Australian Government
Department of Finance

Australian Government
Department of Infrastructure, Transport, Regional Development and Communications

Australia Post Review – 20 February 2020

Introduction

- Australia Post operates in a challenging environment
- Australia Post's Corporate Plan proposed a number of initiatives to provide relief, however the KordaMentha review identified a number of risks with the approach
- The Government is undertaking a Review of Australia Post to ensure financial sustainability
- Mr John Stanhope AM was notified of the Review in correspondence on 18 October 2019 and Mr Lucio Di Bartolomeo on 16 December 2020
- Australia Post has been actively engaged throughout the Review (November 2019 – February 2020)

Confidentiality

- The Review and its activities have been conducted to the highest standards of probity and accountability:
  - The Review has been prepared for Government consideration
  - All official information provided as part of this Review has been treated as confidential
  - Shareholder Ministers have requested that the Review is to remain confidential between the Board and Shareholders
  - This approach is consistent with previous Reviews of Government Business Enterprises

Terms of Reference - Summary

The Review has covered a range of issues, including:

- the sustainability of the cost base
- the Post Office Network and retail footprint
- prioritisation of core business and potential removal of non-core functions/discretionary initiatives
- workforce reforms
- optimising Post's asset base and capital structure

Next Steps

- BCG's final report due Friday, 21 February 2020
- Shareholder Departments will brief Ministers on the Report
- Shareholder Ministers will determine what they wish to take to Government for consideration
- Australia Post and BCG may need to provide additional information during this time
- Shareholder Ministers will inform Australia Post of the outcome of the Review

BOSTON CONSULTING GROUP

Australia Post Review

BCG Presentation to Australia Post Board of Directors

20 FEBRUARY 2020

For-Official-Use-Only

Draft

Objectives for this discussion

1. Summarise BCG's assessment of AusPost's financial sustainability
2. Recap the approach taken to developing potential reform options
3. Share BCG's view on potential reform options, both within and to AusPost's current regulatory and operating constraints

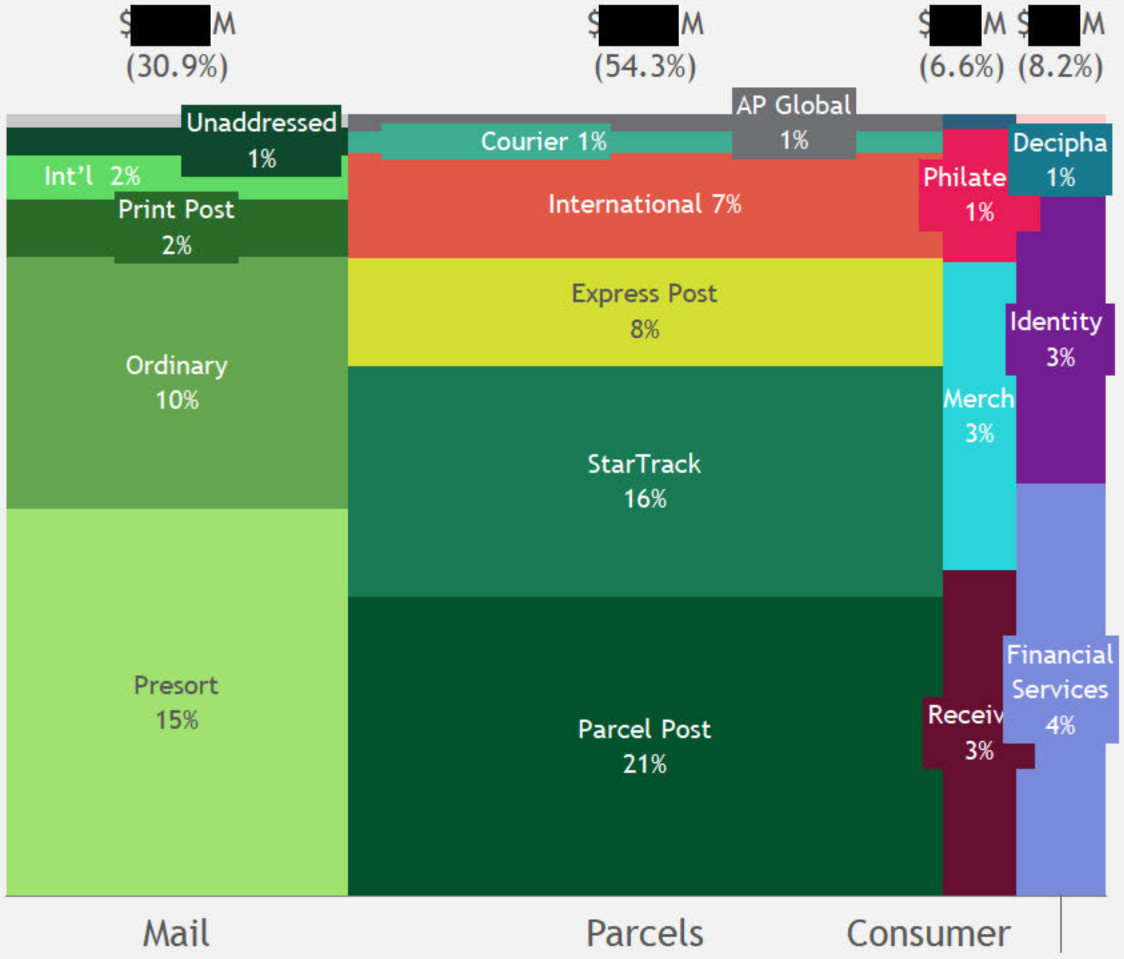
Is there anything else you would like to cover today?

