Aramex FY 2021 — Tuesday, 15 March 2022

Ahmed Hazem: Hello, everyone. And welcome to the Aramex 2021 Results Conference Call. This is Ahmed Hazem from AGMS and I'm joined by Othman Aljeda the CEO, Nicolas Sibuet the CFO, Alaa Saoudi the COO of Aramex Express, and Anca Cighi the investor relations director. And with that, I'd like to hand over the call to the company who, as usual will start with a brief presentation and then we'll open the floor for Q&A. Anca, please go ahead.

Anca Cighi: Thank you very much. [inaudible].

Othman Aljeda: All right. Start, Anca.

Anca Cighi: Yes. Are you able to hear me?

Othman Aljeda: Hello, good afternoon.

Ahmed Hazem: Anca, your voice is cutting.

Othman Aljeda: Can you hear me?

Ahmed Hazem: I can hear you, Othman. Yes, but Anca's voice is-

Othman Aljeda: Okay. All right. Let make kick off. So, good afternoon. Good morning, ladies and gentlemen. Thank you for joining our financial results call. We've had a very busy four months since we last spoke at the Q3 investor call. 2021 was a transformational year for Aramex. Our new operating model is now fully implemented. I have a great team in place and we are focused on growing the business and improving margins. GeoPost received the regulatory approvals, following their equity investment in Aramex. And I am pleased to report that we are now actively engaged with them to leverage our networks, grow business cross border into the Middle East, Africa, and Australia. Australia's a big lane from Asia, Europe, and North America, so we expect a lot of efficiencies and synergies there. I look forward to giving you more details on this on the next call. It's important to note that GeoPost now has board representation, with two board members appointed this year.

Also, in January '22, our shareholders ADQ transferred its shares to Abu Dhabi Ports. As you know, the CEO of Abu Dhabi Ports, Mohamed Juma Al Shamisi, is our chairman. We have a very strong Board now who is very supportive of our growth ambitions, our business plan, with organic and inorganic targets for the period up to 2026. This has been recently approved by the Board and we are making very good progress in implementing it. We are winning business, we are growing volumes, increasing our scale and on ground operations. Ultimately, this will lead to a more efficient and leaner operation. In 2021, we invested in further growing and automating our operations to improve our speed and efficiency. We invested in countries where we see significant growth opportunities driven by a strong post COVID recovery in the private sector, including Saudi Arabia, Egypt and Morocco. In Riyadh, we opened a fully automated state-of-the-art facility, and we've further expanded into tier three and tier four cities. We have a clear roadmap to automating our facilities in this region and expanding further our PUDO network.

We are also focused on diversifying business - from a differentiated product offering, to growing specific sectors, such as SMEs, banking, and verticals, such as oil and gas, pharma, electronics, and apparels. Also important is our ability to offer an end-to-end solution for customers shipping into the region through warehousing and then distribution. This means better integration and cross-selling of courier, logistics and our freight product. Anca, please, to slide seven.

As you can see, we continue to grow our top line, and this is a key area of focus for us. Revenues grew by 10% year over year to 6.1 billion Dirhams, an all time high for the company and our third consecutive year of top line growth. While we saw growth across all our product lines this year, the most tangible result was in our logistics and freight forwarding business, which benefited from the new operating model change. We had double digit growth in freight, primarily coming from the UAE, UK, Ireland, and Egypt. We also recorded double digit growth in logistics coming from the UAE, KSA, and Morocco. We are starting from a lower base and we expect to grow the logistics and freight forwarding from 30% to 50% of the total group revenues over the next five years. As previously mentioned, this will be done through a combination of organic and inorganic strategies. Overall, we expect to see continued growth this year with volumes and revenues to grow at a faster pace than in 2021. I will now hand over to Nicolas for an overview of the financial results.

Nicolas Sibuet: Thank you very much, Othman. Hello, ladies and gentlemen. It is a pleasure for me to speak to you today, and I look forward to having the opportunity very soon to meet with you. I know that you have had a chance to review the preliminary accounts, and as well as our audited financial accounts that we have published just this morning. There are no material changes between the preliminary numbers that we've issued about a month ago, and the reported audited financial statement we published this morning. Moving to this slide on the regional breakdown. You will see that we have our volumes, GP margins. We have a good activity in the GCC and Menat, accounting for 46% of our business, followed by Europe and Oceania with each one of them representing 12% of the overall business. North America and Southeast Asia represent, each one of them, about 10% of our business.

