# FLIWAY ANNUAL SHAREHOLDERS MEETING

## CHAIRMAN'S ADDRESS: CRAIG STOBO

### Slide 1. Fliway – 19 October 2017, Annual Shareholders Meeting

Good afternoon everyone. My name is Craig Stobo and I am the Chairman of Fliway's Board of Directors. On behalf of the Directors and Executive Team, I would like to extend a very warm welcome to you all. We especially welcome any new shareholders to the third annual shareholder meeting of Fliway as a listed entity on the New Zealand Stock Exchange.

Today we are going to be updating you on our results through to 30 June 2017, the end of our third financial year subsequent to our listing on the 9th of April 2015.

Before we proceed with the meeting, I would like to cover a few points of house-keeping and safety. As a matter of courtesy please turn your mobile phones to silent. In the event of an emergency or if we need to evacuate the building, please follow the direction of our staff. The fire exits are located both behind you, back out the door and to the right, and in front of you and to the left. The assembly point is down in Fort Lane. Bathrooms are located behind you, out and to the right. In case of a medical emergency, our staff or a member of the team here are your first point of call.

**Slide 2. Disclaimer**
[no script]

**Slide 3. Agenda**

So now as we get underway I will run through the agenda for today's meeting.

I will begin by introducing the Fliway Board and the Executive Team to you, and then summarise the Company's 2017 overview.

I will then ask Duncan Hawkesby, Fliway's Managing Director, to provide a more detailed review of the Company's trading performance, including strategy and outlook.

Following these presentations there will be an opportunity to ask any questions you may have regarding the performance of the Company.

We will then move to the formal business of the meeting and I will introduce the resolutions. The items of business and the resolutions to be considered by shareholders at this meeting are contained in the Notice of Meeting, which was lodged with the New Zealand Stock Exchange and mailed to shareholders on 25 September 2017. Polls will be held in respect of the resolutions put to shareholders. I am pleased to confirm that a quorum is present and therefore declare that the 2017 Annual Shareholder Meeting of Fliway is duly constituted and I declare it open.

**Slide 4. Separator slide: Chairman's Address**
[no script]

**Slide 5. Chairman's Introduction: Board of Directors**

Your Directors at the table are:

Alan Isaac. Alan Isaac became a Director of Fliway Group in February 2015 and assisted with the listing of the Company on the NZX Main Board in April 2015. Alan is an experienced professional director with extensive experience in accounting, finance and governance. Alan is currently Chairman of McGrath Nicol and Partners and New Zealand Community Trust. Alan is a director of listed companies Oceania Healthcare, Skellerup Group, Opus International Consultants and Scales Corporation, in addition to a number of private companies.

Duncan Hawkesby, Fliway's Managing Director. Duncan has spent over 10 years with Fliway after purchasing the Company in 2006. Duncan, via The D&G Hawkesby Trust, remains the single largest shareholder in the business, holding some 54% of the Company's shares.

And finally, I was appointed Chairman of Fliway in February 2015 ahead of its initial public offering in April and assisted the business through the listing process. I have worked as a diplomat, economist, investment banker and as a CEO. I am now a professional director and in addition to chairing Fliway, I am Chairman of Precinct Properties, AIG Insurance NZ and the Local Government Funding Agency. I also hold directorships in a number of private commercial companies.

Alan retires by rotation today and is standing for re-election, Alan will speak to that resolution later in the meeting.

**Slide 6. Chairman's Introduction: Executive Team**

Also present today are the members of the Fliway Executive Team who I would like to introduce to you:

Jim Sybertsma is Fliway's Chief Financial Officer and Company Secretary. Jim has 30 years accounting and commercial experience and was appointed to his current role just over 9 years ago.

Cameron Mckeown is General Manager of Fliway's Domestic division, covering the Transport and Logistics business units. Cam is a veteran of the freight and logistics industry with some 25 years' experience within the Fliway business.

