Transcript

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Aramex Q3 Results Conference Call

Thursday, 10 November 2022

Ahmed Hazem Good morning and good afternoon, ladies and gentlemen. This is Ahmed Hazem, from EFG Hermes Research, and we're pleased to welcome you all today to Aramex's third quarter 2022 results conference call. With us on the line today is Mr Othman Aljeda, CEO of Aramex. Mr Nicolas Sibuet, CFO, Mr Mohammed Alkhas, Chief Operating Officer of Aramex Logistics, Mr Alaa Saoudi, Chief Operating Officer of Aramex Express, and Ms Anca, the IR Director of Aramex. Without further delay, I'd like to hand over the call to Anca. Anca, please go ahead.

Anca Cighi Thank you. Thank you very much, Ahmed. Good day and good afternoon to everyone. Thank you for joining our investor call. Our third quarter materials are available on our IR website. Please note that we are publishing an IR data book every quarter. This is an Excel document where you will find the key financial data with an option for viewing in dirhams or in dollars. Before we begin the call, I would like to draw your attention to page number two of the presentation.

Some of the comments made on this conference call today may be forward-looking statements which are based on our view of the business and macroeconomic trends as we see them today. These elements can change due to a variety of factors and therefore you should not assume that we will continue to hold these views in the future. Today, we will begin the session with our Q3 results, after which will cover the MyUS acquisition. We will then open the floor to you for the Q&A session. I will hand over now to Othman for the opening remarks. Please, go ahead.

Othman Aljeda Thank you, Anca. Good afternoon, good morning, ladies and gentlemen. Thank you for joining our financial results call. I hope everyone is well and has kept healthy since we last spoke in August. We have made very good progress in the third quarter with the rollout of our M&A strategy and organic wins. Certain one-offs impacted our performance and Nicolas will go through these in detail. It's important to understand these to be able to measure the solid operational performance of the business and expectations for the future quarters.

Our Q3 revenue was AED 1.43 billion, driven by a good contribution from all product lines. Our courier business was resilient and we delivered a stable GP margin of 30%. Our Domestic Courier product delivered stable volumes in all markets except Oceania where we have a turnaround plan in place. We have made very good progress with our premium product offering in domestic and we are seeing excellent demand from customers. Our Same Day volumes continue to increase in the major cities in Saudi Arabia, UAE and Egypt. In Saudi Arabia, we launched a four-hour service with a major beauty fashion retailer. Our last mile infrastructure is more efficient. We've added more PUDOs and new micro hubs in several GCC countries, which is vastly improving our productivity.

The International Express business was mainly impacted by volume declines associated with one customer which we previously talked about and, as you will see, to a lesser extent from the softness and normalisation in the post-COVID years in line with the broader industry. The premium product is progressing very well, with very good demand intra-GCC on ten different lanes and plans to expand. The DPD relationship is going very well. We have started receiving shipments from Italy, Holland and the Czech Republic as part of the cooperation to build international lanes for DPD.

Freight delivered another strong quarter with 38% growth in revenues. Of course, we started from a lower base in freight and there's a lot of room for us to grow, and thanks to the changes we have made in our business. I am talking here about the split of operations and bringing freight specialists across sales and operation roles, which has helped us expand our business and core accounts and win new customers as well.

The industrial vertical for us, which is including the oil and gas business, is seeing extremely healthy growth and we are seeing similar growth in other verticals, including retail and SME businesses. The business delivered a two-point improvement in GP margin to 14% and EBIT to 5%. We are growing scale. We can consolidate trucking resources across freight and logistics, which means a more efficient operation. In logistics, our utilisation has reached 90% in key markets and 85% across all leased and owned facilities. As discussed in earlier calls, we are cleaning up our client base and maintaining quality revenue clients only. This meant that in Q3 we had to recognise a few one-offs as part of the cleaning up process, which will be completed by the end of the year.

