MAINFREIGHT LIMITED

Financial result for the twelve months ended 31 March 2016 (Unaudited)

Commentary

Mainfreight is pleased to announce another year of record results to 31 March 2016. Full year net profit after tax and before abnormal items was $88.18 million; an increase of 5.6% over the previous year.

Sales revenue for the year increased; up 11.2% to $2.28 billion (excluding foreign exchange effects the increase is 4.3%). Our EBITDA result also set a new record at $174.85 million; an increase of 7.8% over the prior year’s result (excluding foreign exchange effects the increase is 3.4%).

This is a satisfactory result and builds on what was a poor first half for the 2016 financial year. Better management of overhead costs, and an improving gross margin assisted the second half results.

Geographical performance for the year saw New Zealand, Asia and Europe all with increased EBITDA results, while Australia and the Americas recorded poorer results at the EBITDA level, as their domestic operations struggled to improve on the year prior.

In all regions we were able to increase sales growth, as our teams continue to cross-sell our networks and products to our multinational customer base.

Currency certainly played a part – positively – in these results. Such is the benefit of working across many regions and economies. We no longer rely on one geographical location for success. Within these results, 75% of our revenue and 56% of EBITDA is earned outside of New Zealand.
Divisional Performance (figures in local currencies)

New Zealand (NZ$)

Our New Zealand business once again performed satisfactorily.

Sales revenues increased 3.8% to $563.25 million. EBITDA improved 5.5% to NZ$77.64 million, despite an increase in overhead costs that impacted net margins. New and improved facilities in Auckland, Hamilton and Christchurch account for some of the overhead cost increases. However, they have also lifted our service levels, and as we learn to manage these new facilities better, our margins will improve alongside our ability to secure more growth.

Our Air & Ocean division increased revenues, even with over-capacity in the ocean trade lanes. Trade-lane development and focus remains on those countries where we are located; the Asian, USA, European and Australasian regions.

We continue to be well placed in New Zealand for more growth, and expect to increase profitability as we take advantage of our comprehensive network and highly skilled logistics team.

The second half’s financial momentum has continued into the new financial year, providing confidence for the year ahead.

Australia (AU$)

The overall result for Australia disappoints, mainly as a result of deteriorating performance at our Transport operations.

Positive revenue growth in Australia was outweighed by weaker gross margin performance and overhead cost increases.

Sales revenues for Australia increased 2.6% over the previous year to AU$503.25 million. EBITDA performance was down 8.2% to AU$34.20 million.
Concerted efforts to drive sales growth and to secure better control of costs during the latter part of the financial year, achieved improvements which will carry forward into the 2017 financial year.

Our Logistics and Air & Ocean divisions both performed satisfactorily, improving margins and benefiting from revenue growth.

The Logistics team has attracted a number of higher-profile, high-activity warehousing customers during this period, improving our utilisation levels. The Air & Ocean business has also concentrated on the Mainfreight global network for trade-lane activity. Their control of European import freight has allowed us to open a new operation in the United Kingdom.

New facilities in Perth and Melbourne have provided high-quality capability for future growth. Melbourne’s Epping facility is our largest ever investment in buildings, both in terms of scale and value. Lifting the level of quality in the Australian market remains a significant goal.

We are positive about our growth prospects in Australia. Our market share remains small in comparison to the incumbents; a focus on high quality freight services will see further growth achieved.

**Asia (US$)**

A strong and steady approach to the Asian market has delivered our best ever results from this region. Sales revenues improved 6.4% to US$47.06 million, and EBITDA increased 27.3% to US$6.35 million.

Contributing to these results, has been a larger than normal growth in airfreight. Our regional coverage has increased to six countries, with the opening of operations in Ho Chi Minh City, Vietnam. We now have 19 Asian branch locations across the region.

Relationships with air and ocean carriers have strengthened due to our increased volumes, further improving our competitiveness and service abilities.
In-country sales growth remains a priority for further improvement.

The opening of a logistics warehouse in Hong Kong has provided an opportunity to further develop our supply chain capabilities within the region.

The current financial momentum has continued into the new financial year.

**The Americas (US$)**

A mixed result from our operations across the Americas. Very strong Mainfreight Air & Ocean growth and profitability was offset by less than satisfactory performance in our Mainfreight Domestic operations, and a mediocre financial performance from CaroTrans USA.

Total sales for the region grew 8.4% over the prior year to US$457.76 million, while EBITDA declined by 2.2% to US$18.69 million.

