Y 2020 Earnings Call

Company Participants

- Camillo Greco, Chief Financial Officer
- Massimiliano R. Riggi, Head of Investor Relations and Business Insight
- Matteo Del Fante, Chief Executive Officer and General Manager

Other Participants

- Ashik Musaddi
- Azzurra Guelfi
- Elena Perini
- Federico Braga
- Gianmarco Bonacina
- Manuela Meroni
- Matija Gergolet

Presentation

Operator

Good afternoon. Welcome, and thank you for joining Poste Italiane's Conference Call. I would like to turn the conference over to Mr.Massimiliano Riggi, Poste Italiane's Head of Investor Relations. Please go ahead, sir.

Massimiliano R. Riggi {BIO 20490987 <GO>}

Good afternoon, ladies and gentlemen. Welcome to Poste Italiane's full year 2020 preliminary financial results, presented by our CEO, Matteo Del Fante; and our Group CFO, Camillo Greco. Following the presentation, we will be glad to answer your questions.

Now let me pass it over to Matteo.

Matteo Del Fante {BIO 6237992 <GO>}

Good afternoon, and thank you for joining us today. I hope you and your families are well and safe and that we will all go back to normality hopefully soon. I will take you through the highlights of Q4 and full-year 2020 before handing over to our new CFO, Group CFO, Camillo Greco. As you know, Camillo, has been our Deputy CFO for over six months now, joining us in July last year, after more than 20 years at JPMorgan. Camillo will lead you through a detailed business review and I will then provide some closing remarks before we open the call for questions.

Beginning on Slide number 3. Although in 2020, we had to face an unprecedented challenges, our financial and operating performance has been solid, confirming Poste Italiane's role of systemic player in Italy. The fourth quarter also confirms the tangible signs of recovery already seen across all segments resulting in higher group revenues year-on-year. We indeed posted an impressive net profit above EUR1.2 billion for the full year. This enable us to confirm our dividend policy with a dividend per shares of EUR0.486, increasing 5% year-on-year and with the corresponding payout ratio slightly above 50%.

Each segment contributed to EBIT quarterly progression and confirm the key secular trends already observed. Accelerated mail decline, higher e-commerce penetration, ultra-low interest rates and increased demand for digital payments and connectivity. In particular, Mail, Parcel and Distribution, operating profit improved in Q4, notwithstanding higher early retirement charges, which we choose to anticipate to accelerate transformation. More importantly, in the quarter, parcel revenues increase more than offset the mail decline, which is a significant achievement for the sustainability of the segment in the upcoming years.

In Financial and Insurance services, product sales continued their upward trajectory due to commercial focus with EUR17.8 billion net inflows since December 2019 supported by nearly zero net outflows in postal savings, our best results since 2012, so in 10 years. In Payments and Mobile, we continued to see increasing volumes with revenues rising 15% compared to Q4 2019. To sum up, all segments recorded a positive EBIT in Q4, if we exclude early retirement charges. We will provide you with further details on future trends and targets for the coming years during our Capital Markets Day that has you know, as been planned for next March 19.

Let's move to Slide 4, on the key highlights of 2020 and Q4. We are glad to present today to all our stakeholders our significant achievements. In this difficult year, we always ensured business continuity, providing services to our communities with the highest safety standards, at least one post office was open in every small municipality during the first strictest lockdown last spring, with a minimum of 7,000 post offices serving our customers. We delivered over 1 million of personal protection equipments to schools and issued over 12 million digital IDs enabling remote access to public administration platform and services. This is also continuing in 2021.

We are delivering COVID-19 vaccines, supporting regional health service and creating a state-of-the-art IT platform to track vaccine doses along the logistic chain as well as a multichannel booking system. This proved out once again our commitment towards the community reinforcing our role as systemic player of the country. 575 million transaction were processed in our post offices and an additional 90 million via our digital channels, further 115 million were handled through our widespread the third-party network of PuntoPoste.

On average, we registered the daily gross inflows of about EUR150 million per day with total retail net flows -- inflows of EUR15 billion in 2020 confirming our role of most trusted home for savings in challenging times. We delivered over 210 million parcels for an impressive 42% yearly growth more than doubling 2016 volumes of 97 million. Our 29 million cards generated EUR49 billion payment transactions, up 16% year-on-year.

Let's move to group preliminary financial results on Slide 5, please. In Q4, the group delivered positive revenues growth of 1.4% comparing to the previous year with revenues reaching almost EUR3 billion in the quarter. For the full-year, revenues stood at EUR10.5 billion decreasing only 4% year-on-year recovering from a bottom of minus 13% registered in the second quarter when we experienced the tough lockdown impact.

Total costs in the quarter appeared to be flat year-over-year, but it would be down if we exclude COVID related emergency cost and the additional early retirement charges are taken to accelerate and enable the restructuring. We continue to register significant operational improvement with EBIT up 19.6% in Q4 reaching EUR1.5 billion in the full year due to cost management actions effectively limiting the impact of lower revenues. Thanks to the strength of our diversified business, net profit stands at EUR308 million in the fourth quarter, up 18.7% year-on-year including a positive one-off of EUR96 million of income tax. In full year 2020, we register as anticipated EUR1.2 billion net profit, decreasing 10% year-on-year due to the lockdown severely hampering operations for several months, especially in Q2.

On Slide 6. We see continued positive revenue progression across all business segments. Mainly Parcels performance was driven by strong parcel growth more than offsetting mail decline, leading to an increase of 1% in segment revenues. Payment and Mobile keeps following the trend with a strong revenue growth of 15% compared to the previous year underpinned by an increase in digital payments.

