FREIGHTWAYS
FULL YEAR RESULTS PRESENTATION

FY 20

Freightways

Freightways Limited and its subsidiaries.
Full Year Report Financial Year ended 30 June 2020

We’ve never been afraid to be the first to do something – if it’s the right thing to do

*This year we’ve successfully expanded into new areas because we saw opportunities to add value across several sectors. We invested in **Big Chill** because we knew there was growth potential in the food supply chain. We’ve revamped and strengthened courier businesses like **NOW** to continue delivering at the high service levels our customers expect. We introduced a **trans-Tasman** air freight service to help exporters deliver to their Australian markets. And we introduced **PFE** to ensure our drivers take home the earnings they deserve, and the business improved its margin on residential delivery.*

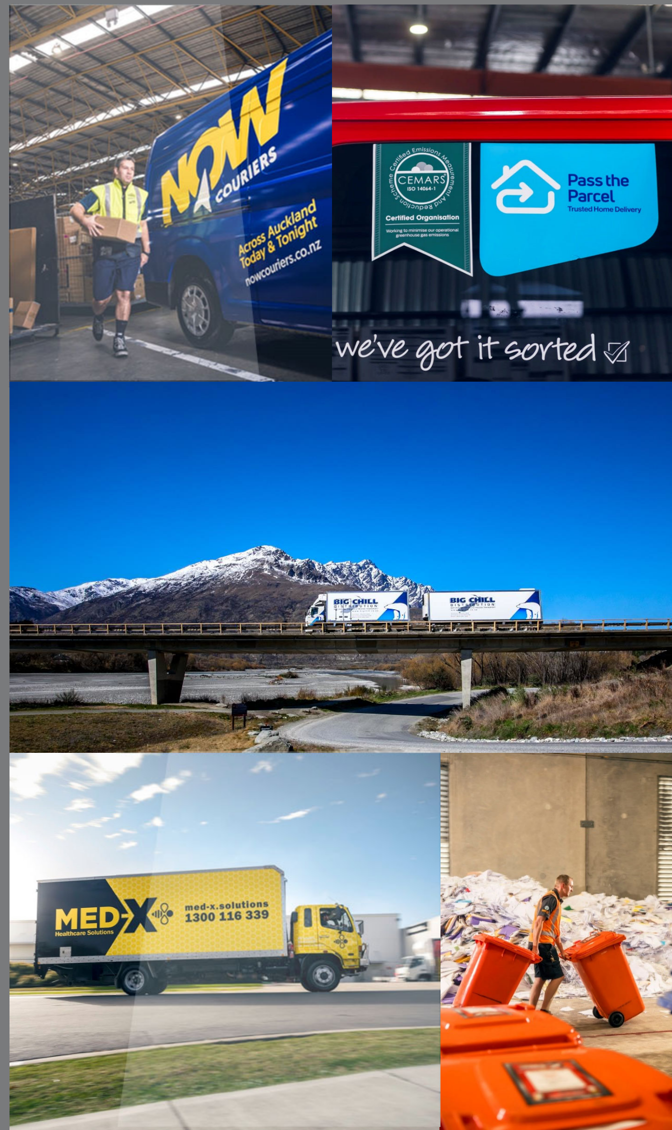
Of course the country’s response to the threat of Covid-19 affected us, just like it did most New Zealand businesses.

But it also brought out the best in our culture. Right across our brands, people stepped in to help where help was needed. Good things happened. Every day.

Like all businesses, we’ll respond to the ebbs and flows of what has happened in ways that protect our business and respect the expectations of our investors. But entrepreneurship will remain our constant. We have always been, and will always be, a company that grows on the strengths of what we accomplish together.

