



Deutsche Post DHL  
Group

# Management Roadshow

Lawrence Rosen, CFO

Edinburgh, 12 March 2015

# AGENDA

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**1** 2014 Highlights (Frank Appel)

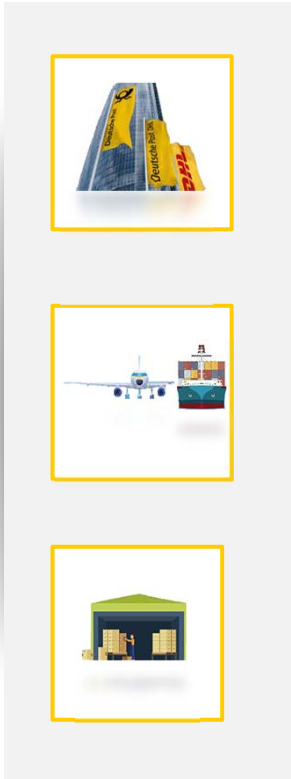
**2** Strategic priorities (Frank Appel)

**3** Financial results FY / Q4 2014 (Larry Rosen)

**4** Guidance 2015 and 2016 (Larry Rosen)

# Q4/FY 2014 HIGHLIGHTS

## Delivering on all targets while shifting gears towards Strategy 2020

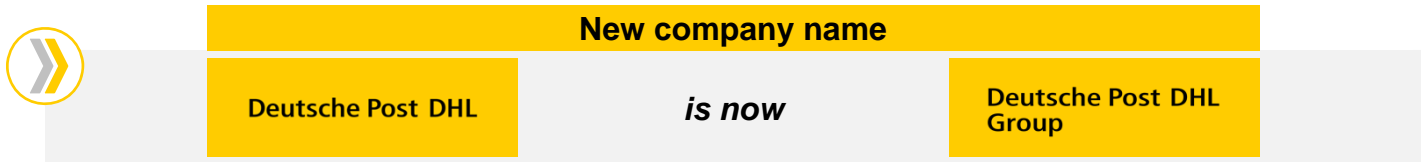


- DHL Express reaches 10% EBIT margin one year ahead of target
- PeP balancing Parcel growth with challenges from letter decline and factor cost increase
- NFE remains key priority for DHL Global Forwarding
- DHL Supply Chain delivers steady growth

### >> Unrivalled, diversified business portfolio, with clear strategy

- Further strengthening position in emerging markets and e-commerce / parcel
- Clear roadmap on profitability improvement in all divisions
- Improved cash flow generation underpins dividend policy and balance sheet flexibility

### >> Group guidance: EBIT growth in 2015, targets for 2016 confirmed



## DELIVERING FURTHER GROWTH WHILE INVESTING IN OPTIMIZATION

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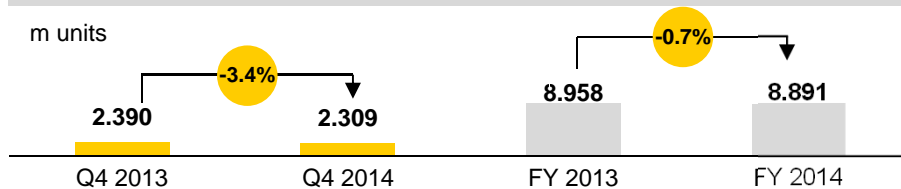
Solid growth in Group EBIT despite low-growth environment and decline in Global Forwarding, Freight

	REVENUE			EBIT		
	FY2013	FY2014	Change	FY2013	FY2014	Change
PeP	15,291	15,686	2.6%	1,286	1,298	0.9%
Express	11,821	12,491	5.7%	1,083	1,260	16.3%
Forwarding, Freight	14,787	14,924	0.9%	478	293	-38.7%
Supply Chain	14,227	14,737	3.6%	441	465	5.4%
<b>Group</b>	<b>54,912</b>	<b>56,630</b>	<b>3.1%</b>	<b>2,865</b>	<b>2,965</b>	<b>3.5%</b>

## PeP: PARCEL BUSINESSES DRIVE REVENUE GROWTH

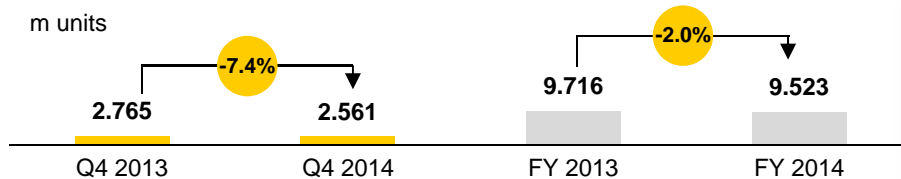
### Mail Communication volumes

m units



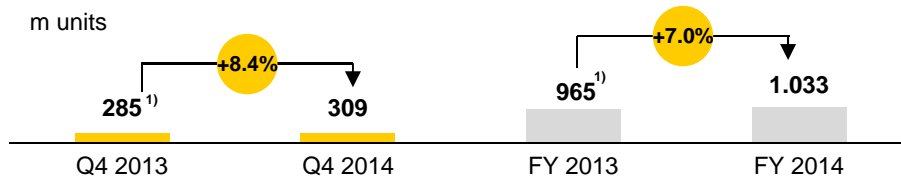
### Dialogue Marketing volumes

m units



### Parcel Germany volumes

m units



1) Restated due to change in product volume allocation

### Business Highlights

#### Mix shift towards eCommerce - Parcel continuing

- Sustained parcel growth, in Germany and abroad (eCommerce - Parcel revenue +9%/+6% in Q4/FY14)
- Mail Communication volume/day down -0.9% in 2014

