THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

RYN - Q1 2019 Rayonier Inc Earnings Call

EVENT DATE/TIME: MAY 02, 2019 / 2:00PM GMT

OVERVIEW:

Co. reported 1Q19 sales of $192m and net income attributable to RYN of $25m or $0.19 per share.

CORPORATE PARTICIPANTS

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*

Mark Adam Weintraub *Seaport Global Securities LLC, Research Division - MD & Senior 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 First Quarter 2019 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 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 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 list 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'll make some high-level comments before turning it back over to Mark to review our consolidated financials 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 segments, Mark will discuss our Real Estate results as well as our outlook for the remainder of 2019.

For the first quarter, we achieved earnings per share of $0.19 and adjusted EBITDA of $79 million. Overall, we're very pleased with our first quarter results, particularly in our Southern Timber segment where we generated one of our strongest quarterly EBITDA results on record. Southern Timber harvest volumes increased 23% versus the prior year quarter, while weighted average stumpage prices increased 3% versus the prior year quarter and over 14% versus the prior quarter. These strong results in our Southern Timber segment are a testament to both the strength and diversity of the markets in our footprint as well as the fact that as a pure play timber REIT, we have greater flexibility to modulate planned harvest levels within a year.

With wet weather constraining supply during the first quarter, especially in pulpwood markets, we elected to take more planned harvest on the market. In concert with investments in our roads that allow for greater wet weather logging, this led to accelerated stumpage removals and premium pricing on harvestable tracks.

Conversely, financial results in our Pacific Northwest Timber segment declined significantly versus the prior year quarter, as we continue to contend with soft market conditions resulting from reduced export demand and challenging lumber markets. Again, leveraging our flexibilities as a pure play timber REIT, we deliberately reduced planned harvest levels in response to weaker market conditions, resulting in a 25% decline in Pacific Northwest Timber harvest volumes versus the prior year quarter.

Average sawtimber prices declined 18% versus the prior year quarter and 3% versus the prior quarter. While market conditions in the Pacific Northwest are currently challenging, we remain optimistic that some form of resolution in the U.S. China trade dispute will eventually lead to a pickup in export demand and pricing.

In our New Zealand Timber segment, results were relatively flat versus the prior year quarter, as modest increase in harvest volumes was roughly offset by increased costs. Overall, we continue to enjoy strong financial performance in our New Zealand Timber segment driven by favorable market diversification across export and domestic market outlets.

Lastly, as expected, our Real Estate segment results declined to a more normalized level versus the prior year quarter, as the prior year quarter included a large Non-strategic / Timberland sale.

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 $192 million, while operating income was $39 million and net income attributable to Rayonier was $25 million or $0.19 per share. Pro forma EPS was also $0.19 per share as we had no pro forma items in the quarter.

First quarter adjusted EBITDA of $79 million was below the prior year quarter, primarily due to lower results in our Real Estate and Pacific Northwest Timber segments, partially offset by favorable results in our Southern Timber 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 prior periods. Our cash available for distribution, or CAD, was $62 million compared to $77 million in the prior year period, primarily due to lower adjusted EBITDA, higher capital expenditures, higher cash taxes paid, which were partially offset by lower cash interest paid.

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 $155 million of cash and roughly $975 million of debt. Our net debt of $820 million, represented 17% of our enterprise value based on our closing stock price at quarter end. Note that these figures exclude $9 million of cash proceeds from Timberland and HBU sales that are currently held by LKE intermediaries, and therefore, are 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 $41 million was $20 million and $13 million favorable compared to the prior quarter and prior year quarter, respectively.

First quarter harvest volume of approximately 1.9 million tons was 605,000 tons and 367,000 tons higher than the prior quarter and the prior year quarter, respectively. As Dave mentioned earlier, these higher harvest levels were driven by our decision to pull forward planned timber sales to take advantage of strong markets. Together with increased renewals by stumpage customers, we were able to operate our lands despite wet ground conditions due to the investments we've made in our road infrastructure.

First quarter pine pulpwood stumpage prices of $17.94 per ton were 21% and 5% favorable compared to the prior quarter and prior year quarter, respectively. Average pulpwood prices increased in all of our regions due to wet weather supply constraints. But overall, the price increase compared to the prior year quarter was somewhat muted by geographic mix as a higher proportion of our total harvest volume came from the Gulf States region.