Operationally, we're on track with our automation and expansion plans. We have launched a new platform system to enhance our e-commerce and omnichannel distribution capabilities in the region. We have also invested in bulk storage in our Riyadh warehouse and expanded our logistics services in Morocco. Geographically, I want to highlight the good performance we are seeing in the GCC, which is our core markets. Despite intense competition, Aramex's scale and brand are helping us to defend and grow market share, while favourable macroeconomic conditions are sustaining good demand from customers. Our revenue is very diversified by product and by customer. Today, our biggest client accounts for 7% of total Group revenue. Revenue diversification is very important for us.

Lastly, on a happy note, it is our birthday. We are celebrating 40 years of Aramex operations. I am very proud of the company we have built together and grateful to my team and every employee for their significant contribution. We have produced a documentary to celebrate these 40 years. A link to the trailer is included in this presentation if you would like to watch it. I will now hand over to Nicolas for the financial overview.

Nicolas Sibuet Thank you, Othman. Good afternoon, everyone, and thank you for joining our conference call. We will start with the product performance and then we will follow this discussion with a Group level overview and conclude with the MyUS acquisition. If we move to slide number 12, please. Let's have a look at the volume performance for the International Express product. Looking at the volume in Q3 2022 compared to Q3 2021, we are seeing a decline of 1.17 million. Out of this, 660,000 shipment drop is coming from the volume reduction associated with one major client in North Asia, which is approximately 60% of the total volume drop. The remaining 500,000 shipment drop, equivalent to approximately 40% of the total volume drop, is coming from other regions and a general softness in International Express. That is less than the drop of some of our peers, thanks to the resilience of the GCC markets.

Moving to the next slide, let's see the financial impact of the International Express product. We have an 18% drop in revenues, of which 10% is attributed to the client we discussed just now and the remaining 8% attributed to macro softness, noting that volumes associated with general macro conditions are dropping less than the competition, as discussed just now. Costs dropped in line with volumes, which helped deliver a GP margin of 31% in Q3 2022, which is stable compared to the same period last year. As Othman mentioned, we are now well diversified across customers and geographies. We have good exposure to the Middle East, which has a favourable economic outlook. Of course, we remain cautiously optimistic as we face industry headwinds and a dynamic macroeconomic environment with challenging inflation. However, we benefit from good consumer demand originating from the GCC and the broader Middle East region, while the premium product offering and operational enhancement will help us grow in an efficient and profitable manner.

Moving to the next slide, please. Moving to the Domestic Courier product. On this slide you will see that the volume evolution for the Domestic Courier, this product has been very resilient in all markets apart from Oceania. All of the volume decline is coming entirely from Oceania. The other regions are very stable, showing strong resilience of our core markets. We have previously discussed the turnaround plan for this market or the Australia market, which is on track but still presenting challenges associated with inflation, high fuel prices, labour shortages from the COVID lockdowns and the softness in volume. We have a unique network in Australia, second only after the national post. We have confidence in the turnaround plan, as this region remains an important part of Aramex's network.

Moving to the next slide, still on Domestic Courier but on financial. It is worth noting that this quarter we have reclassified the Other Revenues segment into Domestic Revenues. The Other Revenues segment included mostly royalties and franchisee revenues from the Oceania business, and these revenues were directly related to the domestic product and were therefore reflected accordingly. The comparison that you are seeing quarter three 2022 and quarter three 2021 are comparing apples to apples. The reclassification has been done for both quarters. Revenue for the domestic product was impacted by the decline in volumes, which we just discussed. Costs were reduced by the same percentage, which resulted in a stable GP margin of 28% compared to the same period last year and an improved GP margin compared to the previous quarter in Q2 2022.

Moving to slide 16, please. The slide is the combined courier product. On a consolidated basis, the Domestic and International Express product delivered solid revenues of AED 913 million and a stable gross profit margin of 30%. The decline in revenues has flowed through the bottom line reflecting at EBIT and EBITDA level. However, our cost management and efficiency actions helped deliver a solid EBITDA margin of 10%, stable compared to Q3 last year.

