

S1 2025 Earnings Call

Company Participants

- Markus Blanka-Graff, Chief Financial Officer
- Stefan Paul, Chief Executive Officer

Other Participants

- Alexander Irving, Bernstein
- Alexia Dogani, Analyst, JP Morgan
- Andy Chu, Deutsche Bank
- Arthur Truslove, Analyst, Citi
- Cedar Ekblom, Analyst, Morgan Stanley
- Gian Marco Werro, Analyst, ZKB
- James Hollins, Analyst, BNP Paribas
- Lars Heindorff, Analyst, Nordea
- Marc Zeck, Kepler Cheuvreux
- Marco Limite, Barclays
- Michael Foeth, Analyst, Vontobel
- Muneeba Kayani, Analyst, Bank of America
- Rajpal Kulvinder, Analyst, Alpha Value
- Sebastian Vogel, Analyst, UBS
- Uday Khanapurka, Analyst, TD Cowen

Presentation

Operator

Ladies and gentlemen, welcome to the Kuehne+Nagel Half Year 2025 Results Conference Call and Live Webcast. I'm Sandra, the Chorus Call operator. I would like to remind you that all participants will be in listen-only mode and the conference is being recorded. The presentation will be followed by a Q&A session. (Operator Instructions) The conference must not be recorded for publication or broadcast.

At this time. It's my pleasure to hand over to Stefan Paul, CEO of Kuehne+Nagel. Please go ahead, sir.

Stefan Paul {[BIO](#) [19353883](#) <GO>}

Thank you, Sandra, and good afternoon. Welcome to the presentation of Kuehne+Nagel's half-year 2025 financial results. I'm CEO Stefan Paul, and once again I'm joined today by our CFO Markus Blanka-Graff. Let's go into Page number 2 half half-year 2025 results. Gaining market share in Sea and Air Logistics. In the second quarter of 2025, we accelerated our progress toward our strategic goal of profitable market share expansion.

In a challenging market environment, the share gains drove gross profit growth for the Group. Stable underlying EBIT excluding negative currency effects. Sea and Air Logistics contributed stable EBIT with volume gains as IMCs' performance offset yield pressure and currency effects. Excluding non recurring items, the combined Sea and Air conversion rate was 30% over the first half and 29% in Q2 alone. This compares to 35% in Q2 last year and 32% in Q1, 2025. The consolidation of IMC has reduced the combined conversion rate by about 100 basis points since

January. EPS saw a modest contraction over the period, especially in Q2, mostly as a result of currency effects. Looking at cash, free cash conversion continued to improve over the course of the first half relative to last year. And lastly, we successfully launched two bonds of CHF200 million each in the first half on very competitive terms.

Let's go to Sea Logistics Page number 3. Continuous market share gains as always from left to right, volume GP per container unit, and EBIT per container unit, always in Swiss francs. In Sea Logistics, we gained market share once again in the second quarter. Underlying volume grew by 4% year-over-year versus the estimated market growth of 1%. We more than offset the sharp decline in Chinese exports to the US following Liberation Day by expanding volumes and gaining share in other trades globally.

In terms of EBIT, Sea Logistics generated CHF158 million in the second quarter. Two factors explain this outcome. First, the challenging market environment after Liberation Day resulted in a 5% year-over-year organic yield decline excluding currency effects. And second, we had additional OpEx associated with our investment in stronger growth and with annual compensation increases. IMC, which we acquired in January, continued to perform well in the second quarter. While Liberation Day volatility resulted in some pressure, we mitigated it through the ongoing migration of Kuehne [Ph] drain volumes from other providers to IMC.

As a reminder, IMC strengthens our differentiates of the Sea Logistics value proposition. It also reduces the proportion of our Gross profit that is correlated with Sea Freight rates. This all resulted in Sea Logistics' conversion rate of 31% in the second quarter or 33% on an organic basis. This compares to 36% and 38% respectively in Q1. Looking back at the entire six months, underlying volume growth was 5% or more than twice the estimated market growth rate of 2%.

This is early evidence that the growth strategy represented at our Capital Markets Day is working.

Page number 4. Air Logistics accelerated and focused market share growth from left to right again. Volumes in tonnes GP per 100 kilo and EBIT per 100 Kilo in Swiss francs. Air Logistics also delivered another quarter of market share gains. Volume grew by 9% year over year versus estimated market growth of 4% to 5%. Similar to our success in Sea Logistics, we offset the sharp decline in Chinese exports to the US following Liberation Day by serving rising demand and gaining market share in other trade lanes globally.

This outcome is even more impressive considering the decline of low yielding Chinese E-Commerce exports to the US after the de-minimis exemption ended in May. We successfully addressed this volume headwind centered at OpEx by intensifying our focus on attractive high growth customers in the semiconductor and cloud infrastructure sectors.

Turning to profitability, Air Logistics' EBIT in Q2 was CHF114 million, or up by 5% year over year, excluding negative currency effects. It was flat year over year, excluding the non-recurring cost of CHF6 million booked last year in Q2. This EBIT outcome in the second quarter reflects a combination of factors. First, the result reflects a challenging period mid-quarter due to market volatility, with recovery by June. Second, we grew gross profit by 8% broadly in line with volume growth as yield, excluding currency effects, were stable year over year. This was offset by OpEx developments similar to what we saw in Sea Logistics.

Air Logistics' conversion rate of 26% in Q2 was unchanged from the level of Q1. This compares to 27% in Q2 last year. Here as well, looking back at the entire six months, Air Logistics volume expanded by 7% year over year or nearly twice the estimated market growth of about 4%. Again, this is an encouraging early indication that we are successfully implementing our growth strategy.

Page number 5. Road Logistics Successfully mitigating market headwinds. Road logistics EBIT for Q2 came to CHF28 million. This was down by 17% on the prior year result, excluding currency effects or by 23% adjusting the prior year result for disclosed one of our costs. Management team continues to effectively mitigate very challenging market conditions with a focus on pricing, capacity management and cost control. We achieved net turnover growth of plus 1% year-over-year in Q2, excluding currency effects. This performance compares to a market where estimated year-over-year turnover growth was flat at best. On an order volume basis, Q2 saw a decline of 2% year-over-year or minus 3% on an organic basis. This compares to flat and minus 3% respectively in Q1. Cost pressures remained an issue in Q2, contributing to 8% conversion rate.