The Financial Services segment continued to steadily recover from Q2 reaching EUR1.3 billion revenue in the quarter broadly stable year-on-year. Insurance Services revenue reached over EUR450 million broadly in line with Q4 of 2019 despite some upfronting of investment margin in Q3 of 2020. This positive result was positive, thanks to the upswing in commercial activities resulting in higher growth and net inflows year-on-year. We will continue to focus on certain business trends that we have experienced across segments in 2020, including the first and second wave of the pandemic and the consequent lockdowns.

As you can see on Slide 7 and as we have already observed, commercial activities fully recovered for the first -- from the first lockdown with a steady increase in digital and third-party network transactions accounting now for up to almost one-third of overall transactions. Parcel daily volume growth has further accelerated in Q4, increasing 58% year-on-year. Mail volume decline continued impacted by the absence of higher margin product delivery during the year.

Moving to Slide number 8. We're proud of the results achieved in Financial and Insurance services as well as in Payment and Mobile in Q4. Daily gross inflows reached an average of EUR170 million with a 17% increase year-on-year and we're now back at the pre-pandemic level even if a number of regions went in and out of lockdowns, even in the last quarter.

Sales of P&C new products slowed down in Q4 in line with market trend. Nevertheless, the sustained growth in our modular offer in the second half of 2020 contributed to mitigating the slowdown of CPI policies, which, as you know, are strongly linked to the economic cycle. In payment, PostePay, daily card transaction grew 52% year-on-year fueled by e-commerce growth and the shift in customer spending habits. The telecom customer base increased 3% since last year, reaching 4.6 million users. Thanks to a loyal customer base with a low churn rate in a highly competitive market.

Let me now hand over to Camillo, who will take you through a more detailed business review. Please, Camillo.

Camillo Greco {BIO 21978163 <GO>}

Thank you, Matteo, and good afternoon, everyone. I'm glad to be here today and take you through the next part of this presentation. Let's start with a quick overview of each segments revenues, starting with Mail, Parcel and Distribution on the Slide number 10. In Q4, parcel revenues grew to a record level more than offsetting mail decline. As you are aware, over the past year, we have witnessed an accelerated shift in the mix of revenues between mail and parcels. In fact in 2019, parcel revenues represented only 26% of the combined mail and parcel revenues. With the acceleration of e-substitution and the surge of online purchases, parcel revenues grew substantially and now represent 38% of overall mail and parcel revenues which have therefore shifted to a more sustainable mix.

Looking at the revenue break down, the mail component in Q4 was down 16% year-on-year along with a trend comparable to the previous quarter. Looking at parcels, revenues continued to grow at a very significant pace, up 56% in Q4 and by 36% in full year 2020 also supported by record high B2C. Distribution revenues grew 2.8%, thanks to increasing commercial activities in Q4. At operating level, Q4 EBIT continued to improve despite higher early retirement charges to support renewed focus on business transformation. Finally, just a few weeks ago, we completed the acquisition of Nexive, the second largest mail operator in Italy. We'll discuss the positive impact of this transaction in our Capital Markets Day on March 19.

On Slide 11, we remain within the Mail and Parcel segment and look at volume and pricing trends. Overall, mail volumes fell 13.2% in the fourth quarter, impacted by lockdown though at a lower pace than in Q3. Product mix impacted mail average tariff by 3 percentage points in Q4 slightly better than third quarter's trend. On the parcel side, volumes are up across all products, especially in B2C. The specific business focus on warehousing and logistics services fueled by the delivery of PPE led to incremental growth consistently with previous quarters. Overall, parcel volumes in Q4 increased by an impressive 58.9% and by 41.7% in the full-year. Volumes -- B2C volumes recorded an unprecedented growth of 77% in the quarter leading to a 60% increase in the full year, confirming Poste as the market leader with an estimated market share of above 36%. Average parcel tariff was down by 3 percentage points due to product mix. C2X volumes increased 37% in the quarter and 17% in the full year, also thanks to our renewed focus on retail products sold through our third-party network.

Slide 12 shows the monthly evolution of parcel volumes in 2020. As we have seen previously, parcel daily volumes have been steadily increasing starting from March with a strong acceleration throughout the year, up to a record high in December. The contribution of volumes from China remains robust 3 times to 4 times higher than the last year since July supported by our offer of value-added services such as end-to-end tracking. Early '21, we have already put in place two key actions to seize future growth opportunities in the parcel business.

In January, we acquired the controlling stake in Sengi Express to strengthen inflows from China. In February, we renewed our three-year partnership with Amazon based on continued growth of volumes and revenues encompassing new higher margin delivery solutions and mechanism to manage this in a mutually beneficial way. The past three years of have established Poste as a key player in the parcel market confirming the successful implementation of the strategy embedded in Deliver '22, paving the path to our new plan.

On Slide 13, we can see the mail daily volume evolution throughout 2020. As expected, this chart shows monthly volumes bottoming out in March with a stronger impact on recorded mail. As you know, this is a higher margin product, which we expect to partly recover in 2021 following government rulings. In December 2020, we have already witnessed a slight recovery in overall mail volumes trend, that is confirmed also in early 2021.

Moving to Payments and Mobile on Slide 14. Revenues continued to increase up 15.2% in Q4 and 11.1% in the full-year. Card payment revenues were up by material 20% in Q4 and by 10% year-on-year supported by higher number of cards as well as transactions. Other payments increased 11% in the quarter including bank transfers while registering a decrease of 7% in 2020 mainly related to the tax payment suspension by the government.

