FLASH NOTE

Company Update

Belgium | Industrials | European Postal Operators

22 June 2018

Jefferies

EQUITY RESEARCH EUROPE

bpost (BPOST BB)

Key Takeaways - Capital Markets Day

HOLD

Bloomberg BRU: BPOST BB

Price target €22.50

Price €14.42^

^Prior trading day's closing price unless otherwise noted.

Key Takeaway

bpost sees EBIT stabilising at a lower level, in the €390m-€440m range, for the next five years, vs. €502m in FY17, driven by increasing mail volume pressure of up to 9%, offset by a (delayed) EBIT recovery of €100m for Radial. After higher working capital and capex guidance, the implied FY19E equity FCF yield is at around 7%, based on the new EBIT guidance, vs. 5% for the postal sector, after bpost shares have almost halved over the past three months.

Accelerating mail volume decline of up to 9%. bpost sees a fundamental change in appetite for mail and confirmed increased mail volume pressure of up to 7% this year (vs. 5.8% in FY17), which it expects to increase further, to 9% p.a., in FY19E-FY22E, driven by e-substitution by large corporates, as well as by the Belgian State, rising competition in advertising mail and a further shift to digital in newspapers and magazines. bpost now aims to compensate with larger stamp price increases of >50% of the mail volume decline (vs. 26% recently), facilitated by the new postal law. Furthermore, a new operating model for mail is to be launched on 1 January, with the introduction of a slower D+3 product, expected to attract the majority of mail volume, alongside the existing D+1 offering. Under the new operating model, substantial efficiency improvements are anticipated in the medium term, by reducing collection frequency and transport costs and increasing sorting efficiency and drop density. As a result, an accelerated FTE reduction of 5% per annum is anticipated (vs. 3.5% previously), but largely through natural attrition.

Radial profitability affected by a surge in customer churn. Radial EBITDA is expected to remain at a depressed level of around $23m for this year and next year (implying an EBIT loss of €32m after elevated D&A), due to unprecedented customer churn of 9% in FY17, expected to increase to 19% this year, leading to a cumulative loss in revenue of $238m and EBITDA of $88m in FY18E-FY19E. Key drivers include bankruptcies, explaining 5% (mainly related to Toys r Us), insourcing trends (7%), poor fit with client needs (2%) and lack of innovation, poor problem resolution and lack of data integrity (4%). Beyond FY19E, Radial EBITDA is projected to recover to $120m by FY22E on the back a focus on driving top-line growth, productivity improvements and overhead reductions (IT, medical costs).

EBIT expected to stabilise at a lower level. For FY18E, bpost confirmed earlier guidance for EBITDA at the low-end of the €560m-€600m guidance range, corresponding to EBIT in the range from €400m-€440m (vs. consensus €402m). Beyond FY18E, EBIT is expected to stabilise at a lower level of €390m-€440m, vs. €502m in FY17. FY19E EBIT is expected to be at the bottom end of the range (8% below consensus €422m), reflecting increased letter volume pressure, the move to the new operating model, with more back-end-loaded efficiency improvements and a stable, low EBITDA contribution from Radial. Beyond FY19E, EBIT is expected to recover in the €390m-€440m range, with an expected Radial EBIT recovery of €100m by FY22E, partly offset by increased pressure elsewhere. Working capital is expected to increase by €100m over FY18E-FY19E, related to Radial, while capex is now expected to remain relatively high in the range from €130m-€170m p.a., vs. €140m for FY18E, reflecting parcel capacity increases. Based on the new EBIT, working capital and capex guidance, we estimate the implied FY18E equity FCF at around €230m (8.0% yield) and FY19E at around €200m (7.0%), versus a confirmed dividend of >€262m (9.0%).

Valuation / risk factors. bpost shares have almost halved over the past three months, and are trading at a FY19E equity FCF yield of c7%, based on the new guidance, vs. postal sector 5%, while offering a 9% dividend yield. Key risk factors include accelerating e-substitution, increasing (parcel) competition, regulatory limitations, a unionised labour force, government share overhang, and acquisition integration risks.

