

MIDWAY LIMITED (ASX: MWY)

24 August 2023

Midway Limited FY23 Financial Results

One of Australia's leading woodfibre export and plantation & carbon management companies, Midway Limited (the Company), today announced its full year financial results for the period ended 30 June 2023 (FY23).

Key highlights

- A positive underlying EBITDA result of \$2.9 million in FY23, a \$4.7 million turnaround on an underlying EBITDA loss of \$1.8 million in the pcp;
- Underlying performance improvements across the business that have been masked by the short-term deterioration in trading conditions in the second half of the financial year;
- An inventory increase of \$14.2 million, caused by the market slowdown and funded by equity;
- Settlement of the first three tranches of the sale of the Victorian plantation estate with receipt of \$97.2 million and a \$12.5 million profit on sale (pre-tax);
- Reduction in net debt of \$38.0 million from \$41.9 million at 30 June 2022 to \$3.9 million at 30 June 2023;
- Net Tangible Assets (NTA) of \$1.43 cents per share;
- Significant progress on key elements of the Company strategy including:
 - Closing down or turning-around under-performing businesses;
 - Commissioning of the Tasmanian regrowth thinnings export project;
 - Advancement of the Tiwi carbon and plantation project; and
 - Leveraging core capabilities in carbon offset and abatement.
- The Midway Board will consider a return to dividend payments as soon as trading conditions and operating cash flow improve.

Financial and Operating Performance

The FY23 results demonstrate that Midway is improving underlying business performance and is making progress on implementing its strategic plan despite difficult trading conditions in the global pulp market in the second half of the year.

Midway recorded sales of \$187.5 million and \$2.9 million in underlying EBITDA, a \$1.8 million turnaround on a continuing business basis after removal of Midway Logistics as a discontinued business.

As noted during the 1H23 results in February 2023, Midway was positioning the Company for a significant turnaround in 2H23 on the basis of improved sales volumes and higher export prices.

In April 2023, Midway announced a 10 per cent increase in the headline Eucalyptus Globulus sales price to US\$198.75 per bone dry tonne with Japanese customers. However, a weak global pulp market at a time when new pulp and paper mill capacity was coming on stream has resulted in high pulp and paper stocks. As a result, Chinese customers subsequently responded by deferring the majority of their 2023 contracted woodfibre shipments.

When the deferral of exports to our Chinese customers was confirmed in May 2023, Midway implemented a range of remedial measures to mitigate the impact on Company earnings and cash flow including deferral of harvest plans and reduction of production at various mill sites.

Midway recorded solid contributions from Midway Geelong, Queensland Commodity Exports (QCE) and South West Fibre (SWF). A lower average foreign exchange rate offset the impacts of higher supply costs, a lower bone-dry component in export woodfibre and the impacts of the weak Chinese market on Midway Tasmania and Plantation Management Partners (PMP).

Midway has a clear plan to address the under-performance of PMP including increased biomass shipments in the short-term and a second rotation of tropical hardwood, which will be Australia's largest plantation carbon project with traditional owner involvement.

Midway continues to pursue an arrangement with counterparties to establish a grain storage and export terminal at North Shore in Geelong that will reduce operating costs and maximise capacity utilisation.

The plantation and carbon management business is starting to generate revenues and secure new contracts.

Significant Items

Several positive significant items were recorded in FY23 including a profit on the sale of the plantation estate of \$12.5 million, interest recognised on the proceeds of the plantation sale of \$2.0 million, and a small fair value adjustment of remaining biological assets.

These positive significant items were partially offset by a non-cash interest expense of \$4.1 million on the ongoing Strategy financial liability, which will phase-out when the MEAG plantation sale is completed.

The Company has also made a pre-tax \$7.8 million provision for the value of an aged receivable held by PMP on the Tiwi Islands. The deterioration of trading conditions in the global pulp market in the second half of the financial year contributed to this decision.

The impact of these items meant that Midway recorded a Statutory Net Loss After Significant Items from continuing operations of \$2.2 million in FY23. This followed a Statutory Net Loss after Tax and Significant Items from continuing operations of \$9.1 million in the pcp.

Cash Flow

Deferred Chinese sales and higher than expected working capital in the form of woodfibre stock resulted in an operating cash drawdown of \$12.3 million in FY23. This followed an operating cash drawdown of \$3.2 million in the pcp.

