
# A.P. Møller - Mærsk A/S

## Q3 2019 presentation

Date: 15 November 2019

Conference Call: 11:00 CET

Webcast: investor.maersk.com

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# Forward-looking statements

This presentation contains forward-looking statements. Such statements are subject to risks and uncertainties as various factors, many of which are beyond the control of A.P. Møller - Mærsk A/S' (APMM), may cause actual developments and results to differ materially from the expectations contained in this presentation.

## Comparative figures

Unless otherwise stated, all comparisons refer to y/y changes.

2018 numbers have been restated for Maersk Supply Service and IFRS 16 effects to ensure comparability to 2019 numbers.

# Interim report Q3 2019

## Key statements

# Financial highlights for Q3

## Earnings and free cash flow continued to improve, with improved EBITDA across all segments

- **Revenue** declined 0.9% to USD 10.1bn.
- **Profitability improved** with EBITDA increasing 14% to USD 1.7bn, reflecting a margin of 16.5%.
- **Ocean EBITDA margin improved to 17.4%** supported by capacity management and strong operational performance.
- **Logistics & Services improved EBITDA by 34%** with a margin of 5.8% driven by a gross profit increase of 13%.
- **Gateway terminals'** EBITDA margin improved to 31.7%, driven by volume growth of 9.2% (7.1% like-for-like), which led to higher utilisation.
- **Operating cash flow increased to USD 1.7bn** with a cash conversion ratio of 105% and **free cash flow* was USD 1.5bn**.
- **Return on invested capital improved** to 6.4% from -0.2% in Q3 2018.
- **As announced on 21 October APMM expects EBITDA in the range of USD 5.4-5.8bn** for full-year 2019.

**Revenue** (USD)
10.1bn
(-0.9%)

**EBITDA** (USD)
1.7bn
(+14%)

**CFFO*** (USD)
1.7bn
(cash conversion 105%)

**Free cash flow*** (USD)
1.5bn
(USD 1.0bn after capitalised lease payments)

**Return on invested capital**
6.4%

**NIBD** (USD)
12.1bn

*Before capitalised lease payments



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# Financial highlights for 9M 2019

## Earnings and free cash flow continued to improve, with improved EBITDA across all segments

- **Revenue increased** by 0.7% to USD 29.2bn.
- **Profitability improved** with EBITDA increasing 20% to USD 4.2bn (USD 3.5bn), reflecting a margin of 14.5%.
- **Ocean EBITDA margin improved to 15.3%** supported by capacity management and lower costs.
- **Logistics & Services improved EBITDA by 23%** with a margin of 4.5% driven by a gross profit increase of 6.9%.
- **Gateway terminals' volume grew 7.1% (5.5% like-for like)** leading to higher utilisation and improved EBITDA margin of 27.5%.
- **Operating cash flow increased to USD 4.4bn** with a cash conversion ratio of 103% and **free cash flow* was USD 5.7bn**.
- **Return on invested capital improved** to 3.6% from -0.2% for the first nine months in 2018.
- **Distribution of USD 509m** to **shareholders** from the **share buy-back programme and USD 469m through ordinary dividend.**

Revenue (USD)
29.2bn
(0.7%)

EBITDA (USD)
4.2bn
(+20%)

CFFO* (USD)
4.4bn
(cash conversion 103%)

Free cash flow* (USD)
5.7bn
(USD 4.4bn after capitalised lease payments)

Return on invested capital
3.6%

NIBD (USD)
12.1bn

*Before capitalised lease payments



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Key statements Q3 2019

# Transformation update

## Positive development across all transformation metrics

- **Non-Ocean revenue grew 3.7%** adjusted for the closure of production facilities in MCI, led by strong growth in gateway terminals and in core parts of Logistics & Services, partly offset by decline in freight forwarding.
- **Gross profit for Logistics & Services grew by 13.4%,** positively impacted by intermodal volumes and new warehousing facilities becoming operational by end 2018.
- **Hamburg Süd and Transport & Logistics contributing with synergies** of around USD 0.1bn in Q3 2019 with accumulated synergies of USD 1.1bn by the end of Q3.
- **Significant improvement in the cash return on invested capital** from 9.2% in Q3 2018 to 13.4% in Q3 2019 due to strong operating cash flow and improved working capital.

| | Q3 2019 | 9M | FY 2018 |
|---|---|---|---|
| Non-Ocean revenue growth | 3.7% | 3.0% | 6.3% |
| Logistics & Services, gross profit growth | 13.4% | 7.0% | 7.9% |
| Annual synergies by end of 2019 of USD 1.0bn | USD 1.1 bn | USD 1.1 bn | USD 0.7bn |
| Cash return on invested capital (CROIC) | 13.4% | 9.0% | 2.8% |
| **Long-term target** | | | |
| Return on invested capital after tax (ROIC) | 6.4% | 3.6% | 0.2% |

[1] Non-Ocean is defined as Logistics & Services, Terminal & Towage and Manufacturing & Others, but excludes Maersk Oil Trading and tramp activities.

Note: the growth is adjusted for the closure of the two factories in Maersk Container Industry (MCI).



