

# Pope Resources L.P.

(NASDAQ: POPE)

**Investor Presentation**  
**September 2014**



# Safe Harbor

**This presentation contains forward-looking statements. These forward-looking statements are subject to a number of risks and should not be relied upon as predictions of future events or promises of a given course of action. Some of the forward-looking statements can be identified by the use of forward-looking words such as “believes”, “expects”, “may”, “will”, “should”, “seeks”, “approximately”, “intends”, “plans”, “estimates”, “projects”, “strategy” or “anticipates” or the negative of those words or other comparable terminology. Forward-looking statements involve inherent risks and uncertainties. A number of important factors could cause actual results to differ materially from those described in the forward-looking statements. Some of the issues that may have an adverse and material impact on our business, operating results and financial condition include economic conditions that affect consumer demand for our products and the prices we receive for them both domestically and overseas, particularly in certain parts of Asia; government regulation that affects our ability to access our timberlands and harvest logs from those lands; factors that affect the timing and amounts realized from the sales, if any, of our real estate holdings; the implications of significant indirect sales to overseas customers, including regulatory and tax matters; the effect of financial market conditions on our investment portfolio and related liquidity; the effects of competition, especially from larger, better-financed competitors; environmental and land use regulations that limit our ability to harvest timber and develop property; access to debt financing by our customers as well as ourselves; the impacts of climate change and natural disasters on our timberlands and on surrounding areas; the potential impacts of fluctuations in foreign currency rates as they affect demand for our products; and factors that affect our ability to make distributions to our limited partners at currently expected rates or at all. From time to time we identify other risks and uncertainties in our other filings with the Securities and Exchange Commission. The forward-looking statements in this report reflect our estimates and expectations as of the date of the report, and unless required by law, we do not undertake to update these statements as our business operations and environment change. Forward-looking statements are not guarantees of performance, and speak only as of the date made, and neither Pope Resources nor its management undertakes any obligation to update or revise any forward-looking statements.**

# POPE Fast Facts

- Spun out as MLP in 1985, located in Poulsbo, WA
- 4.3M units outstanding as of 9/1/14
- Market capitalization: ≈ \$300M
- 2013 revenue \$70.7M
- 6mo2014 revenue \$56.4M, up 41%
- 6mo2014 net income per unit: \$3.17
- 52 week unit price range: \$60.07 – \$71.00
- Forward annual dividend rate: \$2.60
- Tax-efficient partnership structure

# Pacific Northwest Timber Pure-Play with Real Estate Upside

**201,000 acres in western WA, northwest OR, and northern CA**

- **110,000 acres owned by partnership and 91,000 owned acres by funds**
- **Contributed 88% of total revenue over past 3 years**

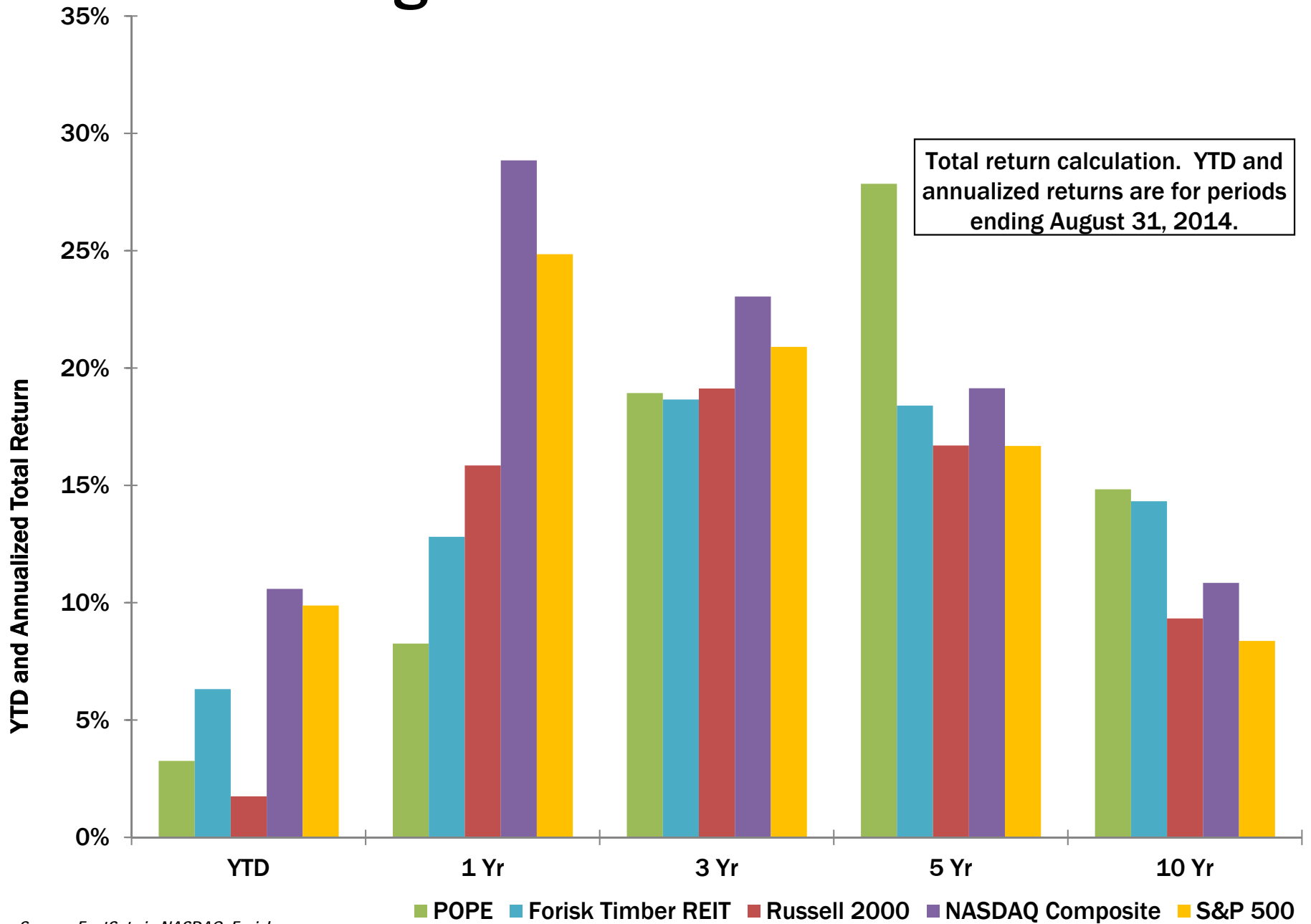
**Timber expertise leveraged with 3 private equity timber funds**