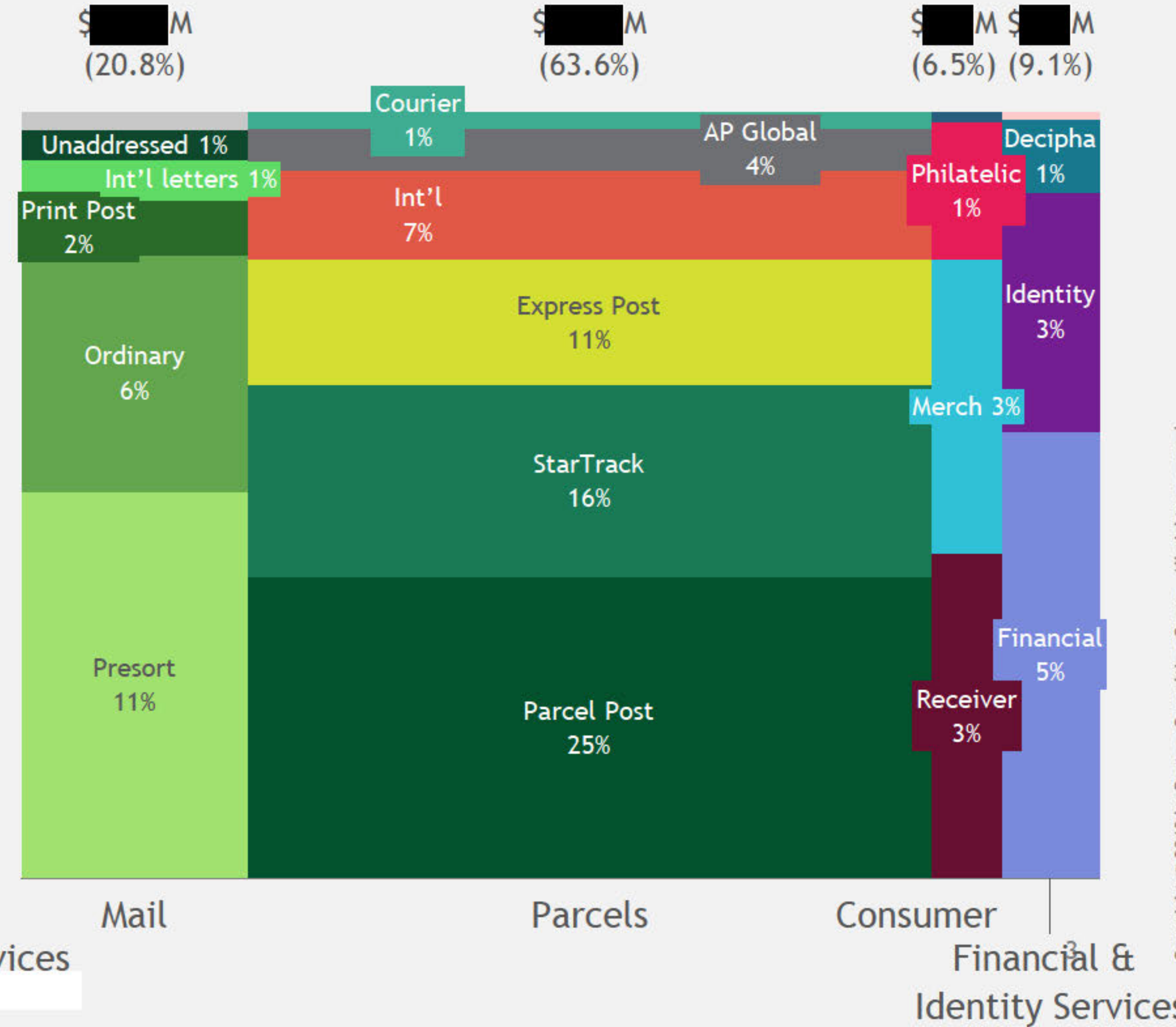
1

Assessment of AusPost's financial sustainability

Draft

Overview | AusPost expects to become an increasingly parcels-focused operator by FY23, with growing sidelines in financial and identity services



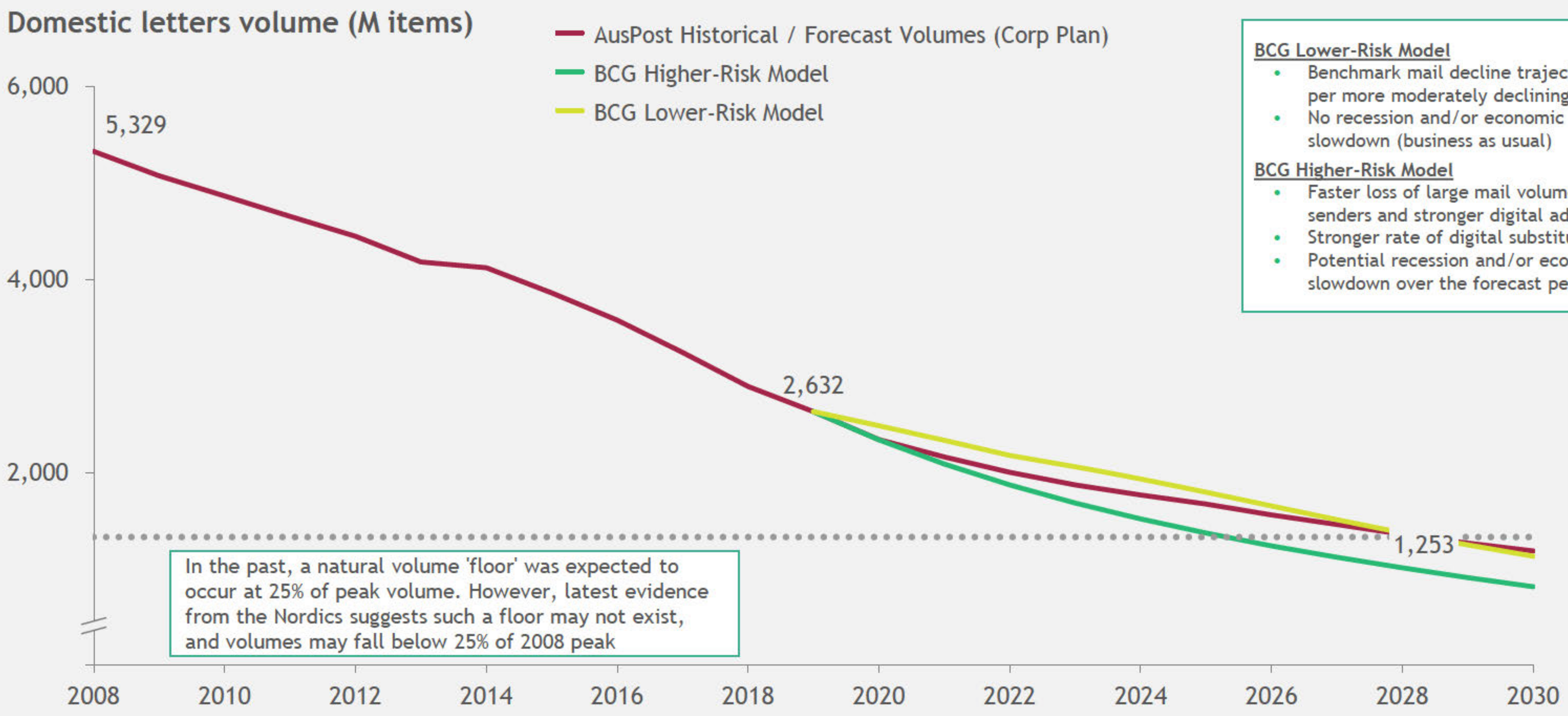


Source: Corporate Plan FY19/20; BCG analysis

Draft

1

Letters | Volumes will continue to decline over time



BCG Lower-Risk Model
- Benchmark mail decline trajectory as per more moderately declining peers
- No recession and/or economic slowdown (business as usual)

BCG Higher-Risk Model
- Faster loss of large mail volume senders and stronger digital adoption
- Stronger rate of digital substitution
- Potential recession and/or economic slowdown over the forecast period

Note: 1. BCG's regression model takes into account variables such as 'internet retailing' and 'online media spend', 2. Letter volume data analysed across USA, UK, France, Germany, Italy, Netherlands, Spain, Sweden, Norway and Denmark; 3. Some letter volumes might include small packages, however we have modelled this as pure letter volumes
Source: Australia Post, BCG Regression Model, Australia Post Corporate Plan & Financial Statement of Corporate Intent 2019-20, BCG-IPC Publication 'Focus on the future' explains previous mail volume decline forecasts, Previous BCG research & analysis on mail volume floor expected at 25% of peak volumes

