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RYN - Q2 2018 Rayonier Inc Earnings Call

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OVERVIEW:

Co. reported 2Q18 sales of $246m and net income attributable to Co. of $36m or $0.28 per share. Expects 2018 net income attributable to Co. to be $82-89m and EPS to be $0.63-0.68.

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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

Chip Dillon *Vertical Research Partners, LLC - Partner*

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*

Mark Adam Weintraub *The Buckingham Research Group Incorporated - Research Analyst*

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

Steven Pierre Chercover *D.A. Davidson & Co., Research Division - MD & Senior Research Analyst*

PRESENTATION

Operator

Welcome, and thank you for joining Rayonier's Second Quarter 2018 Teleconference Call. (Operator Instructions) Today's conference is being recorded. If you have any objections, please disconnect at this time.

And 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 second 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 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, Mark, and good morning, everyone. First, I'll make some overall remarks before turning it back over to Mark to review our financial results. Then we'll ask Doug Long, our Senior Vice President for Forest Resources, to comment on our U.S. and New Zealand Timber results. And following the review of our Timber results, Chris Corr, our Senior Vice President for Real Estate, will discuss our Real Estate results.

We're pleased to report a strong second quarter results reflective of the quality and diversity of our timberlands and Real Estate portfolio. For the second quarter, we achieved earnings per share of $0.28 and adjusted EBITDA of $111 million, which represents a significant increase from the prior year second quarter.

Our Southern Timber segment adjusted EBITDA increased 42% from the prior year second quarter, reflecting 10% higher volumes and a significant increase in nontimber income. The increase in harvest volume was primarily driven by incremental volume from recent acquisitions, coupled with stronger overall demand, while the increase in nontimber income was driven by roughly $6 million of pipeline easement sales.

Our Pacific Northwest Timber segment reported 36% higher harvest volumes as well as a 26% lift in average delivered sawtimber pricing, driven by continued strengthening in both domestic and export markets. Based on these favorable market conditions, we accelerated some volume that was planned for the second half of the year. This harvest timing, which contributed to the strong second quarter, will result in a comparatively lower harvest level for the balance of the year.

We also enjoyed a strong second quarter in New Zealand. Excluding the prior year period timberland sales, adjusted EBITDA in New Zealand increased nearly 40% versus the prior year second quarter, driven by a 20% increase in volume and a 9% increase in both domestic and export sawtimber prices.

Moving to our Real Estate segment. Results improved significantly over the prior year quarter, primarily reflecting the closing of a timberland sale in Louisiana as well as continued strong demand for rural HBU properties.

As we've stated in the past, this business is 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.

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 $246 million, while operating income was $52 million and net income attributable to Rayonier was $36 million or $0.28 per share. Pro forma EPS was also $0.28 per share, as we had no pro forma items in the quarter.

Second quarter adjusted EBITDA of $111 million was significantly above the prior year quarter adjusted EBITDA of $87 million due to favorable results in our Southern Timber, Pacific Northwest Timber and Real Estate segments, partially offset by lower results in New Zealand due to the prior year period timberland sales.

As Dave noted, excluding these timberland sales, New Zealand Timber results also improved significantly.

On the bottom of Page 5, we provided overview of our capital resources and liquidity at quarter-end as well as a comparison to year-end. Our cash available for distribution, or CAD, for the first half of the year was $164 million compared to $97 million in the prior year period, primarily due to higher adjusted EBITDA, lower cash interest paid, lower cash taxes and lower 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 $107 million of cash and roughly $975 million of debt. Our net debt of $868 million represented 15% of our enterprise value based on our closing stock price at quarter-end. Note that these figures exclude $69 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, everyone. Let's start on Page 9 with our Southern Timber segment. Adjusted EBITDA in the second quarter of $31 million was $2 million and $9 million favorable to the prior quarter and the prior year quarter, respectively.

