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RYN - Q1 2018 Rayonier Inc Earnings Call

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OVERVIEW:

Co. reported 1Q18 sales of $203m and net income attributable to Co. of $41m or $0.31 per share.

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CORPORATE PARTICIPANTS

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

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

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

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

CONFERENCE CALL PARTICIPANTS

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

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

Ketan Mamtora *BMO Capital Markets Equity Research - Analyst*

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

PRESENTATION

Operator

Welcome, and thank you for joining Rayonier's First Quarter 2018 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. - Senior VP & CFO*

Thank you, and good morning. Welcome to Rayonier's investor teleconference covering first quarter earnings. Our earnings statements and financial supplements were released yesterday afternoon and are available on our website at rayonier.com. I'd 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 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, Mark, and good morning, everyone. First, I'd like to make some overall comments before turning it back over to Mark to review our financial results, then we'll ask Doug Long, Senior Vice President of Forest Resources to comment on our U.S. and New Zealand timber results, and following the review of our timber results, Chris Corr, Senior Vice President for Real Estate, will discuss our real estate results.

We're pleased to report strong first quarter results reflective of the quality and diversity of our portfolio and the market strength within each of our 3 timber segments. We're also very encouraged by the progress that we've made in executing our real estate strategy and the strong results that this segment has generated. For the first quarter, we achieved earnings of $0.31 per share and adjusted EBITDA of $93 million, which represents a significant increase from the prior year first quarter. Relative to the prior year first quarter, all 3 of our timber segments realized meaningful increases in adjusted EBITDA, and excluding the prior-year gain on a large disposition, our real estate results were also significantly higher due to the increase in the number of acres sold and the higher average sales pricing.

Our Southern Timber segment adjusted EBITDA increased 7% from the prior-year quarter, reflecting higher volumes and relatively flat average stumpage prices. As we discussed last quarter, we generally expect pricing in the South to remain flat this year and then pick up some momentum as we see new lumber capacity come online, primarily in 2019 and 2020. We're fortunate to own timberlands in some of the strongest wood baskets in the U.S. South coastal Atlantic region, where we continue to enjoy pricing well above the south-wide average. We also believe that these markets offer favorable long-term prospects, given the diversity of demand for both pulpwood and sawtimber products as well as the export market optionality.

In our Pacific Northwest Timber segment, results improved significantly versus the prior year first quarter, primarily due to higher sawtimber and pulpwood pricing. We've seen a significant increase in product prices in the Northwest over the past year, as improving domestic and export markets have continued to compete for available log supply. The proportion of our mix flowing into the export markets dropped to 21% from 25% in the prior year first quarter, a testament to growing U.S. lumber production brought about by improving housing starts.

We've experienced similar dynamics in our New Zealand Timber segment with strong competition from both domestic and export customers. And while we saw a large seasonal build import inventories in China during the first quarter due to the Chinese New Year, demand appears to have bounced back pretty quickly and worked these inventories down to a more balanced level over the past several weeks. Strong demand from India has also served to bolster log pricing in the region.

Moving to our Real Estate segment, we enjoyed a particularly strong first quarter, excluding our improved development sales in wildlight, we sold just over 8,200 acres and at a weighted average price of $4,250 per acre. This represents a very strong premium to our underlying timberland value as well as to the HBU value realizations of our peers. As we've stated in the past, this business is really all about premium and we're very pleased to see that our real estate strategy is yielding strong results and meaningfully augmenting our core timberland returns.

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

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

Thanks, Dave. Let's start on Page 5 with our financial highlights. Sales for the quarter totaled $203 million, while operating income was $57 million and net income attributable during the year was $41 million or $0.31 per share. Pro forma EPS was also $0.31 per share as we had no pro forma items in the quarter. First quarter adjusted EBITDA of $93 million was significantly above the prior year quarter adjusted EBITDA of $57 million due to favorable results in all 3 of our timber segments as well as our real estate segment. As a reminder, adjusted EBITDA in the prior year quarter excludes the impact of a large disposition.

On the bottom of Page 5, we've provided an overview of our capital resources and liquidity at quarter end as well as a comparison to prior periods. Our cash available for distribution, or CAD, was $77 million in the first quarter compared to $39 million in the prior quarter, primarily due to higher adjusted EBITDA, lower cash interest paid and lower capital expenditures. A reconciliation of CAD to cash provided by operating activities and other GAAP measures is provided on Page 7 of the financial supplement. We closed the quarter with $93 million of cash and roughly $1 billion of debt. Our net debt of $906 million represented 17% of our enterprise value based on our closing stock price at quarter-end. Note that these figures exclude $84 million of cash proceeds from timberland and HBU sales that are currently held by like-kind exchange intermediaries, and are therefore, classified as restricted cash.