Pine sawtimber prices also benefited from tight supply conditions as average pine sawtimber stumpage prices of $26.38 per ton were 10% favorable compared to the prior quarter and flat compared to the prior year quarter. We similarly saw strong regional price increases for sawtimber compared to the prior year quarter. However, this was largely offset by an increased proportion of volume harvested in the Gulf States region.

I'd also note that the prior year quarter benefited from strong export pricing to replace the current domestic demand and pricing has essentially made up the negative impacts of the current 25% tariff on the southern log exports to China. In addition to strong Southern Timber demand and prices, our nontimber income team had an impressive first quarter with sales of $10 million, representing a $4.5 million increase over the prior year quarter. Nontimber income in the first quarter was bolstered by the closing of a large pipeline easement.

Now moving to the Pacific Northwest Timber segment on Page 9. Adjusted EBITDA of $3 million was $1 million favorable compared to the prior quarter, but $11 million unfavorable compared to the prior year quarter. First quarter harvest volume of 283,000 tons was 41,000 tons favorable compared to the prior quarter and 96,000 tons unfavorable compared to the prior year quarter. As Dave noted earlier, we intentionally reduced harvest volumes in the quarter in response to soft market conditions resulting from the ongoing U.S. China trade dispute and weak lumber markets.

Delivered sawtimber prices of $78.47 per ton were 3% and 18% unfavorable compared to the prior quarter and prior year quarter, respectively. The decline in sawtimber prices compared to the prior quarter was due to a heavier mix of white woods as the overall market pricing was relatively flat. The sharp decline in sawtimber prices compared to the prior year quarter was due to the implementation and continued threat of escalating tariffs on exports to China combined with the decline in domestic lumber prices.

Delivered pulpwood prices of $45.15 per ton were 5% unfavorable compared to the prior quarter and 1% favorable compared to the prior year quarter. The changes in pulpwood prices compared to both the prior quarters were driven by geographic mix.

Page 10 shows results and key operating metrics for our New Zealand Timber segment. Adjusted EBITDA in the quarter of $22 million was $3 million favorable compared to the prior quarter and roughly flat compared to the prior year quarter. The favorable variance compared to the prior quarter was primarily due to modestly improved pricing, coupled with favorable freight rates. Adjusted EBITDA was comparable to the prior year quarter with the 8% increase in volume being roughly offset by foreign exchange impacts and increased costs.

Delivered export sawtimber prices of $116.24 per ton increased by 1% compared to the prior quarter and decreased 1% compared to the prior year quarter. Demand remained strong in China resulting in overall stable pricing.

Domestic sawtimber prices of $83.42 per ton in U.S. dollars terms were 5% favorable to the prior quarter and 4% unfavorable to the prior year quarter, primarily due to changes in the New Zealand/U. S. exchange rate. Excluding the impact of foreign exchange rates, domestic pricing in New Zealand dollars was 2% favorable compared to both the prior quarter and the prior year quarter.

In our Trading segment, first quarter adjusted EBITDA of $0.5 million was $200,000 and $400,000 favorable compared to the prior quarter and prior year quarter, respectively, due to increased volume from higher margin stumpage purchases.

I will 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 11, our Real Estate results returned to a more normalized level in Q1 with solid results across all of our sales categories. First quarter sales totaled $21 million on a roughly 5,700 acres sold at an average price of $3,700 per acre. Adjusted EBITDA for the quarter was $17 million. Sales in the Improved Development category totaled $340,000, which consisted of 8 residential lots in the Wildlight development project, at an average price of $43,000 per lot. Sales in the Unimproved Development category totaled $1 million, which consisted of 7 acres in Bryan County, Georgia, near I-95, at a price of $145,000 per acre.

In the Rural category, sales totaled $12.7 million on roughly 3,300 acres sold at an average price of $3,800 per acre. All of our Q1 sales in the Rural category were properties located in Florida and Texas.

Lastly, sales in the Non-strategic and Timberlands category totaled $7 million, consisting of 2,300 acres at an average price of $3,000 per acre.