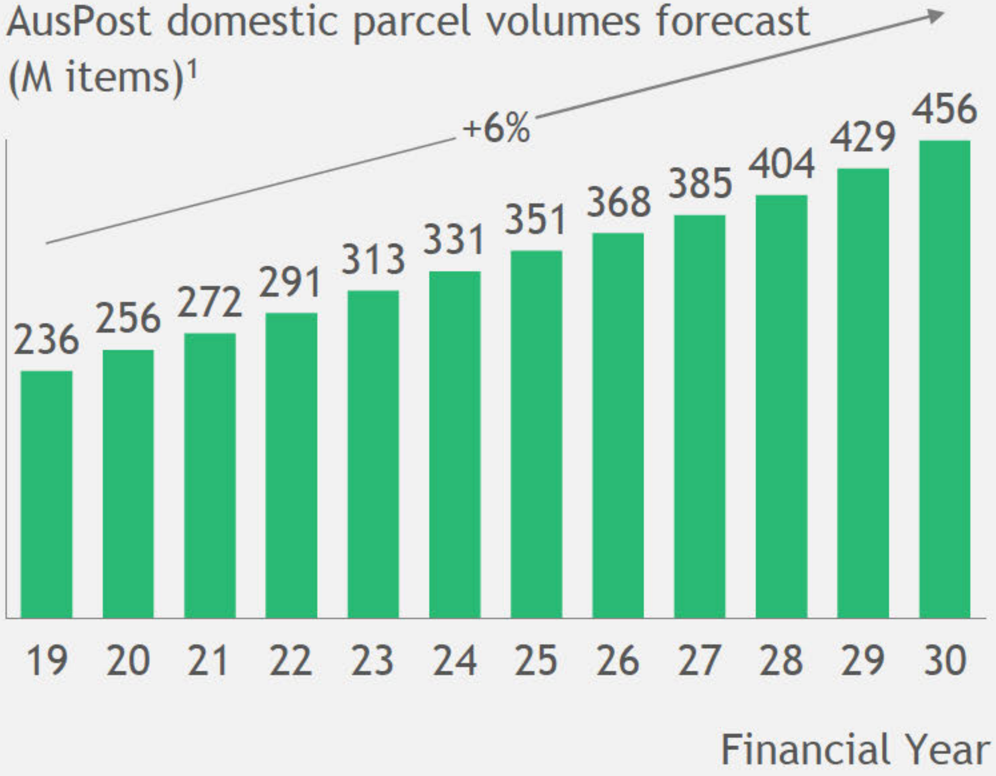
Draft

1

Parcels | Strong and growing business, but imperative to address key competitive threats

AusPost expects continued strong growth in parcel volumes

AusPost domestic parcel volumes forecast (M items)[1]



AusPost has strengths in this market, but faces market and competitive challenges

Strengths

- AusPost has a leading position, particularly in the business to consumer (B2C) parcels market, where it has approximately 80% share and a large last-mile network
- AusPost has historically achieved better price realisation than its competitors, in part due to reach and brand
- Continued underlying growth expected in eCommerce

Challenges

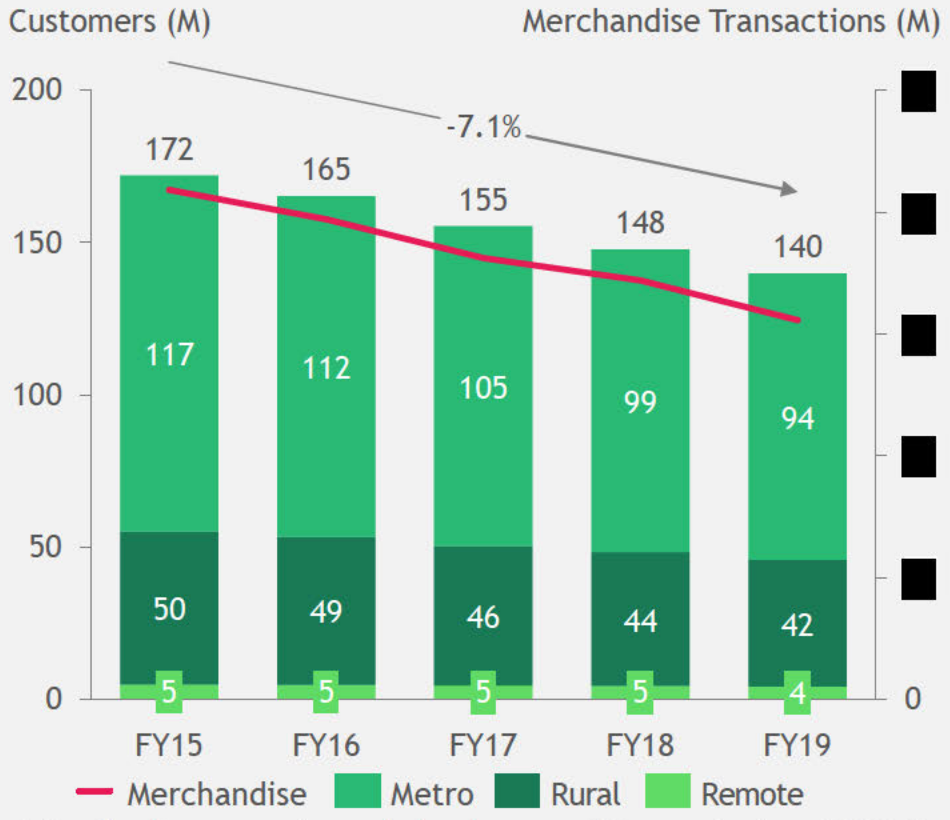
- eCommerce growth rate may slow[2] over the coming years as market reaches maturity in Australia
- Competitive threat from existing players (e.g. Toll, DHL) as well as Amazon, which may disintermediate AusPost on most profitable, highest-density metro routes driving net profit erosion for AusPost
- Corporate Plan relies on achieving volume growth, price growth and cost efficiency simultaneously

1. AusPost forecast of domestic parcel volumes 2. See, for example, UBS eCommerce Analysis (January 2020), Euromonitor Online Revenue Forecast (2019)
Source: AusPost EV Model (2019); BCG market research and analysis

1

Additional Services | Footfall in the post office network has declined over time, and market dynamics are evolving

Footfall has been declining across the post office network, particularly in metro areas



Financial and identity services markets are expected to change significantly by 2030

Incumbent banks expected to retreat further from regional and remote areas of Australia - with potentially 35% fewer branches and half as many ATMs as in 2030. Financial services market likely to remain saturated and growing in line with the broader economy, but incumbents are being further disrupted by digital entrants

