January 2014

Transport and Logistics Insights 2014

Welcome to Ferrier Hodgson’s Transport and Logistics Insights 2014 (T&L Insights). T&L Insights aims to assist in your understanding of the transport and logistics industry, its nuances and in the identification of opportunities for you and your clients in the year ahead.

Australia’s transport and logistics industry generates approximately $201 billion a year in revenue, accounting for 15% of GDP, and is linked to every traditional industry in our economy. The industry is expected to undergo significant growth in the coming decades with our freight task predicted to double by 2030 and triple by 2050 off the back of a doubling between 1990 and 2010.

The industry is in the midst of immense structural change which will present many opportunities to operators with appropriately sophisticated skills and the ability to navigate through the challenges.

Identifying opportunities and assessing the risks can be a difficult proposition without the right analysis, tools and experience.

Ferrier Hodgson advises many clients in the transport and logistics and finance industries on business strategy and financial performance.

As an industry leader in financial advisory and turnaround services, we undertake regular analysis of both large and small operators within the market.

We have also included profiles of four major Australia-based, publicly-listed transport and logistics operators: Toll; K&S; Asciano and Aurizon. If you have an exposure to or an interest in a particular transport business you would like us to profile, please let us know.

We hope you find the publication useful.

Brendan Richards
Partner
National practice leader
Transport and Logistics
## CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Industry overview</td>
<td>4</td>
</tr>
<tr>
<td>2. Road freight</td>
<td>6</td>
</tr>
<tr>
<td>3. Rail freight</td>
<td>8</td>
</tr>
<tr>
<td>4. Shipping</td>
<td>10</td>
</tr>
<tr>
<td>5. Ports</td>
<td>11</td>
</tr>
<tr>
<td>6. Strategies for success</td>
<td>12</td>
</tr>
<tr>
<td>7. How Ferrier Hodgson can help</td>
<td>13</td>
</tr>
<tr>
<td>8. Operator profiles</td>
<td>15</td>
</tr>
</tbody>
</table>
AUSTRALIA’S TRANSPORT AND LOGISTICS INDUSTRY: POISED FOR GROWTH AND CHANGE

As a 15% contributor to GDP, the transport and logistics sector represents a vital component of our economy. With over 1.5 billion tonne-kilometres of goods moved each day, and employing 585,000 people, it is hard to imagine an industry to which the logistics sector is not relevant.

Poised for significant growth, and with strengthening global linkages, there are significant opportunities for operators and their financiers to capitalise on a rebound in global economic conditions and the growing trend towards fully integrated, seamless and borderless supply chains.

CURRENT OUTLOOK

Driven by population growth, globalisation and demographic trends that demonstrate a shift away from historical population centres, transport and logistics in Australia continues to grow rapidly. In fact, industry analysts predict our freight task will double by 2030 and triple by 2050.

Opportunities

Clear opportunities exist domestically, including:

- Agriculture – With a number of government pundits tipping Australia to become Asia’s ‘food bowl’ there will be significant opportunities in the transport of bulk food commodities and other specialised agricultural products.
- Local delivery – Owing to the structural shift in freight transport driven by the impact of online retail sales, opportunities exist to service the so-called ‘last mile’.
- Containerised freight movement – Port movements of inbound containerised freight have grown by 80 per cent in the last 10 years (3.9 million to 7.1 million containers) and are projected to double over the next 10 years presenting a clear growth opportunity for container handlers.
- Air freight – The online revolution combined with a consumer thirst for instant gratification has led to the delivery of overseas parcels by air freight as opposed to traditional shipping channels. Industry analysts predict world air cargo traffic will double in the next 20 years as the freight task trends towards faster, smaller and lighter freight.

Challenges

Amidst this growth, however, the industry is undergoing massive structural change and a number of challenges face operators including:

- Brand and risk-focused customers migrating to ‘one stop shop’ blue chip operators with global scale and multi-modal capabilities.
- Online shopping resulting in the by-passing of traditional supply chains causing stress to margins in businesses servicing the traditional bricks and mortar retail model.
- Significant growth in containerised freight handling occurring at the expense of long distance road freight movements, leaving long haul and linehaul transporters of general freight exposed to increasing volume and margin pressures.
- The cost impact of technological advancements, which operators must adopt to provide a competitive offering.
- Rising fuel costs and increasing difficulty passing on fuel levies in a competitive market.
- A changing regulatory landscape with increasing compliance workloads and associated cost.
- The recent slowdown of the resource-based economy on businesses that have become increasingly or solely reliant on this sector.
- Infrastructure capacity constraints continuing to tighten with a significant cost to business viability and industry productivity.
- A continually ageing workforce and ongoing difficulty attracting quality labour to the industry.

