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RYN - Q4 2016 Rayonier Inc Earnings Call

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OVERVIEW:

Co. reported 4Q16 sales of $221m and net income attributable to Co. of $48m or $0.39 per share. Expects 2017 pro forma net income to be $39-45m.

CORPORATE PARTICIPANTS

Mark McHugh *Rayonier Inc. - SVP, CFO*

Dave Nunes *Rayonier Inc. - President, CEO*

Doug Long *Rayonier Inc. - SVP U.S. Operations*

Chris Corr *Rayonier Inc. - SVP Real Estate & Public Affairs*

CONFERENCE CALL PARTICIPANTS

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

Ketan Mamtora *BMO Capital Markets - Analyst*

Mark Weintraub *Buckingham Research Group - Analyst*

PRESENTATION

Operator

Welcome and thank you for joining Rayonier's fourth-quarter 2016 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 now begin.

Mark McHugh - *Rayonier Inc. - SVP, CFO*

Thank you and good morning. Welcome to Rayonier's investor teleconference covering fourth-quarter earnings.

Our earnings statement 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 are also referenced on Page 2 of our financial supplement.

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

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

Dave Nunes - *Rayonier Inc. - President, CEO*

First, I'll make a few overall comments before turning it back over to Mark to review our financial results. Then we'll ask Doug Long, Senior Vice President of US Operations, to comment on our US timber results. I'll discuss our New Zealand timber results, and following the review of our timber segments, Chris Corr, Senior Vice President, Real Estate, will discuss our real estate results.

Overall, we're pleased with our fourth-quarter and full-year results. The strength and diversity of our portfolio allowed us to significantly exceed our forecasted adjusted EBITDA guidance, and our nimble approach to both operational and capital allocation decisions facilitated progress against several strategic initiatives during the course of the year. In the fourth quarter, we achieved adjusted EBITDA of $52 million versus $48 million in the prior-year quarter.

Softness in our southern timber segment and reduced land sales were more than offset by improved performance in the Pacific Northwest and New Zealand timber segments. Our southern timber segment results reflect lower pulpwood prices, primarily due to geographic mix and lower volumes due to our decision to defer planned harvest levels by 500,000 tons in response to unfavorable market conditions in certain areas.

Our real estate results, excluding the gain on the previously announced large disposition, were below the prior-year quarter, due to the sale of fewer nonstrategic timberland acres, although partially offset by a sale in Washington at a high per-acre value and the receipt of a deferred payment on a prior land sale. Our Pacific Northwest timber segment benefited from favorable pricing and increased harvest volumes from our recent Menasha acquisition, while our New Zealand timber segment continued to perform well, based on the strength of both domestic and export markets.

With that, let me turn it back over to Mark for a brief review of our financial results.

Mark McHugh - *Rayonier Inc. - SVP, CFO*

Thanks, Dave. Let's start on Page 5 with our financial highlights.

Sales for the quarter totaled $221 million, while operating income was $62 million and net income attributable to Rayonier was $48 million, or $0.39 per share. On a pro forma basis, net income was $6 million, or $0.05 per share. Our pro forma net income for the quarter excludes a $43 million gain from a large disposition.

Fourth-quarter adjusted EBITDA of $52 million was above the prior-year quarter, primarily due to significant outperformance in our New Zealand timber segment and improved results in our Pacific Northwest timber segment, which were partially offset by reduced harvest levels in our southern timber segment and fewer acres sold in our real estate segment. As a reminder, adjusted EBITDA on our real estate segment excludes the impact of the previously announced large disposition that we closed during the quarter.

On the bottom of page five, we provide an overview of our capital resources and liquidity at year-end, as well as a comparison to prior periods. Our cash available for distribution, or CAD, for the year was $144 million, compared to $117 million in the prior year. A reconciliation of CAD to cash provided by operating activities and other GAAP metrics is provided on page nine of the financial supplement.

We closed the quarter with $86 million of cash and roughly $1.1 billion of debt. Our net debt of $976 million represented 23% of our enterprise value, based on our closing stock price at quarter-end. Note that these figures exclude $71 million of cash proceeds from large dispositions that are currently held by LKE intermediaries and therefore classified as restricted cash.

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

Doug Long - *Rayonier Inc. - SVP U.S. Operations*

Thanks, Mark. Good morning. Let's start on page 10 with our southern timber segment.

