

July 11th 2024

Mainfreight Limited (MFT)



The company will hold its Annual Shareholders Meeting at **4.00pm Thursday 25 July 2024.**

The location is **Level 4 Lounge, South Stand, Eden Park, Reimers Avenue, Kingsland, Auckland.**

Company Overview

The company was founded by the Chairman Bruce Plested in 1978 and listed on the NZX in 1996. It employs 10,644 people in 337 branches across 27 countries in 5 regions: New Zealand, Australia, Europe, the Americas, and Asia. It has 3 Divisions, Transport, Air and Ocean, and Warehousing.

Richard Prebble is retiring from the Board at the ASM after serving since 1996. Bryan Mogridge who has served since 2003 has indicated he will retire from the Board at the end of his current term in 2026.

Annie Steel and Hayley Buckley were appointed to the Board in March 2024.

Current Strategy

The company's strategy is to provide a global supply chain to customers with a wide range of services offering a complete packaged solution.

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Key

The following sections calculate an objective rating against criteria contained within NZSA policies.

Colour	Meaning
G	Strong adherence to NZSA policies
A	Part adherence or a lack of disclosure as to adherence with NZSA policies
R	A clear gap in expectations compared with NZSA policies
n/a	Not applicable for the company

Governance

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Directors Fees	G	See below.
Director share ownership	A	See below.
Executive Remuneration	A	See below.
Golden parachutes/handshakes	A	See below.
Director Independence	G	A majority of the Directors are independent.
Board Composition	A	See below.
Director Tenure	A	See below.
ASM Format	R	Physical only. See below.
Independent Advice for the Board and Risk Management	A	See below.

Directors Fees: Generally good disclosure. The company discloses the base Directors fee and Chair's fee, and that no Committee fees are paid. It is not clear as to whether this is the full extent of potential payments (no fee pool is disclosed). There is no disclosure as to whether special exertion payments are made. Since 2014 Chair (Bruce Plested) has elected to **not** take his fee entitlement.

Mainfreight expects plenty from its Directors. There is an extensive time and travel commitment for MFT directors, as outlined in the Annual Report, with at least three of the five meetings each year held over 2-3 days in locations of interest across Mainfreight's global network.

Director Share Ownership: There is no disclosure as to whether Directors are compelled to own shares. NZSA policy is whilst this should be encouraged it should be up to each Director to decide depending on their personal circumstances.

Executive Remuneration: The Managing Director is paid a base salary and a short-term incentive (STI). The maximum STI is set at 33% of the base salary. No long-term incentive (LTI) is paid.

NZSA encourages fulsome disclosure in relation to any incentive payments made to the CEO, including disclosure of measures (or measure 'groups'), weightings, targets, and the level of achievement versus target for each component associated with any awards. This methodology is supported by the new [NZX Remuneration Reporting Template](#).

Mainfreight discloses that the STI is based on "revenue and profit growth as well as other quality KPIs," but there is no further disclosure as to methodology.

We note the strong commitment by the Mainfreight board to providing a short-term incentive scheme to all employees with longer than 12 months continuous service.

Golden parachutes/handshakes: In the interests of transparency, NZSA believes there should be explicit disclosure around the severance terms associated with the Managing Director, including whether specific termination payments are offered. Following previous discussions with Mainfreight, NZSA is comfortable with the company's practices and policies.

Board Composition: The Annual Report does not include a skills matrix to demonstrate how individual Director’s skill sets contribute to the governance of the company, nor does the company participate in any form of Future Director Programme (or similar) designed to develop and mentor the next generation of Directors. NZSA expects NZX Top 50 companies to support development of the next generation of New Zealand directors.

In Mainfreight’s case, we also recognise the extensive time commitment (including overseas travel) that would be required, potentially limiting the pool for such a programme.

It is pleasing to note increasing Board social diversity, accentuated through the proposed election of directors this year. However, we also note that both new appointees have a legal background, although given Mainfreight’s unique governance approach, we expect that they will soon become well-versed in transport and logistics functions.

Director Tenure: NZSA looks for evidence of ongoing succession or ‘staggered’ appointment dates that reduce the risks associated with effective knowledge transfer in the event of succession. We also prefer a term maximum of 9-12 years, unless there are exceptional circumstances that may apply.

Mainfreight is well-known for the long-serving nature of its Board, a factor that NZSA has commented on for some time. Last year, we were pleased to see Mainfreight announce a planned succession for its two longest-serving Directors, with Richard Prebble retiring at the ASM and Bryan Mogridge retiring at the end of his current term (2026).

The longest-serving Director, Bruce Plested, is also the founder of Mainfreight. NZSA recognises the unique value and energy that a founder-shareholder brings to a Board.

