

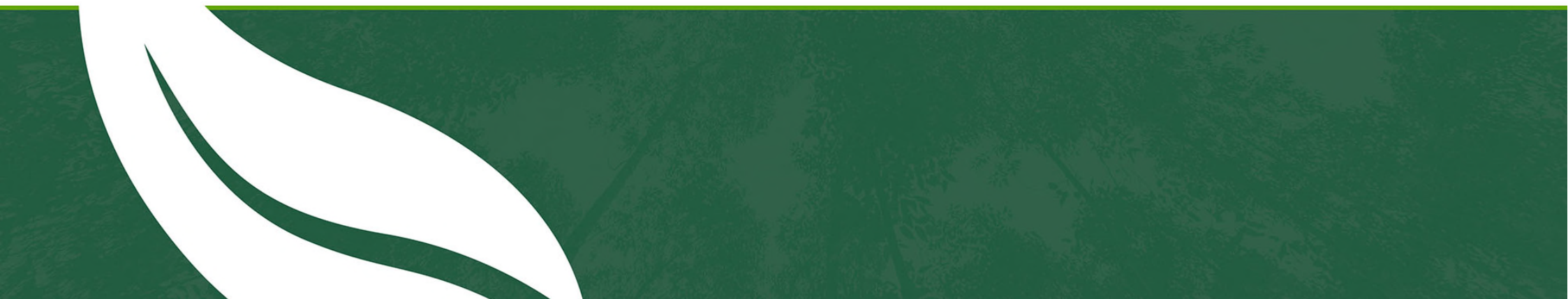


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**Full year result – FY19**

**Analyst and Investor Presentation**

August 2019



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All references to dollars are to Australian currency unless otherwise stated.



# Financials FY19

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# Performance Overview

## Strong underlying performance in FY19

- FY19 EBITDA – S<sup>(1)</sup> of **\$37.1M** (FY18: \$28.7M) +29.3% increase
- Net profit before tax was **\$33.1M** (+34.0%) and NPAT of **\$26.2M** (+42.4%)
- Favorable sales price increase of \$12 USD / BDMT on average over the pcp
- Bone dry % increased over prior corresponding period (+2.1% increase)
- FX benefit over prior corresponding period (5 cents USD movement)

## Integration of acquisitions

- Softwood Logging Services (SLS)<sup>(2)</sup> (100%) and BioGrowth Partners (BGP) (40%) included in Forestry Logistics segment
- Rebranding of SLS to Midway Logistics to support incremental volume growth in FY20, by leveraging Midway's existing relationships in WA
- Midway invested \$19.8M in restructuring PMP, equipment is now in good shape, first FY20 vessel completed and 2 due in September
- Acquisitions completed and integrated to deliver incremental returns

## Growing shareholder returns

- Shareholders will receive a fully franked final dividend of \$0.09 cents per share
- Successful capital raising supporting continued growth through acquisitions and investments
- Strong balance sheet with Company well situated for growth opportunities

