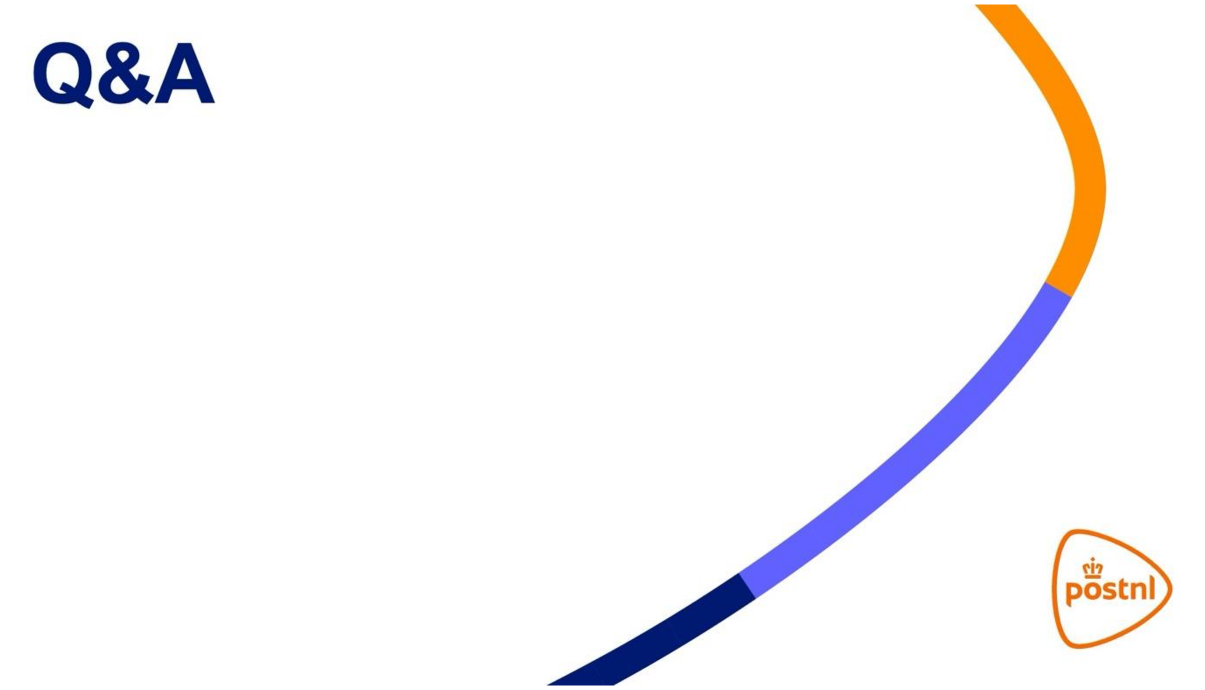
Also, the high illness rate remain a matter of concern and put more pressure on costs than anticipated. We had to add roughly EUR 6 million to provisions that cover payments to employees that are ill for a longer period of time. Our plans to reduce 200 - 300 FTEs in overhead, mainly at Parcels, and other indirect cost measures are now fully finalised and roughly EUR 5 million of savings are already achieved in the fourth quarter. We are on track to achieve the annual cost savings around EUR 25 million in 2024.

Lastly, in the fourth quarter, we achieved EUR 10 million of cost savings in Mail in the Netherlands resulting in full year cost savings of around about EUR 39 million, which is a significant step up from the cost savings we were able to realise in 2022.

To wrap it up, unfortunately, the geopolitical environment has not stabilised and the macroeconomic uncertainty remains there. We faced ongoing high cost increases and in anticipation of these developments, we took all the necessary actions to mitigate as much as possible this inflationary pressure. We have no doubt about our long-term strategy and the future growth of e-commerce, but we have to adjust to these different market circumstances.

On February 26, we will provide full details on Q4 and Full Year 2023 and also spend some time to explain the outlook that we have for 2024.

Now let's give it back to answer some of the questions I am sure you will you will have.



QUESTIONS AND ANSWERS

- **Marco Limite - Barclays Capital**

Good morning, thanks for taking my question. My first question is actually on your Q4 parcel volume growth, which have been softer than what you were expecting basically, based on your previous guidance. So can you just tell us what has been the sequential development throughout the quarter?

