Half year result – 1H20

Analyst and Investor Presentation

February 2020

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

Financials 1H20

Overview

1H20 results

- EBITDA – S[1] of **$4.2M** (1H19: $12.2M)
- Statutory NPAT of **$1.0M** and loss before significant items of **$1.2M** in underlying NPAT
- Board has decided not to pay an interim dividend in relation to 1H20

Market update

- Pulp prices have stabilised and pulp stocks have been trending back towards normal levels
- Contracted 2H20 shipments are significantly better than 1H20
- US – China signed new trade agreement
- No impact on Midway from recent bushfires
- There are no significant impacts on the Group at this stage as a result of the COVID-19 outbreak
- Integration and restructuring of new businesses completed

Revenue
$123.0M -1.0%

EBITDA-S[1]
$4.2M -65.5%

Gearing ratio
31%

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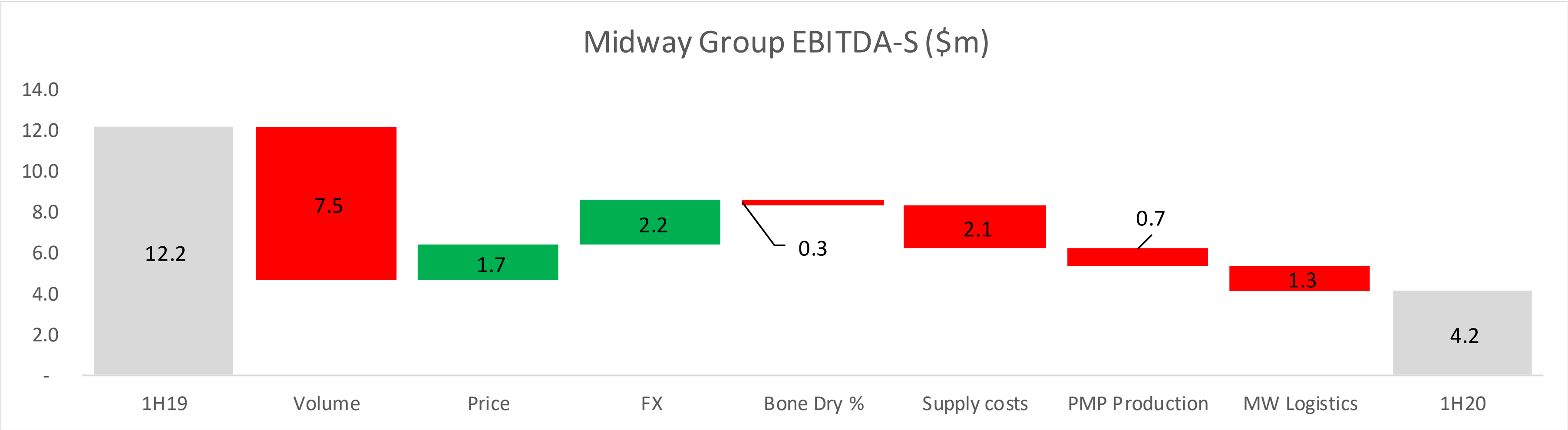
1: EBITDA - S represents EBITDA before significant items and net fair value increment on biological assets

Financial Performance – 1H20



Financial Performance – 1H20

$Am	1H20	1H19	% Change	
Sales Revenue	123.0	124.2	(1.0%)	↓
Other Income	4.5	2.6	73.1%	↑
Equity Accounted Share of Profits	2.4	2.2	9.1%	↑
Operating Costs	(125.7)	(116.8)	(7.6%)	↓
EBITDA – S(1)	4.2	12.2	(65.6%)	↓
Significant items(2)	(7.7)	2.7	(385.2%)	↓
Net fair value gain on biological assets	12.9	13.8	(6.5%)	↓
EBITDA	9.4	28.7	(67.2%)	↓
EBIT	2.6	25.2	(89.7%)	↓
Finance expense(3)	(1.8)	(6.8)	73.5%	↑
Pre-Tax Profit	0.8	18.4	(95.7%)	↓
Tax Expense	0.2	(4.1)	104.9%	↑
Statutory NPAT	1.0	14.3	(93.0%)	↓

1: EBITDA - S represents EBITDA before significant items and net fair value increment on biological assets
2: Significant items includes PMP impairment of $6.5M, write off ADDCO investment of $2.1M (1H19: gain on bargain purchase of Softwood Logging Services ($0.1M), reversal of contingent consideration ($3.3M) and transaction costs (-$0.3M))
3: 1H19 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.

