Freightways

Results for announcement to the market		
Name of issuer	FREIGHTWAYS LIMITED	
Reporting Period	12 months to 30 June 2020	
Previous Reporting Period	12 months to 30 June 2019	
Currency	New Zealand dollars	
	Amount (000s)	**Percentage change**
Revenue from continuing operations	$630,940	3%
Total Revenue	$630,940	3%
Net profit/(loss) from continuing operations	$47,375	(25%)
Total net profit/(loss)	$47,375	(25%)
Final Dividend		
Amount per Quoted Equity Security	The Directors have decided not to declare a final dividend for FY20 given the uncertainty in both the NZ and Australian markets due to COVID-19.	
Imputed amount per Quoted Equity Security	Not applicable	
Record Date	Not applicable	
Dividend Payment Date	Not applicable	
	Current period	**Prior comparable period**
Net tangible assets per Quoted Equity Security	($1.01)	($0.47)
A brief explanation of any of the figures above necessary to enable the figures to be understood	Refer to the section "Full Year Review" for commentary.	
Authority for this announcement		
Name of person authorised to make this announcement	Stephan Deschamps	
Contact person for this announcement	Stephan Deschamps	
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Date of release through MAP	24/08/2020	

Audited financial statements accompany this announcement.

FULL YEAR REVIEW

From the Chairman and Chief Executive Officer

In the last quarter of this financial year, every one of Freightways' business units was called upon to provide essential services during the COVID-19 lockdowns in New Zealand and Australia.

The challenges were many and varied: from the delivery of food and personal protective equipment (PPE), the retrieval of hospital files held in offsite storage and the establishment of new trans-Tasman airfreight services to keep export markets open, to the collection of medical waste from newly formed quarantine facilities. Freightways' brands helped to pick up, process and deliver over 20 million essential items for our customers.

The response by our teams across all businesses was outstanding. We would like to acknowledge the extraordinary efforts of all of our staff and contractors in delivering for our customers during the year, and particularly in the challenging last few months - where COVID-19 has changed the shape of the environments in which we operate. There have been so many heart-warming stories of the efforts our people made to connect essential goods to their intended recipients, on time and in full.

Just days into level 4 lockdown in New Zealand the company also completed the acquisition of Big Chill Distribution Limited (Big Chill) after receiving approval from the Overseas Investment Office (OIO). The forced timing of the transaction along with the dramatic drop in volume in the initial week of level 4 lockdown trading, resulted in us renegotiating the terms of the deal to partly settle the transaction in shares, thus preserving cash.

The business has demonstrated strong resilience. Our financial results in FY20 are naturally affected by the lockdowns in both New Zealand and Australia. Pleasingly, following the initial drop in activity during lockdowns, our position has steadily improved through the lifting of restrictions, although the recovery in Australia has now been affected by the situation in Victoria and New Zealand has experienced another lockdown, albeit not to the extent of the level 4 lockdown which restricted our customer activity to only essential services.

The current environment remains highly uncertain, with a resurgence of COVID-19 across the globe increasing the risk of further trading and travel restrictions. The board feels the prudent course of action is to not declare a final dividend for FY20 given the uncertainty in both the NZ and Australian markets. While recent trading has been strong in NZ, there has been a recent return to level 3 lockdown in Auckland and level 2 nationally along with a continued severe lockdown in Victoria. The consensus is the full economic impact has yet to be felt in either country at this stage. Notwithstanding our current performance, this decision also better positions our balance sheet for an uncertain wider economic impact and preserves headroom for potential growth opportunities which may emerge from the current environment. It is also important to acknowledge that many of our team, including management and directors, took pay cuts through the quarter and that some of our businesses accessed the government wage subsidy to ensure that we kept our people in work. For all of these reasons we feel not declaring a final dividend for FY20 is a one-off decision and is the right thing to do. At this point, we do envisage a resumption of dividends in the current financial year (FY21), subject to a continuation of our current trading conditions.

Getting through the work

COVID-19 drove changes in consumer behaviour and, following the initial impact of lockdowns in NZ, the courier industry has seen a surge in the number of parcels. While some of our competitors struggled to cope with that flow, our people responded to the change in volumes and got on with making it work. The teamwork amongst the businesses was inspiring. Our people volunteered for roles as freight sorters and couriers to get the job done.

We had to react quickly and decisively because level 4 lockdown had such a deep and immediate effect on us. Express Package volumes initially dropped by 65% while Information Management activity in New Zealand ground to a halt, leaving us with just storage revenue. In Australia, the decrease in Information Management activity was around 25% but while the impact has been shallower, it has also been more prolonged than in New Zealand and continues into FY21 particularly in Victoria and NSW.

We quickly adapted to this dramatic reduction in activity, cutting our discretionary costs, reducing our wage and salary costs by rostering for lower volumes, taking leave without pay and through most of our team working less hours to reduce our overall labour costs. In line with lower volumes, our businesses moved quickly to right size operations by removing linehaul runs, flights and other variable costs to minimise the impact on profitability. In addition, Directors and senior executives took a 20% cut in fees and fixed salaries in the quarter.

We applied for the New Zealand Government Wage Subsidy for those businesses that incurred a greater-than-30% decline in revenue. This enabled us to continue to retain our staff in those businesses. A number of our businesses did not meet this threshold and either did not apply or promptly returned the subsidy when that became clear.

Our unfaltering entrepreneurial spirit

During this period of time, we managed to do three things that perfectly capture the entrepreneurial spirit that makes Freightways successful.

We commenced new services and quickly grew existing ones, such as trans-Tasman airfreight charters through our aviation JV with Airwork, rapidly expanded medical waste collections through Med-X in Australia in response to the need to dispose of PPE, and a new premium same-day guaranteed delivery service across Auckland with NOW Couriers.

Secondly, we maintained our service levels through the spikes in B2C (home delivery) volumes which occurred during level 3 lockdown.

Finally, while we were in lockdown (4 days in, in fact) we completed the acquisition of Big Chill, settling the transaction with a combination of cash and shares.

Business Unit performance

Each line of business experienced a range of impacts through the year. The highlights are listed below along with our strategic direction in the near term.

