ARMX Q2 2022 Investor Call - 20220811 1302-1

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Ahmed Hazem: Good morning and good afternoon, everyone. This is Ahmed Hazem from EFG Hermes Research. We'd like to welcome you all today on Aramex's second quarter results conference call. With us on the line today is Mr Othman Aljeda, CEO of Aramex. Mr Nicolas Sibuet, CFO, Mr Mohammad Alkhas and Mr Alaa Saoudi, COOs of Logistics and Courier Express businesses. As well as Anca Cighi, the Investor Relations Director. Without further ado, I'd like to hand over the call to Anca. Anca, please go ahead.

Anca Cighi: Thank you very much, Ahmed. Good afternoon to everyone. Thank you for joining our investor call. Our second quarter financial results were published today and all materials are available on our IR website. We will run through the presentation, after which we will open the floor to you for the Q&A session.

Just briefly, if you can move on to slide two for our usual disclosure. Some of the comments made on this conference call today may be forward-looking statements. These are based on our view of 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. I will now hand over the call to Othman. Please go ahead, sir.

Othman Aljeda: Good afternoon, good morning, ladies and gentlemen. Thank you for joining our financial result call. I hope everyone has kept well and healthy since we last spoke in May. Let's dive right in. Q2 was a challenging quarter. Our courier business was impacted by the e-commerce normalisation and the macroeconomic conditions, which led to a decline in volumes. We have seen volumes decline across the industry globally and ours are in line with the global trends.

However, we are particularly impacted on the bottom line, as you would have seen from the EBITDA and net profit results. We've worked very hard to keep GP margins stable and we're ramping up activities to grow quality, revenue, and focus operation efficiencies. This is very important. Despite the challenges, we remain focussed on our strategy rollout and I'm pleased to report good progress in this regard. We had 32% growth in our freight business and 3% growth in logistics. Our investment in people and added specialism in these two respective businesses are delivering returns.

Freight was up 71% in gross profit, with a margin of 13%, while logistics tripled its GP with a margin of 25%. In the short-term it's all about protecting margins and growing through quality revenue. In the medium-term there is a lot of growth to unluck. The courier business will remain an important and key driver for Aramex. The team is working very hard and we're ramping up activities. We're expanding our return product and continue to roll out the premium product we talked about last quarter.

Our last mile operation is stronger. We've increased our PUDO network in the GCC by 22% compared to Q1 this year. We continue investing in technology and automation, such as new sorters installed in Egypt. With more detailed analytics, insight and live visibility of our couriers, we have improved courier efficiency by almost 15%. We have gamified the experience for the couriers. Each driver now has access to what we call champion self-performance dashboard on their app, and he can see his own performance, visibility and customer rating.

Our partnership with DPD is progressing very well. We have just recently opened more lanes from Italy, Germany, France and the Netherlands. The MyUs acquisition is progressing well also, we're very close to closing. We are very

excited about this acquisition, it will be the largest we have made to date, and it will bring good value to our business, our customer and, of course, is value-accreditive to our stakeholders. More details on the financial profile of MyUs will be shared with you after we close.

Moving to slide seven. Alongside our financial results, we have also published today our first sustainability presentation. This is available on our website. If you're interested to find out more details, please get in touch with Anca, who can arrange a separate session on this. Earlier in June we received confirmation from the FTSE4Good, that we have been added to their index.

Moving to slide eight, we have prepared a short summary of our key investment highlights, as we see them today. I believe everyone on this call is quite familiar with our business, so I will not go through these one by one. I would like to focus on a couple of these points. Our growth prospects are good. We have recently reviewed our strategy and business plan to account for the new macroeconomic conditions we are in.

We have run various scenarios. We remain very confident in our prospects and we will grow at a faster rate in the market. We have a great business with good exposure to emerging markets and high-growth verticals, where we have the right capabilities to win. Our end-to-end service offering across courier, freight, warehousing and supply chain is a distinct competitive advantage and a unique capability in many of our key markets. This integrated approach is valuable for our clients, driving quality revenue for us and greater operation efficiency for our customers.