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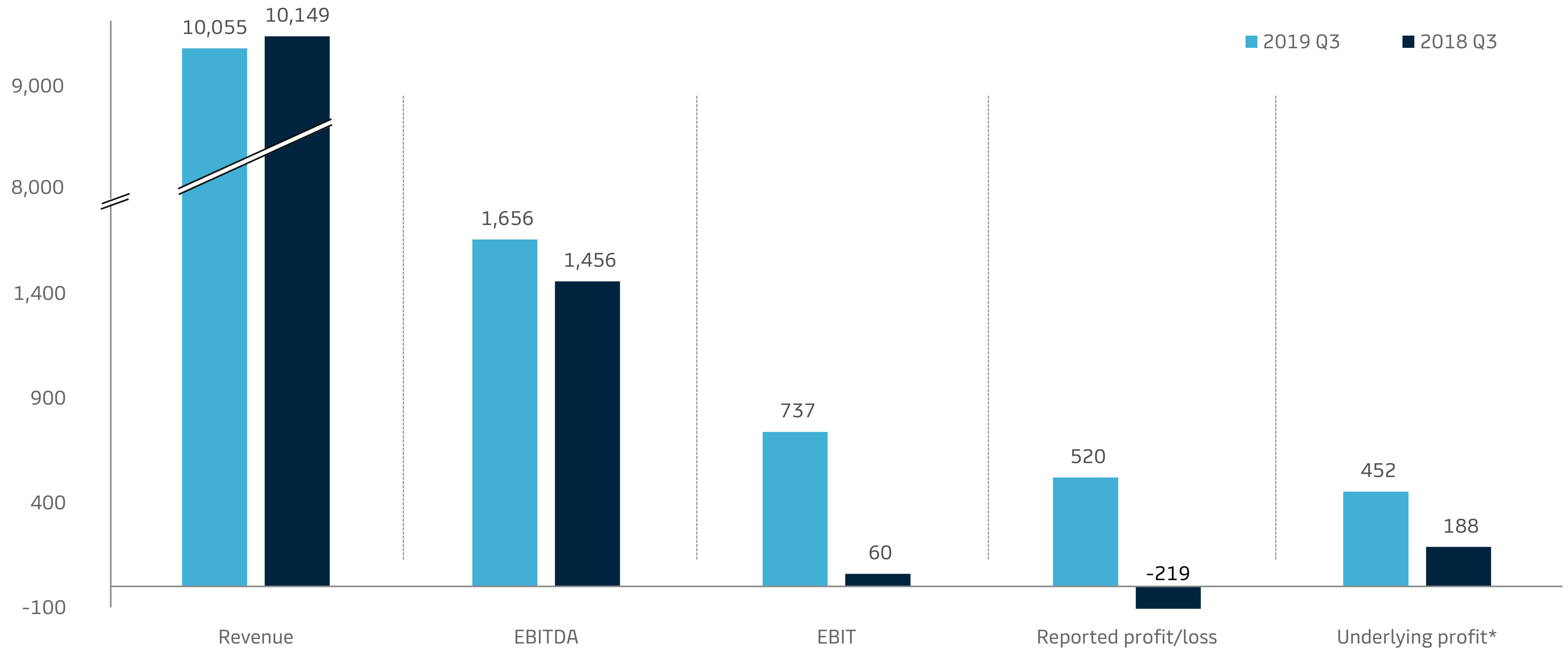
# Q3 2019
## Financial highlights

Financial highlights Q3 2019

# Improving earnings

USDm

Financial highlights




*Underlying profit/loss is equal to the profit/loss for the period adjusted for net gains/losses from sale of non-current assets, etc. and net impairments losses as well as transaction, restructuring and integration costs.

Continuous focus on improving profitability led to an improvement in EBITDA margin of 198bps to 16.5% and EBIT margin of 7.3%.

EBIT and reported profit/loss for Q3 18 was negatively impacted by impairments and write-downs of USD 345m in MSS and USD 100m the RoRo business.

A reversal of impairment was taken in Q3 2019 of USD 43m related to MCI.



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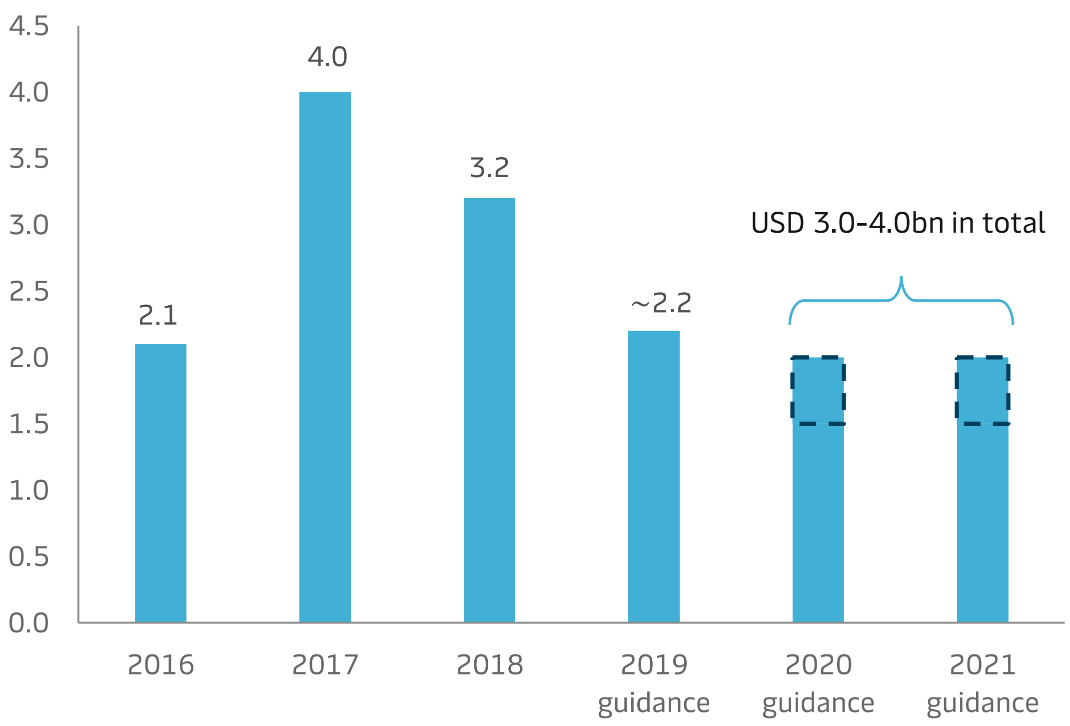
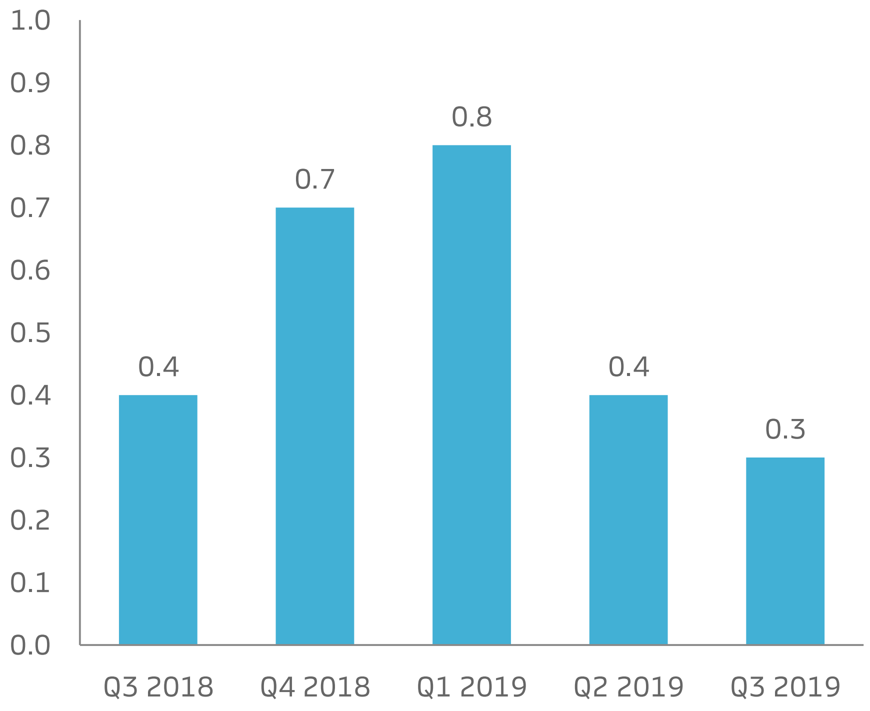
Financial highlights Q3 2019

# Strong commitment to capital discipline continues

Capex excluding acquisitions and divestments, USDbn




CAPEX guidance for 2019 is maintained at around USD 2.2bn.

