



Battle Card – Panalpina



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Executive Summary

Panalpina is a global freight forwarding company with operations in over 150 countries



*Panalpina adopts an **Asset-light** business model*

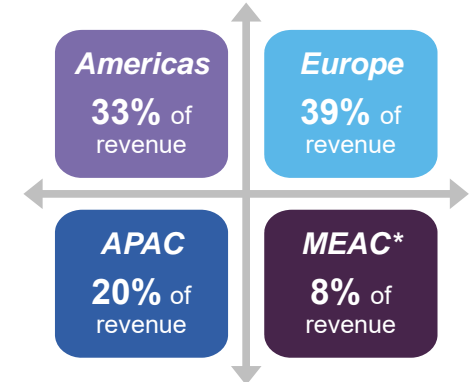


Financials

- 1%** Decline in the net forwarding revenue in 2014 on a y-o-y basis
- 2%** Increase in the Gross Profit in 2014 on a y-o-y basis
- 2.3%** Dividend Gross Yield



Geographic Presence



Strategic Initiatives



Acquisition of Airflo to boost its presence in the flourishing perishables industry



Strategic alliance with Spread Logistics to strengthen its Reverse Logistics portfolio



Expansion of its Logistics Manufacturing Services for Ericsson in Dubai, thus reinforcing its presence in the outsourced manufacturing segment



- Wide Geographic Presence:** Panalpina operates in about 160 countries
- High ROI in comparison to the Transportation industry average:** Relatively high ROI of 10.7% in comparison to 4.9% for the transportation industry
- Leading market position and brand image:** Ranked 4th and 5th amongst global Air and Sea freight forwarders respectively
- Inefficient Business Mix:** Heavy reliance on the Energy sector has led to volume decline of about 3% and 2% of Air and Sea freight in Q3 2015 respectively
- Low Profitability margins:** in terms of the transportation industry average

**Note: Middle East, Africa and CIS countries*

Data used in this report is primarily from annual report, interim reports, financial presentations, news articles and analyst reports

Business Overview (1/3)

Increasing Sea freight volumes are being offset by declining Air freight volumes

Key Facts

- **Headquarters:** Basel, Switzerland
- **Year of establishment:** 1935
- **Trading Exchange:** SIX Swiss Exchange
- **Supply Chain Center:** Frankfurt, Germany
- **Key Partners:** Maersk Line, NYK, Hapag-Lloyd, Hamburg-Sued and Atlas Air

Assets and Liabilities - 2014

Total Assets - 2014

Total Liabilities - 2014

Forwarding Volumes*

Volume – Air Freight Thousand tons

Year	Volume (Thousand tons)
2011	848
2012	801
2013	825
2014	858
2015 (Full year)	843