Agenda

1. 2020 HIGHLIGHTS & LOWLIGHTS
2. FINANCIAL POSITION & PERFORMANCE
3. DIVIDEND
4. STRATEGY
5. OUTLOOK



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HIGHLIGHTS

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COVID-19 Impact

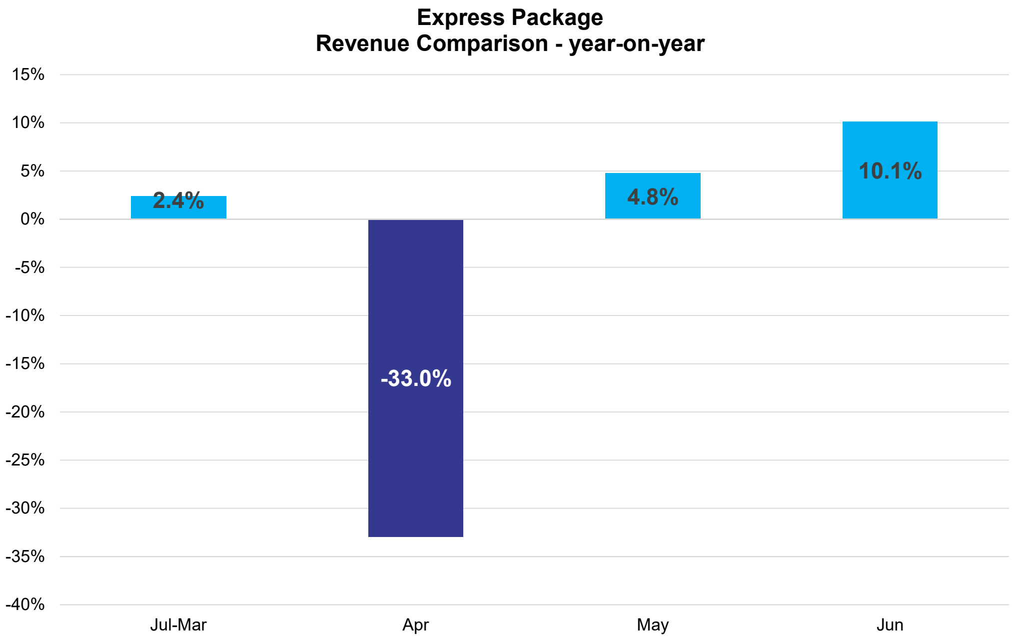
All Freightways' businesses in NZ and AU were categorised as essential services or suppliers to essential services, reflecting the critical nature of the items we pick up, process and deliver.

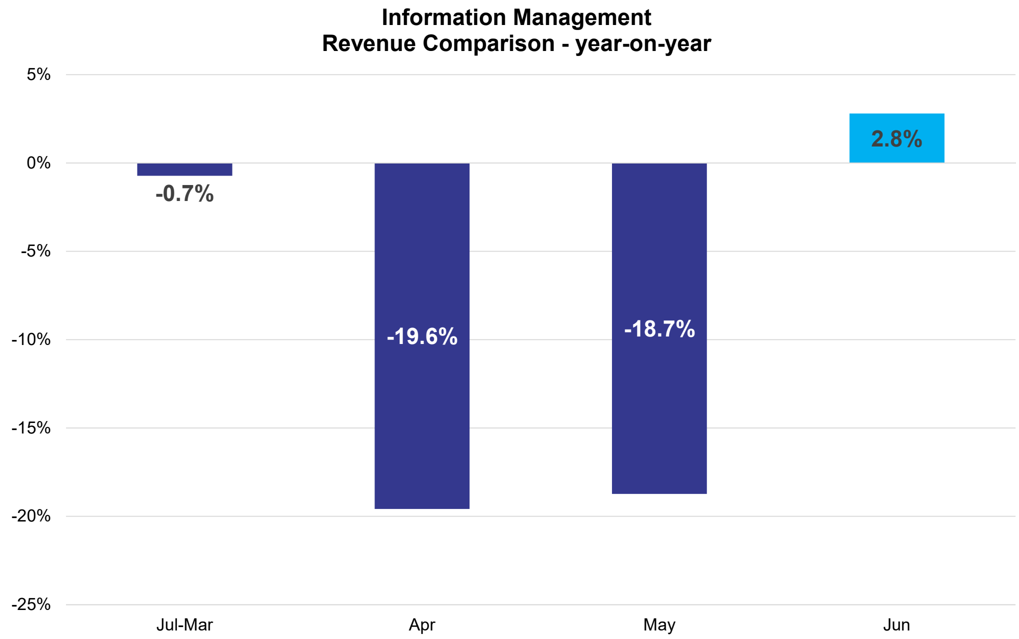
Our response included →

ACTIONS

Led the industry with contactless deliveries	+ Range of onsite precautionary measures + Implementing PODS + Provision of PPE + Contact tracing records	Extension and recognition of lending facilities
Heightened focus on cash collection	Elimination of travel, discretionary spending and variable overheads	***Reduction of non-essential capital expenditure***
Salary freeze (excluding the increases of depot staff)	***1000 staff work from home***	**$54m** Use of DRP on 1st April and $30m of equity for BCD
Reduced linehaul and airfreight sectors	Only affected businesses claimed the Government Wage Subsidy	Reduction of overtime and use of casual labour

