WABERER'S INTERNATIONAL Nyrt.
H-1239 Budapest, Nagykőrösi út 351.
www.waberers.com

Investor Relations
Viktor Majzik
investor.relations@waberers.com
Tel: +36 1 421 6300

FIRST QUARTER 2021 RESULTS ANALYST CONFERENCE CALL TRANSCRIPT

10 MAY, 2021, 11:00 CET

[Presentation slides available here]

Slide 1:

Moderator: Ladies and gentlemen, welcome and thank you for joining Waberer's **Q1 2021 Results Analyst Conference call.**

My name is Viktor Majzik and I'm the IR Manager of Waberer's. Mr Barna Erdélyi (Waberer's Group CEO) and Mr Szabolcs Tóth (Group CFO) is also present from Waberer's side at the call.

The conference call will last roughly 60 minutes including both the presentation and Q&A session.

I kindly ask everyone to mute their microphone during the presentation and only turn it on during the Q&A session. In case you would like to raise a question, please either write into the Chat window of Microsoft Teams application, or pls indicate in the Chat window that you would like to raise a question verbally or use the "Raise your hand" function in the Teams application

I would now like to turn the conference over to Mr Barna Erdélyi. Please go ahead.

Barn Erdélyi (CEO)

Good morning everyone. Thank you very much for joining us today and let me welcome you to our **first quarter** results conference call.

Slide 3:

Barna Erdélyi (CEO)

Let me first start today presentation with some insights about the results of the turnaround both at Group level and also at ITS segment level. After that I would like to give you a short summary about the major challenges that we face currently and that everybody can read at the major newspapers.

Slide 4:

Barna Erdélyi (CEO)

As a summary of our first quarter of 2021, I can tell you that

- **The success** of the Group **turnaround project continues,** and we managed to generate positive and growing recurring EBIT for the 3rd consecutive quarter. The trend was supported by all segments as ITS and RCL segment and our insurance activity all outperformed the results of the first quarter of last year.

- Group level **reported EBIT reached EUR 4.5 million** in the first quarter of the year and **reported Net Income was EUR 2.7 million** which are the highest values since 2017. RCL and Other segment significantly improved their operative margins at stable revenue base while loss of ITS segment has also been decreasing step-by-step since the launch of the new Trade Lane model.
- After we left the major waves of BREXIT at the beginning of the year behind us, both **the Hungarian based and the Polish based operation of ITS segment reached positive EBIT in March** that also symbolizes the success of the turnaround. We still have lots of homework for the rest of the year to stabilize the performance of the segment but the already achieved results prove, that the strategic directions are right
- In the recent months **we had to handle some global challenges** that are expected to stay with us in the coming months – namely the Brexit, the pandemic situation and the global supply chain turbulences. I will introduce the effects of them on our operation in the later phase of the presentation but I can tell you shortly that all of them generated some issues in our everyday job but we do not expect any long term negative effect of them.

In a short summary, despite the challenges around us, Waberer's Group performed the best quarter since 2017.

Slide 5:

Barna Erdélyi (CEO)

On the following 2 slides, I would like to demonstrate the trend and the results of the Company turnaround both on Group level and on ITS level.

On the above chart, the Group level recurring EBIT is presented since 2018 and the last 3 quarters are marked with a grey box, as this the period, when the Trade Lane model in the ITS segment has been part of our operation. All 3 predefined strategic goals - namely I. Launch of Trade Lane model at ITS; II. Increasing weight of stable profit making RCL and insurance segments III. Increasing margin level in the RCL segment – together resulted in the positive trends and we are satisfied that the growing trend is visible not only on a year-on-year basis but quarter-by-quarter growth is also clearly recognizable.

Parallel with the improving financial results, the Company managed to **decrease net indebtedness position of the Group that is presented on the below chart**. After a technical decrease in the indebtedness calculation at the end of 2019 – namely the buyback value of the vehicles are not capitalized any more in the ITS segment – the net indebtedness and leverage position decreased by 60% since the end of 2019 that means turnaround in the operating results didn't require additional financial resources but operating results and leverage position improved parallelly.

As noted previously and Szabolcs will also talk about it later, we do expect some increase in the gross indebtedness position from the end of the year due to the restart of the fleet replacement program but the effect of it on the leverage position is significantly lower compared to the decrease we achieved in the last 2 years.

