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RYN - Q3 2017 Rayonier Inc Earnings Call

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OVERVIEW:

Co. reported 3Q17 sales of \$178m and net income attributable to Co. of \$25m or \$0.19 per share.



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CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Welcome, and thank you for joining Rayonier's Third Quarter 2017 Teleconference Call. (Operator Instructions) Today's conference is being recorded. If you have any objections, you may disconnect at this time.

Now I will turn the meeting over to Mr. Mark McHugh, Senior Vice President and CFO. Sir, you may begin.

Mark D. McHugh - Rayonier Inc. - CFO and SVP

Thank you, and good morning. Welcome to Rayonier's investor teleconference covering third quarter earnings. Our earnings statements and financial supplement were released yesterday afternoon and are available on our website at rayonier.com.

I would like to remind you that in these presentations, we include forward-looking statements made pursuant to the safe harbor provisions of federal securities laws. Our earnings release and Form 10-K filed with the SEC lists some of the factors that may cause actual results to differ materially from the forward-looking statements we may make. They're also referenced on Page 2 of our financial supplement.

Throughout these presentations, we will also discuss non-GAAP financial measures, which are defined and reconciled to the nearest GAAP measures in our earnings release and supplemental materials.

With that, let's start our teleconference with opening comments from Dave Nunes, President and CEO. Dave?

David L. Nunes - Rayonier Inc. - CEO, President and Director

Thanks, Mark. First, I'll make some overall comments before turning it back over to Mark to review our financial results. Then we'll ask Doug Long, our Senior Vice President of U.S. Operations, to comment on U.S. Timber results. I'll cover the New Zealand Timber results. And following the review of our 3 Timber segments, Chris Corr, our Senior Vice President for Real Estate, will discuss our Real Estate results.

We are pleased with our third quarter results, especially given the challenging weather conditions we contended with during the quarter. All three of our Timber segments realized meaningful increases in adjusted EBITDA relative to the prior year quarter.



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Stronger results in our Southern Timber segment were driven by 24% higher harvest volumes and increased non-timber income, while weighted average pricing was down slightly due to salvage volume from the West Mims fire and geographic mix.

Our Pacific Northwest Timber segment also reported higher harvest volumes as well as a 17% lift in average delivered sawtimber pricing, driven by continued strengthening of both domestic and export markets.

New Zealand Timber had another very strong quarter with adjusted EBITDA more than doubling versus the prior year quarter. Both volumes and prices were up significantly in New Zealand, as we capitalized on continued strong market conditions and increased export demand from China.

Our Real Estate segment also had a solid quarter, driven by a significant transaction comprised of 1,300 acres for \$10,000 an acre.

In summary, it was an all-around solid quarter with all our segments contributing to strong overall results.

And with that, let me turn it back over to Mark to review our financial results.

Mark D. McHugh - *Rayonier Inc. - CFO and SVP*

Thanks, Dave. Let's start on Page 5 with our financial highlights. Sales for the quarter totaled \$178 million, while operating income was \$39 million and Net income attributable to Rayonier was \$25 million or \$0.19 per share. Pro forma EPS was also \$0.19 per share. We had no pro forma items in the quarter.

Third quarter adjusted EBITDA of \$70 million was below the prior year quarter, primarily due to lower real estate results as the prior year quarter included a \$48 million land sale in Georgia. As Dave noted, our Timber segment as well as our Trading segment all posted gains relative to the prior year quarter.

On the bottom of Page 5, we provide an overview of our capital resources and liquidity at quarter end as well as comparison to the prior periods. Our cash available for distribution, or CAD, for the first nine months was \$144 million compared to \$124 million in the prior year period, primarily due to significantly higher adjusted EBITDA and lower cash interest paid, partly offset by higher capital expenditures. A reconciliation of CAD to cash provided by operating activities and other GAAP measures is provided on Page 8 of the financial supplement.

We closed the quarter with \$104 million of cash and roughly \$1 billion of net debt. Our net debt of \$929 million represented 20% of our enterprise value based on our closing stock price at quarter end.

I'll now turn the call over to Doug to provide a more detailed review of our U.S. Timber results.

Douglas M. Long - *Rayonier Inc. - SVP of U.S. Operations*

Thanks, Mark. Good morning. Let's start on Page 9 with our Southern Timber segment.

