Q3 2020 Earnings Call

Company Participants

- Guido Maria Nola, Chief Financial Officer
- Matteo Del Fante, Chief Executive Officer, General Manager & Director

Other Participants

- Alberto Villa
- Gianluca Ferrari
- Giovanni Razzoli
- Manuela Meroni

Presentation

Operator

Good afternoon, ladies and gentlemen. Welcome to Poste Italiane's Third Quarter 2020 Results, presented by CEO, Matteo Del Fante; and our Group CFO, Guido Nola. Following the presentation, we will be glad to answer your questions.

And now, let me pass it over to Matteo.

Matteo Del Fante {BIO 6237992 <GO>}

Good afternoon, and thank you for joining us, This is Matteo del Fante. First of all, please allow me to say I hope you and your families are well and safe. I will take you through the highlights of the quarter before handing over to our CFO, Guido Nola, for a more detailed business review. I will then provide some closing remarks before we open the call for questions.

Let me start on Slide number 3 with a quick overview of quarterly results. The third quarter saw tangible signs of recovery across all segments with performances that are comparable to those recorded the same quarter last year. Mail, parcel and distribution operating profit improved this quarter, with parcel and distribution revenue growth offsetting mail decline.

In financial and insurance services, product sales are steady recovering, supported by commercial focus with a strong EUR 20 billion increase of total financial assets since December 2019.

In payments and mobile, we continue to experience increasing traffic in telco and more e-commerce transaction in digital and payments. While we're still facing uncertainty, we continue to focus on our ongoing transformation, taking advantage of our diversified business model and resilience.

We confirm that the key trends such as mail decline, e-commerce penetration, ultra-low interest rate and increased demand for digital payments and connectivity are here to stay and we had long pursued them. In order to provide further clarity of future trends and match them with credible targets, it is our intention to review and update our Deliver '22 plan early in 2021.

With the third quarter performance back on track, we gained more visibility on full-year results, and we confirm our Deliver 2022 digital policy for 2020, distributing an interim dividend of EUR0.162 per share, up 5% compared to last year.

Let's move to Slide 4. In March, we had to face an unprecedented situation, setting up new solution to face the emergency, both in terms of processes, business and PPEs. We took timely action to protect our employees, safeguard our customers and support our communities. Now we benefited from that experience and we're currently unfortunately facing the new wave. We're committed to ensure business continuity, providing essential services to our communities with the highest safety standards.

Moving to Slide 5. This year represented an opportunity to rethink positive positioning across all segments. The acceleration of mail decline and parcel growth confirms a sight in our strategy to invest in parcel. The joint delivery model for both postal and express courier services is now fully operational, enabling us to maximize the situation of our network. The automated parcel sorting center in Bologna that some of you visited last year is currently above the full capacity and has been key in meeting increasing parcel demand throughout the year.

We've just opened a greenfield hub in Rome. And according to plans, we're going to open a third one in Northern Italy by the first quarter of 2021. This sorting center is similar in size to the one in Bologna. This new facility will allow us to increase daily sorting capacity to manage B2C volumes and enlarge our express offering B2B, and also reducing our variable cost base in parcel. Starting from scratch in 2018, we are now a leader in B2C in Italy. We're also focusing on B2B business segment and on the development of services of warehousing, storage and integrated logistics.

Moving to financial and insurance, the key challenge is to manage an ultra-low-for-longer interest rate environment. The structure of our investment portfolio allow us to stabilize the contribution to P&L under all interest scenario, balancing the mix of interest income and capital gain, leveraging on our active portfolio management with long duration and positive inflows.

In Insurance in order to smoothen out the market volatility for our customer early this year, we launched a new gradual accumulation multi-class life policy. And by the end of the month, we'll also launch a new capital light Class I and multi-class life insurance products, which represent a milestone in our ability to balance the commercial appeal and capital absorption, contributing to reduce the volatility of positive income solvency II ratio going forward, a meaningful step forward for our sales force.

As part of our digital transformation, we intend to engage with customer remotely for advisory and sale. And Increasing demand for digital and contactless payment further support PostePay in cross-selling between mobile and payments. Poste continues to widen its offer on cashless payments, also taking advantage of the upcoming government cash back program. Telco is expected to be resilient with increasing margin going forward. At group level, we accelerated our cost control strategy to increase the visibility of operating profitability.

Starting from the first quarter, we adopted a combined strategy, addressing early retirement, temporary workers and hiring, in line with our track record of effective FTE management. Our revenue mix will evolve. A larger contribution will come from activity with higher percentage of variable costs such as parcel and telco. Our priority will then be to reduce cost per unit to gain efficiency.