Express Package

- Steady increases in organic volume up until March 25th (when Level 4 lockdown began in New Zealand) had generated encouraging revenue and margin gains in that month;
- As New Zealand moved through lockdown levels 4 to 2, we experienced growth in the proportion of B2C freight from the combination of supporting our customers who were changing their models to enable B2C for their essential items as well as increasing charitable deliveries (performed at cost). By June, this B2C proportion had moderated from around half of all deliveries back to 24%, still 4% higher than pre- COVID-19;
- This has accelerated a trend that was already expected before the epidemic, and for which we had been preparing through our Pricing For Effort (PFE) programme. B2C deliveries attract lower margins than B2B, but this situation is improving and we expect to continue to make progress in this area over the coming years;
- Pricing for Effort (PFE) of 73c per item has thus helped considerably through the heightened B2C volumes our brands have experienced since level 3 lockdown;

- Residential productivity through the lockdown period increased by 17%, assisted by less congested roads and a greater proportion of first-time deliveries because receivers were home to accept items;
- Courier pay was impacted by the COVID-19 lockdown period, being 2% behind last year's average of $103k p.a. per contractor. Self-employed contractors were able to draw on the government wage subsidy if their income dropped by 30% in a given month;
- Volumes in June, July and August to date have been stronger than expected, which we attribute to market share gains and also higher levels of organic trade from many customers;
- We remain wary as volumes are still sensitive to overall economic conditions. At this stage, they seem to be driven by a combination of pent up demand, stronger than expected retail sales and sustained B2C volumes;
- Big Chill initially suffered a 22% decline in revenue through level 4 and 15% through nationwide level 3. Despite this, the business was able to adjust quickly and reduce costs in response to lower demand. Business conditions had improved by June, with the last month of the year delivering revenue growth of 15% on the pcp;
- Through Q4 we provided 1.4m kgs of international trans-Tasman airfreight capacity as part of the Government's International Airfreight Capacity Scheme. The profitability of this service depends heavily on the degree of utilisation. This has varied, as the Australian States transition through various phases of lockdown but is overall a positive contributor to performance. The agreement has been extended through until the end of August when it will again be reviewed by the Government.

The year ahead

Express Package will continue to focus on building our market positions through providing superior levels of service and pricing our services appropriately.

This focus will include introducing a further phase of our pricing for effort (PFE) strategy for B2C deliveries. It is critical that our contractors are remunerated through item revenue (rather than company subsidies) for the effort required for residential deliveries. We will implement additional customer-facing IT systems to make it even easier for customers to deal with us and provide them and their receivers with greater visibility. We will also continue to exploit our multi-brand strategy through positioning our brands to meet the needs of different customer segments. Our latest initiative sees us position NOW Couriers as our guaranteed same-day Auckland service provider, giving customers peace of mind and surety.

Big Chill's expansion into 3PL in Auckland will be a focus as well as taking advantage of a larger temperature-controlled Wellington hub. Customers will be able to benefit from a fully outsourced storage, picking & labelling service that links seamlessly into Big Chill's national delivery network. There are a number of new market opportunities for Big Chill, some of which will leverage the ability to provide a last-mile express delivery service to customers as well as improving their customer experience by leveraging our suite of express package technology.

Business Mail

- The volume trajectory for Business Mail followed a similar trend to that of Express Package. By the end of June, volumes had recovered to be marginally higher than the previous year. This was particularly pleasing, although we received slightly lower revenue per item as a result of direct price-based competition for mail being delivered to those areas that DX Mail services;
- Through lockdown, DX demonstrated the ability to flex its cost base to a greater degree than larger fixed cost operators. It was satisfying to see the co-operation between businesses to lend support as volumes ramped up in the Express Package division. DX employees offered to assist the courier brands, helping us to maintain very high standard of on-time delivery.
- Despite a 30% reduction in mail volumes during the months of April and May overall, DX Mail volumes for the full year grew by 4%. This growth was achieved through market share gains obtained on the basis of better and more frequent mail delivery services.

The year ahead

DX will expand its delivery network in response to customer demand. We expect demand to remain strong although with a lower margin than in previous years due to the ongoing impact of our competitor's zonal pricing programme. Our experience is that many customers request and reward high levels of service and we will continue to focus on providing a high delivery standard to those customers who require it.

Information Management

- Storage revenue was solid through the year and particularly resilient to the impacts of COVID-19. However, the number of new archives coming into facilities virtually halted as lockdowns occurred in New Zealand and Australia;
- Collection and retrieval of archives and media tapes reduced by 90% in New Zealand and by about 25% in Australia in the last quarter of the year;
- Our litigation support services – in particular print and copy services - were also heavily impacted as lawyers vacated their offices as a result of COVID-19 and have remained working from home, in many cases reducing the demand by up to 50% for printed material.
- There have been positive signs of recovery in New Zealand, but Australia will take longer to recover because staff in many organisations continue to work from home. CBD areas in particular are still devoid of many of their office staff;
- The digitalisation project that TIMG had geared up for late last year did eventually commence, but at lower levels of activity than expected because physical data was difficult to collect during COVID restrictions. This project is expected to be broken into stages and will take longer to process than initially anticipated. The combination of these various negative trends has led to our decision to partially impair our litigation support business in Australia.

The year ahead

With a lower level of storage facility utilisation than we would have liked, we will assess a number of alternate opportunities to generate revenue from our warehousing footprint. There is an encouraging pipeline of digitalisation opportunities in Australia, which our team will look to capitalise on to provide on-going revenue in FY21.

We will also continue to review our range of services. In FY20, we created a Product Development team to look at ways we can grow our existing services as well as look to systematically develop new revenue opportunities. The team have assessed 12 concepts to date with 3 progressing to prototypes and early stage customer acquisition.

Secure Destruction

- In New Zealand, document destruction came to a complete standstill in April but has recovered well since level 2 lockdown came into effect. In Australia, there was a 15% reduction in activity from March and, despite pockets of recovery, the recent lockdown in Victoria has meant that it is likely to take longer to return to pre-COVID-19 levels. However, volumes of paper collected by both businesses have been encouraging and paper pricing is stable;
- The collection of medical waste experienced two opposing impacts with many hospitals and clinics seeing fewer patients, but newly established quarantine facilities requiring brand new services;
- Revenue from high-value recyclables (eWaste, coffee cups, packaging waste) had been growing well off a very small base but also took a hit during the close down of Quick Service Restaurants in Australia. However, it remains an area of focus for the business as we develop our networks and capabilities.

The year ahead

Growing non-paper sources of waste that can be diverted from landfill, or treated to add value, will be a key strategy for Shred-X in FY21 as will taking advantage of newly acquired medical waste processing capability in New South Wales.

Balance sheet strength

Freightways has always been particularly disciplined around capital management, and capital expenditure and management of cash will remain a clear focus. While the initial 65% drop in activity, which occurred the same week that OIO granted approval for the completion of the Big Chill transaction, did present an interesting challenge, the company has managed its position well and is well placed for the opportunities ahead.

Capital expenditure for FY20 was $23m. In FY21 capital expenditure will be carefully managed and targeted toward projects that realise the greatest returns. Despite the addition of Big Chill to the group, capex is expected to be managed to a range of $20-22m in FY21 and spent on a range of IT development projects, replacement of vehicles and freight handling equipment.

Outlook

We are encouraged by strong early trading results consistently achieved in the last few months, however the economic backdrop to FY21 can best be described as uncertain for all business units in Australia and New Zealand.