This was an improvement on 6% in Q1, but still well below the underlying rate of 11% last year in Q2. And lastly, our acquisition of Spanish provider TDN significantly expands our service offering in our Bay Area. This acquisition closed at the end of the quarter and therefore made no contribution to the first half financial result.

Let's turn to Page number 6, Contract Logistics. Record EBIT from Operations. Contract Logistics generated an EBIT of CHF42 million in Q2 or CHF58 million, excluding an extraordinary provision. On this basis, this was the strongest Q2 EBIT result ever recorded for Contract Logistics. Adjusting for reported one-offs in the prior year, Q2 EBIT grew by 12% year-over-year and by 17%, excluding currency effects. Net turnover grew by 5% year-over-year in the second quarter on a constant currency basis, unchanged versus the pace in the first quarter.

This represents ongoing market share expansion with share gains still centered in Healthcare and E-commerce. We can also confirm that our large Adidas fulfillment hub in Northern Italy is now ramped up. The solid underlying conversion rate of between 6% and 7% was comparable to Q1 and marked an improvement on the prior year Q2 result. Process, re-engineering, and automation remain our focus. This concludes my comments on the performance of the business units.

I will now turn to a brief strategic update, revisiting some of the key themes from our Capital Markets Day in late March. To do that, I will recall the image which shows a strategic focus on market potential. You see that on Page number 7. The four cornerstones. We are emphasizing profitable growth that exceeds GDP, which is a proxy for market growth. The other three cornerstones you see on this page are enablers of this ambition. Similar, what we have disclosed and discussed in March. We are pleased with the early success of our efforts. As I noted a few moments ago, both Sea and Air Logistics have delivered market share gains since the start of the year. We grew our core forwarding volumes over the course of the first half at between 2% and 2.5% times GDP, assuming estimated global GDP growth of 2.5% to 3%. Please allow me to briefly revisit the key drivers of our success so far.

First, our sales related efforts are succeeding in attractive target markets. These efforts include organization around key sales channels, incentive structures, and adding the right talent. Second, we are expanding our networks in Sea Logistics, we continue to improve our physical proximity to high yield ending SME customer. In Air Logistics, we are achieving substantial growth in the geographic breadth and frequency of services.

Third, we are focused on selling differentiated value-added services across all business units. Examples of other technology-centric support to semicon and hyperscaler customers, our patient-centered healthcare offerings, our expanded inland capabilities for Sea Logistics customers, and our upgraded customs capacity and know-how. We are confident that this approach will continue to drive market share expansions for many quarters to come.

With that update, I would now like to hand over to Markus for a closer look at the financials.

Markus Blanka-Graff {[BIO 18467945](#) <GO>}

Thank you, Stefan. Good afternoon, everyone. Thank you for your interest once again in Kuehne + Nagel and for taking the time today to review our latest financial results. As Stefan mentioned, we are encouraged to see our strategy delivering targeted market share gains and this is against a current business environment that continues to be impacted by high levels of uncertainty and volatility. And I will shortly update you on our outlook.

But first let me start with a quick review on the second quarter 2025. On the income statement, I would like to draw your attention to one of the most significant developments in the second quarter, which is the impact of currency headwinds. Since Liberation Day, at the start of Q2, we have seen the devaluation of our key functional currency like the US Dollar and Euro. Relative to our reporting currency, the Swiss Franc. The average exchange rate for these currencies declined by 8% and 4% year over year, respectively. This resulted in a 6% EBIT headwind in the second quarter alone, or 3% on a half-year basis as depicted in the table. I will come back to this topic when reviewing our updated outlook and guidance in a few moments. But before that, let's take a quick look at working capital. We can see a modest improvement on the networking capital intensity to 4.8% at the close of the second quarter versus 5.1% at the end of the first quarter.

DSOs and DPOs improved and deteriorated respectively in equal measure, but resulting in a rather stable spread of just over three days. I will elaborate a bit on working capital development with the review of free cash flow generation. My expectation is for a rather stable level of net working capital intensity over the near term. Continuing with cash and free cash flow in second quarter, we generated CHF122 million of free cash flow or a cash conversion rate of 47% versus 37% in the same period last year.

The year-on-year improvement reflects reduced expansion of working capital. For a better illustration, let me just move on to the next slide. Overall network and capital expansion was CHF67 million less in the second quarter as core networking capital swung from an outflow of CHF68 million last year to an inflow of CHF86 million this year. All of the network businesses delivered net inflows, offset only by outflows in Contract Logistics and Customs.

Taking a longer term perspective, Q2 cash conversion was below the historical average of 68% for second quarters in the decade leading up to the pandemic. From a year-to-date perspective, the cash conversion of 52% in the first half is above the historical average of 45% thanks to the relatively strong conversion in Q1. Looking ahead, notes that the second half typically delivers more robust cash conversion well in excess of 100% with a peak in the fourth quarter. Let me now turn to our 2025 earnings guidance. Based on our year-to-date financial performance and our current perspective on the factors which are likely to dictate performance in the second half of the year, our underlying expectations for recurring financial full-year EBIT are broadly unchanged. The one exception is accounting for the sizable currency headwinds due to the weakening of our key currencies relative to the Swiss franc, notably the US Dollar since Liberation Day in early April.

The result, as mentioned, was a 6% drag on a Group EBIT in the second quarter, in contrast to a neutral effect from currency translation still in the first quarter. Based upon year-to-date currency development and assuming current spot rates through year-end, we project a drag of around 5% on our full year 2025 Group EBIT from currency translation alone. This informs our updated full-year recurring EBIT guidance range of CHF1.45 billion to CHF1.65 billion.