You've heard us talk a lot about our investment in technologies. This plays a significant role in achieving good service offering and driving operational efficiencies in our business. There is a lot of value to unlock. We are very excited about these projects that we are running. Our ultimate focus is on profitability and returns. I'll now hand over to Nicolas for the financial review section.

Nicolas Sibuet: Thanks, Othman. Hello, ladies and gentlemen. It's a pleasure to speak to you this afternoon and thank you for joining the call. Let’s start with our key group highlights on slide ten. On revenues, we reported AED 1.52 billion in revenues in Q2 2022 compared to AED 1.57 billion in Q2 of last year. A few factors impacted our revenues this quarter. We are seeing a volatile and changing macroeconomic environment, driving by the increase in inflation, devaluation of currencies and consumer behaviour adapting to this new reality.

Of course, the softness in e-commerce activity globally has resulted in volume declines for express players and for us, as well. Last year’s lockdowns boosted e-commerce activity, while this year, life is back to normal and travel has resumed. In our North Asia region, we continue to see a significant lower volume flow and our volumes in this region were down 56% in Q2 this year compared to last year. Competition remains tough, especially in the Middle East, in particular, with new entrants on the express side and several small players still competing on the domestic front as well.

These factors make it even more important for us to focus on our operational processes and execution, our product specifics, and also, on quality revenue. We are executing profitable contracts across all business lines and we are seeing this reflected in our Q2 results and gross profit margins.

On profitability, we reduced our cost of services by 4%, as we focus on operational efficiencies, and this has helped us to report a gross profit of AED 370 million in Q2 2022 and a gross profit margin up 25%, which is stable compared to 24.7% gross profit margin in Q2 last year. As you know, our focus is after the margin recovery phase, but also now, going to stabilisation or growth of these gross profit margins, depending of course on each one of our products.

Our overheads increased by AED 8 million. It's important to note that our EBITDA performance this quarter was impacted by a few non-recurring items, such as the recognition of M&A-related transaction costs, salary and benefits increases to support our workforce exposed to inflationary pressures, as well as cost related to the repatriation of cash. Without this impact, our EBITDA performance would have been in line with Q2 of last year.

We also recognise AED 11 million in other expenses, which mainly consist of growing currency losses, mostly coming from Europe, GBP, Egyptian pounds and the write-off of discontinued technology applications. The impact of these non-recurring items go straight to net income. We closed the quarter with AED 45 million positive net income. Moving to next slide, please, slide 12.

We will be focussing here on the courier segment. We reported AED 936 million in revenues in Q2 this year compared to 1.1 billion in Q2 last year. On the express side, an 18% reduction on volumes resulted in a 20% drop in express revenues in Q2 this year compared to the same period last year. This is primarily driven by North Asia, where we saw a 56% drop in volumes and a 47% drop in revenues. It's worth noting that sequentially, our volumes and revenues for the express business increased in Q2 2022 compared to Q1 2022. If we exclude impact from North Asia business, our revenue per shipment for the express product improved in Q2 2022 compared to the same period last year. In terms or pricing for the express business, we’re seeing pressure from fuel price increases and inflation, as well as the devaluation of certain currencies.

Moving to the domestic product. Our domestic product has been more resilient. We delivered 24 million shipments in Q2 this year compared to 26 million shipments in Q2 last year. The decrease in volume is coming mostly from Oceania, where we saw a 17% decline in volumes and a 9% decline in revenues. We have previously discussed the Oceania business and noted we have pressures there from inflation, increases in fuel price, increase in leasing cost, and we are expecting to see the benefit of the turnaround plans that we have put in place in 2023. We are seeing a good trend in our revenue per shipment for the domestic product, due to our focus on driving quality business.