Telecom revenues grew 10% in the quarter and 19% in the full year. Thanks to a loyal customer base in a highly competitive market. Intercompany revenues, mostly from Financial Services were down due to an extraordinary decrease of physical payment slips. Notwithstanding the sharp fall in payment slips, EBIT is up by 3% in the quarter and 7.3% year-on-year due to the growth of digital payments as well as segment -- as well as the segment key driver.

Moving to Financial Services on Slide 15. Segment revenues were stable in Q4 and down 3.7% in the full-year. Let me remark that both interest income and capital gains are now reported net of respectively interest expenses and capital losses and previous data has been restated for comparative purposes. Net interest income was down 4% in Q4 and 3% in full-year 2020 with record low interest rates mitigated by higher volumes coming from new deposits. Net capital gains were higher both in the quarter and the year, thanks to our proactive management, seizing market opportunities arising from narrower spreads. By changing the mix between capital gains and net interest income, we successfully adapt to the current ultra-low interest rate environment. And postal saving distribution fees were up. We successfully reduced net outflows to nearly zero in 2020. This is the lowest level since 2012. Asset management fees were resilient year-on-year, thanks to recurring commissions.

In loan and mortgage, we gained market share even if distribution revenues decreased 43% in the quarter due to lower demand and reduced average upfront fees. This line was also negatively impacted by some EUR10 million charges conservatively booked in the quarter to face potential early redemptions by clients. In the full year, this line decreased 39%, mainly impacted by restrictions related to the sanitary emergency. The joint venture with BNL Finance announced in January would allow us to expand this line going forward with a focus on that the particularly interesting product of salary backed loans.

Transaction banking fees in the quarter are down 1% on lower payment slips volumes mitigated by a positive financial one-off related to expired liabilities. Intersegment distribution revenues decreased 4% in the full year, but were up 9% in the quarter. Mainly thanks to the revamp of commercial activities of insurance products. EBIT is up 15.8% in the quarter mainly due to a financial one-off on the cost line related to expired liabilities. In the full year, EBIT declined only 1% despite they ultra-low interest rates and restrictions related to COVID-19.

Moving to Slide 16. TFA reached EUR569 billion, up by a significant EUR32.5 billion since the beginning of the year supported by EUR17.8 billion positive net inflows across all asset classes and EUR14.7 billion positive portfolio performance effect. The positive net inflow was also impacted by early pension payments. The above results once again confirms Poste as a safe harbor for Italian savings, in particular, Postal savings benefited from a significant improvement in the net outflows EUR0.6 billion in 2020 compared to minus EUR3.5 billion in 2019 and minus EUR4.8 billion in 2018. Deposits increased by EUR12.7 billion supported by higher inflows due to customers' preference for liquidity. Net technical provisions increased EUR5.6 billion, thanks to the successful placements of multi-class life products.

Moving to Slide 17. Insurance Services posted a solid performance in the full-year 2020. In the quarter, life revenues were up 3% supported by the sale of multi-class products representing about 34% of total gross written premiums. This surge in commercial activity, more than offset in the quarter, lower investment margin, which was front-loaded in Q3 to take advantage of market opportunities. Non-life revenues were down, on lower sales of CPI policies in a market in which personal loans decreased by one-third in 2020, though mitigated by higher sales of welfare and health protection products.

As already anticipated by the CEO, our modular offer on personal and property protection continues to grow steadily confirming its key role in strengthening our P&C commercial offer. Full year EBIT was broadly stable mirror revenue evolution.

Let's move to Slide 18. PosteVita group Solvency II ratio stood at 279%, clearly above our managerial ambition of 200% through the cycle. Even if PosteVita distributed a dividends during 2020 in line with the past years, the ratio would still have been above a solid

250%. Based on the latest interactions with the regulator, PosteVita should be able to resume dividends distribution in 2021 in line with previous years. The Solvency II ratio increased in the quarter benefiting from lower spreads across all asset classes. Transactional measures provide additional 32 percentage points to address potential market volatility.

Let's move to Slide 19 with an overview of the sensitivities of the Solvency II ratio. Solvency II ratio remains in line with our risk tolerance threshold under all assumed scenarios. Solvency ratio is high. And as already mentioned transitional measures provide additional buffer to face potential market headwinds, which remain unlikely under the current macroeconomic and monetary policy environment. At the same time to ensure the long-term sustainability of PosteVita's growth, we keep working to reduce the volatility of the ratio going forward, along the three streams already represented. The development of an internal model, the diversification of our investment portfolio, the ongoing review of our liabilities with the launch of capital light products.

On Slide 20, you can appreciate the progression of the transformation of Poste Italiane's workforce. Over the course of last year, our average headcount decreased 3.5% from 129,000 to below 125,000 comparing to the target of 123,000 FTEs by 2022, this is once again demonstrates our ability to effectively adjust our workforce in a flexible way mitigating the impact of revenue headwinds and creating structural efficiencies. In particular, we registered 9,700 exits and we added 5,200 FTEs to enable our successful transformation. As a result of this headcount reduction, the value-added by FTE decreased by just 4% in a year that registered an overall decrease of profitability of 14%.

