

FREIGHTWAYS HALF YEAR RESULTS PRESENTATION

for the six months ended 31 December 2020

The financial results in this presentation should be read in conjunction with the abridged financial statements for the six months ended 31 December 2020 which can be found in the NZX preliminary results announcement.



Highlights



- Growth in courier revenue of 12% through a combination of organic & market share gains (including new courier users) and Pricing For Effort
- Growth in Big Chill transport and 3PL revenue of 10% (over their pcg) with pleasing utilisation of facilities and network resources
- PFE reached \$1.01 per item by December, which delivered improved B2C margin
- Trans Tasman revenue contributed around 3% to EP in the half
- Contractor earnings up 10% for the half v. the pcg



- Storage revenue has increased over the pcg with utilisation now at 83% in NZ and 70% in AU
- Activity revenue (media and documents) is below the pcg due to lower levels of activity through lockdown (particularly in AU)
- Print and copy margins have improved steadily over the 1H



- Secure Destruction has rebounded in NZ and is improving slowly in AU
- Medical Waste has grown strongly and we have a sustainably larger business going into 2H

Financial Summary

for the six months ended 31 December 2020

		HY21		HY20		Change
		\$M		\$M		%
Revenue		410.3		318.9		28.7
EBITA, before change in fair value of contingent consideration – Big Chill Distribution Limited (BCD)	i.	71.0		50.1		41.7
Change in fair value of contingent consideration – BCD		(19.2)		0.0		
EBITA	ii.	51.8		50.1		3.4
NPAT, before change in fair value of contingent consideration – BCD	iii.	41.2		29.2		41.0
Change in fair value of contingent consideration – BCD		(19.2)		0.0		
NPAT	iv	22.0		29.2		(24.8)
Basic EPS (cents)		24.9		19.5		27.7
(before change in fair value of contingent consideration - BCD)						

NOTES

- i. Operating profit before interest, tax and amortisation, before change in fair value of contingent consideration – BCD.
- ii. Operating profit before interest, tax and amortisation.
- iii. Net profit after tax (NPAT), before change in fair value of contingent consideration – BCD.
- iv. Profit for the half year attributable to shareholders.

Change in fair value of contingent consideration (Non-recurring Item)

2021

Non-recurring expense of \$19.2 million (no tax applicable) in respect of a change in fair value of contingent consideration (increasing accrual for estimated future Big Chill (BCD) final settlement payment). Stronger than expected performance for the half year ended 31 December 2020, combined with the expectation that this performance will be maintained, has substantially increased the estimated discounted future final payment from \$27.2 million to \$46.8 million. A \$0.4 million interest charge was expensed during the period, representing the unwinding of the discounted amount. Generally Accepted Accounting Practice (GAAP) requires that this increase in final payment accrual be included in the income statement rather than adjusted against goodwill.

Revenue Segmentation

for the six months ended 31 December 2020

	HY21	HY20	Change
	\$M	\$M	%
Express package & refrigerated transport	296.0	209.4	41.3
Postal	24.8	27.2	(8.7)
Storage & handling	30.0	31.2	(3.8)
Destruction activities	35.5	31.9	11.5
Other	23.9	19.2	24.8
Total revenue	410.3	318.9	28.7

NOTES

* Other includes Digital Services, Print & Copy and Cold Storage revenue

Express Package & Business Mail

for the six months ended 31 December 2020

	HY21	HY20	Change
	\$M	\$M	%
Operating Revenue	327.7	237.6	37.9
EBITDA	74.4	49.8	49.5
EBITA	57.4	39.9	44.1
EBITA Margin	17.5%	16.8%	