David Kerstens *
Equity Analyst
+44 (0) 20 7029 8684 dkerstens@jefferies.com
Hamish Dalgarno *
Equity Associate
+44 (0) 20 7029 8343 hdalgarno@jefferies.com
* Jefferies International Limited

Company Description

bpost

bpost is the incumbent postal operator in Belgium. Its domestic mail activities generate 58% of revenues, with a 99% market share in letter post. The letter post market in Belgium is expected to decline by 5%-6% in FY17E, in line with the average in Europe, after it has recently been among the most resilient in Europe. bpost's parcel operations are still relatively small, accounting for 16% of revenues. The company has a leading market share of 50% in the B2C/C2X parcel segment in Belgium (20% of the parcel market) and a relatively limited 5% share of the B2B parcel segment (80% of the parcel market), giving an overall parcel market share of around 15%. Other revenue sources generate 27% of revenues and include Banking & Finance (8% of revenues) on behalf of bpost bank, a 50%/50% joint venture with BNP Paribas, International mail (7%), Value-added services (4%) and a number of smaller segments, combined accounting for 7% of revenues, including philately, retailer products and state compensation for services of general economic interest (SGEI).

Company Valuation/Risks

bpost

Our DCF-based €22.5 PT reflects our earning estimates. Key risk factors include accelerating e-substitution, increasing (parcel) competition, regulatory limitations, a unionised labour force, government share overhang and acquisition integration risks.

Analyst Certification:

I, David Kerstens, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

I, Hamish Dalgarno, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Registration of non-US analysts: David Kerstens is employed by Jefferies International Limited, a non-US affiliate of Jefferies LLC and is not registered/qualified as a research analyst with FINRA. This analyst(s) may not be an associated person of Jefferies LLC, a FINRA member firm, and therefore may not be subject to the FINRA Rule 2241 and restrictions on communications with a subject company, public appearances and trading securities held by a research analyst.

Registration of non-US analysts: Hamish Dalgarno is employed by Jefferies International Limited, a non-US affiliate of Jefferies LLC and is not registered/qualified as a research analyst with FINRA. This analyst(s) may not be an associated person of Jefferies LLC, a FINRA member firm, and therefore may not be subject to the FINRA Rule 2241 and restrictions on communications with a subject company, public appearances and trading securities held by a research analyst.

As is the case with all Jefferies employees, the analyst(s) responsible for the coverage of the financial instruments discussed in this report receives compensation based in part on the overall performance of the firm, including investment banking income. We seek to update our research as appropriate, but various regulations may prevent us from doing so. Aside from certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the analyst's judgement.

Investment Recommendation Record

(Article 3(1)e and Article 7 of MAR)

Recommendation Published	, 01:57 ET. June 22, 2018
Recommendation Distributed	, 01:57 ET. June 22, 2018

Explanation of Jefferies Ratings

Buy - Describes securities that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

Hold - Describes securities that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 10% within a 12-month period.

Underperform - Describes securities that we expect to provide a total return (price appreciation plus yield) of minus 10% or less within a 12-month period.

The expected total return (price appreciation plus yield) for Buy rated securities with an average security price consistently below $10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated securities with an average security price consistently below $10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated securities with an average security price consistently below $10, the expected total return (price appreciation plus yield) is minus 20% or less within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Jefferies policies.

CS - Coverage Suspended. Jefferies has suspended coverage of this company.

NC - Not covered. Jefferies does not cover this company.

Restricted - Describes issuers where, in conjunction with Jefferies engagement in certain transactions, company policy or applicable securities regulations prohibit certain types of communications, including investment recommendations.

Monitor - Describes securities whose company fundamentals and financials are being monitored, and for which no financial projections or opinions on the investment merits of the company are provided.

