

MAINFREIGHT LIMITED PRESENTATION

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Executive Summary

Why?

This presentation is primarily developed to understand the potential investment opportunity in Mainfreight Limited (MFT)

What?

This presentation includes analysis on company & industry overview and company's financial strength. It also includes analysis on the valuation derived from the Mainfreight Financial Model

Next Steps

Strong BUY and HOLD recommended by the analyst due to the competitive advantage and strong financials

Company Overview

Company Overview

Company Highlights

- **History:** Mainfreight Ltd. (MFT) was founded in the year 1978 by Bruce Plested. Since inception, MFT has opened 282 branches in 26 countries
- **Valuation:** MFT's share price advanced from NZ\$15.93 to NZ\$76.05, an increase of 377% over the past 5 years. Markets have discounted Covid-19 as the share price hit all time high of \$79.53 in July 2021. Key strategic initiative is mainly driven by intensification and growth of MFT's network. Positive FCF of \$89.4Mn makes this company an excellent investment opportunity
- **Strategy:** MFT is mainly focused on building a vast network. The management has targeted over 400 branch locations around the world (currently 282). The ultimate target for MFT is to have excess of 50% of its customer base utilizing all three products - Domestic Freight, Air & Ocean and Warehousing
- **Corporate Finance Transactions:** MFT has paid a \$59.41Mn in dividends in FY20, an increase of 22.9% when compared to FY19. The company didn't made any significant acquisitions in FY20-21
- **Ownership:** Bruce Plested (Executive Chairman) is the top shareholder holding 14.8% stake in the company. Other shareholders include Harbour Asset Management Ltd. and Fisher Funds owning 5.57% and 4.95%, respectively

Industry Data	Average	MFT
EV/EBITDA	14.5x	12.4x
EV/Revenue	5.4x	2.2x
P/E	23.9x	48.1x

Revenue Mix	%	NZ\$'000
Transportation	50.9	1,576,320
Air & Ocean	36.7	1,135,346
Warehouse	12.4	383,728

Key Metrics	FY20, NZ\$'000
EBITDA	399,329
Net Income	159,201
Free Cash Flow	89,466

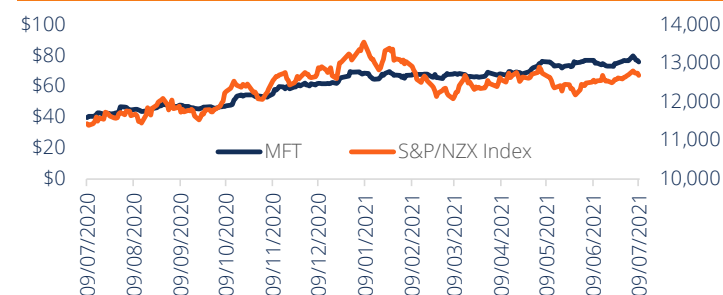
Valuation & Share Performance

Key Valuation Statistics (NZ\$'000)

Enterprise Value	7,809,000	Revenue (FY20)	3,095,394
Market Cap	7,658,159	EBITDA (FY21E)	471,744
P/E*	48.1x	EBITDA Margin	12.9%
EV/EBITDA*	12.4x	Debt / EV	3.4%
Cash	116,140	Total Debt	267,704

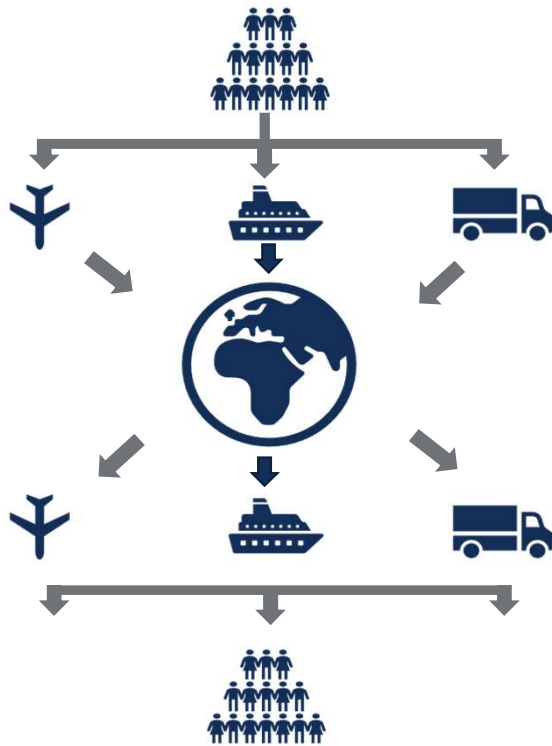
*P/E and EV/EBITDA are calculated based on FY21 estimates

