

## **“All five divisions were profitable in spite of the crisis”**

**Deutsche Post DHL Group, the world’s leading logistics company, generated further growth in the second quarter of 2020 despite the challenges posed by the Covid-19 pandemic. Revenue was up 3.1% year-on-year to EUR 16.0 billion. Operating profit (EBIT) rose by 18.6% to EUR 912 million. These figures are even slightly above the preliminary quarterly projections released by the Group in July. In an interview with DPDHL Group News, CFO Melanie Kreis explains why the Group has come through the crisis successfully so far and why it anticipates additional earnings improvements in the second half.**

**DPDHL Group News: Ms. Kreis, the past quarter was unusual in many respects. How did Deutsche Post DHL Group perform from your perspective?**

**Melanie Kreis:** The second quarter was very challenging – for our employees, our customers and our operating businesses. In spite of these circumstances, our results were very good. While the pandemic kept the world on hold, we did everything in our power to keep supply chains and trade flows up and running to people and businesses. For people under quarantine, our delivery colleagues were often the only contact with the outside world. However, it was not just them but every one of our 550,000 employees worldwide whose exceptional efforts helped to keep supply chains from breaking down. Our teams ensured that deliveries of food, medicine and personal protective equipment arrived wherever needed – despite partially closed borders and while sticking to strict safety measures. Our colleagues have done an exceptional job. To show our appreciation, we are paying our staff all over the world a special bonus of EUR 300<sup>1</sup>.

**DPDHL Group News: The joint efforts are reflected in very good figures. What is your assessment of the second quarter?**

**Melanie Kreis:** We saw a clear improvement in key indicators, namely revenue, and even more so in the case of EBIT and free cash flow. All five divisions were profitable in spite of the crisis, and four of them even improved earnings compared with the previous year. Under these circumstances, the fact that our business is developing so positively cannot be taken for granted. This is the result of a corporate culture that has grown over many years. Our employees find purpose in their work of connecting people and improving their lives. We have thus laid the groundwork for decisive action, even when the unexpected happens. Coupled with our broad range of various more and less cyclical logistics services that we

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<sup>1</sup> per full-time employee

operate around the globe, this is the basis of our resilience. This is how we stay successful in challenging times.

## **DPDHL Group News: Cooperation between the divisions has proved very effective during the crisis...**

**Melanie Kreis:** That's a key success factor for us. Our divisions support and complement each other. DHL Express, for instance, has its own fleet of more than 250 freight aircraft. Here, there is a long-standing, good cooperation with the Global Forwarding, Freight division, which can make use of free capacity and thus contribute to optimal capacity utilization. Concerning the wave of parcels being sent in Germany, one reason we have been able to handle the surge so well is that employees from Freight and Supply Chain temporarily supported the P&P Germany division. However, the crisis has also shown us that we made precisely the right choice with our Strategy 2025 clearly focusing on our core logistics businesses. In addition we accelerated our digital transformation in the first half of 2020. We managed to upgrade our IT capacity and capability to enable 100,000 employees – more or less overnight – to work from home. This demonstrates how quick and flexible we are in adapting to changing conditions.

## **DPDHL Group News: How did DHL Express perform in the past quarter?**

**Melanie Kreis:** The Express division performed very well in light of the considerable challenges in the world around us. In April, delivery volumes in our core business of time-definite international (TDI) shipments were still experiencing pandemic-related declines, as a result of which we had to adapt our network to the different utilization. Since the middle of the second quarter, however, shipment volumes have returned to growth. This applies in particular to Asia, especially China, where shipment volumes rose significantly compared to the prior year as the economy began to recover. We were able to offer our customers fast and reliable alternatives whenever the crisis made the usual transport channels too slow or too uncertain. The fact that the Express division has its own, extensive fleet of aircraft paid off in this context. After six months, cumulative TDI volumes have already slightly surpassed the prior-year level, which positively affected the profitability. Despite the challenges, the Express division had one of its best quarters ever with an EBIT margin of 12.5%.

