



Transforming Tasmania's Forestry Sector - Creating Jobs and Building Human Capital

Remarks by David Brand, CEO of New Forests

Transforming the Forestry Industry – Arbre Forestry Hub
2 December 2016 – Launceston, Tasmania

Thank you for the opportunity to speak to you here today. It is certainly a pleasure to spend time with the people who have and will continue to build the forestry sector of Tasmania.

Many of you here today are contractors who work in our supply chain, and I want to recognise up front the work that you are doing to help us grow our business in Tasmania and become internationally competitive.

It is really impressive to see the recovery of the Tasmanian forestry sector over the past two or three years. If I just look at New Forests' investments in Tasmania—Forico this year will deliver almost 1.5 million tonnes of woodchip sales, Taswood will produce and sell more than 600,000 tonnes of softwood logs, and the Bell Bay Sawmill will produce close to 200,000 cubic metres of softwood lumber. We will plant about 6 million trees at Forico, and another 1 million at Taswood. That is helping grow jobs and support forestry communities.

Over the next two or three years we will have caught up all the backlog of reforestation, thinning, capex works and necessary sawmill investments that we inherited. And we now have FSC certification across all of our assets here in Tasmania. That should position us to have stronger cash flows, a stronger market position, and lower underlying operating costs when the next downturn hits.

We have less than 10% debt across our assets, our investors have a long term investment horizon, and we can continue to invest to build the forestry sector for the future.

This is all a great position to be in, and I want to talk today about how we can continue to build the forestry sector together.

Let me start with a quick introduction to our company, and then talk about how the forestry sector now operates with institutional investment, and then talk specifically about our challenges going forward, particularly related to our human capital in the industry.

I started New Forests in July 2005. Despite my Canadian accent, we are an Australian business, based in Sydney. We are an investment management business, and we work with institutional investors—pension funds, superannuation funds, re-insurance companies, medical benefit funds and university endowments. We raise funds from our clients and invest the capital on their behalf in timber plantations, processing and infrastructure. The management of the assets is undertaken by firms like Forico, Timberlink, or Timberlands Pacific. We have grown now to be the largest investor in Australia's forestry sector, and have also expanded into New Zealand, Indonesia, Malaysia, and the United States. In Australia we manage more than \$2.5 billion in investments including land, timber plantations, conservation areas, sawmills, woodchip mills, and other infrastructure. Overall we have about \$3.7 billion in total assets under management including

about \$800 million of capital commitments still available to be invested. So we will continue to grow our investment portfolio and there remains strong demand from our clients to continue to expand their investments in Australia's plantation forestry sector.

Institutional investors are increasing their exposure to forestry because it has attractive returns relative to the risks, has low correlation with other assets like the stock market or government bonds, and is central to our efforts to reduce greenhouse gas emissions. In fact, after 40 years in forestry, I would say we are in the most exciting times I have seen, with the emergence of what is being called a 'bio-economy', where new markets for bio-energy, bio-fuels, bio-materials, and multi-story wood construction will revolutionise the demand for timber. I personally think our biggest challenge will be keeping up with the demand in coming years.

Let me turn now to a few comments about what it means to be operating as a sector of the economy dominated by institutional investment. This is quite a big change from the days when forestry was dominated by governments, and then by MIS companies.

New Forests' business is based on generating total returns to our clients—that includes increases in the value of our investments as well as cash yield. We revalue our assets each year, and the change in asset value is booked as part of the return. So we might have a 10% return one year, with 5% being cash yield from timber sales and 5% being an increase in the value of the plantations. For example, if we can invest \$10 million in the Surrey Hills woodchip mill and reduce our woodchip cost base by \$3 per tonne, it will both increase our net revenues, and the value of the plantations. The same is true for upgrading the Long Reach woodchip facility and the Bell Bay sawmill.

Our job is to buy the right assets, invest to make them as efficient as possible, and hire good local property managers to operate the forests. We have been playing catch up in Tasmania, as there were thousands of hectares of backlog reforestation and thinning in both the Taswood and Forico estates, but despite droughts and floods we are getting on top of that, and we now need to look to the next stage of building our industry.

One of the challenging aspects of rebuilding the forestry sector is balancing investment to increase the quality and value of the plantations, with the ultimate need to generate a positive cash flow. On the one hand running a business to maximise short-term profits will look good in the short term, but lead to the business ultimately declining. On the other hand if you re-invest everything you earn, investors will start to query whether there will ever be any payback. So far that hasn't been a problem for us, as it was clear when we invested that substantial work was going to be needed to get the assets into a state that would support sustainable profitability in future. And after five or six years of investment we are now seeing cash yield rise from our investments across Australia.

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We are starting to enter a phase where the plantations and processing assets are all in good shape, and the next stage involves research, development, technology deployment, human capital development, and what I might call increasing the collective confidence in our industry.

