

## TIL LOGISTICS 2019 ANNUAL SHAREHOLDERS MEETING

23 October 2019

**Trevor Janes, Chairman**

### 2. CHAIR'S PRESENTATION

**Trevor Janes, Chairman**

### 3. BOARD AND MANAGEMENT

Since we last met a year ago, there have been a few changes to the Board and management team. In particular, Alan has restructured and strengthened his leadership team.

A number of our executives are here with us today – can I ask you to stand so shareholders know who you are. Thank you. I encourage shareholders to seek them out after the meeting and have a chat.

At the front table, we have Alan Pearson our CEO, Lorraine Witten who is head of the Audit and Risk committee and Jim Ramsay, one of the original founders of TIL Logistics and now an executive director. Danny Chan, who is chair of our Governance and Remuneration committee, sends his apologies – he is currently supporting our boys in black in Japan and is unable to make today's meeting. Greg Kern, who assisted with the reverse listing, stepped down as a Director during the year and sold his shareholding in the business.

Also here today is Lee Banks, our chief financial officer, who was appointed to the role this time last year. And at the far end is Peter Dryden, who is standing for election today.

As you may be aware, a number of members of the Board and senior management team have shares in TIL, and their interests are firmly aligned with shareholders.

### 4. TIL LOGISTICS GROUP

This year, TIL is celebrating being 150 years old. While we may not be delivering goods by oxen and cart anymore, our DNA is still to serve and to do so to the best of our ability.

Today we provide our customers with an end to end supply chain offering a range of services and utilising modern technologies. We were recently recognised for our embrace of technology by the Chartered Institute of Logistics & Transport with an Award for "Implementation and Practice" surrounding technology, new safety systems and our commitment to sustainability.

Our goal is to run our company in a way that offers value, not just to our customers but to our staff, the communities we operate in and all those involved in the supply chain.

The industry is facing increasing regulatory requirements, the use of digital technology, rising fuel prices, wage pressures and growing demand from customers for an integrated freighting, logistics and warehousing service. Only those businesses that have best practice as their goal, significant scale and access to capital will succeed.

TIL is well positioned to grow both organically and through carefully selected acquisitions. We have identified opportunities across all sectors to build our business, improve volumes and utilisation, expand the offer and drive efficiencies.

## 5. OUR PROGRESS

Our focus over the last year has been to lay a solid foundation from which we can continue to grow.

- We expanded our warehousing capacity and by the end of our expansion programme we will be the largest warehouse provider in the country.
- We acquired Specialist Transport and Lifting Group, providing the scale we needed to compete in this sector.
- Management were charged with driving growth, building the customer base, identifying new opportunities and tight cost control and this focus has continued into the new financial year.
- The final earnout consideration for the acquisition of the MOVE warehousing business in 2017, was satisfactorily settled between the parties; and
- Our share register changed following the sell down by Greg Kern, with his 5% shareholding acquired by a number of institutional and private investors as well as members of the Board and executive team.

Our focus for the current year is on organic growth of our existing businesses, and cost control remains a major focus. While economic conditions are more challenging, we also have identified new opportunities for our businesses. Alan will talk more on this shortly.

## 6. CAPITAL MANAGEMENT

Capital expenditure increased in FY19 as we invested in truck replacements, technology and software, and new warehouse fitouts.

In FY20, our major projects include a new Transport Management System and the fitout of new warehouses.

## 7. GROWTH DRIVERS AND OPPORTUNITIES

We have identified four avenues to drive growth for our business and these remain our focus.

We remain dedicated to providing a safe and rewarding workplace for our people, and our commitment to reducing our environmental impact continues.

As we have done for the past 150 years, we run our business with the long term in mind and will continue to leverage our strengths to gain market share and deliver value to our shareholders.

I will now hand over to Alan to talk about our progress in FY19 and the opportunities for each of divisions in FY20.

## 8. CEO'S PRESENTATION

**Alan Pearson, CEO**

## 9. FY19 KEY EVENTS

I'd like to start by running through our FY19 results. I'll keep it quite short as we've already covered them in detail in our results announcement, presentation and annual report.

In summary, it was a year of good business growth and increasing sales across all divisions. We put quite a lot of investment into growth initiatives and this was reflected in our results, along with the higher cost base.

