

CTT – Correios de Portugal

# 9M17

Results Presentation



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01.

**Key highlights**

02.

**Business units**

03.

**Guidance update**

01.  
Key highlights



### Mail

- **9M17 addressed mail volumes decline of 6.1%**, given a negative evolution in 2Q17 (-7.6%) and 3Q17 (-7.2%), **put a strong pressure on Mail EBITDA**, due to a high level of fixed costs. **Two quarters of above normal declines** in mail volumes indicate a **trend of acceleration**
- **Revenues from Retail & Distribution Networks utilisation by the growth businesses** (Banco CTT and Express & Parcels, respectively) partially **offset the impact of mail volumes decline on revenues, but with incremental costs**

### Express & Parcels

- **Growth in parcels volumes in Portugal**, offset by a decline in the E&P banking network business, **pressure on the distribution costs of the Mail network** (due to networks integration)
- **Spain performance continues to improve towards breakeven** before the end of the year

### Banco CTT & Financial Services

- **Growth in the customer base of Banco CTT was achieved with the need of temporary staff hires and additional costs** at the CTT Retail Network
- In Financial Services, **public debt stock fees received in 3Q16 resulted in a tough comparison** in the quarter, however, **savings & insurance revenues are still above the level of last year**






**KEY HIGHLIGHTS:** Stabilisation of revenues as a result the development of the growth levers, which, in turn, put pressure on the recurring operating costs, and the Transporta acquisition



## Financial and operational performance

€ million, except when otherwise indicated

	Financial results				Like-for-like <sup>1</sup>			
	9M16	9M17	Δ€	Δ%	9M16	9M17	Δ€	Δ%
Recurring revenues	517.1	518.0	+0.9	+0.2%	509.6	512.3	+2.7	+0.5%
Recurring operating costs	426.1	449.8	+23.7	+5.6%	426.1	443.5	+17.3	+4.1%
Recurring EBITDA	91.0	68.1	-22.8	-25.1%	83.5	68.9	-14.6	-17.5%

	 Addressed mail (million items)	 Parcels (million items)	 FS savings flows <sup>2</sup> (€ billion)	 # Banco CTT current accounts (thousand)	 Banco CTT deposits (€ million)
9M17	555.4	23.5	4.6	190.6	540.4
vs. 9M16	-6.1%	+21.1%	+29.8%	+322%	+197%

<sup>1</sup> Excluding €7.5m Altice revenues in 9M16 and €5.7m Transporta revenues and €6.4m Transporta recurring operating costs in 9M17.

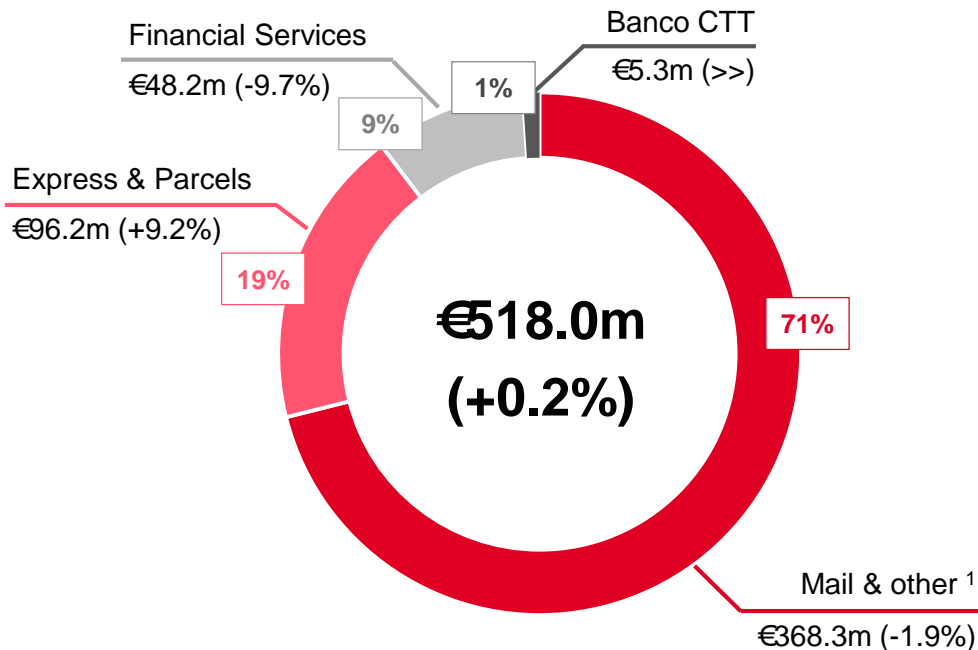
<sup>2</sup> Amount of savings & insurance placements (€3.2bn) and redemptions (€1.4bn).

# KEY HIGHLIGHTS: Strong growth from the Express & Parcels, banking businesses and the Transporta acquisition supported the increase in revenues



