

MIDWAY LIMITED

(ASX: MWY)

ASX Release

29 October 2019

2019 Annual General Meeting – Chairman’s Address

2019 Performance & Outlook

I would like to begin today’s address to shareholders by saying that the Board and management team at Midway remain very optimistic about the future of the Company despite market softness and volatility leading to the recent drop in our share price.

Unfortunately, excess pulp production by Brazilian producers and tariffs imposed on Chinese paper exports to the USA have had a significant impact on demand for wood fibre by our Chinese customers in the first half of the 2020 financial year.

These two external market factors have required Midway to revise downwards its earnings outlook for the 2020 financial year.

The revised 2020 outlook is particularly disappointing for all of us as it followed three consecutive years of solid profit growth and good returns to shareholders.

It is worth noting that in the 2019 financial year, Midway generated sales revenue of \$283.6 million, up 22.3 per cent on the previous year and Net Profit After Tax and significant items of \$26.2 million, up 42.4 per cent on the previous year.

On the basis of these strong results, the Board was pleased to maintain a fully franked final dividend of 9 cents per share. This meant that shareholders received a total fully franked dividend for the 2019 financial year of 18 cents per share.

The Board is confident that the drop in global pulp prices will be relatively short lived. Pulp producers have already taken steps to scale back production and reduce excess stocks. As a result, pulp prices have stabilised.

International market analysts expect global pulp prices to rebound during the 2020 calendar year and we expect that this will flow through to a healthier wood fibre outlook in due course.

Growth strategy

Shareholders can be assured that the Board and management team are not taking anything for granted and we are working hard to manage things that are under our control.

Midway has put in place remedial measures to minimise the impact of the China-US trade war and pulp market downturn on Midway including: cost savings, efficiency initiatives, more active marketing programs and new revenue generating measures.

In the last 12 months, Midway also adopted a new business model that better reflects its strategic growth plans for the business, with an emphasis on three key areas: wood fibre processing, plantation management and forestry logistics.

A \$36.8 million capital raising from shareholders in September 2018 allowed Midway to acquire Softwood Logging Services (**SLS**) and a 40% share of Biogrowth Partners (**BGP**) in Western Australia and restructure the Tiwi Island operations of Plantation Management Partners (**PMP**).

As part of the new business structure, SLS was renamed Midway Logistics and along with BGP was incorporated into a new Forestry Logistics division of Midway Limited.

The plantation management component of PMP was absorbed within a new plantation management division of Midway Limited which includes the Midway owned plantations in southwest Victoria that provide hardwood fibre for Midway Geelong and South West Fibre (**SWF**) in Portland.

Our wood fibre processing businesses in Geelong, Portland and QCE, along with a newly established wood fibre businesses in the Tiwi Islands (PMP) and Tasmania, were consolidated into one wood fibre processing division of the business.

I am pleased to report that each of these acquisitions and new investments have now been successfully integrated into the Midway business and we are confident they will generate incremental earnings that will further improve shareholder returns over time.

The 2018 capital raising, supplemented by modest additional bank debt will be used to build on our strategic investments to meet future demand in Asia for high quality wood fibre.

The long-term outlook of rising GDP growth in Asia will drive demand for wood fibre, and the constrained supply of timber for wood fibre for both pulp and biomass production in the Asia Pacific region, will continue to drive attractive export returns.

The Board therefore remains comfortable that the Midway growth strategy represents a very prudent approach to growing shareholder returns over time.

Board Matters

The Board has overseen a successful listing of the Company in 2016 which has enabled a more open market for shareholders to deal in shares and has facilitated the raising of capital for new growth opportunities.

The Board continually reviews its performance and skill sets to meet the needs of the Company and its growth.

Board renewal is an ongoing and orderly way is an essential task of the Board.

During the course of the year we appointed Leanne Heywood as a non-executive Director of the Board. She brings significant experience and expertise to the Board and it is intended that she will become Chair of the Audit and Risk Committee of the Board following her re-appointment today.

Tom Keene is standing for re-election today, he is currently the Chair of the Audit and Risk Committee, and he intends to step back as chair of the Committee to enable an orderly hand over to Leanne.

We will also continue to review our compliance with ASX guidelines and are cognisant that further changes may be made to ensure an appropriate mix of skills, and independent and non-independent Directors. These changes will be announced as appropriate.

Capital raising and shareholder support

As part of the 2018 capital raising and further demand from institutional investors in April 2019, two of the foundation investors in Midway, McCormack Timbers Pty Ltd and Chebmont Pty Ltd, on behalf of the Gunnensen Investment Trust, reduced their shareholding in the Company.

McCormack Timbers and Chebmont were prepared to reduce their shareholding to facilitate a broader shareholder base and increased trading liquidity in the Company that will benefit all shareholders over time.

Both McCormack Timbers and Chebmont continue to be loyal long-term shareholders in Midway, and fully support the growth strategy of the Company.

Workplace Safety

All shareholders can be assured that the Board takes its workplace safety compliance requirements very seriously.

During the last 12 months, the total number of Midway management and staff increased from 149 to 241.

The increase in employment occurred following the acquisitions of SLS and BGP, and the expansion of the wood fibre processing and plantation management businesses in Tasmania and the Tiwi Islands.

The higher employee numbers resulted in a higher Lost Time Injury Frequency Rate of 8.7, slightly up on the previous year.

Midway remains committed to continuous improvement in the safety of our staff and contractors and undertook a range of safety initiatives during the year to address all safety issues across the entire business.

Environment and Community

The Midway Board also places a priority on compliance with its environmental legislation and community obligations for a clean environment.

We were pleased that there were no environmental incidents that had to be notified to the regulatory authorities in the last financial year.

Closing Comments

Given the complexity of the challenges Midway faced during the year, I would like to thank my Board colleagues, the management team and our staff for all of their hard work.

The next 12 months will be no less demanding.

I would also like to thank our suppliers, business partners, and most importantly of all, our domestic and overseas customers for their continued support for Midway.

Our staff led by Tony Price as CEO, are dedicated, highly competent and hard working, I wish to record our appreciation for their continuing effort and performance.

Finally, I would like to thank you, our shareholders for your continued support for Midway.

Despite the short-term market issues, we appreciate your support for our growth strategy and our long-term vision for Midway as Australia's leading wood fibre producer generating sustainable long-term returns.

Ends

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About Midway Limited

Midway Limited is a leading Australian forestry company with headquarters in Geelong, with 100% shareholdings in Plantation Management Partners (PMP) based on Melville Island and Softwood Logging Services (SLS) based in Bunbury, Western Australia, and majority shareholdings in South West Fibre Pty Ltd (SWF) based in the Green Triangle and Queensland Commodity Exports Pty Ltd (QCE) based in Brisbane. Founded in 1980, Midway is primarily involved in the production, processing and export of high quality woodfibre to producers of pulp, paper and associated products in the Asian region. For further information, visit www.midwaylimited.com.au.