Now moving on to the outlook for remainder of the year. As we noted in our earnings release, we are pleased with our strong start to 2019 and remain on track to achieve our full year adjusted EBITDA guidance of $270 million to $290 million. In our Southern Timber segment, we expect to achieve our full year volume guidance of 6.2 million to 6.3 million tons, although we anticipate lower quarterly harvest volumes for the remainder of the year following elevated harvest activity in Q1. We continue to expect modest price improvements in certain regional markets, which will be moderated by geographic mix as a greater proportion of our harvest volumes coming from the Gulf States region this year.

In our Pacific Northwest Timber segment, we expect to achieve our full year volume guidance of 1.3 million to 1.4 million tons with increased harvest activity in the second half of the year. We expect that export market conditions will remain challenging until we have some resolution of the U.S. China trade dispute, as uncertainty regarding future tariff levels continues to loom over the market. We are monitoring the situation closely and may shift our harvest plans based on market developments.

In our New Zealand Timber segment, we expect to achieve our full year harvest volume guidance of 2.7 million to 2.8 million tons, while we expect the average pricing will be relatively stable versus 2018.

Lastly, in our Real Estate segment, we remain on track to achieve our full year volume -- our full year guidance with a more normalized pace of activity this year relative to 2018.

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

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

Thanks, Mark. We've frequently talked about the benefits of our portfolio and market diversification as well as the importance of the added flexibility we enjoy as a pure play timber REIT to adjust the planned harvest levels in response to market conditions. I think, these benefits were once again evident in our first quarter results. As you all know, we're in the midst of some challenging and uncertain market conditions, particularly in the Northwest where the China trade dispute is weighing heavily on our export market optionality. That said, I'm very pleased with how our team navigated these challenges and pulled various levers at their disposal to deliver a strong first quarter to start the year.

As Mark noted, we believe that we are solidly on track to achieve our full year adjusted EBITDA guidance, despite some puts and takes in our different markets. Importantly, we're as optimistic as we've been in the last several years about the prospects for a sustained price momentum in the South, which comprises the largest component of our portfolio.

In summary, I believe we're well positioned with strong assets in diverse and resilient markets and we look forward to continuing to work towards building Rayonier's long-term value per share through disciplined operational decision making and nimble capital allocation.

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

QUESTIONS AND ANSWERS

Operator

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

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

This is actually Randy Toth sitting in for Anthony. In the release, there was a mention of lower export prices in New Zealand related to increased competition from lower cost lumber imports and alternative species. I was wondering if you could elaborate on what you're seeing there.

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

Sure, Randy, this is Doug. Yes, that's primarily around the influx of wood that's -- lumber that's come into China over the last 6 months to a year and we've seen increased volume from both Russia and Europe and some from South America. And as we said, we expect stable pricing. So I think really that has a lot more to do with pressure that we're seeing on Pacific Northwest demand for logs and rest from New Zealand.

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

Okay. That makes sense. And just staying on the China topic. Can you talk about Chinese log inventories and what the offtake of those volumes have been in April and May thus far?

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

Sure. So our market intel suggests that the inventory is around 4 million cubic meters right now in China. And we're currently seeing the robust daily demand in the range of 80,000 to 100,000 cubic meters per day. As we've discussed before, we currently believe tracking the inventory demand ratio is more important than just the inventory levels. And this ratio exceeded 3 months during the first quarter and we saw a more softening in prices during April. But the ratio now sits between the 1.5 to 2 months range that we consider healthy. So prices have appeared to stabilize as we moved into the second quarter. And -- but Easter and Anzac holidays, we believe that the supply of logs coming from both New Zealand and Australia will be less than in prior months, so that should also help bringing down the inventory levels.

Operator

Collin Mings, your line is open, from Raymond James.

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

First, just Dave, can you just expand on the Timberland acquisitions during the quarter? It looks like you found some opportunities across all 3 regions?