For 2020 and 2021 the accumulated CAPEX is expected to be USD 3.0-4.0bn.

Total contractual capex commitments of USD 1.9bn end Q3 2019, down from USD 2.3bn in Q3 2018, of which USD 0.4bn is timed for 2020.



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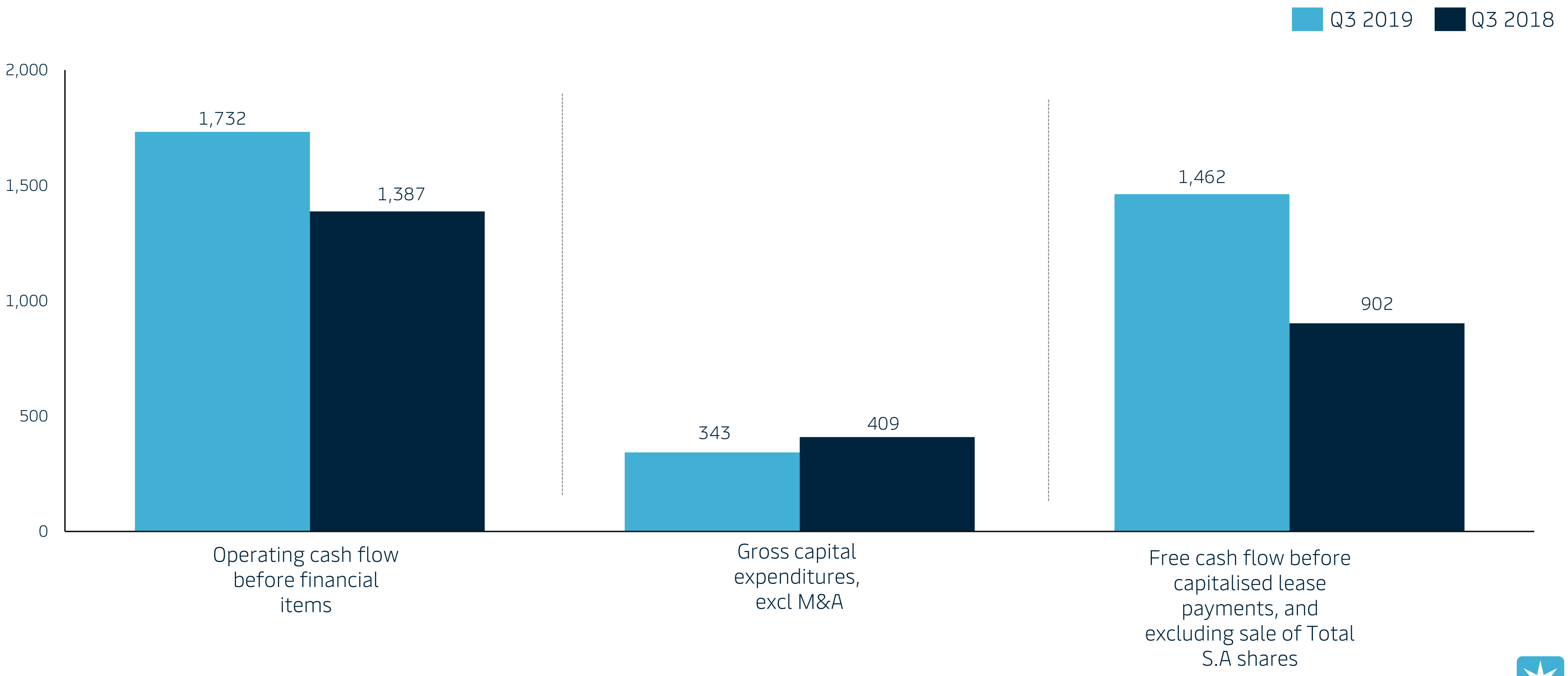
# High cash conversion in Q3 2019

## Development in cash flow, USDm




CFFO of USD 1.7bn was driven by an increase in EBITDA and improved net working capital of USD 127m leading to a cash conversion of 105%.

Free cash flow of USD 1.5bn reflects the strong cash conversion and lower capex.

Free cash flow was USD 1.0bn after capitalised lease payments.



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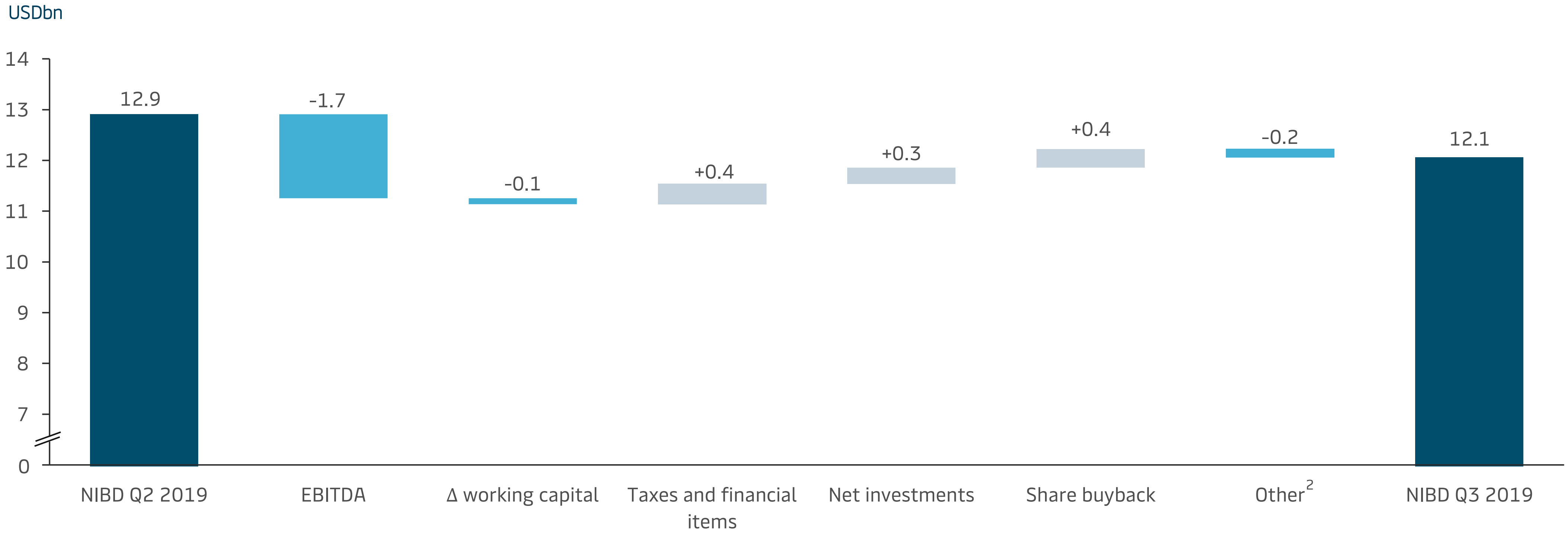
# Net interest bearing debt decreased further

