

Posti Group Q3 2018: strong profit development - parcel volumes continued at a record-high level

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Posti Group Corporation Interim Report January- September 2018

July-September

Financial highlights

- The Group's net sales decreased to EUR 369.1 (378.6) million, -2.5% (0.7%).
- The Group's adjusted EBITDA increased to EUR 23.1 (22.4) million, 6.3% (5.9%).
- The Group's EBITDA increased to EUR 22.4 (17.9) million, 6.1% (4.7%).
- The adjusted operating result increased to EUR 5.8 (3.6) million, or 1.6% (1.0%) of net sales.
- The operating result increased and amounted to EUR 5.1 (-35.0) million, representing 1.4% (-9.2%) of net sales.

Operational highlights

- The parcel volume of Finland and the Baltic countries increased by 9%, with 12% growth in consumer (B2C) parcels. Measured in waybills, excluding food logistics, Posti's domestic freight grew by 2%. The number of addressed letters decreased by 12% in Finland.
- Posti is renewing its organization and operating model to better correspond to market needs and e-commerce growth. As a part of the renewal, Posti announced on August 27 that Posti Group's business will be divided into five business groups, of which three will

be new. Starting January 1, 2019, the business groups will be: Postal Services, Parcel & eCommerce, Logistics Solutions, OpusCapita and Itella Russia.

- Posti continues its growth in logistics according to its strategy. Posti announced on September 28 that Posti, MB Funds and other shareholders have signed an agreement Posti acquiring the entire share capital of Suomen Transval Group Oy. Transval is one of the leading in-house logistics service providers in Finland. As a result of this acquisition, Posti would become a significant operator in logistics outsourcing solutions in Finland. The closing of the acquisition is subject to an approval by the Finnish Competition and Consumer Authority.
- The Supreme Administrative Court of Finland rendered an order on September 27, 2018 confirming that Posti's pricing concerning the delivery of unaddressed advertising mail during 2007-2013 was not in violation of the competition law.

Outlook for 2018 remained unchanged

- The net sales in 2018 are expected to remain on par with 2017 or to decrease slightly. The Group's adjusted operating result is expected to remain on a par with 2017 or decrease slightly. Capital expenditure, excluding acquisitions and disposals, is expected to decrease slightly.

January-September

Financial highlights

- The Group's net sales decreased to EUR 1,176.1 (1,194.7) million, -1.6% (3.8%)
- The Group's adjusted EBITDA decreased to EUR 74.2 (77.7) million, 6.3% (6.5%).
- The Group's EBITDA increased to EUR 69.9 (60.8) million, 5.9% (5.1%).
- The adjusted operating result increased to EUR 23.4 (19.4) million, or 2.0% (1.6%) of net sales.
- The operating result increased and amounted to EUR -11.2 (-32.5) million, representing -1.0% (-2.7%) of net sales.
- Net debt to adjusted EBITDA was 0.0x (-0.1x) on September 30, 2018.

Operational highlights

- The parcel volume of Finland and the Baltic countries increased by 11 %, with 18% growth in consumer (B2C) parcels. Measured in waybills and excluding food logistics, Posti's domestic freight grew by 5%. The number of addressed letters decreased by 9% in Finland.
- As a result of management evaluation of OpusCapita's business plan, including the execution schedule and required investments to implement the plan and the risk-premium of the discount rate, an impairment loss on goodwill of EUR 30.0 million was recognized in the first quarter of the year.
- In March 2018, the Supreme Court did not grant leave to appeal requested by the claimants in litigation concerning the value added tax on postal services against Posti. This means that the decision given in September 2017 by the Court of Appeal of Helsinki to dismiss the complaint as requested by Posti and to compensate the legal expenses of Posti remains final.
- During the H1, Posti's Finnish Debt

Collection business was sold to Intrum, the Norwegian Debt Collection business to Visma and the Swedish Debt Collection business to Collectia Sverige AB.

- In April 2018, Itella Russia divested its MaxiPost courier business to the Moscow-based Strategic Business Alliance. According to its strategy, Itella Russia focuses on its core businesses, contract logistics and transportation.
- In May, Posti Group Corporation signed a new EUR 150 million syndicated revolving credit facility which replaced the previous EUR 150 million facility. The new facility has a maturity of five years with an option to extend for two years.

