MAINFREIGHT LIMITED
Mainfreight Lane | off Saleyards Road | Otahuhu 1062 | New Zealand
Tel +64 9 259 5500 | Fax +64 9 270 7400
PO Box 14-038 | Panmure | Auckland 1741 | New Zealand

MAINFREIGHT LIMITED

Financial result for the twelve months ended 31 March 2023 (Unaudited)

Commentary

Mainfreight is pleased to confirm our full-year financial results to 31 March 2023; a satisfactory result driven by a strong first half of the year. Trading during our second half fell short of expectations and against a very strong comparison period as international freight congestion unravelled, which included a swift reduction in sea and airfreight rate structures. This has provided much-needed space availability for our customers, but has impacted our revenue growth. Our operations in the USA and Asia are the most affected.

Result Summary:

Revenue	$5.68 billion	Up $457 million or 8.8%
Profit before tax	$587.4 million	Up $98 million or 20.0%
Net profit	$426.5 million	Up $71 million or 20.0%

- Adjusted for foreign exchange impact, Group revenue is up 4.2%, and profit before tax is up 14.9%.
- Second six-month period, whilst behind year prior, our third strongest six months ever. Profit Before Tax NZ$286 million versus NZ$307 million.
- Profit Before Tax growth over the last three years:
  2021 NZ$262 million; 2022 NZ$489 million; 2023 NZ$587 million.
- Operating cash flow improved from $504 million to $757 million.
- A final dividend of 87.0 cents per share has been authorised by the Board of Directors, payable on 21 July 2023.

Supporters of Duffy BOOKS IN HOMES

Whist a satisfactory result, the performance in our second half of the year has seen freight volumes deteriorate due to slowing economic conditions, declining inventory activity, and less international supply chain congestion.

Inflationary pressures have also increased our cost to serve. Recovery of these increased costs is underway via freight rate increases across all regions and stronger overhead cost management.

International Freight Volume Analysis – FY23 v FY22

	Full year
Total Air freight kilos	down 8%
Total Sea freight TEUS	down 7%
Custom Clearances	down 3%

Whilst short-term freight demand has eased, we expect that normalised trading levels will resume over time. We will continue with our expansion of network and investment in land and buildings in pursuit of long-term growth.

Group Operating Cash Flows

Operating cash flows were $757.2 million, up from $503.8 million in the prior year, reflecting increased profitability, satisfactory cash collection, and working capital benefits because of shipping line rate reductions across the group.

Current debt facilities total $510 million, of which $323 million remain undrawn. Net funds at 31 March 2023, was $122.8 million compared to net debt of $1.1 million last year. Gearing ratios continued to improve, at (7.7%) compared to 0.1% for the prior year.

Net capital expenditure totalled $313.9 million, with expenditure for land and buildings accounting for $163.1 million, warehousing racking and fit-out costs of $70.4 million, plant and equipment of $60.2 million, and information technology of $20.2 million.

Expected capital expenditure through to the end of 2025 will total $676 million, of which property, racking, and fit-out costs will be $556 million. This is allocated between regions as:

NZ	$192 million
Australia	$176 million
Americas	$ 97 million
Europe and Asia	$ 91 million

An additional 36 properties are expected to be leased as we increase our Warehousing footprint, increase our domestic freight network, and replace aging facilities. During this current year, our branch network has increased by 26 from 305 to 331 and we have opened in Jakarta, Indonesia, taking the number of countries we are in to 26.

Dividend

The Directors have approved a final dividend of 87.0 cents per share fully imputed at the 28% company tax rate. With the record date on 13 July 2023, payment will be made on 21 July 2023. This brings the full dividend for the year to 172.0 cents per share, an increase of 21.1% over the prior year, and reflects this year's improved trading results.

Discretionary Bonus

We remain committed to sharing our profits with those who have earned them. In line with the profit achieved, our discretionary profit bonus is $79.9 million; a decrease of 15.2% from $94.2 million for the year prior. This decrease reflects the declining rates of improvement across some of our branch networks, particularly during our second half.

