

KPT Market Update

28 March 2017

Agenda

- About KPT and KI Forestry
- Strategic acquisition
- Export infrastructure
- Business metrics



The KPT opportunity

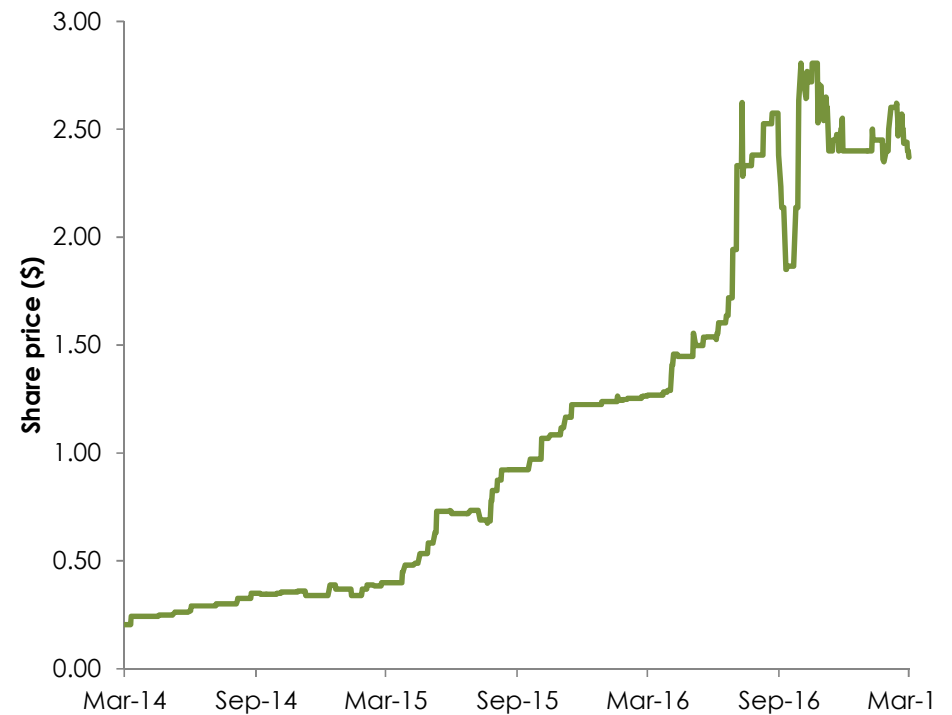
- Transformational acquisition from small timber grower, to large, low cost timber grower and exporter
- Post transaction, KPT will own standing timber (in which over \$200m has been invested), growing at above average rates due to KI ideal growing conditions
- Proposed deep water wharf (Smith Bay, Kangaroo Island) to be assessed under Major Projects Pathway
- Bank funding (CBA) agreed for 100% of wharf and ~50% of acquisition. Assessing debt terms sheets and other options to fully fund acquisition
- MOU for exclusive off-take agreement secured (Mitsui & Co Ltd)
- Timber prices are firm, with favourable supply demand imbalance developing
- Timber is an uncorrelated long-term inflation hedge with a favourable risk-return profile.¹ Globally, US\$100 billion invested in timberland¹, dominated by institutions
- KPT is the only ASX listed traditional timberland company²



KPT corporate information

- 25.0m shares, fully diluted
 - 24.1m on issue
 - 0.9m board rights, subject to price, liquidity targets
- Approx. \$60m market capitalisation
- No debt, \$5m cash, no MIS, 100% ownership of land, timber and wharf site
- Substantial holders
 - 32.7% Samuel Terry Asset Management
 - 25.5% Directors
 - 14.2% Supervised Investments
- Directors recently bought new shares at \$2.50

Share price performance



Board



Chair: **Paul McKenzie** BSc (Agric), BCom, FAICD, AIAST
Professional agribusiness consultant & company director
Appointed to board April 2005, appointed Chair July 2009



Managing Director: **John Sergeant** BSc, BA(Hons I), FAMSRS, GAICD
Professional manager, biological sciences & marketing background, director Asset
Resolution (ASS), Appointed to board Mar 2013



Independent NED: **Shauna Black**
Kangaroo Island-based finance journalist, businessperson and industry super fund trustee
Appointed to board March 2015



Independent NED: **Greg Boulton AM** BA(Acc.), FCA, FCPA, FAICD
Logistics, timber, Statewide Super, Port Adelaide Football Club, director Southern Gold
(SAU), Appointed to board November 2016



Independent NED: **Graham Holdaway** BCA, Dip Accy, ACA, MAICD
Former KPMG partner, infrastructure, resources & logistics background, tree grower
Appointed to board March 2015

Senior management



Managing Director: **John Sergeant**



CFO and Company Secretary: **Vicky Allinson**
Adelaide-based, investment, resources & materials sector background



