

HY22 RESULTS PRESENTATION

For the six months ending 31 December 2021



21 February 2022

Mark Troghear | Chief Executive
Stephan Deschamps | Chief Financial Officer

NZX | FRE

Disclaimer

PLEASE READ THIS PAGE BEFORE THE REST OF THE PRESENTATION

READ THIS PRESENTATION WITH THE FINANCIAL STATEMENTS

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Agenda

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

Presenters



Mark Troghear
Chief Executive



Stephan Deschamps
Chief Financial Officer



Neil Wilson
General Manager



Steve Wells
General Manager of Express Package



Scott Hedgman
General Manager of Express Package Sales

HY2022 Highlights

- Strong recovery, after Covid lockdowns, in the 2nd quarter
- Market share gains in all businesses as result of service performance
- Q2 EBITA growth of 20% (before change in fair value of contingent consideration – BCD)
- H1 revenue growth of 7.7%
- H1 EBITA growth of 5.6% and NPAT growth of 7.4% (before change in fair value of contingent consideration – BCD)



EXPRESS PACKAGE

- Growth in courier revenue of 9.5% in the half year.
- Pleasing improvement in Pricing for Effort (PFE) over H1 for B2C and Local.
- Contractor earnings up 8.4% v the pcp.
- Growth in Big Chill transport and 3PL revenue of 14% (over the pcp).
- Purchase of ProducePronto to complement the development of the temperature-controlled express package niche.



INFORMATION MANAGEMENT

- Strong digital growth and a good pipeline of Government opportunities on both sides of Tasman.
- During Covid lockdowns annuity storage revenues have remained resilient underpinning the TIMG result.



WASTE RENEWAL

- Secure Destruction rebounded in H1 in NZ and AU, although the current Omicron outbreak in AU is affecting H2 revenue.
- Exceptional growth in Medical Waste, achieved \$15m in revenue in first half, up 67% on the pcp.
- SaveBoard production plant opened in December. During the initial set up period they produced 13,000m2 of building board and diverted 111 tonnes of waste from landfill.



BUSINESS MAIL

- DX Mail volumes remain strong up 3% on the prior pcp despite most of Q2 being in lockdown for Auckland.

Impact of COVID-19

HY COVID LOCKDOWN IMPACT

- As discussed in the quarterly update on 28th October, in August 2021, New Zealand entered an alert level 4 lockdown.
- Under alert level 4, activity levels are significantly impacted across our New Zealand businesses.
- The move from level 4 to level 3 in September 2021 saw the express package businesses recover and experience a significant increase in volumes.
- During the half year, some areas of Australia also saw increased restrictions because of a resumption of COVID-19 cases.
- We estimate the cost of level 4 in NZ, and a range of restrictions in AU, at around \$5m in earnings in H1 (and all in the first quarter).

OMICRON

- AU has felt the impact of Omicron in January and February this year.
- Our experience, and that of transport operators in AU, is that Omicron has the potential to affect the workforce with up to 30% of employees potentially impacted at any one time through having to isolate.
- While this has curtailed some activity in Secure Destruction and Information Management in AU, we have ensured our brands can still operate, albeit at lower levels of staffing.
- We expect that when Omicron becomes widespread in NZ, there will similarly be an impact on the volume of freight that is sent by our customers due to labour shortages, and handled by Freightways businesses if our staff are forced to isolate in significant numbers.
- Freightways have a range of initiatives to attempt to mitigate the impact of Omicron on our teams and operations but a widespread outbreak and 7-10 day isolation periods will undoubtedly impact activity.

Financial Summary

FOR THE SIX MONTHS ENDED 31 DECEMBER 2021 (UNAUDITED)

	Note	HY22 \$m	HY21 \$m	Change %
Revenue		442.0	410.3	7.7
EBITA, before change in fair value of contingent consideration – Big Chill Distribution Limited (BCD) (non-GAAP)	i.	74.4	70.5	5.6
Change in fair value of contingent consideration – BCD		-	(19.2)	(100)
EBITA (non-GAAP)	ii.	74.4	51.3	45.2
NPAT, before change in fair value of contingent consideration – BCD (non-GAAP)	iii.	43.7	40.6	7.4
Change in fair value of contingent consideration – BCD		-	(19.2)	(100)
NPAT – GAAP v.	iv.	43.7	21.4	103.6
Basic EPS (cents) (after change in fair value of contingent consideration – BCD)		26.4	13.0	103.1
Basic EPS (cents) (before change in fair value of contingent consideration – BCD)		26.4	24.6	7.3

NOTES

- i. Operating profit before interest, tax and amortisation, before change in fair value of contingent consideration – BCD.
- ii. Operating profit before interest, tax and amortisation.
- iii. Net profit after tax (NPAT), before change in fair value of contingent consideration – BCD.
- iv. Profit for the half year attributable to shareholders.
- v. GAAP – Generally Accepted Accounting Principles (IFRS-compliant)

Revenue Segmentation

FOR THE SIX MONTHS ENDED 31 DECEMBER 2021 (UNAUDITED)

	HY22 \$m	HY21 \$m	Change %
Express package & refrigerated transport	321.3	296.0	8.6
Postal	23.8	24.8	(4.3)
Storage & handling	29.8	30.0	(0.8)
Destruction activities	42.0	35.5	18.2
Other	25.1	23.9	4.9
Total Revenue	442.0	410.3	7.7

NOTES

Other includes Digital Services, Print & Copy and Cold Storage revenue

Express Package & Business Mail

FOR THE SIX MONTHS ENDED 31 DECEMBER 2021 (UNAUDITED)

	HY22 \$m	HY21 \$m	Change %
Operating Revenue	351.1	327.7	7.2
EBITDA	76.3	73.9	3.3
EBITA	59.8	56.9	5.1
EBITA Margin	17.0%	17.4%	

