Aramex Q2 2021 Earnings Call   Thursday, 05 August 2021

[Note: due to a technical error, the first part of the investor call was not recorded and therefore, it is not provided in the transcript. During the first part of the call, the Acting CFO covered the financial results for the period Q2 2021]

Othman Aljeda: On express, cross border continues to be the main growth driver for the business. We continue to see consumer buying habits for international shopping, and we expect this trend to continue. We have strong brands dealing with us and will continue to grow as they see huge potential in the Middle East. We aim to invest in our core major hubs out of the US, the UK, Amsterdam, China, and Hong Kong, to service our core markets in the Middle East and Africa.

We dominate the e-commerce lanes as we have operated the first mile journey and we have strong buying powers out of the airlines. We have ambition to drive new trade lanes growth for e-commerce and to start building trade lanes, such as London into Europe. And Brexit has been a great opportunity for us between London and Amsterdam, Asia and Europe into Oceania.

We have large infrastructure in New Zealand and Australia, into Southeast Asia, mainly out of our hub in Singapore. And then Americas into the MENA, and US into Europe. On the domestic express, retail activity has returned to a degree with the opening up of shops and mall activities across all markets. Competition has intensified with new entrants focused on building top line and driving pricing pressures for the industry.

We will continue to invest in capacity and scale-up ground operations to cater for the customer demand. We have the strongest fleet in the region and we will lower cost through scale. We will continue to invest in technology, automation, and customer experience to drive a more efficient operation and provide a superior customer service. Thomas and Mohammed will touch on this later.

We see high potential for acquisitions in emerging markets, such as Turkey, North Africa, and Southeast Asia. This will be top of my agenda moving forward this year, and we remain on the lookout for acquisition opportunities in the GCC. On Aramex logistics, we have two divisions, warehousing and freight forwarding. With the warehousing infrastructure, we see huge potential in the logistics sector, and we intend to aggressively grow our footprint in the Middle East and Africa.

We intend to invest in specialised warehouses to cater for high potential verticals, such as cold chain, pharma, oil and gas, dangerous goods, and FMCG. We will scale up our warehouse infrastructure beyond the main cities to provide extensive service coverage, specifically in Saudi Arabia, and move into tier two or three cities. This is important to service the e-customer industry and hold stock closer to the consumer, and enhance distribution.

On freight forwarding, we'll expand our global footprint by growing our freight presence in existing and new locations by investing and bringing experts on board to help drive growth. Partnerships and alliances are key to us as we exist only in 65 countries. So, alliances are important to us becoming global. Europe, North America, and Asia, we have established strong alliances to grow our market share into the Middle East.

We will capitalise on our strategic support from our key stakeholder ADQ to capture growth opportunities in oil and gas, hospitals, and pharma. They are supportive with government contracts. Acquisition, for me, is a huge potential in this cluster. Logistics freight forwarding represents only 28% of the total revenue. We intent to be aggressive in this sector, in our core markets, and markets that will enable trade flow into the Middle East.

We have multiple acquisition opportunities that have been identified in both logistics and freight forwarding that will create synergies and strategic synergisers. It will grow revenue and make our position in key markets stronger. Thank you.

Unidentified Male: This is for Thomas.

Thomas Kipp: Thank you, Othman. I'm very happy to take over from here. What's supporting the strategic priorities that Othman has just laid out for both express and freight is a very strong alignment between three areas, in particular, which is commercial operations and digital. And as Othman has already mentioned, we are very closely following the dynamics and observing the dynamics that are happening in the market on both sides with express and logistics.

And our key ambition is to create superior customer experience across both of these verticals and across geographies. For operations, in particular, that means that our main focus will lie in operational excellence. This is basically what we're doing day by day with our dedicated people around the network. At the same time, the intelligence behind these operational processes is more and more driven by data that we utilise to further increase the efficiencies in our processes.

The nature of e-commerce is very volatile. We see fluctuating volumes across the year, so clearer capacity and peak planning process is vital to really serve our customers in the best possible format. We have a clear focus on service management and excellence and on creating superior customer experiences, and automation and digitalisation will enable us to [be] much more efficient going forward.

At the same time, it will also allow to create more operational agility and scalability when we use technology. And digital, for us, is an integral part of building our operational footprint going forward, and with that, I'm very happy to hand over to our Chief Digital Officer, Mohammed Sleeq. Thank you.

Mohammed Sleeq: Thank you, everyone. Hello. My name is Mohammed Sleeq, I'm the Chief Digital Officer. I've been with Aramex for almost 17 years and I'm currently leading the transformation aspirations of the business, and I also lead the technology organisation globally. So, I have the joy of working with engineers, and product teams, and data scientists, and platform teams across the entire globe. I'll be talking to you briefly about our digital strategy and mechanisms.

Just a little bit of background, Aramex has always been perceived as a flexible operator, able to customise solutions, deepen the engagement with our customers, and gain market share. And that has always been powered by our technology investment. We've developed everything inhouse, and if you look at our evolution, information technology played a significant role in the evolution of our services and our focused vertical GTM market strategy.

So, in recent years, as mentioned by Othman, we've seen the industry go through a significant amount of change, primarily driven by the growth of e-commerce. And while we continue to compete with traditional operators, we found ourselves competing with a new breed of digital operators that are Cloud native and claiming to destroy the industry.