Next slide, please. Moving to the Freight Forwarding product. The Freight business continued to deliver good results. 44% of the revenues are coming from air freight, 31% from sea freight, 20% from land freight, with the remaining 5% from freight clearance services. We have seen growth in all regions and particularly in the GCC, where half of our freight revenues are coming from. Our land freight is growing nicely. We have the largest trucking network in the GCC and are further expanding. We are moderately exposed to the sea freight rates. The Freight team delivered a good result, improving margin at GP, EBIT and EBITDA level. The increase in margin is mainly driven by expansion in the GCC as well as the consolidation of trucking resources between freight and logistics products, which is driving operational efficiencies. Our focus on people and competencies is helping us growing and scaling up. Going forward, we will focus on growing volumes and attracting profitable business. We are seeing a softness on pricing on a going forward basis but remain comfortable at a gross profit margin level, which we will maintain.

Moving to the Logistics product now, it's important to note that the restructuring of the client base is ongoing. We have previously talked about this and our focus on quality revenue only, as we have had to terminate certain customers' contracts which did not fit our profitability KPIs. We have had certain one-off provisions in the quarter of approximately $2.5 million, which we recognised in the third quarter and which impacted GP, EBIT and EBITDA for Logistics and for the Group. Normalised gross profit percentage for Logistics without this one-off would have been 17% and normalised EBITDA was 22%. We also recovered our EBIT, reaching a 3% normalised margin and bringing it back to profitability. As a business, the Logistics product has an attractive profitability profile and also plays an important part in our ecosystem of products and customer offering. We are planning to almost double the current warehousing capacity in the next five years, as we are seeing excellent demand for this product in our core market.

Moving to the next slide. At Group level, we reported stable revenues of AED 1.43 billion in Q3 2022 compared to AED 1.46 billion in Q3 last year. The drop in Domestic Courier and International Express was offset by growing contribution from Freight and Logistics. On the next slide, please Anca, Revenues by Geography. If we look at the revenue by geography, we have a good contribution from the GCC countries, Africa and North America, which were offset by the decline we discussed, primarily from North Asia, activity from China, and from Oceania on the domestic product.

On to page 21. Let's conclude the key Group KPIs before moving on to the MyUS, on this slide. The volume declines impacted revenues and gross profit results. Furthermore, one-offs associated with the restructuring in the Logistics product has impacted Q3 2022, as we discussed, has impacted the gross profit, EBIT and net income. Excluding these one-offs, normalised GP margin for the Group was 23.2%. We maintained good control of our overheads and delivered a 3.6% improvement in Q3 2022 compared to the same period last year. Even with investment in people and salary adjustment for inflation, we have been able to realise significant efficiencies. We closed the quarter with net profit from continuing operations up by 17.8% to AED 37 million. As a reminder, profit from continuing operations includes profits from InfoFort in Q3 2021, an asset which was sold last year.

It's important to note that currency fluctuations impacted our results. Excluding this impact, revenue and net profit for the quarter would have been higher by AED 49.5 million and AED 4.6 million respectively compared to Q3 2021 exchange rates. Given macroeconomic conditions, we expect to see currency volatility in the coming quarters as well. Normalised net profit was AED 49 million in Q3 2022. To clarify, the AED 49 million in profit shows our performance when we exclude the impact from the Logistics restructuring one-off. I will now hand back to Othman for the MyUS remarks before opening the Q&A session. Thank you. Othman?

Ahmed Hazem Othman is on mute?

Othman Aljeda Sorry, I had it on mute. Thank you, Nicolas. As you know, we've just closed the transaction with MyUS, which is the largest acquisition we've done to date. MyUS is a great business and it will bring substantial benefits to Aramex. The financial profile is very attractive. It will add to our bottom line and it's value accretive to our shareholders, improving their ROIC overall. What I like about it, is the attractive commercial profile, it complements our Shop & Ship product, while expanding our customer profile and geographical footprint. MyUS does consolidate and offer a tax-free zip code for customers globally. It has very exciting technologies, which we will benefit from.

