

DRIVING GROWTH RESPONSIBLY

FREIGHTWAYS FY23 H1 RESULTS

20 FEBRUARY 2023 | NZX FRE

Disclaimer

Read this presentation with the financial statements

The financial results in this presentation should be read in conjunction with the financial statements for the year ended 30 June 2022, which can be found in the NZX preliminary results announcement.

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Agenda

1. Introduction and Highlights
2. Financial Summary
3. Business Performance
4. Outlook
5. Appendices

Presenters



Mark Troghear
Chief Executive



Stephan Deschamps
Chief Financial Officer



Neil Wilson
General Manager



Steve Wells
General Manager of Express Package

FY23 H1 HIGHLIGHTS:



H1 PERFORMANCE

FY23 H1 Consolidated Performance

- Revenue growth of 25% supported by growth across both EP&BM 28% and IM 15% divisions
- Successful integration of Allied Express (“Allied”) from Q2 FY23
- EBITA growth of 8% (Q2 EBITA growth of 8%)
- \$112m of shares issued as part of consideration for Allied acquisition
- Amortisation increased 29% and interest expense increased 30%

	Note	H1 FY23 \$m	H1 FY22 \$m	Change %
Operating Revenue		552.1	442.0	24.9
EBITDA (non-GAAP)	(i)	113.7	102.3	11.1
EBITA (non-GAAP)	(ii)	80.4	74.4	8.0
NPATA (non-GAAP)	(iii)	50.2	47.5	5.5
NPAT (GAAP)	(iv)	45.2	43.7	3.5
Basic Earnings Per Share (cents)		26.3	26.4	

NOTES

- Operating profit before interest, tax, depreciation and amortisation
- Operating profit before interest, tax and amortisation
- Net profit after tax before amortisation
- Net profit after tax

- GAAP – Generally Accepted Accounting Principles (IFRS-compliant)
- Results in this table are unaudited and after NZ IFRS16 (Leases). Refer to appendices for reconciliation to results before NZ IFRS16.

FY23 H1 Express Package & Business Mail

Highlights

- EP Network courier volumes were largely as expected for Q2
 - Volume for the half was down 2% on the pcp (*1.3% adjusting for the additional holiday) however corresponding pcp had extremely high volume in the last 15 weeks of the calendar year
 - Market share gains of 2% helped offset volume declines
- EP division revenue up 9% ex Allied, up 29% including Allied's contribution over 3 months
 - Courier (GRI) pricing improvement of 6%
- EP EBITA up 19% (including 3 months of contribution from Allied)
 - Labour costs continue to be a feature, up 7.2% on the pcp (excluding Allied)
 - In NZ we expect it will take 2 years to revert to our usual labour cost to revenue ratios
- Strong service performance by all EP businesses over the Xmas peak
 - Transit reports show strong performance relative to competitors
- Slight easing of labour market although quality labour is still more expensive and in high demand, especially for truck drivers and IT staff

	H1 FY23 \$m	H1 FY22 \$m	Change %
Operating Revenue	450.3	351.1	28.2
EBITDA (non-GAAP)	92.1	76.3	20.8
EBITA (non-GAAP)	71.4	59.8	19.3
<i>EBITA Margin</i>	<i>15.9%</i>	<i>17.0%</i>	
NPAT (GAAP)	46.3	39.3	17.8

- Results in this table are unaudited and after NZ IFRS16 (Leases). Refer to appendices for reconciliation to results before NZ IFRS16.
- GAAP – Generally Accepted Accounting Principles (IFRS-compliant)

FY23 H1 Express Package & Business Mail

Allied Express

- Strong financial performance over the quarter – contributed revenue of \$68m and NPAT of \$4.9m in Q2
- Volumes and revenue are steady – no material sign of declining volume in aggregate
- Benefits of scale through larger depots
 - Added 17,000m² permanent capacity across: VIC | WA | SA | NSW to cater for current and planned volume growth
 - Moved into a new NSW facility during Q2 with 20,000m² of operational space, automation expected to be delivered and commissioned by late 2023
- Intangible assets arising from the acquisition of \$196m; amortisation A\$5.7m per annum



