12.11.2015 – 07:31 Uhr

EANS-News: Österreichische Post AG / AUSTRIAN POST Q1-3 2015: STABLE BUSINESS DEVELOPMENT WITH A RISE IN REVENUE AND EARNINGS

9-month report

- Revenue
  - Revenue increase of 1.1% to EUR 1,752.3m
  - Higher revenue in both the mail business (+0.4%) and the parcel segment (+2.5%)
- Earnings
  - EBIT up 2.0% to EUR 135.2m
  - Earnings per share rise to EUR 1.54
- Cash flow and balance sheet
  - Free cash flow above the prior-year period
  - Strong cash position and low level of financial liabilities
- Outlook
  - Aim to achieve revenue growth of 1-2% in 2015
  - EBITDA margin remains around 12%

OVERVIEW OF AUSTRIAN POST

In the first three quarters of 2015, revenue of the Austrian Post Group totalled EUR 1,752.3m, comprising a rise of 1.1% from the prior-year level. Both the parcel segment and mail businesses generated growth at 2.5% and 0.4% respectively. In spite of this slight revenue increase in the mail business, the trend towards electronic substitution of traditional letter mail by electronic forms of communications is continuing. The volume decline even accelerated somewhat in a year-on-year comparison. In turn, business with direct mail showed a differentiated development of individual customer segments during the period under review. The volume of addressed direct mail items declined in contrast to the rise in addressed mail volumes.

The trend towards increased e-commerce is continuing in the parcel segment, leading to further growth of parcel volumes for private customers in Austria. At the same time, it is evident that competition is intensifying, a development the company is dealing with by making ongoing investments at the customer interface. In addition to its cost leadership, Austrian Post is also continuously expanding its service leadership. "Today 90% of all parcels are handed over to the intended recipients on the initial delivery attempt, a top performance only made possible by our experienced and well organised delivery operations. Our parcel service was recently expanded to include Saturday delivery," emphasises CEO Georg Pölzl. In addition, Austrian Post offers a series of innovative customer solutions. 175,000 households already have access to convenient Post pick-up boxes. Furthermore, customers have 24/7 access to about 300 self-service zones and 200 pick-up stations throughout the country. The international parcel business continued to show a differentiated development. Market trends positively impacting the business operations of Austrian Post subsidiaries in South East and Eastern Europe as well as Turkey continued, whereas the top priority of trans-o-flex in Germany at the present time remains the implementation of structural measures and network restructuring. Austrian Post is simultaneously evaluating various strategic options for its German parcel subsidiary.

Earnings before interest and tax (EBIT) of Austrian Post amounted to EUR 135.2m in the first three quarters of 2015, up 2.0% from the previous year. On an operational basis, measures designed to further optimise costs and enhance efficiency were strictly continued, including further investments in a modern vehicle fleet and new sorting facilities. Cash flow remains at a high level against the backdrop of an extensive investment programme, laying a firm foundation for Austrian Post's ability to finance future investments and dividends.

"On this basis, we remain committed to our strategic capital market positioning as a dividend stock in the future, featuring a dividend payout of at least 75% of the Group net profit", CEO Pölzl states. "Looking ahead to the 2015 full-year results, we assume that the basic trends in the mail and parcel businesses will continue, and expect a rise in Group revenue in the range of 1-2%. At the same time, we are striving to generate an EBITDA margin of around 12%," Pölzl adds. On the basis of the company's performance in the first three quarters of 2015, Austrian Post is pursuing the objective of once again equaling or slightly surpassing the prior-year's operating result. A stable business development is targeted for 2016, although the projected earnings range is somewhat broader due to the uncertain market environment.

REVENUE DEVELOPMENT IN DETAIL

In the first nine months of 2015, Group revenue of Austrian Post rose by 1.1% from the prior-year level to EUR 1,752.3m. Third-quarter Group revenue also increased 2.2% in a year-on-year comparison.

Revenue of the Mail & Branch Network Division was up 0.4% in the reporting period to EUR 1,089.5m. Third-quarter 2015 revenue was also above the prior-year period, rising by 2.0%. The basic trend of e-substitution i.e. the replacement of traditional letter mail by electronic forms of communication is continuing. The upward adjustment of postal rates as of March 1, 2015 had a positive effect. On this basis, Letter Mail & Mail Solutions revenue at EUR 587.4m climbed 1.2% from the previous year. Revenue in the Direct Mail and Media Post business area fell by 0.7% to EUR 411.9m in the first nine months of 2015. Individual customer segments showed a differentiated development. In particular, the advertising activities of large retail companies with unaddressed mail items developed positively in the reporting period. In contrast, the business with addressed mail items declined. Branch Services revenue at EUR 90.3m in the first nine months of 2015 was at the prior-year level.

