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Q3 2020 Rayonier Inc Earnings Call

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PRESENTATION

Operator

Welcome, and thank you for joining Rayonier's Third Quarter 2020 Teleconference Call. (Operator Instructions) Today's conference is being recorded. (Operator Instructions) Now I will turn the meeting over to Mr. Collin Mings, Vice President, Capital Markets and Strategic Planning. Sir, you may begin.

Collin Mings ***Rayonier Inc. - Vice President, Capital Markets & Strategic Planning***

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.

In these presentations, we include forward-looking statements made pursuant to the safe harbor provisions of federal securities laws. Our earnings release and SEC filings list some of the factors that may cause actual results to differ materially from the forward-looking statements we may make. They are 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 measure 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. - President, CEO & Director***

Thanks, Collin, and welcome aboard. I'll begin the call by making some high-level comments before turning it over to Mark McHugh, our Senior Vice President and CFO, to review our consolidated financial results. Then we'll ask Doug Long, Senior Vice President, Forest Resources, to comment on our U.S. and New Zealand Timber results. And following the review of our Timber result segments, Mark will discuss our Real Estate results as well as our outlook for the remainder of 2020.

We generated adjusted EBITDA of $67 million and pro forma net income of $7.5 million or $0.06 per share in the third quarter. We delivered strong operating results across our 3 regional Timber segments as well as within our Real Estate business. Despite facing some ongoing challenges associated with the COVID-19 pandemic, we benefited from robust new residential construction activity, continued strong repair and remodel spending, improved demand from key export log markets and strong market dynamics for our pulpwood customers. Our collective results underscore the strength of the markets we operate in, the diversity of our portfolio and the resiliency of our business.

Despite strong operating results, we had to navigate multiple casualty events during the quarter, including Hurricane Laura in the U.S. South as well as wildfires in Oregon. Our thoughts go out to all those who were affected by these tragic events. While we sustained some property damage, fortunately, no Rayonier employees were injured. From an operational standpoint, we expect only limited near-term disruptions to our business, given the geographic diversity of our footprint. While the direct impact to us was limited, we've taken steps to help those communities get back on their feet through financial donations to disaster relief efforts.

Drilling down to our different reporting segments. Our Southern Timber segment generated adjusted EBITDA of $26 million for the

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quarter, which was 16% above the prior year third quarter. Results were bolstered by a 16% increase in harvest volumes and 8% higher sawlog stumpage prices relative to the prior year quarter. Sawlog pricing benefited from healthy mill demand amidst record lumber prices as well as growth in log exports along the Atlantic Coast.

In our Pacific Northwest Timber segment, we achieved adjusted EBITDA of $9 million, up substantially from the prior year quarter, driven by an 18% increase in weighted average log prices as well as the addition of 55,000 tons of volume from the Pope Resources assets.

In our New Zealand Timber segment, we reported adjusted EBITDA of $18 million, slightly above the prior year quarter. Modestly lower log prices were offset by a slight increase in harvest volumes as well as higher carbon credit sales. In contrast to our prior 2 quarters, during which we experienced COVID-related lockdowns, our New Zealand business was fully operational throughout the third quarter.

Our Real Estate segment reported very strong third quarter adjusted EBITDA of $22 million, driven by the sale of over 10,000 acres of rural land. Overall, we have continued to see healthy demand across all our real estate sales categories, which we will elaborate on later in the call.

Before turning the call back over to Mark, I'd like to provide a brief update on our ongoing response to the COVID-19 pandemic. The work-from-home model we instituted for all U.S. employees in mid-March remains in place and field employees continue to observe enhanced safety guidelines. Given the current state of the pandemic, we anticipate remaining in this mode in many of our locations through at least the end of the year.

While the pandemic has been extremely disruptive to all aspects of life, I continue to believe that Rayonier has been managing through it very well. Despite the challenges posed by the pandemic, our team has managed to operate very efficiently and has also advanced several important strategic initiatives this year, most notably the closing and integration of the Pope Resources acquisition and has continued to respond in a nimble manner to rapidly changing market conditions.

