DX (Group) plc

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Full year Results Presentation
for the year ended 30 June 2016

AGENDA

Annual overview	Petar Cvetkovic
Financial review	Daljit Basi/Ian Pain
Review of services and development	Petar Cvetkovic
Summary and Outlook	Petar Cvetkovic

ANNUAL OVERVIEW

- A challenging year with revenue and cost pressures that drove a trading update in November 2015
- Ongoing strategy of 'OneDX' investment continues
  - Develop the OneDX customer proposition – "Stronger together"
  - Organic growth and operational efficiencies to offset DX Exchange decline
  - Benefits from network consolidation
- Management actions to address specific trading issues ensured full year results in line with revised expectations

FINANCIAL OVERVIEW

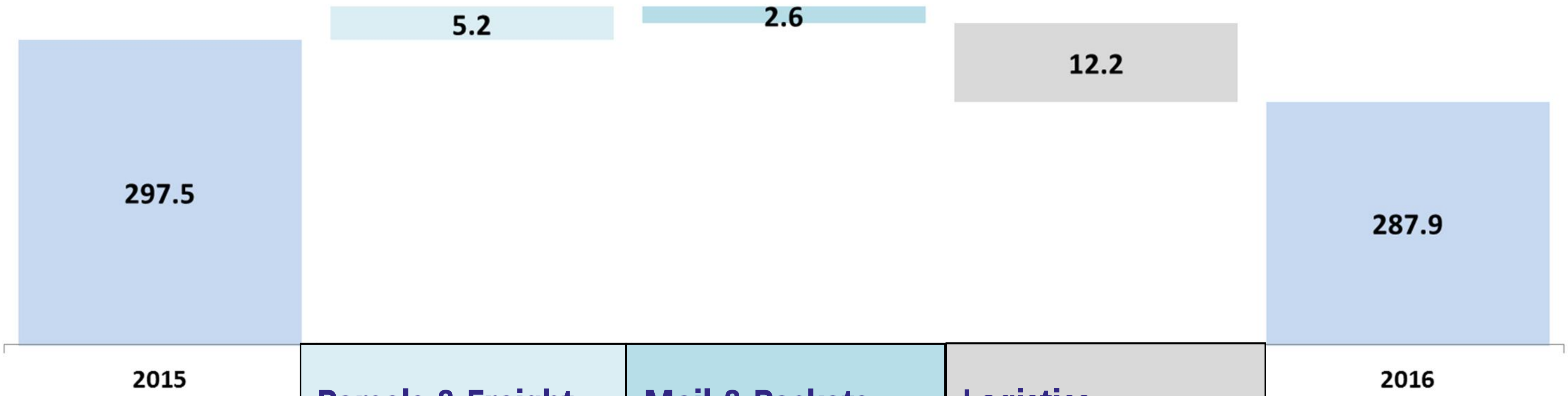
Daljit Basi – Finance Director
Ian Pain - CFO

FINANCIAL HIGHLIGHTS

- Encouraging growth in other services to offset DX Exchange decline
- EBITDA impacted by DX Exchange decline and driver resource costs
- Exceptional costs primarily non-cash items
- Adjusted EPS 4.9p (before exceptional items and amortisation of other intangible assets)
- Final dividend 1.5p resulting in full year dividend of 2.5p

	2016 £m Underlying	2016 £m Exceptional	2016 £m Total	2015 £m Total
Revenue	**287.9**	**-**	**287.9**	**297.5**
Profit before interest, tax, depreciation and amortisation ("EBITDA")	**18.0**	**-**	**18.0**	**33.7**
Depreciation	(3.0)	-	(3.0)	(3.4)
Amortisation of software and development costs	(3.1)	-	(3.1)	(3.1)
Exceptional items	-	(92.1)	(92.1)	-
Underlying results from operating activities	**11.9**	**(92.1)**	**(80.2)**	**27.2**
Amortisation of other intangible assets	(2.1)	-	(2.1)	(1.9)
Reported results from operating activities	**9.8**	**(92.1)**	**(82.3)**	**25.3**
Net finance costs	(0.5)	-	(0.5)	(0.5)
Share of profits from associate	0.1	-	0.1	-
Profit/(Loss) before tax	**9.4**	**(92.1)**	**(82.7)**	**24.8**
Tax	(1.7)	-	(1.7)	(4.9)
Profit/(Loss) for the year	**7.7**	**(92.1)**	**(84.4)**	**19.9**
EPS - adjusted (pence)	4.9			10.9
Dividend per share (pence)	2.5			5.0