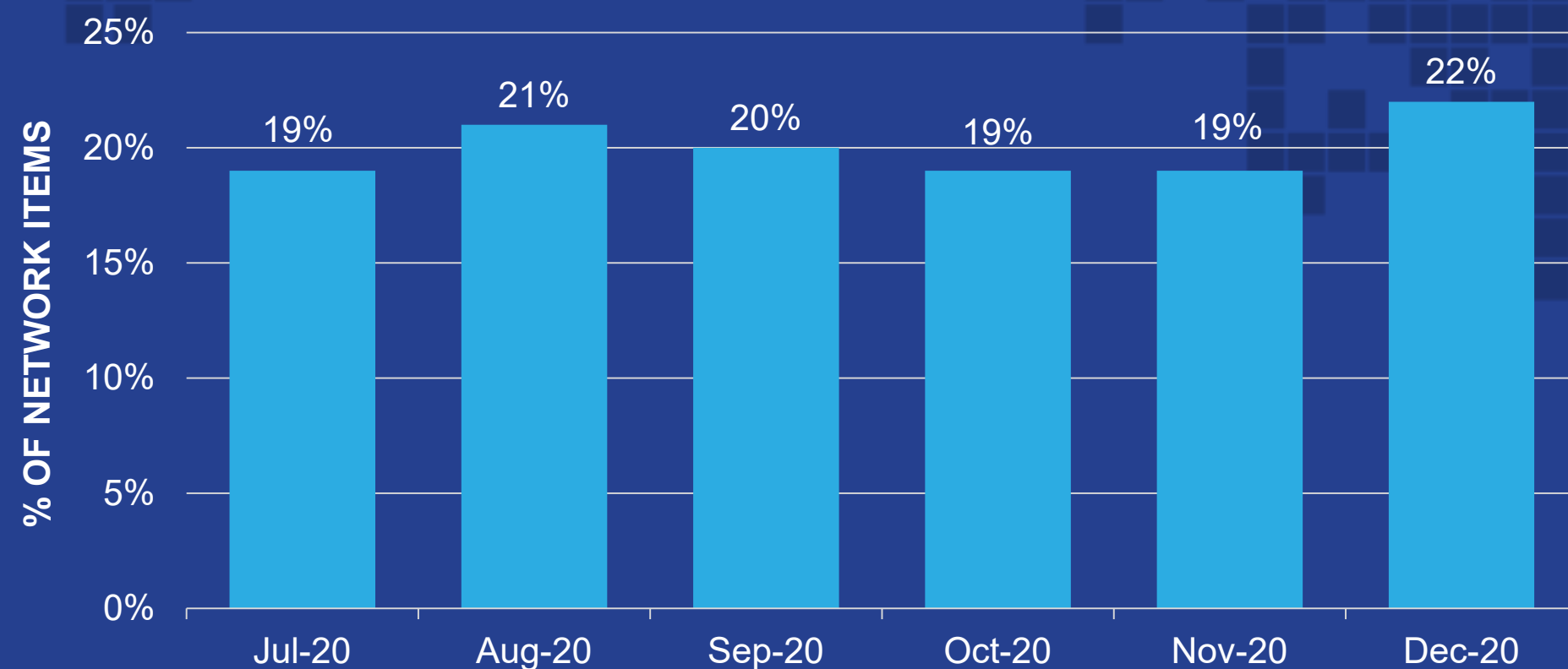
Information Management

for the six months ended 31 December 2020

	HY21	HY20	Change
	\$M	\$M	%
Operating Revenue	84.9	82.3	3.2
EBITDA	26.5	23.0	15.0
EBITA	15.6	12.6	23.4
EBITA Margin	18.4%	15.4%	

