FREIGHTWAYS LIMITED

Full Year Report
June 2018

FULL YEAR REVIEW
From the Chairman and Chief Executive Officer

The Directors are pleased to present the consolidated financial results of Freightways Limited (Freightways) for the year ended 30 June 2018. This report discusses the results, reviews the operations of each division and provides an outlook for the year ahead.

Highlights of the year include:

- Overall year-on-year revenue, earnings and dividend growth
- In the express package & business mail (EP&BM) division:
  - Attaining essential network capacity to support future growth objectives, and
  - Transitioning to Agile IT deployment, driving progress towards achieving greater speed of execution on our IT business priorities.
- In the information management (IM) division:
  - A major data collection/transformation contract win, supporting the growth of the division's suite of digital IM services, and
  - A successful first year in the Medical Waste industry, supporting the objective to further diversify the Secure Destruction business.
- Sustained strong cash generation from both divisions, leading to reduced gearing levels.

Operating performance

The below table presents the reported 2018 result compared to the pcp, both before and after the inclusion of non-recurring items that were reported in the pcp:

	Note	Jun-18 $M	Jun-17 $M	Increase %
Revenue		580.9	545.3	6.5%
EBITA, before non-recurring items	i.	93.7	89.3	4.9%
Non-recurring items		2.6	3.7	
EBITA	ii.	96.3	93.0	3.5%
NPAT, before non-recurring items	iii.	59.6	56.6	5.3%
Non-recurring items after tax		2.6	4.3	
NPAT	iv	62.2	60.9	2.1%
Basic EPS (cents), before non-recurring items		38.4	36.5	

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 shareholders.

The results discussed throughout this commentary exclude the impact of the following non-recurring items that the Directors believe should not be included when assessing underlying trading performance:

- 2018: 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 insurance proceeds for new racking ($3 million) exceeding the $2 million written down book value of the structurally-compromised racking written-off.

- 2017: A non-recurring benefit before tax of $5.6 million (no tax applicable) relating to previously accrued final acquisition payables that are no longer expected to be required. A non-recurring cost before tax of $1.9 million ($1.3 million after tax) relating to the relocation of the TIMG business in Sydney.

Dividend

The Directors have declared a final dividend of 15.25 cents per share, fully imputed at a tax rate of 28%, being a 3% increase above the pcp final dividend of 14.75 cents per share. This represents a payout of approximately $23.7 million compared with $22.9 million for the pcp. The dividend will be paid on 2 October 2018. The record date for determination of entitlements to the dividend is 14 September 2018.

The Dividend Reinvestment Plan (DRP) will not be offered in relation to this dividend. As a capital management tool, the application of the DRP will be reviewed for each future dividend.

REVIEW OF OPERATIONS

Divisional results for the year ended 30 June 2018 are provided below for the EP&BM division and the IM division.

Express Package & Business Mail Division

2018 Result

The EP&BM division operates a multi-brand strategy in the domestic market through New Zealand Couriers, Post Haste, Castle Parcels, NOW Couriers, SUB60, Security Express, Kiwi Express, Stuck, Pass The Parcel, DX Mail and Dataprint.

Operating revenue of $428.8 million was 6.5% higher than the pcp. EBITA of $67.9 million was 4.0% higher than the pcp.

This result is a sound outcome, particularly given increased costs relating to investment in network capacity to accommodate current, and expected future, increases in volumes. This investment has included the use of a chartered Convair aircraft to supplement the jet fleet and moving into larger depots in Christchurch and Auckland’s North Harbour. Additionally, the transformation of Freightways’ dedicated IT business to agile work practices and the recruitment of a number of new team members has enabled the progression of many key IT projects. Overall labour costs also stepped-up throughout the year, an inevitable outcome of operating in a tight labour market. Volume growth, and consequently revenue and earnings, were slightly stronger in the first half of the year than the second half.

Freightways' smaller postal business, DX Mail, had a challenging second half and overall returned lower earnings than the prior year. Despite overall growth in mail volumes, higher margin mail declined and was offset by lower margin bulk mail.

The EP&BM division delivered a sound full year result, while increasing important network capacity and strengthening its service capability.

