MAINFREIGHT LIMITED

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MAINFREIGHT LIMITED

Financial result for the twelve months ended 31 March 2014 (Unaudited)

Commentary

Mainfreight is pleased to announce a record full year net profit after tax and abnormal items for the year ended 31 March 2014 of $89.64 million; an increase of 36.0% over the previous year.

Sales revenue also increased; up 2.1% to $1.92 billion (excluding foreign exchange effects the increase is 4.8%).

EBITDA was also at a record level of $149.19 million. This exceeded the prior year's result by 8.5% (excluding foreign exchange effects the increase is 11.7%).

Excluding foreign exchange effects, all geographical segments other than Europe improved on their prior year's EBITDA result.

Europe completed the year slightly behind the prior year, by 5.6%. However second half performance from the region showed EBITDA performance exceed the same comparative period by 17.9%. This profit improvement has continued into the new financial year, and is providing us with confidence of a turnaround.

Abnormal gains total $12.15 million and predominantly relate to the settlement of the dispute with the vendor of our 2011 European acquisition.

During the year we responded to issues in a number of our divisions that required us to fine-tune our activities.

Remedial activities included:

- Removing parcel-freight from our Australian Transport business, where these volumes were negatively impacting gross margins, cost structures and the efficiency of our network,
- In Europe, we closed an unprofitable operation in Belgium, rationalising our network coverage in order to improve margin,
- In the USA, the Mainfreight Domestic operations have focused on everyday LTL freight, sacrificing revenue streams from transactional freight to build long-term customer relationships and to assist the implementation of dedicated road linehaul between significant branch locations.

Early evidence of the success of these initiatives is apparent in improved results in the later part of the financial year.

Divisional Performance (figures in local currencies)

New Zealand (NZ$)

All of our New Zealand divisions, once again, performed satisfactorily. Our investment into high quality facilities and an intensive network has played a role in improving our returns.

Total revenues for the New Zealand group of businesses increased 6.6% to $505.19 million. EBITDA improved 12.4% to NZ$67.38 million.

Our New Zealand **Transport** division was challenged by a number of issues relating to linehaul services, in particular the reduced availability of rail and ferry services during our peak volume period October through to December. Despite these constraints, we were able to move 200,000 consignments more than we did in the prior year.

High levels of service and a focus on FMCG (fast moving consumer goods), hardware and building-related industries contributed to the increase in volume. Our development of additional services for the FMCG sector, including movement of perishable, chilled and frozen food, will provide substantial growth for the future.

The **Logistics** division is also exposed to the same sectors which has required further investment in specialised facilities. A strong performance from our Logistics team produced an improved net profit over the year prior.

The **Air & Ocean** division increased revenues across all modes of international freight and, encouragingly, continued to lift our market share of the Asian inbound trade lanes to New Zealand.

Our commitment to increase our regional presence throughout New Zealand has resulted in our Air & Ocean team becoming more active in New Zealand's rural sector.

We continue to invest in high quality operations for our New Zealand network:

- Our Christchurch redevelopment is progressing well with completion due May 2015,
- Land has been acquired and development has commenced for a new Hamilton facility, and
- Construction is under way for a new temperature-controlled warehouse in Auckland to facilitate the requirements of new FMCG customers.

Australia (AU$)

Despite the need to address issues relating to difficult parcel freight in our Australian Transport operations halfway through the financial year, our Australian business has continued to grow in stature and is becoming a significant contributor to the Group's profitability and capability.

Australian revenues increased 5.8% over the previous year to AU$458.47 million. EBITDA improved 15.5% to AU$35.19 million.

Our Domestic operations (**Transport** and **Logistics/Warehousing**) have increased their market share in what is a reasonably tough and competitive environment. Our focus on delivering high quality freight services is a contributing factor.
Our quality has improved from prior years, however we have some way to go to satisfy our own internal measures and the expectations of our customers.

