



# CTT – Correios de Portugal

## 3Q14 Results Presentation

4 November 2014



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Key highlights of 3Q14 and 9M14

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# Strong 3Q14, in which key operational and financial indicators register further progress and acceleration on the already solid trends observed in 1H14



Financial Performance	3Q14	vs. 3Q13	9M14	vs. 9M13
▪ Reported Revenues	€174.4m	+3.0%	€530.9m	+2.1%
▪ Reported Operating costs	€141.6m	-0.7%	€429.3m	+0.6%
▪ Reported EBITDA	€32.9m	+22.5%	€101.6m	+9.0%
▪ Recurring EBITDA <sup>1</sup>	€35.4m	+31.6%	€101.7m	+16.8%
▪ Reported Net profit	€16.6m	+22.5%	€52.6m	+16.5%
▪ Recurring Net profit <sup>1</sup>	€18.4m	+45.8%	€54.7m	+27.4%
▪ Operating free cash flow <sup>2</sup>	€7.4m	+47.1%	€73.3m	+114.0%

## KEY METRICS

Period	Addressed mail volumes	Unaddressed mail volumes	Average mail prices (USO) <sup>3</sup>	Parcels volumes	Savings flows <sup>4</sup>
3Q14 vs. 3Q13	-4.3%	-20.7%	+4.3%	+1.2%	+138.2%
9M14 vs. 9M13	-6.1%	-5.4%	+4.3%	+8.0%	+128.4%

<sup>1</sup> Excluding non-recurring items.

<sup>2</sup> Excluding changes in Net Financial Services payables.

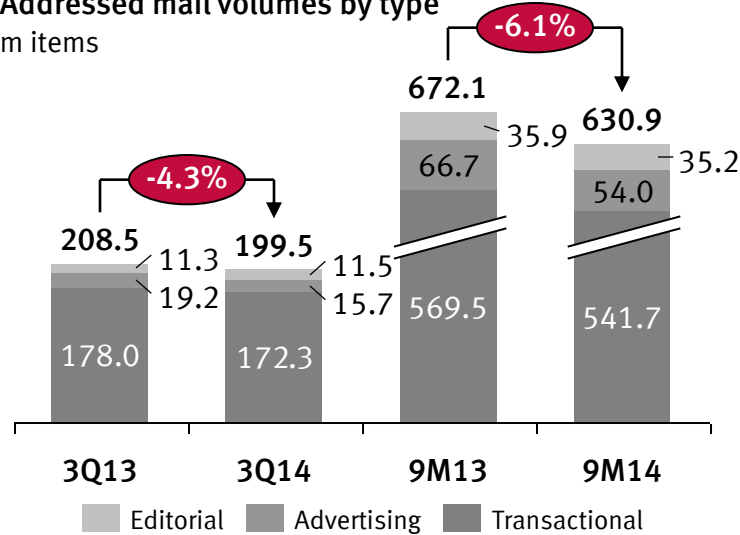
<sup>3</sup> Excluding international inbound mail.

<sup>4</sup> Amount of savings and insurance products placements and redemptions.

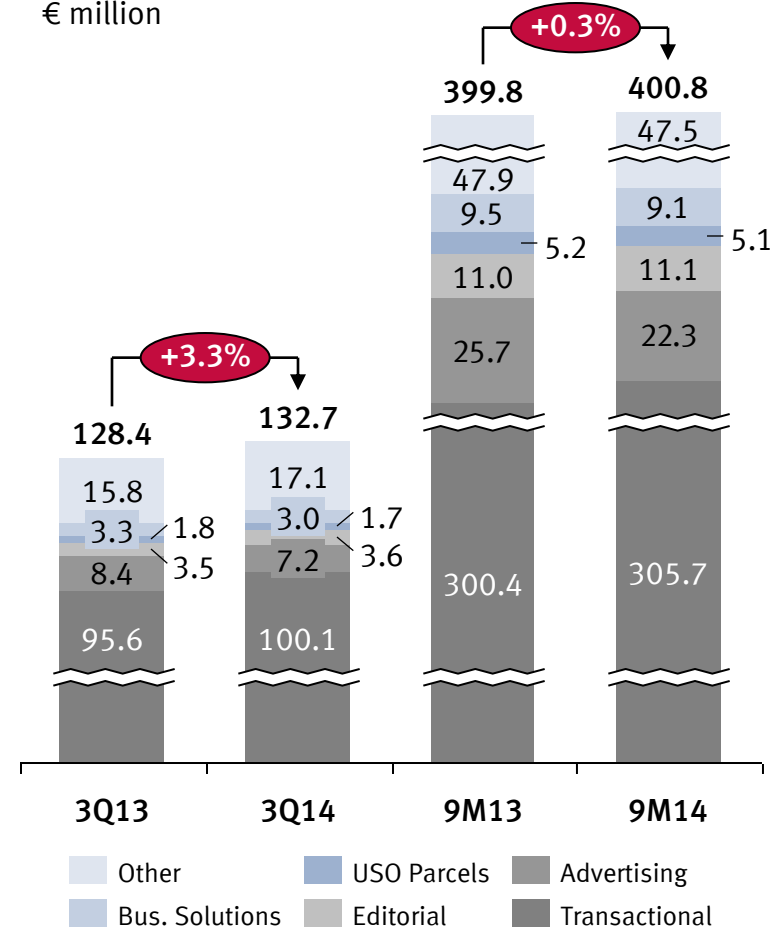
# The rate of decline of addressed mail volumes slows down to -6.1% in 9M14, in line with expectation; Mail like-for-like revenues grow year-on-year...