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Cash Flow – 1H20

$Am	1H20	1H19	$Am Change
Operating Cash Flow (2)	(10.3)	(13.7)	3.4
Investing Cash Flow	(1.2)	(15.7)	14.5
Financing Cash Flow	3.7	23.6	(19.9)
Net Change in Cash	(7.8)	(5.8)	(2.0)
Net Debt [1]	55.4	36.2	19.2
Interest Cover	14.9	16.4	

(1) Net debt excludes the Strategy financial liability as this is not taken into account for debt covenant calculations.
(2) Negative operating cashflow of $10.3M is primarily as a result of an inventory build up to 31.12.19. More shipments in H2 have reduced stock levels and improved operating cashflows

Balance Sheet – 1H20

$Am	1H20	FY19	$Am Change
Total Current Assets	65.2	71.3	(6.1)
Total Non-current Assets	217.4	205.7	11.7
Total Assets	282.6	277.0	5.6
Total Current Liabilities	52.1	38.8	13.3
Non-current borrowings [(1)]	39.3	38.4	0.9
Total Non-current Liabilities	93.5	95.5	(2.0)
Total Liabilities	145.6	134.3	11.3
Net Assets	137.0	142.7	(5.7)

(1) Excludes Strategy arrangement

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Business performance

Woodfibre processing

- New contracts in H2 have replaced lost sales of high quality wood fibre in H1
- Created a more balanced geographic sales mix (1H20 China 59% vs Japan 41%, FY19 China 70% vs Japan 30%, excluding domestic sales); this trend to continue in 2H 20
- Tiwi Islands restructure complete with shipments planned for 2H 20
- Increased contribution from Midway Tasmania
- Contracted volume in Tasmania for over 400k GMT of Nitens and 100k GMT of eucalypt Regrowth,

Forestry Logistics

- Restructure and rebranding of Softwood Logging Services (SLS) to Midway Logistics Pty Ltd complete
- Biomass deliveries to S32 and other domestic markets have now recommenced and demand is expected to grow

Plantation Management

- 2016 plantings had a significant uplift in fair value ($5.3M)

Ancillary

- $1.3M was generated on marketing third party wood fibre, mainly from Tasmania

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Strategy and Outlook section

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 and securing contracts with third party plantation owners
- Well advanced in discussions with parties interested in investing in second rotation plantations on the Tiwi Islands and new plantings in SW Victoria
- 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 continues to assess opportunities to better utilise existing facilities and acquire businesses in key forestry areas in Australia and overseas

Business Development

Activity	Description
Wood fibre Supply	Ongoing agreement with wood fibre processor in Tasmania and negotiations continue to secure further volume, whilst additional access to export facilities being actively pursued in the region
	Second rotation plantation investment opportunity on the Tiwi Islands being pursued with potential investors; will call for Expressions of Interest in 2H20.
	HNRG (largest global timber investment manager) acquired Strategy plantation trees on behalf of their investor clients in the Geelong catchment
Other Commodities at Geelong	Export grain project is well advanced with a call for tenders to construct the facility issued 2H20, this will then allow us to complete the business case
	Export softwood chip – continuing to explore options for softwood from Geelong
Biomass	Growing domestic sales of biomass in WA through our Joint Venture, Biogrowth Partners
	Export of hardwood sawmill residues from Brisbane to Japan for biomass power stations
	Actively exploring the options to invest in the production of wood pellets for export to Japan and Korea Involved in the establishment of Auspellets Pty Ltd, a special purpose vehicle for the assessment and development of pellet plants in a range of location around the country
Logistics	Well advanced in negotiations with forest owners and customers in WA to expand our harvesting and processing services A number of timber supply contracts are currently in negotiation with Forest Products Commission (FPC) in WA
Other Geographies	Plantation Management NZ Offshore processing and export opportunities