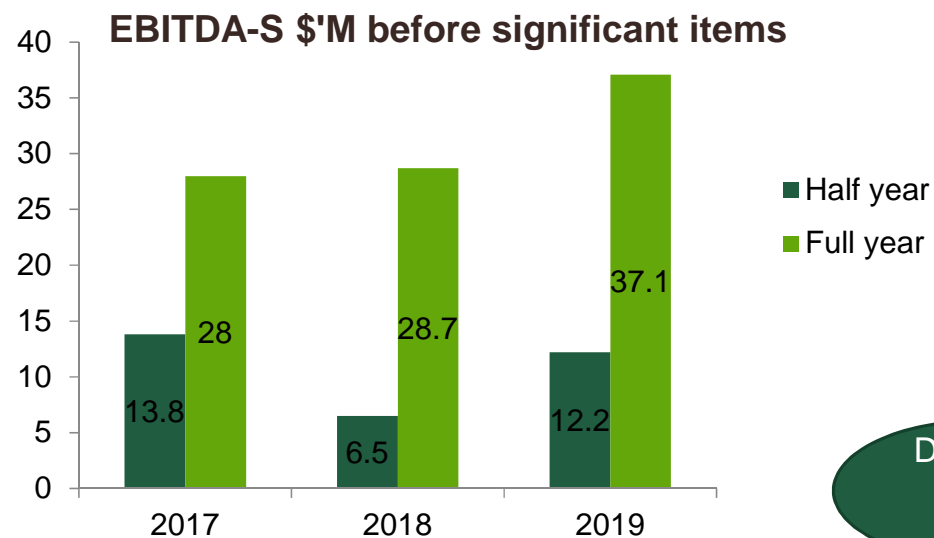
Revenue  
\$283.6M +22.3%

EBITDA<sup>(1)</sup>  
\$37.1M +29.3%

Gearing ratio  
26%

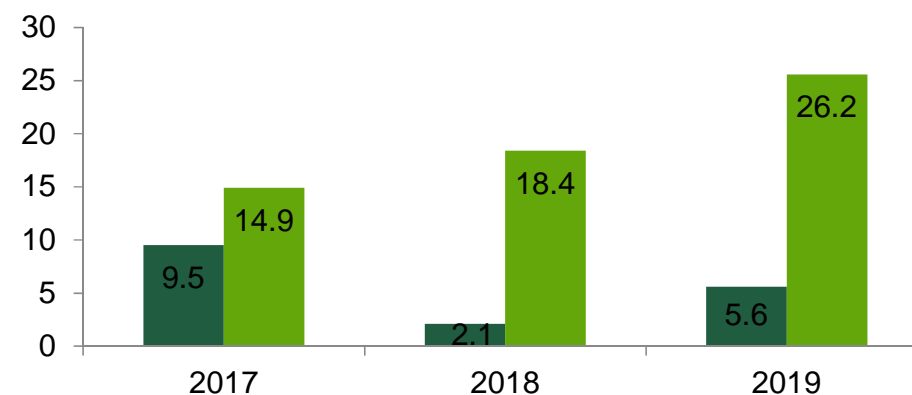
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## Track record of growth