And again, as mentioned by the team, we started competing with our customers, who aspire to create their own last mile infrastructure in the objective of controlling the end-to-end customer journey. So, what we know for sure is the fact that the rate of innovation around e-commerce and the last mile innovation is accelerating, and we have to take action very early on.

So, I would say a year ago, we've initiated a large enterprise transformation programme in multiple areas of the business to unlock the growth potential and secure our leading edge in the market. So, our transformation approach is really built on that fact that we want to align with the vision and the strategy objectives of the business, and approaches to reduce risk of that change and accelerate the time to value, and for any change investment in the business.

So, this is achieved by breaking change into six transformational journeys, with clear alignment with objectives and the sponsors that we have for this change. So, business intelligence underpins our data-driven strategies and alignment with the business. Business agility is everything to manage the constant change and to drive the rapid pace of the market, and business and service governance, to enable diversity of our partners in the region.

Digital products is all about crowdsourcing, building, and introducing variability in our models to address some of the market volatility of the e-commerce product. Self-service is all about mobility on demand, making sure that our customer experience is augmented to make sure that our digital touchpoints are upgraded and provide a full supply chain visibility to our customers. And optimal technology is making sure that we make the right investments when it comes to our core landscape.

So, what we've done, really, is we've initiated two main tracks. The first one is a digital transformation track. We've created a digital organisation that partners up with the business to imagine the next generation of customer engagement experience. And to become a little bit more efficient on the ground and reengineer some our processes in the last mile process. And the other element is we kicked off the technology modernisation track, just to make sure that we are investing in the right technologies to enable that transformation.

So, transformation is not about technology, I would say. […] But it's about the operating model and how we engage better and better with customers. Clearly, there are innovation mechanisms that we follow, the speed and agility is, again, one of the main outcomes, and outcome driven transformations. There are a lot of ways [that] companies initiate innovations.

Companies look at competition, they look at operating models, they look at emerging technologies. But then for us, customer driven innovation is the most important innovation mechanism, because it reduces the cost of experimentation and we can implement ideas at scale. When it comes to the outcomes, from a technology modernisation standpoint, we want to optimise our cost and become a Cloud native organisation, which will enable the agility and speed that we're looking for. And clearly, we want to do it in a secure and a compliant kind of way.

[Next slide please] If you look at, specifically, the transformation strategy from an Aramex standpoint perspective, so we covered the transformation framework. The big ticket item for us is the customer journey, so we want to go into architecting our customer journey and digitising the end-to-end engagement experience with customers.

And that's everything from mobility on demand, from upgrading our touchpoints, and making sure that customers get the right information at the right time. Last mile transformation is all about the autonomous last mile control, and that's not only about autonomous vehicles and drones, but it's about making sure that we have the control over our last mile processes and become more efficient. Reduce the manually intensive processes that we have on the ground.

Digital products, again, we spoke about the modern application teams that are self-led, autonomous, to create value creation opportunities for the business. And this is about crowdsourcing our deliveries to meet the demand of the e-commerce business. Big data analytics is a big focus area for us. I, personally, think that AI and machine learning will continue to drive the last mile analytics industry forward.

And I'll talk to you a little bit about the investments that we've done on data. I can tell you that Aramex sits on large, large amounts of data, and the way I would describe the business is that we are a data company, rather than a company that does logistics. I, personally, think that with the movement of goods and services that we do across continents and across countries, we don't only move packages, we move consumer buyer trends and we move last mile preferences.

And we're trying to augment and leverage data as a competitive edge for us, and I'll talk to you a little bit about that in the next slide. Core modernisation, clearly, is the most painful area. A lot of companies are scrambling to modernise their core landscape, and this is all about the build versus buy strategy. While we've developed everything inhouse, we do want our sourcing framework for technologies and for talent will revolve around whether these are core critical services that secure our competitive edge with customers.

And this is where we will continue to protect our prior technology and move our prior technology onto the Cloud. And in areas where it's a core product and it's a core technology, but then it doesn't really impact our customers per se, we want to outsource our technology and make sure that we buy best in breed solutions because our solutions have been vetted and tested. And this is all about SAP, salesforce, and some of the tier one applications that are out there.

[Next slide please]. I just wanted to highlight a bit our investments in data, as a data enabled organisation, so artificial intelligence and machine learning. We have established a machine learning practice within the business that we started from scratch. We have aided the science team that are trying to enable the business to transform the way we do business and we conduct ourselves as a business.

These are the main areas of investment, and that's all about address prediction. In this programme, we try to solve some of the biggest problems that the region is facing, which is the lack of a proper address management structure. And we try to geocode our addresses, route prediction algorithms, and capacity, and basically, trying to optimise our capacity, based on geofencing and dynamic geofencing capabilities.

Route optimisation, again, is about sequencing and improving the driver journey, to make sure that we invest in our upstream processes to make sure that drivers are able to optimise their last mile processes. And consumer intelligence is personally my favourite area, which I think is extremely important for us to make sure that we understand a little bit more about our consumers.

So, if I know a little bit more about you, I can optimise the delivery, based on your preference, and that's about transit time prediction, scheduling engines, and last mile preference engines, to make sure that we improve our first attempt delivery success rate, which improves our efficiency, but also, makes sure that we are tightly coupled with our customers and we improve the customer engagement experience.