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 8, with our Southern Timber segment. Adjusted EBITDA in the first quarter of $28 million was $9 million and $2 million favorable to the prior quarter and the prior year quarter, respectively. First quarter harvest volume of approximately 1.6 million tons was 346,000 tons and 189,000 tons higher than the prior quarter and the prior year quarter, respectively. The volume increased compared to prior quarter was largely driven by stronger demand whereas the volume increase relative to prior year quarter was driven by incremental volume from acquisitions, coupled with stronger demand and fewer pulp mill outages. First quarter pine pulpwood stumpage prices of $17.11 per ton, were 13% favorable compared to the prior quarter and 1% unfavorable compared to the prior year quarter.

Pine sawtimber stumpage prices of $26.31 per ton were 8% favorable to the prior quarter and roughly flat compared to the prior year quarter. The increase in both pine pulpwood and sawtimber prices, relative to the prior quarter, was heavily impacted by lower pricing on a large lump sum sale in Arkansas last quarter, which is our weakest market from a pricing standpoint.

Hardwood prices of $10.49 per ton were 9% and 4% unfavorable compared to the prior quarter and prior year quarter. In both cases, the reduction in price was due to both product and geographic mix.

Now moving to the Pacific North West Timber segment on Page 9. Adjusted EBITDA of $14 million, was $4 million and $5 million favorable to the prior quarter and prior year quarter, respectively. First quarter harvest volume of 379,000 tons increased 18% relative to the prior quarter and decreased 5% relative to the prior year quarter. Recall that in the fourth quarter of 2017, we deferred 50,000 tons of planned volume to capture improving export markets going into 2018, particularly in Japan. As expected, we took advantage of those favorable market conditions during the first quarter, which contributed to the increased harvest volume. Delivered pulpwood prices of $44.52 per ton were flat compared to prior quarter and 15% favorable compared to the prior year quarter. Pulpwood prices remained strong compared to the prior year quarter due to continued competition from a growing market for chip exports to Asia. Delivered sawtimber prices of $95.45 per ton were flat compared to prior quarter and 27% favorable compared to the prior year quarter. Strong sawtimber prices can be attributed to continued strength in both the export and domestic markets as they compete for the same logs.

Page 10 shows results and key operating metrics for our New Zealand Timber segment. Our New Zealand Timber segment delivered another strong quarter. Adjusted EBITDA of $22 million was $1 million unfavorable compared to the prior quarter, primarily due to lower harvest volumes, partially offset by favorable domestic and export sawtimber prices and $6 million favorable compared to the prior year quarter, primarily due to a combination of higher harvest volumes and higher domestic and export sawtimber prices.

First quarter harvest volume of 558,000 tons was 14% lower compared to the prior quarter and 12% higher than the prior year quarter. Export sawtimber prices increased 2% and 8% compared to the prior quarter and prior year quarter, respectively, due primarily to continued strong demand from China. Domestic sawtimber prices in U.S. dollar terms were 5% and 11% higher than the prior quarter and the prior year quarter, respectively. Due to increased demand tension between export markets and local saw mills along with a modest rise in the New Zealand U.S. exchange rate.

In our Trading segment, the first quarter adjusted EBITDA of $0.1 million was $1 million less than both the prior quarter and the prior year quarter. This decrease in adjusted EBITDA compared to the prior year quarter was due to lower trading margins resulting from increased competition for log supply coupled with higher log yard and port costs.

I'll now turn it over to Chris to cover Real Estate.

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

Thank you, Doug, and good morning, everybody. As highlighted on Page 11, our Real Estate segment delivered strong first quarter results. Real Estate sales totaled $36 million on 8,225 acres sold with the activity dominated by 3 large sales in Florida, totaling $33 million. Sales in our improved development category reflect a steady pace of activity at our wildlight development project. During the quarter, we closed 9 residential lots for a total of $500,000 or $60,000 per lot and 2.1 acres of commercial property for $600,000 or $283,000 per acre.

