NZX and Media Release
25 August 2017

FLIWAY FY17 RESULTS TO 30 JUNE 2017

POSITIONS FLIWAY FOR FUTURE DELIVERY ON HIGHER REVENUES

OVERVIEW

- FY17 Results at the top end of the revised guidance provided in June
- Highest level of new customers and revenue brought on in last 5 years
- Another year of outstanding performance from the warehousing business, with capacity management further improved
- Working capital and capex both pushed hard as a result of strong revenues
- Tough year in the Transport business unit with one off events and capacity constraints impacting performance
- Two restructures were completed, one as a result of a lost customer, the other a reset of the cost base in the joint venture
- The Kaikoura earthquake transferred a significant freight task from rail to road, consuming a large amount of capacity that Fliway traditionally relies on at peak times
- Too many linehaul accidents across the network with a higher level of redundancy required
- Auckland warehouse site extension completed, delivering additional capacity and operational benefits with a new customer on board
- Ordinary final dividend of 4.0 cents per share, results in full year total dividends of 6.0 cents per share fully imputed

KEY NUMBERS $000's	FY17	FY16	Var %	
Sales Revenue	85,421	82,644	3.4%	▲
EBITDA[1]	8,070	10,188	-20.8%	▼
EBIT[2]	5,656	8,101	-30.2%	▼
NPAT	3,887	5,616	-30.8%	▼
Underlying EBITDA[3]	8,304	10,817	-23.2%	▼
Underlying EBIT[3]	5,949	8,602	-30.8%	▼
Earnings per Share (in cents)	8.60	12.40	-30.6%	▼
Dividend (in cents)	6.00	8.65		

1. EBITDA is earnings before interest, tax, depreciation and amortisation and is a non-GAAP measure and is reconciled in the appendix
2. EBIT is earnings before interest and tax and is a non-GAAP measure and is reconciled in the Appendix
3. Underlying refers to an adjustment made to gross up the earnings form the UPS-Fliway joint venture to make its earnings comparable to EBIT and EBITDA derived from other business units and present it in a consistent format with other business units. A reconciliation to NPAT is in the Appendix

REPORT FROM THE CHAIRMAN AND MANAGING DIRECTOR

Strong performance from the business development teams in both the Domestic and International divisions meant revenue for FY17 finished the year ahead of last year by 3.4% despite the customer loss announced in June 2016. Although revenue was below last year at the end of the first half of FY17, a number of new customer wins during that first period, in addition to existing customer uptrades, helped deliver 2H17 revenues ahead of last year by 8.7%. Further customer contract wins with commencement dates in 2H17, have seen us secure additional capacity in both Transport and Logistics and set the business up for a strong FY18 revenue position.

Fliway Group performance was impacted by the customer loss announced in June 2016. As indicated at the time, it was expected the EBITDA impact could be approximately 10% of Fliway's historical EBITDA performance and this has been reflected in the results. Issues additionally impacting the business centred around one-off events and capacity constraints in the Transport business unit. A number of incidents reduced linehaul equipment availability in addition to the Kaikoura earthquake in November 2016. The earthquake disabled the rail network transferring a significant amount of freight onto road transport, thereby consuming capacity that Fliway would normally rely on for overflow options over peak trading periods when freight volumes exceed Fliways internal network capacity. As a result, expensive and at times inefficient alternative measures were required to get freight delivered. Fliway does impose a Natural Disaster Surcharge (NDS) on its customers, but would be a better business without the disruption currently being experienced in the South Island.

United Parcel Service - Fliway (NZ) Limited, the joint venture international express small package business 50% owned with UPS (the **Joint Venture**), underwent significant change in the year. In line with the strategy to grow the inbound package volumes in that business, the revenue (or compensation the Joint Venture receives from UPS) UPS-Fliway receives for an import package was reduced to ensure inbound pricing for this service was market competitive. Cost initiatives were undertaken within the Joint Venture to balance returns and the expectation is that import volumes will grow further in future to deliver improved financial returns. Fliway gained additional logistics and international forwarding work from the wider UPS relationship as part of the changes.

In last year's report, shareholders were informed that delivering the revenue line of the business to expectations was proving difficult, so to finish the year with such a strong revenue outcome and with such a strong run rate heading into FY18, demonstrate the good business development work achieved. FY17 was a year of significant changes and challenges as Fliway restructured based on the customer loss, exited it's sub-scale courier operation, changed management in the International business and got on with building the revenue line. The metrics and position of the business has altered over the past 12 months to make Fliway more robust and a stronger platform from which to build a larger business. The FY17 period has incurred the cost of that transformation, however the opportunity remains to convert the revenue position to higher profit levels.