Can you move on to slide 27 please, Anca? Here, we are sharing a few select market stats, which are relevant to growth prospects of MyUS. In the interest of time, I will not cover this today. They key takeaway is that e-commerce fundamentals remain very strong and we believe there is a very good demand for services offered by companies such as MyUS and Shop & Ship. I will hand over to Alaa for a brief overview of MyUS customer proposition and the business model.

Alaa Saoudi Thank you, Othman. Good evening, good morning, everyone. It's a pleasure to speak to you today. If we go to slide 28, just to talk about MyUS, it's a subscription-based services that allows global consumers to shop from US, UK and China-based websites. In the US, specifically, it gives global customers to a tax-free zip code as well as package consolidation services. They have 165,000 square foot in warehousing space in Florida, where they receive, store and consolidate several orders on behalf of customers and then ship everything at once. The features will give MyUS customers significant cost savings on shipping compared to traditional carriers and retailers. These features, as well, are also a key difference with our Shop & Ship product.

Our Shop & Ship customers buy and ship immediately as a premium express product, as there is no consolidation option under the Shop & Ship. Shop & Ship and MyUS have well-defined products and services and cater to different customer profiles. It's important to mention here that the technology is so strong and is a competitive advantage for MyUS, and they have a well-developed compliance programme which will complement Aramex's existing logistics capabilities. For example, they have one software that is called Product DNA, which is designed to mirror the US Trade and Transportation regulatory controls framework. This Product DNA structure allows for workflows that approve or restrict products based on US export rules by commodity, destination or internal carrier policy specifics.

Please, if you go to the next slide, Anca. We've covered the B2C customer offer. For the B2B customer base, which is another offer which MyUS offers to their clients, they have two options for the B2B. Option one is to develop, host and maintain the partner's website as a full end-to-end service or option two where they offer API integration, where the partner gets access to MyUS enterprise software to build and host their own site. They have, as well, the C2C offer, which is still new and not material at this point.

You can see on this slide, as well, the geographic map of MyUS customer footprint. We are excited about the new geographies MyUS gives us access to. It's worth noting that we both operate in the Middle East although, as explained, we cater to a slightly different customer base, so MyUS will help us further grow our market share in high-growth markets in Asia, Africa and the Middle East. We did a customer base analysis and the customer overlap, in common geographies is extremely limited. I will hand over now to Nicolas for an overview of the financial impact of this acquisition. Thank you.

Nicolas Sibuet Thank you, Alaa. On this slide, you will see that MyUS generated approximately $100 million in revenues in 2021 and an EBITDA margin of 24%, which will favourably impact our Courier EBITDA. We expect to add approximately $30 million EBITDA to our bottom line in 2023, and this is inclusive of synergies. Going forward, approximately 1% of the revenues of MyUS will be used as capex related to operations and technology. Once fully integrated, we expect to add more benefits through synergies. We can increase revenue by providing customers at MyUS and Shop & Shop with enhanced product by applying joint capabilities, utilising Aramex's existing scale and capabilities to offer additional products and origins to customers, consolidations of linehaul volumes and operating systems with MyUS, achieving efficiencies. And, of course, we will look to optimise cost and consolidate back office support where adequate. It's also important to note that we have a dedicated integration team in place with key subject matter experts from our business, in order to integrate the MyUS business and unlock, as soon as practical, the synergies.

As you know, the acquisition cost of MyUS is US$265 million, which we are financing entirely through debt. We have obtained very competitive debt terms with a tenor of five years and an optional amortisation schedule. Following a thorough tax structuring exercise, the leverage has been split between US dollar and GBP. Prior to closing, MyUS had debt in its balance sheet. This debt has been redeemed entirely as part of the purchase price. I think we are now ready to open the floor for the Q&A sessions. Back to you operator.