- *The New Zealand Covid Level 4 lockdown in August - September 2021 is estimated to have resulted in EBITA that is **\$3.9m** lower than the prior comparative period.*
- *Results in this table are after NZ IFRS16 (Leases). Refer to appendix for reconciliation to results before NZ IFRS16 which are non-GAAP*

GAAP – Generally Accepted Accounting Principles (IFRS-compliant)

Information Management

FOR THE SIX MONTHS ENDED 31 DECEMBER 2021 (UNAUDITED)

	HY22 \$m	HY21 \$m	Change %
Operating Revenue	90.0	84.9	6.0
EBITDA	29.3	26.5	10.6
EBITA	18.6	15.6	19.3
EBITA Margin	20.7%	18.4%	

- *The New Zealand Covid Level 4 lockdown in August - September 2021 is estimated to have resulted in EBITA that is **\$0.6m** lower than the prior comparative period.*
- *The Australian Covid lockdown in the first quarter of FY22 is estimated to have resulted in EBITA that is **\$0.4m** lower than the prior comparative period.*
- *Results in this table are after NZ IFRS16 (Leases). Refer to appendix for reconciliation to results before NZ IFRS16 which are non-GAAP*

GAAP – Generally Accepted Accounting Principles (IFRS-compliant)

Capital Expenditure

FOR THE SIX MONTHS ENDED 31 DECEMBER 2021 (UNAUDITED)

	2022 Full Year Forecast \$m	2021 Full Year Actual \$m
Capital Expenditure	24 – 26	18
Depreciation and software amortisation (including impact of NZ IFRS 16)	59	57
Depreciation and software amortisation (excluding impact of NZ IFRS 16)	22	22

Capital Management Policy

CAPITAL MANAGEMENT PRINCIPLES

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

DIVIDEND POLICY

- Dividend Policy aligned with Capital Management Policy, balancing a number of objectives:
 - 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
 - The dividend is set at a level that the Board expects to be sustainable in the medium term
 - 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	11 MARCH 2022
PAYMENT DATE	1 APRIL 2022

The Freightways Blueprint



EXPRESS PACKAGE



Steve Wells | General Manager of Express Package
Scott Hedgman | General Manager of Express Package Sales

Express Package Highlights

NETWORK EXPRESS COURIERS

- In late 2021 we took on a number of contingency sites in Auckland and Christchurch to cope with volume growth of around 15% on the pcp over the last 15 weeks of the year.
- That volume growth and the long-term volume outlook will see us adding permanent additional depot capacity in Auckland, Wellington, Hamilton and Christchurch.
- PFE progress is pleasing with around half of the local target of 25c per item achieved by the half year and B2C at \$1.41 by the end of December.
- Courier retention very pleasing – as a result of the improvements in courier pay driven by PFE in particular.

POINT TO POINT EXPRESS

- Revenue growth of 9% on the pcp.
- Development of our Oversize service through Kiwi Express is underway.
- Working through an amicable transition of a large dedicated contract (which will be insourced by the customer) over the next 3 years.