Finally, let me highlight that the successful implementation of our strategy benefits from the comprehensive reorganization implemented back in May, with the centralization of all functions driving our digital transformation in a single structure, named DTO, acting as a key business enabling unit in digital technology and operations.

Moving to Slide 6. We did not just manage our business to weather the crisis, we proactively proposed and responded to the emerging client needs. In mail and parcel, we widened the scope of our business, opening up to logistics and warehousing services. Inbound volumes from China continued to grow at a record pace, thanks to our ability to offer end-to-end services to track items.

We continue to focus on logistics digitalization, leveraging on the partnership with sennder, we're improving the efficiency of long-haul transportation. Through Milkman, we're focusing on customer experience with premium schedule delivery services, now available in 12 Italian cities and still growing.

In financial services, we're working on a new partnership to improve our offer on lone distribution. We've successfully distributed New Postal bonds campaign products with a specific focus on retaining funds from expiring products and we shortly distribute a new over 65 bonds with features similar to a retirement pension plan.

In payment and mobile, we widened the range of products introduced, a Postepay virtual card, exclusively sold online. In insurance, our P&C modular offer is now fully operational. Poste now ranks second in non-motor P&C bank insurance in Italy.

Moving to group financial results on Slide number 7. Improving operational trends underpin the solid progression of our quarterly result increasing year-on-year. Group revenues amount to EUR 2.6 billion in the quarter, up 1% year-on-year and EUR 7.7 billion in the nine months. Total cost remained flat in the third quarter and down 1.8% in the nine months, with savings compensating one-off emergency costs.

As mentioned last quarter, we leverage on our flexibility on cost to compensate revenue headwinds, enhanced structural efficiency and ensure the sustainability of the businesses. We're achieving a significant operational improvement with EBIT up 10% in Q3, excluding one-off costs to face the emergency of COVID, and reaching EUR 1.3 billion year-to-date.

On a reported basis, EBIT for the quarter is around EUR 480 million, up 4% and EUR 1.24 billion in the nine months, down 19% year-on-year. Thanks to the resilience of our business, net profit stands at EUR 353 million in the third quarter, up 10% year-on-year, reaching EUR 900 million in the nine months.

Slide 8 shows how the third quarter bottomed out from the previous quarter low point, the most impacted by restriction. Positive performance higher than the same period last year and the first quarter of 2020, with the exception of payment and mobile which has been growing steadily each quarter.

On the top left side, you can see how parcel growth mitigated the decline in mail revenues, with the overall segment in revenue down only 3% after a fall of 12% and 20% in Q1 and Q2, respectively. This was possible, thanks to organic growth in parcel delivery. The financial segment recovered since last quarter, booking EUR 1.2 billion revenues in Q3, flat year-on-year after a 9% decline recorded in Q2, thanks to a restart of commercial activity since June, in particular due to strong momentum on postal savings bond distribution.

Payment and mobile revenues continued to grow steadily, registering an increase of 8% in Q3, fueled by e-commerce transactions and steady growth in telco. Insurance services revenue landed at over EUR 450 million, up 7% year-on-year, rebounding from the 16% decline of Q2 and higher than 5% yearly growth book in Q1. This is a very solid result, which was possible thanks to the upstream in commercial activities, resulting in higher gross and net inflows year-on-year.

Moving to Slide 9. As we mentioned during the first quarter, the crisis represented an opportunity to rethink our cost base in a structural way. Our approach is not focused on short-term results but rather on ensuring that the cost base is the most efficient to support our growth. To preserve future profitability, we have demonstrated our flexibility in reducing cost base on the severity of revenue headwinds.

As already mentioned, we have a strong track record in actively managing our FDA base to reduce HR cost. We're pushing our insourcing program for the reskilling and upskilling of selected employees to internalize specific activities, obtaining cost efficiency and streamline internal processes. As already mentioned, we're also optimizing variable costs related to growing telco and parcel volumes. Finally, we're reviewing our real estate portfolio, focusing on non-core business and rationalizing non-commercial assets, creating efficiency while unlocking value.

In the next 2 slides, you will see certain business trends we have experienced since the beginning of the year, during and post- lockdown across all segments. As you can see on Slide 10, commercial activities recovered from lockdown, with a steady increase in digital and third-party network transactions, accounting for up to almost 1/3 of overall transactions.