FY23 H1 Information Management and Waste Renewal

Highlights

- IM Revenue up 15% (FX, recovery of activity in TIMG NZ and AU)
 - Strong growth in digitisation, up 24% on pcp
 - Return of service work for media and documents
 - Stronger destruction revenues assisted by better paper price stability
 - Litsupport revenues improving with less WHF in AU, up 8% on pcp
 - Medical waste revenue down \$3m on the pcp
- IM EBITA down 23%, \$4.2m
 - Revenue decline in Med-X and higher operating costs in waste renewal
 - Increased cost of fleet in H1 \$1.0m
 - Increased investment in infrastructure – VIC processing, NSW eWaste and IT combined \$1.2m

	H1 FY23 \$m	H1 FY22 \$m	Change %
Operating Revenue	103.6	90.0	15.1
EBITDA (non-GAAP)	26.3	29.3	(10.3)
EBITA (non-GAAP)	14.4	18.6	(22.5)
<i>EBITA Margin</i>	<i>13.9%</i>	<i>20.7%</i>	
NPAT (GAAP)	7.6	10.6	(28.9)

- Results in this table are unaudited and after NZ IFRS16 (Leases). Refer to appendices for reconciliation to results before NZ IFRS16.
- GAAP – Generally Accepted Accounting Principles (IFRS-compliant)

H1

CAPITAL MANAGEMENT & DIVIDEND POLICY

Capital Management and Dividend Policy

CAPITAL MANAGEMENT PRINCIPLES

- Targeting solid Investment Grade credit profile, at a level that minimises the cost of capital.
- Net Debt / EBITDA between 2x and 3x