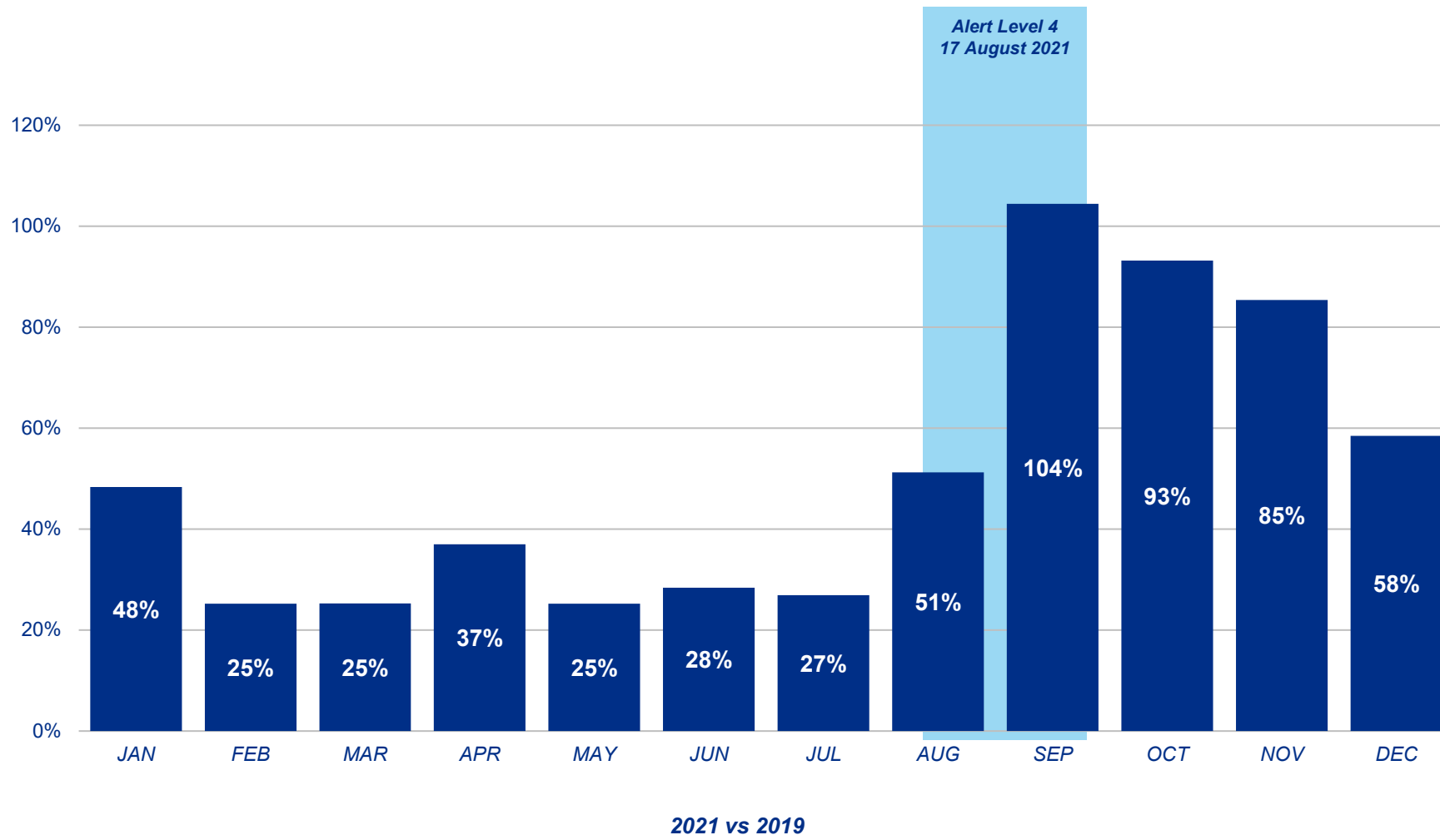
TEMPERATURE CONTROLLED EXPRESS

- Expansion of the transport and 3PL footprint into the Waikato with the commissioning of a 13,000m² facility at Ruakura due for completion by mid 2023. This will more than double current available national capacity for 3PL.
- ProducePronto: Currently building out volumes with new and existing customers. Even allowing for the impacts of Omicron, overall volumes have increased.