Group domestic revenue per shipment improved this quarter, mainly resulting from our focus on pricing and passing prices to the end client to protect our margins. Obviously our operating cost per shipment is impacted by the macro factors discussed just now. The change in exchange rates in Lebanon, Egypt and England also impacted our courier performance. Going forward, we will continue to focus on managing our revenue and cost per shipment dynamically. There are lots of activities driving this, as you have heard from Othman. Moving to the next slide, please.

On freight forwarding, volumes are increasing, especially on air freight, which is the core of the Aramex historical competency. Land freight has also improved, while the decline you see in sea freight is mostly due to industry capacity constraints. Growth is coming mainly from the UAE and KSA with good addition from across the network. From high-growth verticals, such as oil and gas, retail, pharma and SMEs. Gross profit margins increased to 13% and EBITDA significantly improved to 6% from 2% in Q2 last year. Margins benefited from the revenue increase, volume

increase, allowing more efficient pricing discussion with our transportation providers, as well as benefits derived from economies of scale, as we are growing this business.

We continue to make investment in optimising our digital systems, to build an efficient operation as we continue to grow. Speaking of growth, we will focus on the investment in this segment to announce our global offering. We will provide you with more updates hopefully during the next quarter. Next slide, please.

Let's move to our logistic business. Our utilisation per square meter has increased by 6% compared to the same quarter last year. Growth is driven by GCC, Egypt, Ireland, from retail and e-commerce activities. We are working with top global accounts and e-commerce providers to continue to be a main driver for growth in the GCC region. We are optimising storage methods and consolidating facilities where we are over-utilising warehouses. Our utilisation of facilities has reached above 85% in key markets. We have exited low-probability contract and secured business that are clearly linked to the GP growth that you are seeing here.

We also spoke last quarter about the change in our labour model, moving from an outsourced model to more insourced labour. This support has commenced and are giving good results, giving us better control of our resources and performance, especially in our key markets, UAE, KSA and Egypt. Once again, our focus on quality contracts has resulted in significant improvement of gross profit reaching benchmarkable levels. However, we believe long-term gross profit margins on logistics should be around 18% to 20%. Moving to slide 15, please.

On the regional breakdown, our operations in the GCC, MENAT and Sub-Saharan Africa, South Asia and America have performed well. We are particularly pleased with a gross profit improvement in the GCC, Sub-Sharan Africa, South Asia and the US. We discussed our operations in North Asia and Oceania, which are two regions with the most potential for improvement and a particular focus from the whole management team is the focus to turn it around. Moving to slide 16, please.

Not too many changes on the balance sheet, compared to end of 2021. We maintain a healthy and liquid balance sheet with positive free cash flow and a cash balance of AED 592 million. We will soon be adding leverage to this balance sheet as we complete our first acquisitions this year. Next slide, please.

We look at our ratio. As discussed, gross profit margin remains stable in line with our guidance. Going forward, we will continue to focus on SG&A expenses to unlock value at EBITDA level. We maintain an advantageous low gearing ratio. Our debt-to-EBITDA ratio significantly declined compared to half-year 2021, while our debt-to-equity was 11.5% for the half-year. We are well-positioned to pursue our M&A agenda. We're on the very last days of the closing period with MyUs. We look forward to integrating this business, a very detailed integration plan, including operations, [unclear], IT, finance has been already laid out.

Looking ahead, we remain focussed on process improvement across the group, long-term normalisation of our ETR, as well as improvement in our working capital and free cash flow. As separate note, starting this quarter we are providing more financials in the IR data book. This content reflects our financial statement disclosure in an easily extractable format and provides some of the analysis contained in this presentation. Our IR team will conduct an investor audit over the course of the next few weeks and we will be delighted to get your feedback on our

disclosures and activities, so that we can adjust accordingly. Let's start the Q&A session. Ahmed, please open the line to our participants.

Ahmed Hazem: We have a question from Thomas Matthew, he raised his hand. Just as a reminder for everyone, you can use the raise hand function or you can send your questions in the Q&A box. Thomas, your line is open. Please go ahead.