## Development in net interest-bearing debt




Liquidity reserve[1] of USD 11.3bn by end Q3 2019.

Investment grade credit rating of BBB (stable) from S&P and Baa3 (stable) from Moody's.

1) Defined as cash and securities and undrawn committed facilities longer than 12 months less restricted cash and securities.
2) Other includes currency impacts, change in provisions and other



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Financial highlights Q3 2019

# Consolidated financial information

| Income statement (USDm) | Q3 2019 | Q3 2018 | FY 2018 |
|---|---|---|---|
| Revenue | 10,055 | 10,149 | 39,257 |
| **EBITDA** | **1,656** | **1,456** | **4,998** |
| **EBITDA margin** | **16.5%** | **14.3%** | **12.7%** |
| Depreciation, impairments etc. | 1,021 | 1,402 | 4,756 |
| Gain on sale of non-current assets, etc., net | 36 | 44 | 166 |
| Share of profit in joint ventures | 31 | 40 | 116 |
| Share of profit in associated companies | 35 | -78 | -115 |
| **EBIT** | **737** | **60** | **409** |
| **EBIT margin** | **7.3%** | **0.6%** | **1.0%** |
| Financial costs, net | -148 | -170 | -766 |
| Profit/loss before tax | 589 | -110 | -357 |
| Tax | 69 | 109 | 398 |
| **Profit/loss – continuing operations** | **520** | **-219** | **-755** |
| Profit/loss – discontinued operations | 0 | 569 | 3,787 |
| **Profit/loss for the period** | **520** | **350** | **3,032** |

| Key figures and financials (USDm) | Q3 2019 | Q3 2018 | FY 2018 |
|---|---|---|---|
| Profit/loss continuing operations | 520 | -219 | -755 |
| Gain/loss on sale of non-current assets etc., net | -36 | -44 | -166 |
| Impairment losses, net. | -42 | 443 | 757 |
| Transaction and integration cost | 10 | 7 | 78 |
| Tax on adjustments | - | 1 | 25 |
| **Underlying profit/loss – continuing operations** | **452** | **188** | **-61** |
| **Cash flow from operating activities** | **1,732** | **1,387** | **4,442** |
| **Gross capital expenditures** | **343** | **409** | **3,219** |
| **Net interest-bearing debt (APMM total)** | **12,056** | **18,718** | **14,953** |
| Invested capital | 40,938 | 52,591 | 49,255 |
| Total Equity (APMM total) | 28,879 | 33,959 | 33,205 |
| Earnings per share (USD) | 24 | -12 | -37 |



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Financial highlights 9 months 2019

# Consolidated financial information

| Income statement (USDm) | 9 months 2019 | 9 months 2018 | FY 2018 |
|---|---|---|---|
| Revenue | 29,222 | 29,022 | 39,257 |
| **EBITDA** | **4,249** | **3,549** | **4,998** |
| **EBITDA margin** | **14.5%** | **12.2%** | **12.7%** |
| Depreciation, impairments etc. | 3,127 | 3,588 | 4,756 |
| Gain on sale of non-current assets, etc., net | 70 | 90 | 166 |
| Share of profit in joint ventures | 89 | 116 | 116 |
| Share of profit in associated companies | 102 | -35 | -115 |
| **EBIT** | **1,383** | **132** | **409** |
| **EBIT margin** | **4.7%** | **0.5%** | **1.0%** |
| Financial costs, net | -546 | -544 | -766 |
| Profit/loss before tax | 837 | -412 | -357 |
| Tax | 267 | 271 | 398 |
| **Profit/loss – continuing operations** | **570** | **-683** | **-755** |
| Profit/loss – discontinued operations | -553 | 3,671 | 3,787 |
| **Profit/loss for the period** | **17** | **2,988** | **3,032** |

| Key figures and financials (USDm) | 9 months 2019 | 9 months 2018 | FY 2018 |
|---|---|---|---|
| Profit/loss continuing operations | 570 | -683 | -755 |
| Gain/loss on sale of non-current assets etc., net | -70 | -90 | -166 |
| Impairment losses, net. | -50 | 566 | 757 |
| Transaction and integration cost | 65 | 56 | 78 |
| Tax on adjustments | 2 | 25 | 25 |
| **Underlying profit/loss – continuing operations** | **517** | **-126** | **-61** |
| **Cash flow from operating activities** | **4,384** | **2,745** | **4,442** |
| **Gross capital expenditures** | **1,566** | **2,550** | **3,219** |
| **Net interest-bearing debt (APMM total)** | **12,056** | **18,718** | **14,953** |
| Invested capital | 40,938 | 52,591 | 49,255 |
| Total Equity (APMM total) | 28,879 | 33,959 | 33,205 |
| Earnings per share (USD) | 26 | -35 | -37 |



