HY20 RESULTS PRESENTATION

24 February 2020 NZX: FRE

Freightways

AGENDA

1. **HIGHLIGHTS**
2. Operating performance
3. Interim dividend
4. Business strategy
5. Outlook
6. Conclusion

1. HIGHLIGHTS

EXPRESS PACKAGE & BUSINESS MAIL

Express Package

Business Mail

- After suffering a decline in organic volume through much of 2019, due to lower same-customer trading, December showed signs of that decline abating.
- Pricing for Effort (PFE) delivered an average of $0.66 per item by December, up from $0.55 at the end of October.
- Despite needing to match cheaper competitor pricing in the letters business, DX Mail successfully retained its customers through providing quality and timely mail services.

1. HIGHLIGHTS

Information Management

Secure Destruction

INFORMATION MANAGEMENT & SECURE DESTRUCTION

- Poor performance in a number of smaller service lines and the delayed commencement of digitisation contracts proved a drag on 1st half year Australian earnings. A number of initiatives are in place to address the performance of these service lines during the 2nd half of FY20.
- Revenue growth in the Australian records storage business of 10% for the half year.
- A major data digitisation contract was secured, which will commence in Q3 and continue through most of calendar 2020.
- 14% revenue growth in the SD & medical waste business in Australia
- A decline in SD paper pricing of approximately $1.5m in the half year. The earnings impact of the decline in paper pricing was mitigated to some extent by higher paper volumes than the prior comparative period (pcp) and lower processing costs.

1. HIGHLIGHTS

FINANCIAL HIGHLIGHTS

		HY19				HY20				Change	
		GAAP	IFRS16 lease adj.	Excl. leasing		GAAP	IFRS16 lease adj.	Excl. leasing		GAAP	Excl. leasing
	Note	$M	$M	$M		$M	$M	$M		%	%
Revenue		314.8	-	314.8		318.9	-	318.9		1.3	1.3
EBITA, before non-recurring items	i.	50.7	-	50.7		50.1	(2.4)	47.7		(1.2)	(5.9)
Non-recurring items		1.4	-	1.4		-	-	-		(100.0)	(100.0)
EBITA	ii.	52.1	-	52.1		50.1	(2.4)	47.7		(3.8)	(8.4)
NPAT, before non-recurring items	iii.	32.0	-	32.0		29.2	1.1	30.3		(8.7)	(5.3)
Non-recurring items after tax		1.4	-	1.4		-	-	-		(100.0)	(100.0)
NPAT	iv	33.4	-	33.4		29.2	1.1	30.3		(12.6)	(9.3)
Basic EPS (cents) (before non-recurring items)		20.6		20.6		18.8		19.5		(8.7)	(5.3)

GAAP – Generally Accepted Accounting Principles (IFRS-compliant)

Notes:
- Operating profit before interest, tax and amortisation, before non-recurring items.
- Operating profit before interest, tax and amortisation.
- Net profit after tax (NPAT), before non-recurring items.
- Profit for the half year attributable to shareholders.

1. HIGHLIGHTS

Adjusted Items

2020 – Lease accounting

The new NZ IFRS 16 Leases accounting standard became mandatory for Freightways from 1 July 2019. The pcp results are not required to be restated in the first year of adopting NZ IFRS 16 and accordingly, the Directors believe that providing commentary excluding the impact of NZ IFRS 16 provides a better comparison to the pcp.

2019 – Non-recurring item

The non-recurring benefit before tax totalling $1.4 million (no tax applicable) in 2018 was in respect of the gain arising during that half year from the progressive recording of the replacement of earthquake-related damaged racking funded by insurance proceeds. A gain on the racking replacement arose because the overall insurance proceeds for new racking exceeded the written down book value of the structurally-compromised racking written-off.