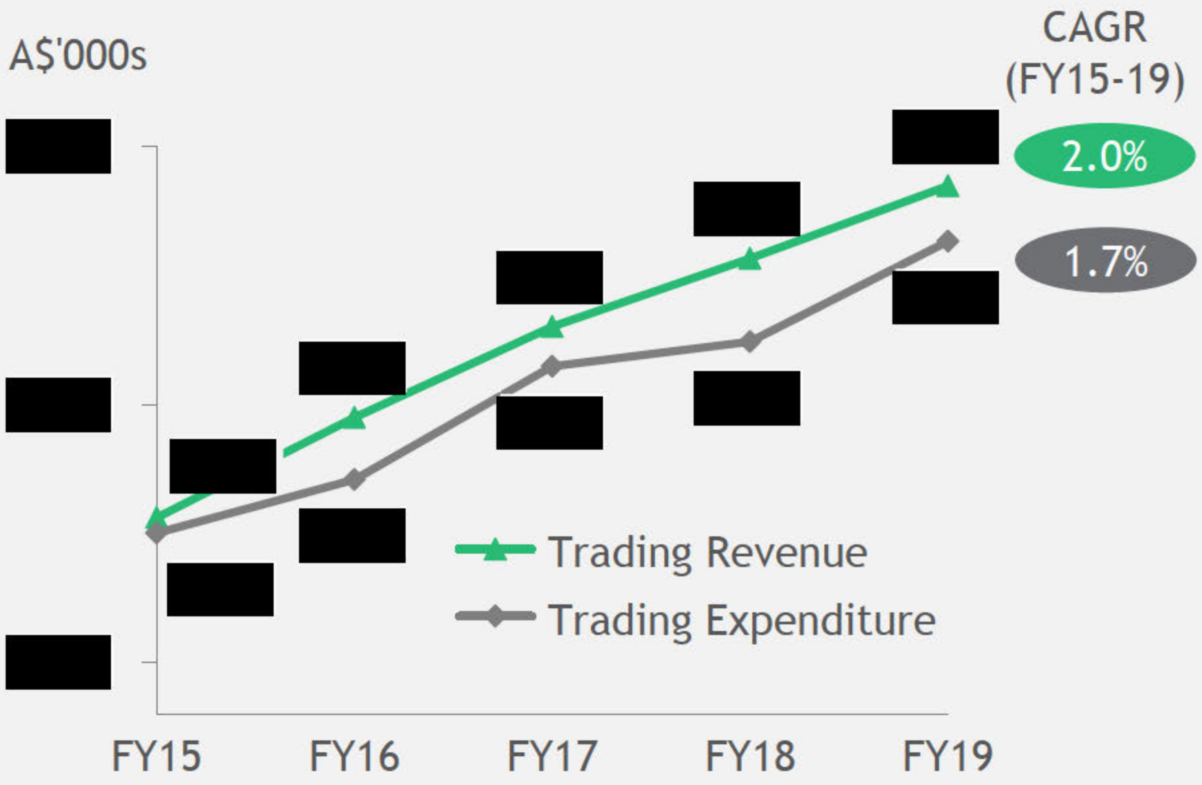
Government, identity and commercial services, as well as non-grocery retail, continuing to digitise and move online - but with a long tail of residual transactions and services still requiring in-person contact (typically those that are more complex and/or for at-risk individuals)

1. Merchandise transactions calculated as sum of Communications, FMCG, General, Greetings, Packaging and Stationery categories; all values are for CPOs and LPOs; CPO data only shows 6.8% merchandise fall and stronger footfall decline at rates of 6.2% in metro, 5.8% in rural and 5.9% in remote areas 2. Merchandise calculated as above, Parcels calculated as sum of Street Carded Articles, Non-Street Carded Articles, International Parcel and Parcel Post; all values are for CPOs only. Source: Australia Post historical retail outlet performance data; BCG analysis

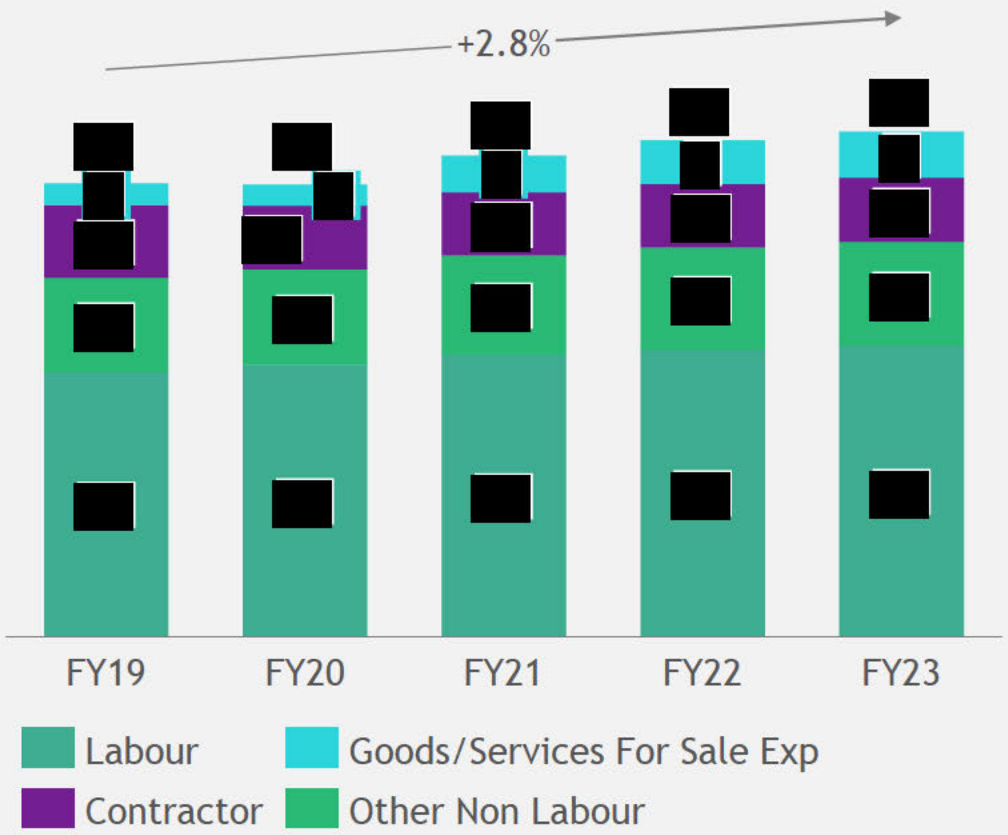
1

Cost | AusPost's cost base has grown largely in line with revenue, despite investments in automation and ongoing efficiency programs

Cost base has grown largely in line with revenue



$[redacted]M in planned efficiencies are not currently expected to have a net bottom-line impact on Corporate Centre

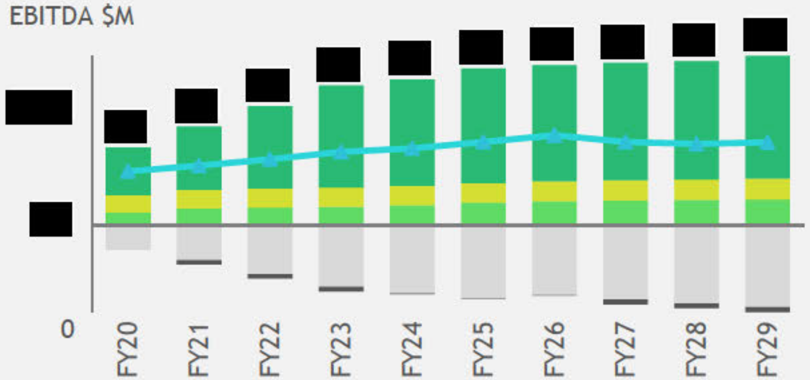


Source: AusPost Corporate Plan, Annual Reports, CAPIQ

Draft

Forecast | Conservative case shows losses starting FY21; with incremental efficiencies, AusPost remains in a somewhat precarious financial position

Corporate Plan

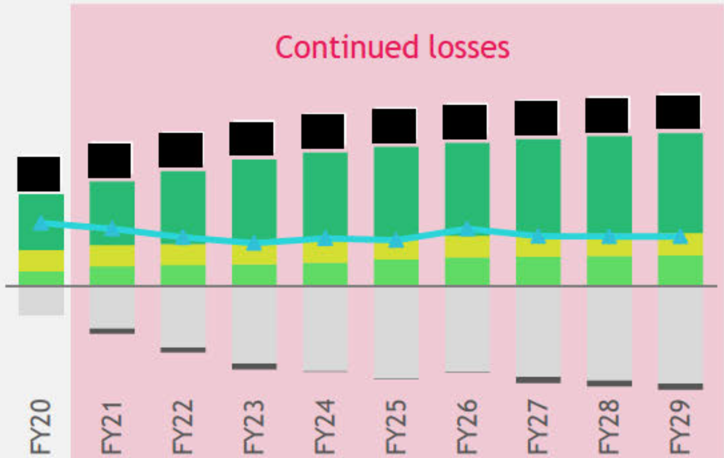


	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29
NPAT	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Dividend	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

