Apex
Insight

UK Express Parcels:
Competitive landscape

Product brochure

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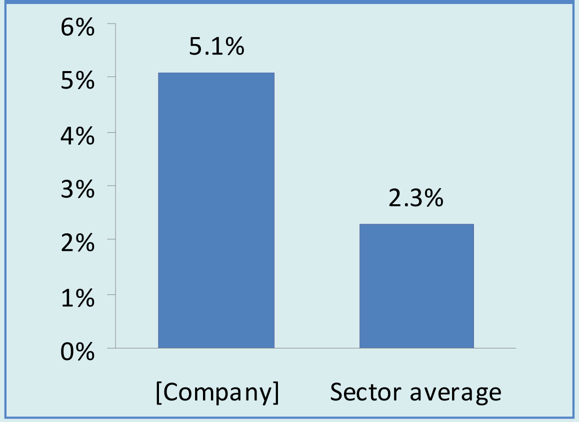
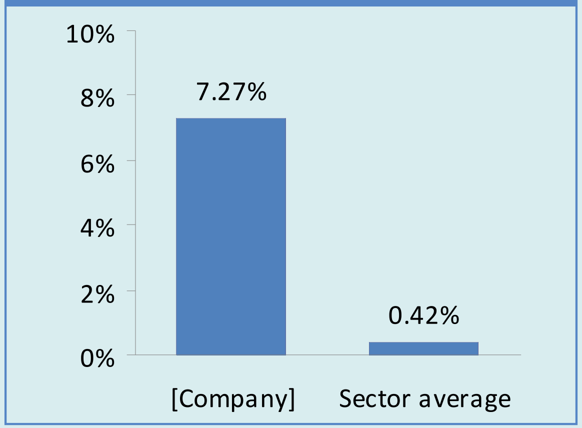
About this report

Example charts

Revenue growth rate (CAGR, last four years)



EBIT margin (average of last three years)



Source: company accounts

What does the report contain?

- In this report we review the competitive landscape of the UK parcels market. We look at the types of operators, how they differ and how they have developed. We also review the individual carriers looking at how they have performed, and, importantly, what factors, such as their business models, might explain the differences in performance and what the implications might be for the future
- This review is supported by detailed profiles of all the main parcels operators. The profiles include background information on the companies, historical developments and recent news, analysis of their financial performance and benchmarking against their peers, as well as our considered and evidenced views
- While many reports on the industry contain data and description, a critical objective for us in writing this report has been to supplement this with our insights and conclusions

Why did we write this report?

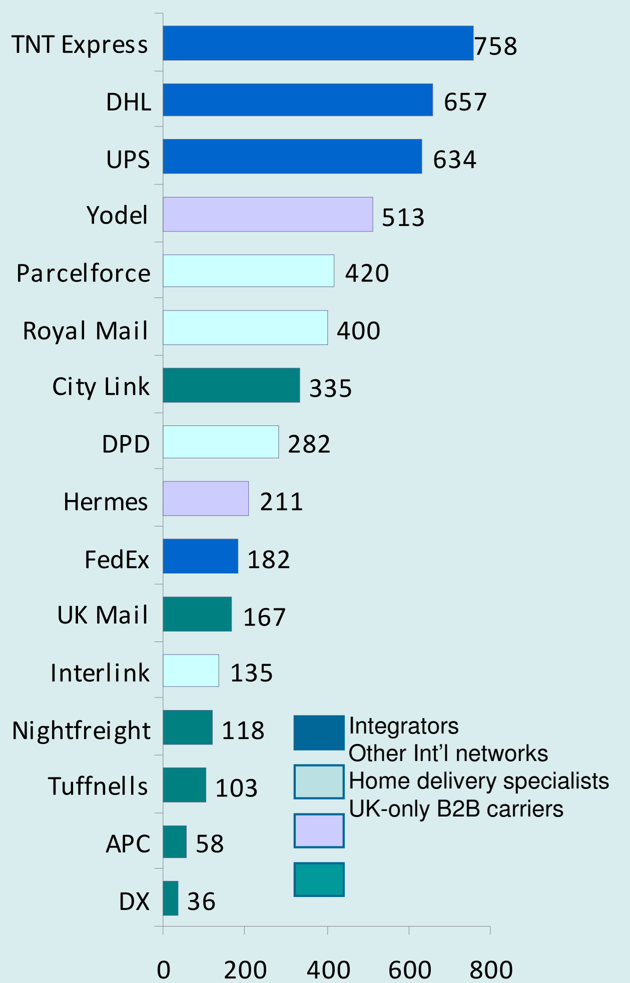
- The UK parcels industry has continued to evolve dynamically with
  - Continued overall growth
  - Macro factors such as the trend growth of home shopping and the cyclical impact of the economy on volumes continuing to provide a challenge to market participants
  - Some continued consolidation of the market through acquisition
  - Ongoing refinement of operating models to enable evolving customer needs to be served profitably
- We believe that, in order for those involved in the market to make the best decisions in this complex and changing environment, they need to have access to the best information. The aim of this report is to provide this
- It is intended for parcels carriers themselves, users of their services, partners, investors, banks, analysts, consultants and other parties with interests in the sector