1. HIGHLIGHTS

REVENUE SEGMENTATION

	Dec-19 $M	Dec-18 $M	Change %
Express Package	209.4	204.5	2.4
Postal	27.2	28.2	(3.4)
Storage & Handling	31.2	31.7	(1.6)
Destruction Activities	31.9	30.0	6.1
Other	19.2	20.4	(5.9)
Total Revenue	318.9	314.8	1.3

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2. OPERATING PERFORMANCE - DIVISIONAL

HY20 EXPRESS PACKAGE & BUSINESS MAIL

Express Package

Business Mail

	HY20 $M	HY19 $M	Change %
OPERATING REVENUE	237.6	233.5	1.8
EBITDA	43.4	42.4	2.4
EBITA	39.1	38.6	1.1
EBITA MARGIN	16.4%	16.5%	

* EBITDA, EBITA and EBITA margin represent the operating results of the division, exclusive of the impact of NZ IFRS 16

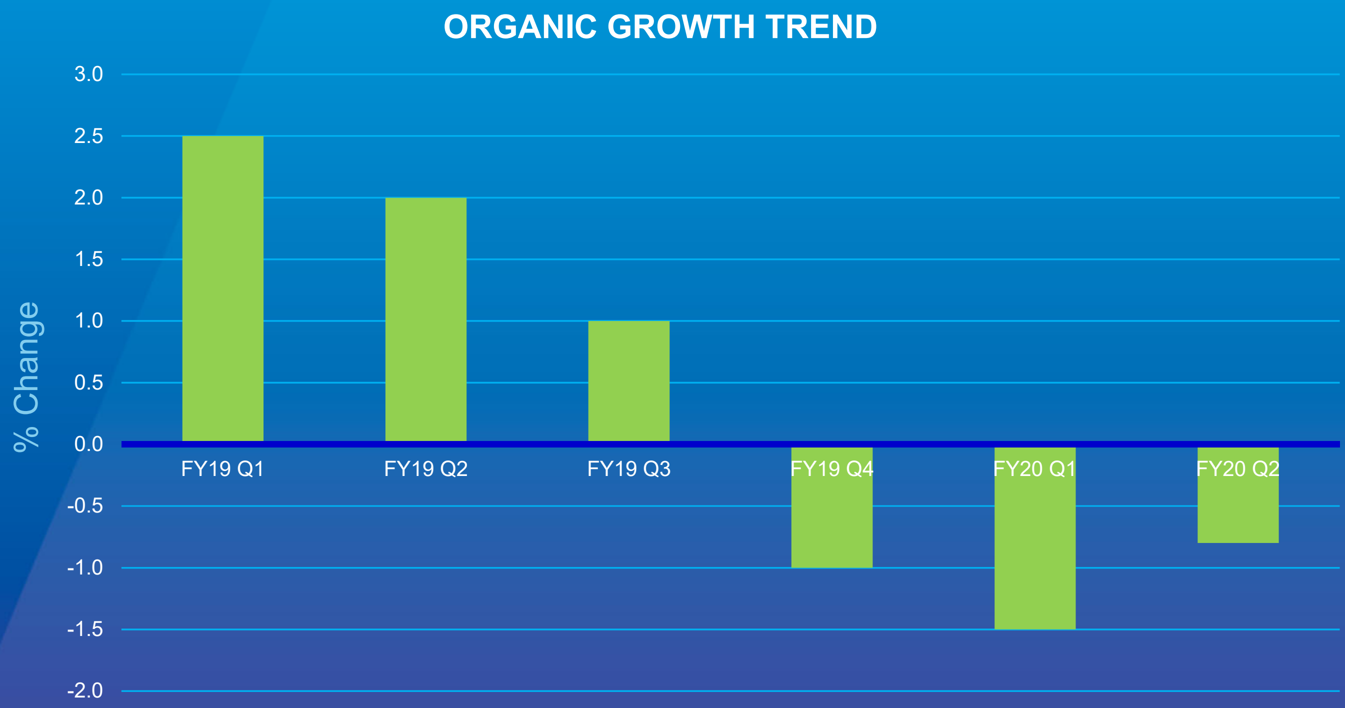
2. OPERATING PERFORMANCE - DIVISIONAL

EXPRESS PACKAGE

Express Package

Activity levels:

- Revenue growth on the pcp of 1.3% in Q1 increased to 2.1% in Q2.
- Q2 had organic decline of 0.8%



Freightways

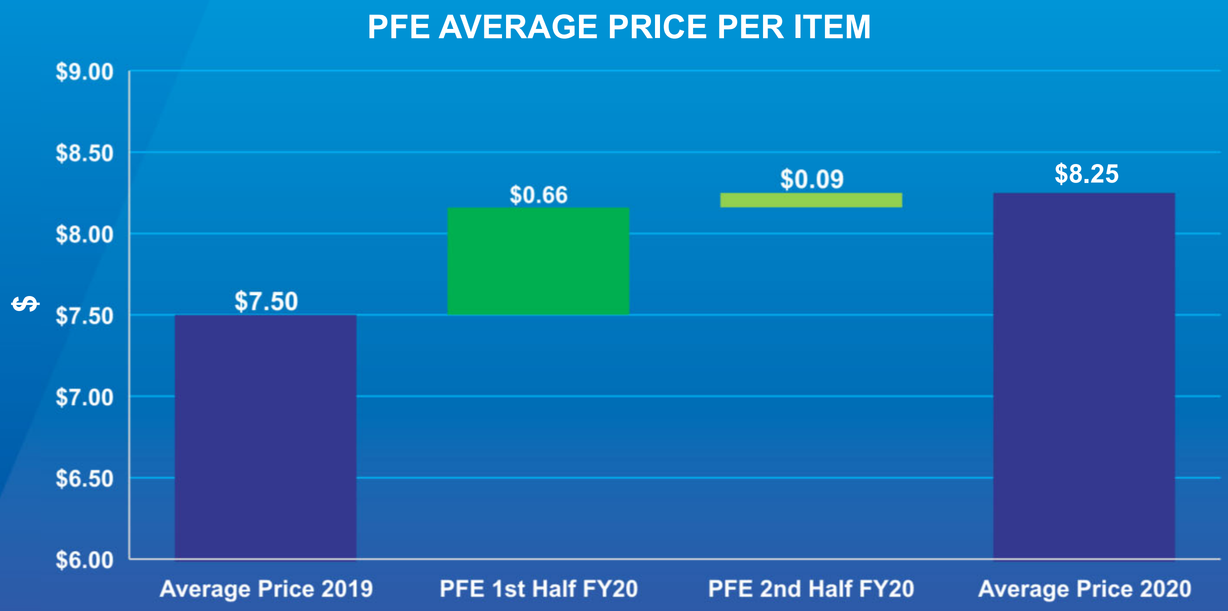
2. OPERATING PERFORMANCE - DIVISIONAL

EXPRESS PACKAGE

Express Package

Pricing for Effort:

- By December, average PFE revenue reached $0.66 per item, up from $0.55 at the end of October. Target remains $0.75
- December saw a peak in the number and proportion of residential items travelling through the network.
- December residential on-time delivery performance levels measured at 93%, 1% higher than our main competitor.



2. OPERATING PERFORMANCE - DIVISIONAL

BUSINESS MAIL

Business Mail

- Despite needing to match cheaper competitor pricing for bulk mail, DX Mail successfully retained its customers through providing quality and timely mail services.
- The level of discounting has had an adverse effect on earnings in this division as DX discounted some large mail contracts to retain business.
- The NZ Commerce Commission, for the time being, will not be pursuing an investigation into NZ Post’s targeted discounted zonal pricing, although we remain in dialogue with them.

