

# KPT Equity Raising Presentation

12 April 2017

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## Recent key milestones

- \$57.1m CBA debt facility agreed (subject to certain conditions precedent)
- MoU signed with Mitsui Bussan Woodchip Oceania Pty Ltd for timber offtake
- Substantial progress made on draft Environmental Impact Statement
- Smith Bay Wharf proposal designated as a Major Project
- Decision to settle FIT estate acquisition on 28 April 2017

# Transaction overview

<b>Capital Raising overview</b>	<ul style="list-style-type: none"> <li>▪ Total of \$33.5m to be raised through a Capital Raising comprising a fixed price accelerated non-renounceable pro-rata Entitlement Offer and Institutional Placement</li> <li>▪ Petra Capital is acting as Lead Manager and Bookrunner to the Offer and intends to underwrite the retail component of the Offer</li> </ul>
<b>Entitlement Offer</b>	<ul style="list-style-type: none"> <li>▪ \$21.4m to be raised from 4-for-9 Entitlement Offer, comprising an accelerated Institutional component and non-accelerated Retail component</li> </ul>
<b>Placement</b>	<ul style="list-style-type: none"> <li>▪ \$12.1m to be raised from an Institutional Placement to new and existing institutional shareholders</li> <li>▪ The Placement will be conducted through the Company's capacity under ASX Listing Rules 7.1 and 7.1A</li> <li>▪ Shares issued under the Placement will not be entitled to participate in the Entitlement Offer</li> </ul>
<b>Offer Price</b>	<ul style="list-style-type: none"> <li>▪ Both the Entitlement Offer and Institutional Placement will be priced at \$2.00 per share, representing:             <ul style="list-style-type: none"> <li>▪ 21.6% discount to last closing price of \$2.55</li> <li>▪ 20.8% discount to the 5 day VWAP of \$2.53</li> <li>▪ 19.1% discount to the 30 day VWAP of \$2.47</li> <li>▪ 14.0% discount to TERP of \$2.32</li> </ul> </li> </ul>
<b>Ranking</b>	<ul style="list-style-type: none"> <li>▪ New shares rank equally with existing shares in all respects including entitlement to future dividends</li> </ul>

## Sources and uses

Sources	A\$m
Placement	\$12.1m
Entitlement offer	\$21.4m
Total sources	\$33.5m

Uses	A\$m
Acquisition of Forestry Investment Trust Estate	\$25.0m
Acquisition costs	\$5.0m
Working capital/contingency and offer costs	\$3.5m
Total uses	\$33.5m

## Indicative timetable

Event	Date
Trading halt commences and Entitlement Offer announced	Wednesday 12 April 2017
Institutional Entitlement Offer and Placement opening date	Thursday 13 April 2017
Institutional Entitlement Offer and Placement closing date	Thursday 13 April 2017
Institutional Bookbuild	Thursday 13 April 2017
Institutional Entitlement Offer: announcement of results	Wednesday 19 April 2017
Trading halt is lifted and existing Shares resume trading	Wednesday 19 April 2017
Retail Entitlement Offer Record Date (7pm AEST)	Wednesday 19 April 2017
Retail Entitlement Offer Opening Date	Monday 24 April 2017
Retail Offer Booklet Dispatched to Shareholders	Monday 24 April 2017
Settlement of applications in the Institutional Entitlement Offer and Placement	Monday 24 April 2017
Quotation of New Shares issued in the Institutional Entitlement Offer and Placement	Monday 24 April 2017
Retail Entitlement Offer Closing Date (5pm AEST)	Thursday 4 May 2017
Settlement of Applications in the Retail Entitlement Offer	Wednesday 10 May 2017
Issue date of Retail Entitlement Offer	Thursday 11 May 2017
Quotation of New Shares issued in the Retail Entitlement Offer	Friday 12 May 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 sustainable 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.<sup>1</sup> Globally, US\$100 billion invested in timberland<sup>1</sup>, dominated by institutions
- ❑ KPT is the only ASX listed traditional timberland company<sup>2</sup>

