ARMX Q3 2021 Investor Call-20211109 1304-1 **Tuesday, 09 November 2021**

Ahmed Hazem Maher Good morning and good afternoon, ladies and gentlemen. This is Ahmed Hazem from EFG Hermes Research. We'd like to welcome you all today to the Aramex 3Q 2021 results conference call. With us on the line today is Mr Othman Aljeda, CEO of Aramex, Mr Arun Singh, acting CFO, Mr Mohammad Alkhas, COO of logistics, and Mr Alaa Saoudi, COO of express, and Miss Anca Cighi, head of IR of the company.

Today's call will include a presentation on the results, followed by a Q&A session. And without further delay, I would like to hand over the call to Anca. Please go ahead.

Anca Cighi Thank you very much, Ahmed. Dear ladies and gentlemen, good day to everyone, or good afternoon, and thank you for joining our Q3 2021 investor call. Our financial results were published on Sunday and you may have had a chance to read our material for the investor presentation already. With that in mind, we'll kick off today's meeting with a summary of our financial results for the period, presenting by our CFO.

And after this, we'll go straight into the Q&A session, where our executive leadership is available to answer any questions you may have. I will just double-check now that everyone is able to see the presentation. Ahmed, is it being displayed or should I reshare?

Ahmed Hazem Maher Yes. The presentation is visible now.

Anca Cighi Perfect. Before I begin, I would like to draw your attention to slide number two of our investor presentation. Please bear in mind that some of the comments made on this conference call today may be forward looking statements. These are based on our best view of our business and macroeconomic trends as we see them today. These elements can change due to a variety of factors, and therefore, you should not assume that we will continue to hold these views in the future. With that, I will now hand over to our Chief Financial Officer. Please go ahead, Arun.

Arun Singh Thank you, Anca. Good afternoon, good evening. I would like to welcome you all on this call and thank you for taking the time to join this conference. I will take a few minutes to provide a general business update and what we've been busy with, as a team, as a company. The third quarter has been different than the last two quarters of this year, and completely different than the third quarter last year. Most countries, if not all, are open for travelling, people are flying again.

Shopping malls are open, people are back in the malls, making their purchases. Physical events are taking place and people are attending. This is in complete contrast to what we have seen in the third quarter last year when we had complete lockdowns in many parts of the world and in most of our co-markets as well. During this quarter, we still had lockdown related challenges in some of the places, like Oceania, which pushed our cost higher.

This quarter, another major update we had was the sale of InfoFort which was concluded.

As you know, the current management team, starting with the CEO, Mr Othman who was appointed CEO in June this year, undertook a business review exercise.[…]

We split our business [internally], in terms of the operations, between express and logistics. Two new COOs were appointed to lead each of those verticals. So, we have Mohammad Alkhas and Alaa Saoudi on the call with us. Under the previous design, what we changed was the whole centralisation concept. So, a number of themes were centralised in the previous design, which we believe, unfortunately, had a negative impact on our overall performance since last year.

So, we formulated a plan, under the guidance of Othman, and we started implementing it. We worked on changing the team structure, as we have communicated to you before. We divided our geographical footprint into eight regions. We've worked on dismantling the centralisation structure, we made changes in the regional and local management of various entities. It took a few weeks for us to mobilise the right resource to each of those places.

We were focusing on making sure that the revenue and cost ownership were connected again with greater responsibility and ownership given back to the people on the ground. In line with the decentralisation, we've shifted back a number of roles to local entities. We've terminated the ones that are no longer required.

Some of that cost is also reflected [in our results for the period], the cost of termination of a number of our employees who were no longer required as part of the decentralisation process. We are increasing the level of specialisation for our people on the ground, especially our salespeople, to enable them to focus on each of the products, such as express, freight, and logistics, and the results have started to show now.

We have also started focusing on the SME business, which forms the majority of the business sector across our key markets. We'll be focusing on, for example, aggregating the SME volumes and businesses, which deliver a better lead and better margin. In key markets, such as KSA, we identified a number of areas for improvement within the business.

We focused on logistics, on freight, and looked at the ongoing activities. We formed multiple teams that are working on each of the areas where we thought the changes could be done. We are reviewing our delivery capacity in key markets and looking at, for example, what kind of rates we are selling them at and how can we improve our rates. For example, the bank business, especially during COVID, was being acquired at low rates.

We're trying to revisit such contracts, possibly revise the rates for a better margin. However, I must say a word of caution, it is too early to give any sort of guidance on any percentage increase for the next quarter just yet. It is early days, after such a major change that we have undertaken in the last three or four months, but we have started getting very positive signs of a turnaround in the activities that we're undertaking with very promising growth in some of the areas.

Recently, you would have also read about some of our investments - - we opened up a state-of-the-art facility in Riyadh. We will continue to be bullish around investments in our key markets, such as Saudi and Egypt. We will continue to invest in our infrastructure, digital solutions and last mile capabilities, while focusing on our customers.

Recently, as you may have read, GeoPost, the express parcel arm of the French group La Poste, acquired 24.9% shares in Aramex through the open market. GeoPost has been a longstanding commercial partner of Aramex. It is a very positive sign for our business that they have become a strategic shareholder. We believe that over the long-term, all our shareholders are set to benefit from having GeoPost as a strategic investor.

