
# WE'RE A COMPANY THAT DELIVERS

HY19 PRESENTATION

Freightways

# Agenda

- Highlights
- Operating Performance
- Interim Dividend
- Business Strategy
- Outlook
- Conclusion

# HIGHLIGHTS

# General Highlights

- Half on half revenue, earnings and dividend growth
- Productivity growth through the courier fleet in residential areas
- Development of IT capability to enable Pricing for Effort initiatives
- New scanning technology for courier fleets implemented in Castle Parcels
- Three acquisitions in the IM division
- Improving utilisation in Australia in line with our targets
- Solid organic growth in secure destruction and medical waste
- An interim dividend of 15 cents per share
- Sustained strong cash generation building headroom for growth

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# Financial Highlights

| | Note | Dec-18 $M | Dec-17 $M | Increase % |
|---|---|---|---|---|
| Revenue | | 314.8 | 292.1 | 7.7 |
| | | | | |
| EBITA (before non-recurring items) | (i) | 50.7 | 49.2 | 3.0 |
| Non-recurring items | | 1.4 | - | |
| EBITA | (ii) | 52.1 | 49.2 | 5.8 |
| | | | | |
| NPAT (before non-recurring items) | (iii) | 32.0 | 31.4 | 2.0 |
| Non-recurring items after tax | | 1.4 | - | |
| NPAT | (iv) | 33.4 | 31.4 | 6.3 |
| | | | | |
| Basic EPS (cents) (before non-recurring items) | | 20.6 | 20.3 | |

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 half year attributable to the shareholders

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# Non-Recurring Items

2018: Non-recurring benefit before tax of $1.4 million (no tax applicable) in respect of the gain arising during the half year upon the progressive recording of the replacement of earthquake-related damaged racking funded by insurance proceeds. A gain on the racking replacement arises because the overall insurance proceeds for new racking will exceed the written down book value of the structurally-compromised racking written-off

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# OPERATING PERFORMANCE

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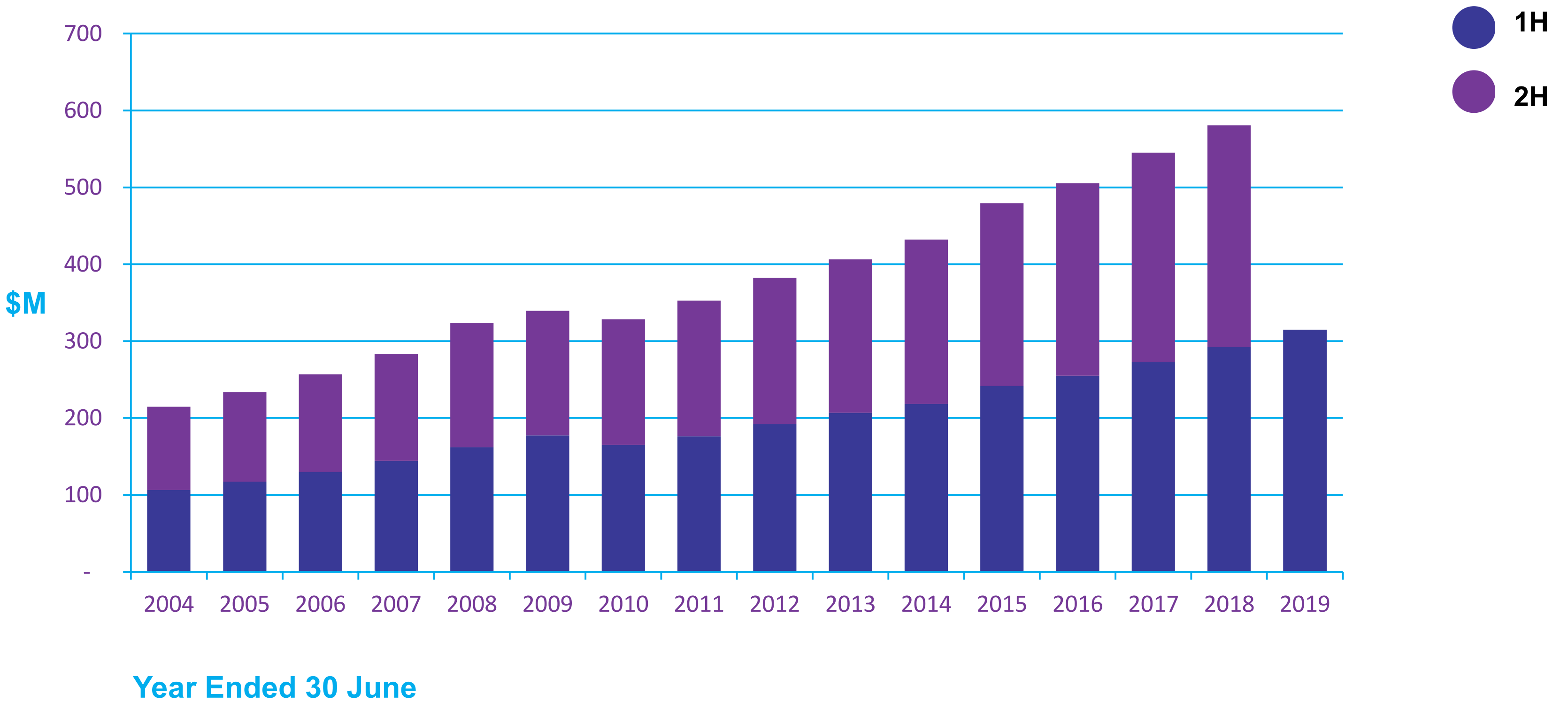
# Operating Revenue