Moving to HR costs on Slide 21. Our cost management actions resulted in lower HR costs down 6.4% in 2020, half of which represents structural savings coming from lower FTEs. Employee furlough, lower overtime and a decrease in the variable compensation contributed to further reduced HR costs in 2020. Though we expect, these expenses will resume in 2021 as a result of commercial activities normalization. Early retirement charges amounted to EUR434 million higher than the original target of EUR0.3 billion with a renewed focus on transformation and reskilling of our workforce. Non-HR costs amount to EUR3.2 billion in 2020 increasing on a reported basis by 5.2% year-on-year mainly on business driven or one-off costs.

More in detail, EUR106 million represent one-off emergency related expenses as we continue to provide all the necessary protective equipment and sanitization to ensure highest health and safety standards for workplaces, employees and customers. EURD190 million referred to higher variable costs related to increased business activity in the core Telecom and Parcel segments. As we have already observed, this change in the business mix already envisaged in our plan emerged earlier due to the acceleration of key trends and we are working on efficiency measures to reduce the cost per unit going forward. Excluding emergency one-off and business-driven costs, non-HR costs were down EUR136 million year-on-year, thanks to cost discipline on discretionary COGS and lower D&A. Although 2020 was a challenging year, we have confirmed our focus on transforming the business by investing close to EUR700 million in CapEx mainly related to sorting automation and digital evolution.

Now, let's move to Slide 22, showing a positive operating profit progression since Q2. This is a very significant result considering the difficult year we have been going through and bearing in mind that those of 2019 were record high results.

Let me hand back to the CEO for some closing remarks. Thank you.

Matteo Del Fante {BIO 6237992 <GO>}

Thank you, Camila. And before taking your question, let me conclude as usual with some key messages.

And we're on Slide number 23. At the beginning, for the first hardest lockdown, back in March, we've shown confidence in our ability to weather an unprecedented situation, fully aware of our systemic role for the country in these critical times. And I want to thank all our employees for what they have done to make this possible.

Leveraging on our diversified business model, we've been brave in anticipating and confirm our dividend policy at the beginning of this difficulty year. Today we're therefore proud of our 2020 preliminary financial results, which confirm our initial confidence. On this solid grounds, we will build our future along the lines of the new strategic plan, which will be announced on March 19, stay tuned please.

And let's now move to the Q&A session. Over to you, Massi.

Questions And Answers

Operator

(Question And Answer)

A - Massimiliano R. Riggi {BIO 20490987 <GO>}

We will now begin the question-and-answer session. (Operator Instructions) And the first question is from Manuela Meroni, Banca IMI. Sorry. The first question is from Gianmarco Bonacina from Equita.

Q - Gianmarco Bonacina {BIO 4077284 <GO>}

(Multiple Speakers) (Technical Difficulty)

A - Matteo Del Fante {BIO 6237992 <GO>}

Okay. Thank you. On the CDP agreement, we are still negotiating the three-year agreement that expired end of 2020, it's not unusual to take a bit of extra time. Technically, it's not a private low contract, because we are distributing state guaranteed financial saving products. So we are in a public domain and therefore, the negotiation has to follow some specific procedure. But the law says that the distributor has to be remunerated as it has always been according to the service that we provide.

So given, I think what is more important is the fact that we've done extremely well in the last three years, we have done a record 2020 in postal savings and that's clearly the best way to present ourselves to the negotiation. And certainly, we can say that also 2021 has started on a very strong foot in terms of collecting savings from our clients.

On the second question, I will introduce the answer and then please, Camillo, if you want to be more specific on the both HR and non-HR cost. We said at the beginning of the lockdown of the pandemic and we repeated in July. And in November that we were looking at 2020 as an opportunity to do as many transformations we could on the cost and on the revenue side. So one should look at our cost savings that we have produced for 2020 with a component of structural, the way we presented it today, any component which is related to the specific 2020 scenario. And what we really work on as much as we could was the structural savings both on HR and non-HR cost because that's what will allow us to have the best performance in 2021. So the way we're going to present the plan in March is certainly looking at 2020, but we will keep a reference on 2019, because that's where we see a solid performance to start from.

Please Camillo.

A - Camillo Greco {BIO 21978163 <GO>}

Thank you. And what I will just add is that if you look at the HR costs, we were clear in identifying what we call a structural saving that out of the EUR356 million is around EUR190 million. So we believe that that is a saving; at the same time, there are some emergency related costs and other actions that were taken by management to reduce the cost base in 2020. As an example, variable compensation, lower overtime allowances. So we believe that in a normalized market, that part of the business should bear those costs.

With respect to non-HR costs, we briefly touched upon it over the speech. On the page related to non-HR cost, you can see that there are EUR190 million of business-driven costs. Those were a result of the fact that part of our business is moving towards a more variable cost base. And specifically more than half of that has to do with the mail, parcel and distribution and the other part has to do with telecom. And we expect that as those businesses continue to grow, the cost base there would grow accordingly.

On the other hand, the one-off shifts or emergency related one-off expenses should not continue in 2021, touching wood, and looking at the COGS, there too, there are a few fund releases which really translate into having it through underlying COGS, which maybe went down by a bit less than half of that amount.

Q - Gianmarco Bonacina {BIO 4077284 <GO>}

Thank you.

A - Massimiliano R. Riggi {BIO 20490987 <GO>}

Thank you. And the next question is from Manuela Meroni, Banca IMI. Please Manuela.

Q - Manuela Meroni {BIO 1782610 <GO>}

Yes. Hello. Thank you for taking my question. The first one is on interest income. Interest income declined by 4% quarter-on-quarter. You realized that some capital gains. But I'm wondering if you can elaborate a little bit more on such a trend of interest income, and if you can share with us your thoughts on interest income in 2021?