Capacity planning, again, one of the top areas for us. A lot of e-tailers out there, we do want to become a bit more proactive in managing capacity, because demand volatility is one of the biggest, I would say, trends and challenges that we see in the e-commerce industry. Data enablement, again, is a programme that we're engaging with customers. We're actually changing the engagement model and we're trying, from a pure rate sheet or trade lane discussion to data enablement discussion to customers.

So, we're working on some very cool stuff when it comes to fraud detection, order verification, market share analytics with customers, just to make sure that we diversify our revenue streams with customers beyond a transactional and logistics model. And business intelligence, we're trying to empower our users, our business leaders, with data-driven analytics and data-driven decision making, to make sure that we dive deep into the data analytics and empower our users to make these decisions at scale.

And I can tell you, we've invested in a data lake that is running on the AWS Cloud at the moment. And our engineering capabilities include a data pipeline that ingests data from various data sources from our environment, and we have 10.2 terabytes of data stored in the data lake today. We do ingest around two million records every 15 minutes into this data lake, and today, we can make up to 1.5 million predictions that are done every day.

In the next year, I can tell you this number will go up to four million predictions in the context of these investment areas. And we will continue to invest in our data science team to enable the business. Now, this doesn't mean that we don't have a technology radar, which I will happily be able to talk to you about in future sessions. But we do have a technology radar that focuses on IT, focuses on blockchains.

But I personally think that AI and machine learning will continue to drive the innovation in the industry moving forward. With that, I will hand back to the guys. Thank you.

Unidentified Male: Thank you, Mohammed. So, with that, I think we will be moving to the Q&A session. As a reminder for everyone, if you have a question, you can use the raised hand function or ask your questions in the Q&A box. We have our first question from Thomas Matthew. Thomas, your line is open, please go ahead.

Thomas Matthew: Good afternoon. Thanks for taking my questions. Firstly, I just want to commend the team on the high disclosure in the presentation. Very well received. I have a couple of questions. The first one is on the international express business. You've been documenting the higher linehaul costs, and in the prior calls, it's been mentioned that you have been looking at other options, like the freight and hybrid options.

I'm just wondering if you have reached a view as to whether you would take any of those options. And if not, I just want to know what is the reason that is stopping you from an investment in that direction? Is it the fact that there will be a reversal of all of these trends that you see and the investment would not be lucrative, in terms of returns, if things go back to normal? Is there another reason why you feel that these options aren't lucrative enough at this point?

And the second one is would you, at this point, be able to give some clear strategic direction in terms of where the company is looking for scale and returns, in terms of between the two clusters, logistics and express. It seems, from the commentary, that there's a lot more scale and returns to be garnered on the logistics cluster. Correct me, if I'm wrong there.

And the third question would be that you mentioned about the number of opportunities that you see in the warehouse infrastructure market. I just want to know the revenue contribution of that product line right now to the overall revenues. Thanks.

Unidentified Male: The first question, I would request Thomas to answer on the charters, and the commercial airline capacity, and our outlook on the investment, please. Thomas.

Thomas Kipp: Thank you very much and thanks, Thomas Matthew, for your question. I'm very happy to answer. As you will know about Aramex, we are operating what we call an asset light operating model. And that basically gives us the flexibility, typically, to move our volumes across our network globally. And obviously, when the COVID pandemic hit, the commercial airline capacity went down significantly, all the way down to what is today, still roughly 70% below the pre-COVID levels.

And one of our responses or one of our considerations was to really explore what capacity would be available for us to still service our customers, which was the most important priority for us throughout the pandemic, and still is. And this led to various models where still, the bottom line is that we want to control our network, rather than owning the assets. And I think this is still the principal direction.

So, we've been experimenting with many different options that became available throughout the pandemic, and one is to invest into charters, which is something that also helps us to cope with fluctuations in volumes, especially throughout peak seasons. And just make sure that we can move the volumes in those days without us investing into the asset itself.

So, we will stick to that strategy in maintaining an asset light operating model, and at the same time, we will continue to explore avenues as to wherever we need to run hybrid models to just secure the capacity that supports our service proposition and creates the efficiencies that we're seeking.

Unidentified Male: Thank you, Thomas. I think the second question on the strategy and the split between the express and logistics, I'll request Othman, please, to take that question.

Othman Aljeda: I think, as I mentioned, if we look at the logistics and freight forwarding, it represents 28% of our total revenue. The last four or five years, the international express and domestic, especially driven by e-commerce, we've put a lot of focus on that and I think we've neglected freight forwarding on the logistics side. We are still quite big on logistics in the GCC area, but there are other areas we want to grow in. North Africa is an area we're now expanding in, specifically in Egypt, Morocco, and Tunisia.

Sub-Sahara Africa, South Africa, are areas we're also looking at growing the logistics and freight forwarding. And then non-core markets, for example, Australia, we have an extremely large domestic and ground operation there, which is primarily domestic, and we want to now connect it to the rest of the world. So, we're looking at freight forwarding companies to apply there. And then really strengthen our core hubs out of the region.

So, the US, the UK, Amsterdam, Singapore, these are hubs that we feel are important to grow the freight forwarding product into the region. We are dominant on the express side, so if you look at, for example, London and New York, we probably have 80%, 90% share of the e-commerce business. But we have very little share of the B2B business, the freight forwarding. So, this is an area where we see huge potential and growth in, and this is where we'll be investing.