Key Strategies in 2019

Residential Network Review: A review of the residential fleets of contractors across all brands commenced in the latter months of the financial year to improve the productivity and earning capacity of these courier runs. The overall mix of business continues to see faster growth in Business to Consumer (B2C) than Business to Business (B2B) volume. This strategy for residential deliveries will see an increased number of items delivered per courier through greater consolidation of volume from all brands channelled into single-area runs, improving the density of deliveries into smaller concentrated geographic areas. It is expected this will have a positive impact on a number of Freightways' environmental, social & governance (ESG) initiatives, including, ongoing strategies to improve courier earnings & service levels, as well as reducing carbon emissions.

Pricing for Effort: A strategy to appropriately price B2C services to ensure both the company and its contractors are motivated to facilitate profitable e-commerce revenue growth is being actively pursued. It is expected e-commerce will continue to drive increased volumes to Freightways year on year and the group is committed to ensuring this growth is both profitable and sustainable and that the B2C services provided meet customers' expectations. Similarly, the DX Mail business will raise its prices for the first time in two years to reflect the increasing cost of mail delivery.

Visibility and Data Analytics: New scanning technology for the EP businesses will be implemented over the coming financial year to enable improved visibility for customers and their receivers. This will complement improved reporting capabilities which will allow the EP teams to better analyse every aspect of their operations so as to help deliver improved efficiency, profit margins and service standards.

Information Management Division

2018 Result

This division operates under the brands of The Information Management Group (TIMG), Shred-X and, following the recent acquisition of a business in the Medical Waste industry, Med-X.

Operating revenue of $153.8 million was 6.6% higher than the pcp. EBITA of $29.8 million was 7.8% higher than the pcp.

Compared to the pcp, improved financial results were achieved by all businesses within this division. Utilisation of IM facilities across New Zealand and Australia improved as storage volumes increased. Secure Destruction revenues increased across the suite of paper sold, as well as revenue for eDestruction and Medical Waste services. In recent years, a range of digital IM services has been developed and introduced to the market. Growth in these digital services, while at an early stage, has been positive and was boosted by the winning of a major data collection and transformation project in New Zealand.

Good progress is being made to replace all racking in TIMG's Porirua document storage facility that was damaged in the North Canterbury earthquake. Freightways carries comprehensive insurance for events such as this. The $2.0 million write-off of the written down book value of the structurally-compromised racking in the division's result and its progressive replacement with new racking since have been funded by insurance proceeds received during the year, resulting in a non-recurring accounting gain of $1 million in this year's result. Importantly, this project is tracking to timetable and is being managed in a way that ensures no service disruption to customers.

Australian IM earnings were at the same level as the New Zealand's earnings for 2018. Given the larger scale of the Australian market, and the broader range of opportunities, including in the Medical Waste industry, it is expected that Australia will surpass New Zealand's earnings going forward.

Key Strategies in 2019:

Facility Utilisation: The footprint for facilities across Australasia will require only incremental additional storage space in the short term. In particular, the current focus is to add profitable new business into existing facilities to take advantage of the investment made in recent years in Australia.

Digital Services Growth: TIMG is well-positioned with a range of digital services which is proving to be attractive to its customer base. In the coming year, TIMG will invest in additional sales & marketing resource to increase revenue growth in these service lines. TIMG will also continue to assess new digitally-delivered services which are considered complementary to the existing portfolio of services.

Secure Destruction and Medical Waste: It is planned to continue the investment and management focus on revenue streams in related markets that complement the physical footprint established by Shred-X in the Secure Destruction market. These markets present an opportunity to apply Shred-X's consistent and high quality national service standards and sales methodologies to grow through a number of niches, including; eDestruction, Medical Waste, Product Destruction and other high value recycling.

Acquisitions and Alliances: Freightways will continue to explore and investigate acquisition and alliance opportunities for both current and future complementary service offerings.

Freightways is pleased to announce the recent acquisition of a number of small businesses in Australia that operate in the IM and Medical Waste industries. Two businesses were acquired shortly before year-end and two will be effective from early in the new financial year. These businesses were acquired for a total of $9.8 million. EBITDA of $1.7 million per annum is expected to be realised after the businesses have been fully integrated. Related capital expenditure will be approximately $0.6 million. These acquisitions will be immediately EPS positive.

