# Wiseway Group Limited (WWG) WISEWAY

## Wiseway Group Limited Interview

**28 February 2019**

Wiseway Group Limited (ASX:WWG) today reported its first, half year results since listing on 31 October 2018. During the 6 months period to 31 December 2018, the Company experienced strong growth with total revenues of $47.3m, up $6.8m or 17% on the prior comparable period (pcp). This was driven primarily by dry cargo up 16%, transport up 29%, with perishables up 500% and imports up 200% both off a low base. Gross profit of $10.1m, was up $2.8m or 38%, driven by volume improvements and efficiency gains resulting in gross margin of 21.4% an improvement of 330bps on pcp. With continued strong investment in growth and capability, 1H FY2019 EBITDA (pro-forma) was $2.0m.

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## GEOFF RABY (CHAIRMAN)

**As a former Australian ambassador to China and resident of Beijing for the past 13 years, you have witnessed a huge transformation in China over this time. Going forward, what do you see as trends that will benefit Wiseway and its business?**

**Geoff Raby:** I think the biggest trend is the continuing strong rise in per capita income, and many parts of China with very big populations, particularly in the eastern seaboard area, are now at the per capita income levels of developed countries. When I first went to China, per capita income was $3700. It's now $10,000. So it's two and a half times greater in the period of 12 to 13 years, and that's a remarkable growth, and that then manifests itself in strong rising demand for high value added products, health products, fresh foods, clean green products, all of which Australia has a very strong competitive advantage in supplying to the China market, and Wiseway of course is critical to that by transporting those goods cheaply, effectively and swiftly to China.

**The Australia-China relationship is a very good one. However, in recent times, we are seeing signs of potential tensions due to the US trade dispute with Australian coal being delayed at ports. Are these events a sign of further volatility in the Australia-China relationship, or are they business as usual?**

**Geoff Raby:** The Australia-China relationship goes through various phrases, and to answer that, some difficulties over the past 18 months or so, but as the Trade Minister has pointed out in the last couple of days, notwithstanding those difficulties, trade volumes are at record levels. They've continued to grow rapidly, and this really relates back into my first answer, to your first question, and that is the strong growth in incomes in China mean that China needs to continue to import products from Australia, and especially products for the rapidly growing middle classes.

**In recent years, there have been very rapid rise of large online shopping malls websites in China. These websites are rapidly changing the ways Chinese and Australians shop. Given your vast experience in China, how do you see these online sites evolving?**

**Geoff Raby:** Oh, I think they will become even more common and more widely used in China. Already, the penetration of online shopping in China is probably greater than any other country, but when you look at the distribution of online shopping in China, vast areas of the country have minimal penetration, so they are all areas which will be brought into the China-wide network of online shopping.  It suits Chinese very much.  The Chinese live on their mobile phones.  They're doing everything digitally.  It suits the urban populations, which are vast, because moving around cities can be so inconvenient and time consuming, and those trends are just going to be magnified as China grows, its income grows and urbanisation proceeds.

**Wiseway just recently opened an office in Shanghai.  Can you tell us a little about why that is important?**

**Geoff Raby:** Very important on two fronts.  One, it recognises our commitment to the strong growth in China's market and our belief that there are many, many opportunities that we can still capture there, but also, a growing trend of Australians shopping online, buying in China, and so we wish to position ourselves well in China to capture what we're calling the import market.  That is the market importing into Australia, and so it's looking both ways, and that's the unique advantage of us having this office in Shanghai.

