MAINFREIGHT LIMITED

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MAINFREIGHT LIMITED

Financial result for the twelve months ended 31 March 2017 (Unaudited)

Commentary

Mainfreight is pleased to announce another year of record results to 31 March 2017. These results are significant, as for the first time the Company's net profit has exceeded $100 million. Full year net profit after tax and before abnormal items was $103.16 million; an increase of 17.0% over the previous year.

Sales revenue for the year increased; up 2.1% to $2.33 billion (excluding foreign exchange effects the increase is 5.1%), while EBITDA improved 13.0% to $197.54 million (excluding foreign exchange effects the increase is 15.3%). This year's revenue and EBITDA figures are also records for the Company.

This is a satisfactory result, with excellent contributions being made by our New Zealand, Australian and European operations. Poorer than expected results from our Asian and American operations dampened the overall result.

Sales revenue improved across all geographical regions other than the Americas, where a decrease in revenue was recorded in the CaroTrans business. Our sales revenues earned outside of New Zealand now exceed $1.72 billion.

The momentum created in achieving this result is expected to continue throughout the new financial year.

<u>Divisional Performance</u> (figures in local currencies)

<u>New Zealand</u> (NZ$)
A very satisfactory performance from our New Zealand businesses, despite the upheavals and disconnected supply routes that the Kaikoura/Wellington earthquakes threw at the country in November 2016.

Sales revenues increased 8.2% to $609.24 million and EBITDA improved 17.2% to NZ$91.02 million. Strong brand awareness, and our high levels of quality, continue to provide growth opportunities for the New Zealand business units.

Volumes in **Transport** and **Logistics** were much increased over the year prior. An additional 180,000 freight consignments were handled by our team, reflecting an increase in the number of customers we serve, together with a lift in New Zealand business confidence fuelled by high net migration and burgeoning tourism numbers.

This increasing growth and confidence requires further investment from us into our infrastructure. New freight facilities, land purchases and additional warehousing are planned across the New Zealand network.

It is our expectation that the earthquake repairs to the main trunk railway line between Picton and Christchurch will be completed by year end, with the likelihood of an intermediate solution/access being available earlier, providing valuable rail capacity for pre-Christmas tonnage, and reducing demands on the South Island road option currently being used.

Our **Air & Ocean** activity has been positive across both modes, and trade lane activity within our network continues to develop strongly. Our airfreight and seafreight teams in Christchurch are enjoying the opportunity to work together in our new purpose-built facility at the airport, and anticipate providing a more efficient service for our customers.

Aside from Easter and ANZAC holiday disruptions, the new financial year continues with this momentum.

<u>Australia</u> (AU$)

The combination of our investment in high quality facilities over the past five years, and the focus by our people on lifting the quality of our service, has produced a much improved result for the year.

Sales revenues for Australia increased 6.3% over the previous year to AU$535.00 million. The EBITDA improvement was also satisfying, up 23.7% to AU$42.32 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 2018 financial year.

Our **Transport** facilities and road line-hauls are well utilised, our **Logistics'** warehouses are full, and our **Air & Ocean** business is gaining in prominence. The targeted focus on improving our standards and delivering a far better customer experience is paying dividends, with good customer gains. These continue into the new financial year.

With ongoing growth, it is evident that we must continue to invest in our Australian infrastructure. It is our intention to invest in additional land and buildings for Transport and Logistics in Melbourne, Adelaide, Sydney and Brisbane. Further regional development will also continue, with new branches planned for Toowoomba and Bendigo, in line with our strategy of controlling "last mile" delivery quality, and developing network intensity.

Our **Air & Ocean** business continues to pursue trade lane development for both imports and exports for our Australian customer base. Developing our perishable freight competency remains high on our agenda.

Our **Logistics** warehousing initiatives and service quality has improved and has attracted a number of new customers across the DIY and food & beverage sectors. This has necessitated further warehouse development in all three Eastern Seaboard States.

We are positive about our growth prospects in Australia. Current trading into the new financial year continues the trends of the prior year.

Asia (US$)

Our Asian financial results have disappointed. The first half of the year saw airfreight demand into the United States continue from the previous year, providing significant revenue growth and profitability. As this airfreight volume ebbed, our inability to counter the decline led to the reduction of earlier profit and sales gains.

Disappointingly, while our sales revenues improved 34.6% to $63.35 million, EBITDA finished in line with the year prior at $6.25 million (down 1.6%).

The venture into our own leased warehouse operation in Hong Kong has been unsuccessful, and has necessitated a withdrawal from this sector as the new financial year progresses.

Our focus remains on developing our core Air & Ocean product across the Asian region. Strength currently lies in our China business, with emphasis being placed on improving capability and profitability in our Southeast Asian locations.