- **Assets under management of \$304M generate over \$3M of fees/year**
- **\$108M capital committed for investment in new timberland properties**

**Seattle area real estate development**

- **2,900-acre portfolio of properties in west Puget Sound**
- **Book value of \$32M including 1,600+ entitled lots**

# Solid Long-term Investment Returns



Source: FactSet via NASDAQ, Forisk

# Pacific Northwest Timber Pure-Play

## Strategies

- Sustainably manage timberlands to maximize long-term value
- Optimize returns by adjusting harvest timing to seasonal log price variations
- Leverage timber expertise using timberland funds to drive growth and economies of scale

## Differentiating advantages

- 90% of lands tributary to 5 export log ports serving all 3 Asian markets
- Log sort mix heavy to Douglas-fir commands price premium
- Partnership structure enables tax-efficient timberland investment

# Compelling Log Market Dynamics

## Strong international demand for Pacific Northwest exports

- Surge in demand from China in recent years
- Stable market in Japan for high-quality Douglas-fir
- Exports grew from 15% of POPE's 2009 harvest to 36% in 2013

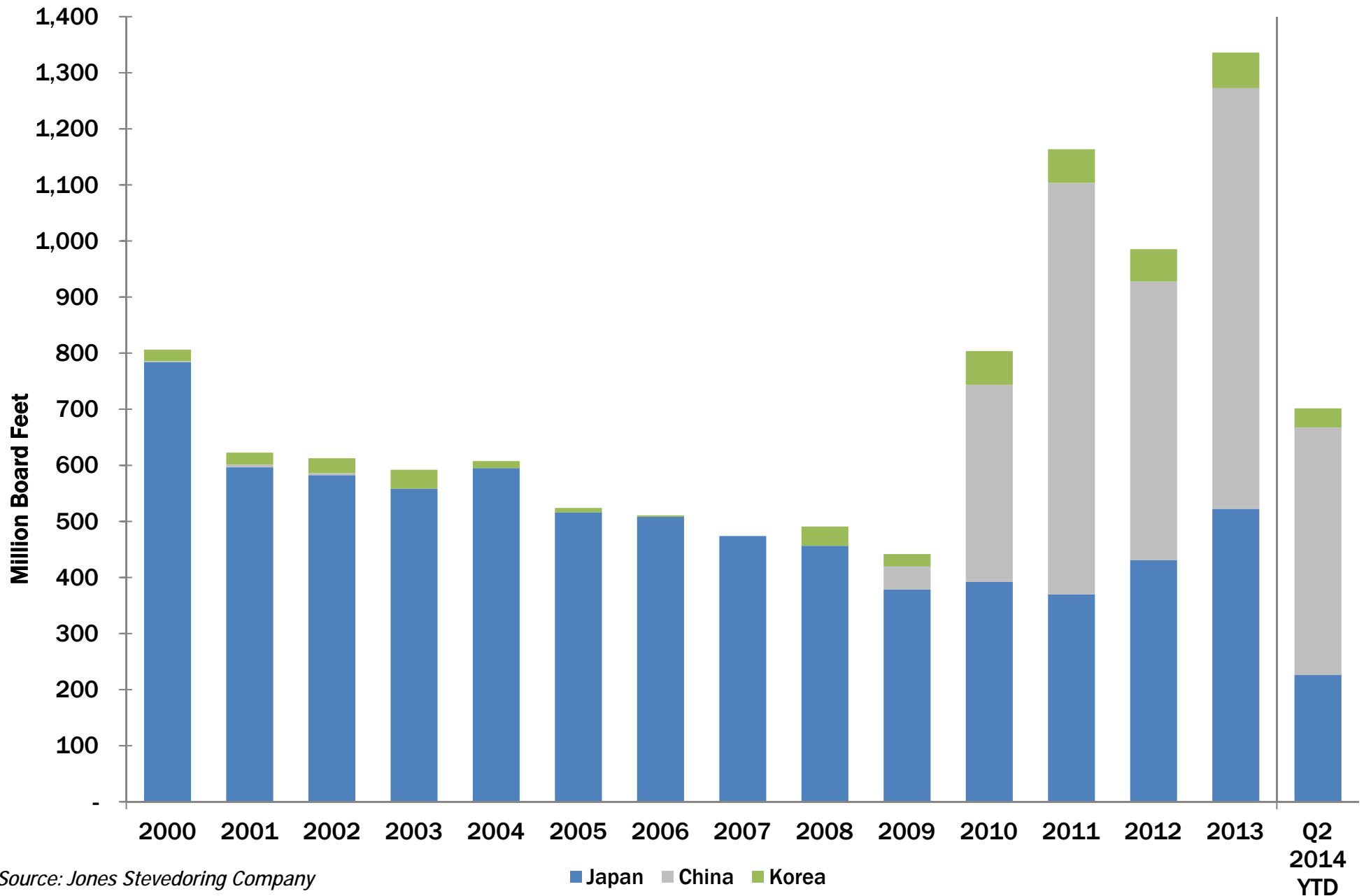
## Domestic dynamics improving

- Stronger domestic log demand with U.S. housing starts  $\approx$ 1M in 2014

## Canadian supply impacted by Mountain Pine Beetle infestation

- Reduced supply from Canada with rising U.S. housing starts

# China Driving Export Growth



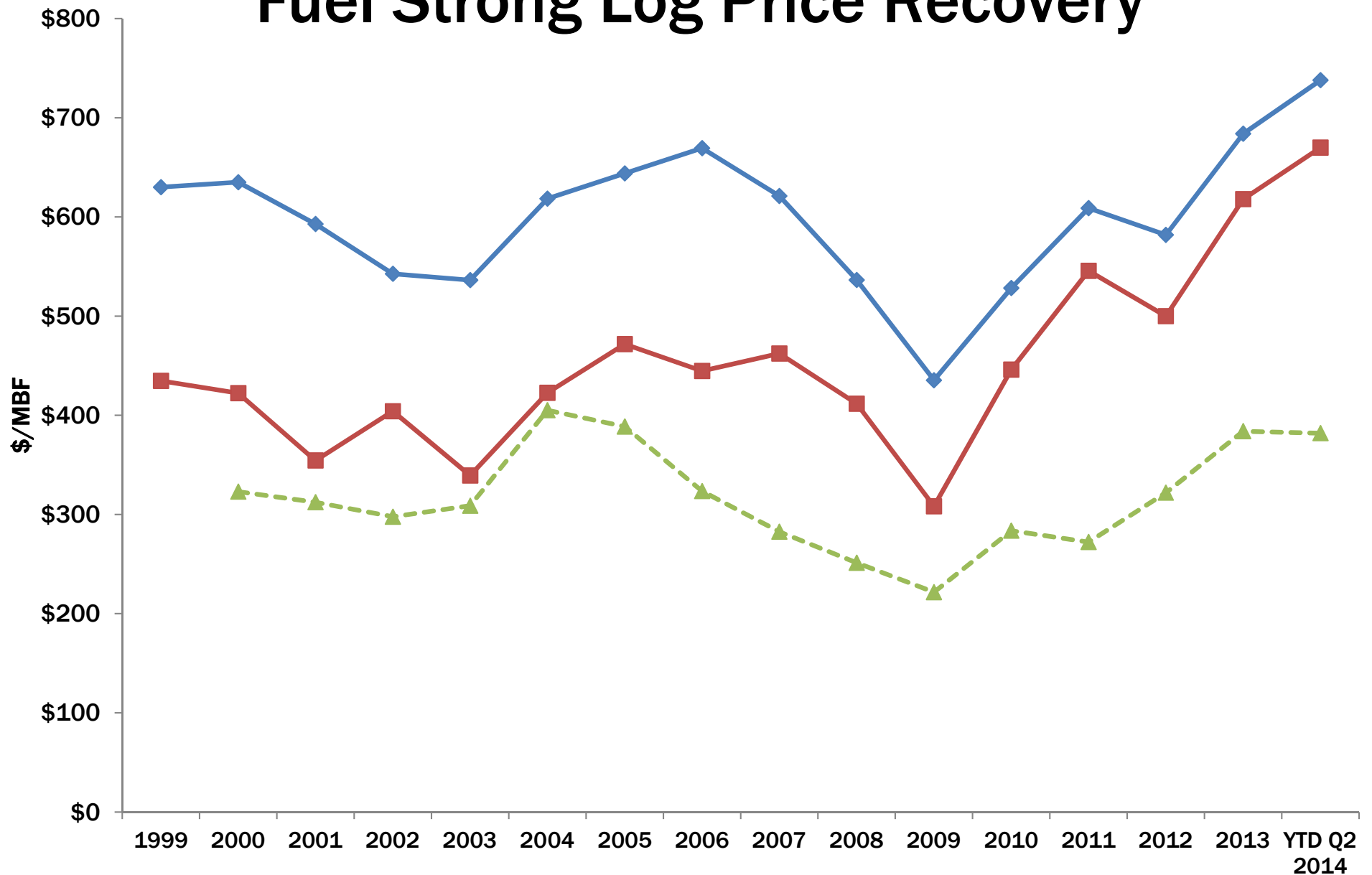