On a full year basis, we've seen growth in all our markets except in North Asia. For the Q4 period, we were impacted by certain one offs, including the adjustment of our P&L and balance sheet to reflect the Lebanon exchange rate devaluation. And of course, as well as the drop in activities in North Asia, lower COVID surcharges that we initially pushed to certain customers in certain markets. As I just mentioned, in North Asia, we continue seeing the impact on the business that we already discussed last quarter. We are still seeing pressure from the increase in line haul costs due to the lockdowns, supply chain constraints, and scarcity on the belly space of the air crafts. In the Menat region, the revenue growth is mainly coming from our freight business, and it has partially offset our Lebanon exchange rate impact. In the GCC, growth is attributed mostly to freight and logistic activities. Our margins remain under pressure due to the line haul costs, pricing pressure from competition, as well as the investment that we are making in building technology capacity and infrastructure to service the growth in volumes that we are seeing and that we are attracting in the months to come.

In Oceania, we increased our revenues while the margins were impacted due to additional costs that we had to incur regarding outsourcing of manpower to supplement for potential shortage of manpower due to COVID. And as well as additional services that we have to contract as a result of the continuous lockdown in Sydney and in New Zealand. Oceania remains a very important market for us. We are actually the second largest domestic operator, and we see very good opportunities for growth in cross border by expanding our trade lanes with markets in Southeast Asia, Europe, and North America.

Moving to the next slide, please, Anca. Thank you. On this slide, we are pleased to report, as Othman was just saying, we are pleased to report solid growth on the top line for the Q4 and for the full year. On an annual basis, revenues increased 10% across all products and regions. And this 10% increase is excluding the impact that we had from the restatement of our balance sheet and P&L following the devaluation of the Lebanese balance. Without this impact, our overall growth would have been 12%. Looking at Q4 2021, we had 40% growth in freight forwarding activities, 12% growth in logistics activities. This growth was partially offset by the performance of the the express, as well as the Hong Kong and Lebanon exchange rate impact on both express and domestic. In terms of cost, the largest contributor to the variable cost and decline in margins was line haul, as we just mentioned.

It is to be noted that the variable cost, which includes line haul – has significantly increased from a third of the total cost of the express business, to more than50%of our total cost. We are still living in a pandemic and we will continue to see an impact from line haul. However, we are taking several measures to mitigate this impact going forward, as much as possible. Our overheads increased 11% a year, mainly driven by an increase in salaries, which includes new hires we have made as well as redundancy settlements from the restructuring we conducted last year. We have also restarted advertising and marketing spend, which was drastically cut in 2020. We have continued to invest significantly in technology systems to support our operations and our efficiency focus.

Consequently, our net profit decreased to AED 226 million dirhams for the full year of 2021 compared to AED 267 million in 2020. Accounting for certain extraordinary items, such as Morocco and Lebanon provision, as well as certain insurance refund, and the gain of the sales of the InfoFort business in Q3 last year... In Q4 last year, sorry. The normalized net profit decreased to AED 183 million. It is worth noting that the impact in Lebanon at net profit level is 17.6 million.

Next slide, please. For the full year period, it is worth noting that Aramex express had a record volume of packages with good growth in the domestic express segment resulting in good revenue growth. Looking at the Q4 period, we had AED 83 million Lebanon exchange rate impact on Q4, contributing to the decline year on year. Another contributor to the decline in quarterly revenues was a drop in business from Hong Kong, as explained previously.

We are now seeing a stabilization of margins in Hong Kong and China, where they are coming down to a level similar to the margin we have out of Europe and North America. Gross profit percentage was 28% for the full year, impacted once again, by the increase in line haul cost and charter cost, mainly out of Hong Kong, pressure on selling rates due to competition, additional resources in Oceania. And additional infrastructure investment in GCC, Africa, and North Asia. We continue to see an impact from the change in business mix from cash and delivery to prepaid. Next slide please, Anca. On the freight forwarding business, we have had a very good year for the freight forwarding business, as explained by Othman. I will draw your attention to the 22% growth in revenues coming mainly from increasing business from the oil and gas sector, as well as the retail sector. Gross profit also improved, leading to a gross profit margin of 12%. We saw a slight decline to Ebit due to certain operating cost incurred to reposition our freight forwarding business for growth. Starting this year, we are providing more detail on volumes across air, land, and sea transportation sectors.