WABERER'S INTERNATIONAL Nyrt.
H-1239 Budapest, Nagykőrösi út 351.
www.waberers.com

Investor Relations
Viktor Majzik
investor.relations@waberers.com
Tel: +36 1 421 6300

Slide 6:

Barna Erdélyi (CEO)

Turning to the results of the Turnaround project at the Hungary based operation of ITS segment, first of all on **Page 6** I would like to present to you the **quarterly recurring EBIT** of the segment.

Segment EBIT is continuously improving since the launch of the Trade Lane model – that also resulted in the turnaround at Polish-based operation 1 year before – and reached EUR -2.3 million in the first quarter of 2021. The beginning of the quarter was influenced by BREXIT not only on UK relation but in the all continent as several competitors reallocated their fleet from UK related routes to the continent. However after the consolidation of UK relation on the administration side for entering and leaving the UK and on the customer side for accepting the additional duties regarding serving them in the UK, the **ITS Hungary segment managed to reach a positive EBIT in the last month of the quarter** that is – naturally - the final goal of the all turnaround process.

To demonstrate the operational improvement of the segment, I also would like to present to you the **quarterly change of the net revenue generating capability of our fleet** that we consider as one of the major KPIs of the operation. Net revenue consists of the revenue generated by the fleet and decreased by the fuel and transit costs. We believe that instead of focusing on pure KM or pure pricing related KPIs, net revenue is the efficiency KPI that best describes the effectiveness of the fleet and net revenue should cover the fixed costs (like insurance, repair, wages, etc.) to reach an overall profitable operational level. As a result of the Trade Lane model where standalone Business Units were set up to focus on dedicated customers in certain geographical areas, we can parallelly manage different business strategies that are successful on different geographical areas. For example, Spain related destination is characterized by lower price level but really high km while UK-France relation is characterized with short distance orders but significantly higher price level. The standalone accountability of these routes give us the opportunity to separately measure and manage these markets with special characteristics but all these specialties can be aggregated to the net revenue generating capability of the fleet.

As you can see on the below chart, net revenue generating capability of the fleet improved by 11% since the first quarter of 2020 that was the last quarter before the pandemic so clearly symbolizes the efficiency improvement of the fleet.

We are mostly talking about improvement of the fleet when we are describing the turnaround but I also have to emphasize that our forwarding activity – when we are cooperating with subcontractors for executing certain destinations where we have a temporary capacity shortage or not in the focus on our own fleet operation – also improved in the recent months and we expect to grow in terms of revenue and of EBIT generating capability.

Slide 7:

Barna Erdélyi (CEO)

On page 7, we summarized all the **external factors** that mostly influences our daily life and we expect to stay with us in the coming months and most of them are also in the headline of the daily news.

I. **Covid19** – The effect of the current wave of the pandemic is not comparable to last year's lockdown neither in the ITS nor in the RCL segment. Not any extraordinary measures had to be implemented this year and the current level of the pandemic has been mostly generating us challenges in the daily operations in the last few months due to the unexpectable changes of COVID related regulations at certain countries and partners. Fortunately, our colleagues were not infected in a way that would have risk seriously our operation and didn't materially affected our financials. We also provide vaccinations to our colleagues that is a big help especially to our truck drivers who cannot visit their doctor to get the vaccine.

II. **Brexit** - The first weeks of the year generated the highest challenges in the UK related transportation however chaos was far not as big as it was expected in advance. As the UK destination is a key market for both our Polish and our Hungary based operation of the ITS segment we were prepared for the additional administrative duties and – unlike some of our competitors – we were able to maintain our service in the UK-related Trade Lane. The UK border crossing related duties mostly consolidated in the recent period however time demand of the process increased compared to the pre-Brexit times. I also have to add that our British partners accept our additional tasks regarding serving them and the cost of additional time and administration is already reflected in the prices. Long term effect of the Brexit could be partly the possible restructuring of the UK economy and partly the competition level could also stay on a lower level in case some of the market players – mostly the smaller operators - don't come back to this direction anymore.

