SingPost's Q4 & FY18/19 Results Analyst Briefing, 7 May 2019

Operator:

Ladies and gentlemen, thank you for holding. We are now ready for the briefing. I shall now hand over to the management of SingPost to begin the briefing. Thank you, please go ahead.

Mr Jason Lim (Vice President, Investor Relations):

Good morning. Welcome to SingPost's results briefing for the fourth quarter and full year FY2018/19.

I am Jason from Investor Relations. With me today is our GCEO Mr Paul Coutts, as well as our GCFO Mr Richard Lai and joining us today is also our CEO of Postal Services and Singapore, Mr Vincent Phang.

I'll now hand over the session to Richard to bring you through our results.

Mr Richard Lai (Group CFO):

Thank you, Jason. Good morning and welcome to our results briefing. Let me first share an overview of our full year results.

Group revenue rose 2.9% to S$1,556.7 million led by growth in the Post & Parcel and Property segments. However, due to higher losses for the U.S. businesses under the eCommerce segment, profit on operating activities declined 7.2% to S$136.3 million. As a result, underlying net profit declined 5.8% to S$100.1 million but if you exclude the U.S. businesses, underlying net profit would have rose by 15.8%. I will provide more details on our financials over the next few slides.

The Board has proposed a final dividend of 2.0 cents per share. This brings total dividends for the year to 3.5 cents per share, same as last year. This represents a payout of 79% of our underlying net profit.

Revenue for FY2018/19 rose 2.9%, driven by growth from Post & Parcel, and Property business segments. Profit on operating activities also rose in 3 of our business segments - Post & Parcel, Logistics and Property respectively. However, these were offset by higher losses for the U.S. businesses, as well as trade-related foreign exchange translation differences, which consequently led to a 7.2% decline in the Group's Profit on operating activities. Share of associated companies & JV recorded a S$7.1 million loss, largely due to 4PX's losses in the earlier part of the year. As announced before, we have ceased equity accounting for 4PX from the third quarter of the financial year. The Group recorded an exceptional loss of S$69.3 million - largely due to impairment of the U.S.

businesses. We will share more details on this in a later slide. With the exceptional loss, net profit declined by 86.0% to S$19.0 million. Excluding the impact of exceptional and the one-off items, underlying net profit declined 5.8% to S$100.1 million for the full year.

Operating expenses rose 3.7%, driven by higher volume-related expenses, which rose 7.2%. Traffic related expenses, which are largely for mail conveyance, rose due to higher terminal dues. Further, outsourced services which are largely incurred in the U.S. for freight purposes, rose significantly faster than revenue. Labour and related expenses declined 2.8% due to cost management initiatives. Admin, selling-related and other expenses increased 1.3% due to higher property-related expenses from increased property activities as well as provisions for ongoing contractual disputes with eCommerce customers in the U.S. Excluding volume-related expenses, operating expenses would have declined 1.5% for the full year.

The next slide provides an overview of the various segments' contribution to Group revenue and profit on operating activities. For Group revenue, the Post & Parcel segment remains the largest contributor followed by the Logistics segment. Post & Parcel is also the largest contributor to profit on operating activities, and earnings rose 1.0% to S$165.9 million. Property operating profit rose by 29.8% to S$53.7 million. The Logistics segment continued its improvement as operating loss narrowed from S$10.6 million to S$2.5 million. eCommerce segment losses widened year-on-year to S$51.9 million due to challenges in the U.S. businesses. In the Others segment, we recorded unfavourable movements in trade-related foreign currency translation differences of around S$3.6 million.

In the next chart we show the impact of the various business segments on underlying net profit. Profit on operating activities for the Property segment grew S$12.3 million due to rental income from the SingPost Centre retail mall. For Logistics, operating profit was up S$8.1 million largely due to a reduction of losses at Quantium Solutions. Post & Parcel profit rose S$1.6 million while Associates & JV declined largely due to 4PX's losses recorded in the earlier part of the year. There was a significant widening of eCommerce segment losses by S$32.3 million due to the U.S. businesses. Consequently, underlying net profit declined 5.8% to S$100.1 million.

In the next slide, we will talk a little bit more about the impairment of TradeGlobal and Jagged Peak. Further to the announcement in the Q3 quarterly results of the risk of impairment, the Group has reviewed the carrying value of the U.S. businesses, which involved a review of historical performance and evaluation of the value-in-use for each of the businesses.

Under financial reporting standards, the value-in-use computation has been adopted for the purpose of impairment testing. This excludes any cash flows expected to arise from future restructuring not yet committed, or plans to improve or enhance the asset's performance.

The Group has recorded a total impairment of S$98.7 million to the carrying value of TradeGlobal and Jagged Peak, comprising the balance S$67.6 million for goodwill and intangible assets, and the balance S$31.0 million for property, plant and equipment.

This means that the carrying value of the U.S. businesses had been substantially impaired, save for working capital that may be recoverable.

In the next slide, we will talk a little bit more about the exceptional items. In Q4, total exceptional losses amounted to S$92.2 million, which comprised largely the impairment for TradeGlobal and Jagged Peak of S$98.7 million as well as the provision for restructuring of overseas operations of

S$9.9 million. This was partially offset by fair value gain on investment properties of about S$12.0 million for SingPost Centre and gain on divestment of interest in ITL of about S$6.0 million.