Figures in brackets refer to the comparison period, i.e. the same period last year, unless otherwise stated.

Key figures of Posti Group

Heikki Malinen, President and CEO

		7-9 2018	7-9 2017	1-9 2018	1-9 2017	1-12 2017
Net sales, EUR million	369.1	378.6	1,176.1	1,194.7	1,647.0	1,647.0
Adjusted EBITDA, EUR million	23.1	22.4	79.9	80.8	111.6	111.6
Adjusted EBITDA margin, %	6.3	5.9	6.8	6.5	7.2	7.2
EBITDA, EUR million	22.4	17.9	89.9	86.8	85.7	85.7
EBITDA margin, %	6.1	4.7	5.9	5.1	5.1	5.1
Adjusted operating result, EUR million	5.8	3.6	23.4	19.4	42.4	42.4
Adjusted operating result margin, %	1.6	1.0	2.0	1.6	2.6	2.6
Operating result, EUR million	5.1	-35.0	-11.2	-32.5	-27.5	-27.5
Operating result margin, %	1.4	-9.2	-1.0	-2.7	-1.7	-1.7
Result for the period, EUR million	6.7	-35.1	-13.7	-42.2	-44.3	-44.3
Return on equity (12 months), %			-3.4	-5.8	-8.0	-8.0
Return on capital employed (12 months), %			-3.3	-2.5	-2.5	-2.5
Net debt, EUR million			1.8	1.2	1.2	1.2

Posti's third quarter was strong despite the decline in mail volumes. Posti's adjusted operating result in July-September improved by EUR 2.2 million compared to the previous year to a total of EUR 5.8 million. The Group's EBITDA also improved clearly from the comparison period in the third quarter. The Group's adjusted operating result in January-September strengthened to EUR 23.4 million.

The profitability of our core businesses, Mail, Parcel and Logistics Services, remained stable in the third quarter. Itella Russia reported a profitable operating result both for the third quarter and January-September. Itella Russia has enhanced and renewed its operations determinedly over the past year, leading now to improved profitability despite of the weakened ruble-euro exchange rate. OpusCapita has succeeded in restructuring its operations and OpusCapita's operating result turned profitable in the third quarter.

The e-commerce market has grown at a rate of approximately 10% in Finland in the last year. Together with our extensive service point network, our fast parcel delivery and our digital service development, e-commerce has increased Posti's parcel volumes to a record-high growth. During this year, we have already delivered more than 31 million parcels to our customers. Especially the growth in B2C parcel volumes in July-September continued to be strong.

There has been a great need for Posti's transformation, as the volume of paper mail has been steadily declining due to changes in consumer behavior and rapid digitalization. The volumes of addressed letters have fallen by about 50% between 2008 and 2018. This has meant a significant loss of revenue for Posti. As part of the transformation, our aim is to create new, compensatory businesses. In

the coming years, we expect the letter mail volume decline to continue, as the world is gradually moving to digital communication from paper mail.

A year ago we updated Posti's strategy to continue our determined renewal and to seek growth especially in parcels, e-commerce and logistics services. To improve customer experience in e-commerce, we will expand our Parcel Locker network and we will launch a same-day parcel delivery six days a week this autumn. In November-December, Posti will also begin parcel delivery service on Sundays in 12 cities. At the same time, we will take steps to extend the life span of the mail and press delivery.

Posti is currently renewing its organization and operating model to better respond to market needs and to take advantage of e-commerce growth. The renewed organization will start operating on January 1,

2019. We are confident that our new operating model will enhance customer experience and strengthen our competitiveness. Our customer, technology and market environment is changing rapidly, and Posti has to be more agile, more digital and more customer-oriented. We are excited that Posti's new OmaPosti electronic mailbox exceeded the million-user benchmark at the beginning of October.

As a part of our strategy to grow in logistics we signed an agreement to acquire Suomen Transval Group Oy, a company that specializes in in-house logistics. As a result of this acquisition, which has not yet been closed, Posti would become a significant operator in logistics outsourcing solutions in Finland and 3,500 new employees would join us.

Source: [Posti](#)