COVID-19 Impact

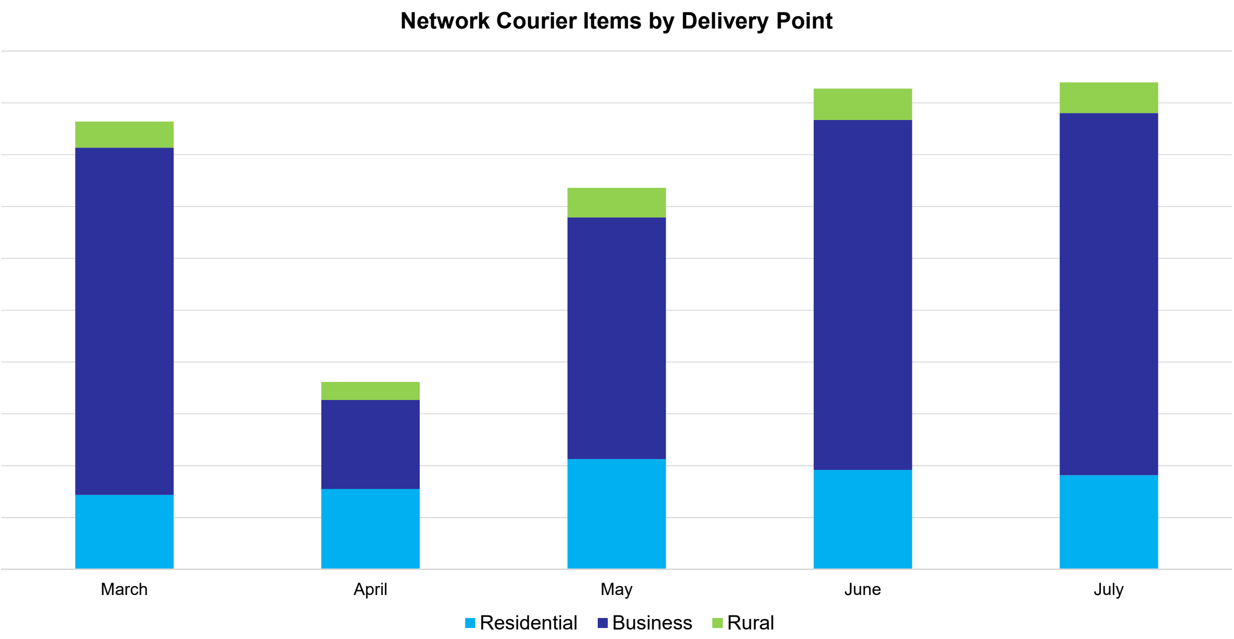




***Note:** For like for like comparison, the Express Package graph above excludes contribution from Big Chill.*

COVID-19 Impact

B2B, B2C MIX (in 2020)



Note: *For like for like comparison, the Express Package graph above excludes contribution from Big Chill.*

Highlights

- Ability to respond to the challenge and demonstrate the resilience of the business model
- Express delivery standards during the (level 3) peak online shopping period were a credit to our team when the pressure was on
- Gained market share as a result of superior delivery performance
- Achieved 73c per item Pricing for Effort by the end of the year
- Acquired Big Chill 4 days into lockdown. While BCD experienced a drop in volume of 22% during level 4, volumes have bounced back and demonstrated YoY growth of 15% in June
- Commenced a Trans-Tasman airfreight operation within 4 weeks of lockdown, supported by the Ministry of Transport
- Launched NOW Couriers same-day guaranteed service across Auckland
- Launched Kiwidrive, a crowd sourced point-to-point delivery service to provide variable delivery resource in peak periods
- Rapidly expanded our medical waste business (Med-X) in response to demand for secure collection and disposal of waste

Lowlights

- *Decline in Print and Copy of 50% through Covid-19*
- *Records Management facility utilisation stalled in 2HY in AU as Covid-19 took precedence for our customers*
- *Slower and lower uptake of the digitisation project which is now expected to continue through FY21*
- *In AU many CBD office workers WFH which results in lower activity for our information management business*
- *Discounting of bulk mail pricing which resulted in lower margins*
- *Lower paper pricing in NZ during FY20*

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FINANCIAL POSITION & PERFORMANCE

The financial results in this presentation should be read in conjunction with the abridged financial statements for the year ended 30 June 2020 which can be found in the NZX preliminary results announcement.