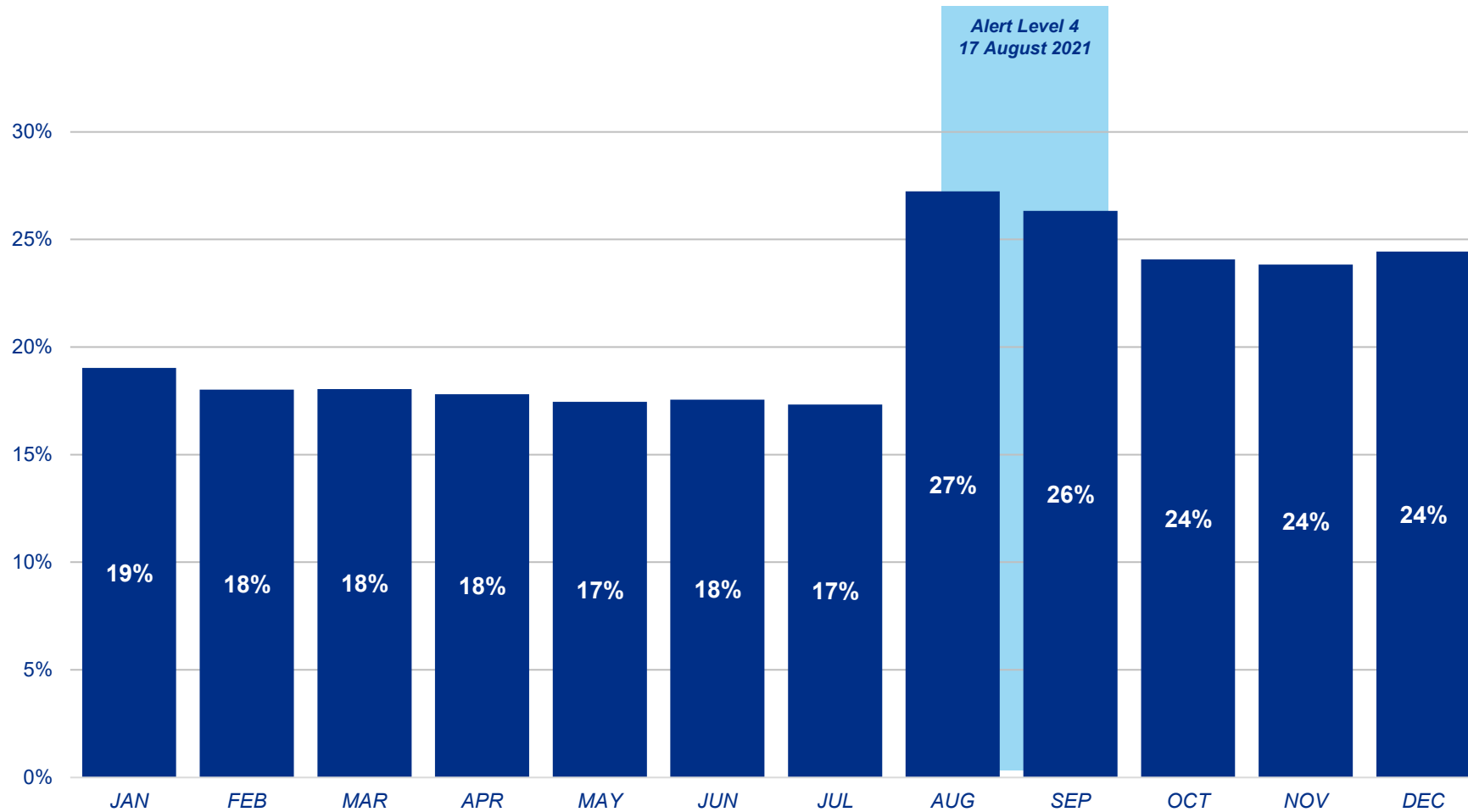
Express Package

B2C NETWORK ITEM GROWTH: 2021 V 2019



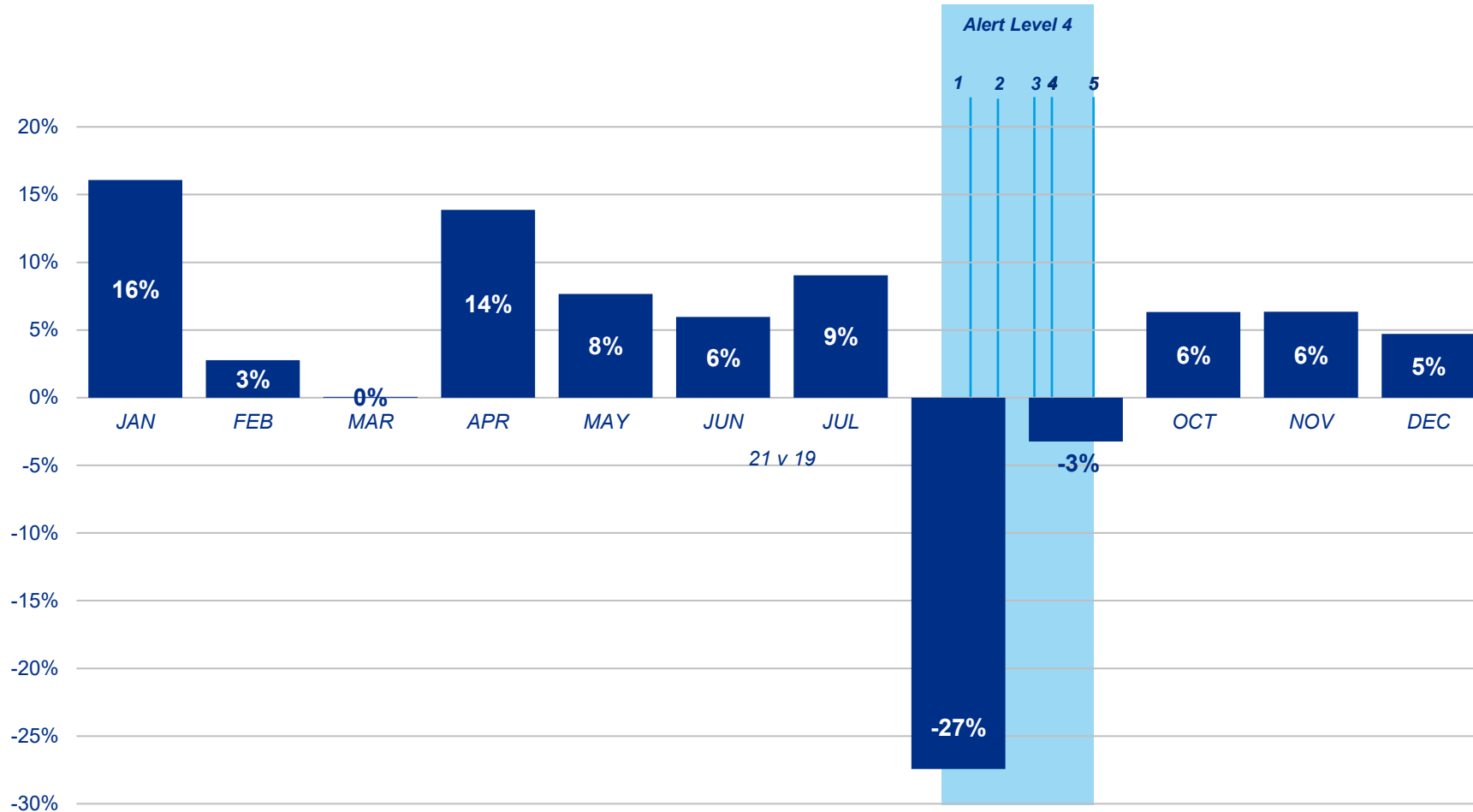
Express Package

B2C PROPORTION 2021 CALENDAR YEAR



Express Package

B2B ITEM GROWTH 2021 VS 2019

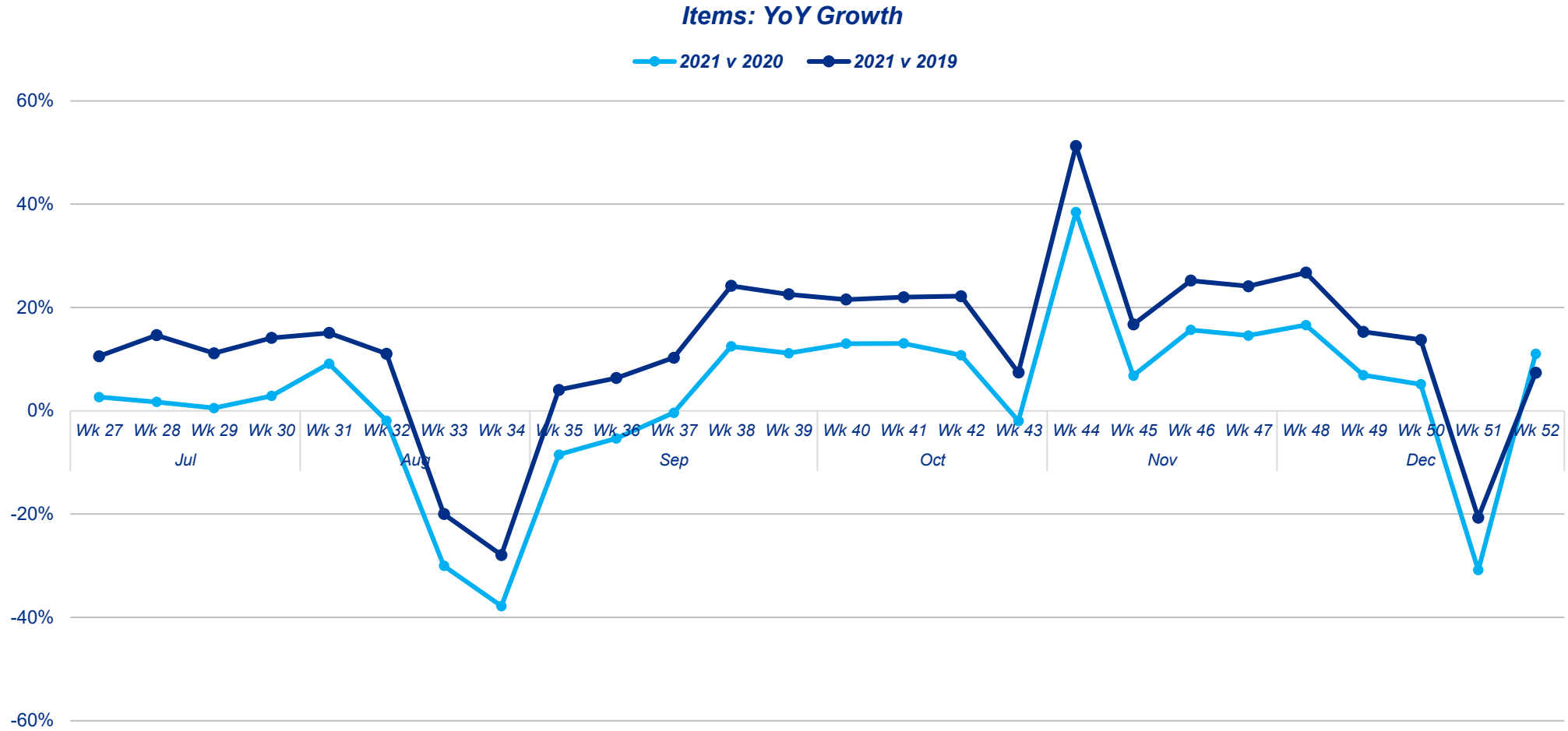


NOTES

- 1. NZ Moves to AL4 17 August 2021
- 2. NZ Moves to AL3 except AKL/NTH 31 August 2021
- 3. NTH Moves to AL3 2 September 2021
- 4. NZ Moves to AL2 7 September 2021
- 5. AKL Moves to AL3 21 September 2021

EP Total Item Growth YoY

(NETWORK COURIERS ONLY)



BUSINESS MAIL

Neil Wilson | General Manager