For the full year, total exceptional items included gain on dilution in 4PX of S$42.7 million and fair value loss on GD Express warrants of S$15.5 million. Accordingly, the full year exceptional losses amounted to S$69.3 million.

In the next slide, we provide more colour on the Q4 financial statements. Revenue declined 2.1% largely due to the Logistics and eCommerce segments. Profit on operating activities was lower at S$14.9 million, largely due to higher losses for the U.S. businesses. Share of profit of associated companies & JV was zero compared to a loss of S$6.2 million last year largely due to the cessation of equity accounting for 4PX. The Group recorded an income tax credit of S$2.5 million, largely due to a write-back of deferred tax liability of S$5.7 million in relation to the impairment of intangible assets of the U.S. businesses. In the corresponding period last year, income tax expense was S$10.9 million as it had included additional provisioning for a foreign subsidiary. As a result of the exceptional items recorded this quarter, the Group recorded a net loss of S$75.1 million in Q4. Excluding exceptional items, underlying net profit declined 6.1% to S$14.5 million.

The next slide shows the Q4 operating expenses which rose 2.7% in Q4. Volume-related costs rose 2.4%, largely due to higher outsourced expenses for the U.S. businesses. Labour and related expenses rose 3.6% as the Group hired additional postmen and increased incentive payments during the quarter to improve service levels. Admin, selling-related and other expenses increased 5.1% largely due to higher property-related expenses from increased property activities.

The next slide shows you the segmental operating revenue and profit on operating activities for Q4. Operating revenue was lower in Q4 largely due to declines in the Logistics and eCommerce segments as mentioned earlier. For profit on operating activities, Post & Parcel segment profit declined 8.3% as the Group incurred higher expenses to improve service quality level. Logistics operating loss rose to S$4.7 million as the segment incurred one-off costs of nearly S$2 million during the quarter. In addition to that, last year's earnings were lifted by some one-offs of around S$1 million so the swing of S$3.0 million is actually due to one-offs. eCommerce losses widened to S$18.0 million due largely to the U.S. businesses. The Others segment expenses improved due to lower corporate overhead costs. In a later section, we will take a closer look at each of the segments. But first, let me share some immediate measures we're putting in place to improve our Postal service quality.

The next slide shows some of these measures. The Group had announced immediate measures to improve service quality which include hiring an additional 100 postmen and redeploying 35 mail-drop drivers to become full-time postmen. We will enhance postmen's remuneration with incentives for successful deliveries of trackable items to the doorstep. In addition, we will extend mail delivery slots to weekday evenings and on Saturdays, and have dedicated counters and staff at post offices for parcel collection. We will also focus on core mail delivery by reducing non-core mail businesses such as admail to improve service levels.

Let me now move on to the Cash flow and Balance sheet. For the full year ended 31 March 2019, operating cash flow before working capital changes was S$186.8 million, compared to S$196.2 million last year. Working capital movement for the year was negative S$3.3 million due to the timing of payables and receivables in respect of international postal settlements largely for eCommerce deliveries. After payment of income tax, net cash inflow from operating activities was S$152.2 million for the year, compared to S$198.2 million last year. Capital expenditure declined to S$31.3 million, compared to S$62.1 million last year, with the completion of the SingPost Centre retail mall redevelopment. Consequently, free cash flow amounted to S$120.9 million.

We now move to the financial indicators. Cash and cash equivalents was higher at S$392.2 million as at 31 March 2019, due to cash generated from operations. Total borrowings rose to S$290.9 million, as the Group switched from an intercompany loan for a foreign subsidiary, to an external loan for better matching of currency. The group was in a net cash position of S$101.3 million as at 31 March 2019, compared to S$70.1 million as at 31 March 2018. Underlying EBITDA to interest cover for the full year remains strong at 18.2 times, compared to 19.2 times last year.

We will now move on to the segmental results and for this I shall now hand you over to Jason.

Mr Jason Lim (Vice President, Investor Relations):

Thank you, Richard.

In the Post & Parcel segment, revenue rose 4.1% for the full year driven by strong international mail revenue growth of 9.3% which is due to higher cross-border eCommerce-related delivery volumes. For Q4, revenue was stable as the growth in international mail revenue was offset by the decline in domestic mail revenue as a result of lower letter and admail volumes. Profit on operating activities rose 1.0% for the full year as the Group benefited from increased cross-border eCommerce-related deliveries, as well as from operating synergies arising from the integration of its domestic post and parcel divisions.

For Q4, Post & Parcel profit on operating activities declined 8.3% due to higher expenses to improve service quality, which includes hiring of additional postmen and increasing incentive payments, as well as reduced non-core mail items such as ad-mail.

In the Logistics segment, revenue declined 0.3% for the full year and 2.9% in Q4. Famous Holdings revenue rose with higher freight rates. However, this was offset by revenue decline at Quantium Solutions following an exit of unfavourable customer contracts, as well as at Couriers Please, which was impacted by the depreciation of the Australian dollar against the Singapore dollar. For the full year, loss on operating activities narrowed from S$10.6 million to S$2.5 million, largely due to a reduction in losses at Quantium Solutions after the exit of unfavourable contracts and successful implementation of cost rationalisation.