III. **Global supply chain destructions** – Our partners mostly complain about the periodic shortage of chips necessary for manufacturing of automotive and electronic products and also the periodic and imbalanced availability of containers necessary for the global supply chain. Based on our experiences until now, our customers are not equally and not in the same period affected by the shortage that means we are flexibly able to reallocate our fleet in case there is a few day long factory shutdown at certain locations. Therefore the effect is not yet material on our financials. In long term we expect that the global supply chain processes will be either cured in a few month time or – in case this would generate a long term risk for our manufacturing partners – they will relocate their production closer to their European consumers that will generate additional demand for our services

IV. Last external challenges I would like to talk about is the **EU level regulation** regarding the so-called Mobility package and driver's minimum wage regulation. The introduced EU level regulation is not as new as the previously mentioned factors so Waberer's Group had the opportunity to prepare for them and we are compliant with the current regulation. Major points of the regulation are focusing on how often the drivers need to go back to their home country and that salary of the drivers should reach the local minimum wage of the European countries where the trucks operate – namely the German, the French, the Belgium minimum wage level, etc. We believe that the regulation negatively affects mostly those market players who are coming from Eastern borders of the EU – namely from Romania, Bulgaria, Turkey or Baltic countries who were competing by extra low price level – mostly due to their low wages – and the expectation to go home regularly is also a significant challenge for them due to the high distance of these countries from the major industrial zones of Europe. The decrease of their competitiveness on the Western-European markets could normalize the level of competition and we expect a price consolidation effect in midterm.

Investor Relations
Viktor Majzik
investor.relations@waberers.com
Tel: +36 1 421 6300

Slide 8:

Barna Erdélyi (CEO):

And now, I would like to ask Szabolcs to dig into the details about the financials and show the performance of both the Group and the Segments.

Slide 9:

Szabolcs Tóth (CFO)

Thank you, Barna. I also welcome everyone on the call.

On the first financial slide, I would like to give you a Group level summary of Q1 2021 results.

As you can see on the top Chart, **Group level revenue was stable compared to previous quarter at EUR 142 mn** but **decreased by** 18% compared to the first quarter of 2020. The decrease compared to Q1 2020 principally reflects Waberer's adoption of the new Trade Lane strategy in our ITS segment under which we focus on serving selected trade routes and customers with lower fleet size.

As you can see on the left bottom chart**, Group level quarterly recurring EBIT** increased by EUR 4.4 million compared to first quarter of 2020 **and reached EUR 4.5 million** that is the highest since last quarter of 2017 that confirms the new strategic direction of the Group. All 3 segments managed to improve their profitability in the quarter compared to Q1 2020 that was still the last quarter not yet affected by the pandemic situation in Europe.

I also have to add here that **non-recurring items were not incurred during the quarter.**

Last but not least, **in the first quarter of 2021**, Waberer's Group managed to reach **EUR 2.7 million recurring Net Income** that is EUR 5.2 million improvement compared to the same period last year.

Slide 10:

Szabolcs Tóth (CFO)

On the next slide, I present to you the **segment based performance** in the first quarter of 2021.

Starting with **ITS segment**, **revenue was stable compared to the previous quarter, however** decreased by 27% compared to the same period of last year as a result of the adoption of the new Trade Lane business model in the Hungary based operation of the segment in July 2020 that is served by roughly 30% lower fleet size on segment level. As Barna already introduced to you the improving EBIT trend of the Hungary based operation of the segment, I can also present that **recurring EBIT of whole ITS segment**– including both the Hungarian and Polish leg as well as the ITS related part of the insurance activity – **also improved by an impressive EUR 2.5 million compared to Q1 2020**. Moreover, after the challenging first month after Brexit, ITS segment generated positive EBIT in March that has been the best performance for a long time.

WABERER'S INTERNATIONAL Nyrt.
H-1239 Budapest, Nagykőrösi út 351.
www.waberers.com

Investor Relations
Viktor Majzik
investor.relations@waberers.com
Tel: +36 1 421 6300

RCL segment revenue was stable in HUF term – as a significant part of the revenue is Forint based – however decreased by 4% in the quarter on year-on-year basis due to the change of the EUR/HUF FX rate in the last 1 year. EBIT performance also improved by 24% and reached EUR 3.5 million in the first quarter of the year that resulted an impressive 8% EBIT margin in the segment. EBIT improvement was partly driven by the increasing volume in the automotive segment but besides of that all other major activities – namely transportation and contract logistics - generated higher EBIT than one year ago. However container transportation business line suffered a slight decrease as a result of the global supply chain turbulences in the latest period but decrease is not significant on segment level.