The improved development category reflects 2 transactions in Florida, totaling 625 acres for a total of $7.4 million or roughly $12,000 per acre. One transaction was 494 acres in Florida for $5 million or $10,000 per acre and the other transaction was 131 acres in Florida for $2.5 million or roughly $19,200 per acre. In the rural category, sales totaled $1.7 million on 415 acres at an average price of roughly $4,000 per acre. We are very pleased with the progress on our rural places program, where we closed on 16 lots in 13 separates transactions. Interest in this product continues to build, particularly in Florida and Texas.

In the nonstrategic and timberlands category, sales of $26 million were comprised of 7,181 acres sold at an average price of roughly $3,600 per acre. This includes a sale of 6,965 acres in Florida for $25 million or roughly $3,700 per acre an attractive premium to our timberland value.

Looking ahead, we have a strong pipeline of HBU opportunities with a number of prospects either under contract or in negotiation and expected to close this year. We anticipate another strong quarter in Q2, followed by lighter activity during the second half of the year. We expect activity at our wildlight development project to continue to build through the year with steady progress both in infrastructure construction and the sales pipeline.

I'll now turn the call back over to Mark.

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

Thanks, Chris. As we noted in our earnings release, following a strong start to the year, we're on track to achieve our full year adjusted EBITDA guidance of $280 million to $305 million. In the U.S. South, we expect to achieve our full year volume guidance of 5.8 million to 6 million tons, although, we anticipate lower quarterly harvest volumes for the remainder of the year, following a relatively strong first quarter. We continue to expect that 2018 average pricing in the U.S. South will be relatively flat versus 2017 average prices. But we remain optimistic longer term given the magnitude of new lumber capacity scheduled to come online over the next few years.

In our Pacific Northwest Timber segment, we're likewise on track to achieve our full year volume guidance of 1.3 million to 1.4 million tons with lower quarterly harvest volumes for the balance of the year, while we expect continued strong sawtimber pricing due to competing demand in domestic and export markets.

In our New Zealand Timber segment, we expect a seasonal uptick in quarterly harvest volumes for the balance of the year, and remain on track to achieve our full year volume guidance of 2.5 million to 2.7 million tons. We continue to see favorable price dynamics in New Zealand driven by strength in both domestic and export markets. And as Chris noted, in our Real Estate segment, we expect strong results again in the second quarter based on our anticipated pipeline of closings followed by lighter activity during the second half of the year.

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

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

Thanks, Mark. Quality and diversity are words that we use a lot at Rayonier, both to describe our portfolio as well as guide our portfolio management efforts. We've taken measured but deliberate steps over the last few years to meaningfully build on the quality and diversity of our portfolio across all 3 of our timber segments as well as our HBU business. And we're seeing the impact of these efforts in our financial results. Overall, we're very pleased with the quarter and optimistic about our outlook for the future. We see meaningful price momentum developed in our Pacific Northwest and New Zealand Timber segments as well as in our HBU Real Estate business. While the price recovery in the South continues to progress slowly, we are encouraged by recent announcements regarding incremental lumber capacity as well as the potential for additional southern log exports. We believe we are uniquely well positioned to capitalize on these trends with great timberland assets located in strong markets.

In conclusion, I want to reiterate that we continue to be intensely focused on active portfolio management and disciplined capital allocation, with a view towards building long-term value per share. I'm proud of how our team has executed to deliver another successful quarter. And we look forward to capitalizing on new opportunities going forward.

I'll now turn the call back over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from John Babcock with Bank of America.

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

Just want to start out, a couple of questions here, but 1 to kind of begin just on the Pacific Northwest. I was wondering if you could talk about some of the pricing trends, we currently have seen pricing arise pretty quickly over the last couple of months, and I was wondering what you've seen so far in April and I guess at the very start of May here? And ultimately, if you could kind of talk about how you see that moving forward? And at what point you'll potentially see -- potentially -- maybe not downward attention per se, but maybe an upwards kind of limit on that pricing?

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

John, this is Doug. I'll take that question. Yes, we've seen -- as you've seen our first quarter results continued strength in that pricing. We think there's a really well-balanced tension in the markets right now, and moving into the second quarter, we've seen prices on that same level of competition. So right now, we haven't seen any downward pressure per se. The export market continues to buoy it from that side. So right now we're looking at a very healthy market.