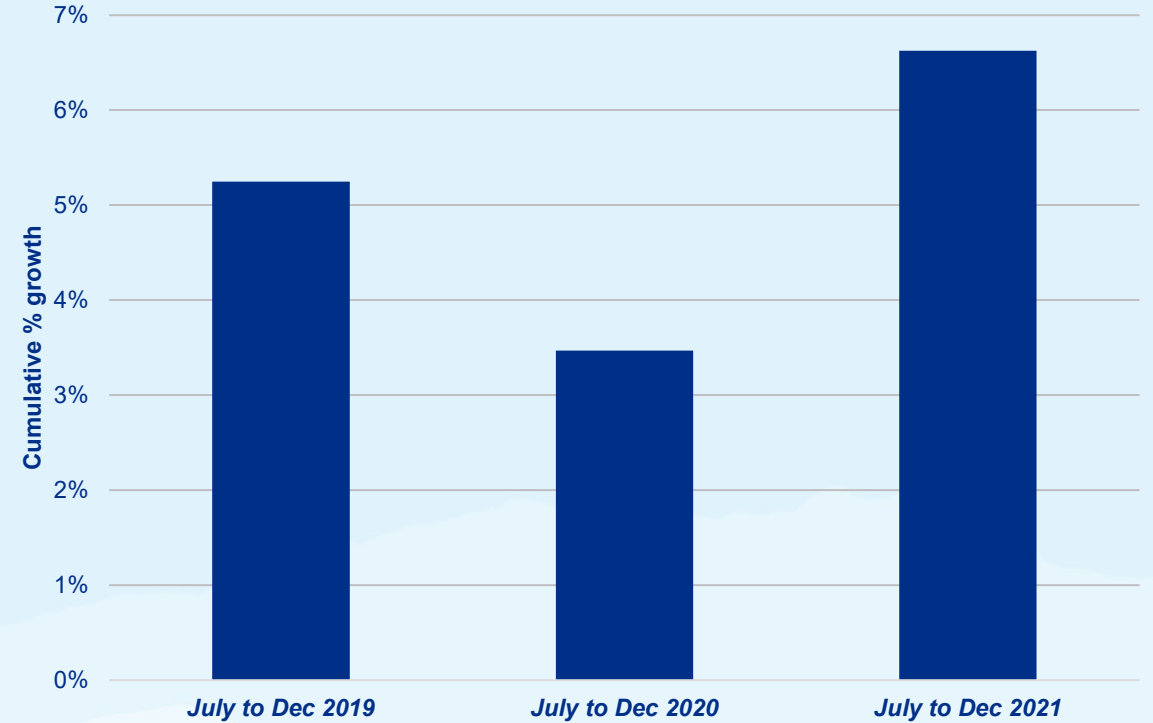


Business Mail Highlights

DESPITE COVID IMPACTS AND DECLINING OVERALL MARKET VOLUMES DX MAIL CONTINUES TO GROW

- Increased market share by offering premium postal delivery services and expanding breadth of services. 6% of first half revenue for DX generated from new business.
- Develop and enhance digital product suite.
- Review and introduce business efficiencies – digitisation and automation.
- Continue to implement pricing strategies reflective of service level and effort. 5.5% pricing improvement in first half result.