The goal is clear, to make this a more profitable business we must make it a bigger business.

DIVIDEND

A fully imputed interim dividend of 2.0 cents per share (a gross amount of 2.8 cents per share) was declared in February 2017 and paid on 20 April 2017. In line with the Fliway dividend policy, Directors have declared a fully imputed final dividend of 4.0 cents per share (a gross amount of 5.6 cents per share). For the full financial year, this represents a fully imputed annual dividend of 6.0 cents per share (a gross amount of 8.3 cents per share). The final dividend will be paid on 15th September 2017 to shareholders recorded on the share register as at 5pm (New Zealand time) on 8th September 2017.

OPERATIONAL PERFORMANCE

Domestic division:
Operating revenue of $57.7 million for the year was 3.6% higher than FY16 despite the loss of a significant customer of Fliway Domestic, and the reduction in courier revenue from the changes made with the Joint Venture. The underlying EBITDA was $8.4 million for the year, 16.9% behind the prior comparable period.

Within the Domestic division, the Transport business unit was behind the reduction in Underlying EBITDA on the prior period. It was a year of change for the Transport business unit with the customer loss, and the decision to move out of small package delivery both occurring in quarter one, followed by the Kaikoura earthquake. This was combined with unprecedented success from the new business development team. The new customer wins in 1H17 occurred at a time when the available capacity in the transport industry was constrained as a result of the Kaikoura earthquake. The strong revenue growth occurring at the same time as capacity reductions, meant a higher cost to serve across the transport network, ultimately resulting in the reduced earnings. Investment in new, and larger depots, along with the arrival of additional rolling stock early in FY18 should result in a return to traditional cost structures, albeit at higher volume levels than previously.

The Logistics business unit bounced back from the customer loss in quarter one and ended the year with improved revenue and a record EBITDA. The strong cost control through a significant year of growth was notable and validated the investment in the management structure within this business unit. The upgrade of the Warehouse Management System (WMS) progressed well throughout the year, with our Wellington site complete, our largest customer migrated, and all new customers on boarded directly to the new system. The new WMS roll out project is expected to finish in FY18 and will deliver improved customer visibility and operational efficiencies. The Logistics footprint grew with the extension of our Wiri facility by over 100% to accommodate organic growth and new business, taking the nationwide warehousing footprint to 36,000 sqm.

Demand for Fliway services was strong throughout the year with the business development team converting opportunities at an excellent rate, resulting in a record being set for new business gained. Fliway increased penetration into existing sectors, as well as opening up new ones. Growth remains a focus, in particular targeting high value commodities.

Fliway Domestic's key objectives for FY18 are reduction in network costs, implementation of smart technologies, and continued growth of our customer base.

International division:
Operating revenue was marginally up by 2.8% to $27.7 million compared to prior year. This was supported by volume growth in shipments and brokerage clearances. We experienced some customer churn in our top 10 customers, offset by a strong business development performance. Our expectation is for stronger revenue growth in 2018.

Underlying EBITDA was $3.5 million for the year and 3.2% less than the previous year due to a reduction in margin with our strong sales gains reflective of a competitive market.

We continue to invest in our team as we build a leadership structure to scale up the International business in 2018 and beyond. This leadership team focus is on the delivery of exceptional service, improved productivity and delivering value to our customers. Our opportunities for growth are strong. We will look to leverage our competitive advantage and capabilities in air freight, and our competencies in sea freight – across both export and import services with all New Zealand's major trading partners. We will also look to expand our network of Fliway International branches to support our customers and our own growth aspirations.

The International market growth will present opportunities in our largest trading markets of Australia and Asia. These are markets on which Fliway is focussed and well positioned to develop further. Fliway International objectives for FY18 continue to be focussed on retention and growth of customers in addition to improving our productivity and cost position. We see ongoing gains from the alignment of Fliway International with Fliway Domestic to offer strong supply chain solutions to the market.

UPS-Fliway Joint Venture:
The strategy of repricing inbound express package freight caused a reduction in profitability in FY17 as the Joint Venture works to build the volume to a position that restores historical levels of profitability. Overall import package volumes grew 11.4% over the prior year and cost saving initiatives were undertaken in the area of pick-up and delivery services, brokerage services and in-country operations and non-operations costs.