Adjusted EBITDA in the fourth quarter of $21 million was $2.6 million favorable to the third quarter and $4 million unfavorable compared to the same period in the prior year. Fourth-quarter harvest volume was 195,000 tons favorable compared to the third quarter, but 126,000 tons lower compared to the same period in the prior year, due to deferred harvest in response to softer market conditions.

Fourth-quarter pine pulpwood prices of $15.83 per ton were 9% below third-quarter prices and 13% below the same period in the prior year. The drop in price was largely due to geographic mix, although excess supply from extended dry weather and hurricane salvage along the East Coast also contributed to price declines in certain areas. Pine sawtimber prices of $26.75 per ton were 2% above third-quarter prices, but flat compared to the same period in the prior year, as changes in geographic mix balanced out modest price fluctuations in different areas.

During 2016, we deferred 500,000 tons of harvest volume in response to weaker market conditions. We will continue to monitor local market conditions, including the impact from the recent explosion at the IP Cantonment mill to assure that we are driving the best long-term value across our entire portfolio.

Now moving to the Pacific Northwest timber segment on page 11, adjusted EBITDA in the fourth quarter of $7 million was $4 million favorable to both the third quarter and the same period in the prior year, due primarily to higher harvest volumes. Fourth-quarter harvest volume of 356,000 tons was 48% higher as compared to third quarter and 13% higher from the same period in the prior year. The Menasha acquisition, which we closed in May 2016, was a primary driver in our ability to increase harvest volumes.

Delivered pulpwood prices of $39.60 per ton were relatively flat compared to third-quarter prices and 12% unfavorable to the same period in the prior year. The decline in prices relative to the prior-year quarter was due to the increased availability of residual chips on the open market.

Delivered sawtimber prices of $74.97 per ton were 2% unfavorable to third quarter and 13% favorable to the same period in the prior year. The trend of increasing grade prices relative to the prior year is due to improving export and domestic markets, combined with an increased contribution from our newly acquired Menasha properties, which generally command a higher sawtimber price due to the heavier mix of Douglas fir.

Now Dave will review the New Zealand timber segments.

Dave Nunes - *Rayonier Inc. - President, CEO*

Thanks, Doug. Page 12 shows results in key operating metrics of our New Zealand timber segment.

We continue to be pleased with the operating performance of our New Zealand timber segment, which delivered another strong quarter. Adjusted EBITDA in the fourth quarter of $18 million was $5 million favorable compared to the third quarter and $11 million favorable compared to the prior-year quarter, primarily due to increased domestic and export product prices. Harvest volumes in the fourth quarter were generally comparable to both the prior quarter and the prior-year quarter.

Export sawtimber prices increased 7% compared to the third quarter and 19% compared to the prior-year quarter, primarily due to strong demand from China, while domestic sawtimber prices as measured in New Zealand dollars increased 3% compared to the third quarter and 18% compared to the prior-year quarter as a result of strong local demand for construction materials. When factoring in the rise in the New Zealand dollar to US dollar exchange rate, domestic sawtimber prices in US dollar terms increased 30% compared to the prior-year quarter.

In our trading segment, fourth-quarter volumes increased 30% and average prices increased 14% compared to the prior-year quarter, also due to strong demand from China.

I'll now turn it over to Chris to cover real estate.

Chris Corr - *Rayonier Inc. - SVP Real Estate & Public Affairs*

Thank you, Dave, and good morning, everyone.

As highlighted on Page 13, our real estate segment delivered strong financial results in 2016, while maintaining discipline in our land sales program and focusing on properties with meaningful premiums to timber land values. Excluding large dispositions, real estate sales for the year totaled $92 million on 36,000 acres sold at a weighted average price of $2,580 per acre. This compares to 2015 sales of $87 million on 33,000 acres, equating to a weighted average price of just over $2,600 per acre.

Fourth-quarter highlights include the sale of 84 acres of unimproved development property in Florida for just over $39,000 per acre. This was a unique property in a strong market area with high visibility and road frontage. As part of our unimproved development strategy, we worked with a developer over a period of more than two years to secure the development rights in order to unlock the value on this property.

In the rural category, we closed a number of smaller sales which collectively totaled approximately 500 acres at an average price of $2,750 per acre. In the nonstrategic and timberland categories, sales totaled 900 acres, including one significant transaction of 816 acres in Washington, for roughly $6,500 per acre. During the quarter, we also received a deferred payment of $4.7 million from a prior land sale that was contingent on a regulatory permit.