The LexData scanning business acquired in 2016 involves a potential maximum earn-out of $3.6 million, dependent on certain financial performance hurdles being achieved for the three years ended 30 June 2019. Latest forecasts indicated the estimated earn-out payable recorded in the balance sheet was in excess of that likely to be required and has been reduced by $1.5 million, resulting in a non-recurring earnings benefit in Freightways' 2018 consolidated result.

Corporate
Corporate costs increased by $0.4 million compared to the pcp, primarily due to of one-off costs associated with transitioning leadership and appointing a new non-executive Director.

Net debt decreased by approximately $4 million to $154 million during the year, driven by strong cash flows from operations, offsetting investment in operating capacity and a number of small acquisitions. Debt to debt & equity gearing levels have decreased below 40%.

OUTLOOK

The markets in which Freightways operates in both New Zealand and Australia remain positive, albeit the company is cautious, noting, as recently reported, an apparent decline in business confidence in New Zealand. Organic and acquisition growth opportunities exist in both New Zealand and Australia. Subject to factors beyond its control, Freightways is once again targeting year-on-year earnings growth in the 2019 year.

Within the EP&BM division, current indications are that organic volume growth will be slightly lower in 2019 than it was in 2018. Network capacity costs are not expected to step-up at the same level as in the pcp, with investment in capacity and capability expected to be more incremental. Strategies to better align service with customer expectations will continue to be implemented, particularly in the faster-growing B2C market. The inflationary cost of operating in a tight labour market, along with a generally higher cost of doing business, is expected to be offset by increased pricing, including pricing related to higher fuel costs. Freightways will continue to monitor employment law reform.

Within the IM division, increased utilisation of existing capacity will be a key focus. Encouraging progress has been made with digital IM services and Freightways will continue to invest in its digital capability. The group's recent entry into the Medical Waste industry has tracked to expectations and Freightways' presence in this market will be extended through a small, recently-acquired Victorian business.

Overall capital expenditure for the 2019 financial year is expected to be in the range of $20-22 million. Operating cash flows are expected to remain strong throughout 2019.

Strategic growth opportunities, including acquisitions and alliances that complement existing capabilities, will be executed where they make commercial sense.

CONCLUSION

Freightways has continued to invest in the future of its businesses, while returning a sound result for 2018. There are opportunities for all of the group's businesses to continue to grow and evolve their service offerings to meet customers' demands. Freightways' agility and entrepreneurial outlook should see it continue to adapt to changing markets and conditions and continue to be resilient in the face of external factors. The strength of Freightways' brands allows them to compete strongly in their respective niches and collaborate behind the scenes to share common infrastructure and capability. Freightways is committed to improving the long-term sustainability of its business for the benefit of its teams of people, its customers, its shareholders and the environments in which it operates.

The Directors acknowledge the outstanding work and ongoing dedication of the Freightways teams of people throughout New Zealand and Australia.

Susan Sheldon CNZM
Chairman

Mark Troughear
Chief Executive Officer

13 August 2018

FREIGHTWAYS LIMITED
CONSOLIDATED INCOME STATEMENT
for the year ended 30 June 2018

	2018 $000	2017 $000	Percentage Variance
Operating revenue	**580,886**	**545,262**	**7%**
Other income	2,572	2,119	21%
Transport and logistics expenses	(229,812)	(215,883)	6%
Employee benefits expenses	(159,161)	(149,896)	6%
Occupancy expenses	(26,385)	(24,768)	7%
General and administration expenses	(57,798)	(53,718)	8%
Other expenses	(2,572)	(2,119)	21%
Non-recurring items	2,556	3,686	(31%)
Operating profit before interest, income tax, depreciation and software amortisation and amortisation of intangibles	**110,286**	**104,683**	**5%**
Depreciation and software amortisation	(14,000)	(11,652)	20%
Operating profit before interest, income tax and amortisation of intangibles	**96,286**	**93,031**	**3%**
Amortisation of intangibles	(1,954)	(1,679)	16%
Profit before interest and income tax	**94,332**	**91,352**	**3%**
Net interest and finance costs	(9,666)	(9,570)	1%
Profit before income tax	**84,666**	**81,782**	**4%**
Income tax	(22,505)	(20,926)	8%
Profit for the year attributable to the shareholders	**62,161**	**60,856**	**2%**