Valuation Methodology

David Kerstens, Equity Analyst, +44 (0) 20 7029 8684, dkerstens@jefferies.com

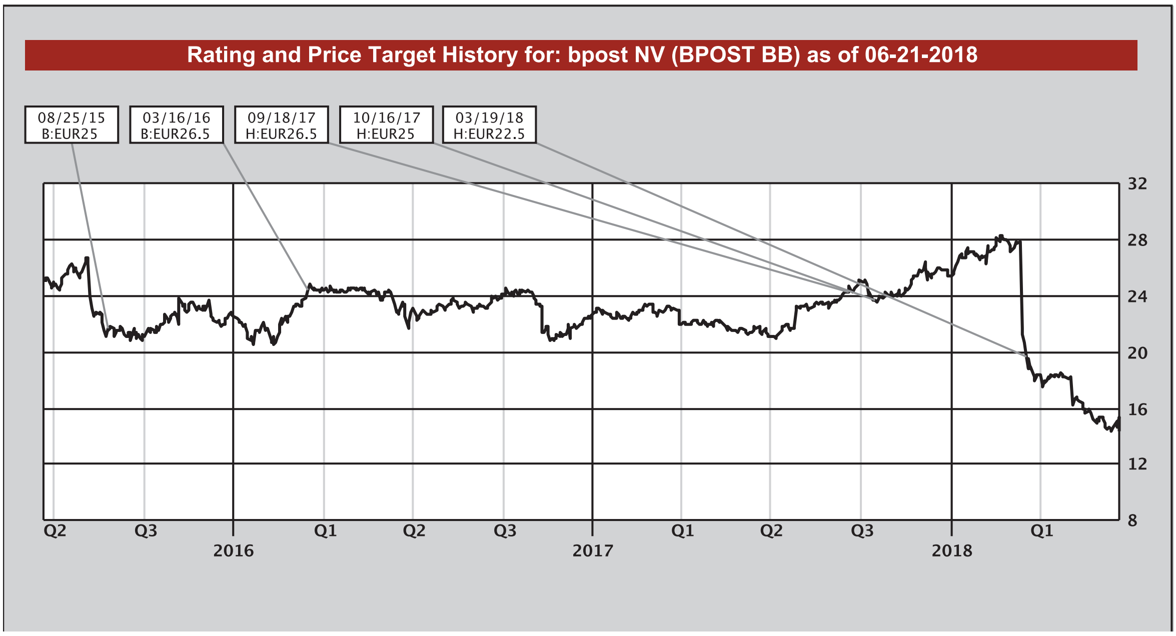
Jefferies' methodology for assigning ratings may include the following: market capitalization, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of the parts, net asset value, dividend returns, and return on equity (ROE) over the next 12 months.

Jefferies Franchise Picks

Jefferies Franchise Picks include stock selections from among the best stock ideas from our equity analysts over a 12 month period. Stock selection is based on fundamental analysis and may take into account other factors such as analyst conviction, differentiated analysis, a favorable risk/reward ratio and investment themes that Jefferies analysts are recommending. Jefferies Franchise Picks will include only Buy rated stocks and the number can vary depending on analyst recommendations for inclusion. Stocks will be added as new opportunities arise and removed when the reason for inclusion changes, the stock has met its desired return, if it is no longer rated Buy and/or if it triggers a stop loss. Stocks having 120 day volatility in the bottom quartile of S&P stocks will continue to have a 15% stop loss, and the remainder will have a 20% stop. Franchise Picks are not intended to represent a recommended portfolio of stocks and is not sector based, but we may note where we believe a Pick falls within an investment style such as growth or value.

Risks which may impede the achievement of our Price Target

This report was prepared for general circulation and does not provide investment recommendations specific to individual investors. As such, the financial instruments discussed in this report may not be suitable for all investors and investors must make their own investment decisions based upon their specific investment objectives and financial situation utilizing their own financial advisors as they deem necessary. Past performance of the financial instruments recommended in this report should not be taken as an indication or guarantee of future results. The price, value of, and income from, any of the financial instruments mentioned in this report can rise as well as fall and may be affected by changes in economic, financial and political factors. If a financial instrument is denominated in a currency other than the investor's home currency, a change in exchange rates may adversely affect the price of, value of, or income derived from the financial instrument described in this report. In addition, investors in securities such as ADRs, whose values are affected by the currency of the underlying security, effectively assume currency risk.



Notes: Each box in the Rating and Price Target History chart above represents actions over the past three years in which an analyst initiated on a company, made a change to a rating or price target of a company or discontinued coverage of a company.

Legend:

I: Initiating Coverage

D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

For Important Disclosure information on companies recommended in this report, please visit our website at https://javatar.bluematrix.com/sellside/Disclosures.action or call 212.284.2300.

David Kerstens, Equity Analyst, +44 (0) 20 7029 8684, dkerstens@jefferies.com

Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos.		JIL Mkt Serv./Past 12 Mos.	
			Count	Percent	Count	Percent
BUY	1129	53.66%	75	6.64%	15	1.33%
HOLD	837	39.78%	21	2.51%	2	0.24%
UNDERPERFORM	138	6.56%	1	0.72%	0	0.00%

David Kerstens, Equity Analyst, +44 (0) 20 7029 8684, dkerstens@jefferies.com

Other Important Disclosures

Jefferies does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that Jefferies may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Jefferies Equity Research refers to research reports produced by analysts employed by one of the following Jefferies Group LLC ("Jefferies") group companies:

United States: Jefferies LLC which is an SEC registered broker-dealer and a member of FINRA (and distributed by Jefferies Research Services, LLC, an SEC registered Investment Adviser, to clients paying separately for such research).

United Kingdom: Jefferies International Limited, which is authorized and regulated by the Financial Conduct Authority; registered in England and Wales No. 1978621; registered office: Vintners Place, 68 Upper Thames Street, London EC4V 3BJ; telephone +44 (0)20 7029 8000; facsimile +44 (0)20 7029 8010.