Over time small parcel consignments had infiltrated our normal freight profile. This reached a tipping point halfway through the last financial year, when inefficiencies placed unacceptable pressure on our network and margins. As a consequence, we removed parcel traffic from our network, in consultation with our customers. The value of the consequential lost sales approximated AU$12 million annualised. Gross margins and operational efficiencies have both seen improvement as a result.

Chemcouriers is now well established in Australia and is working alongside Mainfreight to provide better hazardous goods transport solutions for our customers.

Our **Logistics** operations continue to find financial improvement through customer gains. Such is the level of success, new facilities have been built in Sydney and Brisbane to assist this growth.

The **Air & Ocean** operations maintained a good level of sales growth and profitability despite declining ocean freight rates from Asia. Market share has increased, particularly as we focus on developing our Perishable air freight capabilities. Our investment in perishable handling facilities across Melbourne, Sydney and now Brisbane has given us a considerable advantage over our competitors.

We now expect further improved financial returns in Australia notwithstanding the cost commitments we have incurred with the investment in new facilities to secure this business's potential growth.

The Americas (US$)

Improvement in performance across all three divisions (CaroTrans and Mainfreight Domestic and Air & Ocean), sees sales revenues ahead of the prior year by 1.7% to US$363.57 million. EBITDA improved by 11.4% to US$18.85 million.

CaroTrans (our independent wholesale business) adopted a back to basics approach focusing on better freight utilisation of containers, improved linehaul negotiation with shipping and air lines, and growth of imports to the USA, which all assisted to produce a strong result.

In both Export and Import trades, CaroTrans' growth outpaced that of the US market. Groupage services from China, Korea and France were launched during the year, as were new services into the Caribbean after a long absence.

Western Europe is now a priority for CaroTrans to extend its borders to, and increase our ability to drive more growth into and from the European markets.

The **Mainfreight Domestic** business has achieved a less than satisfactory performance in the past twelve months, however improvements were seen in the last quarter, and have continued into the new financial year. We expect this momentum to increase further as initiatives that were put in place to drive growth begin to deliver.

Additional fixed road linehaul between major cities has been committed to and will assist the sales campaigns for more LTL freight volume.

The opening of a branch in McAllen, Texas will enhance our service profile for trans-border freight between Mexico and the USA.

Customer interest in 3PL warehousing services has been steadily growing. Developing credible third party warehousing operations similar to those we have elsewhere in the world is now a priority. Purpose-built facilities will be committed to in the next twelve months.

The **Mainfreight Air & Ocean** division has had good growth and we expect this to continue as we link the USA with our developing world-wide network of air and sea freight activity. We would expect the trade lanes to and from Europe and Asia to be a high priority.

Our expectations for the USA are for a far greater level of growth and profit contribution over the near term as market opportunities available to us are exploited.

<u>Europe</u> (Euro €)

Full year sales revenues improved slightly, by 2.4% to €250.72 million, EBITDA fell short of the year prior at €8.92 million, despite lifting significantly during the second half of the year.

The improvement seen in the last six months of the year provides confidence for the future. Gradual economic recovery in the Euro region will assist in some part, however more important is our own improvement.

Progress was made in “right-sizing” our Belgian business, where the Antwerp Forwarding operations were merged with our branch in Genk. This will assist our utilisation and network efficiencies. While we have yet to find profitability in our Belgian Forwarding business, we are certainly better placed now than previously.

Our pan-European **Forwarding** and **Logistics/Warehousing** units are benefiting from renewed opportunities in the marketplace providing steady revenue growth. A number of customer gains in the food sector has bolstered confidence.

Tender opportunities are many, where we are regularly achieving “last round” status, reflecting our ability to compete and offer a point of difference to much larger competitors.

Our **Air & Ocean** business has extended its network with a third branch in France (Lyon) and the opening of a branch at Frankfurt Airport, as our first foray into Germany.

We are cautiously optimistic that the worst of our European business’s disappointing performance is now behind us, and is well-positioned to provide more growth and profitability into the future.