We acquired Specialised Lifting and Transport Group, opened three new warehouse facilities, and restructured our organisation into five operating divisions, including the separation of NZL into freight and logistics services. In line with this, we established a new Senior Leadership Team with Divisional leaders, creation of new CIO, Group HR and Group Safety roles and the appointment of Lee Banks as Chief Financial Officer.

Our bundled transport and logistics offer is now starting to show dividends and market share is growing, and we had a number of new customer wins as well as increasing demand from existing customers.

We were also a signatory to the Climate Leaders Coalition and signed a Memorandum of Understanding with Hiringa Energy in Taranaki to investigate hydrogen fuel cell technology transport solutions.

## 10. FY19 RESULTS

Sales were ahead of the prior year and we had a good first half performance across all our businesses. In the second half of the year, we had some unplanned costs and we also saw a slowdown in the last quarter.

Pleasingly, adjusted earnings were up on the prior year, despite the increased cost base and investment into growth initiatives.

Profit was slightly down on last year, due to increased depreciation and finance costs, and without a tax benefit like we had in FY18.

## 11. BUSINESS DIVISION REVENUE AND EBITDA

Freighting, Warehousing & Logistics and Bulk Liquids are the main contributors to the group, and provided 94% of revenue and 86% of adjusted EBITDA in FY19. Specialist and International are niche markets with growth potential.

## 12. DIVISION REVIEW

We have identified opportunities to build market share and earnings across all divisions.

## 13. OUR BUSINESSES

As said, we have organised our group into five operating divisions, with the heritage of our brands contributing to high levels of customer loyalty across multiple regions and being one of TIL's strengths.

## 14. FREIGHTING

We have a fleet of around 2,300 trucks, trailers, forklifts and light vehicles.

Around forty-five percent of New Zealand's freight movements are in the Golden Triangle of Auckland, Bay of Plenty and Waikato and 15% are in Christchurch. We have a robust freighting offer across the country and particularly in these regions.

We're confident we'll see our client base continue to grow over time as businesses look for strong providers.

New Zealand has around 4,500 trucking businesses, of which 85% operate fewer than five trucks. With increasing regulation and compliance, rising operational costs, and customer demand for integrated and sophisticated solutions, industry consolidation is inevitable.

We are well positioned to take advantage of this and will carefully consider acquisition of businesses which will add immediate incremental value and market share or expand the range of services on offer.

We can also leverage our scale and our investment into technology to drive productivity and margin improvements.

## 15. FREIGHTING PROGRESS

A focused effort on margin has commenced.

We continue to invest into new trucks which offer best in class safety, reduced emissions and increase our fleet availability.

We're also investing in specialised vehicles which provide new income streams, such as refrigerated trucks, logging trucks, new crane trucks and even a bee unit and tractor to transport hives. Each of these truck combinations can cost upwards of \$500,000 so it's a significant investment for our business. We also spend around \$23 million every year on repairs and maintenance to ensure our trucks are safe on our roads.

Technology is a big focus, with in-cab technologies, electronic logbooks and safety systems all working together to improve the well being and safety of our drivers. As said, it is pleasing to see our investment and effort being recognised by industry organisations.

A big project this year is the implementation of a new, cutting edge Transport Management System, which is like the 'control tower' for our business and will improve our efficiency and the customer experience.

## 16. WAREHOUSING AND LOGISTICS

Customers don't just want their goods moved from A to B. They increasingly demand a safe and sustainable transport and logistics partner who can warehouse, move, and manage the links.

We have expertise spanning the freight and logistics sector which means we are well set up to meet all our customers' needs.

## 17. WAREHOUSING & LOGISTICS PROGRESS

Demand is growing and we are investing into expanded warehouse capacity – we opened three new warehouses in Tauranga, Christchurch and Auckland in the last 12 months; and this financial year, we are opening or expanding three more.

Combined, these will increase our capacity by 25% and will position us to be one of the largest warehouse operators in the country.

## 18. NEW ROLLESTON WAREHOUSE

Rolleston is one of Canterbury's fastest growing towns and industrial centres. It's connected to the State Highway, sits on a major rail junction and has large inland freight clearing facilities owned by the Ports.

This makes it an ideal hub for our warehousing, logistics and transport businesses. The new MOVE warehouse has a footprint of over 10,000 square metres and stage 2 will see this double in size this year.

There are a number of potential benefits for our customers including reduced container transport costs, container triangulation benefits and reduced supply chain costs.