Addressed mail volumes by type  
m items

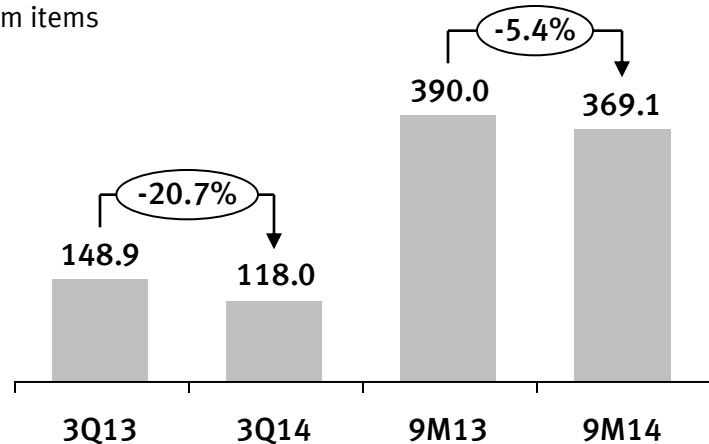


Mail like-for-like<sup>1</sup> revenues by type  
€ million

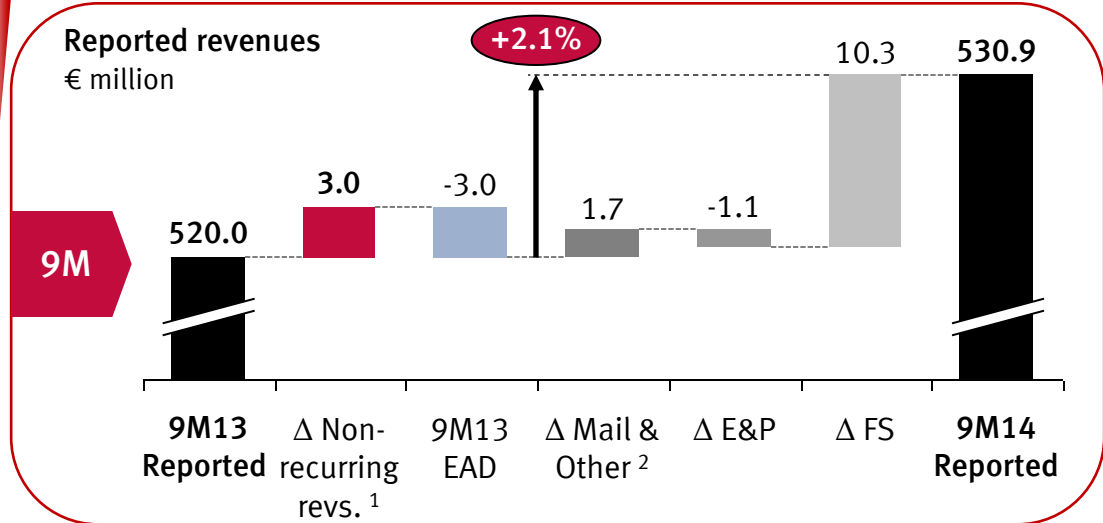
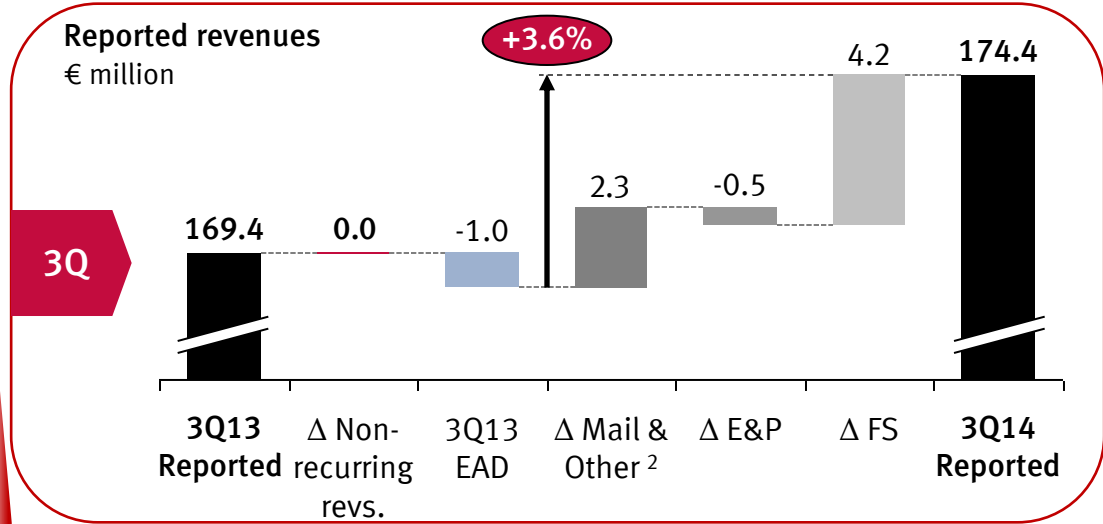
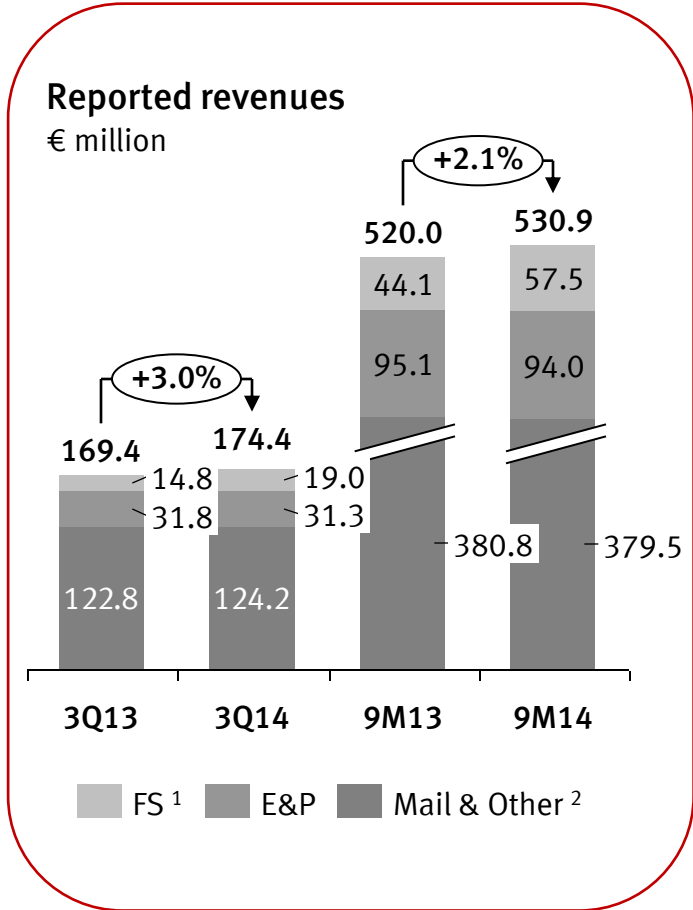


<sup>1</sup> Excluding €1.0m and €3.0m of EAD revenues from the 3Q13 and 9M13 Business Solutions numbers respectively for the purposes of like-for-like comparison.

Unaddressed mail volumes  
m items



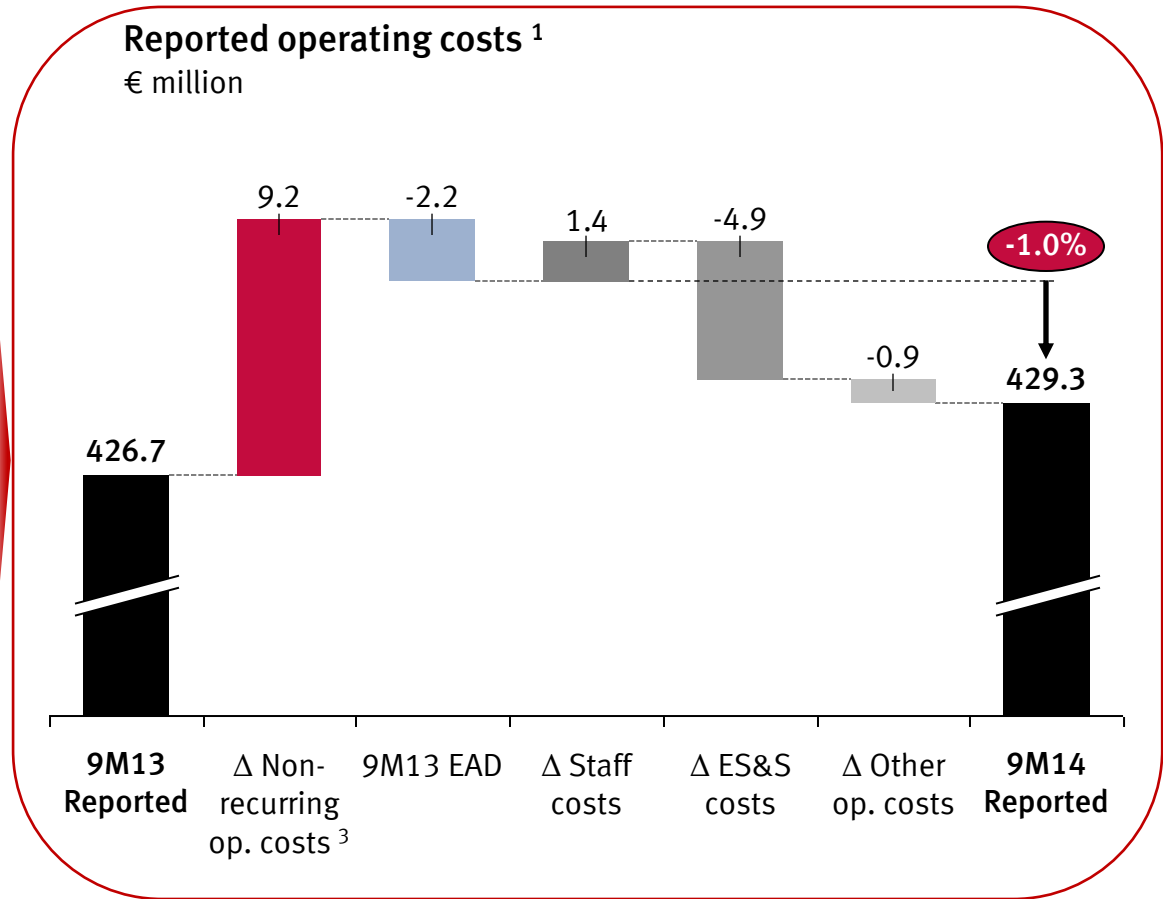
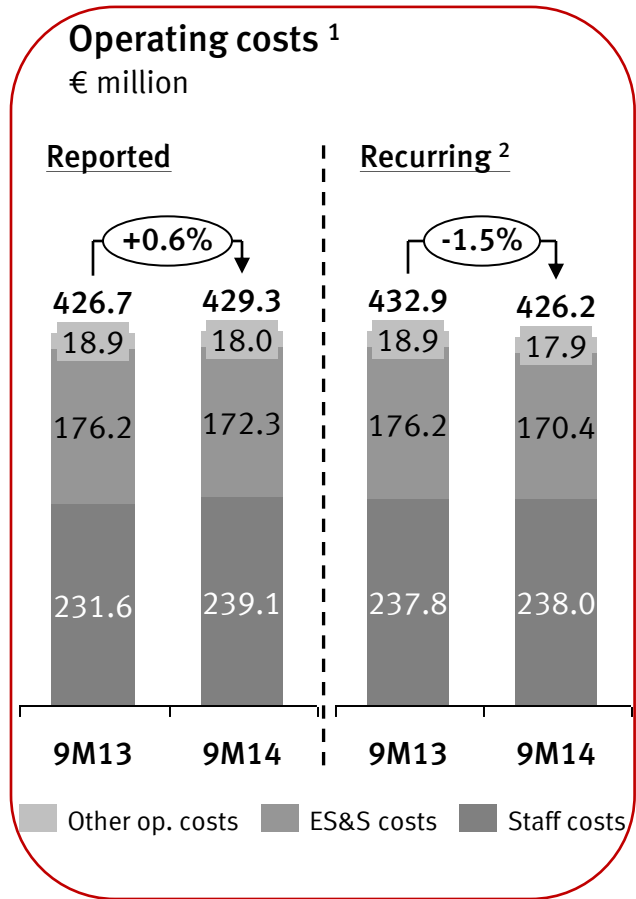
...as a result, recurring like-for-like revenues growth accelerates to +3.6% in 3Q14 (+2.1% in 9M14), driven also by continued strong performance of FS