Total revenue of the Parcel & Logistics Division rose by 2.5% in the first nine months of 2015 to EUR 662.7m. From a regional perspective, 55% of total revenue in the Parcel & Logistics Division was generated in Germany in the first three quarters of the 2015 financial year, compared to 36% in Austria and 9% by the subsidiaries in South East and Eastern Europe. Revenue in Germany fell by 1.5% in the first nine months of 2015, which is mainly due to lower diesel surcharges on transport services. The challenging competitive situation and price pressure in this market continue to be clearly perceptible. Revenue in Austria rose by 7.7% in the first three quarters, driven by the above-mentioned trend towards online shopping and against the backdrop of more intensive competition. The subsidiaries in South East and Eastern Europe posted a revenue increase of 8.4% on the basis of significant volume increases despite high price pressure.

EXPENSE AND EARNINGS DEVELOPMENT

Raw materials, consumables and services used were up by 1.2% during the period under review, rising to EUR 551.7m. Although the cost of materials declined, primarily as a consequence of the lower fuel prices, the costs for services used increased during the first three quarters of 2015 due to a rise in transport expenditures driven by higher parcel volumes in Austria and South East and Eastern Europe.

Austrian Post's staff costs amounted to EUR 813.6m in the first three quarters of 2015, comprising a slight decline of 0.2% or EUR 1.8m. The operational staff costs for salaries and wages included in this amount were somewhat higher than in the previous year due to the effects arising from the integration of distribution companies in Germany. Apart from this, the stability of operational staff costs shows that the continuing measures to improve efficiency and the staff structure succeeded in compensating for inflation-related cost increases. In addition to the ongoing operational staff costs, staff costs also include various non-operational costs such as termination benefits and changes in provisions, which are primarily related to the specific employment situation of civil servants at Austrian Post. Costs for termination benefits at EUR 22.2m during the period under review were considerably higher than the prior-year level of EUR 17.3m. In addition, the introduction of new staff-related measures for civil servants increased the allocation to employee provisions by EUR 8.6m. Other changes in non-operational staff costs, including provisions for employee under-utilisation, were offset by a positive earnings effect related to adjustments to the parameters for interest-bearing provisions.

Other operating income at EUR 50.4m during the period under review was at the same level as in the previous year. At the same time, other operating expenses climbed 8.0% to EUR 237.9m, which is also due to increased expenditures on maintenance, communications and consulting.

Earnings before interest, tax, depreciation and amortisation (EBITDA) of Austrian Post fell slightly by 0.4% to EUR 199.3m. The corresponding EBITDA margin was 11.4%. Total depreciation, amortisation and impairment losses in the reporting period amounted to EUR 64.1m, a drop of EUR 3.5m from the prior-year period, which included an impairment loss on goodwill of EUR 4.9m for the Polish subsidiary PostMaster Sp. z o.o. in the second quarter of 2014. Accordingly, earnings before interest and tax (EBIT) in the first nine months of 2015 reached a level of EUR 135.2m, a rise of 2.0% or EUR 2.6m from the previous year. The EBIT margin was 7.7%.

The other financial result improved from minus EUR 2.4m to plus EUR 2.6m, mainly attributable to interest income of EUR 3.3m arising from the early termination of a cross-border leasing transaction. The tax charge was up EUR 3.4m to EUR 33.8m, which was primarily a result of the increase in the planned tax rate related to changes in prevailing tax regulations. After deducting income tax, the Group's profit for the period amounted to EUR 104.1m, a year-on-year rise of 4.3%. This corresponds to undiluted earnings per share of EUR 1.54 for the first nine months of 2015.

From a divisional perspective, the Mail & Branch Network Division generated an EBITDA of EUR 232.5m in the first three quarters of 2015, an increase of 4.2%. This rise is due to the discontinuation of negative effects related to parameter adjustments for interest-bearing provisions in the previous year as well as to strict cost discipline and ongoing process optimisation measures. EBIT of the division at EUR 208.6m increased by 6.7% or EUR 13.1m from the previous year. This earnings increase is primarily related to the prior-year's impairment loss of EUR 4.9m recognised for goodwill at Austrian Post's Polish subsidiary PostMaster Sp. z o.o.

