



Road Freight Corporate Finance and Economics update

Dean Evagorou

Associate Director, Client Insights & Solutions, ANZ

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Introduction – ANZ and the Road Transport Industry



ANZ's Client Insights & Solutions team is a specialized team, aiming to provide market leading corporate finance, business, and industry analytics and insights

The latest edition of the ANZ Australian Road Transport sector report, ANZ presents an overview of key themes and outlook for the industry, market analysis, as well as deep dive corporate finance benchmarking for the 2023 financial year

A sample of 19 Australian and New Zealand road transport companies are incorporated in the corporate finance analysis conducted by ANZ. The report is produced by leveraging both ANZ's strong client relationships, coupled with our expertise across corporate finance and economic analytics



FY2023 – Trends and Highlights



SUSTAINED DEMAND

Despite economic growth slowing, **demand for road transport services remained strong** – buoyed by i) population growth; ii) increased online service offerings, and; iii) constraints in other transport options (i.e., limitations to rail transport growth)

CAPACITY CONSTRAINTS

Staff shortages remain a huge challenge, additionally impacted by limited access to strategically located warehousing facilities, and fleet numbers lagging behind requirements

INFLATION

Despite significant inflationary pressures – particularly fuel, equipment and wage costs – lessons learned from recent years with customer contracts helped in **passing on increased costs to end-customers**, with profit margins the highest seen since ANZ's inaugural report

M&A

With steady consolidation across the industry over the past decade, **consolidation of smaller players has accelerated in FY2023**. Additionally, several notable transactions in the market were completed across 2022 – 2023

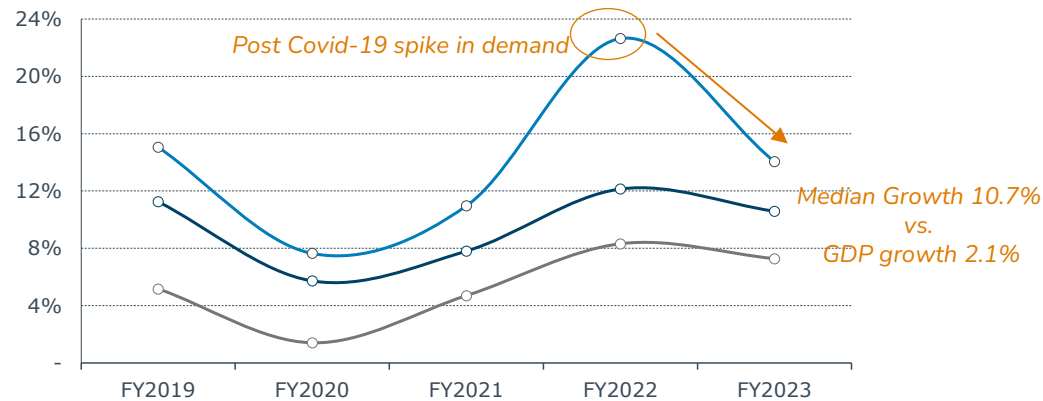
CAPEX

After years of subdued capital expenditure and supply chain constraints we saw a **noticeable uptick in spending on fleet in FY2023**, as operators looked to expand capacity to meet continued increased demand

Strong revenue growth and operating profits, whilst navigating cost pressures

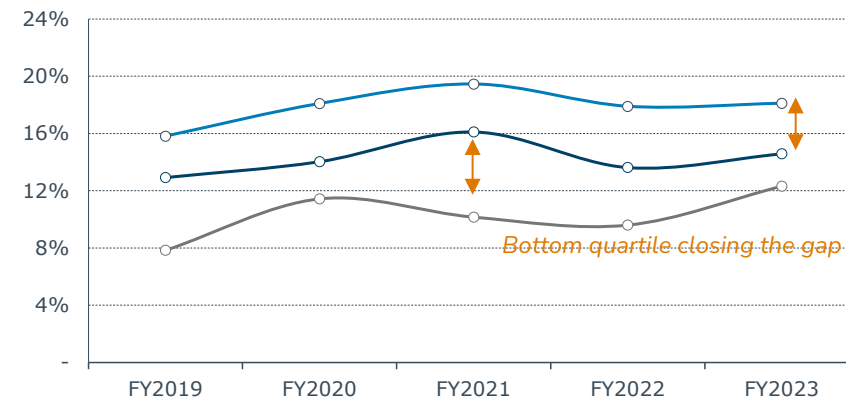


Revenue Growth



Whilst economic growth slowed as interest rates increased, the sector sustained **strong revenue growth** as **global supply pressures eased**