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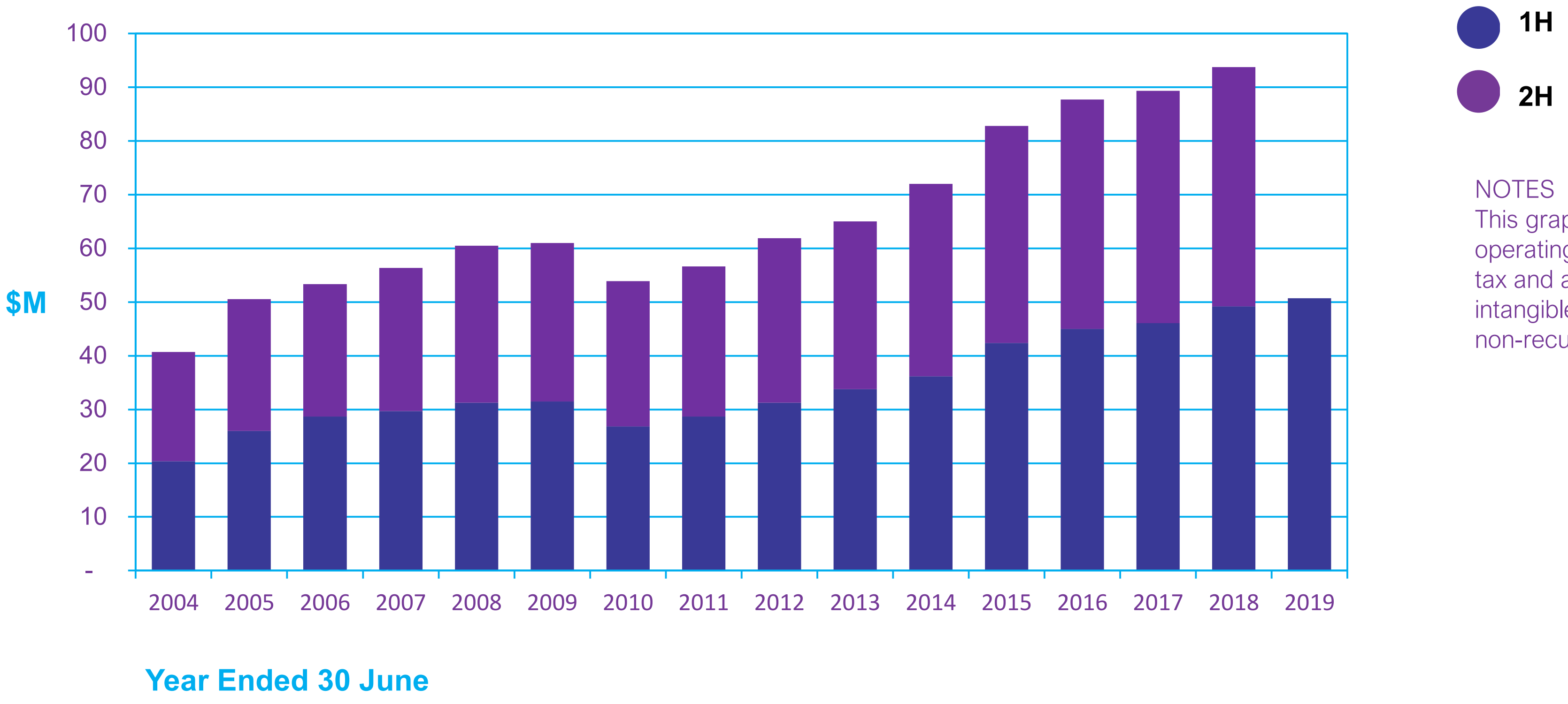
# EBITA