Source: Jones Stevedoring Company

■ Japan ■ China ■ Korea



# Surging Export and Domestic Markets

## Fuel Strong Log Price Recovery



Source: Pope, Random Lengths

◆ Douglas-fir   
 ■ Whitewoods   
 ▲ RL Avg Framing Lumber Composite Price

# Seattle Area Real Estate Development Expertise

## Strategies

- Entitle and develop currently-owned land for sale to end users such as residential or commercial builders
- Acquire, entitle, and/or develop quality third-party properties

## Differentiating Advantages

- Seattle Metro consistently near the top for new jobs, wage growth, and real estate investment<sup>1, 2</sup>
- Pope Resources is the largest, best capitalized real estate developer in its submarket (West Puget Sound)
- Political and community organizing skills create unique opportunities to generate value through entitlements
- Suburban real estate expertise applied to conservation sales is unique among timberland management companies

<sup>1</sup> <http://www.kplu.org/post/seattle-metro-area-ranks-1st-new-jobs-2nd-wage-growth>

<sup>2</sup> <http://trends.truliablog.com/2012/12/2013-top-10-healthiest-housing-markets/>

# Key West Puget Sound Projects

- Port Gamble – Completing initial environmental review for 200 homes, hotel, and commercial uses
- Kingston – 750 residential units
- Bremerton – Initial planning for approximately 130 residential units
- Gig Harbor – Over 720 single and multi-family residential units, 18-acre retail village, and 11-acre business park