In terms of logistics and warehousing, as I said, in Saudi Arabia, we are, today, present in Jeddah, Riyadh, and Damman. But not necessarily the tier two or tier three cities, and we want to drive that for e-commerce. So, we want to get closer to the consumer and hold stock closer to the consumer, and not just be central. So, we want to replicate an Amazon style infrastructure where e-tailers can come and not just store in one or two places, but store in ten, 20 places, thus, giving us the reach to deliver faster to the end consumer.

Arun Singh: Thank you, Othman. And for the third question, Thomas, as Othman mentioned, there are a lot of opportunities in the core warehousing and logistics, which, as a company, we may not have capitalised on so far. While it contributes about 27%, 28% of our total revenue, we do see good growth. I'll give you an example, the freight, for example, in this quarter has grown by 23%, year-on-year, and 16% in H1 2021 compared to H1 2020; logistics has grown top line 28% year-on-year, and year-to-date, 19%.

So, there's a lot of potential that, as a company, we believe that we need to capitalise on. And Aramex is one of the very few players across the globe, which provides all these three dimensions of courier, warehousing & distribution, and freight forwarding. And that's why we strongly believe that this traditional business of freight forwarding and logistics, and also, that comes with a good and healthy margin, traditionally, should be capitalised on.

And along with express and the whole e-commerce function, we are establishing this domain experience internally and looking at providing the right source infrastructure investment to grow these particular [unclear]. But it doesn't come at the cost of the other, it doesn't mean the changing of focus, it means we are intensifying our focus on both the verticals that we have today.

Thomas Matthew: Thanks.

Unidentified Male: Thank you for that, gentlemen. We're going to move on to a question in the Q&A box from Matthias Gallals. What companies, slash, industries do you use to get ideas from or benchmark yourself against? That's one question. And the other, why would big e-tailers that have decided to insource their last mile decide to outsource more to Aramex going forward?

Arun Singh: I can answer part of the first question, when we look at the comparison. It's difficult for us to find like-for-like operators like Aramex, to be honest, in different markets. And each company has their own different strength, different expertise, and different geographical segments. At a global level, we may compare ourselves to some of the big names, like DHL, UPS, FedEx.

But if you see it in its entirety, that's not a true comparison. At the local level, we also compete with some freight forwarders, we also compete with some last mile operators. So, a true like-for-like comparison is difficult, but we do compare ourselves or our products to different operators in each of the geographies where we all play.

And we are cognisant of the competition in each of those, whether it's a small player or a large player, to benchmark ourselves on different parameters, be it financial, services, or the range of products and services that we offer. Perhaps I would request Othman to answer the second part of the question, big e-tailers.

Othman Aljeda: Big e-tailers, the marketplaces are outsourcing themselves, because they are being scaled. And we're talking about two key players here in the region, , and that's Amazon and Noon. Those are the two key players that have their own fleets now and they're expanding and so on. But then the rest of the e-tailers, even the international ones, they're even changing their models. So, they've got a hybrid model.

The slower moving items would still go cross-border, the faster moving items, we would store and distribute locally, so the model is changing. It all depends on the size of the e-tailer, the scale they can go up to. Personally, I think cross-border is always going to be a strong vertical for us. Amazon is a prime example. They've got a very strong infrastructure in the Middle East now, where they insource [inaudible]. Out of the US, [our business] is still growing at a healthy margin with Amazon.

So, they're still sending a lot of packages with us from the US, slower moving items. Faster moving items are being stored here and delivered locally. So, it's always going to be a hybrid model for them.

Unidentified Male: Thank you, gentlemen. Our next question comes from Alowi Alimirah. Alu, your line is open, please go ahead.

Alowi Alimirah: Thank you for the call and the presentation. Just to pick up on your last point, your line cut off for a few seconds. Can you repeat what you were saying about Amazon, how they're scaling up in the region?

Othman Aljeda: Amazon, it's not just in the region, it's globally. They're scaling up everywhere they have big warehouses and big operations. If I look at London, they have 50,000 couriers now in London, and that's bigger than any other domestic player in the UK. But they will always have cross-border products. They're growing at a much faster pace than anyone else. So, slow moving items will be warehoused internationally and they will move cross-border, and faster moving items will be warehoused locally.

They will never be able to achieve complete logistics distribution in one place. They'll always have a hybrid model of both international cross-border and domestic. And they will inhouse domestic and they will outsource their cross-border. And we've had a relationship with Amazon for over ten years out of the US, and they came into this region four or five years ago with the acquisition of Souq, yet their business with us out of the US is still growing at a very healthy pace.

Alowi Alimirah: Then you mentioned in your opening remarks that in Saudi, you're going to second tier, third tier cities. Is it that driven by Noon and Amazon or other e-tailers?

Othman Aljeda: No. This is driven by other e-tailers. Large e-tailers that are coming up, the likes of ASOS, Boohoo, out of the US, we've got eBay, Pitney Bowes, iHerb. These are customers that are growing at a much faster pace for us than Amazon is. And they are requiring shorter delivery times and for us to stock their products closer to the consumer.

Alowi Alimirah: And also, in your opening remarks, you mentioned that e-commerce demand is volatile. In terms of when the demand that was in the depth of the pandemic, how much of that do you think will still be sticky going forward?