Further, average net profit (after tax) margins have fallen to three per cent of revenue over the past 12-24 months, placing pressure on the free cash flows necessary for industry participants to invest in modern vehicles or provide a visible return on assets tied up in freight and forwarding functions.
KEEP YOUR EYES ON THE ROAD:
CHANGED TRAFFIC CONDITIONS AHEAD

CONSIDERATIONS FOR
STAKEHOLDERS

Australia’s growing freight task presents tremendous opportunities for those operators with the skill and experience to adapt to industry developments.

Each of the opportunities and challenges outlined on the previous page is a permanent structural change to the industry. These require significant understanding and careful scenario planning to ensure the impacts are properly understood, and that businesses are able to react quickly enough to keep pace with competitors.

Management, financiers and advisers of transport businesses should be asking themselves the following questions:

Markets and customers
- What is the likely impact of the move from wholesale delivery to retailers, to home delivery of individual packages?
- What is the likely impact of the flow-on effect from the difficulties faced by the manufacturing industry? The impact of a change in customer dynamics? Different warehousing / distribution centres? Different technology and tracking systems? Different trucks? Different manpower requirements?
- In order to respond to the market and win new customers, what are the emerging markets? Who are the likely winners, and therefore best target customers?

Products and services
- What is the likely impact on demand for our current range of products and services?
- How do we differentiate from our competitors? Do we offer a niche? A better service?
- What new products and services are likely to emerge from the changes happening in the market? What new products and services are likely to be demanded from new market segments and customers?

People and culture
- With a short to medium-term view, does the business have the right people and skill set to take it through the next stage of its development?
- Will the culture facilitate the change required for it to succeed?

Organisation structure
- If changes have to be made to the markets, customer base, products and services, are the businesses structured in the most appropriate way to ensure that customer needs are efficiently and effectively met?

Business processes and finances
- In such a low-margin business, do the operators have efficient business processes to drive down costs?
- To keep up with regulatory requirements and best practice, do operators have the processes, systems and capability to accurately cost and forecast the necessary capital expenditure requirements?
- Do the operators’ management teams have sufficient oversight of the business’s cash flows and forecast cash flow requirements?

Technology
- Does the business have the appropriate technology to meet customer demands? Does it have the latest safety technology?
- Can it make the investment required to match its competitors?

The transport and logistics industry is changing rapidly. Operators who stand still will become increasingly challenged for relevance.

All operators and their financiers must be attuned to the nature of change and understand how this impacts them.
ROAD
Complex challenges promise lucrative opportunities for industry leaders

Road transport dominates the Australian market for non-bulk freight due to its advantages in price, speed, convenience and reliability.

Notwithstanding the slowdown caused by the GFC and a decline in Australia’s manufacturing industry, the long-term outlook for the industry is positive, with industry analysts predicting 75 per cent growth in the next 20 years.

However, the industry is expected to struggle to maintain profitability as it faces growing cost pressures, skills shortages and reductions in the fuel rebate.

SECTOR PROFILE

Generating $48.3 billion in revenue, Australia’s road freight industry comprises approximately 42,000 operators, ranging from single-truck operators to large ASX-listed corporations.

Road transport is a key sector of the supply chain for all components of our traditional economy; however, it is projected to become a smaller contributor to GDP as we progressively skew towards a service-based economy.

OUTLOOK

Despite the projected smaller contributor to GDP, our road freight task is predicted to nearly double by 2030 in line with our growing economy.

However, costs are also expected to rise, and with continued competitive pressure, net margins are not expected to improve.

CURRENT MARKET

Despite the complex challenges and structural changes ahead for the road transport sector, the future offers numerous opportunities for astute operators with the foresight and leadership to embrace change.

The majority of mid-tier road operators will continue to find trading conditions difficult as they struggle to provide a point of differentiation to their customers. They are often unable to compete on price with smaller single-truck operators and on customer service with larger more sophisticated operators. As such, they become price takers and are generally relegated to sub-contractor status.
ROAD

Opportunities exist for operators prepared to adapt to industry challenges

It is vital for lenders to ascertain how these operators will retain their customers, how they will respond to industry challenges, and the financial aptitude and strategic focus of the management team.