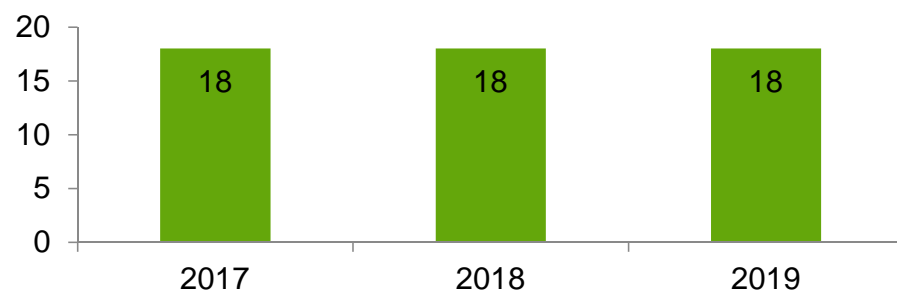
**NPAT \$'M**

■ Half year ■ Full year

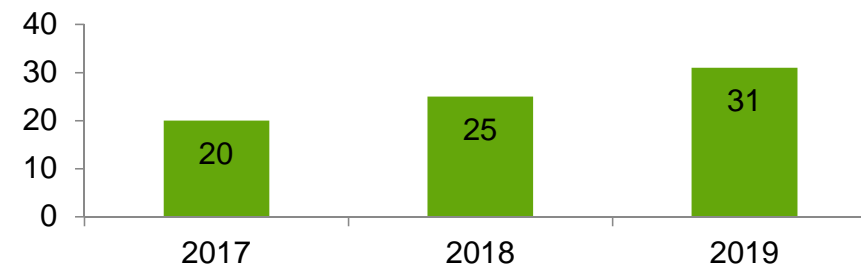


Dividend  
Yield  
5.2%

**Dividends (cents declared)**

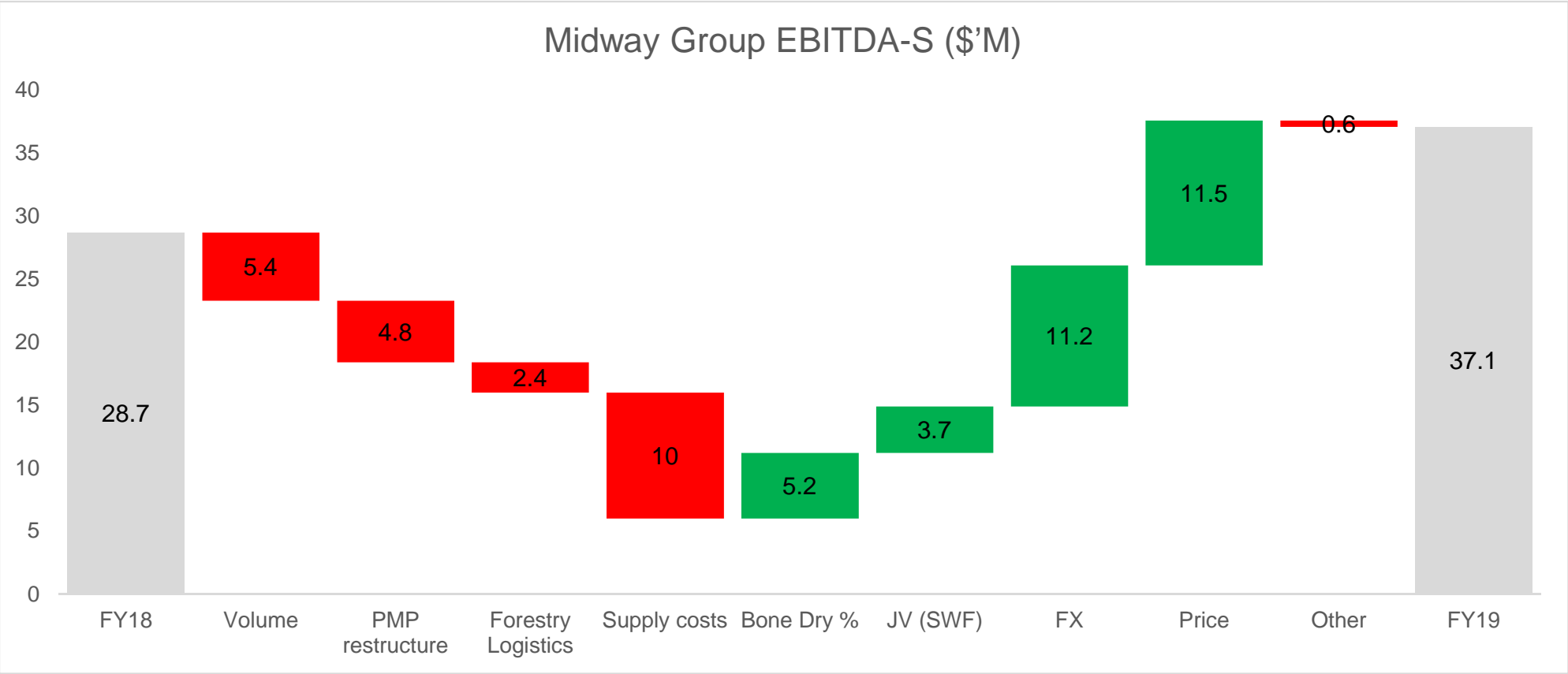


**Earnings Per Share (cents)**



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# Financial Performance – FY19



## Financial Performance – FY19

\$Am	FY19	FY18	% Change	
Sales Revenue	283.6	231.9	22.3%	↑
Other Income	5.6	4.2	33.3%	↑
Equity Accounted Share of Profits	6.8	3.9	74.4%	↑
Operating Costs	(258.9)	(211.3)	(22.5%)	↓
EBITDA – S <sup>(1)</sup>	37.1	28.7	29.3%	↑
Significant items <sup>(2)</sup>	3.1	-	-	↑
Net fair value gain on biological assets	10.5	2.6	303.8%	↑
EBITDA	50.7	31.3	61.9%	↑
EBIT	42.0	26.9	56.2%	↑
Finance expense <sup>(3)</sup>	(8.9)	(2.2)	(304.5%)	↓
Pre-Tax Profit	33.1	24.7	34.0%	↑
Tax Expense	(6.9)	(6.3)	(9.5%)	↓
Statutory NPAT	26.2	18.4	42.4%	↑