## Overall Outlook

- Timing of sales will be “lumpy”
- Expect to realize meaningful “harvest,” primarily from Gig Harbor, over balance of 2014 and into 2015-16



# Gig Harbor Project

## Commercial

- \$15M of sales in 2006 paid for infrastructure
- 18-acre village site including grocery store

## Business park

- Sales of \$5M in 2006 & 2007
- Elementary school sale of 14 acres in Q4 2013 for \$4.4M
- 11 acres remaining

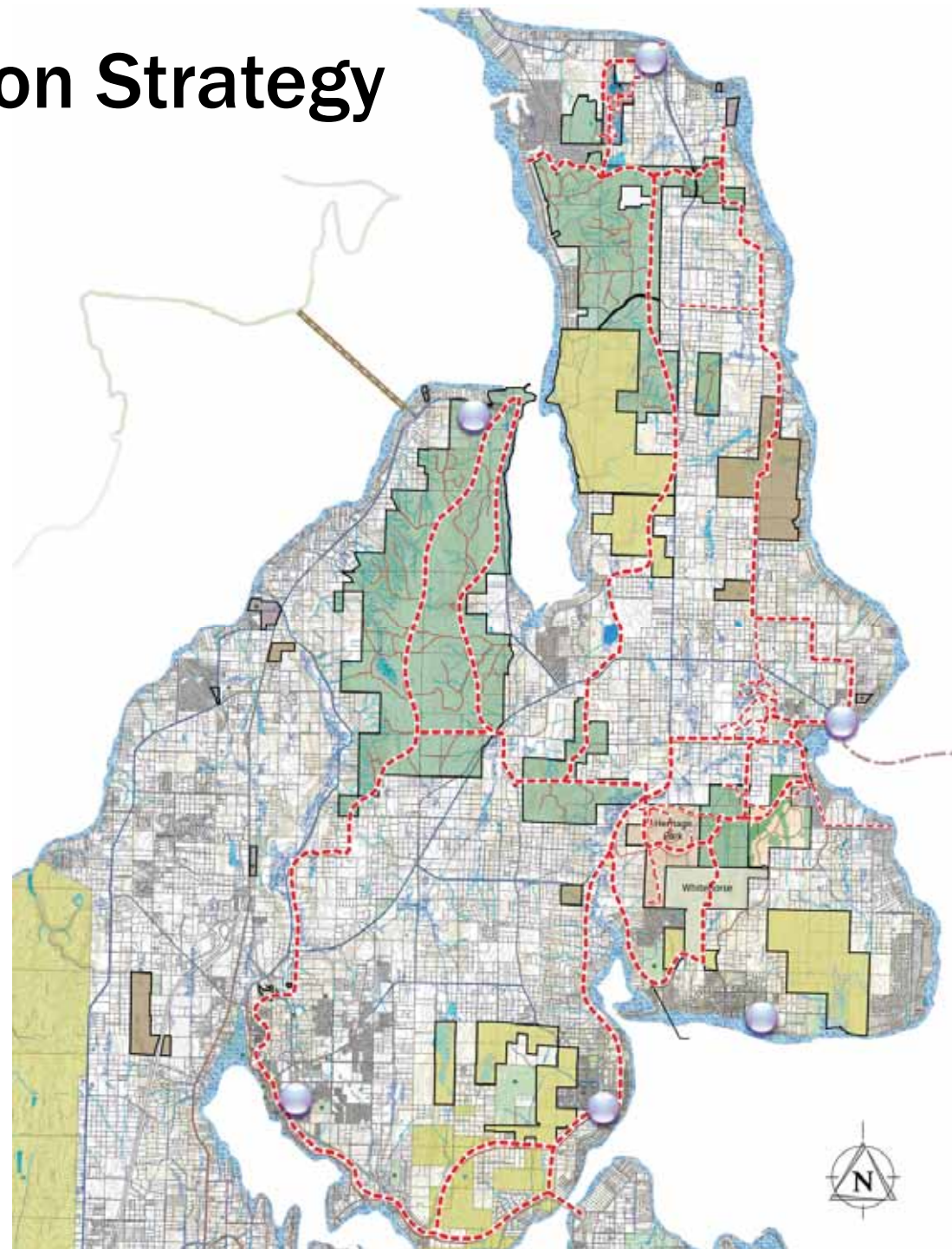
## Residential

- Sold 11.5 acres for \$3.3M in 2012 (170 multi-family units)
- Remaining 294 multifamily units under contract
- 125 of 554 single-family lots sold thus far in 2014 – 83 more under contract to close w/in 12 months



# North Kitsap Monetization Strategy

- Plan to sell 6,700 acres of timberland in north Kitsap
- Conservation group Forterra has option to acquire certain lands
- First closing for \$4.6M (535 acres) in Q1 2014
- Project enjoys broad political, tribal, and community support
- Master redevelopment plan for Port Gamble submitted in 2013 with approval anticipated in late 2015