Othman Aljeda: Domestic has declined the last couple of months, because last year, we had complete closures in May and June. So, the domestic supplier was extremely strong last year. Cross-border is still very strong, when I compare it to last year. So, if we look at May and June this year versus last year, we're still growing. So, people in this region still want to buy from brands outside, from the UK, from the US, from China, and Hong Kong.

That hasn't stopped, that hasn't slowed down. But the demand from domestic has slowed down because last year was a complete closedown. So, a lot of omni-channels went online, but then this year, most have opened up, shops have opened up, people are going out shopping. But then the supply or the products available in this market are not necessarily complete.

So, they still want to shop from the US, from the UK, and other markets. And that's still growing. So, we've still got brands like Nike, as I said, ASOS, Boo, which are still growing at a very, very healthy pace.

Alowi Alimirah: And last one from my side. In terms of Amazon, are you seeing them in Saudi scaling up more over the last few months compared to last year?

Othman Aljeda: No. In Saudi, I think Noon is still much stronger than they are. I think the market is spread between Noon and Amazon. Amazon is extremely strong here. Noon, I think, has gained traction in Saudi. But again, we still deal with both of them. They do not cover Saudi Arabia, all of it, where we do, so we're still getting the tier four, tier three cities out of them. Most of the tier one, two cities, they're now doing themselves.

Alowi Alimirah: Thank you very much.

Unidentified Male: Thank you. We have our next question from Sara Abomoati. Sura, your line is open, please go ahead.

Sara Abomoati: Hi. Thank you for taking my question. Looking at the regional numbers, it appears that the GCC and Americas are facing pressure on the pricing. And as you mentioned, there is pressure coming from the start-ups. So, do you perceive the current pricing environment is rational, due to the start-ups?

Othman Aljeda: I think they are. These start-ups are burning money. They are obviously here to get market share, so they will lower their prices. But then again, how long do they…? We've had examples of Fetchr coming in, raising a lot of capital, then disappearing and coming back with new capital. I think it's going to be a very competitive environment. As Aramex, we're repositioning ourselves.

Again, we're not so much looking after the cheaper brands, we're looking after the more exclusive brands, the higher yielding brands. The GCC is under a lot of pressure, yes. I think a place like Dubai has a lot of courier companies, express companies, last mile companies. If you compare it to the US where there are three or four dominant players, in Dubai, there are probably 20 players. I don't know how long they'll last, these players.

I think there will, eventually, be a consolidation game. But we're still very strong in terms of scale. We have the largest fleet in the region, and we have the scalability to deliver all over the place whereas they can only deliver to limited places. Dubai is only one part of the GCC. Saudi Arabia, again, we are, by far, stronger than anyone else. And then you have the other GCC markets where we're extremely strong. Kuwait, Qatar, Bahrain, Oman. We don't see these start-ups there yet.

Sara Abomoati: Do you think this pricing pressure will continue for the next year?

Othman Aljeda: I think it will stabilise. The price pressure is already there. It's been there this year. It can go down lower. I don't think there's going to be a stronger price pressure. It will probably be maintained at the same level.

Sara Abomoati: Thank you. That was clear.

Unidentified Male: Thank you. We can take our next question from Jonathan Milan. Jonathan, your line is open, please go ahead.

Jonathan Milan: Good afternoon. Thank you very much for the call. A couple of questions. First of all, on the logistics. Can you please explain what the reason is behind the big drop in gross profit? I was under the impression that this was mainly warehouses. Can you please elaborate on this? That's the first question. The second question is with regards to some news that there are three entrants into the Saudi logistics market that are going to spend somewhere around $6 billion, I believe, or SAR 6 billion, including a Chinese operator and an American operator.

Do you think this will ramp up the pressure on pricing and margins? And just to follow-up on the margins, when do you think you can see a recovery in the margins? Because it seems like you're seeing pressure all around and there seems to be a lot of new entrants and a lot of investments in logistics in the GCC overall in one of the core markets. Thanks.

Arun Singh: Jonathan, I can take the first question on the drop in logistics margin in the second quarter. Unfortunately, there was one big project that we had from one of our main clients, which we were required to move into a facility. Unfortunately, with the project management delays in getting the site completed meant the timelines got pushed into the peak season during Ramadan, whereby we had to rely on a lot of temporary part-timers.

And the overtime that we had to pay to our staff and to the extra staff we had to deploy was a lot, which was beyond the budget and how we had priced that job. That had a significant impact on this quarter's result. And since then, that situation has been monitored constantly, and we're trying to turn things around, especially when it comes to the labour cost, on that one particular big project we had in Saudi.

We do expect the situation to change over the coming two to three months, and you will see an improvement in the logistics margin. For the second question, perhaps I can request Othman to answer.

Othman Aljeda: I know the two entrants into Saudi Arabia, the two licences that were granted, one was for FedEx. FedEx, in the past, had an agent and they fell out, so they're coming in directly themselves now. And I don't see much of an impact there because most of their business was going through an agent, and now it's going to go through them directly. And they have very little impact on us in terms of e commerce. They are mainly on the B2B side.

The second one is SF Express, which is a Chinese domestic operator. I believe it's a joint venture between them and Ajlan in Saudi Arabia. Obviously, that will be a threat for us from our markets in China, but again, they've just started. It's going to take them a long time to scale up, if they want to cover all of Saudi Arabia. Saudi Arabia is the most difficult market to scale up. It's easier to scale up in Dubai or the other GCC countries than in Saudi.