REVENUE BRIDGE BY SEGMENT (£m)



Parcels & Freight +3.4% growth

Courier: £6.4m (12.6%) growth

1-Man: £0.1m (0.1%) decline as volume growth offset by reduced fuel surcharges

2-Man: £1.1m (7.0%) decline, managed exit of unattractive contracts replaced by significant new win part way through the year

Mail & Packets (2.2)% decline

DX Exchange: £6.6m (10.1%) decline

Secure: £4.3m (9.0%) growth

Mail: £0.8m (27%) decline

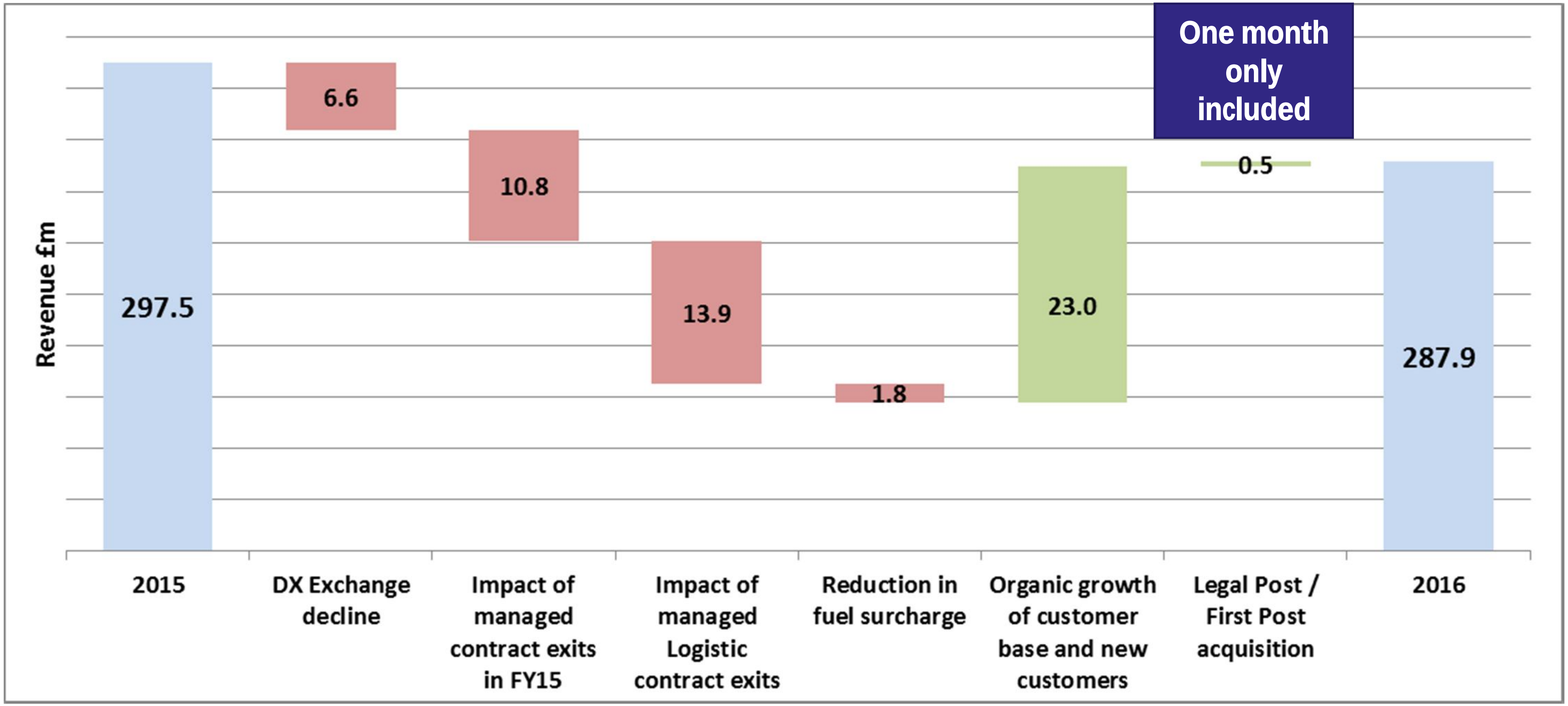
Includes one month £0.5m from acquisition of Legal Post and First Post