For Q4, loss on operating activities widened to S$4.7 million from S$0.2 million last year. Famous contribution declined with a drop in overall trade activity and volumes. Profit for Couriers Please rose in Australian dollar terms, but was impacted by the strengthening of the Singapore dollar, as well as a one-time cost incurred for cost leadership program.

In all, the Logistics segment incurred one-off costs of nearly S$2 million during the quarter, which also includes relocation costs, staff redundancy and professional fees. In the corresponding quarter last year, Logistics segment earnings were lifted by some one-off items amounting to around S$1 million.

In the eCommerce segment, revenue declined 0.3% for the full year and 7.7% in Q4, as the Group continues to face challenges in the U.S. in the midst of intensifying competitive and cost pressures as well as an increase in customer bankruptcies in the industry. Loss on operating activities widened year-on-year to S$51.9 million for the full year and S$18.0 million in Q4.

Following a strategic review of the U.S. businesses, its prospects and additional investments required, the Group decided to put the U.S. businesses up for sale and exit the U.S. market. The Group believes its strengths and strategic competitive advantages are in Southeast Asia and Asia Pacific which provides attractive growth opportunities. SingPost will make further announcements as appropriate on the exit.

Property segment revenue, which comprises commercial property rental and the self-storage business, rose 13.5% for the full year and 2.2% in Q4. This was due to rental income from the SingPost Centre retail mall, which commenced operations in October 2017 after a period of redevelopment. Profit on operating activities rose 29.8% for the full year and 1.7% for Q4 due to rental income from the SingPost Centre retail mall. Committed occupancy for the mall was 98.9% as at 31 March 2019, compared to 95.6% a year ago.

Let me now hand over back to Richard for the Outlook.

Mr Richard Lai (Group CFO):

Thank you, Jason.

The Post & Parcel business is expected to benefit from the continued growth in global eCommerce activities. Although domestic letter mail volumes are expected to trend moderately downwards, the Group is integrating its postal and parcel delivery capabilities in Singapore to achieve operational synergies and benefits. The Group will step up its investment to improve service quality in its home market in Singapore. While international mail has grown due to cross-border eCommerce deliveries, transhipment competition is intense and volumes will continue to come under pressure, especially with higher terminal dues. Meanwhile, the Property business is expected to remain stable.

The Group has commenced a sale process for its U.S. businesses under the eCommerce segment, and will make further announcements as appropriate on the exit. The Group expects to continue to account for operating losses of the U.S. businesses until it completes an exit.

With that, I conclude my presentation.

Mr Jason Lim (Vice President, Investor Relations):

We are now ready for Q&As, operator please.

Operator:

Thank you. Ladies and gentlemen, we will now begin the question and answer session. If you wish to ask a question, please press *1 on the telephone and wait for your name to be announced. If you wish to cancel your request, please press the '#' key. Your first question comes from the line of Siward Ludin from Goldman Sachs. Please ask your question.

Mr Siward Ludin (Goldman Sachs):

Hi, thank you for the opportunity, I have three questions from my side. Firstly regarding the profit decline in Post & Parcel, you mentioned that this is due to investments in service quality. How has these investments been received by customers and when do you expect these investments to be fruitful to your revenue and bottom line? Second question is on Quantium Solutions – could you give us more colour on why the revenue is still declining quarter on quarter? I thought that the customer reviews were already done in the last quarter or are you talking about different customer contract exits this time? And how should we expect the revenue trend going forward? Lastly, could you share more colour on the progress of the U.S. businesses sale? Have you determined a buyer or are there any difficulties in processing the sale? Thank you.

Mr Paul Coutts (Group CEO):

It's Paul Coutts here, thank you for your questions. So the three questions I understand are on the investments that were made in the Post & Parcel side and also what the customer response has been so far; the second one was on Quantium Soutions particularly on the exit of unprofitable customers and you have expected that that had been done obviously through the course of last year, maybe a bit in Q4 so I can talk on that. I think the third one was around the U.S. businesses sale which we can talk about where we are in the process so let me talk about the Post & Parcel investment.

We have made investments obviously in terms of recruiting more postmen which we have signposted already; we have also made investments at the post office level as well so it's not just – the additional staffing to our post offices and we have set up dedicated parcel counters in each of the post offices.

In terms of the customer response, through the post offices themselves we can track the customer service performance through what we call a kind of – we have an icon basically where the customer hits the button to say that they are happy on the smiley face or sad face et cetera. What we can tell you is that the response from that particular initiative has been very positively received; customers are queuing a lot less than they were before and they are able to receive their parcels obviously much more quickly. We also have service ambassadors receiving them as they come into the post offices and also pointing them to the right direction and making sure that they are attended to.