So, they're going to have to invest a lot of money in Saudi Arabia to scale up in tier two, three, or four cities, and gain traction there.

Jonathan Milan: And on overall margin recoveries?

Othman Aljeda: Sorry?

Jonathan Milan: On overall margin recovery, by when do you expect recovery margins? I know it's a difficult question. And do you think it can ever go back to 8%, 9% EBIT margin, or do we have to get used to a new normal, given the competitive environment? I understand Saudi is difficult, but it's still a worsening and a toughening competitive environment.

Othman Aljeda: From a linehaul perspective, it all depends on the situation with COVID and when aircraft go up in the air. The more aircraft start flying, the margins will improve because cost will go down. From a domestic perspective, I think the margins will be squeezed. Don't forget there's another element to the domestic, which is the post offices. Post offices in Saudi and the UAE have been dormant for the last 30, 40 years, and now they've woken up.

And these are sleeping giants and they have now got into the e-commerce and into this field. And our aim is to expand into other clusters, which is freight forwarding and logistics. Then I think in logistics, the advantage of e-commerce is to hold stock. Once you hold stock for a customer, you control the last mile. And this is our aim, to become not just the last mile delivery for these e-tailers, but actually fill for them and distribute for them.

And then not just make money on one element of logistics cycle, but both the warehousing and the last mile. And then obviously, as Sleeq said, technology is going to be a key factor here. Efficiency, automation, development, the solution the consumer gets. These are all key for driving efficiencies for us. And at the end of the day, if you look at the e-tailers, the e-tailers, who is the customer? Is it the e-tailer or the consumer?

If the consumer is happy with the delivery, they will always force the e-tailer to use a certain company. And that's the positioning where we want to become. We want to get to where we are the best delivery company in the Middle East, and the consumer requests the e-tailer to use us, even if it's at the higher price. And we're seeing that. I'll give you an example, in the UK, DPD is double the price of everyone else. But then they cap everything.

So, if a consumer shops more than £100, it'll go with DPD. If a consumer shops £50, it will go with the cheaper option. And that's where we want to position ourselves. And that's the only way we're going to get a better margin and increase our overall margins on the GP.

Jonathan Milan: Thank you very much.

Unidentified Male: Thank you. Our next question comes from Joe Francis. Joe, your line is open.

Joe Francis: Hi. Can you hear me?

Othman Aljeda: Yes, we can.

Joe Francis: Thank you. Thank you for taking my question. I've got one question for Arun. Arun, in the last presentation, you said the SGA is likely to be 20% over revenue, but this quarter, it has come down. So, what is your prediction for the future? Are you still holding on to the 20% of revenue for SGA for the full year?

Arun Singh: That is the idle state that 20% or less is the target for Q3 or for the whole year. That is what we're aiming for. While we continue to look into the operating model, as Mohammed mentioned before, and everything that goes with that, with the theme structure, with how we sell, where we spend money. Everything is under review, as we say.

Joe Francis: My next question is to Othman. When you said lower cost through scale, and then the restructuring costs, and now you have the digital expense, as well. So, it looks like you have to invest more and probably have a lower margin going forward, before it recovers. So, what is the low level, which you say, okay, I don't want to go beyond that lower level of margin?

Othman Aljeda: We are running the study now, specifically in Saudi Arabia, where there are a few customers at very, very low rates. And these are customers we might have to drop in the future because of that. And to be quite honest, I don't know who'll pick them up, whether we'll pick them, we'll be taking a loss. So, again, scale, once you've built up scale, the driver area becomes smaller, that means he gets to deliver more packages.

And that's our direction, to build up scale, so that when a driver goes and instead of delivering a 10 km^2 area, they deliver in a 1 km^2 area. And that will give him more packages to deliver and that will drive cost down. But again, there are certain customers out there with extremely low pricing, and these, we would not want to keep moving forward.

Joe Francis: Thanks. But do you have an internal idea that to gain more market share, you will have to compete with price. So, is there anything, which you see…

Othman Aljeda: But that's what we have been doing for the last couple of years, we have been competing on price. And that's why our margins have dropped in the last year or so. This is exactly what we have been doing.

Joe Francis: I have one more question to the Chief Digital Officer. You have been making predictions for some time now. How is the accuracy on the prediction? I know it's a probabilistic outcome, but to have a feel of your prediction accuracy vis-à-vis others, like Amazon.

Mohammed Sleeq: I can tell you, our results in core markets, like Saudi Arabia, for example, which again, is one of the most difficult markets with us with reliance on the script of addresses. So, the way we gauge the accuracy, there are two things. There is coverage, how much of the business that we deliver in Saudi would return a prediction. And we have a percentage of 85% today, and the 15% is an address that says [unclear], for example, where there is no script of an address and it's a new customer.

So, 85% is the coverage. Now, the accuracy indicates the median errors that we get as compared to the actual X, Y coordinates. And today, we're averaging anywhere between 87% to 90% in terms of the median errors. So, 200m, 87% of the time of the coverage. Does that make sense?

Joe Francis: Yes. [I'm] not very good in statistics, so I hope you are in line with the other players, like Amazon.

Mohammed Sleeq: Absolutely. I think one other element I would mention here is our geocoding capabilities, while 85% is very comparable in any machinery model that you would look at, it's not enough to… What we realise across the last years is that geocoding capability is not enough. What we needed to do is invest and augment the customer experience, similar to what Othman was saying, and a schedule would be a reason why we would succeed in the deliveries.

