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MAINFREIGHT LIMITED

Financial result for the twelve months ended 31 March 2019 (Unaudited)

Commentary

Mainfreight is pleased to announce our full year financial results to 31 March 2019; this result our best ever.

Revenue	$2.954 billion	Up $337.39 million or 12.9%
EBITDA	$257.05 million	Up $41.94 million or 19.5%
Net profit (before abnormals)	$141.08 million	Up $29.08 million or 26.0%

Adjusted for foreign exchange impact, revenue is up 10.8%, and EBITDA up 18.0%.

Abnormal costs after tax totalled $3.46 million. Of this, $2.93 million relates to the further write-down of the European brand name which is in the process of being discontinued. The balance, $0.53 million, is restructuring costs in Europe and the Americas.

Our well-signalled strategy of intensifying our global branch network, within cities, within countries and of course, between countries, has continued during this past year. The benefit of our network development across our three core products – domestic transportation (Transport), warehousing (Logistics) and international freight forwarding (Air & Ocean and CaroTrans) – is reflected in these improving financial results.

We expect to continue enhancing our network in the coming years, with an expected $350 million of capital expenditure on land and buildings projected over the next two years. It is expected that further investment in leased facilities will also continue, to offset short-term growth requirements from increasing customer demand.

Divisional Performance (figures in local currencies)

New Zealand (NZ$)

Revenue	$718.79 million	Up $52.75 million or 7.9%
EBITDA	$110.56 million	Up $12.03 million or 12.2%

Our network intensity and reach has never been stronger than in this past year, where we have seen our influence increase in every region in New Zealand. We now have a branch network across all three products which extends from urban centres into regional areas with populations less than 20,000. As a result, delivery times and quality have improved, and we have been able to secure new customers, including providing import and export services from many regional locations never before serviced by Mainfreight. Additional regional branches are in the final stages of planning, for implementation during the current financial year.

Strong financial performance culminated in a record EBITDA result for the New Zealand business.

Our **Logistics** business increased its warehousing footprint, including expansion into Cromwell to service the fast-growing Central Otago region, and has new sites under construction in Hamilton, with planning underway for Tauranga. A ninth site in Auckland has also opened post-result.

In our domestic **Transport** operations we expect to open the new 12,000m2 Mount Maunganui facility mid-2020, and our requirement for improved, larger facilities to manage growth, sees us with planning underway for new facilities in South and West Auckland, and the regional centres of Whakatane and Levin, an extension for Oamaru, and replacement facilities for Napier, Masterton, Blenheim and Gore.

In our **Air & Ocean** division we continue to increase air and sea freight tonnage, with increasing support from our regional locations. Improved perishable air freight handling facilities in Auckland have assisted increased capability in this sector. We have also completed a major solar installation at our Westney Road facility in Auckland post-result.

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

Revenue	AU$710.17 million	Up AU$86.90 million or 13.9%
EBITDA	AU$55.37 million	Up AU$5.49 million or 11.0%

After a relatively slow start to our financial year we have achieved satisfactory full year results in Australia.

The new branch location for **Transport** was opened in Toowoomba (having been delayed), and the Geelong branch moved to a new facility. Plans are underway for additional domestic freight facilities in Sydney and on Queensland's Sunshine Coast. Construction of our new Adelaide facility is expected to commence late 2019.

In our **Logistics** business, four new warehouses were opened with an additional AU$12 million of new business. Our standing in the premium beverage sector continues to grow. New warehouse business has in turn flowed into domestic freight tonnage. Additional warehousing capacity is planned in the coming year for Brisbane, Sydney, Melbourne and Perth, including purpose-designed capacity to aid warehousing of retail dangerous goods, which will be complemented by our specialist dangerous goods transport business, ChemCouriers.

Our **Air & Ocean** business improved both its sales growth and profitability over the prior year, with a strong emphasis on export related growth, particularly in the perishable airfreight sector. As with the balance of our Air & Ocean network globally, there is an emphasis on the development of LCL consolidation activity.

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

Revenue	US$74.45 million	Down US$(9.42) million or (11.2)%
EBITDA	US$6.31 million	Up US$1.39 million or 28.2%

Our performance across Asia has improved at EBITDA level through a focus on improving margins. As a result, an amount of unprofitable wholesale air freight business was exited, reducing revenue levels.

We continue to build our profile and network within the Asia region, opening branches in Kuala Lumpur, Malaysia, and two branches in Japan at Tokyo and Fukuoka. This lifts our Asian footprint to eight countries and 21 branches. In addition, we are looking to add a further six regional sales desk locations in second tier cities across the region, boosting our sales reach and capability.