Ahmed Hazem As a reminder for everyone, you can use the raise hand function to ask your questions or you can send the questions in the Q&A box. We currently have one question, one raise hand from Thomas Matthew. Thomas, your line is open. Please, go ahead.

Thomas Matthew Hi. Good afternoon. Thanks for the call. Firstly, congrats on completing 40 successful years and also successfully completing the MyUS transaction. I have a couple of questions. The first one is just to get an understanding of the market share landscape with the MyUS transaction. I understand there are great synergies with your Shop & Ship product. Just from your core markets and key markets, I just wanted to know how this changes the express business' market share in terms of gains and how it will impact pricing going forward. That's my first question. I'll probably ask the remaining questions after the response to this. Thank you.

Othman Aljeda I'll take this. As you know, we've got the Shop & Ship product which was a very dominant product for us into this region. Shop & Ship, all of the revenue is into the GCC and MENAT area. MyUS's profile is a bit different. Out of their revenue, 35% is into our region. The other 65% is into other regions. As you can see there, they've got Asia, Australia, some parts of Africa and a little bit in Europe and Latin America. So, this obviously expands our global footprint. Now, there's a lot of synergies obviously moving the two operations into the Middle East together. The Shop & Ship product is based out of New York and there's a 10% sales tax. For every order you order through Shop & Ship, you are subject to 10% tax.

Now, part of the synergy is we're going to move our operation down to Florida, so we'll offer Shop & Ship customers a tax-free zip code and then, obviously, we consolidate the two businesses together and fly the business that they have into the Middle East along with our business, so there's fantastic synergies there. Then, again, leverage on each other's customer profile. What they offer is a consolidated service, which we don't. Shop & Ship is straight in and out, so we cannot bundle products. They do that. So, again, we can cross-sell our customers a consolidated product. In terms of pricing, we have increased the Shop & Ship a couple of months ago by 15%. We don't anticipate to increase that any more. Again, as I said, the services are a bit different, so the consolidated services pricing differs from a straight in and out but there's obviously a lot of synergies in the cost factor.

Thomas Matthew So, what you're mentioning is, also in terms of the pricing, at least for the same geographies, you'll have a unified pricing or are you planning to keep these…?

Othman Aljeda No. We will keep the two brands separate. They will operate under different marketing campaigns but, again, we will share the linehauls, the delivery aspects. I'll give you an example. Today, they do not use Aramex at all because they've been a competitor of ours. So, all of the volumes they have into the Middle East will come through us. Again, as I said, it's a different service. They do consolidation, so the pricing is different there. Their business if very bulky, ours is a bit more volumetric, so there's again a synergy in volumes when you do linehauls. But, there will be no price increases for MyUS at this stage.

Thomas Matthew Very clear, very interesting. My follow-up question is on the synergies on slide 31. You mentioned EBITDA grows from USD 25 million to USD 30 million in 2023 and you have synergies of about 1.5 million USD. Is the differentiated offering the reason why you're not able to achieve more synergies? I'm just trying to understand if this is par for the course, the 1.5 and the 2.0 for 2023 and 2024. Thanks.

Othman Aljeda Alaa, maybe you can take this one because you were down in Florida a couple of weeks ago and you looked at all of this.

Alaa Saoudi Thank you, Othman. As Othman mentioned, the synergies that we're looking for, the first one comes from offering Aramex on the checkout screen. We remain having different carriers on the checkout screen. We will not change that. Aramex will become a new carrier and it all depends on the customer's request. So, we cannot influence that. We'll not put Aramex as the only option and what we're expecting is that we get around 50%. This is where we put the synergy at 50% of the overall business coming to the Middle East or to the areas where we operate.

The other synergy that we have, again, as Othman mentioned, is moving our volumes from JFK to Sarasota in Florida, where we will consolidate both volumes together, so whatever is coming from us as carrier from MyUS, plus whatever we have as Shop & Ship. Again, the good thing is that the cargo that they have is consolidated and dense, while by default the Shop & Ship is volume. Putting both together will help us to gain another synergy on the linehaul. These are where the synergies for now are calculated. I think that there are some other synergies that we're working on, like giving other origins for MyUS, but I think that will come at a later stage rather than next year.