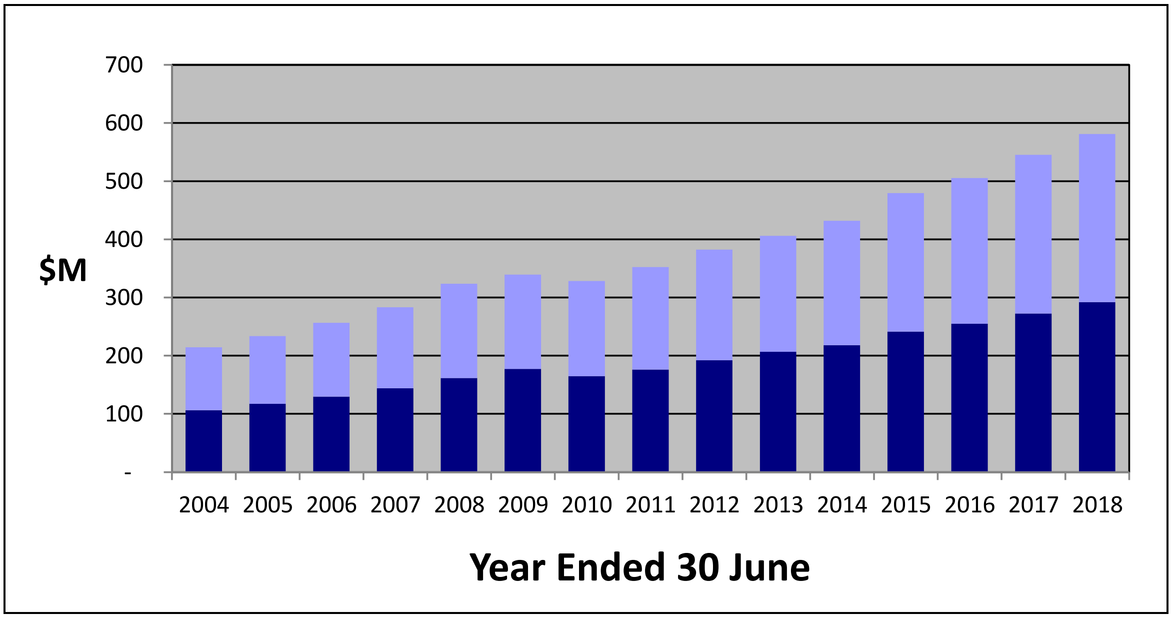
FREIGHTWAYS LIMITED
CONSOLIDATED BALANCE SHEET
as at 30 June 2018

	2018 $000	2017 $000
Current assets		
Cash and cash equivalents	7,410	8,423
Trade and other receivables	82,150	77,253
Inventories	4,804	5,190
Income tax receivable	-	705
Total current assets	**94,364**	**91,571**
Non-current assets		
Trade receivables and other non-current assets	4,803	3,787
Property, plant and equipment	103,102	100,992
Intangible assets	358,419	343,543
Total non-current assets	**466,324**	**448,322**
Total assets	**560,688**	**539,893**
Current liabilities		
Trade and other payables	66,887	65,722
Finance lease liabilities	126	147
Income tax payable	5,525	3,350
Provisions	710	1,008
Derivative financial instruments	451	2,054
Unearned income	15,864	15,446
Total current liabilities	**89,563**	**87,727**
Non-current liabilities		
Trade and other payables	3,446	2,867
Borrowings (secured)	161,800	166,241
Deferred tax liability	37,506	35,606
Provisions	4,465	3,691
Finance lease liabilities	286	204
Derivative financial instruments	5,399	6,989
Total non-current liabilities	**212,902**	**215,598**
Total liabilities	**302,465**	**303,325**
NET ASSETS	**258,223**	**236,568**
EQUITY		
Contributed equity	125,260	124,430
Retained earnings	140,861	124,072
Cash flow hedge reserve	(4,229)	(6,490)
Foreign currency translation reserve	(3,669)	(5,444)
TOTAL EQUITY	**258,223**	**236,568**