# Capital Allocation Priorities and Growth Capital

## Capital Allocation Priorities

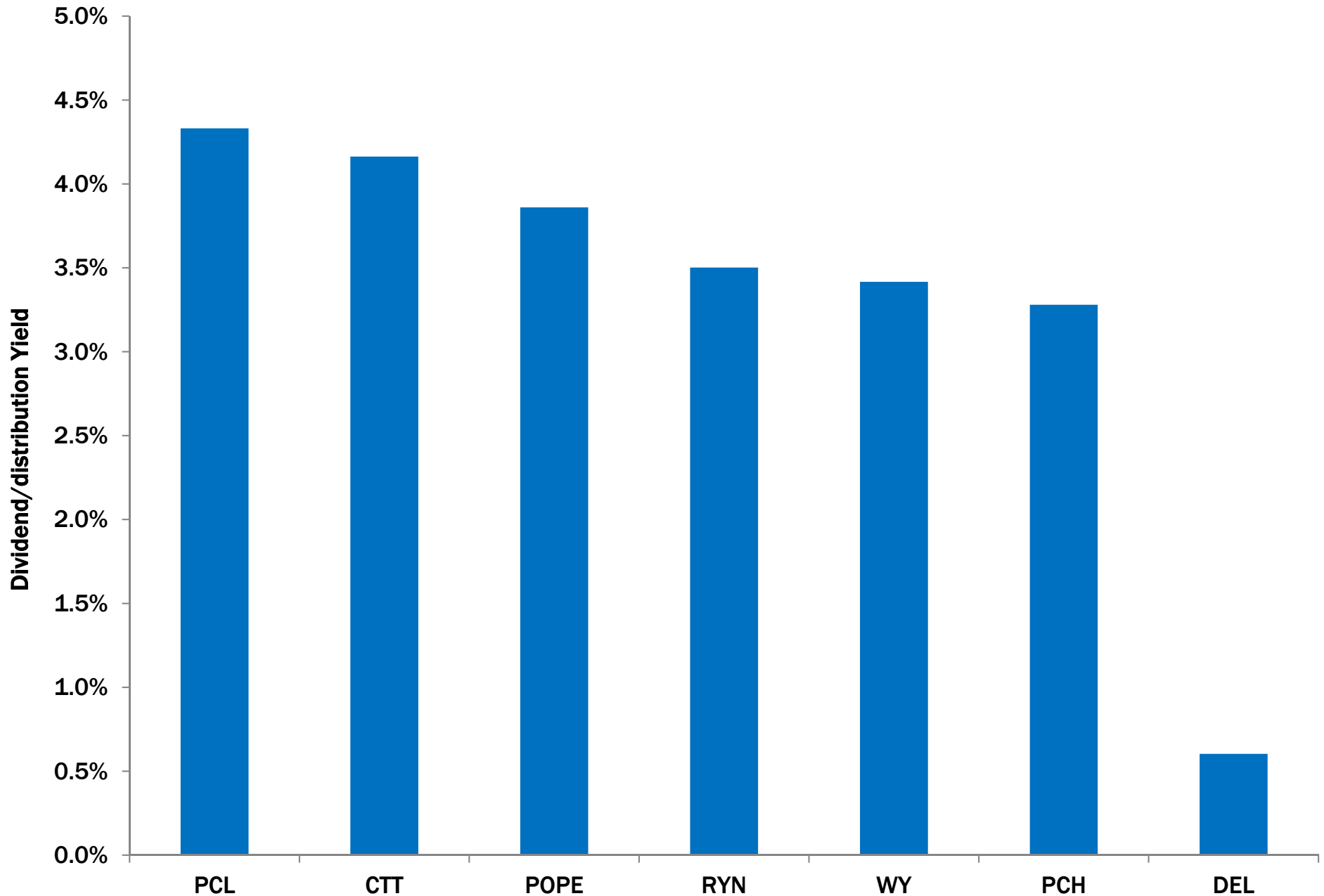
- Q2 2014 18% increase in quarterly distribution to current rate of \$0.65 per quarter
- Co-investment in private equity timber funds
- Opportunistically repurchasing units in open market
- Real Estate project investment, where appropriate
- Pay down debt

## Sources of Growth Capital

- Organic cash flow generation from timber harvest and monetization of Real Estate portfolio
- \$20M untapped line of credit
- No current expectation for secondary offering



# Competitive Yield Relative to Timber Peers



# Investment Thesis for Pope Resources

- **Pure-play exposure to Pacific Northwest timberlands**
- **Private equity timber funds leverage expertise to provide growth vehicle and enhance scale**
- **Outstanding higher-and-better use real estate opportunities**
- **Highly tax-efficient vehicle for investing in timberland asset class**
- **Units trading at discount to underlying value**
- **Experienced, committed management team**



# Contact Information

**Tom Ringo**  
**President & CEO**  
**(360) 394-0520**  
[tringo@orminc.com](mailto:tringo@orminc.com)

**Kevin Bates**  
**VP of Timberland Investments**  
**(360) 394-0518**  
[kbates@orminc.com](mailto:kbates@orminc.com)



# Pope Resources Appendix

# Pope Resources Balance Sheet (\$ millions)

	June 2014	YE 2013
<b>Assets</b>		
POPE - Cash & cash equivalents	16.4	5.7
Funds - Cash & cash equivalents	1.3	1.3
Short-term investments	3.0	-
Other current assets	8.5	13.4
POPE - Properties and equipment, net of depletion/depreciation	77.9	78.3
Funds - Properties and equipment, net of depletion/depreciation	207.4	211.9
Other assets	0.5	0.4
<b>Total assets</b>	<b>315.0</b>	<b>311.0</b>
<b>Liabilities &amp; Equity</b>		
Current liabilities (excl. current portion of long-term debt)	6.7	8.0
POPE - Total debt (current and long-term)	32.7	32.7
Funds - Total debt (current and long-term)	43.0	43.0
Other liabilities	12.5	12.7
<b>Total liabilities</b>	<b>94.9</b>	<b>96.4</b>
<b>Capital</b>	<b>78.5</b>	<b>69.4</b>
<b>Noncontrolling interests</b>	<b>141.6</b>	<b>145.2</b>
<b>Total liabilities &amp; partners' capital</b>	<b>315.0</b>	<b>311.0</b>