Second quarter harvest volume of approximately 1.5 million tons was 78,000 tons lower than the prior quarter, which we fully expected on the extraordinarily high level of production in the first quarter. The volume increase of 133,000 tons compared to prior year quarter was driven primarily by incremental volume from recent acquisitions, coupled with stronger overall demand.

Additionally, it's worth noting that our nontimber sales of $11 million doubled in the second quarter versus the prior year period due to the closing of 3 significant pipeline easements.

Second quarter pine pulpwood stumpage prices of $16.05 per ton were 6% unfavorable compared to the prior quarter and 3% favorable compared to the prior year quarter. The decrease in pine pulpwood prices compared to prior quarter was due to geographic mix with a portion of our harvest shifting West. Whereas prior year period pulpwood prices were negatively affected by salvage timber from the West Mims fire.

Pine sawtimber stumpage prices of $26.23 per ton were essentially flat to the first quarter and 2% favorable to the prior year period. While we've continued to see some modest strengthening in coastal markets, overall sawtimber pricing in the South is relatively flat during the last year with period-to-period differences generally attributable to geographic mix.

Hardwood prices of $12.12 per ton were 16% and 4% favorable compared to the prior quarter and the prior year quarter, respectively. Hardwood markets are very localized and product specific, so changes in price tend to be driven by both product and geographic mix.

Now moving to the Pacific Northwest Timber segment on Page 10. Adjusted EBITDA of $15 million was $1 million and $9 million favorable to the prior quarter and prior year quarter, respectively.

Second quarter harvest volume of 374,000 tons was essentially flat to the prior quarter and 36% higher in the prior year quarter. As Dave mentioned, favorable market conditions for both pulpwood and sawtimber afforded us an opportunity to accelerate volume in the second quarter that was otherwise scheduled to be sold during the second half of the year, thus locking in very strong pricing.

Delivered sawtimber prices of $103.38 per ton were 8% and 26% favorable to the prior quarter and prior year quarter, respectively. The increase in sawtimber prices can, again, be attributed to continued strength in both the export and domestic markets.

Delivered pulpwood prices of $49.76 per ton were 12% and 26% favorable compared to the prior quarter and prior year quarter, respectively. The increase in pulpwood prices was driven by strong run rates at West Coast pulp mills coupled with tension from a growing market for chip exports.

Page 11 shows results and key operating metrics for New Zealand Timber segment. Our New Zealand Timber segment delivered another very strong quarter. Adjusted EBITDA of $26 million was $4 million favorable compared to the prior quarter, primarily due to higher harvest volumes and favorable export sawtimber prices, and $17 million unfavorable compared to the prior year quarter, which included land sales of $24 million.

Second quarter harvest volume of 738,000 tons was 32% and 20% higher compared to the prior quarter and prior year quarter, respectively, primarily due to the timing of export shipments and incremental volume from recent acquisitions.

Export sawtimber prices of $120.80 per ton increased 3% and 9% compared to the prior quarter and prior year quarter, respectively, due to continued strong demand mainly from China complemented by India reaching pricing parity.

Domestic sawtimber prices of $86.21 per ton in U.S. dollar terms were roughly flat compared to the prior quarter and 9% higher compared to the prior year quarter due to continued demand tension between export markets and local sawmills, along with a modest rise in the New Zealand to U.S. exchange rate.

Domestic pulpwood prices of $38.20 per ton increased 6% and 15% compared to the prior quarter and prior year quarter, respectively, due to local mills competing with increased demand for lower quality logs from India and China as export customers sought cheaper fiber supplies.

In our Trading segment, second quarter adjusted EBITDA of $200,000 decreased compared to the prior quarter due to higher costs associated with port congestion. Trading margins continue to tighten in 2018 due to increased competition for log supply and increased shipping costs.

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

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

Thank you, Doug. As highlighted on Page 12, our Real Estate segment delivered very strong second quarter results.

Real Estate sales totaled $50 million on 15,804 acres sold with the activity dominated by a timberland sale in Louisiana. Excluding Improved Development sales, we generated a weighted average price of $3,071 per acre representing a significant premium to our timberland hold value.