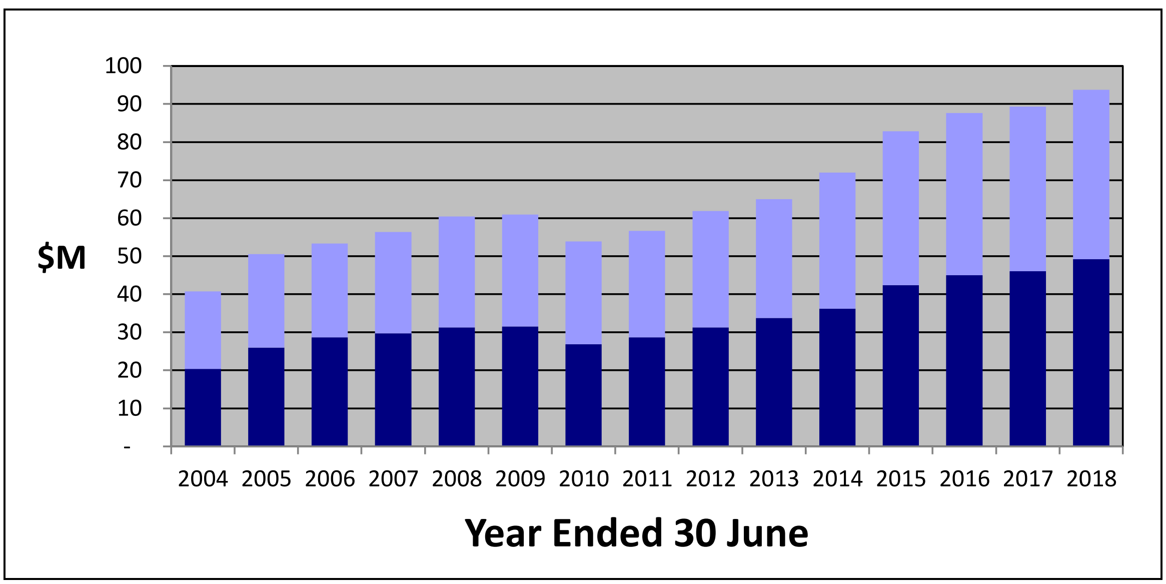
FREIGHTWAYS LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 30 June 2018

	2018 $000 Inflows (Outflows)	2017 $000 Inflows (Outflows)
Cash flows from operating activities		
Receipts from customers	575,864	535,943
Payments to suppliers and employees	(471,175)	(436,385)
Cash generated from operations	**104,689**	**99,558**
Interest received	182	78
Interest and other costs of finance paid	(9,710)	(9,820)
Income taxes paid	(19,451)	(24,559)
Net cash inflows from operating activities	**75,710**	**65,257**
Cash flows from investing activities		
Payments for property, plant and equipment	(14,062)	(21,507)
Payments for software	(4,343)	(3,689)
Proceeds from disposal of property, plant and equipment	1,160	1,064
Payments for businesses acquired (net of cash acquired)	(7,865)	(2,648)
Receipts (payments) from (to) associate	464	(1,671)
Cash flows from other investing activities	(218)	(517)
Net cash outflows from investing activities	**(24,864)**	**(28,968)**
Cash flows from financing activities		
Dividends paid	(45,371)	(42,608)
Increase (decrease) in bank borrowings	(7,522)	7,174
Proceeds from issue of ordinary shares	704	716
Finance lease liabilities repaid	(114)	(174)
Net cash outflows from financing activities	**(52,303)**	**(34,892)**
Net increase (decrease) in cash and cash equivalents	(1,457)	1,397
Cash and cash equivalents at beginning of year	8,423	7,065
Exchange rate adjustments	444	(39)
Cash and cash equivalents at end of year	**7,410**	**8,423**

Freightways Operating Revenue



Freightways EBITA*



* This EBITA graph represents the operating results of the company, exclusive of any non-recurring items.

1st half   2nd half