$[redacted]M Net Present Value

- Letters volume decline at 7% p.a.
- B2C parcels revenue growth above market at 9% p.a., dropping to market growth after FY23
- Slight uplift in Merchandise revenue of 2% p.a., dropping to 1% p.a. growth in FY23
- $[redacted]m cumulative efficiency program

Conservative case

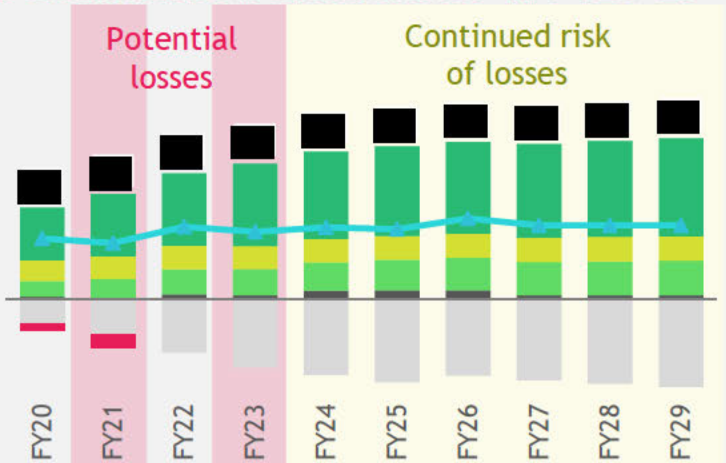


	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29
NPAT	[redacted]	[redacted]	[redacted]		[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Dividend	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

$[redacted]M Net Present Value

- Letters volume decline at 8% p.a.
- B2C parcels rev. growth in line with market at 8% p.a.; below market with slower margin uplift beyond FY24 due to competitive threats[2]
- Continued Merchandise revenue decline (-2% p.a.), returning to 1% p.a. growth from FY24
- All other assumptions as per Corporate Plan

Conservative case with BCG benchmarked efficiencies in FY20-23



	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29
NPAT	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Dividend	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

$[redacted]M Net Present Value

Trends in middle column plus additional annualised cost savings (by FY23) as follows:

- Letters cost efficiency of $[redacted] - [redacted]M p.a.
- Parcels cost efficiency of $[redacted] - [redacted]M p.a.
- Consumer efficiency of $[redacted] - [redacted]M p.a.
- Fin & Identity Services efficiency of $[redacted] - [redacted]M p.a.
- Corporate Centre efficiency of $[redacted]- [redacted]M p.a.
- One-off efficiency implementation costs of $[redacted] - [redacted]M in FY20-21

Letters | Parcels | Consumer | Financial & Identity Services | Corp Items | One-off costs | EBITDA

1. One-off costs of ~$[redacted]M in FY20 and ~$[redacted]M in FY21 2. Assumes B2C revenue growth slows to 2% p.a. from FY24-29 rather than 4% p.a. due to competitive threats incl. rise of Amazon; EBIT margins of 6% rather than 9% over same period. Source: AusPost Corporate Plan (2019/20-2022/23); BCG analysis

2

Approach to developing potential reform options

Draft

Determining the path forward should begin with a perspective on what 2030 may hold for AusPost's operating environment

Letters have declined at 7-10% p.a., but significant volumes likely remain, with potential for 0.8 - 1.2 billion letters to be sent in Australia in 2030

Parcels growth has slowed somewhat, with ecommerce reaching maturity and growing in line with the broader economy, and with 1.5-2x more parcels sent in Australia in 2030 than in 2019

Incumbent banks have further retreated from regional and remote areas of Australia - with potentially 35% fewer branches and half as many ATMs as in 2030. Financial services market remains saturated and growing in line with the broader economy, but incumbents are being further disrupted by digital entrants

Government, identity and commercial services, as well as non-grocery retail, have become highly digitised and mostly delivered online - but with a long tail of residual transactions and services still requiring in-person contact (typically those that are more complex and/or for at-risk individuals)

Stakeholders have expressed a commitment to AusPost's long-term financial sustainability and delivery of relevant services, and an openness to considering a broad range of paths forward

Source: BCG and AusPost letters volume modelling; Mordor Intelligence parcels volume forecasting; IBISWorld Parcels Market; APRA banking data

Conceptual framework for the review

Strategic questions

1 What is AusPost's role in the community on behalf of Government, and how will this role evolve over the next 7-10 years as citizen needs change?

2 What level of financial sustainability is expected of AusPost, and what is the likely gap between this and its performance over the next 7-10 years as currently configured?

Questions and considerations for reform

3 What improvements can be made to AusPost's business lines to deliver greater financial sustainability in line with expectations?

4 What are the potential future roles for AusPost over the next 7-10 years, and what reforms are required to deliver them?

a b Postal services (i.e. Letters, Parcels)

- Revenue
- Cost
- Integration
- Community Service Obligations / Regulations
- Capital structure

c Post office network

- Revenue
- Cost
- Integration
- Community Service Obligations / Regulations
- Capital structure

d Additional products and services *(i.e. Consumer, Financial and Identity Services)*

- Grow & diversify

or

- Spin-off and exit

Changes to capital structure

e Corporate Centre

- Cost reduction and operating model/process redesign

Key

xx = Illustrative categories of **operational improvement levers within existing CSOs/constraints** to be tested and considered; *note that not all may form part of the eventual recommendation / option set*

xx = Illustrative categories of more fundamental **reform levers** to be tested and considered; *note that not all may form part of the eventual recommendation / option set*

1. SA = Services Australia

AusPost's structure, history and regulations confer several advantages, as well as imposing constraints

Advantages

Unmatched delivery network size and reach, built over time to meet regulated delivery speed and frequency requirements, with significant operational synergies between letters and parcels networks

Large nationwide network of **post offices as** required by Regulations (at least 4,000 outlets required; more than 4,300 exist today), with visible physical presence and parcel collection points in all communities

Trusted brand among most Australians, in part due to long history of operations and connection with Australian Government

Flexibility to **change labour mix and cost** in some areas of the business (e.g. Corporate Functions)

Constraints

Limited flexibility to **change labour mix or cost** in the deliveries business, in part due to regulated delivery frequency and speed requirements (requiring large workforce of postal delivery officers, as delivery points grow and despite mail volume declines) and relatively restrictive EBA terms

Limited flexibility to **increase prices on regulated mail products**, with changes to Basic Postage Rate requiring ACCC and Government review process

Challenges when attempting to **close underperforming post offices**, attributed to negative public and political response to planned closures

Source: Interviews with AusPost and Government stakeholders; AusPost legislation and regulations; BCG research

3

Potential reform options

Draft

Efficiencies | BCG has identified scope for additional efficiencies within current regulatory and operating constraints

