“Volatile markets and geopolitical challenges will continue to accompany us in 2024 – but we still want to grow”

Despite the lack of recovery in the global economy, the world’s leading logistics company DHL Group achieved its annual targets for 2023. With revenue of EUR 81.8 billion and operating profit of EUR 6.3 billion, the Group once again underlined its capabilities. In an interview with DHL Group News, CEO Tobias Meyer explains why the past financial year was a year of anticipated normalization for the Group, how DHL Group is adapting to the volatility of the global economy and what expectations he has for 2024.

Mr. Meyer, how do you rate DHL Group’s performance in the past financial year?

Tobias Meyer: The 2023 financial year was an anticipated year of normalization for DHL Group. After the exceptional years of 2021 and 2022 with their pandemic effects, we have now fully arrived in the post-pandemic world. And this new world confronts us with global economic and geopolitical challenges. Against this backdrop, our figures for 2023 demonstrate the resilience of our business model and show how much DHL Group’s earnings power has structurally improved. Even without the tailwind from the global economy, revenue and operating profit are significantly higher than in the pre-pandemic year of 2019 – which was a record year at the time. Cash flow is also at a good level. We performed well in almost all markets, particularly in comparison with our competitors.

DHL Group had originally planned with three macroeconomic scenarios for 2023 and most recently with two – and the hope of a recovery in the global economy at the end of the year...

Tobias Meyer: ...which unfortunately failed to materialize. Of the two forecast scenarios remaining after the summer, the “L-shaped” development ultimately came to pass. Unfortunately, there has been no (significant) recovery in the global economy. Nevertheless, we closed the past financial year with operating profit of EUR 6.3 billion. This puts us well above the EUR 6.0 billion originally forecast for this scenario and also above the forecast that was increased to EUR 6.2 billion over the course of the year. Our forward-looking approach to capacity planning, price adjustments and efficiency measures is now paying off. Our free cash flow remains at a high level: excluding M&A activities, we even exceeded our forecast with EUR 3.3 billion.

Partly because investment spending has been cut back?

Tobias Meyer: Investments must be adjusted in line with volume growth to a certain extent. Nevertheless, last year we invested EUR 3.4 billion in our future, far more than depreciation – to expand our network in international growth markets and implement low-emission logistics solutions, for example. In addition, the topics of digitalization, automation and improving customer interaction are at the top of our agenda to further improve the efficiency and quality of our operational processes. In view of the challenging conditions, we are sending a clear signal with these investments: we are ready to translate rising demand into growth as soon as the global economy picks up again. And we are seeing that every challenge also brings very special opportunities. Competitors have significantly reduced their investment and, in some cases, their capacities. Online retailers are investing less in their own delivery logistics and are once again switching more to logistics providers such as DHL. E-commerce still has many opportunities – not only in delivery, but also in fulfillment and returns processing.

At the same time, we are continuing to invest in the decarbonization of the Group. In 2023, we avoided 1.3 million tons of CO_2equivalents through active measures such as investing in sustainable fuels (SAF) and electrifying our pick-up and delivery fleet.

Most of Group profit comes from DHL's international activities. How do you assess the performance of the individual divisions?

Tobias Meyer: The lack of recovery in the global economy has had a mixed impact on the DHL divisions. Negative currency effects and lower volumes had a particularly negative impact on Express. At Global Forwarding, Freight, the further normalization of freight rates is having an even greater impact on the figures. Interestingly, it is mainly the tonnage that is falling – and no longer the number of shipments. This trend toward a lower shipment weight is not atypical for this phase of the economic cycle and gives hope for a recovery in the foreseeable future. DHL Supply Chain has continued to make steady gains in revenue and earnings – which we are very pleased about. In the eCommerce division, business has continued to grow because consumers are turning to online trading. Our fundamental growth drivers are therefore intact. We were also able to moderate the effects of the unfavorable conditions through our efficiency measures and consistent price adjustments. Overall, we have maintained our profitability at a high level. This once again demonstrates the strength of our diversified logistics portfolio.

Revenue at Post & Parcel Germany was stable, but earnings slumped significantly – a consequence of the structural challenges in the mail business?

Tobias Meyer: Briefly put: yes. The parcel business is developing very stably and benefiting from online retail as a growth driver. The fourth quarter was especially strong, partly because we implemented a seasonal surcharge for business customers for the first time. In the mail business, however, significantly declining mail volumes are coupled with a marked increase in personnel and energy costs. As you are aware, the federal network agency rejected the necessary price adjustment. We cannot pass the costs on to customers, which makes it very difficult to operate the mail business economically and sustainably.

The German government is planning an amendment to the Postal Act…

Tobias Meyer: …and the draft legislation contains many necessary and in some cases overdue changes. For example, we welcome the fact that the changes to the transit time requirements will make night flights superfluous and give us a little more flexibility. We also welcome healthy competition if it creates incentives for innovation and better service quality. However, we consider forced competition in a rapidly shrinking market and under the threat of high fines to be questionable. The discussion about the taxation of partial services, sometimes based on false arguments, shows how hard the battle is being fought here. The fact that partial services are part of the universal service and must therefore be exempt from VAT under EU law has been established by the courts. There are also still unresolved questions and demands regarding working conditions. What's important now, however, is that we will hopefully get a predictable and adequate regulatory framework for the postal business in Germany. The current impasse must come to an end.

What is your overall outlook for 2024?

Tobias Meyer: Both global trade and the German economy continue to perform weakly. The sharp rise in interest rates is weighing on investments and the real estate industry is still in a serious crisis, particularly in China. Especially in the US and the UK, mortgages are often concluded at variable interest rates – and the higher interest rate level is restraining consumption even more in those countries.

The war in Ukraine, the conflict in the Middle East, attacks on ships in the Red Sea and the water shortage in the Panama Canal are also negatively impacting global trade. These factors are creating more volatility overall and will continue to accompany us in 2024.

The global economy must find a new balance between resilience and efficiency. In Germany and other countries we are seeing that the combined additional expenditure for defense, social security and the transition to a climate-neutral economy cannot be shouldered. Especially not when economic growth is burdened by ever more bureaucracy and unpredictable regulatory conditions. The reluctance to invest is also due to political factors.

Nevertheless, we are very well positioned with our global presence and this economic situation also offers many opportunities. We offer worldwide logistics solutions and can therefore provide our customers with excellent support in diversifying and strengthening their supply chains. And there will also be consolidation in some markets from which we can benefit.

What does this mean in concrete terms as regards your expectations for the 2024 financial year?

Tobias Meyer: Global trade did not experience a significant upturn at the start of the year. Europe in particular has weak growth expectations and appears to be lagging behind Asia and the USA. Nor do we expect global demand to pick up quickly in the first half of the year in view of the ongoing geopolitical tensions. This is another reason why our focus remains on cost management. The global economy could pick up speed again in the second half of the year. Against the backdrop of this generally more uncertain environment, we anticipate operating profit of between EUR 6.0 billion and EUR 6.6 billion and free cash flow excluding net M&A of EUR 3.0 billion in 2024. Of course, we would prefer to have stronger tailwind, but even under difficult conditions, our forecast is well above the figures for the pre-pandemic year 2019.