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

And John, what I would add to that is keep in mind that the mix -- the export mix has shifted during this period of time and that's as we would expect it to. We've said all along that we view as the Pacific Northwest market strengthens, it's likely going to take market share away from the China market. And so in fact, we've seen that as this price run-up has increased, and conversely, we've seen more lumber production coming out of the Pacific Northwest relative to the past.

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

Okay. And then just on New Zealand -- on actually Real Estate. If you could talk a little bit about there, you seem to be expecting relatively strong quarter in 2Q. Is there any more color you could provide on that?

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

Well, we tend to not provide quarterly guidance, again, but what we know, there's going to be some imbalance on a quarter-to-quarter basis. We try to give at least some directional guidance. So, again, it ultimately ends up being dictated by which side of the -- of quarter end a particular transaction falls because keep in mind Real Estate activity is generally dominated by the larger transactions. And so that's all the color that we can give. But again, we had a strong Q1, we're anticipating another strong Q2. And then lighter activity in the back half of the year.

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

And it always take -- it always -- you always have some visibility -- greater visibility on near-term transactions just because they typically take a number of months to complete. And so we have much greater visibility on Q2 than we do the second half of the year.

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

Okay, that's helpful. And then the last question before I turn it over. I was just wondering, so the market for timberland sales was generally, at least, across the broader market pretty slow in 1Q. And I was just wondering if you expect activity ultimately pickup from here and what the drivers are?

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

There is -- I would say, this is more of a typical seasonal pattern. There have been and continue to be plenty of things to look at. This tends to be that the time of the year where we tend to see a pickup in terms of things that are out there. And I think one of the things that we're going to continue to do is, we're very focused on where it makes sense to look at specific assets and conversely where it makes sense not to go down the path as far on other assets.

Operator

Our next question comes from Ketan Mamtora with BMO Capital Markets.

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

First question, can you give us some sense of kind of log inventories in China, where they peaked and where they are right now? In absolute terms or percentage terms, how much they have kind of gone down?

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

Yes, so, Ketan, the -- in absolute terms, they ended up exceeding just over 5 million cubic meters, which was a little bit higher than we were anticipating. I think we were anticipating that they would come in, in the 4 7 range roughly so. What happens during the Chinese New Year is the demand pretty much shuts down, but the supply keeps flowing in and you get that build up at ports. And so it becomes very important, once the Chinese New Year is over, to see how that takeaway develops. And we've been encouraged by how far -- or how fast that inventory drawdown has taken place. We tend to look at a ratio of the inventory to demand and that ratio has come back to roughly 1.5 months and that's a pretty healthy level in our mind, and we'll support generally a stable market condition, which is generally what we're experiencing right now there. So we're encouraged by how that has behaved and it will certainly get more visibility on that over the coming months. But this critical point of the initial drawdown, it's gone very favorably.

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

That's helpful. And also would you consider this 1.5 months kind of a typical average for this time of the year? Or would you say maybe above or below the typical average?

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

I'd say, it's been typical of the last few years, which I would characterize is as sort of perhaps lower than some prior years. And I think it just speaks to the strength of the market.

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

Got it. That's helpful. And then turning to southern sawlog market. You talked about expecting higher prices in '19 and '20 to the extent that you can. Do you expect to be -- this to be kind of a more broad-based kind of pricing recovery? Or very specific to markets where -- or wood baskets where you are seeing more lumber supply come in?

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

I think there's a couple of things to think about as you break that question down. The first point is, is to look at the capacity increases. There's been roughly $4 billion board feet of incremental capacity that we expect to come online over the next couple of years. Once those facilities are up and running, and so you've got an absolute increase in the lumber production. But also I think from a log pricing standpoint, you absolutely have to look at it at a local level. And we believe that, that price elasticity at the local level is very much driven by the inventory situation in that particular area. And so we look pretty carefully at how those inventory builds have occurred across our footprint and where the capacity increases are occurring. So it's really twofold. It's understanding how that inventory is behaving in your -- across your footprint as well as where that capacity increase is taking place.

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

All right. That's helpful. And just last question. Can you just remind us, again, kind of just priorities for use of cash? And how you guys are thinking about dividend maybe your deal pipeline from an M&A standpoint whether it's bolt-ons or kind of maybe some larger deals that you might be looking at? Any thoughts or color will be helpful.