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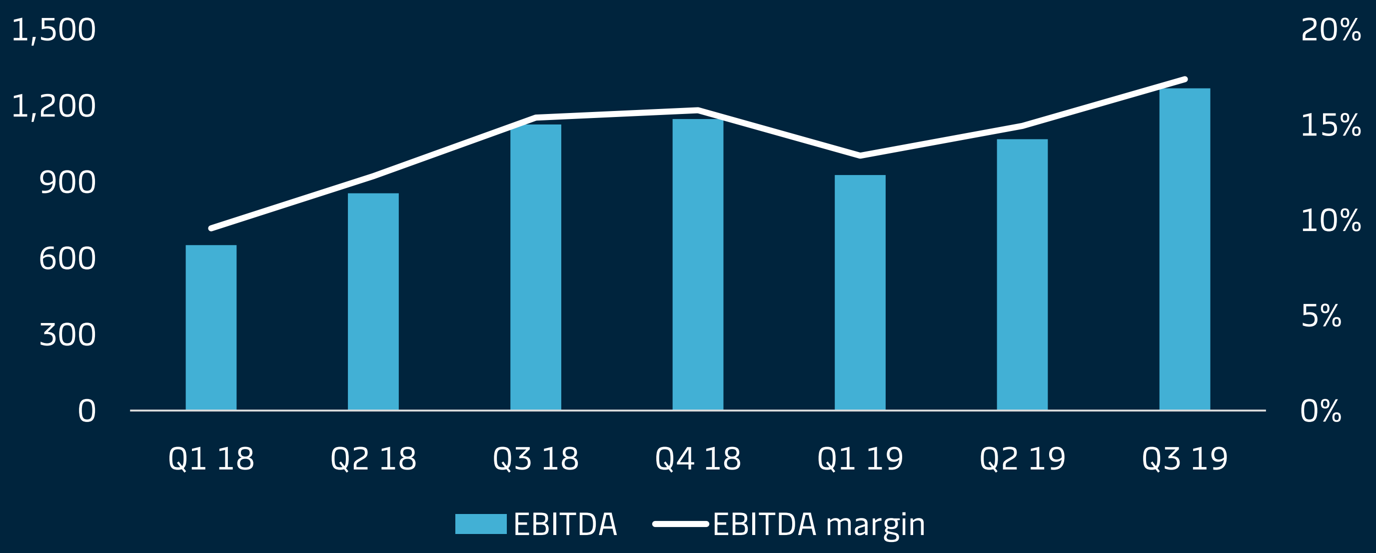
Highlights Q3 2019

# Ocean

- Supported by the positive cost performance, EBITDA increased 13% reflecting a margin improvement of 198bps.
- Total operating costs decreased by 2.8% compared to Q3 2018, leading to a reduction in unit cost at fixed bunker of 3.0%.
- Maersk Spot, introduced in Q2 2019, saw further adaptation in the market, and at the end of Q3 Maersk Spot accounted for 12% of spot-volumes.

Development in EBITDA and EBITDA margin (%)




| | Q3 2019 (USDm) | Q3 2018 (USDm) | FY 2018 (USDm) |
|---|---|---|---|
| Revenue | 7,305 | 7,321 | 28,366 |
| EBITDA | 1,268 | 1,126 | 3,782 |
| EBITDA margin | 17.4% | 15.4% | 13.3% |
| Gross capital expenditures | 209 | 324 | 2,279 |



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# Improved profitability at lower freight rates

- Average freight rates decreased 3.6%, driven by lower freight rates across all trades, apart from North America, and impacted by mix effect from higher growth on intra-trades and back-haul volumes.
- Adjusted for FX impacts the average freight rates decreased by 3.0% or 59 USD/FFE.
- Total volumes increased by 2.1%, mainly driven by 4.3% increase in backhaul volumes, while headhaul volumes increased 1.2%. Global volume growth was around 1.5%.
- The East-West volume decrease was led by North America trades due to trade restrictions, while Europe was on par.
- The North-South volume increase was driven by higher import volumes to Africa, while the negative demand in Latin America continued.

| Average loaded freight rates (USD/FFE) | Q3 2019 | Q3 2018 | Change | Change % | FY 2018 |
|---|---|---|---|---|---|
| East-West | 1,850 | 1,923 | -73 | -3.8 | 1,860 |
| North-South | 2,085 | 2,133 | -48 | -2.2 | 2,078 |
| Intra-regional | 1,418 | 1,480 | -62 | -4.1 | 1,478 |
| **Total** | **1,859** | **1,929** | **-70** | **-3.6** | **1,879** |

| Loaded volumes ('000 FFE) | Q3 2019 | Q3 2018 | Change | Change % | FY 2018 |
|---|---|---|---|---|---|
| East-West | 1,047 | 1,079 | -32 | -3.0 | 4,186 |
| North-South | 1,632 | 1,595 | 37 | 2.3 | 6,450 |
| Intra-regional | 726 | 660 | 66 | 10.0 | 2,670 |
| **Total** | **3,405** | **3,334** | **71** | **2.1** | **13,306** |



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# Total operating cost decreased and unit cost improved 3.0%

- Total operating costs decreased to USD 6.0bn (USD 6.2bn) or 2.8%, which adjusted for FX is a decrease of 2.1%.
- The unit cost at fixed bunker improved by 3.0%. Adjusting for FX the improvement was 2.3%.
- Total cost was positively impacted by lower container handling costs, lower network costs from higher utilisation and lower bunker cost, including continued improvements in the bunker efficiency.
- Total bunker cost decreased 15% as the average bunker price declined 12% and the bunker consumption declined 3.8% due to efficiency initiatives, focus on capacity management and higher reliability.
- Bunker consumption improved to 39.5 g/TEU*NM (42.7g/TEU*NM).

*Measured in gms Fuel / Total TEU x Nm. Total TEU is actual number of full + empties carried on the Ocean network. Nm =nautical miles.

**Unit cost at fixed bunker** improved by 3.0% to USD 1,747/FFE (USD 1,801/FFE)

**Total unit cost** was USD 1,910/FFE (2,022 USD/FFE)

**Bunker efficiency** improved by 7.3%

**Utilisation** improved compared to Q3 2018

**Bunker cost** decreased by 15.2% to USD 1.1bn (USD 1.3bn)

**SG&A and other operational costs** increased by 0.4%



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# Well prepared for IMO 2020

## Maersk positioning by January 2020

- Maersk fully supports and will fully comply with the new regulations.
- The majority of our vessels will comply with the sulphur cap by using low sulphur fuels.
- Scrubber technology is one element of our 2020 sulphur cap fuel sourcing strategy.
- A joint initiative with Vopak in Rotterdam and other agents globally will supplement and ensure sufficient availability and quality of the new low sulphur fuel for timely switch-over on all our vessels and to continue uninterrupted service delivery to our customers.
- New BAF introduced to contracts with effect from January 2019, with low sulphur fuel applied on BAF as of January 2020 following quarterly adjustment cycle.
- Environment Fuel Fee (EFF) on spot volumes and short-term contracts from December 2019.
- Continued strong focus on fuel efficiency to reduce consumption and the environmental impact.