Divisional Performance (figures in local currencies)

New Zealand (NZ$)

Revenue	NZ$1.28 billion	Up NZ$154.7 million or 13.7%
Profit Before Tax	NZ$169.4 million	Up NZ$32.9 million or 24.1%

Our New Zealand businesses have provided satisfactory sales and profitability growth during a year of contrasting and, at times, frustrating fortunes. Our first half included the ongoing supply chain congestion and higher volumes. As slowing economic conditions

prevailed, so did freight volume across the network. Ongoing severe weather events provided a challenging environment for freight delivery. This included the sub-standard **Transport** infrastructure, including the Cook Strait ferry connections between the North and South islands.

Despite this, we have continued to intensify our **Transport** network, opening branches in West of Auckland and in Whakatane. This continues with branches to open in Cambridge, Waikato, and an inland container port operation in Auckland during the year.

We will also open our largest **Warehouse** for New Zealand (43,000 sqm) in South Auckland to meet the requirements of our ongoing growth in **Warehousing** Logistics. This will also allow us to exit three short-term overflow warehouses.

We continue to win market share across imports and exports in our **Air & Ocean** operations despite the slowdown in global shipping and air volumes.

Australia (AU$)

Revenue	AU$1.42 billion	Up AU$242.2 million or 20.6%
Profit Before Tax	AU$136.8 million	Up AU$29.3 million or 27.3%

Our Australia team continue to find satisfactory growth and improved profitability. Gaining market share as industry consolidation of the pallet transport segment is providing opportunity. During the year, we completed three new purpose-built sites; Adelaide, South Melbourne and Gold Coast, Queensland. These have increased our capacity for further growth.

New **Transport** facilities were opened in Mackay, Orange, and Dubbo, increasing delivery capability via our network to 88% Australia wide.

Warehousing operations have further expanded, offering our increasing range of customers alternative sites across all states, excluding the Northern Territories. Unfortunately, profit performance has declined because of higher fixed costs, reduced

utilisation, and poor performance/one off costs in our Epping, Melbourne site. It is our expectation that profitability will improve as these new sites become fully utilised.

Air & Ocean revenues and volumes have declined in line with lower demand and less international supply chain congestion. North America now features as our largest trade lane, reducing our exposure to imports from China. Long-haul trade development, particularly with Europe, is a priority for our Australia **Air & Ocean** business.

The Americas (US$)

Revenue	US$959.9 million	Down US$129.5 million or 11.9%
Profit Before Tax	US$89.25 million	Down US$11.6 million or 11.5%

Our poorest performing business, where a lack of customer depth and quickly slowing economic conditions reduced revenue and profitability. These conditions have exposed our weaknesses and lack of maturity in this market. We have a shortage of customers across market verticals that provide regular daily freight volumes.

Our USA business has undergone several changes to better improve our ability to deliver meaningful and long-term growth. This includes a re-organisation of our senior leadership team, including their relocation to Chicago where they will be together in a central location with quicker ease of access to our branch network.

Construction is planned and underway for two new **Transport** cross-docks in Dallas, Texas and Chicago, Illinois. Land acquisition is under review for a second site in Chicago.

Our status has changed in our **Transport** business to LTL Motor Carrier from general freight forwarder classification. This will help attract larger LTL freight customers.

A dedicated **Air Freight** facility has been completed in Los Angeles which includes chiller and cold storage for our global Air Freight perishable business. Air and Sea freight volumes have declined in line with the industry downturn, although trading remains higher than pre-pandemic levels.

CaroTrans has continued to perform satisfactorily, increasing the amount of LCL consolidation from the year prior.

We have consolidated our **Warehouses** in Dallas and Chicago to provide much needed efficiency and increased utilisation.

Strong sales activities are underway to improve our customer verticals across all three divisions. However, we would expect our recovery to take time.

Europe (Euro €)

Revenue	€630.7 million	Up €62.8 million or 11.0%
Profit Before Tax	€46.9 million	Up €15.2 million or 48.0%

This is our strongest financial performance in Europe to date, with good improvement across all three business units.