Consistently with non-market trends, mail and parcel volumes show diverging performances, with mail decline persisting year-on-year although at a slower pace, and B2C parcel volume steadily increases since lockdown and year-on-year.

Moving to Slide 11, financial and insurance services as well as payment and mobile are back to business with commercial activities picking up year-on-year. Daily gross inflows recorded a good pace compared to both the beginning of the year and 2019, excluding August gross inflows reached an average of EUR 850 -- EUR 185 million per day with a 65% increase year-on-year. A positive trend is also confirmed in terms of distribution of P&C products, thanks to our modular offer. In payment, Postepay card transaction grew safely, thanks to e-commerce growth with customer widening the scope of their spending. Telco continues to progress with a wider customer base reaching 4.6 million up 3% year-on-year. All the mentioned operational trends are confirmed for the last few weeks.

Let me now hand over to Guido, who will take you through a more detailed business review. I will then provide some financial comments before -- final comments before we answer your questions. Over to you, Guido.

Guido Maria Nola {BIO 20719012 <GO>}

Thank you, Matteo, and good afternoon, everyone. Let's start with a quick overview of each segment revenues, starting with mail, parcel and distribution on Slide 13. Segment revenues were overall steady in the quarter with parcel growing EUR 91 million, almost completely offsetting EUR 110 million revenue decline in mail.

At operating level, EBIT improved by 34.7% year-on-year, recovering from last quarter's bottom-low, thanks to higher distribution revenues. Looking at revenues breakdown, the mail component was down 20% year-on-year, posting a better performance than Q2. The recovery of high-margin mail products is still subdued, due to some long-lasting effects of COVID-related government policies.

On the parcel side, revenues continue to grow at a record pace, by 46% in the quarter, boosted by B2C. Distribution revenues increased 7%, thanks to resumed commercial activities in Q3. Based on current visibility, we envisage mail revenue decline to stabilize at around 20% in 2020, well in excess of the 5% long-term decline embedded in our strategic plan. About half of such further decline can be considered a permanent effect of an accelerated e-substitution. The other half is related to the suspension of higher-margin items sent, which are expected to be back in 2021.

On Slide 14, we look at volume and pricing trends from mail and parcel. Overall volumes -- overall mail volumes fell 14.8% in the third quarter with higher margin recorded mail and direct marketing products contracting at a slower pace versus Q2. Product mix impacted mail average tariff, which went down 5% in the quarter, posting a better performance than the second quarter.

On the parcel side, volumes are up across all products. B2C volumes grew strongly by 55% in the quarter supported by an ongoing diversification of the customer base. We now benefit from a stronger logistics chain along with four pillars, which embody the successful execution of our parcel strategy: first, the joint delivery model for mail and parcel networks; second, automated parcel sorting centers, which Matteo commented on earlier; third, long-haul announced efficiency ; and lastly, additional premium services such as scheduled delivery. Parcel average tariff is also up by 6 percentage points reflecting additional logistics and rewriting services, which are deploying and B2C average prices up 4 percentage point's year-on-year.

On Slide 15, we provide you with monthly data on volumes, including those of October to give you further granularity on trends. Monthly volumes decline started to stabilize since June to around minus 20% year-to-date, a trend that we have observed since the end of the quarter, and we expect to continue until year end.

Slide 16 shows the monthly evolution of parcel volumes until October. As you've already seen, since March, volumes continue to significantly increase with record-high B2C. Volumes contribution from China remains robust, with inbound parcels volume 2 to 3 times higher than last year since July, thanks to a close cooperation with our Chinese partners, offering key services such as end-to-end tracking.

Moving to payment and mobile on Slide 17. Revenues continue to increase, up 8.2% in Q3. Our integrated strategy for telco and payment continues to pay off, with telco revenues up by a strong 11%, thanks to a wider customer base, allowing us to reach a 5.5% market share in mobile. Traffic volumes both on mobile and fixed line increased along the trends witnessed during last quarters, both for voice and data.

As you know by now, this has limited effect on revenues as most clients pay flat fares. Card payment revenues were up 9%, in line with the trend witnessed in previous quarters with increasing top-ups and transactions. In particular, Postepay card, e-commerce transaction, increased in scope and volume, up 45% in Q3 and continue to show a steady growth.

Other payments were negatively impacted by the deferral of tax payments. Intercompany revenues, mostly from financial services were down, due to the decrease in physical payment states, only partially compensated by higher payments through our third-party networks and digital platforms. Q3 EBIT remained strong and in line with 2019, which benefited from lower intersegment cost, while 2020 embeds higher costs related to increased telco traffic.

