

**KEWEENAW**

— LAND ASSOCIATION, LIMITED —



# Investor Presentation

October 14, 2016

# Forward-Looking Statements

Certain statements in this presentation may constitute "forward looking information" or "forward looking statements" which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company or industry results to be materially different from any future results, performance or achievements implied by such forward looking information. When used in this presentation, such information uses such words as "estimates", "expects", "plans", "anticipates", and other similar terminology. Forward looking information involves significant uncertainties, should not be read as a guarantee of future performance or results, and will not necessarily be an accurate indication of whether or not such results will be achieved. A number of factors such as land use, environmental and other governmental regulations, risk of loss from fires, floods and windstorms and other natural disasters could cause actual results to differ materially from those described in the forward-looking statements. Although the forward looking information in this presentation is based upon what management of the Company believes are reasonable assumptions, the Company cannot assure investors that actual results will be consistent with this forward looking information. This forward looking information is provided as of the date of this presentation and, subject to applicable securities laws, the Company assumes no obligation to update or revise such information to reflect new events or circumstances.



# Keweenaw At A Glance

***Proven track record of effective timberlands management and opportunistic acquisitions has led to robust growth of Net Asset Value***

*- CAGR of 4.8% on assessed value of gross timberland assets per acre since 1998 and a 24.7% increase since 2012 -*

- Major supplier of logs and pulpwood in the Lake States region
  - 168,000 acres predominantly northern hardwood timberlands
  - 402,000 acres severed and attached mineral rights
  - Annual harvest of over 79,000 cords
  - Forest Stewardship Council (FSC) certified for over 20 years
  
- Principal Business Segments
  - Forest Management
  - Log Sales and Marketing
  - Real Estate
  - Minerals
  
- Experienced Management Team
  - Keweenaw is led by Brian Glodowski and David Ayer who, combined, have over 50 years of timber management experience and remain at the forefront of the Lake States timber industry



**KEWEENAW**

— LAND ASSOCIATION, LIMITED —

# Strategy Overview

## Acquisition Strategy

- Practice price discipline in asset selection
- Leverage extensive market knowledge and relationships in Upper Peninsula region
- Focus on well-stocked hardwood timberlands with above average site productivity
- Target smaller properties owned by families and motivated sellers to achieve attractive pricing

## Management Strategy

- Enhance timber growth by selectively harvesting mature timber and thinning young stands to concentrate growth on higher value trees
- Capitalize and develop HBU opportunities when available
- Evaluate conservation easements and low-cost financing to leverage investments
- Optimize all logging, hauling, sorting and merchandising operations to extract maximum probability from each log

## Disposition Strategy

- Anticipate market cycles and dispose of assets during periods of attractive pricing
- Avoid selling assets during down market cycles and preserve value “on the stump”
- Opportunistically monetize developed HBU opportunities when available and market pricing is favorable
- Utilize section 1031 exchanges where feasible to avoid current tax implications

- KEWL’s model of direct log marketing allows for the maximization of asset values in all markets and ideal execution of harvests based on pricing conditions
- Strategy allows KEWL to retain and grow asset values in times of declining prices and harvest to sell during peak pricing periods



**KEWEENAW**

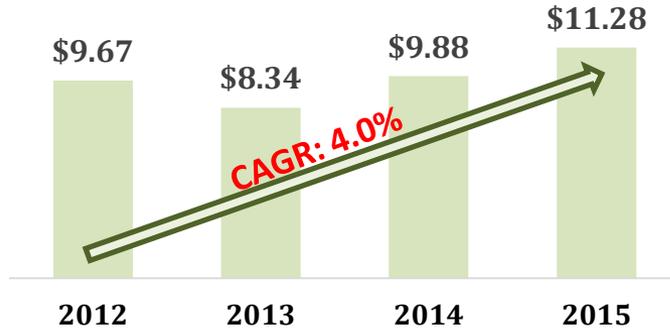
— LAND ASSOCIATION, LIMITED —

# Financial Highlights

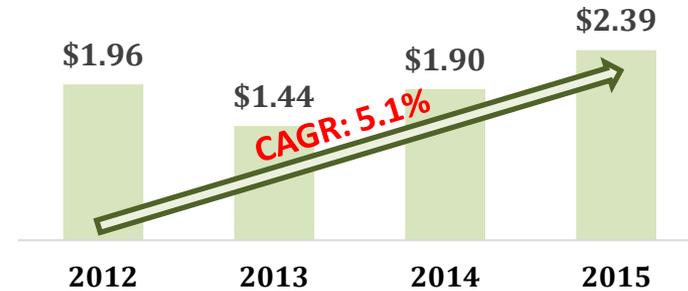
- Keweenaw has continuously demonstrated the ability to improve profits through increased margins, expanded sources of other timber income and an improvement of its product mix