#### Expansion into selected international parcel markets

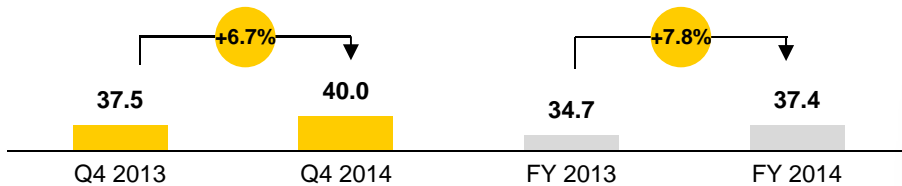
- Rollout of B2C services and Parcel Shop expansion well on track
- Maintain flexible market and investment approach

#### Balancing parcel growth and structural PeP challenges

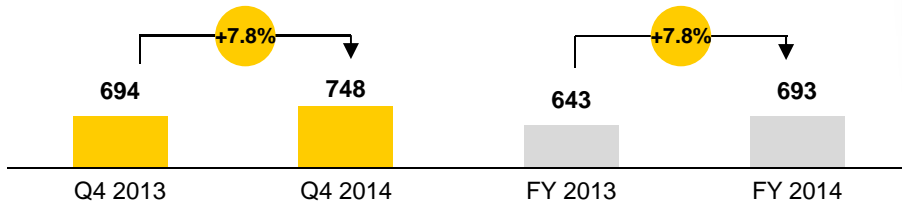
- E-substitution steadily reduces letter volumes, despite increasing E-Post revenues (2014: >EUR 300m)
- Wage imbalance in the German parcel market threatens DHL Parcel Germany's competitiveness

# EXPRESS: DELIVERING FULL YEAR 10% MARGIN AHEAD OF TARGET

## Time Definite International (TDI) Revenues per day in EUR m

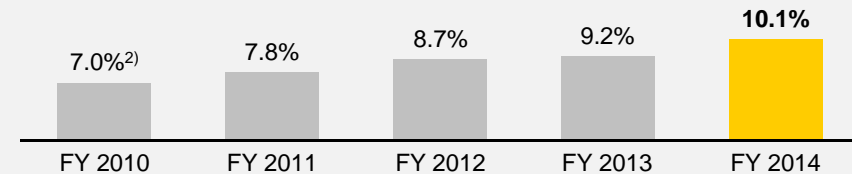


## Time Definite International (TDI) Shipments per day '000s



## Business Highlights

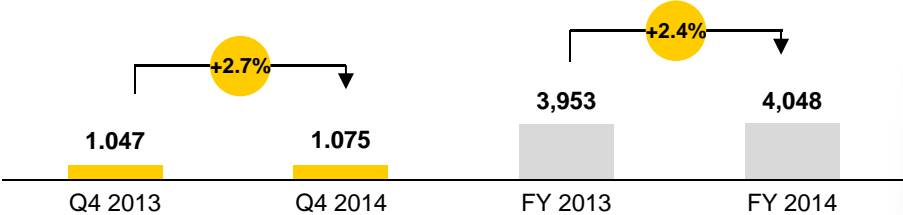
- Focus on TDI (now 75% of revenues, mostly B2B) and service quality continues to pay off in market share gains and margin expansion
- Strong volume growth and continuous optimization of cost structure deliver 10% margin one year ahead of target
- **EBIT margin<sup>1)</sup>, 2010-2014**



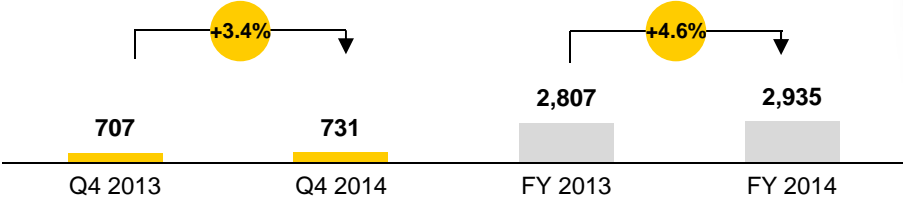
1) As reported, FY2012 margin incl. EUR 113m one-off items from VAT, restructuring provision release and disposal gain in Q2 2012 2) Adjusted for cost of change

# GLOBAL FORWARDING, FREIGHT: NFE IMPLEMENTATION KEY PRIORITY

## Air freight '000s Tons



## Ocean freight '000s TEU<sup>1)</sup>



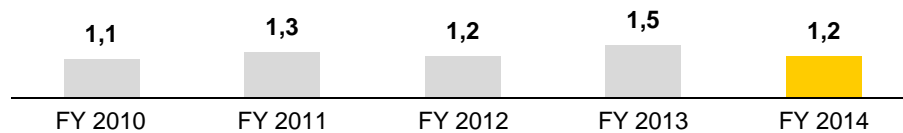
## Business Highlights

- Return to volume growth across all products – but with low gross profit levels
- EBIT decline a result of significant resources being directly involved in the transformation project New Forwarding Environment as well as the detailed management and workforce attention that the project entails
- Divisional EBIT performance expected to again be significantly impacted in 2015

1) Twenty Foot Equivalent Unit

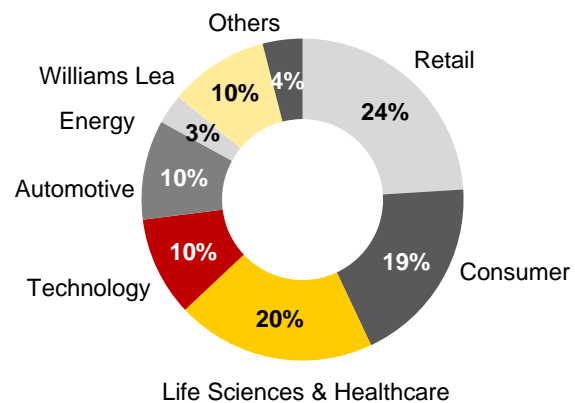
## SUPPLY CHAIN: GOOD PERFORMANCE TO BE FURTHER IMPROVED