## 9M17 recurring revenues

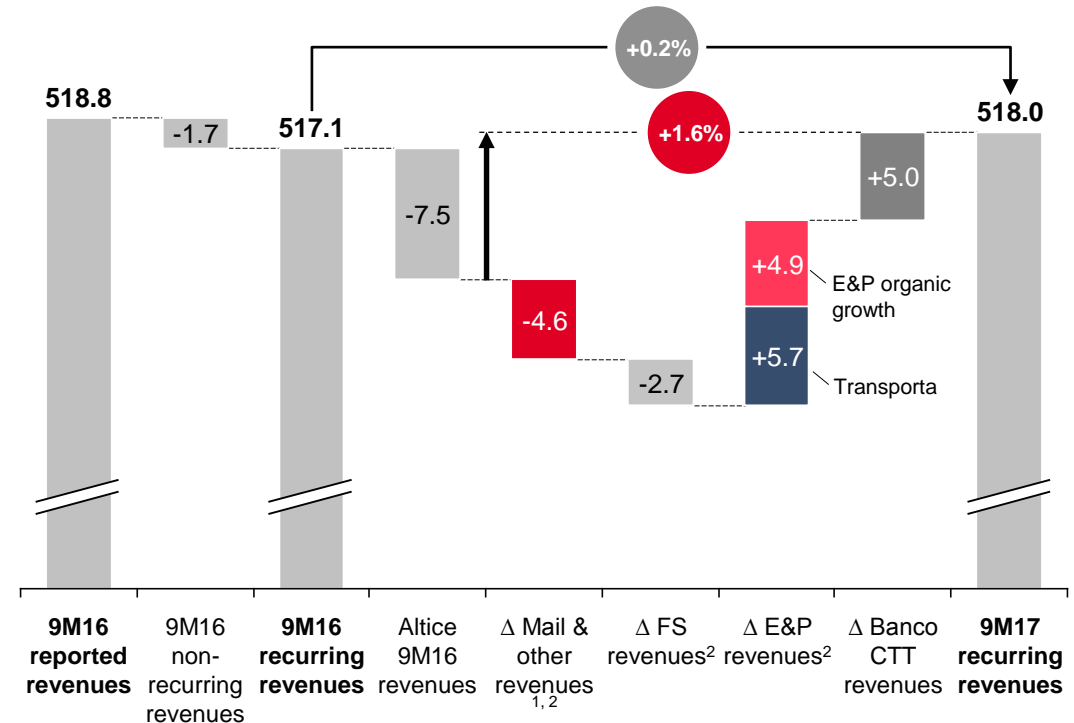
€ million; % change vs. prior year; % of total



X% % of total

## Revenues breakdown

€ million



- **Mail revenues decline was higher than expected, given the impact of the 6.1% mail volumes decline, just a part of which was offset by the 1.7% average price increase in the period and by the mix effect (3.7% registered mail revenues growth). The impact of a temporary suspension of lottery sales in the Retail Network was -€2.1m**
- **Express & Parcels was the main driver of growth, resulting from a strong parcels evolution in Portugal, and especially in Spain, and the Transporta acquisition (+€5.7m impact since May-17)**
- **Financial Services revenues declined mainly due to volumes / revenues declines in the payments business. Growth initiatives for this business line are under deployment**
- **Banco CTT with revenues below target but fully compensated by lower costs. Mortgage loans starting to contribute**

<sup>1</sup> Including income related to CTT Central Structure and Intragroup Eliminations amounting to -€22.6m in 9M16 and -€25.2m in 9M17.

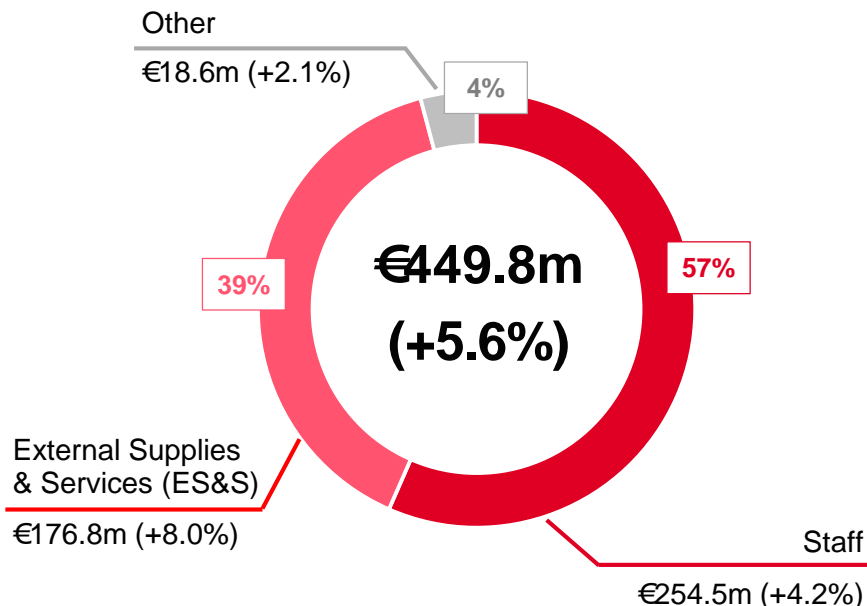
<sup>2</sup> Excluding Alice 9M16 revenues.

# KEY HIGHLIGHTS: The larger part of the recurring costs increase resulted from the Transporta acquisition and the growth in Banco CTT and Express & Parcels business units



## 9M17 recurring operating costs

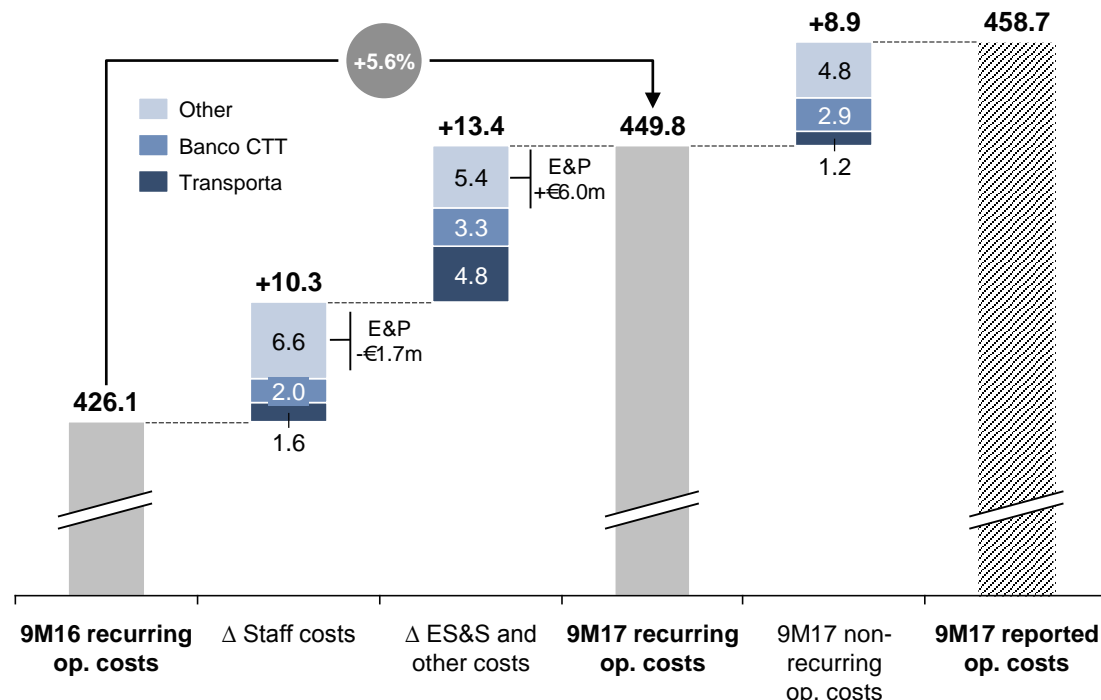
€ million; % change vs. prior year; % of total