Business area	Illustrative subset of potential initiative types	Estimated cumulative EBITDA impact from FY20-23, informed by benchmarks
Existing AusPost Corporate Plan efficiency program	• Multiple initiatives across business lines, scoped in some detail for FY2020	Approx. $[redacted]m
Letters	• Reduce street mail boxes by up to 5,000 to optimise routing • Introduce midday collection and changing start times to optimise routing • Accelerate network consolidation, including increased letters and parcels integration • Drive automation and predictive maintenance in processing	$[redacted]m[1]
Parcels	• Drive harder on network optimisation (footprint, processing, delivery), workforce productivity • Optimise delivery routes using machine learning (fleet mix, distribution, last mile) • Drive automation and predictive maintenance in processing • Optimise fleet mix (last mile) and driver workforce mix	$[redacted]m[1]
Consumer	• Undertake range optimisation and pricing differentiation • Leverage store-in-store partnerships to reduce cost of ownership and footprint • Explore analytics-driven personalised marketing • Reduce cost of goods sold (COGS) and sales, general and administrative (SG&A) spend	$[redacted]m[2]
Financial and Identity Services	• Standardise transactions; increase automation and self-service • Reduce error and fraud	$[redacted]m[3]
Corporate Functions	• Optimise labour size and mix, including spans of control and organisational layers • Optimise and digitise support function processes • Optimise procurement and rationalise property portfolio	$[redacted]m[4]
Total		Approx. $[redacted]m

1. Global postal operator benchmarks including PostNL, Royal Mail Group, La Post, Bpost, Austrian Post, PostNord, Posti and Deutsche Post 2. Global postal operator benchmarks as for letters, plus pureplay parcel operators UPS and FedEx 3. BCG global retail practice benchmarks and past project experience spanning hundreds of client engagements 4. BCG global financial and public sector practice benchmarks and past project experience spanning hundreds of client engagement 5. Australian and global government-owned peer benchmarks
Source: BCG Excellence in Support Functions (ESF) benchmarking database, BCG analysis

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Broader reform | Overview of reform options

Note: Letters delivery reform impacts in this summary cannot be added to yield totals, as revenue detriment from service standard changes is double-counted; adding frequency and speed would understate the combined benefit

Key
xx= run-rate annual EBITDA benefit
xx = potential FTE reduced
xx = one-off implementation costs

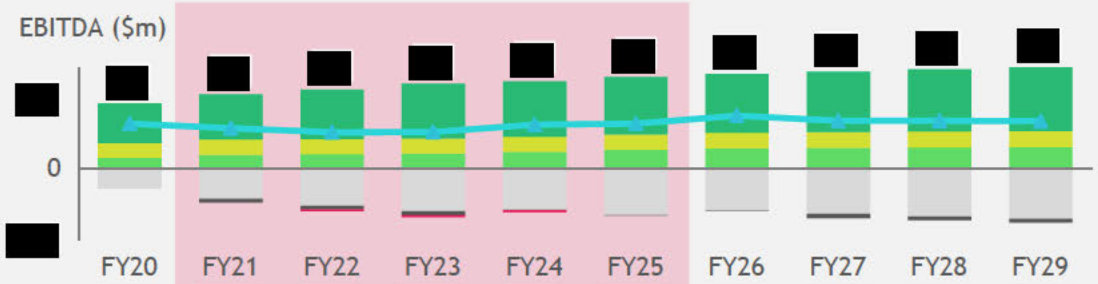
		Today's Post	Reform Options			
Efficiencies	Corporate Plan efficiencies	Approx. $920M of efficiencies	Approx. $[redacted]M of efficiencies, incl. additional BCG benchmarked efficiencies ($[redacted]M) TBC (~300 - 500 FTE[3]) ($[redacted]M one-off costs)			
Letters	Delivery frequency	5 days per week	3 days per week (suburb only) ($[redacted]M) (up to ~3,029 FTE) ($[redacted]M one-off costs)	3 days per week ($[redacted]M) (up to ~5,066 FTE) ($[redacted]M one-off costs)	Alternate weekdays ($[redacted]M) (up to ~5,066 FTE) ($[redacted]M one-off costs)	2 days per week ($[redacted]M) (up to ~5,066 FTE) ($[redacted]M one-off costs)
	Delivery speed	D+3, Priority Mail offered	Remove Priority Mail ($[redacted]M)	Shift to D+4 and remove Priority Mail ($[redacted]M) ($[redacted]M one-off costs)	Shift to D+5 and remove Priority Mail ($[redacted]M) ($[redacted]M one-off costs)	
	Delivery point	Residence	Street letterbox[2] ($[redacted]M) (up to ~3,141 FTE) ($[redacted] one-off costs)	Community letter box[2] ($[redacted]M) (up to ~4,205 FTE) ($[redacted]M one-off costs)	Post office ($[redacted]M) (up to ~10,132 FTE) ($[redacted]M one-off costs)	
	Avg. price rise 2024-30[1]	To be determined	3% per year ($[redacted]M)	5% per year ($[redacted]M)	10% per year ($[redacted]M)	
Parcels	Ownership	Wholly owned	Targeted divestitures	Full or partial divestiture with SLAs		
Additional Products and Services	Product and service offering	SoE allows AusPost "flexibility and discretion" in keeping with the Act	SoE or other instrument (e.g. CFF) sets specific criteria to guide pursuit of significant or contentious opportunities • **Profitable incumbency:** Does AusPost already have a profitable position in the service area or a clearly adjacent service area? • **Market appropriateness:** Is there scope for AusPost to foster competition or provide essential services? Is there a low risk of market distortion? • **Capability:** Does AusPost have capability that does not require material investment to create, that it can use to deliver an effective service at an efficient cost? • **Financial attractiveness:** Is the opportunity likely to deliver a financial return in excess of the marginal cost to serve - with a high likelihood of success, low capital investment/funding requirements to participate, and low risk to AusPost and Government?			
	Product & Innovation team	Grown in line with business	Maintained at current size ($[redacted]M)	Reduced by 6% overall ($[redacted]M)		
Post Office Network	Metro CPO footprint *(non-metro unchanged)*	2.5km catchment	Access within 2.5km, close 106 unprofitable metro CPOs ($[redacted]M) (590 FTE) ($[redacted]M one-off costs)	Access within 3.5km, close 190 unprofitable metro CPOs ($[redacted]M) (1,045 FTE) ($[redacted]M one-off costs)	Access within 7.5km, close 213 unprofitable metro CPOs ($[redacted]M) (1,171) ($[redacted]M one-off costs)	

1. Incremental benefit compared to 2.5% per year price rise 2. Street mail box (approx. 1 per 5 houses), community mail box (approx. 1 per 20 houses) 3. Does not include potential COO overhead reduction from efficiencies; COO FTE indicated in Draft Report is one example of several potential ways to drive further letters & parcels efficiencies
Note: SoE = Statement of Expectations; CFF = Commercial Freedoms Framework

Draft

Letters reform | Combined impact of selected letters reforms on enterprise financials

4-day frequency, D + 4



	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29
NPAT	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Dividend	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

$[redacted]M Net Present Value

3-day frequency, D + 5

	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29
NPAT	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Dividend	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