In terms of the additional postmen, we have taken on so we obviously have to adhere to a recruitment process that proceeded through the quarter gradually in March and has continued into April, and we will continue to make sure that we are keeping that quota topped up. So a lot of the recruits have been on board in the last couple of months; we have got very intensive training for the postmen, so they go through a month of very intensive classroom training and we also have a buddy system where no new recruits go out on the streets as a rookie without having someone alongside them showing them the ropes, and also we make sure that that process is pretty robust. But again, all of this is reasonably new. We obviously note that we continue to have some issues in the public, we reacted to those and will continue to react to those but in terms of the investments that we have made so far and also the plans that we have put in place, we think we have the right short term plans. We have also said that in the medium to long term, we need to make sure that we are setting the organisation up for the future – that's about making sure that we are investing ahead of the curve because of the drive in eCommerce volumes and parcels which are fundamentally changing the demographics and shape of our business so we need to make sure that we are staying ahead of that, and that's our mid to long term project. Investments are both tactical but also strategic.

If I can very quickly move on to Quantium Solutions, for Quantium Solutions it's true that we certainly flagged that pretty early that we were exiting some unprofitable customer contracts and the fact of the matter is that we did have contracts with those customers which had an extended period so it's not as if we can just break and leave the customers in the lurch. So we want to make sure that we did the right thing and the last of those customers that we are exiting due to them being unprofitable actually happened through the course of January and February, so we still saw some impact during that particular period so we exit through the year but also a fairly big piece of it was finally executed when the contracts were up in February of this year. So the focus is now on making sure that we drive forward with Quantium Solutions in terms of revenue growth. We have thrown in a couple of new customers through the course of last year, and particularly in Q4 we were on-boarding a number of new customers and we are on-boarding some as we speak right now as well so we are pretty much focused on revenue growth now that we have attended to the unprofitable customer issues, and we do expect to see accelerating growth taking place now with our Quantium business.

In terms of the U.S. businesses sale process, I will probably leave that to Richard to cover.

Mr Richard Lai (Group CFO):

On the U.S. businesses, we have just begun the formal process to put this business up for sale so naturally at this juncture it's very difficult to give you more colour at this point in time because we are still at a very nascent stage of the process. Suffice to say that we have had quite a number of parties who have indicated interest to participate in this. We will see the outcome in due course; people can express interest but at the end of the day it's the dollars and cents and terms of the purchase that we are more interested in, so it's a bit early for us to talk a little bit on that because it is still early on.

Mr Siward Ludin (Goldman Sachs):

Got it, thank you. Just a quick follow-up on Post & Parcel, are the investments still ongoing or is it already done? I am just trying to get a sense on how we should expect the profitability to go forward right now. Thanks.

Mr Richard Lai (Group CFO):

OK, let's put it in this context. These problems we have is not something that a quick fix will remedy, it is something that we have been accumulating over 160 years; you have to recognise that while the way we have been doing things has improved slowly over the years, the huge volumes of parcels that we have to deal with nowadays means that we have to adopt a more radical approach in terms of dealing with the new modern way of postal. So it's not going to be an issue of spending a bit of money, hiring a few postmen and solve the problem, it will involve a combination of hiring postmen, yes, that is a quick fix but we need to get technology and infrastructure aligned and that's really the time where you see the savings come back into our numbers. How long all these is going to take – I would like to say it would take as long as it takes but I think we are all staring at Vincent and saying Hey, it must be resolved. In the course of the next three years, we should see things doing a lot better a lot than where we are.

Mr Paul Coutts (Group CEO):

I think I would just add to what Richard has said. We can't just look at this on a standalone basis nor should we ever for the postal business because it obviously has been a financially successful business which has been running for quite some time. We need to continue the investment to make sure that we actually guarantee our future success. Secondly, it's also the fact that the dynamics in terms of the profile of the traffic that we are handling today and the items that we are handling today – the dynamics have changed very dramatically in the last few years and will continue to change very dramatically driven by eCommerce and also the market dynamics. So this is not a one-off investment and everything is OK; there are three I think distinct pieces to this.

The first is the tactical response which we have talked about – hiring more postmen, Saturday deliveries, more collection points including dedicated parcel collection centres, the post office initiative that we mentioned earlier and new incentive structure for the postmen.

But we also have to make sure that we are ready for the next peak season, that also takes investment as well which we are working our way through. And then the third piece is how we set the organisation up for success in terms of what the business is going to look like in three years' or five years' time with the development of the eCommerce business, and that's a larger strategic question which then is more about postal transformation and that strategy will call for investment. Technology will call for investment and infrastructure so we have to be prepared to tackle those three elements of the business.

Mr Siward Ludin (Goldman Sachs):

Understood, thank you.

Operator:

Your next question comes from the line of Sachin Mittal from DBS. Please ask your question.

Mr Sachin Mittal (DBS):

Hi, thanks. Two questions – firstly operating profit for the Post & Parcel segment declined in Q4, my question is why should this trend change? Is it right to believe this trend will change over the next year and any sense of timing on why this trend should change when operating profit has started to decline with the customer service issue and all these investments that are ongoing now? Second question is on the Logistics segment. Logistics segment has seen some success because of unprofitable businesses going away. My question is, have we reaped most of the benefits in this segment or no, there will be room for growth going forward? Thank you.