Logistics (45%) decline

Exit of low margin contract completed in August 2015

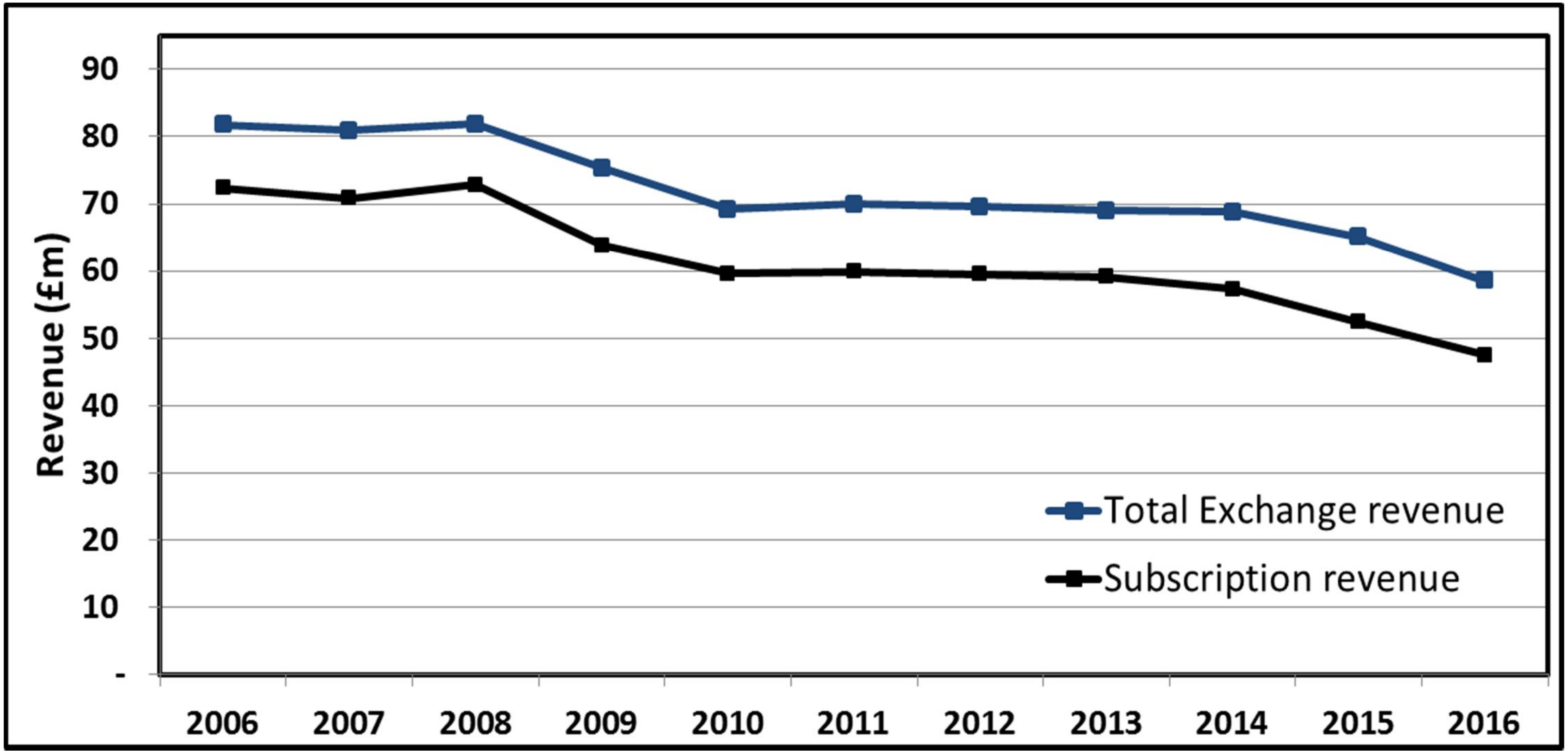
New contract with IKEA commenced October 2015, expected to grow with opening of Reading store and further new business in 2017