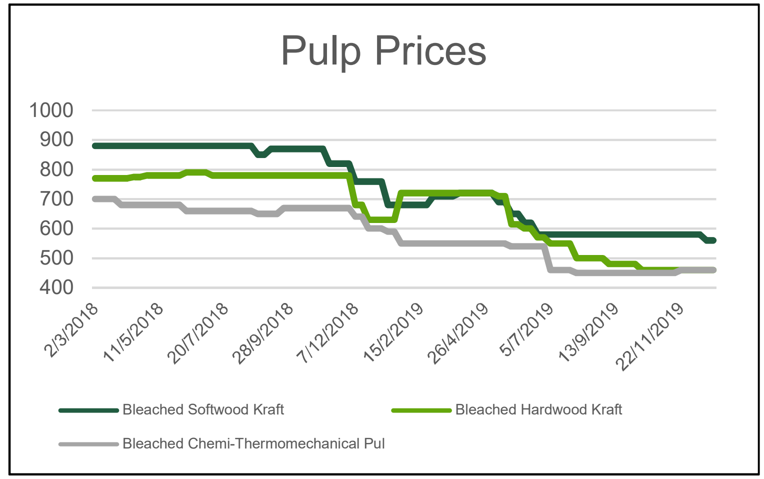
Market Outlook

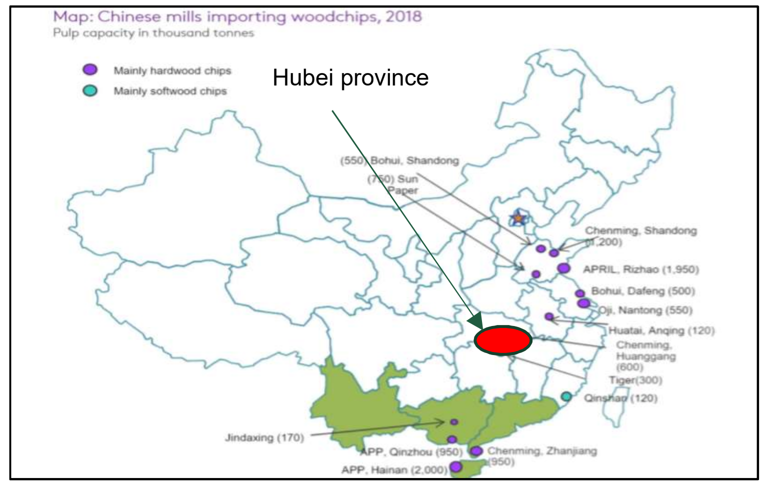
Positive signs so far in 2020

- Solid sales in first three months of H2
- Pulp stocks starting to return to normal levels
- Pulp prices have stabilised since late 2019
- US-China trade agreement in January 2020

Market uncertainties (full year results)

- Japanese price negotiation for 2020
- Uncommitted volume for lower quality wood fibre
- There are no significant impacts on the Group at this stage as a result of the COVID-19 outbreak





Outlook for FY20

FY20 outlook

- Increased shipments contracted for 2H20, compared with 1H20
- Rebalancing geographic revenue mix with higher proportion of Japanese sales
- Midway is comfortable that it will meet current consensus forecasts for EBITDA in FY20 based on current market conditions and the Groups' sales outlook

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 material.