### New signings, EUR bn<sup>1)</sup>



1) Annualized revenue

### Revenue by sector FY 2014



### Business Highlights

- Steady growth in sales and EBIT with strongest contribution from Life Sciences & Healthcare sector and Europe region
- Strong order intake in Q4 (EUR 425m) drives full year level once more above EUR 1bn
- Standardization and leveraging skills on global scale are key cornerstones of Strategy 2020 as presented at last Capital Markets Tutorial
- First key achievements include:
  - Reorganization towards lean, globally consistent and more customer-centric organization
  - Set-up of dedicated global organizations for the Service Logistics business and the Life Sciences & Healthcare sector



# AGENDA

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**2** **Strategic priorities (Frank Appel)**

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**4** Guidance 2015 and 2016 (Larry Rosen)

## CLEAR FINANCIAL PRIORITIES, LEVERAGING OUR STRENGTHS

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### DPDHL Group ambition: Defining the logistics industry

▶ Leveraging growth in e-commerce and emerging markets, based on unrivalled, diversified business portfolio

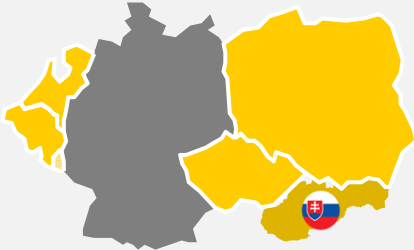
▶ Clear roadmap for margin and profit improvement

▶ Flexible balance sheet and improving cash generation underpin payout policy

# DHL PARCEL EUROPE BUSINESS MODEL IS UP AND RUNNING

## Domestic delivery & Cross-border tradelanes

**Domestic B2X delivery** in Poland, Czech Republic, The Netherlands, Belgium and Luxembourg, leveraging previously mainly B2B-focused assets shifted from DHL in 2014

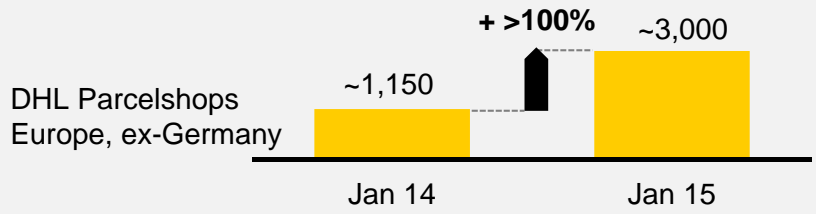


All Parcel Europe countries offer **B2X parcels to/from Germany**, especially beneficial to extend already strong customer relationships in Germany

February 2015: market entry in Slovakia

### Substantial Parcelshop expansion

**Strong increase in number of access/drop-off locations leads to significant upgrade in customer proximity**



### Broad roll-out of B2C services, e.g.

Start of **6-day delivery** in The Netherlands and Belgium



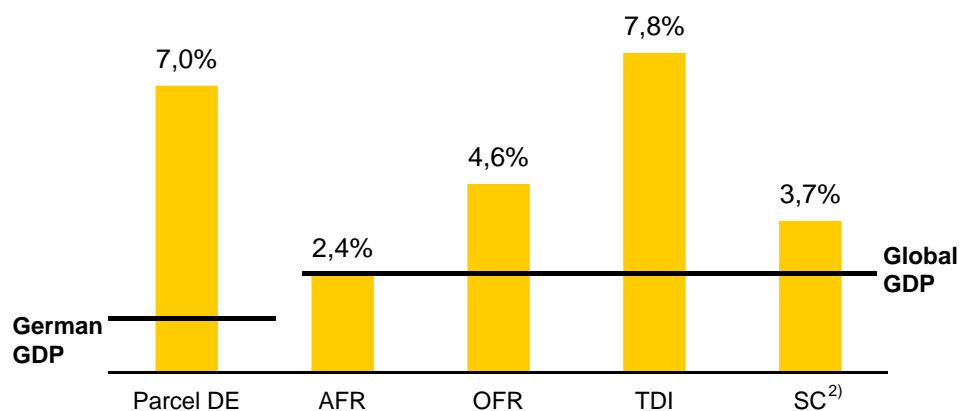
**Polish eCommerce market place** up and running



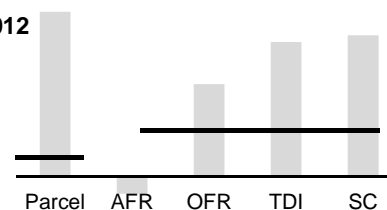
# OUR SET-UP IS DELIVERING CONSISTENT ABOVE-GDP GROWTH