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

Mark McHugh - *Rayonier Inc. - SVP, CFO*

Thanks, Chris.

Page 15 shows our financial guidance by segment for 2017. As we look to 2017, we continue to see overall positive momentum in our timber segments, as well as attractive opportunities to augment value in our real estate segment. While the US South continues to face some obstacles to near-term price growth, longer-term trends remain positive and we're optimistic that a resolution of the softwood lumber dispute will ultimately drive increased lumber production in sawtimber demand in the US South.

Further, we continued to enjoy more favorable supply/demand conditions in some of our key markets relative to broader US South market averages.

In 2017, we expect harvest volumes in our southern timber segment will be between 5.3 million tons and 5.5 million tons and adjusted EBITDA will be between $93 million and $98 million.

In our Pacific Northwest timber segment, we expect an increase in harvest volumes to a range of 1.3 million tons to 1.4 million tons for 2017 as we realize the full-year impact of the portfolio repositioning moves we made in the second quarter of 2016. Coupled with steadily improving prices in the region, we anticipate 2017 adjusted EBITDA in the Pacific Northwest of $28 million to $31 million.

In our New Zealand timber segment, we anticipate harvest volumes of 2.4 million tons to 2.5 million tons and continued strong pricing dynamics, which we expect will yield 2017 adjusted EBITDA of $64 million to $68 million.

On a combined basis, our three timber segments are expected to yield 2017 adjusted EBITDA of $185 million to $197 million, which represents an expected increase of 7% to 14% relative to 2016 actual adjusted EBITDA from our timber segments of $172 million.

Our real estate strategy remains focused on unlocking the long-term value of our HBU, rural, and development property portfolio. Following an extraordinarily strong 2016, we expect to sell fewer acres in 2017. Overall, we expect real estate will contribute adjusted EBITDA in 2017 of $52 million to $60 million, although we continue to expect that quarter-to-quarter results will be lumpy.

Other key elements of our 2017 guidance, including depletion expense, interest expense on a non-cash basis, CapEx, GAAP taxes, and minority interest are summarized on page 15 of the financial supplement and on Page F of the earnings release. Note that the increase in expected depletion expense is largely attributable to the increased depletion rate in our Pacific Northwest timber segment following the Menasha acquisition. The expected increase in GAAP taxes and minority interest expense are both related to the anticipated increase in income from our New Zealand joint venture. Despite increased GAAP taxes, we generally expect that our cash taxes will remain relatively small.

In total, we anticipate 2017 consolidated adjusted EBITDA of $220 million to $240 million and pro forma net income of $39 million to $45 million.

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

Dave Nunes - *Rayonier Inc. - President, CEO*

Thanks, Mark.

2016 was a very busy and productive year for Rayonier and I wanted to take a moment to recap some of the key milestones we achieved in executing on a number of our strategic priorities. In March, we completed the recapitalization of our New Zealand joint venture. Through this recapitalization, we were able to increase our stake in the JV from 65% to 77% and refinance $235 million of New Zealand dollar denominated from a rate of 6.5% to a rate of 3.3%. We also completed this recapitalization at a time when the New Zealand dollar/US dollar exchange rate was at a five-year low and thus further reducing the effective cost of this refinancing to an equivalent of $155 million.

The New Zealand operations have enjoyed outstanding performance over the past year and we believe we are well positioned to capitalize on strong market conditions in the future.

In May, we completed a series of unique transactions that serve to meaningfully reposition our Pacific Northwest portfolio. We acquired 61,000 acres of highly productive, well-stocked timberland with an average age of approximately 22 years and we simultaneously sold 55,000 acres of primarily pre-merchantable timberland with an average age of approximately 13 years. Through these transactions, we were able to rebalance the age class profile of our Pacific Northwest portfolio, gain access to high-quality domestic markets in western Oregon, increase our mix of Douglas fir, and significantly increase our near-term harvest potential in the region.

We classified the 55,000-acre sale as a large disposition, for which we are excluding the adjusted EBITDA impact from our results. Such large dispositions are intended for capital allocation purposes, which was certainly the case in this instance where the sale funded roughly half the acquisition cost. We financed the remaining portion of this acquisition with a new term loan through the Farm Credit System at an average fixed rate, net of patronage payments and interest rate swaps, of approximately 2.8%, and despite an increase in leverage to facilitate this acquisition, we maintained our investment-grade credit ratings.