EBITDA of the Parcel & Logistics Division amounted to EUR 32.4m in the first nine months of 2015, compared to EUR 34.2m in the previous year. EBIT in the reporting period totalled EUR 16.5m, a drop of EUR 2.1m from the prior-year figure of EUR 18.5m. Earnings in Austria and South East and Eastern Europe developed positively, whereas Austrian Post is currently pushing ahead with structural changes and network restructuring in Germany.

The Corporate Division (including Consolidation) essentially covers central costs as well as various staff-related provisions. EBIT of the Corporate Division fell by EUR 8.3m to minus EUR 89.8m. This decline can primarily be attributed to the increase in other operating expenses for maintenance, communications and consulting which negatively impacted earnings mainly in the Corporate Division. With respect to staff costs, expenditures arose as a result of allocations to provisions for additional staff-related measures. In contrast, a positive effect on staff costs was achieved with the adjustment of the parameters for interest-bearing provisions.

CASH FLOW AND BALANCE SHEET
Gross cash flow totalled EUR 186.4m in the nine months of 2015, compared to EUR 207.2m in the previous year. Cash flow from operating activities of EUR 153.6m was EUR 11.0m less than in the prior-year period. This reduction is mainly due to higher income tax payments in a year-on-year comparison, which was related to sales of commercial properties and changes in tax regulations (Austrian Tax Amendment Act).

Cash flow from investing activities reached a level of minus EUR 1.6m in the first nine months of 2015, compared to minus EUR 43.9m in the comparable prior-year period. This increase mainly related to the sale of Austrian Post's former corporate headquarters in Vienna's first district, for which the outstanding balance of the purchase price of EUR 60.0m was paid in the first quarter of 2015. Cash outflows for the acquisition of property, plant and equipment (CAPEX) amounted to EUR 61.3m in the first nine months of 2015, above the level of EUR 53.0m in the previous year. In aggregate, free cash flow during the reporting period was EUR 152.0m, up from EUR 120.7m in the previous year. Free cash flow before acquisitions/securities equalled EUR 158.3m.

Austrian Post pursues a conservative balance sheet and financing structure. This is demonstrated by the high equity ratio, low financial liabilities and the solid level of cash and cash equivalents invested with the least possible risk. Equity of the Austrian Post Group totalled EUR 669.3m as at September 30, 2015, corresponding to an equity ratio of 41.4%. An analysis of the financial position of the company shows a high level of financial resources of EUR 342.7m, including cash and cash equivalents of EUR 286.1m as well as financial investments in securities of EUR 56.6m. These financial resources are in contrast to financial liabilities of only EUR 20.4m.

EMPLOYEES

The average number of employees (full-time equivalents) at the Austrian Post Group totalled 23,578 people during the first nine months of 2015, comprising a reduction of 427 employees from the prior-year period. Most of Austrian Post's staff or a total of 18,121 full-time equivalents is employed by the parent company Österreichische Post AG.

OUTLOOK 2015 AND 2016

On the basis of the development of the mail and parcel business in the first three quarters of 2015, Austrian Post confirms its previously communicated revenue forecasts for the entire year 2015. Group revenue should show a slightly positive development during the rest of the year and rise by 1-2% from the comparable level in the 2014 financial year. In 2016, the company also expects a challenging mail market featuring a further decline in addressed mail volumes, as well as a highly competitive parcel market. In addition to current basic trends in the mail and parcel segments, the revenue forecast for the 2016 financial year also depends on the potential increase of the stake held by Austrian Post in the Turkish parcel services provider Aras Kargo from 25% to 75%. Keeping these factors in mind, annual revenue in 2016 could be in the range of minus 1% to plus 5% compared to 2015.

In the mail business, the basic trend of e-substitution i.e. the substitution of traditional letter mail by electronic forms of communication is likely to continue, possibly resulting in further volume declines. Based on the business development in the first nine months of 2015, the drop in mail volumes in 2015 and in 2016 is expected to be within the predicted range of minus 3-5%. The direct mail business will continue to show a differentiated development in the individual customer segments, with a decrease perceptible for addressed direct mail items in particular.

The development of the Parcel & Logistics Division is impacted by differing trends in the private and business parcel segments. Considerable growth continues to be anticipated in the private customer parcel segment due to the steadily growing online business. At the same time, intensified competition is expected as a result of the growth momentum in this market segment. In turn, this could impact parcel prices and volumes and thus the company's business development, especially in 2016. In contrast, subdued economic growth prospects are unlikely to provide any impetus to the business parcel segment. Furthermore, in particular the fierce competition is negatively affecting the parcel and logistics business in Germany.

