# "Deutsche Post DHL Group is needed as a strong logistics partner"

**Deutsche Post DHL Group's business performed strongly in the second quarter of 2022 despite the difficult market environment. Revenue improved by 23.4 percent year on year to EUR 24 billion, while operating profit (EBIT) was significantly higher than a year earlier at EUR 2.3 billion. In an interview with DPDHL Group News, CFO Melanie Kreis talks about the growing importance of logistics services in times of increasing uncertainty and the impact on business development.**

**DPDHL Group News: Ms. Kreis, Deutsche Post DHL Group achieved a strong result again in the second quarter. What were the success factors in the current volatile market environment?**

**Melanie Kreis:** We had a very good second quarter – despite the current challenges. The strategic importance of logistics is becoming more evident in these challenging phases. Particularly in these volatile times, our customers appreciate a reliable logistics partner. We continue to invest in service quality and find solutions for stable flows of goods also in the case of temporary disruptions to individual trade lanes – even if this means temporarily higher costs. With our unique global network, we have the necessary flexibility. Our customers are also willing to pay an appropriate price for this, and that is reflected in our earnings. Revenue and EBIT improved significantly again in the second quarter, especially driven by our freight forwarding business. As a result DHL Global Forwarding, Freight again closed a quarter as the division with the highest revenue. Also, the contract logistics business of the Supply Chain division posted further significant gains. At the same time, our other divisions stabilized their earnings at a high level.

**DPDHL Group News: Given the difficult market environment, what results do you expect in the short and medium term?**

**Melanie Kreis:** The major risks currently dominating the capital market relating to the development of energy prices, inflation and interest rates do not play a major role in our earnings performance at the moment. Rising energy prices have only a minor impact on our earnings, as fuel surcharges are an established part of our pricing being regularly adjusted. We are therefore able to provide an unchanged positive earnings outlook and confirm our 2022 EBIT guidance of EUR 8.0 billion (+ / - 5 percent), now even in consideration of a possible global economic downturn in the second half of the year. Due to the numerous uncertainties concerning the economic environment, we believe defining scenario-based sensitivities to be helpful. If global GDP growth slows down, we forecast an EBIT in the upper half of our guidance range between EUR 8.0 and 8.4 billion. Even in the event of a sudden sharp drop of the global economy in the second half of the year, we expect EBIT to remain in the lower half of our guidance range of between EUR 7.6 and 8.0 billion in 2022. In case of an unchanged business momentum, we could even imagine an EBIT of more than EUR 8.4 billion being possible.

The last two financial years highlighted the benefits of our balanced portfolio. Immediately after the outbreak of the pandemic, it was the B2C business that generated strong growth and is now stabilizing at a high level. Currently, the B2B business clearly is the growth driver. This strength, coupled with the outstanding commitment of our employees, is the basis for a solid development even in challenging times. Thus, we are well positioned and are adhering to our mid-term EBIT guidance of around EUR 8.5 billion for 2024.

**DPDHL Group News: What about the Group's financial strength in the event of rising interest rates? How did free cash flow develop in the second quarter?**

**Melanie Kreis:** We remain in a very comfortable position, with more than EUR 3.5 billion in cash and cash equivalents on hand per end of the half-year. Free cash flow remained positive in the second quarter with EUR 0.7 billion, even though it was below the prior-year level due to a revenue-related increase in working capital and higher tax payments. For the full year we continue to expect free cash flow of EUR 3.6 billion + / - 5 percent (excluding net M&A) and plan gross capital expenditures of around EUR 4.2 billion. Based on our strong balance sheet and cash generation we are comparatively independent of the capital market. Also, our interest payments are comparatively low with almost no variable components. Rising interest rates are therefore not a problem for the time being – and there is even one area where we benefit from them, because higher interest rates are leading to a significant decrease in our pension provisions. In addition, our credit rating was recently raised once again. Thanks to our financial strength, we are in a very good position to systematically pursue our investment plans despite the volatile environment and to realize attractive opportunities on our own, such as the acquisition of J.F. Hillebrand Group or Glen Cameron Group.

**DPDHL Group News: Let us now look at the divisions: How has business developed at DHL Express?**

**Melanie Kreis:** The division again delivered EBIT of above EUR 1 billion. TDI volumes decreased moderately, but we continue to observe a trend towards higher weight per shipment. This has a positive impact on our revenue. We are able to offset the higher kerosene prices through the proven monthly adjustment of fuel surcharges – with a time lag of two months. Finally, we again achieved an EBIT margin of 15.7 percent. This strong result enables us to invest further in the sustainable growth of the division. In the Americas region, we will expand our capacity before the end of this year and invest in buildings, aircraft and the expansion of our electric delivery fleet. At our hub in Leipzig, we are using a smart scanner when loading air freight containers. This enables us to work even more efficiently and resource-friendly. Many small and large measures are helping to ensure that DHL Express remains a contributor of profitable growth and an attractive EBIT margin.