EBITDA Margin



Operators have also been able to navigate cost pressures (particularly wage and fuel expenses) to deliver **improved operating profits in FY2023**

Sources: S&P Capital IQ & ANZ Analysis

Note 1: Quartiles information is based on a sample of 19 Australian and New Zealand Road Transport companies

Note 2: Financial Metrics are presented on a post-AASB16 basis from FY2020 onwards

—○— Top Quartile

—○— Median

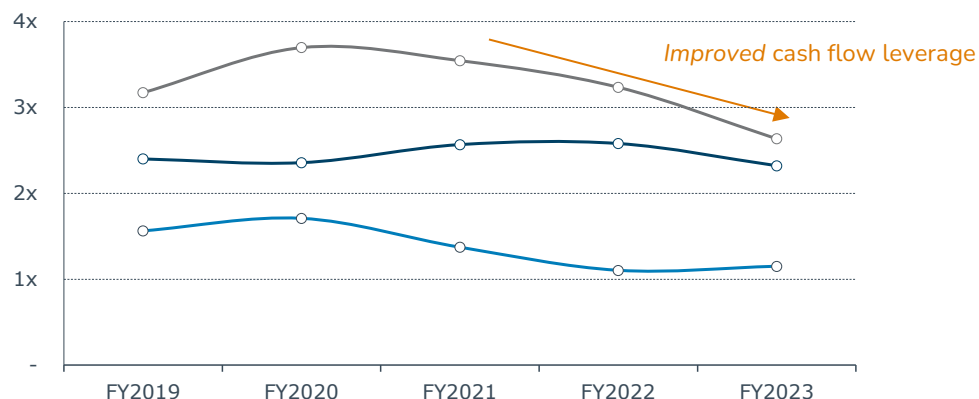
—○— Bottom Quartile

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Improved risk profile, and improving returns – particularly across bottom quartile operators