REVENUE BRIDGE



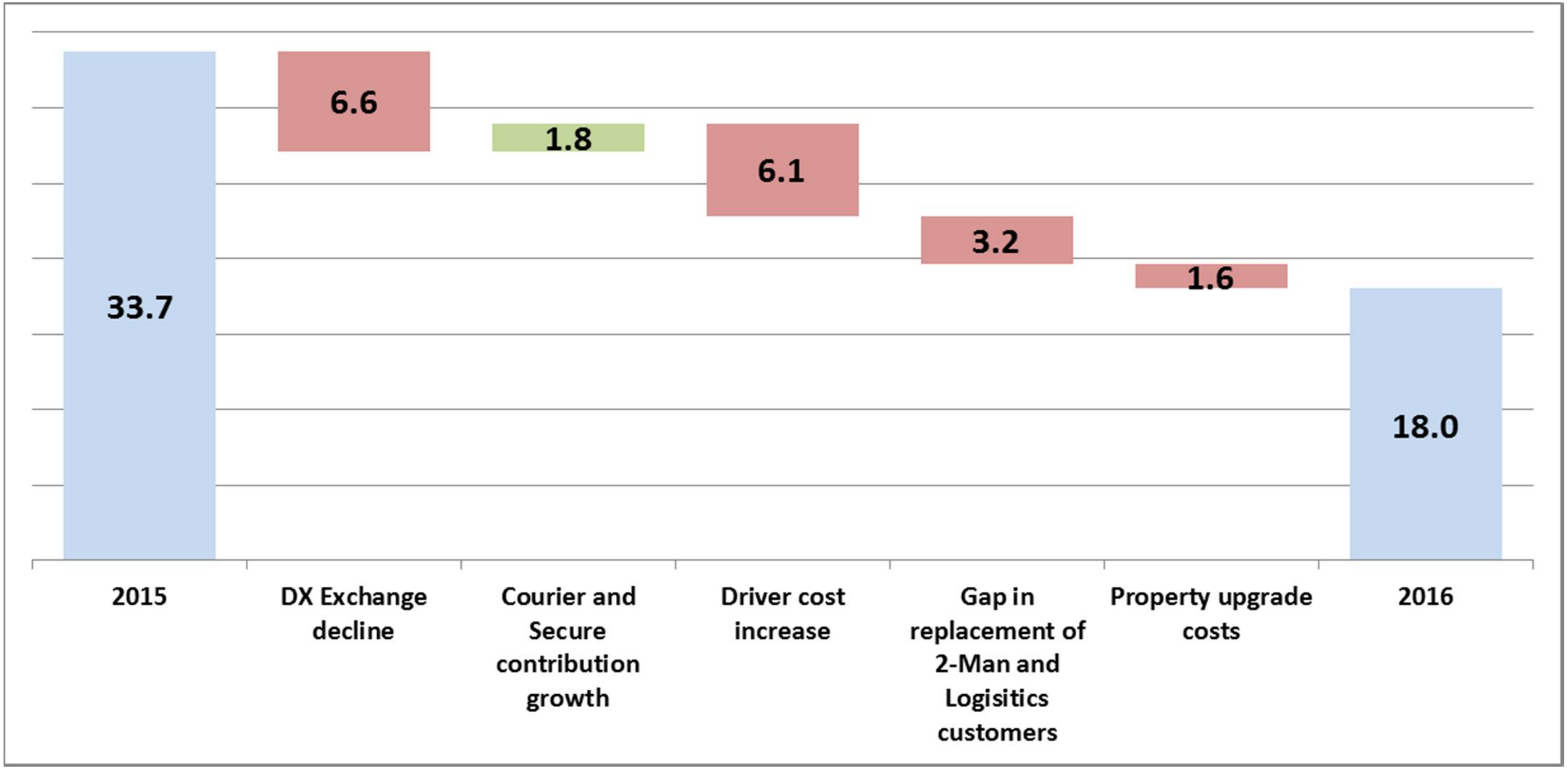
- Flow through of managed contract exits from preceding financial year completed
- Higher than anticipated decline in DX Exchange
- Net volume growth in other core services