## DPDHL volume growth vs real GDP<sup>(1)</sup> growth

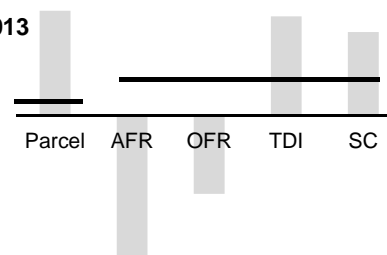
FY 2014



FY 2012



FY 2013



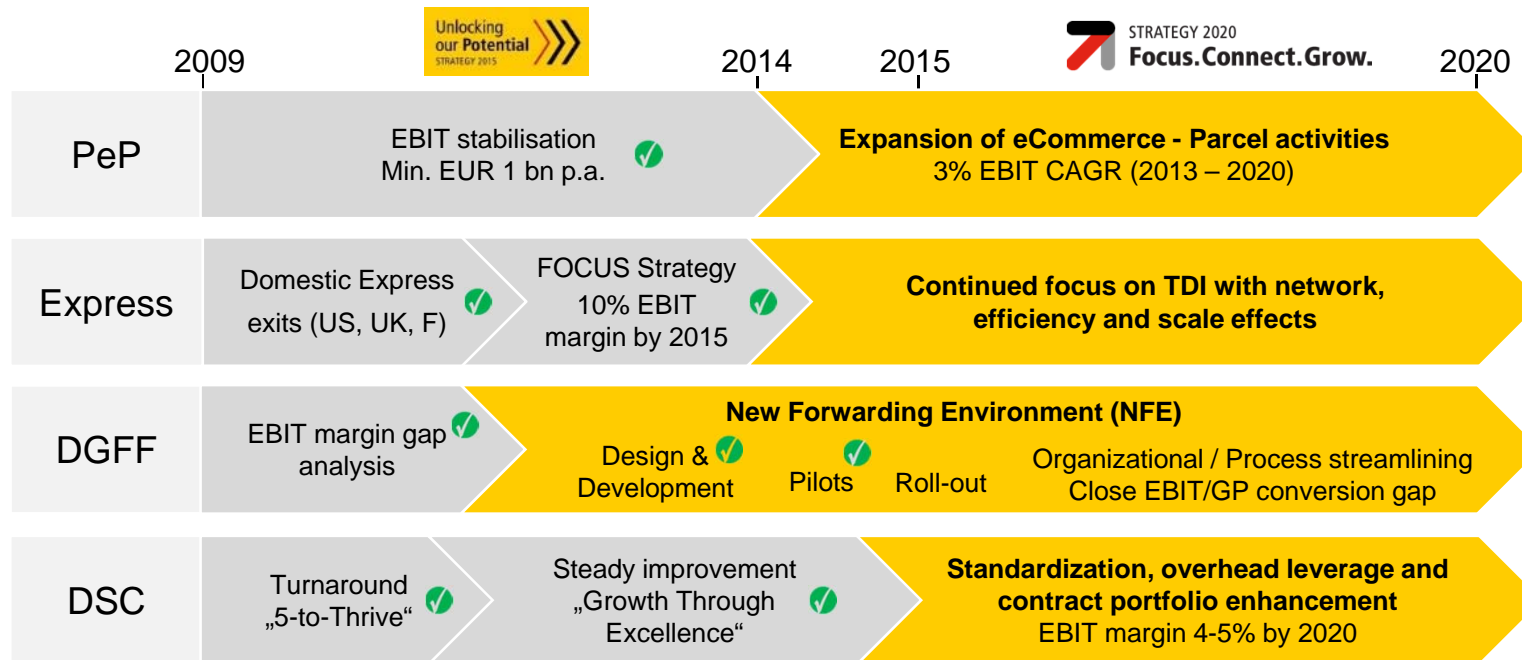
- Global/German GDP growth once more below long-term average in 2014
- Parcel growth well ahead of GDP as we capitalize on the structural e-commerce trend
- Express and Supply Chain keep steady growth momentum driven by strong, diversified market positioning
- Forwarding volumes in all products back to growth in 2014

1) German real GDP growth: +1.6% (2014); +0.2% (2013), +0.6% (2012) ; Global real GDP growth: +2.4% (2014e); +2.2% (2013); +2% (2012);