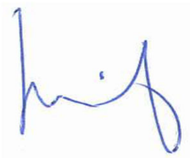
In Express Package, the current higher level of volume, which includes a slightly higher proportion of lower-margin B2C deliveries, will likely eventually track the level of macro-economic activity and of business and consumer confidence. In Information Management, whilst storage revenues are reasonably resilient, the activity-based revenue streams will be driven by the number of people returning to office environments and, in some cases, this will be lower than pre-COVID-19.

In both divisions, we will react quickly to any reduction or growth in volumes to ensure we are providing services as efficiently as possible whilst maintaining the service standards our customers expect. Using what we learnt during the period of COVID-19 lockdowns, we will adjust our cost base to protect our margins. We will also assess the portfolio of services we provide and make decisions on the best strategies to deliver value to shareholders over the long term.

We expect that COVID-19 will also continue to provide opportunities that our teams can capitalise on, either for new services, market share opportunities from customers valuing our reliability or the potential for accretive acquisitions.

While Freightways is not alone in being cautious around the outlook for FY21 in a macro-economic sense, our stakeholders can be assured that our response to movements in volume will be swift but will not compromise on service to customers and the safety of our people.

The Freightways directors would again like to acknowledge the efforts of every one of our team across Australasia during these exceptional times. We also thank you, our shareholders, for your continuing support.



Mark Verbiest
Chairman

Mark Troughear
Chief Executive Officer

24 August 2020

FREIGHTWAYS LIMITED
CONSOLIDATED INCOME STATEMENT
for the year ended 30 June 2020

	2020 $000	2019 $000	Variance %
Operating revenue	**630,940**	**615,692**	**2%**
Other income	-	1,252	(100%)
Transport and logistics expenses	(253,443)	(241,907)	5%
Employee benefits expenses	(168,017)	(174,537)	(4%)
Occupancy expenses	(5,143)	(28,912)	(82%)
General and administration expenses	(59,668)	(58,119)	3%
Other expenses	-	(1,252)	(100%)
Non-recurring items	(9,598)	2,354	(508%)
Operating profit before interest, income tax, depreciation and software amortisation and amortisation of intangibles	**135,071**	**114,571**	**18%**
Depreciation and software amortisation	(46,874)	(15,438)	204%
Operating profit before interest, income tax and amortisation of intangibles	**88,197**	**99,133**	**(11%)**
Amortisation of intangibles	(3,477)	(2,071)	68%
Profit before interest and income tax	**84,720**	**97,062**	**(13%)**
Net interest and finance costs*	(18,420)	(9,566)	93%
Profit before income tax	**66,300**	**87,496**	**(24%)**
Income tax			
- Tax applicable to profit before income tax	(20,355)	(24,119)	(16%)
- Tax benefits a result of tax law change	1,430	-	100%
Total income tax	(18,925)	(24,119)	(22%)
Profit for the year	**47,375**	**63,377**	**(25%)**
Profit for the year is attributable to:			
Owners of the parent	47,332	63,367	(25%)
Non-controlling interests	43	10	330%
	47,375	**63,377**	**(25%)**

* The 2020 net interest amount includes $8.8 million in respect of the interest component of operating lease payments, now accounted for under NZ IFRS 16.

FREIGHTWAYS LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2020

	2020 $000	2019 $000
Profit for the year (NPAT)	47,375	63,377
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	1,475	(2,210)
Cash flow hedges taken directly to equity, net of tax	1,826	328
Total other comprehensive income after income tax	**3,301**	**(1,882)**
Total comprehensive income for the year	**50,676**	**61,495**
Total comprehensive income for the year is attributable to:		
Owners of the parent	50,633	61,485
Non-controlling interests	43	10
	50,676	**61,495**

FREIGHTWAYS LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2020

	Contributed equity	Retained earnings	Cash flow hedge reserve	Foreign currency translation reserve	Non-controlling interests	Total equity
	$000	$000	$000	$000	$000	$000
Balance at 1 July 2019	**125,260**	**140,861**	**(4,229)**	**(3,669)**	**-**	**258,223**
Profit for the year	-	63,367	-	-	10	63,377
Exchange differences on translation of foreign operations	-	-	-	(2,210)	-	(2,210)
Cash flow hedges taken directly to equity, net of tax	-	-	328	-	-	328
Total Comprehensive Income	**-**	**63,367**	**328**	**(2,210)**	**10**	**61,495**
Dividend payments	-	(47,002)	-	-	-	(47,002)
Acquisition of non-controlling interests	-	-	-	-	114	114
Shares issued	1,180	-	-	-	-	1,180
Balance at 30 June 2019	**126,440**	**157,226**	**(3,901)**	**(5,879)**	**124**	**274,010**
Impact of adoption of NZ IFRS 16	-	(14,409)	-	(231)	-	(14,640)
Restated Balance at 1 July 2019	**126,440**	**142,817**	**(3,901)**	**(6,110)**	**124**	**259,370**
Profit for the year	-	47,332	-	-	43	47,375
Exchange differences on translation of foreign operations	-	-	-	1,475	-	1,475
Cash flow hedges taken directly to equity, net of tax	-	-	1,826	-	-	1,826
Total Comprehensive Income	**-**	**47,332**	**1,826**	**1,475**	**43**	**50,676**
Dividend payments	-	(47,403)	-	-	(53)	(47,456)
Shares issued	54,190	-	-	-	-	54,190
Balance at 30 June 2020	**180,630**	**142,746**	**(2,075)**	**(4,635)**	**114**	**316,780**

FREIGHTWAYS LIMITED
CONSOLIDATED BALANCE SHEET
as at 30 June 2020

	2020 $000	2019 $000
Current assets		
Cash and cash equivalents	16,686	15,986
Trade and other receivables	100,381	87,805
Income tax receivable	384	-
Inventories	6,019	5,009
Total current assets	**123,470**	**108,800**
Non-current assets		
Trade receivables and other non-current assets	7,348	3,984
Property, plant and equipment	134,649	106,710
Right-of-use assets	278,142	-
Intangible assets	498,966	365,152
Investment in associates	7,842	-
Total non-current assets	**926,947**	**475,846**
Total assets	**1,050,417**	**584,646**
Current liabilities		
Trade and other payables	87,656	68,967
Borrowings (secured)	5,210	-
Lease liabilities	30,641	127
Income tax payable	18,824	6,429
Provisions	1,225	860
Derivative financial instruments	750	880
Contract liability	15,142	15,664
Total current liabilities	**159,448**	**92,927**
Non-current liabilities		
Trade and other payables	27,386	3,137
Borrowings (secured)	216,484	167,394
Deferred tax liability	41,425	37,762
Provisions	6,331	4,750
Lease liabilities	280,431	129
Derivative financial instruments	2,132	4,537
Total non-current liabilities	**574,189**	**217,709**
Total liabilities	**733,637**	**310,636**
NET ASSETS	**316,780**	**274,010**
EQUITY		
Contributed equity	180,630	126,440
Retained earnings	142,746	157,226
Cash flow hedge reserve	(2,075)	(3,901)
Foreign currency translation reserve	(4,635)	(5,879)
	316,666	273,886
Non-controlling interests	114	124
TOTAL EQUITY	**316,780**	**274,010**
Net Tangible Assets (Liabilities) per Security	($1.01)	($0.47)