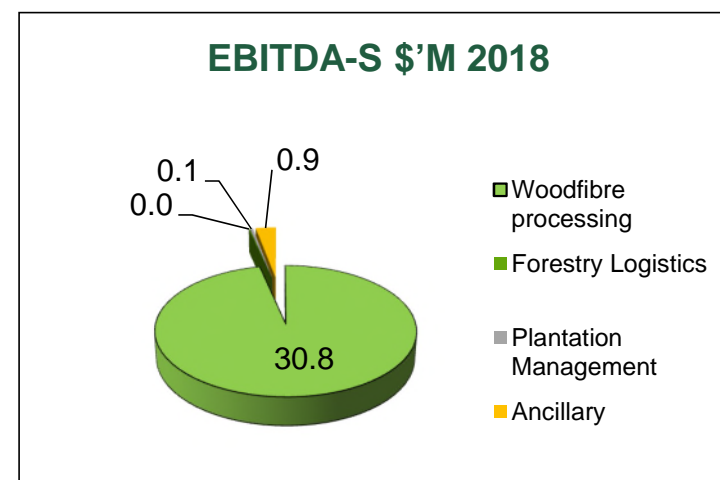
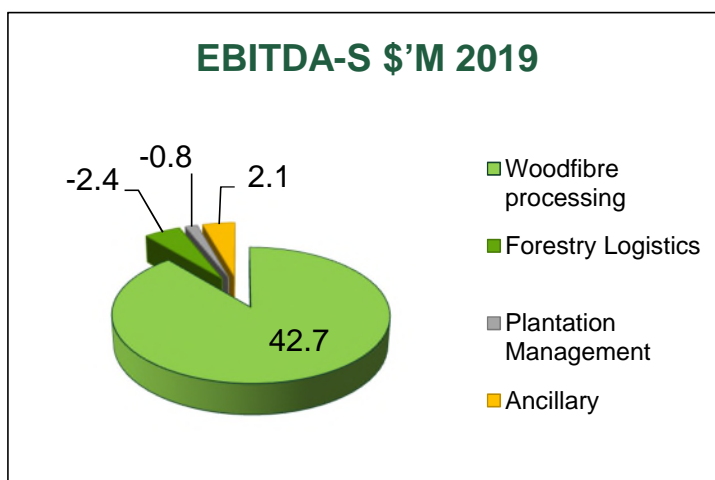
1: EBITDA - S represents EBITDA before significant items and net fair value increment on biological assets

2: Significant items includes gain on bargain purchase of Softwood Logging Services (\$0.1M), reversal of contingent consideration (\$3.3M) and transaction costs (-\$0.3M)

3: Includes \$6.9M of non cash net interest expense incurred on the liability created on 1 July 2018 to repurchase trees under the Strategy arrangement, which was deemed a financing arrangement upon the adoption of AASB 15 Revenue from Contracts with Customers.



## Segment contribution



Note: Excludes eliminations from calculation

- (1) Forestry Logistics includes a negative contribution in FY19 relating to the startup activities of SLS (now Midway Logistics) and BGP.
- (2) Contribution from Ancillary represents the margin on the third party woodfibre trading business



## Cash Flow – FY19

\$Am	FY19	FY18	\$Am Change
<b>Operating Cash Flow <sup>(1)</sup></b>	5.6	13.2	(7.6)
<b>Investing Cash Flow</b>	(9.8)	(15.0)	5.2
<b>Financing Cash Flow</b>	9.3	(2.9)	12.2
<b>Net Change in Cash</b>	5.1	(4.7)	9.8
<b>Net Debt <sup>(2)</sup></b>	29.5	32.4	(2.9)
<b>Interest Cover</b>	18.7	16.4	

(1) Operating cashflow was lower than expected due to a \$13.2M inventory build up and \$3.3M payout of trade creditors post acquisition of SLS which would normally be considered as investing (reduced purchase price)

(2) Net debt excludes the Strategy financial liability as this is not taken into account for debt covenant calculations.