This investment reaffirms Aramex's leading position as a key enabler of both global trade and e-commerce, especially at a time when the industry is benefitting from a post COVID recovery, as evidenced by accelerated growth in economic activities across various industries. In early September, we communicated that we were in the early stage of due diligence with MNG Kargo.

There is no material update on progress that we have at the moment, that we can communicate on this call. We will be communicating, as appropriate and once approved by the Board, on any of the progress that we may have and we will share that with you in due course.

Talking about the business performance, a lot has changed since last year, when we were in the peak of COVID. We were able to charge an emergency surcharge last year in a number of our key markets.

The number of COD (cash on delivery) shipments was still high, compared to the current year. Unfortunately, a lot has changed since then. There is no longer an emergency surcharge that we're able to charge. Compared to last year, the number of prepaid shipments is higher. All this has an impact on the margin profile. There is a constant move towards a higher number of prepaid shipments versus COD shipments, as consumers have adapted to buying online. They are more comfortable with the online payments and they are trusting the e-tailers with repeat purchases.

Airline capacity is gradually coming back, but the rates have not necessarily returned even close to the pre-COVID levels and that continues to impact our margin. With the current asset light model, we continue to weigh in on our cost structure, compared to some of companies that you may see in the market, which may have a different asset profile.

Talking about the quarterly results, compared to Q3 last year, this year, revenue is flattish. We did have a good Q3 last year when July was extraordinary. Whereas this year, we had a tough July and August. If we compare Q3, this year, let's say, for example, to 2019, which was the pre-COVID year, it [revenue] was up almost 19%. So, in terms of building up the top line, we're doing a fantastic job.

In Q3, we had volume growth in six out of eight markets. Growth in America, Europe, MENA, GCC, South Asia, and Oceania. A couple of regions saw the volume decline, which was in North Asia, Sub-Saharan Africa, and South Africa. On a year-to-date level, we had volume growth across all regions, except North Asia. International express revenue decreased by 16% from $194.8 million in the third quarter 2020 to $164 million in the third quarter 2021.

Domestic express revenue increased by 13% from $95.4 million last year quarter three to $107.3 million. Courier revenues decreased by 6% to reach $271.6 million for Q3 2021 from $290 million versus Q3 2020. Talking about the quarter margins, the courier GP percentage dropped by 410 basis points from 32.2% in Q3 2020 to 28.1% in Q3 2021. Freight forwarding GP percentage dropped by 30 basis points from 12.3% in Q3 2020 to 12% in Q3 2021.

Logistics GP increased by 20 basis points from 12.4 in Q3 2020 to 12.6% in Q3 2021. And this was, for example, one of the signs where I said when we reviewed some of the activities that we were doing and we are starting to see a turnaround in the activities, and logistics is, for example, one of them. Others GP increased by 440 basis points from 59.8% in Q3 2020 to 64.2% in Q3 2021. Overall GP decreased by 340 basis points from 27.8 in Q3 last year to 24.4% in Q3 this year.

Overheads in total during the third quarter this year increased by 6% to $79 million compared to $74.4 million in Q3 2020. Our selling increased by 12% and G&A increased by 5%. One thing I would like to bring to your attention is last year was an extraordinary year where we had deployed a number of cost containment issues.

We had government subsidies and all of that impacted on a lower SG&A, whereas this year, we restarted a number of activities, which came to a complete halt last year. For example, we had completely stopped advertising, which has restarted this year. We are spending money on advertising globally, and also, in the Oceania region where we undertook a major rebranding exercise. There were a number of steps that the centralisation process undertook in 2020.

The salary costs built up, which has now started to reduce after the decentralisation effort that we have taken.

Another cost element where we spent money was M&A activities, employing the advisors and different firms, in order to complete those tasks for us and you see an impact on the SG&A cost.

Overheads as a percentage of GP increased to the level of 81.5% during third quarter from the level of 66.9% in the third quarter of last year. We addressed the increasing headcount, as I've just explained, in SG&A, which was the result of centralisation. And if I compare the second quarter versus the third quarter, there's a reduction of 6% in the salary cost as a result of the steps we have undertaken. And we expect this to improve in Q4 2021.

Our EBIT declined by 19% at $18.5 million in the third quarter 2021 from $22.9 million in the third quarter 2020, while EBIT margin dropped to 4.7% compared to 5.7% in Q3 2020. Excluding the Beirut insurance refund in 2021 and non-recurring provisions in 2020, EBIT has declined by 55% at $16.7 million in the third quarter 2021, compared to $37.3 million in the third quarter 2020. The EBIT margin would have been 4.2% in this quarter, compared to 9.3% in Q3 2020.

The net income increased by 47% at $18.5 million in the third quarter 2021 from $12.6 million in the third quarter 2020. While the net income margin increased 4.6% compared to 3.2% in Q3 2020. If I exclude the InfoFort gain and Beirut insurance refund in 2021, and non-recurring provisions in 2020, net income would have declined at $8 million in Q3, compared to $27 million in Q3 2020. The net income margin would also have declined, compared to the quarter last year.

Talking about the year-to-date results, the international express revenue has increased by 12% versus the same period last year. Domestic express revenue has also increased by 14% versus last year. The courier revenues have increased by 13% versus last year, the same period year-to-date. International and domestic express volumes have increased by 13%, compared to year-to-date last year. While in core markets, domestic e-commerce volume also increased by 13%.