Adjusted EBITDA in the third quarter of \$24 million included \$3 million favorable to the second quarter and \$6 million favorable compared to the prior year quarter. Third quarter harvest volume of approximately 1.4 million tons was flat to the prior quarter, but 266,000 tons higher than the prior year quarter.

During the third quarter, portions of our Southern Timber segment were affected by Hurricanes Harvey and Irma. Floodings in Louisiana, Texas and Florida severely impacted our ability to harvest timber in those regions. However, we were able maintain our targeted harvest levels for the quarter by shifting volumes to dry areas that were less impacted by the storms. We sustained relatively minor damage from the storms with roughly 1,200 acres in Florida sustaining some wind damage, a portion of which will necessitate salvage operations. We do not anticipate any material impairment charges resulting from these storms. We expect to start salvage operations on wind-blown timbers in the fourth quarter.

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Third quarter pine pulpwood prices of \$16.32 per ton were 4.5% favorable compared to the second quarter, but 6% unfavorable compared to the prior year quarter. The price decline, compared to prior year quarter, was largely due to salvage volume from the West Mims fire as well as increased supply along the East Coast. We expect to complete salvage operations from the West Mims fire during the fourth quarter.

Pine sawtimber prices of \$25.93 per ton were 1% favorable compared to the second quarter and 1% unfavorable compared to the prior year quarter. Absent the impact of geographic mix, our pine sawtimber prices have remained relatively stable over the last few quarters.

It's also worth noting that we continue to see upward price pressure in areas with export exposure, but offsetting weakness in log markets serving plywood mills.

Hardwood prices of \$15.98 per ton were 37% and 8% higher than the prior quarter and the prior year quarter, respectively. In both cases, the increase in price was primarily due to favorable changes in product mix as well as stronger overall pricing dynamics.

Now moving to Pacific Northwest Timber segment on Page 10. Adjusted EBITDA of \$8 million was \$2 million higher than the prior quarter and \$4 million higher than the prior year quarter. Third quarter harvest volume of 252,000 tons was down 3% relative to the prior quarter and up 5% relative to the prior year quarter.

Pulpwood prices of \$41.43 per ton were 5% and 3% favorable to the prior quarter and prior year quarter, respectively, due to increased chip exports for bioenergy fuel in Japan.

Sawtimber prices of \$89.62 per ton were 9% and 17% favorable to the prior quarter and prior year quarter, respectively. A strong export market, along with restricted supply due to fire restrictions in Oregon and British Columbia contributed to strong sawtimber prices in the region.

Non-timber income from both our Southern and Pacific Northwest Timber segments totaled \$5.5 million, an increase of \$1.1 million or 25% as compared to the prior year quarter. The increase was due to additional hunting license income combined with positive gains in mineral sales, fill dirt and minor forest products.

Now Dave will review New Zealand Timber results. Dave?

Douglas M. Long - Rayonier Inc. - SVP of U.S. Operations

Thanks, Doug. On Page 11, you can see the results, the key operating metrics of our New Zealand Timber segment. We continue to be pleased with the operating performance of our New Zealand Timber segment, which delivered another very strong quarter. Adjusted EBITDA of \$28 million was roughly \$16 million favorable to the prior year quarter and \$14 million unfavorable compared to the second quarter, primarily due to the \$24 million land sale we reported last quarter.

Export sawtimber prices increased 2% and 16% compared to the prior quarter and prior year quarter, respectively, primarily due to continued strong demand from China. Similarly, domestic sawtimber prices in U.S. dollar terms increased 6% and 11% compared to the prior quarter and prior year quarter, respectively, as a result of strong export lumber demand and a robust local demand for construction materials as well as a modest increase in the U.S. to New Zealand dollar exchange rate.

Our Trading segment generated adjusted EBITDA of \$1 million in the third quarter on sales volumes. They were up 38% compared to the prior year period due to increased volume from existing suppliers and stumpage blocks purchased from third -parties coupled with improving export market demand.

Now I will turn it over to Chris to cover Real Estate.



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Christopher T. Corr - Rayonier Inc. - SVP of Real Estate & Public Affairs and President of Raydient Inc

Thanks, Dave. As highlighted on Page 12, sales for our Real Estate segment in the third quarter totaled \$17 million on roughly 2,550 acres sold. The bulk of our third quarter real estate sales were at our higher-value HBU categories at a weighted average price of roughly \$6,750 per acre, excluding Improved Development. Adjusted EBITDA for the quarter was \$13 million. The third quarter results were stronger than we had anticipated going into the quarter due to the accelerated closing of a large transaction. As we've stated in the past, our Real Estate results will be lumpy from quarter to quarter as we seek to enter into transactions opportunistically in an effort to maximize long-term value.