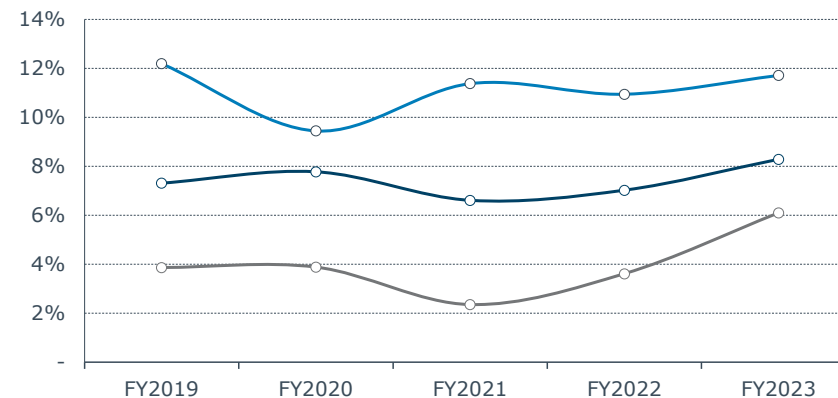
Debt / EBITDA



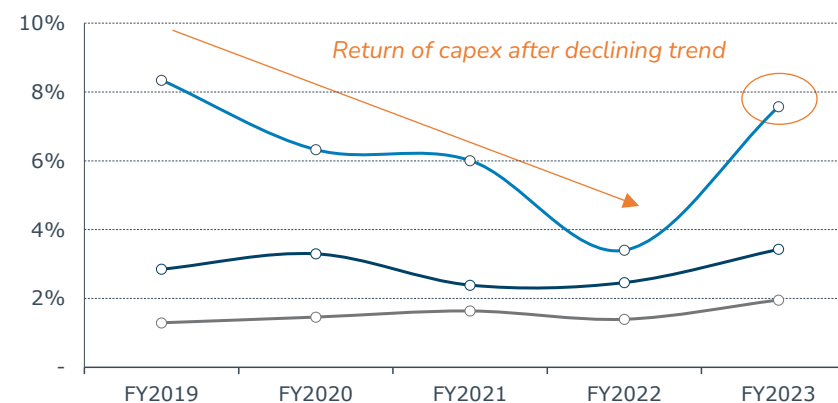
The industry's **risk profile continues to improve**, with an upward trend in cash holdings alongside a downward trend in balance sheet gearing and cash flow leverage

Improved returns were evident, despite a significant increase in capital expenditure – as supply chains eased, operators looked to acquire fleet and equipment to meet demand

Return on Capital



Capex / Sales



Sources: S&P Capital IQ & ANZ Analysis

Note 1: Quartiles information is based on a sample of 19 Australian and New Zealand Road Transport companies

Note 2: Financial Metrics are presented on a post-AASB16 basis from FY2020 onwards

Note 3: Debt = total balance sheet debt, inclusive of Lease Liabilities

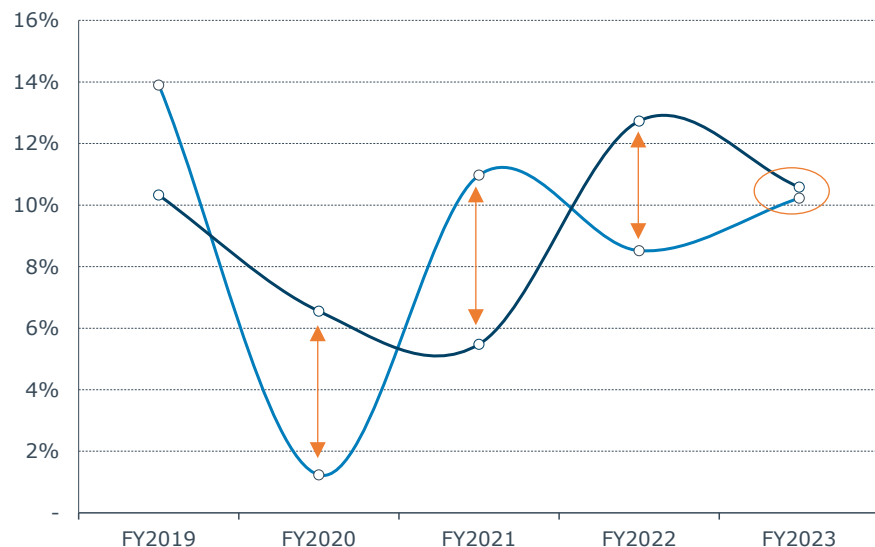
Note 4: Return on Capital = $(EBIT * (1 - 30\% \text{ [tax rate]}) / (\text{Debt} + \text{Equity}))$

