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MIDWAY LIMITED (ASX: **MWY**)

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Investor Conference Transcript (29 August 2024)

Speakers:

Tony McKenna, Managing Director and CEO (**TM**)
Michael McKenzie, Chief Financial Officer (**MM**)
Georgie Morell, Investor Relations and Media Adviser (**GM**)

TM: Good afternoon and welcome to Midway Limited's 2024 Financial Year Results presentation. I'm Tony McKenna, CEO and Managing Director of Midway Limited, and with me today is Michael McKenzie, Chief Financial Officer.

This afternoon I'm going to take you through our presentation, including talking about our strategy and progress with its implementation. The steps that we've taken to lift the operation performance, how we're maximising the value of the assets, and progress on our carbon growth strategy. I'll then talk about market trading conditions, our capital management initiatives, and finish with the key takeouts.

Shortly after I started with Midway in January 2022, we commenced a full strategic review of the company and identified several priorities that needed to be addressed. I'm very pleased to be able to report that we are now seeing meaningful results from that strategy. We're seeing this both in the financial results and the strength of the company's balance sheet, as well as progress on strategic initiatives. It's very pleasing to be able to talk about more positive financial results following four tough years for the company. The underlying EBITDA has improved by $11.3 million to $14.2 million, and we've achieved a positive operating cashflow of $22.8 million. The Company is reporting today its first NPAT profit since FY 2019 and a very strong balance sheet.

The sale of the plantation estates was identified as a key initiative in our strategic review. Since then, we've completed the sale of the Wandong estate in 2022 and sold the larger Western Victorian estate with the final tranche due to settle in this September. These sales have enabled us to repay the onerous "Strategy" liability and to establish a standalone plantation carbon management business.

We've implemented a wide range of initiatives across the business units to improve the operating financial performance. We've seen good progress on these in Geelong, where we've increased the range of products that we are exporting to include softwood, and in Tasmania, where we've established the mill and export infrastructure, access to the timber resource, and customer demand for our new product. We've secured a long-term lease at the strategic location in the port of Brisbane for QCE, and we've exited the loss-making Logistics business.

Securing the grain project is a major milestone for the Company. It secures additional volume that generates revenue for use of the ship-loader, and it proves up the value of the North Shore portside land. The development lease has commenced and work is underway on the grain site. Considerable progress has been made in developing infrastructure on the underutilised part of the site. The land sale is due to settle in Q2 FY25. Pleasingly, the strength of the Company's balance sheet, the refinance, and improved earnings performance has enabled the board to declare a special dividend of 14.5 cents per share, fully franked, as well as an ordinary dividend of 1.6 cents per share, fully franked. The growth focus for the Company has been on developing capability, pipeline and revenue in the plantation carbon space. We're making really good progress in this area, and I'll take you through the details in our presentation.

Since the 2022 strategic review, we've maintained a consistent determination to deliver on the strategy around lifting the operating performance, maximising the value of the assets, and growing the carbon business.

I'll now hand over to Michael McKenzie, our Chief Financial Officer, to take you through the improved financial figures for FY24.

MM: Thank you, Tony. After a difficult first half, Midway improved sales volumes, leading to increased revenue in the second half. This was largely driven by the delivery of customer contracts that were delayed during a difficult market in half one. The improvement in volume and margin led to an improvement in EBITDA-S of $14.2 million against $2.9 million in the prior corresponding period. Pleasingly, the Geelong and Tasmanian operations were key drivers for the improvement in volumes and financial performance. South West Fibre experienced a difficult year with disappointing sales volumes.

I will now run through the key drivers of the result. The Company benefited from improved foreign exchange rates, better dry fibre, partly due to product mix and sourcing, increased sales volumes, and the higher average price compared with the prior corresponding period. Offsetting the benefits were higher supply costs, which increased in line with the higher sales prices. South West Fibre earned significantly less than the previous year, as did Plantation Management Partners on the Tiwi Islands. Our nascent plantation carbon management business remains earnings negative at this stage as the carbon project pipeline builds. I'll now hand back to Tony.

TM: With the strength of the balance sheet from the plantation estate sales, the improved earnings performance, and the return to more normal levels of net working capital position, the board is confident in declaring a 14.5 cent fully franked special dividend. This dividend will be paid after the receipt of the final tranche of the sale to MEAG. The board has also declared a 1.6 cent fully franked ordinary dividend. We've reduced the onerous "Strategy" liability from $43.2 million in 2020 to $8.2 million, and this will be repaid in full on the settlement of the final tranche of the estate sale in September. The positive cash flow was significantly driven by the reduction in higher-than-normal inventory levels that were carried into this financial year.