The midpoint therewith is 5% lower than the midpoint of our previous guidance range and is comparable to current consensus expectations. We have also narrowed the width of the

guidance range by around 20% to CHF200 million, which shouldn't be surprising as half of the year is behind us. For the remaining half year, our current base case assumption is that we entered the second half at a relatively stable level of profitability, with the fourth quarter likely to deliver a greater contribution than the third.

Lastly, given the material impact from currency developments and still heightened uncertainty as to how they may develop over the coming months, we are also now providing a sensitivity table to approximate the impact of currency translation effects on full-year Group gross profit and EBIT. With this more technical part, I would now like to close our presentation with a summary of our key takeaways.

In the second quarter, 2025, we gained market share, accelerating the trend from the first quarter. At the same time, Sea and Air yields were broadly stable relative to the prior year, with some sequential pressure. Our market share gains reflected an intensified focus on attractive sectors, whereby the volatile market environment has also demanded increased agility and diligence so that we can reach these ambitions.

And lastly, our expectations for recurring full-year EBIT are unchanged, but we have adjusted our guidance range to reflect the material devaluation of key functional currencies.

With this, I want to thank you for your attention and hand it back to the operator to open the Q&A session.

Questions And Answers

Operator

We will now begin the question and answer session. (Operator Instructions). The first question comes from Uday Khanapurkar from TD Cowen. Please go ahead.

Q - Uday Khanapurka {[BIO 22947063](#) <GO>}

Thanks. Yes, this is Uday on for Jason Seidl. So maybe just to start on Sea, we've had some positive developments on trade in the past week. It's still very early, but is there any sense of the degree to which uncertainty is kind of being alleviated for customers? Is it enough to spur some volumes near term?

Is US-China the main thing to look for, like, where do we stand? And then maybe what are your expectations for Sea volume and yield into the third quarter kind of and beyond in that context?

A - Markus Blanka-Graff {[BIO 18467945](#) <GO>}

So, Uday, it's Markus. Let me just repeat if I got the question right, because your connections was a bit broken. So we talk about trade volumes in Trans Trans-Pacific predominantly, if we see any impact already from changes in terms of volatility for trade deals or not, is that right?

Q - Uday Khanapurka {[BIO 22947063](#) <GO>}

Yes. Any progress on the uncertainty in the near term here?

A - Markus Blanka-Graff {[BIO 18467945](#) <GO>}

So on the uncertainty, I think we're still at the same level as always. You know, our customers are depending very much on what is the flavor of the day, and you know, Trans-Pacific specifically, we're looking into a certain transit time that leaves that high level of uncertainty very much

unchanged. I think there is currently no comfort level with our customers in a stabilization, and let's say if further comfort in the outlook for transporting volumes on a steady pace. I don't think that it's still the uncertainty that dominates that also answers, I think your second part of the question. What is the outlook on yields and volume?

I think we will see what's coming. It's really to difficult to give any outlook at the current stage. What we currently can certainly be sure about is that we continue taking market share in a volatile environment. That is what we have started to see in the quarter and we accelerated in the second quarter.

I think our capabilities, that was the word I was looking for, our capabilities in responding in an agile and swift way to these changes in the market environment and customer requirements. I think that's something that positions us well in taking the market share.

Q - Uday Khanapurka {[BIO 22947063 <GO>](#)}

All right, got that. And maybe just as my follow-up, you mentioned share gains. So, it's encouraging to see those share gains here, maybe just on SMEs. SMEs have been a focus of yours from a yield management standpoint for a while. These tariff disruptions presumably kind of hurt this customer base the most. I'm just wondering, are you seeing any pressure in your book of business from kind of being over-indexed on those guys, and maybe that reverses quickly once the uncertainty subsides? Is that how you're thinking of it?

A - Stefan Paul {[BIO 19353883 <GO>](#)}

Stefan speaking. Let me answer that question. So the SME share overall in Sea Freight is rather stable, is about 50%. That was the target years ago. We have now reached a 50% since a couple of quarters is sometimes 1% more, sometimes 1% less. We see the same pattern for SME customers as for the global accounts or for the national accounts.

All are in the same boat basically, right? But there is no particular pressure on the yields, neither on the Trans-Pac coming from the SME customers. And you know, we have three channels, the global accounts, the national accounts, and the SME. Our field sales and the growth into the Trans-Pac as well will be supported by the SME customer gains, and not only from the big ones, right?

And from a performance perspective, yield, we all know, and this is unchanged. If you compare the SME with the global ones, the margin per container unit is still much better.

Q - Uday Khanapurka {[BIO 22947063 <GO>](#)}

All right, very helpful, thank you for the time.

Operator

The next question comes from James Hollins from BNP Paribas. Please go ahead.

Q - James Hollins {[BIO 16950317 <GO>](#)}

Hi, good afternoon. Two for me. Just following up on there on their reported Sea yields, obviously flat in Q2, down 7% on the reported basis. Is there anything to suggest that both of those would not be quite similar if we were to mark to market on FX for Q3? I know you've given a bit of broad guidance on Q3, Q4 profit, but be useful to get a wider view there and then. I was

wondering if you just give a bit more detail on any expected contribution from TDN in H2. I'm not sure if you've quantified it. If you have, I apologize. Thank you.

A - Markus Blanka-Graff {[BIO 18467945](#) <GO>}

Sure. James, this is Markus. Sea and Air, I think your read was quite accurate, I think especially when it goes into Q3 and Q4 stable going-forward I think is our base case again with a level of uncertainty based on the developments that we see and I think what I want to point out is clearly that the currency impact at a GP level is quite material when we look into gross profit per GU certainly for the second quarter and you can do the calculus yourself, you know where and verify we're talking a good CHF30 to CHF35 impact per TU just purely based on the just purely based on the exchange rate.

So it's quite a significant number that's moving there. But against that background, I think you're right with your expectations for the rest of the year.

A - Stefan Paul {[BIO 19353883](#) <GO>}

Stefan speaking. The second question was what is the contribution from the Spanish acquisition? It's roughly a million per quarter to be expected impact on the Road results.