NOTES
This graph represents the operating profit before interest, tax and amortisation of intangibles, exclusive of any non-recurring items

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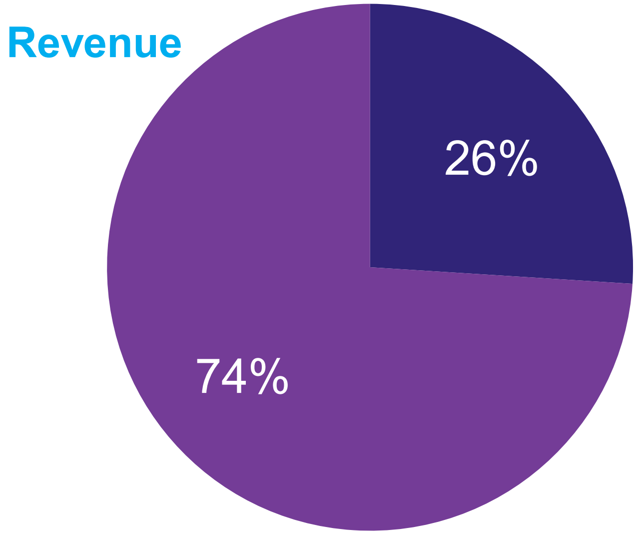
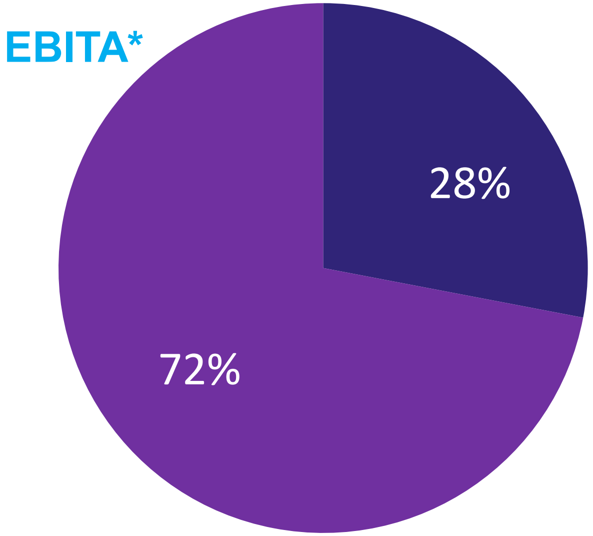
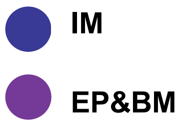
# Divisional Operating Performance




NOTES
* Excluding non-recurring items

# HY19 Express Package & Business Mail

**Operating Revenue**

**$233.5m** ⬆ 7.8%

**EBITDA**

**$42.4m** ⬆ 6.6%

**EBITA**

**$38.6m** ⬆ 6.1%

**EBITA Margin**

**16.5%**

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# HY19 Information Management

* EBITDA, EBITA and EBITA Margin represent the operating results of the division, exclusive of any non-recurring items.

**Operating Revenue**

**$82.2m** ↑ 7.6%

**EBITDA**

**$17.6m** ↑ 1.5%

**EBITA**

**$14.7m** ↑ 0.5%

**EBITA Margin**

**17.9%**

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# Balance Sheet – Key Points

- Total Assets have increased since FY18 by $17m, with higher trade and other receivables due to increased activity ($13m) contributing to higher recorded assets

- Total Liabilities have increased since FY18 by $8m, with higher activities resulting in trade and other payables increasing by $6m.

