



## MAINFREIGHT LIMITED

Mainfreight Lane | off Saleyards Road | Otahuhu 1062 | New Zealand

Tel +64 9 259 5500 | Fax +64 9 270 7400

PO Box 14-038 | Panmure | Auckland 1741 | New Zealand

## MAINFREIGHT LIMITED

### Financial result for the six months ended 30 September 2019 (Unaudited)

#### Commentary

Mainfreight is pleased to announce our half year financial results to 30 September 2019; a satisfactory improvement on the prior period.

These financial results are our first presented under the new IFRS 16 Leases standard, which took effect for our accounting periods commencing from 1 April 2019. For the purpose of providing clarity when comparing current financial performance to the first six months of the prior year, we have provided figures for the current period with and without applying IFRS 16, in our financial statements and in this commentary.

#### **Without IFRS 16 (“apples with apples”)**

Revenue	\$1.500 billion	Up \$69.47 million or 4.9%
EBITDA*	\$119.11 million	Up \$10.77 million or 9.9%
Net profit	\$62.21 million	Up \$6.51 million or 11.7%

Adjusted for foreign exchange impact, revenue is up 4.3%, EBITDA up 9.7%, and net profit (before abnormals) is up 10.8%. There are no abnormal costs included in this half-year’s result.

#### **Under IFRS 16 (“apples with oranges”)**

Revenue	\$1.500 billion	Up \$69.47 million or 4.9%
EBITDA	\$176.46 million	Up \$68.11 million or 62.9%
Net profit	\$59.13 million	Up \$3.43 million or 6.2%

\* EBITDA: Earnings before net interest expense, tax, depreciation, amortisation, abnormal items, royalties, share based payment expense, minority interest and associates

IFRS 16 introduces a single lessee accounting model, requiring Mainfreight as a lessee to recognise assets and liabilities for all leases with a term of more than 12 months. As a lessee, we are required to recognise a right-of-use asset representing our right to use the underlying leased asset, and a lease liability representing our obligation to make lease payments.

The impact on profit before tax for the half year is a decrease of \$4.32 million (net profit decrease of \$3.08 million), but an increase in EBITDA of \$57.34 million. Total assets increased by \$587.59 million to \$2.203 billion.

This is a satisfactory result, reflecting our global presence. Continuing profit improvement from Europe and the Americas has assisted overall performance, as we continue to improve margins and services in both regions.

Our New Zealand and Australian operations have both had to contend with slowing economic conditions and increased overhead costs. In Asia, our freight revenues decreased as a result of the trade tariffs on the Asia/USA trade lanes and the disruptions being experienced in Hong Kong, while our overhead costs increased with our network expansion to Japan and Malaysia.

**Divisional Performance** (EBITDA shown pre-IFRS 16; figures in local currencies)

**New Zealand (NZ\$)**

Revenue	\$362.57 million	Up \$19.45 million or 5.7%
EBITDA	\$46.78 million	Up \$1.35 million or 3.0%

Whilst overall results remain strong in New Zealand when compared to the prior year, we have experienced a slowing in economic conditions particularly affecting domestic Transport growth. Nevertheless we continue to increase market share across all three products (Transport, Warehousing and Air & Ocean).

In our **Transport** business, the lower levels of sales growth and higher overhead costs (increased salaries for those at the lower end of our pay range), have kept profit growth below our expectations.

Our **Warehousing** business continues to attract new customers, with satisfactory revenue and profit growth in the half year.

**Air & Ocean** operations achieved revenue and profit growth across both imports and exports, and likewise in both sea and air freight modes.

Strong pre-Christmas freight volumes are evident across the business heading into the second half, and our expectations are for improving results through to year end.

### **Australia (AU\$)**

Revenue	AU\$360.42 million	Up AU\$18.72 million or 5.5%
EBITDA	AU\$22.62 million	Up AU\$0.11 million or 0.5%

A disappointing profit result from our Australian business, primarily in our domestic Transport operations. Our Warehousing and Air & Ocean businesses both achieved satisfactory revenue and profit growth.

In our **Transport** business, revenue growth stalled at 2% as slowing economic conditions saw reduced tonnage from our established customers. Whilst new business continues to be won, it has not offset this down-trading during the first half. Increases in our overhead cost structure, primarily labour costs, saw EBITDA decline on the prior period.

In our **Warehousing** business, new customer gains lifted warehouse utilisation with satisfactory profit improvements. Construction has commenced on our second warehouse site in Epping, Melbourne.

Our **Air & Ocean** operations achieved better gross margins and saw export volumes in both sea and air freight improve. Continuing momentum in the growth of perishable air freight assisted.

While it has been a disappointing first half for our Australian business, pre-Christmas volumes have seen weekly results further improve into the second half. We celebrated our 30<sup>th</sup> year in Australia earlier this month.

### **Asia (US\$)**

Revenue	US\$35.99 million	Down US\$(4.34) million or (10.8)%
EBITDA	US\$2.79 million	Down US\$(0.38) million or (11.9)%

The Asian operations have seen freight volumes decrease across our major trading lane, China to USA, with import tariffs having a greater effect than in the same period last year (tariffs took effect early July 2018), but also as a result of the Hong Kong riots particularly affecting confidence for air freight services.