## Balance Sheet – FY19

\$Am	FY19	FY18	\$Am Change
<b>Total Current Assets</b>	71.3	52.9	18.4
<b>Total Non-current Assets</b>	205.7	135.4	70.3
<b>Total Assets</b>	277.0	188.3	88.7
<b>Total Current Liabilities</b>	38.8	37.0	1.8
<b>Non-current borrowings <sup>(1)</sup></b>	38.4	35.4	3.0
<b>Total Non-current Liabilities</b>	95.5	52.1	43.4
<b>Total Liabilities</b>	134.3	89.1	45.2
<b>Net Assets</b>	142.7	99.2	43.5

(1) Excludes Strategy arrangement

## New business activities

### Forestry Logistics Segment

- On 15 October 2018, the Company made two acquisitions in Western Australia:
  - 100% of Softwood Logging Services (SLS), a harvest and haul business in WA. SLS provides access to equipment, management expertise and contracts for harvesting, processing and delivery of biomass and other forest products in South-West WA; and
  - 40% of Bio Growth Partners, a biomass procurement and marketing business which supplies woodfibre to the WA biomass market. Bio Growth Partners is not controlled by the Group and as such is equity accounted
- Integration of new acquisitions completed and legacy issues rectified to ensure benefits are realised in FY20
- Rebranding of Softwood Logging Services (SLS) to Midway Logistics to leverage Midway's relationships and ensure volume driven growth in FY20

### Ancillary Segment

- Strong trading business growth (marketing and shipping of third party woodfibre) \$2.1M EBITDA-S (FY18: \$0.9M), particularly from Tasmania



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# Investing \$19.8 million on the Tiwi Islands

## Woodfibre Processing Segment

- The investment (\$19.8M) was used to acquire additional production equipment and upgrade port assets on Melville Island which will increase capacity and deliver efficiencies to the operations
- This involved upgrading the existing stockpile infrastructure at the port, purchase of additional plant and equipment (majority hire purchase) and reassigned Tiwi Plantations Corporation (TPC)'s loan receivables with financiers
- PMP is now more aligned with Midway's other operations which manages the entire supply chain and is expected to deliver a better margins for Midway and the Tiwi Islanders
- The investment is also consistent with the Groups' strategy of growing earnings by leveraging our existing core capability including processing, marketing, harvesting and plantation management.
- PMP made an EBITDA loss of -\$4.8M due to a major maintenance program and reduced production
- This restructure is expected to be earnings accretive in FY20, with the first vessel completed and two more scheduled for September



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The background of the slide is a photograph of a logging operation in a forest. A large logging machine with a long boom is visible in the upper left, and a log skidder is in the lower left. A large pile of logs is on the right. The entire image is overlaid with a semi-transparent dark green filter.

# Strategy and Outlook section

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# Strategic priorities

## Increasing EBIT over time:

### 1. EXPANSION OF EXISTING BUSINESS

- Growth of plantation management and woodfibre processing
- Increased utilisation and expansion of existing infrastructure
- Further development of Hardwood and Softwood log exports

### 2. ACQUISITIONS

- Complementary businesses
- Industry consolidation
- Domestic and international

### 3. OPERATING EFFICIENCIES

- Economies of scale
- Margin expansion
- Cost management

## Strategic priorities progressing well

- Maximising long term fibre supply by replanting existing land, securing contracts with third party plantation owners and pursuing investment in plantation expansion
- Entering forestry logistics is providing a platform for further growth (ie SLS and BGP)
- Exports from Tasmania continues to grow rapidly (marketing of third party wood fibre and also Midway purchases)
- Midway maintains a disciplined approach to capital management to ensure we maximise shareholder value
- Midway continues to assess opportunities to better utilise existing facilities and acquire businesses in key forestry areas in Australia and overseas