<sup>1</sup> €3.0m of non-recurring FS revenues received in 2Q14.

<sup>2</sup> Includes income related to CTT Central Structure and Intragroup Eliminations amounting to -€6.6m in 3Q13, -€8.5m in 3Q14, -€21.9m in 9M13 and -€21.3m in 9M14.

# Recurring like-for-like operating costs decrease by 1% in 9M14, due to relevant reduction in ES&S spend



- Non-recurring costs with larger impact on the 9M13 accounts - the telephone subscription benefit paid to retired employees was revised in 2Q13, resulting in significant non-recurring cost savings (€8.2m in 9M13)

<sup>1</sup> Excluding amortisation, depreciation, provisions and impairment losses.

<sup>2</sup> Excluding amortisation, depreciation, provisions, impairment losses and non-recurring costs.

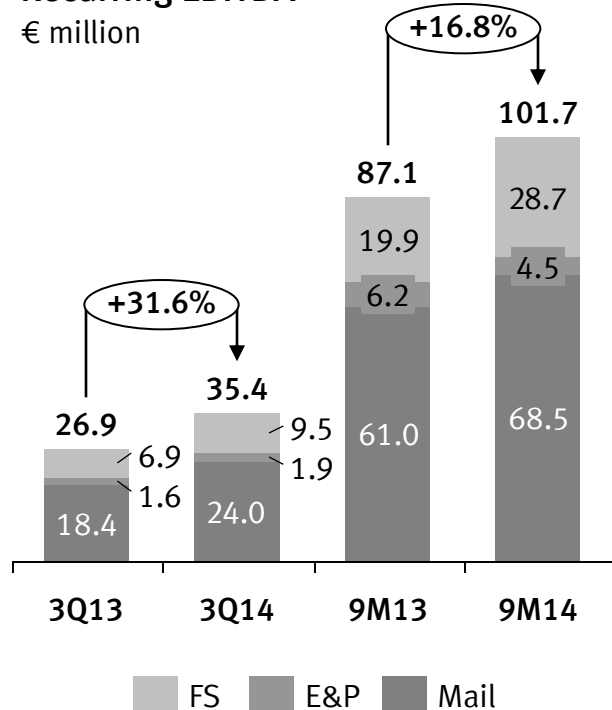
<sup>3</sup> €3.1m in 9M14 and -€6.2m in 9M13.



# Recurring like-for-like EBITDA growth rate accelerates to +32.6% in 3Q14 and reaches high double-digits in 9M14

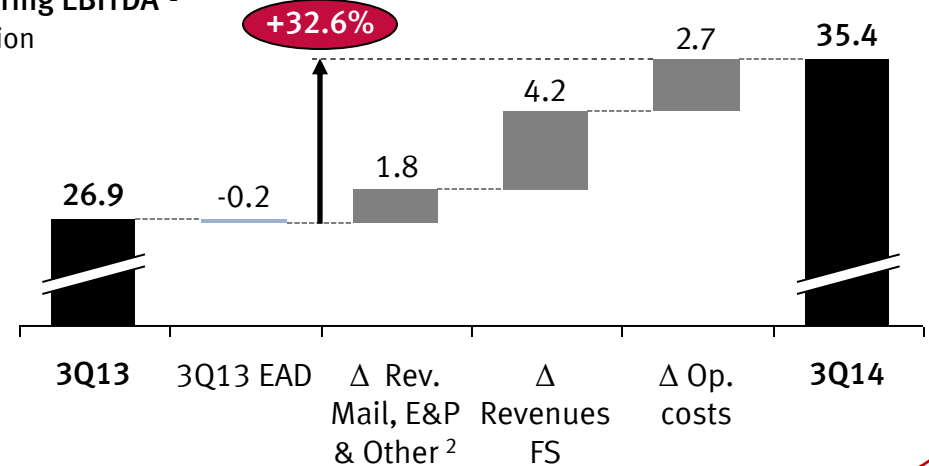


Recurring EBITDA<sup>1</sup>  
€ million



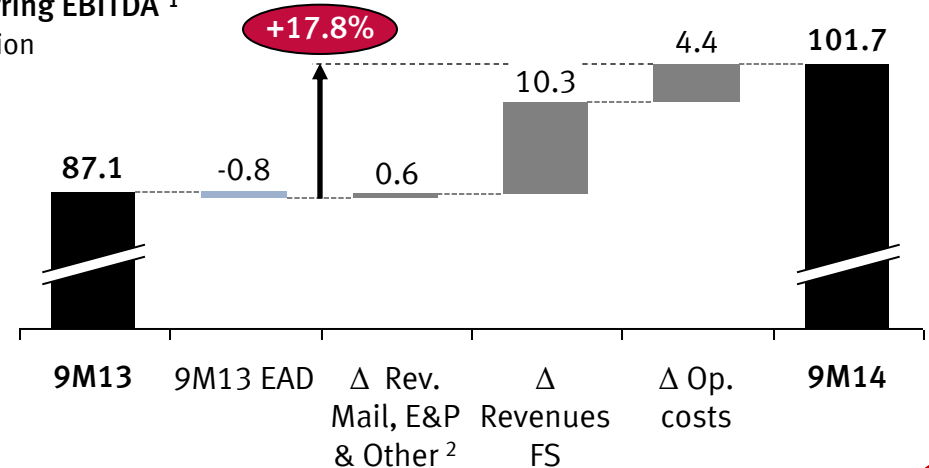
Recurring EBITDA<sup>1</sup>  
€ million

3Q



Recurring EBITDA<sup>1</sup>  
€ million

9M



<sup>1</sup> Excluding non-recurring costs of €0.1m in 3Q13, €2.6m in 3Q14, -€6.2m in 9M13 and €3.1m in 9M14 and non-recurring revenues of €3.0m in 9M14.

<sup>2</sup> Includes income related to CTT Central Structure and Intragroup Eliminations of -€6.6m in 3Q13, -€8.5m in 3Q14, -€21.9m in 9M13 and -€21.3m in 9M14.



# 9M14 operating free cash flow reaches €73.3m, more than double the amount generated in the same period last year



€ million	Cash Flow					
	3Q13	3Q14	Δ	9M13	9M14	Δ
Cash flow from operating activities <sup>1</sup>	6.3	6.7	0.5	34.4	68.9	34.5
Cash flow from investing activities	-1.2	0.7	1.9	-0.1	4.4	4.5
Capex payments	-1.9	-0.9	0.9	-4.0	-4.6	-0.6
Other	0.7	1.6	1.0	3.9	9.0	5.1
<b>Operating free cash flow <sup>1</sup></b>	<b>5.1</b>	<b>7.4</b>	<b>2.4</b>	<b>34.2</b>	<b>73.3</b>	<b>39.1</b>
Cash flow from financing activities	-13.1	0.2	13.3	-55.8	-59.5	-3.6
Of which: dividends	-12.5	0.0	12.5	-50.0	-60.0	-10.0
Change in cash <sup>2</sup>	-8.1	7.7	15.7	-21.6	13.1	34.7
<b>Cash at beginning of period <sup>1</sup></b>	<b>226.6</b>	<b>242.3</b>		<b>240.2</b>	<b>236.8</b>	
<b>Cash at end of period <sup>1</sup></b>	<b>218.6</b>	<b>250.0</b>		<b>218.6</b>	<b>250.0</b>	

- Performance largely driven by sustainable factors - Net profit (+€52.6m), Capex below Depreciation (+€11.0m)

<sup>1</sup> Excluding changes in Net Financial Services payables of €138.5m (9M14), €142.4m (9M13), €12.9m (3Q14) and -€27.5m (3Q13).