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Financial Summary

For the year ended 30 June 2020

		FY19			FY20			Change	
	Note	GAAP $M	IFRS16 lease adj. $M	Excl. leasing $M	GAAP $M	IFRS16 lease adj. $M	Excl. leasing $M	GAAP %	Excl. leasing %
Revenue		615.7	-	615.7	630.9	-	630.9	2.5	2.5
EBITA, before non-recurring items	i.	96.8	-	96.8	97.8	5.3	92.5	1.0	(4.4)
Non-recurring items		2.6	-	2.6	(9.6)	-	(9.6)	(462.9)	(462.9)
EBITA	ii.	99.4	-	99.4	88.2	5.3	82.9	(11.3)	(16.6)
NPAT, before non-recurring items	iii.	61.0	-	61.0	56.0	(2.5)	58.5	(8.2)	(4.1)
Non-recurring items after tax		2.4	-	2.4	(8.7)	-	(8.7)	(467.9)	(467.9)
NPAT	iv	63.4	-	63.4	47.4	(2.5)	49.8	(25.2)	(21.4)
Basic EPS (cents) (before non-recurring items)		39.3		39.3	35.5		37.0	(9.7)	(5.9)

GAAP – Generally Accepted Accounting Principles (IFRS-compliant)

NOTES

(i) *Operating profit before interest, tax and amortisation, before non-recurring items*

(ii) *Operating profit before interest, tax and amortisation*

(iii) *Net profit after tax (NPAT), before non-recurring items*

(iv) *Profit for the year attributable to the shareholders*

Non-recurring Items

2020

Non-recurring (gains) losses:	2020 $000
Impairment of goodwill	5,194
Impairment of brand names	1,581
Impairment of intangible assets - software	608
Write-off of obsolete software	2,739
Acquisition advisory fee	981
Reversal of earn-out payables	(1,505)
Total non-recurring losses	(9,598)

2019

Non-recurring benefits before tax totalling $2.6 million (no tax applicable) in respect of reversing $1.6 million of a previously accrued final acquisition payable that is no longer expected to be required and a $1 million gain upon recording the replacement of earthquake-related damaged racking funded by insurance proceeds. The gain on the racking replacement arises from the $3 million of insurance proceeds received during the year for new racking exceeding the $2 million written down book value of the structurally-compromised racking that was written-off.

Revenue Segmentation

For the year ended 30 June 2020

	FY19	FY20	*Change*
	$M	$M	%
Express package & refrigerated transport	397.2	421.7	*6.2*
Postal	54.0	49.1	*(9.1)*
Storage & handling	62.6	60.3	*(3.6)*
Destruction activities	59.7	61.6	*3.2*
Other	42.2	38.3	*(9.2)*
Total revenue	615.7	630.9	*2.5*

NOTES

** Other includes Digital Services and Print and Copy revenue*

Express Package & Business Mail
For the year ended 30 June 2020

	FY19	FY20	*Change*
	$M	$M	%
Operating Revenue	453.0	474.4	*4.7*
EBITDA	80.0	85.6	*7.0*
EBITA	72.2	75.9	*5.2*
EBITA Margin	15.9%	16.0%	

Information Management
For the year ended 30 June 2020

	FY19	FY20	*Change*
	$M	$M	%
Operating Revenue	164.5	158.7	*(3.5)*
EBITDA	35.3	29.6	*(16.3)*
EBITA	29.3	22.4	*(23.5)*
EBITA Margin	17.8%	14.1%	

NOTES

- *EBITDA, EBITA and EBITA margins on this slide represent operating results, exclusive of the impact of NZ IFRS 16 and non-recurring items*
- *Refer to appendix for reconciliation to GAAP results*