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## ROGER TONG (CEO) AND FLORENCE TONG (MD)

**As part of the Wiseway IPO in November 2018 you raised money to invest in the business and continue on your growth trajectory. Could you please provide some details on how you have invested in your business since listing and where you are looking to continue to invest?**

We have invested in people across our business with key hires in the perishables and import businesses as well as support staff in our finance and admin functions. Since listing we have appointed operational managers for each division and put in place very clearly defined divisional reporting. We are very confident these investments have put Wiseway in an even stronger position for growth. We are seeing week on week growth in our import business and the perishables business grew 500% on pcp and this was before some significant regulatory changes on Jan 1 2019 that have assisted with the acceleration in volume since the start of CY 2019. We have also invested in scanning machinery which will become operational in early March 2019. From 1 March 2019, all outbound air cargo to China, and elsewhere, has to be X-ray security scanned. Wiseway has received accreditation as a designated Regulated Air Cargo Agent (RACA).  This will allow Wiseway to conduct their own x-raying of the goods they ship in their premises and also provide this service to other non-accredited businesses. The facilities are set up and we are fully approved to undertake this X-ray service in all our warehouses Australia wide from 1 March 2019. In providing this service we believe there is operating leverage to Wiseway as well as the ability to attract new customers from logistics providers who aren't accredited. Due to the very high security standards and reconfiguring required for our RACA registration it has resulted in us deferring the customs bonded warehouse application in Melbourne. We anticipate the customs warehouse to be approved following an inspection on the next few months. As planned, we will be investing cold chain and bonded customs warehouse in Perth, Adelaide and Brisbane. The IT project for automation and clients portal are also underway.

In addition to these investments, we are also opening the Wiseway NZ warehouse and cold store operation during March and at the same time we continue to look at acquisition opportunities in the New Zealand market

**Milk Powder and nutritional products are a significant part of your business, how did these segments perform in the 1H?**

We see continued growth in this segment driven by ongoing strong demand from the Chinese consumer. Due to regulation changes the growth rates in different channels to the market has varied. With Wiseway being the airfreight logistics provider to China for all of these channels we continue to see overall growth and positive momentum for these products.

**The risk of disruptive Regulation was a major topic at the time of the IPO. Could you please provide an update on the regulatory environment as you see it?**

The key event of the past 6 months has been the continuation of the CBEC policy, which has resulted in less than expected disruption. There has also been an increase in the number of Free Trade Zones in China from 15 Cities in 2018 to 22 Cities from Jan 1 2019. We believe this will provide Wiseway with further growth opportunities in these new zones. Another positive has been the increase in the value limit for Chinese consumers buying from businesses in Australia that has been lifted to RMB5,000 from RMB2,000 per transaction since January 1. The other topical regulation is the requirement that some people who are buying products as ecommerce traders may be required to become registered businesses. We are not seeing any impact from this regulation.

**The Ecommerce businesses in China have a lot of market presence and are growing rapidly, providing Chinese and Australian domiciled consumers with a access to global products. At the time of the IPO you talked about this as an opportunity for you in both export and import airfreight. How is this progressing?**

In Australia the ecommerce channel has historically been dominated by large global incumbent operators and Australia Post. Wiseway has started to take share in this growing market and we continue to invest in people both in China and Australia to take further advantage of this opportunity.

**The China-Australia Free Trade Agreement (ChaFTA), which has facilitated Australian perishable exports entering China to be either duty-free or at preferential rates was the major growth opportunity you highlighted at the time of the IPO. How is this evolving?**

As mentioned earlier, our perishables business grew 500% in the half although off a low base. A number of the new regulations only came in to play on Jan 1 2019 and so there is not a lot of benefit in the 1H 2019 numbers reflecting this positive change to customs regulations. In January, Wiseway airfreighted 200 tonnes of perishable out of our Melbourne facility including stone fruit and cherries sourced in Victoria. These are new customer and a new market for us. To continue to build on this momentum we are expanding our national footprint to provide the Chinese customers improved confidence on year round access to Australian perishable produce. As part of this strategy we are on target to have national cold store warehouses in Brisbane, Perth and Adelaide before the end of FY2019. The dairy segment continues to see strong growth and we are seeing good opportunities in the chilled meat markets. We also believe there are good opportunities in the fresh seafood market going forward.