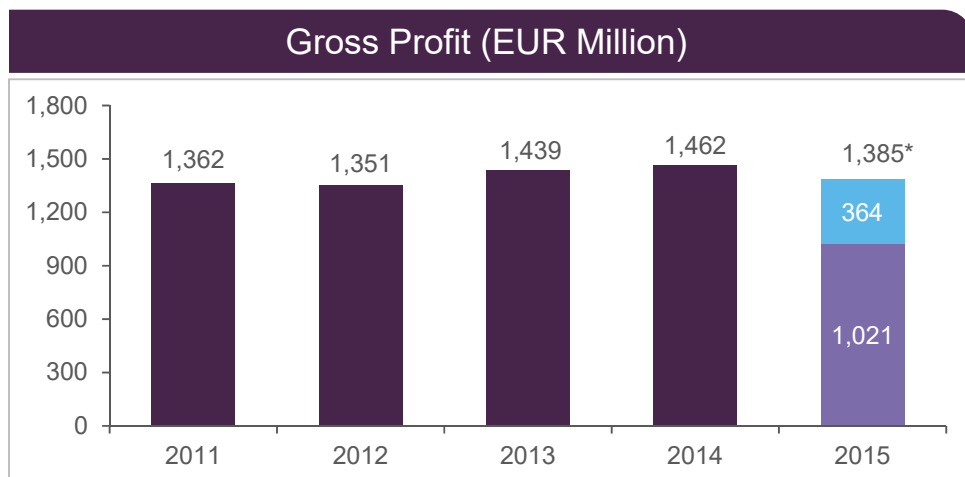
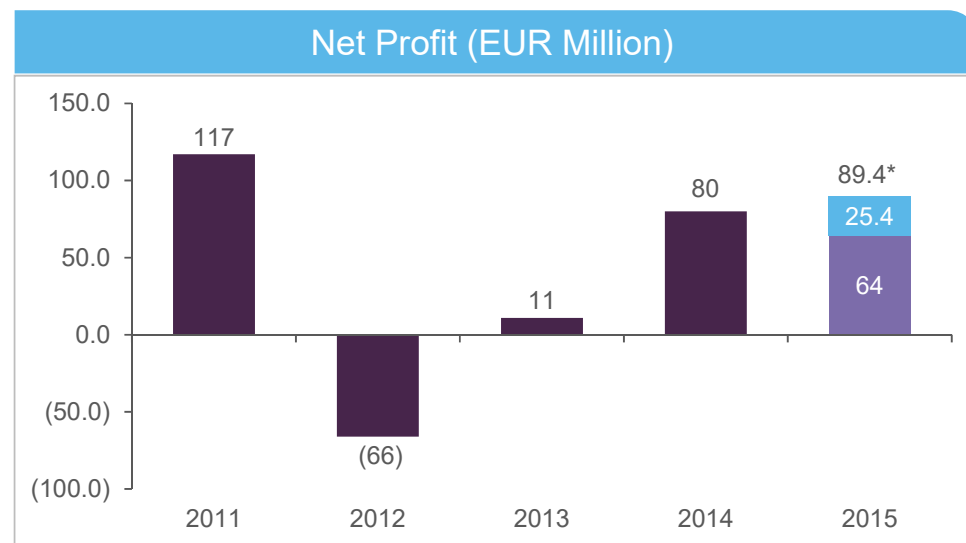
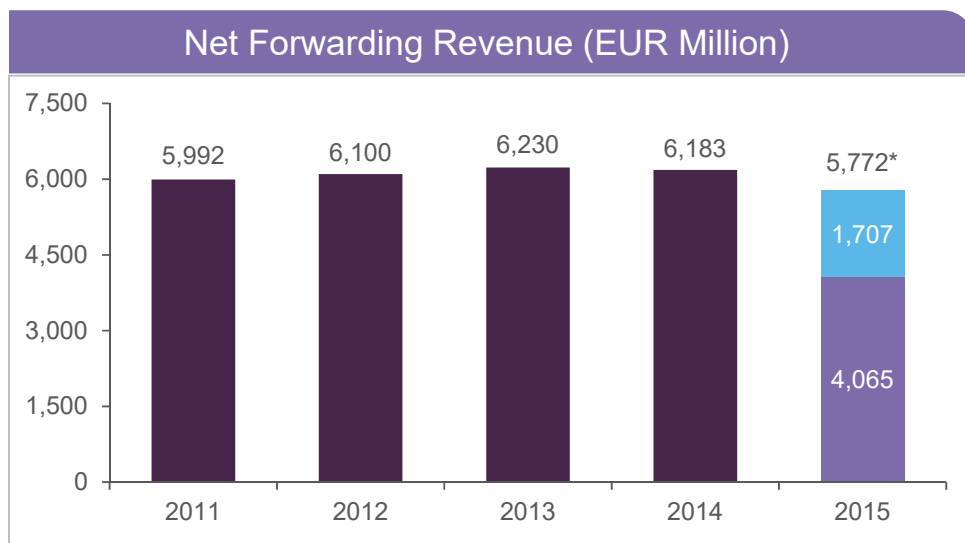
Volume –Sea Freight Thousand TEU

Year	Volume (Thousand TEU)
2011	1,310
2012	1,388
2013	1,495
2014	1,607
2015 (Full year)	1,618

Note*: 2015 figures are calculated by adding the September 2015 figures and the estimated figure for Q4 2015

Business Overview (2/3)

Panalpina is suffering due to currency fluctuations and low volume in Air Freight