Jon Gundy is the General Manager of Fliway's International division and has just completed his first full financial year with the business. Jon is a long standing executive of the freight forwarding industry having held senior leadership roles in the International Air & Ocean sector for some 20 years, both in NZ and Internationally.

And we are also joined by Colin Burrow, Chief Information Officer of Fliway and Kate Bacchus, GM People who both bring extensive capability to the Executive Team.

This Executive Team has considerable experience, both with Fliway and in the wider industry. It is a particular strength of Fliway that it is able to identify and promote talent from within, not only in these senior roles, but across many occupations within the greater Company.

The Company's Auditors, Deloitte, are represented here today and the Company's legal advisors Bell Gully are represented here today also.

The Financial Statements for the year ended 30 June 2017 are set out in the Company's Annual Report that was released to shareholders last month.

I would now like to speak briefly to the overview of Fliway's 2017 year.

**Slide 7. FY17 Overview**

The last 12 months have been a tough period for Fliway, impacted by a number of one-off events and capacity constraints, particularly in the domestic division. The customer loss announced in June 2016 and subsequent restructure to remove cost, and the Kaikoura earthquakes in November 2016, both resulted in capacity challenges in face of increased road transport demand during the year.

Progress has been made on both the strategic and operational fronts. Good customer engagement has seen Fliway strengthen and deepen relationships with existing customers and successfully enter new sectors of the freight market during the year. The second half of FY17 saw revenue growth of over the prior comparable period, although I would add the Natural Disaster Surcharge played a part in this achievement.

Our relationship with UPS has been widened outside of the joint venture as a result of Fliway working with UPS to improve the cost position of the JV to ensure it remains market competitive.

The Fliway business is a strong generator of free cashflow and is operating well within bank facilities. Directors were able to maintain dividend levels at the top of the dividend range of 70% of NPAT.

Also pleasing was the operational delivery of this result by the business units themselves. In particular, whilst the Domestic division grappled with capacity management during this year, it did expand its capacity to facilitate further growth. Operational key performance indicators were excellent in the warehousing division and this led to improved financial performance within that business unit and even higher levels of customer service.

**Slide 8. FY17 Financial Overview**

2017 was a mixed year, with on the face of it, Fliway delivering higher revenue than the previous year yet a lower underlying Earnings before Interest, Tax, depreciation and Amortisation (or EBITDA). Revenue of $85.4 million increased by 3.4% over the prior year, although as mentioned earlier, the Natural Disaster Surcharge, put in place due to recover additional costs associated with the Kaikoura earthquake, did represent 1.5% of the total revenue increase.

The underlying EBITDA declined by 23.1% as the cost of securing additional capacity in the Transport business stepped significantly as a response to the increased demand.

Looking at the half year splits, it can be seen that the decline in profitability was more significant in the first half of the year under review than it was in the second half.

There is a need to adjust historical years profit numbers in order for all financial periods and all business units under review to be comparable. We call these adjusted numbers “Underlying” numbers which is another way of saying they are comparable across the years and across the business units, irrespective of ownership. You can see from the table, Fliway has larger revenue today than at any other time in the history of the business. Profitability is not where it was but the half year split clearly shows the profitability of the business is returning to approximate previous levels.

**Slide 9. FY17 Dividend**

Despite the volatile year, marked with a series of one-off events that impacted on the base profitability of the business, directors have taken a strong view on the dividend, as I mentioned in the highlights.

In February, the Board declared an interim dividend of 2.0 cents per share. This dividend, was based on the Company's full year forecast and in line with the dividend policy of paying out 50 to 70% of annual NPAT, with a weighting of 30% to 40% being paid in the first half.

As a result of the stronger second half financial performance, Directors were able to approve a final, fully imputed dividend of 4.0 cents per share which was paid to shareholders as expeditiously as possible on the 15$^{th}$ September 2017.

In total for the past year, fully imputed dividends of 6.0 cents per share will have been paid to shareholders. At the current price of $1.08, this would represent a gross yield of 7.7%.

The Directors acknowledge the continuing work and ongoing dedication of the Fliway team of people throughout New Zealand. I would now like to hand over to Duncan Hawkesby, Managing Director of Fliway to address the meeting.