In our strategic review in 2022, we identified that Midway, as a small listed company with a relatively high cost of capital, was not the natural owner of low yielding plantation estate assets. The value of the plantation estate was not being reflected in the Company's market cap. The combined plantation estate sales have generated over $173 million in total proceeds, which has been used to repay all short and long-term debt and to repay the "Strategy" liability. We have achieved well above book value for all these sales. The structure of the MEAG sale has also enabled the Company to establish a strong standalone plantation carbon management business and to secure long-term wood supply for the Geelong mill.

As you can see from the photo, CHS Broadbent have commenced construction of grain silos on the Geelong site. The development lease has commenced, and the sale of the 5.15 hectares for $15.5 million is due to settle in the second quarter FY25. In addition to the benefit of the land sale at a value well in excess of historic book value, the sale to CHS Broadbent confirms the value of our entire North Shore site with its direct access to the port. It will also contribute revenue from the use of the ship-loader infrastructure as grain is exported.

With the North Shore site being reconfigured to move the wood chipping operations from the grain portion of the land, Midway has developed an extension of the concrete chip pad and constructed a new log yard, as you can see in the photo on this page. The site optimisation development works are 80% complete with a new weighbridge in place, a new operations office under construction, and paved truck routes being developed through the site. There will be some further Capex for a new reclaim and transfer conveyor that will increase the flexibility and operating efficiency of the reconfigured site.

Midway's turnkey capability in the plantation carbon management space positions it well as a partner of choice for enabling carbon abatement and emission offset projects. Midway's core capability of project origination, plantation establishment and management, and harvesting wood and monetizing the product, are now complemented with partnership enablement and carbon and ACCU management. We are working with a range of partners and customers, including institutional and private investors, agricultural enterprises, landowners, and traditional owners. Midway's business model in carbon is generally for partner-funded projects managed by Midway with multi-year expandable agreements, upfront development fees, ongoing management fees, and a share of the ACCUs where possible. The asset management model involves securing investment mandates with institutional or private fund managers. The developer/operator model involves establishing and managing large-scale projects for emitters and major landowners. The aggregator/operator model involves aggregating, planting and managing multiple projects on third-party land and providing ACCU forward sale prepayment funding solutions to landowners.

The carbon execution in practice includes securing a $350 million investment mandate from a major international institutional investor. Midway has been contracted to scope and develop a global resources company's decarbonisation pilot project. We are also working with large landholders, large emitters, and governments to establish carbon projects across Australia, as well as providing ACCU forward sale and prepayment arrangements for smaller landowners. We are running a process to raise equity for the Tiwi second rotation project and are confident that this process will lead to a good outcome for the Company and for the Tiwi people, enabling us to establish Australia's largest carbon plantation project.

The carbon market opportunity for Midway. With the legislated safeguard mechanism in place, requiring large emitters to reduce their annual CO_2 equivalent emissions by 4.9% per annum from this year, there will be growing demand for ACCU offsets. With the ending of the HIR methodology, the supply of new ACCUs will be limited. We expect this shortfall may start as early as 2026.

Plantation methodology ACCUs, which are Midway's specialty, are highly scalable, lower cost, and achieve a premium price. The plantation methodology also has predictable entitlements able to be calculated consistently from the FullCAM model. With supply growth being challenged, Midway is in a strong position to deliver sought-after nature-based solutions.

Carbon strategy progress tracking. In FY24 Midway has made substantial progress on executing its carbon strategy. We have registered and managed 3,150 hectares of carbon plantation projects with the Clean Energy Regulator. For partner capital, we've deployed well over $200 million, with $350 million committed mandates in place. The total committed ACCUs over the life of the projects that Midway has managed and registered is 640,000.

Turning to the wood fibre market and outlook, China's demand for wood fibre is up substantially on the previous year and similar to demand in 2022. The Japanese market remains important but continues its gradual decline. You can see that Vietnam has commanded greater market share with its cheaper wood chips. However, Australia's position in the market is underpinned by the pulp makers' requirement for the higher-quality high-density wood fibre that we supply. After protracted negotiations, the calendar year 2024 Eucalyptus globulus Japanese headline price was agreed at $188.75. This is a 5% decrease on the previous year's price. Pulp prices rose through the first half of the calendar 2024 but have recently fallen back to levels similar to that at the start of the year.