What are the sources and methodology?

- This report is based on
  - A comprehensive review of published information on the sector
  - Financial analysis of the accounts of companies in the industry
  - Interviews with senior-level contacts in the market
  - Our own experience of advising both companies and investors in the express parcels industry
- Information from these sources has been synthesised and presented clearly and concisely with extensive use of charts and tables to illuminate points and support conclusions

Executive Summary

Leading UK parcels carriers: revenue / £m



Source: Company accounts, websites, trading statements, Apex Insight estimates

Types of parcels carriers

- Despite some consolidation in recent years, there are still more than 15 companies operating significant parcels networks in the UK.
- They fall into several different types including the Global integrators, European networks with strong continental road and/or air networks, Standalone UK operators and home delivery specialists

Carrier size and growth

- The largest UK parcels companies by revenue are TNT Express, with 2010 revenue of £758m, representing 15% of the total revenue of the leading players, followed by DHL and UPS with around 13% each
- Over the last four years, Yodel, DPD, APC, Interlink, FedEx, City Link, Parcelforce Worldwide and Tuffnells have all grown at a rate of more than 5% per year – due to a combination of organic growth and acquisition. During the same period, DHL, UK Mail, Nightfreight and DX have seen their parcels revenues decline.
- There has been a trend for the operators with international networks and home delivery focus to increase their share of revenues at the expense of standalone UK B2B players. However the picture is more complex and there have been winners and losers across the segments

Operating models, segment focus and strategies

- Different carriers have variations in their business models.
- Key variations include use of self-employed couriers / owner-drivers, size of depots, use of franchised depots, automated vs manual handling processes, direct trunking vs hub and spoke, use of cage sort and parcel shops
- These exist for a combination of historical reasons and to provide a better fit with the company's strategy and the requirements of the segments on which it wishes to focus. For example, the integrators tend to have larger depots than domestic players while franchised depots seem particularly appropriate for serving smaller customers
- Key objectives of operating model features are often to improve consolidation of pick-up and delivery, align incentives or minimise handling of parcels

Carrier profitability

- The UK parcels sector continues to operate on narrow margins and, as an industry with significant fixed costs, is vulnerable to dip in volumes
- Combined profitability across all the major operators fell from just under 3% (EBIT) in 2006 to a net overall loss in 2008, before recovering to a slim overall profit of 1.5% in 2010
- The two most profitable operators are the Geopost business, DPD and Interlink. The two companies with the worst profitability record in recent years have been City Link and DHL
- Factors such as compatibility of operations with market segment focus appear to be far more important than the effects of scale in determining operator profitability
- Parcels carriers are generally not highly capital intensive operations and so, in general, enjoy relatively high returns on capital

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About us

Apex Insight

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- Apex Insight is a leading independent provider of research and analysis covering business services sectors.
  - Our expertise is based on many years experience of both managing service businesses and providing professional advice to companies and investors in these sectors.
  - Our objective is to support managers, investors and advisers to the sector in making better business decisions.
  - Where required, our consulting services are able to provide more specific and / or customised information and insights
- Our reputation relies on the quality of our work which involves:
  - Focusing on business services because that is where we ourselves have worked and which we know best
  - Evaluating and explaining what specific factors drive profitability and hence success in a given market
  - Combining depth of qualitative and quantitative research with the sophistication of analysis and commercial insight which our strategy consulting background enables us to provide
- In the parcels industry, Apex Insight team members have worked for clients including UPS, Federal Express, DHL and DX Group and advised on transactions involving Nightfreight, Tuffnells and ANC