Moving to the next slide, please. Our logistic business had a good Q4 and full year with double digit growth in revenues and improvement in margins year on year. We are continuing to invest in our logistics business, opening new warehouses throughout our network and automating facilities to support our growth ambition. Finally, on ratios - margins, as you will see, remained constrained due to COVID-19 induced costs, particularly line haul cost and capacity constraint, as well as increased competition in certain markets. Gross profit percentage for full year of 2021 was 23.6%. Gross profit margin dropped by around 9.1% compared to pre COVID situation. Excluding the change in Lebanon exchange rates, the drop would've been 8.6%. On the balance sheet, our gearing ratio significantly dropped compared to 2020, with a prepayment of our revolving credit facility.

Moving to the balance sheet, please Anca. Thank you. As you can see, we have a strong balance sheet, and healthy levels of liquidity. With a low debt position, our under gear balance sheet is a source of value. We are very well positioned to pursue our organic and inorganic growth ambitions. Before concluding, a few words on the early trends we see in Q1 2022. We see the same pressure on the cost basis and our margins. On a year on year basis, we will continue to see the impact from Hong Kong on our books in the short term. We're also monitoring the situation in Eastern Europe, continued disruptions in the supply chains, and of course the increase in oil prices and fuel charges. We will continue to invest in technology, improving service levels, and efficiency. We're also working to change the business mix and renegotiate certain accounts in certain markets to improve margins. We will pass this cost increase to our clients in a commercially sensible approach.

We are also working very closely with our partners, DPD/ GeoPost and AD Ports to expand our network coverage and capture increased volume of business. There's a lot that we need to do, and we have a clear roadmap for doing so. As Othman mentioned, we are working hard on the implementation of our 2022 - 2026 business plan. We're shaping the future of Aramex, and there is a lot of excitement in the business when we look at the growth opportunities we have. As we progress on this journey, we intend to keep the investment community well informed with periodical updates as and when appropriate. This presentation has been published on our IR website, alongside the supplementary Excel data book, which contains a regional breakdown, and volumes. Meanwhile, please always feel free to reach out to our IR team, Anca, or myself with any question or suggestion you have regarding our disclosures and IR activities. I would just like to mention that our board has recommended a dividend payment for 2021 of 13 fils per share, 0.13 dirhams per share. Of course, this dividend payment is subject to shareholder approval at the AGM, which will be conducted next month. With that, we conclude today's presentation. Operator, over to you for the Q&A session.

Ahmed Hazem: Thank you. As a reminder to all participants on this call, if you wish to ask questions, you can either send them through the Q&A, or you can use the raise hand function. Both options or on the right-hand sides of your screens.

Anca Cighi: Hello, Ahmed. Can you hear me?

Ahmed Hazem: Yes, please, go ahead.

Anca Cighi: All right. Thank you. Just before I begin the Q&A session, I would like to draw everyone's attention to slide two of the presentation on the obligatory disclaimer. So, you will note that some of the comments made or that will be made on the conference call today, may be forward looking statements. Please do keep in mind that these are based on our best view of our business and macroeconomic trends as we see them today. Therefore, these elements can change due to a variety of factors, and you should not assume that we'll continue to hold these views in the future. With that, I can see that we have a few questions coming through the Q&A box. Please feel free to also raise your hand if you'd like to use the microphone to ask the questions directly. So, let's start with the first one from Jumana. What are the synergies expected from the partnerships with Abu Dhabi Ports and GeoPost, which I will direct to Othman.

Othman Aljeda: So, with DPD GeoPost, last week we had a week-long session. We had 25 of their representatives in Dubai. They are mainly the CEOs of their European operations across all Europe, from France, UK, Italy, Germany, and some parts of Eastern Europe. And we had all of our regional VPs from all over the world. And we really started a lot of tracks. So, one of the main tracks is Aramex's business into Europe, which today is standard through a third party, extended through UPS. So, we're looking at synergies, how we can divert that into the DPD network, obviously at a better cost and in a more efficient way. And back forth. So, we've had a relationship with DPD for over 10 years, predominantly out of the UK where we've built a substantial trade lane from the UK into the Middle East. And that trade lane today is around 50 million dollars.