Operators with a focus on establishing and maintaining a niche offering, bolstering their safety and compliance regimes, embracing collaborative networks and adopting new technology, will stand out from operators who ignore the challenges.

Industry positioning and bias
- At the small end of the market, there are generally low barriers to entry, leading to constant competition from often under-capitalised and inexperienced operators.
- Niche operators generally are better placed to achieve higher margins than general freight carriers. However, niche operators closely aligned to declining industries are exposed to financial risks if they are unable to redeploy assets (i.e.: specialised assets).
- Businesses with multi-modal capability and scale will become favoured.

Safety and compliance
- Larger operators are investing heavily in safety and technology, presenting these as a competitive advantage. Smaller operators with less scale and financial strength tend to be slow adopters given the costs involved, and will become progressively challenged as customers develop a stronger focus on brand protection.
- Fatigue management and other compliance demands, such as chain of responsibility, are increasingly consuming operators’ resources.

Industry consolidation
- Although industry participation has remained relatively stable over the past decade, the trend to consolidate primary contractors has become evident as customers have progressively come to favour the larger operators. The competitive environment has become more difficult for mid-tier operators.
- Collaborative networks need to be an increasing focus for these operators in order to avoid being relegated to subcontractor status.
- The tough competitive environment and increased rate pressures from customers has led to the collapse of some large industry players such as Wettenhalls, Mannway and 1st Fleet.

- Increasing rate and volume pressure on small and medium players with limited scale and little or no niche is likely to lead to further casualties in the sector.

Labour constraints
- It is becoming increasingly difficult and costly to meet the labour demands of the industry which is experiencing a shortage of drivers due to:
  - The ageing population of drivers (average age of 50 – up from 35 just 20 years ago).
  - Heavy vehicle drivers no longer being eligible for 457 skilled migration visas.
  - Insurance constraints (eg: unobtainable for B-Double drivers under 25 years of age).

Technology
- Global supply chains are becoming increasingly streamlined in their processes with product tracking and technological integration of all supply chain partners having emerged as a key attribute of competitive supply chains. This requires regular investment and innovation that can be beyond the ability of mid-tier and smaller operators.
- Growth in online retail is having a structural impact on the transport industry as goods are delivered directly from ports or manufacturers to consumers’ homes, rather than via distribution centres and stores.
- Advances in technology can provide operators with opportunities to drive operational efficiencies and gain a competitive advantage. These include:
  - Dimensional weight pricing – which allows operators to recover costs for lightweight, yet bulky items which are expensive to transport.
  - Data analytics – which enables operators to improve truck utilisation, optimising route selection and improving customer service.

Primary contracts are shifting to the industry majors who can demonstrate the advantages of global scale, competitive rates and freight visibility while demonstrating best-practice safety processes.
RAIL

Although opportunities exist for rail freight operators to carve a niche in the Australian freight task, the lack of investment in infrastructure remains a challenge.

Historically, rail freight transport was operated by the state governments. However, following successful deregulation, privatisation and commercialisation of the industry, rail has developed into a competitive national industry.

Rail freight’s key strength is the efficient transportation of heavy or bulky products over long distances. This freight is typically made up of homogenous products such as coal, iron ore or grain.

Rail freight dominates the east-west corridor (Melbourne-Adelaide-Perth) but due to infrastructure constraints, it is generally considered uncompetitive against road freight on the north-south corridor (Melbourne-Sydney-Brisbane).

SECTOR PROFILE

Australia’s rail transport industry generates $7.3 billion in revenue and consists of 25 operators, primarily located in southern states and resource rich areas.

Bulky product items such as iron ore and coal primarily travel by rail to bulk export ports, and this is the key sector serviced by the rail industry. Intermodal freight accounts for approximately a fifth of all rail transport in Australia.

OUTLOOK

Rail is predicted to experience rapid growth in the coming years – more than any other mode – and is the obvious choice to overcome Australia’s traffic congestion. Figures from the Australian Bureau of Infrastructure, Transport and Regional Economics estimated that our antiquated road, rail and sea infrastructure is costing the Australian economy more than $9 billion per annum. This comprises $3.5 billion of lost business time, $3.6 billion of lost private time and $2 billion in vehicle air pollution costs.