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

Sure, Ketan, this is Mark. I mean, our thoughts would be on capital allocation, continues to be remain nimble and opportunistic. We don't go into the year with specific targets on buybacks or acquisitions. We really try to be responsive to the market environment that we see both in terms of where assets are trading. The acquisition opportunities that are available where our stock price is, of course. And so, again, it's hard to respond to the question without kind of -- pipeline of opportunities that we see in front of us. But again, that's our mantra, is just to remain nimble and opportunistic and to utilize the different levers we have to build long-term value per share.

Operator

(Operator Instructions) Our next question comes from Collin Mings with Raymond James.

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

To start, I just want to talk a little bit more about New Zealand and how you're thinking about timberland values in the region. Clearly, there was a mark on value when you completed your capital infusion a couple of years ago, but EBITDA since then from that segment has obviously grown substantially. I'm just curious are there any quantitative guide posts that you can offer us on how you think about, how values have tracked or recent comp sales are going recognize and there isn't a whole lot of deal flow, particularly, in that region?

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

Yes. And that really is the -- that's -- the crux of the issue is, there is not a lot of deal flow in the region. And recognize that our recap, as you say, is both -- it's both a few years old prior to the run-up from a performance standpoint, but also recognize that it was based on a backward looking valuation at the time. And so it's -- that's a fairly dated perspective. There have been some -- there have been a number of recent sales there, but there -- they're not public in terms of the -- the value has not been disclosed. And so we can only really speak to it in a directional sense.

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

And Collin, keep in mind, our JV partner in New Zealand Phaunos Timber Fund, they do publicly disclose an NAV, which is based on a backward looking appraisal. So in the absence of better information, that's at least a benchmark that is out there. But sufficed to say, the price at which we do the capital infusion that we announced in 2015, closed in 2016, I think the earnings per acre in New Zealand have about tripled since then. So obviously we've seen a significant change in the cash flow of that asset.

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

And that the Phaunos year-end results that were released earlier this week pointed to an approximate value of roughly USD 700 million for the whole JV enterprise.

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

Okay. Very helpful color guys. I appreciate that. Moving to the U.S. South, Doug, I mean, overall guidance in the U.S. South is that sawlog pricing will be relatively flat. But again, even in comments to one of the earlier questions, you guys have emphasized, the differential between wood baskets in the U.S. South. I just was curious, are there any particular markets where you're actually getting more per ton on kind of a sustainable basis for sawlogs than you were able to call even 3 or 6 months ago. Are you actually at that point now? Or you have that true pricing power with customers actually able to extract a little bit higher pricing versus there just being good demand?

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

Sure, Collin. Yes on a year-over-year basis, we've seen roughly a 1% to 4% increase in grade pricing along the Atlantic coast along those wood basins, but the Gulf States have been relatively flat to even some minor decreases. So we're still seeing that differential in pricing. And the reason we've said relatively flat for the year is based on our age classes, we're going to see a shift in our harvest more heavily to the Gulf States this year. So while we anticipate modest improvement in grade prices in those markets, particularly with exports exposure in Atlantic coast, that geographic composition of our harvest about 10% more is going to be from the Gulf States in 2018, and that'll like the result in overall further pricing being comparable to 2017.

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

Got you. Okay, very helpful color. But bottom line at least in the -- kind of along the Atlantic Coast, there is kind of tangible pricing power you're able to get more for your logs?

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

That's correct.

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

And then Mark to your point about wanting to be nimble and opportunistic, as you consider the really vastly improved cost at equity capital. Are you adjusting any of your underwriting criteria on deals? Are you reevaluating leverage targets? Will that make more sense at this point of the cycle, maybe even go -- even more conservative on leverage? Just any sort of change on the margins you think context of where that equity cost of capital has moved over the last year or 18 months recognizing, again, obviously still want to remain disciplined to a degree?

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

I mean, I wouldn't say that our underwriting criteria for timberland acquisitions has changed meaningfully. But whenever we're looking to finance a transaction, we're obviously mindful of the respective cost to capital within the different capital alternatives in the toolbox. And so we're certainly mindful of the move in the stock price, but we're also very mindful of matching any equity raise with the right use of capital. And again making sure that we're doing that in a disciplined manner in terms of how we think about the value of our stock price relative to the value of an acquisition that we're evaluating.

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

The other thing I'd add to that, Collin, is recognize that a few years back we essentially fixed all of our long-term debt from a rate standpoint. And so we feel really well positioned in that context. And as such, we've been kind of organically drawing down that debt load over the past few years as a result. And so we feel like that positions us with a lot of flexibility going forward, as we think about transactions that makes sense for us.