2) DHL Supply Chain: organic revenue growth

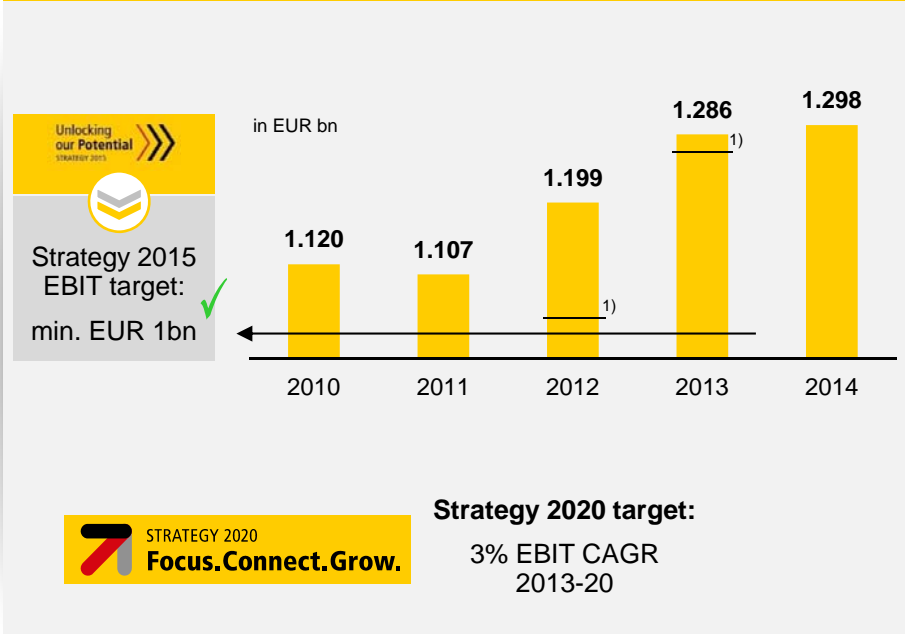
# CLEAR ROADMAP FOR MARGIN IMPROVEMENT

## Steady progress in our divisional agendas – and clear priorities

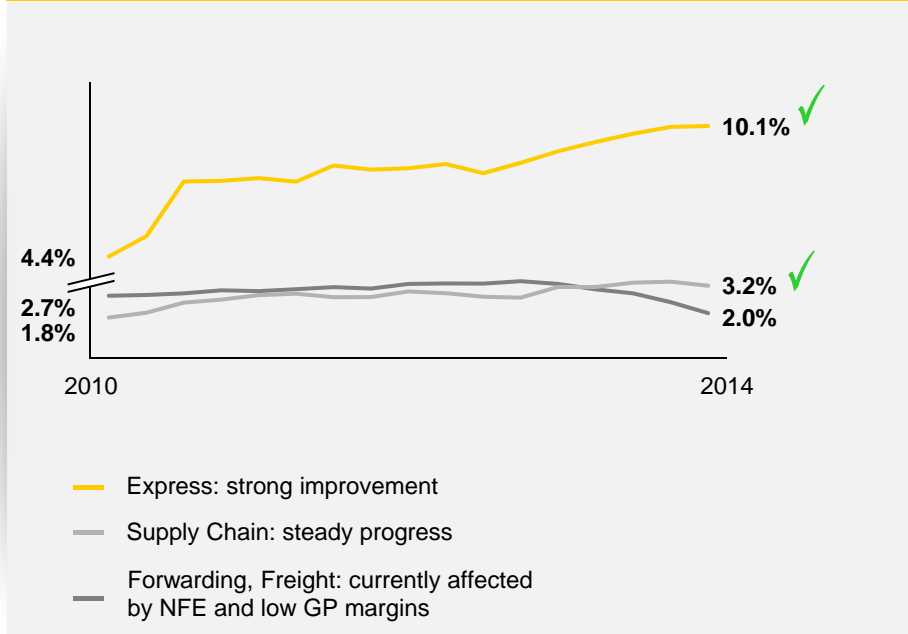


# STRATEGY 2015 HAS DRIVEN SIGNIFICANT OPERATING IMPROVEMENT

## PeP: EBIT stabilization delivered



## DHL EBIT margins<sup>(2)</sup>: good progress, more to come to contribute to ~10% DHL EBIT CAGR target



1) Reported FY 12 EBIT including EUR -151m one-off effect from VAT settlement; Reported FY13 was restated by EUR -60m for asset shift from DHL implemented on January 1, 2014

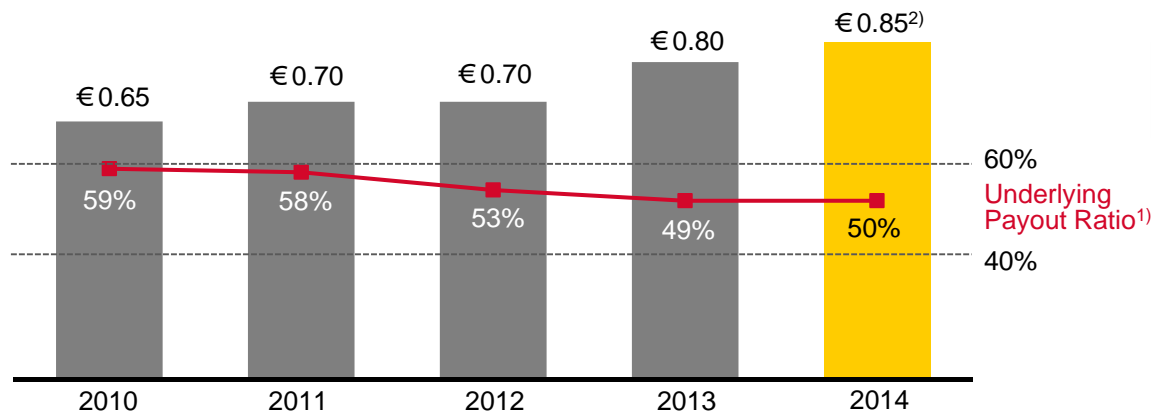
2) EBIT margin, last 12 months (rolling)

# 2014 DIVIDEND RECOMMENDATION: FURTHER INCREASE OF 6%

## Deployment of Free Cash Flow

### Dividend proposal of EUR 0.85 to the AGM on May 27, 2015

i.e. dividend payments of EUR 1.030bn to DPDHL shareholders on May 28, 2015



1) Adjusted for Postbank effects as well as non-recurring items  
2) Proposal to AGM

### FINANCE POLICY, UNCHANGED

Target / maintain rating BBB+

Dividend payout ratio to remain between 40–60% of net profit (continuity and Cash Flow performance considered)

Excess liquidity will be used for

- Stepwise pension funding and / or
- Share buybacks and/or extraordinary dividends

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## GROUP P&L 2014

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EUR m	2013	2014	Chg.	Management comments
Revenue	54,912	56,630	+3.1%	Revenue growth tempered by FX effects. Organic growth of 4.2%
EBIT	2,865	2,965	+3.5%	Solid EBIT growth despite decline in Forwarding and continued low GDP growth environment. Corporate center costs declined significantly
t/o PeP	1,286	1,298	+0.9%	Minor EBIT increase due to Parcel business, overall divisional margin declining slightly
t/o DHL	2,002	2,019	+0.8%	EBIT increase held back by Forwarding. Sustained strong EBIT growth in Express with 10% margin target reached one year earlier than forecast
Financial result	-293	-388	-32.4%	Decline mainly due to one-off benefits in H1 2013
Taxes	-361	-400	-10.8%	Tax rate at 15.5% in FY14. Last year's 14% rate especially impacted by a positive tax audit settlement
Consolidated net profit <sup>1)</sup>	2,091	2,071	-1.0%	Net profit and EPS slightly down yoy as lower financial and tax result more than offset EBIT increase
EPS (in EUR)	1.73	1.71	-1.2%	1) Attributable to Deutsche Post AG shareholders

