0800 138 2636
conferencingservice@netroadshow.com
www.netroadshow.com

Transcript

# Aramex Q4 2023 results conference call

Tuesday, 13 February 2024

**Ahmed Hazem** Hello, good morning and good afternoon, ladies and gentlemen. This is Ahmed Hazem from EFG Hermes speaking, and I'd like to welcome you all today to Aramex's fourth quarter and 2023 results conference call. With us on the line today is Mr Othman Aljeda, CEO of Aramex, Mr Nicolas Sibuet, CFO of Aramex, Mr Mohammad Alkhas, COO of Aramex Logistics, and Mr Alaa Saoudi, CEO of Aramex Express, and Miss Anca from the investor relations function. Without further delay, I'd like to congratulate the management team on an exceptional set of results in the fourth quarter and, without further delay, Othman, please, the line is yours.

**Othman Aljeda** Thank you, Ahmed. Ladies and gentlemen, good morning, good afternoon, wherever you are. I'm extremely happy to report a strong Q4 for 2023. Despite a 1% dip to revenue, our gross profit increased by 2%, EBITDA grew by 33%, reflecting our commitment to quality revenues, operational excellence and strategic cost management. Improved margins underscore our dedication to efficiency. Our net profit more than doubled for Q4 2023, driven by the strong growth in EBITDA, to conclude 2023 with a stronger and leaner business.

While all our products contributed to the improved financial performance, and on a very positive note, our international express product had a record quarter with the highest-ever volumes, driven by a major client win, as mentioned in our last earnings call. It's important to note that our revenue remains well-diversified across customers and markets, and concentration risk is very low. The flexibility of our business model and the synergies of our four products would be key to our success going forward, enabling us to unlock growth and grow sustainably.

For our B2C customer base, we provide a faster and reliable solution, access to new markets, and more visibility across a shipment journey, thanks to the improved technology, customer experience and customer service we have. For our B2B customers, they've seen acceleration in the global supply chain diversification trends, and persistent uncertainties that are redefining the way goods are being moved, stored and fulfilled.

The current situation in the Red Sea has caused a new disruption in the global shipping industry, and I'm very proud that Aramex has been able to support customers with alternative solutions. Thanks to our large trucking fleet in the region, we have been able to deploy our own operator trucks via Dubai and via Dammam Saudi for shipments arriving from Asia, and via Port Said Egypt for shipments arriving from Europe.

This provides a solution to the Red Sea route of the alternative route via the Cape of Good Hope, which takes approximately seven to 14 days longer, on average, depending on specific locations in Asia and Europe. Businesses require more local solutions to ship and fulfil regionally, to be able to service their customers without interruption. We can offer our customers an end-to-end solution, or customised solutions, across the first mile, middle mile, and last mile.

Operational efficiency has been the cornerstone of our success. We've implemented cutting-edge technologies to streamline supply chain processes and improve workflows. Cost management remains a priority for us. The organic business, which excludes MyUS, delivered a 10% decline in G&A expenses in 2023. We also saw a 7% increase in selling expenses for the organic business, which reflects our strategy to increase sales competencies in key verticals across key markets to ensure sustainable and quality revenue growth in the future.

For the full year 2023, our net profit was $35 million, a decline of 22%, driven by the increase in interest rate expenses associated with the MyUS acquisition, taken in Q4 2022. The organic business improved in net income by 7% in the year 2023 compared to the previous year.

In light of these achievements and the current high interest environment, the board recommended no dividend payments at this time. This decision is aligned with our capital allocation plans, allowing us to manage our financial position by prioritising debt repayments, by reducing leverage, restrengthening our financial stability and flexibility and mitigate the risks in a volatile economic environment.

This strategic move will also enable us to reinvest profits and to further enhance our operations, as we pursue our growth story. I see a lot of potential for Aramex, and opportunity to create long-term value for our shareholders. Finally, I would like to highlight my team's dedication. Every member has an important role to play, from the warehouse floor to the boardroom. We view Q4 2023 as a positive milestone in our recovery story. We have a lot of work ahead of us, and we're optimistic for 2024. With this –[inaudible]

**Nicolas Jean Sibuet** I think we lost Othman. Thank you, Othman. Can you all hear me? So, good afternoon, ladies and gentlemen, and thank you for joining our conference call this afternoon. We will go through the financials and then open up the floor to you to address any questions you may have. As our audited full year results were published on Thursday last week, more than a month sooner than last year and prior years, I will keep my remarks concise, addressing key developments.

Let's start with the international express product. We delivered record volumes, achieving 7.6 million shipments in Q4 2023, the highest volume in the history of the company, driven by several sales efforts throughout the group, and notably significant new client wins. These are e-commerce volumes, end-to-end, going into our key home markets in the region. We are happy to see this growth returning to the express international product, as it contributes to lowering of cost per shipment in the countries benefiting from these volumes, and improves the overall profitability of all our other accounts. We close the year with 5% growth in volumes in 2023 compared to 2022.

