

## TIMBER

### UNUSUAL, SHORT TERM INVESTMENT "OPTION"



**John Brickwood:**

"The structure of the model allows for both buy and sell pricing to be determined at the outset."

#### Would you say investing in Australian Timber differs to that embraced and practiced in other parts of the world - ie managed accounts; medium to long term lay-outs? Why? Peculiarities exhibited by Australian Timber investments

The Australian Timber Investment is fundamentally different to the majority of timber investments worldwide as it focuses on matured, milled timber as opposed to plantation growing of timber. It is a buy/sell arrangement structured to provide investment options and security. Where hardwood timber investments are typically a medium to long-term investment, the Australian Timber Investment offers short-term investment options (as short as 12months), which can then be rolled over. The basis of the investment structure is that as an asset class, it is one whose primary source of return is derived from the increased value of the timber as it dries. The reason timber increases in value is that from the green-sawn planks that eventually become hardwood flooring, the value is determined by the moisture content. During the drying period the timber gets harder and stronger and increases in value by approximately 40%. Through the many businesses that I have consulted, or been involved with, I have found very few, where the value of the stock increases while "sitting on the shelf". Australian hardwood is an exception.

#### Do you face capacity constraints in the context of the amount that can be invested and managed?

The existing model has been in place for the last four years and has a current capacity of AUD10mn. The model is expandable and can be replicated nation-wide as required. Over the next 3-5 years we envisage a holding of AUD100-200mn.

#### What are the different investment vehicles you offer? How and why did the firm choose to employ this route? Would you say it offers superior performance on an annualised; risk/return basis, when compared with managed, long dated stapled down investments in Timberlands? What are the other advantages/benefits that "option related" timber investing offers?

We structured this buy/sell model based on the large amounts of stock required to be held during the drying process of S timber. It provided a perfect medium for investment as the investor holds title of the stock for this period, during which time the timber increases in value.

We offer three different investment options, structured to accommodate different investment requirements.

The first is an option for a 12 month period with the profit paid to the investor at this time and the initial investment re-invested for a further 12month period before the buy-back clause is triggered.

The second option allows for both the initial investment and the profit to be rolled over into a second 12 month period. Under both these scenarios, a 9% return is paid with a 2% bonus which may be paid to the investor for early buy back under favourable drying conditions.

The third option provides for a fixed 12 month period only.

On a risk/return basis, the model offers superior performance when compared to traditional timber investments as, at all times, the asset is secured by title over it and the rate of return is set at the outset. The timber is, at any point, saleable to the market, regardless of the point in the drying process. The value of the timber is not determined by management forces and of course compared with plantation timbers is very liquid - as little as three months notice for an early exit still attracts a 4% pa return on investment.

It holds up well against many traditional asset classes, including stocks, bonds and real estate and because of its unique nature, performs differently from securities or other investments.

#### Valuation is critical to the strategy you pursue - how is this undertaken to ensure

#### transparency for an investor?

The beauty of this model is exactly that - its transparency. From the time the timber is milled, to the time it is dried, it is very simple to determine its value - a call to the local mill or timber merchant will provide the market value. Prices are determined by the wholesale/distributor rate to allow for at least a 30% margin for volatility in the market. The relatively short-term options of the model allow for pricing restructures at a maximum of every 24months. As Australian hardwood is becoming progressively more renowned in both the domestic and international markets, the market value is consistently on the incline. The timber is bought and sold in lineal metres, with shrinkage and recovery determined in the buy (not the sell) price.

#### How do you manage and mitigate the risk posed by the roll over effect, (contango type situations) to optimise performance?

The structure of the model allows for both buy and sell pricing to be determined at the outset. All holding associated costs are incorporated in the purchase price and the buyback price represents only a portion of the increased percentage value throughout both the initial and the rollover period. Subsequent investments invoke a new purchase agreement with the lineal meter price, (and corresponding lineal metres per investment) set accordingly.

#### What other embedded risk does this sort of investing entail?

Risks involved with this investment are primarily physical rather than operational. Insurances are incorporated in the purchase price with optional extra cover. External auditing is undertaken to ensure the quota per purchaser. It is also important to be in a market that is not saturated. Over the next 10 years Australia will only be able to supply 70% of its timber needs, the balance will be imported from other countries. It is true that the buying and selling of timber at a guaranteed return per annum, where the purchaser holds title of the commodity, with flexible options of investment is a little different from the purchase of shares or financial products.

#### Contact Information:

Hinterland Timber Processing  
 Managing Director John Brickwood

#### Telephone

: +612 9820 6222

#### Email

: [jb@hinterlandtimber.com.au](mailto:jb@hinterlandtimber.com.au)

#### Website

: <http://www.hinterlandtimber.com.au>