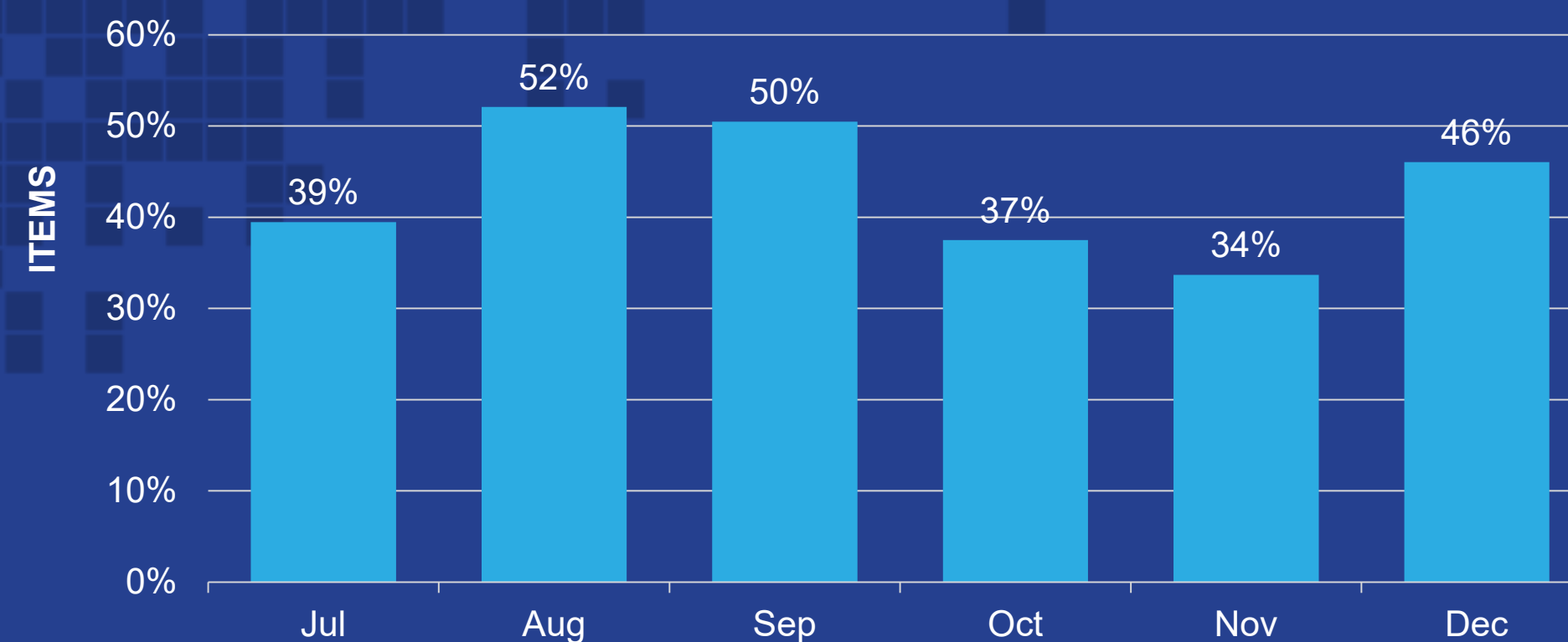
Express Package

B2C Proportion



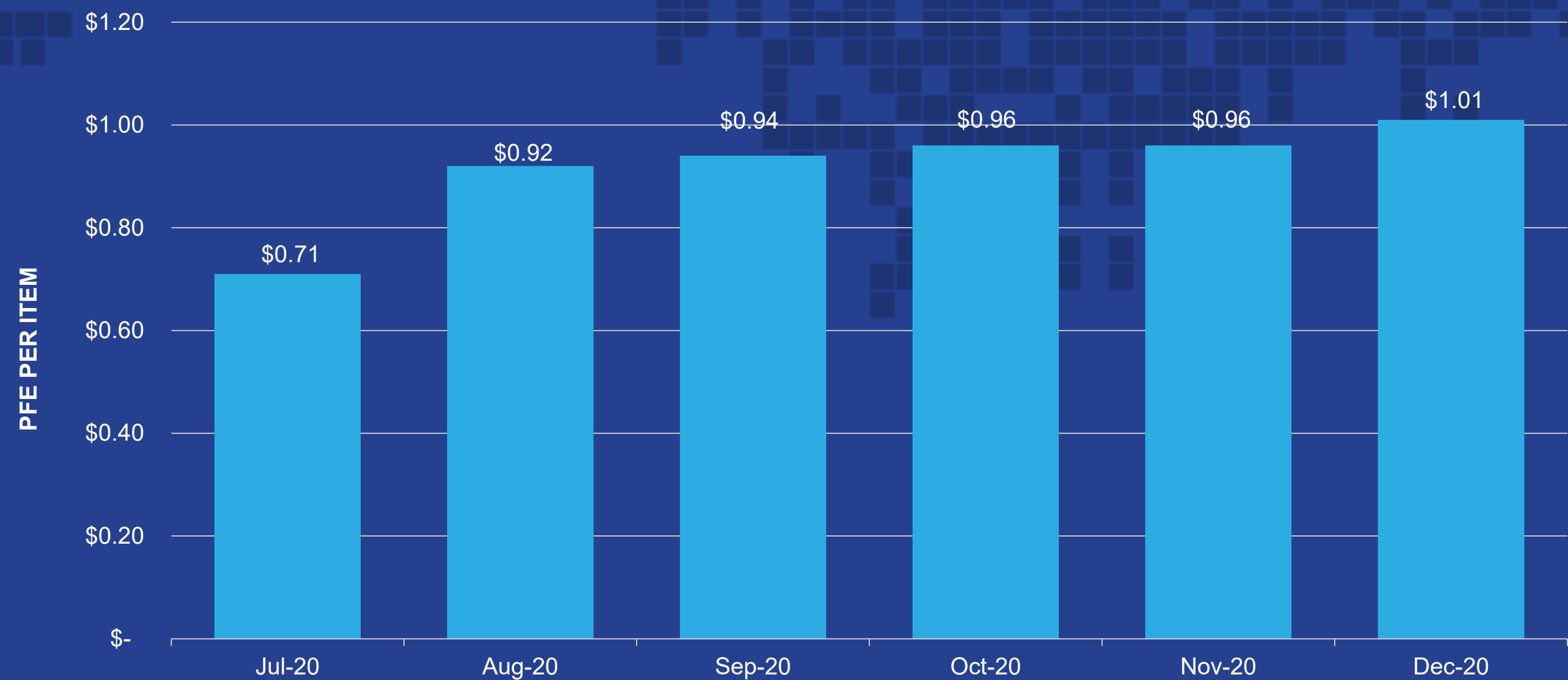
Note: Excludes point to point and dedicated B2C items