We're conscious of reducing our environmental footprint where possible and with all our new fit outs, we've looked at ways we can do this. In the Rolleston warehouse, we've added solar panels to generate electricity and we're using smart energy systems, as well as electric rather than LPG forklifts.

## 19. BULK LIQUIDS

We are specialists in the transport of bulk liquids. In particular, we operate one of the largest fuel distribution providers in the country through Pacific Fuel Haul.

There are high entry barriers to this sector. Health and safety compliance is tougher, and you need highly-trained, specialist staff.

We've invested in a lot of expensive specialist equipment and training for our people – our strength in this sector cannot be easily replicated.

Many of our customer relationships go back 10 to 20 years and last year, we renewed our strategic partnerships with Z Energy and Farmlands and these are now underway.

## 20. BULK LIQUIDS PROGRESS

We are seeing growing demand for non-fuel Bulk Liquid haulage in the dairy, food and chemicals sectors and this is another growth area for us.

In line with this, we have combined our Pacific Fuel Haul and Liquid Logistics brands into one, with four sub-brands for each of the sectors we are targeting - Industrial, Edible, Chemical and Fuel.

Last year, for example, we signed a three-year contract with Lactanol to service its ethanol transportation needs. Because ethanol is a highly flammable liquid, specialist training and trucks are required to transport it from the Lactanol plant to storage facilities, and that's where our expertise comes into play.

We will be collecting and carting approximately 15 million litres of ethanol every year, and the containers used to export the ethanol are also provided by our business, Pacific Liquid Logistics.

## 21. SPECIALIST

The acquisition of the Specialised Transport and Lifting Group last year gave us the scale we need to compete in this sector and makes TIL the leading heavy haul provider in NZ.

Every day is different for this division, with jobs ranging from the removal of a 200 tonne crane at Tiwai Point Aluminium Smelter, to the installation of wind farm turbines and cartage of concrete panels, and the transport of extremely large items such as the decommissioned 330 tonne gas turbine which we moved from Otahuhu to Auckland Port earlier this year.

These jobs are not just a matter of putting an item on a truck and moving it; it's a logistical planning exercise that often involves road closures, multiple trucks, temporary strengthening of bridges and roads and so on.

TIL's heavy haulage service is unique in New Zealand and there are many jobs where we are the only provider with the trucks and skills to move extremely large and heavy items. FY20 looks promising with a number of large projects being considered.

There are a growing number of wind farm projects underway, something we are ideally positioned to help with. We are already well into preparations for the Turitea Windfarm Project, where we will be delivering the blades and bodies for the turbine towers – some of these blades are up to 60m, more than half a rugby field in length. This project is due to start in February next year and we're investing in new equipment and staff for the project duration.

## 22. INTERNATIONAL

Our international division is small but it's an important cog in our supply chain.

In the last six months, we have handled over 510,000 kgs of airfreight, transported a floating oil drilling rig, handled 38 international vessels and the movement of 470 ISO tanks.

We see opportunities for growth, both organically and by acquisition and there are also cross-Group benefits, with increased volumes for the International business driving warehousing and transport demand for items once they reach New Zealand.

## 23. HEALTH AND SAFETY

Across our business, we travel over 80 million kilometres each year, delivering product to over 30,000 sites while operating within 51 of our own sites with over 500 forklifts.

Overlaying this is our responsibility to deliver millions of litres of fuel to 60% of service stations and farms, and gas to all locations not served by pipeline. This environment is hazardous and calls for constant vigilance on all matters of safety.

We take the safety and wellbeing of our employees, contractors, owner drivers and communities very seriously. It is an essential component to everything we do and is one of our core values.

There have been several media articles about poor and dangerous practices by some other transport companies in NZ. We are of the opinion that organisations that condone or otherwise allow such practices should not be in business. They exploit staff, give the industry a bad name and tarnish what professional companies such as TIL are working to achieve – delivering safe and efficient services that meet and exceed our customer's expectations and protect our staff.

This is a responsibility that professional transport companies commit to and demonstrate through their actions.

We continue to invest in training, technology and staff engagement to continuously improve our safety culture and performance and have recently appointed a new Group Safety and Environmental Manager. This investment does not come cheaply but we believe it is an indispensable part of our social licence to operate.

## 24. ENVIRONMENT

We remain cognisant of the impact the trucking industry has on the environment and our focus on alternative fuels continues to gather pace.