X% % of total

## Operating costs breakdown

€ million



- **Staff costs (excluding Banco CTT and Transporta) increased** mainly due to a **lower cut in the benefit associated with the telephone subscription fee vs 9M16 (+€1.4m impact)**, an **update in salaries (+€1.7m)**, and an **increase in temporary staff (+€2.0m)**, given the need to support the growth initiatives at the Distribution (E&P) and the Retail (Banco CTT) Networks
- **ES&S and other costs (excluding Banco CTT and Transporta) increased** mainly as a result of an **increase in energy and fuel costs in Portugal (+€1.6m)**, an **increase in distribution and transport costs at Tourline resulting from volumes growth and increase in delivery routes (+€3.5m)** and an **increase related to temporary work and travel expenses at Tourline (+€1.0m)**
- **Non-recurring costs of €8.9m** include primarily costs related to **staff contract terminations (€2.4m, of which €1.2m in Transporta)**, **Banco CTT (€2.9m)** and **consulting projects (€1.9m)**, related to the transformation programme

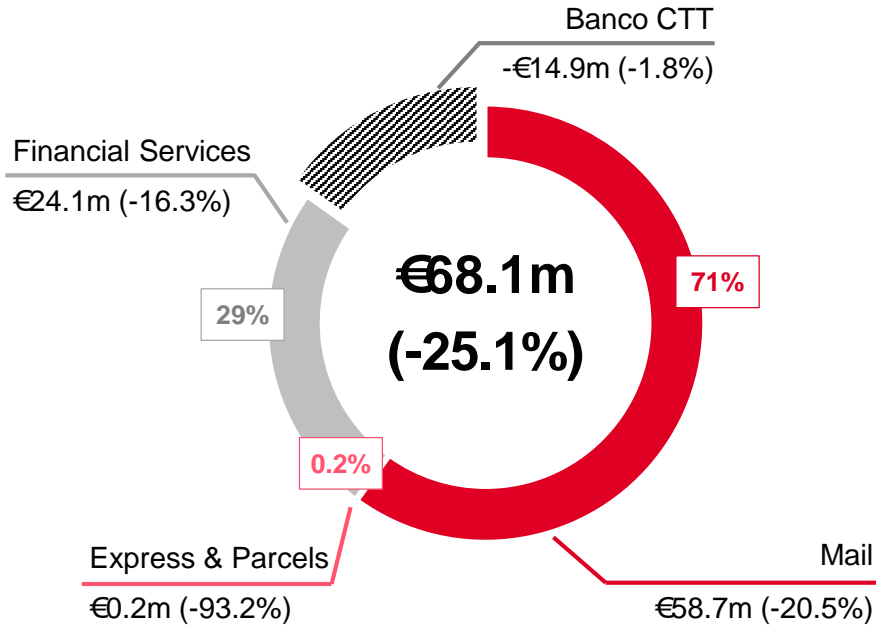


**KEY HIGHLIGHTS:** The 9M17 recurring EBITDA performance was below expectations, driven by mail volumes decline worse than forecast and the incremental costs of the networks



**9M17 recurring EBITDA**

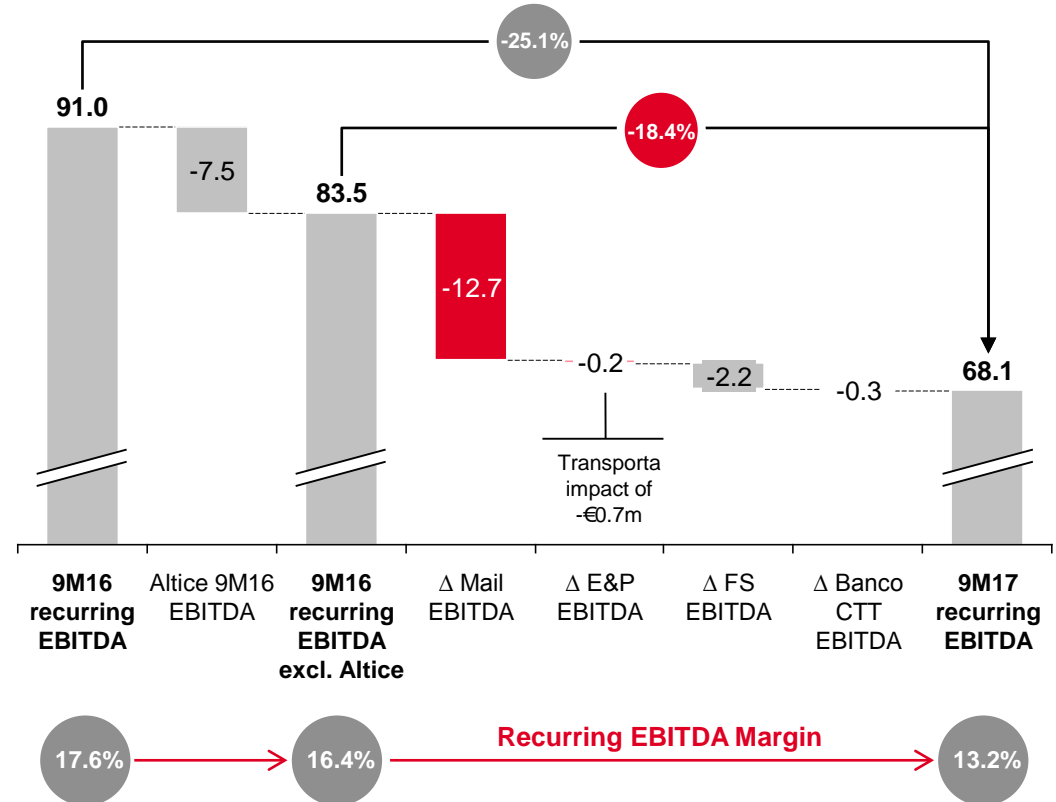
€ million; % change vs. prior year; % of total



