MAINFREIGHT LIMITED

Financial result for the six months ended 30 September 2015 (Unaudited)

Commentary
Mainfreight is pleased to report our six monthly results to 30 September 2015. In this result, total revenue (sales) increased 12.9% to $1.114 billion, a record for our half-year reporting. (Excluding foreign exchange effects the increase is 5.6%).

EBITDA improved 3.3% to $71.58 million (excluding foreign exchange effects, down 2.1%).

Net profit (before abnormals) has declined slightly, down 1.5% to $33.14 million. This is less disappointing than it appears at first sight, as it is largely a result of increased costs that have been incurred to assist our growth development across the business, albeit with effects of softer trading in the domestic Australian and United States markets.

EBITDA performance improved for our Asia and Europe operations, however declined in Australia, New Zealand and the Americas as overhead cost increases exceeded gross margin increases.

Trading in the month of September improved across all five regional divisions, and weekly pre-Christmas volumes have been stronger through October and now into November.
Divisional Performance (figures in local currencies)

New Zealand (NZ$)
All New Zealand operations improved revenues and maintained gross margins, however increased costs associated with labour and new facilities eroded these gains.

Total revenue for the New Zealand division increased 5.9% to $270.96 million, while EBITDA declined 3.0% to $28.99 million compared to the same period last year.

Domestic Transport freight volumes exceeded those of the prior year, and continue this increase as we enter the pre-Christmas peak period. However the additional costs associated with the new Transport and Logistics facilities in Auckland, Hamilton and Christchurch, together with an increase in labour costs, has seen our half-year results fall behind those of the prior year. As volumes rise, it is not expected that overhead structures and team numbers will increase further.

New Zealand Air & Ocean lifted revenue and volumes during the period, with a slight improvement in gross margin.

Australia (AU$)
Whilst we have been able to maintain momentum and achieve some revenue increase, EBITDA performance for Australia has disappointed. Sales revenues were up 5.2% to AU$248.58 million, assisted by better performance in our Air & Ocean operations, but hindered by the lowest levels of revenue growth for some time in our Domestic operations. EBITDA was down 14.4% to AU$13.18 million.

Domestic Transport performance was well below our expectations, contributing to the less than satisfactory EBITDA performance, declining 25.8% through the first half. Overhead cost increases, a declining gross margin and poor sales growth were all factors affecting the result.

Our Logistics operations are at full capacity in most locations, and we expect efficiencies to improve profitability through the second half of the year.
Our **Air & Ocean** operations performed much better, showing increases on the prior year at both EBITDA and revenue levels, as new customers commenced trading.

We have seen improvement in performance for Domestic Transport and Logistics through September and October, and we expect this to accelerate through to Christmas.

**Asia (US$)**

Our Asian operations continue to report strong performance. Whilst revenue appears flat, this is affected by inter-company trading, reflecting the benefits of the growing trade between our networked regions.

Sales revenues, including inter-company adjustments, decreased 0.4% to US$21.65 million. When we remove inter-company trading effects, we see sales at 36.7% over the same period in the prior year, to US$48.92 million.

EBITDA was up 58.4% to US$3.55 million compared to the same period last year.

Strong airfreight performance from our Hong Kong branch, and satisfactory seafreight performance from our China branches all contributed to these increases.

Trading has been satisfactory through October, although costs associated with a new warehouse project in Hong Kong has seen performance decline slightly into November. As with developing warehouse projects in other regions, it is expected that costs will be absorbed as the financial year progresses, with new customer growth.

**The Americas (US$)**

**Mainfreight USA:** Total sales revenue improved 16.2% to US$155.40 million, while EBITDA declined 13.1% to US$4.96 million.

It is a tale of two business units. In our **Air & Ocean** operation we have seen good revenue and EBITDA growth, up 32.0% and 27.1% respectively. However, a disappointing performance from our **Domestic** operation sees our overall result fall below the same period in the year prior.
In our Air & Ocean operation, sales revenues were lifted by new customer gains and the benefit of the inter-company revenue splits from our Asian division, with EBITDA improved as a consequence.

For our Domestic business, revenue growth was more subdued, up just 2.9% as some of our larger customers traded down, and sales growth was less than satisfactory. EBITDA also declined (37.0%) impacted by line-haul route expansion and costs associated with new Logistics warehouse facilities in Los Angeles, Dallas and New Jersey.

CaroTrans (our NVOCC wholesale business) has had a small recovery from a poor result in the prior year. Sales revenue levels remained flat, but margin improvement sees EBITDA up 2.4% on the same period last year.

Looking past the half-year, our total USA division has seen significant gains from Mainfreight Air & Ocean through October and November, while Mainfreight Domestic operations also show some improvement. The expectation of new Domestic customer gains is positive news, and we expect these to contribute to better results through to the year end. CaroTrans is expected to continue its gradual improvement.

Europe (Euro €)
We continue to see better results in our European operations.

Sales revenues improved slightly, up 0.7% over the same period last year to €130.77 million (outside of inter-company revenue splits), and EBITDA totalled €5.90 million, up 13.6%.

All divisions in Europe found improvement, albeit at varying levels. Better performance from our European Forwarding and Transport operations was pleasing, with our Belgian business turnaround assisting the result. The Logistics operations continue to show progress, and good momentum has been found in Air & Ocean, particularly as we strengthen the trade lanes between Europe with the Americas and Asia.
We expect these trends to continue through the balance of this financial year and onward.

Senior management changes will also take effect in the new year. Our current European Manager, Mark Newman, will return to New Zealand. Ben Fitts will replace Mark in this role. Ben has been with Mainfreight for eight years (plus 4+ years, earlier as a graduate) and his current responsibilities are for our New Zealand Air & Ocean operations. He is well-placed to carry on the improvement Mark has found for us and will continue to foster our culture, disciplines and expectations for the European region.

**Group Operating Cash Flows**

Operating cash flows were NZ$45.93 million compared to the prior year’s half year figure of NZ$35.34 million.

During the half year, net capital expenditure totalled NZ$58.50 million, of which NZ$40.64 million related to property development.

On 30 October 2015, bank facilities were extended by a year to 4 April 2020, at slightly reduced margins.

**Dividend**

The Directors of Mainfreight have approved an interim dividend of 14.0 cents per share. This is unchanged from last year’s interim dividend level.

This dividend will be fully imputed and will be paid on 18 December 2015, with books closing on 11 December 2015. A supplementary dividend will be paid to non-resident shareholders.
Outlook
The half-year result has disappointed the business, where acceptable revenue and margin gains have been eroded by increased overhead cost structures.

However, the majority of these costs have been incurred as we prepare the business for further growth. New and larger facilities have been built with improved (but more expensive) equipment, and labour costs have increased as we develop our operations for a significant period of growth globally.

Primarily cost increases have occurred within our Domestic businesses, where labour, facilities and infrastructure are a significant part of our day-to-day operations. Our Air & Ocean businesses in all regions have seen significant growth in revenue and profitability. As we work with these new customers to develop additional services through our full supply chain activity in multiple regions, we anticipate a positive impact on our warehousing and domestic transport operations.

Our expectations are for ongoing improvement in revenue and margin performance through the second half, together with better cost controls, to achieve an improved year-end result over the last financial year.

Mainfreight will release its financial results for the full 2016 financial year to the market on 26 May 2016.

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