We remain cautiously optimistic that our size and range of products are well positioned to supply the needs of our customers at the Japanese, Chinese, and Indonesian pulp mills. Volatility will remain a fact of life for the wood chip market, and it's our role to be constantly improving the business to manage that volatility. For example, continuing production and building inventory through the downturn in the first half of FY24 provided support for our vital contractor base and had the Company really well positioned to deliver sales as the market recovered in the second half.

Capital management. The board has declared a fully franked special dividend of 14.5 cents per share. The board has also declared an ordinary dividend of 1.6 cents per share, fully franked. These dividends will both be paid on the 4th of October after receipt of the final tranche of the proceeds from the plantation estate sale.

The proceeds from the estate sales have enabled the Company to retire all short and long-term debt, to repay the strategy liability, to acquire trees, and to pay the FY23 special dividend and the dividends announced today. The 14.5 cents per share special dividend combined with the five cents per share special dividend paid in FY23 delivers on the 19.5 cents per share dividend intention previously announced by the Company.

The Company is consciously preserving a strong balance sheet as it reviews growth opportunities and capital management options going forward. Sustainability, people, and safety are at the heart of everything that we do at Midway. We are committed to contributing to a sustainable environment, supporting sustainable businesses, and ensuring the safety and productivity of those who work with us throughout the supply chain. Our products are sourced from well-managed forests with high conservation values and through controlled supply chains.

This year we've built on our team of specialists in the forest management, carbon sequestration, health and safety, and environmental management areas. We've also added a Group Sustainability Manager to our executive team. We were very pleased to achieve a 50% reduction in reportable injuries in the past 12 months, and we believe that some of the safety initiatives that we've taken have contributed to that outcome. Initiatives include the introduction of voice recognition hazard reporting technology, which has increased employee engagement in delivering safety outcomes. Midway maintains forest management and chain of custody certification, providing credible externally verified assurance that we are delivering on our sustainability objectives.

The key take-outs today are really about the progress that we are making and delivering on our corporate strategy. In lifting the operating performance, we're pleased to report improved underlying EBITDA of $14.2 million. Strong second half volumes, particularly out of Geelong and Tasmania, have contributed to this improved result.

Geelong has successfully introduced the export of softwood, and the Tasmanian operation has bedded down the newly developed infrastructure, secured supply agreements, and is building the contractor capacity to develop into a standalone profitable business. We've also secured a long-term lease at the strategic location in the port of Brisbane for QCE. On maximising the value of the assets, we've made particularly good progress with the grain project. We've signed contracts with CHS Broadbent and the development lease has commenced, with work underway on the Grain infrastructure. The sale of that portion of the Geelong site is due for settlement in the first half of FY25.

The reconfiguration of the Geelong wood chip operations has progressed very well, with a new log yard, a new concrete chip pad completed, road infrastructure well advanced, and the new weighbridge in place. Further work to complete the development of the previously undeveloped part of the site will include installing a new reclaim and transfer conveyor to improve efficiency and enable a wider range of products. The sale of the plantation estates will complete its final tranche in September 2024. We're also making really encouraging progress on the carbon growth strategy. As manager, we've successfully registered 3,150 hectares of plantation carbon projects with the Clean Energy Regulator. We are managing over 10,000 hectares of plantations for institutional investors.

The Tiwi second rotation project equity raising is progressing well and we are confident of achieving a good result for the Company and for our Tiwi partners. We've been contracted to scope and develop a global resources company's decarbonisation plantation pilot project. Midway is now in the market with a product offering landowners a forward sale of ACCUs and pre-payment to fund the establishment of carbon plantation projects.

Getting all this right has enabled the Company to declare the 14.5 cent special and the 1.6 cents ordinary dividend.

In closing, we are delivering on our plan. We are well-placed to continue this positive momentum, constantly improving the wood fibre business and growing the carbon opportunity, and we are confident that this will create value for all our stakeholders.

Thank you for your time and your interest in the Company. We are now happy to take questions through the Q&A box.

GM: Tony, I've got a question from Charlie Kingston. "Can you please clarify the net cash position post the receipt of the grain terminal proceeds? Is this in the receivables line currently?"

MM: Thanks for your question, Charlie.

TM: So really there's a whole lot of things that will happen over the course of the year with sales, timing and build-up of inventory, and all those sort of things. Michael, the accounting treatment of it…

MM: Yes, I mean, on a proforma basis, Charlie, so at the moment in receivables, the only thing in receivables is the last tranche of the MEAG sale plus one vessel. The grain sale is an asset held for sale on the balance sheet for $12 million. So if you take the cash position, as Tony mentioned, I'm not going to project all the things that could happen within the Company, but if you take the cash position at 30 June, which is $24 million, less the debt, which is the four or five million to get to your net cash position of 20, you add in the MEAG tranche of a net 20, so you're at 40 plus 15 and a half for the grain. Less Capex of six and tax of three, you're probably sitting around sort of 40 to

45 million on that basis before anything else happens. Less then, of course, the dividends that have just been declared.

