



ROAD TRANSPORT

ANZ Client Insights & Solutions

Industry Report

February 2023



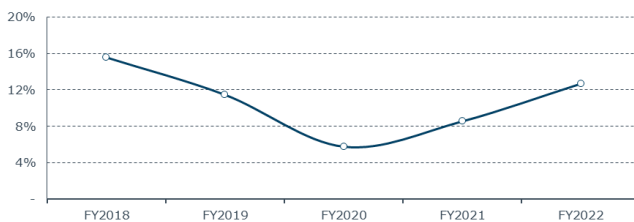
INDUSTRY OVERVIEW

The Transport and Logistics is a notable contributor to the Australian economy, directly contributing ~\$93bn in GDP in FY2022² – with the Road Transport industry forming an essential part of the domestic (and global) supply chain required for most other industries to operate

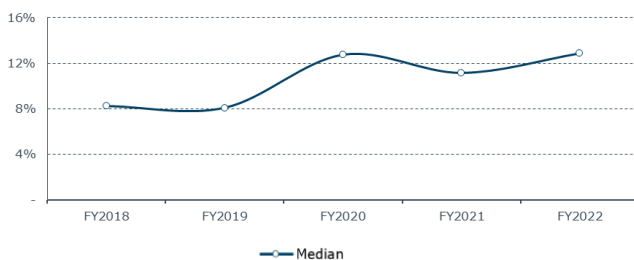
Revenue growth continued to be experienced across the Road Transport sector. Whilst somewhat buoyed by inflation (as increased costs were passed through to end-clients), an improvement in earnings margin was seen relative to the prior year

Although operators were able to partially pass on inflationary expense pressures to end-customers to protect margins, competition remains high – and the ability to continue doing so (alongside a softening economy) will be tested

REVENUE GROWTH⁵



EBITDA MARGIN⁵



Despite easing global supply constraints in FY2022, these have not yet returned to pre-COVID levels. Supply chain issues continue to impact the capacity for operators to spend on capital expenditure, constraining a build-up in demand for fleet growth and updates.

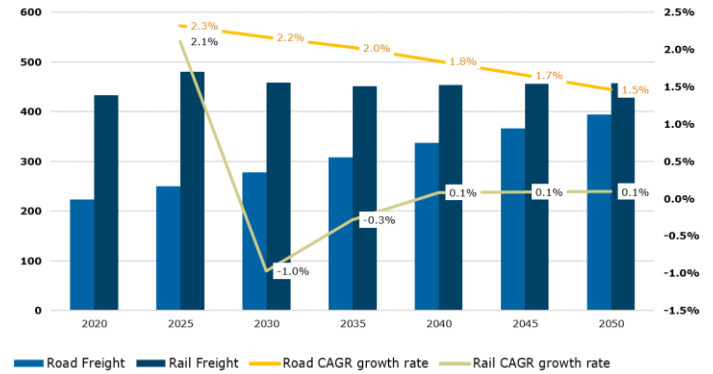
AUSTRALIAN ROAD TRANSPORT CAPITAL EXPENDITURE ON FLEET CONTINUES TO LAG GLOBAL PEERS – TO THE TUNE OF ~\$9BN OVER THE PAST 5 YEARS³

Trading conditions were choppy as headwinds intensified. Consolidation of smaller players continued, with a notable shift in some of the drivers for M&A activity towards assets and staff – driven by continued global supply constraints strangling capex, alongside worker shortages and a strong labour market impacting trading capacity

INDUSTRY OUTLOOK

Historically, rail freight has experienced growth at a faster rate than road transport. This trend is expected to reverse in the coming decades:

AUSTRALIAN RAIL VS. ROAD FREIGHT VOLUME¹ BILLION-TONNE-KILOMETRES



However, in order to take advantage of this anticipated growth, operators will be heavily reliant on investment in fleet, technology and infrastructure – with a notable reliance on Governments and automotive manufacturers

Margins must be controlled to take full advantage of revenue growth – with data trends suggesting that competition, alongside high inflation and interest rates, will result in margin erosion if not mitigated

Smaller operators will face a challenging operating environment if driver shortages and rising costs persist. Strategic partnerships and consolidation could provide an answer to the challenges being faced by the sector in the years ahead

Innovation with a focus on sustainable business practices will be key to success

Technological innovation will be key to improved sector productivity and efficiencies – following a trend seen in the US, driverless vehicles and drone deliveries are expected to pick up momentum, as well as AI utilisation improving real-time visibility within supply chain logistics

With an increasing national focus on ESG (Environmental, Social, and Governance), sustainable operating practices will become an ever increasingly important consideration for road transport sector operators

This trend means significant capex will ultimately be required as operators upgrade and update their fleet – which currently contribute a significant proportion of emissions in the sector