Mr Richard Lai (Group CFO):

OK, let me try and take both questions. The reason for the drop in operating profit for Post & Parcel – you probably would recognise this anyway since you are based in Singapore. We increased the hiring of postmen; actually altogether we hired more than 200 new postmen. We had to rejig the incentives for them so that we can better align them to accurate deliveries and so forth, all these eat into the margins – that's one. Two we also stopped doing non-contract type of services such as admail and admail is, on a standalone basis we would say that it is actually very profitable business but it's a business that poses one of the greatest challenges in terms of the postal network simply because of the fact that they are not very well planned. They come when they come other than the contractual ones; the contractual ones at least you know how much, when they come and so forth. So to stabilise the business we actually stopped doing the non-contractual admail.

Now, that's only tentative, all these are immediate measures. Going forward, it means that your new postmen will be there, that will be our costs and what translates to is obviously lower margins for the near term, until we can bring technology and infrastructure to bear which will take a bit of time of planning and execution. We have already started working on some of the I.T software that will help us on this but it won't be rolled out until at least – within the new financial year we should see the benefits of some of these, but then there is also the infrastructure changes that we need to make so all these things take time because we are not doing it in isolation by ourselves. We have to work with other parties, we have to work with town councils, we have to work with IMDA, we have to work with quite a number of people in order to make all these changes. So long and short of it, that's the reason why it's not something that can be remedied immediately, it takes time.

Mr Paul Coutts (Group CEO):

Let me just add to that, Sachin. I think the other thing actually is that when I talked earlier about the fact that we need to do a bit more of a strategic review and we have already embarked on that process, one of the clear things that we are working on having identified the issue around our product range is that we have a very complex product range from a customer viewpoint, and again this legacy has been built over time; some of this is not under our control, it's parked under our Universal Postal Union obligations. But the products have a reasonable amount of overlaps and there are different margins in each product, so we actually have a workstream that is about rationalising our product line and we think that the rationalising of those products will actually again help us towards making those products more streamlined and therefore more profitable.

The second thing is again, getting back to the earlier question that Siward had around investments. The investments that we will make will help drive efficiency and productivity and that will also therefore help improve the overall profitability and returns within the postal sector. The third tactical piece which Richard mentioned about the admail product and what he was specifically referencing was the ad-hoc part of the admail product so the non-contract part. So for this point in time, we have turned the tap off, we are not accepting ad-hoc admail customers. That obviously have an impact on the profitability; we have responded to that, we take that as part of the investment we have to make to get our service levels right but once we have comfortable with the service levels we can switch that tap back on again, and obviously that will again also help us in terms of our profitability.

Let me turn to the other question around the terminal dues. You have been around with us for quite some time and you would remember that if you go back to last year where we were talking about the terminal dues coming in 1 January 2018 – at that point, we made the statement that it would take some time for us to work our way through that; we felt that we could still come out of that in a profitable way. We certainly saw there was some threats, we also saw the opportunities. It does take time for it to wash through and also see the clear positive, negative impact; we obviously have contingency plans in place, mitigating actions and so on which again came through well last year. It's pretty much the same this year, there was another increase on 1 January 2019. Our international mail term would obviously be aware of this because it's been planned for three years so we are well aware of it, we are adapting as it goes through and execute our plans. It would take some time for the terminal dues to wash through. What I would say is that we certainly see some opportunities in terms of our international mail, in terms of transhipment. As we have also said before, there is opportunity for us to reshape part of the Quantium Solutions to work very closely with the international mail organisation in creating a hybrid product. We are now moving into that phase which we will have a benefit for international mail and also have a benefit for our Quantium business, so just coming quickly to the Logistics sector to your question about have we already reaped most of the benefits for Logistics and have we taken the actions that we have taken.

We certainly don't see that this is as OK, we have executed the plan, it has given us improvements and therefore we are comfortable. Last year is what I would describe as a bit of phase one – restructuring of our Logistics business to reduce the losses that we were incurring in Logistics and get to a more sustainable profitability level. I think you generally can see that we have made progress on that. In Q4, the results look a bit different. We did have a number of one-off impact that hit us in Q4 and we also had a write-back in Q4 last year, so if you look at that apples for apples comparison – coming from the banking sector you would know that the Australian dollar obviously weakened against the Singapore dollar so therefore that's also a foreign exchange impact. If you just look at it like for like, Q4 actually still was making progress and profit within the Logistics sector is a whole – we would have had a very different number, a positive number. We are pretty positive moving into the next year; we are moving into phase two and that phase two is about moving more into revenue growth, it's more about creating that commercial opportunity, about hybrid products linking up our logistics Quantium business with the international mail business, but it's also about some of the restructuring that's taking place this year and that has also incurred some costs this year. We are getting some benefits moving into the next year so we should start to see that coming through as well.

Mr Sachin Mittal (DBS):

OK, thank you.

Operator:

Your next question comes from the line of Rachael from UBS. Please go ahead.