Let's move to the next slide, please, to see the impact on financials. We delivered 8% growth, year on year, in Q4 2023 revenue, driven by new client wins. With more efficient operations, and an infrastructure ready to accommodate more business, gross profit grew double-digit, at a faster rate than revenue. The GP margin improved 2 percentage points, to 34% , in Q4 2023. As a reminder, Q3 2023 benefited from certain one-offs. As previously stated, excluding this one-off impact in Q3 2023, the Q3 2023 GP margin was 33%. For the full year 2023, we report improvement in all key indicators for the international express product, and close the year with a healthy GP margin of 34%.

Going into 2024, we will continue to focus on investing in further streamlining our operations for express. We have more automation projects being rolled out. We are driving more procurement efficiencies and better negotiations across our key lanes, on the back of growing volumes, as well as streamlining our vehicle fleets.

On the following page, the domestic product shows again being very resilient. Despite the softness in retail activities worldwide, we delivered stable volumes for domestic express across the regions in Q4 2023, and for the full year 2023.

Notably, we are starting to see improvement in Oceania, with a modest increase in volume in Q4 2023 compared to the same period last year.

This is driven by the improvement in our key SLAs and the restructuring activities being carried out in Oceania. Oceania is a significant contributing to our domestic express product, and this market remains in losses. So a lot of work remains to be done in Oceania, and Australia specifically. We are making good progress, but not enough. We acquired one of our major franchises in Melbourne Australia, which now gives us direct control of about 70% of our volumes in Australia. This acquisition will be consolidated in our book starting February 1st 2024. We also completed the automation of a facility in Syndey. This is our largest automation to date, and we expect to see an increase in the numbers of shipments handled daily, and also expect significant productivity metrics improvement.

Everywhere across our regions, competition in domestic express activities remain high. Key differentiators for this product are our technology, a large infrastructure in key markets, and a specialism in key sectors. We will continue to invest to gain meaningful market share and maintain our position of number one, two or three in these markets.

On the following page, let's look at the financial results for the domestic express product. Q4 2023 revenues declined 4% year on year, and revenue for the full year 2023 declined 5% year on year, mainly due to FX impacts. Excluding the currency impact, revenue decline was 1% only for the Q4 2023 period, and for the full year period, revenue grew 2% actually. As a reminder, the domestic product was also negatively impacted by an internal prospective reclassification of heavy shipments volume in Europe to freight business.

The gross profit margin decreased double-digit in Q4 2023 and full year 2023. This is primarily due to the softness in Oceania, certain adjustments in the group reporting, as well as currency fluctuations. Upon removing currency effect, the gross profit declined 8% for the full year 2023.

On the following page, let's look at our freight-forwarding business. Land freight delivered robust growth in volumes, reflecting the strength of our tracking fleet in the GCC and wider region. Let's look at the dynamic of air freight and sea freight volumes. What we have seen during the year is a softness in demand globally, and a decline in sea freight rates. This has provided customers with time and opportunity to optimise their supply chain and mode of transportation in a more cost-effective manner. Therefore, we see more movement into sea freight and a reduction in air freight. That said, it is worth noting that, for Aramex, air freight remains the highest contributor to freight revenues.

On the next page, overall our freight-forwarding business was resilient in a challenging market, characterised by the decline in global freight rates, leading to a downward impact on pricing, as seen across the freight-forwarding industry worldwide. The business, in absolute dollar terms, has shrunk as a result of the revenue decline due to the industry rate drops. However, we focus on what we can control, i.e. our profitability margins, which were stable and resilient.

We ended the year with 15% gross profitability margin, representing an improvement of 1 percentage point over 2022, and with 6% EBITDA margin remaining at the same level as the prior year. This year, we will continue focusing on bringing more volumes on our key trade lanes.

On the following page, let's look at the logistic and supply chain solution product. As a reminder, we spoke last quarter, Q3 2023, about the loss of a customer as a result of this company, this customer, being acquired by an entity which has logistic capabilities already. We're working on adding new volumes and increasing the utilisation rate for this product. Revenue was impacted by foreign exchange translation. Excluding FX, revenue was stable in Q4 2023, and increased 2% for the full year period. Sequentially, Q4 2023 saw an increase in sales and margins compared to Q3 2023, driven by new client wins.

For the quarter, Q4 2023, gross profit increased 13% year on year, and the margin improved to 19%. It is worth noting that logistics benefited from a one-off settlement of approximately $4 million in the quarter, which added a further boost to the profitability of this particular product. For the full year 2023, gross profit declined in line with revenue, and the margin was maintained at a healthy 15%, reflecting operational efficiencies and cost management.