The second question is on cost savings. You are saying that clearly you are still targeting to achieve the EUR 25 million cost savings from FTE reductions in 2024, but can you just remind us how much cost savings have you already realised in 2023? You said EUR 5 million in Q4 but what is the total amount for 2023?

Lastly, is there an update on the negotiation for the CLA renewal?

Pim Berendsen - CFO PostNL: Thank you, Marco, for your questions. First, on parcel volume growth. If I hopefully have interpreted your question rightly it is about the sequence of the development throughout the quarter. Basically, the ramp-up was as steep as we expected, but also the drop was equally steep quickly after the peak moment so, the second-half of November and the month of December have driven the lowest deviation in comparison to our volume expectations. The combination of the last six to seven weeks of the year led to a deviation of about 4 million parcels for the quarter, also with a different composition of domestic and cross-border parcels. That is roughly what you need to think about.

On the cost savings of the 200 - 300 FTE, the in-year contribution is around the EUR 5 million mark that I shared with you, and that will grow towards the EUR 25 million with full year impact of EUR 25 million in 2024.

On the Collective Labor Agreement negotiations the only thing I can say is that we are in those negotiations for the renewal of the Collective Labor Agreement for our mail deliverers. That negotiation is ongoing and I cannot content-wise comment more on the status of that at this point in time.

Marco Limite - Barclays Capital: Thank you.

- **Nikolas Mauder - Kepler Cheuvreux**

Good morning, two questions from my side please. First, can you please help me bridge the normalised EBIT to normalised comprehensive income? Mathematically, the costs amounted to EUR 35 million, which is clearly more than we saw in a lot of recent quarters. So what happened there?

Secondly on the strong free cash flow, which was supported by working capital and capex discipline. On the capex, is that capex that was cut or is it capex that was postponed to 2024?

Pim Berendsen - CFO PostNL: Thank you, Nikolas, for your questions. First, regarding the bridge from normalised EBIT to normalised comprehensive income, we have always said that you should not compare the 2022 flow to this one because in that year many impacts were related to the pension deal that we concluded and that have influenced the bridge from normalised EBIT to normalised comprehensive income. This year it is just a function predominantly from EBIT to the adjustments and tax-related elements that bring you to normalised comprehensive income, with at some points revaluation, goodwill impairment elements in relation to investments that happen below normalised EBIT levels. That is roughly what is there. If you take out the pension element that was big in 2022, you see just the normal pattern. All elements that are in between that reconciliation will obviously be disclosed in detail on the 26th, but we think the pattern is quite normal and standard.

Your second question was on working capital and capex. It is not that it is phased, we just postponed stuff and it will happen in the beginning of January. The contribution of cuts and capex has been there, but very small in comparison to the strong working capital management. Maybe to clarify, that has not been the result of pushing back payments. That then also subsequently leads to significant outflows in January. It is really on the back of very strong focus on our DSO and DPO positions, our very strong view on the overdue position, so really pushing on the debtor side of things together with our sales force. And that has led to this performance.

Nikolas Mauder - Kepler Cheuvreux: Thank you Pim, for the answers. If I may follow up on the bridge, I totally understand the difference in reporting structure between 2022 and 2023, but also the quarters and 2023 were very different from the implied value that you presented us with this morning. If you do not want to share too much detail, can you perhaps say whether the additional costs that I am at least seeing here are in the P&L i.e. the financial results or the tax results, or is it something that is in Other comprehensive income?

Pim Berendsen - CFO PostNL: I do not automatically understand where this question comes from if you look back at the previous quarters. In my mind that followed the same logic with maybe some exceptions in Other comprehensive income in the fourth quarter, given the fact that in between quarters, we do not revaluate our investments in financial assets and what have you. So, that can be the explanation. I will look into it after this call and if there is anything else to share, we will come back to you. But I do not see anything specific here.

Nikolas Mauder - Kepler Cheuvreux: Thank you.

- **Henk Slotboom - the IDEA!**

Good morning all, thanks for taking my questions. I missed what you said about mail volumes. Were those down 0.9%?

Pim Berendsen - CFO PostNL: No, mail volumes were down 1.9% for the quarter and parcels were down 0.9% (note: parcel volumes were up 0.9%). Either I made a mistake or that is where the misunderstanding comes from.