2. OPERATING PERFORMANCE - DIVISIONAL

HY20 INFORMATION MANAGEMENT & SECURE DESTRUCTION

Information Management

Secure Destruction

	HY20 $M	HY19 $M	Change %
OPERATING REVENUE	82.3	82.2	0.1
EBITDA	14.4	17.6	(18.4)
EBITA	11.0	14.7	(24.8)
EBITA MARGIN	13.4%	17.9%	

* EBITDA, EBITA and EBITA margin represent the operating results of the division, exclusive of any non-recurring items and the impact of NZ IFRS 16

2. OPERATING PERFORMANCE - DIVISIONAL

INFORMATION MANAGEMENT & SECURE DESTRUCTION

Information Management

Secure Destruction

DIGITISATION
-$0.6m Revenue

AU RECORDS
+$0.5m Revenue

PRINT & COPY
-$1.3m Revenue

PAPER PRICNG
-$1.5m Revenue

DESTRUCTION & MEDICAL
+$3.1m Revenue

2. OPERATING PERFORMANCE - DIVISIONAL

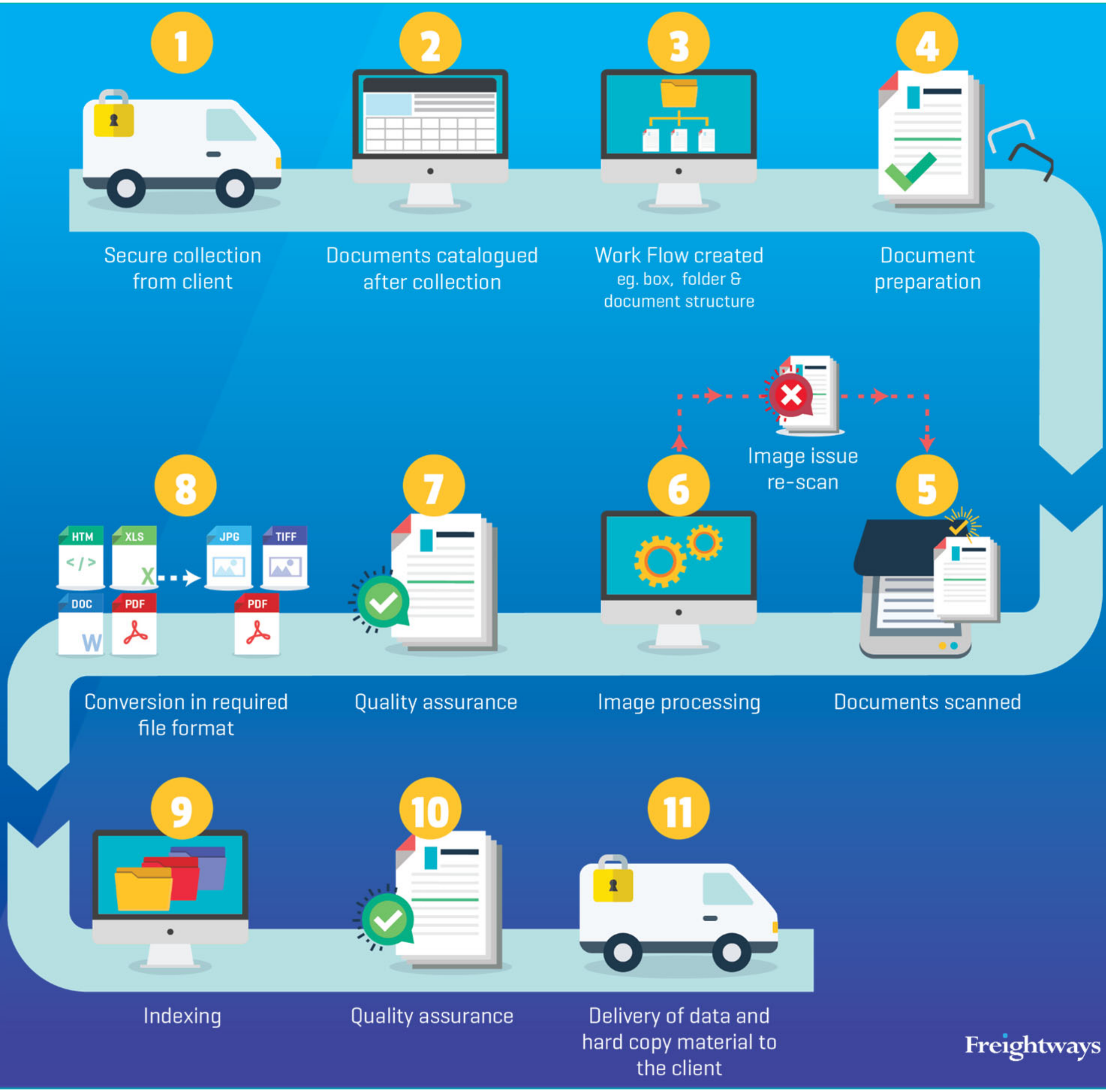
Information Management

Secure Destruction

INFORMATION MANAGEMENT & SECURE DESTRUCTION

- Digitisation: Work commenced on a major digitisation contract in late-January 2020 (later than originally anticipated) and will continue through calendar 2020. The work leverages TIMG’s secure logistics and storage capability, as well as its data transformation experience. It will engage up to 250 staff at its peak.

TIMG WORKFLOW DIAGRAM



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2. OPERATING PERFORMANCE - DIVISIONAL

BALANCE SHEET KEY POINTS

- Total Assets have increased since FY19 by $217m, due to the impact of NZ IFRS 16 ($195m), acquisitions ($14m) and higher trade and other receivables due to increased activity ($14m) contributing to higher recorded assets
- Total Liabilities have increased since FY19 by $228m from recognising lease liabilities upon the adoption of NZ IFRS 16 ($220m)
- Net borrowings have increased by $24m since FY19, mainly to fund acquisitions and capital expenditure
- No significant changes in issued capital during the half year

2. OPERATING PERFORMANCE - DIVISIONAL

CASH FLOW KEY POINTS