Positive long term international fundamentals

- Favourable export demand outlook for woodfibre forecast by RISI

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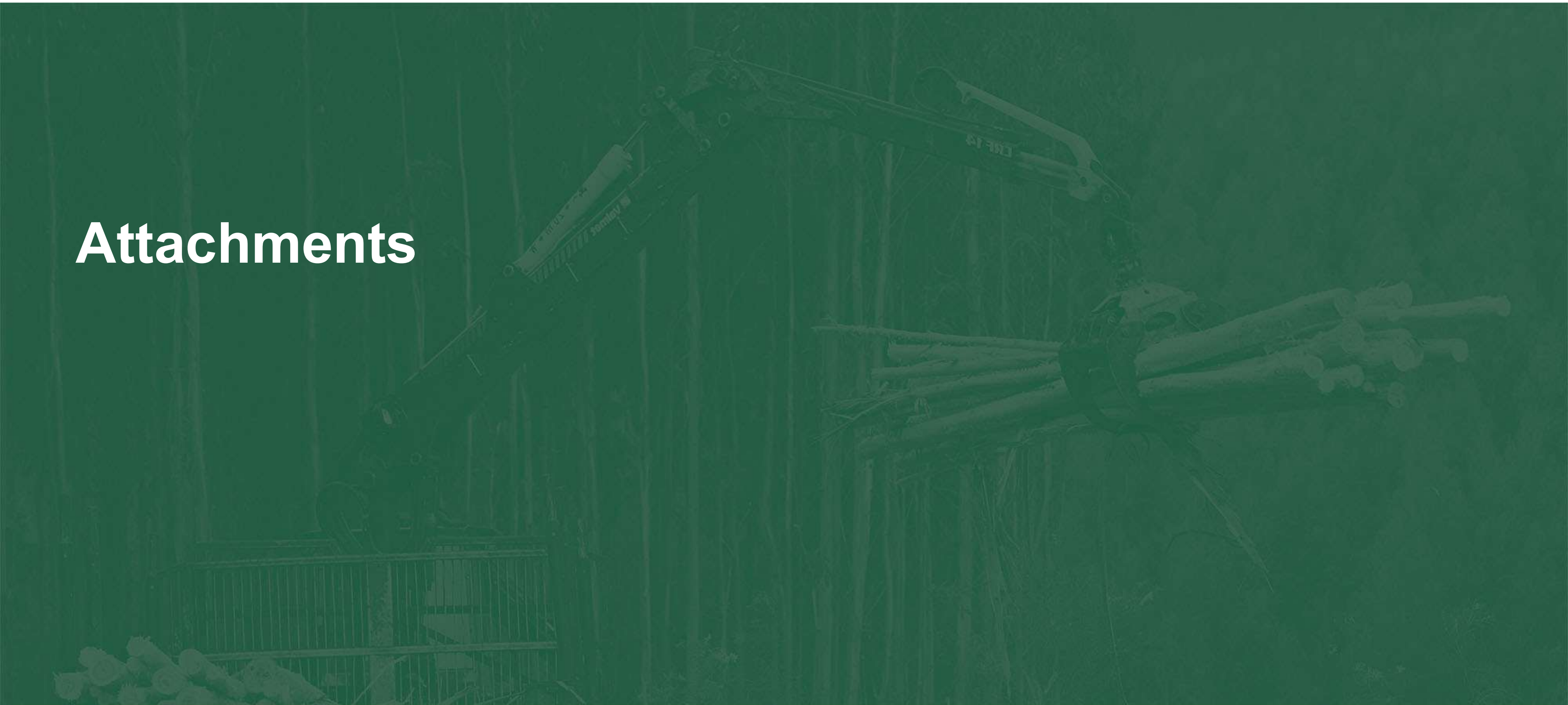
Attachments



Potential volume growth driven by 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[1]	367	450	600	700	800
Western Australia		390	550	750	900
TOTAL	**3,354**	**3,810**	**3,840**	**3,940**	**4,090**

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

New accounting standards – impacts FY20

Key impacts – AASB 16 Leases

- AASB 16 provides a new lease accounting model which requires a lessee to recognise a right of use asset representing its right to use the underlying asset and lease liabilities. The depreciation of the right of use asset and interest on the lease liability will be recognised in the consolidated income statement. Upon application the key balance sheet metrics such as gearing and finance ratios, and profit or loss metrics such as earnings before interest, tax, depreciation and amortisation (EBITDA) will be impacted. The consolidated cash flow statement will also be impacted as payments for the principal portion of the lease liability will be presented within financing activities, however cash outflows for the group does not change.
- Midway applied AASB 16 using the modified retrospective approach from 1 July 2019, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2019. Accordingly, the comparative information presented for previous period is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations.