FREIGHTWAYS LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 30 June 2020

	2020 $000 Inflows (Outflows)	2019 $000 Inflows (Outflows)
Cash flows from operating activities		
Receipts from customers	634,749	609,744
Payments to suppliers and employees	(474,653)	(501,203)
Cash generated from operations	**160,096**	**108,541**
Interest received	48	137
Interest and other costs of finance paid*	(19,380)	(9,379)
Income taxes paid	(13,599)	(23,292)
Net cash inflows from operating activities	**127,165**	**76,007**
Cash flows from investing activities		
Payments for property, plant and equipment	(18,318)	(16,844)
Payments for software	(5,313)	(6,429)
Proceeds from disposal of property, plant and equipment	849	2,450
Payments for businesses acquired (net of cash acquired)	(94,973)	(11,111)
Payments for investment in associates	(7,468)	-
Receipts from joint venture	1,202	2,478
Cash flows from other investing activities	(226)	(470)
Net cash outflows from investing activities	**(124,247)**	**(29,926)**
Cash flows from financing activities		
Dividends paid	(47,456)	(47,002)
Increase in bank borrowings	45,802	9,512
Proceeds from issue of ordinary shares	24,126	748
Principal elements of lease payments (2019 – Principal elements of finance lease payments)	(24,954)	(91)
Net cash outflows from financing activities	**(2,482)**	**(36,833)**
Net increase in cash and cash equivalents	436	9,248
Cash and cash equivalents at beginning of year	15,986	7,410
Exchange rate adjustments	264	(672)
Cash and cash equivalents at end of year	**16,686**	**15,986**

* The 2020 interest paid amount includes $8.8 million in respect of the interest component of operating lease payments, now accounted for under NZ IFRS 16.

Earnings per Security (EPS)

Calculation of basic and fully diluted EPS in accordance with NZ IAS 33: Earnings Per Share:

	Current year (cents per share)	Previous corresponding year (cents per share)
Basic EPS	30.0	40.8
Diluted EPS	29.9	40.7

Basic and diluted earnings per share calculated on the profit for the year attributable to shareholders, excluding non-recurring items, net of tax, are 35.5 and 35.4 cents, respectively (2019: 39.3 and 39.2 cents, respectively).

Dividends

After careful consideration, the Directors have decided not to declare a final dividend for FY20 given the uncertainty in both the NZ and Australian markets due to COVID-19.

Post Balance Date Events

COVID-19
Post year end, parts of both New Zealand and Australia have seen increased restrictions because of a resumption of COVID-19 cases. To date this has not had a material impact on the Group's business activities.

Freightways Performance Share Rights Scheme
In July 2020, the Freightways Board of Directors approved a new Executive Long-term Incentive Scheme for the Freightways senior leadership team to replace the existing Freightways Senior Executive Share Performance Plan. An initial issue of 141,916 Share Rights under the rules of the new scheme was made on 31 July, 2020. The Share Rights have a 3-year vesting period commencing 1 July 2019 and will be eligible for vesting as of 30 June 2022. Vesting is subject to the achievement of certain financial hurdles set by the Board and included in the annual offer of participation to executives. Once it has been determined how many Share Right have vested, each Share Right will convert to a Freightways fully paid ordinary share at that time.

Impact of COVID-19

In March 2020, the World Health Organisation declared COVID-19 a global pandemic. COVID-19 has brought disruptions and uncertainties to businesses and economies globally. These disruptions impacted on the Freightways operations in both New Zealand and Australia.

Freightways is deemed to provide essential services in both New Zealand and Australia. The Level 4 lockdown in New Zealand initially decreased express package volume by 65% while information management activities in New Zealand ground to a halt, leaving the Group with only storage revenue. In Australia, information management activities decreased by around 25% initially.

As the lockdown eased, express package volume recovered and by June 2020, volume was stronger than expected. The information management segment in New Zealand is showing positive signs of recovery but Australia will take longer to recover.

Express package volumes have remained strong as Auckland entered a second Level 3 lockdown in August 2020. However, the resurgence of COVID-19 cases in many countries, and the decisions to impose increased restrictions in the Australian State of Victoria and in Auckland create a heightened level of uncertainty and could further impact economic activity.

An assessment of the impact of COVID-19 on the Freightways financial statements is set out in the following table.

Item	COVID-19 assessment
Reduced remuneration	Directors' fees, as well as Management's fixed remuneration were reduced by 20% in the last quarter of the financial year in response to the COVID-19 pandemic. While some of our lowest paid employees were paid a premium during lockdown, many other employees worked reduced hours or agreed to pay reductions during this period.
Employee entitlements	The New Zealand and Australian governments introduced wage subsidy and JobKeeper subsidy, respectively. Employee entitlements in the income statement is net of wage subsidies of $15.1 million and JobKeeper subsidy of $0.8 million. Some of Freightways' businesses did not apply for the wage subsidy.
Trade receivables	Freightways has increased the expected credit loss allowance in trade receivables to $2.9 million (2019: $1.5 million) given the increased risk of the macro-economic environment.
Software	COVID-19 has resulted in the accelerated development and deployment of various new IT initiatives and strategies, resulting in the need to write-off certain previously capitalised software that is now considered obsolete.
Right-of-use assets	The Group has engaged with landlords for rent relief. There is no significant impact on the financial statements from the rent relief.
Goodwill and indefinite lived intangible assets	The disruptions of COVID-19 to activity levels have contributed to the carrying value of certain goodwill and brand names within the cash-generating unit of The Information Management Group (Australia) exceeding their recoverable amounts. An impairment loss of $5.8 million has been recognised with respect to this CGU.
Borrowings	Due to the uncertainty that COVID-19 presented, Freightways increased its syndicated bank facilities and negotiated the extension of maturity dates for a number of facilities within the banking arrangements. The Bank Facility increase is for a period of 12 to 18 months from inception and there is no expectation that they will be maintained beyond this point.
Income tax & deferred tax	Re-introduction of depreciation allowances for commercial buildings by the New Zealand Government has led to the need to adjust deferred tax balances.