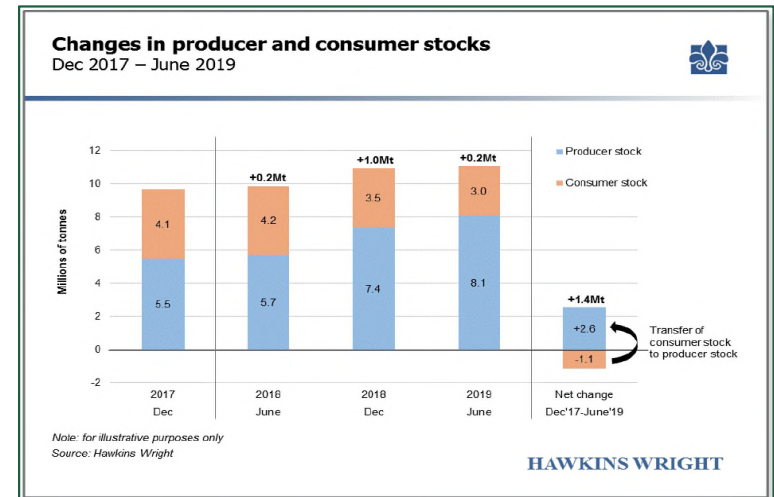
## Overall volume growth with changing mix (Domestic and Export)

Volumes (000's GMT)	FY2019	FY2020	FY2021	FY2022	FY2023
Geelong	1,047	950	850	700	700
Portland	1,534	1,350	1100	1,000	800
Brisbane	218	330	400	450	550
Melville Island	188	340	340	340	340
Tasmania <sup>1</sup>	367	450	600	700	800
Western Australia		390	550	750	900
<b>TOTAL</b>	<b>3,354</b>	<b>3,810</b>	<b>3,840</b>	<b>3,940</b>	<b>4,090</b>

<sup>1</sup> Represents both Group owned and third party wood fibre where Midway performs the marketing function

## Market Update – FY19

- Demand for woodchips in the Asia Pacific (mainly China and Japan) grew by 8.8% in calendar year 2018 and in calendar year 2019 growth is tracking at 8.1%
- Indonesian imports have grown substantially in 2019
- Market pulp prices started to drop in June 2019, largely due to Brazilian pulp mills over producing and carrying high inventories
- Chinese traders and buyers have run their inventories down to extremely low levels before they recommence buying. Once this happens it is expected that pulp prices will improve
- Despite this issue, pulpmills in China and Japan continue to operate at full production



## Outlook for FY20



### FY20 outlook

- Midway expects there to be a short term imbalance between Brazilian producers and Chinese traders and buyers pulp inventories, which is expected to correct itself in the coming months and pulp prices are anticipated to improve
- The medium term supply/demand curve remains positive as previously reported by RISI

### Adoption of new accounting standards

- Accounting changes with the introduction of AASB 16: leases will impact balance sheet and statutory NPAT however will not impact cashflow. The impact to NPAT is not expected to be significant

### Positive long term international fundamentals

- Very favourable export demand outlook for woodfibre, particularly in China and Japan, and more recently Indonesia as forecast by RISI

# Attachments

The background of the slide is a photograph of a forestry harvester operating in a forest. The harvester is positioned on the left side of the frame, with its long boom extended towards the right. It is holding a large, bundled stack of cut logs. The forest consists of many thin, vertical tree trunks, creating a dense background. The entire image is overlaid with a semi-transparent dark green filter.

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## New accounting standards – impacts FY19

### Key impacts – AASB 15 Revenue from contracts with customers

- The Strategy arrangement entered into (disclosed in Appendix 4E note 4.11) to repurchase hardwood trees previously sold is deemed a financing arrangement as a result of Midway's obligation to repurchase the hardwood trees
- Fair value of hardwood trees sold and to be repurchased is now recognised on the balance sheet as a biological asset
- Financial liability has been recognised at amortised cost using the effective interest method for the obligation to repurchase the trees
- Unwinding of interest on the financial liability negatively impacted net interest expense by \$6.9M. This is non-cash and does not impact EBITDA
- As at 30 June 2019, fair value gains of \$10.5M were recorded on the treecrop resulting from the USD FOB prices increase, which offsets the interest expense.
- Impacts at 1 July 2018 shown below:

<b>Opening reserves balance as at 30 June 18 as previously reported</b>	<b>\$'000</b> <b>66,983</b>
Decrease due to financial liability created to repurchase the hardwood trees	(34,247)
Increase due to financial asset created to receive plantation management fees	1,618
Increase due to the hardwood biological trees being re – recognised on the balance sheet	27,887
Net deferred tax asset	1,423
<b>Restated opening reserves balance as at 1 July 2018</b>	<b>63,664</b>





Questions ?

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