On that note, I want to reiterate how pleased we've been with the Pope Resources transaction to date. Since closing the deal on May 8, the collaboration among our employees has been tremendous, supporting our view that the combined organization would benefit from the blending of best practices and the talent associated with each company. We're also already seeing the benefits associated with our increased scale and operational flexibility in the Pacific Northwest. And we have managed to achieve synergies modestly ahead of our initial estimates.

With that, let me turn it over to Mark to review our financial results and highlights from the quarter.

Mark D. McHugh ***Rayonier Inc. - Senior VP & CFO***

Thanks, Dave. To start, I'd like to briefly comment on the write-offs this quarter associated with Hurricane Laura and the wildfires in Oregon.

In total, these casualty events resulted in write-offs of $15 million, of which approximately $8 million was attributable to Rayonier and the balance was attributable to the noncontrolling interest in the Timber Funds business. We have included these charges as a pro forma item in our third quarter results due to the nature of these events and the infrequency with which they materially impact our results.

As it relates to our Southern Timber segment, Hurricane Laura made landfall in Louisiana on August 27, impacting nearly 8,000 acres of our timberland properties in the state. We anticipate being able to salvage approximately 1,000 acres based on existing mill quotas and the condition of the damaged timber. As a result of the hurricane, we wrote off timber basis in the amount of $6 million during the quarter.

Moving to the Oregon wildfires. Our Timber Funds segment was directly impacted by 2 fires during the quarter. Specifically, the Beachie Creek fire in Northwest Oregon impacted roughly 9,000 acres of land owned by ORM Timber Fund II and the Slater fire in Southwest Oregon impacted about 1,000 acres of land owned by ORM Timber Fund IV. Rayonier manages both funds and owns a 20% economic interest in Fund II and a 15% interest in Fund IV.

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Based on our latest assessment, we estimate that approximately 60% of the damaged merchantable timber will be salvageable. As a result of the wildfires, we wrote off timber basis of approximately $9 million on a consolidated basis. However, based on our economic interest in these funds, only $2 million of this write-off was attributable to Rayonier.

I'll now switch gears and provide an overview of our third quarter results, starting on Page 5 with our financial highlights. Sales for the quarter totaled $199 million while operating income was $2 million and net loss attributable to Rayonier was $1 million or a loss of $0.01 per share. On a pro forma basis, net income was $7.5 million or $0.06 per share. The pro forma adjustments for the third quarter included the timber write-offs previously discussed as well as costs related to the Pope Resources merger.

Third quarter adjusted EBITDA of $67 million was well above the prior year quarter adjusted EBITDA of $43 million. All 3 Timber operating segments as well as our Real Estate segment posted stronger results relative to the prior year quarter. These positive variances versus the prior year quarter were partially offset by higher corporate and other expenses as well as a slight loss in our Trading segment.

On the bottom of Page 5, we provide an overview of our capital resources and liquidity at quarter end as well as a comparison to year-end 2019. Our cash available for distribution, or CAD, for the first 9 months of the year was $124 million compared to $116 million in the prior year period, primarily due to higher adjusted EBITDA and lower CapEx, partially offset by higher cash interest paid. 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 $75 million of cash and $1.3 billion of debt, both of which exclude cash and debt attributable to the Timber Funds segment, which is nonrecourse to Rayonier. Our net debt of $1.2 billion represented 26% of our enterprise value based on our closing stock price at quarter end.

Consistent with our nimble approach to capital allocation, we established an at-the-market or ATM equity offering program in September. While we did not issue any shares under the ATM program during the quarter, we view this program as a tool that will allow us to opportunistically access equity capital in a very efficient manner.

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

Douglas M. Long ***Rayonier Inc. - SVP of Forest Resources***

Thanks, Mark. Good morning. Let's start on Page 9 with our Southern Timber segment. Adjusted EBITDA in the third quarter of $26 million was $4 million above the prior year quarter. Results reflect strong demand across much of our U.S. South footprint for both pulpwood and sawtimber.