In November, we announced changes to our legacy pension plan, as well as organizational restructuring designed to right-size our finance and IT organizations. We expect these two initiatives will generate annual cost savings of approximately $5 million and will serve to further flatten our organizational structure and improve efficiencies.

Also in November, we announced another large disposition of 62,000 acres of timberland in Alabama and Mississippi for $120 million. Like our Pacific Northwest divestiture, this transaction was designed to generate capital for redeployment into assets that we feel offer a better long-term value proposition for the Company.

Over the course of the year, we engaged in very active portfolio management effort in which we acquired 111,000 acres for $366 million and sold or committed to sell 117,000 acres of large dispositions for $250 million. We believe these moves improve the quality of our timberland portfolio and will add significant long-term value for our shareholders.

In 2016, we also broke ground on Wildlight, a 261-acre mixed-use development project north of Jacksonville. We're very pleased with the market interest we've seen for this project and we expect our first sales from this project in 2017. We remain optimistic about the long-term value creation that this project will have on our surrounding 24,000 acres of ownership.

As previously announced, we will be consolidating three regional offices and relocating our headquarters into a newly constructed office building in Wildlight this summer. We're very excited about this change and believe it will generate significant efficiencies, improve communication, and reinforce our One Rainier culture.

In addition to executing on a number of initiatives that will deliver long-term value to our shareholders, we're also very pleased with our overall financial performance in 2016. Over the past two years, we've focused on creating a spirit of teamwork and a culture of accountability and excellence throughout the organization, and I believe these efforts are beginning to show up in our financial results. We finished the year with adjusted EBITDA of $240 million, relative to initial guidance of $185 million to $210 million, and while clearly some of the variables that contributed to this outperformance were outside of our control, I believe that the culture we are reinforcing within our organization has resulted in greater coordination and collaboration, allowing Rayonier to be more nimble and proactive as our markets change.

We demonstrated this nimbleness and long-term value focus last year when we decided to defer 500,000 tons of harvest in the fourth quarter, due to market softness in certain regions. So overall, we're very pleased with not only our financial results in 2016, but also the actions our employees are taking to build long-term value of our portfolio.

In summary, we continue to actively seek out ways to improve both our organization and our portfolio. Our capital allocation strategy and operational philosophy are both intended to be nimble, flexible, and opportunistic. As we've demonstrated over the past year, we will shift our priorities as needed to capitalize on the best available opportunities to maximize long-term value for our shareholders.

I'd like to now close the formal part of our presentation and I'll turn the call back over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Collin Mings, Raymond James.

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

Just to start, can you guys put a little more color around the trends you are seeing in the south? Recognizing, again, you guys spend a lot of time analyzing very specific markets, are there certain wood baskets maybe doing relatively better than others or are all the headwinds that you guys highlighted more broad based?

Doug Long - *Rayonier Inc. - SVP U.S. Operations*

Hello, Collin. This is Doug. I'd say the weather dynamics of the continued extreme drought that we've seen from these [logging] conditions through much of the southeast and then the impacts of the Hurricanes Hermine and Matthew, there was a lot more supply than we'd normally see during this quarter, and that's resulting in some lower pulp wood pricing and we've really seen that across the south.

There are some markets that did a little better than others. We won't get into that because it's a little more operational for our teams, but really the geographic mix of our harvest accounted for over 50% of our price variance in the pulp wood in particular. And then, 15% of our total pulpwood volume that we harvested in the fourth quarter was hurricane salvage at a much reduced price.

So while the pricing was down considerably, there were some offsetting factors there, and the remainder was really due to south-wide some pricing issues that we've seen just due to that oversupply of the La Nina. We did expect -- we ended our hurricane salvage and believe everyone else has also by this time, so as we resume harvesting in some of the areas we deferred from Q4, we think that the pricing should improve as we go into the next quarter.

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

Okay. And then, maybe along those lines as it relates more to sawlogs, just given the recent rise in lumber prices, have you started to see any response from your customers yet, Doug?

Doug Long - *Rayonier Inc. - SVP U.S. Operations*

Yes, we have, particularly in the fourth quarter, and really where we've seen a response in the sawlogs has been where the export market has started to create pressure.