# Pope Resources Financial Metrics (2004-2014)

(All amounts in \$ millions, except per unit data, and as reported externally)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	YTD Q2 2014
<b>Revenues:</b>											
Fee Timber	33.5	44.4	35.3	35.5	23.6	14.9	27.7	52.7	45.5	56.0	39.6
Timberland Management & Consulting	1.6	7.8	3.7	1.4	0.9	0.6	0.0	-	0.0	0.0	-
Real Estate	4.5	4.8	27.3	15.0	3.7	5.0	3.5	4.5	8.5	14.7	16.8
<b>Total Revenues</b>	<b>39.6</b>	<b>57.0</b>	<b>66.3</b>	<b>51.9</b>	<b>28.2</b>	<b>20.5</b>	<b>31.2</b>	<b>57.3</b>	<b>54.0</b>	<b>70.7</b>	<b>56.4</b>
<b>Net Income/(Loss) Attributable to Unitholders</b>	<b>10.2</b>	<b>13.7</b>	<b>24.9</b>	<b>15.5</b>	<b>1.2</b>	<b>(0.3)</b>	<b>2.0</b>	<b>8.8</b>	<b>(4.7)</b>	<b>13.1</b>	<b>14.1</b>
<b>Net Income/(Loss) per Unit</b>	<b>\$2.22</b>	<b>\$2.88</b>	<b>\$5.22</b>	<b>\$3.22</b>	<b>\$0.23</b>	<b>(\$0.07)</b>	<b>\$0.43</b>	<b>\$1.94</b>	<b>(\$1.11)</b>	<b>\$2.96</b>	<b>\$3.17</b>
<b>Adjusted EBITDDA <sup>(1)</sup></b>	<b>19.1</b>	<b>29.2</b>	<b>40.6</b>	<b>24.1</b>	<b>7.6</b>	<b>2.8</b>	<b>7.6</b>	<b>23.6</b>	<b>7.8</b>	<b>29.8</b>	<b>31.8</b>
<b>Operating Cash Flow</b>	<b>16.5</b>	<b>24.0</b>	<b>33.1</b>	<b>12.1</b>	<b>4.0</b>	<b>0.7</b>	<b>9.0</b>	<b>21.7</b>	<b>16.2</b>	<b>17.9</b>	<b>26.0</b>
<b>Adjusted Cash Available for Distribution <sup>(2)</sup></b>	<b>12.6</b>	<b>20.3</b>	<b>29.9</b>	<b>8.1</b>	<b>(0.8)</b>	<b>(0.2)</b>	<b>7.7</b>	<b>12.9</b>	<b>11.6</b>	<b>10.7</b>	<b>13.7</b>
<b>Timberland Harvest (MMBF)</b>	<b>60</b>	<b>74</b>	<b>55</b>	<b>55</b>	<b>38</b>	<b>33</b>	<b>53</b>	<b>90</b>	<b>84</b>	<b>89</b>	<b>56.0</b>
<b>Unitholder Distributions per Unit</b>	<b>\$0.44</b>	<b>\$0.80</b>	<b>\$1.06</b>	<b>\$1.36</b>	<b>\$1.60</b>	<b>\$0.70</b>	<b>\$0.70</b>	<b>\$1.20</b>	<b>\$1.70</b>	<b>\$2.00</b>	<b>\$1.20</b>
<b>Unit Trading Prices:</b>											
High	\$25.25	\$56.85	\$36.00	\$50.01	\$43.81	\$28.98	\$38.61	\$50.29	\$60.39	\$74.99	\$70.50
Low	\$15.00	\$19.35	\$30.00	\$34.25	\$15.00	\$15.61	\$23.32	\$35.02	\$41.19	\$56.15	\$63.94

(1) Adjusted EBITDDA defined as earnings before interest, taxes, depreciation, depletion, amortization and the non-cash cost basis of land sold.

(2) Adjusted Cash Available for Distribution = Cash flow from operations less maintenance capex (excludes timberland and building acquisitions and development capex already reflected in cash from op's) less required debt service plus financed debt extinguishment costs. Includes only POPE's co-investment share of Timber Funds' cash from operations.

# Reconciliation of Non-GAAP Measures (\$ millions)

## Adjusted EBITDDA

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	YTD Q2 <u>2014</u>
Net income (loss)	10.2	14.0	24.8	15.1	0.1	(1.2)	0.8	8.9	(6.8)	11.7	16.0
Adjust for:											
Depreciation, depletion & amortization	5.7	11.3	7.1	5.5	4.8	2.9	5.9	12.7	11.2	11.9	6.8
Net interest expense (income)	3.0	2.5	0.6	(0.3)	0.2	1.0	1.1	1.7	1.5	1.5	1.2
Income tax expense (benefit)	0.0	1.0	0.4	(0.1)	(0.1)	0.0	(0.3)	0.2	0.4	(0.3)	0.2
Non-cash cost of land sold	0.2	0.4	7.7	3.9	2.6	0.1	0.1	0.1	1.5	5.0	7.6
Adjusted EBITDDA	19.1	29.2	40.6	24.1	7.6	2.8	7.6	23.6	7.8	29.8	31.8

## Adjusted Cash Available for Distribution (ACAD)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	YTD Q2 <u>2014</u>
Cash provided (used) by operations	16.5	24.0	33.1	12.1	4.0	0.7	9.0	21.7	16.2	17.9	26.0
Adjust for:											
Noncontrolling interest in Timber Funds			0.1	(0.5)	(1.9)	0.5	(0.7)	(7.4)	(3.3)	(5.7)	(6.1)
Maintenance capital expenditures	(1.9)	(1.8)	(1.7)	(2.0)	(1.5)	(1.1)	(0.9)	(1.4)	(1.3)	(1.4)	(6.1)
Required principal payments	(2.0)	(1.9)	(1.7)	(1.5)	(1.3)	(1.4)	(1.0)	0.0	0.0	(0.1)	(0.1)
Financed debt extinguishment costs						1.1	1.3				
Adjusted Cash Available for Distribution	12.6	20.3	29.9	8.1	(0.8)	(0.2)	7.7	12.9	11.6	10.7	13.7
Distribution	2.0	3.7	5.0	6.4	7.4	3.2	3.2	5.3	7.5	8.9	5.3
Distribution as a % of positive ACAD	16%	18%	17%	80%	N/A	N/A	42%	41%	65%	83%	39%