Share Price Current: NZ\$76.05 52 Week High/Low: \$80.0 / \$39.9



Business Model

Industry Value Chain



Customers:

- The logistics journey begins with the customers reaching out to MFT via App, Call and mails
- The orders are taken into consideration via the above mentioned sources and an invoice is generated and sent back to the customers
- The orders are tracked via bar codes. Changes if any, during the transit of goods are updated both at customer's and MFT's end

Air & Ocean services:

- This segment offers end-to-end services for customers such as import, export, full documentation, port operations, etc through a network of over 280 offices.
- The individual teams assigned to customers also provide guidance and expertise in route selection and airline requirements
- The team also undertakes personalized scheduling to meet critical deadlines
- Shipments are tracked through a comprehensive door to door tracking systems

Transport:

- This segment offers on road end-to-end customer service
- MFT follows Less-than-Truckload (LTL) shipping procedure. LTL is very useful for customers transporting goods which only occupies certain area within the trailer, thereby benefits customers in terms of reduced costs

Warehouse:

- Upon reception of goods, they are stored and managed in warehouse for further transit
- All the locations of MFT are FDA registered (US locations)
- In house IT-EDI and systems integrations contribute towards effective compliance structure and contribute towards hassle free transportation

Operating Forecast

Revenue Drivers

Transportation Segment

- Transportation segment contributes towards 50.9% of total revenue of MFT
- Addition of temperature controlled trailers, LTL and other technological advancements are contributing to robust revenue growth and customer satisfaction
- This segment has seen an increase in revenue of 10.1%, 11.9% and 8.6% in FY18, FY19 and FY20, respectively

Air & Ocean Segment

- Air & Ocean Segment contributes towards 36.7% of total revenue of MFT
- Apart from various other critical factors, uploading and downloading of cargo in record time to avoid disruptions at customers supply chain end is leading to higher customer satisfaction and MFT's segment revenue
- This segment has seen an increase in revenue of 9.0% and 12.2% in FY18 and FY19, respectively. However, it has also witnessed a decline of 1.8% in FY20 mainly because of Covid-19

Warehouse Segment

- Warehouse Segment contributes towards 12.4% of total revenue of MFT
- The revenue and performance of this segment is primarily dependent on the performance of Transportation and Air & Ocean segments as the Warehouse facilities are dependent on the Tonnes delivered by other two segments
- This segment has seen an increase in revenue of 3.6%, 3.8% and 7.2% in FY18, FY19 and FY20, respectively

Revenue & EBITDA Forecast

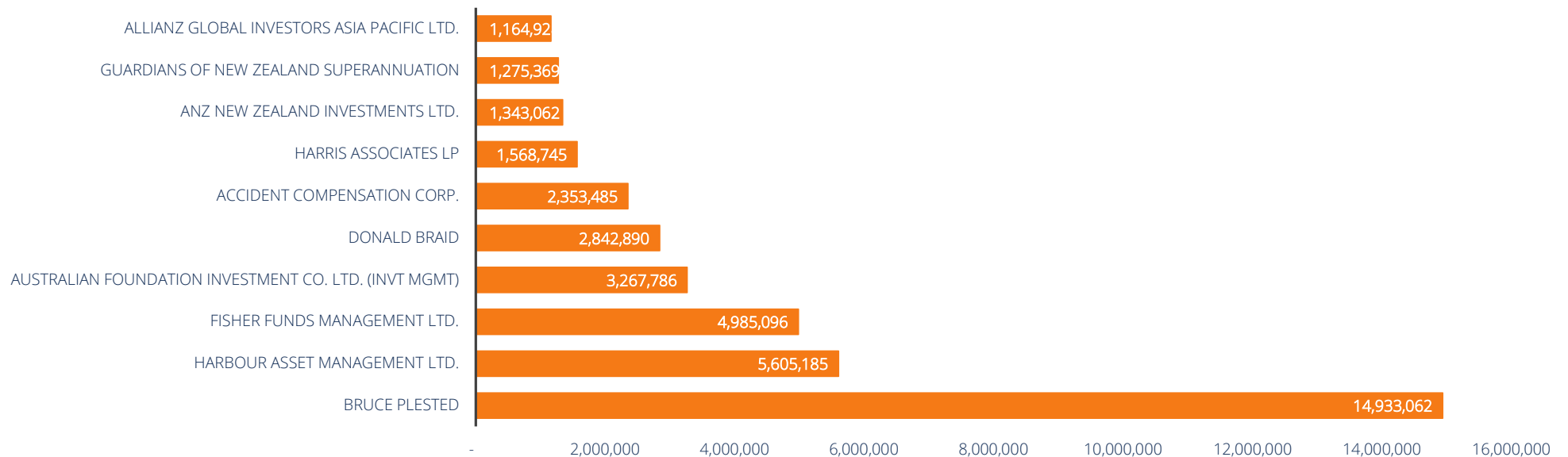
in NZ\$ '000	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E
Transportation	1,177,670	1,297,013	1,450,942	1,576,320	1,705,084	1,722,135	1,739,356	1,756,750	1,774,317
Air & Ocean	945,898	1,030,607	1,156,578	1,135,346	1,186,569	1,221,986	1,246,426	1,271,354	1,296,590
Warehouse	210,023	289,080	346,567	383,728	639,142	675,101	709,301	737,436	768,422
Total Revenues	2,333,591	2,616,700	2,954,087	3,095,394	3,530,795	3,619,222	3,695,083	3,765,540	3,839,329
Transportation revenue growth, %	50.5%	49.6%	49.1%	50.9%	48.3%	47.6%	47.1%	46.7%	46.2%
Air & Ocean revenue growth, %	40.5%	39.4%	39.2%	36.7%	33.6%	33.8%	33.7%	33.8%	33.8%
Warehouse revenue growth, %	9.0%	11.0%	11.7%	12.8%	18.1%	18.7%	19.2%	19.6%	20.0%
Total Revenues Growth, %		12.1%	12.9%	4.8%	14.1%	2.5%	2.1%	1.9%	2.0%
EBITDA	197,990	215,625	358,852	399,329	471,744	485,082	496,570	507,128	518,161
EBITDA Margin %	8.5%	8.2%	12.1%	12.9%	7.7%	7.7%	7.7%	7.7%	7.7%