The Company used the proceeds from the sale of the Victorian plantation assets to repay all long-term corporate debt, substantially repay the Strategy financial liability and manage through the unexpected working capital build in 2H23.

Balance Sheet

With the sale of the Victorian plantation assets, Midway's balance sheet has been transformed. The plantation estate has been removed as an asset, bank debt has been largely repaid, the Strategy liability materially reduced, and the future settlement tranches appear as receivables.

The balance sheet remains very strong with Net Tangible Assets (NTA) of \$1.43 per share, very low levels of debt and a strong current asset position that has been required to sustain the Company during short-term cyclical downturns in commodity markets.

Midway has reduced net debt to just \$3.9 million at 30 June 2023, down from \$41.9 million at 30 June 2022. Midway had bank borrowings of \$6.6 million at 30 June 2023 with \$5.6 million of this debt in hire purchase arrangements and \$1.0 million for working capital.

Strategic initiatives

The short-term downturn in the Chinese woodfibre market has masked progress on a number of important strategy initiatives that will positively reposition Midway for future growth, including:

Lifting operating performance

Midway has finalised the establishment of port and processing facilities at Bell Bay in Tasmania. Our new processing site at Norfolk Street above the port was opened in October 2022 and the first softwood exports were made from the Bell Bay port facility shortly thereafter. The first shipment of Midway's Tasmanian regrowth thinnings product was exported in August 2023.

The Company remains confident that Midway Tasmania will play an important part in future export operations with facilities established, supply contracts well progressed and strong customer interest in the regrowth thinnings product.

In 2023, the Company exited the loss-making Midway Logistics business in Western Australia. The operations were closed and assets disposed or redeployed.

A softwood line was also opened at Geelong, which will mean product diversification for the site along with higher volumes.

Leveraging capabilities and maximising the value of assets

As well as improving operating performance, Midway focused on maximising the value of company assets through the sale of surplus land and the sale of the under-valued Victorian plantation estate.

Importantly, MEAG also agreed to invest at least \$200 million in a greenfield expansion of the plantation estate, which will bring Midway's plantation and carbon assets under management to over \$350 million when fully invested.

The Company is continuing to progress plans for a grain storage and export terminal on surplus land at its North Shore site in Geelong. The negotiations with various counterparties have been complex and a change in ownership of GeelongPort delayed discussions.

However, Midway remains committed to finding a satisfactory commercial solution that enables a grain trading company to own and operate the terminal and contribute to Midway's take-or-pay contract with GeelongPort.

Carbon Growth Strategy

Midway now has an agreement to become a Corporate Authorised Representative under a carbon endorsed AFSL, enabling the company to progress a range of ACCU generating projects. Agreement has been reached for the first Tasmanian carbon aggregation projects and planting is scheduled for August-September 2023.

Midway is in advanced negotiations with the Tiwi Plantation Corporation and the Tiwi Land Corporation and other parties to finalise details for the second rotation of tropical hardwood on the Tiwi Islands. This will be Australia's largest plantation carbon project with Traditional Owner involvement. We are working on an innovative structure that will enable Tiwi people to own the project with Midway. There has been strong interest from major carbon emitters and traders.

There are also a number of early-stage opportunities for the Company to leverage core capabilities in large scale carbon abatement projects.

Dividends

The Midway Board has not declared a dividend.

Outlook

Global pulp and paper market conditions remain challenging in the first half of FY24 and the Company is closely watching pulp and paper stocks for signs that woodfibre demand will return to normal levels in calendar year 2024. In the interim, Midway continues to progress its strategic initiatives to maximise returns to shareholders.

This statement has been approved by the Midway Board of Directors.

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About Midway Limited

Midway Limited is a leading Australian plantation management and wood fibre export company with headquarters in Geelong. Midway was founded in 1980 and is now primarily involved in plantation management and the production, processing and export of high-quality wood fibre to producers of pulp, paper and associated products in the Asian region. Midway owns 100% of Midway Tasmania, based at Bell Bay and Plantation Management Partners (PMP), based on Melville Island. Midway also has a majority shareholding in South West Fibre Pty Ltd (SWF) based in the Green Triangle and Queensland Commodity Exports Pty Ltd (QCE) based in Brisbane. Midway is also building a carbon management portfolio based on forestry plantations. For further information, visit www.midwaylimited.com.au.