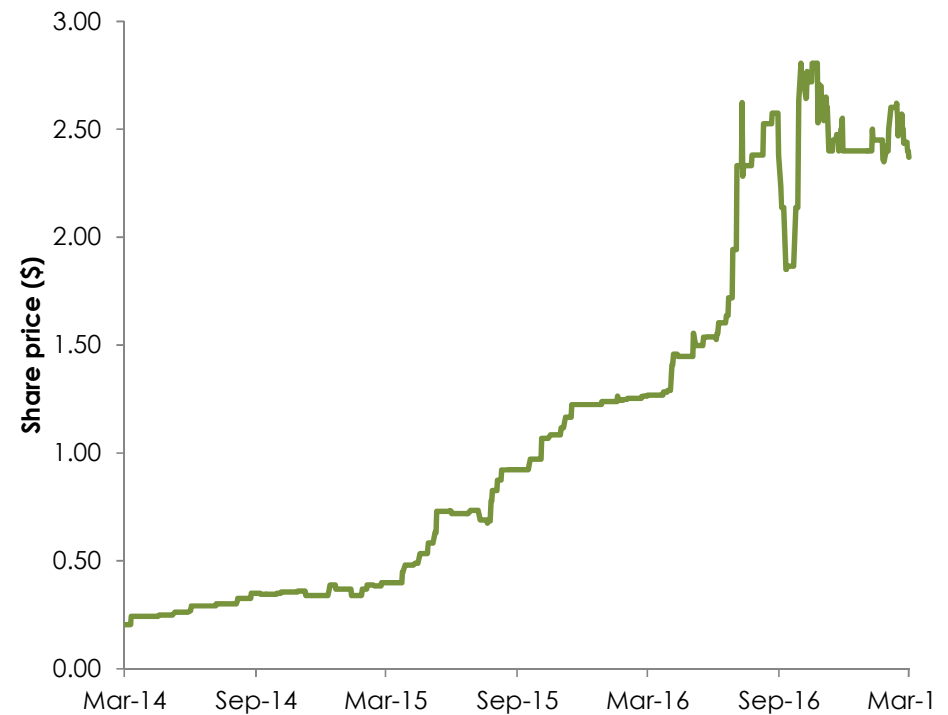




# KPT corporate information

- 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

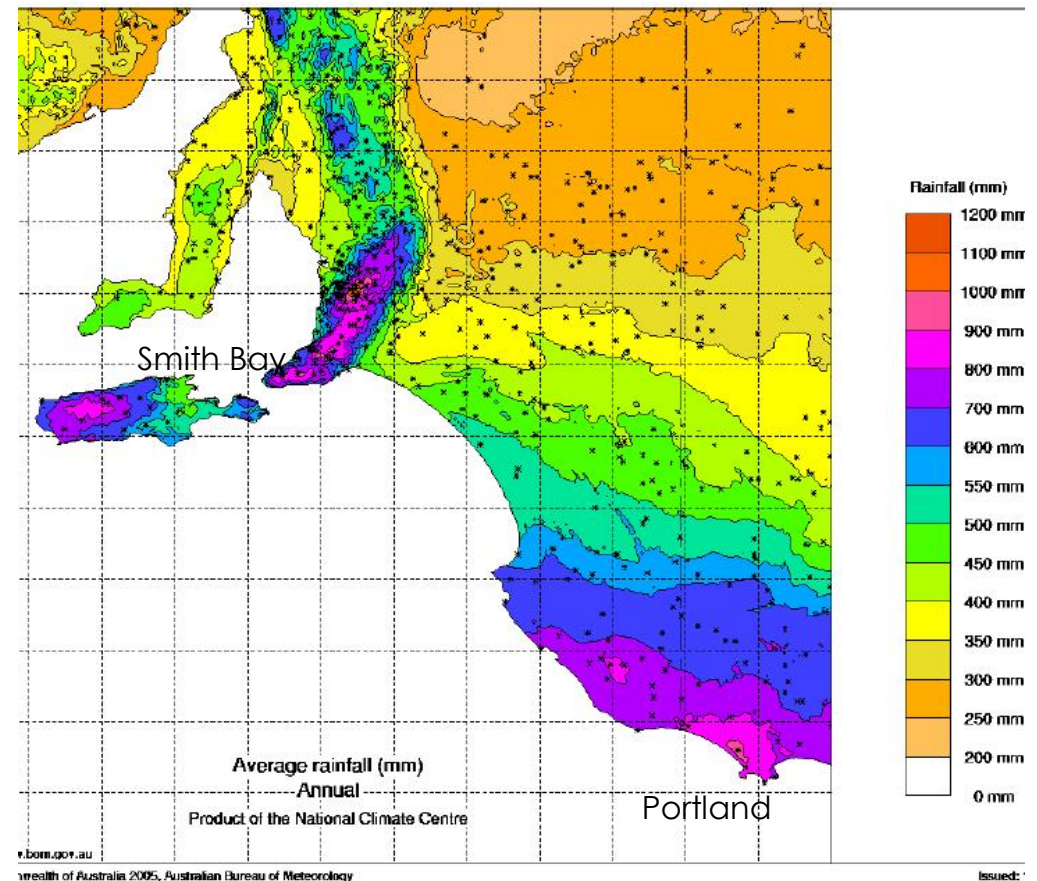


Property and Forestry Operations Manager: **Stephen Connell**  
Kangaroo Island



# 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)

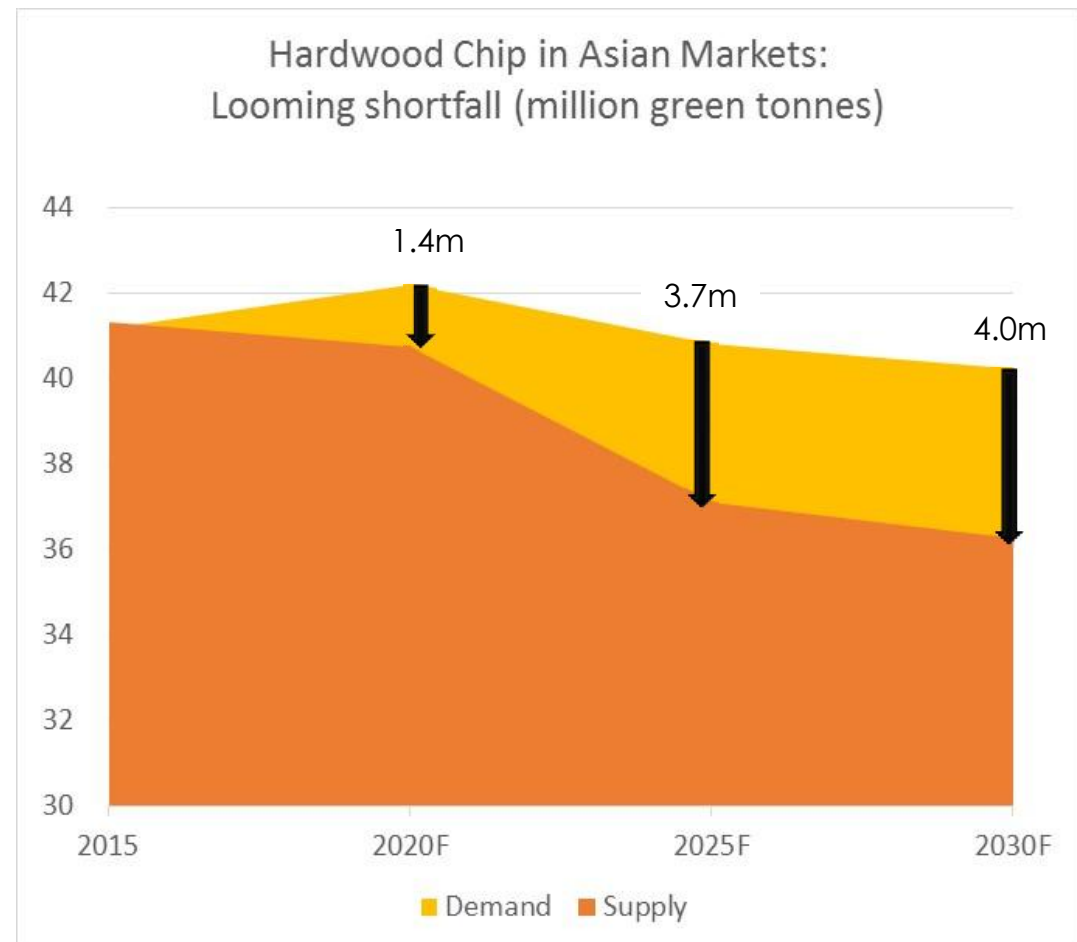


- Over \$200m has been spent establishing KI forestry over about 18,000ha planted
- Trees now largely ready to harvest