Industry analysts estimate that every one per cent increase in transport efficiency will save the Australian economy $1.5 billion a year.

However, operators will need to navigate the challenges of poor infrastructure and rising wage and fuel costs to remain profitable.
RAIL
Growth in the rail sector relies on governments prioritising infrastructure investment

CURRENT MARKET

Despite the projected growth of the sector, infrastructure constraints and ageing rolling stock will present challenges. Significant investment is needed to meet expected demand in the next two decades.

Infrastructure constraints

- Decades of underinvestment means Australia faces a massive task to bring its rail infrastructure up to speed.
- With every freight train travelling between Melbourne and Sydney replacing 150 semi-trailers (saving 45,000 litres of fuel), it is no wonder that governments have a renewed focus on rail infrastructure, in fact the previous Federal Government identified $32 billion worth of priority rail projects.
- The north-south rail corridor remains uncompetitive due to slow transit times and poor reliability. Consequently it only accounts for 20 per cent of all goods transported between Melbourne and Brisbane, and only 10 per cent between Melbourne and Sydney, and Sydney and Brisbane.
- However, 81 per cent of freight is transported by rail on the east-west corridor which is more cost and time competitive than road freight given the long distances and ability to double-stack freight cars between Adelaide and Perth.
- Higher productivity trains cannot be introduced to Australia, as our rail network suffers from inefficiencies brought about by:
  - Bridges that are too low for double-stacked rail cars on the north-south route.
  - Passing loops that limit the length of Australian locomotives to 1.8 kilometres.

Ageing fleet

- Australia’s fleet of approximately 2,200 locomotives has an average age of 36 years, one of the oldest and least efficient in the world.
- This is limiting operators’ ability to provide a competitive alternative to road transport.

Replacement costs in the range of $4 million to $6 million per locomotive mean it would cost between $8.6 billion and $13 billion to replace the nation’s aged fleet. This will require private sector funding and the assumption of associated risk, however, it may be difficult to attract the private sector in the absence of a firm government commitment to improving rail infrastructure.

Industry dependence

- As the preferred mode of transport to deliver coal, copper and iron ore from mines to ports, rail is heavily reliant on the resource economy.

Governments and operators alike face the challenge of funding the infrastructure and fleet investment required to meet the predicted growth in rail freight.
SHIPPING

Forecast to grow at a slower rate than other modes: opportunities may be limited by oversupply of vessels

The global shipping industry has been in a distressed state for several years caused by the GFC and an oversupply of vessels resulting in a highly competitive market which has affected shipping rates and operators’ margins.

Australia is the world’s fifth-largest shipping nation in terms of tonnes shipped and kilometres travelled. Despite this, the size of the Australian fleet continues to fall because favourable offshore operating conditions mean few international shipping vessels are registered in Australia.

SECTOR PROFILE

Foreign-owned operators dominate shipping transport in Australia. There are 381 Australia-based operators generating $3.8 billion in revenue.

CURRENT MARKET

Oversupply of vessels

- The world’s shipping fleet has grown to record levels after operators placed ambitious orders for new vessels to meet the significant demand experienced in 2006 and 2007. As a result, the growth in vessel capacity has doubled that of demand for shipped items.
- This resulted in a global oversupply of vessels, leading to a reduction in vessel charter rates, a decline in the value of existing vessels and significant cash flow pressure on operators.
- This is compounded by the introduction of Triple-E class vessels with capacity of 18,000 20-foot equivalent containers.

Australian market challenges

- Lower taxes and wages have led to operators registering their vessels in overseas jurisdictions.
- In Australia, the registered fleet of vessels has fallen by more than half over the past two decades – from 4.3 million deadweight tonnes in 1995 to 1.8 million.
- Managing industrial relations and protecting established routes during periods of volatility continue to be challenges for many operators.

Finance

- Operators may face increased financing costs because of the uncertainty and growing risk aversion amongst lenders concerned with the current shipping industry cycle.
- New finance is becoming increasingly expensive and much less accessible. Where refinancing does occur, the margins and covenants can add increased levels of stress to operators.

Despite volume growth, depressed shipping rates continue to affect operator profitability.
PORTS

Volumes benefit from international sea freight; forecast to continue to grow strongly

Port operations are defined as maintaining and leasing port facilities used in land-sea transition of goods and passengers. It is also a term commonly used to describe stevedoring services, i.e.: the loading and unloading of cargo from ships.