Balance Sheet – Key Points

- *Total assets increased from FY19 by $466m, including $278m of right-of-use assets (NZ IFRS16), $134m of intangible assets and $28m of property, plant & equipment (both predominantly due to acquisitions in FY20). Higher trade & other receivables from increased activity and timing of receipts ($13m).*
- *Total liabilities increased from FY19 by $423m, including:*
  - *$311m of lease liabilities on adoption of NZ IFRS16*
  - *$54m in borrowings to fund acquisitions*
  - *$43m in trade and other payable from increased activity and timing of payments, as well as accrual for deferred settlement on the Big Chill acquisition*
  - *$12m in income tax payable with FY20 provisional tax funded through tax financing*
- *Issued capital increased by $54m, including $23m worth of shares issued in the April dividend reinvestment plan (DRP) and $30m of shares issued as part of placement to certain vendors of Big Chill.*
- *Gearing as at 30 June 2020 is 38% (excluding lease liabilities related to NZ IFRS16) and 62% (including lease liabilities related to NZ IFRS16).*

Cashflow – Key Points

- *Cash generated from operations of $160m was $52m above the PCP. With the adoption of NZ IFRS16, $34m of lease payments previously included in payments to suppliers are now classified in interest payment ($9m) and lease payments ($25m). COVID-19 wage subsidy of $16m has been netted against payments to suppliers and employees. Net cash inflows from operating activities (i.e. after deducting interest and tax payments) were $51m above the PCP. Income tax paid in FY20 is lower due to provisional tax being funded through tax financing and interest paid increase reflects the previously mentioned interest on NZ IFRS16.*

- *Cashflows from investing activities were up $94m on the PCP, which included $91m more in acquisition payments compared to the PCP*

- *The $34m decrease in cash outflows from financing activities compared to the PCP reflects the drawdown of $45m of debt in FY20 compared to $10m in the PCP and $24m from shares issued, partially offset by $25m of lease payments previously classified in payments to supplier as described in point 1 above.*

Capital Expenditure
For the year ended 30 June 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	52*
Depreciation and software amortisation (excluding impact of NZ IFRS 16)	18	23*

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

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DIVIDEND

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Dividend

- *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 that the full economic impact has yet to be felt in either country at this stage.*
- *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 also that many of our team took pay cuts through the lockdown period 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 - not declaring a final dividend for FY20, which is expected to be a one-off decision, is the right thing to do.*
- *We envisage a resumption of dividends in the current financial year (FY21), subject to a continuation of our current trading conditions.*

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STRATEGY

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Strategy

4 CORE AREAS OF BUSINESS

Express Package

Current State

- Volumes have recovered after level 4 lockdown and, in the period from May-July, were above the pcp
- Business to Consumer (home delivery) peaked at ~50% of volume and has since moderated back to 24% (4% higher than pre-COVID)
- Achieved 73c/item in Pricing for Effort by June
- Residential delivery productivity increased by 17% during lockdown levels 4-2
- Service levels were strong, outperforming competitors
- Big Chill's volumes fell by 22% through level 4 and then have steadily recovered to be above the pcp by June
- Trans-Tasman airfreight capacity exceeded 1.4 m kilos by the end of June

Strategy

- Pricing For Effort: Stage II has been launched effective 1st August at an additional 50c per item
- We have elected to levy a modest 1.9% price increase across all services
- NOW Couriers same-day-guaranteed service has been launched in Auckland
- Streamlined IT systems will be launched to continue to improve customer experience
- Big Chill will leverage new 3PL facility in Auckland as well as increased capacity in Wellington and Hawkes Bay

Business Mail

Current State

- Mail volumes fell by 30% during level 4 lockdown but have recovered steadily to end the year above the pcp
- Pricing for bulk mail is lower than the pcp due to "zonal pricing"
- DX has a highly variable cost base enabling it to scale up and down easily

Strategy

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

Information Management

Current State

- Covid-19 impacted a number of services in both AU and NZ:
  - Archive growth stalled in 2H as decisions were deferred
  - Print and copy declined by 50% as lawyers left CBDs
  - Digitisation commenced but more slowly and at much lower levels than expected
- NZ activity levels had largely recovered up until the new lockdown in August
- AU activity still impacted by Victoria's lockdown and lower levels of office occupancy
- Right-sized the business in Q3

Strategy

- Target alternate storage revenue streams in NSW and WA while Archives continue to be slow to transition in
- Continue to work Digitisation which will largely shift from FY20 to FY21
- Significant digitisation opportunities in the pipeline for FY21 & FY22
- Develop new services to market to our large NZ and AU customer bases

Secure Destruction

Current State

- SD reduced by 90% during NZ's level 4 lockdown and by 15% in AU
- NZ activity bounced back after lockdown to pre-Covid levels
- AU's recovery will likely take longer due to Victorian restrictions and more CBD workers currently WFH
- Paper pricing has stabilised but lower than the pcp
- Demand for medical waste collections in AU is high, particularly in Victoria
- Non-paper destruction finished the year strongly with further opportunities for growth