- 80% eucalypts, mainly e.globulus (Tasmanian Bluegum) = premium hardwood chip
- 20% p.radiata (Radiata Pine) = sawlogs and pulplogs
- Sustainable production 500,000 green tonnes pa, 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

Not for distribution or release in the United States



# Agenda

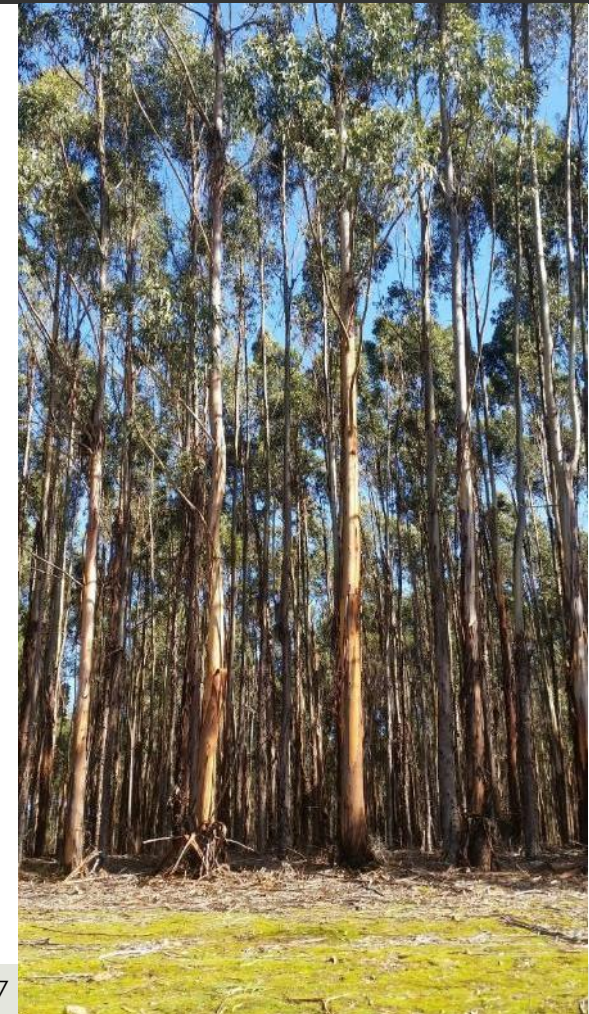
- About KPT and KI Forestry
- Strategic acquisition
- Export infrastructure
- Business metrics