So, the intention is to replicate that across all Europe and start trading lanes into the Middle East and vice versa. We intend to use their network in Europe to do our deliveries, our pickups into the region. I can say that GeoPost is extremely engaged, extremely positive of this relationship. And it's basically a growth map of their geography and our geography. We are strong in the Middle East, Africa, some parts of Asia, and obviously Australia, as I said. And their strength is across all Europe. So, we really complement each other and we are now starting to look at a lot of synergies there. In terms of Abu Dhabi Ports, they give us another angle, which is the freight forwarding side. So, we're leveraging on them to further expand our logistics footprint in the UAE, and basically in Abu Dhabi. And we have a growth plan with them to get into more services on freight forwarding, such as the air side and the sea side. So, with the split of the business, we have two great partners, one supporting us heavily on the express side and the other supporting us heavily on the freight forwarding side.

Anca Cighi: [inaudible] next question. Alaa, I believe this one is for you. When do you expect line haul costs in capacity to normalize and what are the measures taken to mitigate the impact of the increase in the line haul cost, as well as some guidance on the express margin.

Alaa Saoudi: Thank you, Anca. And thank you, ladies and gentlemen for having the call. Actually, as you know, we are still living in a pandemic and our business continues to be impacted by the disruption in the supply chain. And with the significant increase that we've seen, whether in the sea liners and airliners, the impact is still there on the line haul. And as we explained previously, and our view has not changed, we do not expect to see a return to pre COVID margins. We still see a stress on the margins as we are operating in this different microeconomic environment that we're seeing now. We expect the trend to continue in 2022 in terms of the line haul and the margins. But we have several measures in place to try to mitigate part of the impact for our line haul. So, one of the things that we are doing is the approach that we're taking with the airline. We started having a different procurement process to enhance our ability to source capacity and to negotiate line haul rates with the airline. [...]We consolidated all our volumes, express and freight, and we had a request for proposal from all the top airlines so that we acquire better rates. And we're hoping that this will give us a better margin than what we had in 2021.

What's the other question, Anca? Sorry. Anca, is there other question or that's it?

Anca Cighi: On the line haul capacity issues and when do we expect these to normalize?

Alaa Saoudi: So, as we said, capacity [in some] parts of the world is getting back to normal. We're seeing more frequency. But we are still seeing certain lanes where we still have constraints. And mainly if we talk about Hong Kong origin, China, we're still having lower level of capacity. As we speak [we have] Shenzen closing in complete lockdown, which affected also the airline capacity and the frequency of airlines. So, in certain lanes, it started getting back to normal. In terms of capacity, again, not pricing. But other parts we're still seeing lockdowns.

Anca Cighi: Thank you, Alaa.

Othman Aljeda: Just to summarize this. So, basically, out of Europe, out of the US, within the GCC, we're seeing a normalization of pricing, especially from in the airlines. In certain areas, it's gone back to pre COVID pricing. The main concern and the main bottleneck has been China and Hong Kong, where obviously, we all know that in January and February, there's been an outbreak there, and there's still pressure on pricing. And that's not just into the Middle East. There's pressure globally out of those two countries. So, we are still having a bit of a problem there.

Anca Cighi: Thank you, Othman. Ladies and gentleman, just as a reminder, you can also use the raise your hand function if you'd like to ask a question via the audio function rather than the Q&A box. For now, we'll continue with the questions that are coming through Q&A box. From Jumana, are there any plans to offset the loss of Shein as a client in North Asia? And on the lockdowns, which are the regions are witnessing lockdowns currently besides Asia?