So we've seen several new customers open up shop along the East Coast and (inaudible) were up over 75% year over year, according to the last TimberMart South report, and our removal suggests that. And we've most recently seen export markets open up 80 miles inland from the coast. So where we've seen that increased pressure from export markets, we're seeing that also relay into some pricing on the domestic side.

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

Okay. And then, maybe Doug, remind us. I know it can be difficult to peg exactly, but what percentage of the US south of your operations would you say actually goes into the export market?

Doug Long - *Rayonier Inc. - SVP U.S. Operations*

It's a small percentage right now. I don't have that number handy. We can get back to you with that.

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

Okay. And then, switching gears just over to real estate, recognizing it was only 816 acres, but can you touch on what drove the pricing of the timberland you sold in Washington? That looked like a pretty healthy per-acre price.

Chris Corr - *Rayonier Inc. - SVP Real Estate & Public Affairs*

Collin, it's Chris. Good morning. It's high-quality timberland property in the state of Washington, good operability and access, and it was a quality piece of property. It happened to be sort of not contiguous to some of our other holdings, and we had a lot of interest in it over the last year or so and just made a deal that really worked.

Dave Nunes - *Rayonier Inc. - President, CEO*

And Collin, just to be clear, it includes in effect value for the underlying HBU characteristics of the land, so you've got valuable timber, but also valuable underlying zoning, and that's why you put those two together, you get that strength and that price.

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

Okay. That's helpful. And then, Mark, just a quick question for you. What is driving the year-over-year increase in CapEx?

Mark McHugh - *Rayonier Inc. - SVP, CFO*

I think the CapEx that we articulated last year, the initial guidance, we came in below that, and so we generally think our run rate is in that range of $60 million to $65 million. I think we did have some deferred CapEx in the fourth quarter that's going to spill over into next year. But I wouldn't say that there's anything that's really driving changes to it. It's just really more timing.

Doug Long - *Rayonier Inc. - SVP U.S. Operations*

One of the things I'd say, just to add, that on the silviculture side is we did have some timing around planting, so, as Mark said, we'll have some of that move into the next year. And also with that deferred harvest, we just had some slowdown in potential when we would be doing some site prep.

Chris Corr - *Rayonier Inc. - SVP Real Estate & Public Affairs*

And a lot of it gets back to that same -- those same weather patterns that have impacted inventories have pushed out timing on those things.

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

Okay. That's very helpful. Just one last one from me, and Dave, just recognizing to your last comment there in the prepared remarks just as far as the transformation and a lot of the capital recycling, particularly over the last year, how do you see just the pipeline here starting 2017 as far as opportunities to recycle capital versus where it stood a year ago?

Dave Nunes - *Rayonier Inc. - President, CEO*

I think we're continuing to see an active land market, Collin, and at the same time, though, however, I'd say that we're being increasingly targeted as to how we think about that, and as we've talked about before in a lot of our investor visits, there is a very diverse buildup of inventory across the US South, and we pay particular attention to those relative buildups in inventory and we try to target acquisitions in areas that we think have had less of a build in inventory. So there's a lot of activity, but I'd say that we're being pretty targeted in terms of how we approach it.

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

Great. Thanks for the color, guys. Congrats on the success in 2016.

Operator

Ketan Mamtora, BMO.

Ketan Mamtora - *BMO Capital Markets - Analyst*

Just first question, coming to the last point that you mentioned on inventories being built up, and I realize that it is different in different states, but at a high level, what do you think is the extent of accumulated inventories at this point in the US South?

Dave Nunes - *Rayonier Inc. - President, CEO*

Ketan, we tend to look at it more in a local market sense and we're not in every single region, but we spend a lot of time looking at growth drained yields and the buildup of those inventories relative to existing manufacturing capacity.

So, one of the statistics that we have included in our work looks at the change between 2005, the peak of the last housing start, and the end of 2014 and looks at the build in inventory across different regions of the US South as defined by TimberMart-South. And to give you a sense of the absolute range, at the high end of the range you've got one market in northern Mississippi where you've had a 37% build in inventory and at the low end of the range, north Florida, you have had actually a decline in inventory of 4%.

So that just gives you a sense of the relative magnitude across the South of those. But we, again, tend to look more at the individual markets and are focused less on the broader kind of macro set of conditions.

Ketan Mamtora - *BMO Capital Markets - Analyst*

Okay. That's helpful. And then switching to the Pacific Northwest, can you talk about kind of what you saw in terms of the export markets there, and specifically in China, what are you seeing there, both out of New Zealand and Pacific Northwest?