Non-recurring Items

Non-recurring items in the income statement comprise the following gains and losses:

		Group	
Non-recurring (gains) losses:	**Note**	**2020 $000**	**2019 $000**
Impairment of goodwill	(i)	5,194	-
Impairment of brand names	(i)	1,581	-
Impairment of intangible assets - software	(ii)	608	-
Write-off of obsolete software	(ii)	2,739	-
Acquisition advisory fee	(iii)	981	-
Reversal of earn-out payables	(iv)	(1,505)	(461)
Insurance proceeds for replacement racking	(v)	-	(1,893)

(i) Impairment loss in respect of (a) the carrying value of goodwill and brand names recognised upon the acquisition of the LitSupport print & copy bureau ($5.8 million), and (b) an amount of the goodwill originally recognised upon the acquisition of the NSW-based State Waste Services (SWS) business ($1 million) with $1.5 million earn-out payable for SWS reversed in 2020, refer (iv) below.

(ii) Write-off of internally-developed software considered obsolete as a result of the accelerated introduction of new software applications and systems in response to business and market demands.

(iii) Advisory fee paid for assistance with the successful acquisition of Big Chill Distribution Limited.

(iv) Reversal of previously-accrued earn-out payables no longer expected to be paid related to the acquisition of SWS.

(v) Insurance proceeds received (no tax applicable) from the Group's insurers to reinstate racking in Wellington damaged by the North Canterbury earthquake. NB. In 2019, the income statement included as other expenses an amount of $1.3 million in additional costs of operations resulting from this earthquake, while the compensation of $1.3 million received from the Group's insurers for these additional costs of operations was included in other income.

Segment Reporting

A segment is a component of the Group that can be distinguished from other components of the Group by the products or services it sells, the primary market it operates in and the risks and returns applicable to it. Operating segments are reported upon in a manner consistent with the internal reporting used by the Chief Executive Officer, as the chief operating decision maker, and the Board for allocating resources, assessing performance and strategic decision making.

The Group is organised into the following reportable operating segments:

Express package & business mail
Comprises network (hub & spoke) courier, refrigerated transport, point-to-point courier and postal services.

Information management
Comprises secure paper-based and electronic business information management services.

Corporate and other
Comprises corporate, financing and property management services.

The Group has no individual customer that represents more than 4% of external sales revenue.

As at and for the year ended 30 June 2020:

	Express Package & Business Mail $000	Information Management $000	Corporate $000	Inter-Segment Elimination $000	Consolidated Operations $000
Income statement					
Sales to external customers	472,151	158,783	6	-	630,940
Inter-segment sales	2,272	(58)	4,900	(7,114)	-
Total revenue	474,423	158,725	4,906	(7,114)	630,940
Operating profit (loss) before non-recurring items, interest, income tax, depreciation and software amortisation and amortisation of intangibles	101,690	47,055	(4,076)	-	144,669
Non-recurring items	(3,347)	(5,270)	(981)	-	(9,598)
Operating profit (loss) before interest, income tax, depreciation and software amortisation and amortisation of intangibles	98,343	41,785	(5,057)	-	135,071
Depreciation and software amortisation	(23,929)	(21,215)	(1,730)	-	(46,874)
Operating profit (loss) before interest, income tax and amortisation of intangibles	74,414	20,570	(6,787)	-	88,197
Amortisation of intangibles	(1,168)	(2,309)	-	-	(3,477)
Profit (loss) before interest and income tax	73,246	18,261	(6,787)	-	84,720
Net interest and finance costs	(3,810)	(5,188)	(9,422)	-	(18,420)
Profit (loss) before income tax	69,436	13,073	(16,209)	-	66,300
Income tax	(18,815)	(5,492)	5,382	-	(18,925)
Profit (loss) for the year attributable to the shareholders	50,621	7,581	(10,827)	-	47,375

Segment Reporting (continued)

As at and for the year ended 30 June 2019:

	Express Package & Business Mail $000	Information Management $000	Corporate $000	Inter-Segment Elimination $000	Consolidated Operations $000
Income statement					
Sales to external customers	451,261	164,429	2	-	615,692
Inter-segment sales	1,716	67	4,651	(6,434)	-
Total revenue	452,977	164,496	4,653	(6,434)	615,692
Operating profit (loss) before non-recurring items, interest, income tax, depreciation and software amortisation and amortisation of intangibles	80,015	35,347	(3,145)	-	112,217
Non-recurring items	-	2,354	-	-	2,354
Operating profit (loss) before interest, income tax, depreciation and software amortisation and amortisation of intangibles	80,015	37,701	(3,145)	-	114,571
Depreciation and software amortisation	(7,821)	(6,082)	(1,535)	-	(15,438)
Operating profit (loss) before interest, income tax and amortisation of intangibles	72,194	31,619	(4,680)	-	99,133
Amortisation of intangibles	(50)	(2,021)	-	-	(2,071)
Profit (loss) before interest and income tax	72,144	29,598	(4,680)	-	97,062
Net interest and finance costs	(11)	(30)	(9,525)	-	(9,566)
Profit (loss) before income tax	72,133	29,568	(14,205)	-	87,496
Income tax	(19,967)	(8,427)	4,275	-	(24,119)
Profit (loss) for the year attributable to the shareholders	52,166	21,141	(9,930)	-	63,377

Revenue from Contracts with Customers

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines:

	Express Package & Refrigerated Transport	Postal	Storage & Handling	Destruction Activities	Other	Total
2020	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Revenue from external customers	421,668	49,122	60,295	61,592	38,263	630,940
Timing of revenue recognition:						
At a point in time	-	3,191	-	18,307	10,176	31,674
Over time	421,668	45,931	60,295	43,285	28,087	599,266
	421,668	49,122	60,295	61,592	38,263	630,940
2019						
Revenue from external customers	397,220	54,041	62,567	59,707	42,157	615,692
Timing of revenue recognition:						
At a point in time	-	3,480	-	20,083	8,848	32,411
Over time	397,220	50,561	62,567	39,624	33,309	583,281
	397,220	54,041	62,567	59,707	42,157	615,692

Business Combinations

Acquisition of Big Chill Distribution Limited ("BCD")

Effective 1 April 2020, the Group acquired 100% of BCD, a company operating in the New Zealand temperature-controlled transport and facilities market, for an initial consideration of approximately $114.6 million and a future earn-out representing 20% of BCD Enterprise Value as at 30 June 2022. This acquired subsidiary operates within the Group's express package & business mail division.

The contribution of BCD to the Group results for the year ended 30 June 2020 was revenue of $22 million and operating profit before interest, income tax and amortisation of intangibles of $2.7 million. If this acquisition had occurred at the beginning of the year, the contribution to revenue and operating profit before interest, income tax and amortisation of intangibles for the period is estimated at $100.9 million and $12.9 million, respectively. There was no material impact on these contributions from COVID-19.