Othman Aljeda Just to add to this, we haven't factored here what we can do with this product into Europe through the DPD network and basically cross-selling it to their customer across Europe. So, that's something down the road but that's not factored here at all.

Thomas Matthew Very clear. Just one last question and then I'll be through. On the domestic express business, your average revenue per shipment has gone up for this quarter. I understand there is a little bit of cyclicality there because I think Q3 '21 also had that higher pricing per shipment. I'm just wondering, for Q4 do we expect that drop that we saw in 2021 or is this something which is the new run rate for pricing that we can assume?

Nicolas Sibuet Let me take this question. What I mentioned during the comments initially is that we have done in Q3, a one-off adjustment, a reclass of Other Revenues into Domestic Revenue. So, you are seeing additional revenue recognised into the domestic product which, when you divide that by the numbers of shipments, shows an additional revenue. On a going forward basis, there is no more change. So, whatever you are seeing in terms of Q3 pricing, excluding any adjustment on fuel surcharges and inflation, will represent a stable base for Q4 as well. I hope this is clear.

Thomas Matthew Yes. Thanks for clarifying and thanks for taking my questions.

Ahmed Hazem We don't have any further raised hands. Just as a reminder, if you have questions, you can send them in the Q&A box or use the raise hand function. We have a question coming from Tahar Madani. Tahir, your line is open. Please, go ahead. Tahir, we can't hear you. Tahir, it seems you have an issue with your mic. Maybe if you can send your questions in the Q&A box and we will read them too. Just to give time to people to ask their questions or raise their hand, we'll take a question from the Q&A box. Could you please quantify reclassification from Others to Domestic Express revenue?

Nicolas Sibuet Yes, absolutely. For Q3, for the full quarter it's approximately a $14 million reclassification [edited for factual accuracy] from Other Revenues to Domestic Express Revenue.

Ahmed Hazem Thank you, Nicolas. It seems that we still don't have any further hands raised. We have Tahar. He sent his question in the Q&A box. How was the MyUS business valued, this amount of $265 million? Any valuation multiple used. And what is the debt level of MyUS, itself?

Nicolas Sibuet Let me take this as well. If you do the math, basically we are acquiring a business that is generating 24% EBITDA, $100 million currently. It's a business that will be generating $30 million EBITDA next year, so you can easily derive the multiples of this transaction based on these two numbers. We have also looked at additional mechanisms to ensure that there will be further growth in the EBITDA in the years to come and aligning the management of the company toward these goals. Prior to the acquisition of MyUS, MyUS had some debt in their books. This debt has been fully repaid. There's no more debt in MyUS as of today. The only debt that we have is $265 million in Aramex's books, nothing else. I hope this is answering your question Tahar.

Ahmed Hazem Thank you, Nicolas. Very clear. Again, we don't have any further questions in the Q&A box or raised hands. So, if there are no further questions, back to you Anca or Othman, if you want to give closing remarks, please.

Anca Cighi Thank you so much, Ahmed. I will hand it back to Othman for the concluding remarks.

Othman Aljeda Thank you so much. It has been a tough quarter, I would say, in terms of volumes and this is in line with what is going on in the industry, especially on the courier. What's positive is the focus in the GCC is paying off and this is something in the past hasn't been the case. So, we've really revamped Saudi Arabia, the UAE. The volumes are coming, the revenue is coming. We're getting better quality business and we're in a region that is positive compared to the rest of the world, where we're seeing a lot of recessions. We're quite buoyant in the GCC. We have now a big quarter coming up, which is Q4, which tends to be the biggest quarter because of the sales and year-end, so we're geared up for that operationally and we're looking forward to a very good quarter in Q4. Thank you so much.

Ahmed Hazem Thank you, Othman, and thank you everyone who joined the call. With that, that ends the call and you may now disconnect. Thank you.