## The bunker cost could increase by more than USD 2.0bn

| (USD/mt)* | October 2019 |
|---|---|
| **0.1 Gasoil** | 597 |
| **HSFO 3.5%** | 354 |
| **Proxy 0.5**** | 547 |
| **Spread FO Proxy 0.5% - FO 3.5%** | 193 |

*The average price for October 2019 and the average from Rotterdam, Singapore and Panama

**proxy 0.5% is calculated by the 0.1 gasoil minus 50 dollar



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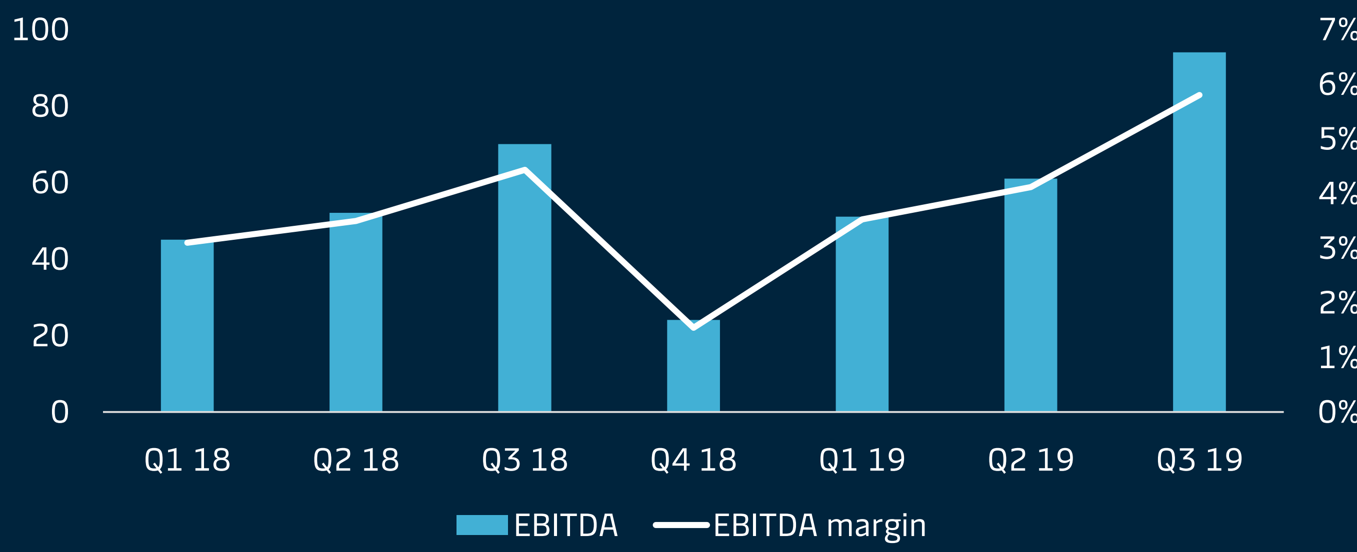
Highlights Q3 2019

# Logistics & Services

- Revenue grew 2.6%, positively impacted by increasing revenue in intermodal and warehousing and distribution.
- Gross profit increased by 13%, positively impacted by higher intermodal volumes and warehousing.
- EBITDA of USD 94m increased by 34% and margin improved to 5.8% (4.4%).
- In the first nine months, EBITDA improved 23% from USD 167m to USD 206m.

Development in EBITDA and EBITDA margin (%)




| | Q3 2019 (USDm) | Q3 2018 (USDm) | FY 2018 (USDm) |
|---|---|---|---|
| Revenue | 1,622 | 1,581 | 6,082 |
| Gross profit | 336 | 296 | 1,121 |
| EBITDA | 94 | 70 | 191 |
| EBITDA margin | 5.8% | 4.4% | 3.1% |
| Gross capital expenditures | 24 | 11 | 47 |

# Improved gross profit and EBIT conversion ratio

- The improvement in gross profit lead to an increase in the EBIT conversion ratio of 250bps to 17.5% (15.0%), despite higher depreciation of new warehouse facilities.
- SCM gross profit increased slightly, but revenue was negatively impacted by a few US retailers lowering their volumes as a consequence of trade tensions.
- Intermodal and warehousing and distribution revenue increased supported by higher volumes, which contributed positively to the higher gross profit.
- Volumes in air and sea freight forwarding were negatively impacted by general weaker demand and year-over-year effects from strategic initiatives taken earlier in the year to exit some countries.

**Gross profit** improved by 14% to USD 336m (USD 296m)

**EBIT conversion ratio** improved to 17.5% (15.0%)

**Volumes in SCM** decreased by 0.3%

**Air freight volumes was flat**, while **sea freight decreased by 12.2%**

**SG&A and other cost** increased to USD 242m (USD 226m)

**Direct cost** was flat at USD 1,286m (USD 1,285m)

EBIT conversion ratio = EBIT / Gross profit



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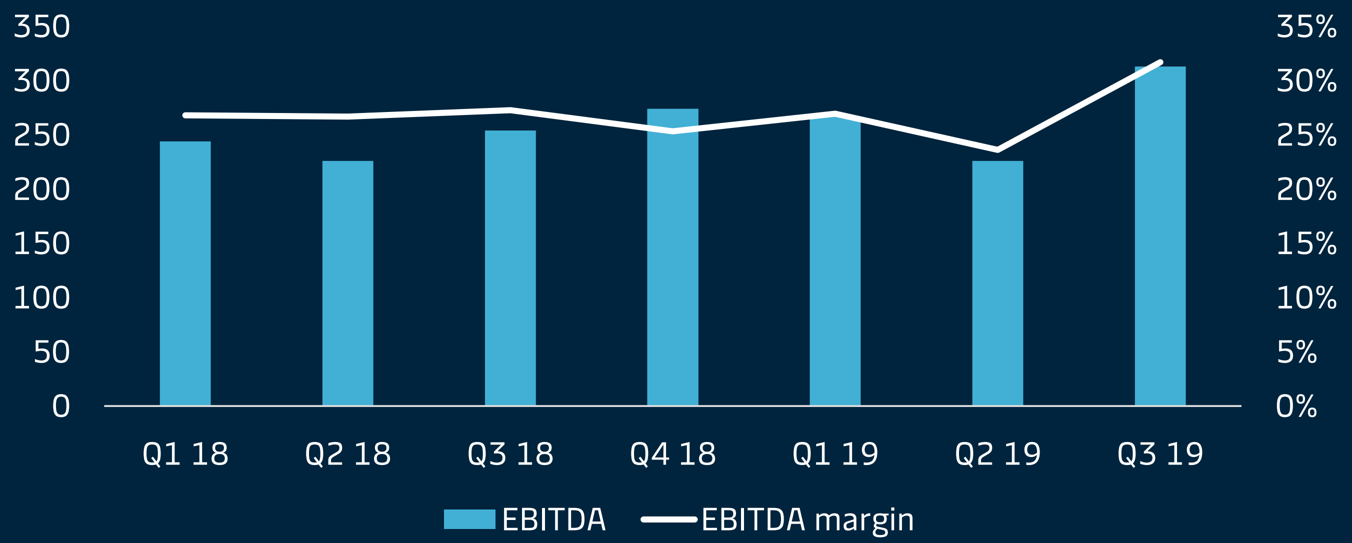
Highlights Q3 2019