## MD REVIEW: DUNCAN HAWKESBY

### Slide 10. MD Review

Thanks very much Craig. Good morning everyone and thank you for taking the time to come along to our Annual Shareholder Meeting. Today I'd like to recap on what Fliway does, briefly overview our strategy and look at an overview of our FY17 performance. I will then review the business' capital program, year-end debt levels and balance sheet capacity followed by a more detailed look into the operational performance of each division. Lastly I will discuss the outlook for the business in the period ahead.

### Slide 11. MD Review – 1. Business Description

Fliway is a freight & logistics business and has been operating in New Zealand for some 40 years. Our core strength is in providing a seamless and often tailored global supply chain solution to our customers. Domestically we operate transport and warehousing while internationally, we provide both air and ocean freight. So we can take care of our customer's freight from origin, all the way to the end customer here in New Zealand.

We also have a joint venture in NZ with UPS which is the world's largest package delivery company. Our JV with UPS is part of the global UPS express package network.
So looking across our business, we employ over 400 people, we operate over 170 vehicles, and we have a footprint of 16 sites from Whangarei in the North, to our newest depot, Alexandra in the South.

**Slide 12. MD Review – 1. Business Description Cont'd**

Looking now, at how we are structured, this slide shows how we think about Fliway as 3 business units.

Fliway International is our freight forwarding business. It facilitates export & import activity across both ocean & air freight – and provides customs brokerage.

Our Domestic business encompasses Warehousing - and Transport. Warehousing is often referred to as third party logistics or 3PL – where we effectively operate as our client's warehouse and distribution centre.

And Transport involves the pickup and delivery of goods across the country.
UPS-Fliway is the joint venture. It is an international express courier business – so it's typically dealing with express packages.

**Slide 13. 2. Strategy**

Moving now to strategy. At Fliway, we are very focused on earnings growth. We target 3 specific avenues to achieve that:

Firstly: Optimising Capacity – we are a capacity management business, and our ability to closely match capacity with demand determines our performance both operationally and financially.

Secondly: We look to grow our existing business by selling more services to existing customers and growing our market share by providing leading technology and outstanding service at competitive rates.

Thirdly: Entering new markets - we continue to look to diversify into complementary new markets or sectors, including through acquisitions.

Underpinning these growth strategies are our Health & Safety and People policies which are at are at the forefront of everything we do. We employ over 400 people, and we operate businesses with lots of moving parts so the driving objectives for our Health & Safety and

People Strategies are:

1) Getting the basics right
2) Simplifying what we do
3) Building an engaged culture

**Slide 14. 3. MD Review - Financial Highlights - Divisional EBITDA**

So lets look at the financials.  Looking at the EBITDA movement year on year by division, we can see that the major declines year on year were experienced by our domestic business and the JV. The International business and our Head office function were pretty much in line with last year's financial performance.

The Domestic business unit had a tough year, particularly in the first half in the Transport division where capacity management was significantly impacted on the prior year for that period. One-off events such as the customer loss restructure and the Kaikoura earthquake, all compounded on the capacity management challenge. The warehousing division though, made strong improvements on last year as revenues lifted, we got improved utilisation rates from product storage and good variable cost management on activity revenue, boosting earnings. A 20% step in the footprint of the warehousing business and the addition of a new customer in the 4th quarter of FY17 set this business up well for FY18.

International revenue for FY17 came in ahead of last year by 2.8% in spite of the volatile and low sea freight pricing and in the face of some customer churn. EBITDA was 3.1% behind last year, as a result of margin pressure. This is a business unit that is being impacted by lower shipping rates, fluctuating volumes from existing customers and is operating in a highly competitive environment at present.

Whilst Head Office costs were well contained for the year.

For the Fliway Group, overall FY17 Underlying EBITDA was down 23.2% on last year.