CAPITAL MANAGEMENT AND NET DEBT

Net capital expenditure for FY17 was $3.5 million, reflecting a significant increase in the investment in vehicles in response to the capacity challenges facing the business in the Transport business unit. The upgrade of the Logistics operational IT system, to SCE10.3, dominated the IT spend again for FY17 and was delayed due to new customers coming on board and needing to be implemented onto the new system. The balance of spend was principally costs associated with the extension of the Wiri, Auckland facility, the result being a lift in total warehouse capacity to 36,000 square metres, some 20% up.

Whilst the total figure exceeded the depreciation and amortisation charge in FY17 of $2.4 million, there is growth capital in both the additional fleet and the larger Auckland facility.

Net Debt was $7.8 million, 35.41% higher than the previous year, but still well within the bank facility, banking covenants and below listed peer group gearing levels. In addition to paying last year's final dividend, the reason for the debt level increase is due to higher revenues pushing working capital levels and increased capital expenditure as a result of a need to invest in more capacity to accommodate the growth.

CONCLUSION:

Fliway experienced a tough year and delivered a weaker result in FY17. There was a lot of disruption in the year with new customers coming on, some customer churn, restructures to streamline cost bases, and a drive to put the business on a stronger foundation to deliver on future growth. The Joint Venture is restructured and more competitive, the Transport business unit is larger and investing to get the volume growth inside its own network, the Logistics business unit is at record levels of size and profitability and the International division is growth focused and responding well under new management. There are areas of the business where we can do better, with volatile revenue meaning we need to remain vigilant around levels of cost, particularly when volumes exceed internal capacity. Management is focused on continuing to build the business, delivering on revenue improvements and building profitability.

The Directors would like to thank each and every team member across the Fliway Group for what has been a challenging year for the company, we would also like to acknowledge and thank the continuing support of our customers and our joint venture partner UPS.

Fliway will continue to invest in people, facilities, and technology to meet the changing needs of our customers, and grow the business. We will continue to seek to increase our penetration with existing customers as well as pitching for work in new sectors, and looking to grow strategically through acquisitions.

We have a strong platform, and a great team who are energised about the future opportunities for Fliway.

-Ends-

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ABOUT FLIWAY

Listed on the NZX Main Board (NZX:FLI), Fliway is one of New Zealand's largest fully integrated logistics providers. We offer seamless global supply chain solutions – from international freight to warehousing, and domestic delivery to businesses or the home. We have a great team of over 400 people, backed by a strong network of global partners, built off an extensive New Zealand footprint. For more information visit www.fliway.co.nz.

APPENDIX: EXPLANATION OF NON-GAAP FINANCIAL INFORMATION, RECONCILIATION BETWEEN REPORTED EARNINGS AND UNDERLYING EARNINGS

Fliway monitors its profitability using the non-GAAP financial measures of Underlying EBIT and Underlying EBITDA. Fliway uses Underlying EBIT to evaluate the operating performance over time without the impact of the capital structure, Fliway's tax position and the impact of certain non-cash items including fair value movements in financial instruments and other gains or losses on the sale of assets. Underlying EBITDA removes the effect of depreciation and amortisation.

Underlying EBITDA and Underlying EBIT allow for a better comparison of operating performance with that of other companies in comparison to NZ GAAP measures, although caution should be exercised as other companies may calculate EBITDA and EBIT differently. Underlying EBIT and Underlying EBITDA include the attributed EBIT or EBITDA from Fliway's 50% interest in UPS-Fliway. As set out below the after tax 50% share of UPS-Fliways earnings is grossed up to Underlying EBIT and Underlying EBITDA to make that business unit comparable with the other business units and align it to how it is presented to the chief operating decision maker.

A reconciliation between NPAT per the financial statements, Underlying EBIT and Underlying EBITDA is presented below. The measures are not defined by NZ GAAP, IFRS, or any other body of accounting standards, and therefore Fliway's calculation of these measures may differ from the similarly titled measures presented by other companies. These measures are intended to supplement the NZ GAAP measures presented in Fliway's financial information. They should not be considered in isolation and are not a substitute for NZ GAAP measures.

Reconciliation of NPAT to Underlying EBIT & EBITDA $000's	FY17	FY16	Var %
NPAT per Financial Statements	3,887	5,616	-30.8% ▼
Reconciling items:			
UPS-Fliway NPAT to EBIT gross up	293	501	
Tax	1,229	1,684	
Financing	540	801	
Underlying EBIT	5,949	8,602	-30.8% ▼
Depreciation (incl loss on sale & JV depn)	2,355	2,215	
Underlying EBITDA	8,304	10,817	-23.2% ▼