Again related to interest income, it's another question on the capital gains. You have EUR4.7 billion unrealized capital gains as of December 2020. How many capital gains do you have now?

Another question is on mail volumes. In December, recorded mail volumes declined by 8% year-on-year after having declined by 20% to 30% in the previous month. So this kind of reduction, is the reduction in the pace of decline was due to a seasonal effect? Or this trend has continued also in January and February, maybe it has improved?

And another question is on the recovery fund. Are you involved in the recovery fund, please?

A - Matteo Del Fante {BIO 6237992 <GO>}

Okay. Quite a few question. Thank you, Manuela. I'll start with NII that in itself, I think, would take quite a bit of time. We're now in under current market condition as of this morning, we're short of -- just short of EUR7 billion capital gains. And clearly, this is the record we register. As we anticipated in November, we told the market already, we bought in a meaningful way the market in the first half of the year, if you look at the first half of 2020 and you look at long-dated above money market bonds, we bought short of EUR16 billion assets.

We lengthened the duration I was looking at end of 2017 versus today, so you are talking about three years plus. We have lengthened by two years, three years later. So the fact that we have lengthened by five years duration of the maturity, sorry of our portfolio. And marginally the duration, because at the same time as you know, we have the bulk of what we invested was long-dated, but was bought in as a swap. So as you know 50% of our portfolio is floating. So we think we are in a extremely good market position, because we're coming from a very painful couple of years where we had both long-term and short-term rates affecting our net interest margin on the short-term side and our mark-to-market on the long-dated swap rate which was at the minimum.

With swap rates having started to back up in the last few weeks, our floating rate portfolio is clearly benefiting a lot and it's putting us on your second part of the question in a relatively more optimistic situation. If you look at Page 35 in today's presentation in the backup, we show an average yield going down from 2.57% of the portfolio to 2.3%, so that's kind of a natural reduction because you have obviously a high coupon bonds going to maturity. You may extrapolate something similar for 2021, obviously we will unveil the plan shortly. The good news is that we have a meaningful cushion coming from the capital gains.

As we did in 2018, we presented ourselves to the financial community in February with the capital gains already in the pocket for the first part of the plan. And we'll try to do the same for March, so that investor can rely at least in the short-term on a more reliable net interest and capital gain figure. You have to remember that we always say that the NII and the capital gains were hedging each other in all market scenario. And this is actually proving to be the case. So we might have a slightly lower net interest margin, but that can be more than compensated by the potentially higher capital gains. There is a question on recorded mail recovery and expectation in 2021, which I would leave to Camillo after I give you maybe a broad answer on the recovery fund and the fact that Poste Italiane, like any major company, has been invited to present ideas by officials. Clearly, Poste has shown in the last 4 years to have a very meaningful role on the inclusion and cohesion access of what the European authorities are indicating as goals for disbursing the grants and loans.

So doing initiatives that are keeping communities together and that means increasing work, so creating jobs, that means helping women increasing their participation to the job market. That means helping youths and young people participating in the young man, in the job market that is inclusion. And obviously, our company has demonstrated to be in the best position to give support to this local and social goals that are very close to our mission and our heart. And as we have done in the last four years, this is something that Poste has shown we can do without jeopardizing our attention to cost, so our cost discipline specifically on the HR component.

Please Camillo on recorded mail.

A - Camillo Greco {BIO 21978163 <GO>}

Thank you. Well, I mean, what we have witnessed in 2020 has clearly been unprecedented in terms in terms of acceleration of mail decline. Yes, the recorded mail has been particularly impacted as public offices were shut down for significant parts of the year. That did translate in a material decrease of that specific segment of the mail. We do expect that in 2021, there will be a continuation of the trend we've seen in the fourth quarter of the year where we're seeing a deceleration of mail decline versus Q3. So I think that we clearly do not expect a trend that is comparable to what we have witnessed for the entire year in 2021. And in fact, we expect that in some portions of the overall mail volume, specifically in recorded mail, there's going to be a bit of a catch-up effect to recoup a backlog which has not yet been posted in the previous year.

A - Massimiliano R. Riggi {BIO 20490987 <GO>}

And next question is from Ashik [ph] Musaddi of JPMorgan. Please Ashik.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Hi. (Technical Difficulty) (Multiple Speakers) Thank you, Massi, and hello. Just a couple of question I have is first of all -- (Technical Difficulty) (Multiple Speakers)

Operator

(Technical Difficulty)

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. There is a lot of echo on the line. Hello?

Operator

Please go ahead, sir.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Thank you. Now, just a couple of questions I have is, first of all on the parcels growth. I mean, I think it's been very useful, helpful on giving some clarity on that mail decline, the decline -- the pace of decline will reduce in coming quarters, but how do you think about parcel growth? Because clearly, this year has been instrumental like 36% growth in parcel revenues? How do we think about that going forward? Shall we go back to a bit more normal level of 10%? Or do you think that it could be higher or lower? Any thoughts on that would be very helpful?

The second thing is, you gave -- the cost is really where you have done -- you have been doing really well. So, really a good one on that. But just one question is, there is a slide that shows that structural savings for this year is about EUR180 million, EUR189 million. So what should be the starting point for year 2021 for the HR cost? Should it be, let's say 2019, less the structural savings which is about EUR5.3 billion? Or how do we think about that?

And I appreciate that you plan to give more detailed color at the Investor Day, but any thoughts here would be very good as well?

And lastly is the dividend, I mean, you have delivered on your commitment to grow the dividend at 5%. How do we think about that minimum 60% payout ratio guidance going forward? Does that still remain valid? Or how do we think about that? Thank you.