Moving to financial services on Slide 18. Segment revenues were up 2% in the quarter to EUR 1.4 billion notwithstanding a decline in transaction banking due to fewer payment slips and a negative yield environment impacting interest income. This quarter shows continued signs of a steady recovery. After suspension during knockdown of commercial activities of both financial and insurance products, which marked the performance of the first half of the year, Going line by line. Interest income was down 3% year-on-year with higher volumes partially mitigating the impact of yield compression.

No capital gains were booked this quarter. Postal savings distribution fees were up 11% to a record high, thanks to the campaign products successfully distributed via physical and digital channels, targeting significant expiries and redemptions. Asset management fees were resilient year-on-year, thanks to recurring commissions. Loan and mortgage distribution upfront fees were impacted year-on-year by macro uncertainty while volumes are resuming, thanks to dedicated commercial activities.

Transaction banking fees were down 10%, mainly due to fewer payment slips as commented already in payment and mobile. Net capital gains remaining for 2020 are already secured with forward contracts to be accounted for in the fourth quarter. Given current market conditions and yields, we have already started to secure a part of capital gains planned for 2021. Intersegment distribution revenues were up 17%, mainly for the revamp of commercial activities from insurance products. EBIT is down 5.7% this quarter, mainly due to higher rebates to the network.

Moving to Slide 19. TFAs reached EUR 556 billion, up by almost EUR 8 billion since June and by a significant EUR 20.3 billion since the beginning of the year, supported by EUR 11.2 billion positive net inflows across all asset classes and EUR 9.1 billion positive market effect.

Customers confirm the trust in our brand, with EUR 9.8 billion of inflows from retail as demonstrated by significant gross inflows from postal savings distribution amounting to EUR 21 billion, offsetting redemptions and confirming the key role of such products, especially in this market environment. Deposit increased by EUR 7.9 billion, confirming a clear preference of customers for liquidity, which will be addressed by commercial initiatives into next year. And net technical provisions up EUR 7.6 billion, thanks to EUR 3.6 billion positive net inflows on insurance multi-class products.

And now moving to Slide 20. As already mentioned, insurance services quarterly revenues were supported by a steady recovery of commercial activity, with gross and net inflows of EUR 4.6 billion and EUR 1.9 billion respectively in the quarter, increasing year-on-year by roughly EUR 1 billion each.

Life revenues were up 8% year-on-year due to increased production and higher management fees from multi-class products. Investment margin also increased, supported by higher technical returns. We also decided to partially frontload portfolio returns to take advantage of favorable market conditions. Net inflows in the quarter were the highest over the past two years.

Non-life net revenues were resilient, in line with expectations. EBIT was up by 1%. Both revenues and EBIT for the nine months are in line with 2019 results, showing that the shock coming from the lockdown was entirely absorbed in this last quarter.

Let's move to Slide 21. Poste Vita group Solvency II ratio stood at 250%, not taking into account transitional measures well above our managerial ambition of 200% through the cycle. The Solvency II ratio benefited from a positive performance of all asset classes. Favorable market environment is reflected insignificant unrealized capital gains that as of today exceeded EUR 17 billion, more than offsetting the negative impact of lower risk-free rates and a lower volatility adjustments. If we take out the effect of regulatory restrictions on dividend distribution, Poste Vita Solvency II ratio would have stood at 244%, assuming 50% payout to the parent.

Let's move to Slide 22, 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 transitional measures provide an additional buffer to face potential market headwinds, which we consider unlikely under the current macroeconomic and monetary policy environment.

At the same time, we keep working to reduce the volatility of the ratio going forward, along three streams: first, we are developing an internal model; second, we are diversifying our investment portfolio; and lastly, we are effectively reviewing our liabilities, with the launch of new capital-light products as mentioned by Matteo. All these actions don't bear fruit immediately and ensure the long-term sustainability of PosteVita's growth.

Slide 23. We go back to group level, updating you on Poste's workforce evolution. Our average headcount decreased from 129,000 in December '19 to below 125,000 at the end of September '20, approaching ahead of plan, and our target of 123,000 FTEs by 2022. This confirms our ability to promptly react to the revenue headwinds experienced in the first half, in mail in particular.

We have been effective in balancing early retirements, temporary staff and new hiring following the recent evolution of business needs and creating sustainable efficiencies. In this sense, we managed the exit of 7,900 FTEs and the termination of 1,600 fixed-term contracts. On the other hand, we hired 4,800 FTEs, as we continue to believe that skilled people are a key enabler of a successful transformation, taking into account organizational size and skill required in specific business areas. Finally, the number of FTEs and their remuneration contributed to a reduction of cost per capita.