Sales in our Improved Development category reflect a steady pace of activity at our Wildlight development project. During the quarter, we closed 12 residential lots for a total of $625,000 or $52,000 per lot and 2 acres of commercial property for $684,000 or $384,000 -- $351,000 per acre.

In the rural category, sales totaled $4.8 million on 1,071 acres at an average price of roughly $4,500 per acre. We are very pleased with the progress in our rural places program where we closed on 30 lots in 24 separate transactions. Interest in this product continues to build, particularly, in Florida and Texas. And we are starting to see a pickup of activity in Louisiana.

In the nonstrategic and timberlands category, sales of $44 million were comprised of 14,729 acres sold at an average price of roughly $3,000 per acre. This includes the sale of 14,447 acres in Louisiana for $43 million or roughly $3,000 per acre.

Following extraordinarily strong first and second quarters in Real Estate, we expect much lighter activity during the second half of the year. As we've discussed in the past, our Real Estate results tend to be lumpy. And this year, our activity was heavily concentrated in the first half. That said, we expect activity at our Wildlight development project to continue to build throughout the year with steady progress both on 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 noted in our earnings release, based on our year-to-date results and our outlook for the balance of the year, we're increasing our full year guidance.

We now anticipate full year net income attributable to Rayonier of $82 million to $89 million, EPS of $0.63 to $0.68 and adjusted EBITDA of $300 million to $315 million. Additional details regarding our updated guidance, including a reconciliation of adjusted EBITDA to net income and EPS, can be found on Schedule G of our earnings release.

With respect to our individual segments, we expect our Southern Timber segment to achieve full year volume of 5.8 million to 5.9 million tons in line with our prior guidance, although we anticipate lower quarterly harvest volumes for the remainder of the year given the strong volumes in the first half. We continue to expect pricing in the South to remain relatively flat this year, and then to pick up some momentum as new lumber capacity comes online, primarily in 2019 and 2020.

In our Pacific Northwest Timber segment, we are, 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. We further expect a modest decline in our weighted average stumpage prices in the Pacific Northwest, primarily based on product mix as we move into some more challenging stands.

In our New Zealand Timber segment, we expect to achieve full year volume of 2.6 million to 2.7 million tons, although we anticipate some softening in export prices during the second half as a result of the ongoing trade tensions between the U.S. and China.

While New Zealand log exports are not directly impacted by tariffs, the general market uncertainty created by the U.S., China trade situation as well as the impact of potential tariffs on some manufactured wood products flowing from China to the U.S. have caused some pullback in the log export market. We believe that fundamental export market conditions remain favorable, and we're continuing to monitor the situation closely.

Lastly, on our Real Estate segment, we expect very light activity in the third and fourth quarters following an extraordinarily strong first half of the year. Additional details regarding volume, adjusted EBITDA and operating income by segment can be found on Page 14 of our financial supplement.

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

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

Thanks, Mark. Overall, we're very pleased with the quarter, as it represents our strongest quarterly adjusted EBITDA result since the spin-off of Performance Fibers business in 2014. I'm very proud of how our team executed on our operational strategies and worked well together to deliver these strong results. We've always stressed the importance of remaining nimble both in our operational as well as our capital allocation priorities. And we certainly put that philosophy into action during the second quarter as we took advantage of favorable market conditions across each of our segments.

We'll continue to employ this mindset going forward as we seek to maximize the value for shareholders over the long term.

To this end, during the second quarter, we announced an 8% increase in our quarterly cash dividend from $0.25 to $0.27 per share effective for the second quarter distribution. This action reflects our significant cash flow growth, strong capital structure and continued confidence in the sustainability of our businesses. It further reflects our commitment to nimble capital allocation as we seek to build long-term value per share.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today is from Anthony Pettinari from Citi.