B2C Item Growth vs 2019



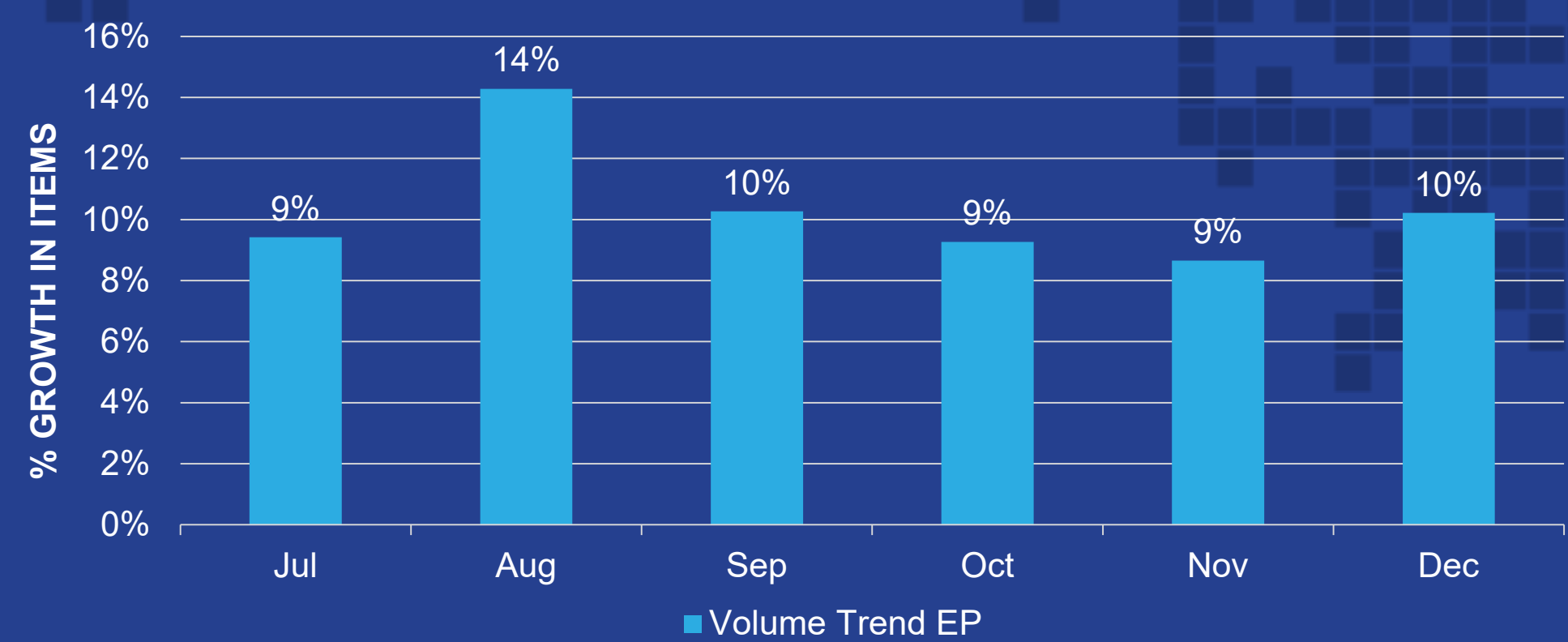
Express Package

Pricing For Effort Trend



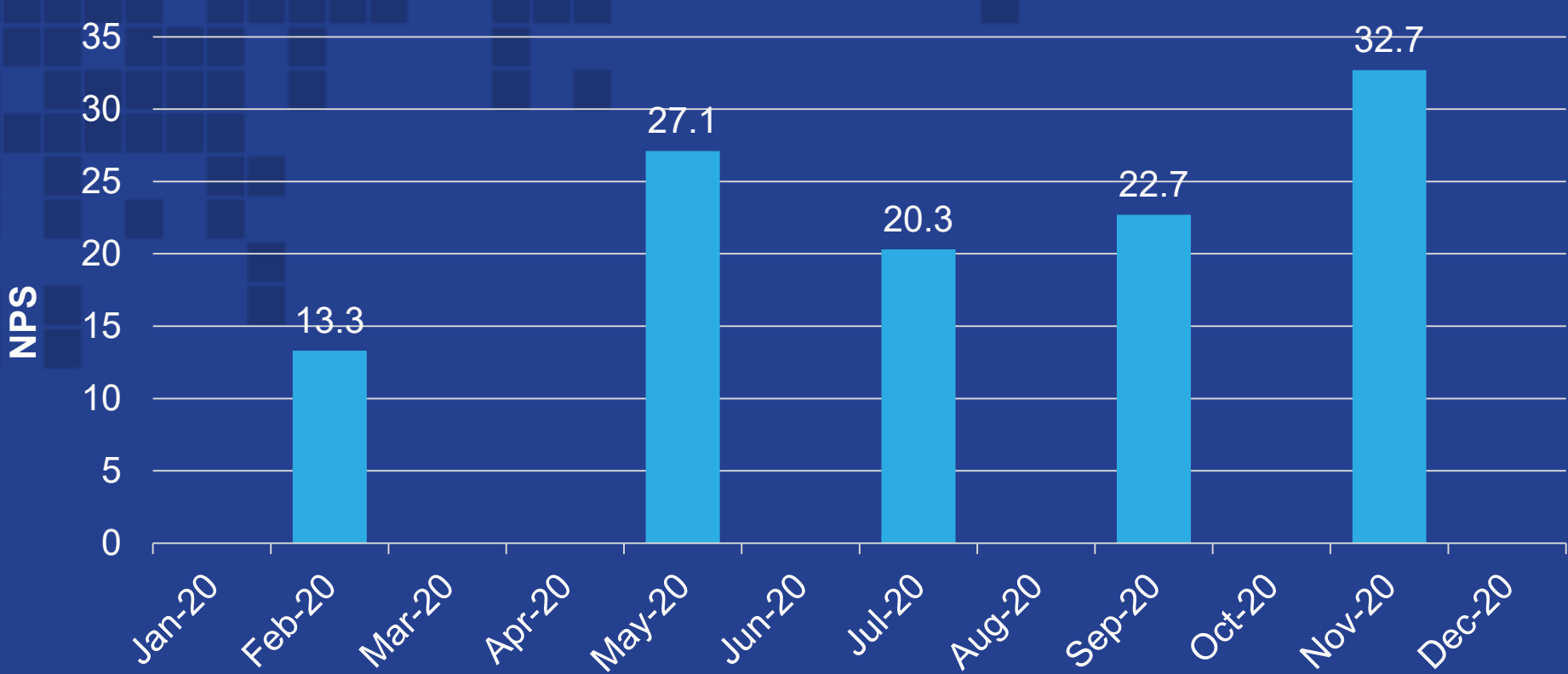