Port revenues continue to be heavily reliant on international trade, with merchandise imports and bulk commodity exports key drivers to the industry.

Australia’s rapid growth in port operations has resulted in growing congestion and shipping queues at many Australian ports.

SECTOR PROFILE

Australia’s port industry generates approximately $3.7 billion in revenue from 27 businesses.

CURRENT MARKET

Infrastructure constraints

- Port volumes are growing rapidly. Australia’s bulk commodity exports and metropolitan container imports are expected to double in size every 10 years.
- Owing to a lack of port capacity, Australia’s ports are suffering from congestion.
- Ship queues at several coal export ports have attracted significant media attention. Truck queues at Australia’s metropolitan ports are also growing.
- Federal and state governments are developing a national ports strategy in response, although a delay in expanding capacity will affect other transport modes and have wider economic ramifications.

Market vulnerability

- Although somewhat protected by the resource sector, the industry remains vulnerable to both domestic and international market conditions and is quickly affected by economic downturns.
- Online retail sales and a trend towards faster, lighter and smaller freight is favouring air freight operators. Although air freight has been affected by the global economic downturn, it is expected to rebound strongly with improving economic conditions as consumers become willing to pay a premium for fast delivery. This may ultimately challenge container shipping and port operations.
- There is a risk that the recent slowdown in Chinese economic growth, which has affected the demand for mineral resources, will have a flow-on effect on port operators who are heavily dependent on mining volumes.

OUTLOOK

Port volumes are forecast to continue their strong growth trend for containerised and non-containerised freight driven by an increasing demand for imported goods.

Despite the predicted growth in port volumes, the introduction of a third major player is expected to strengthen the competitive landscape.
In an industry where revenue has traditionally been driven by the strength of personal customer relationships, and where the primary competitive advantage available to an operator was price, the shift in mindset required by operators to remain relevant may be too large for some to bear.

We have identified several characteristics common to successful operators.

Defining and demonstrating a genuine niche
Demonstrating business relevance, evidenced primarily by a niche offering or becoming embedded in a customer’s supply chain, provides an operator with the ability to demand higher rates. With higher barriers to entry given either the use of specialised equipment or unique knowhow, an operator is able to demonstrate to a customer that it can provide an irreplaceable premium offering.

Understanding their customers’ market
With asset finance typically committed over a five-year period and negative equity in the asset’s early life, owners and operators often face a high degree of medium-term inflexibility, which can severely limit their ability to respond to change in their customers’ markets. Operators need to dig deep and go beyond a superficial assessment of existing revenue and cost drivers to identify emerging trends and opportunities, and then build a plan to manage these. Gaining first-mover advantage is crucial.

Developing collaborative networks
Large global operators are able to offer their customers a ‘one-stop-shop’ for their logistics requirements. For mid-tier and small operators, forming the right collaborative network by pooling together a number of like-minded and equally ambitious transport operators is a quick and inexpensive way to broaden their breadth of service offering to compete globally. This form of allegiance has gained momentum in Europe and Asia, following the template formed decades ago by international airlines (Star Alliance and One World).

Growing commercial acumen
An operator’s management should have the capability to constantly assess and review fleet composition, fleet freshness/ageing and other key performance indicators. This should be supported by a quality management information system.

Managing safety and compliance requirements
The October 2013 accident in Sydney involving a Cootes fuel tanker is a stark reminder that safety concerns can have dramatic, unexpected consequences on an operator’s revenue, reputation and cash flow.

With large operators able to defray compliance costs across a larger asset pool, mid-tier and small operators face increasing compliance costs without the ability to recover them through higher rates. This makes it tougher for them to remain competitive against the majors.

LENDING CONSIDERATIONS
General freight operators with ageing fleets requiring significant capital expenditure and those with excessive debt will continue to struggle with difficult trading conditions. For lenders, the key points to consider are:

- Validating current trading performance, the availability of working capital and management’s capacity to adapt to the changing competitive landscape.
- Obtaining visibility of a customers’ cash flow position, as smaller operators typically may not possess the appropriate financial skill to produce reliable cash flow reporting.
- Ensuring lending covenants include appropriate three-way financial reporting and that they are adhered to.
- Understanding the degree to which customers may be exposed to specific risks, in particular industry concentration risks and the pressures this may create on cash-flow management.
- Ensuring that all customers are fully aware of and compliant with their safety obligations including a demonstrable process to avoid irreversible reputational and revenue loss.
- Understanding how customers would manage their business relationships in the event of a chain of responsibility legislation breach.
- Understanding the customer’s target market and keeping ahead of changes that may challenge the relevance of the business.
As a leading independent financial advisory and restructuring provider we solve complex problems with commercial solutions. Our knowledge of, and access to, the transport and logistics industry is unparalleled.