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

This is actually Randy Toth sitting in for Anthony. Compared to the expectations at the beginning of the year, it seems like full year EBITDA guidance has risen in all segments except for New Zealand. Can you talk about what's driving that mild EBITDA cut in New Zealand?

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

Yes. Like we discussed, we've seen a bit of softening in the export market conditions there. Again, obviously, New Zealand is not directly impacted by any kind of tariffs associated with the U.S., China trade situation, but there are manufactured wood products in China that flow to the U.S. that have been on the list of potential tariffs. And so, again, we think that the overall construction market in China remains robust and that the, again, fundamental export market conditions remain healthy, but we've just seen a little bit of skittishness in the market as a result of these recent trade developments.

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

You also have some influence from recent currency flows that have made wood more expensive there based on the New Zealand currency. And so that had some modest impact. And we've seen just a little tick-up in inventories of late.

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

Okay. That's helpful. And then just staying on kind of the China theme, what do you think as far as the port inventories and offtake rates?

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

Do you want to speak?

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

Yes. I can speak to that. So log exports set a record last year in 2017, and they are on track, again, this year. And we saw a really large buildup in the first quarter. But after Chinese new year, we've seen inventory levels in China have fallen dramatically over the second quarter. And as we've discussed before, and we believe tracking the inventory demand ratio is more important than just the inventory levels. And this ratio currently sits within 1.5- to 2-month range that we feel is a very comfortable and healthy level. During Q1, it built up to over 3.5 months. So we've seen a significant drop down from our rack, and we feel like it's in a pretty healthy level right at this moment.

Operator

Our next question is from Collin Mings from Raymond James.

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

First question just on New Zealand. Can you quantify the pressure on pricing you've seen today coming off of some of the weakness that you talked about?

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

Yes. Collin, this is Doug. I'd say, so far, the pressure on price we've seen is pretty much attributable to the devaluation of the currency. So it's been kind of in that ballpark of things. We have seen a little bit of additional impacts of freight cost as we see more port congestion both in New Zealand and China with the increase that I mentioned before there on logs exports. So to date, it's been relatively around that devaluation currency and the slight tick, as Dave mentioned before, in freight type things. Right now, it's more just -- that's what we kind of put our guidance along with some just general uncertainty that Mark mentioned about kind of finished products going back.

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

Got you. So it sounds like some of the guidance adjustment is more just forward-looking. And you think there could be continued pressure versus necessarily a meaningful correction in pricing here recently. Is that fair?

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

Yes. I think that's fair.

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

Yes. That would be fair to say.

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

Okay. And then just sticking with New Zealand, again, I recognized there are some limitations on what you can probably say at this juncture. But can you just update us on the status of the Phaunos process and your level of engagement at this point? And then Dave, maybe just more broadly, looks like you guys acquired some timberland in New Zealand during the quarter. Can you touch on that?

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

Sure. Just as a refresher, Phaunos, our partner in New Zealand, is a publicly traded timber fund listed in U.K. Their shareholders voted the wind down their fund last summer. They had -- their board and manager resigned in the ensuing 6 months. And then earlier this year, the new board began executing a plan for an orderly sale of those assets. Stafford, the former manager, recently made an unsolicited offer for all of Phaunos, which has certainly complicated the process that their board was undertaking. Phaunos is now in the process of finalizing its defense statement, and ultimately, it's going to boil down to the shareholders either committing to the Stafford offer or rejecting it, in which case, the Phaunos' board will proceed with the completion of its asset sale process. We certainly have not -- we certainly made it clear that we have an interest in owning that remaining 23% stake, but at the right price. And we continue to monitor the situation, and we believe it's going to ultimately resolve itself over the next several months.

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

Okay. And then just as far as the -- again, it looks like there was some timberland acquired, again, both in New Zealand and in the U.S. South, particularly, here in Florida. Just maybe touch on the acquisitions during the quarter?