**Wiseway have 70% of the airfreight market between Australia and mainland China. Are you seeing any changes to Competition or Air Freight capacity?**

We don’t see any material change in the competitive environment for logistics to China. We are opening up new markets and growing these markets leveraging our platform across each division and geography. Chinese carriers are still looking at Australia and New Zealand as new routes because they are limited in their ability to open new routes to Europe and the USA. We are not seeing any restriction on the cargo volumes between Australia and China as more airlines look for cargo only routes.

**This is the first result for Wiseway as a listed company since it listed last October. What do you see as the key achievements in this short period and what can we expect to see in the second half?**

We have continued to deliver growth broadly in line with expectations, with revenue growth broadly in line with expectations. We've expanding our warehousing capacity in our key markets of Sydney and Melbourne. In addition, our infrastructure has been greatly improved at all sites through the implementation of RACA requirements. We have plans to further expand our capabilities for the second half that include adding cold stores and bonded facilities across Brisbane, Perth and Adelaide as well as having opened an office in Shanghai and preparing to commence operations in New Zealand, as discussed earlier. We believe the demand for Wiseway's services is there and we intend to continue to grow our business strongly in the second half. We have put in place the operational structure and infrastructure necessary to accelerate growth in the second half. That, together with our strong relationships with key airlines and customers will enable us to continue to grow the business building on the strong growth in demand that is there. The strategy of developing perishables and imports, with the continued growth of our outbound air freight business, has driven our first half result with overall revenue growth of 17%, and with perishables up 500% and imports up 200%.

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## MARK ZIIRSEN – CFO

### FINANCIALS:

**Wiseway reported, Revenue of $47.3m up 17% on PCP. What were the key drivers of the Revenue in the 1H Result and is this sustainable into the second half?**

**Mark Ziirsen:** The key drivers of the revenue in this result were the ongoing strength in outbound dry cargo air freight revenue up 16% on pcp , domestic transport up 29%, perishables up 500% and imports up 200%. We have seen dry cargo and domestic transport continue to perform well into early part of 2H while perishables and imports growth has accelerated.

**What has driven your EBITDA and Margins for the 1H?**

**Mark Ziirsen:** The EBITDA result for 1H has been impacted by higher than anticipated administration and other operating costs specifically driven by higher investment in costs driving our expansion related activities, such as the costs associated with new hires in the perishables and import business, increased investment in IT and costs associated with being a public company. A number of these costs will not be repeated in the 2H or are not expected at the same level.

**In the Prospectus the forecasts are for Improving Gross Margins to 22.7% and EBITDA margin of 6.2% for the full year 2019. How are you tracking on this and what are the key levers the company will use in the 2H to achieve them?**

**Mark Ziirsen:** We improved our Gross Margin in the 1H to 21.4% vs pcp of 18.1% and are confident about the trend. Due to factors addressed in my previous answer the EBITDA margin for the 1H was lower than expected, however there are a number factors that will assist us in improving the margin in the 2H. Increasing scale in perishables and ongoing growth in dry cargo, local logistics and imports will continue to drive scale benefits and we will see benefits coming through from our investment in RACA.

**Wiseway has a very strong balance sheet with $18.2m of net cash at the reporting date. Does the company have plans for utilising this cash.**

**Mark Ziirsen:** As previously announced we have acquired a strategic property next door to our existing facility in Chipping Norton for $10.75m which we are due to settle on shortly. Funds will be required to fit out and refresh the new facility in the 2H. In addition, we have invested in scanning equipment as well as in enhanced security and access infrastructure at our sites as part of our move to become RACA designated and we are now fully approved ahead of the 1 March implementation date. We anticipate having completed cold storage facilities at our Adelaide, Brisbane and Perth facilities before the end of FY19. There are further investments we are undertaking to drive efficiencies and revenue opportunities in the short and medium term. We continue to monitor acquisition opportunities in Australia and New Zealand and as mentioned we are committed to opening a warehouse and cold store operation in New Zealand in March. We will also continue to add strategically to our fleet, e.g. to support perishables growth.

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