<sup>2</sup> Includes -€0.7m change in consolidation perimeter in 9M14.

# The Balance Sheet continues to demonstrate high solvency and solid liquidity position

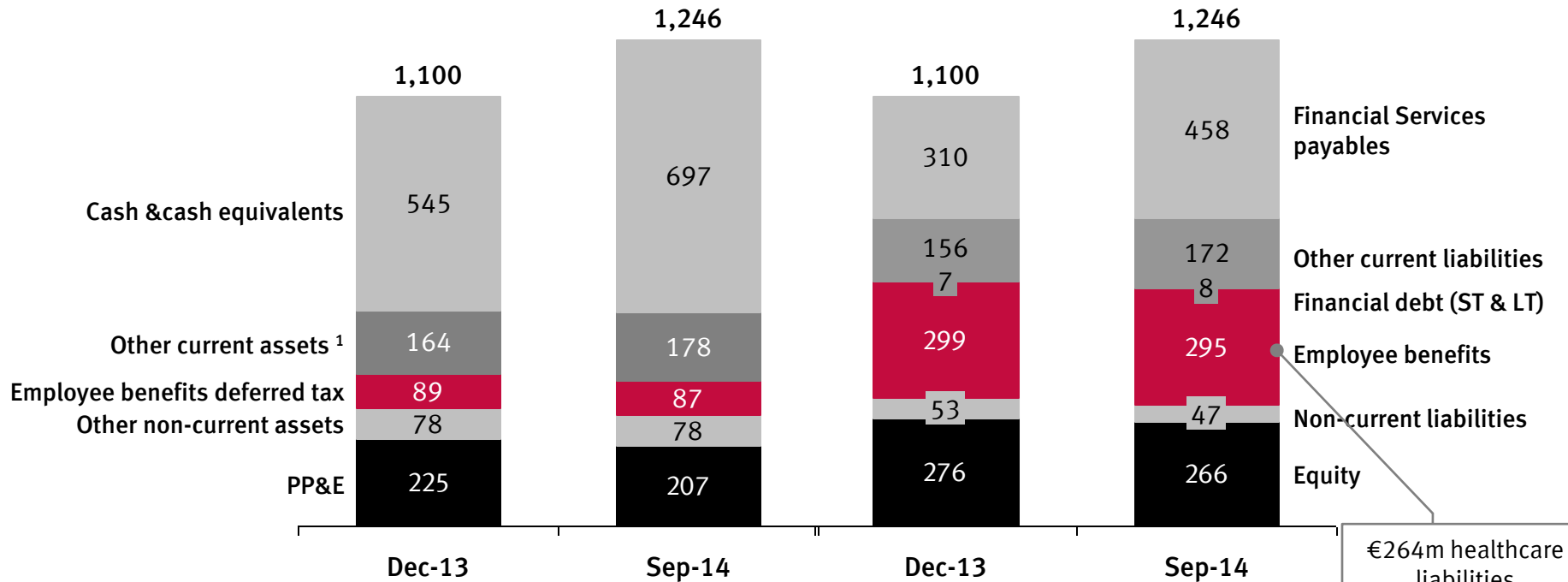


## Balance Sheet

€ million

### Assets

### Liabilities & Equity



<sup>1</sup> Include Financial Services receivables of €2m and €12m as at Dec-13 and Sep-14, respectively.

€264m healthcare liabilities (€263m in Dec-13)

- **Net financial debt (cash)** = ST Debt of €6m + LT Debt of €2m + Net Financial Services payables of €447m - Cash and cash equivalents of €697m = **€(242)m**
- **Net debt (cash)** = Employee benefits of €295m - Employee benefits deferred tax of €87m - Net financial cash of €242m = **€(35)m**
- Strong liquidity position: **Current assets / Current liabilities = 133%**

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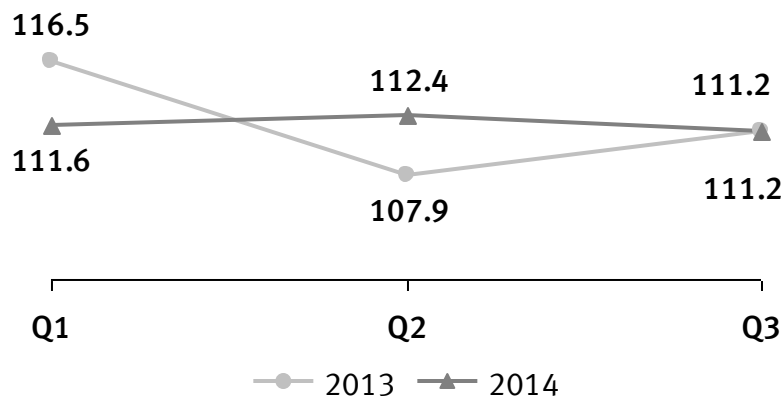
The Postal Bank project

# Revenue growth coupled with strict cost containment allows for the expansion of the Mail EBITDA margin



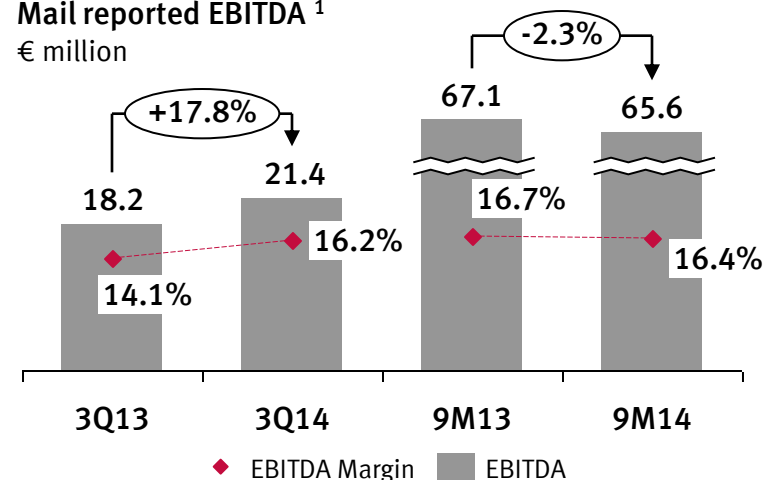
Mail reported operating costs <sup>1</sup>

€ million



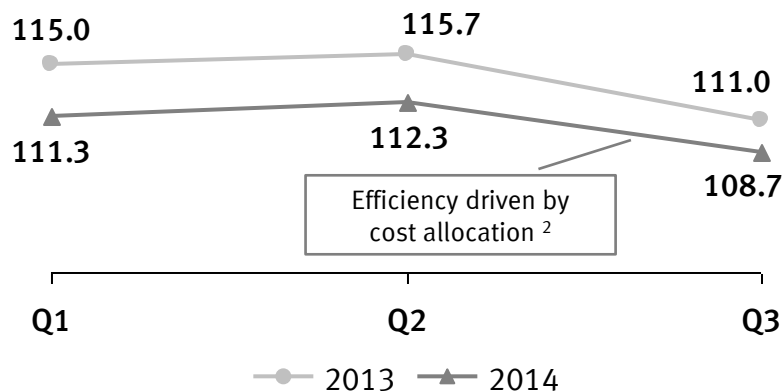
Mail reported EBITDA <sup>1</sup>

€ million



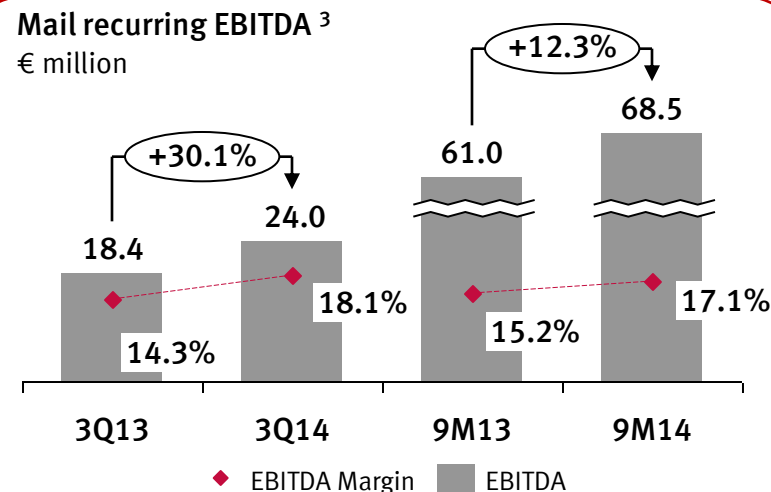
Mail recurring operating costs <sup>2</sup>