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

Sure. It wasn't a heavy quarter. We acquired just under 15,000 acres for $31 million. The bulk of that was an acquisition that we did here in coastal Florida that we are excited about, just under 14,000 acres. It was a sale that we bought for roughly a little over $1,800 an acre. And one of the things that we stress internally is having an active portfolio management -- engagement in the market whether it's on the buy side or the sell side. And we recently sold a property fairly proximate to this one at roughly 2x the per acre value. And so we felt fortunate that we were able to essentially replace that acreage at a significantly lower price. And so we're pretty happy with that. And then in New Zealand, we had a small bolt-on acquisition of about 845 gross acres. But again, we're happy to continue looking for those small bolt-on opportunities where we feel we can add some value and do so at a low operating cost.

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

Perfect. And just one last one and I'll turn it over. Just Doug, I mean, you touched on seeing some year-over-year improvements in log pricing in certain markets. Recognizing it's only been maybe 1 month, 1.5 months as far as seeing this pullback in lumber pricing, but are there any customers that are using that as a reason on the margin to maybe try and knock pricing down a little bit and prevent some of those markets from where you experienced gains over the last year or so?

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

Collin, I would say that there is always people trying to do everything in a negotiation strategy. So anyone is going to use any tactic they have, but we haven't seen prices retreating based on those lumber prices yet. The Southern mills are, obviously, and the Western mills are, obviously, having nice margins, given the fair prices even after the retreat that we've had. So that's always a discussion of price negotiations, but we haven't seen that reflect prices.

Operator

Our next question is from Ketan Mamtora from BMO Capital Markets.

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

First question, can you provide an update on kind of progress on log exports out of U.S. South. You talked about kind of that number going up meaningfully off of small base, but kind of what the progress is there?

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

Sure. Yes, as you say, it started as a small base. But we've seen exports in the South, in general, really growing quite rapidly as you probably read in press releases. So I think lest things I've seen there in 2017 in the South, in general, were about 1 million cubic meters just in the first half of the year, whereas we did about 1.2 million cubic meters across the South in 2017. So it's been an extreme increase as we go forward. For us, as we look at where we've been at, our 2 resource units proximate to the ports. Over 1/3 of our South timber volume was exported. And with 3/4 of our Southern land base within 100 routed miles of ports from U.S. South, in the first 6 months of this year, we've already surpassed our total 2017 harvest export volumes. So we've already in the first 6 months, essentially, did what we did last year. So we're on track doubling what we did last year and intend to improve upon that.

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

That's pretty impressive. Second question. Do you anticipate, and I appreciate when you talked about the New Zealand kind of export price pressure, a lot of that was due to trade issues than it's more kind of forward-looking, but do you anticipate any ripple effects into kind of the U.S. export log market or kind of backlog on different dynamics?

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

It's hard to guess what's going to happen in the trade war, but I think one of the important things is that the logs coming out of both the South and Pacific Northwest are used primarily in the construction industry over in China. And we've recently seen China announce that as kind of one of the tools are going to work against the trade war is increasing infrastructure spending, particularly, in rural areas of China. So it would seem kind of productive to put tariffs on logs that are going to work in that process, but it's hard to predict what's going to happen in trade war also.

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

Yes, Ketan, and it's important to note that a lot of the radiata going into China get's used in the manufacturing of plywood, again, which is on the list of potential tariffs for -- with respect to the U.S. and China. So there is a different use in a lot of the logs going into China versus some of the New Zealand logs going into China.

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

Okay. Understood. That's very helpful. And last question, there has been some press recently around reworking the endangered species back. Do you think there was any possibility that the federal lands could be opened again in the Pacific Northwest for harvest. I mean, for most of us, we haven't seen that at all in the last 25 to 30 years, but do you think there is any possibility that could happen?

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

That would surprise us. I think that -- recognize that you have virtually no manufacturing capacity in place that could even handle that wood if they were to occur. And I think that we've just gone too far down that line from a policy standpoint. So I think that, that's not something that we think is really on the horizon.

Operator

Our next question is from John Babcock from Bank of America.