- Net borrowings have increased by $8m since FY18, mainly to fund acquisitions

- No significant changes in issued capital during the half year

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# Cash Flow – Key Points

- Cash generated from operations of $52m was $2m below the PCP, reflecting timing of receipts from customers and payments to suppliers. Net cash inflows from operating activities (i.e. after deducting interest and tax payments) were also $2m below the PCP at $32m

- Cash outflows from investing activities were up $5m on the PCP, due to $5m more in acquisition payments compared to the PCP

- The $2m decrease in cash outflows from financing activities compared to the PCP reflects the drawdown of $8m of debt this year compared to $6m drawn down in the PCP

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# Capital Expenditure & Depreciation

| | 2019 Half Year Actual $M | 2019 Full Year Forecast $M |
|---|---|---|
| **Capital Expenditure** | 11 | 20 - 22 |
| **Depreciation** | 7 | 16 |

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# INTERIM DIVIDEND

# Interim Dividend

- Interim dividend: 15 cps
- Imputation credits: 5.8333 cps (at 28% tax rate)
- Supplementary dividend: 2.6471 cps
- Record date: 15 March 2019
- Payment date: 1 April 2019
- No DRP was offered in respect of this dividend

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# BUSINESS STRATEGY


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# Express Package & Business Mail

1. **Residential Network Review**

- Assess the opportunities across all of our brands to improve our delivery density, productivity and courier earnings

Our objective is to improve our residential delivery productivity by at least 5%

- Restructured 80 runs which resulted in the removal of 28 runs during the half year – predominantly in Auckland
- Our AI programme is underway to assess further efficiency opportunities in North Harbour
- Average courier pay has increased by 8% half on half

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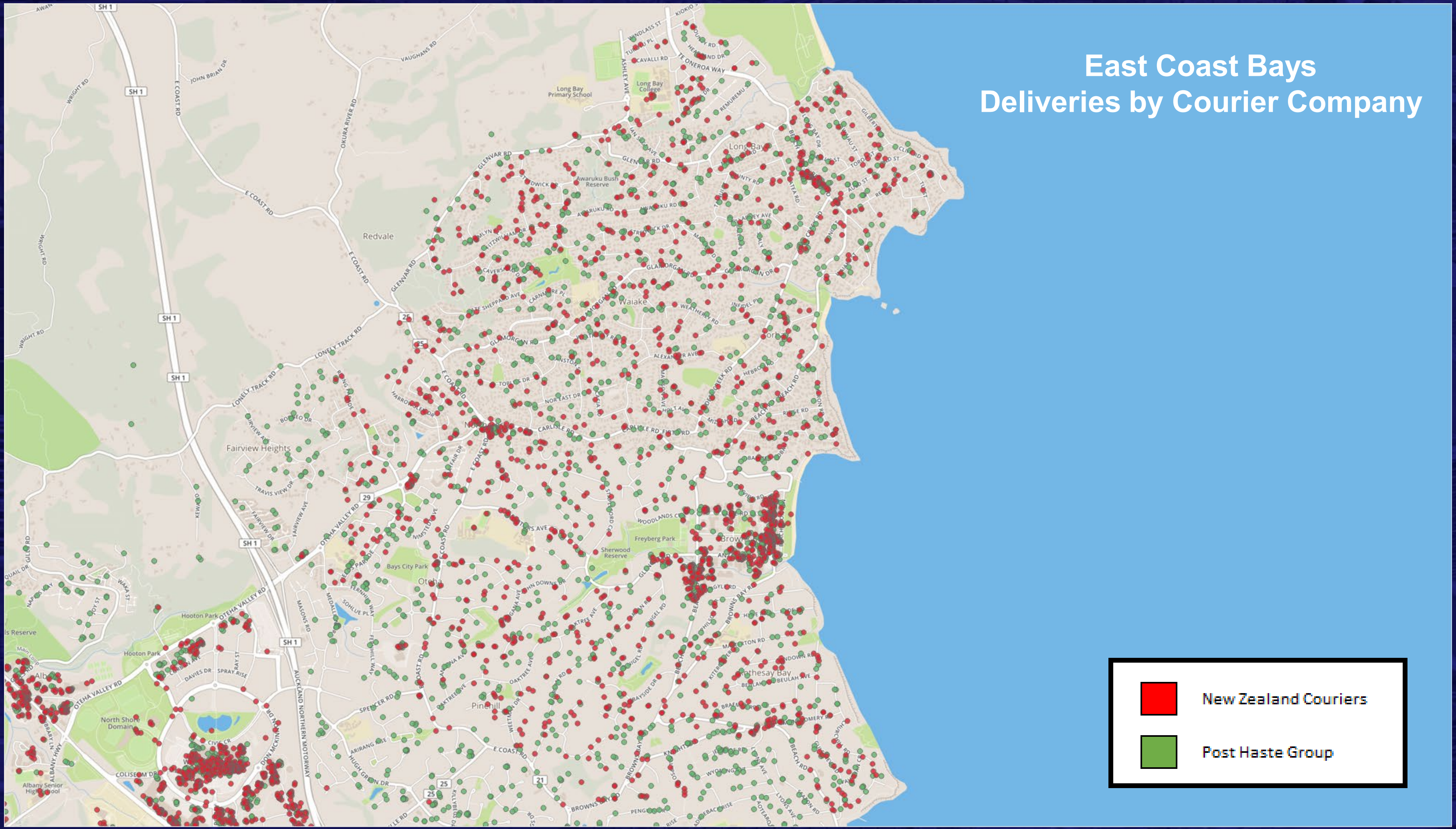
# Before Run Rationalisation – July 2018