GM: Thank you, Michael. I'll just ask our guests. Do we have any other questions? Yes. No, that's just a compliment, "Well done."

TM: There's a raised hand, Richard Wilkins.

GM: Yes, Richard, do you want to type your question? "What is the likelihood of increasing NPAT in the future years?"

TM: So we'll be doing everything we can to continue to grow the carbon business, which we'll start to contribute earnings most likely from this coming financial year. The wood fibre business, we are taking steps to improve that, and we will obviously be aiming to increase that. Part of that will be driven by the market, part of that will be driven by initiatives that we can put in place. So not making any forward-looking statements on what the earnings will be, but we expect, as we've said consistently, it'll be $10 to $15 million underlying EBITDA through the cycle. There'll be some years when it's better, some years when it's worse. And we see growth over the next five years in the earnings from the carbon business.

GM: Thank you, Tony. Another question from Richard. "Also, an update on likely earnings from the carbon business, please."

TM: Yeah, that's a fair question. So you would've seen that this year was slightly negative earnings in the carbon business. As we build the team ahead of the projects and the revenue, we'll have revenue coming in, starting to get more meaningful through this financial year. But for it to become really meaningful in terms of dollars, the long tail nature of the contracts and the ACCU generation where we've got shares of ACCUs does take some years to build up. And so it's a slow build. As we build contracts, the earnings will be secured and coming forward over the... You'll start to see those two, three, four years out.

GM: Any other questions from our guests today? Tony, I'll hand it back to you.

TM: I'll just finish by thanking you all very much for your support and patience with the Company. We really do feel that we're starting to make progress and achieving on what we set out to do. We've been well-supported by the board in identifying the strategy that we need to be chasing and helping in the execution of that. So it's much nicer to be here talking about positive earnings and some real positive initiatives being bedded down.

It looks like there's another question just popped up there, Georgie, is there?

GM: Yes, it has. It's from Paul [indistinct]. "What types of partnerships for carbon?"

TM: Yes, so partnerships with small landowners, partnerships with the major emitter where we signed up to work on a scoping project for a potentially very large, but initially a pilot project with a global resources company with a major financier to provide the forward sale and prepayment options to the smaller landowners. So we're working with emitters, we're working with financiers, we're working with landowners, and the traditional owners on the Tiwi where, as I said, we are running a process and confident that we will be able to raise the equity to take that project through to fruition, which will be Australia's largest plantation carbon project, and it'll be a real flagship for the Company.

GM: Actually, there's another question that's just popped up. "Any concerns over the increase in shipping costs?"

TM: Not particularly. It's something that we watch very closely. It's relevant for our customers, and we do charter vessels. We have some vessels locked in at reasonable rates now. We have noticed that the shipping costs are increasing. With the wood chip market, there's a bit of a natural hedge there in that as the wood chip vessels get more expensive to charter, other than for fuel purposes, it means that the markets stronger so we get the offsetting benefit in our business. So for some of our CIF sales, the wood chip vessel market is very relevant, but there is a bit of a natural hedge in there, and most of our sales are FOB.

GM: There are no further questions, Tony.

TM: Okay. Do you want to just give it a little bit… But again, thank you all for your attention and interest in the Company, and very pleased to be starting to deliver on the strategy that we've been working so hard on. And the team, the executive team here, and the whole Midway organisation and our contractors have been going very hard through a couple of pretty tough years, but there's a fair bit to show now.

There are no more questions. Thank you very much.

The conference can be viewed at:

https://www.youtube.com/watch?v=o5n8MWlRdKI

This announcement has been approved by Midway's Company Secretary.

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About Midway Limited

Founded in 1980, Midway Limited is one of Australia's largest woodfibre processors and exporters with a strong and growing plantation and carbon management business. Midway's fibre is used in recyclable paper and packaging, plastic replacement products and coal replacing energy generation in the Asian region. The Company is building a plantation carbon management business to generate carbon abatement and emissions offsets solutions utilising its expertise in the process. Midway has woodchip processing and exporting operations at five major port locations in key forestry areas around Australia including: Bell Bay, Tasmania; Portland and Geelong in Victoria; Brisbane, Queensland; and Melville Island in the Northern Territory's Tiwi Islands. For further information, visit www.midwaylimited.com.au.