Freight forwarding revenue increased by 16% on a year-to-date level versus last year. Our logistics revenue also increased by 17% versus September year-to-date last year. The aggregate revenue for September year-to-date increased by 14% versus September year-to-date last year, which was at $1.2 billion. The GP margins at the year-to-date level, the courier GP margin dropped by 470 basis points from 33.4 to 28.7 this year.

Freight forwarding GP dropped by 280 basis points from 14.5 to 11.7 this year. Logistics dropped by 290 basis points from 14.9 to 12% this year. The others GP increased by 310 basis points. The overall GP decreased by 400 basis points from 28.8% in September year-to-date last year versus 24.8% to September year-to-date this year.

Overheads in total during September year-to-date increased by 13% to $237 million, some of the factors, I discussed, and we can discuss in detail later on, compared to $210 million in September year-to-date 2020. The selling increased by 31% and G&A increased by 8% out of this. Overheads as a percentage of GP increased at 79.1% this year from the level of 68.6% in September year-to-date last year.

The EBIT declined by 20% year-to-date this year, while the EBIT margin declined to 5.5% from 7.9% last year. On the balance sheet side, we continue to hold a very robust balance sheet with a very strong cash balance of $313 million on the balance sheet date. A pretty unlevered situation still and giving enough headroom to carry out any acquisition related activities. With this, I would like to conclude on the financial update and the business update and give you an opportunity to ask us the questions that you may have. Thank you.

Anca Cighi Thank you very much, Arun. Ahmed, over to you to open the floor for the Q&A, please.

Ahmed Hazem Maher Thank you, Arun, thank you, Anca. Hi, everyone. Just as a reminder, you can use the raise your hand function and I can unmute your mic, or you can send your questions in the Q&A box. I think, just to give time to people to raise their hands, Anca, I think we have a couple of questions in the Q&A box, if you'd like me to read them, or you can read them yourself. Anca?

Othman Aljeda Let me take the first one, Anca. The first one is about our engagement with GeoPost and any expected synergies and efficiencies. Good afternoon, everyone. Our relationship with GeoPost goes back to around ten years. We started this relationship in the UK where they acted as our delivery partner within the UK. And over the past ten years, we've had a very strong collaboration where we sold international outbound to their domestic customers.

And this, over the years, was very fruitful. We ended up with around $50 million of revenue. Now, just to give you some context, GeoPost is one of the largest European operators. They are extremely domestic in Europe. They have always looked at us as a strong cross-border partner, and we've engaged with them over the years, cross-border within Europe and mainly into the Middle East. Now, on the back of this, we started discussing other opportunities into this area.

We are looking at opening up Germany, we're opening up France, Spain, and other European markets for cross-border, and that's how the relationship started. Now, GeoPost, over the last few years, has also been expanding in other areas in the world. They've acquired a substantial stake in Ninja Van in Southeast Asia, they've acquired a company in Brazil called Jadlog. And they've got a very strong presence in Hong Kong and China with a freight forwarding arm of Lantern.

So, there are a lot of synergies that we see in the future in terms of line hauls, in terms of using their ground infrastructure in Europe, them using our international expertise, and then them selling their express product cross-border into our region, which is Middle East, Africa, and more importantly, Australia. Australia is a big lane from Asia, Europe, and North America, so we expect a lot of efficiencies and synergies there. And that's where we are with GeoPost at this stage.

Anca Cighi Thank you, Othman. A follow-up to GeoPost, a question from Matthias. Do you need to reassess your M&A strategy currently, given GeoPost's stake in the Turkish company and [unclear] risk, if you were to go ahead with the M&G cargo acquisition?

Arun Singh Let me take that, Anca. It's too early, and as I said, we are reassessing, or we are assessing the whole situation, what does it mean for us? GeoPost's acquisition of shares in Aramex, they still have to get regulatory approval and they're in the process, as we understand, of getting those approvals in various markets where we have common footprints.

We will not be able to able to comment, at this stage, on what specifically could happen with M&G cargo or GeoPost's stake in M&G cargo at this stage. However, when there is an update from our end and we have the clearances updated by our board, we will be able to come back to you all with a very detailed update on the status of this transaction.

Anca Cighi Thank you very much, Arun. I will take the rest of the questions in order in which they appear. The first one is from Sarah. Can you shed some light on the current price environment and if you will be able to increase your rates in the coming quarters? Perhaps this is a question for Mr Alaa and Alkhas.

Alaa Saoudi Alkhas, are you taking this question, or shall I answer?

Mohammad Alkhas As you wish. I can take it. I can speak about the freight forwarding segment of it, because we understand that there's a lot of price pressures on sea freight, specifically, which is affecting the whole supply chain worldwide. So, if you look at what's happening worldwide in the sea fright paradigm, there is still a huge congestion and backlog in the major ports, especially in the US. Back in June, there were around 29 vessels anchored outside Los Angeles.

Today or last Monday, there were around 70. And this is taking a long time to recycle the containers that are on those vessels or the equipment that are moving the trade from the east, and the trans-Pacific lanes to the US are clogged up. And this is affecting the whole pricing scheme, where a container used to cost around $1,500 from Shanghai to Long Beach, now it's costing more than $20,000, $30,000, if you can find a booking.

And most of the vessels are geared towards having business on that lane, since it's a high-yielding lane. And this is affecting the whole pricing scheme around the world. So, air freight has gone up. It went down after COVID, but it will never recover to the pre-COVID rates since all the airlines and all the [unclear] have been [unclear] from the past 30 years, and now they have a chance to increase it, they will not go back down that easily.