Moving to group HR costs on Slide 24. Production of 4,400 FTEs year-on-year, resulting in savings for around EUR 44 million on a quarterly basis. Total compensation is broadly stable with an increase in the fixed component, offset by a decrease in the variable one. In Q3, commercial incentives are in line with last year due to the revamped commercial activity.

Moving to Slide 25. Non-HR costs overall, amount to EUR 750 million, increasing on a reported basis by 6.8% year-on-year. Going into detail, our focus on cost discipline is clear and balanced with the need to preserve business growth and safety during the pandemic. In fact, out of the EUR 51 million increase, EUR 28 million are one-off cost in safety emergency, providing the highest health and safety standards to protect employees and customers, and EUR 43 million support higher volumes in growing businesses such as parcels and telco. These costs were already envisaged in our plan, but they emerged earlier due to the acceleration of key trends.

To cure the cost per unit going forward, we're working on efficiency measures such as the new parcel sorting centers and the new wholesale contract in telco mentioned by Matteo. Therefore, excluding emergency one-offs and business-driven costs, non-HR costs were down EUR 20 million year-on-year. G&A costs decreased by EUR 16 million. The positive effect of the reassessment of the residual useful life of certain group real assets completed in H1 reduced D&A of some EUR 30 million. Such positive effect was partially offset by increased CapEx related mainly to digital transformation IT developments.

Turning to Slide 26, you can see an update on cost reduction initiatives in Q3. Back in March, we presented our full year 2019 results, just a few days before a general lockdown in Italy. We were braced to weather a storm of unprecedented magnitude with a high degree of uncertainty. We proactively identified over EUR 1 billion potential cost reduction initiatives as contingency measures against revenue headwinds.

In Q1, we present this slide to show the different levers we could activate depending on the severity of the downturn. We seized these unfortunate times as an opportunity for a strategic review, to act on our cost base in a structural manner, to preserve the sustainability of our businesses in 2020 and beyond. Our goal was indeed to strengthen profitability in '21 and onwards, and not just to book a better result in 2020.

Still, also during 2020, we are providing you with tangible signs of cost reduction, identifying savings to be realized already in 2020. This exercise will bear fruit in the upcoming years, since it has changed the way we do business. In this sense, as already mentioned, we're working on efficiencies to reduce the cost per unit in telco and parcels going forward.

Now, let's move to Slide 27, showing an improvement of operating profits in the quarter across all segments. This is a very significant result considering the difficult year we've been through and considering that we are also comparing it to 2019 record-high results.

As anticipated, mail, parcel and distribution quarterly operating profitability improved year-on-year, bottoming out from Q2 low point. In financial services, resumption of commercial activities in Q3 was strong, while the effect is not visible on EBIT, only because of higher rebates to the network. Payment and mobile is stable year-on-year, in comparison to a strong Q3 '19, while quarterly progression continues steadily.

Finally, insurance services posted a strong performance, confirming an upward quarterly trend. Here again, our solid commercial performance is not fully reflected at operating level because of higher rebates to the network.

Let me now hand back to Matteo for some closing remarks. Thank you very much.

Matteo Del Fante {BIO 6237992 <GO>}

Thank you, Guido. Before taking your question, let me conclude with some key messages. We are on Slide number 28. So the third quarter, saw a strong operating performance, confirming the resilience of our business model across all segments.

Specifically, total financial assets were up EUR 20 billion since the beginning of the year, thanks to strong retail net inflows and positive market effect, a clear confirmation of customer trust in Poste and the ability of our network. The results achieved so far give us the confidence to confirm our dividend policy for 2020 with the payment of an interim dividend increasing 5% year-on-year versus last year, November interim.

There is still uncertainty for the coming months, there is no doubt about that. But we're committed to ensure business continuity, and we have shown a very high degree of resilience in our operation and in our results. We benefit from past experience, and we're ready to keep growing our business and implement our strategy with renewed focus and energy.

And before we move to Q&A, I would like to thank you for joining us today. Over to you, Massimiliano.