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

Sure. We have continued to focus of late on looking at smaller bolt-on transactions. We find that these negotiated transactions tend to fly a little under the radar screen. We're pleased to have completed 1 transaction in each of our 3 geographies. We acquired just under 2,800 acres in New Zealand, about 1,650 acres in Washington and 1,300 acres in Georgia. And while these don't move the needle too much, we're happy with them from a projected return standpoint and just continuing to add to our portfolio. Another thing that we've talked about with investors is the need to be matching your acquisitions certainly with the level of dispositions. And collectively from an acres standpoint, these match almost perfectly the volume of lands that we sold out of Real Estate segment this year. So we're sort of on track in that context as well.

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

Okay. That's helpful color. And then, moving to the Timberland as far as operations during the quarter. In the Pacific Northwest, what drove the relatively high cut and haul costs? I mean, volume was down 25% year-over-year there, but cut and haul costs were up. Can you maybe just help reconcile that?

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

Sure, Collin. Multiple things. One, typically during the winter times, our cut and haul costs do go up, but I think the other one is, we have more crews operating with tower harvesting and so we had lower percent of ground based and so we had a pretty big impact on the mix of type harvest types we had. And we also had some tracks that were farther away from the mills than normal. And so we saw some impacts there also.

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

Colin, it's also worth noting that a 100% of our sales in Q1 were delivered sales, whereas in Q1 of 2018, 79%. And so you would have to kind of make that adjustment on a per ton basis as well.

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

Got you. Okay. That's a good point. And then sticking with timber there, just as far as the optimism for some sustained improvement in pricing in the South, just talk about how -- as we've kind of over the last couple of months and some of the wet weather conditions, how sticky has been some of the pricing power that you had to start the year, how sticky has that been?

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

Yes. On a year-over-year basis, our average pine prices increased in Atlantic coast wood basins, but it's been more muted due to the tariffs, but we're still seeing about 3% increase along the Atlantic coast under these Chinese tariffs. But I'm even more pleasing with this quarter kind of looking year-over-year, we continue to see additional price tension in Inland, Georgia and Alabama where a new sawmill capacity has begun to come online. And then marginal exports have also taken away additional volume and we've seen close to 10% increases year-over-year in some of those markets. So we continue to see, the wet weather definitely had an impact, but we're also seeing increased demand as we go out through the -- on rest of the year.

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

All right. And then, just one last housekeeping one for Mark. Just not a huge number, but you highlighted in the press release just higher legal and overhead costs year-over-year. Could you maybe just touch on what's driving that? Is that the number we should expect going forward? I mean, I guess, specifically on the legal costs, is that driven by the phaunos litigation or is there something else there?

THOMSON REUTERS

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

While we've got a couple of litigation matters pending right now, and so we are incurring higher-than-normal legal expenses. But they're not so significant that we felt compelled to make a pro forma adjustment. And they were also factored into our thinking when we laid out our corporate segment guidance for 2019. So overall, the increase in corporate expense relative to the prior year quarter was really much more heavily impacted by the sale of the IP addresses in Q1 of last year, otherwise let's say, it's generally in the range of our expectations and guidance.

Operator

Our next question is from Ketan Mamtora with BMW -- or BMO Capital Markets.

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

BMW, not bad. Congrats on a strong start to 2019. First question, I want to start off with the U.S. South. Obviously, lumber pricing has been quite muted this year. In the South, it has not fallen as much as in the West. But generally, I mean, lumber pricing hasn't really done much. So are you seeing any signs of some formulas kind of throttling back on projects in the U.S. South?

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

No. We really haven't seen much sign of that. A couple of quarters ago, I think, there was 2 mills that announced they were not going to go forward with greenfield, but other than that all the projects that our current customers are working on, it's pretty much been full steam ahead as they move forward. If anything, it's just a little bit slower than anticipated, still due to getting labor and a lot of wet weather over the -- this past kind of December through January, February. So I think that's slowed down lot of projects what I've heard too. But all of them that I'm aware of are still slated moving forward as we talk to our customers.

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

Got it. That's helpful. And then, if you turn to New Zealand, can you give sort of any update or any kind of color in terms of what you are seeing with regards to valuation there?

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

I mean, we've definitely seen values moving up. And again, there's not a lot of transaction activity and a lot of the transaction activity that we do see tends -- that the prices tend to be very site-specific and there can be a pretty wide range of values. But on a like-for-like basis, I mean, we've seen our own appraisals as well as the appraisals of third parties, large third parties that are publicly disclosed. We've certainly seen those moving in a positive direction over the course of the last 4 or 5 years.