So, honestly, the pressure on pricing for moving shipments around the world either by sea or air […] it's going down a bit, it's stabilising a bit, but it's still not going to reach the pre-COVID levels that we used to enjoy.

Anca Cighi Thank you, Mohammed. Over to you, Alaa.

Alaa Saoudi Thank you, Mohammed, On the express side, talking about increasing the pricing and revising our rates, this is a yearly exercise that we do at the end of each year, where we look at our rates and we have a general rate increase to the customers where we need to increase. In addition, we revise our profitability with the customers and we revisit the rates regularly.

From a costing perspective and as Mohammed mentioned on the line haul, again, the frequency of flights is increasing again. We have better rates than we used to have during COVID. But again, we don't see the numbers coming to the pre-COVID levels. We still have pressure around the cost.

Anca Cighi Thank you very much. Our next question is from Vikram and this is one for our CFO. How should we model for Group gross margins going forward? Can gross margins go back to 2019 levels or has there been a structural change in the margin profile?

Arun Singh It's a very interesting question, Vikram. However, unfortunately, we don't believe that, given what we've just heard from Alaa and Alkhas. The continuous pressure on margins and given our current asset light model, where we don't operate a fleet or our own aircraft, and the dynamics, the way the industry has changed. The customers who are selling into this region, for example, especially in the international express, their expectations have changed.

The delivery models are changing. We see it very difficult that the margins would go back to the pre-2019 level. We see more of a stabilisation of margins where they are now.

Anca Cighi Thank you very much, Arun.

Othman Aljeda Can I just add to this, there are two aspects here on the margins, and I think we need to clear this up. On the cross-border international, we have two sides of the coin. There is the traffic that's coming from Hong Kong and China, predominantly from Shein. Over 2017 to 2019, the GP margin on that business was very high. It was around 45% to 50% margins, purely because it was very heavily on COD.

When we look at the other side, which is Europe and North America from 16, 17, on to today, the margins have not changed. They've been stable at the 25% mark. What we've noticed is that China and Hong Kong have gone down to that level, so over the last couple of years, that's been dropping steadily, and today, it's around 20%, 25% on cross-border. Now, if we look at the domestic margins, again, there's a lot of pressure from competition that wasn't there in the past.

Aramex had a predominant presence in the Middle East. For a long time, we were the strongest and probably the only player in certain markets. We've seen post offices come up and start competing with us, especially on e-commerce. There's a lot of start-ups that have been popping up over the last four or five years, with very high investments and not necessarily profitable. These investments come in and try to raise capital on a revenue basis.

And this is something we have to face. What we're doing is we're expanding, we're continuing to expand and continuing to expand our reach. And that's the only way we're going to lower our margins, by having the strongest fleet on the ground. And it's all about area concentration. The more we can reduce a driver's area, the more efficiencies we can get.

Anca Cighi Thank you, Othman. Our next question is from Leila, and there are two questions here. The first one is how are international express volumes looking for the fourth quarter 2021 versus fourth quarter last year? And the second part of the question is how much of the international express and domestic express [unclear] growth post-COVID do you think it's sticky? Should we expect volumes to decline in the next year as the world in general returns to normalcy?

Othman Aljeda Alaa, maybe you can take the first one on the cross-border, because you've got the capacity coming in over the next few months and I think it's pretty good.

Alaa Saoudi Yes, Othman. As part of our preparation for the peak and for quarter four, we do a forecasting exercise, which involves our customers as well. So, based on historical data, we forecast the quarter in addition to getting information from our customers. And the forecast looks really promising. What we are seeing is on the domestic and express side, both ends, we are seeing the volumes coming to the core market, again, from both cross-border and on the domestic side.

So far, the numbers are within the expected forecast in all the countries, which is a good sign, moving forward.

Othman Aljeda Now, on the second one, pre-COVID, I think we are pre-COVID now. If we look at Q3, our domestic revenue continues to grow, both volumes and revenue, and that's a testament. If we look at Q3, in this part of the world, and especially, in Dubai and GCC, everything was opened up. All the malls were open, the shops were open, people were shopping, yet there was still growth on domestic.

So, I strongly believe that we are post-COVID, I don't see a drop, specifically on domestic. I think this will continue to grow as people move on to omnichannels and e-commerce.

Anca Cighi Thank you, Othman. And just to add on volume numbers, for those of you who are interested, there is some [unclear] published on the website with historic data for volumes for our express business. We will take our next question. This is coming from Joe Francis. Any synergy discussion done on GeoPost so far in light of the investment?

Othman Aljeda Yes. As I said before, we've got the UK lane, that's extremely strong. They act as a domestic operator for us in the UK and we're basically their gateway out of there. And we're replicating that across all the major cities in Europe, specifically in Western Europe. So, we will be opening up new lanes from France, Germany, Spain, and so on. And then we're looking at certain synergies and line hauls.

They have a very strong presence in China and Hong Kong through Lantern, which is a very strong freight forwarder out of there. So, we're looking at combining our buying powers with the airlines. And the same out of the US, where they own IBC, specifically on clearance. So, again, some synergies there. And then Australia. Australia is a major lane that we can develop together. They have no investments in Australia.

We have one of the largest domestic infrastructures there and they're going to leverage on that. So, a lot of commercial discussions going on and a lot of synergy discussions going on, and globally, we complement each other.