Shareholder Ownership

Ownership Analysis

- Mainfreight Limited trades under the ticker symbol: MFT on New Zealand Stock Exchange (NZX). The company has a free float of 81.7% with quantity of 82,318,857
- Bruce Plected, MFT's Executive Chairman owns 14.93Mn shares with an holding % of 14.8%. Don Braid, Group Managing Director and Director owns 2.8Mn shares with an holding % of 2.8%
- Other top shareholders include Harbour Asset Management, Fisher Funds Management Ltd., Australian Foundation Investment Co. Ltd. (Inv. Mgmt.) hold 5.5%, 4.9% and 3.25%, respectively

Shareholder Ownership



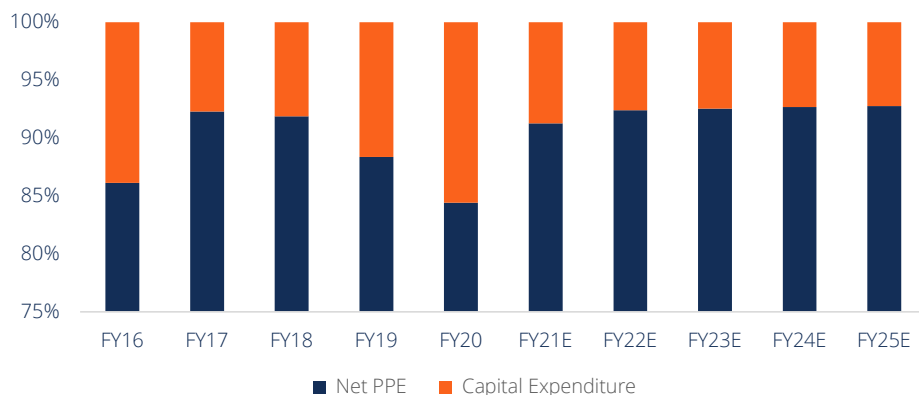
Liquidity Analysis

Capital Adequacy

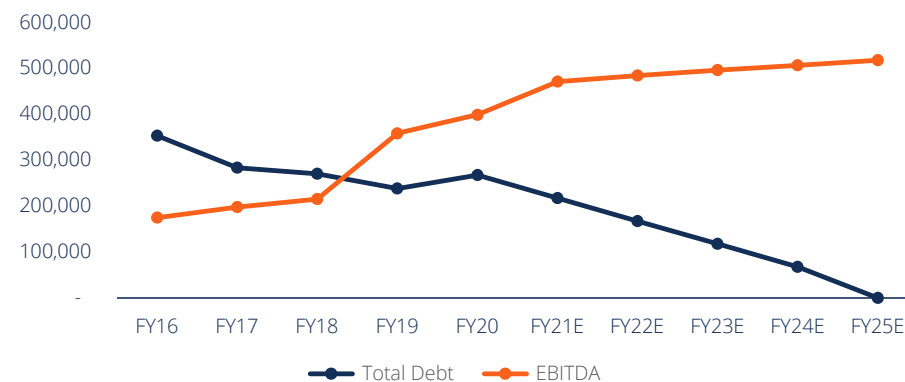
- MFT has a strong operating cash flows for the past five years. The cash flow from operations increased by 41% in FY19 as compared to FY18 and 52% in FY20 as compared to FY19.
- The company also recorded strong working capital over the past 5 years. The working capital of the firm increased by 17% in FY18, 19% in FY19 and 9% in FY20
- The company has a low debt of NZ\$267.70 Mn
- Due to Covid 19, company has deferred its capital expenditure of NZ\$120Mn. It also reduced its Capex to \$80Mn in FY21

NZ\$ '000	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E
Net PPE	569,013	570,706	582,310	666,629	776,575	835,759	881,818	923,747	961,283	994,367
Capital Expenditure	91,515	47,696	51,509	87,673	143,286	80,000	72,588	74,307	75,887	77,538

PPE vs Capex







Debt & EBITDA



Industry Overview

Competitive Environment

Company	EV/Revenue	EV/EBITDA	Strategy	Structure
	1.38x	12.40x	<ul style="list-style-type: none"> MFT is mainly focused on building a vast network. The management has targeted over 400 branch locations around the world (currently 282). The ultimate target for MFT is to have excess of 50% of its customer base utilizing all three products - Domestic Freight, Air & Ocean and Warehousing 	<ul style="list-style-type: none"> MFT primarily comprises of three revenue segments: Transport, Air & Ocean and Warehouse. 50% of total revenue is contributed by Transport segment 36.7% of total revenue is contributed by Air & Ocean segment 12.4% of total revenue is contributed by Warehouse segment
	2.37x	13.04x	<ul style="list-style-type: none"> Freightways strategic long term plan is to extend residential delivery charge by 50cents to cover the costs associated with residential services The company also decided to improve the incomes of contractors through increased remuneration and continue focussing on achieving greater efficiency by increase in delivery volumes 	<ul style="list-style-type: none"> Freightways primarily comprises of three revenue segments: Express Package & business mail, Information Management, Corporate and other 75% of total revenue is contributed by Express Package & business mail 33% of total revenue is contributed by Information Management 3% of total revenue is contributed by Corporate and other
	0.28x	5.11x	<ul style="list-style-type: none"> Warehouse is primarily focussed on building its integrated systems strategy such as introducing a new finance and inventory system to enable real-time visibility of inventory The company also aims to increase digital footprint and productivity. For e.g. click & collect sales grew 103.2% across brands, representing an average of 39.4% online sales 	<ul style="list-style-type: none"> Warehouse primarily comprises of four revenue segments: The Warehouse, Warehouse Stationery, Noel Leeming and Torpedo7 53.7% of total revenue is contributed by The Warehouse 31.8% of total revenue is contributed by Noel Leeming 8.5% of total revenue is contributed by Warehouse Stationery 6.0% of total revenue is contributed by Torpedo7
	15.14x	27.38x	<ul style="list-style-type: none"> Port of Tauranga is primarily focussed on meeting customer demand via targeted investment in shipping channel, cargo handling equipment and berth extensions The company plans to maximize efficiency with current footprint by using technology and increase revenue from diverse income streams The long term goal is to retail S&P long term credit rating (currently at A- from BBB+) 	<ul style="list-style-type: none"> Port of Tauranga primarily comprises of three revenue segments: Port Operations, Property Services and Marshalling Services 84.8% of total revenue is contributed by Port Operations 9.4% of total revenue is contributed by Property Services 5.7% of total revenue is contributed by Marshalling Services

Key Industry Trends

Industry Review

Industry Financials Breakdown (NZ\$'000)

Particulars	FY20 NZ\$ '000
Revenue	7,216,052
EBIT	608,214
EBITDA	949,215
Net Income	340,301