Sales in the Improved Development category reflect the first residential lot sale at Wildlight. Sales in the Unimproved Development category reflect the significant transaction consisting of 1,300 acres at the Crawford Diamond property in Florida for \$10,000 per acre. Crawford Diamond is a property entitled for industrial land uses with good proximity to highways and 2 railroads. This 1,300 acre sale leaves us with roughly 500 acres remaining to market to other users within Crawford Diamond. Unimproved development sales in the quarter also included 9 acres in Georgia sold for commercial use for a price of \$90,000 per acre.

In rural category, sales totaled \$3 million on approximately 1,100 acres with an average price of \$2,771 per acre. Lastly, in the nonstrategic and timberland category, we sold 102 acres of low-productivity land for an average price of \$1,616 per acre.

Overall, we are encouraged by market interest and remain focused on executing our strategy of positioning select market-ready properties for higher and better uses. We anticipate a strong fourth quarter based on a number of significant prospects, either under contract or in active negotiation.

I will now turn the call back over to Mark.

Mark D. McHugh - Rayonier Inc. - CFO and SVP

Thanks, Chris. As noted in our earnings release, based on our strong performance through the first nine months, we expect to achieve full year adjusted EBITDA near the high end of our prior guidance of \$255 to \$270 million.

With respect to our individual segments, we expect our Southern Timber segment volumes will decrease slightly in the fourth quarter relative to the third quarter due to wet ground conditions. And we expect a modest decrease in average pricing due to geographic mix and increased thinning activity.

In our Pacific Northwest Timber segment, we expect fourth quarter volumes will increase relative to the third quarter due to the lifting of fire restrictions, and we expect continued strength in sawtimber prices based on favorable domestic and export market conditions.

In our New Zealand Timber segment, we expect fourth volumes will decline compared to the third quarter, while we expect product pricing will continue to reflect strong demand from China as well as domestic markets.

In our Real Estate segment, we anticipate additional closings in the Wildlight development in the fourth quarter and expect to achieve our prior full year EBITDA target for the segment.

I'll now turn the call back to Dave for closing comments.

David L. Nunes - Rayonier Inc. - CEO, President and Director

Thanks, Mark. Overall, we're very pleased with the quarter, particularly given the weather-related challenges that we faced. Once again, the quality and diversity of our portfolio, as well as the dedication of our team, allowed us to deliver a strong operating result despite these headwinds.



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Regarding timberland acquisitions, we've closed two small transactions in the third quarter totaling \$2 million. Our acquisitions, so far, this year reflect our disciplined growth strategy, which focuses on select acquisitions that upgrade our land portfolio, grow our sustainable harvest and contribute to CAD accretion. We continue to see an active timberland market and will adhere to our disciplined process to evaluate acquisition opportunities.

As we've stated in the past, capital allocation remains key priority for our board and senior leadership team. We look forward to continuing to evaluate all opportunities to enhance shareholder value through nimble and opportunistic capital allocation.

Lastly, I'd like to remind you that we'll be hosting an investor day on November 10 at the New York Stock Exchange. Preregistration is required to attend the event. We look forward to seeing many of you there.

I will now close the formal part of the presentation and turn the call back to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from Ketan Mamtora with BMO Capital Markets.

Ketan Mamtora - *BMO Capital Markets Equity Research - Analyst*

I want to start with New Zealand. Obviously, it was a very strong quarter. If you can give a little more color on what's driving the strength. I know you mentioned that China was strong, but if you can provide a little more color, that will be helpful.

David L. Nunes - *Rayonier Inc. - CEO, President and Director*

I understand we're having some technical difficulties with the line and it's very hard to hear, so maybe just give us a moment. We're going to try to resolve that and we'll be back to you in just a few moments.

(technical difficulty)

Mark D. McHugh - *Rayonier Inc. - CFO and SVP*

This is Mark McHugh. We are having some technical difficulty. I believe we've resolved them now. Hopefully, folks on the line can hear us better. Ketan, I believe you had just asked a question. So I'm sorry, but if you could just repeat that. Hopefully, we can get back to it.