**Slide 15. MD Review - 4. Capital management – Capital Expenditure**

Moving on now to capital expenditure –you will remember we came to market as a fully invested business having spent nearly $9m over the two year period ahead of listing. At the time of listing, we told you our intention was to reduce ongoing annual capital expenditure from where it had been, down to approximately the level of depreciation and amortisation in the business, on an ongoing basis.

In FY17 capital expenditure did not reduce as the business responded to the increased demand for capacity and investment was required to facilitate the growth of the revenue line. Net capital expenditure, which is net of disposals, was $3.537 million and compared to D&A of $2.355 million. Of the investment, the greatest share, some $2.702 million or 76% of the total, went on trucks. Capex did not match the level of D&A, as the business invested to grow, to add fleet to meet demand and continue the investment already started in improving the technology solutions for our customers. Additional warehousing, despite being leased premises, always comes with costs involved in the establishment of the site, such as CCTV, access security, racking and computer systems.

In conclusion on capex, we remain comfortable where we finished for the FY17 period and feel that the additional capex invested will yield improved future earnings. Going forward we will have the same attitude, where capital will be deployed where there is the opportunity to make good returns on that capital.

**Slide 15 Con't MD Review - 4. Capital management cont'd – Net Debt**

Our net debt position of $7.8 million as at 30 June represents gearing of 0.94 times EBITDA. The reduced earnings, lift in the working capital level as a result of revenue growth, and additional capital expenditure all meant debt reduction was not possible in the current year.

Whilst net debt levels are up $2.0 million on the prior year, our bank facility allows up to $18.0 million in debt subject to covenants being met – so we continue to have good balance sheet capacity.

**Slide 16. MD Review – 5. Operational Performance – Domestic**

Moving on now to look at some of the detail in operational performance for each of our divisions.

Starting with Domestic where total revenue was 3.6% above last year, partly as a result of the Natural Disaster Surcharge, partly due to a lift in the Fuel Adjustment Factor (or FAF), but also due to new business revenues brought on, in addition to uptrading from existing customers.

Fliway do not set total vehicle freight capacity at a level to carry our peak freight volume requirement. To do so would mean for most of the year Fliway would have unused capacity which would be very inefficient. Instead, Fliway set vehicle freight capacity at a level more aligned with our average freight volumes, at peak volume times we use additional available capacity in the market to augment Fliway owned capacity in order to get the freight delivered. In November 2016, just ahead of the peak trading period of Christmas, the Kaikoura earthquake struck. The earthquake disabled the South Island rail network, transferring a significant amount of freight onto road transport. This meant in order for Fliway to step up the capacity of its freight network at the peak trading time, only expensive and inefficient options were available to achieve this, yet service always comes first and so we incurred a higher cost model to deliver our customers freight.

As part of the negotiation with UPS regarding the import compensation to the joint venture for parcel deliveries, the decision was taken to exit the Fliway owned sub-scale courier business that existed mainly for the purpose of UPS-Fliway  parcel pick-up and delivery. This work has now been out-sourced with Fliway now performing the role of buying agent on account of the superior buying power the larger Fliway Group has as compared to UPS-Fliway in it’s own right.

In our Logistics segment, our strong management team have continued to deliver improved results off the back of good revenue growth, new customers and solid operating cost management. The warehousing footprint grew by 20% in quarter 3 to accommodate the volume growth and sets this business unit up well for delivery in FY18. Capacity management will be improved in the FY18 period with the relocation to a new design & build facility in Wellington with a smaller warehouse more aligned to Fliway’s customer demand in that location.

## Slide 17. MD Review – 5. Operational Performance cont'd – International

In our International Division, revenue was 2.8% higher than the prior year with particularly strong revenue growth in the second half of the year compared to the prior comparable period. Looking at the market as a whole, lower shipping rates are continuing with limited indications of rates starting to improve, volumes from customers are volatile and a highly competitive environment is creating lower margins in this sector.

In his first full year with Fliway, Jon Gundy, the General manager of our International business has brought a real focus to retaining customers through the delivery of exceptional service and has introduced new customers to the business and turned around the trend in the revenue line.