Property and Forestry Operations Manager: **Stephen Connell**
Kangaroo Island

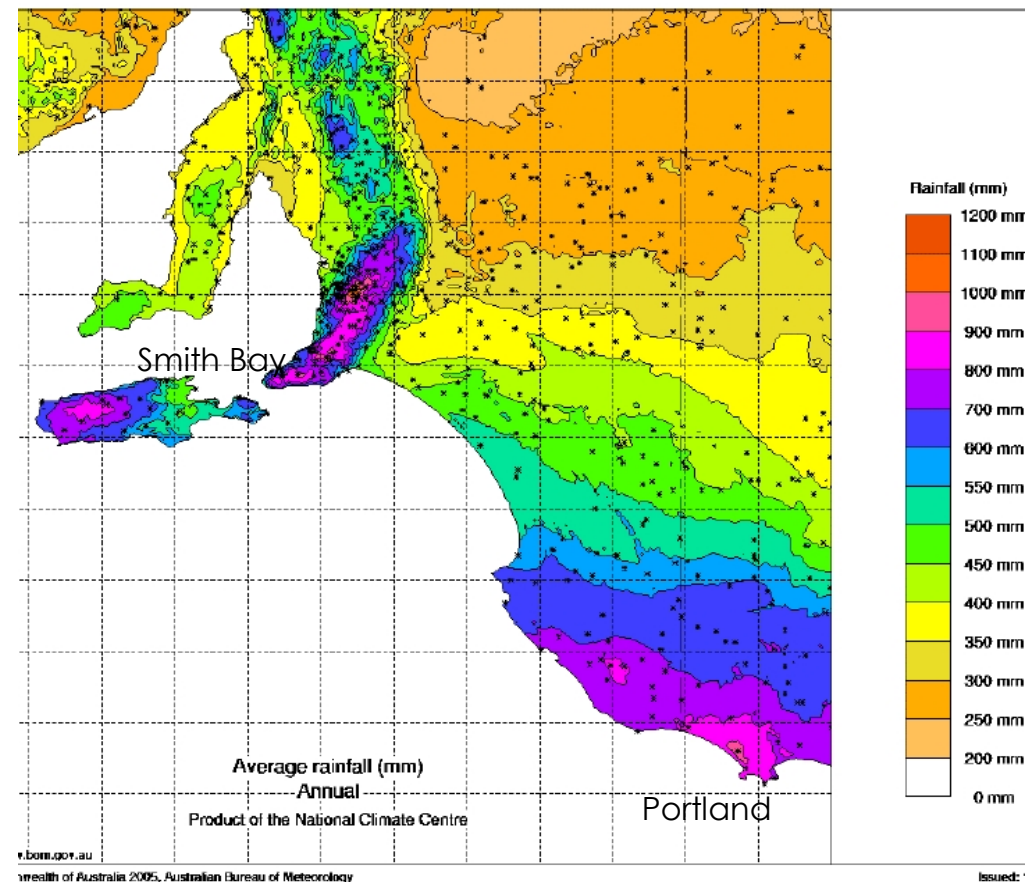
Kangaroo Island, SA



- ▣ 150km EW x 90km NS
 - ▣ Land area 440,000 ha
 - ▣ 14km to mainland (Sealink ferry service)
 - ▣ Population 4,500
 - ▣ Significant under-employment, under-utilisation of housing stock
- ▣ Over-dependence on seasonal employment
 - ▣ Tourism (via Sealink car ferry, airport and 19 cruise ship visits this summer)
 - ▣ Agriculture (grain, oilseeds, grazing)
 - ▣ Principal source of non-seasonal employment is government
- ▣ High input costs (diesel, fertilizer), low farm-gate prices, due to freight disadvantage = low land prices

KI: low cost timber production

- ▣ High rainfall (as shown)
- ▣ Low rainfall variability
- ▣ Mild summers, low evaporation
- ▣ No salinity issues
- ▣ Blue gum MAI (growth rate) approaching 25t/ha pa – over 25% more productive than mainland
- ▣ Close proximity to proposed KPT wharf – low transport costs
- ▣ Low cost structure



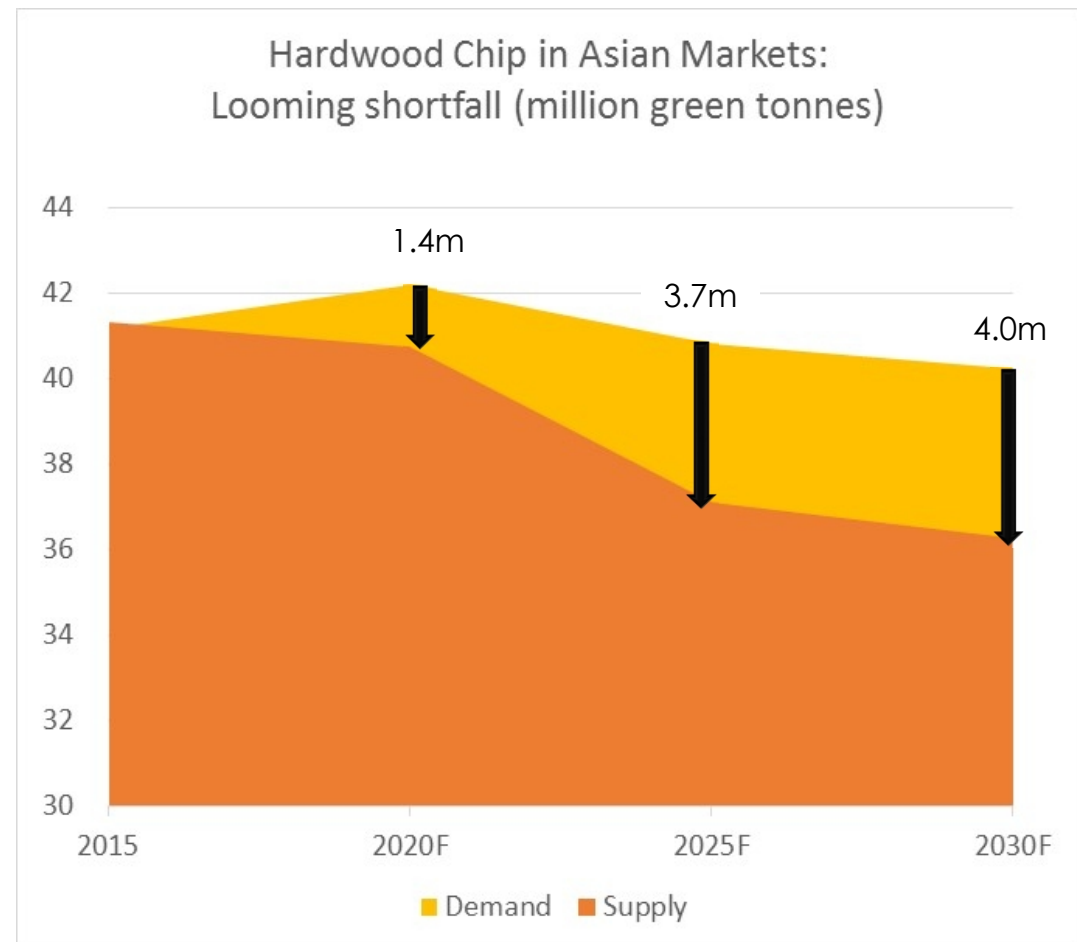
KI Forestry estate (all owners)