Q - James Hollins {[BIO 16950317](#) <GO>}

Okay, appreciate it, thank you.

Operator

The next question comes from Muneeba Kayani from Bank of America. Please go ahead. (Operator Instructions).

Q - Muneeba Kayani {[BIO 15241083](#) <GO>}

Good afternoon. Thanks for taking my questions. So just in terms of what you just said on yields, like on ocean wanted to understand what your expectation for the ocean peak season this year? Like how much of this demand that we've seen is really just has been front-loading, and what are you hearing from your customers on that front?

And then secondly, just on your guidance, what scenarios would you see are at the low and high end of your guidance range? And if I heard you correctly, you said you expect a bigger contribution from 4Q than 3Q, why is that?

A - Stefan Paul {[BIO 19353883](#) <GO>}

Stefan speaking. Hi Muneeba, thanks for the questions. So looking at the second half of 2025, we expect a little bit of a muted peak season for Sea Freight, particular for the US and Mark has said it quite clearly. We will continue with market share gains and a solid contribution in the third and fourth quarter from IMC. And your question on the year is, we do not expect a major shift over the near term in light of our market demand outlook and the capacity situation. So, overall not a lot of change to be expected, not a clear peak season. Front loading, I would say was not a big topic in the second quarter. So that is how I would summarize the situation in Sea Freight. Air Freight is a little bit different but that most probably a little bit later.

Operator

The next question comes from Alexia Dogani from JP Morgan. Please go ahead.

Q - Alexia Dogani {BIO 16686359 <GO>}

Yes, good afternoon. Thank you for taking my question. Just my first question is on the Sea Logistics conversion rate. Obviously, you talk positively about market share gains, but in fact an EBIT didn't grow adjusted for FX as you said in your comments. That's despite the addition of IMC. Can you talk to us about what's happening on the cost base and why this annual salary increase you had to give, and are you now in a situation where you have a higher hiring freeze in place, where we should see some benefit on the cost base from natural attrition?

If you can just comment on those things, that would be very helpful. And then secondly, my question is on the outlook, just to kind of square the circle, I guess. So we've talked about you expect GDP yields to remain stable, and based on your comments that you don't expect any difference in demand dynamics. Should we therefore expect similar volume growth rates for Air and Sea in the coming quarters?

If you can just confirm that. And then what really gives you confidence on that volume outlook? Because obviously we're still in a pause situation with the tariffs and the reporting season has started, and a lot of large sectors are warning on weakness in demand. So, I guess, why do you think your demand environment will be insulated from those drivers? Thank you.

A - Stefan Paul {BIO 19353883 <GO>}

Markus, I take the first question on the conversion rate and the cost situation. So most prominently, I'd say, is the impact of IMC that, as we have disclosed, you know, has a pretty good contribution on the GP level, but it's slightly diluting on a conversion rate level. We talk around 2% roughly. And also IMC, let's not forget that with a lower number of activities going into the US market on a year-to-date basis has not yet shown the synergies or was not able to show the synergies that we were expecting.

We're seeing that now ramping up and clearly we expect an uptick as we improve the IMC contribution for the full synergy case then taking effect over the rest of the of the year. General cost statement I think clearly we are adapting the workforce according to the workload but that obviously is focused and targeted around the markets and the companies where needed. There is no general stop of anything.

We need to be very very focused and target the individual workforces directly because there is many trade lanes that are increasing volumes versus other few trade lanes that are decreasing. So there is no one-size-fits-all answer to that.

A - Markus Blanka-Graff {BIO 18467945 <GO>}

And let me, Stefan, let me, Alexia, tackle the volume question. We are of course not immune against any big market drivers.

But on the other side, let's talk about Sea Freight. We have gained in the RFQ season during the first half a significant amount of new businesses. I was already alluding to that back in March. As we speak, we are implementing these businesses. That's the reason why we are rather confident that we see the same pattern in the third and the fourth quarter. IMC will contribute not more volume but from a US perspective, and I was alluding that we had a little bit of a weaker IMC quarter -- the second quarter this year.

And on Air Freight, we mentioned a couple of times now that we have started to invest into the hyperscaler cloud high-tech environment. We have taken quite a few people from the

marketplace, which started already in the last couple of weeks or we'll start during the third quarter and we get some new significant businesses from large hyperscalers and that makes us confident especially in this vertical, which is still growing significantly, where we have been underrepresented that we see nice high single-digit growth for the Air Freight business moving into in the fourth quarter and that makes us confident. So the investments we have taken, the additional resources we have been able to get from the market and now as well the signals, especially in Air, from customers in this hyperscaler environment to give us more business than anticipated originally earlier this year.

Operator

The next question comes from Alexander Irving from Bernstein. Please go ahead. (Operator Instructions).

Q - Alexander Irving {BIO 23751770 <GO>}

Hi, good afternoon, and thank you for taking the questions. Two from me, please. First of all, are you seeing any meaningful changes following the merger between two of your larger peers in the second quarter? And if so, what actions are you taking to capitalize on opportunities here?

Second, could you please remind us what's happening, what you expect to happen with the Apex minority? Is there anything happening near term? Thank you.

A - Stefan Paul {BIO 19353883 <GO>}

Hi Alex. Stefan. So what is happening, and that is not a surprise, is what is happening. That's the two things. First of all, there are a lot of people on the marketplace in the meantime, and as I said, I'm reiterating myself, we are pretty much focused on commercial colleagues and commercial management, which we take into the organization. I mentioned the hyperscaler, the cloud marketplace where we have already taken advantage out of the merger, right?

And we have the fair share of this business coming in dominated by two players. One was Schenker, or is Schenker still in the marketplace when it comes to the service, to the Rex [Ph], and to this cloud environment. So here we clearly take benefit out of it, but we are pretty much selected, right?

And secondly, as well, not a big surprise. And normally in these kinds of environments that customers balance their share of wallet, and they do not put all the X to one basket, especially where we have customers where the amount of business they have allocated to the two players together is too high. From a procurement perspective, we seek good chance and we have already secured significant business in the high-tech.