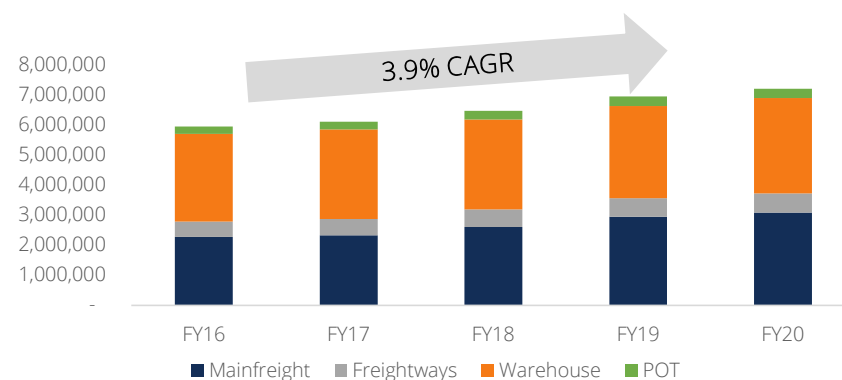
Key Industry Averages

Total Debt/EBITDA	1.8x
Total Debt/EV	0.1x
EBITDA Margin	13.2%
EV/EBITDA	18.0x
P/E	23.9x

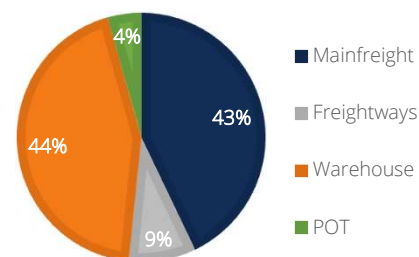
Industry Outlook

- Industry is challenged with Covid resulting in decline of profit margins
- Other counter measures such as decline in spending of capital expenditure and top management taking cuts in the compensation are proving as favourable steps during this unparalleled situation
- However, the industry should look forward to implement technological advancements such as Artificial Intelligence which enhances customer service experience
- Firms should also utilize technology such as Internet of Things to better manage inventories pertaining to fixed assets such as conditions of machinery being used