3 Year First Half Delivery Growth in DX Mail Network



INFORMATION MANAGEMENT

Mark Troghear | Chief Executive
Neil Wilson | General Manager



Information Management Highlights

POSITIONING FOR DIGITAL GROWTH

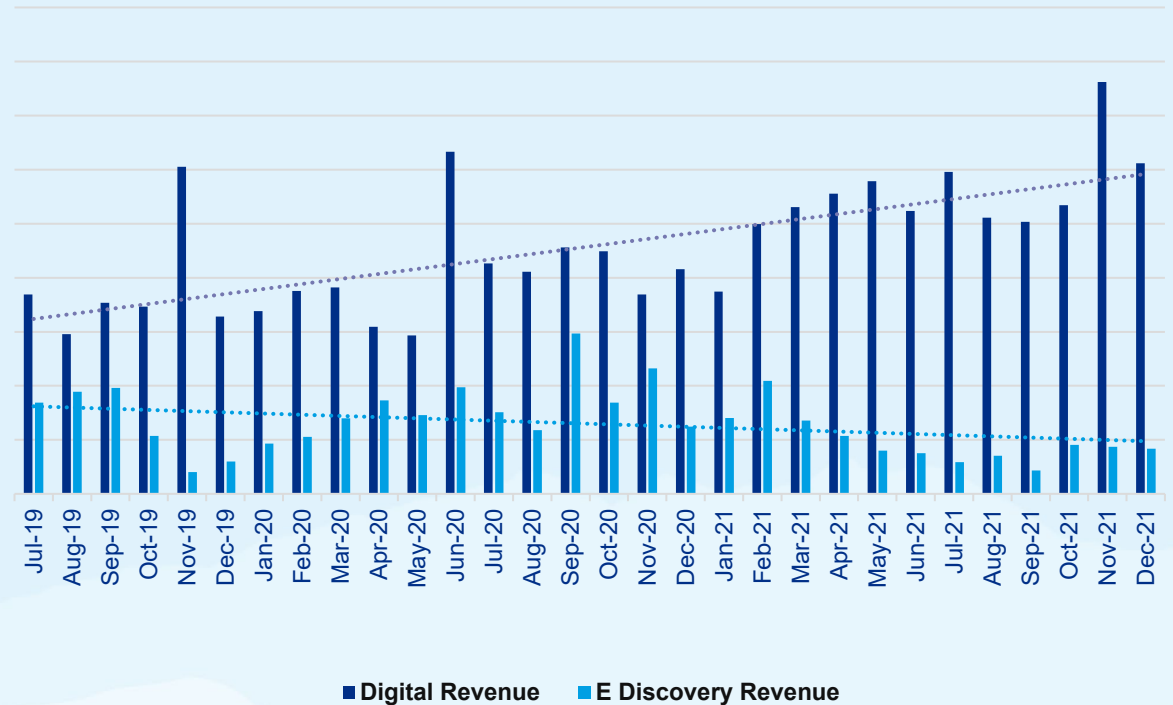
- Scanning and digitalisation revenues during period were strong, up 39% on the pcp. Both NZ and AU have secured large government projects which are expected to deliver \$10m incremental revenue in FY22 and \$21m in FY23.
- Partially offset by Covid related delays to key E Discovery projects caused by law firms in AU working from home. Expect strong growth in FY23 as inevitable catch up occurs.
- High cyber security compliance has been a key component to successful digital growth achieved and in pipeline.

DIGITAL REVENUE



of Total TIMG Revenue

Digital Revenue TIMG NZ & AU



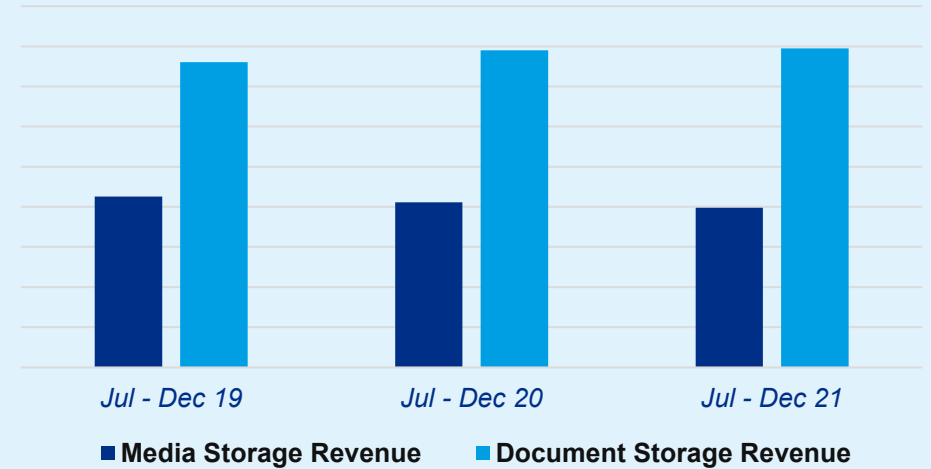
Information Management Highlights

STORAGE REVENUES RESILIENT, ACTIVITY COVID IMPACTED

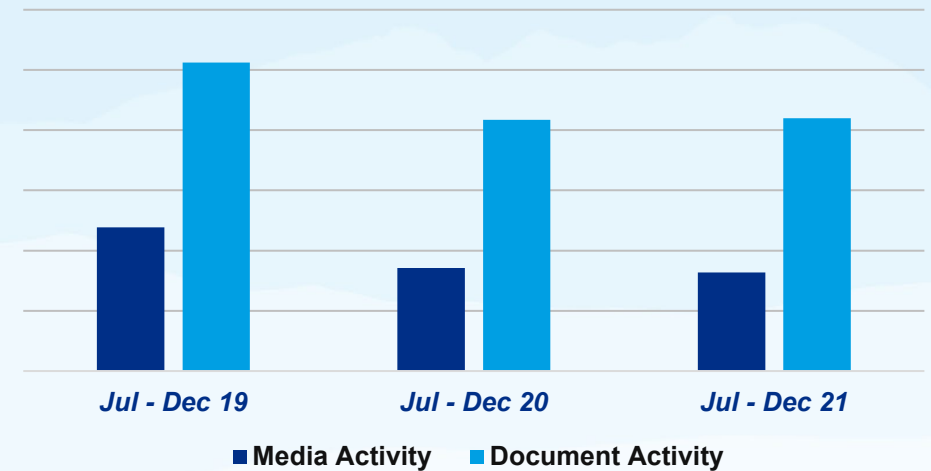
- ~80% of document and media business relates to physical storage which provides sticky annuity revenues. Physical storage revenues have not been impacted by Covid.
- Activity revenue has been impacted by customers working from home. Activity revenue overall was flat on the pcp however still down 20% on pre covid levels.
- Sales efforts remain focussed in areas of lowest utilisation (NSW and WA).
- TIMG are scaling a new E Commerce 3PL product (Stocka) developed via the Freightways innovation hub (The Startery). Strong initial demand tracking towards \$1m in incremental revenue for first year.