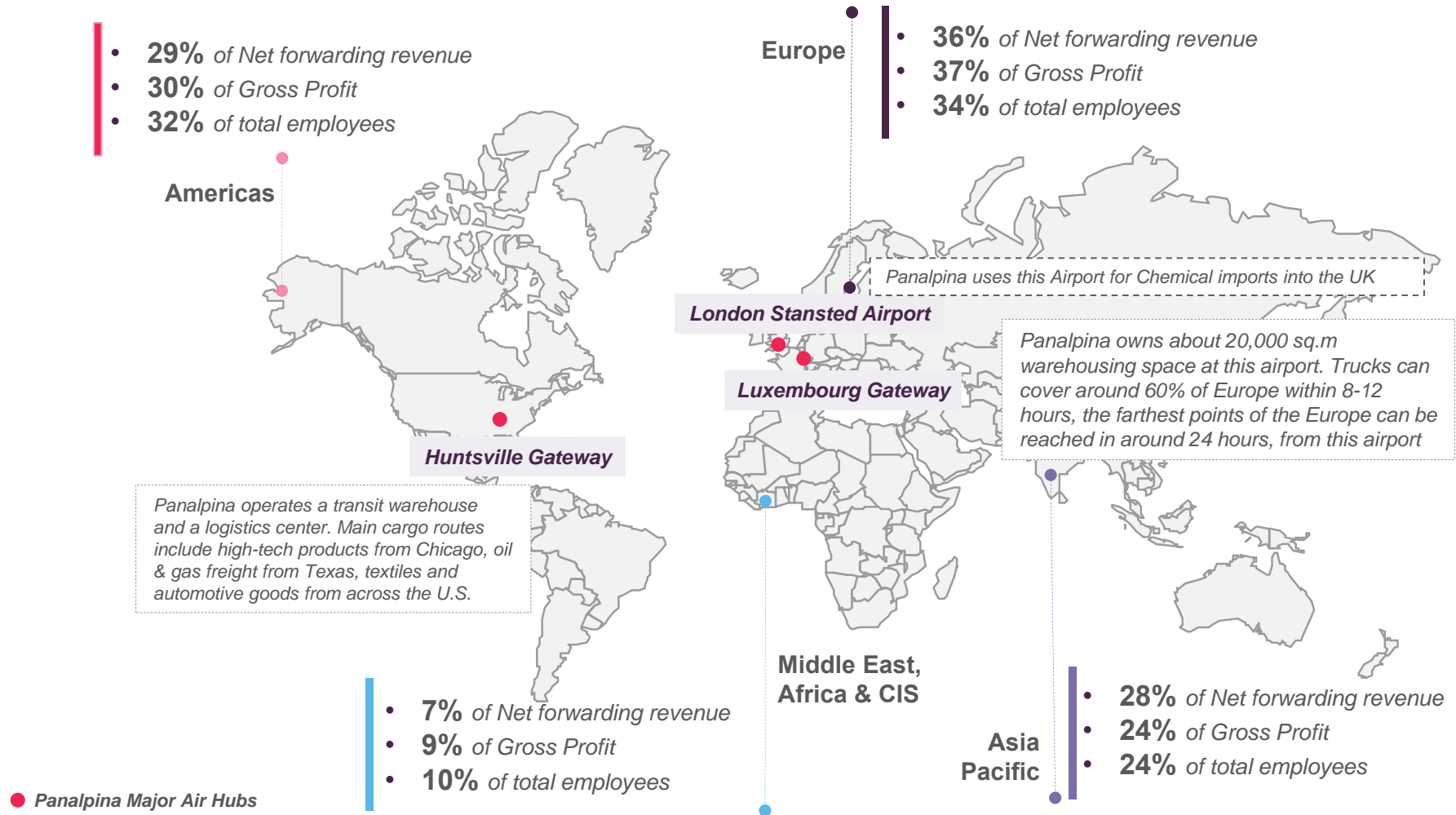


- ### Key Facts
- **Decline in net revenue and gross profit** by 6.6% and 5.2% respectively in 2015, due to strong currency impact, low volume of air freight business and a blow from the low-growth economies
 - **Increase in net profit** by 0.1% in September 2015 (Y-O-Y basis) and by 11.7% in annual net profit on a Y-O-Y basis in 2015
 - **Decline in net profit in 2013** was due to Panalpina's provision of EUR 37.7 Million to cover antitrust violation charges related to air freight surcharge on different trade lanes before 2008. Additionally, it also suffered due to EUR 17.6 Million Goodwill impairment charge to cover the remaining goodwill for acquisitions made in 2011

*Note**: 2015 figures shown are estimated, on the basis of YTD 2015 data from Panalpina and estimated figures of Q4 from Deutsche Bank. Reported figures in CHF were converted to EUR using conversion rates from Oanda (1CHF=0.92, as on 12/8/2015)

Business Overview (3/3)

Global coverage with increasing revenue from the emerging markets



Note: All of the revenue and profit figures have been derived from the Q3 financial report, 2015 (nine month period ending September, 2015). Employee share of different regions taken from the annual report 2014

Segment Analysis

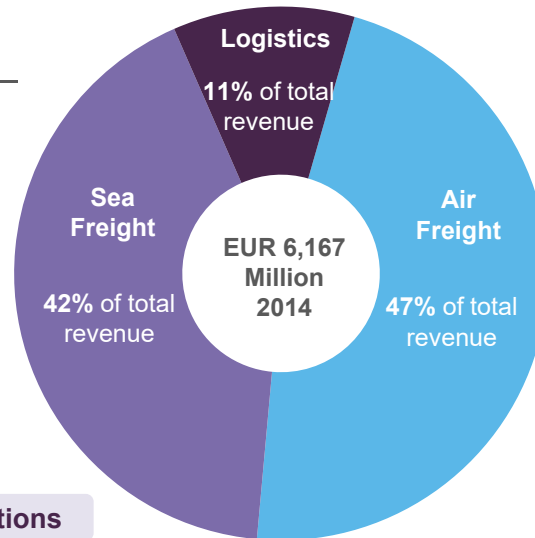
90% of the revenue is generated by Air and Sea freight segments