The following table summarises the purchase consideration and the fair value of assets acquired and liabilities assumed:

Purchase consideration	**$000**
Cash paid during the period	84,553
Issue of Freightways shares	30,000
Fair value of future earn-out payment	27,193
Total purchase consideration	141,746
Fair value of assets and liabilities arising from the acquisition	
Cash and cash equivalents	5,715
Trade and other receivables	11,706
Plant and equipment	24,256
Right-of-use assets	91,292
Net investment in sublease	4,506
Brand name	5,500
Customer relationships	40,900
Non-compete agreement	1,900
Goodwill	83,754
Trade and other payables	(12,802)
Borrowings	(6,023)
Deferred tax liability	(12,723)
Lease liabilities	(96,235)
	141,746

The fair value of the trade and other receivables acquired as part of the business combination amounted to $11.7m. The gross contractual amount is $12.1m, with a loss allowance of $0.4m recognised on acquisition.

The estimated discounted future earn-out payment of $27.2 million may be payable in August 2022 and has been accrued for in the financial statements, but is contingent upon certain financial performance hurdles being achieved for the years ended 30 June 2021 and 2022. The potential undiscounted amount of the future earn-out payment that the Group expects could be required to be made in respect of this acquisition is between nil and $30 million. The Group has forecast several scenarios and probability-weighted each to determine a fair value for this contingent payment arrangement.

The goodwill of $83.8 million arising upon this acquisition is attributable to the business know how and the premium paid for strategic reasons, including acquiring an entry point into the temperature-controlled transport and facilities industry. None of the goodwill recognised is expected to be deductible for income tax purposes.

The fair value of certain assets and liabilities arising from the acquisition have been determined on a provisional basis due to the acquisition being completed close to the financial year end. Plant and equipment, customer relationships and brand name have been measured provisionally, pending confirmation of certain determinants and completion of independent valuations. The fair value of these assets will be finalised within 12 months from the acquisition date.

Other acquisitions during the year:

During the year ended 30 June 2020, the Group acquired seven small information management businesses in Australia for an aggregate purchase consideration totalling approximately $10.4 million. These businesses have been integrated into the Australian businesses of the Group's information management division. The acquisitions were of the business & assets of:

- Green Team in South Australia (SA) on 2 September 2019
- Country Hygiene in New South Wales (NSW) on 1 October 2019
- Scanning Conversion Services in SA on 1 November 2019
- Specialised Waste Treatment Services in NSW on 2 December 2019
- Pro Opt in NSW on 6 March 2020
- Queensland Document Destruction on 16 March 2020
- Avon Paper in Western Australia on 1 April 2020

The contribution of these businesses to the Group results for the year ended 30 June 2020 was revenue of $3.4 million and operating profit before interest, income tax and amortisation of intangibles of $0.5 million, net of acquisition costs of $0.3 million.

If these acquisitions had all occurred at the beginning of the year, the contribution to revenue and operating profit before interest, income tax and amortisation of intangibles for the half year is estimated at $6.5 million and $1.3 million (net of acquisition costs of $0.3 million), respectively.

Details of net assets acquired and goodwill for these acquisitions are as follows:

Purchase consideration	**$000**
Cash consideration paid during the period	10,168
Estimated working capital adjustment	194
	10,362
Fair value of assets and liabilities arising from the acquisition	
Trade and other receivables	7
Inventories	33
Plant and equipment	1,139
Customer relationships	3,109
Goodwill	7,659
Trade and other creditors	(288)
Provisions	(520)
Deferred tax liability	(777)
	10,362

The goodwill of $7.7 million arising upon these acquisitions is attributable to the business know how obtained and economies of scale expected to be enhanced by integrating these businesses into the operations of the Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

The fair value of certain assets and liabilities arising from these acquisitions has been determined on a provisional basis. Plant and equipment and customer relationships have been measured provisionally, pending confirmation of certain determinants and valuation methods. The fair value of these assets will be finalised within 12 months from the acquisition date.

Prior period acquisitions:

State Waste Services (SWS)

Effective 1 September 2017, the Group acquired the business and assets of SWS, an Australian-based medical waste collection and destruction business, for an initial payment of approximately $6.5 million (A$5.9 million) and a future maximum earn-out of up to $4.5 million (A$4.1 million). SWS was branded as Med-X and integrated into the Group's Shred-X business within the information management division.

The potential earn-out is contingent upon certain financial performance hurdles being achieved for the years ended 30 June 2019, 2020 and 2021. The Group has forecast several scenarios and probability-weighted each to determine a fair value for this contingent payment arrangement. As at 30 June 2020, based on the actual performance of the acquired business, management has estimated that there is likely to be no future earn-out payment payable in September 2021 and accordingly has reversed the accrual of $1.5 million as a non-recurring gain in the income statement.

Borrowings (secured)

In December 2019, the Group negotiated increases of NZ$70 million and A$20 million to its existing syndicated bank facilities with 4-year and 5-year maturity, respectively. The increased facilities were effective from 23 December 2019 and are at similar pricing to existing facilities.

In May 2020, the Group negotiated a two-year extension of its syndicated bank facilities that were maturing on 1 September 2021. In addition, the facilities were increased by NZ$50 million as a buffer against the uncertain impact COVID-19 might have on cash flows and debt headroom. The additional facilities mature in November 2021 and May 2022, as detailed in the maturity table above. The extended and increased facilities became effective from 14 May 2020.

Investment in Associate

In October 2019, the Group acquired a 33% interest in Sweetspot Group Limited (trading as GoSweetSpot (GSS)) for $7.5m. GSS is a New Zealand-based courier and freight aggregator. GSS purchases courier services from the Group for on-selling to its customers. The Group also utilises the GSS software solution to support some of its own customers.

Changes in Accounting Policies

The Group adopted NZ IFRS 16 Leases for which application became mandatory for the Group for the financial year beginning 1 July 2019. The impact of adopting NZ IFRS 16 is below.

Except for the adoption of NZ IFRS 16 Leases, the accounting policies and methods of computation are consistent with those used in the year ended 30 June 2019.

Amendments to NZ IFRS 3: Business Combinations, mandatory from 1 July 2020, further clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. Other than this, there are no other new standards, amendments or interpretations that are not yet effective that would be expected to have a material impact on the Group.

Adoption of NZ IFRS 16: Leases

The Group adopted NZ IFRS 16 Leases, effective from 1 July 2019. This standard replaces the guidance in NZ IAS 17. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use' (ROU) asset for virtually all lease contracts.

From the effective date of adoption, the income statement is impacted by the removal of operating lease expenses, the recognition of an interest expense applicable to the future lease payment obligations and the recognition of a depreciation expense in respect of the ROU asset.

This standard has changed the accounting for the Group's operating leases. As at the effective date, the Group had non-cancellable operating lease commitments of $127 million. Upon adoption, NZ IFRS 16 had a material impact on a number of elements of, and disclosures within, the Group's balance sheet, income statement and statement of cash flows. The Group's actual overall cash flows are unaffected by the adoption of this standard.

In calculating the financial impact, management was required to make various key judgements, including:

- the incremental borrowing rate (IBR) used to discount the ROU assets and the future lease payment obligations (lease liabilities);
- lease terms, including any rights of renewal expected to be exercised; and
- foreign exchange conversion rates.