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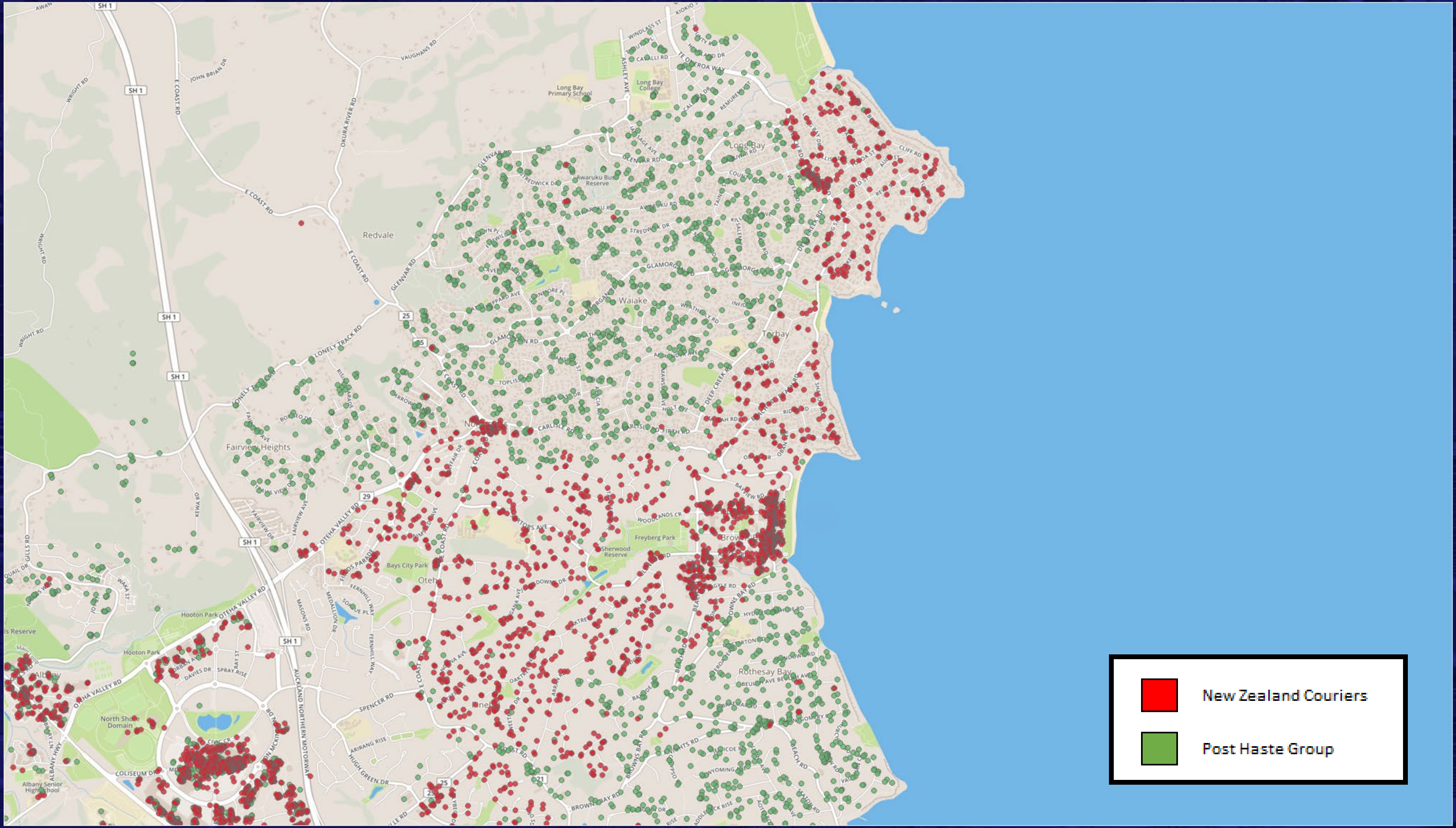
# After Run Rationalisation – November 2018