Ms Rachael Tan (UBS):

Hi good morning, I have a couple of questions. Perhaps you could run through these one by one. The first would be on Post & Parcel side – you talked about hybrid products and improving your infrastructure as well as integrating the domestic post and parcel sides. So could you explain some of the concrete measures that you are taking in terms of the delivery of the domestic post and parcel, and the kind of technology or infrastructure that you need to put in place for the switch from letter mails to parcel volumes. So that's my first question.

Mr Richard Lai (Group CFO):

Do you want to give us all your questions or you want to tackle one by one?

Ms Rachael Tan (UBS):

Maybe one by one would be best.

Mr Paul Coutts (Group CEO):

Thanks for your question, Rachael. Vincent is here at the moment, he has been with us a month or so, he's fairly across all the issues. So Vincent will give you his view around the question, obviously Richard and I can pitch in as needed.

Mr Vincent Phang (CEO, Postal Services and Singapore):

Thanks Paul. Hi Rachael, thanks for the question. So I have been around for 30 days plus a bit and so early days for me to go through the business, understand the challenges. So your question around the concrete measures, we have a few apart from the few that we have already discussed and spoken about, short term tactical measures, immediate fixes to people and incentives. We are looking more structurally into designing the organisation so that it works for the longer future. Part of what we have seen so far and as Richard has alluded to has been the change in profile, the change in customer expectations and the change in the volume patterns that we have seen over the last few years and it certainly has accelerated, and we have to adapt to those changes.

SingPost is an old organisation, we have got people who have been with us for many, many years and there is growing infrastructure, there is growing population issues that we have to address so the new paradigm is for us to work with a new model that can allow us to address all these operational challenges all at one go. I am not being cryptic here, I think it is really quite a deep discussion that we have to go through and my team is hard at work going through this – we are reviewing training, reviewing structure, reviewing what customer experiences are required in the future so all that will be part of the strategy that goes forward. In terms of technology, clearly some of these challenges can be mitigated by technology. In this day and age, obviously a lot more augmentation, automation will help the work that we do. It's early days to talk about what those technology are and what those investments may be, but my guess would be that's something that we have to look very deeply into as we confront the issues of population issues and labour issues of the changing customer patterns; the shift from mail to parcels, packages getting bigger, how do we fit that all into the infrastructure and architecture that we have to deliver around the whole island. So those are some of the challenges that I can think of, opportunities that we are working on.

Ms Rachael Tan (UBS):

OK, thanks. I mean you have obviously talked a lot about investing in the infrastructure and I understand that at this time it's probably still too early to say what these concrete measures are, but would you expect – probably this is a question for Richard, would you be expecting to take on more capex as you start to rejig the business?

Mr Richard Lai (Group CFO):

Yes, yes certainly you would expect that to happen. There will be some further investments into capex especially on the technology side of things, but I think the quantum if you are thinking at the back of your mind – is that going to work out to be hundreds of millions of dollars, no, that's not the sort of quantum we are thinking of but certainly there will be capex requirements on it.

Ms Rachael Tan (UBS):

OK, thanks for that. Moving on to my second question on the restructuring costs, would all of that – the over S$9.0 million, is that for the U.S. businesses only or does it include across the board?

Mr Richard Lai (Group CFO):

The short answer to that is no, it's not just for the U.S. businesses. It's a combination because we have to – some of it is for the Australian business where we are looking at rationalising some of the depots they have, some of them we feel that we don't need anymore we can merge; some of them we relocate. So there are some dealing with the Australian business, there is some dealing with the closure of our businesses – we are looking at some businesses within Quantium that's not performing so well over the years; that's small relative to the overall scheme of things unlike the U.S. businesses which is why we have to announce that. There is also a big chunk of it for the U.S. businesses because for the U.S. businesses we have to consolidate some of the warehouses to reduce the actual footprint we have, and we have to also design remuneration package that will keep certain key people around so that they will help keep the business going while we are looking at exiting it.

Ms Rachael Tan (UBS):

OK, that's pretty clear. Thanks, and then I guess my final question would be on Quantium. You talked about revenue growth, I understand that right now what's going on especially in north of Asia is that ASP pressures are still very strong and are on a downward trend. You talked about being able to onboard some new customers, could you – without giving me specifics, could you maybe just provide some general comment on who these customers are and how you have managed to bring them in? Are they new to the market? Are they existing customers from elsewhere that you have managed to win? Could you just provide some colour on that? Thanks.

Mr Paul Coutts (Group CEO):

Look, we obviously can't talk to you about specifics but what we can tell you is that some of those customers we have actually migrated from other markets into new customers – it's a combination. There's also some customers who are completely new to SingPost and those customers interestingly enough have been attracted to the fact that we have set up, we believe, a very robust campaign process and programme. What do we mean by that? So when we talk to eCommerce customers, it's no secret that the success, the growth of those eCommerce customers come down to the big sales peak period and we have built a programme which we think as I say, is not only robust but helps those organisations maximise growth potential during that phase by setting up a infrastructure and the investments in automation that we have made particularly here at the eCommerce Logistics hub in Singapore to help handle large volumes through a very narrow window. So that type of campaign approach has helped us successfully on-board some new platforms into our business, so we have platforms coming into the business, we have some retail customers coming into the business and we see that as being one of the distinct advantages that we have that we are taking to the market.