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

Just 2 quick questions here. The first, it's obviously wildfire season here. Just want to get a sense for what you're seeing in your markets, if there has been any risk there? Then kind of the next question I had was just on the timberland markets. But if you could just kind of talk on the first point that would be great?

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

Sure. With respect to the wildfire seasons, we've seen some impacts, particularly, in our Oregon properties where we have been put on some restrictions, so currently work till -- to 1:00 p.m. So that's starting to cause some supply dynamics basically as people can't work a full day. So that's -- probably, we've seen impacts in the Northwest. It hasn't been significant yet, but it appears to be building. It's an early fire season. And obviously, you can see in the press that we've had a lot of issues. And there's quite a few large fires in Oregon as we speak. So we're starting to see that come forward.

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

Okay. Great. And then just my last question before I kind of turn it over. If you could just talk about kind of the activity in the timberland acquisition markets? How is kind of availability out there? Are there a number of properties for sale that you might be interested in? Any sort of information around that would be helpful.

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

Sure. I mean, it's -- we generally don't comment on perspective M&A activity. But having said that, I think it is a pretty active season right now pretty much in all 3 of the geographies that we're operating in. So we're pretty busy right now assessing a number of potential opportunities and some of this really gets back to just where we feel like we're really well positioned with a strong balance sheet and a fair bit of capacity to do so. But we're going to remain pretty disciplined. As I mentioned earlier, this last quarter and this year has been pretty light. And that's not been a function of just not seeing properties for sale, it's just been a function of just kind of sticking to the disciplined approach that we've used on acquisitions.

Operator

Our next question is from Steve Chercover from Davidson.

Steven Pierre Chercover - *D.A. Davidson & Co., Research Division - MD & Senior Research Analyst*

So first of all, with respect to the earnings guide, you've already got $0.59 in your pocket. So you're suggesting that you're going to generate $0.04 to $0.09 in the second half. So are you just going to cut high-basis wood -- or I mean, how did it drop off that much?

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

Yes. I mean, it's really a function, Steve, of having taken a lot of that -- the EBITDA in the front half of the year. Recognize there is op ink leverage to incremental harvest, and there is a lot of op ink leverage to the Real Estate sales. And so as those taper off, for example, you're going to have the same -- roughly the same level of interest expense in the second half of the year as you do in the first half of the year, but you've got a lot more op ink in the first half of the year. And so it's really just a function of -- as you scale back that EBITDA having taken a lot of that forward, it just translates into lower EPS. And we've got a pretty detailed reconciliation, again, recognizing that this is an area in which there has been a disconnect from time to time in terms of the actual math to get down to EPS. And from the research analysts and the guides, we tried to be pretty explicit about that guidance. And so we have the detailed kind of step-down from adjusted EBITDA to net income and EPS. So I'm happy to walk you through that in more detail off-line.

Steven Pierre Chercover - *D.A. Davidson & Co., Research Division - MD & Senior Research Analyst*

Yes. Absolutely. Because I mean, right now, the consensus is for a combined $0.25 in the second half. And then maybe this one...

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

Yes. But see, that also, I think, we're well above this quarter. So again, it is just a function of a lot of that Real Estate activity, in particular, which has a high op ink contribution just came in the first half of the year. And so like we don't -- we try to shy away from sort of managing towards quarterly earnings, but really kind of managing to maximize value and we take those opportunities when we get them. We saw some real market strength in the first half of the year. We pulled forward some volume in the Pacific Northwest, but that doesn't mean that we're going to go cut what we otherwise plan to cut in the second half of the year. We're managing towards annual targets. And we're trying to kind of optimize the economics of the business during the course of the year.

Steven Pierre Chercover - *D.A. Davidson & Co., Research Division - MD & Senior Research Analyst*

Understood. Okay. And then my second one, like I said, it could be a little bit of a long shot, but China has put an embargo on recycled fiber. I'm sure you know about. And that clearly provides a boost to virgin fiber. And I'm just wondering as we move down through the ecosystem, does it provide an opportunity for you to sell them chips or even pulpwood out of any of your geographies?