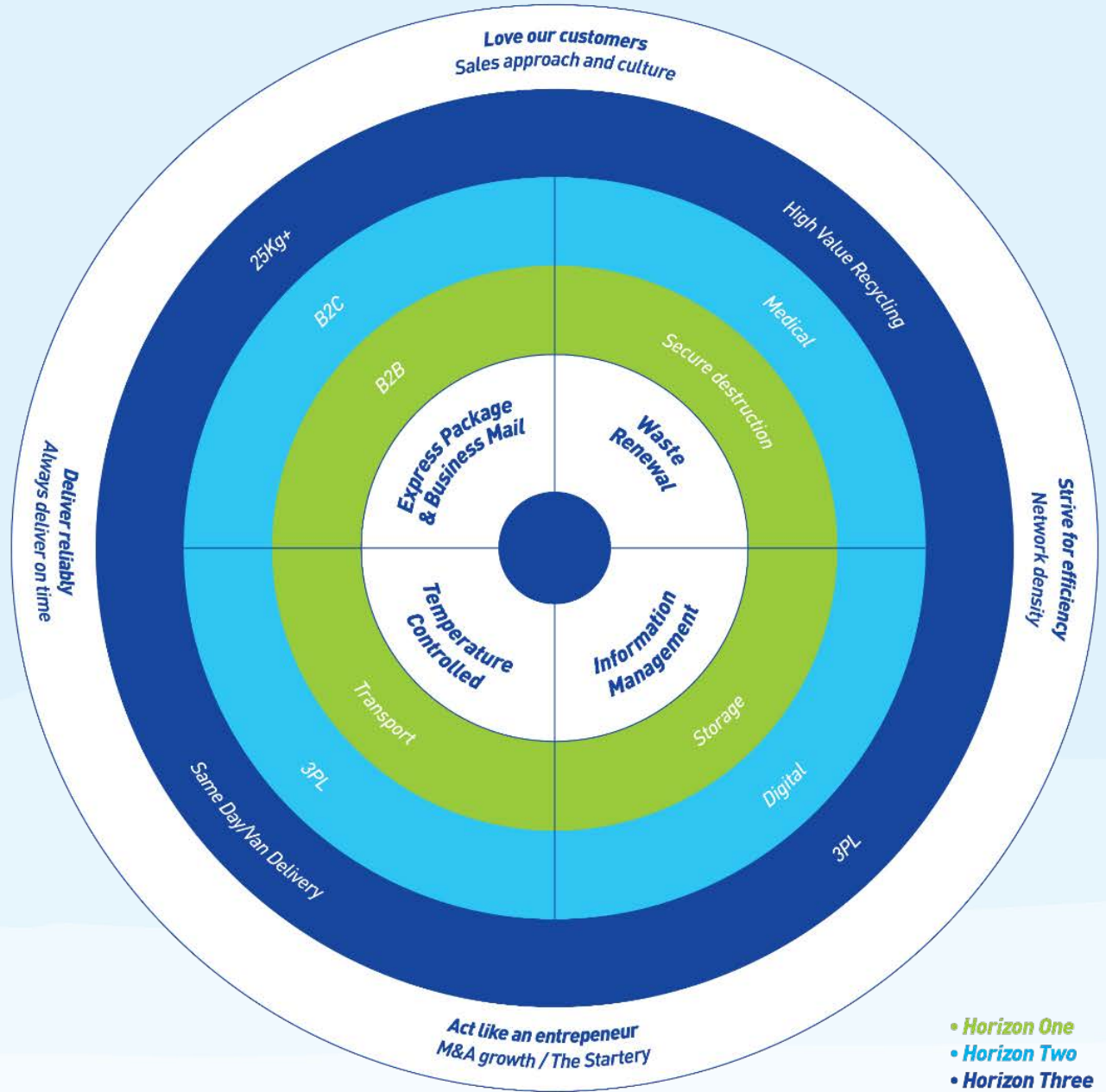
DIVIDEND POLICY

- Dividend Policy aligned with Capital Management Policy, balancing a number of objectives:
 1. The setting of the dividend is subordinated to the overall capital structure of Freightways. When debt is considered high, the cash dividend will be reduced to allow for faster debt reduction
 2. The dividend is set at a level that the Board expects to be sustainable in the medium term
 3. Subject to the first two principles, the Board will aim to pay 75% to 80% of the NPATA adjusted for significant one-offs

INTERIM DIVIDEND	18 CPS
IMPUTATION CREDITS	7.00 CPS (FULLY IMPUTED AT 28% TAX RATE)
SUPPLEMENTARY DIVIDEND	3.1765 CPS
RECORD DATE	10 MARCH 2023
PAYMENT DATE	3 APRIL 2023
DIVIDEND REINVESTMENT PLAN	OFFERED WITH A DISCOUNT OF 2%

STRATEGY UPDATE

3 HORIZONS OF GROWTH



- Horizon One
- Horizon Two
- Horizon Three

Express Package & Business Mail

Horizon 1: B2B

EXTEND AND DEFEND

- Focus on a profitable market share gains
- Manage direct costs in line with volume
- Assess pricing opportunities