The other thing is that on all those customers that we are selling an end-to-end process, so as we go back to one of the things that we talked about last year was that Quantium was reshaping so we are actually selling end-to-end supply chain services. Again, that has been a key thrust for us over the course of the last 12 months and we believe that's starting to give us some traction Rachael.

Ms Rachael Tan (UBS):

OK, thank you. Could you just for the Singapore side – how much average volume do you have per day in the logistics hub? Couldn't find the slide on that.

Mr Jason Lim (Vice President, Investor Relations):

The logistics hub volume was about the same as last year, approximately. The reason, as we have shared last quarter, some of these volumes have been diverted from the parcel side into the ordinary mail or packets side of the business in the Domestic mail, so roughly that is the number that we have.

Mr Paul Coutts (Group CEO):

What Jason is saying Rachael, if you just look at the pure volume for volume basis through that infrastructure, it looks reasonably flat but that's not quite giving you the view because a large amount of volume which is actually through the integrated process that we now have through the postal and parcel is now going through our infrastructure.

Ms Rachael Tan (UBS):

So roughly the same year on year, you would mean about 20%, 21% utilisation?

Mr Jason Lim (Vice President, Investor Relations):

The way we track it now is that we have a parcel volume, plus the domestic packet volume that was coming from parcel volume previously and that number which is tracked as local eCommerce volume is actually growing, and based on our numbers we actually continue to gain market share in this segment if you take the two products combined.

Ms Rachael Tan (UBS):

OK but I guess you won't be able to provide the exact number.

Mr Jason Lim (Vice President, Investor Relations):

We are still working through it, maybe we will examine if in future we can provide more colour on that.

Ms Rachael Tan (UBS):

OK, so that's all the questions from me. Thank you very much for your time.

Mr Jason Lim (Vice President, Investor Relations):

OK, thank you Rachael. Operator, we are actually coming towards the end of our session. We just take one last question.

Operator:

Your last question comes from the line of Varun Ahuja from Credit Suisse. Please go ahead.

Mr Varun Ahuja (Credit Suisse):

Hi, good morning everyone. Two questions from me – first I just want to check, as investors what should we look forward to in SingPost for the next two years; looks like all your business segments are under pressure so anything that we should look forward to in terms of growth or we should be excited about? That's number one, number two if you look at your investments over the last four, five years that have been made, seems like most of it you have retreated whether it was U.S., whether it was Quantium or any other investments – now the biggest excitement has always been on the eCommerce side as well as the transhipment revenue. Looking at your commentary on your Q4 results, it looks like you are not very excited about that business also, the transhipment volume continues to come down and you are more focusing towards inbound eCommerce traffic.

Given you are going to retreat from U.S., what are the investments you are looking at in the ASEAN or Southeast Asian region given you are still facing some challenges on your domestic front. How does management think about growing for future over the next five years, six years if you want to move out of your core market, home market Singapore outside of Southeast Asia, what are the areas that I should look forward to? Thank you.

Mr Richard Lai (Group CFO):

Well Varun, this is Richard here. I think in the Outlook, not just in the Outlook, if you look at the media release, what we have said and all – and I am jumping the gun here ahead of Paul because it was him who was quoted. We definitely are going to focus where we believe our strengths lie and that is in the Asia Pacific region; Singapore, Asia Pacific and that's the reason why we are exiting from the U.S.. We are not exiting from the U.S. because it's a tough market – it is a tough market, no doubt about it, but we are exiting the U.S. more from a point of view that it is a tough market; we could have made it work if we put in a lot of resources, a lot of money. But we took a step back and asked ourselves, "Hang on, is there somewhere else that I can put all these money to, all these resources and get the same result or even better?" And the answer to that is where is the value proposition for SingPost – it is in Asia Pacific. So we decided to re-orientate ourselves so that we are more focused towards the market that's closer to us where we got better value proposition, and where we have better competitive edge and reason to exit and that to us is a very exciting proposition.

Having said that, there are of course, near term challenges – the Singapore Post & Parcel business for example. To us it's a very exciting business but we have got to push through some of the near term challenges which we believe we can and we will. So I think to say that there is nothing exciting to look forward to is not true. There are going to be further developments in Singapore and definitely within Asia as we roll things out, that will be quite exciting. We are not saying we are exiting the eCommerce market – far from it. eCommerce market is now an integral part of what we do in SingPost so we are faced with challenges going forward with how we are going to segmentise our business to show better colour of that. That's a different topic altogether to talk about but the honest truth is that I think that there is still much to be had within this region.

Mr Paul Coutts (Group CEO):

So Varun, let me come in. Thanks for your questions, it's Paul here just in case you didn't recognise my Scottish accent. So first of all, I hear what you said in terms of the business being under pressure but I don't know if any business in this kind of dynamic environment is not under pressure right now. Of course we are under pressure, of course we have our challenges but we're working our way through, we've got a strategy for tackling those challenges and the U.S. is one of them. We took a very challenging decision, tough decision around that. We believe that also to a great extent, brings clarity to our strategy and the focus on Southeast Asia and Asia Pacific, and also allows us to make sure that we are getting the best returns for our shareholders. We tried with the U.S. as you well know, but there have been a number of structural changes partaking in the States over the course of the last 12 months or so that have brought us to the point where we are now in terms of divesting.

