



Full year result delivers increased dividend

14 August 2017

Following a year that included the North Canterbury earthquake, the completion of a number of significant capacity-related projects and strong volume growth, the Directors of Freightways are pleased to announce an increased dividend for the 2017 year and provide a positive outlook for the 2018 year ahead.

The Directors have declared a final dividend of 14.75 cents per share, fully imputed at a tax rate of 28%, being a 2% increase above the final dividend of 14.5 cents per share for the prior comparative period (pcp). This represents a payout of approximately \$22.9 million, compared with \$22.5 million for the pcp.

The strength of the underlying volume growth and margins in the express package & business mail division and the performance of a number of our information management businesses all helped deliver this result, says Managing Director Dean Bracewell.

“I’d like to acknowledge the outstanding work and ongoing dedication of our team throughout New Zealand and Australia,” says Bracewell.

The markets in which Freightways operates in both New Zealand and Australia remain positive. Volume growth and activity levels experienced throughout 2017, driven by both existing and new customers, are expected to increase during 2018. Accordingly, Freightways is again targeting year-on-year earnings growth.

Overall capital expenditure for the 2018 financial year is expected to be approximately \$17 million. Operating cash flows are expected to remain strong throughout the 2018 financial year.

OPERATING PERFORMANCE

	Note	2017 \$M	2016 \$M	Increase %
Revenue		<u>545.3</u>	<u>505.4</u>	7.9%
EBITA, before non-recurring items	i.	89.3	87.7	1.9%
Non-recurring items		<u>3.7</u>	<u>(6.3)</u>	
EBITA	ii.	93.0	81.4	14.3%
NPAT, before non-recurring items	iii.	56.6	54.4	4.1%
Non-recurring items after tax		<u>4.3</u>	<u>(4.6)</u>	
NPAT	iv	60.9	49.8	22.3%
Basic EPS (cents), before non-recurring items		36.5	35.1	

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.

REVIEW OF OPERATIONS

Express Package & Business Mail

- Operating revenue: \$402.6 million; 8.7% above pcp
- EBITA: \$65.3 million; 5.1% above pcp

The express package & business mail 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.

Consistently strong volume growth throughout the year was particularly evident during the peak month of December. This growth created pressure on the division at a time when it was transitioning to the regular use of three Boeing 737 freighters and also relocating its primary South Island freight hub. All this in the aftermath of the North Canterbury earthquake, which resulted in significant network disruption and required the implementation of contingencies to ensure the least possible disruption to customers. Modest price increases were implemented to offset rising costs and disruption surcharges were introduced to offset the earthquake related contingency costs.

In February, the decision was made to introduce additional airfreight capacity through extra inter-island Boeing 737 freighter flights and by chartering a Convair aircraft to accommodate growing airfreight volume. Due diligence is underway on the possible introduction of a fourth Boeing 737 freighter.

The relocation of four Christchurch sites into one purpose-built facility at Christchurch Airport was completed on time and under budget, the benefits of which are expected to be seen through the coming financial year and beyond.

Meanwhile in Auckland, the decision to commence running a “twin-city” operation during 2018 was taken by supplementing the existing Penrose facility with a new leased complex in Albany on Auckland’s North Shore.

In addition, increased resourcing of the IT team enabled the progression of key projects to support the company’s intention to be a technology leader in the markets in which it operates.

The changing nature of Freightways’ customer base has been even more evident this year, with Business to Consumer (B2C) deliveries growing faster than Business to Business (B2B) due to increased online shopping. As such, a range of initiatives are being implemented to ensure these B2C deliveries are completed as efficiently as possible and to the satisfaction of the customers.

Despite the decline in the overall letter market, Freightways’ business mail operator, DX Mail, has again expanded its network to meet demand for overnight and five-day per week delivery of standard letters. DX Mail’s physical and digital mail services continue to grow profitably.

Information Management

- Operating revenue of \$144.2 million; 5.4% above pcp
- EBITA of \$27.7 million; 2.7% below pcp

This division operates under the brands of The Information Management Group (TIMG) and Shred-X.

Good results from Shred-X and TIMG New Zealand were in contrast to TIMG Australia, which was not up to expectation, but demonstrated improved results in the second half of the 2017 financial year.

TIMG Australia's LitSupport business performed at the bottom end of the range of expectations set at the time of acquiring the business (and below the pcp). This was anticipated as a possibility at that time of the purchase and payments for this business were structured to reduce Freightways' financial risk should this occur. Restructuring in November/December and the winning of a number of new contracts improved LitSupport's performance in the second half of the financial year.

TIMG Australia relocated three Sydney-based facilities into a single purpose-built facility in a project that was completed on time and under budget. This new facility provides much needed capacity for the growing Sydney operation. Demand for digital services offered by TIMG, in both Australia and New Zealand, and the e-destruction services offered by Shred-X continues to gain momentum.

The North Canterbury earthquake impacted the division's document storage facilities in Wellington. While the racking did its job and withstood the impact of the earthquake, its structural integrity was compromised, particularly in the major site located in Porirua. It is likely that all the Porirua racking may need to be replaced as a result. Freightways carries comprehensive insurance for events such as this and the related deductible was expensed as a corporate cost.

Internal Service Providers

Fieldair Holdings operates a joint venture company that leases and operates the fleet of Boeing 737 freighters that provides Freightways' overnight airfreight linehaul service. Fieldair also provides specialist engineering and contracting services to the general aviation market.

Parceline Express provides Freightways' road linehaul service.

Freightways Information Services provides IT development and support to both operating divisions. This team is responsible for providing the front line businesses with robust and secure information management systems and supporting their technology-related strategic objectives.

Corporate

Corporate costs increased compared to the pcp, primarily due to expensing the insurance deductibles related to earthquake insurance claims.

Net debt of \$158 million is \$6 million higher than the pcp, in a year when Freightways has invested \$24 million of capital expenditure in its new Christchurch and Sydney premises, IT infrastructure and in the provision of capacity for growth for both divisions.

ENDS

For more information contact:

Dean Bracewell

0274528327

ABOUT FREIGHTWAYS:

Freightways is a leading provider of express package services throughout New Zealand, with complementary business servicing the information management and business mail sectors. The Group's origins date back to 1964 through New Zealand Couriers - a pioneer in the express package industry in New Zealand. Since commencing operations in Auckland, Freightways has grown organically and by acquisition to become a leading service provider in New Zealand and Australia, with representation in every major town and city throughout New Zealand and in the capital cities of every state and territory in Australia.

Freightways is listed on the NZX. Freightways: FRE

www.freightways.co.nz