Horizon 2: B2C

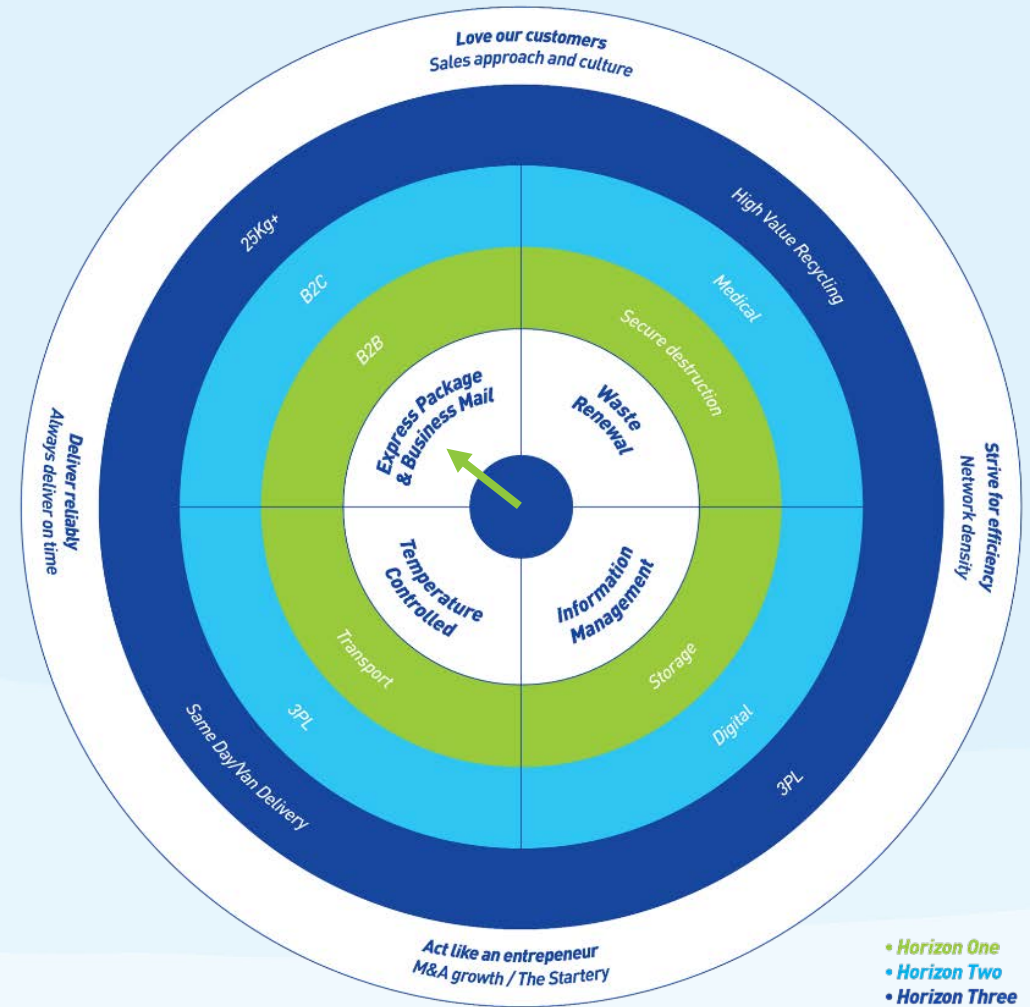
GROW SCALE

- Continue to make improvements to PFE (\$1.53per item in H1)
- Opportunity for further gains as this market grows and as we attract niches of B2C who value a superior service proposition

Horizon 3: Oversize

ESTABLISH NEW LINES OF BUSINESS

- Launch of Kiwi Express Oversize service in 2022
- Leverage the Allied footprint through market share gains and bolt on M&A