Alaa Saoudi: So, if I take that, Othman, it's mainly affecting the express product in Aramex. And yes, we are having aggressive plans in order to compensate for the loss of Shein. We're working on both organic and inorganic growth. So, we are looking at different inorganic companies where we can... Whether we acquire or partner with, this is as one. Second, the core market has been always the Middle East, GCC, and Menat. We are looking at diversifying this. Oceania is becoming a big part of Aramex, and we have continued to grow our domestic operation there [...]. And we look also to have a better cross border from that area. In addition, we're working on new lanes for E-Commerce, such as London and Europe, Asia and Europe into Oceania, [inaudible] South Asia, East Asia, Europe into Americas. So, we're trying to diversify our trade lanes.

In addition to that, and as Othman mentioned, our partnership with GeoPost is hopefully going to bring a good commercial aspect with that. So, we are looking at DPD which has been always our customer and one of our top customers out of certain origins. Plus, with the last meeting that we had with them, and with the top management attending that, there was promise on having more volumes from different parts of the world, other than only UK. Wherever DPD is operating, they will start pushing more express and international business into there is where we operate. So, we are hoping, with these three, four measures both organic and inorganic, to compensate for the loss of Shein. In addition, we're working on our margins, of course. [...] We are working on how we make an operation more efficient in order to have a better margin - whether in last mile or in middle mile. So, in line haul, we mentioned what we are doing, but when going to the last mile, we are having different efficiency gain. So, we're working on automation and lots of automation projects in all the core markets […]. This should reduce the labour costs that we have.

In addition, we're working on route optimization in order to have a better and more efficient last mile. This should also positively impact our margins, our GP margins . Meanwhile, we continue to grow, of course. […] We continue our aggressive plans in building our infrastructure in the core market that we're operating in. We'll continue to grow in new areas like North Africa where we're witnessing good growth in terms of domestic business and express. So, we see Morocco, we see Tunisia, we see Egypt as big growth markets also for us. Thank you.

Ahmed Hazem: Anca.

Anca Cighi: A question from Yawar Sahid. This one is for you, Nicolas. Can you share more light on the restricted cash? In which currency is the cash in Lebanon denominated in? And if it is in local currency, at what rate?

Nicolas Sibuet: Yeah. Thank you on, Anca. So, starting with the Lebanon activities, the cash is mostly held 90% in local currency. And in order to attract and capture the best opportunities, we have also adjusted ways of operating in Lebanon in order to make sure that we are able to use cash in the most efficient way, either through paying operating cost or activating certain potential purchases over there that could benefit the overall network. The restricted cash has significantly decreased, and we believe that the levels that we have right now will be similar in the years to come.

Anca Cighi: Thank you, Nicolas, a follow up for you. What should be considered as normalized margin if we remove the impact of additional costs due to new investment and redundancy costs?

Nicolas Sibuet: So, we have been looking at this very carefully through [...] when we prepared the business plan for the year 2022, 2026. What we are seeing is the years pre COVID we believe are gone. And what we have been working on is making sure that we are stabilizing the erosion of the margins, the gross profit margin mainly. We believe that we have reached this plateau level. And from there, we will be able to potentially increase these gross profit levels by a couple of points over the years to come. But we believe that what we are seeing in terms of margin right now is the levels that we are planning to see. It is important to also mention that the rebalancing of the business was bringing more freight forwarding business into the equation, to the business mix. That will also kind of reshuffle the margins. So, when we were typically seeing 70% of our business on the express side of Aramex and 30% of the business going from the freight forwarding, freight forwarding having always a lower margin compared to express business, we will be increasing the activities coming from freight forwarding. And we believe that, by doing so, the overall mix of our gross profit margin will remain similar, or probably a couple of points higher, in the next few quarters compared to what we are seeing today.

Anca Cighi: Thank you, Nicolas. A follow-up question for Othman regarding GeoPost. Has GeoPost obtained any regulatory approvals following their ownership in... their equity ownership in Aramex? Jumana, I can see here you've mentioned an increase in ownership. I presume that's a typo mistake. We have not spoken of any plans to increase, or GeoPost has not spoken on any plans to increase ownership in Aramex. But on the regulatory approvals question, I will hand it back to Othman for his response.

Othman Aljeda: So, their shareholding remains the same, it's at 24.9%. And we don't have any information on that, if they want to increase or not. But I can tell you that they have got the regulatory approvals. They acquired their stake in Aramex back in October, and we were in a blackout period for a few months that has been lifted. They've got the approvals and we had this meeting last week where we can engage now openly, look at synergies, look at trade lanes, and start really doing business. So, yes, they have their regulatory approvals to now start trading with us.