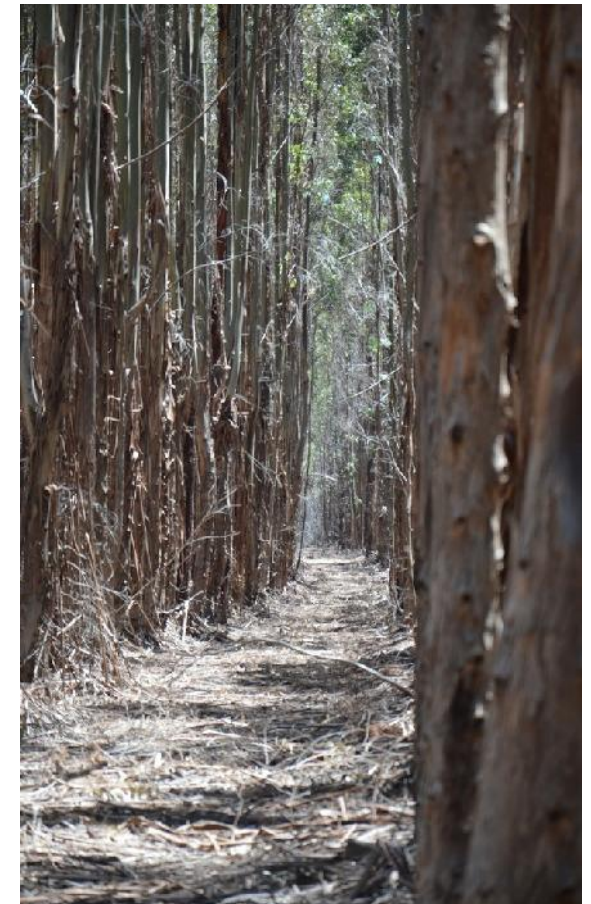
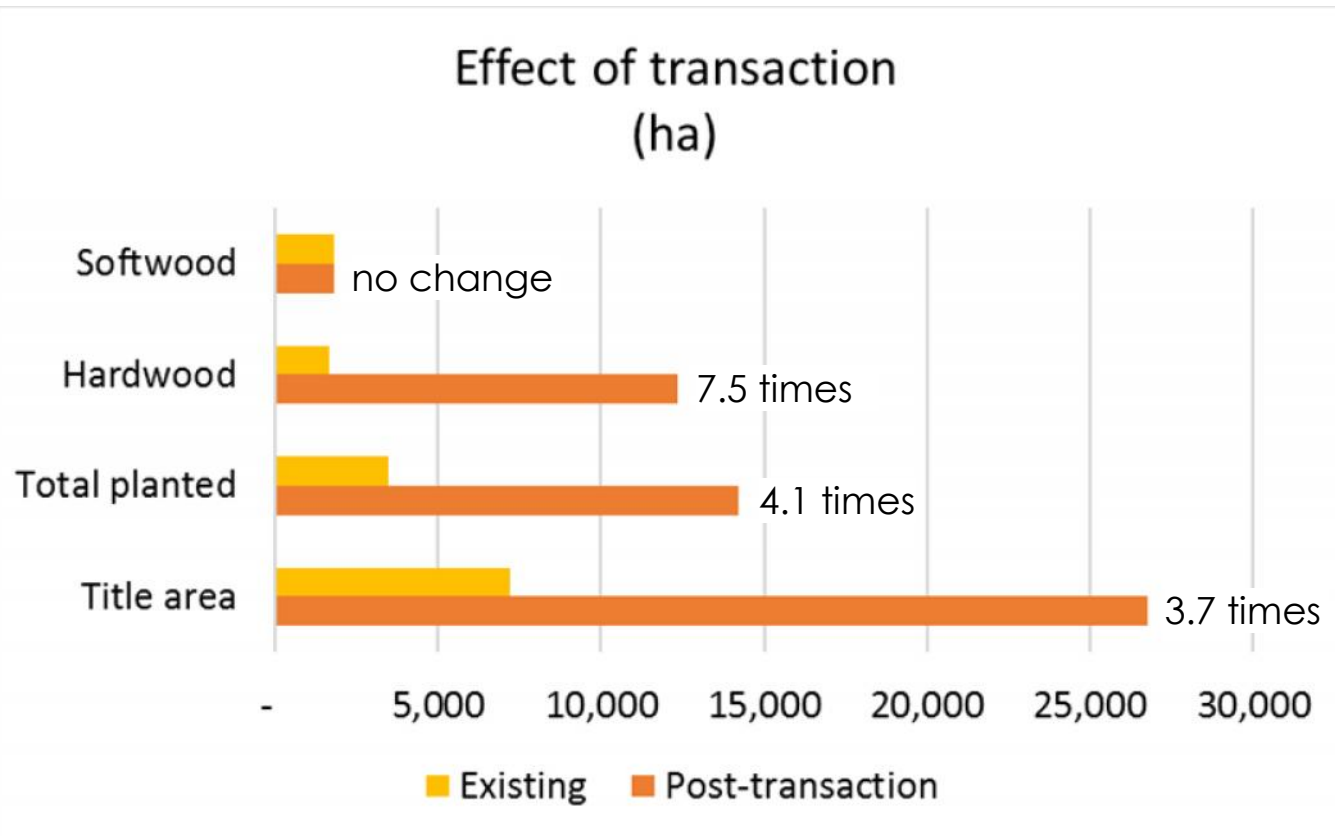
## Strategic acquisition