Specifically, third quarter harvest volume of approximately 1.5 million tons was 16% above the prior year quarter. Domestic demand from sawmills has been robust. And we also remain encouraged by the growth in log exports along the Atlantic Coast as demand from China for Southern Yellow Pine has rebounded in response to the tariff waivers introduced earlier this year. We are well positioned to capitalize on this market opportunity moving forward, which provides an added layer of market demand.

Turning to pricing. Average sawlog stumpage pricing was $25 per ton, an 8% increase compared to the prior year quarter. The improvement in sawlog pricing was attributable to stronger demand for both domestic- and export-grade timber. Pricing also benefited from a geographic mix weighted toward our stronger Atlantic coastal markets. Pulpwood pricing was flat relative to the prior year period.

Third quarter results included a modest amount of salvage volume due to Hurricane Laura. We expect salvage activity to increase during the fourth quarter, anticipate the ramp-up in these efforts to lead to a short-term drag on pulpwood pricing. Third quarter non-Timber income of $5 million was $3 million below the prior year quarter due to a reduction in pipeline easement revenue. Recall that 2019 marked a record-high year for our non-Timber income business.

Moving to our Pacific Northwest Timber segment on Page 10. Adjusted EBITDA of $9 million was $6 million above the prior year quarter.

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This was primarily driven by a significantly improved pricing environment as well as an increase in volume attributable to the Pope Resources acquisition. Sawmills in the region are generally running at full capacity. With the surge in lumber prices translating into increased profitability for the mills, log pricing dynamics have certainly improved.

However, export market demand has been relatively sluggish, given the increased supply of European logs and lumber into China. Pacific Northwest harvest volumes, augmented by our acquisition of Pope Resources, were also favorable. Of the 346,000 tons harvested in the third quarter, 55,000 tons represent volume from the acquired Pope Resources timberlands.

At $93 per ton, our average delivered sawlog price during the third quarter was at its highest level since 2018 and up 19% from prior year quarter. The strength in pricing primarily reflects robust demand due to the surge in lumber prices over the past several months as well as a higher percentage of Douglas fir as a result of Pope Resources acquisition. Meanwhile, pulpwood pricing fell 15% relative to prior year quarter due to weaker export markets and higher sawmill residuals.

As it relates to our acquisition of Pope Resources, we continue to be pleased by our integration efforts. Our operational flexibility has been enhanced within the Pacific Northwest, and we're seeing the benefits of our increased scale and geography diversity as our team acted swiftly to optimize harvest plans upon the recent wildfires in Oregon. While we believe it could take some time for the operating environment in Oregon to normalize due to substantial salvage efforts following the recent fires, we expect stable domestic market conditions, fueled by strong lumber prices, to persist in Washington well into next year.

Page 11 shows results and key operating metrics for our New Zealand Timber segment. Adjusted EBITDA in the third quarter of $18 million was comparable to a year ago. Third quarter harvest volume of 76,000 tons was up 3% compared to the prior year quarter. We were fully operational throughout the third quarter. And as discussed on our earnings call last quarter, our team has done an incredible job in resuming production and making up a good portion of the lost volume after government-mandated lockdown earlier this year.

Turning to pricing. Average delivery prices for export sawtimber decreased 1% from the prior year to $94 per ton. Demand for radiata pine from China remains very robust as the species continues to serve a wide range of end uses with demand from plywood and furniture manufacturers particularly strong at present. However, persistently high China log inventories through the second quarter and to start the third quarter as well as increased competition from lower-cost European log and lumber imports have been a constraint on pricing. That said, we saw an 80% increase in daily consumption during the third quarter, which has brought the radiata pine port inventory back into a healthy supply-demand balance.

Slightly softer export demand, increased domestic log supply creates some downward pressure on domestic pricing. Specifically, average delivery prices for domestic sawtimber decreased 7% from the prior year period to $70 per ton. Meanwhile, the average domestic pulpwood price fell 10% as compared to the prior year quarter but has increased relative to earlier this year.