Ketan Mamtora - *BMO Capital Markets Equity Research - Analyst*

Yes, Mark. Much better now with the voice clarity. But yes, I was asking -- my question was on New Zealand. And I was just curious if you can provide a little more color on what drove the strength. I know you mentioned strength in China, but any more detail you can provide will be helpful.

David L. Nunes - *Rayonier Inc. - CEO, President and Director*

Well, I think that's the main driver is that we continue to see strong demand in China. But there's lots of factors at play here. First of all, there was a ban on the harvest of domestic natural forest in China that went into effect last year that has increased the reliance on log imports. That has certainly helped. I think we've seen a gradual modernizing of some of the mill infrastructure in China. China continues to have a very large wood

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products' needs, and we really see that in both primary construction. We see it in the fit-out market, where you have a large demand for plywood. And radiata has historically -- roughly 30% of the radiata volume has been going into that plywood market. So it brings an added ability to compete in that market. The -- and then the last component of large market demand is in the furniture segment. So you have a very strong market in China and that influences not only our log export demand, but also our demand from New Zealand domestic sawmills, which have a bulk of their product that is also exported. And the portion that goes into the domestic market in New Zealand has been aided by a very robust building conditions in -- particularly in the Auckland market and, in more recently, associated with the Christchurch earthquake rebuild. And then you also have favorable shipping rates that are really a combination of oil prices and the availability of ships. And then you've got the -- both the South Korean market as well as the India market providing additional market force. And so you really have all these factors just working in tandem for our operations. And you're -- that's part of why you're seeing such strong results coming out of that segment.

Ketan Mamtora - *BMO Capital Markets Equity Research - Analyst*

That's very helpful color. So just one more question on New Zealand. From the current rate of harvest, are you taking advantage of the strong markets to harvest more than what would be kind of the sustainable harvest? Or are you still within the sustainable harvest at New Zealand?

Mark D. McHugh - *Rayonier Inc. - CFO and SVP*

Yes, Ketan. I think we were slightly above sort of what we would characterize as a kind of quarterly run rate. I believe we guided to -- at the start of the year, 2.4 million to 2.5 million in tons. And I believe, Q3 was just over 700. So perhaps, a little bit above that kind of quarterly run rate. But for the full year, I think we're still anticipating being in that range.

David L. Nunes - *Rayonier Inc. - CEO, President and Director*

And some of what you're seeing has also been aided by some recent acquisitions of both lands that will show up in the Timber segment, as well as stumpage blocks that have contributed to the growth in our performance on the Trading segment.

Ketan Mamtora - *BMO Capital Markets Equity Research - Analyst*

Right. And the current markets are strong, so it makes a lot of sense to be taking advantage of that. And then just turning to the U.S. The U.S. South, you've seen quite a few incremental sawmill investments over the past few weeks, both in terms of greenfield and an additional investment on the existing mills. From your standpoint and with your land ownership, can we just talk about what impact this might have on your markets and what you are seeing in terms of supply-demand right now in U.S. South?

Douglas M. Long - *Rayonier Inc. - SVP of U.S. Operations*

Yes. This is Doug Long. You're correct. We're seeing a lot of growth in the area. And we really believe that we'll start to see some of the impacts just come on as we move into middle of 2018 and probably the later half 2018 and '19. As we mentioned on a prior call, we're tracking about 9 million tons of additional capacity coming online in our operating area. And the recent announcements of GP at Talladega and then Canfor recently announcing they're looking at greenfield opportunities, encourage us that we should see more competition out there. But as of right now, we haven't really seen the impact of those mills changing anything. And still -- a lot of them are still -- the ones that have come online in the second half of this year are still in start-up phases and just starting to kind of move into production. So we really expect the kind of second half of next year to start to see some of that impact come into the market more.

Ketan Mamtora - *BMO Capital Markets Equity Research - Analyst*

Got it. That's helpful. And just very quickly, exports out of U.S. South, what are you seeing recently?



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Douglas M. Long - *Rayonier Inc. - SVP of U.S. Operations*

Yes. We've seen really strong growth in the U.S. South export market, including ourselves. Year-to-date, we've done over 90,000 tons of export out the U.S. South. And that would even have been a higher number if it weren't for the West Mims fire salvage. So that's all coming out of our costal resource unit. So the growth in export out of South has just been tremendous. And we continue to expect that to increase as we go forward.