- 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



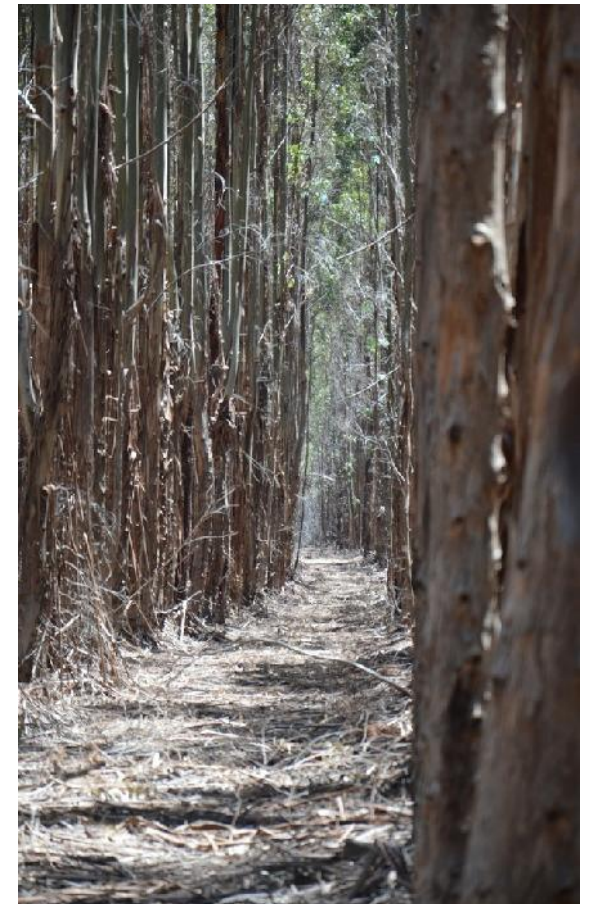
\*Geddes Management report Feb 2017

# KPT pre and post acquisition

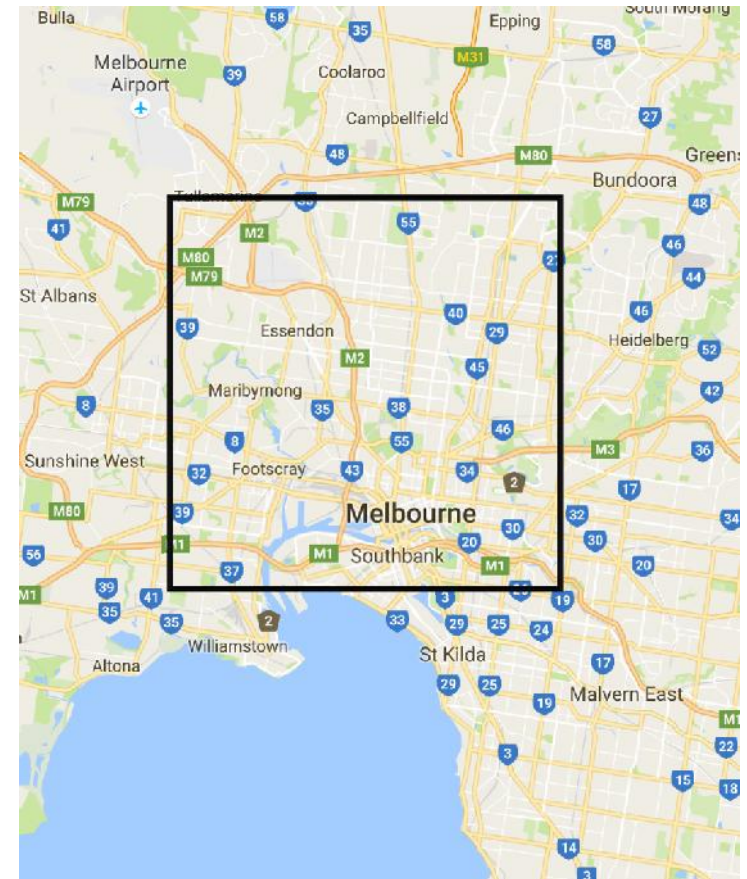
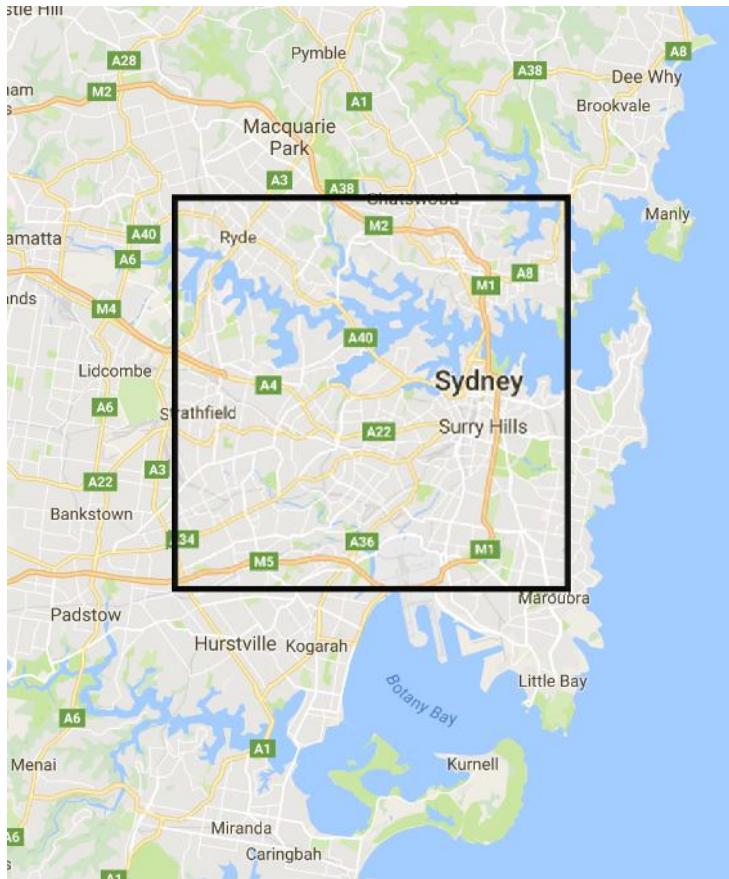


