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ASX Announcement

Underlying revenue growth up 16% with underlying earnings (EBITA) up ~27%

Strong underlying earnings growth and high cashflow generation reflects the quality and diversity of Qube's operations

Underlying NPATA up 19% to $239.6m

Full year dividend of 8.1 cents per share (a 15.7% increase on FY22)

	Underlying Information		Statutory Information (including discontinued operations)*	
	$m	Change (from prior corresponding period)	$m	Change (from prior corresponding period)
Revenue	2,989.9	16.2%	2,879.8	14.4%
EBITA	280.3	26.8%	273.8	22.1%
NPAT	224.8	21.1%	167.9	31.7%
NPATA	239.6	19.4%	181.8	27.6%
EPSA (cents)	13.6	28.3%	10.3	37.3%
Total DPS (cents)	8.1	15.7%	8.1	15.7%
Ordinary DPS (cents)	8.1	28.6%	8.1	28.6%

**Note: As a result of the sale of the Moorebank warehousing related assets, the earnings associated with these assets were classified under discontinued operations in the FY22 financial statements. Excluding discontinued operations, FY22 revenue was $2,505.7 million and EBITA was $229.8 million.*

Qube, Australia's largest provider of integrated import and export logistics services, today reported another very strong full year financial performance, with FY23 underlying revenue growth up 16.2% to $2.99 billion and underlying earnings (EBITA) growth of 26.8% to $280.3 million. Underlying NPATA also increased by 19.4% to $239.6 million and underlying EPSA increased by 28.3% to 13.6 cents per share.

Qube's performance in FY23 was largely driven by a very strong contribution from the Logistics and Infrastructure (L&I) business unit, with continued high volumes across agriculture, automotive and container related logistics activities. Most of Qube's other markets, including energy and resources also delivered solid volumes, although imported container volumes did weaken in the second half of FY23 however this mainly impacted Patrick's volumes and earnings in this period (owned 50% by Qube).

Qube Managing Director, Paul Digney, said the business' FY23 performance was an outstanding result particularly given continuing high inflation which had increased key operating and funding costs during the period, skilled labour shortages, particularly in regional areas and severe weather events which impacted operations, particularly the two cyclones in New Zealand in early H2.

"Through our ongoing focus on productivity improvements and by leveraging our scale and infrastructure to reduce costs, Qube has again achieved a very good financial performance, with strong underlying earnings growth and high cashflow generation for the period.

"Our diversification strategy, together with our substantial investments in people, infrastructure, property, equipment and technology to build capacity, scale and capability, have again ensured the business has been able to withstand inflationary pressures and other challenges while creating significant value for our shareholders.

"Indeed, Qube's return on average capital employed (ROACE) continued to improve during the year reaching

9.1% and remains on track to reach the target of at least 10.0%, and this is despite a meaningful portion of Qube's average capital employed still being in the construction or development phase and therefore not yet generating target earnings.

"Qube also completed two acquisitions during the financial year, acquiring 100% of Kalari and a 50% stake in Pinnacle, a New Zealand owned and operated group of companies, maintaining our strategy of diversification by geography and market.

"With continuing high volumes across most commodities and markets, a strong balance sheet and multiple drivers of growth which we expect to continue, Qube is well placed to maintain this positive operating performance into FY24 from organic growth and a full period contribution from these recent acquisitions."

Safety, Health and Sustainability (SHS)

In FY23, Qube continued its improvement in Safety Health & Sustainability (SHS) performance. A standout achievement was a 16% reduction from FY22 in the Lost Time Injury Frequency Rate (LTIFR) with a result of 0.63 per million hours worked. Significant organisational effort across worker engagement, with the introduction of worker and line manager SHS insights and involvement in SHS practices, has contributed to the result of LTIFR reduction being achieved.

Qube's Total Recordable Injury Frequency Rate (TRIFR) target saw an increase of around 19% in FY23 to 8.8 per million hours worked, which is better than industry benchmarks. Critical risks continued to be a strong focus in FY23, achieving the Critical Incident Frequency Rate (CIFR) target of 1.0. Critical risk reviews identify risks and opportunities to reduce those risks and enables Qube to prioritise and focus on what matters most.