Questions And Answers

Operator

(Question And Answer)

Thank you. We will now begin the question-and-answer session. (Operator Instructions) The first question is from Gian luca Ferrari Mediobanca. Please, Gianluca.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Yes. Hi, good afternoon. I have three questions. The first one is on mail volumes. So, basically Q3, you reported minus 14.8 year-on-year, much better than minus 24 in Q2. I was wondering, if for the fourth quarter, we can expect a single-digit decline, which would mean that the minus 17.8 in the nine months could become something like minus 15 for full year '20? The second one is on PosteVita, so basically you didn't get the divi from PosteVita this year, you don't need it to cover the dividend because of the distributable reserves you have with the parent company. I was wondering if the regulators will allow distribution of dividends for bank and insurers, will you pay the divi in Q1 or first half next year or the 2019 will be kept in the company just to reinforce the solvency even though it is very, very strong already? The third and final is on the revenues from B2C parcels, amazingly Q3 didn't show any reduction compared to Q2, even though people could buy in physical shops and not only online. I was wondering what are you experiencing now in Q4 to-date, so is this plus 50%, 55% year-on-year confirmed in Q4 or there is a degree of normalization and this percentage is declining a bit? Thank you.

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

Okay. Thank you, Gian luca. I will start with the -- in reverse order with the last question on B2C which I can handle. Yes, we were very happy to register a very strong Q3, so in a after COVID environment we still see significant volumes. And more importantly, we're still seeing those volumes in the last few days in November, October was actually even better than September. So it's quite consolidated. We are entering to peak period and I believe we're going to break the all-time high in December of EUR 20 million parcel delivery in a month, which Poste never registered. So the trend is solid.

On mail volumes, Guido, you want to?

A - Guido Maria Nola {BIO 20719012 <GO>}

Yes. So, on the first point if I can ask to go to Page 13, I will try to help you, because we understand this is a very relevant point to try to read the numbers for mail and parcel for the remainder of the year. So if you look at the last bullet on the right, we said that before taking into account the effects of this new wave of, say, lockdowns, we have working around, a number around 20% in terms of revenue decline for the year, which means that we have predicted this slow still recovery but obviously not a too significant one versus last year. On the other point, on the question on the dividend, Poste Vita, our read at the moment is that the ban, the prohibition to distribute dividends will be lifted from what we can read at the moment in 2021. And then your question is, are you going to go back and uplift the 2020. We will consider it, but it's something that will be done in the context of keeping our insurance company solid with our managerial expectation of staying above 200 insolvency. And anyway, this decision will be communicated clearly to the market in early 2021 with the update of our plan.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Thank you very much.

Operator

Thank you, Gianluca. The next question is from Giovanni Razzoli from Equita. Giovanni, please.

Q - Giovanni Razzoli {BIO 7269718 <GO>}

Good afternoon. Two questions on my side. I've seen that there has been very strong rebound of the mark-to-market on the current trade portfolio of BancoPosta to EUR 2.2 billion plus you have the capital gain on SIA for next year. It seems to me that your capital position and your room for dividend distribution is extremely solid. Do you share this view ? and if you can please quantify what is going to be the positive impact of the transaction on SIA? That's my first question. The first -- the second question related to the, for Guido, to the increase in the price index that you have recorded in the parcel, you've mentioned that there has been some additional services in the logistics, if you can share with us more color on this very supportive trend? And then the last question about the effect of this kind of soft loss, down that you are experiencing in some regions in Italy. I was wondering whether we should see at the volumes or the trend in the volumes in October. So better than what we've seen in March as a possible guidance in terms of volumes for the next couple of months. Keeping in mind that you have provided this minus 20% guidance in terms of revenues? Thank you.

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

Yes, we usually give -- formally, officially in our records the net mark-to-market of the BancoPosta portfolio, which you've seen on the 2.1. But we also told you that, we have today 3.5 and is actually growing. So enough ammunitions to face the low rate environment, you might want to add that the EUR 400 million of SIA, which we will not see going to our income statement in 2020, because the merger with Nexi will be completed in 2021. This will reinforce on one end our capital position and allow us to have a buffer versus a low interest rate environment. But as you know we have already performed additional transaction realizing capital gain for 2020 in the region of a EUR 100 million for the last quarter, which you'd see at the next reporting date. And we have also started realizing capital gains for 2021, because you know Giovanni that we try to present plans where we want to read it for investors the amount of uncertainty on our revenues, and so as we have always done, we try to come at what we're planning or strategic planning update exercise beginning of 2021 with already some work done on the capital gain components. On the improvement on logistic, Guido.

A - Guido Maria Nola {BIO 20719012 <GO>}

Yes. So improving on logistics if I can ask you to -- the last to go to Page 14, so everyone can see what you were referring to. Yes, you see that pricing is going up in the quarter. And this is due to two things. First of all B2C prices actually went up. So within the segment normally, we tell you it goes down because of the mix, this time although the mix goes in that direction within B2C, the average tariff was up. Second as you pointed out and as I said in my speech, we are doing more and more warehousing business for our clients which tends not to have direct link to volumes and that overall brings that number up.

