

Posti Group Q3/2019: Posti's adjusted operating result and net sales improved - chosen strategy generates results

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Posti Group Corporation Interim report January– September 2019

July–September

Financial highlights

- The Group's net sales increased by 8% to EUR 381.2 (356.9) million.
- The Group's adjusted EBITDA increased to EUR 40.9 (21.3) million, or 10.7% (6.0%) of net sales. The adoption of IFRS 16 improved the adjusted EBITDA by EUR 12.2 million.
- The Group's EBITDA increased to EURO (20.5) million, or 10.2% (5.8%) of net sales.
- The adjusted operating result increased to EURO (5.1) million, or 3.1% (1.4%) of net sales.
- The operating result increased and amounted to EUR 10.1 (4.3) million, representing 2.6% (1.2%) of net sales.
- Posti has adopted IFRS 16 Leases -standard on its effective date January 1, 2019 prospectively, thus the previous periods are not restated. The adoption of IFRS 16 improved the EBITDA by EUR 12.2 million and the operating result by EUR 0.9 million.

Operational highlights

- Posti has succeeded in making changes in line with its strategy, which has

strengthened the shift in net sales towards eCommerce and Logistics. Parcel & eCommerce and Logistics Solutions(EUR 203.9 million) grew to exceed Postal Services (EUR 4 million) in net sales.

- The parcel volume of Finland and the Baltic countries increased by 13% (10%), while the number of addressed letters decreased by -12% (-12%) in Finland. Mail items covered by the universal service obligation accounted for only 3.1% (3.4%) of all Posti's mail items.
- The sorting personnel in Posti's Parcel and eCommerce business group, approximately 700 persons were transferred to Posti Palvelut Oy as old employees on September 1, 2019.
- Posti has significantly expanded its parcel locker network. At the end of September, the total number of Posti's parcel lockers was 1,545. The growth has been rapid; the number of Posti's service points has increased by over 8 percent in July-September 2019. Posti's 1,500th parcel locker was installed in the REDI shopping center in September.
- The quality of postal deliveries has been poor in certain specific areas during the third quarter due to shortage of staff and recruitment challenges as well as illegal industrial actions by Finnish Post and Logistics Union PAU in August and September. Corrective actions are in place to recruit delivery staff.

January–September

Financial highlights

- The Group's net sales increased by 2.9% to EUR 1,171.6 (1,138.5) million.
- The Group's adjusted EBITDA increased to EUR 120.1 (74.3) million, or 10.3% (6.5%) of net sales. The adoption of the IFRS 16 improved the adjusted EBITDA by EUR 36.4 million.
- The Group's EBITDA increased to EUR 107.7 (70.8) million, or 9.2% (6.2%) of net sales.
- The adjusted operating result increased to EUR 33.6 (26.5) million, or 2.9% (2.3%) of net sales.
- The operating result declined and amounted to EUR 21.2 (22.8) million, representing 1.8% (2.0%) of net sales.
- Net debt to adjusted EBITDA was 1.0x (0.0x). Due to the adoption of IFRS 16 the assets and liabilities increased significantly.
- The adoption of the IFRS 16 improved the EBITDA by EUR 36.4 million and the operating result by EUR 2.9 million.

Operational highlights

- The parcel volume of Finland and the Baltic countries increased by 10% (11%), while the number of addressed letters decreased by -13% (-9%) in Finland. Mail items covered by the universal service obligation accounted for only 3.3% (3.5%) of all Posti's mail items.
- Posti's structural transformation continued:
- Posti divested OpusCapita Solutions and the OpusCapita segment is presented as discontinued operations.
- Posti completed the acquisition of the in-house logistics company Suomen Transval Group Oy in January 2019 and it was included in Posti's reporting in February 2019.

Events after the period

Heikki Malinen, President and CEO of Posti Group Corporation, resigned from his position as of October 1, 2019. Malinen has acted as President and CEO of Posti Group Corporation since 2012.

The Board of Directors of Posti Group Corporation appointed Turkka Kuusisto (M.Sc. Eng.), currently SVP, Parcel and eCommerce, as interim President and CEO, as of October 1, 2019. Kuusisto has been a member of the Group's Leadership Team since 2016.

Posti specifies its guidance for 2019

Net sales of continued operations, excluding possible new acquisitions and divestments, is expected to increase from 2018 driven by the Transval acquisition. The Group's adjusted operating result, of continuing operations, is expected to increase from 2018 due to the Transval acquisition and transition to IFRS 16 accounting principles. A potential strike could have a significant impact particularly on the Group's result.

Turkka Kuusisto, President and CEO (Interim)

Financially we had a good third quarter in 2019; we improved both our net sales and adjusted operating result compared to the previous year third quarter. We have made good progress during the last 12 months in modifying our cost structure and at the same time being able to create new growth. This shows that our chosen strategy is working and that our long-term efforts have also reflected positively in our financial results so far.

Overall during the third quarter, the proportional share of Postal Services revenue continued to decline, and the Parcel and

eCommerce and Logistics Solutions share continued to increase over 50%.

For postal companies where the traditional postal business is in decline, the cost structure development is key for maintaining profitability. We have made good progress in developing our cost structure both in our operations as well as in our administration during the year. It is imperative for our company's future that we continue to modify our cost structure ahead of the volume decline in our postal business.

Our Parcel and eCommerce business's strong growth continued during the third quarter. The labor union actions concerning the negotiations on the collective agreement did have an impact on the last month of the quarter, but the quarter-result was still good. We have had strong sales development in our Parcel and eCommerce business during the year.

The Logistics Solutions business continued to grow in the third quarter. The growth is attributable to the Transval acquisition earlier in the year. We also made good progress during the third quarter in improving our profitability in all our logistics businesses.

However, a significant portion of Posti's

annual results is made during the fourth quarter, in the Christmas period. It is very important for us to jointly with our customers have a successful Christmas season. During the fourth quarter we will need to improve our quality and focus on good customer experience. The negotiations on the collective agreement of Posti employees are still going on and any possible labor union actions could have a significant impact on the annual results for Posti.

Posti is going through a historic transformation. I am well aware that the pace of the change and the effects of the transformation are not always easy for our personnel. Therefore, I would like to thank our personnel for its great work and commitment, especially in the challenging circumstances of recent months.

Finally, I would like to thank Heikki Malinen for his extensive contribution to driving Posti's renewal over the last seven years. Our good Q3/2019 financial results are one indicator of his great work to ensure that Posti remains profitable and seeks new growth. Together with Posti's skilled team, we will continue to renew the company and seek future growth.

Source: [Posti](#)