Anca Cighi The next question is from Faisal. Othman, I believe this one is for you as well. Can you give examples on the capacity building in the GCC market? And the second part of the question is on margin. Faisal, I believe we've already answered that. Othman, please go ahead.

Othman Aljeda The capacity, I think, from Europe and the US, the capacity is fine. Commercial airlines have come back to normal and our major lanes to London and New York, we have enough capacity on the commercial airlines. We're still struggling with Hong Kong and China. There has still been pressure on both commercial and charter aircrafts. Most of these aircrafts are going to Europe, rather than the Middle East.

We have been very active in chartering, so we've already operated, I believe, 12 charters in the last few days. We're continuing to look at more charters in the next couple of months. It is difficult. It's not easy. There is not a lot of freight cargo planes out there, but that is something ongoing and we're aggressively pursuing.

Anca Cighi Our next question is from Yawa Sayeed. How is GeoPost able to acquire regulatory approval? Kindly shed some light on this. And will GeoPost representatives be in the Aramex board?

Arun Singh Let me take that one, Anca. The last part of the question, will they be on the board, that's a shareholder matter. We cannot comment. We have no knowledge about that at this stage. What we understand about the regulatory approval is the acquisition of 25% shares and they trigger some sort of an approval requirement. And if we look at the share percentage that they have bought, it's 24.9.

So, as a pro-active measure, they're going out to different markets where we have a common footprint, to basically get approval from the authorities that it doesn't breach any competition law. Looking at the volumes, at an early stage, it's our assessment that it doesn't. However, it's all subject to the approvals that they may get. The expectation - as we've been updated – is for this approval to come by, the end of February.

Anca Cighi Thank you, Arun. Our next question is from Leila. As part of your recent business realignment, would you be open to sell some part of your business or segment in… My apologies, my screen just was frozen [inaudible]…

Ahmed Hazem Maher […] as part of your recent business realignment, would you be open to sell some parts of your business that segment in a specific geography?

Othman Aljeda The answer is no. We are not looking at selling any of our subsidiaries or any of our geographies at all. Nothing discussed.

Anca Cighi Thank you for clarifying, Othman. The next question is from Rajad, I believe, Rajad, we've already answered this, so we'll move on. Our next question is from Prashant. What metrics can you share on last mile delivery densities in the Middle East, compared to the competition? And how much is the cost advantage that you can get from last mile scale?

Alaa Saoudi If you can explain more, when you talk about the metrics. What are the metrics that you mean? I don't really get that question very well.

Anca Cighi Prashant, if you could either raise your hand or call.

Alaa Saoudi It is operational metrics, financial metrics, just to understand?

Ahmed Hazem Maher I will have Chantal open up his line.

Anca Cighi Thank you.

Ahmed Hazem Maher Prashant, your line is open. Hello, Prashant?

Othman Aljeda Maybe you can go both financial and operational matrices, that would be easier.

Alaa Saoudi I'll answer the second part that we have, if the question is repeated. In terms of the cost advantage, it's always a game of scale. So, whenever we have more volumes riding on our fixed infrastructure, it will give us a cost advantage. Part of our daily work and follow-up that we do with our operations is the cost of shipment in all the operations that we're running, the major markets, where we look at different elements of the cost per shipment.

And this is, of course, divided into both variable and fixed. So, whenever we have more shipments, the percentage of the fixed, as part of that cost, will go down. In addition, if I talk about metrics, when we also have more shipments, we're working on having more productivity on the couriers. So, when we deliver more shipments with the same infrastructure in terms of couriers, this will reflect positively on all the metrics that we have.

Anca Cighi Thank you very much, Alaa. Ahmed, do we still have Prashant on the line? Just to double-check we've answered his question.

Ahmed Hazem Maher Yes. Prashant, your line is open again, can you try to speak? Maybe you're audible now. We're not able to hear Prashant, but we do have other questions or other raised hands, if you want to move to the queue for now.

Anca Cighi Yes, please. Let's take some from our participants who would like to ask questions, and then we can return to the Q&A box.

Ahmed Hazem Maher Sure. So, the first question comes from Hamed Al Feriem. Hamed, your line is open, please go ahead.

Hamed al-Feriem Hi, everyone, and thank you for having us on the call. I have two questions. I'll start with the first one. On the express side, we notice that domestic volumes in GCC increased by 44% year-on-year, yet revenues only increased by around 5% during the same period. Can you shed light on what's behind the significant divergence between the volume and revenue growth during the third quarter?

Was that due to higher emergency surcharge and the higher prices charged during 2020 or stiff competition, basically, during this year? And what is the overall outlook for the volume growth going forward?

Othman Aljeda I can answer this. Last year, we did charge extremely high emergency surcharges, so that is a major factor for the decrease in revenue. And yes, there is an increase in competition. So, in certain cases, we have had to reduce prices on last mile, but we are doing things a bit different now. So, part of our strategy is not just to focus on the last mile delivery of a certain customer. We're trying to do an end-to-end solution for these customers.

I'll give you an example, a good example is Namshi, where last year, we only did their last mile in KSA. This year, we've actually taken over all of their logistics, so we have a purpose-built warehouse, which we opened last month. I think it's around 20,000 sqm. We are actually fulfilling every single order out of that warehouse, so that secures both the fulfilment side and the last mile.