Express Package

Growth in Network Courier Items v 2019



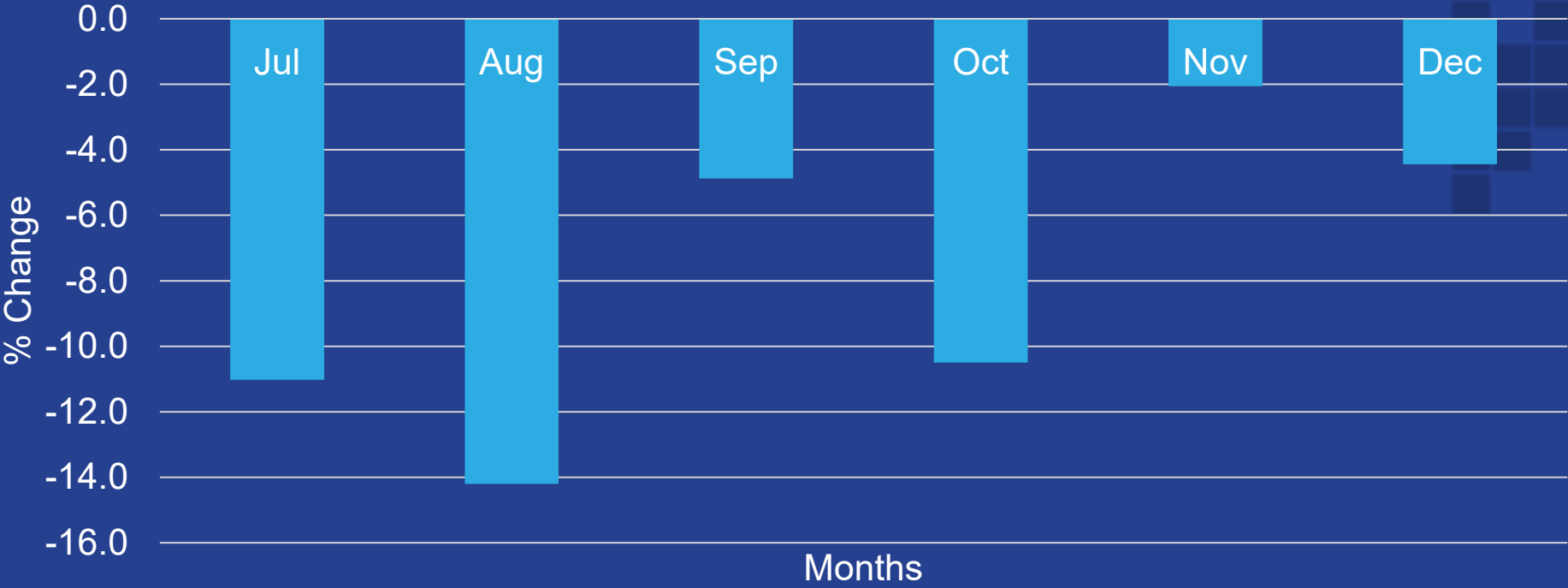
Note: Excludes point to point and dedicated B2C items