We have implemented a number of technology enhancements to provide management and customers with better visibility of KPI and financial performance.

EBITDA margins in our International freight forwarding business were down from 13.3% last year to 12.5% in the year under review, as a result of the competitive environment and resultant margin pressure.

Fliway International's key objectives for FY18 remain unchanged, to grow its customer base, maintain cost disciplines and continue to align its business offering alongside the other operating divisions of the Fliway Group. Work continues to build a stronger international agency network and to improve freight visibility for our customers through utilisation of the latest technology offerings.

## Slide 18. MD Review – Operational Performance Cont'd – UPS-Fliway Joint Venture

Our joint venture with UPS is in a year of change as agreement was reached with UPS to lower the cost of package delivery in NZ to ensure the JV remains market competitive and in order to drive future volume growth.

A number of cost reduction projects are yet to be completed within the JV and the wider UPS relationship with Fliway has benefited from being awarded additional work , both of these initiatives are yet to reach their full impact which will see an offset to the financial performance decline.

Volume growth remains the focus of the JV, both inbound and export volumes are important to the success of this business.

## Slide 19. MD Review – 5. Operational Performance Cont'd – Head Office

Head office costs last year benefitted from the write back of a provision taken out to cover the potential cost of a customer dispute that was no longer needed. Underlying costs in the finance, HR and IT functions of our business were down on last year by 6.1%, mainly as a result of no management incentives being payable due to the financial results of the Group.

Fliway continue to focus on Health & Safety and continued investment in IT, in line with our strategy of gaining efficiencies from the use of technology.

Net Financing costs were down year on year by 33% largely as a result of the lower cost of revaluing the interest rate swaps held by Fliway.

**Slide 21. 6. Outlook**

Turning now to our outlook and what we see ahead.

The way to increase earnings in our business is to maximise the utilisation of the assets, whether that is trucks or sheds or people, they all need to be full and busy if we are to make good returns.

To that end we continually strive to deepen and strengthen relationships with customers to ensure we are getting all their work, we look to ensure we don’t get capacity holes opening up in our networks or sheds, and we continue to look at other sectors where we believe our operating model has relevance and is attractive.

**Slide 22. 6. Outlook**

Looking forward we expect revenue will benefit from the good work achieved in FY17, that will have a full year effect in FY18. We are looking to build on the revenue wins of FY17 and continue to grow Fliway into a bigger business than it is today. All 3 business units are currently showing solid growth in revenue over the prior year on the back of great customer service and good success in bringing onboard new customers to the Fliway Group.

We must be mindful however, that the revenue line will be impacted when the coast road from Picton to Christchurch re-opens and we will remove the Natural Disaster Surcharge currently in place, with expectations that this will occur sometime in the first quarter of 2018.

As our capacity position improves through the acquisition of new equipment, and the market capacity returns to a more normal long-run availability position, Fliway's cost base improves. FY17 was a tough year financially with a number of cost issues that we view as one-off or abnormal and we are now beginning to see the strong revenue position convert to improved financial results. The joint venture still has some way to go to complete it's transformation but we have initiatives in place to restore that business unit to a more acceptable level of profitability.

There is much work to do and we are excited about the road ahead. Our increased profile post listing and our stated intention to seek out growth through acquisitions is presenting us with some opportunities and we will continue to work through those.

On that note I would like to conclude and thank my fellow directors for their support and counsel this year. I'd also like to thank all of Fliway's people, our customers, and our JV partner.

I'll now hand you back to Craig Stobo to run through remainder of the meeting.

**Slide 23. Chairman's Address**

Thank you Duncan. Just to recap and reinforce Duncan's message, it has been a tough year and whilst the outlook remains challenging we have a great platform in the Fliway business.

On behalf of the directors I would also like to thank the Fliway Executive and the wider team for 2017, a year that required hard work and dedication. In addition, I would like to acknowledge the support of our valued customers.