As we noted in our 2023 report:

Any application of best practice will always highlight ‘outliers. Few will dispute that Mainfreight is indeed an ‘outlier’ in its blend of governance culture and performance. Regardless of the objective and independent policy principles that form the basis of NZSA’s assessments, and the constructive challenges we offer to all issuers, this cannot take anything away from the strong performance of Mainfreight that has benefitted shareholders during the tenure of Bryan Mogridge and Richard Prebble.

NZSA’s interest in continuing to challenge succession is in ensuring that the ‘special sauce’ that makes Mainfreight unique has the best possible chance of continuing.

ASM Format: NZSA prefers ‘hybrid’ ASM’s (i.e., physical, and virtual) as a way of promoting shareholder engagement while maximising participation. MFT has continued to hold physical only meeting since Covid. Currently, it is the only large NZX company that does not allow “out of town” shareholders to access its shareholder meeting.

Independent Advice for the Board & Risk Management: NZSA looks for evidence, through disclosures, that a Board has access to appropriate internal and external expertise to support board assurance activities. We also look for evidence that Boards are across their risk management responsibilities.

There is limited disclosure as to how the Board receives assurance information directly from internal assurance staff. In discussions with Mainfreight, the company is clear that it does not favour the use of external consultants and that the Board receives regular presentations from staff on key risks.

The Annual Report does disclose that “A member of the Group’s finance team oversees regular internal control assessments, and reports to the Group Chief Financial Officer and the Audit Committee as appropriate.” NZSA also notes that the operational culture of Mainfreight’s board lends itself well to identifying and assessing risks through direct observation of its global activities.

We note the Annual Report does not include any significant business or operational risks facing the company and how the Board and management mitigate these risks. We note that in October 2023 the company issued a Climate Risks Report.

Audit

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Audit independence	A	See below.
Audit rotation	G	See below.

Audit independence: EY’s fees included payment for non-audit services amounting to 33% of the total fees. Last year the amount was 36%. NZSA policy is that where non-audit fees comprise more than 25% of the total fee on an ongoing basis, we suggest the company engages another firm for non-audit work to preserve audit independence.

In mitigation, the company has disclosed that most of this spend related to “tax compliance” work, rather than tax advice, a situation less likely to create a threat to independence under the audit firm’s self-review process.

Audit Rotation: The company ensures the Lead Audit Partner is rotated at 5 years as required by the NZX Listing Rules, or the Audit Firm is rotated at 5 years. It discloses the appointment date of the Lead Audit Partner (2018) but not the appointment date of the Audit Firm.

Environmental Sustainability

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment
Approach	G
Sustainability Governance	A
Strategy and Impacts	G
Risk and Opportunity	G

Policy Theme	Assessment
Metrics and Targets	G
Assurance	A

Overall approach: In 2023, Mainfreight prepared disclosures in their Annual Report with reference to GRI Standards and reported working towards Climate Related Disclosures for 2024. This year, in addition to their Annual Report, Mainfreight have prepared their first sustainability report, which also contains Climate-related and other environmental disclosures.

This represents a strong improvement in the quality of Mainfreight’s environmental sustainability reporting. NZSA appreciates the broad approach the company has taken to environmental risk reporting, including a focus on waste management and water security.

Sustainability Governance: NZSA notes the lack of disclosure of any Board Skills Matrix, to support environmental governance.

Strategy and Impact: Mainfreight have identified the climate-impacts on their business strategy associated with three different climate scenarios as well as their sustainability plan out to FY2029.

Risk and Opportunity: There is clear disclosure of climate related risks and opportunities provided in Mainfreight’s sustainability reporting, for both current and future transition impacts. There is also discussion and modelling surrounding physical impacts based on past events, with a materiality assessment by region.

Metrics and Targets: Mainfreight has disclosed their Scope 1 – 3 GHG emissions, with comparative data from their FY2021 baseline year. There appears to be a positive (declining) trend in their GHG emissions. While yet to disclose specific emissions reductions targets the company states that “our current target is for continued improvement across our tracked emissions intensity values”.

Assurance: Mainfreight disclose within their GRI index that no external assurance has been provided for all statements made in their Sustainability Report, however their Greenhouse Gas Inventory is verified by Toitu Envirocare.

Ethical and Social

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Whistleblowing	G	Good disclosure.
Political donations	G	No donations were made.

Financial & Performance

Policy Theme	Assessment	Notes
Capital Management	G	See comments below.
Takeover or Scheme	n/a	

Mainfreight's share price rose from \$69.40 to \$69.60 (as of 29th May 2024) over the last 12 months – a 0% increase. This compares favourably with the NZX 50 which declined by 2% in the same period. The capitalisation of MFT is \$7.0b placing it 8th out of 126 companies on the NZX by size and makes it a large company.