Storage Revenue TIMG NZ & AU



Activity Revenue TIMG NZ & AU



WASTE RENEWAL

Mark Troghear | Chief Executive Officer
Neil Wilson | General Manager



Waste Renewal Growth

POSITIONING FOR A SUSTAINABLE FUTURE

Current State

Future Strategy



INTEGRATED LOGISTICS COLLECTION SERVICE

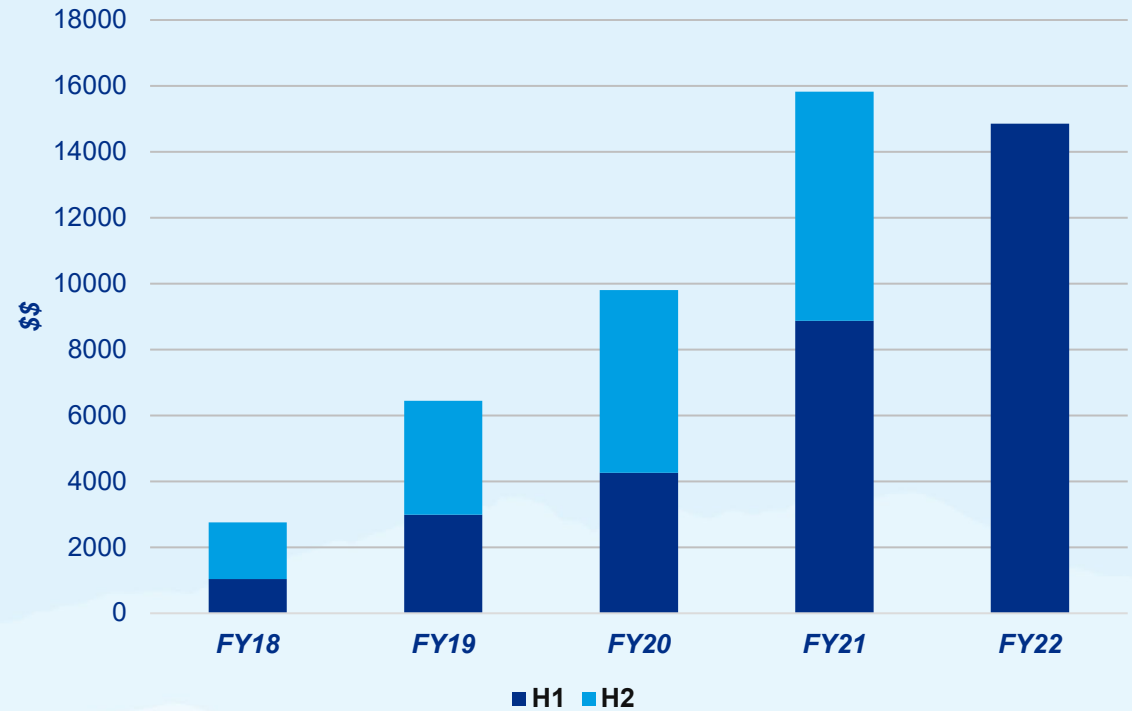
AUTOMATED CUSTOMER REPORTING – TONNES DIVERTED, CO2, RENEWAL, PRODUCTS PROCESSED

RECYLING/ PRODUCT RENEWAL

Medical Waste Highlights

- Growth over H1 was strong as a result of new business gains, solid organic volume and strong pricing. This continues the momentum built up over the previous financial year.
- While we expect some pricing to moderate in H2 as supply and demand normalise, FY22 revenue should exceed \$20m representing growth of around 700% since inception in FY18.
- Additional processing capacity will be added in NSW during FY22 to cater to growth and to improve operational efficiencies.

Med-X Revenue Growth FY18-FY22



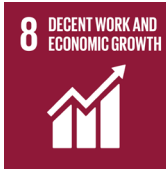
ESG Update

KEY AREAS OF FOCUS



3. GOOD HEALTH AND WELLBEING

- A strong focus on injury reduction, effective rehabilitation and mental wellbeing.



8. DECENT WORK AND ECONOMIC GROWTH

- Providing opportunities for career advancement and earnings improvement for our staff and contractors.



9. INDUSTRY, INNOVATION AND INFRASTRUCTURE

- Development of horizon 2 and 3 services which provide solutions to customers, grow our revenues and provide opportunities for our people.



13. CLIMATE ACTION

- Reduction of plastic packaging waste by 70% over the coming year throughout our Express Package businesses.
- Established a science-based target to reduce carbon emissions by 50% by 2035.



16. PEACE, JUSTICE AND STRONG INSTITUTIONS

- Introduction of a Modern Slavery policy and improved disclosures on sustainability through TCFD adoption and annual Sustainability Reports.

DIRECTOR CHANGES

- At the end of March, Mark Verbiest will step down as chair and retire from the board as part of our director succession programme. Mark has served as a director of Freightways since 2010 and as Chair since 2018.
- Mark Cairns will take up the role of Chair. Mark has significant transport experience having been CEO at Port of Tauranga for over 16 years. Mark is also a director of Sanford and Meridian.
- David Gibson also joins the Board effective from 1 April 2022. David has extensive capital markets experience with Deutsche Bank and Deutsche Craigs and is a director of Goodman Property, TrustPower and NZME Limited.