<u>Decarbonisation</u>

Qube continued efforts to reduce Greenhouse Gas emissions and to drive down its emissions intensity over the period, achieving a 3% reduction in Scope 1 emissions and a 3.6% reduction in Scope 2 emissions. Qube's FY23 emissions intensity declined 18% compared with FY22 and 30% when compared with the FY18 baseline. Qube is continuing to assess and implement practical strategies to support its sustainability and CO2 reduction objectives, particularly having regard to alternatives to diesel fuel. This includes investments in improving fleet efficiency, with 90% of Qube's heavy vehicle fleet now Euro 5 or 6 rated. Qube is also reviewing several options to trial biofuel / renewable fuels, subject to commercial viability and collaboration from our OEMs and end customers.

Operating Division

<u>Logistics & Infrastructure (L&I)</u>

The L&I business unit delivered an exceptional result in FY23 with underlying revenue increasing by 18.9% to $1.34 billion, and underlying EBITA increasing by 54.2% to $224.5 million. The result benefitted from high volumes across all parts of the business. Combined with rate increases introduced in late FY22 and through FY23, the revenue growth more than offset the impact of higher costs resulting from the inflationary environment.

Container related activities were solid across the business and a number of key contracts were renewed in the period. The business also retained all of its key customers and generated new business which supported high organic growth.

Qube continued to build out its warehouse capacity, including leasing an additional warehouse at Moorebank Logistics Park (MLP) and constructing another new warehouse on Qube's property at Altona, Victoria with a further warehouse planned for construction at Fisherman Island, Queensland during FY24.

The L&I business unit also benefitted from high agri-related volumes in the period through its two New South Wales export grain terminals and related logistics activities which include rail haulage and up-country storage. Volumes through these two grain terminals were broadly in line with the prior year's volumes.

The automotive and general cargo terminal business (AAT) delivered increased earnings from high vehicle and project cargo across its facilities in New South Wales, Queensland and Victoria. Volumes benefitted from some improvement in the global supply chain issues that had caused a backlog in motor-vehicle imports to Australia, and revenue and earnings were also supported by higher storage volumes resulting from quarantine issues which delayed the processing of motor vehicles off the wharf in the period.

In May 2023, Qube acquired an initial 50% interest in Pinnacle Group, a New Zealand based business. Pinnacle operates a range of logistics services including empty container parks, container transport and refrigerated container maintenance and repair services. This investment provides Qube with a relatively low risk entry into the New Zealand containerised logistics market through a partnership with an experienced, quality management team. Qube intends to use this acquisition as a base to leverage Qube and Pinnacle's customer relationships and operational expertise and capabilities to expand the business. Qube expects to move to 100% ownership of this business during FY24.

The L&I business remains highly diversified with the top 10 L&I customers representing around 14.2% of the Operating Division's total revenue and includes retailers, manufacturers, food processors and grain traders.

Moorebank Logistics Park (MLP) - IMEX and Interstate Terminals

The development and testing of the automated MLP IMEX Terminal continued in the period with the IMEX expected to be fully operational by early calendar 2024. To maximise operational productivity while testing was ongoing, Qube continued to divert rail volumes away from the MLP IMEX to other rail terminals operated by Qube, resulting in only around 78,100 TEU's at the MLP IMEX in FY23 (compared to 78,300 in FY22).

This approach highlights the operational flexibility and capacity of Qube's overall logistics offering which enables Qube to utilise whichever sites and operational modes deliver the optimal operational and financial outcomes consistent with meeting customers' requirements.

Once the IMEX terminal commences normal operations, Qube expects the volumes to steadily increase from catchment volumes and as the new warehouses under construction at the MLP are completed and commence operations.

The construction of the MLP Interstate Terminal (Stage 1a) continued during the period and is presently expected to be completed in H2 FY24 which is slightly later than originally contemplated. The total estimated cost to complete the Interstate Terminal (including Stage 1a and 1b) has increased from $154 million to $200 million with the increase mainly attributable to scope changes and weather-related delays.