€ million



Mail recurring EBITDA <sup>3</sup>

€ million



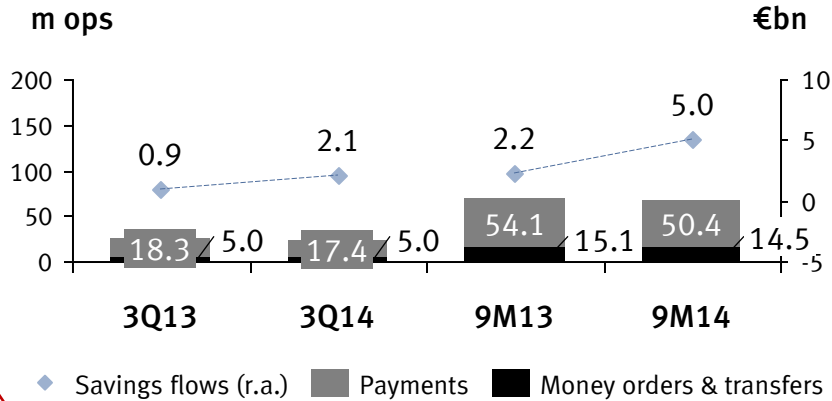
<sup>1</sup> Excluding amortisation, depreciation, provisions, impairment losses. <sup>2</sup> Financial Services growth on the Retail Network of Mail and start of the integration of the Mail & Express & Parcels distribution networks. <sup>3</sup> Excluding amortisation, depreciation, provisions, impairment losses and non-recurring costs.

# Financial Services continue to be a strong engine of growth, as savings flows in 9M14 reach €5 billion



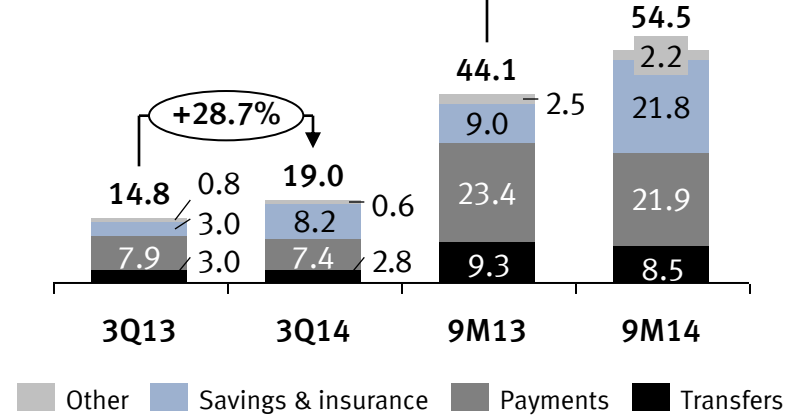
## FS volumes by type

m ops (left axis) / € billion (savings flows <sup>1</sup>, right axis)



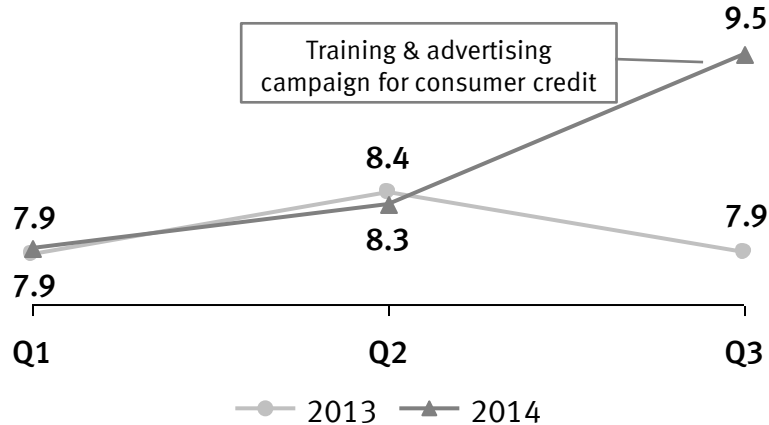
## FS recurring revenues by type

€ million



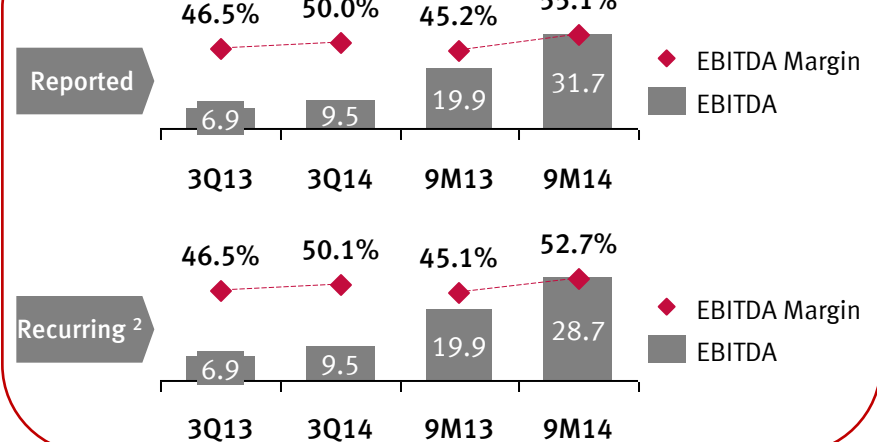
## FS recurring operating costs <sup>2</sup>

€ million



## FS EBITDA

€ million



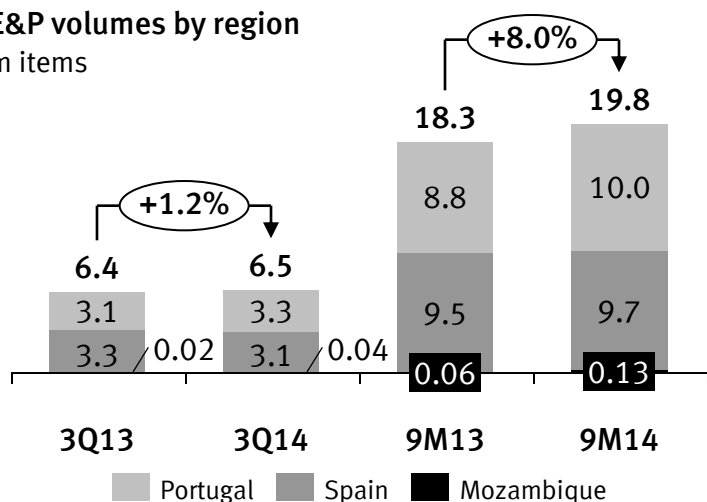
<sup>1</sup> Amount of savings and insurance products placements and redemptions.

<sup>2</sup> Excluding amortisation, depreciation, provisions, impairment losses and non-recurring costs.