Metric	2021	2022	2023	2024	Change
Revenue	\$3,543m	\$5,218m	\$5,675m	\$4,717m	-17%
NPAT	\$188.1m	\$355.4m	\$426.5m	\$208.7m	-51%
EPS	\$1.87	\$3.53	\$4.24	\$2.07	-51%
PE Ratio	41	20	17	34	
Capitalisation	\$8.1b	\$7.9b	\$7.1b	\$7.0b	n/c
Current Ratio	1.08	1.17	1.22	1.14	-7%
Debt Equity	1.23	1.12	0.99	1.04	5%
Operating CF	\$376m	\$504m	\$757m	\$505m	-33%
NTA Per Share	\$8.99	\$11.46	\$14.23	\$15.58	10%
Dividends	\$0.75	\$1.42	\$1.72	\$1.72	n/c

After years of increasing metrics, Mainfreight have had a difficult year, largely dictated by global economic conditions – and well-signalled by the company. Most metrics fell for 2024. Revenue was down 17% to \$4.7 billion whilst NPAT was down 51% to \$208.7m.

This delivered EPS of \$2.07, placing Mainfreight on a strong P/E ratio of 34.

The company has a solid financial foundation, with current and debt equity ratios largely unchanged. For a company its size, with total debt down 21% to \$147 million. There is an argument that the company could utilise its balance sheet more effectively to provide increased shareholder return, however the low-debt position has improved resilience heading into the current economic downturn. Operating cash flows, although down 33%, were still healthy at \$505m.

NTA per share was up 10% to \$15.58 and the company trades at a healthy 347% premium to NTA.

The company paid a dividend of \$1.72 which was the same as last year. Dividends are fully imputed.

Page 15 of an [investor presentation](#) released to market in conjunction with the annual report, provided an outlook statement with a range of unquantifiable predictions that the company is expecting for FY25. Trading post-results is mixed across regions and products.

The chairman and founding owner, Bruce Plested, has a 14.62% stake in the company.

Resolutions

1. To elect Annie Steel as an Independent Director.

Annie Steel was appointed to the Board in March 2024 and therefore required to offer herself for election. She is a corporate lawyer and has had considerable experience across complex and challenging corporate transactions and strategic advisory engagements. Annie is a partner of Harnos Horton Lusk and has been involved in a number of domestic and cross-border public and private mergers and acquisitions, and equity capital markets transactions. Annie is a Barrister and Solicitor of the High Court of New Zealand and has a Bachelor of Laws (Honours) and a Bachelor of Arts (French and Chinese).

We will vote undirected proxies **IN FAVOUR** of this resolution.

2. To elect Hayley Buckley as an Independent Director.

Hayley Buckley was appointed to the Board in March 2024 and is therefore required to offer herself for election. She is a corporate partner for Wynn Williams, including Chair of the Wynn Williams Board, and has had significant experience across commercial law capital markets, mergers and acquisitions, and private equity funded management buyouts. Hayley has both national (NZ) and international (London, USA) corporate legal experience across a number of business sectors. Hayley is a member of the NZ Institute of Directors, is an Alumnae of the Harvard Business School (2019) and has been admitted to the High Court of New Zealand and the Supreme Court of England and Wales.

We will vote undirected proxies **IN FAVOUR** of this resolution.

3. To re-elect Bruce Plested as a Non-Independent Director.

Bruce Plested is the Founder and Chairman of Mainfreight and is the largest shareholder of the Company. Bruce is a qualified chartered accountant and Fellow of Chartered Accountants Australia and New Zealand.

As we have said at his previous re-elections and notwithstanding our comments above around his contribution to the company, we believe it is important that shareholders have an indication of his intentions as regards his future tenure and planned succession.

Nonetheless, we will vote undirected proxies **IN FAVOUR** of this resolution.

4. Director Retirement Payment.

This resolution proposes making a payment of \$120,000 one year's Directors fees to Richard Prebble on his retirement from the Board having served since 1996.

Retirement benefits were common in NZX companies until the turn of the century, and were often paid when there was no apparent reason other than tenure by the Director. Upon its formation in 2001, NZSA successfully campaigned against such payments and it was one of NZSA's earliest policies (view policy [at this link](#)).

Over the past 25 years, we know of only one other company that has paid a retirement benefit to a Director. Mainfreight is too good a company to be placed in the same peer group as that example.

We are also concerned at the signal this sends to overseas shareholders. It has taken New Zealand some time to regain international confidence in its financial markets. NZSA has no wish to encourage any precedent for a return to practices that could damage this confidence.

Accordingly, we will vote undirected proxies **AGAINST** this resolution. Our position does not diminish the work that Richard has done in his many years as a Director and the outstanding contribution he has made to the undoubted success of the company.

5. That the Board is authorised to fix the auditor's remuneration for the coming year.

This is an administrative resolution.

We will vote undirected proxies **IN FAVOUR** of this resolution.

Proxies

You can vote online or appoint a proxy at <https://www.investorvote.com.au/>

Instructions are on the Proxy/voting paper sent to you.

Voting and proxy appointments close **4.00pm Tuesday 23 July 2024**.

Please note you can appoint the Association as your proxy. We will have a representative attending the meeting.

The Team at NZSA