Preliminary commercial discussions have commenced with prospective customers of the Terminal. Based on the significant interest expressed to date from major interstate rail operators, Qube expects reasonable volumes will be attracted to the MLP Interstate Terminal relatively soon after commencing normal operations.

A new video update on the IMEX and Interstate terminals is available here.

Ports & Bulk (P&B)

The P&B business unit delivered a weaker than expected result with underlying revenue increasing by 14.3% to $1.65 billion, however underlying EBITA decreased by 2.8% to $133.3 million.

The ports activities delivered solid revenue growth, reflecting good volumes and activity levels across most areas of the business. This included motor vehicles, energy, grains, domestic forestry, fertiliser, general cargo and bulk products. Revenue growth also reflected a partial period contribution from in-contract rate increases that largely took effect during the final quarter of the period as a necessary initiative to address the impact of cost inflation.

Pleasingly, a significant number of contracts were renewed and new contracts secured.

Key areas of weakness were log volumes in New Zealand which were around 10% lower than the prior year (and around 17% lower than in FY21), construction related products including imported steel products in Australia which were down over 30% compared to the prior period and certain imported equipment and machinery (also construction related). Earnings from domestic forestry operations were also below expectations as they were impacted by a shortage of drivers, which has started to improve.

The largest impact on overall profitability was the severe weather events in New Zealand, including two cyclones and a number of major storms, which impacted forestry volumes for most of the second half of the period. Another major factor that impacted both revenues and profitability was a six-month delay to the commencement of a major project at Qube's BOMC facility in Indonesia. This project commenced operations in June 2023.

Bulk activities generated high revenue growth compared to the prior period although earnings were weaker. During the period, revenue grew across most commodities with the highest growth coming from forward facing minerals including copper, lead, nickel, mineral sands and lithium.

Despite the revenue growth, earnings were below expectations and below the prior year, primarily due to labour availability, predominantly in the regional areas of Western Australia, Queensland and South Australia, which remained a challenge.

Cost inflation also impacted the results, as although Qube has contractual protections to mitigate the impact of higher costs, these mechanisms typically lag the actual cost impact, and the impact of this has been more pronounced in the Bulk business. Therefore, in the current inflationary environment, it has caused earnings and margin erosion. Management has actively sought to address this, including through appropriately pricing and structuring new projects and contract renewals to reflect the current cost environment and securing in-contract rate increases where possible.

The acquisition of Kalari in May was a highlight, providing further diversification as well as synergy opportunities. The integration of the operations has been completed seamlessly and the business is trading ahead of expectations. A number of opportunities have also been identified to potentially expand Qube's bulk rail operations to Kalari's customer base, as well as to leverage Kalari's strength and expertise with inbound mine supply logistics with Qube's strength with outbound mine logistics. This acquisition should contribute meaningfully to the Ports & Bulk business unit in FY24 and beyond.

Qube Bulk also renewed all material contracts nearing expiry during the period, and signed agreements for a number of new projects that will deliver earnings commencing across FY24-25. The top 10 Ports & Bulk customers represent around 18.1% of the Operating Division's total revenue and include mining companies, shipping lines as well as energy companies.

Patrick Terminals

Patrick delivered underlying growth in revenue and EBITDA of around 6.9% and 9.2% to around $780.6 million and $305.5 million, respectively which was a sound result given the decline in volumes in the second half of the period. Although this resulted in a small market share loss to 42.1% (lifts) over the 12 months to June 23 compared to 42.7% in the prior corresponding period, it remained in line with expectations and had increased by the end of the period as a result of several service changes.

Patrick continued to generate strong cash flow, with total distributions to Qube in the period of $128.8 million compared to $85.0 million in FY22. The high distribution in FY23 was also partly enabled by an external debt upsizing undertaken by Patrick in the period to ensure it retained an efficient capital structure.

Patrick extended and secured several contracts in FY23 which added certainty to Patrick's future volume and revenue profile and progressed a number of key projects that will deliver both improved operational and financial outcomes.