Hamed al-Feriem My second question is regarding the operating expenses and the margins overall. There was a significant increase in both S&M and G&A expenses, coupled with flat revenues year-on-year [leading to] a significant deterioration of the company's gross profit. So, could you elaborate on at what level or when the company will afford the significant business infrastructure technology and capability, which has a cost, of course, that is above and beyond the initial impact of the increase in line haul costs.

In all honesty, we started to worry whether the kind of advantages will continue to be more or less than the normalised level of margins going forward, especially volume growth [inaudible] normalised.

Othman Aljeda This is an ongoing challenge. Again, we thought airline rates would go down significantly, but they haven't. They're still quite high. And my personal opinion on this is it's not going to go lower in the foreseen future. There is still a strain on both sea freight and airfreight capacity. What happened with COVID in the middle of 2020 was a backlog of three and four months that we're still feeling today. So, as more and more airlines are going up, there is still a shortage in capacity.

We've been trying to manage this, obviously. The biggest challenge we've had is we've had to drop the emergency surcharges this year because competition has done that. So, we're in line with the competition. If you ask me, moving forward, I think Q4 will still be a challenge for us in terms of costing. Again, because there's going to be a peak in all aspects, in both sea freight and airfreight.

And I think, coming towards next year, we'll see an ease up of that. And I think volumes will drop, especially cross-border, and we'll see the margins improve against revenue.

Arun Singh Just one more point. Yes, this quarter, the revenue is flattish and, as explained. We had a pretty extraordinary July last year when, at the peak of COVID, everybody was locked inside the house and people were ordering a lot online. That wasn't the case this year. So, July, August, the peak for us, after Eid and the holiday period, came in Q2, not Q3.

So, we had a weak July and August, whereas from September onwards, we are seeing better trends when it comes to the revenue. On a year-to-date level, we are 14% up. Answering specially about the SG&A, we will continue with the investments because what we think is the investment that we made is the long-term So, we will continue to upgrade our interest when it comes to the digital landscape, the last mile landscape.

Because this is the way [unclear] rate [unclear] going forward and address some of the issues we see that need to be addressed to arrest some of the margin falls. The infrastructure investment will lead us to create economies of scale, the efficiency that we're looking for, ultimately, which should transpire into dollar value. But I'll not be able to comment on what percentage of how much just yet.

Hamed al-Feriem So, basically, we should expect opex to increase going forward to cope with, basically, the company's [unclear]

Alaa Saoudi Nothing beyond [inaudible] that we have so far.

Hamed al-Feriem Thank you very much.

Ahmed Hazem Maher Thank you. We have our next question coming in from Thomas Matthew. Thomas, your line is open, please go ahead.

Thomas Matthew Good afternoon. Thanks for taking my questions. My first question is on the Saudi market. You mentioned that you're witnessing significant growth. I'd just like to understand more on the competitive landscape in the places that you mentioned that playing out where have fulfilment centres that you back contracts for and that you are able to control the last mile delivery.

I'm just wondering in terms of the competitive landscape, are there any other third-party logistics players who are doing the same? And what's the sort of competitive landscape and market share that you're seeing for your business there? And the second question is on the M&A activity beyond MNG Cargo, I think it was mentioned in the last call that you're also eyeing another opportunity in the logistics and freight forwarding segment.

Any update on that or any other transactions that are in the pipeline, which are at a more advanced stage? Any information would be very helpful. Thank you.

Arun Singh Sure. I can answer the M&A part and Alaa can probably answer the first part. The other transaction [unclear] is going a bit slow. There is no material update on that. But still, on the whole M&A side, we remain pretty bullish. We have our targets and we are looking to acquire a substantial amount of inorganic revenue through M&A over the next four to five years. We have identified a number of key markets where we would be looking to invest across both express and freight businesses.

And that also includes some of the EMs. I saw in one of the questions up there, does it include any of the emerging markets? Yes, it does. And we would be working on those deals as they come across. Without revealing any particular name, I can tell you our M&A team, and the rest of us, are busy and working on some of the deals, without getting into any details on the volume size or the amount. Maybe for the first part, Alaa, over to you.

Alaa Saoudi Talking about the competition, I think that Saudi Arabia is a tempting market for all the competition to be there. We've started noticing a lot of smaller companies coming into the last mile. In addition, we have some of the big giants also joining, like the SF Express, [FedEx] operating now in Saudi. So, all the companies are targeting Saudi as part of their portfolio.

What Othman mentioned, and this is what helped us, that basically, we're trying to have a portfolio of services, rather than only concentrating on the last mile, which is somehow becoming a commodity. We're trying to have end-to-end service for the customers and this is the way that we have an overall profitability, rather than only the last mile.

Thomas Matthew Thanks.

Othman Aljeda That's exactly the whole strategy behind having two clusters, an express cluster and a logistics cluster. There are a lot of companies, Saudi Post, Naqel, and all these guys, they are not in freight forwarding. So, the last mile operators focus on last mile only. We are lucky to have both sides of the coin. So, again, we've got the last mile capability, the freight forwarding capability, and the 3PL capability.

And that's where we have an advantage, to combine the whole end-to-end solution for the customer. So, that is bringing the goods in from wherever it's coming in, warehousing, and then distribution within Saudi Arabia.

Thomas Matthew Thank you.

Ahmed Hazem Maher Our next question comes from Vikram. Vikram, your line is open.

Vikram Thank you again for the meeting. I have a follow-up question on the margins. I was a bit confused by [inaudible] . On the one hand, you said that we need to model for margins at the current level. On the other hand, it seems like you can benefit if the transportation charges or the line haul costs normalise in 2022. So, I'm not really sure how we should model for margins in 2022. Should we still expect some improvement in the line haul costs? And therefore, should that be benefitting the margins? Or that is not really the best case?