# Reconciliation of Non-GAAP Measures (\$ millions)

## Adjusted EBITDDA by Segment

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	YTD Q2 <u>2014</u>
<b>Fee Timber</b>								
Operating income - internal	\$14.5	\$6.0	\$2.9	\$8.4	\$14.9	\$10.1	\$13.9	\$12.9
Depletion	4.8	3.4	2.1	5.1	11.8	10.0	10.8	6.5
Depreciation and amortization	0.3	0.3	0.4	0.2	0.3	0.3	0.3	0.1
Cost of land sold		2.2		0.1				
<b>Adjusted EBITDDA - Fee Timber</b>	<b>\$19.6</b>	<b>\$11.9</b>	<b>\$5.4</b>	<b>\$13.8</b>	<b>\$27.0</b>	<b>\$20.4</b>	<b>\$25.0</b>	<b>\$19.5</b>
<b>Timberland Management &amp; Consulting</b>								
Operating income (loss) - internal	(\$0.2)	\$0.2	\$0.4	\$0.1	\$0.4	\$0.2	\$0.3	\$0.3
Depreciation and amortization	0.1	0.1	0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<b>Adjusted EBITDDA - TM&amp;C</b>	<b>(\$0.1)</b>	<b>\$0.3</b>	<b>\$0.4</b>	<b>\$0.1</b>	<b>\$0.4</b>	<b>\$0.2</b>	<b>\$0.3</b>	<b>\$0.3</b>
<b>Real Estate</b>								
Operating income (loss) - internal	\$5.2	(\$1.4)	\$1.7	(\$0.7)	(\$0.3)	(\$11.0)	\$3.4	\$6.1
Depletion	0.0	0.5			\$0.1		\$0.5	
Depreciation and amortization	0.2	0.2	0.2	\$0.2	\$0.3	\$0.8	\$0.3	\$0.1
Cost of land sold	3.9	0.4	0.1		\$0.1	\$1.5	\$5.0	\$7.6
<b>Adjusted EBITDDA - Real Estate</b>	<b>\$9.3</b>	<b>(\$0.3)</b>	<b>\$2.0</b>	<b>(\$0.5)</b>	<b>\$0.2</b>	<b>(\$8.7)</b>	<b>\$9.2</b>	<b>\$13.8</b>

# Accounting for Timber Fund Business

- ORM earns timberland and asset management fees from the Funds
- POPE's "controlling" role as GP or managing member of the Funds triggers requirement to consolidate Funds into POPE financials
- Consolidation results in elimination of all fees paid by the Funds to POPE
- TM&C segment results included non-Fund, third-party management fees up until mid-2009

(in \$millions)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	YTD Q2 <u>2014</u>
Timber Fund acres under management at end of period (000's)	36	61	61	80	91	91
Management fees paid by Funds	0.9	1.5	2.4	2.2	2.8	1.7
Less: POPE's share of Fund management fees	(0.2)	(0.3)	(0.5)	(0.4)	(0.5)	(0.3)
Net management fee revenue	<u>0.7</u>	<u>1.2</u>	<u>1.9</u>	<u>1.8</u>	<u>2.3</u>	<u>1.4</u>
Externally reported TM&C segment operating income (loss)	(0.4)	(1.2)	(1.5)	(1.6)	(2.0)	(1.1)
Addback of eliminated management fees <sup>(1)</sup>	<u>0.7</u>	<u>1.3</u>	<u>1.9</u>	<u>1.7</u>	<u>2.3</u>	<u>1.4</u>
TM&C segment operating income (internal reporting)	<u>0.3</u>	<u>0.1</u>	<u>0.4</u>	<u>0.1</u>	<u>0.3</u>	<u>0.3</u>
Impact of Funds on POPE cash flow						
Fees	0.9	1.5	2.4	2.2	2.8	1.7
Distributions <sup>(2)</sup>	-	0.2	1.7	1.0	1.3	1.2
Total	<u>0.9</u>	<u>1.7</u>	<u>4.1</u>	<u>3.2</u>	<u>4.1</u>	<u>2.9</u>

(1) Eliminated for external reporting in consolidation

(2) Does not include POPE's \$2.7M share of Fund debt proceeds

# Look-through Balance Sheet: Breaking out Funds

(in \$millions)

	June 30, 2014				
	Partnership	Look-Thru Funds	Look-Thru Bal Sht	Compare to: Consol Bal Sht	YE 2013
<b>Assets</b>					
Cash & cash equivalents	16.4	0.2	16.6	17.7	7.0
Other current assets	10.1	0.2	10.3	11.5	13.4
Timber & roads, net	29.7	24.0	53.7	206.5	211.9
Timberlands	14.4	4.3	18.7	44.9	44.9
Land held for development	27.8	-	27.8	27.8	27.2
Buildings & equipment, net	6.1	-	6.1	6.1	6.2
Other assets	0.3	-	0.3	0.5	0.4
<b>Total assets</b>	<b>104.8</b>	<b>28.7</b>	<b>133.5</b>	<b>315.0</b>	<b>311.0</b>
<b>Liabilities &amp; Equity</b>					
Current liabilities (excl. current portion of long-term debt)	4.1	0.3	4.4	6.7	8.0
Total debt (current and long-term)	32.7	5.9	38.6	75.7	75.7
Other liabilities	12.5	-	12.5	12.5	12.7
<b>Total liabilities</b>	<b>49.3</b>	<b>6.2</b>	<b>55.5</b>	<b>94.9</b>	<b>96.4</b>
Partners' capital	55.5	22.5	78.0	78.5	69.4
Noncontrolling interests	-	-	-	141.6	145.2
<b>Total liabilities &amp; partners' capital</b>	<b>104.8</b>	<b>28.7</b>	<b>133.5</b>	<b>315.0</b>	<b>311.0</b>