Thomas Matthew: Hi. Thanks for the call and the presentation. I had just one question, actually, two. One, on the Aramex freight forwarding business, I'm just trying to understand the pricing environment that's there in that segment. I understand that sea freight has come down, understandably, in terms of volumes, but your revenues have gone up and air freight has gone up. I just wanted to understand a sense of what's the pricing environment out there and how we could look at that for the rest of the year and probably next year. It's hard to crystal ball-gaze that environment, but what you're seeing as an operator in that segment. That's one.

Number two is on the MyUs acquisition. I'm trying to understand what could be a timeline to when you'll be able to give more information on the transaction? Thank you.

Nicolas Sibuet: Let me take the last part of your question, if you don't mind, on MyUs, then I will leave it to Mohammad Alkhas regarding your question on freight. We're in the very last few days of the closing period. Everything is pretty much ready. We are just expecting a couple of regulatory filings. We are very excited and we will be closing this transaction hopefully within the next few weeks. This is now independent from us and, as I was saying during the presentation, we have a clear plan of integration and we're very, very excited to work with MyUs and combining the Shop and Ship under MyUs offering to enhance our overall profitability in this segment. Mohammad?

Mohammad Alkhas: Thank you for the question. It's everybody's question at this point in time since there's a stabilisation in the current rates, especially for sea freight. These rates, since the COVID rebound happened, there's a lot of logistical bottlenecks that happened around the world, that caused this huge inflation in sea freight rates. The prices are stabilising now, but they will never return to pre-COVID days. The shipping lines waited 30 years to reach this point and they will never relinquish that higher rate that they are making so much money on.

But we can expect softness in the revenue growth rate. Just on the sea freight, but this will be bringing back more volumes and more equipment from the shipping lines to forwarders. We expect that this will maintain our GP margins going forward, but it's very hard to forecast what's going to happen. We expect from the next two to three years, that the shipping prices, especially for sea freight, will come down a bit, but it will never go back to the pre-COVID days. Does that answer your question?

Thomas Matthew: Yes. That's on the sea freight business. On the air freight business, if you can explain the pricing and alignment that's out there, that you are employing with your airlines.

Mohammad Alkhas: The airlines, they are going back. We mostly use commercial airlines and we use some freighter services around the world, it depends on the projects that we're handling, the clients that we're moving freight for. But the more passenger aircrafts come back – and they are coming back very, very nicely - the more

capacity we'll have. but again, airlines are the same as shipping lines. They used to sell cheap, now they're capturing the value that was created by the bottlenecks that happened globally.

So, we see a softness as well, but the most important thing is we see capacity. We need to see more capacity so that we can move more, and this is what we're looking at.

Thomas Matthew: Thank you. I just had one follow-up question, and I apologise for taking this time. I just wanted to understand why you mentioned that eventually this normalisation helps the margins of the forwards? You mentioned there's going to be a route to which the GP margins in the freight forwarding business normalise and get better. Thank you.

Mohammad Alkhas: Margins is coming from the increase in revenue, so the more capacity we have, the more movements we do, the more volumes we move and the more volumes, it gets bigger. So, we can create more efficiencies to unlock the value in moving freight, whether air freight or sea freight. We're talking a lot of operational actions as well in our own operations to tackle that issue, in terms to consolidate more, provide more efficiencies, do a lot of consolidating resources between freight and logistics, as well. This will create a lot of efficiencies and will drive the growth at GP and EBITDA level, more freight.

Thomas Matthew: Very clear, thank you.

Othman Aljeda: Part of our strategy last year was to split the company into two clusters. Really, the growth in revenue and freight forwarding and logistics has been a key focus for us. We've invested heavily in terms of people and infrastructure, so it's not just due to the increase in prices of sea liners or air liners, our volumes have increased. We're getting a wider customer base and we're doubling down on that. It's an area we, during 2020, 2021, didn't focus on very much because of the huge increase in express volumes related to e-commerce. That's obviously, as you can see, now starting to decline. As things go back to normal, people are going back to shopping in stores and travelling, also. The B2B side of our business, we've been paying a lot of attention to, and we will continue to do that. That's why you're seeing such a good increase in both revenue and GP margins.