X% % of total (excl. Banco CTT)

**Recurring EBITDA breakdown**

€ million



The Mail business unit was mainly responsible for the decline in the recurring EBITDA. This was due, on the one hand, to mail volumes decline worse than expected (c.€5m impact) and, on the other, to the fact that it owns the main operating assets of CTT (Retail & Distribution Networks) used in the development of the growth levers and hence incurring the largest part of the operating costs increase

**KEY HIGHLIGHTS:** The adjusted operating free cash flow reflects the continued positive cash flow generation of Banco CTT (capture of deposits)



**Cash Flow**

€ million; % change vs. 9M16

	Reported		Adjusted <sup>1</sup>	
	9M17	Δ %	9M17	Δ%
<b>From operating activities</b>	<b>289.8</b>	<b>+36.5%</b>	<b>293.3</b>	<b>+70.8%</b>
Cash flow excl. Banco CTT	48.6	-0.9%	52.1	>>
Banco CTT cash flow	241.2	+47.7%	241.2	+47.7%
<b>From investing activities</b>	<b>-212.7</b>	<b>-38.6%</b>	<b>-212.7</b>	<b>-38.6%</b>
Capex payments	-29.1	-15.9%	-29.1	-15.9%
of which Banco CTT	-4.6	+48.8%	-4.6	+48.8%
Banco CTT financial assets & credit	-189.7	-41.2%	-189.7	-41.2%
Other	6.1	+2.9%	6.1	+2.9%
<b>Operating free cash flow</b>	<b>77.1</b>	<b>31.0%</b>	<b>80.6</b>	<b>&gt;&gt;</b>
<b>From financing activities</b>	<b>-74.2</b>	<b>-3.3%</b>	<b>-74.2</b>	<b>-3.3%</b>
of which Dividends	-72.0	-2.5%	-72.0	-2.5%
<b>Other <sup>2</sup></b>	<b>43.6</b>	<b>&gt;&gt;</b>	<b>43.6</b>	<b>&gt;&gt;</b>
<b>Net change in cash</b>	<b>46.5</b>	<b>&gt;&gt;</b>	<b>50.0</b>	<b>&gt;&gt;</b>
<b>Cash at end of period</b>	<b>665.3</b>	<b>+12.2%</b>	<b>345.3</b>	<b>+51.8%</b>

Reflects the growth of Banco CTT deposits in the past 12 months

**Capex payments of €29.1m in 9M17, partially from investments made in 2016**

<sup>1</sup> Cash flow from operating activities excluding changes in net Financial Services payables of +€40.6m (9M16) and -€3.5m (9M17), respectively. Cash at the end of the period excluding net Financial Services payables of €365.3m (Sep-16) and €320.0m (Sep-17).

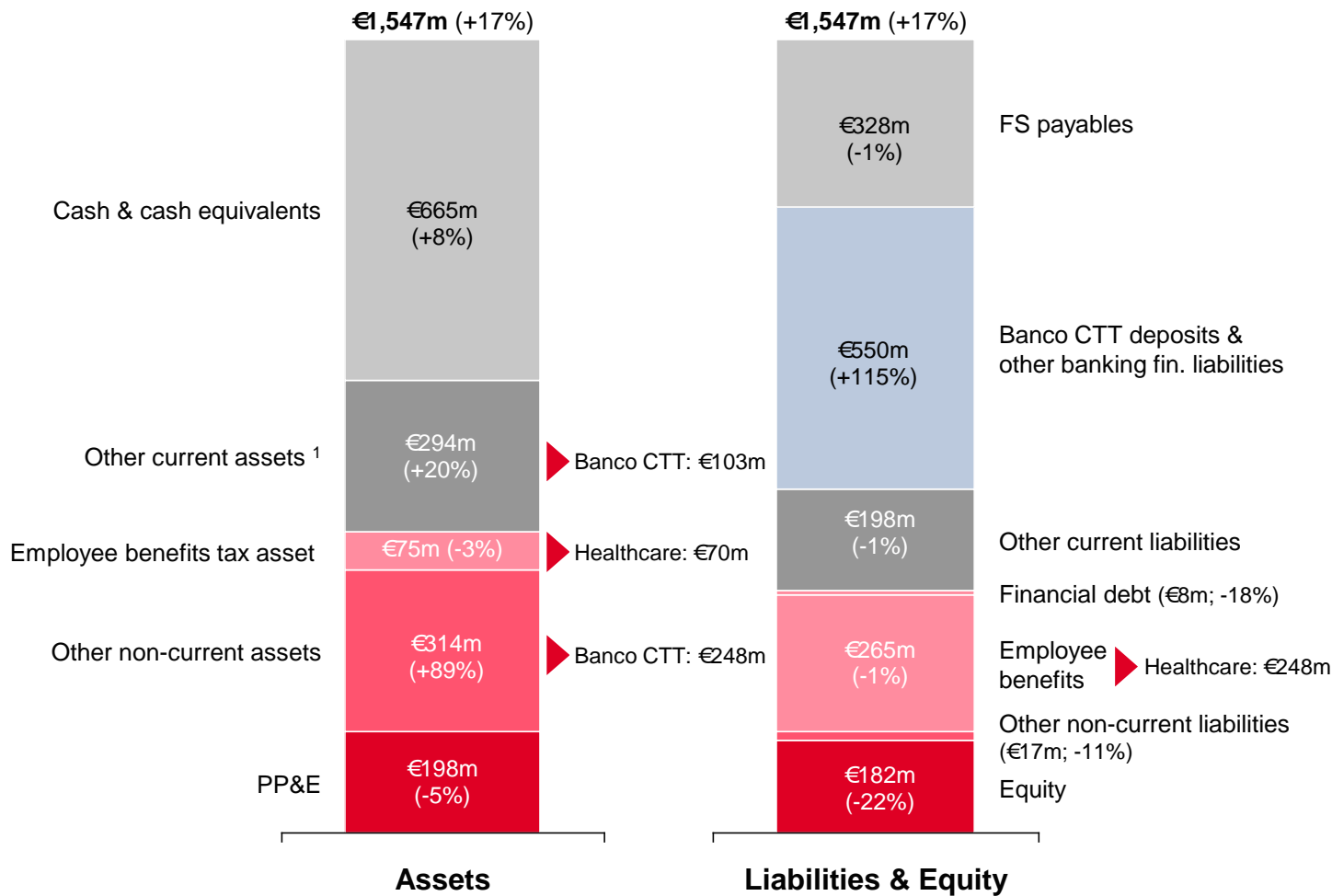
<sup>2</sup> These figures refer mostly to deposits with the Bank of Portugal and are not considered under Cash and equivalents in the Cash Flow statement. However, they are included in Cash and equivalents in the Balance Sheet (vs. Dec-16).