I'll now briefly discuss the results from our Timber Funds segment. Highlight on Page 12, the Timber Fund segment generated consolidated EBITDA of $1 million in the third quarter on harvest volume of 110,000 tons. Adjusted EBITDA, which reflects the look-through contribution from the funds was $200,000. As noted in our press release, consolidated EBITDA and adjusted EBITDA in the Timber Funds segment are pro forma for the write-offs associated with the fires that Mark discussed earlier.

Lastly, in our Timber Trading segment, we generated negative adjusted EBITDA of $600,000 in the third quarter. Typically, our Trading segment has very low margins and is designed to augment our feed timber export sales. In the third quarter, we incurred increased port storage and shipping fees in China associated with COVID disruptions, which contributed to this negative EBITDA result.

I'll now turn it back over to Mark to cover our Real Estate results. Mark?

Mark D. McHugh ***Rayonier Inc. - Senior VP & CFO***

Thanks, Doug. As highlighted on Page 13, our Real Estate segment delivered strong results in the third quarter. Sales totaled $29 million on roughly 10,600 acres sold at an average price of over $2,300 per acre as well as a Conservation Easement sale of $3 million. Adjusted EBITDA for the quarter was $22 million.

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Sales in the Improved Development category totaled $1.3 million, highlighted by the sale of 15 lots in our Wildlight development project north of Jacksonville, Florida, were $1 million or $65,000 per lot. We also closed on our first post-merger land sale from legacy Pope Resources property in Washington, consisting of 1 industrial lot in Kitsap County for $300,000.

In the Rural category, sales totaled $23 million on roughly 10,500 acres sold at an average price of $2,200 per acre. The category was highlighted by a 7,300-acre sale for $14 million or $1,900 per acre across 4 counties in Georgia and a 1,400-acre sale for $3 million or approximately $2,100 per acre in South Carolina.

We also continue to see robust demand for our rural places program during the quarter. We closed on 28 lots totaling 340 acres for $2 million or approximately $6,300 per acre. We believe this program may benefit in a post-COVID environment as the growth in work-from-home arrangements make rural living outside of city and suburban centers more feasible for a larger portion of the population.

Lastly, we closed on a 2,150-acre Conservation Easement sale in Washington for $3 million or roughly $14.50 per acre. The property that the Conservation Easement covers was acquired as part of the merger with Pope Resources. As noted in our earnings release, we began reporting Conservation Easement sales as a new sales category within the Real Estate segment this quarter. Since Conservation Easement sales involved the sale of certain land use rights rather than an outright sale of the land, these sales are not reflected in our average per acre metrics for the segment. We are optimistic about the prospect of additional Conservation Easement opportunities going forward as they allow us to capture the HBU value of certain properties while retaining the underlying land to continue to grow on harvest timber.

Overall, following light activity in Q1, coupled with COVID-related headwinds earlier in the year, demand has come back strong in our Real Estate development project areas as well as for rural land. Market strength is being driven by a combination of favorable demographics, historically low mortgage rates and an increased need for space as many families reassess their living situations after months of sheltering in place and working from home.

We continue to be encouraged by the pipeline of opportunities in Wildlight Florida, Richmond Hill, Georgia and the Puget Sound area of Washington. In Wildlight, which is now in its fourth year of development, the Village Center is gaining critical mass with several new buildings opening since July. In Richmond Hill, we expect the new interchange on Interstate 95, which is on track for completion before the end of this year to generate incremental demand for the residential, mixed-use and industrial portions of the project.

Now moving on to our outlook. As noted in our earnings release, we expect to achieve full year adjusted EBITDA modestly above the high end of our prior guidance range of $240 million to $260 million. Additionally, we anticipate the pro forma EPS will be around the high end of our prior guidance range of $0.17 to $0.21.

With respect to our individual segments, we now expect that our Southern Timber segment will achieve full year harvest volumes of roughly 6.2 million tons and full year adjusted EBITDA toward the higher end of our prior guidance range of $104 million to $109 million. We expect that strong demand for both pulpwood and sawtimber will continue through the balance of the year, although we expect that lower-priced salvage timber in markets affected by Hurricane Laura will impact our average pulpwood prices over the next few quarters.