# Look-through EBITDDA: Breaking out Funds

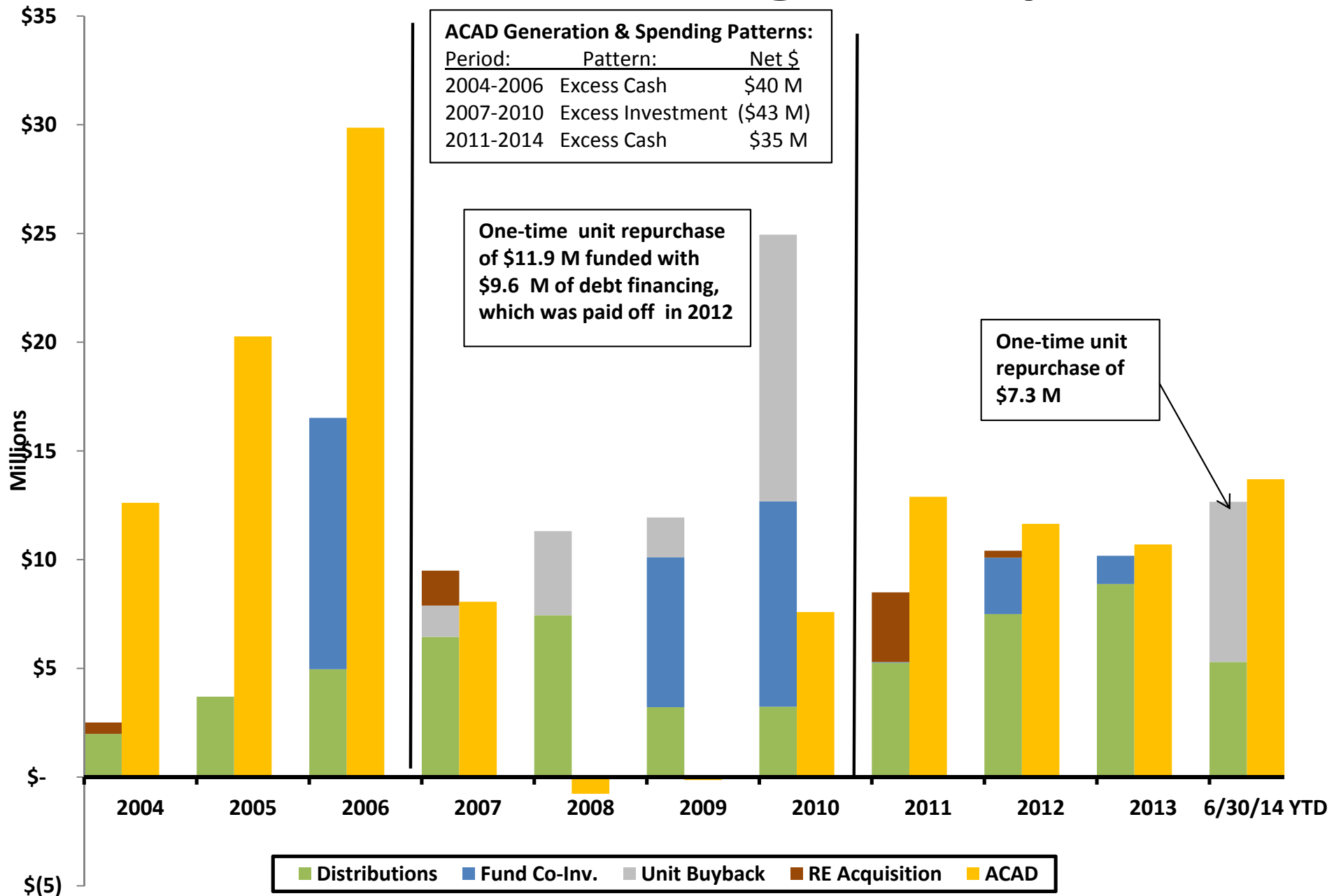
2013

	Partnership	Funds	Combined As Reported	Reverse: Funds Non-Controlling	Look-Thru Inc Stmt
Net income	13.3	(1.6)	11.7	1.4	13.1
Adjustments to calculate EBITDDA:					
Depletion	3.2	8.1	11.3	(6.6)	4.7
Depreciation/amortization	0.7	-	0.7	-	0.7
Net interest expense	0.7	0.8	1.5	(0.6)	0.9
Income tax expense (benefit)	(0.5)	0.1	(0.4)	(0.1)	(0.5)
Cost basis of land and timber sold	5.0	-	5.0	-	5.0
Adjusted EBITDDA	22.4	7.4	29.8	(5.9)	23.9

YTD Q2 2014

	Partnership	Funds	Combined As Reported	Reverse: Funds Non-Controlling	Look-Thru Inc Stmt
Net income	13.6	2.4	16.0	(1.9)	14.1
Adjustments to calculate EBITDDA:					
Depletion	1.3	5.3	6.6	(4.3)	2.3
Depreciation/amortization	0.2	-	0.2	-	0.2
Net interest expense	0.3	0.9	1.2	(0.8)	0.4
Income tax expense (benefit)	0.2	-	0.2	-	0.2
Cost basis of land and timber sold	7.6	-	7.6	-	7.6
Adjusted EBITDDA	23.2	8.6	31.8	(7.0)	24.8

# Capital Allocation: Balancing Liquidity & Growth



# Implied Timberland Value Well Below Market Level