DX EXCHANGE REVENUE AND ANNUITY (UK & IRELAND)



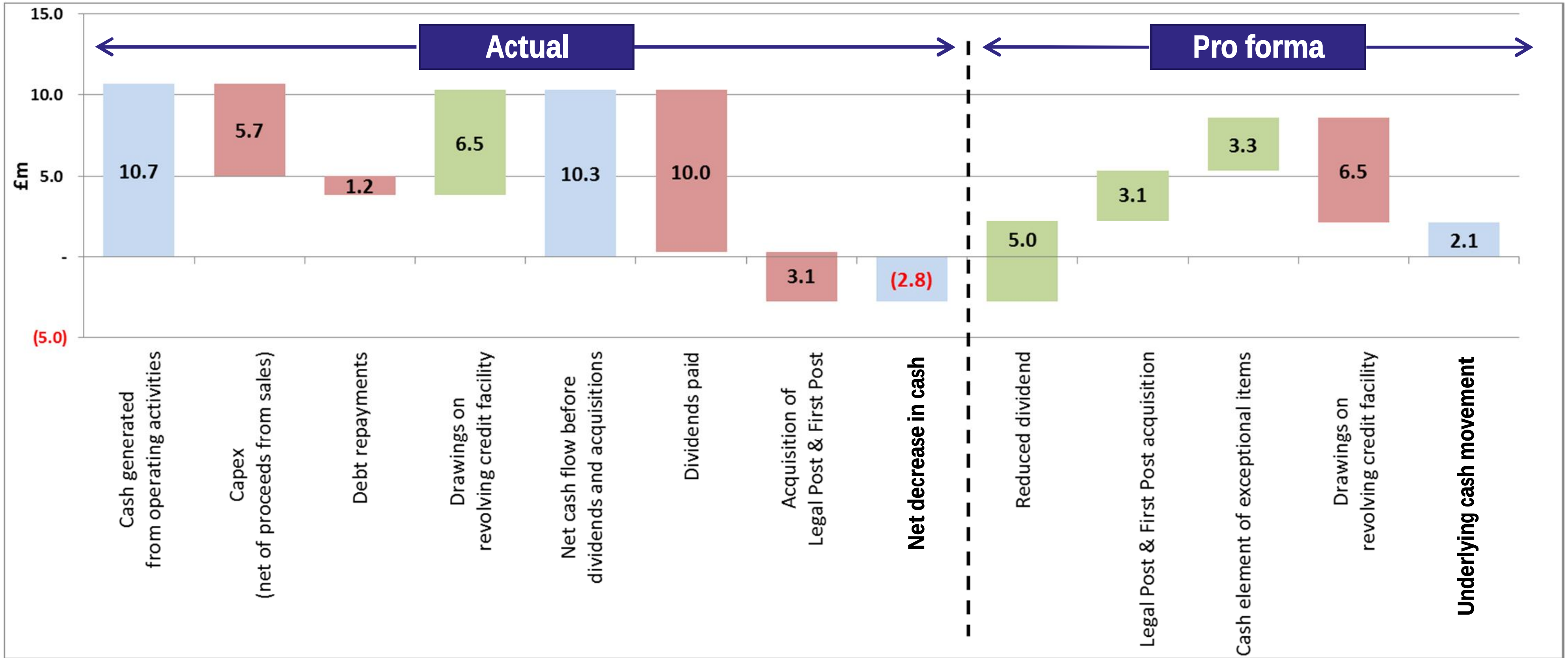
- DX Exchange experienced a material decline in 2008-10 driven by the global credit crisis
- Between 2010 and 2013 DX Exchange revenues were broadly stable as price increases offset volume declines
- Analysts built in 6% compounding revenue erosion in research prior to the February 2014 IPO
- DX Exchange revenue has declined more rapidly over the financial year, off-setting the growth in other services
- Management assume current rate of decline to continue but some growth opportunities from Legal Post integration