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# Express Package & Business Mail

## 2. Pricing for Effort (PFE)

- Recognise the lower density, the extra effort required, and therefore the higher cost incurred, for delivering to residential addresses and price these items accordingly.

Our objective is to improve our pricing per item to fund higher courier pay and improve our B2C margins

- EP has won a number of new customers on PFE rates over the last 6 months
- Geo-coded NZ to define business vs residential areas
- Built API's for electronic-ticketing customers to access rating by destination
- We are preparing to introduce PFE to existing customers at our annual uprate on 1 July

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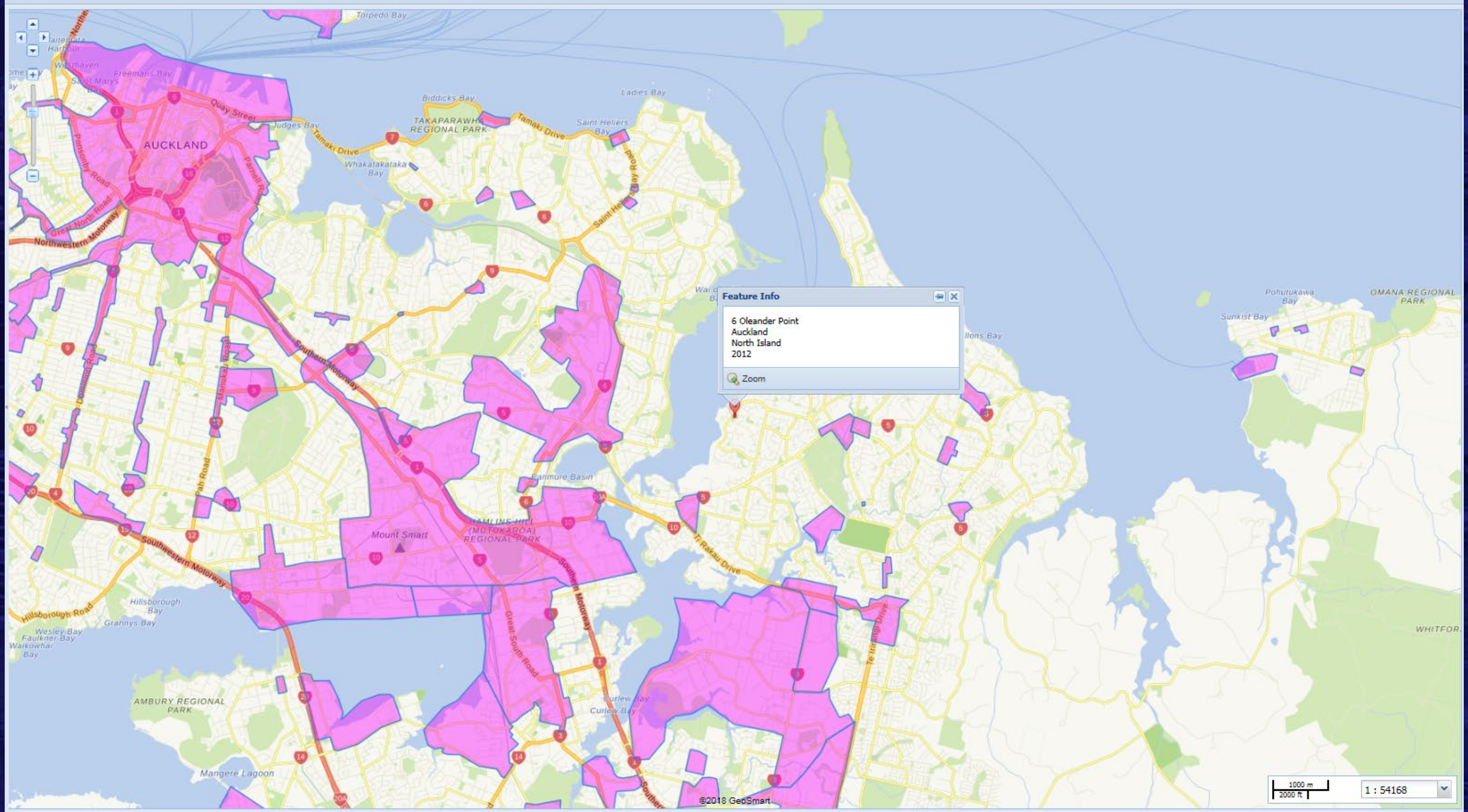
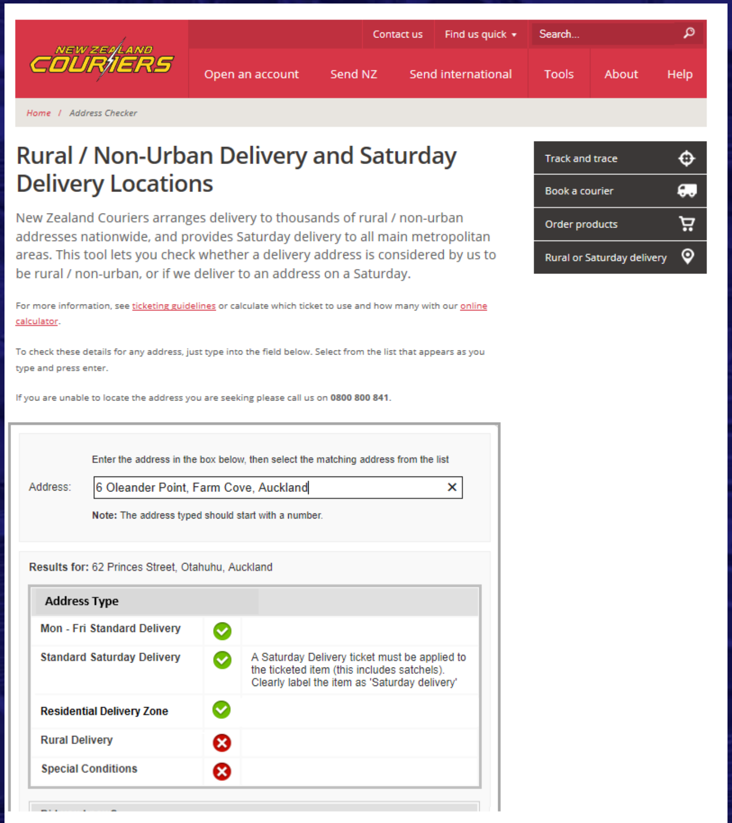
# Business Delivery Zone Mapping