○ Top Quartile ○ Median ○ Bottom Quartile

Generalised vs. Specialised Cargo Operators

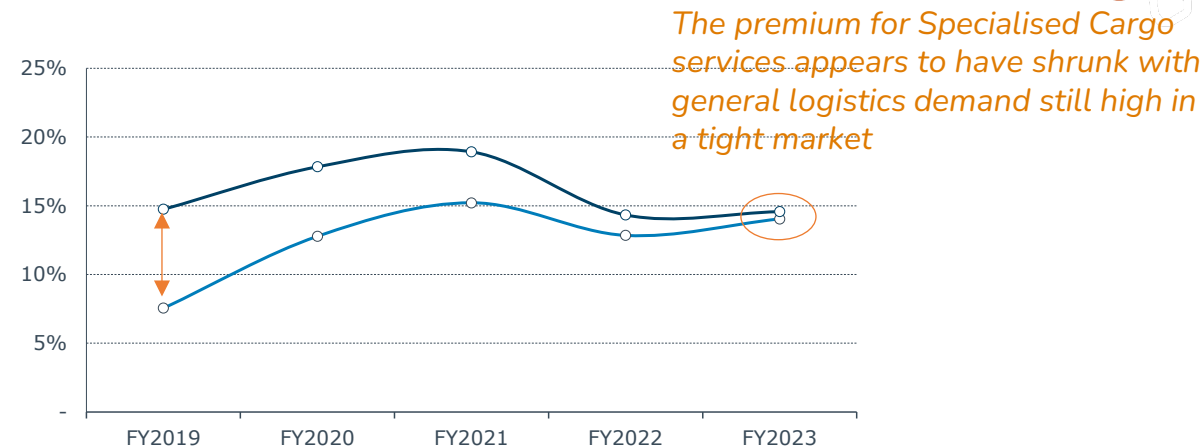


Revenue Growth

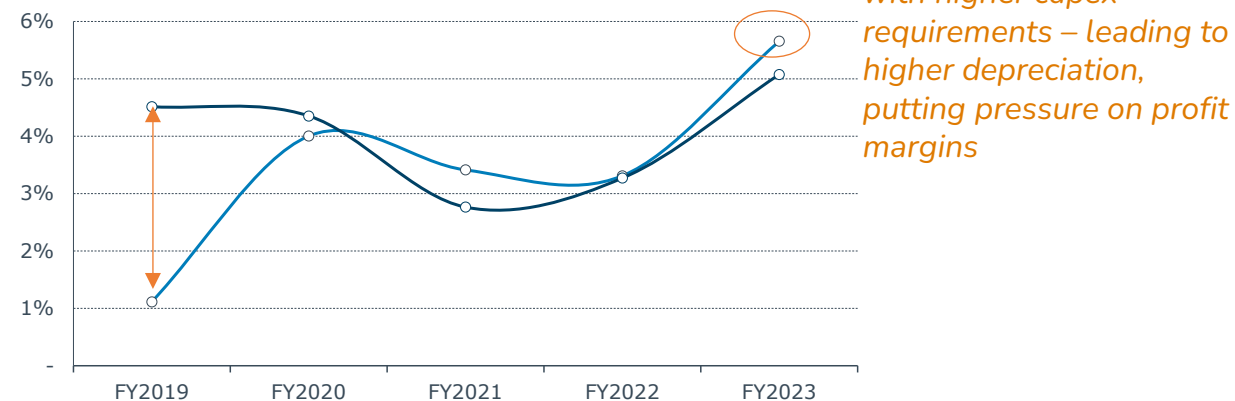


Covid-19 and global supply chain constraints in the last three years led to heightened volatility between General and Specialised Cargo. **Have we reached a new normal from FY2023?**

EBITDA Margin



NPAT Margin



Sources: S&P Capital IQ & ANZ Analysis

Note 1: Please note quartiles information is based on a sample of 19 Australian and New Zealand Road Transport companies

Note 2: Financial Metrics are presented on a post-AASB16 basis from FY2020 onwards

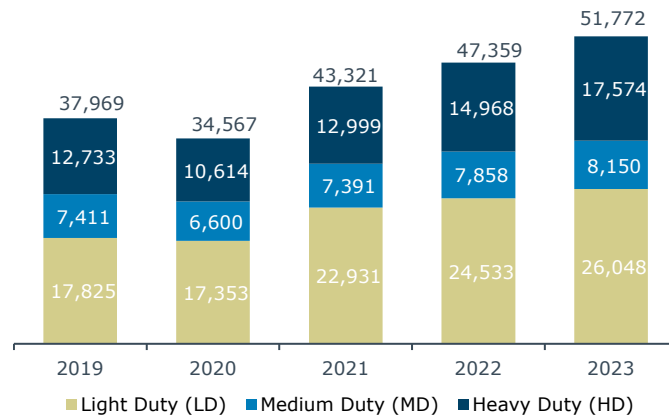
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Sector trends