Whilst the sector will be somewhat reliant on innovation and infrastructure investment to drive emissions reductions, early adopter operators will potentially be at a competitive advantage compared to their counterparts, as larger corporations look to how they can reduce their 'scope 3' (value and supply chain) emissions

OPPORTUNITIES

- ✓ Easing global and local supply chains, with an emerging trend for increased domestic supply and manufacturing
- ✓ **Innovation** – drones, driverless vehicles and EV's are expected to drive improved operational efficiencies and productivity
- ✓ Integrated and diversified logistics operators are in high demand, and typically exhibit greater resilience and improved operating margins
- ✓ **Consolidation** of industry – who will survive?
- ✓ Last-mile delivery remains in high demand, supported by buoyant online shopping
- ✓ Continued Government infrastructure investment
- ✓ Increasing awareness on **ESG** – an opportunity early-adopters could use to their advantage

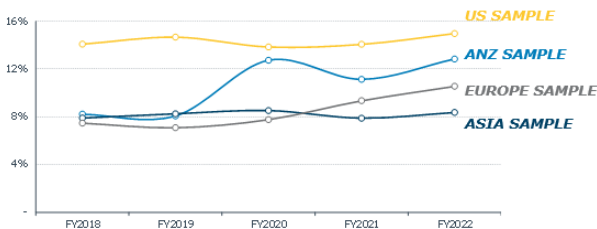
CHALLENGES

- ✗ Skilled labour shortage is impacting industry capacity to deliver on demand, will migration solve the problem?
- ✗ Rising labour costs and inflation – can the sector continue to pass through increasing costs?
- ✗ With high inflation and interest costs impacting consumer confidence, will this impact sector demand?
- ✗ Restrictions on vehicle size
- ✗ Traffic congestion and truck restrictions increasing costs and reducing efficiency
- ✗ Competition from the rail freight transport sector
- ✗ Trucking can be a political game - regulation versus efficiency versus profitability
- ✗ Decarbonisation is expensive but necessary

A GLOBAL PERSPECTIVE

The Australia and New Zealand sample median road transport company generates EBITDA margins slightly above most global peers – however, ANZ capex spend is consistently (and considerably) less...

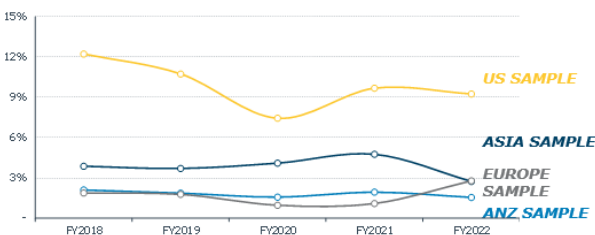
EBITDA MARGIN^{5,6}



Historically, US operators generate increased EBITDA margins as compared to other markets – however, the US sample also consistently exhibits higher median capex to sales

ANZ sample companies' EBITDA margin recovered in FY2022 to the previous high experienced in FY2020 – despite an inflationary and rising costs environment

CAPEX/SALES^{3,5,6}



Australian operators relatively low capex spend correlates to a high average fleet age – the average age of vehicles typically utilized for road transport across Australia in 2022 was 11.62 years⁴

If the Australian road transport industry had kept relative pace with median global capital investment, the Australian industry would have spent an incremental \$9bn from FY2018 to FY2022³...

This paper provides an overview of ANZ's full industry report, "All Eyes on the Road Ahead" (December 2022). ANZ would welcome the opportunity to discuss the full industry report – please contact your ANZ representative, or the authors, if of interest



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SOURCES

Source 1: "Australian aggregate freight forecasts – 2022 update" – Bureau of Infrastructure and Transport Research Economics

Source 2: "Australian System of National Accounts" – Australian Bureau of Statistics (reference period 2021-2022 financial year)

Source 3: Based on the Capex/Sales differential (ANZ analysis) and Australian Road Freight Transport industry revenue per "Industry Report I4610 Road Freight Transport in Australia (Samuel Johnson | April 2022)" – IBISWorld

Source 4: "Motor Vehicles, Australia January 2022 (First Issue)" – Bureau of Infrastructure and Transport Research Economics

Source 5: Company Financial Reports – sourced from Australian Securities & Investments Commission

Source 6: S&P Capital IQ

NOTES

"All Eyes on the Road" is the 8th edition of the Australian Road Transport sector report produced by the ANZ Institutional Client Insights & Solutions team – presenting sector insights and outlook, market analysis, and corporate finance benchmarking

The data sample underpinning the corporate finance analysis includes 17 companies in the sector. All financial data utilised is publicly available⁵

Analysis has also been conducted across two sector sub-categories of operators, comparing:

- General vs. Specialised Cargo
- Employee vs. Sub-contractor reliant

This proposition is unique to ANZ, made possible by the depth of our relationships across the road transport industry

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