- Over \$200m has been spent establishing KI forestry over about 18,000ha planted
- Trees now largely ready to harvest
- 80% eucalypts, mainly e.globulus (Tasmanian Bluegum) = premium hardwood chip
- 20% p.radiata (Radiata Pine) = sawlogs and pulplogs
- Sustainable production 500,000 green tonnes pa, adding around 5% to Australia's timber exports. FOB value approx. \$55m per annum.
- Planned transition to near 100% e.globulus, now shown to be the optimal species on KI
 - Very high MAI
 - Coppicing to get second crop from developed root system
 - Most valuable product

Supply and demand

- Structural supply shortfall for hardwood chip
 - End of Aus. MIS bubble
 - Reduced native forest availability globally
- Long production time means no supply increase until (at least) 2030
- KI hardwood estate can produce around 1/10 of annual structural shortfall
- Price exposure is positive



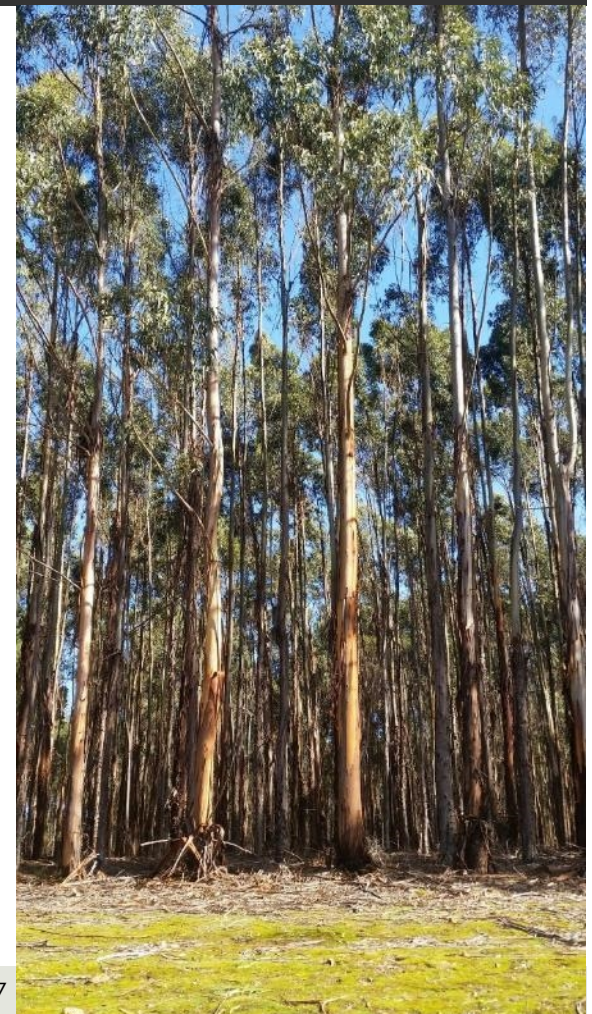
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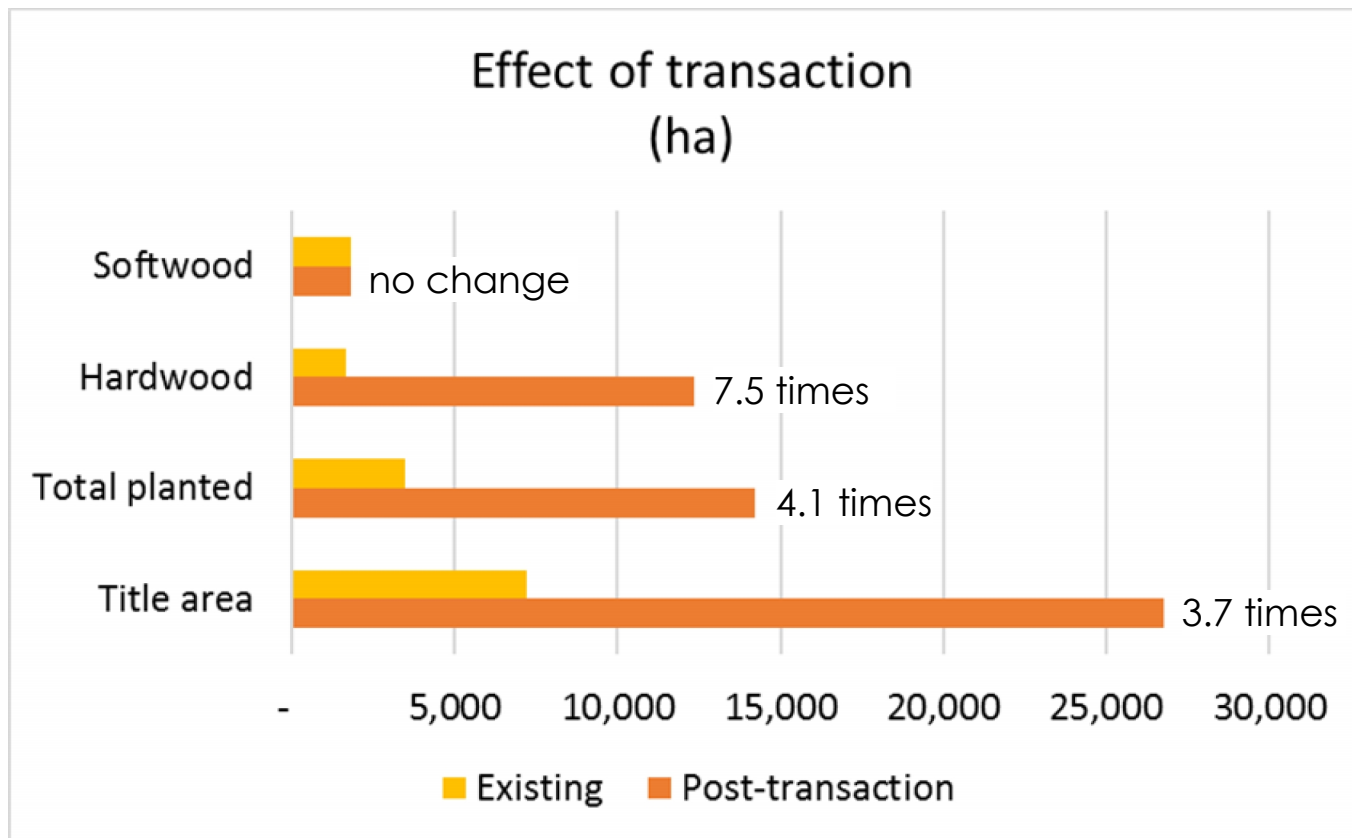
Strategic acquisition