(All \$ figures in millions)

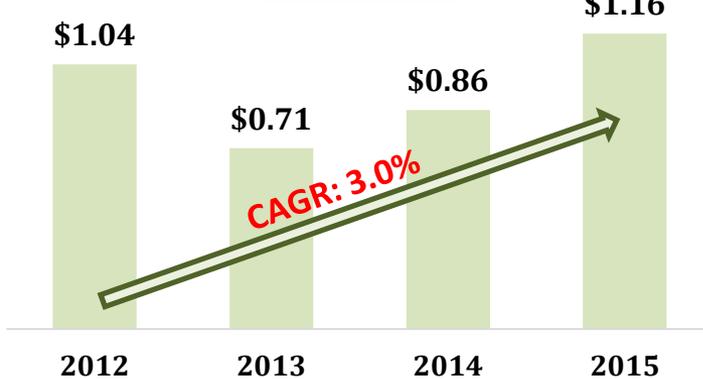
## Log Sales



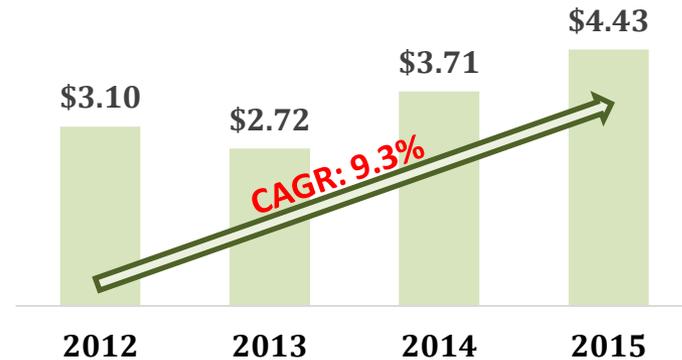
## EBITDA



## Net Income



## Gross Margin on Timber Sales



**KEWEENAW**

— LAND ASSOCIATION, LIMITED —

# 3<sup>rd</sup> Quarter and Year-to-date September 30, 2016

- Reductions in Gross Margins and timber sales primarily driven by continued pricing declines and record summer rains
  - Higher mill inventory continuing to reduce pricing and overall demand for sawtimber and pulpwood across industry.
  - Record summer rainfall and strong storms in the western Upper Peninsula of Michigan and Northern Wisconsin drove increases in production costs in the quarter.
- Considerations for Q4 2016:
  - KEWL anticipates that sawmills will continue to experience high inventory levels, leading to further price reductions in the fourth quarter. However, the market for veneer is expected to remain steady.
  - Demand for hardwood pulpwood is expected to drop off slightly.
  - Softwood pulpwood inventories remain well above optimal levels, which could result in the strict enforcement of delivery quotas.

	Three Months Ended September 30,		Year-to-Date Ended September 30,	
	2016	2015	2016	2015
<b>Timber Sales</b>	\$2.78	\$3.61	\$7.76	\$8.19
<b>Gross Margin on Timber Sales</b>	\$0.88	\$1.45	\$2.57	\$3.17
<b>EBITDA</b>	\$0.46	\$1.07	\$1.06	\$1.74
<b>Net Income</b>	\$0.23	\$0.57	\$0.47	\$0.84
<b>Per Share Net Income</b>	\$0.18	\$0.44	\$0.36	\$0.64

(All \$ figures in millions, except per share amounts)



**KEWEENAW**

— LAND ASSOCIATION, LIMITED —

# Timber Industry Snapshot

## Timber Industry Provides Attractive Risk-Adjusted Returns

- Over the last 25 years, timberland has performed favorably in comparison to conventional asset classes with an average annual return of 10.6%
  - Over this period, timberland has performed similarly to stocks while exceeding the returns produced by bonds and commercial real estate

## Timber Industry Is An Attractive Means For Investment Diversification

- The investment performance of the timberland industry has been lowly correlated to the major asset classes providing an appealing avenue for portfolio diversification
- Timberlands are an effective hedge against inflation as pricing for timber has consistently reacted favorably to movement in the consumer price index