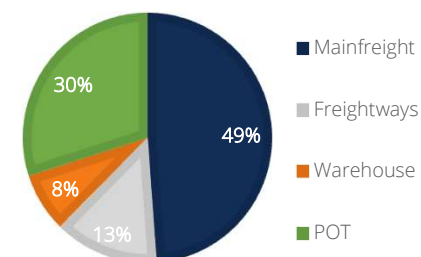
Industry Revenue



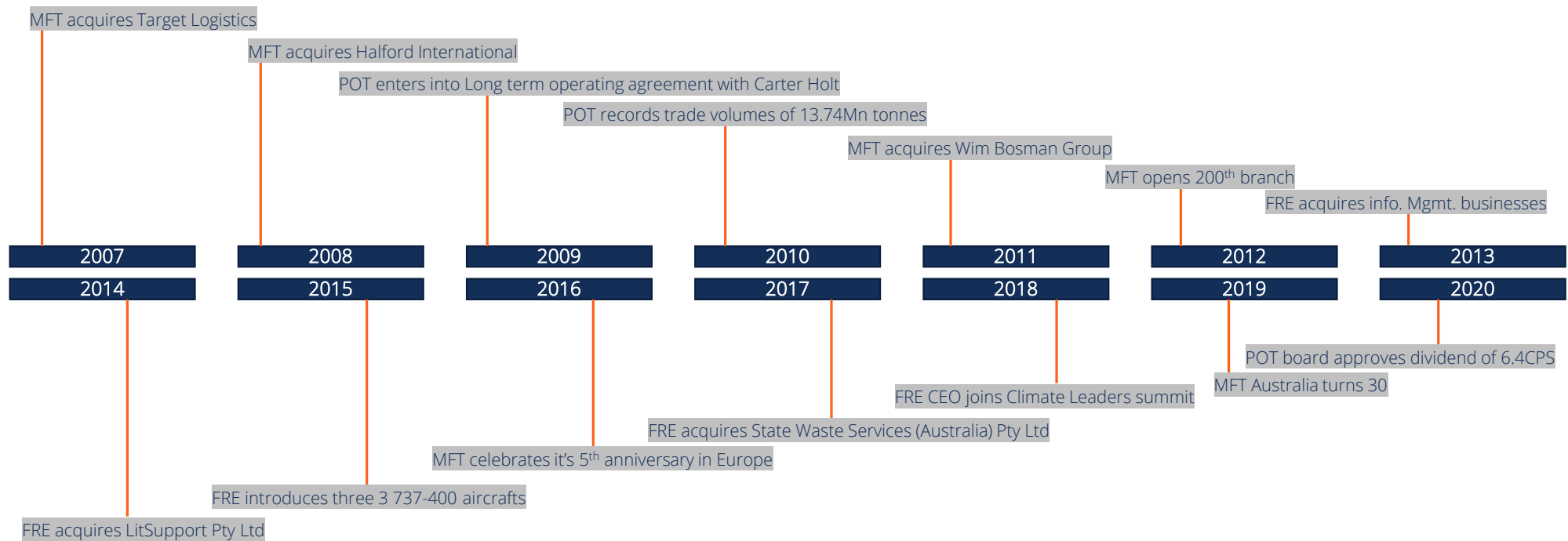
Revenue



Market Capitalization



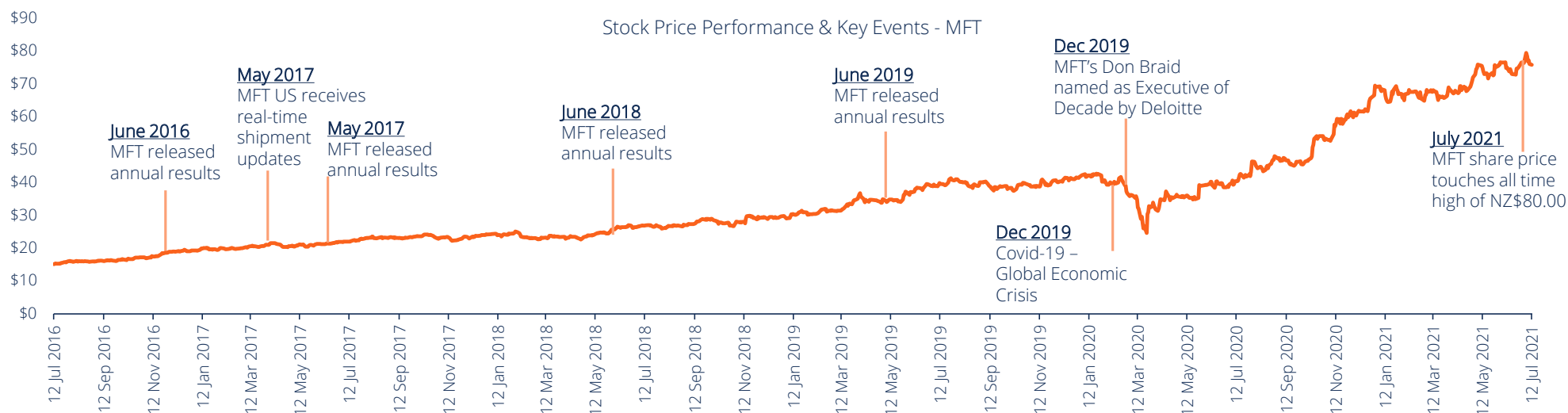
Corporate Finance Activities & Milestones



Valuation

Historical Share Price Performance

Key Events & Share Price Drivers



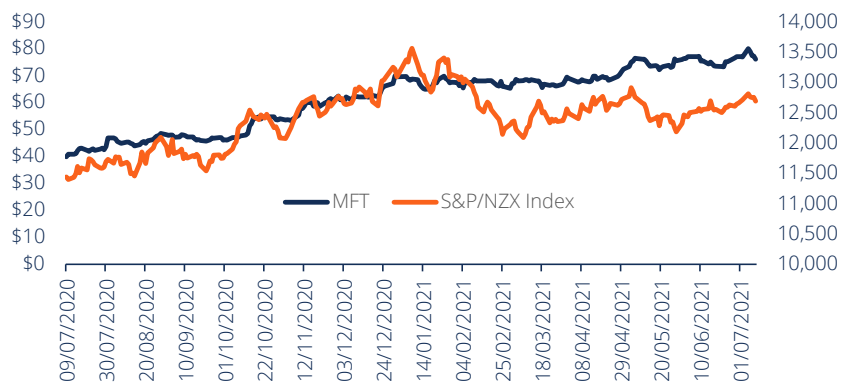
- **June 2016:** MFT releases its annual results. Group revenue, EBITDA and Net Profit increased by 11.2%, 7.8% and 5.6%, respectively
- **May 2017:** Mainfreight USA cut out the middle-man as it gets shipment and container status update information directly from the Ocean Carriers
- **May 2017:** MFT releases its annual results. Group revenue, EBITDA and Net Profit increased by 2.1%, 13.0% and 17.0%, respectively
- **Mar 2018:** MFT releases its annual results. Group revenue, EBITDA and Net Profit increased by 12.2%, 9.0% and 8.8%, respectively
- **June 2019:** MFT releases its annual results. Group revenue, EBITDA and Net Profit increased by 12.9%, 19.5% and 26.0%, respectively
- **Dec 2019:** MFT's business operations started showing adverse affects due to Covid 19. Shipping and transportation of goods have seen a decline in performance
- **Dec 2019:** Auckland Mainfreight has been awarded "Company of the Year" and Managing Director, Don Braid was named "Executive of the Decade"
- **July 2021:** MFT share price touches all time high of NZ\$80.00. This showed the renewed investor confidence although the company is in the midst of Covid 19 disaster