OUR UNIQUE OFFERING

**Services**
- Financial advisory and restructuring
- Value chain analysis
- Options analysis
- Due diligence
- Financial modelling
- Strategic and operational analysis
- Contingency planning
- Turnaround and interim management
- Performance improvement
- Business cash flow reviews
- Investigating accountant reviews

**Experience**
- **Hands-on experience** in completing and realising projects
- **Proven track record** handling Australia’s largest recent restructuring assignments
- Advised large banking syndicates on numerous **complex assignments**
- **Experience** in dealing with senior lenders of financially distressed entities, including being an effective conduit between lenders and directors
- **Deep understanding** of the interaction of operations, cost structure, tax and stakeholder issues to maximise returns for stakeholders

**Strengths**
- Situational expertise with outstanding experience and credentials in stressed, distressed and insolvency situations
- Access to a **comprehensive network of industry specialists**
- **Independent, objective and trusted**
- Deep knowledge of the **Asian market**
- Ability to access **Asia, US and Europe**
- Senior professionals with extensive **relevant experience**
- **Dedicated team** committed to each project
- Extensive working knowledge of **key sectors**

**Specialisation**
- **Deep connection** to the transport and logistics industry
- **Large database** of industry operators
- Ability to realise assets immediately
- Regularly called upon by industry operators and associations to provide advice
- Key note presenter at industry events
- Regular industry publications
- Monthly article in Australasian Transport News
- **Dedicated national transport and logistics team**

1. Specialised independent services
2. Business model based on leveraging experience
3. Broad range of advisory and restructuring skills
4. Recognised and established industry specialisation
Our Transport and Logistics team combines the corporate restructuring skills and sector knowledge to meet your specific requirements. The team has the relevant experience to assist you in understanding the available options, agree solutions and successfully manage any implementation in a timely manner.

**Core Transport and Logistics team**

**Brendan Richards**  
Partner  
Transport and Logistics Practice Leader

Brendan leads the firm’s Transport and Logistics practice. He is well credentialed within the industry, having undertaken a large number of transport company restructuring and consulting assignments.

He recently acted as the receiver and manager of Wettenhalls Group, Mannway Group, Bears Logistics and the administrator of Noske Group and Sunstate Transport Services.

Brendan is frequently called upon to present at industry conferences on challenges facing transport operators. He is also a monthly columnist for Australasian Transport News via his "Cash Driver" column.

**Ryan Eagle**  
Partner  
Transport and Logistics

Ryan has extensive experience across a range of restructuring, consulting and formal insolvency assignments in the transport and logistics industry.

He has handled numerous transport and logistics assignments including Beechey Carriers Group, Regional Bulk Haulage, Nite Flite Express, MAP Marine and the Alco Finance Group’s shipping division, Allocean.

Ryan regularly consults to companies and their lenders to undertake confidential assignments. In this regard, he was recently engaged by a global car manufacturer to review significant components of its supply chain.

**Craig Morgan**  
Senior Manager  
Transport and Logistics

Craig has over 13 years experience in corporate restructuring and insolvency in Australia and Europe.

He has undertaken a number of formal and informal assignments in a wide variety of industries.

Most recently Craig worked on the receivership of the Wettenhalls Group, a transport and logistics business with turnover of $124m and over 600 rolling assets.

Craig has also worked on a number of strategic reviews in the transport and logistics sector.

www.ferrierhodgson.com
OPERATOR PROFILES

Toll Holdings Limited (Toll)
K&S Corporation Limited (K&S)
Aurizon Holdings Limited (Aurizon)
Asciiano Limited (Asciano)
TOLL
With global revenues of $8 billion, Toll is able to capitalise on industry opportunities owing to its scale, sophistication and commitment to innovation

COMPANY OVERVIEW

Background
Toll is an integrated transport and logistics operator, providing end-to-end local, regional and global supply chain solutions. It has grown organically and through acquisitions, acquiring 100 businesses in the last 25 years.