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

And, sorry, if I may add, you have also a component of new business, new clients brought on board we told you that we took the opportunity of the lockdown in April to completely restructure our commercial team we had today 1,200 people selling to corporates. And since the 1st of July, the new organization, the team is organized by industry, which is quite new to some extent to the sector, to the industry, but in the first few months, we can tell you that this is proving extremely effective in understanding clients and gaining market share. Additionally, we keep swinging the B2C business away from Amazon, and the key big players growing the smaller more margin players this year, we don't disclose the percentage, as you know, of wallet of our key clients, but I can tell you that the key client has gone down in revenue terms versus last year around 15% of our revenue base 15, 1-5, which is quite meaningful.

Operator

The next question is --

A - Guido Maria Nola {BIO 20719012 <GO>}

I didn't answer the last one on lockdown. So, very briefly, I think we have some reference points but not too many as the new measures just a little bit more than a week old. We are monitoring the three different colors yellow, orange and red. We'd done on -- and this is on different segments. We don't see yet very significant impact. Obviously we see the difference between red and yellow zones, but those differences are not meaningful yet. So More to come on this.

Operator

The next question has been submitted by -- on our platform, and it's from Alberto Cordara from Bank of America Merrill Lynch. So let me read it on his behalf.

Congratulations on the very good results. Can you give us some more details with respect to the cost cutting actions and, in particular, if we should expect some upfront charges in Q4?

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

I think there is more to do in cost reduction and I think I'm putting a lot of time with my Senior Management to get as much traction as possible. I believe that there is more we can get out of this company, the space, both in HR and non-HR. The accelerated trends in mail and parcel are probably giving us an opportunity to accelerate the transformation of the company. Transformation of the company means also transformation of the workforce of the company. So that could mean, to answer specifically, the question that Q4 we could consider some frontloading of restructuring charges that will come in 2021 and '22, which is more or less in-line with what we've done every year, but we think that this year is clearly an opportunity for that.

Operator

Your next question is from Manuela Meroni Banca IMI. Please, Manuela.

Q - Manuela Meroni {BIO 1782610 <GO>}

Yes, good afternoon. Barely I have four questions. The first one is on interest income. Interest income declined year-on-year due to the decline in interest rates, could you help us understand the evolution of the interest income going forward assuming a stable interest rates? How many government bonds will expire in 2021? And what is the yield attached to this expiring government bonds? What is the yield at which you currently reinvest and there are derivative structures in place that may impact the evolution of interest income?

The second question is a follow-up on a previous answer. Considering that interest rates will remain low for long, it is right to say that you could use part of your unrealized capital gains to stabilize the overall contribution of your government bond portfolio in the next years? And the third question is on postal savings. Postal savings revenues have reached a record high in this quarter, despite negative net inflow. I assume that you had a significant maturities in this quarter on postal bonds, so I'm wondering, how many postal bonds will mature in 2021? And can you provide an update on the negotiation with the CDP for the renewal of the distribution agreement? So if the new agreement is based on the same characteristic as before focused on new production with a maximum and minimum level of revenues and so on?

And the fourth question is on cost, possible. Thanks For all the information you provide on cost evolution. In the third quarter operating costs were flat year-on-year with cost efficiency action offsetting the emergency related cost and the business related costs, so what is that you are going, going forward? Do you expect the cost saving initiatives to offset the increase of business-related costs? Or maybe we can also expect cost to decline in absolute terms offshore, excluding all the non recurring costs related to ?

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

Okay. I can start maybe with the last one which is -- and I don't mean to be light in the answer. Clearly, as we said in the presentation, we have two businesses which are growing significantly with the digitalization of the work and our client habits, which are basically the telco, the payment and the parcel delivery. And those growth in revenues that we are experiencing, I'm looking at payments and parcels, specifically is bringing higher cost with it. We have done a big effort in the last few weeks to cure and define a lower basis -- significantly lower base on the telco component. And it's public information that we have signed a new contract for our roaming services, which is going to be handed over to Vodafone. From 2021 the date is still under consideration because obviously there are technical steps that we need to take to move our clients to the new network. So that's something real we have done.