# KEY HIGHLIGHTS: Own cash (excluding Banco CTT) remained stable in 3Q17 and stands at €139m



## Balance Sheet – 30 September 2017

€ million; % change vs. 31 December 2016



Net financial debt (cash)	
+ ST&LT debt:	€8m
+ Net FS payables:	€320m
- Cash and cash equivalents:	€665m
<b>Including Banco CTT = €(337)m</b>	
+ (Banco CTT deposits & other fin. liabilities	
- Banco CTT financial assets & credit):	€199m
<b>Excluding Banco CTT (own cash) = €(139)m</b>	
Net debt (cash)	
+ Employee benefits:	€265m
- Employee benefits tax asset:	€75m
- Net financial cash:	€139m
<b>= €51m</b>	
<b>Liquidity position (excluding Banco CTT) = 108%</b>	

The consolidated Balance Sheet reflects a growing weight of Banco CTT deposits (>33%) and financial assets

<sup>1</sup> Including Financial Services receivables of €8.6m and €7.8m as at Dec-16 and Sep-17, respectively, and Banco CTT current financial assets of €69.2m and €103.1m as at Dec-16 and Sep-17, respectively.



02.

Business units

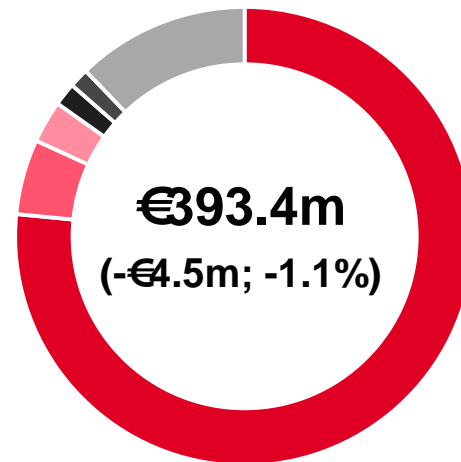
# BUSINESS UNITS: Addressed mail volumes decline worse than guidance, together with incremental costs for servicing E&P and Banco CTT, put a strong pressure on Mail EBITDA



## 9M17 Mail revenues by type

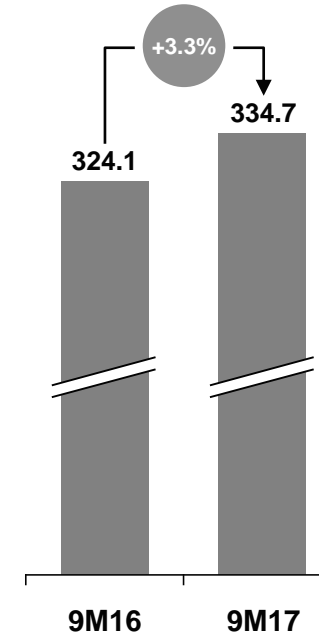
€ million, change vs. prior year (€ %)

– Transactional	€301.2m (-€1.9m; -0.6%)
– Advertising	€20.9m (-€0.8m; -3.9%)
– Editorial	€11.7m (+€0.02m; +0.2%)
– Business Solutions	€6.4m (-€0.6m; -8.7%)
– USO Parcels	€5.4m (+€0.9m; +19.1%)
– Other	€47.9m (-€2.1m; -4.2%)
<b>Total excl. Altice</b>	<b>€393.4m (-€2.0m; -0.5%)</b>



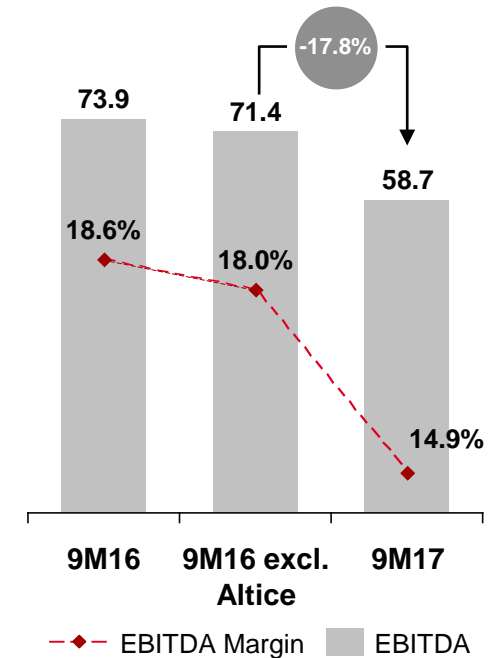
## Recurring operating costs

€ million



## Recurring EBITDA

€ million



## Mail volumes <sup>1</sup> by type

Metric	Avg. mail prices	Addressed mail	Transactional	Advertising	Editorial	Unaddressed mail
9M17	N/A	555.4	475.3	49.4	30.7	368.2
vs. 9M16	+1.7%	-6.1%	-5.9%	-9.5%	-3.8%	+1.9%

<sup>1</sup> Million items.