## **DPDHL Group News: How are things looking at DHL Global Forwarding, Freight?**

**Melanie Kreis:** The pandemic has resulted in an overall decline in freight volumes. Global Forwarding, Freight nonetheless succeeded in increasing its operating profit by more than 50% in the second quarter compared with the previous year. The division's success was driven in particular by air freight. Because many passenger flights were grounded, the market lost a large part of its air freight capacity. DHL Global Forwarding was among the few global providers that were at all able to continue transporting shipments. The resulting good margins are now shown in the numbers.

**DPDHL Group News: The situation appears especially challenging for DHL Supply Chain. What's your take on the latest developments?**

**Melanie Kreis:** Supply Chain had a good quarter given the enormous challenges caused by the pandemic. The division remains profitable, which is all the more remarkable in light of the fact that the contract logistics business, much more than the other divisions, depends on individual customer operations. In Supply Chain we often set up and manage warehouses exclusively for specific customers, offering them customized solutions to meet their needs. When such customers scale back their operations, we are not able to easily shift the newly available resources to other customers. One stabilizing factor is our broad mix of sectors: While the automotive sector was weak, parts of retail and the whole life science & healthcare-sector performed well. We also succeeded in concluding additional contracts worth more than EUR 300 million in annualized revenue with both new and existing customers in spite of the crisis, and this has laid the foundation for further profitable growth.

**DPDHL Group News: Post & Parcel Germany also found itself confronted with opposing volume trends. How has this division performed?**

**Melanie Kreis:** The pandemic accelerated the trend that has already been in place for years at P&P Germany. Mail volumes declined sharply, especially due to a temporary customer reluctance we saw in the dialogue marketing business (i.e. advertising mail). At the same time, parcel volumes rose significantly. Retail stores were shut down for several weeks. People were ordering online to an extent normally only seen during the pre-Christmas season. The situation is now normalizing, and mail volumes are recovering slowly. The parcel business remains strong. In connection with the cost and pricing measures implemented, P&P Germany saw a very good earnings development in the second-quarter with an increase of nearly 50%.

**DPDHL Group News: How has eCommerce Solutions, the newest DHL division, performed?**

**Melanie Kreis:** As with P&P Germany, our international parcel business benefitted from booming online sales as a result of the lockdown. Business was up notably in the United States and the Netherlands in particular, but the Czech Republic and Poland also registered substantial increases. We not only succeeded in significantly increasing B2C volumes but also made good progress in cost management. Our centralized functions in particular are already much more efficiently positioned, and revenue and earnings have benefitted accordingly. The revenue increase was even more significant after adjusting for structural changes.

**DPDHL Group News: Looking at the financial indicators, what's noticeable is the unusually high level of free cash flow – which was up by more than EUR 1 billion year-on-year. How is that possible?**

**Melanie Kreis:** Along with ensuring our employees' safety and maintaining our services for our customers, we further strengthened our focus on liquidity since the start of the pandemic. The good operating performance of all five divisions provides the primary basis for our strong cash flow development. As planned, we also invested less on renewing DHL Express's intercontinental fleet than in the same period in 2019, which represented the 777 investment peak. For full-year 2020, we are projecting capital expenditure of around EUR 2.9 billion and free cash flow of approximately EUR 1.4 billion. That means, we will continue to invest in future profitable growth in our core businesses.

**DPDHL Group News: You are one of the first large companies that has dared to issue guidance for full-year 2020. What makes you so optimistic?**

**Melanie Kreis:** Our good second-quarter figures show that Deutsche Post DHL Group is in very good shape. Our Strategy 2025 has put us on exactly the right track, so we decided to again give full-year guidance in July. For 2020, we are expecting operating profit of between EUR 3.5 and 3.8 billion, including non-recurring effects. For 2022 – depending on how well the economy recovers – we are projecting Group EBIT of between around EUR 4.7 billion and more than EUR 5.3 billion. Regardless of whether the economic recovery proves to be V-shaped, U-shaped or L-shaped, we are well prepared and able to deal with what occurs. Apart from any KPIs, however, our top priority is the health and safety of our employees. They are what makes up our company and determine our success.