So, an accurate address is a good thing to do, but then a combination of an address and a schedule would increase the success rate of our last mile capacity. So, that's why we're investing in empowering our consumers to indicate a schedule and an address at the same time, because the likelihood and our success rates would definitely increase, if the customer is there.

Specifically, [unclear] business, so when the customer has to prepare the cash and we have a commitment on the timeframe as well. So, we're looking at these as two strategies to enable our success rate and become more efficient on the ground.

Joe Francis: One last question. You have tried the crowd delivery. But later on, we didn't hear anything about it. Do you want to try that again?

Othman Aljeda: Sorry, what's that? crowd delivery?

Joe Francis: Yes. Crowdsourcing.

Othman Aljeda: We're still doing that. We have an LMI, so 80% of our operation is fixed and 20%, which scales up and down, it's 20% during low season, then that goes up to 40%, 50% in high season. That's not something that we have stopped. We have actually continued to invest in that. And most of the key markets, where we can get crowd sourcing. In this region, it's difficult because of visa requirements and so on.

But, for example, in Saudi Arabia, we do very well on crowdsourcing and we get Saudi nationals that do deliver packages. And we've got a large fleet of that. In certain markets where it's very high, for example, in Tunisia, something like 70% or 80% of our deliveries are crowdsourced. So, this technology is ongoing and this is a drive that we will continue to do.

Joe Francis: Thank you. And hopefully, your digital transformation and technology will help you in that [overtalking].

Othman Aljeda: I'm very supportive of crowdsource. I wish you could crowdsource everything, but again, as I said, restrictions and visas, for example, in the UAE, doesn't allow us to do that. If it did, then we would definitely ramp it up.

Joe Francis: All the best for the future. Thank you.

Anca Cighi: We also have a couple of questions that are coming through the Q&A box, so I will be selecting a couple of these to read out loud for the next few minutes, as we will need to wrap up the session soon. The first one is for Othman and the question is *can management shed some more light on what avenues and how they intend to leverage their relationship with ADQ*?

Othman Aljeda: It's a very good relationship with ADQ. They are the part of the government of Abu Dhabi, so we're in discussion with them on a lot of government contracts, specifically in hospitals, on the food banks, on the oil and gas. So, being part of that family where they have an interest in us, they would have interest in us, gaining government contracts. And we've been very active on this front. And ADQ has aspirations to go global in terms of ports and logistics, and we will go with them.

So, if they go and acquire things in Africa and other countries in the world, we'll go parallel with them on the logistics side. They are more focused on port handling, maintenance free zones, and so on. And we are looked at as their logistics arms in terms of warehousing and distribution. And we have a very strong relationship with them and they are opening a lot of doors for us.

And that's why we are doing these two clusters, because we feel the freight forwarding and logistics side has huge potential. We're going to be investing a lot in that, along with ADQ, and gaining these big contracts.

Anca Cighi: Thank you very much. The next question, if we can shed some light on the M&A strategy for the second half of the year. What ticket size and deal frequency is the company looking at? And could this be enough to deliver earnings growth stability for the company in 2021?

Othman Aljeda: I'll leave this to Arun, because I might say something wrong.

Arun Singh: Thank you, Othman. We are, as we've seen in the presentation, looking for M&A opportunities in both the clusters, express and logistics. Without specifying the exact number of deals we're working on, I can tell you one of the very interesting deals we are currently looking at, one of the very interesting markets for us where we see a lot of growth potential.

Not just for the existing business, as is, but once we do that position and once it goes through, it will help us to channel a lot of business from that particular geography into a lot of our core markets. And there could be a lot of good synergies that we'll be able to generate. That particular business, again, I will not give exact numbers, but the top line is somewhere around 250 million plus in dollars. GP margin, they have around 30%, EBITDA margin of around 16%.

So, a pretty interesting business for us. There are a few opportunities we are looking at in the logistics cluster, and that's spread across a few different countries. Again, at least one of the opportunities is within GCC and one beyond. We hope at least one of the deals or possibly two could materialise before the year end, and that would be very accretive to our overall P&L balance sheet.

Anca Cighi: Thank you, Arun. Perhaps another question directed at you. Will aggressive growth in freight forwarding or logistics come at the expense of lower margins?

Arun Singh: I do not necessarily believe that. Where our margins stand, as of today, it can only go up with the initiatives that the new CEO, Othman, has taken on. So, with increased focus, bringing in more expertise and making concentrated investments into this, in the verticals, freight forwarding, and logistics, we expect, over a period of time, the margins to improve. Much better in line with global peers, or in fact, slightly better, if we do it right.

Othman Aljeda: Just to add to this. On the express side, there are not a lot of express companies out there that are regional or global. If you look at global, there's DHL, FedEx, UPS, full stop. Regional, again, there's not much out there. There are some in Southeast Asia, which we would not be interested in. But then there are a lot of domestic companies in certain countries outside our region that are of interest for us, and we're pursuing those.

Now, in terms of freight forwarding and logistics, there is much opportunity there, even in the GCC and north Africa. Small to medium companies that we will be picking up to strengthen the logistics infrastructure and freight forwarding. There is nobody like us. There is nobody in the region or anywhere, actually, that has a freight forwarding, a logistics, and an express arm.