## GROUP P&L Q4 2014

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EUR m	2013	2014	Chg.	Management comments
Revenue	14,450	15,365	+6.3%	Euro weakness leads to a mild FX tailwind. Organic growth of 4.1%
EBIT	888	905	+1.9%	Operating profit increase despite Forwarding weakness and low-growth environment. Up 5.5% excluding previous year EUR +30m one-off benefit
t/o PeP	374	425	+13.6%	EBIT increase mainly driven by ongoing eCommerce - Parcel growth and working day benefit
t/o DHL	628	580	-7.6%	Decline in EBIT due to Forwarding and EUR +30m Supply Chain one-offs in Q4/13. Ongoing strong EBIT growth and margin increase in Express
Financial result	-111	-129	-16.2%	Decrease of discount rates leads to higher non-cash interest expenses on provisions
Taxes	34	-112	n.a	Tax rate at 14.4% in Q4 2014 vs tax income in Q4/13 due to reduction of full-year tax rate
Consolidated net profit <sup>1)</sup>	772	640	-17.1%	Net profit and EPS down due mainly to tax rate difference
EPS (in EUR)	0.64	0.53	-17.2%	1) Attributable to Deutsche Post AG shareholders

## FREE CASH FLOW Q4 2014

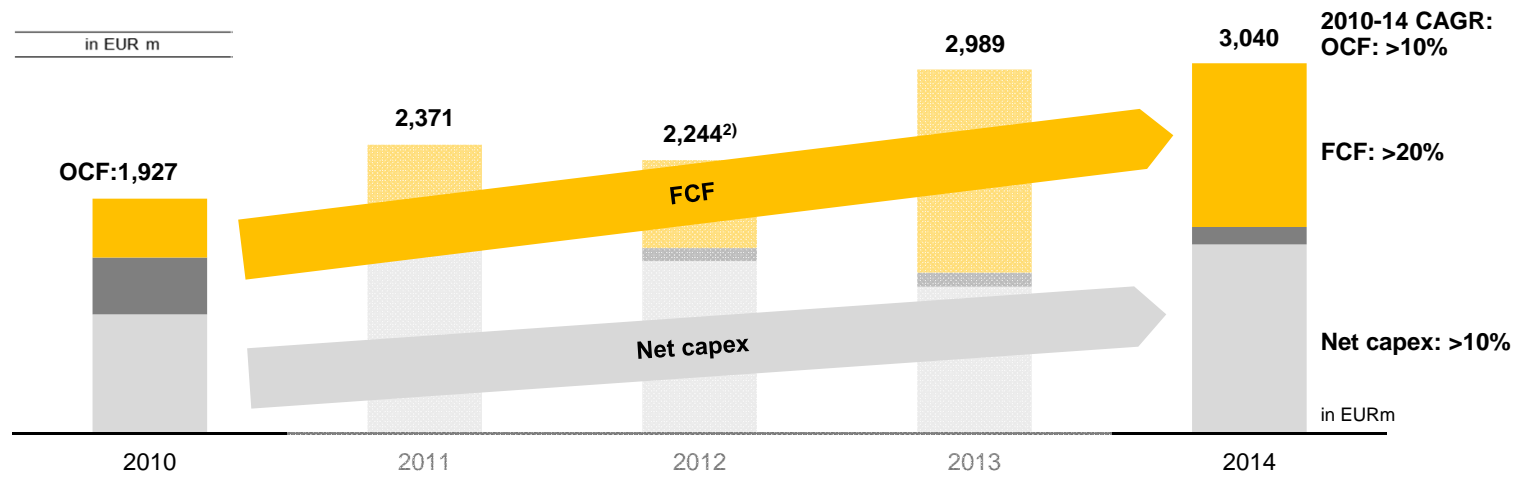
### FCF generation in line with strong previous year performance

EUR m	Q4 2013	Q4 2014	
Cash from operating activities <b>before</b> changes in Working Capital	975	1,041	Continued strong Operating Cash Flow generation, even exceeding excellent previous year performance
Changes in Working Capital	587	618	Working capital management again supporting cash flow generation
Net cash from operating activities <b>after</b> changes in Working Capital	1,562	1,659	
Net Capex	-398	-476	Once more, high capex spend in Q4 bringing full year level in line with 2014 guidance
Net M&A	1	-6	Full-year net capex spend up EUR 346m. As in 2013, 2014 gross capex to be partly cashed out in the next year
Net Interest	-37	-63	
<b>Free Cash Flow</b>	<b>1,128</b>	<b>1,114</b>	FFO/Debt down to 27.7%, mainly due to increase in net pension provision (year-end 2013: 34.4%)

# IMPROVING CASH FLOW GENERATION

## Sustained increase in Operating Cash Flow

- Provides funding for investment in future growth, in particular in Parcel and Express
- While simultaneously driving improved Free Cash Flow generation