Austrian Post is continuously optimising its structures and processes nationally and internationally in both its mail and parcel logistics operations in order to further enhance efficiency in all the services it provides. In addition to the use of modern technologies and working time models in Austria, one focal point is the continuation of the efficiency enhancement programme in the trans-o-flex Group, entailing a reorganisation of process, distribution and staff structures. At the same time, Austrian Post is currently evaluating various strategic options for this company.

On balance, Austrian Post continues to pursue the goal of generating an EBITDA margin of around 12.0% on a Group level for 2015. With respect to its operating results, the company expects the prevailing trend in the first nine months of the year to continue. For this reason, Austrian Post pursues the objective of once again equaling or slightly surpassing the prior-year's operating result. EBIT reported by Austrian Post totalled EUR 197m in 2014, which featured both positive and negative special effects: Earnings in 2014 increased by EUR 62m due to the sale of the company's former headquarters, whereas special effects relating to impairment losses and write-downs correspondingly reduced earnings by EUR 58m. Opportunities and risks related to special effects, for example for non-operational staff costs or impairment losses, could also impact the company's earnings situation in 2015. In 2016, Austrian Post will continue to target an EBITDA margin of around 12%. The aim is to generate stable operating results in 2016. However, the range of the earnings forecast is somewhat broader due to the uncertain market environment.

The operating cash flow generated by Austrian Post will continue to be used prudently and in a targeted manner to finance sustainable efficiency increases, structural measures and future-oriented investments. In this regard, total operational capital expenditures (CAPEX) of about EUR 80m are planned in 2015, focusing on sorting technologies, logistics and customer solutions. Furthermore, Austrian Post began construction of its new corporate headquarters in Vienna's third district, which is expected to be completed in 2017. A solid cash flow development is anticipated for the entire year 2015. This will enable Austrian Post to continue its attractive dividend policy, with a dividend payout of at least 75.0% of the Group net profit.

KEY FIGURES

			Change			
EUR m	Q1-3 2014	Q1-3 2015	%	EUR m	Q3 2014	Q3 2015
Revenue	1,732.7	1,752.3	1.1%	19.7	560.8	573.4
thereof Mail & Branch Network Division*	1,085.7	1,089.5	0.4%	3.8	344.7	351.5
thereof Parcel & Logistics Division*	646.4	662.7	2.5%	16.4	215.8	221.9
thereof Corporate*	0.6	0.1	-87,0%	-0,5	0.2	0.0
Other operating income	50.1	50.4	0.5%	0.2	17.7	17.6
Raw materials, consumables and services used	-545,4	-551,7	-1,2%	-6,3	-182,6	-187,8
Staff costs	-815,4	-813,6	0.2%	1.8	-263,7	-261,8
Other operating expenses	-220,2	-237,9	-8,0%	-17,6	-76,5	-81,9
Results from financial assets accounted for using the equity method	-1,5	-0,2	89.6%	1.4	-0,5	0.0
Earnings before interest, tax, depreciation and amortisation (EBITDA)	200.2	199.3	-0,4%	-0,9	55.1	59.6
Depreciation, amortisation and impairments	-67,6	-64,1	5.2%	3.5	-21,3	-20,9
Earnings before interest and tax (EBIT)	132.6	135.2	2.0%	2.6	33.8	38.7
thereof Mail & Branch Network Division	195.5	208.6	6.7%	13.1	56.7	63.2
thereof Parcel & Logistics Division	18.5	16.5	-11,2%	-2,1	6.4	4.0
thereof Corporate/ Consolidation	-81.5	-89.8	-10,2%	-8,3	-29,3	-28.4
Other financial result	-2,4	2.6	>100%	5.0	-0,6	-0,8
Earnings before tax (EBT)	130.2	137.8	5.9%	7.7	33.2	38.0
Income tax	-30,4	-33,8	-11,0%	-3,4	-7,0	-11,3
Profit for the period	99.8	104.1	4.3%	4.3	26.2	26.7
Earnings per share (EUR)**	1.47	1.54	4.8%	0.07	0.39	0.39
Cash flow from operating activities	164.6	153.6	-6.7%	-11.0	68.7	45.9

Investments in property, plant and equipment (CAPEX)	-53.0	-61.3	-15.7%	-8.3	-30.8	-29.3
Free cash flow before acquisitions/securities	108.6	158.3	45.8%	49.8	38.1	20.6

* The presentation of revenue was adjusted so that cross-segment business relationships among subsidiaries or between subsidiaries and Austrian Post are no longer included in the revenue with third parties (formerly external sales).

** Undiluted earnings per share in relation to 67,552,638 shares

The interim financial report Q1-3 2015 is available on the Internet at www.post.at/ir --> Publications --> Financial Reports.

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