Let's move to our group financial results, please. Aramex reported a marginal 1% year-on-year decline in Q4 2023 revenue, despite challenging market conditions and currency fluctuations. When excluding the impact of currency translation, full year revenue decline was 0%. It is worth noting that we are seeing less headwinds on currency fluctuation on our business. At Q4 2023, the FX impact on group revenues was negative 3.5 million. This is less than a year ago, when the FX impact in Q4 2022 on group revenues was negative 22 million.

For the Q4 2023 compared to the Q4 2022, revenue growth in international express was offset by the decline in revenues from other products. Freight-forwarding was impacted by the decline in global rates, as we just discussed, while the domestic express and logistics businesses reported marginal decline in revenues, impacted by currency translation.

Now, it is important to also look at the group revenue growth sequentially. From Q3 2023 to Q4 2023, half of the sequential revenue growth at the group level is distributed amongst various customers and products, and also driven by seasonality, with the remaining half coming from a client win we mentioned earlier.

Back to the Q4 2023 year-on-year analysis. With our focus on quality revenue, operational efficiencies and cost optimisations, we delivered a notable 2% year-on-year growth in gross profitability for Q4 2023. Our international express product remains the highest contributor to GP, followed by our domestic express and Freight products. The contribution from logistics is modest. As previously discussed, this product will grow in line with our square-metre expansion and increase in utilisation.

On the following page, the following page, please, we close the year with softness in full year revenues, but are pleased to see stability to our group GP, and positive evolution of our group GP margin for the quarter and the year, reaching 25.5% and 25.1% respectively. The margin evolution is in line with our prior communication and we're comfortable with this level of group profitability. Going forward, we aim to maintain this level with marginal improvement as we progress with our recovery story.

On the following page, we would like to highlight our cost control and increased focus on efficiencies, which has helped us to deliver 33% growth in Q4 2023 EBITDA, and a 2% improvement in full year 2023 EBITDA. We will maintain a focus on cost management and further optimise SG&As in 2024.

On the following page, let's look at our net profit performance. Q4 2023 was strong, and while we are extremely pleased with the positive results, we remain focused on what's ahead of us. Our full year net profit was impacted by the increase in interest expenses associated with a loan taken in Q4 2022 to finance the acquisition of MyUS. Full year group net profit declined 22%, significantly impacted by the increase in interest rate since the time the acquisition was closed. Our organic net income was up 7% for the year 2023 compared to the year 2022.

Moving to page 25, please, the regional contribution to our financial result for the full year 2023, we see double-digit growth in gross profit in the GCC in 2023, and a stable performance in the MENAT region, which was heavily impacted by foreign exchange and currencies impact.

Our outbound markets, including Europe and the UK, grappled with subdued consumer sentiment and rising inflationary pressure which impacted e-tailers and other businesses. In South Asia, we saw growth in gross profit, while in Oceania we continued our restructuring plan and this market contributed with half of the volume of our global domestic product. In the US, we doubled our gross profit on the back of the MyUS acquisition. We remain well-diversified across customers and geographies, and focus on further growing key lanes, or business where we have expertise and the right to win.

Regarding the free cash flow, on the following page, in Q4 2023, the free cash flow settled at $16 million, higher than Q4 2022. Sequentially, free cash flow in Q4 2023 is lower than Q3 2023, mainly due to negative cash flows from CAPEX activities, such as automation projects. As a reminder, free cash flow in Q4 2022 includes the consideration paid for the acquisition of MyUS.

On the following page, you will see our balance sheet remaining healthy. We closed the year with a net debt to EBITDA ratio of 2.4, well below our bank covenants. We reduced our current liabilities by $60 million in 2023, mainly through repayment of debt, which we will continue to do in 2024. We have a target to reduce 50 million to 70 million dollars of debt in 2024. As you know, Aramex is pursuing a profitability and growth agenda to deleverage our balance sheet and, in the context of a high interest rate environment, we are prioritising debt repayment. In 2024, we plan to reduce our interest expense in the range of $4 million to $5 million on an annual basis at the current interest rate.

This concludes our presentation. Thank you, everyone, for listening. Ahmed, please open the floor for the Q&A session. Thank you.

**Ahmed Hazem** Thank you, Nicolas. As a reminder for everyone, you can use the Raise Hand function to ask your question, and we can unmute your mike, or you can send your questions in the Q&A box. We have our first question coming from Thomas Mathew. Thomas, your line is open, please unmute locally and ask your question as well.

**Thomas Mathew** Hi, am I audible?

**Ahmed Hazem** Yes, you are audible. Please, go ahead.

**Thomas Mathew** Thanks for the call and the presentation. I have a couple of questions. The first one was in terms of the additional contribution that you are realising from providing services which are linked to the Red Sea disruption that you mentioned you were able to accomplish. If you could quantify, in terms of a year-on-year increase in revenue and GP, or some sort of colour as to what we could assume for that particular service and what it's adding the specific service lines that are catering to the segment or this event, that would be very helpful.