Ketan Mamtora - *BMO Capital Markets Equity Research - Analyst*

And how does this compare to last year's year-to-date or any sort of framework?

Douglas M. Long - *Rayonier Inc. - SVP of U.S. Operations*

Yes. For ourselves, we're more than double where we were last year at this point in time. But year-to-date, we're more than double our 2016 export volumes. And that's a very similar trend for the entire South.

Operator

Our next question will come from Collin Mings with Raymond James.

Collin Philip Mings - *Raymond James & Associates, Inc., Research Division - Analyst*

Just first question for me goes back to just log pricing in the U.S. South. Just as you're budgeting for 2018, Doug, I don't know if you can talk about maybe just overall, what kind of expectation you're building in terms of upside, in terms of log pricing in the U.S. South. And maybe even more specifically, what type of variance you're expecting between some of the -- maybe your stronger wood baskets versus some of your more weaker wood baskets in terms of supply-demand dynamics?

Mark D. McHugh - *Rayonier Inc. - CFO and SVP*

Yes. Collin, this is Mark. I'll take that and then Doug or Dave can add any additional color. I think it's still a little bit early to be talking about 2018. We would certainly expect to do that with our Q4 earnings. But generally speaking, I think we're encouraged by the incremental capacity that's coming online. We continue to think that the U.S. South, that the market pricing has been and will continue to be differential based on the unique supply-demand dynamics within the regional submarkets. We're continuing to see that play out in our own pricing relative to the peer group. So again, I think, overall, encouraging signs. We've also generally said that we think that there is an inflection point at 1.3 million, 1.4 million housing starts. And we continue to sort of move towards that level. So again, overall, encouraging signs. A little bit too early to give specific guidance on what -- where we anticipate pricing to be in 2018.

David L. Nunes - *Rayonier Inc. - CEO, President and Director*

And I would add to that. I think that we continue to be very focused on the relative build and inventory across the South and how we're positioned against that because we believe that will ultimately translate into more price tensioning in those markets that have experienced less of a build. And so we focus on that in terms of both our operational plans, but as well our portfolio moves.

Douglas M. Long - *Rayonier Inc. - SVP of U.S. Operations*

No. They've answered them pretty well. So I'm -- that's all I would have to add.



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Collin Philip Mings - *Raymond James & Associates, Inc., Research Division - Analyst*

Okay. Maybe just to put a little bit more color on the gap between stronger and weaker wood baskets. Can you maybe talk about just currently what you're seeing in terms of price differential between maybe the markets where you have the most supply-demand tension versus the weaker markets?

David L. Nunes - *Rayonier Inc. - CEO, President and Director*

I mean, if you look at the timber market South data, you're -- from the best to the worst market, it's roughly a 2x on a composite stumpage basis.

Douglas M. Long - *Rayonier Inc. - SVP of U.S. Operations*

You're probably not quite that wide, but, call it, \$12 to \$20 on a composite stumpage price basis. We calculate that assuming a mix of 50% pulpwood, 30% chip-n-saw and 20% sawtimber. It's a moving target, but that's generally the order of magnitude.

Collin Philip Mings - *Raymond James & Associates, Inc., Research Division - Analyst*

Okay. And then just switching to Pacific Northwest. Do you think -- I mean, in the prepared remarks, in the press release, it sounds like you're still pretty upbeat about what you're seeing out there. But could we see any sort of just moderation in 4Q pricing relative to 3Q just given conditions normalizing for some of the fire conditions out there?

Douglas M. Long - *Rayonier Inc. - SVP of U.S. Operations*

Collin, this is Doug. Right now, we're still seeing very strong pricing and demand in the area. As you mentioned, the restrictions have been lifted, but there's still a lot of pent-up demand for more wood going into the domestic mills as well as export demand. So we're really seeing continued strong prices in the fourth quarter.

Collin Philip Mings - *Raymond James & Associates, Inc., Research Division - Analyst*

Okay. That's helpful. Turning to Chris real quick. Just as far as your real estate activity in Bryan County, Georgia, can you just update us on some of the recent progress there just given some of the recent news reports out of Richmond Hill?