Mark Verbiest
FRE Chairman 2018 to March 2022



Mark Cairns
FRE Chairman from April 2022

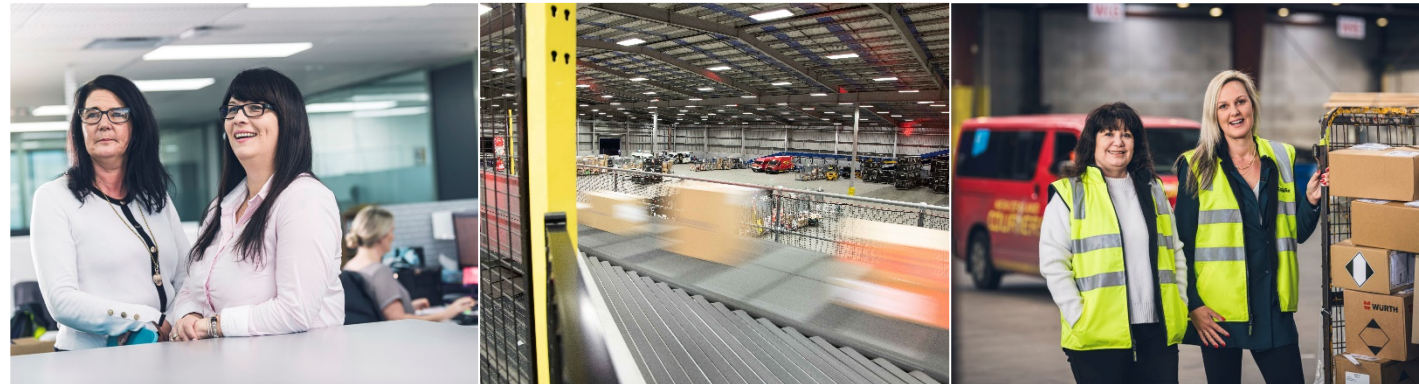
OUTLOOK & CONCLUSION



Mark Troghear | Chief Executive Officer

Outlook

- Q2 delivered strong volume growth after the lockdowns of August and September.
- We expect that the impact of Covid-19 will continue in this financial year through:
 - Higher volumes of home delivery (B2C) in periods of increased in-home isolation,
 - Potential restrictions to either our customer's businesses or our own networks as Omicron forces workers into isolating, all in the context of a very tight labour market
- We will continue to target revenue and earnings growth in FY22 and we have plans in place to adapt to:
 - A tight labour market putting upward pressure on labour costs,
 - The impact of Omicron in AU & NZ,
 - A constrained supply chain which could continue to disrupt the flow of goods coming in NZ and ultimately impact the volumes we receive from our customers.
- 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.
- The company will continue to consider acquisition opportunities that are complementary to our existing operations and capabilities.



Conclusion

- To date FY22 has been "a half of two quarters" with the first quarter impacted by lockdowns and the 2nd quarter reflecting higher levels of residential express package delivery and strong medical waste growth.
- While the short term still has a level of uncertainty due to the impact of Covid, Freightways is confident in the underlying demand for our express package and temperature-controlled services and as a result will invest in additional facilities to take advantage of that growth.
- We are excited by the opportunities we have to continue to grow our businesses and where appropriate build a 2nd or 3rd horizon of growth over our core services.

“The Freightways Directors and Management team would like to thank all of our people across New Zealand and Australia for their contribution to the business and to our customers”

APPENDICIES



APPENDIX:

RECONCILIATION OF POST-NZ IFRS16 to PRE-NZ IFRS16 FOR THE SIX MONTHS ENDED 31 DECEMBER 2021 (UNAUDITED)

FREIGHTWAYS GROUP	HY22 \$m	HY21 \$m	Change %
Operating Revenue	442.0	410.3	7.7
EBITDA	102.3	80.0	27.9
Add back: Change in fair value of contingent consideration – BCD	-	19.2	(100)
Less: NZ IFRS16 adjustment	(20.8)	(21.6)	(3.3)
EBITDA (before NZ IFRS16 and change in fair value of contingent consideration – BCD)	81.5	77.6	4.9
EBITA	74.4	51.3	45.2
Add back: Change in fair value of contingent consideration – BCD	-	19.2	(100)
Less: NZ IFRS16 adjustment	(3.5)	(3.6)	(3.0)
EBITA (before NZ IFRS16 and change in fair value of contingent consideration – BCD)	70.9	66.9	6.1

APPENDIX:

RECONCILIATION OF POST-NZ IFRS16 TO PRE-NZ IFRS16 (UNAUDITED)

EXPRESS PACKAGE & BUSINESS MAIL	HY22 \$m	HY21 \$m	Change %
Operating Revenue	351.1	327.7	7.2
EBITDA (after NZ IFRS16)	76.3	73.9	3.3
Less: NZ IFRS16 adjustment	(12.4)	(12.7)	(2.3)
EBITDA (before NZ IFRS16)	63.9	61.2	4.4
EBITA (after NZ IFRS16)	59.8	56.9	5.1
Less: NZ IFRS16 adjustment	(1.9)	(1.7)	11.8
EBITA (before NZ IFRS16)	57.9	55.2	4.9

APPENDIX:

RECONCILIATION OF POST-NZ IFRS16 TO PRE-NZ IFRS16 (UNAUDITED)

INFORMATION MANAGEMENT	HY22 \$m	HY21 \$m	Change %
Operating Revenue	90.0	84.9	6.0
EBITDA (after NZ IFRS16)	29.3	26.5	10.6
Less: NZ IFRS16 adjustment	(8.4)	(8.7)	(4.4)
EBITDA (before NZ IFRS16)	20.9	17.8	17.9
EBITA (after NZ IFRS16)	18.6	15.6	19.3
Less: NZ IFRS16 adjustment	(1.6)	(1.9)	(17.1)
EBITA (before NZ IFRS16)	17.0	13.7	24.3

