Wiseway Group Limited
ABN 26 624 909 682

Registered office:
39-43 Warren Avenue
BANKSTOWN NSW 2200
T: +612 9790 7888

14 May, 2019

ASX Announcement

Wiseway Group Limited (ASX:WWG)

Trading update

- Downward revision in anticipated FY 2019 pro forma EBITDA, driven by lower than anticipated freight volume growth on back of subdued Chinese economy in H2 FY 2019
- Clear pathway to earnings growth in FY 2020 through leveraging strong platform and recent investments to grow customer base and improve gross margins
- Promising commencement of new growth opportunities in China, New Zealand and Australia
- FY 2019 pro forma EBITDA anticipated to be higher than FY 2018, adding back costs of new growth opportunities
- Revenue growth anticipated to be approximately 15% in FY 2019, with perishables expected to more than double in line with our strategy to capture the next wave of growth

Wiseway Group Limited (**Wiseway**) announced today that it expects pro forma earnings before interest, taxation, depreciation and amortisation (**EBITDA**) for the year ended 30 June 2019 will be approximately $3.0m, as compared with the pro forma forecast of approximately $8.5m in the Company's recent IPO Prospectus.

The earnings revision has primarily been driven as a result of volumes to China, not growing as strongly as had been expected in the second half, following Chinese New Year.

Despite the disappointing revision, Wiseway anticipates an improved performance in the 2020 financial year through:

- Growth from its core Australian outbound dry cargo air freight operations to China, Vietnam and other Asian countries that are expected to continue to grow with perishables growth expected to be significantly higher
- A full year contribution from RACA (scanning services for outbound air freight) following its introduction from March 2019
- Growing earnings anticipated from Wiseway's recently established outbound China and New Zealand operations
- Leveraging its expanded established infrastructure and operational footprint, included bonded warehouse facilities, to help drive the early stage e-commerce and sea freight imports business
- Heightened focus on identifiable margin improvement and operational efficiency opportunities across the businesses

Wiseway's revised pro forma EBITDA outlook, includes expected EBITDA losses of approximately $0.5-$0.6m related to the start-up, in the second half of this financial year, of previously announced growth initiatives including China, New Zealand and expanded operations in Australia (excluding RACA). These initiatives are not expected to be earnings accretive until next year. They have been implemented post the IPO and their costs were not contemplated in Prospectus forecasts. The investment in these growth initiatives is well within expectations and pleasingly revenues have started to flow.

The key drivers of the variance between pro forma EBITDA and pro forma Prospectus EBITDA are as follows.

1. Lower than forecast outbound freight revenues and volumes .

Volumes and revenues for outbound air freight are approximately 60,500 tonnes as at April 2019. The variance is predominantly in outbound dry cargo, with perishables volumes being close to expectations. Average freight revenues per kg have remained consistent with IPO forecast and Wiseway has maintained its position as No.1 Air Freight Forwarder from Australia to China and No. 3 position in overall outbound air freight from Australia to all destinations.

Wiseway's expectations were for strong volumes to persist after the Chinese New Year peak season. However, with economic expansion in China, the key outbound destination for air freight managed by WWG, having slowed, those stronger volumes have not eventuated. The slow-down, is reportedly attributable to efforts by the Chinese government to reduce the country's debt levels and to control risky lending practices. This in turn has affected investment and domestic demand. Current trade tensions between China and the United States have reportedly exacerbated the economic slow-down.

Recent statistics from International Air Transport Association (**IATA**) confirm that the Asia Pacific air freight market is softening in line with outbound air freight volumes currently being recorded by Wiseway (IATA Press Release No 21, 7 May 2019).

Accordingly, Wiseway expects full year outbound air freight volumes in the range 70,000-72,000 tonne consistent with results to date.

2. Lower than forecast gross profit and margins

Lower gross profit from lower revenues have also been impacted by, lower overall gross margins of approximately 20.0% versus a full year forecast of approximately 22.7% in the IPO forecast.

This has been impacted by higher direct cost of sales than forecast in the IPO. In the second half, margins have been affected by lower than expected ULD (aircraft unit loading devices) packaging rates that have been impacted by the introduction of RACA across the business that diverted management attention, as well as operational changes from airlines that have required the introduction of smaller pallets, more suitable for aircraft unit packaging.