- KPT has a contract to buy Forest Investment Trust KI estate
 - \$5.5m deposit paid October 2016
 - Quadruples KPT's landholding
 - Triples KPT's volume of standing timber
 - Price \$55m, expected completion 28 April 2017
- On even the most conservative valuation*, FIT estate is worth double the purchase price
- Other benefits of FIT estate acquisition
 - Allows focus on superior wharf proposal
 - Strong signal to SA government
 - Provides operational scale for contract harvesting and haulage
 - Improves resource profile

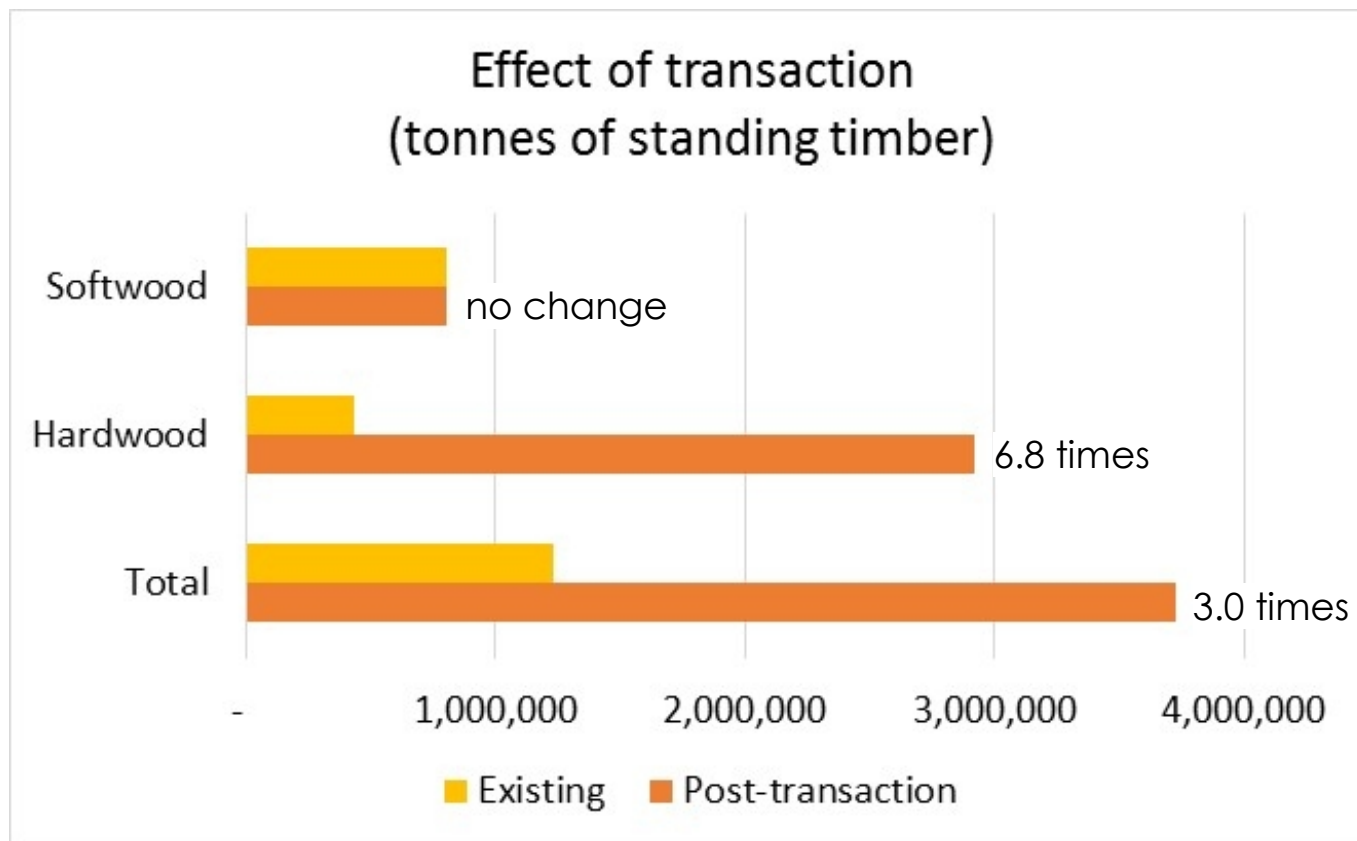


*Geddes Management report Feb 2017

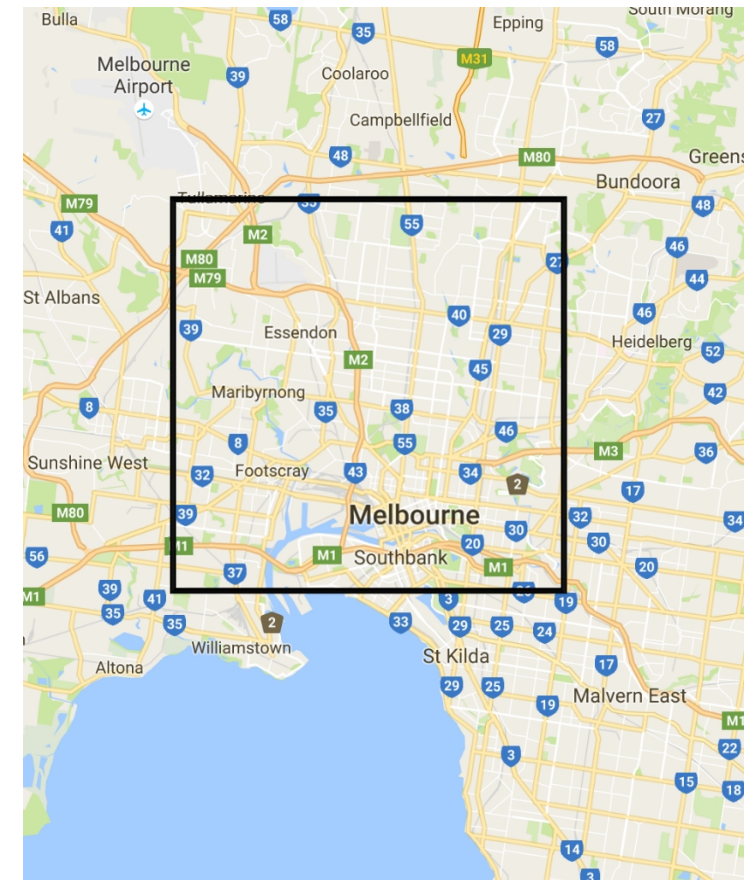
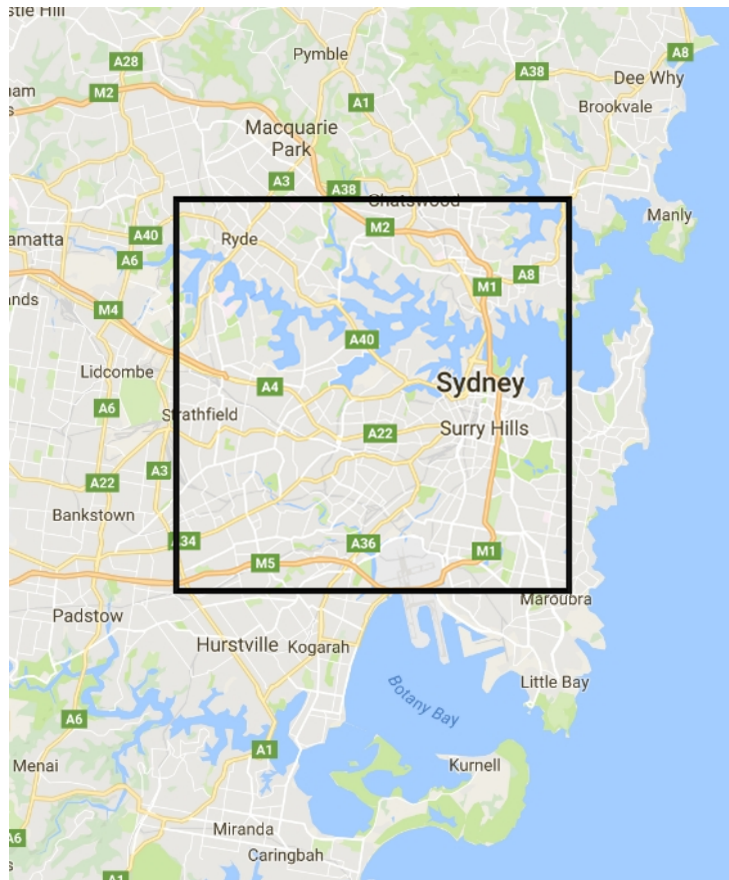
KPT pre and post Acquisition



KPT pre and post Acquisition



Size of landholding post acquisition



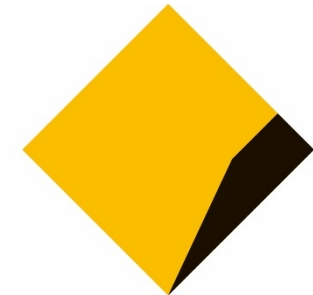
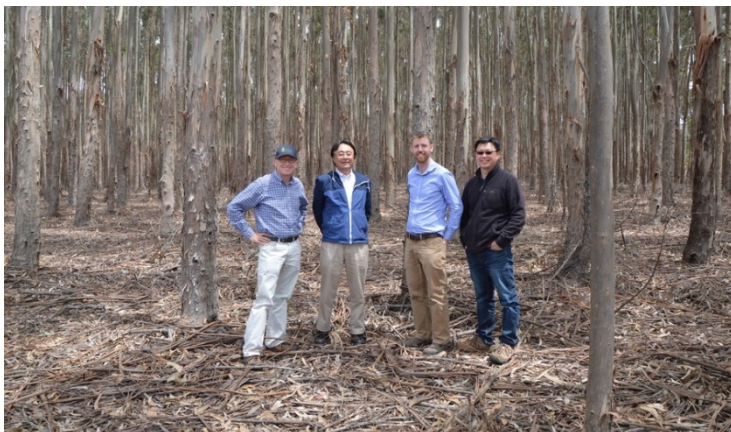
Strong partnerships



MITSUMI & CO.