In response, our team has focused on developing a greater diversity of markets, to offset USA trade. This includes more intra-Asia trade and, of course, increasing market share to and from our European locations.

Our entry into the Japanese and Malaysian markets has been satisfactory to date. We expect to open our first branch in South Korea before 31 March 2020.

### **Europe (Euro €)**

Revenue	EU€193.77 million	Up EU€11.44 million or 6.3%
EBITDA	EU€13.90 million	Up EU€3.49 million or 33.6%

A healthier result from our European operations, as we continue to gain market share and improve business margins.

Whilst our **Transport** business has seen some down-trading from established customers, market share gains have offset this, and much-improved efficiencies have assisted gross margin increases.

Our **Warehousing** operations have absorbed the costs of two new warehouses in The Netherlands (Zaltbommel and Born), improving revenue growth and profitability. Significant effort is being applied to reducing casual labour costs and increasing dedicated full-time team members, providing stability and improved quality and efficiencies.

The **Air & Ocean** division has seen a decrease in air freight volume, similar to most of our international divisions, but has seen gross margins improve as our focus on developing LCL freight consolidations provides better returns. It is our intention to expand our European Air & Ocean network into Spain, with our Barcelona branch expected to open in January 2020.

We have an additional 30 team members who have taken on sales responsibilities in these past six months and expect to see increased revenue contributions accordingly.

Post this half year result, revenue and profit performance from our Europe business has continued at similar levels, and our expectations are for ongoing improvement.

### **The Americas (US\$)**

Revenue	US\$244.04 million	Up US\$6.89 million or 2.9%
EBITDA	US\$13.44 million	Up US\$2.45 million or 22.3%

An improved performance from our American businesses; sales revenue growth occurred across all three Mainfreight divisions, with just **CaroTrans** (our NVOCC wholesale sea freight business) seeing a reduction in export-related freight volume.

In our **Transport** operations, both sales revenues and profitability improved. Better freight management has seen gross margins increase with better utilisation of dedicated Mainfreight road line-haul.

While **Air & Ocean** has seen increases in margin and revenue, this has been dampened by reduced volumes as imports from China declined under tariff restrictions, and with a general downturn in world air freight volumes.

Our **Warehousing** operations continue to see good demand for high quality warehousing services and facilities, necessitating the opening of two new warehouses in California, and better utilisation of our sites in the other four States where we are located.

In **CaroTrans**, whilst revenues declined on the back of reduced LCL and FCL freight shipments, gross margins improved resulting in increased EBITDA in the half year.

While these results are pleasing, our freight volumes within the USA still require considerable growth, particularly in customer verticals that contribute better every day volumes.

### **Group Operating Cash Flows**

Operating cash flows were \$73.96 million, up from \$71.00 million in the prior year, reflecting increased profitability and acceptable cash collection.

Net debt is \$187.73 million, up from \$130.48 million at 31 March 2019, an increase of \$57.25 million.

Gearing ratios increased from 13.5% at 31 March 2019 to 17.5%

During the half year, net capital expenditure totalled \$90.53 million, with expenditure for land and buildings accounting for \$72.44 million, plant and equipment of \$10.98 million, and information technology of \$7.11 million.

Our expectations are for capital expenditure for the full financial year ending 31 March 2020 to be in the range of \$170 million, with a further \$190 million estimated for capital expenditure in the 2021 financial year.

Land and building projects across the New Zealand and Australian networks are progressing, albeit more slowly than our original expectations. Construction schedules in Tauranga and Melbourne are on target, however other large projects in both countries are taking longer than anticipated.

### **Dividend**

The Directors have approved an interim dividend of 25.0 cents per share fully imputed at the 28% company tax rate, with the books closing on 6 December 2019; payment will be made on 13 December 2019. This is a 13.6% increase on the prior year's interim dividend.

## **Outlook**

A satisfactory half year result as a consequence of our global presence providing growth and increased profitability across various markets, all with differing economic climates and market share opportunities.

Our Asian business is not likely to finish the current year better than the year prior, as we both expand our network in the region and deal with market volatility brought about by national unrest (Hong Kong), US tariff disputes, and a slowing China economy.

It is our expectation that we will see increasing profitability and growth in our European and American markets. Our traditional markets of New Zealand and Australia, whilst flat by our standards in these first six months, are expected to improve further through to year end, culminating in improved returns over the year prior.

While our core Australasian region is experiencing slowing economic conditions, other parts of the network continue to find growth and increased profitability. This period to 30 September 2019 has demonstrated the benefits of our global network strategy, and we expect an improved full year result accordingly.

Mainfreight will release its full year results for the 2020 financial year to the market on 27 May 2020.

*For further information, please contact Don Braid, Group Managing Director, telephone +64 9 259 5503, +64 274 961 637 or email [don@mainfreight.com](mailto:don@mainfreight.com).*