Anca Cighi: Thank you. Another question for you. This one is on the impact of the increase in fuel charges. Will our margins be pressured further or do we expect them to remain at the current level?

Othman Aljeda: No, fuel surcharge is probably the easiest fuel surcharge to deal with, because this is a market norm. During COVID, emergency surcharges were implemented and the integrators, DHLs, the FedEx, the UPSs, had an advantage there because they operated their own air crafts. And it was difficult for us to put some surcharges because we rely heavily on commercial airlines and freighters. With fuel surcharge, it's quite an open market. So, everyone in the industry follows an index, whether it's Rotterdam or the US one, and it fluctuates with oil prices. So, if I look at us and our competition, there has been a significant increase in fuel surcharge, but that's very normal to pass onto customers. And that's published on our competition's website and our website. So, it's really to do with oil prices and the fluctuation of it and how all the industry reacts to it. This will be passed onto the customers and there will be no impact on margins.

Ahmed Hazem: Thank you. Sorry. We currently have no questions in the Q&A, nor the raise hand function. So, as a final reminder to all participants on this call, please, if you wish to ask further questions, you can either send them through the Q&A system, or you can use the raise hand function. And again, these two options are on the right-hand sides of your screens.

Anca Cighi: Okay, Ahmed, I believe these are all the questions for today. There are no further questions through the Q&A box from what I can see on the screen, no hands are raised. Dear participants, if anyone would like to follow up after the call, or if you have anything that you'd like to clarify, please, don't hesitate to get in touch with us via email or via phone. For now, I will hand back to Othman for the concluding remarks.

Othman Aljeda: Thank you, Anca. So, look, we're very buoyant on this year in '22. I think the splitting of the business has been crucial for us because we were extremely reliant on the express product and the cross border product and on the business out of Hong Kong into this region. And this has been the case since 2018. We've been reliant on a couple of customers. If we look at our history, well, it's Shein now, before that, it was [Jolly Chic]. Obviously, there's been a change of model. Our primary focus today is to revamp our operating model within the Gulf. We are still the dominant player in the GCC. We are the biggest player in Saudi Arabia and the UAE, and mostly in Egypt and

North Africa. We are looking at differentiating ourselves from the new start-ups. So, we want to position ourselves as a premium player. And Alaa and his team have been doing a fantastic job at really looking at KPIs and offering a premium service where we can pass on extra charges.

In terms of freight forwarding and logistics, his has been a product that we've neglected over the last few years because of the growth of E-Commerce. There's far less startups in that field. In terms of our strategy of acquisitions, we're very, very active in that and we're looking at both clusters, both express and freight forwarding. There's quite a few projects in the pipeline. Our plan is to integrate the two products and give a total offering to our customers, be it B2C or B2B. We want to give a full supply chain and not just the last mile. So, whether when it comes to E-tailers, we're looking at offering not just the cross border offering, but actually holding stock for customers and distributing them on the B2B side.

I'm happy to say, COVID in this region is back to normal. We think the B2B business is very buoyant. And that's very clear in our financials. We've seen growth on all aspects of freight. Land, air, sea. Businesses are back to normal, distributions are back to normal, and we've been very aggressive in focusing on that. One last point is we're happy in a certain way that the oil and gas business, the oil prices are up. A big sector of our business in the B2B is oil and gas, and we've seen a big uptake in that. But then we're moving into other verticals. Fashion is now back to normal where stores have opened up. The pharma vertical is doing extremely well for us, and we're venturing into other verticals, such as the automobile and the FMCG. So, expansion in terms of warehouses of last mile infrastructure is still ongoing. This year, it's about automation, it's about efficiency, and we're very geared to do that.

Anca Cighi: Thank you very much, Othman. Ahmed, over to you to conclude today's presentation.

Ahmed Hazem: Thank you very much for your time and for the presentation and your patience in answering questions. And thank you to all participants. This concludes the meeting. Have a good rest of day, everyone.

Othman Aljeda: Thank you to everyone.

Alaa Saoudi: Thank you.

Nicolas Sibuet: Thank you, everyone.

Anca Cighi: Thank you. Have a good day.