The variance in gross margins are expected to improve going forward driven by the positive contribution from RACA as well as higher anticipated rates of ULD packaging with the introduction of new, smaller pallets. Other active steps to improve gross profit margins include fleet management efficiency such as:

- Greater focus on transportation staff rostering to reduce excessive staffing costs during low-activity periods;
- Greater monitoring of and action on transportation fleet fuel consumption to align with freight activity levels; and
- Leveraging of scale to negotiate better terms for service and repair.

3. Operating expenses

Pro forma operating expenses for FY21019, are expected to be in the range of $16-17m, which is higher than IPO forecasts, driven by:

- The investment in new growth initiatives including China, New Zealand and expanded Australia operations (as noted above)
- Increased staff numbers to support the identified growth opportunities
- Higher occupancy costs associated with new and expanded facilities

CASH POSITION

The balance sheet position of the company remains strong. Wiseway anticipates low capital expenditure requirements going forward in order to facilitate its growth strategy with key investments already in place.

Unaudited Net Cash / Debt Position:

$ million	**31 December, 2019**	**30 April, 2019**
Cash	18.2	5.7
Bank debt		(4.0)
Hire purchase (fleet)	(6.6)	(6.1)
Net cash / debt	11.6	(4.4)
Movement		(16.0)

Major cash movements since 31 December, 2019 includes purchase of Chipping Norton property of approximately $11.0m (including transaction costs), RACA capital works of approximately $3.0m and IPO costs of approximately $1.5m. Finance has been approved for the RACA capital works with funds expected by end of May 2019.

OUTLOOK

Despite a more challenging macro environment than was anticipated at the time of the IPO Prospectus, and its associated impacts on Wiseway's outbound freight volumes, the Company is taking active steps to improve operating margins through efficiency as well as from RACA, which is in its third month and is already contributing positively and consistent with expectations.

Furthermore, the Company's recent investments in growth opportunities are already showing promising signs. Although in early stages, the new Chinese freight venture in Shanghai and the expanded presence in New Zealand have both started well, albeit that the New Zealand operation is still pre-revenue.

Growth in outbound perishables freight is trending in line with IPO Prospectus forecasts and Wiseway is actively pursuing promising opportunities in this sector as well as seeking to leverage increased warehouse presence in Perth and Adelaide.

The Company remains very confident in the outlook for the business and its strategic expansion into the Chinese outbound air freight market to Australia and New Zealand. Leveraging our strong infrastructure and capabilities, Wiseway expects an improvement in earnings in FY2020, driven by:

- a renewed focus on operating margins across the business;
- the growing benefits from our RACA operation for outbound freight as well as continued enhancement of our ULD capabilities;
- strong inbound business growth associated with our customs bonded facilities, custom clearance services and domestic transportation;
- pursuit of new customer acquisition opportunities across air freight and sea freight sectors;
- growth in sales from our China outbound business;
- growing revenues from New Zealand business including cross-Tasman air and sea freight;
- leveraging current facilities that can accommodate strong growth without significant further investment;
- further maximising our established integrated freight services network across Australia, New Zealand and China; and
- pursuit of further airline partnership agreements.

Wiseway's growing warehouse and logistics foot-print, targeted growth opportunities, and increasing focus on margin control in the current macro environment, places it in a strong position for sustainable and value-accretive medium and long-term growth.

As a result of the strategic, operational and market changes anticipated in the second half of FY 2019 and as described above, Wiseway anticipates FY 2019 full year revenues in the range $93m-$94m and pro forma EBITDA of approximately $3.0m. This update on the Company's FY 2019 outlook supersedes any and all previous forward-looking statements and forecast provided by the Company.

For further information, investors please contact:

Roger Tong
Executive Director and CEO
E: roger@wiseway.com.au

Mark Ziirsen
Group CFO and Company Secretary
T: +61 2 9790 7888

About Wiseway Group Limited

Wiseway (ASX:WWG) is a leading provider of integrated logistics in Australia with a nation-wide network of strategically located warehouses and facilities and with a large modern fleet of trucks and delivery vehicles. The Company was established in 2005 and listed on ASX in October, 2018. Wiseway has grown to become one of the top three outbound air freight logistics providers in Australia with a specialist focus on Australia and China trade. Wiseway's focus is on cross-border logistics including air freight, sea freight, import services, domestic transportation, warehousing and customs clearance services, to a large customer base of domestic and international customers across its two main segments, general cargo and perishable cargo.

Website: www.wiseway.com.au