HEAVY COMMERCIAL VEHICLE SALES¹

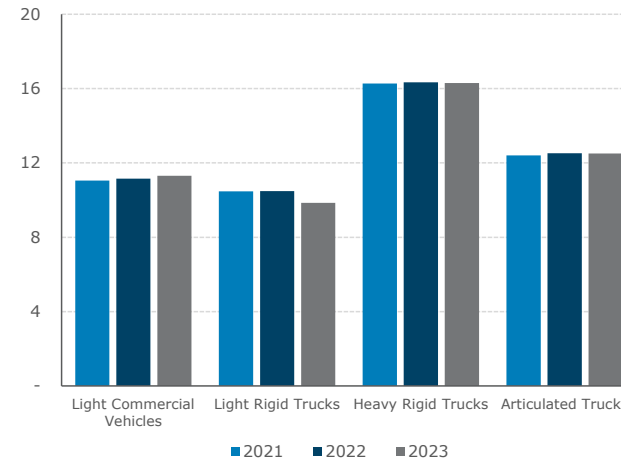
AUD 000's



- Sales for heavy commercial vehicles have continued to grow in 2023 recovering from years of stock shortages. Heavy Duty vehicles saw the largest increase in sales at 17%
- Diesel trucks continue to dominate commercial vehicle supply, however there has been a notable surge in the sales of electric and hybrid models within the light commercial vehicle segment

AVERAGE AGE OF VEHICLE BY TYPE²

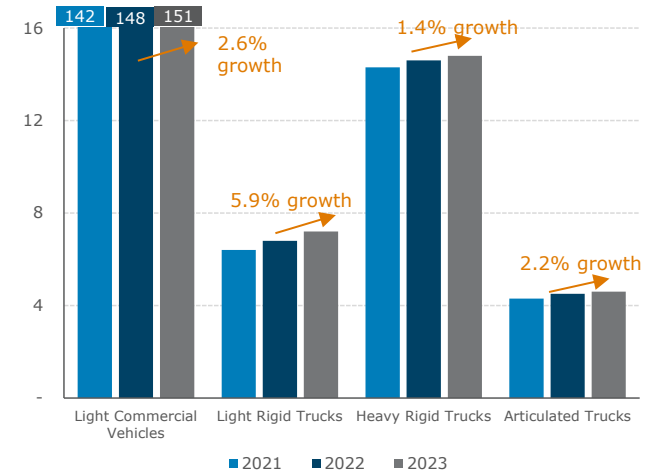
Average Age in Years



- The average age of vehicles has slightly decreased this year in most categories, indicative of the substantial investment in new fleet post-Covid restrictions
- The most notable reduction was in Light Rigid trucks, with the average age dropping from 10.49 years in 2022 to 9.85 years in 2023

REGISTERED VEHICLES BY TYPE²

AUD 000's



- A steady growth can be seen in all three segments for the last three years due to increasing inter-state and intra-state transport tasks
- Light Rigid and Light Commercial vehicles sales continue to grow at a faster pace than Heavy Rigid and Articulated trucks – supported by continued growth in demand for 'last-mile delivery'