Othman Aljeda At this stage, the margins have not dropped. So, line haul has dropped by, I think, $1 on average, but then again, that did not substitute for the surcharges we were charging last year. Again, there is still a backlog. We're not 100%, the airlines are not 100% in the air. So, we've still got a few of the major airlines, Emirates, Etihad, and so on, that have grounded aircraft. We are seeing an update, and I think it all depends on the COVID situation and the areas that COVID is affecting.

If you look at, again, Europe, North America, things are opening up there. We're seeing more and more flights. Asia has been closing down over the last couple of months and we're seeing a reduction in flights. So, it's an ongoing matter. But again, we're very aggressive on what we're doing with the airlines. If we cannot get space on commercial aircraft, we're chartering, but these charters are coming at a higher cost at this stage.

I believe, in 2022, air freight, in general, will decrease. And let's not forget, today, a barrel is $80, so there's an increase in cost of the airlines on the fuel. So, that comes back to us and then we have to charge it back to the customer. But I strongly believe that early 22, the airline cost will reduce, purely because volumes will decrease on the needs of the aircraft, in general. That's not just e-commerce, that's still the B2B side of things that are filling these aircraft.

Vikram Sure. My question is even if the airline costs come down, because you're not able to have a surcharge on the pricing.

Othman Aljeda The pricing will go down, if that's your question.

Vikram Yes. So, the lack of surcharge means pricing is going to go down, and that should be compensated for in a decline in airline charges. So, probably, even if you were to experience a decline in the airline charges, margins will remain flat, I think, right? Is that the way to look at it?

Othman Aljeda No. Today, our pricing structure with the customers, I think, will stay flat over the next year, if not increase. We have an annual increase year-over-year and we will implement that. What happened last year is there was a surcharge. That surcharge was more significant than the increase in line haul cost. That surcharge has gone now from our pricing structure, so it's pretty much normal rates that we're offering our customers.

The line haul rates have not dropped to the level of the surcharge that we charged. So, yes, if we reduce costs on line haul, our margins will improve.

Vikram That's clear. I'm just trying to get a sense, of course, there are many moving parts in your margin equation. And because of the COVID situation, there are certain items, which are benefitting or even causing the margins to decline. But on a sustainable basis, what is the range of gross or the retail margins that you're looking at on a sustainable basis? Assuming that the airline costs normalise, you're putting the right pricing structure. What is your ambition on the margins eventually?

Othman Aljeda Arun, do you want to take that?

Arun Singh I think, to be honest, there's a five year ambition that we have drawn up, and it is still subject to approval from our Board. And I would be very comfortable in revealing that number on the ambition or give you some guidance, once we have the approval.

Vikram Just one last question. You mentioned about having the ability to generate the synergies from GeoPost taking a stake in your company. At any point in time would you be quantifying the synergies?

Arun Singh Its's too early. I think, post the regulatory approval, the plan is to sort it out between the two teams together on the exact areas and operationalise some of the plans. At this stage, we do not have, it's too early to put a dollar value against it. However, some time next year, perhaps by Q2, we should be in a position to come back to you with a little bit more detail. We are not planning to have any discussion with them, as I said, until the regulatory approvals are received by the GeoPost team in late February.

Othman Aljeda To add to this, there is more than synergies, there is ongoing collaboration on growing revenue and where we can collaborate on, as I said, new lanes, and that's something that's already started. So, we've got a few workshops with their international team and our international team, and at this stage, it's not about synergies, it's about building volumes and revenues within each other's geographies. And we complement each other, as I said.

DPD is really big in Europe. They are a domestic operator more than a cross border operator. We're the opposite, so we feel there is a lot of commercial activities that we can do together within the different geographies to build up new lanes, basically. We utilise their ground infrastructure in Europe and Southeast Asia, and they utilise our international expertise in terms of line haul gateways and international cross border.

Vikram Sure. To be honest, the Q3 margins actually surprised us. We were under the impression that margins reached their bottom in Q2 and they could only improve from there.

Othman Aljeda The biggest factor in this was the cross-border. The decline in international e-commerce, which is the largest margin percentage of all our products declined, and that had an impact on the overall margins. I think that's the biggest impact. But that was specifically to Q3. I don't know where you live, but if you're in Dubai in August, September, a lot of people travel. A lot of people went back home. Shopping went down, specifically cross-border business.

People travelled to Europe, people travelled to the US, and the cross-border declined. If we look at September and even maybe October, we're seeing, again, an uptick to normal levels. Q4 is, as you know, our strongest quarter, and we're expecting a very good quarter this quarter.

Vikram I see. Clear. Thank you.

Ahmed Hazem Maher Thank you, Vikram. Anca, we don't have any further raised hands, but we do have some questions in the Q&A box, if you'd like to take them.

Anca Cighi Sure. Let me go to the inbox. I'm just scrolling through the questions now to see which ones we haven't answered in the session. A question from Karim, can you please elaborate on the reason for the fall in international express revenues over Q2 2021? International express revenues don't usually drop this much Q on Q previously, can you elaborate on this and any other factors that I might have missed? So, this is a follow-up to what we have just been discussing.

Arun Singh Othman already touched on this, that we had a drop in business, for example, from one of the clients coming especially from Hong Kong, and that's impacted the drop in margin in the international express.