In our Pacific Northwest Timber segment, we now expect full year adjusted EBITDA well above our prior guidance range of $30 million to $32 million. We believe the strengthening of the Pacific Northwest market, coupled with the partial year contribution from Pope Resources, will likely result in full year adjusted EBITDA from the segment more than doubling the $17 million reported in 2019. While the wildfires have disrupted harvest activity in Oregon, we expect only a modest impact to our portfolio, given the geographic dispersion of our Pacific Northwest footprint. We still expect to harvest between 1.6 million and 1.7 million tons in the region during 2020. We further expect continued strong sawtimber pricing but believe pulpwood pricing will remain well below year-ago levels.

In our New Zealand Timber segment, we now anticipate full year harvest volumes of roughly 2.5 million tons and full year adjusted EBITDA near the high end of our prior guidance range of $50 million to $56 million. Our operations continue to normalize following the

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COVID-19 disruptions earlier this year with modest improvements anticipated in both export and domestic pricing. While we are very encouraged by the recovery and activity to date, we continue to expect the competition from Europe salvage volume may constrain pricing to some extent.

In our Real Estate segment, we expect to achieve full year adjusted EBITDA near the high end of our prior guidance range of $77 million to $83 million due to continued strong demand and a favorable transaction pipeline across our sales categories. Lastly, we expect that our new Timber Funds segment will contribute full year adjusted EBITDA below our previous guidance range due to the operational impacts of fires that we discussed earlier.

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

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

Thanks, Mark. Overall, we remain very encouraged by the stability of our business and the strength of our end markets, especially in what has clearly been a tumultuous year for many industries. Although still very elevated, we note that lumber prices have trended lower in recent weeks. As such, we believe it's prudent to prepare for some continued volatility in end markets as there remains considerable uncertainty stemming from the COVID-19 pandemic, the upcoming election and a broader economic outlook as we look toward 2021.

We've talked a lot in the past about our operational flexibility, our nimble approach to capital allocation and our focus on building long-term value per share. While the challenges posed in 2020 have tested our resolve, I'm very pleased with the progress made this year as we continue to focus on long-term value creation for shareholders. On that note, I want to reiterate how proud I am of our employees. Our team has navigated the COVID-19 pandemic with poise and determination. The integration of Pope Resources has gone exceptionally well, especially considering the safety protocols and social distancing requirements necessitated by the pandemic.

We continue to make significant progress towards several other strategic initiatives. And we've stayed nimble and capitalized on market opportunities as they have emerged. Additionally, when faced with natural disasters in both the U.S. South and the Pacific Northwest, during the third quarter, our team mobilized quickly and safely to assess the damage to our lands and execute a plan to maximize salvage opportunities. I feel very fortunate to be surrounded by such exceptional talent at all levels of our organization and continue to believe this helps position us for future success.

This concludes our prepared remarks. I'll now turn the call back over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Anthony Pettinari with Citi.

Randy Devin Toth ***Citigroup Inc., Research Division - Associate***

This is actually Randy sitting in for Anthony. Can you just talk about the price improvement in the U.S. South, specifically on sawtimber? I think you commented the improvement was driven by mix as well as export demand. So maybe talk about the strength you're seeing in various regions. And then just remind us how large that export business is expected to be this year and how that compares to prior years.

Douglas M. Long ***Rayonier Inc. - SVP of Forest Resources***

Sure. This is Doug. I believe your question was a little broken up there. But from what I understand, you wanted to talk about the increase we've seen, particularly in the South and pricing on sawtimber and then our comments around the exports. So I'll cover those real quickly here.

The main benefit to increased lumber prices across the South has been increased demand for sawlogs and loosening of log specs, which allowed us to harvest [tracks favorable] to saw grade in the quarter. Approximately 1/4 of the 8% year-over-year increase is due to actual increase in pricing. And the remainder is due to a shift in sawtimber harvest to the Atlantic Coast, where we have greater competition with exports and therefore higher relative pricing. As has been the case for the past years, due to our expiring Arkansas timber deeds, our

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harvest will shift back in Q4 towards the Gulf region, which realizes lower average pine sawtimber prices. So we did have a delay. Typically, we see that volume happening in Q3 going into Q4. And this year, it's been more heavily weighted to Q4.