Temperature Controlled Logistics

Horizon 1: National Delivery

EXTEND AND DEFEND

- Constraints of drivers and trucks expected to ease by June 2023

Horizon 2: 3PL

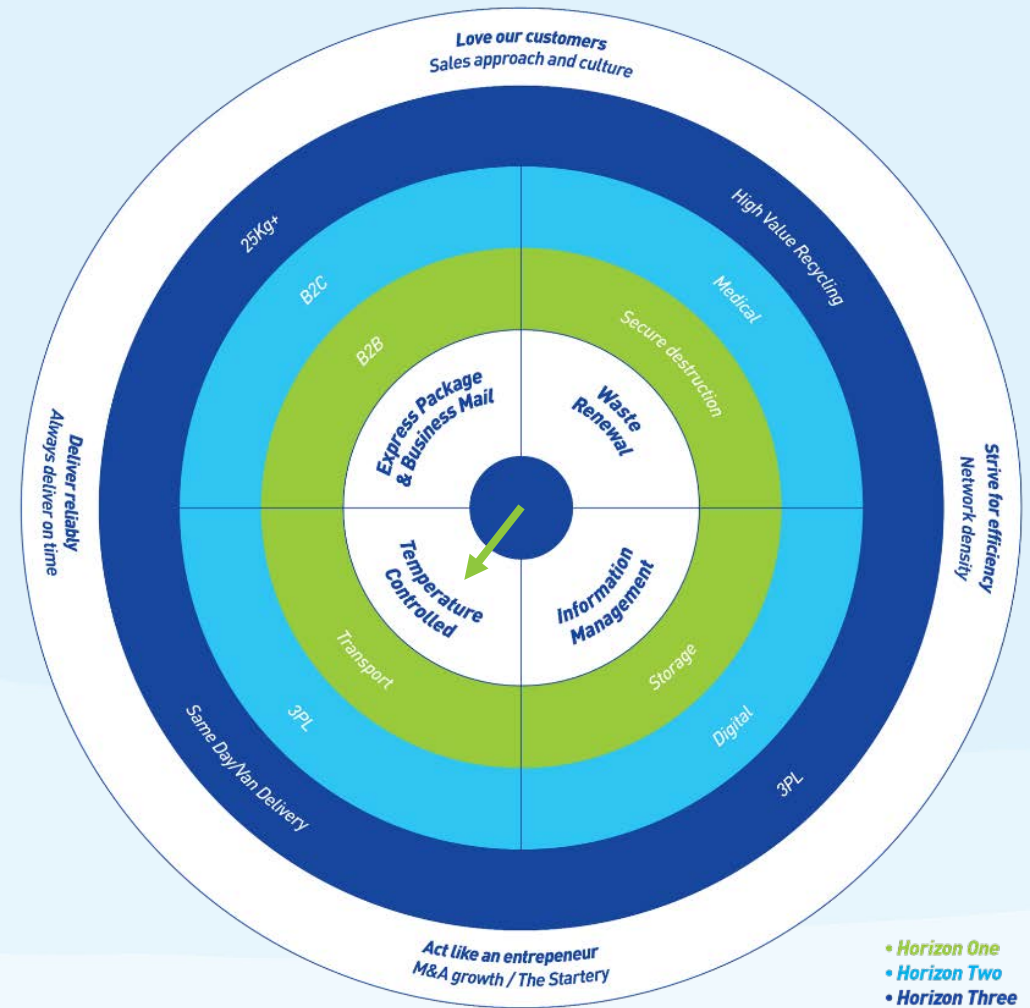
GROW SCALE

- Utilisation of 95% in Auckland
- Ruakura expected to come online in late 2023

Horizon 3: Same Day

ESTABLISH NEW LINES OF BUSINESS

- Roll out of national delivery for convenience stores
- Leverage the Big Chill Distribution network in Auckland, Wellington and Christchurch



- Horizon One
- Horizon Two
- Horizon Three

Information Management

Horizon 1: Storage

EXTEND AND DEFEND

- Improvement in utilisation of existing warehouses through market share gains
- AU boxes now >3m