Net Promoter Score - Network Couriers

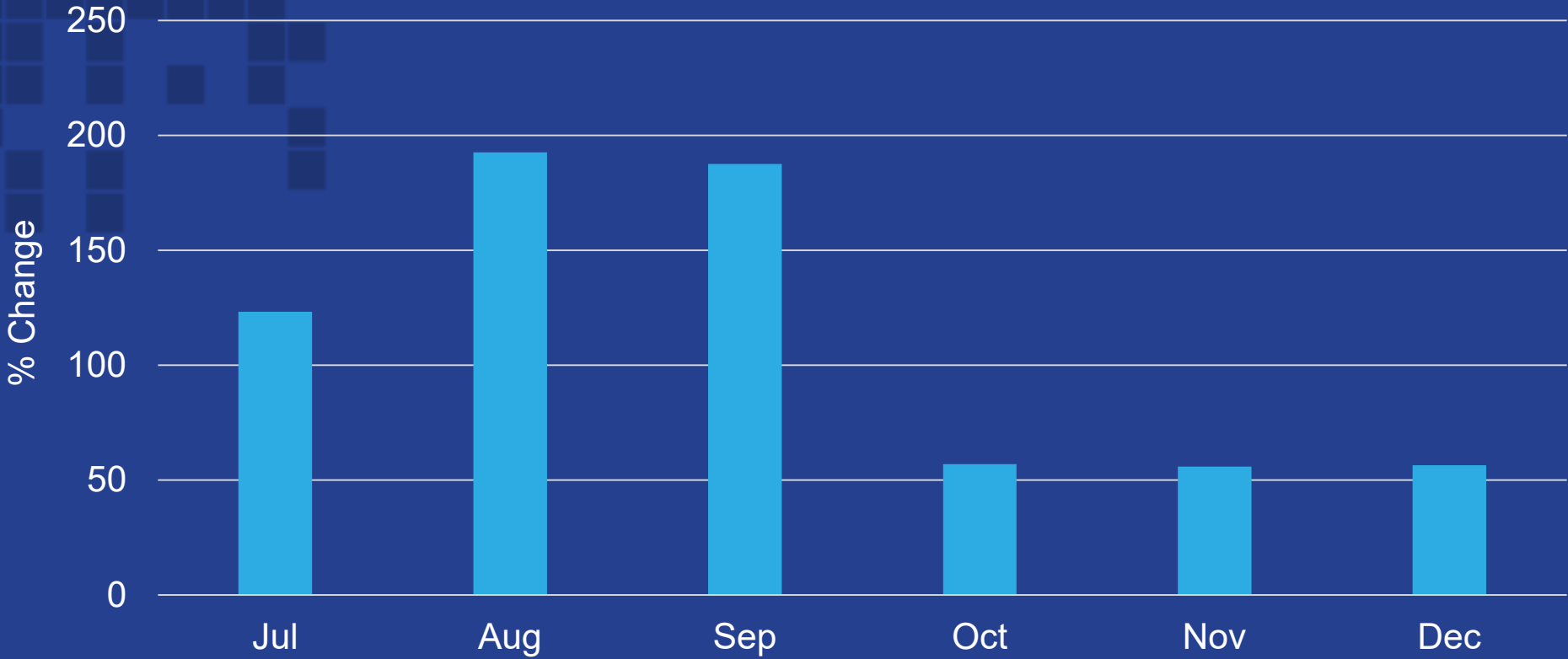


Information Management and Secure Destruction Metrics

Australian Secure Destruction and Medical Waste Bin Swaps v 2019



Med-X Revenue Growth v 2019



Balance Sheet

KEY POINTS

- Total assets increased from FY20 by \$9m, including \$11m increase in cash & cash equivalents and higher trade & other receivables from increased activity and timing of receipts (\$7m), partially offset by decrease in property, plant & equipment (\$3m) and right-of-use assets (\$5m) due to depreciation.
- Total liabilities decreased from FY20 by \$11m, including:
 - \$40m decrease in borrowing as a result of repayments from positive cash flows from operations
 - \$19m increase in payables in respect of change in fair value of contingent consideration (increasing accrual for estimated future Big Chill (BCD) final settlement payment)
 - \$14m increase in trade and other payable from increased activity and timing of payments
 - Prudential increase of doubtful debt provisions to 3.4% of debtors
- Gearing as at 31 December 2020 is 30% (excluding lease liabilities related to NZ IFRS16) and 57% (including lease liabilities related to NZ IFRS16).



Cashflow

KEY POINTS

- Cash generated from operations of \$104m was \$42m above the PCP due to strong results compared to PCP and the inclusion of Big Chill (acquired on 1 April 2020)
- Net cash inflows from operating activities (i.e. after deducting interest and tax payments) were \$39m above the PCP
- Interest paid increased reflecting higher average debt level during this half year, following the BCD acquisition, compared to the PCP.
- Cashflows from investing activities were down \$19m on the PCP with no acquisitions made during the period.
- The \$35m increase in cash outflows from financing activities compared to the PCP reflects:
 - repayment of \$41m of debt compared to drawdown of \$13m in the PCP
 - \$6m increase in lease payments, partly due to inclusion of Big Chill
 - no dividend paid this period compared to \$24m of dividend paid in the PCP



Capital Expenditure
for the six months ended 31 December 2020

	2020 Full Year Actual \$M	2021 Full Year Forecast \$M
Capital Expenditure	23	20 - 22
Depreciation and software amortisation (including impact of NZ IFRS 16)	47	59*