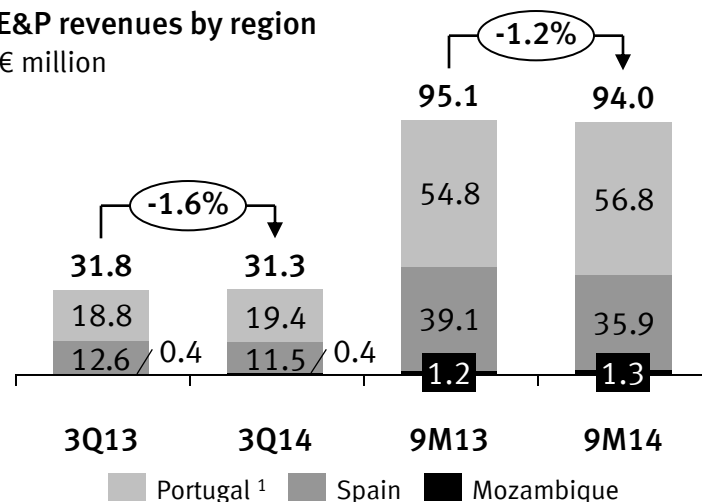
# Express & Parcels restructuring progressing well, with reported 3Q14 EBITDA margin improving ~60bps, despite continued pressure on revenues



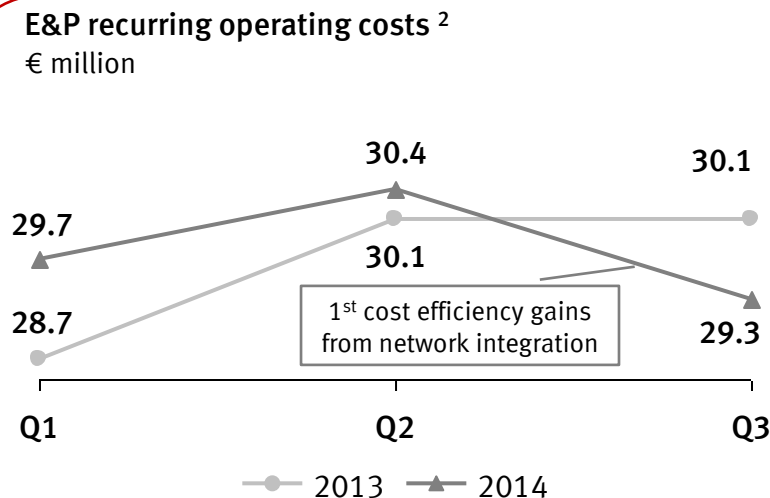
**E&P volumes by region**  
m items



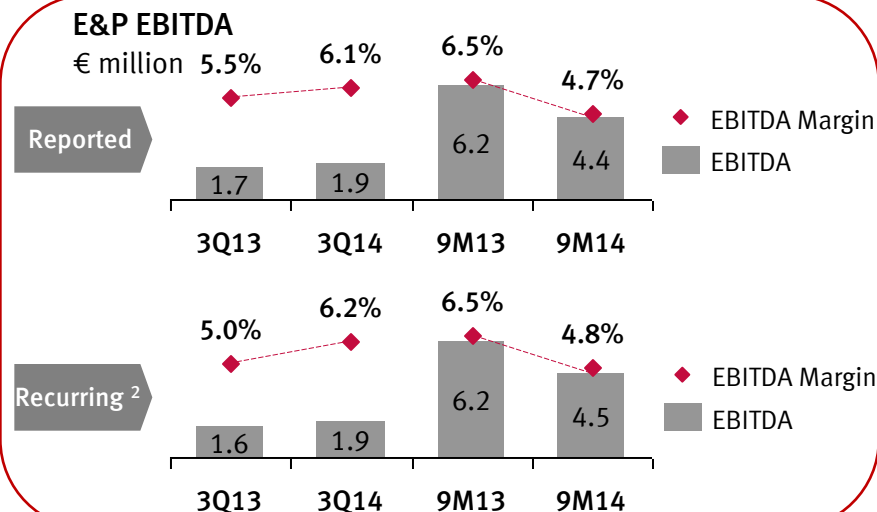
**E&P revenues by region**  
€ million



**E&P recurring operating costs<sup>2</sup>**  
€ million



**E&P EBITDA**  
€ million



<sup>1</sup> Include internal & other revenues.

<sup>2</sup> Excluding amortisation, depreciation, provisions, impairment losses and non-recurring costs.

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## Revenues

- Goal of **1% to 2% growth in FY14 like-for-like revenues**, inverting the historical declining trend in the top-line (**upgrade**)

## CAPEX

- FY 2014 Capex of circa **€15m (vs. €20m previous guidance)**

## Business Units

- **Mail:**
  - Goal of **stable like-for-like FY14 revenues (+/-1% revenue growth)**
  - **Efficiency from retail and distribution networks cost sharing** with other BUs
- **Financial Services:**
  - **Launch of the Postal Bank** as a continuation of the strategy to expand the product offer and to promote product cross-selling
  - To reduce time-to-market and accelerate growth potential (**small-size acquisitions may be considered**)
- **Express & Parcels:**
  - **Focus on the integration of the E&P and Mail distribution networks**, with **improving profitability in Portugal** (double-digit EBITDA margin in Portugal)
  - **E-commerce growth** will trigger the development of more robust offers, **putting together logistics and digital communications capabilities**

# Trends shaping our future – convergence and convenience, still a key role for physical assets



## E-substitution effect

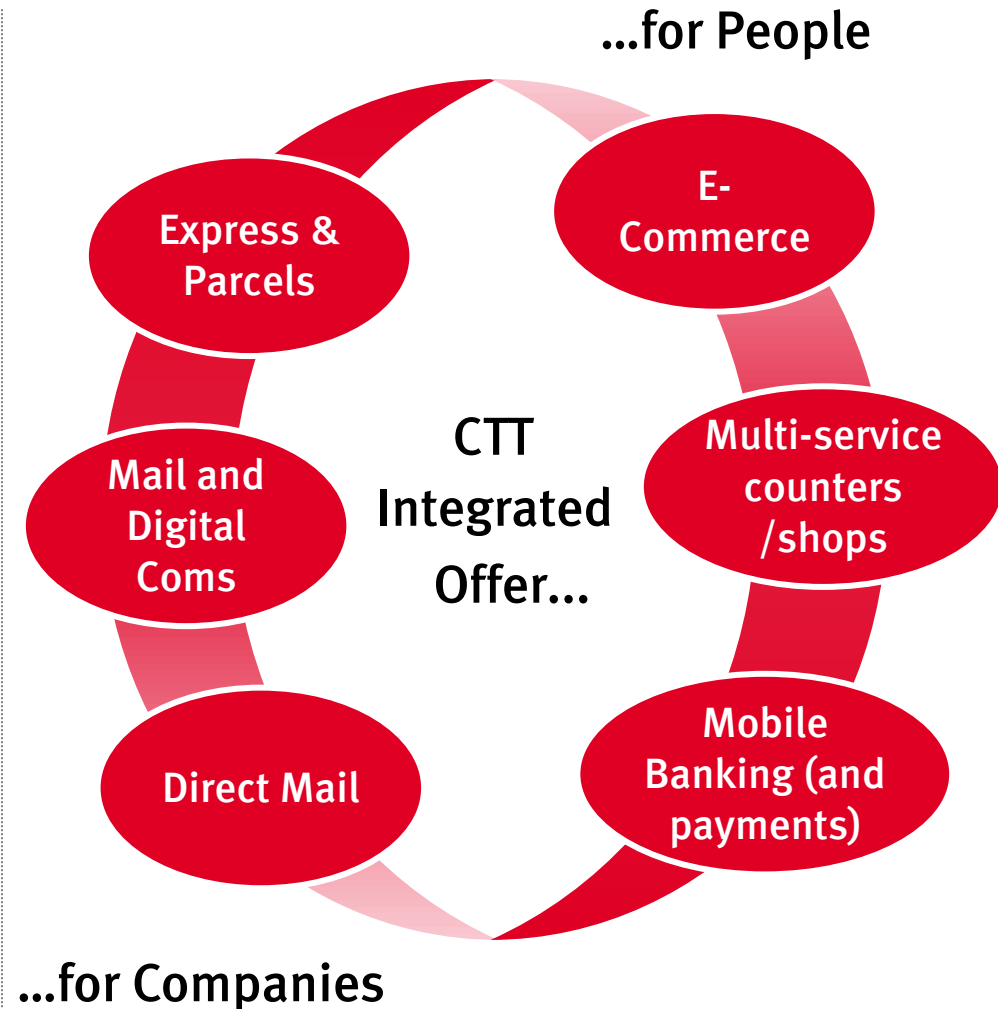
- E-mail vs. physical world
- E-billing vs. transactional mail
- Physical vs. online shopping
- Call centres / online vs. face-to-face

## E-integration effect

- E-commerce needs parcel delivery
- E-services need multiservice shops to ensure offer completeness and deliver trust / credibility
- New trends in E-work need parcels – moving things, not people