Horizon 2: Digitisation

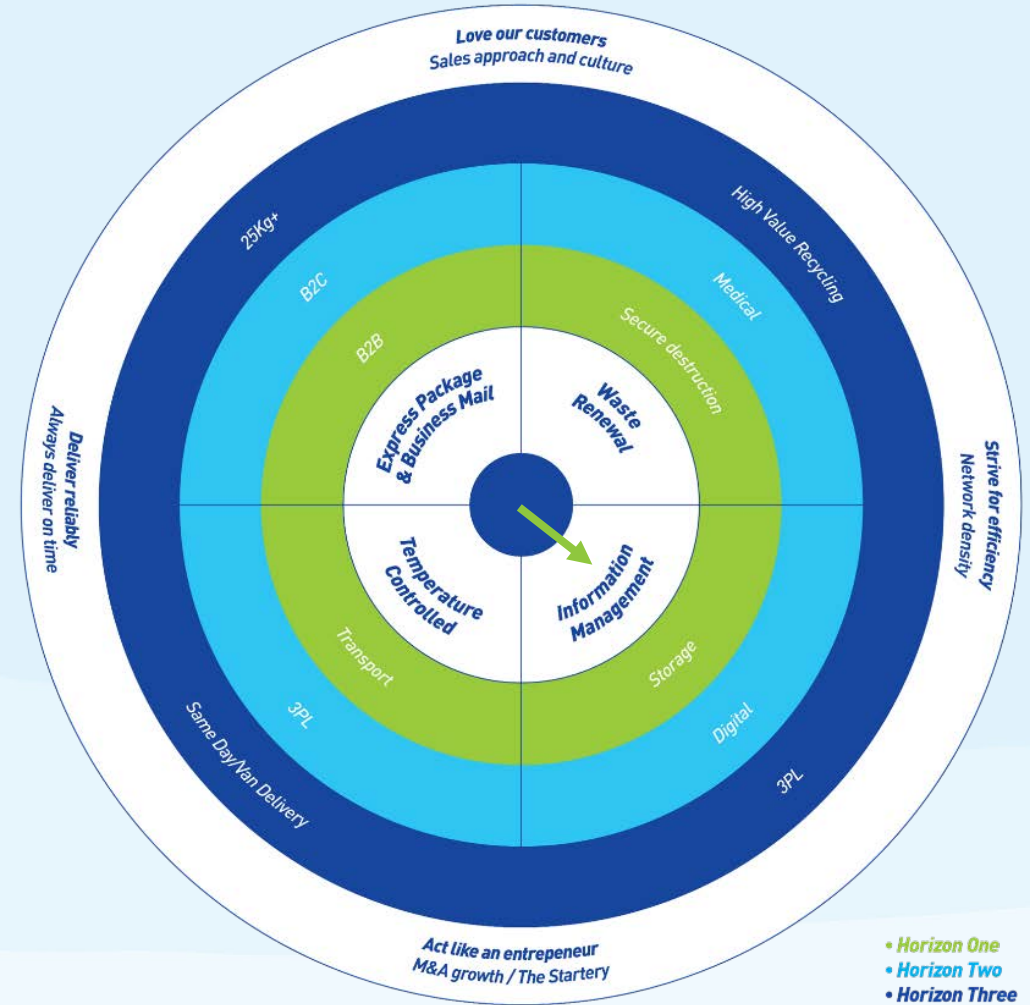
GROW SCALE

- Strong pipeline of digitalisation opportunities. Large scale government project in NZ will benefit H2 margins

Horizon 3: eCommerce 3PL

ESTABLISH NEW LINES OF BUSINESS

- Scale STOCKA NZ – an offering for SME's who require eCommerce fulfilment by leveraging existing facilities, systems and teams



- Horizon One
- Horizon Two
- Horizon Three

Waste Renewal

Horizon 1: Secure Destruction

EXTEND AND DEFEND

- Build density using existing networks to maintain the lowest activity cost in the market
- Focus on market share gains
- Rebounded strongly after lockdowns of FY22