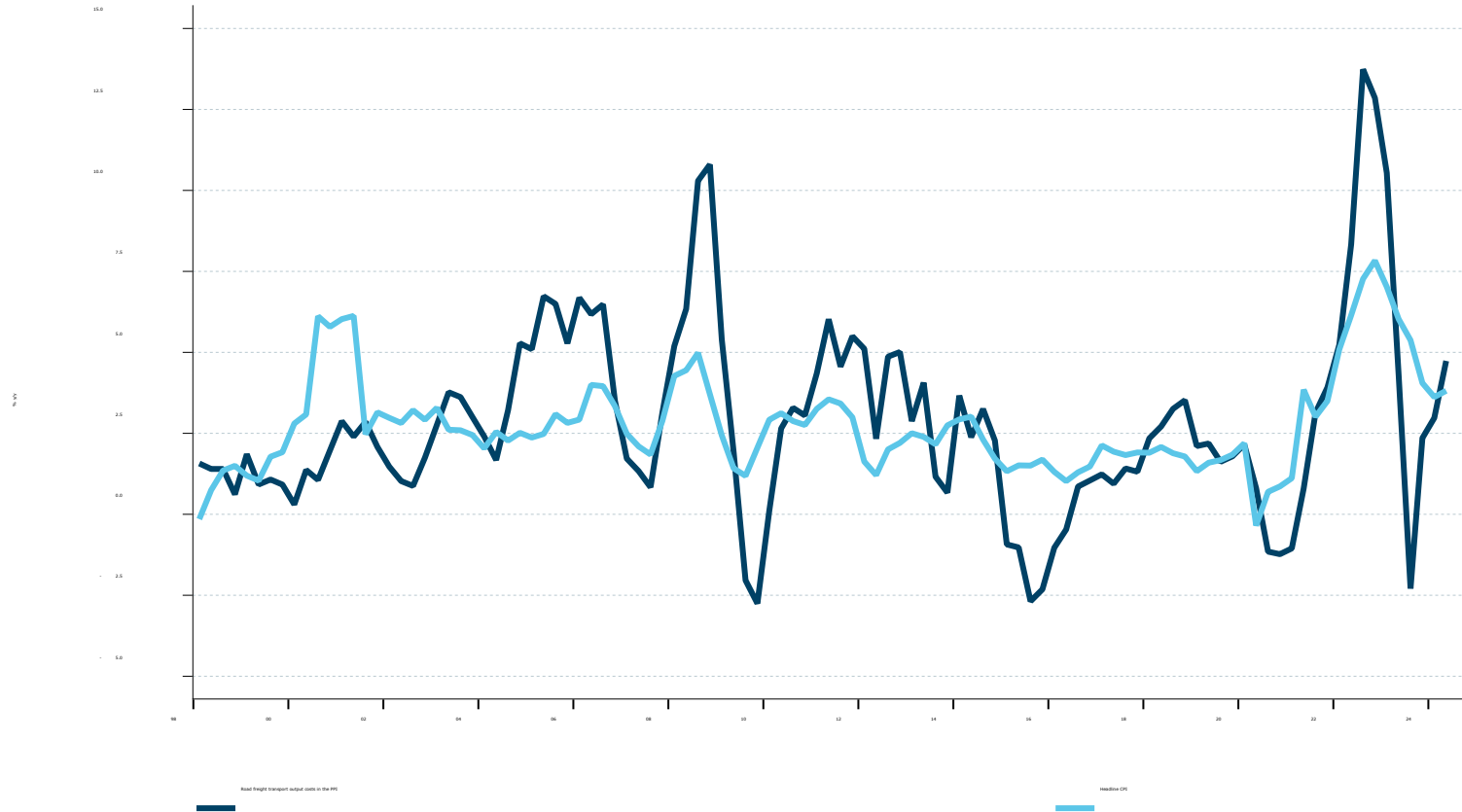
Note 1: Sourced from Federal Chamber of Automotive Industries Light-Duty is defined by GVM between 3501-8000 kg, Medium-Duty is defined by GVM between 8001 to 39,000kg, Heavy-Duty is defined by GVM greater than 39000 kg; GVM = Gross Vehicle Mass (maximum total mass of a fully loaded motor vehicle)

Note 2: Sourced from Bureau of Infrastructure and Transport Research Economics Statistics Report published June 2023

Sector trends



Road freight transport output costs (PPI) vs CPI



Source: ABS, Macrobond, ANZ Research

Sector trends



2040 population¹

+24.2%

Sector Growth²

+46.1%

Funding Required

~\$9.97bn



Supply Chain Optimisation



Shortage of Skilled Labour



Enhanced Innovation for Enhanced Efficiency



Fuel and Operational Costs



Capitalising on Government Infrastructure Investment



Increased ESG Disclosure Requirements



Navigating Industry Consolidation for Survival



Competition from Rail Operators



Thriving in the Last-Mile Delivery segment



Softening International Trade

Sources: ABS, BITRE, IBISWorld and ANZ Analysis

Note 1: Medium Series from ABS base line, 2022

Note 2: BITRE Freight Performance Dashboard

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Thank you

Dean Evagorou
Associate Director
ANZ Client Insights & Solutions
dean.evagorou@anz.com

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