Last but not least, our insurance service leg **in** the so-called **Other segment** managed to reach **a slight revenue increase in Q1 2021** compared to both the previous quarter and Q1 2020 despite the unfavourable change of EUR/HUF FX rate. As a result of the constantly low damage ratio as a side-effect of the COVID-19 pandemic since April last year**, EBIT level** increased by EUR 1.3 million on year-on-year base and **reach EUR 2.9 million.**

Slide 11:

Szabolcs Tóth (CFO)

Now let me continue with a more detailed income statement for the Group on **page 11**.

As described on the previous slides, total revenue was stable compared to last quarter and decreased by 18% compared to Q1 2020 as a result of ITS segment related volume decrease when turning the business model into the Tradelane model, but all the **efficiency measures improved** compared to Q1 of 2020. **Gross margin** improved by 4.1 %points, recurring **EBIT margin** improved by 3.1 %point in the quarter and **Net Income margin** also improved by 3.3 %points in Q1 compared to the same period last year.

In the first quarter of 2021 **Group level Net Income reached EUR 2.7 million** that means a EUR 5.2 million improvement compared to first quarter of last year and the highest value since Q4 2017. Financial results improved by EUR 1.2 million mostly due to the fact that EUR/HUF exchange rate was relatively stable during the quarter and didn't affect negatively the quarterly result.

Group level OPEX decreased by 5% compared to Q1 2020 that was mostly driven by the 15% OPEX decrease at ITS segment while RCL and Other segment aggregated OPEX level slightly increased due to the increasing share of higher margin value added services where complex solutions require higher SG&A. 17% OPEX decrease compared last quarter of 2020 is mostly due to some one-time cost elements in the base period.

D&A decreased by 21% on year-on-year basis that is mostly attributable to the fleet size decrease executed in the ITS segment during 2020

All-in-all, we are proud that the results of the turnaround strategy are fully reflected in our financial figures. The management believes that the trend is sustainable and by executing the necessary fine-tunings in our ITS segment, the financial result of the Group could reach the historical levels of mid-2010s in midterm however with a different corporate strategy and different internal weight of the segments and services.

WABERER'S INTERNATIONAL Nyrt.
H-1239 Budapest, Nagykőrösi út 351.
www.waberers.com

Investor Relations
Viktor Majzik
investor.relations@waberers.com
Tel: +36 1 421 6300

Slide 12:

Szabolcs Tóth (CFO)

Let's proceed to the balance sheet and cash flow analysis on **page 12**.

As a result of the fleet size optimization and improving cash position of the Group, **net financial indebtedness** of the Group decreased significantly by EUR 70 million since March 2020 to EUR 117 million. That means a leverage ratio of 2.1 times recurring last-12-month EBITDA that is again a historic lowest value. As we already introduced at our last analyst call after Q4 results, the restarted fleet replacement program – parallelly with its operational cost decrease effect – will increase the Group's indebtedness position by roughly EU 20-25 million, however it is not expected before the end of the business year / beginning of next year due to the longer than usual delivery deadlines of our truck manufacturing partners.

As you can also see on the slide, net indebtedness position didn't change significantly compared to the previous quarter as fleet decrease process is mostly finished in 2020.

We also introduced to you at the last analyst call that as a result of our long term agreement with our financing partners, several **short term liabilities will be recategorized to long term liabilities** in the value of EUR 41 million. The change of the maturity structure is demonstrated on the latest Balance Sheet figures on the left column on the upper table. As the relevant contracts entered into force in the last few weeks, reclassification is expected during the second quarter of 2021 and will be fully reflected in Q3 report.

The below chart shows the **quarterly Cash Flow performance** of the Group. **The quarterly free cash flow was EUR -6.5 million.** Without the one-time negative effect of the working capital financing need – that is an impact carried over from the last quarter of 2020 - the Group would have been in slight positive cash flow generating position.

I would like to emphasize again that – despite the legal opportunity to extend the leasing payment moratorium – due to our strengthened financial position, the Group restarts paying the leasing instalments after signing the club loan agreement as from April but with an effect of January 2021.