Christopher T. Corr - *Rayonier Inc. - SVP of Real Estate & Public Affairs and President of Raydient Inc*

Yes. Collin, what's happening up in Richmond Hill, which -- you remember, Richmond Hill is about 20 minutes or so South of Savannah, Georgia. It's an identified area for us as a high potential for HBU activity because of the strength of the market there. We've been doing a number of things to kind of set the table for opportunities there, including the Belfast Commerce Park project, which you followed and then working with the Georgia Department of Transportation for the development of a new interchange -- a proposed interchange off the interstate there. Those things have continued to drive activity. The interchange is going along nicely. And so we continue to put energy into those things. The other thing we're doing is working to provide the enabling infrastructure that could set up real estate opportunities later. And that's where the annexation of the city of Richmond Hill comes in. The city is in the best position there to provide utilities, which, namely, is water and sewer. They're the ones with the infrastructure and plant capacity. So that annexation is about getting into the city in order to get utilities driven to sort of key real estate parcels for the future.

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Collin Philip Mings - *Raymond James & Associates, Inc., Research Division - Analyst*

Great. That's helpful color there, Chris. And then just one last one. I'll turn it over. Just Dave, any update you can provide us on thoughts around potentially consolidating your position in New Zealand that we talked about last quarter?

David L. Nunes - *Rayonier Inc. - CEO, President and Director*

No. I'd say that really, there is no new news there, Collin. I think that we're certainly interested at the right price. And -- but this is a decision that's being made really by our JV partner.

Operator

The next question will come from Paul Quinn with RBC Capital Markets.

Paul C. Quinn - *RBC Capital Markets, LLC, Research Division - Analyst*

Thanks for the improved sound. It was getting pretty difficult listening to you.

David L. Nunes - *Rayonier Inc. - CEO, President and Director*

Apologies.

Paul C. Quinn - *RBC Capital Markets, LLC, Research Division - Analyst*

Just maybe a couple of follow-on questions. Just on sustainable harvest level in New Zealand. I understand the one-year guidance, the \$2.4 million to \$2.5 million for 2017, but my understanding is a lot of plantations in New Zealand expect an uptick in harvest levels in the coming years. Maybe you could address what you see from that jurisdiction in the next 5 years and maybe the next 10 years out.

David L. Nunes - *Rayonier Inc. - CEO, President and Director*

I think that, generally, for that region, there are around 32 million cubic meters of total harvest. It -- a lot of the delta is really going to be driven by what happens with the small woodlot owners. There is a view that, that number could go up modestly, perhaps to the \$35 million -- or excuse me, 35 million cubic meter range. But recognize that New Zealand, just like the U.S., is facing tightness in terms of availability of loggers and so that's a counterbalance to that growth. And so I think the short answer is we don't expect much in a way of material increase in harvest coming out of New Zealand in the near term.

Paul C. Quinn - *RBC Capital Markets, LLC, Research Division - Analyst*

Okay. So we can hold your harvest level to this \$2.4 million, \$2.5 million for quite a bit in our forecasting.

David L. Nunes - *Rayonier Inc. - CEO, President and Director*

Yes. Certainly, from our lands, that's true. And I was speaking more broadly to the industry. But yes, we operate all of our lands and you can see that in the information that we provide in the 10-K on a sustainable harvest level, which allows us to essentially harvest into perpetuity.



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Paul C. Quinn - RBC Capital Markets, LLC, Research Division - Analyst

Okay. And then, I guess, flipping over, mentioned exports are up double, Doug, year-to-date versus last year. Can you give us an idea what the margin is on the export log versus the domestic log in the U.S. South?

Douglas M. Long - Rayonier Inc. - SVP of U.S. Operations

Yes. I think we want to be a little bit cautious to talk about that specifically. Obviously, it's going to depend on the individual market that it's being sourced from. Generally speaking, we're obviously exporting out of our coastal markets. Those also happen to be some of our strongest markets from pricing standpoint within the domestic markets. And so clearly, there is a premium. But I think we want to cautious about speaking to the magnitude of that.

Paul C. Quinn - RBC Capital Markets, LLC, Research Division - Analyst

So you're saying it's a premium to the coastal market average.

Douglas M. Long - Rayonier Inc. - SVP of U.S. Operations

Yes. Yes.

Paul C. Quinn - RBC Capital Markets, LLC, Research Division - Analyst

Okay. And then I guess, lastly, just -- not sure if I heard this right. Just on the real estate. The improved sale that you had, was that just one lot in Wildlight?