Of note during the period is the growth of intra-Asian freight movements. Whilst small in terms of revenue per container, these movements are an important and growing feature of trade within the region. Trade tariffs affecting the China/USA trade route saw trade volumes fluctuate, peaking prior to the July 2018 implementation. Diversifying our trade focus will assist, alleviating dependency on the volatile USA trade lanes.

<u>Europe</u> (Euro €)

Revenue	EU€376.28 million	Up EU€40.17 million or 12.0%
EBITDA	EU€23.26 million	Up EU€5.49 million or 30.9%

It is pleasing to see progress being made in our European business. The strong performance in **Transport**, particularly in the Netherlands, lays a good foundation for future improvement across the network. A focus on cross-dock and pick-up and delivery efficiencies, together with line-haul utilisation, has resulted in improved margins.

In **Logistics** two new warehouses were commissioned during the year, with utilisation levels improvement month on month as new customers are gained.

Our **Air & Ocean** operations continue to find growth on the back of our global expansion and network effectiveness. Opening a second branch operation in Germany (Hamburg) provides more sales opportunities. Pleasing progress continues in the relatively new locations of the UK and Italy.

We expect to continue to intensify our European footprint as sales growth allows.

Rebranding to Mainfreight continues, and we expect completion by year end across all assets.

<u>The Americas</u> (US$)

Revenue	US$493.86 million	Up US$58.60 million or 13.5%
EBITDA	US$26.11 million	Up US$7.08 million or 37.2%

Improvement from our American interests continues albeit at a slower pace than we would wish. Finding efficiency in our domestic Transport operations has been a contributor to the lift in EBITDA. A satisfactory increase with plenty of opportunity in front of us to grow a much larger business across all three products.

The **Transport** operation has initiated more direct Mainfreight-controlled line-haul services across our major city network, improving utilisation and margins. As sales growth allows, this will continue until all third-party/agent usage is ended.

Our **Air & Ocean** business continues to find growth, with a strong emphasis on developing more LCL consolidation services to and from the core Mainfreight-to-Mainfreight trade lanes globally. Significant sales opportunities are under tender currently.

CaroTrans, our wholesale sea freight operation, has improved processes, revenues and profitability, and is well positioned to further lift its performance over time.

Our **Logistics** operations continue to build a portfolio of new customers to lock in utilisation gains in their recently implemented warehouse facilities, with a focus on also gaining the domestic transport and/or international freight components.

The Americas region continues to offer us large scale opportunity for market share gains. Our sales effectiveness needs to further improve for this to happen.

We remain confident that the momentum of the year just concluded will continue.

Group Operating Cash Flows

Operating cash flows were $197.42 million, up from $140.24 million in the prior year, reflecting increased profitability, acceptable cash collection processes and increased depreciation.

Net debt is $130.48 million, down from $196.85 million, a reduction of $66.37million.

Gearing ratios improved from 21.7% to 13.5%

During the year net capital expenditure totalled $89.18 million, with expenditure for land and buildings accounting for $30.83 million, plant and equipment of $42.80 million, and information technology of $15.55 million.

It is our expectation that capital expenditure required for the following two years for property development globally will be in the vicinity of $350 million.

Dividend

The Directors have approved a final dividend of 34.0 cents per share fully imputed at the 28% company tax rate, with the books closing on 12 July 2019; payment will be made on 19 July 2019. This takes the full dividend for the year to 56.0 cents per share; a 24.4% increase year on year.

Outlook

We are proud of this financial result, our best ever, particularly as it contains healthy profit improvement across all of our global regions.

Whilst we will bask for a moment, savouring this result, we remain very conscious of the task ahead.

We have again increased salaries for those at the lower end of our pay range in New Zealand and Australia, in addition to the usual annual salary increases. The ongoing investment required to improve and further intensify our network adds increased overheads for the years ahead.

To counter these cost increases, our teams across the world are focused on achieving sales growth, and taking market share. In addition to gaining new customers, when we analyse the trading statistics for our current Top 500 customers, there remains plenty of scope to extend their use of a wider range of our services and across more of our locations.

Aside from increased costs, there is a level of uncertainty in global trade and slowing economies. Whilst not immune to such external effects, we continue to position ourselves to counter the headwinds and look for ongoing growth.

Our improved financial result will again allow us to pay a discretionary bonus to our people who meet the criteria set by the Board of Directors. The profit before tax of $197.07 million equates to a potential bonus of $27.24 million, which is an increase of $6.55 million or 31% on the prior year's payment. It delights us to be able to do so; allowing our people to share in the success of the company.

We are confident of our strategies, and that our commitment to network intensification, alongside high quality logistics services, will provide improving results for the future.

Mainfreight will release its financial results for the first half of the 2020 financial year to the market on 13 November 2019.

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