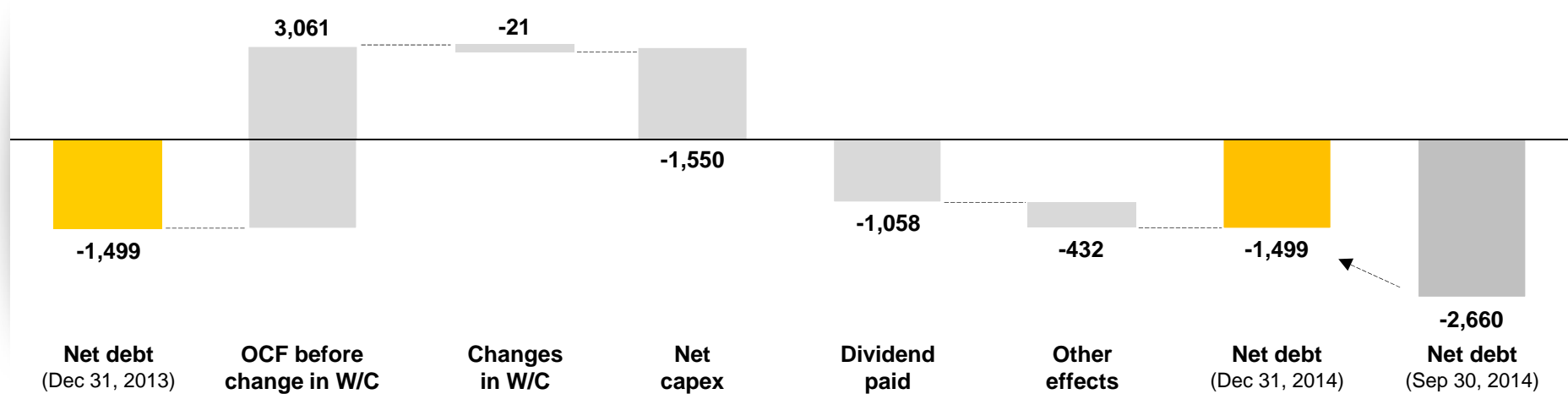
Use of OCF: ■ Net Capex ■ Other <sup>1)</sup> ■ FCF

1) includes net M&A and net interest 2) Adjusted for non-recurring items

# NET DEBT (-)/LIQUIDITY (+)

**Strong FCF drives net debt reduction of more than EUR 1bn in Q4, net debt stable yoy as strong cash generation funds capex and dividend increase**

in EUR m



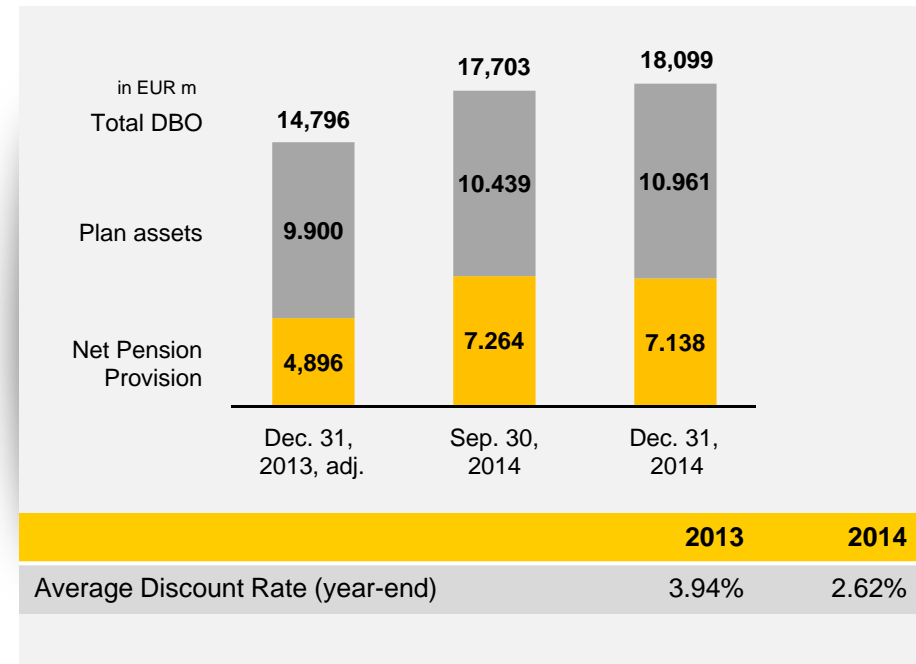
## REMINDER ON PENSIONS: DEFINED BENEFIT OBLIGATIONS (DBO)

### DBO pensions in Germany

- No regulatory funding requirement
- Pensions paid partially from plan assets and partially from current OCF

### Impact of declining discount rates

- **Balance sheet:** net pension provision up in 2014 – however, slightly down in Q4 as DBO increase more than offset by return on plan assets
- **P&L:** slight increase in staff costs expected in 2015 (mainly due to higher current service costs), mostly offset by small decline in finance costs
- **Cash flow:** cash outflow not directly affected as actual pension payments and employer contributions to plan assets not affected by fluctuations in applied discount rate levels



Lower discount rates increase balance sheet liability but have no direct impact on cash generation

## PeP – DIVISIONAL RESULTS Q4 2014


EUR m	Q4 2013	Q4 2014	Chg.	Management comments
Revenue	4,183	4,353	+4.1%	Continued growth in parcel volumes and price increases more than offset letter volume decline in Q4
EBIT	374	425	+13.6%	Increase due to higher contribution from eCommerce - Parcel, working day benefit and cost discipline
Operating Cash Flow	366	478	+30.6%	Driven by positive working capital development and increased EBIT
Capex	266	208	-21.8%	Decline reflecting phasing in parcel infrastructure expansion