Anca Cighi Perfect. A question from Joe Francis. [Unclear] sale of discontinued operations seems to be included in the segment wise EBIT, is that correct?

Arun Singh Yes.

Anca Cighi A question from Arvin, would you throw some light on the current standing for Aramex with respect to the net debt? Do you foresee any changes in dividend policy with margins being tighter?

Arun Singh Could you repeat that, Anca?

Anca Cighi Yes. The first one is on…

Arun Singh I can read the question, yes, could we throw some light on the current standing for Aramex with respect to net debt? Our balance sheet position is pretty strong, so if I exclude the lease liabilities and if I look at the overall bank liabilities in terms of committed and uncommitted - we don't even touch $150 million in total at the time of the balance sheet [on 30 September 2021]. Since then, it's gone down even below the $100 million level.

So, if I do the net debt to EBITDA, we're pretty negative in that sense, that we don't have it at zero. So, that leaves us plenty of capacity to raise further debt, should we need to do to any M&A activities that are in the pipeline. Do I foresee any change in the dividend policy with margins being tighter? To be honest, we have not announced a dividend policy.

The dividend is reviewed, and discussed, and decided upon by the board on the basis of annual performance. So, there is no policy, apart from the fact that it's subject to review on an annual basis.

Anca Cighi Thank you, Arun. Another question for you. Any update on increasing the company's foreign ownership limit?

Arun Singh We did have that discussion once, probably two or three months back, with the board, and it's left for further discussion. Since then, unfortunately, in this quarter, we've not had that discussion on that particular subject just yet. But we do expect in due course our Board may consider putting this proposal forward to DFM to open up the foreign ownership limit, but that's subject to the Board approval and review.

Anca Cighi Perfect. Thank you, Arun. The final question from is on international volumes from North Asia, which have almost halved year on year. How much of this is related to contract losses, which could [unclear].

Arun Singh As Othman explained before, we did have this one client who was giving us a lot of business over the past few years, and before that, it was somebody else. So, it is Shein now, before that, it was Jolly

Chic [another client] and this kind of trend continues to happen, that we find the big client and we sell them for a few years, and then the client scales up. It's not necessarily anything to do with Aramex.

But as the clients scale up and they're looking for better margins, they continue to test different kinds of delivery models, and that would come back and impact our margins. So, as our teams continues to find those kind of clients or look at better yielding margin clients on different scales and aggregate those volumes, do Shein type of clients come in on a weekly or monthly basis? Are they easy to find? Probably the answer is no.

So, that's the unfortunate reality from Hong Kong for the time being, but are we confident in finding some good clients in due course. Yes, or at least that same level of volume, albeit I cannot comment on the margin profile just yet. As Othman has mentioned, the 40%, 50% GP margin has normalised in line with what we have and what we get from Europe or America. It's more in line with that. So, that's pretty much as per the standard that we see.

Anca Cighi Thank you very much, Arun. I believe these are all the questions we have received via the chat box and I believe we've also addressed all the raised hands that we can see on the screen. If there are any follow-up questions after this session, please feel free to get in touch with us via email or call. We will be happy to arrange for a discussion or for answers. Meanwhile, I will hand it back now to the management team for concluding remarks, before we finalise today's discussion. Arun, back to you.

Arun Singh Thank you, Anca. Guys, thanks a lot, once again, for joining us on this call. This quarter, as I explained at the beginning, there are a lot of activities that we, as a management team, have been busy with, and a number of turnaround initiatives that we are undertaking. And in due course, we are very hopeful and very positive that these activities will start showing results.

And we will soon, hopefully have a completely different discussion with you, [focused on the] long-term, sustainable future that we can talk about that. There's a lot of excitement we have across the M&A activities, the inorganic growth target I mentioned. I will be able to reveal that in due course, once approved by the board. So, the next few years, we are targeting for a sustainable long-term future across different geographies where we wish to operate.

The key developments, such as GeoPost coming onboard, is a very positive development. The synergies, we'll be able to, as I mentioned, hopefully, quantify that soon. But what it has done is, as Othman explained before, it has potentially massively increased our reach, and the customers we will be able to serve. So, we're very happy with the development that has taken place recently and we have a very positive outlook for Q4 and beyond. Othman, any concluding remarks from your side?

Othman Aljeda Spot on, Arun. I just want to add that this is probably the first time in Aramex's history that we have a parcel delivery transport company investing in Aramex that gives us an international reach. And we're very excited about that. We had dabbled with Australia Post four or five years ago, but that didn't really materialise. For me, Australia and the Middle East is not a core lane. What GeoPost does is it gives us an international reach.

They have obviously put their trust in Aramex, they believe in our brand, our presence, our technology, our know-how, specifically on the cross-border. And this is a relationship that we are looking to expand globally with them. I think them coming into Aramex is very positive. It's positive for us, it's positive for them, and it's positive for the market.

And this will give us a competitive advantage over our competitors. We are no longer just regional or Africa. We have become global through their network and we're looking to grow on that relationship. Thank you, all.

Arun Singh Thank you, everyone.

Anca Cighi Thank you very much, ladies and gentlemen. Thank you again for joining our Q3 2021 investor call. Ahmed, over to you to…

Ahmed Hazem Maher Thank you, Anca. Thank you, Othman. Thank you, everyone, for attending. With that, we end the call and you can now disconnect.