Ahmed Hazem: Thank you, Othman. We have the next question coming in from Malik. Malik, your line is unmuted, please go ahead.

Malik: Hi, thanks for the call. I've got two questions. First, we've been following Aramex for more than a decade. When I saw the first quarter results last year, in fact the last few quarters, the decline in express is rather concerning. Express used to be the cash cow, it was the hidden gem of your business. The declining yields, declining margins, declining volumes, it is very concerning. I'm sure it's more than just the transitional impact of lockdowns being opened up and normalising of volumes. What are the other structure or factors which are creating this impediment for you in the express segment? That's the first question.

The second question, you implied that you expect the leverage of the balance sheet to go up. I was wondering whether you expect further acquisitions going forward and I was wondering is it a wise move to do that right now? Especially given that your most important segment, the express, is going through such a turbulent time. It's fair to

say that the business is facing a challenging period. Instead of steadying the ship, by embarking on acquisitions you're only going to make the running of the business more complicated. I was wondering whether it is advisable to do that, to go ahead and acquire another business.

So, two questions, one on the structural issues facing express and, secondly, the justification for acquisitions.

Othman Aljeda: I'll take both. On the first point, the decrease in volumes has been mainly from one area, and that's North Asia, which is China and Hong Kong. We keep mentioning that we were heavily reliant on one customer, which is SHEIN. If you go back from 2018 until last year, that customer generated probably 40% of our total express revenue [clarification: generated more than half of total express revenue in North Asia]. Today that represents almost 1 or 2% [clarification: of total group revenue], the business is ultimately gone. It's not gone to competition, this customer has revamped their operating model, where they're now freight forwarding the goods into this area. They've got enough volumes to do that, they warehouse and distribute. The complete supply chain from China into the Middle East has been broken up. We were extremely, extremely reliant on that.

If you go back to the slides of the regional breakdown, all of the other regions have been performing quite well in terms of the express. So, China's gone, again, there's not many other e-tailers the same size of SHEIN. Bottom line is we were heavily reliant on this one customers and probably contributed to our bottom line 40% of the total net income, if you go back to 2018, 2019, 2020. Where today, it's minimal. Really, the focus now is GCC, MENAT, our core market. If you see that, that's been increasing quite nicely.

Europe and North America are stable. These are trade lanes into the Middle East, that we don't rely on one customer, it's a huge basket of customers, so the risk is quite spread. Why are we doing MyUs? It complements Shop and Ship. The e-commerce business out of the US is continuing to grow. People in this region in the Middle East, tend to… There's three main markets for e-commerce, China, America and the UK. We don't feel that America and Europe are at risk. There's a lot of e-tailers there, established companies, brand names. We have the likes of Asos, Amazon, Next and so on, where we've got long-term contracts with them. They're not the same size as SHEIN.

And MyUs, particularly, there's a lot of synergies with Shop and Ship. I'd love to disclose more on the revenue side and how we can synergise, but once we do complete that transaction, then we can give you more information.

Ahmed Hazem: Thank you, Othman. The next question comes from Jumana in the Q&A box. Could you shed more light on the reasons behind the higher SG&A and what contributed to the jump in logistic segment gross profit margin? She also has another additional question, but I think it's mostly been answered, on what is the update on the MyUs acquisition in terms of timeline and could you shed some light on the guidance for revenues and profitability of MyUs?

Nicolas Sibuet: Ahmed, let me take this question. On the higher SG&A. A few one-off impacts in Q2 that we do not expect to see again in the following quarters. First of all, we recognised pretty much all the transaction cost related to the ongoing M&A activities that we expect to close very soon. This represents a significant part of it. We also have cost related to repatriation of cash, particularly the internal dividends between subsidiaries and holding

companies within Aramex, which attract in certain countries withholding tax, which is recognised as cost because we cannot get that back as a credit against our tax return.