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

Yes, Steve, this is Doug. You're right. That's definitely something we're watching. We've heard a lot about Chinese buyers for some potentially shuttered pulp mills right now. We're looking at trying to move the pulp itself into their markets to replace that. But we've also seen very much interest, particularly, off of the West Coast and, as I mentioned, also New Zealand and even in the South about pulp opportunities. So we're exporting pulp right now to Turkey, but we have seen increase about pulp to Asia from the South also. So it's definitely something that over the next year seems to be developing trend that we're monitoring.

Operator

Our next question is from Mark Weintraub from Buckingham Research.

Mark Adam Weintraub - *The Buckingham Research Group Incorporated - Research Analyst*

So 2 quick questions. One, on the timberland sales that you're seeing out there. Is this primarily in auction-type processes? Or are you talking about more situations where it's you and maybe a contiguous owner, et cetera?

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

It's really both. We're always in discussions with neighbors, whether it's on the buy side or the sell side. Those are, obviously, logical situations and then there's always a decent mix of negotiated sales versus auction situations. And different sellers have different preferences around doing that. And it's our job to sort of understand both the landscape there in terms of properties that may or may not be for sale as well as the preference of those owners in terms of how they take it to market.

Mark Adam Weintraub - *The Buckingham Research Group Incorporated - Research Analyst*

And in those situations where it is more auction process, is there any shifts that you could describe as to what seems to be going on in the processes relative to what we've been seeing in the last couple of years. I know that's a tough question to answer, but any color you could give?

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

I'm sorry. What do mean by that, Mark, in terms of what's going on in those processes. I mean, they remain very competitive. I mean, we certainly haven't seen demand for timberland properties trailing off. And in fact, we haven't been very successful in auction processes in the last couple of years.

Mark Adam Weintraub - *The Buckingham Research Group Incorporated - Research Analyst*

And that's really what I was trying to get at is, I mean, you haven't been very successful because it's been so competitive. Is there any reason to think that you are that much more likely to be successful in the auction-type processes or -- I assume, if it still remains very competitive, it's more likely you're going to be in the more private type of negotiated transactions?

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

Yes. I'd say the bulk of the transaction -- the bulk of the activity that we have acquired has been in negotiated transactions, no question. That doesn't mean that we don't still take a crack at auctions. And we have a low batting average there that we're proud of. You don't want to a high batting average in auctions frankly.

Mark Adam Weintraub - *The Buckingham Research Group Incorporated - Research Analyst*

Right. And then lastly, when we look at the timber volumes that you're laying out for -- in the guidance, how do they compare to what you would expect in the next year or 2? Are they -- are these sort of run -- trend run rate levels or are they little high, little low?

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

Yes. I mean, they are generally trend run rate levels, Mark. And we have a commitment to operating on a sustainable yield basis. You will see some peaks and valleys just based on your age-class profile kind of relative to that long-term sustainable yield. But again, we disclosed the long-term sustainable yield in our 10-K in each of our different segments. And so you can kind of see where our current harvest is relative to those sustainable yields. But for the most part, it's in the range. It's probably a little bit towards the higher end of that range in New Zealand this year. It's at the lower end of that range in Pacific Northwest, as we're still sort of building back up from the inventory issues a few years ago. And in the South, I'd say, we're still sort of at the early stages of kind of lifting that harvest over the next 5 years.

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

Yes. I would agree with that. I think tracking 4 billion board feet of additional capacity, about 3 billion of that kind of in our operating area, I think, it pays to be a little bit patient as we think about what those could mean for future years. So we're in the process of lifting things in the South, but not inspired to do it right this second.