The same is now coming in since a couple of weeks in the healthcare sector, where we gain more and more. So that is in summary, we want to take a fair share out of that, and we look carefully into people and customers, and we see the evidence already.

A - Markus Blanka-Graff {BIO 18467945 <GO>}

And on the second question on partner group minority in the Apex, I think collaboration continues to be excellent, very fruitful, and I think there is much more value to gain in the future than what is currently there. So both parties I think are currently clearly on a path to create value and not necessarily to pull out of any gain.

Q - Alexander Irving {BIO 23751770 <GO>}

All right, thank you.

Operator

The next question comes from Marco Limite from Barclays. Please go ahead.

Q - Marco Limite {[BIO 20988128 <GO>](#)}

Hi, good afternoon. Thanks for taking my question. The first question is on the FX exposure. So you have quite hopefully provided some color on the translation effects effect. But if you could actually explain a bit better to us what is the real exposure to the currency. So if I'm not wrong, close to the percent of your gross profit in Air Freight and Sea Freight is actually in USD as a functional currency.

So I understand what you're saying about the translation effect, but just if you can give a bit more color on what is, let's say the real effect, starting from the functional currency up to your reporting currency, is the first question. And then the second question is on more on your strategy, where you're saying that you're growing market share in a profitable way.

But just wanted to understand a bit better whether you think that this growth above market is basically driving or you think if that is driving some yield dilution, for example, or you know, some of the OpEx and lower conversion ratio we've seen this quarter is maybe driven by more cost and for how long you will keep investing. So yeah, just a bit of color on how you are basically investing or what is the offset to the higher volume growth versus the market? Thank you.

A - Markus Blanka-Graff {[BIO 18467945 <GO>](#)}

Hi Marco, It's Markus. Let me take the question on the exchange rate, so maybe just to sort a little bit the buckets first. So, Sea Freight, you're 100% right. Sea Freight business generally is a US dollar-denominated business, at least for anything that comes on a carrier invoice. Certainly, there is also local charges and additional services that are more in the local currency. In Air Freight, there is a certain exposure on the US dollar but it's not globally in the same degree as denominated US dollar business.

So it's also far more on local currency invoicing. And we have to distinguish two things. Obviously, when we talk about US dollar-denominated Sea Freight. Clearly, there is a section which is the port, port section that is priced in US dollar,s and that is the section where we have an overall exposure. So, there's a lower number of US dollars if you like, or the same number of US dollars, I should say the same number of US dollars staying in the PNL in the local PNL, which translates obviously into a lower number of Swiss francs. Again, that's why we focus on the translation impact. Intrinsically, I would agree with you there is an additional effect, right?

An additional effect out of the pricing is of the US dollar, but it's very hard to identify that one. Additionally clearly. And that's why we take a larger part of the US dollar into our consideration. You also have land-side services, et cetera, in the US that also benefit and that is the flip side to it on a cost base from also a lower currency. So from that perspective, I think that is what I can disclose a bit more details on it again, and I want to reiterate that in any case we talk about translation topics.

We are not talking about exposure out of transaction, there we are still exactly holding very firm our guidance that we always say there must be a hatch, natural hatch with invoicing from customers, sorry, invoicing from carriers and invoicing to customers. So from that perspective nothing has changed. But it's really the translation impact that we talk about.

A - Stefan Paul {[BIO 19353883](#) <GO>}

The second question was on the growth aspect, strategy on growth, and is that -- is there any risk that we dilute our yield by looking for growth? So first of all, the answer is we are very selective. If you look into the Air Freight piece, we are not growing per se. We focus pretty much on certain trade lanes. We focus in particular on certain verticals. I mentioned quite a few, and I want to reiterate that it's healthcare is high tech, it's the hyperscalers so much the E-commerce.

We are not growing in the Intra Asia market, that is particularly important for the Sea Freight organization that we do not fall into the trap that we focusing on low-yielding business in the Intra Asia. We focus pretty much on the high yields on the power lanes and on the trade lanes where we can really move the needle. So we do not go for growth at all means and we stay focused, we stay selected, and we look into any possible RFQ with preselected criteria in order to avoid that the organization only looks for volume growth rather than having a combination in terms of their focus on yield plus volume. So that is pretty much the case, and we correct every time when we see that we are not on the right path. So I would say that is not a fundamental risk to be expected moving into the next couple of quarters.

Q - Alexander Irving {[BIO 23751770](#) <GO>}

And what about the OpEx side, like higher volume growth, does that mean higher OpEx and therefore the conversion ratio is still under pressure?

A - Stefan Paul {[BIO 19353883](#) <GO>}

Yes, we can, and we said that quite clearly, we can add another roughly 10% volume with almost the same amount of people. So we have room to maneuver still before we need to add significant. But what we have done in the last couple of quarters is we have invested heavily into commercial resources in Sea Freight, in particular into the SME and as well in national and global accounts when it comes to Sea and Air freight. So that is a little bit lever which we have in order to breathe with additional volume. So we don't need to add significant more (inaudible) while we grow.

Q - Alexander Irving {[BIO 23751770](#) <GO>}

Okay, so there has been a bit of an investment this year and for example, next year if volumes keep growing, you need 2 keep in...

A - Stefan Paul {[BIO 19353883](#) <GO>}

That's the plan.

Q - Alexander Irving {[BIO 23751770](#) <GO>}

Yes. Okay, thank you.

Operator

The next question comes from Andy Chu from Deutsche Bank. Please go ahead.

Q - Andy Chu {[BIO 3984847](#) <GO>}

Afternoon, Stefan, Marcus. A couple of questions for me, please. You're mentioning a muted peak season in Sea. Does that mean that you're confident that Q2 is the kind of low point of

quarterly profits or EBIT for the year? Or could Q3 mark the sort of the low point?

My second question is around sort of exit rates for Air and Sea. Could you just give us an indication of the exit rates? Air and Sea versus the quarterly average. Thank you.