# KPT pre and post Acquisition

Effect of transaction  
(tonnes of standing timber)



# Size of landholding post acquisition



Not for distribution or release in the United States

## Strong partnerships



**mitsui & co.**

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

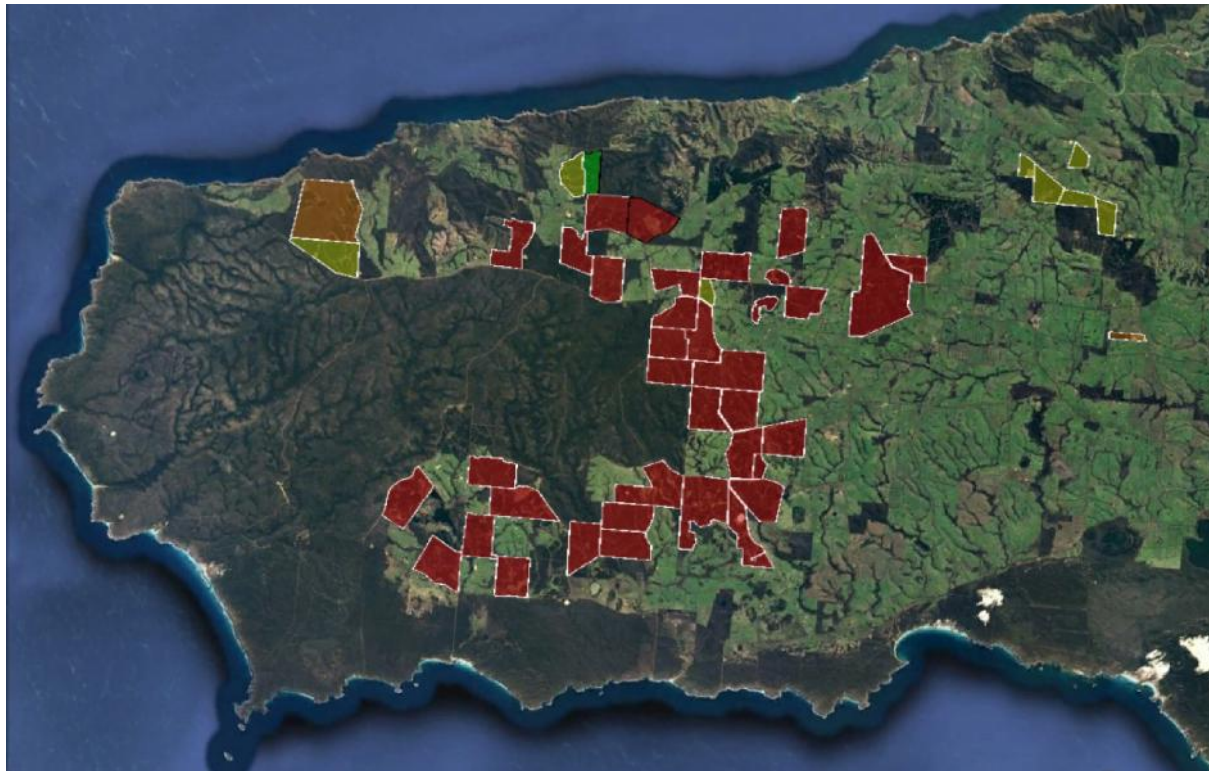
Inspecting the estate with Mitsui management