Finally, there was also a one-adjustment to the long-term benefits and of our employees, following the increase of salaries that we have given to them in Q2 to support them when facing significant inflation pressures. Three main aspects, transaction cost from the M&A, repatriation of cash that typically happened in Q2 in the company, and some adjustment in liabilities cost related increased salaries.

The other part of the question was related to the jump in the logistic segment. There was also some one-off activities during Q2, which profits the company. Typically, the 25% gross profit is not something that we are looking to recognise in the future. We will be very comfortable if we normalise the 25% and exclude the one-offs that we have seen due to termination of certain contracts, adjustment of certain reporting matters. The normalised gross profit, instead of being 25%, will be 18% for Q2 2022. Which is still a significant improvement compared to prior quarters. So, 18% normalised compared to 25%.

Ahmed Hazem: Thank you, Nicolas. The next question in the Q&A box, can you comment on the supply of underbelly capacity on commercial flights? As supply increases and prices decline, will your margins increase or will your customers get the benefit?

Mohammad Alkhas: If I may answer this. Thank you for the question. As stated in the question, the underbelly capacity started to increase as the commercial flights started to increase and people started to fly again. But that came with the oil price increase, so most of the airlines had a revision on their price on the higher side. Either through imposing fuel surcharge or through increasing the prices. What we did internally is that we had a good negotiation with most of the airlines and we were able to maintain the same cost per kilo. With the oil price increase, this is a major milestone for us, to maintain that number. But moving forward, because we started seeing an ease in the oil prices, we hope that this will reflect again on our margins as we go.

Ahmed Hazem: Thank you for that. We have a raised hand from Mahmud Akkur. Mahmud, your line is open, you can now ask your question.

Mahmud Akkur: Good afternoon. Thank you for taking my question. You've been guiding a lot for relatively compressed margins on the express segment, on the back of the line haul cost, of the freight cost. You seem adamant that these costs will not normalise over the medium to long term. I'm just wondering, is it you being conservative in your guidance or is there a structural factor that you see persisting beyond this bottleneck scenario?

My second question is I received an email a couple of weeks ago by Shop & Ship, increasing prices in Saudi Arabia because I'm a client. Should I take this as an indication that you are increasing prices, passing through higher cost to clients? Have you started that cycle? It would be great to understand, as well, what's your inflation passthrough ability going forward? Thank you.

Othman Aljeda: We've put a price increase across the board for all the Shop and Ship customers. I think you got your email probably a couple of weeks ago, so we were starting that in July. We're putting it up with what our

competitors are doing. The likes of DHL, UPS, FedEx, have had substantial price increases out of the US in the last couple of months, some up to 22%, so we're just following in line with what's going on in the competition, and due to inflation. Obviously us acquiring MyUs and closing it will also help in terms of minimising the costs. But again, MyUs uses the integrators, mainly FedEx and DHL. They've had price increases, so their consumers have had these price increases, so it's a good plan for us to pass on price increases, also in line with inflation and higher line haul costs.

In terms of the GP margin in express, I go back again to China and SHEIN. The SHEIN business came at a much higher GP margin than the normal business that we have in the GCC, Europe and North America. In general, we used to have GP margin between 40% to 50% on SHEIN, whereas the European customers and the American customers were more towards the 25% to 30% margin, and that's where we're performing now. I don't see a decrease in margins. The airlines are stabilising.

We are just becoming more and more efficient on the ground in terms of our ground operation, and that's where we need to reduce our costs through technology, automation and so on. But I think the margins in Q1 and Q2, specifically on cross-border, have been stable. And we see probably the same margins until the year end.

Mahmud Akkur: Thank you very much. So, what I can take from this is that this customer was a one-off, high-margin client that is unlikely to repeat itself. And, given that it was a significant business for Aramex, margins were slightly inflated 2018, 19. As a result, now you expect more normalised margins. How is your customer mix on the express now? Is it concentrated like it was [overtalking]?