A - Markus Blanka-Graff {[BIO 18467945](#) <GO>}

Hi, Andy, it's Markus. I think when you talked about the muted peak season in Sea Freight and if the second quarter was the trough, I think the second quarter was highly volatile in terms of the volume development. You know, some months and weeks have really large swings from volumes transported, right? And I would say that if these swings will calm down a little bit, and at the same time we continue to take the market shares based on the initiatives that we have started and that had been very successful already throughout the second quarter. I would say that we continue to grow very safely into the third and fourth quarters. Is that a guarantee that Q2 was the trough? No. But is it likely? I would very much think so, right? Exit rates. I think that is the more difficult one. I think the middle of the quarter was especially on the Air Freight side, the middle of the quarter was difficult and I think we should look into a relatively stable, as I said already in our presentation, we should look into a relatively stable situation going forward. On the Sea Freight side, again, with that high level of uncertainty on the tariffs. For us, really, market share gains is our top priority and that should take care of anything else then.

Q - Andy Chu {[BIO 3984847](#) <GO>}

Thank you very much.

Operator

The next question comes from Cedar Ekblom from Morgan Stanley. Please go ahead.

Q - Cedar Ekblom {[BIO 16687869](#) <GO>}

Thank you very much. Hi gentlemen. I just wanted to dig a little bit more into this concept of market share gains. From the outside, it's quite difficult to understand how you define what your addressable market is and how that's growing because we obviously don't have the granularity by product segment and by trade lane at a very, very granular level. If I look at your volumes, at least on a reported basis in the first half of this year, they are down 11% relative to where they were pre-COVID. And clearly, the market's grown since then overall, maybe not your addressable market, but the broader market.

And if I look over the last sort of three years, your year-on-year volume growth has been extremely muted, if anything. So from the outside, I think it's hard, at least for me, to be able to underwrite this comment on market share gains based on the sort of market data that I can observe. So I'd like to just dig a little bit more into how you see your market and where you actually think you're taking those numbers or those volumes from.

And then just also on sort of stepping into the verticals that you are favoring this point on sort of deselected volumes. I feel like we've been talking about that for quite a long time, and I just wonder when do we get to the point where you feel like your portfolio is where it needs to be. And this sort of deselected volumes doesn't become a topic anymore, and we can actually say, okay, now we can see observed volume growth on a total basis. Because I'm just not seeing this volume growth coming through or this market share coming through. And I just, I don't really know how to think about that going forward. So that's question one, a bit of a long-winded question,

but a little bit of visibility on that I think would be helpful considering we've got had a huge correction in volumes over the last couple of years.

And then just the other one is, how do we get back to more than a 35% conversion margin on Sea and Air? You know, it doesn't sound like you're particularly optimistic on yield improvement. You are talking about sort of maintaining costs or working on efficiency.

So that's helpful. But we're a long way away from 35% so sort of a pathway to get there would be helpful to understand that. Thank you.

A - Markus Blanka-Graff {[BIO 18467945 <GO>](#)}

Yes, Stefan, let me take the first question. I think we have to distinguish quite clearly on the market share gains and how do we define our market between Sea and Air? Right. So in Sea Freight, you're right, we have deliberately given up certain volumes, low-yielding volumes towards the marketplace. And we started already two years ago in terms of when have we finished everything?

This is the fourth quarter of the year. Then we have a clean sheet of paper on the other side. We have already seen net growth in Sea Freight this year with roughly 2%. So we are growing our volume again in Sea Freight. But we have deliberately decided two years ago that to give up on certain commodities. The situation for Air Freight is different.

We have grown our business over the last couple of years in Sea Freight, and we are now expecting somewhere 2.2 million tons this year. And this is significantly more than five, six years ago. So in Air Freight, I think if you look at the figures, you can see quite clearly already since years that continuously we are growing our volume. And with the 9% in the second quarter, I think we have underpinned.

Q - Cedar Ekblom {[BIO 16687869 <GO>](#)}

Yes, just the question wasn't on Air Freight, it was on Sea Freight specifically. I appreciate you. Are you growing your volumes on Air Freight? I don't think we can. We can argue that it's, it's more the Sea Freight volumes, they're basically going nowhere, and we've been deselecting volumes in that business. I feel like it's been for quite a long time. And so basically I just want to know is when do we have the new base. And when should I be thinking about volume growth in the model?

It sounds like from next year. You think we can get there, so. But yeah, I mean, it's more of a Sea Freight question than anything else.

A - Markus Blanka-Graff {[BIO 18467945 <GO>](#)}

Okay, then. It was answered already in the first part of my response. And the clean sheet is achieved in Q4, 2025.

A - Stefan Paul {[BIO 19353883 <GO>](#)}

Okay, Cedar. Conversion rate, I think that was a question. On the 35% and also again from -- we took the combined conversion rates in Air Freight just from a reference we took current first half year 30% and 29% second quarter, which we all know is a difficult one and I appreciate, I think 35% is a long way as you put it, from 30%. However, I think we were also transparent in mentioning IMC being a very profitable business and an expansion to our value chain.

Exactly what we strategically want. From a numbers perspective. It bears around 100 base points on the conversion rate. So that has a small dilutive effect. What are we doing to improve the conversion rate?

Clear. We continue to have very strict cost control. We continue to operate in a more automated way, in a more digital way, reducing the cost per unit. Clearly, on the other side, the second quarter I think, shouldn't be our reference point for our journey towards the 35%. When I look just one year back in the second quarter '24, we were at I think 33% or 34%. I would have to look into it quickly, but it's a reachable number.

I think that is what I would like to say in an environment that is maybe less volatile or less difficult to maneuver as it is at the current stage, but the activities and the actions are being put in place and I think it's still a fairly reachable number.

Q - Cedar Ekblom {BIO 16687869 <GO>}

Great, thank you so much for the color.

Operator

The next question comes from Sebastian Vogel from UBS. Please go ahead.