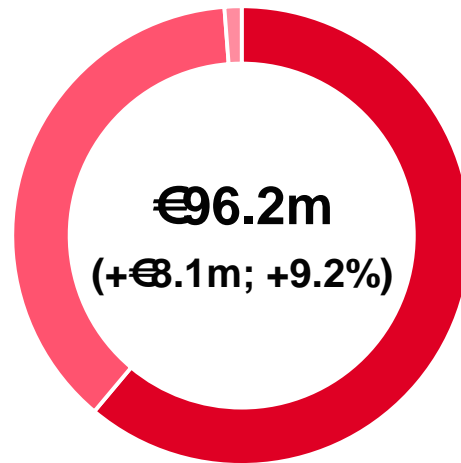
# BUSINESS UNITS: Strong parcels volumes growth in Portugal, driven also by the Transporta acquisition, and especially in Spain, drove high-single digit growth in E&P revenues



## 9M17 E&P revenues by region

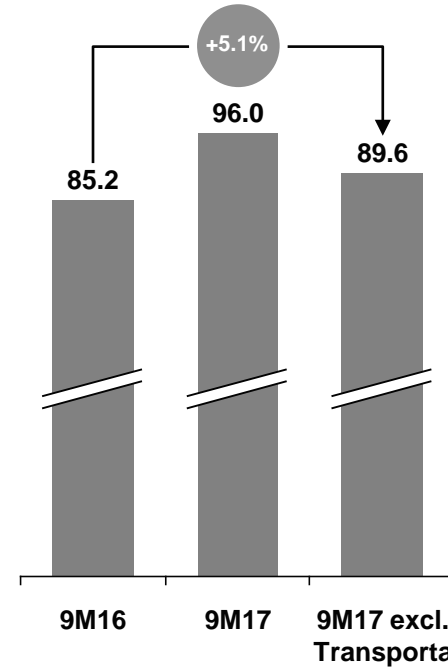
€ million, change vs. prior year (€; %)

– Portugal & other <sup>1</sup>	€8.8m (+€2.8m; +5.0%)
– Parcels	€46.0m (+€1.2m; +2.6%)
– Cargo & Logistics <sup>2</sup>	€6.8m (+€5.3m; >>)
– Banking network	€3.8m (-€1.3m; -24.9%)
– Other	€2.2m (-€2.5m; -52.9%)
– Spain	€6.3m (+€5.4m; +17.4%)
– Mozambique	€1.2m (-€0.04m; -3.6%)
<b>E&amp;P excl. Altice &amp; Transporta</b>	<b>€90.5m (+€4.9m; +5.8%)</b>



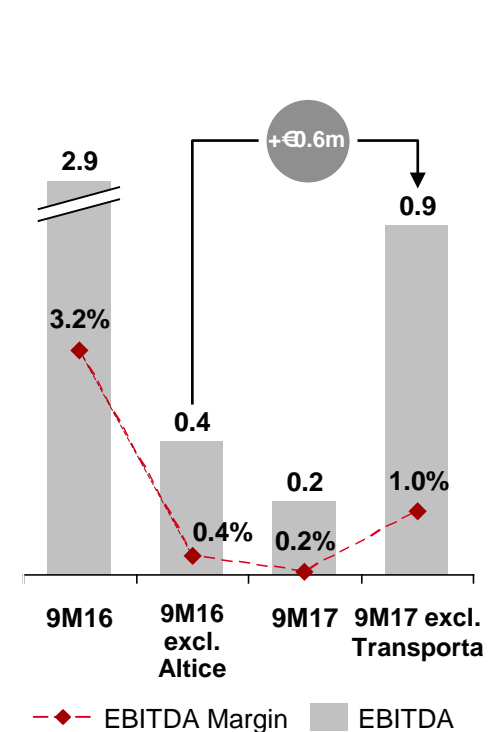
## Recurring operating costs

€ million



## Recurring EBITDA

€ million



## E&P volumes <sup>3</sup> by region

Metric	Total	Portugal	Excl. Transporta	Spain	Mozambique
9M17	23.5	12.6	11.3	10.9	0.05
vs. 9M16	+21.1%	+18.4%	+6.9%	+24.6%	-14.5%

<sup>1</sup> Including internal and other revenues, and internal transactions with Spain and Mozambique.

<sup>2</sup> Including €5.7m of Transporta (external & internal) revenues in 9M17.

<sup>3</sup> Million items.

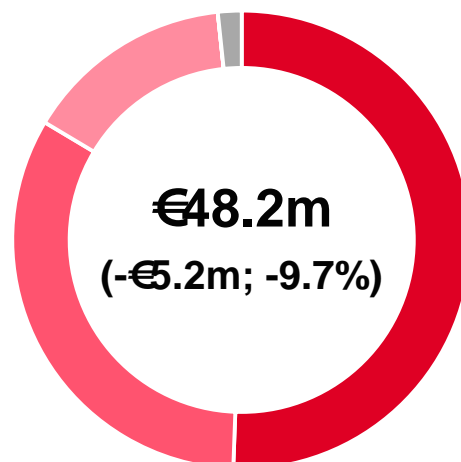
# BUSINESS UNITS: Financial Services revenues were impacted by continued weakness in the payments business, mainly as a result of competitive price pressures