# Terminals & Towage

- Revenue grew by 5.8%, while EBITDA increased by 23%.
- Gateway terminals reported revenue of USD 821m (USD 768m), while towage reported revenue of USD 172m (USD 171m).
- EBITDA in gateway terminals increased 33% to USD 261m and the EBITDA-margin increased by 6.3 percentage points to 31.8%.
- EBITDA in towage declined 10% to USD 52m, mainly impacted by higher operating and SG&A cost as well as FX.

Development in EBITDA and EBITDA margin (%)




| | Q3 2019 (USDm) | Q3 2018 (USDm) | FY 2018 (USDm) |
|---|---|---|---|
| Revenue | 986 | 932 | 3,772 |
| EBITDA | 313 | 254 | 998 |
| EBITDA margin | 31.7% | 27.3% | 26.5% |
| Gross capital expenditures | 105 | 97 | 556 |

# Gateway terminals continue to grow ahead of the market

- Gateway terminals volumes grew 9.2% (like-for-like 7.1%).
- Utilisation improved due to higher volumes including ramp-up of Moin and capacity reductions in Los Angeles.
- Revenue per move was driven by higher volumes in North America, Apapa, Nigeria and ramp-up in Moin, partly offset by lower storage revenue in West Africa.
- Cost per move was driven by higher volumes in higher cost locations, which was partly offset by cost savings across several terminals.
- Harbour towage activities was positively impacted by activities in the Americas and the Asia, Middle East & Africa regions.

**Like-for-like throughput** grew 7.1% (6.9% from external customers and 7.6% from Ocean)

**Utilisation** grew by 10.7%-points 84% (74%)

**Revenue per move** increased by 2.8% to USD 261 (USD 254), adj. for FX it decreased 0.5%

**Cost per move** increased by 0.5% USD 206 (USD 205), adj. for FX it decreased 3.1%

**Harbour towage** activities grew by 4%

**Terminal towage** annualised EBITDA per tug declined



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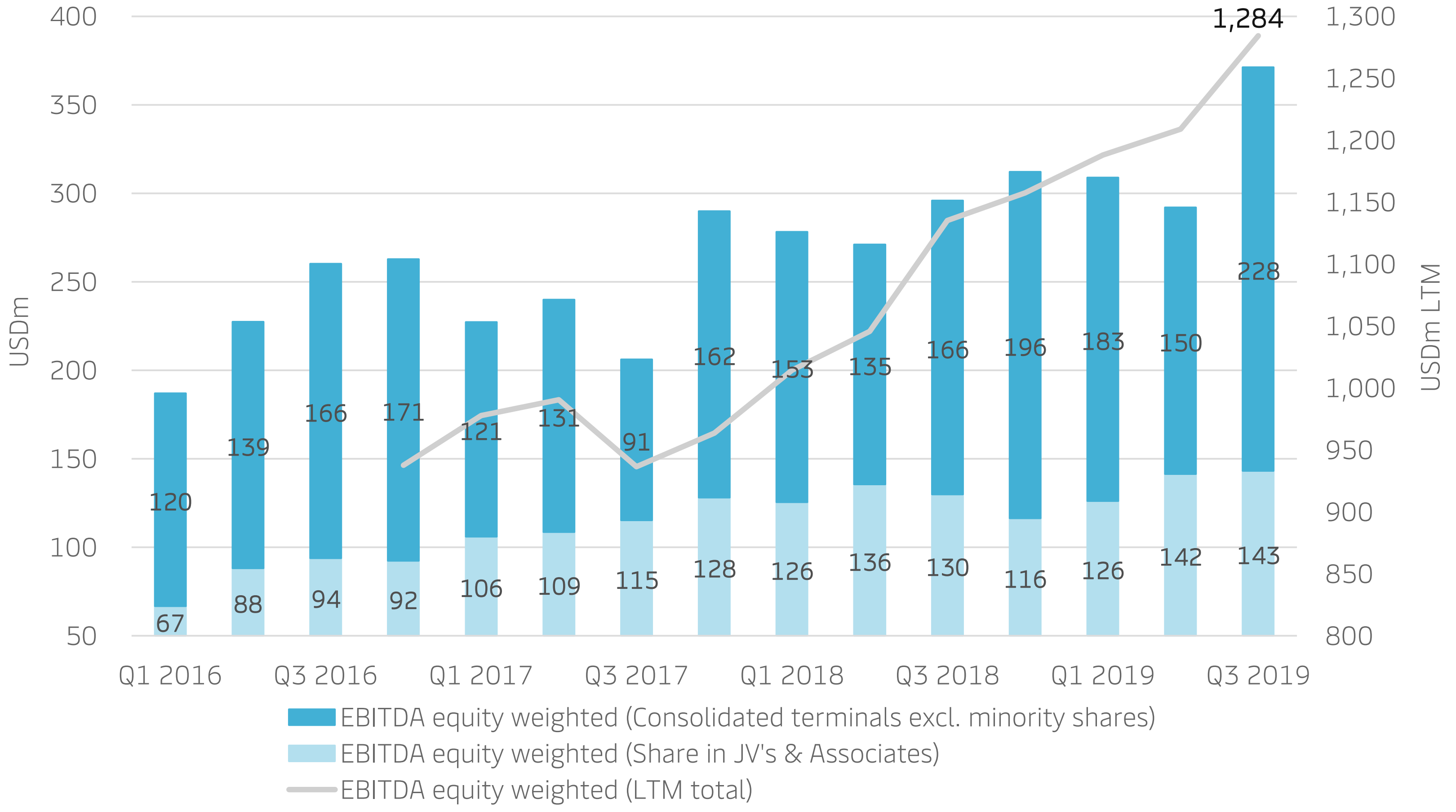
# Strong earnings and cash contribution from JV's and Associates.