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# Express Package & Business Mail

## 3. Visibility and Data Analytics

- Improve visibility for customers and receivers on the progress of their deliveries and improve reporting on every aspect of our business for our teams

Our objective is to improve customer and receiver satisfaction and enable our teams with accurate and timely data to improve efficiency and service quality

- Castle Parcels implemented new scanner technology in Q2. This will be rolled out to the remaining fleets in Q3 & Q4
- Full suite of real-time reporting released to the business in Q2 – provides margin per route, branch and most importantly per customer, reflecting their B vs C mix
- Technology upgrades to provide receiver notifications to be launched 1 July

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# Information Management

# IM – Strong Market Position

## New Zealand

- Largest market share across core services
- All-of-government contract renewed through to 2021
- Credibility with customers is helping to scale-up our emerging digital solutions
- Archive volumes still growing – customer mix / pricing / risk all contribute to retention

## Australia

- Number 1 in document destruction, number two in media and number four in archive
- Successful strategy to build nationwide presence and footprint while growing EBITA performance
- Double digit archive growth selling into our warehouse capacity
- Digital growth coming from much broader base of SME customers

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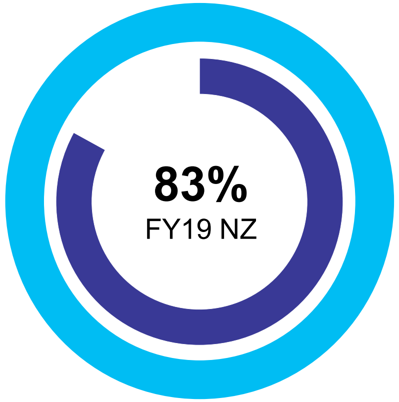
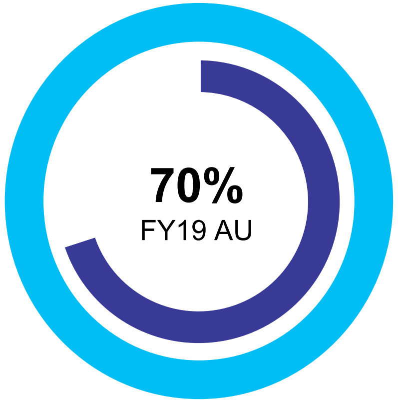
# Information Management

1. **Facility Utilisation**

- Improve facility utilisation to achieve increased margins in the AU business, in particular.

Our objective:




- Warehouse utilisation was 81% in NZ and 65% in Australia at the end of half year

# Information Management

## 2. Growth in Digital Services

- Invest in further sales & marketing resource to be able to scale-up our digital revenue streams, which are currently ~ 10% of revenue for this division

Our objective is to grow the revenue for these services and, through that scale, drive improved EBITA margins

- Established a Product Development team charged with developing new solutions and digital efficiencies for our target markets
  - Customer design / journey mapping
  - Strategy aimed at broadening existing physical services, as well as creating new digital opportunities
  - Focus on product developments which can be scaled
- New digitisation project has leveraged our NZ census experience and established strong capability in AU

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# Digital Growth Strategy – Digitalisation

**Scanning Paper**
- Surveys
- Engineering
- Land & survey
- Legal records

→

**Data Extraction**
- OCR
- Delimiting
- Objective Coding

→

**Data cleansing**
- In AU this involves E Discovery tools
- Data entry

→

**Data hosting or remit to client**
- Within internal systems
- Or secure back to client

- Successful NZ census project gave TIMG large scale credibility
- Revenues lumpy, but customer demand for services increasing
- Australian royal commissions will continue to present opportunities
- Technologies available today not economical enough to create back scan revenues from most archive customers, define future revenue opportunity

# Secure Destruction

## 3. Secure Destruction / Medical Waste

- Develop the niches within Secure Destruction and Medical Waste through start-ups, alliances and acquisitions to provide a national, high quality service offering to our customers

Our objective is to establish a new arm of growth for Freightways

- Acquired a second Medical waste business (VIC) to add to the initial NSW operation.
- Achieving promising organic growth from existing customers and market share gains
- Costs incurred in rolling-out a number of new large contracts in Q2
- Currently integrating the WA acquisition – expected to be a combined operation by June this year
- Actively exploring adjacent product destruction opportunities which leverage our core capabilities

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# Medical Waste

- Strategic Rationale
  - Complementary to Secure Destruction (SD)
    - Leverages SRX capabilities - fleets, facilities and systems
    - First observed in North America (Stericycle)
- Future off-set revenue stream if SD declines
- Large market with many adjacencies. (e.g. nappy & hygiene, quarantine, sharps, washroom products)
- Process is similar to SD, requiring a high quality service:


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# Acquisitions & Alliances

1. Acquisitions completed during half year (Q1)
   - Bolt-on Secure Destruction business in WA
   - Medical Waste business in VIC
   - 75% share in a Digital Online back-up business servicing NZ & Australia

2. Continue to explore opportunities to add bolt-on acquisitions to current lines of business, as well as acquisitions which are complementary to our business model

3. Prepared to exploit FRE's strong balance sheet position with opportunities which leverage our core capabilities

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# OUTLOOK

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# Outlook

1. Increased demand for services in both divisions
2. Continue to target year on year earnings growth for FRE
3. Expect that in FY20 our pricing and efficiency initiatives for B2C have gained greater traction
4. Investing for the future in terms of IT, sales and marketing resource
5. Capital expenditure of $20-22m forecast for FY19
6. Continue to explore complementary acquisition opportunities

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# CONCLUSION

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# Conclusion

- FRE will continue to invest in its businesses to generate growth
- There are opportunities in all lines of business to continue to grow and evolve services to meet customer demand
- FRE remains entrepreneurial and resilient in the face of external factors
- We are committed to improving our long term sustainability – for our teams, our customers, the environments in which we operate and ultimately, our shareholders
- Each brand will compete strongly in their respective niche, while collaborating on infrastructure and capability
- The Board of Directors has acknowledged the outstanding work and ongoing dedication of the Freightways team of people

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