Valuation Summary

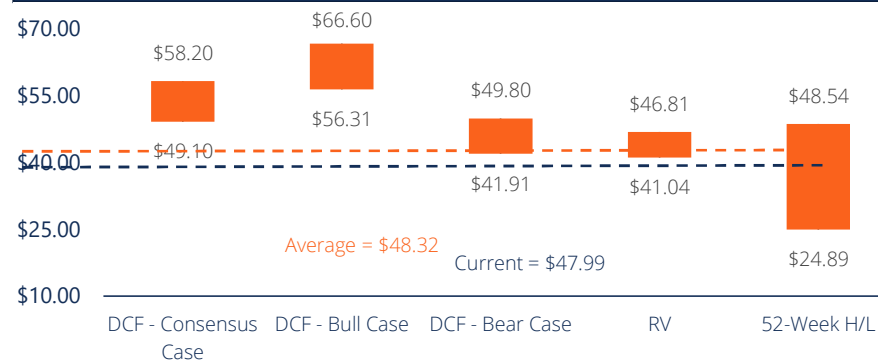
Stock Price Performance

- For the past fiscal year, the stock price increased from NZ\$39.90 to NZ\$80.0, an incredible increase of 90.6%, whereas S&P/NZX index increased by 8.5%
- As of this date, the stock is in a strong bull run. Market sentiment is very positive and analysts at Forsyth Barr are expecting the stock to hit NZ\$100 in the next few years
- The stock is trading at an all time high due to the competitive edge in the market
- Most of the credit goes to employees of the company as they tirelessly work round the clock to make sure no freight commodity is left behind
- Don Braid, the company's Managing Director has been spearheading the firm during the Covid 19 crisis which is reflected in the financials the company has been stating over the past few quarters

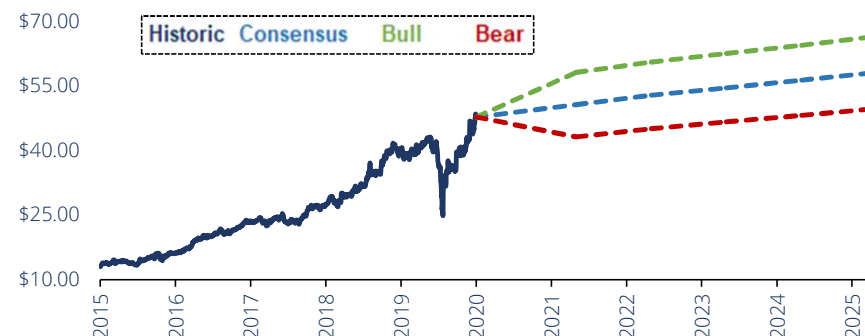
Share Price Current: **NZ\$76.05** 52 Week High/Low: **\$80.0 / \$39.9**



Valuation Football Field



Share Price Chart - Historical & Forecast



Valuation Analysis

Category	Actual	Assumptions	Comments
	2020	2021 – 2025	
EBITDA Margin	12.9%	13.3%	<ul style="list-style-type: none"> Forecasted assumptions were primarily based on the current Covid 19 situation. The origination of different strains of Covid 19 has played a vital role in keeping the forecasted assumptions to bare minimum
Cost of Revenues	\$1,803.5Mn	\$2.802Mn – \$2.287Mn	<ul style="list-style-type: none"> The transportation costs / cost of revenues were historically at 61%. A similar assumption has been made by assuming 59% for the next five years. It is anticipated that the business will take a hit due to Covid 19 advancements and thereby end up closing few locations worldwide
Transport Segment	\$1,576Mn	\$1,705Mn – 1,744Mn	<ul style="list-style-type: none"> Although the management is confident of targeting UK domestic transport, it is less likely to happen as UK is severely hit by Covid 19 and slowdown in markets is expected to continue for foreseeable future Therefore, it is assumed this segment may not increase by more than 2% for the next five years
Air & Ocean Segment	\$1,135Mn	\$1,186Mn - \$1,221Mn	<ul style="list-style-type: none"> The management is confident to expand range of services to customers across their supply chain This can happen if global economy starts to recover from Covid situation As it can be seen that the FY20 revenues have already taken a hit, it is assumed that this segment might witness a decline in growth from 4.5% to 2.0% for the next five year assumption period
Warehouse Segment	\$0.383Mn	\$0.639Mn - \$0.768Mn	<ul style="list-style-type: none"> Warehouse revenue is primarily dependent on the amount of tonnes shipped via Transport and Air & Ocean segments According to the metric 'Revenue per SQM' the forecasted revenue growth in this segment is a reflection of the expected business the other two segments will generate in the upcoming years
Capital Expenditure	\$0.143Mn	\$80,000,000 - \$77,538,000	<ul style="list-style-type: none"> During extraordinary situations such as Covid 19, most of the companies choose to have large amount of capital in terms of cash and cash equivalents Therefore, it is assumed that MFT will not heavily progress with capital expenditure at least till the point when impact of Covid starts to decline Therefore, the capex for the next five years has been assumed to decline from \$80,000,000 - \$77,538,000