Hong Kong: Jefferies Hong Kong Limited, which is licensed by the Securities and Futures Commission of Hong Kong with CE number ATS546; located at Suite 2201, 22nd Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

Singapore: Jefferies Singapore Limited, which is licensed by the Monetary Authority of Singapore; located at 80 Raffles Place #15-20, UOB Plaza 2, Singapore 048624, telephone: +65 6551 3950.

Japan: Jefferies (Japan) Limited, Tokyo Branch, which is a securities company registered by the Financial Services Agency of Japan and is a member of the Japan Securities Dealers Association; located at Hibiya Marine Bldg, 3F, 1-5-1 Yuraku-cho, Chiyoda-ku, Tokyo 100-0006; telephone +813 5251 6100; facsimile +813 5251 6101.

India: Jefferies India Private Limited (CIN - U74140MH2007PTC200509), which is licensed by the Securities and Exchange Board of India as a Merchant Banker (INM000011443), Research Analyst (INH000000701) and a Stock Broker with Bombay Stock Exchange Limited (INB011491033) and National Stock Exchange of India Limited (INB231491037) in the Capital Market Segment; located at 42/43, 2 North Avenue, Maker Maxity, Bandra-Kurla Complex, Bandra (East) Mumbai 400 051, India; Tel +91 22 4356 6000.

This report was prepared by personnel who are associated with Jefferies (Jefferies International Limited, Jefferies Hong Kong Limited, Jefferies Singapore Limited, Jefferies (Japan) Limited, Jefferies India Private Limited); or by personnel who are associated with both Jefferies LLC and Jefferies Research Services LLC ("JRS"). Jefferies LLC is a US registered broker-dealer and is affiliated with JRS, which is a US registered investment adviser. JRS does not create tailored or personalized research and all research provided by JRS is impersonal. If you are paying separately for this research, it is being provided to you by JRS. Otherwise, it is being provided by Jefferies LLC. Jefferies LLC, JRS, and their affiliates are collectively referred to below as "Jefferies". Jefferies may seek to do business with companies covered in this research report. As a result, investors should be aware that Jefferies may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only one of many factors in making their investment decisions. Specific conflict of interest and other disclosures that are required by FINRA and other rules are set forth in this disclosure section.

* * *

If you are receiving this report from a non-US Jefferies entity, please note the following: Unless prohibited by the provisions of Regulation S of the U.S. Securities Act of 1933, as amended, this material is distributed in the United States by Jefferies LLC, which accepts responsibility for its contents in accordance with the provisions of Rule 15a-6 under the US Securities Exchange Act of 1934, as amended. Transactions by or on behalf of any US person may only be effected through Jefferies LLC. In the United Kingdom and European Economic Area this report is issued and/or approved for distribution by Jefferies International Limited ("JIL") and is intended for use only by persons who have, or have been assessed as having, suitable professional experience and expertise, or by persons to whom it can be otherwise lawfully distributed.

JIL allows its analysts to undertake private consultancy work. JIL's conflicts management policy sets out the arrangements JIL employs to manage any potential conflicts of interest that may arise as a result of such consultancy work. Jefferies LLC, JIL and their affiliates, may make a market or provide liquidity in the financial instruments referred to in this report; and where they do make a market, such activity is disclosed specifically in this report under "company specific disclosures".

For Canadian investors, this material is intended for use only by professional or institutional investors. None of the investments or investment services mentioned or described herein is available to other persons or to anyone in Canada who is not a "Designated Institution" as defined by the Securities Act (Ontario). In Singapore, Jefferies Singapore Limited ("JSL") is regulated by the Monetary Authority of Singapore. For investors in the Republic of Singapore, this material is provided by JSL pursuant to Regulation 32C of the Financial Advisers Regulations. The material contained in this document is intended solely for accredited, expert or institutional investors, as defined under the Securities and Futures Act (Cap. 289 of Singapore). If there are any matters arising from, or in connection with this material, please contact JSL, located at 80 Raffles Place #15-20, UOB Plaza 2, Singapore 048624, telephone: +65 6551 3950. In Japan, this material is issued and distributed by Jefferies (Japan) Limited to institutional investors only. In Hong Kong, this report is issued and approved by Jefferies Hong Kong Limited and is intended for use only by professional investors as defined in the Hong Kong Securities and Futures Ordinance and its subsidiary legislation. In the Republic of China (Taiwan), this report should not be distributed. The research in relation to this report is conducted outside the People's Republic of China ("PRC"). This report does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC. PRC investors shall have the relevant qualifications to invest in such securities and shall be responsible for obtaining all relevant approvals, licenses, verifications and/or registrations from the relevant governmental authorities themselves. In India, this report is made available by Jefferies India Private Limited. In Australia, this information is issued solely by JIL and is directed solely at wholesale clients within the meaning of the Corporations Act 2001 of Australia (the "Act"), in connection with their consideration of any investment or investment service that is the subject of this document. Any offer or issue that is the subject of this document does not require, and this document is not, a disclosure document or product disclosure statement within the meaning of the Act. JIL is authorised and regulated by the Financial Conduct Authority under the laws of the United Kingdom, which differ from Australian laws. JIL has obtained relief under Australian Securities and Investments Commission Class Order 03/1099, which conditionally exempts it from holding an Australian financial services license under the Act in respect of the provision of certain financial services to wholesale clients. Recipients of this document in any other jurisdictions should inform themselves about and observe any applicable legal requirements in relation to the receipt of this document.