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

And some of that, Ketan, I think, is a general compression of discount rate similar to what we saw at an earlier period of time in the U.S. I think that's part of what's contributing to that in addition to just the stronger performance.

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

Got it. That's very helpful. And then, final question from my side. About sort of just capital allocation, balance sheet is pretty strong. You mentioned that you are seeing more opportunities in some of the kind of smaller deals, but to the extent that you can talk about your preferences among for the 3 regions and if a larger deal were to -- an opportunity were to come up, how would you think about that?

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

Well, I think that, first of all, we always approach our capital allocation with a mindset of remaining nimble. And I think, we also feel that we have the full sort of tool chest at our disposal in terms of if you think of where we sit with respect to debt capacity, the potential to issue equity, available cash. And so, it really then boils down to finding the right properties that fit our needs. We have a desire to be always looking for properties that will improve our portfolio and we've had a very busy last few years looking really at properties across all 3 regions. We're currently looking at opportunities across all 3 regions. We tend to have a reasonably heavy mix of negotiated opportunities that we're looking at as -- at any one point in time. So our group is pretty busy right now, really looking across the spectrum, and I feel like we have a lot of flexibility to go after both small and larger transactions if the fit is there.

Operator

Next question is from John Babcock with Bank of America Merrill Lynch.

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

Just want to start out, with the U.S. and China trading negotiations underway, I was wondering, have you heard of any discussion on what could happen to tariffs on logs in South and West?

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

Unfortunately, our line of sight into that isn't any better than what you can read in the press.

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

Yes. I would agree. The most recent Wall Street Journal article talked about the side, someone familiar with this talks, but we obviously don't know who that is, but talked about a reduction of the 2 -- the $250 billion, I guess, down to the $50 billion type thing. So there's talk about reducing them, but we really don't have any line of insight beyond that.

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

Okay. And then just assuming some sort of -- assuming you get some sort of bounce back in demand from the U.S. China trade negotiations. I mean, how will you think about that in the Northwest?

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

Yes, I mean, that's one things we see hindering both removals and pricing right now with the lack of the competition. Basically, China volume from Q4 of last year to Q1 this year dropped off 56% in exports and total exports dropped off like 44%. So the export market has really plummeted over the last quarter. And with the lower lumber prices, obviously, domestically that's meant the domestic sawmills are not happened to beat as hard against that export. So some resolution in China trade is positive if there are tariffs to come off or at least the fact that they would not be threats of additional tariffs. Well, definitely, we believe help increase demand for logs and ultimately should drive improved pricing also with that competition.

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

And how would you think about the ramp of that volume, would you expect it to come back immediately or do you think it would take a little while for that to return?

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

Yes. I mean, I think, it is a ramp-up, it's not immediate. Although, we're seeing currently that our export customers are more optimistic about not going underneath tariffs and they're starting to secure volume ahead. Whereas before, it was very much starts and stops. They would secure just enough for the current month so that the wood wasn't caught on the water. And we're seeing increased interest, I would say, right now for volume that's out couple of months. So that means that they're starting to be a little more optimistic about where we're headed to. But I do think you're talking about a several -- several months kind of ramp-up as time goes on, but we're starting to see a slow build already.

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

Okay. And with that increased interest, does it -- would it still make sense to adjust harvest volumes? Or are you -- is that interest efficient to kind of maintain the guidance you had before?

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

I mean, look, as we sit here today, we're currently expecting to achieve our volume guidance on. And so again, I think that we feel though there is some positive momentum in the market today. And so, unless something changes meaningfully from our current expectations, we are still forecasting to achieve our volume guidance.

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

Okay. And then just the last question before I turn it over. Just wanted to get a sense, I mean, are you seeing salvage volumes from the 2018 hurricanes in the market or has the wet weather impeded and harvest starts gaining access to those logs?