In July 2018, we became a founding signatory to the Climate Leaders Coalition. We've also signed a Memorandum of Understanding with a local NZ company, Hiringa, to further investigate hydrogen as a large scale fuel option.

## 25. GROUP SUSTAINABILITY GOALS

While we will always have some impact on the environment, due to the nature of our business, we are committed to lightening our footprint where we can.

We completed a CEMARS review in July 2019 to measure our carbon emissions, and since then we've developed an Emissions Management and Reduction Plan with annual targets for consumption.

There's a lot of things we can do and we've already started working on some of them.

- We are a cornerstone partner of Z Energy for the use of bio fuels across TIL's truck fleet in New Zealand

- We are implementing in-cab technology such as Eroad and Autosense to monitor driver behaviour for fuel efficiency
- We're upgrading our forklift fleet to electrical, more efficient equipment and when we invest in new trucks, we also consider fuel efficiency
- We are using selective catalytic reduction technology in our fleet to reduce emissions
- And we have invested in LED lighting across all TIL Logistics group warehouses.

## 26. PEOPLE

Our business is successful because of our people. From the truck drivers on the road to our warehouse personnel, accounts and support office staff, logistics managers and leaders.

We would like to thank them all for the services they have provided and the role they continue to play in our ongoing success.

Our positive culture is reflected in the high number of long service employees within the group, with approximately 15% who have been with the company for more than 10 years and 6% who have more than 30 years of service. While this may sound small, in today's transient employment market, it's a number we're proud of.

Recruitment of truck drivers and, surprisingly, of warehouse staff remains challenging. We have a number of recruitment programmes underway including becoming an accredited employer able to offer a pathway to NZ residency in order to address skill shortages. We are also looking to offer cadetships for younger people into the industry and are planning for additional training to build skills and support internal promotion within our business.

The Minister of Immigration recently announced changes including to how employers recruit migrants for temporary work in New Zealand. With known Driver shortages, predominantly in Auckland, we hope that the changes will recognise regional and sector difference in the market and allow us to fill vacancies where no New Zealanders are available to employ or train.

## 27. TIL'S STRENGTHS

TIL's strengths remain our diverse customer base and sector activities, our nationwide network built on foundations of regional strength, our end to end supply chain offer, the heritage of our brands and our leading market positions in niche sectors such as dangerous goods and specialised transport.

Our values and investment into our business are also attractive for customers and staff.

## 28. OUTLOOK

We are now four months into the financial year and heading into our peak season. We are monitoring business confidence and the economy carefully, as this closely links to the transport and freight industry.

The business environment has been softer, with business confidence trending down; more restrictive lending by banks as a consequence of the Reserve Bank's stance on capital requirements; a number of large construction projects coming to an end; and uncertainty about the pipeline of future infrastructure projects. This is creating a domino effect across many industries, including our own and trading was softer than expected in the first quarter of FY20.

The higher cost environment also remains, with increasing regulation; higher fuel costs, road user charges and regional fuel taxes; increasing rent costs and wage costs and higher costs for parts and equipment due to the lower exchange rate and price increases. In particular, we've seen wage costs increase significantly in the past 12 months, with more aggressive tactics being taken in collective employment bargaining. Conversations with other transport providers show they are seeing similar trends.

However, there are many bright lights for our company and new and growth opportunities have been identified across a range of sectors, and particularly in Specialised, International and non-fuel Bulk Liquid haulage.

A large percentage of our revenue comes from oil & gas transport and the food & beverage sector, where we transport lactanols, a by product of the dairy industry, wine and other food and beverage items, and warehouse products ranging from supermarket goods to alcoholic drinks. The building and construction industry is also important for us.

While we have seen a slowdown in some sectors, such as dairy farming, construction and logging, other industries are growing, such as windfarms and aquaculture. General freight remains consistently high and has actually grown year on year.

We are tendering for multi-million dollar contracts with new and existing customers and have had a number of successes to date. Our bundled freight, warehouse and logistics offer is proving attractive, we are winning work on the back of our specialist services such as transport for windfarms, and we are well positioned to take advantage of the increasing demand for warehousing and logistics. We will continue to invest in equipment and people to ensure we remain an attractive and viable option for customers.

Our primary focus is on driving organic growth and the investments made into expanding our capacity and our offer in the last year will assist with this.

We are expecting an improved performance in FY20, driven by organic growth, new customer contracts, additional warehousing capacity, and benefits of FY19 investments including full year benefit of SLTG.

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