And that's why, again, we're going back to these two clusters, where if we do anything on express, it goes under the express cluster and we swallow it up. And anything that goes under freight forwarding and logistics will be under that cluster.

Anca Cighi: Thank you, Othman. The next question is on the freight forwarding segment. Can you give us a generally expected timeline for when we can start to see a notable impact from the transformation in the freight forwarding?

Othman Aljeda: Very soon. I think within the next three or four months you will see an impact. I don't know if you've seen the press release, we've had [an MoU with DB Schenker]. It's a strategic alliance where we leverage on their infrastructure in Europe, they leverage on our infrastructure in the Middle East. ADQ is adamant on us investing more on the logistics side, so I think you'll see the impact immediately.

And we have had, as Arun presented earlier, we've had very strong growth there in the first six months, and I expect that to grow. And I expect the B2B business to come back strongly. A lot of verticals in our industry have stopped during the pandemic, especially, for example, the automobile industry has slowed down, and other industrial industries. Oil and gas now is coming back strongly with the oil prices going up. So, I think this impact will be quite quick.

Arun Singh: Just to echo Othman's comment, I think the observation related to ADQ is more linked to the opportunities that they have introduced to us. So, while we guide and frame our own investment policy and strategic priorities, it's very welcoming from all shareholders, including everybody on the call, to be able to pass on some good interaction to increase our business, which ultimately increases the shareholder value.

Anca Cighi: Thank you, Arun. Specifically, on the DB Schenker MoU, what sort of partnership are you looking into? And could you provide more detail on the sort of capacity enhancement it would bring to our company?

Othman Aljeda: It's an alliance. Again, our infrastructure in the Middle East is by far superior to theirs. And their infrastructure in Europe is by far bigger than ours. So, we're leveraging on their buying power in Europe and the US, and they're leveraging on our infrastructure in terms of trucks within the region, warehousing in the region, and so forth. So, it's a good collaboration, I think. They have a lot of expertise in specialised areas that we're not in.

So, again, for example, from the UAE into Saudi, they have started using us heavily on the trucking. And we've started using their buying power in Europe to get better buying rates into this region.

Arun Singh: Anca, do we have more questions?

Unidentified Male: Thank you for that. I think, Anca, if there are no further questions in Q&A box, maybe we can take the last question from [Unclear]…

Anca Cighi: Yes. Let's go ahead and then we will wrap up the session.

Unidentified Male: Thank you. [Unclear], your line is open.

Questioner: Thank you. You mentioned earlier, you were talking about a potential capital market transaction. Does that mean you'd be looking to raise debt or equity in the public markets?

Arun Singh: Yes. So, to link back to the M&A ambition that we have and a few deals that we discussed, we would need to raise some debt. I can't exactly spell out the exact spread between the bank loan and capital markets. But yes, the size of the deal may mandate us to go and get money from capital markets, if the deal goes through.

Questioner: So, we're talking about a bond or sukuk issuance?

Arun Singh: Yes.

Questioner: Great. And as a last question, in terms of the deals that you're looking at, obviously, a benchmark sized deal would be $500 million. So, is that the size of deals that you're looking at? Otherwise, why would you be raising that much money?

Arun Singh: That's correct. At least one of the deals could be in that ballpark figure.

Questioner: So, some of these would be, presumably, quite transformative?

Arun Singh: Yes. So, if the deal goes through, it could be anywhere between, without specifying numbers, between $400 to $500 million.

Questioner: Obviously, things can change, but that's planned for this year?

Arun Singh: That's correct. It's our intention that we are making our best effort to hopefully close out, if everything works out well in the whole process, to close out [in the fourth quarter of the year].

Questioner: Thank you very much.

Arun Singh: Thank you.

Anca Cighi: Thank you, all. I believe we've run out of time for this session today. I know there are a few more questions that keep coming, so my suggestion would be please get in touch with IR via email and we will do our best to address all follow-up questions. Thank you very much for joining us today. For the time being, I will hand back to Othman for the concluding remarks.

Othman Aljeda: Thank you, everyone. It's been a pleasure talking to you all. It has been a tough six months, although revenues are positive and I feel very good about the revenue side. On the cost side, it has been challenging, but I feel we are on the right track to getting that improved. And we are very, very aggressive on the M&A side. And you will be seeing… Sorry?

Anca Cighi: Please go ahead, Othman.

Othman Aljeda: On the M&A side, as Arun said, there's a couple of targets that are close. We are working very hard on that and we understand that we need to grow inorganically, so that's our strategy. And then again, as I mentioned, the two clusters are important for us. Express and logistics are two different beasts, so we need to start focusing more on the B2B side, which we haven't in the last few years, and that's purely because of the drive on e-commerce. It's been a very lucrative product for us, but now it's under pressure.

We understand it's under pressure, so we have to branch out and go back to what we did before, which is having not so much focus on one product, but focus on multiple products that we can give solutions to customers. Thank you, all.

Anca Cighi: Thank you very much. I will hand over to Ahmed to conclude today's presentation.

Aramex Q2 2021 Earnings Call — Thursday, 05 August 2021

Ahmed: Thank you, everyone, for attending. Than you Aramex's management team, Othman, Nasiba Mohammed, Arun, Anca, and Thomas. Thank you, everyone, for attending and have a good day.

Mohammed Sleeq: Thank you, everyone. Have a good day.