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

Yes. The wet weather has significantly impacted the ability to salvage the wood there, unfortunately for the landowners in that area. So while, we did see some impact in the fourth quarter, really through quarter for the -- through the first quarter of this year, it's been very minimal. And from what I'm hearing and what I've read, the ability to salvage much more of that wood is specifically dropped off. So we -- all of the crews that we had that moved over from our areas to operate over there had moved backed over and are harvesting in our area of the world now. So I think, there still will be some volume in the salvage, but it's not going to be a major opportunity now at this point in time, 3 months later.

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

Okay. Just had a -- quickly actually follow on that, I mean, just how long would it take before some of that salvage volume from last year is essentially not worth anything?

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

I'm -- not looking at the wood, I'm not sure, but most of it is going to be degraded to pulpwood soon. And from what I've read, there's still another maybe 2 months people are thinking, but I've also read where a lot of woods are already turning with this increased temperatures. After the wet weather, we're seeing a lot of stain and funguses and things like that attacking it. So my gut is, it's very short term that they have much more chance to salvage. May be for pellets that might be the last kind of opportunity after pulpwood to pellets.

Operator

(Operator Instructions) And our next question is from Steve Chercover with Davidson.

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

So I hope this doesn't sound naive, but southern pulpwood prices demonstrate distinct seasonality in Q1 due to the wet weather. And I assume that harvest costs go up as well due to the roads and whatnot. So is it possible to accelerate the harvest in Q4 and kind of stage it to filter it in Q1 or maybe you already do that?

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

Yes. I mean, it's very dependent on what wood is in the markets at the time. So that's one strategy you could take. But ultimately, we have to evaluate on a daily, if not weekly, monthly basis, where we see the markets, where we see the supply with the mills and then evaluate how we're going to work towards that. I mean, we do set ourselves up and try to look for opportunities because the wet weather patterns, they don't happen every year, but they're fairly repeatable. So we look at how we can do that and make sure our roads are in place to take advantage of opportunities when they're there and have our sales ready for sale.

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

Steve, keep in mind as well that a lot of that volume in the pulpwood areas is sold on a stumpage basis. So the lever that we have to pull really is the timing of the sale and then the customers typically have a year to harvest that. And so you really -- it's a second order effect really of the decisions that many of those customers are making in terms of directing their crews onto various landholders' properties.

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

That's a good clarification, Dave. And then, switching to New Zealand, it's really been quite a nice story for the last couple of years. And I thought that despite recent inroads from Russia and Europe into China that ultimately New Zealand was a beneficiary of the U.S. China trade disputes. So is that accurate and would a resolution between the U.S. and China be detrimental to New Zealand?

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

I don't -- you have to keep in mind that the China market has a very large net need for wood imports and that's really being met by many different countries. And you have a lot of moving parts there, but recognize that historically, the largest supplier into that market was -- on the log side was Russia. They put in place a -- an export tariff in '07. And subsequent to that period of time, their emphasis in the market has really been on the lumber side. And so, the decline -- the very meaningful decline that they've had on logs coming out of Russia going into China has largely benefited New Zealand, and to a lesser extent the U.S.

And so, we feel pretty comfortable that New Zealand is in a really good position to continue to capitalize on that net wood need coming out of China, but there's lots of moving parts. You have, as Doug mentioned earlier, you've got the dynamic of lumber versus log substitution. You've got the dynamic of currency rates. You've got supplies coming really from all over the world. So there's a lot of things that influence that. But we certainly feel comfortable around our exposure to the China market as it relates to our New Zealand investment.

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

Okay. Well, everyone knows the Chinese are savvy commodity buyers. And just sticking with New Zealand, a few years ago, you were discussing India as an embryonic market and I assume that could be a pretty big baby at some stage. So what's going on with India?

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

I think, the biggest thing with India is that they implemented last year some changes in their banking and currency flows that have had the effect of slowing down the rate of log imports. And it really translated into a harder time for letters of credit to be opened up. And so that has tamped down the demand. We're still shipping volume to India primarily out of New Zealand. We still continue to believe that there is a lot of longer term potential there certainly when you look at the demographics, but they've got to reach an equilibrium as it relates to their banking system and just access to capital. We're not comfortable shipping wood there without letters of credit. And so, it still is an important market, but I think the potential is probably pushed out a little longer in terms of it really growing to a large extent.