There are many businesses that have to work together for our industry to be successful. There are the capital providers like New Forests and other investors, the forestry managers and processing businesses, and then there are the operating businesses that deliver the activities on the ground. Our collective job is to deliver wood to the market as efficiently and competitively as possible. That means we are all in this together, need to trust each other, and need to manage our respective businesses well. Tasmania doesn't operate in isolation—we compete with

woodchips produced in Asia, with logs sold from New Zealand, and with lumber imported from Scandinavia. None of those guys are resting on their laurels, and neither should we.

Australia has some real competitive advantages. We have a lower cost of capital than Asia or Latin America, we are very attractive to institutional investors because of our stable economy, democracy and legal system, and we have over 100 years of experience in growing timber plantations. But our competitors also have advantages—Brazil can grow eucalyptus at far higher growth rates than we can, it costs less to send a boatload of timber from Sweden to Perth than it does from Bell Bay to Perth, and New Zealand has a \$20 per tonne carbon price that makes greenfield reforestation far more attractive than in Australia.

I think it is also fair to say we are rebuilding our industry, and a lot of damage was done by the global financial crisis, the MIS failure and the high Aussie dollar. I know that many of you who are logging contractors, haulage contractors, and forestry contractors have been through the downturn, and now have been rebuilding your businesses and starting new businesses in the industry. That means that there will be many new people entering the industry who will need training, skills development, and career pathways.

The nature of forestry jobs is also changing, and we have less manual labour and more highly skilled machine operator jobs. Remote sensing technologies like Lidar are changing how we do forest inventory, drones can do 100% regeneration surveys in cutover blocks, lumber grading is now largely done by sensors, and I would guess that within a decade there will be autonomous machines working in the forest. This means that the nature of forestry sector jobs will change and everyone is going to need to be ready to evolve and adapt.

Employee education and training are central to being successful in business. People need to be equipped to do their existing jobs, and that usually starts with defining what knowledge and skills are needed to do a job well. When that is well described then we can assess what each person needs, and ensure that the appropriate training is made available. Beyond that is the larger question of continuous learning, which is becoming more and more important. The days of having one job for life are over. Everyone is going to have to continuously upgrade their knowledge and skills. Within businesses and within the industry we are going to have a much greater diversity of skills and capabilities. I look at New Forests, and we are a forestry investment business but with almost 50:50 gender balance, our 50 or so staff come from a dozen different countries, and we have a myriad of educational and work backgrounds. My hunch is that will reflect what forestry will look like in the next decade, as we have more people with logistics training; specialised machine operators, including drone operators; information analysts; IT maintenance specialists; as well as foresters, engineers, and accountants using completely new tools and systems.

Ultimately we are all in the business of growing trees and moving wood to market as efficiently as possible. We all rely on each other. If there is confidence in the industry that we collectively have a bright future, then businesses will invest in new technology, in employee education and training, in infrastructure and processing facilities, and in our local communities. We will also attract highly motivated and talented people to the industry.

New Forests' job as an equity capital provider to the industry is to help support that confidence. All businesses should feel confident that they will be paid on time, that if they have a contract it will be honoured and it will provide confidence to the banks that they can extend credit, and that they will share fairly in the benefits of increased productivity, efficiency, and competitiveness. If we do that, then people will be happy to pursue a career in the forestry sector, put down roots, buy houses in their local community and be proud of what they are part of. In business terms that is called shared value—the recognition that the success of our business relies on also creating substantial benefits to local communities.

I don't see any reason why Tasmania can't be a competitive player in the growing international plantation forestry business. We have demonstrated that we can grow both hardwood and

softwood plantations, and I believe we can steadily increase our productivity. We have the infrastructure in place, and increasing opportunities for market development and diversification.

You have probably heard that New Forests is in the final engineering design stage to construct the world's largest black pellet plant. If given final approval, this new plant would make use of current waste streams and help diversify the sector away from over-reliance on the woodchip export markets. It will also demonstrate that Tasmania has a role to play in supporting the international transition to a clean energy economy. The idea behind black pellets is to concentrate the energy in the biomass such that we can produce a direct substitute for coal in power stations. That is very attractive to Japanese energy producers who have access to government subsidies to shift to renewable energy. These companies have told us that they need three things—a competitive price, a stable long-term counterparty and demonstrated sustainable management of the source of the fibre. I expect that other opportunities will arise, and we are certainly always on the lookout for new investment opportunities.

When we step back and look at the Tasmanian plantation forestry sector today, it is very different from a few years ago—we have some of the world's largest and most sophisticated investors behind the industry, we have become recognised as a competitive, sustainable supplier into international markets, and we are importing the best technologies and ideas to support our capacity to be adaptable to changing markets. That transition has only been possible because of the people in the industry.

Thanks again for the invitation to be here today, and I look forward to continuing to build Tasmania's forestry sector with all of you.

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