Revenue Segments

- **Product Offerings:**
 - **Inbound:** Inbound to Manufacturer, Line Side Feeding, Vendor Managed Inventory, Co-Managed Inventory and Inventory Planning
 - **Warehousing:** Fulfillment, Postponement, Re-packaging, Cross Docking, Merge In Transit and Fashion Logistics
 - **Production:** Kitting, Light Assembly and Technical Services
 - **Distribution Services**
 - **Aftermarket Services:** Reverse Logistics, Spare Parts Management and Progressive Dispositioning
- **Share of Gross Profit:** 29% of total gross profit

Product Offerings:

- FCL (Full Container Load): Major share of Panalpina's ocean freight is covered by FCL.
- LCL (Less than Container Load)
- NCL (Non-Containerized Load): ocean shipping for over-dimensional cargo. Last mile connectivity is also provided by Panalpina
- Share of Gross Profit: 31% of total gross profit



- **Product Offerings:**
- **General Air Freight:**
 - PanPremium: flexibility and shorter transit times
 - PanBasic: cost savings
- **Special Air Freight:**
 - **PanCool:** temperature sensitive goods
 - **PanCare:** hazardous goods
 - **PanProtect:** high value goods
 - **PanFresh:** perishable goods
 - **PanOversized:** over-dimensional cargo
- **Express Air Freight:** Guaranteed and expedited transport around the world
- **Intermodal Freight:**
 - **PanSeaAir:** start by sea and the last leg by air
 - **PanAirSea:** start by air and the last leg by sea
- **Share of Gross Profit:** 40% of total gross profit

New Business Segment*

Energy Solutions:

Tailor-made project logistics and forwarding solutions, primarily for the oil and gas industry vertical

Other Solutions

Road & Rail Services:

- Rail: Network coverage across Europe, CIS countries and China. Provides value added solutions such as, handling, warehousing, distribution and customs clearance
- Road: Tailor-made solutions for Full truck load (FTL) and Less than truck load (LTL) shipments

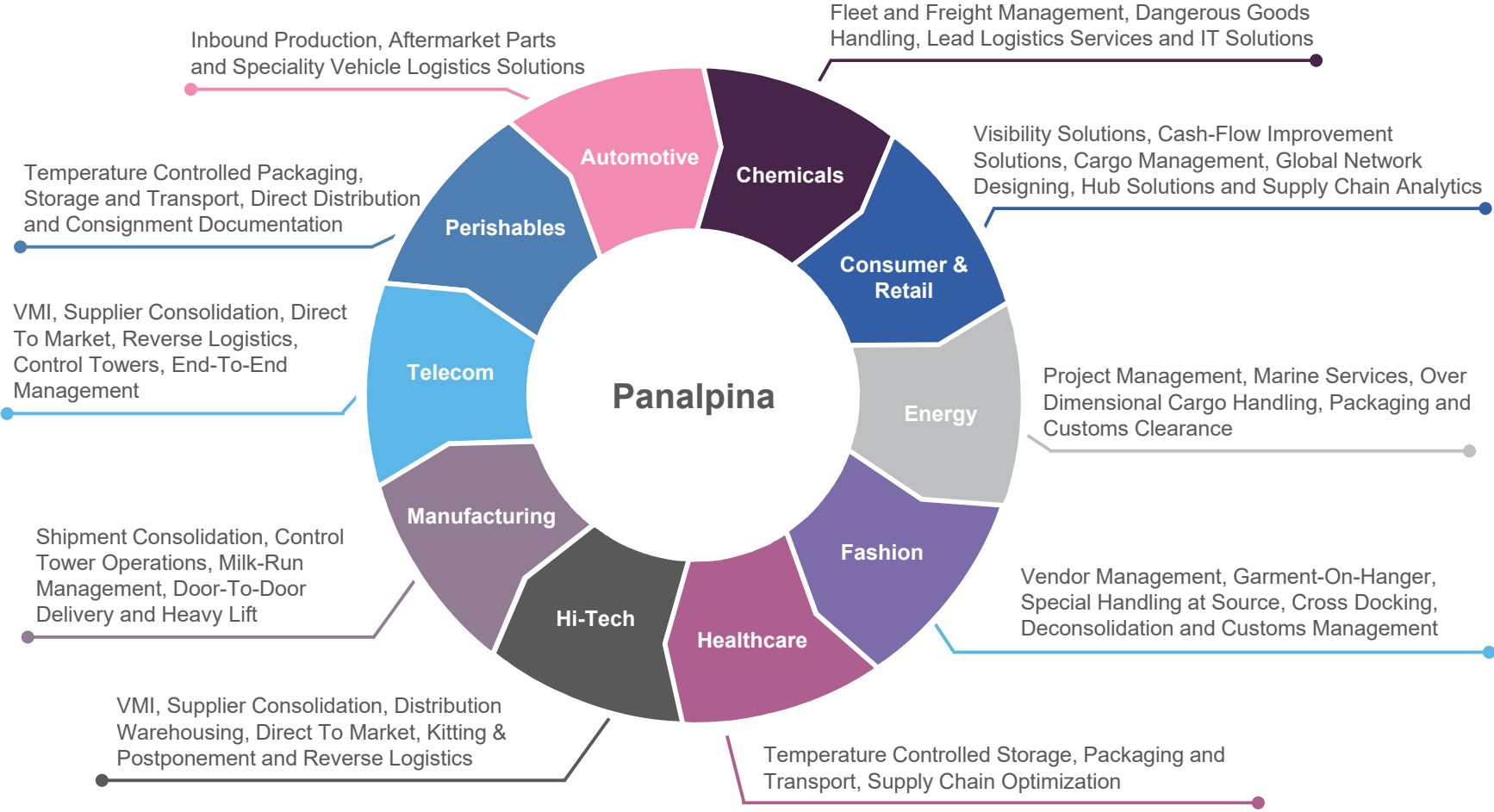
Supply Chain Solutions:

Customized solutions for improving supply chain through supply chain optimisation and end-to-end solutions

Note*: In 2014, Panalpina merged its Panprojects and Oil & Gas activities to form the fourth business segment, Energy Solution. This segment is not included in the revenue reporting segment as all its services are covered in the three functional segments: Air freight, Sea freight and Logistics

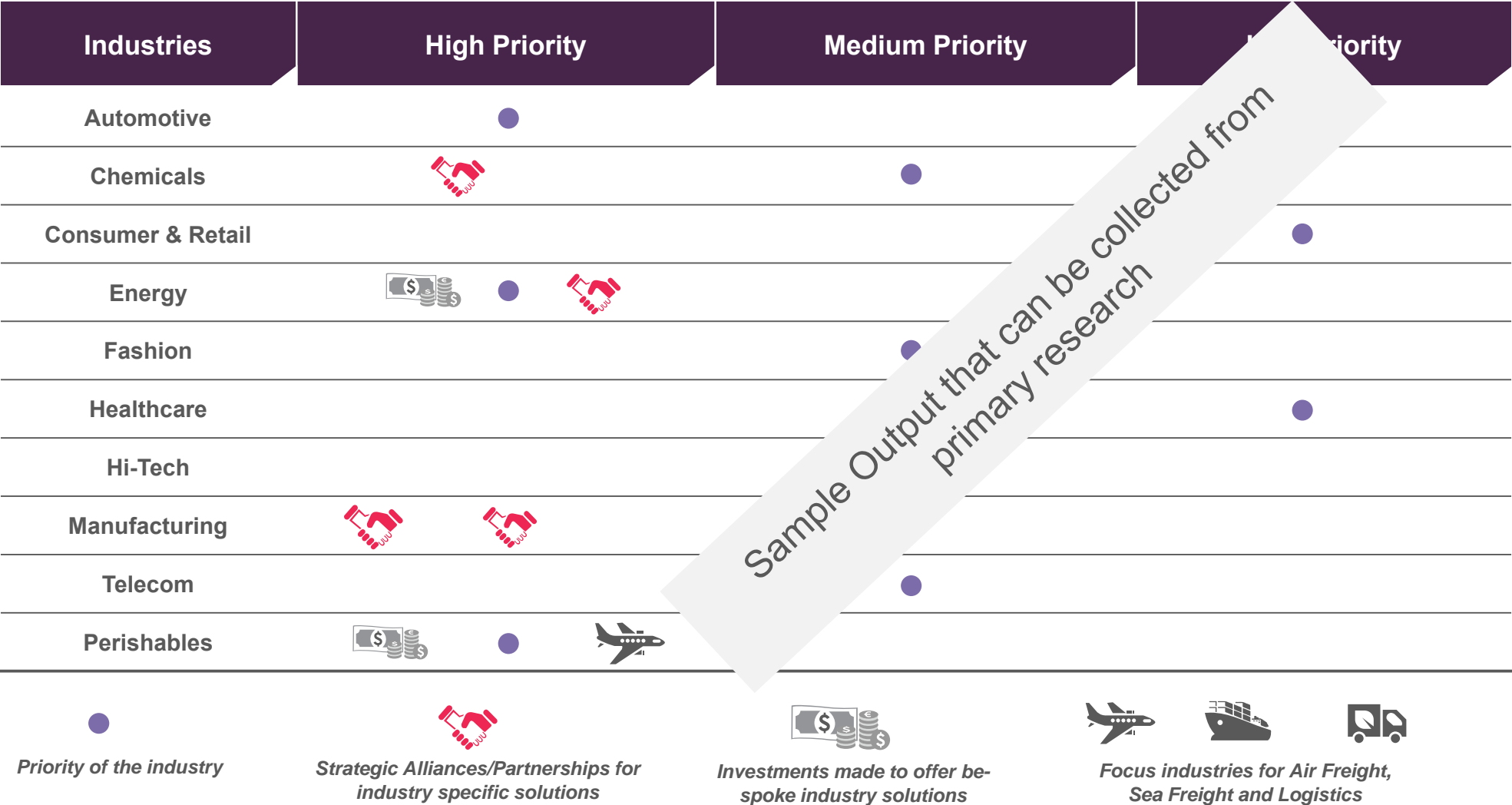
Industry Coverage (1/2)