Depreciation and software amortisation (excluding impact of NZ IFRS 16)	18	22*

* Increase from FY20 predominantly due to the annualised impact of depreciation on assets of businesses acquired in FY20

Dividend

- INTERIM DIVIDEND: 15.5 cps
- IMPUTATION CREDITS: 6.0278 cps (fully imputed at 28% tax rate)
- SUPPLEMENTARY DIVIDEND: 2.7353 cps
- RECORD DATE: 12 March 2021
- PAYMENT DATE: 1 April 2021
- THE DRP WILL NOT BE OFFERED FOR THIS DIVIDEND

STRATEGY



Express Package

STRATEGY

- Pricing For Effort will be used to target those areas of our business where the price does not yet fully reflect the true cost of performing the service: Stage II of PFE was launched effective August at an additional 50c per residential delivery. In Stage III, a final additional tranche of 50c per residential delivery was levied from February 2021
- New services will be launched where market demand exists: NOW Couriers same-day-guaranteed service and evening delivery services were launched in Auckland in late 2020. KiwiDrive was launched in April 2020. There are a number of new opportunities being investigated in 2021
- New customer facing systems are being launched to NOW Couriers customers, and will later be implemented in the other brands, to improve customer experience by providing better visibility and improved freight management tools
- Big Chill will assess opportunities to further grow the network along with adoption of courier technology for express chilled parcels



Business Mail

STRATEGY

- Continue to expand our network to meet customer demand and achieve greater efficiencies in the last mile
- Provide customers with a multi-channel offer (digital and physical mail)
- Provide high levels of service at premium prices



Information Management

STRATEGY

- Target high-security 3PL customers to fill excess capacity at sites where site utilisation is low
- Further streamline AU cost base to improve margins
- Continue to provide high service levels to the AU digitalisation project which has commenced. Timing of project has been COVID impacted with more of the margin now expected in H2.
- Pursue digitalisation opportunities in the pipeline for FY22
- Develop new services to market to our large NZ and AU customer bases