This report is not an offer or solicitation of an offer to buy or sell any security or derivative instrument, or to make any investment. Any opinion or estimate constitutes the preparer's best judgment as of the date of preparation, and is subject to change without notice. Jefferies assumes no obligation to maintain or update this report based on subsequent information and events. Jefferies, and their respective officers, directors, and employees, may have long or short positions in, or may buy or sell any of the securities, derivative instruments or other investments mentioned or described herein, either as agent or as principal for their own account. This material is provided solely for informational purposes and is not tailored to any recipient, and is not based on, and does not take into account, the particular investment objectives, portfolio holdings, strategy, financial situation, or needs of any recipient. As such, any advice or recommendation in this report may not be suitable for a particular recipient. Jefferies assumes recipients of this report are capable of evaluating the information contained herein and of exercising independent judgment. A recipient of this report should not make any investment decision without first considering whether any advice or recommendation in this report is suitable for the recipient based on the recipient's particular circumstances and, if appropriate or otherwise needed, seeking professional advice, including tax advice. Jefferies does not perform any suitability or other analysis to check whether an investment decision made by the recipient based on this report is consistent with a recipient's investment objectives, portfolio holdings, strategy, financial situation, or needs

By providing this report, neither JRS nor any other Jefferies entity accepts any authority, discretion, or control over the management of the recipient's assets. Any action taken by the recipient of this report, based on the information in the report, is at the recipient's sole judgment and risk. The recipient must perform his or her own independent review of any prospective investment. If the recipient uses the services of Jefferies LLC (or other affiliated broker-dealers), in connection with a purchase or sale of a security that is a subject of these materials, such broker-dealer may act as principal for its own accounts or as agent for another person. Only JRS is registered with the SEC as an investment adviser; and therefore neither Jefferies LLC nor any other Jefferies affiliate has any fiduciary duty in connection with distribution of these reports.

The price and value of the investments referred to herein and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments.

This report has been prepared independently of any issuer of securities mentioned herein and not as agent of any issuer of securities. No Equity Research personnel have authority whatsoever to make any representations or warranty on behalf of the issuer(s). Any comments or statements made herein are those of the Jefferies entity producing this report and may differ from the views of other Jefferies entities.

This report may contain information obtained from third parties, including ratings from credit ratings agencies such as Standard & Poor's. Reproduction and distribution of third party content in any form is prohibited except with the prior written permission of the related third party. Jefferies does not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and is not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third-party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Neither Jefferies nor any third-party content provider shall be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content, including ratings. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the suitability of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice.

Jefferies research reports are disseminated and available electronically, and, in some cases, also in printed form. Electronic research is simultaneously made available to all clients. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Jefferies. Neither Jefferies nor any of its respective directors, officers or employees, is responsible for guaranteeing the financial success of any investment, or accepts any liability whatsoever for any direct, indirect or consequential damages or losses arising from any use of this report or its contents. Nothing herein shall be construed to waive any liability Jefferies has under applicable U.S. federal or state securities laws.

For Important Disclosure information relating to JRS, please see https://adviserinfo.sec.gov/IAPD/Content/Common/crd_iapd_Brochure.aspx?BRCHR_VRSN_ID=483878 and https://adviserinfo.sec.gov/Firm/292142 or visit our website at https://javatar.bluematrix.com/sellside/Disclosures.action, or www.jefferies.com, or call 1.888.JEFFERIES.

David Kerstens, Equity Analyst, +44 (0) 20 7029 8684, dkerstens@jefferies.com