Toll was ranked as the ninth-largest global transport operator by Transport Intelligence in 2012, holds an 8.3 per cent share of Australia’s road transport market and is a top-50 ASX-listed company.

Markets and operations
Toll’s primary operations include:

- Freight transport – transporting nearly any type of freight across all modes of transport
- Warehousing and storage – includes facilities management and dangerous goods storage
- Logistics services – offering supply chain solutions
- Parcel and courier services – international and domestic delivery of documents and parcels
- Aviation, maritime and vehicles services – aircraft, port and vehicles services

Key customers
Toll’s key customers include:

- Australian Defence Force
- Australia Post
- BHP
- Bluescope Steel
- Cadbury
- Commonwealth Bank
- Formula One Grand Prix
- Ikea
- Johnson and Johnson
- Nike
- Symbion Pharmacy Services

FINANCIAL SNAPSHOT

Historical performance

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Balance sheet

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<td>Net assets</td>
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Source: Toll 2011 & 2013 annual reports

Toll’s FY13 earnings were affected by $191 million in impairment charges relating to intangible assets of its Global Forwarding division and the value of vessels in its Marine Asia division as a result of challenging market conditions and lower ocean freight volumes.

Underlying EBIT grew 3.7 per cent to $425.9 million which Group Managing Director Brian Kruger said was a good result in a challenging market.

Toll is a global, multi-modal transport and logistics provider. Its scale and sophistication allows it to offer its customers a complete ‘one-stop-shop’ supply chain solution.
K&S
K&S is heavily exposed to Australia’s resource and manufacturing sectors and its profit has been affected as a result

COMPANY OVERVIEW

Background
K&S is a national multi-modal transport operator and warehouse provider with one of the largest company-owned fleets in Australia. It has grown organically and by acquisition in recent years, with an emphasis on the resources sector in Western Australia.

K&S is an ASX-listed company which controls 1.2 per cent of Australia’s road transport market. In November 2013 it announced its intention to merge with Scott Corporation (Scotts), an ASX-listed company with reported FY13 revenue of $187 million. The merger will increase K&S’s market share to 1.6 per cent.

Markets and operations
K&S’s primary operations include:

- Freight – road, rail and coastal sea forwarding including packaging and wharf lodgement and integrated supply chain solutions
- Bulk – dry and liquid bulk transport
- Fuel – retail and distribution services in South Australia
- Logistics – contract logistics and warehousing services
- Western Australia – freight solutions for the resources industry
- New Zealand – road freight across New Zealand targeting timber, paper, dairy and agriculture industries.

Following the merger with Scotts, K&S’s operations will expand to include specialised haulage of bulk and hazardous solids, liquids and explosives by road, rail and sea.

Key customers
- Alcoa
- BlueScope Steel
- Boral
- BP/Castoral
- Caltex
- Chep
- Mount Gibson Iron
- Norske Skog
- Onesteel

Historical performance

Source: K&S 2011 & 2013 annual reports

Balance sheet

Source: K&S 2011 & 2013 annual reports

K&S’s NPAT declined by 3.0 per cent in the second half of FY13 due to difficult trading conditions caused by a decline in the resource sector on the west coast and a depressed manufacturing sector on the east coast following a strong first half of the year.

To improve performance, K&S has focused on reducing its cost base, in particular subcontractor and overtime costs. Capital expenditure on non-essential equipment has been significantly reduced.

K&S is simultaneously exposed to the slowdown in the resource sector and the downturn in Australia’s manufacturing industry.

Falling profit levels counter-balanced by a strong balance sheet and good corporate governance are likely to serve K&S well in a rapidly changing industry.
AURIZON
Aurizon has the appropriate scale, sophistication and financial base to take advantage of industry growth

COMPANY OVERVIEW

Background
Aurizon (previously QR National) is the largest rail freight haulage operator in Australia (by tonnes hauled) and has almost 150 years of rail freight experience. It has grown organically in recent years, driven by the resource boom.

Aurizon is a top-50 ASX-listed company controlling 40 per cent of Australia’s rail freight industry.