The second question was on the pricing environment. Some guidance on what you expect for your express segments, and if you could give some colour on the specific segments in international express between the two products that you have and domestic express. These are my two questions, thank you.

**Nicolas Sibuet** Maybe, Alkhas, would you want to take the question on the Red Sea contribution?

**Mohammad Alkhas** Yes, sure, thank you all for your time. The Red Sea situation is a geopolitical situation that nobody has control of. What we can see is that it caused trade to increase and disruption in transportation routes. So the alternative routes were around the Cape of Good Hope which, as Othman said, will add seven to 14 days in terms of lead time and increase in cost.

Since December, the 40-foot container index globally increased more than double, but in the last couple of weeks we see a bit of a decline. For us to quantify how much this affected our revenues using our solutions by using a land bridge between [unclear] Dammam and Jeddah and Egypt and Jordan, it still needs to be seen because the volumes that are transferred through that route are not that significant. So it's not making a huge difference in terms of our land freight revenues. But the solutions are there for clients who are in need of a faster delivery.

But what we see now from the softness in demand globally, it's not that much of an important factor to pay more extra shipping rates just because of a saving of seven to 14 days. So we still monitor it and see the situation in the Red Sea and see how it will affect our revenues. Did that answer your question?

**Thomas Mathew** Yes, it did, thank you.

**Nicolas Sibuet** Maybe Alaa, on the express pricing?

**Alaa Saoudi** On the express pricing in general, as was presented in the presentation, the revenue per shipment went down for the express, and this comes with the pressure of the new win that we had for the new customer, because of the injection of high number of shipments. But with that, we benefited from the volumes in reducing our costs, and this is why we maintained a very healthy GP margin.

What I think the pricing will be, coming to the new year 2024, I think it will be in line with what we reached so far, what we reported in Q4. And on the margins, it will stay as we reached as well. In terms of the domestic, if we talk about domestic, as you saw in the presentation as well, it was flat, in terms of pricing it was flat. We had some gains on the efficiency, on the GP, but also we still see that it will be in line with what we reported in Q4. Does that cover the question, or any more [overtalking]?

**Thomas Mathew** Yes, thank you.

**Alaa Saoudi** Thank you.

**Nicolas Sibuet** Ahmed, are there any other questions?

**Jonathan** I have a couple of questions.

**Ahmed Hazem** Jonathan, please, go ahead.

**Jonathan** Thank you. I have a couple of questions. Back to the Red Sea issue, will it have an impact on your costs? There must be some shift in demand towards air freight from sea freight, is it possible that it could have a negative impact on your profitability? That's my first question.

And my second question is how big were the losses in Australia this year? And once you've implemented all those measures, consolidated that other company, automation is working all well, where do you think you can take that, just to get an idea of the delta we can expect from the turnaround of the operations in Australia?

**Nicolas Sibuet** Let me start with the question on Australia. First of all, we don't disclose net losses at the country level, but just to give you a little bit of colour, the losses that we're incurring in Oceania are quite significant, and this is the reason why the management is very much focused on the turnaround of this. We have a clear plan. We are starting seeing some results. We have seen a couple of data points where we see a path towards breakeven, first of all, at the EBIT level, and we have managed to get a couple of months of EBIT breakeven in the past few months.

We are quite comfortable with the growth of volumes that we are seeing happening, but we believe that the overall impact and the return to profitability will take another, probably, 18 months. It's a huge market, and in order to change, first of all, customer perception, second, profitability, it's a big boat to change [unclear]

So how can I say that? In order to give you a little bit of quantifiable numbers, you need to look at potentially a seven-digit impact at net income level, and we are looking at this very, very carefully. So we believe that the worst is behind us. We are already seeing some interesting trends as of today, in Q1 2024. Let's focus on this turnaround. We will give you further updates on this, but we expect the loss to reduce significantly, quarter on quarter, but it will take 18 months.

On the profitability impact on the Red Sea, I think Alkhas will also probably complement my answer but we are not seeing any particular downside to it. We have the fleet, the truck fleet, that is already there. It's an owner-operator model so there's very little impact on cost in that particular aspect. And we don't have any particular CAPEX or any kind of exposure to these different elements. We have a model that is very asset-light, we don't have long-term commitment in terms of forward contract rates, so I believe our cost base is very well protected, we don't see a downside effect on that. We're actually more seeing an upside by moving shipments from the sea freight into potentially a mix of sea freight and trucking. So for us, it's more an upside, we don't see a downside. Maybe, Mohammed, do you want to complement?