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

Okay. And then just one last one from me, again, kind of on that capital allocation theme. But think back to kind of Rayonier prior to the span, I think if memory serves there tend to be a little bit more consideration at kind of a board level around the dividend to over kind of the summer time frame and back in the day when Rayonier was increasing the dividend at that point, there tend to be maybe more of a chance of the movement as we kind of go into the summer. Just curious from kind of how the board looks at the dividend? Is that truly kind of a quarterly process? Or is there kind of maybe one time at a year where the board spends a little bit more of time thinking about that from a capital allocation standpoint?

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

Well, first of all, recognize that relative to pre-spin, it's very much a different board. And so we're not bound by any sort of historical norms with respect to that. I would say that this is an area that we have considerable discussion with our board and we take the dividend pretty seriously. We lowered it shortly after the spin and that was a decision that was not done lightly. And as is the case in terms of increasing it, we recognize that when you increase it, it's generally viewed as a permanent change. And so we want to be pretty diligent and thoughtful when we consider such a change, and we certainly recognize that as measured on a CAD basis, we're comfortably meeting that dividend relative to recent payouts. But also recognize that we pay a lot of attention to the volatility of the cash flows, and where we've seen the greatest increase in the cash flows have been from the 3 parts of the company that have historically been much more volatile, namely New Zealand, the Pacific Northwest and Real Estate. And also keep in mind that a subset of that CAD is coming from our noncontrolling interest in the New Zealand joint venture. And then I think the other thing I'd just note to that is it, as we have discussed in a lot of our investor materials, we're very focused on our Real Estate business thinking about the premiums that we generate, but we also think that you have to be mindful of restocking the pipeline. And so we like to think about allocating a portion of our CAD to buying timberland to replace the lands that we've sold. And so when you normalize for all of those things, the payout is a lot closer to what we're generating. And so that's something that we're mindful of. As I said earlier, our board's continuing to look at this, we look at it very much in the context of what Mark described in maintaining our nimble capital allocation perspective. We continue to believe there are a number of potential transactions out there that might make sense for us. And so we're not in a situation where we don't see a good use of proceeds from an acquisition standpoint. But we're going to continue to stay nimble on this front and be very thoughtful as we assess this going down the road.

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

Yes, I was just going to follow up, I wouldn't say there is a specific time frame that the Board entertains a dividend change. It's something that we do on a periodic basis and, again, when we think it's appropriate.

Operator

The next question comes from Anthony Pettinari with Citi.

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

This is actually Randy Toth sitting in for Anthony. Looking at U.S. South gross pricing, it looks like prices on a per ton basis were actually up 2%, but the Cut, Haul and Freight costs grew something like 20%, leading to the lower net pricing. So how much of the increase in hauling and freight would you categorize as kind of out of the ordinary or above trend?

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

This is Doug. I would say that, we did have some excessively long carts in some of that, so that is part of the issue that you're seeing for some of the distance. So probably of that, we're looking at 10% to 15% of it, at least, would be in, which we can say excessivehauls. We have seen some pushing on tucking and particularly in freight rates and things like that, but they've been more in tune to the single digits and probably closer to 5% and those kind of numbers.

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

Okay. And then how are export price realizations out of New Zealand in April and early May? Are they higher or lower than the 1Q average?

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

We're essentially seeing pretty flat export pricing right now. We've actually seen an increase in the pricing, but then shipping rates have worked against us to basically being flat.

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

Okay. And then just moving to the U.S. South. How are log exports trending from both the volume and pricing standpoint year-over-year so far in 2018?

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

Yes, we've seen an increase across the entire industry, obviously, on exports, logs and with ourselves. Our Q1, we've seen over a doubling of our export volume that's going to China. So it's moved up and pricing we've seen, as I mentioned before on the Atlantic Coast, on composite price, down about a 1% to 4% increase across all the volume and export definitely has an impact on that.

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

I just want to clarify one point. This is Mark. On the cut and haul costs. I think if there was a gross increase in the cut and haul costs, there was a large percentage of it on a per unit basis, it was nothing near that type of percentage. So just wanted to clarify that. Good point.

Operator

This concludes the question-and-answer session. Now I will turn the conference back over for closing remarks.

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

This is Mark McHugh. Thanks for joining the call today and feel free to follow up with me, if you have any additional questions. Thank you.

Operator

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