Q - Sebastian Vogel {BIO 16903693 <GO>}

Hello and good afternoon. One quick follow-up with regard to the exit side of things. Compared to the yield question before, I was wondering on the volume side, if you can share a little bit if the volume grows at the end of the quarter, how that compares with the quarter average that you have shown.

And the second question is on the legal provision in Contract Logistics, the CHF16 million over there that you were alluding to in the slide deck, if you can add a couple of details on that one, that would be appreciated as well.

A - Stefan Paul {BIO 19353883 <GO>}

Yes, for Air Freight, the end of the quarter was higher than the beginning. Basically, we saw a steady uptake in the Air Freight volume during Q2 and we expect the same now during the next couple of weeks and Sea Freight were rather flattish with the lowest at the beginning of the quarter.

A - Markus Blanka-Graff {BIO 18467945 <GO>}

Very good. And Sebastian, Markus. On the legal case, so I have to respect, obviously it's an ongoing legal investigation, so not too much I can say about it, but it's all centered around, well known and quite often already documented in the newspapers, in the Italian newspapers of the last five or six years where an industry wide topic has been targeted from the Italian officials around temporary labor. I think that is as far as I can, I can currently go.

Q - Sebastian Vogel {BIO 16903693 <GO>}

Got it. Many thanks.

Operator

The next question comes from Michael Foeth from Vontobel. Please go ahead.

Q - Michael Foeth {[BIO 21747809 <GO>](#)}

Hi, good afternoon. Stefan, Markus. I have a question regarding trade complexity. You've managed many times in the past that increasing complexity in trade is benefiting your business. And it's not really translating, I think, at least not in the yield. It's maybe translating in the volume as far as I can see now. But many companies in the past months have shifted their supply chain, shifted their production and somehow it doesn't seem to be of any benefit for you. So, can you maybe comment on whether actually the current environment is actually more complex or is it not? And why are we not seeing it in your yields?

A - Stefan Paul {[BIO 19353883 <GO>](#)}

I think that the environment is very complex, but it's at the same time extremely volatile. Right. And we still have a very -- from a demand perspective, a different situation than a couple of quarters ago with the tariff situation. We have a bit of a softer market environment to the US; Trans-Pac is still down by 10%, 15%, thankfully for the volume. Basically, we have been able to compensate it with other trade-ins

And I said it already. Europe is extremely strong, North Port, Metport, and Latin America are extremely strong. But if one particular market like the US is softening from a demand perspective with a lot of capacity into the marketplace, then the capacity, the complexity is helping you. But the stronger headwind then was basically the reduction in volumes into one power line. So that explains a little bit why the overall complexity didn't help us in the last couple of weeks. So much on the yield based on the uncertainty and the volatility of the different markets, especially in the US.

Q - Michael Foeth {[BIO 21747809 <GO>](#)}

Okay. And maybe just a follow-up on clarification. When you talk about your expectation about stable yields in Q3 and Q4, is that versus the second quarter or versus the first half of the year?

A - Stefan Paul {[BIO 19353883 <GO>](#)}

Versus the second quarter, Michael.

Q - Michael Foeth {[BIO 21747809 <GO>](#)}

All right, thank you.

Operator

The next question comes from Lars Heindorff from Nordea. Please go ahead.

Q - Lars Heindorff {[BIO 22572161 <GO>](#)}

Yes, good morning. Thank you for taking my questions. The first one, on the yield side, if I go back and try to correlate the Sea yield development that you have with the Sea Freight rates on a like-for-like basis, that is excluding FX, there tends to be a fairly close relationship that when Sea rates go down, then so does your yield.

Now, I'm just curious to in that light just you come across being quite confident on the yield developments being stable into the second half. But at the same time, you also mentioned that you expect a muted peak season, which suggests a further decline, maybe in Sea Freight rates. So I mean, just a clarification on that, why you can be that confident. That's the first part.

And the second part is on the Air volume side. Can you give us any kind of granularity in terms of the 9% growth that you have in terms of verticals, which verticals are contributing and by how much? Thank you.

A - Markus Blanka-Graff {[BIO 18467945](#) <GO>}

Hey, Lars. It's Markus. So on yield, I agree with you. And especially on the Sea Freight side, I think it is our base assumption, what we have spoken about earlier, stable yields, volume growth, getting the market share, and having a muted peak season. Is that a guarantee? No, it is our base case. We have to give ourselves a certain framework to work into.

But clearly, and I think we have reiterated it several times, the level of uncertainty is high.

A - Stefan Paul {[BIO 19353883](#) <GO>}

So then I take the Air Freight volume question. So we have seen now in the second quarter growth in all verticals, apart from one, which is automotive, where in particular we have seen growth.

I underpin already, and maybe I have to repeat it now, is the high-tech hyperscaler market is a perishable business in particular fish, and is a hard cargo environment outside of automotive. So almost all verticals are growing a part of this particular one, silicon. I said cloud and aerospace. Everything starts to or has started to have a positive impact on the volume.

Q - Lars Heindorff {[BIO 22572161](#) <GO>}

Thank you.

Operator

The next question comes from Gian Marco Werro from ZKB. Please go ahead.

Q - Gian Marco Werro {[BIO 20798220](#) <GO>}

Good afternoon, everyone. Just one question. Specifically, on the free cash flow generation and also the networking capital intensity that Markus mentioned should remain stable. However, if we look now on the expectation for the second half, most commonly the consensus is that the international freight rates in Sea might come under pressure during the second half year and therefore shouldn't be it by nature that also your DSO are reducing and therefore that should help you to gain back those hundreds of millions that you so far over the last one and a half years had like a drag on networking capital? Shouldn't that really materializing more networking capital tailwind on your free cash flow going forward? Thank you.

A - Markus Blanka-Graff {[BIO 18467945](#) <GO>}

So yes, I would love to give you a clear, straight yes answer to that. But on the other side, I'm mindful that yes, rates may come down. We don't forecast that, but it is a possibility. On the same token, we are aiming for exponential growth. We're aiming for getting market shares, for gaining market shares, so volume goes up even when rates go down. That obviously has an opposite effect. So I think a stable situation is the most likely. Also taken into consideration that tariffs are equally weighing a little bit on our working capital. We try to avoid as much impact as possible, but as you can imagine, there is always a certain level of impact on the networking capital as well. So I follow you on your argumentation, but I think our ambitions for growth will rather go into where my mindset sits, a stable environment.