**Mohammad Alkhas** Yes, absolutely, I agree with you, Nicolas. And with the increase in rates in sea freight, this means our measures and cost efficiencies around the world is bearing fruits now, and we welcome an increase in rates in terms of sailings. But you have to understand that the whole softness globally in the market is not affected that much by the speed that containers are being moved, especially from the Far East to Europe and to the region.

So as Nicolas said, we have a very asset-light model. The effects of that on our revenues are still to be seen in terms of volumes, but because it's a geopolitical situation, you never know when it ends or when it will start again. So we are ready for any solutions for our clients.

**Jonathan** Thank you. And one last question, if I may. You've made the acquisition a year and a half ago, so at the end of 2022 your debt was already up and, I would argue, the end of 2022 you were in a worse position than you are now, and yet at the end of 2022 you did not cut dividends, but you cut them now. It's just a bit of a mixed signal where things have improved versus 12 months ago, and yet now you've cut the dividend, and not 12 months ago.

**Nicolas Sibuet** Yes, again different… Your question is absolutely fine. [inaudible]… We changed our plans during 2024. We realign. We understood, we were anticipating interest rates to drop. We looked at the focus towards the future plan of the company growth, and we have to align our shareholders and all the different stakeholders that we have towards an agenda of focusing on clear earning per share growth.

This agenda has been clarified and firmed up during the year 2023. We believe that deleveraging the balance sheet, which will unlock consistent savings at the interest-expense level, will improve the earnings per share, and this is, in our opinion, the right move. This is of course subject to our AGM voting.

It is also to be noted that, based on the 35 million net income, the impact of a dividend payment would be extremely small, it will be probably in 1% yield of dividend, and we consider that this is not enough to change the perception of our shareholders towards our stock, and that they will follow us on deleveraging the balance sheet, unlocking earnings per share in the future. The suspension of the dividend is, for now, for this year only, and this is not a permanent decision at all.

**Jonathan** All right, thank you very much.

**Ahmed Hazem** May I ask the participants to lower their hand if their questions has been asked. Our next question comes from Harsh Mehta. Harsh, your line is open, please unmute locally as well.

**Harsh Mehta** To the management for the presentation. Just a question, on the last 12 to 18 months, the focus has largely been on revenue growth, operational efficiencies and cost optimisation, and that's kind of starting to show some results, as we saw in terms of the improvement in results in Q4. So I was trying to understand what's next for the management, maybe this year or in the medium term? Would this still be focused on growth, efficiency and cost optimisation? Especially because you've mentioned multiple times that margins are now going to be pretty much stable, is that the goal has been achieved and you need to move to a new strategy? That's my first question.

And I have another question with regards to your technology investment in terms of if you could just share a little bit in terms of what are the new investments you've made, does that put Aramex ahead of competitors, or are you just taking the best practices globally and putting in the region, to understand how your competitive position is there?

**Nicolas Sibuet** I do not know if Othman is on the line, but let me take your first question. So, the strategy is…

**Anca Cighi** I think Othman is on again.

**Othman Aljeda** Sorry, everyone, I'm having extreme difficulties connecting, so I'm connecting through Anca. But I heard the first question, about the strategy moving forward. The strategy, obviously we've got two extremely important clusters that we're focusing very heavily on. The first, there is the express which has been difficult over the last couple of years because of the increased pricing pressures, we've had to restructure ourselves.

I'll be honest with everyone, we got a bit too engaged in e-commerce and not so much on the B2B side, and we forgot the overall picture. So on the last mile, we've gained good customers now, as you can see from the results on cross-border, but this cross-border element, when we go down the journey with e-tailers, it is the beginning. You start with a cross-border element, then you go on to warehousing and logistics and fulfilment and so on.

And this is the direction of our strategy. It's not longer to give a solution, be it door-to-door or logistics or freight-forwarding, it's actually going to the customers and giving them a whole suite of solutions, be it flying the goods from Asia where it's manufactured, or Europe or North America, flying it here by air, by sea, warehousing and then fulfilling, and then be it a last-mile delivery or a store delivery and so on.

So really, we want to focus on our infrastructure in the Middle East, all aspects, and that's something we're very strong at, that we have these verticals that we can offer these customers, a wide range of services which our competitors can be limited to. So that's the direction, to basically make sure that all of our customers are close to the consumers in the Middle East and we fulfil and obviously give a better service there, and a closer touchpoint to all customers.

On the technology, there are a lot of things that are on the plate. Obviously, the biggest is efficiencies, where we're looking at efficiencies, all aspects of the business. Obviously, the biggest area of efficiency is operations, because that's where you can make quick fixes, and substantial amounts because a large chunk of our expenses is on the operations side. So we're looking at obviously route optimisation, how we can deliver packages better, optimising how we look at line hauls and getting the best line haul rates and service at the same time.