We now have good momentum outside of the Netherlands, with Belgium improving markedly. The Dutch business is now contributing 63% of European profits, down from 73% the year prior. Our network has also increased, totaling 52 branches in 10 countries.

New branches have opened for **Transport** in Rotterdam and Tilburg in the Netherlands, Katowice and Poznan in Poland, and Lyon in France. We expect to make our first property investment in the Netherlands, since acquiring the business in 2011. This will provide land for a new cross-dock for our **Transport** business.

New **Warehousing** branches are expected for the Netherlands and the UK as well as increasing the size of our **Warehouse** in Romania.

Air & Ocean development will see a new branch open in Munich to complement the opening of Madrid and Verona this year.

Our exposure to the **Air & Ocean** market is less than our other regions, therefore the reduction of international shipping and air volumes has had less of an impact on revenue

and profitability. **Transport** volumes and **Warehousing** activity have slowed albeit less than our other regions.

<u>Asia</u> (US$)

Revenue	US$152.8 million	Down US$78.2 million or 33.9%
Profit Before Tax	US$ 29.1 million	Up US$ 0.2 million or 0.9%

A disappointing financial year-end for our Asian operations.

Our reliance on Transpacific freight volume from China to the USA is high and it is this trade that has been heavily impacted by slowing freight demand. Ocean freight rates during the previous year reached extraordinarily high levels overly inflating revenues.

Nevertheless, our margins have continued to improve, as we focus on LCL growth and higher yielding cargo.

We have further expanded our network into Jakarta, Indonesia – our tenth country location in the region. It is our expectation that our first Indian **Air & Ocean** branch will open by August 2023. Whilst not expecting India to outpace China in manufacturing capability, we do expect India to be an important contributor and significant addition for our global network expansion.

Southeast Asia progress continues at a satisfactory level.

Warehousing has also begun its development with six locations now operational. Whilst still small, we are now attracting Asian import customers into these facilities, via our **Air & Ocean** network. As with elsewhere in our network, **Warehousing** compliments our domestic and **Air & Ocean** products and will be a welcome addition in Asia to offset the reliance on **Air & Ocean** volume only.

As with our other regions, a strong sales response is in action to counter the global trade reduction.

Outlook

This full year result is satisfactory. It does represent our 13th year of ever-increasing revenue growth and profitability increases – not that we rest on our past achievements.

During this past year we have seen extraordinary levels of freight volume, particularly during the first six months, a reflection of a difficult and over-heated logistics market. We have taken the opportunities that were presented and have grown a bigger and better business, including the continued expansion of our network and infrastructure investment into better and larger facilities.

Macroeconomic conditions are expected to deteriorate further, reducing freight volumes across all our logistics products. Increasing inflation will be a feature effecting our cost to serve. We have been active re-pricing freight rates because of these inflationary pressures, and our sales teams are actively increasing market share.

Our strong customer verticals of Food, Beverage, DIY, Pharma, Perishables and Retail will serve to reduce our exposure to this downturn.

It is a privilege to have supportive customers and our investment in our network, facilities, technology, and people, remain an integral part of our long-term strategy.

Prudent management of margins and overhead costs is key. Our decentralised approach allowing branch leadership to take responsibility for their profit and loss accounts provides the most appropriate approach. Consequently, recruitment has reduced significantly over the past three months across all regions.

We have a disciplined approach to capital investment, with $676 million being invested through until the end of 2025. Providing the right facilities for our immediate and future growth, including property investment in the USA and Europe, where larger long-term growth opportunities present themselves.

We are mindful of the current economic downturn and inflationary environment and therefore, will look for improved returns from the network rather than expansion for the sake of it.

Trading post result has continued to show a weakness in volumes and activity. Whilst management of overhead cost structures and the implementation of freight rate reviews have been successful, it is expected to be a challenging first six months of trading.

We remain confident of our medium to long term growth prospects.

Mainfreight will release its financial results for the first half of the 2024 financial year to the market on 9 November 2023.

For further information, please contact Don Braid, Group Managing Director, telephone +64 9 259 5503, +64 274 961 637 or email don@mainfreight.com.