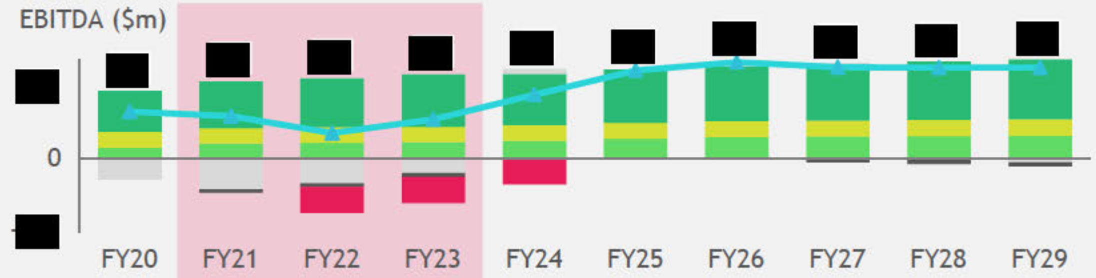
$[redacted]M Net Present Value

Alternate-day frequency, D+5

	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29
NPAT	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Dividend	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

$[redacted]M Net Present Value

2-day frequency, D + 5



	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29
NPAT	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Dividend	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

$[redacted]M Net Present Value

Letters | Parcels | Consumer | Trusted Services | Corp Items | One-off costs | EBITDA

Source: AusPost Corporate Plan (2019/20-2022/23); BCG analysis

Draft

3

Letters reform | Combined impact of selected letters reforms on key stakeholders

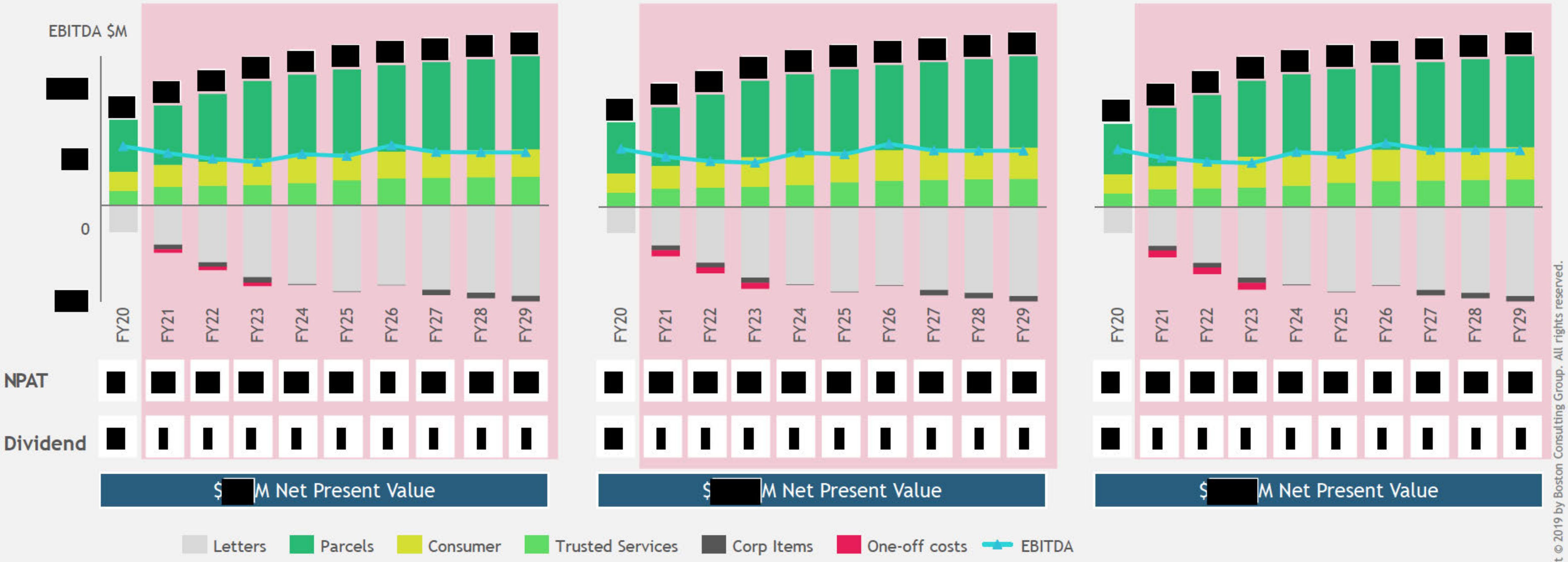
By 2030, AusPost will become:	Conservative case	4-day frequency	3-day frequency	Alternate-day frequency	2-day frequency
Shareholder (NPV, NPAT)	$[redacted]M NPV (-$[redacted]) NPAT	$[redacted]M NPV (-$[redacted]M) NPAT	$[redacted]M NPV $[redacted]M NPAT	$[redacted]M NPV $[redacted]M NPAT	$[redacted]M NPV $[redacted]M NPAT
Mail Senders (Δ price x vol.)	No change	No change	No change	No change	No change
Mail Receivers (lost value to receivers)	No change	-$[redacted]M	-$[redacted]M	-$[redacted]M	-$[redacted]M[1]
Regional parcel receivers (# people)	No change	No change	No change	No change	No change
LPO licensees (Δ LPO income)	No change	-$[redacted]M	-$[redacted]M	-$[redacted]M	-$[redacted]M
Post office customers (Δ people w/ reduced access to AP outlets)	No change	No change	No change	No change	No change
Employees (Δ costs, PDO and retail FTE)	No change	-$[redacted]M -	-$[redacted]M (-5,066 FTE)	-$[redacted]M (-5,066 FTE)	-$[redacted]M (-5,066 FTE)

Source: AusPost Corporate Plan (2019/20-2022/23); BCG analysis

Draft

Post office reform | Impact of selected reforms on enterprise financials

Keep regulated radius at 2.5km | Increase regulated radius to 3.5km | Increase regulated radius to 7.5km