And then unlocking other efficiencies in other areas and functions, such as finance, automating finance, automating other functions. Obviously, there's a big push there. We've just recruited a new CTO, just joined us a month ago. She comes from a wealth of experience [unclear], and she's obviously going to transform where we are today. But we're on the right track, we're working with a lot of vendors, all of them the right vendors that we need, be it in ERP or in maps, such as Google and so on, to enable us to look at all of these efficiencies.

**Anca Cighi** Understood, thank you.

**Ahmed Hazem** Thank you. We have a few questions in the Q&A box. Let's go through them before we move back to the raised hands. Our first question comes from Waruna, he's asking what kind of international express volumes can we expect in H1 2024 on the back of the new client acquisitions in the fourth quarter? And also, he has a couple of follow-ups. Will there be further pressure on freight-forwarding rates going into 2024 which will affect the top line? And the effective tax rate for 2022-2023 has been around 15%, will this be the norm going forward?

**Othman Aljeda** I'll start off with the volumes. Usually, Q4 is a very strong quarter for everyone because there are a lot of discounts, there are a lot of e-tailers giving promotions, Black Friday and Cyber Monday and so on. We usually see a drop in January. Obviously, February is the Chinese New Year, so there's going to be a drop in business from the Far East, but I think in general, if I look at the overall volumes, when I compare it to Q1 of last year, I think we're in a very good place.

I think the key markets, for us this time, are Saudi Arabia, UAE and the GCC, where we're seeing continuous strong buying power, especially from e-tailers both domestically, regionally and cross-border. So we're quite buoyant. Obviously Ramadan is a big season for us, which starts in March, and usually that is another peak for us. So when Ramadan comes, we'll see a lot of activity from e-tailers again, when they start marketing and so on and discounting and so on. So in general, I think Q1 is good. It won't be as strong as Q4, as I said, Q4 is the strongest quarter in every year, but we're on the right track.

**Ahmed Hazem** Thank you. The follow-up question was on pressure on freight-forwarding rates going into 2024, and will it affect the top line? And then the effective tax rate for 2022.

**Nicolas Sibuet** Alkhas, can you take that, please?

**Mohammad Alkhas** Sure. We witnessed a lot of pressure last year on the pricing of freight-forwarding. All the rates for sea freight and air freight went down. But now we see some recovery, but not for the right reasons. The right reasons are increased demand and moving forward with manufacturing hubs around the world to the consumers, and since the demand is soft, we don't anticipate that much of an increase in freight prices which will affect our revenues, and that's why we're concentrating mostly on our profitability and our efficiencies in this business, by growing our volumes as well. We are growing more and more volumes in both logistics and in freight-forwarding, which is our base for calculating how much are we getting market share and how much are we getting new business from different clients around the world.

**Nicolas Sibuet** Thank you, Alkhas. And on the last question, regarding the ETR, we have adjusted the ETR, we have done a lot of optimisation over the last couple of years. On a going-forward basis, we believe that the ETR level of the company will stabilise in the low 20s, probably 20% to 22% on a going-forward basis, probably starting year 2024. So hopefully this answers your question.

**Ahmed Hazem** Thank you. We'll go back to the raised hands. Our question comes from Michel. Michel, your line is open, please unmute locally and ask your question.

**Michel** Hi, everyone, and thank you for the call. You had previously communicated that you're targeting contribution from the freight-forwarding and logistics to reach around 50% of your revenues. Is that still the case?

**Anca Cighi** I think, Othman, if you'd like to take it?

**Othman Aljeda** Sorry, could you just repeat the question, please?

**Anca Cighi** Yes, the target going forward is still for 50-50 between the courier business and the freight and logistics business?

**Othman Aljeda** Yes, definitely. As I said to you before, we want to focus on both pillars, express and the freight-forwarding side, but we're seeing a big shift. If you look at express, it's shifting from cross-border, door-to-door, to now a big of freight-forwarding, a bit of logistics, and a bit of last mile. So freight-forwarding is freight-forwarding, logistics is logistics and freight-forwarding, and then you have the last mile element which is the express element.

If you want to tell me what the future is, definitely we want to grow more on the Express and freight-forwarding, because that will enable us to have a better last mile for our consumers, and obviously hook the customers in. So yes, the plan is to continue to grow freight-forwarding, logistics, to have a 50-50 mix, and be not dependent on one product or the other, and just give all our customers the right suite of products.

**Michel** Very clear. So we should expect gross margins to remain flat-ish going into this year, but do you have a dollar amount of cost savings that you are targeting? Or it's going to be basically this operating leverage driving EBIT margin expansion? Or we shouldn't expect EBIT margins to improve?

**Nicolas Sibuet** Let me take this question. We are comfortable with the GP at 25%. We will potentially push this by 50 basis points sequentially, year on year, but from a modelling standpoint, 25% is a level which we are comfortable with, and this is linked to the fact that we are specialising the products by verticals, by industry, by sectors, and tapping into high-value verticals.