Dave Nunes - *Rayonier Inc. - President, CEO*

So there's a few things going on. There's lots of moving parts with respect to the export market, and the first thing is we look back to 2016, recognize that one of the impacts in China as it relates to both US and New Zealand demand is that China dramatically decreased the supply of domestic wood coming out of the northeastern part of the country, up against the Russian border. So you had a little bit of a supply shock to the market. That was one factor.

Two, we had very little inventory build through the Chinese New Year last year, and so that created a fair bit of momentum for the balance of the year, and as the year progressed, we saw increased consumption across those markets. So you really had kind of the triple effect of less supply domestically, a lack of build in inventory, and improved consumption, and all three of those things together powered a pretty strong domestic -- or pretty strong export condition that affected both markets.

Overlaying that, you've got changes in lumber import patterns. The lumber imports from British Columbia, which is a large supplier, were reduced this last year while they pushed more wood into the United States, and so that had an impact on the market. And going forward, we expect some of that to flip around, where we would expect more lumber from British Columbia trying to flow into China over this next year as it relates to the softwood lumber agreement resolution. But, just recognize there's lots of moving parts in the context of that market.

Ketan Mamtora - *BMO Capital Markets - Analyst*

That's very helpful color. And just on that, how would you characterize the inventories in China at the start of 2017?

Dave Nunes - *Rayonier Inc. - President, CEO*

The inventories in China jumped a fair bit during this first part of the Chinese New Year. Some of that was a function of northern China, where you had some pollution-related stoppage of all industrial activity, and so the inventories in that part of the country jumped quite a bit.

The inventories in the rest of the country to the south, I'd say, are pretty stable, and combined with high consumption rates, we remain pretty positive about those.

So, we'll be watching that as the next month or so progresses. This is the time of year where you really see the impact from that Chinese New Year inventory build.

Ketan Mamtora - *BMO Capital Markets - Analyst*

Okay. That's very helpful. And then switching to the south, in your 2017 volume guidance, what is the mix between sawlog and pulpwood? Is it close to what you had in 2016, kind of 31%, 32% sawlogs?

Dave Nunes - *Rayonier Inc. - President, CEO*

I generally expect it would pick up a little bit from that, Ketan. We've said that we expect a transition more towards a sawlog mix over the next several years. That's based on thinning decisions that we made a decade ago, and so we do expect that that mix will continue to transition more towards a grade mix over the next few years, and so I would expect it would pick up somewhat from that.

But, again, we're going to continue to be judicious about where we're harvesting and what we're harvesting to sort of best capture the market opportunity that we see.

Ketan Mamtora - *BMO Capital Markets - Analyst*

Okay. That's helpful. And then, you still expect to be at 50-50 over the next, let's say, four-, five-, six-year kind of time frame in terms of the mix?

Dave Nunes - *Rayonier Inc. - President, CEO*

Yes, to continue to transition to that type of ratio.

Ketan Mamtora - *BMO Capital Markets - Analyst*

Okay. That's helpful. And then last question and I'll turn it over, any update on the negotiations with respect to the lumber trade dispute?

Dave Nunes - *Rayonier Inc. - President, CEO*

We're not really a direct party in that. I think others who are closer to it can probably speak more accurately to it.

I think that the expectations that we've had all along that we really won't see meaningful change until the middle of the year continue to be the case. The delay in getting the US trade representative confirmed is probably factoring into some of that, but I think we continue to expect that we'll see some form of duty imposed during the second quarter and that that's going to eventually bleed into sawlog values, particularly in the US South, where we believe that part of the country has the most room to respond.

Ketan Mamtora - *BMO Capital Markets - Analyst*

I see. And just one last very quick one, were you guys the primary or the only source of supply to the IP mill that is down recently?

Mark McHugh - *Rayonier Inc. - SVP, CFO*

With respect to the IP mill, our team is monitoring the developments around there and working with the customer to try to ship the volume as we are able. They are a significant customer to us in that area. I saw the recent report yesterday about them bringing it back up in Q2, so with our deferrals of volume that we had in 2016 in other market areas, that'll allow us to adjust harvest plans if necessary, but we're really in the early stage of trying to understand when they will come back up.