EBITDA BRIDGE



- Accelerated decline in DX Exchange directly impacted profit since service is supported by a fixed cost base
- Shortage of CPC-qualified drivers leading to both temporary and permanent increases in driver costs
- 2-Man and Logistics customers replaced part way through the year

CASH FLOW



Net debt as at 30 June	**2016 £m**	**2015 £m**
Term loan	7.6	8.8
Cash and cash equivalent:	(4.3)	(7.0)
Revolving credit facility	6.5	-
Net debt	**9.8**	**1.8**

Current bank facility expires September 2017. Renewal discussions in progress

Capital expenditure for the year ended 30 June	**2016 £m**	**2015 £m**
IT hardware and development costs	3.2	5.4
Property fit out costs	1.6	1.2
Operations	1.2	1.1
Service development	0.5	1.1
Acquired from City Link administrators	-	1.1
Total	**6.5**	**9.9**

- Capital expenditure continues to be focussed on OneDX systems and network development
- Prior year final dividend of £8.0m (4.0p per share) paid in year
- Underlying cash generation of £2.1m

EXCEPTIONAL ITEMS

	2016 £m	2015 £m
Impairment charges	88.4	-
Planning and acquisition costs on proposed hub	3.3	-
Share-based payments accelerated charge	0.4	-
Total	**92.1**	**-**

Goodwill Impairment

- Impairment review based on challenging market conditions and profit decline
- Goodwill impairment of £88.4m to £102.4m as announced with interim results. Valuation in line with IAS 36
- Capital reduction: May 2016 £181.4m of share premium reclassified as retained earnings to provide for future dividend payments

Planning and acquisition costs of proposed hub

- Initial planning application on proposed Essington hub was declined
- Costs written off presented in accordance with IAS 1
- Planning and design costs may be applicable to alternative sites

Share based payment charges

- Current schemes do not provide colleague incentivisation
- CSOP and SAYE schemes cancelled
- Considering new incentive schemes

REVIEW OF SERVICES AND DEVELOPMENTS

Petar Cvetkovic
Chief Executive Officer

DEVELOPING THE REVENUE PROFILE

	2016 £m	2015 £m	Change
Parcels & freight	159.3	154.1	3.4%
Mail & packets	113.8	116.4	-2.2%
Logistics	14.8	27.0	-45.2%
Total revenue	**287.9**	**297.5**	**-3.2%**

PARCELS AND FREIGHT


DX Courier


DX 1–Man


DX 2–Man

- Automated texting and post delivery notification
- Select delivery date capability
- Enhanced pharmaceutical proposition (MHRA)
- New DX 2-Man telephony and text booking capability
- Developed further integrations with aggregators

MAIL AND PACKETS


DX Exchange


DX Secure


DX DSA Mail

- Pick-up & Drop-off network development. Automated pre and post delivery notifications
- HMPO tender submitted. Decision expected by the end of November
- Improved customer experience through social media and digital channels

LOGISTICS


DX Logistics

- Focus on more profitable small fleet management
- Managed exit from non-profitable/low margin accounts
- New 3 year contract win with IKEA and contract renewals

ACQUISITION OF LEGAL POST AND FIRST POST

The Deal

- Acquisition of trade and assets announced on 10 May 2016. Completed 27 May 2016. Consideration of £3.25m in cash. £3m plus costs of £0.1m paid prior to year end
- Complementary services and standalone EBITDA of £0.6m:
    - Legal Post provides a document exchange service in Scotland: £2.1m revenue
    - First Post operates a Downstream Access service in Scotland: £3.1m revenue
- Anticipated cost savings from integration £0.6m on annualised basis, implies multiple of 2.7x EBITDA

The Rationale

- Extends the sustainable economic life of a document exchange service in Scotland
- Service enhancements for both sets of customers
- Cost savings through route, facility and overhead integration

Competition and Markets Authority

- Initial Enforcement Order now lifted – integration proceeding at pace to deliver anticipated in year savings

'ONEDX' PROGRESS OVER THE YEAR

- 3 new service centres opened
  - Network optimisation continued with 6 into 3 service centres
  - Upgraded facilities for improved efficiency
  - Increased capacity
- Combined financial management and reporting – delivering better controls with reduced cost
- Launch of route planning software