The second element is we want to contain the SG&A, and the growth, year on year, of SG&A should not go beyond a couple of points of percentage, so 2%, maximum 3%. And this is how we'll be able to unlock additional EBIT. So growing the top line, containing the SG&A at similar GP.

**Michel** And one final question from me, what do you think has been the benefits from having GeoPost as a strategic shareholder for more than two years now, and what can we expect going forward from this relationship?

**Nicolas Sibuet** Sorry, Othman, are you taking this question?

**Othman Aljeda** No, I didn't hear the question, I am sorry.

**Anca Cighi** We did not hear anything on this side. Ahmed, may I suggest you repeat it or maybe put it into the Q&A?

**Ahmed Hazem** Yes, Michel, if you want to repeat it? But the question was basically after two years of partnership with GeoPost as your main shareholder, or a major shareholder, what have been the benefits that you started to see, or the synergies?

**Othman Aljeda** I'm actually in London now and we've got that DPD Annual Conference all of this week. We've had a lot of commercial activities with DPD over the last couple of years, most of our business into Europe, mainly into Europe, and [unclear] years ago is tended through UPS. Today, all of that business is going through the DPD network, so we managed to establish gateways across Europe to inject business into their ground operations.

And that's been working very, very well. We've managed to secure better delivery rates, and actually even a better service than the UPS service. Also, as you know, GeoPost has interest in other companies around the world, be it minority interest … the likes of DTDC in India, where they also own around 40%. We've been dealing very closely with DTDC on how we can collaborate together inside and outside India. So we've created hubs now in Europe and North America, in Asia, to enable us to sell into India and then, with our infrastructure in India and DTDC, we can collaborate together and really tackle that market, which is a very important market, I think, moving forward in 2024 and 2025. Because obviously a lot of manufacturing is going there, and India, Middle East is a very strong market, it's one of our biggest names, so it's something we want to control, we want to continue to develop and grow, obviously.

And then there are other pockets with DPD, they have Lenton in the Far East, where they managed to establish contact with the likes of Japan Post and so on, so in terms of network there's been obviously a positive addition to where we can operate, where we can have a bigger service and with the price, and vice versa, how they have been able to leverage their infrastructure and sell into our region, be it the Middle East, specifically out of the UK, into Africa, and into Australia which is another big lane out of Europe into that region. So a lot of activities, a lot of workshops. Again, we're here all of this week for another workshop on how we can grow the business together and how we can [unclear] both networks and leverage on each other.

**Michel** All right, thank you.

**Ahmed Hazem** Thank you. Our next question comes from Nikhil Mishra. Nikhil, please unmute locally and ask your question.

**Nikhil Mishra** Just a couple of questions. First one, you mentioned the priority is to reduce the debt or deleverage this year, and I know that's one of the reasons for not paying the dividend, but, at the same time, I think earlier you mentioned that you are still open to certain acquisitions going forward, so I just wanted to check, is that ambition still there to make some small acquisitions into 2024, or maybe next year? And secondly, on the 50% logistics and freight contribution, just a follow-up from the previous question, what's the timeline for that? Is there a timeline you can share with us? Thank you.

**Nicolas Sibuet** I did not get the second part of the question, but on the M&A side, yes, we are carefully reviewing different opportunities that we are receiving. We are looking at smaller targets in very focused markets, typically in the GCC where we can either consolidate our position of market leaders, being number one, number two and number three in these markets, but no big targets. So we are looking at tactical things. We have announced the acquisition of the franchisee in Australia, this will add an additional $40 million of… But yes, it's still definitely on the road map.

**Ahmed Hazem** Nicolas, I'm not sure if it was just me or everyone else but I lost [overtalking].

**Othman Aljeda** I think everyone didn't hear it, you got disconnected, Nicolas. The last two minutes, or one.

**Nicolas Sibuet** Sorry. So just repeating, the M&A… Can you hear me now? Is it better?

**Anca Cighi** Yes.

**Othman Aljeda** Yes.

**Nicolas Sibuet** The road map for M&A stays as it is, and stays the same. We have only refocused the M&A strategy on smaller targets, midsized targets, smaller than MyUS, in the core markets, so typically in the GCC. And this is what we are looking at, but also extremely conscious of the fact that this will potentially be done with some leverage, and currently we are waiting for some better direction on the interest rate before closing anything. But yes, definitely still on the road map for the growth.

**Othman Aljeda** Just to add to this, Nicolas, sorry, also vertical concentration is very important for us, so it's not the size of the acquisition, it's actually what can add value and what we can leverage, some certain expertise in logistics that we might not have, so we might buy a chemical logistics company or an aerospace company that might be small but then we can leverage on their know-how, and then span it across the network. So it's both geographical expansion, vertical expansion and know-how and new areas of expertise that we're looking at. And the niche market there is a lucrative one. It's high margin, but you need expertise in that, and that's what we want to gain through these small acquisitions.