Ketan Mamtora - *BMO Capital Markets - Analyst*

Okay. That's very helpful. I'll turn it over. Good luck in 2017.

Operator

Paul Quinn, RBC Capital Markets.

Unidentified Participant

It's [Mandy] filling in for Paul. I just had a few questions. So TimberMart-South saw another quarter-over-quarter decrease in domestic stumpage pricing. Any indication on when southern sawlog pricing will pick up and if it will be sustainable?

Dave Nunes - *Rayonier Inc. - President, CEO*

We continue to really look at it more at a regional level and less at an individual market. You've got a very big spread across the South from a stumpage pricing standpoint between the lowest to the highest market of roughly 2X, and so you really have to look at it market by market.

We continue to believe that the factors associated with the gradual recovery in US housing is going to play a role. Doug touched earlier on the margin impacts of export markets in those regions that supply export conditions, and then we've continued to see strong demand from the pulp and paper side of our demand flows from pulpwood. So, we continue to see this as a steady-as-she-goes improvement over the long term.

Mark McHugh - *Rayonier Inc. - SVP, CFO*

I would just add to that we are still seeing the impacts of the softwood lumber dispute and more wood coming in from Canada, and so I think everybody has been pretty cautious around the near-term prospects for an increase in sawtimber prices, but still positive on the longer-term outlook. And I think we'll have to wait and see what happens with the softwood lumber dispute and then how that translates into lumber prices and sawtimber demand and ultimately sawtimber prices.

Unidentified Participant

Fair enough. That was helpful. Just turning over to Pacific Northwest volumes, they were down year over year in 2016. Guidance is for higher volumes. Could you just help me understand market dynamics going into 2017?

Dave Nunes - *Rayonier Inc. - President, CEO*

The volume change is really driven by the portfolio repositioning that we did there. Recall that we had anticipated stepping down volume in the Pacific Northwest over a period of years to about 1 million tons. Following the portfolio repositioning that we announced in Q2 last year, we effectively said that we were going to be able to harvest much closer to our sustainable yield over the near term. And so, 1.3 million to 1.4 million tons is our general expectation of harvest levels over the next three to five years.

Unidentified Participant

That's helpful. And just at $5 million in savings of SG&A on an annualized basis, on the last call it was mentioned that most would be realized in the near term. I'm just wondering if you can provide some color on how much of those savings have been realized already, if any.

Mark McHugh - *Rayonier Inc. - SVP, CFO*

The bulk of the savings were fairly immediate in nature. That said, we didn't see a $5 million reduction in year-over-year corporate expense, and there are really a few elements that, first, not all of those cost savings are going to show up in that corporate segment. Some of those cost savings were either segment-level costs or G&A costs that get allocated back to the segment. So, for example, most of the IT cost savings would fall into that category.

Second, our estimate of the pension expense savings at the time we announced the pension freeze last year was relative to our then-current pension accounting assumptions, really putting it on an apples-to-apples basis. As we've updated our pension assumptions for 2017, that expense has come up due to changes in return at discount rate assumptions. That said, it would've come up even more but for the pension freeze, so I think it's still fair to say that we've realized those cost savings relative to what pension expense would have otherwise been in 2017. We're just not seeing the full amount show up in corporate on a year-over-year basis.

Lastly, we have some one-time expenses assumed in 2017 related to our office move and some IT transition costs, which are offsetting some of those year one savings. So I guess that's a long way of saying the cost savings are there; they're just not showing up as a $5 million year-over-year decline in our corporate-segment operating income. You'll see more of it show up in our consolidated SG&A.

Unidentified Participant

All right. That helps, and just lastly, of the CapEx guidance, how much is maintenance?

Mark McHugh - *Rayonier Inc. - SVP, CFO*

The CapEx guidance that we provide is generally all maintenance. We don't bake any acquisitions into that.

Operator

Mark Weintraub, Buckingham Research.

Mark Weintraub - *Buckingham Research Group - Analyst*

How many tons in the US South would go into an MBF, 1 million board feet of lumber?

Mark McHugh - *Rayonier Inc. - SVP, CFO*

I'd have to get that conversion ratio. It's different by market. It's different in the South versus the Northwest. Measurements -- units of measuring wood are different in different regions, so it's not a simple question.

Mark Weintraub - *Buckingham Research Group - Analyst*

(multiple speakers) order of magnitude, three tons? Is that kind of fair? 2.5 million, 3 million?