## E-convenience effect

- Flexible bundles with minimum interactions for consumers
- Integrated solutions, simplicity and low prices for companies



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2013/2014

5/Aug/2013 – Submission of the Postal Bank project to the Bank of Portugal (BoP)

27/Nov/2013 – Conditional authorisation of the project by the BoP

4/Dec/2013 – Conclusion of the 1<sup>st</sup> phase of the privatisation and IPO

24/Mar/2014 – New governance model approved at Shareholders Meeting

5/Sep/2014 – Conclusion of the 2<sup>nd</sup> and last phase of the privatisation

4/Nov/2014 – Board decision to launch the Postal Bank

## Next Steps - November 2014 onwards

- Submission of an updated project to the BoP for the purposes of authorisation and registration <sup>1</sup>, subject to compliance with the applicable legal and regulatory requirements
- Adjustments to the model, plans and estimates described herein are possible, mainly driven by:
  - The analysis of the updated project by the BoP (authorisation and registration process)
  - The detailed implementation of the project (e.g. risk management, internal controls and compliance)
  - The market environment and possible pursuance of small-size inorganic opportunities
- Approval by CTT's Board of the final and detailed strategic, economic and financial model of the Postal Bank

<sup>1</sup> For more details on the authorisation and registration process and on the possible adjustments to the project, please refer to the press release on the Postal Bank Project disclosed today (at [www.cmvm.pt](http://www.cmvm.pt))

# CTT is uniquely positioned to launch a bank in the Portuguese market (1/3)



- CTT with competitive advantage
- CTT worse than competitors

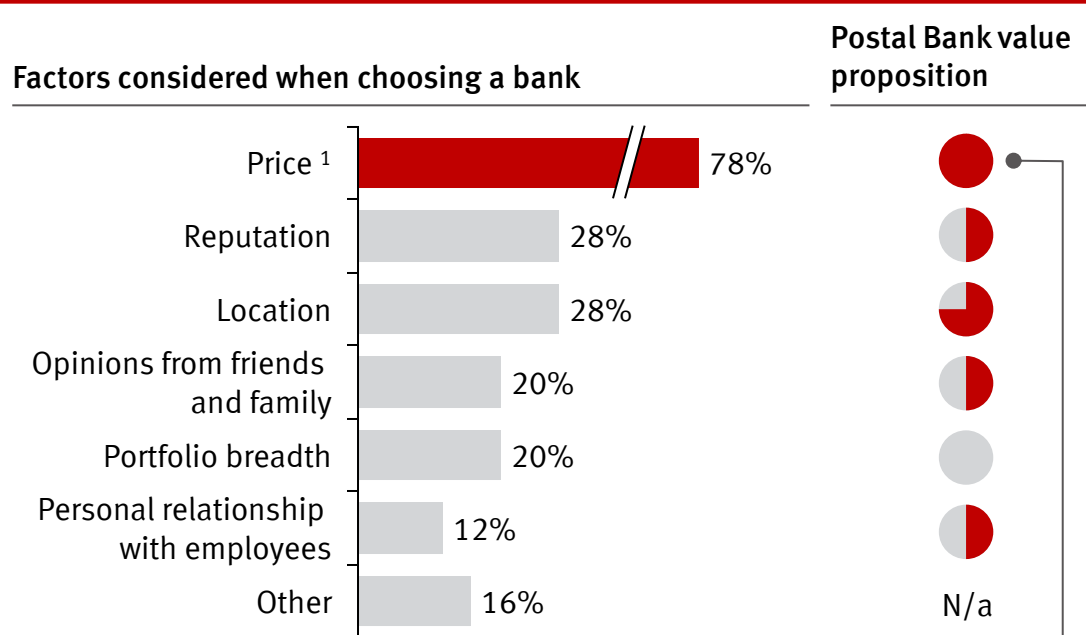
There is an **opportunity to launch a banking operation in the Portuguese market, addressing average-income and more conservative customers**

CTT's **Retail Network is highly capillary and has untapped capacity, allowing for significantly reduced marginal costs**

CTT already has an **extensive experience in a broad range of financial services**

## Price perception is a key factor, making no-frills concept very appealing

Percentage of respondents to market survey



*45% of respondents consider Postal Bank's no-frills concept better than their current offer*

<sup>1</sup> Mainly a price perception factor, since customers seldom compare prices among banks.

SOURCE: Market survey

# CTT is uniquely positioned to launch a bank in the Portuguese market (2/3)



There is an **opportunity to launch a banking operation** in the Portuguese market, addressing average-income and more conservative customers

CTT's Retail Network is highly capillary and has **untapped capacity**, allowing for significantly reduced marginal costs

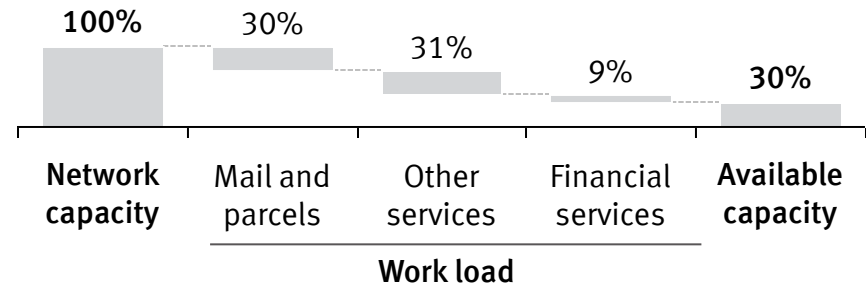
CTT already has an **extensive experience** in a broad range of financial services

CTT's network extension compares to the major Portuguese banks' and has available capacity that can be used to provide banking services

Retail Network size  
Number of branches <sup>1</sup>



Available capacity  
Number of FTEs



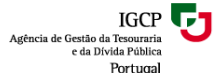







<sup>1</sup> In 2013.  
SOURCE: CTT; Annual reports

There is an **opportunity to launch a banking operation in the Portuguese market, addressing average-income and more conservative customers**

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CTT already has an **extensive experience in a broad range of financial services**

## Current offer of CTT's Financial Services

	Examples	Partnerships	Awareness <sup>1</sup>
<b>Payments</b>	<ul style="list-style-type: none"> <li>Postal charges</li> <li>Tax collection</li> <li>Toll collection</li> </ul>		<b>89%</b>
<b>Money orders and transfers</b>	<ul style="list-style-type: none"> <li>National orders</li> <li>International orders</li> <li>Western Union</li> </ul>		<b>81%</b>
<b>Savings and investment</b>	<ul style="list-style-type: none"> <li>Public debt securities</li> <li>Retirement savings plans</li> </ul>	  	<b>60%</b>
<b>Insurance</b>	<ul style="list-style-type: none"> <li>Life insurance</li> <li>Non-life insurance</li> </ul>	 	<b>40%</b>
<b>Loans</b>	<ul style="list-style-type: none"> <li>Consumer credit</li> </ul>		<b>N/A</b>

<sup>1</sup> Percentage of customers who know that CTT offers those products (vs. 100% regarding postal services).