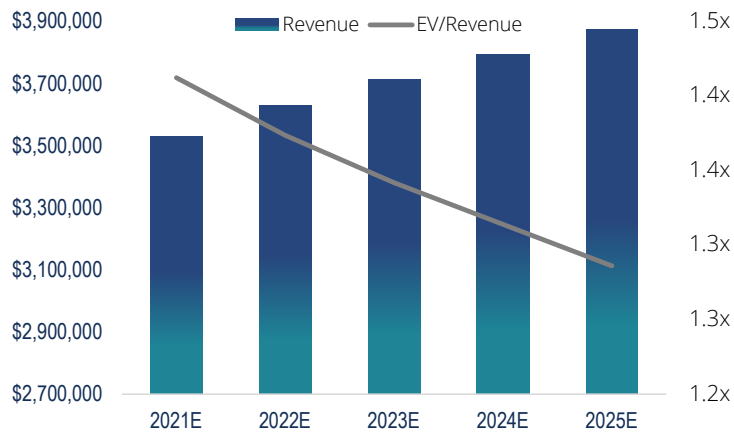
Investment Opportunity

Investment Opportunity

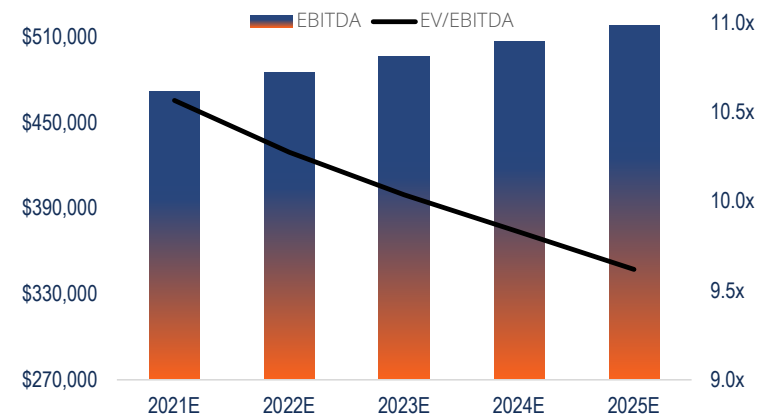
Strategic Rationale

- Although, assumptions have been made based on Covid 19 situation, we can consider the stock to outperform the market given its competitive advantage
- MFT has a positive Free Cash flows
- The company has a low debt on the balance sheet
- The company has expanded aggressively in the foreign markets pre-covid, similar inorganic growth can be assumed once impact of Covid declines
- The top management has over 20 years of experience among themselves and this is an added advantage when it comes to taking strategic decisions
- Therefore, MFT is a **STRONG BUY and HOLD** at current levels

Revenue v EV/Revenue



EBITDA v EV/EBITDA



Analyst Overview

Analyst Background

Analyst – Sandeep Dubba



Sandeep Dubba is a certified Financial Modelling and Valuation Analyst from Corporate Finance Institute. He has a Post Graduate Diploma in Applied Finance from Auckland University for Technology and Post Graduate Diploma (Finance) from All India Management Association.

He is experienced in the following:

- Written research reports covering company/industry analysis, investment thesis, top management compensation and other details pertaining to the financial model
- Experienced in financial industry for more than 7 years. Developed extensive financial models based on understanding of company's financial statements, derived revenue/cost models, conducted valuation methodologies such as relative valuation and discounted cash flows by using advanced excel tools and techniques on US equities and developed scenario analysis (WACC vs IRR vs Share Price)
- Developed scenario analysis for forecasted revenues, costs and profit margins
- Sourcing catalysts by delving into research reports such as company's earnings call transcripts, investor relations, news and media
- Extensive experience on valuation of multiple companies using methods such as Discounted Cash Flows and Relative Valuation

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