## Slide 24. Ordinary Business - Questions

We will now open the meeting for questions relating to the annual report, financial statements and other matters raised in Duncan's and my presentation. Can I remind members here today that only shareholders, proxy holders or shareholder company representatives are able to speak. In addressing the Chair with questions, this is a fairly small room I'm sure we can all hear you, please state your name and advise whether you are a shareholder, proxy holder or shareholder company representative. Having said that, members of the board and management will be having a cup of coffee or tea after the meeting has closed and I'm sure we would be happy to engage any other persons who wish to have any discussions relating to matters that they might wish to raise. So, let's open the meeting up to questions, do we have any please?

[Manage question and answer process]

[Note: Discussion at this point is limited to matters arising from the annual report and financial statements or to matters raised through the Chair/CEO presentations. Questions should be directed through the Chair rather than to an individual. The Chair may redirect the question to a director or member of the Executive Team or to the Auditor etc at his discretion.]

Thank you.

## Slide 25. Resolutions

There being no further questions, we will now move on to the formal part of the meeting and there are a series of resolutions that we need to put to the shareholders to be voted on. The resolutions and accompanying explanatory notes were set out in the Notice of

Meeting and may only be voted on by shareholders either in person or by postal vote, proxy holders and shareholder company representatives.

Proxies have been appointed for the purpose of this meeting in respect of just over 5.2 million ordinary shares. As was indicated on the proxy form, where proxy discretion has been given, the Directors, and I as Chairman, intend to vote those proxies we have received in favour of resolutions 1 and 2 set out in the Notice of Meeting.

Voting on the agenda items will be by show of hands.

We will proceed according to the following.  I will state each resolution, we will then hold a discussion on the resolution if there are any.  We will then present the proxy results that we will show you on the slide and I will then ask you vote by way of a show of hands and we will move on to the next resolution.

**Slide 26. Resolution 1: Re-election of Directors**

Resolution 1, as you can see on the screen, is to re-elect Mr Alan Isaac as a director. He, as required by the constitution retires by rotation at this meeting but he has offered himself for re-election and his re-election offer is unanimously supported by the remaining members of the Board. His biographical details are contained in the notice of meeting. I now move that Alan Isaac, who retires by rotation and, being eligible and offers himself for re-election, be re-elected as a Director of the Company. Thank you.

[Alan Isaac to address the meeting]

Do we have any discussion on the resolution please?

**Slide 27. Resolution 1: Re-election of Directors [with proxies]**

So, if there are no more comments at all, I will now put up the proxies that have been received. The word discretionary means that the proxy holders have given the voting to the Chairman and I will vote in favour of the motion. You can see those votes for, against or discretionary and the total. So can I now ask you to raise your hand if you are in favour of the resolution. Thank you. Please raise your hand if you are against the resolution. Thank you.

I declare the resolution passed.

**Slide 28. Resolution 2: Auditor**

We will now proceed to the next resolution, which is that the Directors be authorised to fix the auditor's remuneration which I will move.

We now have the motion available for discussion if anyone wishes to make a point, or not.

**Slide 29: Auditor [with proxies]**

So, if there are no more comments at all, I will now put the proxies that have been received.

I've mentioned the discretionary vote before and I will be voting using those proxies in favour of the motion. So can I now ask you to raise your hand if you are in favour of the resolution. Thank you. Please raise your hand if you are against the resolution. Thank you.

I declare the resolution passed.

**Slide 31 - General Business**

So it is at this stage having concluded the formal part of the meeting that again I open the meeting for any matters of general business again related to shareholders, proxy holders of shareholder company representatives on the business of the day.

So before we have a cup of coffee, do I have any other matters anyone wishes to raise please?

[Manage question and answer process]

Well now ladies and gentlemen, that concludes our 2017 shareholder meeting and I will now close the meeting.  Thank you for attending today.  We are pleased with the progress that has been made since the time we listed.  We have confidence and support of our Executive Team in the outlook ahead.  On behalf of the Board, we thank you for your support of Fliway and look forward to that continuing.  I therefore formally declare this Annual Shareholder Meeting closed and I welcome you to join us in some refreshments.  Thank you everyone.