Source: AusPost Corporate Plan (2019/20-2022/23); BCG analysis

Draft

Post office reform | Impact of selected reforms on key stakeholders

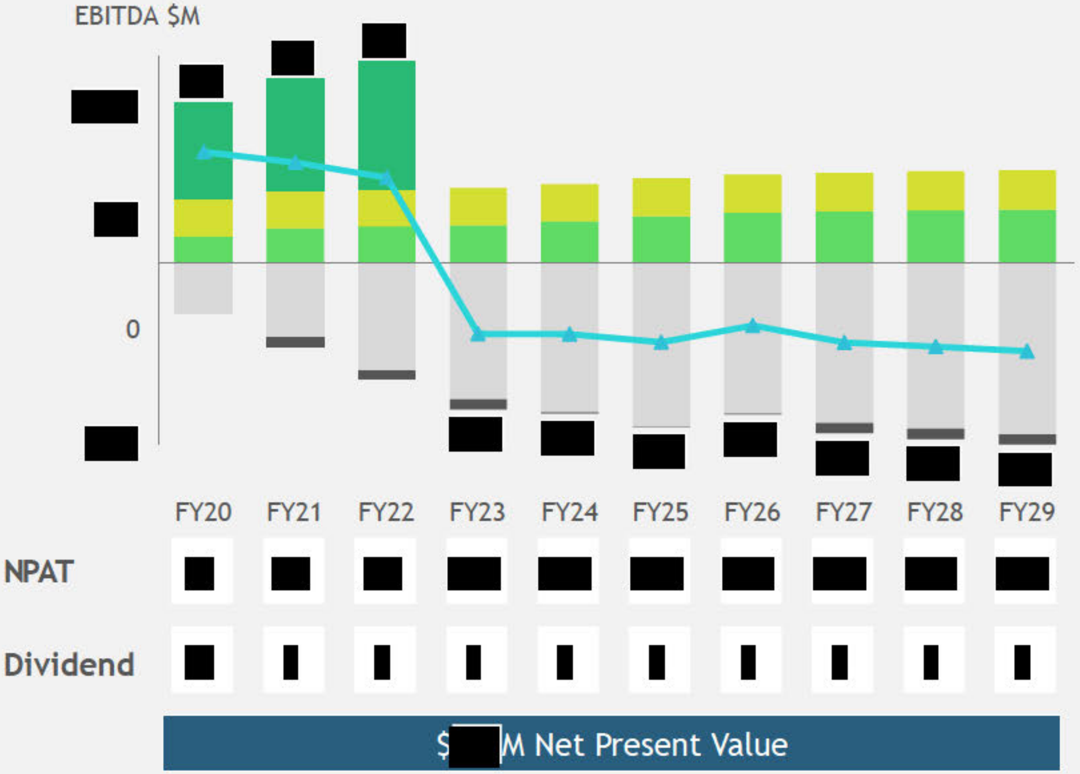
By 2030, AusPost will become:	Conservative case	Remain at 2.5KM	Increase to 3.5KM	Increase to 7.5KM
Shareholder (NPV, NPAT)	$[redacted]M NPV (-$[redacted]) NPAT	$[redacted]M NPV (-$[redacted]M) NPAT	$[redacted]M NPV (-$[redacted]M) NPAT	$[redacted]M NPV (-$[redacted]M) NPAT
Mail Senders (Δ price x vol.)	No change	No change	No change	No change
Mail Receivers (lost value to receivers)	No change	No change	No change	No change
Regional parcel receivers (# people)	No change	No change	No change	No change
LPO licensees (Δ LPO income)	No change	$[redacted]M	$[redacted]M	$[redacted]M
Post office customers (Δ people w/ reduced access to AP outlets)	No change	No change	-[redacted]K	-[redacted]K
Employees (Δ costs, PDO and retail FTE)	No change	-$[redacted]M ([redacted] FTE)	-$[redacted]M ([redacted] FTE)	-$[redacted]M ([redacted] FTE)

Note: Letters benefits assumed to begin FY24 in line with phasing in reform paths 2 and 3
Source: BCG analysis

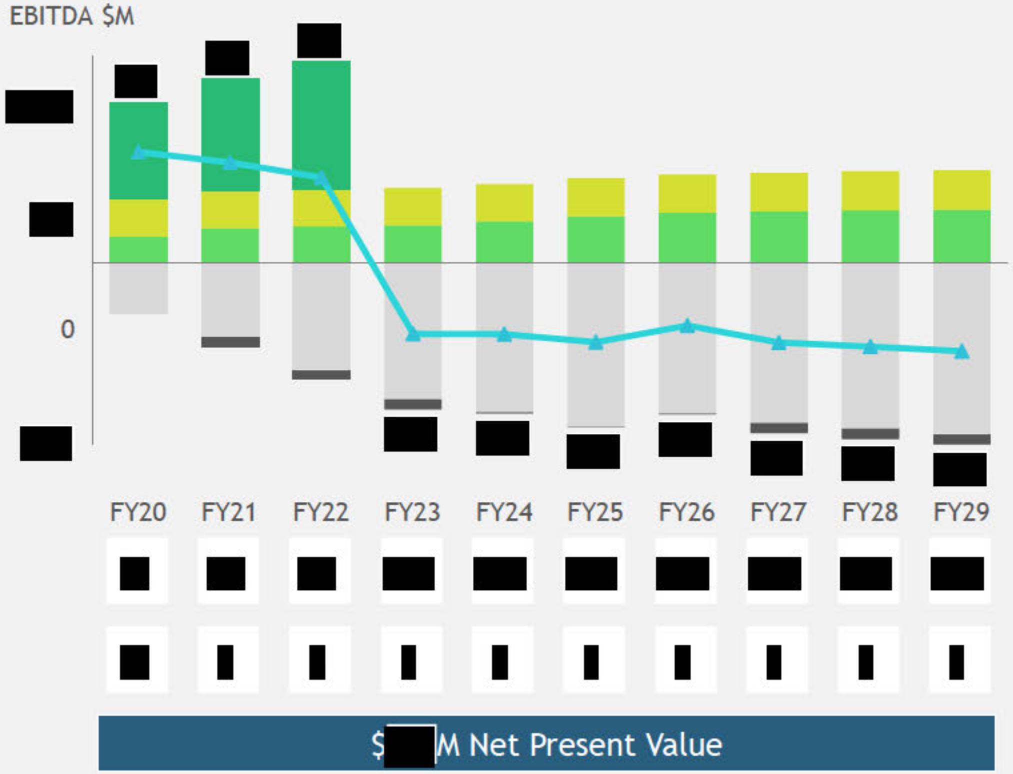
Draft

Parcels reform | Impact of potential divestiture on enterprise financials

Parcels divestiture @ typical premium (30%)



Parcels divestiture @ Toll - Japan Post premium (48%)



Letters | Parcels | Consumer | Trusted Services | Corp Items | One-off costs | EBITDA

Source: AusPost Corporate Plan (2019/20-2022/23); BCG analysis

Summary (I/II)

AusPost has remained profitable in all but one of the last 15 years, despite a steep decline in mail volumes and operating in a challenging geography with very low population density

However, **AusPost's profits and dividends have been low and volatile over the last 15 years**, delivering a dividend of just $[redacted]m in 2019 on a revenue base of $[redacted]b and profit margins within the third quartile of its global postal peers. AusPost also faces the prospect of further credit rating downgrades following Standard & Poor's (S&P) one-notch downgrade in December 2019

AusPost's operating environment and user needs are also evolving rapidly. Looking ahead to 2030, BCG expects that:

- A much lower, but still large, volume of letters will be delivered - between 0.8 and 1.2 billion in 2030, compared to 2.6 billion today
- Twice as many parcels will be delivered by 2030 as compared with today, even as ecommerce matures over the coming decade
- A much higher proportion of shopping, financial and identity services will be delivered online, but a significant volume of residual in-person transactions will remain, - particularly in non-metro areas

AusPost's Corporate Plan forecasts thin profit margins over at least the next four years (FY2020-FY2023), with net profit after tax (NPAT) forecast to range from $[redacted]m-[redacted]m during the Corporate Plan period. BCG sees a number of material risks to this plan, which could see AusPost delivering a loss as soon as FY2021 without further action or change beyond that currently in the Corporate Plan

- In particular, there is potential for mail volumes to decline faster than currently forecast (8% per year rather than 7% per year), and for more intense price-based competition from existing players and new entrants (e.g. Amazon) in the Business to Consumer (B2C) parcels market, which poses a material risk to AusPost's forecast market share and price realisation

Summary (II/II)

Improving AusPost's financial sustainability will require additional actions beyond those identified in the current Corporate Plan. This must include additional efficiencies that can be implemented without changes to AusPost's current regulatory and operating environment. BCG's view is that these actions would likely have the effect of delaying, rather than avoiding, a loss-making trajectory for AusPost

Given the material risks and financial challenges facing AusPost, BCG believes it is prudent for Government and AusPost to undertake more fundamental, sequenced reforms to AusPost's regulatory environment and operations. These include:

- Reducing Letters service standards (frequency and/or speed) to drive a sustainable 20-30% reduction in the Letters cost base
- Streamlining the metro CPO network by closing at least 106 unprofitable outlets, while maintaining access for metro households to at least one post office within 2.5km
- Exploring the potential for a divestiture of Parcels, while noting that this would leave a loss-making core business without meaningful reforms to Letters

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