Balance Sheet Impacts	1/07/2019
Assets	
Right of use assets	$5,053,936
Liabilities	
Lease Liability	$5,053,936
Equity	
Retained Earnings	-$166,428

Profit & Loss Impacts		31/12/2019
Increase in		
Depreciation	$	944,016
Interest expense	$	99,330
Reduction in		
Operating expenses	$	998,177
Reduction in		
NPAT	$	31,618

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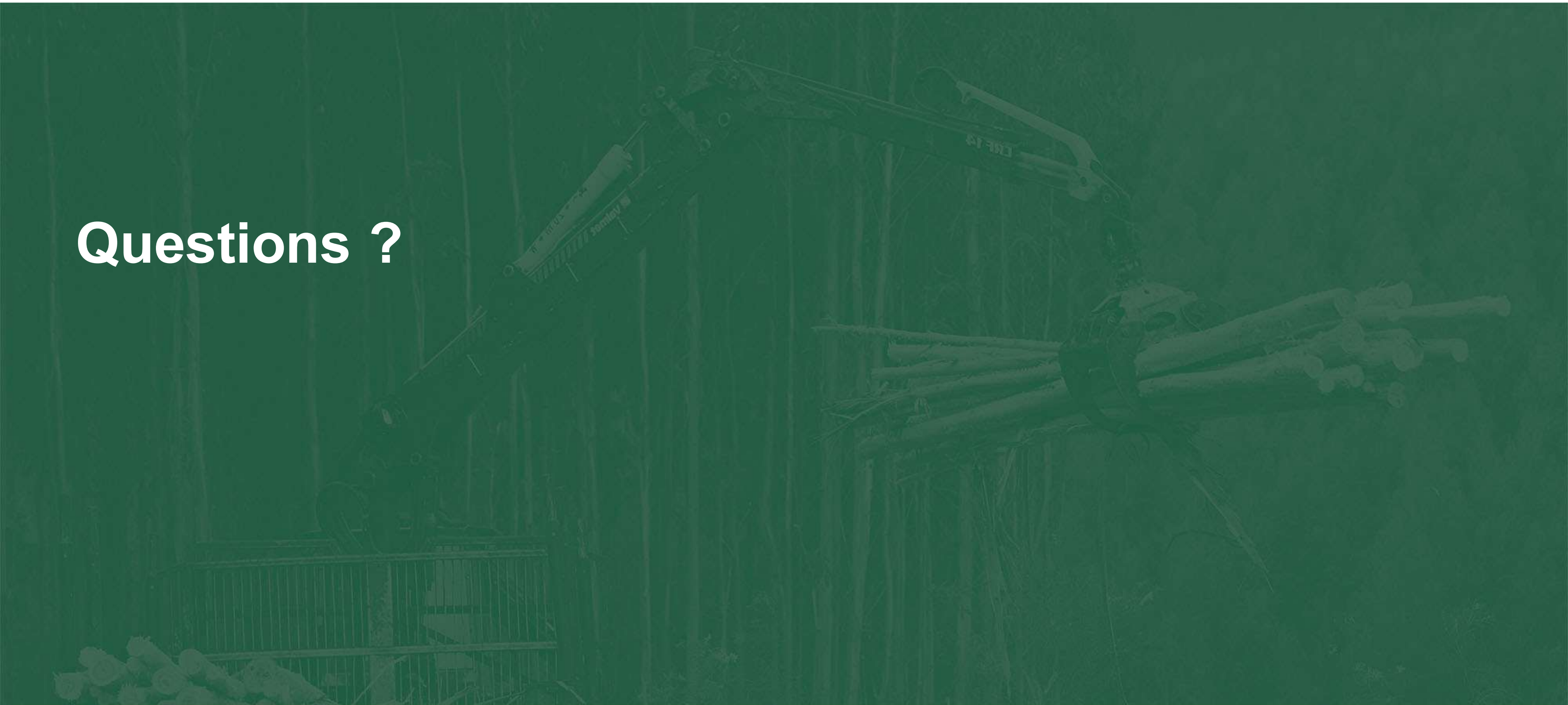

Questions ?