On parcel, the new sorting centers, which are much more automated, not only are allowing us to give the best service and to minimize the mistakes and the reworking of the flow of sorting that we manage today. But obviously, will reduce our cost to serve that platform. So that's another meaningful step that will reduce that cost base. Answering the big question, is this going to counterbalance the increase that we're seeing. It's exactly the heart of the plan, we're working on, so you need to be patient and very beginning of 2021 you'll have the answer. For postal savings, I'm answering the question in reverse order. We are experiencing for 2019 and, sorry, for 2021, '22 and '23, a significant increase versus the average of expiry of postal bonds we have in the last three years. We are estimating as much as 50% 5 - 0 increase in expiry. So there is going to be a lot of work to be performed in the next three years in postal savings and, we are moving forward, negotiating with CDP on the new agreement that will cover '21, '23.

The second answer is easy with low interest rates, are you going to use, I think yes, we don't want to over use our capital gain, but if you remember, we always say that the interest rate -- the interest income component, and the capital gain component are balancing each other. This was a risk page we presented back in February 2018 in our Capital Markets Day. We were on page 12 and 13 of that presentation. When interest rates are lower, we are going to use more capital gains to bring the same total amount of revenues. You have to consider that we bought in 2020 almost EUR 12 billion of bonds with an average yield which is well above 1.5 , and that is going to help supporting the interest margin of the rest of the plan, for the next 3 years. And I think this is answering also. I don't know Guido, if you want to add anything.

A - Guido Maria Nola {BIO 20719012 <GO>}

Thank you. You said it all. The only number that also was asked was how many expiries we had next year? That number is similar to what we had this year and is about less than EUR 9 billion. I think we can go to the next question.

Operator

Yes. Thank you. So the next question is from Alberto Villa from Intermonte. Alberto, please.

Q - Alberto Villa {BIO 16005221 <GO>}

Yes, hi. Good afternoon. I wanted to focus a bit on the payment and mobile, especially on the Payment side. We have seen the EBITDA being flat also due to the comparison with last year. I was wondering once things get back to let's say normal conditions, what is the underlying growth that you're expecting from the payments, which seems to be accelerating due to the recent events that are pushing people to be more, I mean, using cards and digital payments And also in light of the new measure into the, that will be introduced by the government that you commented in the early statement, if you expect the cash payback to represent an important trigger for volumes? And more in general on the payments if you can just remind us your strategy also on the increase in penetration in merchant segment? Thank you.

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

I think our ambition and what we have managed to do over the last three years has been a double-digit growth in terms of EBIT.And As a matter of fact one of our, if I look at the nine months with, 8.7 recorded. So that's our ambition. If I benchmark ourselves versus our peers in payments space listed, unlisted, we're actually doing very well, okay ? We follow growth, we follow margins growth. So we think the 10% is achievable at the operating level. Yes, we believe that the cashback program, the fight to cash from the government that is just about to be launched and we participated since the beginning of this program, supporting the government will get traction because there is a significant amount of money that the government has put behind this plan, money and commitment, and third our strategy on the merchant side is to grow organically step-by-step having such a strong base on the issuing side slowly clients understanding that signing, acquiring contracts with Poste is lowering the fees that they pay on every payment. So, it's not going to be a big growth, but certainly is one of those elements that will help bringing our payment business on that double-digit growth path.

Q - Alberto Villa {BIO 16005221 <GO>}

Okay. Thank you.

Operator

Okay. And I'm afraid, we're running out of time, but I would like to ask to submit two questions. We have been asked by our customer link during the call. So the first one was from. Could you please update us on the status of the distribution contract with CDP? I think that Matteo already mentioned about it. So Thanks for the question. And the last one is from Salvatore Cirino from Pramerica on another platform as well. I would just ask if possible, another view about your expectations for 2021 compared to 2019, EBIT realized in each division. Given the dynamics you showed In Q3, parcel increase, cost savings et etcetera. It looks like there is no reason apart from COVID lockdown, for not assuming Poste in 2021 will be back to 2019 EBIT and net income, but consensus is much lower. What's your view?

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

I mean, we don't comment on consensus, but it is exactly what we try to do since March. We try to use the disruption that COVID brought to work on the revenue and the cost side of our income statement to be stronger next year 2021. So with that assumption and with that focus the answer has to be, yes.

And I thank really with this last question. I thank you all for the time. And obviously, as usual, the CFO, Guido Nola, and myself are available. Thank you.

A - Guido Maria Nola {BIO 20719012 <GO>}

Thank you.

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

Good evening.

A - Guido Maria Nola {BIO 20719012 <GO>}

Thank you. Thank you everyone.

Operator

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