## 9M17 FS revenues by type

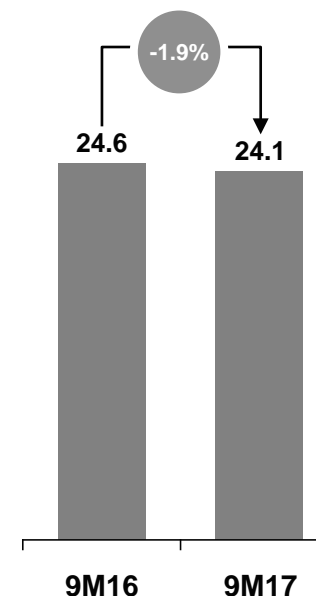
€ million, change vs. prior year (€; %)

- Savings & Insurance	€24.4m (+€0.4m; +1.5%)
- Payments	€15.9m (-€1.7m; -9.5%)
- Transfers	€7.1m (-€0.3m; -4.3%)
- Credit	€0.0m (-€0.3m; -100%)
- Other	€0.8m (-€3.2m; -80.1%)
<b>Total excl. Altice</b>	<b>€48.2m (-€2.7m; -5.3%)</b>



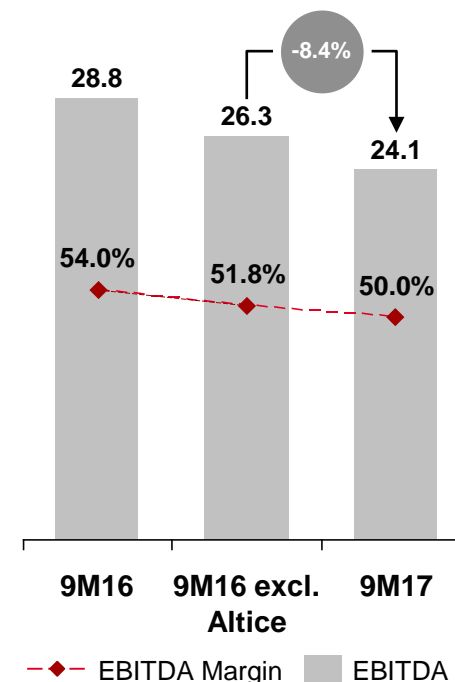
## Recurring operating costs

€ million



## Recurring EBITDA

€ million



## € FS volumes by type

Metric	Savings placements (€bn)	Payments (m ops)	Money orders & transfers (m ops)	Credit (excl. Banco CTT) (€m)
9M17	3.2	41.1	13.3	5.7
vs. 9M16	+10.3%	-6.6%	-4.9%	-24.7%

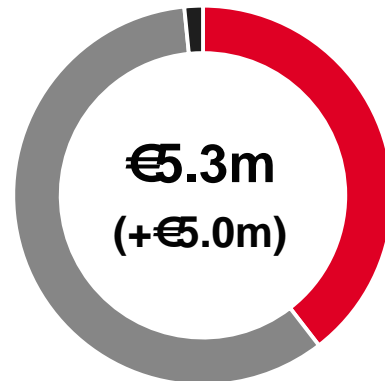
# BUSINESS UNITS: Banco CTT on track to achieve high-single digit FY17 revenues, while customer acquisition continues stronger than anticipated, putting pressure on the Retail Network costs



## 9M17 Banco CTT operating revenues

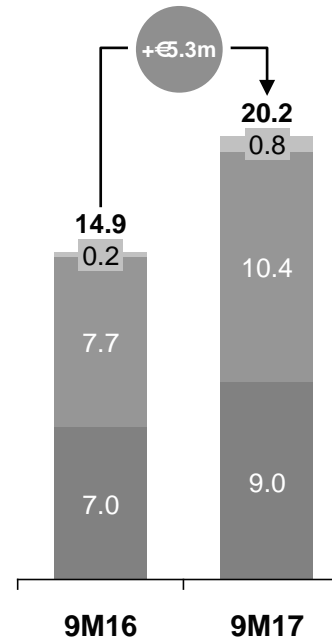
€ million, change vs. prior year (€)

<b>- Net interest income</b>	<b>€2.1m</b>
- Interest income	€2.7m
- Interest expense	€0.6m
<b>- Commissions income</b>	<b>€3.1m</b>
- Consumer credit, credit cards <sup>1</sup> & insurance	€1.8m
- Own products	€1.3m
<b>- Other</b>	<b>€0.1m</b>



## Recurring operating costs

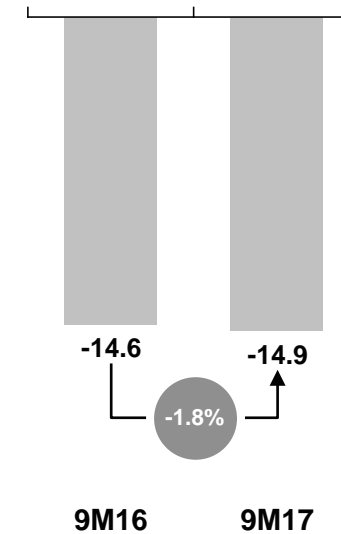
€ million



Other ES&S costs Staff costs EBITDA

## Recurring EBITDA

€ million



## Selected Banco CTT Balance Sheet indicators

Metric	Assets (€ million)				Deposits (€ million)		Equity (€ million) / CET 1 (%)
	Cash & cash equivalents	Financial assets & investments	Credit to clients	Mortgage	Term dep.	Sight dep.	
30-Sep-17	254.9	308.7	42.4	29.2	199.1	341.3	82.1 / 35.0%
30-Jun-17	197.4	261.6	32.6	4.9	172.0	252.3	87.5 / 49.9%

**Current accounts**  
190.6k  
(+43k in 3Q)

**Customers (#)**  
~ 240 thousand

**Deposits**  
€540.4m

**Consumer credit<sup>2</sup>**  
€32.8m

<sup>1</sup> Partnership with BNP Paribas Personal Finance (Cetelem).

<sup>2</sup> Amount outside Banco CTT's Balance Sheet, representing the total outstanding balance of credit placed by Banco CTT branches.