Final Dividend

The strong financial outcome in the period, high cashflow generation and positive outlook has resulted in the Board determining to pay a fully franked final ordinary dividend of 4.35 cents per share. This brings the total full year fully franked dividend to 8.1 cents per share, being a 15.7% increase on the prior year's dividend (which included a 0.7 cents special dividend mainly attributable to the MLP monetisation outcome).

The full year dividend represents around a 60% payout ratio of Qube's FY23 underlying earnings per share pre-amortisation (including Qube's share of Patrick's amortisation) (EPSA) which is at the upper end of the target dividend payout ratio of 50-60%.

FY24 Outlook

<u>Operating Division</u>

In FY24, Qube expects the Operating Division to deliver solid underlying earnings growth (EBITA) with the Ports & Bulk business unit expected to deliver higher growth than the growth in the Logistics & Infrastructure business unit, based on:

- stable (high) volumes overall across most markets including vehicles, resources, energy, domestic forestry and general stevedoring;
- margins to benefit from improved labour availability, the benefit of cost recovery and productivity initiatives implemented in FY23, and no severe weather events;
- some improvement in the NZ forestry contribution (although dependent on China demand);
- a full year contribution from acquisitions and growth capex completed in FY23;
- flat container volumes compared to FY23;
- a modest decline from the record agri and automotive infrastructure activity levels achieved in FY23; and
- increased (mainly non-cash) losses from the MLP IMEX ramp up.

Qube expects to spend around $400-500 million on capex in FY24 (excluding potential acquisitions) mainly comprising growth capex across the Operating Division (including warehouses, storage sheds, rollingstock, cranes and other operating equipment), development of the MLP IMEX and Interstate terminals, and maintenance capex (expected to be around 85-95% of depreciation expense). The actual level of capital expenditure in FY24 could vary materially (up or down) from this estimate and will depend on finding suitable opportunities that meet Qube's key investment criteria.

Patrick

Patrick's volumes are expected to increase compared to FY23, although the growth is forecast to be limited reflecting expected flat market volumes, with Patrick's volume growth coming from the full period impact of additional volume commitments and services secured in the second half of FY23.

Margins should benefit from the higher volumes, the full period impact of the FY23 infrastructure and ancillary charge increases, as well as from continued productivity initiatives which will help mitigate the impact of higher operating costs (including labour, fuel and rent).

Qube expects that Patrick will deliver modest growth in underlying EBITDA/EBIT, however, the overall NPATA contribution to Qube is expected to be broadly flat as a result of higher net interest costs due to higher base rates and increased net debt compared to FY23.

Corporate and Interest Costs

Qube's corporate costs (EBIT) are expected to increase modestly in FY24 mainly due to cost inflation, increased SHS expenditure and higher insurance costs.

Qube expects a significant increase in net interest expense (indicatively $40-45 million above FY23) mainly resulting from higher average base rates expected in the period and reduced capitalisation of interest costs attributable to MLP related capex, as well as lower interest income from Patrick as a result of a lower shareholder loan balance.

Qube Group

Qube continues to have multiple volume and value drivers to facilitate earnings growth in FY24 despite challenges in some of its markets. Having regards to the above expectations, Qube expects to deliver continued growth in underlying NPATA and EPSA relative to FY23 although the growth rate is likely to be modest compared to the strong growth rate achieved in FY23.

The actual level of growth will depend on a range of factors including domestic and global economic conditions and the related impact on volumes in Qube's key markets, any unexpected industrial relations related costs or operational impacts, any adverse weather events that impact Qube's operations, as well as any change to the interest rate outlook over the period.

In the FY24 period to date, despite ongoing economic uncertainty, overall trading has been ahead of Qube's expectations.

Qube's consistent vision and strategy since its foundation, combined with its highly diversified activities, strong operational and financial position and a demonstrated willingness and ability to invest through positive and negative market cycles to further diversify and expand its activities and capabilities, should ensure that Qube is well placed to continue to deliver sustainable earnings growth despite ongoing external challenges.

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