Significant investments in Energy, Perishables, Healthcare, Fashion and Manufacturing



Industry Coverage (2/2)

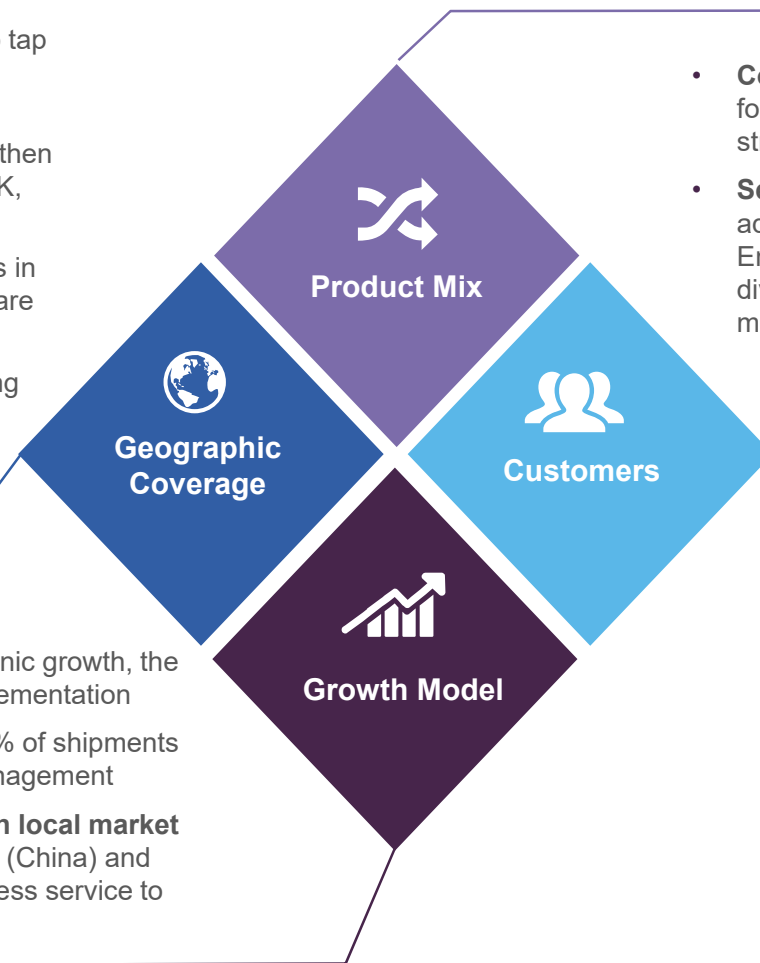
Focus Areas



Business Strategy (1/3)

Pillars of corporate strategy

- **Expansion into MEAC region** in 2014, to tap the growth opportunities in the region
- **Market consolidation in Europe** amidst challenging economic conditions to strengthen its presence in key regions such as, the UK, the Netherlands, France and Italy
- **Cashing on** the positive market conditions in the US, while Canada, Mexico and Brazil are growing modestly
- **Investing in APAC** to tap on the increasing freight demand despite declining GDP forecasts



- **Core competencies** lie in Air and Sea freight forwarding where it is working to expand and strengthen its offerings/solutions
- **Service portfolio expansion** to gain competitive advantage by developing its Logistics and Energy/Project division. The Energy/Project division was formed in September, 2014 by merging its Panprojects and Oil & Gas activities

- **ERP implementation:**
 - To achieve the long term goal of inorganic growth, the company is committed to SAP TM implementation
 - In 2015, Panalpina aims to process 60% of shipments using its latest SAP Transportation Management
- **To create a hedge against fluctuations in local market** by integrating/expanding centres in Wuhan (China) and Prague (Czech Republic) to provide seamless service to internal customers