**Nicolas Sibuet** And again, Nikhil, on the 50% contribution of the logistics segment, currently the slip between the two pillars is 65-35, but if you adjust that with the significant drop in freight rates that we have seen in 2023, if we were normalising this rate compared to the one in 2022, we'll be closer to a 55-45 balance. So it's heavily dependent on the volatility of the freight rate. But the focus generally, over a longer period of time, is to achieve this balance, 50-50.

**Ahmed Hazem** Thank you, Othman and Nicolas. As a reminder for everyone, if your question has been answered, please lower your hand. We have one question before going back to the raised hands, from Brian. Can you please quantify the one-off settlement for the logistics division? And then, secondly, a very strong set of results in the fourth quarter, is that a sustainable trajectory going forward?

**Anca Cighi** I think Nicolas will take the first part of this.

**Nicolas Sibuet** Yes, I mentioned that in my comments. The one-off in the logistic division is a 4 million one-off, which is a settlement of a very old claim that the company was keeping in its books. So this is finally settled and we are happy to move on. On the second part of the question, it's regarding the sustainability of the trajectory, maybe, Othman, back to you?

**Othman Aljeda** Just to go back to the first question, I'm sure for those who have been following us this is related to the Morocco file that happened in 2019. It's actually a settlement of that, and basically the case is over. Almost over, right, Nicolas? And that should settle everything in Morocco. On the second question, sorry, what was the second question?

**Ahmed Hazem** The second question, Othman, was on the sustainability of the trajectory of the results, following a strong set of results in the fourth quarter.

**Othman Aljeda** Yes, we're quite confident. Two years have been very tough for us, it's been a reorganisation, restructuring of our organisation. I think we are at a stage today where we pick and choose who we want to be as our customers, because the last mile element of the express has become very, very commoditised. And you will hear there will be start-ups that will disappear more in the next couple of years, they've been losing money. We are quite confident that the volumes we have are sustainable.

It's a journey with these customers, so it's no longer just a traditional journey of express, door-to-door, it's now more of a solution provision. How can we partner with these customers, how can we help them get out of their markets such as the customer we were talking about today, Turkey? How can we enable them to get out of Turkey and come to the GCC and come to Saudi and enable them to sell more? And obviously through logistics, that will give them an edge. How can we get them closer to the customers? So that's the direction we have, and I think this is the right formula, the mix, that we have. We have the infrastructure to do everything in terms of express, the hubs we have, the logistics and the last mile. So we're quite confident on 2024 and this trajectory.

Obviously, it will also enable us to lower costs. The more volumes we have into core markets, such as Saudi, UAE, the more shipments that we provide into the network, that will reduce the cost. And then the technology element will help drive efficiency more. And then the ultimate result is to have Aramex as a brand, a strong brand, within the GCC that's differentiated from the competition that can offer these solutions to all the customers at the best price and service, and for them to grow their business within the region.

**Ahmed Hazem** Thank you very much for that, Othman. We don't have any further… Actually, a question came in the Q&A box. Is there an update on the board's discussions with regards to the share buybacks?

**Anca Cighi** Nicolas?

**Nicolas Sibuet** This is something we are still contemplating. First of all, there's a regulatory path and an approval path for this, and there's also a requirement to identify the cash buckets that will be allocated towards this.

So we have an interest in doing so, maybe not in 2024, maybe later on, but this is something we want to have on the shelf, ready to use, when the company has determined that this is the right time to do it. So for the time being, we are working on it, the regulatory aspect of it, and we will be further announcing detail on that in the future.

**Ahmed Hazem** Thank you, Nicolas. With that, we don't have any further questions either in the Q&A box or raised hands, so with that, Othman, back to you for any closing remarks.

**Anca Cighi** Othman, can you hear us?

**Othman Aljeda** Yes, hello, sorry, I'm on mute. Again, I just want to reiterate we're very, very pleased with Q4, it's been a turning point for us. I think this is not just a one-off. We will see positive results over the next few quarters. We are now in the right place in the Middle East. I think the product mix and us understanding the changes and being able to understand what customers want is very important.

Again, I would like to say a big thank you to everyone at Aramex. As I said, it's been two years of very difficult times, and now we've turned this corner around, and the dedication that I've seen within Aramex has been fantastic. And we're very buoyant about the future. Everyone is extremely, extremely positive, and I want to thank everyone, and I want to thank you, as investors and shareholders, for keeping your trust in us. So thank you very much.

**Ahmed Hazem** Thank you, Othman. Thank you, management team, and thank you everyone in attendance And with that, we conclude the call. You may now disconnect.