- MoU signed with Mitsui Bussan Woodchip Oceania
- Exclusive arrangement
- Objective: supply contracts on rolling five-year terms

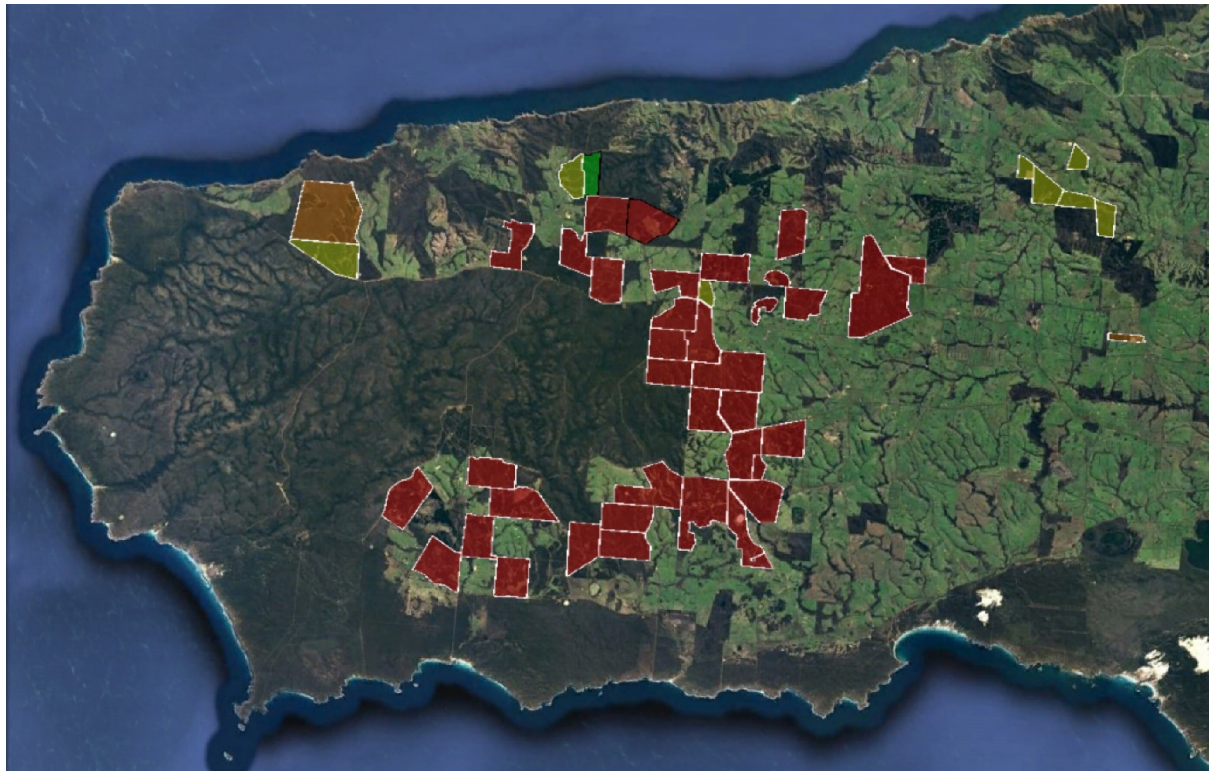
Inspecting the estate with Mitsui management



CommonwealthBank

Purpose	CBA facility
FIT acquisition	\$25.0m
Equipment, working capital	\$2.1m
Wharf construction (100%)	\$30.0m
Total bank funding	\$57.1m

