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MAINFREIGHT LIMITED

11 November 2021

Financial result for the six months ended 30 September 2021 (Unaudited)

Commentary

Mainfreight is pleased to announce our half-year financial results to 30 September 2021. These are in line with our expectations and reflect the ongoing development of our global network, with all five regions contributing strongly to the improved financial performance.

Revenue	$2.274 billion	Up $665.52 million or 41.4%
Profit before tax	$181.99 million	Up $79.72 million or 78.0%
Net profit	$130.81 million	Up $57.89 million or 79.4%

- The impact of foreign exchange is considerable. Excluding FX, Revenue is increased 48.2%, Profit before tax by 86.2%, and Net profit by 87.9%.
- There are no abnormal items in the current year, nor the year prior.
- An interim dividend of 55 cents per share has been set by the Board of Directors, payable on 17 December 2021; an increase of 83.3%.

We are pleased with this result, particularly in light of supply chain congestion and ongoing lockdown disruptions across most markets.

Air & Ocean revenue performance in all regions has increased because of higher air and sea freight rates and an increase in freight tonnage as a result of market share gains and consumer demand. We remain focused on solutions for our customers as we navigate congested supply chains across a wide range of trade lanes, both domestically and internationally.

<u>Divisional Performance</u> (figures in local currencies)

<u>New Zealand</u> (NZ$)

Revenue	$498.45 million	Up $119.55 million or 31.6%
Profit before tax	$48.07 million	Up $10.57 million or 28.2%

A disrupted first half performance for our New Zealand operations with our **Transport** network affected with the August Level 4 lockdown enforcement, albeit volumes are recovering well as restrictions have eased. There has been a significant increase in home deliveries.

Warehousing activity continues to be strong as customers hold more inventory to better withstand supply chain disruptions.

Air & Ocean volumes continue to grow as we find solutions for our customers in the congested shipping and airfreight environment.

Trading across all three divisions has continued to strengthen post-September with expectations of this continuing well after December. Unfortunately, a lack of rail and ferry capacity is slowing inter-island deliveries.

<u>Australia</u> (AU$)

Revenue	AU$525.04 million	Up AU$121.83 million or 30.2%
Profit before tax	AU$44.52 million	Up AU$13.96 million or 45.7%

Our Australian business continues to find increasing growth and profitability, predominantly from increased market share.

The ongoing intensification of our domestic **Transport** network is benefiting our customers. Three additional regional branches are expected to open over the next 12 months increasing our reach across Australia. Service levels, while improving regional coverage, are under pressure as volumes begin to stretch our capacity in main centres.

Warehousing volumes have continued to grow, as new customers are attracted to our offering. New Warehousing facilities for Sydney, Melbourne and Adelaide are confirmed and under construction to cater for this growth. Additional capacity is being negotiated for Brisbane.

Air & Ocean volumes and revenue also remain elevated as demand exceeds supply across our international network.

<u>Europe</u> (Euro €)

Revenue	€260.43 million	Up €66.65 million or 34.4%
Profit before tax	€12.57 million	Up €5.50 million or 77.8%

Improved trading across all three divisions has assisted this result.

Better **Warehousing** utilisation with improved stock levels is helping. A number of new Warehousing customer gains are expected with the need to increase our footprint in the medium term. However, return-per-square-metre still lags our Warehousing businesses in other regions.

Transport margins are not as healthy as we would like with lower than expected utilisation across a number of new line-haul routes, particularly into and from Germany. Brexit delays add to the already-stressed supply chain, albeit volumes have reduced from their peak earlier in the year.

Air & Ocean revenue and volumes, like elsewhere in our global network, have benefited from consumer demand and market share gains.

Whilst trading post the August European summer period has not been as strong as we would have expected, volumes pre-Christmas are increasing and Transport utilisation levels are improving.

<u>The Americas</u> (US$)

Revenue	US$441.40 million	Up US$193.38 million or 78.0%
Profit before tax	US$34.83 million	Up US$26.33 million or 309.7%

By far, this result is dominated by the performance across our **Air & Ocean** business, where demand has been exceptional. Whilst volumes have increased and new customer gains are assisting, the ability to secure additional capacity is restricting our growth.

Domestic **Transport** volumes have continued to increase with improved road line-haul utilisation throughout our network. Increasing market share is assisting, as is a greater focus on our LCL customer profile.

Warehousing utilisation and activity continues to increase. Our three new warehouses across Texas, Pennsylvania and Toronto, Canada, are now occupied; however efficiency in our new and largest site in Texas (50,000m^2) has been hampered by a shortage of warehouse racking supplies. This is expected to take a further three months to rectify.

Our **CaroTrans** NVOCC wholesale business has also benefited from strong international shipping demand, particularly in the volumes of LCL freight movement driven by high FCL container pricing and the shortage of capacity.

Trading post-September across our USA businesses has continued to be strong and is expected to remain this way post-December.

Asia (US$)

Revenue	US$110.35 million	Up US$67.41 million or 157.0%
Profit before tax	US$11.50 million	Up US$7.52 million or 189.2%

Our Asian operations are primarily focused on our **Air & Ocean** products and are an important link in our global trade development. Accordingly, we have benefited in increased demand for shipping and airfreight capacity. Pleasingly, this continues to extend across all nine countries we are located in across Asia, with improving contributions from our Southeast Asia branch network.