So let me turn to what to get excited about. Certainly, myself and we have a relatively new management team – I say relatively new because Vincent came on-board recently, Richard came on board about seven months ago and there are a number of others who joined us within the last 18 months or so, so a new management team. We are all pretty excited about the future and I go back to the strategy that we set only 18 months ago and if you look at the – we have four pillars, one is the cost leadership programme so we won't talk too much about that. The other three are really focused on growth and so it's about winning in our home market, it's about igniting future growth engines particularly the growth engines of Southeast Asia. And then the third piece was about maximising the investments we have made in overseas market so the divestment we think would actually lead to an improvement in our financial results, but we have also continued to invest in some other key markets in Asia Pacific which will help again, drive growth. So when you look at Winning in our Home Market, we will need to continue to invest in infrastructure, build out new streams of business within our home market; it's not just about necessarily about postal and parcel and that's something that we are turning our heads to, we believe there are a number of opportunities here and we will talk more about it as we go through those lines over the course of the next few months.

The future for Southeast Asia, we also believe that it's a big opportunity for us; it's naturally going to grow anyway so we need to make sure that we are setting ourselves to ride on that growth. We continue to invest in infrastructure around warehousing and fulfilment in Malaysia and in Thailand as an example, we took on additional warehouse space here in Singapore as well over the course of the last 12 months or so because we have filled the footprint of our eCommerce Logistics hub. So we still believe that that's a key part of our growth strategy and the last mile delivery component in those particular countries is also an infrastructure that we are in the process of adding, creating an ecosystem using our LaMP technology which we are trialling at the moment and that's piloting with Singtel as of this month and we will quickly roll that into Southeast Asia to expand – not only expand our last mile infrastructure in Southeast Asia, but we actually think it will give us a larger last mile infrastructure in Southeast Asia which will be a big advantage. And then we also have the cross-border parcel forwarding and this is where – we certainly don't have a depressed or suppressed view in terms of international mail, we still think there are big opportunities in international mail, we still think it's a growth market. We also think it would be the same for the Quantium and getting both of those to work closely together on that cross-border parcel piece is also a huge opportunity that we still see as untapped and clearly that hybrid product is very critical for us, so we are still excited about all of those. I think one of the things that would be around strategy is from a U.S. viewpoint – two things actually. One, eCommerce is still the future for us, we still believe that so it's not just we have taken a decision to get out of eCommerce and divest from U.S.. We still believe eCommerce is definitely the future, but we have also been consistent around the fact that we are not just going to play in eCommerce for the sake of playing in Commerce; we are not just going to play in eCommerce to drive volumes for the sake of driving volumes. You have to be able to add value to the customers and get value in return so we are going to select the segments where we play very, very carefully.

One of the things that we are conscious about would be the divestment of the U.S. businesses, we also need to think about what next for the organisation and also what next in the strategy outside of what we have just described that we are very excited about. So that's something we are reviewing as a management team right now and also again, we will update you as we go through that process over the course of the next three months or so.

Mr Varun Ahuja (Credit Suisse):

Thank you, just one last thing. So U.S. businesses, how long should we think these losses should continue? Are you scaling back something, you are cutting down – I don't know if it's been answered, is there any time frame that you are looking in terms of sale or exit? You mentioned some people have shown interest, can you just give a profile? Are they competitors or someone else, or is it private equity? Can you give a little bit of colour on that? Thank you.

Mr Richard Lai (Group CFO):

OK, this is Richard here. Some of the restructuring cost provision that we have is aimed at improving the business for now so that we could reduce our losses. Having said that, the business will likely carry on losing money, although we hope not at the same quantum that we have been facing for the last year. How long is that going to take, I don't have a straightforward answer for you because the process has got to be given a chance to run its course but we obviously will not – we don't want to hurry. If we can get it done earlier, we will get it done earlier as quickly as we can but this sort of thing we can't push it too hard as well otherwise we'll just end up with no compelling offers at the same time. So it's a balance of making sure people have enough time to do their due diligence, to be able to give you a meaningful offer. I know that doesn't really address your question but that's the best we can do for now. We certainly are not looking at the sale taking place beyond this financial year, that part is true; that would be a bit too long to run the normal process, but as an investment banker yourself you should know this sort of process – how long should it roughly take, you probably can make a guess of your own.

The other question about colour on potential buyers and things like that, we can't go into that, not at this juncture. It's still very early stages, people showing interest does not necessarily translate into a formal offer subsequently; I don't want to jump the bandwagon on that, you just have to let it take its natural course. When we have more information, we will certainly advise you.

Mr Varun Ahuja (Credit Suisse):

OK, thanks very much.

Mr Jason Lim (Vice President, Investor Relations):

OK, thanks everyone. I think we have reached the end of our call, thank you for dialling in. If you have any other follow-up questions, please reach out to me.

Mr Richard Lai (Group CFO):

Thank you.

Mr Paul Coutts (Group CEO):

Thanks everybody.

End of transcript