**Mainfreight**

Our **Air & Ocean** division has seen good growth as we improve our air and ocean freight capabilities to and from the USA across our global network. The majority of this growth has come from trade ex Asia, and to/from our European trade lanes. A strong sales development strategy is in place where we expect to see additional customer gains in the short to medium term.

**Domestically**, a lack of sales growth and poor EBITDA performance disappointed, as we moved to more dedicated road and rail line-haul services. We are currently servicing 40 major US cities with 90 dedicated road line-hauls each week (152 legs), and will look to extend this further as utilisation improves. A strong transport-aligned strategy is in place, with a change in senior management to further aid this development.

Our focus is on freight volume that requires higher quality levels of service with defined day delivery – preferably FMCG freight in the LCL sector. Trans-border
services into and from Canada and Mexico also continue to provide growth opportunities.

Our Logistics division now has stand-alone warehouses sited in Los Angeles, Dallas and Newark. Utilisation of these facilities is still below break-even levels, however we expect to see capacity quickly filled.

We have good energy across the Mainfreight business and expect to see further improvement in financial performance in the short term.

CaroTrans

Revenue levels declined 8.2% as international ocean container rates continued at historic lows, and we were ineffective in growing our customer base.

Gross margin levels improved as we implemented operating efficiencies and better container utilisation.

Our global wholesale network was fine-tuned during the year in an attempt to bolster our development. In conjunction with this, a stronger focus on in-bound cargo to the USA has seen import volumes improve adding a greater degree of cargo control, and enhancing our negotiating strength over the longer term.

We expect CaroTrans to provide similar profitability in this coming year, with a stronger focus on sales, container efficiency and improved service levels.

Europe (Euro €)

We continue to improve our financial performance in Europe. Whilst revenue growth was less than satisfactory, increasing just 1.9% to €264.59 million, operating efficiencies and better management of our overhead costs saw EBITDA improve over the prior year by 19.4% to €14.22 million.

A much stronger focus on branch management responsibility and performance saw a number of changes in branch manager roles and senior leadership in the past year.
Our Air & Ocean business has seen a number of new customer gains, with cross-selling to our significant pool of Logistics customers providing many opportunities for growth in this sector.

The opening of our first branch in the United Kingdom offers additional trade lanes for us to develop, and reduces our exposure to agents.

Our Logistics business has seen increased growth across most locations, and warehouse utilisation is now at a stage where new sites are required to provide sufficient space for the increasing activity. New sites are planned for the Netherlands, and Belgium.

In our European Forwarding and Transport operations, we continue to improve returns in the formerly struggling Belgian business, and will embark on new facilities for both distribution centres in Genk and Ostend. Forwarding performance across the balance of the network has been satisfactory, but will require a stronger sales effort over the long term.

This progress throughout Europe gives us a lot of confidence that our financial and operational performance improvement will continue in this region.

**Group Operating Cash Flows**

Operating cash flows were NZ$130.27 million, up from NZ$113.65 million, largely a reflection of the profitability increases.

During the year net capital expenditure totalled NZ$93.2 million. Property development accounted for NZ$54.9 million of this.

Capital expenditure for property-related development will likely be in the vicinity of $18 million over the next 12 months, as we consolidate operations in our facilities just completed in Auckland, Christchurch, Hamilton, Melbourne and Perth.
**Dividend**

The Directors have approved a final dividend of 23.0 cents per share fully imputed at the 28% company tax rate, with the books closing on 15 July 2016; payment will be made on 22 July 2016. This takes the full dividend for the year to 37.0 cents per share; an 8.8% increase year on year.

**Outlook**

This past year’s financial performance, viewed in its entirety, can be described as satisfactory. Had we managed overhead costs better in the first six months of the financial year, we would be better placed than this result portrays.

The disappointing performances in our Australian and USA domestic operations, and the less than adequate performance of our CaroTrans business, blunted the potential of the result.

These are the issues we face in managing and growing an emerging global business. Nevertheless, we continue to focus on what is ahead of us and value what we have built.

The progress made and the momentum gained in these last six months gives us confidence of continuing these improvements into the new financial year. We draw considerable satisfaction from the growth of our network, and also the development of our reputation with our customers across the world.

We remain committed to improving our results year on year, and are excited about the potential and opportunity we have in all regions of the world where we are located.

Mainfreight will release its financial results for the first half of the 2017 financial year to the market on 9 November 2016.

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