**DPDHL Group News: DHL Global Forwarding, Freight once again posted tremendous growth rates. What were the key factors driving this performance?**

**Melanie Kreis:** Global Forwarding, Freight continued its outstanding performance of the first quarter and was once again the division with the highest revenue at EUR 8.2 billion. EBIT trended even better, more than doubling. Rising prices and margins had a positive EBIT impact on the division. In ocean freight, we recorded higher transport volumes than in the prior-year quarter – due to the successful integration of the beverage logistics expert Hillebrand. At the same time, cargo starts shifting back from air to ocean. Persisting tight air freight capacities and an improved schedule reliability in ocean transportation most likely plays a role here. Air freight volumes therefore fell moderately. Demand for road transport and customized multimodal logistics services also remain high. We are therefore expanding our network and among other measures have opened a new freight terminal in the Bulgarian capital Sofia. The terminal is an important road freight hub, secures our position in the Eastern European region and increases our capacity there.

**DPDHL Group News: How did DHL Supply Chain far in the second quarter?**

**Melanie Kreis:** Supply Chain jumped above the EUR 4 billion revenue mark and achieved an industry-leading EBIT margin of 6.0 percent. The resurgence of global trade had a positive impact on contract logistics and led to a strong performance in all regions. Particularly strong was the earnings momentum in North America. The positive earnings performance underlines the increased importance of stable supply chains. Customers are now more often willing to stockpile more inventories to prepare against uncertainties such as renewed lockdowns. Demand for warehousing and distribution services has increased overall, particularly in the auto-mobility, life sciences & healthcare and retail sectors.

We acknowledged the growing importance of transport and warehouse logistics with the recent acquisition of the Australian Glen Cameron Group. However, we are predominantly investing in automation and digitalization for improved productivity. Of the 100,000 full-time warehouse workers at Supply Chain, 75 percent are already supported in their work by concrete projects in the field of digitalization and automation. For example, our North American sites have already deployed over 2,000 robots in operations that have picked more than 100 million units to date. This enables us to derive significant efficiency gains and upgrade our warehouse activities.

**DPDHL Group News: How did DHL eCommerce Solutions perform in the second quarter?**

**Melanie Kreis:** eCommerce Solutions performed well and delivered a stable operating result – although parcel volumes normalized as expected. The division benefits from its well-diversified geographical footprint, so that regionally different developments in shipment volumes could be well balanced – also supported by pricing measures successfully implemented. Overall, e-commerce has stabilized worldwide at a structurally higher shipment level. Now we are using this breathing space to further expand our capacities.

**DPDHL Group News: In other words, you continue to expect growth in e-commerce?**

**Melanie Kreis:** Yes, e-commerce is a long-term trend and an important pillar of our Strategy 2025. In the long run, we expect online retail to grow faster than the global economy. This will not change, even if consumers are currently more cautious due to advancing inflation. However, this does not mean that shipment volumes will decrease automatically. The greater price transparency e-commerce offers may even attract consumers more strongly. There is also a lot of potential in the B2B sector, where an increasing amount of online stores for business owners can be observed. We are very well positioned in the regions where e-commerce is developing particularly promisingly, including North America, India and Europe. We are investing heavily to expand capacities in these markets. In the United Kingdom, for example, we launched a EUR 560 million investment program. The money is used for vehicles with alternative drives, a new parcel center as well as pick-up and delivery depots, all adhering to highest environmental standards. This also shows that e-commerce and sustainable business are not contradictory, but go hand in hand.

**DPDHL Group News: How did Post & Parcel Germany develop in the second quarter?**

**Melanie Kreis:** As expected, revenue and EBIT were slightly weaker than in the previous year. Through cost discipline and efficiency improvements, we succeeded in partially offsetting the revenue drop and stabilizing the EBIT margin. Parcel volumes have continued to normalize. We had expected that. Volumes in the second quarter were roughly at the 2020 level. Letter mail volumes actually increased slightly, contrary to the long-term trend. Thanks to e-commerce, we expect the German parcel market to grow by an average of 5 to 7 percent per year through 2025. We are therefore investing in both our capacity and the quality of our service. The new mega parcel center that went into operation in Ludwigsfelde near Berlin in June is one of the most efficient parcel centers in Europe. It is an investment in efficiency and thus serves as the basis for continued successful earnings development.

**DPDHL Group News: What is the importance of sustainable solutions against the backdrop of current challenges?**

**Melanie Kreis:** Climate change remains the greatest challenge for humanity. We committed to invest EUR 7 billion in climate-neutral logistics solutions by 2030. Sustainable fuels on all transport routes are a key lever for decarbonization. We recently sealed a cooperation agreement with Hapag Lloyd on the use of biofuels in container shipping. We have also entered into partnerships in air freight for the purchase of sustainable fuels (SAF). We would like to further increase the pace, but there is too little SAF on the market. Here, political decision-makers need to create the necessary framework conditions and incentives for more investment in sustainable fuels. On the last mile, we are relying on electric drives. With the addition of 44 electric Volvo trucks to our fleet, we are now also testing this on the long haul. This saves us around 600 metric tons of $CO_2$ and almost 225,000 liters of diesel fuel per year. As you can see, we are consistently advancing our ESG roadmap. This also includes new offers for customers. With our GoGreen Plus products, we already offer truly $CO_2$-reduced air and ocean freight solutions and are focusing consistently on insetting.