The Americas (US$)

Our two operations in the region, Mainfreight (our supply chain logistics business) and CaroTrans (our wholesale sea freight operator), both disappointed our expectations for this past financial year.

Sales revenues declined 4.7% to US$436.36 million across the Americas, particularly impacted by falling revenues in CaroTrans. The combined Mainfreight businesses (Air & Ocean, Domestic Transportation, and Logistics) saw revenues fall just 1.2% as airfreight volumes declined during the second half.

The EBITDA contribution was in line with the year prior, falling just 0.6% to $18.59 million, and provides confidence that the Mainfreight network and infrastructure will support future growth in the region. The majority of EBITDA erosion came from CaroTrans' performance.

Mainfreight

In the Mainfreight **Domestic** operations we continue to develop and fine-tune our domestic freight network.

Our **Air & Ocean** operations are focused on developing volumes that sit within the Mainfreight global trade lane network for both imports and exports. We are looking to increase the number of trading customers we service (rather than putting reliance on too few), to promote steady long-term growth.

The **Logistics** business will extend our warehouse footprint to other major US cities as utilisation and profitability allow.

CaroTrans

Fluctuating ocean freight rates and reduced LCL loading trends continue to hinder profit improvement.

Senior management changes and a renewed focus on our core capabilities will address performance issues. CaroTrans remains an important part of our US presence, providing a complementary business to the Mainfreight retail operations.

Despite the lack of growth evident in this year's financial results, we remain committed and excited as to what the Americas market will provide to the Mainfreight Group over the long term.

Europe (Euro €)

The ability of our European team to find growth in all three of our business segments is a highlight alongside improved profitability.

Sales revenue grew 10.3% to €291.93 million, with EBITDA improving 20.8% to €17.18 million.

As with other regions, investment in our network and infrastructure is a high priority. Construction of **Forwarding** facilities Ghent/Zwijnaarde and Genk in Belgium is underway; new **Logistics** warehousing facilities for ‘s-Heerenberg and Geleen (The Netherlands) and Ghent/Zwijnaarde (Belgium) are also under construction.

Our **Air & Ocean** business has opened new facilities in Germany and the United Kingdom, extending its network to facilitate better trade lane access for our global customers.

Our **Logistics** operations have performed particularly well, with utilisation in current warehouse facilities at optimal levels.

In our **Forwarding** branches, we have improved quality and gained new customers. Currently The Netherlands is serviced from one cross-dock operation in ‘s-Heerenberg. Planning is underway to provide three further cross-docks in Belgium and the Netherlands, where country borders will be secondary to achieving the most efficient distribution service, and ensuring close proximity to our customers.

We expect European sales and profit improvements to continue into the new financial year.

<u>Group Operating Cash Flows</u>

Operating cash flows were NZ$131.23 million, up from NZ$130.27 million, reflecting the increase in profitability offset by increased working capital of $10.90 million.

Net debt has been reduced by $52.27 million and our gearing ratio has moved from 31.2% to 24.8%.

During the year net capital expenditure totalled NZ$61.44 million, with property development accounting for NZ$24.94 million of this.

Capital expenditure required for the 2018 financial year for property development will likely be in the vicinity of $75 million, as land and facilities are acquired in New Zealand and Australia to complement our projected growth. Non-property related expenditure, including software development, will approximate $37 million.

Dividend

The Directors have approved a final dividend of 24.0 cents per share fully imputed at the 28% company tax rate, with the books closing on 14 July 2017; payment will be made on 21 July 2017. This takes the full dividend for the year to 41.0 cents per share; a 10.8% increase year on year.

Outlook

This record financial result is a credit to the people of Mainfreight. To break through $100 million net profit for the year is a significant milestone.

These results will allow us to pay our largest ever bonus payment to our team, up 18.7% to $19.27 million.

Throughout the year we have increased our global supply chain logistics capability, and continued to develop our network. We have seen increased interest from significant customers looking for high quality freight services from an emerging global logistics provider.

Our ability to use our technology to provide visibility across the supply chain, and our focus on building effective long-term partnerships, are the key reasons for customers to entrust their logistics to us.

We are aware of the changing dynamics of global logistics; the emergence of on-line trading and those operators involving themselves in warehousing and distribution. There is no doubt these threats to the “normal” logistics supply chain will continue to evolve. Mainfreight’s flexibility, supply chain management capability and innovation make us confident of our ongoing growth and position in the logistics sector.

We have much to do to improve our sales revenues and profitability in the larger markets of Asia, America and Europe, where we continue to see significant growth prospects.

We are committed to improving our results year on year and, with the momentum that created this set of record results continuing into the new financial year, we are confident of the potential and opportunity that is available to us.

Mainfreight will release its financial results for the first half of the 2018 financial year to the market on 15 November 2017.

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