In applying NZ IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases;
- excluding initial direct costs for the measurement of the ROU asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

When adopting the standard, management applied IBR's of between 2.45% to 4.23%, with a weighted average rate of 3.61%, to discount the ROU assets and the future lease payment obligations, depending on the nature of the relevant leases. Some of the factors taken into consideration when calculating the IBR for each asset category included observable market rates, economic conditions and lease tenure.

The new standard allowed a choice of transition methods. Management determined that the most appropriate approach for the Group to use was the modified retrospective transition method. Under this transition method, the Group was allowed to retrospectively value the ROU asset on a lease by lease basis without having to restate comparatives and to recognise the cumulative effect of initially applying the standard as an adjustment to retained earnings. Alternatively, the ROU asset on a lease by lease basis could have been measured at an amount equal to the value of the lease liability. In arriving at the below financial impact of adopting the new standard, the latter approach was applied to value the ROU asset for the majority, by number, of the Group's operating leases, but with 20 high value property operating leases (representing approximately 80% of the lease liability to be recognised) being retrospectively valued.

Management's process identified that the financial impact on the balance sheet as at 1 July 2019 was as follows:

- Recognition of ROU assets of $200 million;
- Recognition of lease liabilities of $223 million;
- A decrease in trade and other payables of $2 million;
- Recognition of a deferred tax asset of $6 million; and
- A decrease in opening retained earnings of $15 million.

The financial impact on the income statement for the year ended 30 June 2020 was a reduction in net profit after tax of $2.5 million. This was made up of the following changes:

- a $33.7 million decrease in operating lease rental expenses (removed);
- a $28.4 million increase in depreciation (relating to ROU assets);
- an $8.8 million increase in interest expense (relating to lease liabilities); and
- a $1 million decrease in tax expense.

A summary of the financial impact on the income statement for the year ended 30 June 2020 is:

	Before NZ IFRS 16 $000	**IFRS 16 Adjustment $000**	**After NZ IFRS 16 $000**
Operating profit before interest, income tax, depreciation and software amortisation and amortisation of intangibles	101,366	33,705	135,071
Depreciation and software amortisation	(18,465)	(28,409)	(46,874)
Operating profit before interest, income tax and amortisation of intangibles	82,901	5,296	88,197
Amortisation of intangibles	(3,477)	-	(3,477)
Profit before interest and income tax	79,424	5,296	84,720
Net interest and finance costs	(9,668)	(8,752)	(18,420)
Profit before income tax	69,756	(3,456)	66,300
Income tax	(19,920)	995	(18,925)
Profit for the year attributable to the shareholders	49,836	(2,461)	47,375

Prior to the adoption of NZ IFRS 16, operating lease payments were included in payments to suppliers within operating activities in the statement of cash flows. Following the adoption of NZ IFRS 16, the interest component is allocated to operating cashflows and the repayment of the principal elements of leases is classified within financing activities.

Intangible Assets

(i) Goodwill

Goodwill represents the excess of the consideration transferred in an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill is not amortised, but is tested for impairment annually or whenever events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(ii) Brand names

Acquired brand names are recognised at cost, being their fair value at the date of acquisition if acquired in a business combination. Brand names with indefinite useful lives are not subject to amortisation, but are tested for impairment annually or whenever events or changes in circumstances indicate that they might be impaired, and are carried at cost less amortisation and impairment losses. The useful lives and amortisation methods are reviewed and adjusted, if appropriate, at each balance sheet date.

Brand names are allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the brand names.

(iii) Computer software

External software costs, together with payroll and related costs for employees directly associated with the development of software, are capitalised. Costs associated with upgrades and enhancements are capitalised to the extent they result in additional functionality. Amortisation is charged on a straight-line basis over the estimated useful life of the software which ranges between 3 and 10 years. Included in the cost of software is work in progress of $2.8 million (2019: $4.3 million) for which amortisation has not commenced. Software under development not yet available for use is tested annually for impairment.

(iv) Customer relationships

- **Contractual**

An intangible asset is recorded at fair value in respect of the amount of any contractual termination fees payable by customers of businesses acquired in respect of their document holdings. As it is not known when permanent retrieval fees may arise, this asset is only amortised upon the actual retrieval fee being charged to the respective customer.

- **Other**

Non-contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. These customer relationships have an estimated finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected useful life of the customer relationship which ranges between 10 and 20 years.

Group	**Goodwill**	**Brand names**	**Software**	**Customer relationships**	**Other**	Total
2020	**$000**	**$000**	**$000**	**$000**	**$000**	$000
Opening net book value	212,737	113,932	17,797	17,477	3,209	365,152
Additions	-	-	4,937	-	173	5,110
Acquisition through business combinations	91,475	5,500	37	44,009	1,900	142,921
Amortisation expense	-	-	(3,705)	(3,069)	(408)	(7,182)
Impairment loss	(5,194)	(1,581)	(608)	-	-	(7,383)
Written-off	-	-	(2,739)	-	-	(2,739)
Exchange rate movement	2,265	456	43	266	57	3,087
Closing net book value	**301,283**	**118,307**	**15,762**	**58,683**	**4,931**	**498,966**
As at end of year						
Cost	319,945	118,307	35,419	70,480	7,024	551,175
Accumulated amortisation and impairment	(18,662)	-	(19,657)	(11,797)	(2,093)	(52,209)
Net book value	**301,283**	**118,307**	**15,762**	**58,683**	**4,931**	**498,966**

COVID-19 has resulted in the accelerated development and deployment of various new IT initiatives and strategies, resulting in the need to write-off certain previously capitalised software that is now considered obsolete.

Group	**Goodwill**	**Brand names**	**Software**	**Customer relationships**	**Other**	Total
2019	**$000**	**$000**	**$000**	**$000**	**$000**	$000
Opening net book value	208,179	114,775	14,359	18,086	3,020	358,419
Additions	-	-	6,429	-	470	6,899
Acquisition through business combinations	8,426	-	-	1,722	-	10,148
Amortisation expense	-	-	(2,922)	(1,887)	(184)	(4,993)
Exchange rate movement	(3,868)	(843)	(69)	(444)	(97)	(5,321)
Closing net book value	**212,737**	**113,932**	**17,797**	**17,477**	**3,209**	**365,152**
As at end of year						
Cost	231,399	113,932	33,838	26,030	4,878	410,077
Accumulated amortisation	(18,662)	-	(16,041)	(8,553)	(1,669)	(44,925)
Net book value	**212,737**	**113,932**	**17,797**	**17,477**	**3,209**	**365,152**

Impairment tests for indefinite life intangible assets
Goodwill and brand names are allocated to those cash-generating units (CGU) or groups of CGU that are expected to benefit from them. The carrying amount of intangible assets allocated by CGU or group of CGU is outlined below:

	Goodwill		Brand names	
	2020 $000	**2019 $000**	**2020 $000**	**2019 $000**
Big Chill	83,755	-	5,500	-
Messenger Services	8,766	8,766	5,100	5,100
New Zealand Couriers	47,752	47,752	58,500	58,500
New Zealand Document Exchange	10,967	10,967	5,900	5,900
Dataprint	4,125	4,125	1,310	1,310
Post Haste, Castle Parcels and NOW Couriers	27,159	27,159	18,395	18,395
Total Express Package & Business Mail	**182,524**	**98,769**	**94,705**	**89,205**
The Information Management Group (New Zealand)	17,577	17,577	4,400	4,400
The Information Management Group (Australia)	56,615	59,510	15,894	17,095
Shred-X	44,567	36,881	3,308	3,232
Total Information Management	**118,759**	**113,968**	**23,602**	**24,727**
Total	**301,283**	**212,737**	**118,307**	**113,932**

(i) Key assumptions used for value-in-use calculations

On an annual basis, the recoverable amount of goodwill and brand names is determined based on the greater of value-in-use and fair value less costs of disposal calculations specific to the CGU associated with both goodwill and brand names.

The value-in-use calculations use post-tax cash flow projections based on financial budgets prepared by management and approved by the Board for the year ended 30 June 2021, taking into account each CGU's historical performance against budget. Cash flows beyond June 2021 have been extrapolated using growth rates which take into consideration current and forecast economic conditions for the relevant products and industries. A probabilistic approach was also adopted for businesses where the book value was close to the value-in-use: a number of scenarios were considered and weighted by an estimation of their likelihood. In addition, the sensitivity of the main financial variables was tested and considered in the final estimation.

A 1% (2019: 1%) revenue growth rate, a consistent EBITDA margin assuming costs increase in line with revenue and 1% (2019: 1%) terminal growth rate have been applied to the Express Package & Business Mail businesses in the value-in-use calculation.

A 2% (2019: 3%) revenue growth rate, a consistent EBITDA margin assuming costs increase in line with revenue and 2% (2019: 2.5%) terminal growth rate, reflecting both historical and expected growth, have been applied to the value-in-use calculation for the Information Management segment with the same scenarios and sensitivities applied as described in the Significant estimate – impairment loss section below.

A post-tax discount rate of 7.5%, equating to a pre-tax discount rate of 10% (2019: 10% pre-tax discount rate) has been applied to all CGUs, reflecting the current environment in financial markets.

(ii) Significant estimate – impairment loss

An impairment loss of $5.8 million (A$5.5 million) has been recognised in the CGU of The Information Management Group (Australia) (TIMG AU). The LitSupport business acquired by Freightways in December 2014 and incorporated into the TIMG AU CGU has not performed to management's expectation. LitSupport was acquired for a potential total consideration of $32.2 million, made up of an initial payment of $18.3 million and potential earn-out of $13.9 million. As a result of not meeting an initial financial hurdle for the 2015 calendar year, the vendors were required to refund $5.3 million of the initial purchase price to Freightways. The financial performance hurdles for the potential earn-out of $13.9 million were also not met and none of the earn-out was paid to the vendors. This resulted in the total purchase consideration for LitSupport being $13 million instead of the initial potential total consideration of $32.2 million.

The performance of LitSupport has continued to deteriorate in the last 12 months, exacerbated by the impact of COVID-19, and is not expected to recover to the extent that the recoverable amounts of goodwill and brand names will exceed their carrying values. The impairment modelling applied probability sensitivities, including a number of different scenarios, an assessment of historical delivery against budget as well as the sensitivity to key financial assumptions driving the valuation. In addition, the modelling used a series of balanced assumptions to the underlying cash flow forecasts to lower the risk of over (or under)-stating the future performance of the CGU. The following scenarios and sensitivities were used in preparing the valuation model:

- 90% achievement of FY21 budgeted revenue
- only 2% Revenue growth per year (with a range of scenarios going from -4% to 4% p.a considered);
- a consistent EBITDA margin assuming costs increase in line with revenue; and
- low 2% terminal EBITA growth rate.

The value-in-use calculation described above resulted in impairment losses of $4.2 million (A$4 million) and $1.6 million (A$1.5 million) being recognised in the 2020 financial year in respect of the TIMG AU CGU's goodwill and brand names, respectively. The impairment losses have been determined based on the greater of the recoverable amount from value-in-use and fair value less cost of disposal calculations. No other class of asset in the TIMG AU CGU was considered impaired by management.

For all other CGU, with the exception of the ones mentioned above, the value-in-use and fair value less cost of disposal calculations indicate that the recoverable amounts of goodwill and brand names of other CGU held by the Group exceed their carrying values and therefore there is no impairment in the value of those intangible assets.

(iii) Significant estimate - Sensitivity to changes in assumptions

With regard to the value-in-use assessment for all CGU's, other than TIMG AU described above and New Zealand Document Exchange (NZDX) discussed below, management believes that no reasonably possible change in any of the above assumptions would cause the carrying values of goodwill and brand names to materially exceed their respective recoverable amounts.

The value-in-use analysis prepared for TIMG AU based on the key assumptions described above is most sensitive to a change in revenue growth, terminal growth and post-tax discount rate. If the revenue growth and terminal growth rate used was reduced from 2% to 1%, the impairment loss recognised against intangibles would have been $9 million and $17.1 million, respectively. Conversely, if the revenue growth and terminal growth rate used was increased from 2% to 3%, the impairment loss recognised against intangibles would have been $2.8 million and nil, respectively, with the latter showing the recoverable amount exceeding the carrying amount by $10.2m.

If the post-tax discount rate used increased from 7.5% to 8.5%, the impairment loss recognised against intangibles would have been $19.4m. Conversely, if the post-tax discount rate used was decreased from 7.5% to 6.5%, there would be no impairment loss, as the recoverable amount would have exceeded the carrying amount by $13.5m.

The carrying value of the NZDX CGU has been assessed as at 30 June 2020 by management as being on par with its recoverable amount (2019: recoverable amount exceeded carrying value by $22.5 million). The analysis was performed by comparing the value-in-use of NZDX with its fair value less cost of disposal. The value-in-use analysis used the key assumptions described above (revenue growth rate of 1%, a consistent EBITDA margin assuming costs increase in line with revenue, probability weighted scenarios, post tax discount factor of 7.5%), with the value-in-use being sensitive to a change in the discount factor, although this would not materially change the value-in-use. The analysis also recognised the ongoing decline in postal volumes in New Zealand and the direct impact COVID-19 has taken in accelerating the market's already growing demand for digital communication solutions. NZDX has seen a recovery of its activity post lockdown, but a further deterioration of the economic and competitive environment could reduce the estimated recoverable amount of the NZDX CGU below the current carrying value of its intangible assets (2019: no reasonably possible change in any of the assumptions would cause the carrying value to materially exceed recoverable amount).