Horizon 2: Medical Wastes

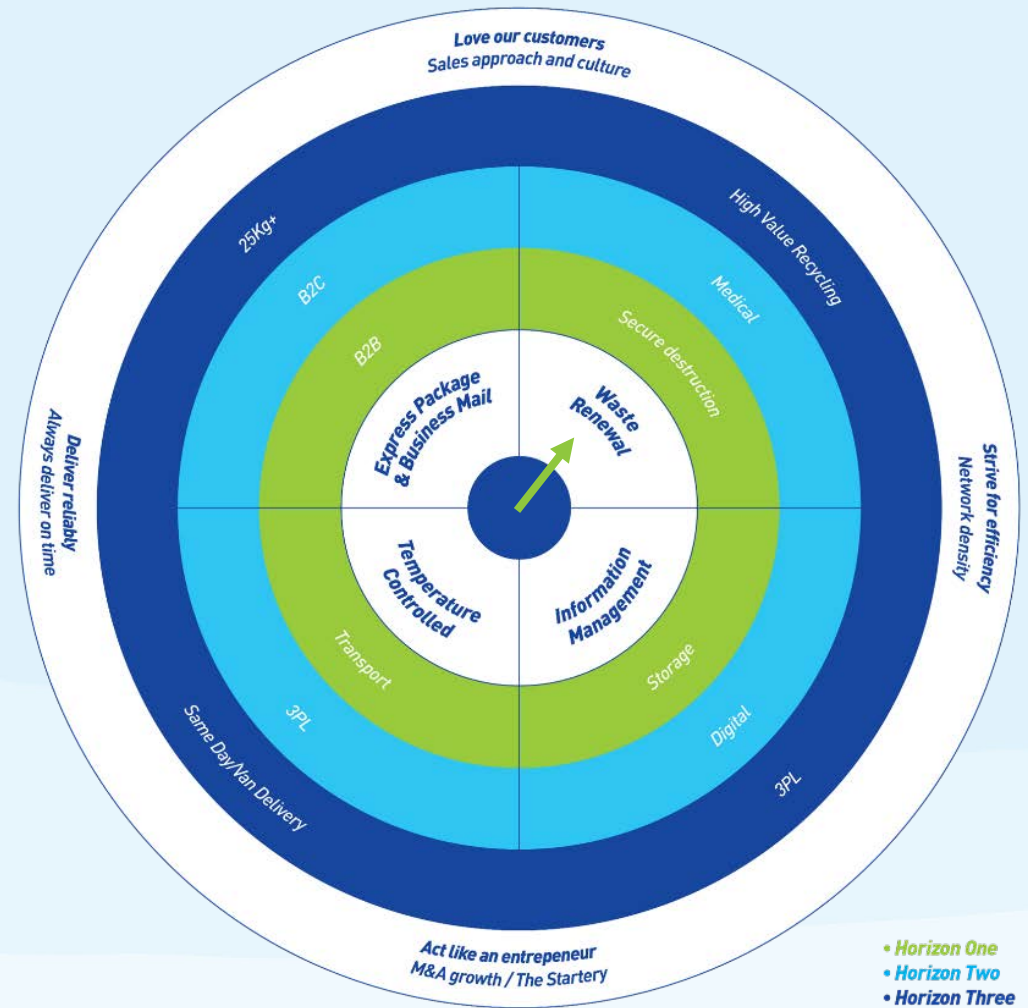
GROW SCALE

- Commission the processing footprint in VIC (3000 tonnes p.a.).
- Target market share gains
- Reduce fleet costs

Horizon 3: High Value Waste

ESTABLISH NEW LINES OF BUSINESS

- Establishment of SaveBoard in NSW and plans developed for VIC and QLD. Still cashflow negative as scale builds.
- New eWaste site in NSW established in December complemented by acquisition of small data destruction processor



M&A Growth

RECENT ACQUISITIONS



(2022, AU)

- Entry point to the Australian market for EPBM
- Platform for growth in the Oversize category of the Australian express market



(2021, NZ)

- Complements successful acquisition of Big Chill to expand same-day and overnight temperature-controlled delivery niche



(2020, NZ)

- Expansion into refrigerated logistics to provide short and long-term growth opportunities, while further diversifying earnings base
-

ACQUISITION STRATEGY

- ✓ **Targets:** established / profitable, well managed and growing businesses with immediate EPS impact
- ✓ **Size:** bolt-on acquisitions through to larger opportunities
- ✓ **Geography:** Australia and New Zealand
- ✓ **Method:** Disciplined adherence to investment criteria

FEATURES OF ACQUISITIONS UNDER CONSIDERATION



Access new customer segments that have the same resilient characteristics as our core industry focus



Seek acquisitions that will increase our size, capability and capacity across existing business units



Strong beachhead market entry into the Australian EPBM market



Earnings accretive acquisitions with achievable synergies and well-understood integration costs

OUTLOOK

Outlook

- The economic climate will be a tougher one to operate in over the near term, but we are positive about the diversification and resilience our business model offers
- Our NZ Express Package businesses will use efficiency and pricing levers to manage any decline in volume
- With the acquisition of Allied, we now have a strong platform in Australia, which we can leverage. There are opportunities for both organic and acquisition-related growth
- In Information Management we will improve our performance in medical waste and continue to scale our horizon 2 and 3 initiatives (Digitalisation, Stocka and SaveBoard)
- Retaining our existing customers and seeking out profitable new business will be a feature for all our businesses
- In the short term we are cautious about the impact of a slowing economy particularly in NZ and 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. We will do so whilst monitoring costs closely and acting quickly if we see additional pressure on our margins

**Focus on
controlling
variable costs in
NZ over the next
6 months**

**Continue to
scale our
horizon 2 and 3
activities**

**Number of
opportunities
for M&A being
explored**

QUESTIONS

APPENDICES

Sustainability

Key Measures for Freightways



3 GOOD HEALTH AND WELL-BEING



3. GOOD HEALTH AND WELLBEING

- Health and safety in employment – targeting a 10 reduction in TRIFR.
- Deployment of advanced in cab road safety technology in linehaul vehicles
- Employee wellness programme and mental health awareness training rolled out to all management staff