Henk Slotboom - the IDEA!: No, no, there was a blip in the connection.

Pim, you said you are trying to mitigate as much as possible the impact of cost inflation. A substantial part of the cost inflation relates to wages. We had a change in the minimum wage system. Will the cost savings as you penciled them in – the EUR 25 million for example -- be enough to offset the impact of the increase of the minimum wage or is there still a negative effect? PostNL is already confronted with high loans already. Do you still need to step up further cost savings?

Pim Berendsen - CFO PostNL: If you take this as a single measure, certainly the 200 - 300 FTE reduction will not be enough to offset the expected wage increases from 2023 to 2024. Certainly not enough, but of course that is not the only thing we do. This really related to adjusting the indirect cost levels within our e-commerce space, given the fact that we are looking at market developments that were less favourable already. What we do next to that is push as much as we can our cost increases towards our customers, both on the Mail and on the Parcels side and try to always seek efficiency improvements that also help us to alleviate some of this inflationary pressure. In 2023 we had competitive markets and it has not been easy to put everything through to price increases, so we will probably need to do more if the current market circumstances continue. What we will do, how we will do that and what the implications will be, it is just a bit too early today, but certainly only looking at the 200 - 300 is underestimating what we are already doing. It probably needs more than that in 2024.

Henk Slotboom - the IDEA!: And then a final question. Perhaps I should ask you this question again on 26th of February. I was going through my old notes yesterday and went back to the presentation you gave in 2021 which related to the step up in capex in anticipation of the further growth in Parcels. Now I realise very well that market circumstances have changed and that is beyond your own control but there was one element, the Digital Next elements that caught my attention yesterday. Roughly altogether with the measures you were taking, not only in Digital Next but also the other things, a step-up in operating results of around EUR 80 million – EUR 100 million, with about EUR 40 million coming from digitisation. I understand that operationally things have gone differently and I think it is slightly due to external factors, but do we see these EUR 40 million you expected from digitisation back in 2024? That could make us slightly more optimistic, even if the market would linger on along the lines of 2023.

Pim Berendsen - CFO PostNL: That is a good and big question, Henk. I would look at it slightly differently. When we have announced this, we said that benefits on digital were also a function of growth. Some elements impact the operations on the digital side. If you use algorithms, some really are related to increased positions in some of the customer segments. So what we can say is that the Digital Next program contributes positively to the EBIT. But also over time, we have faced certain investments. We have adjusted the pace of Digital Next as well, because of those different market circumstances. So, in our mind the program is very successful. It contributes positively to gross and net EBIT but the overall contribution has been impacted by the same market circumstances we talked about. I think that is important to understand. We truly believe that the process of further digitalisation is fundamental as part of our strategy. It will allow us to create more efficiencies to offset also those high inflationary costs that we just talked about and it will help us to continue to have that competitive edge in our key customer journeys. So, we will continue down that road, but of course also be disciplined on where we spend money, how we spend it and in what kind of flow we spend it in relation to the market development or the lack of market development that we see.

Herna Verhagen - CEO PostNL: And if I may add to that, Henk, we saw each other at the Webwinkelvakdagen last Tuesday, when I gave a presentation on how we look into the future of e-commerce and trends in the market. What is important is that the speeding of digitisation is going on and there are lots of opportunities for PostNL, exactly as Pim is saying. And therefore, it is a crucial element when it comes to our strategy in maintaining a market leader delivering distinctive services to our customers. Digitisation of our change is crucially important. Over the last quarters, and we will do so at the end of February, we shared some insight in financials but also more insight in examples, where we see digitisation helps us to be either more efficient or bring new services to customers et cetera. In our view this is a crucial element to our strategy.

Henk Slotboom - the IDEA!: I think that would be extremely helpful. We have heard a lot about this EUR 80 million incremental spend on IT. I would consider it very useful to have some broader insight, so any additional information you could provide later on this year will be very helpful. Thank you.

- **Paul Kirjanovs– Bank of America**

Hi, good morning, two questions from me, please. How has the competitive environment developed in the period? What are the overall trends you are seeing in the overall market?

Secondly, can you split out parcel volume developments between domestic and cross-border, please? Thank you.

Pim Berendsen - CFO PostNL: Thank you Paul. I think it is a competitive environment and no fundamental changes there. It is really market driven what we see, so still the same and fierce competition, but no big deviations in market shares, if that is the background of the question.