Asia (US$)

Sales revenues from our Asia division improved by 26.1% to US$37.70 million, and EBITDA was up 35.3% to US$3.52 million.

All branches throughout Asia improved their financial performance during the year. Trade lane growth was also strong, particularly to and from the USA.

Operationally, we have been able to continue the expansion of the network by opening Thailand as our twelfth branch for the Asia region. We expect to further intensify our Asian network in the coming financial year, opening a second branch in each of Thailand and Taiwan, and establishing an air freight operation in Beijing. The Singapore branch will move their operations to an "on airport" site at Changi Airport to further our development of the air freight product for the region.

As with our United States business, strengthening European trade lanes into and out of Asia is of the utmost importance.

The Asian region continues to be an important part of our global supply chain offering. Now that our Chinese operations are well-established, extending our Southeast Asian network remains a priority. Opportunities to establish branches in Vietnam, Malaysia, the Philippines and India continue to be researched.

Group Operating Cash Flows

Operating cash flows were NZ$120.37 million up from NZ$83.17 million, largely a reflection of increased operating profitability, working capital stability and the abnormal gain of $12.15 million.

During the year net capital expenditure totalled NZ$78.66 million. Property development accounted for NZ$55.76 million of this. Land and Buildings sold during the period totalled NZ$15.0 million. Facilities in Palmerston North and Hamilton remain for sale.

Land investments decisions are continuing to be made on an as required basis. Current owned facilities with a limited future due to size and/or design, will be sold and leased back with funds being invested in land designated for future development.

Dividend

The Directors have approved a final dividend of 19.0 cents per share fully imputed at the 28% company tax rate, with the books closing on 11 July 2014; payment will be made on 18 July 2014. This takes the full dividend for the year to 32.0 cents per share; an 18.5% increase year on year.

Funding

Subsequent to year end, Group funding facilities underwent a thorough review, and a decision was taken to broaden our banking relationships from two to four lenders.

The awarding of replacement contracts was completed during May 2014, and includes an increase in debt facilities to approximately NZ$450 million (an increase of approximately NZ$60 million). The new facilities result in an overall reduced cost.

Fraud

The discovery of fraud (within a New Zealand subsidiary, Daily Freight) during the year, has now been through the Courts and has resulted in the conviction of the perpetrator.

A significant part of this complicated fraud was undertaken outside the Company's purview and control. Detailed investigations have been undertaken and our internal controls have been appropriately reinforced.

Restitution to all affected parties has been made, and has been offset by recoveries received. At no time was Mainfreight's financial performance materially impacted.

Outlook

The financial result achieved for the 2013/14 year has been satisfactory. Trading for the first two months of the current financial year has seen further improvement on the year prior.

The aches and pains of establishing our footprint in Europe through our 2011 acquisition are behind us, and the potential for growth can clearly be seen in Australia, Asia and the Americas.

We are focused on developing all our off-shore operations into significant profit and revenue contributors for our Group.

In New Zealand, our network intensity and investment into world-class facilities is providing ongoing growth in a region where we already hold a significant market share; a compelling blueprint as we build our network in other regions of the world.

Our presence in Australia mirrors that of New Zealand; our capital investment in better facilities for our people and our customers for world-class supply chain services is well under way. We expect sales revenues and profitability from Australia to eclipse those of New Zealand in the not too distant future.

We are now well established and seeing improved financial returns from Asia, Europe and the Americas. Our sales teams in all three continents are developing significant relationships with many multi-national customers, and at times beating larger, more dominant competitors with our more flexible, high quality service and logistics offering.

It is just a matter of time – not if, but when – we are able to convince more of these customers to experience the Mainfreight level of service across our complete network.

Many shareholders will be focused on our financial expectations for the year ahead. We are confident of bettering our financial performance again. More importantly, we will maintain the momentum we have, growing Mainfreight into a substantially bigger and better business.

Mainfreight will release its financial results for the first half of the 2015 financial year to the market on 11 November 2014.

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