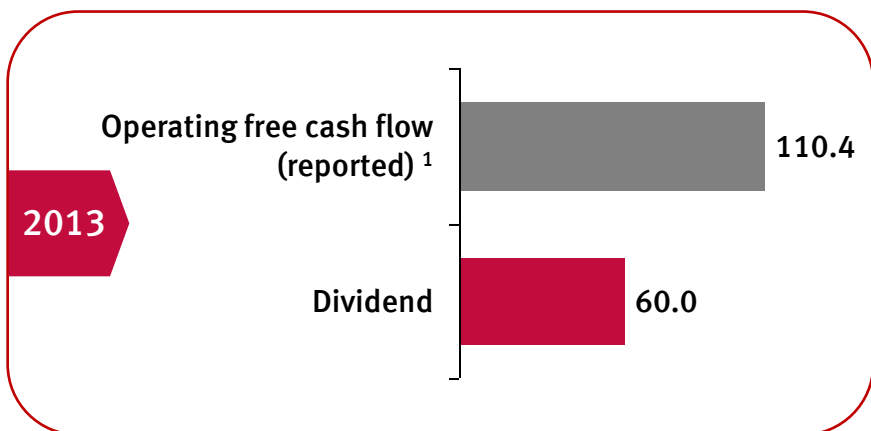
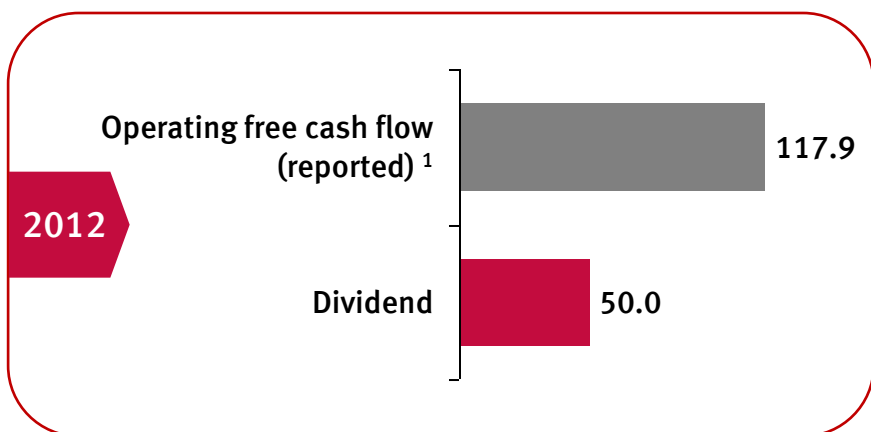
SOURCE: CTT; Market survey



# Postal Bank targeted to have no impact on CTT's dividend policy



2012 & 2013 operating free cash flow <sup>1</sup> and dividend  
€ million



1. Over the last years, CTT has consistently generated operating free cash flow <sup>1</sup> > dividend

2. In 9M14, even excluding the FS float, CTT generated €73.3m of operating free cash flow <sup>2</sup>, while the full-year 2014 dividend guidance is of min. €65.25m

3. CTT's existing business Capex needs are low; full-year 2014 guidance was reduced to €15m

4. The Postal Bank Capex needs are more substantial; the estimated 5-year total Capex amounts to €100m

5. However, CTT has €250m in cash & equivalents on the Balance Sheet (at Sep-14), expects to maintain dividend policy intact

<sup>1</sup> Reported operating free cash flow, including changes in Net Financial Services payables.

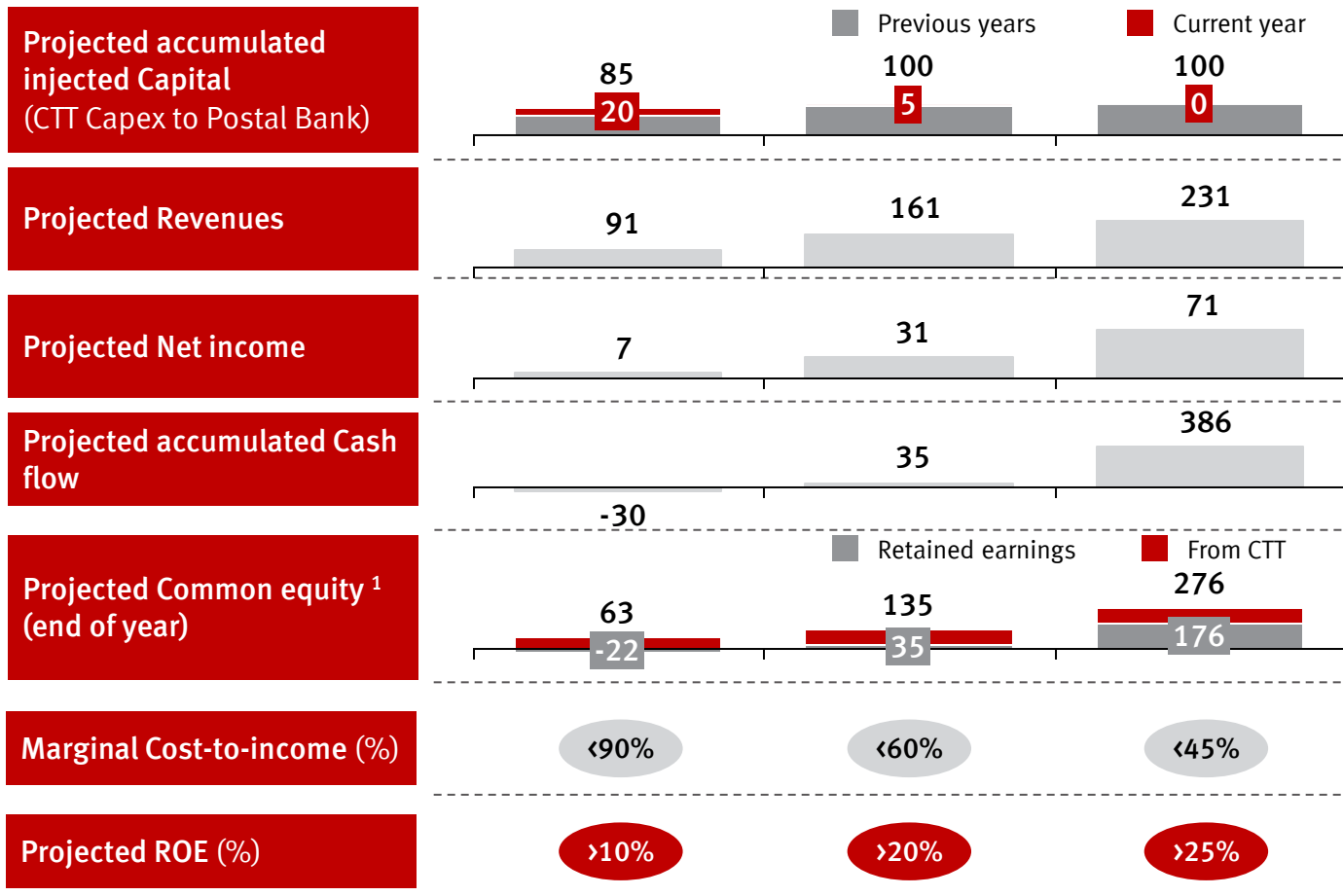
<sup>2</sup> Excluding changes in Net Financial Services payables of €138.5m. The reported operating free cash flow (including changes in Net Financial Services payables) equalled €211.8m.

# Postal Bank key financial targets / estimates



## Estimates

€ million



## Main Targets

- Break-even point to be reached in year 3
- Regulatory capital injections to stop at year 5 (total of €100m)
- Postal Bank to be able to distribute dividend from year 6 onwards
- Gradual roll-out of branches over the Retail Network, based on clients' growth and needs

<sup>1</sup> Above projected required regulatory capital.

NOTE: Projection includes only products migrating from Financial Services to Postal Bank (e.g., consumer loans, insurance and Payshop); remaining products not included.

# The Postal Bank project – recap of the key messages



## Solid timing & value proposition

- Clear opportunity to launch a banking operation, addressing average-income and more conservative customers with a no-frills offer

## Retail Network already in place

- The existing CTT Retail Network is highly capillary and has untapped capacity, allowing for significantly reduced marginal costs and high projected ROE

## Existing CTT know-how

- CTT already has an extensive experience in a broad range of financial services

## Focus on return on investment

- Break-even point projected in year 3. It is expected regulatory capital injections to stop at year 5 (total of €100m) and to distribute dividend from year 6 onwards

## Conservative & low risk appetite

- Balance Sheet risk is reduced as the main asset product (not exceeding 50% of total assets) will be conservative Loan-to-Value mortgages

## High solvency & liquidity

- Liquidity coverage, Net stable funding and Core Tier 1 ratios always above regulatory targets

## In line with CTT strategy already in place

- Continuation of the existing strategy to grow organically the FS business unit. Time-to-market could be reduced by acquisition of some required capabilities

## CTT dividend to be preserved

- Postal Bank targeted to have no impact on CTT's dividend policy

## CTT Investor Relations



### Upcoming Events:

- 5 Nov. – Results webcast
- 5 Nov. – Lisbon roadshow
- 6 Nov. – Frankfurt roadshow
- 7 Nov. – Paris roadshow
- 10 Nov. – London roadshow
- 11 Nov. – Edinburgh roadshow
- 12 Nov. – Warsaw roadshow
- 2 Dec. – Credit Suisse 4<sup>th</sup> Annual European Business Services and Transport Conference, San Francisco
- 3 Dec. – Boston roadshow
- 4 Dec. – New York roadshow

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