- Underlying cash generated from operations (i.e. before reclassifying $15m of lease payments into interest and principal separately in the cash flow statement to comply with NZ IFRS 16) of $46m was $5m below the PCP, reflecting timing of receipts from customers and payments to suppliers. Net cash inflows from operating activities (i.e. after deducting interest and tax payments) were $7m below the PCP at $25m, also excluding the NZ IFRS 16 impact)

- Cash outflows from investing activities were up $6m on the PCP, due predominantly to $4m more in acquisition payments compared to the PCP

- Excluding the $11m of operating lease principal payments under NZ IFRS 16, there was a $4m decrease in cash outflows from financing activities compared to the PCP reflecting the drawdown of $13m of debt this year compared to $8m drawn down in the PCP

2. OPERATING PERFORMANCE - DIVISIONAL

CAPITAL EXPENDITURE & DEPRECIATION

	2020 Half Year Actual $M	2020 Full Year Forecast $M
Capital Expenditure	12	25 - 26
Depreciation	8	18

* Depreciation numbers above exclude the impact of NZ IFRS 16

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Freightways

INTERIM DIVIDEND

- INTERIM DIVIDEND: **15 cps**
- IMPUTATION CREDITS: **5.8333 cps (fully imputed at 28% tax rate)**
- SUPPLEMENTARY DIVIDEND: **2.6471 cps**
- RECORD DATE: **13 March 2020**
- PAYMENT DATE: **1 April 2020**
- THE DRP WILL BE OFFERED: **Also, FRE intends to fully-underwrite the DRP in respect of this dividend**

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4. BUSINESS STRATEGY

EXPRESS PACKAGE

Express Package

1. Pricing for Effort (PFE): The EP brands will continue to work at increasing average pricing per item through the remainder of FY20 toward our goal of $0.75 per item. The additional courier income generated from this price increase has been meaningful for contractors who work residential areas and has assisted in delivering a higher level of productivity and on-time delivery.