## Timber Industry Well Positioned For Continued Success Given Attractive Supply/Demand Fundamentals

- Demand for timber expected to be supported by increased U.S. single-family housing starts, growing needs for wood products in Asia, and European demand for wood pellets
- Conversely, future harvest production is expected to be limited due to Canadian harvest restrictions and the spread of the parasitic mountain pine beetle's impact on timberlands within British Columbia

Source: NCREIF, Bloomberg, FactSet

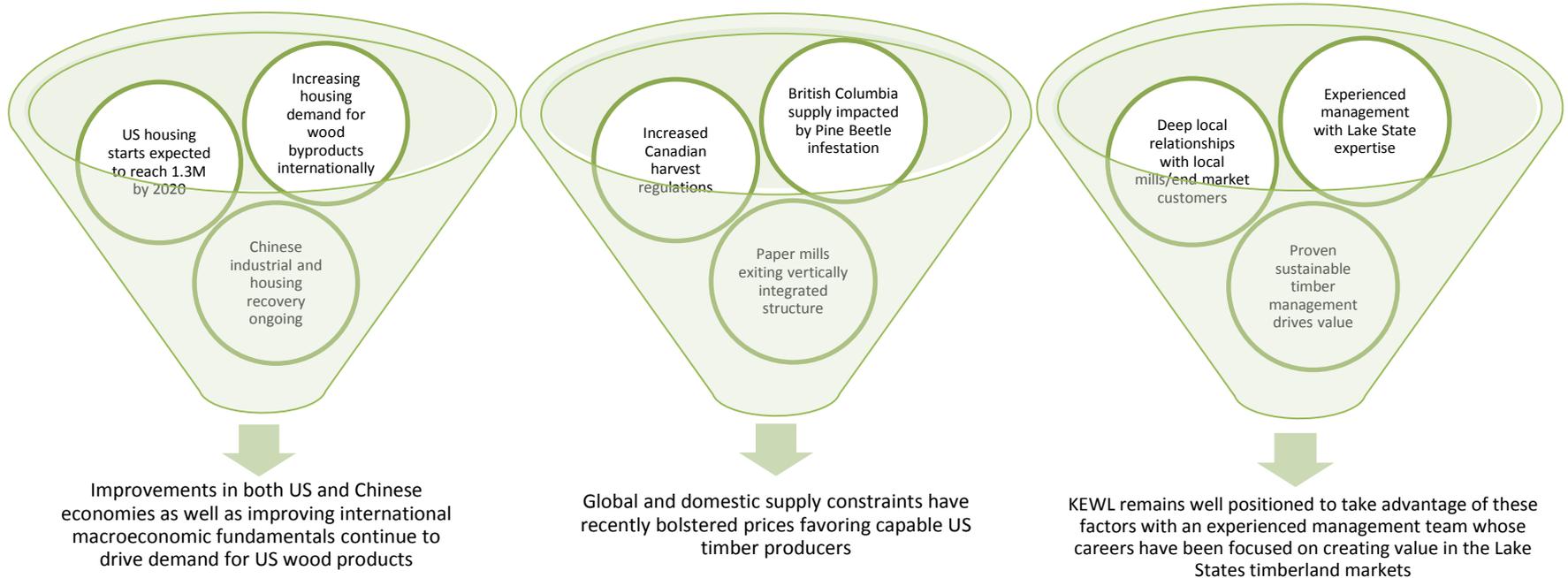


**KEWEENAW**

— LAND ASSOCIATION, LIMITED —

# Favorable Market Dynamics

- Timberland investments produce consistent low risk returns while offering owners variability in harvest rates all while maintaining its renewable and sustainable nature
- Domestic and international supply and demand factors make the present an opportune time for a timberland investment
- The following are some of the key factors contributing to favorable and improving timber market characteristics and what makes KEWL the optimal owner for timberland investments housed in the Lake States:



Source: Stifel, KEWL Company Reports

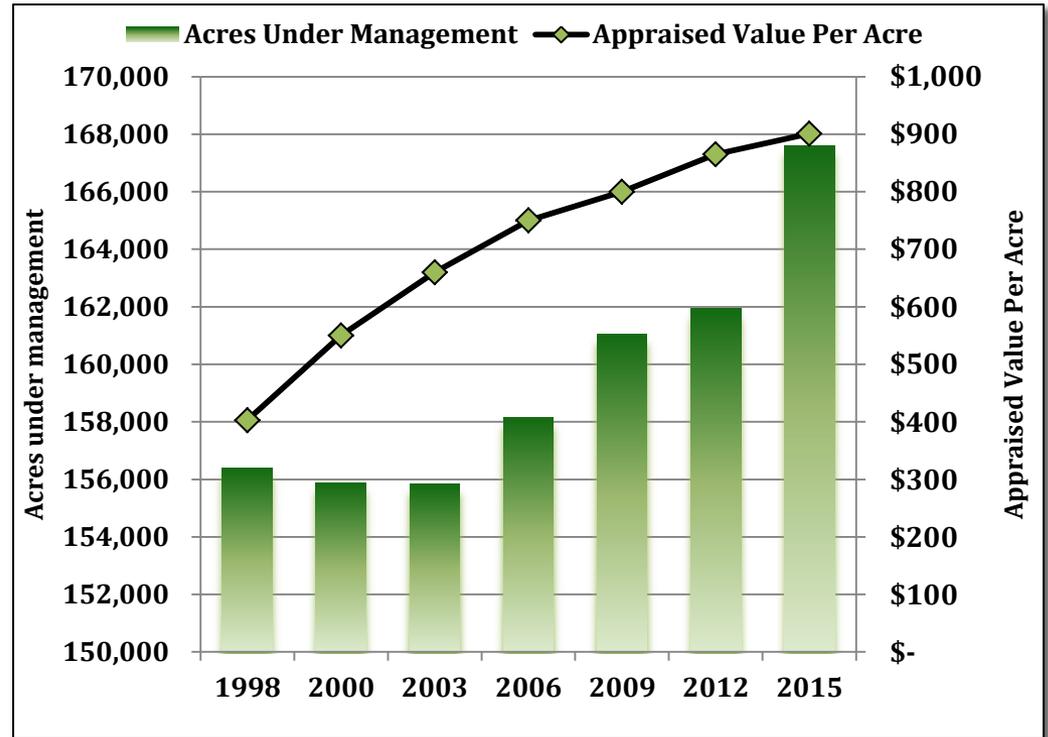


**KEWEENAW**

— LAND ASSOCIATION, LIMITED —

# Growing Timberland Acreage and Value

- Since 1992, Keweenaw's strategy has been to add productive timberland
- Efforts have led to total timberland under management increasing to 167,000 acres as of year-end 2015
- Purchases funded entirely from operations and like-kind exchanges
- Timberland asset value continues to appreciate in value as demonstrated by third party appraisal
- KEWL's timberland were most recently appraised at a value of \$901 per acre in December, 2015