Let me just ask the next question, then, which is do you believe that -- so if we look about the Canadian softwood lumber agreement, if a tariff is put in place that creates some sort of umbrella for pricing in the US, how much and how quickly can you potentially start sharing in that through your sawtimber operations? Do you have a view on that?

Dave Nunes - *Rayonier Inc. - President, CEO*

I think so much of it has to do with how quickly mills are prepared to ramp up production. I know in our discussions with a number of sawmill customers, including those that have purchased mills in recent years, what they've been focused on really initially is kind of getting production stabilized at a one shift level before they are prepared to make a call to add a shift.

And so, I think a lot of those companies have been working in that capacity. And I think a second thing to recognize is that you've got labor issues in terms of being able to just very quickly add shifts. I think that in most of the markets that we are talking about, the ability to get incremental wood supply into those mills as they add hours or add shifts is probably less of an issue than it is to get labor to add capacity. And so, I think that's going to be something that may act as a governor on the rate of change in overall southern lumber production.

Mark Weintraub - *Buckingham Research Group - Analyst*

And you'd mentioned that -- you actually had mentioned that there had been a lot of wood coming in from Canada. In the very recent past last couple of weeks, obviously we've had some improvement in cash market prices, the futures markets have gone up quite a bit for lumber, are you seeing any shift in behavior from -- in those local markets? Is less Canadian wood -- as people are concerned about the retroactive duties of having an impact, is less wood now coming in from Canada? And is that already leading to more inquiries in your regions or not yet?

Dave Nunes - *Rayonier Inc. - President, CEO*

Certainly we're seeing the same stuff that you are in terms of the anticipation of some potential retroactive duty application and the impact that that's perceived to be having in terms of market flows, but recognize that there's a ripple effect going back to the stump and so it will be a little longer before we see that than, say, you would if you had direct lumber manufacturing capacity that was competing against those flows of lumber on a day-to-day basis.

Mark Weintraub - *Buckingham Research Group - Analyst*

Okay. And then, lastly, sort of shifting gears, a fair bit of timberlands that might be coming to the market in the next year, year and a half via the TIMOs. How important is what's going on in interest rates to how these lands are likely to -- how you would view -- how you would value these properties?

Dave Nunes - *Rayonier Inc. - President, CEO*

It's dynamic. I think at some level we -- as you see a rising interest-rate environment, that rising interest-rate environment is predicated on an inflationary environment, which is in turn predicated on higher production -- or product pricing. And so as we see more inflation impacting the price of the products, we expect that that's going to play into the rise in interest rates.

We certainly look at it more from -- we factor that in as we think about hurdle rates, but we're also looking at it from the perspective of our alternative uses of capital. We're always, when we look at acquisitions, understanding how our own timber is trading at the time on an imputed discount rate and we compare that to what we think the market clearing discount rate is on any particular transaction. Mark, do you want to add anything to that?

Mark McHugh - *Rayonier Inc. - SVP, CFO*

No, I think that's a good characterization of how we think about it.

Mark Weintraub - *Buckingham Research Group - Analyst*

And maybe I would just add one more. It would look like particularly in the US South that buyers already incorporate substantial appreciation in expected sawtimber pricing, et cetera. Now, do these same models in your judgment -- certainly, you can use your own thought process -- do they incorporate meaningful increases in interest rates as well? Or is it that you've actually -- the models are giving benefit to price appreciation and not necessarily so much for the interest rates? And of course, prices could go up more than what's imputed, but any thoughts on that?

Dave Nunes - *Rayonier Inc. - President, CEO*

It probably depends on who you're talking to. I mean, everybody is going to process a little bit differently, and recognize, too, that a big impact -- this really kind of boils down to how you think about discount rate and hurdle rate, and it's not only reflective of your cost of capital and alternative uses of capital, but it's also reflective of the flows of capital.

And what we've seen is that there's been continued interest in the timber asset class from a capital flow standpoint and that has tended to have a dampening effect on cap rates in the sector as people have pushed money into this sector from a flight to quality and just a general conservative investment perspective, so you've got some offsetting things at play there.

Operator

There are no questions in queue at this time. (Operator Instructions). Speakers, we show no further questions at this time.

Mark McHugh - *Rayonier Inc. - SVP, CFO*

This is Mark. I'd like to thank everybody for joining us today and please contact me with any follow-up questions. Thanks.

Operator

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