**Commonwealth**Bank

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

## Combined estate



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

Third party timberland  
not shown

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## Export infrastructure

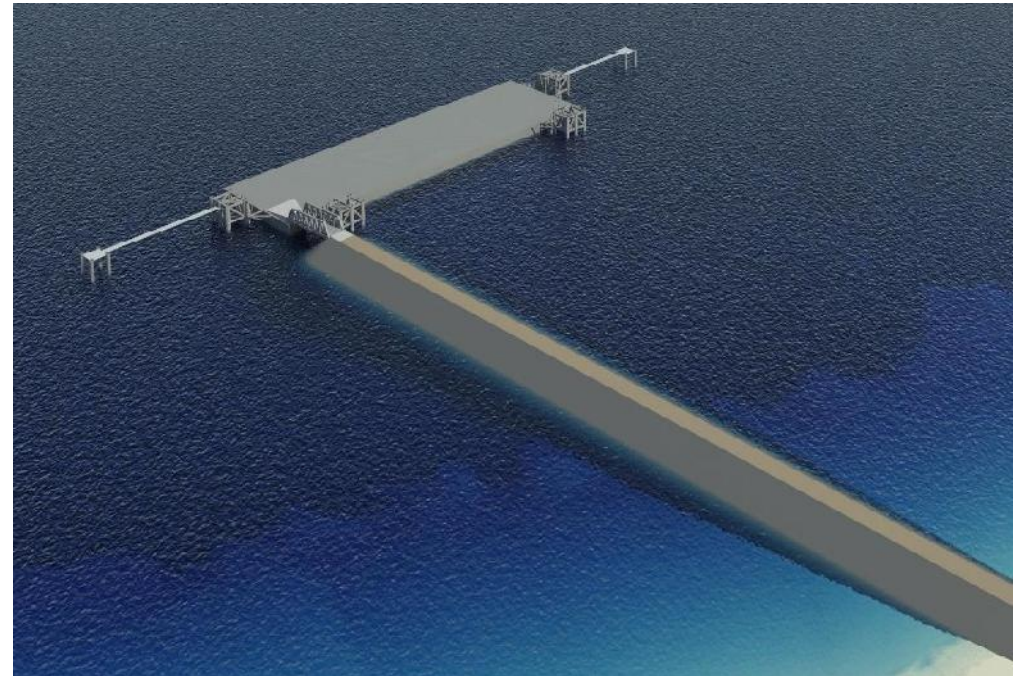
- Proposed rock causeway & floating berth, to handle:
  - Logs & woodchips
  - Containerized cargo
  - Import & export
  - Handymax – Super Panamax
  - Cruise liners
- Build cost \$25 - \$30m
- 6-9 month build
- Suitable floating pontoon barge available, on budget





## 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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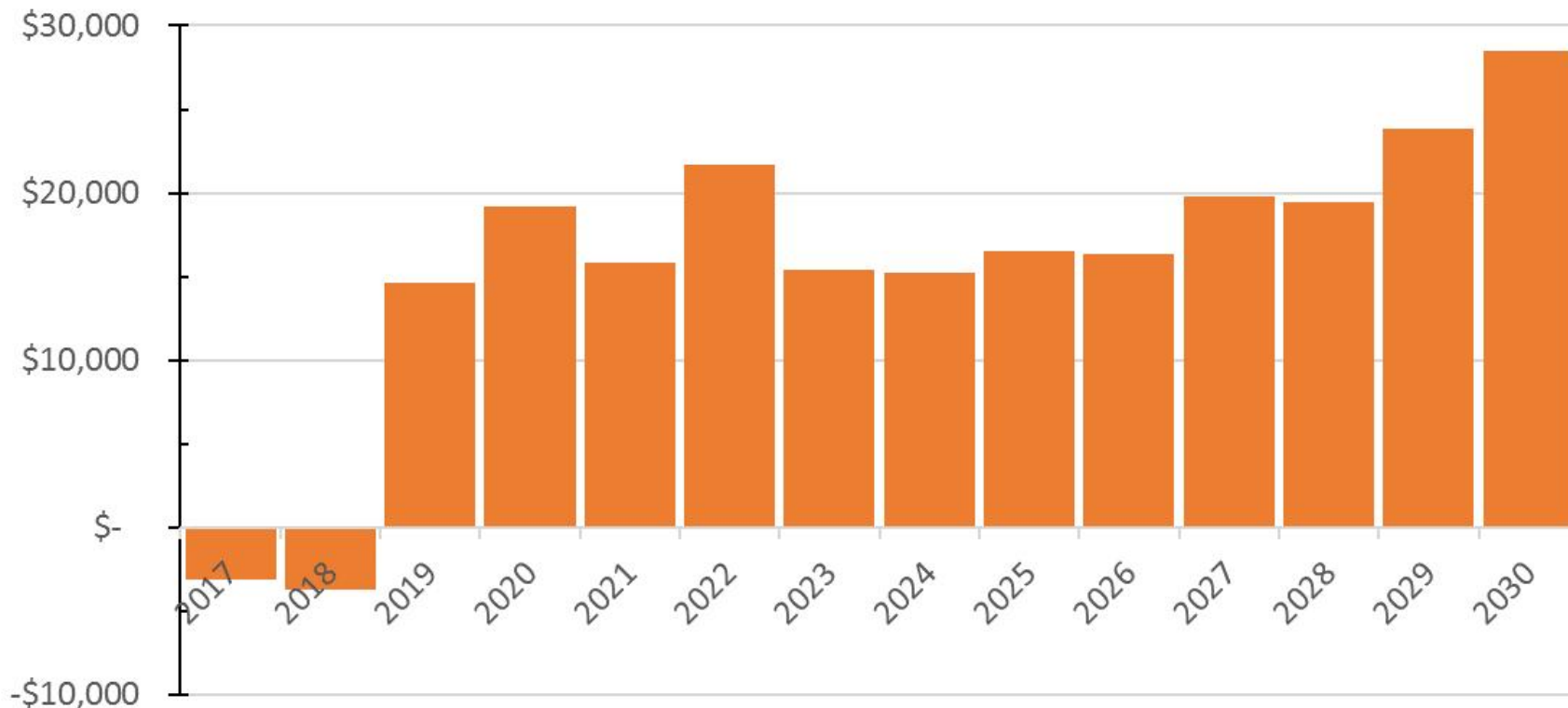
## Key measure: sustainable operating cashflow