Secure Destruction

STRATEGY

- Grow the Med-X brand through AU
- Continue to target market share gains and find innovative ways of targeting customers who have relocated from CBD zones
- Invest in high value waste streams and recycling opportunities to divert waste from landfill and improve circular economies
- Use a combination of acquisition, alliance and start-ups to grow scale
- Generate transport efficiencies across the Shred-X and Med-X fleets



Product Development

STRATEGY

- The Startery – dedicated resource to design and test new products and services in conjunction with our businesses
- Specialised skills and processes to develop ideas that leverage design thinking, lean start-up and business model canvas methodologies
- Primarily focussed on opportunities and ideas that are aligned or complementary to existing business activities
- Operational for 18 months – in that time, we have launched two new services
- The Startery has seven new product opportunities currently at various stages of the design process



Outlook

- Whilst the economic environment remains uncertain, we are encouraged by the strong trading results achieved in the first half of FY21
- We would expect that
 - In Express Package, volume will be influenced by macro-economic activity, new consumption trends and supplemented by new business wins;
 - In Information Management, whilst storage revenues are resilient, activity-based revenue streams will rely on CBD workers returning to offices.
- We have well-established systems and processes to revert to if we experience another lockdown in NZ or AU. EP volumes will generally benefit in level 2 and 3, whereas IM activity will typically decline.
- We will continue to review the portfolio of services we provide with a view to delivering superior long-term value to shareholders through short, medium and long-term initiatives.
- The company will continue to consider acquisition opportunities that are complementary to our existing operations and capabilities.

Conclusion

While FY21 has started strongly for Freightways, we are aware that we must not be complacent - that factors beyond our immediate control will require us to act as swiftly as we have demonstrated we can in the past.

We are proud of our achievements to date in growing contractor incomes, developing new services and reducing emissions per item. We will actively explore future opportunities to enhance our position in these key ESG areas.



The Freightways directors would again like to thank the efforts of every one of our people across Australasia during these exceptional times.

Appendix: Reconciliation of GAAP

for the six months ended 31 December 2020

Freightways Group

	HY21	HY20	Change
	\$M	\$M	%
Operating Revenue	410.3	318.9	28.7
EBITDA (GAAP)	80.6	71.3	13.1
Add back: Change in fair value of contingent consideration – BCD	19.2	-	
Less: NZ IFRS16 adjustment	(21.6)	(15.1)	42.3
EBITDA (before NZ IFRS16 and change in fair value of contingent consideration – BCD)	78.2	56.1	39.4
EBITA (GAAP)	51.8	50.1	3.4
Add back: Change in fair value of contingent consideration – BCD	19.2	-	
Less: NZ IFRS16 adjustment	(3.6)	(2.4)	48.7
EBITA (before NZ IFRS16 and change in fair value of contingent consideration – BCD)	67.4	47.7	41.3

NOTE

- GAAP – Generally Accepted Accounting Principles (IFRS-compliant)
- The table above shows a reconciliation from GAAP to results excluding the impact of NZ IFRS16 and change in fair value of contingent consideration – Big Chill Distribution Limited (BCD)

Appendix: Reconciliation of GAAP to pre-NZ IFRS16 for the six months ended 31 December 2020

Express Package & Business Mail

	HY21	HY20	Change
	\$M	\$M	%
Operating Revenue	327.7	237.6	37.9
EBITDA (GAAP)	74.4	49.8	49.5
Less: NZ IFRS16 adjustment	(12.7)	(6.4)	99.0
EBITDA (before NZ IFRS16)	61.7	43.4	42.2
EBITA (GAAP)	57.4	39.9	44.1
Less: NZ IFRS16 adjustment	(1.7)	(0.8)	115.2
EBITA (before NZ IFRS16)	55.7	39.1	42.6

NOTE

GAAP – Generally Accepted Accounting Principles (IFRS-compliant)

Appendix: Reconciliation of GAAP to pre-NZ IFRS16 for the six months ended 31 December 2020

Information Management

	HY21	HY20	Change
	\$M	\$M	%
Operating Revenue	84.9	82.3	3.2
EBITDA (GAAP)	26.5	23.0	15.2
Less: NZ IFRS16 adjustment	(8.7)	(8.6)	1.7
EBITDA (before NZ IFRS16)	17.8	14.4	23.3
EBITA (GAAP)	15.6	12.6	23.8
Less: NZ IFRS16 adjustment	(1.9)	(1.6)	16.9
EBITA (before NZ IFRS16)	13.7	11.0	24.8

NOTE

GAAP – Generally Accepted Accounting Principles (IFRS-compliant)



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