In line with the balance of our international network, airfreight volume and capability continues to be a significant contributor. Similarly, sea freight capacity constraints are limiting growth.

Trading remains strong post-September and is expected to continue, subject to space availability, well into the New Year and leading up to Chinese New Year.

Product and Service Updates

Air & Ocean (NZ$)

Revenue	$1,115 million	Up $467.68 million or 72.2%
Profit before tax	$86.89 million	Up $58.19 million or 202.8%

Capacity shortages and customer demand remain at elevated levels, particularly across ocean freight requirements for most global trade lanes that we are involved in servicing. In turn, this is increasing demand for airfreight services across a depleted air network due to a lack of passenger flights, and the resulting shortage of belly space for airfreight tonnage.

Port congestion is exacerbating the ocean freight supply issues with in excess of 600 vessels on average waiting outside the world's ports, pending discharge. Container equipment shortages add to the situation.

It is our expectation that the imbalance of supply and demand will see supply chain congestion remain into the near future, with freight rates similarly remaining elevated.

The Mainfreight Air & Ocean network continues to focus on finding space availability solutions wherever possible for our customers. This includes bulk-shipping and alternative services to address container shortages, and the chartering of aircraft where volumes dictate.

The benefits of our own network are allowing our people to maintain reasonable service levels for our customers in light of the congestion.

Sales revenues across our Air & Ocean network have increased 72%, largely as a result of air and sea freight rates, but also reflecting a 30% increase in our volumes.

Transport (NZ$)

Revenue	$894.32 million	Up $147.74 million or 19.8%
Profit before tax	$72.91 million	Up $15.47 million or 26.9%

Our domestic Transport businesses in all countries are coping with the increased volumes and transit times have been relatively unaffected. However, in New Zealand, where there is a shortage of rail and ferry capacity between the two islands, we are advising customers to ship earlier rather than relying on overnight and two-day service levels. Maintaining “Just In Time” inventory levels is becoming more difficult as supply chain congestion continues.

Volumes have increased in line with revenue growth – a combination of market share increases and consumer demand across all of our key domestic transport markets.

Warehousing (NZ$)

Revenue	$264.62 million	Up $50.11 million or 23.4%
Profit before tax	$22.19 million	Up $6.06 million or 37.6%

Our Warehousing footprint across all regions has increased 16% in the past six months; notably, our USA footprint is up 50%.

This brings our total square metres of warehousing to 936,153m^2. New customer gains and larger inventory holdings from established customers have contributed to these increases. Additional warehousing capacity is planned across all five regions as new customer gains are confirmed; likely exceeding 250,000 m^2 over the next 24 months. Warehouse automation trials in Australia and the USA have been successful, encouraging us to plan and implement further automation as new sites are developed.

Slower ocean freight services are seeing congested container arrivals into warehouses, and at times delaying the despatching of back orders.

Group Operating Cash Flows

Operating cash flows were $178.4 million, down from $188.5 million in the prior year, reflecting supply chain congestion and freight rate increases in our Air & Ocean division. This has increased our working capital requirements.

Net debt is $115.7 million, up from $102.2 million at 31 March 2021, an increase of $13.5 million.

Gearing ratios are consistent with 31 March 2021 at 8.8%.

During the half-year, net capital expenditure totalled $92.0 million, with expenditure for land and buildings, including fit out, accounting for $65.8 million, plant and equipment of $12.4 million, and information technology of $13.8 million.

Our expectations are for capital expenditure for the full financial year ending 31 March 2022 to be in the range of $208 million. A further $290 million is estimated for capital expenditure in the 2023 financial year.

Network development remains a key strategy; with 57 leased and owned facilities under development across all five regions.

Dividend

The Board of Directors has approved an interim dividend of 55 cents per share fully imputed at the 28% company tax rate, with the books closing on 10 December 2021; and payment made on 17 December 2021. This is an 83.3% increase on the prior year's interim dividend.

Senior Executive Appointment for New Zealand

We are pleased to announce the appointment of Carl George to the role of New Zealand Country Manager, replacing Craig Evans who has resigned and will leave the business at the end of January 2022.

Carl's career with Mainfreight spans almost 27 years, during which he has held various sales, branch management and leadership roles, both here and overseas. For the last ten years, he has successfully led our Transport division in New Zealand. Carl will transition into the role of leading the full New Zealand business over the ensuing weeks.

We appreciate all that Craig has achieved for Mainfreight in his 34-year tenure. He leaves the business in a strong position, performing well across all three divisions. Carl will continue to build on this platform, bringing his passion for efficiency and quality, and with solid support from our team.

Outlook

We remain satisfied with this financial result for the half-year.

Increased consumer demand, ongoing market share activity, and elevated international shipping and airfreight rates contribute to the result.

Our exposure to 26 different countries across five regions is providing a significant competitive advantage. Our network intensification continues to increase our regional coverage in most countries. However, the unprecedented supply chain congestion and demand has required delivery expectations be extended.

Trading post the half-year has seen a continuation of current financial and volume trends; at times significantly ahead of the prior year. We remain optimistic these levels of activity and growth will continue across our global network for the remainder of this financial year and into the next. Service levels for our customers is our key consideration in light of the significant freight volumes being handled by our people across our networks.

Mainfreight will release its financial results for the full 2022 financial year on 26 May 2022. In light of current trends, we will provide a nine-month trading update mid-February 2022.

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