DX REMAINS COMMITTED TO DEVELOPMENT OF NEW HUB AS PART OF 'ONEDX' PROPOSITION

Site & planning

- Initial planning application for Essington declined
- Revised planning application for same site being submitted
- Alternative back-up site identified

Technical specifications

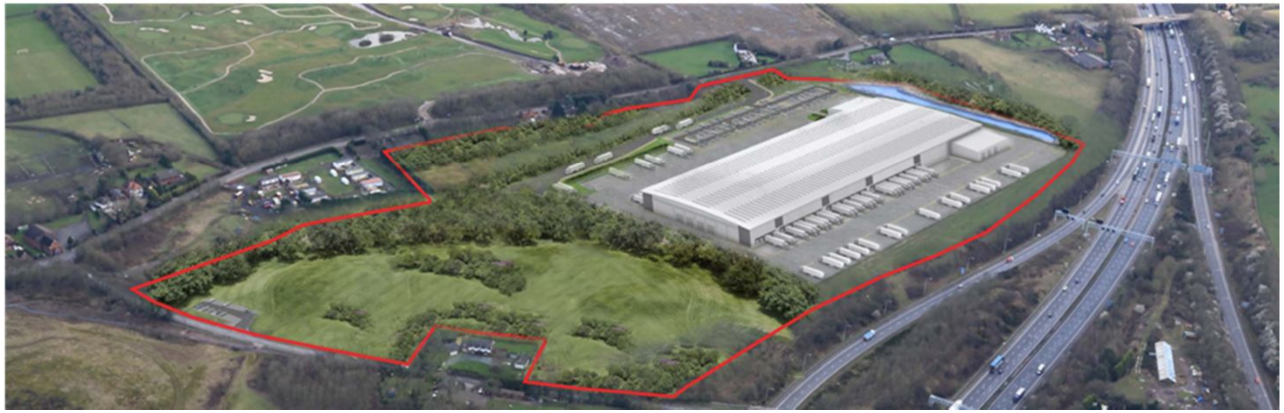
- 27 acre site
- 250,000 sq. ft. footprint
- 97 doors

Strategic rationale

- Strengthen customer experience allowing customers to use all services through one channel
- Consolidation of hub and trunking operations into a single location to achieve operational benefits
- Increase in operational capacity to accommodate future growth, permitting both flat floor and dock level operations – limited automation

Funding 3rd party

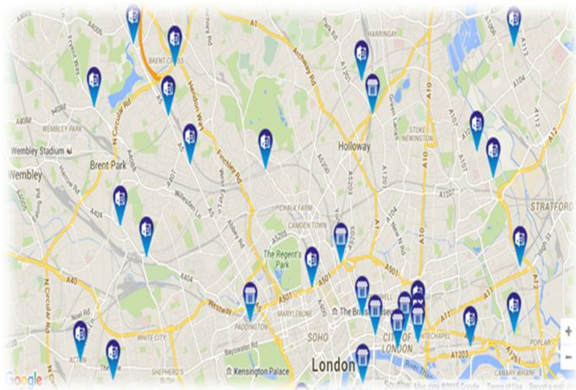
- Development partner
- Independent financial backer
- 25 year lease – with development profit share arrangement



PICK UP/DROP OFF NETWORK (PUDO)

DX Parcel Exchange

- A national network of convenient pick up, delivery and return points
- Choice of over 1,000 locations (via InPost and Doddle)
- Providing more choice to online shoppers
- Easy to use website plugin for retailers
- More collection points to follow in 2017



MotorTransport
"DX launches collection service with InPost & Doddle"

logistics manager
"DX launches Click & Collect service"

POST & PARCEL
"DX Parcel Exchange launched"

SUMMARY & OUTLOOK

- Results in line with revised expectations
- Priorities for current year
  - Conversion of profitable new business opportunities with new sales team and structure – targeting Courier, Secure and 1-Man
  - Delivery of service and technology enhancements and OneDX efficiency gains (additional investment in H1)
  - New hub – Essington/alternative site
- CPC-qualified driver shortage remains an issue across the industry (45,000+ quoted from Freight Transport Association)
- Robust balance sheet and external funding for hub development
- Board confident of strategy to deliver long-term growth

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