With respect to the exports that you mentioned, we've seen a rebound we talked about for Southern Yellow Pine going into China once the tariffs waivers were put in place. And Southern Yellow Pine fills a niche market for previous -- for pressure treating. And that demand has been growing. Across the U.S. South, in Q1, we saw about 155,000 tons. By Q3, it was up to 474,000 tons. And Rayonier has participated in that at a similar increase. And so we expect to see about a 55% increase over our 2019 volumes. So we're seeing a pretty good demand there for that. And it's created that tension on the Atlantic Coast for us.

Randy Devin Toth ***Citigroup Inc., Research Division - Associate***

Got it. Okay. That's very helpful. And then just maybe switching over, can you comment on Chinese log inventories and what the offtake of those volumes have been in October and how you're thinking about that?

Douglas M. Long ***Rayonier Inc. - SVP of Forest Resources***

Sure. The China economy has had an impressive V-shape recovery in COVID. And that was led by construction to start with but now shifting more heavily to industrial activity and exports to cover the downfall from competing nations, who are still struggling with COVID. So we've also seen what that consumer spending in China has been positive since Q2, similar to the U.S., with home purchases and other durable goods. So over the course of the quarter, we've seen an increase in demand from 60,000 cubic meters per day up to 110,000 cubic meters per day for radiata pine.

Now particularly, it's going in that furniture and plywood manufacturing I commented earlier. So while we had historically high port inventories of around 7 million cubic meters going into the third quarter, this robust demand has brought that supply-demand ratio down into the kind of 1.5- to 2-month balance that we consider as being healthy. And we've seen it basically come down to around 4 million cubic meters at this point in time.

So with respect to that, the strong demand we're seeing, we feel like we're in a good position right now where radiate pine sits. What we have still seen is the increased supply of the German -- particularly German but European spruce. And so that's impacting the exports of Pacific Northwest, particularly for hemlock. And so I expect that we'll do is considerably less, if almost no, exports off Pacific Northwest because of that strong domestic demand we have right now.

Operator

Our next question comes from Kurt Yinger with D.A. Davidson.

Kurt Willem Yinger ***D.A. Davidson & Co., Research Division - Research Associate***

I just wanted to start in the Pacific Northwest and the sequential improvement in realizations. Could you maybe help us parse out how much of that was really attributable to Pope's mix versus kind of apples-to-apples price gains?

Douglas M. Long ***Rayonier Inc. - SVP of Forest Resources***

Sure. In Pacific Northwest, the strong lumber markets resulted in an average 19% increase across both our chip-n-saw and sawtimber grades. So we saw that lift across all the grades. Based on the series we harvested in the quarter, we had about 7% higher proportion of chip-n-saw in our grade mix, which often traded at a 20% discount to sawtimber. But this was made up for by the higher proportion of Douglas fir and our mix with additional Pope volume. So that's kind of what we saw is that additional Pope volume helped to offset the increased amount of shipment chip-n-saw we're harvesting.

Kurt Willem Yinger ***D.A. Davidson & Co., Research Division - Research Associate***

Got it. Okay. That's helpful. And with lumber rolling over, and I realize it's not directly tied to it, but could you maybe just talk about how your prices in the Pacific Northwest trended over the quarter and kind of exiting where they might be versus the Q3 average?

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Douglas M. Long ***Rayonier Inc. - SVP of Forest Resources***

Yes. We're not going to publicly talk about the kind of the forward look on the pricing and things like that. But what I would say is lumber pricing still looks to be a historically strong going into the quarter and we believe going into the spring also (inaudible) from our customers and expectations for strong housing and repair and remodeling activity in 2021. So while the sawmill pricing, it's well above their cash cost of production, and so what we've seen is competition for supply of green logs appears to be a bigger driver than the absolute lumber pricing that sits right now.