A - Matteo Del Fante {BIO 6237992 <GO>}

Okay. Very good question. Thank you, Ashik. And it was Massi's fault with the echo. Yes. I think is -- you have a point when you say where should we look at 2021 as it pays for HR cost, and I think what you hinted is more or less in line with what we have in mind. We don't think that in the next three to four years, Poste will be as much as a cost leveraging play as much it was in the deliver 2022 plan that we launched in '18. Because now, we start to see business lines that are growing and those business lines need to be supported with cost. So this you will see in March, probably -- it's a kind of a different story we will tell you. But if you look at Page 21, I think you take a full-year HR of 2019 and then certainly looking at the structural saving, you're not far from what we have in mind on the HR cost base for next year.

On parcel, I mean, let's not forget that 2016-'17, the company was not in the parcel business, that may be a bit extreme. We were number six player in the country. We were losing around EUR50 million, the company had decided to give up on parcel in 2016. What we can say today, four years down the road, that we're now back in the business. We're now number two player. We're number one in B2C. We enter the warehousing business, we have entered the last-mile value-added business. We entered the full truckload business. As you know with ventures, we closed the first international parcel contract. I mean, in 2016, Poste did not have a private contract to deliver parcels in Italy, it did not exist. And now, as you know, in January, we opened operations in China and this will bring us growth going forward.

The growth, to answer more specifically to your question, I think we'll have to come from more the B2B component. We'll start to be a bit choosy, if we have -- if we can say this word in business. We didn't have this luxury four years ago, we were taking any client just to print the ticket and see the volumes. Now, we are picking a bit more our clients and tailor-making tariff to clients and products. And this is extremely important, because if your tariff in B2B is properly tailor-made over the long run, you crowd out the inefficient player as opposed to being crowded out the by the competitor.

As you'll see on Page 11, the C2X is also growing from a very low base, that is a product, but we just launched which I think will add volumes for us, bringing back volumes from competition that today I'm not even properly monitored in the market, because today if you're a private individual and you want to send a parcel in Italy, you basically have two options to this let's say up to two months ago. Either you go to an express service which is the EUR15 to EUR20 that's also we provide with that, or you go to the postal office and that's an old style paper based, long, often maybe with not the necessary quality also of the product and the service.

So, there was no volume. There was no demand on this product. Now, we just launched a much more UX friendly product. So you can simply drop the box in the office. You can do with a QR code all the registration on your own, on an app, on at home or on the website. You can drop it in one of our 11,000 third-party networks points, you can do it easy. You can do it in our 13,000 postal offices and it's taking much less time. So I think growth will come from a bit of many different parcel segment. I think all the ventures will grow. And the beauty is today we're able to go to for example, a big retailer and say yes, we can do the B2B for you, but we can do the B2C at the same time.

And if you choose Poste, we can do the return and we give you 25,000 places where your clients can do return and only Poste can do that. So we can offer now the broad range of parcel services. And so I think we will see, I'm relatively optimistic, Clearly, 2020 for the pandemic on B2C, the 77% of Q4 clearly is not the 60% annual, it's - -we're not going to repeat. But the overall growth and the margins, I mean, our preliminary estimates are telling us that we're booking something in between EUR50 million and EUR100 million EBIT for the first time, a meaningful amount in parcel for the company. This is very important.

On dividend, I mean with the price of the share, we're at 5%, we committed to the 5% growth, we stick to our promise, now we have the Capital Markets Day in March. But with

10-year Italian Gov is at 50 basis point, maybe what we committed is still a good incentive for investors. We hope.

Q - Ashik Musaddi {BIO 15847584 <GO>}

That's very clear. Thank you.

A - Massimiliano R. Riggi {BIO 20490987 <GO>}

Thank you. The next question is from Federico Braga with UBS. Federico, please.

Q - Federico Braga {BIO 19916816 <GO>}

Yes. Hello. Good afternoon, and thanks for taking my questions. (Multiple Speakers) I have -- (Technical Difficulty) -- if you could maybe mute -- (Technical Difficulty) --

Hello. Okay. So I have three questions, please. The first one is the follow-up on recorded letters, if I may. Just wanted to understand how the Nexive acquisition is actually expected to impact this part of the business specifically and specific impact both strategically and financially?

The second question is on what you define as other revenues within the parcel division? Because in the last couple of quarters, the quarterly rate of these revenues has essentially doubled from EUR20 million, EUR30 million to around EUR60 million, EUR70 million, so I just wanted to understand if this increase is structural and what's happening behind the scene, what are the key drivers, it's maybe already some of the initiatives that you just discussed in the previous question?

And then the last question is related to the Q4 revenues, the Q4 transaction banking revenues of around EUR300 million, just wanted to understand if there was any one-off this quarter? And if yes, if you could please quantify? Thank you.

A - Matteo Del Fante {BIO 6237992 <GO>}

Okay. Thank you, Federico. I think the two question I can summarize. Camillo, the recorded mail and the other revenues in mail and then the transaction, please.

A - Camillo Greco {BIO 21978163 <GO>}

Okay. So, let me start with the Nexive -- I'll deal with Nexive recorded mail. To start with, obviously, we are very proud of the acquisition of Nexive and one of the key main drivers of the transaction are clearly the potential upside that we see in combining the two businesses. As part of that recorded mail, it is an important revenue driver.