Douglas M. Long - Rayonier Inc. - SVP of U.S. Operations

It was. It was basically a lot that the builder took down for purposes of constructing a model home. So we have 2 builders that are essentially under contract to take down lots in a series of takedowns. And this was the initial takedown to build their model home.

Paul C. Quinn - RBC Capital Markets, LLC, Research Division - Analyst

Right. And those 2 builders, how many lots have they secured then?

David L. Nunes - Rayonier Inc. - CEO, President and Director

53, thus far.

Paul C. Quinn - RBC Capital Markets, LLC, Research Division - Analyst

And how long do we expect that build-out to be?

Douglas M. Long - Rayonier Inc. - SVP of U.S. Operations

The full build-out?



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Paul C. Quinn - *RBC Capital Markets, LLC, Research Division - Analyst*

The build-out of those 53 lots, is that over a 2-year period? Is that over a 5-year period?

Douglas M. Long - *Rayonier Inc. - SVP of U.S. Operations*

Yes, I said -- I mean, it really obviously just depends on the velocity of sales in the town. But I think we'll probably have better information on that in the coming quarters.

Operator

The next question will come from Chip Dillon with Vertical Research Partners.

Clyde Alvin Dillon - *Vertical Research Partners, LLC - Partner*

First question has to do with -- as you think about 2018 and 2019 and you think about the pricing as terrific what we're seeing, obviously, in New Zealand and in the Pacific Northwest, but how are you thinking about pricing in those years? And how could that possibly influence any changes in your harvest plan? And then maybe the same thing in the South. There is various views. There's -- obviously, a few weeks ago at a RISI Conference, they've kind of expressed a view that there would be an overhang. And I know from the heat maps you showed us, it can vary by specific region, but the overhang would persist. But then, again, there's been the sort of daylight created by the increased export demand. So as you think about '18 and '19, not asking for a specific forecast, but directionally, what do you think is a good way to go in terms of pricing expectations in those regions?

David L. Nunes - *Rayonier Inc. - CEO, President and Director*

I mean, I think, generally, we -- we're always more focused on some of these local market dynamics. And I think that having optionality has always been better. I think part of the reason that you see a divergence across the South in terms of markets being stronger or weaker is in addition to these inventory builds, you've got markets on the strong side that have just a greater diversity of product outlets from pulpwood demand through sawlog demand. And to be able to add an export component to that, to be able to add a -- on the low end a component for bioenergy. Those are all important things on the margin. And so we look at that and we look at kind of where our footprint is across the South. And notwithstanding kind of broad average -- broad Southern averages, we're encouraged by what we're seeing in terms of how our footprint looks going forward when we look at growth drain analysis at some of these micro markets. And I think for the West -- the Pacific Northwest, as well as New Zealand and, again, that same concept of optionality is really important. In the Northwest, you have a lot of wood that can flow, either to the China market or to the domestic market. We continue to believe that as the U.S. housing recovery advances, it's going to take market share away from the export market. But today, that -- that's a really nice set of options to have. We also feel that we're blessed by having a mix of both Douglas fir and Hemlock in our product to offer. That form of diversity is very helpful as well. And then moving to New Zealand, China is certainly an important component of that. But remember that you've also got the market in India that's growing at a very rapid rate. And you've got a very stable market in Korea. So we are looking at the markets kind of in that way. We tend to start with a sustainable harvest level for each of our regions. And then we always look for ways within that sustainable harvest to flex during the year, to take advantage of stronger or weaker markets in different quarters. And that may include deferring some volume. As we did late last year, we deferred some volume in the U.S. South and that paid off very well this year, as we were able to bring much of that deferred volume back to market at a much stronger pricing. So we're happy to kind of put on the brakes or tap on the gas when we see fit. But we tend to keep it within -- generally within that sustainable harvest that you see us publish.

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Clyde Alvin Dillon - *Vertical Research Partners, LLC - Partner*

That's very helpful. And then also if you could talk a little bit about the dividend policy, especially if you're able to keep some of this sort of heightened level of earnings that we were seeing this quarter and expect next quarter. Just maybe review your thoughts about how the dividends should progress.