2. Customer Visibility and Data Analytics: A number of new customer and business-facing IT projects are delivering better visibility for parcels travelling through the network and more accurate information on utilisation, freight-mix and margins by customer, route and brand. There are further customer-facing enhancements planned for the remainder of FY20 and for FY21 which will streamline the experience for customers and enable new services to be offered to the market

4. BUSINESS STRATEGY

EXPRESS PACKAGE

Express Package

3. New Service offerings: In the 2nd half of FY20, the EP division will commence a same day delivery service for Auckland, which will be positioned between cheaper hub & spoke services and the more expensive point-to-point deliveries, to provide customers with guaranteed same-day delivery. These services will be Priced for Effort to ensure that both contractors and the Company benefit from the initiative.

4. BUSINESS STRATEGY

INFORMATION MANAGEMENT

Information Management

1. Facility Utilisation: The IM division will continue to target profitable records storage growth, particularly in facilities where there is low utilisation.

2. Digital Services Growth: TIMG has been successful to date in winning significant digitisation contract work and will continue to target scale opportunities in the Australian market for digitisation and e-discovery services. These projects require a unique combination of security, logistics and data management skills, for which TIMG is uniquely positioned.

4. BUSINESS STRATEGY

SECURE DESTRUCTION

Secure Destruction

1. Additional investment was made in teams, fleets, facilities and acquisitions in calendar 2019 to support the growth of Shred-X's document destruction, medical waste and product processing capabilities

2. It is planned to continue the management focus on revenue streams in related markets that complement the physical footprint established by Shred-X in the secure destruction market

3. These related markets present an opportunity to apply Shred-X's consistent and high-quality national service standards and sales methodologies to grow through a number of niches, including eDestruction, medical waste, product destruction and other high value recycling.

4. BUSINESS STRATEGY

ACQUISITIONS & ALLIANCES

1. Freightways is pleased to announce it completed a number of small acquisitions during the half year, as discussed in the Q1 trading update. Additionally there was a subsequent acquisition in Q2 of a small Medical Waste business in NSW which will provide additional processing capacity and broaden the footprint of the business in that state.

2. The application for Overseas Investment Office (OIO) approval for the acquisition of Big Chill Distribution Limited is in progress. A further announcement will be made upon receiving OIO approval, which is still expected to be around the start of Q4 FY20.

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OUTLOOK

- In EP the decline in organic growth showed signs of abating in December, which provides some confidence that the 2nd half of FY20 may return modest organic growth.
- We have yet to see any material impact from Covid-19. If in future it has a broader impact on the economies in which we operate, it could ultimately impact Freightways, and this will be monitored closely.
- First half result for IM was disappointing, however we expect a turnaround in the 2nd half as we take action on the poorer performing service lines and the major digitisation contract work commences.
- Within SD & Medical Waste, the division will continue to leverage the footprint to provide medical waste and product destruction services to both new and existing customers. Paper pricing is not expected to recover materially in the short term.
- Management will be focused on integrating the Big Chill business into Freightways in 2020, assuming OIO approval is granted.

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6. **CONCLUSION**

CONCLUSION

- Notwithstanding the two macro issues of NZ domestic growth and its impact on EP volumes and lower international paper pricing, Freightways has made significant advances in improving returns from residential courier delivery work and at the same time improving those contractors' incomes, productivity and thereby reducing emissions.

- Freightways has also built a strong platform in Australia for large-scale digitisation work and has a fast-growing, medical waste business to complement the nationwide secure destruction footprint established over the previous decade.

- The company is well positioned with its impending acquisition of Big Chill to leverage another niche of the New Zealand express freight market.

- We are committed to continuous improvements within our portfolio of businesses, as well as focusing on long-term sustainability for the benefit of Freightways' people, customers, shareholders and the environments in which it operates.

CONCLUSION

- The Directors acknowledge the outstanding work and ongoing dedication of the Freightways teams of people throughout New Zealand and Australia.

THANK YOU

Freightways

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Freightways