Slide 13:

Szabolcs Tóth (CFO)

In the previous part of the presentation, together with Barna we demonstrated that the Group's financial position has materially strengthened, the core operation has turned sustainably profit making again so **the management focus is turning** more and more **to value creating business development directions supporting the sustainable profitability** of which I would like to give to you a very short summary.

On the top of the chart, you can see **3 major strategic principles** that defines the business development directions.

I. Due to the change of the competitive environment and achievable margins, instead of a pure volume increase strategy – that helped the Group to reach the current size in the last 15-20 year – **both in the**

WABERER'S INTERNATIONAL Nyrt.
H-1239 Budapest, Nagykőrösi út 351.
www.waberers.com

Investor Relations
Viktor Majzik
investor.relations@waberers.com
Tel: +36 1 421 6300

international transportation and in the regional segment our main focus is to build long term partnerships with clients who demand above the average service quality, flexibility in operation or special knowledge and services cannot be offered by mass operators.

II. Despite the move from pure price based competition, we still need to **keep focus on reasonable level of operational cost** that should be part of our DNA due to the nature of our industry.

III. We are **devoted to innovation and eco-friendly solutions** and also feel a increasing pressure from our customers' side to cut our carbon footprint when providing our services.

To adopt the above described principles, the below business development directions were defined to reach our targets:

1.) **Focused sales activity** on Tier 1 multinational and leading Hungarian customers where **Waberer's can offer unique and dedicated solutions** due to our capacity, market leading solutions and complex service portfolio. Some examples for dedicated service elements where Waberer's has or could have competitive advantages:

- Flexibility in seasonal demand changes
- High security expectations
- Demand for special vehicles
- End-to-end logistics service portfolio
- Zero or low carbon footprint services

2.) **Truck replacement program** should speed-up to decrease average age of the fleet in the international transportation segment to 2.0 – 2.5 years. Lower fuel consumption, lower repair cost and higher availability of the trucks could generate several million operational cost saving parallelly with significantly lower CO2 emission even without technology change in the fleet.

3.) We are continuously monitoring the technology change in the industry and we experience that several emerging technology reaches the maturity point when they can be operated at reasonable cost level at special segments. For example **LNG** – that is liquid natural gas – trucks are ready to serve us in selected long haul routes, **electric vans** are good solutions for city logistics and – however the technology is still less matured – **hydrogen driven fuel cell based transportation** is also in our focus and we are actively participating in the EU driven Initiative to examine and potentially switch the long haul transportation of the continent to hydrogen based operation. Currently and in the coming period we will actively test all the previously mentioned technologies and a few of them already serve us in the everyday operation.

As we feel increasing demand from our customers to be served by these low carbon footprint technologies – we are currently in active discussion with several customers about testing and implementing them –, we are pretty sure that these technologies will take a significant part in our fleet in 2-4 years time.

4.) **Intermodal transportation** is also part of our strategy to offer our customers a cost-effective transportation solution with low emission level. Due to the nature of the combination of road and railway transport, special attention is needed to execute intermodal solution in a profitable way, but we do believe that having intermodal solution in our service portfolio will provide us competitive advantage at customers who are open or –based on experiences at same cases – require to be served by intermodal solutions.

5.) Our customers at the regional contract logistics segment are continuously seeking supply chain solutions for several regional countries in the Central-Eastern Europe region and also in the Balkans. Via **organic or inorganic expansion in the region** – mostly focusing on the northern and the southern neighbouring countries – could provide us the ability to extend the cooperation with these clients and provide additional growth opportunity to our successful RCL segment.

6.) Last but not least, we are continuously examining to provide a vertically integrated full supply chain solution to our customer base at the RCL segment instead of a pure warehousing or domestic transportation service **and last mile delivery service leg** will be strengthened in our service portfolio. Instead of becoming a general last mile delivery company and competing with the champions of this subsegments, Waberer's is focusing on special customer needs and special niche markets – like the delivery of oversized products.

I'm sure that in the forthcoming analyst calls we will be able to report to you the first results of the above listed direction.

Slide 14

Barna Erdélyi (CEO):

As we are at the end of our presentation, I would like to briefly summarize the major points:

- Successful company turnaround continues ;
- EUR 4.5 mn reported Group EBIT and EUR 2.7 mn Net Income during the quarter;
- Positive reported ITS HU & PL EBIT in March;
- Manageable operational challenges generated by Brexit, pandemic & global supply chain turbulence