- **Focus on customers with international cargo flow** in order to increase its global customer base
- **Diverse customer base and service offerings** by leveraging its customized industry specific solutions to help customers in high growth industries such as Fashion, Technology, Automotive, Healthcare, Consumer & Retail, Manufacturing and Perishables

Business Strategy (2/3)

Segment Strategy – Air Freight and Sea Freight

Segment Outlook:

- The perishables, industrial consumables and technology industries are expected to be growth drivers
- Airline rates are expected to remain at the current levels or increase
- Panalpina plans to leverage its supplier network to cater to the increasing demand and airline rates

Market Strategy:

- It is expanding its intermodal capabilities to counter port congestion and land infrastructure challenges
- In 2014, Panalpina launched an online LCL sailing tool which gives access to 35,000 point-to-point connections, without any registration
- In 2014, Panalpina expanded its global LCL network and now operates about 485 weekly services

Industry Focus:

Panalpina is investing in providing reefer container services to tap the healthcare industry



Air Freight

Market Strategy:

- Panalpina launched several PanBasic services (low-cost air freight service) from Europe to Asia, to combat the rising airfreight rates
- Panalpina renewed its partnership with Atlas Air, in 2015, wherein Panalpina will switch from one leased 747-8F to about 200 scheduled charters per year. This move is expected to increase flexibility and maintain capacity

Industry Focus:

- In the industrial consumables sector, Panalpina won several key accounts from agricultural and automotive companies
- In a move to tap the perishable industry, Panalpina acquired Airflo, a part of the Dutch Flower group that specialises in handling of vegetables and flowers, in November 2015



Sea Freight

Segment Outlook:

- Amidst average annual ocean freight market growth of 4-5%, Panalpina is estimating strong growth in the North America region and slightly slow performance in Europe

Business Strategy (3/3)

Segment Strategy – Logistics and Energy Solutions

Segment Outlook:

- Panalpina is focusing on reducing costs, optimizing product mix and improving margins
- It is focusing on Logistics Manufacturing Services (LMS) to work in areas such as Semi-Knocked-Down (SKD) assembly, returns, repair and aftermarket services.
- It is focusing on providing an optimum combination of air freight and end-to-end supply chain services to fashion companies



Logistics

Market Strategy:

- Panalpina launched several PanBasic services (low-cost air freight service) from Europe to Asia, to combat the rising airfreight rates
- Panalpina renewed its partnership with Atlas Air, in 2015, wherein Panalpina will switch from one leased 747-8F to about 200 scheduled charters per year. This move is expected to increase flexibility and maintain capacity

Industry Focus:

- To handle the reverse logistics needs of its electronics clients, it entered into an alliance with Hong Kong-based Spread Logistics in July 2015

Market Strategy:

- It merged its Panprojects and oil and gas activities in 2014 to bring exploration, production, operations and capital projects under one umbrella
- To increase its footprint, it opened offices in Kenya and Morocco on 1st January 2015
- In 2014, Panalpina was operating more than 90 active global energy projects

Industry Focus:

Dedicated Project Logistics team for the Oil and Gas industry



Energy Solutions

Segment Outlook:

- The company's major thrust would be on controlling costs and improving supply chain amidst low commodity prices as well as low oil and gas prices
- Panalpina sees growth potential in the Middle East and Africa

SWOT Analysis

Internal-External Analysis

Wide Geographic Presence:

- Operates in **160 countries** across Europe, Americas, APAC and MEAC, with 500 offices in 70 countries
- Strategic alliance with local incumbents in about 90 countries

High ROI in comparison to the Transportation industry average:

- Relatively high **ROI of 10.7%** in comparison to 4.9% of the transportation industry
- 10.71% ROI in comparison to 7.90% of the S&P 500 average

Leading market position and brand image:

- In 2014, Panalpina held **4th and 5th** ranks amongst global Air and Sea **freight forwarders** respectively, as per a report published by Transport Intelligence

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Inefficient Business Mix:

- Energy sector which saw a drop of about 50% in oil prices between 2014-15, constitutes nearly **15% of its Gross Profit**
- Business mix resulted in decline in Air and Sea freight volume of about 3% and 2%, in Q3 2015

Low profitability margins:

- Very low **Operating margin of 1.86%** in comparison to 14.83% of the transportation industry and 20.63% of the S&P 500 average
- Meagre **Net profit margin of 1.41%** in comparison to 7.89% of the transportation industry and 13.65% of the S&P 500 average

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Focus on profitable industry segments:

- Expansion of Logistics Manufacturing Service in Americas to leverage the **fashion hub in New York**, worth USD 15 billion in annual sales
- Investments in expansion capabilities to tap on the flourishing **Perishables and Healthcare sector**