# STAMP PROVISION LIKELY TO BE REDUCED FURTHER ON A RECURRING BASIS

## Change in customer behavior over the years

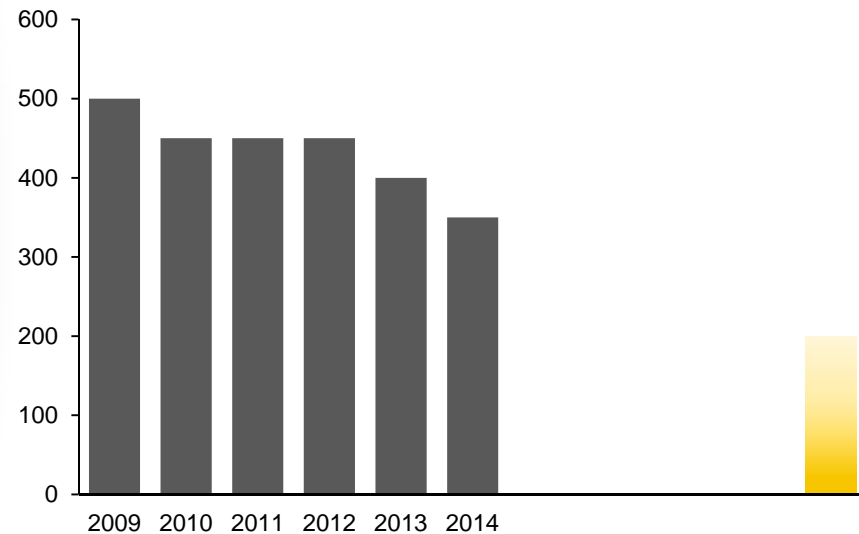
- Customers increasingly buy “on demand” in view of likely future price increases
- Customers increasingly use different distribution channels
  - E-post
  - Online franking
- E-substitution also leads to lower stamp usage
- Stamp provision likely to be reduced in the future



 As provision movement roughly offsets lower stamp sales, about neutral on revenue and EBIT

## Stamp provision

in EUR m





## EXPRESS – DIVISIONAL RESULTS Q4 2014

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EUR m	Q4 2013	Q4 2014	Chg.	Management comments
Revenue	3,100	3,411	+10.0%	Strong TDI volume growth (Europe +10.2%, Middle East, Africa +10.0%, Asia Pacific +8.0%, Americas +0.0%) supplemented by positive FX effects. Organic revenue growth +6.6%
EBIT	312	348	+11.5%	Increased TDI volume and higher efficiency in aviation network
Operating Cash Flow	556	578	+4.0%	OCF increase driven by EBIT growth and good working capital performance
Capex	223	296	+32.7%	Main investments for hub and gateway infrastructure upgrade as well as air fleet modernization and expansion

## GLOBAL FORWARDING, FREIGHT– DIVISIONAL RESULTS Q4 2014

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EUR m	Q4 2013	Q4 2014	Chg.	Management comments
Revenue	3,774	3,960	+4.9%	Driven by volume increase in AFR and OFR as well as minor positive FX effect. Organic growth of 4.5%
Gross Profit	902	885	-1.9%	Low Forwarding GP margins, although decline lower than in previous quarters
EBIT	138	71	-48.6%	Affected by ongoing NFE transformation program and lower GP margin
Operating Cash Flow	372	205	-44.9%	Reflecting EBIT decline and working capital outflow in the quarter
Capex	56	79	+41.1%	Increase on low level as a result of NFE implementation

## SUPPLY CHAIN – DIVISIONAL RESULTS Q4 2014

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EUR m	Q4 2013	Q4 2014	Chg.	Management comments
Revenue	3,699	3,953	+6.9%	Positive FX effects reflecting stronger USD and GBP. Organic revenue increased 1.9% as new business in consumer and automotive was partly offset by a customer loss in North America
EBIT	178	161	-9.6%	EBIT decline due to last year's EUR 30m net positive one-off effects. Excluding these, EBIT up by 8.8%
Operating Cash Flow	376	436	+16.0%	Cash flow up yoy due to better operational performance. Previous year one-off was cash neutral
Capex	90	108	+20.0%	Higher than last year due to investment in new business projects and fleet replacement

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## GUIDANCE SUMMARY

### 2015 guidance detailed, 2016 guidance confirmed

EBIT	FY 2015	FY 2016
PeP	At least EUR 1.3bn	> EUR 1.3bn
DHL	EUR 2.1-2.25 bn	EUR 2.45-2.75bn
CC/Other	~ EUR -350m	~ EUR -350m
<b>Group</b>	<b>EUR 3.05-3.2bn</b>	<b>EUR 3.4-3.7bn</b>

#### >> 2015

- Free Cash Flow to exceed 2014 dividend
- Tax rate around 18%
- Gross Capex of around EUR 2.0bn

## 2015 EBIT GUIDANCE DRIVERS

	2015 vs 14	Main 2015 EBIT Drivers
PeP	➔	Factor cost evolution and usual letter volume decline expected to mostly offset growth generated by eCommerce - Parcel business
DHL	➔	<p>DHL EBIT increase mainly driven by Express as Forwarding, Freight and Supply Chain incur temporary costs for their optimization programs</p> <ul style="list-style-type: none"> <li>▪ Express: growth in TDI volumes and continuation of gradual margin improvement expected</li> <li>▪ Forwarding, Freight: NFE investments and volatile market environment</li> <li>▪ Supply Chain: expected steady progress in operating performance offset by restructuring investments</li> </ul>
CC/Other	➔	Strong cost discipline continues
<b>Group</b>	<b>➔</b>	<b>Growth in Group EBIT to EUR 3.05 – 3.2 bn</b>

# WRAP-UP: STEP BY STEP IMPROVEMENT CONTINUES

## Shifting gears towards Strategy 2020

- Once more, all targets delivered in 2014
- Further significant progress expected in 2015
- Strategy 2020 has set clear course to strengthen our position and deliver higher topline growth, EBIT margins and cash generation

## Strategy 2020 targets confirmed

EBIT	FY 2020	2013 base
PeP	~3% CAGR 2013-20	EUR 1.286bn
DHL	~10% CAGR 2013-20	EUR 2.002bn
CC/Other	< 0.5% of Group revenue	EUR -422m
<b>Group</b>	<b>&gt;8% CAGR 2013-20</b>	<b>EUR 2.865bn</b>

As introduced at our 2014 Capital Markets Day

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