Going into the split domestic and cross-border, we saw a decline in domestic and a significant double-digit growth in cross-border. And if you look at roughly the volume you need to of course understand that in the relative size of things, international volumes are maybe 10% to 15% of the total and they have grown double digit whilst the remaining part has deteriorated in the low single digit figures. By heart, we have distributed roughly 95 million of parcels in the quarter, of which about 9 million to 10 million, roughly, I would say around about 9 million to 10 million being international parcels.

Inge Laudy - Manager Investor Relations: So, with total volume growth 0.9% for the quarter.

Paul Kirjanovs – Bank of America: Great. Thank you.

- **David Kerstens - Jefferies**

Hi, good morning. I had a question on the EUR 6 million addition to the provision for payments to employees who are ill for more than 24 months. What exactly is this for and how long do you need to keep those people on the payroll? If I would have been sick for more than two years, I would probably have been fired more than a year ago. How does that work at PostNL?

Pim Berendsen - CFO PostNL: That is a good question. It is something quite specific in the Netherlands. Now, I may struggle with the translation; we have a sort of 'own risk' on long-term illness. You can make different choices. You either get invoices from UWV in case their premium starts to increase because you have higher long-term illness or you can take that risk yourself, which means that you in these circumstances after 24 months have to pay for the illness directly towards the UWV. And this provision is a function of not only the people that you already know are ill for longer than 24 months but also, given the composition and the level of illness that we see, you need to recalculate also the expected outflow from people that are not yet 24 months ill but might have been ill already for 12 months, 18 months, what have you. And those combinations have led to a higher provision for those future potential payments to be made. That only does not relate to people that are still on your payroll but also to people who were ill when they left your payroll through single-year contracts or 'bepaalde tijd'-contracts and which are more difficult to follow. So, it is a combination of many different elements that have led to this type of in provision.

Herna Verhagen - CEO PostNL: And to add to that, David, you are not allowed in the Netherlands to fire people when they are ill when they have an unlimited contract. If they have a limited time contract, then that contract ends, but you still remain to be responsible for their illness.

David Kerstens - Jefferies: That is very good of course. And do you know roughly how many people are involved under that provision that explains the EUR 6 million number?

Pim Berendsen - CFO PostNL: If you do not mind I will park this question for the 26th. I have a number in my head but I am not completely sure, so let's reflect on it and come back.

David Kerstens - Jefferies: Alright, fair enough. Thank you very much.

- **Marco Limite - Barclays Capital**

Hi, thanks for taking my follow-up question. You have announced an 8% stamp price increase for 2024. I am just wondering whether you have completed your round of price increases for parcels for 2024 and whether you are able to disclose a ballpark number for the net price increase for next year. Is that number close to the 8% that we have seen for letters? Thank you.

Pim Berendsen - CFO PostNL: The price increase you refer to is the price increase in letters. On the e-commerce side, the contract round has been finalised. We are positive on the results of that, both in terms of conversion towards price increases and of course more importantly on maintaining the customers at the level they are. So, all in all a good contract round and, as said, growth is much more a function of market growth than of market share gains and losses. So far so good. What is means for the entire year 2024 and the balance between total inflationary cost and price increases is something we will get back to on 26th of February.

Herna Verhagen - CEO PostNL: What helped us in this contract round is the fact that we had a very good operational performance on our Parcels side. That is also what we said in the press release, but that truly helped us.

Marco Limite - Barclays Capital: Thank you.

- **Marc Zwartsenburg - ING**

Thank you. I have a follow up question on the parcel price increases. We did not have the update indeed on the negotiated contracts, but I thought that on the USO-sort of parcels the price increases were almost zero. Can you give us maybe a bit of a feel on the price increase because my perception was that the price increases were quite minimal. I can also imagine that with the cross-border flows being up double digits and probably the likes of Bol.com being down they also need to find a way to compensate for that and therefore might be very price sensitive. Can you give a bit of colour on that?