Kurt Willem Yinger ***D.A. Davidson & Co., Research Division - Research Associate***

Got it. Okay. And then as we start to look ahead to 2021, could you just talk directionally about some of the different drivers of harvest variations versus 2020 or even 2019 if that's more representative, just given all that's happened this year?

Douglas M. Long ***Rayonier Inc. - SVP of Forest Resources***

Again, we're not providing any guidance on a look-forward basis at this point. But suffice it to say that we publish our sustainable yield by segment. And I think our general operating philosophy is that we're going to be generally in that range. We may shift volume, reflects volume from time to time based on market conditions. But our going-in expectation in any given year is that we're going to be at or around our sustainable yield.

Kurt Willem Yinger ***D.A. Davidson & Co., Research Division - Research Associate***

Okay. And then just lastly, maybe you could just talk a bit about capital allocation priorities and what you're seeing as far as potential timberland acquisitions and just valuations across those opportunities.

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

Yes. I think if you look over the year, I think the biggest impediment to the timberland transaction activity was just the inability to -- from travel restrictions to get people on the ground to do additional due diligence. As we've seen that ease, we've seen more properties coming on the market and we've seen a pickup in activity. So I think, I think from an offering standpoint, we're back, I'd say, to a more normalized level.

In terms of pricing, keep in mind that this is influenced by capital flows. I think we still see the timber asset class as a safe haven for capital. And so we've seen -- we've continued to see a fairly robust amount of capital available in the space to invest and we've certainly seen that reflected in asset values to date.

Operator

Our next question comes from Paul Quinn with RBC Capital Markets.

Paul C. Quinn ***RBC Capital Markets, Research Division - Director of Paper and Forest Products & Paper and Forest Products Analyst***

Just a follow-up question on timber pricing. It looks like you've got a very significant bump in the Pacific Northwest. But while the U.S. South prices increased, there really wasn't anything close to what we've seen on the lumber side. And with the expectation that lumber stays pretty robust going forward, do you anticipate a pickup in that? Is there a lag there? Or is this...

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

I mean, Paul, a lot of that really is a function of what part of the U.S. South you're in. And as we've discussed before, we had stronger pricing performance on our logs relative to the broader market just because we tend to be in more balanced or tensioned wood baskets in the South. So the South still, in an overall sense, had to build an inventory -- has had to build in inventory since the global financial crisis of a decade ago. But that build has been very differential. And where you have areas that are more imbalanced from a growth [terrain] standpoint, we've seen more price elasticity. And you see that in our results for Q3.

Paul C. Quinn ***RBC Capital Markets, Research Division - Director of Paper and Forest Products & Paper and Forest Products Analyst***

Okay. And then how do you guys look at, in the changing environment, your percentage of delivered sales versus stumpage sales? What's happening with that? And what do you expect going forward?

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Douglas M. Long ***Rayonier Inc. - SVP of Forest Resources***

Yes. The changes particularly happened in the South. A lot of that is related to our export program, and we're delivering directly to our own yards and then exporting. And so through that process, we've shifted heavier to an export program on the Atlantic Coast. We've also seen with respect to the weather and things like that we've had that we've been able to gain additional crews and then utilize them and keep them working for us basically as we go forward.

So it's been 2 combinations. But primarily, it was the greater leverage to the export market has increased our need for delivery crews. And then through that process, getting some also greater quotas into some of the local mills, we've garnered from that, so we've continued on with those crews.

Operator

(Operator Instructions) Our next question comes from John Babcock with Bank of America.

John Plimpton Babcock ***BofA Merrill Lynch, Research Division - Associate***

This question primarily -- obviously, you closed Pope Resources earlier this year. Just want to get a sense for, now that you've got another quarter under your belt with that, where you see opportunity to enhance your own timberlands and recognizing obviously that the goal is ultimately to reduce leverage to some extent here. So just want to get a sense for where you see opportunity there.

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

I mean I'd say that our approach is still very consistent with where it has been for the last number of years. We tend to have a preference around bolt-on transactions in all 3 of our geographies, where we see a complementary fit from an age-class standpoint. In all 3 of our geographies, we have rank-ordered various subregional markets. And we will put more emphasis on those.