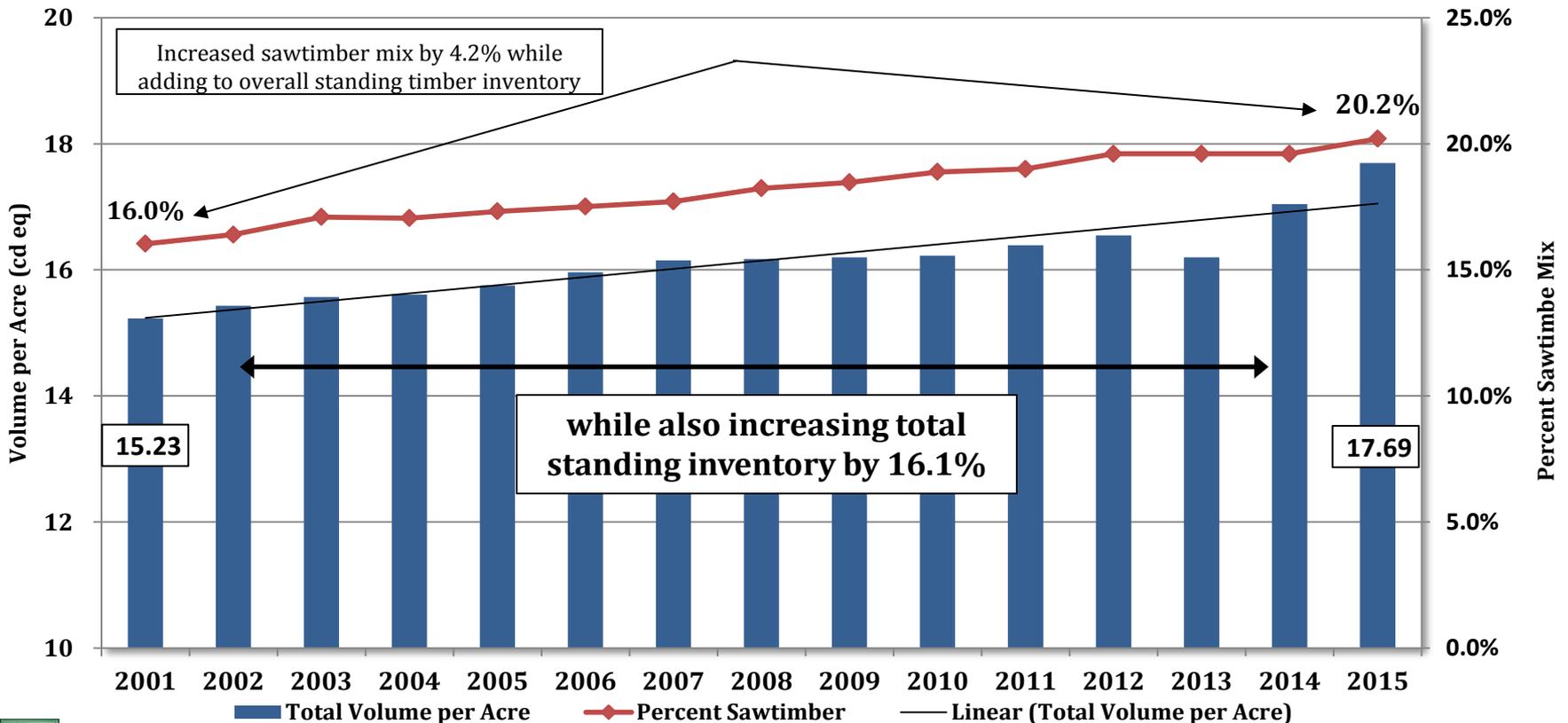


**KEWEENAW**

— LAND ASSOCIATION, LIMITED —

# Active Management by KEWL Adds Value

- Through active forest management practices, KEWL has been able to steadily increase its percentage of sawtimber, resulting in added value to standing hardwood inventory and future harvest value