Pim Berendsen - CFO PostNL: A little bit and indeed on single items price increases might not be that much, but that is also because of the spread between the lower average prices and the higher. But in terms of total price, of course the big volume is with our biggest clients and the customer segments below. On those categories we have converted in contract price increases. As we discussed before, quite often it is also a function of the NEA index and we have converted well somewhere I would say somewhere around about 70% - 80% of NEA index increases into our individual price points. That is not to say that revenue will also increase with just those numbers because of mix effects. We see that cross border is growing. Those are very big clients with on average lower average prices than the average domestic prices in the Netherlands, given the composition of the customer base in the Netherlands being significantly different. So, it is thousands of clients, of course ten very big ones, but then also a long tail of mid-market clients that have price points that are significantly higher than the biggest clients we serve. Cross-border is a function of a few very big clients, so the different composition, the different relative size, leads to different average prices and that leads to the negative mix, whilst at the same time individual price points have definitely moved up in individual contracts.

Marc Zwartsenburg - ING: And how big is 'single items' in that mix?

Pim Berendsen - CFO PostNL: In volume terms small. I do not have a number for you now. We do not have all the reconciliations of the different product categories ready but the single items element is really small in comparison to the overall EUR 344 million that we have done in volumes in this year.

Marc Zwartsenburg - ING: And then maybe on your comments. On Q4 you said, that with the fixed capacity you of course need to plan for something. You have your capacity set and then there is disappointment because the bill goes completely to PostNL. Is that something you are looking into for maybe 2024 to see how you can split that bill a bit between clients and yourself? How can you deal with that to make it a bit less risky for you to plan? You plan the expected volumes from the big volumes' vendors but in the end they do not come through. They cannot help it of course, but still the bill is completely for you because you keep your capacity in place. Can you do a mark-up like we had in Corona that you had this 25 cents or so extra for peak deliveries? Anything you can do there?

Pim Berendsen - CFO PostNL: Well, we are definitely looking in ways to try and get to a better split of this bill but it is not an easy fix for it. There are a couple of elements. We are changing some of our pricing strategies. We are of course making clear that deviation from volumes will impact the sequence and the delivery performances. If clients are significantly off we try to get a more equal flow in weak and in peak periods, so that the ramp-up is not going to be as steep as it was last time around. We are seeking ways to work together with clients to improve on the quality of the volume expectation from them. We try to find ways to make our own ramp-up decisions more flexible or later. So, it needs to come from the combination of these elements. But as Herna also said, financially we are not happy with the performance and customer-wise, operational-wise – and those are the two sides of the same coin – it has been very successful. We have really helped our biggest clients in also for them difficult periods and that has led to very high customer satisfaction rates on how we have performed during peak. That is helpful for our longer-term ambition. It is very supportive for what we want to achieve strategically. But yes, you are right; we need to find ways to create more balance on how we split the bill, to use that word. But it is not one single solution that will resolve this.

Marc Zwartsenburg - ING: And then maybe a final one, if I may. You mentioned that the ramp-up was very good in the first six weeks and then the last six weeks it was a lot slower. Do you believe that is more a phase in that people said they would do more here on Black Friday and less on Christmas? Should we take that then also as an indication going forward? I can imagine that December then was down to 4% - 5% when you started off the quarter with 6% - 7% or so. Is that just a phasing effect or is it just the phenomenon of the micro-environment getting weaker and weaker, into January as well?

Pim Berendsen - CFO PostNL: It was not only phasing because at the end of the day there was less volume than anticipated. There are a couple of elements here that come into play. Remember that we came from relatively low numbers after the summer holidays. So being low in third quarter automatically meant a very steep ramp-up towards Black Friday, and steeper than normally would have been the case if Q3 would have been stronger. If you go back to comparisons, in previous years, that ramp-up just from Q3 towards peak was less steep. Also the weeks and the days in those periods did not show the same profile every day. On certain days it was significantly up and then down; it was a less predictable pattern, also in the days of the weeks and the weeks of this period. But we really saw it also to tail off quickly after the big campaigns of the Amazons, the bol.coms, the Alis, in peak disappeared and it was back to normal again. Of course, picking up a bit for Christmas, but the period in between saw a pretty steep decline. Whether or not this is the new pattern or the new profile is very difficult to predict at this point in time.

Marc Zwartsenburg - ING: That is very helpful. Thank you, Pim. Those were my questions.

Operator: I will now hand the call back to you to Miss Inge Laudy for closing remarks.

Inge Laudy - Manager Investor Relations: Thank you all for joining and we speak again on 26th of February.

End of call