Othman Aljeda: Today we do not have a single [clarification: express] customer that represents more than 1 or 2% of the total express or domestic revenue [clarification: of the total group revenue].

Mahmud Akkur: That's clear. Thank you, sir, and have a nice day.

Ahmed Hazem: We have a question from Jumana. Could you provide more info on the new trade lanes you're working on with DPD in terms of location timeline and profitability materialisation? Also, there was a question on the one-off M&A costs, the exact amount in AED? Nicolas in the Q&A box answered 7 million.

Alaa Saoudi: Thank you, Jumana. For the DPD, it's a partnership that is happening. We started already migrating our business in Germany, Italy, France and the Netherlands. Through direct injection into these countries, clearing and giving into the DPD network, DPD has one of the strongest services in Europe in general. Our plan is to move forward with the whole European destinations. We started with these top destinations for us and we're hoping to complete the integration with them for the end of this year. How that will affect Aramex, hopefully in terms of cost, this is a better cost for us. The other end from DPD is that we're also getting their outbound business into the Aramex network. This will hopefully increase our express business going forward.

Ahmed Hazem: Thank you, Alaa.

Othman Aljeda: DPD themselves have a very ambitious acquisition plan. While they have a very, very strong network in Europe, that's literally from the UK all the way to Eastern Europe, they have been very active in going into

new markets, such as South America, Central Asia, and so on. This will obviously benefit us eventually. The end goal between us and DPD is to have a global network. That's the reason they've acquired a substantial stake in Aramex. Where we will help their network in the Middle East and in Africa, where we're very strong, and they continue to have a strong presence in Europe.

They want to expand that, so they're actively looking at acquisitions. They're predominantly express, so they have very little freight forwarding business, almost minimal. In terms of [unclear], the end goal is for us to have a network that's capable of competing with the integrators, DHL, FedEx, UPS, who are global.

Ahmed Hazem: Thank you, Othman. We our next question from Akbar. You mentioned a focus on fixing North Asia and Oceania, with the issue being the loss of a massive customer. That suggests any fix will take a long time, as it requires getting many new customers. Is that the correct way of looking at it?

Othman Aljeda: Sorry, can you repeat the question? I didn't get that.

Ahmed Hazem: Sure, Othman. Basically, Akbar is asking that you mentioned management is focussing on fixing North Asia and Oceania, given the loss of a massive customer, which suggests any fix will take a long time, as it requires getting many new customers. Is that correct?

Othman Aljeda: In North Asia, predominantly China and Hong Kong, we've now been focussing more on the SME market. SHEIN took a lot of our operations and a lot of our manpower and focus, also. As I said before, there is nothing in China as big as SHEIN in terms of e-tailers. They're probably 95% of the business into this region. But you will always have new e-tailers coming up, so the focus is more on SMEs and the other focus is freight forwarding. China, Hong Kong is a massive lane for us in terms of air freight and sea freight, so the shift has gone in that direction.

We've already seen substantial growth there. We've put in a lot of freight forwarding people in Asia, because a lot of the freight forwarding business is rooted in this region, so that's the focus in there. In terms of Oceania, we have had a complete management change. We've sent in a few people from this region to overlook the operations there. Australia has declined substantially because they had substantial lockdowns there last year and the year before, so e-commerce really, really boomed in 2021. Since the market opened up, we've seen a decline in numbers. Again, we're looking at efficiencies there and really integrating our operations.

Also, we're looking at cross-border into Australia, which we never did before. When we acquired Fastway in 2017, it was purely a domestic company in Australia. Now we've started cross-border trade lanes in Australia. We've opened gateways in Sydney, Melbourne, Perth, Brisbane. We started bringing in business from China, which is a massive lane into Australia. The UK is another big lane into Australia. The direction now is to move more international business into Australia, not just to rely on the domestic business.