**03.**  
**Guidance  
update**





- **Worse than expected addressed mail volumes decline will impact negatively FY17 recurring EBITDA.** After 2Q17 and 3Q17 volumes declines above 7%, an acceleration trend is perceived which will have a material impact in FY17
- **Strong growth in Express & Parcels and Banco CTT customer base puts temporary pressure on the overall CTT cost base,** which is not yet being fully absorbed by the installed capacity in the Distribution and Retail Networks, respectively
- **Spain performance continues to improve towards breakeven** before the end of the year
- **Sizable cost restructuring,** adjusting the scale of operations to the current needs, is being prepared to be presented before the end of the year

## GUIDANCE UPDATE

➤ **The company now expects to achieve recurring EBITDA around 20% below the initial FY17 guidance**

➤ **Given this EBITDA evolution, the Board of Directors intends to propose a FY17 dividend of c.€0.38 per share, payable in 2018**

04.  
Appendix

banco**ctt**



## APPENDIX: Non-recurring items affecting the results



€million

	9M16	9M17	Δ
<b>Reported EBITDA</b>	<b>82.9</b>	<b>59.3</b>	<b>-23.6</b>
<b>Non-recurring items affecting EBITDA</b>	<b>8.1</b>	<b>8.9</b>	<b>+0.8</b>
Revenues	-1.7	-	+1.7
Staff costs	3.2	3.0	-0.1
ES&S & other op. costs	6.7	5.9	-0.8
<b>Recurring EBITDA</b>	<b>91.0</b>	<b>68.1</b>	<b>-22.8</b>
<b>Reported EBIT</b>	<b>70.4</b>	<b>36.3</b>	<b>-34.0</b>
<b>Non-recurring costs affecting only EBIT</b>	<b>-7.0</b>	<b>1.3</b>	<b>+8.3</b>
Provisions (reinforcements / reductions)	-7.6	-0.3	+7.4
Impairments and D&A (losses / reductions)	0.6	1.5	+0.9
<b>Non-recurring items affecting EBITDA &amp; EBIT</b>	<b>1.1</b>	<b>10.2</b>	<b>+9.1</b>
<b>Recurring EBIT</b>	<b>71.4</b>	<b>46.5</b>	<b>-24.9</b>

€1.7m from recognised deferred gain due to early termination of vacant building lease contract in 1Q16

**Non-recurring costs of €8.9m in 9M17 mainly include:**

- €1.9m of costs related to consulting projects
- €2.9m related to Banco CTT
- €2.4m due to staff contract terminations (of which €1.2m in Transporta)

## APPENDIX: Consolidated results



€million	Reported		Recurring <sup>1</sup>		Banco CTT under equity method	
	9M16	9M17	9M16	9M17	9M16	9M17
<b>Revenues</b>	<b>518.8</b>	<b>518.0</b>	<b>517.1</b>	<b>518.0</b>	<b>518.9</b>	<b>513.7</b>
Operating costs	436.0	458.7	426.1	449.8	417.5	436.7
<b>EBITDA</b>	<b>82.9</b>	<b>59.3</b>	<b>91.0</b>	<b>68.1</b>	<b>101.4</b>	<b>77.0</b>
<b>EBITDA margin</b>	<b>16.0%</b>	<b>11.4%</b>	<b>17.6%</b>	<b>13.2%</b>	<b>19.5%</b>	<b>15.0%</b>
<b>EBIT</b>	<b>70.4</b>	<b>36.3</b>	<b>71.4</b>	<b>46.5</b>	<b>89.9</b>	<b>56.1</b>
Financial income / (costs)	-4.2	-3.7	-4.2	-3.7	-4.2	-3.7
Subsidiaries, associates and joint ventures - gains / (losses)	0.2	0.0	0.2	0.0	-15.3	-15.6
<b>Earnings before taxes (EBT)</b>	<b>66.4</b>	<b>32.6</b>	<b>67.5</b>	<b>42.8</b>	<b>70.4</b>	<b>36.8</b>
Income tax for the period <sup>2</sup>	-20.6	-13.2	-19.0	-11.7	-24.6	-17.4
Non-controlling interests - gains / (losses)	-0.2	-0.1	-0.2	-0.1	-0.2	-0.1
<b>Net profit attributable to equity holders</b>	<b>46.0</b>	<b>19.5</b>	<b>48.7</b>	<b>31.2</b>	<b>46.0</b>	<b>19.5</b>

<sup>1</sup> Recurring net profit excludes non-recurring revenues and costs and considers the theoretical (nominal) tax rate of CTT.

<sup>2</sup> Average tax rate increases in 9M17 due to lower results from subsidiaries which carry a lower tax rate and non-recurring positive effects from provision reversals and real estate gains in 9M16.

## APPENDIX: Balance Sheet



€million	CTT		Banco CTT under equity method	
	31-Dec-16	30-Sep-17	31-Dec-16	30-Sep-17
Non-current assets	452.6	587.1	393.2	400.4
Current assets	864.1	959.4	669.9	599.3
<b>Assets</b>	<b>1,316.7</b>	<b>1546.5</b>	<b>1,063.1</b>	<b>999.7</b>
Equity	233.3	181.7	233.3	181.7
Liabilities	1,083.4	1364.8	829.8	818.0
Non-current liabilities	269.5	264.7	269.5	264.7
Current liabilities	813.8	1100.0	560.3	553.3
<b>Equity and liabilities</b>	<b>1,316.7</b>	<b>1546.5</b>	<b>1,063.1</b>	<b>999.7</b>



# CTT

## Investor Relations

### Upcoming Events:

- 2 Nov. – Lisbon
  - Roadshow with Caixa BI
- 3 Nov. – London
  - Roadshow with BPI
- 7 Nov. – Madrid
  - Roadshow with Santander
- 9 Nov. – Frankfurt
  - Roadshow with Barclays
- 15 Nov. – Milan
  - Roadshow with Caixa BI

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