Operator

(Operator Instructions) Our last question is from Mark Weintraub with Seaport Global.

Mark Adam Weintraub - *Seaport Global Securities LLC, Research Division - MD & Senior Research Analyst*

I think, I heard you say something about a pipeline related to the increase in the nontimber sales in the U.S. South. Could you just explain that a little bit more, please?

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

Yes. I won't go into specifics on the actual pipeline itself, but that was one of the things that this quarter definitely was a beat on over the prior quarter. Pipelines are something that, kind of, like the real estate business, they come and go on lumps, but we have a steady kind of hit say pun intended, but pipeline of easements and things like that coming online. We've been real proud of our nontimber income team. Over the past 5 years, the team has delivered a 10% CAGR during the suite of businesses to yield approximately $13 an acre. So they've been very busy out there. And this is a great outcome for business that are complementary to our timber growing. So let's say, these pipelines, they come and go, but the right of it is, there is also a core business I need that, that's also growing considerably. So real strong results from the team.

Mark Adam Weintraub - *Seaport Global Securities LLC, Research Division - MD & Senior Research Analyst*

Is there much in the way of costs associated with the nontimber sales? Because it's noticeable as you say, it's grown significantly. And looking at last year, it was basically equivalent -- the nontimber sales were equivalent to about 25% of EBITDA and more than 50% of operating income. How much of those there in the way of expenses that are related to that nontimber sale line item?

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

Sure. It's a great question. A lot of that goes straight to the bottom line. There's some overhead or some staff that are working through it. Some minor insurances for hunting leases and things like that. But the right of it is, it's a very strong contributor straight to the bottom line on EBITDA.

Mark Adam Weintraub - *Seaport Global Securities LLC, Research Division - MD & Senior Research Analyst*

And as you point out, it's been growing 10%-or-so. As you kind of look forward, are there -- is there more in the -- is there more upside? How should we be thinking about? Because it's actually become a fairly significant part of the earnings stream at this point. How should we be thinking about that part of the business?

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

Yes. I mean, as we mentioned, we've actually kind of that 10% CAGR I mentioned was really been over the last decade, more than last 5 years. So it's been successful business. And we don't think it's completely mature yet and has opportunity, room to grow. So we've actually added some additional resources to that in the last 6 months and looking for them to grow this business and continuing to find new ways.

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

Mark, we also look at it sort of in the context of new acquisitions and we're always looking to see sort of what level of sophistication and level of income new properties bring. So often some of that growth comes from bringing new properties more up to a standard that we're used to on our own portfolio.

Mark Adam Weintraub - *Seaport Global Securities LLC, Research Division - MD & Senior Research Analyst*

And vaguely related to it, I know in the New Zealand business, you have carbon credits as part of the other nontimber income. Is it significant part of the nontimber income in New Zealand? And recognizing that nothing's happening anytime soon perhaps, but if you were to have the same dynamics in place in the U.S. market that exists in New Zealand, would you be able to quantify roughly how big the carbon credit would be for the U.S. business?

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

Yes. I mean, the New Zealand business you mentioned, the carbon sales are a considerable portion of our nontimber income business there. I wouldn't be comfortable trying to quantify what would happen in the United States as carbon became under cap and trade system or something like that, that's -- there's a lot of speculation there. But I mean, it is a significant part of our New Zealand operations.

Mark Adam Weintraub - *Seaport Global Securities LLC, Research Division - MD & Senior Research Analyst*

Understanding that, but if one were to -- and may be this is not even a question that can be answered. And -- but if one were to use what is in place in New Zealand and put that on your U.S. business recognizing in the ways of forecast or anything like that, what would it -- what might it amount to?

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

Yes. That would be highly speculative, Mark. Suffice to say, we certainly view it as an upside opportunity longer term, but I don't think anybody sort of gotten into really quantifying the magnitude of that.

Operator

And I can see no further questions at this time. And I'll turn it back over to the speakers for any closing remarks.

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

Thanks, everybody, for joining the call. If you have any follow-up questions, feel free to reach out to me. Thanks, everybody.

Operator

And thank you. This does conclude today's conference call. You may disconnect your lines and we appreciate it.