The other thing is freight forwarding. We now put a team in place to start selling freight forwarding. We started doing that beginning of the year and we're seeing some good business going there. We're actively looking at an

acquisition there in Australia on the freight forwarding side. That's another area we want to grow in. So, those two areas, Oceania and North Asia, will be focussing more on freight forwarding and creating new trade lanes.

Ahmed Hazem: Thank you, Othman. I think we have another question in the Q&A box from Milovan. He's asking, and partly this was answered, but remind us, what happened with SHEIN? Basically, why did they stop using Aramex and who are they using now?

Othman Aljeda: They still use us. They still give us very little business out of Hong Kong, which is the very, very slow-moving items. As I said before, they've changed their operating model. They have opened up a warehouse in the UAE in Dubai in [unclear]. Their model used to be door-to-door express. Now what they do is they're chartering freighters from China themselves into the Middle East. They clear it here and then they inject, with us and other people and other last mile operators, domestic. But the margins are much different. They've basically saved a lot of money by doing that. They've cracked the logistic supply chain.

Once you gain the volumes, you can do that. It's basically what Amazon is doing. If you look at Amazon 20 years ago, everything used to come out of the US. Now they've got warehouses all over the world and they've broken the supply chain and become more efficient in their logistics. That's what SHEIN is doing, they're literally copying the Amazon model.

Ahmed Hazem: Thank you, Othman. We have another question from [Unclear]. In previous quarters you talked about expecting steady margin expansion. Do you still expect the net margin to expand quarter-over-quarter?

Othman Aljeda: I think in terms of express it's stabilised. I think we can still be more efficient on the logistic side. We're running at over 80% capacity in warehousing, so we are looking at investing more in warehouse facilities. But that's again, purely in our core market. There, as we look at expanding, in the GCC, the MENAT area, places like Jordan. Then obviously North Africa is a key focus for us now. Egypt, where we gained Amazon's logistic business on their last mile, so we actually manage all of the facilities for Amazon in Egypt.

We're looking at expanding that into further countries in Africa. We're in discussions with them to fulfil their logistics in places like Nigeria, Morocco and so on. That's our direction, is really to focus on logistics, focus on freight forwarding. On the express side, we look at profitable business and more sustainable business. We were heavily reliant on one customer, and that's no longer the case, we need to spread the mix. I think it's all about margins.

This is exactly, if you look at DHL, UPS, FedEx, they have been dumping. FedEx stopped dealing with Amazon purely because the margins have eroded there. We need to start looking at more profitable business, more quality business, more time-sensitive business. A premium product that comes in with a higher margin.

Ahmed Hazem: Thank you, Othman. As a reminder for everyone, you can send your questions in the Q&A box or use the raise your hand function and we can unmute your mic. At this point we don't have any further questions, but we can give a few seconds to participants, if they want to ask a question. There doesn't seem to be any more questions coming in. With that, Othman, I hand over the call to you, if you want to end the call.

Othman Aljeda: Thank you so much. It's been probably one of the most challenging quarters we've had in Q2. I think it's good that, for us, SHEIN leaving us has been a wake-up call, as we're revamping everything we do in express and domestic. Technology is a big factor for us, we continue to invest in that. That obviously brings in a lot of cost cutting in terms of how efficient we can become. Our focus has been successful in freight forwarding and logistics. We didn't talk about Abu Dhabi ports, but they're a key shareholder with us, that has helped us grow in this business. They've been integral in what we do in Abu Dhabi, in the GCC. And they've been very supportive in that. We're quite confident that we'll grow that for the next six months. I think in terms of the overall picture, we're quite buoyant for the last quarter. The next quarter in Q3, we'll come back to some sort of normalisation. People are traveling, so I don't see e-commerce coming back very strongly in Q3, but definitely Q4, which is the big quarter for us in terms of volumes. I think things will go back to normal. So, we're quite confident on all of our products. Thank you so much.

Ahmed Hazem: Thank you, Othman, and thank you everyone for joining. With that, we'll end the call.