Strategy

- Continue to target market share gains
- Target new waste streams to divert from landfill
- Use a combination of acquisition, alliance and start-ups to grow scale in NZ and AU
- Generate transport efficiencies across the Shred-X and Med-X fleets

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OUTLOOK

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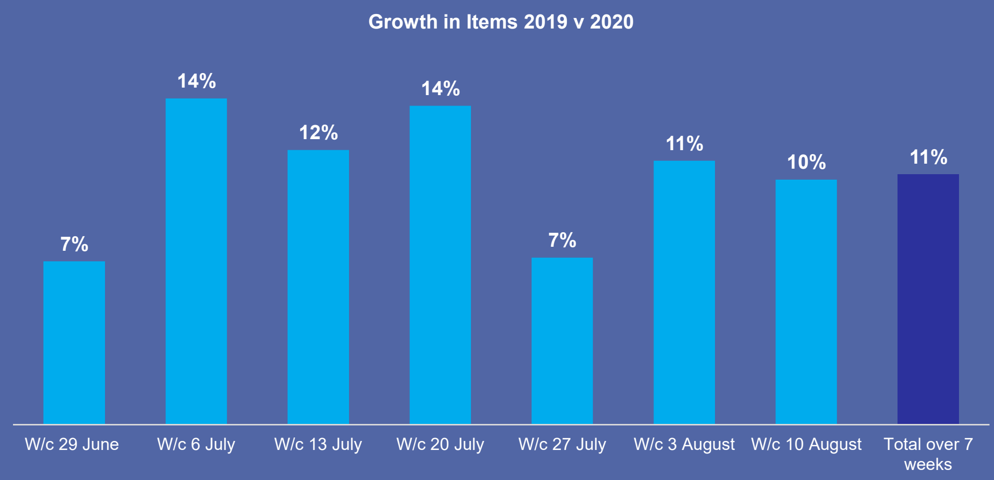
Outlook

- Whilst the economic environment remains highly uncertain, we are encouraged by the strong trading results achieved in the last few months
- We would expect that
  - In Express Package, volume will eventually track macro-economic activity;
  - In Information Management, whilst storage revenues are resilient, activity-based revenue depends on the number of people returning to offices.
- We have learnt from the previous lockdowns and will react quickly to any volume change by adjusting our cost base to protect our margins.
- We will also review the portfolio of services we provide with a view to delivering superior long-term value to shareholders.
- We expect that COVID will also continue to provide opportunities, either for new services, market share gains or accretive acquisitions.



Note: *Represents weekly growth in items within the Network Courier businesses.*

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CONCLUSION

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Conclusion

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 thank the efforts of every one of our teams across Australasia during these exceptional times.

Appendix: Reconciliation to GAAP
For the year ended 30 June 2020

Express Package & Business Mail

	FY19	FY20	Change
	$M	$M	%
Operating Revenue	453.0	474.4	*4.7*
EBITDA (before non-recurring items and NZ IFRS16)	80.0	85.6	*7.0*
Non-recurring items	-	(3.3)	*100.0*
NZ IFRS16 adjustment	-	16.1	*100.0*
EBITDA (after non-recurring items and NZ IFRS16)	80.0	98.3	*22.9*
Depreciation expense (including NZ IFRS16)	(7.8)	(23.9)	*206.0*
EBITA (GAAP)	72.2	74.4	3.1
EBITA (GAAP) Margin	15.9%	15.7%	

Information Management

	FY19	FY20	Change
	$M	$M	%
Operating Revenue	164.5	158.7	*(3.5)*
EBITDA (before non-recurring items and NZ IFRS16)	35.3	29.6	*(16.3)*
Non-recurring items	2.4	(5.3)	*(323.9)*
NZ IFRS16 adjustment	-	17.5	*100.0*
EBITDA (after non-recurring items and NZ IFRS16)	37.7	41.8	*10.8*
Depreciation expense (including NZ IFRS16)	(6.1)	(21.2)	*248.8*
EBITA (GAAP)	31.6	20.6	(34.9)
EBITA (GAAP) Margin	19.2%	13.0%	

NOTES

* *GAAP – Generally Accepted Accounting Principles (IFRS-compliant)*

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