Combined estate



- Softwood (pine)
- Hardwood (eucalypt)
- Mixed planting

Third party timberland
not shown

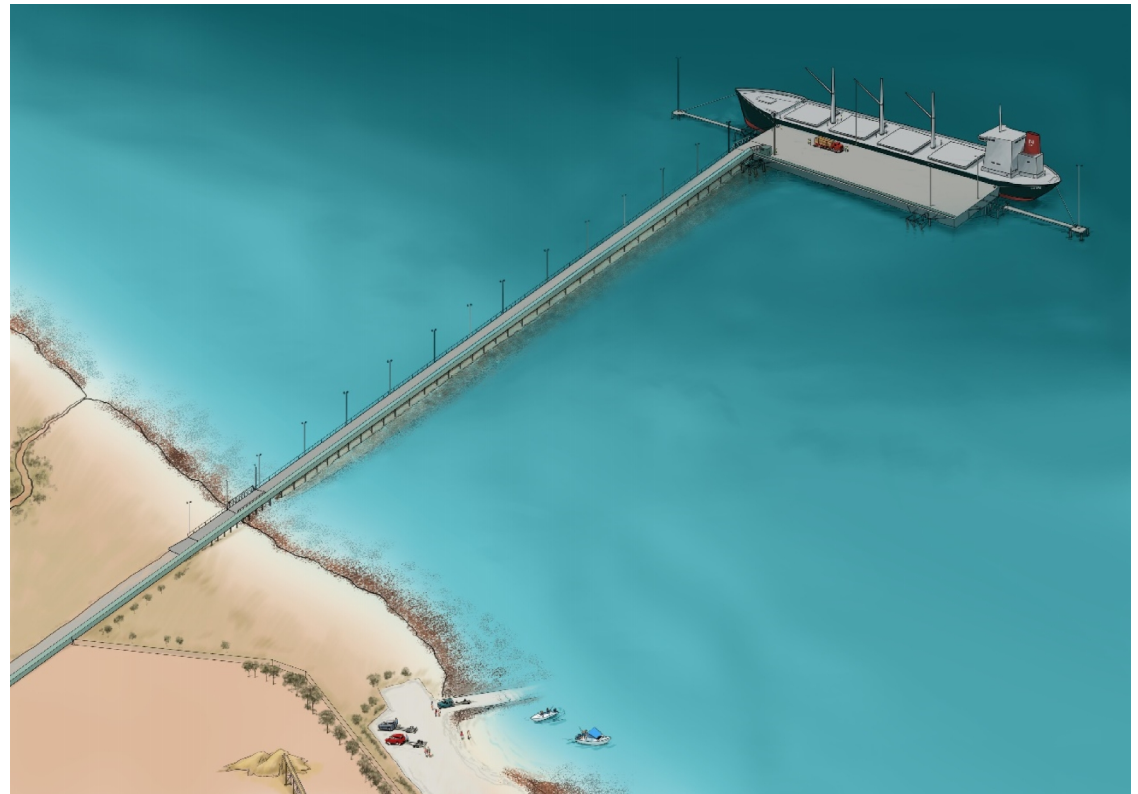
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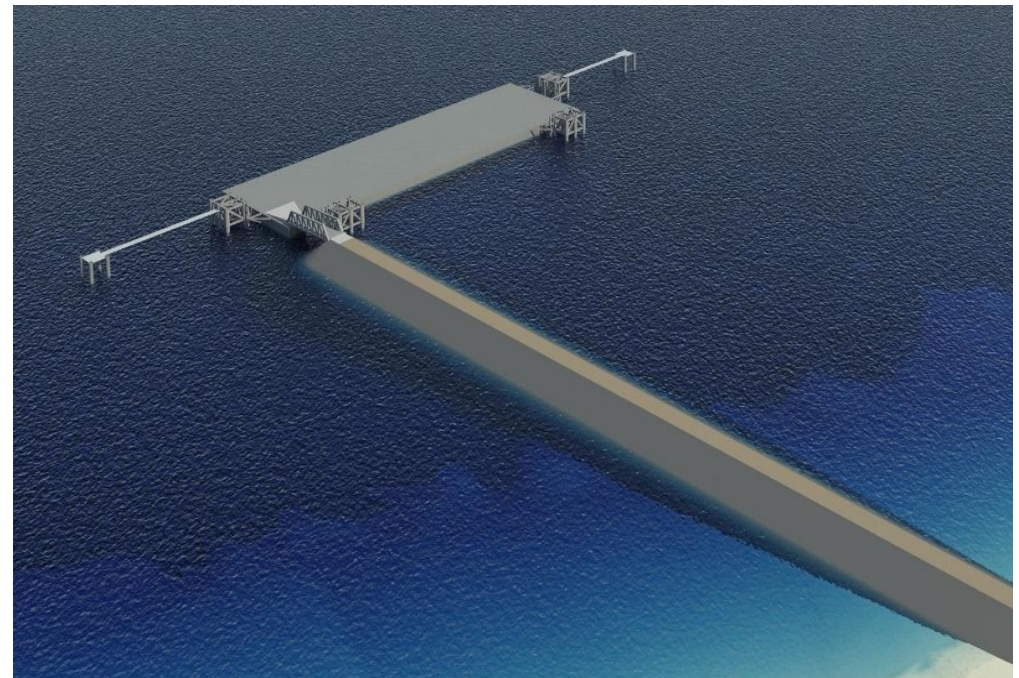
Export infrastructure

- Proposed rock causeway & floating berth, to handle:
 - Logs & woodchips
 - Containerized cargo
 - Import & export
 - Handymax – Super Panamax
 - Cruise liners
- Build cost \$25 - \$30m
- 6-9 month build
- Suitable floating pontoon barge available, on budget

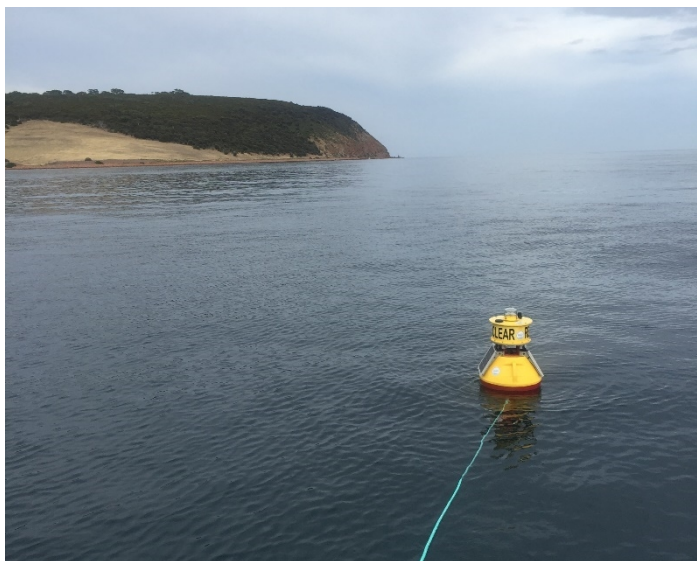


Export infrastructure

- Multi-user wharf to benefit whole island community, including sheltered boat ramp for general public
- No government funding sought
- Wharf construction facility signed with CBA \$30m (i.e. 100%)
- KPT poised to benefit from owning key infrastructure asset, available 300 days/annum for non-forestry users
- Facility not designed (or located) to compete with Sealink's domestic tourism and freight business



Export infrastructure



Monitoring conditions at Smith Bay

- Smith Bay Wharf application lodged October 2016
- Following DD, designated a state-significant development February 2017
 - Rigorous assessment process
 - Most state-significant developments have been approved
 - Decision is final, no appeal rights
- EIS and supporting studies largely complete, including time series data on coastal processes and water quality
- Earliest approval June 2017 ... but could take until June 2018
- KPT committed to maintain environmental water quality to allay concerns of aquaculture industry

Benefits to KI and SA

Benefit	Estimate
Direct expenditure on wharf development	\$25-30m
Direct construction employment	50 FTE
Indirect construction employment	86 FTE
Direct permanent, non-seasonal employment once operational	118 FTE
Indirect permanent, non-seasonal employment once operational	168 FTE
KI Population increase	430 people
Value of timber exports (to China and Japan) once operational	\$60m pa
Direct expenditure in South Australia once operational	\$40m pa
Total increase in economic activity in SA once operational	\$109m pa
Benefit to other wharf users of access based on incremental costs	Not quantified