And so we've had a quality bias in the things that we've looked at and gone after. And I think the Pope acquisition is certainly consistent with that. And right now, we're looking at transaction opportunities really across all 3 of our Timber segments but again with an eye toward quality and market dynamics.

John Plimpton Babcock ***BofA Merrill Lynch, Research Division - Associate***

And then with regards to the ATM equity offering, is the goal for that -- well, actually, can you just talk about ultimately where those funds will be deployed, should you decide to pursue that? And you mentioned maintaining flexibility on that front. So if you can just kind of talk about that and if there are kind of any thoughts around when and if that might be used.

Mark D. McHugh ***Rayonier Inc. - Senior VP & CFO***

Yes, sure. This is Mark. I'd say our mantra around capital allocation has always been to be nimble and opportunistic. And really, we view the ATM program is just another tool and toolkit to optimize our capital allocation opportunities and to raise capital when desired in a very cost-effective manner. We also believe that it provides nice symmetry with our buyback program, under which we still have roughly, I think, $88 million available pursuant to the last authorization.

As we discussed earlier on the call, we didn't issue any shares under the ATM during the third quarter. So we intend to remain very disciplined around capital allocation and particularly the issuance of equity. I mean ultimately, our appetite to use the ATM is going to be heavily influenced by the stock price as well as the opportunity set that we have available to deploy that capital at any given point in time.

John Plimpton Babcock ***BofA Merrill Lynch, Research Division - Associate***

Okay. And how do you balance the share issuances with the share buybacks? Or is that effectively just going to be based on where the stock is trading? Or are there any other factors are taken into account there?

Mark D. McHugh ***Rayonier Inc. - Senior VP & CFO***

Yes. I mean that's going to obviously be a significant driver. Really, the design of our capital allocation program more broadly is to build NAV per share over time. And so we look to deploy buybacks when we see an opportunity to generate NAV accretion per share through

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buybacks. And likewise, when we use the ATM as appropriate to fund growth opportunities when we think that there's an opportunity that warrants the issuance of shares.

Again, we saw it as being sort of very symmetrical in terms of having that ability to buy back shares when the pricing is opportune and likewise have the opportunity to issue shares when we like the price and we like the opportunities that we have available to deploy that capital.

John Plimpton Babcock ***BofA Merrill Lynch, Research Division - Associate***

Okay. Does the equity offering there have any sort of limitations that we should be mindful?

Mark D. McHugh ***Rayonier Inc. - Senior VP & CFO***

Subject to typical trading restrictions around material, nonpublic information, it's a continuous offering program. And so I'd say it operates much like the converse of a buyback, where you're able to issue shares periodically into the market through open market transactions.

John Plimpton Babcock ***BofA Merrill Lynch, Research Division - Associate***

Okay. And then just last question before I turn it over, just on Europe, if you can talk about the trends that you're seeing there and ultimately how that's -- you talked a little bit about how it's impacting the China market. But I just want to get a sense for volumes and how that compares this quarter versus last quarter.

Mark D. McHugh ***Rayonier Inc. - Senior VP & CFO***

Yes. We continue to see in the second quarter, the pulp volume of Europe was reduced due to COVID. But going into Q3, they've really stepped up. I don't have the exact numbers with me right now. But I can tell you that Germany has hit an all-time high in their exports. So we're seeing increased supply going into China, particularly out of Germany over that time. But it was coming off of a lower quarter. So Germany has become the second-largest importer of logs into China at this point in time behind New Zealand. What we've also seen, in the meantime, a reduction in supply from Russia and a couple of other places. So there's been a bit of balancing there.

Operator

And at this time, we have no further questions on the audio line.

Collin Mings ***Rayonier Inc. - Vice President, Capital Markets & Strategic Planning***

Thank you. This is Collin Mings. I'd like to thank everybody for joining us. Please contact us with any follow-up questions.

Operator

That concludes today's conference. Thank you for participating. You may disconnect at this time.

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