- The equity weighted EBITDA, which is APM Terminal's equity weighted share of EBITDA on terminal ownership percentages of all entities, (subsidiaries/consolidated, JV's and Associates, excl. Hubs), was up 26% to USD 371 in Q3 2019.
- In the last twelve months the JV's and Associates have generated USD 527m to the Equity weigted EBITDA of USD 1,284m.
- The cash contribution through dividends from JV's and Associates in the last twelve monts has been USD 178m, or 34% of the EBITDA with a pay-out ratio of 110% of the net result.

Equity weighted EBITDA for APM Terminals




Note: 2016-2017 IFRS16 adjustment is a high level estimate for comparability use only. The estimate does not take into account differences in internal discount rate nor remaining length of concessions, but simply extrapolates numbers back from 2018. The 2016-2017 adjustment is not audited and no full restatement of figures to adjust for IFRS16 has been conducted prior to 2018.



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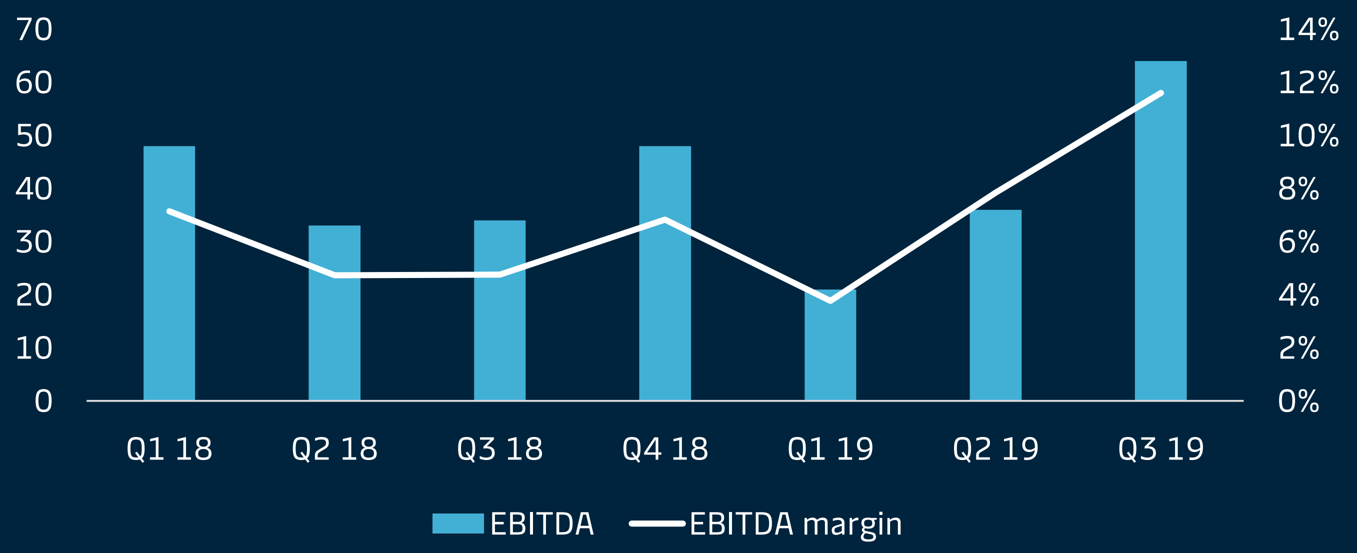
Highlights Q3 2019

# Manufacturing & Others

- Revenue in Maersk Container Industry decreased to USD 150m (USD 226m), impacted by the exit from the dry business and lower revenue in the reefer business.
- EBITDA in Maersk Container Industry of USD 13m (USD 5m) reflects the margins of the continuing reefer business.

Development in EBITDA and EBITDA margin (%)




| | Q3 2019 (USDm) | Q3 2018 (USDm) | FY 2018 (USDm) |
|---|---|---|---|
| Revenue | 553 | 715 | 2,787 |
| EBITDA | 64 | 34 | 163 |
| EBITDA margin | 11.6% | 4.8% | 5.8% |
| Gross capital expenditures | 7 | 11 | 358 |

# 2019

# Full-year guidance



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# Guidance for 2019 and CAPEX expectations for 2020/21

(Based on IFRS 16)

As announced on 21 October 2019 ,A.P. Moller - Maersk expects earnings before interest, taxes, depreciation and amortisation (EBITDA) in the range of USD 5.4-5.8bn from previously around USD 5.0bn.

The organic volume growth in Ocean is expected to in line with or slightly lower than the average market growth, which is expected to be in the range of 1-2% for 2019, compared to previously an expected market growth of 1-3%.

Guidance on gross capital expenditures (CAPEX) is maintained of around USD 2.2bn (FY 2018 USD 3.2bn) and a high cash conversion (cash flow from operations compared to EBITDA).

Accumulated CAPEX for 2020-2021 is expected to be USD 3.0-4.0bn.

Guidance continues to be subject to uncertainties due to the weaker macroeconomic conditions and other external factors impacting container freight rates, bunker prices and foreign exchange rates.

## Sensitivity guidance

A.P. Moller - Maersk's guidance for 2019 depends on several factors. Based on the expected earnings level and all else being equal, the sensitivities for the rest of 2019 for four key assumptions are listed in the table below:

| Factors | Change | Effect on EBITDA (Rest of year) |
|---|---|---|
| Container freight rate | + / - 100 USD/FFE | + / - USD 0.3bn |
| Container freight volume | + / - 100,000 FFE | + / - USD 0.1bn |
| Bunker price (net of expected BAF coverage) | + / - 100 USD/tonne | - / + USD 0.1bn |
| Rate of exchange (net of hedges) | + / - 10% change in USD | + / - USD 0.0bn |



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# Questions and answers

To ask a question, please press 01

# Final remarks

- **Strong improvement in profitability continued in Q3,** however there is still a need to improve margins.
- **Strong operational efficiencies led improvement in Ocean and gateway terminals.**
- **Solid cash flow performance with high cash conversion,** but fourth quarter will be impacted by buying more expensive fuel ahead of IMO2020.
- **As announced on 21 October 2019 we now expect EBITDA in the range of USD 5.4 – 5.8bn.**



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