Q - Gian Marco Werro {BIO 20798220 <GO>}

Thank you, Markus.

Operator

The next question comes from Arthur Truslove from Citi. Please go ahead.

Q - Arthur Truslove {BIO 22574895 <GO>}

Thank you very much, and good afternoon. A couple from me, if I may. I guess the first question, if I strip out a foreign exchange in the second quarter on an underlying basis, your EBIT is still down, not far off 10%. I know we've been through some of the drivers of that, but obviously, you bought IMC. I just wondered if you could just kind of explain why it's down so much at constant currency despite having done an acquisition.

The second question I had was sort of around the cost base, especially on the Sea side, and kind of alluding to some of the questions we've had before on conversion ratio.

If I listen to some of the commentary I've heard, it does sound like shippers are thinking a bit more about what routes to send their goods on, whether to order shipments, and the like. Are you seeing more work per shipment for your people, and can you give us any idea about, I don't know, for example, shipments to debt, shipments per day processed by your staff, and how that's evolved over time? Thank you.

A - Stefan Paul {BIO 19353883 <GO>}

So maybe I answer the first question on IMC, and then as well the effort we have to put into the execution. So first of all, no, we don't see more workloads on the single order. That is not happening. So, from a profitability rates have dropped sustainably during the last couple of weeks, and that is mainly causing the EBIT pressure on IMC. That is particularly clear because IMC is not only they have 2.2 million containers a year, but they are also executing on Kuehne und Nagel.

So we have acquired them in order to offer our customers a better inroad into the drayage market in the US but in particular in the second quarter. The arrivals to the US have been heavily impacted by the tariff structure and by the shift in the marketplaces. And that's the reason why you don't see that so much as expected.

Q - Gian Marco Werro {BIO 20798220 <GO>}

Great, thank you.

Operator

The next question comes from Marc Zeck from Kepler Cheuvreux. Please go ahead. (Operator Instructions). Mr. Zek, your line is open. You may proceed with your question.

Q - Marc Zeck {BIO 22637860 <GO>}

Can you hear me now? Hello? Hello? Can you hear me now?

A - Stefan Paul {BIO 19353883 <GO>}

Yes, we can hear you now. Yes, hi Mark.

Q - Marc Zeck {BIO 22637860 <GO>}

Thank you, and apologies. Just a quick one on. In the peak season, you said it will most likely be a muted peak season. Does this describe like only the Trans Pacific or are you also seeing, let's say, more muted peak season than expected on the European trade as well, the Far East trade as well?

And the second question is on Europe more generally. To me, it seems like European ocean-born imports were kind of flattish for almost a decade or so, but picked up then after the Freight recession 2023, quite a bit. I would be interested in your view on the European import side, if you believe this uptick in European imports is more like a shot of recovery from a freight recession, or do you see something more fundamentally changed in trade into Europe that puts the continent on a more sustainable growth path going forward? Thank you.

A - Stefan Paul {BIO 19353883 <GO>}

Let me answer the muted peak season, and I think we have to be a little bit careful that we do not put the wrong assumption into it. We talk a little bit about a muted peak season into the US. So, Trans-Pac, we are not talking about westbound into Europe. I think Europe will still see significant growth, and that is also addresses your second question. Right. There will be quite a peak season to be expected in Air Freight and I think we will see a peak season in Air Freight.

We're only talking about muted peak season in Sea Freight. It could be even more articulated in Air Freight, based on the low inventories we see currently having moved into the US. So I think we have to be a little bit careful. There is no massive peak to be expected in the Trans-Pac. I think the rest of the marketplace, especially Asia, is Asia to Europe is very resilient and the market will see good growth as well into the peak season. It's particularly on the Trans-Pac but not at all for Air Freight.

This is only one significant trade lead in Sea Freight and not at all in Air. To just clarify that. Thank you.

Operator

The last question for today's call comes from Rajpal Kulvinder from Alpha Value. Please go ahead.

Q - Rajpal Kulvinder

Yes, good morning, hope you can hear me. So just a quick two-part question on capital allocation. One, how should shareholders think about dividend payout this year, and secondly, what do you see in the market in terms of M&A opportunities? Should we expect more bolt-on deals in the second half of the year?

A - Markus Blanka-Graff {BIO 18467945 <GO>}

Thanks, Kulvinder. It's Markus, on the dividend, I think we have articulated on the capital markets they clearly our policy and the expected payout ratio in a normal year going forward, which we hopefully will be able to finish the year 2025 as a normal year. But we will find out. But this clearly still holds up as a dividend policy. On the M&A part, from what I have seen and heard over the last six months, the market is not very strong right now. It's a couple of transactions that had been gone through, but I don't see a lot of things being in the market of interest for us, and that should probably also guide us in the second half of the year. Our strategy has not changed. Small well-run businesses that complement our service suites, no large volume opportunities, we don't do

that, we go into knowledge, and as I say, complementing our services and then scaling through our own networks. Typical example perfectly done, I think, on the IMC side with a distinctive extension of our value proposition to the customers by controlling the drayage on the US continent as well. So it's absolutely no change in our strategy going forward.

Q - Rajpal Kulvinder

Thank you very much. Super helpful.

A - Markus Blanka-Graff {BIO 18467945 <GO>}

Thank you.

Operator

Gentlemen, so far, there are no further questions. Back over to you for any closing remarks.

A - Stefan Paul {BIO 19353883 <GO>}

Thank you very much for listening and for the good questions. Wish you a remaining good day and talk to you soon. Thank you again.

Operator

Ladies and gentlemen, the conference is now over. Thank you for choosing Chorus Call, and thank you for participating in the conference. You may now disconnect your lines. Goodbye.

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