Mark D. McHugh - *Rayonier Inc. - CFO and SVP*

Chip, we don't have a specific dividend policy in terms of payout ratio. Primary reason being is that specifically, within real estate, for example, you're going to see some volatility and it tends to be pretty lumpy. And so I think that the general mindset is that dividend growth will occur with sort of sustainable cash flow growth. And that's something that we evaluate pretty continuously and is obviously a decision of the board and is something we monitor closely.

David L. Nunes - *Rayonier Inc. - CEO, President and Director*

And I think we are also very cognizant of our capital allocation opportunities. And we've been very pleased with the quality of the acquisitions that we've been able to do over the last few years. And we think, frankly, those have been a better return to our shareholders than increasing the dividend during that period of time. And so that goes into the mix as well.

Operator

(Operator Instructions) Our next question is coming from James Armstrong with Armstrong Investment Research.

James Hunter Armstrong - *Armstrong Investment Research, LLC - CEO*

And thanks for fixing the phones. I'm glad it just -- it wasn't just me. First question is on the hurricane impacts. Can you -- that you pointed out on the third quarter, will there be any bleed over into the fourth quarter? And should all of the Florida salvage be done in the fourth quarter?

Douglas M. Long - *Rayonier Inc. - SVP of U.S. Operations*

Yes, this is Doug. You're correct. There will be bleed over in the fourth quarter. We're just now getting salvage operations going on those properties. And we do believe that we should be finished up with, hopefully, all of the salvage, whether it be fires or hurricanes, by the end of the year. So it looks like this was a year of salvage on our Florida resource unit. But we should be finishing up by the end of the fourth quarter.

James Hunter Armstrong - *Armstrong Investment Research, LLC - CEO*

Perfect. Switching to the Northwest. Last year, Northwest volumes picked up a lot in the fourth quarter. You did mention that volume should be up, but should you -- we see the same sequential change in volumes from the third quarter or the fourth quarter as we saw last year.

David L. Nunes - *Rayonier Inc. - CEO, President and Director*

Yes. I think some of what you saw last year was us getting the new Menasha acquisition kind of up and running. I think that you shouldn't expect that same lift this year's fourth quarter versus last year's fourth quarter, and that we've been operating more on the run rate that we would expect to for the Northwest.



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Mark D. McHugh - *Rayonier Inc. - CFO and SVP*

Yes. And keep in mind, Q3 was low due to the fire restrictions. And so I would say that, that was a seasonal low point relative to the harvest. We did nearly 400,000 tons in Q1, 275,000 in Q2, 250,000 in Q3. So we would expect it to elevate more towards a kind of run rate on the basis of that prior 3 quarters average, I'd say. We'll be targeting our annual average run rate for the month -- for the quarter, I mean.

James Hunter Armstrong - *Armstrong Investment Research, LLC - CEO*

Okay. That helps. And then lastly, are -- what are you expecting in terms of large land sales in the fourth quarter? I know you don't count that as operating, but any guidance would be helpful.

Mark D. McHugh - *Rayonier Inc. - CFO and SVP*

Yes. What we've said in terms of guidance, and recognizing that you guys obviously want a -- it's a big contributor to EPS, and so you want some guidance, but from our vantage point, it can also be pretty lumpy. And so we want to be cautious about sort of getting to managing earnings on a quarterly basis because that's not how we run our business. But suffice it to say that we've said that we anticipate hitting our full year target, which our initial EBITDA guidance in real estate was \$52 million to \$60 million of adjusted EBITDA. So that will give you a better sense of generally the range of outcomes that we expect in Q4.

James Hunter Armstrong - *Armstrong Investment Research, LLC - CEO*

Okay. But is that count -- is the -- are the large land sales counted in adjusted EBITDA or (inaudible)?

Mark D. McHugh - *Rayonier Inc. - CFO and SVP*

The large dispositions, in terms of the sales that we designate over \$20 million that don't have an HBU premium, are not included in adjusted EBITDA. And those would be more on a one-off basis. And we wouldn't be able to provide any guidance on that.

Operator

At this time, there are no further questions. I will hand it back to the speakers for closing remarks.

Mark D. McHugh - *Rayonier Inc. - CFO and SVP*

Thanks. This is Mark McHugh. Again, appreciate everybody joining. Apologies for the technical difficulties earlier, but happy to take any questions after the call. Just feel free to reach out to me. Thank you.

Operator

Once again, with that, we'll conclude today's conference. Thank you for participating. You may disconnect at this time.



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