- 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 operating cashflow

## Wharf available 2018

Operating Cash Flow  
post tax paid, pre finance costs ('000)



Not for distribution or release in the United States

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
- Transhipment 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
- ▣ Key risks





## 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

# Key risks

## **Investment speculative**

An investment in the Company's securities should be regarded as speculative. In addition to the general risks applicable to all investments in listed securities, there are specific risks associated with an investment in the Company. An investment in the Company is not risk free. The following is not intended to be an exhaustive list of the risk factors to which the Company is exposed but are key risks identified by the Board as being specific to the Company and its current operations as at the date of this presentation.

## **Primary Industry/Agriculture Risk**

A major asset of the Company are trees that the Company owns directly. The trees generally have a long life and are subject to many risks including fire, frost, drought, other acts of God, disease, pests, technological advances, failure to achieve expected yields, reduced demand for timber products, failure to achieve economic prices for the end products because of supply and other issues, changes in prices and costs particularly adverse price movements in the costs of harvesting, processing, transport, and ship loading, currency movements, government imposts and regulations and general economic and international issues. In the event that there is any significant deficiency between actual and anticipated outcomes, or an agricultural or climatic event that reduces the number of trees available for harvest, the underlying business of the Company may be affected through the reduction in net cash flow.

## **Construction and development risk**

The Company proposes to build a wharf at its Smith Bay Development site. The Company believes that development approval is likely but neither the outcome nor the timing can be guaranteed. Like any development, this project may be subject to unanticipated increases in costs or to unanticipated delays. Either of these eventualities would have a material effect on the Company's earnings.

## **Low Liquidity**

Given the fact that a small number of shareholders hold a large proportion of the Company's shares, there may be relatively few potential buyers or sellers of the Company's Shares. This may increase the volatility of the market price of the Company's Shares.

## **Competitive Position and Market Trends**

The Company operates in a competitive market. There can be no assurance that the actions of competitors or changes in customers will not adversely affect the Company's performance. Increased competition (especially in global wood fibre supply) could result in changes in the carrying value of assets, under-utilisation of personnel, reduced profit margins and loss of market share. Any of these could adversely affect the Company's operating and financial performance.

# Key risks continued

## Actual and potential acquisitions

As part of its business strategy, the Company may contemplate making further acquisitions of, or significant investments in complementary assets, companies, products or technologies. Any such future transactions would be accompanied by the risk commonly encountered in making acquisitions of assets, companies, products and technologies. These risks apply to the Company's recent purchase of the FIT Estate on Kangaroo Island.

## Key personnel

The Company is exposed to the risk of non-availability of key staff.

## Stock market fluctuations

Further, share market conditions in Australia and around the world may affect the value of the Company's quoted securities regardless of the Company's operating performance. Share market conditions are affected by many factors such as:

- (a) general economic outlook;
- (b) interest rates and inflation rates;
- (c) currency fluctuations;
- (d) changes in investor sentiment toward particular market sectors;
- (e) the demand for, and supply of, capital;
- (f) Political developments; and
- (g) terrorism or other hostilities.

## Regulatory effects

The Company's operations and profitability are likely to be affected by regulatory decisions, by changes in applicable regulation or standards or by the application of, or changes to, environmental legislation, regulation and standards.

## General economic conditions

Both Australian and world economic conditions may negatively affect the Company's performance. Any protracted slow-down in economic conditions or factors such as the level of production in the relevant economy, inflation, currency fluctuation, interest rates supply and demand and industrial disruption may have a negative impact on the Company's costs and revenue. These changes could adversely affect the Company's operations and earnings

## Litigation

From time to time, the Company may become involved in litigation and disputes. If the Company becomes involved in material protracted litigation, this could adversely affect the Company's expenditures against budget and there is a further risk that liability could be imposed in respect of any such litigation.