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Key measure: sustainable operating cashflow

- Aim to operate at steady and sustainable production levels
 - No future dips in supply profile
 - Reliable supplier of premium FSC-certified* product to customers
 - Permanent, non-seasonal employment for on-Island workforce
 - Maintain inventory at steady levels
 - Maintain social licence
 - Support maintenance, harvest, haulage and stevedoring contractors
- Within production constraint, maximise operating cashflow, rather than statutory profit
 - Profit is too influenced by changes in inventory valuation
 - Profit is an opinion but cash is a fact
- High, sustainable operating cashflow is KPT's objective

Projected annual operating cashflow

Wharf available 2018

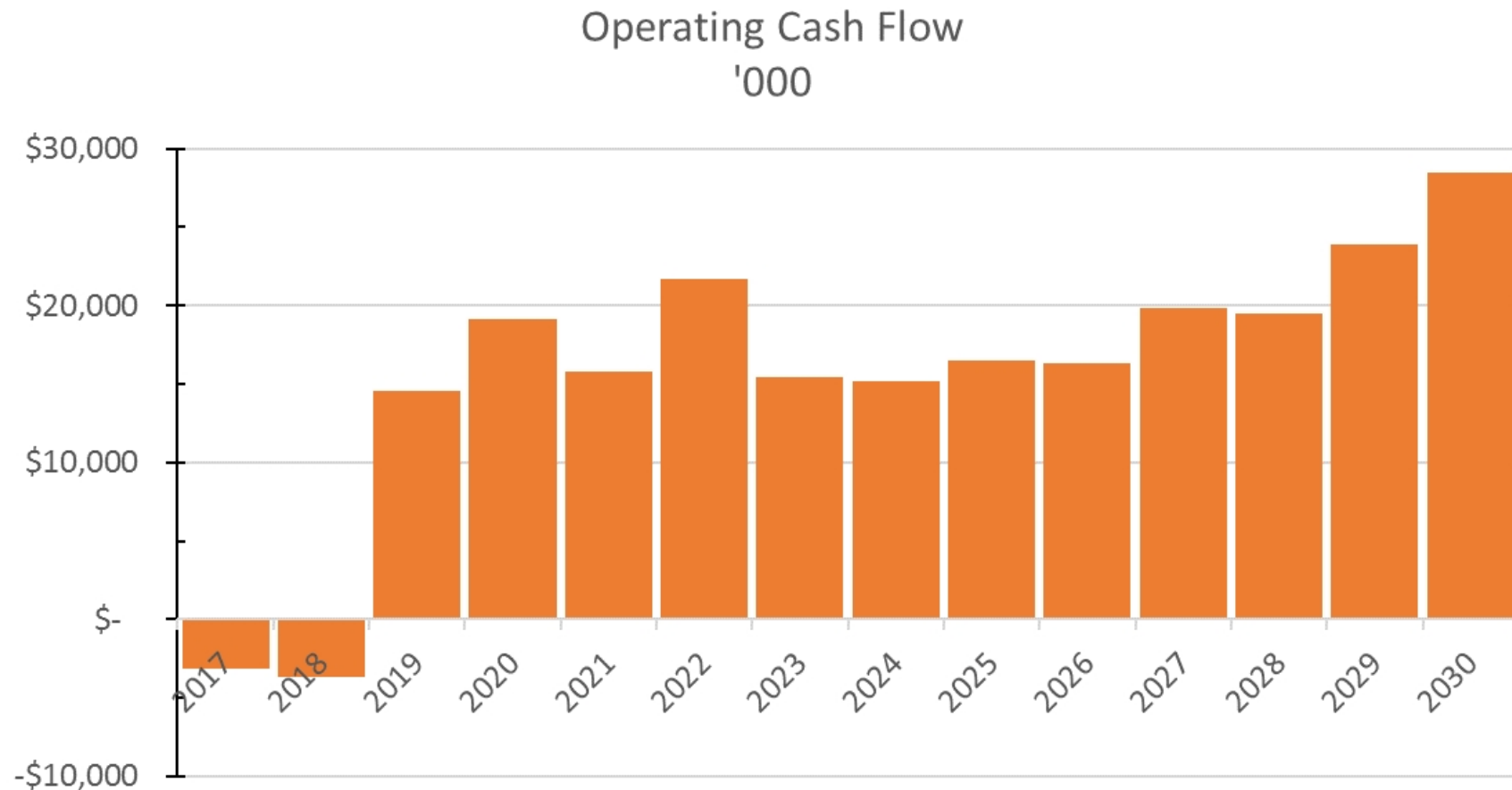


Chart shows projected operating cashflow, post tax paid, pre financing costs, no change in real \$A timber prices, despite looming shortfall.

If wharf approval delayed or denied ...

- Costed interim barging solution available
- Transshipment of logs to export vessel anchored at depth
- Additional ≈\$15/tonne materials handling
- Corresponding reduction in net stumpage
- Approx. 35% reduction in operating cashflow ... until wharf approved at another site
- Barging unacceptable as a long-term solution
 - Negative impacts on community
 - Value-leakage for KPT



Appendices

- ▣ Wharf site selection
- ▣ Important notice



Wharf site selection

- Closest practicable sheltered north coast site to timber resource: minimise transport costs (direct and indirect)
- Deep water, berthing large ocean-going vessels relatively close to shore
- Adjacent land is relatively flat, suitable for safe storage of cargo
- Adjacent land cleared and somewhat degraded, seabed disturbed
- No critical habitat loss
- Minimal conflict with tourism, marine national parks
- Availability of effective offset for environmental impact
- KPT has secured access to alternative sites but strongly prefers Smith Bay

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