8 DECENT WORK AND ECONOMIC GROWTH



8. DECENT WORK AND ECONOMIC GROWTH

- Introduction of literacy and numeracy training to operational teams
- Professional development and management/leadership training implemented
- Rewarding contractors for their efforts through PFE

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE



9. INDUSTRY, INNOVATION AND INFRASTRUCTURE

- Continual strengthening of reliable networks – through expanded air, road and depots networks
- Horizon 2 and 3 opportunities developed through The Startery

13 CLIMATE ACTION



13. CLIMATE ACTION

- GHG Emissions reduction with a target to reduce scope 1, 2 & 3 emissions by 50% by 2035
- Reducing plastic usage and waste by 75% through our EP Brands

16 PEACE, JUSTICE AND STRONG INSTITUTIONS



16. PEACE, JUSTICE AND STRONG INSTITUTIONS

- Ethics and integrity
- Transparency

Appendix

Reconciliation of Post-NZ IFRS16 to Pre-NZ IFRS16 (Unaudited)

FREIGHTWAYS GROUP	Note	H1 FY23	H1 FY23	H1 FY23	H1 FY22	H1 FY22	H1 FY22
		\$m	\$m	\$m	\$m	\$m	\$m
		Post NZ IFRS16	NZ IFRS16 adjustment	Pre NZ IFRS16 (non-GAAP)	Post NZ IFRS16	NZ IFRS16 adjustment	Pre NZ IFRS16 (non-GAAP)
Operating Revenue		552.1	-	552.1	442.0	-	442.0
EBITDA (non-GAAP)	(i)	113.7	(25.6)	88.1	102.3	(20.9)	81.4
EBITA (non-GAAP)	(ii)	80.4	(4.4)	76.0	74.4	(3.5)	71.0
NPATA (non-GAAP)	(iii)	50.2	1.4	51.6	47.5	1.3	48.9
NPAT	(iv)	45.2	1.4	46.6	43.7	1.3	45.0

NOTES

- i. Operating profit before interest, tax, depreciation and amortisation
- ii. Operating profit before interest, tax and amortisation
- iii. Net profit after tax before amortisation
- iv. Net profit after tax

GAAP – Generally Accepted Accounting Principles

Appendix

Reconciliation of Post-NZ IFRS16 to Pre-NZ IFRS16 (Unaudited)

EXPRESS PACKAGE & BUSINESS MAIL	HY23 \$m	HY22 \$m	Change %
Operating Revenue	450.3	351.1	28.2
EBITDA (after NZ IFRS16)	92.1	76.3	20.8
Less: NZ IFRS16 adjustment	(16.1)	(12.4)	29.5
EBITDA (before NZ IFRS16)	76.0	63.9	19.1
EBITA (after NZ IFRS16)	71.4	59.8	19.3
Less: NZ IFRS16 adjustment	(2.4)	(1.9)	26.2
EBITA (before NZ IFRS16)	69.0	57.9	19.1

NOTES

EBITDA and EBITA are non-GAAP measures

Appendix

Reconciliation of Post-NZ IFRS16 to Pre-NZ IFRS16 (Unaudited)

INFORMATION MANAGEMENT & WASTE RENEWAL	HY23 \$m	HY22 \$m	Change %
Operating Revenue	103.6	90.0	15.1
EBITDA (after NZ IFRS16)	26.3	29.3	(10.3)
Less: NZ IFRS16 adjustment	(9.4)	(8.4)	12.4
EBITDA (before NZ IFRS16)	16.9	20.9	(19.4)
EBITA (after NZ IFRS16)	14.4	18.6	(22.5)
Less: NZ IFRS16 adjustment	(1.9)	(1.6)	21.7
EBITA (before NZ IFRS16)	12.5	17.0	(26.6)

NOTES

EBITDA and EBITA are non-GAAP measures