**KEWEENAW**

LAND ASSOCIATION, LIMITED

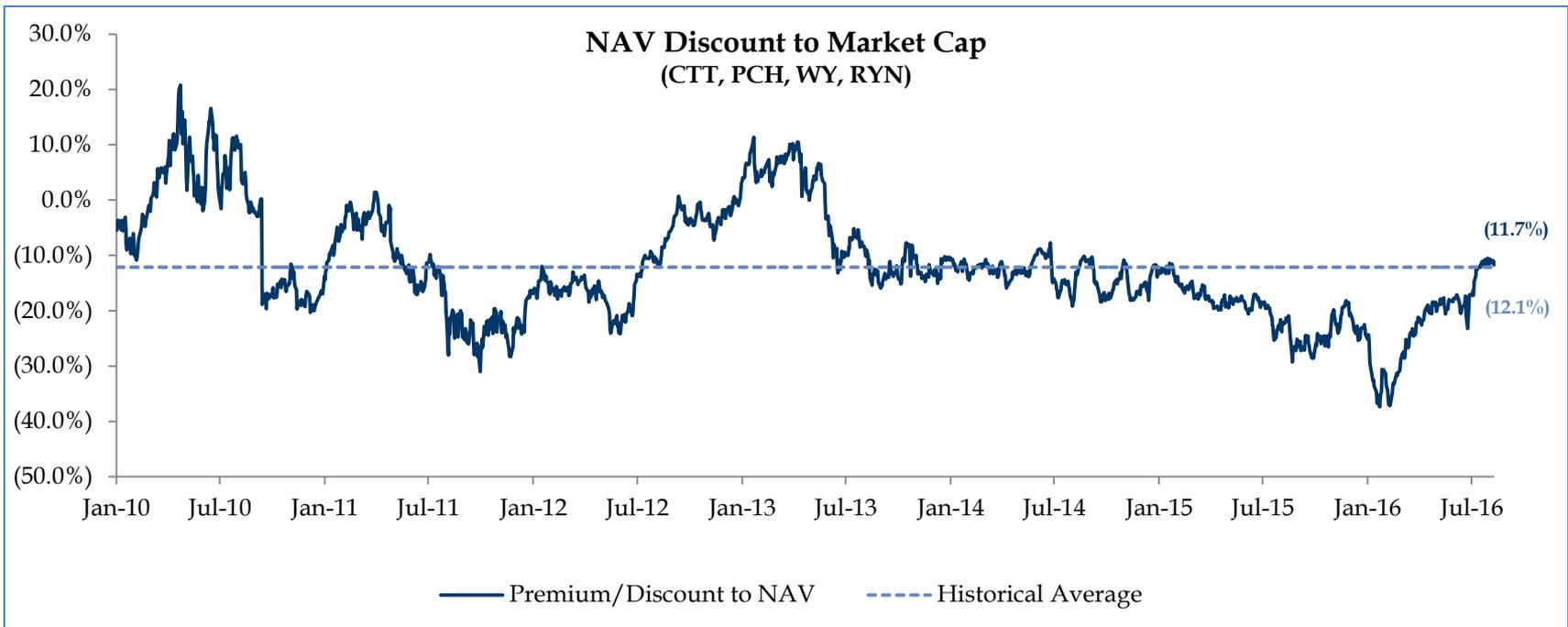
# Challenges To Funding Future Growth

- Ability to grow the timberland asset base and achieve additional operational scale is limited
- Like-kind exchanges provide few opportunities to grow asset base
  - Timing of sales must be matched to purchases
  - Size of transactions are still relatively small
- Cash from operations not adequate to fund larger transactions
  - Limited to retail purchases of small tracts
  - Higher transaction costs



# Timber Industry NAV Gap

- Most timber companies have a value gap to NAV
  - Historical average discount is 12.1%
  - Larger discount found for smaller companies



# Understanding Keweenaw's NAV Gap

- KLA's value gap due to:
  - Small scale
  - Limited liquidity of our stock
  - Unrealized gain as a result of timberland appreciation creates taxable effects
  
- At Keweenaw's current size, no investor group prepared to make a minority investment near current NAV
  
- None of the other alternatives would help close NAV gap



# Solutions to Funding Future Growth

- Engaged Stifel, Nicolaus & Company, Inc., to lead a strategic review to explore options for creating shareholder value
- Proceeding with a debt facility
- Expect to close on debt facility in November, 2016
  - Term loan used for refinancing existing debt at lower interest rate
  - Revolver for use to acquire timberlands
- Keweenaw will announce details and final terms once debt facility is closed
- Management undertaking process to determine next steps beyond debt refinancing



# Creating Shareholder Value

- Debt financing is attractive at this point in Company's lifecycle to support future growth plan
- Provides affordable acquisition capital without diluting equity ownership
- Current interest rates at historic lows
- No net cost to shareholders
  - Cash on cash returns from acquisition and current operations provides adequate debt service ratio
  - Additional gains derived from land appreciation, product price and mix
- Allows company to grow and achieve higher scale, and more interest in company for equity investment
- Acceptable level of risk



# Creating Shareholder Value

- Purchasing timberlands using debt results improves earnings and return on assets
- Interest expense provides tax shield on current income
- Acquisitions are accretive to cash after debt service
- Debt ratio > 15% based on current NAV

---

## Pro forma example of 25,000 acre timberland acquisition using debt

---

Based on 2015 KLA results		As is		With 25k acre acquisition
EBIT (in millions)	\$	2.05	\$	2.58
Interest Expense	\$	-	\$	0.78
Tax @ 38.1%	\$	0.71	\$	1.28
-----				
Net Earnings after taxes	\$	1.34	\$	2.08
EPS	\$	1.03	\$	1.60
ROA		0.84%		1.30%

---



# Why Invest in KEWL

- Favorable Timberland Investment Opportunities
- Leading Management Team with Track Record of Success
- Robust Pipeline of Attractive Opportunities
- Strong Risk Adjusted Returns Across Timberland Industry
- Benefit from Strong Timber Industry Fundamentals



**KEWEENAW**

— LAND ASSOCIATION, LIMITED —



If you have questions or wish to contact us regarding this presentation material,  
please call or email us at:

Toll Free – 877-539-3362

Email – [Investors@keweenaw.com](mailto:Investors@keweenaw.com)

David Ayer – Chairman

Brian D. Glodowski – President/CEO

**Keweenaw Land Association, Limited**

1801 E. Cloverland Drive

Ironwood, Michigan 49938

[www.keweenaw.com](http://www.keweenaw.com)