Let me remind you that Nexive has around EUR200 million -- had around EUR200 million revenues and negative EBIT of around EUR25 million. And as we will communicate on March 19th, specifically on mail, we have a strategy we will share with you at that point, but clearly, something on which we are working with the relevant division.

With respect to the second question, which has to do with other in parcel volumes, that has to do with -- that evolution has to do with a contract that we have with the Italian government and specifically with the delivery of the PPEs to schools as we mentioned at the beginning of the presentation.

Q - Federico Braga {BIO 19916816 <GO>}

Thank you.

A - Massimiliano R. Riggi {BIO 20490987 <GO>}

Thank you. The next question is from Elena Perini with Banca IMI. Please, Elena.

Q - Elena Perini {BIO 4202240 <GO>}

Yeah. -- (Technical Difficulty) --

A - Matteo Del Fante {BIO 6237992 <GO>}

Yeah, very well.

Q - Elena Perini {BIO 4202240 <GO>}

Okay. Okay. Thank you. Well, actually I was looking at the Slide number 47 on the insurance services. And well, I see that the segregated funds returns were down by 22 bps last year, while the minimum guaranteed was down by 10 bps. So I was wondering if you can elaborate a bit on your investment strategy? And if you are putting more and more money on real assets or infrastructures also to support it?

And then my second and last question is about your motor business. We read in the press that you are starting your offer also with clients, so I don't know if you can say when you have exactly started and you can elaborate a bit on this part of your business which was done and on the results on the offer that you made on the employees in the past months and then years. Thank you.

A - Matteo Del Fante {BIO 6237992 <GO>}

Okay. Thank you, Elena. The second question is related to our employees, our colleagues, labor contracts.

Q - Elena Perini {BIO 4202240 <GO>}

No. No. -- (Technical Difficulty) --

A - Matteo Del Fante {BIO 6237992 <GO>}

Okay. Okay. (Multiple Speakers) Yeah. Yeah. Okay. That's okay. Sorry. Okay. The first question is on Page 47. So, the insurance services. Yes, its correct, we had with a marginal decrease of the return on our segregated funds. This is due to the fact that a portion of the portfolio of fixed income bonds has gone to maturity. So they were in the technical reserves in 2019, and they were not for a portion of 2020.

As you can see, the composition has changed, but not significantly. So we are increasing our diversification, but we are still with short of 60% Italian Gov is. You are aware that we have also managed account with large asset managers that we can use to support the return for our policyholders and I can tell you that we've been extremely conservative in 2020 not taking coupons from those accounts and keep the value in the account so that we can tap on if need be in 2020. And you have to consider that we have a very, very significant capital gain today in the segregated funds. Very significant. We were there as well significant buyers in the first half of 2020 and today we are record capital gains in that space as well. On the minimum guaranteed, it's the natural decline coming from the portion of those contracts that are going to maturity because as you know, it's many years that we're not issuing new guarantees in the new contracts.

On P&C. P&C is going extremely well broadly and we are finally starting to see -- already you have some evidence in today's figure on the non-motor P&C component for the second half of last year. We launched the modular component in March 2020. Motor is in the makings. So it's getting traction, but you have to be patient. Don't forget that we launched the non-motor more or less in the second half of '18 and the machine slowly. This is Poste, it's now starting to show us traction which we are extremely happy and satisfied. And on our records, we are now already number two bank assurance distributor of P&C in Italy already without the motor having really kicked yet.

A - Massimiliano R. Riggi {BIO 20490987 <GO>}

Thank you. The next question is from Matija Gergolet from Goldman Sachs. Please, Matija.

Q - Matija Gergolet {BIO 3561672 <GO>}

Yes. Hello. Good afternoon. I have three questions if I may. Firstly, they're all about parcels. The firstly on the B2C parcels, could you provide us what is your estimated market share in 2020 in B2C or at least some color whether you think you grew faster than the market or not?

Second question is, I appreciate you will give us more color in -- on the 19th of March in the medium-term. But let's say, it seems your division has turned the corner now, now is back to growth. Can you please confirm that, at least now for '21. I will leave the outer years for the 19th of March, but now, you would expect that the division basically to, is it best to assume that now the division is back to top line growth for the full year as a whole, also maybe it may decline a bit less in the coming year or maybe even not declining?

And then thirdly, just on some of your comments about C2X, the expansion there. I think you've mentioned that you have now some boxes, basically, some like lockers that you can have in the post offices where people can drop their parcels for returns. Is there like kind of a wider strategy of the company to expand into lockers? Now, is it just for returns or now would you also consider lockers for example, for as a complement to your delivery capabilities?

And just very last, I think you mentioned you have 25,000 locations where you can install lockers when you go to a retailer. I have in mind you have around 12,000, 13,000 post offices. How do we square that 25,000 with the post offices, can you just explain that as well? Thank you very much.

A - Matteo Del Fante {BIO 6237992 <GO>}

Yeah. I'll start with the last point. I mean, we have disclosed the number of transaction we do daily in the Tobacconist network which has grown significantly over the pandemic, so let's say, over one year ago. And part of this business that we do is the parcel business. So we deliver and we pick up from Tobacconist and there are 10,800 which are today allowed to do parcel for us, every day something like 19,000 pieces per day. It's an interesting business for both of us, because this gives us the opportunity to do one stop with several deliveries and it gives the Tobacconist the opportunity to see clients and traffic. And maybe clients once they go to pick up or deliver a parcel, they will also buy something. So that's our strategy.