Markets and operations
Aurizon’s primary operations include:
- Coal – transport from coal mines in New South Wales and Queensland to ports and end customers
- Bulk fright – national bulk transport including intermodal containerised freight offering
- Iron ore – Western Australia footprint with six depots
- Network – based in Queensland, services include rolling stock maintenance, rail and track services and track construction

Key customers
- BHP Billiton
- Cliffs Asia Pacific Iron Ore
- Glencore Xstrata
- Mount Gibson Iron
- Rio Tinto
- Wesfarmers

FINANCIAL SNAPSHOT

Historical performance

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>NPAT</th>
<th>NPAT%</th>
<th>ROE</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY10</td>
<td>2.9</td>
<td>0.3</td>
<td>-4%</td>
<td>(1.0)</td>
</tr>
<tr>
<td>FY11</td>
<td>3.2</td>
<td>0.4</td>
<td>-2%</td>
<td>1.0</td>
</tr>
<tr>
<td>FY12</td>
<td>3.5</td>
<td>0.4</td>
<td>0%</td>
<td>2.0</td>
</tr>
<tr>
<td>FY13</td>
<td>3.7</td>
<td>0.4</td>
<td>2%</td>
<td>3.0</td>
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Source: Aurizon 2011 & 2013 annual reports

Balance sheet

<table>
<thead>
<tr>
<th>Year</th>
<th>Assets</th>
<th>Liabilities</th>
<th>Net assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY10</td>
<td>2.7</td>
<td>(4.0)</td>
<td>1.3</td>
</tr>
<tr>
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<tr>
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<td>(12.0)</td>
<td>9.6</td>
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<tr>
<td>FY13</td>
<td>6.5</td>
<td>(16.0)</td>
<td>9.5</td>
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</table>

Source: Aurizon 2011 & 2013 annual reports

Aurizon’s underlying EBIT grew 29 per cent to $754 million in FY13 largely due to an increase in iron ore volumes in Western Australia and high volume coal haulage contracts.

Aurizon’s performance suffered in FY10 due to a number of one-off costs and impairment expenses. Since then, revenue has grown consistently, fuelled by increased haulage in the resource sector, increased activity in the maintenance of rolling stock and successful tenders of government freight contracts.

In late 2013, Aurizon announced that it intends to write-down $197 million of assets from scrapping or selling 181 locomotives and 2,675 wagons, as it reduces its locomotive fleet by 28 per cent and wagon fleet by 12 per cent by FY18.

Aurizon has a solid financial base and is well positioned to take advantage of opportunities in Australia’s evolving rail transport landscape.
ASCIANO
Asciano is well placed to benefit from growth in the port movements market, although it may be constricted by its high debt levels and fixed cost base.

COMPANY OVERVIEW

Background
Following its demerger from the Toll Group in 2006, Asciano is Australia’s only combined rail freight and port operator consisting of Pacific National’s rail operations and Patrick’s port and stevedoring operations.

Asciano is a top-50 ASX-listed company and holds 33 per cent of Australia’s rail freight market and 45 per cent of the domestic stevedoring industry.

Markets and operations
Asciano’s primary operations include:

- Coal – provides rail haulage services to export and domestic coal markets in New South Wales, Queensland and South Australia
- Rail – intermodal operations transporting containerised freight including retail and refrigerated goods, steel, manufacturing and construction products
- Ports – Australia’s leading provider of port-related services to importers, exporters and shipping lines

Key customers
- Anglo American
- BHP
- BlueScope Steel
- Boral
- Iluka Gorgon
- Linfox
- K&S
- Porsche
- Proton
- Opel
- Toll

FINANCIAL SNAPSHOT

Historical performance

<table>
<thead>
<tr>
<th></th>
<th>FY10</th>
<th>FY11</th>
<th>FY12</th>
<th>FY13</th>
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<td>0.2</td>
<td>0.3</td>
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<td>NPAT%</td>
<td>-30%</td>
<td>-20%</td>
<td>-10%</td>
<td>0%</td>
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<tr>
<td>ROE</td>
<td>(2.0)</td>
<td>(1.0)</td>
<td>-</td>
<td>1.0</td>
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</table>

Balance sheet

Asciano reported a 41 per cent increase in NPAT to $340 million in FY13 which was driven by strong growth in coal, following the successful tender of new contracts in Queensland and current contracts in the Hunter Valley, growth in bulk and automotive port services and the acquisition of a New Zealand product handler.

Given the high fixed-cost nature of rail and port industries, Asciano is particularly exposed to difficult market conditions, which are expected to continue for the coal industry into FY14.

Asciano is well placed to take advantage of growth in port movements, however, its high level of gearing (84%) may prevent it from taking full advantage of this growth.