Mark Adam Weintraub - *The Buckingham Research Group Incorporated - Research Analyst*

Okay. And just specific to the Pacific Northwest. I wasn't quite sure how to interpret. I think you mentioned you had accelerated some in the first half of the year, and then we're kind of keeping at expected rates in the second half. So is the full year harvest in Pacific Northwest going to be a little bit higher than you anticipated? And then what happens next year if that were the case or that's not the case? You're basically in line with what you're originally anticipating.

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

Yes. We're in line with what we're originally anticipating. We just took more of that full year harvest target in the first half of the year given the strong market conditions. So again, we have updated guidance by segment in the financial supplement and that reflects our current expectation of full year harvest. And alongside that, we provided the year-to-date levels.

Operator

(Operator Instructions) And our next question is from Chip Dillion from Vertical Research.

Chip Dillon - *Vertical Research Partners, LLC - Partner*

Question I have, could you just remind me, again, why the tariff issue is an issue for New Zealand, but not for the Pacific Northwest, especially given that the tariff would be applied to the logs in the Northwest and not to New Zealand, we would think?

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

Yes. Chip, the issue or the perspective issue, and recognize, it's not kind of locked in, the perspective issue or the concern is that it's in the form of finished products coming back, particularly, plywood. And recognize that, roughly 30% of our New Zealand volume goes into plywood, whether it's the softwood core that's part of a hardwood facing back or a full softwood sheet. So that's probably where there is the biggest theoretical or potential exposure is on that front. And then I think, keep in mind that certainly some of what we were discussing earlier with respect to guidance was also a reflection of kind of the currency change as well as kind of shipping conditions.

Chip Dillon - *Vertical Research Partners, LLC - Partner*

That makes sense. I got you. And then what that means kind of, in reverse, is that if they do slap a tariff on our timber going into the -- to China a lot of what they buy from the Northwest they can't get anywhere else, I would imagine?

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

We don't see as much of tariff being slapped on logs. It's more of a flow-through effect. If there is a tariff on products coming back, then it's going to have a ripple effect back through to the log volumes.

Chip Dillon - *Vertical Research Partners, LLC - Partner*

Makes total sense. Got you. And then just shifting gears to Real Estate. You mentioned you've had a pretty active first half. I know you've done some higher-value sales, you mentioned earlier in the call and, I guess, there was slowdown. But given sort of the robustness of the economy, et cetera, what would sort of be a range of expectations for next year, especially beyond just the kind of the normal pace of the rural or lower-value HBU sales?

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

I don't think we're ready to talk to next year yet, Chip. But what we've talked about in the past is that we generally expect to sell in the range of 1.5% of our Southern land base on annual -- on an annual basis. And that's not really a target as much as it is just what we've experienced, historically, on average. And so I think that give or take, you kind of go into a year expecting that we're going to sell 20,000 to 30,000 acres of land into those HBU channels and really kind of -- as we get closer to the specific time frame, we have a better sense as to what that specific pipeline looks like.

Chip Dillon - *Vertical Research Partners, LLC - Partner*

I got you. And then last thing is, as you think, about the -- I know you just -- as you think about allocating capital, right now, when you look at the areas you mainly operate in, would you find it more or less on an average better to buy timber through your stock or through the open market? Just sort of looking at where your stock is and looking at what the asking prices are, recognizing that each transaction is unique, but just in a general sense.

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

Yes. I mean, Chip, you kind of answered your own question. It's so hard to answer that. It really is, every transaction is unique. We look at it on a very transaction-specific basis. I don't think we have a broad point of view as we sit here today that there is a strong difference between kind of the broad timberland M&A market and kind of the share buyback market.

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

But keep in mind, we're always making that comparison on transactions where we look at the trade-off of the implicit return based on where our stock is trading and converting that into an IRR compared to an acquisition. So we're always mindful of that trade-off as we look at any transaction.

Operator

And I am showing no further questions at this time.

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

All right. Well, thanks, everybody. This is Mark McHugh. If you have any further questions, feel free to follow up with me. Thank you.

Operator

Thank you. And this does conclude today's conference. You may disconnect at this time.