And you know that in any developed market, you have around 20% to 25% of deliveries, which are going into lockers and pickup points in urban areas, call it 25%. So if you control the bulk of that network, you have a good market share of the B2C even in urban areas. So this was since the beginning one way to protect our B2C strategy also versus the giants and the likes of Amazon, that clearly we'll go into urban areas first. So if you own at least the lockers and pick up points, you protect the one portion of that market. And this was your last question Matija.

In terms of your first question, I'm looking for two figures, the market share of Poste Italiane, in B2C, Italy is 37% and the growth of the market in B2C in 2020 was around 50% and we grew as you know 60%.

The second question, I'm not sure I understood it. But it was the macro growth coming back and this probably improving our expectation on volumes of mail. Maybe Camillo, you got it?

A - Camillo Greco {BIO 21978163 <GO>}

I think that the question was as a result of the positive tailwind on the parcels and a possible pick up in volumes in mail, whether we expect in 2021, the division will post positive top line growth, and obviously we'll discuss these on March 19th, but I think that we have provided to you guys enough elements to take a view on that which you should develop independently.

Q - Matija Gergolet {BIO 3561672 <GO>}

Absolutely. Okay. Well, thank you very much. Very clear.

A - Massimiliano R. Riggi {BIO 20490987 <GO>}

Thank you. And our last question is from Azzurra Guelfi, Citi. Please, Azzurra.

Q - Azzurra Guelfi {BIO 6148923 <GO>}

Hi, good afternoon. Thank you for the call. I have a couple of question. One is on the payment division. Do you expect the new digital agenda of the government to support further your payment revenue growth?

The second one is on the solvency ratio. Can you update us on what are the action and steps on the measure that you have presented before in terms of reducing the volatility of the ratio?

And the third one is a bit more wide in terms of financial services and your customer. You have a very strong customer relationship and a very wide franchise, which are clearly at the heart of your financial servicing potential offer in terms of savings. And have you seen any initial sign of change in customer attitude among the different product that you offer, or you haven't noticed anything significantly change from the previous month of the pandemic? Thank you.

A - Matteo Del Fante {BIO 6237992 <GO>}

Okay. Yes. So the first question has a positive answer. The cash back and the site to cash program that we supported with the government is clearly going to help volumes on our side. There is no doubt that we already seen it. As you know it was basically tested in December and launched in January.

On customer attitudes, yes, I mean, if you look at the footprint of our digital client base, it's certainly changing very rapidly. You look at the number of wallets. So ability to make payments from your mobile, the increase is significant. If you look at the number of web access, the number of transactions performed. So certainly these the pandemic as we say it has put the watch two years forward, okay. So everything we had in our plan in '18, we have seen it. Sorry, the plan was in '18, we were targeting something in 2022 and we saw it in 2020. And we think that that trend is there to stay and we believe that Poste which is paying a price of this trend to a large extent which as you know the fact that customers decide not to refill their deals in letter or not to make the payment of the deal in the postal office is reducing revenues for us in two businesses, in two segments. That we have seen it. It has been very strong last year, but our attitude is not to stop this trend but to actually go along with the trend, push the trend, but get the client and the business in the new products replacing maybe higher margin products of the old Poste. It's better to be with a lower margin in a product of the future, which is what we're doing than sitting on a higher margin business that unfortunately you know will slowly disappear. In terms of reducing volatility on solvency, okay, Camillo, please.

A - Camillo Greco {BIO 21978163 <GO>}

Thank you. Thank you, Matteo. Well, first of all, let's remind ourselves that the ratio was 279% at the end of the year. But as everyone has witnessed in the last few months, it is reasonable to assume that, that ratio is higher compared to what was the level at the time as a result of tightening of spreads.

Having said that, we are indeed working on three different measures to reduce the volatility, first and foremost, we're working on the internal model, which is being developed as we speak and we think it will take 18 to 24 months at the minimum to get through a fruition as a result of our interaction with the relevant authorities. Secondly, yes, we're offering new capital light products, which are already available. And as a result of that, we have less limitations with respect to capital guarantees associated with some of our historical offering of products. And thirdly, as we manage our investments, we're also moving towards investment that we're conducing to confirm that stability. Thank you.

A - Matteo Del Fante {BIO 6237992 <GO>}

And you know just to make a final comment on PosteVita. I was the CEO for the first three years of that company given that that company is making more than 50% of our margin -- I thought that it was very important for me to be close and to understand very well that reality and as all the insurance experts on this call would teach me, it's a very, very complicated and technical business where you require very experienced and technical people. And they need to understand and work overtime. The internal model that Camillo mentioned is probably three to five year project in itself.

And that company as you know, you have all met Andrea Novelli, he was the former Head of Bancoposta and then of the network. He is since May, the CEO of the insurance group, but we rebuilt that group. When I left it in May, I called 22 top managers for my farewell as a CEO, and I noticed that 21 were new and last one where was already in the company but in a different job. So that company has been completely rebuilt in the last three years and that means more technical approach on ALM and impact of ALM on capital, on solvency. That means more technical approach on asset allocation and impact on solvency, that means new Head of Risk Management and impact on internal model there and solvency and so on and so forth. So I think we're now very well equipped to face even more volatility and hopefully this is not going to be the case. But we're more prepared than we were three years ago for sure.

A - Massimiliano R. Riggi {BIO 20490987 <GO>}

Thank you. This was the last question.

A - Matteo Del Fante {BIO 6237992 <GO>}

Okay. Thank you very much for your time again, and see you all hopefully on the 19th of March. Thank you.

Operator

Ladies and gentlemen, thank you for joining. The conference is now over. You may disconnect your telephones. Thank you.