Penetration into growing markets:

- Focus on the **Americas region** for expanding its Energy Solutions' footprint
- Tap on the opportunity created by the **near-shoring manufacturing shift from China to South America**
- Focus on the **APAC market**, to cash in the **booming e-commerce and multichannel retail industry**

Adverse economic conditions:

- **GDP forecast** for major economic centres is **contracting year-on-year** amidst global economic slowdown, political instability and reduced consumer spending
- This has resulted in a decline of **1%** in forwarding revenue for the year 2014 on a Y-O-Y basis

Over - dependence on a few trade lanes:

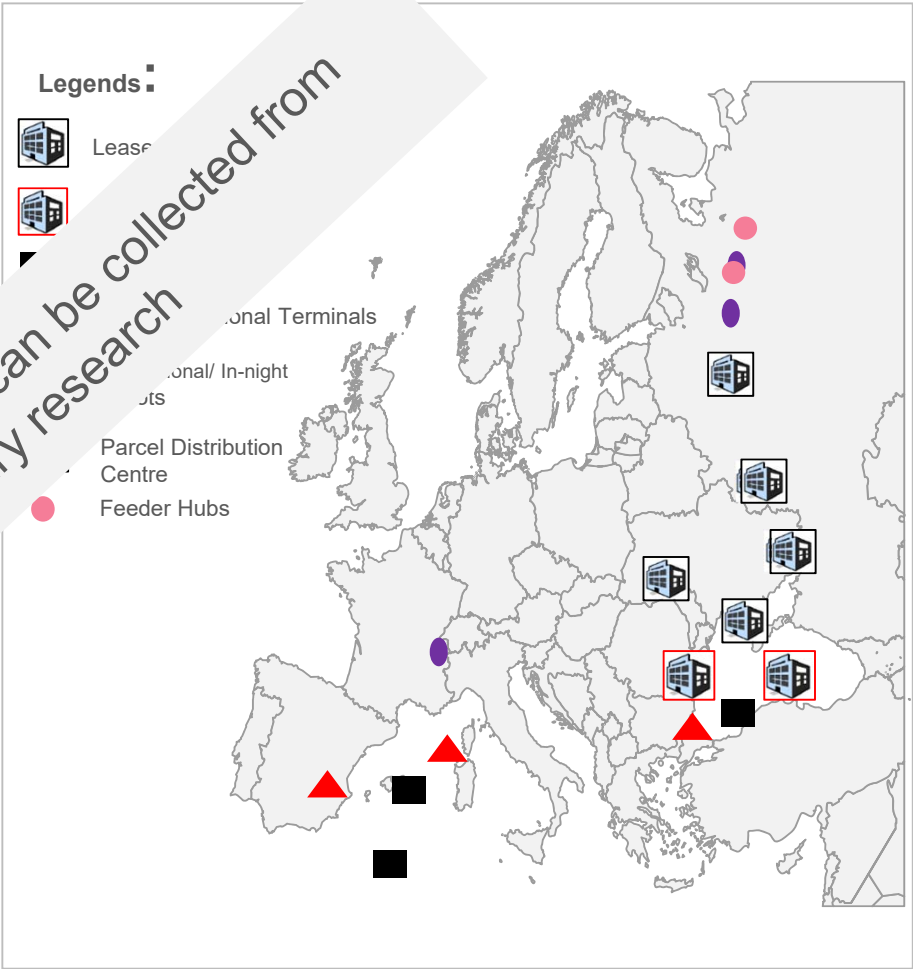
- Panalpina's Asia-Europe trade has about **20% of sea freight volume and 30% of air freight volume**
- Asia-Europe trade lane is expected to decline by **400,000 TEU's** by December this year, due to weak European imports, as per Drewry

Supply Chain Analysis

XYZ– Supply Chain Overview

ABC Terminals	Owns and operates terminals in EFG and STU
Leased Terminals	Operates about XX leased terminals
Logistics Partners	<ul style="list-style-type: none"> • DEF in GHI • MNO in KLM • UVW in LMN
Parcel Distribution Centre	Runs a parcel distribution centre in YZ
In-night Hubs	Operates X in-night hubs at Helsinki Airport in Finland; and Jönköping Airport & Örebro Airport in Sweden
ABC International Airport Terminals	Operates terminals at X international airports in Turku in Finland, Västerås in Sweden, and Göteborg in Sweden
International/ In-night depots	Operates X depots in Oslo & Gothenburg, Sweden, and Billund, Denmark
Feeder Hubs	Operates feeder hubs in Bergen and Stavanger Sola in Norway

Supply Chain Overview



Note: Supply Chain Analysis can be customised for both regional mapping of global competitors and overall mapping for regional competitors

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